

DSP



#DSP7Sees

7 Insights Through A New Lens | **May 2026**

Opportunity in Adversity

Today's Underperformance = Tomorrow's Outperformance

India is now underperforming the emerging market index by one of the widest margins. The current narrative focuses this on India have no oil and no AI. Incidentally, in every cycle, there are new narratives which become mainstream. All of them have some truth and a lot of extrapolation.

From the GFC bottom for all EMs, India has outperformed by a massive margin of more than 600bps (In USD terms). As it happens in every cycle, the last 18 months has delivered an unprecedented gain in some EMs (driven by three stocks - Samsung, SK Hynix, TSMC). This is the biggest source of current extrapolation into the 'glorious future' of non-India exposure in EM. A big mistake for those who watch long term trends.

Historically, phases of sharp underperformance have often been followed by periods of strong relative outperformance. While mean reversion remains a statistical possibility, the trajectory of India's relative performance will likely hinge on the emergence of clear fundamental drivers. The chief being the return of strong earnings growth.

Outperformance/Underperformance of MSCI India over MSCI EM (Rolling 1 year returns)



| USD CAGR Returns | India | US S&P 500 | US Nasdaq | Germany | Hong Kong | China | Emerging Market | South Korea | Japan | Brazil |
|--|---------------|--------------|--------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------|
| 30 Years USD CAGR | 7.2% | 8.4% | 13.3% | | 2.7% | 7.1% | 4.1% | 5.0% | 2.1% | 6.2% |
| Since Dec 1999 | 7.8% | 6.3% | 8.1% | 5.4% | 1.5% | 5.1% | 4.8% | 6.7% | 2.8% | 5.1% |
| 2000's | 17.6% | -0.5% | -0.5% | 4.3% | 4.4% | 5.5% | 13.2% | 16.2% | 0.4% | 18.2% |
| 2010's | 3.4% | 11.6% | 19.2% | 6.3% | 1.7% | 2.2% | 1.2% | 3.8% | 7.8% | -5.8% |
| 2000 to Aug-2013 Rupee Low | 9% | 2% | 2% | 5% | 3% | 3% | 8% | 12% | 1% | 8% |
| Oil at 100 (Mar 2011) to Rupee Low (Aug 2013) | -13.4% | 19.4% | 25.2% | 19.0% | 12.5% | 2.7% | 14.8% | 22.6% | 13.4% | 6.1% |
| Rupee Low to Pre-COVID Crash (Dec 2019) | 12.3% | 11.4% | 17.9% | 5.3% | 4.1% | 3.9% | 2.9% | 1.4% | 7.6% | 5.1% |
| From 2007 Dec Top | 2.5% | 9.2% | 15.4% | 4.7% | -0.5% | -0.9% | 1.6% | 5.0% | 5.8% | -0.2% |
| Since GFC Bottom (Feb 2009) | 9.2% | 14.4% | 20.9% | 10.6% | 4.0% | 4.1% | 7.3% | 12.2% | 9.7% | 4.6% |
| GFC Bottom to Sep 24 | 11.8% | 14.1% | 20.4% | 10.0% | 3.3% | 2.9% | 5.6% | 6.9% | 8.2% | 2.7% |
| COVID Bottom To Sep 2024 | 24.7% | 19.5% | 23.3% | 16.3% | -2.5% | 4.6% | 7.4% | 7.2% | 9.6% | 12.9% |
| Oct 2024 to Today | -9.5% | 18.4% | 27.9% | 20.9% | 15.6% | 19.5% | 29.3% | 89.4% | 29.4% | 33.1% |

The Valuation Froth From Indian Equities Has Reduced

| Earnings Growth (%) | India | USA | China | Europe |
|---------------------|-------|-----|-------|--------|
| 1 Year | -3% | 12% | -4% | 19% |
| 3 Years | 10% | 11% | 2% | 4% |
| 5 Years | 10% | 13% | -3% | 17% |
| 10 Years | 7% | 11% | 0% | 10% |
| 15 Years | 2% | 7% | 0% | 1% |
| 20 Years | 5% | 6% | 4% | 1% |
| Since March 2004 | 7% | 7% | 5% | 4% |

| Price Growth (%) | India | USA | China | Europe |
|------------------|-------|-----|-------|--------|
| 1 Year | -13% | 26% | 13% | 17% |
| 3 Years | 6% | 22% | 14% | 17% |
| 5 Years | 4% | 13% | -4% | 8% |
| 10 Years | 8% | 15% | 6% | 9% |
| 15 Years | 5% | 13% | 3% | 6% |
| 20 Years | 7% | 11% | 7% | 5% |
| Since March 2004 | 9% | 10% | 8% | 7% |

Over the past year, Indian equity markets have witnessed a correction, primarily driven by valuation derating following the sharp expansion in market multiples seen during the post-COVID period. In the table, we have compared earnings growth and price returns across major global markets, where the gap between the two reflects the extent of multiple expansion.

It is evident that the significant multiple expansion witnessed in India during the post-COVID era has largely normalized. As a result, current market valuations present a relatively more compelling entry point for investors, with price appreciation now more closely aligned with underlying earnings growth. In contrast, several other markets continue to exhibit price growth that is meaningfully ahead of earnings growth, indicating relatively higher multiple expansion.

| Multiple Expansion | India | USA | China | Europe |
|--------------------|-------|-----|-------|--------|
| 1 Year | -10% | 15% | 17% | -2% |
| 3 Years | -4% | 12% | 13% | 13% |
| 5 Years | -5% | 0% | -1% | -9% |
| 10 Years | 1% | 4% | 6% | -1% |
| 15 Years | 3% | 6% | 3% | 5% |
| 20 Years | 2% | 5% | 3% | 5% |
| Since March 2004 | 2% | 3% | 3% | 2% |

Higher Earnings Growth, Lower Variability

India has been a consistent compounder of corporate profits, as highlighted in our previous editions of DSP 7Sees. However, alongside the growth in profitability, the consistency and variability of those profits are equally important. Profit growth analysis should not be influenced by favorable start or end points alone; examining the variability within the period provides a clearer picture of how sustainably and consistently profits have been generated over time.

Among the major Emerging Markets, India has delivered the strongest profit growth in USD terms (using profits from continuing operations to exclude one-off impacts). More importantly, this superior profitability growth has been accompanied by one of the lowest levels of earnings variability a combination that very few Emerging Markets have been able to achieve over long periods of time.

| Country | EPS Growth (20 years, USD) | Variability in Profits (Standard Dev.) |
|--------------|----------------------------|--|
| Brazil | 0% | 56% |
| Malaysia | 1% | 25% |
| Mexico | 1% | 40% |
| Indonesia | 3% | 24% |
| Korea | 3% | 62% |
| South Africa | 3% | 35% |
| China | 4% | 20% |
| Vietnam | 4% | 20% |
| Philippines | 5% | 21% |
| Taiwan | 5% | 62% |
| India | 5% | 20% |

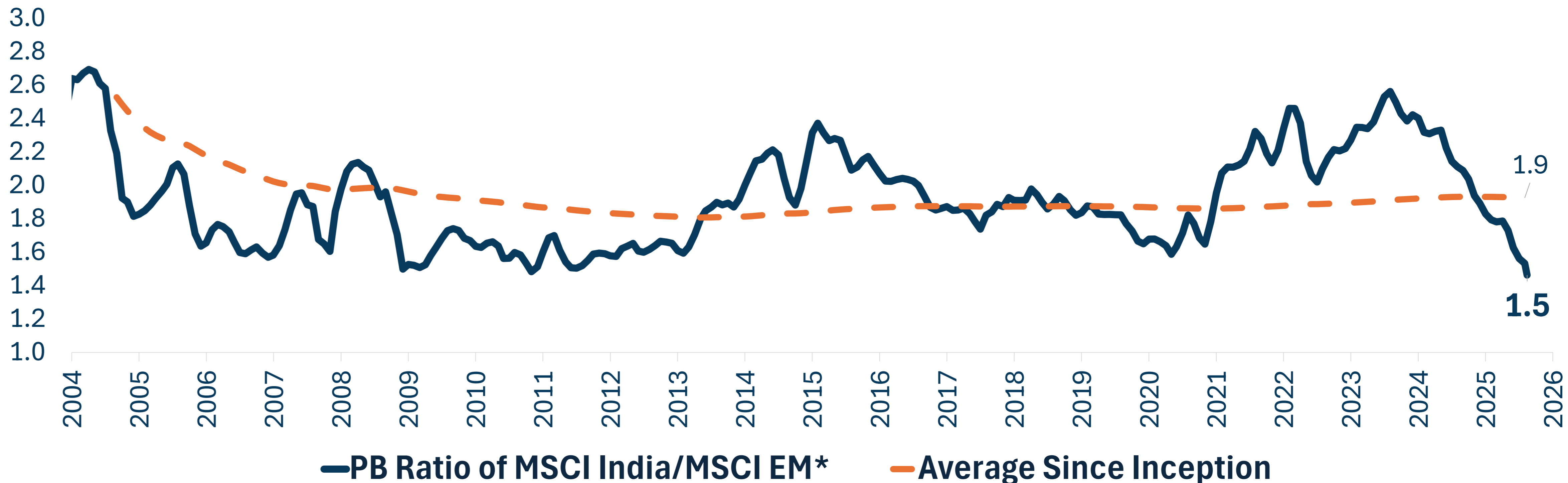
India Trading At Lowest Price to Book Premium to EM

India's market valuations have moderated meaningfully from the elevated levels witnessed over the past two years. The Nifty 50 Index traded close to 19x trailing earnings in April'26, which cannot be considered particularly inexpensive in absolute terms. For a market generating an ROE of ~15%, valuations below an 18x trailing multiple would arguably provide a more comfortable entry point from a long-term perspective. India is somewhere between fair and average valuations.

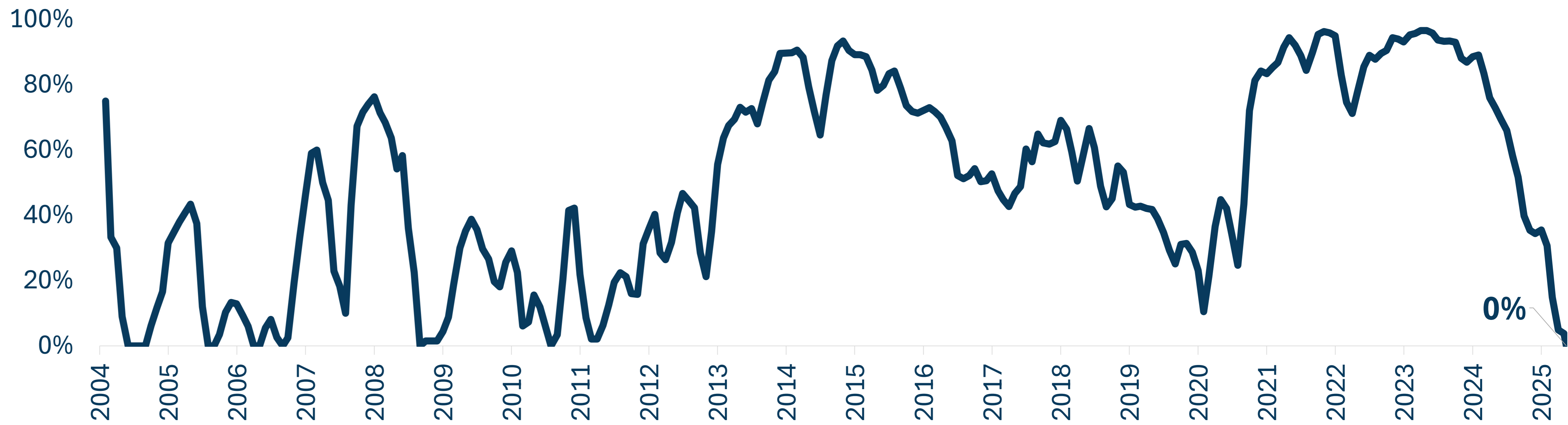
That said, when viewed relative to the broader Emerging Markets (EM) universe, India continues to appear relatively attractive from a valuation standpoint.

Currently, the Price-to-Book valuation ratio of MSCI India relative to MSCI EM stands at its lowest level since inception. Historically, such periods of low premium have coincided with phases of relative outperformance for India versus the broader EM basket. Whether this holds true this time, only time will tell.

Price to Book ratio of MSCI India vs MSCI EM



Percentile Ranking of the relative PB ratio



Is This The Setup Foreign Investors Have Been Waiting For?

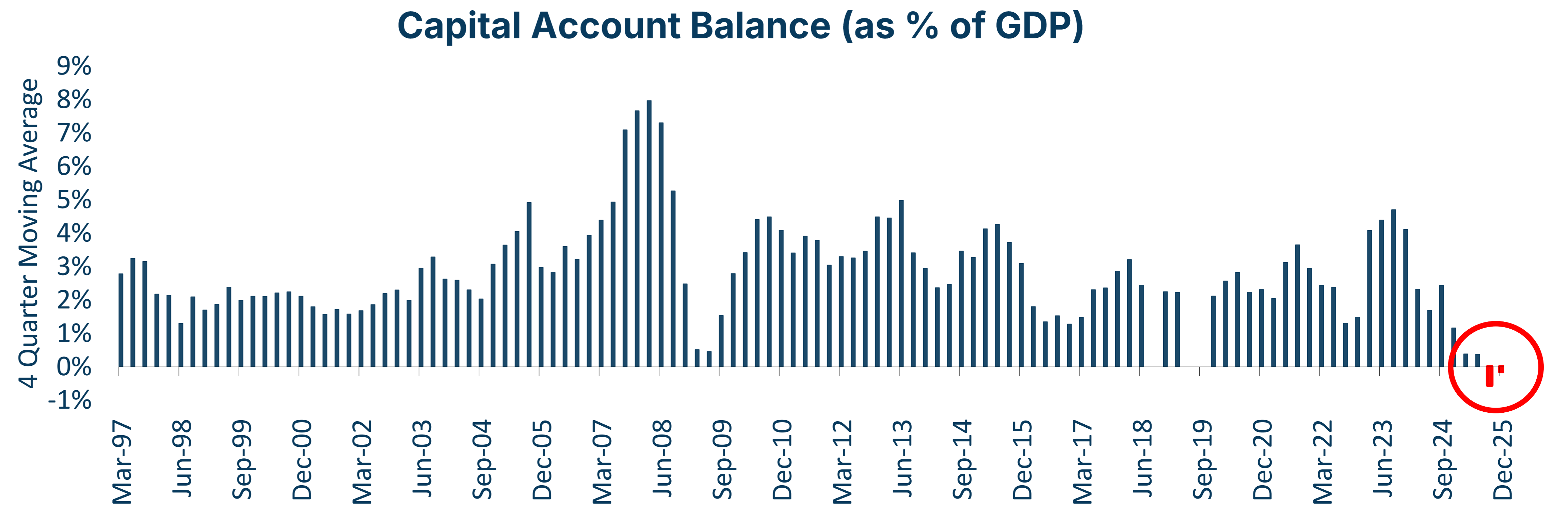
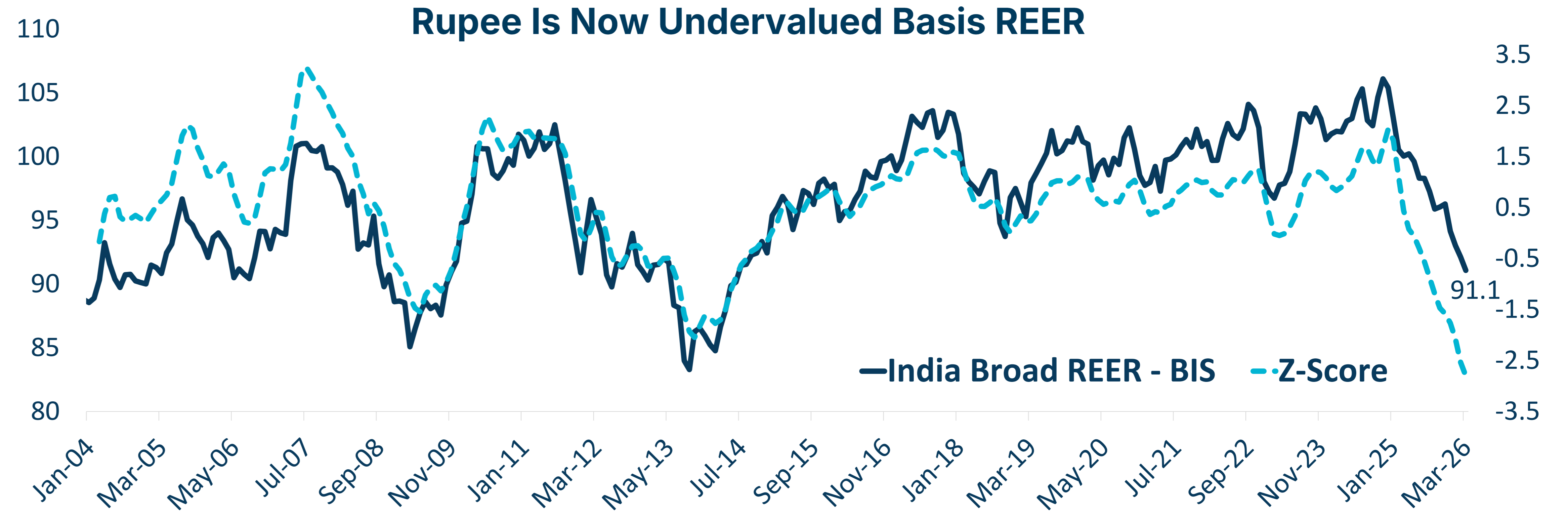
Equity prices do not move because FIIs buy. Like most investors, FIIs chase price. They usually do not create trends. India's capital account has recently slipped into deficit. The reasons are visible. Weak FDI inflows. FPI outflows. Large outward investments by Indians. Easy exits through IPOs, FPOs and OFS. Stretched equity valuations. A shaky macro backdrop. That is precisely why this may be a strong contra signal.

What do foreign investors see today?

More reasonable valuations. In some pockets, perhaps even cheap ones, especially in large, high quality, liquid listed firms. More important, the Indian Rupee is near one of its weakest REER levels in many years.

And many of India's macro stresses now look near their peak. Which means they are more likely to be priced in than ignored. Historically, the biggest foreign inflows into India have come when valuations were cheap or at least reasonable. Not when optimism was highest.

If there is a period after the COVID crash when FPI and FDI flows can begin to improve again, it is around this zone.



Where Is The Opportunity?

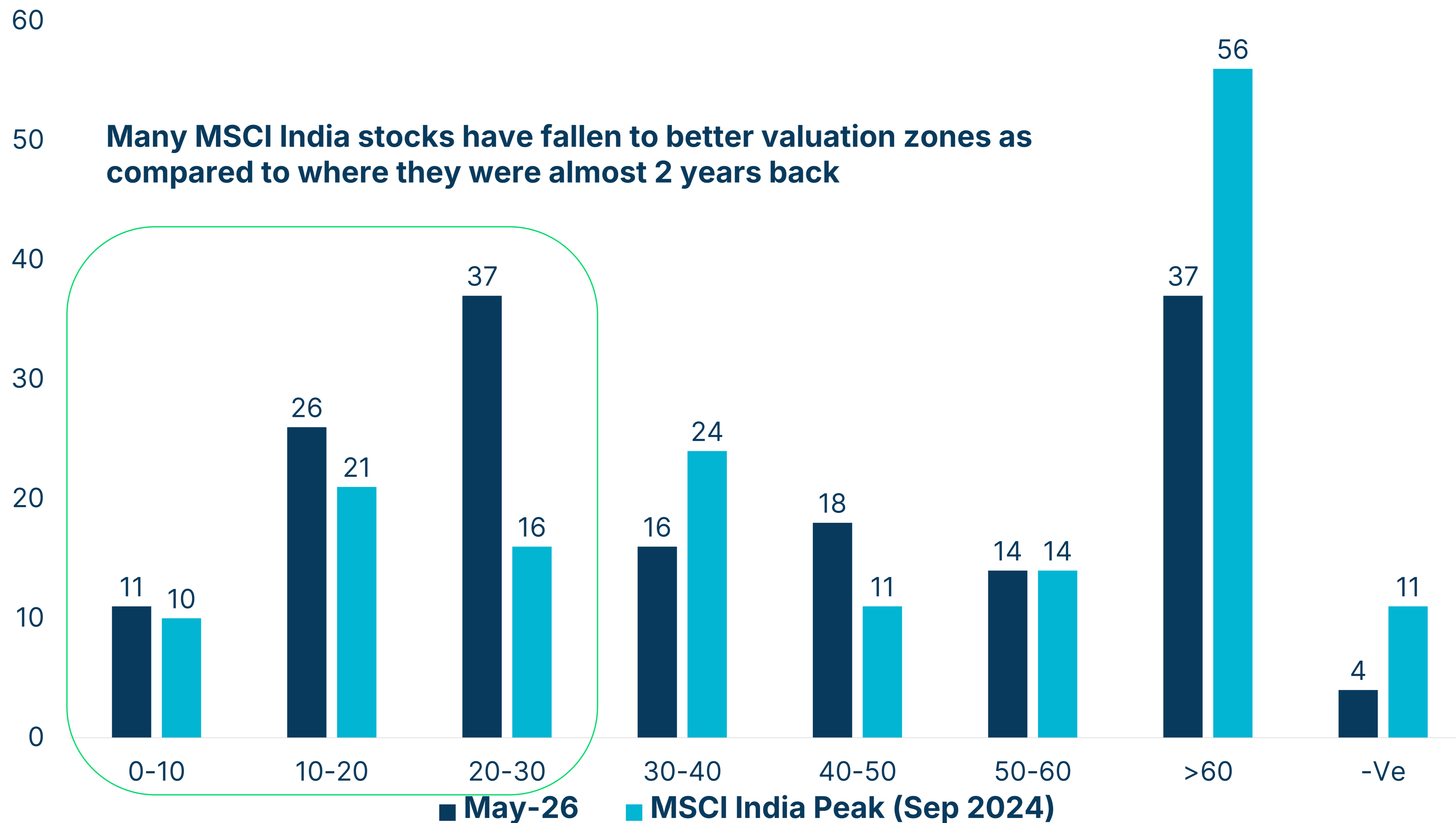
Valuations Are Normalizing, But Not Everywhere

With 74 companies in the MSCI India universe (out of 163) now trading below 30x earnings, investors are witnessing a significantly improved valuation environment compared to two years ago. Elevated valuations during that period were one of the key reasons behind the flat to negative market performance over the subsequent two years.

Today, several large-cap companies are available at or near their historical valuation lows, despite continuing to deliver strong profitability and healthy cash flows. Notably, India has remained a market where corporate cash flow generation has demonstrated resilience and consistency across economic cycles.

Within the large-cap universe, segments such as Private Banks, IT, and Oil & Gas are currently trading at some of their most attractive valuations in recent history. While valuations within the large-cap segment appear to be normalizing, the key question is whether a similar trend can be observed in the Small and Mid-cap segments of the market, which is discussed in the next slide.

MSCI India Stocks P/E Ratio Distribution



SMID Valuations Are Still In Expensive Zone

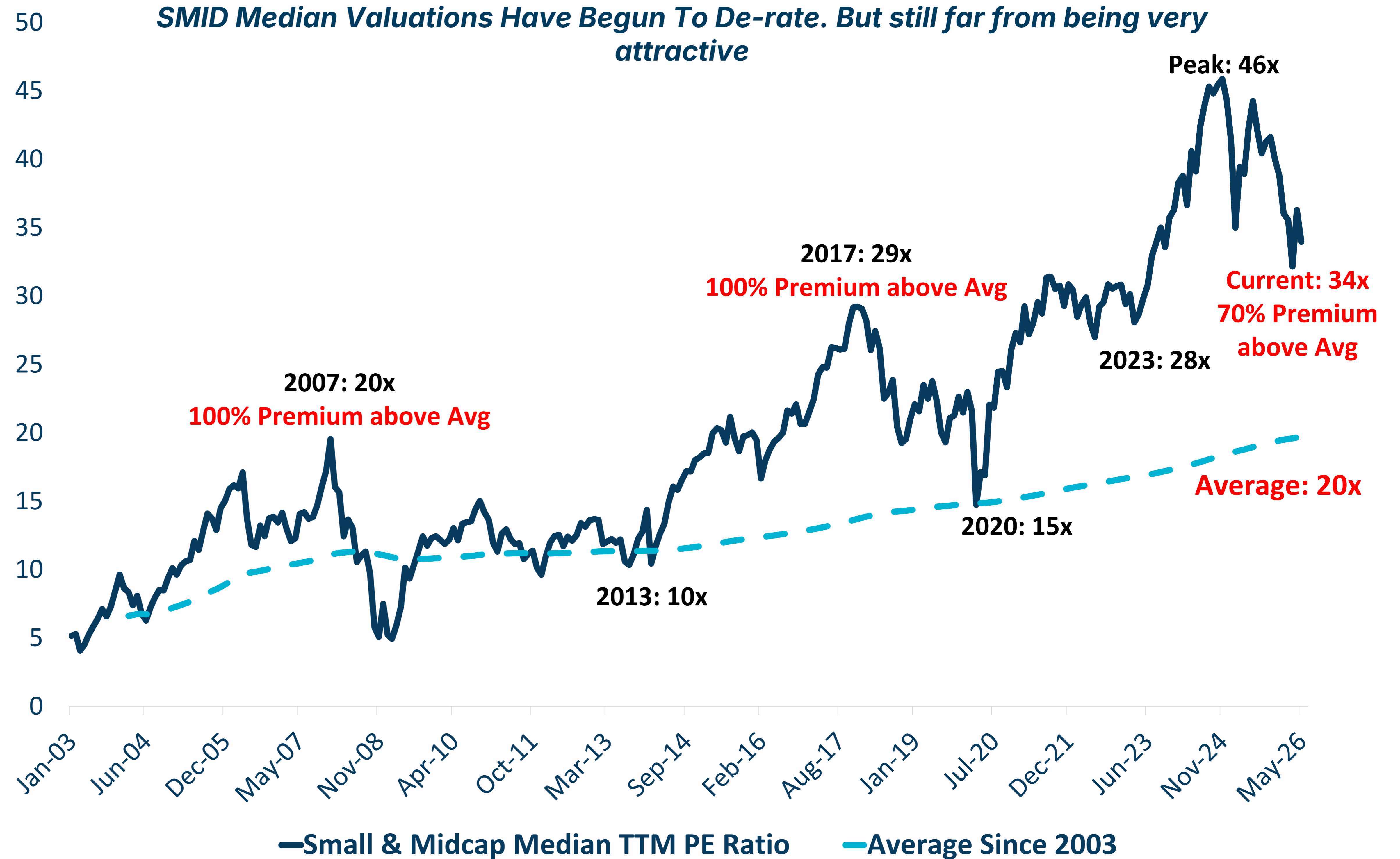
In future, it will be clear in hindsight that SMIDs had a period of de-rating after nearly a decade of re-rerating. Did it begin in 2024?

The median earnings multiple for Small & Midcap stocks craters during bear markets. In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors.

The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels.

The long-term median multiple for SMID universe now stands at 20x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average.

If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys. But for now, we are far from it.

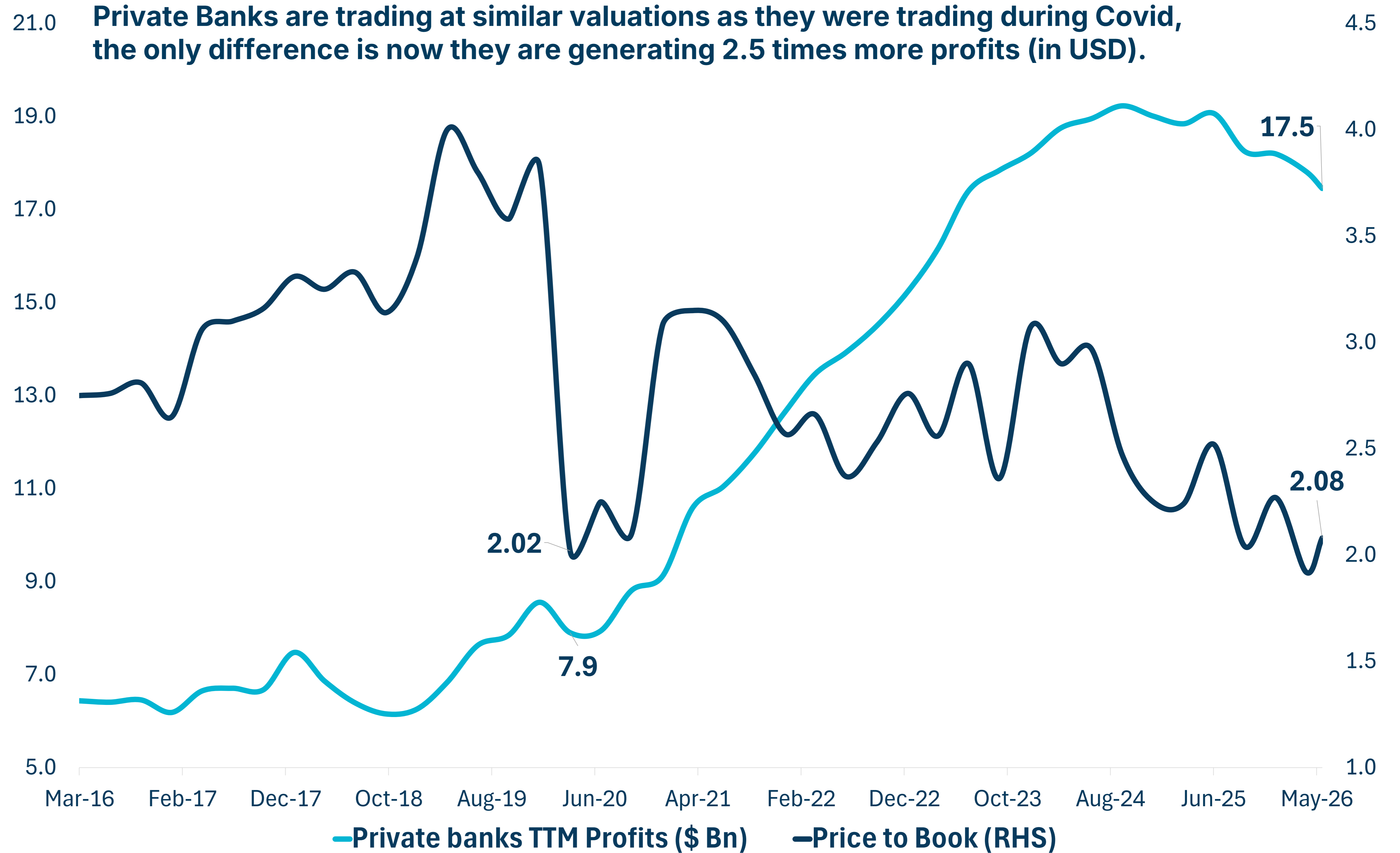


Opportunity – Indian Private Banks

Large private banks trade near 2x trailing book. At roughly 2% ROA and 8x leverage, they can deliver 14% to 15% ROE. Their internal capital generation rate is about 12%, so credit growth above that should be ROE accretive. With inflation likely past its low and nominal growth likely to improve, credit growth is also beginning to recover. If the current energy-risk overhang fades, these valuations leave room for upside. HDFC Bank and Kotak Mahindra Bank are already trading below their long-term multiples and close to levels seen in past periods of severe stress.

Asset quality remains strong, with net NPAs still near cycle lows, though these benign credit costs are unlikely to keep improving indefinitely, but they are not a headwind either.

Without pencilling in any re-rating, large private banks present an attractive opportunity for investors today.



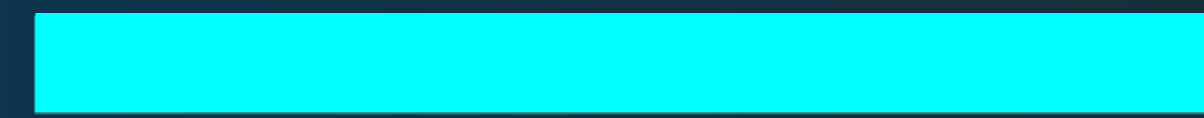
Did You Know?

- Net Non-Performing Assets (NNPA) of scheduled commercial banks have declined to 0.5% of gross advances the lowest level on record, indicating a strong improvement in the asset quality and balance sheet health of the banking sector.
- India's weight in the MSCI emerging markets index has fallen to about 12% from 19% last year, Foreign investors are abandoning India at an accelerating pace and holding less than domestic institutions for the first time in more than 20 years.
- India's mutual fund industry has experienced a record-breaking 62 consecutive months of net inflows.

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