India Avenue

IA QUARTERLY INSIGHTS

AUGUST 2026



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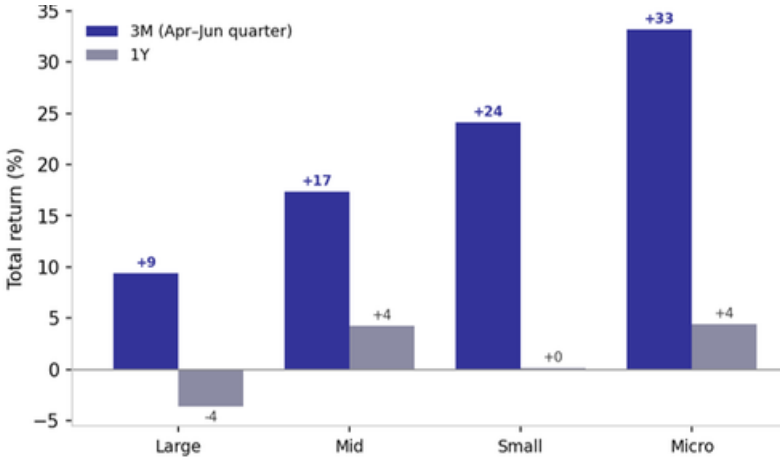
01

Indian Market Rebound

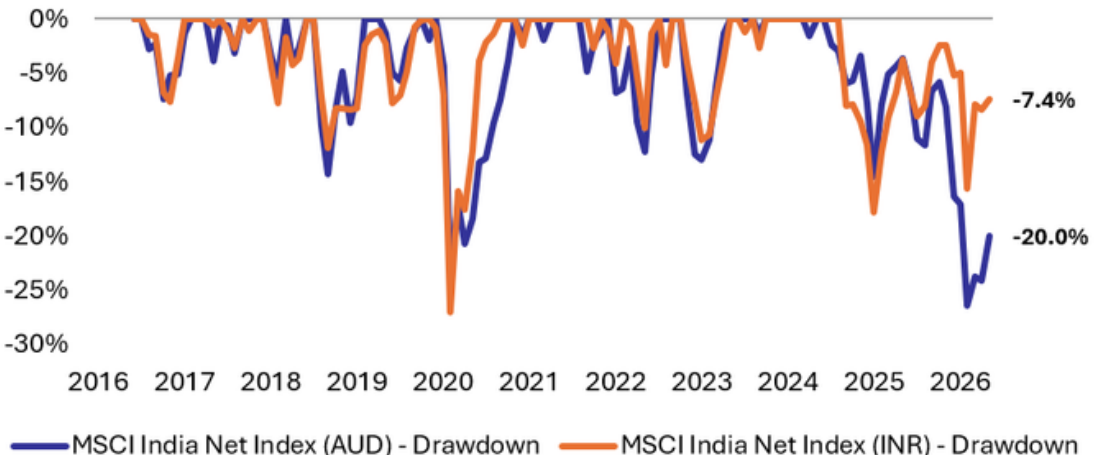
Overview

At first glance, the June quarter appeared to mark a decisive recovery for Indian equities. The MSCI India Index advanced 10% in INR terms over the three months to 30 June, led by strong gains in the mid and small/micro-cap segments.



Source: Nifty. Data as of 30/06/2026

Market volatility retreated sharply from its March peak, oil prices normalised, and the market's forward earnings multiple re-rated from approximately 18.2x to 19.9x. Despite this rebound, Indian equities remain 7.4% below their previous peak in INR terms and 20% below their peak in AUD terms.

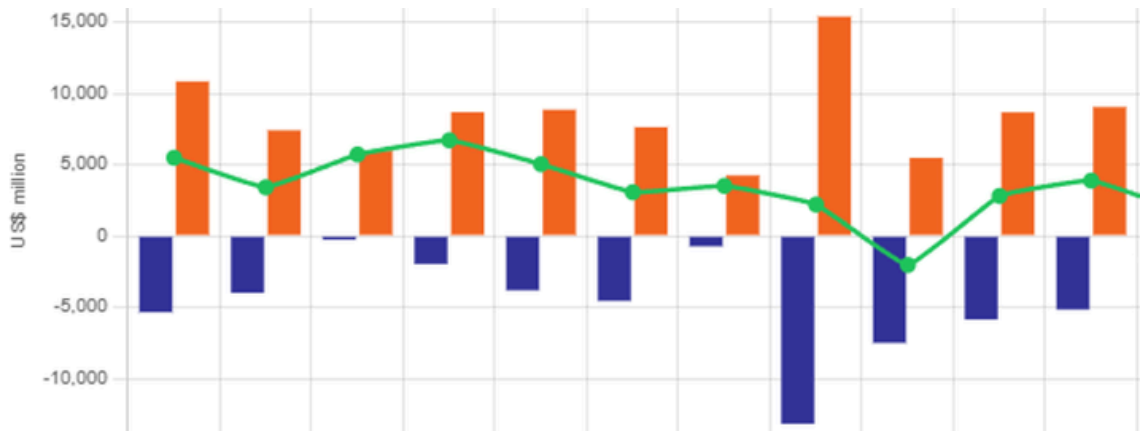


Source: MSCI. Data as of 30/06/2026.

Beneath the headline performance, however, market dynamics remain more nuanced. Foreign investors continued to reduce their exposure to Indian equities, while sector movements were still largely dictated by macro factors rather than company-specific fundamentals.

02 Domestic and Foreign Flows

The resilience of the market has been driven almost entirely by domestic institutional investors. Foreign investors were net sellers of Indian cash equities in every month across the eleven months to June 2026, including net outflows of approximately US$5.2bn in June alone. Domestic institutions more than offset this selling, purchasing a net US$9.0bn during the month. This support continues to be underpinned by the strength of India's systematic investment plan (SIP) ecosystem, with monthly SIP inflows reaching a near-record high. Meanwhile, a widely followed offshore flow tracker estimates that around 60% of the foreign capital raised by India-dedicated funds during the 2023–24 fundraising cycle has now been redeemed (equivalent to roughly US$12 billion of the original US$20 billion), with the majority of those outflows occurring during 2026.



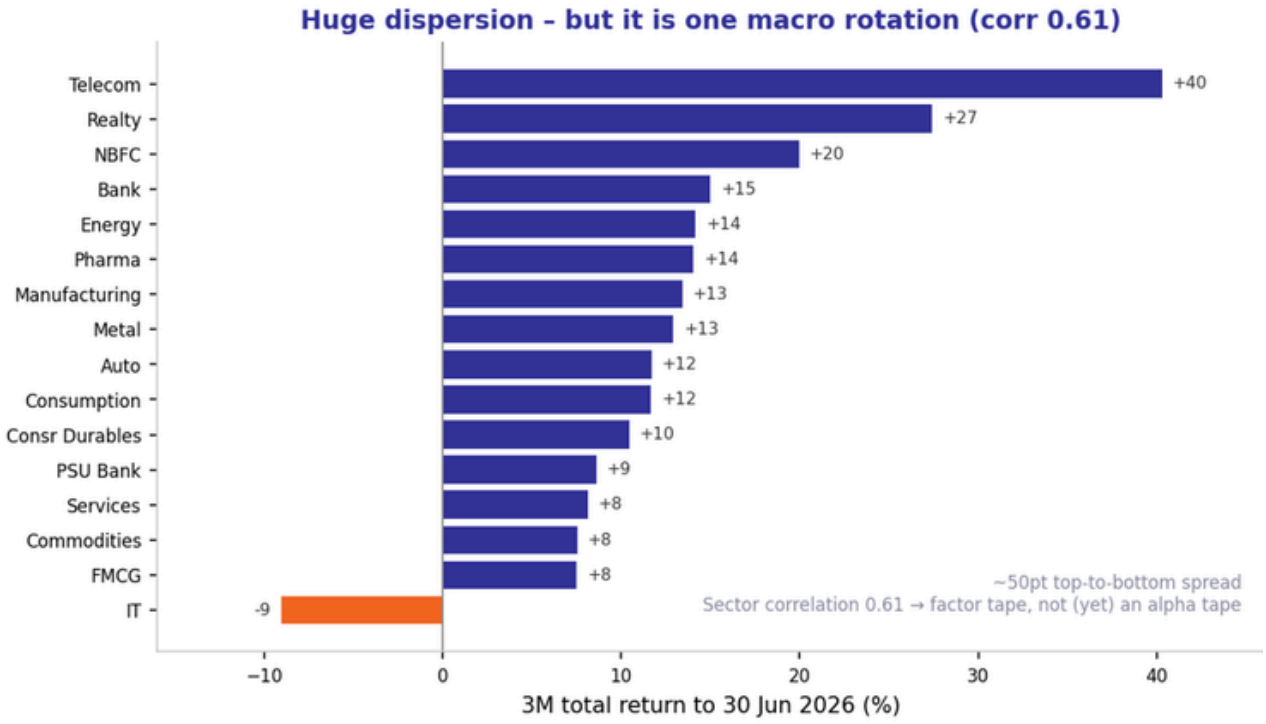
Source: NSE/BSE/CDSL. Data as of 30/06/2026.

03 Sector Dynamics

Performance dispersion across sectors was exceptionally wide during the quarter. Telecommunications gained around 40% over the three months, while Real Estate advanced 27%, compared with a decline of approximately 9% for Information Technology, a spread of almost 50% between the best and worst performing sectors. In most market environments, this level of dispersion would provide fertile conditions for active stock selection.

However, sector correlation remained elevated throughout the quarter, indicating that returns were driven predominantly by a single macro rotation rather than a broad-based reassessment of company fundamentals. Investors rotated aggressively into interest rate-sensitive sectors (including Real Estate, Consumer Durables and Banks) in anticipation of further policy easing, while defensive sectors lagged.

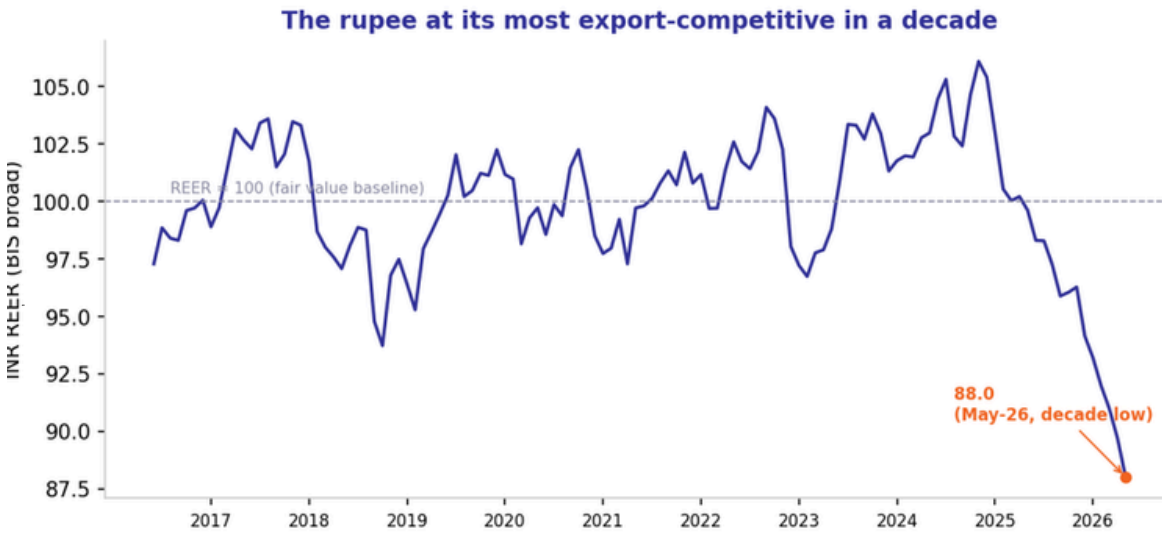
The combination of high dispersion and high correlation characterises a factor-driven market rather than an alpha-driven one. IT sector's performance was an outlier due to fluctuating sentiments around AI disruption globally throughout the quarter. This was a unique environment where performance is determined more by exposure to the prevailing macro theme than by superior bottom-up stock selection, limiting the breadth of opportunities available to active managers despite the significant variation in sector returns.



Source: Nifty. Data as of 30/06/2026.

04 Currency Impact

The rupee's real effective exchange rate declined to 88.0 in May, its most competitive level for exports in over a decade, reflecting weakness against a resilient US dollar. This provides a meaningful earnings tailwind for export-oriented sectors such as IT services, pharmaceuticals and textiles. However, the weaker currency, combined with the US Federal Reserve's hawkish stance, also limits the Reserve Bank of India's flexibility to deliver further monetary easing at its August meeting. While a more competitive exchange rate supports exporters' profitability, it simultaneously reduces the scope for additional policy accommodation that investors in rate-sensitive sectors have been anticipating. **(Sultans of Swing?)**



Source: RBI. Data as of 30/06/2026.

The India Avenue Take

While the June quarter benefited from improving risk appetite and a reversal in currency headwinds, the path ahead is unlikely to be linear. Foreign investor participation is only beginning to recover, market leadership remains relatively narrow, and the upcoming earnings season will be a key test of whether recent optimism can be supported by underlying fundamentals. As a result, near-term market conditions may remain volatile.

That said, our long-term outlook for India remains firmly constructive. We continue to adhere to our disciplined investment process and view periods of market fragility as opportunities for patient, long-term investors to build exposure to a structural growth market at attractive valuations.

05 Insider Snippets: What Our Advisers are Saying

Overall Market Outlook

The current investment landscape in India is characterised by a significant structural transformation, where domestic resilience is increasingly acting as a buffer against global macro volatility. While external risks (specifically energy price fluctuations, geopolitical tensions in the Middle East, and shifting global liquidity) remain elevated, the internal economic engines are firing with notable strength. India's corporate profit-to-GDP ratio has reached record levels, supported by robust bank balance sheets and a visible recovery in credit growth across both retail and corporate segments.

The medium-term outlook remains constructive, with nominal GDP expected to recover to the 12–12.5% range. Although the market has faced a period of consolidation and foreign portfolio outflows, valuations have returned to near 10-year averages, creating what is viewed as a favourable risk-reward entry point for long-term capital. The overarching consensus suggests that India is transitioning from a momentum-led market to a "stock-picker's market," where alpha will be generated through identifying individual businesses capable of 15–20% earnings growth, even if aggregate index returns remain more modest.

The Manufacturing and Export Catalyst

A primary pillar of the growth outlook is the impending manufacturing boom, which is expected to become a dominant economic driver within the next three years. This shift is being catalysed by the global "China + 1" strategy and a concerted government effort to integrate India into global supply chains through Productivity Linked Incentive (PLI) schemes and Free Trade Agreements (FTAs). These trade agreements are projected to expand India's export connectivity from a mere 11% to approximately 60%, putting the nation on par with export powerhouses like Vietnam and Japan.

This industrial resurgence is being spearheaded by Foreign Direct Investment (FDI), most notably from Japan. Observations of Japanese firms indicate a "cult-like" entry pattern, where anchor corporations are followed by their entire vendor ecosystems, including logistics and real estate partners. Southern and Western India are identified as the primary beneficiaries of this trend due to their superior port infrastructure and educated labour pools.

Sectoral Convictions: The "Anti-AI" Trade and Financials

There is a unified view that the Indian IT services sector has been unfairly penalised by a global narrative suggesting that Artificial Intelligence (AI) will render traditional services

obsolete. On the contrary, the consensus is that enterprise-level AI adoption cannot propagate without human implementation, customisation, and agnostic service layers – tasks for which Indian IT firms are uniquely positioned. This "anti-AI" trade presents an opportunity to acquire high-quality, cash-generative businesses at valuations that already price in significant disruption risks.
In the financial sector, the focus is shifting toward "recapitalisation" stories and insurance. The insurance industry, despite recent regulatory confusion, is viewed as a generational growth play that is currently trading at attractive levels (approximately 1.5x book value) in an underpenetrated market.

Thematic Shifts: Premiumisation and Infrastructure

The domestic consumption story is undergoing a pivot toward "premiumisation". Aspirational spending (reflected in high-end retail, luxury malls, and aviation) is growing at twice the velocity of baseline consumption. For instance, the aviation sector is benefiting from a massive expansion in airport capacity, creating a multi-year growth runway for dominant carriers.
In infrastructure, while there is interest in the rollout of data centres and renewable energy, there is a shared cautionary note regarding capital-heavy segments that mirror the historic risks of the power sector, such as high water and energy demands. Consequently, the preference remains for niche industrials and chemical companies that serve the global energy value chain.



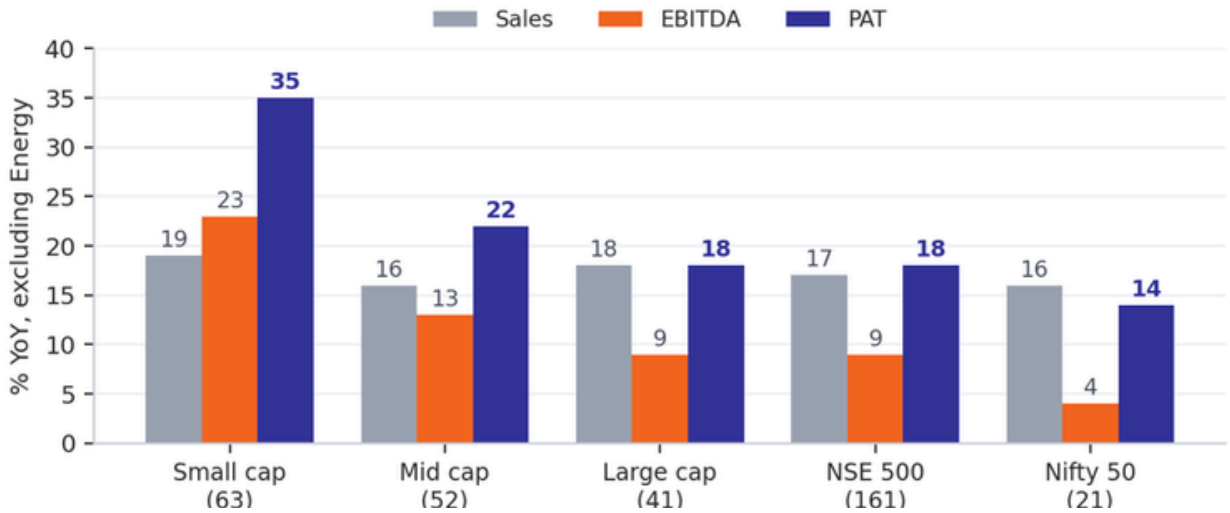
06 June Quarter Earnings Summary (Q1 FY27)

Revenue and Earnings Growth

The June quarter was a reflation quarter rather than one defined by weak demand. Higher energy, freight and commodity costs lifted revenue growth above 20%, while pricing power, inventory drawdowns and cost pass-through largely preserved margins despite softer cost conditions. The earnings pressure was driven primarily by input costs rather than weakening demand, which implies profitability can recover mechanically as commodity prices normalise, even without an acceleration in end-demand. Brent crude has already retreated from above US$100/bbl on 23 July to around US$88/bbl by month-end.

At first glance, India's June-quarter earnings appear underwhelming. Among the 211 companies that had reported by 31 July, aggregate profit rose just 2% year-on-year. However, the underlying picture is considerably stronger. Consensus had expected profits to decline by around 10%, with almost the entire drag attributable to the state-owned oil marketing companies, whose fuel-marketing economics were severely impacted by elevated crude prices, swinging from a ₹162 bn profit to a ₹181 bn loss (~ US$1.9 bn). Excluding these companies, profit growth improves to 17%, comfortably ahead of the 13% expected by the market.

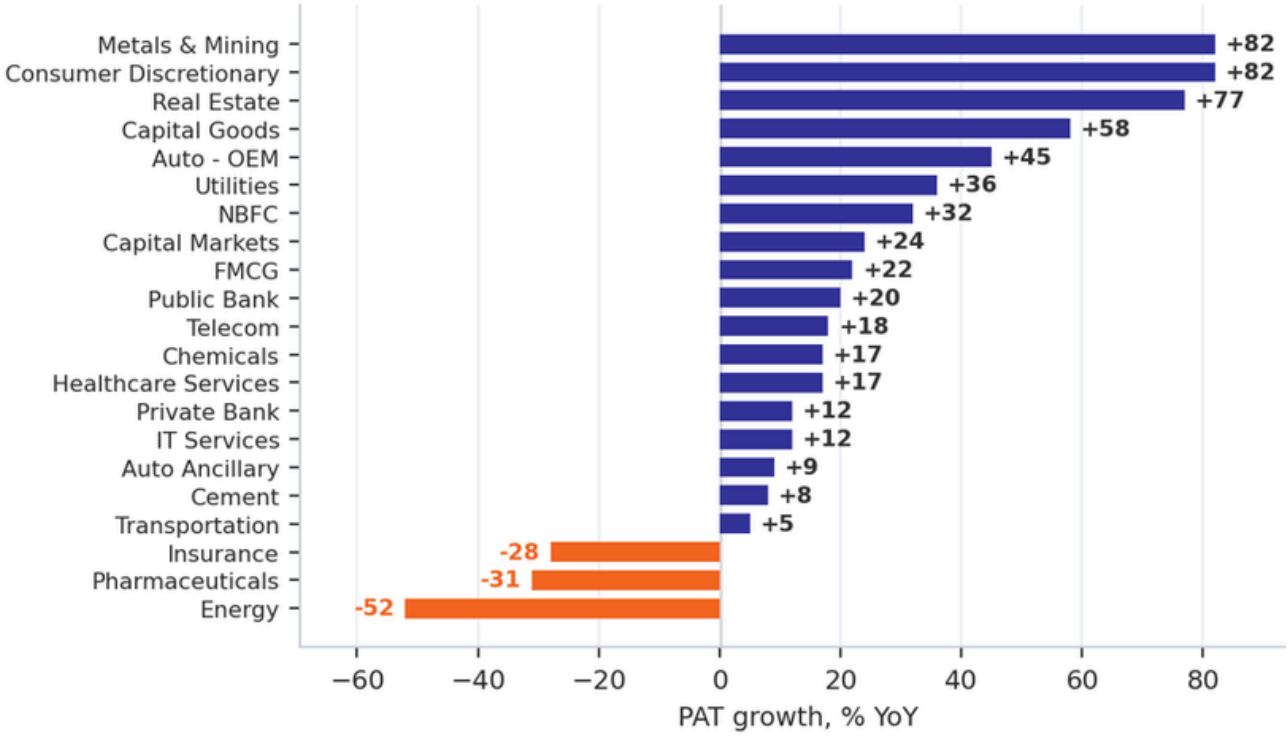
A separate sample of 167 NSE 500 companies reinforces the same conclusion. Reported revenue increased 23.0% year-on-year, EBITDA was broadly flat (-0.3%), and profit after tax (PAT) rose 4.6%, with the Energy sector disproportionately weighing on aggregate results. Excluding Energy, revenue, EBITDA and PAT growth improve materially to 17.3%, 9.5% and 17.9%, respectively. More importantly, earnings strength is becoming increasingly broad-based, extending beyond the largest companies and down the market-cap spectrum.



Q1 FY27 sales, EBITDA and profit growth by segment, Source: Elara Capital, Motilal Oswal. Data to 30 July 2026.

Revenue growth has been broadly consistent across the market-cap spectrum, but profit conversion has not. The mid-cap segment illustrates this most clearly, with reported profit growth improving from -24% to +22% once the state-owned oil marketing companies are excluded, reflecting the concentration of these companies within the mid-cap universe. This reinforces the same shift in the profit pool towards smaller companies seen in the full-year FY26 results, where Nifty 500 earnings grew 13.1% compared with 27.2% for the Nifty Smallcap 250. Two separate reporting periods reaching the same conclusion strengthen the case that the valuation premium commanded by smaller Indian companies is being supported by superior earnings delivery rather than investor enthusiasm alone.

The underlying quality of the earnings season also remains encouraging. Earnings beats outnumbered misses by more than two to one (49% versus 22%), while analyst upgrades exceeded downgrades by a ratio of 1.6 to 1. At the same time, FY27 Nifty earnings per share estimates remain broadly unchanged, suggesting the stronger-than-expected results have been absorbed into expectations rather than triggering a broad-based upgrade cycle.



Q1 FY27 profit growth by sector, NSE 500 companies reported. Source: Elara Capital, Motilal Oswal. Data to 30 July 2026.

Sectoral Highlights & Implications

20%

Banking and financial services earnings growth

Financials are the key earnings engine

Banking and financial services earnings grew 20%, and excluding the sector, aggregate profits across the reported universe would have declined 8%. Non-bank lenders remain the strongest segment, with revenue growth of 19% and profit growth of 32% as loan growth, margins and credit costs move in a more favourable direction. Credit expansion is increasingly corporate-led rather than retail-driven, while margin outcomes are diverging across lenders. Smaller private banks are showing the strongest operational improvement, with several improving return on assets and lowering credit-cost expectations.

82%

Metals profit growth over the quarter

The industrial complex is demonstrating operating leverage

Industrial sectors continue to benefit from strong revenue conversion into earnings. Metals profits increased 82%, capital goods translated approximately 30% revenue growth into 58% profit growth, and utilities converted 13% revenue growth into 36% profit growth. Management commentary suggests the key constraint is increasingly execution capacity and transmission infrastructure rather than demand, a bottleneck also shaping India's broader power and data-centre investment cycle. Autos and consumer discretionary remain quietly robust, with earnings growth of 45% and 82% respectively. IT services have also proven more resilient than sentiment suggests, with rupee-denominated revenue and profit growth of 15% and 12%, respectively.

–52%

Energy profits, on 33% revenue growth

The weakest areas are energy and pharmaceuticals, but both are driven by pricing rather than demand

Energy revenue increased 33%, yet profits declined 52% as higher crude prices disrupted fuel-marketing economics. Pharmaceuticals declined 31% and insurance fell 28%, primarily reflecting US generics pricing pressure. Airlines were similarly impacted through higher fuel costs despite achieving 20% revenue growth. Importantly, these weaknesses are not the result of demand destruction, but largely due to pricing and cost-cycle issues that can reverse as external pressures ease.



The India Avenue Take

Eight of our ten largest holdings had reported by 31 July, and the results season has broadly validated the portfolio positioning. One of our two largest holdings, Shriram Finance (a diversified non-bank lender) delivered 60% profit growth, driven by a 43 basis point expansion in net interest margin. The company maintained its approximately 18% loan growth outlook and received one of the largest full-year earnings forecast upgrades in the market. Two of our three major private bank holdings also delivered strong outcomes, with profit growth of 16% and 23% respectively, supported by stable or improving margins. Both ranked among the five largest contributors to Nifty earnings growth during the quarter.

Another notable stock in our portfolio, Redington Limited (a technology distribution firm) delivered its strongest quarterly revenue and earnings performance on record, with profit growth of 77%, and the share price responded with an 18% gain on the results announcement. More broadly, the portfolio remains positioned towards areas where earnings momentum is strongest and away from the key areas of weakness. Energy exposure is 2.4% of the Fund versus 6.0% for the index, while Materials, Information Technology and Healthcare remain overweight. Our structural preference for mid and small-cap companies is supported by the ongoing shift in the earnings pool towards smaller companies, which this reporting season has reinforced.

Overall, we believe the June-quarter results have strengthened rather than weakened the investment case for India. Underlying earnings growth of approximately 18% exceeded expectations, analyst upgrades continued to outweigh downgrades, and the largest earnings drag came from a single commodity-linked segment that is already showing signs of reversal. The market has so far rewarded the improvement in macro conditions, but has not yet fully reflected the earnings delivery emerging beneath the surface.

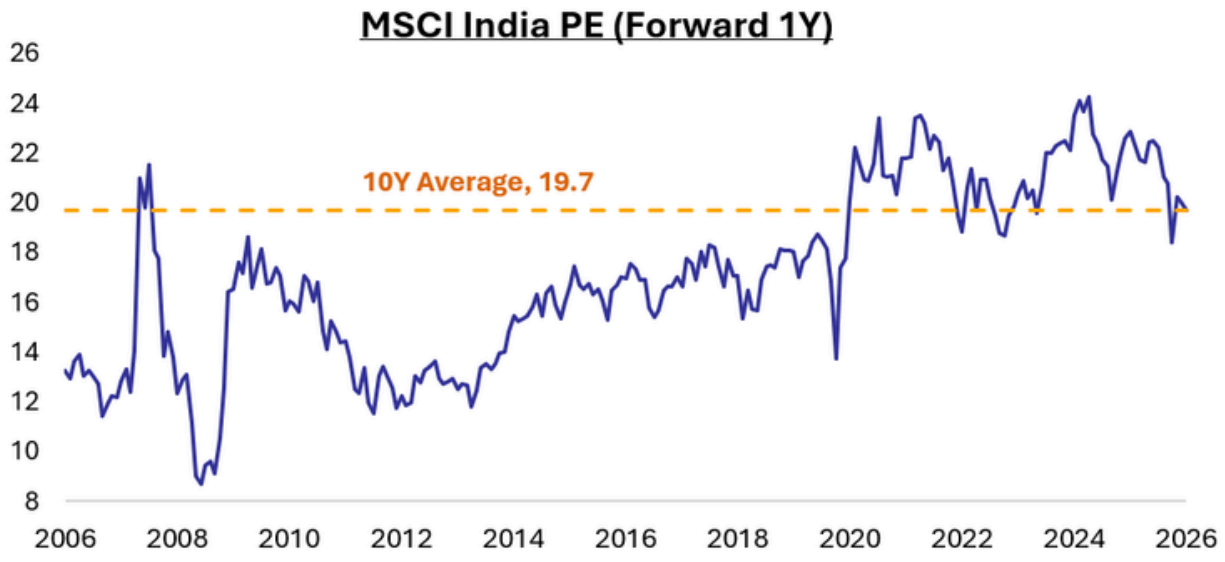
07 Valuations: Where Are They Now?

Developments Over the Quarter

Headline Indian equity valuations moved higher over the June quarter, although this was accompanied by an improvement in the earnings growth outlook. As a result, the market's forward PEG ratio remained broadly unchanged, suggesting that the increase in valuations has been largely supported by stronger earnings expectations rather than multiple expansion alone. Importantly, when viewed over a longer time horizon, Indian equity valuations continue to sit broadly in line with their 10-year averages.

Indian market Headline valuation and earnings growth	30 June 2026	31 March 2026
Trailing Price/Earnings (PE)	23.4x	22.7x
Forward 1Y PE	20.0x	18.7x
Price/book (PB)	3.2x	3.4x
PEG ratio (forward)	1.71	1.70
Consensus 1Y forward earnings growth	**11.7%**	**11.0%**

Source: Bloomberg, MSCI. Data as of 30/06/2026.



Source: Bloomberg, MSCI. Data as of 30/06/2026.

Looking Beneath the Headline

The aggregate market multiple masks significant valuation dispersion beneath the surface.

SIZE

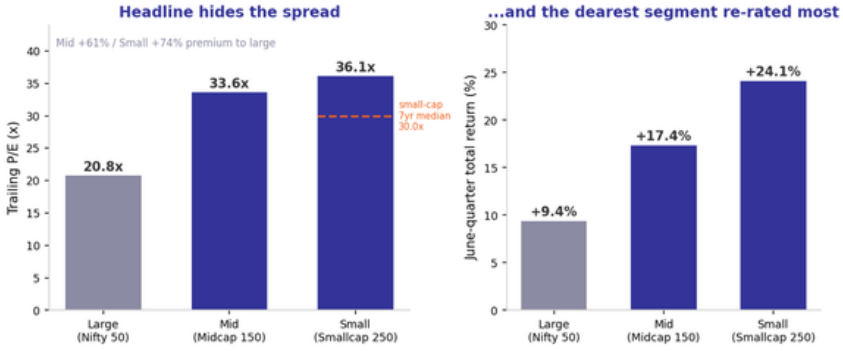
Large-cap equities trade on approximately 20.8x trailing earnings, while mid and small caps trade on around 33.6x and 36.1x, respectively – representing valuation premiums of roughly 61% and 74% to large caps. This was also where the quarter's strongest performance was concentrated. Mid-caps gained 17.4%, small-caps advanced 24.1%, and micro-caps surged 33.2%, compared with a more modest 9.4% rise in large caps. In other words, the segments already commanding the highest valuations experienced the greatest re-rating, while large caps (despite temporarily depressed earnings) remain comparatively reasonably valued.

STYLE

A similar divergence is evident across investment styles. Growth stocks returned 13.9% during the quarter and remain modestly positive over the past twelve months, while Value stocks gained only 2.3% during the quarter and are still down 9.6% over the same period. Rather than a broad-based market re-rating, performance has been concentrated within a relatively narrow subset of growth-oriented companies.

SECTOR

Sector performance reinforces this theme. Export-oriented sectors, particularly Information Technology, have continued to de-rate, falling around 9% during the quarter and approximately 30% over the past year. In contrast, domestically driven cyclicals have experienced significant multiple expansion, with Telecommunications rising around 40% during the quarter, Real Estate gaining 27%, and Metals advancing approximately 33% over the past twelve months. Consequently, the headline market P/E represents the average of two very different markets – a de-rating export sector alongside a strongly re-rating domestic cyclical segment.

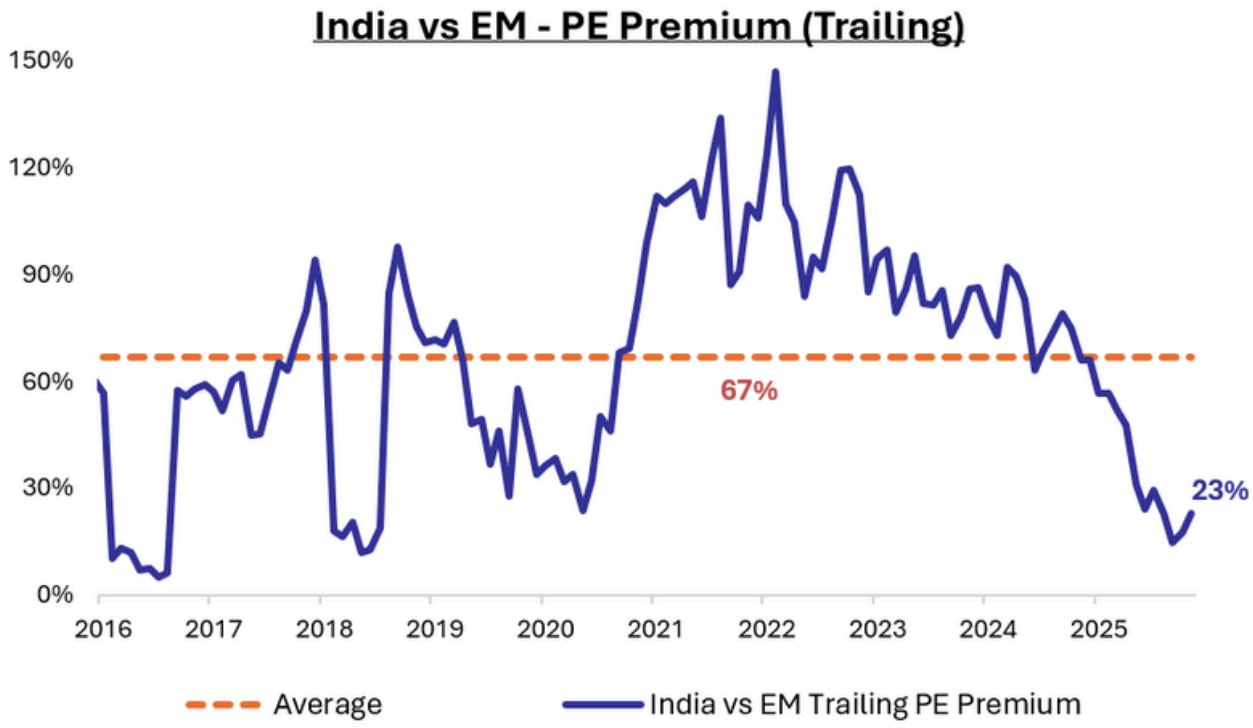


Source: Nifty. Data as of 30/06/2026.

India vs EM valuation

For global investors, relative valuation remains just as important as absolute valuation. Over the past eighteen months, India's valuation premium to emerging markets narrowed as domestic earnings growth moderated from above 20% to high single-digit levels. At the same time, emerging market earnings growth accelerated sharply, driven primarily by the AI-related earnings boom in South Korea and Taiwan, resulting in one of the strongest earnings growth periods for the broader EM universe in recent years.

More recently, these dynamics have begun to reverse. Corporate earnings expectations in India have started to recover, while earnings optimism in South Korea and Taiwan has moderated as investors reassess the sustainability of AI-driven growth expectations. This has reduced some of the valuation pressure on India relative to emerging markets and supports the case that India's premium should increasingly be assessed in the context of improving relative earnings momentum rather than headline valuation multiples alone.





The India Avenue Take

Headline valuation metrics continue to attract attention, but we believe they provide an incomplete picture of the opportunity set within Indian equities. The market remains highly bifurcated, with expensive domestic growth and smaller-cap segments driving much of the recent multiple expansion, while large-cap companies and export-oriented sectors continue to trade on more reasonable valuations following a prolonged de-rating. As active managers, we see this dispersion as creating opportunities to selectively allocate capital to businesses where earnings expectations are improving, but valuations have yet to fully reflect the recovery.

With valuations now close to their ten-year average, domestic savings flows approaching US$40 billion annually, and foreign investors returning as buyers, the combination of improving earnings breadth and a more reasonable valuation starting point provides a more constructive setup than recent market returns alone would suggest.



09 Stock Spotlight: Aurobindo Pharma

Building a Global Pharmaceutical Leader

Aurobindo Pharma is one of India's leading integrated pharmaceutical companies, with a presence across more than 150 countries and 37 manufacturing facilities globally. The company operates across active pharmaceutical ingredients (APIs), formulations, injectables, biosimilars, and specialty products, supported by a vertically integrated manufacturing model and more than 30 R&D centres.

Why We Like Aurobindo

Global scale with diversified exposure

Aurobindo generates approximately 41% of revenue from the US, with Europe contributing 24% and growth markets a further 17%. Its product mix is also increasingly diversified, spanning oral formulations, injectables, biosimilars, APIs and specialty products.

Moving toward higher-value products

While traditional formulations remain the largest part of the business, Aurobindo is expanding its exposure to more complex and niche products, including injectables, biosimilars and specialty pharmaceuticals. This provides the potential for stronger barriers to entry and a higher-quality earnings mix over time.

Lannett acquisition strengthens the US opportunity

The acquisition of Lannett Company, completed in April 2026 for approximately US$250 million, materially strengthens Aurobindo's US footprint and specialty capabilities. The transaction is expected to broaden its product portfolio, enhance R&D capabilities and provide approximately 7-8% EPS accretion.



The India Avenue Take

We believe Aurobindo offers an attractive opportunity to participate in India's expanding role in global healthcare. This opportunity is reinforced by the approaching US pharmaceutical patent cliff, which is expected to place more than US$250 billion of branded drug revenue at risk over the coming years, creating a significant market opportunity for global generic manufacturers. Strong FY26 earnings, a healthy balance sheet and increasing exposure to complex and specialty products provide a solid foundation for growth, while the Lannett acquisition creates an additional pathway to strengthen the company's position in the strategically important US market.

To learn more about Aurobindo Pharma, its growth strategy and our investment thesis, read our latest company research note: Aurobindo – Building a Global Healthcare Leader.



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