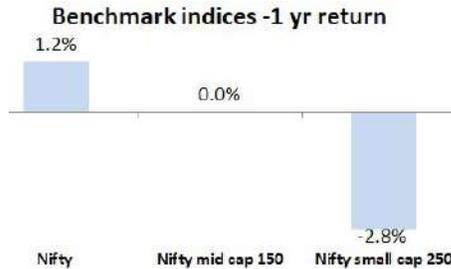


**Tariffs be damned, fundamentals will always prevail. Stay Invested to reap long-term rewards.**

**Introduction**

Indian Equity markets since reaching a peak in September 2024, has witnessed a slump that has impacted 1 year return, Nifty 50, the benchmark index, is flat for the last 12 months, while the mid and small cap are marginally down. The indices don't tell the full story though, as individual stocks have endured much more damage as visible in most portfolios.



As mentioned in our earlier report in June 2025, near term trigger may be due to tariff related uncertainty after regime change in USA, in our opinion, the major concern for this muted market return is lack of corporate earnings growth that we have witnessed since the beginning of FY25. Except for select sectors, Nifty sales and earnings growth has been dismal during the same period.

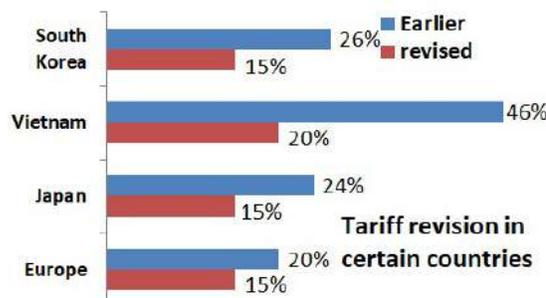
We believe that such periods of low earnings growth is not a new phenomenon and is a part of business cycles that have been repeated quite often in the past. Investors should have patience to bear such cycles till new growth trend emerges. The report also suggests that timing/stopping investments based on such market cycles may impact long term return and it is better to stay invested at all points of time with a focus on longer horizons that can help create significant wealth.

**Tariff related uncertainties, a near term event**

India is among the few countries that have been charged with a tariff of 50% from the earlier 25%, by the USA. But we believe that tariff (if realized) may only have a marginal impact on the economy due to the following factors

- India's goods trade with US is around USD 120 bn as on FY24. That is only 3% of India's overall GDP. This makes India's GDP growth quite resilient to such external shocks
- Even within this, certain sectors like Pharmaceuticals, electronics and petroleum products that together contributes nearly 21% of the exports are exempted from tariffs

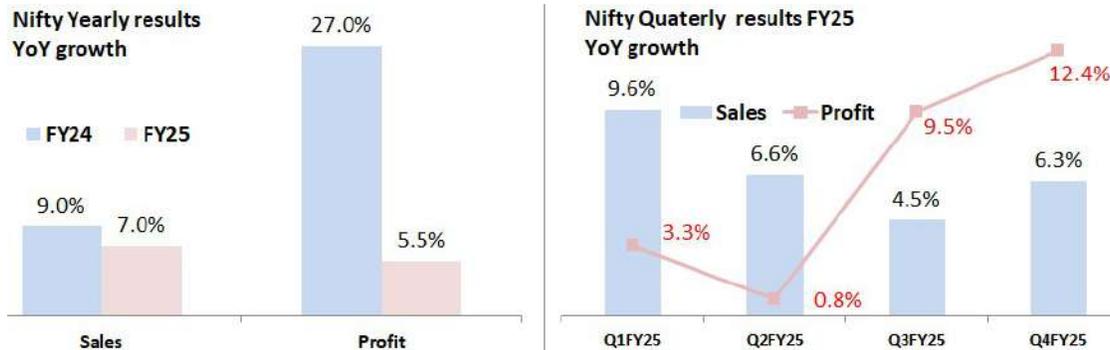
According to the RBI, India's GDP growth expectation of 6.5% in FY26, most experts believe that the tariff related impact on growth is limited to 20bps if they are realized. However, we have seen instances where the tariffs in other countries were substantially reduced after continuous negotiations.



Therefore, we are positive on fruitful negotiation between the two countries albeit with near term uncertainties.

**Muted earnings growth**

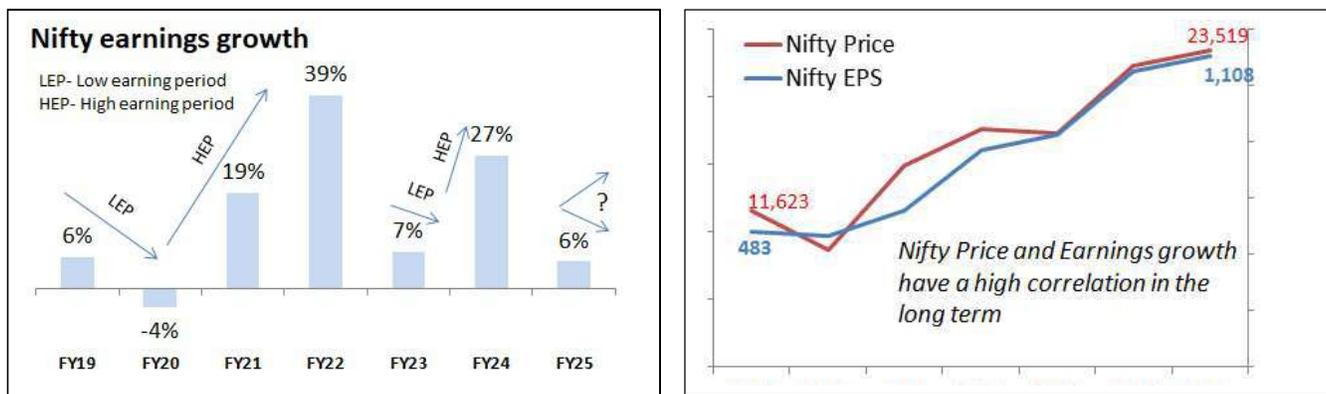
Although tariff related uncertainties have impacted market sentiment, we believe the key reason for muted market performance since last year is weak corporate earnings growth. Companies representing Nifty 50 saw a decline in sales growth from 9% in FY24 to 7% in FY25. However, Nifty earnings growth significantly declined from 27% in FY24 to 5.5% in FY25. Decline in earnings were predominantly led by companies representing consumer discretionary, staples, energy and material sectors.



Low earnings growth has resulted in a significant selling especially by FIIs that have cumulatively sold Rs.90,000 cr. in 2025. This selling was also due to a premium valuation that the benchmark indices commanded until September 2024 and couldn't be sustained.

**Poor earnings growth is not a new phenomenon**

This is not the first time that we are witnessing low earnings growth.

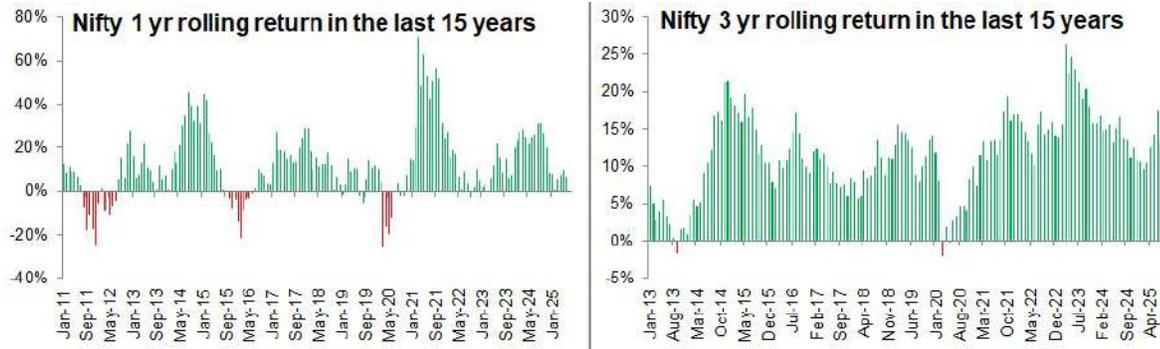


As seen from the chart Nifty companies have witnessed low earnings growth in various time periods in the past few years. In fact, we have witnessed 2 consecutive years of low growth in FY19 and FY20 before growth resumed in FY21 and FY22. This largely translated to growth in Nifty share price that after muted return in FY19 and FY20, generated robust returns in subsequent years. These data sets suggest that recent slowdown in earnings is a temporary phenomenon, part of business cycles, that may eventually be followed by earnings growth recovery and thereby resuming Nifty's upward journey of high inflation beating return since last 3 decades.

**Time in the market is more important than timing the market**

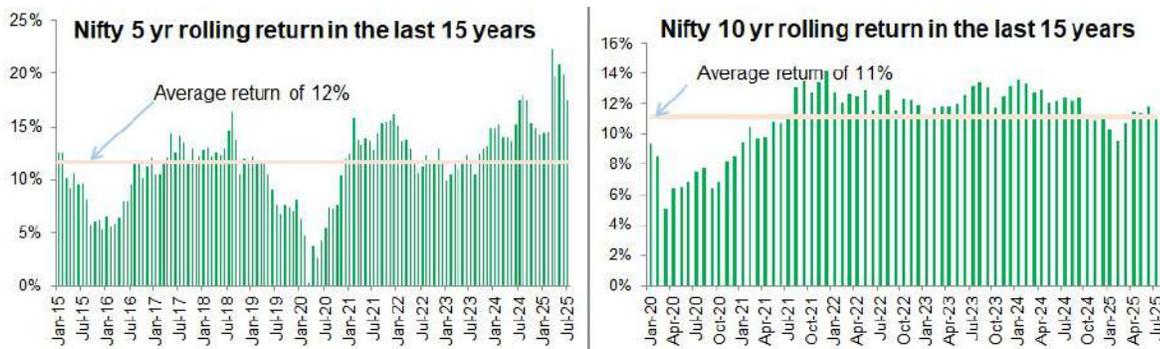
Investors occasionally react by stopping SIPs or avoid lump sum purchases based on such short-term market volatility. We believe that if the investment horizon is long term, the probability of creating high inflation beating returns and wealth is very high. In fact, our data suggests that longer the investment horizon, higher the chance of double-digit inflation beating positive returns and significant improvement in overall portfolio volatility.

Even in the short term we see a steady shift to positive returns



As seen from the graph, Nifty 1-year returns have witnessed reasonable volatility showing negative returns quite a few times. But the moment, investment horizon shifts to three years, the probability of generating negative returns reduces significantly as we have witnessed only 2 instances in the last 15 years where Nifty has generated negative returns.

Probability is extremely high to generate positive return as the investment horizon changes to long term

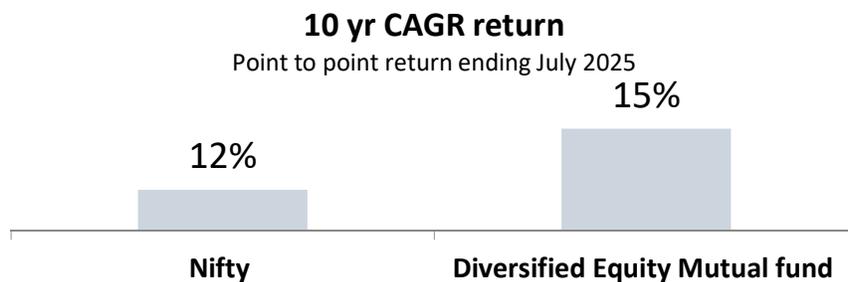


As the investment horizons improves to long term of 5 years and above the probability of generating negative return is extremely low. As seen from the above graph, there have been zero instances in the last 15 years where 5 year and 10 year rolling return of Nifty were negative. **Although there are occasional times when returns are lower than long term average but holding it for few more years would improve the return to long term average.**

**Therefore, longer investors stay in the market, higher the chances of him/her generating healthy inflation beating returns with very low volatility and creating wealth that can fulfil long term goals and aspirations**

**Equity Mutual funds have historically outperformed Nifty**

Please note that above returns are for benchmark index Nifty. Historically, a diversified portfolio of Equity mutual funds has generated an alpha of 3-4% over Nifty in the long term. Following is a graph of 10-year return between Nifty and a portfolio of diversified equity funds. Therefore, we believe that investing in a diversified portfolio of equity mutual funds can deliver better returns.



## Conclusion

As mentioned earlier, a major reason for market to generate high inflation beating return in the long term is due to growth in corporate earnings that India has witnessed in the past few decades. India's real GDP has grown at a CAGR of 6.3% in the last 15 years while inflation grew at a CAGR of 6.2% during the same period, translating to a nominal GDP growth of 12% (GDP growth + inflation). This growth in Nominal GDP was largely mimicked by corporates as Nifty earnings during the same period grew at a CAGR of 11%. We believe that this growth momentum in GDP and corporate earnings can sustain over decades as India's GDP per capita currently is at a USD 3,000, when compared to GDP per capita of advanced economies that are above USD 50,000. This offers a multi decadal growth opportunity for the Indian economy which has a very stable macro environment (*low deficit, manageable debt and low inflation*) and is home to one of the youngest populations in the world. Hence, we are highly positive on India equity markets that can generate high inflation beating returns in the long term and suggest investors to have patience and bear this short-term volatility (impacted by tariff related uncertainties and poor corporate earnings growth) to reap rewards in the long term.

***As Benjamin Graham said, In the short run, the market is a voting machine but in the long run it is a weighing machine.*** Inherent fundamentals will always prevail; you have to just survive through the short-term noise and distractions.

## Disclaimer

This report is not directed to, or intended to or use by, any person or entity who is a citizen of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Das Capital Pvt Ltd to any registration or licensing requirements within such jurisdiction. This report is provided for information purposes only. The report is based on information generally available and is deemed reliable but no assurance is given as to its accuracy or completeness. Das Capital Pvt Ltd is not accountable for any decision based on the contents of this report. Neither the information nor the opinions contained are to be construed as an offer to buy and sell securities mentioned above. This report is not to be relied upon in substitution for the exercise of independent judgment. Investors should judge the suitability of the securities to their needs. Das Capital Pvt Ltd makes no representation that the preparation or distribution of this report is in compliance with the legal requirements or regulations of any jurisdiction, and it disclaims all liability in case the preparation or distribution of this report is found to be non-compliant with any such legal requirements or regulations. Das Capital Pvt Ltd may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.