NETRA

Early Signals Through Charts

July 2025

Released on 5th July 2025

Foreign Flows, Shaky USD Channel

DSP

Foreign Inflows Elude Even as India Delivers

Over the last five years, India has exhibited one of the strongest macroeconomic setups among emerging markets, while also delivering superior equity and debt returns. Refer to the table in the top-left panel.

India was expected to receive hundreds of billions of dollars in foreign flows. Despite delivering on all key metrics, these flows have remained elusive—and, in fact, have reversed. India recorded its lowest FDI inflows in FY25. Total foreign flows in FY25 amounted to just $4.5 billion, the lowest level in the past 20 years.

This trend can be partly attributed to the broader reversal in global capital flows. Foreign investment globally has declined sharply from the exuberant levels of the 2000s and is now lower than at the start of the 21st century.

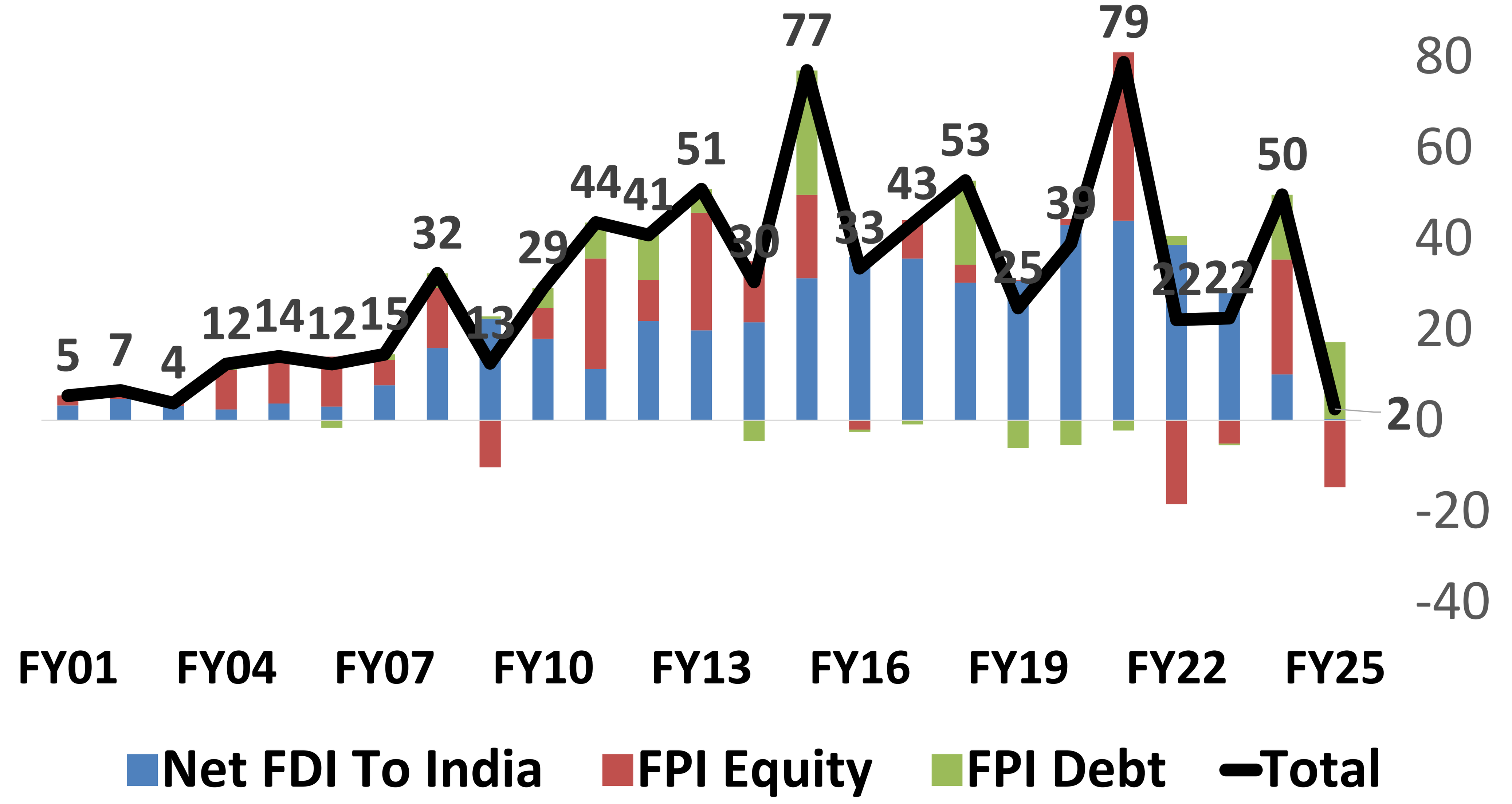
If and when global flows rebound—and if India continues to maintain macroeconomic stability along with strong microeconomic delivery—these flows could return. For now, however, they remain a cause for concern.

Over The Past 5 Years India Has Delivered, Steadily

India Delivers Outstanding Numbers	5yr CAGR / Avg
Nominal GDP Growth	10.5%
Equity Earnings Growth	20%
Equity Index Returns	24%
Avg. Rupee Volatility (Annualized)	4%
CPI Inflation	5.60%
Avg. Real 10Yr Govt. Security Yield	1.40%

Yet Foreign Flows Have Dried Up

Foreign Flows Into India (USD Bn)

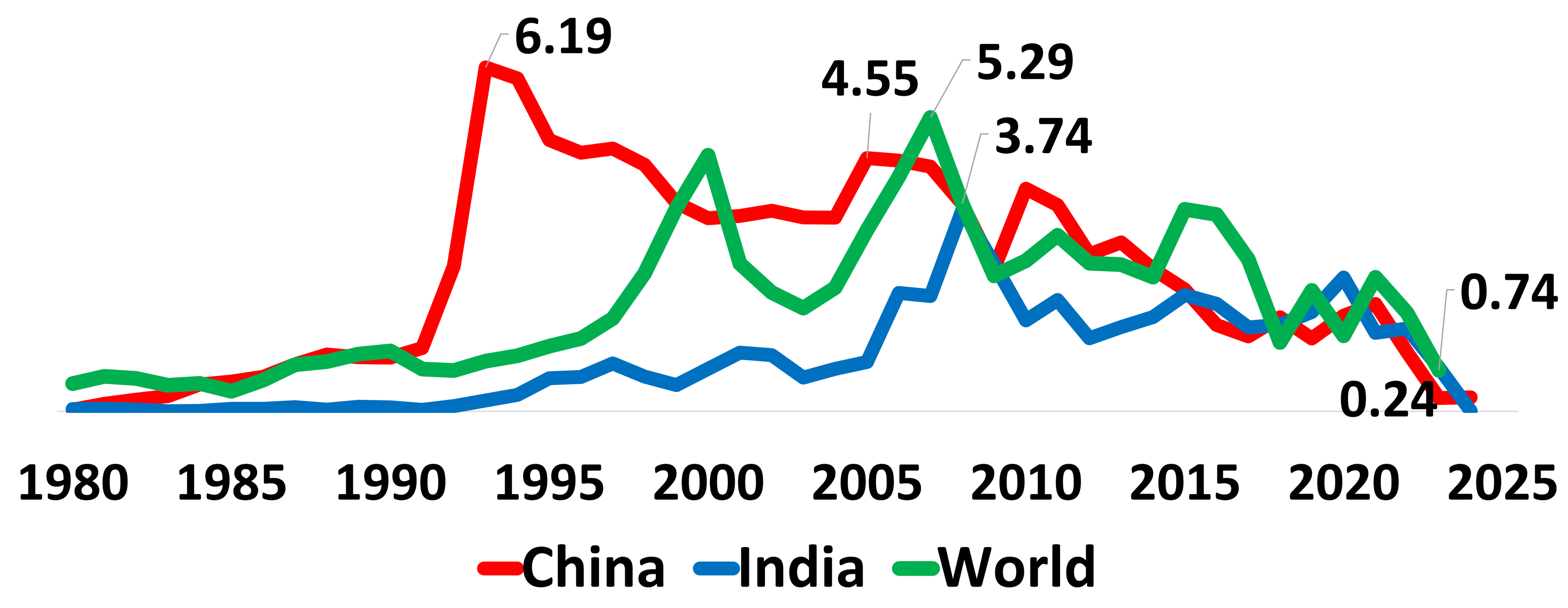


Data Shows Slowing Inflows, Rising Outflows

	FY20	FY21	FY22	FY23	FY24	FY25
Net foreign direct investment	43.0	44.0	38.6	28.0	10.1	0.4
Foreign direct investment to India	56.0	54.9	56.2	42.0	26.8	29.6
Gross inflows/gross investments	74.4	82.0	84.8	71.4	71.3	81.0
Repatriation/disinvestment	18.4	27.0	28.6	29.3	44.5	51.5
Foreign direct investment by India	13.0	11.0	17.6	14.0	16.7	29.2

But It's Not Just India, Global Flows Have Collapsed

FDI as a % of GDP



DSP

Source: IMF, CMIE, DSP, Data As of June 2025

A Weak US Dollar Flow – A Key Driver of Poor Foreign Flows

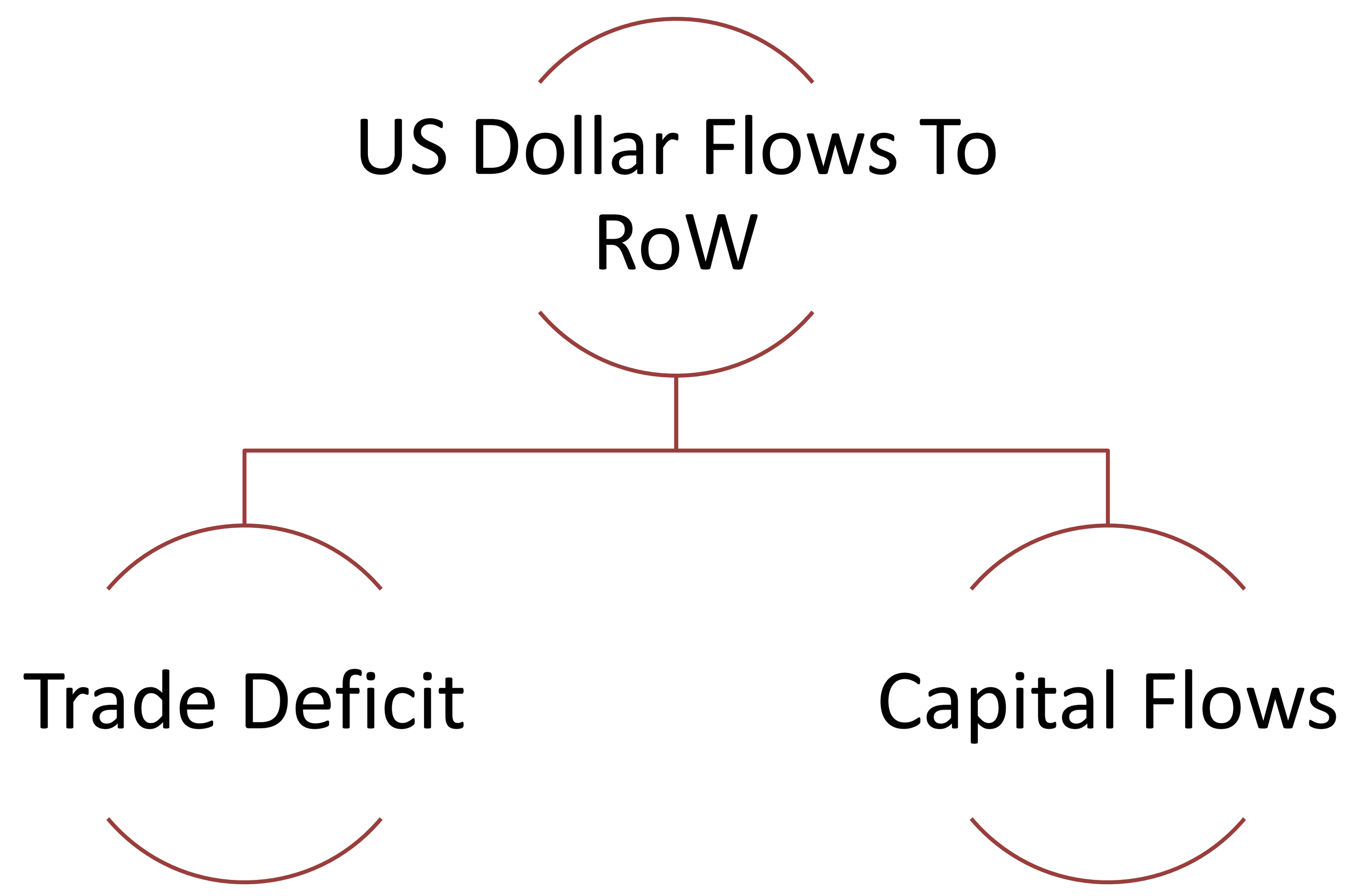
The recent decline in the USD is temporarily easing financial conditions and improving liquidity in emerging markets (EMs), despite high U.S. interest rates. This is driven by two key USD outflow channels:

1. The trade deficit (real economy) and
2. Capital flows (financial channel).

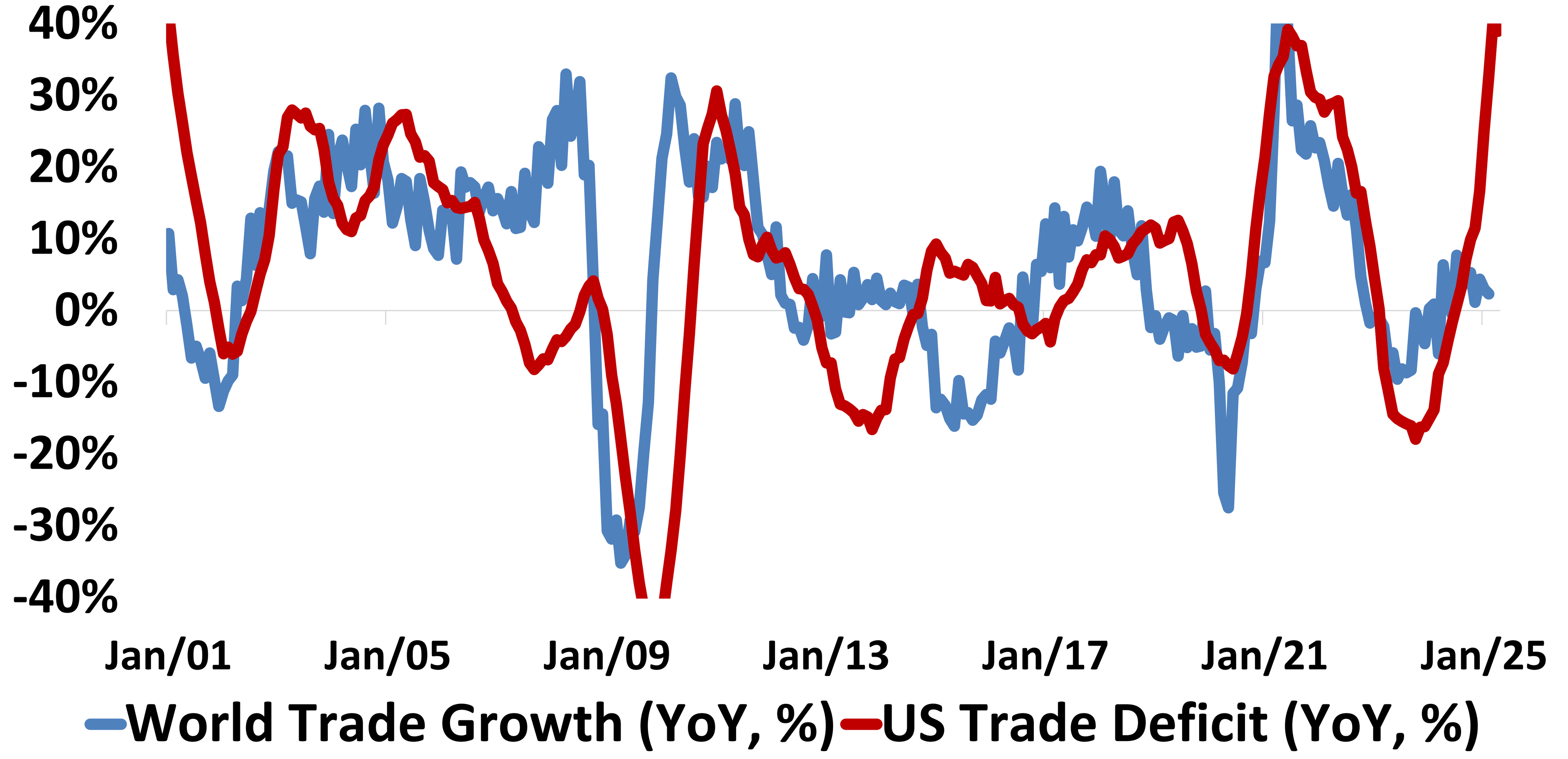
However, this dynamic is self-limiting. A weaker USD and high rates are likely to shrink the U.S. current account deficit (CAD) by dampening domestic demand and boosting exports, which in turn could stabilize or strengthen the dollar. Simultaneously, as global central banks diverge from the Fed and lower their rates, narrowing rate differentials may eventually make U.S. bonds attractive again. For now, EMs like India are leveraging this window to ease monetary policy, but the sustainability of this trend hinges on future shifts in the USD, CAD, and Fed policy.

This also indicates why EMs will find it hard to have growth levers as their biggest consumer, the US, deleverages.

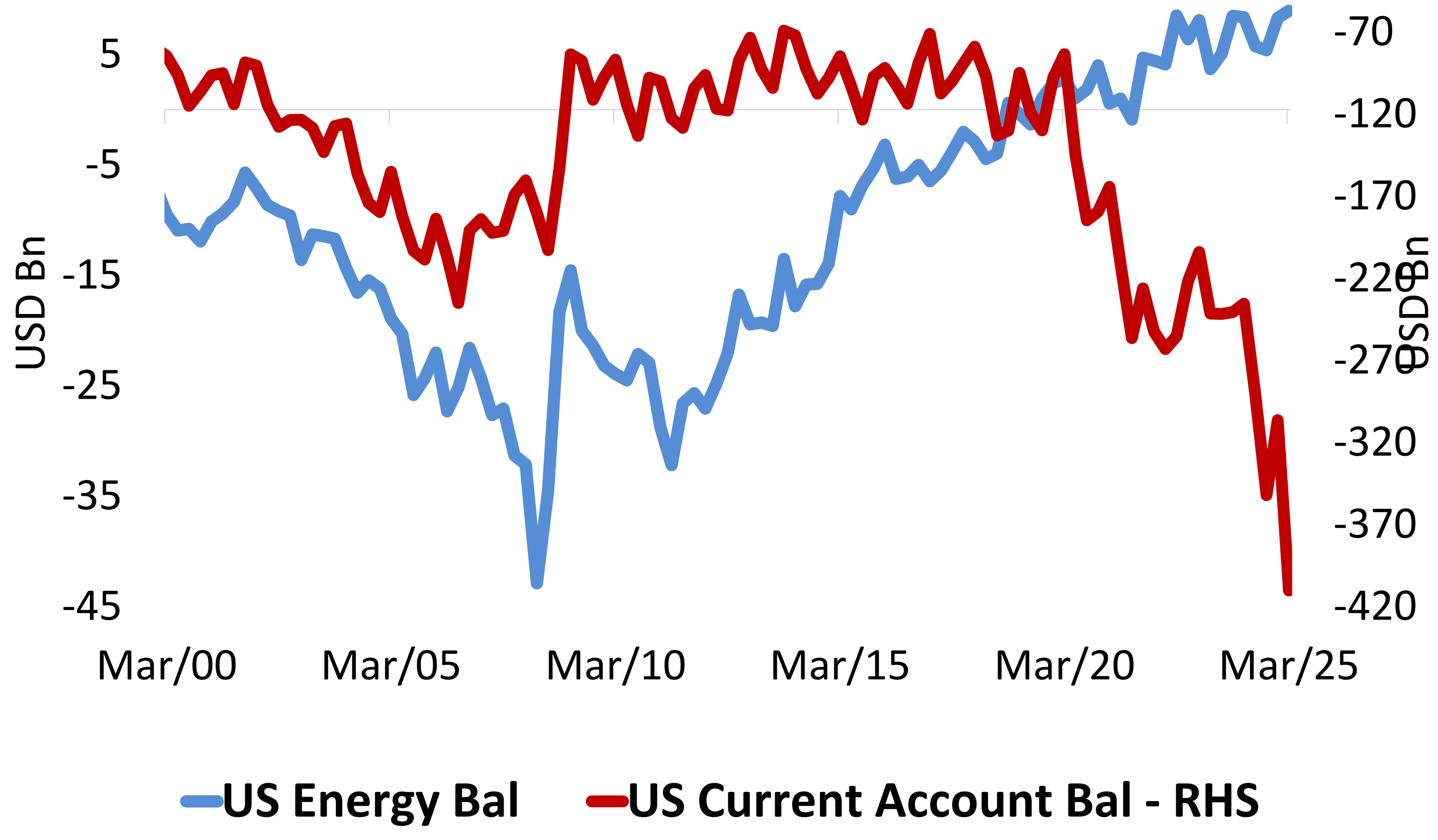
US Dollar Is The Grease of Global Trade & Growth



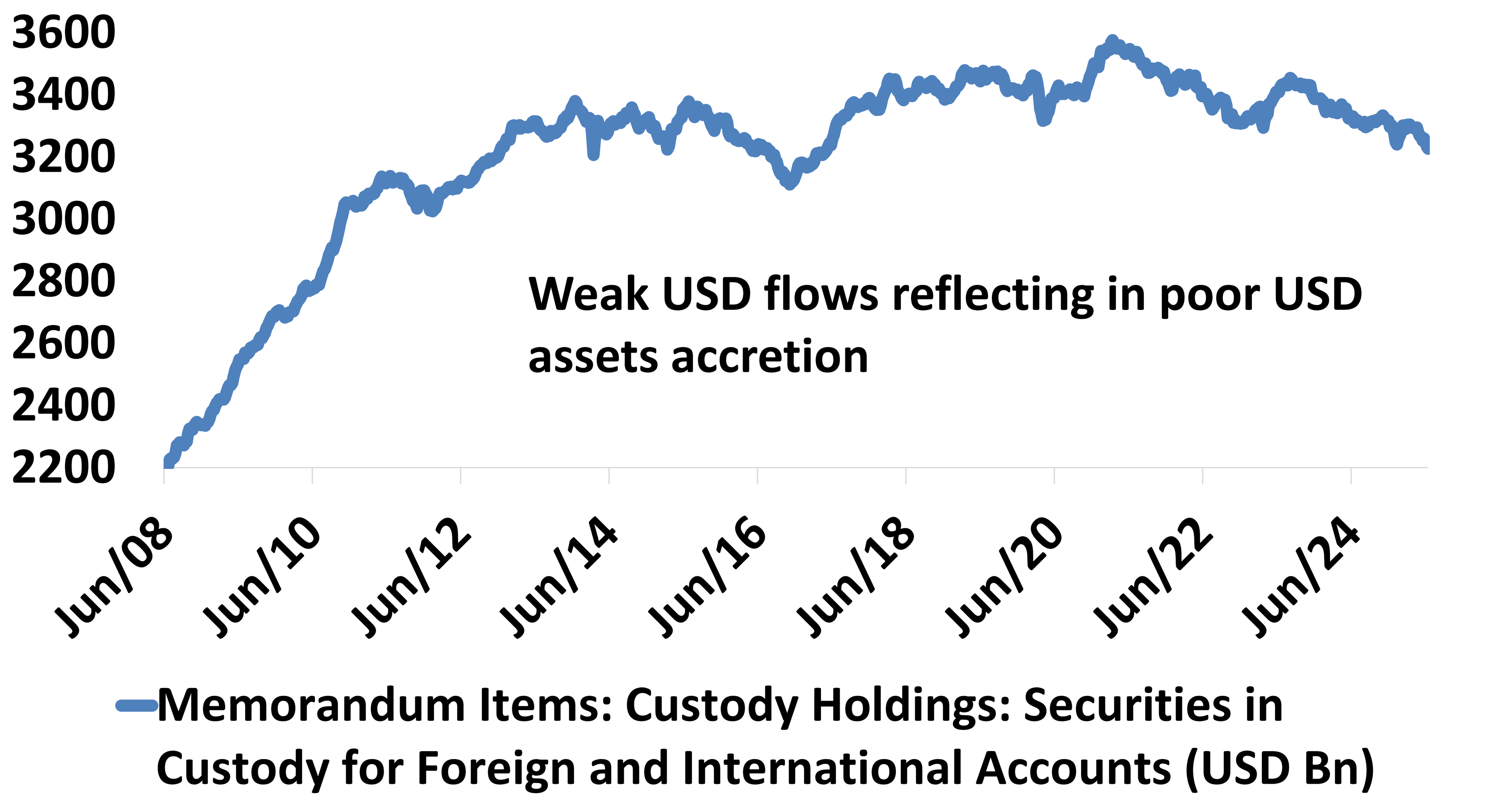
Global Trade Follow US Deficit Cycle Closely



The Post Pandemic Deficit Could Reverse As USD Depreciates and Tariffs Slow trade



A **rising trend** in this series suggests **strong global appetite** for U.S. Treasuries and agency debt — a signal of trust in the U.S. economy and dollar. A decline could imply diversification away from dollar assets.



DSP

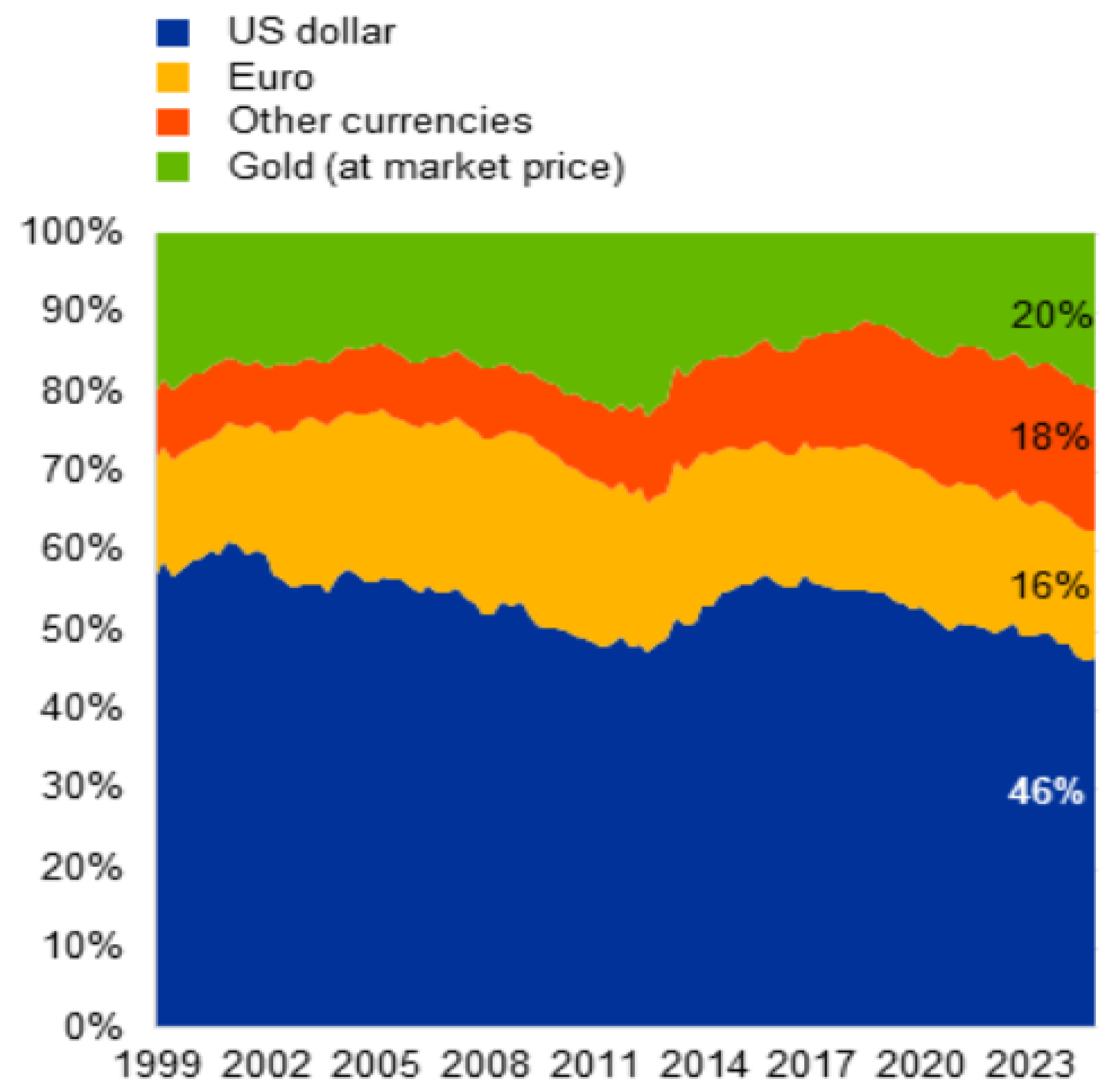
Source: FRED, DSP, Data As of June 2025

Gold – The Reserve Asset?

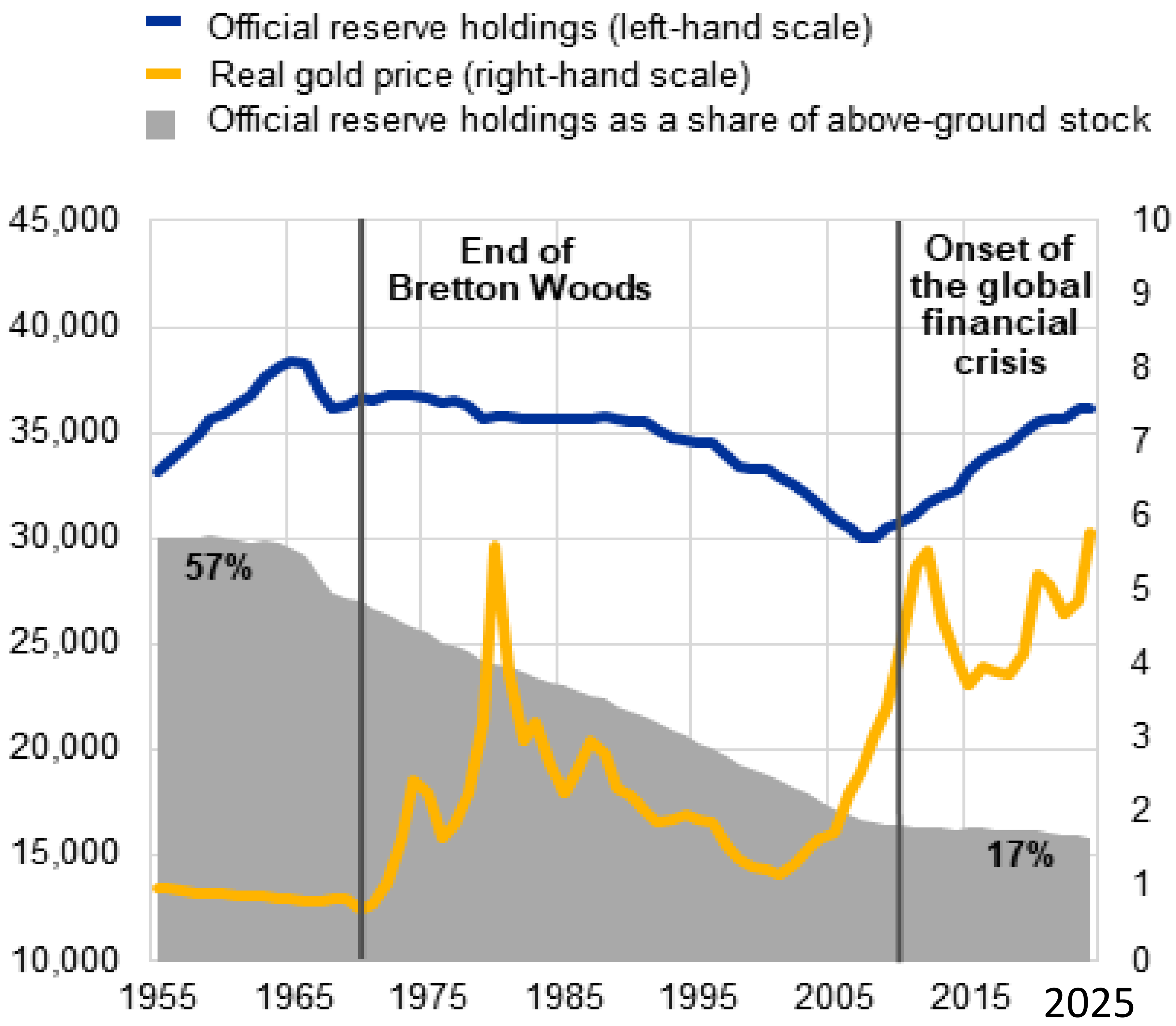
DSP

Re-'Gold'ization And Not De-Dollarization

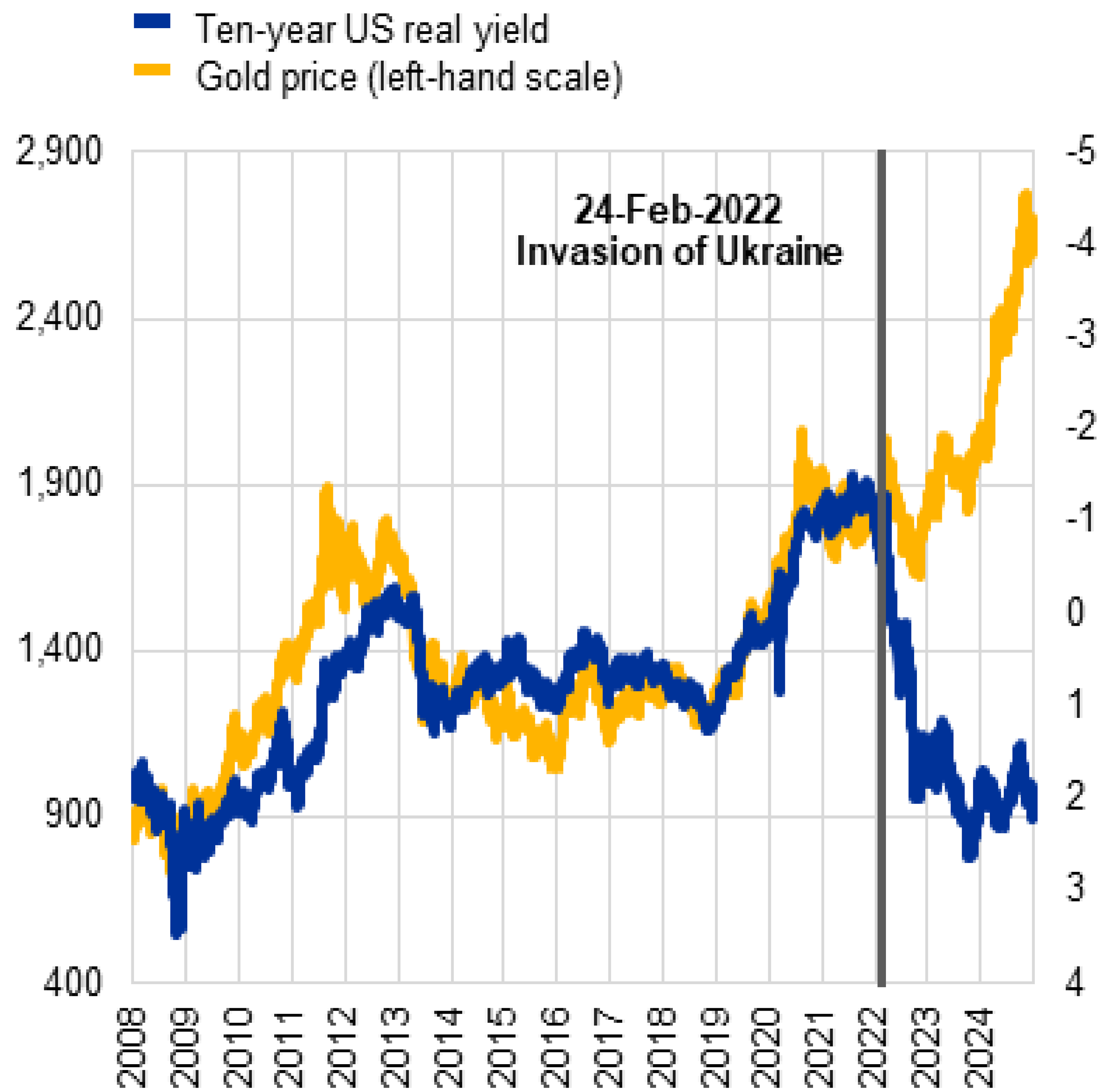
Gold Rising In Global Official Reserves At The Cost Of All Currencies



Central Banks Official Gold Reserve Holdings Are Rising



US Attempt To Use USD As Tool For Sanction Has Sparked A Global Rush For Gold



The U.S.'s ability to sustain large trade and fiscal deficits is under strain, as key creditors like China increasingly avoid U.S. Treasuries. This weakens the traditional link between the dollar's reserve currency status and its role in funding U.S. deficits. Gold has emerged as the only credible alternative attracting reserve flows. While global forex reserves total around $12.5 trillion, the gold market is valued at ~$23 trillion, 15% of which is held in India. Of the total mined Gold ever, 65% is in the form of jewellery. A mere 5% shift of global reserves into gold could trigger a sustained and significant rally in its price. And there is not much Gold to absorb such magnitude of flows.

DSP

Source: ECB, DSP, Data As of June 2025

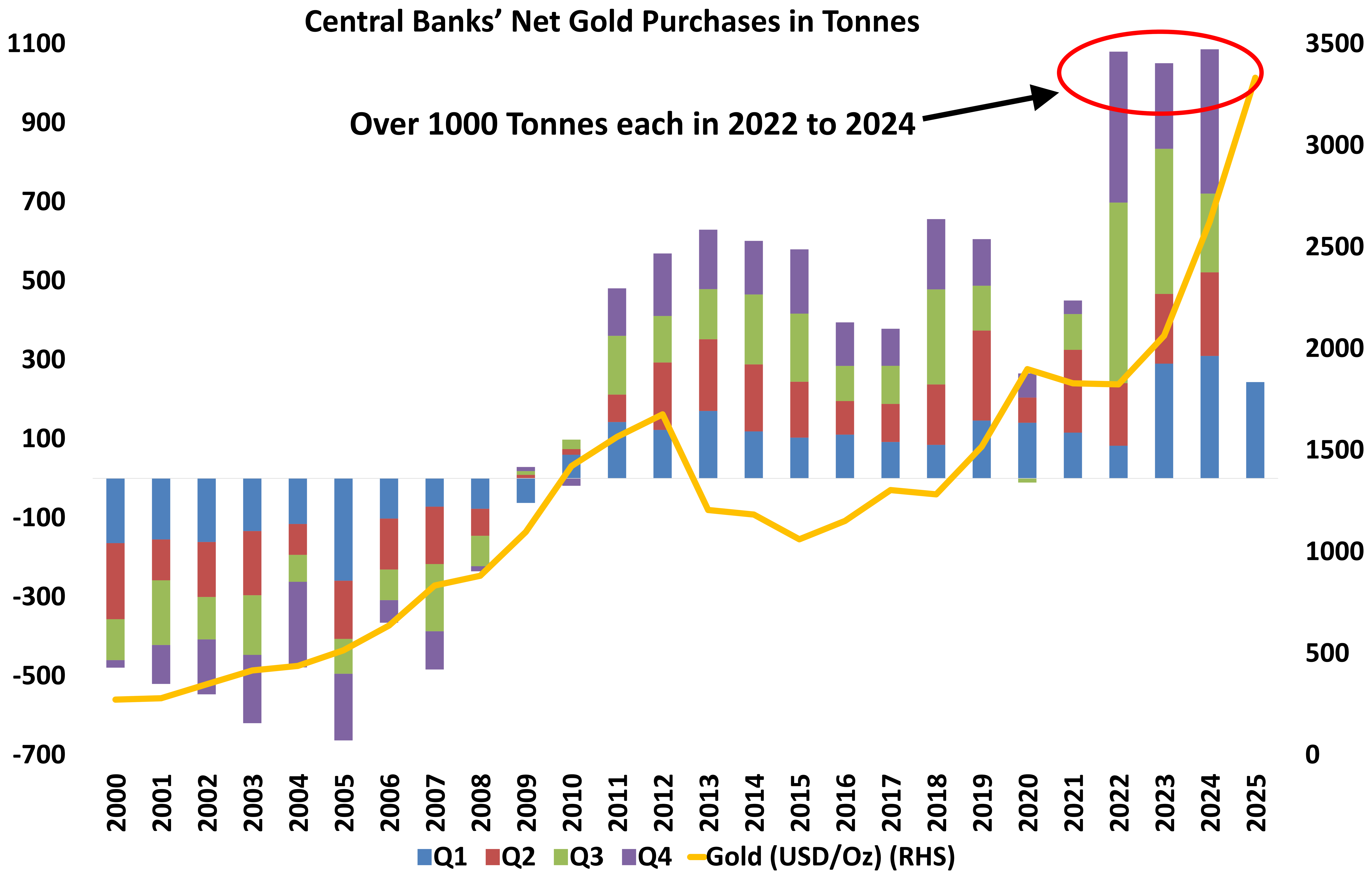
Central Banks Bought More Gold in the Last 4 Years Than in the Previous 21 Years

Central Bank Gold Purchases from 2000 to 2016 totalled $85Bn. But in a single year, 2024, central banks bought Gold worth $84Bn. In fact, since 2022, Central Banks have bought nearly 1000 tonnes of Gold each year, which is more than a fourth of annual mining supply of Gold.

This torrent of Gold purchases reflects the affinity of most countries to hold non-Dollar reserves assets.

The alternatives to USD are scarce. Euro has repeatedly shown vulnerabilities due to a rugged fiscal make of the EMU. The Chinese Yuan is far from market driven or politically palatable enough to be the reserve currency, and most other competitors are now too small to attract reserve asset purchases.

The volatile nature of the US Treasury Bonds have made Gold an even more attractive instrument for central banks. Demand for Gold, therefore, is strong, for now.



DSP

Source: World Gold Council, DSP, Data As of June 2025

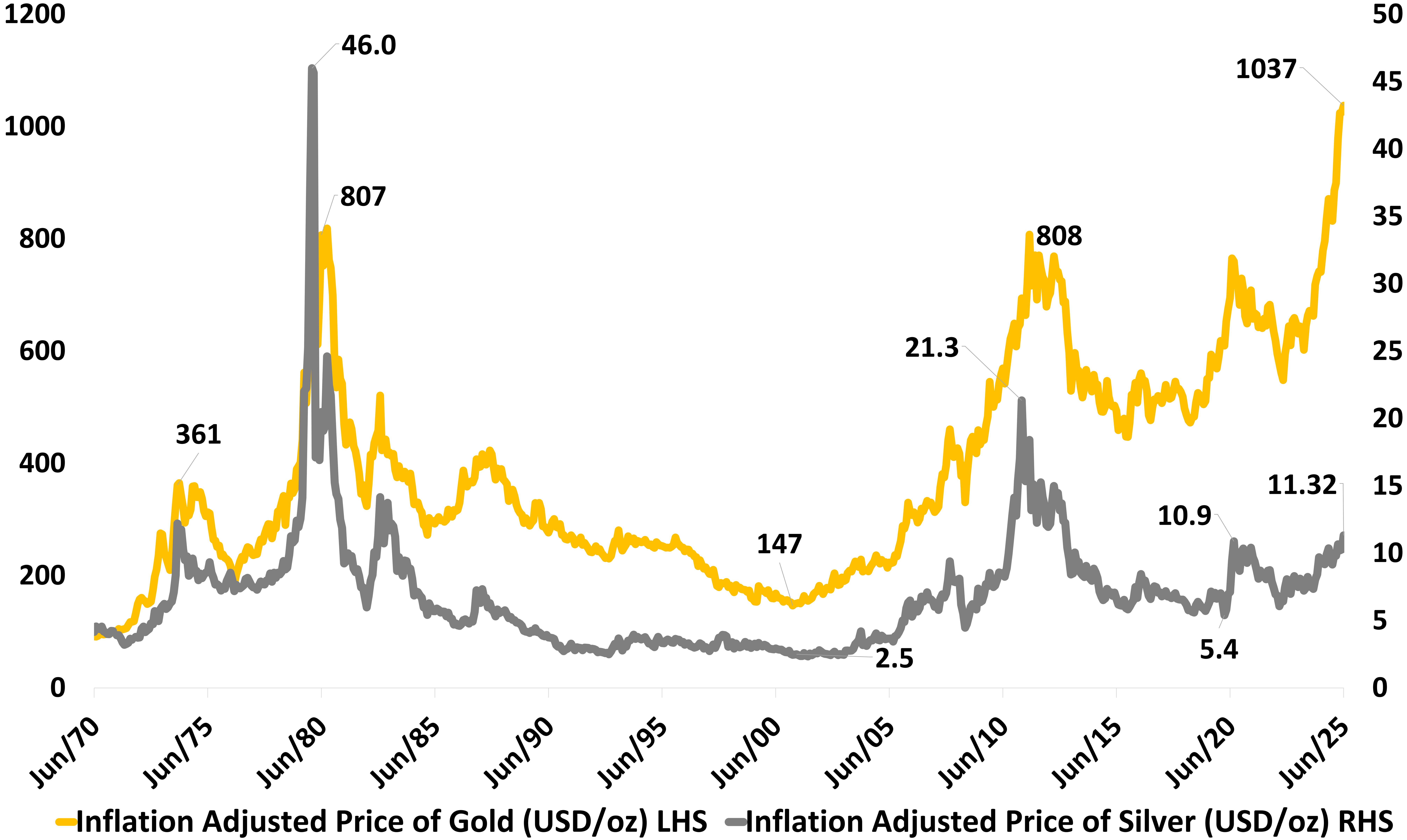
Gold Has Broken Its Inflation Adjusted 1980's High In 2024, Silver Still Below 2011 High

Gold has made a new lifetime high in inflation-adjusted terms in 2024 and is firmly in a bull market. Silver, however, has yet to reach its inflation-adjusted peak from 2011, and remains significantly lower than that peak.

U.S. policymakers are now beginning to address their twin deficits. The tariff war, though debatable in its execution, could potentially reduce the U.S. trade deficit by slowing global trade and benefiting from a weaker U.S. dollar.

There is also growing recognition that the U.S. needs to address its debt problem by borrowing less, although concrete action remains lacking.

Historically, whenever the largest debtor nation (currently the U.S.) attempts to deleverage, a major creditor (such as China) offsets it by leveraging up. This time, however, China is also undergoing a deleveraging cycle. This raises serious concerns about global growth, with one likely outcome being a broad currency debasement (possibly, already underway). This scenario benefits gold, and to some extent, silver.



DSP

Source: Bloomberg, DSP, Data As of June 2025

How To Value Gold And Silver – An Update

How To Value Gold		
Total mined Gold (above-ground stock in tonnes) *(June 2025 estimate)*	*1*	2,18,065
Total mined Gold (Bn troy ounce)	*2*	7.01
US M2 Money Supply (USD Bn)	*3*	21,942.0
Value of total mined Gold per troy ounce w.r.t US M2	*4 = 3 ÷ 2*	3130
Additional EU Money Supply (taken at 50% of total) (USD Bn)	*5*	9100
Value of total mined Gold per troy ounce w.r.t EU M2	*6 = 5 ÷ 2*	1298
Final Value of total mined Gold per troy ounce	*7 = 6 + 4*	4428
Approx Price Range for Gold	***8***	**$3130 - $4428**
Midpoint		$ 3,779

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

How To Value Silver		
Current Gold Silver Price Ratio	*1*	93
Historical Gold to Silver Ratio	*2*	
The Roman Empire		12:1
Medival Europe		9.4:1
US Coinage Act of 1792		15:1
US Decision To Raise Gold price to $35 in 1939		98:1
Abandonment of Gold standard & aftermath		97.5:1
Average Gold to Silver Ratio in 21st Century		69:1
Assuming a Gold to Silver Ratio of 60:1	*3*	
Lower band		52
Upper band		74
Derived price range for silver	***4***	**$52 to $74**
Midpoint		$ 63

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

Gold and Silver do not have a common intrinsic value yardstick. Therefore, in bull markets, it is logical to let the allocation continue until the trend continues on the upside without calling for market tops. Once these precious metals get closer to the above intrinsic value framework prices, it makes sense to create trailing price drawdown triggered allocation reductions. We are far from it yet, especially for Silver.

Corporate Financials – What Do Numbers Show?

Sales Growth Momentum Fading

																		YoY Growth			
5 Year Revenue CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
Construction Materials	25%	24%	23%	20%	19%	16%	12%	10%	8%	11%	16%	14%	13%	12%	13%	11%	12%	6%	25%	21%	5%
Oil & Gas	20%	14%	15%	16%	16%	15%	13%	5%	0%	1%	8%	9%	8%	17%	19%	9%	10%	53%	34%	-4%	2%
Automobile and Auto Ancs	30%	31%	32%	31%	32%	24%	20%	15%	11%	11%	10%	5%	4%	6%	9%	9%	14%	18%	27%	18%	8%
Textiles	16%	18%	23%	25%	26%	21%	20%	13%	8%	3%	6%	2%	2%	10%	12%	11%	11%	52%	4%	-1%	9%
Capital Goods	24%	21%	22%	19%	14%	12%	10%	3%	1%	3%	8%	4%	4%	9%	13%	10%	17%	33%	26%	10%	13%
Consumer Durables	27%	26%	25%	24%	22%	17%	18%	29%	31%	24%	24%	19%	9%	4%	13%	12%	11%	10%	32%	-4%	4%
Healthcare	25%	25%	22%	19%	20%	19%	20%	19%	16%	11%	12%	9%	9%	10%	13%	12%	12%	16%	10%	13%	15%
Chemicals	23%	17%	18%	19%	16%	12%	15%	12%	6%	6%	7%	7%	8%	15%	19%	11%	12%	40%	33%	-15%	6%
Financial Services	30%	27%	27%	29%	24%	21%	22%	19%	13%	9%	11%	11%	11%	12%	17%	18%	18%	6%	19%	47%	13%
FMCG	20%	20%	21%	20%	19%	16%	16%	11%	6%	7%	6%	6%	8%	10%	14%	11%	12%	16%	14%	4%	15%
Power	21%	46%	50%	53%	53%	37%	17%	17%	12%	8%	10%	7%	6%	8%	13%	12%	12%	15%	28%	6%	7%
Construction	28%	25%	28%	27%	22%	22%	20%	17%	13%	13%	12%	12%	8%	11%	13%	12%	15%	17%	19%	18%	10%
Consumer Services	21%	16%	18%	18%	19%	20%	30%	23%	19%	23%	21%	17%	0%	20%	30%	33%	33%	40%	72%	22%	23%
Media & Entertainment	12%	18%	29%	48%	44%	43%	45%	31%	20%	14%	17%	9%	3%	5%	7%	4%	4%	17%	15%	15%	-4%
Services	49%	47%	8%	56%	18%	13%	11%	45%	-2%	4%	7%	7%	12%	13%	17%	16%	18%	13%	27%	15%	19%
Metals & Mining	39%	23%	25%	23%	7%	10%	14%	5%	4%	8%	8%	5%	12%	20%	18%	11%	14%	57%	13%	-4%	3%
Information Technology	38%	39%	35%	33%	30%	31%	23%	22%	17%	14%	11%	11%	9%	11%	15%	13%	12%	20%	21%	6%	9%
Utilities	17%	16%	14%	10%	10%	11%	8%	42%	45%	42%	41%	41%	5%	2%	2%	6%	8%	21%	12%	5%	30%
Realty	19%	15%	41%	16%	61%	48%	65%	70%	42%	16%	16%	11%	-4%	1%	4%	3%	7%	20%	58%	17%	23%
Telecommunication	36%	44%	44%	24%	22%	18%	14%	10%	5%	2%	0%	0%	2%	7%	11%	12%	15%	22%	16%	8%	16%
Total CAGR	**25%**	**22%**	**22%**	**22%**	**19%**	**17%**	**16%**	**12%**	**7%**	**7%**	**9%**	**8%**	**8%**	**12%**	**16%**	**12%**	**13%**	**27%**	**25%**	**10%**	**8%**

DSP

Source: Capitaline, DSP. Data as of June 2025. Current BSE Allcap companies are considered, which were listed in the base year and the calculation year.

Margins Hold Near Peak, So What Will Drive Profits?

Since COVID, operating margins have played a critical role in driving profitability. This improvement has primarily stemmed from enhanced cost efficiencies and balance sheet restructuring, which led to reduced interest and credit costs.

However, with most sectors now operating near their peak margin levels and topline growth moderating to single digits, there appears to be limited headroom for further margin expansion.

As a result, the sustainability of profit growth is becoming increasingly uncertain. This dynamic could pose challenges to current market valuations and the growth expectations embedded in many stock prices.

Median Operating Margins (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	24.9	23.6	17.0	18.5	18.5	12.9	13.9	12.7	14.5	14.4	12.7	18.7	19.4	16.8	12.3	15.2	12.9
Oil, Gas & Consumable Fuels	10.8	12.2	14.3	9.4	10.9	8.0	10.0	9.8	12.4	14.4	13.7	15.0	17.3	15.8	13.7	15.4	12.2
Automobile and Auto Ancs	10.5	12.4	11.9	11.3	11.4	11.8	12.3	12.8	12.9	13.4	12.5	11.4	12.1	11.9	11.8	13.3	12.8
Textiles	8.2	13.0	12.9	10.8	12.7	12.9	12.1	12.6	12.2	13.4	12.3	10.8	13.3	16.8	11.1	11.6	11.2
Capital Goods	11.2	13.4	11.5	10.4	9.5	9.3	9.4	10.5	10.6	10.8	11.4	11.0	11.5	12.7	12.5	13.7	13.2
Consumer Durables	9.5	10.8	10.6	10.4	8.5	9.0	9.7	10.3	10.5	10.5	10.4	11.5	12.1	11.1	11.0	10.1	10.2
Healthcare	15.3	19.2	17.8	17.0	18.5	18.0	17.0	18.5	17.7	16.5	18.1	18.1	21.5	20.2	19.5	19.6	21.6
Chemicals	13.0	14.5	13.7	12.7	12.2	11.4	12.6	12.7	14.4	14.9	16.0	15.6	18.3	17.8	15.7	13.6	12.9
FMCG	13.4	13.0	12.8	11.9	11.5	9.1	9.8	12.6	13.4	10.7	12.7	11.9	12.5	13.3	11.5	12.3	11.6
Power	24.3	31.3	37.5	27.6	29.6	31.6	30.7	24.5	29.5	28.5	27.7	31.1	32.4	34.8	28.5	32.4	33.1
Construction	12.1	14.0	13.5	14.1	13.1	9.4	11.4	13.0	12.3	14.4	13.4	11.4	10.2	11.4	10.5	11.8	11.5
Consumer Services	24.0	22.4	19.6	11.4	10.2	8.2	7.1	8.0	12.5	14.6	10.4	13.5	6.2	12.5	15.6	16.7	15.9
Media & Entertainment	14.3	13.5	17.7	18.7	21.6	23.0	19.3	21.7	22.9	21.6	18.7	16.4	20.2	18.3	15.1	16.3	12.4
Services	16.2	18.6	17.2	12.4	16.6	14.3	16.6	16.5	12.7	12.7	11.6	12.1	13.7	16.8	17.3	16.0	15.2
Metals & Mining	14.8	18.2	17.8	13.4	13.3	14.8	12.1	10.5	12.9	14.7	17.6	8.7	18.4	26.1	13.0	14.8	14.0
Information Technology	16.2	18.5	15.4	14.0	16.7	18.6	18.5	15.5	12.8	15.3	16.4	14.9	18.5	18.0	18.4	18.2	17.1
Utilities	4.6	6.9	6.2	6.7	7.7	6.4	7.2	7.5	7.1	7.9	9.2	9.1	14.0	16.2	12.8	16.6	17.6
Realty	37.7	34.2	30.2	28.1	29.1	27.8	29.2	26.6	27.8	23.8	25.6	19.9	16.4	18.6	19.1	22.3	23.1
Telecommunication	11.5	12.4	10.9	7.4	8.3	15.7	15.2	19.3	12.9	13.2	16.6	8.9	13.9	13.6	13.0	13.0	14.7
Median	**13.6**	**15.9**	**14.8**	**13.3**	**13.2**	**13.0**	**12.9**	**13.3**	**14.4**	**14.6**	**14.8**	**14.4**	**15.8**	**16.1**	**15.0**	**15.8**	**15.3**

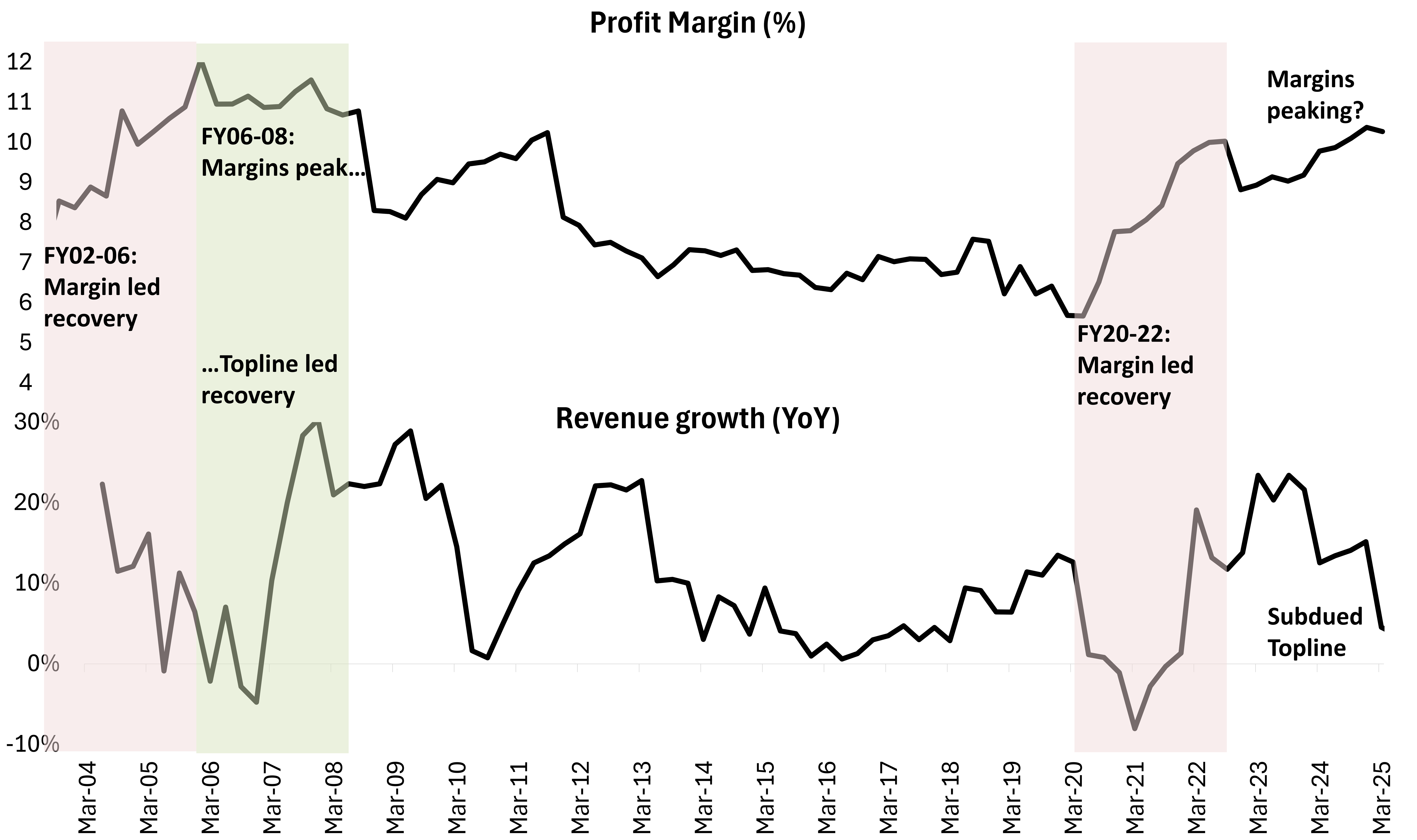
Source: Capitaline, DSP. Data as of June 2025. Current BSE Allcap companies Operating Margins excluding other income considered.

Margins Hold Near Peak, So What Will Drive Profits?

Post-COVID, a combination of strong revenue growth and margin expansion has been the primary driver of profit after tax (before exceptional items). 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 by the consensus?



DSP

Source: Bloomberg, Nuvama Research, DSP Data as of June 2025. Data is of BSE500

Profit Growth Momentum Is Waning

5 Year PAT* CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	45%	37%	19%	8%	8%	2%	-3%	5%	4%	1%	11%	17%	19%	14%	9%	13%	2%
Oil & Gas	8%	10%	12%	10%	3%	9%	2%	9%	10%	16%	17%	14%	9%	14%	9%	16%	13%
Automobile and Auto Ancs	-7%	28%	33%	34%	29%	74%	22%	16%	9%	12%	1%	-15%	-10%	-12%	3%	23%	44%
Capital Goods	28%	28%	23%	12%	-2%	-9%	-13%	-13%	-4%	8%	26%	9%	12%	16%	21%	18%	42%
Consumer Durables	32%	48%	33%	28%	21%	22%	13%	15%	15%	16%	15%	13%	7%	9%	10%	12%	11%
Healthcare	22%	21%	21%	10%	12%	18%	18%	14%	19%	8%	2%	4%	8%	6%	12%	17%	21%
Chemicals	26%	21%	21%	17%	9%	6%	5%	4%	9%	19%	18%	18%	20%	21%	16%	6%	8%
Financial Services	36%	32%	30%	29%	22%	17%	16%	-1%	-4%	-30%	-10%	-9%	24%	33%	90%	56%	55%
FMCG	14%	19%	15%	14%	17%	13%	11%	12%	12%	10%	14%	15%	14%	12%	17%	12%	9%
Power	15%	43%	49%	41%	40%	35%	9%	12%	14%	8%	12%	8%	10%	13%	17%	16%	20%
Construction	37%	39%	30%	22%	15%	9%	2%	0%	10%	15%	18%	18%	25%	7%	6%	14%	20%
Consumer Services	30%	0%	-4%	-24%	-60%	P to L	-4%	-7%	32%	175%	L to P	21%	P to L	35%	33%	67%	73%
Media & Entertainment	16%	2%	27%	42%	29%	24%	41%	24%	15%	15%	19%	8%	-6%	10%	1%	-60%	-2%
Services	18%	-4%	-3%	-20%	2%	-5%	13%	24%	53%	12%	21%	11%	-35%	-4%	22%	30%	32%
Metals & Mining	35%	10%	19%	8%	-5%	-5%	3%	-15%	-9%	10%	15%	3%	28%	45%	10%	3%	17%
Information Technology	42%	44%	39%	33%	31%	30%	17%	16%	14%	10%	7%	8%	7%	10%	11%	9%	10%
Utilities	-6%	7%	19%	24%	15%	70%	32%	59%	54%	53%	53%	48%	16%	14%	21%	21%	22%
Realty	16%	77%	44%	17%	18%	30%	20%	27%	19%	17%	13%	P to L	-8%	10%	8%	18%	L to P
Telecommunication	61%	41%	38%	P to L	P to L	P to L	-18%	22%	L to P	13%	-16%	25%	P to L	26%	L to P	L to P	41%
Total CAGR	**22%**	**21%**	**22%**	**17%**	**11%**	**13%**	**9%**	**6%**	**7%**	**5%**	**8%**	**5%**	**11%**	**17%**	**21%**	**22%**	**25%**

YoY Growth

5 Year PAT* CAGR	FY22	FY23	FY24	FY25
Construction Materials	1%	-29%	46%	-19%
Oil & Gas	47%	-11%	58%	-27%
Automobile and Auto Ancs	-16%	127%	97%	-4%
Capital Goods	68%	19%	34%	17%
Consumer Durables	20%	25%	8%	9%
Healthcare	2%	10%	21%	36%
Chemicals	51%	14%	-41%	27%
Financial Services	49%	39%	44%	12%
FMCG	10%	9%	11%	11%
Power	13%	21%	24%	5%
Construction	-20%	29%	34%	17%
Consumer Services	L to P	67%	40%	11%
Media & Entertainment	126%	-26%	-96%	2267%
Services	970%	152%	57%	13%
Metals & Mining	131%	-54%	-13%	33%
Information Technology	18%	8%	6%	8%
Utilities	43%	47%	-1%	42%
Realty	119%	102%	35%	32%
Telecommunication	L to P	19%	65%	114%
Total CAGR	**45%**	**9%**	**33%**	**6%**

DSP

Source: Capitaline, DSP. Data as of June 2025. Current BSE Allcap companies are considered, which were listed in the base year and the calculation year.
*PAT before Exceptional Items considered. P to L - Profit to Loss And L to P – Loss to Profits

Corporate Balance Sheet Is In the Best of Health

Leverage - one of the most critical fundamental indicators has shown meaningful improvement in India. The median Debt-to-Asset (%), which reflects the extent to which assets are financed through debt, has been declining steadily and is currently at its lowest levels.

This deleveraging trend is broad-based with Median BSE Allcap stocks Debt to Assets (%) at 16% (which is the lowest on record for these companies), with most sectors experiencing a reduction in debt-funded assets. This has been supported by rising profitability and more efficient utilization of internal cash flows.

In contrast to the 2003–07 cycle when strong profitability and optimism led to excessive leverage and left companies vulnerable during the Global Financial Crisis, the current cycle is marked by significantly healthier corporate balance sheets. This strength enhances the resilience of Indian corporates, enabling them to better withstand potential downturns.

Median Debt to Assets (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	40%	42%	38%	37%	38%	39%	39%	41%	39%	38%	39%	38%	35%	37%	34%	32%	28%
Oil, Gas & Consumable Fuels	30%	31%	30%	33%	37%	38%	32%	27%	33%	32%	29%	29%	21%	19%	22%	18%	18%
Automobile and Auto Ancs	50%	46%	46%	53%	51%	46%	43%	37%	35%	31%	32%	27%	24%	22%	23%	21%	17%
Textiles	62%	59%	56%	52%	55%	53%	50%	50%	37%	43%	37%	42%	42%	37%	31%	31%	31%
Capital Goods	39%	43%	41%	40%	38%	41%	38%	38%	33%	32%	30%	26%	22%	23%	21%	14%	12%
Consumer Durables	46%	39%	46%	48%	45%	42%	35%	33%	23%	23%	32%	30%	26%	27%	25%	18%	15%
Healthcare	38%	35%	34%	35%	33%	32%	30%	28%	28%	28%	27%	24%	17%	13%	14%	12%	15%
Chemicals	45%	45%	44%	47%	49%	48%	50%	47%	40%	32%	30%	26%	20%	21%	20%	16%	13%
FMCG	46%	47%	49%	48%	46%	42%	37%	36%	35%	33%	31%	30%	27%	22%	21%	20%	14%
Power	42%	47%	40%	43%	45%	53%	55%	50%	54%	53%	54%	49%	49%	49%	48%	47%	39%
Construction	48%	48%	51%	50%	49%	51%	43%	43%	40%	39%	35%	35%	38%	37%	32%	28%	23%
Consumer Services	48%	39%	32%	36%	39%	32%	26%	35%	36%	24%	29%	35%	32%	33%	34%	21%	18%
Media & Entertainment	38%	32%	29%	33%	40%	36%	37%	37%	31%	30%	29%	20%	13%	12%	7%	7%	9%
Services	45%	48%	45%	47%	43%	40%	42%	36%	32%	26%	21%	32%	31%	26%	24%	21%	18%
Metals & Mining	45%	43%	44%	48%	52%	53%	52%	48%	49%	45%	40%	41%	42%	25%	24%	27%	25%
Information Technology	11%	15%	14%	16%	14%	8%	9%	10%	9%	7%	11%	14%	11%	10%	8%	8%	6%
Utilities	26%	20%	24%	31%	42%	52%	40%	43%	37%	43%	38%	27%	18%	20%	11%	11%	12%
Realty	37%	41%	37%	38%	39%	34%	43%	43%	44%	40%	47%	44%	39%	36%	38%	34%	27%
Telecommunication	31%	27%	36%	37%	53%	50%	47%	47%	52%	46%	37%	30%	47%	38%	41%	40%	36%
Median	**46%**	**45%**	**43%**	**45%**	**45%**	**45%**	**43%**	**41%**	**37%**	**34%**	**33%**	**33%**	**28%**	**26%**	**25%**	**21%**	**16%**

DSP

Source: Capitaline, DSP Data as of June 2025. Current BSE Allcap companies are considered.

Cash Flows Remain Robust

Operating Cash Flow (OCF) Margin measures how efficiently a company converts its revenue into actual cash from core business activities. It reflects the quality of earnings by focusing on cash profitability rather than accounting profits.

Sustained strength in operating cash flows has resulted in elevated OCF margins, which is a positive indicator from both a capital allocation and corporate governance standpoint. It points to improved cash conversion cycles and prudent financial management.

While operating cash flows have moderated recently but still, they remain strong, highlighting the resilience of underlying business operations.

Notably, sectors such as Telecom and Real Estate have reported OCF margins significantly above their 20-year historical averages, reflecting improved financial efficiency in recent years.

Operating Cashflow Margin (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	24%	25%	17%	19%	15%	15%	15%	17%	21%	7%	10%	21%	24%	10%	2%	7%	3%
Oil & Gas	7%	9%	11%	7%	7%	10%	11%	12%	13%	14%	7%	9%	10%	11%	8%	12%	11%
Automobile and Auto Ancs	7%	13%	8%	10%	10%	13%	12%	14%	12%	10%	6%	10%	14%	6%	8%	11%	9%
Textiles	12%	6%	7%	8%	6%	7%	15%	4%	5%	4%	9%	10%	12%	7%	12%	3%	9%
Capital Goods	7%	9%	9%	6%	-1%	8%	5%	9%	6%	7%	3%	8%	16%	9%	8%	7%	9%
Consumer Durables	4%	7%	6%	3%	8%	1%	8%	4%	4%	2%	3%	5%	3%	2%	3%	5%	3%
Healthcare	13%	16%	17%	18%	16%	17%	15%	16%	18%	13%	12%	18%	18%	15%	15%	16%	17%
Chemicals	10%	13%	10%	5%	5%	10%	9%	10%	17%	13%	7%	15%	24%	8%	9%	10%	11%
FMCG	12%	13%	8%	11%	12%	13%	10%	12%	14%	17%	13%	15%	15%	12%	11%	12%	11%
Power	29%	25%	23%	19%	26%	30%	28%	35%	36%	35%	25%	32%	35%	34%	31%	33%	34%
Construction	2%	8%	4%	-1%	8%	-3%	4%	4%	13%	1%	1%	7%	12%	10%	8%	7%	3%
Consumer Services	9%	10%	17%	23%	20%	14%	11%	11%	9%	8%	4%	6%	8%	5%	7%	9%	9%
Media & Entertainment	7%	23%	19%	16%	15%	18%	19%	20%	19%	18%	13%	20%	26%	17%	7%	2%	12%
Services	6%	7%	6%	4%	13%	11%	15%	12%	16%	12%	9%	13%	14%	14%	15%	18%	17%
Metals & Mining	16%	17%	13%	12%	13%	15%	14%	20%	18%	16%	17%	14%	25%	19%	12%	12%	14%
Information Technology	20%	23%	16%	15%	18%	17%	17%	15%	18%	17%	17%	18%	23%	18%	15%	17%	17%
Utilities	-10%	-1%	5%	-3%	5%	4%	1%	-3%	6%	-2%	2%	12%	12%	6%	7%	2%	6%
Realty	-11%	67%	10%	13%	11%	9%	-17%	21%	12%	11%	11%	22%	34%	27%	10%	22%	17%
Telecommunication	38%	51%	16%	28%	25%	23%	26%	26%	27%	31%	20%	17%	40%	38%	38%	42%	47%

DSP

Source: Capitaline, DSP Data as of June 2025. Current BSE Allcap companies considered. Operating Cashflow margin is calculated as Cashflow from Operations/Revenue.

Can The Capex Grow Without Consumption Cycle?

Beyond debt reduction, a key avenue for deploying internal cash flows and profits is capital expenditure (capex) to support future growth.

Indian companies have undertaken meaningful capex in recent years, this trend is particularly visible in 5-year CAGR data, influenced by the low base of FY20. However, on a YoY basis, the capex momentum appears to be slowing (ex-power), despite healthy operating cash flows and strong OCF margins.

This moderation in capex activity, despite financial capacity, likely reflects subdued demand conditions. In an environment of weak demand, any aggressive capex runs the risk of eroding profitability, a scenario that may not sit well with investors, especially at elevated market valuations. As a result, unless demand meaningfully revives, corporates are likely to remain cautious in pursuing new capital investments.

5 Year CAPEX CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	72%	21%	43%	24%	8%	6%	9%	-1%	-5%	-4%	3%	5%	5%	19%	22%	28%	36%
Oil, Gas & Consumable Fuels	28%	31%	28%	-5%	11%	15%	12%	2%	30%	14%	11%	11%	16%	4%	10%	7%	7%
Automobile and Auto Ancs	72%	37%	32%	29%	21%	7%	25%	19%	9%	13%	10%	4%	-4%	-1%	-2%	3%	9%
Textiles	43%	22%	5%	-8%	-15%	-6%	-6%	1%	-1%	6%	3%	7%	-14%	3%	15%	-10%	11%
Capital Goods	41%	22%	22%	18%	12%	5%	-4%	-5%	-10%	-6%	0%	14%	2%	8%	15%	14%	21%
Consumer Durables	75%	29%	19%	39%	11%	14%	4%	14%	8%	17%	18%	16%	-9%	12%	10%	19%	18%
Healthcare	55%	26%	3%	18%	4%	12%	28%	31%	19%	15%	12%	-1%	-7%	-1%	18%	7%	18%
Chemicals	58%	28%	19%	20%	6%	2%	0%	1%	1%	6%	46%	27%	15%	13%	12%	-11%	5%
FMCG	35%	22%	20%	17%	-3%	4%	1%	-3%	-3%	-2%	2%	4%	7%	3%	15%	18%	21%
Power	52%	72%	81%	49%	42%	30%	4%	7%	18%	4%	10%	8%	-6%	-7%	-2%	4%	32%
Construction	110%	59%	51%	24%	24%	14%	13%	-4%	-4%	-12%	-7%	10%	2%	2%	5%	11%	-6%
Consumer Services	72%	40%	22%	-6%	-7%	-12%	3%	1%	-1%	9%	13%	8%	-6%	35%	27%	44%	32%
Media & Entertainment	-1%	8%	40%	40%	65%	73%	67%	54%	17%	12%	18%	8%	-11%	-2%	4%	13%	3%
Services	18%	9%	31%	44%	35%	16%	36%	6%	-11%	-19%	2%	-3%	21%	8%	37%	17%	21%
Metals & Mining	54%	39%	55%	49%	-11%	17%	7%	-8%	-16%	-3%	5%	4%	3%	8%	16%	3%	18%
Information Technology	31%	22%	-209%	-22%	-31%	-11%	16%	31%	48%	75%	34%	-2%	2%	3%	0%	-5%	10%
Utilities	11%	24%	4%	10%	-4%	-14%	16%	51%	24%	13%	65%	-215%	0%	-1%	13%	35%	64%
Realty	96%	42%	9%	20%	16%	25%	13%	40%	-13%	26%	12%	13%	1%	21%	-7%	3%	14%
Telecommunication	70%	65%	95%	14%	-1%	-3%	-8%	-21%	14%	11%	13%	6%	9%	-4%	2%	10%	15%
Diversified	41%	-5%	-7%	-17%	21%	15%	25%	12%	28%	-8%	20%	15%	14%	17%	28%	5%	5%
Total CAGR	**44%**	**35%**	**38%**	**18%**	**7%**	**11%**	**10%**	**1%**	**7%**	**6%**	**10%**	**8%**	**6%**	**3%**	**9%**	**7%**	**15%**

DSP

Source: Capitaline, DSP Data as of June 2025. Current BSE Allcap companies are considered, which were listed in the base year and the calculation year.

Valuations Sending A Cautionary Signal

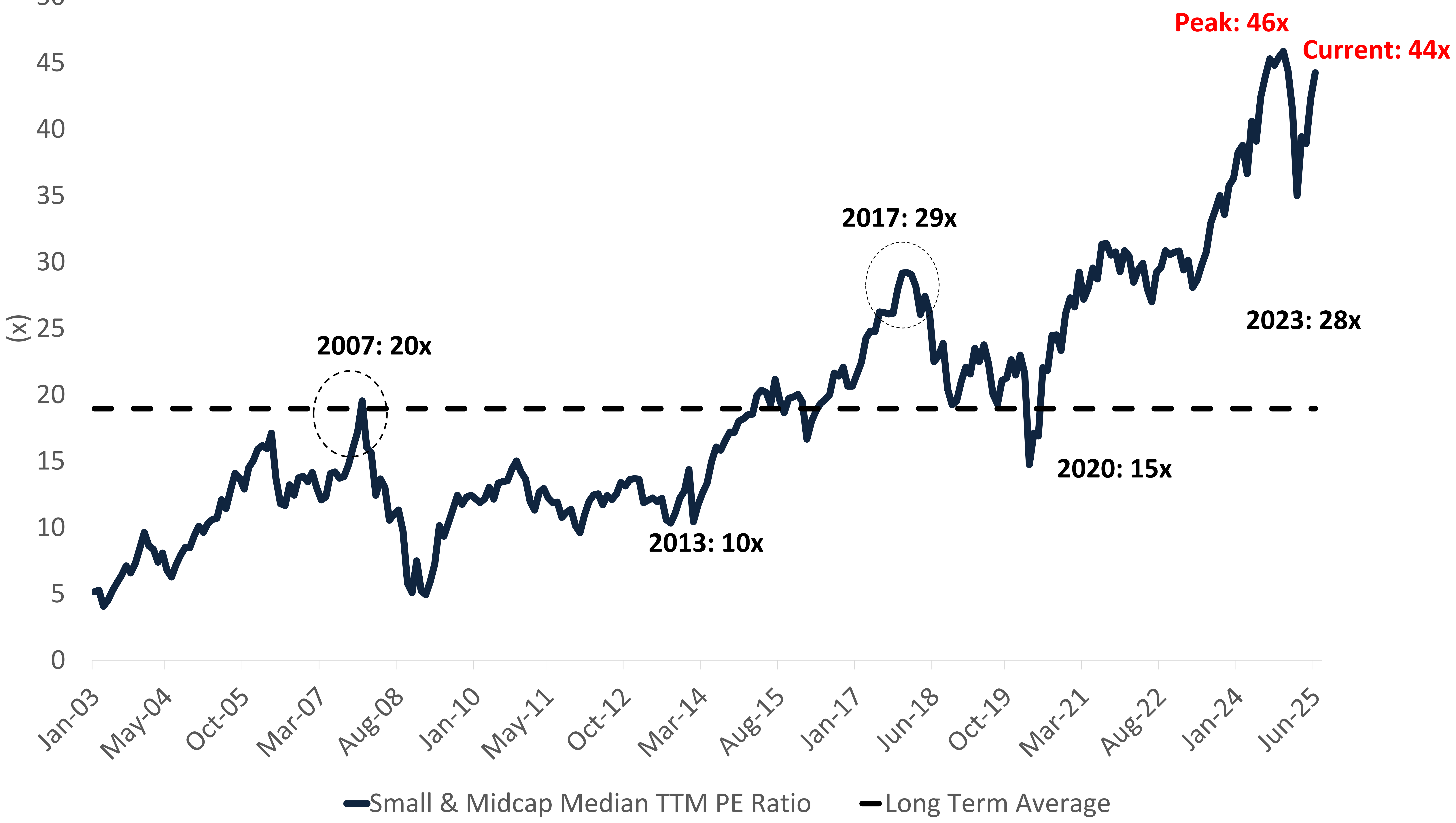
The median earnings multiple for Small & Midcap stocks craters during bear markets. In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors.

The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels. (on a side note, this is another instance which shows that market keeps surprising investors).

The long-term median multiple for SMID universe now stands at 19x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average.

If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys. Watch out!

Peak valuations and loss of momentum generated a deep drawdown and a year of poor returns. What happens the second time?



DSP

Source: Bloomberg, DSP. Data As of June 2025

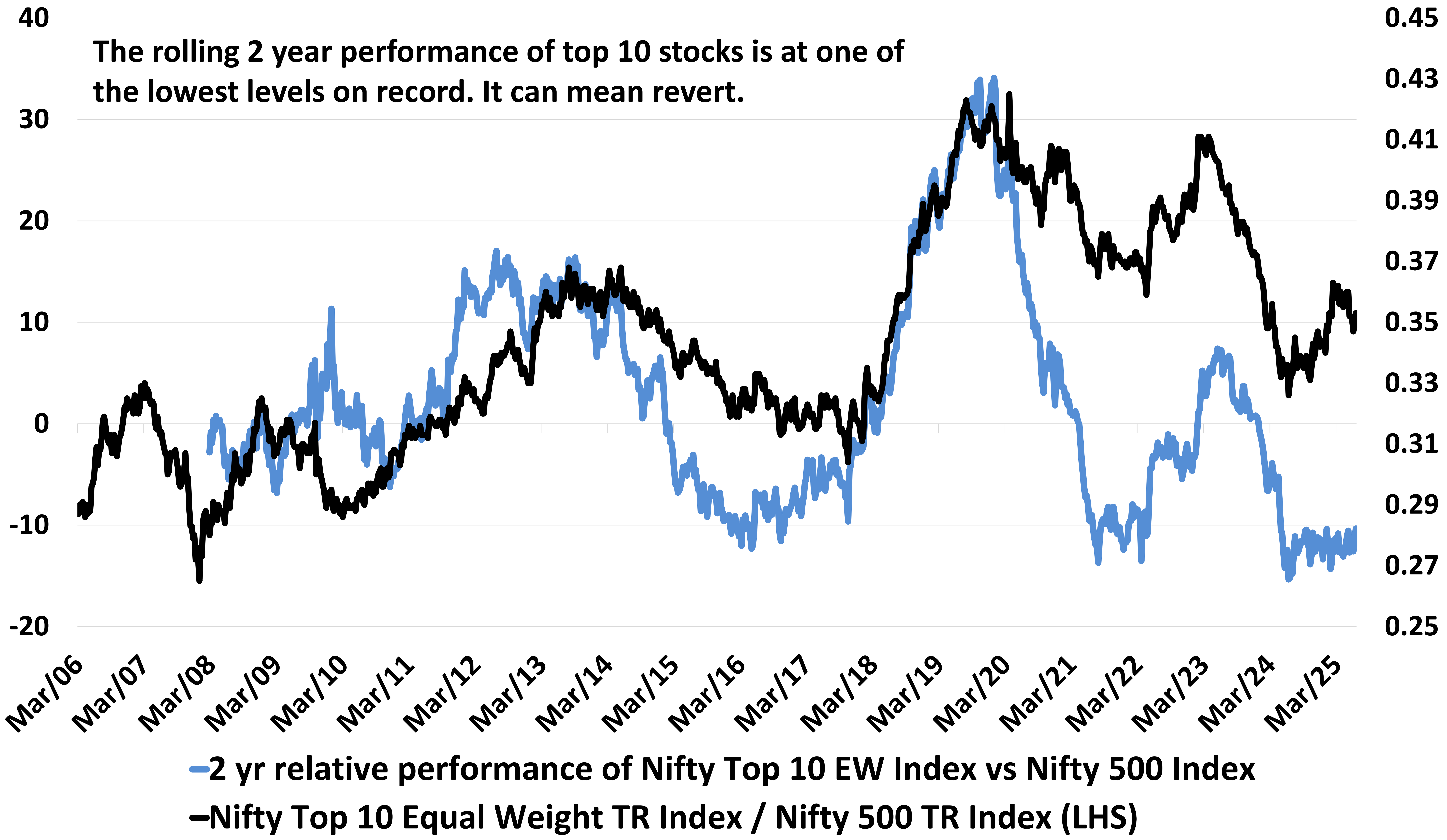
LARGEST 10 Stocks Close To Their Most Attractive Level Vs The Broder Market

The LARGEST stocks, the top 10 companies by market capitalization have underperformed since the COVID bottom. However, the macroeconomic structuring and relative valuations both favour this universe of LARGEST stocks currently.

In any economy, two of the following three take precedence. Macroeconomic stability, Return on equities and Scale. India has chosen the path of macroeconomic stability and higher ROEs. For this reasons, companies which can scale up while maintaining their ROEs can show steadiness even in times of distress.

The LARGEST firms are well set to benefit from this trend. Moreover, they are priced more attractively than the broader market, both in terms of valuations and price.

This makes the Top 10 stock universe an attractive proposition to analyse.



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Source: Bloomberg, DSP. Data As of June 2025

The Case Of Missing Theme In This Cycle

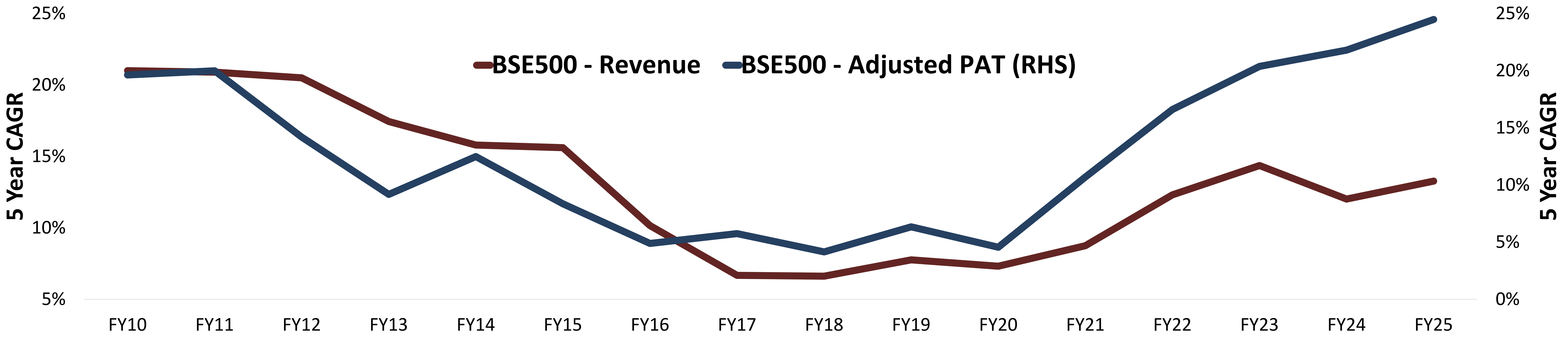
DSP

No Clear Winners Have Emerged In This Cycle, So Far

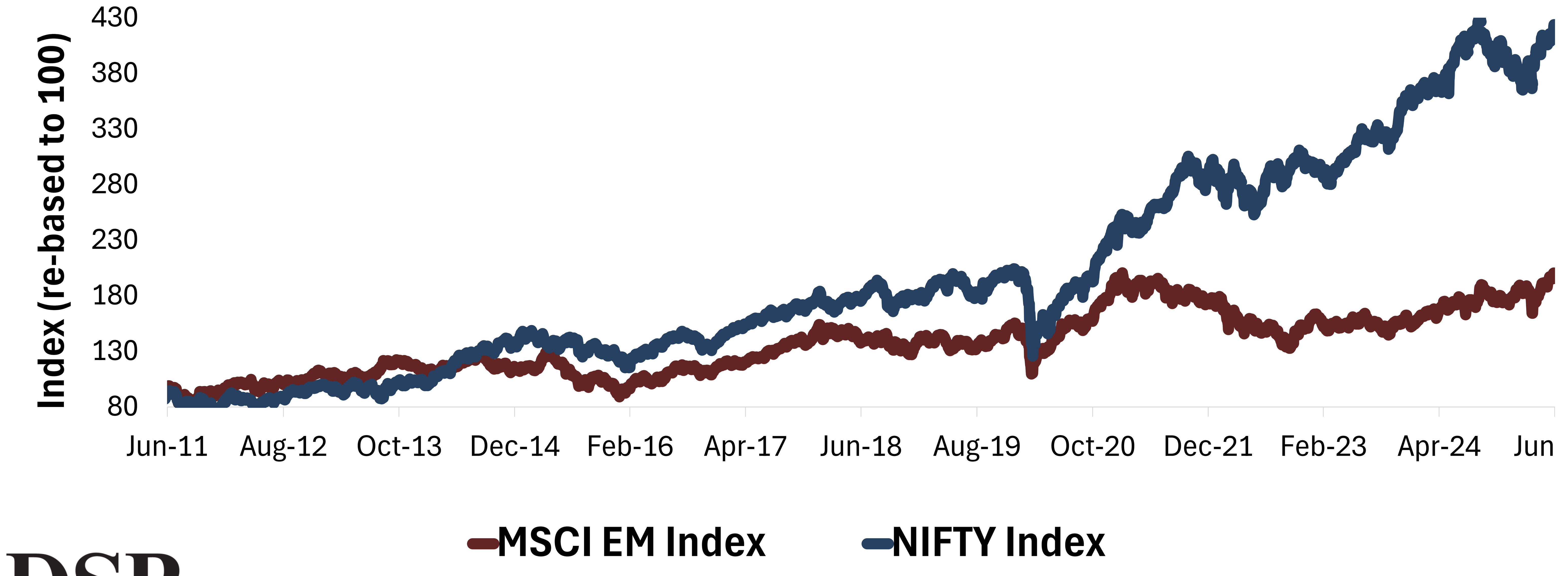
Source: CMIE, Nuvama Research, DSP Data as of June 2025.

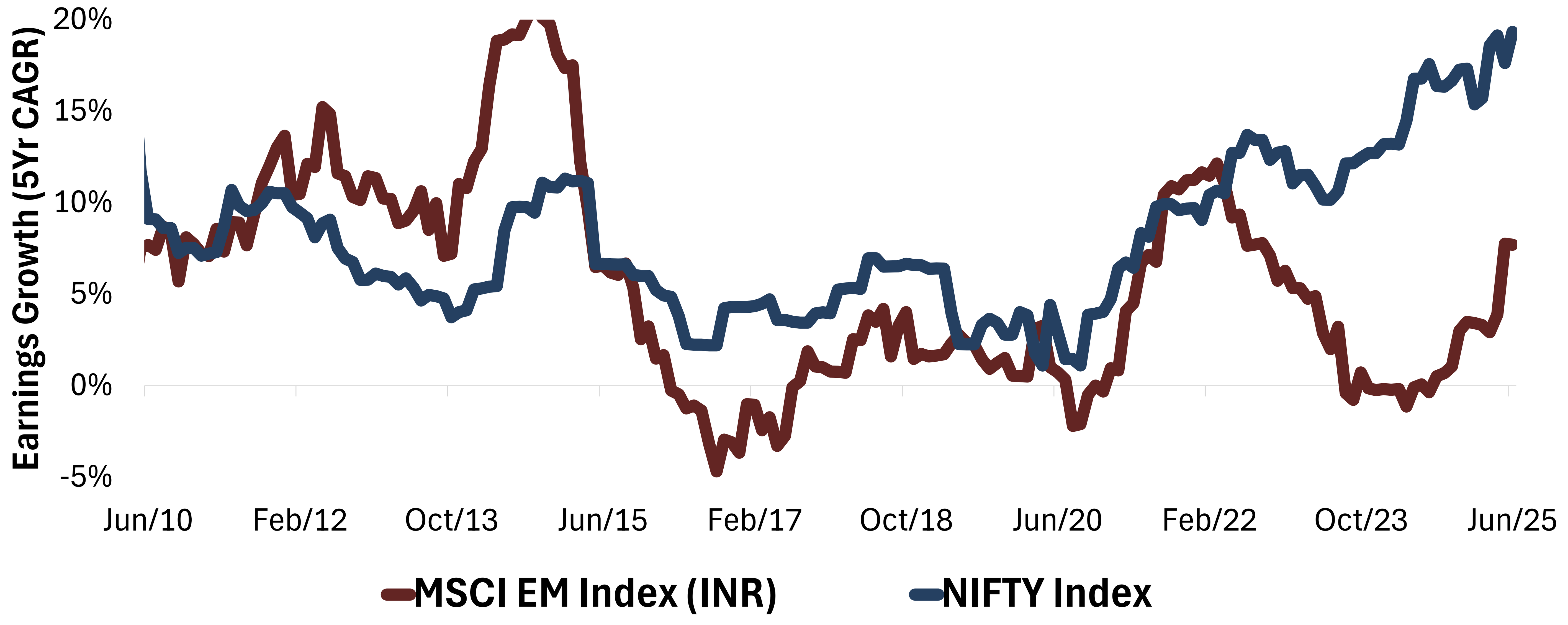
An Earnings Recovery Driven By Efficiency Gains May Need Growth Drivers To Sustain

Despite the missing credit cycle, profits of India Inc have reported a sharp acceleration post-Covid. The bounce essentially comes from corporate restructuring – <u>cost and capex curtailment, bank credit costs and better pricing power</u> owing to supply-side scarring of MSMEs.



Such earnings-led restructuring is one of the main reasons for India's decoupling from EMs post-Covid





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Source: Bloomberg, Nuvama Research, Capitaline, DSP. Data as of June 2025.

What You See Is Not All There Is.

During WWII, analysts examined planes that came back from combat and saw bullet holes mostly on the wings and tail.

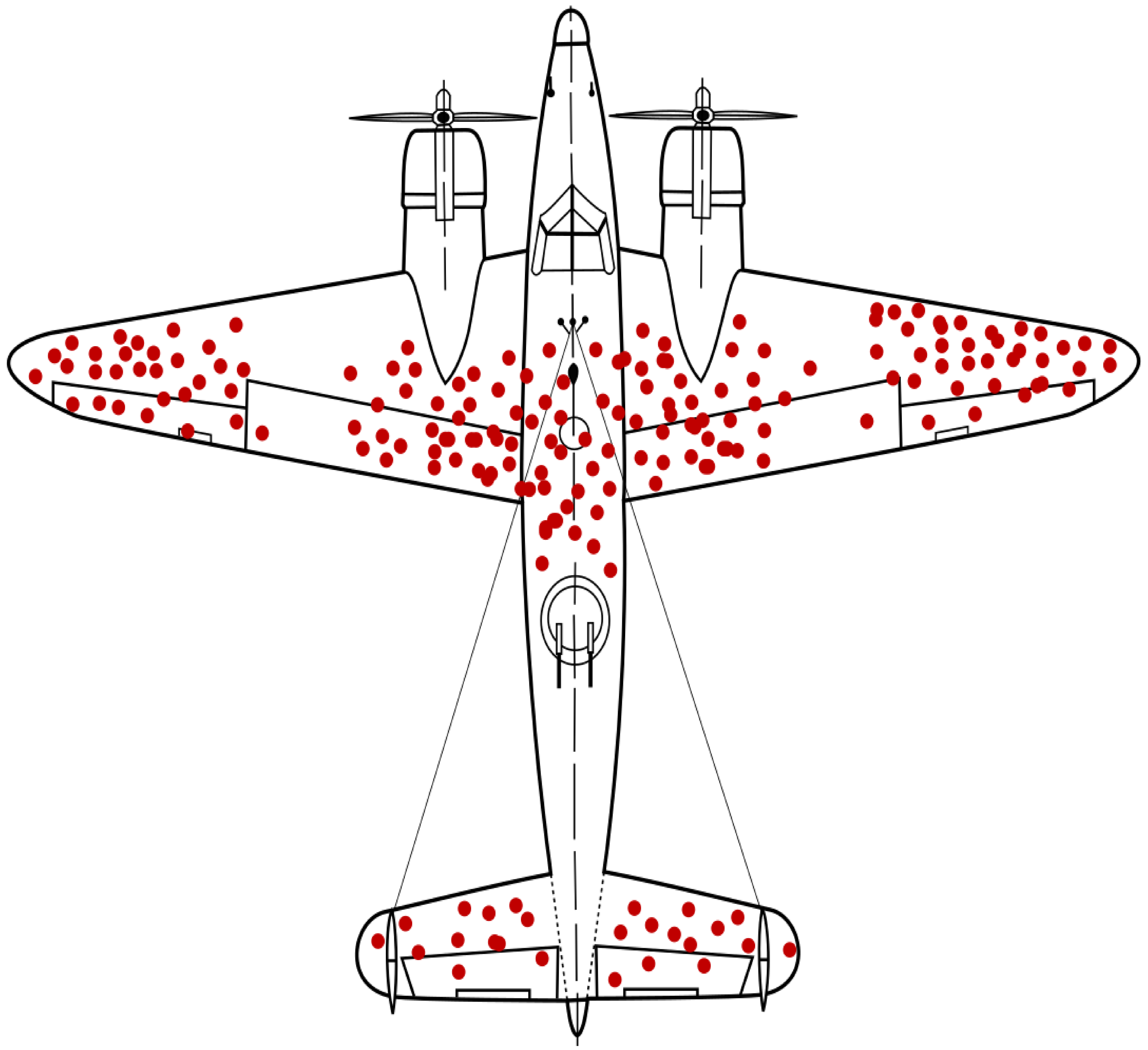
They thought they should add more armor to those areas.

But statistician Abraham Wald pointed out:

“You’re only looking at planes that survived. The planes that didn’t make it back were probably hit in the engine or cockpit — the areas with few or no bullet holes on surviving planes.”

So, the real danger zones were the spots with no damage on returning aircraft — because hits there led to crashes and those planes didn’t survive to be analyzed.

Survivorship bias happens when you only look at the successes (survivors), ignoring the ones that failed or disappeared — which often hold the most critical information.



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Source: DSP. Image credit: [Wikipedia]

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