

Embracing complexity to capture Alpha

Dear Investors,

Global capital flows continue to reflect a cautious undertone. Domestically, the softening trajectory in urban consumption trends, muted expected Gross Fixed Capital Formation in the private sector, and signs of a broader global slowdown amid the current geopolitical environment, further reinforce our view that equity return expectations for FY 2025-26 should be tempered. Recent earnings plateau during the latest result season provide additional evidence of corporate India's growth easing.

Nevertheless, our medium-to-long-term outlook on India remains constructive. We take comfort in the country's robust fiscal position and external current account balances, well-anchored inflation, and sufficient liquidity surplus in the banking system, all of which create a conducive backdrop for effective transmission of upcoming rate cuts. Corporate India also appears well-positioned, with healthy balance sheets and low leverage, enabling them to benefit from a future cyclical recovery and credit-capex upcycle once domestic and global demand picks up.

Our near-term priority remains firmly on capital preservation and the generation of consistent Alpha, amidst what continues to be a highly uncertain and challenging investment environment.

We will continue to adjust our portfolios prudently in response to changing conditions.

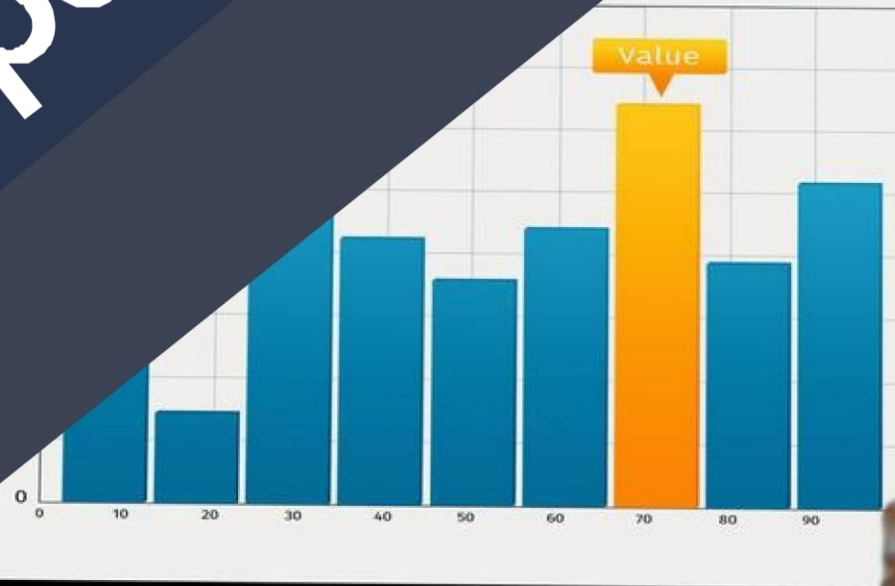
Thank you for your steadfast trust and commitment.

Best regards,

Siddharth Jadeja



Investment Strategy Report





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KILIKA CAPITAL





WHO WE ARE?



ABOUT US

Kilika Capital is a research-driven investment firm specializing in **deep research** and analysis to identify high-quality financial products for sophisticated investors.

OUR MISSION

At Kilika Capital, our sole mission is to **generate Alpha** for our investors.

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

At Kilika Capital, we believe that great businesses are built by exceptional people. Our team brings a mix of experience, precision, and creativity that sets us apart, but what truly defines us is our shared passion for delivering results.

Siddharth Jadeja, CFA – The Strategist

Our managing partner, Siddharth Jadeja, is the calm, analytical anchor of Kilika Capital. A CFA charterholder and an MBA in finance, Siddharth comes with over 15 years of experience in a variety of roles ranging from credit risk, equity research, corporate banking, structured finance, and fund management at giants like HDFC Bank, Edelweiss Capital and Nuvama to name a few. He's been the brains behind countless deals, with the kind of market insights you'd bet on any day. Whether it's breaking down complex businesses or analysing sectors or structuring assets, Siddharth's expertise in credit and risk ensures our ship sails smoothly. Investors trust him, and so do we—his knack for turning numbers into actionable results through rigorous analysis is *nothing short of magic*. Siddharth, a passionate sports enthusiast who has played cricket at the state level, brings the same unwavering discipline and never-give-up attitude to Kilika Capital.

Smitha Iyer – The Operational Hawk

If you ever wonder who keeps our house in perfect order, meet Smitha Iyer, the head of operations and our very own perfectionist-in-chief. Chemical Engineer, an alumna of Welingkar Institute Of Business Management, Smitha is an MBA in finance with over 8 years of experience in giants like ICICI Prudential and Future Generali. She took a short break to embrace motherhood (shoutout to her little champ, Devamsh!) And returned with twice the tenacity. She hounds the AMCs, dots every *i*, and crosses every *t*—no document or process escapes her eagle eye. Sure, her insistence on perfection might leave you a little exasperated, but when you realize that clean operations mean safety, you'll be grateful she's on your side.

Piyush Sharma – The Creative Wizard

Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model, or rethinking how investor portfolios are structured, he's always cooking up something extraordinary. Watching Piyush and Siddharth brainstorm together is like watching a symphony of numbers—a mix of youthful enthusiasm and seasoned experience. For Piyush, Kilika Capital isn't just a job; it's a playground for pushing the boundaries of quantitative finance, a platform to challenge conventions, explore new paradigms, and redefine what's possible in a financial model. Who says spreadsheets can't be fun!?

Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured—we've got your back. After all, when we win, you win. And we're in it for the long run.

Macro-Economic Outlook

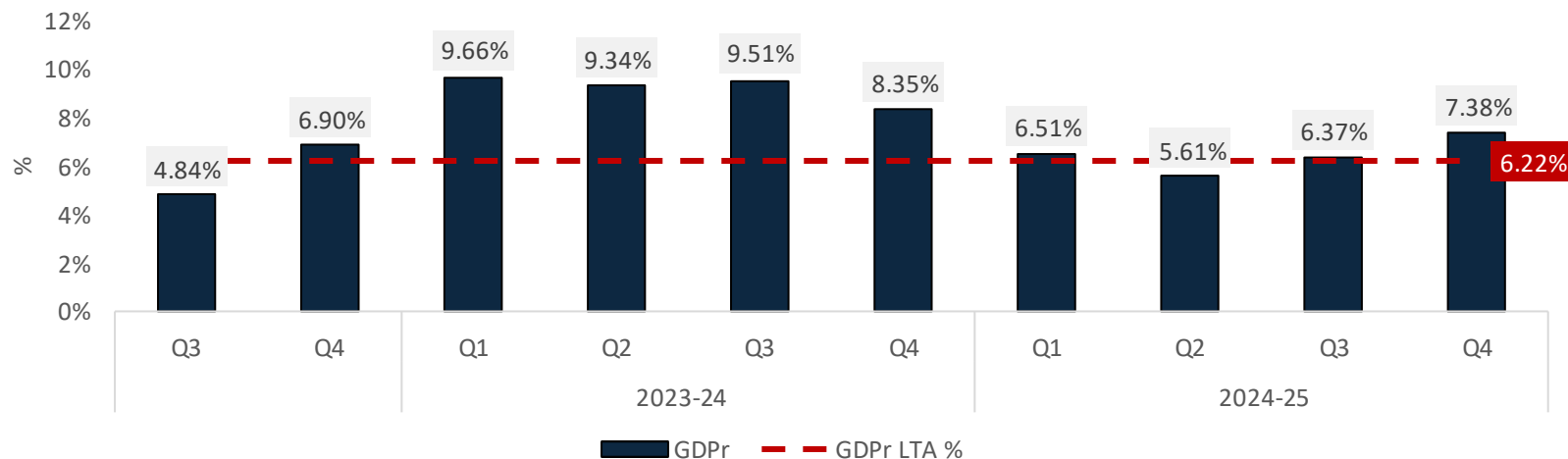




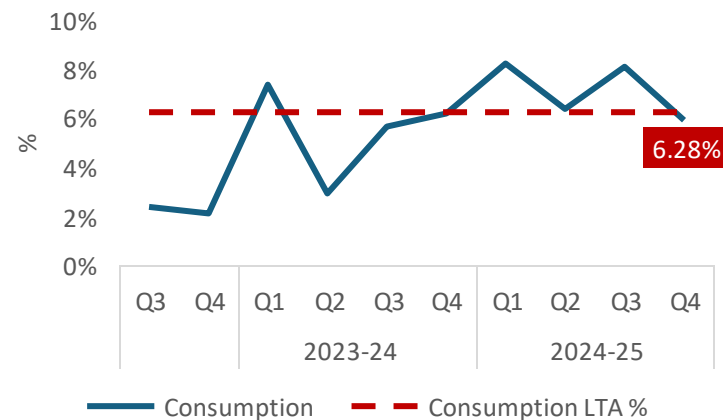
1. GDP (Gross Domestic Product)



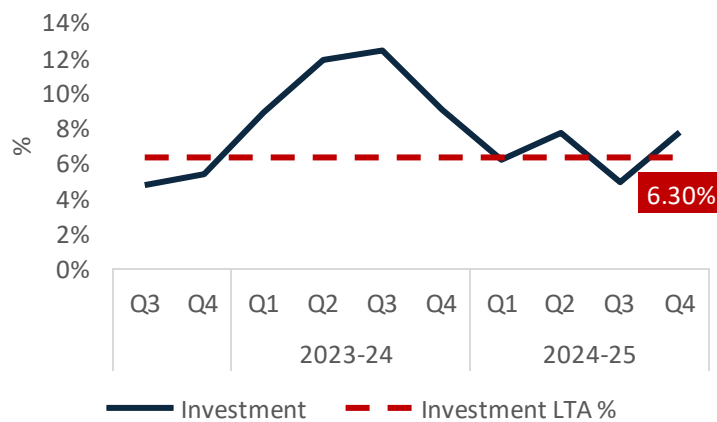
GDP YoY %



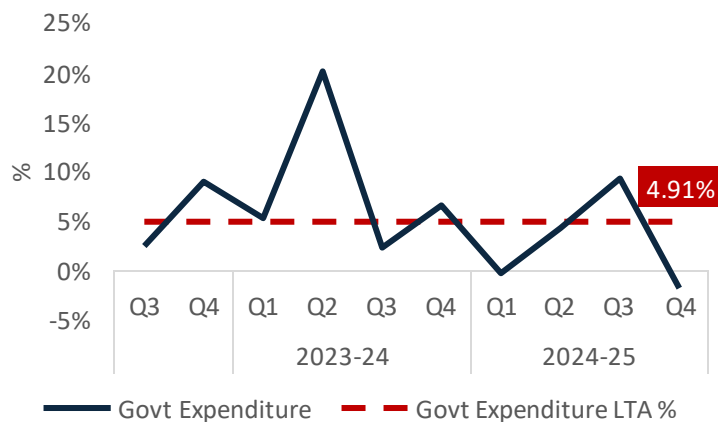
Consumption YoY %



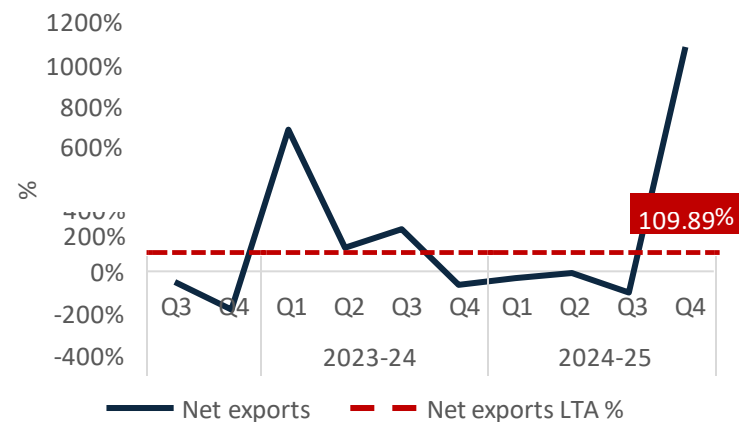
Investment YoY %



Govt. Expenditure YoY %



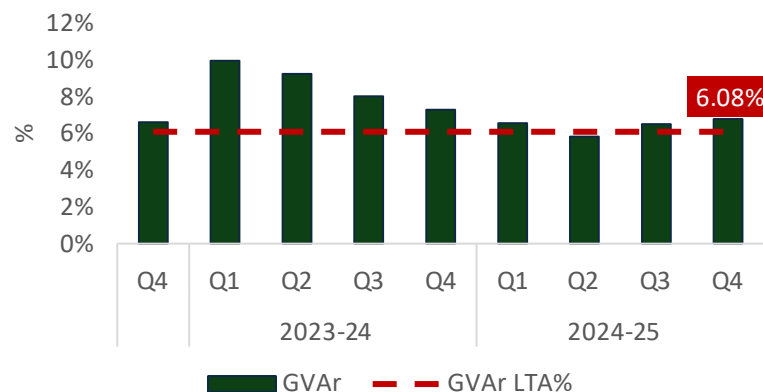
Net Exports YoY %



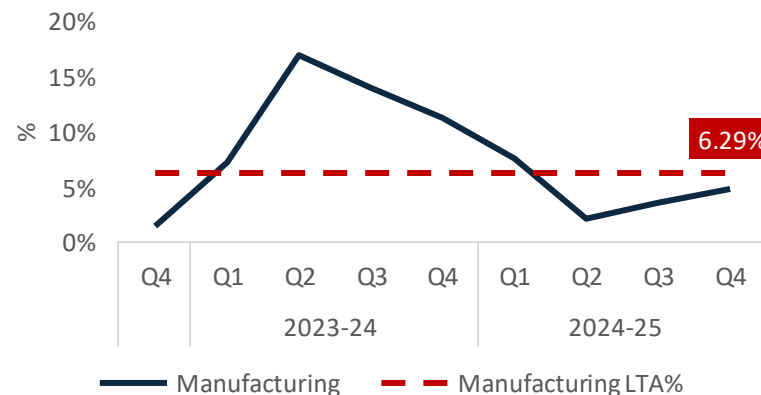


GVA (Gross Value Added)

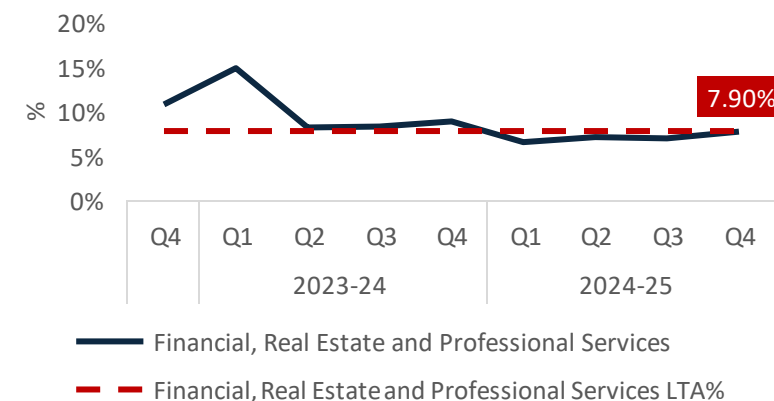
GVAr YoY%



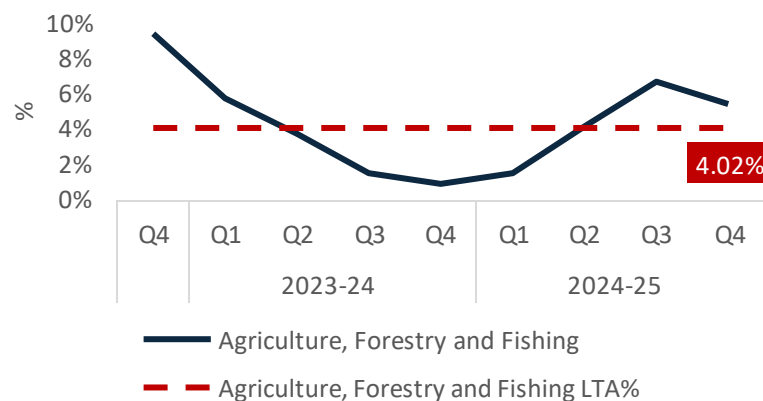
Manufacturing YoY%



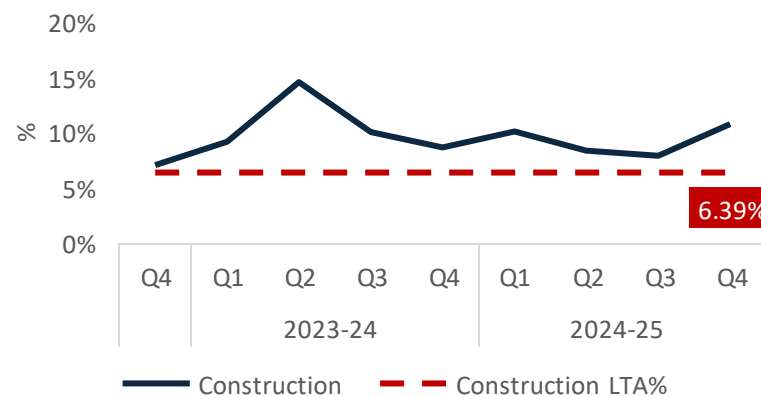
Finance, Real Estate, Services YoY%



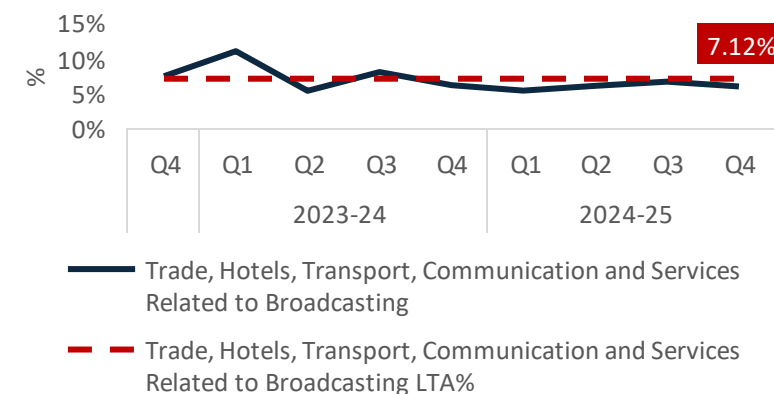
Agriculture YoY%



Construction YoY%



Trade, Hotels, Transport, Communication and Services Related to Broadcasting YoY%





Gradual pickup in Growth momentum but Private Sector in slow lane

- **India's real GDP grew 7.4% in Q4 FY2024-25, bringing full-year growth to 6.5%.** After a mid-year dip, growth regained momentum in the second half, especially in the final quarter. GST revenue figures were cited as evidence of this momentum. Gross Value Added (GVA) growth for Q4 was 6.08%, led by agriculture, construction, and services, while manufacturing underperformed, which was in line with our view on slow Capex growth.
- **Growth Drivers and Sectoral Dynamics:**
 - ❖ **Agriculture (Robust Rabi harvest and reservoir levels supported strong agricultural output. Agri GVA rose 5.4% YoY,** well above the ~4% LTA), **Construction (Soared 10.8% YoY in Q4, up from ~7.9% in Q3 supported by front-loading of public and private capex late in the year),** and **Services (Finance & Real Estate benefitted from economic momentum, while Trade, Hotels, Transport & Communication lagged due to urban softness)** were the key engines for Q4 GVA growth.
 - ❖ **Manufacturing lagged with a modest 4.8% increase.** Although MSMEs showed improved sentiment. Yet, it failed to match the dynamism of construction and services. As a result, **it acted as a drag on overall growth, keeping GVA below broader GDP.**

Capex Breakdown: Government, Household, and Private Sector:

- **Government Capex:**
 - ❖ Over the past 3-4 years, strong **central and state government capital expenditure—particularly in infrastructure such as railways, highways, and public projects—has provided a critical boost to GDP growth.**
 - ❖ For the coming year, **central government capex is expected to moderate, especially in traditional sectors like railways and highways, with uncertainty around new project allocations.**
 - ❖ **State government capex faces fiscal constraints and increasing populist commitments, potentially limiting urban infrastructure investments.**
- **Household Capex:**
 - ❖ **Household capital expenditure, particularly in real estate, has been a significant driver in recent years.**
 - ❖ Demand for **mid-end residential projects is expected to slow,** as **higher property prices and lower confidence, especially among IT sector employees, impact affordability.**
 - ❖ Despite this, **medium-term prospects for the housing sector remain positive, backed by demographic trends and rapid urbanization.**
- **Private Capex:**
 - ❖ Private sector capital expenditure has remained **subdued,** limited to sectors like power generation, metals & mining, and essential maintenance in oil, gas, and telecom.
 - ❖ Only a few corporates have the risk appetite for large projects, marking a sharp contrast to the aggressive investment cycle of FY2004-12.
 - ❖ **High frequency indicators suggest sluggishness in urban demand without which corporates remain hesitant to invest in aggressive capacity expansion at present.**



Consumption and Employment:

- Domestic consumption is **gradually recovering, driven by improved rural incomes, tax relief for high-income households, and possible savings from lower fuel prices, although with the current stance on Russian oil imports by the US, this theory is likely to come into question.**
- However, the **upside is capped by persistent employment challenges and sluggish real income growth among low- and middle-income groups**, while even high-income household consumption may lose momentum due to fewer repeat big-ticket purchases.
- Job creation remains concentrated in agriculture (mainly rural women) and the gig economy (urban men), while **high-quality employment growth is still limited.**
- With the **current geo-political environment, Oil prices are likely to remain volatile which might have an adverse effect on real income and in turn reduce consumption** in the short to medium term.

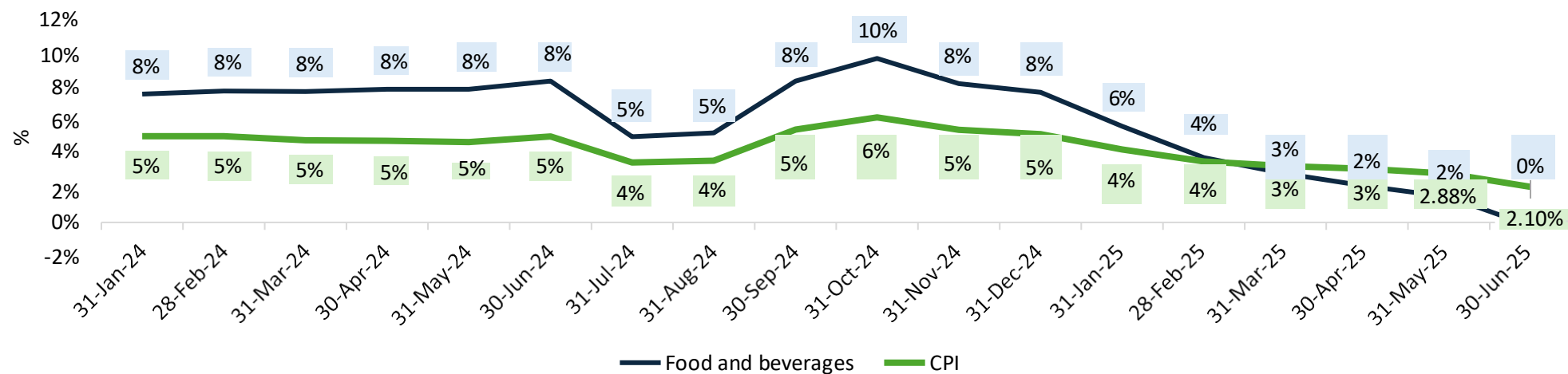
Outlook:

- **External risks are significant** where **global trade tensions and policy uncertainty, especially from the US**, could impact exports and investment. Sustained growth will depend on navigating these global headwinds, increasing capex momentum, and accelerating reforms to foster a robust business environment.
- **Private investment is weak.** Businesses are holding back on new projects or expansion. Even though interest rates have been cut (monetary easing), it's not enough to boost private investment because **global uncertainties** (like trade tensions and weak global demand) are **making investors cautious**. Meanwhile, **public (government) capital spending is increasing**, but it hasn't yet reached the scale or speed needed to fully offset the weakness in private investment — it merely seems to be "playing catch-up at present"
- **RBI has revised FY26 GDP estimates down to ~6.3-6.5%**, flagging a **cautious stance** due to Washington's current 25%+penalty tariff structure for India. Despite **front-loaded rate cuts of 50 bps**, the **RBI signaled limited scope for further easing amid global growth concerns. Crude prices, were providing some relief in the recent past**, but in the wake of current **geo-politics**, it remain a **source of uncertainty for India's current account, inflation and fiscal planning, especially since India imports over 80% of it's crude oil requirement, 36% being from Russia, and ~20% of total merchandise exports and ~30% of service exports are to the US.**
- **However, Agriculture is poised for another good year**, with an early, above-normal monsoon likely to boost **rural incomes and demand.**
- **Fiscal management remains on track**, with the government meeting its **deficit target and continuing capital expenditure support.**
- **Overall, India's growth backdrop is still challenging. Government capex, robust agricultural sector, and the healthy balance sheets of both corporates and the sovereign offer some support, yet tepid consumption, weak global growth outlook, and subsequently anemic private-sector capex estimate, and an incoming tariff shock will likely weigh on net exports and overall growth momentum. In this light, the RBI's FY26 GDP growth estimate of 6.5 % may have to be pared back by roughly 20-30 bps.**

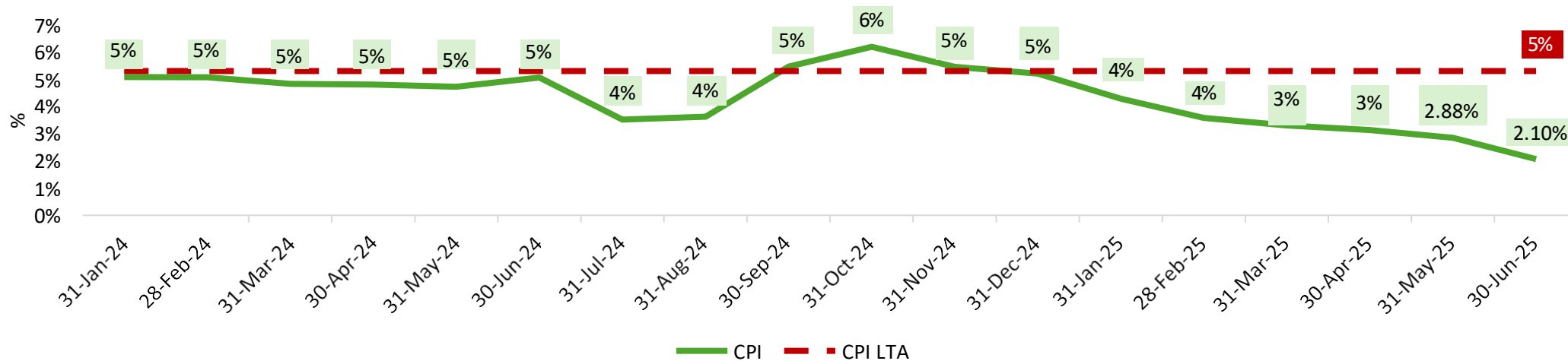
2. Inflation



Headline CPI and Food & Beverags Inflation



CPI YoY %



CPI Inflation falls sharply - Food basket drives broad-based Disinflation in June 2025



Headline and Food Inflation:

- **India's headline CPI inflation dropped to 2.1% YoY in June 2025, down from 2.88% in May, marking the lowest print since January 2019 (1.97%). This is the fifth consecutive month CPI inflation has remained below the 4% midpoint of the RBI's 2–6% target band, with the June figure nearing the lower threshold.**
- **Food deflation deepened significantly, pulling down the overall index.** Food prices contracted by 1.1% YoY, the sharpest fall in over six years, **aided by both base effects and broad-based price correction across categories:** Vegetables fell sharply by -19.0%, Pulses declined -11.8%, Meat and fish dropped -1.6%, Spices corrected -3.0%, & Cereal inflation eased to 3.7%, the lowest in 41 months.
- Durable and volatile food inflation stood at 1.1% and -3.2%, respectively, reflecting both **cyclical easing and improved seasonal supply dynamics.**

Core Inflation:

- **Core CPI inflation (ex-food and fuel) edged up to 4.4%, compared to 4.2% in May.**
- This uptick was largely driven by a **steep rise in personal care and effects, especially jewellery, as precious metal prices surged amid geopolitical concerns and possible front loading.**
- Continued firming of **health services, education, and transport, indicating persistent demand-side pressure** in core services.

Rural-Urban Divergence:

- **Rural inflation cooled to 1.72%, benefiting more from food price corrections,**
- **Urban inflation remained elevated at 2.56%, suggesting relatively stickier core pressures in urban consumption baskets.**
- **Services inflation rose to a 22-month high of 4.1%, with over one-third of the services basket registering inflation above 4%, reflecting underlying strength in domestic demographics. However, more than two-thirds of the CPI basket still shows inflation below 4%, reinforcing the broad-based nature of disinflation.**
- **Fuel inflation moderated to 2.78%,** helping support the headline disinflation alongside food. Despite a rise in cooking gas prices, overall energy costs remained contained due to sustained declines in petrol and diesel prices. Going forward this is likely to be put to the test amid the ongoing US tariff negotiations.
- State-level divergence persisted, with Kerala (6.71%), Punjab (4.7%), and Jammu & Kashmir (4.4%) recording the highest inflation among large states, while Telangana slipped into deflation at -0.93%.

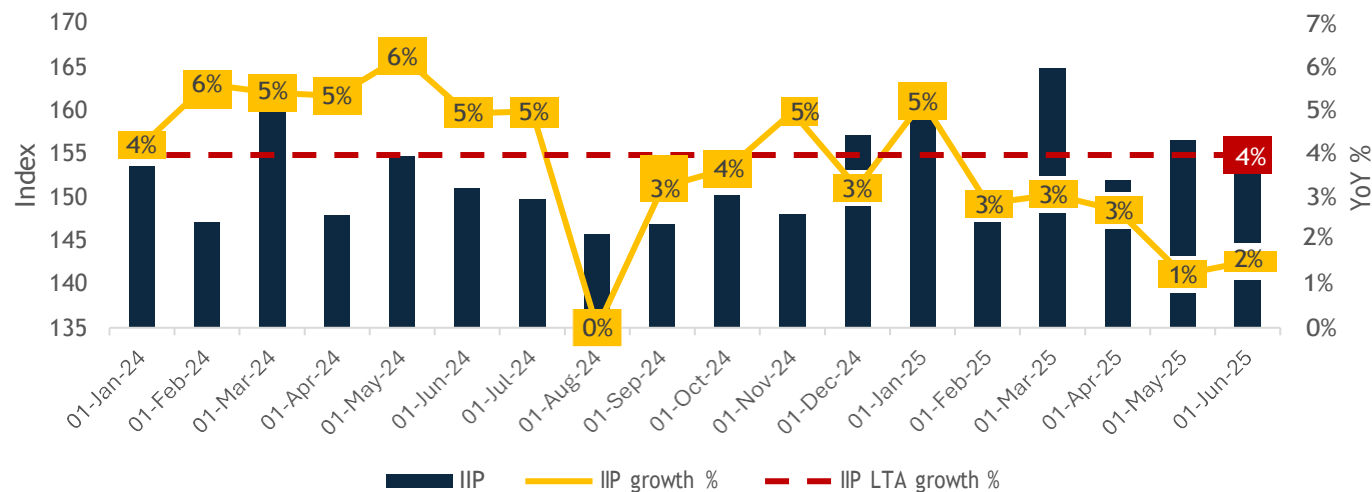
Outlook:

- **The inflation outlook has turned decisively benign, with headline CPI expected to remain below 4% for most of FY2026. Recent data points to continued food price easing in July, supported by favourable monsoons and stable reservoir levels.**
- **A worrying factor is that 54 items out of 291 recorded over 6% inflation in June, accounting for 10% of the basket. Once the base effect fades, the downward pull of food, particularly vegetables, will stop. We expect India's headline-core inflation gap to narrow as base effects fade in October-December and headline CPI to catch up with core inflation.**
- **RBI's CPI inflation estimate for FY2026 is 3.7%. This incorporates Food inflation at a mere 0.3% (vs 7.3% in FY2025), and Core inflation averaging 4.5%, led by jewellery and services inflation.**
- **Monetary Policy Implications - Given the sharp downside surprise in headline inflation and a soft outlook, the upcoming August MPC meeting is now live for a possible rate cut. However, with a cumulative 100 bps cut already delivered, sluggishness in credit offtake on account of weak domestic and global demand, and surplus liquidity in the banking system, we do not expect a rate cut in the near term.**
- **Risks remain two-fold -**
 - ❖ **Global uncertainties around the US tariff structure currently at 25%+penalty, crude oil supply, and bullion prices could seep into CPI.**
 - ❖ **Monsoon irregularities may disrupt the easing food price trend.**
- **Nonetheless, the disinflation trend offers a window for the RBI to reassess its policy stance. With real interest rates tightening, and inflation likely undershooting the 4% target throughout FY2026, monetary policy space appears to be opening up faster than previously anticipated.**

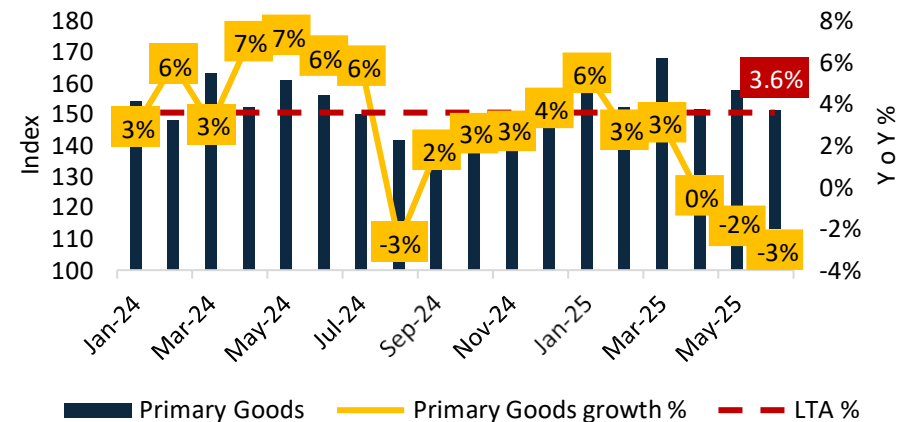


3. IIP (Index of Industrial Production)

IIP - Industry

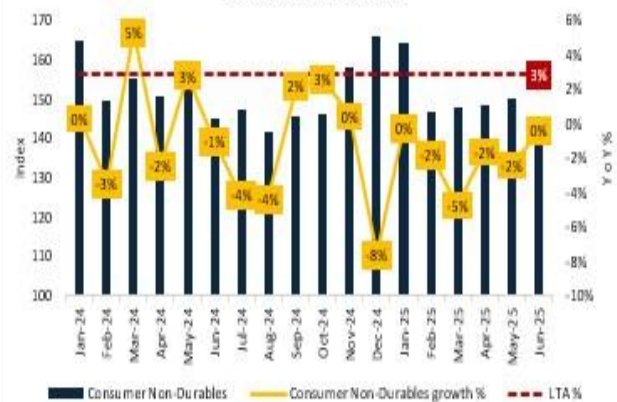


Primary Goods



Primary Goods Primary Goods growth % LTA %

Consumer Non-Durables



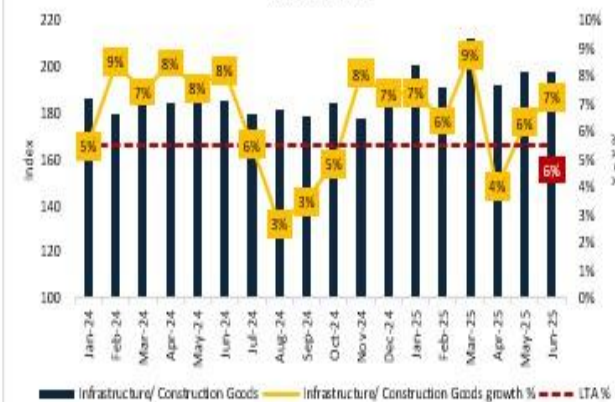
Consumer Durables

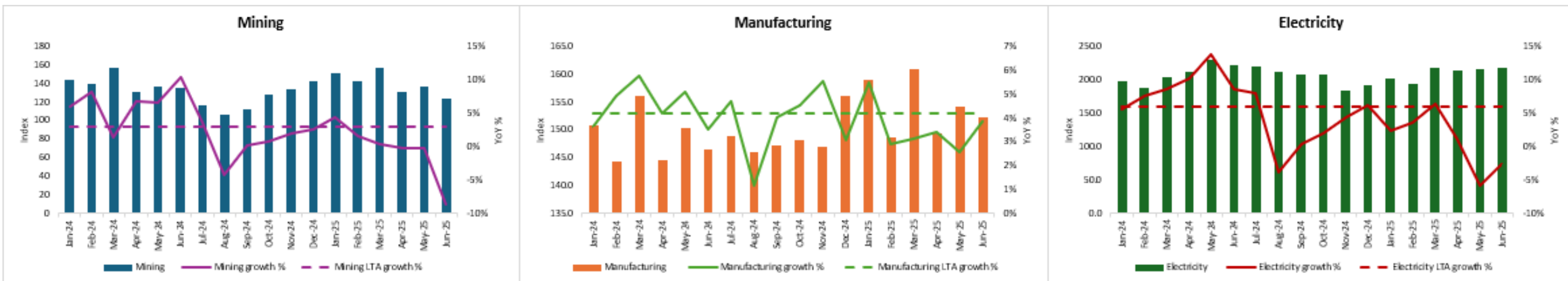


Capital Goods



Infrastructure





Industrial Growth Falters in May 2025: Mining & Power Drag Manufacturing Resilience

Industrial Production – June 2025 Update

- IIP growth slipped to 1.5 % YoY in June (May revised to 1.9 %), marking the weakest ten-month reading**; Q1 FY26 averaged just 2.0 % vs 5.4 % a year ago.
- Sectoral Trends**
 - ❖ **Manufacturing rose 3.9 %**, with 15 of 23 NIC-2 groups expanding.
 - ❖ **Key drivers were:**
 - Basic metals (+9.6 %) – led by MS slabs, HR coils, tubes.
 - Refined petroleum (+4.2 %) - driven by diesel, naphtha, petrol.
 - Fabricated metal products (+15.2 %) - due to strong demand for structural steel and stainless utensils.
 - ❖ **Mining output contracted ~8.7 %**, hit by **excess monsoon rains** and **adverse base effect**.
 - ❖ **Electricity generation fell ~2.6 %**, reflecting a sharp **drop in cooling demand**.
- Use-Based Performance**
 - Strongest growth segments:**
 - ❖ Infrastructure/construction goods: +7.2%
 - ❖ Intermediate goods: +5.5%
 - ❖ Consumer durables: +2.9%
- Weakening categories:**
 - ❖ Capital goods: slowed to +3.5% (pulled back from earlier double-digit gains)
 - ❖ Primary goods: -3.0%
 - ❖ Consumer non-durables: -0.4%
- Growth in infrastructure and intermediate goods reflects government-led orders and supply-chain restocking, whereas weak consumer non-durables and primary goods mirror soft household demand and rural headwinds.**

Outlook

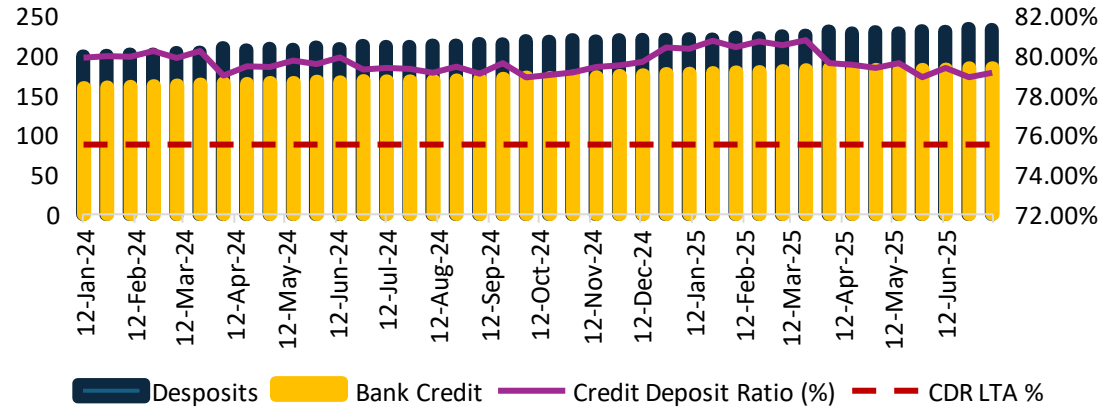
- The sharp drop in mining and electricity reflects weather-led disruptions, while manufacturing shows modest resilience.**
- Consumer-facing segments remain under strain, with demand for non-durables still muted.**
- A dual-track recovery persists, led by government sponsored infra and industrial capex, but private consumption remains weak.**
- External headwinds — including weak global demand and commodity volatility — pose further downside risk.**
- A favourable monsoon and easing inflation is likely to support rural demand ahead, but a broad-based industrial upturn will depend on a revival in private sector spending and real income gains at the consumer level.**
- Industrial recovery outlook remains uneven: while infra-led capex continues, softer household consumption, global slowdown, and the new trade headwinds may delay private-sector ramp up. Higher inflation, once the weak base effect wears off or commodity shocks would exacerbate downside risk.**

Source: Internal assessment based on RBI DBIE data

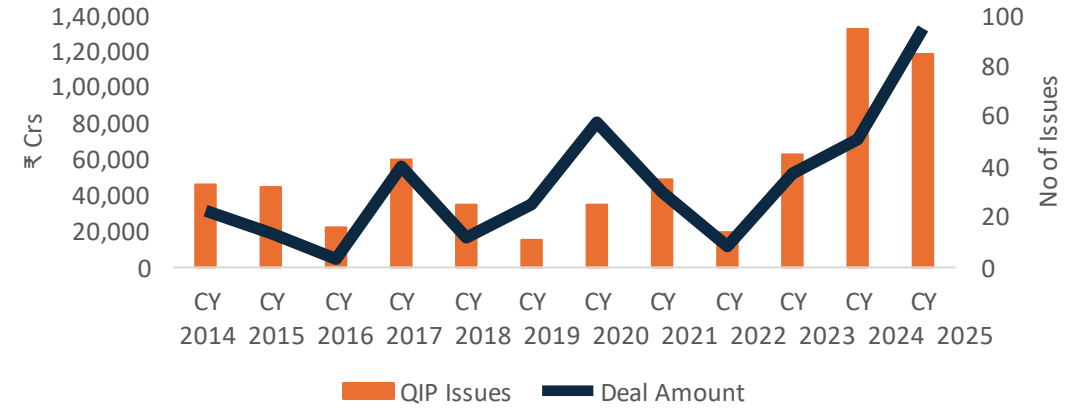
4. Capex



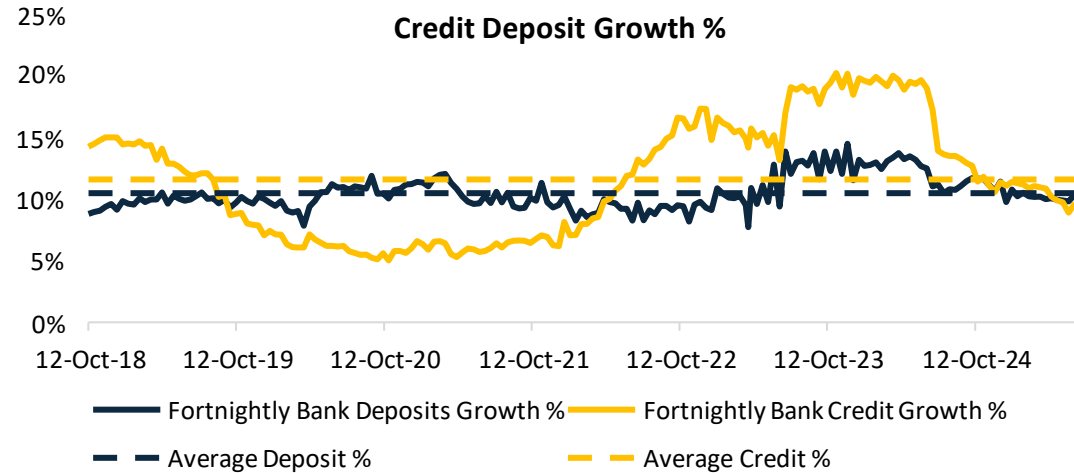
Credit Deposit Ratio



QIP



Credit Deposit Growth %

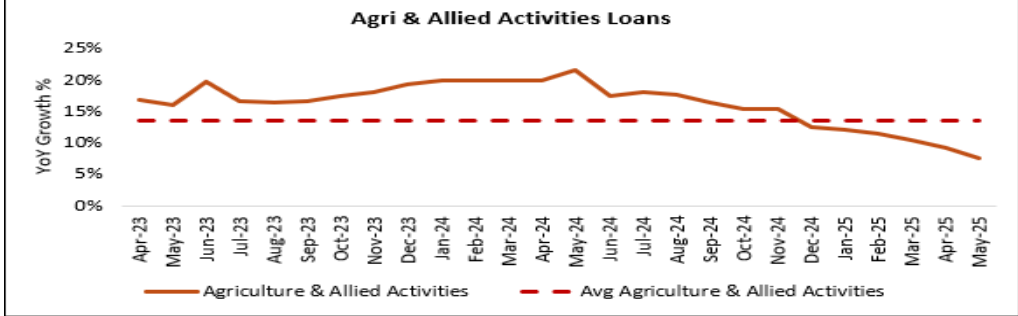


Capacity Utilization

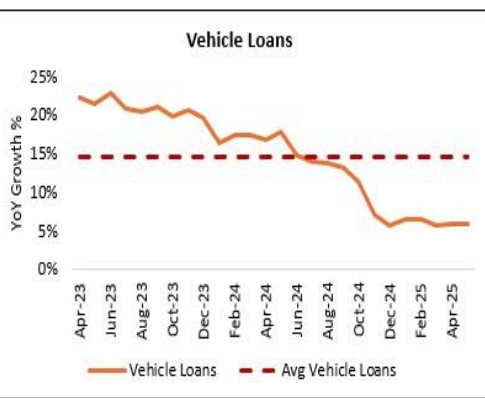
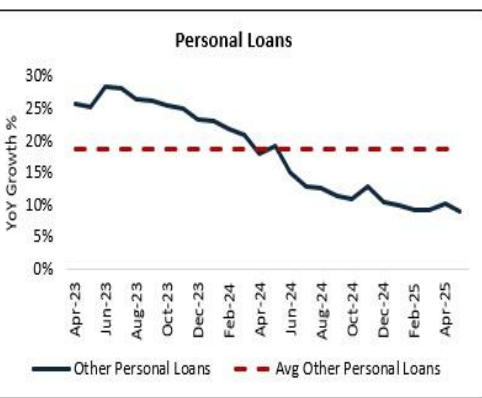
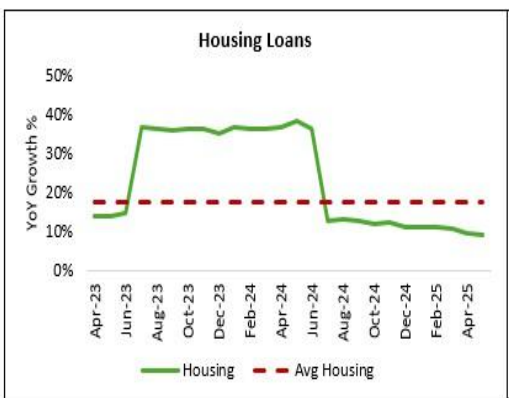
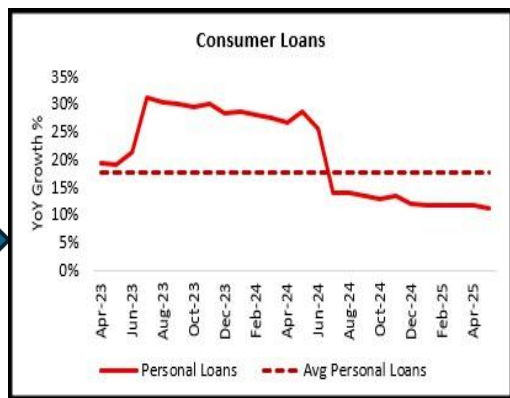




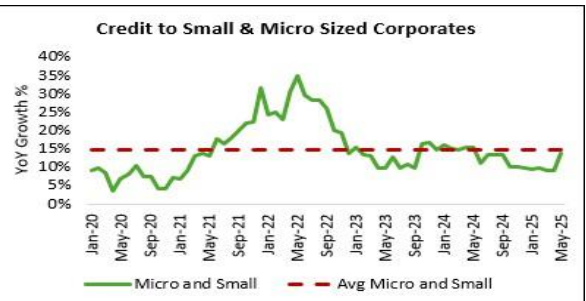
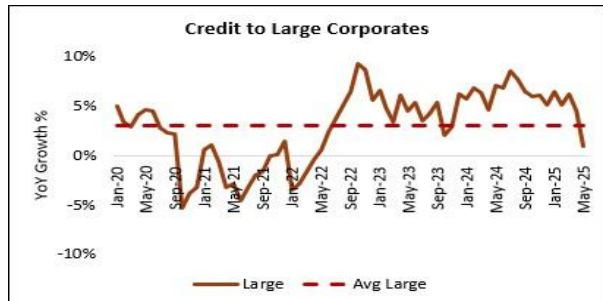
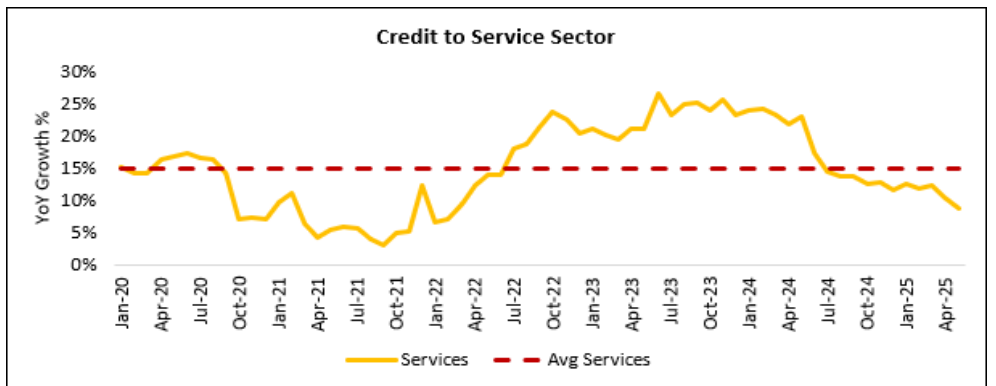
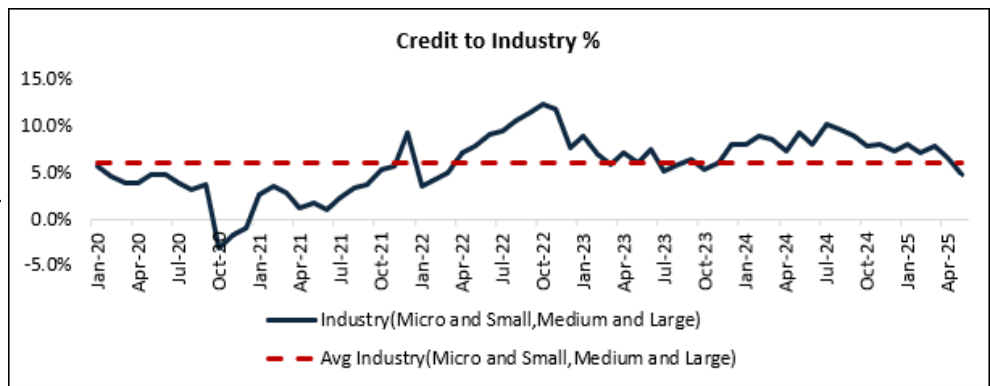
Credit to Agri



Credit to Consumer



Credit to Industry





Credit growth in the slow lane

Credit Growth Trends and CDR

- Systemic **credit growth improved slightly to 9.8% YoY (as of July 11), up from 9.46% in late June**, yet **remains well below last year's 14% pace. Deposit growth held steady at 10.1%, continuing to outpace credit**, although the gap has narrowed to 300 bps.
- The **Credit-Deposit Ratio (CDR) has stabilized at ~79.2%**, below the 85-90% seen during the 2022-23 upcycle, reflecting a **cautious lending environment amid excess banking system liquidity**.
- In absolute terms, outstanding credit stood at ₹184.6 trillion while deposits were ₹233.3 trillion; both declined sequentially during the fortnight ended July 11, highlighting weak mid-quarter offtake.
- **Credit growth moderation** from 20% in mid-FY24 to ~9-10% now is underpinned by **elevated risk aversion, particularly in unsecured retail and NBFC exposures**, following RBI's regulatory tightening, and **muted corporate appetite for capex borrowing amid weak demand visibility**.

Capacity Utilization Pause

- **Despite rate easing and abundant liquidity, capacity utilization remains range-bound, reflecting firms' reluctance to front-load capex amid uncertain demand visibility and evolving tariff regimes.**
- RBI surveys and industry feedback suggest that capex intent remains intact but is being staggered, particularly in consumption-linked and trade-exposed sectors.
- **Capital formation has been led by public investment**, with private sector still weighing macro-stability, export competitiveness, and clarity on trade policy—especially post the introduction of 25% U.S. tariffs on Indian exports.
- Structural risks from global supply chain fragmentation, coupled with **soft urban consumption recovery, have further deferred full-throttle industrial expansion**.

QIP Fundraising

- **Corporates continued to diversify funding sources, tapping equity and debt capital markets aggressively, amid high valuations.**
- **In FY25, Indian firms raised ₹1.33 lakh crore through QIPs, a record high, indicating strong investor risk appetite and favourable pricing arbitrage vs bank financing.**
- Notably, many investment-grade borrowers have opted for long-tenor bonds, hedging rate-cycle volatility and reducing near-term refinancing pressure.
- **This external market appetite has tempered near-term corporate demand for bank credit, particularly in top-rated segments.**



Sectoral Credit Deployment Trends – Update

Credit deployment trends in May 2025 signal a **broad-based moderation** across key sectors, with multiple segments now recording growth below their respective long-term averages (LTA). The drag has become **more pronounced as the earlier support from large corporate lending also faded during the month**.

Below is a segment-wise assessment:

- **Agriculture & Allied Activities**: Credit growth **slipped further below LTA**, reflecting a combination of a **high base** from last year's pre-sowing demand surge and **delayed disbursements amid erratic early monsoon patterns**.
- **Housing Loans (50% of Personal Loans)**: Growth remained **below LTA for the third consecutive month**, as **elevated property prices, tighter underwriting, and cautious buyer sentiment** weighed on fresh disbursement volumes.
- **Credit Cards & Unsecured Personal Loans**: Continued to **trend well below LTA**, driven by **regulatory curbs on risk weights, higher delinquencies in the sub-prime borrower pool, and banks' pivot toward secured retail assets**.
- **Vehicle Loans (11% of Personal Loans)**: Persistently **underperforming relative to LTA**, largely due to **subdued rural demand, tighter eligibility norms, and weak discretionary spending in the entry-level passenger vehicle segment**.
- **Large Corporate Credit**: After consistently supporting overall industry credit in previous months, large corporate loan growth **slipped below LTA** in May 2025. This inflection reflects **delayed private capex decisions**, abundant **access to capital markets amid lofty valuations**, and cautious borrowing due to **geopolitical and tariff-related uncertainty**.
- **SMID (Small, Mid & Micro Enterprises)**: Credit growth remained **below LTA for nearly two quarters**, with **MSMEs facing tighter credit norms, rising risk aversion among lenders, and limited working capital drawdowns in the face of tepid demand recovery**.
- **Services Sector**: Credit growth in services **contracted** further in May, dragged down by **muted working capital requirements in trade, transport, and professional services. The weakness likely mirrors continued demand compression in consumer-facing verticals and selective disbursement strategies by banks**.

Composition Shifts and Outlook

- **Credit deployment patterns have structurally shifted — banks are pivoting away from high-risk unsecured lending towards secured and higher-rated borrowers, especially large corporates and government-linked entities.**
- **Retail credit, especially in consumer durables, personal loans, and credit cards, has sharply slowed post-RBI risk-weight hikes, with a visible divergence in formal vs informal sector credit appetite.**
- **While deposit accretion remains strong, led by term deposits (59.5% share), banks' preference for granular, stable funding is reinforcing a more measured credit strategy.**
- **The transmission of 100 bps repo rate cut has been partial, owing to sticky cost of funds and more importantly, balance sheet conservatism.**
- **Forward guidance from major lenders suggests a gradual credit recovery in H2FY26, supported by:**
 - **Festive season-led consumption lift**
 - **Lagged impact of tax sops and fiscal transfers**
 - **Rural demand stability post-good monsoon**
- **However, any sustained pick-up is contingent on broader private capex revival, easing geopolitical headwinds, and RBI's ongoing liquidity stance.**
- **Baseline credit growth for FY26 is now pegged at 11–12%, but downside risks remain from trade protectionism, volatile commodity prices, and weak real wage growth in urban India.**

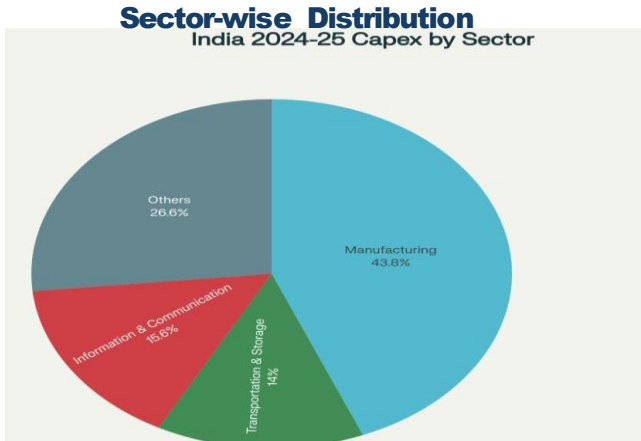
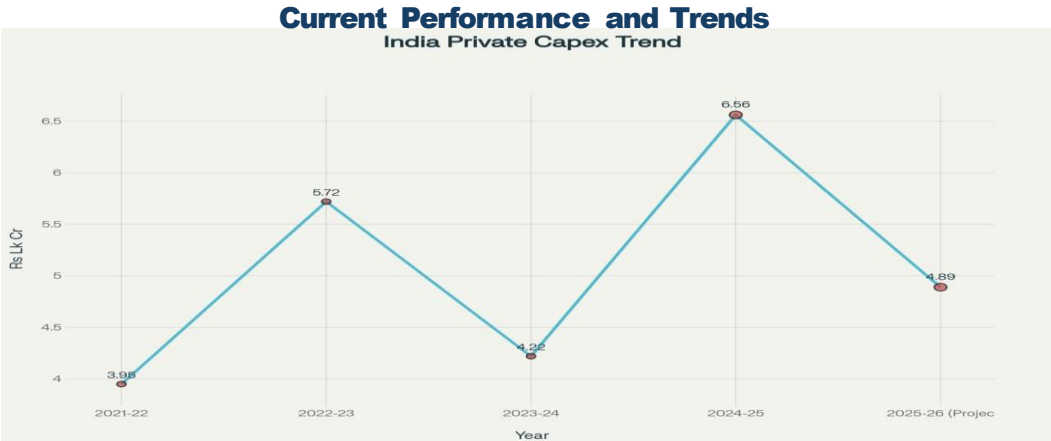


India's Private Capex - Current Situation and Outlook

India's private capital expenditure (capex) is experiencing **significant volatility amid a complex economic landscape** marked by both opportunities and challenges. The sector reached **record highs in FY 2024-25** but faces **uncertainty going forward**.

India's **private sector capex demonstrated remarkable growth momentum in FY 2024-25, reaching a record high of ₹6.56 lakh crore (\$77.54 billion)**, representing a 66% surge compared to FY 2021-22. **This marked a 55.5% year-on-year increase from the previous fiscal year. However, this peak performance is projected to moderate, with capex intentions declining to ₹4.89 lakh crore (\$57.8 billion) in FY 2025-26, representing a 25.5% decrease.**

The aggregate capex showed an overall increase of 66.3% over the four-year period from 2021-22 to 2024-25. Despite the projected decline for FY 2025-26, the levels are expected to remain above FY 2021-22 and FY 2022-23 figures, indicating sustained progress in infrastructure growth and business development.



Manufacturing enterprises dominate private capex, accounting for 43.8% of intended capex in FY 2024-25. Information and Communication Activities follow with 15.6%, while Transportation and Storage Activities contribute 14%. The electricity, gas, steam, and air conditioning supply sector shows the highest gross fixed assets per enterprise, exceeding ₹14,000 crore.

Corporate capex by listed non-financial companies reached ₹11 trillion in FY 2025, surpassing the central government's capex of ₹10.5 trillion. This represents a 20% year-on-year growth and marks the first time in recent years that private sector capex has exceeded government spending. A total of 157 corporates embarked on capex exceeding \$100 million, the highest number since 2013.

It is worth highlighting that a significant portion of recent capital expenditure was financed through Qualified Institutional Placements (QIPs) and private placements, rather than traditional bank credit. This trend reflects the elevated valuations in Indian equity markets, which enabled companies to raise capital more efficiently from institutional investors, thereby bypassing conventional banking channels for their funding needs.



Key Challenges and Constraints going forward:

Demand-side Concerns

Weak domestic consumption in urban areas and muted export demand amid the new US tariff structure are restricting capacity expansion plans. Despite record profits, with corporate profit-to-GDP ratio at a 15-year high of 5% in 2024, private investment remains sluggish due to uncertainty about sustained demand. Manufacturing capacity utilization stands at ~75%, leading most firms to believe current production capacity is sufficient for near-term demand.

Global Economic Headwinds

Global uncertainties including geopolitical tensions, trade wars, and potential US tariff increases create additional challenges. The fog of uncertainty has thickened with threats of reciprocal tariffs and changing global trade dynamics. Private capex announcements contracted 9% year-on-year in FY 2025, led by sharp declines in Services and Construction sectors.

Regulatory and Policy Uncertainty

India's complex regulatory framework poses significant challenges for investors. Inconsistent regulatory frameworks and frequent policy shifts create uncertainty for businesses. The country has gained notoriety as the "cemetery of foreign companies," with nearly 2,800 foreign firms shuttering operations between 2014 and 2021. Administrative and regulatory hurdles, including tedious land acquisition procedures and inadequate credit access, continue to deter investment.

Future Outlook and Projections:

Short-term Prospects (FY 2025-26)

The 25.5% decline projected for FY 2025-26 reflects cautious planning after a strong FY 2024-25, driven by factors including **weak demand, and geopolitical uncertainties**. However, the levels are still expected to exceed FY 2023-24 and FY 2021-22 figures.

Medium-term Growth Potential

S&P Global Ratings projects that Indian companies **may double their capex to \$800-850 billion over the next five years**. This expansion would be largely financed through **operating cash flows and supported by domestic funding channels**. **Power and transmission sectors** are expected to account for roughly \$300 billion in new investment, representing more than **one-third of total projected capex**.

Long-term Strategic Vision

The government aims to pivot focus from government spending to private investment, emphasizing critical and emerging sectors such as **high-value electronics, 5G technology, telecommunications, clean energy, and manufacturing**. **Aviation and renewables are projected to account for about 15% of total spending and around 40% of incremental investment.**

Investment Climate Assessment:

Despite challenges, India's private sector is in a better position to invest compared to a decade ago, with **improved financial health and reduced debt levels**. **Corporate balance sheets are the leanest they've been in years, with companies well-positioned for a growth run**. The aggregate capex-to-depreciation ratio has risen to approximately 2x from the cycle low of 1.3x, indicating companies are focusing on discretionary capex rather than simply replacing depreciated assets.

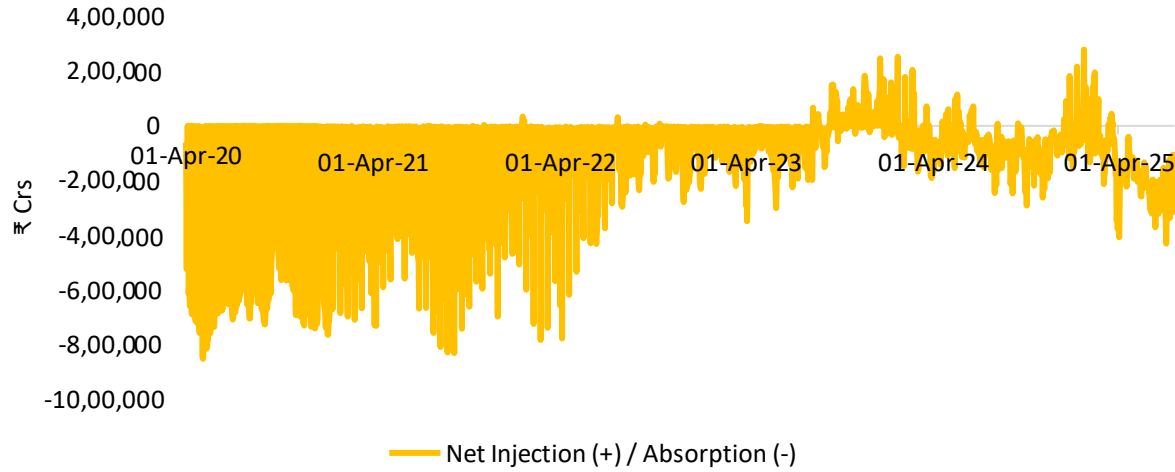
The slightly lower intended capex for FY 2025-26, though still above FY 2023-24 levels, reflects cautious planning after a strong FY 2024-25. Overall, the trend indicates growing corporate confidence and a judicious approach to investment amid improving economic certainty.

India's private capex situation represents a complex interplay of record-breaking achievements in FY 2024-25, tempered by near-term caution and global uncertainties, but supported by strong fundamentals and government initiatives that position the country for sustained medium to long-term growth.

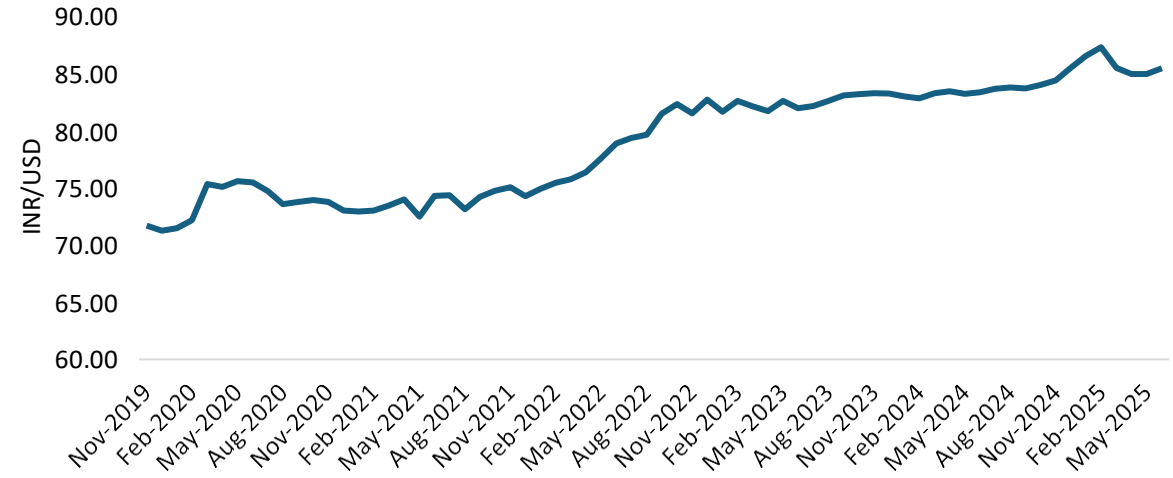
5. Liquidity



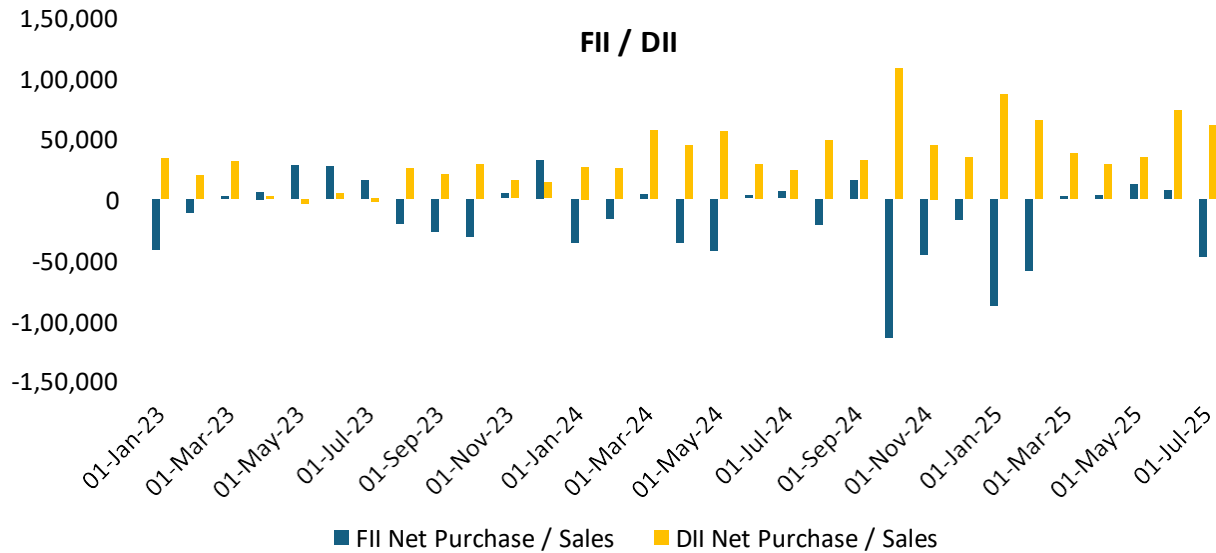
Net Injection(+)/Absorption(-) of Excess Liquidity



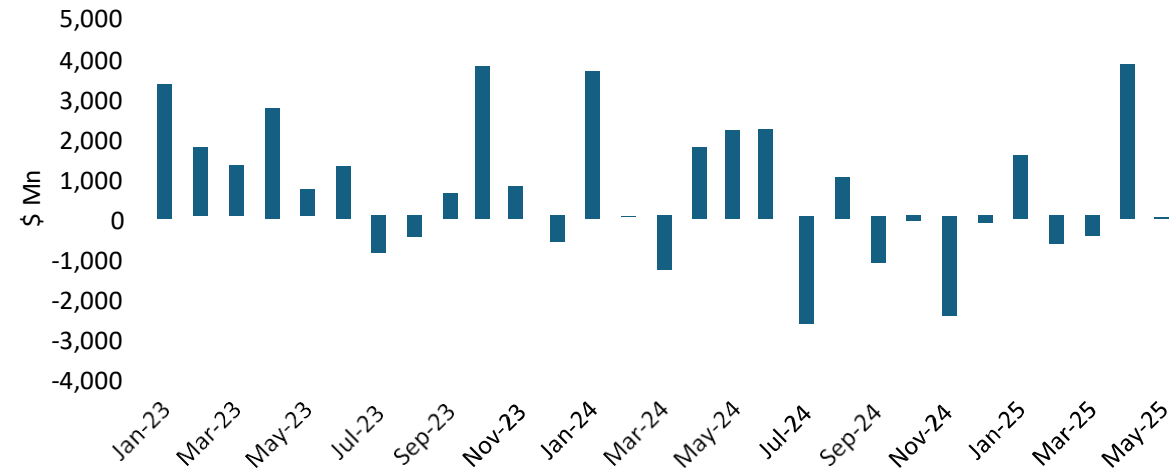
INR/USD



FII / DII

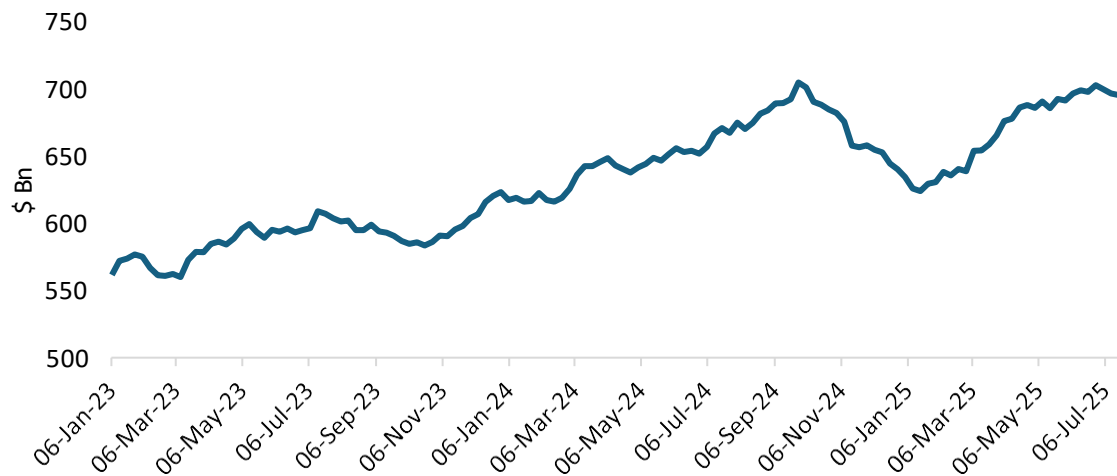


Net FDI

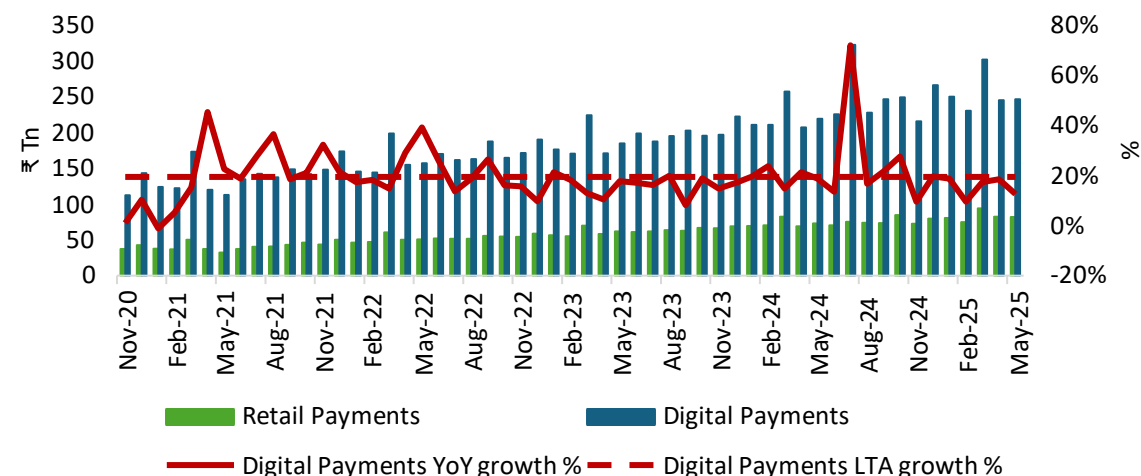




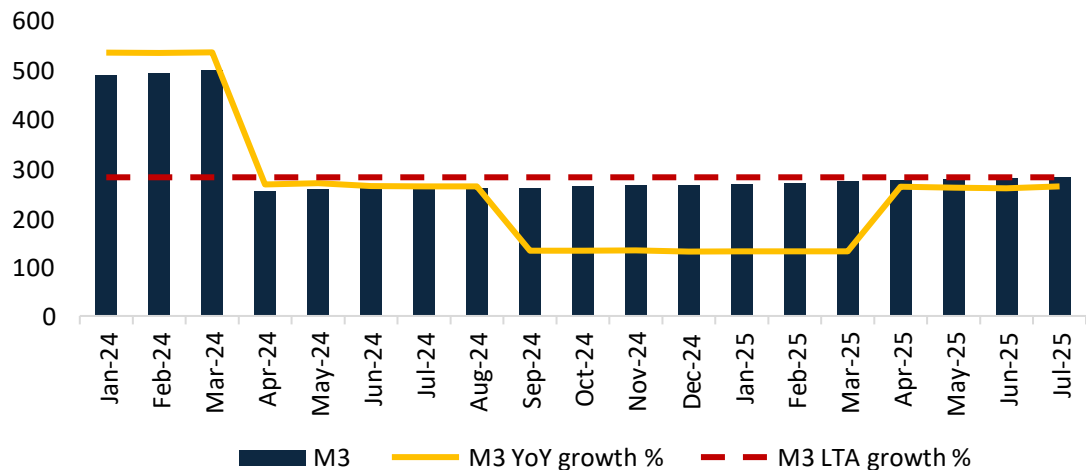
Foreign Exchange Reserves (USD Bn)



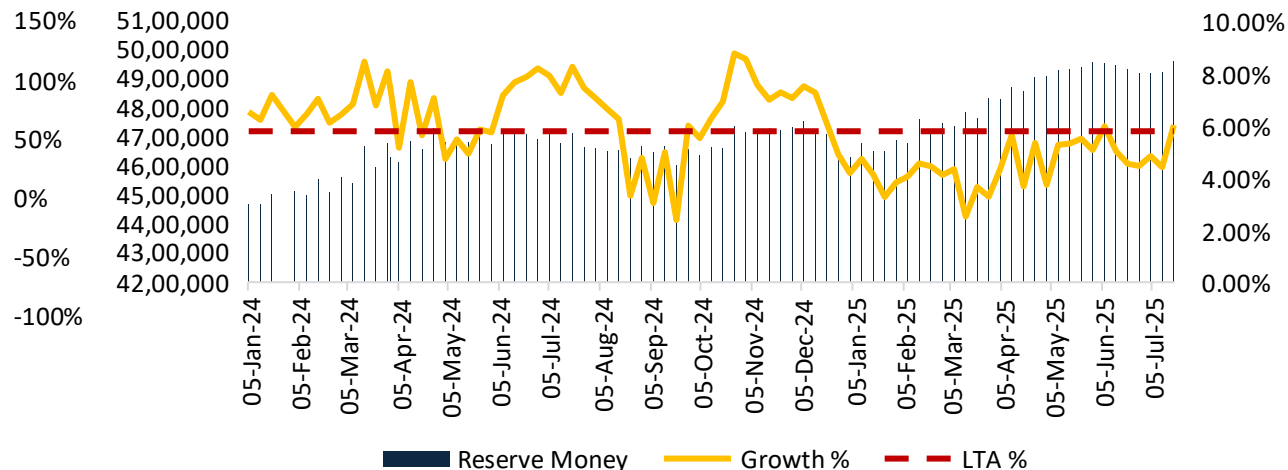
Payments



Money Supply



Reserve Money (M0)





Liquidity in India: A Surplus dilemma amid Demand deficit

- Imagine a lake overflowing with water, yet the taps in surrounding homes are running dry. This metaphor aptly describes India's current liquidity conundrum. The Indian banking system today is flush with money, yet banks are struggling to deploy funds profitably or generate meaningful credit momentum. This disconnect lies at the heart of the Reserve Bank of India's recent liquidity management operations and reveals deeper structural issues beyond mere availability of funds.
- To begin with, over the past several months, the **RBI has undertaken aggressive steps to stimulate credit and support economic activity. Between January and early June 2025, it infused ₹9.5 trillion into the financial system** through a combination of policy rate cuts, CRR reductions, and open market operations. The **repo rate—the benchmark rate at which the RBI lends to banks—was slashed from 6.5% to 5.5% via three consecutive cuts, including a front-loaded 50 bps reduction**. Simultaneously, the **CRR (portion of bank deposits parked with RBI without earning interest) was reduced by 100 bps to 3%**, releasing an additional ₹2.5 trillion in phased tranches. Further, the RBI conducted **bond buybacks** and injected liquidity **through OMOs** totaling ₹4.95 trillion. **These measures were intended to reduce borrowing costs for banks, boost credit transmission, and spark a virtuous cycle of investment and consumption**. As a result, the liquidity situation underwent a dramatic transformation. **From a deficit of ₹2.4 trillion at the end of FY24, the system shifted into a surplus of ₹3 trillion by July**, briefly crossing ₹4 trillion. While this should ideally push banks to lend more aggressively, reality has turned out to be more complex. **Despite the glut of liquidity, bank credit growth has remained stubbornly weak, clocking in at 9.5% YoY in the last week of June, down sharply from 19% a year ago** and well below the levels needed to support a \$4-trillion economy growing at 6.5% annually.
- Meanwhile, deposit growth has remained relatively steady at around 10%, widening the funding-cost gap.** Moreover, the **composition of deposits is changing unfavorably. The once-plentiful current and savings accounts (CASA) that offered low-cost funding are shrinking every quarter. Banks are increasingly dependent on high-cost term deposits to fund their balance sheets, compressing net interest margins even as they're expected to lend at competitive rates.**
- Technically, the **RBI is following a "corridor-based" liquidity framework**, unlike some central banks that operate a "floor-based" system. In this corridor model, **the repo rate serves as the midpoint, while the SDF and MSF act as boundaries within which overnight rates are expected to move**. The WACR reflects the actual price of overnight funds. The RBI calibrates liquidity so that WACR stays close to the repo rate. SDF Rate gives the banks a risk-free way to park their excess cash. MSF is a "safety valve". Banks that mis-forecast their liquidity can borrow overnight at MSF against SLR securities. Hence, under normal liquidity and demand environment – $MSF > WACR = Repo > SDF$. Hence if liquidity is tight WACR presses towards MSF and if liquidity is in excess the WACR presses towards SDF. **In the present scenario, where credit demand is weak and liquidity is in excess, the liquidity-credit mismatch is having cascading effects on short-term interest rates. The overnight weighted average call rate (WACR), has been trading around the SDF rate of 5.25%, and at times even below it. This scenario compels banks to park their excess liquidity at rates close to SDF which is lower than the Repo rate and this squeezes net-interest-margin (NIM) on every rupee funded through the treasury desk. Hence, in an attempt to chase higher-yields banks would tend to lower their underwriting standards to protect margins. Bankers, particularly in public sector banks, are under pressure to meet quarterly lending targets. Yet the demand for credit is not commensurate with the liquidity on offer. In late June, some large PSU banks extended short-term loans to PSUs at interest rates as low as 5.75–5.97%—barely above the repo rate—raising concerns about profitability and sustainability. This desperation to push credit reveals a troubling undercurrent - easy money does not necessarily lead to quality credit if there is no borrower appetite or creditworthy demand.**



- **In response, the RBI has resorted to Variable Rate Reverse Repo (VRRR) auctions**—most recently worth ₹50,000 crore overnight and ₹2.5 trillion for seven days (the highest on record), to **absorb excess liquidity and push short-term rates back into the 50-bps-wide LAF corridor** (SDF: 5.25%, Repo: 5.5%, MSF: 5.75%).
- **The challenge here is both technical and structural.** The **persistent liquidity surplus is pushing the market toward the lower end (SDF), thereby diluting the efficacy of the policy rate and reducing monetary transmission effectively.** Structurally, however, the demand side of the credit equation remains fragile, wherein lies the issue.
- Historical evidence further supports this point. During India's last great credit boom (FY06-08), non-food credit growth averaged over 27%, even though repo rates ranged between 6.75% and 9%. Conversely, today's historically low rates are not translating into robust credit expansion. The lesson: **availability of liquidity is necessary but not sufficient—demand is the key driver of credit growth.**
- **So where is the demand lacking? Weak private investment remains a chronic issue. Corporates, still cautious after the deleveraging of the past decade, are not borrowing aggressively. Retail demand, particularly for housing, vehicles, and unsecured loans, has also moderated amid high household leverage and tighter risk controls by banks and NBFCs. Meanwhile, the government continues to do the heavy lifting through public capex, but that alone isn't enough to ignite a broad-based revival.**
- **The other worry with persistent liquidity surplus is its potential to inflate asset prices and trigger financial imbalances. Easy money, if not channeled productively, can seep into capital markets, push up valuations, and widen the disconnect between fundamentals and prices. It can also create pressure on inflation, especially if global commodity prices rise or if the INR weakens due to capital outflows.** Indeed, a recent report from ICICI Bank highlights that surplus liquidity tends to boost equity prices, compress corporate bond spreads, and raise inflation with a lag of three quarters.
- The RBI is acutely aware of this **delicate balance**. It wants to **support growth, maintain price stability, and preserve financial stability** - all at once. **This explains its calibrated use of VRRRs and sterilization tools to keep the overnight rate anchored, without signaling a reversal of its accommodative stance. The key question now is: how much liquidity is too much?**

Outlook:

- **In the near term, system liquidity is expected to remain in surplus, supported by the cumulative impact of policy rate cuts, CRR easing, OMOs, and government spending. However, unless there is a decisive pickup in private sector credit demand - driven by consumption and investment - the surplus may continue to chase fewer borrowers compressing margins, decrease in credit quality, reignite inflation, and create valuation distortions. The RBI will likely continue to fine-tune liquidity via VRRRs and may resort to further sterilization if inflationary pressures re-emerge. Ultimately, the return of credit demand—not just surplus liquidity—will be the true signal of economic recovery.**



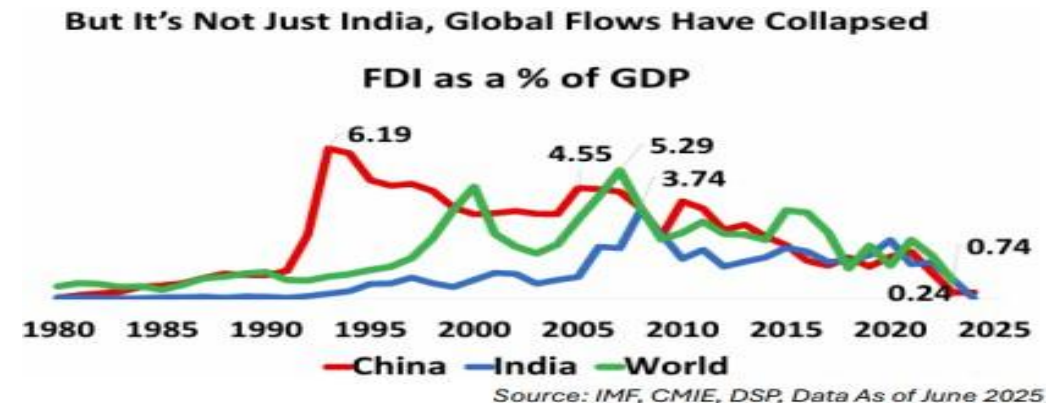
Who moved my FDI!

- Over the last five years, India has exhibited one of the strongest macroeconomic setups among emerging markets, while also delivering superior equity and debt returns coupled with low volatility.

India Delivers Outstanding Numbers	5yr CAGR / Avg
Nominal GDP Growth	10.5%
Equity Earnings Growth	20%
Equity Index Returns	24%
Avg. Rupee Volatility (Annualized)	4%
CPI Inflation	5.60%
Avg. Real 10Yr Govt. Security Yield	1.40%

- Despite India's strong macro-fundamentals, the anticipated surge of foreign capital has failed to materialise and has, in fact, receded. In FY25, total foreign inflows amounted to only \$4.5 billion, marking a two-decade low and underscoring a sharp reversal from earlier expectations. Foreign Direct Investment (FDI) in particular slipped to its weakest level in 20 years, an outcome that would have been unthinkable just five years ago. This retreat is not unique to India; globally, FDI has declined to less than 1% of world GDP.

	FY20	FY21	FY22	FY23	FY24	FY25
Net foreign direct investment	43.0	44.0	38.6	28.0	10.1	0.4
Foreign direct investment to India	56.0	54.9	56.2	42.0	26.8	29.6
Gross inflows/gross investments	74.4	82.0	84.8	71.4	71.3	81.0
Repatriation/disinvestment	18.4	27.0	28.6	29.3	44.5	51.5
Foreign direct investment by India	13.0	11.0	17.6	14.0	16.7	29.2

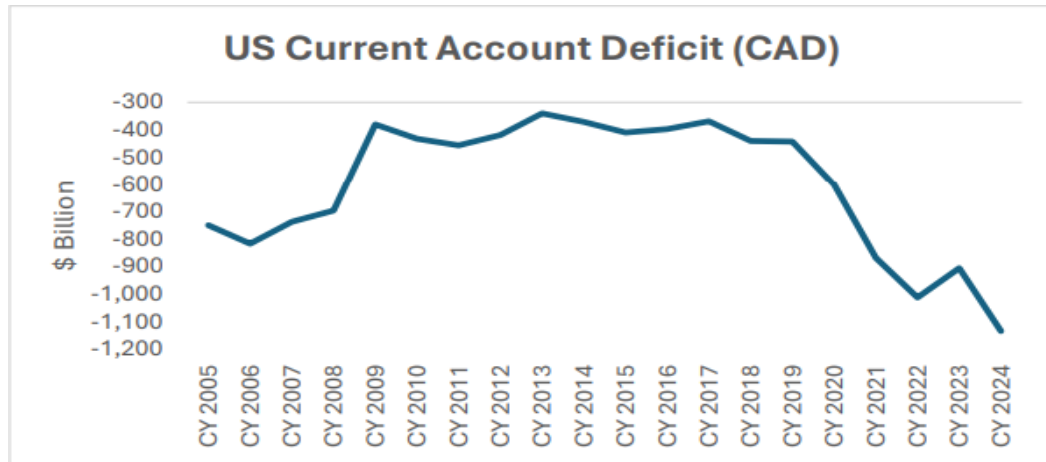


- If and when global flows rebound and if India continues to maintain macroeconomic stability along with strong microeconomic delivery these flows could return. For now, however, they remain a cause for concern.



Weakening US Dollar Flow leading to a fall in Net FDI

The global supply of US dollars flows to the rest of the world through two primary conduits: (i) USAs Trade Deficit (the real-economy channel) and (ii) cross-border capital movements (the financial channel). Because the dollar is the world's reserve currency, the United States must run persistent trade deficits — effectively “exporting” dollars, that other countries then hold as their reserve currency, namely US Treasuries, thereby creating high-quality savings assets for the rest of the world. In return, those countries become net creditors to a USA, that remains the system's net debtor. This debt in turn runs the prosperity in USA. Since the pandemic, however, America's current account deficit has exploded. The associated recycling of those external deficits into Treasury bonds has pushed federal indebtedness to uncomfortable heights constantly pushing towards the fiscal cliff. Washington is now seeking to moderate the imbalance - most visibly through tariff barriers aimed at curbing imports and, by extension, deleveraging its balance sheet.



Source: U.S. Bureau of Economic Analysis

When the world's largest debtor deleverages, a major creditor (e.g., China or the EU) is expected to offset the contraction by leveraging up. However, China is simultaneously in a deleveraging phase, raising the risk of a synchronised growth slowdown and, quite possibly, broad-based currency debasement.

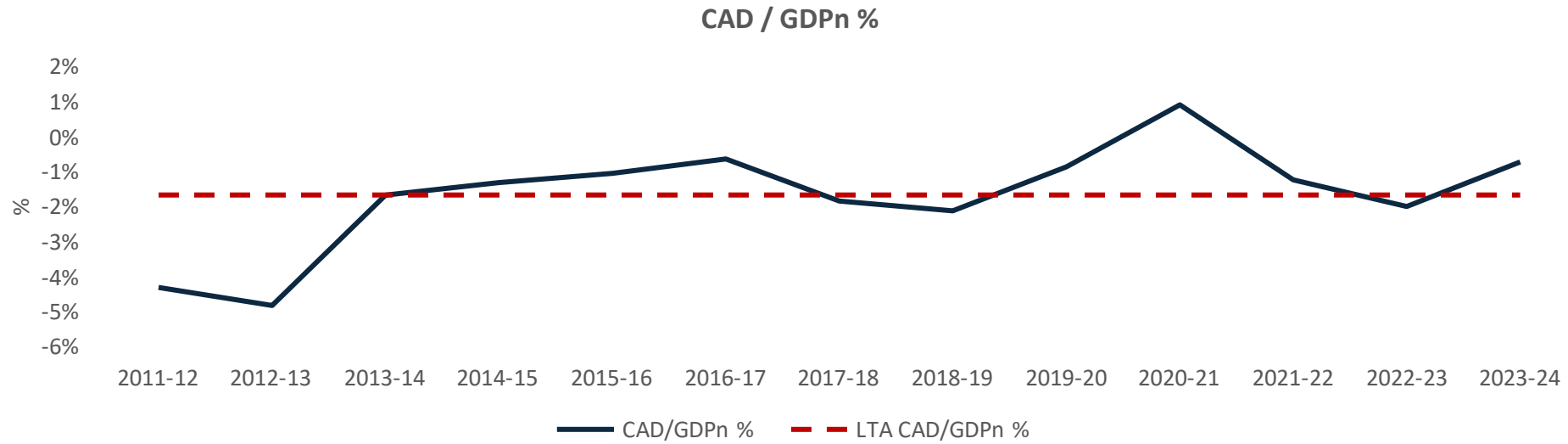
As a result two forces are at play;

- ❖ The imposition of tariffs is expected to curb U.S. import demand, placing structural downward pressure on the world's reserve currency, the US dollar. The DXY index has already witnessed a fall from around 110 to the high-90s, reflecting both policy-induced and structural weakness.
- ❖ Slower global growth will likely lead to a deflationary trend. With the US, still the world's largest consumer, reining in its trade deficit, and China or EU reluctant to act as the offsetting spender, world demand is losing a key engine.

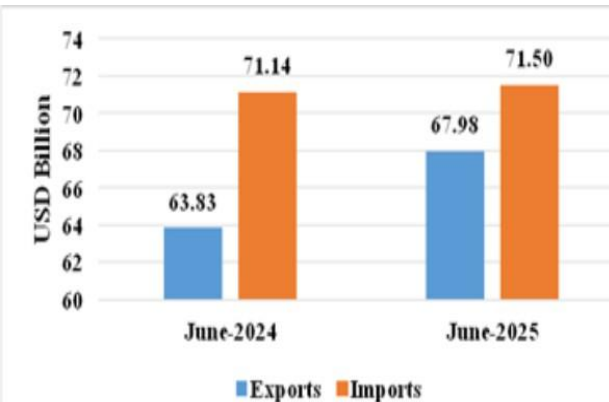
A large share of the US external deficit now stems from semiconductor / chip imports: although America became a net energy exporter in 2008, it now brings in chips on roughly the same scale that it once imported oil. US Domestic chip-manufacturing initiatives is likely to take years to close that gap. Until then, both trade-driven and capital-flow-driven dollar exports is likely to be subdued, dampening global growth and in turn FDI worldwide including India, sending deflationary signals through global markets, and more importantly, undermining the US Dollar's status of the reserve currency of the world... Enter Gold!



6. Trade



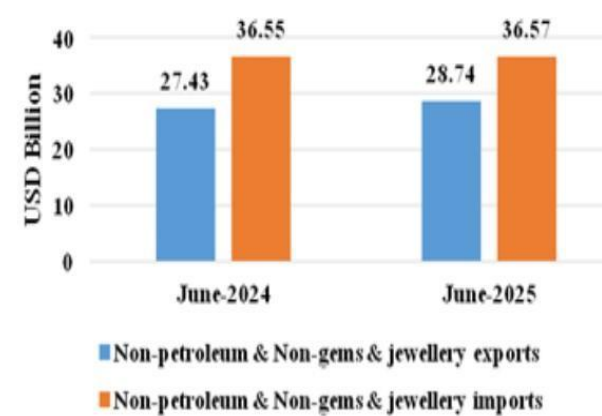
Total Trade during June-2025



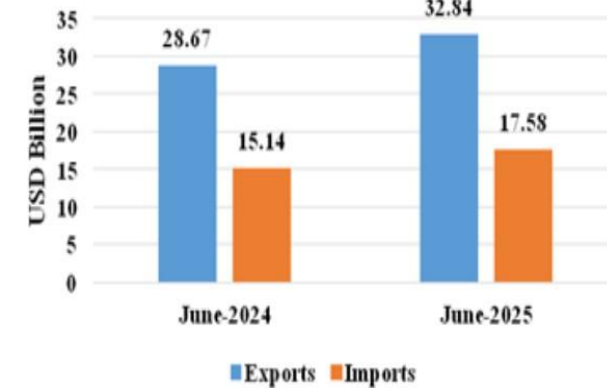
Merchandise Trade during June-2025



Trade excluding Petroleum and Gems & Jewellery during June-2025



Services Trade during June-2025



India's Trade Snapshot – June 2025



Overall Trade Balance:

- India's **trade deficit narrowed to \$18.78 billion in June 2025, a four-month low, improving both sequentially and YoY** (vs \$21.88 bn in May and \$20.84 bn in June 2024). This improvement was largely **aided by a sharper contraction in imports relative to exports, underscoring a stabilising external balance despite global uncertainties**.
- Goods exports remained under pressure, posting a marginal YoY contraction of 0.05% to \$35.14 billion**, the lowest level in seven months. However, the impact was **offset by a 3.71% drop in imports to \$53.92 billion, reflecting easing commodity prices and selective import curbs**.
- April-June combined goods and services exports stood at a record \$210 billion, up 6% YoY, indicating robust quarterly performance and suggesting resilience in external sector momentum heading into H2FY26.

Merchandise Exports and Imports:

- Exports:** Sequentially, exports **fell 9% MoM, reflecting broad-based weakness across 14 of 30 major categories** including petroleum products, fabrics, gems & jewellery, leather, iron ore, and spices. **US-bound exports showed notable strength, rising to \$25.52 billion, up from \$20.89 billion in the prior month, despite a base tariff hike to 10%. This indicates frontloaded shipments ahead of potential trade policy shifts and tariff deadlines. US based exports form 24% (Goods ~18% & Services ~32%) of total exports.**
- Imports:** Imports contracted sharply due to falling global crude prices. **Crude oil imports dropped by 8.37%, while gold imports plunged 25.73% to \$1.9 billion, the latter partly reflecting import curbs on colloidal forms of precious metals.** Authorities have begun closely monitoring atypical surges in commodity inflows, indicating stricter scrutiny going forward.

Services Trade:

- India's services trade **continues to act as a stabilizing force**. The Q3FY25 services trade surplus stood at \$52.3 billion, **driven by strong exports in IT, consulting, and R&D services**.
- Digitally Delivered Services (DDS) exports touched \$269 billion in 2024, cementing India's position as the world's fifth-largest DDS exporter.
- This performance has been pivotal in offsetting the widening merchandise trade gap, reinforcing the services sector's role as a structural buffer to trade imbalances.**

Key Trade Trends and Sectoral Insights:

- Strong export growth was seen in Aircraft, spacecraft & components, entering the top 10 export categories with over 200% YoY growth, led by orders from West Asia and Central Europe.
- High-tech merchandise such as electrical machinery and arms, which grew at a 10.6% CAGR since 2014, reaching \$80.6 billion in 2024.

Geographic highlights:

- Exports to ASEAN, West Africa, and South Asia surged, with Singapore registering a 52% YoY rise on the back of petroleum and cargo vessel exports.**
- FTA-linked trade showed strong traction** – exports to FTA partner countries rose 16% YoY to \$43.2 billion, while imports rose 7% to \$66.7 billion.
- Tariff advantage in the US market continues to support competitiveness in sectors like pharmaceuticals, textiles, and electrical machinery, reinforcing India's positioning amidst global realignments.

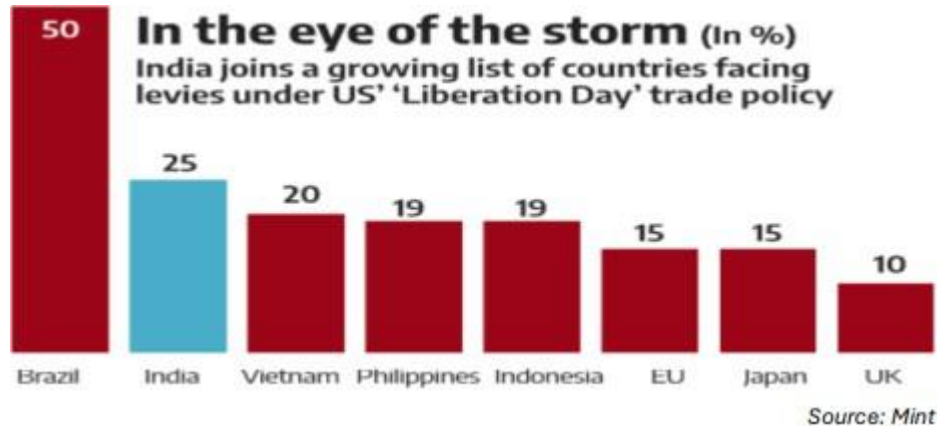
Outlook:

- Crude oil prices are expected to remain volatile in the near to medium term, but recent easing in geopolitical tensions suggests partial stability. If crude averages \$65–70/bbl, CAD/GDP could stay within 0.5–0.7% for FY26, limiting external vulnerability.**
- Policy-level engagements with major trade partners — including the EU and ASEAN — are progressing, with renewed emphasis on: Services-oriented FTAs, covering data flows and professional mobility. Finalisation of FTA revisions with ASEAN by October, aimed at improving market access.**
- Trade momentum in goods may face near-term headwinds due to frontloaded shipments and weaker global demand. However, imports are expected to remain subdued, supported by falling commodity prices and proactive import management.**
- FX markets are likely to remain influenced by external volatility, but RBI's calibrated intervention suggests INR could stay within a broad range of 85.5–86.5 per USD in the near term.**
- The record export performance in Q1FY26, particularly in services and high-tech goods, signals India's growing export competitiveness. However, sustaining this momentum will depend on continued reforms, stable global conditions, and timely execution of trade infrastructure upgrades.**



The Tariff Conundrum

The Tariff conundrum further beats down upon already lofty valuations. **On 31 July 2025, U.S. President Donald Trump announced via Truth Social that every Indian product entering the United States will face a 25 percent ad-valorem tariff, coupled with an as-yet-undefined penalty tied to India’s defence and energy links with Russia. The declaration arrives just as a temporary pause on reciprocal duties lapses and only weeks before the sixth round of bilateral trade-agreement negotiations scheduled for 25 August in New Delhi, which Indian officials say they still intend to pursue.**



India’s goods trade surplus with the United States reached roughly \$41 billion in FY25, driven by an 11.6 percent rise in exports to \$86.5 billion, while imports increased 7.4 percent to \$45.3 billion. The 25 percent levy puts Indian exporters at a clear disadvantage versus peers in Vietnam, Indonesia, the Philippines, Japan and the EU, which recently accepted tariffs in the 15–20 percent range in exchange for market-access concessions.

India’s trade surplus with US (\$ bn)

Source: Commerce Department



India's Exports - FY 2024-25	Goods Exports	Services Exports	Total
To the US (\$ Bn)	87	120	207
Total Exports (\$ Bn)	437	388	825
% of Total Exports	20%	31%	25%

- The sectors most exposed are textiles and apparel, leather goods, footwear, generic auto components and certain processed foods - areas where India commands meaningful U.S. market share.
- Pharmaceuticals and marine products could face mixed outcomes, as some formulations and seafood lines have historically enjoyed carve-outs, though official clarification is pending.
- Iron, steel and automotive exports remain on a watch list given overlapping Section 232/301 measures that might be layered on top.



- Macroeconomic spill-overs should be contained but visible. Economists are trimming India's FY26 growth outlook by 10–20 basis points to roughly 6.4 percent, and the rupee has already slipped to ₹87.42 per dollar, its weakest level since February. The announced tariff and potential penalty are likely to weigh on the rupee in the near term, as foreign portfolio investors continue to rotate funds out of Indian equities toward developed-market and safe-haven assets amid a clear risk-off mood. Additional uncertainty over any penalty linked to India's crude-oil purchases from Russia should keep FX markets tense. Over a longer horizon, however, the broad imposition of tariffs worldwide would reduce U.S. import demand and, by extension, the global circulation of dollars - an environment that ultimately argues for structural depreciation of the greenback. The Reserve Bank of India may lean slightly dovish if export softness erodes external balances, while domestic equity markets have begun rotating toward inward-facing themes at the expense of export-heavy mid-caps.
- Three scenarios dominate our forward planning:
 - First, the **tariff could be scaled back toward 15-20% if India offers calibrated concessions** on agriculture, electric vehicles or intellectual-property enforcement during the August talks.
 - Second, the **duty could persist, prompting Delhi to pursue a WTO challenge or levy calibrated counter measures** on U.S. ICT products.
 - Third, **Washington could escalate by formalising a penalty surcharge linked to Indian purchases of Russian oil (Russian oil makes up 36% of India's total oil imports) and defence equipment, forcing a broader portfolio repositioning, particularly in energy-intensive industries.**

Across every scenario, export-oriented Indian firms are poised to confront weaker demand and heightened pricing pressure. Although the broader macro picture is still evolving, a tangible drag on India's growth trajectory now looks imminent.



Outlook:

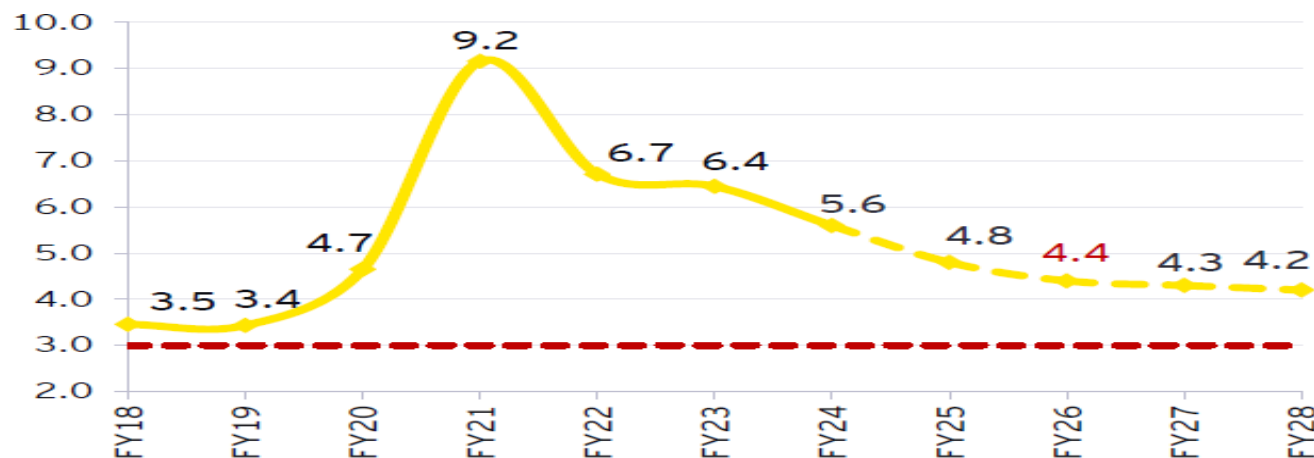
- **Crude oil prices are expected to remain volatile in the near to medium term, in lieu of geopolitical tensions.**
- **Policy-level engagements with other major trade partners — including the EU and ASEAN — are progressing, with renewed emphasis on: Services-oriented FTAs, covering data flows and professional mobility. Finalization of FTA revisions with ASEAN by October, aimed at improving market access.**
- **However, trade momentum in goods may face near-term headwinds due to frontloaded shipments and weaker global demand on account of the impending US tariff hikes. Imports are expected to remain subdued on account of weak domestic demand.**
- **FX markets are likely to remain influenced by external volatility, but RBI's calibrated intervention suggests INR could stay within a broad range of 85.5–88 per USD in the near term.**
- **RBI CAD point-estimate for FY 26 was -1% of GDP and has now shifted downwards to -0.9% of GDP. How the numbers shifted, and why it looks counter-intuitive:**
 - ❖ **Tariff arithmetic vs. Services cushion - The RBI's modelling team took the tariff shock on goods trade (a drag of about 0.3-0.4 ppt of GDP) but simultaneously upgraded the outlook for net services receipts (IT, business process outsourcing and travel) and for inward remittances. Those offsets kept the headline CAD number marginally better, not worse, than the April print.**
 - ❖ **Scenario range still on the table. The RBI flagged a risk band of -1.2 % to -1.3 % of GDP for FY 26 if (a) all 25 % tariffs remain in force for the full year and (b) crude averages above USD 85/bbl. That “stress-case” is not the official forecast but guides the MPC's contingency planning.**



7. Fiscal Situation



GOI's Fiscal Debt / GDP – Glide Path

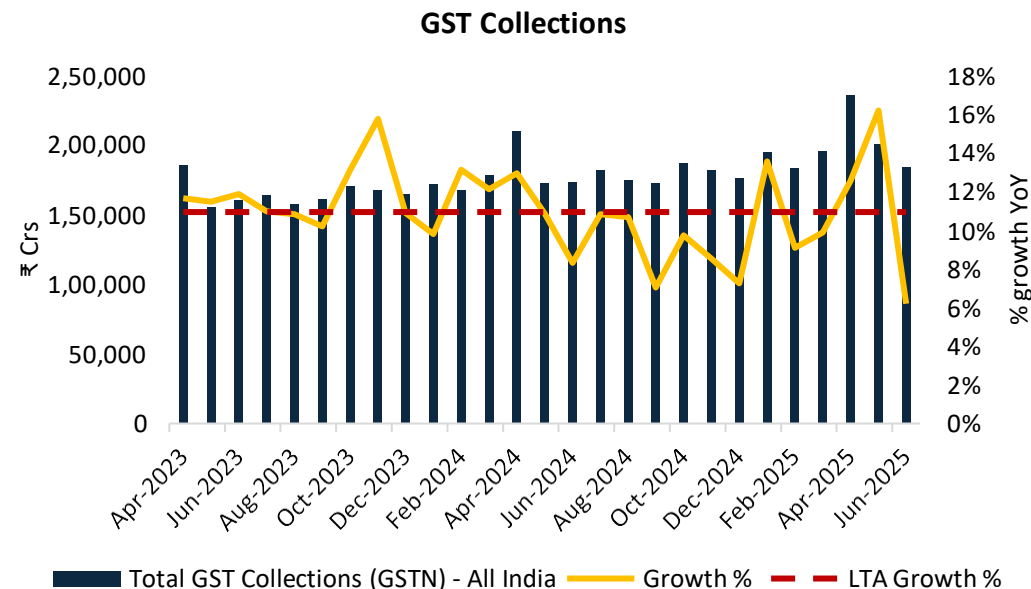
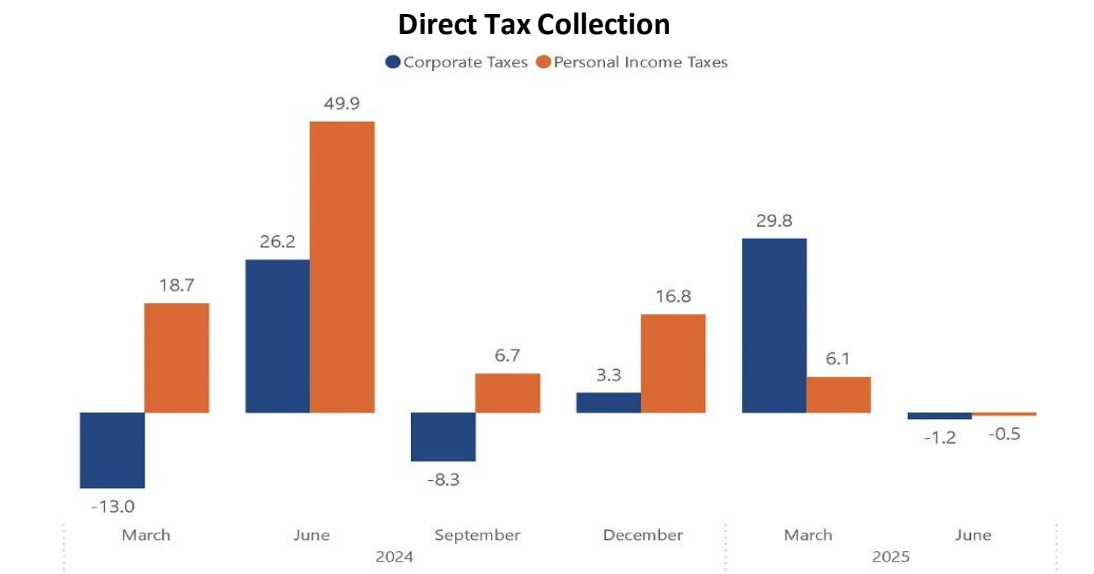


GOI's Fiscal Position

	FY23	FY24	YoY (%)	FY25RE	YoY (%)	FY26 BE	YoY (%)
Direct tax revenues	16.6	19.6	17.9	22.4	14.4	25.2	12.7
Indirect tax revenues	13.9	15.1	8.5	16.2	7.1	17.5	8.3
Gross Tax revenues	30.5	34.7	13.6	38.5	11.2	42.7	10.8
Net Tax revenues [A]	21.0	23.3	10.9	25.6	9.9	28.4	11.0
Non-tax revenues [B]	2.9	4.0	40.8	5.3	32.2	5.8	9.8
Disinvestmt & Others [C]	0.7	0.6	-17.2	0.6	-1.3	0.8	28.8
Total Revenue [A+B+C]	25	28	13.6	31	12.8	35	11
Capital Exp [D]	7.4	9.5	28.2	10.2	7.4	11.2	10.1
Revenue Exp [E]	34.5	34.9	1.2	37.0	5.8	39.4	6.7
Total Expenditure [D+E]	41.9	44.4	6.0	47.2	6.1	50.7	7.4
Fiscal Deficit	-17.4	-16.5	NA	-15.7	NA	-15.7	NA
Nominal GDP	272.4	295.4	8.4	324.1	9.7	357.0	10.1
Fiscal deficit as (%) of GDI	6.4	5.6		4.8		4.4	

GOI's Fiscal Position - as a % of GDP

	FY23	FY24	FY25RE	FY26 BE
Direct tax revenues	6.1	6.6	6.9	7.1
Indirect tax revenues	5.1	5.1	5.0	4.9
Gross Tax revenues	11.2	11.7	11.9	12.0
Net Tax revenues [A]	7.7	7.9	7.9	7.9
Non-tax revenues [B]	1.0	1.4	1.6	1.6
Disinvestmt & Others [C]	0.3	0.2	0.2	0.2
Total Revenue [A+B+C]	9.0	9.4	9.7	9.8
Capital Exp [D]	2.7	3.2	3.1	3.1
Revenue Exp [E]	12.7	11.8	11.4	11.0
Total Expenditure [D+E]	15.4	15.0	14.6	14.2
Fiscal Deficit	6.4	5.6	4.8	4.4



India's Fiscal Position

Direct Tax

- Central Government's Gross Tax Collections declined in June after having seen a 20% growth in May. **Corporate tax collections declined modestly in June**, and they also saw a modest decline for the June quarter as a whole, **continuing the trend of weak corporate tax collections**.
- Personal income tax collections declined in double digits in June**. As we discussed last month, the **shift in the date to file tax returns** will result in personal income tax collections being weak. However, that effect should be **most pronounced in July when tax returns are normally due**. The majority of tax collections in June would be advance tax and tax deducted/collected at source – both of which pertain to current year income. So a decline in tax collections in June (and for the June quarter as a whole as well) is thus disconcerting.

GST Collection June 2025

- GST collections grew in the single digits for the second consecutive month in July, although there was a slight pickup. Overall GST collections grew by 7.5% YoY in July, as against 6.2% growth in June. So not just direct but even indirect tax collections are seeing weak growth.**



Non-Tax Revenue

- **Lower tax collections have been more than offset by higher non-tax collections – due to the higher-than-expected dividend from the RBI – and thus overall receipts have grown by almost 13% YoY.**

Expenditure

- Central Government's Total Expenditure has, however, **grown by 25% YoY, driven by a 50% growth in capital expenditure and a 20% growth in revenue expenditure.**
- **This sharply higher growth in expenditure relative to receipts has resulted in a more than doubling of the fiscal deficit in the June quarter. This is not yet disconcerting as the expenditure is most likely to have simply got front-loaded rather than a sign of expenditure over-shooting the budget estimate.**

Fiscal Deficit & Consolidation Trajectory

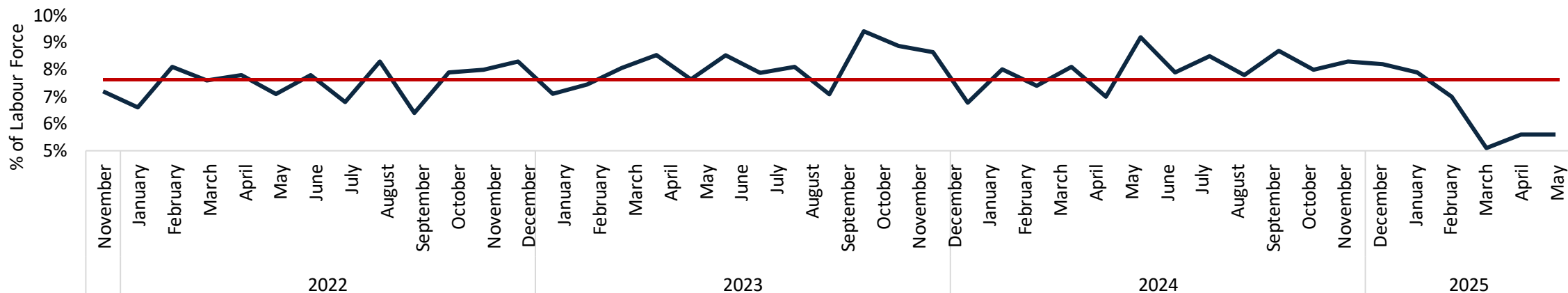
- All in all, the fiscal consolidation path remains firmly on course, with the full-year FY26 deficit targeted at ₹15.69 trillion or **4.4% of GDP**, down from ₹16.85 trillion (5.6% of GDP) in FY25. This is in line with the Centre's medium-term glide path to **sub-4.5% fiscal deficit by March 2026.**



8. Employment



Unemployment Rate



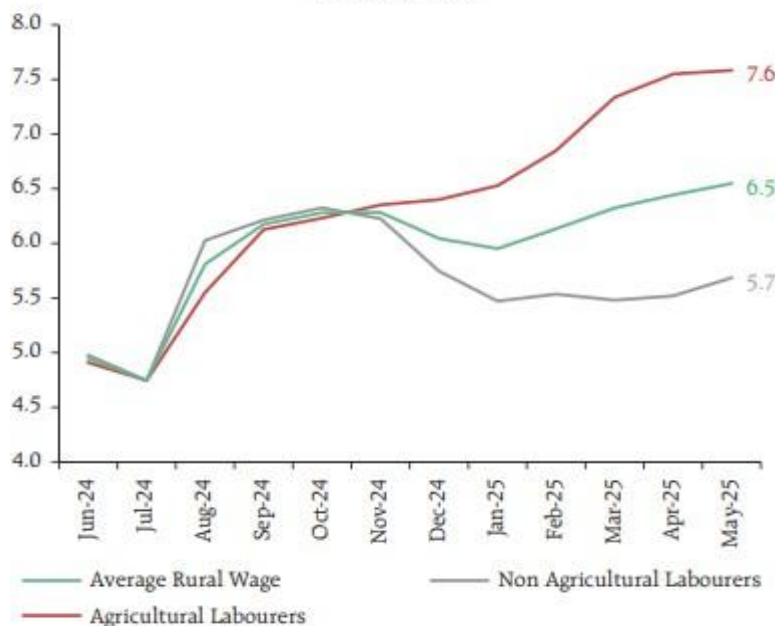
Households Demand for Work under MGNREGS – growth

%

Apr '24	21.51	
May '24	27.19	
Jun '24	26.39	
July '24	18.9	
Aug '24	16.06	
Sep '24	16.02	
Oct '24	16.96	
Nov '24	18.36	
Dec '24	21.58	
Jan '25	22.48	
Feb '25	21.8	
Mar '25	18.62	
Apr '25*	20.1	

Rural Nominal Wage

(Y-o-y, per cent)



Employment Conditions Update – June 2025

- Employment indicators in June 2025 presented a mixed picture, with **rural employment conditions showing relative resilience compared to urban centres.**
- Household demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (**MGNREGS**) **remained elevated, signalling continued reliance on public employment during the pre-sowing lean season.**
- The all-India **unemployment rate remained unchanged at 5.6%**, though rural areas outperformed urban ones. **A marginal decline in both the labour force participation rate (LFPR) and worker population ratio (WPR) was observed—largely influenced by seasonal rural patterns, intense summer heat, and reallocation of unpaid rural helpers to domestic duties.**
- **Job postings on the Naukri JobSpeak Index improved, driven by robust hiring in artificial intelligence/machine learning, insurance, real estate, BPO/ITeS, and hospitality segments.**
- **PMI-based indicators showed strength, with the manufacturing employment index hitting an all-time high, while the services sector index also rose, albeit at a slower pace than May.**
- **Overall, employment momentum stayed stable, with rural stress and urban job fatigue partly offset by formal sector hiring, particularly in new-age and service-linked sectors.**

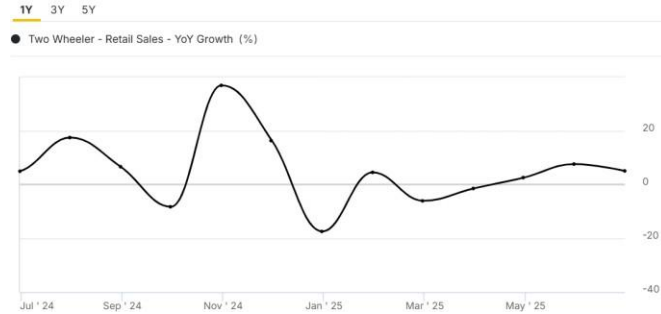
Source: RBI Bulletin and Internal assessment



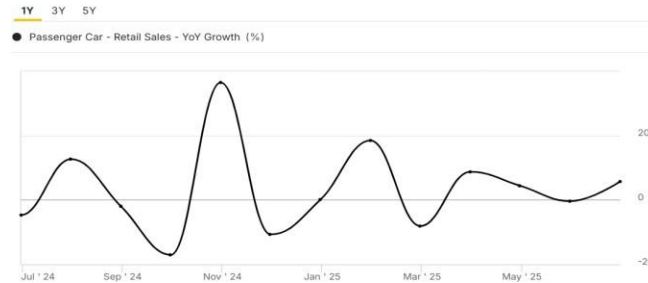
9. Demand Indicators



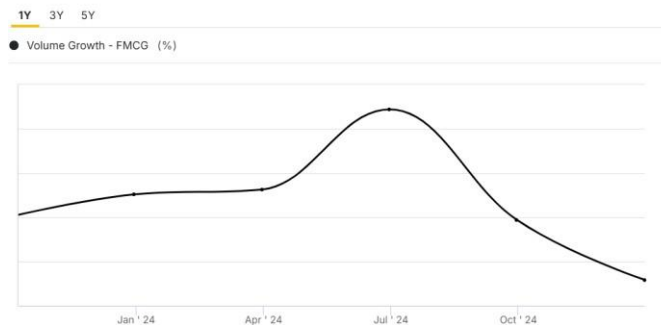
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



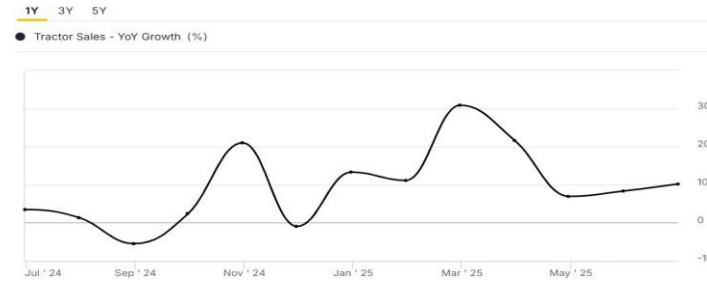
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



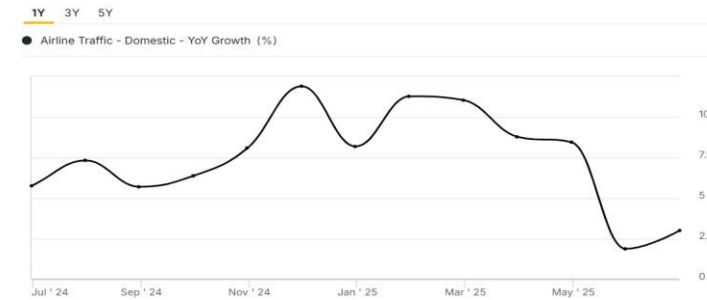
VOLUME GROWTH - FMCG (%)



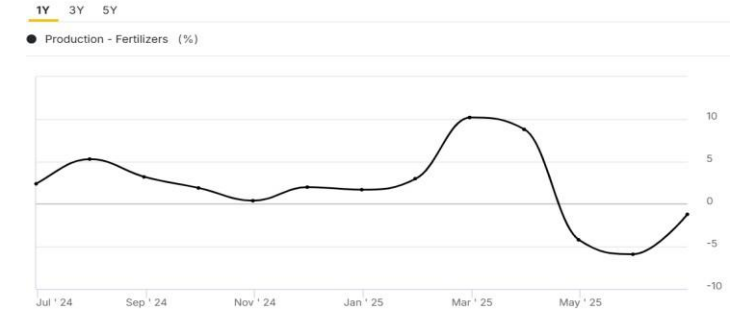
TRACTOR SALES - YOY GROWTH (%)



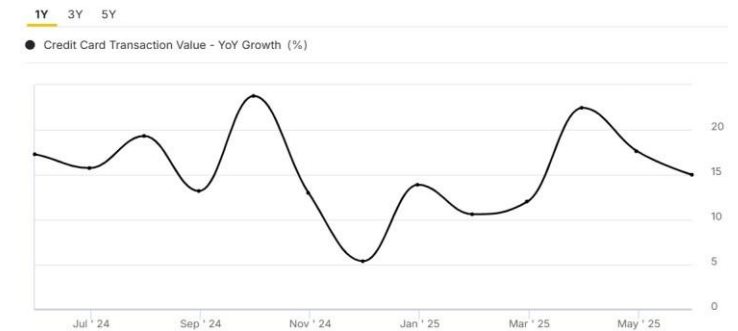
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



PRODUCTION - FERTILIZERS (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



Select High-Frequency Indicators (June 2025)

Rural Demand

Rural momentum stayed constructive. Tractor retail sales accelerated to +8.7 % YoY, signaling healthy rural cash flows. Two-wheeler sales held at +4.7 %, supported by resilient non-farm incomes. MGNREGS work demand rose +4.4 %, indicating continued reliance on public employment during the pre-sowing lean phase but also assuring an income backstop for lower-tier households.

Urban Demand

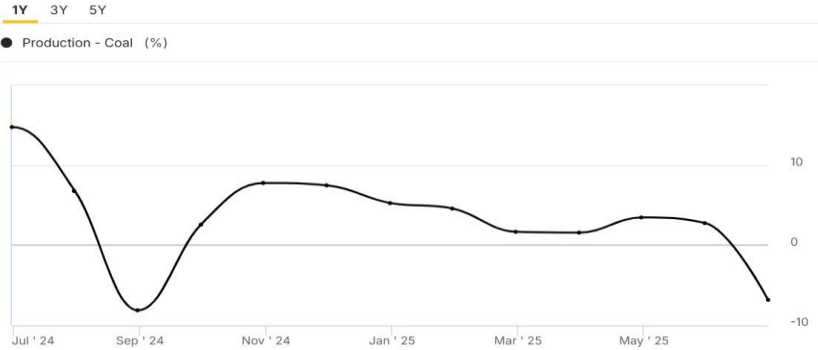
Urban indicators showed a marginal improvement following May's softness, but overall momentum remained muted. Domestic air-passenger traffic registered a modest year-on-year growth of 3.9%, while passenger vehicle retail sales rose just 2.5%, supported by new model launches and promotional financing. Meanwhile, FMCG sector growth decelerated.

Outlook

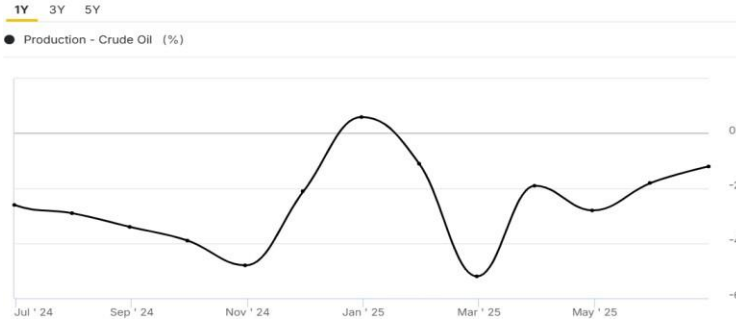
With food inflation easing, a normal monsoon forecast, and front-loaded public capex outlays, aggregate demand although soft, still showed some resilience. Key watch-points: monsoon distribution, global commodity prices, and transmission of recent rate cuts to retail credit.



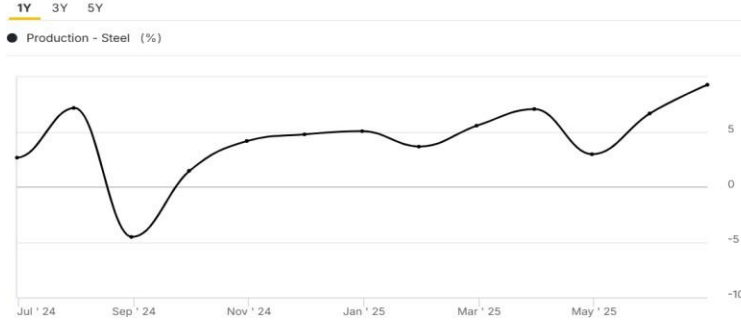
PRODUCTION - COAL (%)



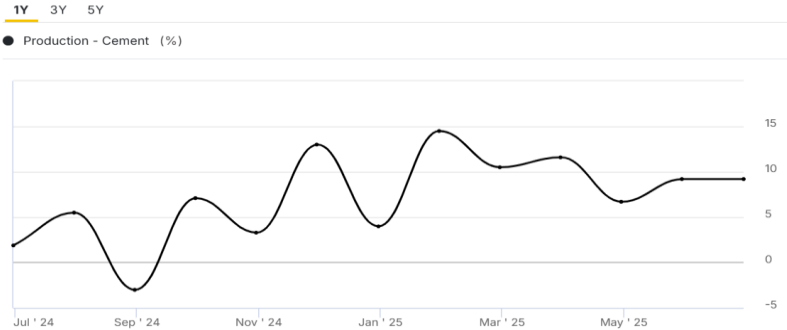
PRODUCTION - CRUDE OIL (%)



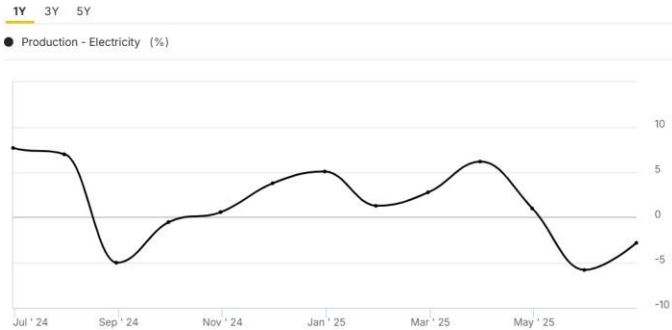
PRODUCTION - STEEL (%)



PRODUCTION - CEMENT (%)



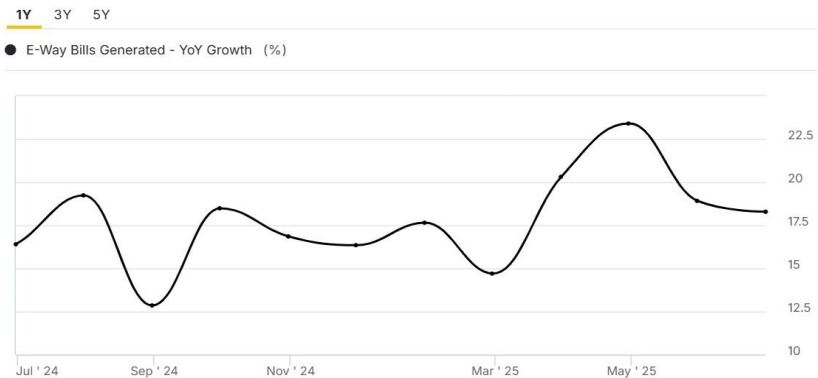
PRODUCTION - ELECTRICITY (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



E-WAY BILLS GENERATED - YOY GROWTH (%)



Industrial Activity

Indicators show stable to improving momentum. PMI-Manufacturing rose to 58.4; crude-steel output jumped +12.2 % YoY on infra and auto restocking, while capital-goods imports kept double digit gains early signs of a private-capex up-cycle. Coal and freight were down; electricity demand slipped -1.9 % as early monsoon trimmed cooling loads. Logistics proxies remained robust: e-way-bill generation climbed +19 % and toll collections +15 %, suggesting healthy goods movement across corridors. Port cargo climbed for a seventh month, led by Petroleum, Oil & Lubricants (POL) and containers, and digital-payment volumes rose +26.6 %, underscoring formal-sector depth.

Services Sector

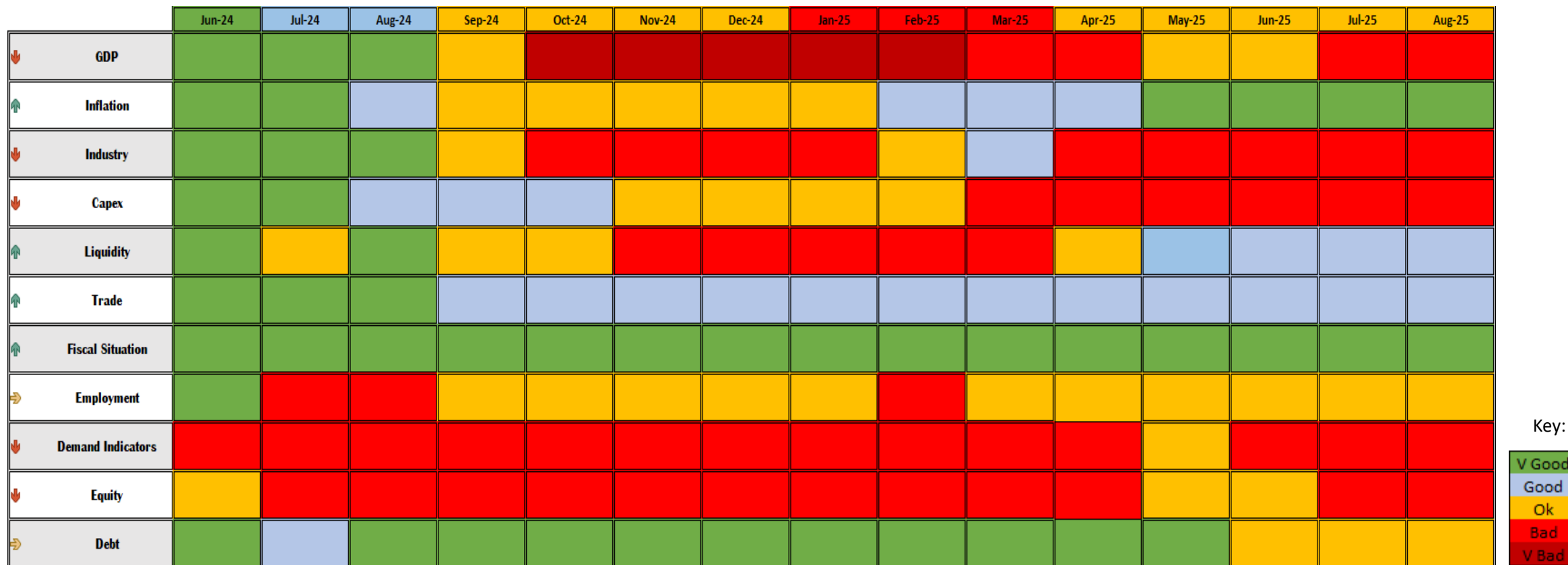
Services outperformed. PMI-Services hit a 10-month high at 60.4 on stronger orders and hiring.

Outlook

Momentum remained broadly flat, supported by public capex, accommodative credit conditions, and potentially front-loaded external demand ahead of the anticipated 25% tariffs. Key downside risks include a broad-based global slowdown and renewed spikes in commodity prices.



Economic Heatmap



Cautious Optimism

The Indian economy is currently navigating a measured and cautious phase, with private sector capital expenditure expected to be subdued amid persistent uncertainties - particularly those stemming from evolving US trade policies and tepid domestic demand. This “wait-and-watch” stance by corporates is reflected in the muted activity across key industrial sectors, despite otherwise supportive macroeconomic conditions. Inflation remains anchored within the RBI’s target range, systemic liquidity is comfortably in surplus, and the fiscal deficit is under control. However, for a sustained and broad-based recovery to take hold, a meaningful revival in aggregate demand - both urban and rural, is imperative. Enhancing consumption fundamentals through greater income visibility and employment generation will be critical to translating macro-stability into enduring growth momentum. Only then can the long-anticipated credit cycle gain traction. In the near term, however, the proposed 25% US tariffs are likely to act as a drag on recovery prospects.



Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %													CY
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2025	-1%	-6%	6%	3%	2%	3%	-3%						4.4%	
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-2%	8.6%	
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%	
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%	
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%	
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%	
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%	
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%	
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	-1%	6%	-1%	3%	28.7%	
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%	
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%	
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%	
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%	
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%	
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%	
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%	
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%	
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%	
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%	
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%	
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%	
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%	
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%	
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%	
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%	
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%	

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.6%	14.8%	15.2%
Standard Deviation	21.7%	26.4%	30.4%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	2	1
No of Years	26	20	12

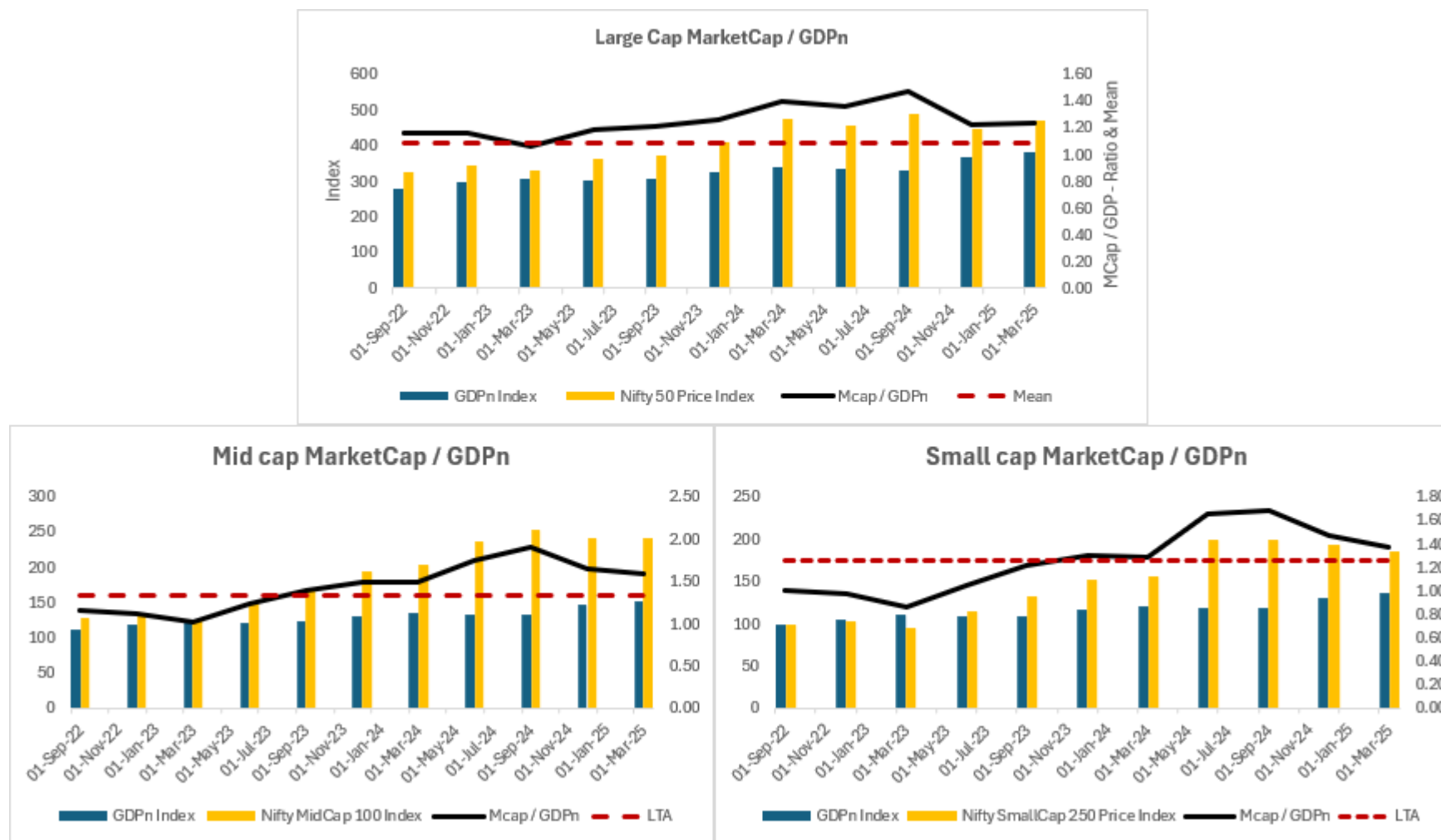
Tempered Down Expectations

- From Oct 2024 till July 2025, the Nifty 50 Index has fallen -3.7%, reflecting mean reversion from lofty valuations. **Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years**, with an average of only 1 month in a year where returns have declined by 6% or more (this number is the almost the same for mid and small caps). Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. **Similarly Mid Caps registered a CAGR of ~15% over the past ~20 years and Small Caps registered a CAGR of ~15% over the past ~12 years**. As we start CY 2025 with a modest 4% return for Nifty 50, **we expect returns in the Large Cap segment to pick up, post the tariff headwinds settle down and global growth momentum picks up**. Mid and Small Caps have given a return of ~24% each in CY 2024 which followed 44% and 56% return respectively in CY 2023. Hence, **we expect returns in Mid and Small Cap Indices to be subdued in CY 2025 with reversion to their long-term mean**.
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.
- As per TTM PE valuations Large Cap and Mid Cap seem to be Fairly-valued and Small Cap are overvalued.

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.82	23.90	-5%	Fairly Valued
Mid Cap	31.95	32.33	-1%	Fairly Valued
Small Cap	32.55	25.84	26%	Overvalued



Buffett Indicator



The present lofty valuations are further evidenced in the **high premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 11% & 16%, whereas Small Caps are currently trading at premium of approx 7% (as per Buffet Indicator), as on 31st July 2025. EPS estimates for FY 2025 and FY 2026 are 6.2% and 11.4% respectively, which seems encouraging going forward, however uncertainty over US tariff policies remain and are not yet fully factored into current valuations.**

Valuation Concerns



Sales Growth Momentum Fading

5 Year Revenue CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
Construction Materials	25%	24%	23%	20%	19%	16%	12%	10%	8%	11%	16%	14%	13%	12%	13%	11%	12%	6%	25%	21%	5%
Oil & Gas	20%	14%	15%	16%	16%	15%	13%	5%	0%	1%	8%	9%	8%	17%	19%	9%	10%	53%	34%	-4%	2%
Automobile and Auto Ancs	30%	31%	32%	31%	32%	24%	20%	15%	11%	11%	10%	5%	4%	6%	9%	9%	14%	18%	27%	18%	8%
Textiles	16%	18%	23%	25%	26%	21%	20%	13%	8%	3%	6%	2%	2%	10%	12%	11%	11%	52%	4%	-1%	9%
Capital Goods	24%	21%	22%	19%	14%	12%	10%	3%	1%	3%	8%	4%	4%	9%	13%	10%	17%	33%	26%	10%	13%
Consumer Durables	27%	26%	25%	24%	22%	17%	18%	29%	31%	24%	24%	19%	9%	4%	13%	12%	11%	10%	32%	-4%	4%
Healthcare	25%	25%	22%	19%	20%	19%	20%	19%	16%	11%	12%	9%	9%	10%	13%	12%	12%	16%	10%	13%	15%
Chemicals	23%	17%	18%	19%	16%	12%	15%	12%	6%	6%	7%	7%	8%	15%	19%	11%	12%	40%	33%	-15%	6%
Financial Services	30%	27%	27%	29%	24%	21%	22%	19%	13%	9%	11%	11%	11%	12%	17%	18%	18%	6%	19%	47%	13%
FMCG	20%	20%	21%	20%	19%	16%	16%	11%	6%	7%	6%	6%	8%	10%	14%	11%	12%	16%	14%	4%	15%
Power	21%	46%	50%	53%	53%	37%	17%	17%	12%	8%	10%	7%	6%	8%	13%	12%	12%	15%	28%	6%	7%
Construction	28%	25%	28%	27%	22%	22%	20%	17%	13%	13%	12%	12%	8%	11%	13%	12%	15%	17%	19%	18%	10%
Consumer Services	21%	16%	18%	18%	19%	20%	30%	23%	19%	23%	21%	17%	0%	20%	30%	33%	33%	40%	72%	22%	23%
Media & Entertainment	12%	18%	29%	48%	44%	43%	45%	31%	20%	14%	17%	9%	3%	5%	7%	4%	4%	17%	15%	15%	-4%
Services	49%	47%	8%	56%	18%	13%	11%	45%	-2%	4%	7%	7%	12%	13%	17%	16%	18%	13%	27%	15%	19%
Metals & Mining	39%	23%	25%	23%	7%	10%	14%	5%	4%	8%	8%	5%	12%	20%	18%	11%	14%	57%	13%	-4%	3%
Information Technology	38%	39%	35%	33%	30%	31%	23%	22%	17%	14%	11%	11%	9%	11%	15%	13%	12%	20%	21%	6%	9%
Utilities	17%	16%	14%	10%	10%	11%	8%	42%	45%	42%	41%	41%	5%	2%	2%	6%	8%	21%	12%	5%	30%
Realty	19%	15%	41%	16%	61%	48%	65%	70%	42%	16%	16%	11%	-4%	1%	4%	3%	7%	20%	58%	17%	23%
Telecommunication	36%	44%	44%	24%	22%	18%	14%	10%	5%	2%	0%	0%	2%	7%	11%	12%	15%	22%	16%	8%	16%
Total CAGR	25%	22%	22%	22%	19%	17%	16%	12%	7%	7%	9%	8%	8%	12%	16%	12%	13%	27%	25%	10%	8%

Source: Capitaline. DSP. Data as of June 2025.

Corporate Margins at Multi-Year Highs Amid Subdued Revenue Growth

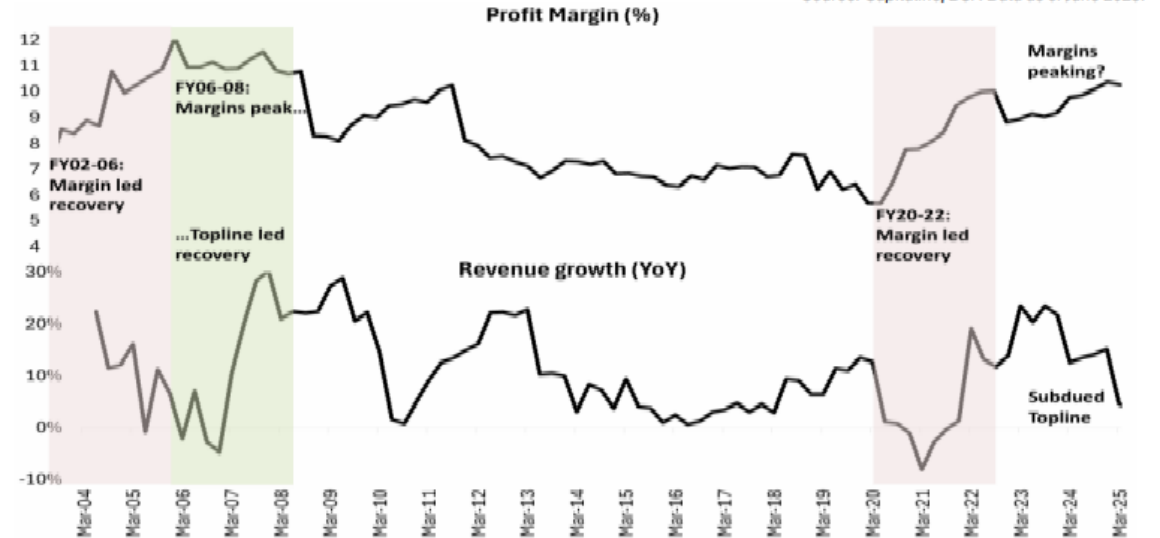
Median Operating Margins (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	24.9	23.6	17.0	18.5	18.5	12.9	13.9	12.7	14.5	14.4	12.7	18.7	19.4	16.8	12.3	15.2	12.9
Oil, Gas & Consumable Fuels	10.8	12.2	14.3	9.4	10.9	8.0	10.0	9.8	12.4	14.4	13.7	15.0	17.3	15.8	13.7	15.4	12.2
Automobile and Auto Ancs	10.5	12.4	11.9	11.3	11.4	11.8	12.3	12.8	12.9	13.4	12.5	11.4	12.1	11.9	11.8	13.3	12.8
Textiles	8.2	13.0	12.9	10.8	12.7	12.9	12.1	12.6	12.2	13.4	12.3	10.8	13.3	16.8	11.1	11.6	11.2
Capital Goods	11.2	13.4	11.5	10.4	9.5	9.3	9.4	10.5	10.6	10.8	11.4	11.0	11.5	12.7	12.5	13.7	13.2
Consumer Durables	9.5	10.8	10.6	10.4	8.5	9.0	9.7	10.3	10.5	10.5	10.4	11.5	12.1	11.1	11.0	10.1	10.2
Healthcare	15.3	19.2	17.8	17.0	18.5	18.0	17.0	18.5	17.7	16.5	18.1	18.1	21.5	20.2	19.5	19.6	21.6
Chemicals	13.0	14.5	13.7	12.7	12.2	11.4	12.6	12.7	14.4	14.9	16.0	15.6	18.3	17.8	15.7	13.6	12.9
FMCG	13.4	13.0	12.8	11.9	11.5	9.1	9.8	12.6	13.4	10.7	12.7	11.9	12.5	13.3	11.5	12.3	11.6
Power	24.3	31.3	37.5	27.6	29.6	31.6	30.7	24.5	29.5	28.5	27.7	31.1	32.4	34.8	28.5	32.4	33.1
Construction	12.1	14.0	13.5	14.1	13.1	9.4	11.4	13.0	12.3	14.4	13.4	11.4	10.2	11.4	10.5	11.8	11.5
Consumer Services	24.0	22.4	19.6	11.4	10.2	8.2	7.1	8.0	12.5	14.6	10.4	13.5	6.2	12.5	15.6	16.7	15.9
Media & Entertainment	14.3	13.5	17.7	18.7	21.6	23.0	19.3	21.7	22.9	21.6	18.7	16.4	20.2	18.3	15.1	16.3	12.4
Services	16.2	18.6	17.2	12.4	16.6	14.3	16.6	16.5	12.7	12.7	11.6	12.1	13.7	16.8	17.3	16.0	15.2
Metals & Mining	14.8	18.2	17.8	13.4	13.3	14.8	12.1	10.5	12.9	14.7	17.6	8.7	18.4	26.1	13.0	14.8	14.0
Information Technology	16.2	18.5	15.4	14.0	16.7	18.6	18.5	15.5	12.8	15.3	16.4	14.9	18.5	18.0	18.4	18.2	17.1
Utilities	4.6	6.9	6.2	6.7	7.7	6.4	7.2	7.5	7.1	7.9	9.2	9.1	14.0	16.2	12.8	16.6	17.6
Realty	37.7	34.2	30.2	28.1	29.1	27.8	29.2	26.6	27.8	23.8	25.6	19.9	16.4	18.6	19.1	22.3	23.1
Telecommunication	11.5	12.4	10.9	7.4	8.3	15.7	15.2	19.3	12.9	13.2	16.6	8.9	13.9	13.6	13.0	13.0	14.7
Median	13.6	15.9	14.8	13.3	13.2	13.0	12.9	13.3	14.4	14.6	14.8	14.4	15.8	16.1	15.0	15.8	15.3

Source: Capitaline, DSP. Data as of June 2025.

Profit Growth Momentum Is Waning

																		YoY Growth			
5 Year PAT* CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
Construction Materials	45%	37%	19%	8%	8%	2%	-3%	5%	4%	1%	11%	17%	19%	14%	9%	13%	2%	1%	-29%	46%	-19%
Oil & Gas	8%	10%	12%	10%	3%	9%	2%	9%	10%	16%	17%	14%	9%	14%	9%	16%	13%	47%	-11%	58%	-27%
Automobile and Auto Ancs	-7%	28%	33%	34%	29%	74%	22%	16%	9%	12%	1%	-15%	-10%	-12%	3%	23%	44%	-16%	127%	97%	-4%
Capital Goods	28%	28%	23%	12%	-2%	-9%	-13%	-13%	-4%	8%	26%	9%	12%	16%	21%	18%	42%	68%	19%	34%	17%
Consumer Durables	32%	48%	33%	28%	21%	22%	13%	15%	15%	16%	15%	13%	7%	9%	10%	12%	11%	20%	25%	8%	9%
Healthcare	22%	21%	21%	10%	12%	18%	18%	14%	19%	8%	2%	4%	8%	6%	12%	17%	21%	2%	10%	21%	36%
Chemicals	26%	21%	21%	17%	9%	6%	5%	4%	9%	19%	18%	18%	20%	21%	16%	6%	8%	51%	14%	-41%	27%
Financial Services	36%	32%	30%	29%	22%	17%	16%	-1%	-4%	-30%	-10%	-9%	24%	33%	90%	56%	55%	49%	39%	44%	12%
FMCG	14%	19%	15%	14%	17%	13%	11%	12%	12%	10%	14%	15%	14%	12%	17%	12%	9%	10%	9%	11%	11%
Power	15%	43%	49%	41%	40%	35%	9%	12%	14%	8%	12%	8%	10%	13%	17%	16%	20%	13%	21%	24%	5%
Construction	37%	39%	30%	22%	15%	9%	2%	0%	10%	15%	18%	18%	25%	7%	6%	14%	20%	-20%	29%	34%	17%
Consumer Services	30%	0%	-4%	-24%	-60%	P to L	-4%	-7%	32%	175%	L to P	21%	P to L	35%	33%	67%	73%	L to P	67%	40%	11%
Media & Entertainment	16%	2%	27%	42%	29%	24%	41%	24%	15%	15%	19%	8%	-6%	10%	1%	-60%	-2%	126%	-26%	-96%	2267%
Services	18%	-4%	-3%	-20%	2%	-5%	13%	24%	53%	12%	21%	11%	-35%	-4%	22%	30%	32%	970%	152%	57%	13%
Metals & Mining	35%	10%	19%	8%	-5%	-5%	3%	-15%	-9%	10%	15%	3%	28%	45%	10%	3%	17%	131%	-54%	-13%	33%
Information Technology	42%	44%	39%	33%	31%	30%	17%	16%	14%	10%	7%	8%	7%	10%	11%	9%	10%	18%	8%	6%	8%
Utilities	6%	7%	19%	24%	15%	70%	32%	59%	54%	53%	53%	48%	16%	14%	21%	21%	22%	43%	47%	-1%	42%
Realty	16%	77%	44%	17%	18%	30%	20%	27%	19%	17%	13%	P to L	-8%	10%	8%	18%	L to P	119%	102%	35%	32%
Telecommunication	61%	41%	38%	P to L	P to L	P to L	-18%	22%	L to P	13%	-16%	25%	P to L	26%	L to P	41%		L to P	19%	65%	114%
Total CAGR	22%	21%	22%	17%	11%	13%	9%	6%	7%	5%	8%	5%	11%	17%	21%	22%	25%	45%	9%	33%	6%

Source: Capitaline. DSP. Data as of June 2025.



Source: Bloomberg, Nuvama Research, DSP Data as of June 2025. Data is of BSE500



Strong Balance sheet on account of Deleveraging

Median Debt to Assets (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	40%	42%	38%	37%	38%	39%	39%	41%	39%	38%	39%	38%	35%	37%	34%	32%	28%
Oil, Gas & Consumable Fuels	30%	31%	30%	33%	37%	38%	32%	27%	33%	32%	29%	29%	21%	19%	22%	18%	18%
Automobile and Auto Ancs	50%	46%	46%	53%	51%	46%	43%	37%	35%	31%	32%	27%	24%	22%	23%	21%	17%
Textiles	62%	59%	56%	52%	55%	53%	50%	50%	37%	43%	37%	42%	42%	37%	31%	31%	31%
Capital Goods	39%	43%	41%	40%	38%	41%	38%	38%	33%	32%	30%	26%	22%	23%	21%	14%	12%
Consumer Durables	46%	39%	46%	48%	45%	42%	35%	33%	23%	23%	32%	30%	26%	27%	25%	18%	15%
Healthcare	38%	35%	34%	35%	33%	32%	30%	28%	28%	28%	27%	24%	17%	13%	14%	12%	15%
Chemicals	45%	45%	44%	47%	49%	48%	50%	47%	40%	32%	30%	26%	20%	21%	20%	16%	13%
FMCG	46%	47%	49%	48%	46%	42%	37%	36%	35%	33%	31%	30%	27%	22%	21%	20%	14%
Power	42%	47%	40%	43%	45%	53%	55%	50%	54%	53%	54%	49%	49%	49%	48%	47%	39%
Construction	48%	48%	51%	50%	49%	51%	43%	43%	40%	39%	35%	35%	38%	37%	32%	28%	23%
Consumer Services	48%	39%	32%	36%	39%	32%	26%	35%	36%	24%	29%	35%	32%	33%	34%	21%	18%
Media & Entertainment	38%	32%	29%	33%	40%	36%	37%	37%	31%	30%	29%	20%	13%	12%	7%	7%	9%
Services	45%	48%	45%	47%	43%	40%	42%	36%	32%	26%	21%	32%	31%	26%	24%	21%	18%
Metals & Mining	45%	43%	44%	48%	52%	53%	52%	48%	49%	45%	40%	41%	42%	25%	24%	27%	25%
Information Technology	11%	15%	14%	16%	14%	8%	9%	10%	9%	7%	11%	14%	11%	10%	8%	8%	6%
Utilities	26%	20%	24%	31%	42%	52%	40%	43%	37%	43%	38%	27%	18%	20%	11%	11%	12%
Realty	37%	41%	37%	38%	39%	34%	43%	43%	44%	40%	47%	44%	39%	36%	38%	34%	27%
Telecommunication	31%	27%	36%	37%	53%	50%	47%	47%	52%	46%	37%	30%	47%	38%	41%	40%	36%
Median	46%	45%	43%	45%	45%	45%	43%	41%	37%	34%	33%	33%	28%	26%	25%	21%	16%

Source: Capitaline, DSP. Data as of June 2025.

Strong operating cash flows sustained through profit retention, driven by limited demand visibility and cautious capital deployment.

Operating Cashflow Margin (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	24%	25%	17%	19%	15%	15%	15%	17%	21%	7%	10%	21%	24%	10%	2%	7%	3%
Oil & Gas	7%	9%	11%	7%	7%	10%	11%	12%	13%	14%	7%	9%	10%	11%	8%	12%	11%
Automobile and Auto Ancs	7%	13%	8%	10%	10%	13%	12%	14%	12%	10%	6%	10%	14%	6%	8%	11%	9%
Textiles	12%	6%	7%	8%	6%	7%	15%	4%	5%	4%	9%	10%	12%	7%	12%	3%	9%
Capital Goods	7%	9%	9%	6%	-1%	8%	5%	9%	6%	7%	3%	8%	16%	9%	8%	7%	9%
Consumer Durables	4%	7%	6%	3%	8%	1%	8%	4%	4%	2%	3%	5%	3%	2%	3%	5%	3%
Healthcare	13%	16%	17%	18%	16%	17%	15%	16%	18%	13%	12%	18%	18%	15%	15%	16%	17%
Chemicals	10%	13%	10%	5%	5%	10%	9%	10%	17%	13%	7%	15%	24%	8%	9%	10%	11%
FMCG	12%	13%	8%	11%	12%	13%	10%	12%	14%	17%	13%	15%	15%	12%	11%	12%	11%
Power	29%	25%	23%	19%	26%	30%	28%	35%	36%	35%	25%	32%	35%	34%	31%	33%	34%
Construction	2%	8%	4%	-1%	8%	-3%	4%	4%	13%	1%	1%	7%	12%	10%	8%	7%	3%
Consumer Services	9%	10%	17%	23%	20%	14%	11%	11%	9%	8%	4%	6%	8%	5%	7%	9%	9%
Media & Entertainment	7%	23%	19%	16%	15%	18%	19%	20%	19%	18%	13%	20%	26%	17%	7%	2%	12%
Services	6%	7%	6%	4%	13%	11%	15%	12%	16%	12%	9%	13%	14%	14%	15%	18%	17%
Metals & Mining	16%	17%	13%	12%	13%	15%	14%	20%	18%	16%	17%	14%	25%	19%	12%	12%	14%
Information Technology	20%	23%	16%	15%	18%	17%	17%	15%	18%	17%	17%	18%	23%	18%	15%	17%	17%
Utilities	-10%	-1%	5%	-3%	5%	4%	1%	-3%	6%	-2%	2%	12%	12%	6%	7%	2%	6%
Realty	-11%	67%	10%	13%	11%	9%	-17%	21%	12%	11%	11%	22%	34%	27%	10%	22%	17%
Telecommunication	38%	51%	16%	28%	25%	23%	26%	26%	27%	31%	20%	17%	40%	38%	38%	42%	47%

Source: Capitaline, DSP. Data as of June 2025.

Muted capex due to lack of demand visibility

5 Year CAPEX CAGR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	72%	21%	43%	24%	8%	6%	9%	-1%	-5%	-4%	3%	5%	5%	19%	22%	28%	36%
Oil, Gas & Consumable Fuels	28%	31%	28%	-5%	11%	15%	12%	2%	30%	14%	11%	11%	16%	4%	10%	7%	7%
Automobile and Auto Ancs	72%	37%	32%	29%	21%	7%	25%	19%	9%	13%	10%	4%	-4%	-1%	-2%	3%	9%
Textiles	43%	22%	5%	-8%	-15%	-6%	-6%	1%	-1%	6%	3%	7%	-14%	3%	15%	-10%	11%
Capital Goods	41%	22%	22%	18%	12%	5%	-4%	-5%	-10%	-6%	0%	14%	2%	8%	15%	14%	21%
Consumer Durables	75%	29%	19%	39%	11%	14%	4%	14%	8%	17%	18%	16%	-9%	12%	10%	19%	18%
Healthcare	55%	26%	3%	18%	4%	12%	28%	31%	19%	15%	12%	-1%	-7%	-1%	18%	7%	18%
Chemicals	58%	28%	19%	20%	6%	2%	0%	1%	1%	6%	46%	27%	15%	13%	12%	-11%	5%
FMCG	35%	22%	20%	17%	-3%	4%	1%	-3%	-3%	-2%	2%	4%	7%	3%	15%	18%	21%
Power	52%	72%	81%	49%	42%	30%	4%	7%	18%	4%	10%	8%	-6%	-7%	-2%	4%	32%
Construction	110%	59%	51%	24%	24%	14%	13%	-4%	-4%	-12%	-7%	10%	2%	2%	5%	11%	-6%
Consumer Services	72%	40%	22%	-6%	-7%	-12%	3%	1%	-1%	9%	13%	8%	-6%	35%	27%	44%	32%
Media & Entertainment	-1%	8%	40%	40%	65%	73%	67%	54%	17%	12%	18%	8%	-11%	-2%	4%	13%	3%
Services	18%	9%	31%	44%	35%	16%	36%	6%	-11%	-19%	2%	-3%	21%	8%	37%	17%	21%
Metals & Mining	54%	39%	55%	49%	-11%	17%	7%	-8%	-16%	-3%	5%	4%	3%	8%	16%	3%	18%
Information Technology	31%	22%	-209%	-22%	-31%	-11%	16%	31%	48%	75%	34%	-2%	2%	3%	0%	-5%	10%
Utilities	11%	24%	4%	10%	-4%	-14%	16%	51%	24%	13%	65%	-215%	0%	-1%	13%	35%	64%
Realty	96%	42%	9%	20%	16%	25%	13%	40%	-13%	26%	12%	13%	1%	21%	-7%	3%	14%
Telecommunication	70%	65%	95%	14%	-1%	-3%	-8%	-21%	14%	11%	13%	6%	9%	-4%	2%	10%	15%
Diversified	41%	-5%	-7%	-17%	21%	15%	25%	12%	28%	-8%	20%	15%	14%	17%	28%	5%	5%
Total CAGR	44%	35%	38%	18%	7%	11%	10%	1%	7%	6%	10%	8%	6%	3%	9%	7%	15%

Source: Capitaline, DSP. Data as of June 2025.



Source: Bloomberg, DSP. Data As of June 2025



Valuation concerns amid sluggish Demand

Since COVID, **operating margins have played a critical role in driving profitability**. This improvement has primarily stemmed from **enhanced cost efficiencies and balance sheet restructuring, which led to reduced interest and credit costs**. However, with **most sectors now operating near their peak margin levels and topline growth moderating to single digits**, there appears to be **limited headroom for further margin expansion**. As a result, the **sustainability of profit growth is becoming increasingly uncertain**. This dynamic could pose challenges to current market valuations and the growth expectations embedded in many stock prices.

Even during the early 2000s cycle, margin gains plateaued after a surge, despite robust topline growth that should have ideally translated into operating leverage benefits. This reflects a **structural nuance in the Indian context: margins here are largely a function of distribution efficiencies and cost control, rather than durable pricing power. Unlike the U.S., where margins are supported by high-tech business models and entrenched competitive moats, Indian companies often lack similar structural advantages. As a result, demand revival remains the only credible pathway to sustain earnings growth**. With revenue growth already subdued, the critical question is: **Can FY26 deliver a meaningful topline recovery strong enough to justify the optimistic earnings expectations priced in by the consensus?**

Leverage, one of the most critical fundamental indicators has shown **meaningful improvement in India**. The median Debt-to Asset (%), which reflects the extent to which assets are financed through debt, has been declining steadily and is currently at its lowest levels. This **deleveraging trend is broad-based with Median BSE All cap stocks Debt to Assets (%) at 16% (which is the lowest on record for these companies), with most sectors experiencing a reduction in debt** funded assets. This has been supported by rising profitability and more efficient utilization of internal cash flows. In contrast to the 2003-07 cycle when strong profitability and optimism led to excessive leverage and left companies vulnerable during the Global Financial Crisis, the current cycle is marked by significantly healthier corporate balance sheets. **This strength enhances the resilience of Indian corporates, enabling them to better withstand potential downturns and respond swiftly once the credit cycle turns supportive.**

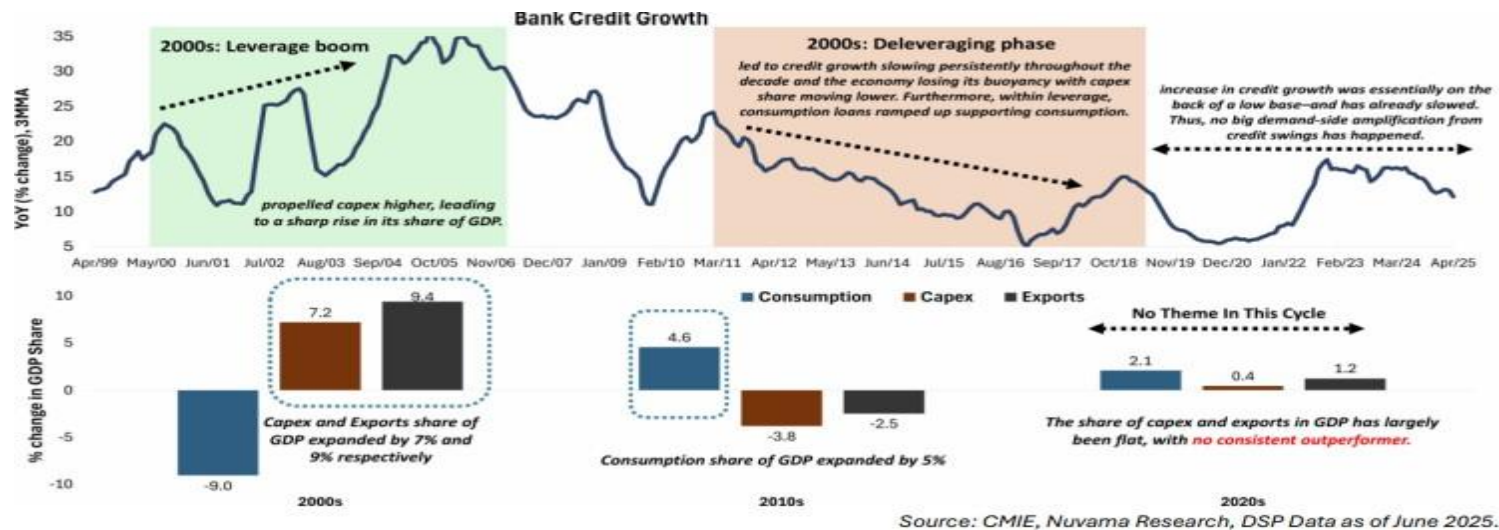
Operating Cash Flow (OCF) Margin measures how efficiently a company converts its revenue into actual cash from core business activities. It reflects the quality of earnings by focusing on cash profitability rather than accounting profits. **Sustained strength in operating cash flows has resulted in elevated OCF margins, which is a positive indicator from both a capital allocation and corporate governance standpoint**. It points to **improved cash conversion cycles and prudent financial management**. While operating cash flows have moderated recently but still, they remain strong, **highlighting the resilience of underlying business operations**. Notably, sectors such as Telecom and Real Estate have reported OCF margins significantly above their 20-year historical averages, reflecting improved financial efficiency in recent years.

Beyond debt reduction, a key avenue for deploying internal cash flows and profits is capital expenditure (capex) to support future growth. Indian companies have undertaken meaningful capex in recent years, this trend is particularly visible in 5-year CAGR data, influenced by the low base of FY20. However, **on a YoY basis, the capex momentum appears to be slowing (ex power), despite healthy operating cash flows and strong OCF margins. This moderation in capex activity, despite financial capacity, likely reflects subdued demand conditions. In an environment of weak demand, any aggressive capex runs the risk of eroding profitability, a scenario that may not sit well with investors, especially at elevated market valuations. As a result, unless demand meaningfully revives, corporates are likely to remain cautious in pursuing new capital investments.**



In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors. **The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels.** (on a side note, this is another instance which shows that market keeps surprising investors). The long-term median multiple for SMID universe now stands at 19x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average. **If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys.**

The Largest stocks, by market capitalization have underperformed since the COVID bottom. However, the macroeconomic structuring and relative valuations both favor this universe of Large Cap stocks currently. In any economy, two of the following three take precedence. Macroeconomic stability, Return on equities and Scale. **India has chosen the path of macroeconomic stability and higher ROEs.** For this reasons, companies which can scale up while maintaining their ROEs can show steadiness even in times of distress. **The Largest firms are well set to benefit from this trend. Moreover, they are priced more attractively than the broader market, both in terms of valuations and price. This makes the Large Cap universe an attractive proposition** to analyze.



As we dissect the **three pillars of sustainable growth – Consumption (which accounts for ~60% of Indias GDP), Capex (capital expenditure), and Exports (a proxy for global demand)** - distinct leadership patterns emerge across cycles:

- **2000s:** A powerful tandem of **debt-financed capex** and **booming exports** propelled both GDP and market capitalization.
- **2010s:** **Consumption** became the primary growth engine even as corporate India focused on balance-sheet deleveraging.
- **Last five years:** **No single driver** has stepped forward. Private-sector capex is expanding at less than 0.5 % and broad money (M3) is essentially flat signaling that monetary or fiscal liquidity injections lack a capex-led multiplier from the banking system.

What **investment** is occurring is largely **funded via QIPs and private placements** - an indicator of stretched equity valuations - and is **constrained by muted visibility on future demand amid sluggish global and domestic growth**. Meanwhile, the **equity rally appears to be sustained chiefly by liquidity from domestic institutional investors (DIIs), leaving valuations across sectors looking increasingly frothy. With no unequivocal macro-engine in sight, Revenue (topline) growth will be the most critical metric to monitor in the quarters ahead.**



Sectoral Outlook



Sector Name	Outlook and Overview
Automobile	The auto sector is experiencing subdued volume growth and margin pressure in the near term. Overall vehicle volumes in Q1 FY26 were nearly flat (~1-2% YoY) as weakness in key segments (passenger vehicles and two-wheelers stagnating, commercial vehicles down) was only partly offset by robust tractor demand. Sector revenues stayed flat while profits fell as rising input costs and higher sales discounts compressed automaker margins by ~100-200 basis points. Short-term earnings are under strain (aggregate auto PAT down ~12% YoY in Q1) due to this margin squeeze, but medium-term drivers remain intact – an expected pickup in rural demand, new model launches (including EVs), and easing commodity costs should gradually improve performance. Global headwinds like soft export markets and higher interest rates (impacting auto financing) are still weighing on the outlook, but supply-side normalizations (e.g. better semiconductor availability) provide some relief for the sector going forward.
Capital Goods	The capital goods sector remains on a solid footing, with strong order books and policy support offsetting a mild execution slowdown. In Q1 FY26, sector revenues are expected to rise ~14% YoY and PAT ~12% as companies execute healthy backlogs, supported by a benign commodity cost environment that has kept EBITDA margins stable to slightly higher YoY. Order inflows have been robust across defense, power transmission, renewables, railways and other infrastructure segments, ensuring visibility for future growth. Government initiatives (e.g. emergency defense procurements, Make-in-India, renewables push) and strong balance sheets in the industry are facilitating capital expenditure and providing resilience. While private capex is still in an early revival stage, companies are seeing export opportunities improve (notably to the US, Middle East, and Europe), and softer input prices for metals are aiding margins. Overall, the sector is “comfortably placed” heading into the rest of FY26, with broad-based order momentum and supportive policy tailwinds underpinning a positive outlook.
Cement	The cement industry delivered a robust Q1 FY26, aided by a low base and firm pricing that boosted earnings despite only modest underlying demand. Industry volumes grew ~10% YoY (about +4% on a like-for-like basis, excluding acquisitions) and average cement prices were ~4% higher, which together drove an estimated 42% YoY surge in sector EBITDA. EBITDA per ton jumped ~29% YoY to around ₹1,100, reflecting improved realizations and the benefit of lower fuel costs – imported coal and petcoke prices fell by double digits versus last year. Even with early monsoons and a milder summer softening construction activity, companies maintained pricing discipline and saw operating margins expand by ~3.7 percentage points YoY. Structurally, the sector’s outlook is bolstered by consolidation and a focus on balancing volume growth with profitability, which, along with cost reduction efforts and healthy balance sheets, should sustain margins going forward. Global energy trends remain a variable for input costs, but at present the moderation in coal and petcoke prices is providing a tailwind to cement producers’ profitability.
Chemicals	India’s specialty chemicals sector is seeing volume-driven growth even as product prices stay under pressure amid a global supply glut. In Q1 FY26, aggregate sales for major chemical makers are expected to rise ~10% YoY, yet EBITDA growth will be modest (~9% YoY) as lower selling prices have compressed gross margins slightly. Many key chemical feedstock prices dropped compared to last year (for example, butadiene, acetone, and others down 10-20% YoY) due to softer crude oil and oversupply conditions. Nonetheless, companies managed to maintain or expand volumes and benefit from export growth in most cases – exports were up YoY for 9 out of 13 players, helped by a ~3% YoY weaker rupee that made Indian products more competitive abroad. Profit after tax for the sector is expected to rise ~15% YoY, indicating some efficiency gains and cost controls offsetting the pricing headwinds. Medium-term, the sector remains fundamentally strong with new capacities coming on line (albeit slightly delayed from FY25) to meet promising demand, but there is a note of caution: cheaper feedstock and energy in regions like the US or Middle East could challenge India’s cost position in the long run. Overall, chemical companies are navigating the current down-cycle in prices by emphasizing volume growth and operational efficiency, while keeping an eye on global developments (OPEC+ oil moves, China’s market dynamics) that influence their raw material costs and pricing power.
Consumer (FMCG and Discretionary)	Consumer demand was mixed in Q1 FY26, with overall consumption growth supported more by pricing and a low base than by volume momentum. In staples (household essentials), urban demand remained sluggish and volume growth only in the low single digits, but moderate price increases helped push most staple FMCG companies to mid-to-high single-digit revenue growth. Discretionary categories saw varied trends: quick-service restaurants and paints faced weak demand and intense competition, while liquor and innerwear brands managed growth aided by pricing and easing raw material costs. Notably, jewelry retail was an outlier early in the quarter – April saw solid festive sales, but demand cooled thereafter as gold prices spiked ~30% YoY, deterring buyers. Across the sector, gross margins remained under pressure despite cheaper inputs like edible oils and packaging (down from last year’s highs) because companies were still carrying higher-cost inventory and also stepped up promotions to spur demand. EBITDA margins were flat to down slightly in many cases, particularly for QSR and paint firms. Management commentary suggests that while the consumer slowdown persisted through mid-2025, there is cautious optimism for a gradual improvement ahead – supported by a normal monsoon (which aids rural incomes), recent tax relief measures, and the beginning of an interest rate cutting cycle to ease household finances. The key for H2 FY26 will be converting any uptick in sentiment into volume-driven growth, which, if coupled with the benign commodity trend, could restore margin expansion for consumer companies.
Consumer Durables	Consumer durables makers had a bifurcated performance in Q1 FY26, as strong demand in electrical goods was offset by a weather-related slump in cooling appliances. The wires and cables segment continued its robust growth, posting mid-teen volume increases supported by infrastructure projects, housing demand, and even a pickup in exports. In contrast, the room air-conditioner (RAC) and fan businesses saw a sharp downturn – an unseasonably mild summer and early monsoons led to an estimated ~25% YoY drop in AC unit sales during the quarter. Overall, the sector’s revenue and profit growth were in the low single digits (Q1 aggregate sales and PAT up only ~5% and ~4% YoY, respectively), with flat operating margins around 10%. Companies benefitted from stable or slightly lower commodity costs (copper and aluminum prices fluctuated but ended near prior levels) and executed small price hikes in the electrical segment, which helped offset cost pressures. Structurally, demand for durables remains on a positive trajectory thanks to rising electrification and urbanization – reflected in continued investment and new product launches, especially by market leaders in the cables/electronics space. However, near-term performance will hinge on a normal festive season and weather patterns; a rebound in cooling product sales (e.g. if the late-summer heat or festival demand spurs AC purchases) would be needed to lift the sector’s growth rate back to its trend. In the meantime, the sustained momentum in government and real estate-driven electrical projects, plus consumers’ shift toward premium and energy-efficient home products, are providing resilience for the durables sector.



Sector Name	Outlook and Overview
EMS (Electronics Manufacturing Services)	The EMS sector is powering ahead with exceptional growth, underpinned by strong global demand and policy tailwinds. Indian electronics manufacturers continued to capitalize on outsourcing trends in Q1FY26, with aggregate sector revenue estimated to surge ~51% YoY and EBITDA ~47% YoY. This momentum comes from healthy orders across consumer electronics, industrial, automotive, and aerospace segments, as global OEMs increasingly turn to India for complex manufacturing projects. Several leading EMS firms are ramping up high-margin production (e.g. defense and medical electronics), which along with economies of scale has kept margins broadly stable despite such rapid growth (sector EBITDA margin roughly flat YoY, with only a minor ~10 bps contraction expected). Order books continue to expand – many companies reported accelerating order inflows and new wins in export markets – and capacity is being added accordingly. Industry-wide, India’s supportive manufacturing policies, including hefty production-linked incentives, have reinforced this growth trajectory. In fact, the country is emerging as a global electronics hub, with domestic EMS players benefiting from the “China plus one” diversification strategy of multinationals and a government push that has doubled local electronics production in recent years. Looking ahead, the sector’s outlook remains extremely positive: demand tailwinds (both domestic and export) are expected to persist into FY26, and companies are targeting higher wallet shares through product mix improvements and deeper engagements with OEM clients. The key monitorables will be execution – scaling operations to meet order timelines – and any global electronics cycle fluctuations, but for now Indian EMS firms appear to be successfully weathering component supply challenges and are well-positioned for continued high growth.
Finance – Banks	Banking sector earnings faced headwinds in Q1FY26, as net interest margins compressed and loan growth remained modest, but asset quality held steady. System credit growth slowed to about 9-10% YoY by mid-2025, a comedown from previous years due to cautious lending in unsecured retail segments and softer demand overall. Deposit growth of ~10% YoY kept the loan-to-deposit ratio in check, though banks still struggled to gather low-cost CASA deposits amid competition. Critically, the Reserve Bank’s unexpected rate cuts in H1 2025 led to lending yields falling faster than deposit costs, squeezing banks’ net interest margins in Q1 – NIMs are estimated to have fallen for virtually all major banks, contributing to flattish YoY net interest income. As a result, private banks are likely to post a slight dip in net profit (~2-3% YoY decline for the group in Q1), while public sector banks, aided by treasury gains and lower base, should see a small profit rise, leaving sector-wide PAT roughly flat versus last year. On the positive side, credit costs remained under control – large lenders’ asset quality was stable with low fresh slippages, and only microfinance-heavy lenders saw elevated but expected loan losses. Looking forward, banks anticipate credit growth to pick up to the low-teens by the second half of FY26 as the full effect of rate cuts filters through and loan demand (especially corporate capex and retail credit) improves. Margins should also find relief in H2 as deposit rates reset lower and the RBI’s CRR cut injects liquidity. In the interim, investors are watching banks’ commentary on the next phase of growth – with ample liquidity and capital, Indian banks remain well-placed to accelerate lending if economic conditions strengthen in the coming quarters.
Finance – NBFCs	Non-bank financial companies had a mixed quarter, with overall loan growth holding up but profitability pressured by high funding costs and seasonal credit strain. In Q1FY26, NBFC loan books grew around ~16% YoY (across our coverage), led by stellar ~29% YoY expansion in gold loans and ~18% in vehicle finance, while housing finance portfolios grew ~10%. However, microfinance lenders saw a contraction in assets as disbursements slowed and legacy stress in certain regions (e.g. Karnataka) curtailed growth. On the margins front, the full benefit of recent RBI rate cuts has yet to flow through – most NBFCs only saw a token 10-15 bps reduction in cost of funds, since banks have been slow to cut their MCLR lending rates to NBFCs. Large housing financiers and gold loan companies actually faced slight margin compression in Q1 due to intense competition and yield declines, whereas affordable housing and vehicle lenders enjoyed a small uptick in spreads. Asset quality showed typical first-quarter weakness: collection efficiencies dipped a bit (also reflecting macro softness), keeping credit costs elevated for microfinance and certain vehicle lenders. Nevertheless, overall earnings for NBFCs likely grew in the high single digits YoY, helped by the robust loan growth and better performance from diversified lenders. The sector’s outlook for the rest of FY26 is cautiously optimistic – with a lag, borrowing costs are expected to ease more meaningfully from Q2 onwards as banks transmit policy cuts, which should improve NIMs for NBFCs. Additionally, the resolution of isolated stress pockets (e.g. normalization of MFI delinquencies by H2) and a pickup in consumption demand could boost credit offtake. Investors are particularly favoring NBFCs focused on housing and secured retail segments, which are showing resilience through the current soft patch.
Non-Lending Financials (Capital Markets & Insurance)	India’s non-lending financials – comprising capital market intermediaries and insurance companies – saw a healthy rebound in Q1FY26, even as underlying conditions varied by segment. Capital market players benefited from buoyant equity markets and investor participation: stock trading volumes in cash segments grew steadily month-on-month, mutual fund inflows (especially via SIPs) hit a record high in Apr-May (₹266+ billion) supporting AUM growth, and market volatility drove strong volumes in derivatives and commodities trading. Consequently, brokers, exchanges, and asset managers are expected to post improved revenues and profits – for instance, equity transaction volumes at the leading exchange rose ~18% YoY in Q1, and asset management firms saw higher fee income aided by mark-to-market gains. Wealth management businesses also enjoyed steady net inflows and fee income, with the revival of the IPO pipeline and unlisted equity deals contributing to earnings. In insurance, life insurers had subdued premium growth after a very strong prior year (the base quarter benefited from pre-tax-change buying), but they are expected to report better margins – value of new business (VNB) margins likely expanded by up to ~200 bps for some, thanks to a richer product mix skewing toward higher-margin products. General insurers saw slight growth in motor insurance as vehicle sales improved, while health insurance growth was muted by a transition to new accounting rules; industry claims remained elevated, but efficiency gains helped combined ratios improve modestly. Overall, the non-lending financial sector’s earnings recovered well in the quarter, with our coverage seeing broad-based profit growth. Looking ahead, market-oriented entities remain optimistic given low penetration levels and supportive structural trends (e.g. more households investing in equities, insurance awareness rising). A key watchpoint will be the sustainability of retail participation in equities and the trajectory of interest rates, which influence both investment flows and insurance demand. But with the regulatory overhangs from last year now digested, these financial sub-sectors appear poised to sustain their momentum into the rest of FY26.
Healthcare	Healthcare companies experienced a moderation in growth during Q1FY26 after an extended period of robust performance. Pharmaceutical firms’ aggregate sales are expected to rise only mid-single digits (~9% YoY) and EBITDA by ~5% YoY, marking a comedown from the high growth of recent quarters. A key factor was the slowdown in domestic pharma demand: the acute therapy segment (antibiotics, cold medicines, etc.) grew just ~5% industry-wide as a milder season and high base tempered growth, versus ~10% growth in chronic therapies like cardiac and diabetes drugs. Additionally, U.S. generics sales – a big driver for Indian pharma – declined by about 4% YoY at the aggregate level, breaking an 11-quarter growth streak. Intensifying price competition in certain large generic drugs and fewer major product launches led to this dip in US revenue, affecting companies with significant exposure to that market. On the brighter side, hospitals and healthcare service providers had a strong quarter: hospital chains achieved roughly ~20% YoY EBITDA growth in Q1 as they benefited from new bed capacity additions and steady occupancy, highlighting the resilience of healthcare services demand. For pharma manufacturers, margins held up relatively well despite the soft top-line – PAT is expected to grow ~10% YoY for the sector, aided by a lower effective tax rate and cost controls. Looking ahead, the healthcare sector’s medium-term prospects remain positive, underpinned by rising chronic disease burdens domestically and new product pipelines. However, the immediate outlook for pharma will depend on how the US generic pricing environment evolves and on the pace of recovery in acute domestic demand. Companies are optimistic that the second half could see a pickup, with factors like new launches (including complex generics and specialty drugs) and a potentially weaker rupee providing tailwinds, while hospitals should continue to see healthy growth driven by increasing healthcare spending and expansion into underserved markets.



Sector Name	Outlook and Overview
Infrastructure	Infrastructure developers had a subdued Q1 FY26 in terms of project execution, but the pipeline of new orders remains robust thanks to ongoing government initiatives. Execution was muted in the quarter – for example, in the roads sector, project awards by the National Highways Authority of India (NHAI) were only ~166 km in Q1 (a slow start relative to annual targets) and construction activity was softer, leading our coverage infrastructure companies to an estimated ~10% YoY decline in revenues and ~20% drop in operating profit (excludes one-off cases). This dip partly reflects seasonality and a high base; additionally, general elections in some states and the early monsoon may have delayed some project work. Importantly, underlying fundamentals remain positive: NHAI plans to accelerate awards later in FY26 (aiming for 4,500 km this year), and the government's budget for road and rail outlay continues to inch higher (up ~2.4% YoY for roads in 2025). Moreover, indicators like toll collections are strong – FASTag toll payments were ~20% higher YoY in Q1, indicating healthy usage growth on highways. Softening commodity prices are also providing relief to contractors' margins; steel and aluminum prices are ~25% lower than two years ago, and though cement prices are a bit up from recent lows, overall input costs for infrastructure projects have stabilized or fallen, which should help profitability on new and ongoing contracts. Companies with diversified operations and large order books (spanning roads, rail, urban infra, etc.) are well-positioned to ride the next upcycle. We expect tender activity to pick up in the coming months (especially post-monsoon), supported by improved bank credit availability for infrastructure and sustained government thrust on capex. In sum, while Q1 was a slow quarter execution-wise, it appears to be a temporary pause in an otherwise strong multi-year infrastructure build-out, and we anticipate a rebound in execution in H2 as large projects move forward and new orders from the robust tender pipeline are finalized.
Logistics	Logistics activity is gradually recovering in India, although high operating costs continue to pressure margins. In Q1 FY26, multiple indicators pointed to an uptick in freight movement: e-way bill generation (a proxy for goods shipments) was up ~21% YoY in April–May, GST collections remained healthy, and daily FASTag toll collections on highways rose ~18% YoY, reflecting more trucks on the road. Indian Railways' freight volume also grew ~2% YoY for the quarter, with particularly strong growth in categories like steel, containers, and food grains, even as export-import (EXIM) cargo was subdued due to softer global trade. Major ports reported around 6% higher cargo volumes YoY in Apr–May, another sign of resilience. Despite this improving demand, transporters are still contending with elevated costs – diesel prices remained relatively high and toll rates increased, which kept freight rates elevated and limited margin expansion for trucking firms. Nonetheless, organized logistics companies (especially those offering integrated services across road, rail, and warehousing) have managed to improve profitability slightly by leveraging scale and technology; sector EBITDA margins are expected to be a bit better YoY as efficiencies counteract cost inflation. In aggregate, our logistics coverage (excluding large port operators) should see revenue growth of ~10% YoY and EBITDA growth of ~25% YoY in Q1, indicating a rebound from last year's low base. Structurally, the logistics sector is on a positive trajectory with the continued formalization of supply chains, government reforms like the National Logistics Policy, and growth in sectors like e-commerce boosting demand for organized 3PL (third-party logistics) services. Over the medium term, as India's economy grows, freight volumes are set to rise further – the key will be addressing cost challenges (fuel prices, infrastructure bottlenecks) and adopting digital solutions to enhance efficiency, which the leading players are actively doing.
Metals	Metals sector performance diverged in Q1 FY26: steel producers enjoyed a margin uplift from higher prices and lower input costs, while non-ferrous metal companies faced softer prices and volumes that weighed on earnings. Domestic steel prices rose notably during the quarter – hot-rolled coil (HRC) prices increased by roughly ₹3,300/ton QoQ (to around ₹49,800/t) thanks in part to a new 12% import duty safeguarding local mills, and rebar prices also climbed amid steady construction demand. At the same time, coking coal costs stayed in check (averaging ~\$200/t, flat QoQ, with Indian steelmakers actually benefiting from low-cost coal inventories), resulting in improved spreads. Steel companies are set to report ~11% YoY growth in EBITDA this quarter, despite only ~6% YoY volume growth, as these favorable price-cost dynamics expanded per-unit margins. Conversely, non-ferrous metals like aluminum, zinc, and copper saw average prices fall ~2–7% QoQ in Q1 amid global oversupply and weaker demand, notably due to China's slower economy. Combined with flat or lower production volumes, this led to a sequential decline in non-ferrous earnings (we expect non-ferrous EBITDA down ~18% QoQ, though still slightly up YoY by low single digits). Mining segment results were mixed: for instance, India's largest coal producer saw output down 4% YoY on a high base, but iron ore producers gained from higher volumes and prices. Going forward, the steel outlook remains cautiously positive domestically – demand from construction and infrastructure is steady, and the recent price support measures help, although global steel prices are under pressure from Chinese exports (China's HRC export prices fell ~3% QoQ). Non-ferrous metals' fortunes will depend on a pickup in global industrial activity; currently the environment is one of "rolling plateaus" with no clear demand surge in sight. Any further moves by governments (e.g., the U.S. potentially raising tariffs, or China stimulus for metals) and currency shifts will also influence realizations. In sum, Q1 showed that Indian steelmakers can "out-earn" their non-ferrous peers during periods of favorable local policy and cost conditions, while the broader metals cycle remains at the mercy of global demand and commodity price trends.
Oil & Gas	The oil & gas sector had a solid Q1 FY26, with downstream companies in particular rebounding from last year's volatility, though upstream profit was crimped by lower crude prices. We expect overall sector EBITDA to be up ~25% YoY (and ~5% excluding state-run oil marketers), translating to a ~42% YoY jump in PAT as refining and fuel marketing margins normalized. Oil Marketing Companies (OMCs) benefitted from significantly improved fuel margins – petrol and diesel marketing spreads were robust (around ₹12 per liter on gasoline on average in Q1) and Singapore refining GRMs recovered to ~\$5.7/bbl (from \$3.2 in the previous quarter). This helped turn last year's losses into healthy profits for OMCs, even without any fresh retail price hikes during the quarter. City Gas Distributors (CGDs) saw moderate volume growth (roughly +6–9% YoY for urban gas demand) and enjoyed sequential margin expansion as input gas costs fell following the new domestic gas pricing guidelines. However, spot LNG prices, while down from 2022's peak, remained relatively high (\$12+ per MMBtu in Q1), meaning industrial gas margins, though improved, have room to get better if global gas prices ease further. Upstream producers (oil & gas extraction) had a weaker quarter: crude oil prices fluctuated between \$60–80 and averaged lower, around mid-\$70s, versus last year. As a result, realization for oil producers dropped and, with flat production volumes, both ONGC and Oil India are likely to post QoQ and YoY profit declines. Globally, the oil market remains volatile but tilted towards oversupply – OPEC+ output cuts and geopolitical tensions were offset by demand concerns (notably China's economy) in Q1, and agencies like the IEA project a surplus in 2025, underpinning a bearish outlook that keeps Brent crude forecasts around \$65/bbl. This expectation of lower oil prices is positive for refiners and consumers, and indeed Indian OMCs' profitability now looks more stable after the extreme input cost shock of last year dissipated. The long-term refining margin outlook is somewhat subdued (global capacity additions are outpacing demand growth), but Indian integrated players are offsetting this with retail and petrochemical expansions. Overall, Q1 was a strong quarter for downstream oil & gas in India – effectively showing they can "weather the commodity storm" – and the focus ahead will be on whether another round of retail fuel price adjustments (hikes) is needed to sustain margins and on the trajectory of crude oil as the global supply-demand pendulum swings.
Real Estate	India's real estate developers posted very strong sales in Q1 FY26, driven by sustained housing demand and successful new project launches. Our coverage of major listed realty companies is expected to report approximately ₹501 billion in presales (property bookings) for the quarter, a whopping 59% YoY jump (and +51% QoQ) on the back of about 32 million square feet sold. This surge was aided by a low base (Q1 last year had fewer new launches due to no major festive period), but also reflects genuine demand resilience – several new launches saw overwhelming response, with a few large projects in the NCR and Mumbai markets selling out within days. Mid-income and premium residential segments are both performing well, and even higher ticket projects have found buyers, indicating stable end-user demand rather than speculative froth. Collections (cash inflows from customers) also rose ~58% YoY for the top developers, supporting healthy cash flow and reducing debt. Revenue and profit recognition in Q1 (which lags sales due to construction-linked accounting) grew at a slower pace – aggregate adjusted PAT up ~40% YoY – but this will likely pick up as the record sales translate into completions. Importantly, developers continue to add to their project pipelines: many are launching more projects this year than typical (some doubling the number of launches annually, leveraging strong balance sheets). The sector's momentum is expected to carry on into coming quarters given low unsold inventory in desirable locations and the supportive mortgage environment (home loan rates have stabilized and even edged down after RBI's rate cuts). While a risk of demand saturation exists if interest rates or property prices were to rise sharply, as of now the fundamentals look robust. Housing demand in top cities remains fundamentally driven by end-users and improving affordability. The medium-term trend of market share shifting to organized, large developers continues, as homebuyers gravitate towards branded players with track records, which further boosts the outlook for those listed companies. In summary, it's been a standout quarter for real estate with robust sales driven by stable demand, and the sector enters the rest of FY26 on a strong footing.



Sector Name	Outlook and Overview
Retail	Retailers had a muted Q1FY26 in terms of underlying demand, though year-over-year growth appeared decent due to a soft base last year. Broadly, consumption trends were weak – the preponement of the Eid holiday into Q4 FY25 and an early onset of monsoons dampened Q1 footfalls, leading to lackluster same-store sales growth for most apparel and lifestyle retailers. Large format retail chains (including a leading department store and a top big-box grocery player) still posted double-digit YoY revenue growth, but even these leaders saw growth decelerate compared to prior quarters. In footwear, most chains grew only in the mid-single digits percent YoY, except one premium footwear brand that maintained double-digit growth by pushing higher-value products. Ethnic wear specialists achieved low-teens sales increases, though that was largely optical, coming off an unusually low base in Q1 last year when there were no major weddings. By contrast, luxury department stores and premium branded apparel players barely managed mid-single-digit growth, reflecting continued subdued demand at the higher end. India's largest retail conglomerate (with a diversified portfolio across grocery, fashion, etc.) likely saw a ~17% YoY uptick in revenue and high-teens EBITDA growth, aided by its scale and recent store additions after a period of consolidation. For the listed retail universe (excluding that giant), we estimate aggregate Q1 revenue grew ~14% YoY and EBITDA ~13% YoY. Gross margins were roughly flat to slightly down, as companies managed costs tightly and inventory levels normalized, but couldn't fully escape a bit of discounting to spur sales. Looking ahead, the sector is banking on the festive season (Q3) to revive spending; management commentaries suggest some improvement could come as inflation stays in check and consumer sentiment gradually warms up. Structural trends like tier-2/3 city expansion and omni-channel integration are ongoing, ensuring that well-capitalized retailers should emerge stronger. However, any significant further re-rating for retail stocks likely needs evidence of a demand pickup – particularly volume growth – beyond just an easy base effect, making the upcoming quarters (with India's festival and wedding season) a crucial test.
Technology	India's IT services sector is navigating a "stop-start" recovery, with Q1FY26 showing better stability than feared but still uneven growth. The quarter's results should be slightly ahead of street expectations – large-cap IT firms likely delivered anywhere from -2.5% to +1.5% QoQ revenue growth in constant currency, essentially flat, while most mid-tier IT companies outperformed with positive QoQ growth (some mid-caps up 4–7% QoQ). Crucially, unlike late last year, clients broadly did not ramp down or defer existing projects en masse, even though the macro environment (including geopolitics and tariff uncertainties) curtailed big new deal signings. In fact, currency movements provided a tailwind – the rupee's weakness against the Euro/Pound added 100–200 bps to dollar revenue growth for Indian vendors. Overall, aggregate revenue for the IT services coverage is expected to be up around 6% YoY in rupee terms, with EBIT/PAT growing roughly 6–7% YoY. Margins remained range-bound: easing supply-side pressures (lower attrition, subdued wage inflation) and utilization efforts helped offset headwinds like wage hikes for senior staff and visa costs, keeping most companies' EBIT margins flat to slightly down by <50 bps sequentially. Looking ahead, management outlooks will be pivotal. Thus far, clients remain cautious on discretionary IT spending (especially in BFSI and retail verticals), but there's emerging enthusiasm around cost efficiency projects and digital transformations involving generative AI. Many Indian IT firms noted that discussions on GenAI and automation use-cases are translating into pilot projects; while immediate revenue from these is small, it could presage a new tech investment cycle. Additionally, with the U.S. Fed likely entering a rate-cut cycle in coming quarters, the worst of the macro uncertainty might abate, potentially unlocking pent-up tech budgets. In sum, Q1 suggests the worst may be over for Indian IT – the feared downturn has been more of a plateau – yet a decisive demand acceleration ("next tech upcycle") is not yet in evidence. Firms and investors are watching deal pipelines closely for that signal, and in the meantime, stock valuations leave room for upside if earnings surprise positively in subsequent quarters.
Telecom	Telecom operators had a stable Q1FY26, with modest sequential growth continuing, and the sector's focus now shifting to the timing of the next tariff hike. We estimate the three private telcos will collectively see ~2–3% QoQ growth in wireless revenues and EBITDA for the quarter, essentially reflecting business-as-usual trends. Average revenue per user (ARPU) in Q1 likely inched up by about ~1.5% QoQ on a blended basis – mainly due to one extra day in the quarter and residual effects of last year's tariff increases – taking industry ARPUs to roughly ₹210 for the market leader, ₹248 for the second operator, and ₹165 for the smallest one. Subscriber dynamics are improving: the top two operators continued to add subscribers (approx. +8 million and +3.5 million net adds in Q1, respectively), while the struggling third operator kept losing users (~1 million net loss), indicating ongoing market share consolidation. As a result, the leaders are expected to post ~2–3% QoQ mobile revenue growth, whereas the smallest player will likely be flat. Margins expanded slightly QoQ for the big operators but the bulk of prior tariff hike gains are now in the base – incremental EBITDA margin flow-through at one leading telco normalized to ~65% (versus ~80% when tariffs first rose). We anticipate the market leader to show ~4% QoQ EBITDA rise (benefiting from scale and subs growth), with the second player ~2–3%, and the weakest operator's EBITDA potentially dipping further due to network costs and subscriber churn. The quarter was otherwise uneventful operationally, which puts the spotlight on strategic updates: management commentary on a potential tariff hike later this year, the possibility of an IPO for the largest operator's telecom arm, and any initiatives like network sharing or consolidation will be key monitorables. We expect at least one more price increase in the mobile sector by the end of 2025 (we model ~15% hike around Dec 2025) given the industry's need to improve ARPUs and return on capital. Additionally, companies are lobbying for a transition to usage-based data plans over time to better monetize surging data consumption. Overall, with 5G rollouts ongoing and data traffic rising ~20–30% annually, the telecom sector's growth is now less about subscriber additions (which have plateaued) and more about extracting higher revenue per user. A consolidated market structure supports rational pricing, so the trajectory of ARPU – via tariff hikes or plan restructuring – will largely determine the sector's financial upside in coming quarters.
Utilities	Utility companies had a relatively soft Q1FY26 as power demand growth slowed from the high levels of recent years, though the transition towards renewables continued at pace. Total electricity generation in India dipped ~2% YoY for the quarter to about 472.7 billion units. This slight decline was mainly due to milder weather and a high base: renewable energy output actually jumped +17% YoY, but generation from coal, gas, and hydro plants fell ~5% YoY, balancing out to a net drop. Peak power demand in Apr-May 2025 was ~235 GW, lower than the ~250 GW peak in the same months last year, as cooler pre-monsoon temperatures curbed air-conditioning loads. Despite the softer demand, many power companies showed earnings growth by expanding capacity and improving efficiency. The country added 6.7 GW of new renewable capacity in the quarter (mostly solar) while retiring nearly 7 GW of old thermal capacity, which benefits producers focused on clean energy. For instance, several renewable energy developers are expected to report 60–70% YoY EBITDA jumps thanks to newly commissioned solar and wind projects coming online. Similarly, integrated utilities that acquired assets or commissioned new plants (e.g. a major private utility with a new coal unit and wind farms, and the state utility NTPC adding solar capacity) will post moderate profit growth despite flat demand. On the power distribution and trading side, volumes on the power exchange rose ~18% YoY in Q1 as short-term trading (real-time and green power markets) gained traction. Looking forward, while FY25 saw only ~5% power demand growth (down from ~8% in prior years), the long-term need for electricity is still on an upward trend with ongoing economic growth and electrification. Industry watchers believe the current softness could be temporary – historically, power demand has rebounded in later months depending on weather and industrial activity. Meanwhile, the government's push for renewables and grid upgrades remains strong: significant solar/wind capacity additions are slated and grid transmission expansion, though slightly behind schedule in Q1, is expected to accelerate. Therefore, utilities with diversified portfolios (renewable, thermal, transmission) are well placed, as the sector balances short-term demand fluctuations with the structural shift toward cleaner energy and improved system reliability.

The new world order – Gold, the reserve Asset

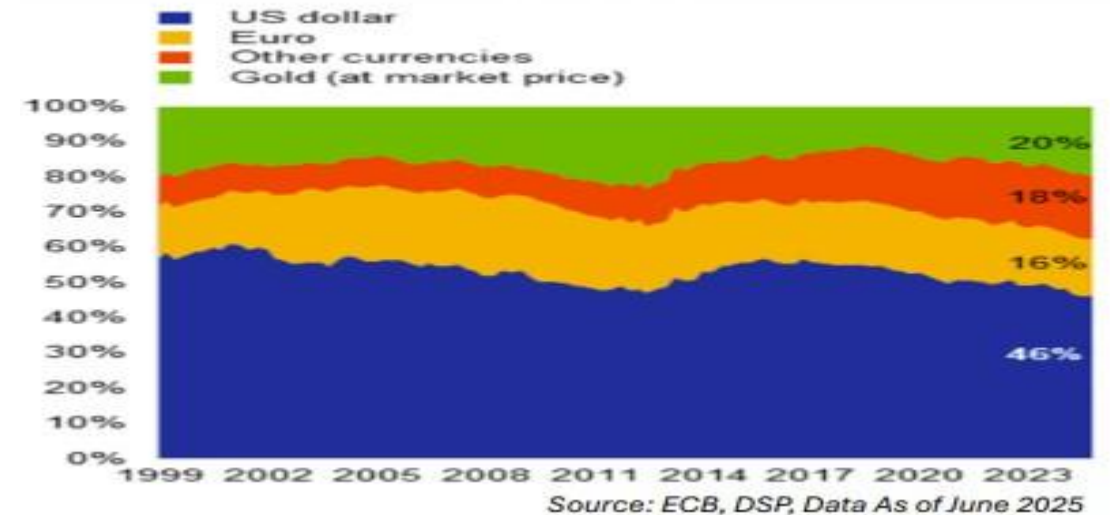
Contrary to popular perception, a country's foreign exchange reserves are not directly held in physical currency notes but largely consist of sovereign debt securities, such as U.S. Treasury Bonds. Over the past two decades, the composition of global reserve assets has shifted markedly. Gold's share fell from roughly 20% to about 10%, only to rebound back to 20%, primarily at the expense of both the U.S. dollar and the Euro. Notably, the Euro's credibility is underpinned by both the U.S. dollar and the geopolitical backing of NATO. This trend of replacing the reserve asset calls into question the traditional nexus between the dollar's reserve status and the U.S.'s ability to finance persistent twin deficits.

The resurgence of gold as a reserve asset has accelerated since February 2022, coinciding with the onset of the Russia-Ukraine conflict. The U.S. response, in particular, the sanctioning and freezing of Russia's USD-denominated reserves, triggered a strategic rethink among global central banks. Heightened concerns about the politicization and potential weaponization of U.S. Treasuries as reserve assets prompted many countries to diversify towards gold to reduce exposure to dollar-centric risk

US Attempt To Use USD As Tool For Sanction Has Sparked A Global Rush For Gold



Gold Rising In Global Official Reserves At The Cost Of All Currencies





As a result, demand for gold has sharply increased, fuelling a substantial rally in its price. Central banks collectively purchased nearly 1,000 tonnes of gold annually since 2022, equivalent to more than a quarter of annual global mining supply, and in 2024 alone, acquisitions reached a historic \$84 billion, nearly matching the aggregate total for 2000-2016. This buying spree underscores the growing preference to accumulate non-dollar reserve assets amid a scarcity of viable alternatives. The Euro remains structurally fragile owing to EU's fiscal inconsistencies, while the Chinese yuan's limited convertibility and lack of market trust inhibit its wider adoption as a reserve currency.

With global forex reserves estimated at \$12.5 trillion, the investable gold market stands at around \$23 trillion with 65% of the demand coming from jewellery, leaving limited liquidity to absorb large reserve reallocations. A modest 5% shift in global reserves towards gold could trigger a sustained price rally given the constrained supply.

In sum, today's gold rally is rooted in a fundamental re-evaluation of reserve asset risk, as central banks seek safety and autonomy outside the dollar system. Unless the current geopolitical rifts and trade barriers dramatically recede or the US can rein in its currently large and unsustainable deficits meaningfully, this structural demand for gold is likely to persist, continuing to challenge the established hierarchy of reserve assets.

Simultaneously, the U.S. faces increasing external financing headwinds as major creditors, notably China, reduce their holdings of Treasuries in search of Gold. As demand for US Treasuries wanes, yields rise, further diminishing the appeal of emerging markets to Foreign Investors in a risk-off sentiment.

The analysis delineates an indicative price range for gold and silver, yet their valuations remain chiefly driven by broader global economic conditions and episodes of heightened uncertainty. Consequently, investors continue to view these metals, particularly gold, as dependable stores of value and as strategic diversifiers that strengthen a portfolio's risk-return profile. That said, given ongoing uncertainty in U.S. dollar flows, the potential for sudden trend reversals cannot be overlooked.

Derived Price of Gold and Silver:

Properties	Gold	Silver
Crust Abundance	Very rare (0.003 ppm)	Rare (0.08 ppm)
Annual Production (tonnes)	3,400	26,000
Above Ground Stocks (tonnes)	2,00,000	90,000
Mining	67% organised mined 33% artisanal mining	Byproduct of mining other metals
Depletion Rate	0%	50%
Industrial Demand	Low (10%)	High (50%)
Sovereign Reserve Asset Status	All countries	Only Peru

Particulars	Values
Total mined Gold (above ground stock in tonnes)	2,18,065
Total mined Gold (above ground stock in Bn troy ounce)	7.01
US M2 money supply (\$ Bn)	21,942
Value of Gold per troy ounce wrt US M2 (\$)	3,130
Additional 50% EU M2 money supply (\$ Bn)	9,100
Value of Gold per troy ounce wrt EU M2 (\$)	1,298
Total Value of Gold per troy ounce (\$)	4,428
Price range of Gold per troy ounce (\$)	3,779
(₹/\$)	88.00
Derived Price range of Gold per 10 gms (₹)	1,06,911
Current Gold Silver Price Ratio	91
Average Gold Silver Ratio since 2015	80
Derived Price range of Silver per troy ounce (\$)	47
Derived Price range of Silver per kg (₹)	1,32,872

Tailwinds

- India's strong government finances reflect underlying structural resilience, with both **fiscal and current account deficits as well as public debt levels remaining well-contained and manageable.**
- **Inflation easing** and well within the RBI's comfort level.
- The prevailing **liquidity surplus** enables effective transmission of anticipated **rate cuts**, which is expected to lower borrowing costs and catalyze a **revival in capex, however weak credit offtake is an impediment.**
- **Corporate India's healthy balance sheets and low leverage**, enabling them to benefit from a **future cyclical recovery and capex upcycle**

Headwinds

- **Subdued earnings** due to **slowing urban consumer demand**
- **Sluggish global growth**, compounded by a **slowdown in domestic momentum** amid the **impending US tariff regime**, poses a significant drag on overall economic prospects.
- **Valuations remain elevated, particularly in the Small Cap segments**, though the exuberance has moderated considerably compared to six months ago. **Metals, FMCG, and IT segments look overvalued** as per their historical PE multiples.

Outlook

- **Heightened Volatility with a Downward Bias in the medium term.**

Suggested Strategy

➤ *Underweight Equity*

Category	Stance
Large Cap	Neutral
Mid Cap	Underweight
Small Cap	Underweight

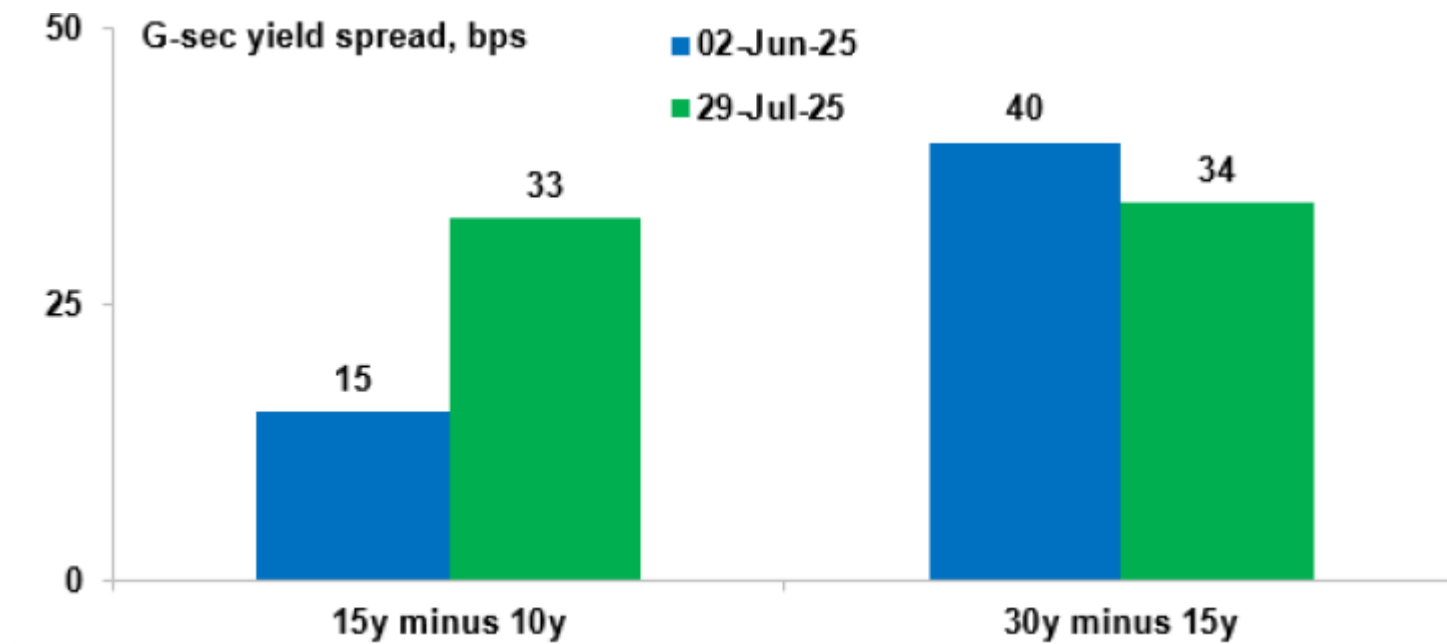
➤ *Neutral Gold*



Debt Outlook



Yields & Spreads



Source: Bloomberg, Bandhan MF Research

Yield Curve Movements

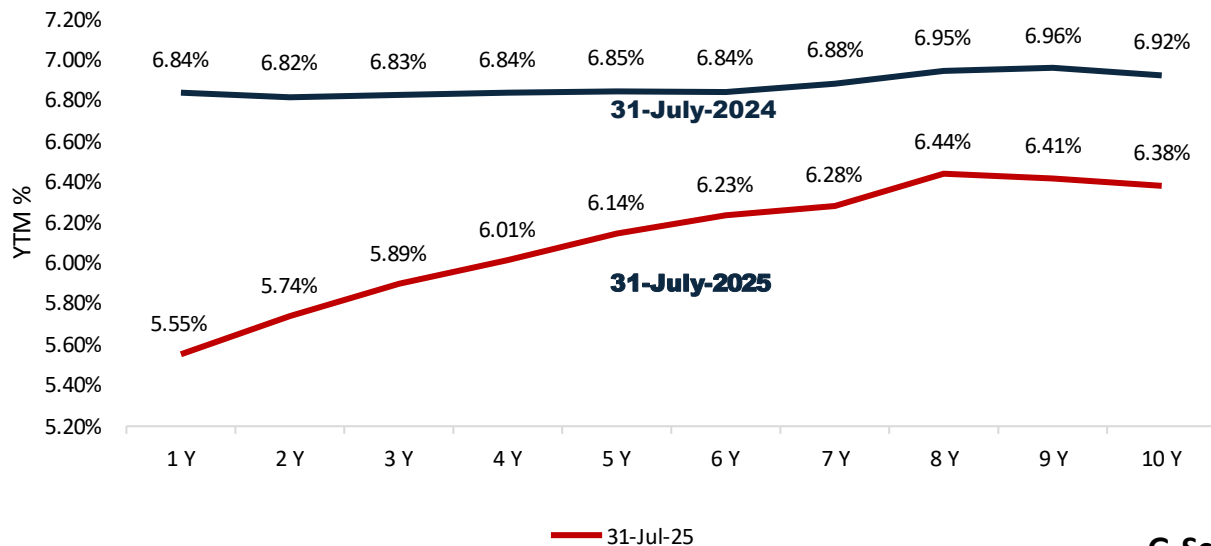
Since June, the curve has steepened, but not equally across all segments.

- The spread between 15-year and 10-year bonds has widened the most. This is partly due to limited supply in the 10-year space (thanks to RBI bond purchases), which directed negative economic sentiment towards the 15-year segment.
- The spread between 30-year and 15-year bonds has narrowed from high levels, suggesting limited further upside for 30-year bonds relative to 15-year bonds.

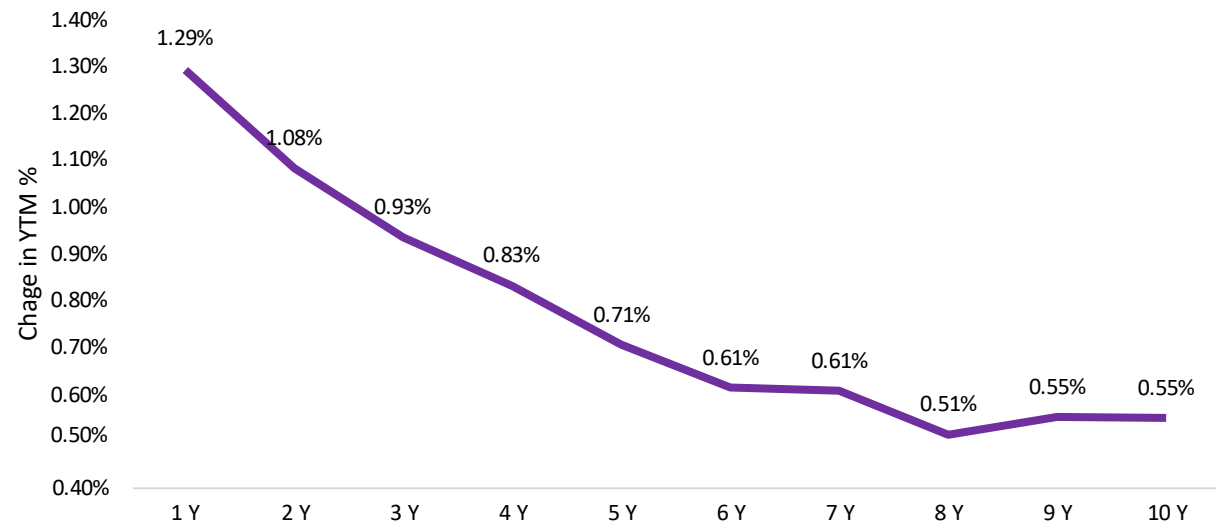


Yields Curve Dynamics

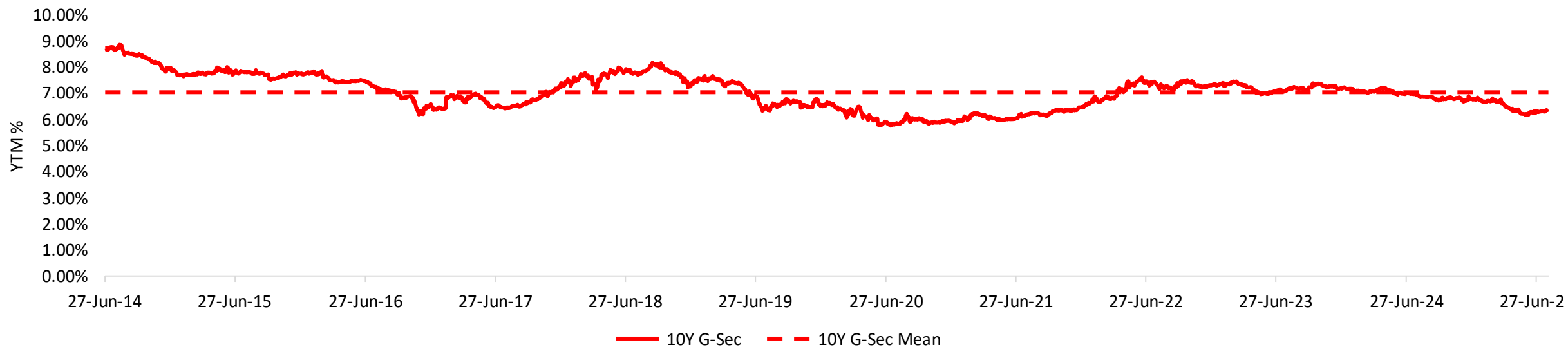
Change in Yield Curve



10Y GSec 1Y Delta - Bull Steepening



G-Sec YTM





Debt Market Outlook



Since the June MPC meeting, bond market sentiment has stayed subdued. The RBI surprised markets with a **larger-than-expected rate cut** and shifted its **policy stance to neutral**, signaling that future moves could involve rate cuts, hikes, or holds. The RBI has also **front-loaded** rate and liquidity easing to jump-start the monetary transmission process.

With a cash reserve ratio (CRR) cut still in the pipeline, the central bank seeking more effective transmission, and signs of a domestic growth slowdown, it may not be optimal to actively counter market expectations of a rate cut. After all, expectations themselves play a vital role in monetary policy transmission.

Globally, the fixed income environment has not been supportive. **Fiscal concerns** and **inflation pressures** continue in major economies like the **US and Japan**. While **US economic growth looks shaky** and the debate over further Fed rate cuts has intensified, the **Fed remains cautious** due to ongoing trade uncertainty and **potential tariff-related inflation**. This puts the Fed at **risk of being 'behind the curve'** if these tariffs do not translate into significant inflation, given the lagged effects of monetary policy.

Despite recent developments, we maintain a **positive outlook on Indian fixed income** for several reasons:

- ❖ **Dollar Strength on Pause**: Global **"dollar dominance"** seems to be weakening. Some drivers of US economic outperformance are fading, the US **economy is slowing**, and **policy uncertainty is increasing**.
- ❖ **Scope for US Yields to Fall**: Although **US deficit concerns mean there is a higher 'floor' for yields**, US bond yields should ease as the cyclical slowdown deepens and the **Fed eventually responds**. There's **still room for yields to fall from current levels**.
- ❖ **Global Growth Headwinds to Impact India**: Global growth is fading - US is slowing, Europe's fiscal expansion is blunted by currency strength, and China's first-half export surge is tapering post-tariffs. India's domestic demand is already in a soft patch, as seen in moderating nominal growth, softer company commentary, and slower bank credit growth. While part of the credit slowdown is structural and may persist, bank investments in bonds can rise as term spreads remain attractive.

Given these factors, we believe the **rate cut cycle may not be over**, and **rate hikes seem a distant prospect**.



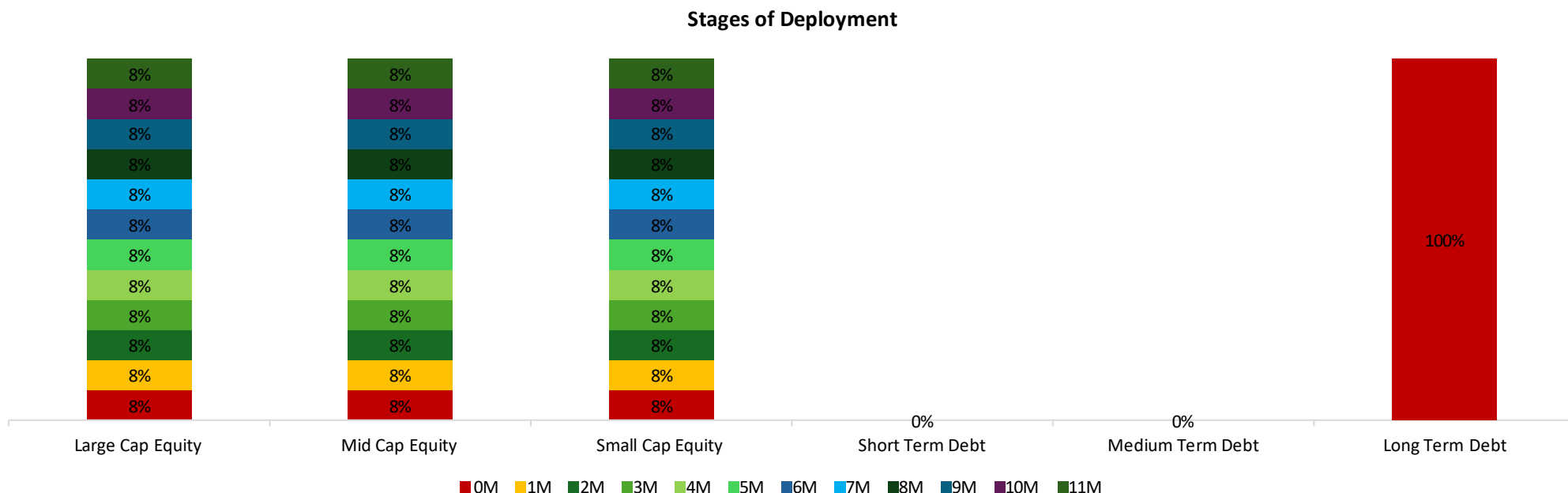
Outlook: Tactical Positioning

- **We still believe in staying long duration but have adjusted the portfolio mix in response to recent yield curve developments.**
- **Since June, the yield curve has steepened, but unevenly across maturities. The gap between 15-year and 10-year bonds has widened the most, largely because RBI bond purchases have limited supply in the 10-year segment. As a result, negative market sentiment has shifted more towards the 15-year bonds. Meanwhile, the spread between 30-year and 15-year bonds has narrowed from previously elevated levels, indicating that additional upside for 30-year bonds compared to 15-year bonds may now be limited. We continue to favor duration and see significant value in government bonds, especially in the 15-year segment .**

Deployment Strategy



Deployment



Indicators:

Indicators signaling over heated market conditions –

- Market Cap/GDP for Large, Mid, and Small Cap Indices above their LTA's signaling lofty valuations
- Exports and Imports data are signaling a possible slowdown in domestic demand
- TTM PE for Small Caps indicate overvaluation
- FII is net seller in July 2025

Indicators signaling fair valuation -

- VIX at 12 levels
- DII's have been net buyers as well
- Liquidity surplus
- Investment and GFCF have risen in the past quarter signaling a possible revival of Pvt Capex
- TTM PE for Large and Mid Caps Indices indicate fair valuation

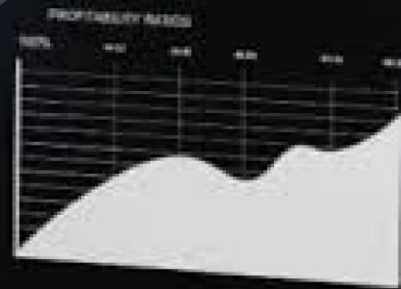
Deployment Strategy:

Staggered Deployment over the next 12 months -

- Large Cap – 8.33% immediate deployment and 8.33% in each month in the next 11 months
- Mid Cap – 8.33% immediate deployment and 8.33% in each month in the next 11 months
- Small Cap – 8.33% immediate deployment and 8.33% in each month in the next 11 months
- Debt – 100% immediate deployment (bullet strategy at the long end (15 yrs) of the yield curve.

Optimus Prime Model Portfolio

Aggressive Strategy

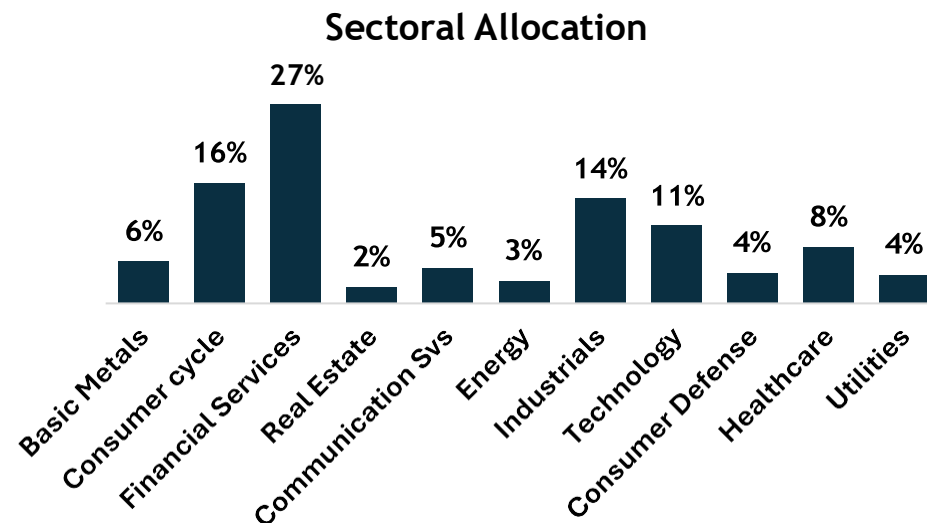
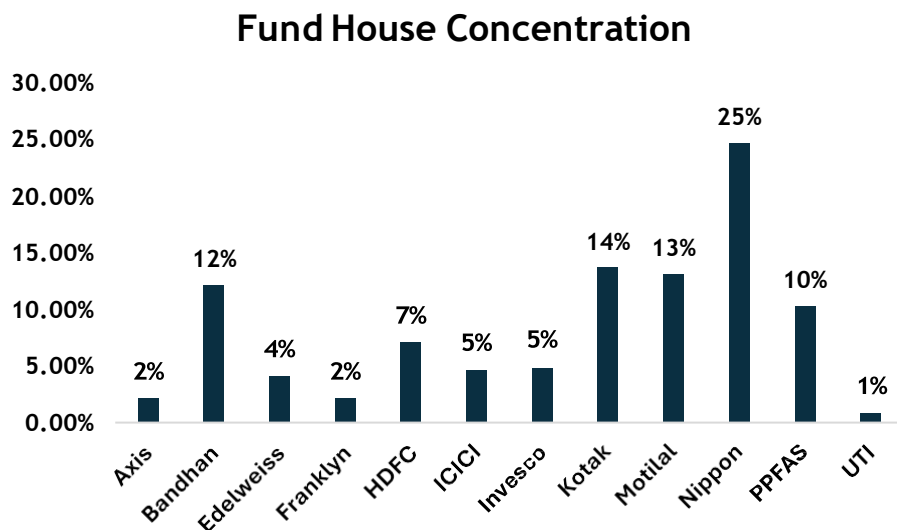
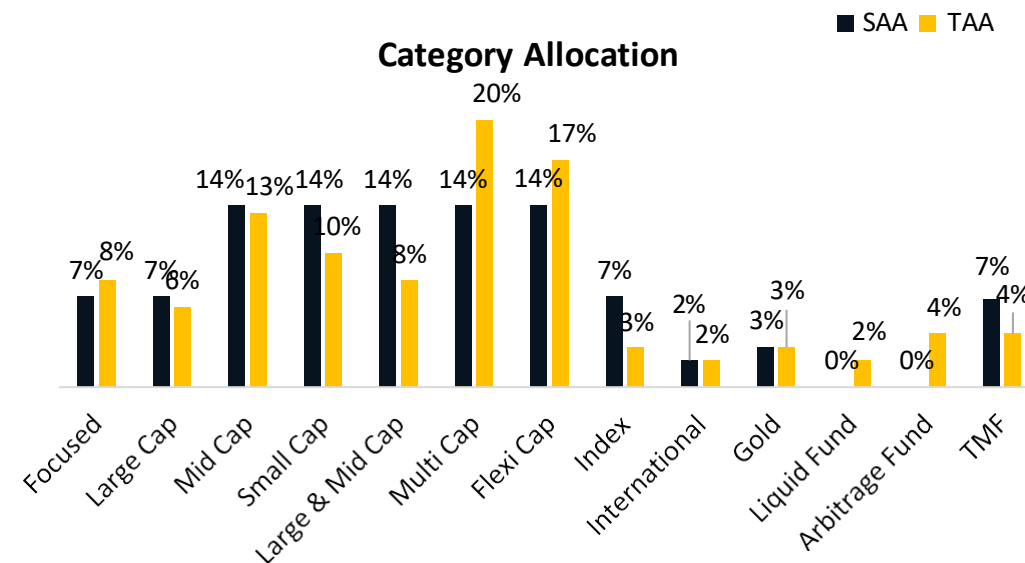
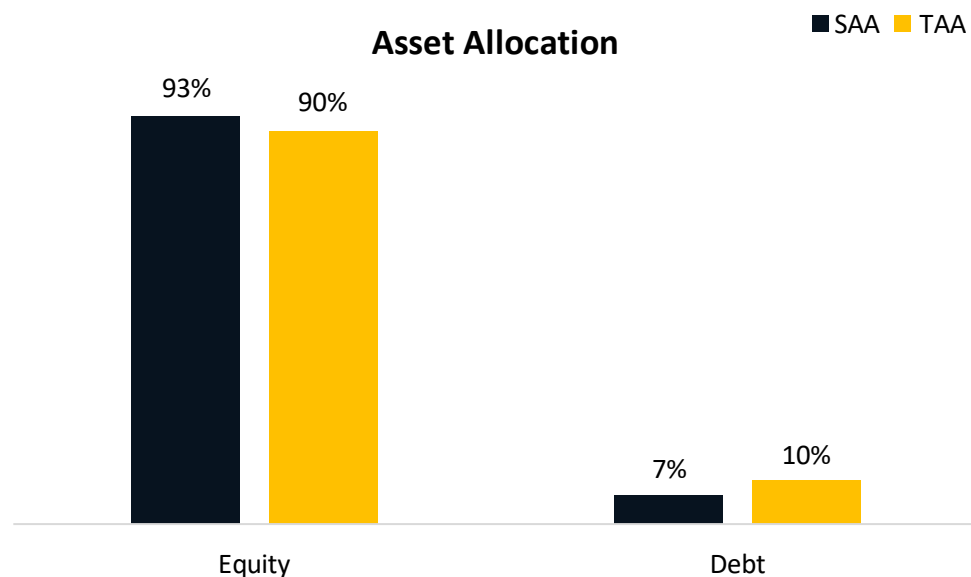


100% 9.12% 18.25%



Logistics

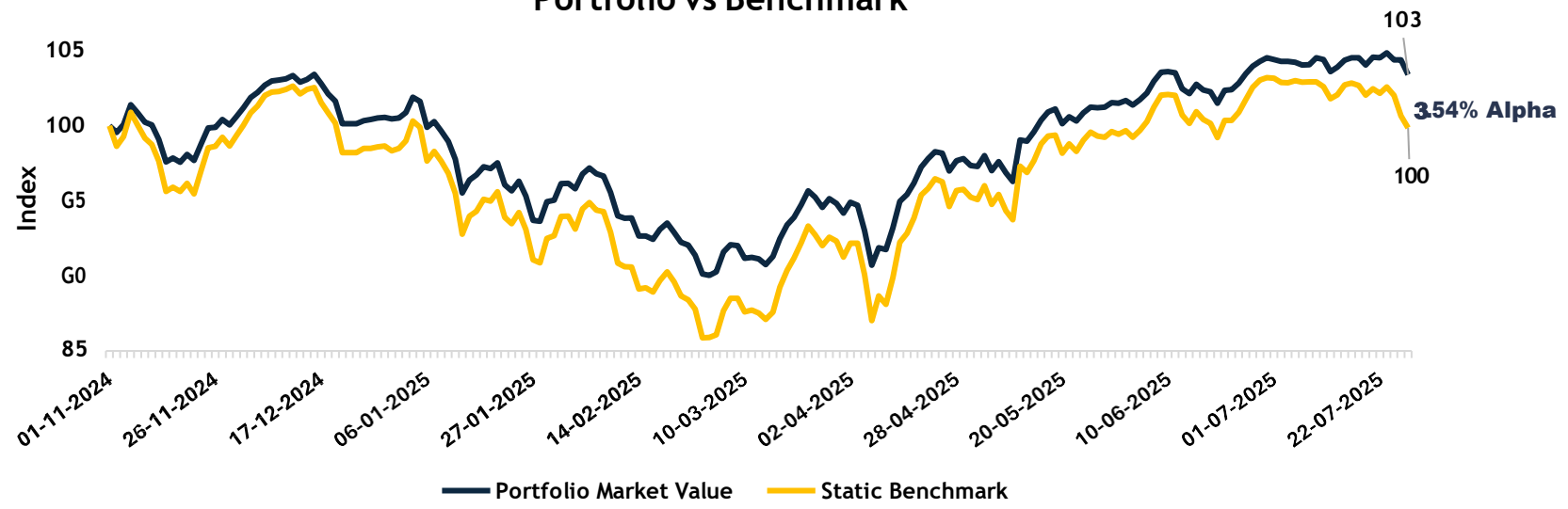
GROWTH



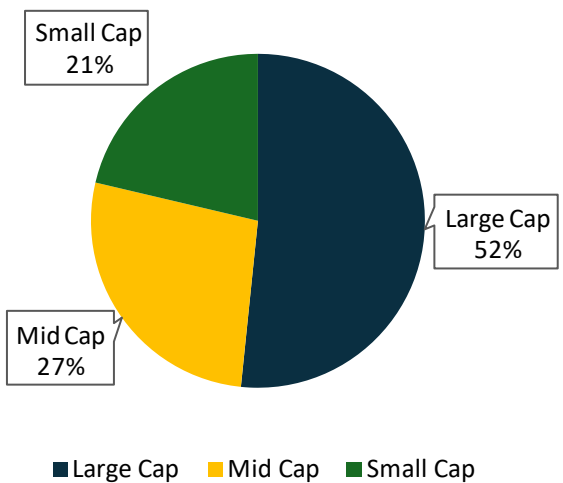
*SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 31st July 2025, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives. The benchmark weights remain static as per the SAA. The constituent benchmarks and their respective weights are: NSE 500 India TR INR - 36.00%, NSE 100 India TR INR - 11.80%, NSE Midcap 150 TR INR - 15.60%, NSE Smallcap 250 TR INR - 15.60%, NSE 200 India TR INR - 13.60%, NSE 50 TR INR - 0.80%, NIFTY 11-15 YR G-SEC INDEX - 6.60%. All returns are pre-tax and pre exit load if applicable in Model Portfolio. Optimus Prime Model Portfolio is an Aggressive portfolio strategy.



Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	3.40%	-0.14%
Standard Deviation (annualized)	11.96%	15.93%
Beta	0.85	1.00
Alpha	3.54%	
Information Ratio	11.93	
Downside Capture	63.82	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.21%	3.33%	0.00%	3.54%

Debt Portfolio Analytics

Debt Measures	Apr-25
Average MoD	4.9
Average Maturity	6.4 yrs
Average Coupon	NA
Average YTM	6.8 %

Average Credit Rating	Apr-25
AAA	100%
AA	0%
A	0%

*SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 31st July 2025, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives. The benchmark weights remain static as per the SAA. The constituent benchmarks and their respective weights are: NSE 500 India TR INR - 36.00%, NSE 100 India TR INR - 11.80%, NSE Midcap 150 TR INR - 15.60%, NSE Smallcap 250 TR INR - 15.60%, NSE 200 India TR INR - 13.60%, NSE 50 TR INR - 0.80%, NIFTY 11-15 YR G-SEC INDEX - 6.60%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy.



Current Investment Portfolio Stance: **Conservative**

At the most recent Investment Advisory Committee meeting, it was unanimously agreed to maintain a **Conservative investment approach, with a measured tilt towards a moderately pro-risk stance as part of a long-term equity strategy**. This decision reflects the committee's ongoing caution **amid global macroeconomic uncertainties, especially surrounding the impending tariff hikes** introduced under President Trump's administration, which is expected to lead to **heightened market volatility** and a **subdued return environment domestically as well as globally**.

As a result, the portfolio's **equity allocation remains underweight by 3.4%**. Within equities, we continue to hold a **~6% underweight position in Mid Caps and a ~12% underweight position in Small Caps**, aligning with our risk-controlled framework.

Global capital flows continue to reflect a cautious undertone. Domestically, the **softening trajectory in urban consumption** trends, **muted expected Gross Fixed Capital Formation in the private sector**, and signs of a **broader global slowdown** further reinforce our view that equity return expectations for FY 2025-26 should be tempered. Recent **earnings plateau** during the Q4FY24-25 and Q1FY25-26 result season provide additional evidence of corporate India's growth easing.

Nevertheless, our **medium-to-long-term outlook on India remains constructive**. We take comfort in the country's **robust fiscal position and external current account balances, well-anchored inflation**, and **sufficient liquidity surplus** in the banking system, all of which create a conducive backdrop for effective transmission of upcoming rate cuts. **Corporate India also appears well-positioned, with healthy balance sheets and low leverage**, enabling them to benefit from a **future cyclical recovery and capex upcycle** once **domestic and global demand picks up** (~50% of earnings are linked to international markets).

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 3.54%**, driven primarily by **Product Selection Alpha in the Large and Small Cap space and a healthy Asset Allocation Alpha at the short end of the yield curve**. Importantly, the portfolio has maintained a **Beta of 0.85**, and an **Information Ratio of 11.93, highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 64%, the portfolio displays effective downside protection** relative to the benchmark in a general bear market.

Going forward, the committee will continue with the current stance until there is visibility on **domestic demand recovery and greater clarity on the US tariff developments**. Asset allocation will be reassessed in line with evolving macro and market conditions.

Our near-term priority remains firmly on capital preservation and the generation of consistent Alpha, amidst what continues to be a highly uncertain and challenging investment environment.





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THANK YOU

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