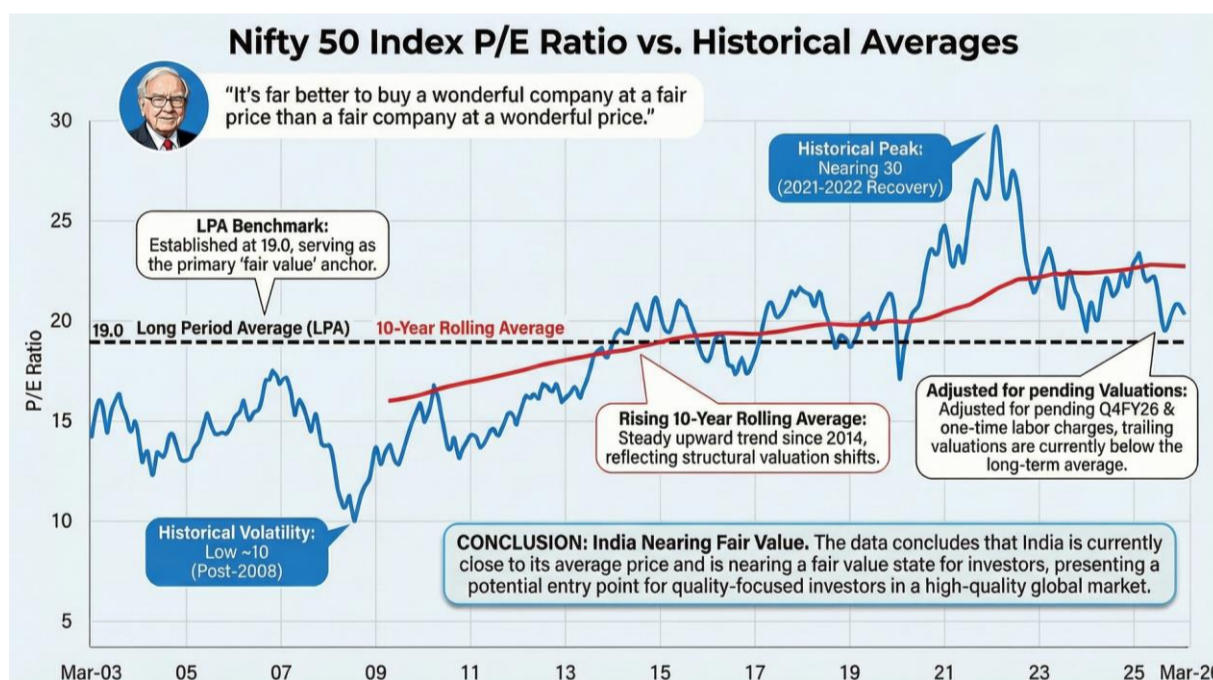


Panam – April 2026 - Newsletter

Positioning Ahead of the Turn

Nifty Indices and Large Cap - The Indian equity market is no longer in the same phase it was in six months ago. The excess that had built up through 2024 and early 2025 has been meaningfully corrected, and what we are seeing now is a transition toward more reasonable valuations. The Nifty is currently trading below 20x trailing earnings and close to ~19x on forward estimates, broadly in line with its long-term average of ~18.9x. This is not a distressed valuation zone, but it is clearly no longer a euphoric one.

The current phase is also marked by a visible rise in stress indicators. Volatility has moved higher, with India VIX crossing 25, and the Nifty has gone through four consecutive months of decline—an outcome that has been rare historically. While these developments tend to reinforce negative sentiment, they are often observed closer to market inflection points than to the beginning of prolonged downcycles. Markets typically bottom out when positioning is light, narratives are weak, and expectations have already been reset.



Within this setup, the opportunity is most evident in large-cap equities. The top constituents of the index are now trading at valuation percentiles that have historically coincided with periods of pessimism, such as 2016 and 2020. What is different this time is that balance sheets are significantly stronger. The post-COVID cycle has been characterized by deleveraging and improved cash flow generation across corporate India. As a result, the current correction is not being driven by structural stress in the system, but by a reset in valuations and expectations.

Nifty top stocks trading at even more reasonable valuation - The attractiveness of large caps becomes clearer when we look at individual constituents within the top 10. Several of India's highest quality businesses are currently trading at valuations meaningfully below their own historical averages, despite maintaining strong return ratios. In the IT space, Infosys and TCS are trading at P/E multiples of ~17–18x versus 10-year averages of ~23–27x, while continuing to deliver ROEs of ~29% and ~52% respectively. Similarly, ITC is available at ~17.5x compared to ~26x historically, with ROEs still in the high-20s, indicating that valuation compression has not been driven by weakening fundamentals.

A similar trend is visible within financials. HDFC Bank and Kotak Mahindra Bank are trading at ~2.0–2.1x price-to-book, well below their long-term averages of ~3.8–3.9x, even as their franchise strength and long-term earnings potential remain intact. At the same time, ICICI Bank and Axis Bank continue to deliver improving ROEs, in many cases above historical levels, while valuations remain reasonable. Outside financials, companies such as Bharti Airtel and Larsen & Toubro are also trading at or near historical averages despite better operating performance and improved return profiles.

What stands out across this entire basket is the consistency of the setup—valuations have corrected meaningfully, but return ratios have largely held steady or improved. This is not a case of deteriorating fundamentals driving lower multiples, but rather a normalization of expectations. As a result, the top large-cap universe today offers a relatively rare combination of **reasonable valuations and resilient profitability**, making it one of the more compelling areas for allocation in the current market environment.

100% of the portfolio is available at or below average valuations

Large cap valuations are attractive compared to their long term historical average.

Company	Valuation Matrix	Current Ratio	10 Yr Avg	Current ROE	10 Yr Avg ROE	Valuation Comment
Infosys	P/E	17.6	23.4	29.0	29.0	Buyback, Below Average
ITC	P/E	17.5	26.0	27.0	25.0	Cheaper vs Own History
Reliance Industries	P/E	24.0	23.7	8.0	10.0	At Average
TCS	P/E	16.7	27.0	52.0	41.0	Buyback, Below Average
Axis Bank	P/B	1.8	2.2	16.0	10.0	Cheaper vs Own History
HDFC Bank	P/B	2.0	3.8	14.0	17.0	Cheaper vs Own History
ICICI Bank	P/B	2.5	2.6	18.0	12.0	At Average
Kotak Mah. Bank	P/B	2.1	3.9	15.0	14.0	Cheaper vs Own History
Bharti Airtel	EV/EBITDA	11.0	13.5	23.0	9.0	Cheaper vs Own History
Larsen & Toubro	EV/EBITDA	14.0	14.2	17.0	14.0	At Average

Overall market Breadth - There is a significant damage in the overall market position though the pain is not getting reflected in the index level. The correction so far in the last 1 month has been broad and largely indiscriminate. Only about 18% of stocks are trading above their 200-day moving average and roughly 13% above their 50-day moving average. This is not a sign of selective weakness; it is a sign of market-wide de-risking. Importantly, this kind of environment tends to create opportunities to invest though it creates uncertainty in the short term.

Market Breadth: Identifying Contrarian Opportunities in Widespread Selling

NSE500 Index Performance



Primary price chart illustrates overarching market trend and context of recent price action.

THE CONTRARIAN OPPORTUNITY

INDISCRIMINATE SELLING

Weak breadth signifies a lack of discrimination between quality and valuations; when most sectors move down together, it is driven by emotion rather than fundamentals.

CONTRARIAN ENTRY POINT

Emotion-laden selling creates opportunities for patient investors to acquire quality assets that have been sold off alongside the broader market.

13% of Stocks Above 50-Day Moving Average



18% of Stocks Above 200-Day Moving Average



Vicinity of Extremities

Current readings are in the vicinity of extremities, suggesting selling pressure is overextended.

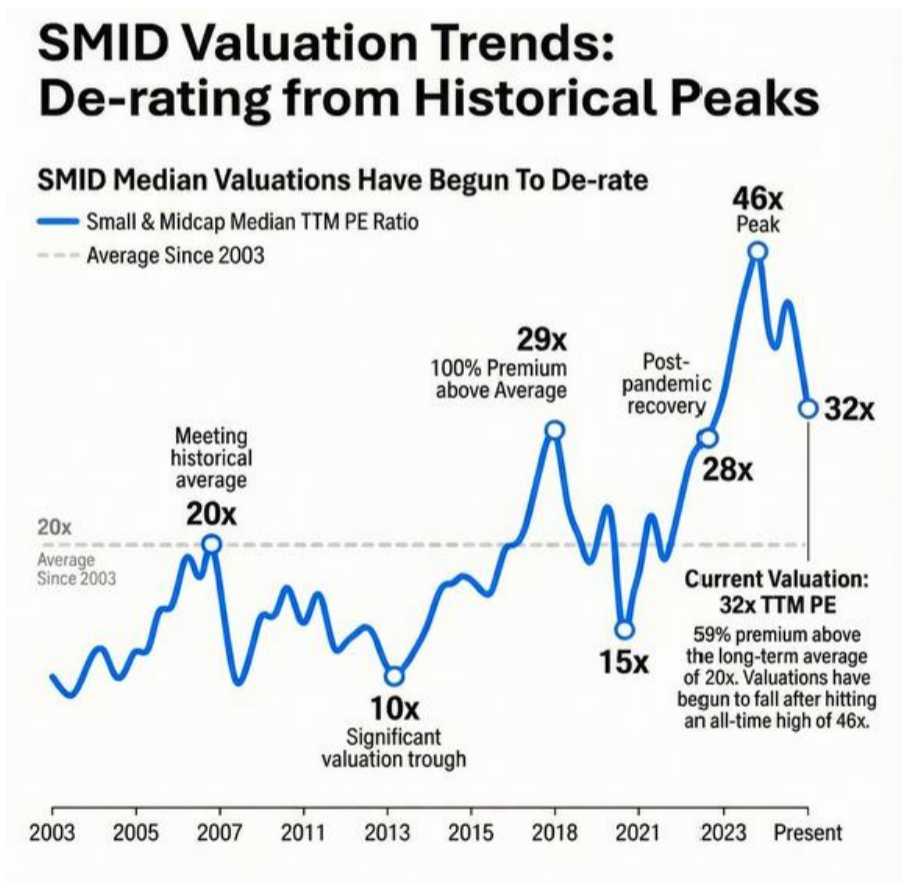
LIMITED DOWNSIDE AT NIFTY ~22,500

With the Nifty Index at current levels of approximately 22,500, these extreme breadth readings suggest that further downside is likely limited, offering a strategic entry point.

This environment also creates a more favourable risk-reward equation. When valuations compress without a corresponding deterioration in business quality, forward returns tend to improve meaningfully over time. The challenge, as always, lies in acting during the phase when sentiment does not yet support that view.

The small- and mid-cap segment still does not offer the same level of comfort. Although valuations have corrected from their peak, they remain elevated relative to historical levels, with median multiples around ~32x versus a long-term average closer to ~20x. More importantly, this segment has yet to experience the kind of relative underperformance typically seen during deeper market corrections, suggesting that the adjustment process may not be fully complete.

Notably, while large caps have corrected by approximately 16% from their peak, mid-caps have declined by a similar magnitude. This diverges from past cycles, where mid-caps typically underperformed more sharply. The relatively resilient performance of mid-caps can be attributed to stronger earnings growth and significantly deleveraged balance sheets compared to large cap



From a portfolio positioning perspective, this is not a phase to chase broad-based opportunities in SMIDs. Allocation here needs to remain selective, with a clear bias toward quality and valuation discipline. The dispersion within this segment is likely to widen further as the cycle evolves.

At a sectoral level, select opportunities are beginning to emerge in areas where valuations have corrected without a structural impairment in earnings. Large private banks are now trading closer to historical averages, with price-to-book multiples near ~2x and return profiles that remain robust . Asset quality remains stable, and incremental credit growth should support earnings over the medium term. Similarly, large IT companies are now trading at ~17–18x earnings, despite

maintaining strong return ratios and balance sheet strength. The sector appears to have already discounted a significant portion of cyclical weakness. Only challenge with IT sector is slower growth of ~ 5 % compared to their historical growth of approx. ~ 10 %.

From a macro standpoint, crude oil remains the key external variable to monitor. India's dependence on imports means that a sustained rise in oil prices could widen the current account deficit and create pressure on the currency and liquidity. However, outside of this risk, several macro stress indicators appear to be peaking, and a large part of the uncertainty is likely already reflected in asset prices.

Foreign investor flows continue to remain subdued, but it is important to recognize that flows are typically reactive, not predictive. Historically, the strongest inflows have followed periods of valuation compression and pessimism, rather than preceded them. In that sense, the current phase may be laying the groundwork for a reversal in flows rather than an extension of weakness.

What stands out in this environment is the behavioral challenge. The data is gradually turning constructive, but the narrative is not. This is usually the point in the cycle where decision-making becomes most difficult. Investors tend to wait for confirmation, but by the time confirmation arrives, a meaningful part of the opportunity is already behind.

The market today is not signaling urgency, but it is signaling improvement in risk-reward. This is typically the phase where positioning should begin to shift, not aggressively, but deliberately. Increasing exposure to large-cap equities, maintaining discipline in valuation, and avoiding pockets of excess remain the most sensible approach.

In summary, the market is transitioning from a phase of excess to one of normalization. The easy returns from multiple expansion are behind us, but the groundwork for the next phase of returns is being laid. The opportunity is not yet obvious—but it is increasingly visible for those willing to act ahead of consensus.

Vignesh Krishnamoorthy

Fund Manager