

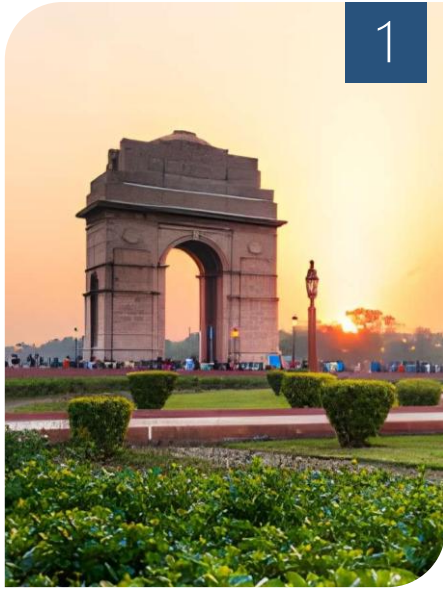


SKG
INVESTMENTS & ADVISORY

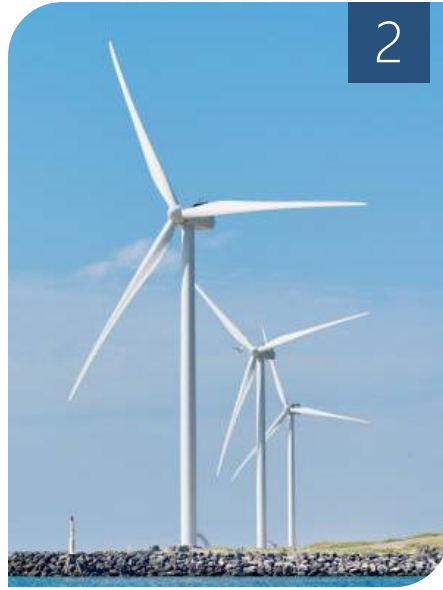
A year of consolidation

Annual Review 2025

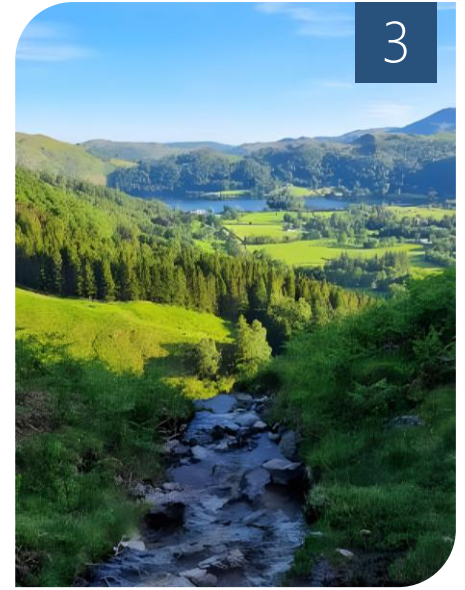
Contents



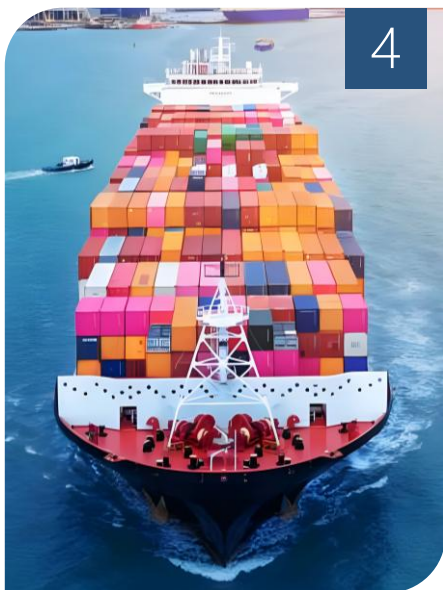
Market Performance



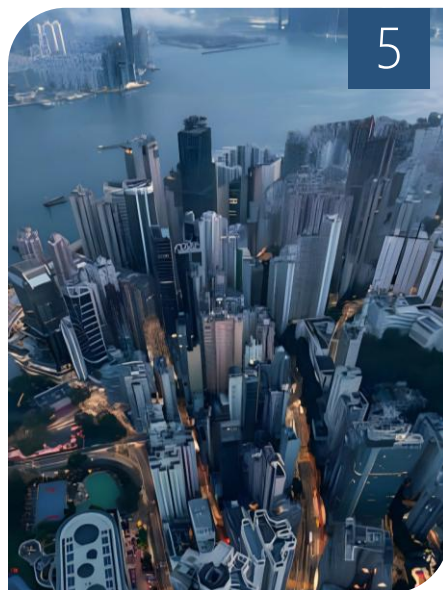
Policy & Regulatory Changes in 2025



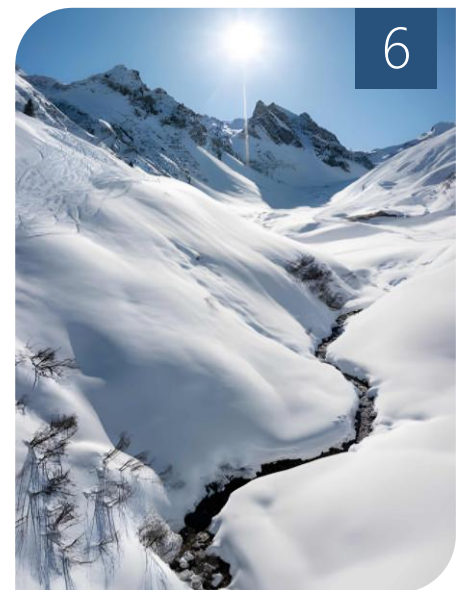
Market & Economy Timeline: Major events & Implications



Global Trade Deals & Geopolitics Impacts



Capital Flows



Small-cap review

Market Performance

As on 29-12-2025 ₹ Lac Crs | USD Tn.

Market Capitalization of BSE Listed Co.	471.52 5.24
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Market Capitalization of NSE Listed Co.	469.50 5.22
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As on 30-11-2025

Unique number of investors in Mutual Fund (by PAN+PEKRN)	5,83,66,328
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Number of Demat Accounts	21,27,56,056
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Flows during FY2026

FPI Net Investment	3,050
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DII Net Investment	5,42,987
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Advance/Decline Ratio In FY2026 as on 30-11-2025

BSE	0.48026
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NSE	0.70000
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Average Daily Turnover in Cash Segment FY2026 as on 30-11-2025 (INR Crore)

BSE	12,66,494
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NSE	1,01,859
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Policy Rates as on 30-12-2025

Policy Repo Rate	5.25%
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Standing Deposit Facility Rate	5.00%
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Marginal Standing Facility Rate	5.50%
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Bank Rate	5.50%
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Fixed Reverse Repo Rate	3.35%
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Commodities LTP (INR) as on 30-12-2025 1 Year (%)

GOLD	133,788.00	76.33
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SILVER	231,785.00	166.22
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COPPER	1,230.00	53.05
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CRUDEOIL	\$ 58.40	-17.72%
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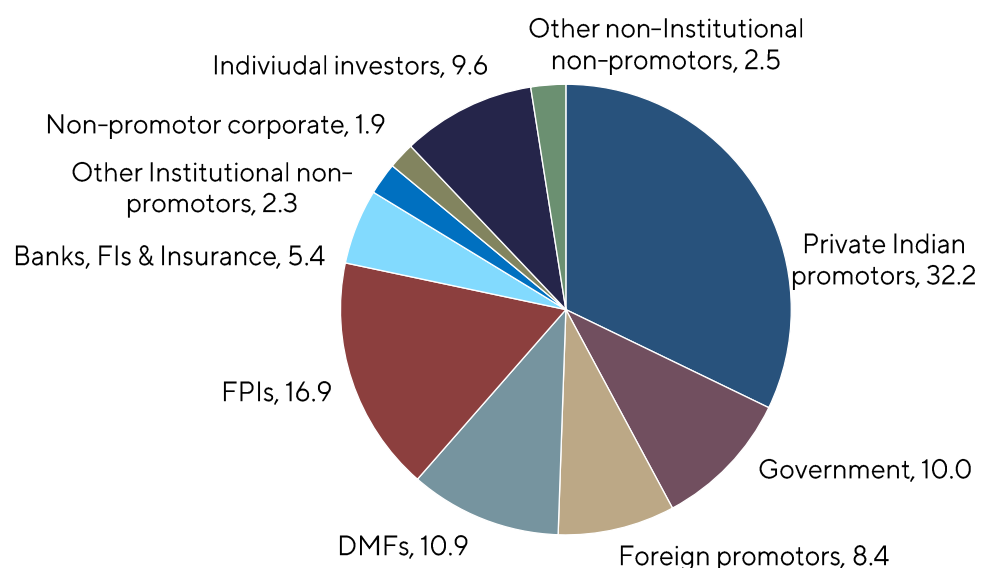
NATURALGAS	358.60	23.83
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Name	LTP as on 29-12-2025	YTD (%)	1 Week (%)	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)
NIFTY 50	25,942.10	9.72	-0.88	-1.00	5.31	1.19	8.94	42.61
BSE SENSEX	84,695.54	8.39	-1.06	-1.22	5.34	0.71	7.57	38.48
BSE 500	37,140.23	5.54	-0.81	-1.09	3.95	0.18	5.2	50.55
NIFTY 100	26,483.45	8.12	-0.79	-0.95	4.62	0.99	7.52	44.37
Nifty 200	14,420.65	7.56	-0.89	-1.09	4.89	1.01	7.14	50.42
NIFTY 500	23,682.10	5.84	-0.78	-1.05	4.15	0.26	5.51	52.93
NIFTY MIDCAP 50	17,096.90	7.03	-1.73	-1.87	7.20	2.00	7.40	96.57
NIFTY Midcap 100	60,001.30	4.90	-1.34	-1.71	6.13	1.04	5.30	91.39
NIFTY NEXT 50	68,638.75	0.96	-0.30	-0.72	1.18	-0.11	0.12	62.45
NIFTY Smallcap 100	17,567.70	-6.40	-0.14	-1.47	0.11	-7.43	-6.33	81.88
NIFTY SMLCAP 50	8,545.30	-4.39	-0.77	-1.77	1.61	-6.31	-4.44	98.41
Sectoral Indices								
NIFTY BANK	58,932.35	15.87	-0.63	-1.37	8.21	2.59	14.85	36.25
NIFTY Auto	27,592.50	20.84	-1.05	-0.66	4.37	14.93	19.45	118.39
Nifty Cons Durbl	36,487.40	-12.72	-1.28	-3.68	-2.55	-4.44	-12.15	45.18
NIFTY Consumption	12,183.40	7.22	-0.81	-2.32	0.62	2.63	7.12	60.03
NIFTY Energy	34,868.75	-0.91	-0.45	-1.91	-0.57	-4.58	-0.49	34.82
NIFTY Fin Service	27,363.50	16.38	-0.42	-1.89	5.22	0.07	15.03	43.33
NIFTY FMCG	55,192.45	-2.83	0.24	-0.73	0.45	0.15	-2.22	24.01
Nifty Healthcare	14,607.90	-2.30	-1.46	-2.82	3.28	1.36	-0.63	82.00
NIFTY Infra	9,518.55	12.47	-1.17	-1.40	5.16	0.85	12.05	80.70
NIFTY IT	38,282.70	-11.66	-3.05	2.35	13.62	-1.39	-12.44	33.45
NIFTY Media	1,424.05	-21.66	1.54	-3.01	-8.84	-18.53	-23.18	-28.12
NIFTY Metal	10,789.10	24.73	1.13	4.82	8.73	12.64	23.72	61.34
Nifty Oil & Gas	11,951.45	11.24	-0.81	-0.69	5.93	0.98	11.87	41.69
NIFTY Pharma	22,578.30	-3.56	-1.52	-1.83	5.14	2.96	-1.87	78.71
NIFTY PSE	9,706.15	1.82	0.69	-0.39	-0.69	-3.69	1.55	123.91
NIFTY PSU Bank	8,291.45	26.77	-1.01	-2.62	12.19	18.19	26.18	94.89
Nifty Pvt Bank	28,352.30	14.42	-0.55	-1.52	7.35	-0.54	13.78	29.00
NIFTY Realty	877.2	-16.64	-0.90	-2.87	0.28	-11.75	-18.12	105.07

NSE-listed universe:

Ownership pattern by total market cap (%)

September 2025



Policy & Regulatory Changes in 2025

1. Direct tax reset under Union Budget 2025 – 26 (Income tax relief led)

A major policy signal in 2025 was the new regime relief: the government announced 'no income tax' up to ₹12 lakh and up to ₹12.75 lakh for salaried taxpayers after factoring in the ₹75,000 standard deduction. This materially changes household disposable income math (and consumption sensitivity) for a large part of the middle income base and it also nudges taxpayers toward the simplified new regime structure

2. Finance Bill, 2025: compliance simplification via removal of 'higher TDS for non filers' provision (structural friction reduced)

The Finance Bill, 2025 proposed omitting Section 206AB (special higher TDS/TCS rates for non filers) with effect from April 1, 2025, a change that reduces compliance friction in many day to day transactions where counterparties earlier faced elevated withholding due to filing status checks. This is a classic 'ease of doing/compliance' lever rather than a headline rate cut, but it affects operating workflows across corporates/SMEs and financial intermediaries

3. GST rate Rationalization push

GST in 2025 saw another rationalization round, with the 56th GST Council recommendations indicating that GST rate changes on goods/services were intended to be implemented starting 22 September 2025 (with a phased approach). This matters because compliance systems (ERP, invoicing, pricing) typically need hard dates to switch rate logic and 2025's change set was explicitly date anchored via the Council communication

4. RBI KYC modernization to onboarding & periodic updating workflows

A key regulatory shift in 2025 was RBI's continued tightening/clarification of KYC operations via amendments to the KYC Directions, important because KYC is the 'front door' for banking/fintech growth. RBI's June 2025 update cycle reinforced operational expectations around periodic KYC updation and processes aligned with CKYCR updates (practical compliance impact on banks/NBFCs/payment firms). For retail investors, this shows up as more structured KYC refresh asks; for institutions, it is a process and controls uplift

5. RBI's 'regulatory clean up' as a 2025 compliance event: consolidation into 244 Master Directions & withdrawal/repeal of 9,445 circulars

One of the biggest 'meta regulatory' events late 2025 was RBI's consolidation exercise: 9,445 circulars were consolidated into 244 Master Directions (covering multiple categories of regulated entities). The practical effect is large: a cleaner rulebook architecture reduces interpretational ambiguity, improves auditability and lowers the cost of compliance mapping, especially for entities dealing with multiple RBI regulated activities

“SEBI focused on tightening norms for SME IPO, derivatives trading and risk controls on retail participation”

6. SEBI & Exchanges: SME IPO framework tightening (Quality screens & Bidding discipline)

2025 featured a clear push to improve SME IPO quality and reduce “hot money” distortions. A widely tracked eligibility screen introduced/embedded into the SME framework was the ₹1 crore EBITDA requirement in at least 2 of the last 3 years (a hard profitability filter). Alongside that, exchanges strengthened bidding mechanics: NSE’s circular (effective July 1, 2025) moved the “retail like” SME participation into a more serious ticket-size regime, minimum bid size of 2 lots, application size > ₹2 lakh, no cut off price option, no cancellation/ downward modification and last day bidding closes at 4:00 PM. Net effect: fewer speculative micro bids and tighter price discovery plumbing

7. SEBI equity derivatives: Risk monitoring & Trading convenience measures (2025 circular)

In 2025, SEBI also targeted the microstructure of derivatives risk. The May 29, 2025 SEBI circular on enhancing trading convenience and strengthening risk monitoring is a key anchor because it signals a regulatory preference for tighter surveillance and risk controls as retail participation expands. This is important for brokers/clearing members (margining, monitoring, surveillance triggers) and for traders (contract design, eligibility and rule enforcement dynamics)

8. Exchange implementation: Index derivatives lot size revisions (contract value/participation shaping)

In 2025, NSE revised index derivatives lot sizes in line with SEBI’s recalibration mandate. Nifty 50 was reduced from 75 to 65, Bank Nifty from 35 to 30, Fin Nifty from 65 to 60, and Nifty Midcap Select from 140 to 120, while Nifty Next 50 remained unchanged at 25. Existing weekly and monthly contracts continued with old lot sizes until the December 30, 2025 expiry, while quarterly and half-yearly contracts were revised from end-of-day December 30, 2025. The first weekly and monthly Nifty expiries with revised lot sizes were 6 January and 27 January 2026, respectively. The move aligned contract values with SEBI norms, reducing excessive small-ticket speculation while preserving liquidity and hedging efficiency

9. Exchange implementation: Index derivatives Expiry Revisions

SEBI mandate weekly expiry restricted to one index per exchange (2025). SEBI mandated that each exchange can offer weekly derivatives expiry on only one index. For the National Stock Exchange of India, this meant Nifty 50 remained the sole weekly expiry, while all other index derivatives shifted to monthly expiries only. The move was aimed at curbing excessive retail speculation and leverage, as weekly options accounted for over 80% of index options turnover by 2024-25. By concentrating weekly expiries in one highly liquid index, SEBI sought to improve liquidity quality, reduce systemic risk and strengthen price discovery, while preserving hedging efficiency in the benchmark index

10. Faster settlement plumbing: optional T&O settlement rollout timeline management (SEBI)

SEBI continued operationalizing optional T&O settlement (same day settlement) through 2025, including timeline extensions for market intermediaries classified as Qualified Stock Brokers (QSBs) to implement systems/processes. The compliance timelines matter because T&O isn’t just a concept, it requires broker back office, risk, funds/securities handling and clearing coordination to be production ready

11. Mutual fund cost transparency & fee caps: 2025's late year TER overhaul

A significant investor facing regulatory development in 2025 was SEBI's mutual fund expense framework overhaul reported as a shift from the earlier base cost framing toward clearer Total Expense Ratio (TER) style disclosures. Market reporting also quantified the direction: expense ratio caps reduced (up to ~10 – 15 bps in several slabs) with specific mention of equity schemes below certain AUM thresholds seeing lower maximum caps (this is meaningful because compounding turns "bps" into real long term outcome differences)

12. RBI's rate cut cycle begins in 2025

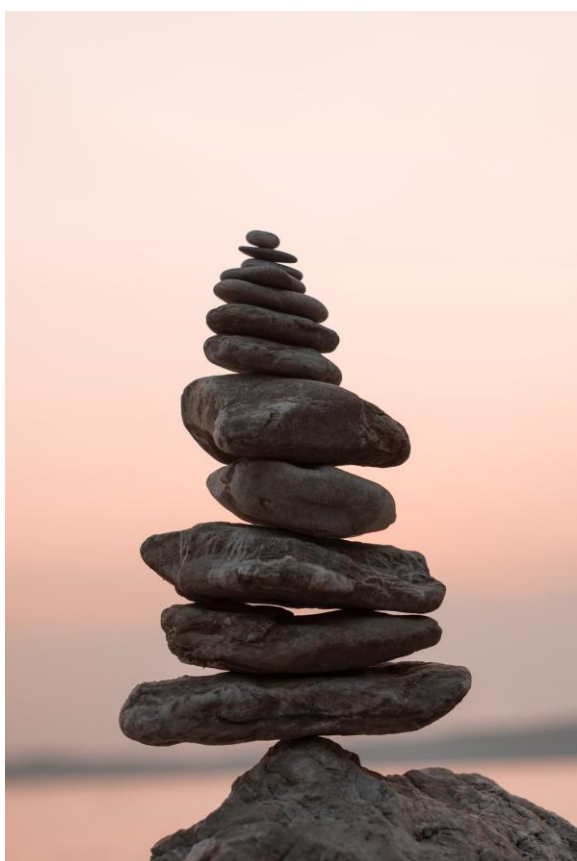
After holding the repo rate at 6.50% since Feb 2023, RBI started easing in Feb 2025 with a 25 bps cut to 6.25%, followed by Apr 2025 with another 25 bps cut to 6.00%. The biggest move came in Jun 2025, when RBI delivered a 50 bps cut to 5.50% (immediate effect). After keeping rates unchanged at 5.50% in Oct 2025, RBI cut again in Dec 2025 by 25 bps to 5.25%. Net: 125 bps easing in 2025 (6.50% → 5.25%)

13. Inflation trajectory enabled policy space (disinflation became unusually sharp by late 2025)

Policy space came from a visible inflation downshift; India had FY24 average retail inflation at ~5.4%, while RBI's own guidance for FY25 was ~4.5% (disinflation trend). By late 2025, the disinflation impulse intensified headline CPI was reported at a record low ~0.25% YoY in Oct 2025 and still very low at ~0.71% in Nov 2025, reinforcing the case that inflation was not the binding constraint for growth support. Path was structured: RBI delivered three cuts by June (total -100 bps by mid year) and then paused (Oct kept at 5.50%) to allow transmission and assess growth momentum, before cutting again in Dec. The intention was to support credit sensitive segments (housing /consumption /MSMEs) while keeping stance flexibility. RBI's communication by Oct also highlighted macro stability improvements alongside growth forecasting updates, consistent with a calibrated easing cycle rather than an aggressive one way bet

14. FX management: USD/INR weakens toward 91; RBI steps in to smooth volatility, not defend a level

In 2025, the USD/INR depreciated sharply toward the ~91 level, reflecting a strong US dollar environment, intermittent FPI outflows and widening interest rate differentials despite RBI's easing cycle. The Reserve Bank of India responded by actively managing volatility rather than defending any specific exchange rate level. RBI deployed a mix of spot dollar sales from FX reserves, USD/INR swap auctions and liquidity management operations to ease dollar tightness and prevent disorderly market moves. RBI's use of FX swaps helped contain forward premium spikes and ensured adequate rupee liquidity, allowing the currency to adjust gradually to global pressures while maintaining financial stability. This approach is consistent with RBI's long standing policy of market determined exchange rates with intervention only to smooth excess volatility



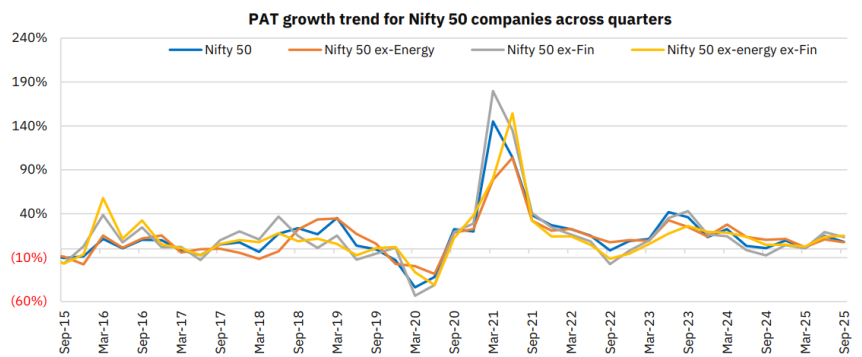
Market & Economy Timeline

Major events & Market Implications

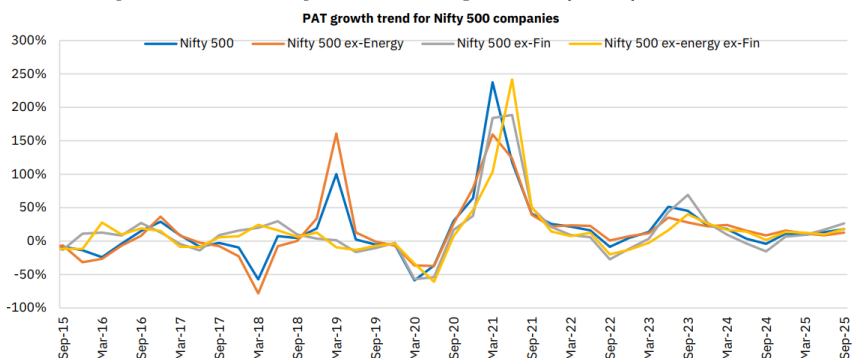
1. Index-wise earnings growth: FY25 marked the earnings trough, with FY26 H1 showing early stabilisation rather than a sharp rebound

Index-level earnings data indicate that FY25 represented a low-growth phase, while FY26 H1 reflected early stabilisation and gradual improvement, not a full recovery. In Q4FY25, Nifty 50 PAT growth slowed to just 0.8% YoY, among the weakest prints in the past 10 quarters, whereas Nifty 500 PAT grew 9.5% YoY, led by ex-Nifty 50 companies which delivered a strong 20.7% YoY growth. On a full-year basis, FY25 PAT growth remained modest across indices—~5.5% for Nifty 50, ~5.6% for Nifty 500 and ~5.8% for Nifty 500 ex-Nifty 50—even as Nifty 50 PAT margins improved to ~11.8%, a multi-year high, highlighting margin resilience amid weak topline momentum. Q1FY26 earnings reflected sequential improvement and margin stability, supported by easing cost pressures and steadier financial sector performance, though YoY growth remained moderate. Q2FY26 reinforced this stabilization trend, with improved earnings participation and reduced sectoral drag versus FY25, but without evidence of a broad-based earnings acceleration. Earnings revisions stayed negative through this period, but the pace of downgrades slowed in FY26 H1, supporting consensus expectations of ~12.8% earnings growth in FY26 and ~15.7% in FY27. The earnings cycle in 2025 was characterized by margin-led support in FY25 and early earnings stabilization in FY26 H1, suggesting that index valuations are increasingly dependent on gradual earnings recovery rather than multiple expansion

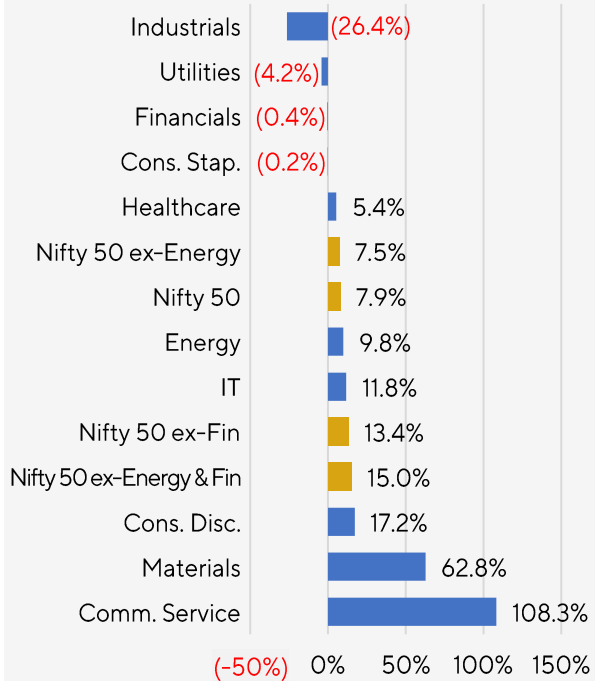
Quarterly trend of Nifty 50 PAT growth (YoY)



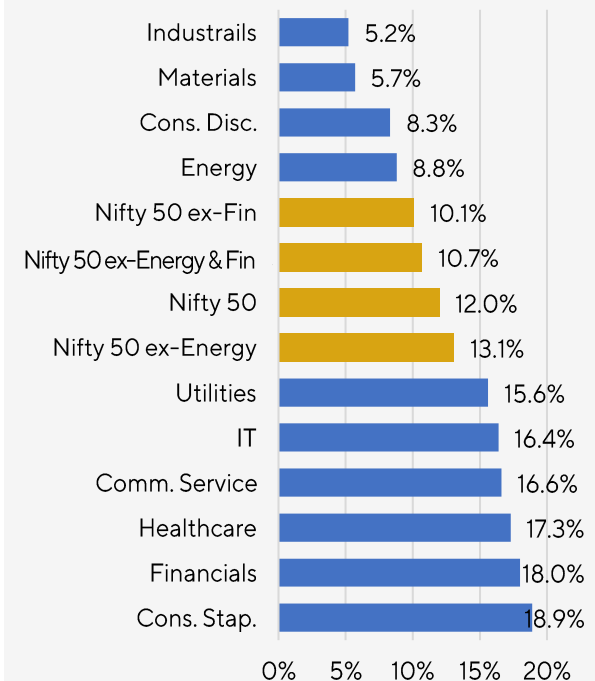
Quarterly trend in Nifty 500 PAT growth (YoY)



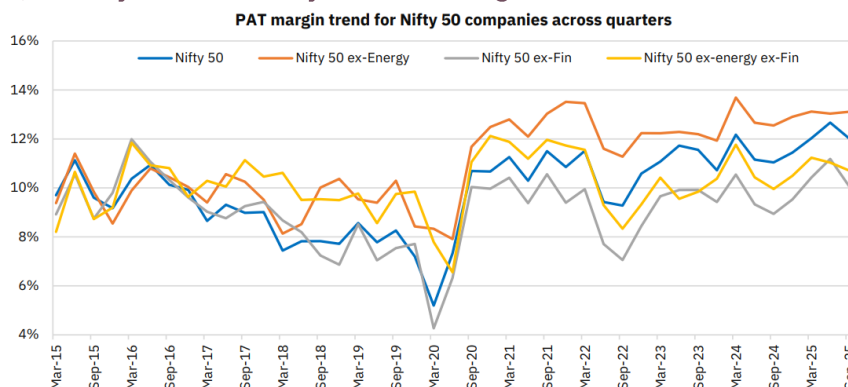
Sector-wise PAT growth of Nifty 50 companies in Q2FY26



Sector-wise PAT margin of Nifty 50 companies in Q2FY26



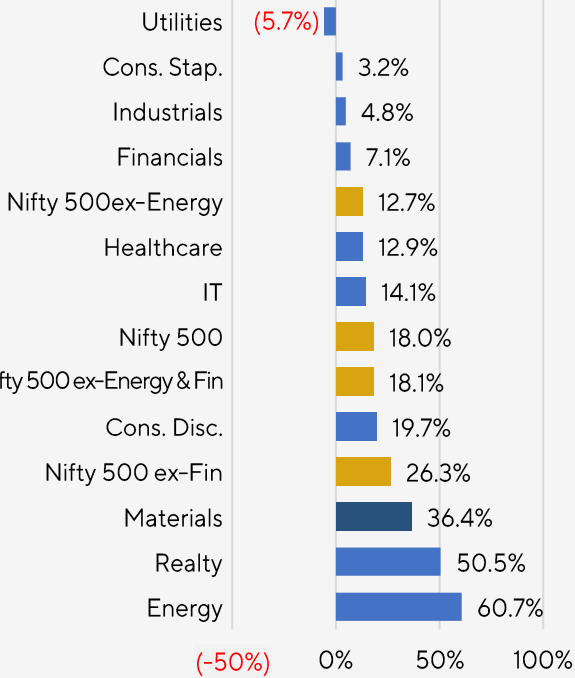
Quarterly trend of Nifty 50 PAT margin



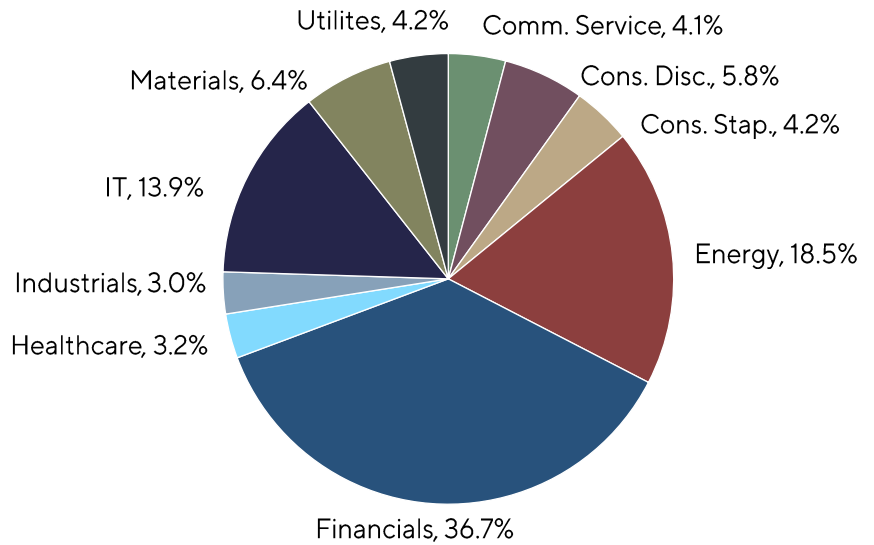
2. Sector-wise earnings growth: FY25 earnings leadership remained concentrated, with only early signs of marginal broadening in FY26 H1

Sector-level earnings performance underscores a highly concentrated earnings landscape in FY25, with Financials accounting for the bulk of incremental profits, supported by their large profit share and stable asset quality. In Q4FY25, earnings growth was uneven: Communication Services recorded sharp PAT growth due to base effects, while Industrials, Utilities and Healthcare delivered moderate but steady profit expansion. In contrast, Consumer Discretionary, Consumer Staples, Energy and Materials reported weak or negative YoY earnings, reflecting demand softness, margin normalisation and commodity-related pressures. For FY25, Financials remained the dominant contributor to profit growth, while Industrials and Utilities benefited primarily from operating leverage rather than strong revenue acceleration. Q1FY26 showed early sectoral repair, with sequential improvement in Industrials, capital-goods-linked segments, Utilities and Healthcare, driven by cost moderation and steady domestic demand. Q2FY26 confirmed these early signs of improvement, though earnings leadership remained largely concentrated and IT and consumption-oriented sectors continued to face earnings pressure and downward revisions. Forward estimates continue to suggest that Financials, Energy and Materials together are expected to account for over 60% of incremental earnings over FY25-FY27, indicating that earnings broadening remains gradual and selective rather than widespread. Sector wise earnings trends reinforce that 2025 rewarded selectivity over index beta, with banks, industrials, utilities and healthcare offering relatively better earnings visibility, while consumption- and export-dependent sectors lagged

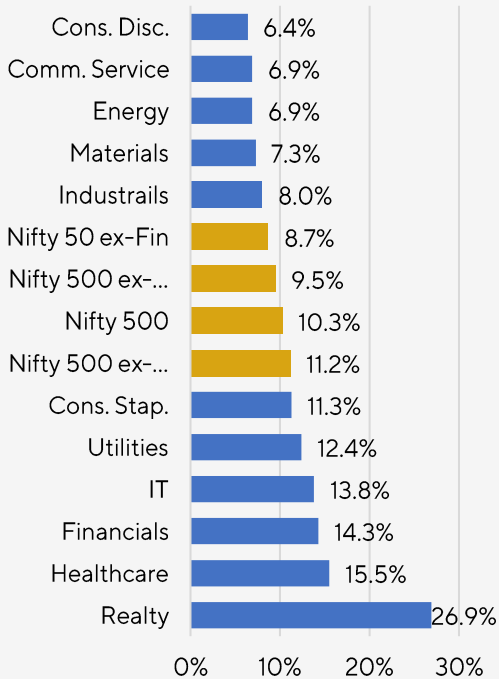
Sector-wise PAT growth of Nifty 500 companies in Q2FY26



Sector-wise share in PAT of Nifty 50 companies in Q2FY26



Sector-wise PAT margin of Nifty 500 companies in Q2FY26



3. Feb 1, 2025: Union Budget 2025-26 anchored fiscal glide path

The Centre guided fiscal deficit to 4.4% of GDP (BE 2025-26) vs 4.8% (RE 2024-25), keeping consolidation intact. Lower deficit trajectory generally supports softer medium term bond yields (lower supply risk premium), improves 'macro stability optics' for foreign capital and usually helps rate sensitives (banks, housing, infra) when paired with steady capex intent

4. May 30, 2025: FY2024 - 25 growth print confirmed India's 'steady growth' base

Official provisional estimates showed Real GDP growth ~6.5% in FY2024-25 and Q4 FY2024-25 at ~7.4%. A ~ 6 - 7% real growth backdrop typically keeps the market's core narrative intact (earnings durability), but also raises the bar for mid/small caps - because when growth is 'good but not euphoric' valuations tend to reward quality & cashflows over story stocks

5. Sep 2025: GST rate actions became a visible inflation driver

GST Council decisions and implementation planning (effective from Sept 22, 2025 for several changes) were positioned as reforms with cost structure and consumer price impact. When indirect tax cuts flow into prices, it improves real purchasing power and can lift consumption volumes, while also giving RBI more room to stay supportive on rates, helpful for equities via a lower discount rate

6. Sep - Oct 2025: Inflation collapsed to cycle lows

Headline CPI was reported at 1.54% in Sep 2025 (noted as the lowest since mid 2017) and then 0.25% in Oct 2025, with official commentary explicitly flagging GST reduction effects. Such low inflation typically compresses bond yields and improves equity valuations (lower discount rate). Sectorally, it's supportive for rate sensitives & discretionary consumption; the key market debate shifts from 'inflation risk' to 'is growth strong enough / are earnings broad based'

7. Nov 28, 2025: Growth reaccelerated – Q2 FY2025-26 Real GDP at 8.2%

Real GDP growth ~8.2% in Q2 FY2025-26, with manufacturing ~9.1% and construction ~7.2% contributing strongly. This is the kind of print that can reate cyclicals and capex themes (Industrials, Cement, Capital goods) and it helps justify broader market valuations, provided earnings conversion is visible in subsequent quarters

8. Dec 5, 2025: RBI delivered a rate cut – repo to 5.25%

RBI/MPC cut the repo by 25 bps to 5.25% in the December review. This reinforced the easing narrative, but by late 2025 the market focus increasingly moved to liquidity conditions and the government bond supply calendar i.e., Rates policy helped sentiment, but funding conditions determined the actual transmission into yields/credit spreads.

9. Dec 23 – 26, 2025: RBI shifted to liquidity support

RBI announced liquidity measures including ~₹2 trillion of government bond purchases (OMO) and a \$10bn USD/INR swap, explicitly aimed at easing tight liquidity. Bond markets reacted with the 10-year yield falling to ~6.55% around the announcement window. This was a strong ‘financial conditions’ signal – supportive for duration (bonds) and typically positive for equities through lower yields & better credit availability, while also influencing FX forwards and near term INR dynamics

10. Late-Dec 2025: INR stayed under pressure near record lows, but reserves remained high

The rupee was around ₹89.85/\$ in the last week of Dec 2025, while peaking at ₹90.95/\$ on 16th Dec 2025, Reported FX reserves were about \$687bn (as of Dec 12) and ~\$689bn (as of Dec 19) in contemporaneous reporting. A weaker INR is a mixed bag – helps some exporters, hurts importers and companies with USD costs – but high reserves reduce ‘macro tail risk’ which tends to keep equity risk premium from blowing out during currency volatility

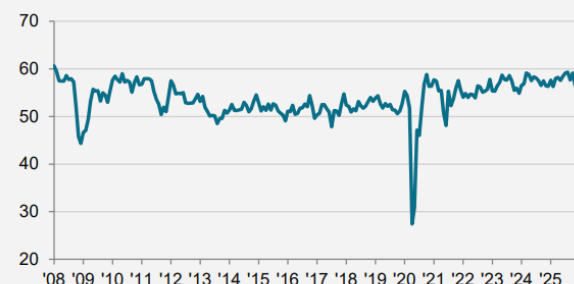
11. 2025 PMI Trends: Manufacturing resilience signalled earnings visibility despite global slowdown risks

India’s Manufacturing PMI remained consistently expansionary (>50) throughout 2025, underscoring the strength of domestic demand and supply-side momentum. The PMI averaged ~58 – 59 in CY2025, with notable prints such as 59.1 in March 2025, 58.8 in July 2025 and 56.5 in November 2025. While there was some moderation in H2-2025 due to softer export orders and global uncertainty, domestic new orders and employment sub indices stayed firmly in expansion, indicating that growth was largely domestically driven. Input cost inflation eased materially in the second half of the year, supporting margin normalization for manufacturing firms.

A sustained PMI above 55 historically aligns with high single digit to low double digit corporate earnings growth, particularly benefiting industrials, capital goods, logistics, cement and manufacturing linked SMEs. The PMI trend reinforced confidence that India’s growth slowdown, if any, would be cyclical rather than structural – supportive for medium term equity multiples

HSBC India Manufacturing PMI

sa, >50 = improvement since previous month

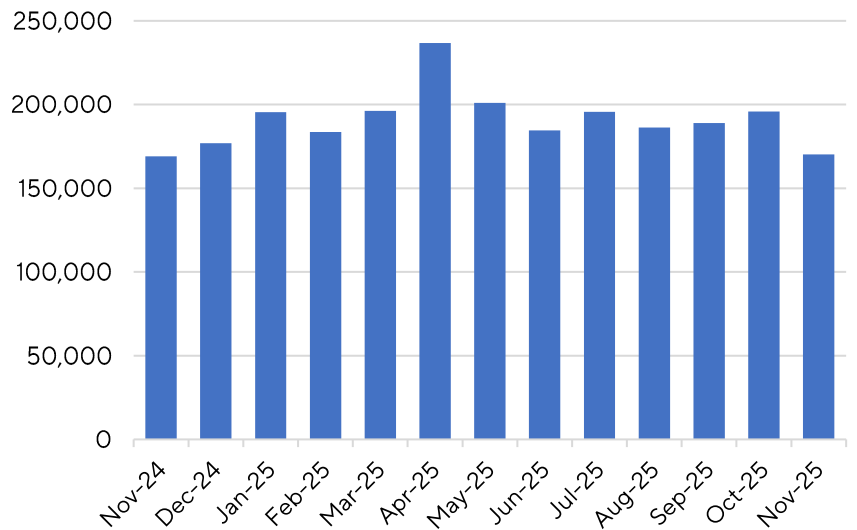


Sources: HSBC, S&P Global PMI.

12. GST Collections: Strong, broad based tax buoyancy validated formalisation and consumption recovery

India’s GST collections remained structurally strong in 2025, with gross monthly collections consistently above ₹1.65 lakh crore and multiple months exceeding ₹1.75 lakh crore. FY2025 - 26 YTD (Apr - Nov 2025) collections averaged ~₹1.72 lakh crore per month. Notably, November 2025 GST collections stood at ~₹1.69 lakh crore, indicating resilience despite festival base effects and slowing global trade. The sustained strength was driven by higher compliance (e-invoicing, analytics based scrutiny), services sector growth and steady urban consumption. Robust GST trends signal nominal GDP strength, formalisation gains and fiscal headroom, reducing downside risk to government capex and supporting sectors linked to consumption, infrastructure and financial services. For markets, stable GST growth lowers concerns around fiscal slippage and bond supply shocks, indirectly supporting equity valuations

GST Collection (₹ Cr)



Global Trade Deals & Geopolitics Impacts



1. Global trade backdrop

Global trade was not 'boom/bust' in 2025 - it was patchy and route/policy driven. WTO updated its world merchandise trade volume growth forecast for 2025 to ~2.4%, while 2026 was marked down to ~0.5%, explicitly keeping the focus on conflict and policy risk as key swing factors (tariffs, chokepoints, sanctions, fragmentation). In parallel, WTO expected commercial services exports volume to grow ~4.6% in 2025. This matters for India because services resilience can cushion goods trade shocks, while goods exporters remain exposed to shipping lanes, energy prices and tariff actions

2. India's 2025 FTA momentum: UK deal signed

A key 2025 milestone was the UK - India trade deal signed on 24 July 2025 (official UK government collection). This is geopolitically meaningful because it tightens India's economic alignment with a G7 market at a time when many economies are re routing supply chains and re writing trade rules. For Indian markets, the signal is less about one sector and more about the policy direction: more bilateral market access & rules certainty, which typically supports capex decisions in export linked manufacturing and services

3. India - European Free Trade Association Trade and Economic Partnership Agreement (EFTA TEPA)

India's TEPA with EFTA is structurally important because it pairs tariff liberalisation with an EFTA side investment commitment of US\$100bn over 15 years and an indicative ~1 million direct jobs goal framing the pact as a manufacturing/capex catalyst, not only a tariff exercise. India's official releases also highlighted the agreement's entry into force timing (effective from 1 Oct 2025). In global context, this fits the 'China+1 / friend shoring' wave where capital follows rule stability and market access

4. India EU trade talks: Strategic Hedge against fragmentation & Carbon Border Adjustment Mechanism(CBAM) overhang

India EU negotiations continued through 2025, with official confirmation of negotiation rounds held in New Delhi (3 -7 Nov 2025). The geopolitics angle is that the EU is simultaneously tightening trade linked climate rules (CBAM) and re prioritising supply chain security; India's incentive is to secure more predictable access for goods and deeper services/investment cooperation, while managing carbon cost pass through risk for metals and industrial exporters



Global uncertainty loomed large on trade deals making markets nervous throughout the year. ”

5. US - India trade friction (Russia-oil linkage became a tariff channel)

2025 also showed how geopolitics can directly become a tariff and compliance shock. US linked trade progress to curbs on Russian oil, with punitive duties rising up to 50% on Indian goods in that context. India responded with process reforms (streamlining import quality checks) as part of trade deal efforts, while the RBI also announced exporter relief measures (e.g. repayment moratorium window, longer repatriation timelines) for sectors hit by the tariff shock. For markets, this created a clear policy risk premium for US facing export pockets and reinforced diversification toward EU/UK/Asia trade lanes

6. Red Sea / Suez Disruption: the biggest “Geopolitics > Logistics > Inflation” Transmission Line

The Red Sea crisis kept global supply chains fragile. IMF noted that in early 2024 the Suez Canal trade dropped ~50% YoY and UNCTAD flagged a ~40% drop in Suez Canal revenues - a proxy for the scale of disruption and rerouting. UNCTAD's maritime assessments also documented steep reductions in Suez-linked tonnage and a jump in Cape-of-Good-Hope diversion dynamics (longer routes, higher ton-mile demand). By late 2025, Select services cautiously returning (some vessels transiting; partial resumption plans), signalling the risk was easing but not 'fully normal'. For India, the practical effect was higher freight/insurance and longer lead times for Europe bound trade whenever diversions intensified - pressuring working capital cycles for exporters

7. Energy geopolitics: sanctions & compliance created second order trade effects (esp. refining/export chains)

Beyond freight, sanctions/compliance became a trade determinant. US concession window tied to Russian oil transactions for a major Indian refiner, while also noting shifts in India's Russian crude import run rate expectations under pressure. This matters because refined product export eligibility (e.g. into stricter jurisdictions) can depend on crude origin and compliance frameworks, turning geopolitics into a margin/market access variable for downstream energy and chemicals value chains

8. Trade climate geopolitics: EU CBAM moved from “concept” to “cash cost” timeline (2026)

EU's CBAM is a major policy driven trade shift; EU confirms the definitive CBAM regime starts 1 Jan 2026, after the transitional reporting phase. Indian industry bodies/thinktanks estimate material exposure for iron/steel/aluminium/cement/fertilisers exports to the EU. CBAM effectively adds a new competitiveness wedge - pushing Indian exporters toward cleaner processes, different market mixes, or pricing renegotiations

9. Connectivity geopolitics: India Middle East Europe Economic Corridor (IMEC) as a strategic counter weight (still execution dependent)

IMEC remains a strategic idea with trade implications; it's positioned as a multi country connectivity corridor that can diversify India - Europe routes and reduce single chokepoint dependence over time. In 2025 commentary and policy analysis, IMEC's relevance rose precisely because the Red Sea episode demonstrated the cost of chokepoint concentration. Market it's not a near term freight rate fix, but it can shape capex, port/logistics plays and long duration 'route optionality' themes - if project governance and financing convert MoUs into build outs

Capital Flows



1. FPI ownership in NSE listed companies fell to over 15-year lows in FY26

FPI shareholding declined by 63 bps in H1 FY26 to 16.9%, the lowest level in more than 15 years, reflecting net foreign outflows of USD 8.7 bn during the period. In value terms, FPI holdings fell 5.1% QoQ to ₹75.2 lakh crore as of September 2025. The decline was broad based, with FPI ownership in the Nifty 50 and Nifty 500 dropping to 13-year lows of 24.1% and 18%, respectively. Sectorally, FPIs remained overweight Financials and Communication Services, while continuing to underweight consumption and commodity linked sectors, Industrials and Information Technology

2. Foreign Portfolio Investment (FPI) During 2025

Record Outflows in 2025: Foreign institutional investors were net sellers in 2025, with cumulative FPI equity outflows reaching approximately ₹1.58 lakh crore (~\$18 billion), the largest annual withdrawal on record as overseas allocations declined amid global risk aversion and valuation concerns. This capped the rally in Indian stocks despite resilient domestic demand. Monthly/Annual Dynamics: According to NSDL data, foreign investors sold equities in most months of the year, with eight out of twelve months recording net outflows

3. Domestic mutual funds (DMFs) extended their record ownership run in Q2 FY26

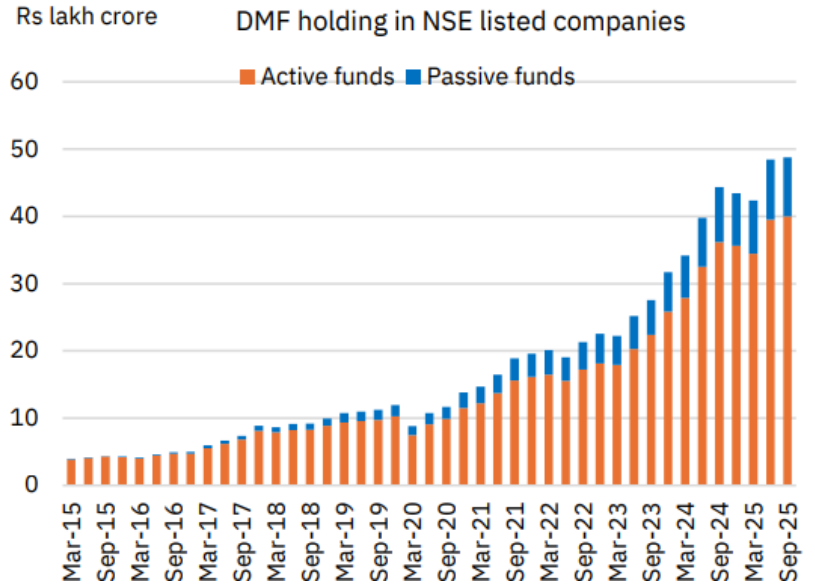
DMFs invested ₹1.64 lakh crore in Q2 FY26, marking the 18th consecutive quarter of net inflows and the ninth straight quarter of record high ownership across market segments. DMF ownership rose to 13.5% in the Nifty 50, 11.4% in the Nifty 500, and 10.9% in NSE listed companies, while overall DII ownership climbed to 18.7%, exceeding FPIs for the fourth consecutive quarter. Flows were supported by sustained retail participation, with SIP inflows averaging ₹28,697 crore per month during the quarter. Sectorally, DMFs remained overweight Financials and Consumer Discretionary, underweight commodity linked sectors and Consumer Staples and moved toward a neutral stance on Information Technology

FPI flows in various sector in Indian markets in 2025

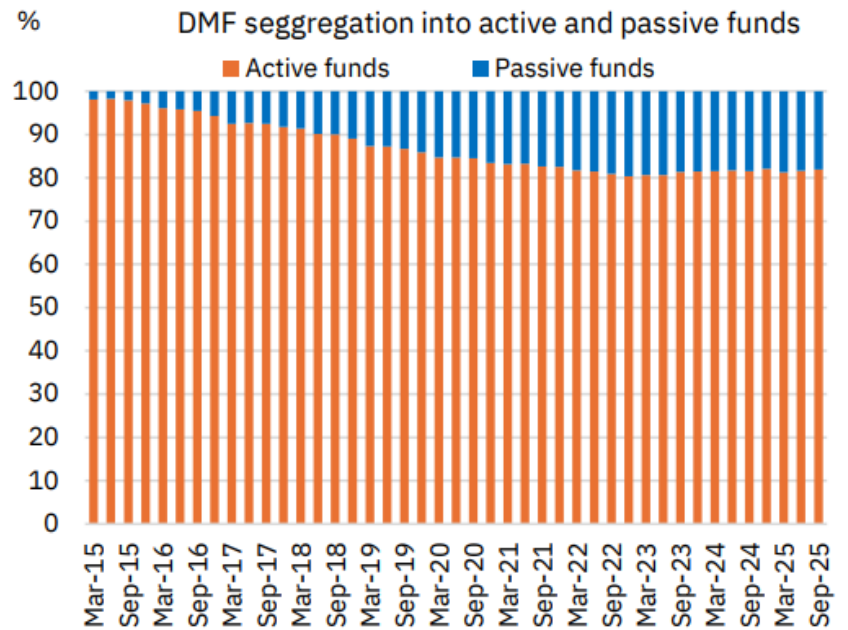
Sector	Flows (in billion rupees) ▼
Telecommunication	471
Others	203
Oil, Gas	91
Services	81
Chemicals	60
Metals	25
Media	6
Sovereign	0
Utilities	-1
Forest Materials	-2
Textiles	-10
Capital Goods	-12
Diversified	-14
Construction	-69
Construction Materials	-91
Automobiles	-92
Financial Services	-109
Realty	-124
Consumer Services	-199
Consumer Durables	-216
Healthcare	-243
Power	-259
FMCG	-302
IT	-792

Note: As of December 15, 202
Source: National Securities D

DMF holding in NSE listed universe



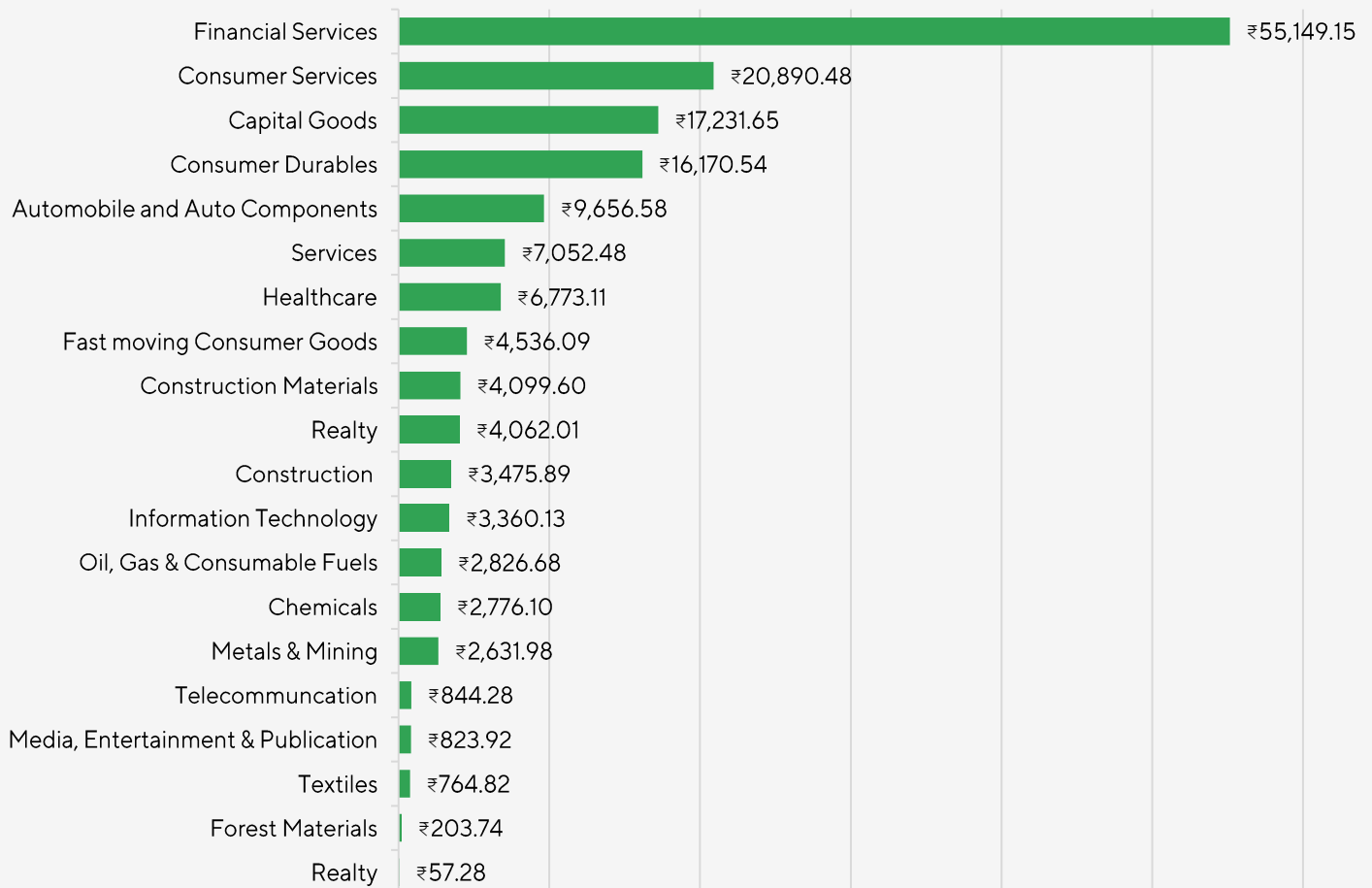
DMF segregation: active and passive funds



4. IPO capital flows in FY25 reflected clear sectoral preferences rather than broad based risk appetite

Fundraising was heavily skewed toward Financial Services, reinforcing the market's preference for scale, balance sheet strength and regulated cash flow visibility. Consumption linked sectors including Consumer Services and Consumer Durables also attracted meaningful capital, indicating confidence in domestic demand despite a mixed global backdrop. Capital goods and auto related segments saw steady inflows, suggesting selective support for India's manufacturing and capex cycle. In contrast, fundraising remained relatively muted across IT, commodities and energy linked sectors, highlighting a cautious stance toward export dependent and cyclical businesses. Overall, IPO flows in FY25 point to a discriminating primary market, where capital gravitated toward visibility and structural growth rather than broad risk taking

Sector Wise Fund Raised through IPOs in FY2025*



Small-cap review



1. **Headline performance: a year of underperformance vs large caps**

Indian small caps largely lagged in calendar 2025 after two very strong years. The Nifty Smallcap 250 index declined ~6% in 2025, marking its first underperformance versus the Nifty 50 and mid cap indices in three years, as returns became more selective and valuation support weakened. This phase represented a transition from broad based momentum to a more discriminating market, where only companies with strong earnings visibility and balance sheets were rewarded. The shift also reflected investor preference for stability amid rising dispersion and macro uncertainty

2. **Breadth deterioration beneath the surface**

Despite index level stability in large caps, nearly 73% of stocks in the Nifty 500 remained more than 10% below their respective record highs. This indicates that the 2025 market recovery lacked breadth, helping explain why small cap sentiment stayed weak even when headline indices held near peak levels. Such narrow leadership typically results in lower risk appetite for smaller companies, as incremental capital concentrates in fewer, higher liquidity names. Historically, this kind of breadth compression precedes either a broader earnings recovery or further consolidation

3. **Drawdown and quality dispersion: many stocks failed to recover**

Small caps effectively entered a corrective or bear phase earlier in the year, with the small cap index trading ~13% below its 2024 peak. More importantly, around half of the Smallcap 100 constituents continued to trade over 50% below their all-time highs, highlighting severe dispersion and elevated stock-specific risk. This underscored that the correction was not uniform but driven by sharp derating in weaker balance-sheet names, over-leveraged businesses and companies with inconsistent earnings. The environment increasingly rewarded quality and punished excesses built during the prior rally

4. **Valuations: still elevated despite the correction**

2025 price correction did not fully reset valuations. 12 month forward P/E multiples for small caps remained around ~25x, materially above their long term average of ~16-17x, while mid cap valuations stayed even richer. This persistent valuation earnings mismatch constrained sustained outperformance. In the absence of a strong earnings acceleration, elevated multiples limited upside potential and increased sensitivity to earnings disappointments. This also led to greater scrutiny of guidance, margins and cash flow sustainability across the small cap universe



2025 was a challenging year for small caps. Liquidity and valuation concerns overtook growth prospects and optimism.



5. NIFTY Small cap 250 fundamentals, valuation and sector structure

As of late December 2025, the NIFTY Smallcap 250 traded at a TTM P/E of ~28.9x, P/B of ~3.5x and dividend yield of ~0.7%, with a 52-week range of 13,315 - 18,117. Sectorally, the index is skewed toward Financials (~23.6%), Healthcare (~14.4%) and Capital Goods (~12.7%), explaining why both cyclical and defensive factors influenced small cap performance during the year. This sector mix made the index sensitive to domestic credit cycles, capex trends and healthcare earnings stability. As a result, performance varied significantly across sectors depending on macro and policy developments through the year

6. Liquidity and risk premium: inadequate compensation for volatility

Small cap stocks continued to price in insufficient liquidity and volatility premia, leaving investors inadequately compensated for higher drawdowns, thinner trading volumes and episodic risk off phases - especially during periods of supply pressure and uneven flows. This resulted in sharper price corrections during sell offs and slower recoveries thereafter. For many investors, the risk adjusted return profile of small caps appeared unattractive relative to large caps during much of 2025

7. Domestic flows provided support despite muted performance

Domestic mutual fund participation remained a stabilizing force. In November 2025 alone, small cap mutual funds received ~₹4,407 crore of net inflows, alongside continued allocations to flexi cap and mid cap categories. These flows helped cushion downside risks even as absolute returns disappointed. The persistence of domestic inflows reduced the probability of a disorderly correction and provided a steady bid during market volatility. However, flows were increasingly SIP driven rather than lump sum, indicating cautious investor behavior.

8. AUM and SIP trends: the structural domestic bid remained intact

Total mutual fund AUM stood at ~₹80.8 lakh crore (Nov 2025), while SIP assets reached ~₹16.5 lakh crore, accounting for ~20.5% of industry AUM. This highlights that while small caps corrected, the long-term domestic savings pipeline remained strong, reducing the probability of a disorderly unwind. This structural shift toward financialization of household savings continues to act as a long-term support for equities. However, it does not eliminate the need for valuation discipline or earnings delivery in smaller companies

9. Supply dynamics: active SME IPO pipeline added liquidity competition

The SME IPO market remained active in 2025, with around ₹12,000 crore raised by nearly 260 companies during the calendar year, diverting incremental risk capital away from listed small caps during periods of selective risk appetite. An active primary market absorbed investor attention and funds, particularly from high-risk capital pools. This added to near-term pressure on secondary market small caps, especially during phases of cautious sentiment

Summary

Calendar Year 2025 proved to be a year of consolidation for Indian financial markets, marked by resilient macro fundamentals but uneven market outcomes. Headline indices delivered modest gains, while market breadth deteriorated sharply, reflecting a shift from broad based momentum to selective, earnings driven performance. Large caps outperformed on the back of balance sheet strength, liquidity depth and earnings visibility, whereas mid and small caps faced valuation compression after a strong multi year run.

From a **Macro And Policy Perspective**, 2025 was characterized by disinflation and easing financial conditions. CPI inflation fell sharply to multi year lows by late 2025, enabling the RBI to deliver a cumulative 125 bps rate cut during the year, complemented by active liquidity operations and FX management to stabilize financial conditions. Fiscal consolidation remained intact, with the Union Budget anchoring the deficit glide path, while GST collections stayed structurally strong, reinforcing confidence in nominal growth, formalization and fiscal headroom.

Corporate Earnings went through a troughing phase. FY25 marked the low point in index level earnings growth, with FY26 H1 showing early stabilization rather than a sharp rebound. Earnings leadership remained concentrated, led by Financials and select cyclicals, while consumption and export linked sectors lagged. Margin resilience supported profitability, but the absence of broad based earnings acceleration increased market sensitivity to valuations and stock selection.

Policy And Regulatory Developments were a defining feature of the year. Tax relief under the new income tax regime, GST rationalization, RBI's regulatory consolidation and SEBI's tightening of SME IPO norms and derivatives market structure signaled a clear shift toward quality, compliance and risk containment. These measures improved long term market plumbing but curtailed speculative excesses, especially in smaller stocks and derivatives led retail activity.

Global Trade And Geopolitics remained key overhangs. While India made progress on trade agreements (UK FTA, EFTA TEPA), disruptions from the Red Sea crisis, sanctions linked trade frictions and the impending EU CBAM regime highlighted rising policy driven trade risks. These factors reinforced the importance of supply chain diversification, cost competitiveness and compliance readiness for Indian exporters.

Capital Flows underscored a structural shift in market ownership. FPIs recorded record outflows and their ownership fell to multi year lows, while domestic mutual funds and retail investors emerged as the dominant stabilizing force through sustained SIP led inflows. Primary market activity remained selective, with capital gravitating toward sectors offering scale, regulation backed cash flows and domestic demand visibility.

Small Caps experienced one of their most challenging years since 2022. Despite a price correction, valuations remained elevated relative to historical norms, liquidity premia were inadequate and dispersion widened sharply. Domestic flows provided downside support, but performance increasingly rewarded quality, balance sheet strength and earnings consistency over growth narratives.

CY2025 was less about chasing returns and more about resetting expectations. The market transitioned toward discipline, selectivity and fundamentals, laying the groundwork for future opportunities but only where earnings visibility, valuation comfort and structural tailwinds align.



2025:

*A Year of
Consolidation,
Selectivity and
Structural
Reset* ”



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