

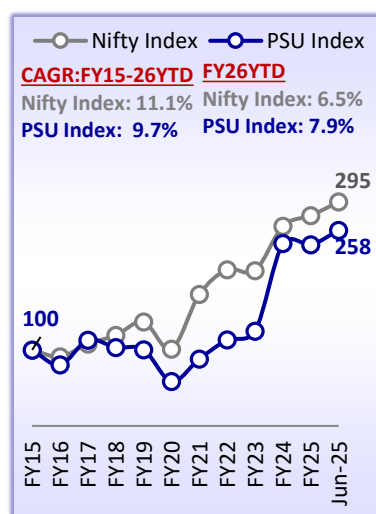
BSE Sensex: 82,756

Nifty-50: 25,245

Refer to our strategy note on
corporate profit to GDP –
Standing tall at a 17-year high!



**Nifty outperformed PSU index
over the past decade**



The PSU saga: Resilient earnings; valuations retreat from highs

Indian PSUs have been one of the most remarkable stories of Indian capital markets after Covid-19, with several PSU sectors posting a sharp turnaround in profit and creating unexpected shareholder value. As a cohort, the PSUs posted an unprecedented 36% PAT CAGR during FY20-25, feeding into the 32% CAGR for the BSE PSU Index and a consistent expansion in PSUs' share in overall profits to an impressive 38%. While some cyclical moderation did set in in FY25, key building blocks and an enabling environment for sustained profitable performance for several PSUs look intact. Consequently, PSU names in sectors with policy/demand tailwinds or structural growth potential should find a meaningful place in long-term investor portfolios, in our view. Our top PSU ideas are SBI, HAL, BEL, POWERGRID and COAL.

Earnings momentum remains intact over high base, except for O&G

- Earnings growth story continues, albeit with some moderation:** Indian listed companies posted an impressive earnings CAGR of ~30% during FY20-25, with PSUs standing out with a stronger 36% CAGR. However, after a remarkable post-pandemic rebound, PSU earnings growth moderated in FY25, weighed down by the high base of a robust 43% YoY increase in FY24 and a decline in O&G sector earnings. Overall, PSU profits inched lower by 2% YoY in FY25, though excluding the O&G sector, PSU earnings growth remained resilient at 16% YoY, following a robust 23% jump in FY24.
- Valuations ease from highs:** Over the past year, the market capitalization of the BSE PSU Index hit an all-time high of INR74t in Jul'24, driven by consistent re-rating trends. It then declined by 31% to INR51t in Feb'25 amid the broad market correction before recovering 25% to INR64t in Jun'25. The index's current market capitalization stands 14% below its all-time high (up 5% in CY25YTD). Owing to the market correction (between Oct'24 and Mar'25), the P/E ratio of the BSE PSU Index has come down to 11.7x as of Jun'25 from 13.8x in Jul'24, though it is up from 9.8x in Feb'25.
- As FY25 concludes, we are revisiting our views on Indian PSUs.*

FY25: A year of post-rally normalization

- After a period of strong recovery from FY18 to FY24, PSUs reported a moderation in earnings in FY25. This was attributed to lower government capex due to elections in 1HFY25, weak consumption trends, volatility caused by geopolitical tensions, and reduced earnings in the O&G sector.
- During FY20-25, **PSU earnings** reported a stellar 36% CAGR, outperforming the Private Sector, which reported a 26% CAGR. However, due to a slowdown in the O&G sector, PSU earnings moderated 2% YoY in FY25, following a strong 43% YoY growth in FY24. Earnings growth in FY25 was led by BFSI (+22% YoY), especially PSU banks (+26%), whereas O&G (-44%) weighed on the overall performance. Additionally, the share of PSUs in the overall profit pool expanded by 850bp YoY to the highs of 37.5% in FY25. The share has been on an upward trend since FY20.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

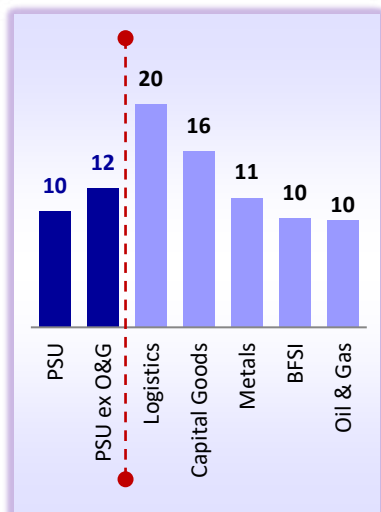
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Following a strong earnings recovery, the **BSE PSU Index** delivered an impressive 32% CAGR during FY20-25, significantly outperforming the Nifty-50's 19% CAGR. However, the PSU Index remained flat YoY in FY25 and rose 4% in CY25YTD, compared to a ~5% gain for the Nifty-50 in both periods.
- Notably, the **loss pool of PSUs** has consistently declined over the past five years and was largely flat YoY in FY25. The contribution of loss-making companies to the overall profit pool has significantly diminished to just 1% in FY25 from 45% in FY18.
- **RoE of PSU companies also moderated to 16% in FY25 from a high of 17.8% in FY24, though up from a low of 5.2% in FY18.**

From weakness to recovery: Strong Rebound in the Second Half

- **A decade in review (2015-2025):** The **PSU Index** posted a CAGR of 10% during Jun'15 to Jun'25, underperforming the Nifty-50, which delivered a 12% CAGR in the same period. Notably, most of the gains for PSUs came in the latter half of the decade. The PSU Index declined 9% between Jun'15 and Jun'20, but rebounded with an impressive 32% CAGR over the subsequent four years (Jun'20 to Jun'25).
- **A year of twists and turns (2024-25):** Following stellar 92% YoY gains in FY24, the index was flat in FY25. However, FY25 was marked by high volatility, as the index surged 25% between Mar'24 and Jul'24, then declined 30% by Feb'25, before recovering 23% from those lows. While the recovery remains strong, the PSU Index marginally underperformed the benchmark in FY25 (-1% vs. +5%) and CY25YTD (+4% vs. +6%).
- **A sharp dip followed by a strong resurgence:** The **BSE PSU index** recorded a CAGR of 32% between Jun'20 and Jun'25, outperforming the Nifty-50 (CAGR 19%). Notably, the market cap share of Indian PSUs, which had plunged to 10.1% in FY22 from 18.8% in FY15, has since rebounded and currently stands at 15.3%. Over the same period, India's overall market cap surged from INR94t in FY15 to INR417t in FY25 and currently stands at INR454t. During FY15-25, PSUs' market cap increased significantly to INR69t (INR63t as of Mar'25) from INR18t in Mar'15, while the private sector's market cap surged to INR384t (INR353t as of Mar'25) from INR76t in Mar'15.

PAT growth expected over FY25-27 (%)



Growth optimism anchored to a soft base

- Amid geopolitical tensions and slowing global growth, India's macroeconomic outlook presents a contrasting picture. India's nominal GDP grew by 9.8% in FY25, surpassing market expectations, and is projected to accelerate further to 10.8% in FY26.
- Although corporate profit growth moderated in FY25 due to a high base set in FY24, a slowdown in government spending during 1HFY25 amid elections, weak consumption, and volatile exports amid global uncertainties, we expect a gradual recovery ahead. This rebound is likely to be supported by increased government spending and continued focus on infrastructure and capex, stronger order books, and a favorable monsoon season. Additionally, the government's focus on localization, increased capex, and the 'Make-in-India' initiative in the defense sector will continue to drive growth for industrial PSUs. Consequently, we expect PSU contributions to earnings and market capitalization to remain stable or improve going forward.

- For our MOFSL PSU Coverage Universe (~72% of India's PSU market cap), we estimate a 10% PAT CAGR over FY25-27, primarily driven by the BFSI and O&G sectors, based on conservative assumptions relative to the FY25 base. Logistics, Capital Goods, and Metals are also expected to contribute positively. Incremental profit growth is likely to be led by BFSI (53%), followed by O&G (20%) and Metals (12%).

Exhibit 1: Preferred PSU's valuations

Company	Mcap (USDb)	CMP	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY25	FY26E	FY27E	FY25-27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Preferred PSU picks															
St Bk of India	80.9	800	86.9	90.1	103.8	9.3	9.2	8.8	7.7	1.5	1.3	1.1	18.6	16.1	15.9
Hind. Aeronautics	37.8	4,791	125.0	141.2	161.2	13.6	39.8	35.2	30.8	9.5	8.0	6.7	23.9	22.6	21.8
Bharat Electronics	33.6	408	7.2	8.4	10.2	18.6	56.4	48.8	40.1	15.1	11.9	9.4	26.8	24.3	23.5
Power Grid Corpn.	30.8	293	16.7	19.0	20.0	9.3	17.6	15.4	14.7	2.9	2.7	2.5	17.3	18.4	17.9
Coal India	27.4	389	57.4	60.4	69.1	9.8	6.8	6.4	5.6	2.4	2.0	1.7	35.7	31.8	30.9

Insightful trends

Exhibit 2: After a strong recovery, the PSU Index takes a breather in FY25

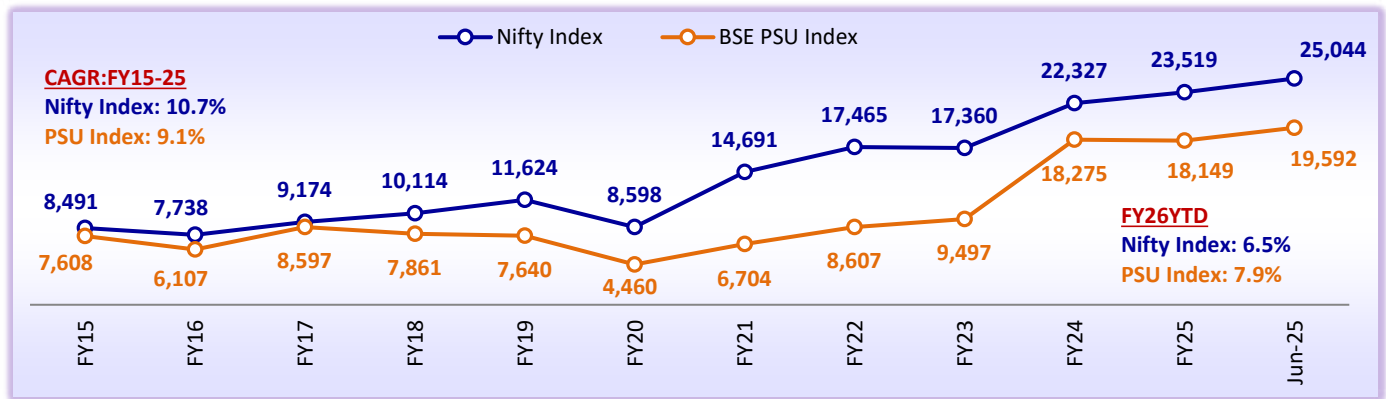


Exhibit 3: BSE PSUs' market cap remained nearly flat during FY09-20, while it surged 5.6x in the last five years (since Mar'20)

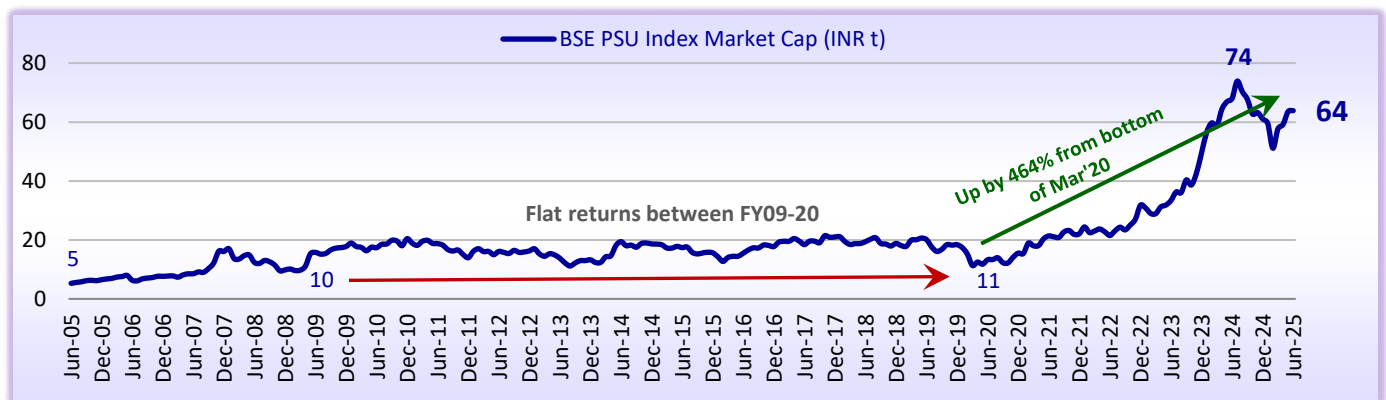


Exhibit 4: PSUs' share in India's total market cap saw an uptick from the FY22 lows, however moderated in FY25

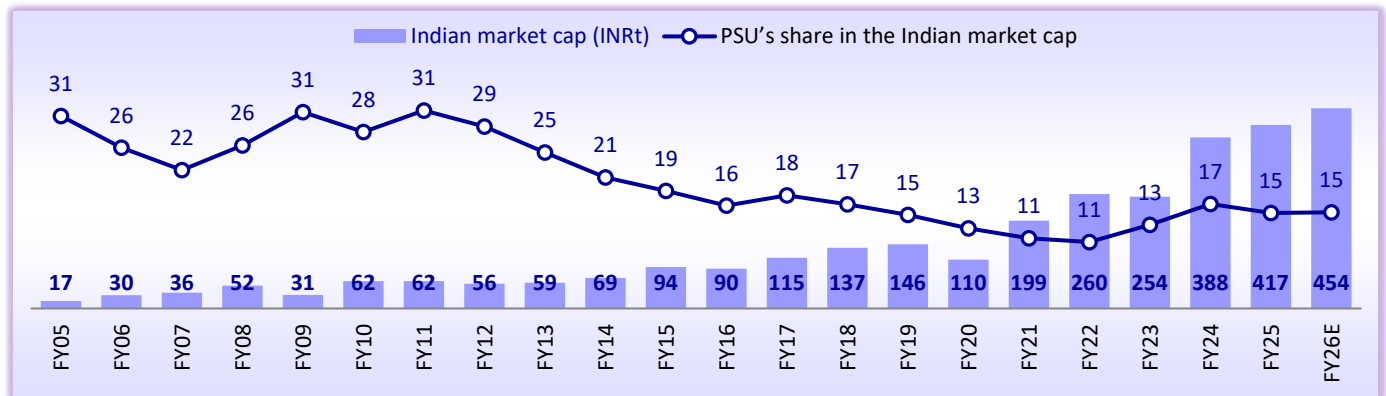
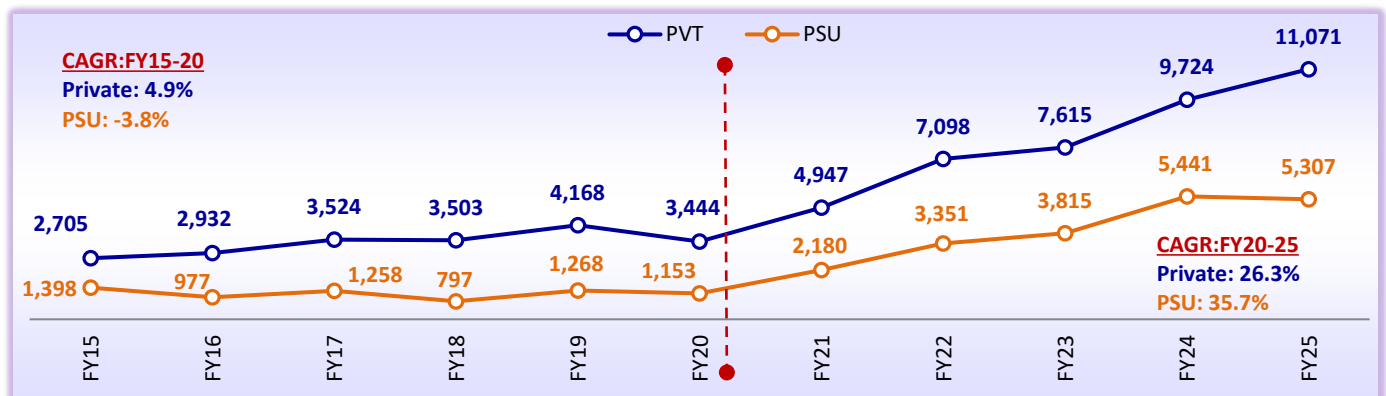
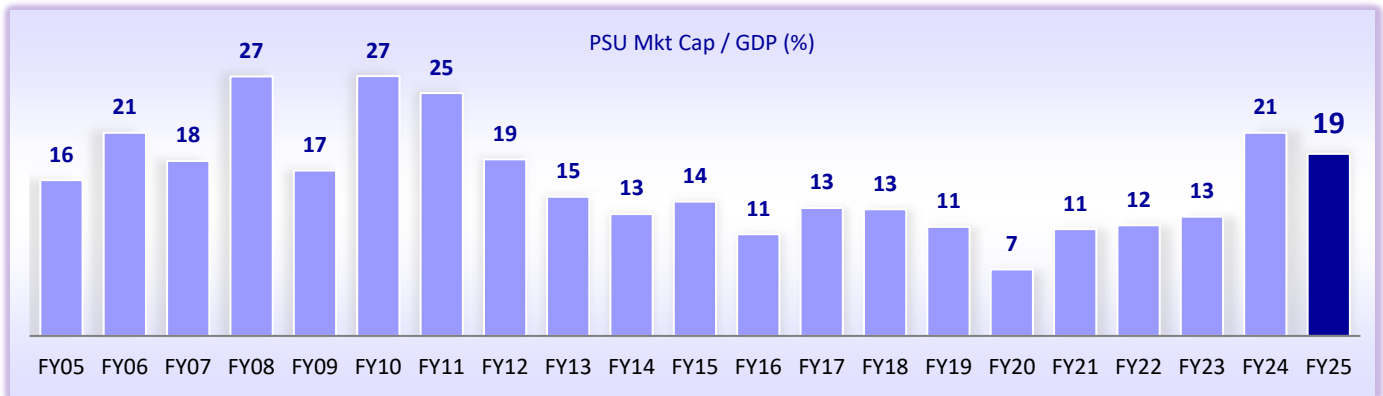
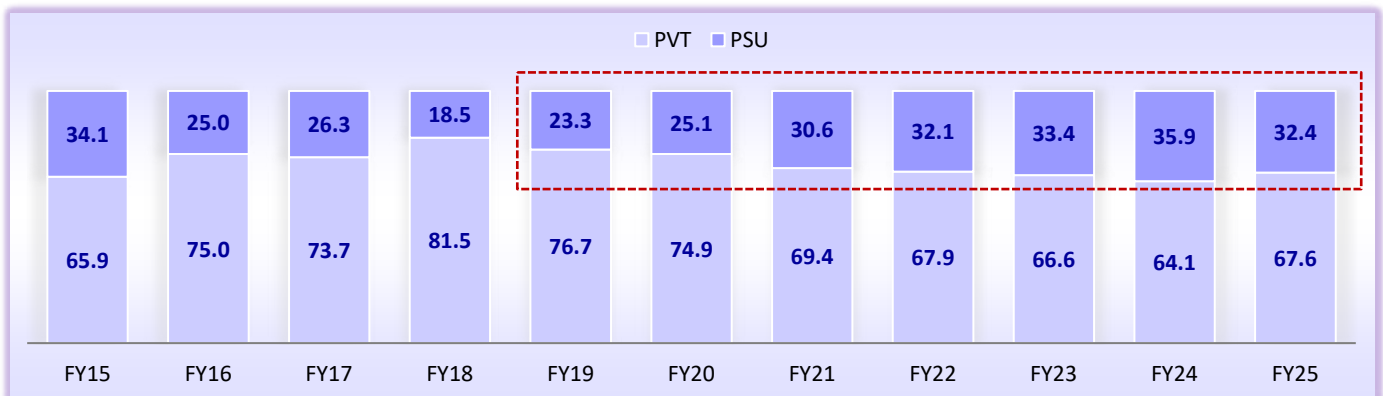
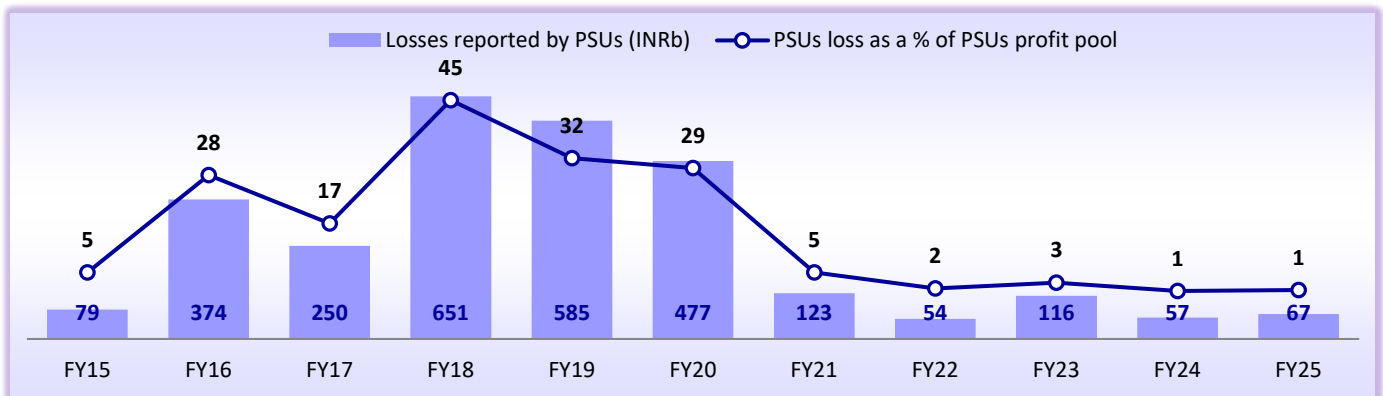
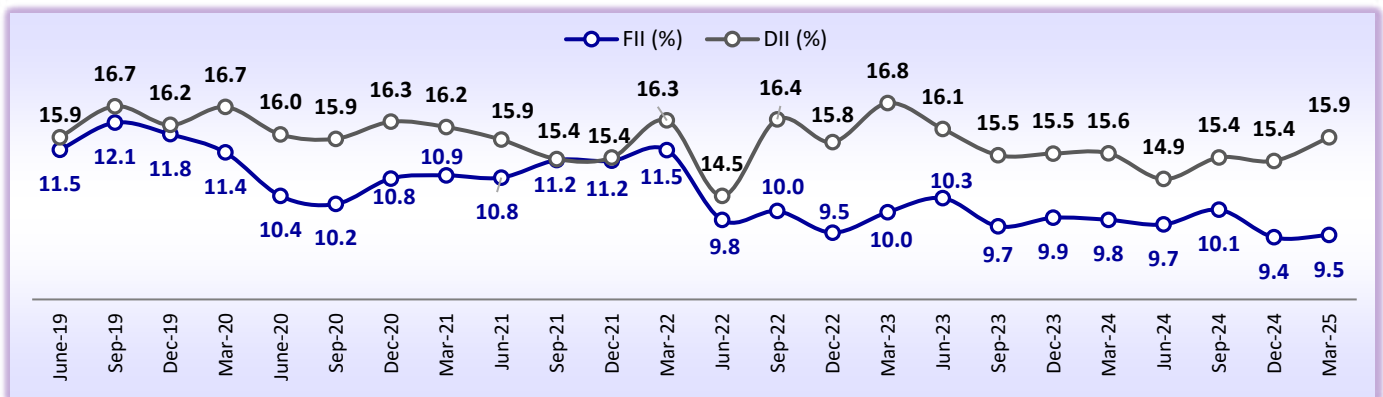


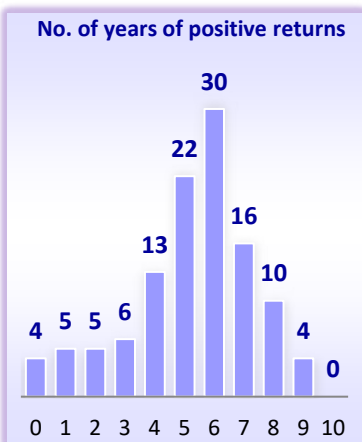
Exhibit 5: PSUs' corporate earnings expanded faster than that of the private sector in Phase 2



Note: Exhibit data is sourced from Capitaline, Bloomberg and MOFSL research database. Prices as of 24th June'25 closing.

Exhibit 6: PSUs' market cap-to-GDP ratio moderates from 13-year high

Exhibit 7: Profit mix between Private and Public sectors: PSUs' share declines from the high base of FY24

Exhibit 8: Loss pool of PSUs witnessing continuous reduction from FY18 high

Exhibit 9: PSUs – FII vs. DII holding trends (%): Institutions' holdings in PSUs have been range-bound in past seven quarters


About 60% of PSUs have generated 5-7 years of positive returns



Key insights from the report

- **Decoding Indian PSUs:** In this report, we analyze Indian PSUs' journey over the past decade as well as their future prospects. We have selected all the listed PSUs for the analysis. Further, to account for future earnings growth, we have taken our MOFSL PSU coverage as a proxy, which constitutes 72% of all listed PSU companies.
- **Market cap scorecard:** PSUs' share in India's total market cap dropped significantly to 10.1% in FY22 from 18.8% in FY15 but has since recovered and currently stands at 15.3% (though down from 16.6% in FY24). Over a similar period, India's market cap skyrocketed to INR417t in FY25 from INR94t in FY15, and it currently stands at INR454t. During FY15-25, PSUs' market cap surged to INR63t in FY25 (INR69t in Jun'25) from INR17.6t in FY15, while the private sector's market cap catapulted to INR353t (INR384t as of Jun'25) from INR76t.
- **The shifting breadth of returns in PSU stocks:** Around 60% of listed PSUs have clocked 5-7 years of positive returns since FY15. The positive breadth moderated and stood at 34% in FY25 (83% in FY26YTD) from a high of 96% in FY24. 12 of the top 25 stocks in FY25 belong to the BFSI sector.
- **Volatility in PSU banks affected overall PSU profits over FY15-25:** Most Indian PSUs operate in deeply cyclical industries such as metals, O&G, and financials, which naturally leads to volatile and cyclical profitability and market cap. A significant portion of the FY15-25 decade was dedicated to cleaning up the balance sheets of BFSI, particularly banks, which account for one-third of the overall PSU profit pool. This restructuring, combined with various other macroeconomic disruptions, kept the PSU profit pool subdued during FY15-20.
- **PSU banks compensated in the second half:** The second half of the decade saw a 4.6x surge in PSU profits, from INR1.2t in FY20 to INR5.3t in FY25. About 74% of incremental profits came from BFSI alone, with Capital Goods, O&G and Metals contributing 13%, 11% and 7%, respectively. PSU banks' profits jumped to INR2t in FY25 from a loss of INR0.2t in FY20. Meanwhile, ROE for Indian PSUs improved significantly to 16.0% in FY25 from just 6.6% in FY20.
- **Story of FY25:** PSU profits in FY25 were primarily driven by PSU banks, aided by continued growth, lower costs, improved margins, and better asset quality. However, overall profitability was dragged down by the O&G sector, which faced a high base effect of FY24. The profit contribution of PSU banks rose to 38% in FY25 from 29% in FY24, while the O&G sector's contribution dived to 18% from 31% over the same period. Contributions from other sectors remained largely stable or increased marginally.
- **Expect normalized earnings growth ahead:** For our MOFSL PSU Coverage Universe (~72% of India's PSU market cap), we estimate a 10% PAT CAGR over FY25-27, primarily driven by the BFSI and O&G sectors, based on conservative assumptions relative to the FY25 base. Logistics, Capital Goods, and Metals are also expected to contribute positively. Incremental profit growth is likely to be led by BFSI (53%), followed by O&G (20%) and Metals (12%).
- **Leaders and laggards:** Among the top 20 PSUs by market cap, Bharat Electronics, Union Bank, IDBI Bank, Mazagon Dock and Canara Bank registered the sharpest rank gains over the last decade (2015-2025), while IRFC, Coal India, GAIL, REC and ONGC registered most decline in rankings.

- In FY25, Mazagon Dock, Bharat Electronics, HAL, PFC and GAIL were the top rank gainers, while Punjab National Bank and Canara Bank were the top laggards among the top 20 PSU stocks by market cap.

Market cap and valuation expansion take a breather

- India's overall market capitalization surged to INR417t in FY25 from INR94t in FY15, and currently stands at INR454t. PSUs' market cap jumped to INR63t (INR69t as of Jun'25) from INR18t, while the private sector's market cap expanded more dramatically to INR353t (INR384t as of Jun'25) from INR76t. Following a relentless rally between FY20 lows and FY24, PSUs' market cap declined in FY25. The market cap share currently stands at 15.3% (down from 16.6% in FY24 but up from 10.1% in FY22).
- The BSE PSU Index saw a steady valuation expansion until Jul'24, reaching a peak of 13.8x on a 12-month forward basis. However, a broad-based market correction in FY25 relative to earnings led to a moderation in PSU companies' valuations from the Jul'24 high to Feb'25, before rebounding to 11.7x by Jun'25.
- On a 12-month forward P/B basis, the index was trading at 3.2x as of Jun'24, similar to the FY24 level. Given the sustained earnings momentum and improved guidance compared to the moderate base in FY25, we expect PSUs to continue trading at a premium valuation to their historical averages.

Exhibit 10: PSUs' share in the Indian market cap moderates from its highs but continues to recover from Feb'25 lows

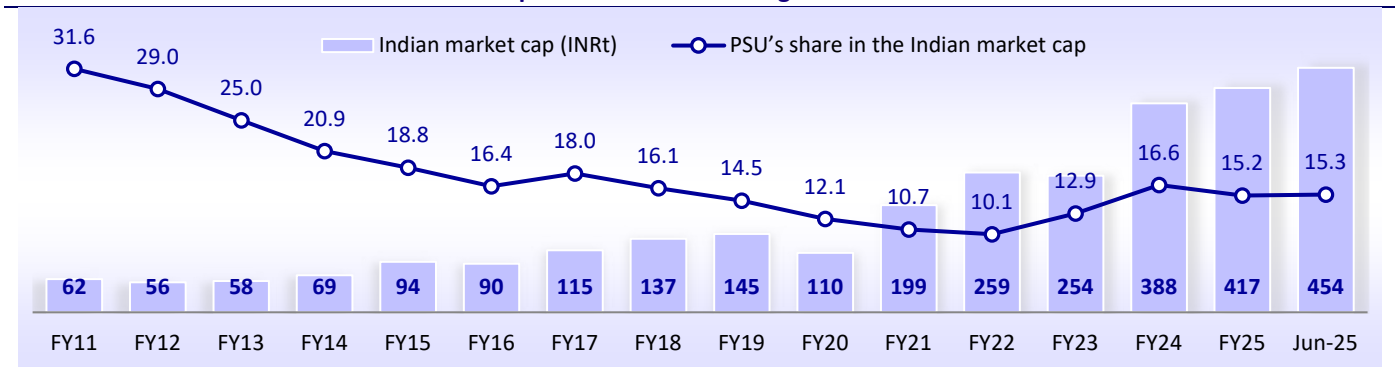


Exhibit 11: Top-20 stocks – market cap rank change

Company Name	Mkt Cap (INRb)								Rank in PSU Universe							
	2015	2020	2021	2022	2023	2024	2025	June'25	2015	2020	2021	2022	2023	2024	2025	June'25
St Bk of India	1,993	1,758	3,252	4,403	4,674	6,717	6,886	7,097	3	1	1	1	1	1	1	1
Life Insurance					3,382	5,785	5,059	5,983					2	2	2	2
Hind.Aeronautics		178	333	497	913	2,225	2,793	3,267		24	21	14	9	8	5	3
NTPC	1,215	833	1,032	1,309	1,699	3,258	3,468	3,206	4	4	4	4	4	4	3	4
O N G C	2,625	859	1,285	2,062	1,900	3,370	3,100	3,068	1	3	2	2	3	3	4	5
Bharat Electron	268	181	305	514	713	1,473	2,202	3,060	18	23	23	13	12	11	8	6
Power Grid Corpn	760	832	1,128	1,513	1,574	2,577	2,701	2,659	6	5	3	3	5	6	6	7
Coal India	2,289	863	804	1,128	1,317	2,673	2,456	2,419	2	2	9	5	6	5	7	8
I O C L	894	769	864	1,120	1,101	2,369	1,804	2,015	5	6	8	7	8	7	9	9
I R F C			300	280	348	1,861	1,625	1,811			25	26	25	9	10	10
B P C L	586	686	928	779	746	1,307	1,208	1,385	7	7	5	9	11	14	13	11
Power Fin.Corpn.	360	243	300	297	401	1,288	1,367	1,365	12	16	24	24	22	15	12	12
Mazagon Dock			43	48	134	375	1,066	1,325			63	66	47	43	18	13
Bank of Baroda	361	247	383	577	873	1,366	1,181	1,230	11	14	14	12	10	13	15	14
GAIL (India)	493	345	602	691	692	1,191	1,202	1,220	10	10	10	10	14	16	14	15
Punjab Natl.Bank	268	218	384	386	514	1,369	1,105	1,208	17	17	13	20	16	12	17	16
Union Bank (I)	100	98	218	265	454	1,171	963	1,123	32	31	33	28	19	18	19	17
REC Ltd	328	175	259	243	304	1,187	1,131	1,050	13	25	28	31	32	17	16	18
Canara Bank	175	93	251	413	516	1,054	807	1,004	23	34	30	17	15	20	24	19
IDBI Bank	114	200	415	460	484	870	835	987	30	20	11	16	17	22	22	20

The shifting breadth of returns in PSU stocks

- Around 60% of listed PSUs have clocked 5-7 years of positive returns since FY15. The positive breadth moderated to 34% in FY25 (83% in FY26YTD) from a high of 96% in FY24. 12 of the top 25 stocks in FY25 belong to the BFSI sector.
- Over FY15-25, only GAIL delivered nine years of positive returns, while, SBI, NTPC, BHEL and Power Grid Corp. posted eight years of positive returns.
- In contrast, ONGC, Punjab National Bank, and Coal India delivered 6-7 years of negative returns.
- About 34% of listed PSU stocks outperformed the BSE PSU Index in FY25, with only 38 ending the year with positive returns. Notably, 50 PSUs posted negative returns, with declines of over 15%.

Exhibit 12: 60% of PSUs have generated 5-7 years of positive returns



Exhibit 13: % of stocks delivering positive returns

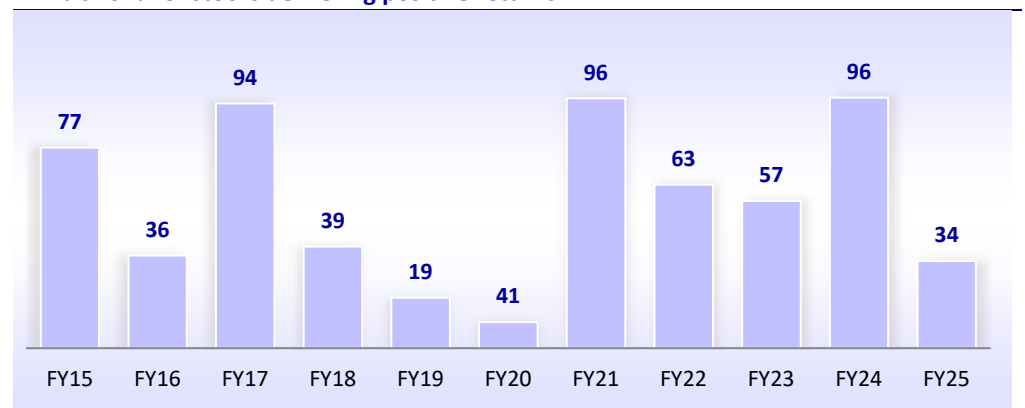
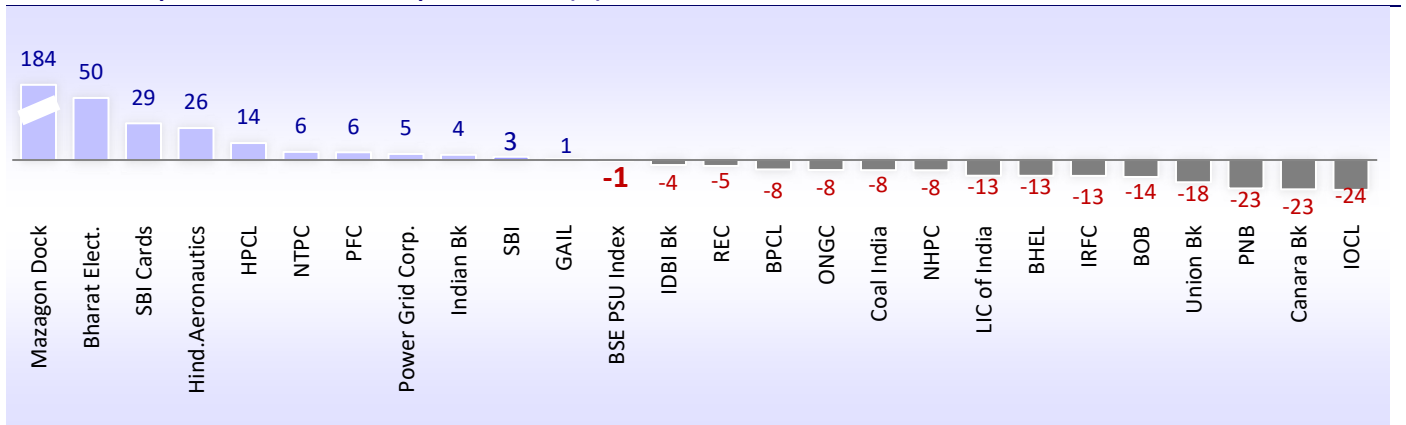
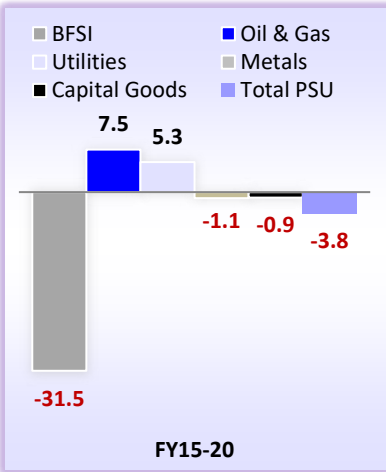


Exhibit 14: Trends in top-25 PSU sectoral performance (%) — 12 of the top 25 stocks belong to the BFSI space

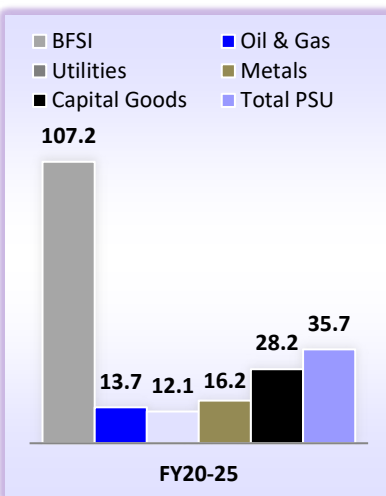
Company	Price Performance YoY (%)												Mkt Cap (INR b)
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26YTD	
SBI	39	-27	51	-15	28	-39	85	35	6	44	3	3	7,097
LIC of India										71	-13	18	5,983
HAL					-37	-25	87	49	84	144	26	17	3,267
NTPC	23	-13	29	2	-4	-38	26	27	30	92	6	-8	3,206
ONGC	-4	-30	29	-4	-10	-57	50	60	-8	77	-8	-1	3,068
Bharat Elect.	192	9	28	0	-34	-20	68	69	39	107	50	39	3,060
Power Grid Corp.	38	-4	42	-2	2	-20	36	34	4	64	5	-2	2,659
Coal India	26	-19	0	-3	-16	-41	-7	40	17	103	-8	-1	2,419
IOCL	32	7	97	-9	-8	-50	12	30	-2	115	-24	12	2,015
IRFC								-7	24	435	-13	11	1,811
BPCL	76	11	44	-1	-7	-20	35	-16	-4	75	-8	15	1,385
PFC	41	-37	70	-41	43	-25	23	-1	35	221	6	0	1,365
Mazagon Dock								13	177	181	184	24	1,325
BOB	13	-10	18	-18	-9	-58	38	51	51	57	-14	4	1,230
GAIL	3	-8	41	16	6	-56	77	15	1	72	1	2	1,220
PNB	-3	-41	78	-37	0	-66	13	-4	33	166	-23	9	1,208
Union Bk	14	-16	19	-40	1	-70	18	14	72	131	-18	17	1,123
REC	45	-50	118	-31	22	-42	48	-6	25	290	-5	-7	1,050
Canara Bk	39	-48	64	-13	10	-69	68	49	25	104	-23	24	1,004
IDBI Bk	9	-2	8	-4	-35	-59	100	11	5	80	-4	18	987
SBI Cards							50	-8	-13	-8	29	11	935
BHEL	19	-52	43	-25	-8	-72	134	1	42	252	-13	20	905
NTPC Green	0	0	0	0	0	0	0	0	0	0	0	7	905
HPCL											14	13	864
NHPC	4	21	33	-14	-10	-19	23	14	45	123	-8	4	858
BSE PSU Index	20	-20	41	-9	-3	-42	50	28	10	92	-1	8	63,499
Nifty-50	27	-9	19	10	15	-26	71	19	-1	29	5	6	

Exhibit 15: Top-25 PSU stocks – FY25 performance (%)


PAT CAGR (%) over Phase 1 (FY15-20)



PAT CAGR (%) over Phase 2 (FY20-25)



Decoding PSUs' profit pool between 2015 and 2025

- During FY15–20, the entire listed universe (Public + Private) recorded a modest earnings CAGR of 2.3%, with profits rising from INR 4.1t to INR 4.6t. In contrast, corporate earnings saw a sharp turnaround in FY20–25, growing at a robust 29% CAGR to reach INR 16.4t. PSU earnings followed a similar trajectory, marked by a muted phase in FY15–20, followed by a strong recovery in FY20–25.
- Phase 1 – PSUs' underperformance (2015-20):** Notably, the listed PSU universe saw a 4% decline in profits over FY15-20, falling to INR1.2t in FY20 from INR1.4t in FY15, primarily due to losses reported by PSU banks. In contrast, the private sector recorded a 5% CAGR in earnings, growing from INR2.7t in FY15 to INR3.4t in FY20. BFSI PSUs recorded a muted profit of INR82b in FY20 vs. INR544b in FY15 due to asset quality clean-up after a steep reduction in their share in the PSU profit pool to 7% in FY20 from 39% in FY15. Notably, O&G and Utilities' contributions to the PSU profit pool surged to 43% and 23% in FY20 from 25% and 15% in FY15, respectively.
- Phase 2 – PSUs' outperformance (2020-25):** With corporate earnings recovering from prior lows, the listed PSU universe made a strong comeback during FY20-25, delivering a robust 36% CAGR in earnings to reach INR5.3t. Meanwhile, private companies reported a 26% CAGR to INR11t over the same period. This strong recovery in PSU earnings was primarily led by PSU banks, which turned around from losses in FY20 to post profits of INR2t in FY25.
- The BFSI sector continued to drive PSU profit growth, with additional support from Capital Goods, O&G, and Metals. Notably, BFSI's profit contribution surged to a high of 59% of total PSU profits in FY25, largely due to the strong performance of PSBs.
- Capital Goods also recorded an impressive CAGR of 28% over FY20-25. This was supported by increased government spending and a strong order book, particularly in segments such as Defense, Railways, and Infrastructure, all of which rebounded strongly from decadal lows. Meanwhile, the O&G sector saw a sharp decline in its share of the PSU profit pool, dropping to 18% in FY25 from 31% in FY24, following a decline in earnings.
- In FY25, earnings of the listed PSU universe moderated by 2% YoY, primarily due to the fall in O&G sector profits. However, PSU banks continued to report strong earnings growth. In contrast, the private sector posted a relatively healthy 14% YoY earnings growth.

Showcasing earnings strength; loss pools remain stable in FY25

- The BSE PSU Index's performance remained relatively muted during Phase 1 (FY15-20), reporting a negative CAGR of 9% and underperforming the Nifty-50 (CAGR 4%).
- During Phase 2 (FY20-25), the BSE PSU Index's performance at 32% CAGR was better than the Nifty-50's 19% CAGR. PSU profits bounced back with a 36% CAGR, outperforming the private sector (26% CAGR).
- PSU losses, which had peaked by FY18, have consistently narrowed over the years and its share in PSU's profit pool remained nearly flat in FY25. The **loss pool of PSUs** has consistently declined over the past five years and was largely flat YoY in FY25. The contribution of loss-making companies to the overall profit pool has significantly diminished to just 1% in FY25 from 45% in FY18.

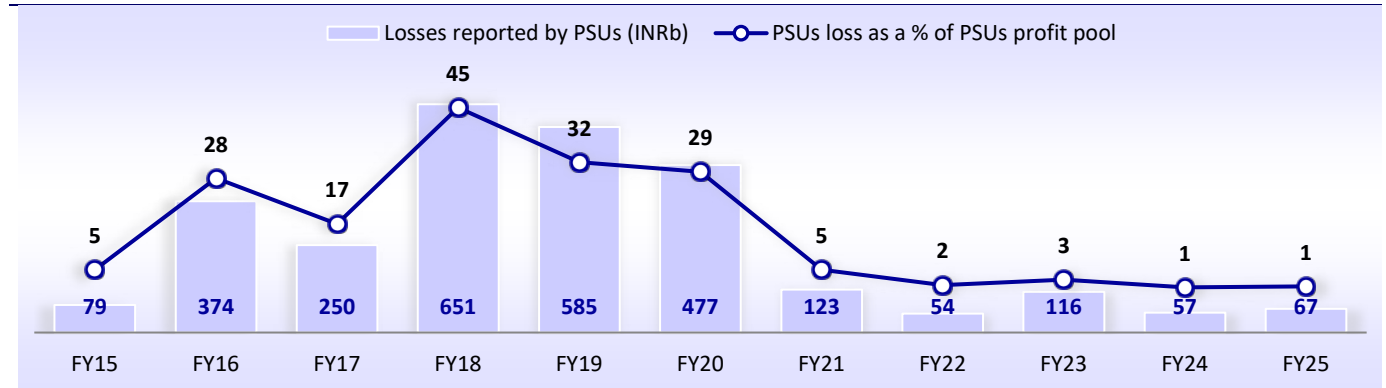
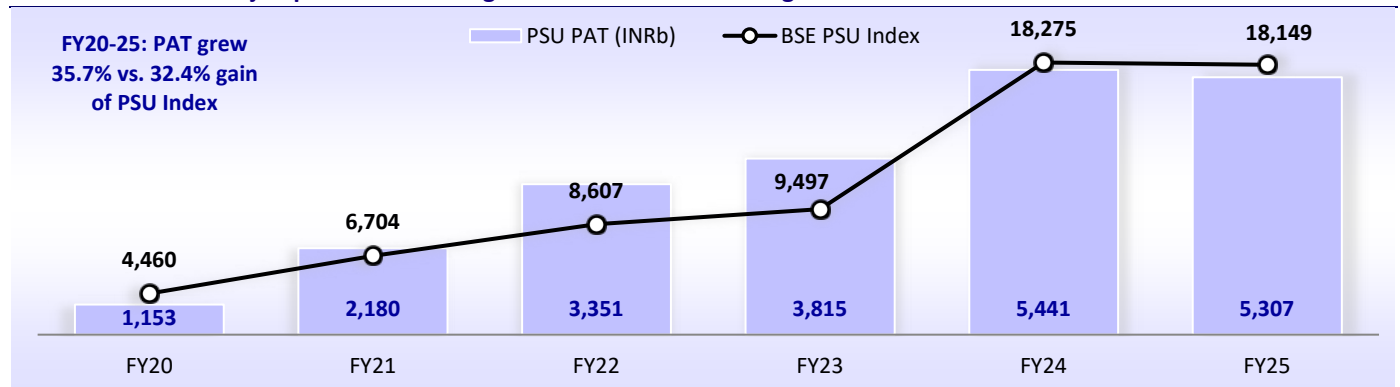
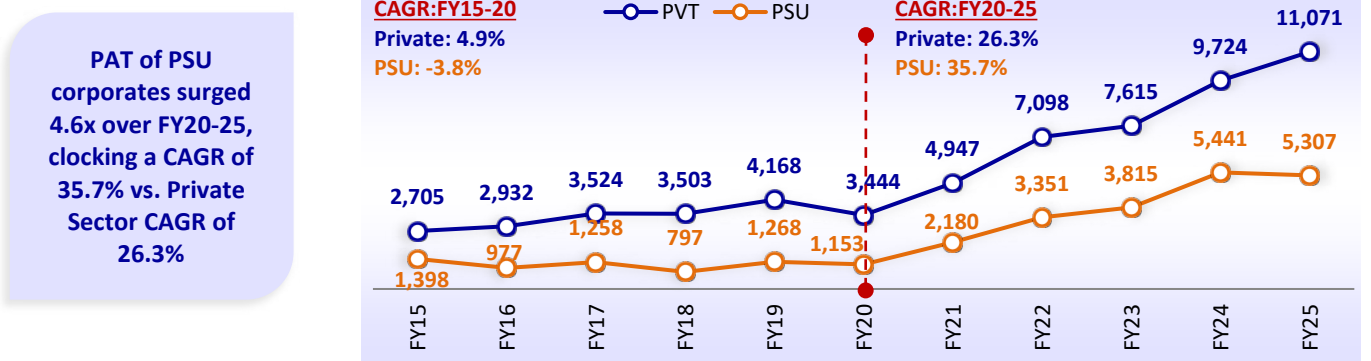
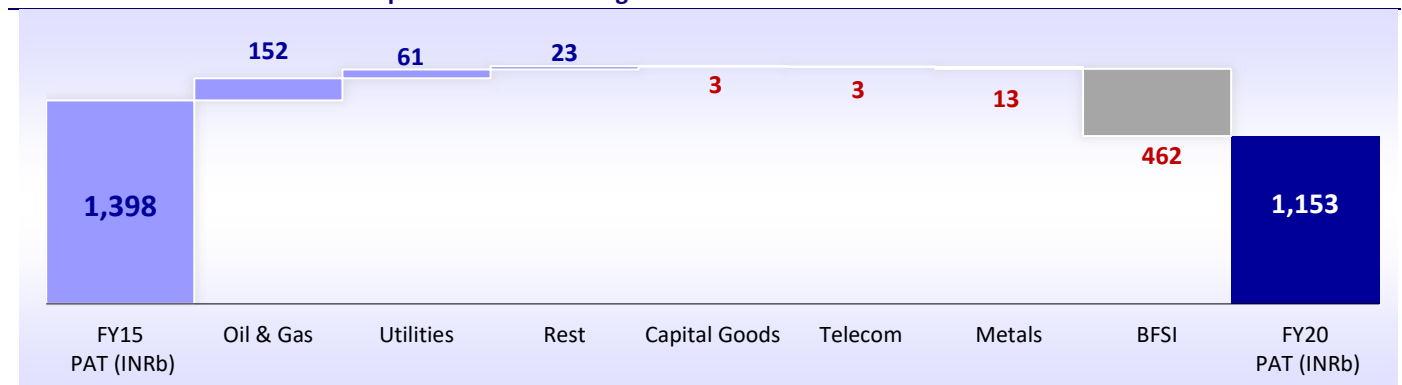
Exhibit 16: Loss pools of PSUs that spiked during FY15-18 have consistently reduced over the last five years

Exhibit 17: PSU's PAT jumped 4.6x vs. 4.1x gain in the PSU index during FY19-24

Exhibit 18: PSUs' corporate earnings expanded faster than that of the private sector in Phase 2, though moderated marginally in FY25

Exhibit 19: FY15-20: PSU Universe profit declined during Phase-1 due to BFSI and Metals sectors


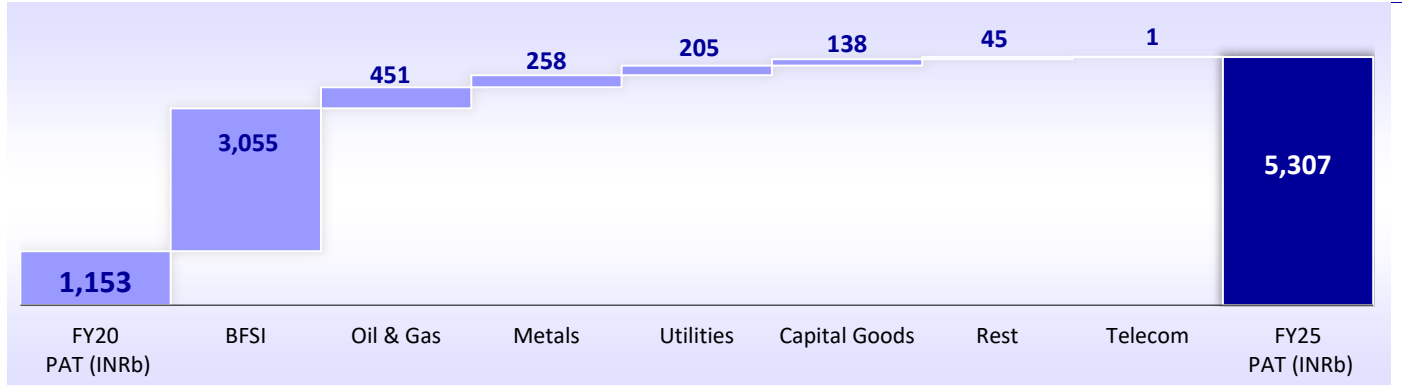
Exhibit 20: FY20-25: PSUs reported strong growth during Phase-2; BFSI drove profit growth, followed by O&G and Metals

Exhibit 21: FY25: PSU Universe profit moderates in FY25, led by BFSI, however dragged down by O&G

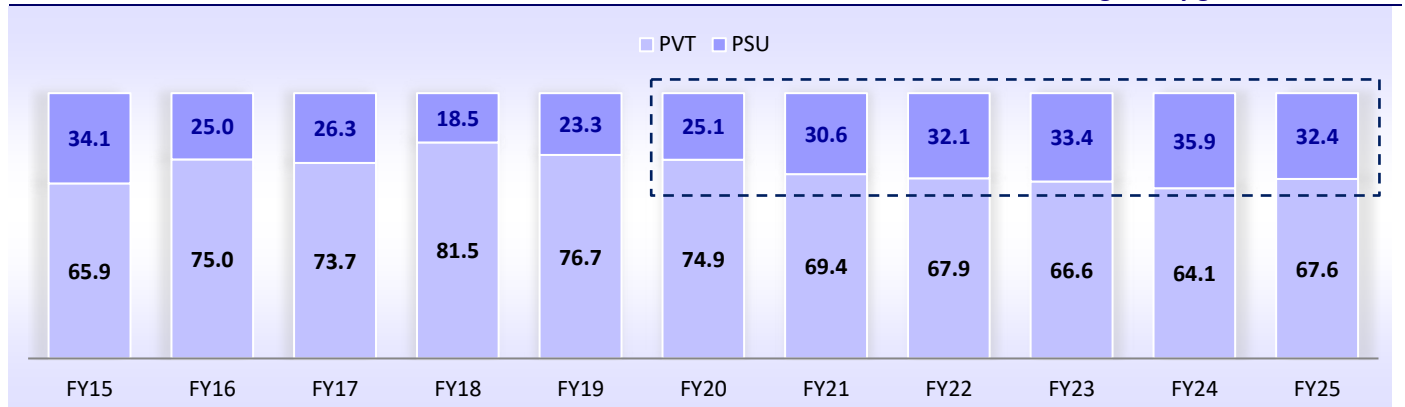
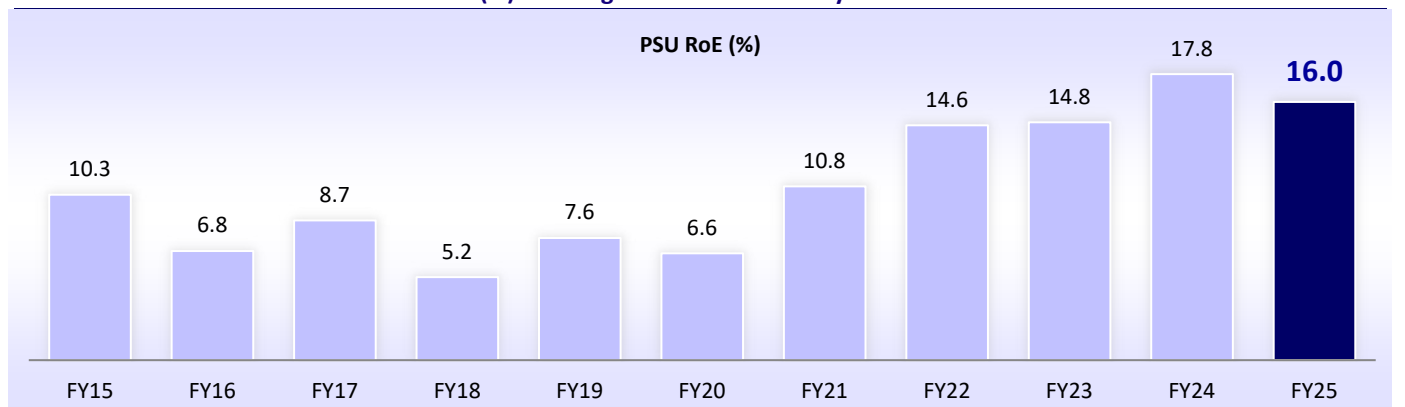
Exhibit 22: Profit mix between Private and Public sectors – PSUs' market share moderates following steady growth

Exhibit 23: RoE trend of the PSU Universe (%) – Seeing continuous recovery from the FY18 lows


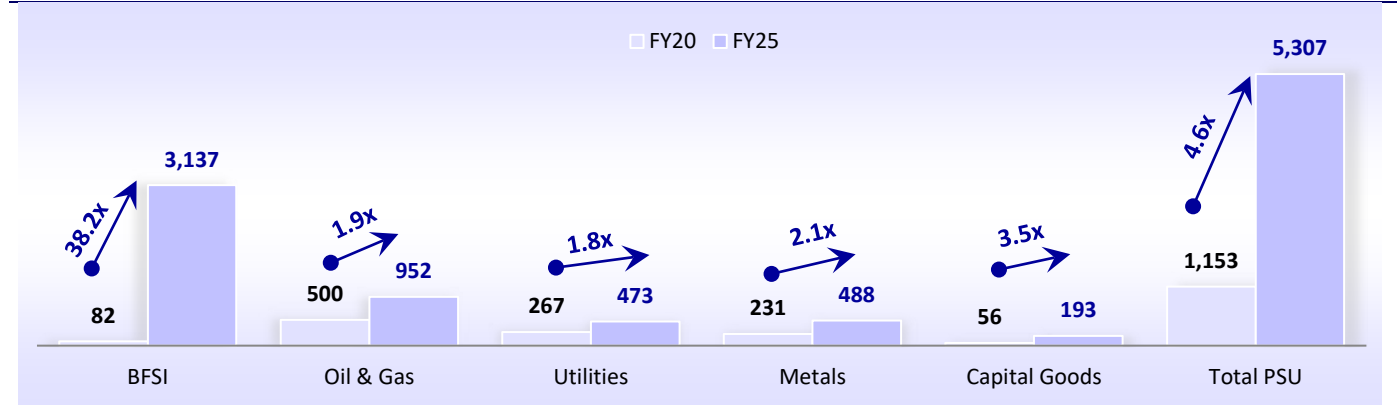
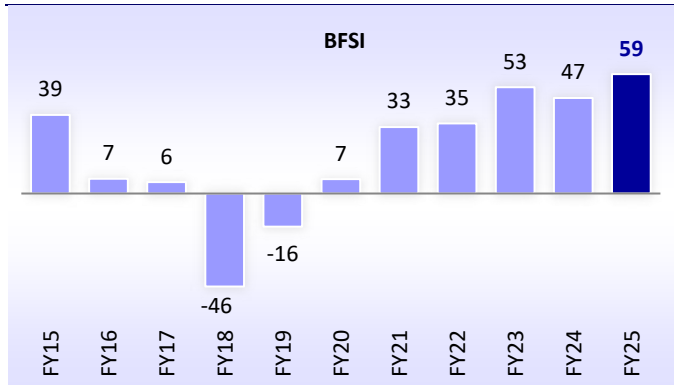
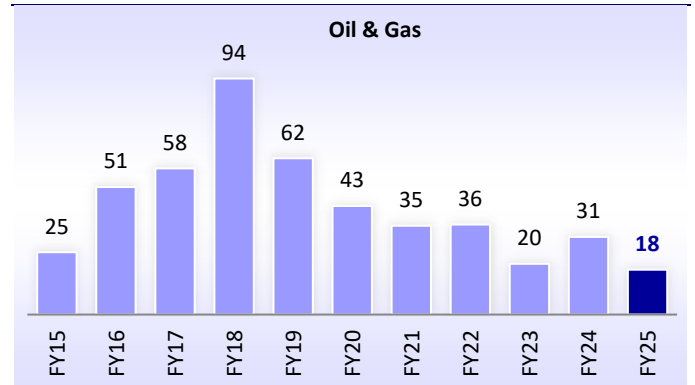
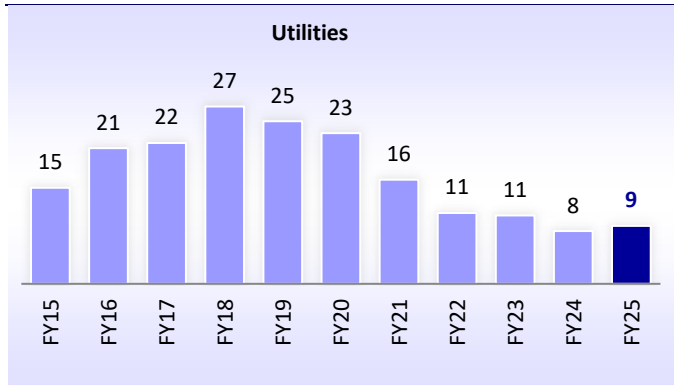
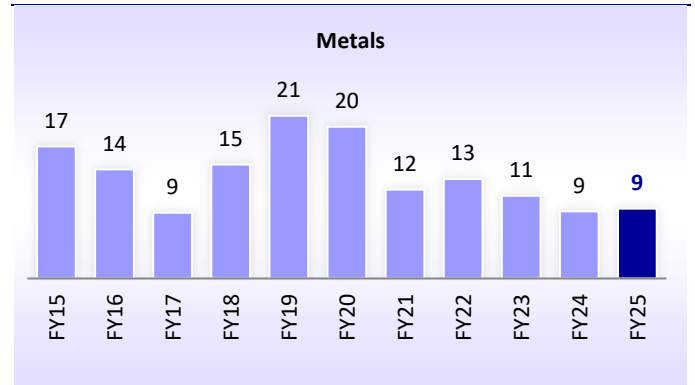
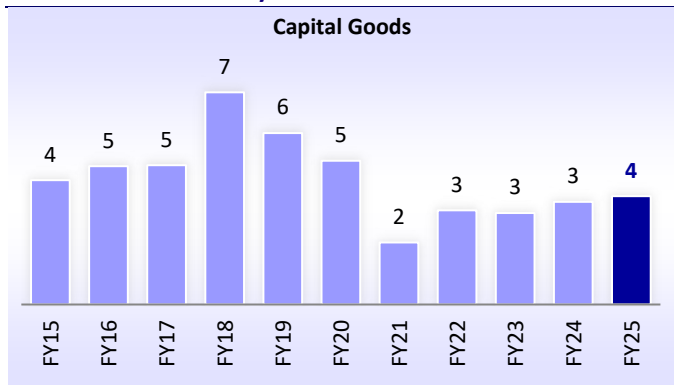
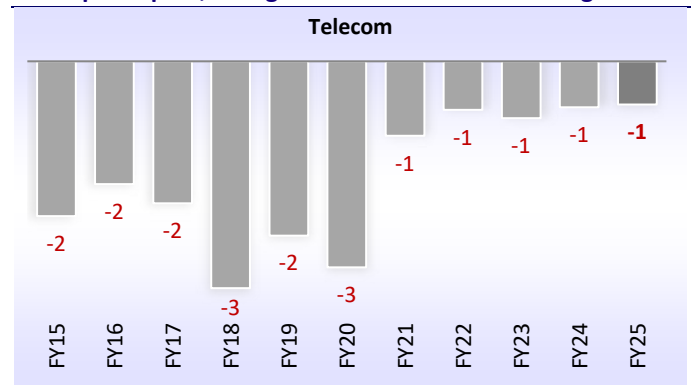
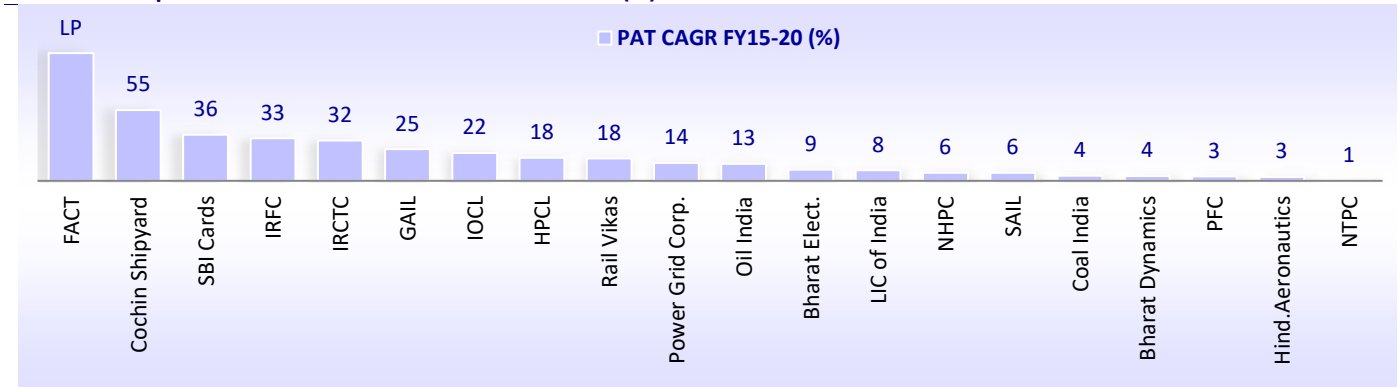
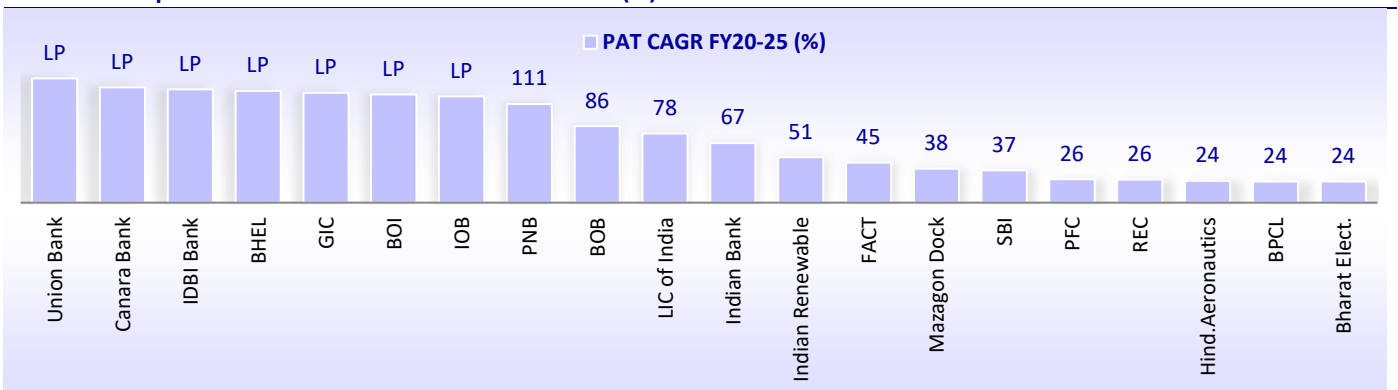
Exhibit 24: BFSI and Capital Goods profits expanded at a faster pace in the last five years (INR b)

Exhibit 25: BFSI's contribution to PSU profit climbed to a multi-year high in FY25

Exhibit 26: O&G's contribution to PSU profit pool dips to all-time low in FY25

Exhibit 27: Utilities' contribution to PSU profit pool nearly flat YoY in FY25 after hitting all-time low in FY24

Exhibit 28: Metals' contribution to PSU profit pool remains low but steady YoY

Exhibit 29: Capital Goods' contribution to PSU profit pool continues to rise slowly

Exhibit 30: Telecom has been a negative contributor to PSUs' profit pool, though losses have been shrinking


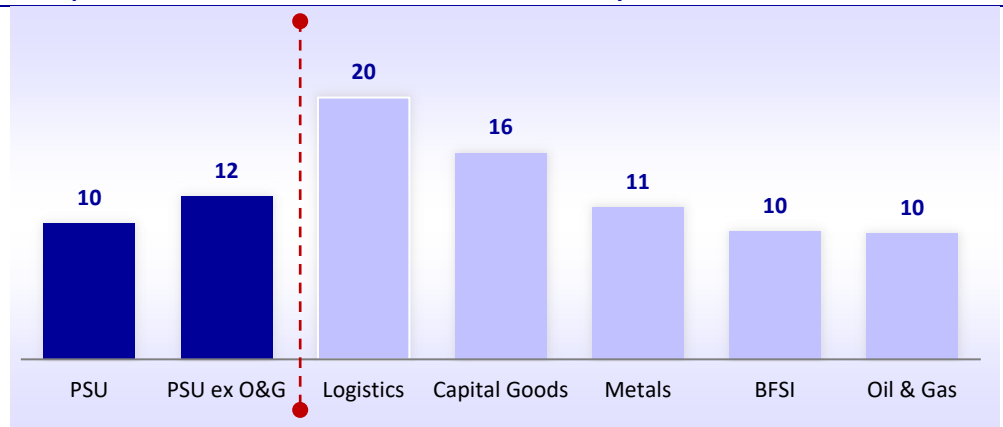
Exhibit 31: Top 25 PSU stocks – PAT CAGR over FY15-20 (%)

Exhibit 32: Top 25 PSU stocks – PAT CAGR over FY20-25 (%)


Growth optimism anchored to a soft base

- Amid geopolitical tensions and slowing global growth, India's macroeconomic outlook presents a contrasting picture. India's nominal GDP grew by 9.8% in FY25, surpassing market expectations, and is projected to accelerate further to 10.8% in FY26.
- Corporate profit growth moderated in FY25 due to a high base set in FY24, a slowdown in government spending during 1HFY25 amid elections, weak consumption, and volatile exports amid global uncertainties; however, we expect a gradual recovery ahead. This rebound is likely to be supported by increased government spending and continued focus on infrastructure and capex, stronger order books, and a favorable monsoon season. Additionally, the government's focus on localization, increased capex, and the 'Make-in-India' initiative in the defense sector will continue to drive growth for industrial PSUs. Consequently, we expect PSU contributions to earnings and market capitalization to remain stable or improve going forward.
- For our MOFSL PSU Coverage Universe (~72% of India's PSU market cap), we estimate a 10% PAT CAGR over FY25-27, primarily driven by the BFSI and O&G sectors, based on conservative assumptions relative to the FY25 base. Logistics, Capital Goods, and Metals are also expected to contribute positively. Incremental profit growth is likely to be led by BFSI (53%), followed by O&G (20%) and Metals (12%).

Exhibit 33: Expect FY25-27 earnings growth to remain healthy, led by BFSI, O&G, Metals and Capital Goods, while other sectors to remain healthy for MOFSL PSU universe

Conservative margin assumption for BFSI and O&G earnings growth over FY25-27



Source: MOFSL

Valuation: Re-rating trend continues across PSUs

- Continued earnings growth, supported by underlying RoE expansion, strong macroeconomic conditions, a favorable policy environment, a robust order book buildup, and a significant turnaround in governance and operational efficiency, has driven valuation expansion across PSUs over the past few years.
- The BSE PSU Index, which experienced a sharp de-rating in the first half of the previous decade, has since witnessed a notable re-rating up to 1HFY25. However, following a market correction in 2HFY25, the BSE PSU P/E ratio stood at 11.7x, down from the Jul'24 high of 13.8x, but still up from 9.8x in Feb'25. On a 12-month forward basis, the PSU index was trading at 1.7x P/B as of Jun'25, down from the July'24 peak of 2.1x.
- While earnings momentum and forward guidance, particularly for PSU banks, have seen a slight moderation and the broader market has recovered from the Mar'25 lows, PSU valuations should continue to trade at a premium to their long term averages. That said, with overall valuations having eased from their 2024 highs, further upside is likely to be concentrated in segments where actual earnings delivery is in line with or exceeds stated guidance.

Exhibit 34: 12-month forward P/E (x)

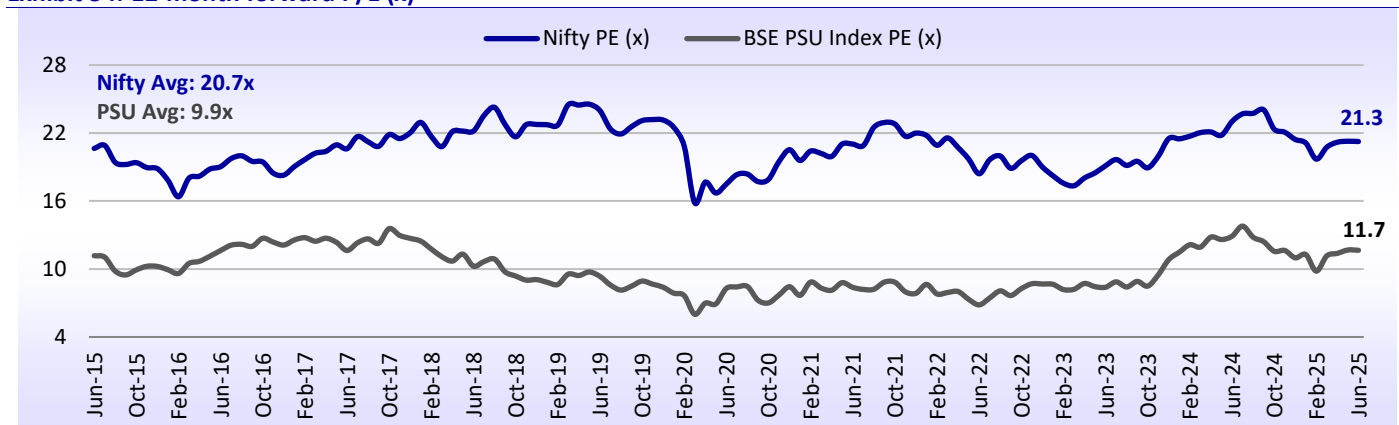
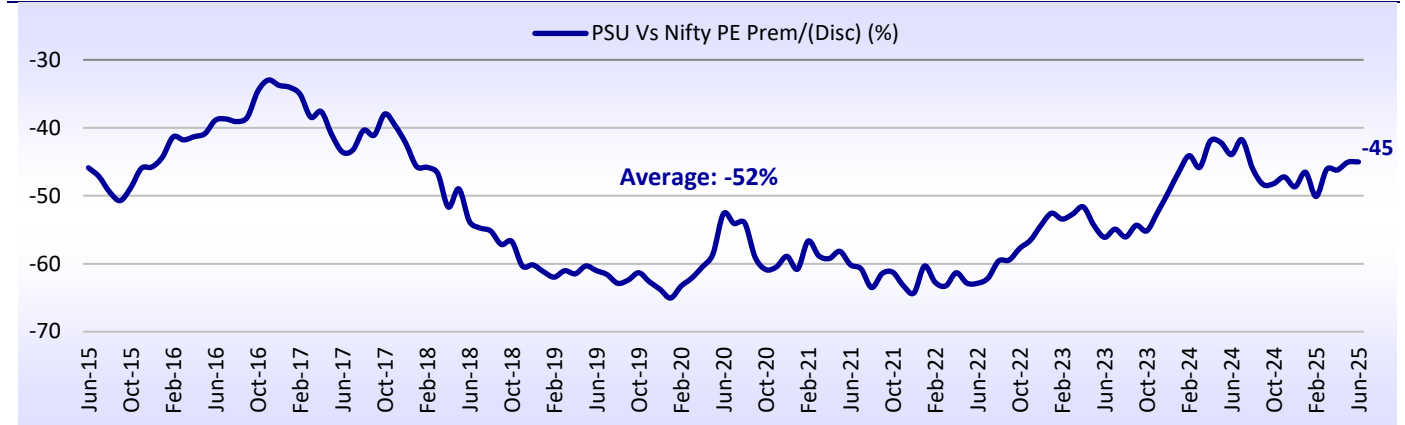
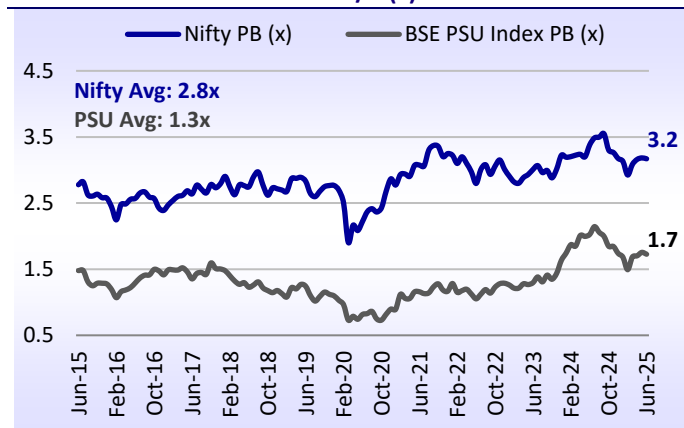
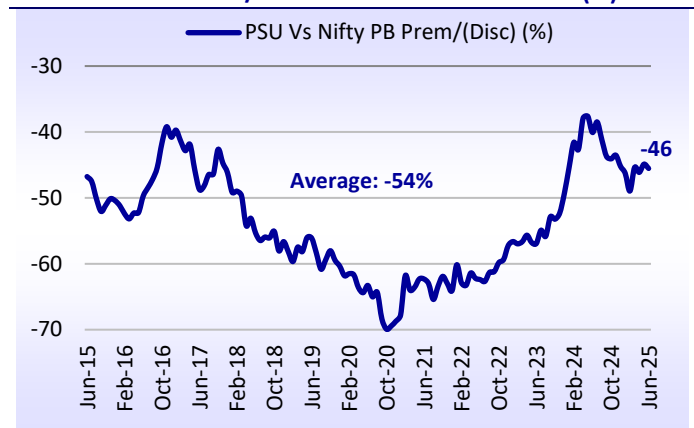


Exhibit 35: Trend in P/E discount to the benchmark (%)

Exhibit 36: Sector-wise P/E (x) (%): Rerating trends continue across sectors as valuations ease from 2024 highs

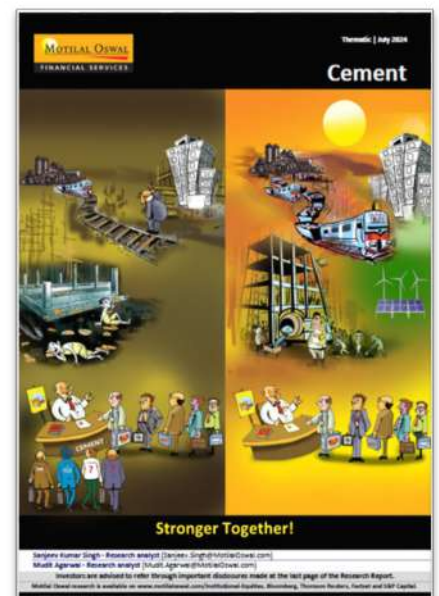
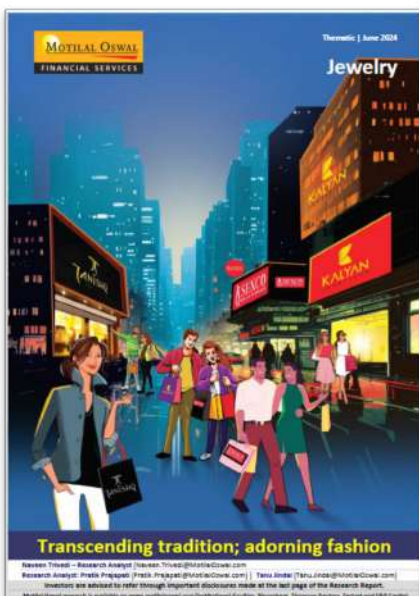
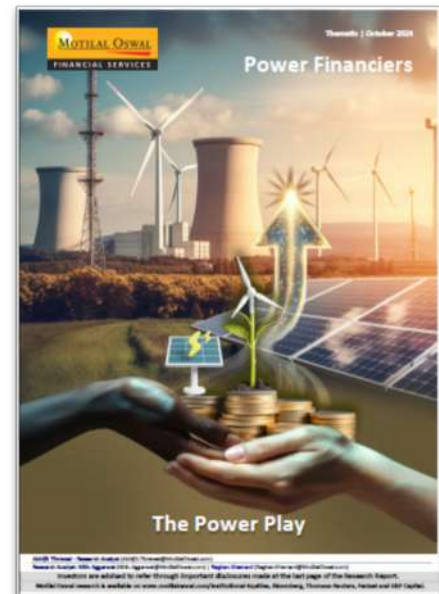
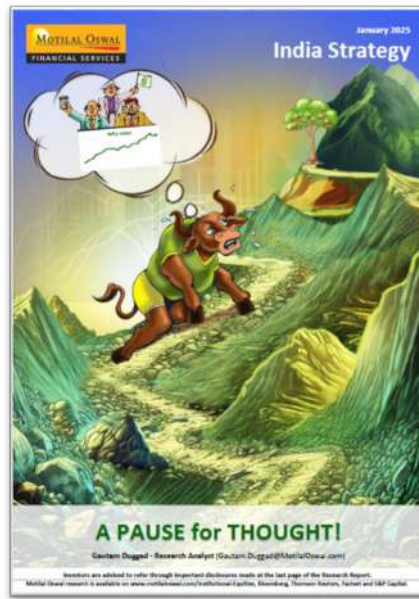
Sector, P/E (x)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PSBs	10.2	Loss	Loss	Loss	Loss	Loss	16.0	10.4	8.1	10.8	7.7
Insurance	-	-	-	15.7	12.4	9.3	9.1	5.7	8.6	13.8	10.7
NBFCs	6.5	4.3	9.0	5.4	4.6	5.7	7.4	5.6	5.0	12.1	10.8
Capital Goods	17.1	16.9	16.1	23.4	13.4	10.2	24.9	14.3	20.3	31.0	41.9
Chemicals	-	60.3	25.9	17.6	9.6	6.1	10.6	10.1	7.7	41.9	30.5
E-Commerce	-	-	-	-	Loss	5.7	18.6	10.8	7.4	28.6	8.8
Healthcare	101.4	Loss	15.0	Loss	Loss	Loss	Loss	Loss	Loss	140.6	122.1
Infrastructure	9.8	10.2	13.1	12.6	10.4	7.0	11.6	11.8	9.9	34.8	47.3
Logistics	26.0	21.0	22.8	23.5	20.8	39.2	93.2	60.0	37.3	54.0	38.5
Metals	13.7	18.9	26.4	22.4	8.7	6.2	7.7	6.0	5.9	10.6	9.3
Oil & Gas	15.2	10.8	10.2	10.0	8.9	12.5	6.8	5.4	9.0	6.9	10.5
Real Estate	6.4	Loss	6.3	7.7	3.1	2.5	6.8	2.1	4.2	7.0	16.6
Telecom	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss
Utilities	11.6	11.3	12.0	12.0	9.5	6.9	7.8	8.6	10.3	17.3	18.3
Others	19.5	11.5	38.8	53.8	51.3	12.4	46.3	17.5	7.1	23.0	19.6
Total PSU	12.2	15.3	16.3	25.1	16.9	13.0	9.7	7.8	8.6	11.9	11.8

Exhibit 37: 12-month forward P/B (x)

Exhibit 38: Trend in P/B discount to the benchmark (%)


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SELL	$< -10\%$
NEUTRAL	$< -10\%$ to 15%
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