

India Market Update in a challenging global macroeconomic landscape

June 2025

Despite a challenging global macroeconomic landscape, marked by deflationary pressures in China and slower growth coupled with higher inflation expectations in major economies like the US, India stands out. The country is currently experiencing a period of "reasonable growth with low inflation" and "low interest rate volatility." This favorable domestic environment, contrasted with global difficulties, makes the current soft patch in Indian markets an opportune moment for significant investment

The Indian market saw a nearly 8% decline in the last quarter of 2024, a period when most major global markets were performing strongly. This divergence left many investors unsure about the right time to put their money into India. Now, with the global markets also turning cautious due to ongoing tariff disputes, it has further added to the reluctance.

As is often true, **pessimism in financial markets can signal the best buying opportunity, especially when underlying trends are robust and valuations are fair.** We held a neutral to negative short-term outlook on the Indian market since mid-last year, driven by the tight fiscal and monetary conditions within the country. Our expectation was for either a price correction, a time correction, or a combination of both.

However, we changed our stance to positive in March 2025. We believe the price correction is complete, though the time correction might extend for a few more quarters. This current scenario presents **an excellent opportunity for investors who haven't yet participated in the Indian equity markets.**

In this update we put forward our key observations in this regard.

- N Valuation correction is over**
- N Absence of Triggers for large correction**
- N Strong domestic flows insulates**
- N Market history supports buying now**



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Valuation Correction is over

The long-term valuation range for the **Nifty 50** has narrowed over the past decade, now typically fluctuating between **20x and 24x** on a trailing twelve-month earnings basis, down from its earlier range of 18x to 26x. This reduction in the valuation multiple aligns with the decreased volatility observed in most Indian macroeconomic variables and markets over the last 8-10 years. In September 2024, the Nifty was trading at the higher end of this compressed range, at **24.2x**. However, this elevated valuation was fully corrected when the Nifty experienced a decline in early April, bringing its **Price-to-Earnings (PE) ratio down to 19.7x**.



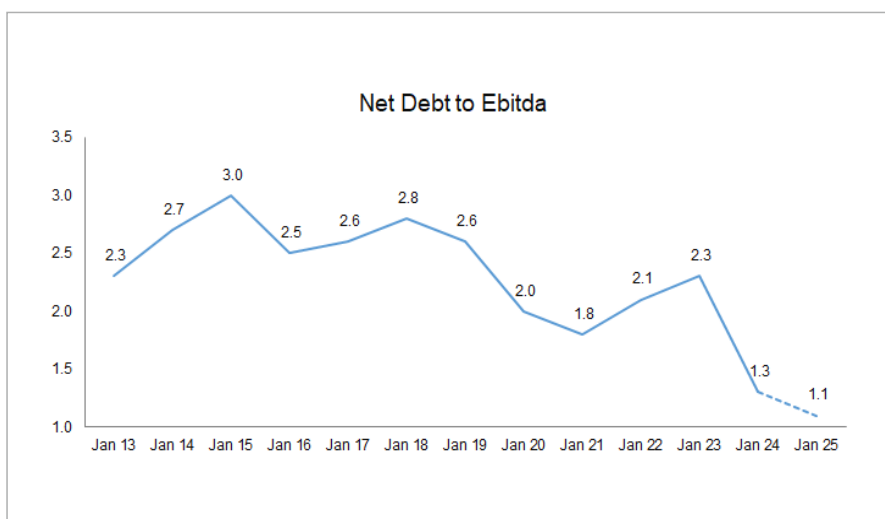
Nifty 50 TTM PE since covid spike has been in the range of 20x-24x. Spikes in the middle are on account of Covid disruption to earnings

Also now **Indian equities are available at 5% earnings yield with secular growth ahead versus 10-year bond yield of 6.2%.**

Absence of Triggers for large correction

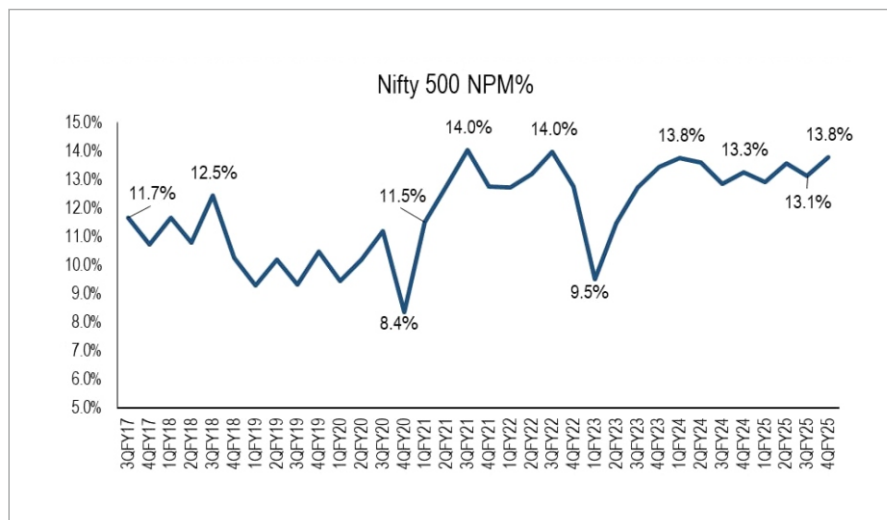
Historically, significant price corrections in Indian markets have consistently stemmed from one of three factors: **investor leverage, corporate leverage, or a decline in corporate profitability.**

Presently, thanks to consistent regulatory oversight over the past two to three years, investor leverage in the market is not substantial. Concurrently, Indian corporates have reduced their debt significantly, with leverage positions (high debt components) on their balance sheets reaching multi-year lows.



Net Debt to Operating profit of Indian companies since 2013

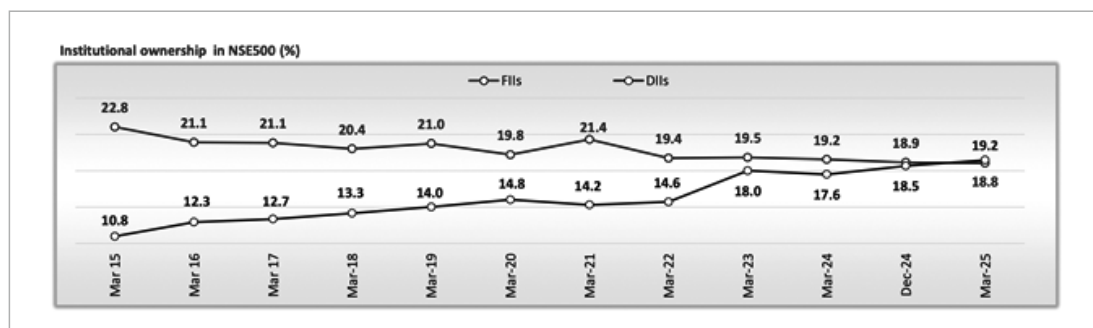
Additionally, even though earnings growth has decelerated over the past few quarters, Indian corporates have impressively maintained strong profit margins.



Net profit margin of top 500 companies of Indian since 2017

Strong domestic flows insulates

Over the past decade, Indian stock market participation by domestic retail investors has surged significantly. By March 2025, for the first time ever, domestic institutional investors (DIIs) surpassed foreign institutional investors (FIIs) in ownership. FII ownership in the Nifty-500 fell to a low of 18.8%, while DII ownership reached a record high of 19.2%. Looking at the free float, FIIs' share dropped to an all-time low of 37.3%, whereas DIIs' ownership climbed to 38% in March 2025.



These substantial domestic inflows have acted as a significant buffer against the uncertainties of global capital movements, offering an extra layer of protection to Indian equities when worldwide markets face turmoil. Furthermore, these retail investments boast an average holding period of 36 months, a remarkably long duration for any investor class globally.

Market history supports buying now

Over the last ten years, the Nifty has experienced a correction of 10% or more ten times, averaging out to one significant correction annually. However, this average can be deceptive; for instance, 2017 saw no major pullbacks, while 2018 had two.

The average magnitude of these ten corrections stands at 15.1%, with swings ranging from just over 10% to more than 37%. The COVID-19 crash was a considerable outlier. Excluding it, the average correction drops to a more typical 11-12%.

The recent correction of 15.7% in Nifty from high of 26216 to low of 22082 is much in line with Nifty's behaviour of average declines.

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Period	Nifty Return in Past 10 Corrections	Period	Nifty Return in Past 10 Corrections
Mar 15 - Sep 15	-16.0%	Oct 21 - Dec 21	-10.1%
Sep 16 - Dec 16	-11.6%	Jan 22 - Mar 22	-13.4%
Jan 18 - Mar 18	-10.2%	Apr 22 - Jun 22	-14.9%
Aug 18 - Oct 18	-14.6%	Dec 22 - Mar 23	-9.9%
Feb 20 - Mar 20	-37.0%	Sep 24 - Apr 25	-12.6%

Amidst global geopolitical and geo-economic uncertainties, **India remains a significant beacon of growth.** Its trajectory is primarily shaped by internal factors rather than external ones. **With its favorable demographics, stable fiscal position, and low volatility in both inflation and interest rates, India continues to present the best long-term opportunity for investors.**



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