# FINGINE Report

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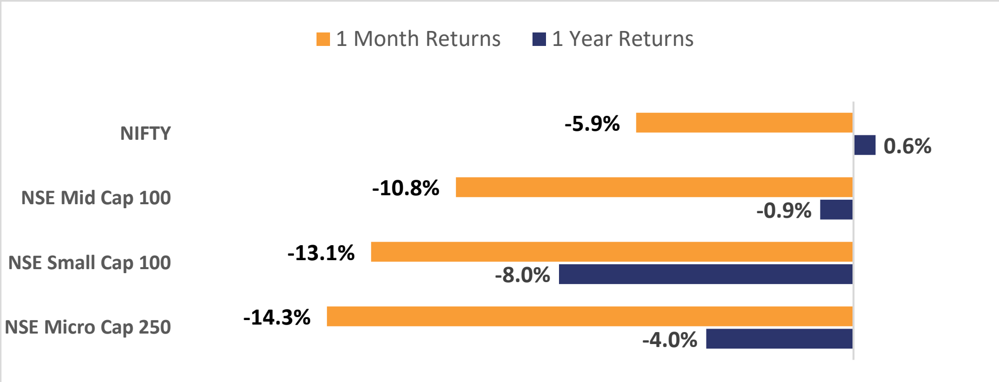
The month of February was a tough period for Indian stocks, with significant corrections across every segment of the market. This was the first instance of a fifth consecutive monthly fall in the Nifty 50 index in almost three decades. India remained a clear underperformer compared to other global benchmarks.




The initial reaction to the Union Budget was positive, given the significant tax break to the middle class that is expected to boost consumption, along with a revival in capital expenditure based on the spending forecasts for FY26. However, the optimism was soon overshadowed by relentless foreign investor selling, which over the last five months exceeded Rs. 2 lakh crore ($ 25 billion). At the same time, the net inflow into equity mutual funds in February was lower by 26% compared to January, as per AMFI data.

The selling pressure was particularly pronounced in smaller companies, where the indices saw by far the largest correction of the last few years. This had a more significant impact on the portfolios of retail investors who have been overweight in mid/small/micro-cap stocks and have seen secular up-moves over the last five years. At the end of February, stocks outside the large cap segment were trading at levels lower than even 12 months ago.

Previously, the steep rise in Indian equities had resulted in the valuations running far ahead of earnings. Based on data from HDFC Securities, midcaps recorded a 14% average expansion in earnings over five years while stocks in this segment appreciated at 28% annually. In the case of small caps, earnings are up 21% and valuations 27%. With a slowdown in earnings growth and near-term outlook, valuation multiples have now receded. At the same time, large cap earnings and stocks have both appreciated at 15%. Overall, investors who were heavily overweight in small caps have seen their portfolios decline faster as valuation multiples reverted closer to mean once again.

Looking ahead, there seem to be two key opposing forces at play globally. On the one hand, the Trump administration has been pushing to end two major wars, which could reduce geopolitical tensions. On the other hand, the ongoing tariff disputes are a source of continued uncertainty.

Overall, market participants believe that the current pessimism in Indian markets appears overdone and investors are pricing in an excessively negative growth scenario over the next two years. However, macroeconomic indicators suggest a recovery, with both fiscal and monetary policies becoming more growth-oriented. Given that earnings growth will likely be much stronger than in recent years, and considering that stock market valuations are now below historical averages, the risk-reward balance appears favourable.

At present, the Nifty 50 index trades at about 19.7 times earnings, which is lower than the average historical levels but mid and small cap are still trading at a premium. However, the entire spectrum of listed equities has gained substantially over the five-year period. Intermittent volatility is part of market movements and astute, long-term focused investors can use it to their advantage over time.

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**For any further queries, please be in touch with us.**

Phone: +022 4751 5673

Mobile/WhatsApp: +91-98335-57572

Email: support@fingine.in