India Strategy

The Eagle Eye – September 2026

Global headwinds cloud strong domestic fundamentals

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DOMESTIC MARKETS

- Private capex set for a sharp recovery
- Nifty-500 review: Broad-based earnings strength; SMID outperformance continues
- SMIDs rise further; Defense and Metals outperform, while Consumer lags
- About 62% of the Nifty constituents end lower in Aug’26

FLOWS AND VOLUMES

- Robust DII inflows continue; FIIs remain buyers for the second consecutive month
- Cash market activity remains stable, while F&O volumes hit a 14-month low
- Nifty’s sectoral weights: Consumer and Telecom dip, while Banks and Capital Goods gain

KEY RESEARCH REPORTS

- Initiating coverages on:
  - Adani Enterprises
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- MOFSL earnings review 1QFY27: A picture-perfect quarter of broad-based performance

MULTI-YEAR HIGHS/LOWS

- Developed market yields surge as markets reprice inflation, rates, and fiscal risks
- India’s forex reserves soar to a record high amid strong FCNR inflows
- Nifty: Earnings recovery broadens, with moderating valuations offering stock-picking opportunities

VALUATIONS

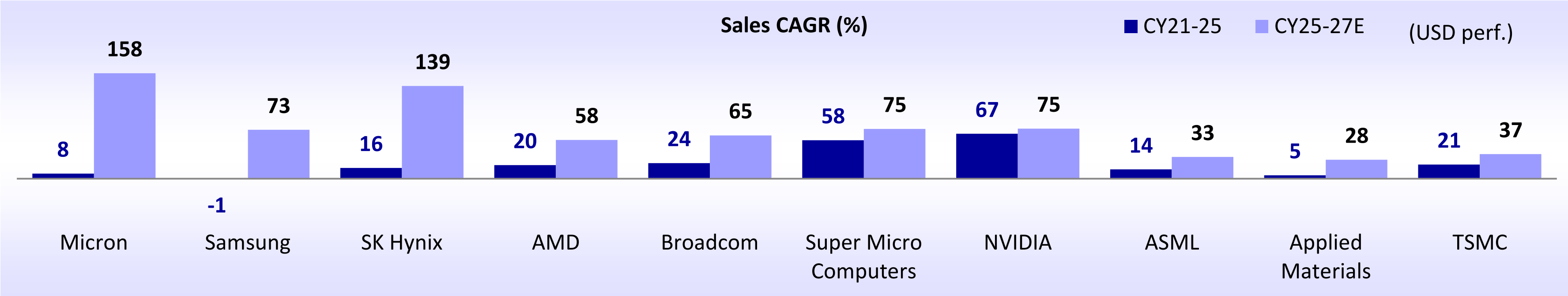
- Nifty’s valuations cool off to near Mar’26 lows
- EY/BY ratio remained flat MoM, near its highest level in over three years
- India’s market cap-to-GDP ratio remains elevated

A view from the EAGLE’S EYE!

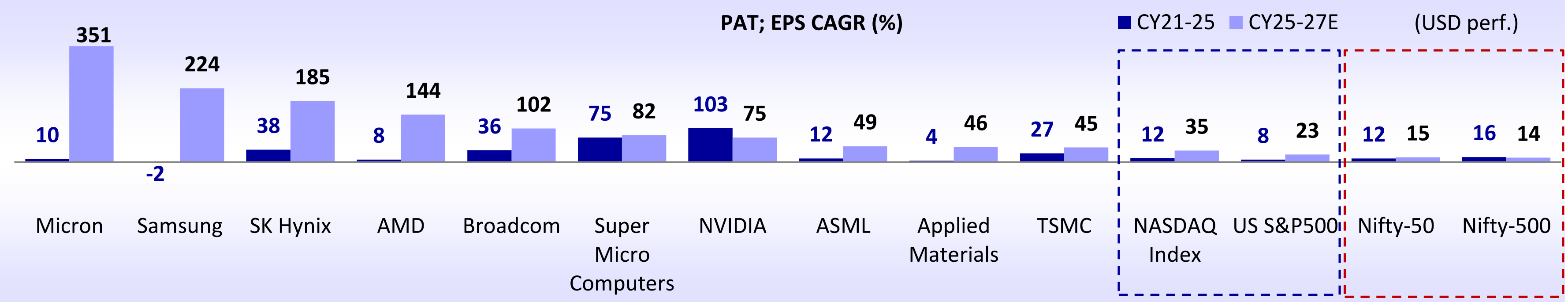
AI-led capex boom continues: Growth remains elevated despite a higher base

- **The semiconductor super-cycle is showing little sign of losing momentum:** The extraordinary growth seen over the past four years is being sustained, with industry estimates increasingly seeing upgrades rather than downgrades as AI-driven demand continues to accelerate across GPUs, advanced chips, HBM, and semiconductor equipment.
- **Growth is set to remain exceptionally strong over the next two years:** Despite a significantly higher base, leading semiconductor and AI companies are expected to deliver growth rates that continue to dwarf the aggregate growth of the Indian market and most sectors, highlighting the exceptional earnings momentum embedded in the global AI ecosystem.
- **NVIDIA's latest results reinforce this structural upcycle:** The Jun'26 quarter revenue jumped 106% YoY to ~USD96b, while Data Center revenue grew 117% YoY to USD89b. More importantly, NVIDIA guided for USD108b of revenue in the Sep'26 quarter, implying ~89% YoY growth, while its longer-term outlook points to ~75% revenue growth in FY28. These growth figures underscore that AI infrastructure demand remains far from peaking.

Global semiconductor, chip, and memory players: Sales CAGR



Global semiconductor, chip, and memory players: PAT CAGR

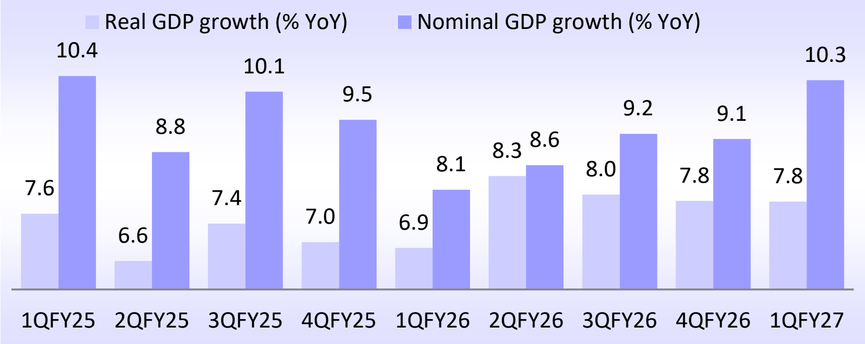


Market cap/growth	Micron	Samsung	SK Hynix	AMD	Broadcom	Super Micro Computers	NVIDIA	ASML	Applied Materials	TSMC
Mcap (USD t)	1.1	1.1	0.9	0.8	1.7	0.02	5.1	0.7	0.4	2.0
CY21-Aug'26 growth (%)	908	188	1051	348	516	960	583	108	171	242

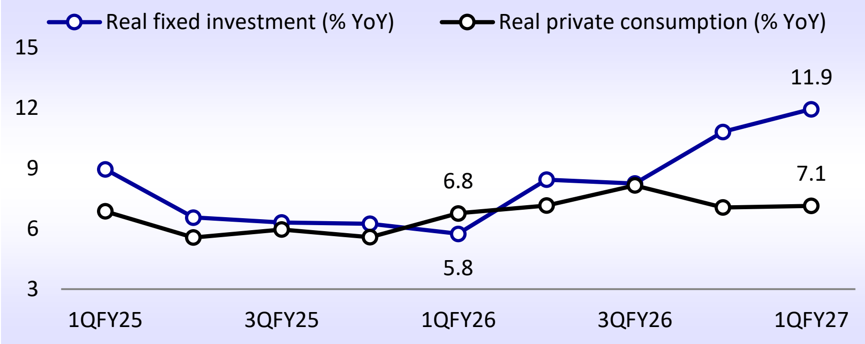
Strong 1Q GDP growth reinforces the resilience of the Indian economy

- **Real GDP growth accelerated to 7.8% YoY in 1QFY27,** up from 6.9% in 1QFY26, comfortably ahead of the RBI's 7.0% estimate and market expectations.
- **GVA growth strengthened to 8.2% YoY from 7.0%** in 1QFY26, reflecting broad-based improvement across manufacturing and services.
- **Domestic demand remained supportive**, with private consumption growing 7.1% YoY, while GFCF growth accelerated to 11.9%, signaling stronger investment momentum.
- **Nominal GDP growth stood at 10.3% YoY**, despite elevated geopolitical uncertainties, energy prices, and global trade headwinds.
- **Strong 1QFY27 GDP print reinforces the resilience of India's domestic growth engine** and provides a strong starting point for FY27. External risks remain, with elevated crude prices and persistent geopolitical tensions posing key risks to the growth outlook.
- **FY27 growth outlook upgraded to 7.0–7.2%:** Strong 1QFY27 GDP growth and resilient high-frequency indicators point to a firm start to 2QFY27, with broad-based strength across investment, consumption, manufacturing, and services. We now expect real GDP growth at 7.0–7.2% vs. 6.8–7.0% earlier and the RBI's 6.7% forecast, while nominal GDP growth is pegged at ~13% for FY27. Key risks remain from geopolitics, global trade uncertainties, and El Niño.
- **Stronger growth could bring RBI's tightening back into focus:** While we do not expect a rate hike in Oct'26, the RBI could use the meeting to signal a shift toward tighter policy, with a Dec'26 hike a possibility if growth and inflation remain stronger than expected.

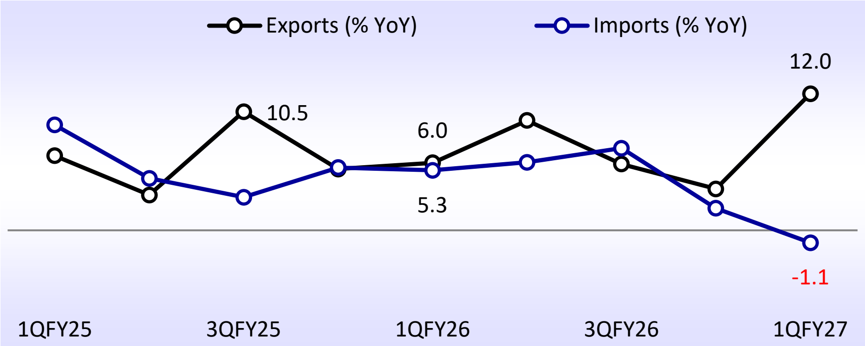
Real GDP growth accelerated to 7.8% in 1QFY27, while nominal GDP grew 10.3%



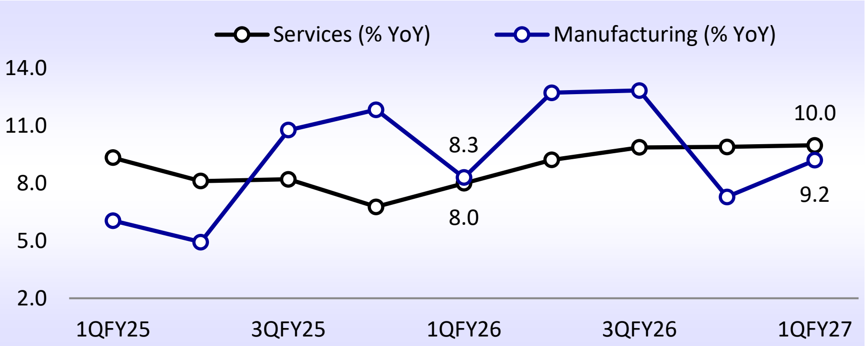
Real fixed investment growth accelerated to 11.9% in 1QFY27 vs. 5.8% in 1QFY26



Exports rose while imports declined in 1QFY27



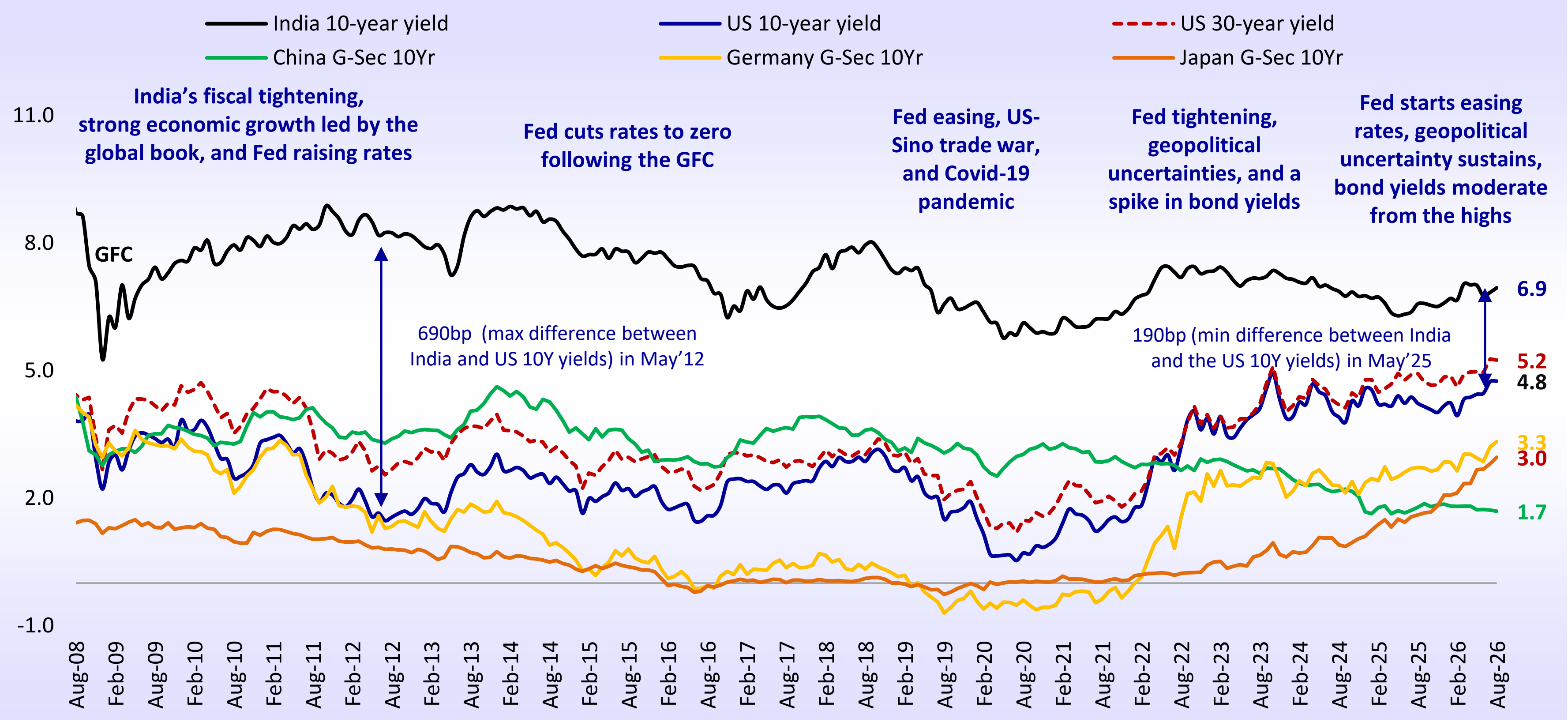
Services sector remained the major growth driver in 1QFY27



Developed market yields surge as markets reprice inflation, rates, & fiscal risks

- Amid a volatile geopolitical environment and relatively stable INR, India's 10-year G-Sec yield inched up 10bp MoM to 6.9%. In contrast, the 10-year government bond yields across most developed economies further increased (US/Germany and Japan's 10Y yields up +10bp/+10bp/+20bp MoM).
- The **US 10-year** yield edged 30bp higher MoM to 4.8%, its highest level since Nov'23. As a result, the India–US 10-year yield spread increased 10bp to 2.2%. Notably, the **US 30-year** Treasury yield remained elevated at 5.2%, a level last seen in 2007. This underscores persistently tight monetary conditions and higher required returns on global risk assets.
- Meanwhile, Japan's 10-year government bond yield rose sharply by 20bp to 3%, a multi-decade high, as markets continued to reprice the country's interest rate and inflation outlook.
- India's relatively resilient bond yields reflect well-anchored inflation expectations and continued confidence in the RBI's policy framework, despite heightened global uncertainty.

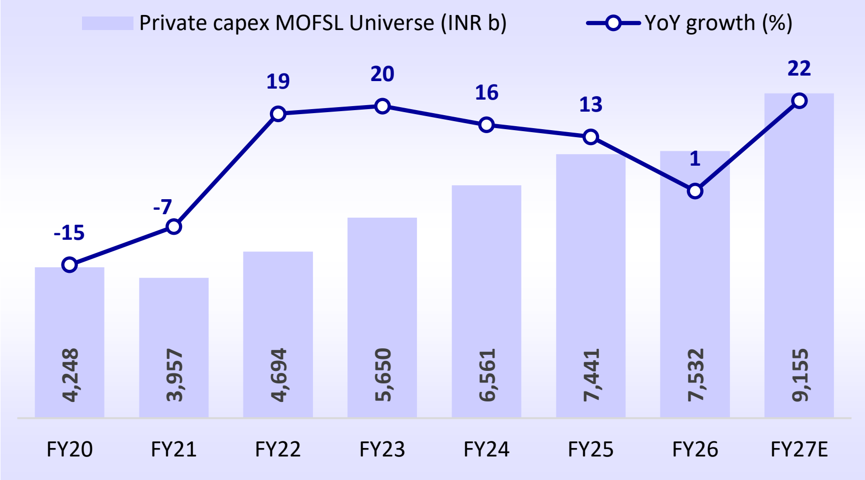
10Y yield spreads of India, the US, Japan, Germany, and China



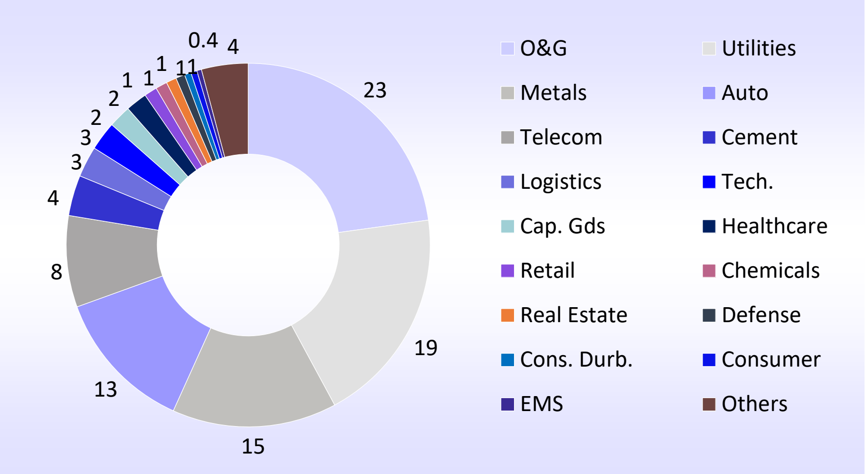
Private capex set for a sharp recovery

- Private-sector capex has remained subdued over the past two years, but is poised for a strong rebound from the muted FY26 base. We expect capex to accelerate meaningfully as the investment cycle gains traction.
- Our analysis of capex trends across the MOFSL Universe (310 non-financial companies) indicates that private capex is likely to **increase 22% YoY in** FY27 to INR9.2t, marking a significant step-up from FY26 levels.
- The expected acceleration will be driven primarily by **Automobiles, Metals, O&G, Telecom, and Utilities,** which are likely to account for a substantial share of the incremental investment. These top five sectors have consistently accounted for ~80-85% of total capex over the period and are expected to contribute ~82% of aggregate capex in FY27, highlighting the continued concentration of private investment.
- Defense and Metals are expected to witness the fastest YoY growth in capex in FY27, reflecting strong investment requirements and favorable sectoral demand.
- Overall, the combination of a low FY26 base, broadening sectoral investments, and strong capex growth in key industrial sectors points to a meaningful revival in the private investment cycle, which should support industrial activity, capacity expansion, and broader economic growth.
- Strong order books and constructive management commentary reinforce expectations of a strengthening private capex cycle.

MOFSL Universe – private capex trend



Sector wise capex contribution in FY27E (%)



Source: MOFSL, Company

PLI 2.0: MPMS incentive structure to drive scale, exports, and localization

- **MeitY has announced the details of the mobile phone manufacturing scheme and its incentive structure.** The scheme has a total outlay of **INR625b**, which is fungible between:
  (1) incentivizing mobile phone manufacturing, and
  (2) supporting the development of Indian mobile phone brands.
- **Scheme targets rapid scale-up in mobile manufacturing:** The scheme will be implemented over five years from FY26 to FY31, with a focus on scaling up mobile phone manufacturing for both domestic consumption and exports, while driving higher domestic value addition. The incentive structure is linked to brand-wise incremental sales, with year-wise threshold targets, which should encourage manufacturers to rapidly scale production. Given the size of the sales targets, we believe exports will be an important lever for achieving the required scale.
- **Eligibility criteria favor scaled players and local sourcing:** Eligibility is restricted to brands and EMS players with FY26 sales of at least INR100b, effectively limiting the benefits to scaled players and excluding smaller manufacturers. The scheme also provides an additional incentive of up to 1.5% for higher domestic sourcing, while the government intends to support the emergence of Indian mobile phone brands through incentives of up to 5% during the scheme period.
- **Exports and backward integration to drive the next leg of growth:** Overall, the scheme should drive a faster ramp-up in production, with exports playing a key role alongside domestic demand. We expect mobile brands and EMS players to benefit from higher volumes, particularly through exports, while companies that have invested in backward integration and local sourcing should be better positioned to capture the additional incentives linked to domestic value addition.
- **Scale requirements strengthen Dixon's positioning:** The minimum scale requirement of INR100b in FY26 sales per brand, INR50b in annual incremental sales, at least 25% domestic sourcing, and an export focus will limit competition to players with sufficient scale and manufacturing capabilities. Dixon appears well-positioned to benefit given its scale and growing backward integration.

Minimum threshold sales of INR50b every year over and above the total sales of FY26

	Threshold sales over & above the total sales in FY26 (INR b)
FY27	50
FY28	100
FY29	150
FY30	200
FY31	250

The part of eligible sales (up to the difference between the avg. sales of FY26, FY25 and FY24) and the baseline sales for an FY, shall be incentivized in a tapered manner

	Incentive rate (%)
FY27	2.75
FY28	2.75
FY29	2.50
FY30	2.50
FY31	2.25

The remaining eligible sales, above the baseline sales, shall be incentivized in a tapered manner

	Incentive rate (%)
FY27	5.0
FY28	5.0
FY29	4.5
FY30	4.5
FY31	4.0

Source: Company, MOFSL
Note: Baseline sales for a financial year shall be the total domestic sales of target segment product for the brand in the preceding financial year plus a 15% increment.

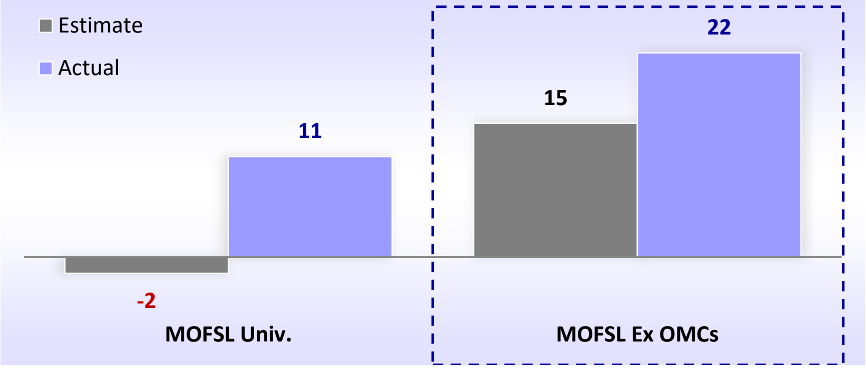
KEY EXHIBITS

MOFSL earnings review 1QFY27: A picture-perfect quarter of broad-based performance

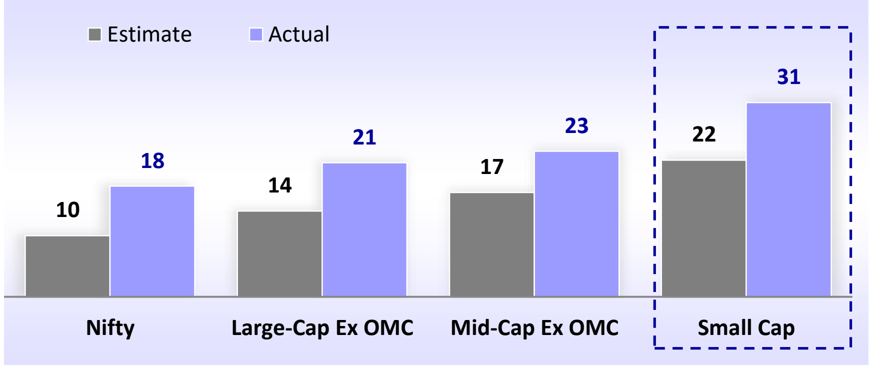
- The 1QFY27 corporate earnings season concluded on a strong note, demonstrating widespread outperformance across all key aggregates.
- For the MOFSL Universe (ex-OMCs), sales/EBITDA/PAT grew 18%/15%/22% YoY (vs. our est. of +15%/+10%/+15%). The Nifty delivered an 18% YoY PAT growth (vs. our est. of +10%).
- Within the MOFSL Universe,
  - ✓ Large-caps (89 companies) posted earnings growth of 21% YoY (in line vs. our est. of +14% YoY).
  - ✓ Mid-cap Universe (101 companies) also delivered a healthy performance, with earnings rising 23% YoY (vs. our est. of 17%).
  - ✓ Small-caps (186 companies) outperformed significantly, delivering strong earnings growth of 31% YoY (vs. our est. of +22%), driven primarily by Financials and Oil & Gas.
- **Upgrade-to-downgrade ratio stands at 1.5x**: A total of 130/89 companies within the MOFSL Coverage Universe have reported an upgrade/downgrade of more than 3% each, leading to a favorable upgrade-to-downgrade ratio for FY27E.

Detailed report link

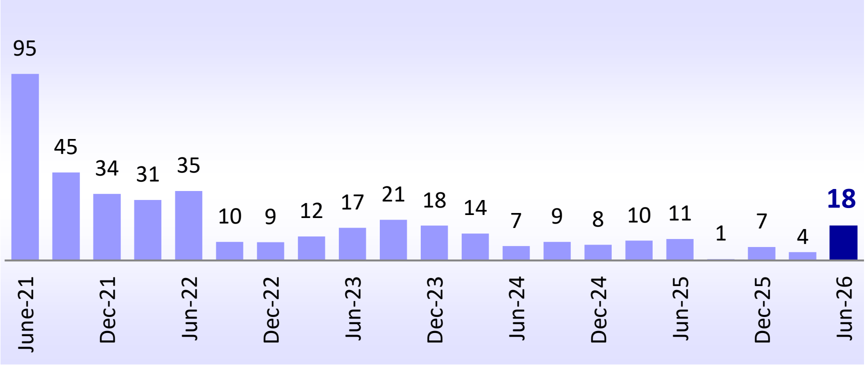
MOFSL 1QFY27 PAT performance vs. estimate



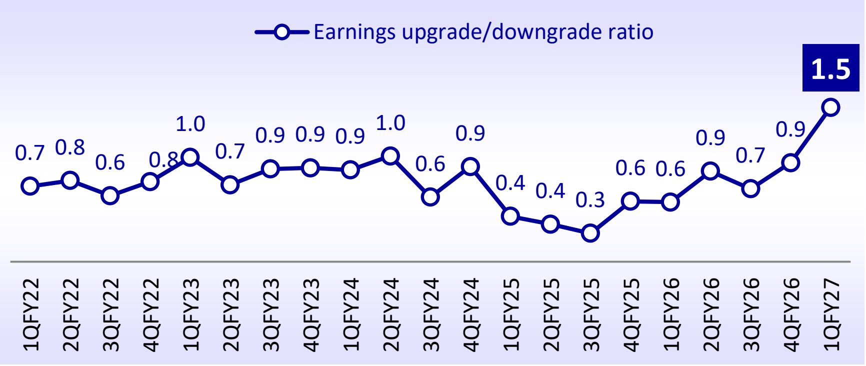
Broad-based beat (ex-OMCs) - MOFSL's Large-, Mid-, and Small-cap performance



Nifty PAT up 18% YoY (vs. est. of +10% YoY)



The upgrade-to-downgrade ratio trend for the MOFSL Universe turned favorable in 1Q

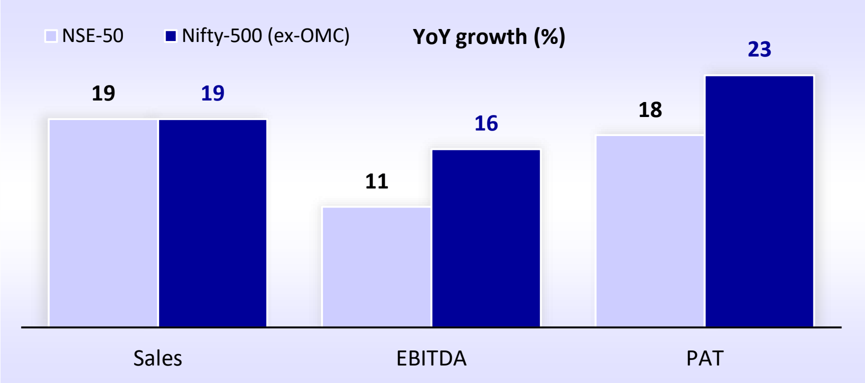


Nifty-500 review: Broad-based earnings strength; SMID continues to outperform

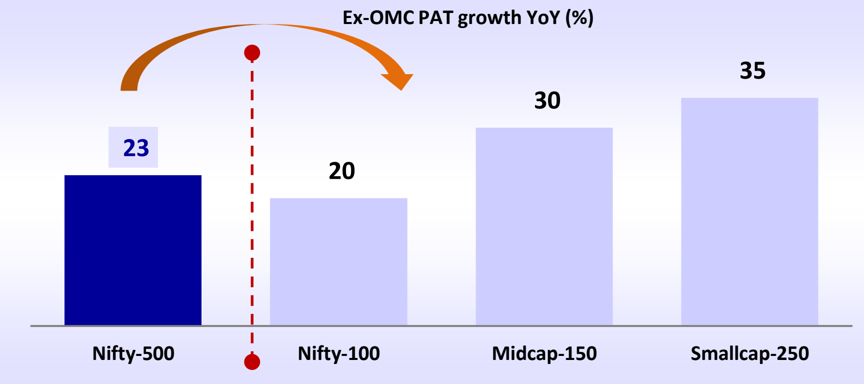
- The Nifty-500 delivered healthy earnings growth in 1QFY27. Aggregate earnings of the Nifty-500 universe grew 13% YoY in 1QFY27; however, excluding OMCs, earnings growth was significantly stronger at 23% YoY.
- Smallcaps led the 1QFY27 earnings performance of the Nifty-500, with Nifty Smallcap-250 companies reporting 35% YoY growth. Nifty Midcap-150 companies (ex-OMC) also delivered a strong 30% YoY growth, while Largecaps (ex-OMCs) reported 20% YoY growth, the highest in 10 quarters
- Metals earnings rose 57% YoY (marking their fourth consecutive quarter of strong earnings growth), while Financials, led by NBFCs-Lending (+27% YoY), Banks (+15% YoY), Technology (+14% YoY), and Telecom (+384% YoY) were key contributors to the quarter's earnings. Along with Utilities (+16% YoY), Capital Goods (+25% YoY), NBFC Non-Lending (+27% YoY), Chemicals (+24% YoY), Retail (+33% YoY) and Consumer Durable (+21%) clocked healthy double-digit earnings growth. Auto (+8% YoY), Consumer (+5 YoY), and Healthcare (+2% YoY) posted moderate growth. In contrast, O&G (dipped 34% YoY) led by OMCs (which reported a loss of INR181b in 1QFY27) and Cement (-1% YoY) dragged overall earnings.

Detailed report link

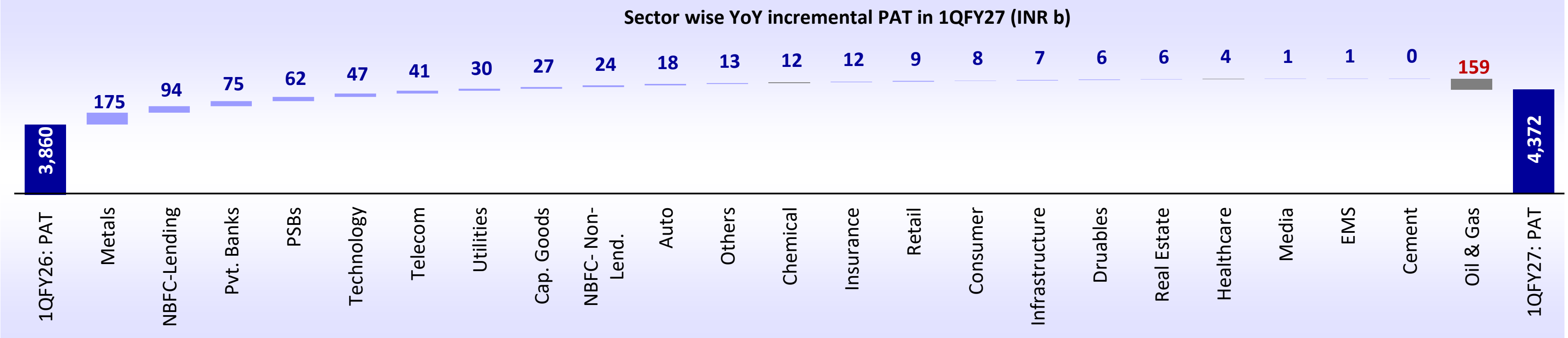
Nifty-500 continues to outperform Nifty-50 in 1QFY27



Broad-based strength across Mcaps in 1QFY27 (ex-OMC)



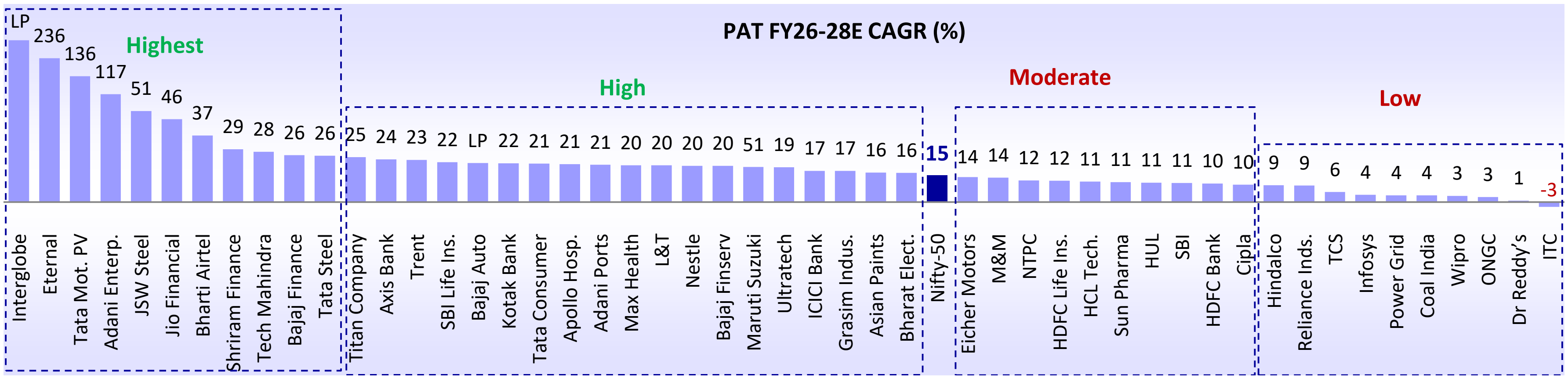
Incremental profit contributors within the Nifty-500 (1QFY27): Metals and Financials lead the charge



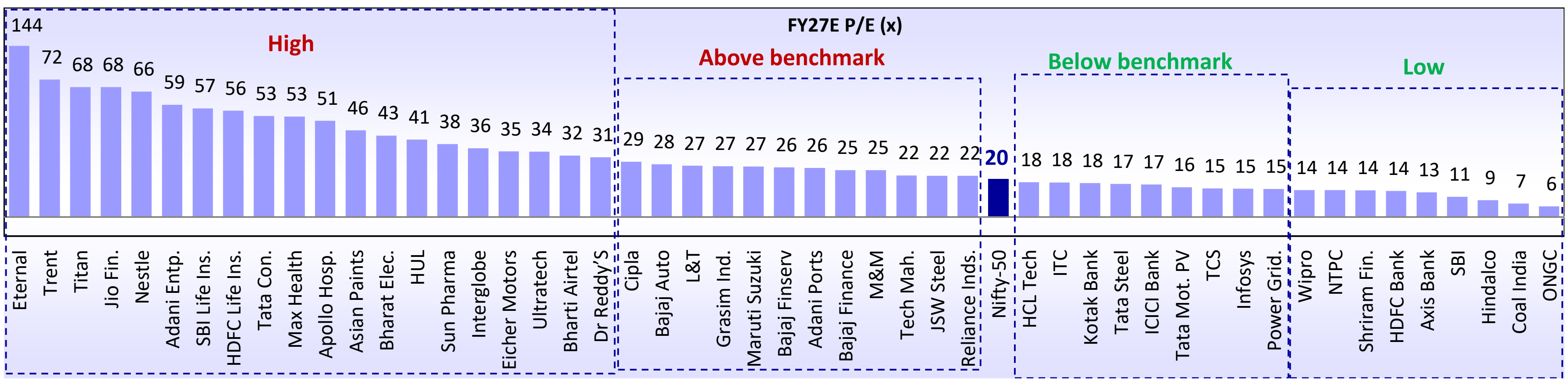
Nifty: Earnings recovery broadens; moderating valuations offer stock-picking opportunities

- The Nifty-50 has remained broadly range-bound over the past two years, with aggregate profit growth clocking 7% CAGR over FY24-26. With earnings momentum now showing a meaningful recovery, we expect the Nifty-50 to deliver a 15% PAT CAGR over FY26-28E.
- **Earnings growth broadens: ~60% of Nifty constituents are expected to deliver PAT growth above the Nifty benchmark (+15%) over FY26-28E**, highlighting a meaningful broadening of earnings momentum beyond the index leaders.
- **Valuation breadth is supportive:** ~40% of constituents trade below the Nifty's FY27E P/E, led largely by Banks, Technology, and Commodities.
- **Favorable stock-picking setup:** The combination of above-benchmark earnings growth and a wide valuation distribution suggests that the opportunity set within the Nifty is broader and more attractive than headline index multiples imply.

Nifty constituents' expected PAT growth FY26-28 (%): About 60% constituents to clock a PAT growth higher the the benchmark over the next two years



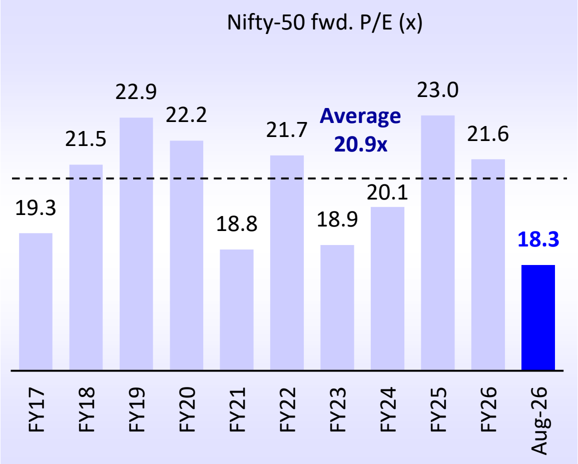
Nifty constituents FY27 P/E (x): About 38% constituents are trading below their benchmark valuations

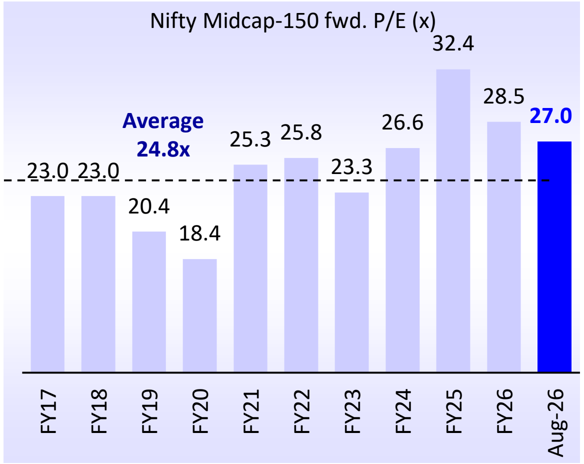


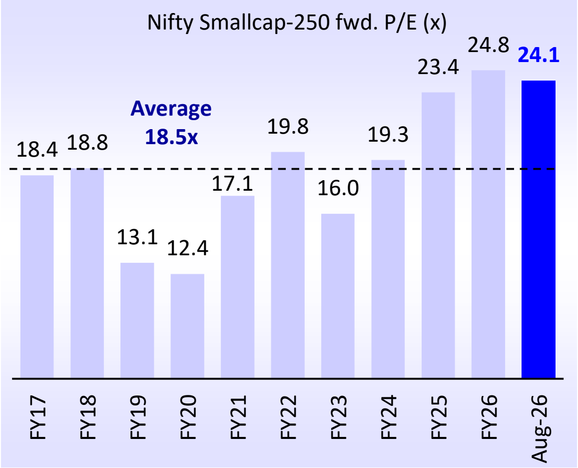
Valuations further cool off for the Nifty-50; SMIDs stay firm on strong earnings

- The Nifty-50's one-year forward P/E stands at 18.3x, trading at a 13% discount to its long-term average of 20.9x
- The Nifty Midcap-150 and Nifty Smallcap-250 continue to command valuation premiums, trading at 27x and 24.1x, respectively, or 9% and 31% above their LPAs.
- The valuations of the Nifty-50, Midcap-150, and Smallcap-250 are down 26%, 24%, and 3% from their respective peak levels seen in Sep'24.

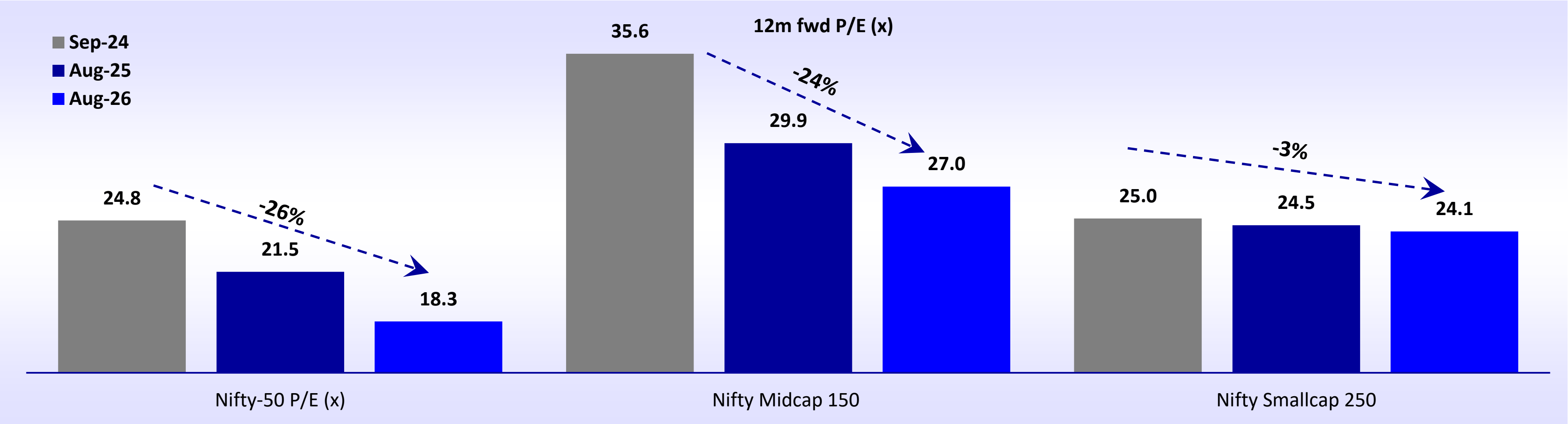
The 12-month forward P/E trends across the Nifty-50, Nifty Midcap-100, and Nifty Smallcap-100 indices (x)





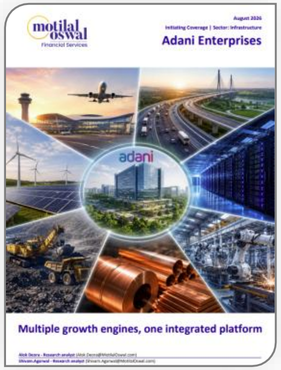


Note: The bars represent the 12-month average of one-year forward P/E on an FY basis



Notable reports from MOFSL's research desk published in Aug'26

Initiating Coverage |Adani Enterprises |Multiple growth engines, one integrated platform   Report link>>

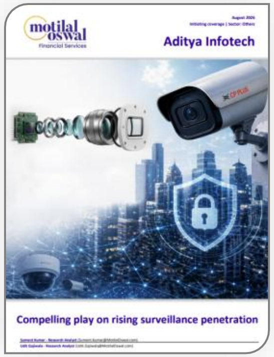


- Adani Enterprises (AEL) is uniquely positioned to benefit from India's next capex cycle, with exposure across airports, roads, data centers, new energy, mining, copper, and strategic manufacturing. Its diversified portfolio provides multiple avenues to participate in infrastructure build-out, energy transition, digitalization, and India's push towards domestic manufacturing.
- We view AEL as a differentiated infrastructure incubator, combining established businesses that provide stability with high-growth platforms that can drive the next leg of earnings. Its ability to identify emerging opportunities, build scale and market leadership, and subsequently monetize mature platforms creates a repeatable model for capital recycling.
- AEL is entering a phase of accelerated earnings growth, with EBITDA expected to increase from ~INR140b in FY26 to ~INR299b by FY29E, implying a ~29% CAGR. Growth should be driven by the commissioning of Navi Mumbai Airport, capacity expansion at ANIL, commencement of tolling on key road projects, and continued momentum across its primary businesses.
- We initiate coverage on AEL with a BUY rating and an SoTP-based TP of INR3,880. We believe the market leadership, superior scale, diversified growth portfolio, and proven incubator model position AEL to emerge as a leading global infrastructure platform. Key risks include execution delays, higher-than-expected capex, regulatory/policy changes, and slower ramp-up of new businesses.

Initiating Coverage |SBI Funds Management | Trusted legacy; plethora of future possibilities   Report link>>

- SBI Funds Management (SBIFUNDS) is India's leading AMC with a total QAAUM of INR29.1t as of Jun'26, including INR12.6t of MF QAAUM, INR16.5t of PMS/advisory QAAUM, and INR68b of AIF AUM. The company's MF QAAUM recorded a 19% CAGR over FY21-26, driven by a 33%/20% CAGR in equity/passive QAAUM. Rising trajectory of monthly SIP flows (INR40b from INR25b in Mar'24) and 98% of SIPs registered for >36 months provides visibility for continued inflows, becoming a building block for our expectation of 15% FY26-28 equity AUM CAGR.
- SBIFUNDS is also accelerating growth in higher yielding AIF, PMS, and offshore businesses (~4% of operating revenue on INR16.5t of AUM). Its newly launched SIF business has already reached INR35b QAAUM, and 25.8% market share within a few quarters. A strong scheme pipeline provides an incremental growth and yield improvement avenue.
- Access to 23,265 SBI branches and 100m+ YONO user base remains a structural distribution advantage, accounting for ~20% of overall AUM and ~35% of equity AUM. Less than 2% of SBI's eligible customer base has been tapped, leaving substantial runway for penetration.
- We expect 13% MF AUM FY26-28 CAGR, gradually improving yields, and a rising contribution from alternates to drive a 14% FY26-28 revenue CAGR. Supported by ~81% EBITDA margins and continued cost efficiency, PAT is expected to clock ~16% CAGR, translating into a 51-52% RoE. We initiate coverage on the stock with a BUY rating and a TP of INR720, based on FY28E core P/E of 42x.

Initiating Coverage | Aditya Infotech | Compelling play on rising surveillance penetration   Report link>>

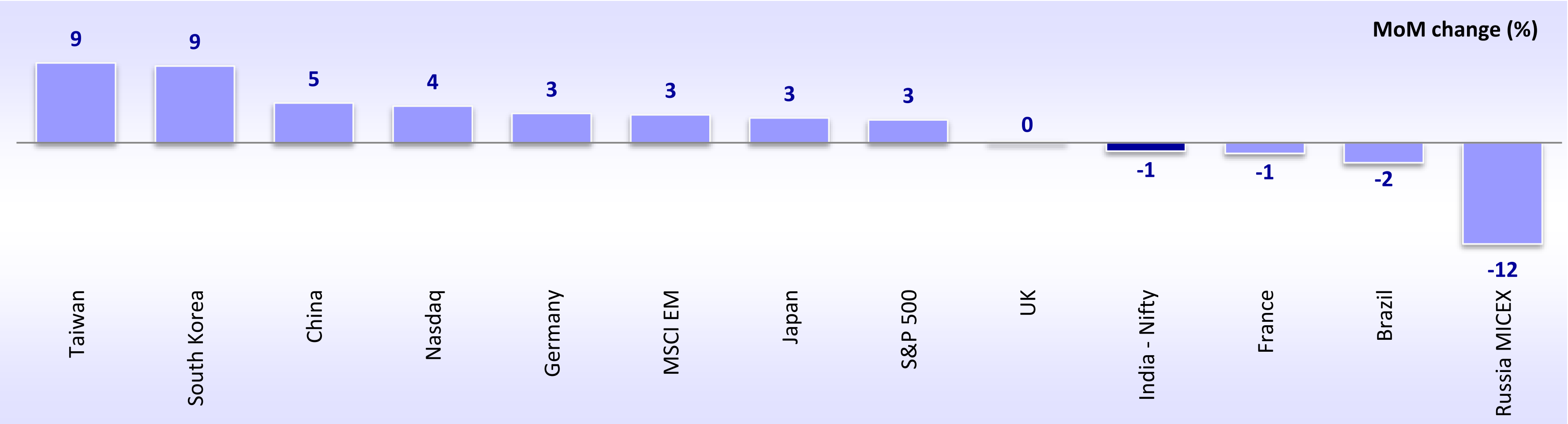


- Aditya Infotech Ltd (AIL) has evolved as a leading company in the rapidly growing video surveillance market in India. AIL is led by a strong brand – CP Plus – with more than 1,000 distributors and 2,500+ system integrators and operates the third largest manufacturing CCTV facility in the world. AIL commands ~44%+ market share in the video surveillance market.
- Over FY26-28E, we expect AIL to deliver a CAGR of 44%/58%/64% in revenue/EBITDA/PAT, as the company is an ideal beneficiary of expected industry tailwinds coupled with a material growth opportunity fueled by STQC norms. Moreover, multiple margin levers should enable structural improvement in OPM, leading to robust profitability growth.
- We initiate coverage on ADITYA INFOTECH LTD with a BUY rating and a TP of INR4,200.

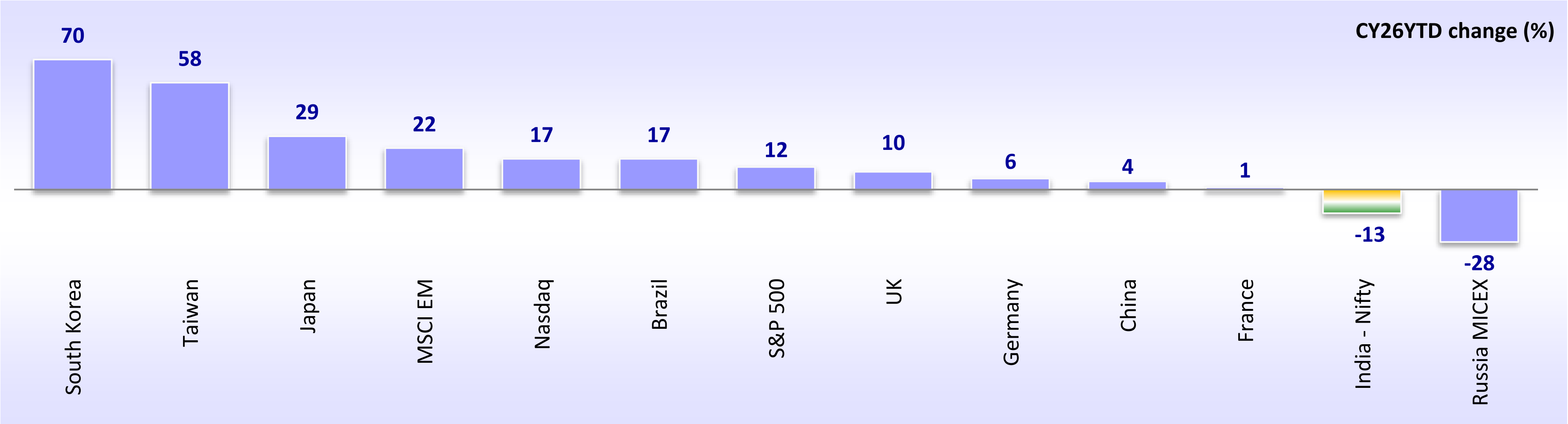
Macro, Markets, and More…

Indian market declines; Taiwan and South Korea surge during the month

MoM performance of global equity indices in USD terms (%)

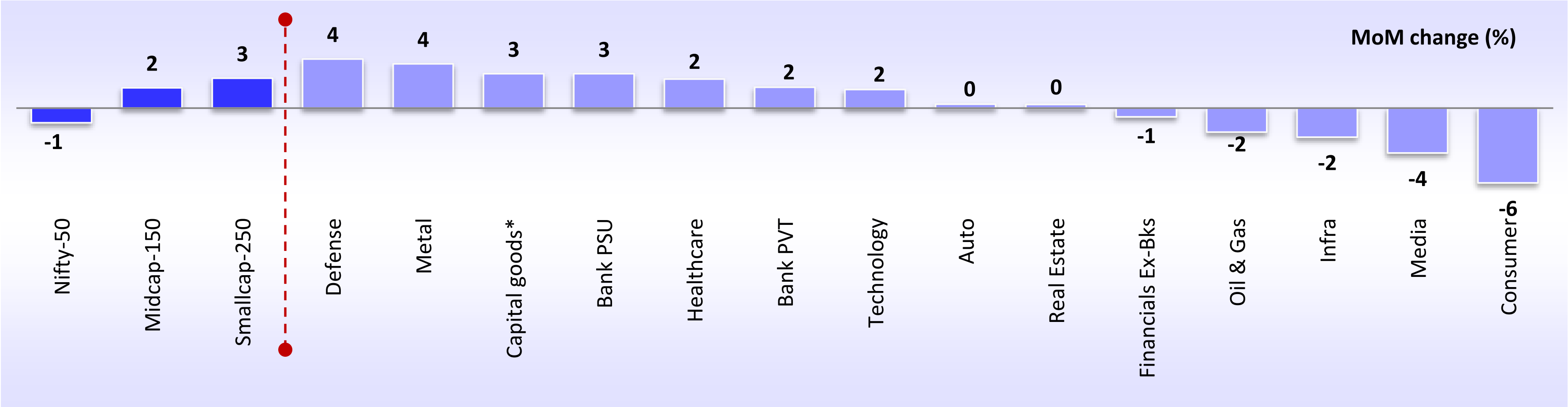


CY26YTD change (%) in USD terms

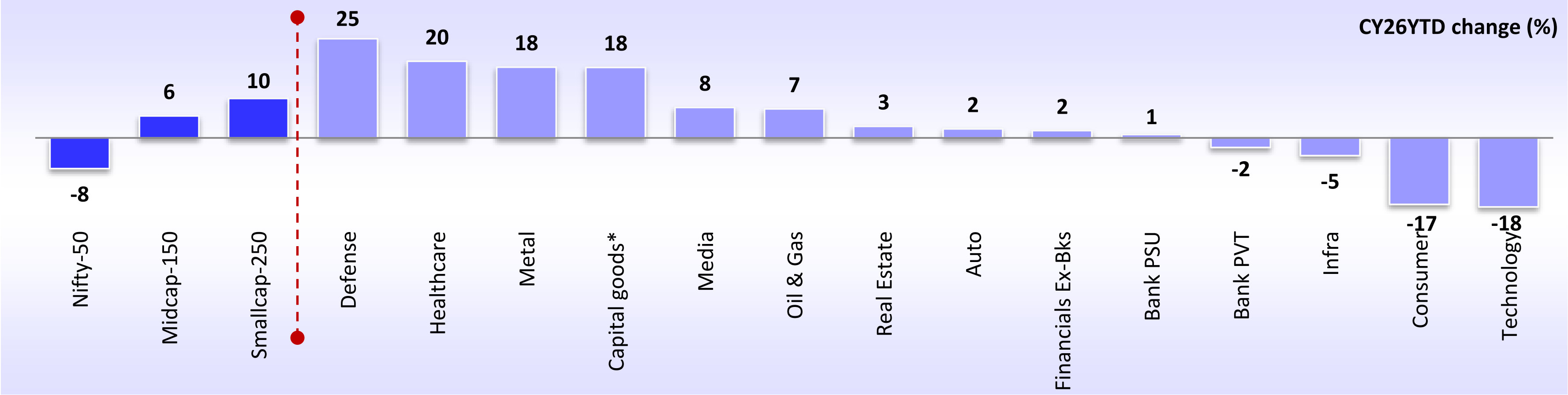


SMIDs extend their outperformance; Defense and Metals lead, while Consumer lags

Sectoral performance MoM (%): Smallcaps outperform; among sectors, Defense and Metals outperformed, while Consumer and Media underperformed



CY26YTD performance (%): Defense, Healthcare, and Metals remained the key outperformers, while Technology and Consumer remained the key laggards

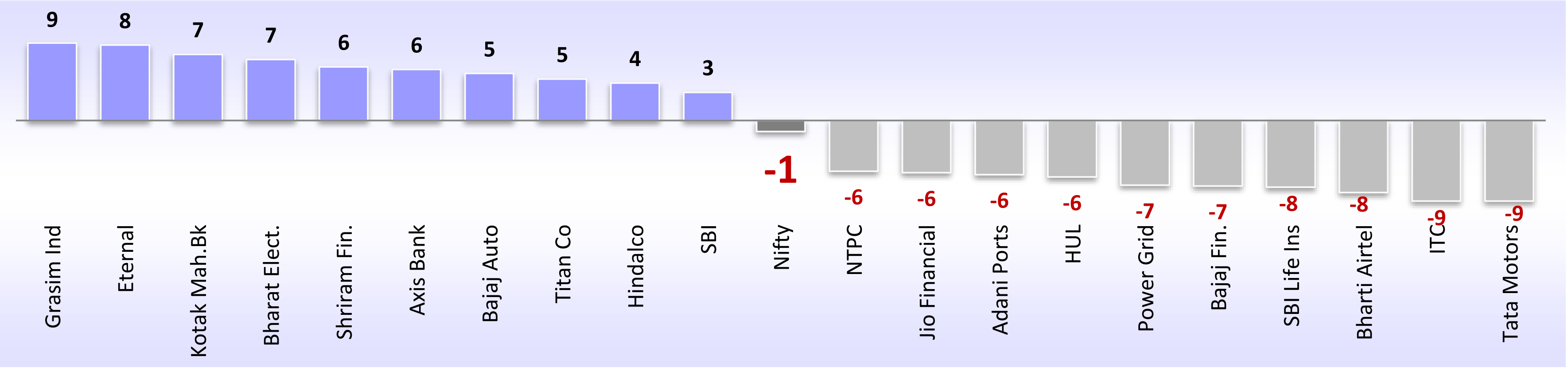


Note: (*) represents BSE Capital Goods Index.

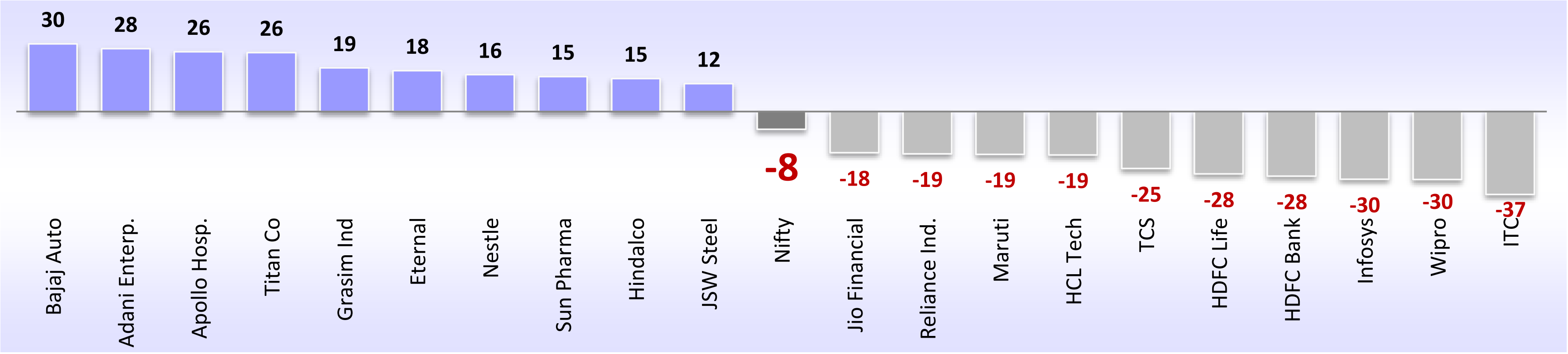
About 62% of the Nifty-50 constituents end lower in Aug'26

- In Aug'26, among the Nifty-50 constituents, 31 stocks closed lower MoM. Grasim, Eternal, and Kotak Bank were the key gainers, whereas Tata Motors, ITC and Bharti Airtel were among the key laggards.
- About 23 Nifty constituents have ended higher in CY26YTD. Bajaj Auto, Adani Enterprises and Apollo Hospitals have been the top gainers, whereas ITC, HDFC Banks and IT-services companies have been the key laggards in CY26YTD.

Best and worst Nifty performers on a MoM basis (%)



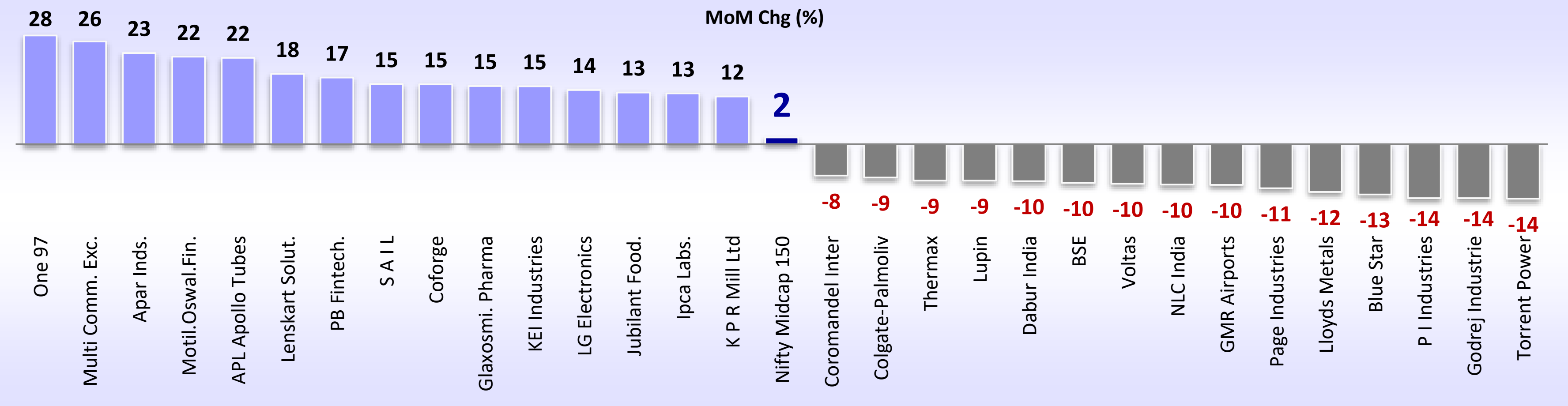
Best and worst Nifty performers in CY26YTD (%)



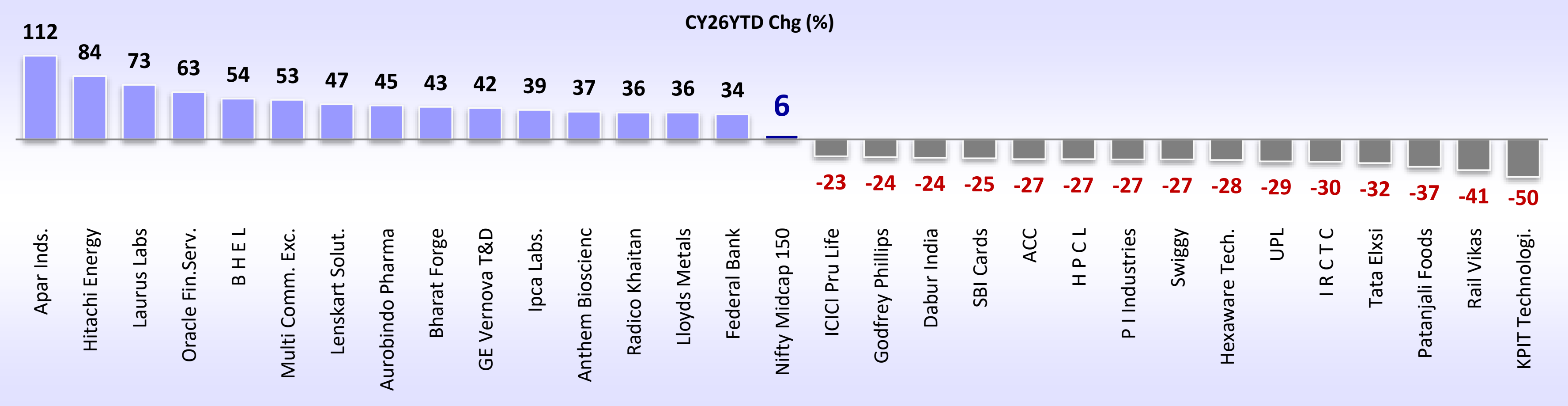
About 49% of the Midcap constituents end higher in Aug'26

- In Aug'26, about 74 Nifty Midcap-150 stocks closed higher. One 97, MCX and Apar Industries were the key gainers, whereas Torrent Power, GCPL and PI Industries were the key laggards. In CY26YTD, about 51% Midcap-150 constituents have ended higher. Apar Ind., Hitachi Energy, and Laurus Labs have been the top gainers.

Key leaders and laggards within Midcap-150 on a MoM basis (%)



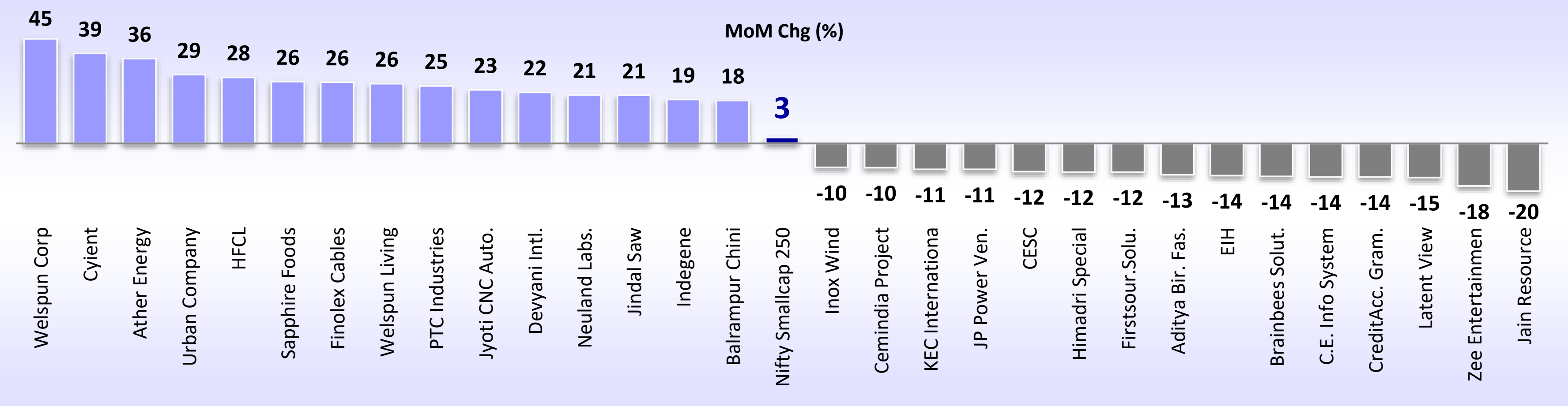
Top gainers and losers within Midcap-150 in CY26YTD (%)



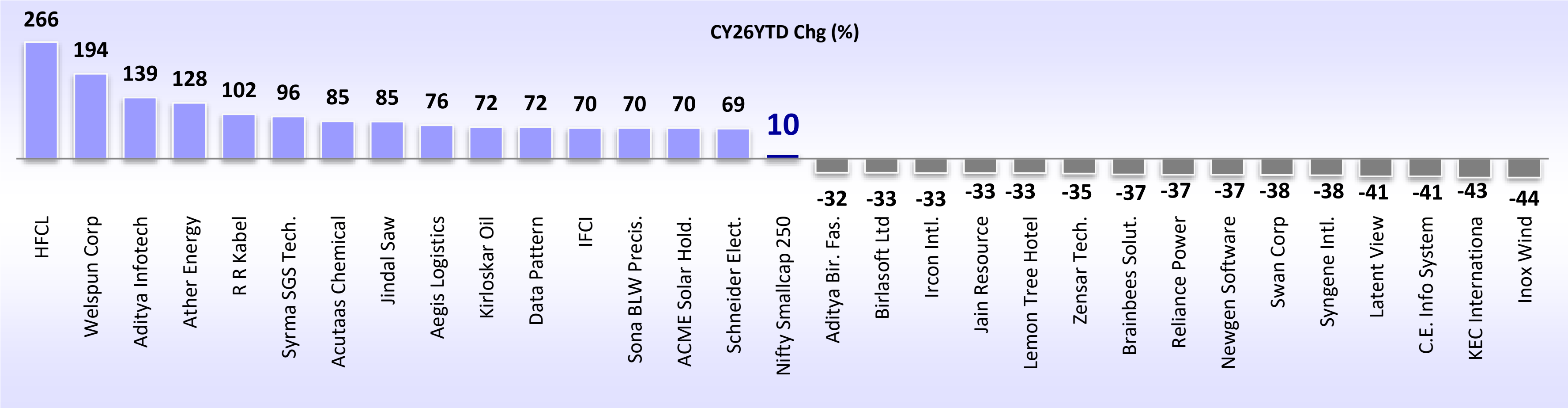
About 44% of the Smallcap constituents end higher in Aug'26

- In Aug'26, 111 Nifty Smallcap-250 companies closed higher. Welspun Corp, Cyient, and Ather Energy were among the key leaders.
- About 52% of Smallcap companies end higher in CY26YTD. HFCL, Welspun Corp, and Aditya Infotech have been the key outperformers.

Key laggards among Smallcap-250 constituents on a MoM basis (%)



Key laggards among Smallcap-250 constituents in CY26YTD (%)



Nifty's sectoral weights: Consumer and Telecom dip, while Banks and Capital Goods gain

- In Aug'26, Telecom (-40bp) and Consumer (-30bp) posted the sharpest MoM dip in index weights. Conversely, Private Banks (+30bp), Public Banks (+20bp), and Capital Goods (+20bp) saw the largest increase in weights. Reliance Industries' weight fell to its lowest level since 2024.
- In CY26YTD, Technology (-190bp), Oil & Gas (-100bp), Private Banks (-100bp) and Consumer (-100bp) have recorded the steepest decline in weights. Conversely, Healthcare (+60bp), Metals (+60bp), Retail (+60bp), Metals (+60bp) and PSBs (+60bp) posted gains.
- Since Dec'22, Technology (-550bp) has witnessed the sharpest cuts in index weights. In contrast, Auto (+180bp), Capital Goods (+250bp), and Telecom (+250bp) have experienced the sharpest gains over the same period.

Nifty – sectoral weights (%)

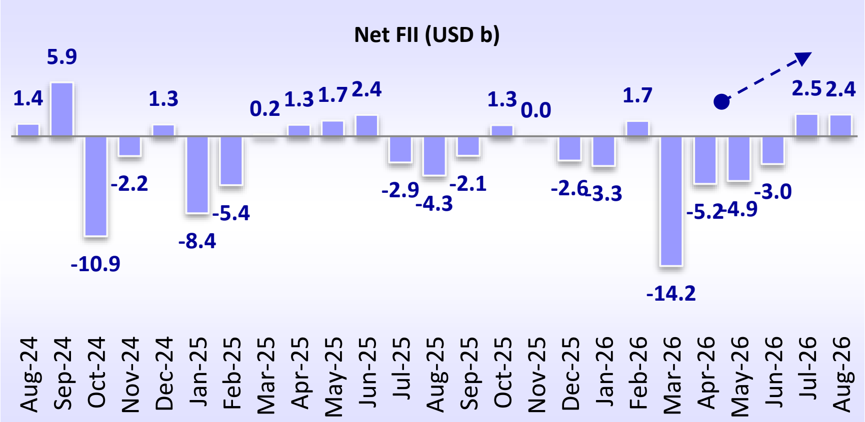
	Weightage in the Nifty (%)									
Sector	**Dec'08**	**Dec'12**	**Dec'20**	**Dec'21**	**Dec'22**	**Dec'23**	**Dec'24**	**Dec'25**	**July'26**	**Aug'26**
Automobiles	2.5	8.8	5.4	5.0	5.3	6.5	7.4	7.0	7.1	**7.1**
Banks – Private	5.0	16.9	24.7	21.9	24.2	28.2	27.1	26.5	25.2	**25.5**
Banks – Public	5.4	4.7	1.8	2.3	2.9	2.6	2.9	3.4	3.8	**4.0**
NBFC + Insurance	2.3	7.9	12.3	11.4	10.6	4.5	4.6	6.6	7.1	**7.0**
Capital Goods	7.7	5.9	2.6	3.0	3.1	4.4	5.0	5.2	5.4	**5.6**
Cement	1.7	4.2	2.2	2.4	1.8	2.1	2.1	2.1	2.3	**2.4**
Consumer	6.5	12.3	10.4	9.4	10.3	10.8	9.0	7.5	6.8	**6.5**
Healthcare	2.6	5.0	3.6	3.4	3.8	4.0	4.2	4.2	4.8	**4.8**
Metals	4.8	3.8	2.0	2.9	2.9	3.0	2.7	3.2	3.7	**3.8**
Oil and Gas	24.5	12.3	12.5	12.3	12.1	10.5	9.2	9.7	8.8	**8.6**
Reliance	**10.6**	**7.4**	**10.7**	**10.8**	**11.0**	**9.2**	**7.8**	**8.9**	**7.9**	**7.8**
Retail	0.0	0.0	1.1	1.4	1.4	1.6	2.8	2.2	2.7	**2.8**
Telecom	11.6	2.0	2.0	2.1	2.5	2.7	4.0	4.9	5.4	**5.0**
Technology	9.0	11.4	16.3	19.1	14.0	13.6	14.1	10.4	8.4	**8.5**
Utilities	13.3	4.5	2.1	2.1	2.5	3.6	3.6	3.1	3.5	**3.4**
Miscellaneous	3.3	0.5	1.0	1.2	2.6	1.9	1.4	4.0	4.9	**5.0**
Nifty	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

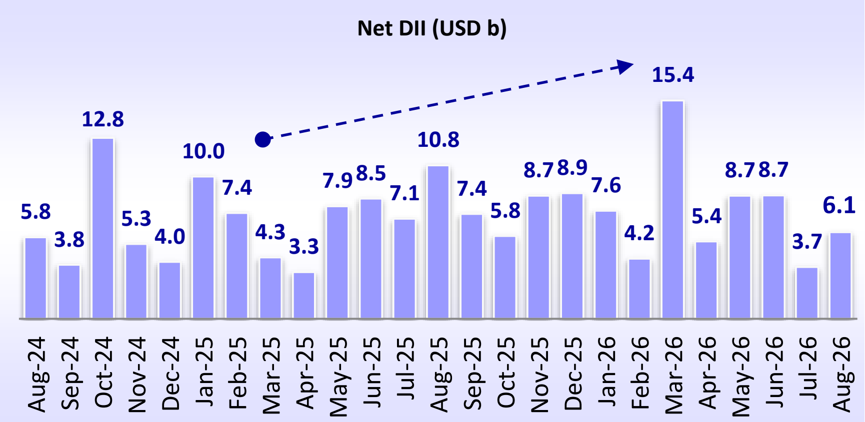
Note: The merger of HDFC Bank and HDFC Ltd. resulted in a shift in weightage from NBFCs to private banks in CY23. Britannia and BPCL were replaced with Jio Financials and Eternal in Mar'25, and IndusInd Bank and Hero Motocorp were replaced with Interglobal Aviation and Max Healthcare in Sep'24.

Robust DII inflows continue; FIIs remain buyers for the second consecutive month

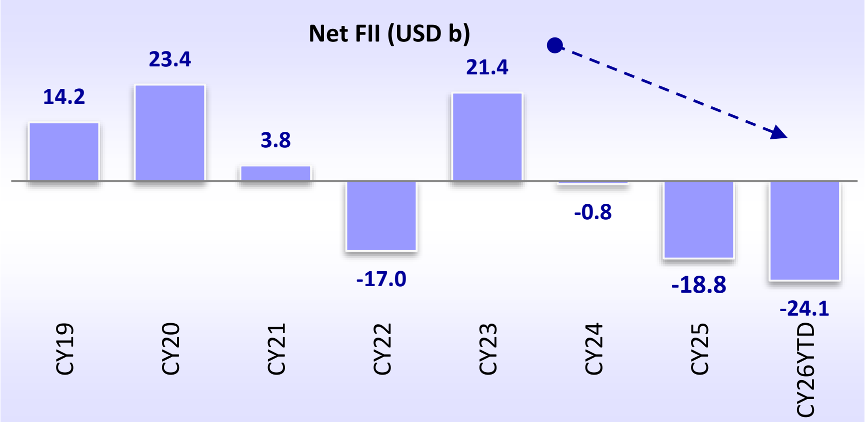
- In Aug'26, DIIs invested USD6.1b, extending their streak of net inflows to 37 consecutive months. Notably, FII flows remained volatile yet positive during the month, with investments of USD2.4b in Indian equities.
- On a CY26YTD basis, DIIs have continued their strong buying momentum, with cumulative inflows of ~USD60b. In contrast, FIIs have remained net sellers, with cumulative outflows of ~USD24b, already higher than the total CY25 outflows.
- Between CY21 and CY26YTD, DIIs emerged as the dominant market driver, with cumulative inflows of ~USD280b, while FII flows remained negative, resulting in net outflows of ~USD35.5b.

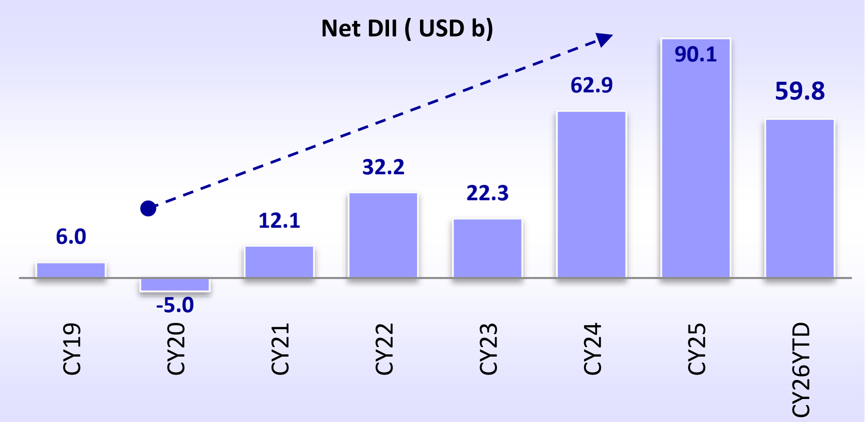
Monthly institutional flows (USD b)





Yearly institutional flows (USD b)

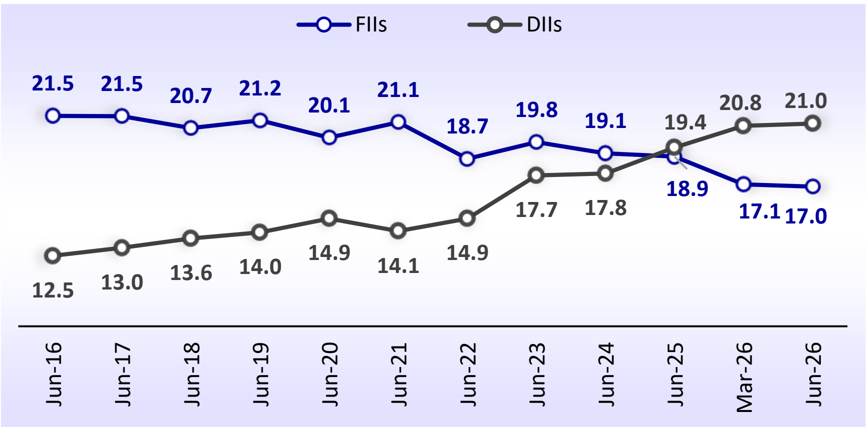




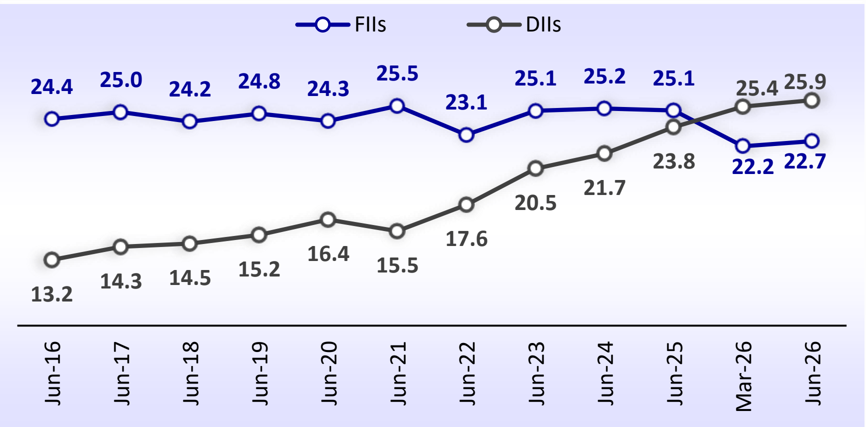
Institutional holdings: DII dominance deepens!

- This structural shift in institutional ownership, which has gained momentum since 2021, continues to strengthen as DII holdings scale new peaks, accounting for 21% of Nifty-500 companies on a run-rate basis. Over the past one year, DII ownership rose 160bp YoY (+20bp QoQ) to an all-time high of 21% in Jun'26, while FII ownership dipped 190bp YoY (-10bp QoQ) to 17% from 18.9% in Jun'25.
- Promoter holdings, which have historically remained range-bound, increased 20bp YoY (+10bp QoQ) to 49.5% in Jun'26.
- Retail holdings dipped 10bp QoQ to 12.6% in Jun'26 (+20bp YoY).

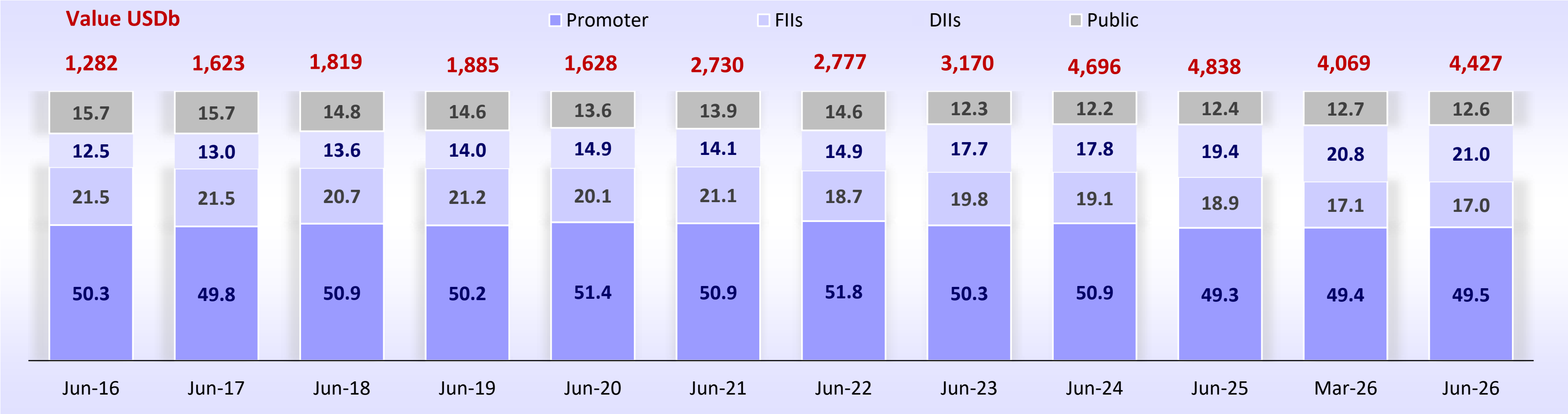
Trends in FII/DII holdings for Nifty-500 (%)



Trends in FII/DII holdings for Nifty-50 (%)



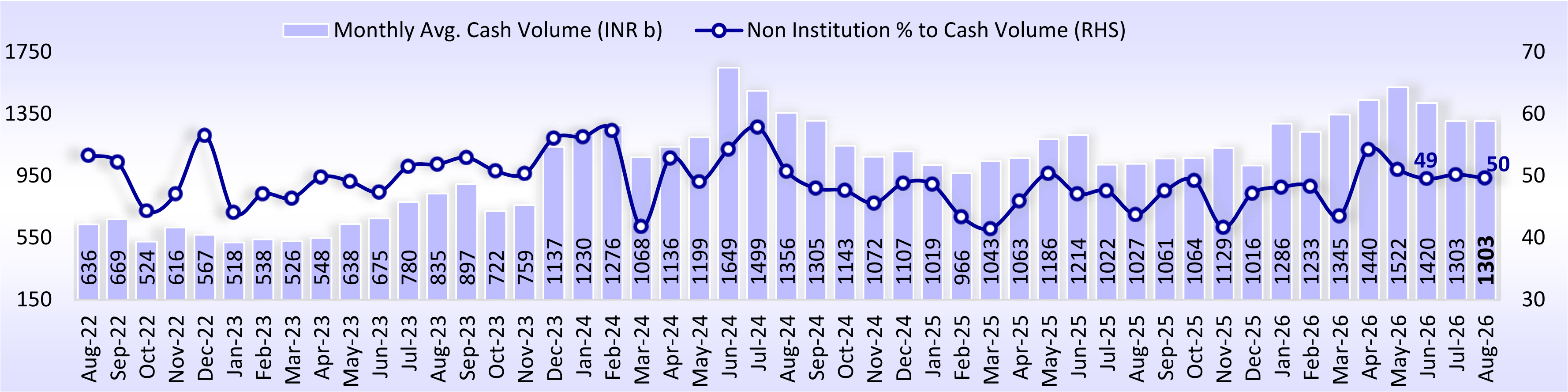
Nifty-500 holding pattern (%) – DIIs continue to raise their stakes to an all-time high, while FIIs reduce their holdings to an all-time low



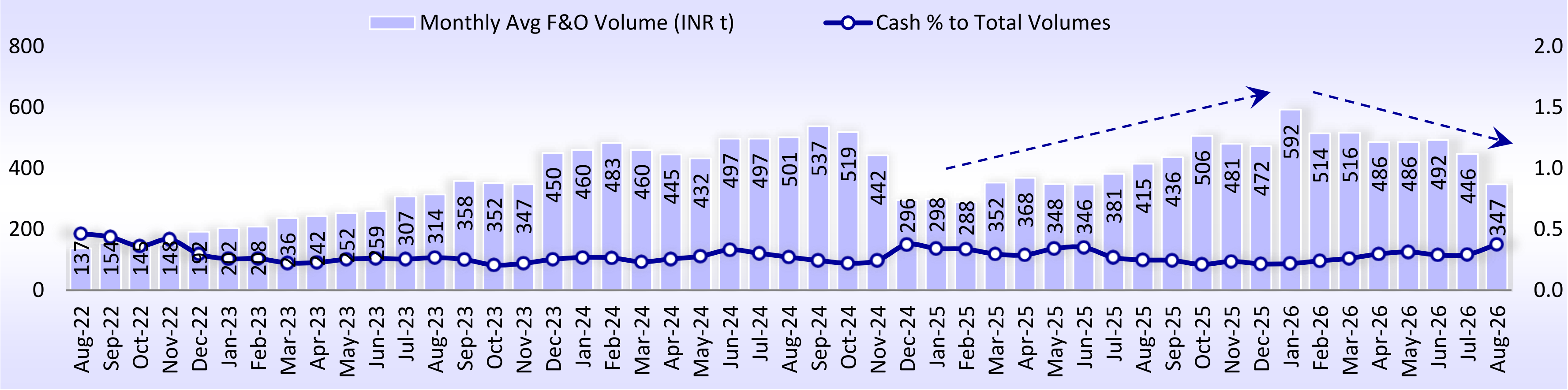
Cash market activity remains stable, while F&O volumes hit a 14-month low

- Average daily cash volumes remined flat MoM at INR1.3t. Non-institutional participation also remained flat at 50% of total cash volumes.
- Average daily F&O volumes declined 22% MoM to INR347t in Aug'26, hitting a 14-month low and extending the decline to over 40% from the Jan'26 peak. The newly introduced Closing Auction Session (CAS) has further weighed on activity, with heightened uncertainty around closing prices affecting derivatives trading.

Monthly average cash volumes (INR b)



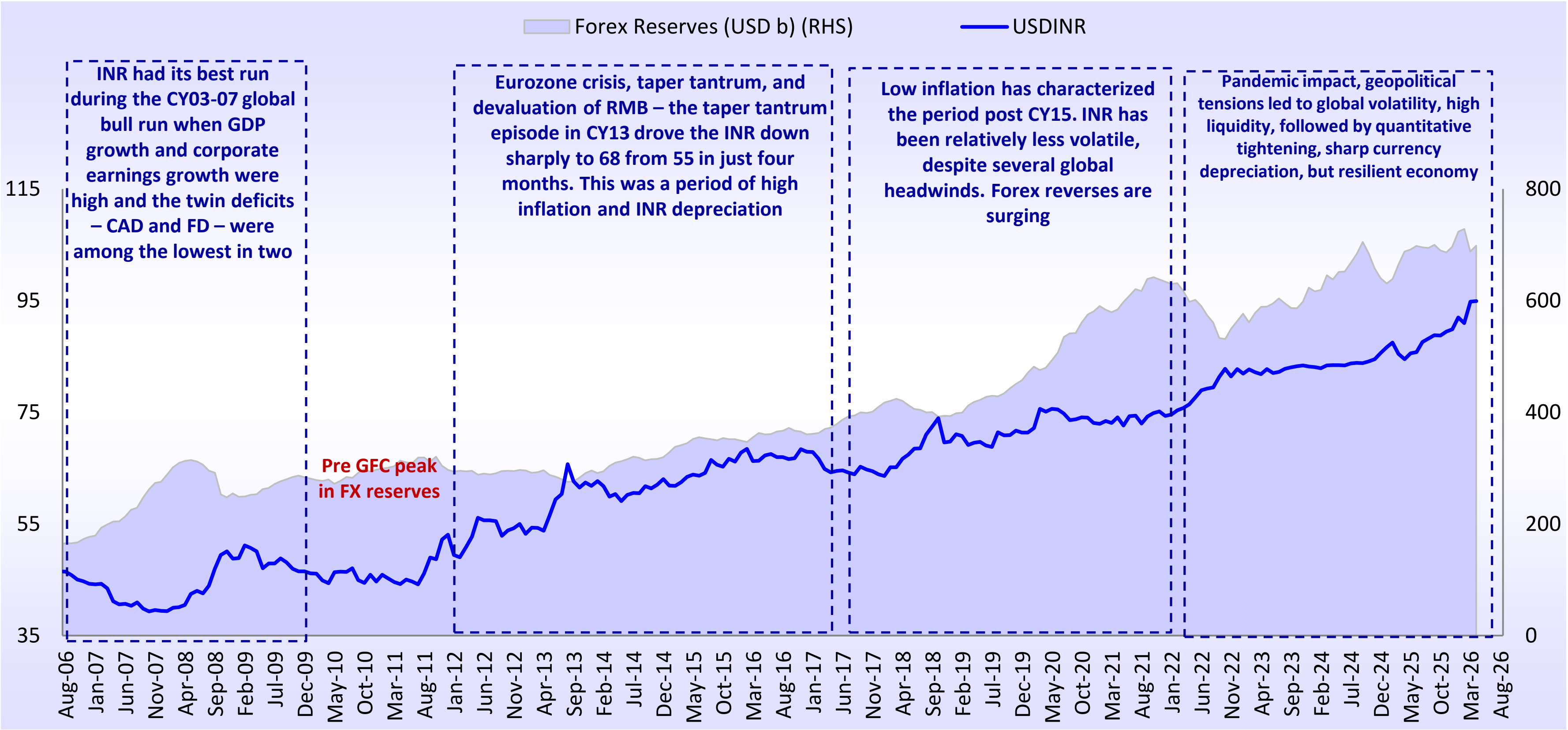
Monthly average F&O volumes (INR t)



India’s forex reserves soar to a record high amid strong FCNR inflows

- India’s forex reserves rose 5% MoM to a record USD729b in Aug’26, marking a new all-time high. This spurt was primarily driven by surging foreign-currency inflows following the RBI’s concessional FCNR(B) swap window, which attracted nearly USD73bn of inflows since its launch in June, including around USD65bn from NRI deposits.
- On the currency front, the INR appreciated 0.2% MoM to 95.2/USD in Aug’26. The INR weakened about 8% YoY, making it the weakest among major emerging market currencies during the period. However, it has remained relatively stable and has recovered about 1% from its all-time low of 96.4/USD.

Forex reserves (USD b)



Source: Bloomberg, MOFSL

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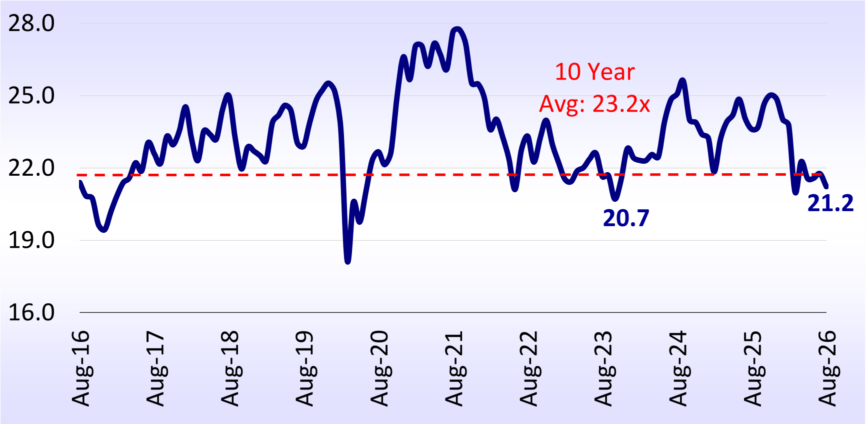
Valuations: Key observations

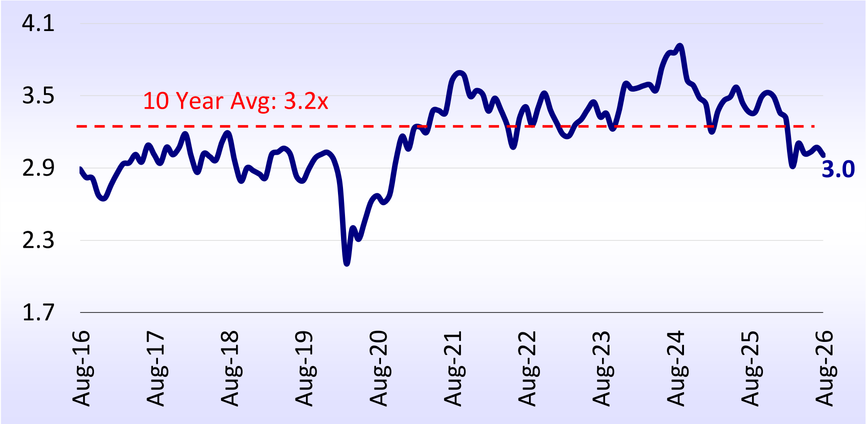
Nifty's valuations cool off to near Mar'26 lows

- The 12-month **trailing P/E** for the Nifty-50 at 21.2x now trades 13% below its LPA of 23.2x and the lowest since Nov'23 (after Mar'26). And at 3.0x, the 12-month trailing P/B is trading 5% below its historical average of 3.2x.
- The Nifty's 12-month **forward P/E** at 18.3x was 13% below its LPA of 20.9x and was down 26% from the Sep'24 highs. At 2.7x, the 12-month forward P/B traded at a 6% discount to its LPA of 2.9x.

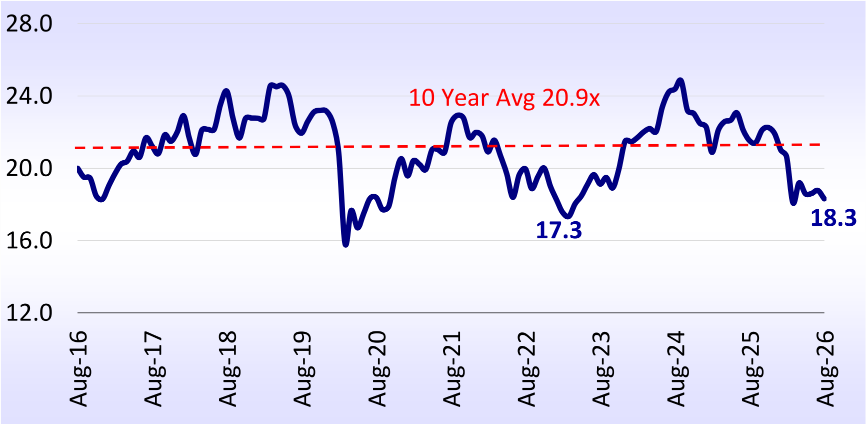
12-month trailing Nifty P/E (x)



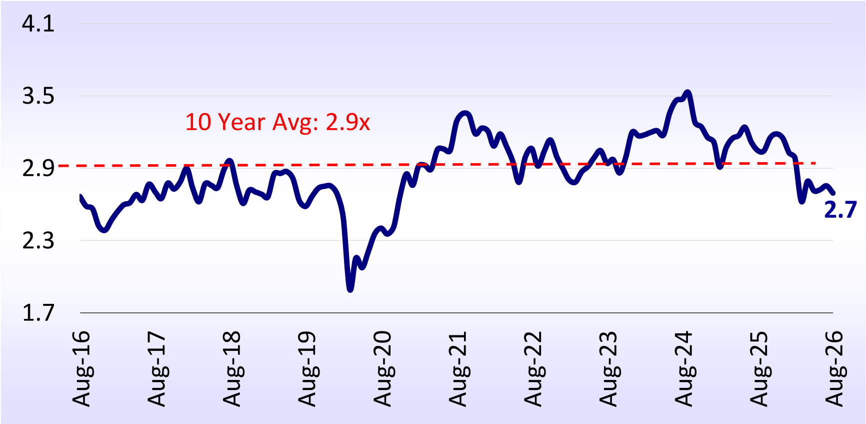
12-month trailing Nifty P/B (x)



12-month forward Nifty P/E (x)



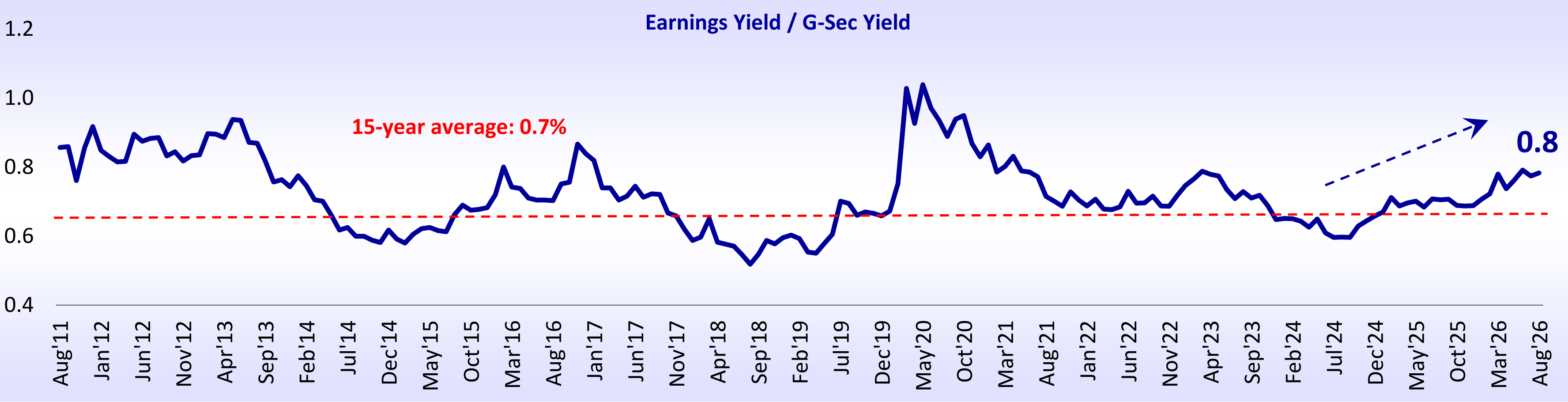
12-month forward Nifty P/B (x)



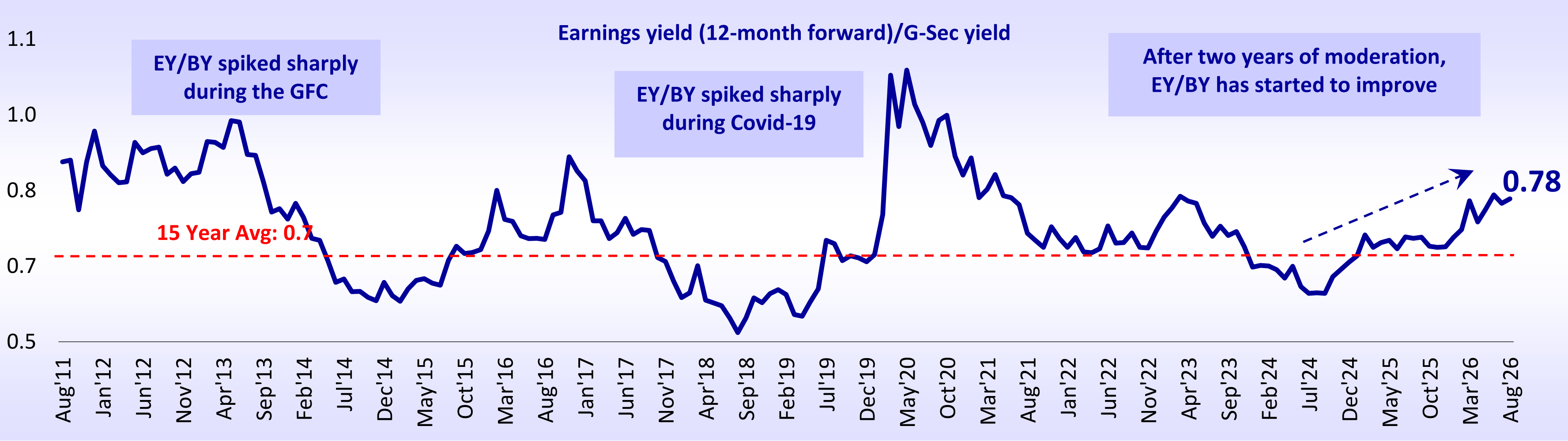
EY/BY ratio remains flat MoM, near its highest level in over three years

- India’s 10Y bond yield increased 10bp MoM to 6.9%. Consequently, the earnings yield-to-bond yield (EY/BY) ratio remained flat MoM, near its three-year high level recorded in Jun’26, on both a trailing and forward basis. The ratio continues to trade above its LPA.

Trailing earnings yield/G-Sec yield (x)

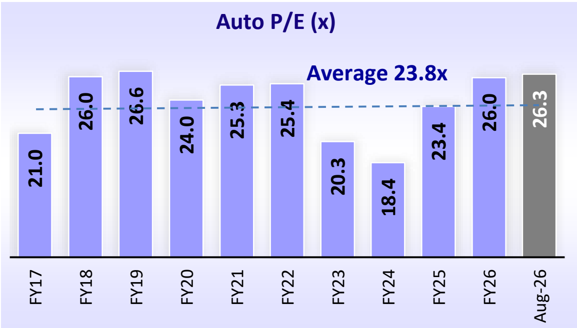


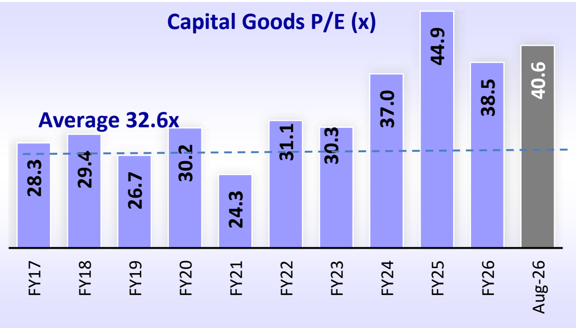
Forward earnings yield/G-Sec yield (x)

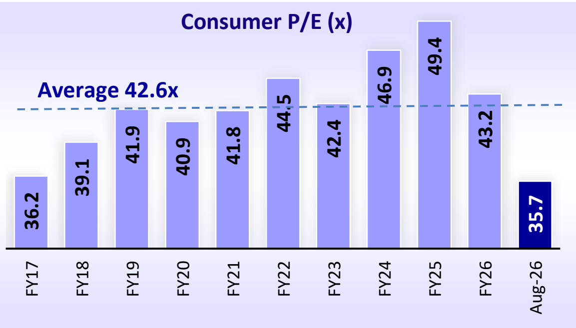


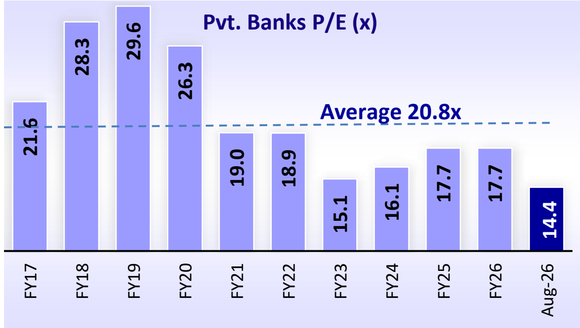
Consumer, Tech, and Retail sectors trade at discounts to their historical valuations (1/2)

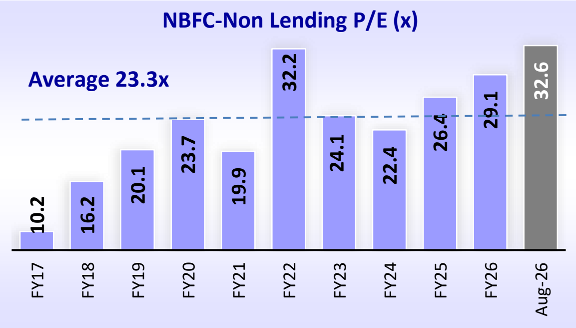
- The 12-month forward P/E for Private Banks, Consumer, Technology, Chemicals and Retail are trading at a discounts of 31%, 16%, 23%, 0.4% and 30%, respectively, to their 10-year averages. In contrast, valuations remain above their LPA for Automobiles (+10%), Capital Goods (+25%), NBFC Non-lending (+40%), Healthcare (+33%), and Chemicals (+0.4%).

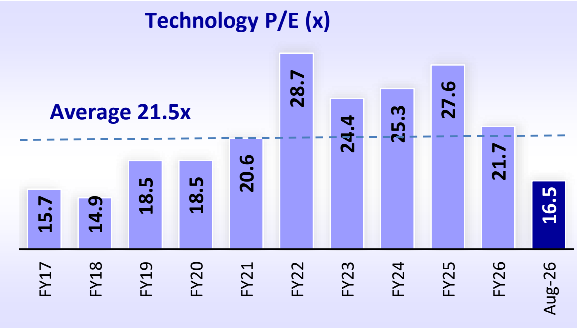


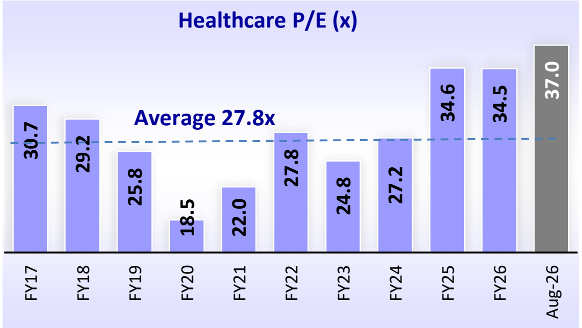


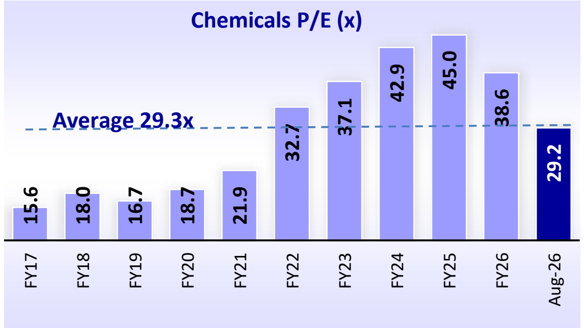


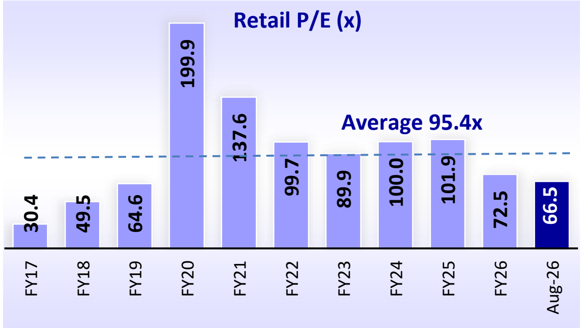








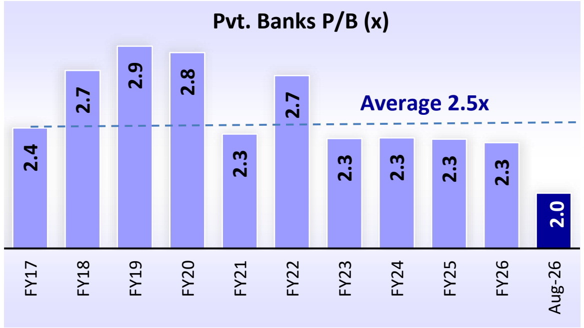


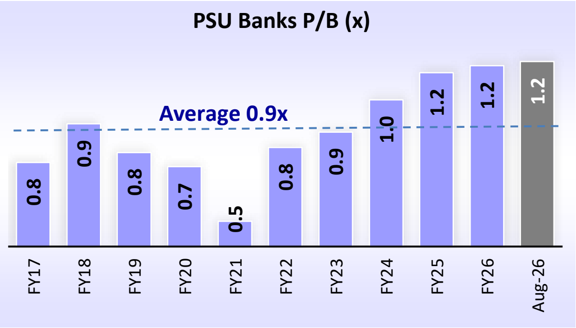


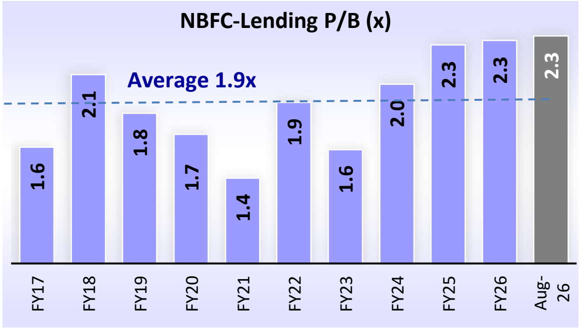
Note: The data represent the 12-month average of one-year fwd P/E across MOFSL Universe sectors; blue and grey bars represent the latest sectoral valuations below and above the 10-year average, respectively. LPA: Long period average

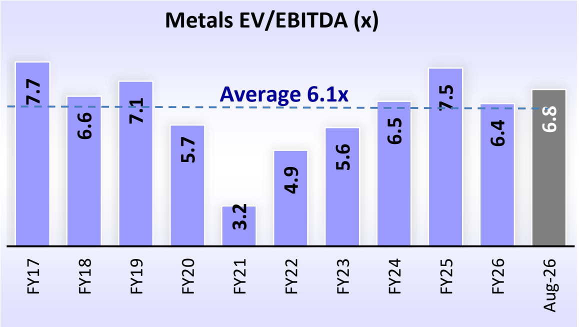
Private Banks, O&G, and Real Estate trade below their historical averages (2/2)

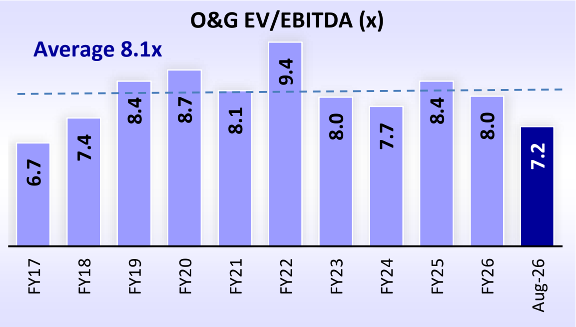
- On a 12-month forward **P/B basis**, Private Banks trade at a 21% discount to their long-period average (LPA). In contrast, PSU Banks and NBFC-Lending trade at a 33% and 24% premium to their respective LPAs. On a 12-month forward **EV/EBITDA** basis, O&G and Real Estate are trading at a discount of 12% and 7%, to their LPA respectively. In contrast, Metals, Utilities, and Cement are trading at or above their LPA valuations.

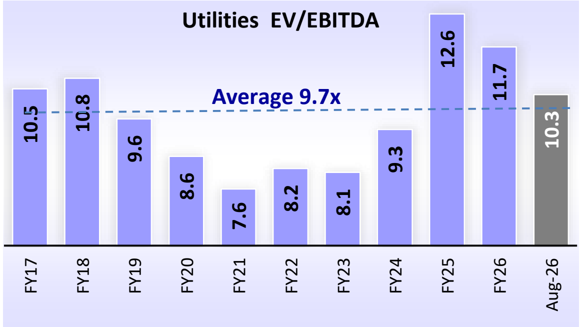


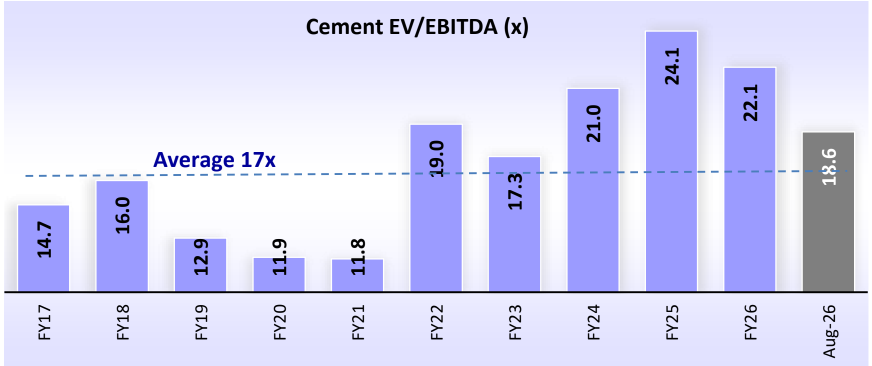


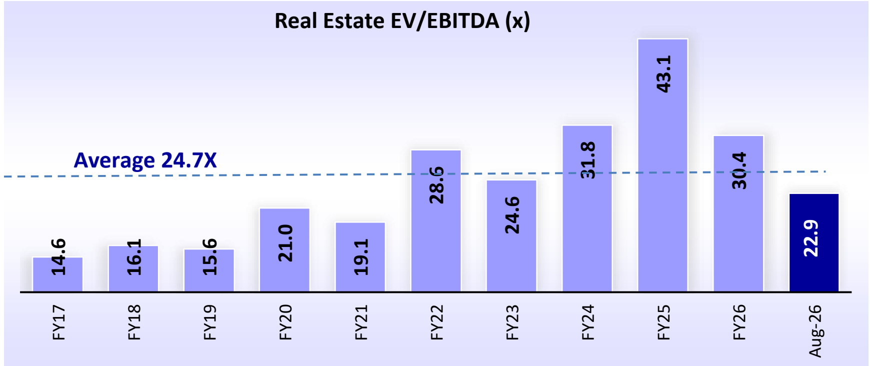










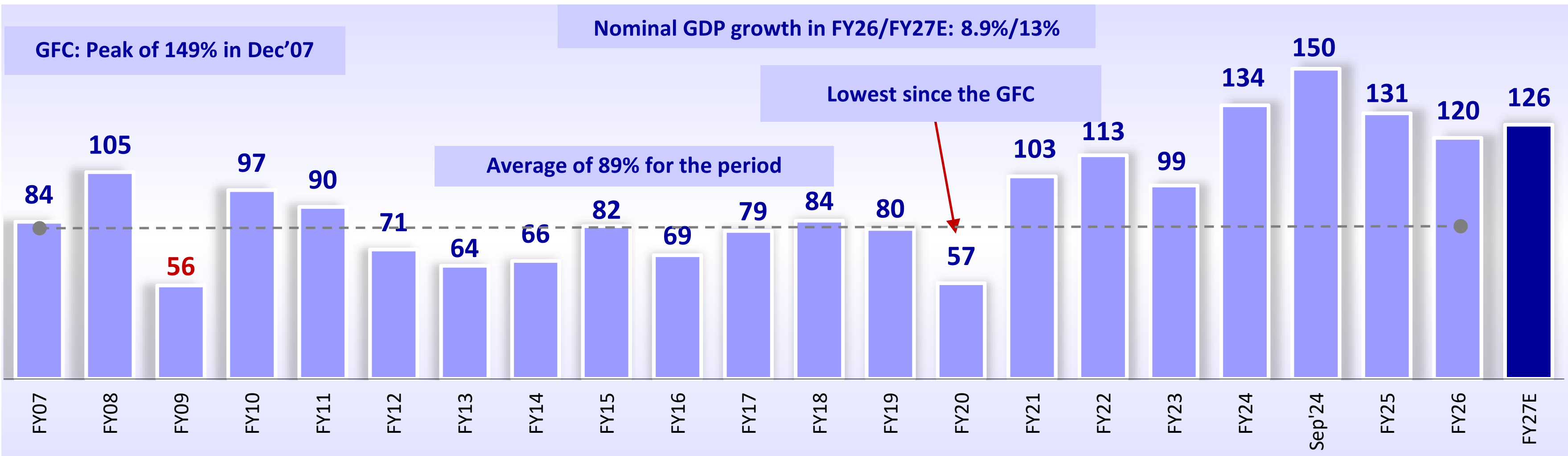


Note: The data represent the 12-month average of one-year P/B across and EV/EBITDA across MOFSL Universe sectors; blue and grey bars represent the latest sectoral valuations below and above the 10-year average, respectively. LPA: Long period average.

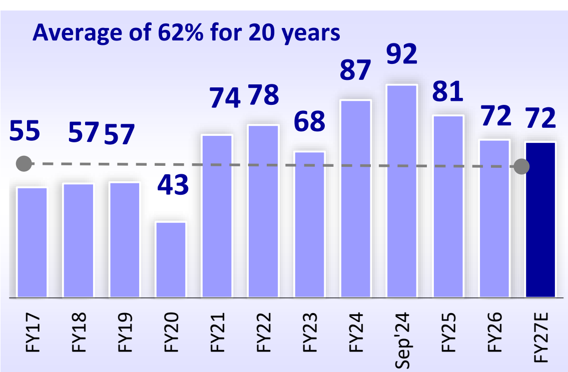
India's market cap-to-GDP ratio remains elevated

❖ Following the strong GDP print and revisions, India's market cap-to-GDP ratio is expected to moderate to 126% in FY27E from 150% at its Sep'24 peak, although it remains above 120% in FY26. Nevertheless, the ratio remains elevated and has largely been above 100% since 2021, except in FY23. While the overall market cap-to-GDP ratio for large caps remains above its historical average, the valuation premium is significantly more pronounced in mid- and small-cap stocks, which continue to trade well above their respective historical averages.

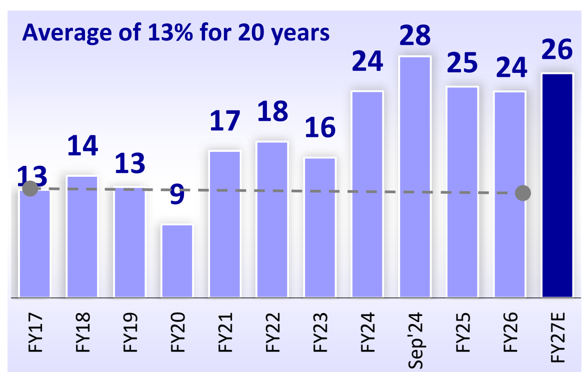
Market cap-to-GDP ratio (%) – Overall



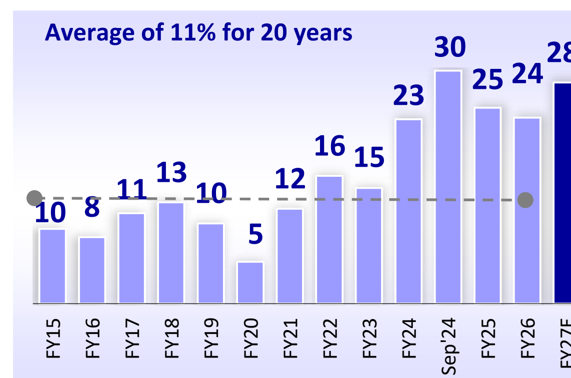
Mcap-to-GDP ratio (%) –Top 100 Large-caps



Mcap-to-GDP ratio (%) – 101 to 250th Mid-caps



Mcap-to-GDP ratio (%) – Small-caps, 250th onwards



Top ideas: MOFSL

Company	Mcap (USDb)	CMP (INR)	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY26	FY27E	FY28E	FY26-28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E
Top Nifty-50 ideas															
Bharti Airtel	123.1	1,890	44.2	57.8	80.9	35.4	42.8	32.7	23.4	7.1	6.2	5.3	20.5	22.6	27.3
ICICI Bank	107.1	1,423	70.2	83.7	96.6	17.3	20.3	17.0	14.7	3.0	2.7	2.3	16.1	16.8	16.8
St Bk of India	101.2	1,039	91.8	97.2	110.4	9.7	11.3	10.7	9.4	1.7	1.5	1.3	17.3	15.9	15.8
Bajaj Finance	70.2	1,061	31.1	42.5	52.6	30.1	34.1	24.9	20.2	5.6	4.7	4.0	18.1	20.7	21.4
Titan Company	48.2	5,093	57.9	73.7	90.6	25.1	88.0	69.1	56.2	28.9	22.3	17.5	37.7	36.4	34.9
Adani Enterprises	44.9	3,087	13.6	48.5	61.2	111.8	226.4	63.6	50.5	4.9	4.1	3.8	2.4	6.6	7.2
M & M	43.4	3,319	130.7	135.9	168.6	13.6	25.4	24.4	19.7	5.4	4.6	3.9	23.1	20.4	21.6
Bharat Electronics	31.5	408	8.3	9.6	11.2	16.2	49.2	42.5	36.5	12.5	9.8	7.9	25.5	23.1	21.5
Eternal	31.3	326	0.4	2.3	4.5	236.5	811.2	143.3	71.7	9.6	9.0	8.0	1.2	6.5	11.8
Hindalco Inds.	24.1	1,009	83.5	114.2	100.0	9.4	12.1	8.8	10.1	2.1	1.7	1.5	18.2	21.5	15.9
Shriram Finance	21.3	1,063	53.1	60.1	71.1	15.6	20.0	17.7	15.0	3.0	2.1	1.9	16.4	15.5	13.5
Interglobe Aviat	21.0	5,078	-31.5	139.6	223.0	LP	NM	36.4	22.8	30.3	16.5	9.8	-15.5	59.0	54.1
Apollo Hospitals	13.3	8,853	136.0	173.1	199.7	LP	65.1	51.2	44.3	13.0	10.4	8.4	22.1	23.3	21.7
Top Non Nifty-50 ideas															
TVS Motor Co.	21.4	4,290	76.7	94.7	118.2	24.1	55.9	45.3	36.3	18.1	13.5	10.3	34.4	34.1	32.2
BSE	14.6	3,349	60.4	83.5	97.3	26.9	55.5	40.1	34.4	20.5	14.7	11.1	44.4	42.7	36.7
SBI Funds Mgmt.	12.0	566	15.1	17.1	20.4	16.3	37.6	33.2	27.8	19.3	15.7	12.8	43.0	52.2	50.7
GE Vernova T&D	11.6	4,298	50.0	62.9	82.4	28.3	85.9	68.3	52.2	40.9	27.8	19.5	57.4	48.4	44.0
Lenskart Solutions	11.6	646	3.1	5.2	7.4	55.1	209.9	124.6	87.3	12.7	11.5	10.1	7.1	9.7	12.3
Indian Hotels	10.5	703	13.2	15.3	19.1	20.4	53.3	46.0	36.8	7.7	6.6	5.6	15.5	15.4	16.6
Meesho	10.0	211	-2.7	-0.7	0.9	LP	NM	NM	229.8	21.9	22.5	19.6	-41.7	-7.5	9.1
Dixon Tech.	9.3	14,680	139.7	156.5	259.5	36.3	105.1	93.8	56.6	19.1	14.7	11.7	22.1	17.7	23.1
Coforge	8.9	1,975	35.2	59.8	76.2	47.2	56.2	33.0	25.9	8.7	3.6	3.4	16.5	15.4	13.4
Radico Khaitan	6.5	4,526	45.3	67.3	81.9	34.4	99.9	67.2	55.3	18.6	15.3	12.5	18.7	22.7	22.6
Kirloskar Oil	3.2	2,065	31.9	41.1	61.0	38.3	64.8	50.3	33.9	8.9	7.8	6.6	14.6	16.6	21.2
RBL Bank	2.5	379	13.3	14.5	22.9	31.3	28.5	26.1	16.5	1.4	1.4	1.3	5.2	7.5	8.0
TBO Tek	1.9	1,660	22.7	35.3	52.6	52.3	73.2	47.0	31.5	11.5	9.3	7.2	17.8	21.8	25.6
Arvind	1.5	547	15.7	21.5	26.5	29.8	34.7	25.5	20.6	3.5	2.9	2.6	10.5	12.5	13.2

Quant Research & India Strategy Gallery

N O T E S

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BUY	>=15%
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