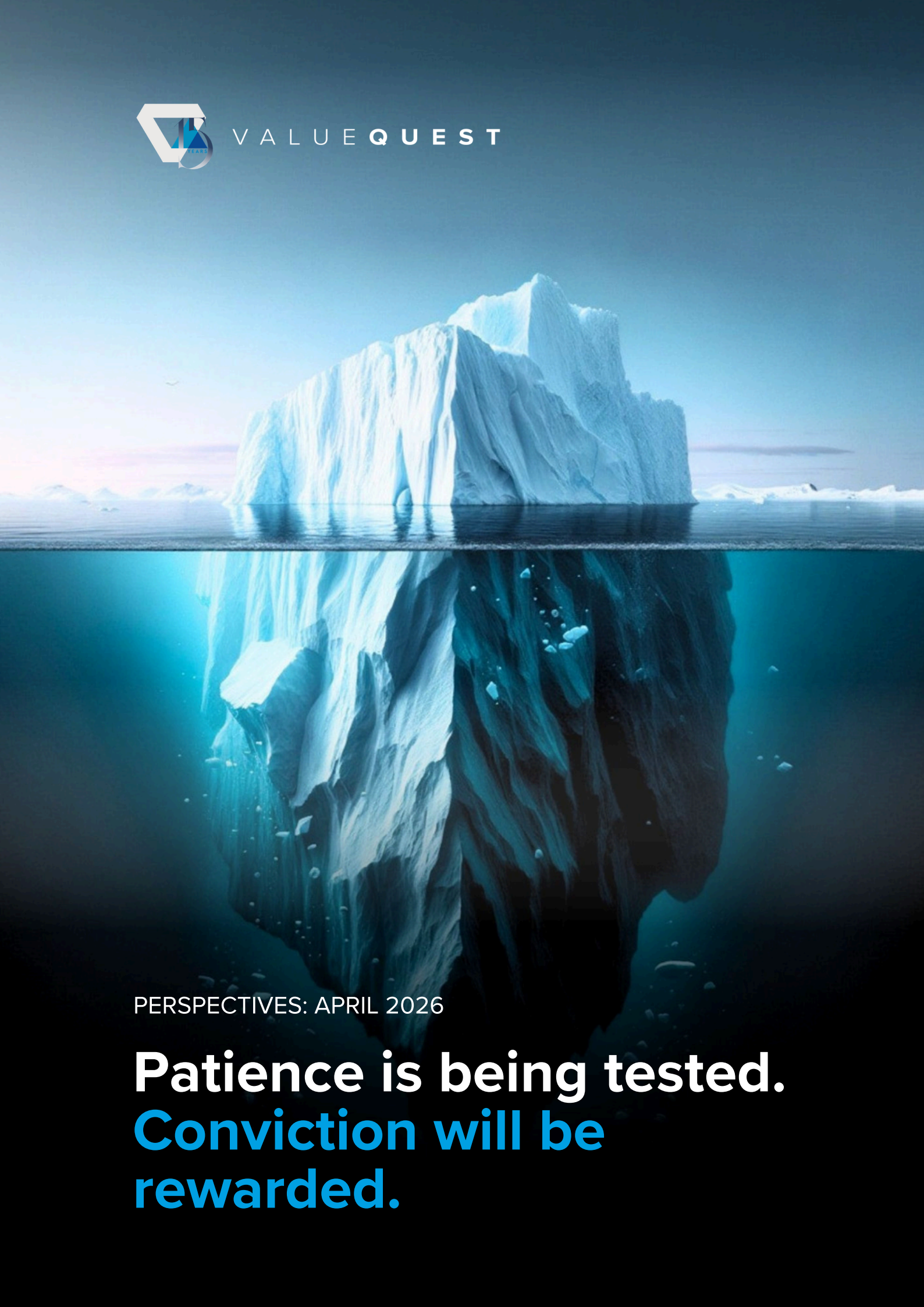




VALUEQUEST



PERSPECTIVES: APRIL 2026

Patience is being tested.
Conviction will be rewarded.

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From the Founders' Desk

In April 2020, oil traded in negative territory, an extraordinary event driven by a collapse in demand and extreme pessimism. Since the onset of the conflict in West Asia, markets have been grappling with the opposite extreme: the risk of supply disruption.

Energy has once again emerged as the central macro variable.

If the disruption proves transient, markets can absorb it. But if it persists, second order effects begin to cascade.

1 Freight costs rise

2 Gas markets tighten

3 Pockets of production become uneconomical

4 Input costs move sharply higher.

These pressures then transmit through currencies, margins, end demand, and ultimately earnings. At extremes, markets often struggle with the quantification of the magnitude of the shock and the unknowability of its duration. It is a known-unknown risk. The recent correction reflects precisely this dynamic. Markets were not repricing the crude alone; they were trying to reprice the time horizon over which uncertainty could persist.

Such phases rarely sustain. As tensions moderate, markets are likely to gravitate back towards long-term sustainable fundamentals.

This uncertainty does not exist in isolation. Three distinct disruptions are currently shaping the Indian economy:



One of the largest energy supply shocks in recent history originating in West Asia



An AI-led disruption reshaping the employment and earnings model of India's largest export industry



A tariff war whose resolution, despite visible progress, remains entangled in legal and political uncertainty

Markets can absorb one variable. Two introduce volatility. Three concurrent shocks necessitate a broader repricing.

The question is not whether the environment is difficult. It clearly is. The question is whether this is a moment to reduce conviction, or to deepen it. We believe it is the latter.



**In the short run, the market is a voting machine.
In the long run, it is a weighing machine.**

Benjamin Graham



India is much better positioned than in past cycles to absorb \$100 oil. Stronger macro balances and domestic demand provide a buffer.

India 2008 vs. 2025: The Structural Shift is Enormous

Metric	2008 (Crisis Year)	2024–25	Implication
GDP Size	\$1.1 Trillion	\$4 Trillion	4x larger economic absorber
Oil Import Volume	900M Barrels	1.7B Barrels	Higher volume, far lower % of GDP
Import Bill	\$90B (7-8% of GDP)	~\$140B (3.5% of GDP)	Vulnerability halved as % of GDP
CAD as % of GDP	2.60%	0.80%	Far healthier starting point
FX Reserves	~\$250B (~9M import cover)	~\$688B (~11M import cover)	Better buffer

Source: Business Standard, Morgan Stanley Research, RBI, VQ Analysis.

Crude Spike Scenarios: CAD, Inflation & Growth (FY2027)

Scenario	Avg. Crude (\$/bbl)	CAD/GDP	USD–INR	CPI Impact
Favourable	~70	~1.2%	92–94	~4.1% (contained)
Base Case	~85	~1.8%	92–96	~4.7% input cost spillovers
Adverse	~100+	~2.4%	96–98+	5-5.5% - Spillovers + imported inflation

Source: Kotak Institutional Equities estimates. CAD sensitivity: every \$10/bbl move = ~40bps on CAD/GDP.

The INR's recent weakness has been a function of external and deficit pressures, not a shift in policy. The RBI's actions, both regulatory and through reserve deployment have been timely and measured, with a clear objective of containing volatility rather than defending a level.

With the Governor reaffirming policy continuity, and a supportive capital account backdrop, coupled with visibility of a **step-up to ~\$100 billion in gross FDI inflows** next year, driven by large BFSI transactions, the underlying foundations remain intact.

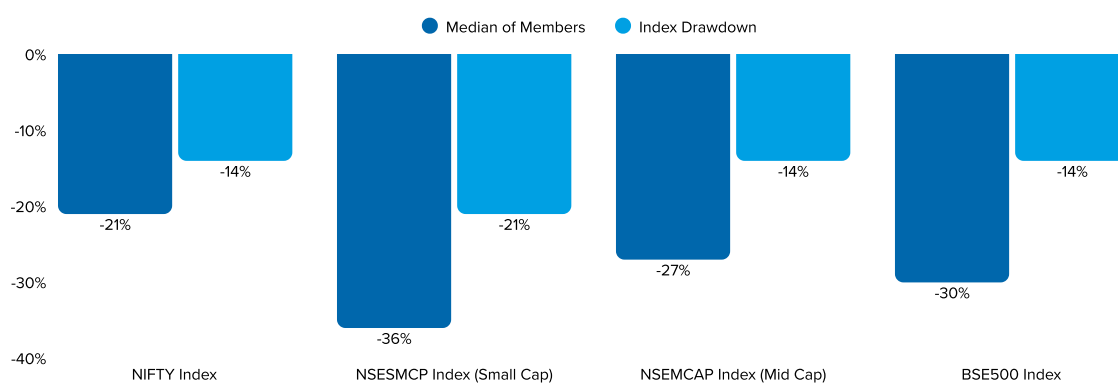
In this context, recent depreciation should be seen as an adjustment phase, with conditions in place for relatively greater currency stability going forward.

Anatomy of the Correction

At ValueQuest, we spend as much time looking at what the market beneath the indices is telling us as we do at the headline numbers. The two have diverged significantly.

The Nifty 50 peaked at approximately 26,300 in September 2024 and has corrected roughly 15% to levels around 22,500. That headline number is unremarkable. What is remarkable lies beneath it. Across BSE 500 constituents, the **median peak-to-trough drawdown is now 30–36%**. Many individual businesses we track closely have corrected 40–50%.

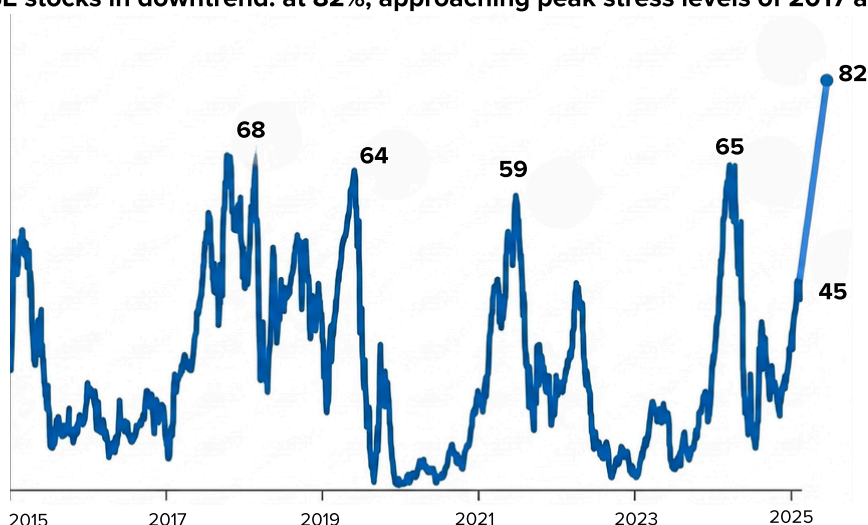
The Surface vs. The Reality: Index drawdown vs. median member drawdown — the headline number masks a far deeper correction



Source: Bloomberg Intelligence

This is also a correction that has worked through time as much as price. **82% of stocks are currently in a downtrend - a level historically associated with late-stage capitulation.** The DII community, backed by SIP flows exceeding ₹25,000 crore per month, has been the structural counterforce absorbing FPI selling without major market breakdown.

% of BSE stocks in downtrend: at 82%, approaching peak stress levels of 2017 and 2020



Source: Bloomberg Intelligence

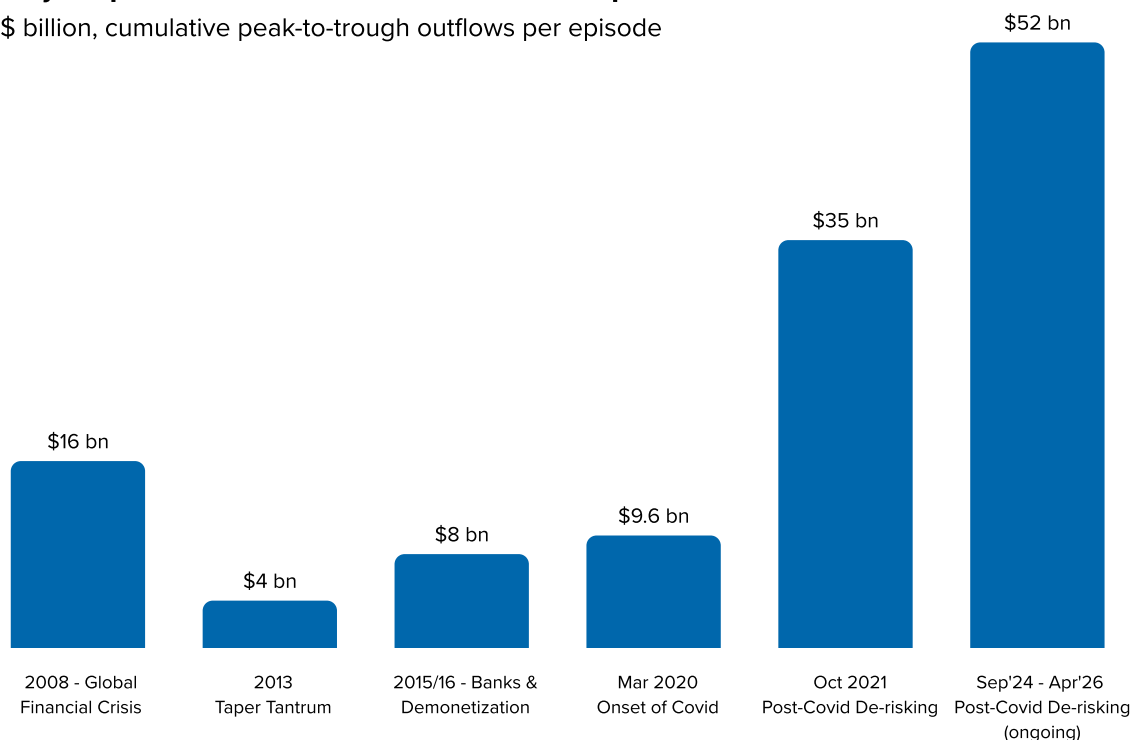
FII Outflows: Cyclical Pattern or Structural Shift?

Foreign institutional selling has been the dominant market narrative since September 2024. But context transforms the interpretation entirely.

Since September 2024, cumulative FPI outflows from Indian equities have exceeded **\$40 billion** representing approximately **0.9% of India's market cap and more than 5% of total FII holdings in India**. To put that in context: this is now on par with the post-COVID de-risking episode, which was the single largest FII outflow episode in India's history. The composition differs - post-COVID selling was driven by rate normalisation globally; today's is driven by the confluence of geopolitical shock, AI disruption anxiety, and rupee pressure. But the quantum is comparable, and the resolution has always been the same.

Major Episodes of FII Outflows in Indian Equities

\$ billion, cumulative peak-to-trough outflows per episode



Source: Bloomberg Intelligence, NSDL, NSE

The table below places the current episode in full historical context. Every prior episode, without exception, has resolved with Indian equities materially higher. The mechanism is consistent: as valuations compress, the opportunity cost of being underweight India rises for global allocators. When sentiment turns, the reversal is sharp.

Past Episodes of FII Selling In India

Period	Duration	Event Tag	FII Outflows (\$bn)	India Mkt Cap at Start (\$T)	% of India Mkt Cap Sold	FII Holdings at Start (\$bn)	% of FII Holdings Sold	FII as % of India Mkt Cap	Nifty Returns
Jan 2008	14 months	Global Financial Crisis	-16	1.8	0.90%	290	5.50%	16.10%	-57%
Jun 2013	4 months	Taper Tantrum	-4	1.1	0.40%	204	2.00%	18.50%	-9%
Sep 2014	2 months	Election correction	-1	1.6	0.10%	302	0.30%	18.90%	-5%
Apr 2015	11 months	Banks' asset cleanup	-8	1.3	0.60%	320	2.50%	24.60%	-17%
Oct 2016	4 months	Fed hikes / Demonetization	-5	1.7	0.30%	335	1.50%	19.70%	-3%
Feb 2020	4 months	Onset of Covid-19	-9.6	2.1	0.50%	430	2.20%	20.50%	-23%
Oct 2021	10 months	Post-Covid de-risking	-35	3.5	1.00%	665	5.30%	19.00%	-10%
Sep 2024	19 months (ongoing)	Post-market-high correction + US-Iran war (Feb-26 onwards)	~-52	4.5	~1.2%	930	~5.6%	~17-18%	~-9%

Source: Bloomberg Intelligence, NSDL, NSE

Every 5-year rolling period in India except 1992 (a systemic fraud event, not a macro shock) has delivered positive returns. India's structural trajectory is intact.



The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.

Sir John Templeton



Crisis as a Catalyst for India's Structural Themes

Crises tend to act as catalysts, **reinforcing and accelerating** underlying structural trends. The COVID pandemic compressed a decade of digital adoption into 18 months. The current geopolitical and energy disruption cycle has a similar accelerating character across multiple structural vectors simultaneously.

A few themes deserve particular emphasis in the context of the current crisis. **Renewables & Green Energy** receives the most direct acceleration: an energy security crisis of this magnitude makes every policymaker and boardroom a convert to the electrification thesis. The pain of a \$115+ oil import bill is the most powerful advertisement for energy independence that India could receive. India's 500 GW renewable target by 2030 is now a strategic imperative.

Similarly, **Defence & Strategic Manufacturing** is being directly re-rated upward by the conflict itself: every NATO and Indo-Pacific ally is repricing defence budgets, and India's 75%+ indigenisation mandate means that spending flows directly into domestic industry. **Data Centres & AI Infrastructure** is accelerating because the energy security crisis makes digital infrastructure sovereignty more urgent, not less and the \$50bn+ committed by hyperscalers is not reversible on geopolitical grounds.

The table below summarises India's nine structural themes and their status of 2026–31. Each was identified by ValueQuest as a multi-year structural theme before the current crisis. The crisis has strengthened, not weakened, the case for every one of them.

Theme	Status (2026–31)	Key Catalysts & Data Points
Energy security	Strongly accelerating	Energy crisis = urgency to accelerate move towards renewables. 500 GW target by 2030 is now a strategic imperative. The entire electrification value chain should get a major flip given the need to rollout electrification infra. EV adoption should also see an increase.
Defense	Accelerating	Defence indigenisation target: 60% imports → 50% domestic by 2030. Order books surging with strategic urgency post Iran War. 75%+ of capital procurement now reserved for domestic sources.
Aerospace	Accelerating	The aerospace sector sits at the intersection of a domestic aviation boom (1,500+ aircraft on order), a policy-driven MRO import substitution opportunity, and an emerging global manufacturing role, making it a structural multi-year growth story

Data Centres & AI Infra	Accelerating	\$50bn+ committed by Google, Microsoft, Amazon with capacities likely to grow multi-fold in next few years. Security gaps exposed in the Middle East during the war could lead to further capacity shifts into India.
Semicon & Electronics	Building	India Semiconductor Mission: \$10bn government backing. TSMC, Foxconn, Micron already committed. Tariff restructuring is a net tailwind for electronics manufacturing relocation.
Domestic manufacturing	Accelerating	Global de-risking from China intensifies. Electronics & semiconductor manufacturing momentum growing. Apple now manufactures ~25% of global iPhones in India.
Private Capex Cycle	Turning	Corporates at decade-low leverage. Capacity utilisation above 80% in cement, steel, chemicals. Credit cycle expected to re-start.
Credit growth cycle	Rebounding	Credit growth accelerating towards 15% YoY. Re-leveraging cycle starting from decade-low D/E ratios in corporate lending, retail unsecured lending cycle also on the uptick.
Pharma / Chemicals	Emerging	India is emerging as the preferred global alternative to China for pharmaceutical outsourcing, backed by a massive generics manufacturing base, cost advantages over Western peers, and a post-COVID geopolitical push by pharma companies to diversify supply chains away from China. Upcoming GLP-1 opportunity is very large.

Source: VQ Analysis. Thematic observations only — not stock or sector recommendations.

Good news and good prices rarely come together. Today, India offers both for patient capital, structural tailwinds intact, valuations derated, entry points attractive.

Earnings Acceleration Ahead, Valuations Now More Supportive

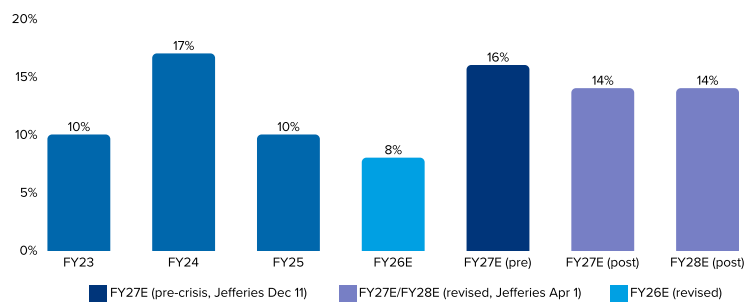
FY26 represented a phase of earnings moderation, driven by softer nominal growth, pressure on banking margins, and weather-related disruptions. As we entered FY27, the cycle was already showing signs of turning.

The setup ahead remains robust. A combination of improving manufacturing momentum, a pickup in private capex, the impact of government demand-side measures, and an acceleration in credit growth should drive a return to mid-teen earnings growth. An additional upside could emerge from exports as trade agreements begin to translate into incremental demand.

While recent geopolitical developments may introduce some near-term disruption, particularly in the first half, they are unlikely to alter the direction of the cycle. The earnings recovery remains intact, with acceleration expected through the year and sustained strength over the next two years.

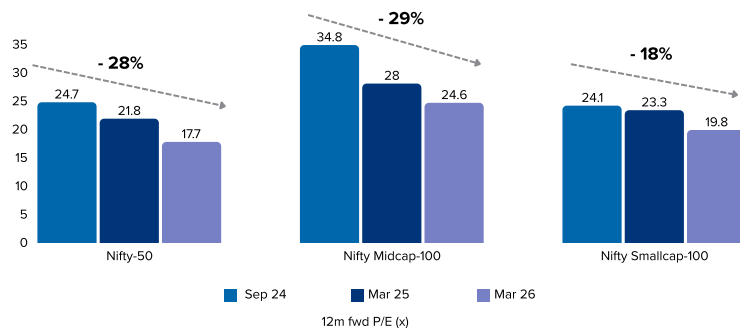
India earnings growth (%) FY23 to FY28E (pre & post crisis)

FY27E shown pre-crisis (Jefferies Dec 11, 2025) and revised post-crisis (Jefferies Apr 1, 2026). FY28E = Jefferies Apr 1, 2026.



Valuations have corrected meaningfully over the past 18 months across the market. As a result, we are entering a phase of improving earnings with more reasonable multiples, creating a more constructive setup for future returns.

Valuations of key benchmark indices corrected significantly from their Sep'24 highs



Deploying capital is hardest exactly when it is most rewarding. Comfort and profit are inversely correlated. The discomfort of today is the alpha of tomorrow.

History Rhymes More Often than it Changes

The most powerful argument for conviction at this moment is not theoretical. It is empirical. India's own 5-year track record, across every major crisis since 2003, has delivered a consistent message to those willing to hear it.

Every crisis was an entry point - except 1992.

Historical 50 Nifty entry levels and 5-year returns across major market crises.

2003	2008	2013	2016	2020	2026
Post dot-com ~19M bear	GFC crash ~14M bear	Taper tantrum ~6M dip	Demonetisation ~3M dip	COVID crash ~2M crash	Iran war today Ongoing
ENTRY NIFTY ~850	ENTRY NIFTY ~2,250	ENTRY NIFTY ~5,500	ENTRY NIFTY ~8,000	ENTRY NIFTY ~7,500	ENTRY NIFTY 22,000-24,000
5YR RETURN ~6x	5YR RETURN ~3x	5YR RETURN ~3.5x	5YR RETURN ~2.8x	5YR RETURN ~3x+	5YR RETURN ?

Sources: NSE, Bloomberg, VQ Analysis - Past performance is not indicative of future returns.

Except the **1992 Harshad Mehta scam** (systemic fraud), every 5-year rolling period delivered positive returns. The 2026 geopolitical shock is not systemic fraud. **This is not 1992.**

There is a story that gets told about Sir John Templeton, who made some of his most legendary purchases on September 4th, 1939 - the day after Britain declared war on Germany. He bought 100 shares in every NYSE-listed company trading below \$1, including many technically bankrupt at the time. Of the 104 companies, only four proved worthless. Templeton's insight was not that the war would end quickly. It was that the price was already reflecting the worst, and the distribution of outcomes from that point was asymmetric.

The current entry range of Nifty 22,000–24,000 will have its 5-year return determined by the quality of businesses held and the discipline of the investor. History is unambiguous about what that discipline, applied at moments of maximum discomfort, has historically produced.

**Risk-reward setups like these present themselves once every 5 years.
For 3–5 year investors, this is that moment.**

“
It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.
”

George Soros

A Final Word

We are asked, with increasing frequency, whether this time is different. It always is — in the specifics. What is not different is human psychology. The same anxiety that grips investors during periods of uncertainty, the impulse to equate discomfort with risk and comfort with safety has been present at every inflection point we have studied. And at every such inflection point, it has been the investor willing to hold conviction through discomfort who has been rewarded.

The psychologist Daniel Kahneman documented why this is so hard: losses loom larger than equivalent gains; vivid, recent bad news crowds out probabilistic reasoning. The brain processes market volatility through the same circuits that once registered predator threats. This is not a character flaw. It is biology. But it is also an edge for those who understand it and act accordingly.

The broader trajectory continues to be supported by structural drivers: domestic demand, formalisation, and India's increasing relevance in a reconfigured global framework. Periods like these test conviction. They have historically rewarded it, handsomely.

We do not know when the current uncertainty will resolve. What we do know, with the conviction that comes from studying cycles across decades, is that five years from now, the businesses we own today will have compounded their way through it. And the entry prices available today will look, in hindsight, like precisely the opportunity they are.

**Patience is being tested.
Conviction will be rewarded - handsomely.**

Warm regards,

Ravi Dharamshi, Founder & CIO | Sameer Shah, Co-Founder & Fund Manager

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