

Special Report

# India Inc.: Sentiment & Outlook for 2025

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March 2025

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# Executive Summary

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01

## Indian Markets Performance

- Over Feb-24 to Feb-25, S&P 500 led the major indices by generating 23% return, while India generated -1%. India's underperformance was magnified due to strong FII flows.
- However, over the last decade India outperformed major EMs with huge return differentials (8% for India and 1% for EMs).
- SMIDs (Small and Mid Caps) has always led India's long-term growth.
- BFSI and Pharma led the overall growth for India Inc. over the last 1-year by generating 11% and 6% returns, respectively. Media and Energy turned out to be the biggest laggards.
- Recent FII selling led to the return and valuation moderation for most sectors.

02

## Indian Markets Sentiment

- After strong buying in CY23, FIIs became record sellers in CY24 and the trend continued in YTD-25, with outflows matching CY22 levels in just 2 months to 2025.
- FII selling has been broad-based across sectors in YTD-25, with BFSI, Infra and Retail sectors being the worst hit.
- While DIIs followed its contrarian stance v/s FIIs and achieved an all-time high flow in CY24.
- After 3 sluggish years of primary market issuances, the mainboard IPOs remained buoyant in 2024 with 77 listings.
- Until YTD-25, 9 mainboard IPOs have been floated, and we expect the 2024 momentum to continue in 2025.

03

## Premium valuations start to moderate

- India Inc. witnessed a strong bull-run post-COVID as the Nifty 1-yr forward EPS surged from an all-time low of 12.4x in May-20 to 22.9x in Oct-21, implying an 84% rally.
- However, this rally was largely sentiment driven, as over the said period, the EPS grew from Rs 559.9 to Rs 836.1, implying 49% growth.
- This post-COVID rally is now moderating, especially since the start of CY24. The multiple from an all-time high of 22.9x in 2021 moderated to 18.4x, implying a 1.3% premium to its 10-yr average.
- We believe this moderation is sentiment driven as the 1-yr forward EPS grew 44% over the said period. Better investment returns in the US and cheap investment opportunities in other EM nations resulted in this moderation caused by sharp FII selling.

04

## Sectors to watch out for in 2025

- **Quick-commerce:** Despite investor pushbacks, the recent customer habits suggest that this industry is likely to stay for the long haul.
- **Autos:** Post-COVID outperformance driven by PVs, despite the biggest market – 2Ws stayed flat. EVs are growing but still at a nascent stage. Premiumization will be the key growth driver for PVs and Autos.
- **Cement:** This is a long-term structural play, and the focus should turn to profitability for major players, as the sector is witnessing pricing power due to rising consolidation and higher clinker usage.
- **EMS:** India is upping its ante in the EMS space via robust government initiatives and the availability of skilled and cost-effective labor.

# Indian Markets Performance

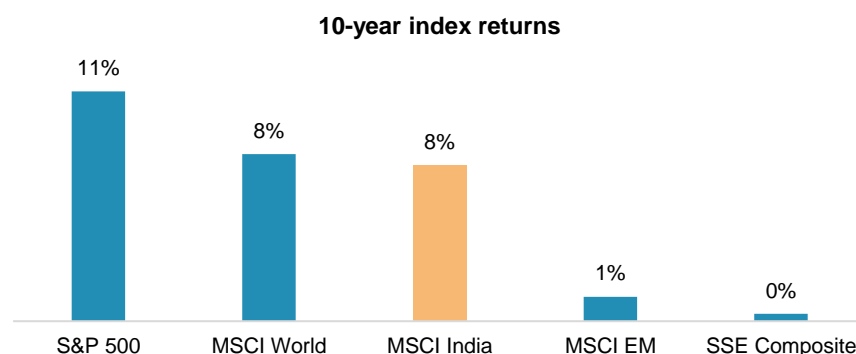
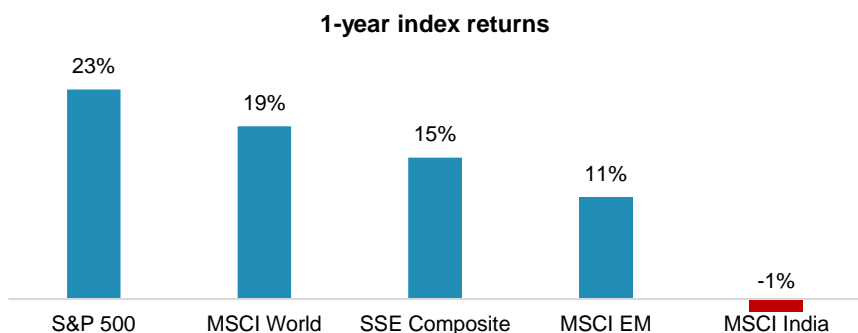
Outperforms major EMs over a  
long-term horizon, led by SMIDs



## Decadal outperformance for India v/s major EMs, driven by steep returns from SMIDs

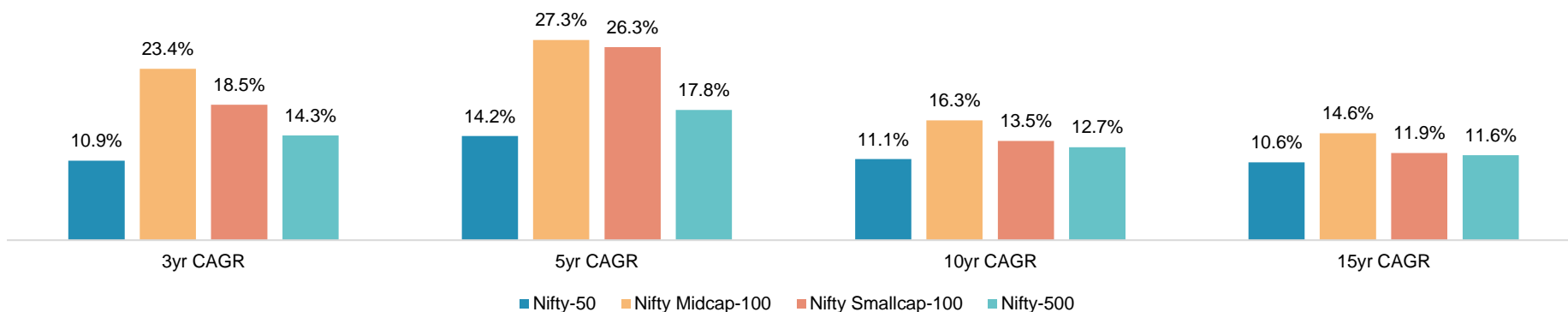
Over Feb-24 to Feb-25, S&P 500 lead the major indices with 23% return, while India underperformed due to strong FII outflows...

...however, over the last decade, India's growth story remains intact as it outperformed major EMs with huge return differentials



Source: Bloomberg, MSCI returns in USD

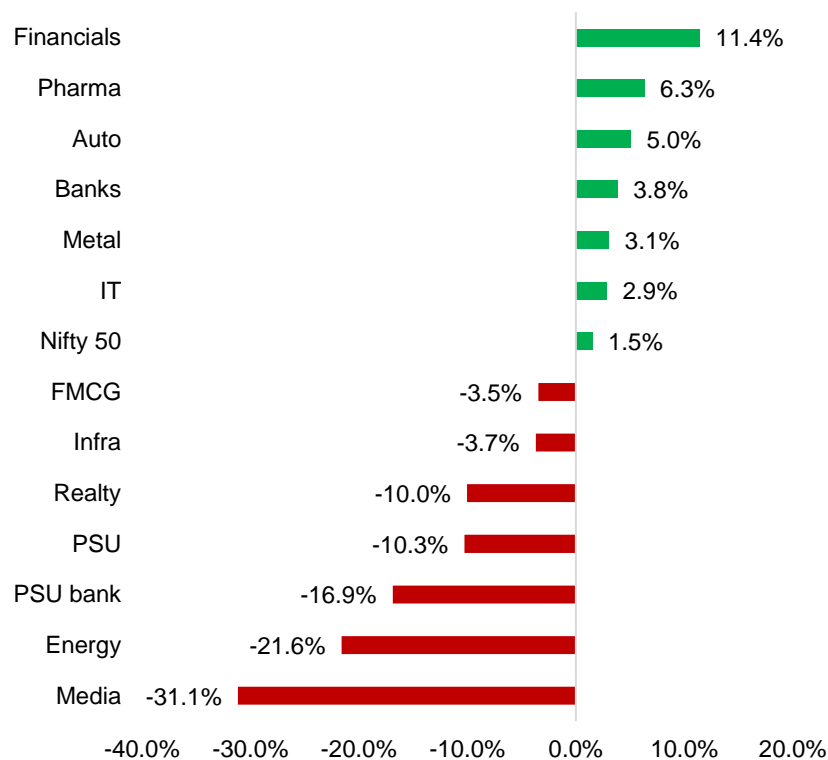
Over a long-term investment horizon, SMIDs (Small & Midcaps) outperformed the broader market index and the large caps with substantial return differentials



Source: Yahoo Finance. Note: 2024 is the base year for CAGR calculations

## Sectoral movements: 7 out of 13 sectors reported underperformance over the last 1-year

BFSI and Pharma were the major sectors which outperformed the Nifty, while Media and Energy were the biggest laggards; Recent FII selling led to the moderation of returns and the valuations



Sectoral Index	Current P/E	10y average P/E	Prem/Disc
<b>Nifty</b>	<b>18.4</b>	<b>18.2</b>	<b>1.3%</b>
IT	26.0	21.0	23.8%
Metal	13.3	11.0	20.4%
Energy	13.1	11.5	14.1%
Realty	30.6	26.9	13.7%
Pharma	25.9	23.6	9.5%
FMCG	36.2	33.4	8.4%
Auto	20.5	19.4	5.5%
PSU	10.2	9.7	4.8%
Infra	19.1	18.5	3.1%
Media	18.3	22.6	-18.9%
Financials	14.9	18.7	-20.2%
Banks	11.5	16.0	-28.2%

Source: Bloomberg

# Indian Market Sentiment

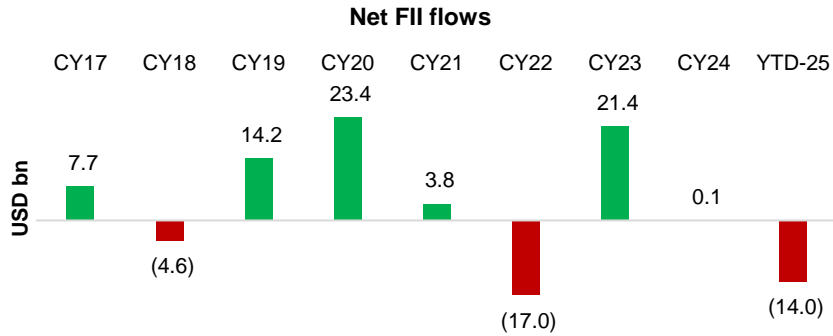
FIIIs turn record sellers in CY24  
and YTD-25, while DIIs take a  
contrarian stance



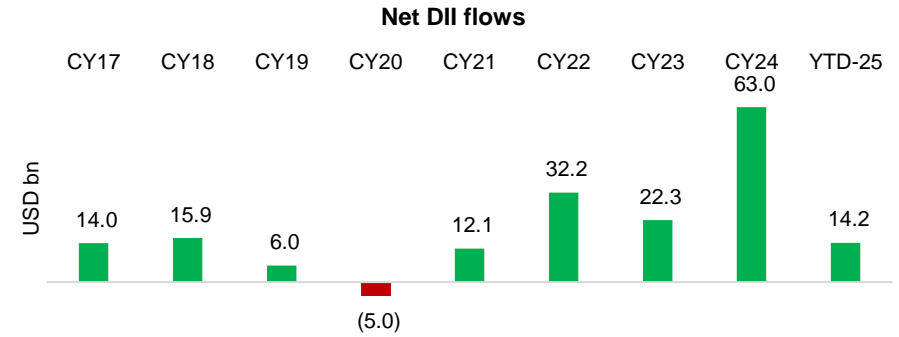
# FII continue their rhythm of strong selling in YTD-25, while DIIs remained strong buyers

After strong buying in CY23, FIIs became record sellers in CY24; In just 2 months of 2025, outflows nearly match CY22 levels

...however, DIIs followed its contrarian stance versus FIIs and achieved an all-time high in terms of flows

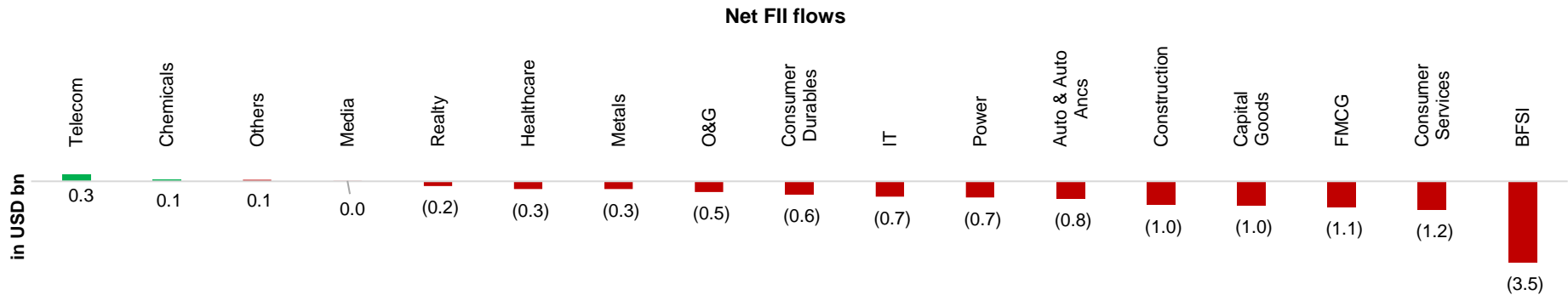


Source: NSE, Aranca Research



Source: Moneycontrol, Aranca Research

FII selling is broad-based across sectors in YTD-25; BFSI, Infra and Retails sectors are the worst hit

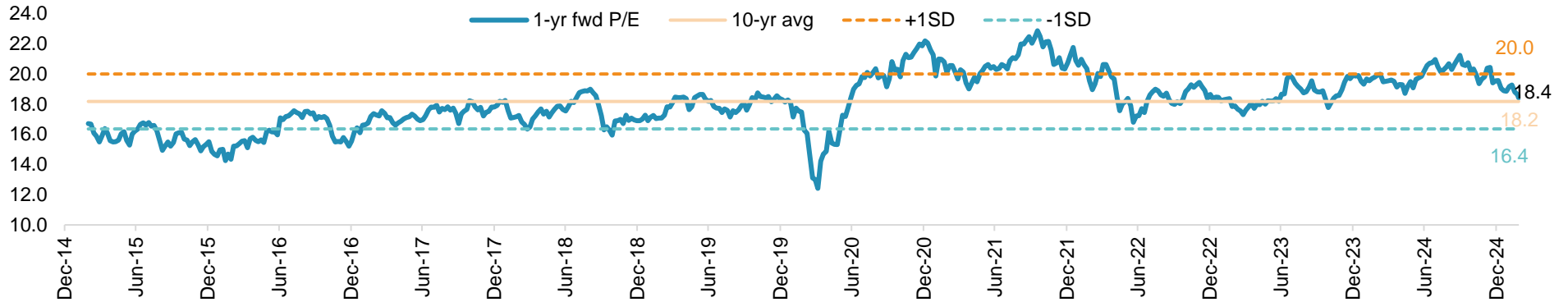


Source: NSE, Aranca Research



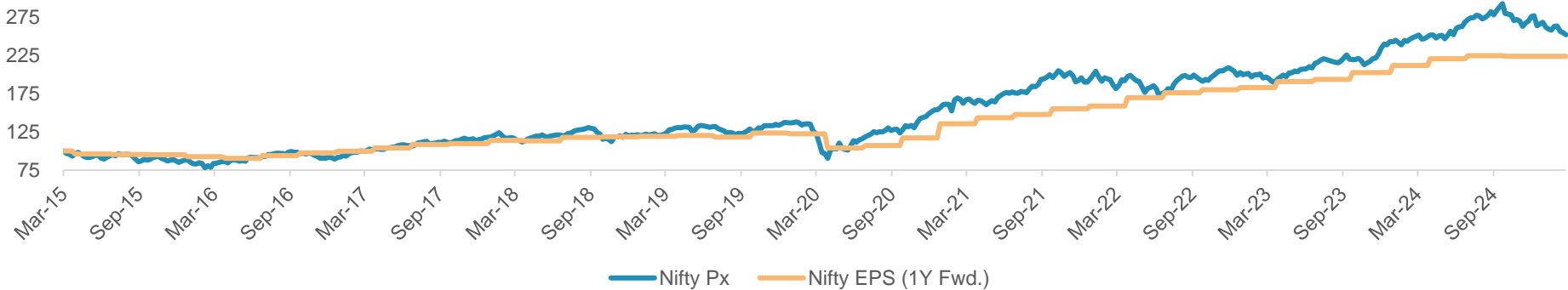
## Post-COVID rally is moderating, driven by sentiment and valuation normalization

The post-COVID rally of India Inc has started to moderate since the start of CY24; The NIFTY multiple, which peaked at 22.9x in 2021, moderated to 18.4x, reflecting only a 1.3% premium to its 10-yr average...



Source: Bloomberg

Nifty EPS has historically correlated with the index, but PE expansion outpaced fundamentals post-COVID. Valuations are in the process of normalization. Better investment returns in the US and cheap investment opportunities in other EM nations has resulted in FII selling.

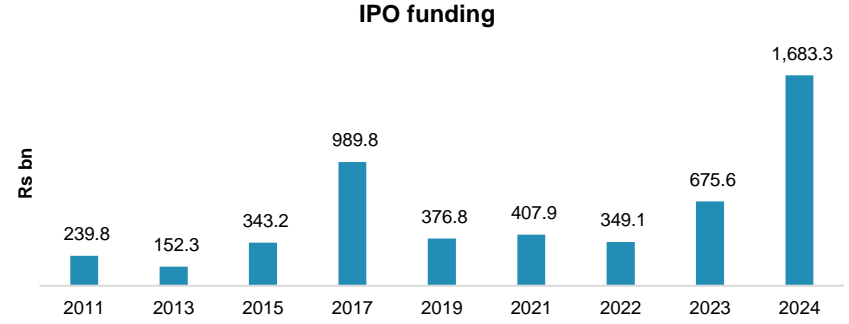
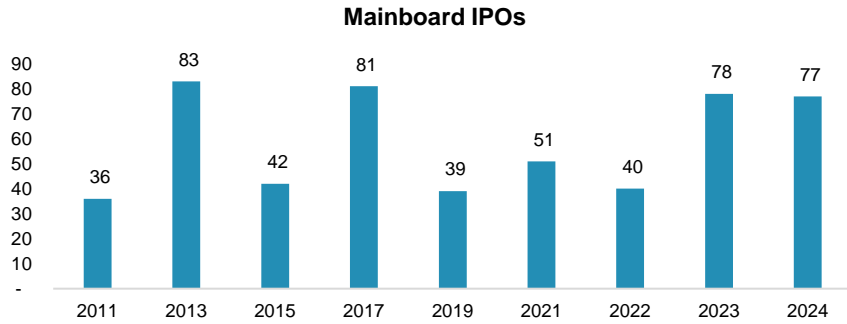


Source: Bloomberg, indexed to 100 as of Mar 2015

# Primary market issuances remain buoyant with limited impact in overall market

After 3 years of sluggish primary market issuances, the mainboard IPOs remained buoyant in 2024 and maintained the 2023 rhythm...

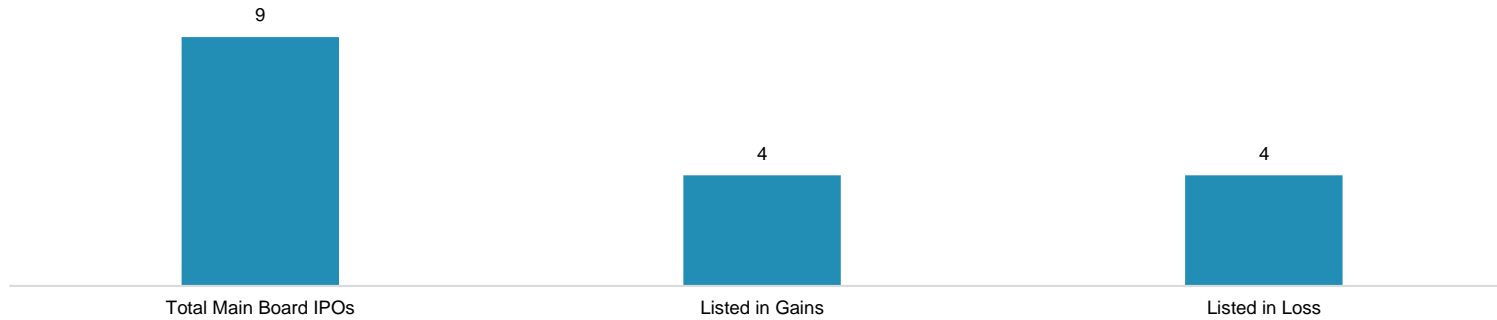
...but the value of funding increased almost .5x on YoY basis, thus demarking the investor confidence on India Inc.



Source: Investorgain, Aranca Research

Source: Investorgain, Aranca Research

Till YTD-25, 9 companies have floated their IPOs on the mainboard, and we expect the strong momentum witness in 2025, to continue in 2025



Source: Aranca Research

# Sectors to watch out for in 2025

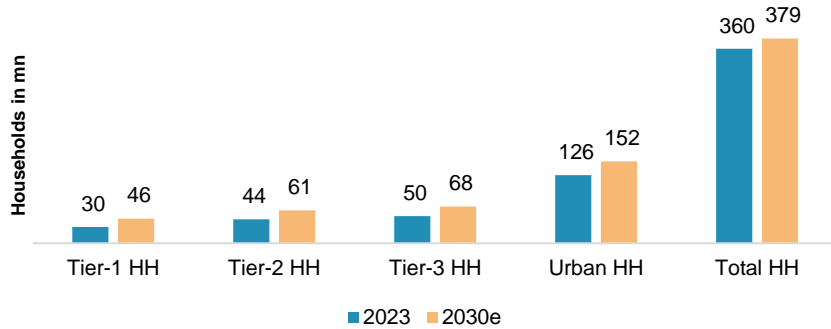
**Retail:** Despite investor pushbacks for Q-comm, recent customer habits suggests that it is here to stay for the long haul



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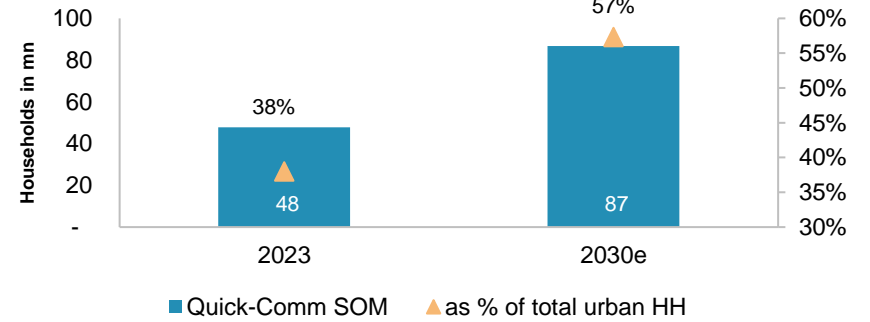
# Quick Commerce: Tailor-made concept for urban Indians which is likely to stay in the long haul

The evolution of income profile, expanding middle class, elimination of poverty and increased consumption by high and upper-mid income...



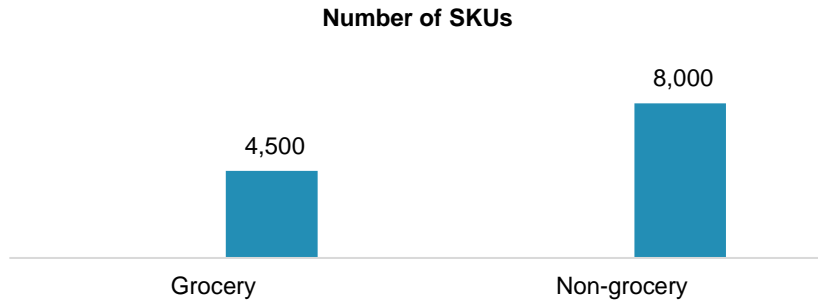
Source: Aranca Research

...improved affordability of quick commerce and the expansion of SOM from the current 48mn HH to 87mn by 2030e



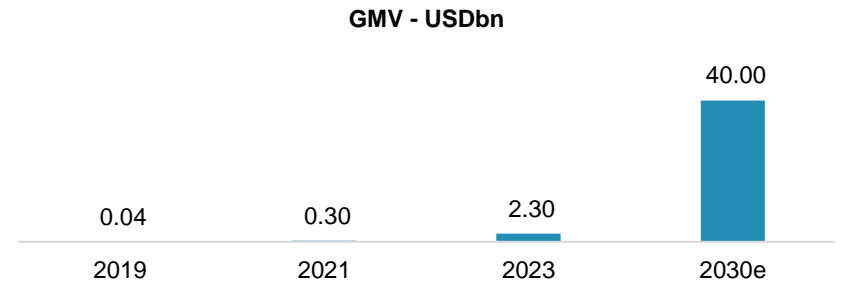
Source: Aranca Research

The quick-commerce industry pivoted their SKU skew to non-grocery drastically...



Source: Aranca Research. Note: Blinkit assumed as proxy for the quick-commerce industry. SKUs denotes an approximate number for Thane region

...which, along with new customers can drive the market size to \$40bn by 2030e at a 50% CAGR over 2023-30e



Source: Deloitte, Aranca Research

# Sectors to watch out for in 2025

**Manufacturing:** PVs to drive Auto momentum, while Cements to gain from strong pricing power amid rising consolidation and higher clinker usage. India is on the brink of a transformative shift in the EMS space.

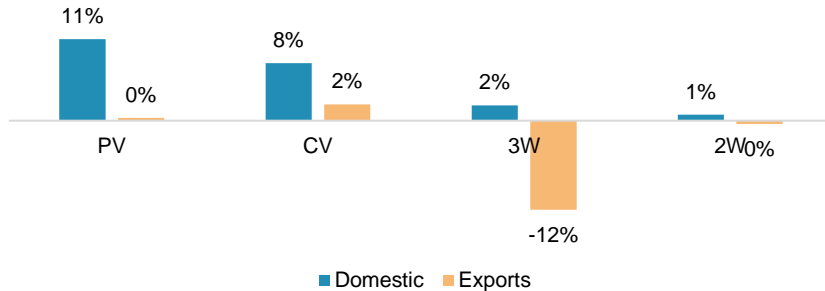


# Autos: PVs to drive the market growth led by premiumization, while EVs are still at a nascent stage

Auto outperformance has been majorly led by PVs post-COVID, while 2W remained flat in the past 4 years

The growth in PV was driven by premiumization as the share of SUV volumes rose compared to entry level cars...

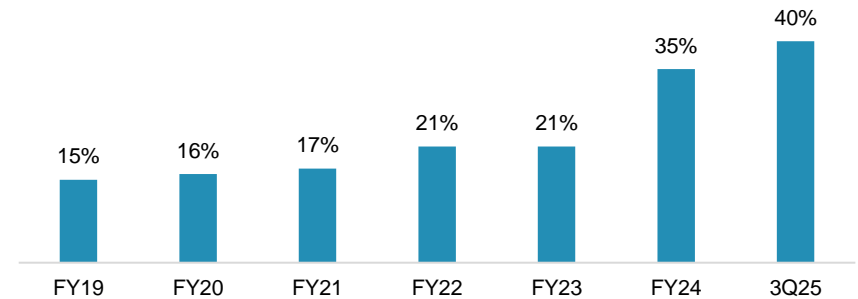
Volume growth (FY20-24)



Source: SIAM

... which is reflected in better profitability across PV players. Product mix, cyclical tailwinds also contributed to better profitability

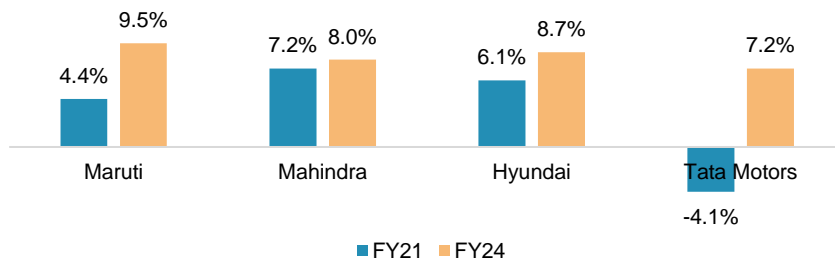
Maruti SUV mix as % of total volumes



Source: Aranca Research

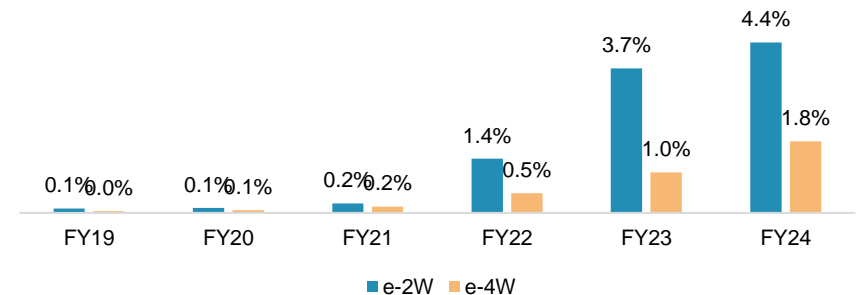
Despite EVs growing at a decent rate, its still at a nascent stage; Sectoral shift could grow faster for 2W EVs while PVs require catching up

Profit margin trends



Source: Capital IQ

EV penetration



Source: SIAM, SMEV, Aranca Research

# Cement: Pricing power to strengthen, driven by rising consolidation and high clinker usage

In the battle for market share, the top players looked to inorganic capacity addition in the past few years...

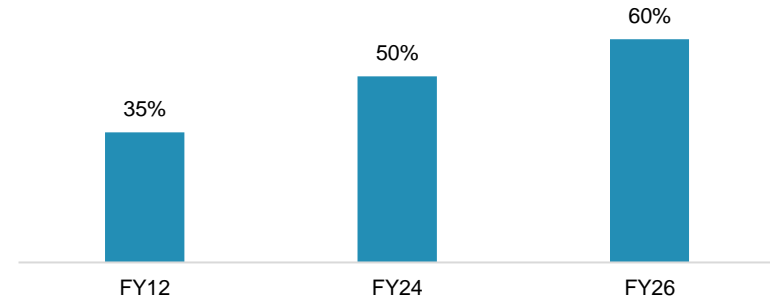
Major acquisitions last year (2024)

Target	Acquirer	Capacity (mt)	EV/Ton (USD)
Penna Cement	Ambuja (Adani)	14	89
Orient Cement	Ambuja (Adani)	8.5	114
India Cement	Ultratech	14.5	112
Star Cement	Ultratech	9.7	115
Kesoram Industries	Ultratech	10.8	85

Source: Industry, CareEdge

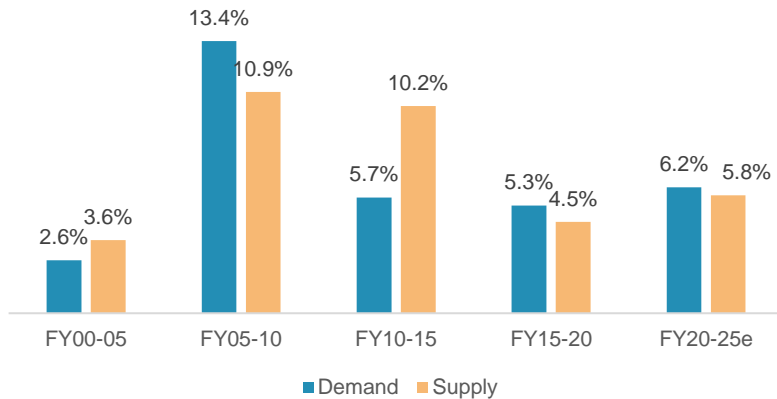
... which increased the top-4 capacity share from 35% in FY12 to 50% in FY24.

Capacity share of top 4 players



Source: CareEdge

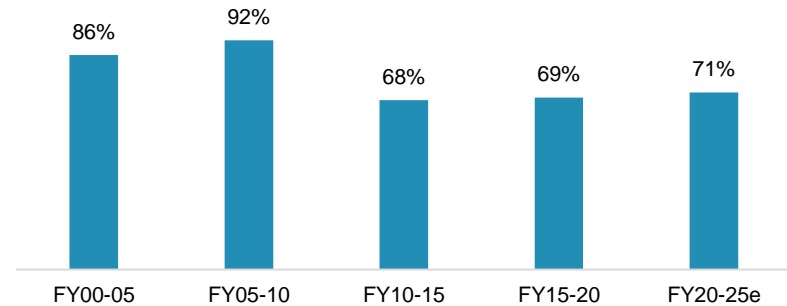
Demand remained sub-optimal last year due to election-related spending cuts which lowered consumption



Source: JM Financial

The cement sector is a long-term structural play, and focus should turn to profitability for the major players

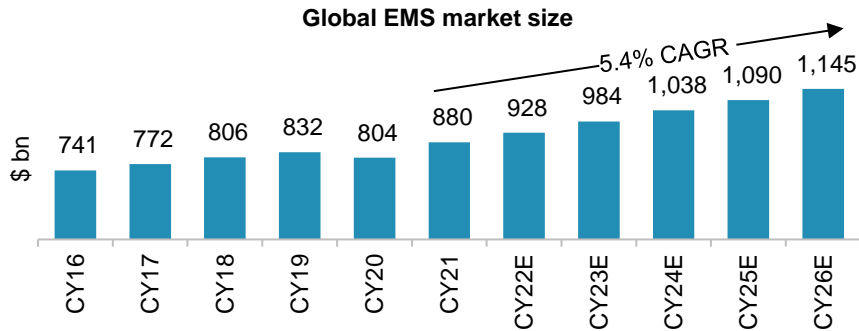
Utilization



Source: JM Financial

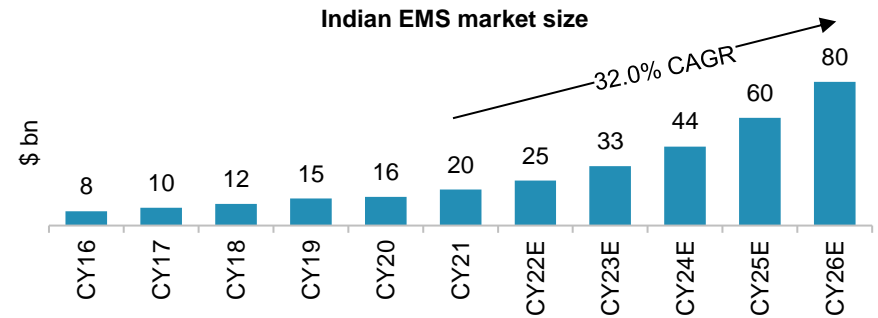
# EMS: India at the cusp of an unprecedented transformation

Global EMS market to outpace in-house manufacturing, expanding at 5.4% CAGR, versus 4.6% CAGR for in-house manufacturing, over CY21-26E



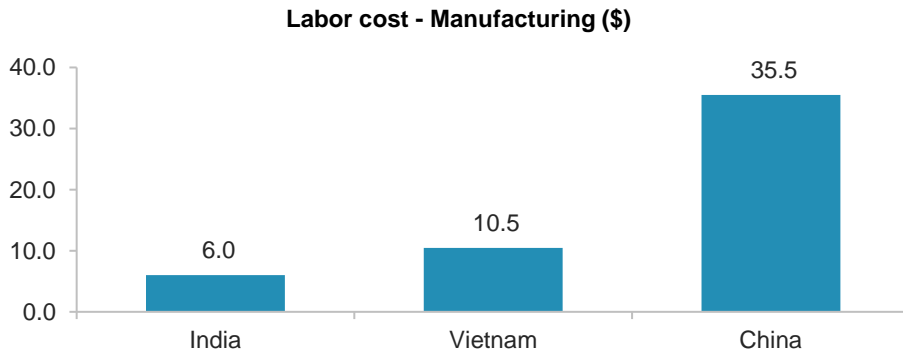
Source: Avalon Technologies RHP, Aranca Research

Indian EMS market accounts for 16% of electronics market, and could increase to 28%, with a steady CAGR of 32.0% over CY21-26E



Source: Cyient DLM RHP, Aranca Research

India benefits from the availability of skilled and cost-effective labor, as Vietnam/China undergo lack of skilled labor and elevated labor cost



Source: Avalon Technologies RHP. Note: Data as on 2021

Favorable domestic demand, digitized economy and robust government initiatives are key drivers for gearing up India to be the next EMS hub



Source: Deloitte, Aranca Research





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