

**The quote "The stock market is a device for transferring money from the impatient to the patient"** by Warren Buffett has turned out true once again in last few months (from March to June Nifty is up 16% with broader markets significantly outperforming). **Indian equities have weathered the storm well**, despite very high geopolitical tensions, as evident in the broad rally. The same has been aided by a bold repo rate and CRR cut by RBI, thereby restoring banking liquidity. While **valuations remain elevated** compared to global markets, we believe substantial **growth differential between India and global markets, declining inflation, falling bond yields, and a weakening dollar provide support**. FII's have also started to return after a long pause as evident from data mentioned below. Below is a concise summary of how we are looking at key sectors in our portfolio:

## Market Update

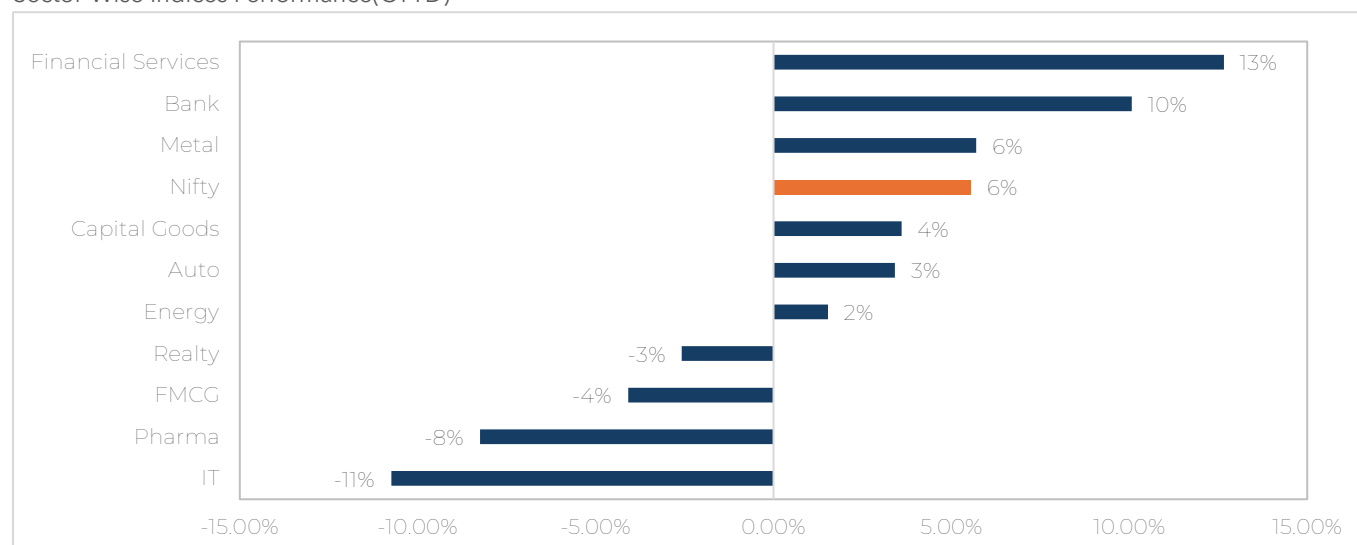
**Indian equities have sustained their recovery since the March 4th trough**, with the BSE 500 advancing 18.1% and the Nifty 50 gaining 16.2%. **Mid and small-cap segments have outperformed significantly**, with the Nifty Midcap 150 rising 23.5% and the Nifty Small cap 250 surging 27.9% over the same period.

**Three key factors have supported this rally**: The RBI has delivered 100 basis points of cumulative **rate cuts** year-to-date, including a surprise 50 basis point reduction and 100 basis point CRR cut in June, following earlier cuts in February and April. **Foreign portfolio investors have returned as net buyers** after early-year outflows, injecting approximately ₹31,100 crore between March and June, with May recording inflows of ₹19,860 crore alone. Additionally, **reduced global tariff tensions have stabilized the dollar-rupee exchange rate** while system liquidity has returned to surplus levels, **enhancing monetary transmission**.

**Sector performance** has been notably divergent, reflecting varying sensitivities to the domestic liquidity and rate-cut environment. **Capital goods has emerged as the standout performer**, with the BSE Capital Goods index reaching fresh highs driven by strong order book visibility and domestic capex revival. **PSU banks** have similarly benefited from the monetary easing cycle and the Finance Ministry's subsidiary monetization push, with the Nifty PSU Bank index breaking out to 16-month highs. **Oil & gas and power sectors** have also delivered strong returns, supported by improved refining margins for oil marketing companies and tariff relief measures. Real estate initially responded positively to rate cuts but has since turned range-bound despite maintaining high-teens year-to-date gains, while automobiles have moderated after an early April rally and now track in line with broader market performance. **Healthcare and pharma have provided steady defensive performance**, benefiting from rotation out of FMCG names. Conversely, **export-oriented sectors continue to underperform**, with information technology remaining flat due to weak discretionary spending and export headwinds, while metals have given up most early gains amid global price softness and **FMCG closed June in negative territory** following defensive rotation reversals.

## Chart 1: Sectoral Performance

Sector-Wise Indices Performance(CYTD)



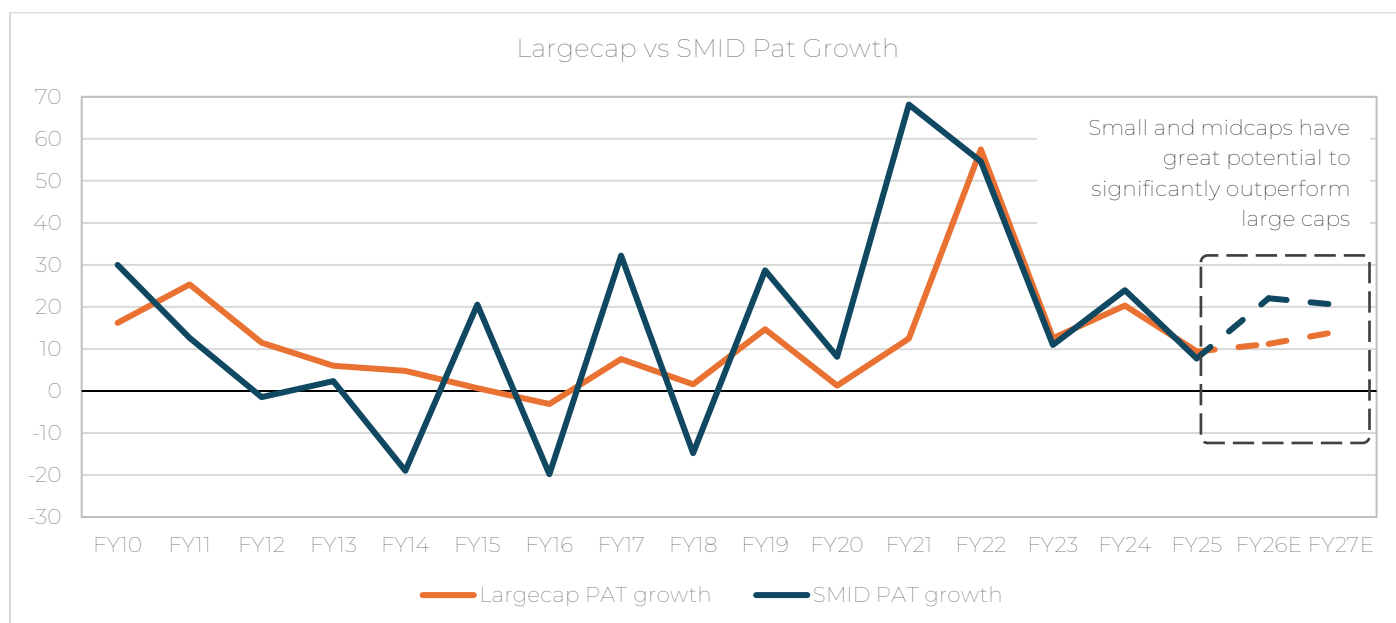
Source : Google Finance, updated as of 30th June

Following an extended period where markets responded primarily to macroeconomic developments—including RBI monetary policy adjustments, trade tensions, and crude oil price fluctuations—**investor attention is now shifting toward corporate fundamentals as the Q1-FY26 earnings season commences**. Moderate growth projections create significant potential for individual stock performance to diverge based on company-specific results and sector dynamics.

The monsoon season has developed favourably for market sentiment, with June rainfall registering 9% above the long-term average and the India Meteorological Department forecasting July precipitation at over 106% of normal levels. This **robust monsoon pattern should provide substantial support for rural-oriented sectors** including fast-moving consumer goods, agricultural inputs, tractors, and two-wheeler manufacturers.

The market environment suggests that **individual company performance and sector-specific execution capabilities**, rather than broader macroeconomic developments, will **primarily determine investment outcomes** in the coming period.

## Market Outlook - What's to come?



Source: Bloomberg, Nuvara Research; Note: OMCs and fertilisers are excluded from BSE500 sample space Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500. Estimates are Bloomberg consensus

Market **consensus projects the BSE-SMID index will deliver approximately 20% earnings growth during FY25-27, significantly outpacing the 15% anticipated for large-caps**. This acceleration reflects surplus RBI liquidity and margin recovery across NBFCs, cement, and consumer companies rebounding from depressed operational levels.

Overnight funding markets have returned to surplus conditions, which historically triggers double-digit profit outperformance for smaller enterprises during market up-cycles. With input costs declining and operating leverage still untapped, these sectors can achieve superior earnings, providing the incremental growth that justifies their premium valuations and positioning them to reclaim earnings leadership over the next 12-18 months.

## Outlook

We **maintain a constructive outlook on Indian equities** while expecting returns to **become increasingly stock-specific**. With significant year-to-date rate cuts, surplus liquidity conditions, and robust monsoon patterns supporting rural demand, earnings momentum and balance sheet quality should drive performance rather than macroeconomic headlines. **Our positioning favours capital goods, rural consumption sectors, cement, and utilities** that benefit from capex revival, declining funding costs, and softer input prices. We believe disciplined stock selection focused on earnings visibility and capital efficiency should generate optimal risk-adjusted returns through the current fiscal year.

Warm regards,

Sandip Agarwal  
Fund Manager

## Annexure 1:

### Sectoral Highlights

[Note: we cover sectors to which we have exposure in our portfolio and the commentary is based on analyst reports and forward looking management guidance]

#### BFSI

##### Banks

- Banks are expected to report a **muted performance** for the quarter, characterized by subdued loan growth, **contraction in net interest margins** (NIMs), and elevated slippages. System-wide credit growth has slowed significantly, registering only a 0.4% increase during the quarter. Deposit growth is also anticipated to remain flat on a QoQ basis. CASA ratio to deteriorate sequentially, following a seasonally strong Q4.

##### NBFC

- India's NBFC sector is poised for a **robust Q1 FY26**, with AUM growth expected at 20-24% YoY, driven by sustained momentum in retail lending, MSME finance, and a recovery in rural consumption.
- Disbursements remain strong** across segments, especially in vehicle loans and gold loans, which are witnessing 15-18% YoY growth.
- Net Interest Margins (NIMs) are likely to hold steady** at 6.5-7.5%, as higher lending yields offset elevated funding costs.
- Asset quality remains stable**, with GNPA ratios either flat or improving, and credit costs contained at 1.2-1.4%.
- The sector is also benefiting from improved liability management, with a shift toward long-term borrowing and higher bond market access.
- Operating leverage is kicking in as scale increases, and regulatory visibility (including upcoming NBFC NPS framework) adds further confidence.
- Overall, Q1 FY26 is expected to be a quarter of strong performance, supported by steady margins, healthy disbursements, and stable credit quality.

##### Capital markets

- Market recovery & volumes: Nifty 50 has rebounded ~15 % from March lows and now sits within 2 % of record highs, with cash equity ADT above ₹1 lakh cr and options-premium turnover at ₹72,000 cr (+33 % YoY).
- Domestic inflows: Record SIP contributions of ₹26,688 cr in May have pushed mutual-fund AUM past ₹70 trn, lifting DII ownership to an all-time-high 25.8 %.
- FII headroom: Foreign ownership has slipped to a decade-low 16 %, but ~\$ 2.3 Bn of net buys in May and June signal the first stirrings of re-engagement.

- Regulatory support: SEBI's 29 May derivative-limit refinements, T+0 settlement pilots, and new GIFT-City index contracts collectively expand access while keeping risk guardrails intact.
- Outlook: **Rising turnover, deeper domestic participation, light FII positioning, and accommodative policy** (rate cuts, margin tweaks) create a favorable backdrop for exchanges, depositories, and brokers; any regulatory hiccups look tactical, not structural.

## Textiles

- India's textile sector is **showing early signs of recovery** in H1 FY26, led by a revival in global demand and easing of raw material prices.
- **Export volumes in key segments** like home textiles and garments **have improved** by 8-10% YoY in April-May 2025, driven by restocking from the US and Europe.
- **Cotton prices have stabilized** around ₹58,000-₹60,000/candy, offering relief to margins, while yarn realizations are gradually improving.
- **Inventory levels at global retailers have normalized** to 14-16 weeks (from over 20 weeks a year ago), setting the stage for sustained order flows.
- Domestically, demand for man-made fiber (MMF)-based products and technical textiles remains strong, with policy incentives like PLI and MITRA parks starting to have an impact.
- Capacity utilization for spinning units has risen to ~78-80%, and operating margins are expected to improve by 100-150 bps in Q1 FY26.
- Overall, the sector is likely to post moderate double-digit revenue growth and a sequential improvement in profitability in Q1, supported by favorable macro and trade tailwinds.

## Travel & Leisure

### Hotels

- The hospitality sector is poised for a **strong Q1 FY26**, with industry players guiding for double-digit sequential **revenue growth driven by weddings, summer travel, and spiritual tourism**. ARR's are expected to rise 4-6%, occupancy to improve 2-3pp, and RevPAR to grow 6-9%.
- **EBITDA margins may expand 100-150bps** on operating leverage and higher direct bookings. Ancillary revenue is projected to grow 6-8% QoQ, lifting Total Revenue per Available Room by 7-9%.
- While northern bookings may see short-term impact from geopolitical tensions, forward bookings and demand visibility remain robust.

### Aviation

- The aviation sector is **expected to report a weak quarter**, primarily due to **operational disruptions** in May caused by geopolitical tensions, including the closure of Pakistani airspace. The flight cancellation rate increased to 2.51% (up 187 bps QoQ/ 80bps YoY).
- Additionally, **subdued passenger demand is likely to impact load factors**, with PLF expected to decline to 86%, down 30 bps YOY/ 100 bps QoQ. Although fuel prices have moderated, elevated non-fuel operating expenses and weaker passenger yields (down 3% YoY/ 4% QoQ) are expected to continue weighing on overall profitability.

## Chemicals

- Q1 is **expected to mark year-on-year volume recovery** for the chemicals and agri-inputs sector, with **volume growth improving as the global destocking cycle ends and domestic demand strengthens**. Specific companies are likely to benefit from better realizations in key products (e.g., PNT, surfactants) due to anti-dumping duties, improving realisation and rising local offtake. While sequential (QoQ) growth will be modest, profitability and revenue should see healthy YoY gains, supported by **higher capacity utilization and new product launches**

- Managements guided for low- to mid-teens revenue growth in FY26, margin stability, and capex revival while global demand normalization and China pricing remain key watchpoints.

## The Capital Goods & EPC

- The Capital Goods & EPC sector is set to deliver a **resilient Q1 FY26, supported by strong order books ), robust execution, and policy-driven demand from power T&D, data centres, etc.**
- Execution remains healthy in transformers, automation, and rail propulsion, while HVDC players and data centre-linked firms should outperform.
- Water infra players may see mixed trends due to delays in Jal Jeevan Mission disbursements, but execution will pick up as audits clear. Steel and cable manufacturers like APAR are expected to report robust EBITDA/ton growth aided by pre-buying and export mix
- Overall, the sector should deliver a stable Q1 with margins largely flat QoQ, **focus on working capital control**, and momentum sustained by both government and private sector demand.
- 

## Pharma and Healthcare

- The pharmaceutical sector is expected to post a **mixed performance** in Q1 FY26, marked by sequential revenue growth for most companies, stable to slightly improving core EBITDA margins, and resilience in profitability despite evolving market dynamics and seasonal factors.
- However, **Indian Pharma saw moderation in export growth** after seeing a robust Q4 that was boosted by inventory buildup due to potential tariff by the US. Exports have declined by 32%QoQ for the CDMO universe.
- However, higher R&D spending and continued pricing pressure in the U.S. may lead to marginal moderation in margins, even as operational efficiency supports core EBITDA stability

## Construction Materials

### Cement

- The cement sector achieved exceptional Q4 FY25 results with **robust volume growth and margin expansion** across all companies, positioning the industry for sustained profitability.
- Demand is expected to accelerate to 7-7.5% in FY26-27E, supported by increased government capital expenditure, pricing recovery particularly in South India, and significant operational cost reductions of 20-50% from declining fuel costs

### Tiles & Ceramics

- The sector struggled with flat to marginally positive revenue growth in Q4, facing persistent **margin pressure** from weak export demand, global freight disruptions, and overcapacity issues in manufacturing hubs.
- Companies are responding by exiting loss-making divisions and shifting focus toward B2B and project sales to stabilize operations amid suboptimal plant utilization levels.

### Wires & Cables

- The sub-sector delivered **strong double-digit increases** in both volume and revenue, with margin expansion driven by improved product mix, higher export contributions, and operational leverage benefits.
- Companies are making **significant investments in capacity expansion**, capitalizing on strong demand from infrastructure, real estate, renewables, and data center segments, with U.S. export markets providing meaningful contribution to overall performance.

## Real Estate

- The Indian real estate sector is **witnessing a strong upswing, especially in the residential segment**, driven by robust demand across key metros.
- In Q1 FY26, volumes are expected to grow 12-15% YoY, following already high growth in FY25 (launches +19% YoY, sales +21% YoY). Mumbai, Pune, and Hyderabad are seeing record absorption rates, while NCR and Bengaluru remain strong.
- **Premium and mid-income housing are the primary growth drivers**, while affordable housing remains muted.
- On the pricing side, average realization continues to firm up with 3-5% YoY price appreciation expected in Q1 FY26. Developers with strong brand recall and execution are best placed to benefit.
- With **inventory at multi-year lows** (10-13 months across top cities) and project pipelines improving, Q1 FY26 is likely to mark another strong quarter.

## Auto and Auto Ancillaries

### Automobiles:

- Passenger Vehicles (PV): **Volumes declined 5-8% YoY** due to weak urban demand. Inventory levels remained elevated at ~50 days, prompting higher discounting, especially in late June.
- Two-Wheelers (2W): **Sales rose 6-8% YoY**, led by premium urban demand. Entry-level rural demand remained soft.
- Electric 2W: Retail sales surged **41% YoY and 8% MoM** to 84,251 units in June 2025.
- Commercial Vehicles (CV): Total retail sales stood at 69,926 units, flat YoY. Medium & Heavy CVs remained muted; Light CVs were the only growing sub-segment, aided by last-mile delivery and infra projects.
- Tractors: **Retail volumes declined 2% YoY** to 85,726 units, hit by patchy monsoons and a high base. Lower kharif sowing due to poor rainfall in central/south India dented sentiment; **demand may recover in Q2 FY26 if monsoon normalizes**.

### Auto Ancillaries:

- **Auto ancillary players are expected to outperform the OEMs**, supported by multiple tailwinds including increased OEM demand, premiumization trends, rising rural demand, and robust growth in the tractor segment driven by the early onset of the monsoon.
- Operational performance across companies catering to the 2W segment is projected to remain strong on back of strong demand.
- EBITDA margins are estimated to remain broadly stable on a quarter-over-quarter basis, supported by the stabilization of raw material costs and a sustained focus on operational efficiencies. However, **export performance is expected to remain a key challenge**, weighed down by ongoing tariff-related uncertainties and geopolitical tensions.

## Metals and Mining

- The Metals & Mining sector is set for a **muted Q1 FY26**, with stable volumes but **pressure on realizations and margins due to higher input costs and weak global demand**.
- Steel prices dipped 3-4% QoQ, while elevated coking coal and iron ore costs compressed spreads. Base metals like aluminium and zinc face flat-to-lower profitability amid subdued global trends.
- Mining volumes for coal and iron ore remain healthy, but pricing remains soft due to oversupply and weak exports.
- Overall EBITDA growth is expected to remain subdued, with performance hinging on effective cost management and sustained domestic demand.

## FMCG

- The FMCG sector is set for a flat Q1 FY26, with low to mid-single-digit volume growth expected, driven by **improving rural sentiment, normal monsoon, and stable urban demand**. Rural is likely to lead, aided by agri-income support and welfare schemes.
- Home and personal care should sustain momentum, beverages to benefit from summer demand, while food may stay soft due to elevated input costs. Consumers remain price-sensitive, showing a clear preference for smaller packs and regional brands.
- **Gross margins may expand 80-150bps YoY on softening raw material costs**, though **higher ad spends and trade promotions could restrict EBITDA margin gains to 50-100bps**.
- Channel dynamics continue to shift, with **e-commerce and quick commerce gaining traction** as traditional trade stabilizes. Demand visibility remains healthy.

## EMS

- The **Indian EMS market is projected to grow at 28-35% CAGR through FY28-FY31**, expanding from around USD 62 billion in 2024 to over USD 348 billion by 2031
- Domestic electronics consumption is expected to triple—from ₹10 trillion to ₹30 trillion by FY28—with EMS share rising from ₹3.5 to ₹9 trillion
- **Supportive policies like PLI, SPECS, and recent ₹2,700 crore injection into component manufacturing** are accelerating capacity and exports
- In **Q1 we can expect 20-25% revenue growth YoY** across EMS players, **driven by order ramp-ups, capacity coming online, and export momentum**.

## Power

- India's power sector is witnessing a **strong surge in demand and operational performance in early FY26**.
- During April-May 2025, electricity demand rose 10.2% YoY, while the **daily peak demand surpassed 250 GW for the first time**, highlighting the impact of early summer and rising industrial activity.
- Thermal PLF (Plant Load Factor) improved significantly to 74.6%, compared to 71.2% last year, reflecting better utilization of existing capacity.
- Power generation grew by 11% YoY, with coal-based generation up 9.4% and renewable generation rising 18.5%, led by solar additions.
- In Q1 FY26, this strong momentum is expected to continue, supported by persistent heatwaves and macroeconomic growth.
- Merchant tariffs continue to remain firm in the range of ₹6-7/unit, benefiting independent power producers (IPPs).
- **Renewable capacity addition is also gaining traction—India added 7 GW in Q1 FY26**, led by solar (5.8 GW). However, risks include renewable execution delays and potential monsoon-led demand moderation in late Q2 FY26.

## DISCLAIMER:

*Any information contained in this material shall not be deemed to constitute an advice, an offer to sell/purchase or as an invitation or solicitation to do for security of any entity and further Sowilo Investment Managers LLP and its employees/directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use of this information.*

**Sowilo Investment Managers LLP - SEBI Registered Portfolio Manager (INP000008127)**