

India Internet Stocks: A Market in Transition

What Kotak Investment Banking's DART Gauge Tells Us About Valuations, Sentiment, and the Road Ahead



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India's internet economy is undergoing a recalibration after a stretch of aggressive multiples and breakneck growth. Our anchor for this measurement is the Valuation gauge — a liquidity-weighted metric developed by Kotak Investment Banking to track sentiment and valuations across publicly listed Indian internet companies. Rather than reading any single stock, it blends the cohort into one signal, expressed through NTM EBITDA multiples benchmarked against steady-state EBITDA multiples. Its usefulness is not merely descriptive: the gauge has shown predictive power for forward portfolio returns, with a mean-reversion threshold that has historically flagged when the sector is stretched or oversold. When Valuation runs hot, subsequent one-year returns tend to disappoint; when it sags to depressed levels, the setup for a rebound improves.

FY2026: a year when winners were scarce

FY2026 was an unforgiving year for India Internet investors. Valuations fell and sector sentiment turned decisively negative, driven above all by a de-rating in Food Delivery and Quick Commerce (FD/QC) — the segment that had carried the cohort in prior years. Eternal (Zomato) and Swiggy bore the brunt as competitive intensity rose and the market grew skeptical about the path to durable profitability. Importantly, much of the drawdown was not India Internet-specific: a broad market sell-off, shaped by macro conditions and global risk appetite, amplified the pain. Amid the gloom, a handful of names bucked the trend — Nykaa, Delhivery and PayTM saw improving fortunes as investors rotated toward more attractively valued businesses with visible operating progress.

FY26 broke the pattern investors had grown used to. Previously valuations had been in a “bounded equilibrium” — a range within which the sector's multiples had oscillated — which gave way to sharp valuation compression, and the Valuation gauge lost its historical anchoring. Higher discount rates weighed on long-duration growth assets, and terminal-value multiples that had been taken for granted were re-examined. The result was a genuine question mark over how India Internet stocks should be valued going forward, rather than a simple continuation of the old framework.

The great rotation: from food delivery to fintech

The defining structural shift of FY26 was a rotation in investor demand from FD/QC toward fintech platforms. Fintech's contribution to the Valuation gauge nearly doubled over the year, reflecting a market re-weighting toward the segment's profitability trajectory and scale. PB Fintech anchors the listed opportunity, with a broader ecosystem — PayTM, Groww, PhonePe and RazorPay (the latter two being unlisted and waiting in the wings) — reinforcing the theme that monetizable financial-services rails are where incremental capital wants to be.

At the other end, classifieds came under pressure from AI. The rise of large language models and AI-powered crawlers threatens the core discovery-and-matchmaking business models that classifieds depend on — the risk being that generative interfaces disintermediate the platforms that historically owned search and lead generation. Names such as Info Edge, IndiaMART, JustDial, CarTrade and Matrimony.com faced a re-rating as the market prices in the possibility that tools like Google's AI Mode eroded traffic and take rates. We think this is less a temporary headwind and more a structural question about whether classifieds can defend their moats in an AI-mediated world.

A market demanding proof, not promises

Despite the turbulence, capital has not abandoned the sector — over 33% of traded value in the cohort still flows through new issuances, underscoring that India Internet remains a place where investors want exposure. What has changed is the bar. Coming out of Q1FY27 earnings, the market is no longer paying for growth narratives alone; it is demanding visible evidence of durable profitability, sustainable take rates, falling losses and steady cash flows. For instance, Nykaa's GMV growth is cited as the kind of tangible proof point investors now reward. The underlying structural story — a vast internet user base, a deepening digital-payments ecosystem, expanding financial services and rising e-commerce penetration — remains compelling. But the reward now accrues to companies that can convert that opportunity into demonstrable performance rather than projections.

Conclusion: A more discerning investor base. And an end of the honeymoon phase

India Internet has moved from a promise-driven market to a proof-driven one. The Valuation gauge, having lost its old anchoring through FY26's compression, now sits at low levels — which we read as a constructive signal for oversold, high-quality names given the metric's history of mean reversion. Beneath the headline, the cohort is bifurcating: fintech is the demand magnet, FD/QC is stabilizing after its de-rating, classifieds face an existential AI question, and value-seekers are gravitating to Nykaa, Delhivery and PayTM. For investors willing to underwrite verifiable profitability over story, the current low read on Valuation frames an attractive entry into a structurally intact sector.