
DSP
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7 Insights Through A New Lens| Aug 2026

India: An N-of-1 Among Emerging Markets

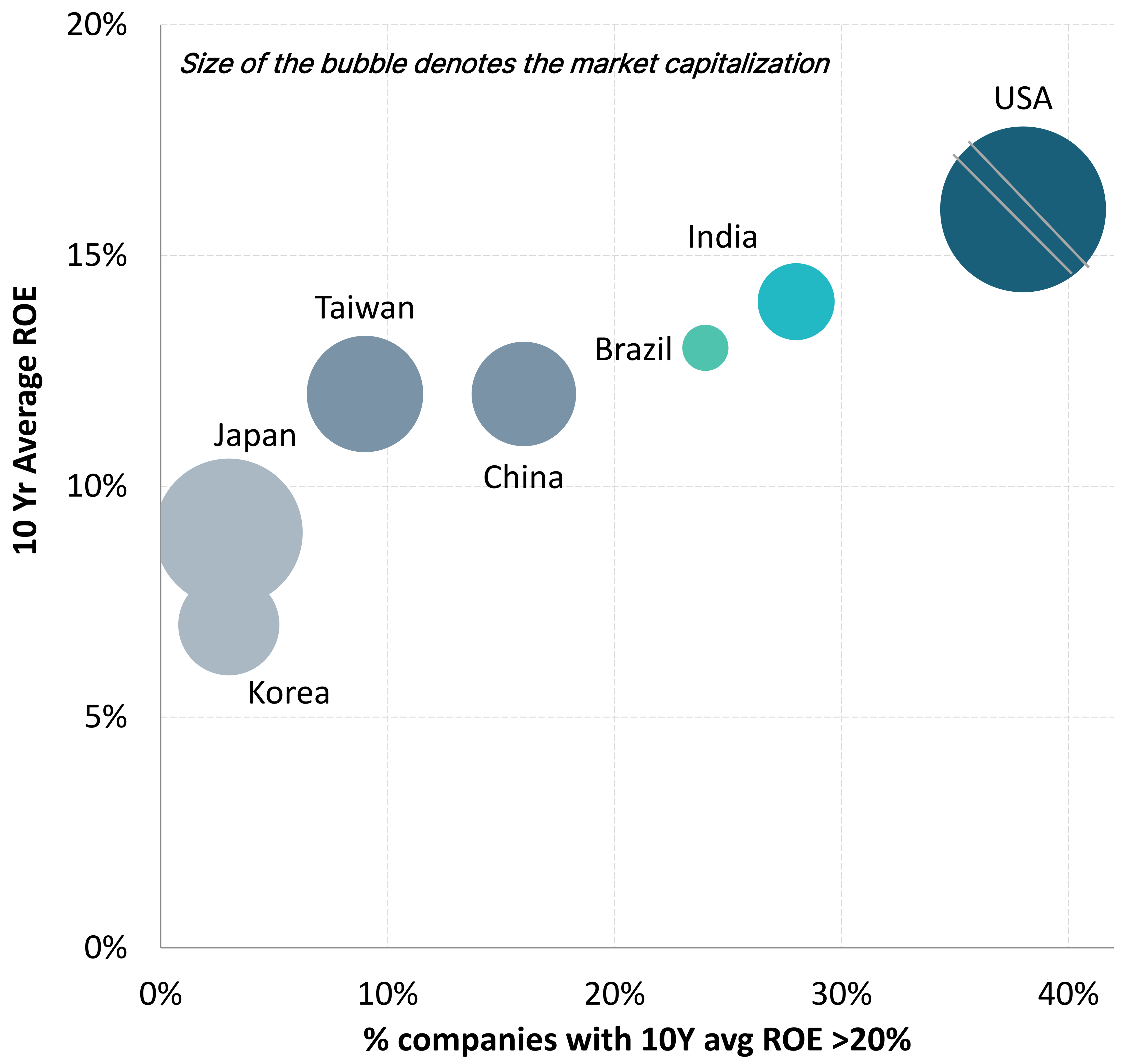
Fish Where The Fish Are – India Has A Deep Pool Of High-Return Businesses

India's long-term market outperformance is often attributed to familiar narratives such as strong domestic flows or robust GDP growth. But it is not the GDP or flows that drive equity returns over the long-term. It is the corporate profitability and cash flows that decide the winner.

Adjusting for differences in the cost of capital, India stands out among global markets. 28% of companies in the Indian universe delivered a 10-year average ROE above 20%, second only to the US among the markets shown. This tells you that equity investors have a deep pool to fish for high-quality investments in India.

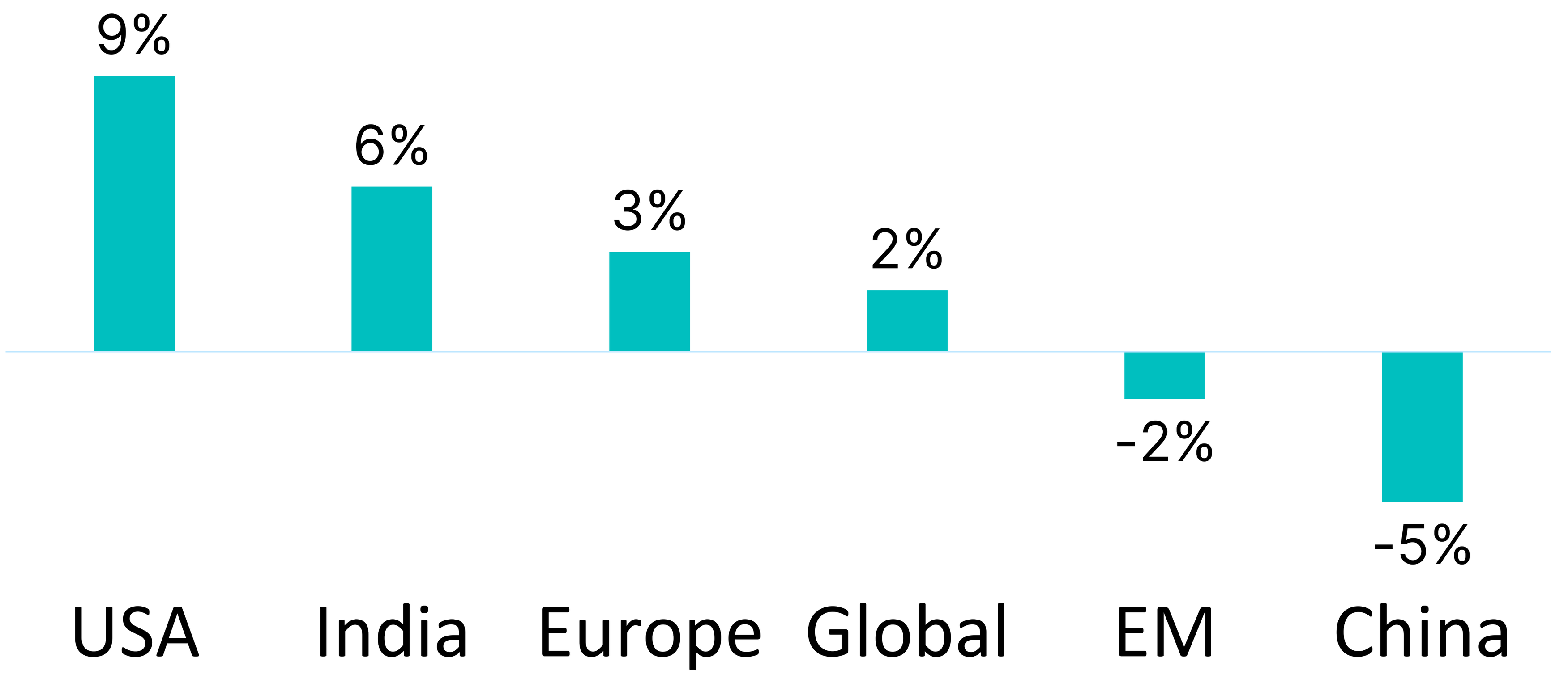
India's unusually deep pool of high-return businesses may be one structural reason its equity market has compounded differently from many peers. This underscores the enduring fundamentals, rather than popular macro narratives, are what ultimately drive long-term equity returns.

28% Of Companies In India Delivered ROE's Over 20%, Second Only To The US



Market	High-ROE Pool	10Y Avg ROE	Current ROE	P/B
USA	38.0%	16.0%	21.1%	5.73x
India	28.0%	14.0%	13.9%	3.32x
Brazil	24.0%	13.0%	18.4%	1.86x
China	16.0%	12.0%	10.4%	1.47x
Taiwan	9.0%	12.0%	18.6%	5.81x
Japan	3.0%	9.0%	9.6%	2.01x
Korea	3.0%	7.0%	15.1%	2.59x

ROE adjusted for Cost of Equity – India does better than most peers



India – Not Just Quality But A Wide Basket To Choose From

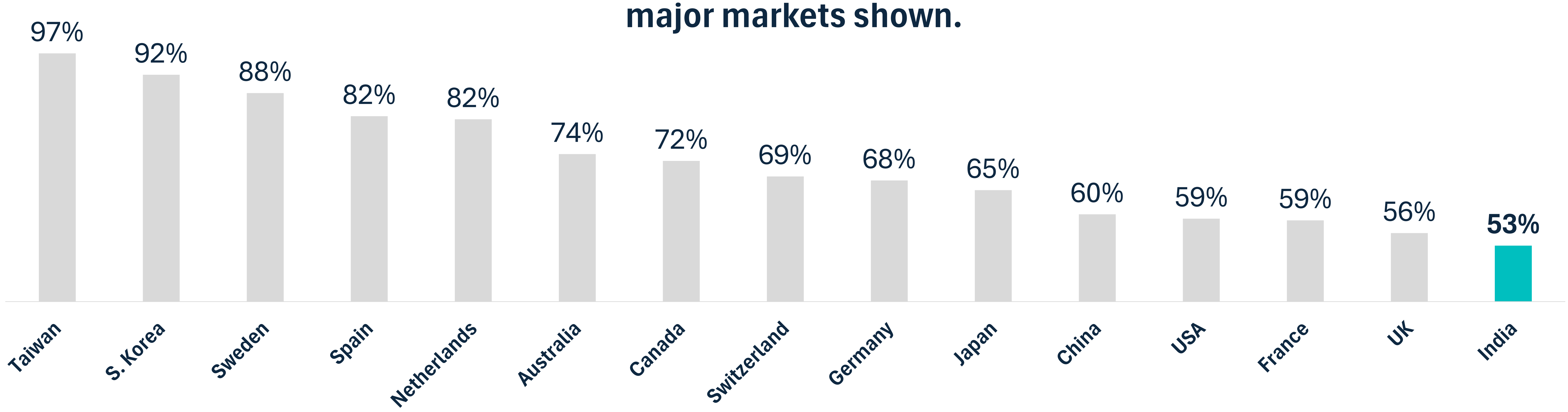
India's market stands out for what it does not have: a single sector dominating the index. Not only there are higher number of highly profitable firms, but they are also from different sectors and drive their earnings differently.

The largest three sectors account for just 53% of India's market, the lowest among the countries shown, compared with 92% in South Korea and 97% in Taiwan.

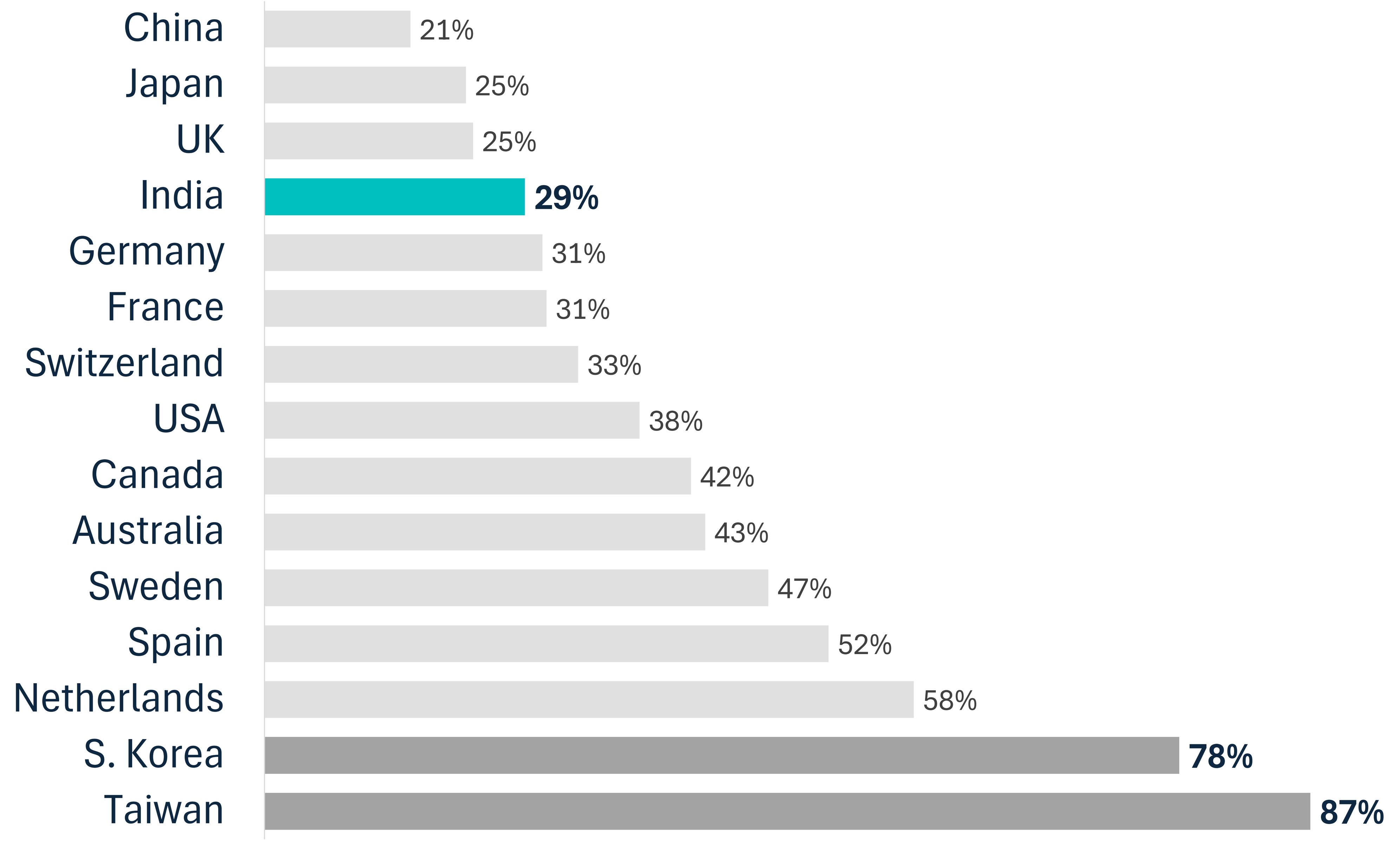
Even India's largest sector accounts for only 29% of the market, well below Technology in South Korea (78%) and Taiwan (87%).

More importantly, this breadth is across very different economic drivers: credit, consumption, capex, global services, healthcare and energy.
In that sense, an allocation to India is less a bet on one particular theme and more an exposure to multiple engines of growth within the economy

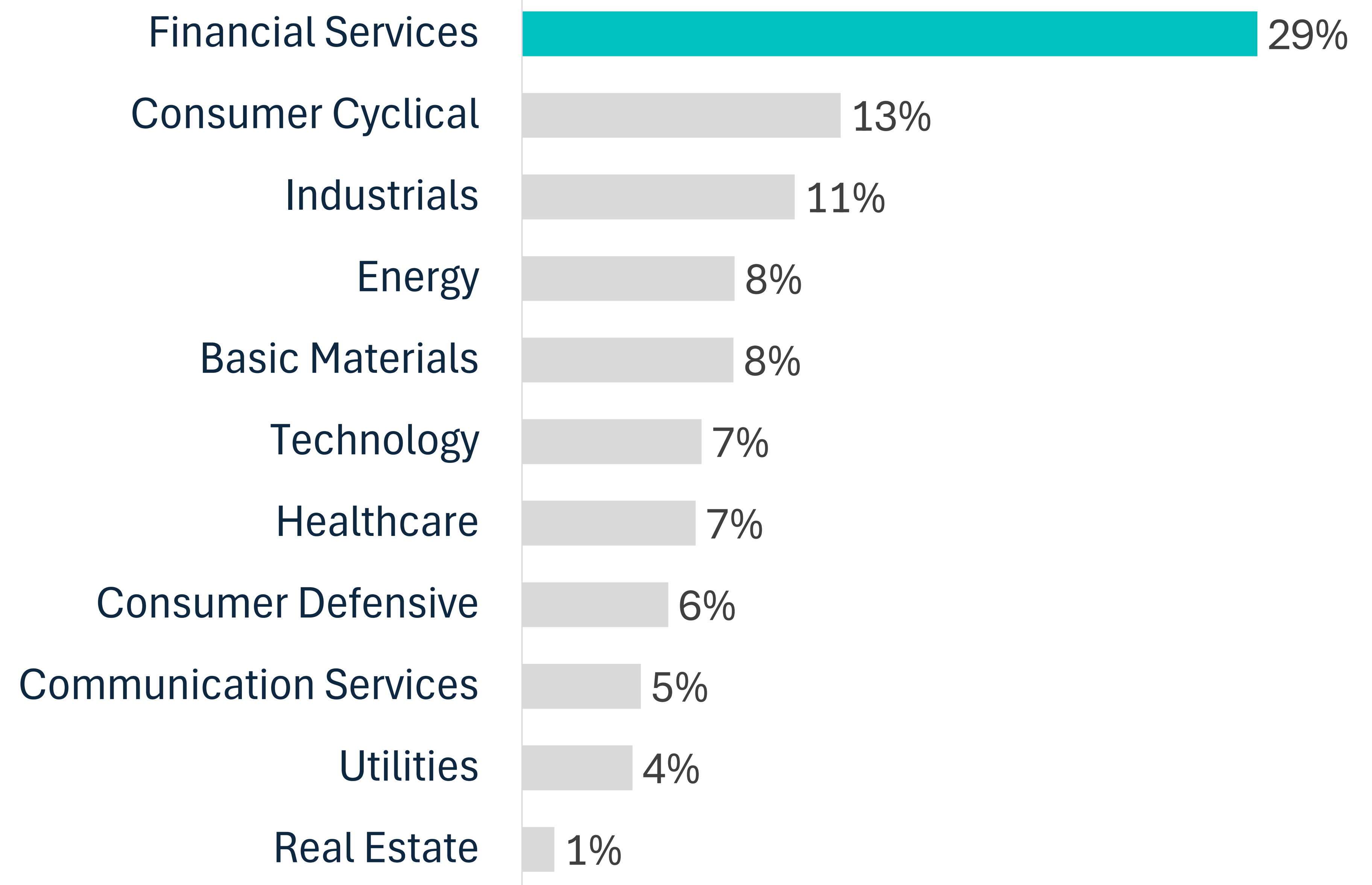
India's three largest sectors are only 53% of its market - the lowest among the major markets shown.



India's largest sector is just 29% vs 87% for Taiwan and 78% for Korea



India Sector Mix



Source: Morningstar, DSP. Data as of Aug 2026.
Countries shown are the top 10 countries by weight in the MSCI ACWI Index, plus India.
For each country, its total weight is indexed to 100%, and the sector weights show each sector's share of that total.

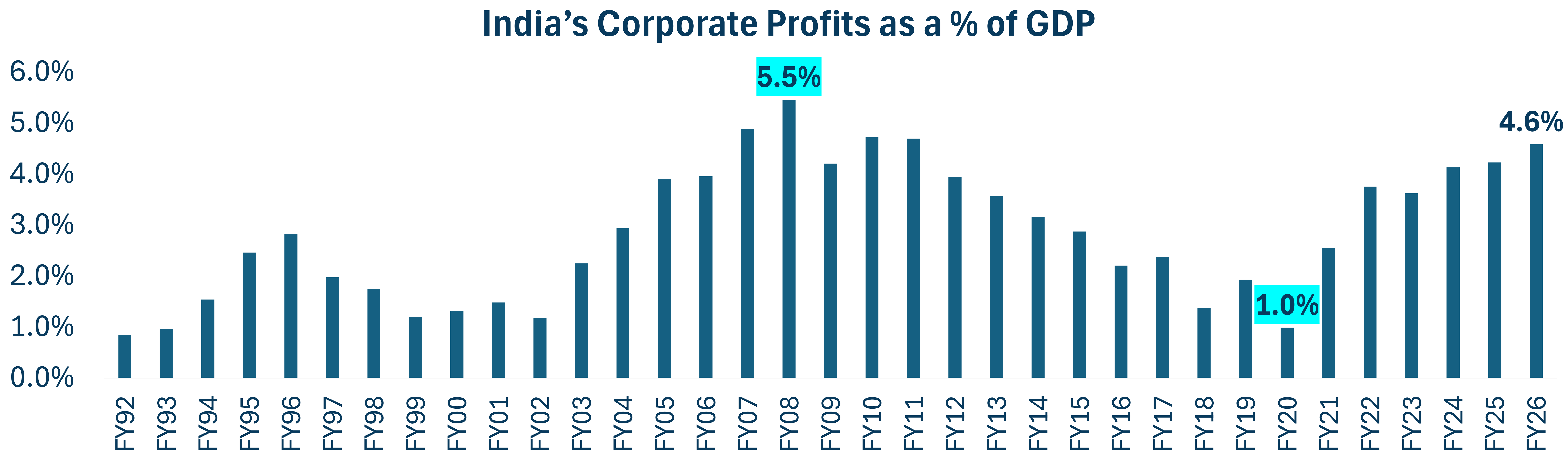
India's Profit Pool Has Recovered, While Prices Have Lagged Earnings

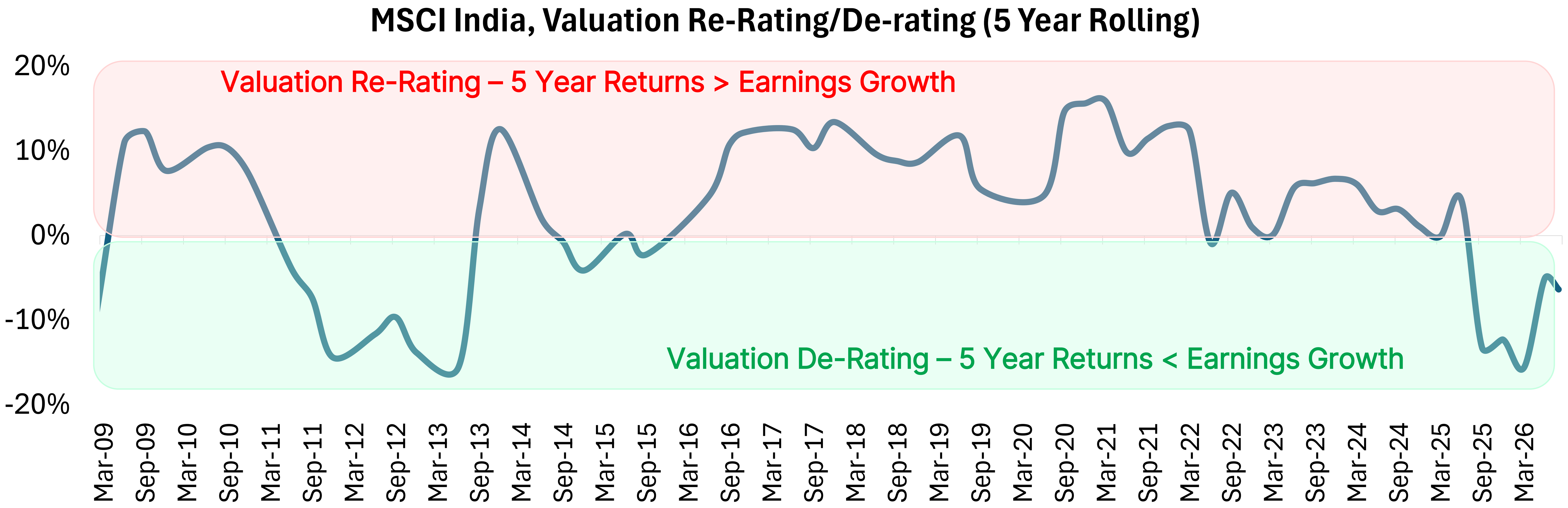
Corporate profits have risen from 1.0% of GDP in FY20 to 4.6% in FY26, supported by high profit margins and the normalization of financial-sector profitability.

The rebound follows more than a decade of weak profitability, driven by banking stress, lower private capex and subdued corporate balance sheets. For investors, a higher profit share matters because it supports earnings growth, capex, credit quality and the durability of equity returns.

India remains in de-rating territory: five-year USD earnings growth continues to exceed five-year realized USD returns. The gap, however, has narrowed from the extreme reached earlier in 2026.

The current setup (earnings growth > realized returns, i.e., de-rating territory) implies India's returns have lagged its fundamentals, a supportive setup for future returns if earnings growth sustains, since markets historically don't stay this de-rated for long.





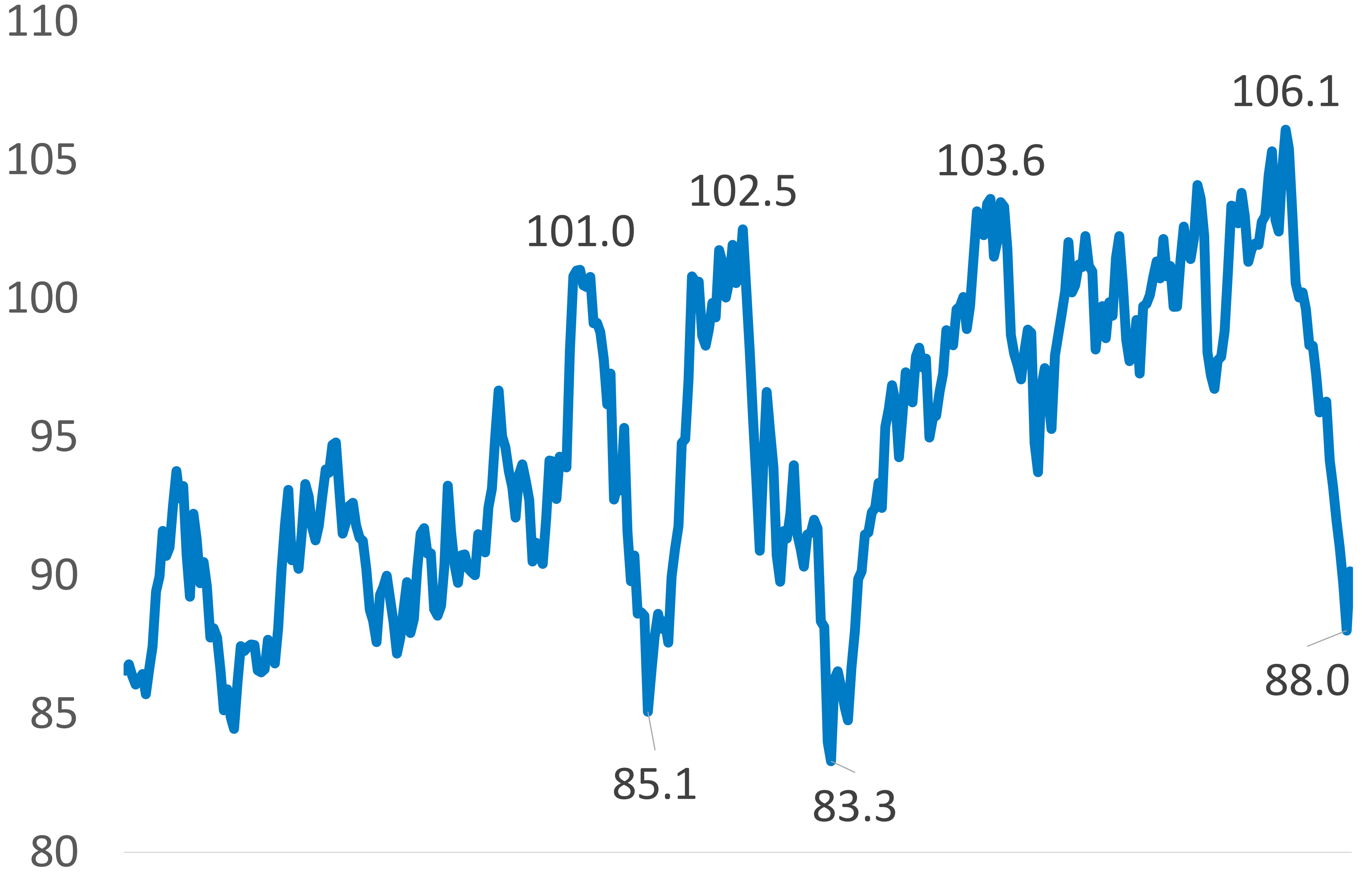
Source: CMIE, Bloomberg, DSP. Data as of Aug 2026. For returns - MSCI India Net Total Returns (USD) is considered.

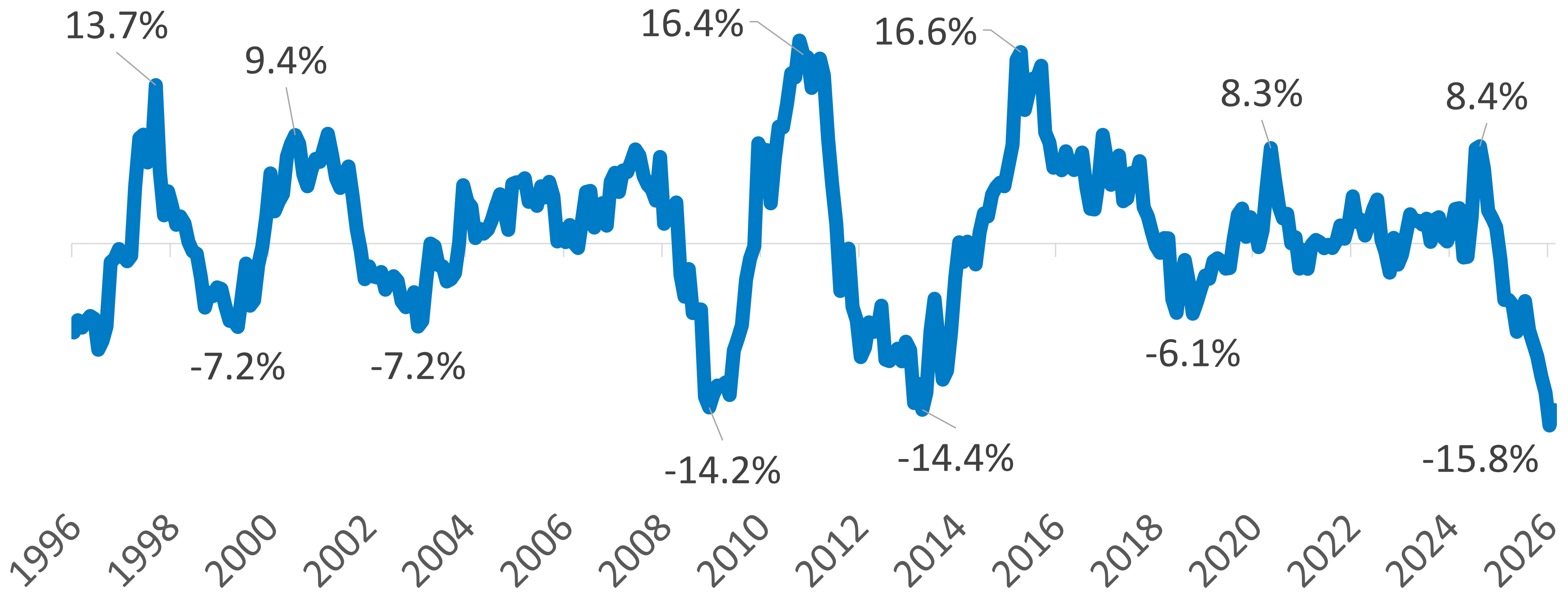
Worried About The Rupee? This Is The Time To Buy Rupee Assets.

India's REER likely fell below 88 during the month of May 2026, a level usually seen only during major stress episodes. At the same time, India's inflation gap with the US has narrowed sharply, weakening the long-term case for faster Rupee depreciation. A long-standing argument against the Indian Rupee has been a ~4% inflation differential versus the US. That number in 2020s has been just 50bps.

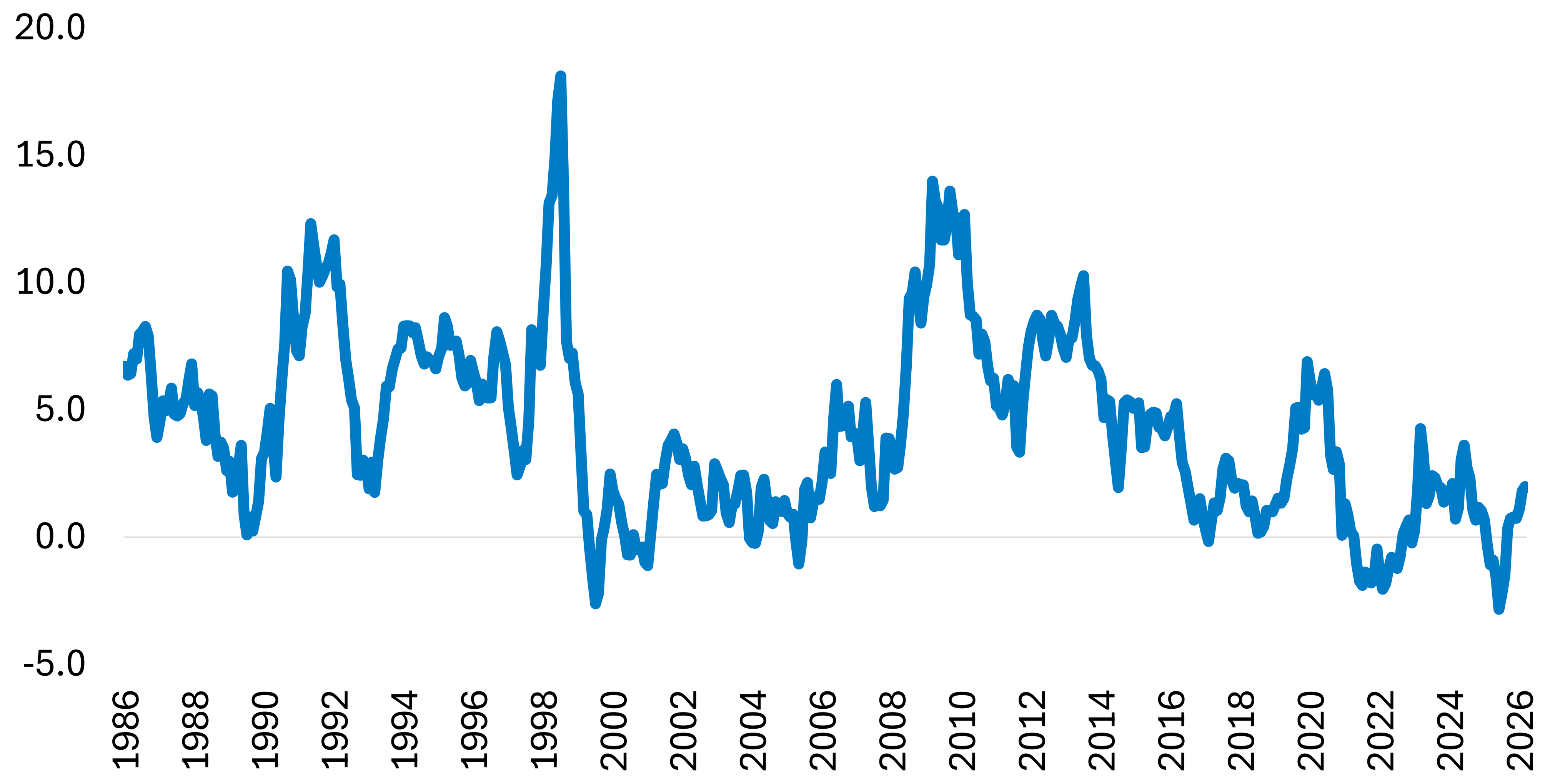
BoP risk exists, but this is not a crisis. Remittances and the services surplus now provide a large cushion against the goods trade deficit. Oil remains the key risk. Large-cap equities have derated, several quality businesses trade near or below long-term average valuations, and FPI selling has already been heavy. RBI reserves and the forward book need monitoring, but the better risk-reward is no longer in betting against the Rupee. It is in selectively owning Rupee assets, especially large-cap equities and duration bonds.

Rupee REER At An Extreme, Not The Time To Be Bearish





India's Inflation Differentials Have Plunged To Multi-Decade Lows



India-US Inflation Differential by Decade	Average	Max	Min
1980	4.1	8.3	0.1
1990	6.3	18.1	-2.6
2000	4.0	14.0	-1.1
2010	4.5	10.3	-0.2
2020 to date	0.5	4.3	-2.8

Source: RBI, FRED, CMIE, Bloomberg, DSP. Data as of August 2026

India's Cash Yield Premium Over the US Has Turned Positive

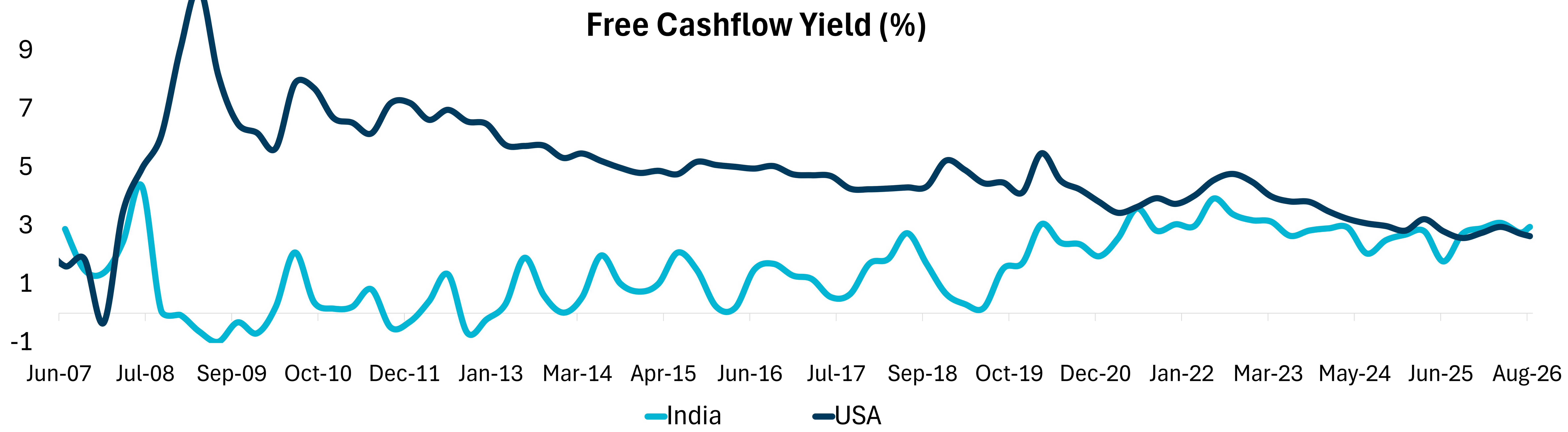
Cashflows ultimately matters more than accounting earnings. Free cash flow is what remains after the investment required to run and grow the business. It can be reinvested, used to repay debt, or returned to shareholders.

India's FCF yield has risen to 3.0%, nearly 1.9x its 20-year average of 1.6%. It now sits around the 88th percentile of its own 20-year history.

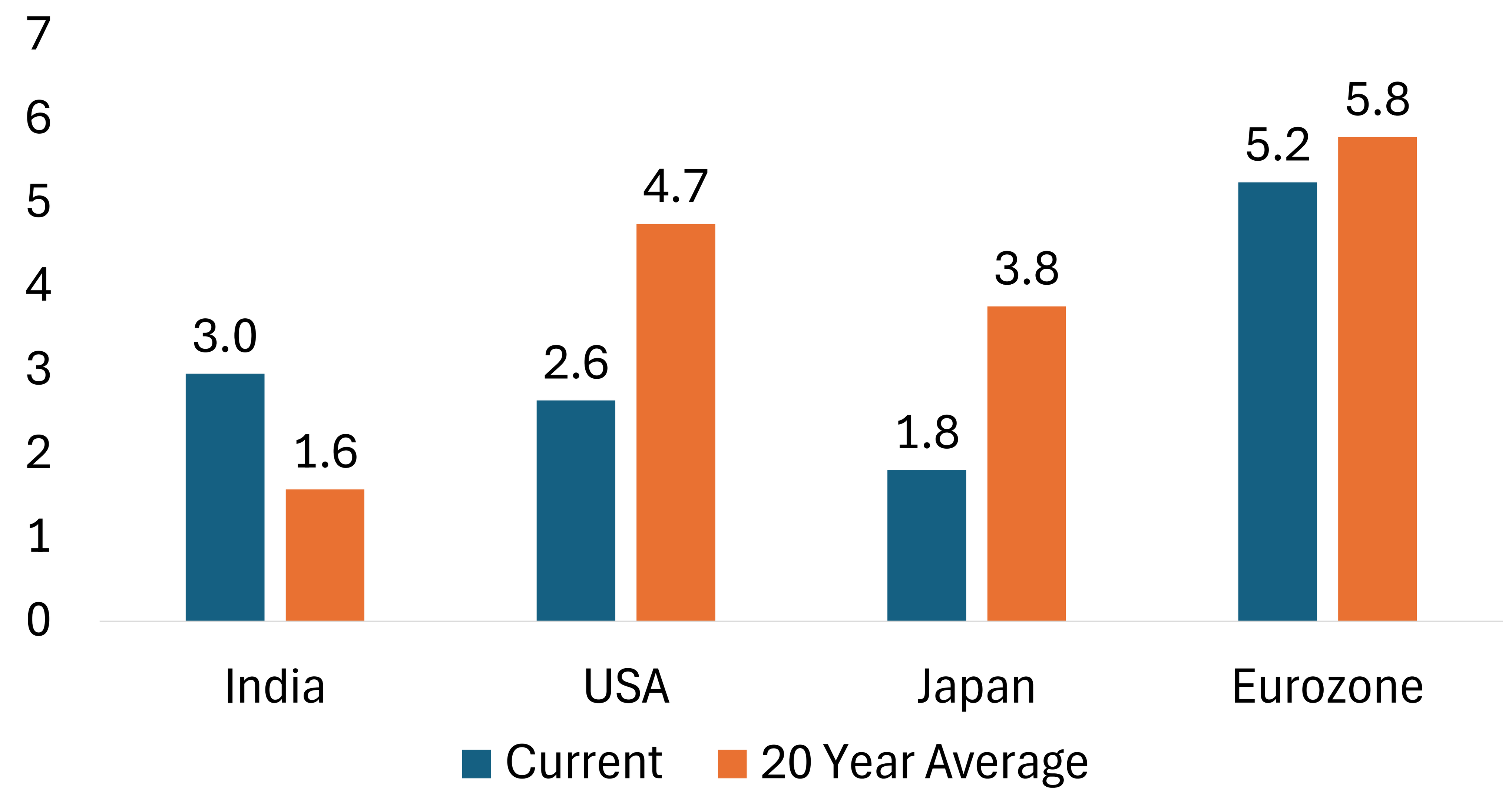
The comparison with the US has reversed. India's FCF yield has historically averaged 317 bps below the US. Today it is about 32 bps higher, with India remaining above the US since September 2025.This matters because valuation ultimately has to be supported by cash generation.

Earnings can grow without equivalent cash conversion. A rising FCF yield means investors are receiving more cash flow for every unit of equity value they own.

The India-US spread has moved from a 20-year average of -317 bps to +32 bps today.



FCF Yield, Current vs 20 Year Average (%)



India's FCF Yield now sits around the 88th %tile of its own 20-year history.

Market	Current FCF Yield	20Yr Avg	20Yr Historical Percentile
India	3.0%	1.6%	88th
USA	2.6%	4.7%	7th
China	6.1%	1.4%	96th
Japan	1.8%	3.8%	4th
Eurozone	5.2%	5.8%	49th

Source: Bloomberg, DSP. Data as of Aug 2026. Indices used are India – Nifty 50, USA – S&P500, Japan – Nikkei 225, Eurozone – Euro STOXX 50.

India's USD Returns Have Had An Unusually High Floor

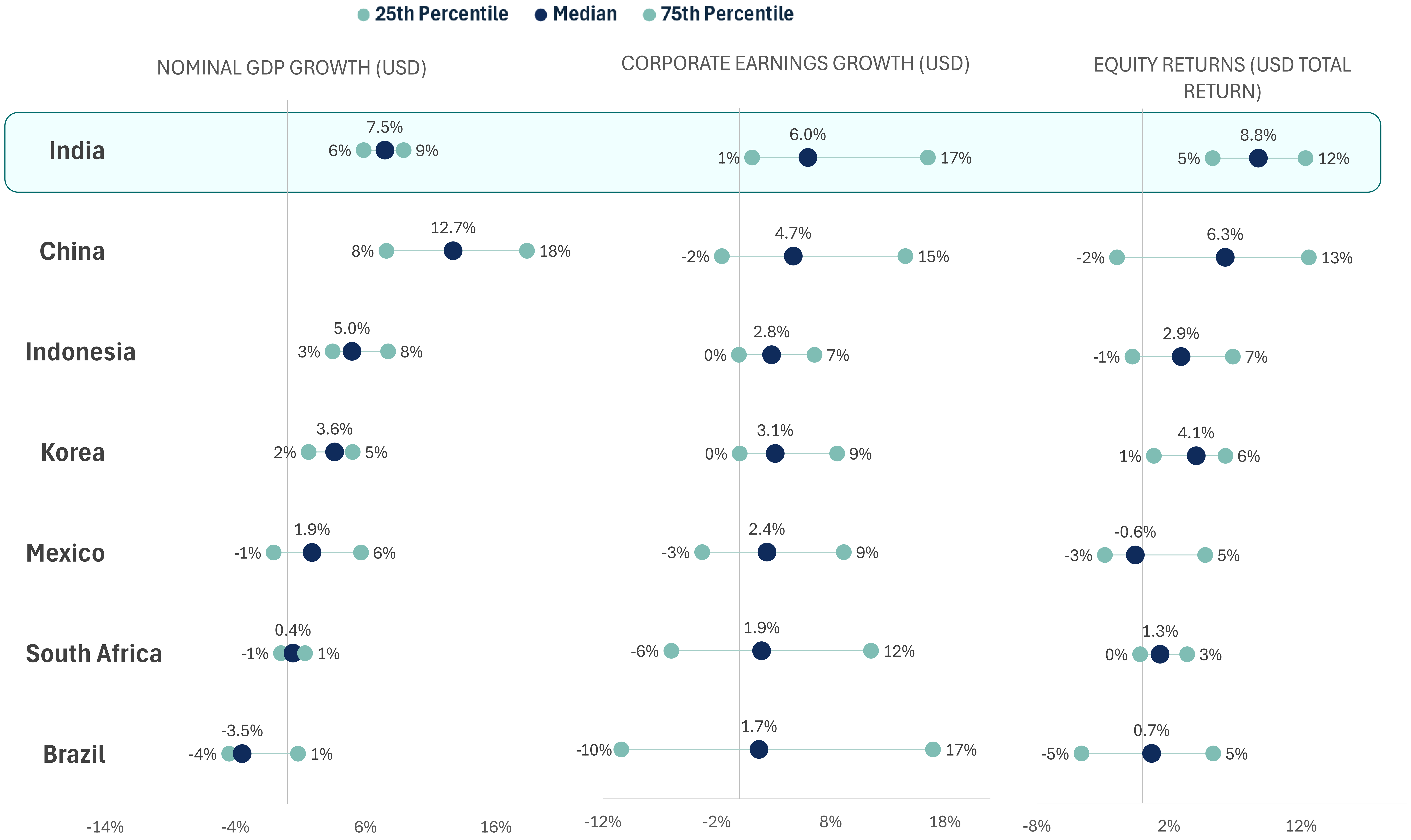
A combination of high-quality firms and a diversified universe has allowed Indian equities to display remarkable returns profile overtime. It may not appear to be the case now, but the long-term track record for India is better than most other markets. Look at the following statistics for India:

USD equity returns range: 5% – 12%
Across the distribution of rolling periods, the outcome has been relatively strong and, importantly, the entire 25th–75th percentile range is positive.

Compare that with Brazil: -5% to 5% or South Africa: 0% to 3%.

It Is The Consistency Of USD Returns of India That Stands Out
India's Median:
GDP growth in USD: 7.5%
Earnings growth in USD: 6%
Equity returns in USD: 9%

India's 25th-percentile five-year USD total return is around +5%, while the 25th percentile for nearly every peer shown is close to zero or negative. India returns are steadier.



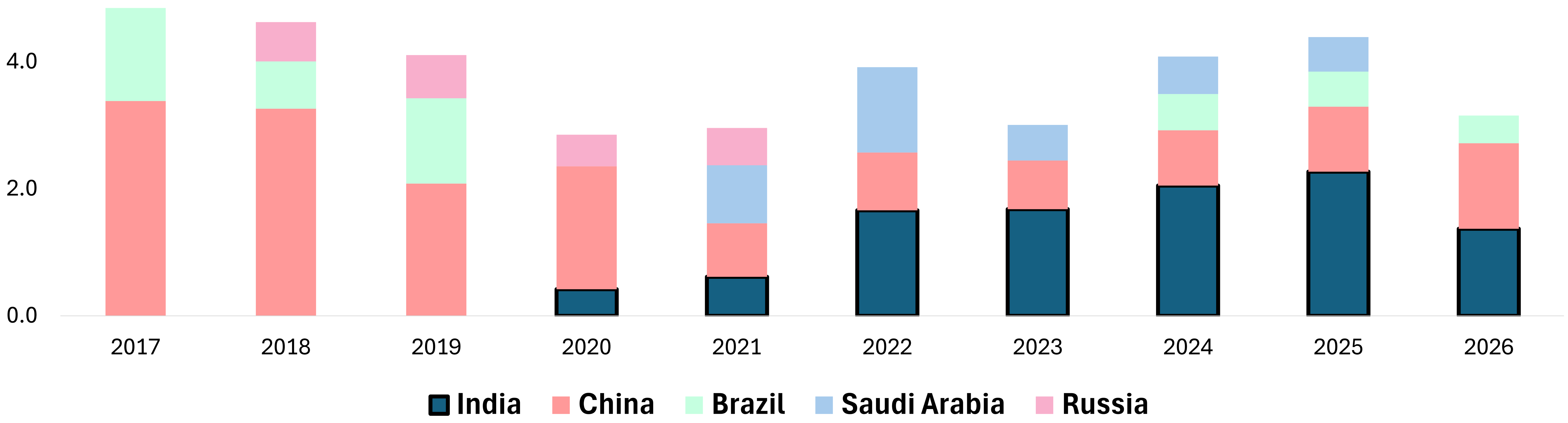
Source: Morningstar, DSP. Data as of Aug 2026.
The data for Nominal GDP Growth, Corporate Earnings Growth and Equity Returns is of MSCI Net Total Return Indices of the respective countries - 5 Year Rolling CAGR
Start of data for each country based on data availability – India 2008, China 2004, Indonesia 2011, Mexico 2015, Korea 2011, South Africa 2017, Brazil 2015

India’s Banks – Gaining Scale Not Without Reason

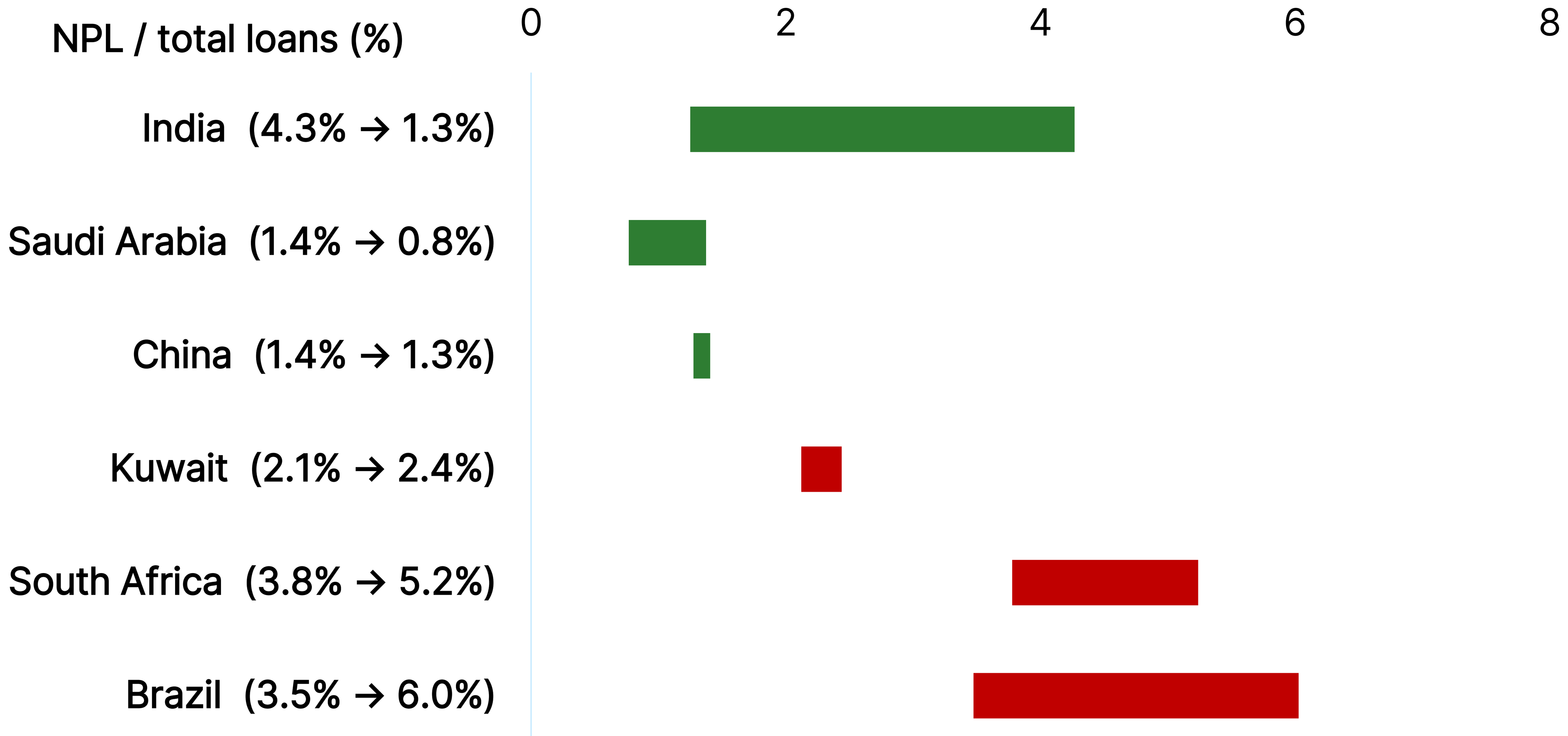
India's meaningful weight in EM banking comes, in part, from a simple fact: there are very few markets with the scale of India's population. This gives its banks a large addressable credit market and allows the largest players to command a size that few EM peers can match.

The more interesting part, however, is what comes with that scale. India's large banks have strong loan growth, healthy ROA and low NPLs, suggesting that the opportunity is not simply one of size. It is increasingly one where scale and balance-sheet quality sit together.

Country-wise Weight of the Top 5 Banks in MSCI EM



Country	Banks	P/B (x)	ROA (%)	3Y Loan CAGR	NPL (%)
India	3	**2.07x**	**1.73%**	**11.6%**	**1.25%**
China	3	0.53x	0.70%	9.0%	1.28%
Saudi Arabia	2	2.23x	2.32%	9.1%	0.77%
Kuwait	1	2.65x	1.62%	4.1%	2.44%
South Africa	2	2.01x	1.62%	6.2%	5.24%



NPL trajectory 2019 → latest: bar spans each region's start and end level

Source: CMIE, DSP. Data as of Aug 2026.

Did You Know?

India has lost almost half its relative EM weight

India's MSCI EM weight has fallen from roughly 20% at its 2024 peak to around 12% today, largely as AI-heavy Taiwan and Korea gained share. The August review, however, nudges India's weight slightly higher rather than lower.

Domestic capital has structurally overtaken foreign capital

Domestic institutional ownership has moved above foreign institutional ownership in Indian equities, a structural reversal after years of foreign dominance. The Economic Survey notes the crossover occurred in Q4 FY25 and DII ownership subsequently reached a record high.

India's Balance of Payment has endured two $100 Crude Oil spikes in a gap of 4 years, successfully, so far.

Source: PIB, DSP. Data as of May 2026.

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