BUSTING MYTHS: INDIAN MARKETS AT 22 P/E?

Despite the recent rally, the consensus bullish narrative on India is that "Indian markets are not overly expensive. Headline P/Es for the Nifty 50 & other benchmarks still look reasonable relative to history and global peers."

But **the real question you need to ask yourself is:**

> Does your portfolio have meaningful exposure to large caps? And if so, do you own any of the PSUs — Coal India, SBI, ONGC, NTPC or Power Grid? If the answer is NO, then you must read on.

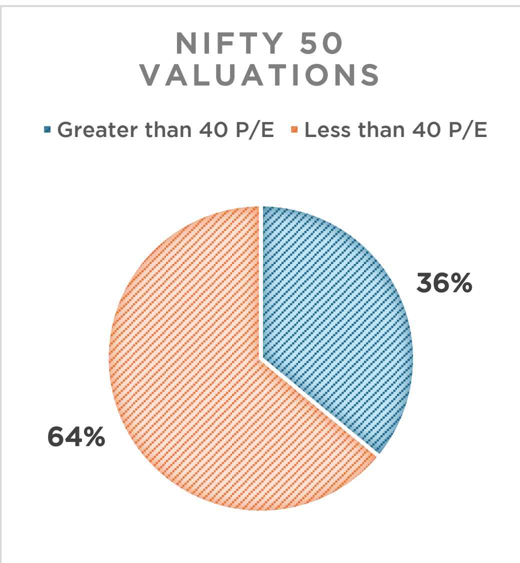
Aequitas' bottom-up screening across the Nifty 50, Nifty Midcap 150, Nifty LargeMidcap 250, and Nifty 500 reveals a very different story:

- Index valuations are being artificially muted by a handful of low-multiple PSUs and financials.
- Once we strip out PSUs and Banks/NBFCs/Insurance, the core corporate universe trades at 40–45x median P/E, with a very long tail well above 50x.
- 84 of these stocks (as of 10th Dec 2025) are quoting at 52-week lows, down 45% on an average from their peaks. Even after such deep corrections, they still trade at ~29x P/E on average.
- Market breadth is deteriorating: in the mid-cap and large-midcap segments, nearly half the stocks have negative 1-year returns, even as the indices hover near their 52-week highs.

Taken together, these data points suggest bubble-like conditions in Indian equities – not a benign re-rating.

1. Nifty 50 – Valuations masked by a handful of PSUs.

Headline Nifty valuations appear "reasonable" primarily because low multiple PSUs and a few large financials pull down the index P/E. Let's understand through numbers:



Valuations (all 50):

- Median P/E: ~33x
- 25% Nifty companies trade above 50x,
- and more than 35% above 40x.

Earnings (all 50):

- Median YoY quarterly profit growth: ~7.4%
- Negative profit growth: 15 companies (30%)
- Profit growth <10% or negative: ~58% of companies.

Sales:

- Median YoY quarterly sales growth: ~9.9%
- Negative sales growth: 7 companies (14%).
- Sales growth <10% or negative: ~52% of companies.

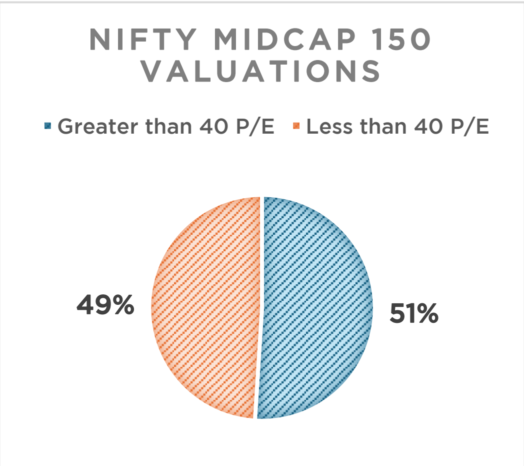
In plain terms: More than a third of the Nifty 50 trades above 40x earnings, while more than half the index is growing sales and profits at less than 10%.

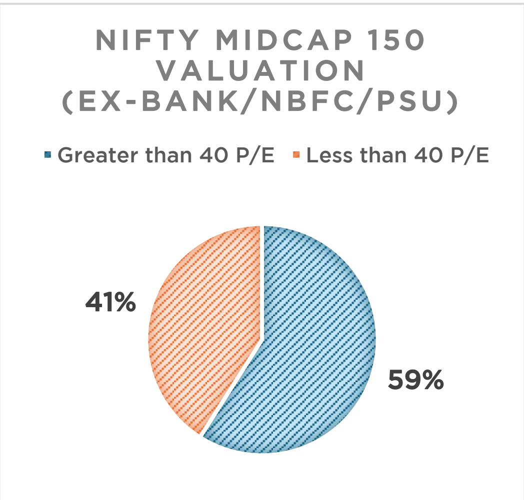
Meanwhile, PSUs with a combined profitability of ~₹440 bn now account for nearly 20% of the Nifty 50's total profits—and even these are trading above their historical valuation ranges.

This reflects **a significant valuation-growth disconnect** for what is widely considered the "safer" and "more stable" segment of the market.

2. Nifty Midcap 150: Overvalued and How!

While Nifty looks expensive, the Midcap 150 is the clearest warning signal. And for most investors, mid- and small-cap exposure is far higher than large caps — **in pursuit of higher returns.**





Valuations (all constituents):

So, more than 33% of midcap stocks trades above 50x earnings, and just **over 50% trade above 40x.**

Excluding Banks, NBFCs and PSUs (113 stocks), **this ratio moves up to ~60%** trading above 40x.

This is the "true" midcap core non-PSU, non-financial and it is **priced with hope more than reality.**

Growth & Returns (ex-Bank/NBFC/PSU):

- 28% of companies have negative YoY quarterly profit growth.
- 38% have profit growth below 10% or negative.
- 48% of stocks have negative 1-year returns.
- 64% have 1-year returns below 10% or negative.

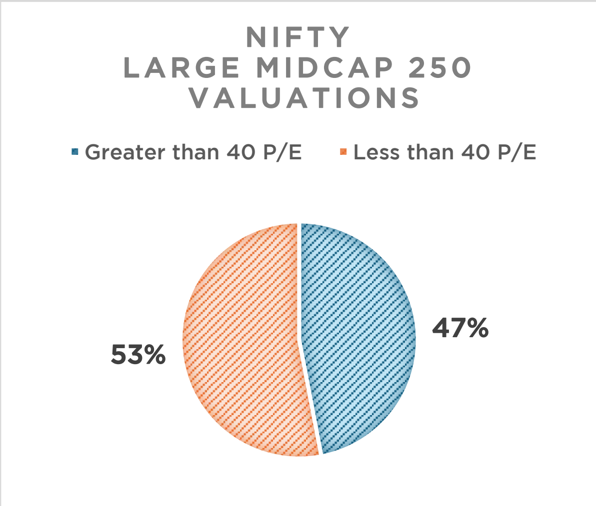
All this while the Midcap index itself is close to its 52-week high.

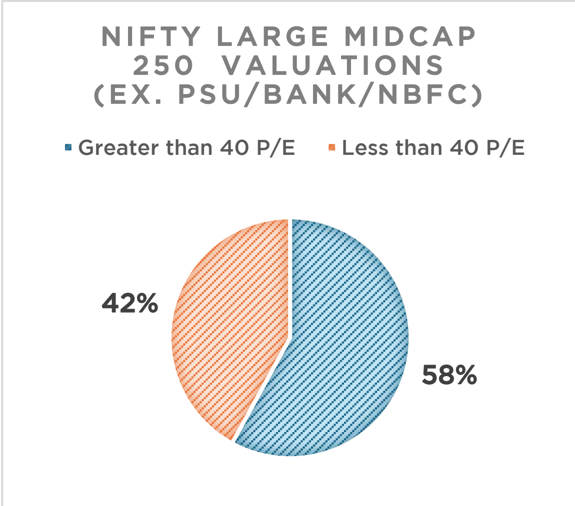
Expensive Valuations + Weak Earnings + Poor Breadth

is characteristic of late-stage market excess, not of a healthy bull market.

3. Nifty Large Midcap 250: Widening the Valuation gap

Nifty Large Midcap 250 shows the same pattern over a broader Universe.





Valuations (all 250 constituents):

Median P/E	Average P/E
~38x	^60x

Ex-PSUs/Banks/NBFCs (186 stocks):

Median P/E	Average P/E
~45x	~71x

Again, once we remove the optically cheap PSUs and financials, the core large–mid universe trades at 40–50x+ earnings for most stocks.

Growth and returns (ex-PSUs/Banks/NBFCs):

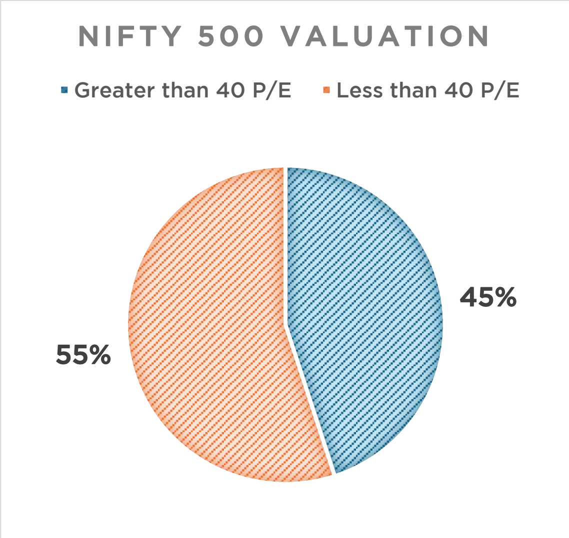
- 28% of companies have negative profit growth QoQ.
- 42% have profit growth below 10% or negative.
- 45% of stocks have negative 1-year returns.
- 63% have 1-year returns below 10% or negative.

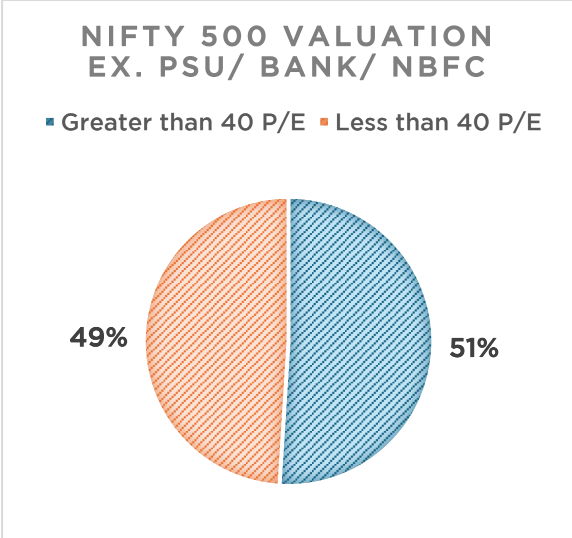
So, in a 250-stock benchmark:

- **Almost 50% the universe trades above 40x earnings**,
- While 40%+ of companies are barely growing or shrinking, and
- Most have not rewarded shareholders over the last year.

4. Nifty 500: The Broader Market Is Also Stretched

The Nifty 500 confirms that this is not just a midcap or one-off sector story.





Valuations (all 500):

Median P/E	Average P/E
~37x	~63x

Ex-PSUs/Banks/NBFCs (397 stocks):

Median P/E	Average P/E
~42x	~70x

Profit growth in the core universe is also uninspiring:

- 32% of the ex-PSU/financial companies have negative profit growth
- 44% have profit growth below 10% or negative.

Analyst comments on the broader data mirrors this weakness:

- Around 44% of Nifty 500 companies have negative 1-year returns,
- About 62% have 1-year returns below 10% or negative.

Why We Believe the Valuations are stretched?

Across all four indices, **three patterns are consistent:**

1. **Valuations are extreme** once PSUs and financials are excluded.
   - Median P/E across the core universe (ex-PSU, ex-Banks/NBFCs) clusters in the low- to mid-40s.
   - Average P/E is close to 70x, reflecting a long tail of very expensive names.
   - In many segments, 40–60% of stocks trade above 40x–50x earnings.
2. **Earnings Growth** does not justify these multiples.
   - Roughly 35% of non-PSU, non-financial companies reported negative profit growth in the latest quarter.

- Around 45% are growing profits at less than 10% or shrinking.
- Yet, these businesses continue to trade at growth-stock valuations of 40x–50x+, despite deteriorating fundamentals.

3. **Market Breadth is poor** despite indices at or near highs.

- In the Midcap 150 and LargeMidcap 250, ~45–50% of stocks have negative 1-year returns, and ~60%+ have returns below 10% or negative.
- Indices continue making new highs, but most constituents are not participating in the rally.
- Analysing some of the largest Mutual funds, the average holdings of PSUs are less than 15%.

Conclusion

This is not a picture of a broad, earnings-led bull market. **It is a market where:**

- Prices and valuations have run ahead of fundamentals,
- Leadership is narrow, and
- The apparent comfort at the index level is largely an optical illusion created by cheap PSUs and select financials masking high valuations elsewhere.

> From a value-investing standpoint, Indian equities — based on this bottom-up work — appear ***overvalued*** with ***thin margins of safety*** and a rising risk of ***mean reversion***, whether ***through time correction***, ***price correction***, or a combination of both.

Lesson from History:

Whenever investors have paid elevated valuations, long-term returns have tended to be suboptimal.