

Expect a market turnaround by H2FY26: Caprize Investment - smallcase Manager

- High-growth stocks looking attractively valued, set for an earnings re-rating cycle
 - High-growth sectors will be the key investment themes of 2025
- Discretionary, power, renewables, water treatment, manufacturing demonstrate strong earnings visibility and long-term growth potential

Bangalore, 6th March 25: Caprize Investment – a smallcase manager has released a press note on the key investment themes of 2025. The smallcase manager expects a turnaround in the market by H2FY26. The wealth manager is of the view that the high growth will be the key investment themes of 2025, with those stocks looking attractively valued, set for an earnings re-rating cycle.

Key Investment Themes and stock picks for 2025 include:

- **Discretionary Consumption (Value Retail, Jewelry manufacturers, Mid/premium Hotels) :** v2 Retail, Style Bazaar, Sky Gold, Samhi, and Kamat
- **Power (Transformers, transmission EPC) -** TARIL, Shilchar, and Rajesh Power
- **Manufacturing/ Make in India:** Garware Hitech and Vishnu
- **Renewables:** INA, KPEL, and Shakti Pumps
- **Water Treatment:** Ceinsystech

The focus remains on Discretionary consumption, which comprises value retail, jewelry manufacturers, and mid-to-premium hotel chains. The power sector also takes center stage with a strong focus on transformers and transmission EPC projects. Also, niche manufacturing and Make-in-India will continue to gain advantage through government policies and domestic consumption. Renewables, driven by a robust backward integration theme, will offer selective investment opportunities. Data centers, too, will see sustainable growth levers due to enhanced digital infrastructure requirements. In addition, water treatment is gaining importance as the need for sustainable solutions and water infrastructure rises.

Market Correction and Volatility Outlook

The current market correction/consolidation is likely to sustain as capital outflows continue over the next two quarters in absence of any new reforms. An earnings de-rating cycle will gain momentum, with Q2 and Q3 FY25 performance expected to reflect this trend. However, high-growth sectors with strong earnings visibility are likely to stabilize. As market estimates shift to FY27 post Q1FY26 numbers, we expect a turnaround post 2H FY26, with high-growth stocks looking attractively valued, setting the stage for the next earnings re-rating cycle.

Liquidity and Valuation Trends

Recovery in the market is dependent upon a major liquidity event. In past years, liquidity has indeed been plentiful; however, during the next two quarters, issues on this front will arise. Still, various high-growth stocks (25%+ year-on-year growth) are presently priced at 15-20x one-year forward multiples. When the market is consolidating, these multiple levels will begin looking more palatable on a FY27 base.

Sectoral Performance: Bullish and Bearish Outlooks

Sector-wise, some sectors are likely to lag behind because of numerous macroeconomic and sector-related issues. These are oil & gas, BFSI, auto, defense, railways, chemicals, consumer non-discretionary, and IT. On the other hand, discretionary consumption, power, manufacturing, renewables, data centers, and water treatment are likely to continue with growth and provide large-scale investment opportunities.

Piyush Mehta, smallcase Manager and CIO at Caprize Investment says, *“The changing market environment in 2025 holds challenges and opportunities alike. Short-term volatility can continue in the face of liquidity pressures and earnings normalization, but sectors like discretionary consumption, renewables, and niche manufacturing offer strong long-term potential. Strategic investors, prioritizing earnings clarity and valuation discipline, will be well equipped to ride out this fluid environment”.*

Strategic sectoral investments and long-term earnings growth remain as important as ever as we work through the risks of 2025. Macro-economic trends, liquidity levels, and shifts in valuation need to be watched very closely by investors to maximize portfolios in the new market environment.

About smallcase: smallcase is a leading provider of investment products & platforms for the Indian capital markets industry. Launched in 2016, its offerings across listed stocks, ETFs & REITs have served over 10 million individual investors till date. smallcase’s technology & platforms are used by an ecosystem of 250+ top financial institutions to offer portfolio exposures to their clientele. In 2023, smallcase entered the asset management space to develop index funds & ETFs as India’s only passive-only fund house.

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