

# Strategy

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## Index returns so-so, portfolio returns not even so-so; how so?

Our analysis of direct and indirect equity holdings of retail investors shows that retail portfolios (direct holdings or through MFs and PM schemes) have (1) trailed index returns and (2) barely delivered positive returns over the past 16-18 months. The weak trailing returns over the past 18 months may increasingly test retail investors' patience.

### Weak returns of key sub-segments resulted in weak overall IRR from MFs

Our analysis of weighted-average NAVs of equity-oriented MFs suggest retail investors likely made very modest returns over July 2024-December 2025, even as the total flows over this period is 53% of the total flows mobilized by MFs over CY2022-25 (see Exhibit 1). This is despite positive returns of the major market indices over the same period (see Exhibit 2). Furthermore, we note that a retail investor would have needed to invest consistently since September 2022 to achieve more than 13% XIRR, excluding charges and taxes (see Exhibits 3-4). Exhibits 5-8 show that mid-cap., small-cap. and thematic funds performed similar or worse than overall equity MF over the past 18 months, while they garnered the bulk of the flows over the past two years.

### PMS schemes did not fare much better

Our analysis of top-20 PMS strategies by AUM suggests that only a handful of schemes delivered decent returns over the past 12 months (see Exhibit 9). Nonetheless, we note that the PMS industry has received strong inflows over this period. However, continued underperformance may pose a risk to future inflows for this segment as well.

### Retail equity AUM (direct) has been flat over the past 18 months

The prolonged time correction in broader equity markets, coupled with sharp price corrections in retail-dominated stocks, resulted in weak returns for direct holdings of retail investors, with retail investor AUM of NSE-listed stocks being stable around Rs43 tn over the past 18 months (see Exhibit 10). Furthermore, the AUM of retail investors increased at a CAGR of around 15% over 2021-25, with the bulk of the increase taking place over March 2023 and June 2024. We note that direct flows of retail investors into equity markets have tapered off in recent months (see Exhibit 11).

### Decent-to-large value erosion in a large number of retail-dominated stocks

Our analysis of the top-20 retail-dominated stocks in the current Nifty-500 Index suggests that this portfolio of stocks has delivered negative returns since June 2024 (see Exhibit 12), after astronomical returns over March 2023-June 2024. The same trends are also reflected in the basket of select narrative stocks, which have large retail ownership (see Exhibit 13). However, valuations of many of these 'narrative' stocks are completely disconnected from the fundamentals of companies, despite the recent correction on failure of many of these narratives (see Exhibits 14-15). These stocks will likely lose a significant portion of their market cap. over time, which could prolong the pain for retail investors.

### Key estimates summary

|                        | 2026E | 2027E | 2028E |
|------------------------|-------|-------|-------|
| <b>Nifty estimates</b> |       |       |       |
| Earnings growth (%)    | 7.8   | 17.5  | 14.7  |
| Nifty EPS (Rs)         | 1,072 | 1,264 | 1,450 |
| Nifty P/E (X)          | 24.0  | 20.4  | 17.8  |
| <b>Macro data</b>      |       |       |       |
| Real GDP (%)           | 7.8   | 6.5   | 6.5   |
| Avg CPI inflation (%)  | 2.1   | 4.1   | 4.0   |

Source: Company data, Kotak Institutional Equities estimates

### Quick Numbers

53% of CY2022-25 flows into domestic equity mutual funds have come over July 2024-December 2025

Weighted-average NAVs of mid-cap. funds down 3%, of small-cap. funds down 13% and of thematic funds down 13% from the peak of September 2024; overall weighted-average NAV down 1.4% from September 2024

Direct retail AUM has been stuck in the range of Rs40-45 tn since June 2024, despite stable holdings of retail in most stocks over this period

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