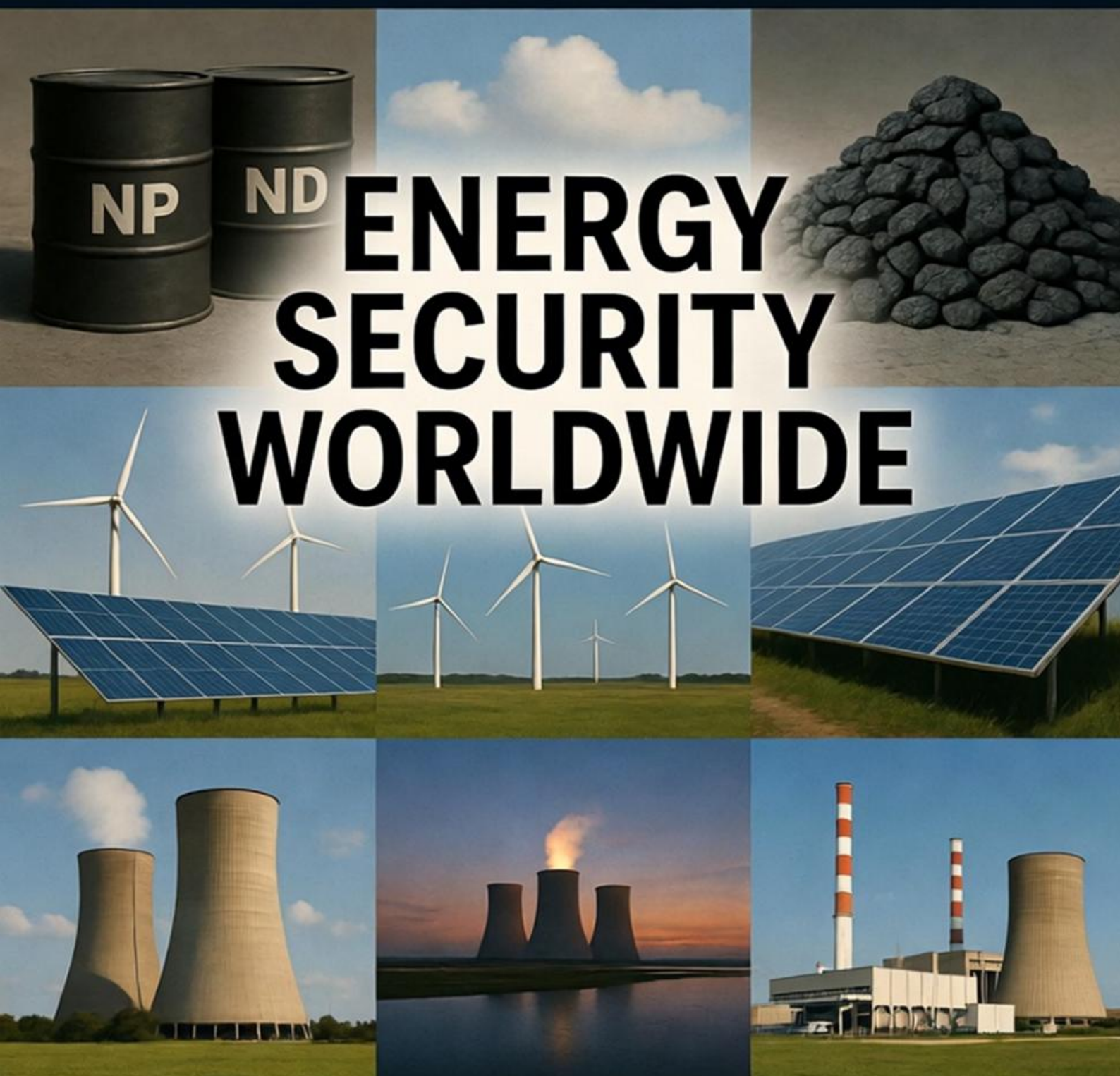


# ENERGY SECTOR: THE POWERHOUSE OF INDIA'S GROWTH STORY



**ENERGY  
SECURITY  
WORLDWIDE**

## Summary

16 January, 2026

### Investment Thesis

India is entering a manufacturing- and infrastructure-led growth phase that is structurally more energy-intensive than the services-led cycle of the past two decades.

We believe, “the FMCG sector emerged as the primary equity beneficiary during India’s services-led growth phase; in the current transition toward manufacturing and infrastructure, energy is positioned to assume a similar role.”

The energy sector, for long considered cyclical and capital-destructive, is undergoing a fundamental transformation driven by balance sheet repair, consolidation, and earnings-led growth – we believe these factors will lead to improved ROEs

This creates a favourable risk–reward opportunity over a 3–5-year horizon.

### Why Energy Now –

- Manufacturing’s share of GDP is projected to increase from ~14% to about ~20% by 2030-32, which currently stands at ~USD 0.56 trillion to ~USD 1.4 trillion, implying a ~20-24% CAGR, as per various estimates. This step-up is expected to drive a significant increase in demand for power, fuels, and gas.
- Per-capita energy intensity is increasing due to urbanisation, rising discretionary consumption, and the emergence of new demand drivers such as data centres and AI, in line with **growth in per-capita GDP**.
- **Energy demand growth is outpacing supply additions**, tightening demand–supply dynamics across power, coal, and gas, and growth of the energy transition theme.

### Why This Cycle Is Different –

- Sector ROEs have structurally improved to ~16–18% versus 8–10% in prior cycles.
- Balance sheets are significantly cleaner, with total debt/equity at ~0.5x, as compared more than 1x debt-equity in the past.
- Recent **price uptrend has been earnings-led**, not PE(x) expansion led.
- Structural policy tailwinds favour the sector, as we focus on indigenisation, energy security, self-sufficiency, and net-zero emissions.

### Valuation is reasonable

- Nifty Energy is trading near its 21-year average P/E ratio (15.2x now vs 14.4 average)
- Based on empirical data of the last 21 years, for a three-year holding period the **probability of generating a positive return is significantly higher**, at the current multiple.

- Companies within the Nifty Energy Index, excluding Reliance Industries, contribute approximately 16% of the Nifty 500 profit pool, despite accounting for only about 10% of the total market capitalisation.

### **Recommendation**

- As the economy and sector are undergoing a transition, we believe energy sector becomes a structural allocation in the portfolio.
- We reiterate, we compare this allocation to an allocation to FMCG in 2011, in a then services-led market growth.

### **Energy Theme – Investment Strategy (3–5-year investment horizon)**

- We recommend an allocation to the Nifty Energy index from a 3-5 year horizon in client portfolios.
  - We favour the a few actively managed funds based on investors' risk profile, and current portfolio positioning around energy sector.
  - Investment Approach – we recommend a 6-month staggered allocation to passive as well as active funds, also we would accelerate the allocation, should the market give an opportunity.
  - In addition to our allocation to Direct Equity, we would look at other opportunities based on valuation comfort, to compliment the above allocation.
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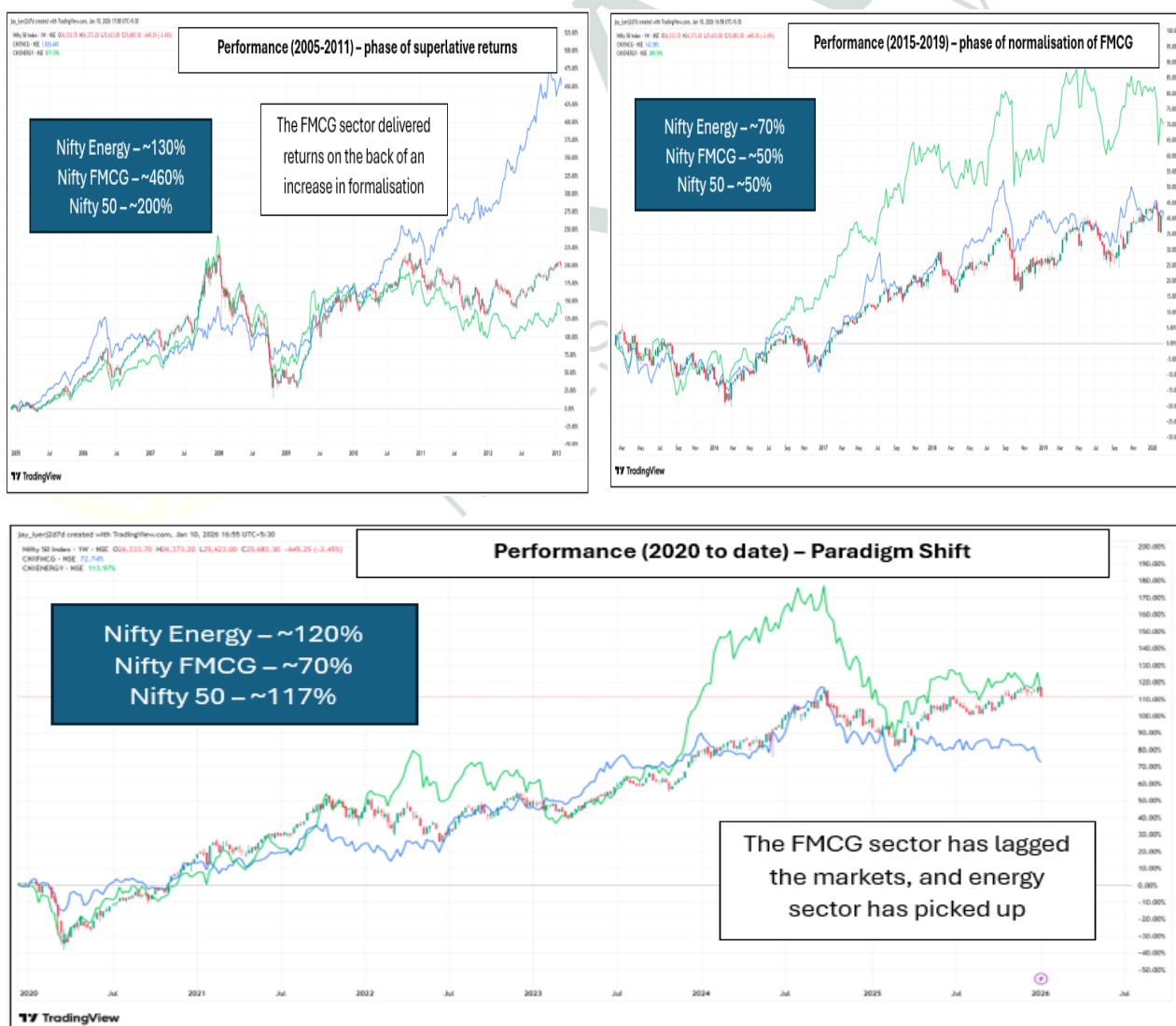
## Detailed Note

The energy sector for long has been viewed as a cyclical sector, having significant drawdowns, being capital intensive, having suppressed ROEs, highly levered balance sheets, state intervention, corruption, etc., adding to the misery was an unfavourable economic cycle. These factors made it non-investible in the past

However, the sector is witnessing multiple tailwinds on both the macro-economic and fundamental front, making us change our view on the sector, making it a structural part of our portfolio.

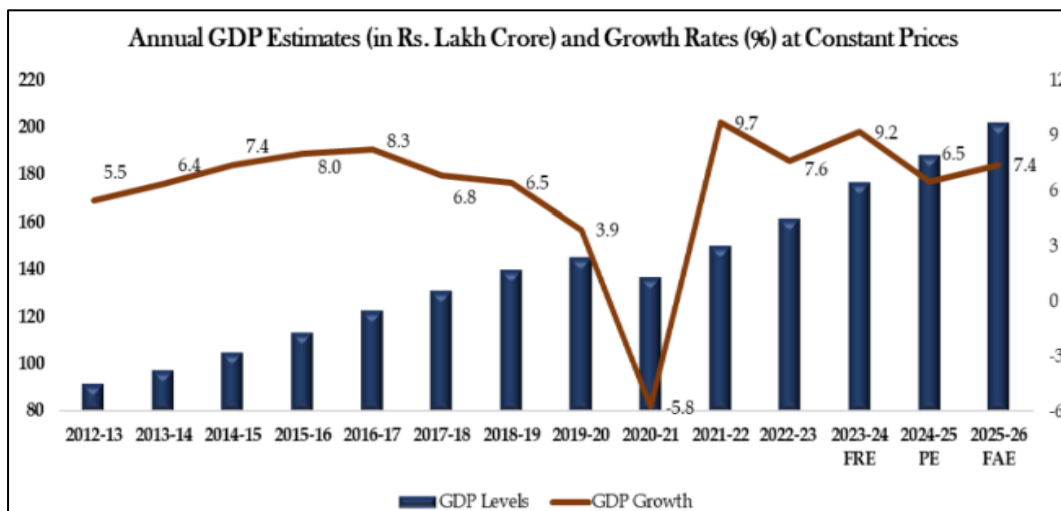
“India’s growth over the past two decades was services-led, by-passing a traditional manufacturing up-cycle.”

We are now observing another meaningful shift in the economic construct- away from a predominantly services-led model toward a manufacturing- and infrastructure-led growth phase. What FMCG sector was to a services driven economic growth, energy is to a manufacturing led economic growth.

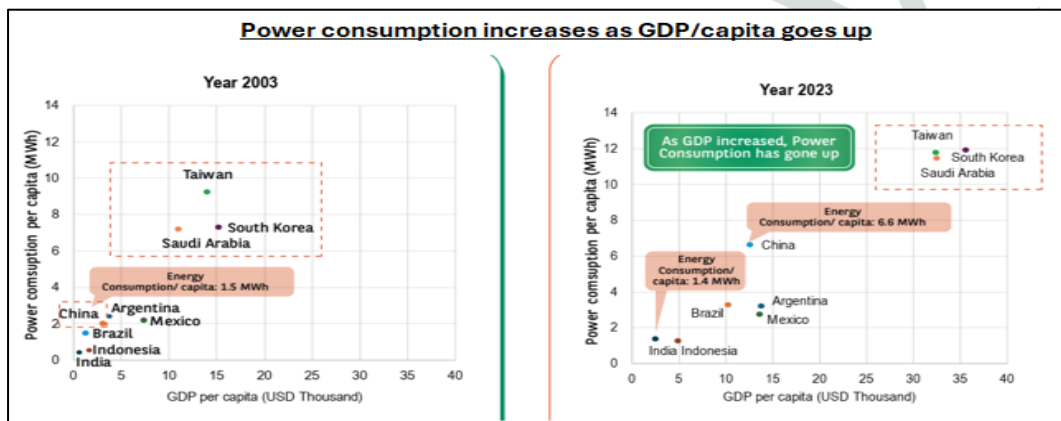


## India continues to grow amid Global uncertainty

The government expects a growth of **~7.4% in the FY26**, maintaining India as the fastest growing major economy in the world.



Source – MOSPI



Source – BOB AMC

India's moved from Agri to services and now shifting towards Manufacturing, which warrants for higher demand for energy.

## Manufacturing – the next level of growth in India

India is said to become a \$7 trillion economy by 2030, as per various government department estimates. This will **primarily be led by manufacturing and consumption**.

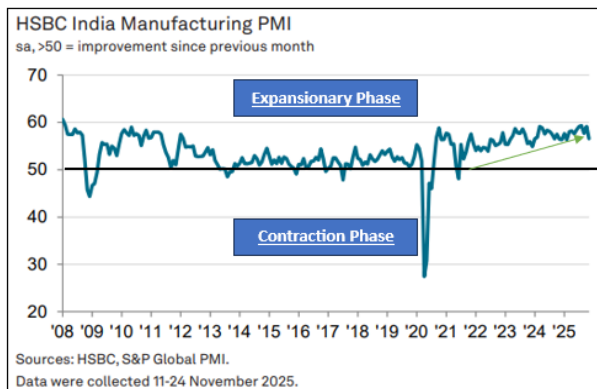
As GDP continues to expand, incremental growth is expected to be driven by an upturn in manufacturing, with the sector's share projected to rise from the current 14% to around 20% of GDP by 2030, as per IBEF^, making manufacturing a 1.4 trillion USD opportunity.

Energy is the backbone of manufacturing activity, hence the demand for energy is expected to rise significantly.

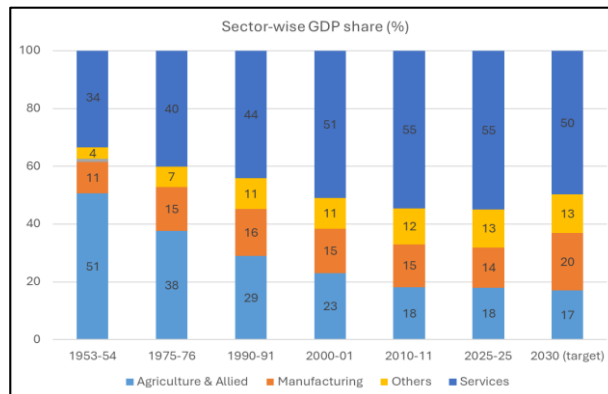


Particulars	Current	2030 (expected)	% Growth
GDP (USD trn)	4.2	7	13.62%
Mfg share %	14%	20%	
Mfg total (USD trn)	0.6	1.4	24.22%

Source – MOSPI



Source – HSBC AMC

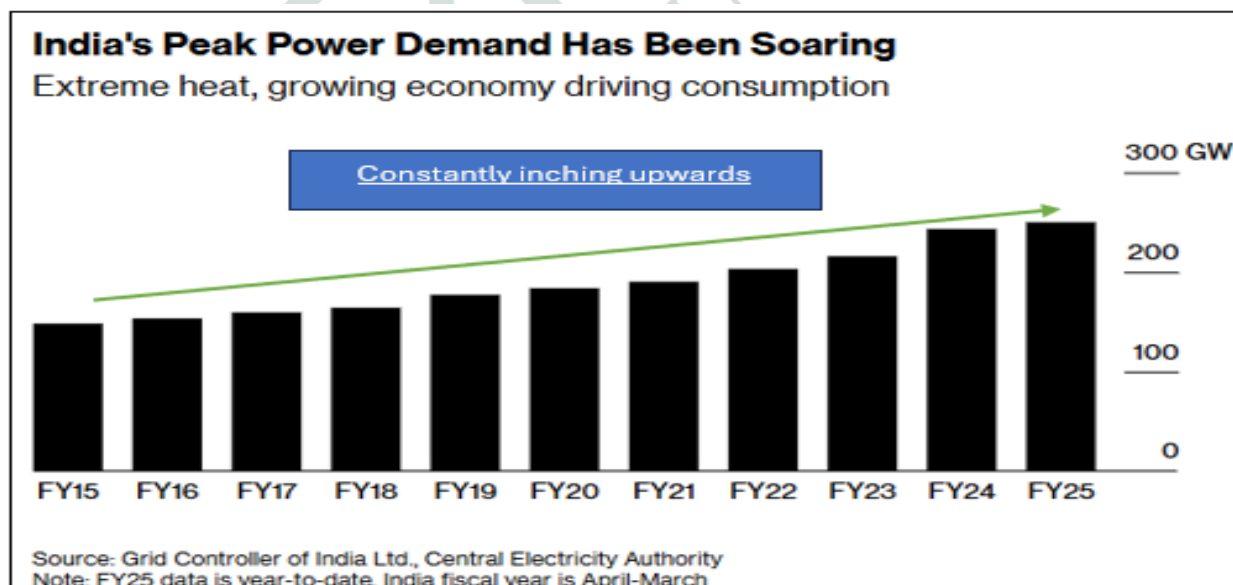


Source – MOSPI

## Energy Sector in India

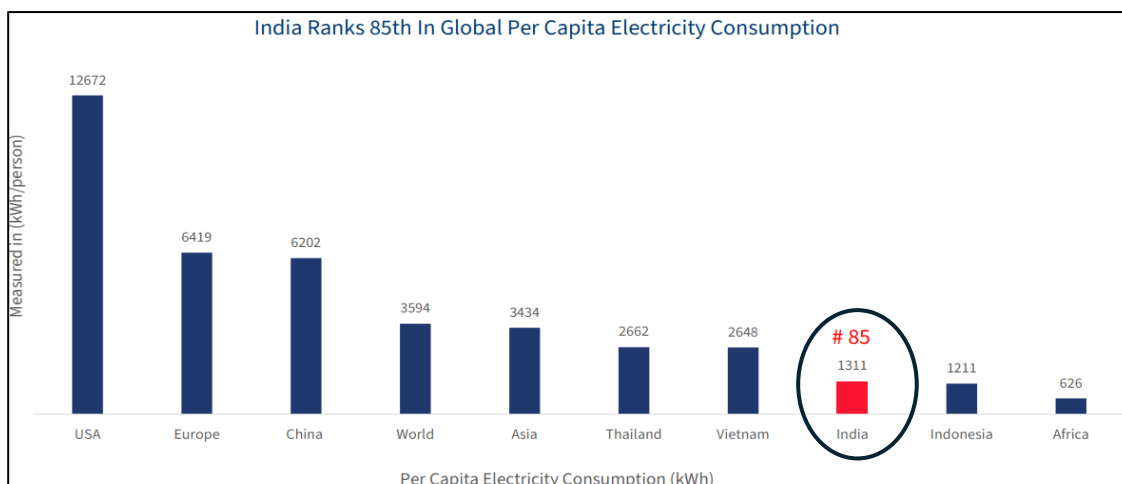
India’s **power demand has risen sharply**, driven primarily by a revival in manufacturing, increased industrial activity, and higher consumption, particularly in discretionary segments.

As the economy grows, demand for power is expected to increase further by multi-folds across industries, and for consumption, it is expected to cause structural power supply deficits over a decade.

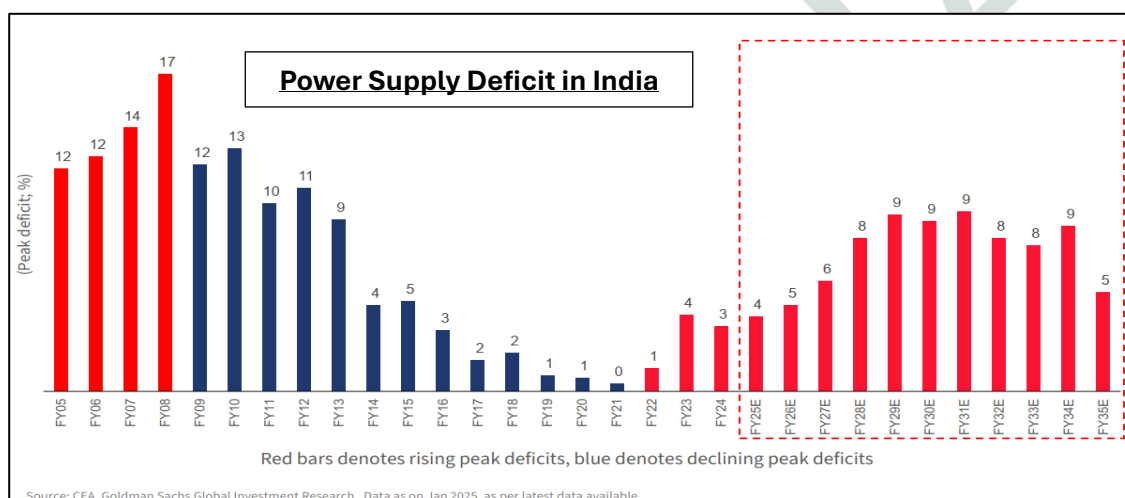


India’s energy sector is **undergoing a major transformation**. It is **managing its current reliance on fossil fuels** while **accelerating the transition toward renewable and cleaner energy sources**.





Kotak AMC



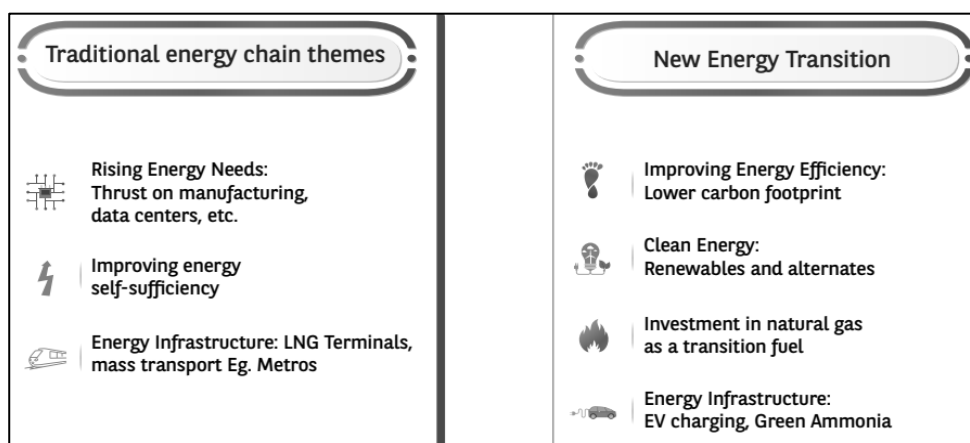
Kotak AMC

### **Policy Reforms in the energy sector**

- Green Energy Open Access Rules, 2022 have been notified with enabling provisions for higher consumption of renewable energy.
- Supporting DISCOMs, financially & Operationally: RDSS, Atma-nirbhar package, LPS Scheme, DISCOM Privatization
- Solving The Coal Availability Conundrum: SHAKTI Scheme, Commercial Coal Mine Auction
- Policy enabling Electricity for all (Saubhagya Scheme)
- Govt oil diplomacy helped manage oil imports, despite global conflicts
- Gas pricing reforms – Domestic gas realization linked to crude. Target to increase gas share in energy mix from 6.7% to 15%.
- Pipeline Tariff Rationalization: Unified Tariff for natural gas pipelines with a mission of “One Nation, One Grid, and One Tariff”.



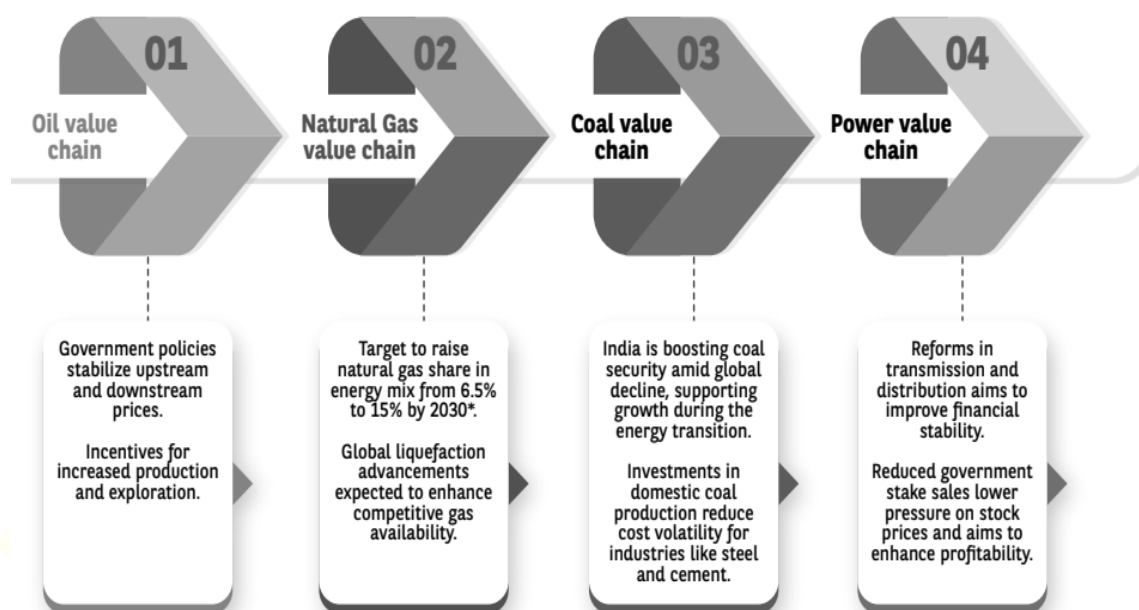
## Themes in the energy sector



Source – BOB AMC

### Traditional Energy Chain

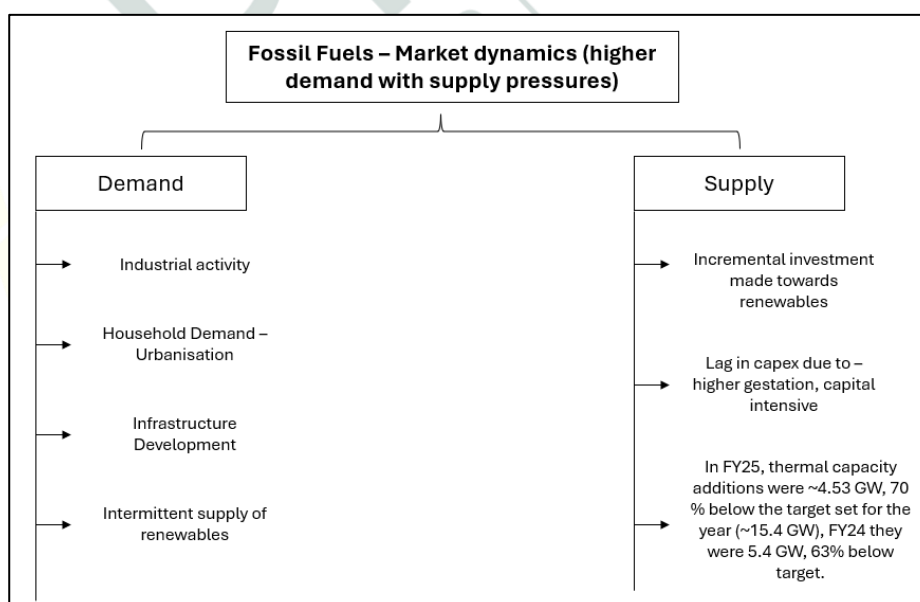
Fossil fuels (coal, oil, natural gas) continue to dominate the global energy system, supplying **~80% of primary energy** despite rapid growth of renewables.



Source – BOB AMC

## Fossil Fuels Still Matter (Coal, Oil, and Gas)

- **Energy security** – Coal is vital for India’s fuel security, providing reliable base-load generation that ensures grid stability. With 361.41 billion tons of domestic reserves, it reduces dependence on volatile global markets, insulating against global vagaries, while oil and gas are critical for transport, industry, fertilisers, and petrochemicals where scalable alternatives are limited.
- **Stable and predictable energy prices** – Domestic coal production supports stable power tariffs, while long-term oil and LNG contracts and diversified sourcing help moderate global price volatility for consumers and industry.
- **Base load power generation** – Coal provides steady, dispatchable base-load power, and gas offers fast ramp-up and balancing support, complementing intermittent renewables and ensuring grid reliability.
- **Critical role in transport and industry** – Oil remains indispensable for road, aviation, and maritime transport, while gas is a key feedstock for fertilisers, chemicals, and city gas distribution, with limited near-term substitutes.
- **Strategic resilience and transition** – Coal stockpiles and strategic petroleum reserves enhance resilience during supply disruptions. Natural gas serves as a transition fuel, balancing lower emissions with reliability as renewable and storage infrastructure scales up.



## New Energy Transition

### India's future energy landscape is shaped by the need to:

- Meet rapidly growing energy demand driven by economic growth.
- Maintain affordability and energy security.
- Decarbonize in alignment with climate goals.

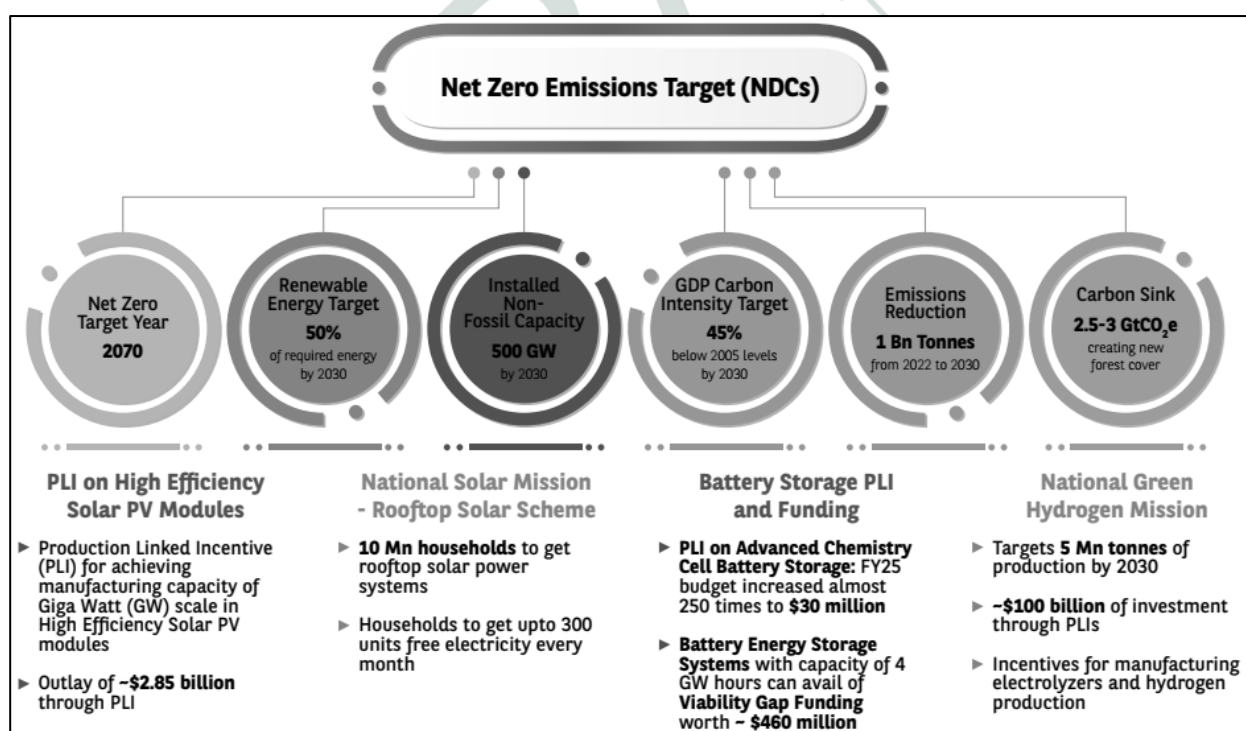
In order to strengthen its energy resilience, India is focused on developing a diversified and sustainable energy mix, leveraging abundant domestic low-carbon resources to reduce import reliance and bolster energy independence.

### Clean Energy Targets –

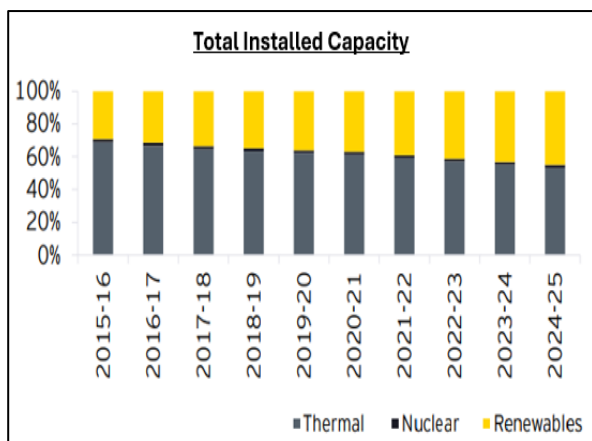
India is focusing on creating an infrastructure for renewables in order to achieve its net-zero emission targets.

India has dramatically expanded its renewable capacity over the past decade:

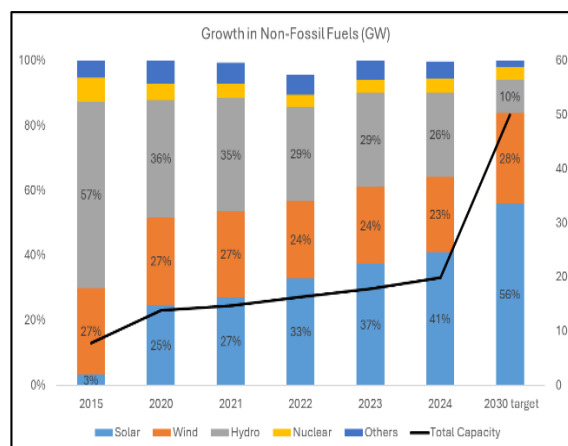
- Non-fossil fuel sources (including renewables and nuclear) now constitute around **half of total installed capacity**.
- Significant additions in **solar and wind** have been recorded, with solar especially leading the growth trajectory, with adding 44.5 GW in 2025.



Source – BOB AMC



Source – EY Energy Report



Source – MOSPI

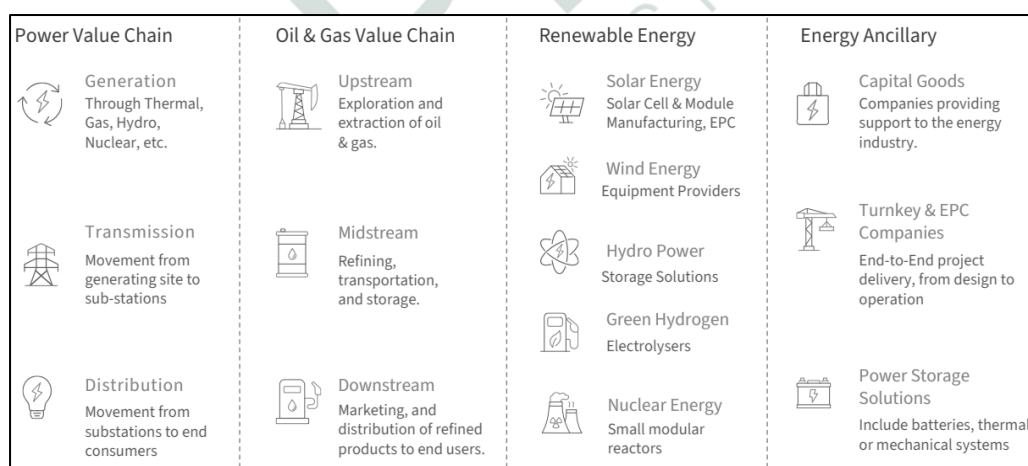
## Investment Case for the Energy sector

The above-mentioned factors provide a compelling opportunity to invest in the energy sector in India.

Various avenues to take an exposure to the energy sector in the portfolio are –

- Nifty Energy Index (Passive Investment)
- Actively managed mutual fund
- Thematic allocation (Direct Equity Bucket)

## Market Structure of Energy Sector



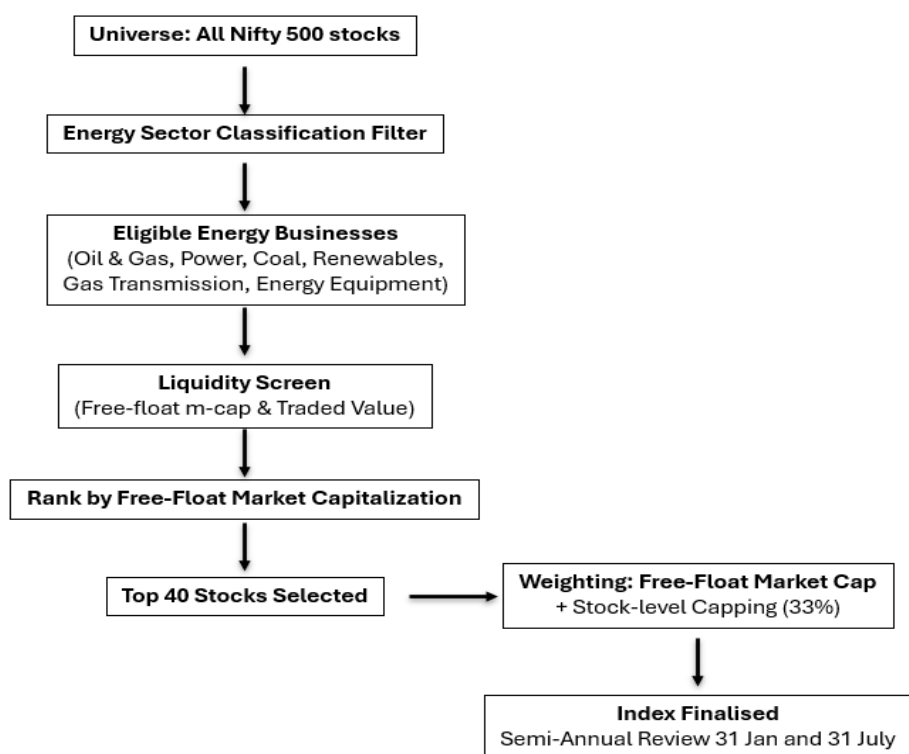
Source – Kotak AMC

## Nifty Energy Index

The Nifty India Energy Index tracks the performance of companies representing India's entire energy value chain, not just oil & gas. It comprises of **40 stocks** from the **Nifty 500 universe**, belonging to industries belonging to the energy ecosystem



## Index Construction Methodology –

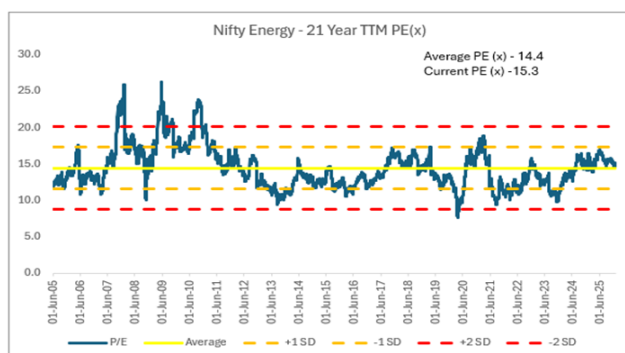


## Inference on the index –

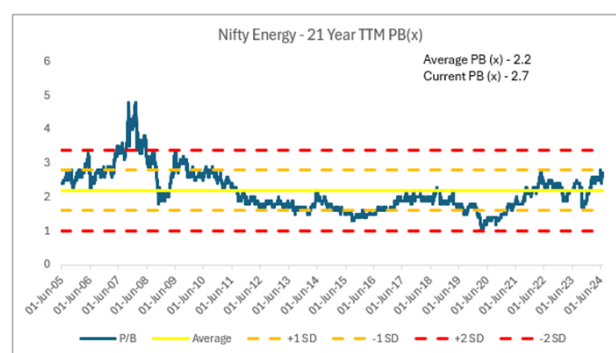
- The index construction methodology – the index will be skewed towards large caps.
- **Reasonably Diversified** – With a portfolio of 40 stocks, it spans companies across multiple sectors and market-cap segments, each with varying portfolio weights.
- **It misses –**
  - o Early-stage transitions – due to small size they may not be represented or may have a small fractional allocation
  - o Rapid tech shifts - incorporated with a lag of 6/12 months

***Both statistically and fundamentally, we find the Nifty Energy Index in a investible zone from a 3 to 5-year horizon –***

## Valuation –



Source – Nifty Indices



Source – Nifty Indices



The trailing 12-month PE is currently near the 21-year average, making the index reasonable in terms of valuations.

The energy index has performed in cycles, typically when there is an uptick in manufacturing and consumption in the economy.

Earlier, the sector returns were primarily driven (~70% average) by a speculative re-rating in PE multiples, however earnings did not catchup due to fundamental and structural weaknesses. However, in the recent cycles, returns were primarily tied to earnings growth (~70%), and not driven just by valuation re-ratings, as depicted in the table below.

Date	P/E	Price	EPS	Return	EPS Growth	PE (X)	Speculative % of return
01-Jun-05	12	3,646	305				
14-Jan-08	26	12,012	464	229.42%	52.25%	177.17%	77.2%
31-Jan-08	18	9,019	514				
31-Dec-13	12	7,961	687	-11.72%	33.59%	-45.32%	100.0%
01-Apr-14	13	8,426	655				
26-Mar-19	17	16,541	955	96.31%	45.76%	50.55%	52.5%
02-Mar-20	10	13,419	1,287				
01-Feb-23	14	23,403	1,689	74.40%	31.24%	43.16%	58.0%
01-Feb-23	14	23,403	1,689				
24-Sep-24	16	43,708	2,708	86.76%	60.38%	26.38%	30.4%
24-Sep-24	16	43,708	2,708				
31-Dec-25	15	35,326	2,335	-19.18%	-13.78%	-5.40%	28.1%

Source – Ace MF

The price-to-book value currently stands at elevated levels (2.7x vs 2.2x average), however –

- **Index-level valuation hides dispersion**
  - o Nifty Energy P/B = **weighted average**, but:
    - 32% of the portfolio is trading at a price-to-book of less than 2x (e.g. – ONCG, NTPC, GAIL, Oil India, etc.)
    - High-quality names at 3–4x (e.g. – CG Power, GE Vernova, Hitachi Energy, Adani Gas, etc.)
- **Higher ROE justifies a higher valuation band**
  - o Marketing margin normalisation
  - o Gas transmission tariff certainty
  - o Power T&D return stabilisation
  - o Lower interest burden

Earlier cycle ROE → 8-10% → 1.5-2.0 Price-to-book

Current ROEs → ~16-18% → 2.5-3.0 Price-to-book

**- Capital discipline**

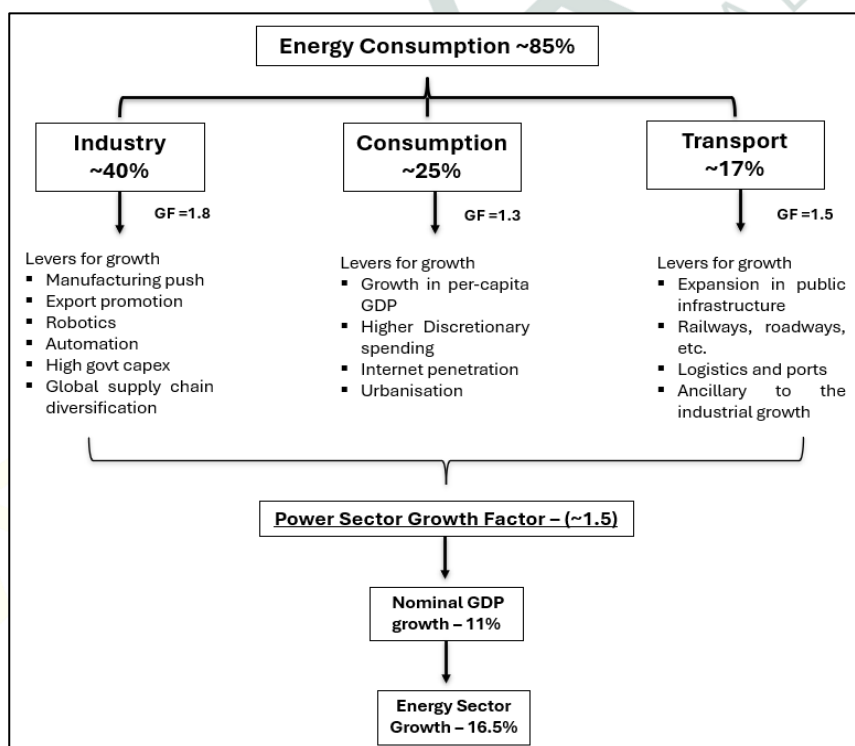
- Capex now IRR-driven, not policy-driven
- Free cash flow generation visible across PSUs
- Total Debt/Equity is **much lower at 0.5x** vis-à-vis historical averages

**Energy Index – Quantitative Analysis**

The total market capitalisation of the index stands at INR 61.1 lakh crores, and the annualised sales stand at INR 42.6 lakh crores (1.4x market cap-to-sales), indicating that the valuations remain reasonable and do not appear stretched.

Particulars	Current	2030 (expected)	% Growth
Revenue TTM ( in crs.)	42,34,534	79,35,039	17.00%
Mcap to sales	1.4	1.6	
<b>Total Market Cap (in crs.)</b>	<b>61,10,256</b>	<b>1,26,96,062</b>	<b>20.06%</b>

Source – Ace Equity (assuming the multiple grows 10%)



GF = Growth Factor relative to GDP growth – based on historical trends and assumptions



Energy Index Statistics – put in lakh crores			
Particulars	M-Cap	Reliance	Ex-RIL
Nifty 500	4,23,61,647	19,90,217	4,03,71,430
Nifty Energy	61,10,256	19,90,217	41,20,039
<b>Total</b>	<b>14.42%</b>		<b>10.21%</b>

Particulars	PAT	Reliance PAT	Ex- RIL
Nifty 500	15,71,564	80,787	14,90,777
Nifty Energy	3,25,463	80,787	2,44,676
<b>Total</b>	<b>20.71%</b>		<b>16.41%</b>

Particulars	Total Sales	Reliance	Ex- RIL
Nifty 500	1,49,04,347	10,15,996	1,38,88,351
Nifty Energy	45,26,455	10,15,996	35,10,459
<b>Total</b>	<b>30.37%</b>		<b>25.28%</b>

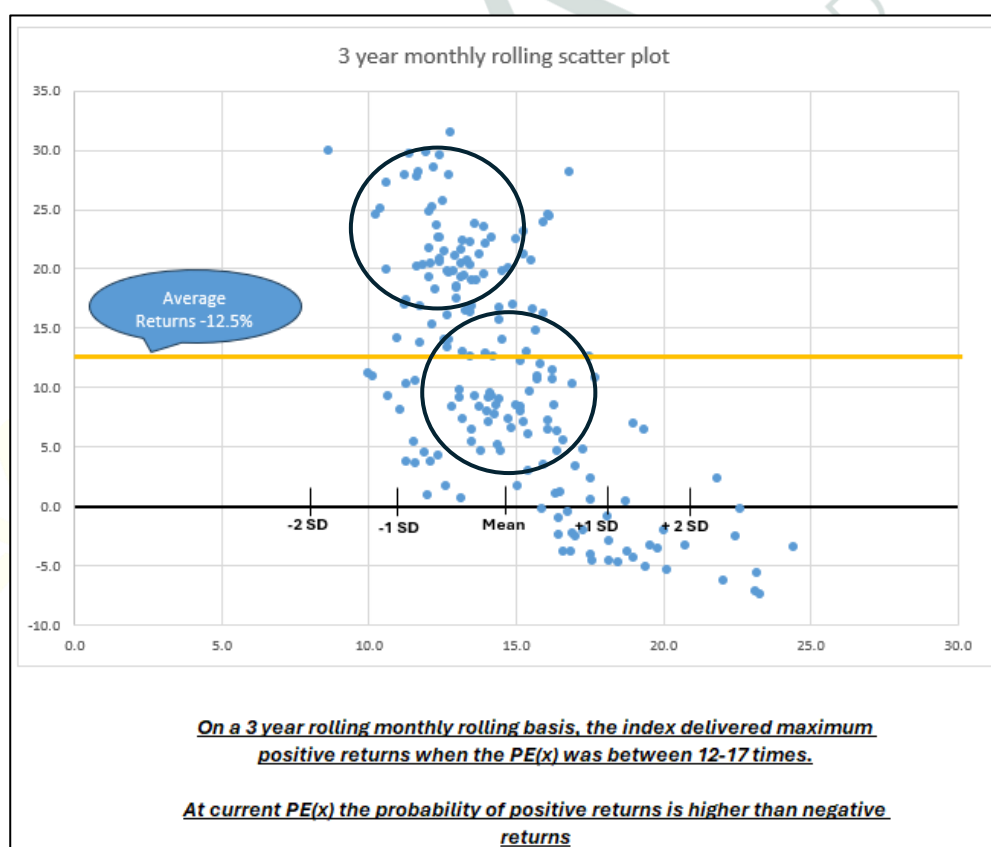
Source – Ace Equity (all figures are in INR crores)

The Indian Energy sector is under-represented in equity markets despite being a disproportionately large contributor to revenues and profits (25% and 16% respectively)

Despite that they account just 10% of the total market capitalisation.

This valuation gap reflects perception and legacy concerns rather than current fundamentals, creating a clear mispricing opportunity

### Returns-Valuation Matrix



Source – Morningstar



## Performance –Trailing and Calendar year

Particulars	1 month	3 months	1 year	3 years	5 years
Nifty Energy TRI	-0.63	1.10	1.84	12.29	17.95
Nifty 500 TRI	-0.26	5.13	7.76	16.71	16.88
Nifty Oil & Gas TRI	1.64	8.54	15.25	14.11	18.95
Nifty Manufacturing TRI	0.70	4.38	12.28	24.03	22.50

Source – Morningstar, as on 31 December, 2025

The index has under-performed Nifty 500, Oil & Gas, and Manufacturing indices in almost all trailing periods.

We infer that the energy cycle has not picked up meaningfully as yet, and there is an opportunity for a reasonable return making phase from hereon

Year	Nifty Energy	Nifty 500	Nifty 50	Nifty Oil & Gas	Nifty India Manufacturing
2006	23.3	36.2	41.9	19.6	35.3
2007	100.2	64.6	56.8	110.3	55.9
2008	-47.4	-56.5	-51.3	-50.7	-61.1
2009	63.5	91.0	77.6	77.9	158.2
2010	4.8	15.3	19.2	11.1	18.7
2011	-28.2	-26.4	-23.8	-24.3	-30.9
2012	15.5	33.5	29.4	13.6	29.3
2013	1.9	4.8	8.1	3.7	7.0
2014	10.1	39.3	32.9	26.2	47.0
2015	1.1	0.2	-3.0	1.8	3.1
2016	21.6	5.1	4.4	26.2	7.6
2017	41.9	37.7	30.3	43.0	32.7
2018	2.8	-2.1	4.6	-7.5	-15.0
2019	13.3	9.0	13.5	14.6	-3.4
2020	9.5	17.9	16.1	9.2	24.7
2021	38.4	31.6	25.6	37.2	37.4
2022	16.5	4.2	5.7	16.9	5.3
2023	30.6	26.9	21.3	13.1	34.9
2024	6.5	16.2	10.1	14.0	26.0
2025	1.8	7.8	11.9	15.3	12.3

Source – Morningstar, 2025 as on 31 December 2025

## Risks and Characteristics

- **Highly cyclical index:** Nifty Energy exhibits far higher volatility than Nifty 50 and Nifty 500, with sharp phases of outperformance and equally sharp drawdowns.
- **Outperforms during reflationary and commodity upcycles:** Strong relative returns in 2003–07, 2016–18, and 2021–23, driven by rising commodity prices, capex revival, operating leverage, and PSU balance-sheet repair.

- **Underperforms in risk-off and growth-led markets:** Weak performance during global crises (2008, 2011), low-inflation periods, and asset-light/tech-led bull phases. Government intervention and crude volatility amplify downside risk.
- **Current phase (2024–25):**
  - Returns have moderated to low single digits, indicating time correction rather than structural damage.
  - Post strong 2021–23 performance, earnings normalization and range-bound crude have led to consolidation.
  - Leadership has shifted to manufacturing and non-energy capex sectors.
- This looks like a **late-cycle consolidation**, valuations have **derated faster than fundamentals**, especially for PSUs.
- From a portfolio construction perspective:
  - This sector might exhibit higher volatility vis-à-vis markets, caution needs to be paid to the risk appetite of the investors before making an allocation.
  - Current positioning resembles a base-building phase, typically preceding the next macro or commodity trigger rather than a long-term breakdown.

### **Investment Universe**

<b>Scheme Name</b>	<b>Inception Date</b>	<b>Expense Ratio(%)</b>	<b>Tracking Difference</b>	<b>AUM in crs.</b>
Mirae Asset Nifty Energy ETF	07-Nov-2025	0.11	-0.09%	66.8
Motilal Oswal Nifty Energy ETF	13-Oct-2025	0.50	-0.24%	22.9

Source – ACE MF, for tracking difference, AMFI

We recommend an allocation to **Nifty Energy** as a thematic call.

We recognise that the AUM of these schemes is lower, a staggered allocation would minimise the risk.

### **Active Funds**

While we are positioning the Nifty Energy index as a thematic passive allocation in portfolios would like to position actively managed funds to compliment the index allocation.

### **Our Recommended Funds –**

***\*Recommendations are for clients only***

As on 31<sup>st</sup> December 2025, Source - Morningstar

## Fund Characteristics –

Particulars	<i>*Recommendations are for clients only</i>	
Style	Value Oriented	Growth leaning
No of stocks	32 (focused)	62 (diversified)
PE (x)	14.5	14.8
Mcap Orientation	50-50 (Large-Midsmall)	50-50 (Large-Midsmall)
Portfolio Orientation	Heavy on traditional sources (OMCs, EPC, Grid cos.)	Blend (Renewables, capital goods, gas, etc.)
Overlap with Nifty Energy	40%	66%
Top 10 stocks (%)	65%	56%
Agility	Lower	Higher

Both funds have different characteristics; they have significantly different ways of managing the energy sector portfolio. The **overlap between the funds is ~50%**, making them complimentary over competing in our active mutual fund bucket.

We met the fund managers of both funds, both have their unique way of managing the funds, and we have a conviction on their philosophy and strategy of managing the portfolio. Both the fund managers have been energy sector analysts for almost 2 decades, and have a reasonable experience of handling the risks and peculiarities of the sector.

## Our View –

The global economic landscape is shifting toward a new paradigm, moving away from the era of low interest rates and globalization toward a reflationary and conflict-driven environment.

This is a structural change where nations prioritize national security, energy security, and self-sufficiency to reduce dependency on volatile global markets.

India's aspiration to become a **\$7 trillion economy by 2030** is anchored by two energy-intensive pillars: **manufacturing and consumption**.

## Beyond Cyclicity: A Fundamental Re-Rating

A critical differentiator in the current cycle is that energy companies are no longer trading as high-risk cyclicals prone to solvency crises. They have evolved into valuation multiple candidates backed by superior quality.

## Recommendation

- As the economy and sector are undergoing a transition, we believe energy sector becomes a structural allocation in the portfolio.
- We reiterate, we compare this allocation to an allocation to FMCG in 2011, in a then services-led market growth.

## Energy Theme – Investment Strategy (3–5-year investment horizon)

- We recommend an allocation to the Nifty Energy index from a 3-5 year horizon in client portfolios.
- We favour the a few actively managed funds based on investors' risk profile, and current portfolio positioning around energy sector.
- Investment Approach – we recommend a 6-month staggered allocation to passive as well as active funds, also we would accelerate the allocation, should the market give an opportunity.
- In addition to our allocation to Direct Equity, we would look at other opportunities based on valuation comfort, to compliment the above allocation.

**Disclaimer:**

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