

Market Risk Premium

An assessment of equity risk premium
in India (January 2026 and onwards)

Issue month: January 2026



Key findings of our study are:

- Recommended India ERP (for January 2026 and onwards) is estimated to remain unchanged at 7.00%
- Historical ERP (from 2000 to 2025) computed using the arithmetic mean is 7.4%
- Implied ERP using the dividend and earnings discount model is in the range of 6.6% to 6.8%
- Default spread BBB (stable) rated sovereign bonds adjusted for US CDS was 60 basis points in December 2025, indicating ERP of 7%

Foreword

We are pleased to issue the **8th edition of the India Equity Risk Premium study (2026)**, which analyses the risk premium to be considered when determining the cost of equity using the capital asset pricing model.

The study focuses on quantitative analysis to derive the current equity risk premium under different approaches including a) historical premium, b) survey approach, c) country bond default spread approach, d) country bond default spread approach adjusted for relative country risk, e) domestic market volatility relative to a developed market and f) implied equity risk premium.

Based on current market conditions and considering both past performance and future expectations, we recommend India ERP at 7.00% (6.5% and 7.5% being the lower and upper limits of the range, respectively), effective **January 2026**.

Given the growth slowdown, geopolitical tensions, and tariff-related risks, it's plausible that investors demand a premium on the higher side of the range despite lower bond yields.

We hope you find the results of our study of interest and value.



<http://www.incwert.com>



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About Authors

Punit brings with him over two decades of experience in sell-side and buy-side advisory across equity and fixed income. He has worked on several bespoke valuations and lent research support to dozens of asset managers/investment bankers/brokers/consulting firms across the globe.

In the fixed-income segment, he worked as a fundamental analyst across the capital structure: leveraged loans, distressed debt, insolvency/bankruptcy situations and high-yield asset classes. He has also helped sell-side & consulting firms increase their market presence by coming up with thematic and white-label papers.

He started his career as an analyst with Zacks Investment Research, was a part of a UK-based CLO manager's research team, and then moved on to set up research practices for a couple of startups before becoming the Global Head of Research at one of the largest BPO/KPO globally and finally co-founded Incwert.

He won 40 under 40 Alternative Professionals Awards 2020 by AIWMI.

Sunit has experience of over two decades in valuation advisory, transaction advisory and M&A advisory.

As a valuation professional, Sunit has undertaken valuations of businesses for transactions, fundraising, strategic decision-making, and corporate restructuring. He has also undertaken valuations of intangible assets, financial instruments, option valuation, litigation support, private equity portfolio valuation and valuation for reporting purposes such as purchase price allocation and impairment test under IFRS and Indian GAAP.

In past he has worked with KPMG India (as Associate Director), BDO, Grant Thornton, KPMG UK, and DBDBS a boutique M&A advisory firm. He has also been an active speaker on valuation at the National Institute of Finance Management (NIFM).

Professor Divya Aggarwal holds a Ph.D. in Finance from XLRI – Xavier School of Management. She has completed The Fellow Programme in Management from XLRI which is a full-time, residential doctoral programme. She is a Company Secretary (the Institute of Company Secretaries of India) and has done her Bachelors in Finance & Investment Analysis from the Delhi University. Her corporate work stints include working in corporate finance roles with McKinsey Knowledge Centre, KPMG, and investing banking roles with Avendus Capital. Before embarking on an academic career, she was working as an AVP in the financial planning team at SwissRe, a leading reinsurance firm.

In 2020 she got featured in the AIWMI list of "India's top 100 women in finance 2020" under the progressing category. She is a recipient of many awards and scholarships including "Peter Drucker essay competition 2014", "The Case Centre scholarship" and best paper awards at several national conferences.

Her research work has been published in international journals like the Journal of Behavioural and Experimental Finance, Research in Economics and Qualitative Research in Financial Markets. She has presented her research work in several national conferences, like Pan-IIM, ISDSI, etc., along with international conferences such as biannual meetings of SPUDM.

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ABOUT INCWERT

Incwert focuses on rendering services in the area of valuations and financial research. As a leading valuation advisory firm in India, it supports clients across life cycles (from early-stage to mature) on valuations concerning the transaction, tax and financial reporting. Incwert is trusted by the clients for its incisive research which forms the basis of credible advice. The company also offers offshore valuation support services which include setting up valuation models and report writing.

Incwert's client footprint is across cities & metros in India and globally in the US, UK, Singapore and middle-east. Incwert has offices in Delhi (NCR) and Mumbai, along with Kolkata and Surat where it has affiliate/network partners.

In India, Incwert is registered with The Insolvency and Bankruptcy Board of India as a Registered Valuer Entity.

Our expertise includes valuation for financial reporting, tax & regulatory compliances and transaction support



Business valuation
Purchase price allocation
Impairment testing



Complex valuations which includes the following:

Contingent consideration



Convertible securities

Expected credit loss (ECL)



Cross-country interest rate swaps

Financial Guarantee Contracts



Embedded derivatives

Hybrid securities



Forward agreements

Non-controlling interests



Loan portfolios

Swaps



Right of Use (ROUs)

Commodities



Warrants

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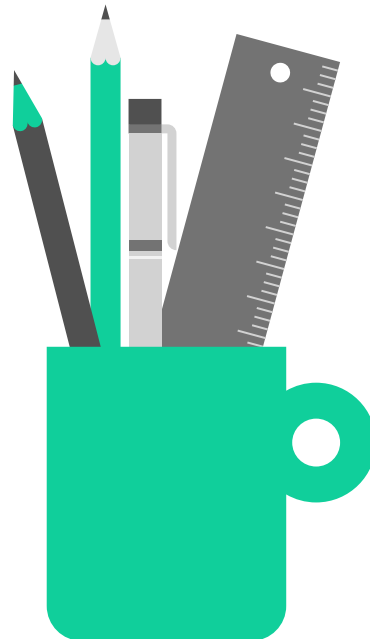
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We thank Jayant Surana and Mansi Shukla of Incwert for their assistance in assembling the exhibits presented herein, and other Incwert team members for their keen insights and assistance with the quality check.

Impact of macro-economic conditions on our assessment

Interest rates



Inflation



GDP



Yield on G-Sec



Market index



Consumer demand



VIX index



For the 12 months ended December 2025, Indian equity markets demonstrated valuation resilience even as earnings growth remained relatively subdued.

The Nifty 50 index increased from 23,645 to 26,130, implying capital appreciation of approximately 11% and a total shareholder return of ~12% over the period. In contrast, aggregate profit after tax (PAT) of index constituents is expected to remain broadly unchanged between FY25 and FY26. The observed expansion in market capitalisation in the absence of commensurate earnings growth indicates that returns during the period were predominantly driven by multiple re-rating (Dec 2024 P/E ratio: 21.79; Dec 2025 P/E ratio: 22.75) rather than earnings accretion, reflecting easing discount rates and sustained investor risk appetite.

From a macro-financial standpoint, the average yield on the 10-year Government of India bond moderated to ~6.5% during the review period compared with ~7.0% in the preceding year. The reduction in the risk-free rate provided valuation support to equities and mitigated the effect of muted earnings growth on market pricing.

The forward-looking implied Equity Risk Premium (ERP) for India is expected to remain broadly stable, with a parallel decline in sovereign yields and investor return. The stability in implied ERP suggests that investors have not materially altered their long-term return expectations from Indian equities, notwithstanding short-term earnings softness.

Conversely, the historical ERP has moderated from approximately 7.7% to ~7.4%. This decline is primarily attributable to the incorporation of 2025 realised equity returns (~12%), which remain below the long-term historical average return of approximately 16.5% for the Nifty 50. The addition of this relatively low-return observation to the rolling historical dataset has mechanically compressed the trailing ERP estimate.

Overall, the current ERP construct for India reflects a market equilibrium characterised by (i) stable forward-looking risk premia anchored by declining risk-free rates and steady investor return expectations, and (ii) a modest normalisation in historical ERP driven by recent realised returns below long-term averages. These dynamics form the basis for the January 2026 and forward assessment of equity risk premia in the Indian context.

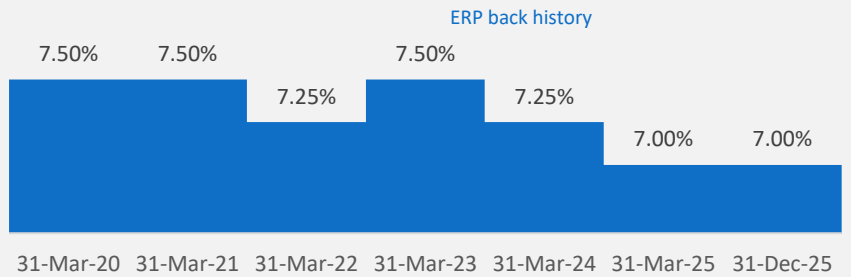
It's important to note that the equity risk premium can vary over time and across different market conditions. It is influenced by a complex interplay of factors and is subject to market participants' perceptions and expectations of risk and return.



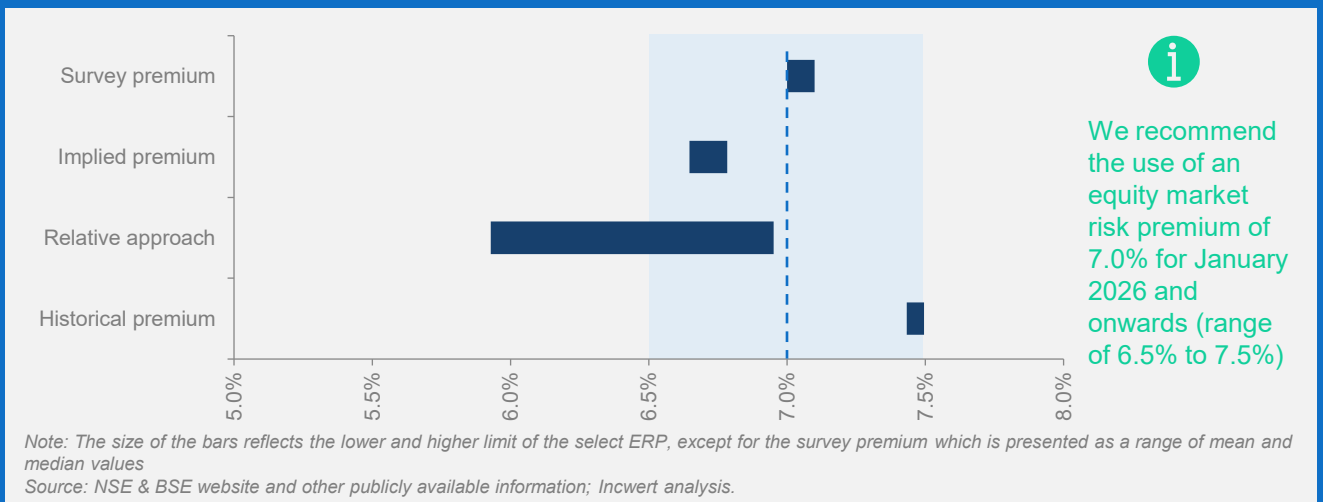
What should be the relevant risk premium in India?

There is no direct or objective answer to this question; investors may have to ascertain their risk appetite depending on the purpose of the investment. Since strategic investors tend to focus on long-term synergistic benefits, they would consider a long-term horizon and weigh benefits against their internal hurdle rate or the desired return on investment (RoI) while evaluating any expansion plan or business acquisition. On the contrary, time-sensitive investments by private equity investors appear to be more closely linked to the recent market performance. The valuation expert may particularly focus on the context of the investment while deciding on the equity market risk.

In the graph below, we present the select outcome of a) Historical premium, i.e. historical returns earned in the past on Sensex and NIFTY50 stock relative to the return on G-sec (10Y) bonds, b) Benchmark premium based on US market equity risk premium, c) Implied premium and d) Survey by Pablo Fernandez, Professor of Finance, IESE Business School



Equity risk premium for the Indian market – January 2026 and onwards



1. Estimation of ERP– historical premium

Overview

This section presents the equity risk premium in India on a historical basis by analysing the data available in the public domain. Our analysis widely relies on the data as available on the recognised stock exchanges (both NSE and BSE) and the Reserve Bank of India (RBI).

Basis for selection of variable in the risk premium function

ERP is computed as the excess return earned from investment in stock over the base return from investment in a risk-free security. In the computation of the ERP, due consideration has been given to the following:

- Selection of market index (BSE Sensex & NIFTY50)
- Selection of risk-free security (G-sec bond, G-sec bills, etc.)
- Selection of bond/bill maturity period
- Selection of observable period (1-year, 5-years, 10-years, etc.)
- Selection of statistical approach – mean (arithmetic/geometric), average, min-max, etc.

Historical returns for India (1991-2025; period ending December)

Period ending December	Total returns (Sensex)	Total returns (NIFTY50)	T.Bills (6-12 mths)	10 yr T.Bonds
1991-2025	18.6%	18.3%	8.0%	9.9%
2001-2025	18.0%	17.7%	6.5%	8.8%
2011-2025	12.1%	12.4%	6.7%	8.1%
2021-2025	13.6%	14.8%	5.9%	6.4%

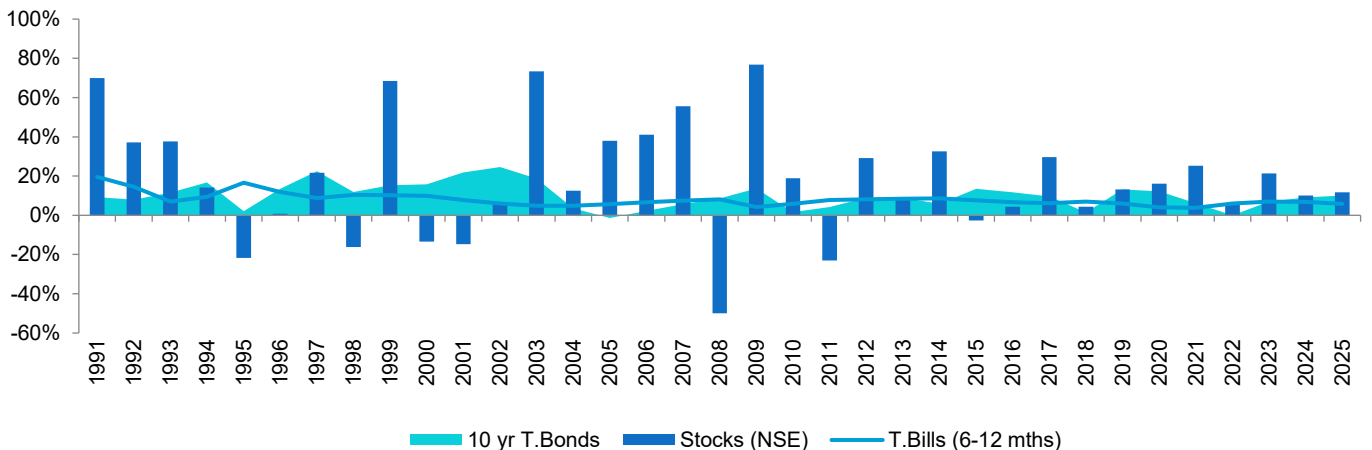
Note: 1) Computation of return presented in the table above is a simple mean of the series of annual returns

2) Annual return on Sensex and NIFTY50 is computed as of December each year.

3) Yield on Subsidiary General Ledger transactions is not available for the period prior to 1996, as such, the weighted average interest rate on central government dated securities and weighted average call money rates have been considered as a proxy for the yield on bonds and treasury bills, respectively.

Source: BSE; NSE; RBI; Incwert analysis.

Annual return during the period 1991 to 2025



Source: NSE; other publicly available information; Incwert analysis.

1. Estimation of ERP– historical premium

Conclusion

Based on analysis of the past data, we observe that the equity market in India has delivered an average return of 18.6% (based on Sensex) and 18.3% (based on NIFTY50) over the period 1991 to 2025, which is significantly higher when compared to the average return on treasury bond (9.9%) or bill (8.0%) over the same period. High equity return, however, comes with a burden of higher volatility of 29% and a wide range in the distribution of returns.

The equity risk premium, calculated as a difference between the average returns on stock (based on Nifty50) and the average returns on treasury bills for the period 1991 to 2025 is 10.4%. The difference between the average returns on stock and average returns on treasury bonds over the period 1991 to 2025 is 8.4%.

Similarly, the equity risk premium based on Sensex is 10.6% and 8.7% over the treasury bill return and the treasury bond return, respectively during the period 1991 to 2025.

The bar considered in our summary assessment uses ERP based on Sensex and NIFTY50 returns over the period 2000-2025

These estimates are subject to noise. Given our market's history of scams (1992 – Harshad Mehta, 2001 – Ketan Parekh) and exposure to global crises (the 2007 sub-prime crisis, the 2011 euro-zone crisis, Covid-19, the Russia-Ukraine war, Israel-Palestine war, India-Pakistan war), as well as periods of economic slowdown, geopolitical tensions, and tariff-related risks, investor unease and fear have often triggered episodes of pronounced volatility.

Our analysis indicates a relatively high standard error of 5.1% and 4.9% in market returns over 10-year G-Sec for Sensex and NIFTY50 respectively, indicating heightened uncertainty around the estimates and warranting cautious interpretation of the findings.

Historical risk premiums tend to rise when markets are buoyant and investors are less risk-averse and fall as markets collapse and investor fears rise

It's backward-looking — it tells you what equity investors *did* earn, not what they *expect*





Cross-sectional view of ERP based on return on Sensex and 10Y G-Sec bonds

From 1991 to 2025 (in per cent)

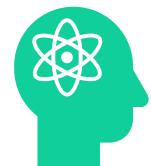
To the end of	From the beginning of																			
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1991	73.9																			
1992	51.9	29.9																		
1993	40.3	23.6	17.2																	
1994	30.6	16.2	9.3	1.4																
1995	20.2	6.8	-1.0	-10.0	-21.5															
1996	14.7	2.9	-3.9	-10.9	-17.0	-12.6														
1997	12.3	2.1	-3.5	-8.7	-12.1	-7.4	-2.2													
1998	7.5	-2.0	-7.4	-12.3	-15.7	-13.8	-14.4	-26.5												
1999	12.1	4.4	0.8	-1.9	-2.6	2.1	7.0	11.5	49.6											
2000	7.4	0.0	-3.7	-6.7	-8.0	-5.3	-3.5	-4.0	7.3	-35.0										
2001	3.3	-3.7	-7.4	-10.5	-12.2	-10.7	-10.3	-12.4	-7.6	-36.3	-37.5									
2002	1.5	-5.1	-8.6	-11.5	-13.1	-11.9	-11.8	-13.7	-10.5	-30.5	-28.2	-18.9								
2003	5.7	0.0	-2.7	-4.7	-5.4	-3.4	-2.1	-2.1	2.8	-8.9	-0.2	18.5	55.9							
2004	6.1	0.9	-1.6	-3.3	-3.7	-1.8	-0.4	-0.2	4.2	-4.8	2.7	16.1	33.6	11.3						
2005	8.7	4.0	2.0	0.8	0.7	2.9	4.6	5.5	10.1	3.5	11.2	23.4	37.5	28.2	45.2					
2006	11.0	6.8	5.1	4.2	4.5	6.8	8.7	10.0	14.5	9.5	16.9	27.8	39.5	34.0	45.4	45.6				
2007	12.8	9.0	7.6	6.9	7.4	9.8	11.8	13.2	17.6	13.6	20.5	30.2	40.1	36.1	44.4	43.9	42.3			
2008	8.8	5.0	3.4	2.5	2.6	4.5	5.9	6.6	9.9	5.5	10.6	17.5	23.5	17.0	18.5	9.6	-8.5	-59.2		
2009	12.0	8.5	7.3	6.6	7.0	9.0	10.7	11.8	15.2	11.8	17.0	23.8	29.9	25.6	28.5	24.3	17.2	4.6	68.4	
2010	12.2	9.0	7.8	7.2	7.6	9.6	11.1	12.2	15.4	12.3	17.0	23.0	28.3	24.4	26.5	22.8	17.1	8.7	42.6	16.9
2011	10.3	7.2	6.0	5.3	5.6	7.3	8.6	9.3	12.1	9.0	13.0	18.0	22.1	17.9	18.9	14.5	8.2	-0.3	19.4	-5.1
2012	10.7	7.7	6.6	6.0	6.3	7.9	9.2	9.9	12.6	9.7	13.4	18.1	21.8	18.0	18.8	15.0	9.9	3.5	19.1	2.7
2013	10.3	7.4	6.3	5.8	6.0	7.6	8.7	9.4	11.8	9.1	12.5	16.7	19.9	16.3	16.9	13.3	8.7	3.1	15.6	2.4
2014	10.9	8.2	7.2	6.7	7.0	8.5	9.7	10.4	12.7	10.2	13.4	17.3	20.4	17.1	17.7	14.7	10.8	6.3	17.2	7.0
2015	9.8	7.1	6.1	5.6	5.8	7.2	8.2	8.8	10.9	8.5	11.4	14.9	17.5	14.3	14.5	11.5	7.7	3.4	12.3	2.9
2016	9.1	6.5	5.5	5.0	5.2	6.5	7.4	7.9	9.8	7.5	10.1	13.3	15.6	12.5	12.6	9.7	6.1	2.1	9.7	1.3
2017	9.5	7.0	6.1	5.6	5.8	7.0	8.0	8.5	10.3	8.2	10.7	13.7	15.9	13.0	13.2	10.5	7.3	3.8	10.8	3.6
2018	9.3	7.0	6.1	5.6	5.8	7.0	7.9	8.4	10.1	8.0	10.4	13.2	15.2	12.5	12.6	10.1	7.1	4.0	10.3	3.8
2019	9.1	6.8	5.9	5.5	5.7	6.8	7.6	8.1	9.7	7.7	10.0	12.6	14.5	11.9	11.9	9.6	6.8	3.8	9.6	3.7
2020	8.9	6.7	5.9	5.5	5.6	6.7	7.5	7.9	9.5	7.6	9.7	12.2	13.9	11.5	11.5	9.2	6.6	3.9	9.1	3.7
2021	9.2	7.0	6.3	5.9	6.0	7.1	7.9	8.3	9.8	8.0	10.0	12.4	14.1	11.8	11.8	9.7	7.3	4.8	9.7	4.8
2022	9.1	7.0	6.2	5.9	6.0	7.0	7.8	8.2	9.6	7.9	9.8	12.1	13.7	11.4	11.4	9.5	7.2	4.9	9.4	4.9
2023	9.2	7.2	6.5	6.1	6.3	7.2	8.0	8.4	9.8	8.1	10.0	12.1	13.6	11.5	11.5	9.6	7.5	5.4	9.7	5.5
2024	8.9	7.0	6.3	5.9	6.1	7.0	7.7	8.1	9.4	7.8	9.6	11.6	13.0	11.0	10.9	9.1	7.1	5.1	9.1	5.1
2025	8.7	6.8	6.1	5.7	5.9	6.8	7.4	7.8	9.1	7.5	9.2	11.1	12.4	10.5	10.4	8.7	6.8	4.8	8.5	4.8

From 1991 to 2025 (in per cent)

To the end of	From the beginning of														
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2011	-27.2														
2012	-4.4	18.4													
2013	-2.4	9.9	1.5												
2014	4.5	15.1	13.4	25.3											
2015	0.1	7.0	3.2	4.0	-17.2										
2016	-1.3	3.9	0.3	-0.1	-12.8	-8.4									
2017	1.7	6.5	4.1	4.8	-2.1	5.5	19.4								
2018	2.2	6.4	4.4	4.9	-0.2	5.5	12.5	5.6							
2019	2.2	5.9	4.1	4.5	0.4	4.8	9.2	4.0	2.5						
2020	2.4	5.7	4.1	4.5	1.0	4.7	8.0	4.2	3.5	4.4					
2021	3.7	6.8	5.5	6.0	3.3	6.7	9.7	7.3	7.9	10.6	16.8				
2022	3.9	6.7	5.6	6.0	3.6	6.6	9.1	7.0	7.3	9.0	11.2	5.7			
2023	4.6	7.2	6.2	6.7	4.6	7.3	9.6	8.0	8.4	9.9	11.8	9.2	12.8		
2024	4.3	6.7	5.7	6.1	4.2	6.6	8.4	6.9	7.1	8.0	8.89	6.3	6.6	0.3	
2025	4.0	6.2	5.3	5.6	3.8	5.9	7.5	6.0	6.1	6.7	7.14	4.7	4.4	0.2	0.1

How to read the table?

The top row of each table specifies the starting year and the left column specifies the ending year. To find any statistic for a given period, find the intersection of start and end dates.



Note: 1) Long horizon equity risk premia is computed as index total returns (Sensex) minus the return on long-term government bonds.

2) Calculations are performed using December-end closing index values.

3) Average returns are computed using the arithmetic mean.



Cross-sectional view of ERP based on return on NIFTY50 and 10Y G-Sec bonds

From 1991 to 2025 (in per cent)

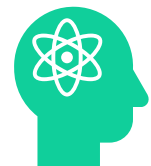
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1997	10.9	2.6	-2.7	-10.0	-12.4	-6.8	-0.7													
1998	6.0	-1.8	-7.0	-13.6	-16.4	-13.9	-14.4	-28.1												
1999	11.2	5.1	1.6	-2.5	-2.5	2.9	8.1	12.5	53.1											
2000	7.2	1.2	-2.2	-6.3	-6.9	-3.6	-1.2	-1.4	11.9	-29.3										
2001	3.2	-2.5	-6.1	-10.1	-11.2	-9.0	-8.3	-10.2	-4.2	-32.9	-36.5									
2002	1.4	-4.0	-7.3	-11.1	-12.1	-10.5	-10.1	-11.9	-7.9	-28.2	-27.7	-19.0								
2003	5.5	0.9	-1.7	-4.5	-4.7	-2.3	-0.8	-0.9	4.6	-7.5	-0.3	17.8	54.6							
2004	5.7	1.5	-0.8	-3.3	-3.4	-1.1	0.4	0.5	5.3	-4.2	2.0	14.9	31.8	9.0						
2005	7.9	4.2	2.3	0.3	0.5	3.0	4.7	5.4	10.2	3.0	9.5	21.0	34.3	24.1	39.3					
2006	9.9	6.5	4.9	3.2	3.7	6.2	8.1	9.1	13.8	8.1	14.4	24.5	35.4	29.0	39.0	38.8				
2007	12.2	9.2	7.9	6.6	7.3	9.9	11.9	13.2	17.8	13.3	19.4	28.8	38.3	34.2	42.6	44.3	49.9			
2008	8.3	5.2	3.7	2.2	2.6	4.6	6.1	6.7	10.1	5.4	9.7	16.3	22.2	15.7	17.4	10.1	-4.3	-58.5		
2009	11.2	8.4	7.2	6.0	6.6	8.8	10.4	11.4	14.9	11.1	15.6	22.1	28.0	23.6	26.5	23.3	18.1	2.3	63.0	
2010	11.5	8.9	7.8	6.7	7.3	9.3	10.9	11.8	15.2	11.7	15.8	21.6	26.7	22.7	25.0	22.1	18.0	7.3	40.2	17.4
2011	9.7	7.1	5.9	4.8	5.2	7.1	8.4	9.0	11.9	8.5	11.9	16.7	20.7	16.5	17.5	13.9	8.9	-1.3	17.7	-4.9
2012	10.1	7.7	6.7	5.6	6.1	7.8	9.1	9.8	12.5	9.4	12.6	17.0	20.7	16.9	17.9	14.8	10.8	3.0	18.4	3.5
2013	9.7	7.3	6.3	5.3	5.7	7.4	8.6	9.1	11.6	8.7	11.6	15.6	18.7	15.1	15.8	12.9	9.2	2.4	14.6	2.5
2014	10.4	8.2	7.2	6.3	6.8	8.4	9.6	10.2	12.6	9.9	12.7	16.4	19.4	16.2	16.9	14.4	11.4	5.9	16.6	7.3
2015	9.3	7.2	6.2	5.3	5.7	7.2	8.2	8.7	10.9	8.2	10.7	14.1	16.7	13.5	13.9	11.4	8.3	3.1	11.9	3.4
2016	8.7	6.6	5.7	4.8	5.1	6.5	7.4	7.9	9.9	7.3	9.6	12.7	14.9	11.9	12.1	9.7	6.7	1.9	9.5	1.9
2017	9.1	7.1	6.2	5.4	5.7	7.1	8.0	8.5	10.4	8.0	10.2	13.1	15.3	12.5	12.7	10.5	8.0	3.8	10.7	4.1
2018	8.9	7.0	6.1	5.3	5.6	6.9	7.8	8.2	10.0	7.8	9.8	12.5	14.5	11.8	12.0	9.9	7.5	3.7	9.9	4.0
2019	8.6	6.7	5.9	5.1	5.4	6.6	7.5	7.8	9.6	7.4	9.3	11.8	13.7	11.1	11.2	9.2	7.0	3.4	9.0	3.6
2020	8.4	6.6	5.8	5.1	5.3	6.5	7.3	7.7	9.3	7.2	9.0	11.4	13.1	10.7	10.8	8.9	6.7	3.4	8.6	3.6
2021	8.8	7.0	6.3	5.6	5.9	7.0	7.8	8.1	9.7	7.8	9.5	11.8	13.4	11.1	11.3	9.5	7.6	4.6	9.4	4.9
2022	8.7	7.0	6.2	5.6	5.9	7.0	7.7	8.0	9.6	7.7	9.3	11.5	13.0	10.9	11.0	9.3	7.5	4.6	9.1	5.0
2023	8.8	7.2	6.5	5.9	6.1	7.2	8.0	8.3	9.7	7.9	9.6	11.6	13.1	11.0	11.1	9.6	7.9	5.2	9.5	5.7
2024	8.6	7.0	6.3	5.7	6.0	7.0	7.7	8.0	9.4	7.7	9.2	11.2	12.6	10.6	10.6	9.1	7.5	5.0	8.9	5.3
2025	8.4	6.9	6.2	5.6	5.8	6.8	7.5	7.8	9.1	7.4	8.9	10.8	12.1	10.2	10.2	8.8	7.2	4.8	8.5	5.1

From 1991 to 2025 (in per cent)

To the end of	From the beginning of														
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2011	-27.2														
2012	-3.5	20.2													
2013	-2.5	9.8	-0.7												
2014	4.8	15.5	13.1	26.8											
2015	0.6	7.6	3.3	5.3	-16.2										
2016	-0.7	4.6	0.6	1.1	-11.8	-7.4									
2017	2.2	7.1	4.5	5.8	-1.2	6.3	20.1								
2018	2.3	6.5	4.3	5.2	-0.1	5.2	11.5	2.9							
2019	2.1	5.7	3.7	4.4	-0.1	3.9	7.7	1.5	0.1						
2020	2.3	5.5	3.7	4.3	0.6	3.9	6.8	2.3	2.0	3.9					
2021	3.8	6.9	5.4	6.2	3.2	6.5	9.2	6.5	7.7	11.5	19.2				
2022	4.0	6.8	5.4	6.1	3.5	6.3	8.6	6.3	7.2	9.6	12.4	5.6			
2023	4.8	7.4	6.2	6.9	4.7	7.3	9.5	7.7	8.6	10.8	13.0	10.0	14.3		
2024	4.5	6.9	5.8	6.4	4.4	6.6	8.4	6.7	7.4	8.8	10.0	7.0	7.7	1.0	
2025	4.3	6.5	5.5	6.0	4.1	6.1	7.7	6.1	6.6	7.6	8.4	5.7	5.7	1.4	1.7

How to read the table?

The top row of each table specifies the starting year and the left column specifies the ending year. To find any statistic for a given period, find the intersection of start and end dates.



Note: 1) Long horizon equity risk premia is computed as index total returns (Nifty) minus the return on long-term government bonds.

2) Calculations are performed using December-end closing index values.

3) Average returns are computed using the arithmetic mean.

2a. Implied premium - Gordon's growth model using dividend as a base

Overview

The implied premium approach makes use of some very basic yet powerful valuation tools to find out the equity premium from the current market conditions, in conjunction with the expected future cash flows. In the table set below, ERP has been evaluated based on Gordon's Dividend Discount model which is one of the most well-known models in the genre of valuation.

$$\text{Price}_{\text{Year}=0} = \frac{\text{Dividend expected next year}}{K_{\text{equity}} - \text{Growth dividend income}}$$

Implied equity risk premium as at 31 December 2025 using DDM

We have used NIFTY50 data to derive the implied equity risk premium. As at 31 December 2025, the NIFTY50 Index closed at 26,130 with a dividend yield on the index of approximately 1.28%.

Based on the average annual growth in dividends during the last 10 years, historical and forecast growth in GDP, and consensus growth estimate of NIFTY50 constituents, the sustainable growth in dividends is assessed to be 12%. The yield on the 10-year G-sec bond was 6.7% as of 31 December 2025; the equity risk premium is accordingly estimated to be 6.8%.

		Comments
Current year index (NIFTY50)	(a)	26,130 31 December 2025 closing index
Dividend yield	(b)	1.28% As of 31 December 2025
Expected growth in earnings & dividend	(c)	12.0% sustainable growth rate in dividend
Dividend	(d) = (a)*(b)	334
Dividend ₁	(d)*(1+c)	375
Return on equity		K _e
K _e		13.4% Applying Gordon growth model
Risk free rate		6.7% Yield on 10Y G-Sec as at 31 December 2025
Implied Equity Premium		6.8%

Source: NSE; RBI; Incwert analysis.

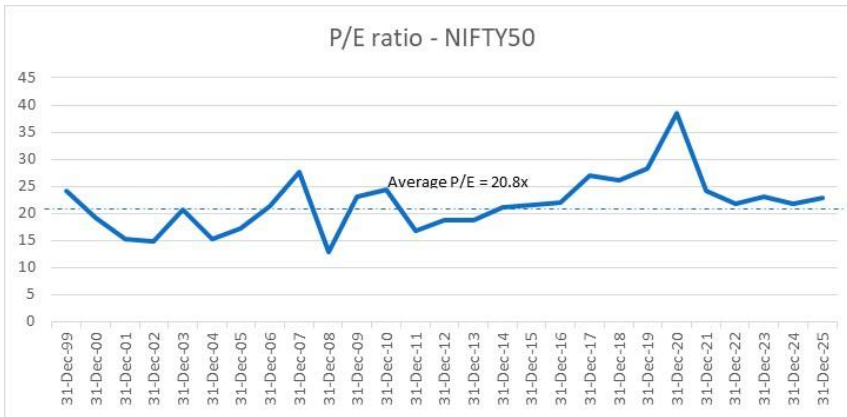


2b. Implied premium –Gordon’s growth model using cashflow as a base

Implied equity risk premium as at 31 December 2025 using FCFE

			Comments
NIFTY50 index	(a)	26,130	31 December 2025 closing index
PE ratio	(b)	22.8	31-Dec-25
Earnings growth expected			Variable
K_e		13.3%	Three-stage growth model
Risk free rate		6.7%	Yield on 10Y G-Sec as at 31 December 2025
Implied Equity premium		6.6%	

Source: NSE, RBI, Proprietary databases, Incwert analysis.



Market Capitalisation of Index = $CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_T/(1+k)^T$

Where,

CF_n = Weighted average cash-flows from companies constituting the index for year n

K = discount rate

Overview

This method generalises the DDM methodology to have an allowance for periods of high growth and uses cash flows instead of dividends.

Three-stage growth model has been considered with the following growth built-up assumptions–

- CY2026, CY2027 and CY2028 – consensus net income growth estimate of 17.4%, 14.0% and 10.0% respectively in NIFTY50 stocks
- FY2029 to FY2047 – GDP growth of 10%, nominal terms (Source: Govt of India vision 2047)
- Beyond FY2047 – the sum of expected inflation and the expected real rate is assumed to be equivalent to the treasury bond rate of 6.7%
- FCFE to net income embedded in our calculation is 85%

Based on the above assumptions, the implied discount rate, which equates the discounted cash flows to the NIFTY50, is estimated at 13.3%. Based on a risk-free rate of 6.7% and an index beta of 1.0, ERP is estimated at approximately 6.6%.

For Nifty companies*, operating cash flows remain robust, with cash flows from operating activities consistently exceeding PAT, underscoring the strength of earnings quality. However, elevated capex intensity, averaging around 50-70% of internal accruals, coupled with balance sheet deleveraging, has significantly constrained equity cash flows. Over the longer term, as the current cycle of capital expansion moderates, reinvestment requirements are expected to normalise, allowing FCFE to track earnings more closely and potentially revert to levels of ~85% of net income, consistent with mature phases of corporate capex cycles observed in developed markets.

*Excluding BFSI entities

3. Relative approach – country risk premium built-up to the mature market ERP

Overview

The Relative approach for calculating equity risk premium, albeit not widely used by valuation experts or analysts, computes ERP by adding country-specific risk premium to the base risk premium for a mature market.

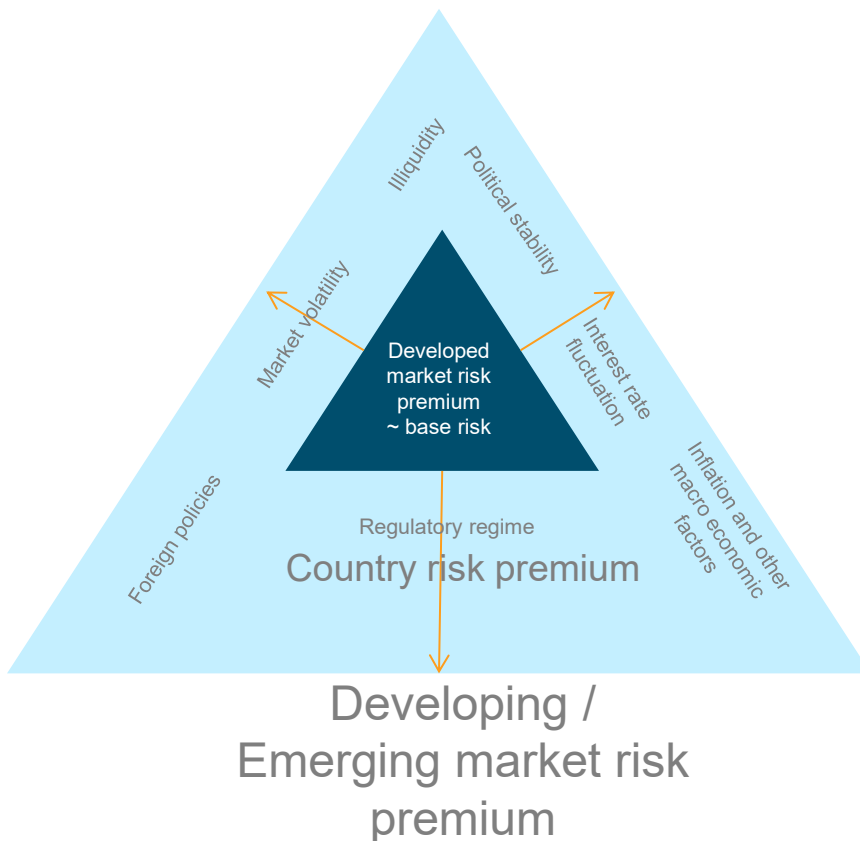
$$\text{Risk premium}_{\text{target market}} = \text{Risk premium}_{\text{mature market}} + \text{country risk premium}_{\text{target market}}$$

This approach is based on the premise that data available for emerging markets is often biased and suffer from potential noise due to market illiquidity and intermittent unexpected market movements. Accordingly, building up additional risk premium over risk in a mature market sets aside any possible anomalies.

In our calculation, we consider the base premium of the US equity market to be a good surrogate for mature market risk premium since the US has perhaps the most extensive history of the developed equity market. The following variations have been considered while calculating the ERP for India:

- *Sovereign bond default spread method: This is a simplistic approach where the credit default spread of India treasury bond over the US treasury bond is considered to be an indicator of the country risk premium over the developed market.*
- *Sovereign bond default spread adjusted for equity market volatility method: This is an advancement of the above method if the sovereign default spread has been adjusted for India equity market volatility and the 10-year G-sec price volatility factor.*
- *Domestic market volatility relative to a developed market: Equity risk of the US market is adjusted for the volatility in the US market returns, comparable to that of India.*

Application of each of these approaches is quite insightful but ridden with its own set of problems. Consider the adjustment factor for equity market volatility to the sovereign default spread – this adjustment assumes that country equity and bond market share a linear relationship, albeit it is not quite so in reality.



3. Relative approach – measure of credit default spread

	INDIA	US
Sovereign debt ratings	✓	✓
Country risk scores	×	✓
Market prices		
1) USD or Euro denominated bond yield spread	×	✓
2) Credit default swap spread	✓	✓
3) Market volatilities	✓	✓

Measures of credit default spread

Out of the several ways of measuring the sovereign or country credit default spread - a) sovereign credit/currency ratings, b) country risk scores, and c) observable market data such as yield, credit default swap (CDS) rates, market volatilities, currency volatilities, etc., we have considered sovereign ratings and market prices.

The sovereign ratings for both the US and India are publicly available; as such, the credit default spread is computed synthetically by assigning similar default spreads to the same class of rating. Also, equity, debt and currency market volatilities have been analysed for determining the adjustment factor.





3a. Relative approach - Sovereign bond default spread method

Currency default risk rating	
	Foreign Currency
Rating – India (December 2025)	BBB (stable)
Default spread adj for US CDS (basis points)	60
US market risk premium (mature market)	4.5%
Total equity risk premium <small>India in USD terms</small>	5.1%
Inflation <small>US</small>	2.2%
Inflation <small>India</small>	4.0%
Total equity risk premium <small>India in INR terms</small>	7.0%

Note: 1) US market risk premium is as of 01 January 2026;
 2) Inflation considered is a long-range forecast;
 3) Default spread is 10 year India CDS as of 31 December 2025, adjusted with CDS of the US.

Source: Tradingeconomics.com; worldgovernmentbonds.com; Equity Risk Premiums (ERP): Determinants, Estimation and Implications –Aswath Damodaran; Publicly available information; Incwert analysis

Credit default spread approach

The sovereign credit default spread of India has been adjusted for the CDS of the US to derive the spread over a developed economy.

The credit rating and its derivative CDS reflect the potential risk of default and not the equity risk. Yet, these have been considered as a yardstick of equity risk since they are affected by several of the factors that drive the equity risk. The ‘hard’ macroeconomic factors, such as the fiscal deficit, currency stability, interest rates and inflation, and the ‘soft’ issues like the political stability, economic and regulatory environment, etc., affect both credit risk and equity risk.

Equity risk premium - India

ERP for India is derived by adding CDS (adjusted for US CDS) to the base ERP of 4.5% of the US market. The resultant equity risk premium for India is 5.1% in US dollar terms. After adjusting for the forward inflation factor, the ERP for India in INR terms is estimated at 7.0%.



3b. Relative approach - Sovereign bond default spread (adjusted for equity market volatility) method

Currency default risk rating adjusted for equity market risk

		Foreign Currency
Rating – India (December 2025)		BBB (Stable)
Default spread (basis points)	(a)	60
Multiplier on default spread (see below for details)	(b)	2.2
Adjusted country risk premium India in USD terms	(a)*(b)	1.3%
US market risk premium		4.5%
Total equity risk premium India in USD terms		5.8%
Inflation _{US}		2.2%
Inflation _{India}		4.0%
Total equity risk premium India in INR terms		7.7%

Note: 1) US market risk premium is as of 01 January 2025;
 2) Inflation considered is a long-range forecast
 3) Default spread is 10 year India CDS as of 31 December 2025, adjusted with CDS of the US.

Source: Tradingeconomics.com; worldgovernmentbonds.com ; Equity Risk Premiums (ERP): Determinants, Estimation and Implications –Aswath Damodaran; Publicly available information; Incwert analysis

Standard deviation (volatility)

Standard deviation in equity returns	Standard deviation in bond prices	Relative standard deviation
13.7% (annualised std dev using weekly returns)	6.4% (annualised std dev)	2.2

Note: 1) Coverage period for assessing volatility is from January 2021 to December 2025.

Source: SBI Nifty 10 yr Benchmark G-Sec ETF; NSE

Overview

This approach steps up the default spread approach. Since the overall equity risk premium is expected to be larger than the default spread, a certain additional risk is added to the default spread to make it equal to the country risk premium. To compute the estimated spread multiplier, the analysis considers the volatility in equity returns relative to volatility in bond prices. The default spread is multiplied by the relative volatility to derive the adjusted country risk premium

Default spread adjusted for equity risk

The annualised standard deviation in the Indian equity index NIFTY50 from January 2021 to December 2025 was 13.7%, while the annualised standard deviation in the total returns on 10-year government bond prices (reference: SBI Nifty 10 yr Benchmark G-Sec ETF) was 6.4%. The resultant additional country equity risk premium for India (in USD terms) is 1.3%.

Adding the country premium to the base ERP of the US market results in an ERP of 5.8% for India in USD terms. After adjusting for the forward inflation factor, the ERP for India is derived to be 7.7% in INR terms.

Potential measurement problems

The standard deviation of equity returns is a volatile number across time, and given that India is still an emerging market, the volatility could move significantly across different periods.

Further, this approach presupposes a linear relationship between equity market volatility and bond price volatility, whereas the situation in reality is quite different.

What has changed in our study?

We have replaced the returns on sovereign bonds with the return on SBI Nifty 10 yr Benchmark G-Sec ETF. We have discontinued the use of the coefficient of variation in yields to make that estimate. The standard deviations are now computed consistently for equities and government bonds.

3c. Relative approach – Mature market ERP adjusted for relative equity market volatility method

Overview

This approach is based on the premise that the imputed risk of different markets can be observed by comparing the volatilities in equity return for each of those markets. Economies with higher risk usually have a higher standard deviation in equity prices or returns.

The relative standard deviation for country X against the other country Y would be computed as follows:

$$\text{Relative Std dev}_x = \frac{\text{Std dev}_x}{\text{Std dev}_y}$$

Further, assuming that equity risk premium and relative standard deviation have a linear relationship, the equity risk premium of country X can be computed as follows:

$$\text{ERP}_x = \text{ERP}_y * \text{Relative Std Dev}_x$$

Relative equity market volatility in the US and India

The annualised standard deviation of weekly returns in the S&P 500 in two-years, five-years and ten-years preceding 1 January 2026 have been computed in the table below. Correspondingly, the annual standard deviation of weekly returns of the Nifty50 for the same period has also been computed. The relative standard deviation has been computed for each such period.

Using the relative standard deviation so derived and the US base equity risk premium of 4.5%, the estimated equity risk premium for India (in USD terms) based on two-year, five-year and ten-year volatility is 3.7%, 3.8% and 4.1%, respectively. After adjusting for the forward inflation factor, the ERP for India is estimated at 5.5% to 5.9% in INR terms.

Market structure and liquidity differ widely among markets. Under a perfect market scenario, emerging markets would ideally be more volatile than developed markets; However, the higher volatility of the S&P 500 relative to the NIFTY 50 reflects its technology-heavy, long-duration composition and immediate sensitivity to global liquidity and interest-rate expectations, in comparison to the NIFTY's financials-led, domestically anchored structure and increasing SIP flows, which provide relative volatility dampening.

Relative volatility in the US and India equity markets preceding 01 January 2026

	2-yr volatility		5-yr volatility		10-yr volatility	
	US	India	US	India	US	India
Annualised standard deviation	16%	13%	16%	14%	16%	15%
Relative standard deviation _{India}		0.82		0.84		0.91
US/ Mature market risk premium	(a)	4.5%	4.5%		4.5%	
Equity risk premium _{India in USD terms}	(b)	3.7%	3.8%		4.1%	
Country risk premium _{India}	(b-a)	-0.8%	-0.7%		-0.4%	
Inflation US		2.2%				
Inflation India		4.0%				
Total equity risk premium _{India in INR terms}		5.5%	5.6%		5.9%	

Note: 1) US market risk premium is as of 01 January 2026

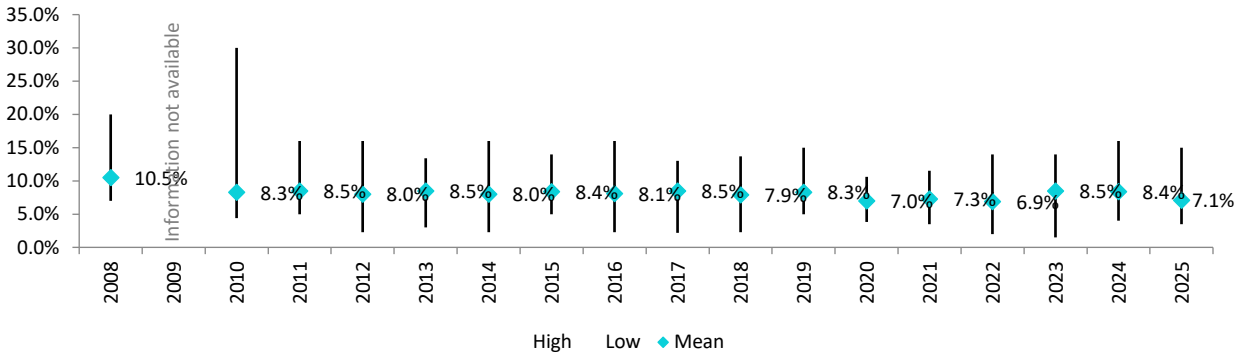
Source: S&P 500 index; NSE Nifty50; Equity Risk Premiums (ERP): Determinants, Estimation and Implications – Aswath Damodaran; Tradingeconomics.com; Incwert analysis.

4. Estimation of ERP based on the survey

Overview

Globally, several research firms survey finance and economics professors, corporate managers, financial analysts, etc. about their expectation of market returns. Whilst this data is widely available in developed markets such as the US; it is somewhat a challenge to get such data in emerging markets such as India.

In this section, we present the summary of market risk premium in India based on the survey carried out by Pablo Fernandez, Javier Aguirreamalloa and Pablo Linares ('Survey of market risk premium and risk-free rate') for various countries over the various period.



Note: Survey premium data for India is not available for the year 2009

Source: 'Market Risk Premium and Risk Free Rate' for 2008 to 2025 by Pablo Fernandez, Professor of Finance, IESE Business School

Survey results' reliability in general

Despite several studies or surveys being carried out by research firms, and given the fact that a level-headed range for equity premium does emerge from these surveys; still, the acceptance level of such an approach by finance practitioners is low. Though there is nothing incorrect with the approach that is usually adopted to carry out such a survey, rather it is the individual's reasoning that could be potentially inhibited while interpreting the market dynamics. To estimate the risk, most respondents rely on the recent market environment. Their assessment may thus tend to be weighted towards a short-term view.

Glossary of terms

ERP	Equity risk premium
CAPM	Capital Asset Pricing Model
NSE	National Stock Exchange
BSE	Bombay Stock Exchange
NSE Nifty	Index on NSE
BSE Sensex	Index on BSE
INR	Indian Rupee
GDP	Gross Domestic Product
USD	US Dollar
RBI	Reserve Bank of India
RoI	Return on Investment
CDS	Credit Default Swap
Std Dev	Standard Deviation
Yr	Year
K_e	Cost of Equity
RoE	Return on Equity

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1. Unsplash - <https://unsplash.com/>

Client footprint across India and outside



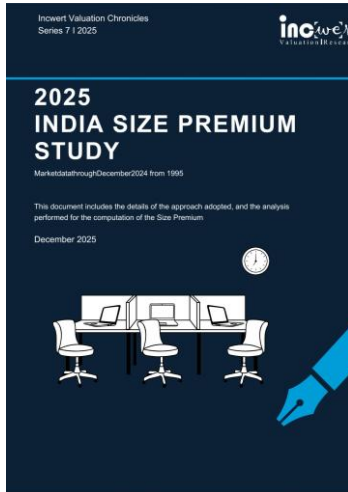
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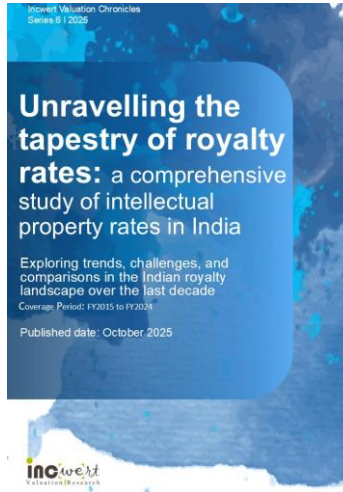
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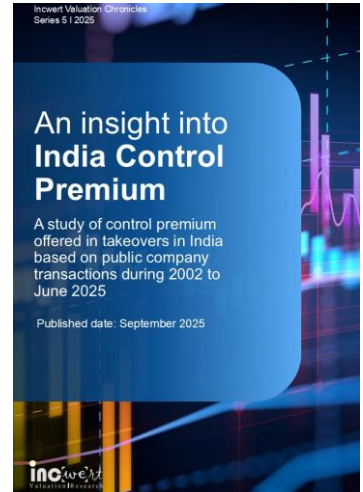
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India Size Premium Study



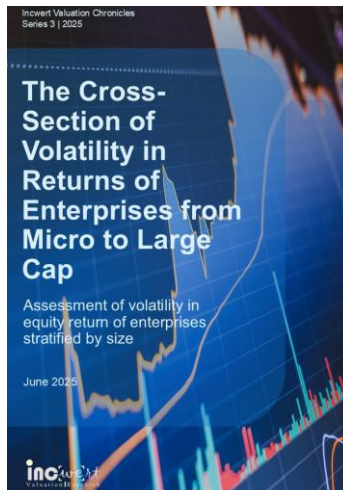
India Royalty Rate Study



India Control Premium Study



India Market Risk Premium Study



Volatility Study



HoldCo Discount Study

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