NETRA

Early Signals Through Charts

May 2025

Released on 5th May 2025

What Does Data Signal About The ‘Bounce’

DSP

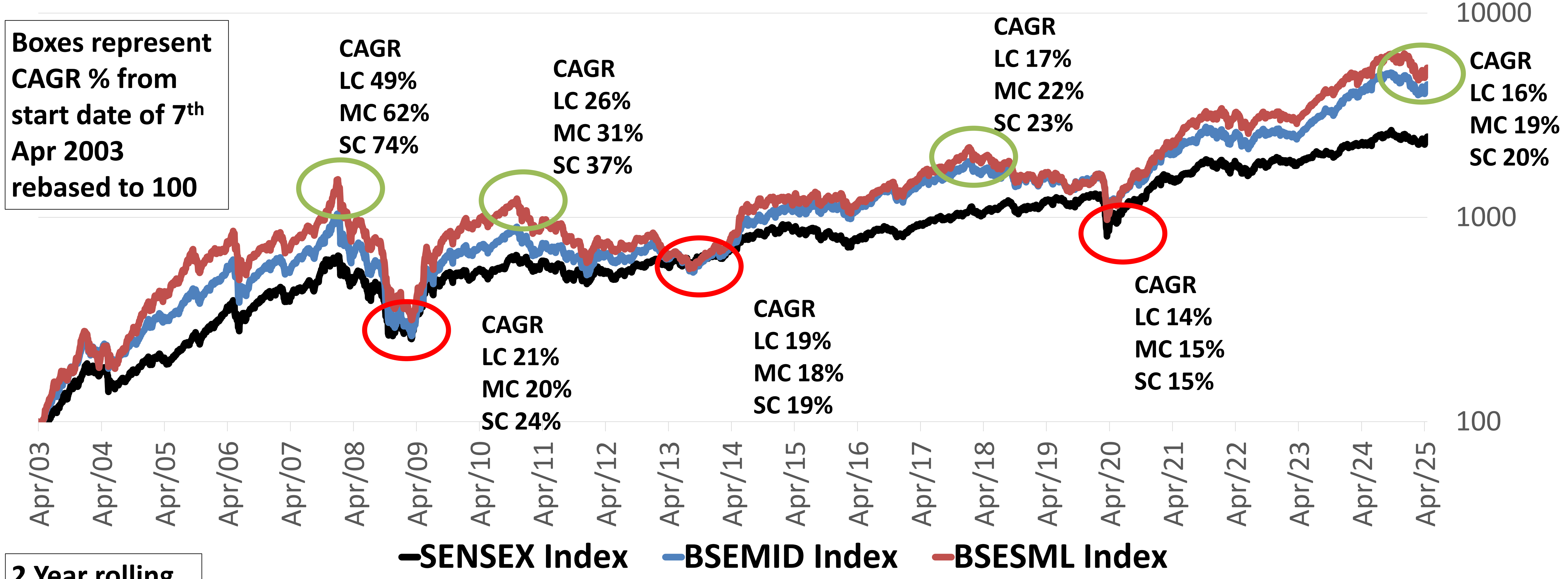
The Mean Reversion Of SMID Excess Returns Has Begun

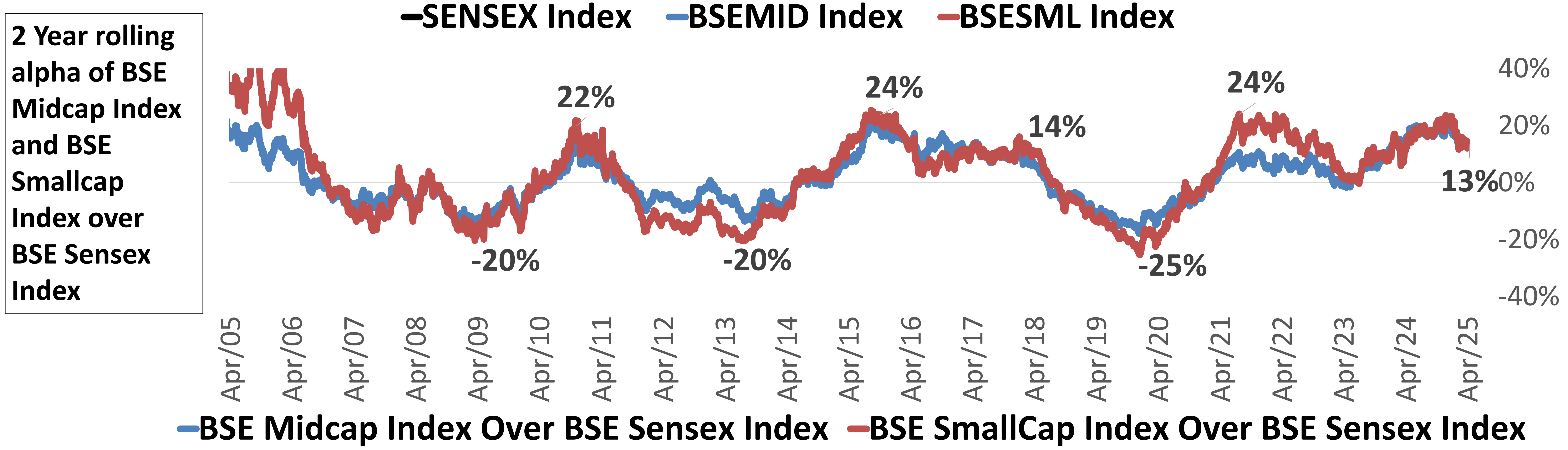
In each upcycle, smaller firms from the mid and small-cap space exhibit stellar performance. This is marked by the significant outperformance of SMIDs (Small & Midcaps) over large caps (LCs) in every upcycle bull market.

As shown in the chart in the upper panel, during each downcycle, SMIDs lose almost all the alpha generated during the upcycle. This is consistent with the volatility readings for SMIDs, where the higher variation results in larger drawdowns and crashes during bear markets compared to the relatively shallower declines in large caps.

Therefore, to capture the extra alpha offered by the small and mid-cap segments, investors are better off focusing on the margin of safety rather than relying on recent outperformance. In fact, it makes enormous sense to be aggressive in SMIDs when their alpha over large caps has vanished. Currently, SMIDs have a large alpha over LCs, so investors might be better served by focusing more on large caps as an option.

In every cycle, Small & Midcap lose all their alpha over large caps and then build back gains in the next cycle.





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Source: Bloomberg, BSE, DSP Data as of Apr 2025

Broad Equity Markets: What Do Stats Signal About This 'Bounce'?

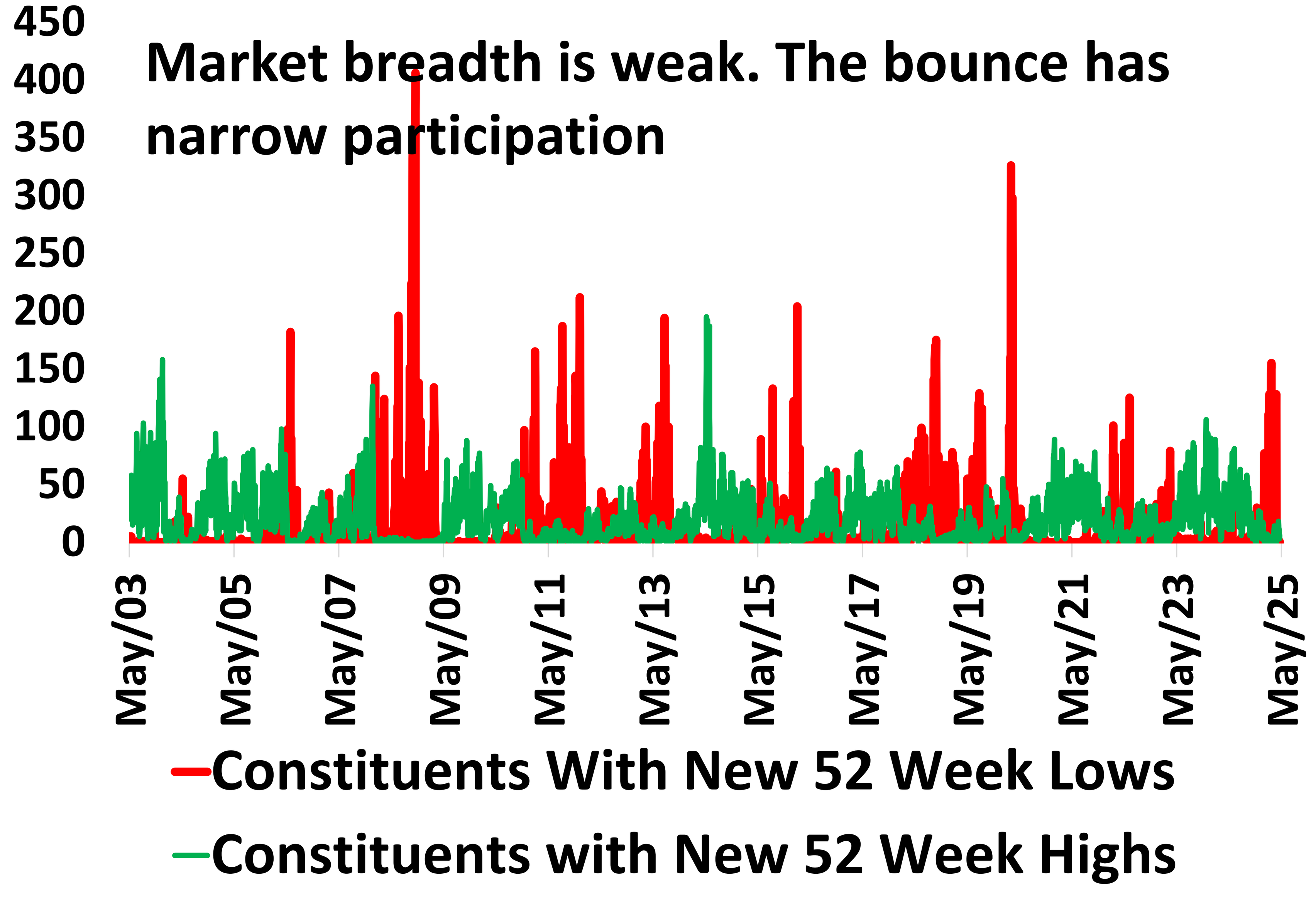
Indian equities have rebounded sharply from lows recorded in Feb 2025. Here we look at what do the numbers signal about this 'bounce':

1. Market breadth is weak:
   a. More stocks have made new 52-week lows than fresh 52-week highs indicating that weakness is persistent.
   b. Number of stocks trading above 200DMA remains weak indicating the price trends are still weak.

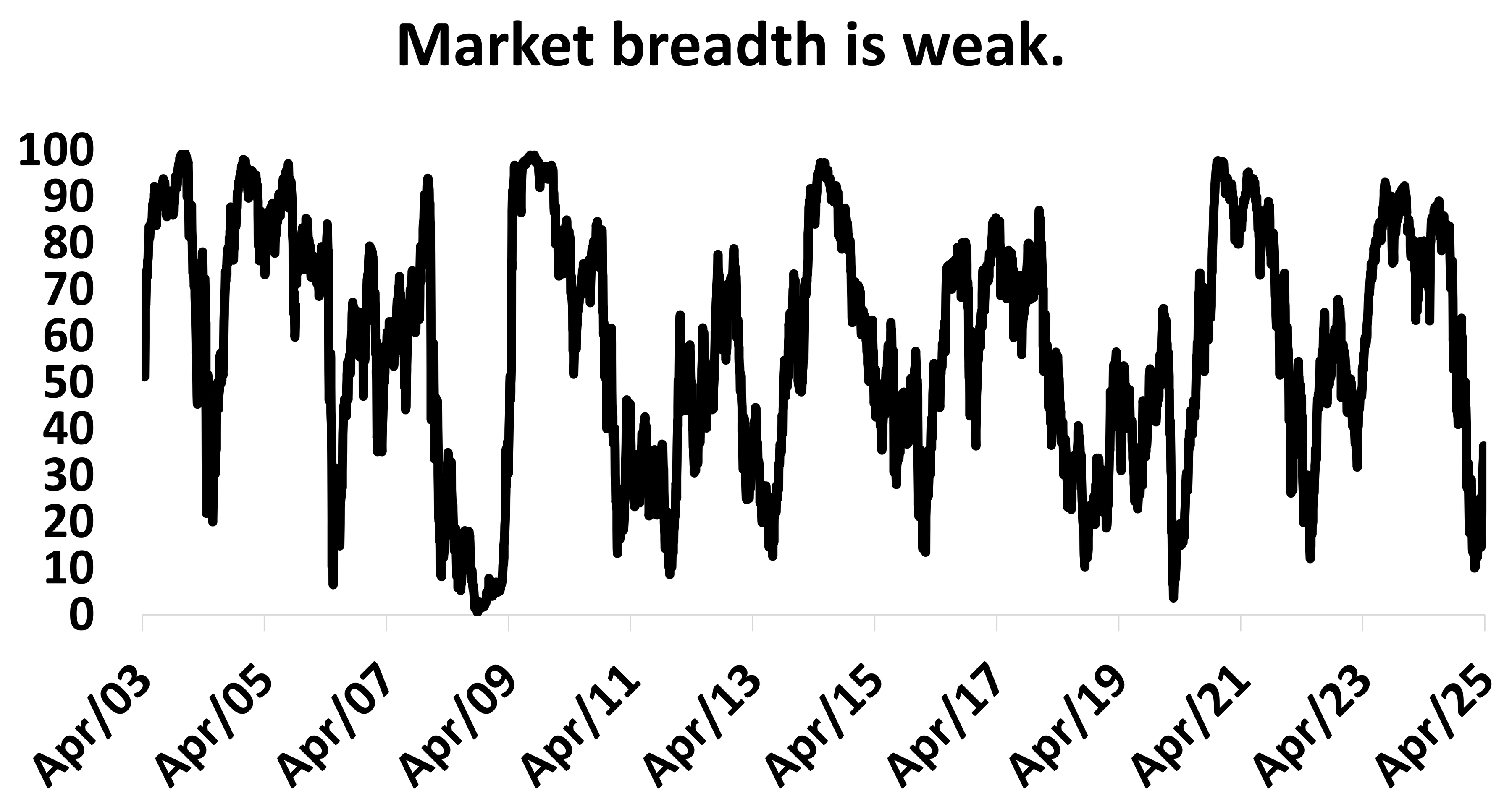
2. Market capitalization to GDP ratio for Small & Mid cap (SMIDs) remains elevated. This ratio peaked at 64% in Sep 2024 and is currently slightly over 50% with its long period average set at 27%.

3. SMID has begun to underperform largecaps on a rolling 1yr basis, indicating the rise in downside momentum, on a relative basis, for SMIDs.

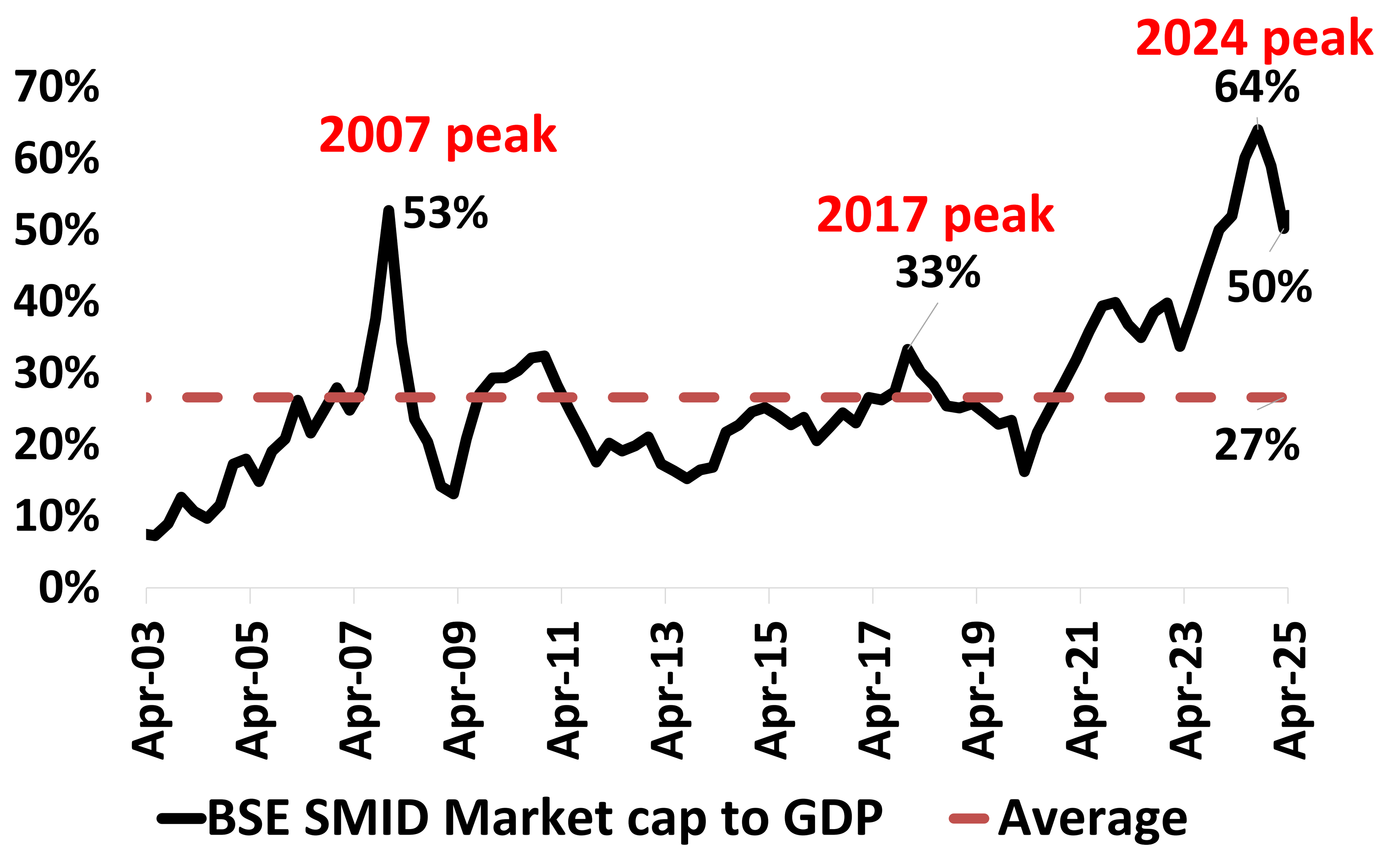
Nifty 500 – Number of Stocks Making 52 week high/low



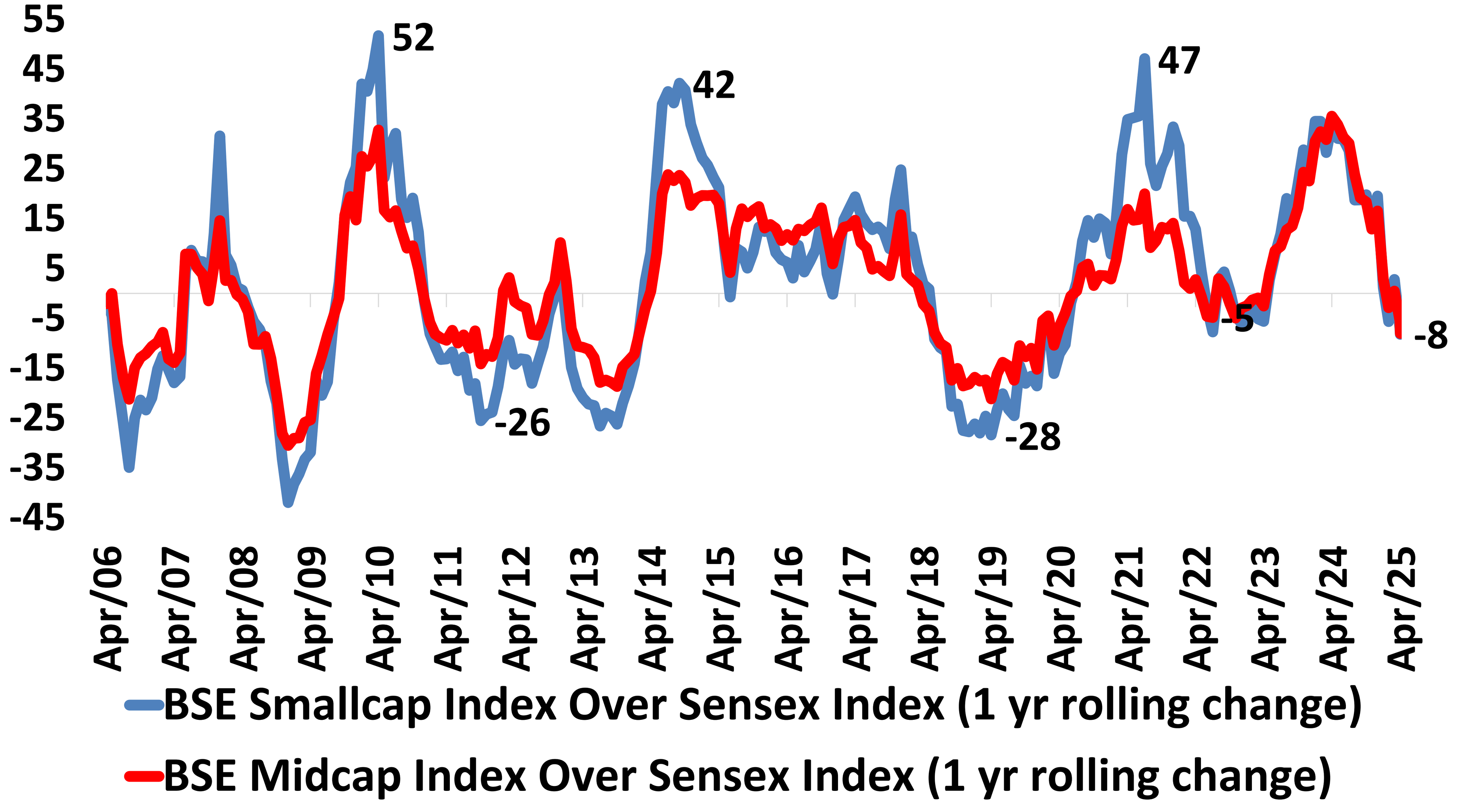
Nifty 500 – % of stocks trading above 200DMA



SMID Mcap To GDP Is Way Off From Past Averages



SMID To Sensex Signals Underperformance Momentum



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Source: Bloomberg, DSP, Data As of Apr 2025

SMID Relative Valuations Are Back To The Recent Peaks

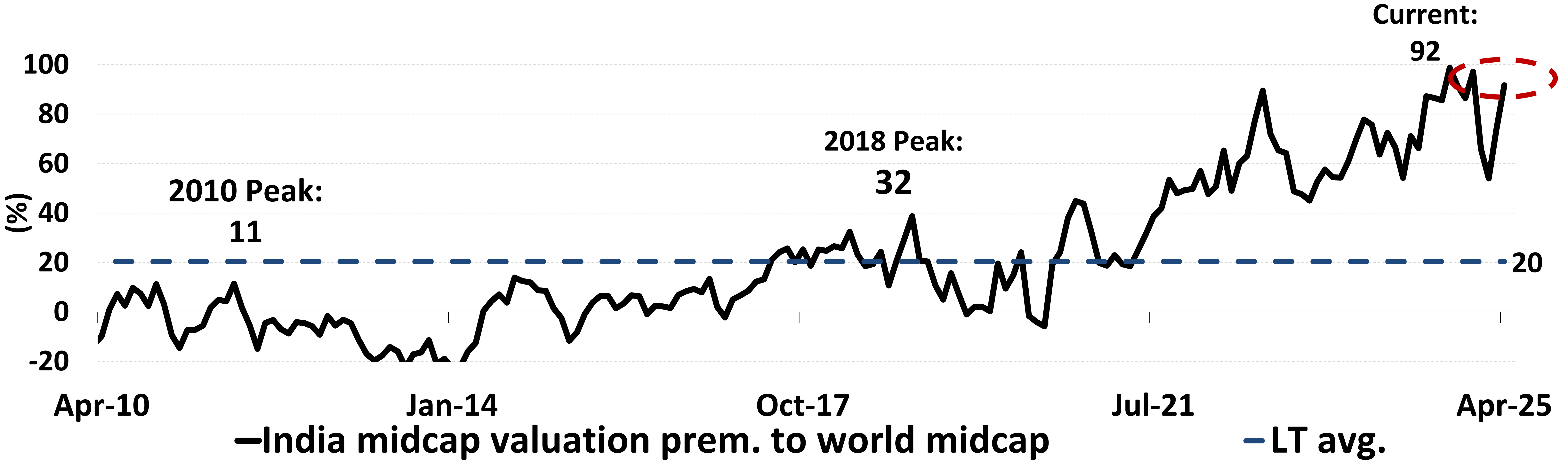
The Q4 FY25 earnings season has shown single digit sales and profit growth for nearly 300 companies which have declared financial results.

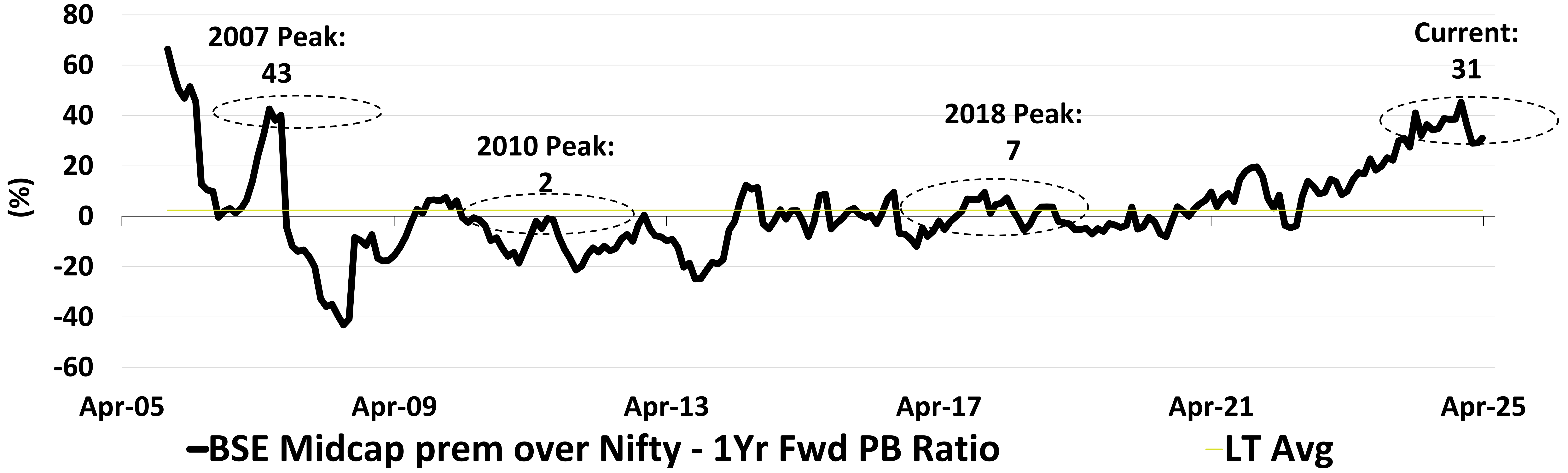
The SMID cohort currently trades at about 14% ROE, at 33x trailing 12-month price to earnings multiple with earnings growth in single digit for most of the last 6 quarters.

This divergence between realized earnings growth trend and elevated valuations leaves little 'margin of safety' for investors.

In the past, such elevated valuations have led to steep corrections in price or long-drawn-out time corrections which blunt rolling returns for investors. Either of these scenarios can play out.

With volatility elevated, price moves on the downside can overpower the time correction likelihood.





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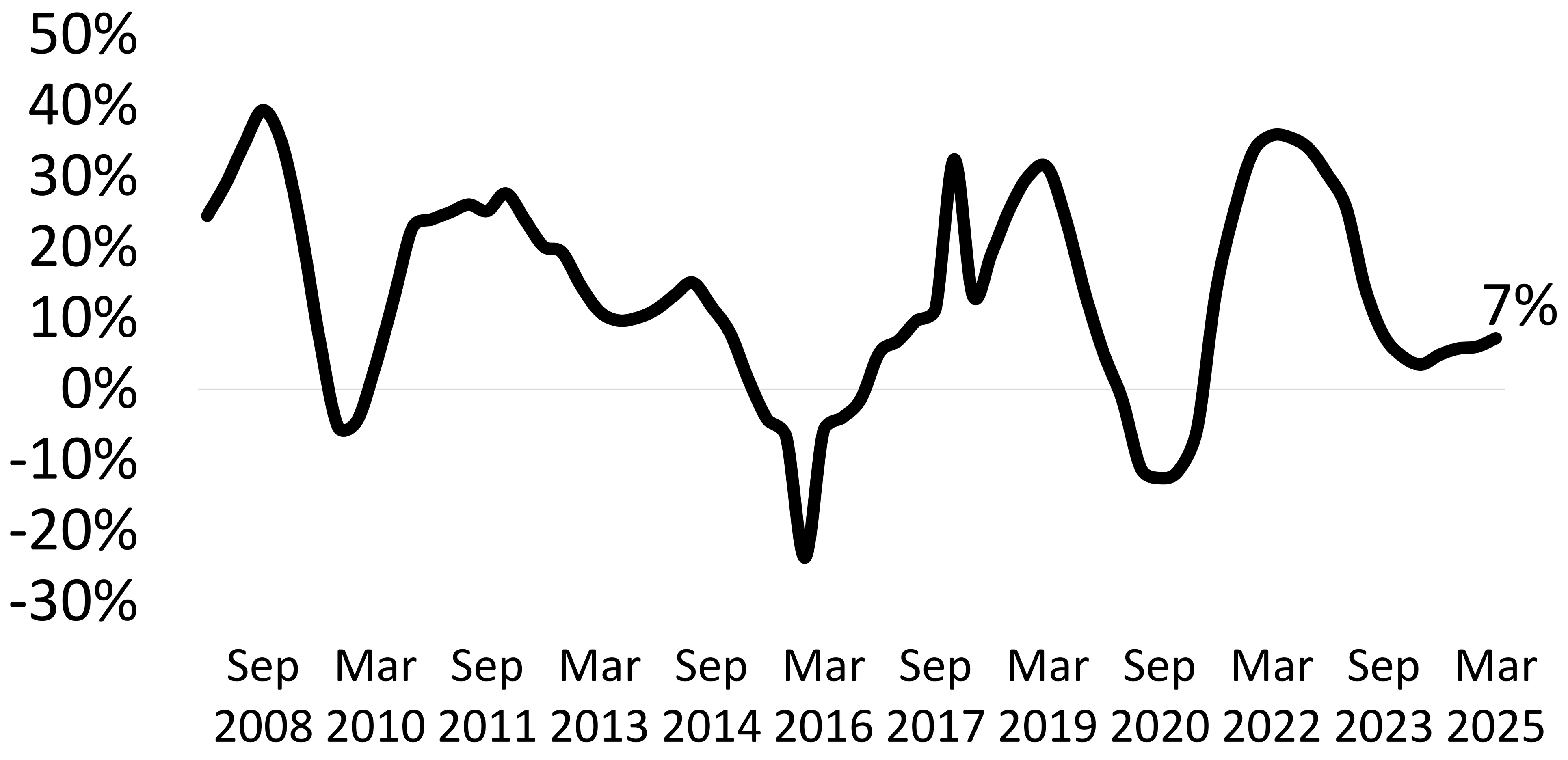
Source: DSP, Nuvama Research, Data As of Apr 2025

Risk Triad: Slow Sales Growth, Margin Contraction and Elevated Valuations

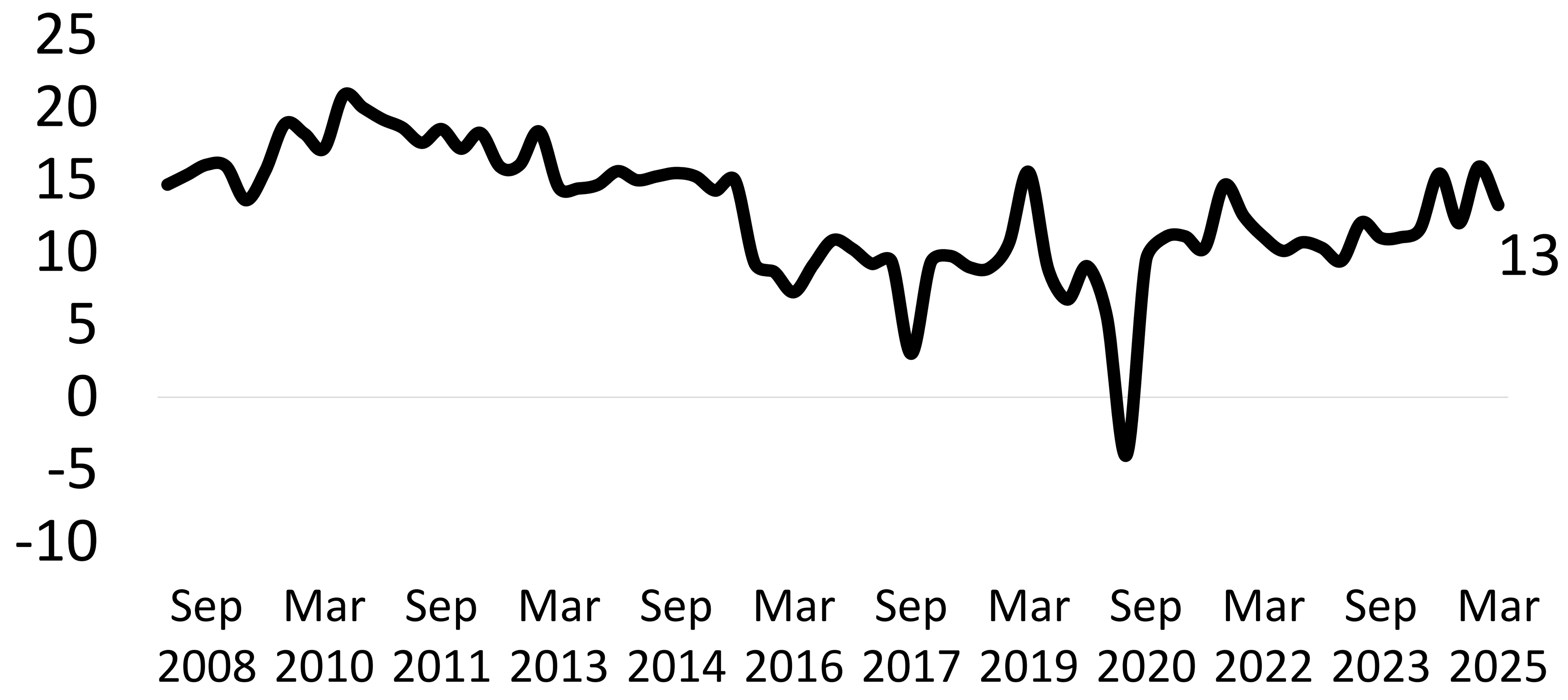
Corporate India is grappling with slow single-digit sales growth, even as market sentiment remains upbeat. While headline revenues for the Nifty 500 (ex-BFSI) appear to have stabilized, this recovery has been shallow and costly, driven by capital expenditure and innovation rather than broad-based demand. As margins come under pressure from rising costs and weakening consumption trends, companies are finding it increasingly difficult to convert modest top-line gains into bottom-line growth. With many businesses already operating at peak margins, the room for further expansion is limited, making strong profit growth in the near term unlikely.

Falling crude prices may offer minor input cost relief, but they are insufficient to offset the broader issue of sluggish demand. Export weakness and corporate belt-tightening—reflected in slower wage growth—add to the drag on earnings. Despite this, equity valuations remain elevated, largely pricing in a robust profit recovery. If actual earnings continue to lag behind these expectations, the risk of a sharp market correction through valuation resets grows significantly.

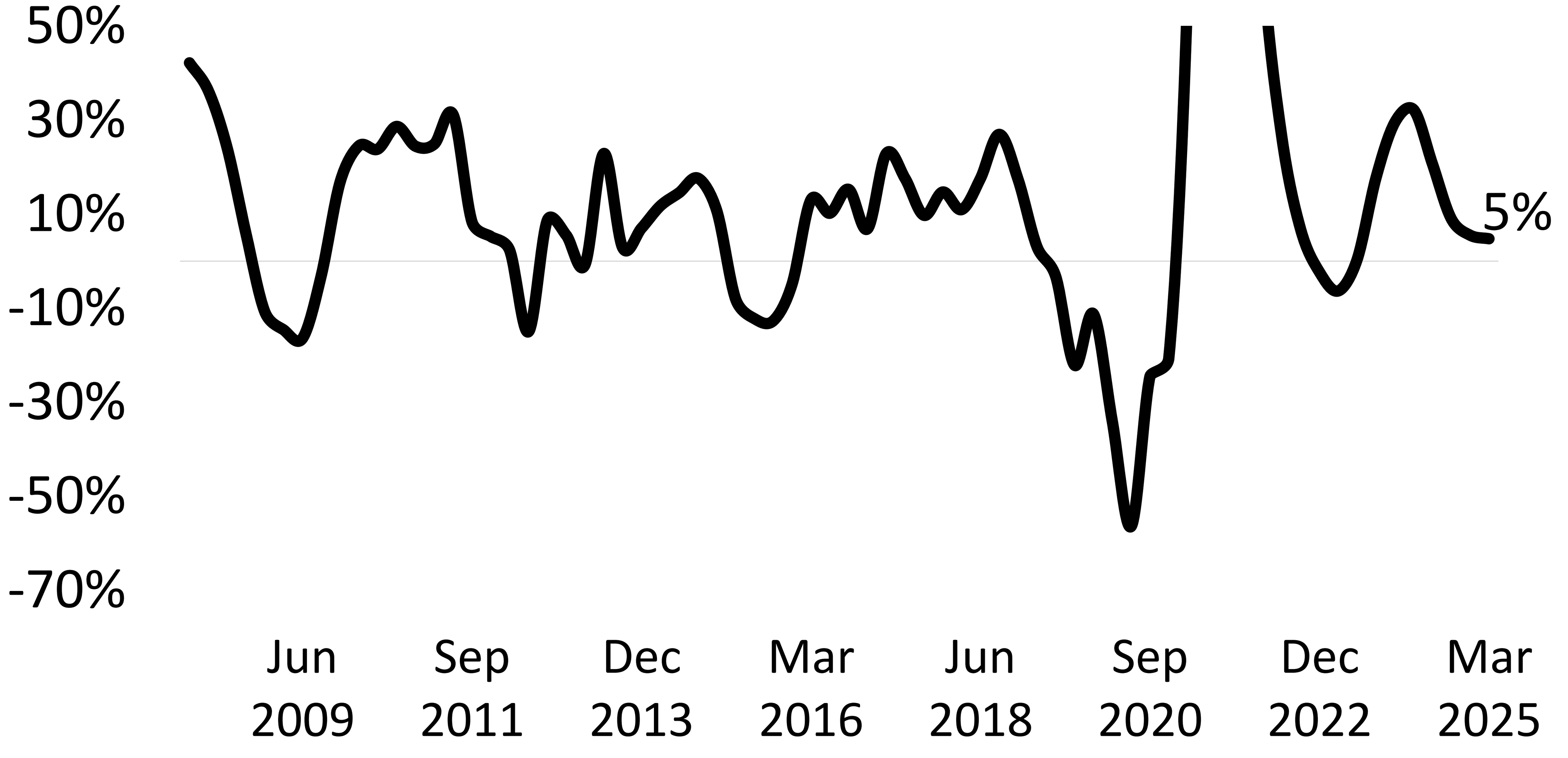
Nifty 500 (ex-BFSI) TTM Revenue Growth



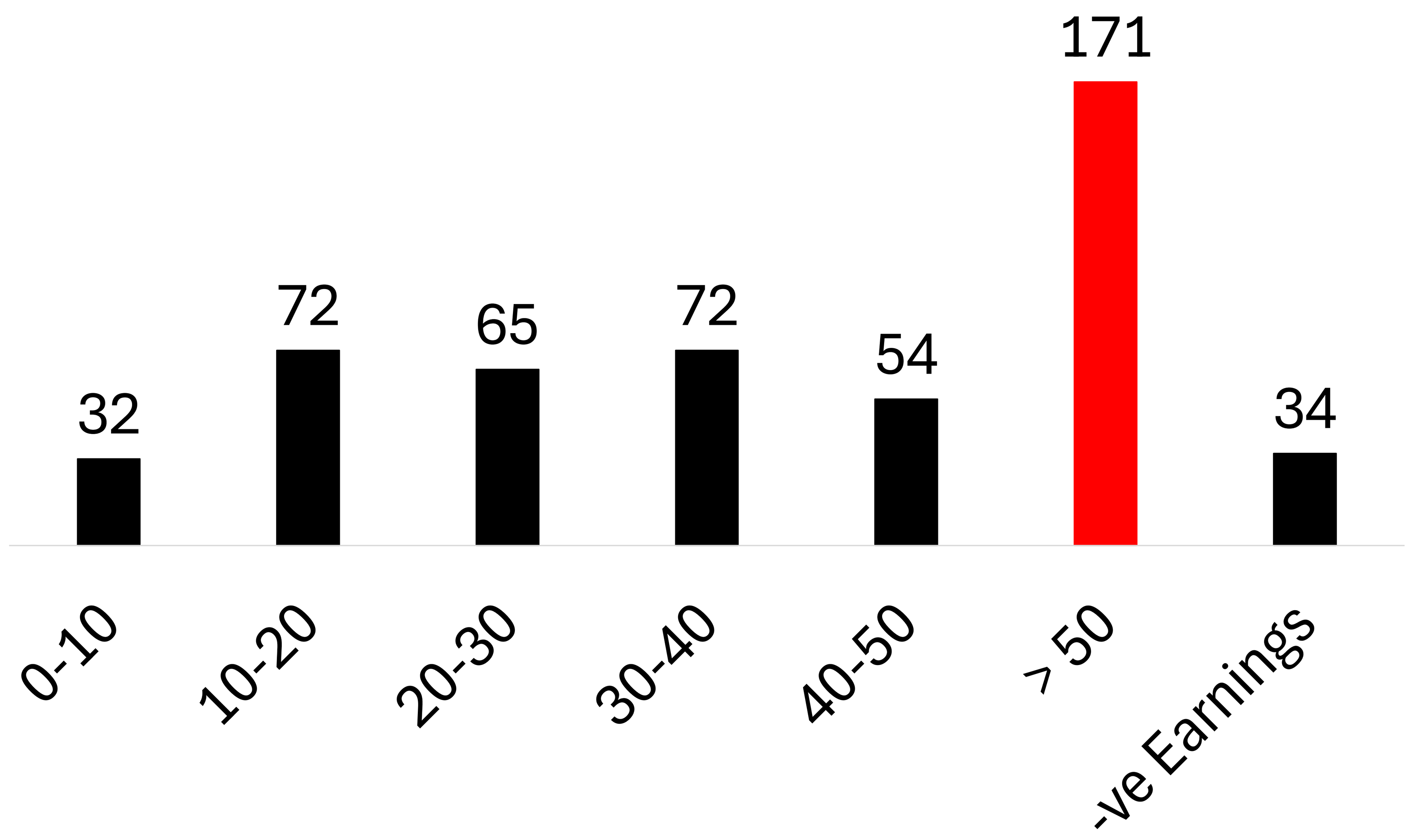
Average Nifty 500 (ex BFSI) PAT Margin (%)



Nifty 500 (ex-BFSI) TTM PAT Growth



Nifty 500 stocks P/E



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Source: Capitaline, DSP, Data As of Apr 2025. For Mar 2025 the growth numbers are of companies which have reported results till 29th April. Current Nifty 500 constituents considered.

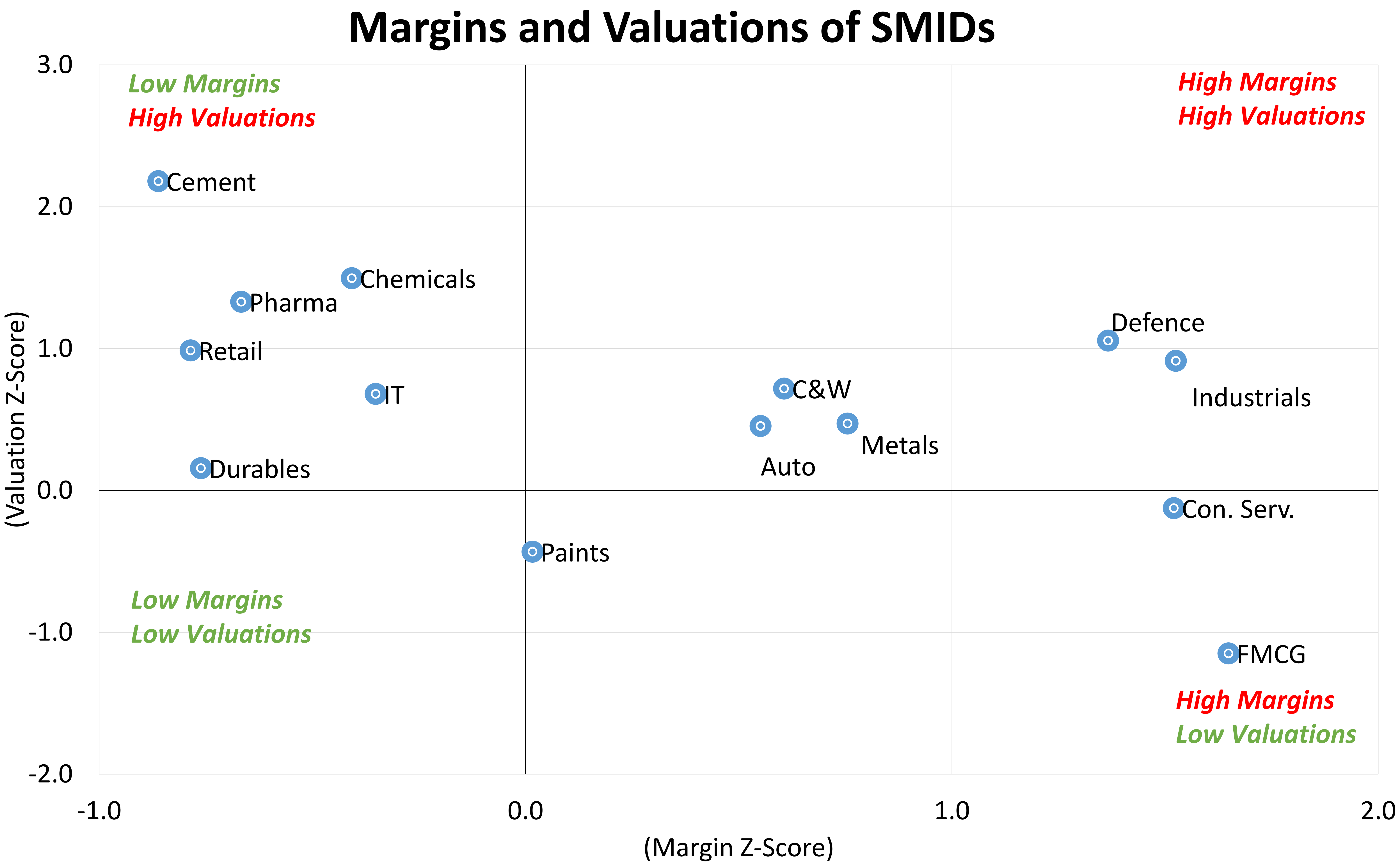
SMID Valuations And Margins: A Tough Market To Scout For Bargains

Overall, valuations across the SMID universe remain elevated, with most segments still appearing expensive relative to historical norms. A notable point is the absence of many sectors in the lower-right quadrant representing low valuations.

The FMCG sector appears there, but the 10-year comparison masks the fact that it is coming off ultra-high valuations and now faces persistent growth challenges. Similarly, the paints sector is experiencing significant disruption from new competitors, which obscures the underlying issues in the sector.

Meanwhile, the defense and industrials sectors are trading at above-average valuations. Although they maintain high margins, they are experiencing a slowdown in order book growth.

This grid visually illustrates how difficult it is to find value in the current market. A similar grid for large caps would not look too different in a broader sense.



Source: Nuvama Research, DSP, Data As of Apr 2025. For valuations, Fwd 1 Year PE considered.

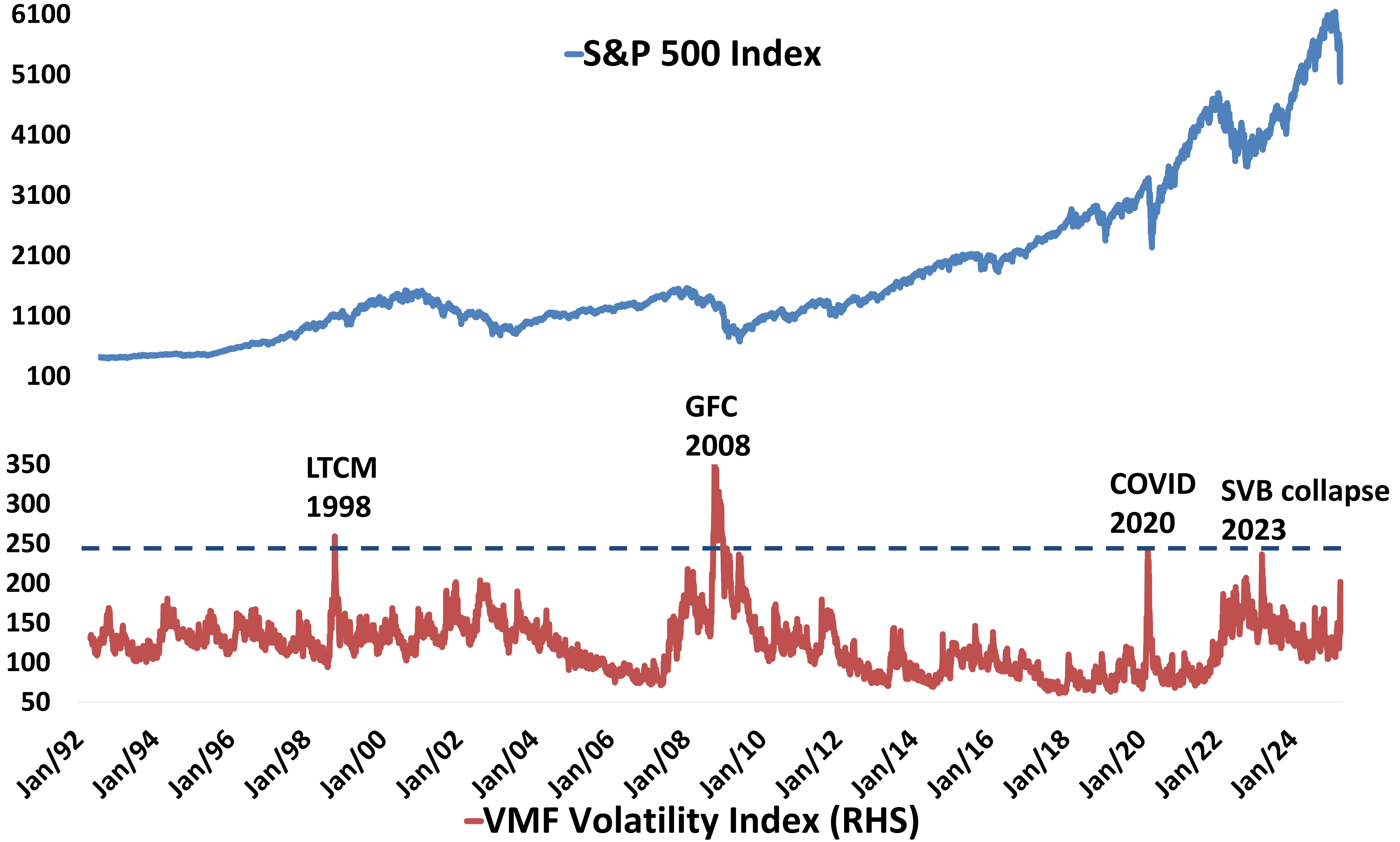
The VMF Indicator Is Yet To Signal A Capitulation

What is VMF indicator?
VMF(VIX, MOVE and FX volatility index) indicator is our inhouse indicator which measures the combined volatility in stocks, bonds and currency markets. Elevated readings in this indicator mean that all three asset classes are under stress at the same time.

A rise in VMF indicator is commensurate with rising vulnerability in the system. We call it the RUST phase. RUST: Randomness, Uncertainty, Stressors, Turbulence.

Historically, readings beyond the 250 level for VMF indicator signal a level at which there is panic and is often accompanied by a price bottom soon.

Currently, the VMF indicator hasn't reached the historical readings which signal a capitulation. Wait and watch!



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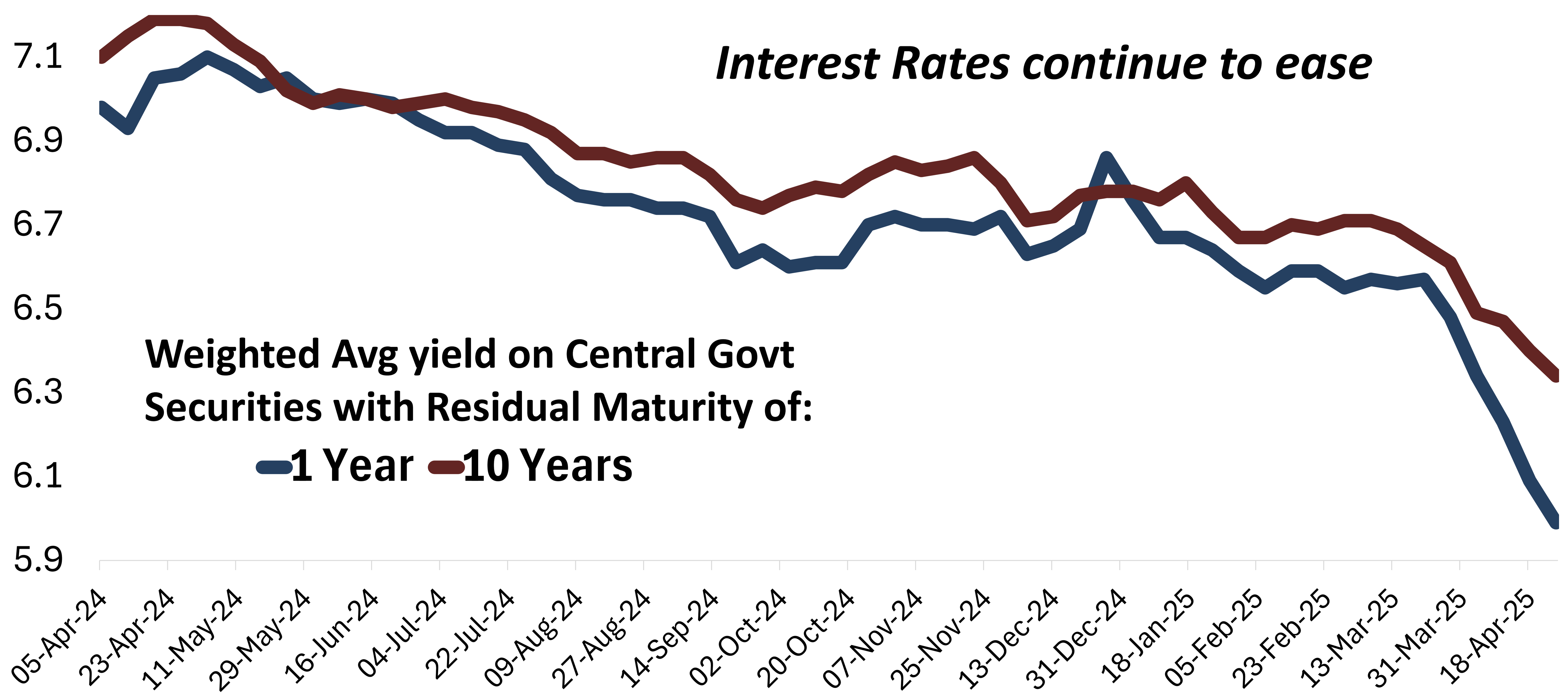
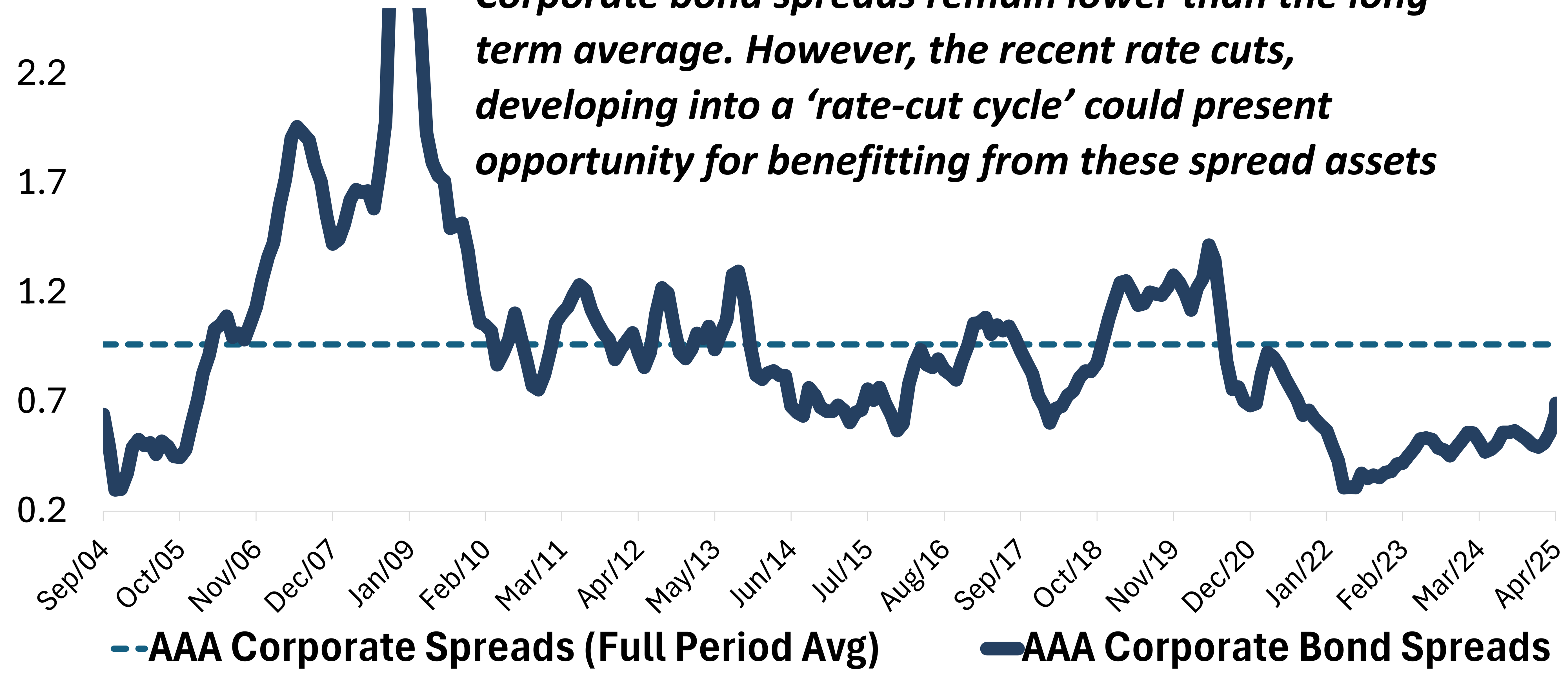
Source: DSP, Bloomberg, Data As of April 2025

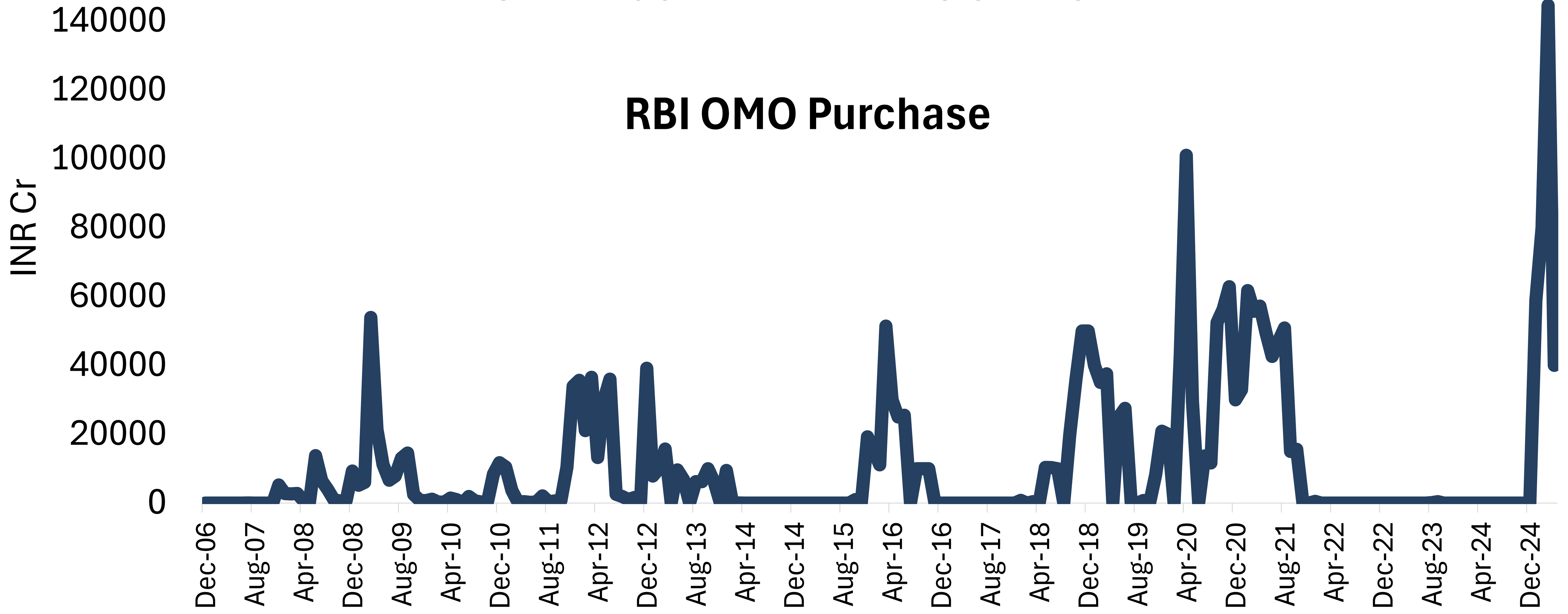
RBI’s Liquidity Measures Ease Monetary Tightness



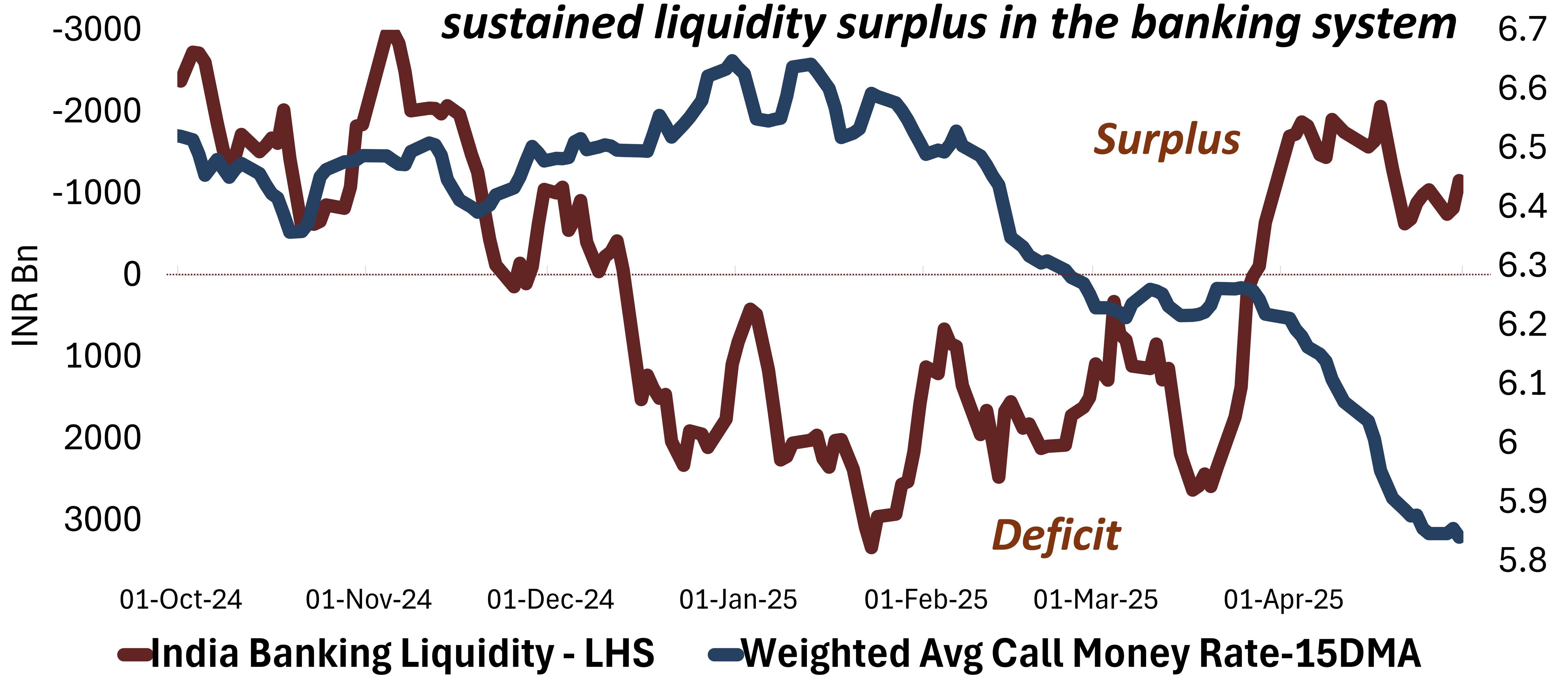
Corporate bond spreads remain lower than the long-term average. However, the recent rate cuts, developing into a ‘rate-cut cycle’ could present opportunity for benefitting from these spread assets



RBI Governor has been explicit: liquidity operations are meant solely to support monetary policy transmission….



….the WACR eased down significantly due to sustained liquidity surplus in the banking system



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Source: CMIE, Bloomberg, DSP. Data As of April 30, 2025. WACR- Weighted Average Call Rate

Growth: Signals From Hard Numbers

DSP

India’s Long Period Growth Needs A Revitalization

The setback to India’s growth from the pandemic has been significant. The biggest drag on growth has come from the services sector, where contact-intensive industries such as trade, hotels, and travel were hit hard. Although this sector has seen a sharp revival, the overhang of weak consumption growth and a premature slowdown in wages and salary growth threatens the momentum in this segment.

The strong support that India has received from IT and IT-enabled services (IT&ES)—which has been the bedrock of the post-pandemic recovery—is beginning to show signs of fatigue after decades of leadership.

The domestic economy needs a resilient, sizable, and steady growth engine to drive higher growth rates. At the current pace, it will be difficult for India’s Gross Value Added (GVA) to maintain its long-term growth trajectory of 6.1% CAGR.

	1990-2025	1990-2000	2000-2010	2010-2020	2020-2025
Total GVA	**6.1%**	5.8%	6.3%	6.4%	5.4%
Agriculture, forestry and fishing	3.4%	3.2%	2.0%	4.4%	4.4%
Industry	6.1%	5.6%	7.6%	5.2%	6.0%
Mining and quarrying	3.1%	4.8%	4.2%	1.3%	1.3%
Manufacturing	6.4%	5.7%	7.9%	5.9%	5.5%
Electricity, gas, water supply and other utility services	6.4%	7.2%	5.5%	6.5%	6.2%
Construction	6.9%	5.6%	9.4%	4.9%	8.4%
Services	7.2%	7.5%	7.2%	7.7%	5.2%
Trade, hotels, transport, comm and broadcasting services	7.4%	7.8%	7.9%	8.5%	3.4%
Financial services, real estate and professional services	7.4%	8.0%	6.7%	7.6%	7.1%
Public administration, defence and other services	6.5%	6.3%	7.4%	6.9%	4.7%

DSP

Source: CMIE, DSP. Data As of April 30, 2025.

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

10-Yr CAGR of 6 out of 10-line item of Exports have fallen more than 10%

Context- World GDP CAGR has fallen 3%, from 6% to 3%.

Imports from an average of 15% CAGR in FY15 has fallen to 5% CAGR in FY25.

Context- PFCE 10 Yr CAGR has fallen 4% between FY15 and FY25, from 15% to 11%

Net trade has delivered a 10Yr CAGR of a mere 6%.

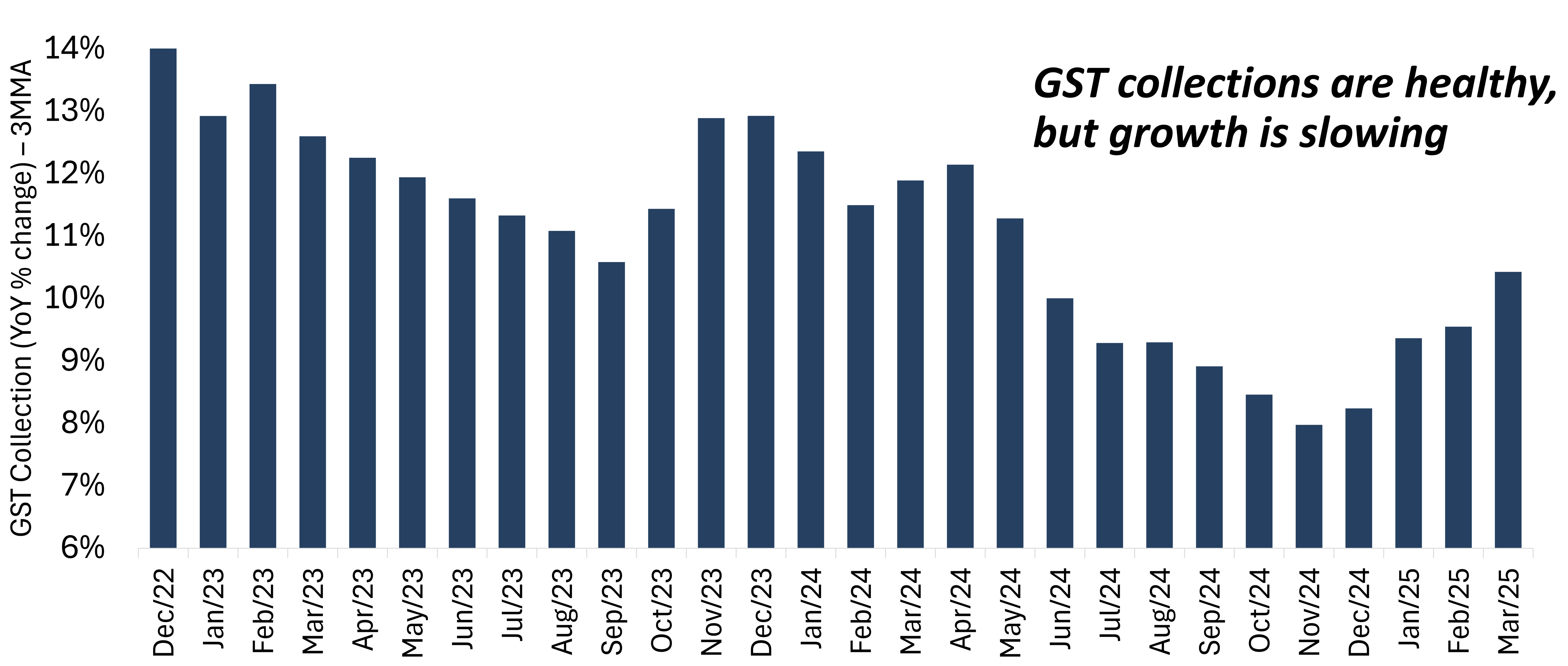
Understandably, 2012-16 has set a very high base, and covid has snubbed the trajectory some bit. But even after considering these factors, India's trade has remained much below its potential.

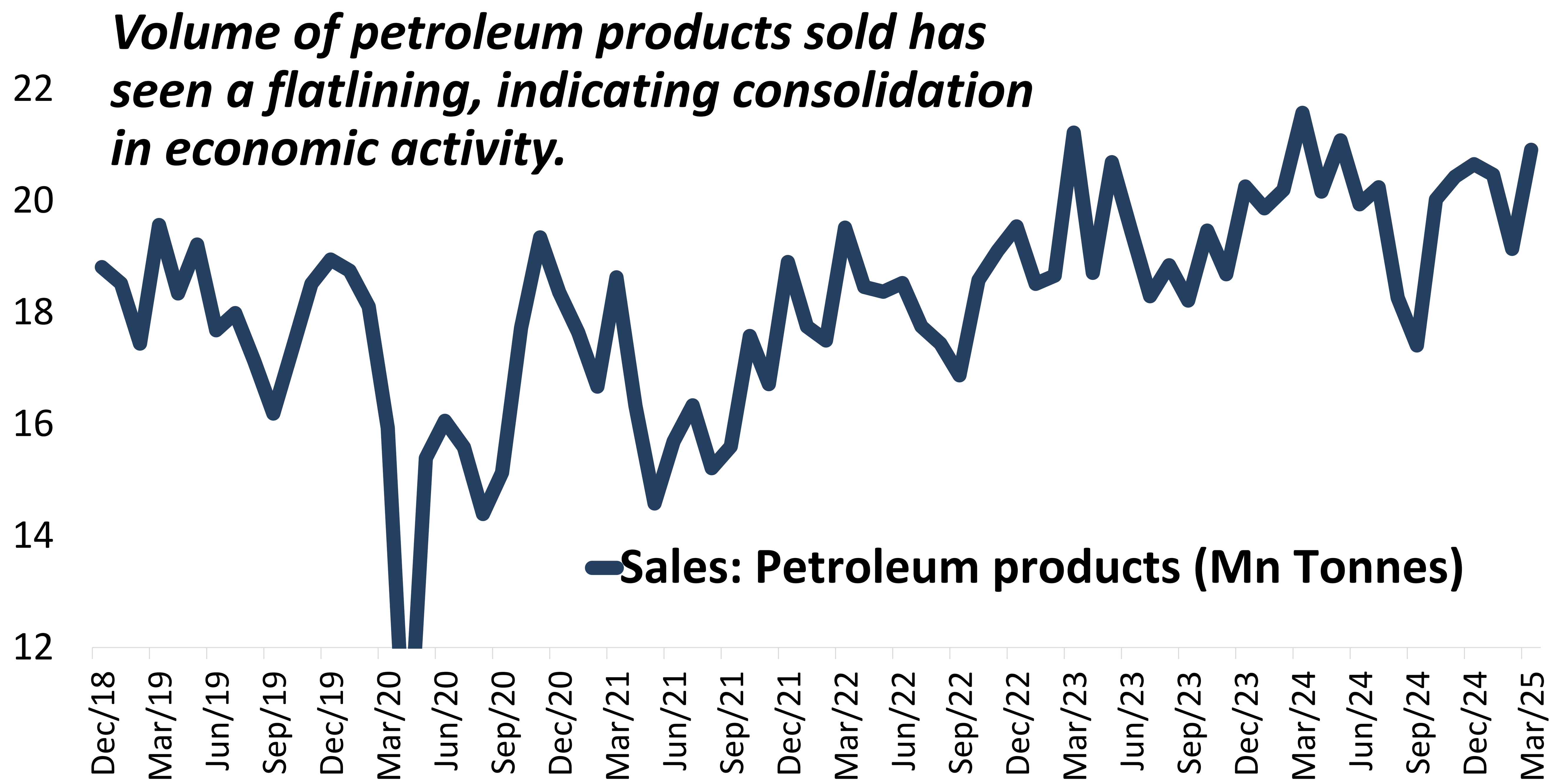
	Exports					Imports					Net Trade (X-M)	
	Absolute (USD Bn)		10-Yr CAGR		Fall in CAGR	Absolute (USD Bn)		10-Yr CAGR		Fall in CAGR		
	FY15	FY25	FY15	FY25		FY15	FY25	FY15	FY25		FY15	FY25
Nominal GDP (USD Bn)											**2,039**	**3,909**
Total	310	438	14.0%	3.5%	11%	449	678	14.9%	4.9%	10%	-139	-241
Petroleum Products	57	63	23.3%	1.1%	22%	165	179	16.5%	3.0%	13%	-108	-116
Agricultural and allied products	39	50	16.4%	1.2%	15%	16	33	16.4%	6.3%	10%	23	18
Ores & minerals	2	5	1.5%	6.4%	-5%	25	48	16.3%	4.7%	12%	-22	-43
Leather & leather manufactures	6	4	9.8%	-3.4%	13%	1.1	1	15.3%	-0.6%	16%	5	3
Chemicals & related products	32	60	15.0%	6.6%	8%	36	63	15.8%	5.2%	11%	-4	-3
Engineering goods	70	117	16.2%	5.3%	11%	73	132	13.9%	6.2%	8%	-3	-15
Electronic goods	7	39	14.6%	18.4%	-4%	36	88	15.0%	9.4%	6%	-29	-49
Textiles (ex RMG)	18	19	9.9%	0.3%	10%	3	6	9.7%	3.6%	6%	15	14
Readymade garments	17	16	9.9%	-0.5%	10%	0.5	1.6	31.7%	12.1%	20%	16	15
Gems & Jewelry	41	30	11.6%	-3.2%	15%	57	78	11.7%	2.6%	9%	-16	-49

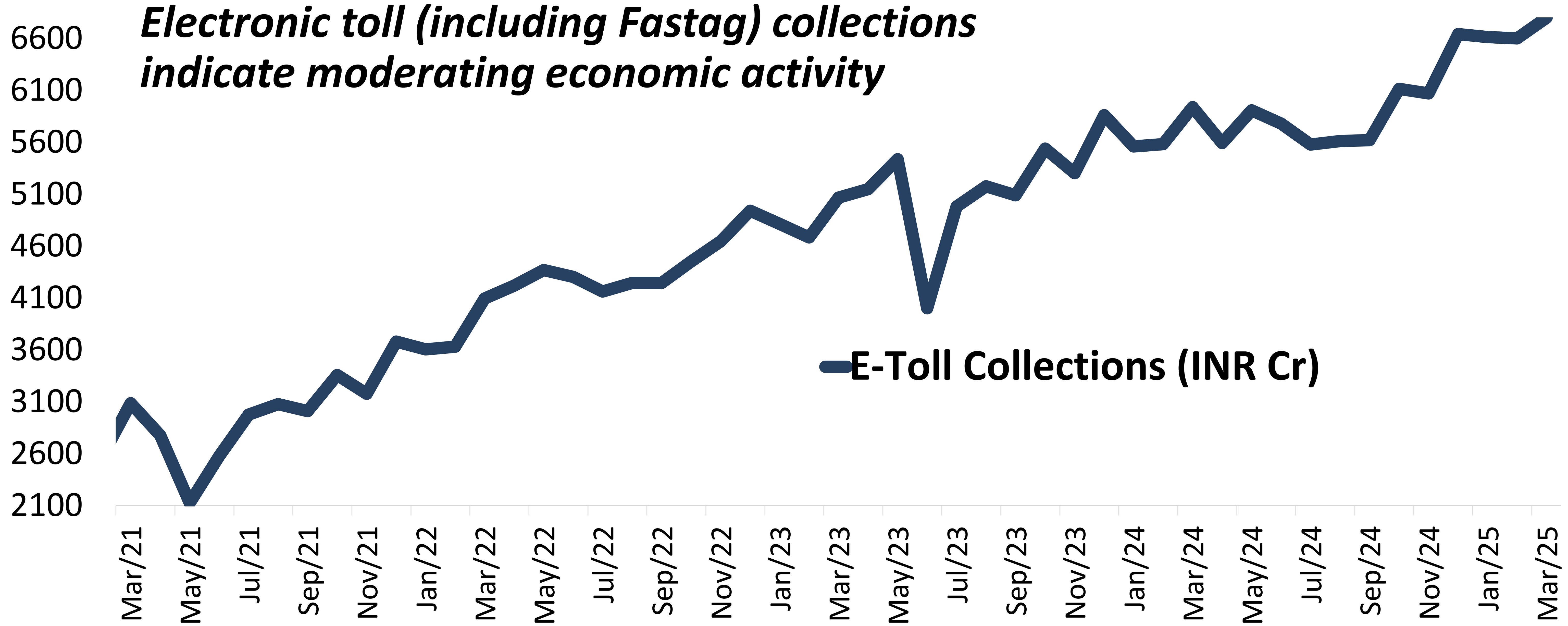
DSP

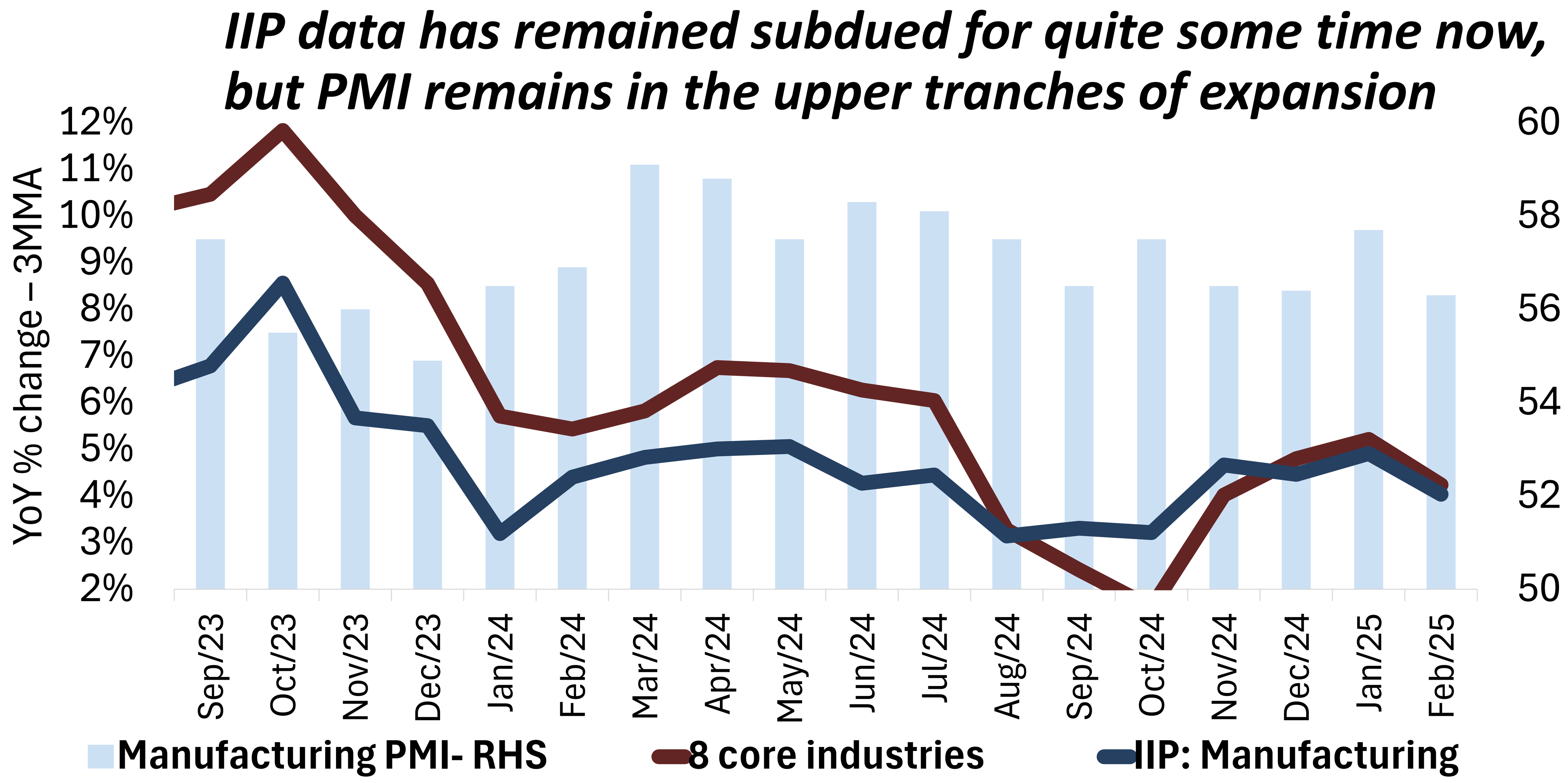
Source: CMIE, DSP. Data As of April 30, 2025.

High Frequency Indicators Are In The Slow Lane









DSP

Source: CMIE, DSP. Data As of April 30, 2025.

Wages And Salaries Growth Is Slowing…

IT & Financial Services wages surged 16% & 17% post pandemic, exceeding the overall 14% growth for BSE500 firms (top 3 sectors account for ⅔ of wage bill). Strong wage growth in these sectors (plus autos in FY24) fueled urban consumption and luxury retail.

However, all top 3 are losing steam, falling below its 14% long term average. The wage bill seems to be growing at single digit for three quarters now.

On balance, most other sectors are struggling to see material wage bill growth. For many urban markets, the CPI inflation (as per RBI's latest financial stability report) is nearing double digit numbers and an average wages & salary increase of 10% is completely offset by inflation. This can be a headwind for discretionary consumption and the expected recovery in private consumption.

Household balance sheets are stretched due to an uptick in leverage. In case of slower growth in wages & salaries, private consumption may take longer to revive.

Wage bill Growth by Sector for BSE 500 Firms (YoY,%)	Wage Share (Dec TTM)	Dec-24	FY24	FY23	FY22	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14
Information Technology	30%	5%	8%	21%	23%	7%	12%	16%	6%	14%	18%	18%	25%
Financial Services	28%	2%	28%	8%	12%	19%	18%	28%	10%	9%	10%	11%	15%
Automobile and Auto Ancs	8%	11%	22%	13%	11%	-5%	-5%	13%	14%	8%	9%	18%	19%
Oil & Gas	7%	3%	-3%	13%	6%	2%	0%	2%	14%	24%	2%	4%	15%
Healthcare	5%	10%	11%	12%	10%	13%	10%	12%	12%	20%	13%	34%	26%
Metals & Mining	5%	-2%	9%	2%	18%	9%	-1%	8%	3%	-1%	-10%	8%	15%
Construction	3%	14%	11%	23%	19%	5%	29%	15%	11%	5%	11%	13%	28%
Capital Goods	3%	7%	12%	11%	12%	-6%	4%	4%	12%	5%	-4%	2%	8%
FMCG	2%	10%	9%	12%	8%	10%	5%	8%	7%	5%	11%	11%	11%
Services	1%	15%	17%	22%	21%	-1%	25%	24%	20%	14%	21%	79%	8%
Power	1%	10%	3%	3%	10%	4%	4%	13%	13%	-3%	-2%	3%	25%
Chemicals	1%	11%	1%	11%	17%	8%	21%	15%	11%	8%	8%	10%	7%
Construction Materials	1%	13%	4%	12%	10%	-2%	8%	21%	27%	27%	5%	14%	10%
Consumer Services	1%	24%	17%	27%	32%	-17%	13%	16%	19%	14%	18%	21%	19%
Consumer Durables	1%	14%	17%	18%	16%	-1%	10%	13%	14%	8%	9%	15%	16%
Telecommunication	1%	12%	14%	12%	3%	8%	-3%	6%	-5%	-3%	-1%	12%	7%
Textiles	0%	6%	-3%	9%	19%	-4%	6%	11%	4%	10%	-1%	19%	57%
Realty	0%	16%	19%	35%	12%	-13%	7%	7%	8%	17%	5%	21%	11%
Media & Entertainment	0%	-7%	16%	14%	6%	-9%	-1%	54%	16%	19%	-10%	20%	10%
Diversified	0%	18%	16%	15%	2%	10%	10%	3%	19%	17%	9%	6%	9%
Forest Materials	0%	20%	33%	-17%	15%	-7%	9%	-33%	-35%	-1%	5%	23%	2%
Total	**100%**	**5%**	**14%**	**14%**	**15%**	**7%**	**9%**	**15%**	**10%**	**11%**	**8%**	**13%**	**18%**

DSP

Source: Capitaline, DSP, Data As of Apr 2025.

Why Silver?

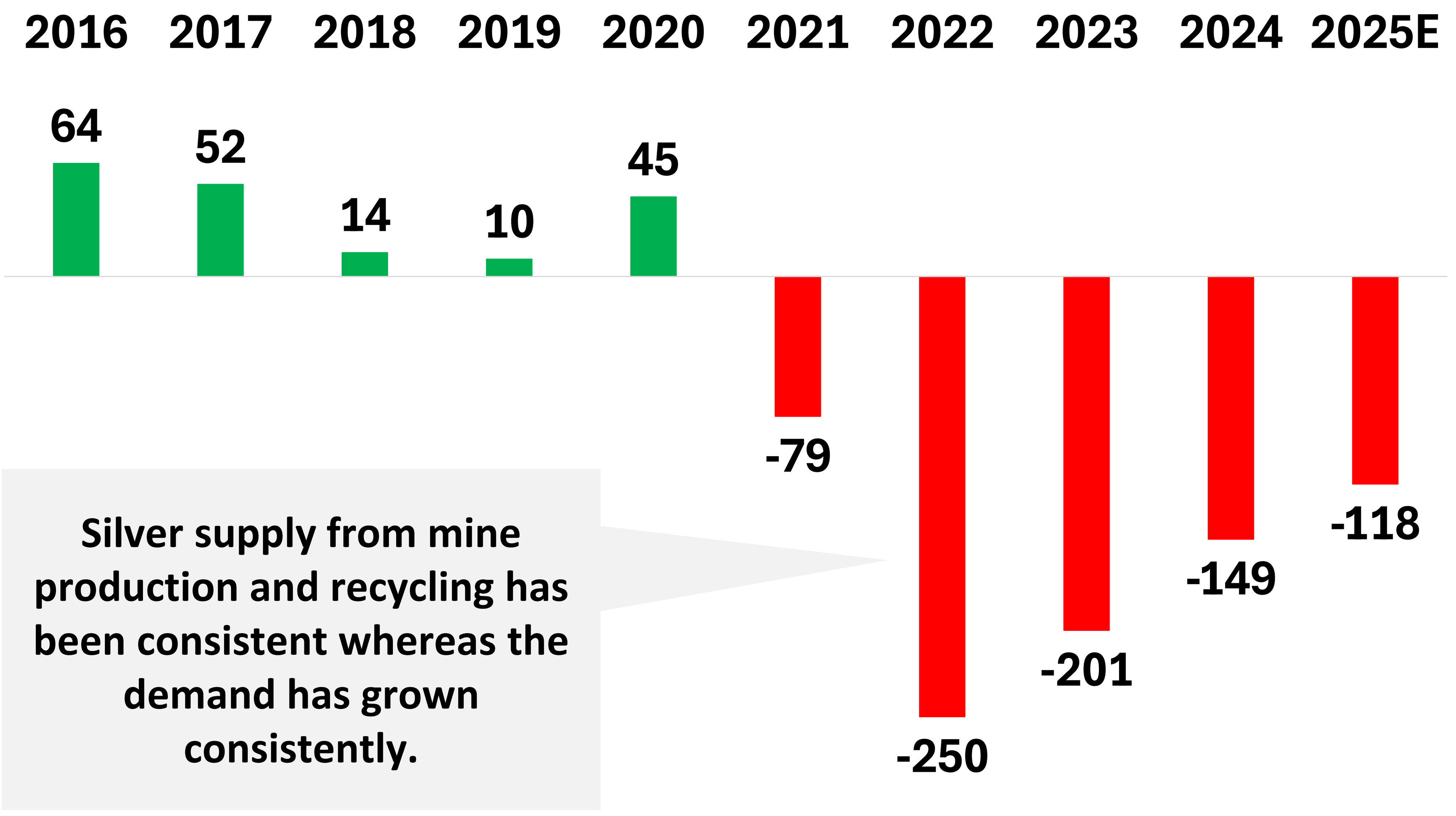
Can Silver Get Some Gold Dust?

Silver prices have rallied, but not as much as gold. In fact, in August 2011, gold prices were close to $1,900, while silver was at $45 per troy ounce.

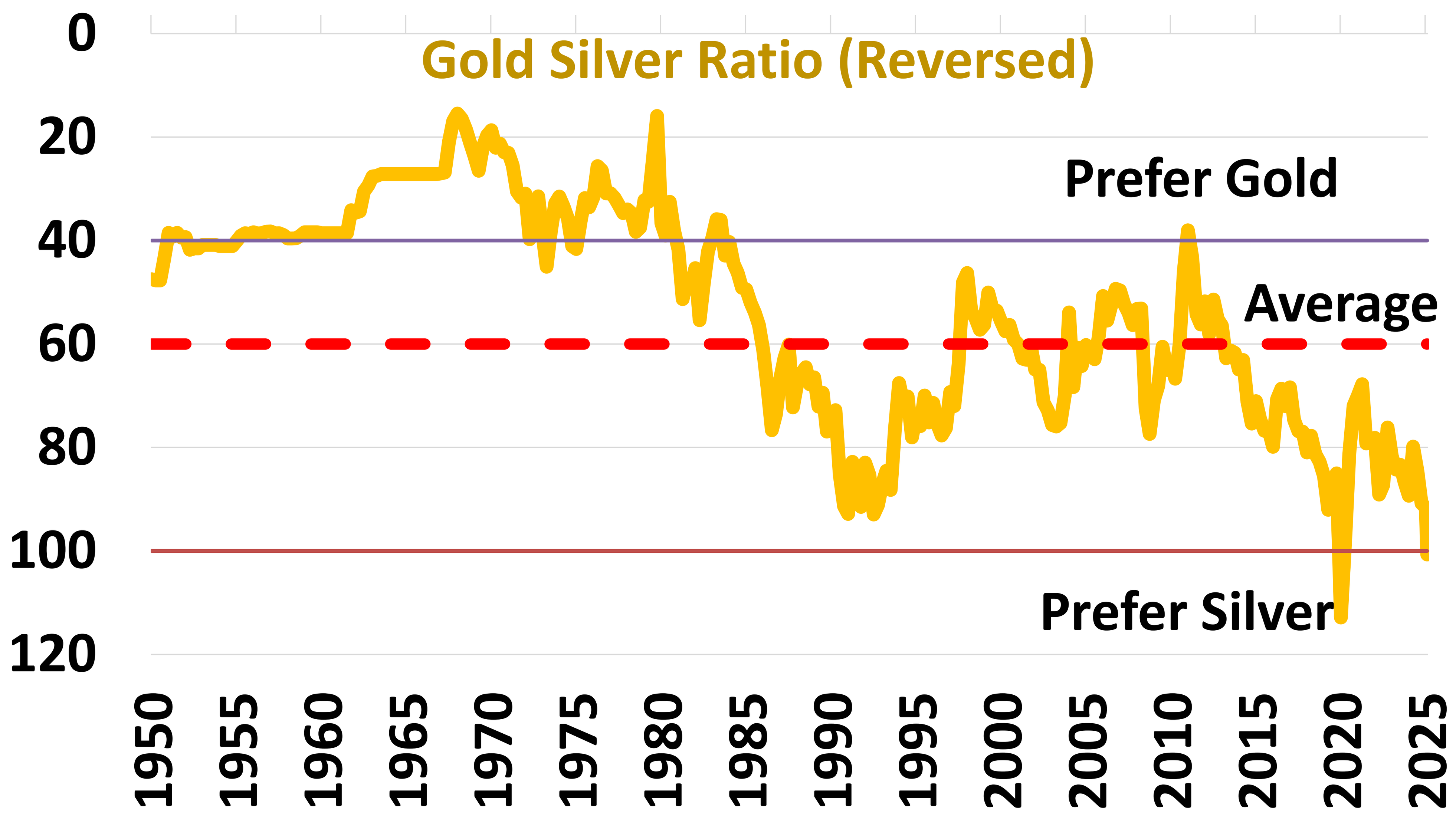
Since then, gold has surged, reaching a recent high of $3,500 in April 2025, while silver has lagged and failed to even breach the $35 mark. This divergence has pushed the gold-to-silver ratio significantly in favour of silver, nearing an all-time high of 100. 2025 could mark the fifth consecutive year in which silver demand outstrips supply. It's a very tight market.
Our theoretical framework suggests that silver prices are far below their 'implied value' and have room to rise.

Historically, silver has outperformed during precious metals bull markets. All these data points indicate that silver may have further upside from current levels. You can read our latest blog here: [Silver: A Shortage Then. A Shot Now?]

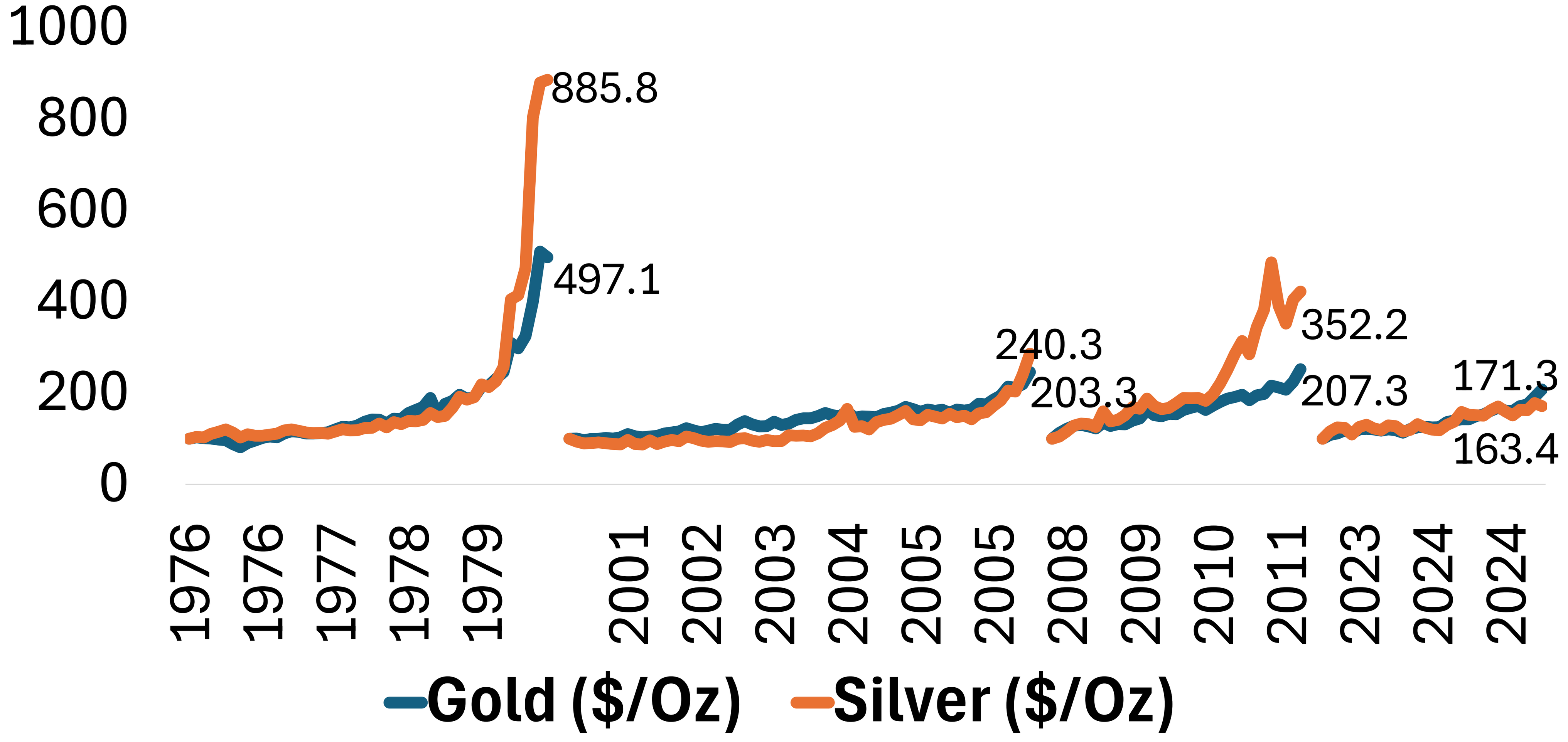
2025 Could Be The 5th Running Year of Silver Supply Deficit



Gold: Silver Ratio: Relative 'Margin of Safety' For Silver



Silver Has Outperformed Gold In Previous precious metal bull run (rebased to 100)



How To Value Silver		
Current Gold Silver Price Ratio	*1*	103:1
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	*3*	69:1
Assuming a Gold to Silver Ratio of 60:1		
Derived price range for silver	*4*	**$53 to $75**
Midpoint		$ 64

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

DSP

Source: Silver Institute, Bloomberg, DSP, Data As of April 2025

Gold vs Silver: A Comparison

Metric	Gold	Silver	Scarcity Implication
Crust Abundance	Very rare (0.003 ppm*)	Rare (0.08 ppm) but 25–30x more abundant	Silver more common
Annual Production	3,400 tonnes	26,000 tonnes	Silver produced ~7x more
Mining	Driven primarily by organised Gold mining. A third of production from artisanal mining	Is a by-product of mining other metals and hence low supply-price sensitivity	Silver supply rises when base metals mining capacity rises
Above-ground Stocks (investment-grade)	200,000+ tonnes	60,000–90,000 tonnes	Closer than expected because 50% of all mined silver has been lost
Industrial Demand	Low (~10%)	High (~50%)	Silver depleted faster
Price per Ounce	~$3,300	~$33	Gold priced ~100x higher, historical average 60x
Reserve Asset Status	Primary sovereign reserve asset	Most countries stopped using Silver as reserve asset between 1920 and 1968; Peru still holds it as a reserve asset.	The charters of a few countries, including China, still allow them to hold silver as a reserve asset.

DSP

Source: DSP, WGC, Various Publications Data As of 2025. *ppm – Parts Per Million.

Bull Markets feed on Bear Markets which feed on Bull Markets which feed on…….

The Ouroboros is an ancient symbol depicting a snake or dragon eating its own tail.

Like the Ouroboros consuming its own tail, financial markets are inherently cyclical — driven by greed and fear, boom and bust. Bull markets often sow the seeds of the next bear market, and vice versa. The cycle consumes itself only to be reborn in a new form.

At extremes, markets exhibit self-destructive behavior — think of:

- **Speculative bubbles (e.g., dot-com, crypto)**
- **Over-leveraging leading to systemic risk (e.g., 2008 crisis).**

Like the Ouroboros devouring itself, these excesses often result in collapse, clearing the way for renewal and growth.

And therefore, a contrarian streak driven by critical thinking is key for the patient investor

Source: DSP. Image credit: Fyre – itch.io

DSP ASSET MANAGERS

INVEST FOR GOOD

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