

Indian equity markets in last 3 months have transitioned from watching the AI related disruption to Iran-US-Israel conflict which has led to severe disruption in Energy basket for not just for India but many major economies (as has been highlighted in our earlier note [Iran-Israel/US Conflict – March 2026](#)). The immediate macro risk for India from this conflict is not merely higher crude; it is the combination of Oil, LNG, LPG, freight, petrochemical and foreign-exchange volatility feeding into inflation expectations and hedging costs.

The RBI's response has been surgical rather than blunt: tighter foreign-exchange market rules, restrictions on speculative positioning, continued liquidity management, and temporary trade-credit relief for exporters.

The Government's response has been operational rather than rhetorical: assuring fuel availability, postponing some refinery maintenance, expanding LPG allocation in phases, enabling more flexible domestic sales from export zones, reduction in taxes on retail fuel products, and accelerating pipeline-gas infrastructure where possible.

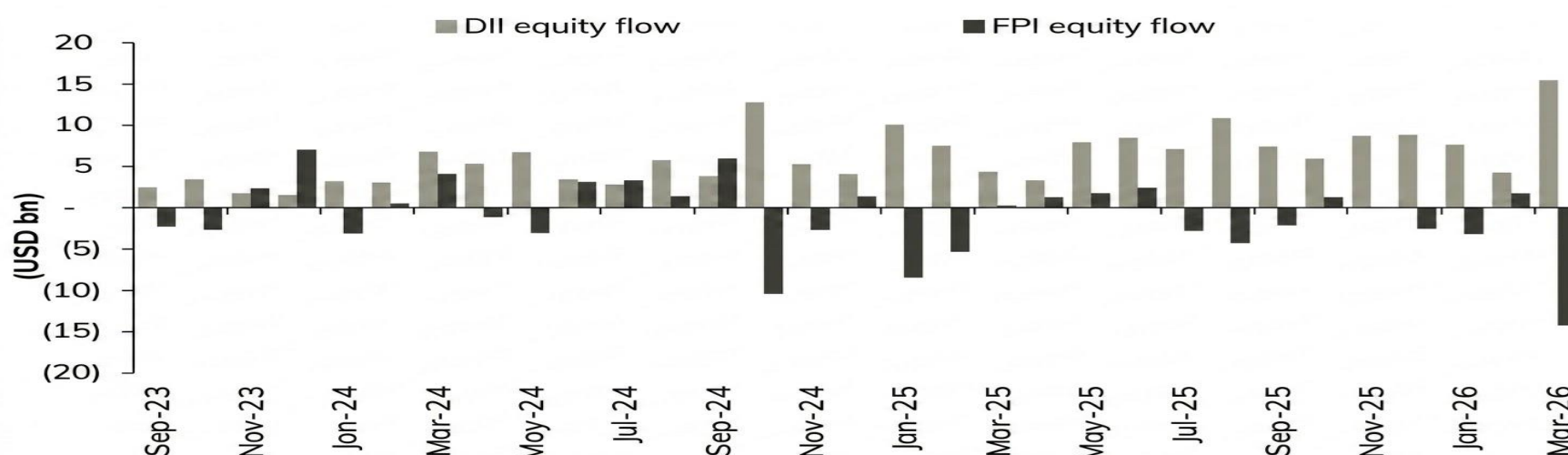
Markets in March 2026 have also weathered the strong FII outflow which has reached the highest monthly outflow in last few years and hence there has been sharp sell off across many sectors which had high FII holdings. The action seems mainly triggered by West Asia war and consequential concern on FX rate, govt fiscal, growth moderation etc.

However post the recent correction the market valuations has become very palatable with expected FY27 P/E of ~18.5x (broadly inline with last 10 year average) with earnings growth expected to be ~10% (Iran conflict and higher energy basket would impact earnings by 2-4% compared to earlier expected growth of 12-14%). We remain confident of a strong earnings recovery in FY27, led by BFSI, consumer discretionary, auto and auto ancillaries, manufacturing, and private capex-linked sectors, despite lingering uncertainty around energy costs.

**Exhibit 1 – Sectoral FII outflows (USD mn, Mar'25-Mar'26)<sup>1</sup>**

| Month  | Auto   | Cap Goods | Chemical | Durables | Consumer Services | FMCG | BFSI   | Pharma | IT     | Media | Metals | O&G   | Power | Realty | Telecom | Others |
|--------|--------|-----------|----------|----------|-------------------|------|--------|--------|--------|-------|--------|-------|-------|--------|---------|--------|
| Mar'25 | -327   | -32       | 57       | -174     | -353              | -643 | 1,675  | 15     | -973   | 51    | 219    | -397  | -24   | 68     | 360     | 74     |
| Apr'25 | -375   | -6        | 103      | -6       | 212               | 343  | 2,169  | -84    | -1,777 | 13    | -398   | -40   | 106   | -84    | 544     | -194   |
| May'25 | 11     | 623       | 153      | -203     | -58               | 95   | 470    | -306   | -285   | 16    | 8      | 295   | -292  | -194   | 946     | 1,042  |
| Jun'25 | 553    | -215      | 278      | -290     | 158               | -463 | 1,042  | -47    | 137    | 4     | -42    | 716   | -735  | 156    | 320     | 138    |
| Jul'25 | -412   | 37        | 130      | -302     | 347               | 175  | -671   | -8     | -2,285 | -23   | 388    | -372  | 8     | -450   | 169     | 1,240  |
| Aug'25 | 205    | 216       | 179      | -224     | -52               | -125 | -2,657 | -162   | -1,287 | 18    | -75    | -698  | -464  | -142   | 660     | 614    |
| Sep'25 | 411    | 340       | -43      | -409     | -381              | -474 | 113    | -690   | -682   | 8     | 208    | -88   | -305  | -255   | -273    | -177   |
| Oct'25 | 110    | -77       | -105     | -198     | -391              | -482 | 1,501  | -351   | -248   | -5    | 355    | 1,030 | 109   | -91    | 243     | 248    |
| Nov'25 | -183   | 280       | -132     | -13      | -449              | -534 | -357   | -202   | -652   | -35   | -76    | 804   | -295  | -90    | 1,610   | -102   |
| Dec'25 | -228   | -284      | -5       | 66       | 372               | -648 | -1,164 | -330   | 129    | -35   | 331    | 259   | -304  | -104   | 27      | -579   |
| Jan'26 | -392   | 301       | 16       | -113     | -603              | -828 | -942   | -672   | -204   | -20   | 1,260  | -104  | -204  | -291   | -523    | -633   |
| Feb'26 | 394    | 1,336     | 28       | -83      | -459              | -215 | 928    | -37    | -1,866 | 8     | 620    | 593   | 497   | 81     | -207    | 873    |
| Mar'26 | -1,333 | 343       | -24      | -311     | -225              | -579 | -6,488 | -497   | -202   | -2    | -332   | -443  | -23   | -501   | -602    | -1,357 |

**Exhibit 2 – Monthly DII and FPI equity flows<sup>2</sup>**



The FII ownership in last few months has been declining and has reached lowest level in more than a decade to ~15% compared to more than 20% levels in Aug 2016 while the DII holdings has been steadily increasing during this period from levels of ~10% to more than 18%.

**Exhibit 3 – FII ownership of Indian equities<sup>3</sup>**



Key to note that the earning trajectory has been improving over last 2-3 quarters and even 4QFY26 and FY27 have been anticipated to be normalization of earnings in the range of 12-14% yoy earnings growth. It was well encapsulated in the high frequency data that highlighted continue improvement across various segments.

**Exhibit 4 – High-frequency data indicates manufacturing and construction activities picked up in recent times<sup>4</sup>**

| Consumption Indicator           | Jun'25 | Jul'25 | Aug'25 | Sep'25 | Oct'25 | Nov'25 | Dec'25 | Jan'26 | Feb'26 | Mar'26 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Personal Loan growth            | 12.11% | 11.86% | 11.84% | 11.75% | 13.97% | 12.76% | 14.38% | 15.29% | 15.22% | NA     |
| 4W growth                       | -6.28% | 1.50%  | -9.05% | 0.62%  | 15.79% | 18.14% | 26.84% | 7.99%  | 7.28%  | NA     |
| 2W growth                       | -3.36% | 8.71%  | 7.14%  | 6.66%  | 2.15%  | 21.17% | 39.39% | 26.17% | 35.16% | NA     |
| IIP - Primary Goods             | -2.50% | -0.73% | 5.37%  | 1.34%  | -0.60% | 2.23%  | 4.38%  | 3.13%  | 1.77%  | NA     |
| IIP Consumer Goods Durables     | 2.83%  | 7.27%  | 3.47%  | 10.01% | -1.31% | 11.19% | 12.44% | 7.23%  | 7.28%  | NA     |
| IIP Consumer Goods Non-Durables | -0.90% | 0.54%  | -6.42% | -0.34% | -5.19% | 8.03%  | 8.51%  | -2.30% | -0.61% | NA     |
| Petrol Consumption              | 6.86%  | 5.94%  | 5.48%  | 7.94%  | 7.42%  | 2.60%  | 7.08%  | 6.14%  | 6.14%  | NA     |
| S&P Global India Serv PMI       | 60.4   | 60.5   | 62.9   | 60.9   | 58.9   | 59.8   | 58     | 58.5   | 58.1   | 57.5   |
| CPI                             | 2.10%  | 1.61%  | 2.07%  | 1.44%  | 0.25%  | 0.71%  | 1.33%  | 2.73%  | 3.21%  | NA     |
| Passenger - all airports        | 3.66%  | -0.99% | 1.03%  | -0.69% | 4.67%  | 7.05%  | -2.80% | 3.92%  | 0.50%  | NA     |
| GST Collections (INR bn)        | 1,846  | 1,957  | 1,863  | 1,890  | 1,959  | 1,750  | 1,791  | 1,993  | 1,888  | 2,001  |
| Consumer confidence index       | NA     | 96.46  | NA     | 96.85  | NA     | 98.4   | NA     | 98.07  | NA     | NA     |

| Consumption indicator (quarterly)  | Sep'23 | Dec'23 | Mar'24 | Jun'24 | Sep'24 | Dec'24 | Mar'25 | Jun'25 | Sep'25 | Dec'25 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Private final consumption exp real | 2.95%  | 5.69%  | 6.23%  | 8.28%  | 6.41%  | 8.15%  | 5.95%  | 7.05%  | 7.95%  | 8.69%  |

| Industrial Indicator                 | Jun'25 | Jul'25 | Aug'25 | Sep'25 | Oct'25  | Nov'25 | Dec'25 | Jan'26 | Feb'26 | Mar'26 |
|--------------------------------------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|
| Non-food credit growth (fortnightly) | 9.31%  | 9.88%  | 9.90%  | 10.25% | 11.12%  | 11.41% | 14.04% | 13.83% | 14.30% | 13.66% |
| Industry loan growth                 | 5.87%  | 5.99%  | 6.55%  | 7.34%  | 9.98%   | 9.56%  | 13.35% | 12.12% | 13.54% | NA     |
| IIP growth                           | 1.52%  | 4.27%  | 4.12%  | 4.63%  | 0.53%   | 7.16%  | 8.04%  | 5.14%  | 5.23%  | NA     |
| Core sector growth (%)               | 2.20%  | 3.75%  | 6.53%  | 3.28%  | -0.06%  | 2.07%  | 4.66%  | 4.72%  | 2.27%  | NA     |
| Power demand                         | -2.27% | 2.60%  | 3.83%  | 3.53%  | -5.82%  | -0.58% | 5.79%  | 3.78%  | 1.00%  | NA     |
| IIP Capital Goods                    | 2.96%  | 6.75%  | 4.47%  | 5.41%  | 2.11%   | 10.12% | 8.28%  | 4.11%  | 12.48% | NA     |
| S&P Global India manufacturing PMI   | 58.4   | 59.1   | 59.3   | 57.7   | 59.2    | 56.6   | 55.0   | 55.4   | 56.9   | 53.9   |
| WPI Commodity price index            | -0.19% | -0.58% | 0.52%  | 0.19%  | -1.02%  | -0.13% | 0.96%  | 1.81%  | 2.13%  | NA     |
| Import Growth (%)                    | -3.43% | 9.09%  | -9.54% | 17.67% | 16.94%  | -1.94% | 8.67%  | 19.85% | 24.12% | NA     |
| Export growth (%)                    | -1.34% | 13.27% | 5.72%  | 6.03%  | -12.51% | 18.66% | 1.29%  | 0.57%  | -0.81% | NA     |
| Trade Deficit (USD bn)               | -19.11 | -27.86 | -27.20 | -32.96 | -41.98  | -24.78 | -25.26 | -34.68 | -27.10 | NA     |

| Industrial indicator (quarterly) | Sep'23 | Dec'23 | Mar'24 | Jun'24 | Sep'24 | Dec'24 | Mar'25 | Jun'25 | Sep'25 | Dec'25 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Capacity utilisation             | 74.0   | 74.7   | 76.8   | 74.0   | 74.2   | 75.4   | 77.7   | 74.1   | 74.3   | NA     |
| GFCF                             | 11.71% | 9.34%  | 6.05%  | 6.65%  | 6.70%  | 5.23%  | 9.41%  | 7.82%  | 7.33%  | 7.81%  |

### Iran US Conflict – Energy shock deserves a broader lens

The common analytical mistake is to look only at crude. The present disruption is broader because the region matters simultaneously for oil, gas, LPG, shipping lanes, freight insurance, and petrochemical feedstocks. For India, that widens the transmission channel from pump prices to power costs, working capital, import bills, hedging costs, and sentiment.

That distinction matters for policy as well. A normal inflationary phase can often be handled through demand management and calibrated pass-through. A geopolitical supply shock requires market stabilization first, supply assurance second, and only then a slower assessment of second-round inflation.

#### Exhibit 5 – One shock, multiple transmission channels into India

| Channel         | What moves first                                              | Policy focus                                                 | Investment implication                                           |
|-----------------|---------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------|
| Energy          | Crude, LNG, LPG and fuel availability                         | Assure supply, smooth logistics, avoid panic shortages       | Direct beneficiaries narrow; import users face margin risk first |
| Currency        | Rupee depreciation, hedging demand, offshore pressure         | Curb speculation, tighten FX rules, preserve orderly markets | Broad multiples compress before earnings fully adjust            |
| Freight & trade | Shipping rerouting, insurance, transit time                   | Trade facilitation and working-capital support               | Exporters and importers diverge more sharply                     |
| Inflation       | Fuel and petrochemicals first, then second-round pass-through | Manage transmission rather than suppress all pricing         | Pricing power matters more than raw growth                       |
| Confidence      | FPI flows, bond yields, corporate caution                     | Signal macro stability and policy credibility                | Balance-sheet strength rises in importance                       |

### What the RBI has done

The RBI has responded primarily through the currency and funding channel. Rather than leaning immediately on rates, it has tightened the rules around speculative foreign-exchange activity, supported market functioning, and kept targeted relief in place for exporters affected by West Asia-related disruptions.

#### Exhibit 6 – RBI response – from market defence to trade-flow support

| RBI step                                                               | What it does                                                       | Why it matters now                                                           | Read-through                                                |
|------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------|
| Tighter limits on banks' FX positioning                                | Forces unwinding of directional or arbitrage-heavy positions       | Helps reduce one-way pressure on the rupee during offshore-led stress        | Stability-first, not growth-sacrifice-first                 |
| Restrictions on client NDF access and rebooking of cancelled contracts | Breaks easy onshore-offshore arbitrage loops                       | Cuts speculative demand spillover into the domestic market                   | Hedging costs can rise even as the rupee stabilises         |
| Support to orderly FX markets                                          | Improves price discovery and curbs disorderly moves                | Signals that currency weakness will not be allowed to become destabilising   | Importers often use the recovery to hedge more aggressively |
| Extended export-credit and export-realisation relief                   | Lengthens credit tenure and cash realisation windows for exporters | Eases pressure on trade-linked firms facing disruption and delayed shipments | Supports external-sector resilience without broad stimulus  |
| Policy-rate caution with focus on liquidity and guidance               | Avoids overreacting to a supply shock with blunt tightening        | Protects growth while reserving room for later action if inflation persists  | More surgical than historical crisis playbooks              |

Source note: Reuters reporting on RBI foreign-exchange measures, hedging-cost impact, and export-credit relief through March–April 2026.

### What the Government of India has done

The Government's response has been operational and supply-oriented. The emphasis has been on assuring petroleum product availability, managing refinery operations, easing pressure on sectors dependent on LPG and supporting trade continuity where global freight and tariff conditions have become more difficult.

#### Exhibit 7 – Government response: energy availability, trade flexibility and system adaptation

| Government step                                                 | Mechanism                                                              | Immediate objective                                                       | Broader implication                                                   |
|-----------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Assurance of adequate petroleum-product availability            | Coordination with oil-marketing and refining system                    | Reduce fears of physical shortage and panic pricing                       | Confidence support matters as much as physical barrels                |
| Postponement of some refinery maintenance                       | Keeps more refining capacity available for domestic supply             | Protects fuel availability during a volatile period                       | Reduces the risk of domestic supply tightness amplifying global shock |
| Phased restoration and additional allocation of commercial LPG  | Raises supply to priority users and states in stages                   | Protects small business, food-service and industrial users reliant on LPG | Shows targeted rather than blanket subsidy design                     |
| Push toward PNG / city-gas transition where feasible            | Links additional allocation with reform and infrastructure expansion   | Reduce future dependence on LPG bottlenecks                               | Crisis response doubles as medium-term energy-security reform         |
| Temporary flexibility for export-zone output to be sold locally | Allows select export units to sell domestically at reduced duty burden | Absorb global trade disruption and support domestic supply chains         | Useful for sectors facing freight, tariff or route dislocation        |
| Broader inter-ministerial monitoring and overseas preparedness  | Tracks fuel, logistics and citizen support issues together             | Contain spillovers early rather than react late                           | Signals administrative readiness during a fluid shock                 |

### Impact on Fiscal so far seems limited

#### Exhibit 8 – Potential fiscal slippages and center's provision for offsetting the slippages in FY2027 (Rs bn) <sup>5</sup>

|                                                 | Optimistic scenario | Base scenario | Adverse scenario |
|-------------------------------------------------|---------------------|---------------|------------------|
| Center's revenue loss                           | 1,100               | 3,050         | 3,300            |
| - Fertilizer subsidy                            | –                   | 1,000         | 1,000            |
| - LPG subsidy                                   | –                   | 400           | 650              |
| - Excise duty cut                               | 1,100               | 1,650         | 1,650            |
|                                                 |                     |               |                  |
| Offsetting factors                              | 1,106               | 2,906         | 2,588            |
| - Economic Stabilization Fund                   | 300                 | 1,000         | 1,000            |
| - Increase in RBI's surplus transfer            | 250                 | 250           | 250              |
| - Potential expenditure switches                | –                   | 1,100         | 1,100            |
| - Drinking water and sanitation                 | –                   | 500           | 500              |
| - Telecom infrastructure (Bharatnet)            | –                   | 200           | 200              |
| - Capital infusion in BSNL                      | –                   | 200           | 200              |
| - Research, development and innovation          | –                   | 200           | 200              |
| - Export excise duty hike                       | 556                 | 556           | 238              |
| <b>Net fiscal slippage</b>                      | <b>-6</b>           | <b>144</b>    | <b>712</b>       |
| <b>Revised GFD/GDP with fiscal slippage (%)</b> | <b>4.3</b>          | <b>4.3</b>    | <b>4.5</b>       |
| <b>Effect of lower nominal GDP (%)</b>          | <b>0.1</b>          | <b>0.1</b>    | <b>0.1</b>       |
| <b>Estimated FY2027 GFD/GDP (%)</b>             | <b>4.4</b>          | <b>4.4</b>    | <b>4.6</b>       |

Source note: PIB and Reuters updates through early April 2026 on petroleum availability, LPG allocation changes, SEZ domestic-sale flexibility and related preparedness steps.  
<sup>5</sup> Kotak Securities Report

### The Gas Chokepoint - West Asia War & Its Impact on Indian Industries

The US-Israel attack on Iran (February 28, 2026) and Iran's subsequent closure of the Strait of Hormuz have precipitated the most severe global energy supply disruption in recent memory. While crude oil has drawn attention, the natural gas and LNG dimension poses a more acute threat to Indian industries. India has ~25 days of strategic crude reserves and has diversified 70% of oil imports to non-Hormuz routes. In stark contrast, India has virtually no strategic LNG reserves and over 50% of LNG imports transit through Hormuz. The crisis deepened on March 18 when Iran's missile attack on Qatar's Ras Laffan facility destroyed 17% of Qatar's LNG export capacity for up to five years, converting a temporary shipping disruption into a medium-term structural deficit.

#### 1. India's Natural Gas Import Profile

India consumed ~195 MMSCMD of natural gas in FY25 (~65-70 bcm annually). Domestic production meets ~50%; the balance is imported LNG (~27 MT in FY25, making India the world's 4th-largest LNG importer). The IEA projects imports doubling to ~65 bcm/year by 2030

The Strait of Hormuz, a 33-km wide passage between Iran and Oman, carries approximately 20% of global LNG trade. Qatar and the UAE, whose LNG exports are almost entirely routed through Hormuz (93% and 96% respectively), together represent nearly 20% of global LNG exports. There are no scalable alternative pipeline or maritime routes for Qatari or Emirati LNG to reach global markets.

Qatar alone supplies 40-47% of India's LNG imports (anchored by Petronet LNG's 7.5 MMTPA Ras Laffan contract). Including UAE and Oman, ~50-60% of India's LNG transits Hormuz. Unlike crude (25 days strategic reserve), there is no strategic LNG reserve — the single most important structural gap in India's energy security.

#### 2. Sector-Wise Natural Gas Usage in India

Natural gas serves dual roles across Indian industry: as fuel (providing heat, power, or motive energy) and as feedstock (a chemical raw material transformed into other products). This distinction is critical because feedstock users face irreplaceable input dependency, while fuel users have partial fuel-switching optionality.

| Sector           | Share of Gas | Primary Use      | Key Products / Sub-sectors                                                     |
|------------------|--------------|------------------|--------------------------------------------------------------------------------|
| Fertilisers      | 30-35%       | Feedstock        | Urea (ammonia via Haber-Bosch), DAP, NPK complexes                             |
| City Gas (CGD)   | ~20%         | Fuel             | CNG (transport), PNG (household cooking, commercial kitchens, SME industry)    |
| Power Generation | ~15%         | Fuel             | Gas turbine power plants (peaking power, grid balancing)                       |
| Refineries       | ~10%         | Fuel + Feedstock | Hydrogen production, desulphurisation, process heat, petrochemical integration |
| Petrochemicals   | ~8%          | Feedstock + Fuel | Methanol, ethylene, propylene, polymers, solvents                              |
| Other Industries | ~12%         | Fuel (primarily) | Ceramics/tiles, glass, textiles, steel (DRI), auto manufacturing, sponge iron  |

Among feedstock users, fertilisers dominate – gas is the primary raw material for urea comprising 70%+ of production cost; India produced ~30 MT of urea in FY25 against ~40 MT demand, consuming ~32 MMSCMD of gas. Petrochemicals and methanol production (90% import-dependent) similarly rely on gas as a starting material for plastics, PET, adhesives, and solvents. Refineries use gas for hydrogen production, desulphurisation, and increasingly for integrated petrochemical operations.

Among fuel users, City Gas Distribution (CGD) is the fastest-growing segment (12% CAGR, FY16-24), supplying CNG for transport and PNG for households and SMEs. Ceramics and glass manufacturing – particularly the Morbi cluster in Gujarat (Rs 750 billion industry, ~80% of India's output) – depend on gas and propane for continuous high-temperature kiln operations and have been among the most acutely affected, with ~550 factories halting production in mid-March.

Secondary cascades (per Jefferies, March 23): Methanol (+65%, 90% imported), sulphur/sulphuric acid (+80%, 57% imported), VAM (+25%, 100% imported), bromine (+100% y/y, 75% imported). These feed into plastics, PET, paints, adhesives, refrigerants, and crop protection — amplifying a single chokepoint into a multi-industry cost shock.

### 3. Impact Analysis: Inventory, Pricing & Margins

#### 3.1 LNG Price Trajectory

LNG prices: JKM spot surged from ~\$10/MMBtu (pre-war) to ~\$25 peak, currently ~\$20 (+100-140% above pre-war). Domestic spot LNG at Rs 100-110/scm vs contracted gas at Rs 40/scm — a 3x premium. Tanker freight doubled; war-risk insurance spiked 12-fold. Government rationing (March 9): PNG/CNG at 100% supply; industrial at up to 80%; fertiliser at 70%; power on reduced priority. GAIL cut industrial supply by 50% in Gujarat.

#### 3.2 Sector-Wise Impact Assessment

| Sector           | Severity      | Key Points                                                                                                   |
|------------------|---------------|--------------------------------------------------------------------------------------------------------------|
| Fertilisers      | Severe        | 70% gas allocation; urea stocks 6.2 MT vs 18-19 MT Kharif need; stress from July; subsidy bill +25%          |
| CGD              | High          | Pooled pricing squeeze (Rs 40 vs Rs 100-110/scm blending); Gujarat Gas force majeure; industrial volumes cut |
| Ceramics/Tiles   | Severe        | Morbi shut ~1 month; ~550/900 factories halted; 80% large units idle; shutdown until at least Apr 15         |
| Chemicals        | Moderate-High | Crop protection insulated (PI, NFIL); SRF packaging hit (PET +38%); refgas margins pressured                 |
| Paints/Adhesives | Moderate      | VAM +25%, methanol solvents elevated; 1-2 quarter pass-through lag for Asian Paints, Berger, Pidilite        |
| Glass / Power    | Mod-High      | Glass: continuous furnaces at risk; Power: low PLF but peaking demand rising into summer                     |

The West Asia gas crisis exposes a structural vulnerability in India's energy architecture that goes well beyond temporary shipping disruptions. The Ras Laffan attack on March 18 converted a short-term supply squeeze into a medium-term structural deficit that will reshape LNG markets and Indian industrial operations for multiple quarters, regardless of how quickly the conflict itself is resolved.

### Inflation is a friend for businesses and equity markets

Inflation in India has historically coincided with strong equity market and corporate earnings performance, particularly when it remains within a moderate range. Higher inflation typically lifts nominal GDP growth, enabling revenue expansion and operating leverage across sectors. Periods such as 2003–08, 2009–11, and 2020–23 saw robust gains in the BSE Sensex and Nifty 50, supported by earnings acceleration. Cyclical sectors—including commodities, financials, and capital goods—tend to outperform in such environments. While elevated inflation may compress valuations, strong nominal earnings growth has historically offset this effect. Overall, moderate inflation has acted as a tailwind for Indian equities rather than a headwind.

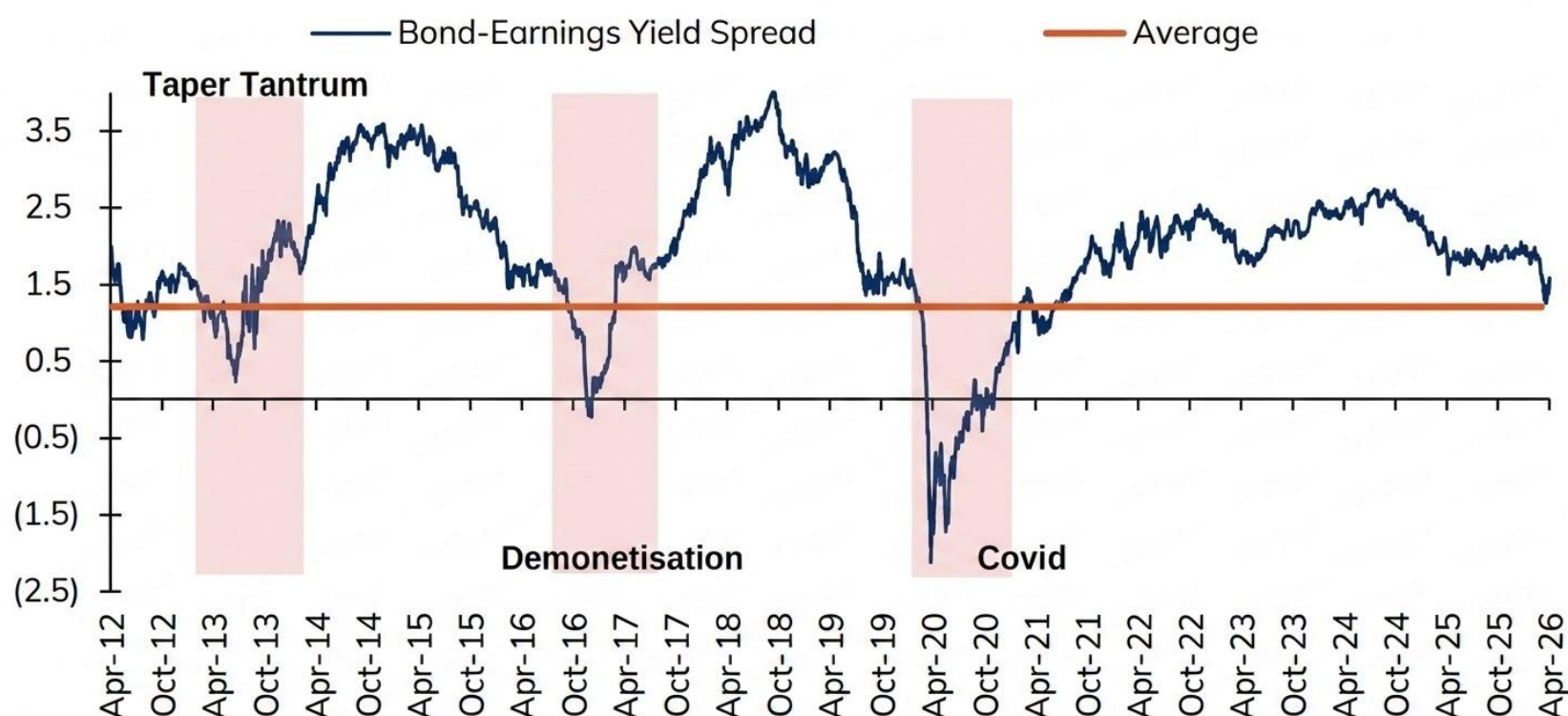
### Inflation vs Market Performance

| Period    | Avg Inflation (CPI/WPI) | Nominal GDP Growth | Market Performance                            | Key Drivers                 |
|-----------|-------------------------|--------------------|-----------------------------------------------|-----------------------------|
| 2003–2008 | ~5–7%                   | ~12–15%            | BSE Sensex ~6x                                | Commodity boom, capex cycle |
| 2009–2011 | ~8–10%                  | ~14–16%            | Nifty 50 strong recovery (~2x from lows)      | Global reflation, liquidity |
| 2020–2023 | ~5–7%                   | ~10–15%            | Nifty 50 new highs (~80–100% from COVID lows) | Liquidity, earnings rebound |

### Market Outlook – valuation comfort emerging but uncertainty on Earnings growth is concern

Relative valuation of Indian equities to bonds has narrowed to long-term average levels, which could trigger a relative attractiveness signal for equities in hybrid portfolios.

**Exhibit 9 – Hybrid models likely to signal increased weightage to equities as bond – earnings yield spread reduces <sup>6</sup>**

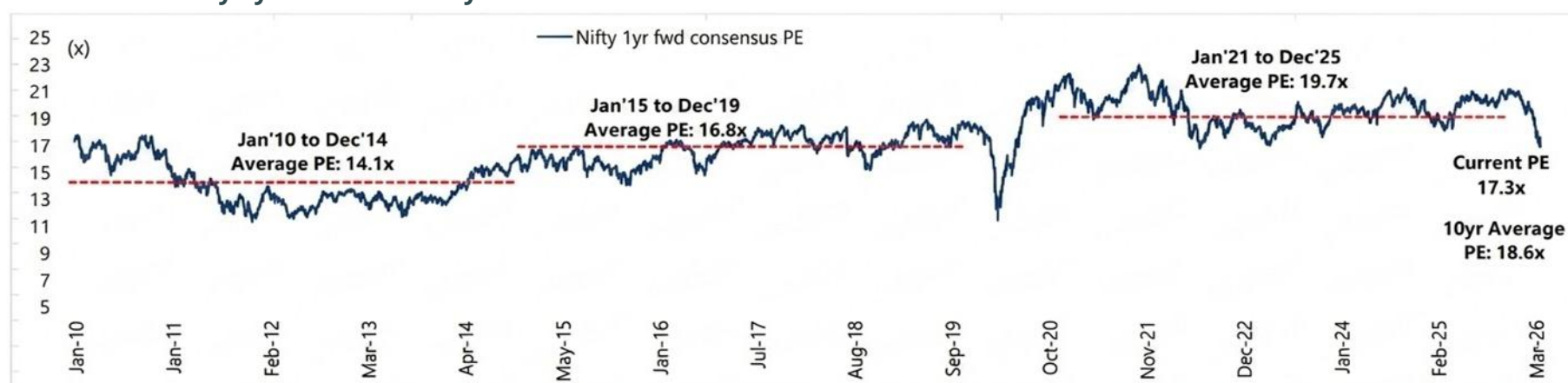


**Exhibit 10 – India’s valuation premium to EMs is also approaching average valuations levels <sup>7</sup>**



Recent market correction has brought the Nifty 12-m forward P/E multiple to ~17x, i.e., close to the pre-Covid (Jan'15-20) average and the recent rebounded in Nifty brings its valuation to ~18.5x (~5% discount to the last 5 years). While EPS cuts of 2–4% are possible for Mar'27, large cuts for Mar'28 appear unlikely.

**Exhibit 11 – Nifty 1yr fwd PE and key indicators <sup>7</sup>**



|                                 | Metrics                         | Jan'10 to Dec'14    | Jan'15 to Dec'19    | Jan'21 to Dec'25     | Apr'16 to Mar'26     |
|---------------------------------|---------------------------------|---------------------|---------------------|----------------------|----------------------|
| Market performance (CAGR)       | Nifty 50                        | 10%                 | 8%                  | 13%                  | 11%                  |
|                                 | Nifty Midcap / smallcap         |                     |                     |                      |                      |
| Relative performance            | Midcap / smallcap               | 11%/9%              | 6%/2%               | 24%/20%              | 15%/12%              |
|                                 | MSCI India vsMSCI EM(USD terms) | Outperformance+9ppt | Outperformance+3ppt | Outperformance+47ppt | Outperformance+27ppt |
| Nifty earnings CAGR (%)         |                                 | 8.00%               | 4.20%               | 16.80%               | 10.70%               |
| Nifty avg. RoE (%)              |                                 | 16.20%              | 14.00%              | 14.40%               | 14.10%               |
| Avg. PE                         |                                 | 14.1x               | 16.8x               | 19.7x                | 18.6x                |
| India Real GDP growth           |                                 | 7.60%               | 6.90%               | 7.90%                | 6.00%                |
| CPI Inflation (avg. annual)     |                                 | 9.40%               | 4.20%               | 4.90%                | 4.70%                |
| Bond yields (avg.)              |                                 | 8.20%               | 7.30%               | 6.80%                | 6.80%                |
| Bond yield gap (avg.)           |                                 | 1.0ppt              | 1.3ppt              | 1.7ppt               | 1.4ppt               |
| INR/USD (avg. annual)           |                                 | Depreciate 6%       | Depreciate 2%       | Depreciate 4%        | Depreciate 3%        |
| Crude oil prices (avg. USD/bbl) |                                 | 102                 | 58                  | 80                   | 69                   |

### Fund Strategy, Objective and Theme

- Q To generate longterm capital appreciation and **superior Risk Adjusted Returns** for clients in the long run by creating alpha through selection of a basket of high-quality listed companies across small and mid cap space.
- Q The AIF strategy would be small and mid cap focused as defined by their market capitalizations and would also take tactical cash calls from time to time.
- Q It would be a sector and theme agnostic portfolio and invest via a bottom-up approach. It would be a diversified portfolio of up to 20 - 25 stocks.
- Q The portfolio is suited for clients who have a **minimum of 4 - 5 years investment horizon**

### Key Terms

|                            |                           |
|----------------------------|---------------------------|
| <b>Inception Date:</b>     | 10 <sup>th</sup> May 2022 |
| <b>Benchmark Index:</b>    | Nifty 500                 |
| <b>Minimum Investment:</b> | Rs 1 Crore                |

### Fund Manager

**Mr. RAKESH VYAS**

**Chief Investment Officer and Portfolio Manager**

Mr. Rakesh Vyas has been active in capital markets for last 20 years of which more than 14 years were with HDFC Mutual fund where he was part of Fund Management and Research Team. Over these years he has actively researched more than 150 companies across various sectors like Cement, Infrastructure, Utilities, Metals/Minerals, Chemicals, Real estate etc. Prior to joining Quest, he was managing HDFC Infrastructure Fund and HDFC Housing opportunities fund since Jan-20 till Jan-24. HDFC Infrastructure fund was awarded Platinum award in Infrastructure fund category by Navbharat BFSI Awards 2023.

He also served as Member of SEBI appointed advisory committee on Hybrid Securities (chaired by Mr KV Kamath). The committee has been responsible for providing recommendations on development and regulation of primary and secondary markets of Hybrid Securities (i.e., REIT, InvIT, etc.) in India.

He has done Post Graduate Diploma in Management from XLRI Jamshedpur and Bachelor of Electrical Engineering from MBM Engineering college Jodhpur.

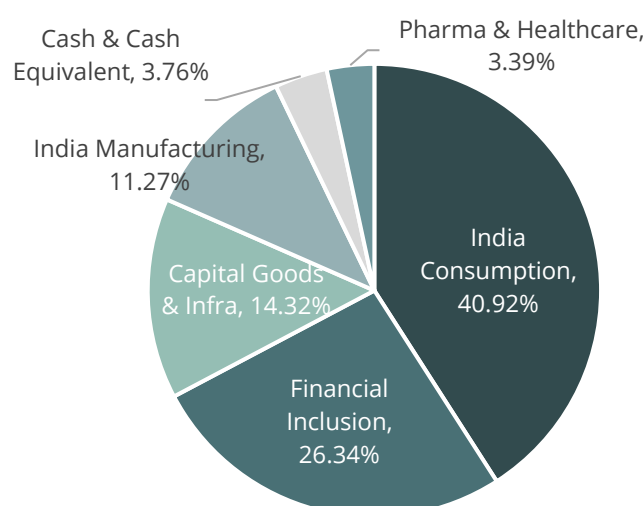
### PERFORMANCE SUMMARY POST TAXES

(As on 31<sup>st</sup> March 2026)

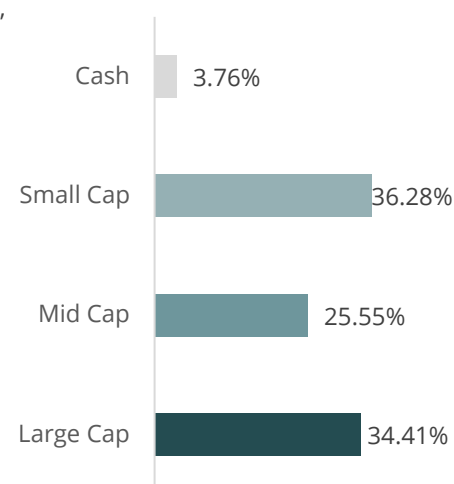
| Particulars                                             | 3 Months | 6 Months | 1 Year  | Since Inception (10/5/2022) |
|---------------------------------------------------------|----------|----------|---------|-----------------------------|
| Quest SmartAlpha-Sector Rotation-I AIF (A1Class shares) | -16.64%  | -19.33%  | -10.24% | 8.02%                       |
| Quest SmartAlpha-Sector Rotation-I AIF (A2Class shares) | -16.58%  | -19.22%  | -9.97%  | 8.28%                       |
| Quest SmartAlpha-Sector Rotation-I AIF (A3Class shares) | -16.52%  | -19.09%  | -9.70%  | 8.83%                       |
| Nifty 500                                               | -14.01%  | -9.70%   | -3.80%  | 10.35%                      |

Note: The above returns are unaudited and computed on TWRR basis post all fees & expenses and post taxes paid on all realized gains. Returns less than 1 year are on absolute basis. Client returns could vary depending on their dates of investment and subsequent drawdowns

### Thematic Allocation



### Market Capitalization



**Holdings as on 31<sup>st</sup> March 2026**

| Company Name                                      | Weightage (%) |
|---------------------------------------------------|---------------|
| Eternal Limited                                   | 7.24%         |
| Vishal Mega Mart Limited                          | 7.02%         |
| TVS Holdings Limited                              | 6.91%         |
| Bharti Airtel Limited                             | 6.53%         |
| Kalpataru Projects International Limited          | 5.49%         |
| One 97 Communications Limited                     | 5.11%         |
| Siemens Energy India Limited                      | 4.65%         |
| Viyash Scientific Limited                         | 4.39%         |
| BSE Limited                                       | 4.29%         |
| Techno Electric & Engineering Company Limited     | 4.18%         |
| Tata Capital Limited                              | 4.12%         |
| Cash and Equivalent                               | 3.76%         |
| Sudarshan Chemical Industries Ltd                 | 3.59%         |
| Biocon Limited                                    | 3.39%         |
| Swiggy Limited                                    | 3.29%         |
| City Union Bank Limited                           | 3.12%         |
| HDFC Bank Limited                                 | 2.85%         |
| AU Small Finance Bank Limited                     | 2.45%         |
| Samhi Hotels Limited                              | 2.39%         |
| Kirloskar Ferrous Industries Limited              | 2.37%         |
| Trent Limited                                     | 2.24%         |
| Avalon Technologies Limited                       | 2.23%         |
| ICICI Prudential Asset Management Company Limited | 2.20%         |
| Axis Bank Limited                                 | 2.20%         |
| Ajmera Realty And Infra India Limited             | 1.62%         |
| LG Electronics India Limited                      | 1.31%         |
| Mahindra & Mahindra Limited                       | 1.07%         |

### SUMMARY FINANCIALS OF INVESTEE COMPANIES

| Company Name                                      | Revenue CAGR<br>FY25-27(E) | PAT CAGR<br>FY25-27 (E) | FY 26 PE (E) |
|---------------------------------------------------|----------------------------|-------------------------|--------------|
| Eternal Limited                                   | 127.84%                    | 93.55%                  | 1,151.23     |
| Vishal Mega Mart Limited                          | 18.80%                     | 26.95%                  | 73.77        |
| TVS Holdings Limited                              | 13.49%                     | 39.18%                  | 15.21        |
| Bharti Airtel Limited                             | 17.60%                     | 11.73%                  | 42.43        |
| Kalpataru Projects International Limited          | 20.95%                     | 41.85%                  | 21.59        |
| One 97 Communications Limited                     | 23.93%                     | L2P                     | 133.79       |
| Siemens Energy India Limited                      | 21.97%                     | 25.24%                  | 61.60        |
| Viyash Scientific Limited                         | 15.11%                     | 155.17%                 | 111.75       |
| BSE Limited                                       | 44.02%                     | 60.92%                  | 49.91        |
| Techno Electric & Engineering Company Limited     | 42.50%                     | 30.02%                  | 22.40        |
| Tata Capital Limited                              | 20.60%                     | 36.16%                  | 29.88        |
| Sudarshan Chemical Industries Ltd                 | 72.49%                     | 102.44%                 | 238.60       |
| Biocon Limited                                    | 14.91%                     | L2P                     | 110.30       |
| Swiggy Limited                                    | 39.61%                     | -16.94%                 | NEG          |
| City Union Bank Limited                           | 22.76%                     | 18.56%                  | 15.24        |
| HDFC Bank Limited                                 | 11.37%                     | 13.81%                  | 19.23        |
| AU Small Finance Bank Limited                     | 19.86%                     | 30.93%                  | 28.04        |
| Samhi Hotels Limited                              | 14.68%                     | 74.06%                  | 21.03        |
| Kirloskar Ferrous Industries Limited              | 11.62%                     | 28.87%                  | 20.69        |
| Trent Limited                                     | 20.06%                     | 13.18%                  | 73.72        |
| Avalon Technologies Limited                       | 33.86%                     | 56.21%                  | 57.15        |
| ICICI Prudential Asset Management Company Limited | 24.02%                     | 20.09%                  | 40.04        |
| Axis Bank Limited                                 | 10.79%                     | 11.30%                  | 16.11        |
| Ajmera Realty And Infra India Limited             | 15.00%                     | 15.00%                  | 24.72        |
| LG Electronics India Limited                      | 7.74%                      | 1.77%                   | 55.31        |
| Mahindra & Mahindra Limited                       | 15.65%                     | 19.41%                  | 28.50        |

## INVESTMENT RATIONALE AND SWOT

### AVALON TECHNOLOGIES



#### Primer

- Avalon Technologies Ltd (Avalon) is a well-established leader in the Electronics Manufacturing Services industry, recognized for its manufacturing excellence. Avalon specializes in building complex products and serves a wide range of industries worldwide, offering solutions that span from individual product capabilities to complete system integration, with a strong focus on design-for-manufacturing and assembly for our customers.
- Avalon's manufacturing strength is built on a hybrid footprint of 15 world-class facilities across India and the United States. Avalon has a long-standing presence in the US, reflecting its commitment to serving customers with speed, proximity, and reliability.
- Avalon's fully integrated operations, diversified customer base, and end-to-end capabilities – from design handoff to final product – position us strongly to benefit from the structural tailwinds in the EMS sector.

#### Investment Thesis

- **Broad Product Portfolio:** Avalon is known for delivering a wide range of customised, high mix EMS solutions tailored to global OEMs. It is a preferred partner for managing complex product assemblies. Avalon focuses on precision led, complex manufacturing with integrated services to capture a larger share of the value chain. It has a presence across multiple sectors: mobility, clean energy, medical devices, industrials, communications, and IT hardware thus reducing dependence on any single vertical.
- **One-Stop Solution for EMS:** Avalon provides various services such as PCB design and assembly, cable assembly, wire harness, sheet metal fabrication, sheet metal machining, plastic injection moulding, magnetics, electro-mechanical integration, which allows the company to offer end-to-end box build solutions. Avalon is an integrated end-to-end solutions provider. Its emergence as a one-stop solution for customers has powered sustained growth and value creation journey over the years, positioning Avalon as a leading player in India's EMS space.
- **Leadership in Flexible Manufacturing:** Manufacturing presence in both India and the U.S. offers strategic advantage. U.S. facilities serve as a gateway to U.S.-centric customers, while Indian operations provide cost competitiveness. This dual-shore model reduces logistical complexities, supports regional compliance, and mitigates geopolitical risks.

#### SWOT Analysis

| Strengths                                                                                                                                                                   | Weaknesses                                                                                                                                | Opportunities                                                                                                                                                     | Threats                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Avalon offers integrated electronics manufacturing services including PCB design, cable assemblies, magnetics, sheet metal fabrication, and complete box-build solutions    | Demand from sectors such as industrial electronics, EVs, and aerospace can be cyclical and dependent on global capital expenditure cycles | Global companies are diversifying supply chains away from China, creating strong growth opportunities for Indian EMS players like Avalon to capture export orders | A significant portion of Avalon's revenue is export-linked, making profitability sensitive to currency fluctuations   |
| Avalon serves global OEM customers, with a significant portion of revenue coming from North America. The company supplies to leading global technology and industrial firms | Operating in high-reliability, low-volume segments results in higher customization costs, and lower throughput per production line        | India's EMS sector is expanding rapidly, supported by government initiatives such as Production Linked Incentive Scheme, which incentivizes local production      | Continuous technology upgrades and evolving electronics standards require ongoing capital investment and R&D spending |

## INVESTMENT RATIONALE AND SWOT

### MAHINDRA & MAHINDRA



**Mahindra**

#### Primer

- ☐ Mahindra & Mahindra Ltd. (M&M), established in 1945 and headquartered in Mumbai, is one of India's most diversified conglomerates. Its core operations span Automotive (SUVs, LCVs, commercial vehicles, and EVs) and Farm Equipment (tractors and farm machinery), complemented by Financial Services (Mahindra Finance), Technology (Tech Mahindra), Hospitality (Club Mahindra), and Real Estate (Mahindra Life spaces). With over 3.24 lakh employees and operations across 100+ countries, M&M is the world's largest tractor manufacturer by volume.
- ☐ M&M held revenue market share of 24.1% in the auto segment, up 90 bps YoY in Q3FY26. It also holds #1 market share in the SUV segment, #1 in LCVs below 3.5T (51.9% share), and #1 in the domestic tractor industry (44.0% share). The company is also India's leader in electric three-wheelers with a 42.3% market share, making it uniquely positioned across traditional and new-energy mobility segments. The company is a market leader in tapered roller bearings.
- ☐ Key models powering automotive volumes include the Scorpio-N, XUV700, Thar Roxx, and XUV 3XO. The farm equipment business sells tractors under the Mahindra, Swaraj, and Trakstar brands across a wide horsepower range (20 HP to 110+ HP), and the rapidly growing farm machinery division reached ₹360 crore in quarterly revenue in Q3FY26.

#### Investment Thesis

- ☐ **Automotive Segment:** Sustained SUV Momentum & LCV Revival on Anvil: M&M's automotive business remains on a strong trajectory, driven by the outperformance of its SUV portfolio and imminent revival in LCVs. In Q3FY26, standalone automotive revenues grew ~30% YoY to ₹30,370 crore, with volumes at 2.60 lakh units. The company maintained leadership in revenue market share in SUVs supported by robust demand for Scorpio-N, Thar, and XUV700. With EV penetration increasing and improving end-to-end EV profitability, M&M is well-positioned to lead the industry shift towards electrification – targeting EV penetration of ~20–30% of SUV volumes by 2027.
- ☐ **Farm Segment:** Market Leadership & Margin Discipline: The farm equipment segment continued its stellar performance in Q3FY26, with tractor volumes surging 23% YoY to 1.5lakh unit. Market share reached a record 44.0%, underscoring M&M's dominance in the domestic tractor industry. Farm PBIT margins expanded 210 bps to 20.2%, reflecting strong pricing discipline. The farm machinery business crossed ₹360 crore in quarterly revenue, meaningfully diversifying the segment's revenue mix. With industry tailwinds in place, M&M has guided low double-digit volume growth in the domestic tractor industry for FY26E.
- ☐ **GST Rationalization:** The government has announced GST 2.0 reforms, reducing tax rates across the automobile sector. Total tax incidence for larger passenger cars and SUVs has been reduced from 43–50% to 40%, while farm machinery including tractors and components has seen a reduction from 12% to 5%. M&M's dominance in the large SUV category makes it a prime beneficiary of the new 40% slab. Nearly two-thirds of M&M's SUV portfolio, which previously attracted 50% GST, now falls under the 40% slab – translating directly into sharper price competitiveness. The tractor GST reduction (from 12% to 5%) is a major structural tailwind for the farm segment, likely to stimulate demand especially in the price-sensitive, lower-horsepower segment.
- ☐ **Capacity Expansion & New Product Pipeline to Sustain Growth:** An aggressive product launch pipeline – including two new ICE models, two vehicle refreshes, and multiple EV launches through CY26 – is expected to sustain volume momentum. M&M's total capex plan of ₹27,000 crore over three years, with ₹12,000 crore earmarked for the EV segment, underscores management's conviction in long-term demand.

#### SWOT Analysis

| Strengths                                                                             | Weaknesses                                                                 | Opportunities                                                                           | Threats                                                                          |
|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| #1 market leader in SUVs, tractors, LCVs (<3.5T), and electric three-wheelers         | Exposure to commodity cost volatility (steel, aluminium) impacting margins | GST rationalisation – structural positive for both SUVs and tractors                    | Rising competitive intensity in SUV & EV segments from Tata, Hyundai.            |
| Strong brand equity, extensive rural distribution network, and robust cash generation |                                                                            | EV transition: large PLI benefits to accrue from FY27 as the electric portfolio matures | Cyclical tractor demand – adverse monsoon or rural distress could temper volumes |
|                                                                                       |                                                                            | Rural recovery and strong tractor cycle set to sustain double-digit farm segment growth |                                                                                  |

### Risk Management

(Disclosures Under Regulation 22 (g) of SEBI (Alternative Investment Funds) Regulations, 2012)

| Parameters            | Level            | Mitigants                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Concentration Risk    | Fund             | <ul style="list-style-type: none"> <li>Fund shall not invest more than 10% of the NAV in any single Investee Company.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Foreign Exchange Risk | Fund             | <ul style="list-style-type: none"> <li>Fund has invested only in Indian securities hence the fund's investments do not face any Foreign Exchange Risk.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Leverage Risk         | Fund             | <ul style="list-style-type: none"> <li>The fund hasn't taken any borrowings or invested in derivatives till 31<sup>st</sup> Dec 2025 nor does it plan to do so in the future.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Leverage Risk         | Investee Company | <ul style="list-style-type: none"> <li>Strong Balance Sheet is one of the key investment parameters and hence most investments are likely to be in companies where the Debt Equity ratio is very comfortable.</li> <li>During the quarter under review, no event of default was reported by any investee company.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Realization Risk      | Company/Fund     | <ul style="list-style-type: none"> <li>We will be investing only into listed equities which shall mitigate realization risk to a large extent. Till the funds are invested, they may be parked in overnight / liquid funds.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Reputation Risk       | Company          | <ul style="list-style-type: none"> <li>The fund prefers to invest in high quality businesses run by capable management teams that have a clear focus on growth and cash flows.</li> <li>The strategy attempts to invest in companies with improving business fundamentals. Periodic evaluation of management decision/strategy and company financials is being undertaken.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                     |
| Extra Financial Risk  | Company/Fund     | <ul style="list-style-type: none"> <li>The fund aspires to manage satisfactory liquidity at all times for better management of any financial emergency.</li> <li>All expenses and financial obligations are well managed and provided for.</li> <li>For any investment in smaller companies, liquidity may be a risk. The Fund manager endeavours to take these risks by relying extensively on primary research. For such stocks, risk- reward trade-off between liquidity and long-term prospects is considered before investing and is also reviewed periodically post investments.</li> <li>Portfolio construction will be post considering the overall macro environment, valuations and risk reward equation at that point in time and reviewing each of the investment.</li> </ul> |
| Regulatory Risk       | Fund             | <ul style="list-style-type: none"> <li>There have been no instances of any inquiries/ legal actions by legal or regulatory bodies against the Fund, Sponsor, Investment Manager or Trustees to the Fund.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Strategy Risk         | Company/Fund     | <ul style="list-style-type: none"> <li>The investment philosophy and strategy has been discussed in detail earlier. The fund will perform reasonable due diligence/research and seeks to make Fund Investments in Investee Companies that have the potential to earn superior returns vis-a-vis the broader markets.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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