

Indices Near Highs

THE REAL STORY LIES BENEATH THE INDEX

80% of Broader Market in Bear Territory

RESILIENCE + RATE CUTS + REFORMS

= RECOVERY | SMALLCAPS BETTER PLACED

Investor Newsletter

February 2026

Resilience + Rate Cuts + Reforms = Recovery | Smallcaps better placed

February 25, 2026

Dear Investors,

Over the past several months, investors have frequently sought our perspective on market conditions — particularly on smallcap stocks — and this letter aims to provide a comprehensive account of our views. *The broader listed universe in India has been in bear market territory for past few months despite the indices being in touching distance of their all-time highs!* Such a stark disconnection is generally rare and our analysis indicates that a trifecta of factors (Resilience of corporate balance sheets + Rate Cuts + Reforms) would likely lead to a sharp recovery in the broader markets going ahead while the index level returns may remain in a range. We believe that current market levels are providing a good entry point into small and midcap stocks (SMIDs) and our assessment is backed by three key factors – 1) The corporate India BS is at one of its lowest leverage in last 20 years and capex outlook is improving supported by internal cash flows coupled with improving demand outlook and smaller companies showing higher PBT growth, 2) Historical rate cut cycles in the past 25 years (involving rate cuts of 100bps or more) have resulted in solid returns from SMID indices over next 1-2 year period and 3) Series of reforms undertaken by GoI in past several years and more particularly in last 12 months have started creating fertile ground for sustainable demand revival and improved credit and economic growth. Earnings growth has shown early signs of improvements in Q3FY26 and we see continued improvement going ahead led by the above-mentioned factors at play with smaller companies leading the way and showing higher earnings growth. ***We expect quality smallcaps to generate superior returns hereon while largecaps may remain in a range due to high valuations and lower growth.*** We discuss these aspects in detail in this newsletter.

In the second half of the letter, we provide the performance snapshot of both our live funds. Our portfolios remain biased towards fast growing smallcap companies which provide margin of safety in valuations and we continue to avoid momentum/theme based stocks as well as stocks with very high valuations.

We have divided this newsletter into the following sections: -

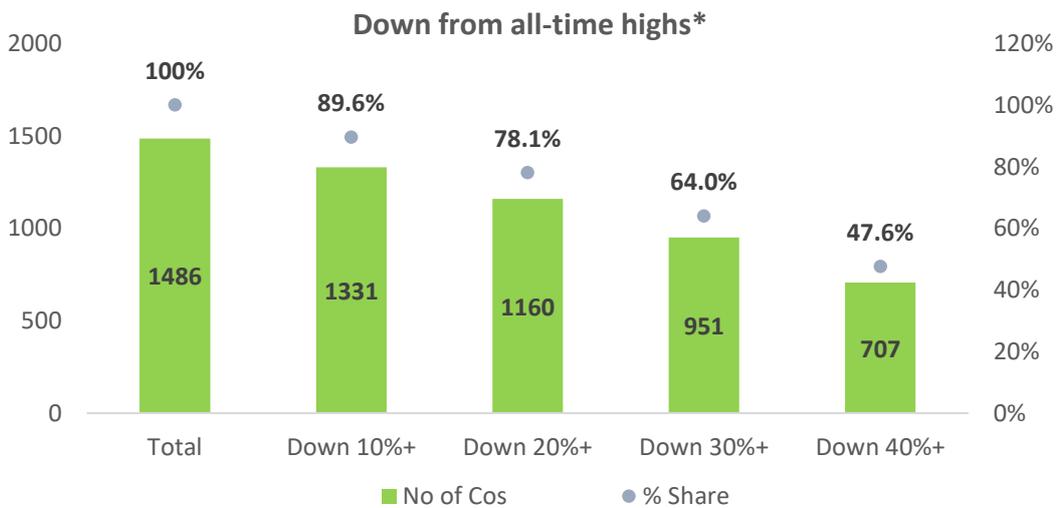
- A. **Broad markets have been in bear territory which indices don't reflect**
- B. **Resilience: Corporate balance sheets in India show solid resilience, capex is picking up | smaller companies are growing faster**
- C. **Rate cuts: lower rates provide fuel for smaller companies - Quick look at past rate cut cycles**
- D. **Reforms: Series of reforms would create multiplier effect in the long run – Economic activity is improving**
- E. **Portfolio performance**

A: Broad markets have been in bear territory which indices don't reflect

Widespread and deep correction which indices don't show

Indian markets have witnessed a phase of time and value correction in last 18 months (since Sep 2024) with a peculiar phenomenon where broader listed universe is in bear market territory while indices are staying near all-time/52w highs. The correction has been very sharp on the broader base of stocks in the small and midcap segment (SMIDs) of the market and the fall has accelerated in recent months. Among all listed companies > 1000cr mcap, more than 64% of companies have fallen 30%+ from their all-time highs while ~78% companies have fallen 20%+ from their all-time highs (Exhibit 1). This implies that ~80% of listed universe above 1000cr mcap is in bear market category and if we were to include companies below 1000cr mcap the data would appear even more bleak.

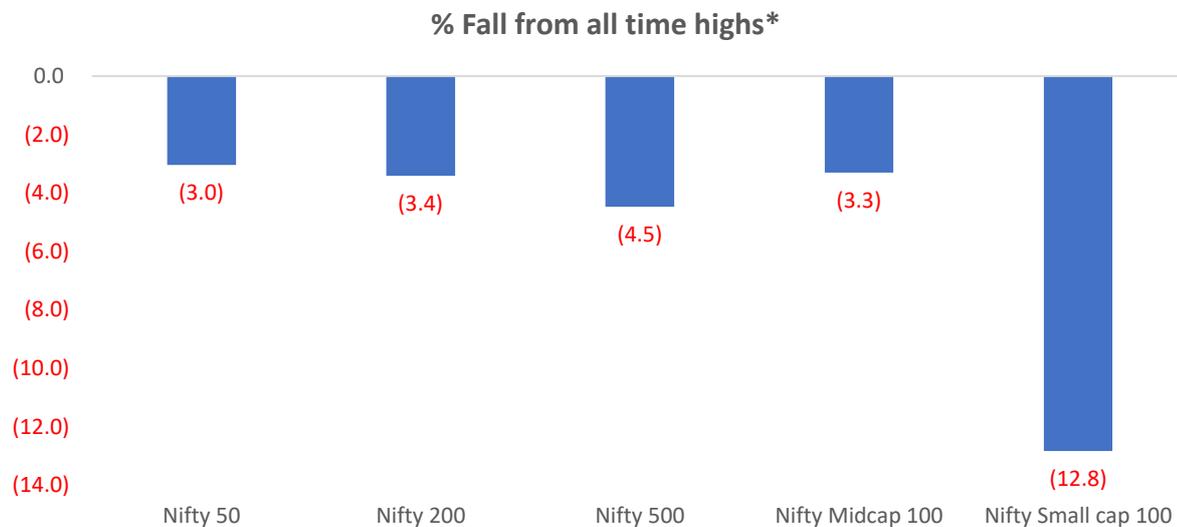
Exhibit 1: Correction (from all-time highs) in all cos>1000cr Mcap has been widespread



Source: NSE, Monarch AIF, *as on 20 Feb 2026, data is for all companies > 1000cr Mcap

Surprisingly the correction in main indices has been much lower at 3-5% range and even the Nifty smallcap index has fallen only ~13% from its all-time highs! This kind of divergence is very rare and within each index a narrow band of stocks have been driving the index returns in last 9-12 months while broader market remains in bear grip.

Exhibit 2: Correction (from all-time highs) in indices from all-time highs has been modest

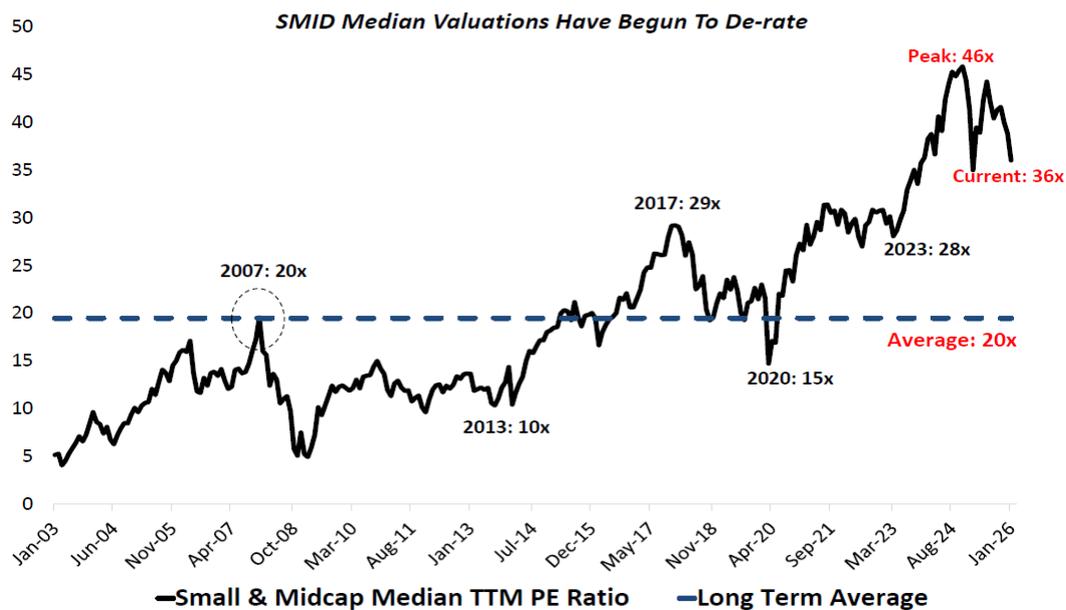


Source: NSE, Monarch AIF, *as on 20 Feb 2026

Indices continue to trade at premium valuations...

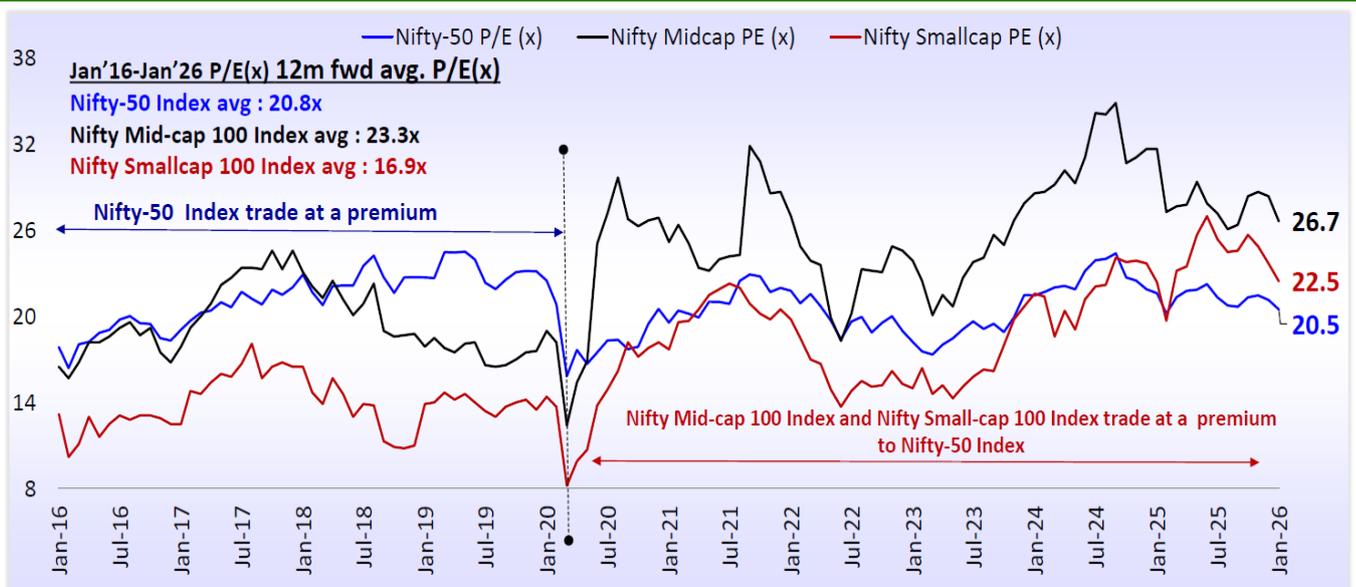
Since the indices have seen very little absolute correction, the valuations at an index level for SMIDs (which are comprised of larger mid and smallcap stocks only) also remain elevated and may further adjust downward going ahead led by either time correction or sharp earnings growth with little stock price movements among majority of index constituents. Hence it is imperative that investors look beyond the surface as indices are masking the true valuation picture for the markets. The index valuation for SMID is also impacted by SEBI definition where even bigger mcap stocks now fall under small and midcap indices due to their absolute rank in terms of mcap.

Exhibit 3: Index level valuation is still high



Source: DSP Netra Feb'26, Monarch AIF

Exhibit 4: Index level valuation continues to show premium for mid & small cap indices

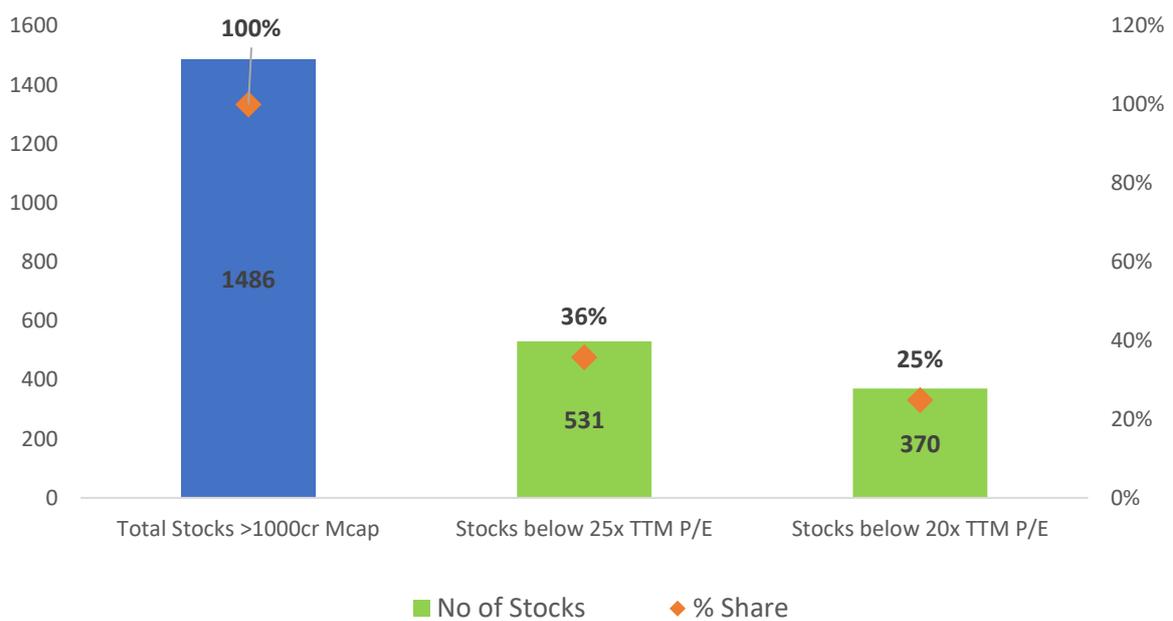


Source: Kotak MF Equity Outlook Jan'26, Monarch AIF

...but many stocks are now available to fair to attractive valuations

Since the broad markets have corrected sharply (as shown in Exhibit 1), the total no of quality stocks available at fair to attractive valuations has materially expanded in the last 15 months. Our calculations show that currently ~36% of all stocks above 1000cr mcap are trading at TTM P/E of below 25x (vs 25% in Sep 2024). This has made risk-reward favorable for bottoms-up stock picking like it generally happens after any bear market. We believe that broader markets have been in bear territory for past few months and good opportunities are now emerging as several small yet fast growing companies are now available at 1Y fwd P/E of less than 20x. In the next section of our letter, we deliberate in detail why it might be a good entry point for broad markets now particularly small quality companies across wide range of sectors.

Exhibit 5: Large % of stocks (>1000cr Mcap bucket) are now available at fair to attractive valuations



Source: Screener, Monarch AIF, data is for all companies > 1000cr Mcap as at 20 Feb 2026

B: Resilience -- Corporate Balance sheets in India are showing solid resilience, capex is picking up | smaller companies are growing faster

Our analysis shows that corporate balance sheets in India have become extremely resilient in last 5-7 years and capex from private sector is starting to look up. For reaching this conclusion we took data for all listed non-financial firms and considered the financials of top 500 companies by revenues every year in this data set for the last 20 years (Top 500 non-financial firms cover 95% of all listed universe by Mcap and Revenues). We took a consistent count of top 500 companies by revenues over last two decades so that our analysis is not impacted by the overall universe of companies expanding due to new listings over time. By taking top 500 companies by revenues every year the analysis is carried over a wide heterogeneous set of same quantity.

Exhibit 6: Key financial metrics of top 500 non-financial firms show encouraging trends on capex and debt/equity

In Lakh Cr	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	CAGR - 3Y - %	CAGR - 6Y - %
Revenue	19.2	24.2	24.9	30.9	38.7	43.2	49.5	52.8	50.7	56.3	62.0	73.8	72.6	68.5	91.2	114.2	117.3	125.8	11.3%	9.3%
EBITDA	2.9	3.0	3.6	4.5	5.2	5.6	6.3	6.9	7.2	8.2	8.9	10.4	9.9	11.7	14.6	15.0	18.4	18.9	8.9%	10.5%
PBT	2.6	2.2	3.0	3.5	3.5	3.7	4.3	4.0	4.2	5.4	6.2	6.3	3.9	6.6	9.9	9.6	12.5	13.1	9.7%	13.0%
PAT	2.0	1.6	2.2	2.5	2.5	2.5	3.1	2.7	3.1	3.9	4.3	4.3	2.7	4.6	7.5	7.1	9.4	9.8	9.5%	14.6%
OCF	1.8	2.2	3.0	3.0	3.3	4.2	5.5	5.8	6.4	7.2	7.3	6.5	8.6	11.2	11.8	11.9	15.1	15.6	9.6%	15.6%
Capex	2.1	2.6	2.9	3.9	3.8	4.0	4.3	4.1	4.2	4.7	4.9	5.4	5.3	5.0	5.8	7.0	8.4	9.5	18.0%	9.7%
Capex as % of Rev	11.2%	10.8%	11.6%	12.6%	9.9%	9.2%	8.7%	7.8%	8.2%	8.3%	7.9%	7.4%	7.3%	7.3%	6.3%	6.1%	7.2%	7.5%		
Capex as % of EBITDA	74.2%	88.6%	81.2%	87.6%	74.1%	71.4%	68.8%	60.2%	57.5%	56.7%	54.9%	52.5%	53.3%	42.8%	39.6%	46.8%	46.0%	50.3%		
Capex as % of OCF	122.5%	120.7%	97.0%	128.7%	117.1%	94.1%	78.0%	70.8%	64.9%	64.6%	67.4%	83.4%	61.4%	44.4%	48.8%	59.2%	55.8%	60.9%		
Capex as % of PBT	81.2%	117.9%	95.4%	112.5%	109.5%	109.1%	100.5%	104.4%	98.6%	86.4%	78.8%	86.8%	134.8%	76.1%	58.4%	73.4%	67.6%	72.7%		
OCF/EBITDA (%)	61%	73%	84%	68%	63%	76%	88%	85%	89%	88%	82%	63%	87%	96%	81%	79%	82%	83%		
Net Debt/Equity (x)	0.39	0.50	0.39	0.47	0.60	0.63	0.65	0.69	0.62	0.59	0.59	0.66	0.66	0.47	0.40	0.42	0.36	0.32		

Source: Ace Equity, Monarch AIF Research, Data set is for top 500 companies by revenues in non-financial space

Our analysis of data for the top 500 non-financial firms showed some interesting findings as listed below: -

1. Net Debt/Equity of India Inc has been continuously coming down in the post Covid period and has now fallen to 0.32x which is the best in last 20 years.
2. The capex outlay has started to accelerate and reached Rs9.5 lakh cr for top 500 non-financial firms with a 3Y CAGR of 18% indicating acceleration in recent years
3. OCF and PBT trajectory of India Inc continues to remain solid and this would allow larger reinvestment and capex led growth opportunities
4. Capex as % of revenue has started to increase in last few years but is still well away from previous peak levels of ~12%

We further divided the data set into two halves (equal set of 250 companies each) and observe that while capex pickup has been consistent across both sets, the earnings growth has been extremely strong for the bottom half set.

Exhibit 7: Key financial metrics of cos ranked 1st to 250th among non-financial firms show encouraging trends on capex and debt/equity

In Lakh Cr	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	CAGR - 3Y - %	CAGR - 6Y - %
Revenue	49.4	46.9	52.2	57.3	68.1	66.9	63.2	84.0	105.2	107.6	115.0	11.1%	9.1%
EBITDA	6.4	6.7	7.7	8.2	9.7	9.2	10.9	13.5	13.7	16.9	17.3	8.5%	10.2%
PBT	3.8	4.0	5.1	5.8	5.9	3.7	6.2	9.2	8.6	11.4	11.9	9.0%	12.4%
PAT	2.5	2.9	3.6	4.1	4.1	2.5	4.4	7.0	6.4	8.5	9.0	8.8%	13.9%
OCF	5.5	6.0	6.8	6.8	6.1	8.0	10.5	11.2	10.9	14.1	14.6	9.3%	15.6%
Capex	3.8	3.9	4.4	4.5	5.0	4.9	4.6	5.3	6.4	7.8	8.7	18.2%	9.6%
Capex as % of Rev	7.8%	8.3%	8.4%	7.9%	7.4%	7.3%	7.3%	6.3%	6.1%	7.2%	7.6%		
Capex as % of EBITDA	59.8%	57.5%	57.4%	54.8%	52.0%	53.0%	42.6%	38.9%	46.7%	45.8%	50.2%		
Capex as % of OCF	69.5%	64.5%	64.6%	66.4%	82.3%	60.8%	44.0%	47.0%	58.7%	54.9%	59.6%		
Capex as % of PBT	102.1%	97.8%	87.1%	77.6%	85.2%	132.8%	75.0%	57.2%	74.4%	68.1%	73.0%		
OCF/EBITDA (%)	86%	89%	89%	83%	63%	87%	97%	83%	80%	83%	84%		
Net Debt/Equity (x)	0.67	0.62	0.59	0.60	0.66	0.67	0.48	0.42	0.45	0.39	0.35		

Source: Ace Equity, Monarch AIF Research, Data set is for top 250 companies by revenues in non-financial space

Smaller companies are growing faster and have very little leverage

Earnings growth from the smaller companies (bottom half set) has been strong and 6Y PBT/PAT CAGR (pre covid FY19 to FY25) stands at ~20%/25%. The Net debt/equity for smaller companies has collapsed to 0.13x as balance sheet health remains solid. *Topline CAGR for last 3Y for the companies in bottom half stood at 14% vs 11% for those in first half. This shows that smaller companies across a wide variety of sectors have started growing strongly and we expect the trend to only get stronger from here.*

Exhibit 8: Key financial metrics of cos ranked 251st to 500th among non-financial firms show encouraging trends on earnings growth and debt/equity

In Lakh Cr	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	CAGR - 3Y - %	CAGR - 6Y - %
Revenue	3.4	3.8	4.1	4.7	5.7	5.6	5.3	7.2	8.9	9.7	10.7	14.2%	11.2%
EBITDA	0.4	0.5	0.6	0.7	0.7	0.7	0.8	1.1	1.3	1.4	1.6	13.8%	14.4%
PBT	0.2	0.3	0.4	0.4	0.4	0.2	0.4	0.7	0.9	1.1	1.1	17.8%	20.3%
PAT	0.1	0.2	0.2	0.3	0.2	0.1	0.3	0.5	0.7	0.8	0.8	18.1%	24.8%
OCF	0.3	0.4	0.4	0.5	0.4	0.6	0.7	0.7	0.9	1.0	1.0	14.6%	15.1%
Capex	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.8	15.5%	11.2%
Capex as % of Rev	8.4%	7.6%	6.6%	8.2%	7.4%	7.0%	6.9%	7.2%	6.7%	7.0%	7.4%		
Capex as % of EBITDA	66.2%	57.4%	46.8%	56.3%	60.2%	58.0%	45.3%	48.7%	47.7%	48.1%	50.9%		
Capex as % of OCF	91.4%	70.1%	64.8%	80.6%	99.1%	69.8%	50.1%	78.8%	66.1%	67.5%	80.7%		
Capex as % of PBT	151.8%	111.0%	76.3%	96.6%	111.6%	162.6%	93.4%	74.1%	64.7%	62.3%	69.9%		
OCF/EBITDA (%)	72%	82%	72%	70%	61%	83%	91%	62%	72%	71%	63%		
Net Debt/Equity (x)	0.87	0.57	0.61	0.54	0.66	0.66	0.37	0.21	0.12	0.16	0.13		

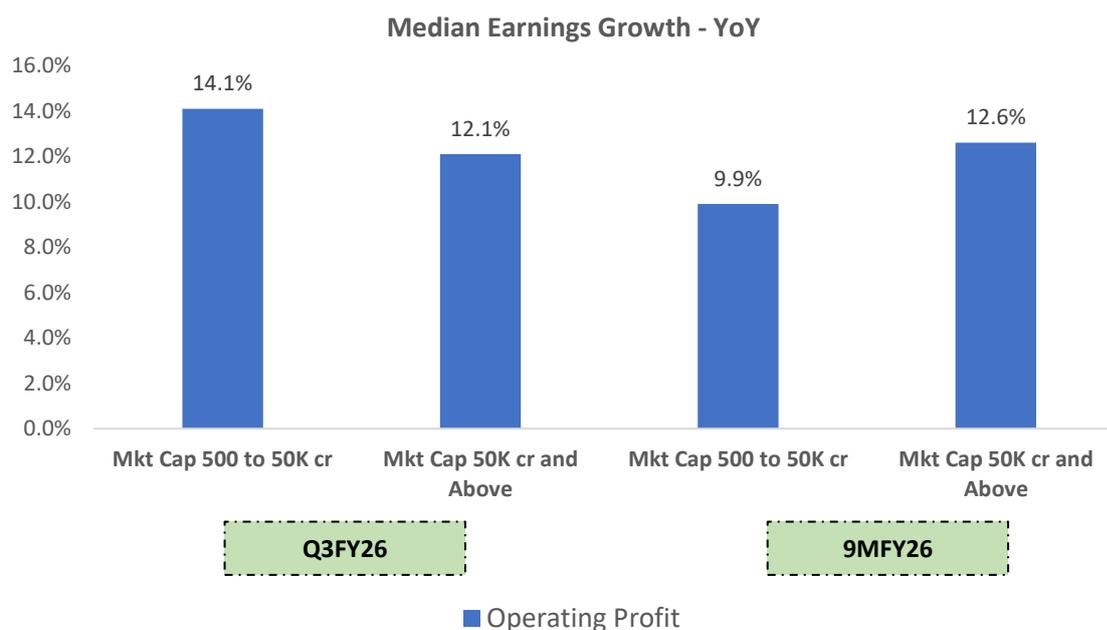
Source: Ace Equity, Monarch AIF Research, Data set is for 251st to 500th companies by revenues in non-financial space

We believe that series of reforms undertaken by Govt post Covid (PLI schemes, Income Tax cuts, GST rationalisation) and strong focus of corporates in prioritising balance sheet health has resulted in setting a solid base for growth ahead. This would be led by improved reinvestment as demand outlook stabilises and support from Govt through reforms continues. We see the recent pick-up in capex by India Inc as durable and the momentum has sustained in H1FY26. India continues to remain one of the few markets with a sizeable domestic market (led by demographic dividend and aspirational population) and global cost competitiveness (led by availability of cheap yet tech focused labour force). India has also been able to control its twin deficits (fiscal and current account) with Govt and RBI combining well which provides hedge against large global shocks. We see corporate India as extremely well placed to re-leverage and expand its balance sheet which would lead to earnings growth and upcycle in the economy ahead. The recent pick-up in credit growth to 14%+ (as per latest RBI bulletin) points towards this.

Earnings growth showed improvement in Q3FY25, acceleration likely in coming quarters

The earnings growth had slowed down in late FY25 and H1FY26 but has seen pickup in Q3FY26. Median operating profit growth for all companies in 500cr to 50k cr mcap bucket has seen 14% YoY increase in Q3 while the companies above 50k cr mcap saw 12% YoY increase. PAT growth in Q3 was impacted due to labour code provisioning. With sustenance in domestic demand and improved outlook for exports post announcements of recent trade deals with US and EU, we expect the earnings growth to show further improvement in Q4FY26 and earnings upgrades could follow through in FY27E.

Exhibit 9: Q3FY25 Median Earnings Growth (YoY) has been in 9-11% range



Source: Screener, Monarch AIF

C: Rate cuts -- Lower rates provide fuel for smaller companies – Quick look at past rate cut cycles

RBI has executed rate cuts of 125bps from the peak and market has remained sideways during the rate cut period. *We analysed past rate cut cycles in last 25 years and noted that after every rate cut cycle involving more than 100bps, the midcap and smallcap indices make a sharp recovery in the subsequent years. The absolute returns on 2 year basis post every large rate cut cycle has been very strong across different economic and macro conditions in each cycle (Refer Exhibits 10 & 11).*

Exhibit 10: Returns of NIFTY Midcap 100 Index during and after rate cut cycle

Easing Cycle Period		Repo Rate		No of Days	Return During Easing Period	Return Post Easing	
Start Date	End Date	Start of Cycle	End of Cycle			1Y	2Y
18-10-2001	25-08-2003	8.50%	4.50%	676	117.3	40.4	137.5
28-07-2008	21-04-2009	9.00%	4.75%	267	-30.7	105.3	113.9
24-10-2011	03-05-2013	8.50%	7.25%	557	13.1	11.8	60.7
14-01-2015	05-10-2016	8.00%	6.00%	630	27.4	14.2	1.4
06-02-2019	22-05-2020	6.25%	4.00%	471	-24.2	100.6	120.0
06-02-2025	05-12-2025	6.25%	5.25%	302	13.3	??	??

Source: Bloomberg, SEBI, Monarch AIF

Exhibit 11: Returns of NIFTY Smallcap 100 Index during and after rate cut cycle

Easing Cycle Period		Repo Rate		No of Days	Return During Easing Period	Return Post Easing	
Start Date	End Date	Start of Cycle	End of Cycle			1Y	2Y
18-10-2001	25-08-2003	8.50%	4.50%	676		-8.5	91.8
28-07-2008	21-04-2009	9.00%	4.75%	267	-44.5	99.1	105.3
24-10-2011	03-05-2013	8.50%	7.25%	557	-5.0	21.8	68.7
14-01-2015	05-10-2016	8.00%	6.00%	630	21.0	21.3	-7.7
06-02-2019	22-05-2020	6.25%	4.00%	471	-35.7	136.0	137.2
06-02-2025	05-12-2025	6.25%	5.25%	302	2.6	??	??

Source: White Oak MF, Monarch AIF

Solid returns from SMIDs post rate cut cycle are no coincidence and are generally driven by one or more of the below factors:-

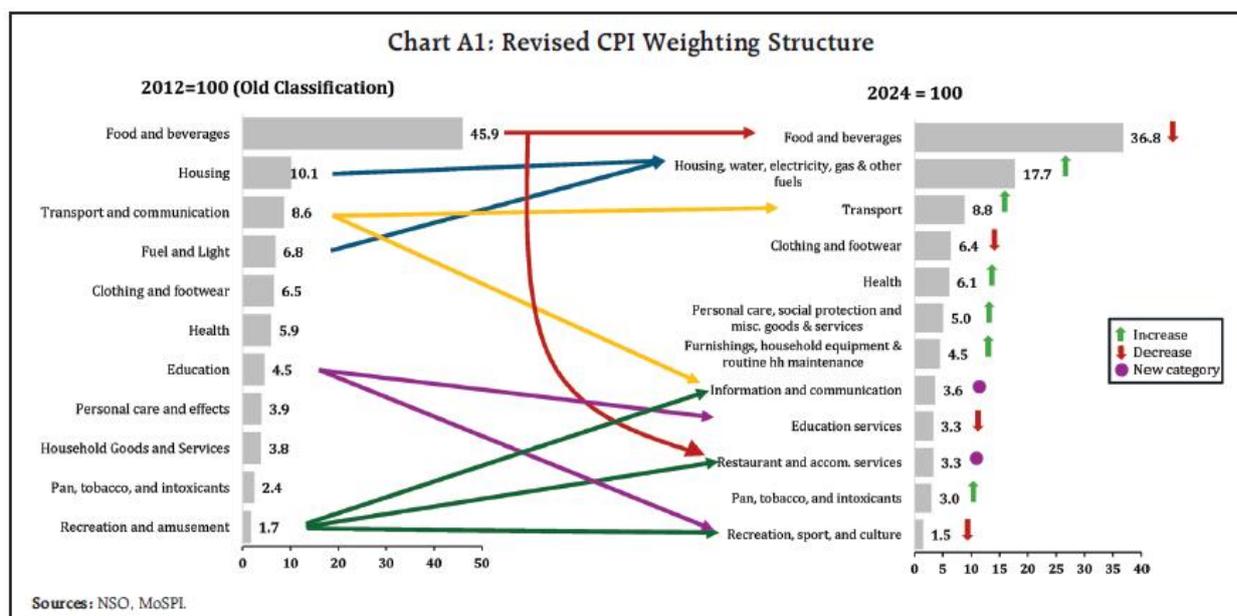
1. Rate cuts help spur growth in the economy and SMIDs tend to benefit better from the same and witness operating leverage benefits leading to better margins and bottomline growth in the post rate-cut period
2. Rate cuts help reduce the interest costs and allow SMIDs to re-leverage and take up debt at a lower cost which supports growth
3. Higher growth delivery leads to re-rating but the re-rating magnitude differs from cycle to cycle and starting valuations matter

We believe that in the current rate cut cycle the starting valuations for SMIDs were higher (during early CY25) but after a broad-based correction in last 18 months which has been more pronounced at individual stock level vs the headline indices, the valuations are now more reasonable. We expect SMIDs to witness bounce back in topline growth and acceleration in earnings during FY27 & FY28 which in turn would support returns. *We believe that markets are providing lucrative entry points in several stocks after almost five years and active stock selection with proper risk management can lead to attractive outcomes in the coming years.*

New CPI series maiden inflation reading at 2.8% well within RBI target range, lower rates can sustain

On February 12, 2026, the National Statistics Office (NSO) released the new CPI series with an updated base (2024=100) replacing the previous base year (2012=100) along with year-on-year (y-o-y) inflation data for January 2026 which stood at 2.8%. The weight reference period for the new base year is based on the Household Consumption Expenditure Survey (HCES) 2023-24, reflecting contemporary consumption patterns and structural economic changes. The weight of CPI core (excluding food and fuel) increases from 47.3% to 57.9%.

Exhibit 12: Revised CPI weighting structure gives more weight to Core CPI



Source: Expert Group Report on Comprehensive Updation of Consumer Price Index, Ministry of Statistics and Programme Implementation, Government of India (January 2026).

Source: RBI Bulletin Feb'26, Monarch AIF

Exhibit 13: Jan 2026 inflation at 2.8% YoY based on new CPI series

S. No	Divisions	Inflation (per cent)
1	Food and beverages	2.1
2	Pan, tobacco and intoxicants	2.9
3	Clothing and footwear	3.0
4	Housing, water, electricity, gas and other fuels	1.5
5	Furnishings, household equipment and routine household maintenance	1.4
6	Health	2.2
7	Transport	0.1
8	Information and communication	0.2
9	Recreation, sport and culture	2.3
10	Education Services	3.4
11	Restaurants and accommodation services	2.9
12	Personal care, social protection and miscellaneous goods and services	19.0
13	Core (Excluding Food and Fuel)	3.4
14	Core excluding precious metals	1.9

Source: NSO.

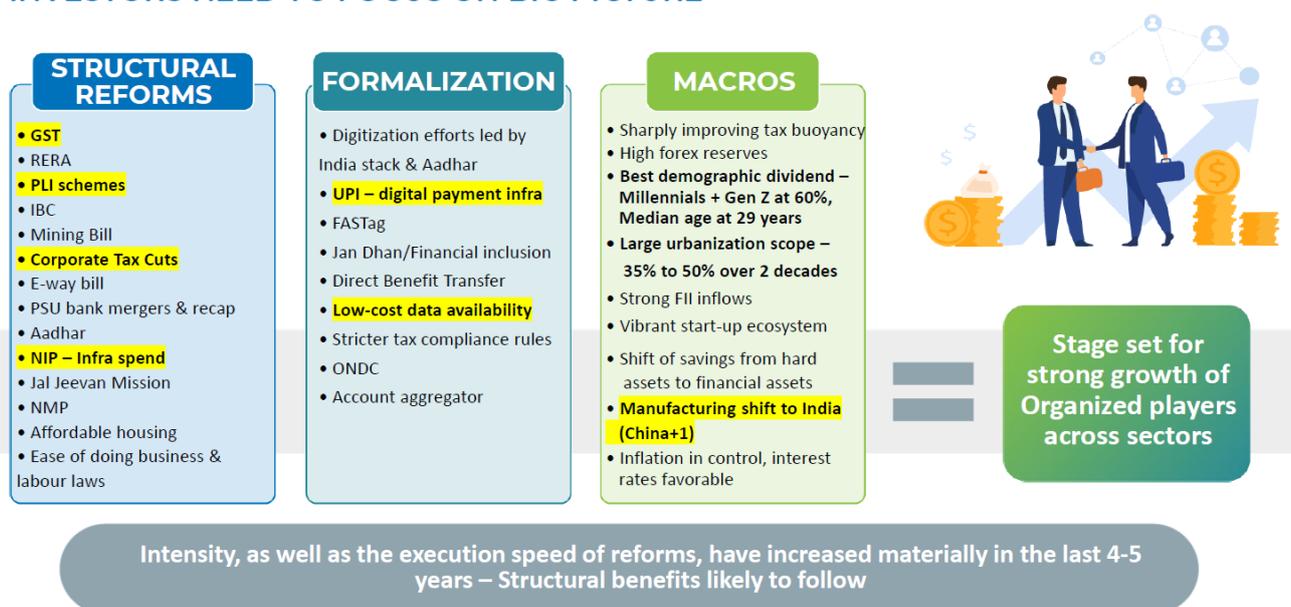
Source: RBI Bulletin Feb'26, Monarch AIF

D: Reforms -- Series of reforms would create multiplier effect in the long run, economic activity is improving

Govt has undertaken several reforms in the last 10 years but the pace and intensity of reforms have significantly increased in recent times with large income tax cuts and GST cuts executed in last 12 months which provide significant support to household balance sheets. We see a strong springboard for growth for organized players across sectors and expect structural benefits of the reforms to flow down to the economy in coming years.

Exhibit 14: Reforms have set the stage for strong growth from organised players

REFORMS HAVE TRANSFORMED INDIA'S OUTLOOK INVESTORS NEED TO FOCUS ON BIG PICTURE



Source: Govt, Monarch AIF

Exhibit 15: The stimulator for domestic economy has been significant

India Has Stimulated Domestic Economy



- **Money in the pocket of Citizens**
 - Income Tax Rebate – Rs 1 lakh Cr
 - Ban on Gaming ~ Rs 1 Lakh Cr
 - GST Cut – Rs 48,000 Cr (FY26) & Rs 96,000 Cr (FY27)
 - Bottom of Pyramid- Rs 96000 Cr (FY 26) & Rs 192,000 Cr (FY 27)
 - Interest rate cut – Rs 1.87 Lakh Cr
 - The Viksit Bharat - Rozgar Guarantee (Gramin) Act, 2026 – Rs 39,000 Cr
 - Labor Code
 - 8th Pay commission – Rs 2.4 Lakh –Rs 3.2 Lakh Cr
- Trade Deal with EU, US , New Zealand and Other Countries
- 100% FDI in Insurance / shanti for nuclear / labour laws liberalisation / MSME and Ease of Doing Business

Source: Kotak MF Equity Market Outlook, Monarch AIF

Economic activity is pointing towards sustained buoyancy

Domestic economic activity has seen improvements post GST cuts and most indicators have started flashing green from Nov'25/Dec'25 onwards. PMI's have remained strong and eight core industry growth index showed marked improvement in Dec. Services-related indicators also remained in green but how the data moves in coming months would be crucial signal for confirmation of growth.

Exhibit 16: Industrial growth indicators continue to show strength

Table III.4: High Frequency Indicators for Industry Remained Strong

Indicator	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
IIP-Headline	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.5	7.2	7.8	
IIP Manufacturing	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	2.0	8.5	8.1	
IIP Capital Goods	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.5	5.4	2.1	10.1	8.1	
PMI Manufacturing	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4
PMI Export Order	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1	56.5	54.7	54.1	54.0	54.1
PMI Manufacturing: Future Output	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5	64.8	62.3	57.1	56.9	56.4
Eight Core Index	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	-0.1	2.1	3.7	
Electricity Generation: Conventional	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.8	-10.6	-5.0	4.3	1.9
Electricity Generation: Renewable	31.9	12.2	25.2	28.0	18.2	28.7	26.4	22.7	16.4	21.4	22.9	18.0	
Automobile Production	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1	10.8	-2.8	22.3	37.1	15.0
Passenger vehicle production	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1	16.1	9.8	22.8	23.1	5.6
Tractor production	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4	23.0	13.0	37.5	57.9	14.6
Two-wheelers production	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10.0	9.8	-5.6	20.9	39.9	16.1
Three-wheelers production	16.2	6.5	6.0	4.1	16.9	8.6	24.0	15.8	15.9	15.9	55.4	39.6	33.2
Crude steel production	7.4	6.0	8.5	9.3	11.0	12.6	13.8	12.8	13.7	8.9	10.8	5.3	4.1
Finished steel production	6.7	6.7	10.0	6.6	7.0	10.9	13.8	13.8	14.0	7.2	11.8	2.0	3.2
Import of capital goods	15.5	-0.5	8.6	24.5	15.7	3.4	13.3	0.2	12.7	8.6	13.1	13.2	7.2


 <<Contraction ----- Expansion>>

Source: RBI Bulletin Feb'26, Monarch AIF, Note-all indicators show YoY growth except PMI

Exhibit 17: Services related indicators also showing uptick

Table III.5: Services Sustained its Healthy Growth

Indicator	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
PMI Services	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.5
International Air Passenger Traffic	11.1	7.7	6.8	13.0	5.0	3.4	5.5	7.7	7.3	9.7	7.5	6.0	6.8
Domestic Air Cargo	6.9	-2.5	4.9	16.6	2.3	2.6	4.8	7.1	2.8	-2.3	20.5	4.3	
International Air Cargo	7.1	-6.3	3.3	8.6	6.8	-1.2	4.2	4.5	2.3	-2.3	12.7	12.6	
Port Cargo Traffic	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5	11.5	11.9	14.5	12.8	7.6
Retail Commercial vehicle sales	8.2	-8.6	2.7	-1.0	-3.7	6.6	0.2	8.6	2.7	21.1	17.0	24.6	15.1
Steel Consumption	9.0	10.9	13.6	6.0	8.1	9.3	7.3	10.0	8.9	2.4	6.0	3.4	
Cement Production	14.3	10.7	12.2	6.3	9.7	8.2	11.6	5.4	5.0	5.2	14.6	13.5	


 <<Contraction ----- Expansion>>

Source: RBI Bulletin Feb'26, Monarch AIF, Note-all indicators show YoY growth except PMI

Domestic economic activity had seen some slowdown in H1FY26 but pickup is seen from Nov 2025 onwards. Income tax cuts, GST cuts and upcoming 8th pay commission would further support consumption and economic activity going ahead in our view.

Exhibit 18: Indicators of overall economic activity show mixed trend

Table III.1: Overall Economic Activity remained Resilient

Indicator	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
GST E-Way Bills	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0	8.2	27.6	23.5	15.8
GST Revenue	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	3.6	6.1	6.2
Toll Collection	14.8	18.7	11.9	16.6	16.4	15.5	14.8	16.1	13.8	4.6	2.9	0.4	-1.8
Electricity Demand	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.5	-5.8	-0.6	6.5	4.5
Petroleum Consumption	3.0	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.0	-1.5	2.8	5.3	2.9
<i>Of Which</i>													
Petrol	6.7	5.0	5.7	5.0	9.2	6.8	5.9	5.5	8.0	7.4	2.6	7.1	5.6
Diesel	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.5	-0.3	4.7	5.0	3.1
Aviation Turbine Fuel	9.4	4.2	5.7	3.9	4.4	3.3	-2.3	-2.9	-0.8	2.1	5.4	0.3	4.7
Digital Payments - Volume	33.0	26.7	30.8	30.0	29.2	28.3	30.9	31.1	28.1	21.5	30.2	26.8	22.3
Digital Payments - Value	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.3	13.4	8.8	14.7	15.2	11.5

<<Contraction ----- Expansion>>

Source: RBI Bulletin Feb'26, Monarch AIF, Note-all indicators show YoY growth

Exhibit 19: Auto demand has bounced back post GST cuts and is sustaining well

Table III.2: High Frequency Indicators - Upbeat Demand Conditions

	Indicator	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Urban demand	Domestic air passenger traffic	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-0.5	-2.5	3.5	7.0	-4.9	2.9
	Retail passenger vehicle sales	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9	5.8	10.7	19.7	26.6	7.2
Rural demand	Retail automobile Sales	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8	5.2	40.5	2.1	14.6	17.6
	Retail tractor sales	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0	30.1	3.6	14.2	56.5	15.8	22.9
	Retail two-wheeler sales	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2	6.5	51.8	-3.1	9.5	21.4

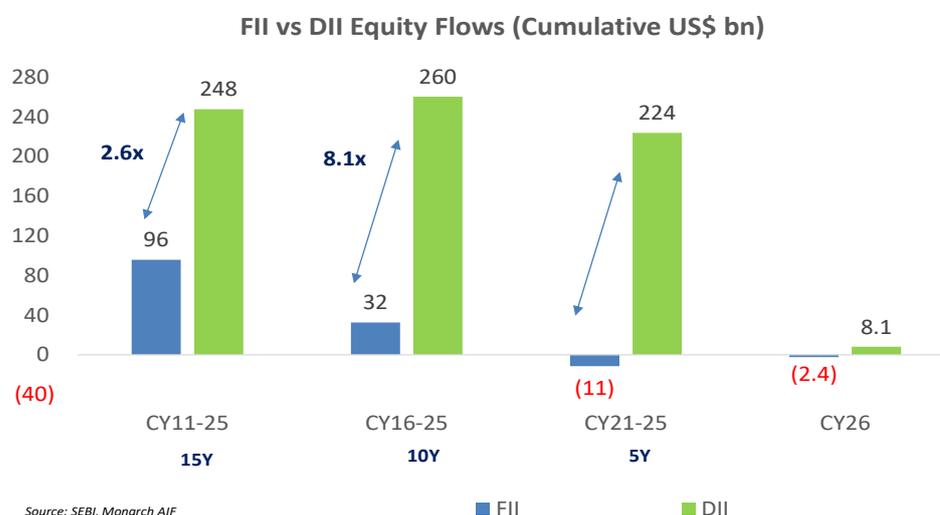
<<Contraction ----- Expansion>>

Source: RBI Bulletin Feb'26, Monarch AIF, Note-all indicators show YoY growth

FII's have been large sellers, reforms and resilient earnings likely to get them back

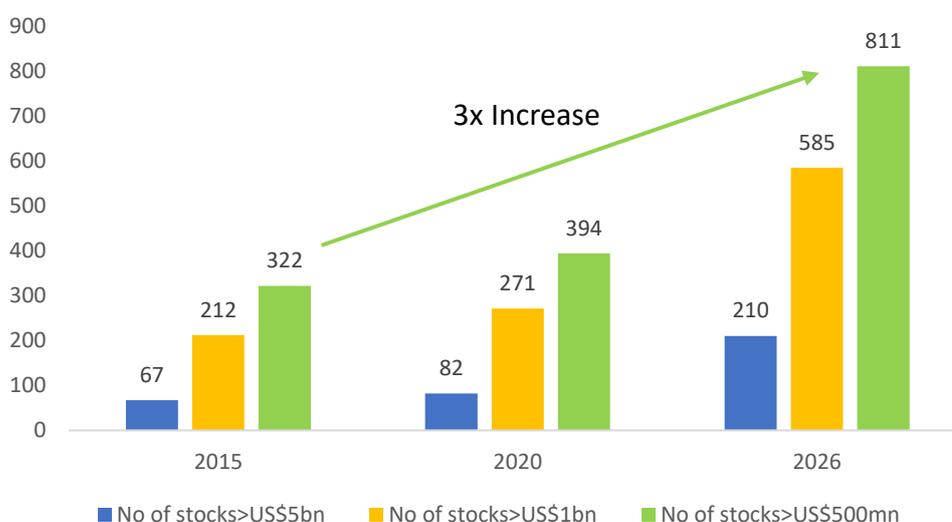
FII flows have been insignificant in the last 5-10 years led by outflow in last few years due to relentless selling by FIIs. *On a cumulative basis the net FII inflows stand at only US\$32bn/96bn for the last 10Y/15Y basis till CY25 end while last 5Y flows stood negative US\$(11)bn (Refer Exhibit 20).* While the media and market participants tend to give lot of importance to FII flows but these are extremely insignificant investment amounts for the Indian markets which has current Mcap of ~US\$5 tn. Robust DII inflows have absorbed FII selling and provided the much needed depth for the Indian markets as the listed universe continues to mature and expand in India. FII stake in Indian listed stocks has fallen below 17% (Dec'25 end) from highs of 22.5% in last 10 years. We don't expect FII inflows to remain at such insignificant scale in the next 5Y/10Y and hence the net cumulative FII inflow should only increase from current subdued levels. We suspect that FII ownership in a growing market like India with good fundamentals may not fall below a certain threshold level. Another important consideration for FII's making a comeback would be increased depth and breadth of the Indian market in last 5 years which now provides a large bucket of investible liquid companies on the exchanges (more than 580 cos available at >US\$1bn mcap and more than 800 cos available at >US\$500mn mcap).

Exhibit 20: FII cumulative inflows have been modest, ownership at decadal low



Source: SEBI, Monarch AIF

Exhibit 21: Breadth of Indian markets continues to expand, can pave FII comeback



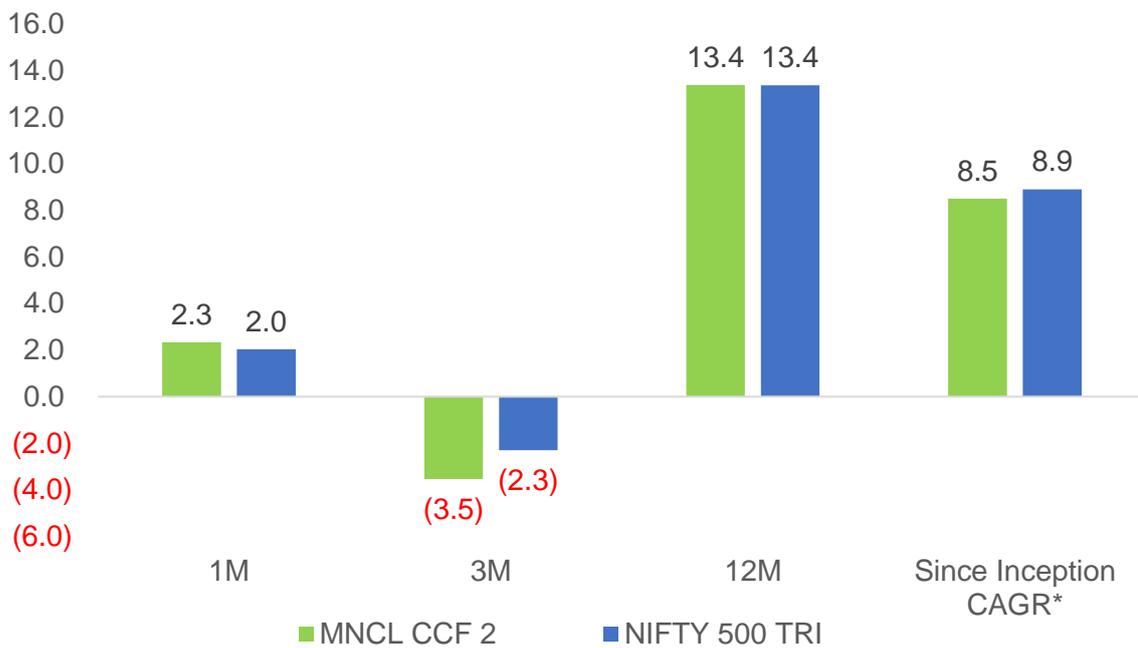
Source: NSE, Monarch AIF, Mcap buckets categorised based on 1st Jan price levels for each of 2015,2020 and 2026

F - Portfolio performance

MNCL Capital Compounder Fund 2

MNCL CCF 2 went live in April 2024 and the current AUM stands at ~Rs800cr. At the end of 20 Feb 2026, fund was 99% invested into equities and the balance was held in liquid/cash instruments. The fund mix in terms of large cap/midcap/small cap stocks stood at 22%/0.0%/78% as per SEBI classification. The portfolio has 25 stocks and FY27E P/E stands at 21.2x with an expected EPS CAGR of 28.1% over FY25-27E for the portfolio on an aggregate basis. The portfolio continues to be tilted towards quality smallcaps trading having solid growth prospects and available at attractive valuations.

Exhibit 22: Portfolio Performance (as at 20 Feb 2026 - % change)

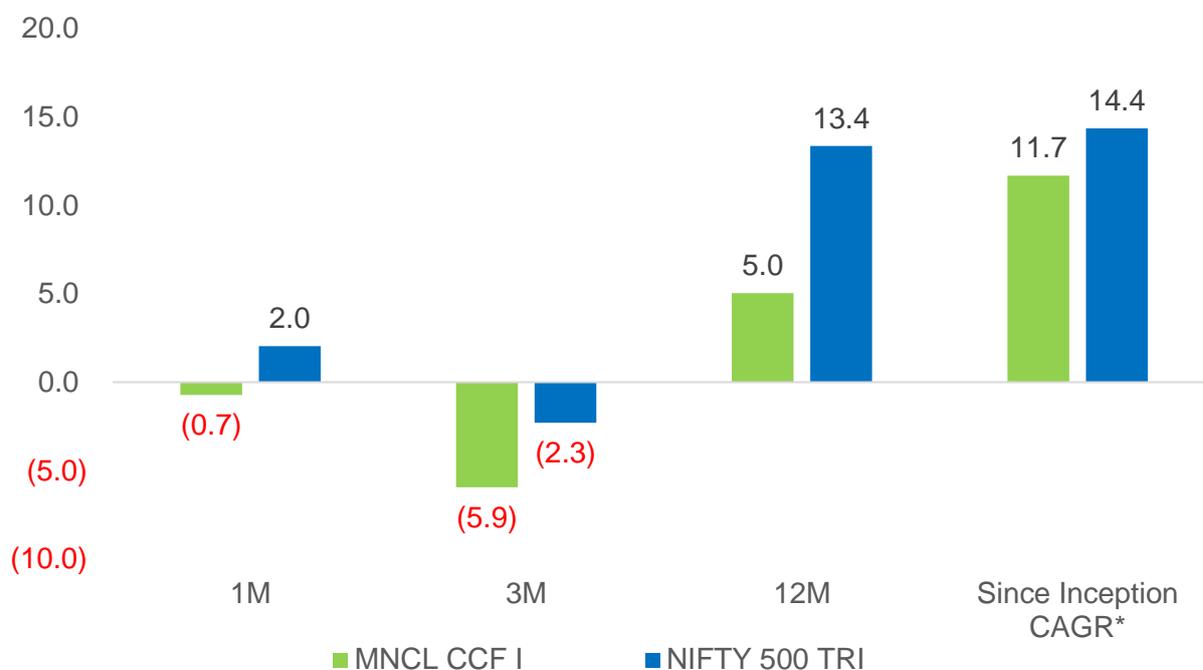


Source: Yes Bank FA, Monarch AIF, Note: i) *Returns since inception are on CAGR basis, Inception date is 22 April 2024, ii) Returns as on 20 February 2026, iii) Returns are net of all fees and expenses but on pre-tax basis, iv) NIFTY 500 total return index considered for comparison, Please refer the disclaimer

MNCL Capital Compounder Fund - I

MNCL CCF – I went live in August 2022 and current AUM stands at ~Rs115cr. At the end of 20 Feb 2026, fund was invested 95% into equities and the balance 5% was held in liquid/cash instruments. The fund mix in terms of large cap/midcap/small cap stocks stood at 27%/0%/68% as per SEBI classification. The portfolio has 16 stocks and FY27E P/E stands at 21.4x with an expected EPS CAGR of 29.2% over FY25-27E for the portfolio on an aggregate basis.

Exhibit 23: Portfolio Performance (as at 20 Feb 2026 - % change)



Source: Kotak Bank FA, Monarch AIF, Note: i) *Returns for 24M & since inception are on CAGR basis, Inception date is 23 Aug 2022, ii) Returns as on 20 February 2026, iii) Returns are net of all fees and expenses but on pre-tax basis, iv) NIFTY 500 total return index considered for comparison, Please refer the disclaimer

We once again thank you for your investment and trust in Monarch AIF. We immensely value your collective belief in our ability to make the optimal investment decisions on your behalf through our fund.

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We would be happy to hear your feedback and/or any queries.

Warm Regards
 Abhisar Jain, CFA
 Head & Fund Manager
 Monarch AIF

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