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Look Beyond the *Benchmark*

Right Story, Wrong Lens — The return potential of Indian equities is being mispriced by global active and passive investors.

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RIGHT STORY, WRONG LENS

The return potential of Indian equities is being mispriced by global active and passive investors. And that mispricing is precisely why India is being misunderstood and systematically misallocated in global portfolios. They are measuring the India opportunity through the lens of two benchmark country indices — The Nifty 50 and MSCI India (MSCI India is broader than the Nifty but still primarily a large cap index) — and concluding either that India is expensive or that its recent underperformance relative to other markets signals fading momentum. This is just not right. The Nifty 50 is a rear-view mirror of India. It does not capture what India is becoming. MSCI India is in practice a large-cap portfolio. Its top fifteen names account for the bulk of index weight, and the structural themes redefining India are simply not reflected in that concentration. Investors who treat it as a full representation of the Indian equity opportunity are, by construction, underexposed to the most dynamic part of the market.

INDIA'S TRANSFORMATION IS STRUCTURAL AND BROAD BASED

What is happening in India today is not a cyclical upswing. It is a structural rewiring of an economy which is a manifestation of a decade of policy initiatives, infrastructure investment and institutional reform that are all arriving at the same time. Formalization driven by GST and digital public infrastructure is shifting economic activity from the unorganized to the organized sector. The democratization of credit is quietly rewriting the social contract giving millions of Indians who lived entirely outside the formal financial system a credit identity and a path to capital. In doing so, it is creating an entirely new class of consumers, borrowers, investors and entrepreneurs. China-plus-one supply chain realignment is creating manufacturing opportunities in electronics, chemicals, textiles and engineering that India has not seen before. Defense indigenization is building a domestic industrial base — and beneath it, an entire ancillary ecosystem of component manufacturers, systems integrators and technology providers is taking shape, many of which will find their way to public markets as small and mid-cap listings over the coming decade. The buildout of AI infrastructure in India, from data centers to sovereign compute capacity, is positioning the country as a serious node in an AI world. These are not cyclical tailwinds. These are generational structural shifts that redefine the productive capacity of an entire economy.

THE NIFTY IS INDIA. JUST NOT THE INDIA THAT MATTERS RIGHT NOW

You cannot buy most of these structural shifts in the Nifty 50. The listed entities that are compounding earnings at 20–25% on the back of these structural themes — defense, electronics manufacturers, specialty chemical companies pivoting to export markets, capital market intermediaries riding financialization, hospitals and diagnostics chains serving a newly insured middle class, logistics companies riding GST-led network consolidation — are overwhelmingly outside the Nifty. Many are mid-cap businesses. The Nifty 50, by construction, is dominated by large banks, IT services majors, and oil-to-chemicals conglomerates. These are fine businesses. They are not India's transformation businesses. The Dow in 1990 was America's past in an index. The next decade's wealth was created outside it. India's Nifty today is that Dow.

INDIAN MID-CAPS: BUILT BY DOMESTIC CAPITAL. NOW ABOUT TO BE DISCOVERED BY THE WORLD

Where is foreign capital in India sitting today? Despite two years of relentless selling that has pushed FPI ownership in NSE-listed companies to approximately 15%, a 15-year low — the more telling statistic is where that remaining capital sits. The overwhelming bulk of foreign institutional money in India is still parked in large-cap stocks. Mid-cap India, for all practical purposes, remains largely the domain of domestic investors.

By ignoring India in their EM portfolios in past two years, foreign investors may have missed the first and perhaps most explosive phase of India's structural transformation — the phase where earnings re-ratings and multiple re-ratings happen simultaneously. The entry point now is meaningfully different from what it was three years ago, but the earnings runway ahead remains substantial. That still creates enough juice for alpha-seeking investors.

Foreign investors will have no structural choice but to increase their mid-cap allocation. As India's structural transformation unfolds, the mid-cap universe will deepen in liquidity, broaden in sectoral representation, and attract index inclusion that will mechanically force global passive flows. And here is what this means for those already positioned in this space: as that foreign capital broadens its India mandate beyond the Nifty benchmark, mid-cap India will be the primary destination. When that rotation begins in earnest, it will add a meaningful new layer of liquidity to a market that has, until now, been largely domestically owned and domestically driven. For investors already present in this space, that is not just validation — it is a potential re-rating catalyst of considerable magnitude.

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