

Global markets rallied (SPX: +1.6%) and crude collapsed (Brent: -12%), led by the US suspension of air strikes on Iran. There is still some uncertainty and the Strait of Hormuz is still closed, though peace looks highly likely now and is our base case assumption. We see it as a strong positive for India and expect the Nifty to rebound after a 5% collapse in the last three trading sessions. OMCs, private banks, NBFCs, and autos are the best ways to play the recovery.

End of war in sight

The US today suspended airstrikes on Iran's energy infrastructure, citing ongoing talks and potential peace. Iran is yet to officially confirm, with the Speaker of the Iran Parliament denying the talks. Markets turned cautiously optimistic, with Brent dropping ~12% and the SPX rallying 1.6% on the back of this news. We acknowledge that this is not a done deal yet, with the re-opening of the Strait of Hormuz the critical milestone in the process. However, the probability of peace is significantly elevated and we think markets will aggressively price that in. India, obviously, is a bigger beneficiary relative to other global markets because of its high exposure to imported crude. We expect Brent to retrace to USD75-80/bbl, once clarity emerges.

Smart recovery in markets likely

The Nifty fell 5% in the last three trading sessions, primarily owing to sustained FPI selling (USD2.5bn). We expect this trend to reverse, and India could emerge as one of the better investment opportunities in the region. The key catalysts are the crude price overhang waning and P/E premium contracting. The optimism should spill over into other asset classes too. The currency should bounce back to pre-war levels (~Rs91/USD) while the 10Y bond should also drop, to ~6.65% from 6.83% currently. It may take 2-3M for the economy to normalize, but asset markets will discount the peace dividend immediately.

Some scars to remain

We expect some impact on 4QFY26 earnings, with a spillover to 1QFY27. Supply chains are likely to take 1-2M to normalize after the Strait of Hormuz reopens. Moreover, the damage to some of the energy infrastructure in the Middle East could delay the full normalization of oil markets. We estimate the earnings impact on the Nifty at 1-2% (FY27E). SMID companies may see a larger downgrade, but it would mainly be restricted to 1-2 quarters, with a smaller impact on FY27 estimates. Notably, the street is yet to react to the war, with both Nifty and broader market estimates unchanged in Mar-26.

Top trades

We see this as the bottom for the markets and maintain Dec-26E Nifty target of 29,000, based on +1sd PER of 20x. The short episode is unlikely to derail India's consumption-led recovery, and we see FY27E Nifty EPSg on track at ~15%.

Our top ideas to play the market recovery are picked from a basket of the worst performers since 26-Feb-26:

- 1) OMCs (short war duration = manageable earnings impact, all trading at <LTA on PBV)
- 2) L&T (-22%, with low damage to its Middle-East projects)
- 3) HDFC Bank (-16%, trading at ~1.5x PBV and over-reacted to the Chair resignation)
- 4) BJFIN (-16%, with minimal damage to earnings)
- 5) SHFL (-19%, beaten down on fears of a fuel price hike)
- 6) Indigo (-18%, ATF prices should correct + schedule normalization in 2-3M)
- 7) Ashok Leyland (-23%, beaten down on worries around diesel price hikes; now moot)

Meanwhile, we expect some of the "protection" trades to reverse – Tech, Reliance, and ONGC now look vulnerable, at least relatively.

Seshadri Sen

seshadri.sen@emkayglobal.com
+91-22-66121226

Mayank Sahu

mayank.sahu@emkayglobal.com
+91-22-66242410

Samruddhi Athanikar

samruddhi.athanikar@emkayglobal.com
+91-22-66242410

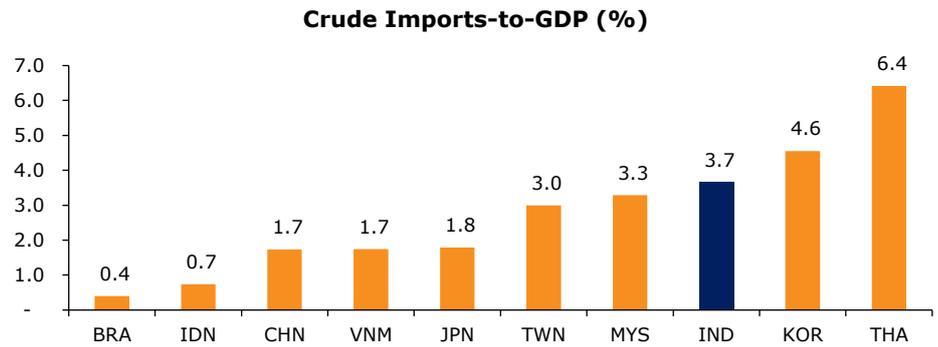
Anannya Morey

anannya.morey@emkayglobal.com

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Story in Charts

Exhibit 1: India's markets have corrected sharply due to high crude dependency

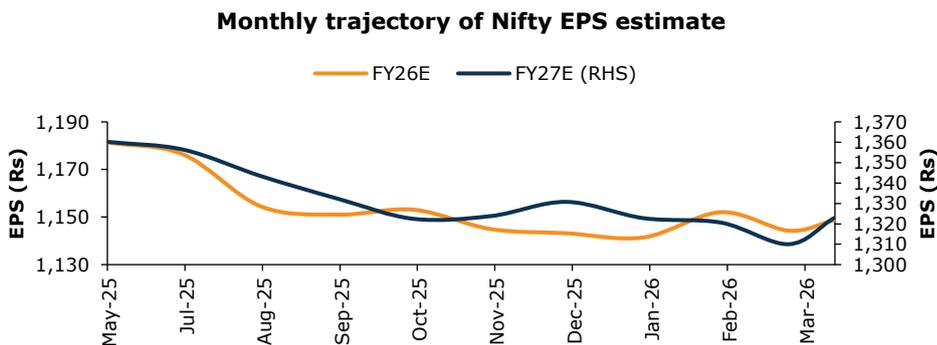


Source: Trademap, Bloomberg, Emkay Research; Data as of CY24

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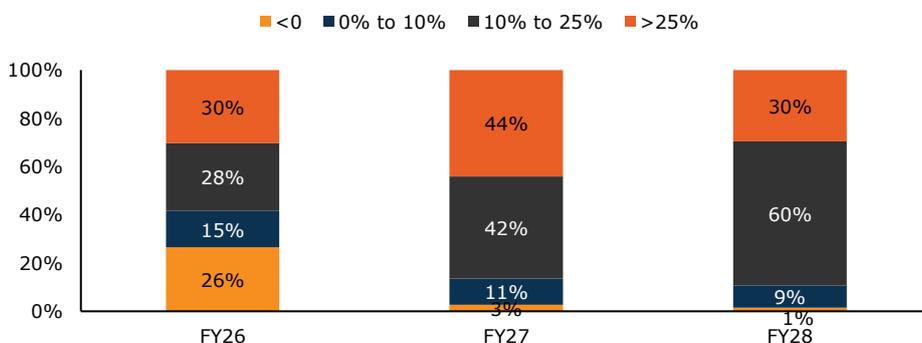
Earnings

Exhibit 2: Nifty's FY27E EPS bounces back amid the global turmoil



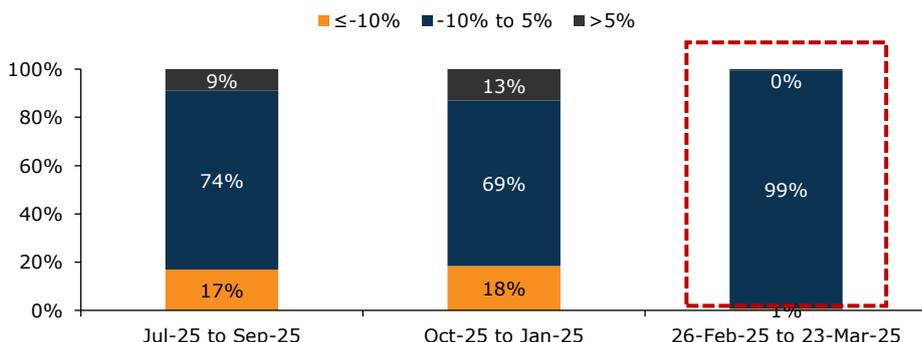
Source: Bloomberg, Emkay Research

Exhibit 3: The Emkay consensus universe* - EPS growth



Source: Bloomberg, Emkay Research; Note: * Our Consensus universe consists of 504 companies covered by 5+ analysts

Exhibit 4: Negligible earnings downgrades since the start of the US-Israel-Iran war



Source: Bloomberg, Emkay Research; Note: * Our Consensus universe consists of 504 companies covered by 5+ analysts

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Exhibit 5: Nifty – Sector-wise growth in EPS

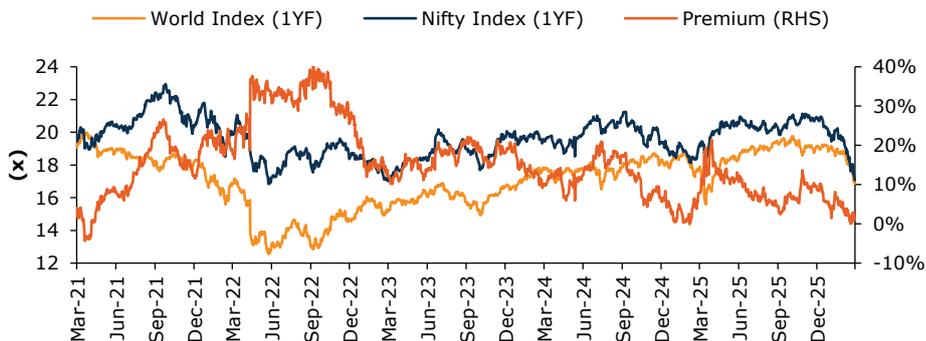
Particulars	FY26E	FY27E	FY28E
Telecom	43%	9%	17%
Discretionary	-32%	46%	16%
Staples	4%	-4%	17%
Energy	1%	12%	8%
Financials	3%	15%	18%
Healthcare	11%	4%	19%
Industrials	43%	22%	18%
Technology	10%	6%	7%
Materials	59%	24%	15%
Utilities	11%	8%	7%
Nifty Index	6%	15%	15%

Source: Bloomberg, Emkay Research

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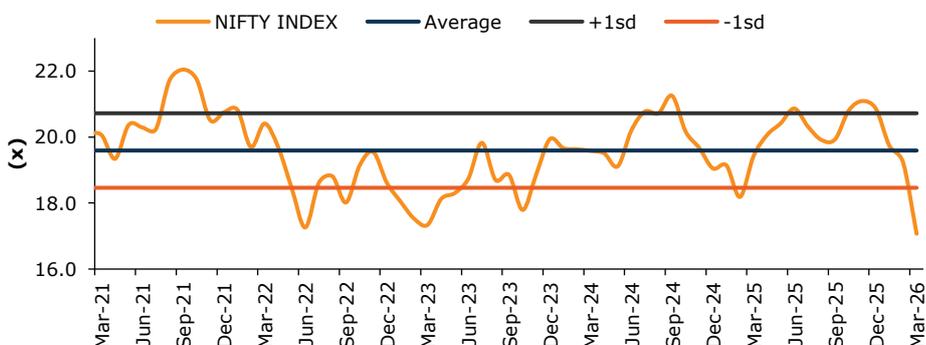
Valuations

Exhibit 6: Nifty now trades in line with global indices, with no valuation premium



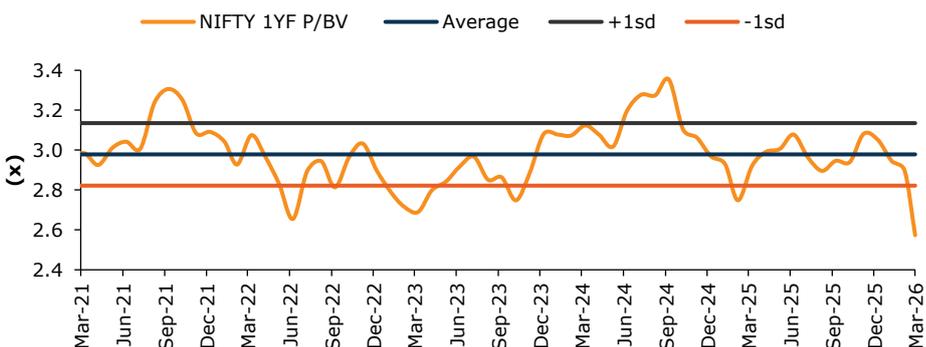
Source: Bloomberg, Emkay Research

Exhibit 7: Nifty 1YF PER corrects to below the -1sd level



Source: Bloomberg, Emkay Research

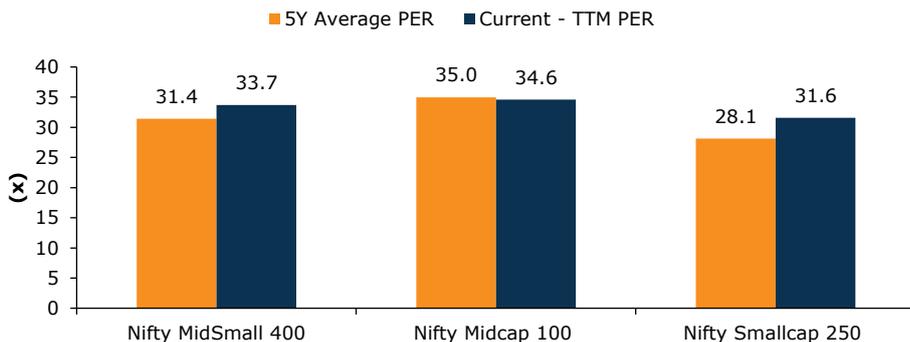
Exhibit 8: Nifty 1YF P/B corrects to below the -1sd level



Source: Bloomberg, Emkay Research

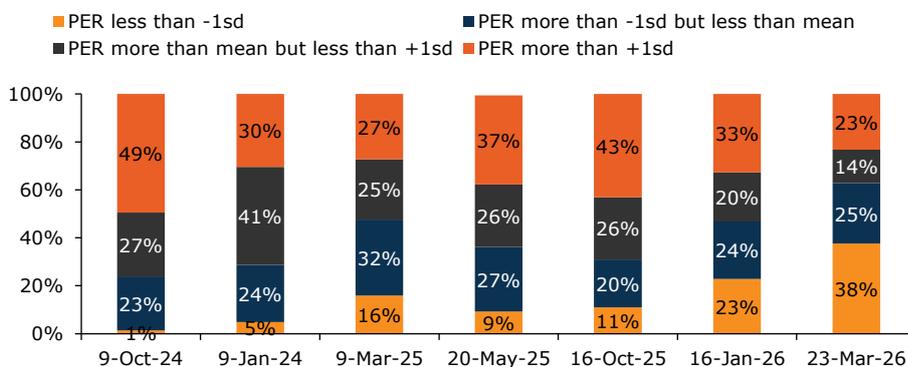
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Exhibit 9: Nifty Smallcap and Mid-smallcap indices – Current vs 5Y average TTM PER moderating



Source: Bloomberg, Emkay Research

Exhibit 10: Despite negligible earnings downgrades, the consensus universe valuation eases



Source: Bloomberg, Emkay Research; * Our Consensus universe consists of 504 companies covered by 5+ analysts

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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