

NETRA

Early Signals Through Charts

December 2025



India's Growth Dynamics Explained

India's Nominal Growth Downshifts

Nominal growth is an important marker. It conveys the pace of volume + price effects in the economy. Faster nominal growth is usually accompanied by a stronger phase of prosperity, in terms of incomes & employment, if inflation is not running hot.

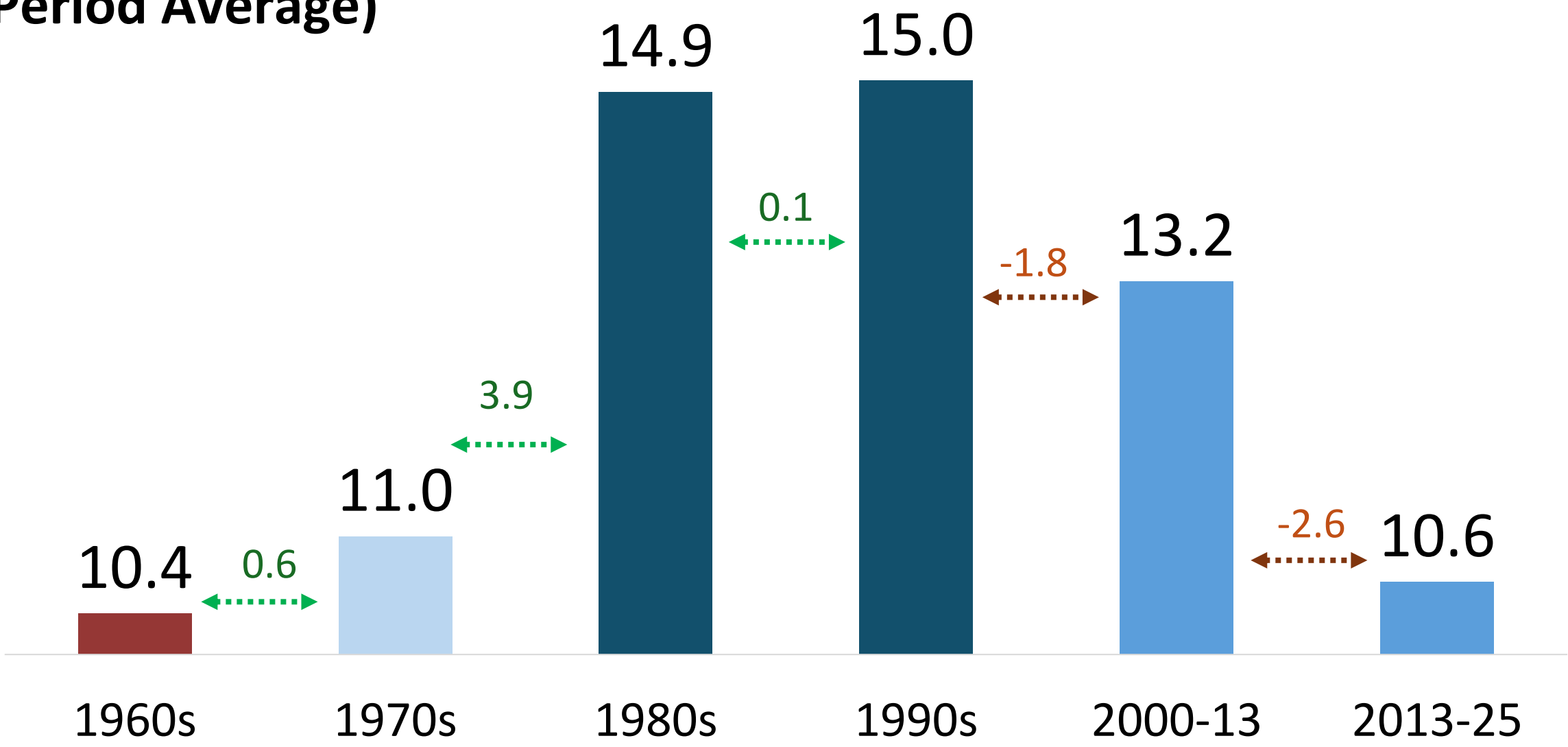
India's nominal growth has slowed significantly. From the Liberalization, Privatization and Globalization 'LPG' reforms of 1991 to 2014 nominal GDP growth was 14% on average. Since then, the nominal growth has been ~10% yoy. In fact, since FY14, barring the COVID base effects led uptick, nominal growth hasn't exceeded 12% yoy even once.

Average nominal GDP growth in the 1990s was 15% yoy, this shifted a bit lower, but was very strong at 13.2% yoy in 2000-13 phase, but has since slipped to about 10.6% yoy.

When we look at what makes up as key drivers and markers of nominal growth – corporate sales, govt tax revenues, salaries & wages, money supply, stamp duty and core goods imports – all of them have shifted lower. Most of these drivers are now growing below nominal GDP growth trends.

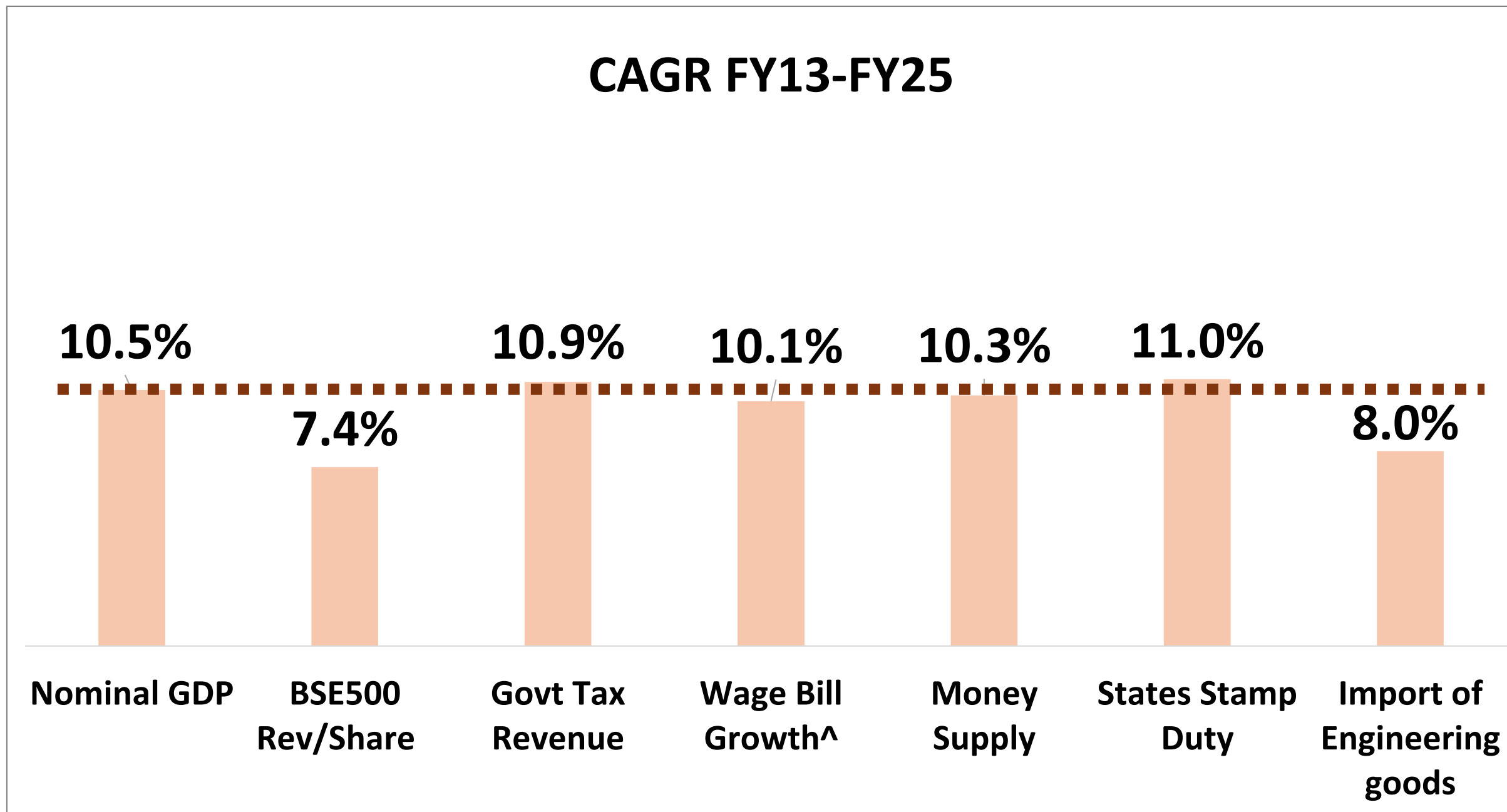
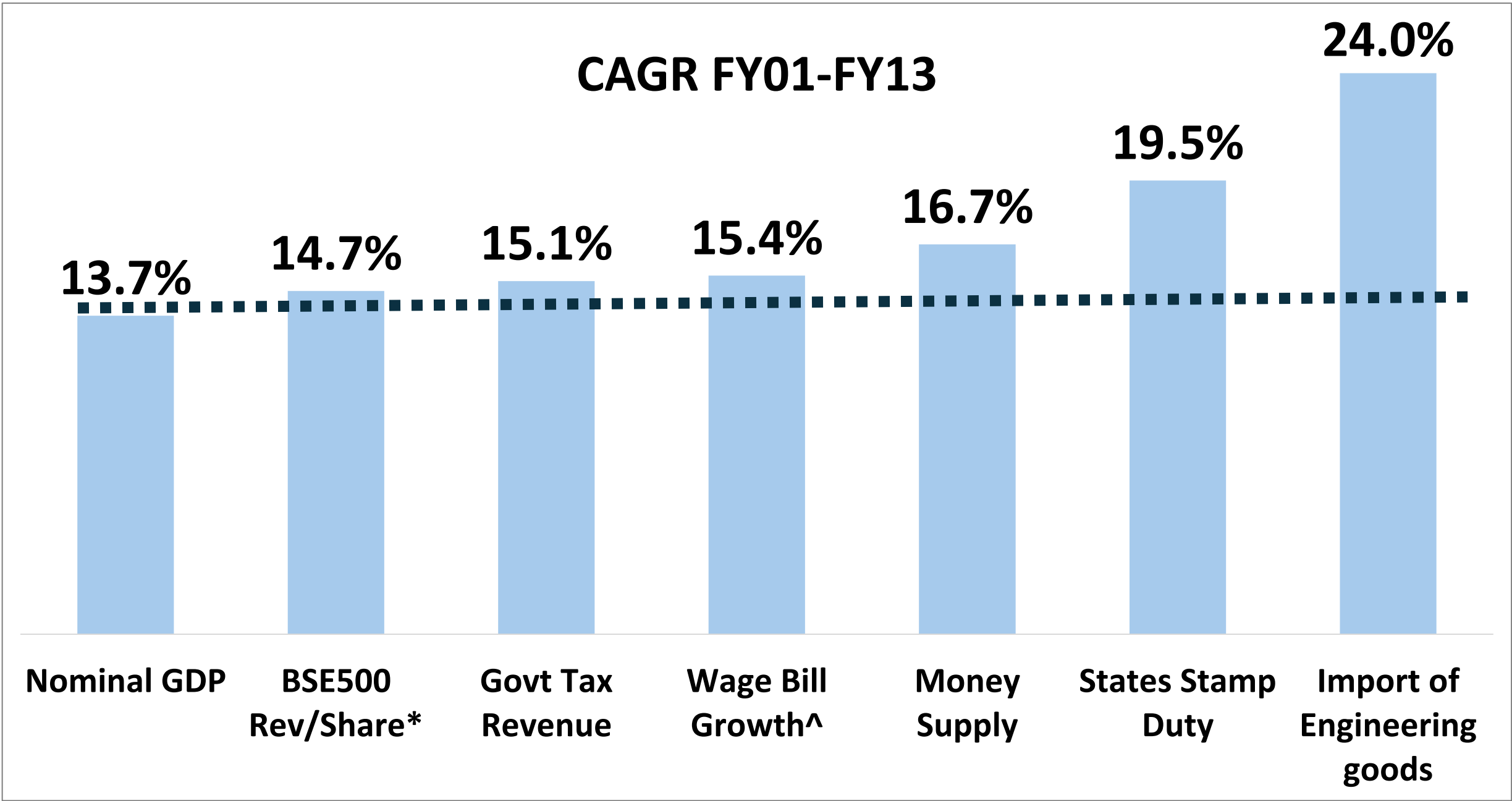
India's Nominal Growth Has Slowed Significantly, All Drivers & Markers Corroborate This Fact

India's Nominal GDP Growth - YoY, % Change (Period Average)



In the 2020s, growth has slowed further and is now settling at 8% to 10% range.

YoY % Change	FY21	FY22	FY23	FY24	FY25	FY26e
Nominal GDP Growth	-1.2	18.9	14.0	12.0	9.8	8.8



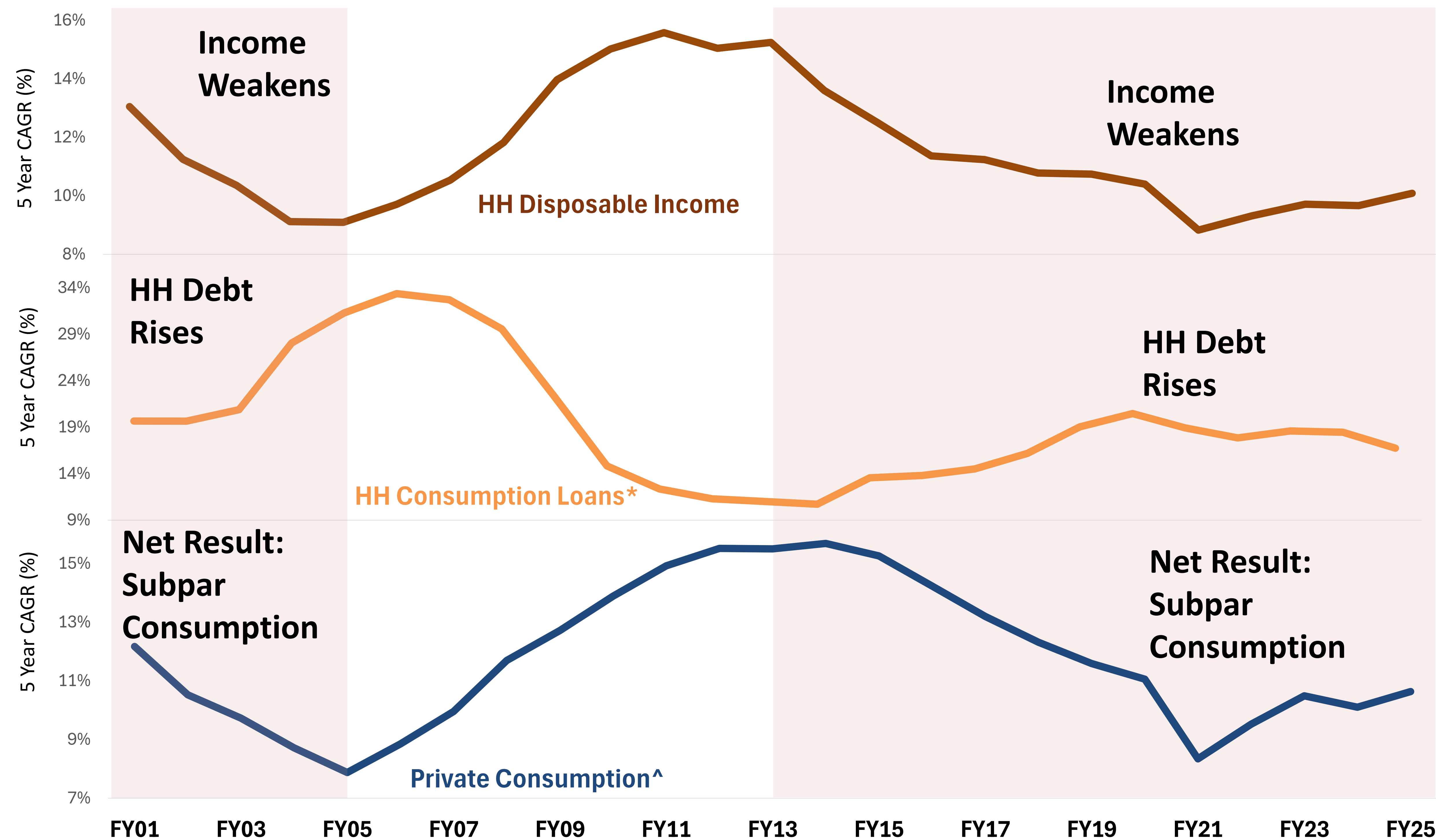
Is 10% Nominal Growth Enough? Why Is It Anemic?

For India, 10% nominal GDP growth with core inflation at 4% (the RBI's target) implies real growth of about 6%. That pace is probably not fast enough for India to fully harness its demographic dividend and extended favourable working-age phase.

Why is nominal growth this soft?
It reflects weak consumption growth, a slowdown in services exports, a failure of goods exports to accelerate meaningfully, and an underwhelming, stop-start infrastructure and capex cycle.

Government spending and corporate capex have tilted towards consumption-oriented infrastructure rather than production-enhancing assets (think more urban metros than new freight corridors, for instance). This has caused a slowdown in the employment sector causing wages to grow at a slower pace. In the aftermath of COVID, a combination of slower wage growth but strong household debt accretion has made sure that consumption trends remain subpar. This potential loop of poor consumption leading to lack of visibility has hit capex, which anyway was directed at non-production sectors.

This needs a course correction, probably through difficult policy choices.



DSP Capex Tracker – Except Govt Capex, Most Indicators Are Subpar

	Units	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	CAGR (FY01-FY13)
New Investments	INR Tn	3.4	2.8	3.0	5.0	5.8	12.9	24.6	26.4	27.2	24.8	26.8	17.4	11.8	11%
Central Govt Capex	INR Bn	478	608	745	1091	1139	664	688	1182	902	1127	1566	1586	1669	11%
Cement Volumes	YoY, %						12.3	9.1	8.1	7.3	10.5	4.5	6.7	7.4	8.3%^
Import of engineering goods	USD Bn	8	9	11	15	21	33	43	67	69	61	72	91	87	22%
Industrial credit	INR Tn	2	2	2	3	3	4	6	9	11	13	16	19	22	22%
IIP Capital Goods	YoY, %	1.7	-3.4	10.6	13.6	21.9	18.1	23.3	8.1	7.3	10.5	4.5	6.7	7.7	11%^
Housing loans	INR Tn					1.34	1.85	2.31	2.60	2.79	3.01	3.50	3.97	4.57	17%*
Investment Projects Completed	INR Bn	660	481	638	748	1046	734	893	651	657	1032	1167	1919	2279	11%
BSE500 Capex	INR Bn			371	501	736	1040	1781	2921	2795	2870	4125	3661	3638	26%#

The second phase of the 25-year period has gained only partially.
This slowdown spans across the economy, more hard hitting in private capex initiative, despite Govt doing its bit, with greater vigor this time.

	Units	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY13-FY25)
New Investments	INR Tn	11.8	11.0	22.9	23.5	21.1	18.0	19.6	20.6	13.2	26.4	43.3	41.1	47.6	12%
Central Govt Capex	INR Bn	1669	1877	1967	2530	2846	2631	3077	3357	4263	5929	7400	9492	10184	16%
Cement Volumes	YoY, %	7.4	3.7	5.9	4.6	-1.2	6.3	13.3	-0.9	-10.8	20.8	8.7	8.9	6.3	6%
Import of engineering goods	USD Bn	87	73	78	76	75	87	101	97	76	101	126	132	141	4%
Industrial credit	INR Tn	22	25	27	27	27	27	28	29	30	32	34	37	39	5%
IIP Capital Goods	YoY, %	7.7	3.1	5.9	4.6	-1.2	6.3	13.3	-0.9	-10.8	20.8	8.7	8.9	6.3	6%
Housing loans	INR Tn	4.57	5.39	6.29	7.47	8.60	9.75	11.77	13.62	15.12	17.38	19.91	27.19	30.10	17%
Investment Projects Completed	INR Bn	2279	3046	3948	3550	4304	3786	3564	4204	5924	6563	4891	6627	5451	8%
BSE500 Capex	INR Bn	3638	3957	3779	3865	4732	4811	6246	5432	5080	5688	7265	8470	10764	9%

Services Exports Growth Has Halved

The brightest spot in India’s growth over the last two and a half decades is Services Exports. The full period growth CAGR for Net Services exports is a staggering 22%, probably one of the highest in the world.

The amount of prosperity, consumption demand and demand for housing that this large inflow of USD primarily led of India’s IT&ES sector has created is unprecedented and doesn’t have a runner up.

A worrying trend is at display in this segment. The Net Services Exports growth has slowed considerably. If you take the tale of two halves, divided by the FY13 twin balance sheet shock, the services sector has seen a dramatic slowdown in growth. Even after the slowdown, a USD annual growth rate of 8% to 9% remains a very strong number from a global perspective but falls short for India because of the heavy lifting it does for India’s external sector and domestic demand creation.

		FY01-FY25	FY01-FY13	FY13-FY25
Net Inflows	Services	22%	35%	9.3%
	Software services	15%	22%	8.0%
	Transfers: Private	10%	14%	5.7%
Inflows	Services	14%	20%	8.5%
	Software services	15%	22%	8.8%
	Transfers: Private	10%	15%	6.0%

India's External Trade: Stuck In A Cycle Of Mediocrity

CAGR of 7 out of 10-line item of Exports have fallen more than 10%

Context- World GDP CAGR has fallen 4%, from 7% to 3%.

Imports from an average of 20% CAGR in FY13 have fallen to 5% CAGR in FY25.

Context- PFCE CAGR has fallen 1.2% between FY13 and FY25, from 12.5% to 11.3%

Net trade has delivered a CAGR of mere 3% over the past 12 years.

Understandably, 2012-16 has set a very high base, and covid has snubbed the trajectory some bit. But even after considering these factors, India's trade has remained much below its potential.

	Exports				Fall in CAGR	Imports				Fall in CAGR	Net Trade (X-M)	
	Absolute		CAGR			Absolute		CAGR				
	FY13	FY25	FY01 to FY13	FY13 to FY25		FY13	FY25	FY01 to FY13	FY13 to FY25		FY13	FY25
<i>Nominal GDP (USD Bn)</i>											1857	3909
Total	300	438	17.3%	3.2%	14%	490	720	21.0%	3.3%	18%	-190	-283
Petroleum Products	61	63	37.2%	0.3%	37%	164	186	21.6%	1.1%	21%	-103	-122
Agricultural and allied products	41	50	19.8%	1.7%	18%	19	39	18.8%	6.2%	13%	22	12
Ores & minerals	6	5	10.9%	-0.8%	12%	33	43	26.0%	2.2%	24%	-27	-37
Leather & leather manufactures	5	4	10.2%	-0.9%	11%	1	1	8.6%	6.0%	3%	4	3
Chemicals & related products	29	60	18.5%	6.3%	12%	37	65	20.1%	4.8%	15%	-8	-5
Engineering goods	57	117	22.1%	6.2%	16%	87	141	22.3%	4.1%	18%	-30	-24
Electronic goods	8	39	20.5%	14.0%	6%	31	99	20.0%	10.0%	10%	-23	-60
Textiles (ex readymade garments)	14	19	9.3%	2.4%	7%	4	6	16.3%	3.5%	13%	11	14
Readymade garments	13	16	8.5%	1.8%	7%	0	2	25.5%	14.4%	11%	13	14
Gems & jewellery	43	30	17.0%	-3.1%	20%	78	81	19.3%	0.3%	19%	-35	-51

Patchy Growth Is Making Bonds Attractive, Especially Of Longer Duration

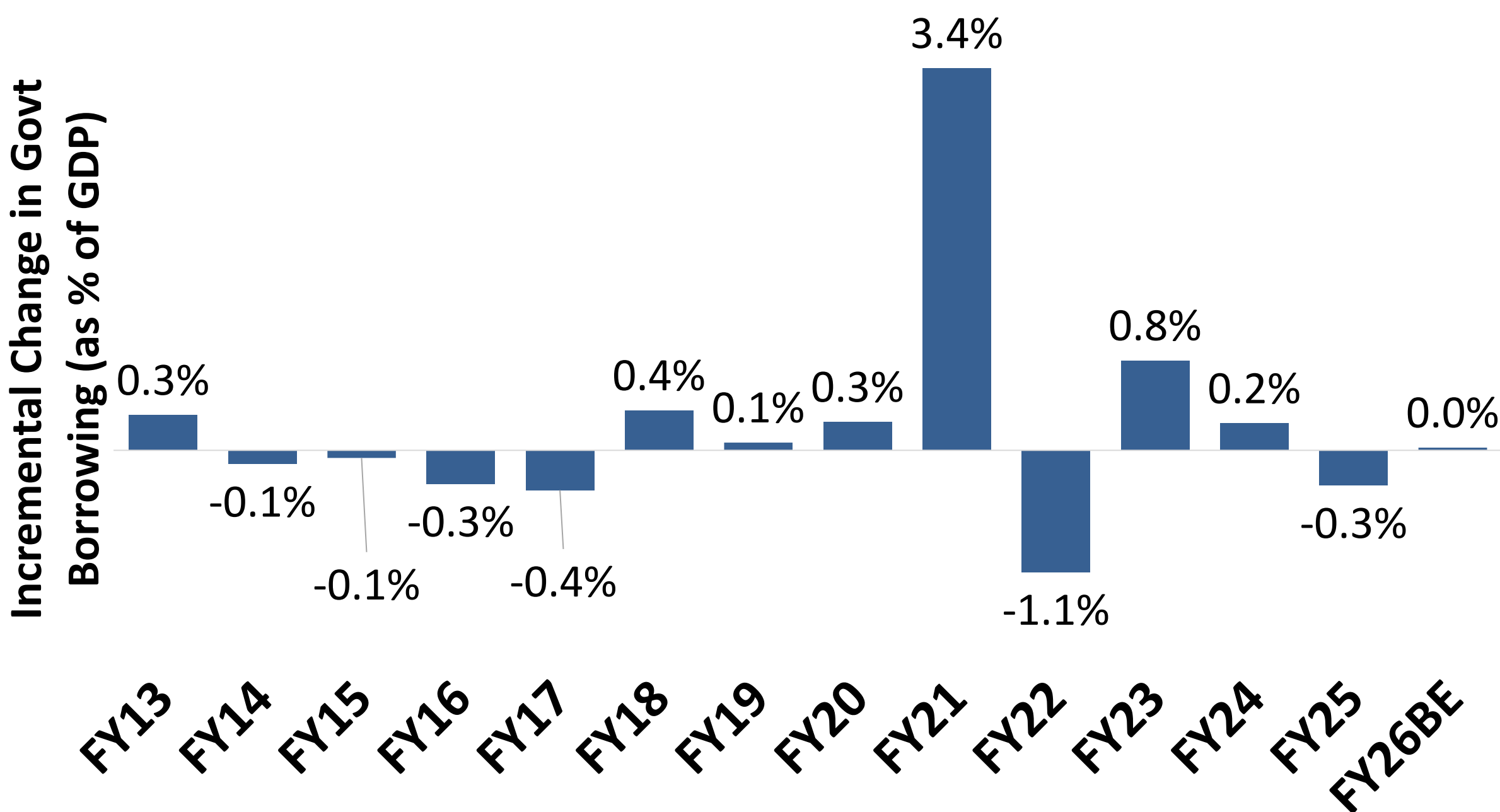
Patchy growth and fiscal discipline are creating an opportunity for Indian government bonds, especially at the 10-year and longer maturity point.

Central government gross market borrowing has stabilised as a share of GDP, so net G-Sec supply is rising more slowly than the economy, limiting supply of bonds. Less supply means, lower pressure on rates to rise.

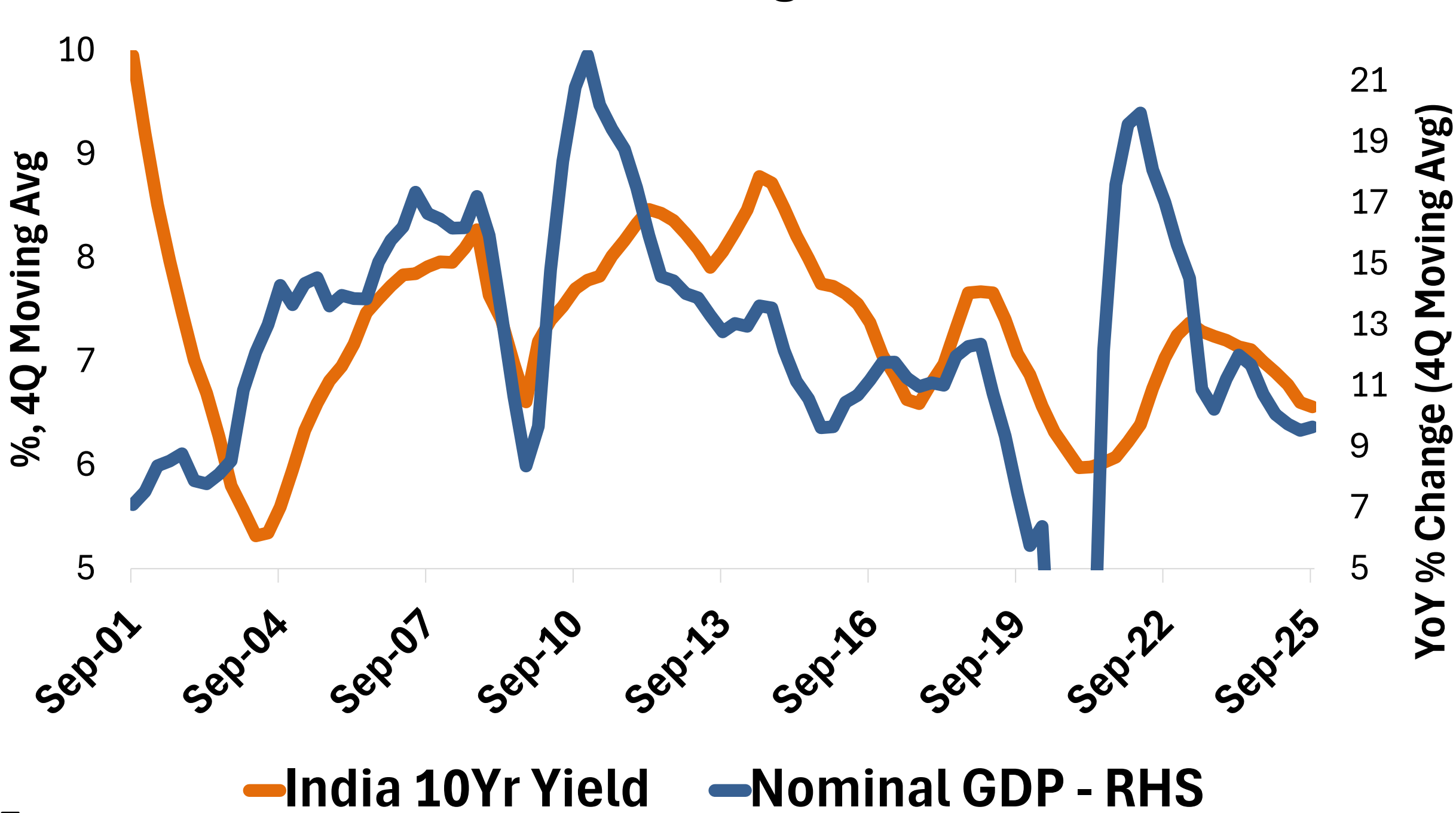
At the same time, CPI inflation is in the slow lane much below the RBI's 4% target. In fact CPI inflation is currently at 5-decade low in India.

The spread between nominal GDP growth and the 10-year G-Sec yield has narrowed to low single digits, at about 2.5% to 3% or so, signalling room for lower policy and term rates if growth remains uneven. Yet the spread between the repo rate and the 10-year yield is still comfortably wide at roughly 1 percentage point, offering attractive carry plus potential capital gains for investors willing to extend duration now. India Gsec 10 yr yield at 6.55% to 6.65% is an attractive entry zone.

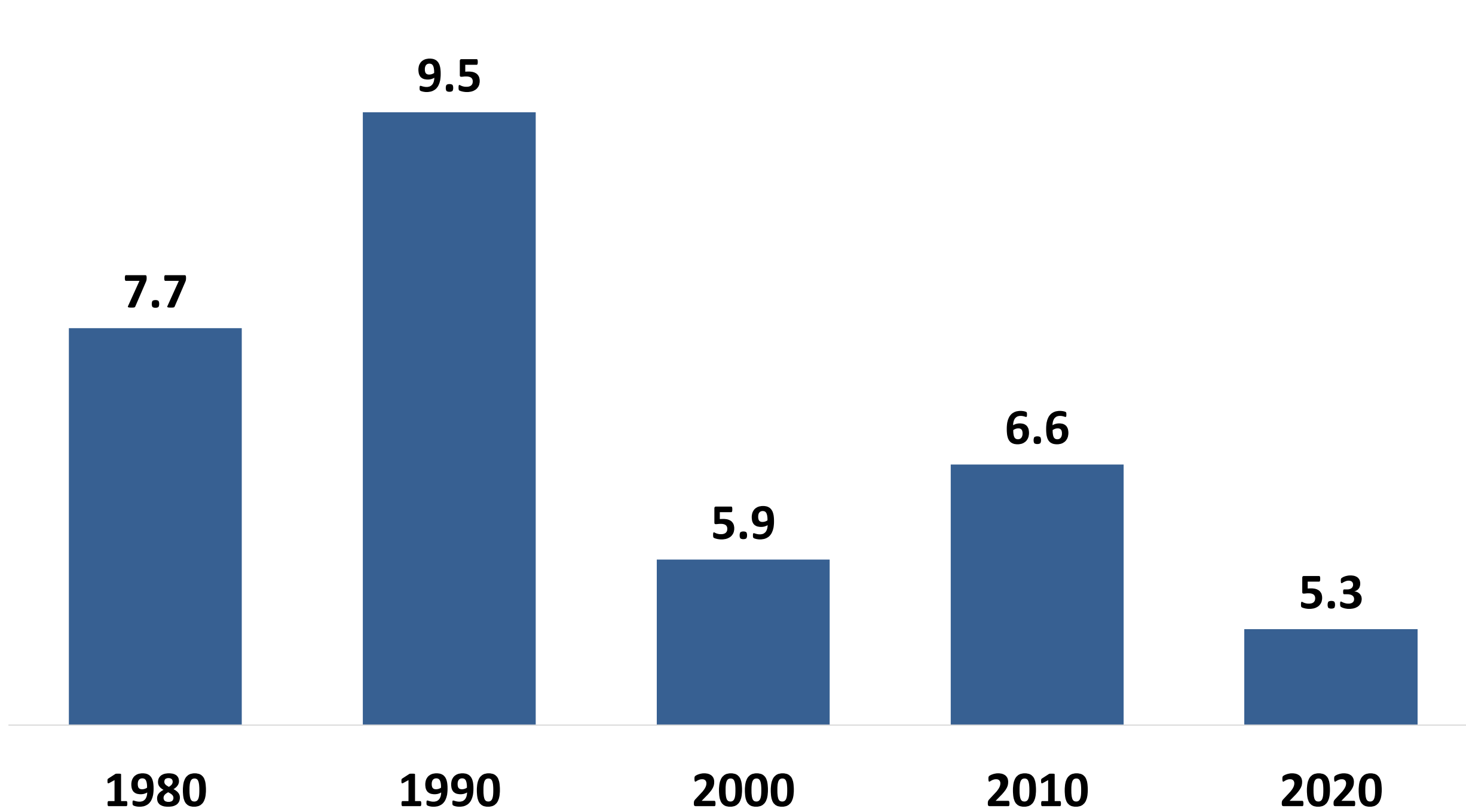
The Central Govt Isn't Borrowing Too Much, Limiting The Supply Of Bonds



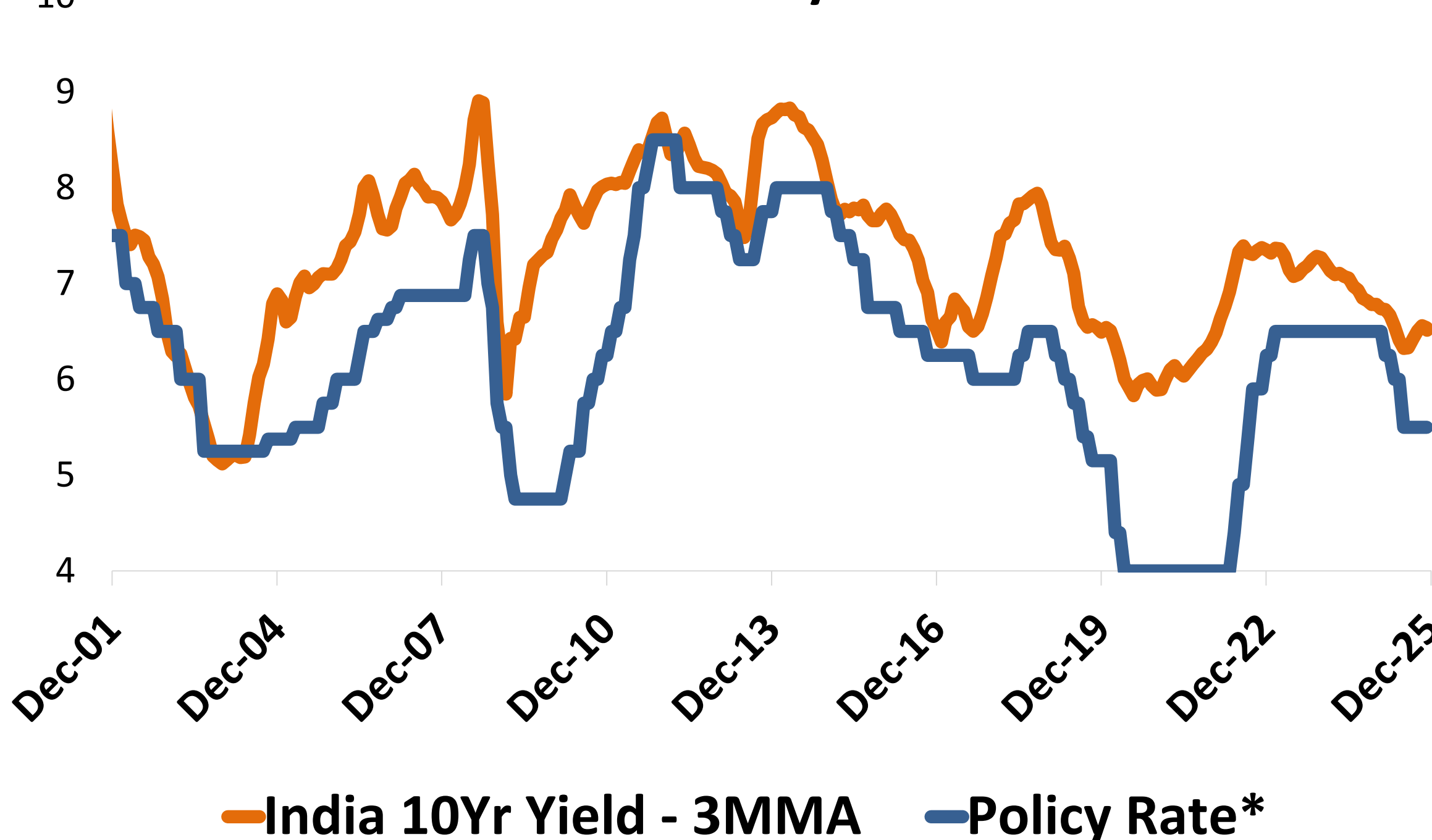
The Spread Between Nominal GDP Growth And 10 Yr Gsec Yield Is Narrow, Indicating Room For Lower Rates



Inflation Is In The Slow Lane, Making Fixed Income Attractive



The Spread Between Repo Rates And 10 Yr Gsec Yield Is Comfortably Wide



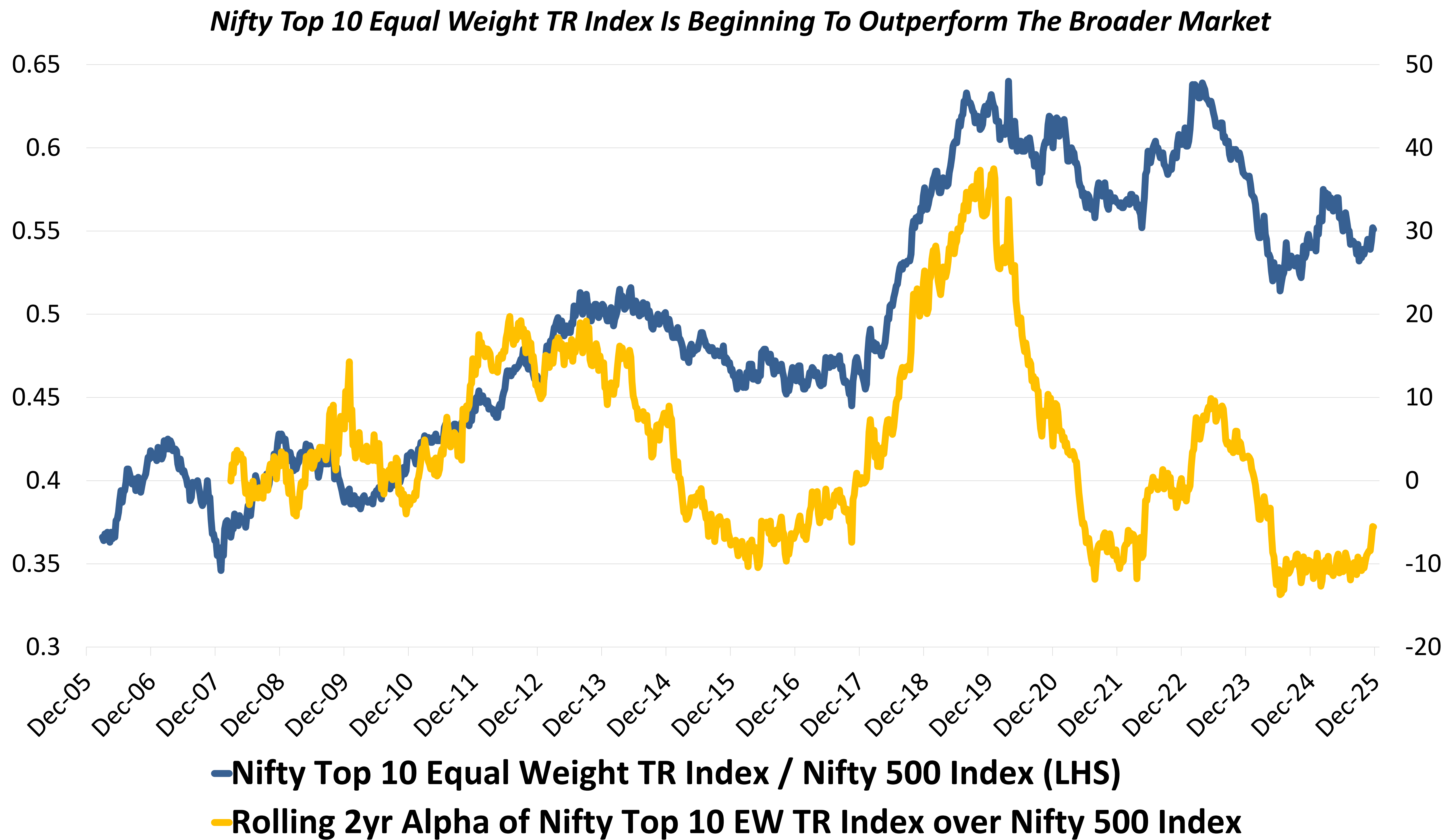
Largest Stocks Begin A New Phase Of Outperformance

The Largest Stocks Are Beginning To Outperform

The Largest Cap companies never had it so bad. Not only their weight in the total market capitalization had dwindled to an all time low, but the relative price performance also made an all time low recently.

Historically, periods of inflection in underperformance of top 10 names versus the rest of the market have coincided with a general ‘Risk-off’ environment. The outperformance phase is now restarting, as per the most recent trend.

The large addition to India’s overall equity market capitalization from new listings have made the top 10 cohort even more attractive. This is because more than two-third of new issues have listed at multiples which are upwards of 50x price to trailing earnings. This means that the new market cap addition has a low profitability base versus the top 10 stocks. On an absolute basis, even the top 10 stocks aren’t cheap from historical standards and therefore they remain a relative play for those looking to add to equity exposure.

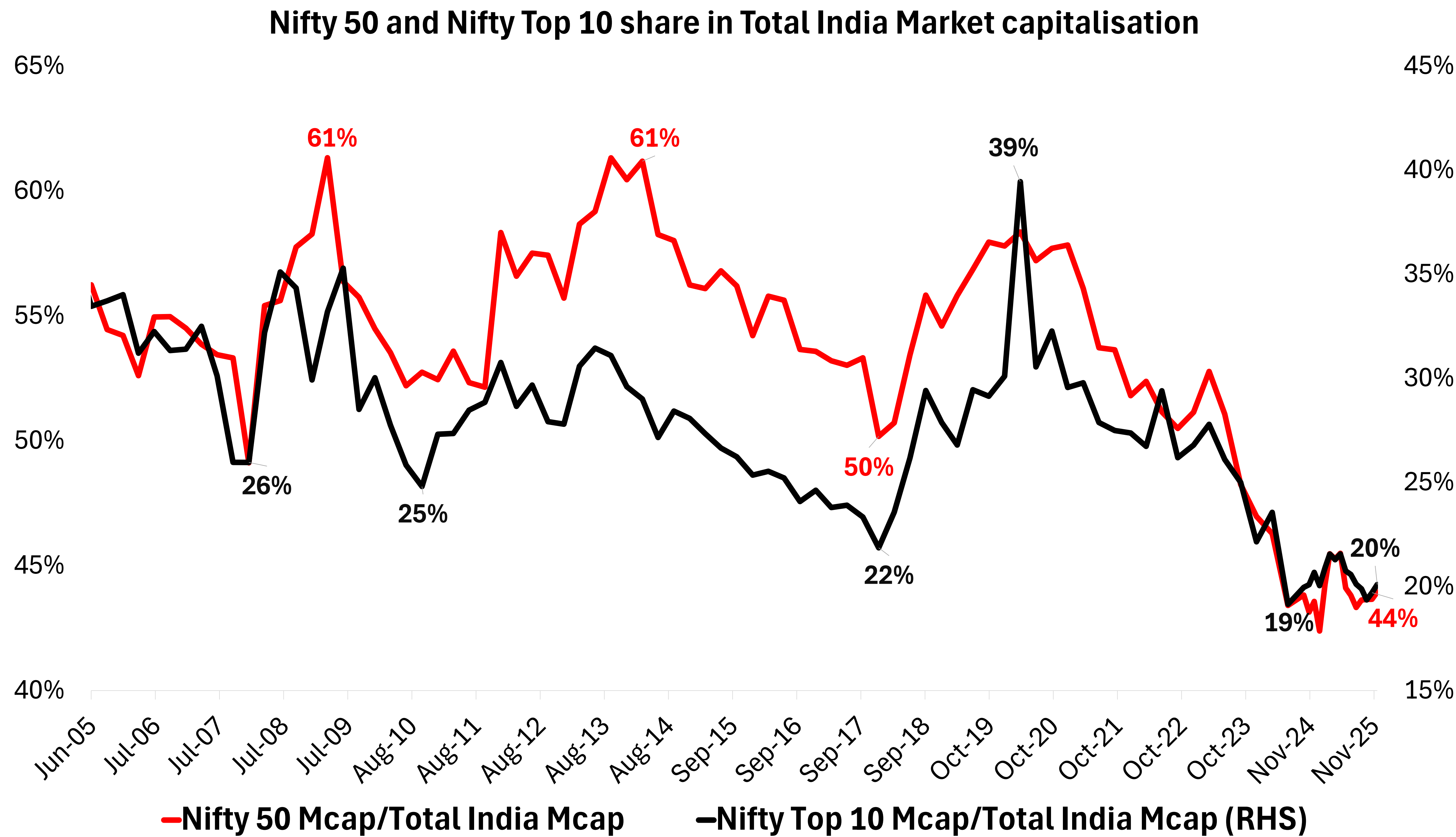


The Large & The Largest Are Available At The Smallest Weight

A source of relative attractiveness can be found in the largecap universe of stocks (because on absolute basis largecaps aren't cheap).

The share of top 50 or top 10 stocks relative to the total market capitalization is hovering near all-time lows. These readings are hard to decipher in real-time, and harder to take advantage of. Considering the large excess returns delivered by the non-largecap universe and the narrative that 'domestic flows' would not allow non-largecap universe to 'fall', it is not easy to use this rare occurrence to advantage.

This is the precise reason why a focus on largecap universe could be a hiding place from the virus of volatility which has infected the market in the last quarter of 2024. Although the symptoms are mild, and mostly non-existent, but the incubation period of volatility is always uncertain and unpredictable. Therefore, it would be prudent to be conservative and choose protection over aggression for non-largecap universe.



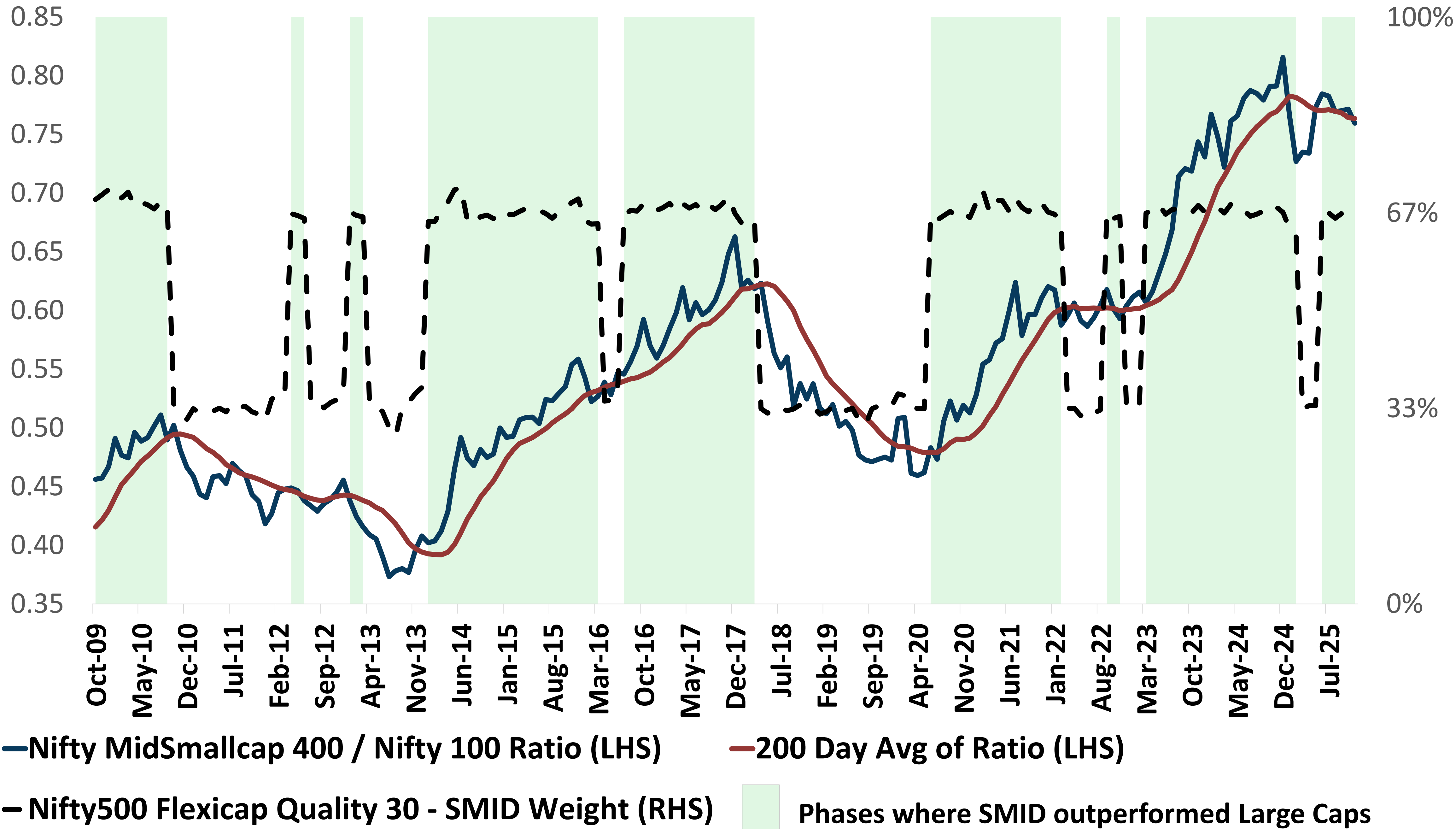
Large Caps – Is It Time To Lead? The Flexicap Formula Sends An Early Signal

Mid & Small cap outperformance over Large caps has been cyclical in the past. SMIDs tend to sharply outperform large caps in broader market rallies and give back a large portfolio in the subsequent weak phases. In the last 5 odd years, SMIDs have done extremely well for the most part. While the extent of SMID outperformance softened over the last few months, there was no meaningful reversal.

Over the last few days, the trend has shifted. The **Nifty MidSmallCap 400 / Nifty 100** has recently fallen below its **200 Day Moving Average**. As a result, the Flexicap SMID vs Large Cap signal now points to the relative attractiveness of the large caps.

So, should you shift from SMID to Large Caps?
We don't have a definitive answer.

But a rule-based Flexicap strategy that automatically rebalances depending on trend may help you stay invested irrespective of the outcome!



Shrinking Market Breadth And The Easy Capital Availability

Market Breadth Weakens Even As Stock Indices Reach Lifetime High

Many frontline and sectoral indices made new lifetime highs or came close to the highs made in 2024.

‘Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names.’ – Bob Farrell

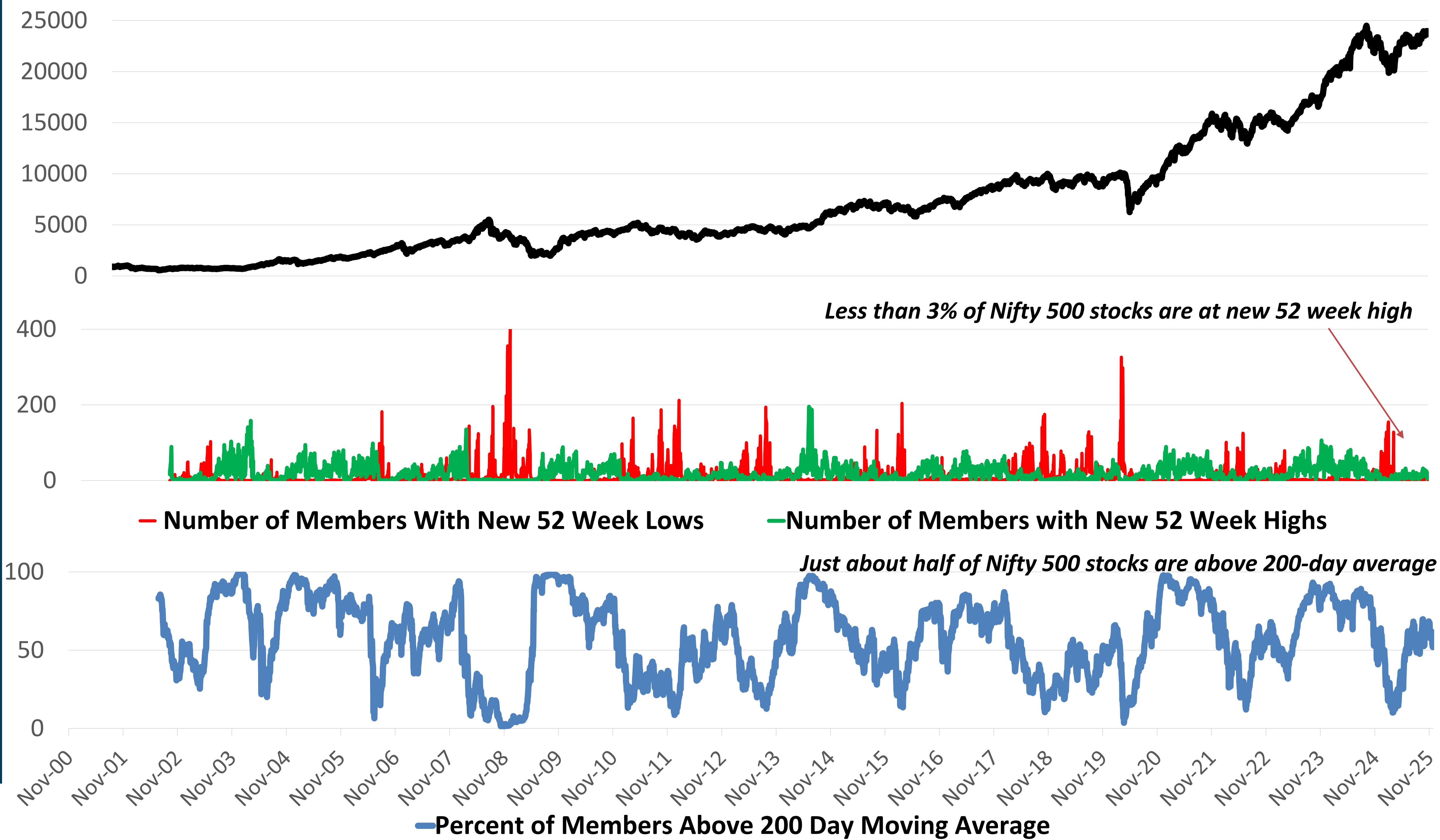
The rally which began in March 2025 has largely been led by a strong recovery in handful of largecap stocks and is far from broad-based. The number of stocks making new 52 week high, a measure of broadness of the rally, is below 3%. That’s a weak reading for a market close to lifetime high.

The number of stocks over their 200-day average are also close to 50% indicating the lack of participation in the recent market uptrend. Small & Microcap stocks have seen deep cuts spoiling portfolio returns for a large category of investors who have relied solely on this segment for past 5 years.

Weak market breadth is an early sign of caution.

Stock Indices Are At Or Close To Lifetime High, But Breadth Is Weak

NSE500 Index



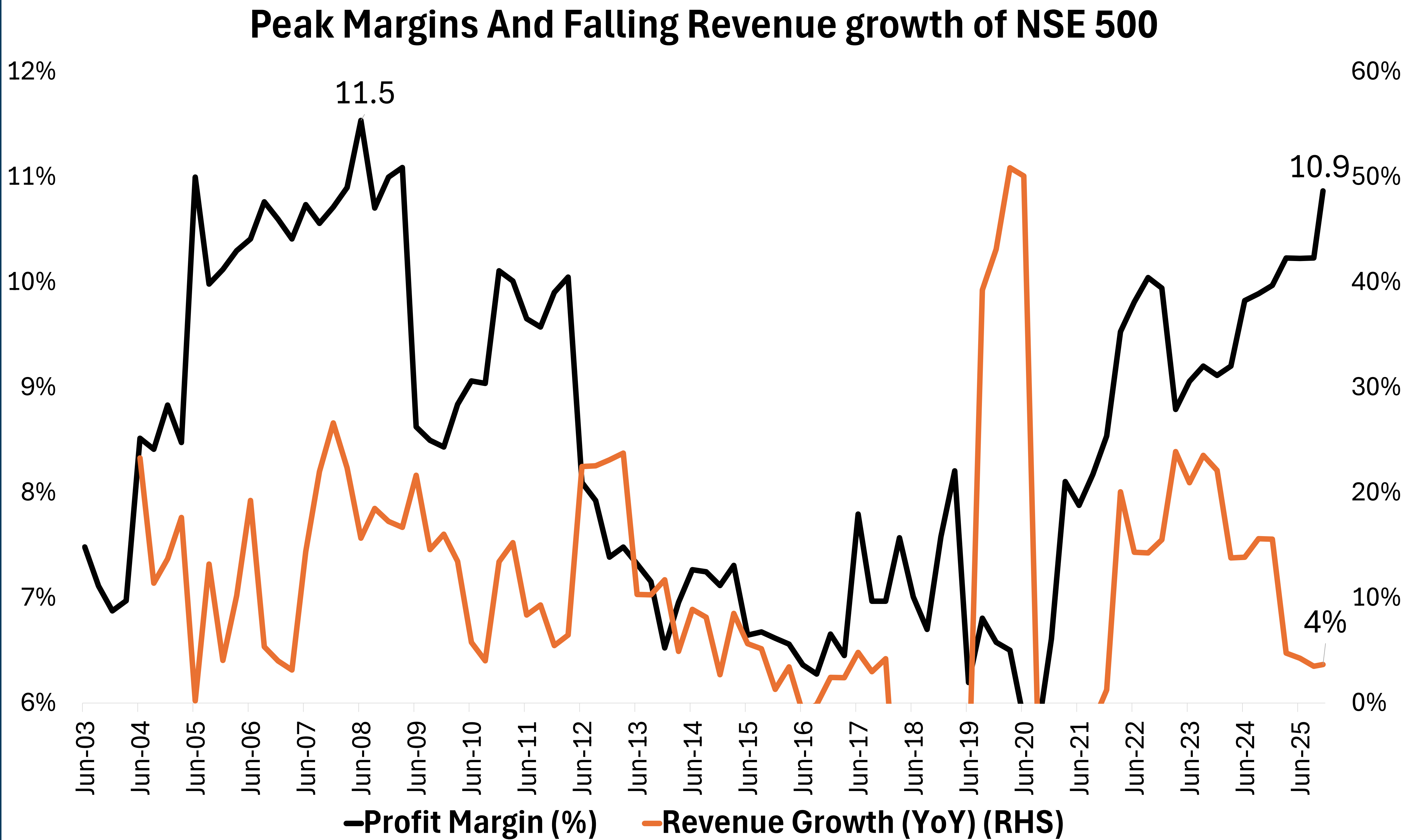
Margins Have Been The Key Driver of Profitability As Sales Skid

Post-COVID, a combination of strong revenue growth and margin expansion has been the primary driver of profits. However, a key concern now is the sustainability of this elevated profit growth, particularly given the structural limitations to further margin expansion.

Even during the early 2000s cycle, margin gains plateaued after a surge, despite robust topline growth that should have ideally translated into operating leverage benefits. This reflects a structural nuance in the Indian context: margins here are largely a function of distribution efficiencies and cost control, rather than durable pricing power.

Unlike the U.S., where margins are supported by high-tech business models and entrenched competitive moats, Indian companies often lack similar structural advantages. As a result, demand revival remains the only credible pathway to sustain earnings growth. With revenue growth already subdued, the critical question is: Can FY26 deliver a meaningful topline recovery strong enough to justify the optimistic earnings expectations priced in the valuations?

The section on India’s nominal growth suggests that it would be hard for sales growth to go back to 20% yoy handle, in absence of which, PAT growth could remain sluggish.

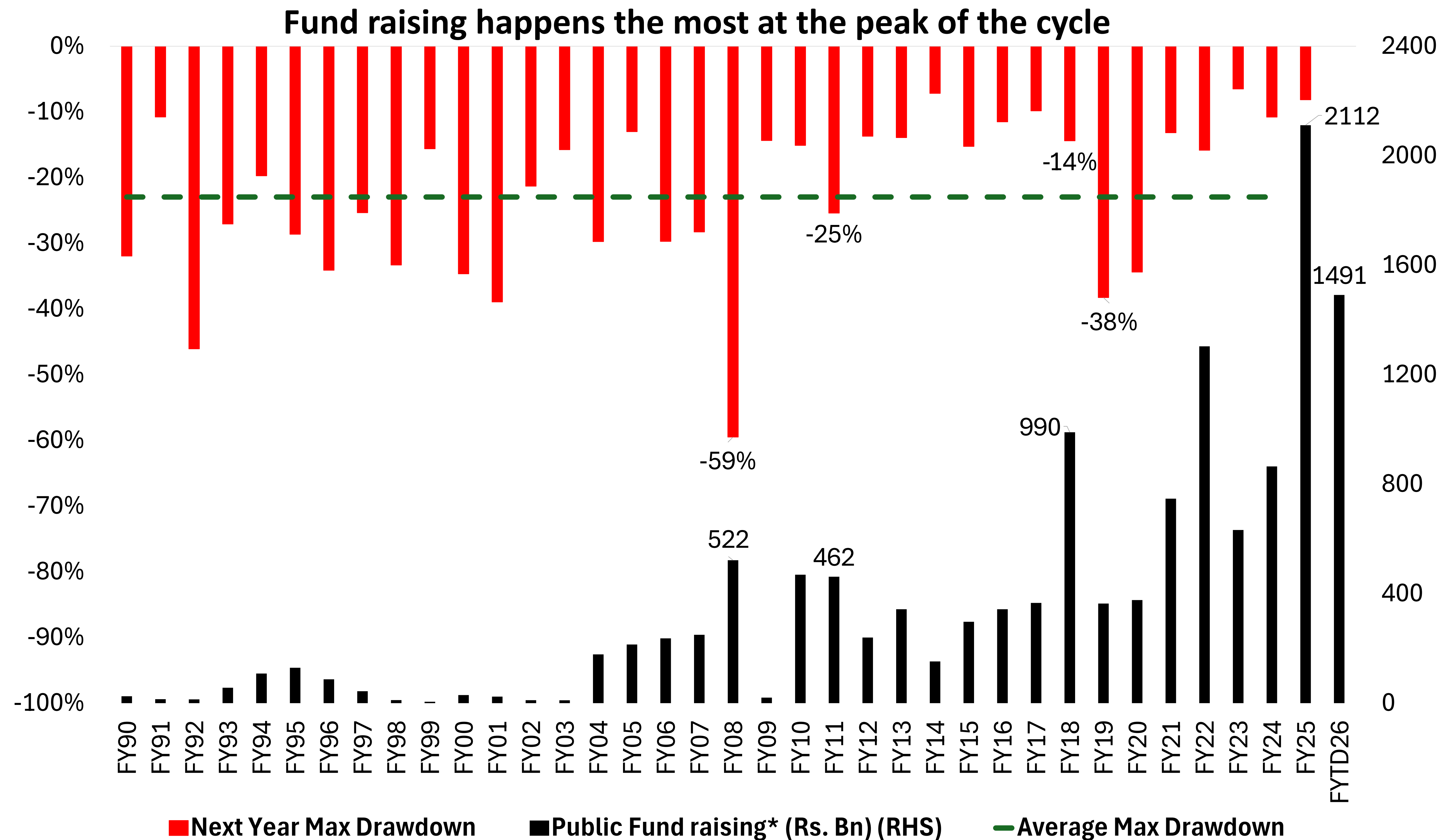


‘Too Much Capital Availability Makes Money Flow To The Wrong Places’ – Howard Marks

During periods of market optimism and strong performance, substantial capital becomes readily available for both high-quality and speculative ventures. This environment often drives a surge in IPO activity, fueled by heightened investor confidence and an increased appetite for risk.

Historically, such fund-raising booms have signaled the late stages of market cycles. When capital flows abundantly, investors often overlook company fundamentals, leading to eventual market corrections as the exuberance fades.

In many of these cycles, companies issue more Offers for Sale (OFS) than fresh equity, indicating that promoters are cashing out rather than reinvesting in the business. Currently, we have already surpassed 71% of the previous year fund raising FYTD (which was an all time high).

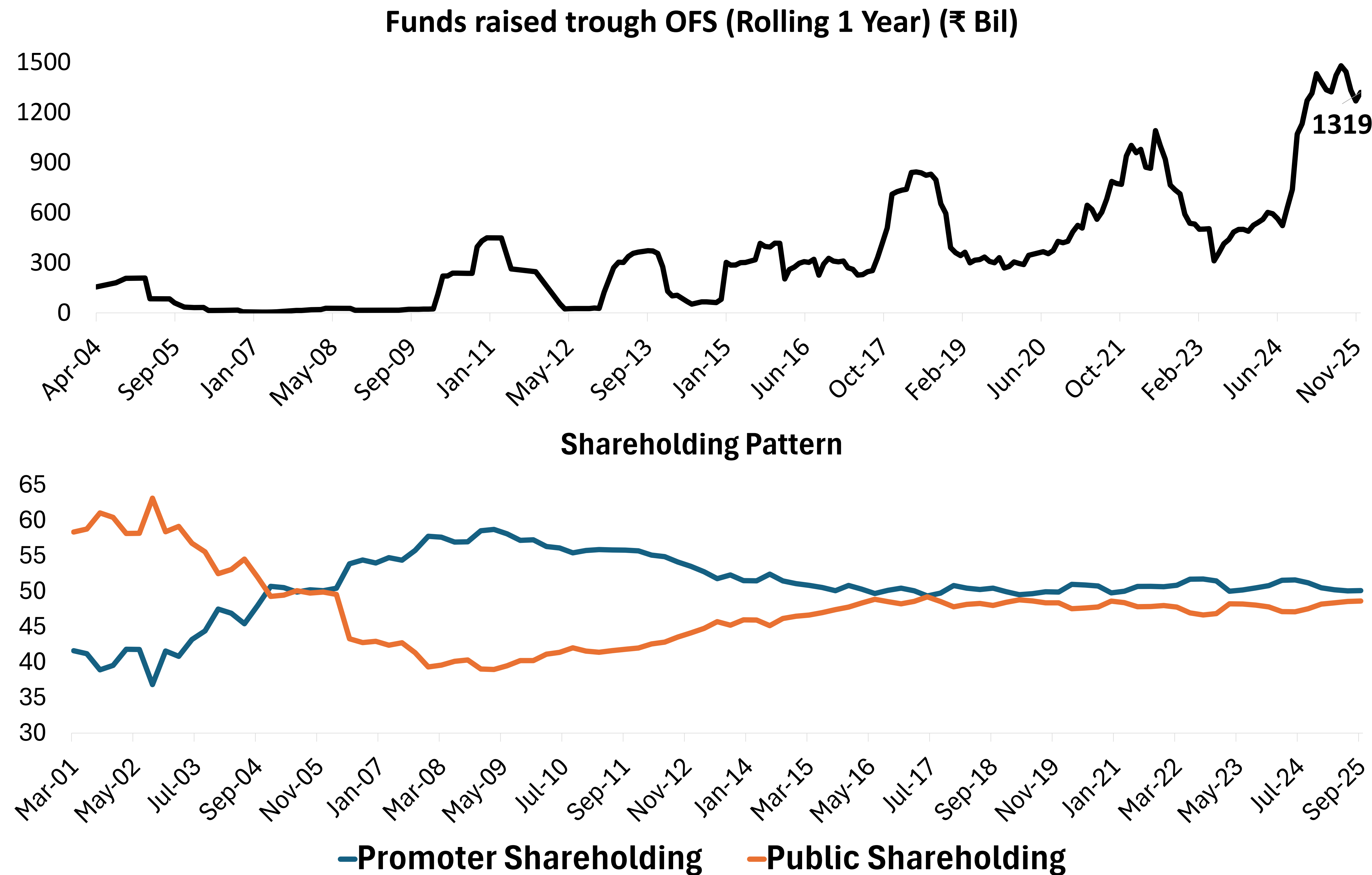


A Counterbalancing Force Against Investor Enthusiasm: Equity Issuance Supply

The gap between the public shareholding and promoter shareholding is close to its all time low. This shift does not imply that promoters are losing confidence in their businesses or exiting entirely. Rather, it reflects the fact that Indian equity valuations have reached elevated levels, prompting many promoters to partially liquidate their holdings and realize gains.

A similar trend is visible in the recent wave of IPOs, where a significant portion of the issue comprises Offer for Sale (OFS) rather than fresh capital issuance. This means that proceeds from these IPOs are flowing to existing shareholders typically promoters or early investors, instead of being reinvested into business expansion.

Interestingly, several global corporations have also taken advantage of these rich valuations by reducing their India exposure, with many achieving higher valuation multiples in India than in their home markets. From their perspective, this is a logical and financially prudent move, after all, who wouldn't want to sell at such higher prices?



The Missing Piece In MSCI EM's Rally: China

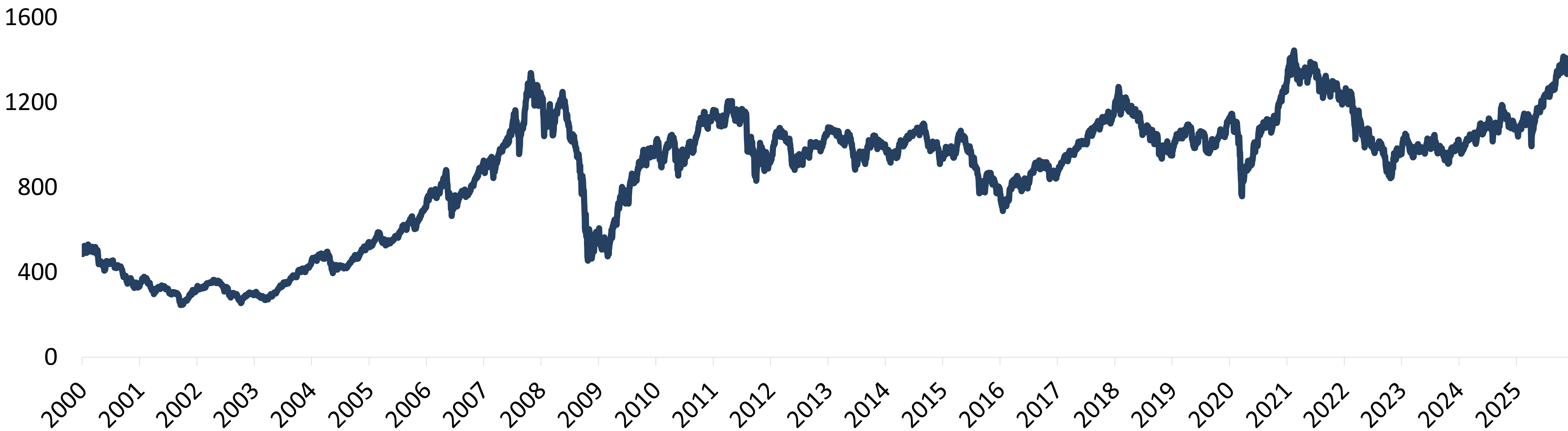
As MSCI Emerging Markets approaches its earlier peak from 2007 and 2021, an interesting structural insight emerges: the path to a durable new high may depend less on broad EM strength and more on one key market.

Among the major EM contributors, China is the only country still trading below its 2007–08 peak price levels, while peers such as India, Taiwan and South Korea have already compounded significantly beyond those levels. Yet, unlike these markets now trading at notable valuation premiums, China sits relatively close to its long-term average multiples.

This creates an unusual setup: MSCI EM's next leg higher is unlikely to be broad-based at first. Instead, China's catch-up from both depressed price levels and reasonable valuations may be the decisive catalyst that shifts the index into a sustained new high.

This is also one of the reasons why China continues to be a favorable country for foreign investment.

MSCI Emerging Markets Index



Countries with > 5% Weight	Current Weights	Price % change from Oct 2007 – Nov 2025	PE*	15 Year Average PE	PE Premium/ (Discount)
China	28.8%	-18%	12.4	11.2 [#]	10.2%
Taiwan	20.0%	181%	20.4	15.5	31.8%
India	15.8%	400%	25.7	20.3	26.6%
South Korea	12.2%	90%	13.7	11.3	21.3%

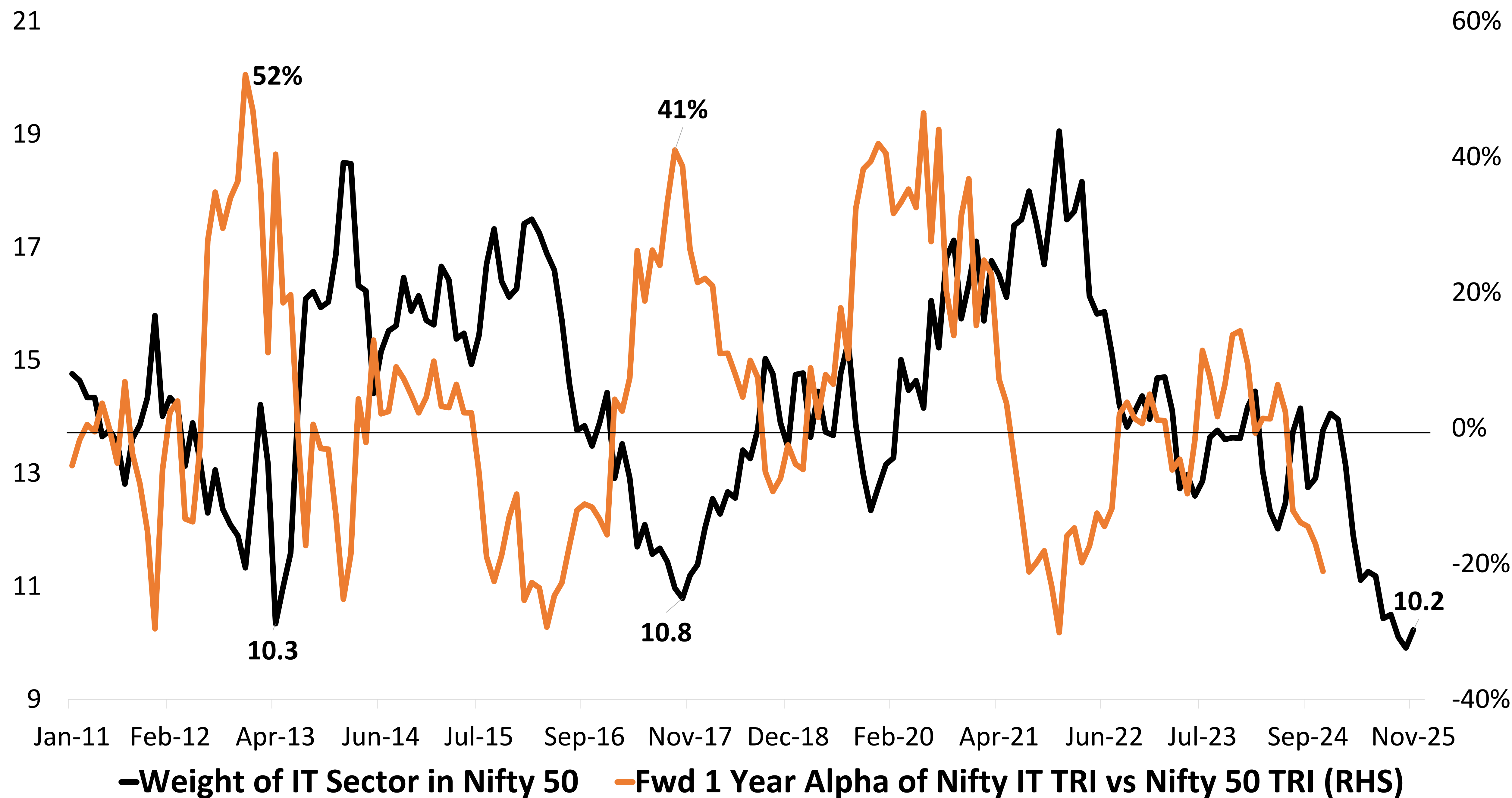
This is IT

IT Sector Weight Is Close To Decadal Lows - Underowned

Amid a sectoral slowdown, negative news flow, and an uncertain outlook, Indian largecap IT stocks have significantly derated. While Nifty IT TRI and EPS have compounded ~12.5% annually over two decades, the index has underperformed Nifty over the past 3–5 years.

With IT’s weight in the Nifty at all time lows, and leading firms still generating ROICs above 40%, the sector may offer relative outperformance if valuations fall further.

This doesn’t signal that these stocks can deliver absolute returns, but when compared to the rest of the market, this may act as a relatively better investment avenue. The defensive bucket of IT, Banks and a few other largecap stocks can be used to tide over the market volatility.



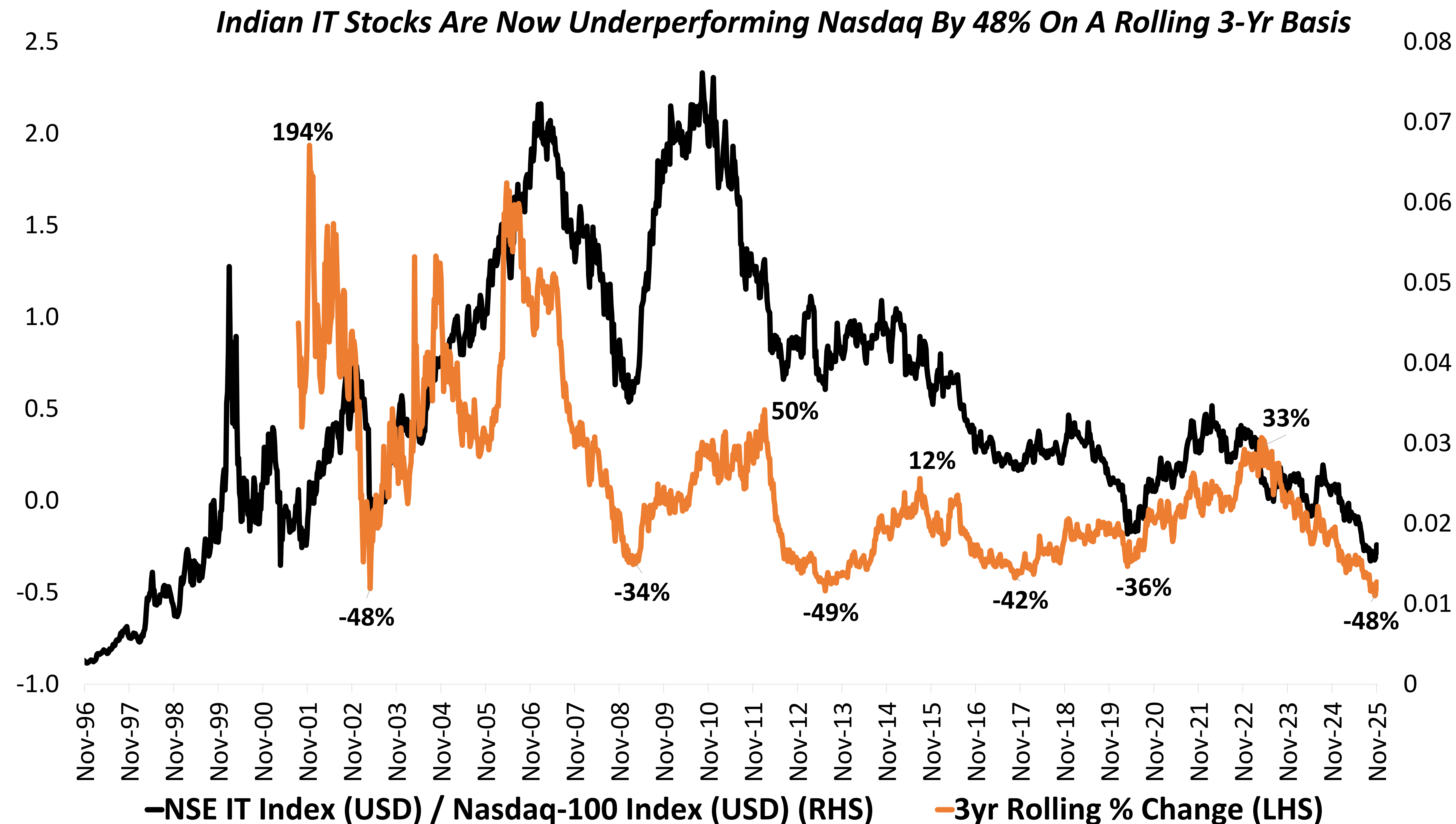
Nifty IT Index At It's Worst Rolling Performance – Underperforming

Nifty IT Index is at its relative (price) and rolling three-year performance worst versus the Nasdaq. The U.S. tech-heavy index has outperformed India's Nifty IT since mid-2023, when the AI frenzy began.

Right now, both the AI frenzy and the doubts about Indian IT feel euphoric. While it's impossible to know whether this is the trough or more pain lies ahead for Indian IT, it's a good time to consider doing the opposite and choosing Indian IT firms over U.S. tech.

The Nasdaq, driven by the big tech cohort, now has its highest weight in global equity markets, while Indian IT is its lowest weight in the Nifty and in global indices.

The choice is clear: overbought, overowned, and overvalued U.S. tech; or underowned, oversold & underperforming, and not yet undervalued (perhaps close to fair value) Indian IT.



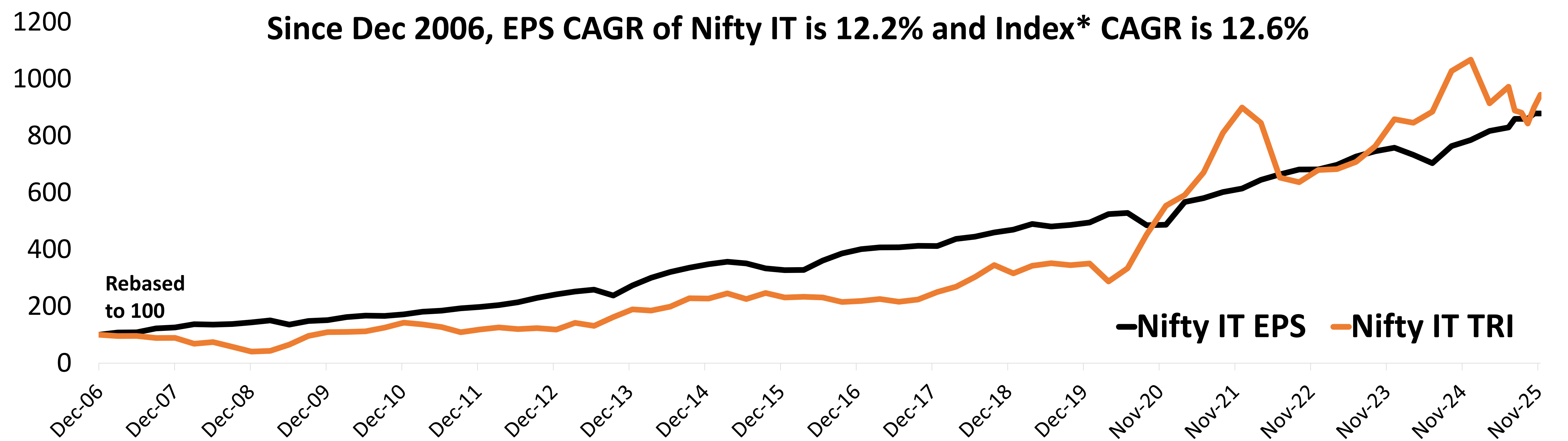
Select IT Majors Have Corrected Meaningfully – Fairly Priced

As the global IT landscape appears overheated, Indian IT companies seem relatively better positioned. Several large-cap IT stocks have corrected meaningfully over the past three years, despite their fundamentals remaining largely intact. Current ROE for many of these firms is at or above long-term averages, while valuations have reverted closer to historical norms.

For industry leaders such as Infosys and TCS, earnings growth over the past three years has actually outpaced the shareholder returns generated during the same period, a clear indication of significant de-rating in their valuations.

This disconnect stems largely from the absence of any “AI Froth” in Indian IT majors. Unlike global peers, they have seen removal of frothy valuations and have played a pivotal role as enablers of Generative AI and maintaining strong Total Contract Value (TCV) pipelines.

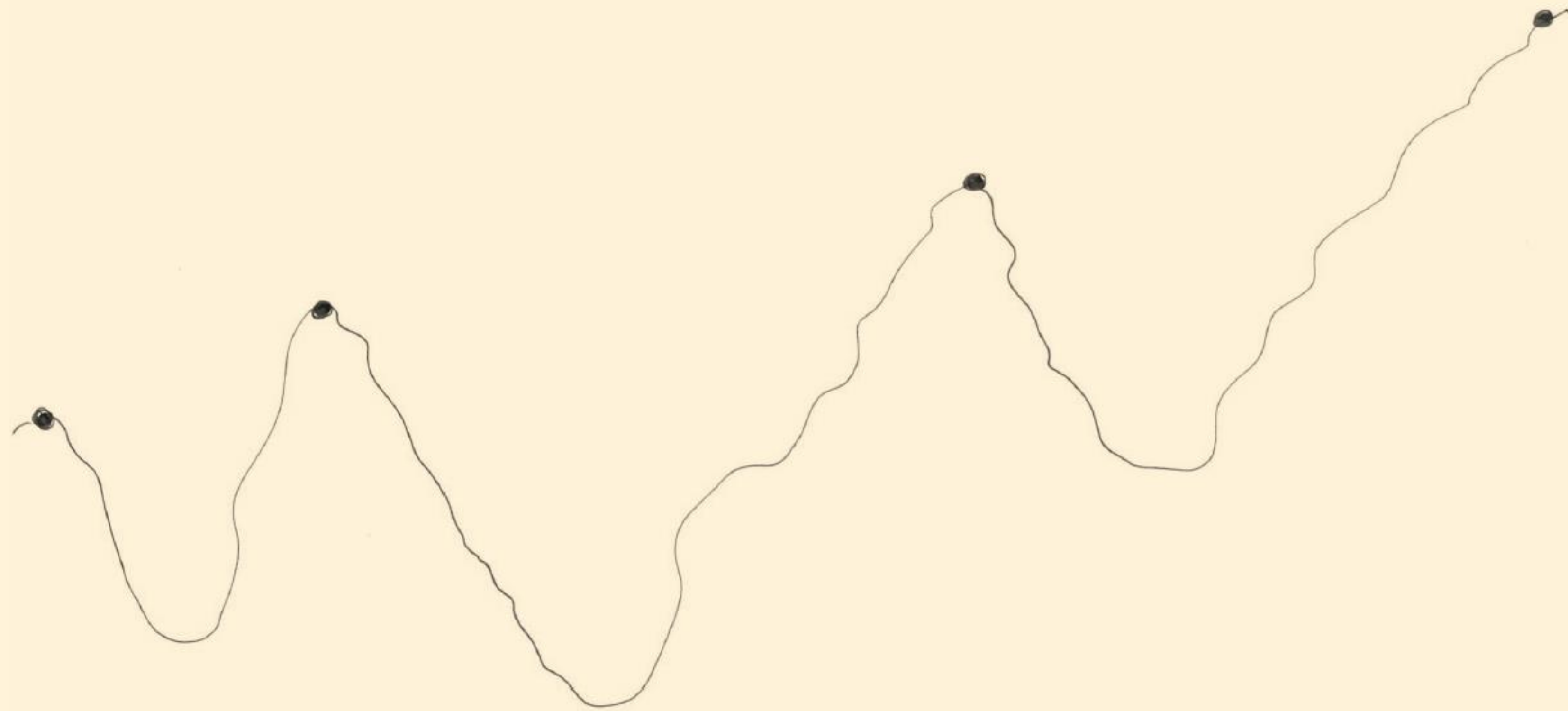
The IT sector can become an absolute play if price corrects further and ‘margin of safety’ emerges. For now, IT is a relative play.



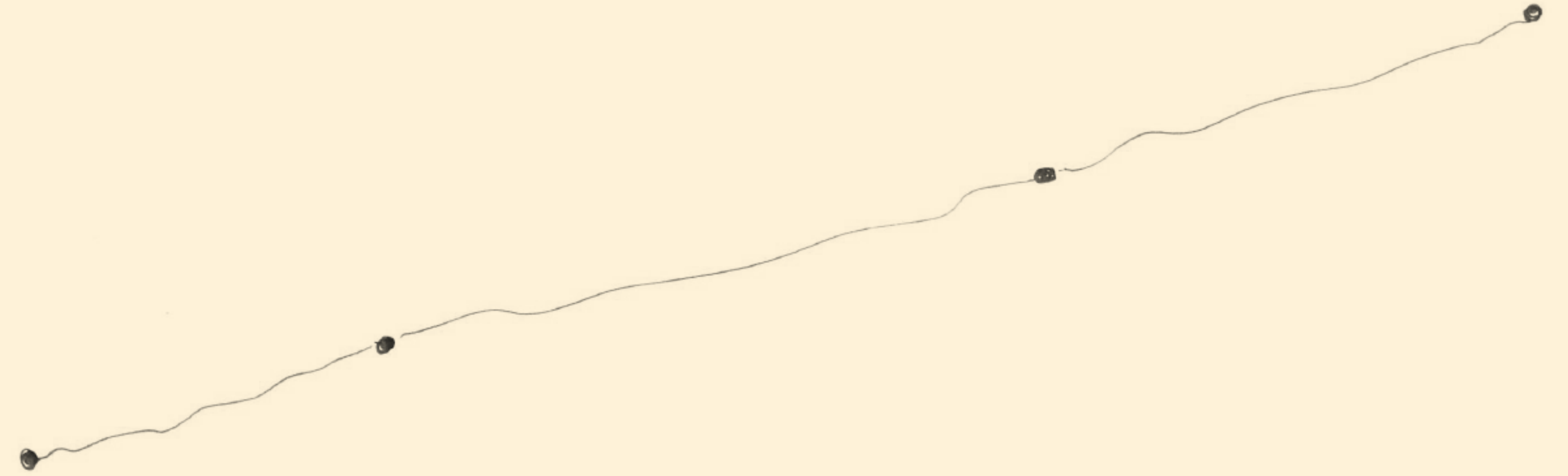
Name	ROE		PE		EPS Change		PE Change		Total Returns	
	Current [#]	Since GFC Bottom	Forward PE [^]	Since GFC Bottom	Last 3 Years [@]	Since GFC Bottom	Last 3 Years	Since GFC Bottom	Last 3 Years	Since GFC Bottom
Infosys	29.0	27.3	21.4	18.1	8%	10%	-3%	7%	4%	17%
TCS	46.6	39.2	21.2	21.1	8%	15%	-7%	8%	2%	23%
HCL Tech	24.3	25.6	23.5	15.0	7%	19%	13%	12%	21%	31%
Tech Mahindra	16.6	21.7	22.2	15.5	-2%	6%	20%	17%	18%	23%
Wipro	16.1	20.3	18.9	16.7	8%	10%	2%	6%	10%	16%

Markets Fluctuate!

How markets are!



What social media shows!





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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.