FINGINE Report

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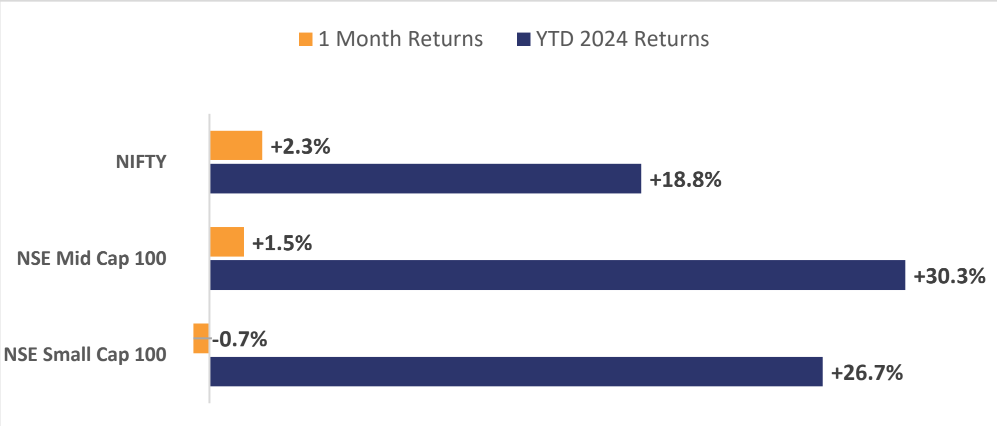
Despite widespread discussions around rising valuations, Indian equities continued firm for most of the month of September. However, the end of the month saw local as well global stock prices reacting to news of the Iranian missile attacks on Israel and investors remained nervous anticipating further escalations in the Middle East. In addition, radical reforms announced in China and SEBI's new F&O trading regulations supported the weakening sentiment in Indian equity markets. Small Caps registered negative returns in September for the first time in recent months and now trail Mid-Caps over the last twelve months.



It is quite revealing to see that median EPS growth for companies across the board have now consistently lagged median shareholder returns over different timeframes, a further indication of high valuations prevailing at present.

Companies above 10,000 cr mCap	10 Years	7 Years	5 Years	3 Years
Median shareholder retrun	18%	20%	31%	26%
Median EPS growth	13%	14%	16%	22%

Companies between 500 cr-10,000 cr mCap	10 Years	7 Years	5 Years	3 Years
Median shareholder retrun	19%	17%	38%	30%
Median EPS growth	13%	13%	15%	25%

As per worldperatio.com, India currently trades at 26.88 times earnings, the highest multiple of any global market. Chinese stocks currently trade at 12.33 times earnings and positive policy announcements are encouraging global investors to look at China more closely, at least as a tactical play. Current valuations in India are also at a significant premium to five-year and ten-year average PE ratios of 22.13 times and 19.56 times earnings respectively.

However, India continues to be seen favourably by foreign portfolio investors, resulting in about $ 16 billion of net inflows in the first six months of the current financial year. Interestingly, net investments from FPIs in the month of September were greater than their aggregate investment in India over the first five months of 2024-25. Recently, the country's foreign exchange reserves have

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exceeded $ 700 billion, a record high, as the current account situation remains under control and capital inflows continue to be strong.

Currently, investors' views are divided between those who feel that the secular upside will continue unabated, given the continuous flow of both foreign and domestic funds into the stock markets and others who believe that there may be a pause based on higher valuations. The upcoming line up of IPOs is also likely to absorb a good part of the liquidity over the next few months. The propensity of promoters and private equity investors to liquidate their holdings is indicative.

This should at least ensure that the euphoric mood of the recent past may not continue. Instead, investors may see valuations aligned with earnings and can look forward to reasonable returns in their portfolios.

At the macro level, investors need to monitor the growing trend of populism-driven expenditure being committed by political parties across states. This raises concern around the financial situation of state governments in future and may limit spending on infrastructure and development initiatives. While tax collections at the central level remain strong, excessive commitments at the state level may neutralize this advantage. On the positive side, the rate cycle has clearly peaked, inflation remains very much under control and monsoon rains have been strong.

Consumer demand has now been subdued for nearly two years and a revival may be imminent – and supported by liquidity at the household level generated by various government schemes.

The next important event will be the second quarter financial results to be announced by the Indian corporate sector, dictating further direction and the mood of the market.

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