

Focal point: Now Demand over Supply

In 2026, Indian equities have been like a top—spinning all round yet range-bound. Can they now breakout as the oil shock fades? We doubt. Easing supply to help, but demand could slow. As tax cut effect fades, El Niño has emerged while incomes/credit multipliers are weak. Undervalued INR is a silver lining. Hence, markets to remain range-bound as risks churn from supply to demand amid high valuations.

The shifting landscape should narrow the very high valuation premium (*à la* 2007, 2024 peak) of cyclicals (industrials, metals, power) to defensives (IT, private banks, consumer). OW defensives, cement and chemicals as they benefit from easing supply side. UW cyclicals and Auto as demand concerns loom amid rich valuations.

Markets moving like a top—spinning all round yet range-bound

The flat headline Index of Indian equities in 2026 hides the wild swings within. The year began with the narrative of post-GST cut recovery, followed by India-US trade deal, then disrupted by the evolution of AI, shocked by US-Iran war and rebound on the back of stabilising oil prices and global AI mania. With the US-Iran deal and oil prices falling, it seems like we have come full circle. Can markets now breakout?

Earnings: Concerns to shift from supply to demand side

Top line/earnings growth for India Inc. reported a good rebound in H2FY26 ([link](#)). Looking ahead, the impact of war is likely to weigh on earnings in H1FY27, but ease in H2FY27. But we think the demand challenges could loom large in H2FY27 as: i) **GST cut** impact fades on YoY basis; ii) **El Nino** to hurt farm output and thus rural consumption; iii) **income dynamics** are weak across agents (HH, corporate and government) making them cautious on capex spending; iv) **credit multipliers are low** as leverage is moving towards HH/MSME (plagued with weak income) or working capital funding. A **competitive INR** and some spillovers of global AI capex boom are some of the offsets. However, it is insufficient to accelerate earnings. This is likely to disappoint the 19% consensus FY27 PAT (FY26: 9% YoY) growth forecast for BSE500 (ex-OMCs). Essentially, downgrades shall continue.

Valuations: Sectoral dispersion at an extreme *à la* 2007, 2024

India's valuations at the headline level are still on the expensive side—market cap to GDP of 130% (10Y average: 100%), median trailing PE of 30x (10Y average: 25x). But what is more stark is the sectoral dispersion between cyclicals and defensives:

- i) **Industrials now trade at a premium to IT on price to sales**, a historical anomaly. Despite the large FCF yield gap and now similar top-line growth of 10–12%.
- ii) **Metals are more expensive than private banks on PB basis**. In fact, metals are close to 2007 peak PB of 2.2x with RoE of 15%—half of 2007 peak.
- iii) **FMCG has higher dividend yield than Power** with low growth in both.

Such extremes were last observed in the 2007 peak and Sep-24 peak. If the focus shifts from supply side to demand side, then these should normalise.

Portfolio allocation: OW defensives, cement and chemicals

Assuming that the US-Iran deal goes through then supply side concerns should ease and demand dynamics are likely to be the key focal point. Given weak outlook on the latter, we think high dividend yield sectors, less cyclical and exporters (undervalued INR) should outperform, while expensive cyclicals should underperform.

Key OW: Consumer, cement, chemicals, IT, private banks, pharma

Key UW: Industrials, metals, autos and power

Exhibit 1: Top picks

| | CMP | M Cap (USD bn) | 1Y Fwd Valuation | | PAT Growth (% CAGR) | | RoE (%) | | Div yield (%) |
|--------------------------------|-------|-------------------|------------------|-----------|---------------------|-----------|---------|-------|---------------|
| | | | FY28E | 10Yr Avg. | FY24-26E | FY26E-28E | FY26 | FY28E | FY27E |
| Largecaps | | | | | | | | | |
| Reliance Industries | 1310 | 188 | 19.6 | 19.2 | 2 | 13 | 10 | 11 | 0.5 |
| ICICI Bank | 1347 | 102 | 2.2 | 2.3 | 11 | 10 | 16 | 15 | 1.1 |
| Sun Pharma | 1838 | 47 | 27.2 | 26.1 | 13 | 12 | 15 | 17 | 1.0 |
| Nestle | 1415 | 29 | 55.8 | 59.5 | 3 | 19 | 76 | 75 | 1.3 |
| Shriram Finance | 1002 | 25 | 1.8 | 1.5 | 18 | 35 | 16 | 15 | 1.4 |
| Grasim | 3150 | 23 | 149.0 | 64.1 | -46 | 74 | 1 | 2 | 0.3 |
| Eicher Motors | 7611 | 22 | 27.3 | 27.9 | 18 | 16 | 24 | 24 | 1.4 |
| Interglobe Aviation (Indigo) | 5022 | 21 | 17.4 | 59.0 | NA | NA | -29 | 67 | 0.0 |
| Pidilite Industries | 1580 | 17 | 46.5 | 58.2 | 21 | 17 | 23 | 25 | 0.9 |
| Tech Mahindra | 1410 | 15 | 16.8 | 19.4 | 38 | 23 | 17 | 23 | 3.4 |
| SMIDs | | | | | | | | | |
| Havells India | 1176 | 8 | 35.6 | 48.5 | 10 | 17 | 19 | 19 | 0.0 |
| Coromandel International | 2015 | 6 | 20.7 | 18.0 | 11 | 20 | 17 | 18 | 0.6 |
| Max Financial Services Ltd | 1669 | 6 | 8.8 | 8.7 | 28 | 11 | 9 | 10 | 0.0 |
| Page Industries | 39975 | 5 | 43.3 | 58.8 | 18 | 13 | 55 | 53 | 1.5 |
| Balkrishna Industries | 2244 | 5 | 23.7 | 24.0 | -2 | 16 | 13 | 14 | 0.7 |
| JK Cement | 5504 | 5 | 30.5 | 24.7 | 14 | 15 | 16 | 16 | 0.3 |
| Container Corporation of India | 472 | 4 | 23.5 | 29.1 | -1 | 11 | 10 | 11 | 0.0 |
| PG Electroplast | 561 | 2 | 39.5 | 40.0 | 29 | 32 | 8 | 11 | 0.1 |
| Aarti Industries | 485 | 2 | 23.6 | 27.3 | -1 | 34 | 7 | 11 | 0.3 |
| Gravita India | 1722 | 1 | 21.8 | 21.9 | 26 | 22 | 17 | 18 | 0.5 |

Source: Nuvama Research;

Note: Pricing is as of 19th June, 2026; estimates used are Nuvama estimates;

Note: PB has been used as a valuation metric for ICICI Bank, Shriram Finance and Max Financials;

Note: Stocks are sorted in the descending order of their market cap

Exhibit 2: Nuvama Institutional Equities' Model Portfolio

| Stocks | Mkt Cap | Price | Portfolio wt | Nifty wt | Rel wt | P/E (x) | P/E (x) | P/B (x) | P/B (x) | RoE (%) | RoE (%) | Div Yld (%) |
|-----------------------------------|----------|-------|--------------|--------------|--------------|---------|---------|---------|---------|---------|---------|-------------|
| | (USD bn) | (INR) | (%) | (%) | (bps) | FY27E | FY28E | FY27E | FY28E | FY27E | FY28E | FY28E |
| Cement | | | 5.3 | 2.3 | 300 | | | | | | | |
| Grasim | 23 | 3150 | 3.1 | 1.1 | 200 | 76 | 149 | 3.7 | 3.7 | 5.0 | 2.5 | 0.3 |
| Ambuja cements | 11 | 424 | 1.2 | 0.0 | 120 | 41 | 36 | 1.8 | 1.7 | 5.2 | 5.9 | 0.4 |
| JK Cement | 5 | 5504 | 1.0 | 0.0 | 100 | 42 | 30 | 5.3 | 4.6 | 13.5 | 16.1 | 0.3 |
| Consumer | | | 13.2 | 10.7 | 250 | | | | | | | |
| Titan Company | 42 | 4420 | 2.7 | 1.7 | 100 | 60 | 51 | 18.4 | 14.0 | 35.4 | 31.4 | 0.0 |
| Nestle | 29 | 1415 | 1.9 | 0.9 | 100 | 65 | 56 | 45.2 | 38.9 | 75.4 | 74.9 | 1.5 |
| Interglobe Aviation (Indigo) | 21 | 5022 | 2.0 | 1.0 | 100 | 51 | 17 | 17.7 | 8.8 | 41.7 | 67.4 | 0.0 |
| Havells India | 8 | 1176 | 1.0 | 0.0 | 100 | 44 | 36 | 7.3 | 6.7 | 17.3 | 19.5 | 0.0 |
| Pidilite | 17 | 1580 | 1.0 | 0.0 | 100 | 55 | 46 | 12.9 | 11.2 | 24.2 | 25.2 | 1.0 |
| Britannia | 13 | 5195 | 1.0 | 0.0 | 100 | 43 | 37 | 21.1 | 18.0 | 52.8 | 52.6 | 1.8 |
| Page Industries | 5 | 39975 | 1.0 | 0.0 | 100 | 48 | 43 | 24.7 | 21.1 | 55.3 | 52.6 | 1.7 |
| ITC | 39 | 293 | 2.6 | 2.6 | 0 | 19 | 17 | 4.8 | 4.6 | 26.6 | 28.0 | 4.8 |
| Pharma and Healthcare | | | 7.2 | 4.7 | 250 | | | | | | | |
| Sun Pharma | 47 | 1838 | 3.3 | 1.8 | 150 | 33 | 27 | 4.7 | 4.3 | 14.9 | 16.5 | 1.3 |
| Torrent Pharma | 16 | 4430 | 1.0 | 0.0 | 100 | 65 | 49 | 16.3 | 12.8 | 27.7 | 29.4 | 0.4 |
| Dr Reddy Labs | 11 | 1272 | 1.7 | 0.7 | 100 | 23 | 17 | 2.5 | 2.2 | 12.0 | 14.5 | 0.6 |
| Apollo Hospitals | 13 | 8490 | 1.2 | 0.8 | 40 | 49 | 37 | 10.1 | 8.0 | 23.1 | 24.1 | 0.0 |
| Information Technology | | | 10.2 | 7.7 | 250 | | | | | | | |
| Tech Mahindra | 15 | 1410 | 2.3 | 0.8 | 150 | 18 | 17 | 4.0 | 3.7 | 22.8 | 22.8 | 3.4 |
| Infosys Technologies | 45 | 1051 | 4.4 | 3.4 | 100 | 15 | 14 | 4.6 | 4.2 | 32.0 | 31.2 | 4.8 |
| LTIMindtree | 12 | 3833 | 1.0 | 0.0 | 100 | 18 | 16 | 4.2 | 3.6 | 24.9 | 24.0 | 2.0 |
| Tata consultancy services | 81 | 2125 | 2.5 | 2.0 | 50 | 14 | 13 | 6.8 | 6.4 | 50.2 | 49.9 | 5.6 |
| Chemicals | | | 2.0 | 0.0 | 200 | | | | | | | |
| Coromandel International | 6 | 2015 | 1.0 | 0.0 | 100 | 25 | 21 | 3.9 | 3.4 | 17.2 | 17.6 | 0.7 |
| Navin Fluorine International Ltd. | 4 | 7494 | 1.0 | 0.0 | 100 | 46 | 37 | 8.0 | 6.6 | 12.0 | 12.0 | 0.3 |
| Energy | | | 9.8 | 9.8 | 0 | | | | | | | |
| Reliance Industries | 188 | 1310 | 9.8 | 8.0 | 180.0 | 23 | 20 | 1.9 | 1.7 | 10.2 | 11.0 | 0.6 |
| BFSI | | | 36.3 | 36.3 | (10) | | | | | | | |
| Kotak Mahindra Bank | 42 | 399 | 4.2 | 2.7 | 150 | 24 | 21 | 2.0 | 1.7 | 11.6 | 12.0 | 0.2 |
| Shriram Finance | 25 | 1002 | 2.8 | 1.3 | 150 | 16 | 13 | 2.0 | 1.8 | 16.0 | 14.7 | 1.7 |
| Max Financial Services Ltd | 6 | 1669 | 1.5 | 0.0 | 150 | 109 | 96 | 9.6 | 8.8 | 9.2 | 9.6 | 0.0 |
| ICICI Bank | 102 | 1347 | 10.0 | 8.8 | 120 | 18 | 16 | 2.5 | 2.2 | 15.2 | 14.9 | 1.3 |
| Indusind bank | 8 | 947 | 1.2 | 0.0 | 120 | 17 | 14 | 1.1 | 1.0 | 6.4 | 7.4 | 0.0 |
| Axis Bank | 45 | 1358 | 3.5 | 3.5 | 0 | 13 | 11 | 1.8 | 1.5 | 14.2 | 15.3 | 0.2 |
| HDFC Bank | 127 | 780 | 10.0 | 10.9 | -90 | 14 | 12 | 1.9 | 1.7 | 14.2 | 15.2 | 2.4 |
| State Bank of India | 101 | 1035 | 3.1 | 3.9 | -80 | 11 | 9 | 1.7 | 1.5 | 14.7 | 16.1 | 2.4 |
| Telecom and Internet | | | 7.0 | 7.1 | 0 | | | | | | | |
| Eternal | 27 | 264 | 2.7 | 1.7 | 100 | 117 | 47 | 7.2 | 6.2 | 6.4 | 14.2 | 0.0 |
| Bharti Airtel | 123 | 1911 | 4.3 | 5.3 | -100 | 27 | 23 | 6.5 | 5.6 | 26.2 | 26.0 | 2.2 |
| Metals & mining | | | 1.4 | 3.9 | (250) | | | | | | | |
| Tata Steel | 26 | 199 | 1.4 | 1.5 | -10 | 12 | 12 | 2.1 | 1.9 | 18.9 | 17.0 | 2.2 |
| Utilities | | | 0.0 | 2.8 | (280) | | | | | | | |
| Autos | | | 3.7 | 6.7 | (300) | | | | | | | |
| Tata Motors Passenger Vehicles | 14 | 360 | 1.7 | 0.7 | 100 | 10 | 6 | 1.1 | 0.9 | 11.1 | 17.0 | 3.1 |
| Eicher Motors | 22 | 7611 | 2.0 | 1.0 | 100 | 31 | 27 | 7.1 | 6.2 | 24.4 | 24.1 | 1.6 |
| Industrials | | | 3.9 | 7.9 | (400) | | | | | | | |
| Container Corporation of India | 4 | 472 | 1.0 | 0.0 | 100.0 | 27 | 23 | 2.7 | 2.6 | 10.0 | 11.3 | 0.0 |
| Larsen & Toubro | 61 | 4209 | 2.9 | 4.5 | -160.0 | 32 | 25 | 4.7 | 4.1 | 21.2 | 20.5 | 0.0 |
| Model Portfolio | | | 100.0 | 100.0 | 0.0 | | | | | | | |
| Nifty | | | | 100 | 0 | | | | | | | |

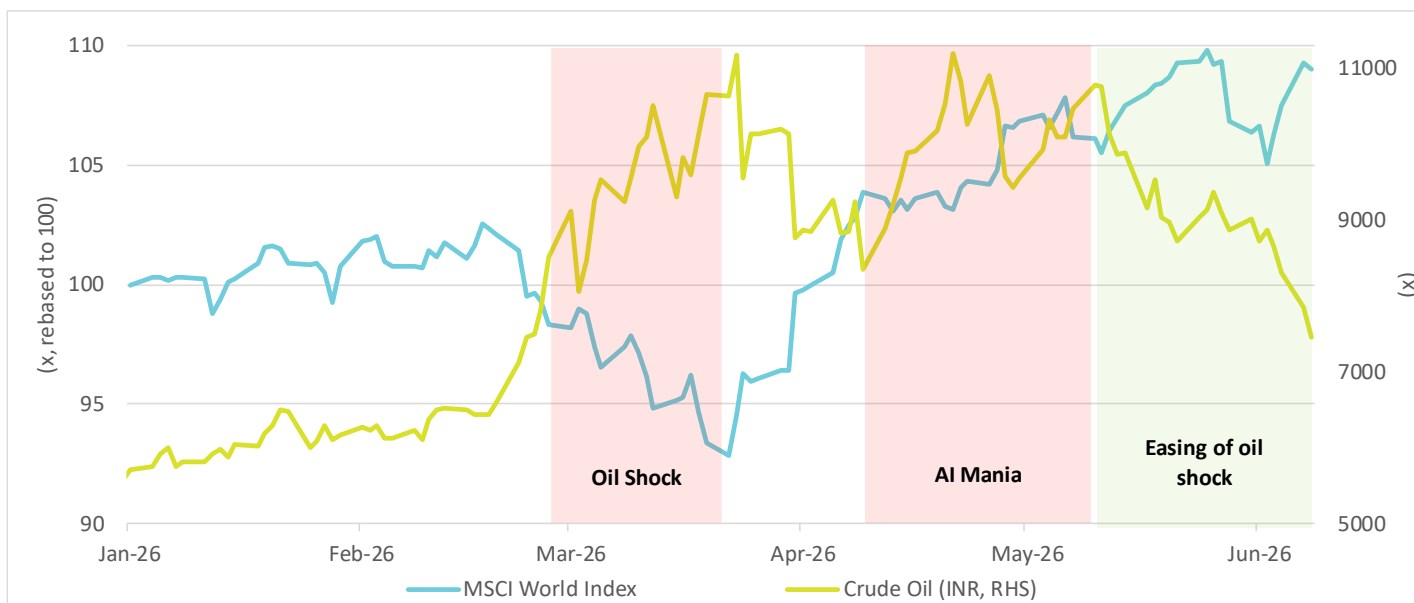
Source: Nuvama Research;

Note: Pricing is as of 19th June, 2026; For Kotak Mahindra consolidates figures are considered

2026: Markets spinning all round...

2026 has been a historical year. It has only been half way through the year, but it feels like a decade. Markets have swung wildly this year, falling precipitously in March—shocked by the onset of the Iran war, but recovering swiftly to cross pre-war levels on the back of the AI boom and now there is news of a ceasefire and end of the supply shock. Essentially, it's been a whirlwind year with narratives changing nearly every month.

Exhibit 3: Global equities have had a whirlwind year

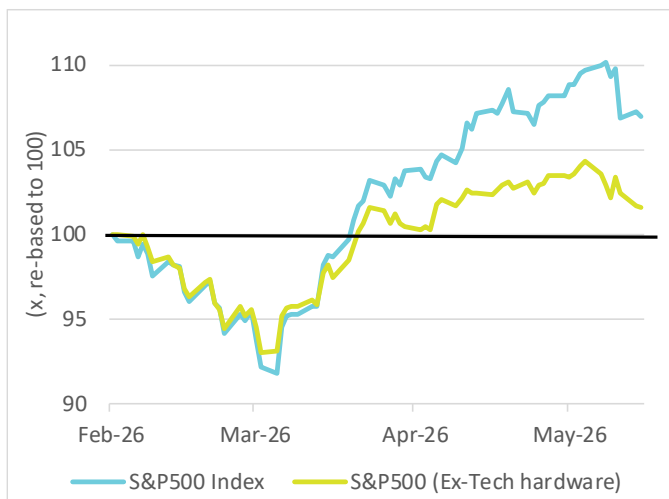


Source: Bloomberg, Nuvama Research

Post-war rebound mainly led by tech space

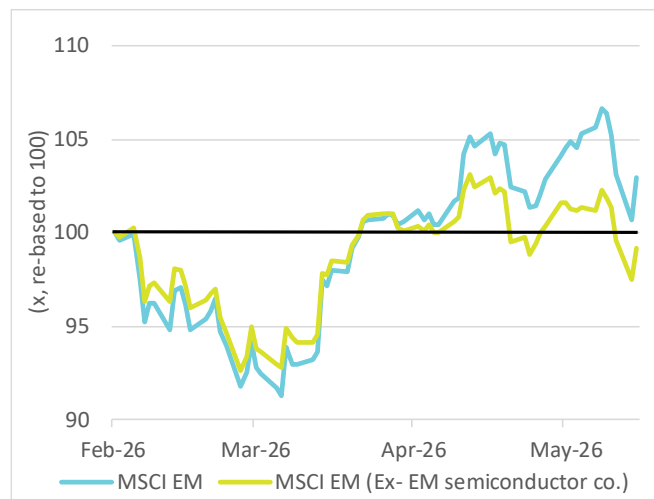
It is also worth noting that the rebound is mainly in the tech space and that too for hardware companies. Both in the US and EMs, non-tech indices have rebounded but are just at pre-war levels. The fresh highs are largely attributable to the tech space.

Exhibit 4: Post-war rebound mainly led by tech in the US...



Source: Bloomberg, Nuvama Research

Exhibit 5: ...and also in EMs

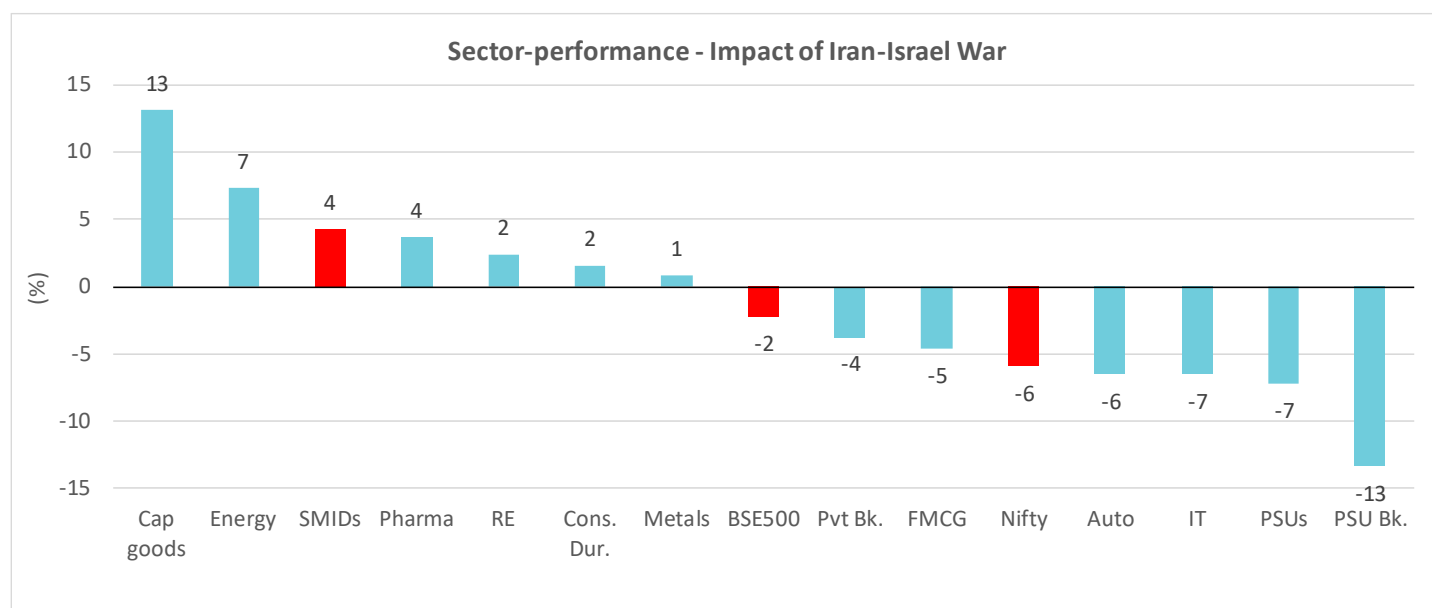


Source: Bloomberg, Nuvama Research; Note: Semiconductor companies include TSMC, Samsung and SK Hynix

India's returns too are quite skewed

With regards to India, it is on the wrong side of both AI trade as well the energy shock. Hence, the headline index has been quite subdued, underperforming both the US as well as its global peer. However, within India a combination of supply shock and AI mania has led to very large dispersion in sectoral returns. Industrials, metals and power stocks, which are proxy AI plays, have seen a strong rebound; while IT, private banks and FMCG—traditional defensives, have been laggards. The gap is not just owing to earnings, but AI mania/supply shock swing in multiples. With the shock now normalising, expect a sectoral churn. Some of it has perhaps already begun.

Exhibit 6: India's sectoral performance post-war



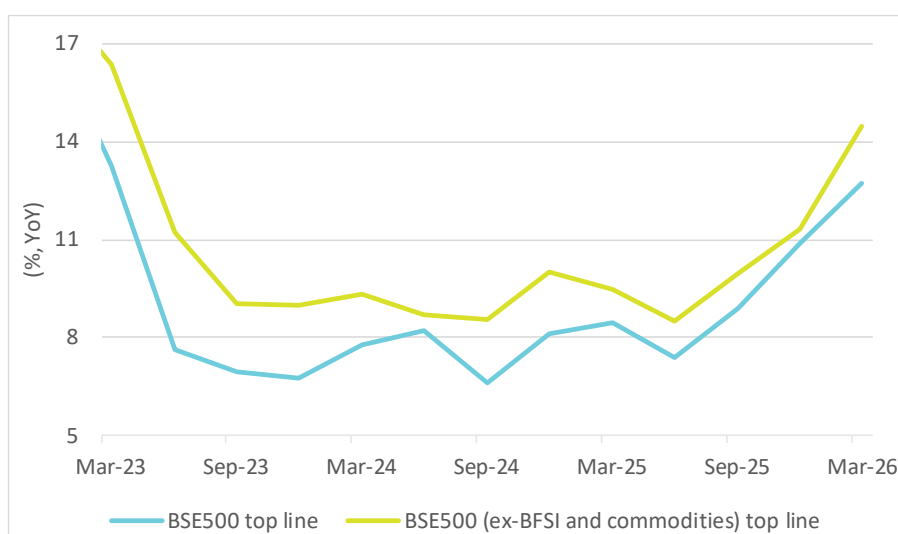
Source: Bloomberg, Nuvama Research

Earnings: The headwinds and the tailwinds

India Inc.'s top line seemed to be on an improving trajectory in H2FY26, most importantly top line growth perking up to the double digits. The improvement in top line growth was quite broad-based. We attribute the improvement owing to:

- **GST cuts:** Boosting consumption
- **RBI's easing:** Boosting credit growth and providing consumption power
- **AI Boom:** Lifting metal prices
- **Weak INR:** A big boost as two-third of India Inc.'s top line is in tradeable sector

Exhibit 7: Top line has seen good improvement in H2FY26



Source: Prowess, Nuvama Research;

Note: OMCs and fertilisers are excluded from the sample space;

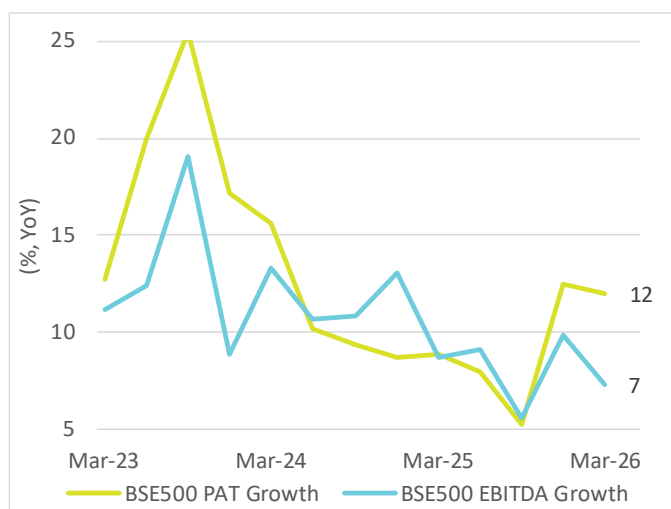
Note for BFSI – NII + OI is considered as top line

The improvement was encouraging. However, the quality of earnings was subpar. While the profit growth too improved, EBITDA growth remained subpar even excluding BFSI and commodities. The improvement in PAT was owing to deferred tax liabilities.

Furthermore, even cash flows weakened substantially. Operating cash flow growth for BSE500 (ex. OMCs) slowed sharply to just 4% in FY26 (versus 11% in FY25) owing to stretched working capital. This could weigh on top line/profit growth ahead as cash flows typically lead P&L.

Essentially, the improvement in top line in H2FY26 after three years of sluggishness is encouraging. However, the quality of growth is subpar. So what lies ahead in FY27?

Exhibit 8: PAT growth too strong, but EBITDA growth weak...

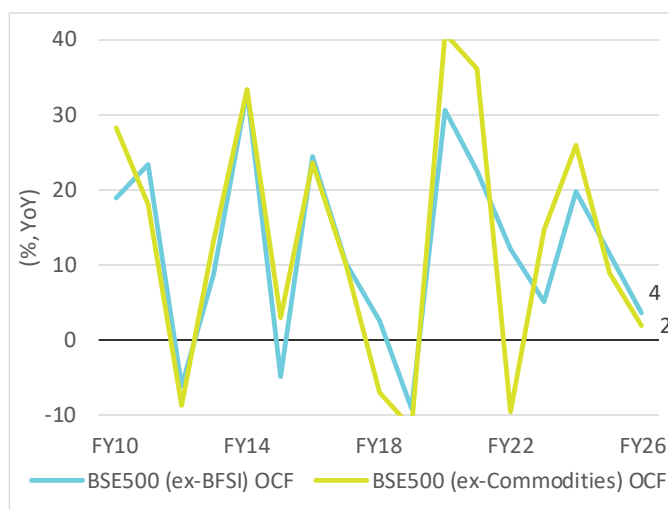


Source: Prowess, Nuvama Research;

Note: OMCs and fertilisers are excluded from the sample space;

Note: For BFSI, PPOp is considered as EBITDA

Exhibit 9: ...operating cashflows have slowed sharply



Source: Prowess, Nuvama Research;

Note: OMCs and fertilisers are excluded from the sample space

Outlook: Income dynamics weak; GST cut tailwind fading

From a demand perspective, while some of the stimulus helped in FY26, their impact is likely to recede from H2FY26. Thus, in that context, income dynamics now become critical. We discuss each agents' dynamics below:

1. Households: Plagued by weak income

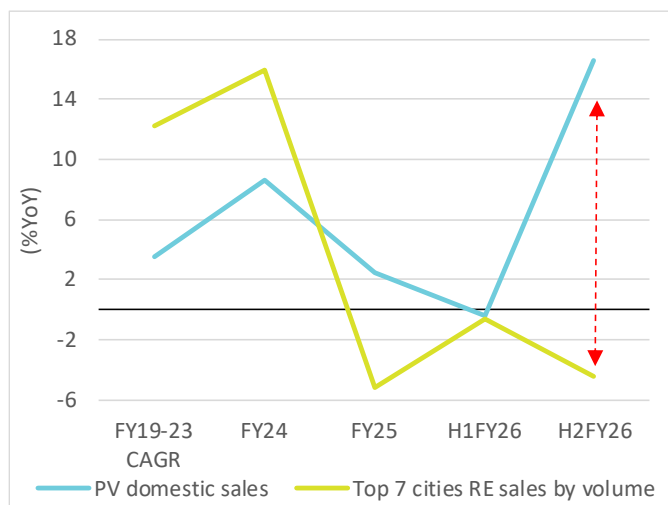
The recent bounce in some of the consumption items seen post H2FY26 is essentially an outcome of GST cuts. Household income remain quite weak. The BSE500 wage bill growth has been stuck around 6–7% YoY range for quite some time. Also, farm wages could be under pressure owing to El Niño conditions. Thus, once the impact of GST cuts fade, consumption growth could moderate.

Exhibit 10: BSE500 wage bill growth remains subdued...



Source: Prowess, Nuvama Research

Exhibit 11: GST cuts spur Auto sales, but RE volumes weak

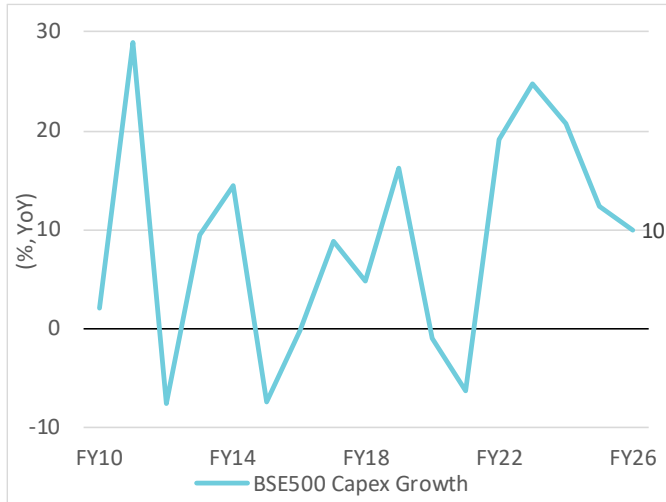


Source: CMIE, Prop-Equity, Nuvama Research

2. Corporates: Weak cash flows are now hurting their capex intentions

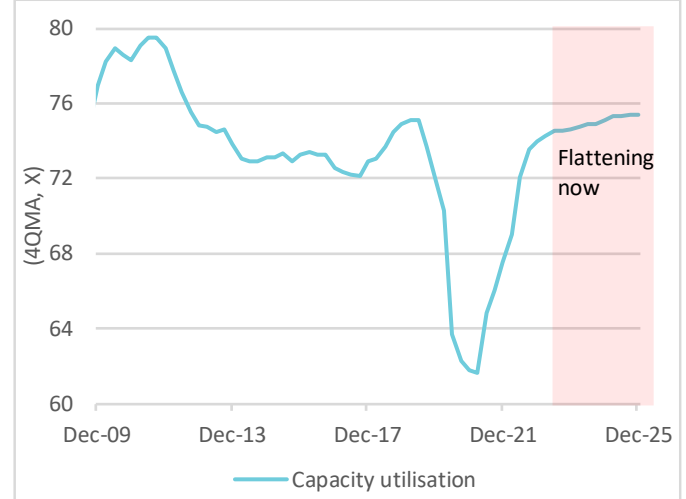
Corporate balance sheets are strong, but their capex growth is now decisively moderating. Capex growth for BSE500 companies slowed from 12% in FY25 to 10% in FY26. Furthermore, the war is likely to result in working capital strain and weigh on overall demand acting as a further deterrent to capex growth.

Exhibit 12: BSE500 capex growth slowing...



Source: Capitaline, Nuvama Research

Exhibit 13: ...capacity utilisation stabilising at low levels

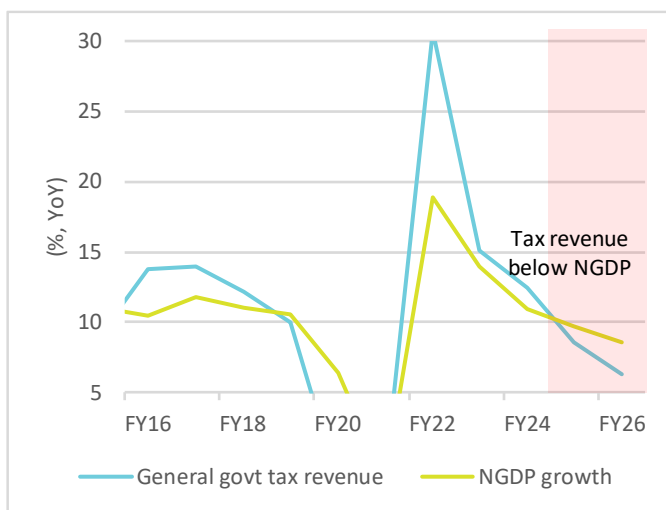


Source: CMIE, RBI, Nuvama Research

3. Government tax revenue remains quite weak

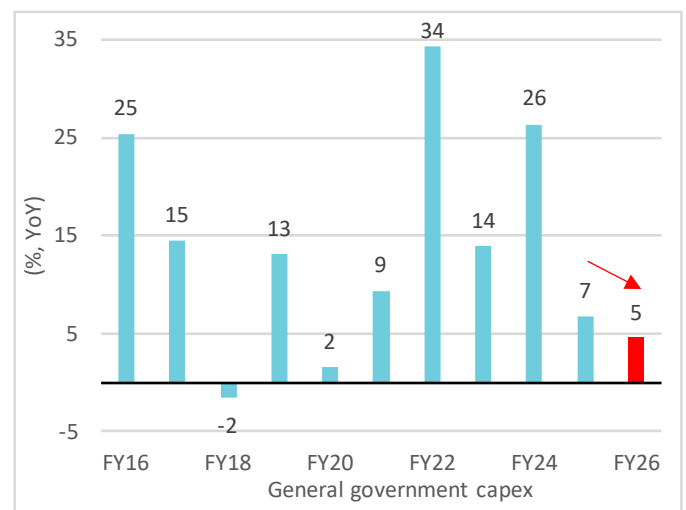
Finally, the government is plagued with weak tax revenue, increased subsidy burden and state governments are now focussed on welfare schemes. This too will weigh on their capex growth. The general government capex growth in the last two years has been around just 4–5% in nominal terms, which is unusually weak.

Exhibit 14: General government tax revenue remains subpar...



Source: CMIE, Nuvama Research

Exhibit 15: ...hurting their ability to pursue capex



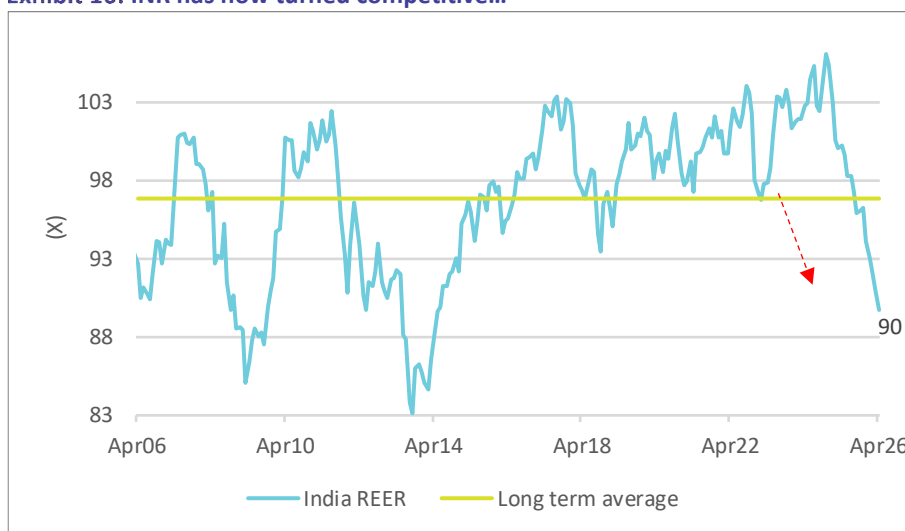
Source: CMIE, Nuvama Research

Thus, the overall cyclical buoyancy of the economy remains weak and the tailwinds of some of the stimulus announced last year are fading. Return to pre-war level may still not deliver the earnings acceleration.

Currency tailwinds to help

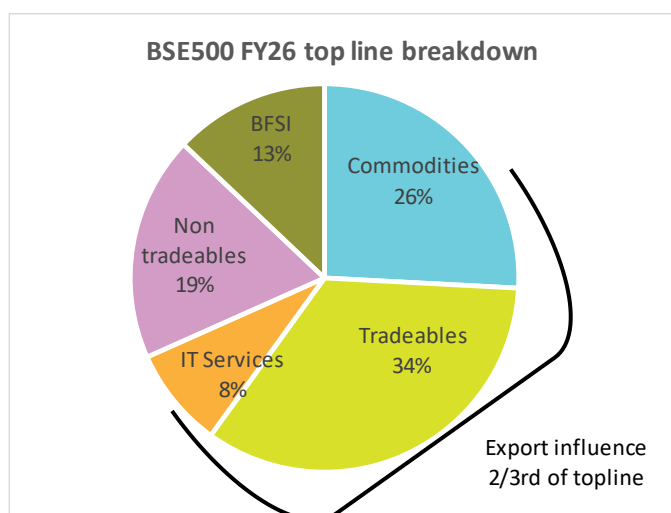
Nonetheless, a new tailwind that could help is undervalued INR. If supply chains normalise it could help offset some of the fading headwinds. After all, nearly two-third of India Inc.'s top line is directly or indirectly linked to global trade (via demand or prices). A weaker INR thus boosts earnings. However, that alone is insufficient to drive an uptick and needs to be complemented by stronger global growth.

Exhibit 16: INR has now turned competitive...



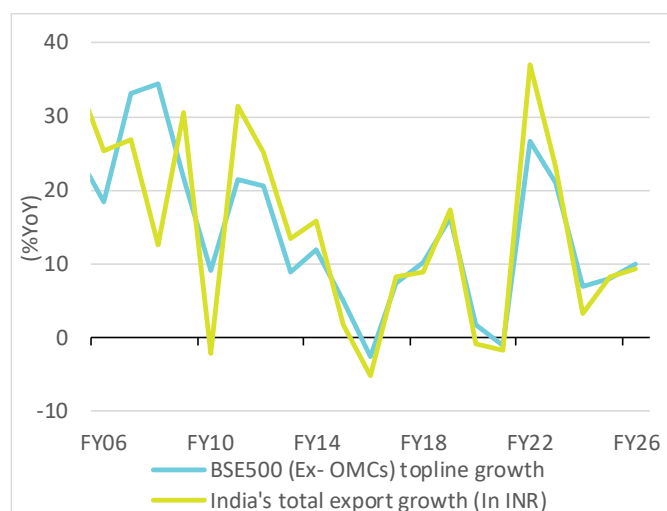
Source: Bloomberg, Nuvama Research

Exhibit 17: Two-thirds of BSE500 top line in tradeable sectors...



Source: Prowess, Nuvama Research; Note: Tradeables include Autos, Industrials, chemicals, pharma, durables, etc.; Non-tradeables are retail, FMCG, Cement

Exhibit 18: ...hence INR depreciation helps boost the same

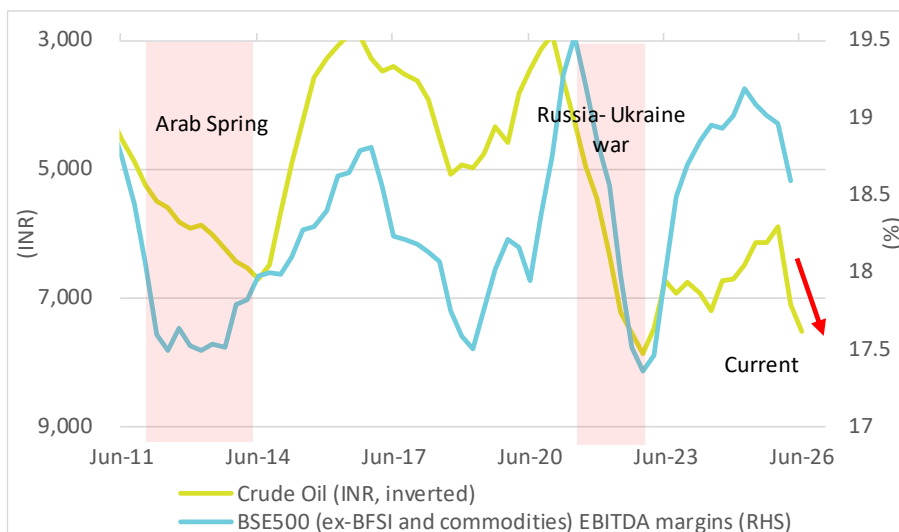


Source: Prowess, Nuvama Research; Note Total exports is the sum of goods and services exports combined

Oil shock to weigh on margins in near term, but should reverse in H2

The oil shock is likely to weigh on margins in H1FY27. While some of these will reverse in H2FY27, the sectoral impact on earnings is likely to vary.

Exhibit 19: Oil shock to weigh on EBITDA margins in H1FY27



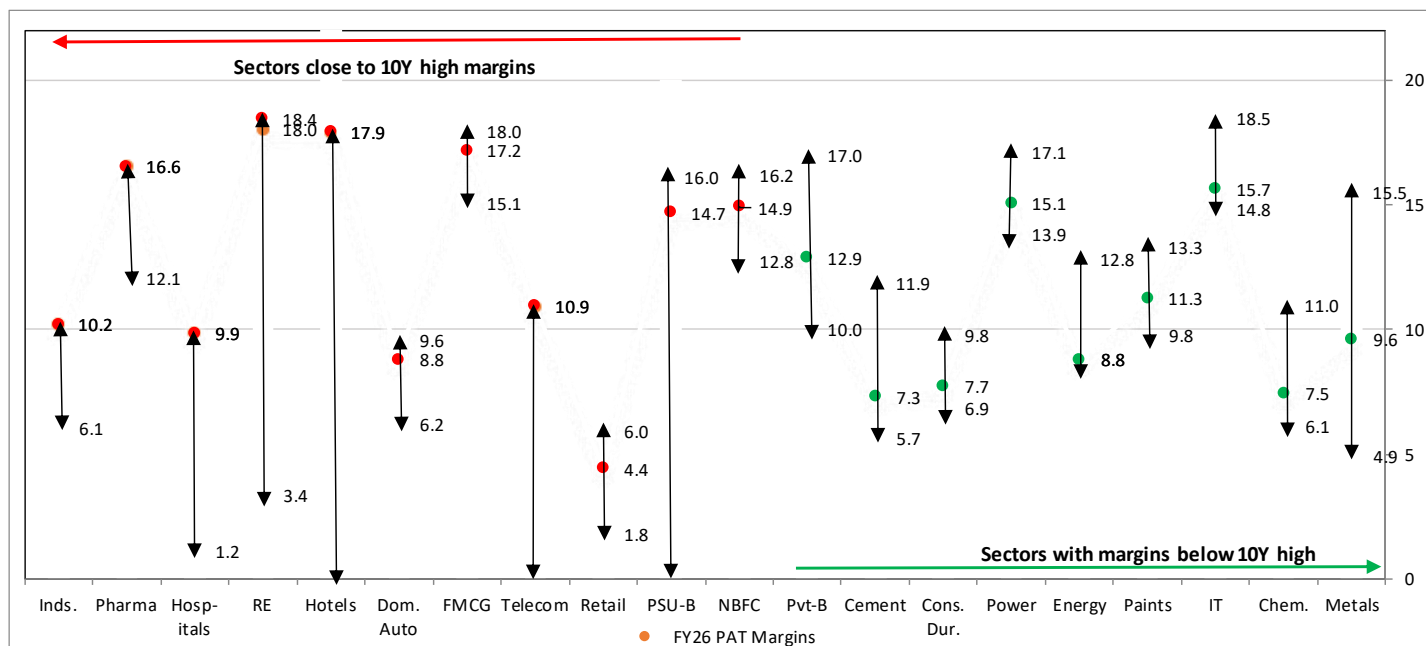
Source: Prowess, Bloomberg, Nuvama Research

The sectoral impact of earnings owing to higher oil prices essentially depends on:

- **Distribution of oil shock:** Some auto companies have largely absorbed the oil shock hurting their margins while some of the consumer peers such as paints have done the opposite and could witness slowdown in volumes.
- **Competitive intensity of the sector:** This will determine whether earnings will rebound once the oil shock fades.
- **Other demand factors:** Finally, with some of the tailwinds changing colour going ahead into H2FY27, we think sectors with persistent demand tailwinds (FX benefits) should be preferred while those with headwinds should be avoided.

Our strong belief has been that profit margins tend to revert to the mean. Thus, a good way to gauge the impact is to look at sectors that are at cyclical bottom margins and expect them to rebound post war.

Exhibit 20: Some cyclical sectors, which are operating at higher end of their margins, could be more vulnerable

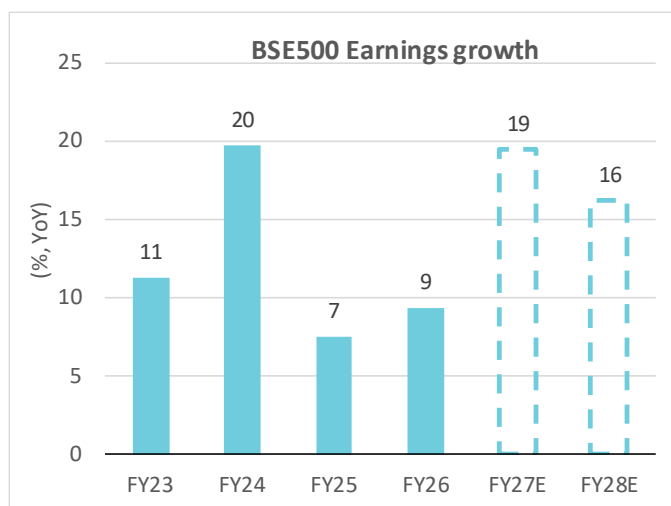


Source: Prowess, Nuvama Research; Note: The arrow represents the last 10Y range; The green or red dot represent the current margins

Overall earnings downgrades are still likely

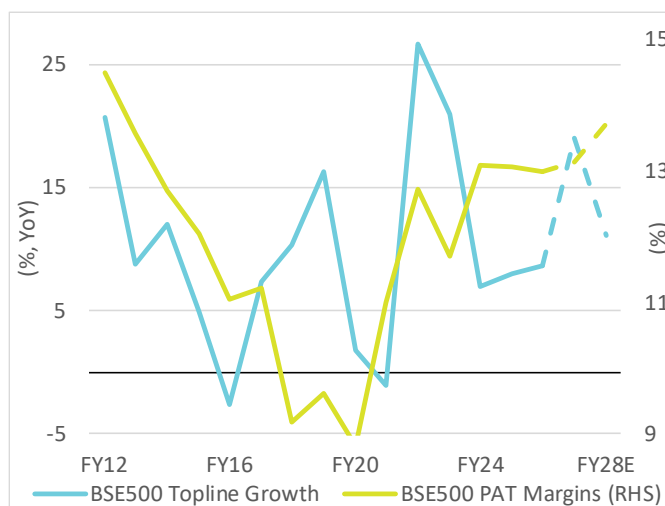
Thus, from the overall discussion above, it appears that earnings acceleration is still unlikely even if one reverts back to pre-war trends as some of the tailwinds (GST cuts, rate cuts) fade on YoY basis, while income dynamics remain subdued. Weaker currency should offset some of these headwinds though. Consensus estimates however are still lofty and prone to downgrade.

Exhibit 21: BSE500 earnings growth estimates are lofty...



Source: Prowess, Nuvama Research; Note: OMCs, Fertiliser are excluded from the sample space

Exhibit 22: ...as consensus is forecasting sharp top-line growth



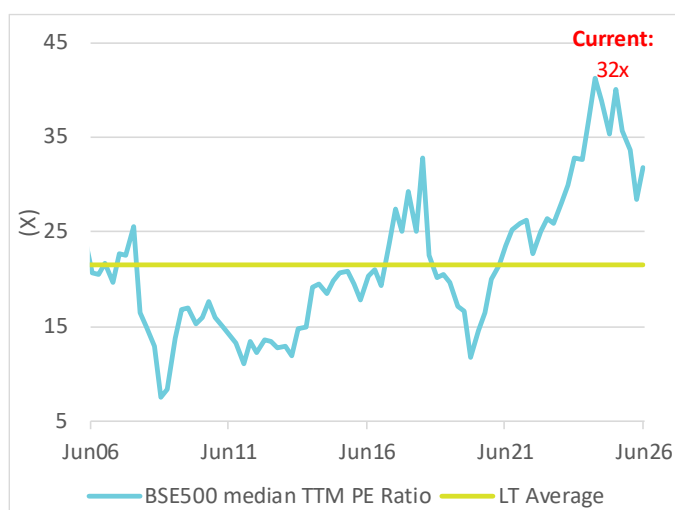
Source: Prowess, Nuvama Research; Note: OMCs, Fertiliser are excluded from the sample space

Valuations: The big sectoral divide

With regard to valuations, they still remain elevated even after two years of flat returns. For instance, the median PE of a BSE500 company is 3x while it is lower than 40x at its peak, still very high and needs strong growth to justify it. Similar is the story with aggregate market multiples like market cap to GDP which is still quite high.

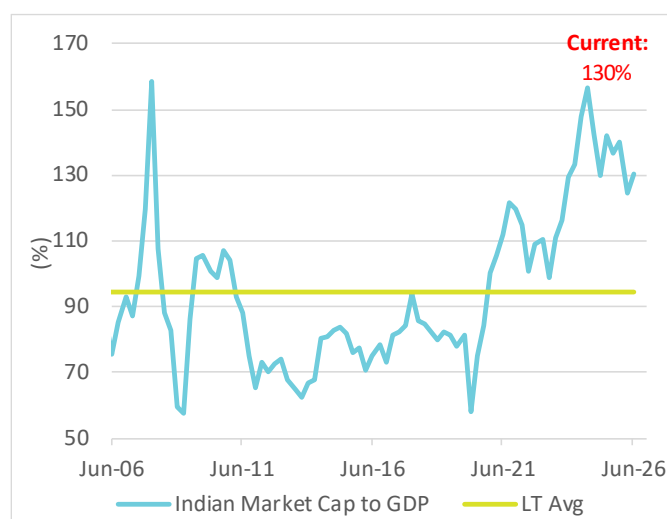
To sustain these, either rates need to be quite low or growth high. Neither of which is prevalent at present. Thus, we think medium term returns are likely to be quite moderate from such valuations.

Exhibit 23: Median trailing PE is still quite high...



Source: CMIE, Bloomberg, Nuvama Research; Note: Median PE is computed based on ranking the BSE500 members on trailing PE and then computing its median

Exhibit 24: ...so is the market cap to GDP



Source: CMIE, Bloomberg, Nuvama Research

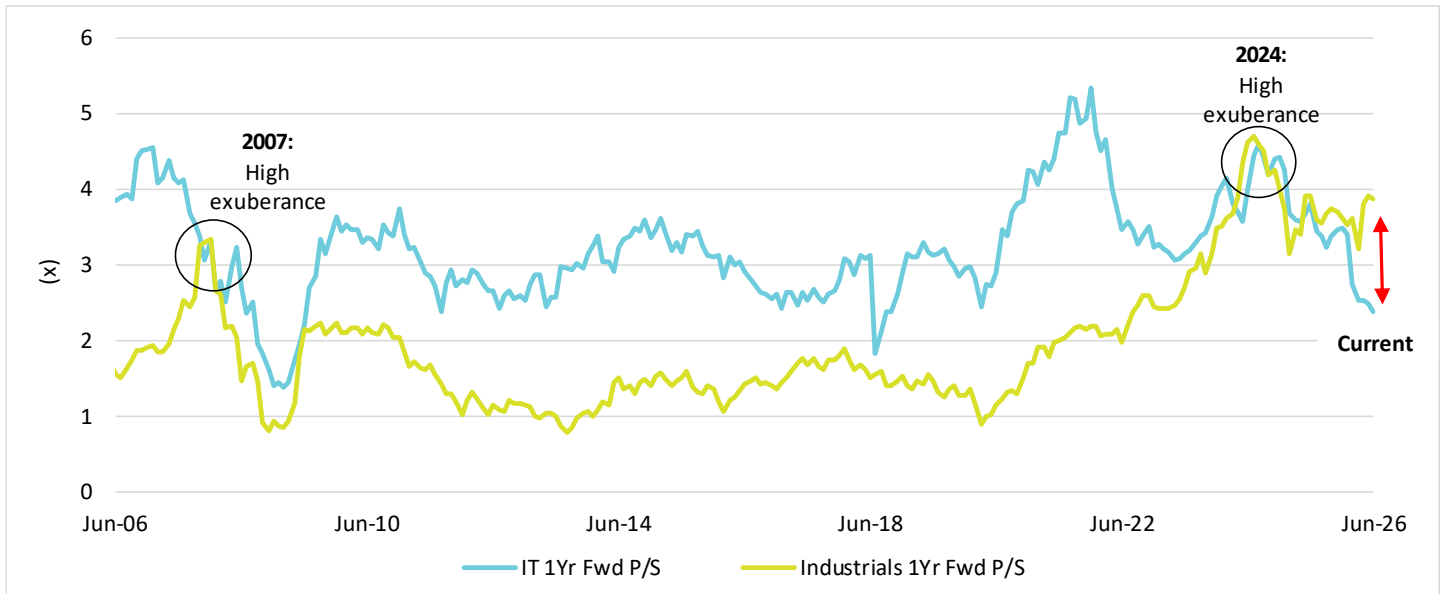
Moreover, more than aggregate valuations, we think the bigger mismatch lies in sectoral dispersion between cyclicals and defensives. We illustrate the same below:

1. Industrials P/S is now higher than IT

First, a combination of the AI mania along with tailwinds in few pockets of domestic capex have significantly re-rated Indian industrials. While Indian IT, which have a very strong historical track-record, is trading at a significant discount to its own history and also to Industrials on PE basis.

In fact, even on price to sales, which adjusts for margin cyclicality, IT is trading at a large discount. Such phenomenon has typically occurred at the peak of capex exuberance—2007, 2024 where cyclicality is preferred over cash flows. This is fundamentally unsustainable and reflects the excesses prevailing in the markets at present.

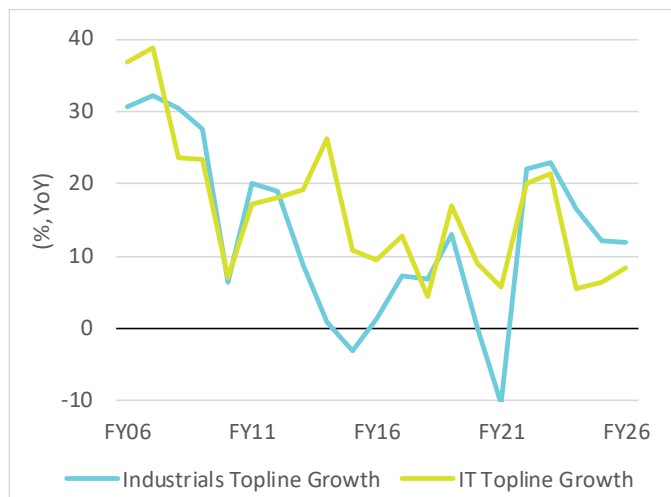
Exhibit 25: Industrials versus IT: Unprecedented valuation gap, à la 2007



Source: Bloomberg, Nuvama Research

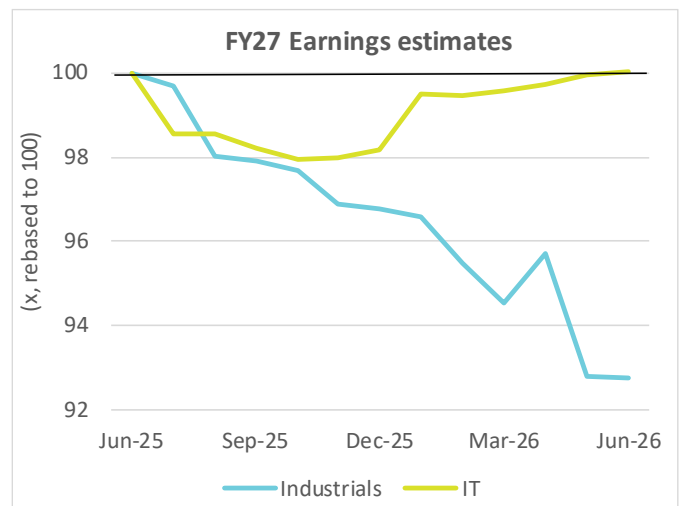
Furthermore, a higher P/S needs to be typically justified by higher top line growth. This does not seem to be the case at present. Industrial companies' revenue growth has moderated and is now similar to that of IT—both growing around the 10–12% range. Also, with regards to earnings estimates, industrial companies have seen 8% cut in earnings over the last year while IT companies' earnings are stable.

Exhibit 26: Industrials and IT – top-line growth is now similar...



Source: Prowess, Nuvama Research

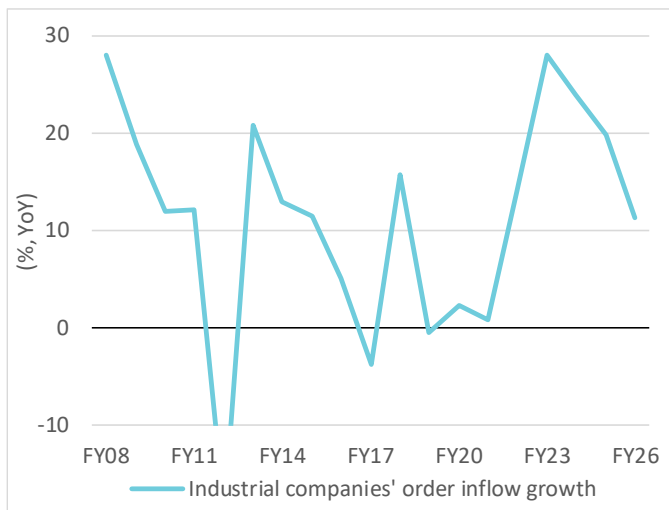
Exhibit 27: ...with Industrials seeing earnings downgrade



Source: Bloomberg, Nuvama Research

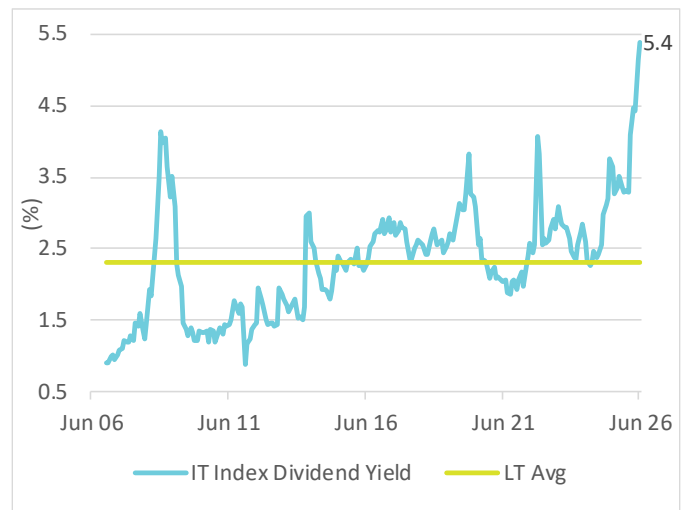
The sharp de-rating of IT companies has now led to its dividend yield rising to record highs of more than 5%, this should protect the downside despite large issues like AI disruption looming. However, for industrials the sector trades at very high valuations and profitability with order inflows for the sector now moderating sharply. Also, as highlighted in our earnings review note the moderation in order inflows is across the board, especially in power sector which was the stronger growth pocket until now. Thus, from a fundamentals as well as valuations perspective, we think the gap is unusual and should mean revert as some of the supply side disruptions fade.

Exhibit 28: Industrial companies' order inflows are weakening...



Source: Bloomberg, Company reports, Nuvama Research; Note: Industrial companies include L&T, BHEL, CG Power, ABB, Siemens, Hitachi Energy, GE Vernova, Voltamp, Taril, etc.

Exhibit 29: ...IT companies offer very high dividend yield

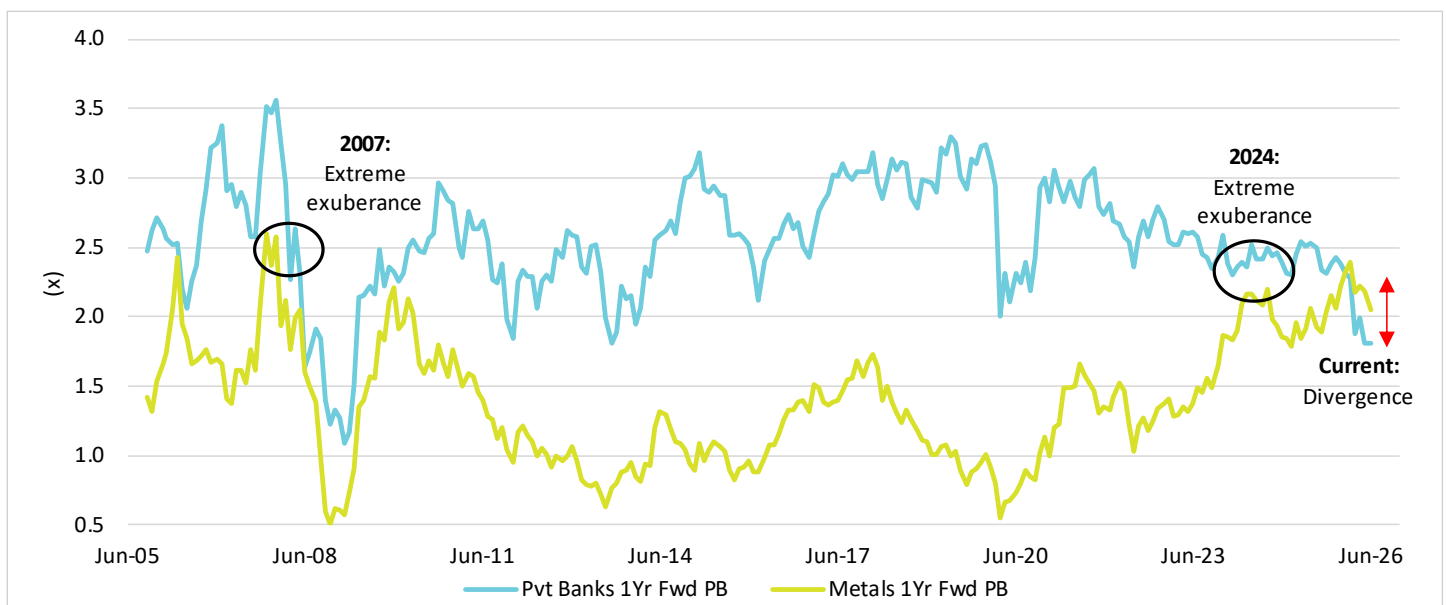


Source: Bloomberg, Nuvama Research

2. Metals are trading at a premium to private banks

Another valuation distortion is that between private banks and metals. Metals as we all know are a commoditised sector with extreme earnings volatility. Banks too are leveraged and can have long phases of weak earnings. However, private banks in India have demonstrated a very strong historical track record of steady and low volatility. Post Covid, metals have fixed balance sheets and enjoyed good profitability while private banks faced increased competition hampering their profitability. The result of the same has been that valuations of both have reconciled. Today, metals are trading at more expensive levels than private banks. In the past, the valuation gap had narrowed sharply in 2007 and 2024—both were market peaks.

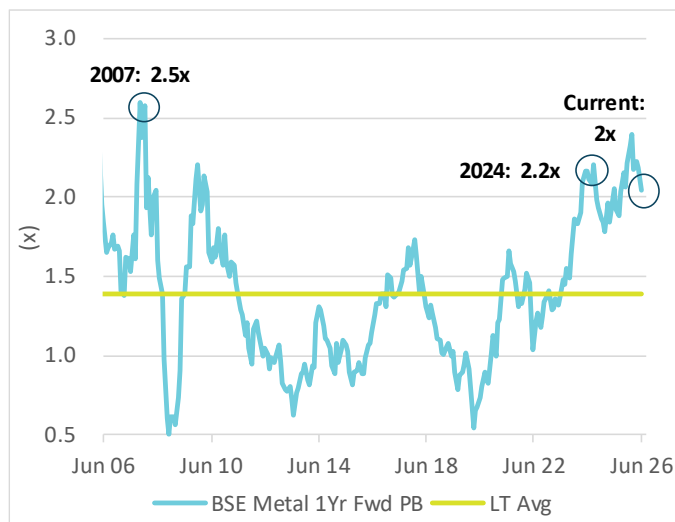
Exhibit 30: Metal companies are trading at a valuation premium to private banks – a historical anomaly



Source: Bloomberg, Nuvama Research

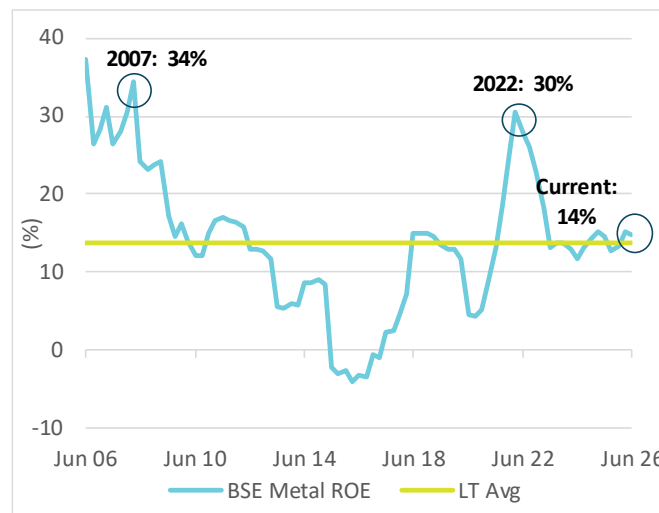
Moreover, on standalone basis as well, metal valuations are quite expensive. Adjusting for earnings cyclicality (P/B), they trade at 2–2.2x P/B—close to the peak seen in 2007 and 2024. This despite their RoE being much lower. Thus, while the AI mania may still help metal prices to remain high, the fading of supply shock poses downside risks to both metal earnings as well as valuations.

Exhibit 31: Metal companies at 2007 peak valuations...



Source: Bloomberg, Nuvama Research

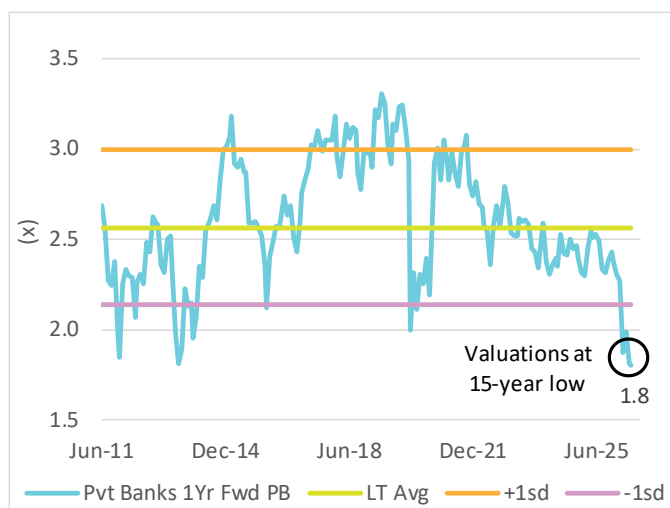
Exhibit 32: ...despite half the RoE



Source: Bloomberg, Nuvama Research

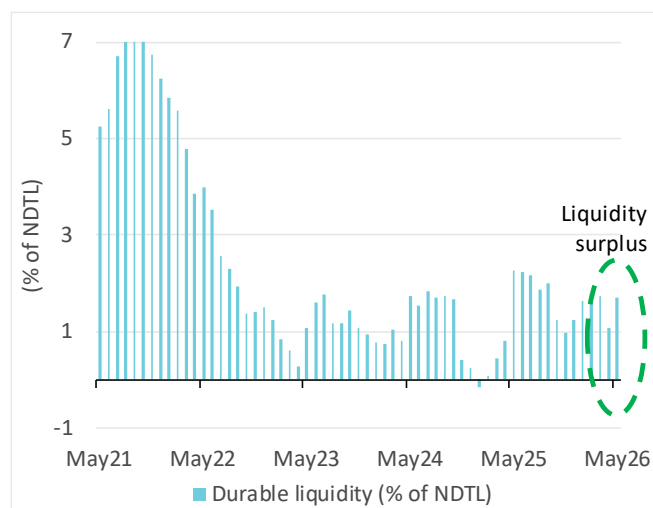
With regard to private banks, they are trading more than 1SD cheap. The weakness in private banks is owing to increased competition as well as deposit weakness hurting their margins. While competitive intensity remains high, the liquidity problem is at least being addressed owing to the RBI's measures to attract FCNR deposits and also due to stability of INR. This should help boost sentiments and re-rate private banks.

Exhibit 33: Private banks are at bottom cycle valuations...



Source: Bloomberg, Nuvama Research

Exhibit 34: ...easing liquidity to help



Source: Prowess, Nuvama Research

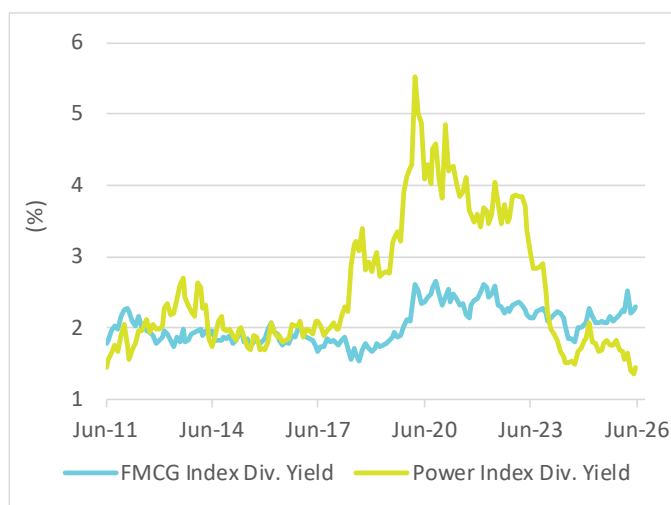
Here as well, the valuation gap between a cyclical and a relative defensive is very large when the fundamentals now moving in the opposite direction. This should mean revert if the supply shock fades.

3. FMCG has higher dividend yield than power

FMCG and utilities are both typically supposed to be steady growing sectors. However, FMCG has always traded at a higher multiple than power given that it has high free cash flows, while power is deeply regulated. However, in the past five years, FMCG has got de-rated (rightly so given the earnings weakness), while power has got re-rated owing to its strong growth potential.

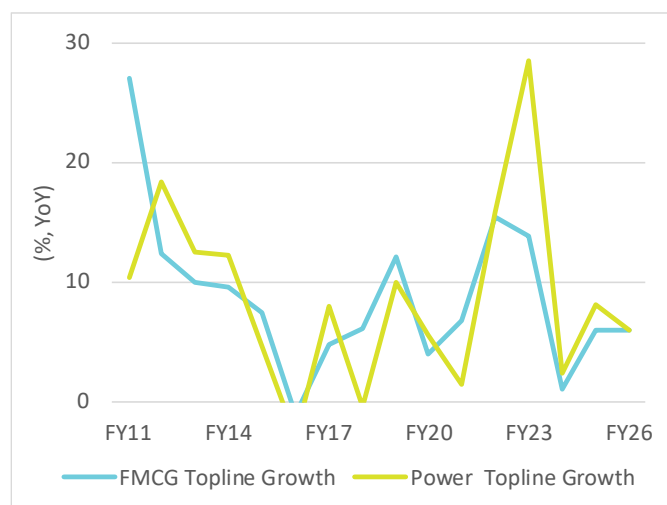
As a result, FMCG now offers higher dividend yield than power. We think this is unwarranted as growth in both is similar and outlook bleak given the subdued industrial activity and El Niño risks.

Exhibit 35: FMCG dividend yield now below that of power...



Source: Bloomberg, Nuvama Research

Exhibit 36: ...FMCG top line and power top line



Source: Prowess, Nuvama Research

Overall, at present there are very large anomalies between some of the cyclical and defensive sectors, spurred partially by growth differentials but also supply shock dynamics. With that reversing, we think it's time for reversal again.

Other sectors that could benefit from easing oil prices

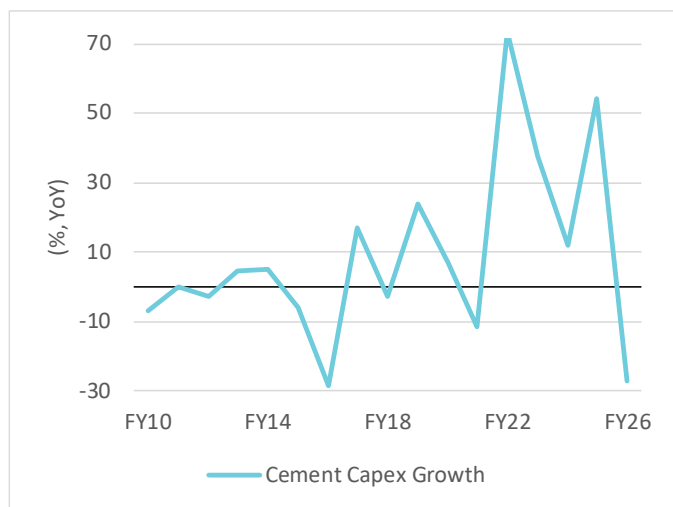
Apart from the above, we think there are a couple more sectors that can potentially benefit from the fading supply shock—owing to either the changing industry dynamics or macro tailwind. We discuss them below:

1. Cement: Micro structure is improving

This is a sector where the competitive landscape is changing and easing supply shock should further help. After three to four years of pursuit for market share, cement players are now focussing on profitability over volumes. This can be seen by the fact that capex growth of cement companies has slipped into contraction—after four years of aggressive growth.

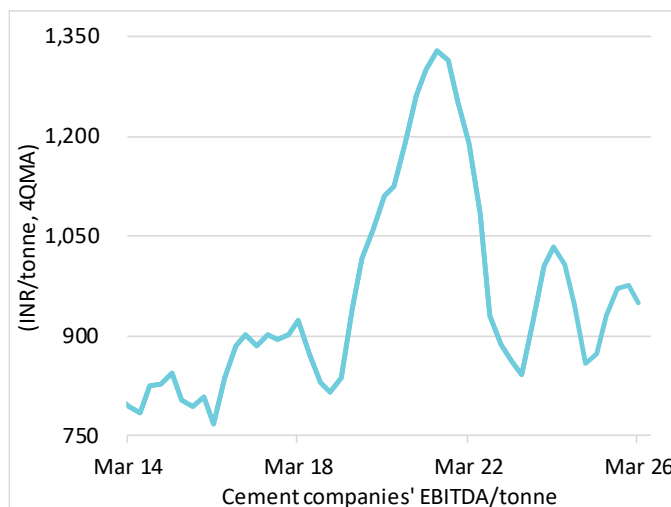
Also, it is only natural for them to start focussing on profitability as their EBITDA/ton is at record lows. Historically, from such low EBITDA/ton, profitability has tended to bounce back.

Exhibit 37: Cement companies' capex intensity is moderating...



Source: Prowess, Nuvama Research

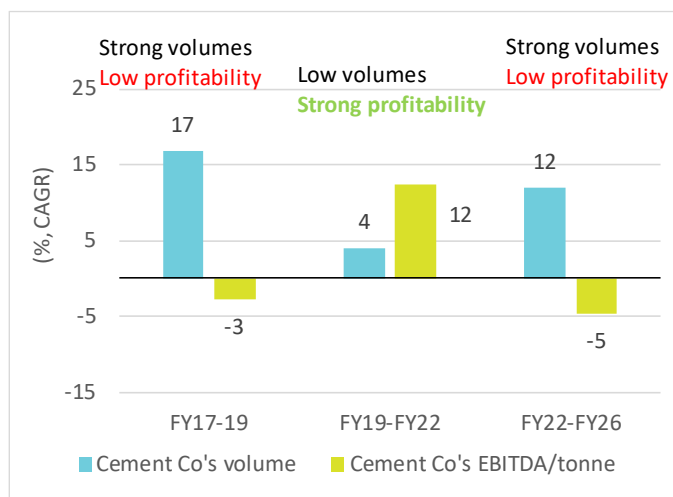
Exhibit 38: ...cement EBITDA/ton at very weak levels



Source: Prowess, Nuvama Research

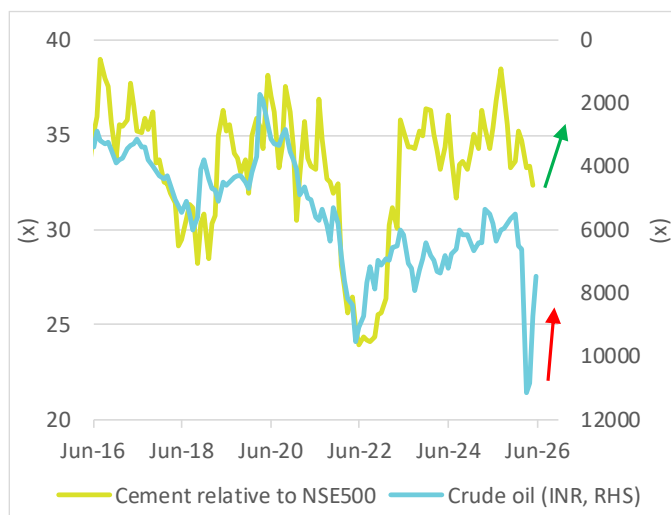
The question is can cement companies focus on profitability when the overall growth is weak and will volumes be hurt? We think they certainly will be hurt. Historically as well, focus on profitability has invariably come at the expense of volumes. We don't think it is likely to be different this time. However, it's higher profitability that drives stock returns rather than volumes. Also, fall in oil prices should ease RM pressures and help cement companies improve profitability further. Thus, it is no coincidence that cement tends to outperform when oil prices fall.

Exhibit 39: Focus on profitability could weigh on volumes...



Source: Prowess, Bloomberg, Nuvama Research

Exhibit 40: ...falling oil prices to help cement companies

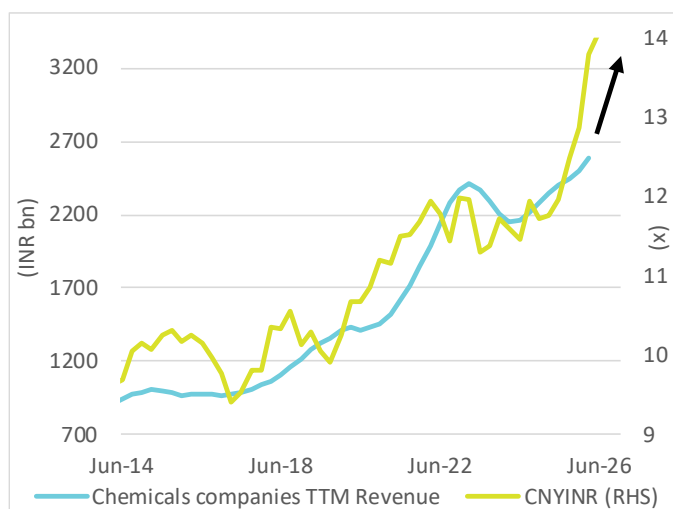


Source: Prowess, Bloomberg, Nuvama Research

2. Chemicals: Weaker currency to help

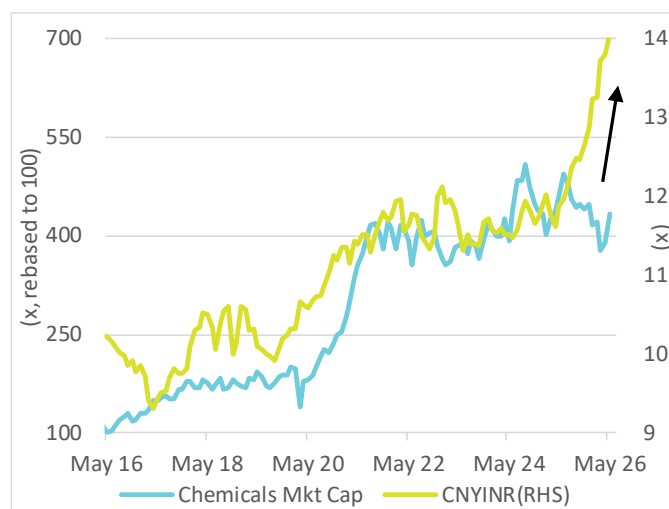
The second space, where we think the easing supply side should help is chemicals. Here, INR has become quite competitive relative to CNY. The easing supply side should help ease cost pressures and improve profitability. Furthermore, the capex cycle is behind in the sector and thus the scope for operating leverage is very high.

Exhibit 41: CNYINR and chemicals top line...



Source: Prowess, Bloomberg, Nuvama Research

Exhibit 42: ...CNYINR and chemicals



Source: Prowess, Bloomberg, Nuvama Research

Overall, the changing landscape of easing supply but demand risks rising warrants a reassessment of portfolio stance. We thus make changes and recommendations accordingly to our model portfolio.

Model portfolio and top picks

Assuming that the US-Iran deal goes through, in which case supply side concerns should ease and demand dynamics are likely to be the key focal point. Given the weak outlook on the latter, we think high dividend yield sectors, less cyclical and exporters (undervalued INR) should outperform, while expensive cyclicals should underperform.

Key OW: Consumer, IT, private banks, cement, chemicals, pharma

Key UW: Industrials, metals, autos and power

Exhibit 43: Top picks

| | CMP | M Cap (USD bn) | 1Y Fwd Valuation | | PAT Growth (% CAGR) | | RoE (%) | | Div yield (%) |
|--------------------------------|-------|-------------------|------------------|-----------|---------------------|-----------|---------|-------|---------------|
| | | | FY28E | 10Yr Avg. | FY24-26E | FY26E-28E | FY26 | FY28E | FY27E |
| Largecaps | | | | | | | | | |
| Reliance Industries | 1310 | 188 | 19.6 | 19.2 | 2 | 13 | 10 | 11 | 0.5 |
| ICICI Bank | 1347 | 102 | 2.2 | 2.3 | 11 | 10 | 16 | 15 | 1.1 |
| Sun Pharma | 1838 | 47 | 27.2 | 26.1 | 13 | 12 | 15 | 17 | 1.0 |
| Nestle | 1415 | 29 | 55.8 | 59.5 | 3 | 19 | 76 | 75 | 1.3 |
| Shriram Finance | 1002 | 25 | 1.8 | 1.5 | 18 | 35 | 16 | 15 | 1.4 |
| Grasim | 3150 | 23 | 149.0 | 64.1 | -46 | 74 | 1 | 2 | 0.3 |
| Eicher Motors | 7611 | 22 | 27.3 | 27.9 | 18 | 16 | 24 | 24 | 1.4 |
| Interglobe Aviation (Indigo) | 5022 | 21 | 17.4 | 59.0 | NA | NA | -29 | 67 | 0.0 |
| Pidilite Industries | 1580 | 17 | 46.5 | 58.2 | 21 | 17 | 23 | 25 | 0.9 |
| Tech Mahindra | 1410 | 15 | 16.8 | 19.4 | 38 | 23 | 17 | 23 | 3.4 |
| SMIDs | | | | | | | | | |
| Havells India | 1176 | 8 | 35.6 | 48.5 | 10 | 17 | 19 | 19 | 0.0 |
| Coromandel International | 2015 | 6 | 20.7 | 18.0 | 11 | 20 | 17 | 18 | 0.6 |
| Max Financial Services Ltd | 1669 | 6 | 8.8 | 8.7 | 28 | 11 | 9 | 10 | 0.0 |
| Page Industries | 39975 | 5 | 43.3 | 58.8 | 18 | 13 | 55 | 53 | 1.5 |
| Balkrishna Industries | 2244 | 5 | 23.7 | 24.0 | -2 | 16 | 13 | 14 | 0.7 |
| JK Cement | 5504 | 5 | 30.5 | 24.7 | 14 | 15 | 16 | 16 | 0.3 |
| Container Corporation of India | 472 | 4 | 23.5 | 29.1 | -1 | 11 | 10 | 11 | 0.0 |
| PG Electroplast | 561 | 2 | 39.5 | 40.0 | 29 | 32 | 8 | 11 | 0.1 |
| Aarti Industries | 485 | 2 | 23.6 | 27.3 | -1 | 34 | 7 | 11 | 0.3 |
| Gravita India | 1722 | 1 | 21.8 | 21.9 | 26 | 22 | 17 | 18 | 0.5 |

Source: Nuvama Research; Note: Pricing is as of 19th June, 2026; estimates used are Nuvama estimates; PB has been used as a valuation metric for ICICI Bank and, Shriram Finance.

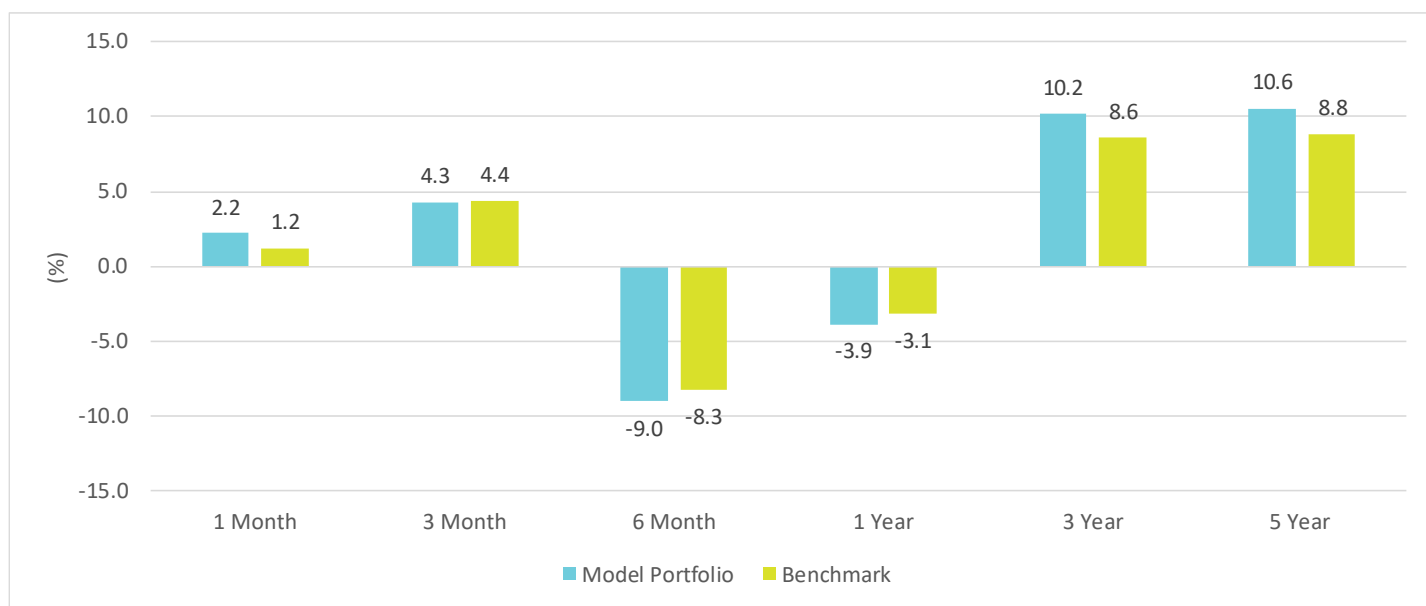
Exhibit 44: Nuvama Institutional Equities' Model Portfolio

| Stocks | Mkt Cap | Price | Portfolio wt | Nifty wt | Rel wt | P/E (x) | P/E (x) | P/B (x) | P/B (x) | RoE (%) | RoE (%) | Div Yld (%) |
|-----------------------------------|----------|-------|--------------|--------------|--------------|---------|---------|---------|---------|---------|---------|-------------|
| | (USD bn) | (INR) | (%) | (%) | (bps) | FY27E | FY28E | FY27E | FY28E | FY27E | FY28E | FY28E |
| Cement | | | 5.3 | 2.3 | 300 | | | | | | | |
| Grasim | 23 | 3150 | 3.1 | 1.1 | 200 | 76 | 149 | 3.7 | 3.7 | 5.0 | 2.5 | 0.3 |
| Ambuja cements | 11 | 424 | 1.2 | 0.0 | 120 | 41 | 36 | 1.8 | 1.7 | 5.2 | 5.9 | 0.4 |
| JK Cement | 5 | 5504 | 1.0 | 0.0 | 100 | 42 | 30 | 5.3 | 4.6 | 13.5 | 16.1 | 0.3 |
| Consumer | | | 13.2 | 10.7 | 250 | | | | | | | |
| Titan Company | 42 | 4420 | 2.7 | 1.7 | 100 | 60 | 51 | 18.4 | 14.0 | 35.4 | 31.4 | 0.0 |
| Nestle | 29 | 1415 | 1.9 | 0.9 | 100 | 65 | 56 | 45.2 | 38.9 | 75.4 | 74.9 | 1.5 |
| Interglobe Aviation (Indigo) | 21 | 5022 | 2.0 | 1.0 | 100 | 51 | 17 | 17.7 | 8.8 | 41.7 | 67.4 | 0.0 |
| Havells India | 8 | 1176 | 1.0 | 0.0 | 100 | 44 | 36 | 7.3 | 6.7 | 17.3 | 19.5 | 0.0 |
| Pidilite | 17 | 1580 | 1.0 | 0.0 | 100 | 55 | 46 | 12.9 | 11.2 | 24.2 | 25.2 | 1.0 |
| Britannia | 13 | 5195 | 1.0 | 0.0 | 100 | 43 | 37 | 21.1 | 18.0 | 52.8 | 52.6 | 1.8 |
| Page Industries | 5 | 39975 | 1.0 | 0.0 | 100 | 48 | 43 | 24.7 | 21.1 | 55.3 | 52.6 | 1.7 |
| ITC | 39 | 293 | 2.6 | 2.6 | 0 | 19 | 17 | 4.8 | 4.6 | 26.6 | 28.0 | 4.8 |
| Pharma and Healthcare | | | 7.2 | 4.7 | 250 | | | | | | | |
| Sun Pharma | 47 | 1838 | 3.3 | 1.8 | 150 | 33 | 27 | 4.7 | 4.3 | 14.9 | 16.5 | 1.3 |
| Torrent Pharma | 16 | 4430 | 1.0 | 0.0 | 100 | 65 | 49 | 16.3 | 12.8 | 27.7 | 29.4 | 0.4 |
| Dr Reddy Labs | 11 | 1272 | 1.7 | 0.7 | 100 | 23 | 17 | 2.5 | 2.2 | 12.0 | 14.5 | 0.6 |
| Apollo Hospitals | 13 | 8490 | 1.2 | 0.8 | 40 | 49 | 37 | 10.1 | 8.0 | 23.1 | 24.1 | 0.0 |
| Information Technology | | | 10.2 | 7.7 | 250 | | | | | | | |
| Tech Mahindra | 15 | 1410 | 2.3 | 0.8 | 150 | 18 | 17 | 4.0 | 3.7 | 22.8 | 22.8 | 3.4 |
| Infosys Technologies | 45 | 1051 | 4.4 | 3.4 | 100 | 15 | 14 | 4.6 | 4.2 | 32.0 | 31.2 | 4.8 |
| LTIMindtree | 12 | 3833 | 1.0 | 0.0 | 100 | 18 | 16 | 4.2 | 3.6 | 24.9 | 24.0 | 2.0 |
| Tata consultancy services | 81 | 2125 | 2.5 | 2.0 | 50 | 14 | 13 | 6.8 | 6.4 | 50.2 | 49.9 | 5.6 |
| Chemicals | | | 2.0 | 0.0 | 200 | | | | | | | |
| Coromandel International | 6 | 2015 | 1.0 | 0.0 | 100 | 25 | 21 | 3.9 | 3.4 | 17.2 | 17.6 | 0.7 |
| Navin Fluorine International Ltd. | 4 | 7494 | 1.0 | 0.0 | 100 | 46 | 37 | 8.0 | 6.6 | 12.0 | 12.0 | 0.3 |
| Energy | | | 9.8 | 9.8 | 0 | | | | | | | |
| Reliance Industries | 188 | 1310 | 9.8 | 8.0 | 180.0 | 23 | 20 | 1.9 | 1.7 | 10.2 | 11.0 | 0.6 |
| BFSI | | | 36.3 | 36.3 | (10) | | | | | | | |
| Kotak Mahindra Bank | 42 | 399 | 4.2 | 2.7 | 150 | 24 | 21 | 2.0 | 1.7 | 11.6 | 12.0 | 0.2 |
| Shriram Finance | 25 | 1002 | 2.8 | 1.3 | 150 | 16 | 13 | 2.0 | 1.8 | 16.0 | 14.7 | 1.7 |
| Max Financial Services Ltd | 6 | 1669 | 1.5 | 0.0 | 150 | 109 | 96 | 9.6 | 8.8 | 9.2 | 9.6 | 0.0 |
| ICICI Bank | 102 | 1347 | 10.0 | 8.8 | 120 | 18 | 16 | 2.5 | 2.2 | 15.2 | 14.9 | 1.3 |
| Indusind bank | 8 | 947 | 1.2 | 0.0 | 120 | 17 | 14 | 1.1 | 1.0 | 6.4 | 7.4 | 0.0 |
| Axis Bank | 45 | 1358 | 3.5 | 3.5 | 0 | 13 | 11 | 1.8 | 1.5 | 14.2 | 15.3 | 0.2 |
| HDFC Bank | 127 | 780 | 10.0 | 10.9 | -90 | 14 | 12 | 1.9 | 1.7 | 14.2 | 15.2 | 2.4 |
| State Bank of India | 101 | 1035 | 3.1 | 3.9 | -80 | 11 | 9 | 1.7 | 1.5 | 14.7 | 16.1 | 2.4 |
| Telecom and Internet | | | 7.0 | 7.1 | 0 | | | | | | | |
| Eternal | 27 | 264 | 2.7 | 1.7 | 100 | 117 | 47 | 7.2 | 6.2 | 6.4 | 14.2 | 0.0 |
| Bharti Airtel | 123 | 1911 | 4.3 | 5.3 | -100 | 27 | 23 | 6.5 | 5.6 | 26.2 | 26.0 | 2.2 |
| Metals & mining | | | 1.4 | 3.9 | (250) | | | | | | | |
| Tata Steel | 26 | 199 | 1.4 | 1.5 | -10 | 12 | 12 | 2.1 | 1.9 | 18.9 | 17.0 | 2.2 |
| Utilities | | | 0.0 | 2.8 | (280) | | | | | | | |
| Autos | | | 3.7 | 6.7 | (300) | | | | | | | |
| Tata Motors Passenger Vehicles | 14 | 360 | 1.7 | 0.7 | 100 | 10 | 6 | 1.1 | 0.9 | 11.1 | 17.0 | 3.1 |
| Eicher Motors | 22 | 7611 | 2.0 | 1.0 | 100 | 31 | 27 | 7.1 | 6.2 | 24.4 | 24.1 | 1.6 |
| Industrials | | | 3.9 | 7.9 | (400) | | | | | | | |
| Container Corporation of India | 4 | 472 | 1.0 | 0.0 | 100.0 | 27 | 23 | 2.7 | 2.6 | 10.0 | 11.3 | 0.0 |
| Larsen & Toubro | 61 | 4209 | 2.9 | 4.5 | -160.0 | 32 | 25 | 4.7 | 4.1 | 21.2 | 20.5 | 0.0 |
| Model Portfolio | | | 100.0 | 100.0 | 0.0 | | | | | | | |
| Nifty | | | | 100 | 0 | | | | | | | |

Source: Nuvama Research;

Note: Pricing is as of 19th June, 2026; For Kotak Mahindra consolidates figures are considered

Exhibit 45: Model Portfolio Performance



Source: Nuvama Research; Note: Pricing is as of 19th June, 2026.

Model portfolio: Disclaimers and Disclosures

Nuvama Institutional Equities Model Portfolio is a model portfolio maintained by the Strategy team of the Institutional Equities’ research desk of Nuvama Wealth Management Limited (“NWML”). The purpose of the model portfolio is to guide investors on sectoral preferences and review the team’s recommendations on a regular basis.

The portfolio assigns weights across stocks across based on sectors and stocks:

- Universe: NSE200 Index.
- Methodology: Based on fundamental analysis of macroeconomic and stock-specific factors, valuations and earnings outlook, the sectors and stocks are assigned a weight relative to the benchmark.
- Labelling: The portfolio is labelled as ‘Nuvama Institutional Equities Large-cap Model Portfolio’ and includes all sectors and stocks within the framework of NSE200. Only those stocks covered by Nuvama Institutional Equities’ research desk are part of the portfolio.
- Launch date: June 22, 2026.
- Investment horizon: Recommendations are on a 12-month horizon.
- Frequency of portfolio review: About once a quarter, but frequency could vary based on macro/stock developments.
- Risk disclosures: The portfolio carries general systemic and market risks such as volatility and lack of liquidity, and may or may not mitigate Model Portfolio performance in adverse market conditions, unforeseen news announcements and rumours, among others.
- Benchmarking: Weights by sector in the portfolio are measured against a baseline of stock weights in the Nifty Index. The weights are calculated on every update.
- Market data sources: Bloomberg, Capitaline.

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Abneesh Roy

Head of Research Committee

Abneesh.Roy@nuvama.com
