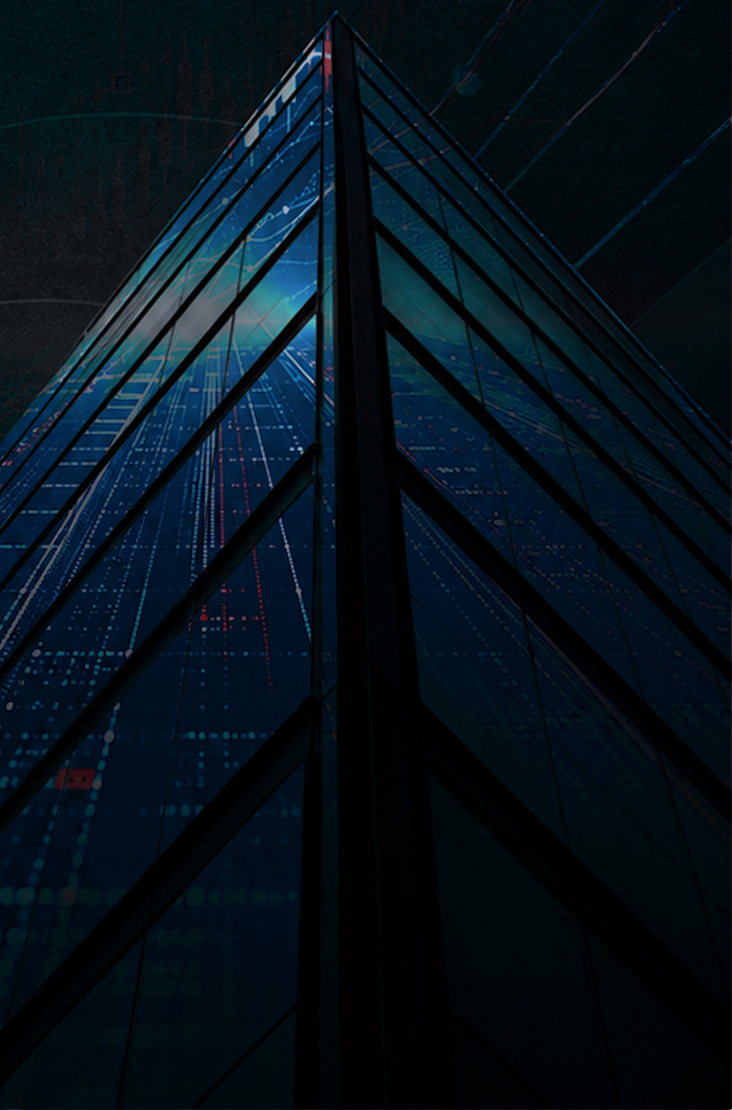
Narnolia®

INVESTMENT PERSPECTIVE

August 2026

The Next Phase of Growth Begins

Earnings Recovery
Stronger Fundamentals
New Opportunities



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Narnolia Velox Advisory Ltd.- SEBI Registration No:
PMS : INP000009995 | Category III AIF : IN/AIF3/14/15/0116

Market Overview

July 2026 extended the market's recovery into a second consecutive monthly gain, with the **Nifty rising 2.36% to 24,383** despite renewed Middle East tensions and elevated crude prices. **India VIX declined nearly 16% to 11.75**, signaling a return to a more constructive risk environment. Participation broadened, with Midcap 100 and Smallcap 100 gaining 2.1% and 2.5% respectively. Sector leadership rotated toward IT — the **Nifty IT index surged 17%** on stable margins and strong deal wins — while Consumer Durables (+10.2%), Auto (+9.0%) and Realty (+9.0%) led domestic sectors, alongside Capital Goods and Utilities.

Institutional Flows

FPI outflows decelerated sharply to just **Rs. 5,779 crore**, a marked easing from June's heavy selling, while **Domestic Institutional Investors provided a powerful liquidity buffer with over Rs. 35,000 crore** in net buying — underscoring the durability of the domestic savings-into-equities structural theme.

Earnings Trajectory

Q1FY27 earnings are validating the transition from an earnings trough to a broader recovery, with domestic demand, financials and autos leading the upcycle. Aggregate sales growth of **20.1% YoY** reflects robust top-line momentum, led by sectors linked to domestic investment, manufacturing, infrastructure and financial services, though Nifty 50 net profit growth has moderated to around **12% YoY** as rising input costs pressure margins. IT and oil-sensitive sectors remain pockets of weakness.

Our Outlook

Having validated our thesis that the **price-time correction which began toward the end of 2024 has run its course**, we expect Indian equities to undergo a 3–4 quarter base-building phase, followed by a stronger earnings recovery and renewed price momentum. We believe risk during this consolidation phase is increasingly skewed to the upside, with the **Nifty likely to revisit and surpass its previous all-time highs** in the near term.

Investment Cycle

Investment activity is accelerating meaningfully. We estimate annualised capex during FY27–FY30 to be around **58% higher**, averaging Rs. 31–33 lakh crore annually versus Rs. 20.3 lakh crore during FY21–25, with **private-sector capex expected to increase by around 65%** — providing a powerful foundation for the next investment cycle.

Trade Tailwinds

The benefits of the multiple FTAs signed by India over the past two years are expected to become increasingly visible. The **India–EU FTA**, expected to come into force in early 2027, could materially boost FDI inflows, exports and broader economic activity, further strengthening India's medium-term growth outlook.

Portfolio Positioning

Our portfolios have delivered strong returns over the past four months, validating our **Quality-Growth investment philosophy.** India remains a strong structural investment story, and the recent price-time correction has created an attractive window to increase allocations to Indian equities and participate in the next phase of earnings and market growth.

KEY TAKEAWAYS

- **Nifty rose 2.36% to 24,383** in July — a second straight monthly gain despite Middle East tensions and elevated crude.
- **India VIX eased ~16% to 11.75,** signaling a return to a more constructive risk environment.
- **Nifty IT surged 17%;** Consumer Durables, Auto and Realty led domestic sector gains (+9–10%).
- FPI outflows decelerated sharply to **Rs.5,779 crore** while DIIs bought over **Rs. 35,000 crore**.
- **Q1FY27 earnings** validate a broader recovery — revenue growth of **20.1% YoY,** profit growth ~12% YoY.
- **FY27–30 capex** projected ~58% higher at ₹31–33 lakh
- **India–EU FTA** (effective early 2027) expected to boost FDI, exports and the medium-term growth outlook.

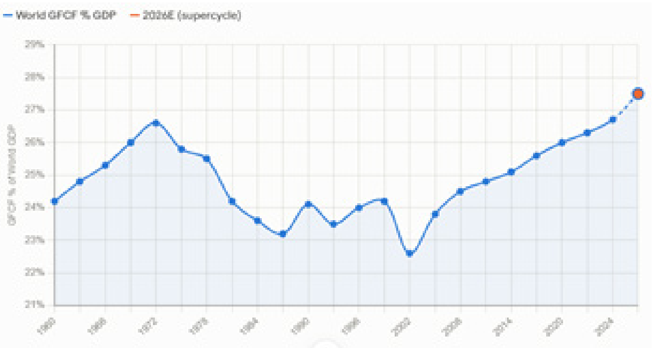
24,383
NIFTY 50 CLOSE · **+2.36% MOM**

Rs. 35,000+
DII NET BUYING · JULY 2026

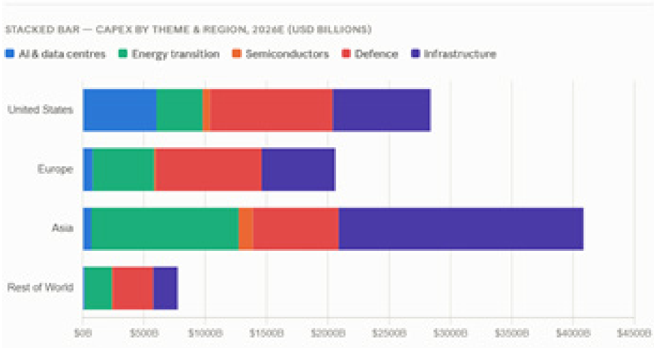
GLOBAL CAPEX SUPERCYCLE

World investment enters a structurally higher, longer cycle — led by Asia

The world is moving through a broad-based capex up-cycle. Global gross fixed capital formation is on track to reach ~27.6% of world GDP in 2026 — the highest share since the early 1970s — as AI infrastructure, energy transition, defence and manufacturing reshoring investment stack on top of one another. Asia leads by a wide margin, followed by the US, Europe and the rest of world.



World GFCF as % of GDP, 1960–2026E



Capex by theme & region, 2026E (USD bn)

WHERE THE CAPITAL IS GOING

Broad Infrastructure	Energy transition	Defence	Manufacturing reshoring	AI & data centres	Semiconductors
$4.4T	$3.3T	$2.89T	$1.4T	$765B	$200B
Annual global infra spend, 2024 (PwC)	Total global energy investment, 2025	Global military spending, 2025	US mfg facility announcements, Jan 2025–Mar 2026	Goldman Sachs AI capex estimate, 2026	Global chip industry capex, 2026E
Rising to $6.9T by 2050 · $106T needed through 2040	Clean energy $2.2T · EVs $893B · Grids $550B · Storage $100B+	11th consecutive record year · Europe +14% · US: $1T+ in 2026	Semis, pharma, EVs dominant · Megaproject pipeline >$3T	Hyperscaler 5 combined: ~$720B · Grows to $1.6T by 2031	TSMC $64B · Samsung $73B · WFE equipment $144B

India Entering A Structurally Higher Capex Cycle

India's industrial capex is stepping up to an estimated ~INR 31.1 lakh crore over FY27–FY30 — a 58% increase over the prior cycle, driven jointly by public and private investment. The composition has shifted with each cycle: FY15–19 was dominated by legacy and repair capex, FY21–25 was recovery- and PLI-oriented, and FY27–30 is oriented toward green energy and high-tech scale-up.

Sources: PwC Global Infrastructure Outlook (2024); global energy investment tracking (2025); SIPRI defence spending (2025); Goldman Sachs AI capex estimates (2026); Figures are estimates and subject to revision. For internal / distribution use — not investment advice.

Portfolio Update

Our Category III AIF portfolio delivered a strong performance during the period, generating a return of 2.1% inline with the Nifty's gain of 2.2%. Across strategies, our Large Cap portfolios returned 2.8%, outperforming the Nifty 100 Index, which advanced 2.3%. Our Multi Cap strategy gained 3.3% versus the Nifty 500 Index return of 2.0%, while our Mid & Small Cap strategy delivered a robust 5.3%, significantly ahead of the Nifty MidSmall 400 Index return of 1.4%.

Narnolia Funds

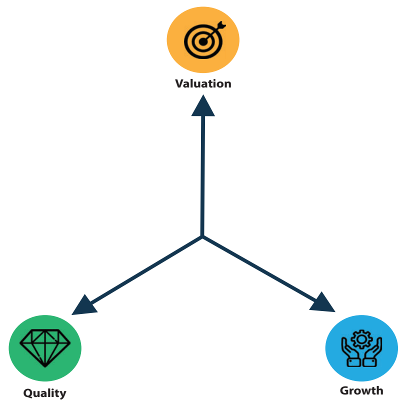
Our investment approach is rooted in the Quality-Growth style. This dual emphasis on quality and growth enables steady long-term capital compounding with controlled downside risk. We select portfolio companies whose underlying businesses possess strong competitive advantages, high-quality management, and an industry structure conducive to predictable, profitable growth and possibility of multiple long-term business up-cycles. We invest in and hold these companies during periods when they are growing significantly faster than the broader market and are available at valuations that offer substantial upside.

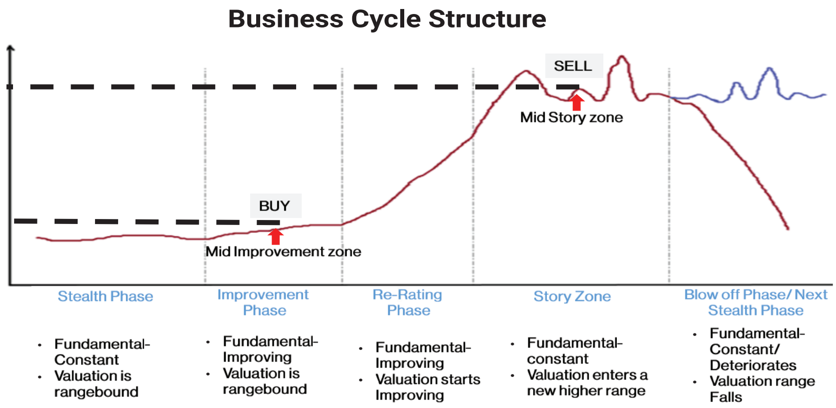
Growth in Value

Our investment philosophy is implemented through two structured frameworks. Through rigorous fundamental research, we identify quality companies positioned for multi-cycle robust growth - we call this “Growth in Value”

Zone of Linearity

We pinpoint where companies stand in their business and market cycles to invest during phases of sustained, above-market growth—what we term the “Zone of Linearity.”





For stock case studies, refer Appendix at the end of the document

Equity Focussed India Fund House

Transformative change in the Indian economy and businesses is driving superior returns.After stagnating at merely 1% of global GDP until the early 1990s, India’s economy has surged to 4% and is poised to reach double digits, driven by favorable demographics, macroeconomic stability, and deep managerial expertise. Our superior 15-year performance is built on a differentiated investment approach that balances high-growth capture with disciplined risk controls.

Shared Investment Philosophy and processes

Investing exclusively in high-quality companies during their growth phase enables steady capital compounding, mitigates downside risk, and eliminates behavioral biases. Our investment philosophy is grounded in our leadership’s deep observational understanding of the evolution of Indian businesses over the past four decades. Long-established institutionalised processes, supported by a homegrown team with shared cultural and philosophical alignment in research, stock selection, and fund management, enable us to maintain a high level of discipline.

Deep Understanding of Indian businesses and businessmen

Over time, we have developed robust financial, business, and decision-making models covering a wide universe of high-quality Indian companies, with each model typically refined through about 40 iterations. We rigorously track over 10,000 quarterly business events and key management developments, combined with frequent management interactions. For the past 30 years, we have analysed and engaged with companies ranging from small unlisted firms to large Indian conglomerates across diverse economic cycles.

Focussed on High Absolute gains opportunity

We maintain focus on multi-cycle structural growth stories, investing exclusively in high-quality companies whose investment thesis is founded on exceptional management acumen and robust business opportunities. We invest exclusively in companies identified through our Quality-Growth framework that offer compelling absolute valuation upside, maintaining concentrated positions to drive active performance. Through our ethical and disciplined approach, we have served our esteemed clients over many years with a high degree of success