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7 Insights Through A New Lens| Nov 2025

Behind the Scenes of India's Outperformance

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Beyond The Narrative: The ROE Factor Driving India's Markets

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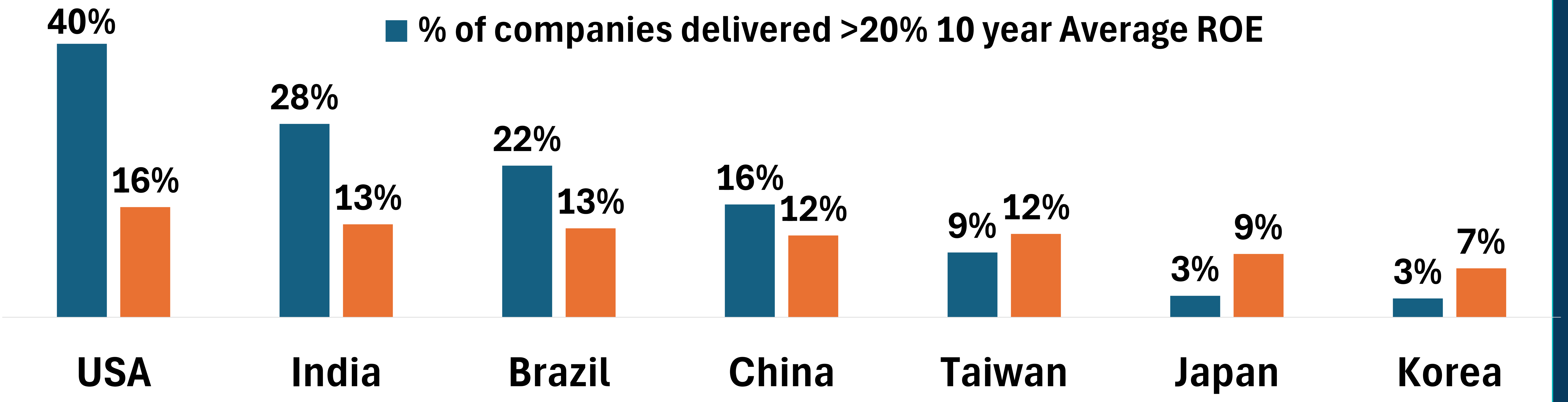
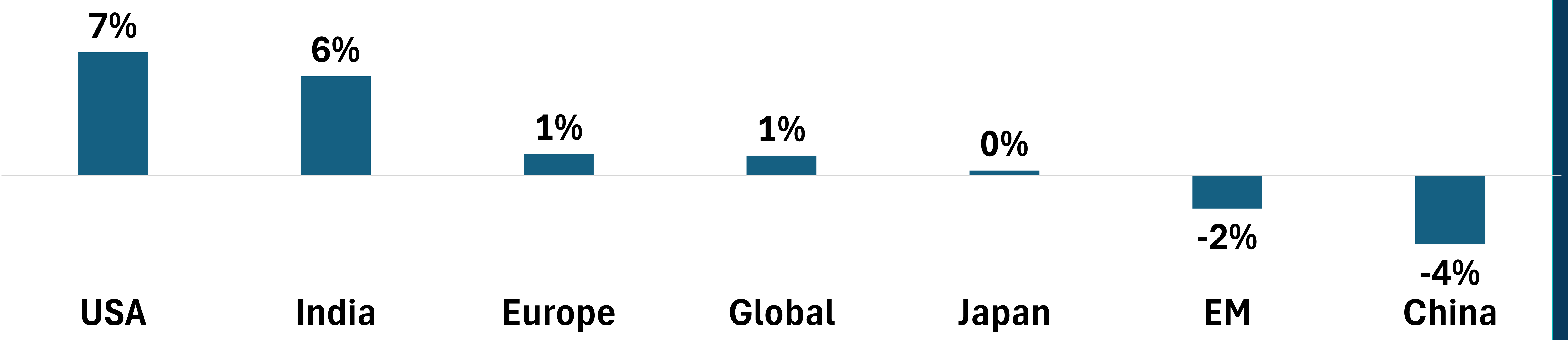
India's long-term market outperformance is often attributed to familiar narratives such as strong domestic flows or robust GDP growth. However, these are largely surface-level explanations. The more fundamental question is why equity investors should expect higher returns than those available from bonds.

The excess return from equities arises from the ability of companies to generate returns that exceed their cost of capital. Over time, the primary driver of stock prices is the return that shareholders earn on their invested capital. Firms delivering consistently superior returns on equity (ROE) tend to outperform their peers.

When adjusted for differences in the cost of capital, India stands out among global markets. It ranks second only to the United States in the number of companies that have maintained an ROE above 20% for more than a decade. This sustained strength in corporate profitability is the true engine of India's market outperformance underscoring the enduring fundamentals, rather than popular macro narratives, are what ultimately drive long-term equity returns.



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



Source: Bloomberg, DSP. Data as on Oct 2025. Indices used are respective countries major Stock market indices. For ROE adjusted for Cost of Equity; Source: Aswath Damodaran, DSP. For this chart, ROE of the full market is considered.

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The Unseen Edge: How Indian Entrepreneurs Outperform Across Cycles

Over the past two decades, Indian businesses have delivered superior shareholder returns in 11 out of 13 major sectors. On an earnings basis, India also ranks among the best globally in terms of per-share earnings growth over this period.

Common explanations such as economic growth, political stability, fund flows, or demographics while convenient, are easily falsifiable. Many other economies with similar advantages have not produced businesses capable of sustaining such consistent performance.

The underlying reason, though not easy to quantify, likely lies in the distinctive nature of Indian entrepreneurship the ability to navigate structural and cyclical challenges while maintaining profitability. This data underscores a crucial, often overlooked dynamic: Indian entrepreneurs exhibit exceptional cost discipline. Their focus on managing input costs whether labour, materials, or capital has been a key driver of superior profitability.

The next time you think about India's market success, think beyond the narratives. Think of the resilience and ingenuity of the Indian entrepreneur.

Sectors	India Leader	Global Leader	Indian Leader 20 Yr Avg ROE	Global Leader 20 Yr Avg ROE	Indian Leader 20 Yr EPS CAGR	Global Leader 20 Yr EPS CAGR
Aerospace & Defence	Bharat Electronics	RTX CORP	20.9	15.7	14%	1%
Pharmaceuticals	Sun Pharmaceuticals	Johnson & Johnson	19.7	24.8	17%	8%
Banks	HDFC Bank	JPMORGAN Chase	17.8	11.9	21%	11%
Automobiles	Tata Motors	Volkswagen AG	15.5	11.9	12%	11%
IT – Software	TCS	Microsoft Corp	42.3	35.3	18%	12%
Metals & Mining	Hindalco Industries	Glencore PLC*	10.5	4.3	9%	Profit to Loss
Cement	Ultratech Cement	CRH PLC	19.0	10.2	22%	5%
Oil & Gas	Indian Oil Corp	China Petro & Chem	14.4	10.6	5%	0%
Construction	L&T	China State Cons	18.8	18.0	13%	14%
FMCG	Hindustan Unilever	NESTLE SA	69.7	20.5	10%	4%
Healthcare Services	Apollo Hospitals	TENET Healthcare	10.5	2.9	17%	10%
Telecom – Services	Bharti Airtel Ltd	Verizon Comm	11.3	30.8	16%	2%
Power	NTPC Ltd	E.ON SE	10.9	9.0	8%	-4%

Source: Bloomberg, DSP. Data as on Oct 2025. *For companies with history lesser than 20 years, the data is since it is available.

Earnings: Profits, Patience, And Performance

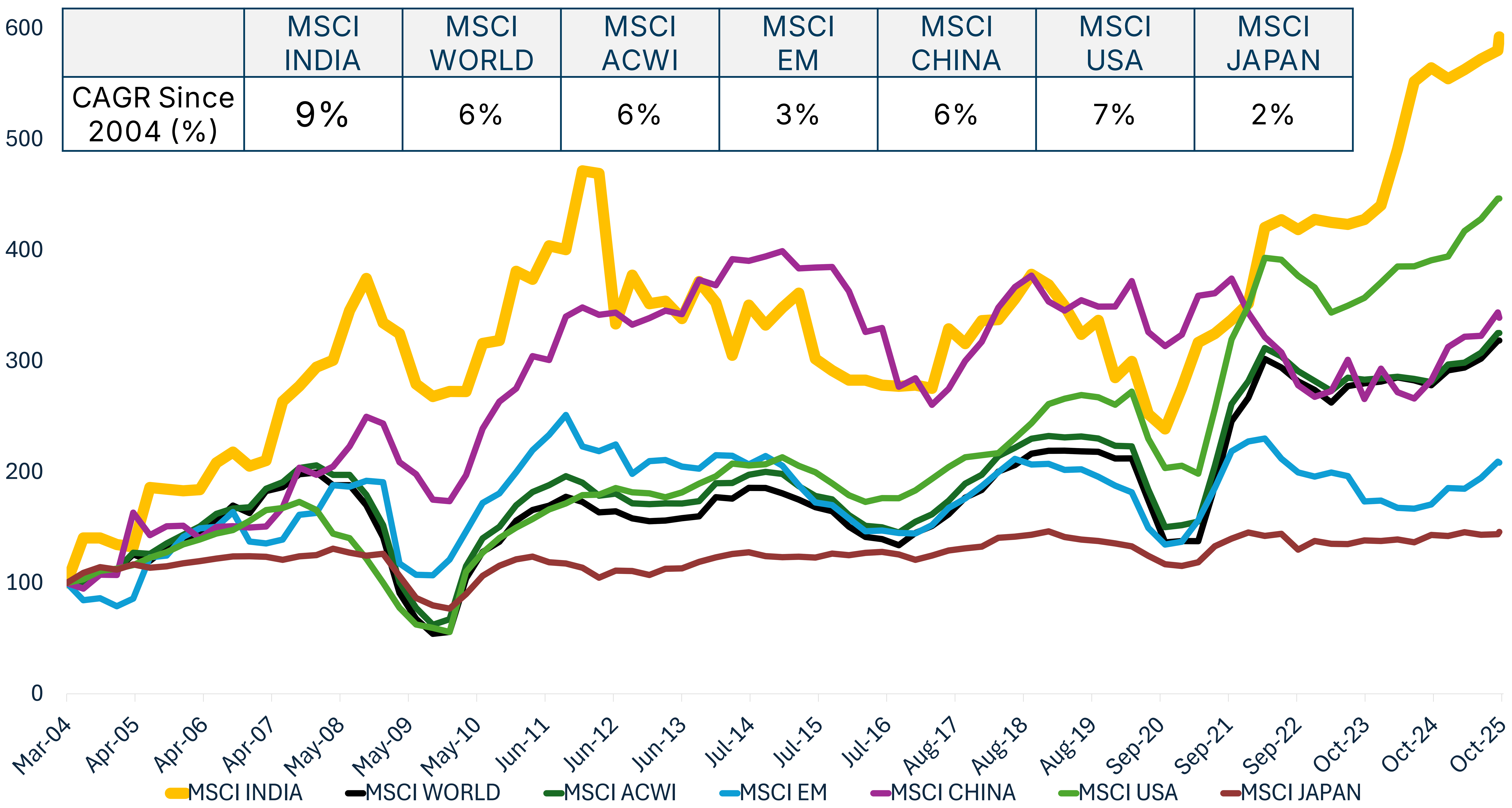
The Indian equity market has exhibited one of the most resilient and sustained long-term growth trajectories globally. This performance, however, is not merely a byproduct of rising trading volumes or an expanding investor base. India distinguishes itself as one of the few markets where corporate earnings growth and the sustainability of profit generation have remained both robust and consistent over time.

Over the past two decades, India's earnings growth has consistently surpassed that of most major global indices, outperforming both emerging and developed market aggregates. Notably, this strong earnings trajectory has been achieved with remarkably low volatility underscoring the durability and reliability of India's corporate performance.

Anchored by steady earnings growth and supported by deepening domestic participation, India is well positioned to strengthen its standing as one of the world's most compelling and structurally sound emerging markets.

MSCI Indices EPS (USD) (Rebased to 100)

	MSCI INDIA	MSCI WORLD	MSCI ACWI	MSCI EM	MSCI CHINA	MSCI USA	MSCI JAPAN
CAGR Since 2004 (%)	9%	6%	6%	3%	6%	7%	2%



Source: Bloomberg, DSP. Data as of Oct 2025.

India's Growth Scale and Pace

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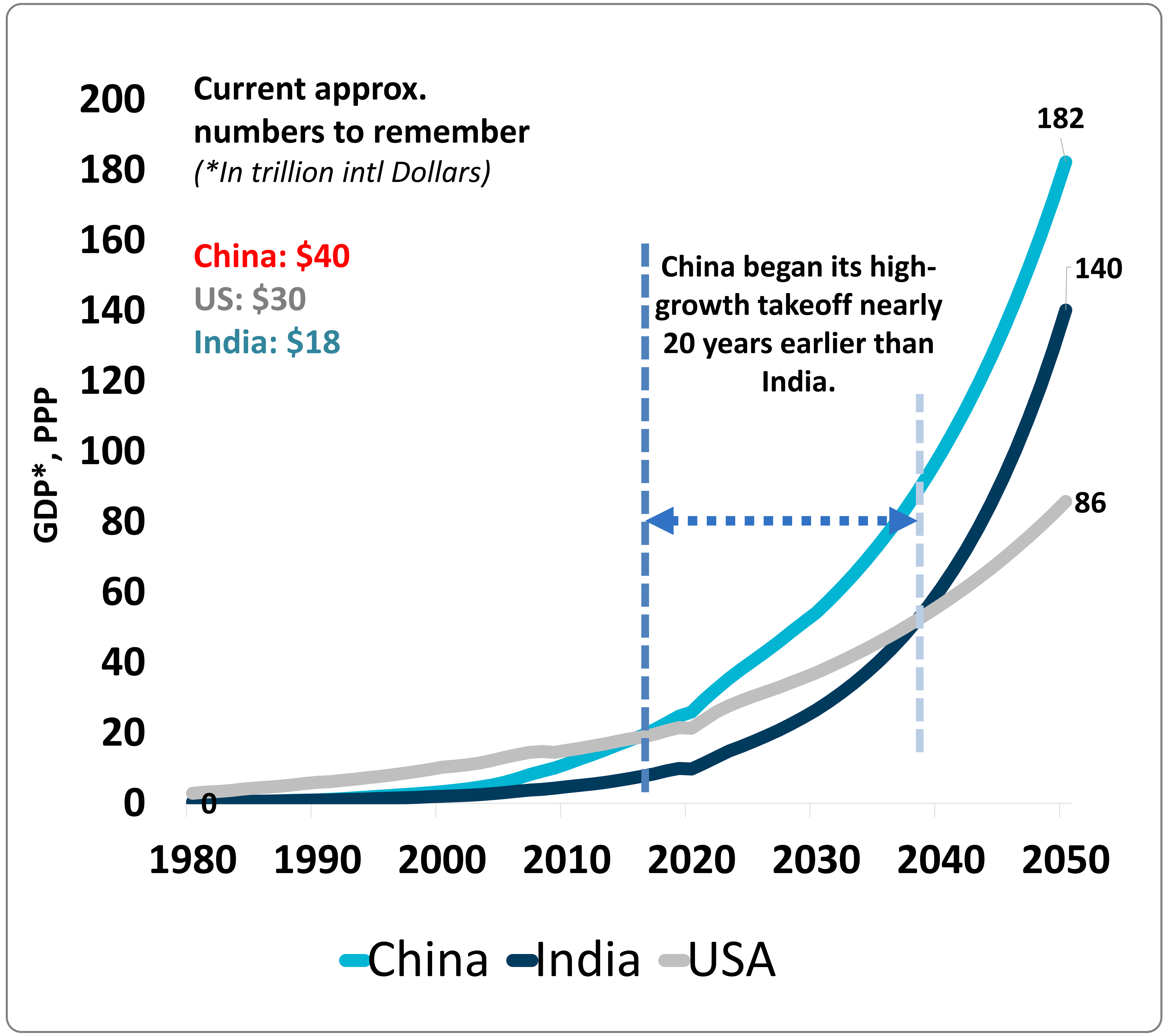
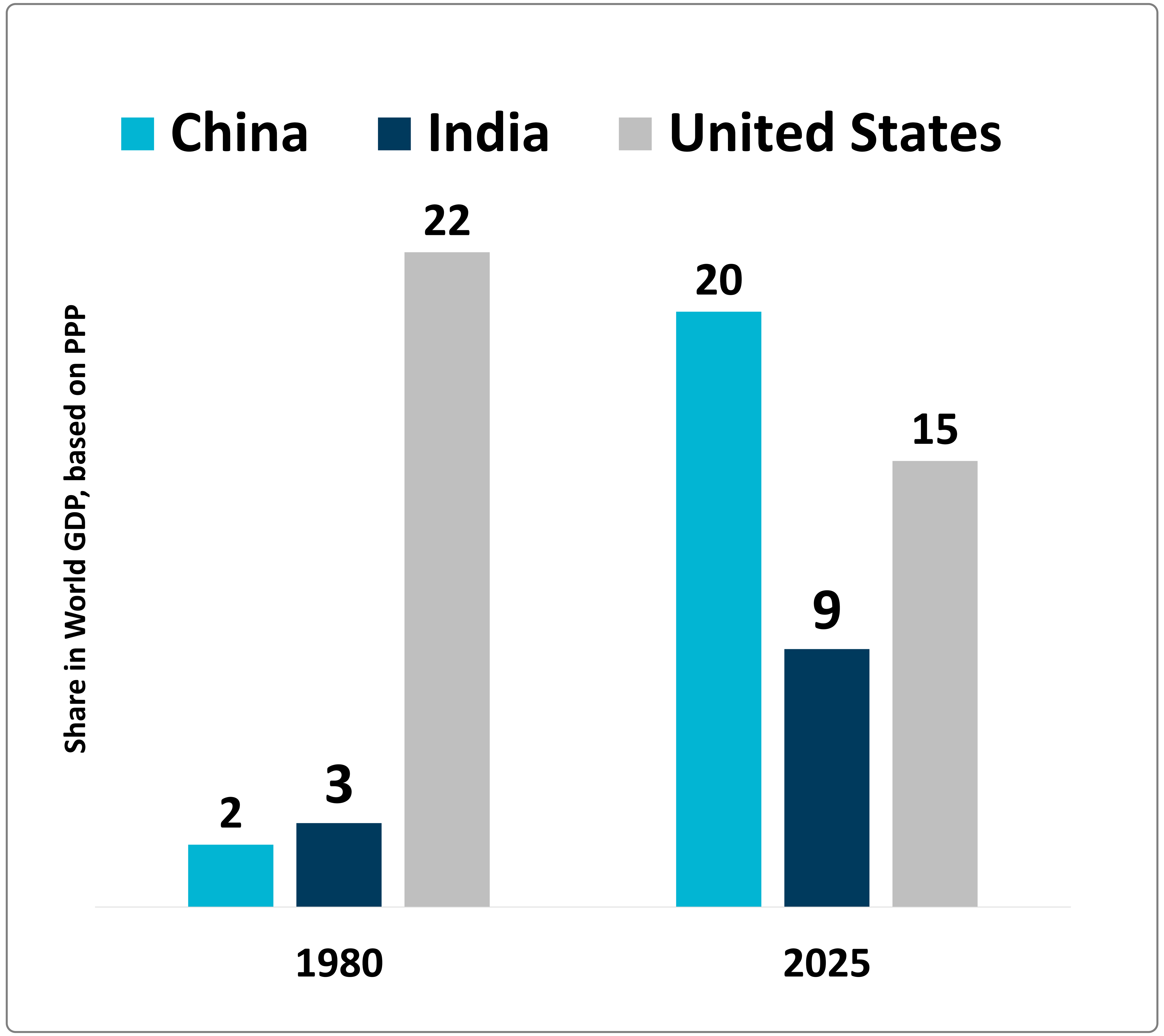
Consistent Compounders Likely To Change The Complexion Of The World

If China and India maintain their lower end of long-term growth trends, they will effectively be one-third of the world economy.





Source: IMF, DSP. Data as of Oct 2025. PPP- Purchasing Power Parity

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The Scale & Pace Is Gaining Traction

India has spent ~$12 trillion on Fixed Assets Creation in 75 years from independence to COVID pandemic.
On track to spend > $12 trillion this decade.

*Data depicted from 1960 onwards.
$12 Trn spend is from 1947 to 2020

Source: IMF, DSP. Data as of Oct 2025. GFCF – Gross Fixed Capital Formation.

Why Spending Varies So Much Across Countries

For identical capex, India stretches the rupee/dollar farthest: $1 mn ⇒ 0.83 km (India) vs 0.69 km (China) vs 0.125 km (US).

Takeaway: deployment efficiency matters as much as budget size.

Broadly there are 5 reasons for this:

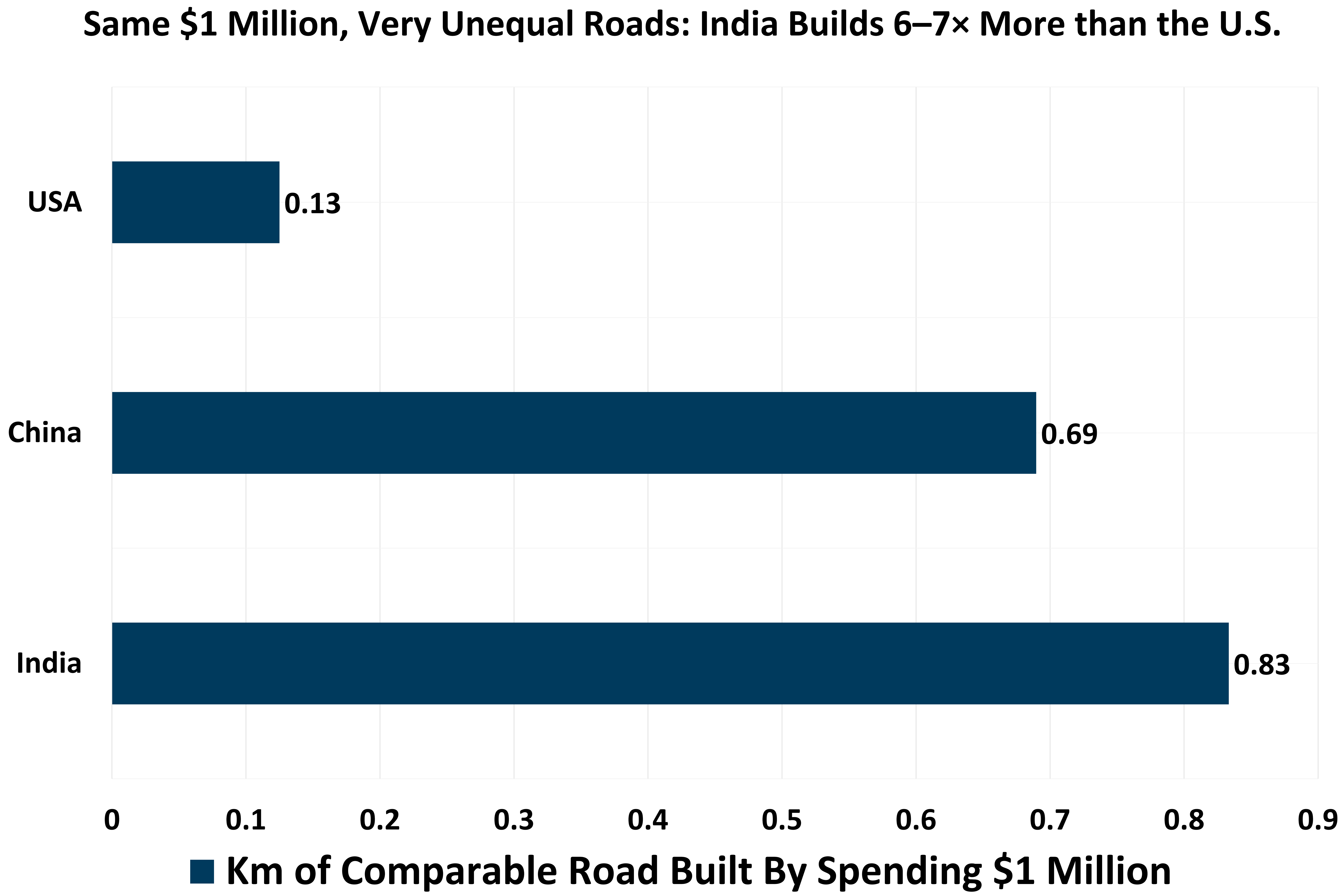
Land & right-of-way (ROW) US: land is expensive, ROW clearances are strict, utilities relocation is costly. India/China: more state control, cheaper peri-urban land, faster ROW in many projects.

Standards & specs: US highways often overbuilt (pavement thickness, shoulders, drainage, safety hardware, signage, ITS, snow/temperature design). India/China sections are often built to functional, traffic-fit standards.

Labour & local inputs Wage levels, contractor overheads, insurance, and equipment rental are far higher in the US. India especially benefits from low labour cost + competitive EPC bidding.

Regulatory & time costs mean US projects carry long design/permitting/environmental reviews. India/China can compress timelines which leads to less “soft cost” per km.

Urban complexity: Many US cost benchmarks are for urban/complex freeway work (interchanges, flyovers, utility conflicts), these explode per-km cost.



Source: MORTH, US FHWA, Compass International, Recent Road Projects Estimates, DSP. Data as of October 2025

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Valuations and an Emerging Contra Bet

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Finding The Hidden Value

Bargain opportunities in Indian equities are currently limited. Few sectors present compelling entry points, as many of the areas that led the post-COVID bull run such as Capital Goods and Consumer Durables now appear fully valued, offering little margin of safety.

Among the major sectors, Financial Services and Healthcare continue to provide selective opportunities, while much of the broader market remains expensive on both absolute and relative valuation metrics.

Given the current earnings trajectory, overall market valuations appear stretched from a value perspective. However, opportunities still exist for discerning investors. In this environment, a bottom-up, stock-specific approach anchored in company-level fundamentals rather than broad sector positioning may be the most effective strategy to uncover genuine value.

Sector	Total Companies	Companies trading below 33rd percentile	% of Companies trading below 33rd percentile
Financial Services	31	10	32%
Capital Goods	15	1	7%
Automobile and Auto Components	14	1	7%
Healthcare	12	2	17%
Fast Moving Consumer Goods	11	0	0%
Information Technology	10	1	10%
Consumer Services	10	2	20%
Oil, Gas & Consumable Fuels	8	1	13%
Metals & Mining	8	0	0%
Power	7	0	0%
Chemicals	6	0	0%
Consumer Durables	6	0	0%
Realty	6	0	0%
Telecommunication	4	1	25%
Others*	10	0	0%

Source: Investec, DSP. Data as of Oct 2025. For all sectors except Financial services P/E ratio is used and for Financial Services P/B Ratio is used. Trailing 12 Month profits before exceptional items considered for PE Calculations. Negative earnings are excluded from calculations. Valuations considered are of last 20 years or since listing whichever is earlier. *Others include Services, Construction Materials, Construction, Textiles.

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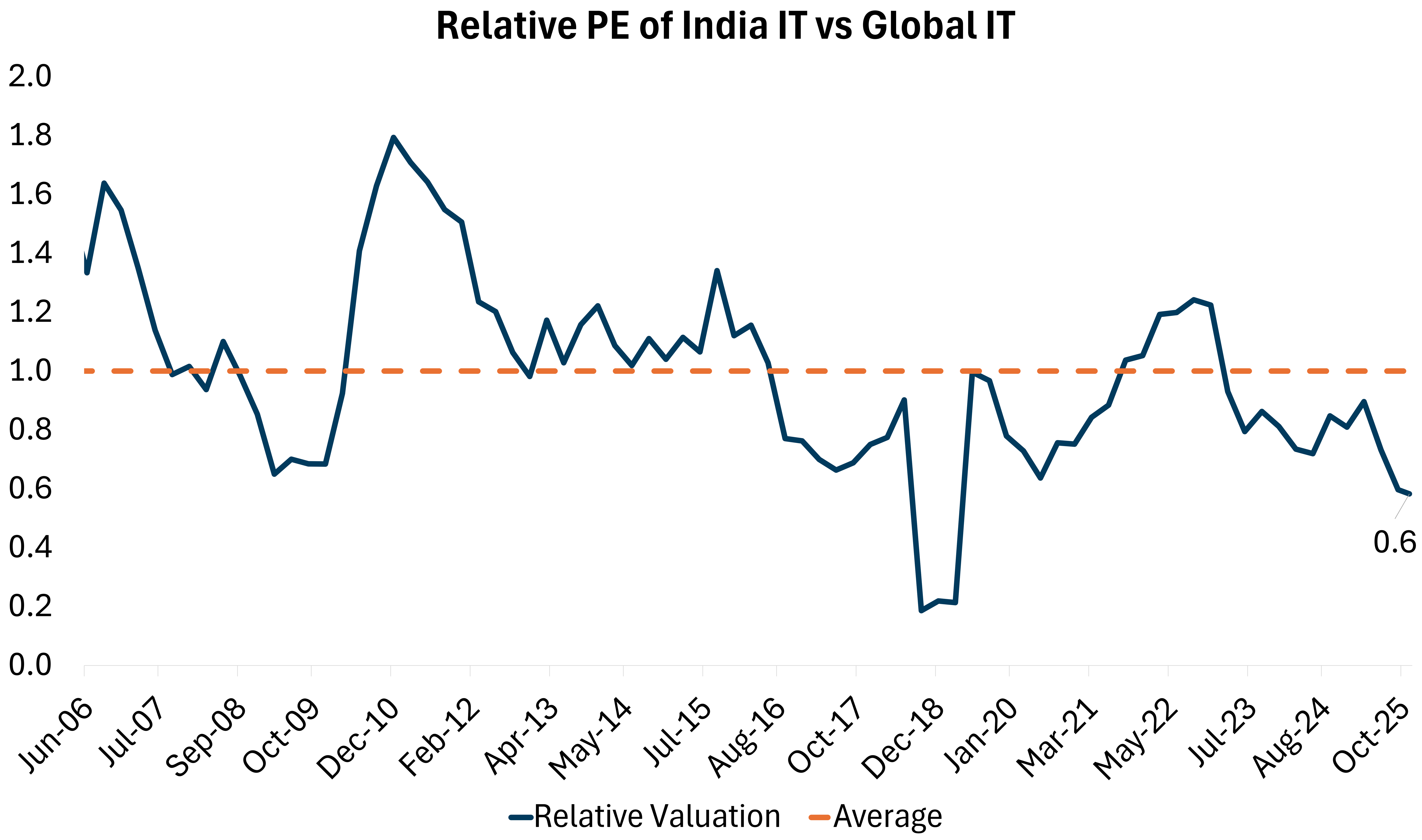
India IT vs Global IT: Higher ROEs and Lower Valuation

The global market narrative has been dominated by Technology, and rightly so; returns from the sector have been impressive. However, amid the widespread focus on global tech, the IT Services segment has been largely overlooked. This is particularly relevant for India, which remains one of the world's leading providers in this space.

Over the past three years, Indian IT companies have underperformed in terms of stock returns, despite their core fundamentals remaining strong. The key reason has been the absence of the "AI froth" that has propelled valuations in global technology names. As a result, Indian IT firms now trade at a meaningful discount to their global peers.

Indian IT companies deliver higher returns on equity (27%) compared to global peers (23%) yet Indian IT companies continue to trade at lower multiples making the valuation gap appear appealing. While the sector may not appear cheap in absolute terms, it offers attractive relative value and a stronger fundamental foundation than many parts of the broader market.



Source: Bloomberg, DSP. Data as of Oct 2025. Indian IT is represented by MSCI India IT index and Global IT is represented by MSCI ACWI IT index. Past performance should not be taken as an indication or guarantee of future performance

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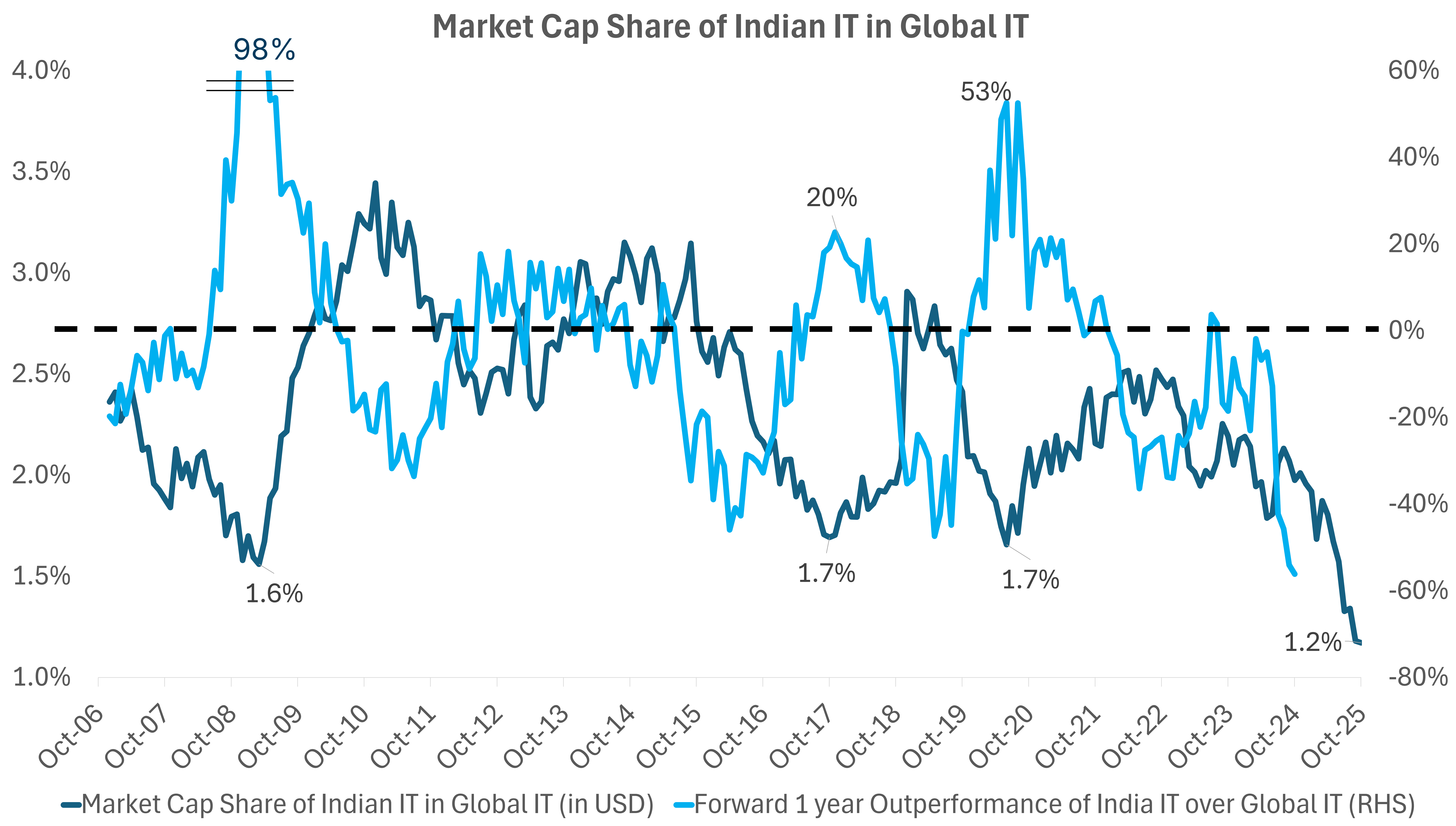
India IT: An Emerging Contra Bet?

Continuing from the earlier discussion, Indian IT companies have underperformed the global IT space for the past three years marking the largest relative underperformance on record.

Historically, similar phases of weakness (such as in 2008 and 2017) have coincided with narratives suggesting that emerging technologies would disrupt the IT services model. In 2017, it was the advent of cloud computing; today, it is the rise of artificial intelligence. Yet, it is crucial to recognize that Indian IT companies are service providers, and their business model is to adopt and implement these very technologies for global clients. Having successfully navigated multiple such technological shifts in the past, the current phase appears to be another iteration of that recurring pattern.

Importantly, history suggests that periods of such underperformance have often been followed by significant phases of outperformance for Indian IT relative to global peers. With strong fundamentals and attractive valuations, the Indian IT sector today represents an emerging contrarian opportunity in a market that has largely overlooked it.



Source: Bloomberg, DSP. Data as of Oct 2025. Indian IT is represented by MSCI India IT Index and Global IT is represented by MSCI ACWI IT Index. For Forward Outperformance Gross Total Return (USD) indices are considered. Past performance should not be taken as an indication or guarantee of future performance.

Did You Know?

- In Oct 2025, India’s Unified Payments Interface (UPI) processed a total of 20.7 billion transactions, a record high.
- India’s CPI inflation fell to 0.25% in Nov 2025, the lowest level since 2012.
- India's mutual fund industry has experienced a record-breaking 56 consecutive months of net inflows.

Source: DSP. Data as of Nov 2025.

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