

India: Structural attractions intact despite recent uncertainty

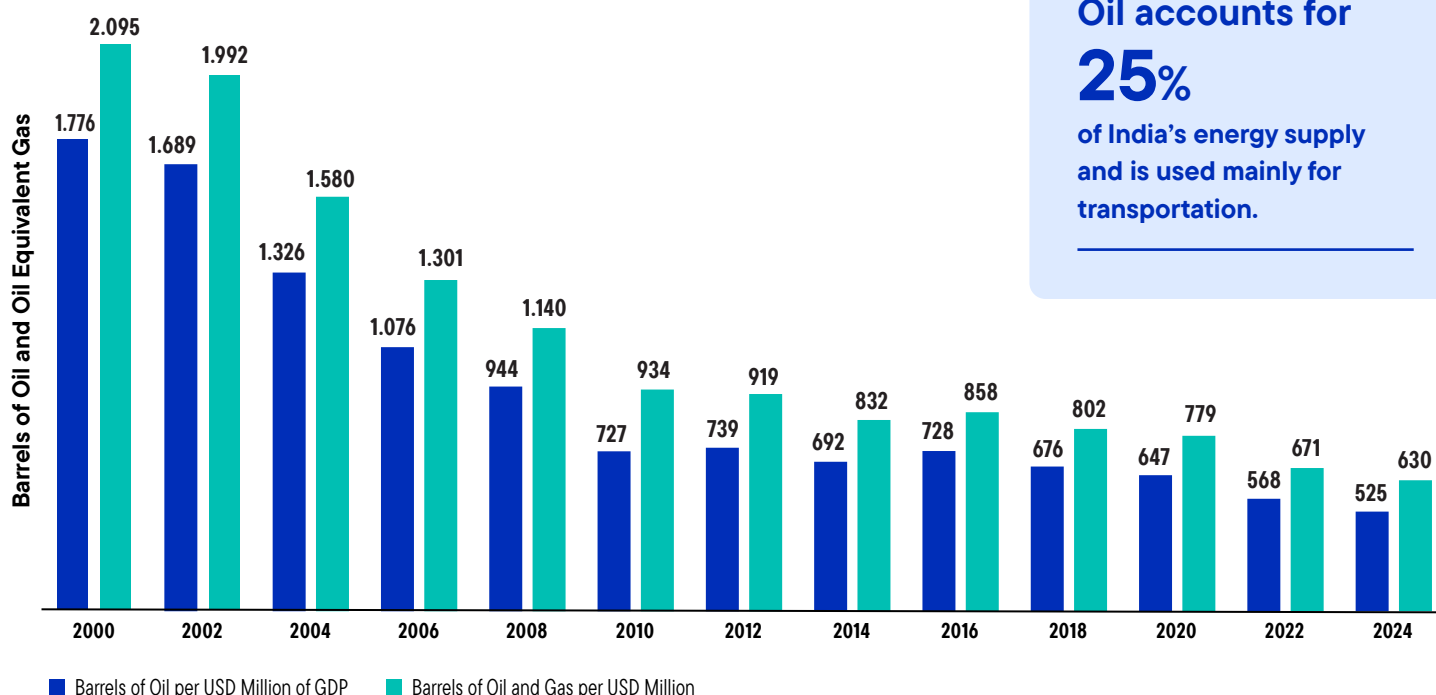
Executive summary

- Investment case: India's long-term equity story continues to be supported by reforms, resilient domestic demand, infrastructure investment and favorable demographics.
- Oil shock vulnerability is lower: Declining oil intensity, stronger FX reserves, improved policy credibility and more diversified crude sourcing leave India better positioned than in prior cycles.
- Valuations have reset: Following the 2025 correction, large-cap valuations have moved closer to long-term averages, improving the entry point for long-term investors.
- Recent weakness appears technical rather than fundamental: Foreign outflows, elevated IPO supply and energy-related concerns have weighed on sentiment more than any material deterioration in domestic fundamentals.
- Investment implication: We believe recent uncertainty should be viewed as an opportunity to build exposure selectively and over time through a phased, valuation-aware approach.

The US/Iran conflict has unnerved some investors in Indian equities, with many concerned about the risks higher energy prices pose to earnings, inflation and sentiment. However, investors should keep in mind that India's macroeconomic vulnerability is lower than in past cycles. India's oil intensity—a measure of how much oil is consumed per one unit of GDP—has structurally declined over time (see chart below), reducing the pass-through to growth.

India's Oil Intensity Has Consistently Declined over the Last Two Decades

India Oil Intensity—Barrels of Oil and Gas/Million \$ of GDP



The economy is better positioned than in prior shocks, with stronger FX reserve buffers, a more credible policy framework and a lower starting point for inflation. Additionally, a more diversified crude sourcing strategy enhances resilience to supply disruptions. India's reliance on imported crude is easing as renewables, efficiency and diversification cut oil's import share.

India is better equipped to absorb an oil shock than it was in the past. "Old India" was vulnerable because it faced imported crude shocks with weaker pricing flexibility, broader subsidy distortions and fewer strategic buffers. Today's India is still vulnerable, but boasts a more complex and resilient oil economy, which features market-linked petrol and diesel pricing, better-targeted LPG support, larger refining capacity, strategic reserves, supplier diversification and additional reduction in oil intensity through ethanol blending.

Structural growth backdrop

India entered 2026 with resilient domestic demand, policy reforms and rising investment. Domestic consumption remains broadly stable despite pockets of softness in discretionary purchases and high-ticket categories. Employment trends, particularly in technology services, are still holding up, supported by India's cost competitiveness and role in global delivery models. This underpins a durable domestic demand base alongside continued progress on reforms and infrastructure-led investment. Growth in formal employment creation accelerated to nearly 14% year-on-year in April–July of FY26, compared to about 12% in the previous year. And 67% of companies operating in India see a need to tap into more diverse talent pools to fill emerging roles, far above the global average of 47%, according to the World Economic Forum's Future of Jobs Report 2025.

A large, still growing working age population and ongoing urbanization support multi-year demand growth. As per capita income is expected to approach US\$4,500 by 2030, India is forecast to add hundreds of millions of new consumers who can afford premium housing, branded products, better health care, travel and financial services.

The world's largest youth cohort is entering its prime earning years as digital access, credit penetration and wealth effects are reshaping how India consumes. This points to a structural shift in consumption and the creation of new growth opportunities.

The investment case for India in 2026 centers on a structurally intact growth story driven by reforms, temporarily masked by energy related and fund flow driven volatility.

Near-term weakness in sentiment represents an attractive entry point for long-term capital.

Equity valuations appealing

After a valuation-driven correction in 2025, the forward price-to-earnings ratio (P/E) of the Nifty 50 has normalized toward long-term averages (~18x). The correction has reduced excesses across segments: large caps now screen as broadly fair value, while mid caps remain relatively rich and small caps continue to trade at a premium, albeit with pockets of structural growth opportunities. The reset in valuations improves the entry point for long-term investors. As shown in the chart below, current valuations (data through May 12, 2026) are compelling.

The Price/Earnings Ratio of the Nifty 50

2016–2026

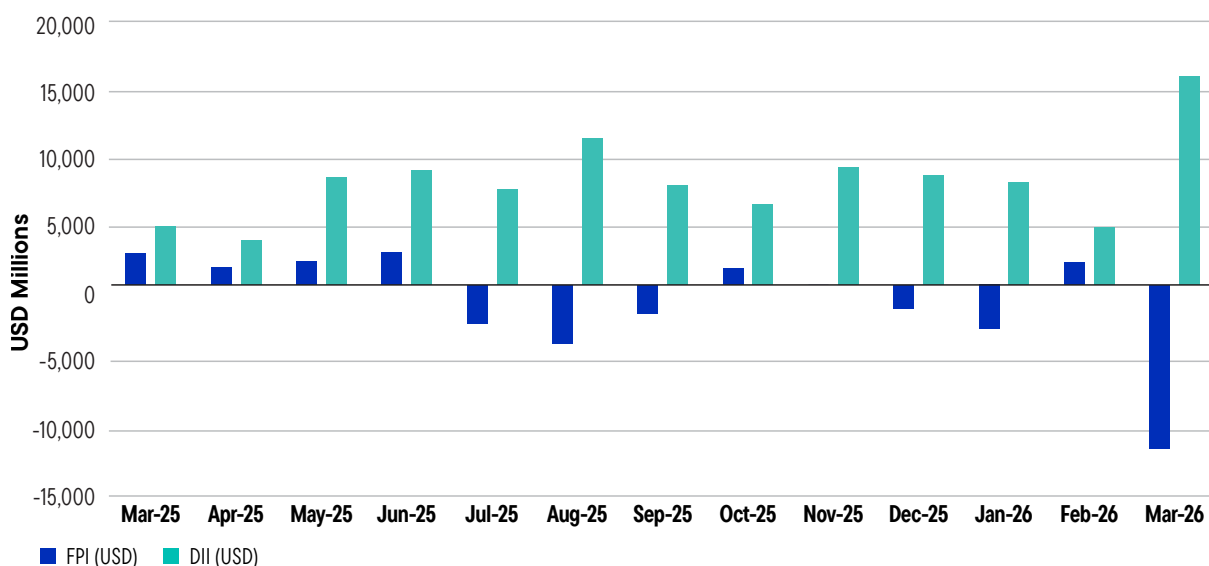


■ India NSE Nifty 50 – P/E Last 12 Months

Source: Motilal Oswal.

Recent equity market weakness reflects fund flows and energy supply concerns rather than deterioration in fundamentals. Equity market pressure has primarily been driven by foreign outflows and elevated primary issuance (record IPO activity), which absorbed liquidity. These effects have been partly offset by steady and growing domestic flows, particularly through systematic investment plans (SIPs), which continue to provide a structural support to the market. In contrast, foreign portfolio investors (FPIs) flows were sharply negative, with the escalation of the Iran conflict triggering another round of selling in March 2026.

Domestic Institutional Investors (DIIs) Have Provided Strong Support to the Market



Source: Kotak Institutional Equities Research.

Trade agreements and sector positioning

The India–US trade agreement reduces policy uncertainty and supports export visibility. Tariff reductions and closer economic cooperation are likely to improve sentiment and earnings visibility for export-oriented sectors, reinforcing India’s role within global trade networks and supply chains. After adjusting for imported inputs, currency effects and trade elasticity, it is estimated that the net positive GDP impact on India would be in the range of 0.15 to 0.30 percentage points annually.¹

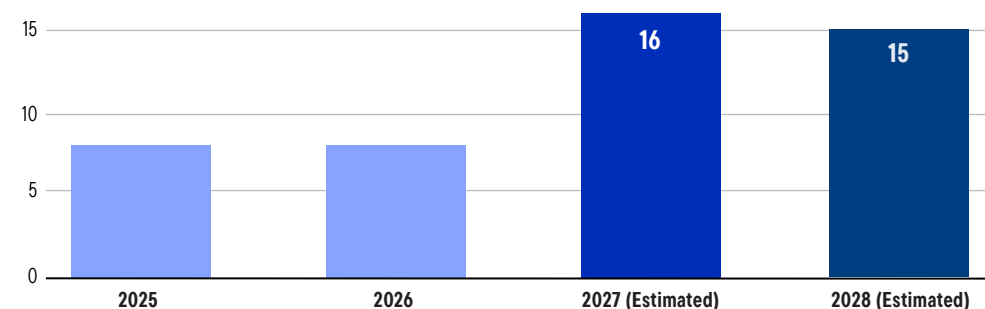
Additionally, India is a key beneficiary of “China+1” supply chain reconfiguration. The ongoing diversification of global manufacturing away from China continues to create structural opportunities for India. The country is particularly well positioned in technology services and regulatory-compliant pharmaceutical manufacturing, both of which align with US and global efforts to build more resilient supply chains.

Market drivers: Earnings, margins and return on equity

Near-term earnings face pressure, but the medium-term trajectory remains intact. Higher energy costs and macro uncertainty may lead to short-term earnings downgrades, with FY2026 earnings per share (EPS) growth expectations moderating. However, a recovery toward mid-teens EPS growth is expected in 2027, supported by financials, domestic demand and a normalization in input costs—assuming no prolonged disruption to energy markets.²

Nifty 50 Profits

India’s Nifty (% Change, YoY)



Note: Metals, auto, financials, telecom and technology to drive FY2027 earnings for Nifty 50 companies.

Source: Motilal Oswal.

1. Source: Fair Observer; [Deal Under Pressure: What India Really Gains from the Trade Agreement with the US](#).

2. Source: Franklin Templeton; [India outlook 2026: Earnings recovery, policy tailwinds and a resilient growth story](#).

Profitability reinforces India's structural valuation premium versus EM peers. Corporate profitability—measured through margins and return on equity (ROE)—remains relatively strong compared with both historical levels and emerging market peers. For example, corporate India reported a YoY expansion in operating profit margin in Q4 FY2025.³

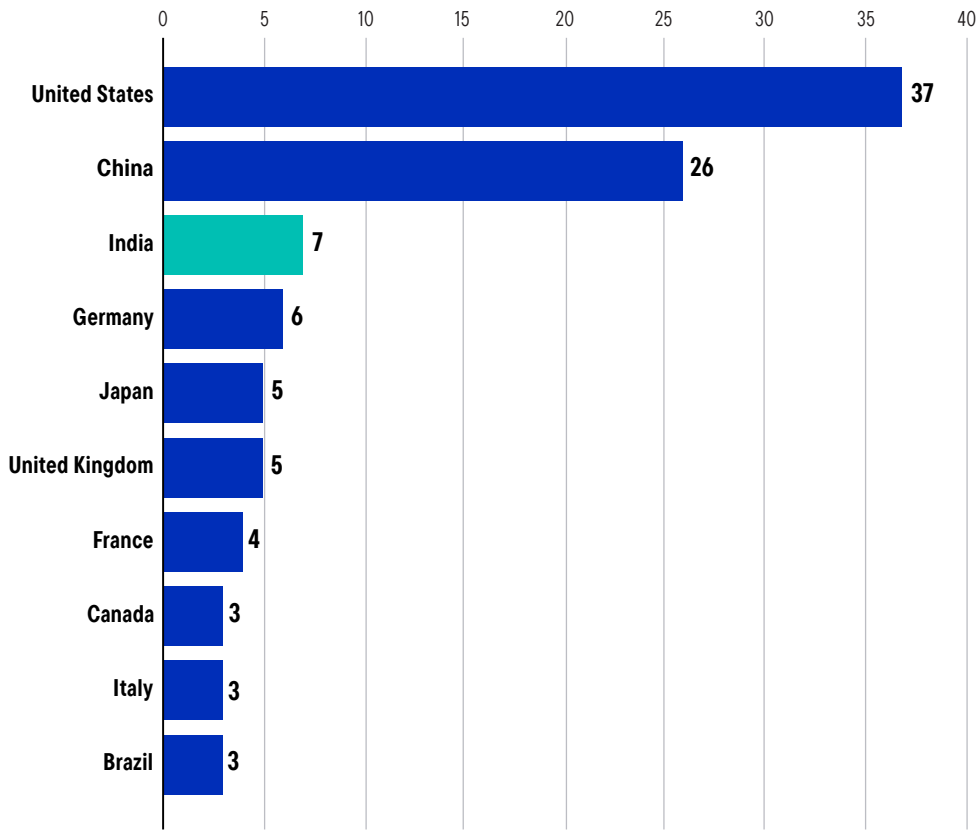
India has consistently delivered a structurally higher ROE compared to other emerging markets. India's 20-year average ROE is ~16.7%, significantly higher than most EM peers.⁴ This sustained profitability supports India's premium valuation multiples despite periods of market volatility.

Uncertainty = Opportunity

We believe that long term investors should consider viewing the current uncertainty as an opportunity to incrementally build exposure to Indian equities, given improving long-term risk-reward after the recent correction. The current valuations, even if one assumes that near-term earnings are impacted by the Iran crisis, offer the potential for attractive returns over a three-year period. A valuation-aware phased deployment of capital may help investors to navigate near-term uncertainty as well as gain exposure to the long-term opportunity.

India Projected to Become World's Third Largest Economy by 2030

GDP in Trillion \$



Source: BofA Global Research, International Monetary Fund (IMF) – All real GDP numbers in USD, May Ministry of Statistics & Programme Implementation August 2025 (Latest available data).

Beyond 2026: Growth drivers

Public infrastructure spend

India's federal government will spend a record 12 trillion rupees (US\$133 billion) on infrastructure in fiscal year 2027, an 11% annual rise.⁵

Stronger corporate balance sheets

Corporate balance sheets in India have undergone a significant turnaround, moving from a decade of high debt (post-2010) to their healthiest state in years by 2025–2026. Indian firms have aggressively deleveraged, reducing their debt-to-equity ratio from 0.62 in FY15 to 0.27 by FY25, while improving profitability and accumulating substantial cash reserves.⁶

Private capex cycle

After years of muted investment, private sector investment, often referred to as “India Inc.,” is now accelerating, driven by healthy balance sheets, improved capacity utilization and strategic alignment with global supply chain shifts. India's private sector capital expenditure rose 67% from one year ago, noted the Confederation of Indian Industry on May 10.⁷

3. Source: ICRA. <https://www.icra.in/Rating/DownloadResearchSummaryReport/6366>.
4. Source: Bloomberg, DSP Data as of August 2025. India's PE ratio is high, but it delivers high ROE and EPS growth | Jay Kothari, SVP-Equities posted on the topic | LinkedIn.
5. Source: India raises infrastructure spending by 11.4% to record 12.2 trillion rupees for 2026-27 | Reuters.
6. Source: Indian Institute of Management Bangalore; This chart shows a tale of two Indias. | Sandeep Jethwani.
7. Source: India's private capex jumps 67% to Rs 7.7 lakh crore in Sept 2025: CII unveils 5-point action plan – The Economic Times.

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