Earnings are not the scarce resource. *The price paid for them is.*

IN BRIEF

August confirmed the June-quarter earnings recovery is real and broad-based — profit growth for the broader market crossed 20% year-on-year for the first time in eight quarters, energy aside. The more interesting question is where that growth is already priced in: consensus now expects small-caps to repeat a delivery rate only four in ten managed last year. The RBI's currency-support scheme has done its job on the rupee, but has left banks managing a liquidity surplus that coexists, awkwardly, with tighter financial conditions. Foreign investors kept selling banks even as fundamentals held up — a reminder that flows and fundamentals do not always agree in the short run. To us, that is an opportunity.

Earnings delivered, but not equally

> **39% vs 62%**
> Small-caps that historically compounded profits above 20% a year, against the share the market now expects to repeat it

The June-quarter earnings season has closed, and the aggregate numbers are strong. Profit growth for the broader listed market, excluding energy, crossed 20% year-on-year for the first time in eight quarters. Energy alone dragged the headline lower, with profits there down 63% year-on-year — a decline sharp enough to mask what was, elsewhere, a genuinely broad-based recovery rather than a narrow, sector-driven beat.

The more interesting story sits further down the market-cap curve, not at the aggregate level. Mid-sized companies delivered the strongest underlying growth by a distance — c.34% year-on-year, ex-energy, spread across most sectors rather than concentrated in one or two. Breadth, in other words, was a mid-cap story this quarter more than a large-cap one.

Smaller companies grew faster still on a headline basis, and it is tempting to read that as the stronger result. But consensus has now built in FY26-28 profit growth of c.35% a year for that segment, against c.20% for mid-caps and c.11% for large-caps. The bar being set is rising faster than the segment that just cleared it.

That gap between expectation and delivery is the more useful number to sit with. Over the last four quarters, only c.39% of small-cap stocks actually compounded profits above 20% a year, even as c.62% are now expected to repeat the feat. That is a wide gap between what has historically happened and what the market now assumes will happen again.

Mid-caps look far more balanced by the same measure — roughly as many stocks are expected to clear that bar as have historically done so, which is a meaningfully lower bar to clear than the one small-caps face. Large-caps, with the least demanding expectations of the three, arguably carry the most room for a positive surprise precisely because so little is being asked of them.

This is not an argument against small and mid-caps as a category, and it should not be read as one. The delivery this quarter has been real, and the upgrade cycle across the broader market has continued for several quarters running now.

It is, instead, an argument for discipline about where, on the market-cap curve, the price already assumes the good outcome has happened. The portfolio's tilt toward large and mid-caps, with the small-cap allocation kept selective rather than broad-based, reflects exactly this distinction. Earnings visibility is not scarce this quarter. The price paid for it increasingly is.

The currency call worked, liquidity is the next question

> **Rs5trn+**
> System liquidity surplus the RBI is now actively absorbing, even as financial conditions stay tight

Earlier in the year we flagged the RBI's decision to subsidise long-tenor NRI dollar deposits as the fastest available lever to shore up the balance of payments, at a time when the external account was the more pressing concern. That call has played out broadly as expected, and it is worth stating plainly when a policy call works rather than only when one does not.

Cumulative foreign-currency inflows through the scheme, alongside related external borrowing, have comfortably exceeded the original base case. The current account deficit for the June quarter came in at a modest 0.5% of GDP, and the full-year deficit is now tracking closer to c.1.2% of GDP, with the balance of payments surplus revised up to c.$80bn from what had looked, at the start of the year, like a considerably tighter picture.

The rupee has, as a result, found something closer to a floor than it had for much of the past year. That is the intended and welcome outcome of a policy designed specifically to buy time on the external account while the underlying trade and services position adjusted.

What is less intuitive is what has happened to domestic liquidity in the meantime, and this is the part of the story that has drawn less attention than it deserves. System liquidity surplus has swelled past Rs5 trillion, yet financial conditions — bond yields, corporate spreads, the cost and availability of capital more broadly — remain tight rather than easy, which is not the combination a large liquidity surplus would normally produce.

The RBI has begun actively absorbing this surplus through reverse repo operations and open-market sales, rather than letting it sit in the system, and durable liquidity is expected to keep rising into September, giving the central bank still more room to keep absorbing it.

The market had spent much of the year debating how much room the RBI had left to cut rates further. That debate has now flipped entirely. The more live conversation is whether a hike cycle, on the order of c.50 basis points, opens as early as December — a question that would have sounded out of place as recently as a few months ago.

A policy designed to solve last year's problem — the external account — may be creating this year's: a liquidity surplus that coexists uneasily with financial conditions that are, if anything, getting tighter rather than looser. For a portfolio positioned around domestic earnings resilience rather than around a lower cost of capital, that distinction is one worth tracking closely into year-end.

Banks: flow vs fundamentals conundrum

> **c.19%**
> System-wide credit growth this quarter — its fastest pace in several quarters

Banking earnings drew an odd market reaction this quarter, and the reaction is worth unpacking rather than taking at face value. Net interest margins compressed across most large lenders — the contraction was visible almost everywhere, not confined to one or two names — and the stocks sold off sharply on the print. Sector profits nonetheless grew 25% year-on-year on an aggregate basis.

Return on assets and risk-weighted returns, the more complete measures of profitability, actually improved at the same banks over the same period. The market appears, in other words, to have priced the headline rather than the substance sitting underneath it.

Part of the margin pressure is a direct, temporary consequence of the currency-support inflows discussed above, rather than a sign of deteriorating core profitability. Banks receiving large volumes of new foreign-currency deposits see an immediate drag on blended margins before that liability is deployed into higher-yielding assets. The same flows are expected to be modestly accretive to both net interest income and profit after tax once fully deployed — a detail the margin-only read of the quarter has largely missed.

The more durable driver underneath the margin noise is credit growth, which accelerated to c.19% year-on-year system-wide, its fastest pace in several quarters, helped by corporate borrowing shifting back toward banks from the bond market. Deposit growth, at c.15% year-on-year, continues to lag loan growth, a gap the currency-related inflows are only partly closing for now.

Asset quality remains benign for now, though a modest rise in credit costs is a reasonable base case to build into FY27-28 rather than a risk to be dismissed outright.

Private banks continue to compound profits meaningfully faster than public-sector peers — consensus now builds in an EPS CAGR of c.14% for private banks over FY26-28, against c.6% for PSU banks — and that gap looks set to widen rather than close. A quarter that read, on the surface, as disappointing for the sector was, in most of the ways that actually matter — loan growth, return on assets, the earnings trajectory — a continuation of the story rather than a break from it. That is broadly consistent with the portfolio's largest sector weight.

Flows still deciding, not fundamentals

> **$14bn vs $23bn**
> FII net equity selling against DII net buying in the June quarter

Foreign investors sold close to $14bn of Indian equities in the secondary market during the June quarter, continuing a pattern that has held for much of the year rather than marking a new turn. Domestic institutions absorbed more than that — roughly $23bn of net buying over the same three months — and did so comfortably.

The result is a further, incremental shift in who actually owns the market, continuing a trend that has been building for some time rather than a single quarter's event. Foreign ownership of the broader index has slipped to c.17%, its lowest level in some time, while domestic institutional ownership has risen to c.20% and now sits comfortably ahead of it.

What stands out within that shift is the sector-level detail, which tells a sharper story than the aggregate numbers alone. Foreign investors were net sellers of banks specifically, even as the sector's underlying earnings, discussed above, held up reasonably well on the measures that matter most. Domestic institutions, by contrast, were net buyers of the same sector over the same period.

Financials, in other words, saw fundamentals and flows point in opposite directions this quarter, which does not happen often enough to ignore when it does. That is a reasonably clean illustration of a point worth restating on its own terms: flows can dominate fundamentals for meaningful stretches, and the identity of the marginal buyer or seller can matter as much as the underlying numbers themselves.

A portfolio built around earnings visibility will occasionally look, for a quarter or two, out of step with where the foreign flow happens to be going. That is a cost worth bearing when the earnings case underneath is intact — which, on the evidence above, it currently is.

We remain constructive

Our positioning this quarter reflects the same distinction that runs through the results season as a whole: where earnings are real, and where the price has already moved ahead of them. The portfolio's tilt toward large and mid-caps, with the small-cap allocation kept selective rather than broad-based, is a direct expression of that discipline rather than a defensive retreat from the smaller end of the market.

Financial services remains the portfolio's largest sector weight, and this quarter's results did nothing to change that view. Margin compression made the headlines and drove the sell-off; credit growth, asset quality and the widening gap between private and public-sector profitability did the more durable work underneath, largely unremarked.

We are not treating the recent foreign selling of banks, or the broader shift in foreign ownership, as a signal to act on. Flows have dominated fundamentals for stretches of this cycle before, and they will again before it is over. The portfolio is built to be right about the earnings, not to time the marginal buyer.

The earnings floor from this results season is broader than the headline number alone suggests. Whether the market continues to pay up for that breadth, particularly further down the market-cap curve, is the question we are watching most closely into the next quarter.

Fund facts & performance

AIF

CATEGORY III ALTERNATIVE INVESTMENT FUND

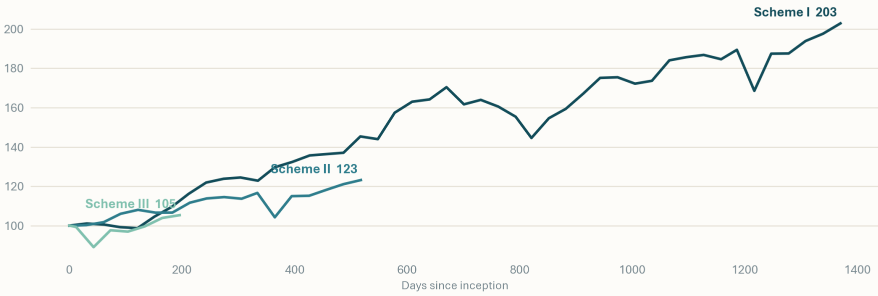
20.57 %	+8.42 pp	15.87 %	5.39 %	$2.2 bn
Scheme I — return since inception; pre-tax, pre-expense, pre-fee	Scheme I excess return vs. BSE-500 TR; pp since inception	Scheme II return since inception (Mar 2025)	Scheme III return since inception (Feb 2026)	AUM, PMS + AIF combined (India)

Fund facts

Inception	I Nov 2022 · II Mar 2025 · III Feb 2026
Structure	Category III AIF
Benchmark	BSE-500 TR
Assets	USD 2.2 bn PMS + AIF combined
Liquidity	Twice a month
Horizon	3–5 years
Risk profile	Aggressive

Growth of 100

EACH SCHEME SINCE ITS OWN INCEPTION



Buoyant Opportunities Scheme I, II and III, daily NAV, each indexed to 100 at its own launch date — not benchmarked in this chart; see Performance below for each scheme against BSE-500 TR.

Performance

PRE-TAX, PRE-EXPENSE · CAGR % BEYOND ONE YEAR

	1M	3M	6M	1Y	2Y	3Y
AIF Scheme I	**2.67**	**8.16**	**7.10**	**17.79**	**11.15**	**17.86**
AIF Scheme II	**1.72**	**6.93**	**5.61**	**15.52**	–	–
AIF Scheme III	**1.38**	**8.62**	**6.06**	–	–	–
BSE-500 TR Index	-0.09	3.86	1.43	4.72	-0.11	12.09
BSE-100 TR Index	-0.84	3.52	-1.72	2.00	-0.61	10.59
NIFTY TR Index	-1.14	2.89	-3.60	-0.35	-1.19	9.00

SCHEME I — SINCE 19 NOVEMBER 2022	SCHEME II — SINCE 31 MARCH 2025	SCHEME III — SINCE 15 FEBRUARY 2026
20.57	15.87	5.39
vs 12.15 BSE-500 TR	vs 7.55 BSE-500 TR	vs 0.88 BSE-500 TR

Each scheme is shown against the benchmark over its own window. A shared since-inception column cannot be correct for all three.

Top five holdings

PER AIF STRATEGY

AIF SCHEME I	ICICI Bank · Axis Bank · Shriram Finance · Bajaj Finance · State Bank of India
AIF SCHEME II	ICICI Bank · Axis Bank · State Bank of India · Bajaj Finance · Vedanta Aluminium Metal
AIF SCHEME III	ICICI Bank · Axis Bank · Genus Power Infrastructures · Bajaj Finance · Indegene

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