

Quote by Sameer Jain, Managing Director, Primus Partners

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## No AI, No FPI? Why Foreign Investors Are Pulling Out Of Indian Markets

*'According to market observers, most Indian companies lack a significant AI value chain, prompting foreign investors to look at greener pastures.'*

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New Delhi: For the past one year, Indian benchmark indices have been turbulent. Some see it as market froth (a short-term correction phase due to overvaluation), others say it's a bubble (a long-term decline due to detachment of asset prices from its fundamental value). However, all experts agree that foreign portfolio investors (FPIs) have been on a selling spree.

In fact, in the first half of March alone, overseas investors pulled out over Rs 31,000 crore from financial services, according to data from *Nomura*. It said that there is heavy FPI selling across segments in Indian equities.

Geopolitical tensions, elevated crude oil prices, a stronger US dollar, and rising bond yields have all contributed to FPI selling. In such conditions, capital typically shifts toward safer assets like US treasuries. While a large part of the outflows is being driven by global developments rather than any fundamental weakness in India, there's the question of artificial intelligence (AI). According to market observers, most Indian companies lack a significant AI value chain, prompting foreign investors to look at greener pastures.

## Sectoral Churn: Capital Is Chasing AI

Global capital is increasingly flowing toward artificial intelligence and its supporting ecosystem -- semiconductors, cloud infrastructure, and high-performance computing. Markets linked to emerging technology themes are offering more compelling near-term opportunities, prompting portfolio rebalancing among FPIs.

Karan Rijhsinghani, Director & Head, Product & Advisory at Atom Prive; Financial Services, explains the scale of this divergence: "Foreign Institutional Investors (FIIs) now hold nearly \$1.75 trillion across just three semiconductor companies -- TSMC, Samsung Electronics, and SK Hynix -- compared to roughly \$750 billion exposure to India's entire equity market."

He adds: "The key factor driving this divergence is the global AI investment cycle. Capital today is chasing direct exposure to AI infrastructure... where India currently has limited listed opportunities."

This is not just a cyclical rotation; it reflects a deeper reallocation of global capital. The selling has been most visible in financial stocks, where foreign ownership is relatively high. Similarly, IT stocks are also witnessing a technological disruption.

"It is fair to say that the listed investment opportunities are still largely services focused and from an AI value chain perspective, India still has a way to go on the deep tech or hardware side," said Bruce Keith, CEO & Co-founder, InvestorAi.

A recent *Deloitte* report titled "State of AI in the Enterprise" also noted that Indian companies lag behind global companies when it comes to expertise. It said, "For India in particular, a majority of the organisations expect their AI budgets and productivity from the tech to increase over the next year."

### AI - Missing Piece In The Puzzle

India's challenge is not demand or growth; it is the lack of a complete AI ecosystem that investors can tap into.

Sameer Jain, Managing Director, Primus Partners, highlights the scale of the gap: "India alone will need to quadruple its AI data centre estimated capacity from 5 GW to 15-20 GW by 2030."

But the investment required is enormous: "A typical AI data centre costs 6-8 billion dollars and a semiconductor fab costs 9-10 billion dollars... There are no large-listed companies in India where FPIs can bring in large sums."

He also points to structural hurdles: "Countries such as Korea and Taiwan have the required infrastructure... India has its task cut out to play a serious role in AI and semiconductors." And the constraint is not just capital: "A 350,000 skill professional gap is an equally big challenge..."

### Strong Fundamentals, But A Missing Narrative

Despite the outflows, India's macro story remains intact -- growth is steady, domestic demand is resilient, and investment activity is improving. Even market participants acknowledge this.

Himanshu Arya, Founder of Luxury Cart, notes: "While India's macroeconomic fundamentals remain resilient, the limited presence of listed companies within the AI ecosystem presents a structural constraint."

In a similar vein, Rijhsinghani says: "This doesn't imply a loss of confidence in India's long-term story... However, in the short term, global investors are reallocating toward markets that provide clearer participation in the next technology cycle."

### What's Really Driving FPI Exits?

While the first three may reverse over time, the last one is likely to persist.

### Bridging The AI Gap

For India, the challenge is not just to maintain growth, but to align with where global capital is headed. As Sameer Jain puts it: "AI is a global phenomenon... India immediately needs to scale up and promote companies with access to both demand and capital." He adds: "AI is India's Black Swan moment. FPI investments is a lagging indicator."

The recent FPI selling is less about India losing its appeal and more about the world entering a new investment cycle. But the message is clear. As global money clusters around artificial intelligence, markets that offer direct exposure to this theme are attracting a disproportionate share of capital.

For India, staying competitive may now depend not just on growth, but on building a credible place in the AI value chain.