

Profits up, prices down: why the stock and the company part ways

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Maxim: *"In the long term, there is a 100 percent correlation between the success of the company and the success of its stock."* — Peter Lynch, *Beating the Street* (1993)

Over months, prices follow mood. Over years, they follow profits. The gap between the two is where patient investors are paid, and impatient ones are punished.

A share price is a vote on a company. Its profit is the count of what actually happened.

On 15 October, Nestlé India reported that its quarterly profit had jumped 35.9% and revenue had grown 20.3%. Its shares fell about 7.5% that day, their worst single day since March 2020 and the biggest loss in the Nifty 50, after the company warned about food inflation, [Business Standard reported](#). A strong quarter, a weak stock. It happens every results season.

Peter Lynch thought this disconnect was the most important fact in investing. Often, he wrote in one of his Golden Rules, there is no correlation between a company's success and its stock's over a few months or even a few years. Over the long term, there is a complete one. That disparity, he added, is the key to making money: it pays to be patient and to own successful companies.

A bad year for prices, a better one for profits

2026 has been a lesson in Lynch's rule at the scale of the whole market. By late September the Nifty was on course for its worst calendar year since 2011, [Business Today reported](#), and on 8 October it touched a 52-week low after an RBI rate rise, oil near \$100 and heavy foreign selling.

Part of that fall was earned. Profits had disappointed: Nifty earnings per share grew only about 4.5% in 2025–26, against the 12–15% analysts had expected at the start of the year, [Business Standard reported](#) in June. A market that had been priced for strong growth lost some of its premium when the growth did not come.

Then the profits came back, and the prices did not follow. Nifty companies' profits grew 18% in the April–June quarter, the fastest in ten quarters, and analysts expect the July–September quarter to be the best in twelve, with growth of about 25%, [Business Standard reported](#) this month. Meanwhile the index traded at about 21 times trailing earnings at the end of September, below its five-year average of about 23.5, [Kotak Neo noted](#).

This is what a short-run disconnect looks like from the inside. It does not feel like an opportunity. It feels like being wrong, every day, while the businesses quietly report better numbers.

What happens when you wait

Over long periods the mood fades and the arithmetic of profits takes over. Motilal Oswal's 30th annual Wealth Creation Study, published last December, put it plainly: a stock's return tends to converge to its earnings growth, with valuation changes as the second, more fickle engine. Over 2008 to 2025,

the Nifty's price rose about 10% a year while its earnings per share grew about 8%, the [study found](#). Seventeen years, two crashes and a pandemic later, prices and profits ended up close together.

Individual companies show both halves of Lynch's rule. Over the past ten years, Titan's profits have grown about 22% a year and its share price about 28%, on [Screener's data](#) in mid-October: the company and the stock travelled together. Bajaj Finance shows the short-run gap. Its profits grew about 34% a year over the last five years, but its share price rose only about 5% a year, because the valuation the market was willing to pay shrank, [Screener shows](#). Over ten years, the two are far closer.

Asian Paints is the warning from the other side. For years its price ran ahead of its profits. Over the last five years its profits grew about 7% a year while the shares lost about 7% a year, amid tougher competition and a market no longer willing to pay a premium for slower growth, [Screener's figures](#) show. Lynch's rule works in both directions. When the price gets far ahead of the company, it is the price that usually comes back.

Living with the gap

If the long run belongs to the company, the investor's job is to watch the company and tolerate the stock. That sounds simple. It is the hardest discipline in investing, because the price updates every second and the profits only every quarter.

Track the right scoreboard. For each holding, note the profits, the cash flow and the debt each year, and compare their direction with the share price over three to five years, not three months. When profits are rising and the price is falling, the question is whether something has broken in the business or only in the market's mood. When the price is racing far ahead of profits, the question is how much good news the price already assumes.

Valuation is the bridge between the two. A great company bought at an extreme price can take years to grow into it, as Asian Paints' shareholders discovered. A good company bought at a sensible price gives you the benefit of its growth without first having to pay off the market's enthusiasm. For a fund investor, the same logic applies to the whole market: a time when earnings are rising and the index is not is a reason to keep investing on plan, not to stop.

If you do one thing: Once a year, put two numbers side by side for each stock you own: how much its profit has grown over five years, and how much its price has. Where they have parted ways, find out why before you either sell or buy more.

Nestlé's shareholders had a bad Thursday. Whether they have a bad decade will depend on how much the company earns over that decade, not on one warning about food prices. Lynch's rule is a promise and a test at once: the market eventually pays for success, but only to those still holding when it does.

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