uti Investments

India Expertise, Global Presence

CROWDED OUT?

SEP 2026

Monthly Newsletter

India's domestic economy remains resilient, but its equity market has recently struggled against several global peers. Foreign selling, softer earnings and expensive oil explain part of the gap. This edition looks at another pressure hiding in plain sight: an unusually heavy pipeline of new shares competing for investors' attention and cash.

01 A resilient economy, a reluctant market

THE ECONOMY		THE MARKET	
Bank credit to industry,Jul 2026 (YoY)	**20%**	Nifty 50, 5 weeks to 11 Sep (INR %)	**-4.8%**
Real GFCF growth, Q1 FY27 (YoY)	**11.9%**	MSCI India, 5 weeks to 11 Sep (USD %)	**-4.4%**
GFCF / Nominal GDP, Q1 FY27	**34.3%**	FPI equity outflow, YTD 31st Aug'26	**US$24.1 Bln**
Merchandise exports, Apr-Jul'26 (YoY,US$)	**~17%**	Brent crude, 11 Sep	**Above US$101/bbl**
Real GDP growth, Q1 FY27 (YoY)	**7.8%**	USD/INR, 11 Sep	**95.7**

Sources: RBI, MoSPI, PIB, NSDL, Ministry of Commerce and Industry, Bloomberg, RBI reference rate, 11 Sep 2026. Periods differ and are shown for context, not as a like-for-like comparison.
Glossary: GFCF - Gross Fixed Capital Formation

02 The usual explanations - and the gaps they leave

There is no shortage of plausible explanations. Four come up repeatedly. Each matters, but none tells the whole story.

Foreign capital left	FPIs had withdrawn $24.1 billion from Indian equities in CY26 by August 2026. That has plainly weighed on the market. *But flows do not determine returns on their own. They tell us who is selling; they do not fully explain which parts of the market continue to attract domestic capital.*
Earnings disappointed	FY26 brought the sharpest earnings downgrades in several years and justified some valuation compression. *Yet FY27 and FY28 estimates have been steadier, while the market response has remained muted. The downgrade cycle may no longer be the full explanation.*
Index earnings are concentrated	Expected earnings growth remains concentrated in a relatively small group of index heavyweights, so the headline number can overstate its breadth. *But concentrated earnings are not new. A long-standing feature of the index cannot, by itself, explain a recent change in market behaviour.*
Geopolitics and oil	Oil above $100 and a weaker currency are serious headwinds for an economy that imports more than 80% of its crude. *But India's relative underperformance began well before the latest conflict. Oil may have intensified the problem; it did not originate it.*

Sources: NSDL, UTI Investments. Each explanation is presented at its strongest; the limitations noted are not refutations.

The missing piece
Domestic savings kept arriving even as the market weakened. Estimated net SIP inflows reached roughly $24 Bln* in FY26, and monthly contributions continued to set records. If demand did not disappear, perhaps some of it was redirected. That leads to a more mechanical question: how much money was competing for newly issued shares instead of supporting the existing market?

**Source: AMFI*

03 Record demand met record supply

India's primary market has been operating at unprecedented scale. According to SEBI, 109 companies raised approximately $18.8 Billion through mainboard IPOs in FY26, surpassing the previous year's record. The ability to fund that pipeline shows the depth of India's capital markets. It also means investors had an unusually large amount of new equity to absorb.

Individual-investor activity diverged across the two markets	FY 26	Jul-Aug'26
Secondary-market equities, (net individual-investor flows)	-$0.6 Bln	-$0.6 Bln
Primary-market equities, (retail IPO investment)	+$4.4 Bln	+$1.3 Bln

The data does not track the same investors or establish a direct movement of money between the two markets. It does, however, show contrasting participation: net selling in listed equities alongside continued retail investment in IPOs.

Sources: National Stock Exchange of India, Market Pulse, July 2026, Table 112; NSE Primary Market Monthly Reports, July and August 2026. July–August totals calculated from NSE data.
INR amounts translated at ₹96 per US dollar; USD amounts are approximate.

The composition also matters. **Offer-for-sale transactions accounted for an estimated 61% of mainboard IPO proceeds in FY26.** Most of the money therefore went to existing shareholders rather than directly funding new corporate investment. That does not make the issuance unproductive, but it changes the liquidity effect: investors were being asked to fund a large transfer of ownership while foreign investors were simultaneously reducing exposure to established listed companies.

FY26 MAINBOARD IPO PROCEEDS	SHARE	WHAT IT REPRESENTS
Offer for sale	**61%**	Proceeds paid to selling shareholders
Fresh issue	**39%**	Proceeds received by the issuer for stated uses

Source: Grant Thornton Bharat

The supply burden extends beyond IPOs. As per Bloomberg estimates, India raised US$9.4 billion through IPOs and US$26 billion through secondary share sales in 2026 through 10 September. August alone saw more than US$9 billion of secondary sales - the highest monthly level since the pandemic. These transactions improve market depth and facilitate exits, but, like an offer for sale, they require investors to absorb equity without putting fresh capital into the underlying company. The relevant liquidity test is therefore total equity supply - not the IPO calendar alone.

Heavy issuance can weigh on listed equities as investors sell existing holdings or redirect fresh capital towards new deals. The pressure is greatest when issuance is high, foreign demand is weak and secondary sales dominate.
However, this argument has limits. A strong primary market reflects market depth and can broaden the investment universe. Moreover, India's underperformance began before issuance accelerated, making new supply an amplifier, not the root cause of market weakness.

Sources: Bloomberg Intelligence, NSDL

04 The market is not short of money. It is segmented.

Valuations across market-cap segments now stand at very different levels relative to their own history.That does not prove crowding out, but it shows why strong aggregate domestic flows have not supported every part of the market equally.

INDEX	FORWARD P/E	VS OWN 5-YR AVG.	VS OWN 10-YR AVG.
Nifty 50	**19.1x**	**-11%**	**-10%**
Nifty Midcap 150	**30.4x**	**-4%**	**+2%**
Nifty Smallcap 250	**28.5x**	**+17%**	**+28%**

Source: Bloomberg, Avendus Spark, Data as of Sep 2026.

The Nifty 50 trades at an 11% discount to its own five-year average. Small caps, which have received greater support from domestic investors, trade at a 28% premium to their ten-year average. Across the market, the share of stocks trading more than 10% above their own ten-year average increased from 25% in March 2026 to 41% in September 2026.

Thus, the cleaner conclusion is not that IPOs caused this valuation gap. It is that India's investor base is no longer behaving as one pool of capital. Domestic and foreign investors are buying different parts of the market, and new issuance has added another destination for liquidity.

05 How we will know if the argument is right

The argument cannot be isolated perfectly, but the next few quarters should provide useful evidence.

IF THIS ANGLE HAS WEIGHT	WE SHOULD SEE	WE SHOULD NOT SEE
Issuance is a genuine constraint on secondary-market performance	A quieter IPO and block-deal calendar followed by better secondary-market performance, without a material improvement in earnings or macro data.	Issuance slowing while the established market continues to lag. That would suggest supply was never the binding constraint.
Domestic flows are being diverted rather than absent	Domestic institutional buying of existing large-cap stocks rising as primary allocations fall, with the large-cap valuation discount beginning to narrow.	Domestic institutional demand for established equities remaining weak even after primary-market allocations decline. That would suggest broader risk appetite or fundamentals mattered more than issuance.

The next few quarters should provide a useful test. If equity issuance slows and listed equities recover without a material improvement in earnings or macro conditions, the crowding-out argument will gain weight. If weakness persists, issuance was probably not the main constraint.
NSE's US$2.35 billion IPO* in September 2026 - entirely an offer for sale - is is a prominent near-term addition to equity supply. With further stake sales expected, the more relevant measure is total equity supply, not the number of IPOs.

**Source: NSE offer documents*

THE INVESTMENT TAKEAWAY

A larger primary market ultimately strengthens India's capital markets, but it also raises the competition for every incremental rupee. Investors are now choosing not only among listed companies, but between incumbents, new listings and large shareholder exits.
In that environment, headline liquidity matters less than where it is allocated. Earnings delivery and valuation discipline should increasingly determine which companies attract capital and which are left behind.

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