Strategy

India

Global Markets Research

Margin Recovery Ahead, Geopolitics Caps Upside

15 July 2026

Despite fresh escalation between US & Iran, we believe that the peak conflict is behind us and thus do not see commodity prices scaling back to previous highs. Bloomberg Commodity Index is 10% below its previous peak, although up 6.6% vs. recent lows. If commodities remain in the current range, it should help to bolster manufacturing operating margins by Q3FY27E. Gradually easing global risks amid domestic resilience should prompt capital rotation away from globally sensitive sectors towards more resilient, structural domestic themes, such as manufacturing, power and consumer discretionary. Inflation risks in India are not yet broad-based, thus obviating the need for aggressive rate hike. This backdrop is likely to also favour financials.

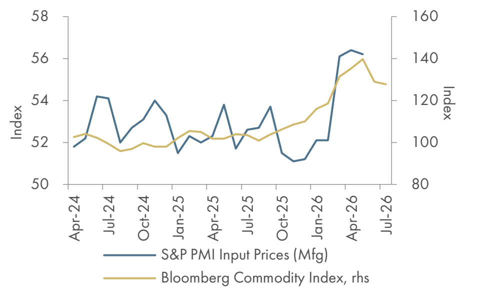
Peak conflict is behind us; sharp uptick in commodity prices unlikely: Notwithstanding the recent risk of re-escalation of conflict, the correction in commodity prices has been encouraging. India's crude basket has fallen 51% from its peak (USD 157 on 23rd March 2026) -- the largest price drawdown outside the COVID-19 shock since CY12. Contributing factors include China's continued cuts to refinery throughput and use of commercial inventory along with the sale of Iranian crude (now uncertain), which together have triggered a rapid decline in crude oil prices. The Bloomberg Commodity index has declined 11.2% (as of 13th July) from post conflict peak indicating moderating input costs. At current commodity prices levels, our analysis shows manufacturing sector operating margin could recover by ~90-100bp by end-Q3FY27E. Robust domestic demand is providing a further fillip. As such, the reversal in commodity prices is likely to lead to margin expansion with limited pass through to consumers.

INR weakness tailwinds to flow: Our analysis shows that across 65 Nifty50 earnings quarters since CY09, the INR depreciation of >5% led to 16% sales growth vs 9% in modest-depreciation years. The Nifty50 FX sensitivity analysis shows weak INR beneficiaries are not simply the highest exporters, but companies where currency gains flow through P&L after hedges, imported cost, and FX liabilities. We see two set of beneficiaries: **exports-led beneficiaries:** pharma, CDMO, IT services, textiles, upstream & refiners; **realization- and pricing-led beneficiaries:** steel, aluminium, and automobiles.

FPI equity inflows begin but robust surge unlikely in FY27: After equity selling of USD 29.5bn since the onset of the US-Iran conflict, FPI invested ~USD 3.3bn since mid-June 2026 till 13th July. While correction in India's valuation premium vs the MSCI EM (1.30x in June 2026 vs 1.73x in June 2025) and the recent AI-led, sell off in Asia is bringing India equities into reckoning, we do not see a sharp surge in FPI inflows until a meaningful recovery in earnings unfolds (likely by Q3FY27). Further, any crack in the US AI bubble is unlikely to yield into immediate flows. History of financial bubble bursts (GFC & Dotcom) shows flows congregate in US treasuries after every crisis and it takes ~3-4 quarters before a meaningful pick up in equity flows to EMs unfolds. Moreover, a hawkish Fed and surge in dollar asset trade globally amid DXY near 52w high are emerging as headwinds.

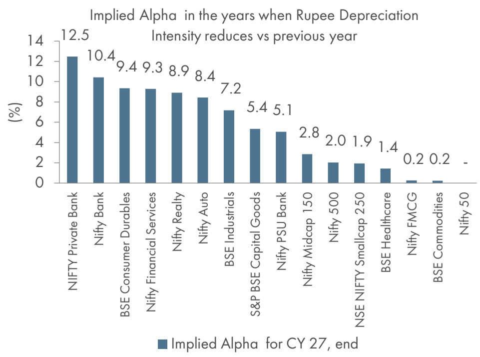
Market breath set to outperform; SMID rally has more wings: In Q1FY27, while the Nifty clocked in returns of 7.2%, the NSE Midcap 150 and the NSE SmallCap 250 rose by 16.7% and 23.3%, respectively. Three factors would continue to drive this outperformance: a reflation trade, easing geopolitical tensions, comfortable valuation, and structural & policy tailwinds, such as free trade agreements (FTA), the INR depreciation-led exports competitiveness, and setting up of new supply chains where small- and mid-size firms will likely see opportunities as vendors, component suppliers, and assemblers. E.g. small caps in newly developed sectors saw their share in the small-cap PAT pool increase in the past decade (0.5% in 2016 to 1.0% in 2026 for defence, 3.3% to 4.5% for electronics). With improving earnings breadth, visible ROE convergence and policy tailwinds, incremental risk-reward sits more favourably in SMID stocks vs. a defensive large cap value play.

Softening commodity prices to aid in operating margin recovery



Note: July data as on 13 July; Source: RBI, Bloomberg, Elara Securities Research

CY27 rotation playbook if FX stress eases -- historical sector alpha when the INR depreciation moderates



Source: Bloomberg, NSE, Elara Securities Research

SMID profit pool to rise by 180bp during Q4FY26-FY28E

Profit weight (%)	Q4FY26	FY27E	FY28E	Read-through
Large caps	80.4	79.6	78.6	Profit share starts to decline from the latest reported base
Mid-caps	13.6	13.9	14.9	Cleanest rising profit-pool story
Small caps	6.0	6.6	6.5	Step-up from Q4 base, then broadly stable
SMID total	19.6	20.4	21.4	Profit leadership broadens by ~180bp during Q4FY26-28E

Source: Elara Securities Estimate

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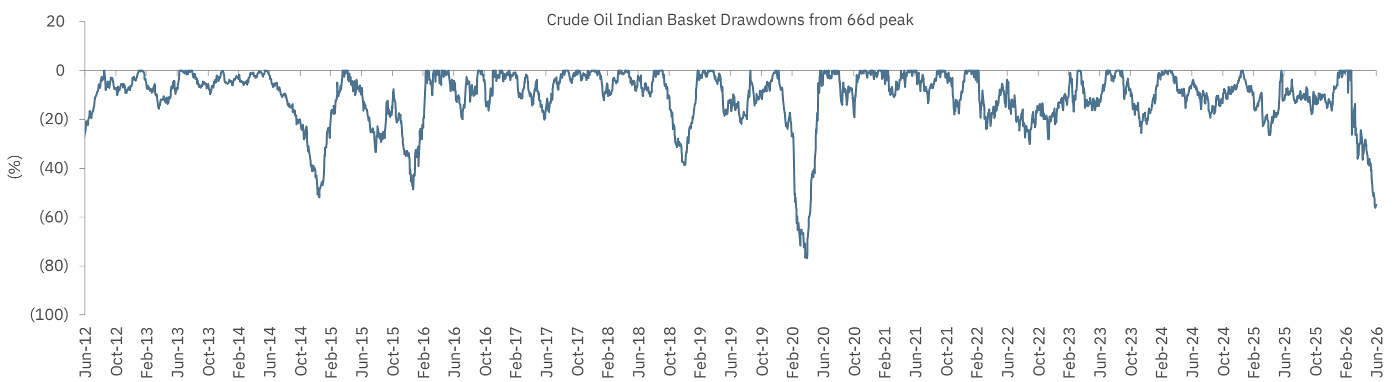
Commodity cooldown to aid margin recovery

Notwithstanding the re-escalation of the Middle East conflict, we believe the peak of the crisis is behind us. As such, commodity prices are unlikely to revert to previous highs. India's crude basket has fallen 51% from its peak (USD 157 on 23rd March 2026) -- the largest price drawdown outside the COVID-19 shock since CY12. Key reasons for the oil prices moderating faster than expected are: 1) the supply surge: the US ramped up crude oil exports by 21% since the conflict started to 4.6mbpd vs 3.9mbpd, replacing nearly half of disrupted crude oil flow due to the Strait of Hormuz disruption. The US allowed Iranian oil to enter the market. According to *TankerTrackers.com*, Iran has exported 50mn barrels of crude oil since the US-imposed blockade was lifted two weeks ago. This equates to 1.66mbd for June 2026. Additionally, oil supply is set to increase after oil cartel OPEC+ agreed to add 188,000 barrels a day to their output target for August, and 2) China's demand is yet to recover fully. China's imports demand for crude oil declined 16% on an average since February 2026 with May imports at 33.1mn tonne vs 48.1mn tonne in February. The Middle East conflict has sharpened China's strategic focus and injected renewed momentum into its green transition efforts. On April 22, China's two highest governing bodies—the CPC Central Committee and the State Council—issued a set of "guiding opinions" on energy conservation and carbon reduction. Beyond crude oil, overall commodity prices are easing with the Bloomberg Commodity Index down 9.9%. it had corrected above 14% before the reignition of conflict triggered a 6% uptick over last 3-4 days.

Falling commodity prices may lift operating margin of India manufacturers from H2FY27. Our analysis using data since 2012 indicates manufacturing operating margin and commodity prices have a negative correlation of 43%. Historically, post the Russia-Ukraine War in 2022, when commodity prices received an upward shock of 2SD in CY22, manufacturing operating margin dipped to 7.7% in September 2022 quarter, more than halving from previous 20-quarter peak of 15.1%. The September 2022 quarter was bottom for manufacturing operating margin, a quarter after commodity prices peaked. During December 2022-September 2023, manufacturing operating margin continued recovery with CY23 margin at an average of 12.5%. Our analysis based on commodity price pass-through shows operating margin of the manufacturing sector should recover by 90-100bp by end-Q3FY27E, assuming commodity prices remain at the current levels**.**

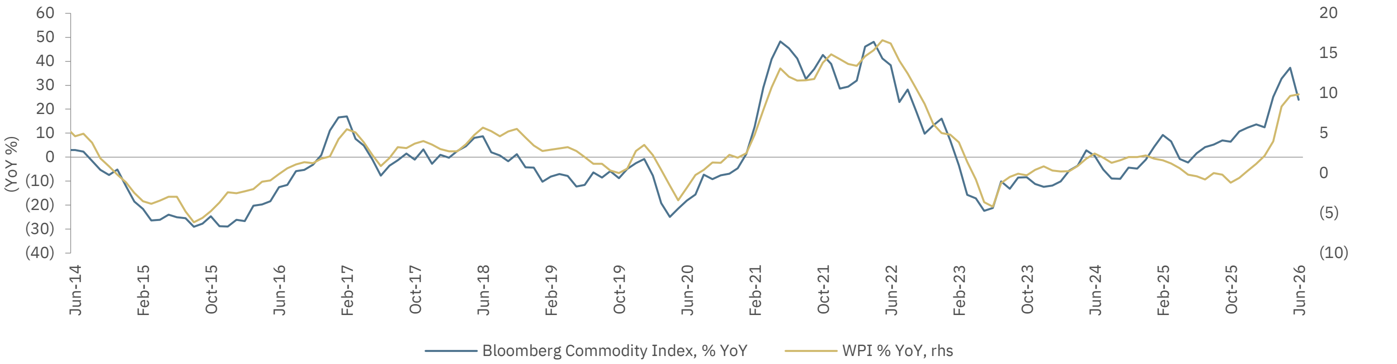
Current robust demand conditions providing further fillip: In our report dated 23 April 2026, *"Energy crisis: Policy playbook to cap India growth shock"* we had argued despite energy shock household demand will see limited downside. We argued the cumulative impact of income tax rebate, GST & interest rate cuts (our estimates: 7% gain for an individual earning INR 0.10-0.15mn) with the gold wealth effect (a 100% rise in two years), proliferation of gold loans, a prolonged pause by the RBI, limited pass-through of energy cost to consumers, and absorption of higher fertilizer price suggests the impact on household balance sheets may be contained. Q1FY27 business updates of consumer companies suggest demand remains robust, and, as such, pricing power is unlikely to be significantly compromised. As such, the reversal in commodity prices is likely to be absorbed in margin expansion than being completely passed on.

Exhibit 1: Latest oil price drawdown is the highest outside since COVID-19



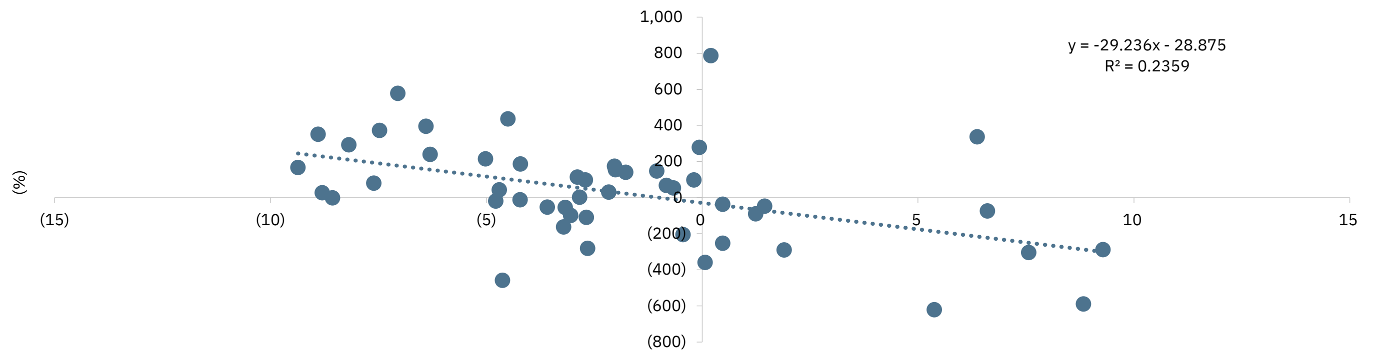
Source: CEIC, Elara Securities Research

Exhibit 2: Softening Bloomberg Commodity Index suggests the WPI is likely close to a peak



Source: Bloomberg, Elara Securities Research

Exhibit 3: Shrinking gap between WPI and CPI should aid in lifting operating margin with a lag

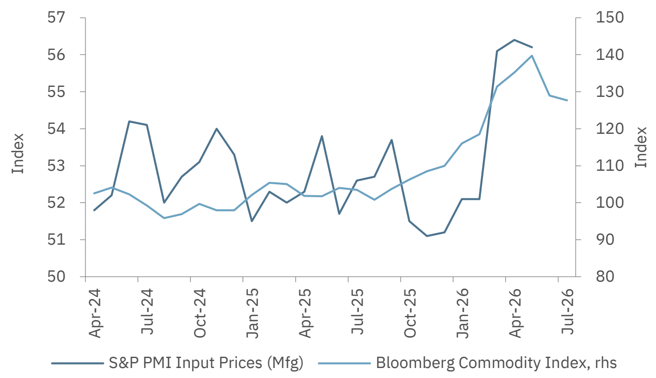


Source: CEIC, Elara Securities Research

Exhibit 4: Operating margin recovered within year after the Russia-Ukraine War in CY22

Source: CMIE, Elara Securities Research

Exhibit 5: Softening commodity prices to lower input cost for manufacturing firms



Note: July data as on 13 July; Source: RBI, Bloomberg, Elara Securities Research

Exhibit 6: High frequency data suggests demand held up well despite the West Asian crisis

Indicators	*Units*	*Apr-25*	*May-25*	*Jun-25*	*Jul-25*	*Aug-25*	*Sep-25*	*Oct-25*	*Nov-25*	*Dec-25*	*Jan-26*	*Feb-26*	*Mar-26*	*Apr-26*	*May-26*	*Jun-26*
Naukri JobSpeak Index	Index	2,878	2,807	2,854	3,074	2,664	3,002	2,480	3,001	3,001	2,637	3,233	2,858	3,045	2,836	3,027
GST Collection	% YoY	12.6	16.4	6.2	7.5	6.5	9.1	4.6	(4.0)	1.3	2.0	2.8	2.1	2.6	(3.4)	5.5
Services PMI	Index	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.5	58.1	57.5	58.8	59.8	57.4
Personal Loans	% YoY	11.9	11.1	11.7	11.9	11.9	11.8	14.0	12.8	14.6	14.9	15.2	16.2	16.0	15.4	
Housing	% YoY	9.8	9.0	9.6	9.6	9.7	10.1	11.0	9.9	11.1	11.1	11.0	11.5	11.4	10.9	
Consumer Durables	% YoY	(1.0)	(3.7)	(2.8)	(5.8)	(5.8)	(6.1)	1.0	(5.9)	(5.1)	(4.0)	(9.8)	(5.3)	(3.4)	(2.6)	
Vehicle	% YoY	8.8	8.7	9.2	8.9	8.7	7.3	12.5	12.4	16.7	17.1	17.1	18.6	18.0	17.3	
LMV registration	% YoY	5.7	0.9	5.9	2.8	8.1	9.5	14.0	28.5	25.4	12.9	29.4	23.7	14.8	25.1	26.2
2w registration	% YoY	2.8	7.3	5.0	(6.4)	2.5	6.6	51.8	(2.6)	10.6	20.8	25.3	29.0	13.6	8.3	21.0
Deposit growth	% YoY	9.8	9.9	10.1	10.2	9.3	9.4	10.8	10.2	12.7	10.6	11.3	16.2	13.3	12.2	
Electricity Demand	% YoY	2.8	(4.8)	(2.3)	2.6	3.8	3.5	(5.8)	(0.6)	5.8	3.8	1.0	0.8	3.0	10.8	
MS demand	% YoY	5.0	9.2	6.8	5.9	5.5	8.0	7.4	2.6	7.1	6.1	6.1	7.6	6.8	3.4	7.5
Air Pass. Traffic	% YoY	10.3	3.0	3.7	(1.0)	1.0	(0.7)	4.7	7.0	(2.8)	3.9	0.5	(4.4)	(5.3)	4.5	
ATF demand	% YoY	3.9	4.4	3.3	(2.3)	(2.9)	(0.8)	2.1	5.4	0.2	5.5	4.0	0.6	(0.1)	0.9	
CPI	% YoY	3.3	3.0	2.3	1.6	2.0	1.4	-	0.5	1.2	2.7	3.2	3.4	3.5	3.9	
Core CPI*	% YoY	4.1	4.2	4.4	4.1	4.1	4.3	4.4	4.3	4.6	***3.7***	***3.7***	***3.7***	***3.7***	***3.9***	
Toll Collection	% YoY	19.7	21.9	19.9	24.4	14.1	18.6	15.5	19.2	17.2	8.6	8.7	11.2	12.0	8.4	10.4
Mfg PMI	Index	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9	54.7	55.0	54.2
E-Way Bill Gen.	% YoY	23.4	18.9	19.3	25.8	22.4	21.0	8.2	27.6	23.5	15.8	18.8	12.9	11.8	10.9	14.5
Industrial credit	% YoY	7.0	5.3	6.3	6.5	7.0	7.8	10.0	9.6	12.8	12.1	13.5	15.0	15.1	17.5	
Electricity Generation	% YoY	(1.8)	(8.2)	(6.1)	(0.8)	1.0	0.8	(10.7)	(5.0)	4.4	2.1	(1.5)	(1.1)	2.3	7.5	
Diesel demand	% YoY	4.2	2.1	1.5	2.3	1.2	6.5	(0.3)	4.8	5.2	3.3	4.3	8.1	0.8	1.6	
Cargo Traffic: ytd	% YoY	7.1	5.7	5.6	5.2	4.7	5.7	6.6	7.6	8.2	8.1	7.7	7.1	2.4	4.5	
POL	% YoY	6.6	7.0	7.6	7.1	8.4	8.1	9.2	10.0	10.0	9.7	9.4	7.2	(7.9)	(4.1)	
Core sectors	% YoY	1.0	1.2	2.2	3.7	6.5	3.3	(0.1)	2.1	4.7	4.7	2.8	1.2	1.8	0.5	
WPI	% YoY	0.9	0.1	(0.2)	(0.6)	0.5	0.2	(1.0)	(0.1)	1.0	1.7	2.3	4.1	8.3	9.7	
Govt Revenue	INR tn	2.6	4.5	2.1	1.5	1.9	4.4	0.7	1.5	5.7	1.7	0.7	5.8	2.0	5.0	
Tax revenue	INR tn	1.9	1.6	1.9	1.2	1.5	4.2	0.4	1.2	5.5	1.5	0.5	4.8	1.8	1.7	
Govt Expenditure	INR tn	4.7	2.8	4.8	3.4	3.2	4.2	3.2	3.0	4.6	3.1	3.5	8.6	5.7	3.1	
Revenue Exp	INR tn	3.1	2.2	4.2	2.7	2.3	2.7	2.9	2.6	3.3	2.5	2.7	7.2	3.9	2.4	
Interest payments	INR tn	0.9	0.5	2.4	0.6	0.8	0.5	1.0	0.7	1.7	0.8	0.8	1.8	1.1	0.7	
Capex	INR tn	1.6	0.6	0.5	0.7	0.8	1.5	0.4	0.4	1.3	0.5	0.9	1.4	1.9	0.6	
Fiscal Deficit	INR tn	1.9	(1.7)	2.7	1.9	1.3	(0.3)	2.5	1.5	(1.2)	1.3	2.7	2.7	3.6	(2.0)	
Exports	% YoY	(3.8)	(1.2)	(1.3)	13.3	5.7	6.0	(12.5)	18.6	1.1	0.4	(0.8)	(7.4)	14.2	18.0	
Imports	% YoY	20.0	(1.3)	(3.4)	9.1	(9.5)	17.7	17.9	(1.5)	10.3	19.2	24.1	(6.5)	10.0	20.6	
Trade balance	USD bn	(27.1)	(22.6)	(19.1)	(27.9)	(27.2)	(33.0)	(42.6)	(25.1)	(26.2)	(34.8)	(27.1)	(20.7)	(28.2)	(28.2)	
Services Exports	% YoY	8.9	9.6	12.0	10.4	2.8	12.6	2.2	6.7	13.0	9.8	9.7	7.2	12.7	2.8	
FPI net flows	USD bn	(2.3)	3.6	(0.9)	(0.6)	(2.3)	(1.4)	4.0	0.3	(4.3)	(3.2)	4.2	(13.6)	(7.6)	(3.1)	0.5
USDINR	USDINR	85.6	85.2	85.9	86.1	87.5	88.3	88.4	88.8	90.1	90.8	90.7	92.8	93.6	95.6	95.0
Non-Food credit	% YoY	10.2	8.8	9.3	9.9	9.9	10.2	11.1	11.4	14.4	14.4	14.3	16.9	16.3	17.4	
NIFTY 50	% YoY	7.7	9.9	6.3	(0.7)	(3.2)	(4.6)	6.3	8.6	10.5	7.7	13.8	(5.1)	(1.4)	(4.9)	(6.5)
WATDR: New loans	%	6.3	6.1	5.8	5.6	5.6	5.6	5.6	5.6	5.7	5.7	5.7	6.1	5.8	5.8	
Repo Rate	%	6.0	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Call rate	%	5.9	5.8	5.4	5.4	5.4	5.5	5.5	5.4	5.4	5.4	5.1	5.3	5.2	5.3	
WALR: New loans	%	9.3	9.2	8.6	8.8	8.7	8.4	8.6	8.7	8.3	8.5	8.4	8.4	8.5	8.5	
IGB 10y	%	6.4	6.2	6.4	6.4	6.6	6.6	6.6	6.6	6.7	6.8	6.7	7.1	7.1	7.0	6.7

Note: * Core CPI from Jan-26 as per new base.; Source: CEIC, Elara Securities Research

Worsening **Improving**

INR depreciation tailwinds to flow

Across 65 quarters of Nifty50 earnings since CY09, the rupee depreciation supports reported sales more reliably than earnings quality. In sharp depreciation phases, defined as >5% annual INR weakness, median Nifty50 sales growth rises to 14.9%, helped by inflation and pricing action. PAT growth, however, trails at 11.6%, vs 16.8% during INR appreciation phases. Here, weak INR can flatter nominal growth, but crude, imported input, freight, FX debt service, and delayed pass-through absorb part of the benefit before it reaches PAT.
In the past sharp-depreciation phases, energy, consumer staples, and financials showed better PAT conversion, while IT retained top-line translation support but PAT lagged sales. Consumer discretionary, healthcare and materials saw sharper slippages, reflecting either imported-cost pressure, weak pass-through or sector-specific earnings headwinds. The current cycle may not replicate this exactly. The US-Iran truce and Brent below USD 75/bbl reduce probability of an extreme cost shock, but two consecutive years of above-trend INR depreciation means restocking at higher landed cost can still pressure Q1–Q2FY27 margin.

We classify the impact into four heads:

- **Export-led beneficiaries**: Pharma, CDMO, IT services, textiles, upstream and refiners
- **Realization- and pricing-led beneficiaries:** Steel, aluminium, automobiles
- **Cost pressure sector:** Diagnostics, paints, cement, FMCG, luggage
- **Neutral and insulated sectors:** Ports, metal pipes, infrastructure, apparels, footwear

The historical framework shows the sharp INR depreciation lifts reported sales more reliably than PAT, with the final earnings impact depending on cost pass-through, imports intensity and balance-sheet exposure. We shift from historical framework to a bottom-up FY27 sector read-through.

We classify sectors into four buckets: export-led beneficiaries, realization- and pricing-led beneficiaries, cost pressure sectors and neutral & insulated sectors. The strongest read-through should come where dollar revenue- or dollar-linked realization exceeds imported cost pressure. The weakest is where revenue is domestic, input cost is dollar-linked, and pass-through is delayed or incomplete.

1. Exports-led beneficiaries

High USD exports exposure – the rupee realization rises faster-than-imported input cost. Net earnings impact: strong positive and positive.

Exhibit 7: INR depreciation aiding export led sectors earnings

Sector	Exports Rev %	Imports Dep. %	INR Dep. → Revenue	INR Dep. → Cost / RM	Net Earnings Impact	Analyst view
Pharma	High	High	Positive	Negative	**Strong Positive**	▸ INR depreciation is structurally positive, given high exports exposure, especially to regulated markets like the US ▸ Imports-linked raw materials cost increases, but the revenue translation benefits and operating leverage outweigh cost pressures ▸ Results in EBITDA margin expansion
CDMO	High	High	Positive	Negative	**Strong Positive**	▸ Key beneficiaries of INR weakness given strong exports orientation and USD-linked contracts ▸ Raw materials and solvent imports raise input cost ▸ Better realization, scale benefits, and improved capacity utilization support margin resilience
IT services	High	None	Positive	Negative for Off- Site	**Positive**	▸ Modest tailwind: ~90%+ FX exposure, yet a 5% depreciation lifts PBT only ~1.7% on average ▸ With 85–90% of revenue hedged, currency moves do not fully flow into PBT, muting near-term impact ▸ Demand, not FX, drives returns; FY27 hinges more on US tech spending, AI-led impact, and deal ramp-up
Textiles	High	Low	Positive	Neutral	**Positive**	▸ Net positive for exporters given high exposure of ~70–90% (primarily the US, the UK, and the EU), directly expanding rupee realization and competitiveness ▸ Portion of forex exposure is hedged via forward contracts, limiting near-term upside — only unhedged positions fully capture the benefit ▸ Long-term, INR depreciation gain is a pass-through to customers to gain market share
Upstream and Refiners	High	High	Positive	Neutral	**Positive**	▸ ONGC, OIL, RIL and standalone refiners (CPCL & MRPL) gain ~1–2% as crude and gas realization and GRM (~USD 12.5/bbl) are dollar-denominated

Source: Elara Securities Research

2. Realization- and pricing-led beneficiaries

Domestic revenue, but prices track global and landed cost — a weaker INR lifts realization to offset higher input cost. Net earnings impact: positive.

Exhibit 8: Potential sector-wise gainers due to the INR depreciation given better realization

Sector	Exports Rev %	Imports Dep. %	INR Dep. → Revenue	INR Dep. → Cost / RM	Net Earnings Impact	Analyst view
Steel	Low	Moderate	Positive	Negative	**Positive**	▸ Coking coal is a key imported raw material; INR depreciation usually increases input cost ▸ Domestic steel prices are influenced by landed cost of imported steel — a weaker INR raises that landed cost, giving producers headroom for price hikes ▸ Benefit from higher realization outweighs the rise in input costs, resulting in a net positive impact on earnings
Aluminium	Moderate	Moderate	Positive	Negative	**Positive**	▸ Aluminium prices in India are linked to USD-denominated LME prices ▸ INR depreciation usually leads to higher domestic realization ▸ Positively impact revenue and earnings of aluminium companies
Automobiles	Medium	Low	Neutral	Mild Negative	**Positive**	▸ Net earnings impact remains positive except for tyres and EV manufacturers ▸ For tyres, crude oil imports shoot up due to INR depreciation ▸ For EV, critical components are imported from China

Source: Elara Securities Research

3. Cost-pressure and negatively affected sectors

Domestic revenue plus meaningful imported inputs and limited immediate pass-through — margin compresses. Net earnings impact: negative and mild negative.

Exhibit 9: Sectors negatively impacted by INR movement

Sector	Exports Rev %	Imports Dep. %	INR Dep. → Revenue	INR Dep. → Cost / RM	Net Earnings Impact	Analyst View
Diagnostics	Very Low	High	Negative	Negative	**Negative**	▸ Negative impact due to dependence on imported reagents, kits, and laboratory consumables ▸ Limited export exposure and domestic revenue ▸ Rising procurement cost out pressure on margin, particularly where price increases are difficult to implement immediately
Paints	Low	High	High	Negative	**Negative**	▸ Significant portion of raw materials (crude derivatives and TiO2) is imported, creating vulnerability when the INR weakens ▸ Companies take sharp price increases to pass on higher input cost; the volume impact is not significant ▸ Double-digit price increases support mid-teens revenue growth and operating leverage, even as gross margin takes a hit
Cement	Very Low	High	Nil	Negative	**Negative**	▸ Power and fuel account for ~25–30% of the cost of goods sold ▸ Excluding plants in Madhya Pradesh, Chhattisgarh and Odisha, dependence on imported fuel remains high ▸ INR depreciation increases landed cost of imported fuel, leading to higher cost inflation
FMCG	Medium	Low	Low	Negative	**Mild Negative**	▸ Moderate international exposure: a few names (Godrej Consumer, Tata Consumer, Varun Beverages, and Marico) have 25–35% revenue share and benefit from the INR depreciation ▸ Raw material imports are limited to commodities like palm oil, and packaging; hence, cost pressure remains manageable; the impact is more on non-Food FMCG ▸ Revenue growth improves on price hikes; margin face mild stress; companies reduce advertising spend to restrict sharp margin decline
Luggage	Very Low	Medium	Very Low	Medium	**Medium**	▸ Meaningful reliance on imported components, such as polypropylene and other crude-linked derivatives exposes manufacturers to INR weakness on the cost side ▸ Limited export revenue offer little natural hedge ▸ Margin compression is as raw material cost inches up, while elevated competition and discount-conditioned consumers make pass-through difficult

Source: Elara Securities Research

4. Neutral and Insulated sectors

Natural USD revenue–cost hedge, or minimal forex exposure altogether. Net earnings impact: neutral and none.

Exhibit 10: Sectors with Neutral and no material impact of INR movement on earnings

Sector	Exports Rev %	Imports Dep. %	INR Dep. → Revenue	INR Dep. → Cost / RM	Net Earnings Impact	Analyst View
Ports	High	High	Negative	Negative	**Neutral**	▸ Port volume depends on the EXIM business ▸ Net impact is neutral due to a natural hedge — port revenue earned in USD and interest on foreign-currency debt paid in USD ▸ Operational cost is in INR terms
Metal pipes	Moderate	Moderate	Neutral	Neutral	**Neutral**	▸ Raw materials procured on a back-to-back basis against orders, insulating earnings from price fluctuation ▸ Significant portion of exports is routed through the Strait of Hormuz ▸ Normalization and reopening of the route is set to positively affect exports volume
Infrastructure	Low	Low	Neutral	Neutral	**Neutral**	▸ L&T has large exposure to the Middle East and the EU ▸ Exports of components and modules from India ▸ Overall impact is likely to be neutral
Apparels	None	None	None	None	**None**	▸ Domestic-facing with minimal forex exposure ▸ Earnings insulated from currency moves
Footwear	Very Low	Very Low	None	None	**None**	▸ Domestic sourcing of raw materials and negligible export revenue ▸ Largely insulated from currency fluctuations ▸ Earnings stability is a function of domestic demand and consumer discretionary spending rather than forex dynamics

Source: Elara Securities Research

India FPI equity outflows reverse; robust surge unlikely

Foreign selling has been the primary factor constraining India's market performance since mid-CY24. In equities, since the Middle East conflict started, 82% of the days witnessed outflows from India equities worth USD 32bn. Since mid-June, incessant outflows were arrested with USD 3bn net inflows into equities underpinned by positive developments in the Middle East conflict, RBI's measures to arrest one-way depreciation in the INR and a sharp fall in commodity prices, especially crude oil. However, inflows are still small, relative to USD 29.3bn outflow from March 2026 start until 15 June 2026.

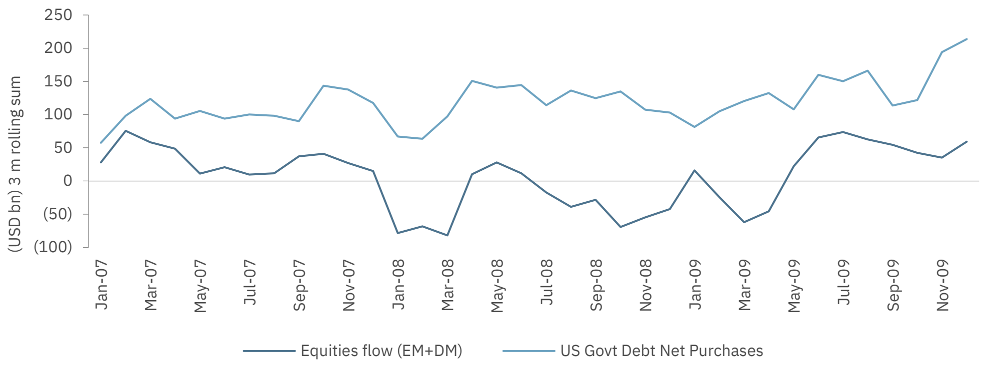
Valuation attractive but India lacks immediate thematic pull

After a sharp correction in valuation premium for India vs EM, (the MSCI India to the MSCI EM PE currently stands at 1.30x vs 1.73x in June 2025), a key question in mind of investors is whether FPI inflows can durably return to India. We reckon while selective positioning of FPI is possible, a broad-based surge would require the US-AI rally to purge and earnings to improve materially. Selective positioning as a contrarian trade may see inflows, but a meaningful recovery that replenishes the USD 29bn worth selling seen since the West Asian crisis looks challenging, as India lacks immediate thematic pull for FPI beyond a contra trade.

Financial bubble bursts see congregation of flows into US treasuries

History of all previous financial bubble bursts suggests flows tend to congregate toward US bonds immediately after burst of a bubble. Any normalization of flows into equities takes at least 3-4 quarters. For e.g., the CY07–09 episode reveals a pronounced flight-to-safety dynamic, with US government debt net purchases sustaining at elevated levels throughout the stress period, oscillating between USD 100bn and USD 150bn even as the equity markets deteriorated sharply. Notably, equities flow (EM+DM) turned deeply negative through late CY08 into early CY09—bottoming near -USD 90bn—coinciding with peak crisis sentiment post-Lehman Brothers. The divergence between the two series through most of CY07–08 underscores treasuries were absorbing capital well before equities began bleeding, pointing to a sequenced capital preservation response by global institutional allocators.

Exhibit 11: Global fund flows congregate toward US debt after the GFC shock



Note: data is three-month rolling sum; Source: EPFR, Elara Securities Research

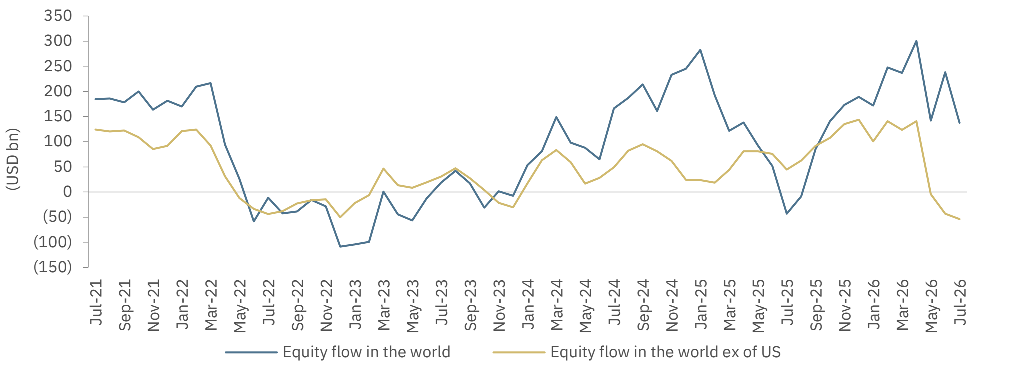
Relative value proposition of India equities still not attractive for FPI

From the global front, the US Fed's policy trajectory has turned hawkish, contributing to a firmer DXY Index (US Dollar) and UST yield. The firming of UST yield — with real yield on a consistent CYTD uptrend and nominal 10Y yield hovering at 4.5%. This compresses nominal yield spread between India and US 10-year sovereigns to ~220bp. Consequently, when India equity valuations are adjusted for USD-INR hedging cost (3m annualized forward premium), the net implied risk premium is negative (-3.03%), diminishing the relative value proposition of India equities on a fully hedged basis.

Dollar asset trade gaining momentum as markets assess the Fed policy

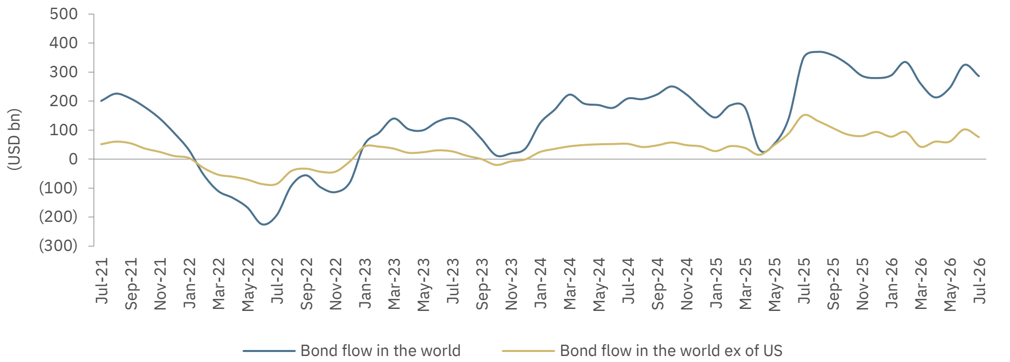
Global flow trade is moving into a "dollar asset trade" with a stronger Dollar, firmer US treasury yields, and preference for US-denominated assets. This trend has got strengthened, especially after the recent hawkish statement by Fed Chair Kevin Warsh. Market expectations have already shifted from a rate cut to a possible rate hike in the US, further reinforcing US Dollar asset trade. This is evident from the flow of assets into US-denominated assets -- both equity and debt.

Exhibit 12: US sees a surge in equity flows since the tariff war started and AI rally got stronger



Note: data is three-month rolling sum; Source: EPFR, Elara Securities Research

Exhibit 13: US sees surge in bond flows vs the world



Note: data is three-month rolling sum; Source: EPFR, Elara Securities Research

Slowing flows into technology but not in the US as on yet

Globally, as per EPFR data, equity flows rotation moved in favour of infrastructure funds in Q2CY26 attracting USD 30.0bn of flows vs USD 19.5bn in Q1. The technology sector continues to attract flows, but the magnitude is gradually slowing and is getting increasingly concentrated in the US. In Q2CY26, technology sector net flows amounted to USD 81.7bn vs USD 99.6bn in Q1 and USD 191.5bn in Q4CY25. In technology, the US continues to drive most of the flows, amounting to USD 16.9bn in June 2026 (4w roll sum basis) vs USD 7.2bn in May 2026. Ex-US, technology has seen an outflow of USD 4.4bn in June 2026 vs USD 2.4bn outflow in May, driven by China and South Korea.

Exhibit 14: Flows into tech ease

(USD bn)	Q1CY25	Q2CY25	Q3CY25	Q4CY25	Q1CY26	Q2CY26
Commodities/Materials	(9.5)	(12.1)	26.9	30.6	106.4	(26.6)
Consumer Goods	6.3	(10.7)	4.6	(18.2)	(15.4)	(23.2)
Energy	(15.7)	(22.9)	(3.1)	9.7	75.8	9.4
Financials	24.7	(35.0)	55.9	16.0	4.0	(24.6)
Health Care/Biotech	(15.3)	(37.4)	(9.3)	44.1	9.7	(11.2)
Industrials	6.9	2.8	28.4	33.4	85.1	42.5
Infrastructure	(2.7)	2.5	10.5	9.7	19.5	30.1
Real Estate	(9.6)	(10.8)	(1.9)	4.9	(0.7)	2.1

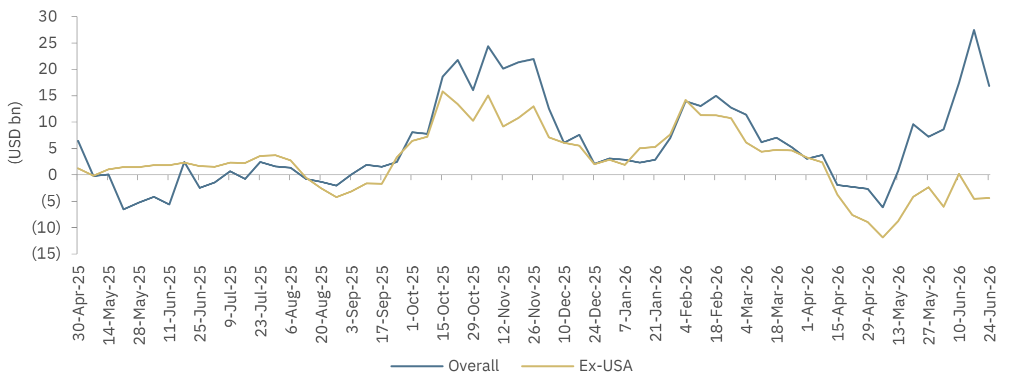
Technology	(0.3)	16.8	5.7	191.5	99.6	81.7
Telecom	4.1	3.9	9.1	5.1	7.8	8.7
Utilities	(0.9)	4.1	8.4	8.2	0.5	2.5
Total	(12.1)	(98.9)	135.2	335.0	392.2	91.4

Note: 3m rolling sum; Source: EPFR, Elara Securities Research

Low **High**

The technology sector continues to attract flows, but the magnitude is gradually slowing and is getting increasingly concentrated in the US. In Q2CY26, technology sector net flows amounted to USD 81.7bn vs USD 99.6bn in Q1 and USD 191.5bn in Q4CY25. In technology, the US continues to drive most flows, amounting to USD 16.9bn in June 2026 (4w roll sum basis) vs USD 7.2bn in May. Ex-US, technology has seen an outflow of USD 4.4bn in June 2026 vs USD 2.4bn outflow in May, driven by China and South Korea.

Exhibit 15: US tech sector continuing to receive flows



Source: EPFR, Elara Securities Research

Exhibit 16: India flows snapshot

BoP component/ Flows (USD bn)	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Net FII E+D Flows	***(4.9)***	***4.3***	***4.6***	***3.5***	***(4.3)***	***(7.9)***	***(3.7)***	***(1.4)***	***(1.3)***	***(8.1)***	***(4.1)***	***(13.7)***	***(16.3)***	***(22.8)***	***(12.7)***
Net FII equity	***(3.9)***	***2.5***	***4.5***	***2.0***	***(4.4)***	***(8.7)***	***(5.0)***	***(1.5)***	***(1.3)***	***(6.9)***	***(4.0)***	***(14.2)***	***(16.7)***	***(22.6)***	***(15.1)***
Auto/Auto comp	(1.2)	(0.7)	0.2	0.2	0.3	0.2	0.7	0.3	(0.3)	(0.8)	(0.2)	(1.3)	(1.5)	(2.2)	
Capital Goods	(0.6)	0.6	0.4	0.4	0.0	0.6	0.5	0.5	(0.1)	0.3	1.4	2.0	2.1	1.1	
Chemicals	0.2	0.3	0.5	0.6	0.6	0.3	0.0	(0.3)	(0.2)	(0.1)	0.0	0.0	0.0	(0.1)	
Construction	(0.7)	(0.3)	(0.3)	(0.2)	0.0	0.1	0.5	0.3	0.2	(0.2)	0.4	(0.6)	(0.4)	(1.0)	
Cons. Durables	(0.4)	(0.4)	(0.5)	(0.8)	(0.8)	(0.9)	(0.8)	(0.6)	(0.1)	(0.1)	(0.1)	(0.5)	(0.4)	(0.5)	
FMCG	(1.1)	(0.2)	0.0	(0.2)	(0.4)	(0.4)	(1.1)	(1.5)	(1.7)	(2.0)	(1.7)	(1.6)	(1.1)	(1.3)	
Finserv	3.0	4.3	3.7	0.8	(2.3)	(3.2)	(1.0)	1.3	0.0	(2.5)	(1.2)	(6.5)	(8.8)	(12.2)	
Healthcare	(0.2)	(0.4)	(0.4)	(0.4)	(0.2)	(0.9)	(1.2)	(1.2)	(0.9)	(1.2)	(1.0)	(1.2)	(1.3)	(1.2)	
IT	(2.7)	(3.0)	(1.9)	(2.4)	(3.4)	(4.3)	(2.2)	(1.6)	(0.8)	(0.7)	(1.9)	(2.3)	(2.5)	(0.8)	
Metals & Mining	(0.3)	(0.2)	(0.4)	0.4	0.3	0.5	0.5	0.5	0.6	1.5	2.2	1.5	0.4	0.5	
Oil & Gas	(0.8)	(0.1)	1.0	0.6	(0.4)	(1.2)	0.2	1.7	2.1	1.0	0.7	0.0	(0.6)	(2.1)	
Power	(0.3)	(0.2)	(0.9)	(1.0)	(1.2)	(0.8)	(0.7)	(0.5)	(0.5)	(0.8)	0.0	0.3	1.1	0.5	
Realty	(0.2)	(0.2)	(0.1)	(0.5)	(0.4)	(0.8)	(0.5)	(0.4)	(0.3)	(0.5)	(0.3)	(0.7)	(0.6)	(0.8)	
Net Debt	***(1.1)***	***1.8***	***0.0***	***1.5***	***0.0***	***0.9***	***1.3***	***0.1***	***0.0***	***(1.2)***	***(0.1)***	***0.5***	***0.4***	***(0.2)***	***2.4***
FAR	4.4	1.6	(2.9)	(1.4)	0.5	2.8	3.6	3.3	0.6	0.4	0.9	1.2	(0.3)	(0.8)	2.7

Source: CEIC, Elara Securities Research

Low **High**

SMID: from Froth to Fundamentals

SMIDs (Small and Mid-Cap Stocks) trade is at a different point in the cycle. Earlier concern was valuation excess; the more relevant question now is whether fundamentals can support the next leg. The answer is turning more constructive. Large caps should remain the portfolio anchor, given better valuation support, and downside protection. But marginal allocation call has changed. With earnings breadth improving, ROE convergence visible, and reflation historically supportive, the better incremental risk-reward now sits in select SMID rather than a purely defensive large-cap rotation.

Reflation phase favors SMID positioning: The inflation cycle has turned with WPI at 9.7% in May 2026, and the CPI at nearly 4% from a low of 0.04% in October 2025. Our analysis of 20-year, GDP-deflator cycles shows rising-deflator phases deliver median returns of 23% for the Nifty50, 42% for the Midcap 100 and 34% for the Smallcap 100. Historically, mid-cap returns have surpassed large caps in six of the past seven reflation cycles. SMID have a lower earnings base, higher operating leverage, and thus more room for volume recovery across domestic cyclicals vs large caps. With macro stress contained and demand still resilient, we believe select SMID exposure still offers superior risk reward.

Outsized growth opportunities in new supply chains and the INR depreciation tailwinds: Creation of new supply chains in sectors, such as defence, semiconductors, electricals, aerospace, battery storage, electricals, data centers, and AI, are creating growth opportunities, particularly for small caps in the form of vendors, component makers, and niche companies. Additionally, the recent weakness in the INR vs competing peers is offering competitive edge to companies in pharma, machinery, and textiles and speciality chemicals, all of which were reeling under tariff-related destruction of competitiveness. The past decade is witness to how PAT pools of small caps in select new industries have risen as the addressable market opportunity has improved. Small caps in sectors, such as defence, and electronics manufacturing have seen their share in the Small Cap Nifty 250 PAT pool increase in the past decade (for e.g., 0.5% in CY16 to 1% in CY26 for defence, and 3.3% to 4.5% for electronics).

ROE cycles converge between market caps: The Nifty50 ROE at 14.9% is a mere ~150bp above the Nifty Midcap 100 ROE of 13.5%. This is a sharp reset from the CY20 period when mid-cap ROE was a mere 4.2%. Small caps have moved to a better ROE range of 9-15% post COVID-19 vs -2% to 7% during CY12-18, and 9.5% in FY26. Even as large caps' ROE remains healthy, we believe the uptick is constrained by a limited upside to bank NIM, normalized oil & gas margin, and continued earnings headwinds for the IT sector. SMID, on the contrary, continue to offer a more diversified exposure, especially to new-age and high-growth segments where the country's capex cycle is moving, such as defence, power industrial, AI, data centers, recycling, and specialized chemicals among others.

Profit pool moving down the market cap curve: The incremental shift in the profit pool is toward SMID. Within our coverage universe of 275 + companies, large-cap profit weight is set to decline from 80.4% in Q4FY26 to 78.6% in FY28E, while SMID rises from 19.6% to 21.4%, a 180bp gain. Mid-caps would account for most of this move, with profit share rising 132bp to 14.9%; small caps would add 53bp to 6.5% and then stabilize. Sector breadth is improving down the cap curve. Among large caps, only seven sectors gain profit share by FY28, while seven decline and one remains flat. Among mid-caps, profit weight is flat or rising across most sectors, with IT, auto, healthcare and energy as exceptions. Small caps show broader participation, with 15 sectors flat or positive and energy & auto are the only meaningful drags.

Valuation froth corrects across caps: Mid-caps have derated by ~22% from the CY24 peak of ~36x, and its premium over the Nifty has corrected from 74% to 52%, while remaining well above pre-CY20 levels. Small caps valuation have also witnessed a corrected of ~14% from its peak. Even as large caps provide higher valuation comfort, the reflation cycle, the earnings growth outlook, and profit-pool migration improve the incremental risk-reward in SMID.

Exhibit 17: Reflation cycles reward SMID beta

		Index Value			Change (%)			
Date	**GDP deflator (YoY %)**	**Nifty 50**	**NSE Mid Cap 100**	**NSE Small Cap 100**	**GDP deflator (PPS)**	**Nifty 50**	**NSE Mid Cap 100**	**NSE Small Cap 100**
Mar-02	2.0	1130	965					
Sep-04	6.8	1746	2333	1039	4.8	55.0	142.0	
Sep-05	3.8	2601	3807	2075	(3.1)	49.0	63.0	100.0
Sep-08	11.2	3921	4891	2779	7.4	51.0	28.0	34.0
Jun-09	2.3	4291	5427	2666	(8.9)	9.0	11.0	(4.0)
Mar-10	11.3	5249	7705	3620	9.0	22.0	42.0	36.0
Jun-13	4.2	5842	7342	2907	(7.1)	11.0	(5.0)	(20.0)
Dec-13	7.6	6304	8071	3403	3.4	8.0	10.0	17.0
Mar-15	1.1	8491	13001	5623	(6.5)	35.0	61.0	65.0
Sep-17	5.1	9789	18108	7585	4.0	15.0	39.0	35.0
Mar-19	(0.9)	11624	18259	6673	(6.1)	19.0	1.0	(12.0)
Jun-22	10.6	15780	26453	8445	11.5	36.0	45.0	27.0
Jun-23	1.2	19189	35754	10837	(9.4)	22.0	35.0	28.0
Dec-24	3.7	23645	57199	18769	2.5	23.0	60.0	73.0
Sep-25	0.5	24611	56529	17563	(3.2)	4.0	(1.0)	(6.0)
Median When Falling Deflator						**19.0**	**11.0**	**(4.0)**
Median When Rising Deflator						**23.0**	**42.0**	**34.0**

Source: Bloomberg, Elara Securities Research

Ex-Energy, mid-cap PAT growth jumps to 28.1%, more than double large-cap, ex-energy growth of 12.1%

Small caps deliver the highest FY27E PAT growth at 24.7%

Small-cap FY27E growth is broad-based, with double-digit YoY growth in 15 sectors.

Metals show strong growth across all caps, with 34.1% large-cap, 41.6% mid-cap and 49.1% small-cap PAT growth in FY27E

Exhibit 18: FY27E earnings recovery to be SMID-led; although large caps still hold 80% of profit pool

	Large Cap		Mid Cap		Small Cap	
FY27E earnings	**PAT (INR bn)**	**% YoY**	**PAT (INR bn)**	**% YoY**	**PAT (INR bn)**	**% YoY**
Auto	916	32.1	112	15.5	77	19.9
Bank	3,187	9.8	284	32.7	108	46.1
Cement	112	(18.5)	32	14.1	36	(24.4)
Consumer Discretionary	237	31.7	142	64.6	86	41.4
Consumer Staples	460	4.7	57	13.7	20	(2.0)
Energy	1,975	(11.5)	163	(42.8)	74	37.5
Financials	287	14.5	124	21.2	23	29.4
Health Care	281	(0.9)	148	(8.2)	55	15.5
Industrials	263	13.8	37	35.7	45	43.4
Information Technology	1,257	1.0	63	13.1	31	14.7
Infrastructure	367	19.2	15	(5.9)	38	19.1
Materials	NA	NA	108	37.6	97	20.3
Media	NA	NA	NA	NA	30	26.9
Metals	521	34.1	271	41.6	7	49.1
Real Estate	122	14.1	94	69.2	21	117.2
Transportation	89	6.2	12	(2.3)	13	48.0
Utilities	593	17.9	198	32.6	118	17.1
Elara Universe	**10,666**	**6.9**	**1,862**	**15.5**	**878**	**24.7**
Profit Weight in Total Pool	79.6		13.9		6.6	
Elara ex Energy	**8,692**	**12.1**	**1698**	**28.1**	**804**	**23.7**

Source: Bloomberg, Elara Securities Estimate

Low **High**

Large-cap profit share falls steadily from 80.4% to 78.6%. SMID profit weight rises 80bp in FY27E and another 100bp in FY28E

Exhibit 19: SMID profit pool to rise by 180bp during Q4FY26-28E

Profit weight (%)	Q4FY26	FY27E	FY28E	Read-through
Large caps	80.4	79.6	78.6	Profit share starts declining from the latest reported base
Mid-caps	13.6	13.9	14.9	Cleanest rising profit-pool story
Small caps	6.0	6.6	6.5	Step-up from Q4 base, then broadly stable
SMID total	19.6	20.4	21.4	Profit leadership broadens by ~180bp during Q4FY26-28E

Source: Elara Securities Estimate

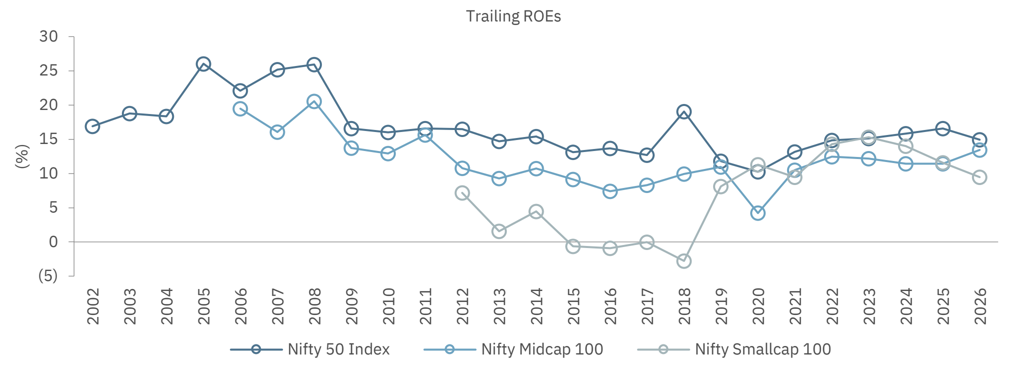
2026 ROE hierarchy: The Nifty50 leads at 14.9%, mid-caps follow at 13.5%, and small caps trail at 9.5%

The Nifty50 ROE peaked near 26% during CY05–08, but has normalized to 14.9% by CY26

Mid-cap ROE recovered to 13.5% in CY26, a mere ~150bp below the Nifty50 at 14.9%

Between CY20 and CY26, mid-cap ROE rose from 4.2% to 13.5%, the sharpest improvement across the three indices

Exhibit 20: SMID ROE converging with large caps



Source: Bloomberg, Elara Securities Research

Large-cap profit weight declines from 80.4% to 78.6% in FY28E

Only seven large-cap sectors gain profit share by FY28E, while seven decline and one remains flat, showing a mixed sector rotation

The three largest drags -- energy, IT and utilities -- reduce large-cap profit weight by 406bp

Financials, metals and health care together add 298bp, partly offset drag from energy, IT services, and utilities

IT profit weight falls from 9.7% to 8.4%, a 132bp decline, making it the second-largest drag after energy

Exhibit 21: Financials, metals, healthcare, and discretionary profit share to rise among large caps

Large-cap sector weight in total profit pool	Q4FY26	FY27E	FY28E	Change: Q4FY26 to FY28E (bp)
Financials	1.0	2.1	2.1	108
Metals	3.2	3.9	4.1	96
Health Care	1.6	2.1	2.5	94
Consumer Discretionary	1.5	1.8	2.0	47
Real Estate	0.7	0.9	0.9	23
Infrastructure	2.5	2.7	2.7	13
Auto	7.0	6.8	7.0	4
Transportation	0.7	0.7	0.7	0
Consumer Staples	3.4	3.4	3.2	(16)
Bank	23.4	23.8	22.9	(47)
Industrials	2.5	2.0	2.0	(49)
Cement	1.6	0.8	1.1	(52)
Utilities	5.5	4.4	4.3	(120)
Information Technology	9.7	9.4	8.4	(132)
Energy	16.2	14.7	14.7	(154)
Total large-cap profit weight	**80.4**	**79.6**	**78.6**	**(185)**

Note: Adjusted Profit considered of 75 large cap stocks covered by Elara Analysts. The Profit pool calculation is basis the total profit pool including Mid and Small Caps; Source: Elara Securities Estimate

Low **High**

Mid-cap profit weight rises 132bp overall despite energy alone dragging 65bp from Q4FY26 to FY28E

Consumer discretionary, banks and real estate together add 119bp, contributing ~90% of the total rise in mid-cap profit weight

Banks add 40bp and remain the largest mid-cap sector by FY28E profit weight at 2.2%, ahead of metals at 2.1%

Health care and energy together reduce profit weight by 85bp from Q4FY26 until FY28E

Exhibit 22: Mid-cap profit share broadens, led by consumption, banks, and real estate

Mid-cap sector weight in total profit pool	Q4FY26	FY27E	FY28E	Change: Q4FY26 to FY28E (bp)
Consumer Discretionary	0.9	1.1	1.3	41
Bank	1.8	2.1	2.2	40
Real Estate	0.5	0.7	0.9	38
Financials	0.7	0.9	0.9	28
Utilities	1.3	1.5	1.5	23
Materials	0.7	0.8	0.8	19
Metals	1.9	2.0	2.1	14
Industrials	0.3	0.3	0.4	10
Consumer Staples	0.3	0.4	0.4	8
Infrastructure	0.2	0.1	0.2	3
Transportation	0.1	0.1	0.1	0
Cement	0.3	0.2	0.3	0
Information Technology	0.5	0.5	0.5	(3)
Auto	0.9	0.8	0.8	(4)
Health Care	1.3	1.1	1.1	(20)
Energy	2.3	1.2	1.6	(65)
Total mid-cap profit weight	**13.6**	**13.9**	**14.9**	**132**

Note: Adjusted Profit considered of 70 mid cap stocks covered by Elara Analysts. The Profit pool calculation is basis the total profit pool including Mid and Small Caps; Source: Elara Securities Estimate

Small-cap profit weight rises by 53bp from Q4FY26 until FY28E, 15 sectors show positive and/or flat contribution

The Top 5 positive sectors are materials, media, financials, bank, and real estate; they add 62bp to profit weight gain

Energy and auto are the only meaningful drags, each subtracting 14bp from small-cap profit weight

Utilities remain the largest stable sector at 0.9% across Q4FY26, FY27E and FY28E

Exhibit 23: Small-cap profit gains and stabilizes ~6.5% by FY28E

Small-cap sector weight in total profit pool	Q4FY26	FY27E	FY28E	Change: Q4FY26 to FY28E (bp)
Materials	0.5	0.7	0.7	18
Media	0.1	0.2	0.2	13
Financials	0.1	0.2	0.2	11
Bank	0.7	0.8	0.9	10
Real Estate	0.1	0.2	0.2	10
Infrastructure	0.2	0.3	0.3	8
Metals	0.0	0.1	0.1	3
Transportation	0.1	0.1	0.1	2
Health Care	0.4	0.4	0.4	2
Consumer Staples	0.2	0.2	0.2	1
Consumer Discretionary	0.7	0.6	0.7	1
Information Technology	0.2	0.2	0.2	1
Industrials	0.4	0.3	0.4	1
Utilities	0.9	0.9	0.9	0
Cement	0.4	0.3	0.4	0
Energy	0.5	0.6	0.3	(14)
Auto	0.7	0.6	0.5	(14)
Total small-cap profit weight	**6.0**	**6.6**	**6.5**	**53**

Note: Adjusted Profit considered of 130 small cap stocks covered by Elara Analysts. The Profit pool calculation is basis the total profit pool including Mid and Small Caps; Source: Elara Securities Estimate

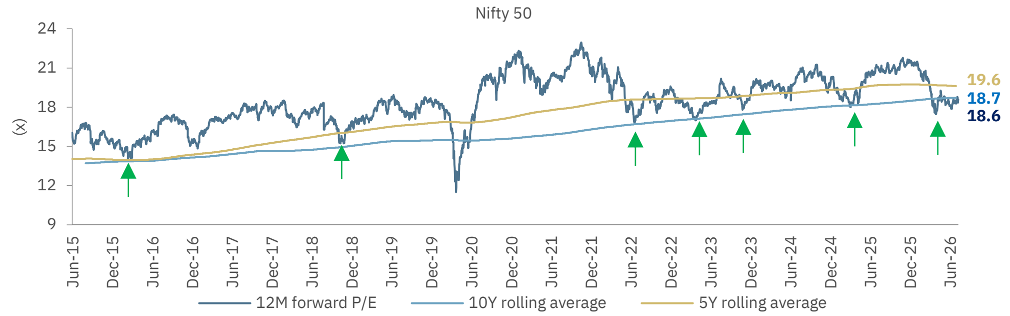
Low **High**

Nifty's 10-year rolling average multiple has moved up from ~15x in CY19 to ~19x currently, reflecting structural re-rating

With large-cap profit growth moderating in recent years, The Nifty50 currently trades below this average.

Historically, barring COVID-19, this zone has acted as a bounce-back region on seven occasions

Exhibit 24: The Nifty50 currently trades below 10-year average at 18.7x 12-month forward P/E

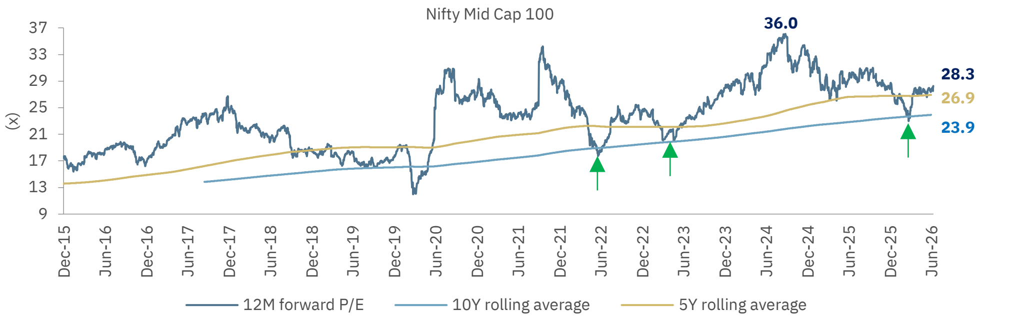


Source: Bloomberg, Elara Securities Research

Mid-cap valuation has de-rated from frothy 2024 peaks of 36x and currently trade ~22% below peak multiples

Ex-COVID, mid-caps have usually bounced from the 10-year rolling average; the current cycle looks no different

Exhibit 25: The Nifty Mid Cap 100 down from its all-time highs of 36x and currently trades at 28.3x

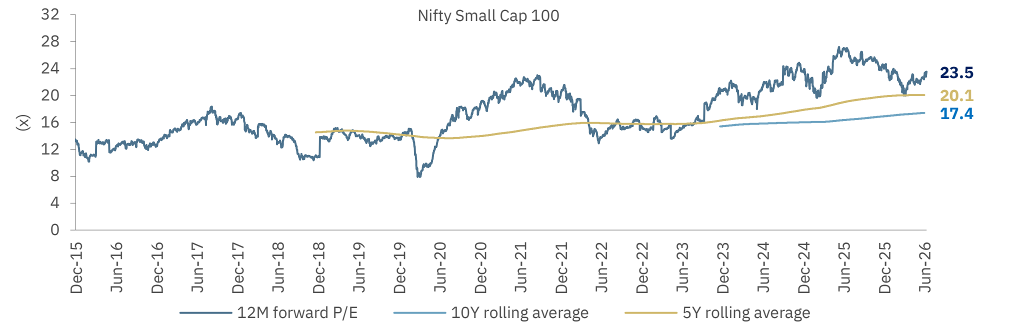


Source: Bloomberg, Elara Securities Research

The 5Y rolling average has risen from ~14–15x in CY20 to nearly 20x by CY26, showing a valuation re-rating

Small-cap valuation has corrected ~14% from the peak and currently trades at ~23x one-year forward P/E

Exhibit 26: Nifty Small Cap 100 currently trades at 23.5x 12-month forward P/E, 17% above its five-year average

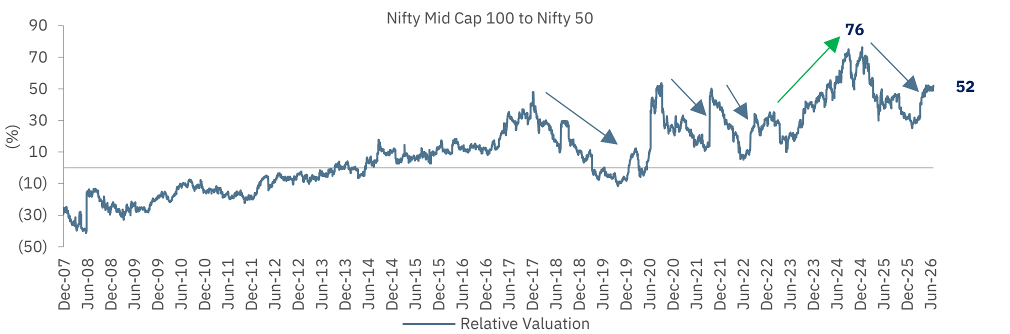


Source: Bloomberg, Elara Securities Research

The mid-cap P/E premium has corrected from the September 2024 peak of 76%, but remains well above pre-CY20 levels

Mid-cap premium has corrected in line with the past cycles; the market is currently entering the rebound phase

Exhibit 27: The Nifty Midcap100 relative to the Nifty is currently below its highs of 76% and currently is at 52%



Source: Bloomberg, Elara Securities Research

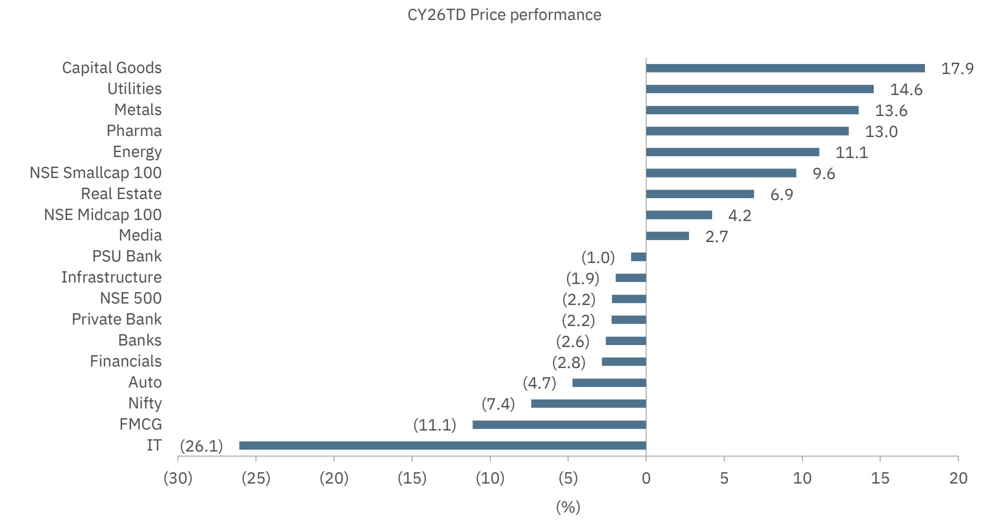
Strategy Dashboard

(The Strategy Dashboard gives a quick view of market performance, flows, valuations and ownership trends, helping assess whether market moves are broad-based, sector-specific or flow-driven)

IT and FMCG are the weakest performers in CY26 YTD, falling 26% and 11%, respectively.

Despite the Nifty being down 7.4%, mid and small caps having outperformed, weakness is concentrated in select index-heavy sectors

Exhibit 28: Five sectors with gains of >10% and two sectors with loss of >10% in CY26 YTD



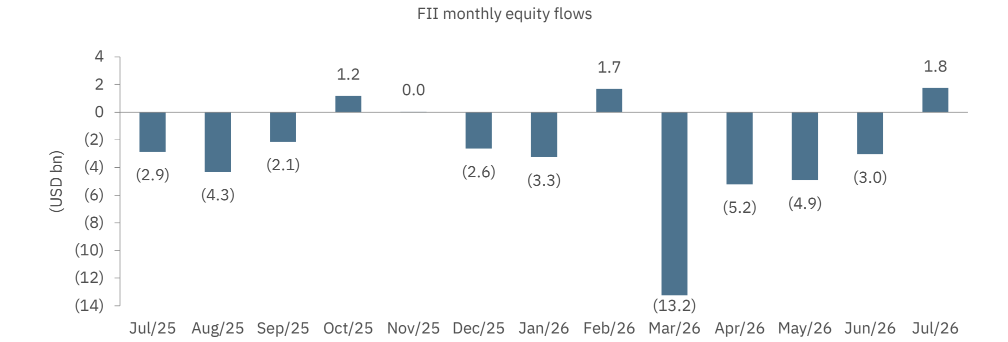
Source: Bloomberg, Elara Securities Research

FIIs were net sellers in nine out of past 13 months, with total outflows of USD 41.6bn vs inflows of a mere USD 4.6bn

FII selling moderated after March 2026 outflow of USD 13.2bn; however, flows remain negative for the four consecutive month

Moderation reduces downside pressure, but a durable market recovery may require a shift back to sustained inflows

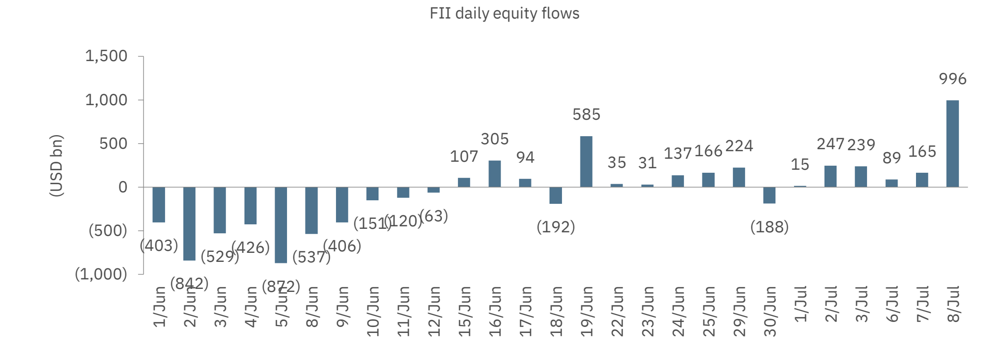
Exhibit 29: FII flows gradually improved, turning positive by July 2026...



Source: Bloomberg, Elara Securities Research

The shift from consistent early-month selling to positive flows in the latter half indicates moderation in foreign investor risk aversion

Exhibit 30: .. with net inflows recorded since second half of June 2026 of USD 3.1bn

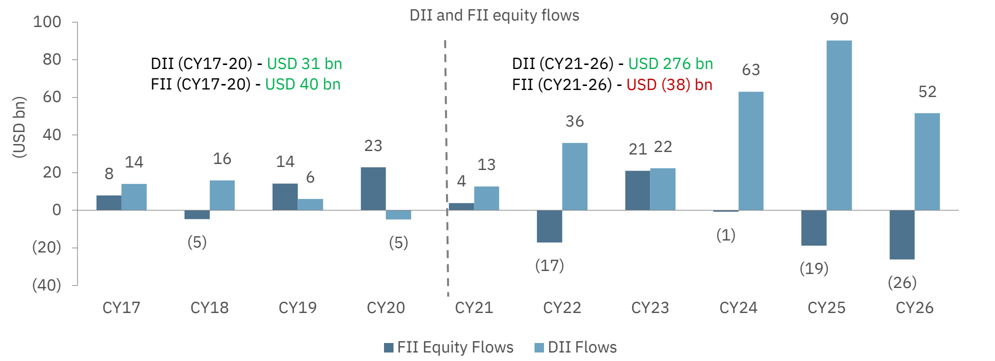


Source: Bloomberg, Elara Securities Research

Since CY21, DII have invested USD 276bn while FII have cumulatively sold USD 38bn, highlighting growing depth of domestic flows

This structural support from DII has helped absorb foreign outflows and reduced market dependence on FII participation

Exhibit 31: DII continue to provide support while FII remain net sellers cumulatively since CY21

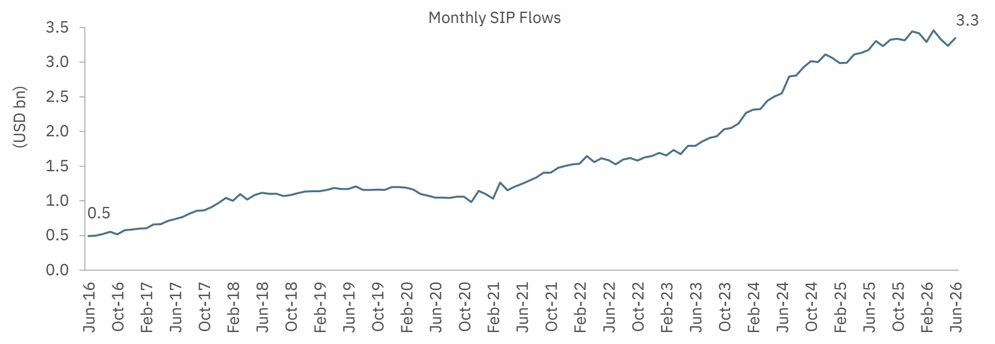


Source: CMIE, Bloomberg, Elara Securities Research

Monthly SIP flows have risen steadily from USD 0.5bn in June 2016 to USD 3.3bn in June 2026, creating a durable domestic liquidity base

Sustained SIP momentum provides a stable domestic liquidity base and continues to support equity market resilience

Exhibit 32: Average monthly SIP flows of the past 12 months stands at USD 3.3bn

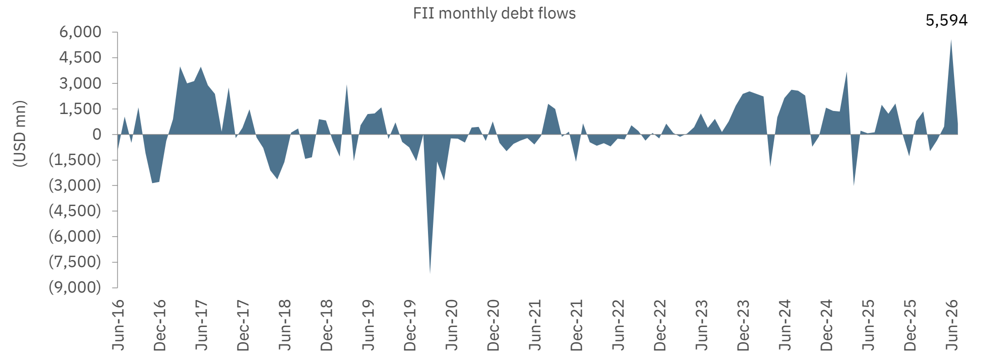


Source: CMIE, Bloomberg, Elara Securities Research

After remaining volatile during CY24–25, debt flows turned strongly positive in June 2026, indicating renewed foreign interest in India's fixed income

Sustained debt inflows can support INR stability and partly offset pressure from continued FII equity outflow

Exhibit 33: FII debt inflows reach their highest levels in June 2026

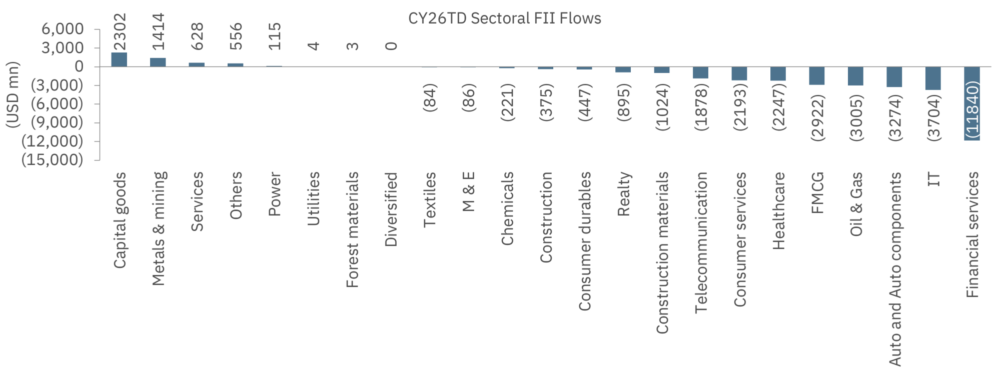


Source: Bloomberg, Elara Securities Research

FII buying is concentrated in only five meaningful sectors, while selling is spread across most consumption, financial and tech-heavy sectors

The Top 5 outflow sectors (financial services, IT, auto, oil & gas and FMCG) account for USD 24.7bn of selling

Exhibit 34: Financial services witnesses the highest selling of USD ~11.8bn in CY26 YTD...

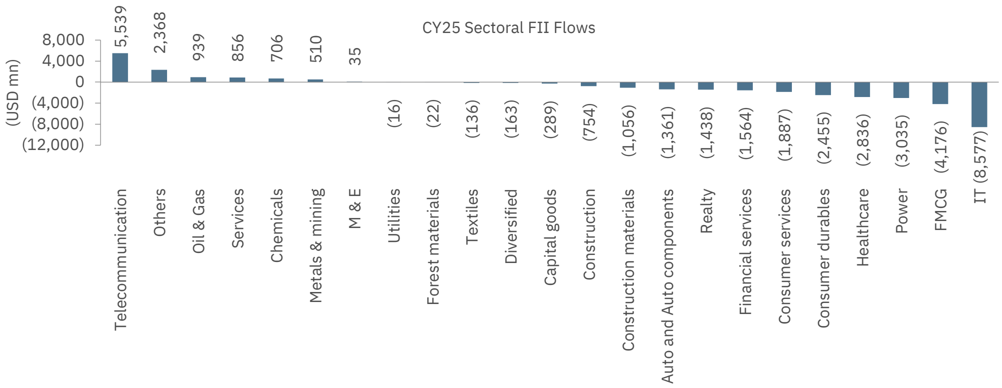


Note: M & E = Media, entertainment & publication; Oil & Gas = Oil, gas & consumable fuel; Source: CMIE, Elara Securities Research

Unlike CY26 YTD, where financial services has seen the sharpest selling, CY25 outflows were more concentrated in defensives and global-facing sectors

FII positioning in CY25 shows sector rotation, with buying concentrated in telecom and select cyclicals, while IT and consumption saw heavy exits

Exhibit 35: While IT witnesses the highest outflows of USD 8.6bn in CY25



Note: M & E = Media, entertainment & publication; Oil & Gas = Oil, gas & consumable fuel; Source: CMIE, Elara Securities Research

India's earnings growth remains comparable to global peers, but its valuation correction has been sharper

Exhibit 36: India's valuation corrects the most since September 2024 while earnings growth remains in the range of 14-16% for FY27 and FY28 each

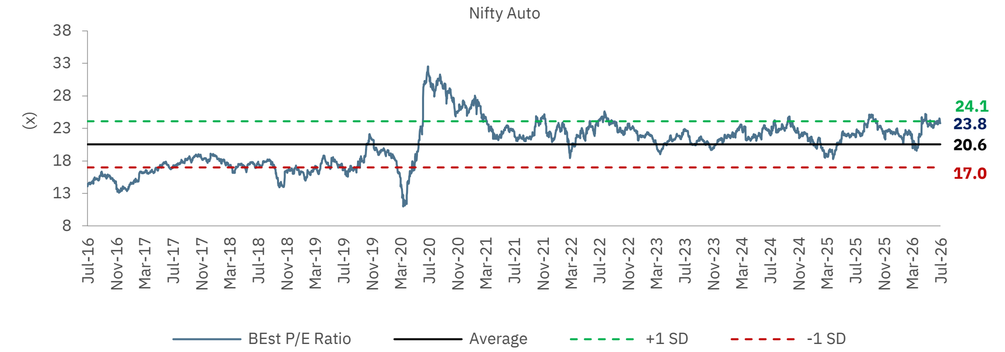
	12-month forward PE (x)			EPS (in local currency)			EPS Growth (%)	
	Sep-24	Jun-26	Change from Sept'24 peak (%)	CY25	CY26	CY27	CY26	CY27
India	21.3	18.6	(12.5)	1105	1280	1462	15.8	14.2
MSCI World	18.1	17.6	(3.0)	45	57	67	27.4	16.5
MSCI EM	12.5	10.9	(13.2)	93	138	171	48.3	24.0
MSCI Europe	14.0	15.3	9.1	11	13	14	16.9	9.3
US	21.7	20.4	(6.2)	246	324	381	31.7	17.4
Germany	13.2	15.1	14.7	1387	1499	1725	8.0	15.1
China	12.4	13.4	7.8	272	285	320	4.9	12.1
Hong Kong	9.6	10.3	7.0	2108	2163	2396	2.6	10.8
South Korea	8.5	6.5	(23.4)	304	965	1330	217.5	37.9
Indonesia	13.8	8.7	(37.1)	561	648	732	15.6	12.9
Taiwan	16.2	19.2	18.4	1420	2015	2479	41.8	23.1
Brazil	7.9	8.5	8.1	14507	20288	21462	39.8	5.8

Note: India estimates are based on Fiscal year basis; Source: Bloomberg, Elara Securities Estimate

Valuations have repeatedly found support near the 10-year average, with the sector rebounding from those levels in recent years

The sector trades near the upper band, but well below FY21 peak multiple

Exhibit 37: Nifty Auto currently trades slightly below its upper Standard Deviation

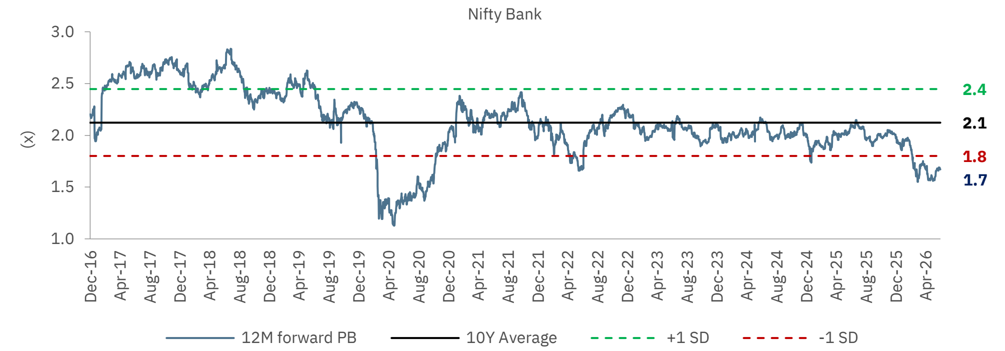


Source: Bloomberg, Elara Securities Research

The Nifty Bank remains below its 10-year average for most post-COVID period

The index is trading below its historical valuation band despite banks remaining a large part of the earnings pool

Exhibit 38: Nifty Bank trades below lower Standard Deviation as valuation remains near cycle lows

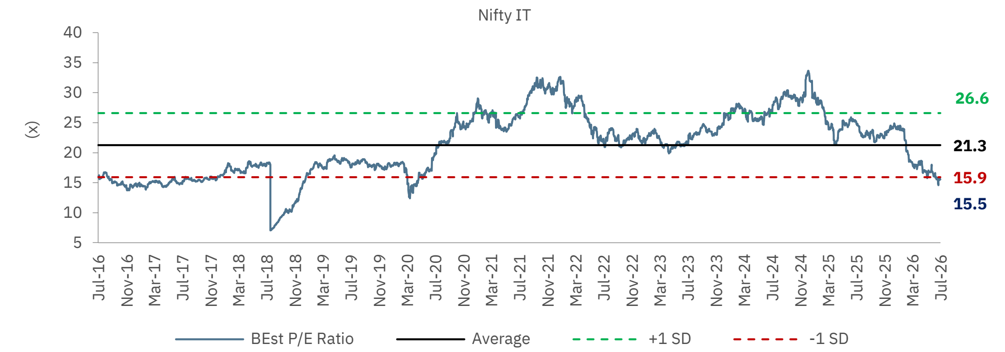


Source: Bloomberg, Elara Securities Research

IT valuations have corrected sharply from FY22 peak and are currently near the lower end of the historical range

This creates valuation support, but near-term upside may remain capped without improvement in discretionary tech spending

Exhibit 39: Nifty IT trades near decade-low valuations after sharp derating

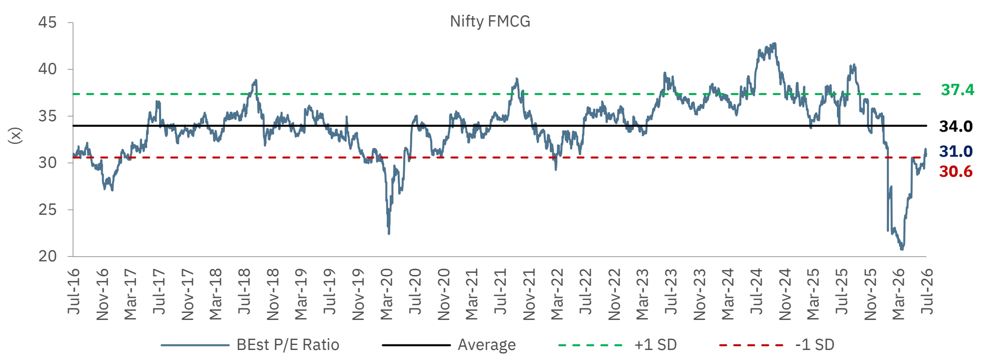


Source: Bloomberg, Elara Securities Research

FMCG's historical premium has compressed, improving valuation comfort after a long period of elevated multiples

This creates valuation support, but a sustained re-rating may need evidence of rural recovery and volume improvement

Exhibit 40: Nifty FMCG valuation corrects sharply, and currently trades above lower Standard Deviation band

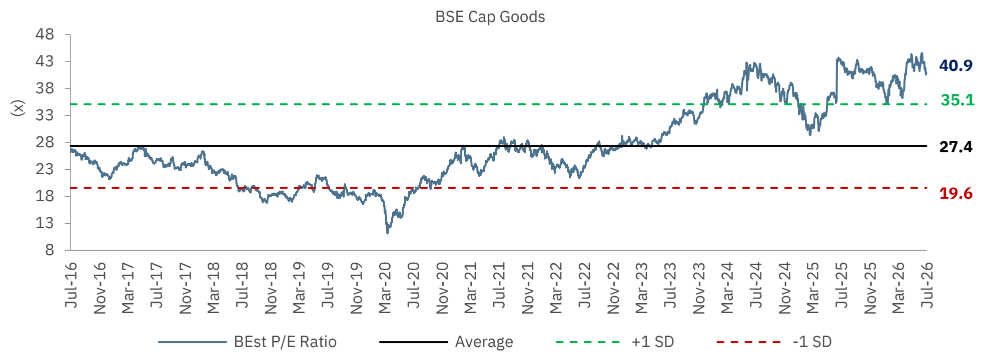


Source: Bloomberg, Elara Securities Research

Capital goods has seen one of the strongest valuation re-ratings since FY22

Even after intermittent corrections, valuation has rebounded, showing market appetite for capex-linked themes

Exhibit 41: BSE Capital Goods remains in premium valuation zone despite intermittent corrections



Source: Bloomberg, Elara Securities Research

Exhibit 42: Banks and IT de-rate meaningfully as capital goods continues to trade at premium valuation

	12M forward PE (x)				12M forward PB (x)			
Sectors	Current	10 Yr Avg	Peak	Correction from Peak (%)	Current	10 Yr Avg	Peak	Correction from Peak (%)
Nifty 50	18.4	18.7	22.9	(19.8)	2.6	2.8	3.4	(24.6)
Nifty 500	20.4	19.8	26.4	(22.8)	2.9	2.9	3.8	(22.2)
Nifty Midcap 150	27.3	24.8	36.3	(24.7)	3.8	3.3	5.3	(28.2)
Nifty Smallcap 250	24.4	18.4	26.6	(8.1)	3.2	2.6	3.8	(16.1)
Nifty Auto	23.8	20.6	32.5	(26.9)	3.8	3.0	4.4	(14.0)
Nifty Bank	13.2	16.2	25.2	(47.5)	1.7	2.1	2.8	(41.4)
Nifty Fin Service	15.6	18.3	24.0	(34.9)	2.1	2.7	3.6	(41.2)
Nifty Pharma	32.2	24.2	32.5	(0.9)	4.2	3.4	4.8	(12.3)
Nifty IT	15.5	21.3	33.7	(53.9)	4.1	5.3	8.7	(52.8)
Nifty Realty	30.9	29.7	55.0	(43.8)	3.8	2.6	6.9	(44.3)
Nifty Media	20.3	21.8	31.2	(35.2)	1.4	2.7	5.5	(73.9)
Nifty FMCG	31.0	34.0	42.8	(27.7)	7.5	8.5	10.6	(29.2)
Nifty Infra	21.4	19.1	33.1	(35.6)	2.7	2.1	3.4	(21.7)
Nifty Energy	14.0	12.0	19.4	(27.8)	1.9	1.5	2.5	(25.4)
BSE Cap Goods	40.9	27.4	44.5	(8.1)	7.9	4.1	8.6	(8.0)
BSE Utilities	19.2	14.0	24.3	(21.3)	2.5	1.7	3.3	(24.8)
BSE Oil & Gas	9.6	9.4	13.1	(27.0)	1.1	1.3	1.8	(38.8)

Source: Bloomberg, Elara Securities Research

Telecom stands out as the strongest exception, with FII holding rising from 19.2% in June 2023 to 23.6% in March 2026

Auto has seen a consistent decline in FII ownership from 20.0% in June 2023 to 17.9% in March 2026

Exhibit 43: Most sectors see a decline in FII holding since June 2023 except chemicals, sugar and telecom

FII Holding (%)	June-23	Sep-23	Dec-23	Mar-24	June-24	Sep-24	Dec-24	Mar-25	June-25	Sep-25	Dec-25	Mar-26
Auto	20.0	19.8	19.8	19.9	20.2	20.4	19.6	18.3	18.3	18.3	18.4	17.9
Banks	30.3	34.1	34.6	30.7	31.1	32.1	31.9	32.3	32.4	31.2	30.6	30.3
Cement	14.1	14.0	14.6	14.2	14.1	14.2	13.5	12.9	12.7	12.9	12.4	12.2
Chemicals	11.0	10.5	10.2	10.2	10.0	9.8	9.7	10.8	10.5	10.9	11.3	11.2
Consumer Discretionary	14.6	15.1	15.4	15.6	16.0	16.5	16.5	15.3	14.9	14.7	14.1	13.2
Diversified	22.0	21.3	20.8	20.8	20.2	19.7	18.0	18.0	18.2	17.6	18.1	17.7
Energy	13.1	12.9	13.3	13.1	12.8	13.2	12.3	11.7	11.9	11.6	12.3	12.1
Financials	23.2	15.6	15.3	15.0	14.9	15.1	14.9	15.1	15.2	14.9	15.3	14.3
FMCG	23.1	22.8	22.3	21.6	20.4	21.2	20.6	19.5	18.8	17.9	17.5	16.5
Health Care	19.5	18.7	18.8	18.9	18.9	19.3	19.5	18.8	18.5	18.5	18.1	17.6
Industrials	14.5	15.1	15.4	14.4	13.7	13.3	13.1	13.0	13.0	13.3	13.6	14.0
Information Technology	19.8	19.9	19.9	20.2	20.0	20.7	21.3	19.9	20.0	19.1	18.6	17.9
Media	19.8	20.1	16.4	12.0	12.2	12.2	12.4	12.9	14.0	15.6	13.7	12.6
Metals	15.7	16.0	16.2	15.3	14.1	15.0	14.6	14.8	14.2	14.8	14.8	15.7
Real Estate	18.6	19.0	19.0	19.3	20.3	20.0	20.6	20.8	20.0	18.9	19.0	17.8
Sugar	8.7	8.3	7.3	7.7	8.6	9.5	10.2	10.5	10.8	12.2	11.9	11.5
Telecom	19.2	18.6	18.9	20.4	21.4	21.7	20.9	22.4	22.9	23.3	24.2	23.6
Textiles	8.1	8.2	6.7	7.4	7.3	7.3	7.5	7.4	6.7	6.2	6.6	7.5
Transportation	21.3	21.0	19.2	20.7	16.9	17.1	16.4	16.3	17.1	18.1	16.1	15.6
Utilities	15.8	15.4	15.0	14.8	15.1	14.9	14.7	12.9	12.5	11.8	11.8	12.1

Source: ACE Equity, Elara Securities Research

The rise in DII holdings across sectors shows domestic flows are not limited to defensive areas.

DII have increased exposure across cyclicals, consumption, IT, banks and industrial-linked sectors

Exhibit 44: All sectors see an increase in DII holding since June 2023 barring media

DII Holding (%)	June-23	Sep-23	Dec-23	Mar-24	June-24	Sep-24	Dec-24	Mar-25	June-25	Sep-25	Dec-25	Mar-26
Auto	17.7	17.7	17.5	17.4	18.0	18.2	19.5	19.2	19.3	19.1	19.8	20.2
Banks	26.6	26.8	27.2	27.3	28.3	29.2	30.3	31.6	31.5	31.9	32.3	32.0
Cement	15.9	16.0	15.7	15.8	15.6	16.3	17.0	17.8	18.1	17.7	17.9	18.2
Chemicals	13.2	13.2	13.0	13.5	13.2	13.3	13.5	14.1	14.1	13.7	14.2	14.6
Consumer Discretionary	12.1	12.1	12.3	12.6	13.2	13.6	14.6	15.2	16.4	17.1	17.5	16.9
Diversified	14.7	14.5	14.8	15.2	15.6	15.9	17.0	17.6	18.0	18.3	18.3	18.8
Energy	13.5	13.6	12.5	12.9	13.0	13.3	14.3	14.9	14.9	14.8	14.6	14.3
Financials	13.0	11.1	11.0	11.0	11.2	11.8	12.0	11.9	12.4	12.8	13.8	13.8
FMCG	19.1	19.3	19.1	19.8	20.1	20.4	22.3	22.2	22.6	22.5	23.4	22.9
Health Care	16.7	16.5	16.8	17.0	17.4	17.4	17.6	17.9	18.2	19.0	19.5	20.2
Industrials	17.9	17.7	17.7	17.1	15.7	16.0	16.9	17.7	18.0	18.4	18.8	19.1
Information Technology	15.8	16.6	16.9	16.9	17.8	18.4	18.7	19.1	20.1	21.9	22.4	23.6
Media	20.2	21.1	21.2	16.3	13.8	14.3	14.6	13.0	13.3	15.2	15.0	15.5
Metals	13.3	13.7	14.1	13.7	13.0	13.4	13.5	13.7	14.1	14.2	13.8	13.7
Real Estate	9.0	9.4	9.5	9.4	9.5	10.1	9.9	9.7	9.9	11.1	11.6	12.9
Sugar	11.8	11.9	11.7	13.8	14.4	16.7	16.6	17.9	17.9	19.6	20.0	21.3
Telecom	16.1	15.6	15.4	15.8	16.3	16.2	16.8	17.3	16.9	17.3	17.4	18.4
Textiles	8.5	7.4	7.7	11.1	11.0	10.7	11.5	10.9	10.6	11.0	11.3	14.8
Transportation	11.7	11.7	12.9	13.6	11.7	14.2	14.4	14.1	15.7	16.7	18.3	19.4
Utilities	15.7	15.9	16.0	15.9	15.7	15.8	15.7	15.3	15.0	14.8	15.3	15.9

Source: ACE Equity, Elara Securities Research

Low **High**

Precious metals have corrected sharply, with gold down 4.9% and silver down 17.1% over CY26 YTD

US Steel has been the best performer, rising 23.6% CY26 YTD and 23% over six months.

Exhibit 45: Metals performance remains mixed, with steel outperforming while precious metals correct

Metals	Current price	CY26 YTD (%)	6M (%)	3M (%)	1M (%)	CY26	CY27
US Steel (Hot rolled Coil USD/ST)	1,156	23.6	23.0	10.5	2.9	1,093	1,063
Copper (USD/t)	13,485	8.5	3.7	5.0	-0.2	13,327	13,511
Gold (USD/t oz)	4,106	-4.9	-8.9	-13.5	0.8	4,381	4,276
Silver (USD /t oz)	59	-17.1	-25.6	-21.7	-6.2	69	62
Aluminium (USD /mt)	3,207	7.7	1.9	-10.0	-7.5	3,263	3,108

Exhibit 46:

Note: pricing as on 10 July 2026; Source: Bloomberg, Elara Securities Research

Exhibit 47: Top 10 large cap companies with the most overweight

Most Crowded	*Index Weight (%)*	*MF Holding (%)*	*% O/W*	*% O/W v/s Index Wgt*	*O/W (INR bn)*	*Impact Period (Days)*	*% of Schemes O/W*	*1-Yr O/P (%)*
Axis Bank	2.0	2.9	0.8	41	*250*	*26*	51.5	16.3
ICICI Bank	4.9	5.6	0.7	14	*211*	*9*	49.2	(2.7)
Eternal	1.0	1.6	0.7	70	*203*	*16*	59.0	3.8
Maruti Suzuki	0.9	1.3	0.3	36	*101*	*15*	38.7	13.3
Samvardhana. Motherson	0.3	0.7	0.3	92	*96*	*36*	29.5	48.7
Kotak Mahindra Bank	1.6	1.8	0.3	18	*84*	*11*	35.4	(0.7)
InterGlobe Aviation	0.6	0.8	0.3	50	*83*	*11*	41.0	(6.0)
Jindal Steel	0.2	0.5	0.3	118	*79*	*45*	25.5	25.9
SBI Life Insurance	0.4	0.7	0.2	54	*71*	*31*	26.6	2.7
Solar Industries	0.2	0.4	0.2	86	*57*	*21*	24.5	4.2

Note: *Positions mapped with actual Benchmark of Active Schemes in each AMC;* Index Wgt= AUM adjusted index weight; No Index= Not in any index, % OW v/s Index Wgt= MF holding as a % of Index Weight, Impact Period= No of days volumes needed to cover OW/UW positioning (6-month avg volume); Source: ACE Equity, Bloomberg

Exhibit 48: Top 10 large cap companies with the most underweight

Most Under owned	*Index Weight (%)*	*MF Holding (%)*	*% U/W*	*% U/W v/s Index Wgt*	*U/W (INR bn)*	*Impact Period (Days)*	*% of Schemes O/W*	*1-Yr O/P (%)*
Reliance	4.8	3.3	(1.5)	(31)	*(444)*	*18*	14.8	(3.7)
HDFC Bank	6.2	5.8	(0.5)	(7)	*(140)*	*4*	27.2	(14.7)
Hind. Unilever	1.0	0.6	(0.4)	(41)	*(127)*	*29*	12.8	(0.5)
Grasim	0.6	0.2	(0.4)	(62)	*(119)*	*46*	12.5	20.4
ITC	1.5	1.1	(0.4)	(26)	*(118)*	*14*	14.4	(26.5)
Nestle India	0.5	0.2	(0.4)	(67)	*(108)*	*49*	10.2	21.0
Adani Ports	0.7	0.4	(0.3)	(48)	*(103)*	*20*	20.0	33.1
Titan Company	0.9	0.6	(0.3)	(37)	*(103)*	*22*	23.9	29.9
Bajaj Finance	1.3	1.0	(0.3)	(25)	*(102)*	*12*	25.6	6.0
JSW Steel	0.6	0.3	(0.3)	(51)	*(98)*	*43*	13.8	30.8

Note: *Positions mapped with actual Benchmark of Active Schemes in each AMC;* Index Wgt= AUM adjusted index weight; No Index= Not in any index, % OW v/s Index Wgt= MF holding as a % of Index Weight, Impact Period= No of days volumes needed to cover OW/UW positioning (6-month avg volume); Source: ACE Equity, Bloomberg

Exhibit 49: Top 10 other than large cap companies with most overweight

Most Crowded	Index Weight (%)	MF Holding (%)	% O/W	% O/W v/s Index Wgt	O/W (INR bn)	Impact Period (Days)	% of Schemes O/W	1-Yr O/P (%)
Vishal Mega Mart	0.3	0.5	0.2	92	*70*	*32*	26.6	(2.1)
Max Financial	0.4	0.6	0.2	46	*60*	*45*	34.0	5.8
Gland Pharma	0.2	0.4	0.2	85	*51*	*78*	12.5	28.5
Delhivery	0.3	0.4	0.1	49	*42*	*35*	23.0	27.8
IPCA Labs	0.2	0.3	0.1	65	*41*	*91*	13.8	18.6
Gujarat Gas	0.0	0.2	0.1	323	*36*	*78*	66.7	(14.0)
Tata Communication	0.2	0.3	0.1	52	*35*	*41*	13.1	15.8
PB Fintech	0.6	0.7	0.1	21	*35*	*10*	35.1	(13.5)
Sona BLW Precision	0.3	0.4	0.1	38	*35*	*29*	22.6	23.3
Schaeffler India	0.2	0.3	0.1	63	*31*	*77*	22.9	8.4

Note: *Positions mapped with actual Benchmark of Active Schemes in each AMC;* Index Wgt= AUM adjusted index weight; No Index= Not in any index, % OW v/s Index Wgt= MF holding as a % of Index Weight, Impact Period= No of days volumes needed to cover OW/UW positioning (6-month avg volume); Source: ACE Equity, Bloomberg

Exhibit 50: Top 10 other than large cap companies with the most underweight

Most Under-owned	Index Weight (%)	MF Holding (%)	% U/W	% U/W v/s Index Wgt	U/W (INR bn)	Impact Period (Days)	% of Schemes O/W	1-Yr O/P (%)
Suzlon Energy	0.7	0.2	(0.4)	(67)	*(135)*	*31*	6.5	(7.4)
Yes Bank	0.4	0.1	(0.3)	(82)	*(98)*	*40*	3.9	22.1
Laurus Labs	0.5	0.2	(0.3)	(52)	*(82)*	*37*	10.1	105.0
IDFC First Bank	0.5	0.2	(0.3)	(56)	*(79)*	*27*	11.7	13.3
UPL	0.4	0.1	(0.2)	(61)	*(65)*	*33*	5.4	(0.1)
Natl. Aluminium	0.4	0.1	(0.2)	(59)	*(63)*	*11*	13.1	95.4
NMDC	0.3	0.1	(0.2)	(60)	*(54)*	*21*	9.4	27.7
MRF	0.3	0.1	(0.2)	(63)	*(49)*	*45*	3.0	(1.4)
Adani Total Gas	0.2	0.0	(0.2)	(78)	*(49)*	*13*	0.3	11.4
NHPC	0.2	0.1	(0.2)	(66)	*(48)*	*29*	6.4	(9.8)

Note: *Positions mapped with actual Benchmark of Active Schemes in each AMC;* Index Wgt= AUM adjusted index weight; No Index= Not in any index, % OW v/s Index Wgt= MF holding as a % of Index Weight, Impact Period= No of days volumes needed to cover OW/UW positioning (6-month avg volume); Source: ACE Equity, Bloomberg

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