PRAVIA INVESTMENT ADVISORS

Thinking Big Picture

The Story Is Catching Up

What we said?	What changed?	What has not changed?	What we're doing?
A barbell strategy to add Large Caps due to favourable valuations and selective Small Caps	Oil, the rupee, earnings and foreign flows have all turned in India's favour.	We follow the process and are driven by valuations and asset allocation	Continue to favour Large Caps. Being selective in Small Caps.

In our initial note – **'Value Has Arrived, the Story Will Follow,'** we explained that valuations were favourable, but there was no story to support them. We believe the story is now playing out. ***Oil prices have eased, the rupee has recovered and foreign investors have turned buyers*** – leading to Nifty 50 being up 12.6% from the start of October.

We asked investors, **"don't sell with the heart."** This time we are asking, **"don't chase with the heart either."**

"To avoid biases, we go back to the fundamentals, and inversion theory"

What we said v/s How it panned out

At the start of October'26, Nifty 50 PE was 19.30x. Pessimism overweighed investor actions, **making them forget the structural Indian growth story**. During this time, we stuck to our asset allocation frameworks and processes, which led us to tilting towards large caps, banks, insurance; and being selective on small caps.

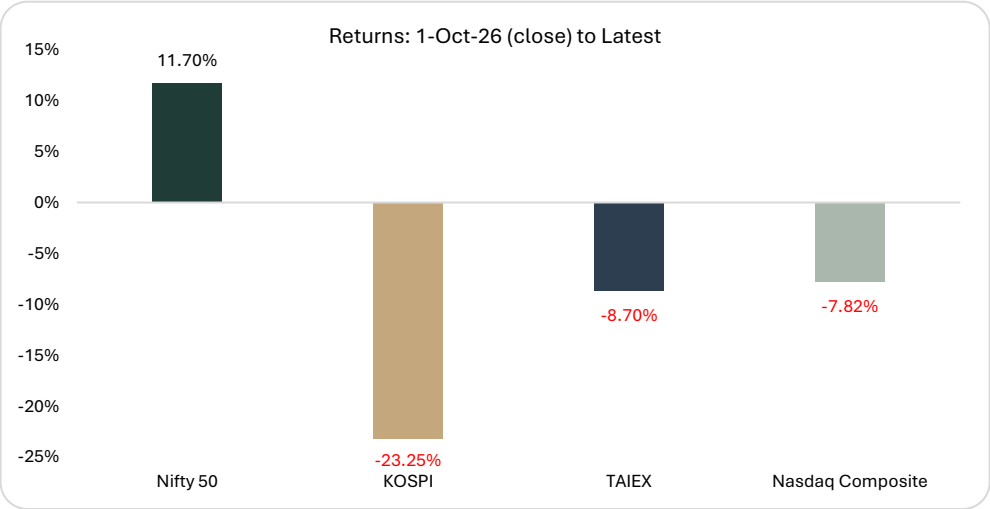
Indicator	2 Oct note	Now (11 Nov close)	Change
Nifty 50	22,421.95	25,255.05	**+12.6%**
Nifty50 Value 20 (NV-20)	11,105.25	12,404.20	**+11.7%**
Nifty Top 10 Equal weight	8,077.20	9,220.80	**+14.2%**
Nifty Midcap 150	21643.85	22,597.95	**+4.41%**
Nifty Smallcap 250	17,589.00	17,798.20	**+1.2%**
Nifty Microcap 250	25,911.80	25,632.45	**-1.08%**
Brent Oil	$114	$92.76	**-18.6%**
USD/INR	₹96	₹93.70	**Rupee ~2.5% stronger**
India 10Y yield	7.21%	7.21%	**No change**
Nifty PE	19.19x	20.59x	**+7.3%**
Net FII flows	2026 YTD: **-₹4.03 lakh crs**.	Oct: **-₹45,162 cr**; Nov (MTD): **+₹65,735 cr**	**FIIs – Net Buyers**

*Source – Nifty Indices, Investing.com

Due to the US midterm election outcome, 4 headwinds seem to be turning around for India.

What has changed?

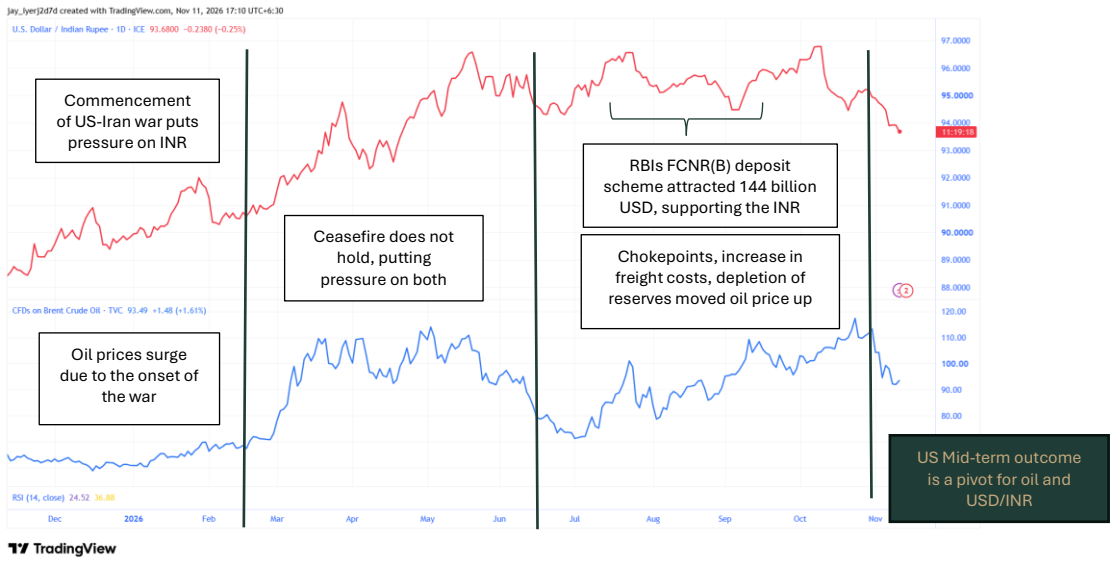
1. The AI trade is reversing? We had written a note on a plausible AI-trade reversal in April 2026, positioning India as a strong AI hedge due to a broader market and strong fundamentals, which did not work out for 6 months. We believe, this may have started to play out now: -



Source: Yahoo Finance, Pravia Research

2. Oil and rupee relief. Hopes of a negotiated US-Iran settlement after the US midterms took Brent from $117.64 on 30 October to $92.57 on 9 November, its sharpest weekly fall in over six years. The rupee (v/s USD) has strengthened to 93.72 from about 96. Cheaper oil helps the import bill, inflation, bond yields and dollar returns for foreign investors. Outlook on further US-Iran however, remains uncertain.

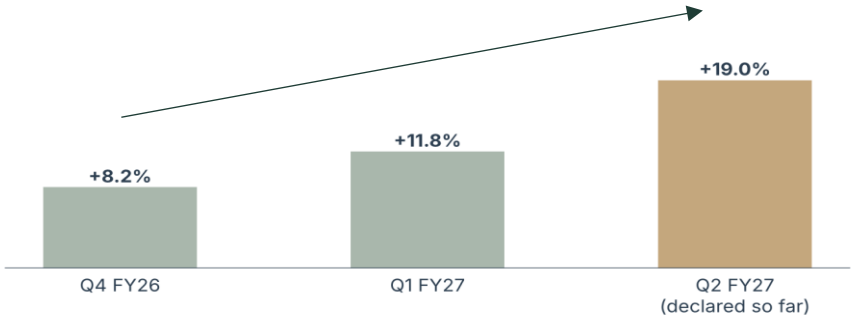
Brent: a sharp rise in 2026, and a correction the IEA expects to run into 2027.



Disclaimer – given many variables affecting oil prices, we normally do not forecast price movements

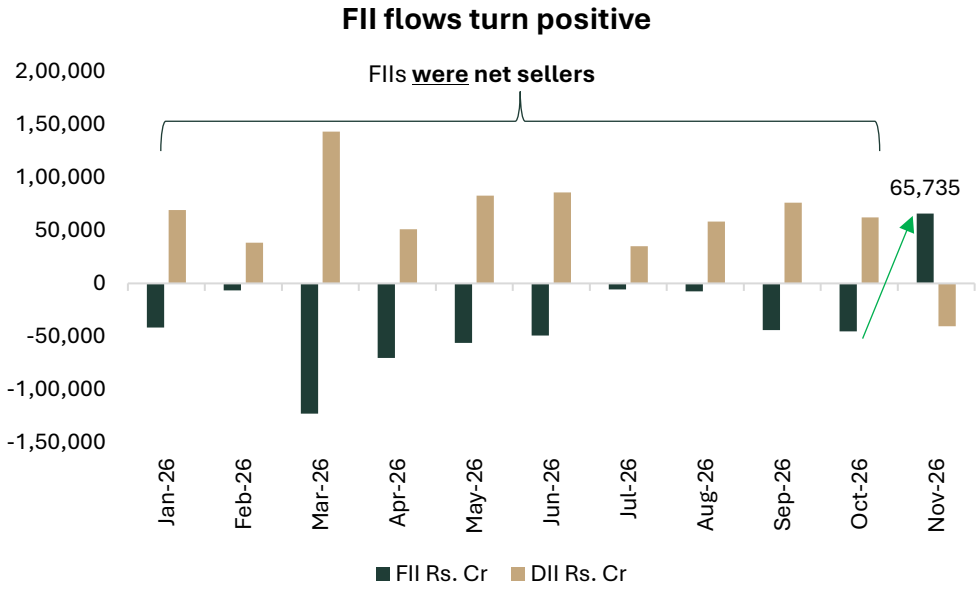
3. Earnings beat expectations, led by large caps, while mid and small caps face higher valuation hurdles. Rising input costs are driving margin compression in select pockets.

Nifty 50 net profit growth, year on year, %



Source: NSE Q1 FY27 Corporate Earnings Review (Q4 FY26, Q1 FY27); Kotak Institutional Equities.

4. In our initial note, we mentioned, "India doesn't need foreign investors to buy. It only needs them to stop selling." MTD till November, they have not only stopped selling, they have been net buyers of ₹65,735 cr.



Our recommendations are playing out; we continue to act with conviction and margin of safety

What we recommend

Segment	Positioning	Rationale
Large caps	**Continue to add**	➔ Nifty50 PE 20.6x vs 10-year average ~24x. ➔ NV-20 at 14.8x vs its 10-year average of 18.7x, with a 2.1% dividend yield. ➔ FII ownership of the BSE 100 is about 16–17%, near a 10-year low.
Banks	**Keep the tilt**	➔ Nifty Bank trading at P/BV of 1.7x vs 10Y avg of 2.5x. ➔ Higher interest rates favour NIMs. ➔ Credit growth is healthy at ~21% YoY.
Insurance	**Stay positioned, wait for the trigger**	➔ Not worked yet. ➔ We continue to remain positive due to expectation of PAT expansion, and growth in VNB. ➔ E.g. – HDFC Life at Price-embedded value (P/EV) of 1.85x vs 5-year average of 2.5x.
Mid & small caps	**Selective, bottom-up, stagger**	➔ Nifty Smallcap 250 PE of 32.4x is about 14% above its 5-year median of 28.3x. ➔ Valuations have moderated; we remain selective in deployment
IT	**Cautious**	➔ Rebounded 17.7% in October, yet AI disruption and the global rotation are unresolved. ➔ We continue to monitor key metrics such as constant currency growth, headcount addition. ➔ We continue to hold it through the Digital index, and large cap passive indices.
ICM Framework	**Positive, valuation conscious**	➔ We continue to favour the Infrastructure, Consumption, and Manufacturing themes structurally. ➔ We are allocating to these themes through thematic funds, actively managed mutual funds, and direct equity ideas, wherever we have valuation comfort.

Source: Nifty Indices, Pravia Research, HDFC Life Annual Report

In our earlier note, we had asked investors not to sell with the heart.

Now, don't chase with the heart either

The first note warned about two traps. Both have a mirror image now.

Fear of missing out (FOMO).

- Buying simply because the market is up 12.6% and sentiment has elevated the risk of chasing momentum.
- **The Nifty Smallcap 250 index TTM P/E has already expanded from 23.4x to 32.4x in the last 6 months**, making selectivity and valuation discipline important. We continue to follow our asset allocation framework for driving our allocation decision, given the nature of volatility and diverse variables at play.

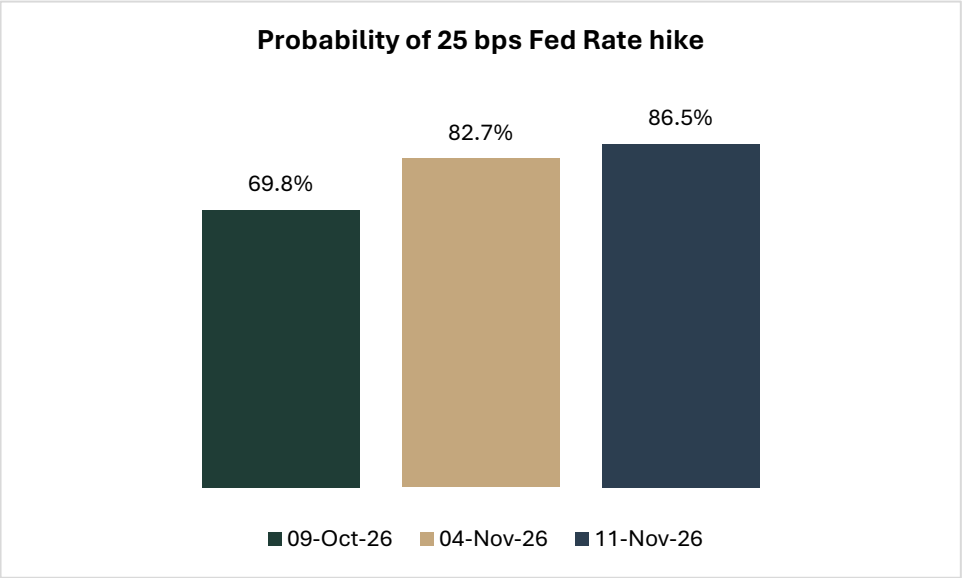
Confirmation bias – Seeing only what you hope for

- Once the market sentiment turns positive, investors begin interpreting every up day as confirmation that the recovery is sustainable, while overlooking signals that may contradict the bullish narrative.
- **We follow the process to manage confirmation bias. The rally did not change the process, and the process drives the allocation decision, manage volatility, and navigate client portfolios.**

Risks to our View:

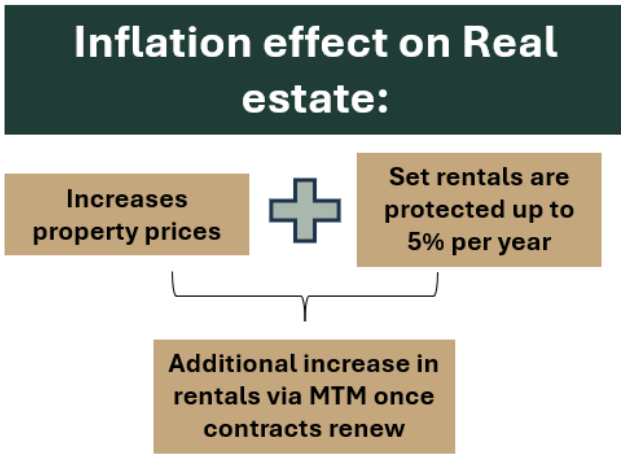
Inflation and Interest Rates.

- Stronger than anticipated CPI data in US have increased expectations of Fed hikes. Higher interest rates can pressurize the INR.



Source: CME FedWatch

- **US-Iran escalation.** We cannot completely rule out the possibility of further escalation which can cause a spike in oil prices.
- **Fickle foreign money.** With US rates this high, FII flows are not dependable long-term capital.
- **India-US trade deal.** Still not announced, continues to remain an overhang.
- **An AI rebound.** It could pull flows back to Korea, Taiwan and the US.
- Fixed Income is subject to financial repression, making it an inefficient hedge against higher inflation. Hence, we prefer allocating to yielding assets which offer favourable taxation, coupled with an inflation hedge, e.g.- REITs:



Conclusion

In our last note we highlighted many uncertainties, to which we now have some clarity –

- The outcome of the mid-term election in the US has created an uncertainty on the AI buildout as the democrats weigh environmental factors and might regulate AI. Furthermore, a cut throat competition from China has slowed down the AI race.
- The money which left India as an anti-AI trade, is returning gradually with major inflows in the large cap segment.
- Oil price which is the biggest influence on the import bill has eased to ~USD 92-93/bbl, from over USD 117 on 30th October'26.

We have witnessed a revival in the equity markets in India in the last couple weeks, we expect this to continue as the unwinding happens further.

Allocation Framework –

Index PE Band*	Nifty Range	Action	Deployment
22-24	26,650 - 29,000	Cautious	6–9-month stagger
20–22x	24,200 - 26,650	Accumulate Steadily	3-month stagger
<20	< 24200	Aggressive Deployment	Bullet allocation

→ **We stand here today**

Source – Trendlyne, assuming TTM EPS = 1,211

We are guided by our allocation framework based on the valuation multiples of Nifty 50; accordingly, we allocated aggressively to equities in the last quarter following the correction.

At current valuations, we remain constructive on large caps, which continue to offer a reasonable margin of safety. The return of FII flows provides an additional positive trigger. Within this segment, select pockets, particularly the Nifty Top 10 Equal Weight index, continue to offer attractive valuations.

We remain selective on mid and small caps, where valuations offer relatively limited margin of safety. Structurally, we continue to favour the ICM framework as the core allocation strategy for client portfolios.

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