India: Sectoral Outlook

Investing in India

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- The Indian economy remains sound, with US officials indicating the country could be among the first to seal a trade deal with the US.
- We expect Indian GDP growth of 6.0% for FY26, down from 6.3% previously, driven by a global slowdown amid tariff risks. The RBI has room for further rate cuts—potentially another 75bps, in our view—supported by inflation figures that do not pose a headwind to easing. We expect inflation to average around 4.0% for the fiscal year.
- At 20x P/E, the Nifty's current valuation are slightly below the >21x peak. And we expect earnings growth to accelerate soon. We summarize our sectoral preferences and view financials and consumers as our favorites among the Attractive rated ones.

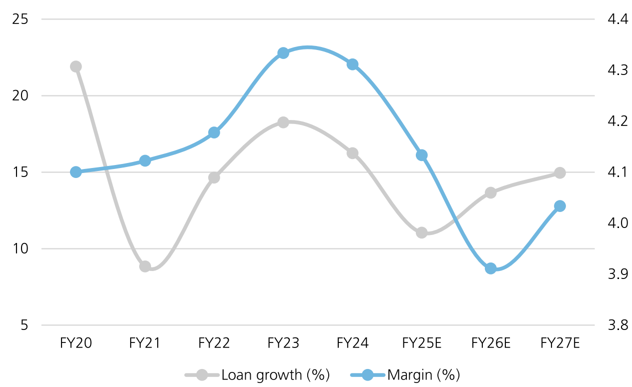
Source: UBS

From its April trough, India's Nifty has already gained 10%. Improved sentiment is partly due to the RBI's shift to an easing stance (both interest rates and lower risk weights for certain segments), along with expectations of further cuts. Another factor is India's visible progress toward a tariff solution, with US Treasury Chief Scott Bessent signaling one of first US Trade deals may be with India and President Trump terming the US negotiations with India as "coming along great". As a result, the Nifty's P/E has risen to 20x, although still below the September peak of over 21x. We continue to see upside ahead and toward year-end, especially as earnings growth accelerates. In this note, we summarize our outlook on various sectors and share sectoral preferences.

Financials to stand out

The Financials sector de-rated in recent years owing to (1) moderating credit growth amid softer demand (especially from private corporates) and a visible decline in risk appetite for retail loans (unsecured and microfinance (MFI) segments); (2) persistent deposit competition weighing on banks' margins; and (3) funding cost pressures for NBFCs, as bank loans to NBFCs attracted higher risk weights. Currently, Bank Nifty trades at one-year forward P/B of 1.7x versus its 10-year average of 2.1x. Nevertheless, most companies managed to deliver healthy returns on equity by controlling costs, with asset quality remaining comfortable. With rate cuts underway, improving liquidity, and easing regulations (including the rollback of increased risk weights for bank loans to certain NBFCs and final liquidity coverage ratio norms that are lower than the draft guidelines), we believe tail risks for the banking sector have decreased substantially. Banking credit growth (March 2025 growth at 10.9% y/y), currently at a four-year low, is bottoming out, in our view. However, the recovery is expected to be modest in FY26, as private corporate capex is still lagging and retail growth is only beginning to rebound. Margins are likely to remain under pressure in the near term, as deposit repricing lags loan repricing when interest rates fall. Most large and midsized banks that have already posted their Q4 2025 results have guided for receding deposits pressure and expectations for better loan growth. We prefer large private banks that have managed profitability well and can sustain it even amid elevated competitive intensity, supported by market share gains, loan mix shifts, improved distribution franchises, and cost optimization. We forecast these banks to deliver mid-single-digit earnings growth for FY26, followed by a strong performance in FY27 as loan growth catches pace and margin pressures ease. Over the year, we see the one-year forward P/B multiple for the large private banks basket (four largest) potentially expanding to its 10-year average of 3.0x from 2.65x currently.

Figure 1 - Loan growth expected to bottom in
FY25 and margins in FY26



Source: UBS estimates as of April 2025

NBFCs should benefit from easing funding pressures as systemic liquidity and credit demand improves. Easing of MFI stress should also aid margins. We remain selective within non-gold, non-MFI NBFCs with strong balance sheets, diversified loan book, and healthy return profile. Housing Finance companies (HFCs), especially the affordable segment, are expected to benefit from strong housing demand.

Within non-lending financials, life insurance as a sector has significant structural tailwinds in place, in our view, and we prefer companies with better portfolio mix (higher share of protection business) and potential market share gains.

Consumer: Staples poised for recovery

India's fast-moving consumer goods (FMCG) volume has, over the past five years, suffered from COVID-19-related disruption, inflationary pressures, and weak rural demand. Additionally, small manufacturers and emerging brands focused on premium and luxury products —thriving on e-commerce—have delivered growth at nearly twice the pace of large industry players, with this shift being especially prominent in the home care and processed foods segments. Beyond volumes, margins have also come under pressure owing to larger discounts on online platforms, which now account for 17% of overall FMCG consumption. With strategic measures initiated by the government to boost agricultural incomes and forecasts of a normal monsoon, rural demand recovery has begun. For example, the FMCG volume for the past quarter of calendar 2024 grew by 7.1% y/y, driven by rural volume growth of 9.9% and festive demand, while urban volumes rose by 5% during the period. The sector has also seen some acquisition announcements of niche and luxury brands by larger players, implying some consolidation.

Most FMCG companies have raised prices of their staple products since the start of the year owing to higher raw material costs. However, with commodity prices (such as crude oil and palm oil) now expected to soften, margins could improve. An increase in urban consumption following tax cuts is another tailwind, and in the current volatile environment, the staples sector could provide defensiveness to portfolios. In the latest earnings (Q4 FY25), Hindustan Unilever, which is a broad based FMCG company, upgraded its growth outlook for the FMCG industry to expecting an accelerating trend, compared to the earlier commentary of moderating growth. Management also stated that they are seeing improving industry growth in Q1 FY26. This strengthens our view that trends in the FMCG space are pivoting. Current valuations are at a premium—the Nifty FMCG sector's forward P/E is at 37.7x versus 10-year average of 33.6x. During this period, companies that have delivered growth or turnaround have seen their multiples expand, while others have de-rated or time corrected. We expect this trend to continue and prefer companies with clear visibility on business growth (volume growth, pricing power, market share gains) and established earnings levers.

Similarly, within the discretionary space, we remain selective, with a slight tilt toward mass-market discretionary companies, as these could demonstrate growth despite intense competition from localized and unorganized players. Companies with a clear business moat in textiles and apparel, and food delivery could perform strongly. The hospitality sub-segment may benefit from rising affluent spending and is relatively insulated from tariffs uncertainty.

Automobile: Steady growth ahead
Automobile sales in India over last few years benefited from COVID led demand, new model launches, strong exports (2 wheelers) and government subsidies for promoting EV penetration (FAME I and II). High base effect from previous years and slowing urban consumption weighed on PV segment for FY 2025 which grew at a moderate 2% y/y in terms of volume, with utility vehicles being the primary driver. For 2Ws, volume grew at 9% y/y, decelerating in second half of FY 2025 driven by weaker domestic volume print. CV cycle has been soft and trends in tractors have been

improving on the back of rural recovery. For 4W companies, we expect moderate growth at least in 1H FY 2026 given lesser new model launches and rollback of discounts offered in Q4 2025. Demand should be driven by SUVs and new EV launches. For entry level models, demand could potentially improve towards the end of FY 2026 as benefits from higher post-tax income trickle down and salary increases post Eight Pay Commission for Central government employees followed by state government employees could be a tailwind in the following period. For 2Ws, recent softness in volumes of low cc bikes despite rural recovery is a divergence, and we expect the trend to continue with shifting consumer preference towards higher performance products and intensifying competition from electric 2Ws. Further, any risk to export momentum with FX/ crude volatility could also be a headwind. Ongoing infrastructure spending, government policies and replacement demand should drive steady growth in CVs while tractor demand is expected to remain healthy with continued rural recovery. We also expect key commodity prices to remain subdued amid China dumping risks and weak global demand, which should aid margins. From the US tariffs standpoint, we highlight there are only a couple of names in the sector with direct impact. However, lowering of tariffs/ duties s on automobile imports in India as a part of negotiation with the US could worsen the competitive landscape in the sector. We prefer auto companies with presence diversified across segments which should insulate performance and where there is clear market share gains potential.

IT Services: Unclear outlook

From November 2024 when President Trump came into power till mid-December 2024, Nifty IT rallied about 13% on the optimism that strong US performance would fuel IT spends of companies. However, trends reversed as tariff noise increased. As per the White House announcements on tariffs till date, IT services are not directly subjected to tariffs, however, second-order effects from slowdown risks in the key economies of US and Europe could keep the outlook hazy for these companies. YTD, NIFTY IT Index is down 17% with Nifty IT's forward P/E at 23.6x at a slight premium to 10 year average of 21x. While most companies have announced deal wins in Q4 FY25 results, near term revenue guidance is soft. Commentary from various companies indicate delayed decision-making by clients and discretionary spending to continue to be subdued in the backdrop of uncertain macro environment. Despite uncertainty, FY 26 is guided to be better than FY 25. We believe downside is limited from current levels, and any incremental news flow on easing of tariffs/ trade deals could drive a relief rally in the sector. However, unclear timelines and outlook keeps us on sidelines. Most IT services have highlighted AI as an additive opportunity, and we align with the view. INR depreciation against USD and EUR could support earnings.

Healthcare: hospitals are well-placed in an uncertain macro

For the Indian pharma companies exposed to the US, we believe tariff related uncertainty will continue to dictate stock performance. Other than tariffs, performance of companies with US generic exposure will also be impacted from expiry of certain key patents (e.g., gRevlimid in January 2026) which have kept sales strong. In such an environment, we would prefer companies with strong specialty drugs portfolio apart from generics and hospitals (especially for investors who can directly invest in the Indian market), which are well shielded from all the tariff related and geopolitical noise. Most private hospital chains are substantially increasing their bed capacities over next few years. We are not worried about over capacity given India currently has just 0.79 government hospital beds per 1,000 population—far below the two beds per 1,000 population recommended by the National Health Policy 2017 and the global average of 2.7 beds per 1,000 population. Further, new capacity addition for many of these players is focused on high-complexity care, including oncology and cardiology, which should aid margins. International medical tourism in India that had taken a hit due to COVID induced lockdowns has exceeded pre-COVID levels again (in terms of number of patients). Medical tourism generally accounts for 10-12% of hospital revenue but has higher margins, and companies expect it to grow at almost twice the overall industry growth rate in the near to medium term. Increasing health insurance penetration would also drive occupancies at private hospitals.

Oil and Gas

In contrast to global trends, fuel demand in India has remained strong and is expected to continue growing steadily, driven by rising economic activity, urbanization, and population growth. The International Energy Agency (IEA) projects India’s oil demand to rise from 5.4 mbpd in 2023 to 6.7 mbpd by 2030—growth of 3.2%. In the backdrop of a benign crude environment and stable retail fuel prices, margins for Indian refiners and marketing companies could see improving trends. The sector has also seen some growth capex in recent years, with capacity commissioning in phases expected from FY26. We do not see risk from increasing natural gas substitution as a source of energy, given processing capabilities of large refiners across the chain. There have also been media articles indicating the government is likely to soon approve a onetime compensation for under-recovery by Oil marketing companies (OMCs) on the sale of LPG cylinders/ cooking gas, which could push earnings substantially. Potential risks to marketing margins of the OMCs include further excise duty imposition on petrol and diesel and capping of retail fuel prices. Valuation for most SOE OMCs are in line with their 10-year average, in the range of one-year forward EV/ EBITDA at 6.5-7.5x.

India: Sectoral view

Financials	Attractive
Consumers	Attractive
Healthcare (driven by hospitals)	Attractive
Cement	Attractive
Automobile	Neutral
Oil and Gas	Neutral
Telecom	Neutral
IT services	Unattractive
Infra/ Cap goods	Unattractive

Source: UBS CIO as of April 2025

Appendix

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