

ETMarkets Smart Talk | FPI flows inconsistent as India's valuation premium hits 80% over MSCI EM: Anuj Kapoor

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Synopsis

Anuj Kapoor of JM Financial Services shares insights on Indian equity markets. He notes FPIs are cautious due to high valuations despite India's growth. Earnings are expected to grow healthily. Domestic investors are crucial for market stability. Sectors like cement and telecom are likely to perform well. The market is now for stock pickers. Strong SIP flows boost market momentum.



These valuations could get questioned on way forward as there is little scope for disappointment in earnings.

In this edition of ETMarkets Smart Talk, Anuj Kapoor, MD & CEO, Private Wealth, JM Financial Services Ltd, shares insights on the current state of Indian [equity markets](#) and the factors influencing foreign portfolio investor ([FPI](#)) behaviour.

Highlighting that India's valuation premium has surged to over 80% compared to the MSCI

Emerging Markets Index—well above historical averages—Kapoor explains why FPIs remain cautious despite India's strong long-term growth story.

He also discusses sectoral trends, [earnings outlook](#), and the growing role of domestic investors in supporting [market stability](#). Edited Excerpts -

Markets are struggling in the first month of 2H2025. What is limiting the upside?

A) For the last 4 consecutive months, [Nifty](#) has closed on a positive note MoM. However, July has been trailing negative so far.

From the lows seen in early April, Nifty has made a sharp recovery of about 14-15%, only about 5% down from the highs seen in late September last year (likewise movement in broader indices as well).

The earnings growth slowdown and geopolitical uncertainties have been the primary factors to the market's volatility.

After a muted FY25, earnings are likely to grow at a healthy 12-13% over the next 2 financial years. In fact, during June, upgrades were seen in Nifty's FY26 and FY27 EPS estimates for the first time in the last 12 months.

In the very near-term, market may respond to a variety of factors. In the medium to long term, it will follow earnings growth and valuations. Indian markets are reasonably positioned supported by healthy earnings growth.

While valuations are slightly higher than long term averages, justified considering the low cost of capital and robust domestic flows.

However, caution needs to be exercised as there may be certain pockets of exuberance, where built in valuations expectations are high.

As global players eye India's wealth market and domestic competition intensifies, what do you think will differentiate winners in this space?

A) In businesses with high growth potential, competition is usually high. Market players need to present a differentiated proposition to have a right to win. Some of the differentiating factors for JM wealth are:

- A forward-looking 50+ year legacy built on clients' trust
- Ability to offer onshore and global solutions with seamless execution
- Delivering holistic solutions beyond investment management such as estate/legacy planning and aligning wealth planning with immigration decisions, etc.
- Advantages of being an integrated institution by managing clients throughout their lifecycle- addressing needs across capital raising, M&A, financing and wealth etc.
- Penetration across Tier-2/ Tier-3 cities, the relatively underserved, yet emerging hotspots of wealth creation
- Retain as well as engage the right talent by offering a stable environment, strong culture and compensation linked to long term wealth creation

Q) The June quarter season has just begun – how do you see India Inc. faring in this quarter? Which sectors should investors watch out for?

A) After a spell of muted quarterly earnings, Indian Inc. is expected to deliver healthy numbers in this quarter.

The Nifty50 earnings are likely to be in low double digits YoY. However, if we exclude financials, the earnings may likely improve to mid-teens.

Sectors to watch out for: Cement, Consumer Retail, Telecom and Infra are likely to be high performers. Auto, Lending Financial institutions, Consumer Durables and Utilities could be laggards

Q) Everyone says it is a stock pickers market now and the day of making easy money is over. What are your views?

A) After a sustained outperformance by stock markets over past 4-5 years, valuations, are generally high across the market, more so in the Mid & Small Caps. There are limited avenues with potential of valuation rerating.

Unless there is another massive uptick in the earnings cycle (like the one observed post COVID), the market performance at a broader level is expected to be moderate. In this market environment, there are limited opportunities for alpha generation.

However, there are opportunities for stock specific picks and contrarian bets. We follow a mix of a beta and alpha approach, wherein we manage beta with diversified strategies and look for alpha generating opportunities with bottom up managers (boutique as well as contrarian)

Q) SIP crossed Rs 27000 Cr for the first time in June. What is boosting the momentum?

A) Strong domestic flows through SIPs have become a main feature of Indian markets, providing stability and resilience when FPI flows have been patchy.

A low-interest rate environment resulting in a lack of alternative investment avenues, unfavourable taxation on debt instruments and strong performance of equity markets in the past few years has resulted in financialization of incomes and growing equity culture amongst Indian savers, thereby boosting momentum in SIPs.

Q) FIIs are still not back in India completely – is it valuations or earnings which are proving to be headwinds?

A) After a blip in FY25, Indian corporate earnings growth (represented by Nifty 50) is likely to improve. The consensus estimates are pointing towards ~13% CAGR over the next 2 years.

While this looks healthy, there are other markets globally that could also experience a robust earnings growth over the next 2 years.

On valuations, MSCI India trades at around a 24x PE forward, which is over an 80% premium to the broader MSCI EM index.

Though, India generally has traded at premium to MSCI EM, the current premium is considered even higher than its historical averages (~60% over last 10 years).

In our view, the long-term India story remains intact however the relative attractiveness of other markets, especially EMs is leading to inconsistent FPI flows.

Q) Which sectors are likely to drive momentum in the 2H2025?

A) Looking at the global uncertainties around tariffs, wars, interest rates, etc, domestic facing players are likely to be in focus in the near term.

Markets are likely to be earnings driven. The following sectors with their near-term triggers are likely to be in momentum for next few quarters:

- Cement on the back of improving profitability and decent volume growth,
- Oil & Gas, especially OMCs with improving marketing margins
- Telecom on the back of ARPU improvement, upgrades to 5G, etc.

Q) Any sector(s) which you think is overheated?

A) Some sectors like EMS, Defence and Mid Cap IT have very high growth expectations built into their current valuations. These valuations could get questioned on way forward as there is little scope for disappointment in earnings.

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