



Achintya Securities Limited

FII Flows & Indian Markets:

Will Rebounding Earnings
Ignite a Revival in 2026?



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Introduction

The Indian equity market is currently positioned for a significant turnaround, driven by a structural growth, supportive policy frameworks, and improving corporate fundamentals. Following a period marked by earnings stagnation, the outlook for 2026 appears increasingly optimistic as the economic slowdown experienced from September 2024 to 2025 is viewed as transitory. A robust recovery is anticipated to be fuelled by a resumption in government spending, specifically in capital expenditure, alongside resilient consumer sentiment. This economic reacceleration is further underpinned by favourable fiscal and monetary measures, such as direct income tax exemptions and continued GST reforms, which are expected to foster a broad-based economic recovery.



The 2025 Market Crash: Causes, Impact, and Initial Recovery

The Indian stock market witnessed a correction in early 2025, erasing several lakh crore rupees in market capitalization. This downturn was driven by three main factors:

- **Foreign Portfolio Investor (FPI) Outflows:** FPIs USD 13–15 billion (₹1.1–1.2 lakh crore) by September 2025.
- **Currency Depreciation:** The Indian rupee weakened beyond ₹88 per US dollar.
- **Market Volatility:** This led to large single-day drops, including multiple instances where the Sensex fell by over 1,000 points.



The impact was most severe in the financial services sector. A brief relief rally occurred in March 2025, with the Nifty Financials index gaining about 9%. By the end of the first quarter, the overall market had rebounded nearly 7%, aided by domestic institutional investors. Regulatory bodies like SEBI implemented measures such as restricting short selling to stabilize the market. A full recovery is expected to be gradual.

Earnings, Valuations, and Investment Flows



In terms of financial performance, the Nifty 50 benchmark is projected to achieve high single-digit earnings growth in the current financial year, with consensus forecasts indicating an acceleration to mid-teen levels in the next financial year. This growth trajectory coincides with the normalization of market valuations, which have adjusted from premium levels to historical averages, thereby creating room for multiple expansion as profitability improves. Additionally, the market anticipates the return of Foreign Institutional Investors (FIIs), driven by the dual catalysts of domestic earnings growth and a potential depreciation of the US dollar, which historically redirects capital toward emerging markets.

Sectoral Dynamics and Selection Strategy

The recovery is expected to be broad-based, though specific sectors are poised for leadership. Positive momentum is already evident in consumer discretionary and financial sectors, supported by a rebound in credit growth and increased disposable income. Concurrently, accelerated government decision-making is driving fresh contract flows in defence, infrastructure, and railways. In contrast, the IT sector is viewed as a contrarian play with a neutral stance, as earnings appear to be bottoming out, while the energy sector is approached with selectivity based on return ratios. The investment strategy remains focused on "growth at a reasonable price," prioritizing financial cleanliness and robust return metrics while maintaining an underweight position in hard commodity-linked industries and telecom.

Sector Stance Summary

Sector	Outlook	Key Drivers
Consumer Discretionary	Positive	Increased disposable income and resilient sentiment.
Financials	Positive	Rebound in credit growth.
Infra / Defense / Rail	Positive	Accelerated Government Capex and contract flows.
IT	Neutral / Contrarian	Earnings bottoming out; potential upside.
Commodities / Telecom	Underweight	Used as funding sources for overweight positions.

The Great Valuation Reset:

From Premium to Fair Value

A critical but often overlooked development is the normalization of valuations. Following a year of time correction and price adjustments, the "froth" has largely settled, bringing key indices back to historical averages.

The following table illustrates how valuations have shifted from September 2024 to the present:

Market Segment	Previous Valuation Status (Sept 2024)	Current Valuation Status	Analysis
Nifty 50	Traded at a 10-15% premium to 10-year average.	~20.5x one-year forward earnings (Historical Parity).	Excesses have been worked out; currently aligns with long-term averages.
Mid-Cap Segment	Commanded a 25-30% premium to norms.	Traded at 10-15% premium above long term average.	Significant reset has occurred, offering a more attractive entry point.

This reset implies that while markets are not "cheap," they are no longer exorbitantly expensive, leaving room for multiple expansion if earnings growth materializes.

Investment Approach:

The FAIR Framework

Edelweiss Mutual Fund relies heavily on a “FAIR” investing strategy for their investment selection process:

- **Forensics:** Focus on clean financials and strong governance.
- **Acceptable Price:** at least 20% upside potential for stocks.
- **Investment Style Agnostic:** Employ bottom-up stock selection.
- **Robustness:** Prioritize businesses with high ROE and ROIC



Pillar	Focus Area	Key Metric / Action	Investment Outcome
Forensics	Risk Management	Auditing governance & accounting quality.	Avoids fraud and governance risks.
Acceptable Price	Valuation	Targeting >20% upside potential.	Ensures a margin of safety.
Investment Style Agnostic	Flexibility	Bottom-up selection (Stock > Sector).	Allows adaptation to market cycles.
Robustness	Quality	High ROE (Return on Equity) & ROIC.	Prioritizes efficient capital compounding.

Conclusion

India's equity market faces a critical turning point. As the earnings cycle shows signs of revival and have reset to historic averages, sector leaders are positioning for a broader across consumptions, and select industrial pockets. Meanwhile, disciplined investment frameworks and an improving macro backdrop set the stage for renewed foreign investor interest in the next 12-18 months.



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