

# Strategy

January 13, 2026

## Index returns so-so, portfolio returns not even so-so; how so?

Our analysis of direct and indirect equity holdings of retail investors shows that retail portfolios (direct holdings or through MFs and PM schemes) have (1) trailed index returns and (2) barely delivered positive returns over the past 16-18 months. The weak trailing returns over the past 18 months may increasingly test retail investors' patience.

### Weak returns of key sub-segments resulted in weak overall IRR from MFs

Our analysis of weighted-average NAVs of equity-oriented MFs suggest retail investors likely made very modest returns over July 2024-December 2025, even as the total flows over this period is 53% of the total flows mobilized by MFs over CY2022-25 (see Exhibit 1). This is despite positive returns of the major market indices over the same period (see Exhibit 2). Furthermore, we note that a retail investor would have needed to invest consistently since September 2022 to achieve more than 13% XIRR, excluding charges and taxes (see Exhibits 3-4). Exhibits 5-8 show that mid-cap., small-cap. and thematic funds performed similar or worse than overall equity MF over the past 18 months, while they garnered the bulk of the flows over the past two years.

### PMS schemes did not fare much better

Our analysis of top-20 PMS strategies by AUM suggests that only a handful of schemes delivered decent returns over the past 12 months (see Exhibit 9). Nonetheless, we note that the PMS industry has received strong inflows over this period. However, continued underperformance may pose a risk to future inflows for this segment as well.

### Retail equity AUM (direct) has been flat over the past 18 months

The prolonged time correction in broader equity markets, coupled with sharp price corrections in retail-dominated stocks, resulted in weak returns for direct holdings of retail investors, with retail investor AUM of NSE-listed stocks being stable around Rs43 tn over the past 18 months (see Exhibit 10). Furthermore, the AUM of retail investors increased at a CAGR of around 15% over 2021-25, with the bulk of the increase taking place over March 2023 and June 2024. We note that direct flows of retail investors into equity markets have tapered off in recent months (see Exhibit 11).

### Decent-to-large value erosion in a large number of retail-dominated stocks

Our analysis of the top-20 retail-dominated stocks in the current Nifty-500 Index suggests that this portfolio of stocks has delivered negative returns since June 2024 (see Exhibit 12), after astronomical returns over March 2023-June 2024. The same trends are also reflected in the basket of select narrative stocks, which have large retail ownership (see Exhibit 13). However, valuations of many of these 'narrative' stocks are completely disconnected from the fundamentals of companies, despite the recent correction on failure of many of these narratives (see Exhibits 14-15). These stocks will likely lose a significant portion of their market cap. over time, which could prolong the pain for retail investors.

### Key estimates summary

	2026E	2027E	2028E
<b>Nifty estimates</b>			
Earnings growth (%)	7.8	17.5	14.7
Nifty EPS (Rs)	1,072	1,264	1,450
Nifty P/E (X)	24.0	20.4	17.8
<b>Macro data</b>			
Real GDP (%)	7.8	6.5	6.5
Avg CPI inflation (%)	2.1	4.1	4.0

Source: Company data, Kotak Institutional Equities estimates

### Quick Numbers

53% of CY2022-25 flows into domestic equity mutual funds have come over July 2024-December 2025

Weighted-average NAVs of mid-cap. funds down 3%, of small-cap. funds down 13% and of thematic funds down 13% from the peak of September 2024; overall weighted-average NAV down 1.4% from September 2024

Direct retail AUM has been stuck in the range of Rs40-45 tn since June 2024, despite stable holdings of retail in most stocks over this period

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### Retail flows to domestic equity MFs have moderated

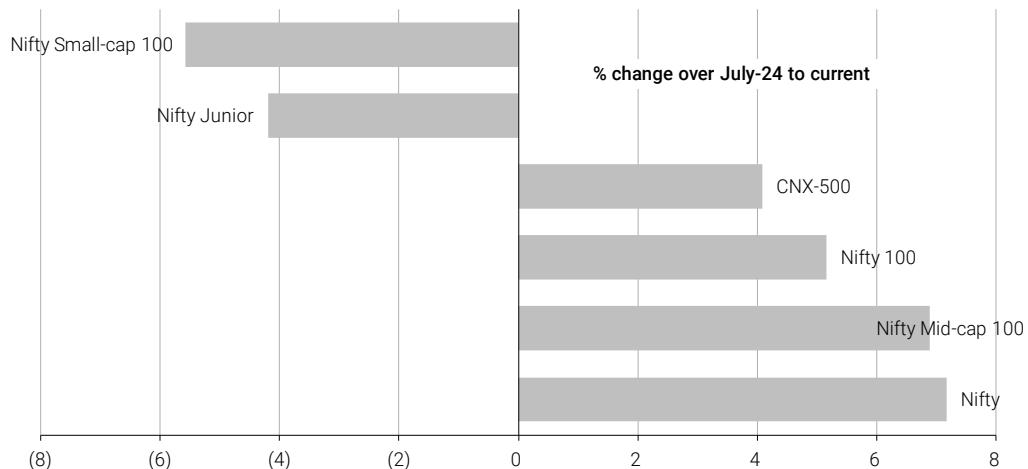
Exhibit 1: Net inflows to various categories of domestic equity mutual funds in India, calendar year-ends, 2020-25 (Rs bn)

	2020	2021	2022	2023	2024	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	2025
Flexi cap. fund	-	179	220	116	410	57	77	77	70	89	81	100	810
Large cap. fund	(24)	28	137	(30)	194	17	21	28	23	10	16	16	255
Large & mid Cap. fund	18	87	200	189	395	35	50	33	38	32	45	41	422
Mid cap. fund	5	106	205	229	343	38	52	53	51	38	45	42	499
Multi cap.	(48)	237	181	201	407	28	40	32	36	25	25	23	351
Small cap. fund	14	38	198	410	342	40	65	50	44	35	44	38	523
Sectoral/thematic fund	83	255	209	308	1,557	5	94	39	12	14	19	9	381
Value/contra/focused	(3)	59	184	92	218	21	31	23	35	13	33	21	285
Dividend yield/ELSS	44	(23)	76	99	76	(5)	(3)	(1)	(5)	(8)	(8)	(10)	(25)
<b>Total</b>	<b>91</b>	<b>967</b>	<b>1,610</b>	<b>1,616</b>	<b>3,943</b>	<b>236</b>	<b>427</b>	<b>334</b>	<b>304</b>	<b>247</b>	<b>299</b>	<b>281</b>	<b>3,502</b>

Source: AMFI, Kotak Institutional Equities

### Benchmark indices have delivered mediocre returns over July 2024-January 2026

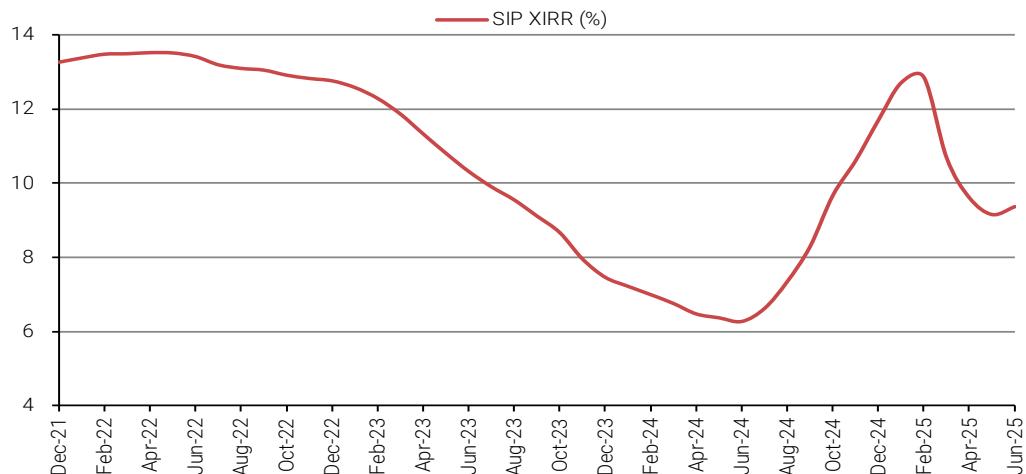
Exhibit 2: Performance of major benchmark indices over July 2024-January 2026 (%)



Source: Bloomberg, Kotak Institutional Equities

**Equity investors would have generated moderate returns, if they started their SIPs after CY2023**

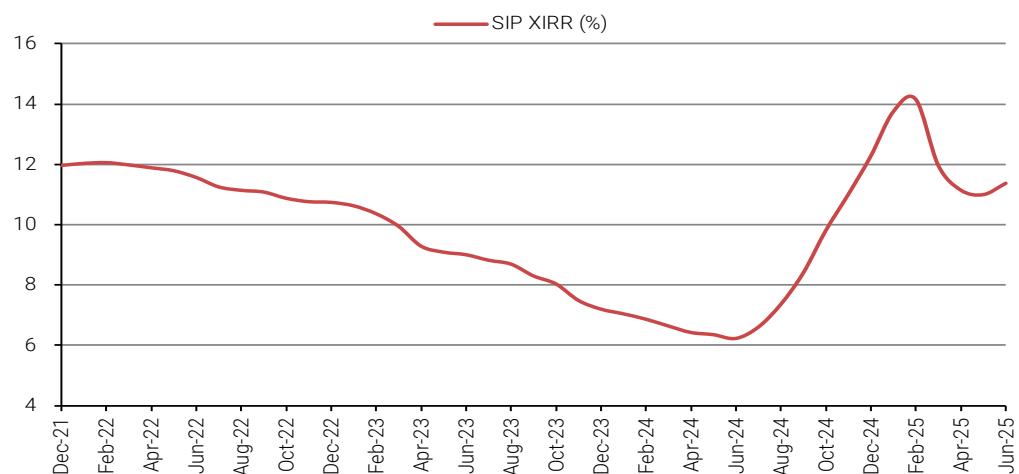
Exhibit 3: Estimated XIRR on SIPs depending on the start date and current weighted-average NAVs of all equity MFs, December 2021-June 2025



Source: ACE MF, Kotak Institutional Equities

**Equity investors would have generated mediocre returns if they started their SIPs after CY2023**

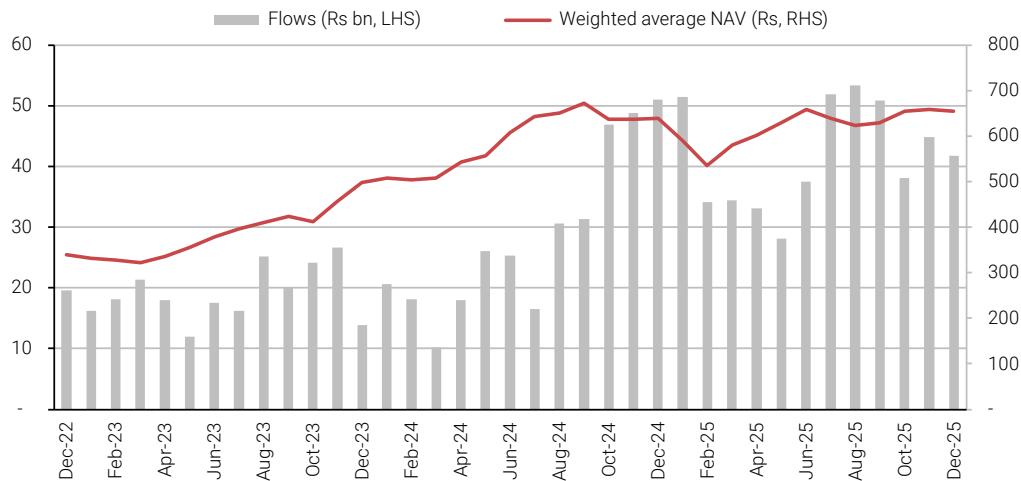
Exhibit 4: Estimated XIRR on SIPs, if inflows were proportional to aggregate retail inflows in equity MFs, December 2021-June 2025



Source: ACE MF, Kotak Institutional Equities

**Weighted-average NAVs of mid-cap. funds have been flat over June 2024-December 2025, even as flows remained elevated**

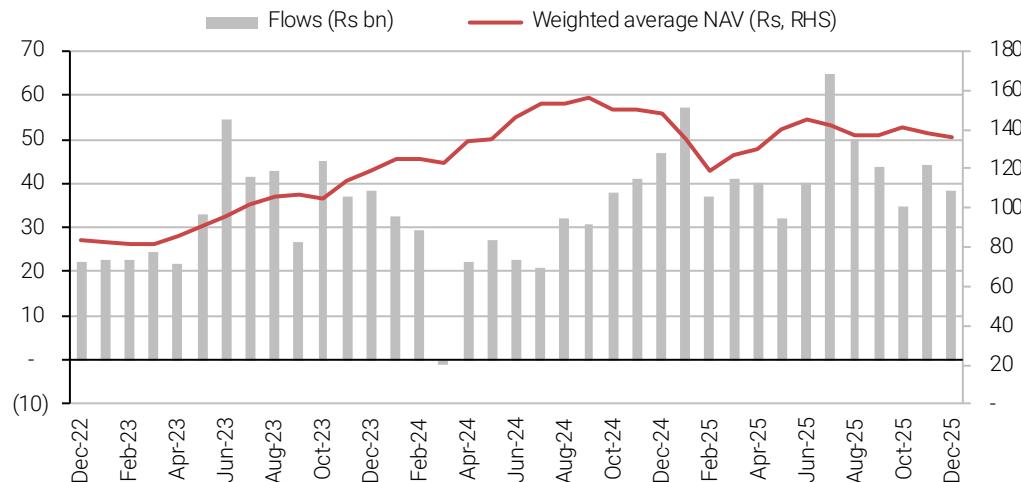
Exhibit 5: Total flows and weighted-average NAV of mid-cap funds, calendar year-ends, December 2022-25



Source: ACE MF, AMFI, Kotak Institutional Equities

**Small-cap. funds have delivered negative returns on aggregate over June 2024-December 2025**

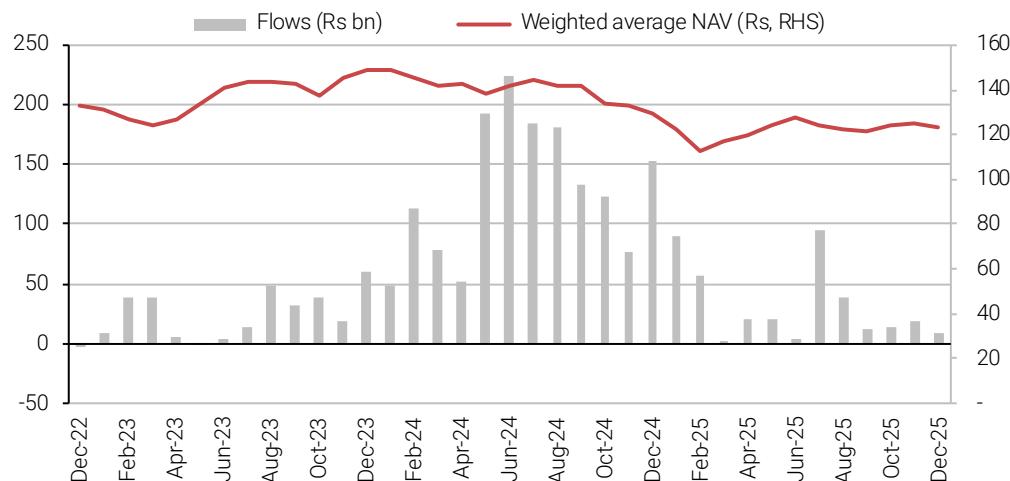
Exhibit 6: Total flows and weighted-average NAVs of small-cap funds, calendar year-ends, December 2022-25



Source: ACE MF, AMFI, Kotak Institutional Equities

### Sectoral/thematic funds have delivered negative returns since December 2022

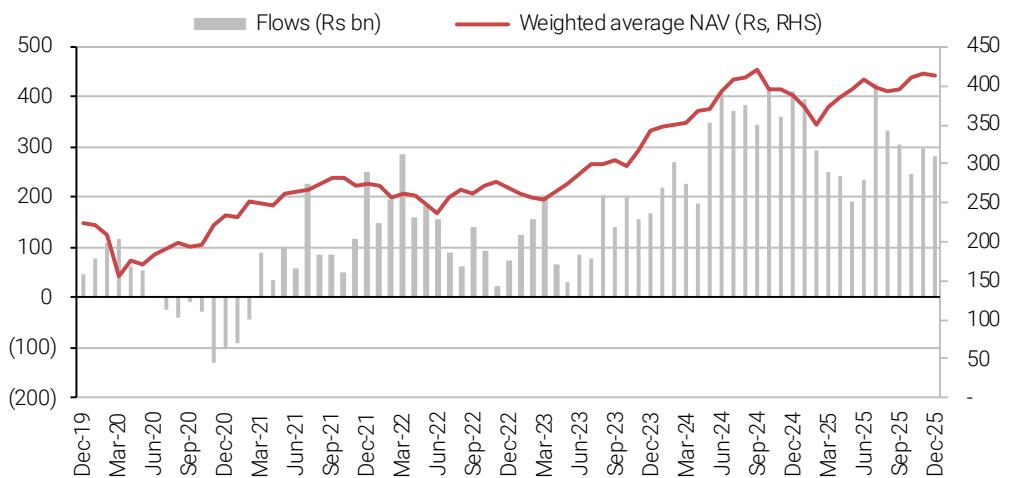
Exhibit 7: Total flows and weighted-average NAVs of sectoral/thematic funds, calendar year-ends, December 2022-25



Source: ACE MF, Kotak Institutional Equities

### Weighted-average NAVs of equity-oriented mutual funds are similar to August 2024 levels

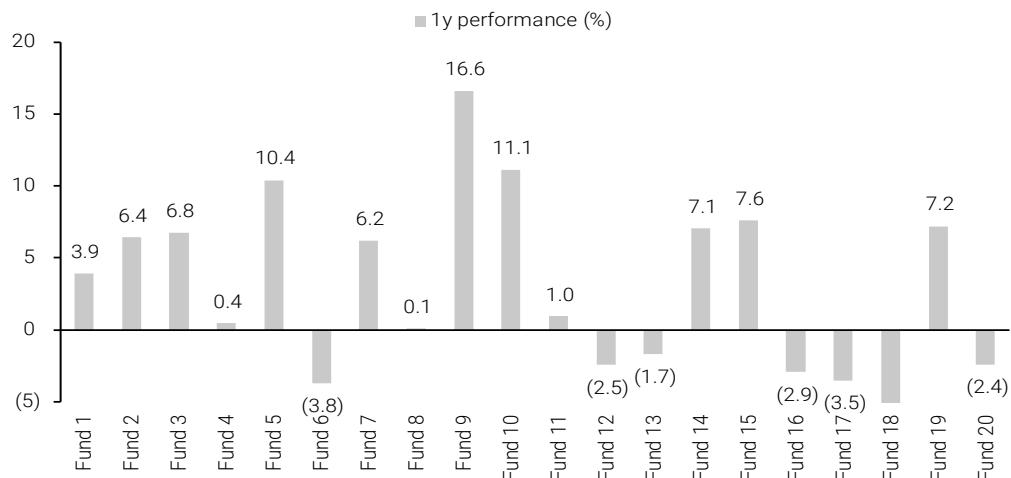
Exhibit 8: Total AUM and weighted-average NAVs of all equity funds, calendar year-ends, December 2019-25



Source: ACE MF, Kotak Institutional Equities

### Most PMS funds have delivered weak returns over the past one year

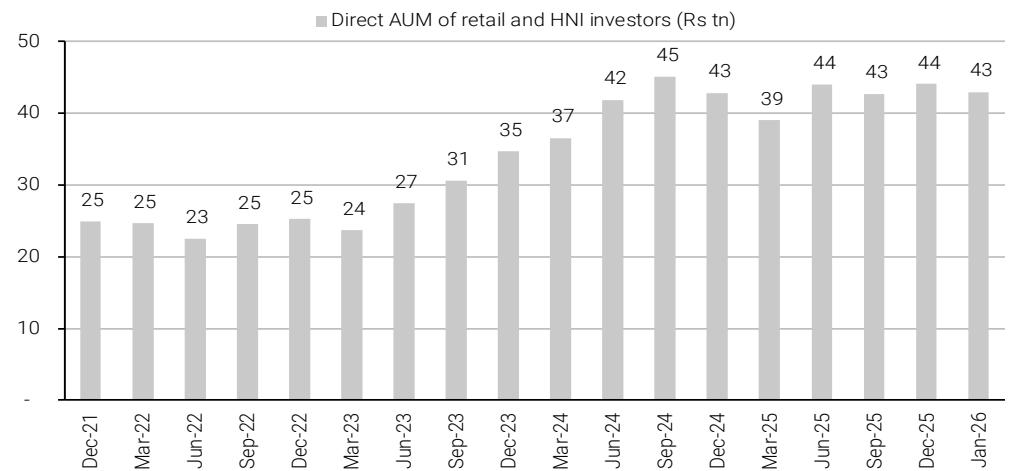
Exhibit 9: One-year performance of top-20 discretionary PMS funds by AUM (in no particular order), December 2025 (%)



Source: APMI, SEBI, Kotak Institutional Equities

### Overall retail investor AUM has been stagnant over the past 18 months

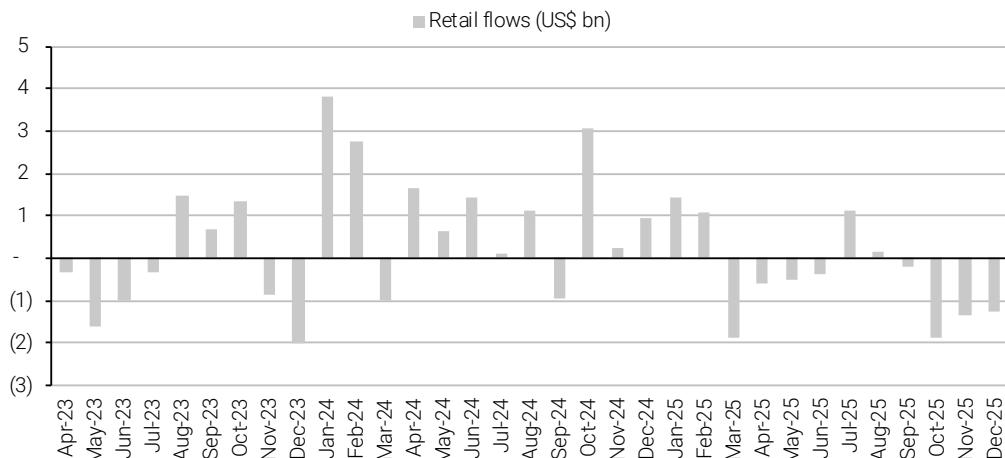
Exhibit 10: AUM of direct retail (+HNI) holdings of NSE-listed equities, calendar year-ends, December 2021-January 2026



Source: Companies, Capitaline, Kotak Institutional Equities

### Direct retail flows have been weak in recent months

Exhibit 11: Provisional retail flows data, calendar year-ends, 2023-25



Notes:

(a) 'Retail' includes HUF, individual/proprietorship firms, NRI and partnership firms/limited liability partnerships.  
 (b) This data is based on provisional data and may not match with the actual reported data.

Source: NSE, Bloomberg, Kotak Institutional Equities

### Several retail-dominated stocks have delivered negative returns since June 2024

Exhibit 12: Performance of top-20 retail-dominated stocks (highest spread between retail and institutional ownership) in the Nifty-500 Index

	Ownership (%)		Return (%)	
	Retail	Institutional	Mar-23 to Jun-24	Jun-24 to Dec-25
Reliance Infrastructure	45	8	39	(13)
Reliance Power	48	12	191	33
Olectra Greentec	37	7	187	(34)
CDSL	52	25	163	26
Nava	32	11	242	55
Valor Estate	27	5	188	(27)
HBL Engineering	28	7	425	69
Anand Rathi Wealth	34	14	384	54
Tata Technologies	28	8	NA	(36)
Zen Technologies	32	12	258	16
Ircon International	26	6	382	(43)
Latent View	25	5	56	(4)
Tata Teleservices	21	3	40	(36)
IREDA	22	4	NA	(30)
Happiest Minds	33	16	6	(41)
Alok Industries	20	3	141	(43)
HFCL	37	19	86	(43)
Jaiprakash Power Ventures	40	23	253	(8)
Rashtriya Chemicals & Fertilizers	20	3	103	(28)
Tejas Networks	27	10	143	(68)

Source: Companies, Capitaline, Kotak Institutional Equities

**Gradual tapering of interest among retail investors in 'narrative' stocks****Exhibit 13: Number of retail shareholders in 'narrative' stocks, March fiscal year-ends, June 2024-December 2025**

Company	Retail shareholders (#)				Retail shareholding (%)				Quarterly return (%)									
	Jun-24	Sep-24	Dec-24	Mar-25	Sep-25	Jun-24	Sep-24	Dec-24	Mar-25	Sep-25	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Bharat Dynamics	482,909	573,529	576,980	550,078	518,970	10.8	12.2	11.7	10.8	10.0	82	(27)	(3)	14	52	(23)	(8)	
Bharat Electronics	2,488,358	2,739,213	2,619,650	2,642,466	2,443,762	9.7	10.3	9.5	9.3	8.5	52	(7)	3	3	40	(4)	(3)	
BHEL	1,845,739	1,958,555	2,044,824	2,081,618	1,924,313	11.2	11.2	11.8	11.8	10.7	22	(7)	(18)	(6)	23	(10)	16	
BPLC	1,024,508	1,003,834	1,108,675	1,176,590	1,033,581	7.5	6.4	6.7	6.9	6.0	1	22	(21)	(5)	19	2	8	
CG Power & Industrial	332,576	410,408	458,694	482,489	533,139	13.0	12.9	12.8	12.7	12.0	30	8	(4)	(12)	7	9	(9)	
Cochin Shipyard	617,015	822,984	959,372	989,154	979,999	17.1	18.0	20.0	19.8	19.9	154	(21)	(12)	(9)	47	(13)	(14)	
Container Corp.	183,260	290,616	306,357	314,027	347,999	3.2	4.7	4.9	4.9	5.9	18	(12)	(14)	(12)	10	(13)	(5)	
Fertilizers & Chemicals Travancore	91,197	108,554	107,336	83,610	69,610	0.8	0.9	0.8	0.8	0.7	57	(2)	2	(35)	52	(8)	(3)	
GAIL (India)	1,486,104	1,517,874	1,568,945	1,637,735	1,597,794	5.8	5.5	5.6	5.5	5.7	21	9	(21)	(4)	4	(8)	(4)	
Garden Reach Shipbuilders & Engineers	252,886	395,477	411,912	404,839	414,686	15.3	17.8	18.0	18.0	17.9	174	(18)	(6)	4	79	(16)	(9)	
GMR Airports	848,877	835,981	849,699	838,516	745,003	7.5	4.2	4.4	4.2	3.5	18	(3)	(16)	(4)	12	2	16	
Hindustan Aeronautics	1,080,627	1,234,781	1,237,350	1,312,271	1,234,950	6.8	7.1	6.9	7.0	6.7	58	(16)	(5)	(0)	17	(3)	(9)	
Hindustan Copper	578,119	592,873	612,757	620,182	628,306	18.2	17.9	17.8	17.6	17.9	15	8	(28)	(11)	27	18	18	
HPCL	525,004	505,360	491,353	508,989	463,343	8.5	7.5	7.0	7.2	6.7	5	33	(7)	(12)	22	1	6	
IOCL	2,688,806	2,737,757	3,035,079	3,139,725	2,927,641	7.7	7.2	7.9	8.1	7.5	(1)	9	(24)	(6)	15	2	9	
IREDA	2,216,689	2,586,912	2,588,972	2,649,701	2,624,306	20.4	21.3	21.2	21.4	22.4	40	23	(8)	(25)	6	(13)	(10)	
IRFC	5,067,006	5,457,128	5,497,649	5,592,593	5,273,772	10.8	10.9	10.8	10.7	10.6	22	(9)	(6)	(17)	14	(13)	(8)	
ITI	106,389	104,076	159,018	204,356	176,345	1.9	1.9	1.8	2.0	1.9	22	(17)	51	(36)	35	(10)	4	
Mazagon Dock	464,244	656,818	672,291	658,412	721,107	9.7	11.1	10.5	9.6	9.9	130	(1)	5	19	23	(15)	(13)	
NBCC	1,266,838	1,504,878	1,582,369	1,588,894	1,334,545	21.6	22.7	22.9	22.8	19.7	32	14	(22)	(12)	50	(13)	6	
NHPC	3,588,065	3,848,661	4,005,458	3,931,971	3,551,974	11.0	11.2	11.6	11.0	10.0	12	(6)	(15)	2	4	1	(11)	
NLC India	278,351	331,222	335,282	327,470	305,486	6.3	5.6	5.3	5.1	5.3	5	18	(12)	(2)	(6)	24	(16)	
NTPC	1,714,656	3,469,332	4,251,379	4,034,522	3,631,254	2.7	2.8	3.0	3.0	2.9	13	17	(25)	7	(6)	2	(6)	
Oil India	351,599	461,705	487,117	499,642	489,535	5.3	5.6	5.9	5.8	5.8	20	20	(26)	(10)	12	(5)	(2)	
Petronet LNG	440,638	439,908	421,846	411,936	423,604	9.9	9.2	8.9	8.7	8.9	25	3	1	(15)	3	(8)	(2)	
Rail Vikas Nigam	2,050,386	2,271,324	2,292,360	2,345,900	2,253,931	16.0	14.8	14.9	14.9	15.1	65	28	(20)	(17)	13	(15)	(6)	
SJVN	1,215,353	1,470,695	1,513,543	1,526,662	1,419,058	10.5	10.3	10.4	10.3	10.2	8	1	(21)	(12)	10	(10)	(19)	

Source: Prime Infobase, Kotak Institutional Equities

**Most 'narratives' have seen slow or no progress****Exhibit 14: List of major narratives that dominated Indian equity markets in the past few quarters**

Sector	Narrative	Period of narrative	Comment/outcome
<b>Government reforms</b>			
Public sector	Privatization	2024	No progress despite a lot of hope before and after 2024 general elections
Public sector	Market prices of retail automobile fuels	Periodic	No progress
<b>General elections</b>			
Economy	100-day agenda	2024	No announcement after general elections
Judiciary	Judicial reforms	2024	Limited progress
<b>Investment/Manufacturing/China + 1</b>			
Manufacturing	Shift in manufacturing to India due to China+1	2021-25	EMS is the only noteworthy success; limited progress in autos, capital goods, chemicals, etc. so far
Manufacturing	Exports hub for listed MNCs	2021-25	Limited progress
Economy	India to relatively benefit from US reciprocal tariffs and will get favorable trade deal	Apr-25	Reciprocal import tariffs at 25% (plus 25% penalty) for Indian exports to the US are higher than those of competing countries
Economy	Private sector capex to recover	2021-25	Private sector GFCF/GDP broadly flat over the past few years (around 11% over FY2020-24)
<b>Market</b>			
Markets	Earnings recovery	2024-25	Steady cut in EPS for the past 5-6 quarters
<b>Sectors</b>			
Automobiles	Automobiles-electrification	2021-25	Pace of electrification has been weak
Capital goods	Elevated EBITDA margins of capital goods to sustain	2024-25	Profitability peaked in FY2024; margins down significantly since then
Capital goods-defence	Strong order inflow, indigenization in defense sector	2023-25	Steady progress in indigenization; disappointment in IAC-2 order
Construction materials	Cement companies will see improved profitability from consolidation	Ongoing	Companies have struggled to maintain profitability
Commodity chemicals	Competition unlikely to disrupt the moat of paints companies	2022-25	Loss of market share, deterioration in margins of incumbents
Consumer durables	Sharp increase in durables demand due to hot summer	2025	Summer saw weak demand due to unseasonal rains; broad volume weakness
Consumer staples	Green-shoots of recovery in demand for consumer staples	2023-25	Continued disappointment, despite positive commentary by select companies after every quarter
Electric utilities	Electricity deficit on strong electricity demand	2023-25	3% increase in electricity demand in FY2025 (5.4% CAGR over FY2023-25); 0.8% yoy increase in 8MFY26
IT services	IT sector demand recovery	2024-25	Demand slowdown has continued for the 4-5 quarters
QSR	QSR to see strong growth with no impact from food delivery	2023-current	SSSG has been quite weak
Telecom	Relief on AGR dues	2024	No progress despite periodic excitement/expectation in market

Source: Media reports, Kotak Institutional Equities

### Several PSUs trade at extremely high market caps relative to their profits, net worth or assets

Exhibit 15: Market cap. of select non-financial PSU companies versus their fundamentals, March fiscal year-ends, 2024-25

Company	Market cap. (Rs bn)	2024 (Rs bn)					2025 (Rs bn)						
		Revenues	PBT	Other income	PAT	Net worth	Gross block	Revenues	PBT	Other income	PAT	Net worth	Gross block
Bharat Dynamics	558	24	8	4	6	36	15	33	7	4	5	40	16
BHEL	925	239	2	6	3	249	73	283	7	5	5	247	77
Cochin Shipyard	407	38	11	3	8	50	14	48	11	4	8	56	36
Fertilizers & Chemicals Travancore	562	51	0	2	4	13	10	41	1	2	0	14	12
Garden Reach Shipbuilders & Engineers	281	36	5	3	4	14	8	51	7	3	5	21	8
Hindustan Aeronautics	2,978	304	102	19	76	290	126	310	109	26	84	350	135
Hindustan Copper	522	17	4	1	3	22	22	21	6	1	5	27	26
HUDCO	430	78	28	2	21	166	2	103	36	0	27	180	2
IRFC	1,586	266	64	0	64	492	0	272	65	0	65	527	0
IIcon International	153	125	102	19	9	59	10	108	9	4	7	63	18
IREDA	393	49	17	0	13	86	5	67	21	0	17	103	6
ITI	293	13	(6)	0	(6)	17	30	36	(2)	1	(2)	16	31
KIOCL	220	19	(1)	1	(1)	19	6	6	(2)	1	(2)	17	6
Mazagon Dock	1,001	95	24	11	19	56	13	114	31	11	24	79	20
NBCC	284	103	6	2	5	22	2	120	8	2	6	25	6
NHPC	818	96	50	18	36	387	340	104	48	16	30	397	359
NLC India	354	130	29	20	19	165	364	153	37	17	26	187	456
Rail Vikas Nigam	688	219	21	13	16	87	5	199	17	11	13	96	12
Railtel	109	26	3	1	2	18	25	35	4	1	3	20	29
SJVN	312	26	12	4	9	141	151	31	11	3	8	142	165

Source: Companies, FactSet, Capitaline, Kotak Institutional Equities

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This report has been updated since it was released in the India Daily of January 14, 2026.

## Ratings and other definitions/identifiers

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**BUY.** We expect this stock to deliver more than 15% returns over the next 12 months.

**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5+5% returns over the next 12 months.

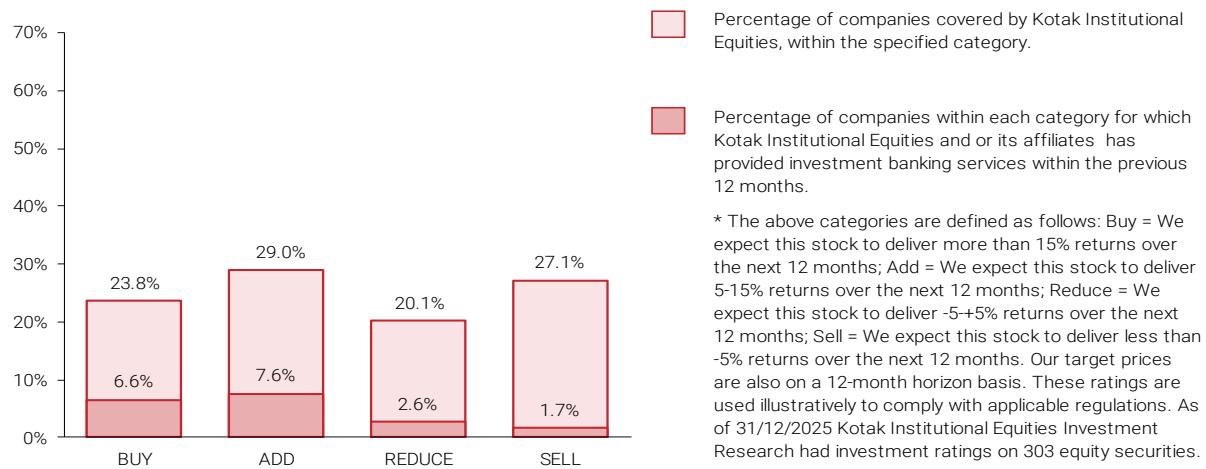
**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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