



Pravia Investment Advisors

AI BOOM INDIA'S NEXT ADVANTAGE

From AI Euphoria
to India's Opportunity:
Contrarian Today,
Core Tomorrow

How India Will Emerge as
the Contra AI Theme

CONTRA TODAY.
CORE
TOMORROW.



AI euphoria has
peaked with extreme
concentration



Valuations stretched,
risks of reversal
rising



India's macros,
demographics & reforms
in a sweet spot



Diverse growth
across sectors,
not just AI-linked



Positioning India
as the smart contra
AI theme

DIVERSIFIED. RESILIENT. GROWING. **INDIA.**

INFRASTRUCTURE | CONSUMPTION | MANUFACTURING | DIGITAL | FINANCIALS | HEALTHCARE

BUILDING A SUSTAINABLE FUTURE. POWERED BY INDIA.

Executive Summary

23rd April 2026

The last 2 years were defined by two dominant themes: **Artificial Intelligence (AI)** and **Real Assets**. Since the release of ChatGPT in late 2022, often called the "iPhone moment" for AI, generative AI has become the fastest-adopted technology in history, reaching nearly 40% of Americans within just two years.

This surge was driven by its general-purpose nature, ease of use, and massive market excitement regarding potential productivity gains.

The economic impact has been profound: -

- ▶ **Infrastructure Demand:** The "math-heavy" nature of AI models created an insatiable demand for Graphics Processing Units (GPUs) and High Bandwidth Memory (HBM). Key beneficiaries included NVIDIA (design), TSMC (manufacturing), and Samsung/SK Hynix (memory).
- ▶ **GDP Contribution:** In the U.S., AI investment contributed roughly \$250 billion to GDP. By Q4 2025, AI-related capital expenditure accounted for over 50% of the U.S.'s incremental GDP growth.
- ▶ **The Energy Shift:** By late 2025, the primary bottleneck for AI shifted from chips to power. This forced Big Tech companies to invest heavily in "off-grid" power, including nuclear plants (e.g., Microsoft and Three Mile Island) and massive solar/wind farms. Tech companies began competing with industries for energy sourcing.

Over the past two years, global liquidity has been heavily concentrated in AI and AI-linked themes, driving them to **outperform broader markets worldwide**.

Now the concern is: Is AI a bubble?

We do not know if it is a bubble. However, as of April 2026, the AI trade reached a level of concentration that mirrors historical peaks. The **top 10 tech companies in the S&P 500 now represent ~41% of the index's market cap**, a level similar to that seen in the 1999 Dot-com bubble and the Nifty Fifty era of the 1970s.

- ▶ **Anthropic's Valuation:** Reportedly receiving offers at an \$800 billion valuation despite an expected annual revenue of only \$30 billion (a ~26x Price-to-Sales ratio).
- ▶ **The "AllBirds Pivot":** A Californian footwear company saw its stock ***price surge 800% intraday*** after simply announcing a pivot to becoming an AI company.

Three Plausible Scenarios for the Future of AI

- ▶ **Upward Re-rating (20% Probability):** Valuations are further justified by continued earnings surprises and the highest-in-sector growth expectations.
- ▶ **Sideways/Consolidation (35% Probability):** A period where P/E de-rating continues while earnings grow, leading to a "**narrow market**" where only those with high technical expertise can pick individual winners (stock pickers market).



- ▶ **Maturity/Moderation (45% Probability):** The technology becomes **commoditised**. Pricing power erodes as the cost per million tokens falls faster than volume increases (e.g., GPT-4o mini and DeepSeek V3 pricing). In this scenario, Big Tech risks over-leveraging its balance sheets by spending most of its free cash flow on massive AI infrastructure.

Strategic Risks: Government and Cybersecurity

- ▶ Governments have shifted from being passive observers to active participants, viewing AI as a tool for **economic and military dominance**.
- ▶ This intervention, including the U.S. CHIPS Act and "Made in China 2025," is fragmenting the global market into sovereign blocs.
- ▶ Additionally, new models like **Anthropic's Mythos**, which can detect systemic flaws in banking code, have raised severe cybersecurity alarms, leading to government-restricted releases.

The above-mentioned factors make an AI trade reversal seem plausible, which might be beneficial for underperforming arenas, including India.

For the last 18 months, India has underperformed relative to AI-heavy markets like Taiwan and South Korea because it lacked a direct "AI hardware" play. This led to India becoming the **deepest underweight market in a decade** for global emerging market (EM) funds.

However, the case for a reversal toward India is strengthening:

- ▶ **Valuation Moderation:** Indian equity premiums relative to the MSCI EM have contracted from a peak of 104% in late 2024 to roughly 50% (vs 7Y average of ~70%). Mid and small-cap valuations have also rationalised.
- ▶ **Superior Macros:** India is projected to be the fastest-growing major economy, with 7.4% GDP growth in FY26, supported by a young demographic (median age 28).
- ▶ **Market Breadth:** Unlike the concentrated AI trade, the Indian market opportunity spans across Industrials, Financials, Consumption, Healthcare, Infrastructure, Digital, etc., enabling diversified portfolios with lower unsystematic risks.

Investment Implications –

We reiterate our optimism on the Infrastructure, Consumption, and Manufacturing (ICM) framework

- ▶ **Infrastructure & Logistics** – metals/mining/Rare earth elements, energy (grids, thermal, OMCs, and infra build-out in roads and rail).
- ▶ **Consumption** – New Age & Digital Consumer, Discretionary (premiumisation), QSR/F&B, Healthcare (hospitals, CDMO, medical tourism), Tourism, and Consumer Durables.
- ▶ **Manufacturing** – EMS (import substitution), Auto & Auto Ancillaries (domestic demand + EV), Textiles (China+1 beneficiary), Speciality Chemicals (export recovery), Robotics/Automation, and Defence indigenisation.



Thematic Note – Global AI trade and its plausible reversal

Detailed Note –

Section 1 – Background to what happened over the last 2 years:

- AI and real assets were the exceptional outperformers
- While rest of the world underperformed due to liquidity outflows

If we look at CY24 & CY25 performance around the world, the GDP growth and equity market performance is largely driven by **two mega themes** – a) Artificial Intelligence, and b) Real Assets driven sectors. Countries and sectors in absence of artificial intelligence and real assets have underperformed starkly.

Artificial Intelligence was the star performer of CY24 and CY25

In November 2022, OpenAI released ChatGPT. It was the **"iPhone moment" for AI**. Within months, every tech giant and startup launched their respective generative AI models. Soon after this, AI is widely considered the **fastest-adopted technology in history**, with generative AI usage reaching nearly ~40% of Americans within two years of ChatGPT's launch.

The fast-paced adoption happened on the back of being general purpose technology, easy-to-use interfaces, no need of technical knowledge, expectation of productivity gains, curiosity of new technology, and market excitement of potential TAM.

This adoption led to **demand for entire value chain of artificial intelligence** and ancillary industries. Launch of various models created demand for computing power. These models are essentially "math-heavy." To run that math, you need a Graphics Processing Unit (GPU). Specifically, you need thousands of them working in a single "cluster." This created an overnight, insatiable demand for high-end semiconductor chips.

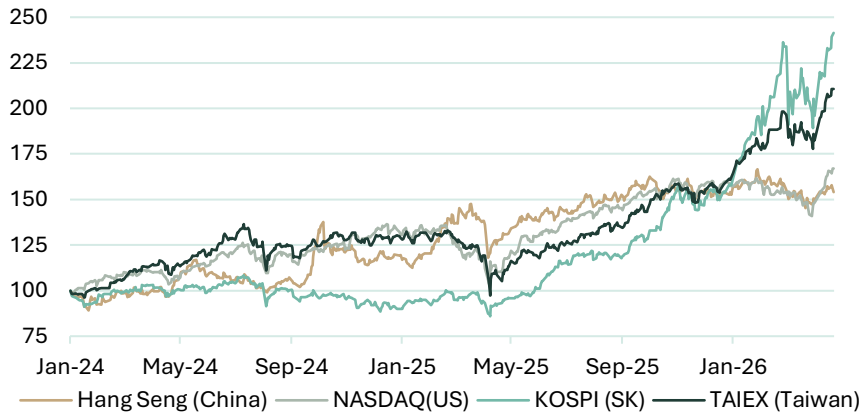


The demand for semiconductor chips increases the demand for whole ecosystem with **chip designing, GPU chip manufacturing, and memory chip manufacturing**. Companies like NVIDIA, TSMC, Samsung, SK Hynix among others become key beneficiaries of this demand.

- NVIDIA - **The Designer** – Designs the Graphic Processing Units (GPU)
- Samsung & SK Hynix - **The Memory** – Manufacture the High Bandwidth Memory chips
- Taiwan Semiconductor Manufacturing Company (TSMC) – **The Foundry** – Manufactures the GPU using design from NVIDIA & Memory chips from Samsung or SK Hynix

As a result of this, all the companies, sectors, and countries which are related to Artificial Intelligence showed remarkable growth.

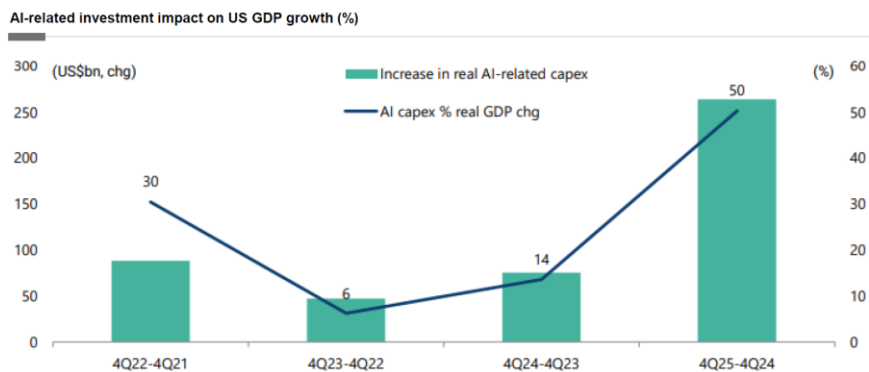
Global Stock Indices



Index CAGR Since Jan-24	23-Apr-26
Hang Seng (China)	20.64%
NASDAQ(US)	24.89%
KOSPI (SK)	46.53%
TAIEX (Taiwan)	38.12%

Source: Investing.com

According to Vanguard, since the emergence of ChatGPT in late 2022, AI investment has contributed roughly \$250 billion to U.S. GDP. As per the chart below, AI capex contributed to >50% of US' incremental GDP growth in Q4'25



Source: Bureau of Economic Analysis, Jefferies

Additionally, the Real Asset universe has performed exceptionally well

In addition to Artificial Intelligence, real asset universe has performed. There was meaningful appreciation in precious metals, Gold & Silver, driven by dollar debasement theory, and hedging macro uncertainty.

AI led computing created enormous demand for energy. By late 2025, the bottleneck shifted from *chips* to *plugs*. Big Tech companies transformed into **Energy Companies**. Microsoft famously signed a deal to restart the **Three Mile Island** nuclear plant. Amazon and Google began investing heavily in massive solar/wind farms to create "off-grid" power for their AI clusters.

While, the rest of the world has grossly underperformed on the back of liquidity outflows

The world liquidity flowed majorly to AI and hard assets on the back of investment in energy for AI and precious metals. While the liquidity was sucked out of the sectors and countries which were not present in the above two themes.

India particularly underperformed in last 18 months on the back of narrative that India does not have AI play. This has led to liquidity outflow from India to other countries which represent AI



play. Over 1st Jan 2024 to 20th Apr 2026, Indian NIFTY 50 delivered +12% vs Taiwanese TAIEX +105%, South Korean KOSPI +134%, China (Hang Sang) +54% in their respective currencies.

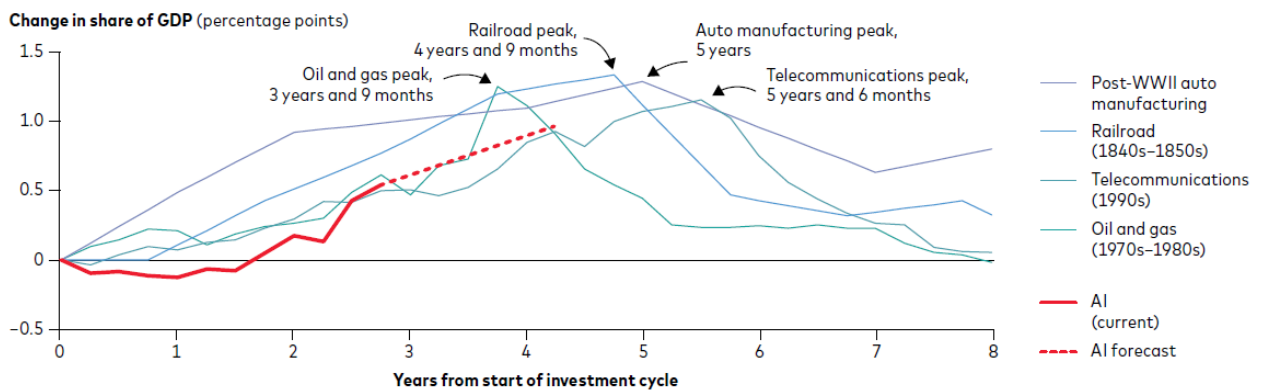
In addition to absence of AI play, there were other concerns which led to FII selling India. These concerns were – AI might lead to mass unemployment in white collar IT services jobs which historically being one of the largest employment sectors in the country. This will impact the consumption in the economy which is the largest component of the GDP. All these narratives led to a sell-off in the Indian equities by global investors.

Section 2 – Given last 2Y out-performance of the AI theme, investors started asking:

- Is the Artificial Intelligence theme a bubble?
- Why does AI command growth valuations?
- Why does it seem incrementally difficult for the Bull Case from current levels?

Is the Artificial Intelligence theme a bubble?

Honestly, we don't know the answer. While we believe AI is real and it is here to stay. Historically, A general-purpose technology (GPT) has been followed by the economy engaging in capital deepening that requires significant upfront investment in the new tools. Following chart shows number of years to peak for past technologies w.r.t their contribution to real GDP growth rate.



Notes: This chart shows the change in the total size of different investment cycles as a share of real GDP. The period starting points are: Q1 1850 for railroad, Q1 1946 for post-WWII auto manufacturing, Q1 1980 for oil and gas, Q2 1995 for telecommunications, and Q3 2022 for AI (current).

Sources: Vanguard calculations, based on data from the Bureau of Economic Analysis, as of October 31, 2025. Railroad data are sourced from Pereira et al. (2014).

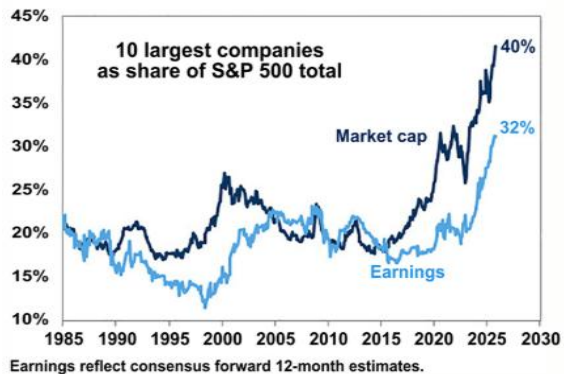
Historically, average of last 4 general purpose technology investment cycles has peaked in 4 years and 9 months. Given that **we are already in 4th year of AI investment cycle**, we can't say when AI investment cycle will peak. While the concentration of top 10 AI companies in S&P 500 has reached record ~41% which is similar to historical concentration peaks over last 60 years. Additionally, market cap share is way higher than earnings share for top 10 constituents of S&P 500 suggesting over representation vs earnings.

Historical concentration peaks

Concentration of Nifty Fifty in '70s, Japan in '80s, Tech in '00s, AI in 2020s



Concentration of S&P 500 MCap & earnings



Given the aforementioned data we try to present a debate around the bubble with the following framework.

Why AI Commanded Growth Valuations?

Market has given growth valuations to AI theme companies in last 2-3 years with their valuation multiple expanding. We believe following reasons led to the growth valuations for AI companies:

- Surprise earnings upside: NVIDIA repeatedly beat earnings expectations by wide margins
- Growth beyond predictability: TAM expansion was genuinely hard to model
- High barriers to entry: Technology IP, Hardware stack, Talent, and data moat
- Relative attractiveness: Nothing else in global markets was as compelling as AI theme

Why does it seem incrementally difficult for the Bull Case from current levels?

A. Entry valuations are stretched – Growth adjusted valuation looks expensive

The last two years' performance has been robust for AI theme companies. While lot of expectations already built into the current market prices of these companies.

Artificial Intelligence Architecture has three layers:



Large part of performance of AI companies was linked to AI infrastructure layer companies – NVIDIA, TSMC, Samsung. These companies are backed by strong fundamentals with earnings of these companies having grown meaningfully.

While earnings for AI LLM model companies are yet to pick up, the current adoption is largely B2C which is majorly running on freemium model. Large earnings to justify the return on investments by AI companies will come from B2B business. B2B business is largely driven by corporate use-cases with the help of creating customized small language models on the corporate data.

There is lot of noise around AI in the first two layers – a) the brain, b) the infrastructure. While third layer is yet to pick up. This makes the current valuation stretched as we don't know how the B2B implementation will be and subsequently what kind of return on investment will be generated.

B. Froth in the AI market is visible across companies:

Anthropic, the owner of Claude AI, raised \$30 Bn at a \$380 Bn valuation P/S at 12.67x. In April-26, Anthropic has received offers which values the company at ~\$800 Bn – Implying a P/S ratio at 26x.

Another incident happened in mid-April 2026 with US listed company – **AllBirds inc.** It is an American footwear manufacturer known for its sneakers made from Merino wool. In exchange filling the company said it has decided to pivot from a shoe maker to an AI company. The pivot from sneakers to AI pushed the stock price up 800% intraday with finally settling with 580% single day gain.

Section 3 – With the aforementioned context, there are 3 plausible scenarios for the AI sector moving forward:

1. **Scenario 1 (20% probability):** Upward re-rating of AI valuations
2. **Scenario 2 (35% probability):** Sideways/Consolidation phase to occur
3. **Scenario 3 (45% probability):** Maturity/Moderation Phase – Commoditization of AI

1) Scenario 1 (20% probability): Upward re-rating of AI valuations.

a) In this scenario, we expect AI valuations to be justified, and even increase further. Comparing peak valuations of the largest Tech companies now v/s back in the 1999 Dot.com bubble shows we aren't there yet. (Refer to table on the left below)

1999 - Dot Com bubble		Now	
Company Name	TTM P/E	Company Name	TTM P/E
Cisco	97	Broadcom	78
Oracle	92	NVIDIA	41
Sun Microsystems	75	Amazon	35
Microsoft	66	Apple	35
Dell	50	Alphabet	29
Lucent	48	Meta	29
Intel	31	Microsoft	27

Source: FactSet, Fidelity Investments, Yahoo Finance

Sector	2025 Estimate	2026 Estimate
Information Technology	24%	28%
Materials	5%	22%
Industrials	8%	15%
S&P 500	12%	15%
Communication Services	18%	12%
Consumer Discretionary	6%	11%
Utilities	7%	10%
Financials	14%	10%
Health Care	12%	9%
Consumer Staples	0%	7%
Real Estate	3%	5%
Energy	-10%	5%

Source: Fidelity Investments, FactSet

b) **Earnings expectations** for the Technology sector is highest in S&P 500 (Refer to the table on the right above)

2) Scenario 2 (35% Probability): Sideways/Consolidation Phase to occur

a) AI companies' valuations are already at Trillions of dollars. The Mag 7 being AI and tech-heavy have contributed to majority of the S&P 500's returns over the past few years

Returns	S&P 500	Mag 7	S&P 493	Mag 7 share
2021	27%	40%	23%	33%
2022	-19%	-40%	-12%	56%
2023	24%	76%	11%	63%
2024	23%	48%	14%	55%
2025	16%	23%	13%	46%
2026	-5%	-11%	-1%	83%

Source: JP Morgan Guide to Markets



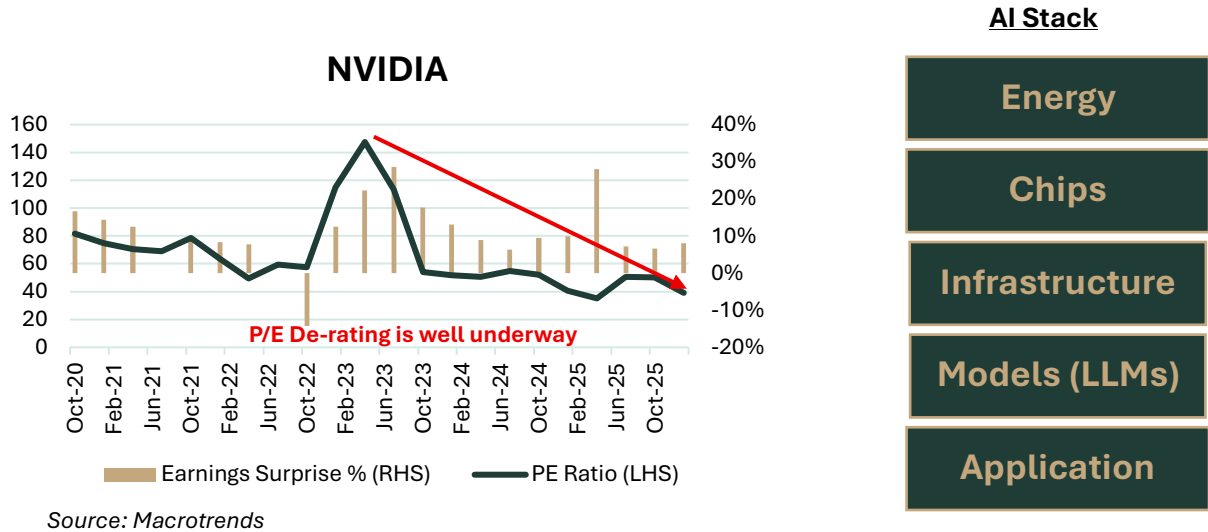
Asset	YTD Return (%)
S&P 500	0.7
Meta	-1.0
GOOGL	-2.1
NVDA	-2.2
AAPL	-2.5
AMZN	-9.7
TSLA	-10.3
MSFT	-17.4

Sector	YTD Return (%)
Energy	27.6
Materials	17.4
Industrials	15.3
Cons. Staples	14.2
Utilities	11
Real Estate	8.9
Health Care	2.4
S&P 500	0.7
Comm. Services	0.1
IT	0.1
Cons. Disc	0.1
Financials	0.1

Source: IKIGAI Asset Managers



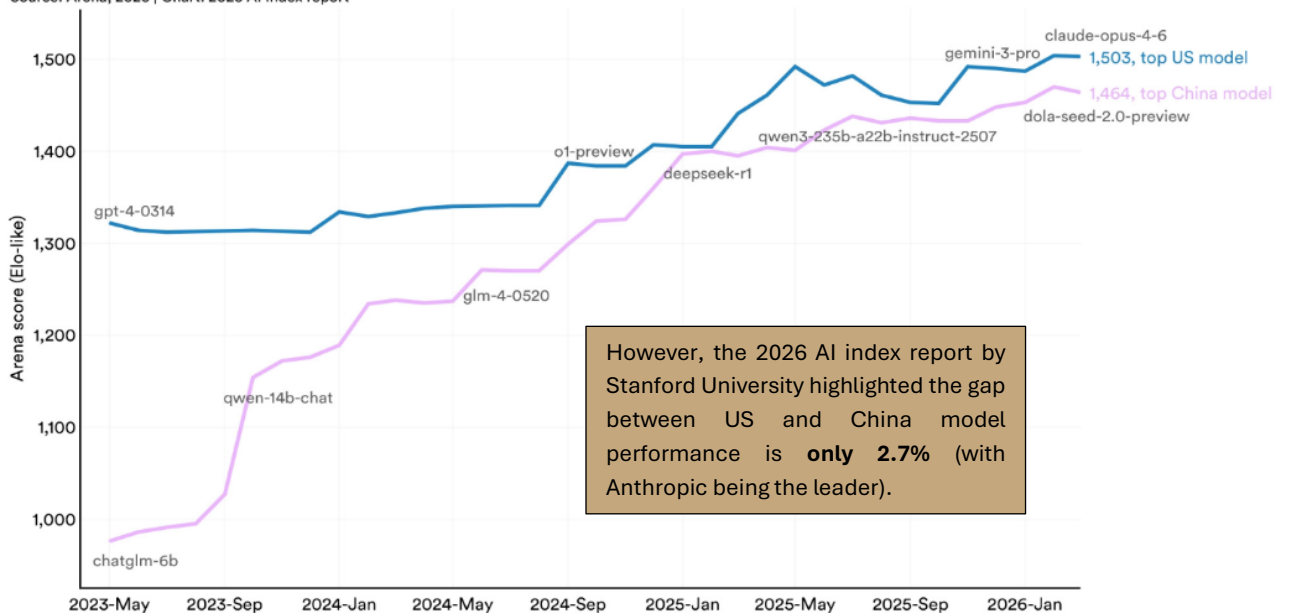
b) P/E de-rating continues while earnings grow. Here, winners and losers start diverging – resulting a narrow market over broad basing. Picking winners in this scenario will require high technical expertise of the full technology stack. NVIDIA’s CEO has defined the AI stack very well:



c) Consensus belief is that US is far ahead of China in AI, while data suggests otherwise

Performance of top United States vs. Chinese models on the Arena

Source: Arena, 2026 | Chart: 2026 AI Index report



***Arena Score refers to human-preference of AI models’ output in head-to-head comparisons. Higher score means better**



Scenario 3 (45% Probability): Maturity/Moderation Phase – Commoditization of AI

Technology is widely adopted

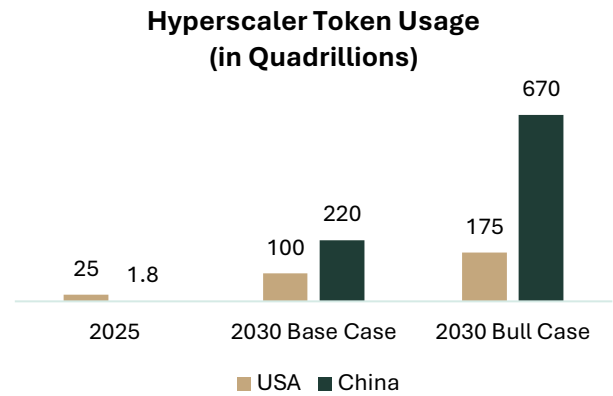
Multiple competitive suppliers exist

Pricing power erodes as switching costs fall

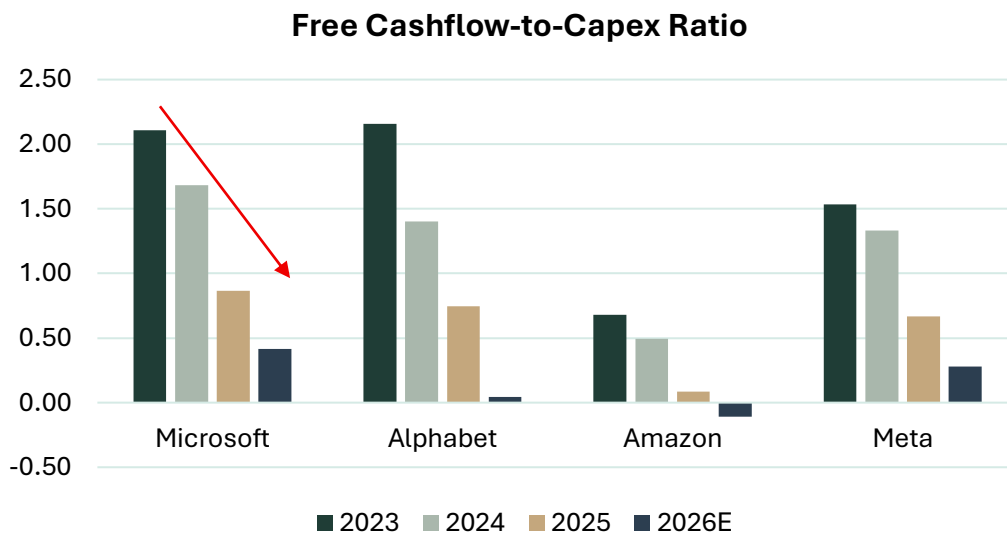
Investors de-rate AI away from growth multiples

a) AI technology becomes commoditized and competitively priced – this is already underway. If this is true, China is likely to win the volume game by 2030 – **however price per million tokens is decreasing faster than volume is increasing**

Date	Model	Price per 1M input tokens
Mar-23	GPT-4	\$30.00
Nov-23	GPT-4 Turbo	\$10.00
May-24	GPT-4o	\$5.00
Jul-24	GPT-4o mini	\$0.15
Feb-25	DeepSeek V3	\$0.07
Apr-25	Gemini Flash	\$0.10



b) Big tech has been increasingly using most of its Free cashflow for Capital expenditure to build out AI infrastructure – running a risk of leveraging the balance sheet of Big-Tech, shifting away from the historical asset-light model.



Source: Respective company filings and various news



Section 4 – Government Imperatives and Cybersecurity risks

- Government Imperatives leading to interventions and ownership and
- AI posing as a major Cybersecurity risk

Government Imperatives

Governments are no longer passive observers of the AI race – they are active participants **seeking strategic control** over the technology itself. The frame has shifted from regulation to ownership.

Particulars	USA	China
Approach	Equity stakes, procurement lock-in, export controls	State-directed development, no private/public boundary
Key Action	CHIPS Act, \$52B domestic semiconductor funding	Made in China 2025, national AI champions
Goal	Maintain frontier dominance, deny adversaries access	Full-stack indigenous capability by 2030

Source: Pravia Research

Governments think AI is too important to be left entirely to markets. Whoever (US or China) controls the models, the chips, and the data infrastructure controls the economic and military upper hand.

- Government intervention **distorts commoditisation timelines**
 - Subsidised national champions can survive margin compression that would bankrupt purely commercial competitors.
- Export controls and data localisation mandates are fragmenting the global AI market into sovereign blocs, meaning the winner-take-all scale economics that justify current valuations **may never fully materialise**.

Cyber Security Risks

- The latest development of Anthropic’s release of Mythos – their latest model – triggered an immediate response by the US government (Fed and Treasury) to hold a meeting with all the US’ major banks to make sure their cybersecurity is intact.
- This is because Mythos held the capability to detect systemic flaws in operating systems and base codes for major banking and technology-related operating systems – opening the gateway for misuse if in the wrong hands.
- The model still isn’t released to the public due to its potential misuse

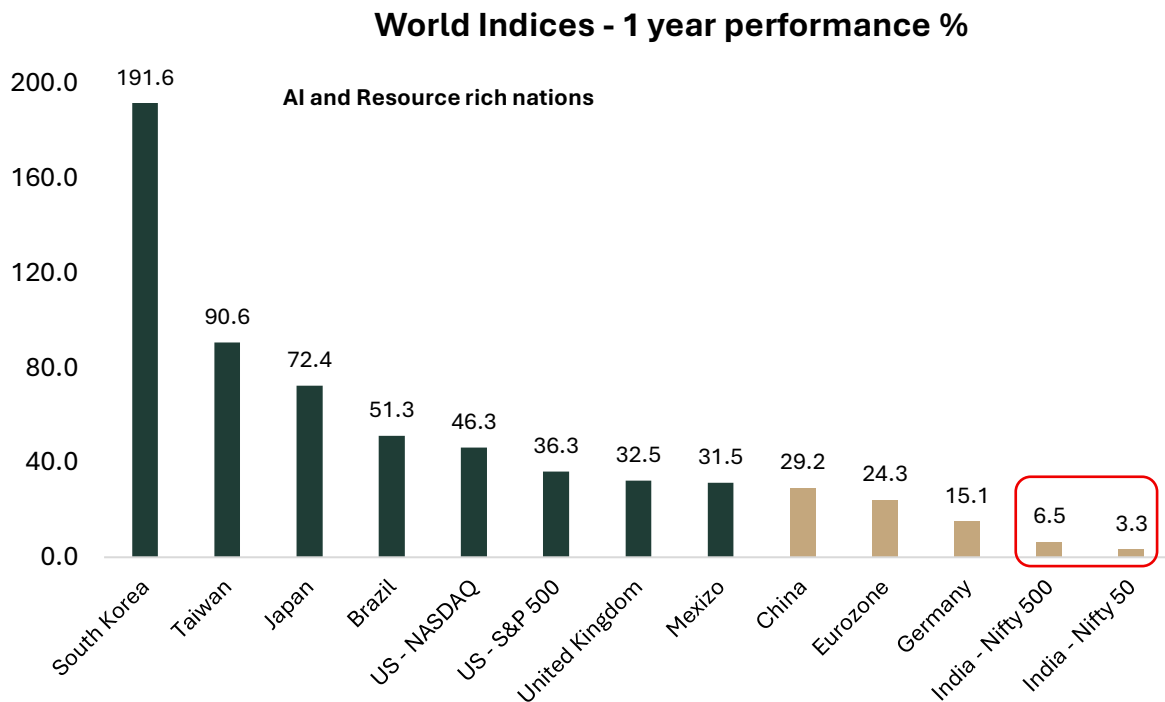


Section 5 – Given all the above-mentioned factors, we believe if the AI reversal trade were to happen – the liquidity might move to arenas which have underperformed due to the absence in the AI trade. **In light of this, we have looked at Indian markets:**

- India has underperformed peers significantly
- Indian valuations have moderated
- FII's have moved out of India and towards the AI trade and related geographies

The Global Contrarian Case – Anti AI trade

India has underperformed peers significantly –



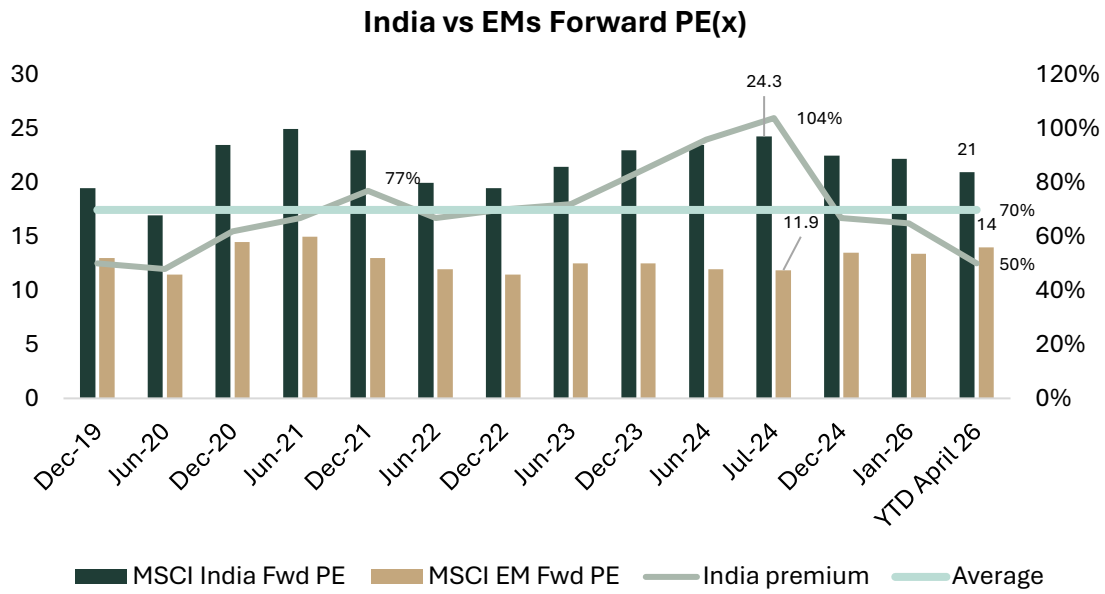
Source – Morningstar Direct, Returns in respective currencies as on 21st April 2026

Global index data indicate that economies tied to AI, AI infrastructure, and resource-rich markets such as Brazil and Mexico have outperformed those that have not participated in these themes.

India did not participate meaningfully in the AI rally or the real assets surge on an absolute basis relative to global peers. It was the economy with arguably the strongest structural growth case in the world, yet for three years, it sat on the sidelines.

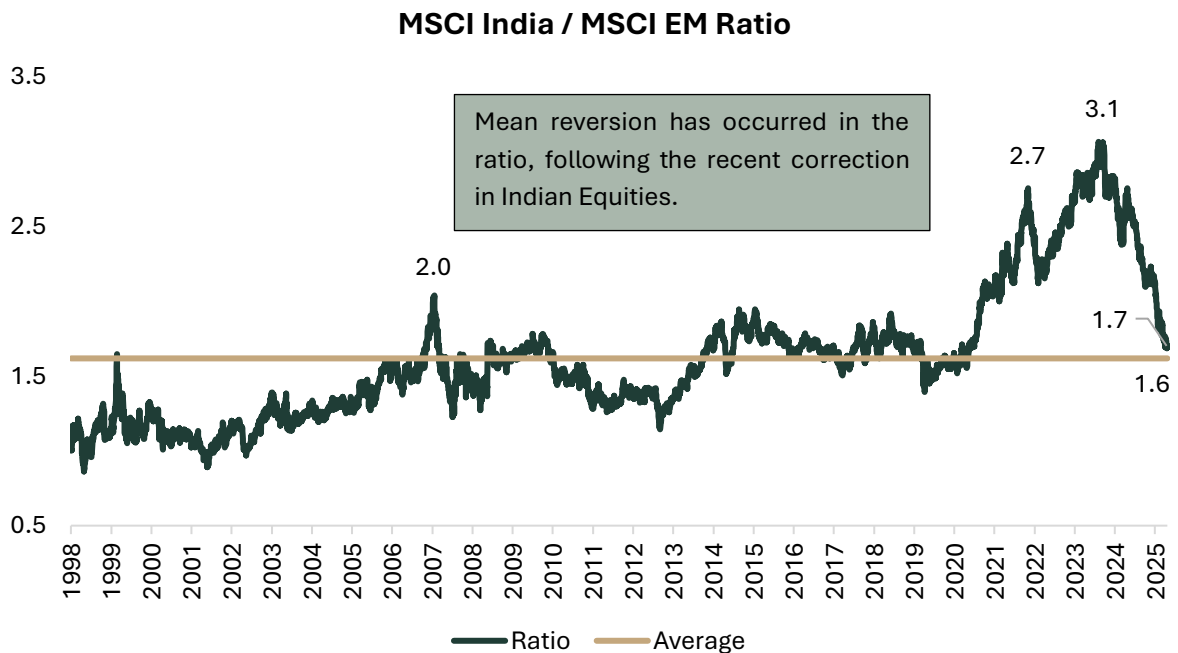


Indian valuations have moderated –



Source – MSCI

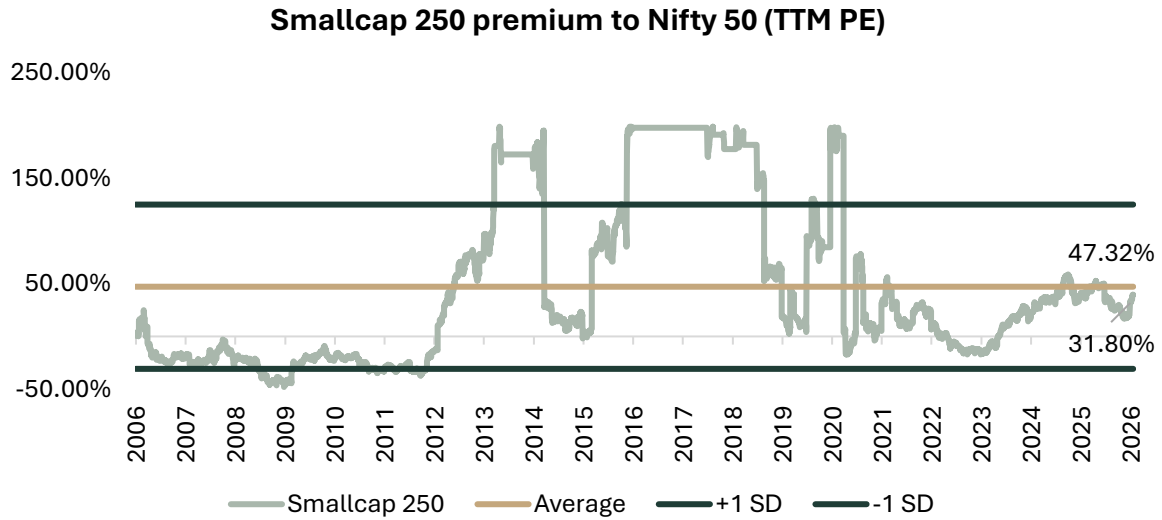
The forward P/E of the MSCI India Index stands at 21x, compared to 14x for the MSCI EM Index, implying a premium of ~50%. This marks a significant contraction from the peak premium of 104% observed during July–September 2024.



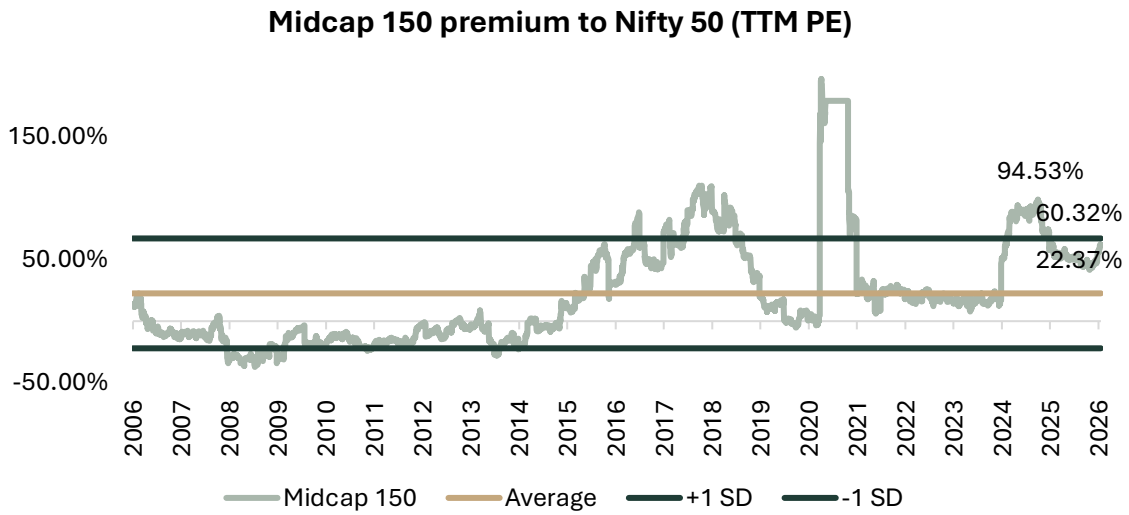
Source – MSCI



Valuations of mid and small caps have rationalized –



Source – Nifty Indices, Pravia Research

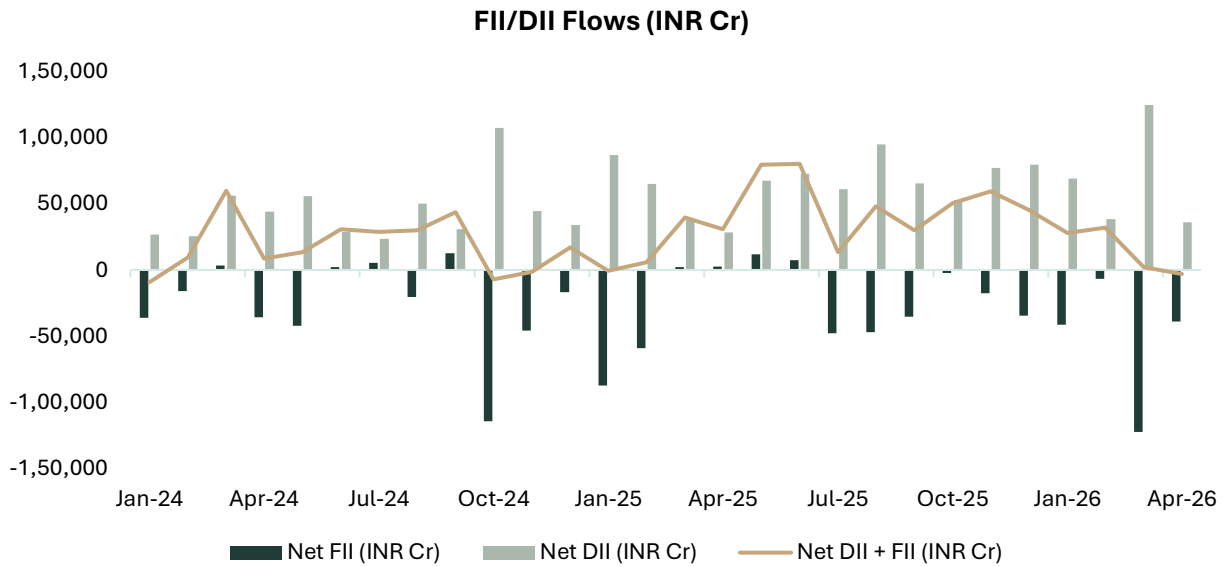


Source – Nifty Indices, Pravia Research

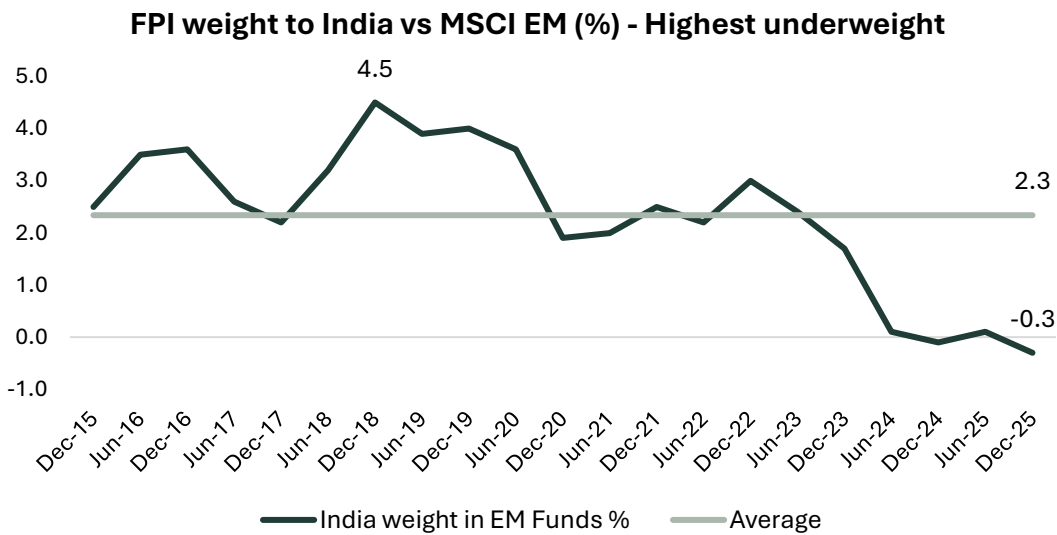
The premium of the mid and small-cap indices relative to the Nifty 50 has reduced significantly over the last 1.5 years.



FII Flows – Moved out of India to the AI Trade and Other Emerging Economies



Source – Trendlyne, Pravia Research



Source – MSCI Indices, Pravia Research

This chart tracks the deviation of India's actual weight in EM funds versus its MSCI EM benchmark weight. For nearly a decade (2016–2023), India commanded an overweight allocation – peaking at ~4.5% above benchmark in 2018–19 - reflecting a structural "India premium" that global allocators were willing to pay for quality, growth, and governance. This trend reversed in 2025 when India became the deepest underweight in a decade at -0.3% - below the average of 2.3%.



Factors responsible for FII selling –

- ▶ **The AI Capital Supercycle Redirected EM Flows**
 - The 2024–25 AI infrastructure boom dramatically re-rated the EM technology complex. Taiwan (TSMC), South Korea (SK Hynix, Samsung), and, to a lesser extent, China's semiconductor ecosystem became the primary beneficiaries of AI-linked hardware capex.
 - Global EM fund managers operating under benchmark constraints were **effectively forced** to rotate: overweighting AI-leveraged EM names meant underweighting India, which has negligible MSCI EM weight in semiconductors.

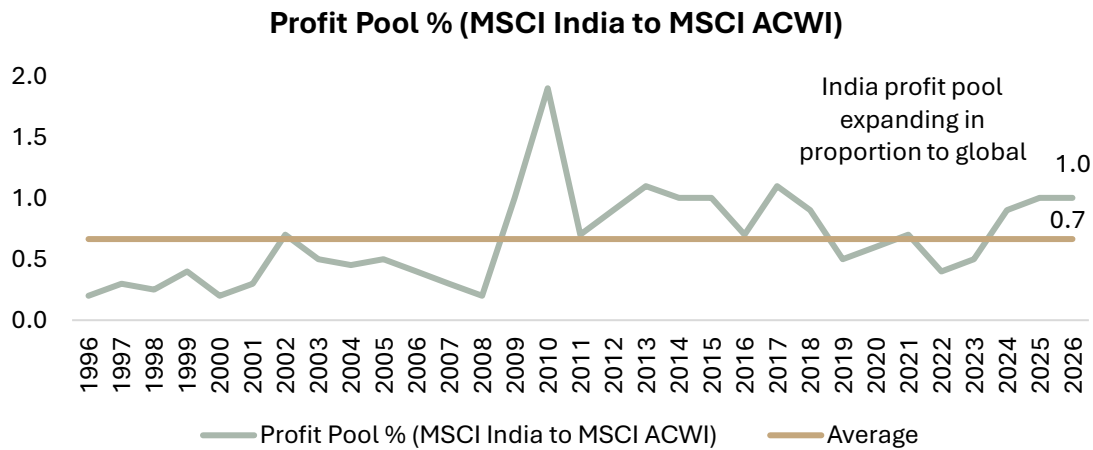
- ▶ **China's Tactical Re-Rating Drew Incremental Flows**
 - The DeepSeek moment in early 2025 and subsequent Chinese government stimulus announcements triggered a sharp re-rating of Chinese equities from deeply distressed levels.
 - Emerging market funds that had been underweight China began closing that gap, and the source of funding was India, which was overweight and liquid.

- ▶ **Valuations were higher relative to EMs**
 - MSCI India index traded at a 24x PE, which was a 100%+ premium over the MSCI EM PE of 12x.
 - As earnings growth moderated, post FY25 and INR came under pressure, FII money fled out

Section 6 – Despite FII outflows and underperformance, India looks favourable as:

- India looks attractively poised to benefit from the AI trade reversal
- Indian macros look conducive
- AI narrative is shifting towards Software and Services
- Investment implications

India looks attractive – Poised to benefit from the AI Trade Reversal



Source – MSCI Indices, Pravia Research

Indian Macros look conducive –

Indicator	1991 crisis	Pre GFC	Pre COVID	Present	
	FY91	FY07	FY19	FY25	FY26E
Inflation (%)	14.6	6.7	3.4	4.6	2.5
Real GDP Growth (%)	5.5	8.1	6.5	6.5	7.4
CAD	3.0	1.0	2.1	0.6	1.0
Fiscal Deficit to GDP (%)	7.6	3.3	3.4	4.8	4.4
External Debt to GDP (%)	26.1	18.3	20.1	18.8	19.2*
FX Reserves (USD bn)	6	199	413	668	710
Corporate Leverage (%)	NA	86.8	57.8	49.8	NA
Banks' Net NPA (%)	NA	1.0	3.7	0.5	0.5

Source: RBI, CMIE, IMF, NSO, KIE, Bloomberg, Ace Equity | Note: Based on old GDP series data. | * As on Sep-25

Fig.12



<p>GDP Growth – The Fastest Major Economy</p> <p>India is projected to grow at 7.6% (FY2026) and 6.9% (FY2027) vs China’s 4.5% and the US’s 1.9%. Now the world’s 4th-largest economy, it is set to become 3rd by 2031, offering a unique mix of high growth and institutional depth.</p>	<p>Reasonable Valuations</p> <p>Nifty 50 returned +12.7% vs. +22% for the S&P 500 – a wide underperformance, setting up a potential reversal. With strong fundamentals and a ~20x TTM PE at a discount to history and EM peers, valuations appear reasonable.</p>
<p>Demographic Dividend</p> <p>India has the world’s largest working-age population, with a median age of 28 (vs. 38 in China, 42 in Germany) and over 65% under 35 – an unmatched demographic tailwind supporting strong consumption and investment growth.</p>	<p>Market Breadth – Not a Single-Stock Story</p> <p>Unlike the concentrated AI trade, India’s opportunity spans Industrials, Financials, Consumption, Pharma & Healthcare, Renewables & Infrastructure, and Digital/IT – enabling diversified portfolios with lower stock-specific risk while retaining macro exposure.</p>

The AI narrative shifting towards Software and Services –

AI infrastructure spending (chips, data centres, power) dominated 2024. The next phase – AI software deployment, enterprise adoption, and managed services – is where India's IT services complex (Infosys, TCS, HCL, Wipro) becomes a direct beneficiary. Indian IT is one of the few EM sectors that benefits operationally from AI adoption, not just thematically. As global allocators look for the "picks and shovels" of AI deployment, India's services exporters re-enter the conversation.

AI pulled capital to hardware-intensive, and single-commodity-rich EMs. That trade is maturing. Semiconductor stocks are richly valued. China's re-rating is priced in. The incremental dollar of EM allocation in 2026 has fewer compelling alternatives than it did in 2024, and India, at its cheapest relative positioning in a decade, is sitting at the front of the queue.

We believe that as the AI-driven trade unwinds, **capital is likely to rotate toward India** and other underperforming markets, with flows becoming more selective – targeting specific themes and sectors rather than the broader market.



Investment implications –

We continue to remain positive on the ICM Framework – Infrastructure, Consumption, and Manufacturing.

Infrastructure & Logistics (I)	Consumption (C)	Manufacturing (M)
<ul style="list-style-type: none"> • Metals, mining & REE* – favourable commodity cycle, high dividend yields • Energy – grids, thermal, OMCs, capital goods cos., oil producing companies • Infra build-out – roads, rail, ports <p><small>*REE – Rare Earth Elements</small></p> <p>*Recommendations are for clients only</p>	<ul style="list-style-type: none"> • New Age & Digital Consumer — structural shift in consumption patterns • Discretionary — pent-up demand and premiumization trends • QSR / Food & Beverages — selective opportunities • Healthcare – hospitals, diagnostic centers, CDMO, medical tourism • Tourism – higher travel spending, disrupted tourism in the middle-east. • Consumer Durables – growing GDP/capita 	<ul style="list-style-type: none"> ▪ EMS (Electronics Manufacturing Services) — structural import substitution play ▪ Auto & Auto Ancillaries — domestic demand + EV transition ▪ Textiles — PLI beneficiary, China+1 opportunity ▪ Specialty Chemicals — import substitution, export-oriented recovery ▪ Robotics, Automation & Productivity enhancement – thematic allocation ▪ Defence – indigenization, leadership positions available



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