

Embracing complexity to capture Alpha

Dear Investors,

As uncertainty hangs heavy over the global economy, countries the world over are striving hard to keep their economies shielded. In this backdrop, it is encouraging that India seems to be weathering the storm well. Various high frequency indicators, showed resilience in June across industrial and service sectors, even as inflation stayed below RBI's 4% target for five straight months. With the global trade turmoil yet to show up in Indian prices, we should keep a watch on any uptick in the cost of living imported through geo-politics.

That said, corporate results reveal a less sanguine picture, with revenues of listed private non-financial companies growing slower in the last quarter of 2024-25. Profitability increased, though. This suggests efficiency-driving and cost-cutting measures amid weak demand conditions. This margin resilience may not be sustainable if volume growth continues to lag.

While the RBI has turned its focus to growth support by slashing its policy rate by half-a-percentage-point, a sharper than expected price incline could upset its calculus. Other central banks have taken a cautious approach. In my view we should stay vigilant too.

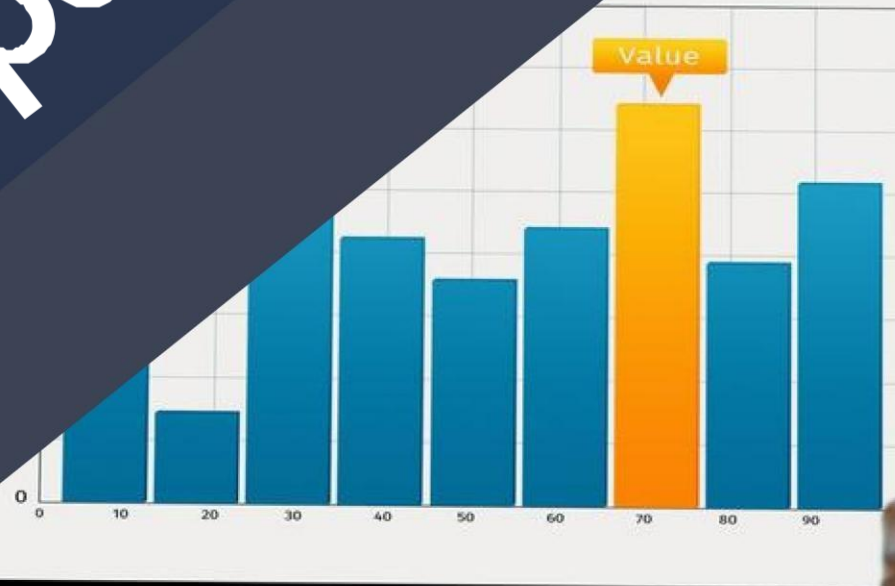
We remain constructive on India's medium-to-long-term fundamentals but advocate for near-term vigilance. Elevated global uncertainty, uneven earnings visibility, and the risk of policy recalibration warrant a measured and risk-aware investment approach at this juncture.

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

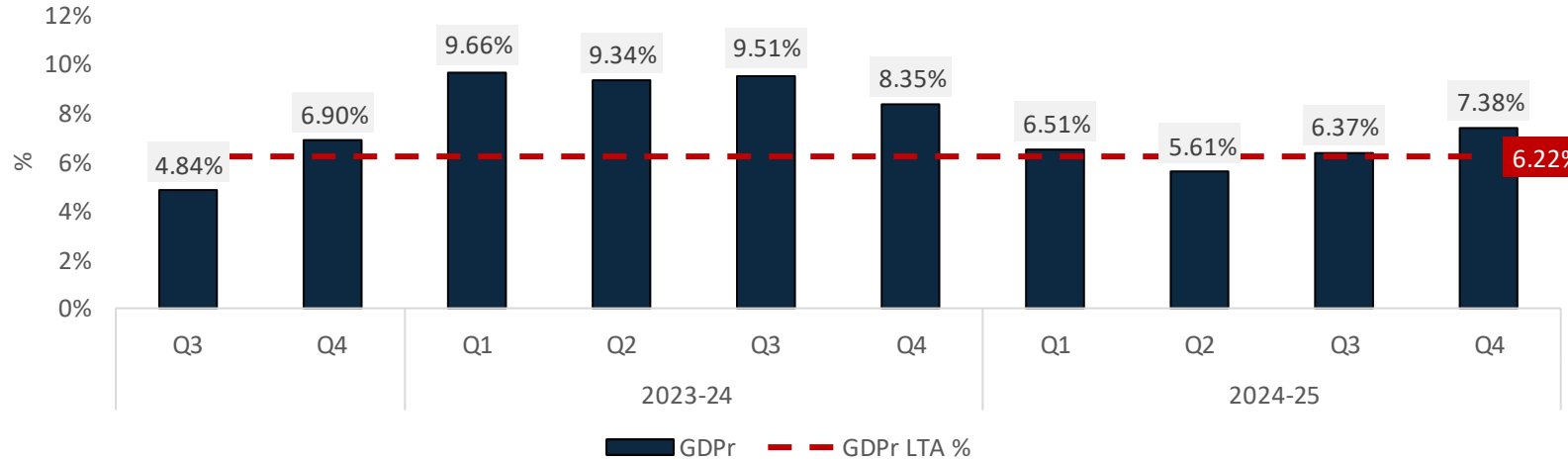




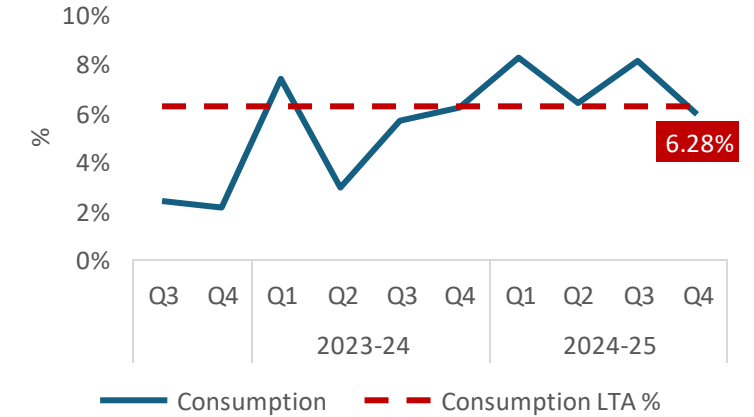
1. GDP (Gross Domestic Product)



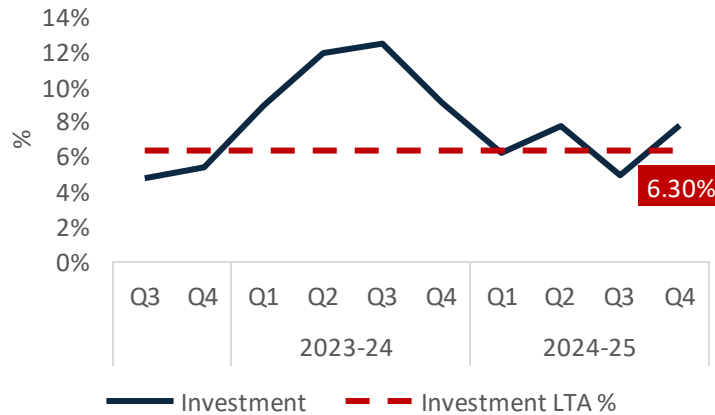
GDP YoY %



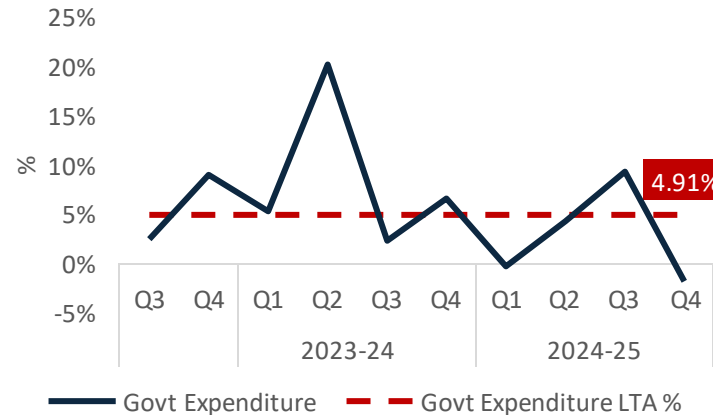
Consumption YoY %



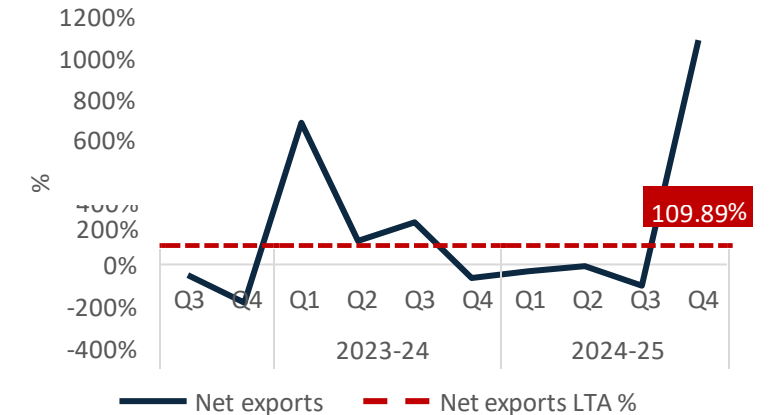
Investment YoY %



Govt. Expenditure YoY %

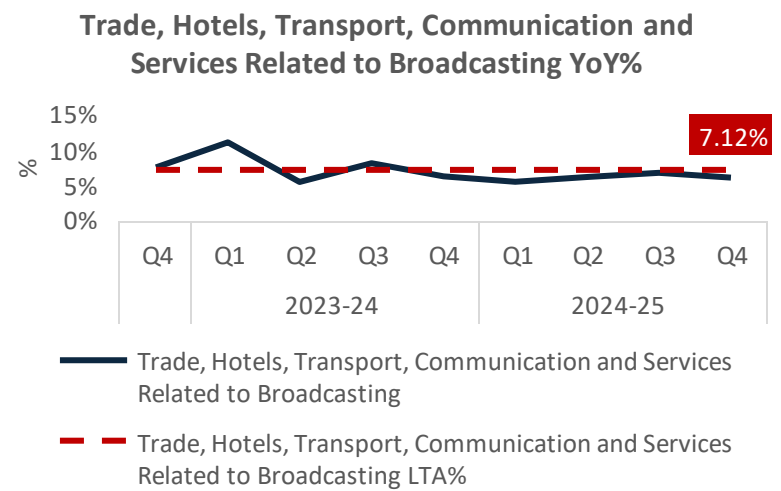
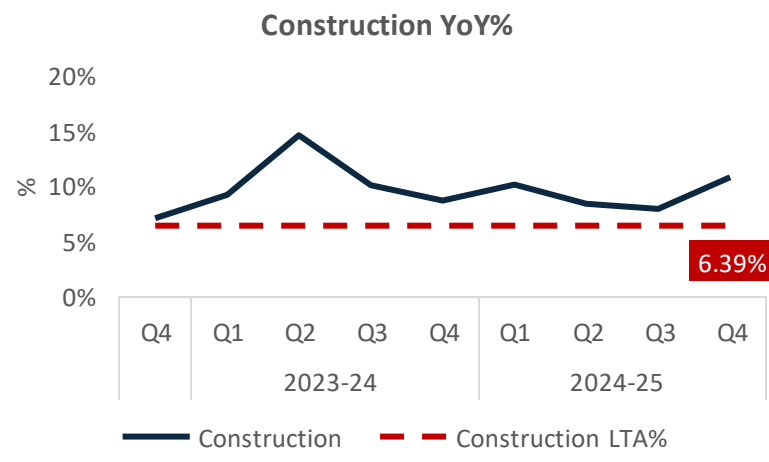
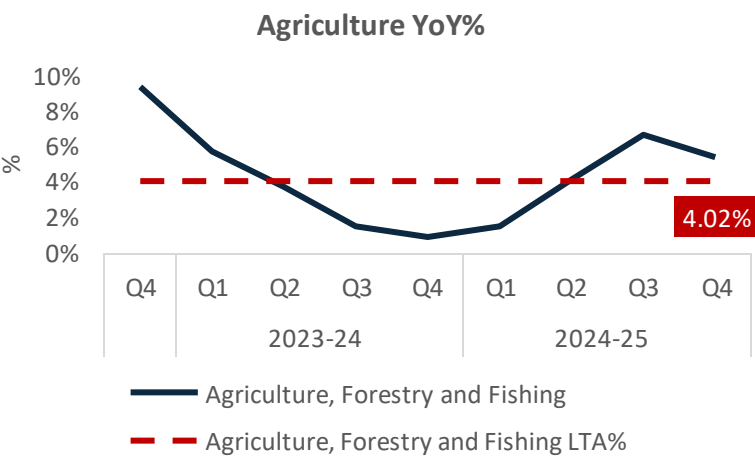
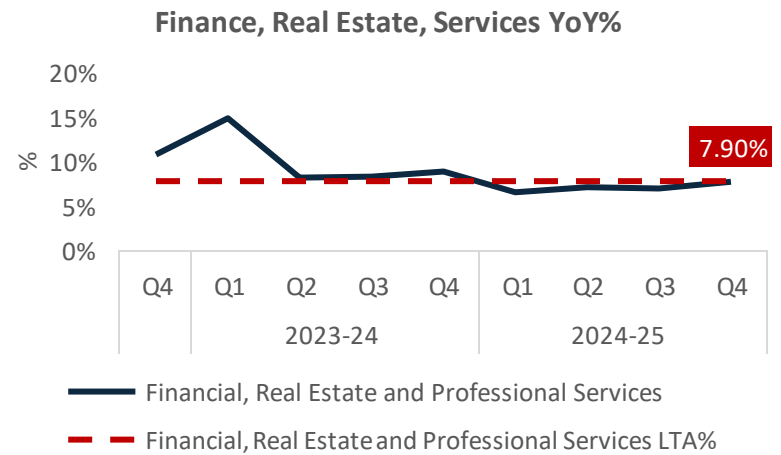
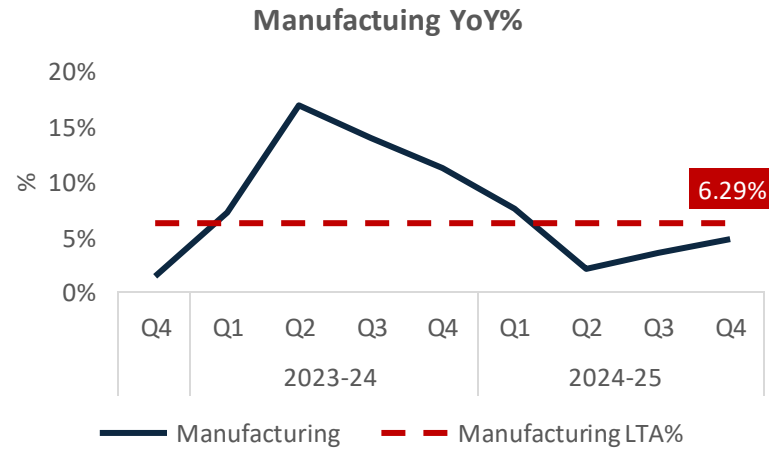
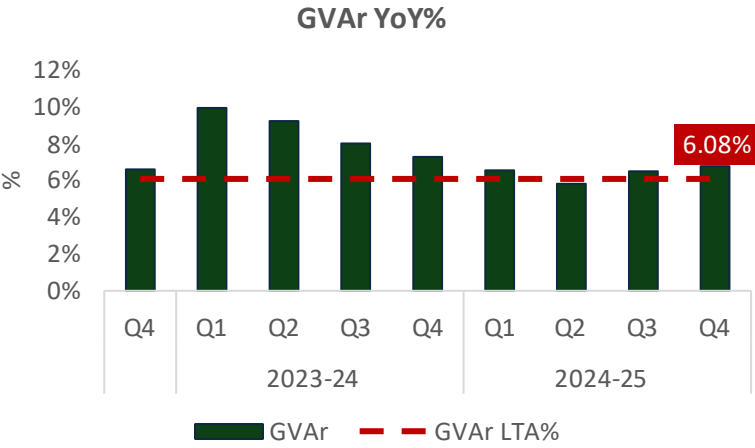


Net Exports YoY %





GVA (Gross Value Added)



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 high-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.**
- 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.

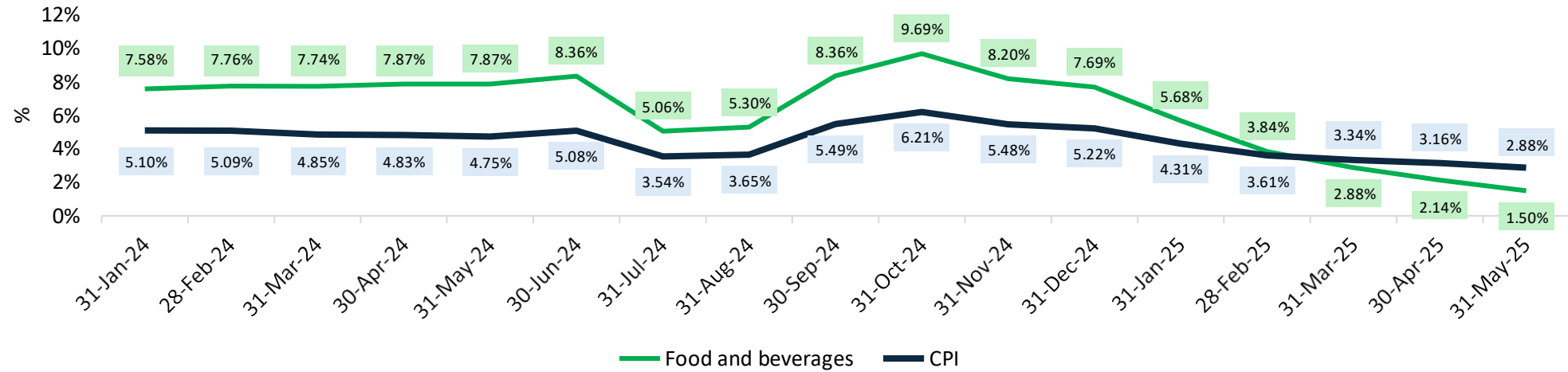
Outlook:

- **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, maintaining 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 demand abroad) 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 ~6.5%**, flagging a **cautious stance** due to **global risks**. 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 recent **geo-political crisis in the Middle East**, remain a **source of uncertainty for inflation and fiscal planning, especially since India imports over 80% of its crude oil requirement.**
- **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.**
- The monetary policy stance is changed to **Neutral**, with analysts anticipating **atleast another 25bps rate cut**, following a cumulative front-loaded easing of **100 bps earlier in the cycle**, provided inflation stays close to target.
- **The GDP outlook presents a mixed picture, with positive drivers offering some support, yet offset by considerable uncertainties that may constrain momentum. The RBI's 6.5% forecast for FY26 seems realistic.**

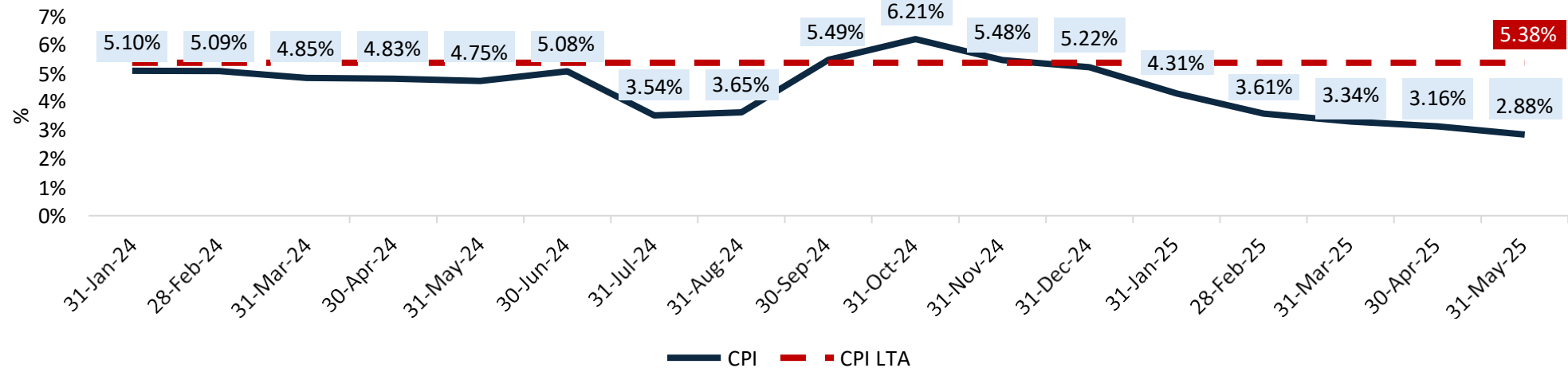
2. Inflation



Headline CPI and Food & Beverages Inflation



CPI YoY %





Inflation Cools Further, Food Basket Anchors May CPI Print

Commentary:

- **India's CPI inflation moderated to 2.88% YoY in May 2025**, down from 3.16% in April and marking the **lowest inflation since February 2019**, staying well within the RBI's 2-6% tolerance band and far below its 4% midpoint target.
- **Major contributor to this drop was Food inflation (46% of the total inflation basket) dropped sharply to 1.50%** (vs 2.14% in April), led by a significant decline in prices of **vegetables (-13.7%)**, **pulses (-8.2%)**, and **spices (-2.8%)**, as well as base effect. **Tomato and onion prices fell sharply (-26.2% and -10.7%, respectively)**, driving the disinflation. **Cereals inflation remained elevated at 4.77% YoY**, while **milk inflation rose to 3.15%**. **However, inflation remained sticky in essential items like milk and dairy products, edible oils, and non-alcoholic beverages, highlighting the uneven nature of overall moderation.**
- **Rural and urban inflation showed synchronized easing:**
 - ❖ **Rural CPI fell to 2.64%** (vs 2.92%), with rural food inflation at **1.36%**
 - ❖ **Urban CPI declined to 3.13%** (vs 3.36%), with urban food inflation at **1.72%**
- **Combined Sector-wise Inflation Update:**
 - ❖ **Fuel & Light:** Inflation increased to 2.96%, up from 2.92% in April — indicating a pressure from energy-related costs.
 - ❖ **Housing:** Inflation rose marginally to 3.16% from 3.00%, showing a modest uptick in residential rental or housing-related expenses.
 - ❖ **Education:** Inflation remained steady at 4.12%, showing persistent cost pressure in tuition and related expenses.
 - ❖ **Health:** Inflation increased to 4.34% from 4.25%, suggesting rising costs for medical services and products.
 - ❖ **Transport & Communication:** Inflation edged up to 3.85% from 3.67%, possibly reflecting fuel price changes and telecom service adjustments.
- Among major states, **Kerala (6.46%)**, **Punjab (5.21%)**, and **Jammu & Kashmir (4.55%)** recorded the highest YoY inflation, indicating regional dispersion in price pressures.

Outlook:

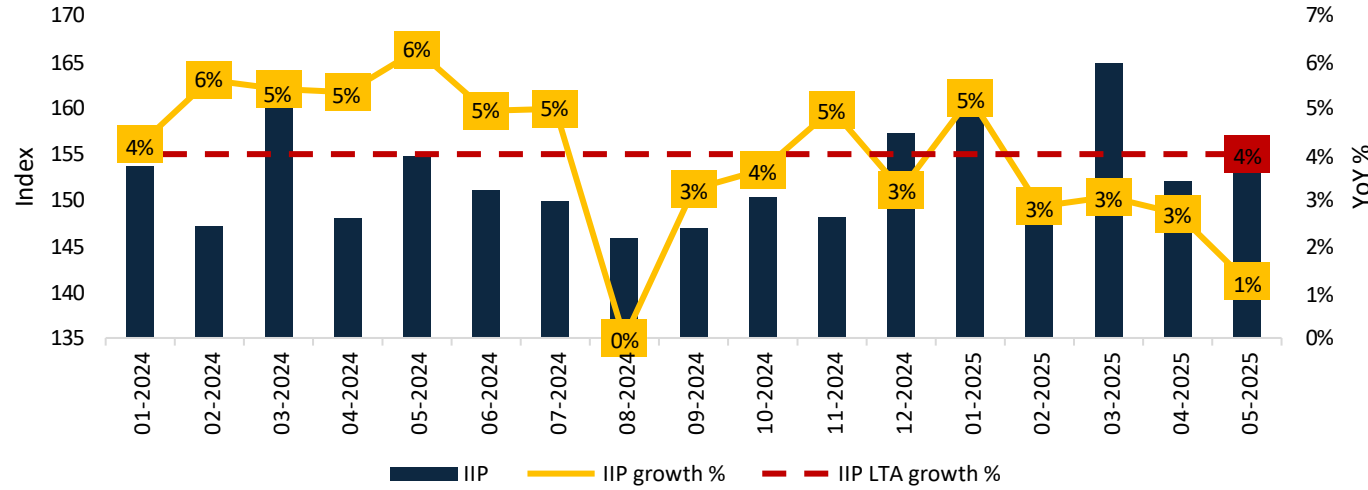
- **CPI inflation is expected to stay around 3.5% in the near term, supported by easing food prices due to normal monsoons and a favorable base effect. May's data showed a marked decline, driven by broad-based deflation in perishables.**
- **Food inflation risks remain balanced - vegetable, fruit, and pulse prices are falling, but the monsoon's timing and distribution will be key to sustaining this trend.**
- **External risks persist, including potential tariff hikes, trade disruptions, and volatility in global commodity prices, particularly edible oils and energy.**
- **Core inflation remains sticky, especially in services like health, education, and transport, indicating persistent demand-side pressures.**
- **Fuel inflation has moderated on the back of stable energy prices, though geopolitical tensions and crude oil volatility remain risks.**
- **Housing inflation is edging up, reflecting recovering demand in urban housing and rentals.**
- **The RBI is unlikely to reduce rates in the August and October policy, given that it would monitor the transmission of the frontloaded monetary and liquidity easing measures. We expect the RBI to pause from here on and any scope for further easing will open up depending on the growth-inflation trajectory.**
- **Overall, inflation appears well-anchored, but continued vigilance is needed amid geopolitical risks, sticky core inflation, and global supply-side pressures.**



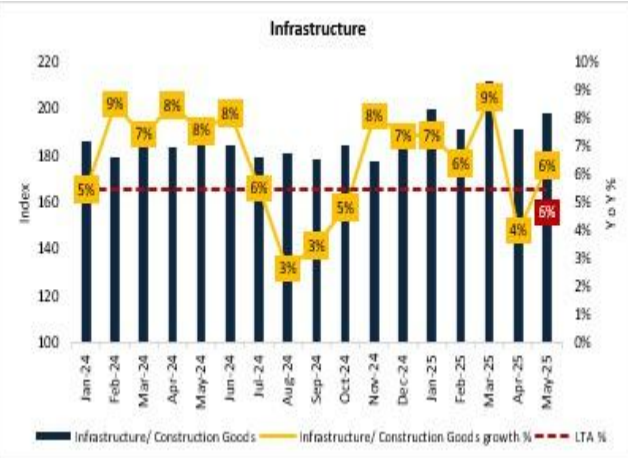
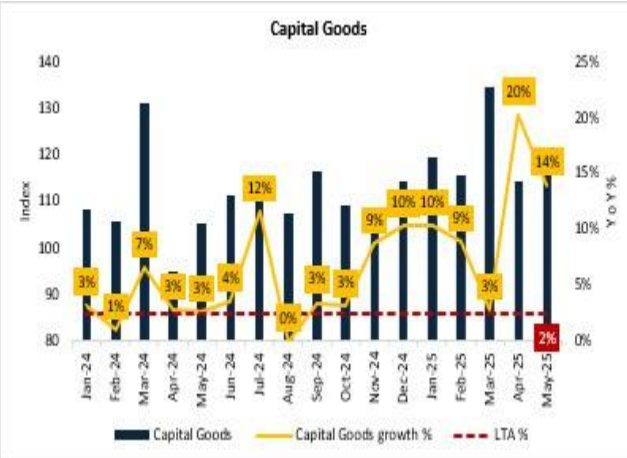
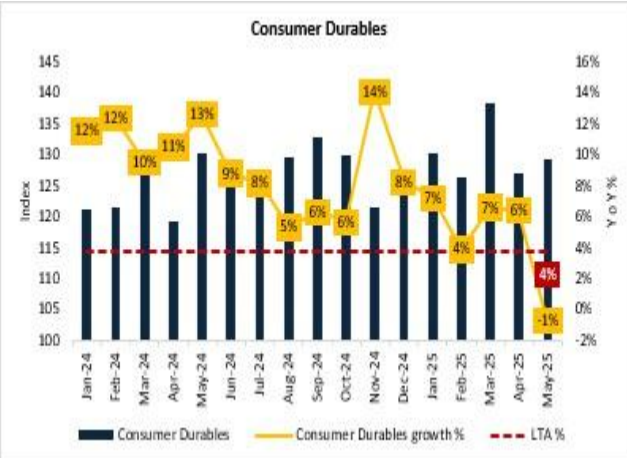
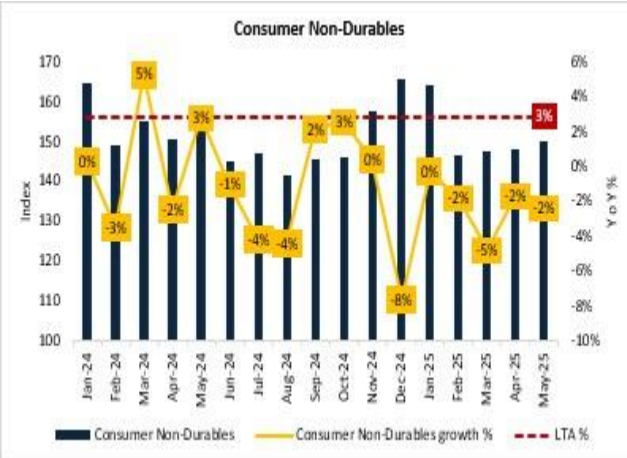
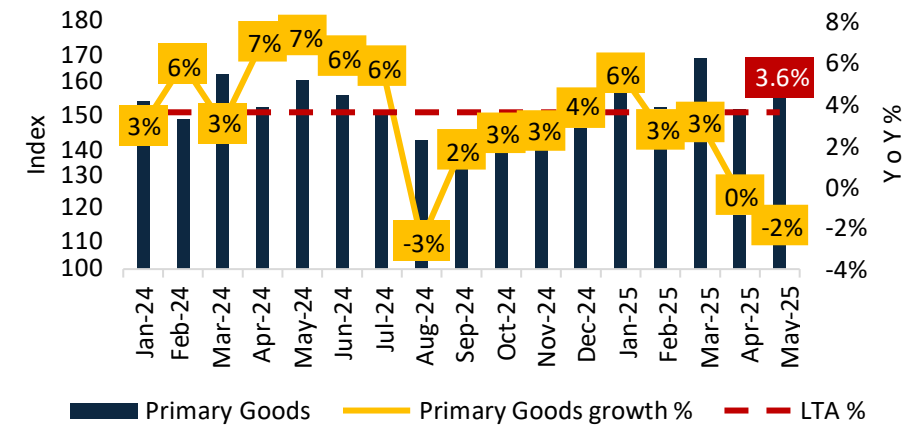
3. IIP (Index of Industrial Production)

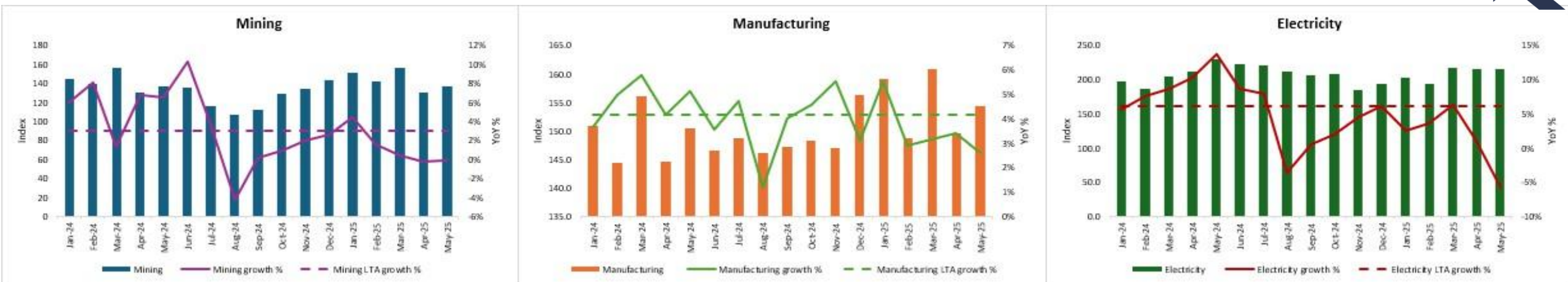


IIP - Industry



Primary Goods





Industrial Growth Falters in May 2025: Uneven Sectoral Trends Highlight Fragile Demand Base

Industrial Production – May 2025 Update

- India's industrial output growth slowed notably in May 2025, with the **Index of Industrial Production (IIP)** rising just **1.2% YoY**, compared to a revised 2.7% in April. As per the Ministry of Statistics, this marks the **lowest IIP growth in nine months**, underscoring the uneven nature of the ongoing recovery and the impact of sectoral drag and high base effects.

Sectoral Trends

- The **manufacturing sector**, which accounts for three-fourths of the IIP, grew by **2.6% YoY**, reflecting modest resilience but also a narrower recovery base. **Only 13 out of 23 manufacturing industry groups.**
Key drivers were:
 - Basic metals** (+6.4%): Supported by robust production of **steel billets, slabs, and alloy products.**
 - Machinery and equipment** (+11.8%): Boosted by increased output in **centrifuge separators, pumps, and stationary engines.**
 - Other non-metallic mineral products** (+6.9%): Growth led by **cement (all types), clinkers, and glassware.**
- Mining output** declined **(-0.1%) YoY**, extending a weak trend likely tied to **lower commodity prices** and tepid demand from power and construction sectors.
- Electricity generation** fell sharply by **(-5.8%) YoY**, driven by both **base normalization and muted industrial offtake**, reflecting lower demand across energy-intensive sectors.

Use-Based Perspective

- Growth across use-based categories was highly uneven:
- Capital goods** surged **14.1% YoY**, continuing their robust expansion, supported by **sustained public and private investment in equipment and machinery.**
- Infrastructure/construction goods** rose **6.3%.**
- Intermediate goods** grew by **3.5%**, suggesting ongoing movement in supply chains despite overall moderation.
- Primary goods** output contracted **(-1.9%)**, highlighting **volatility in basic material demand.**
- Consumer durables** declined **(-0.7%)**, reflecting weak discretionary spending amid cautious household budgets.
- Consumer non-durables** slipped further by **(-2.4%)**, underscoring **ongoing urban stress and weak demand for essentials**, particularly in mass-market segments.
- The **top three positive contributors** to IIP growth from a use-based lens were **Infrastructure/construction goods, Capital goods, and Intermediate goods.**

Outlook

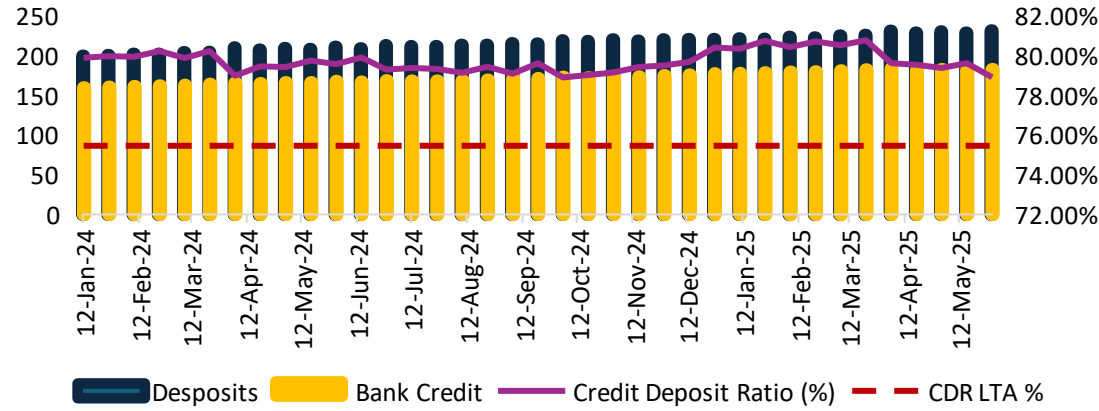
- The weakness in industrial growth to a nine-month low reflects an uneven recovery, with momentum largely supported by public capex and infrastructure demand, while consumer-facing and energy-intensive sectors remain under pressure.
- Persistent contraction in electricity and mining, along with continued weakness in consumer non-durables, signals that the recovery is not yet broad-based and continues to face structural constraints such as weak urban demand and soft private consumption.
- The divergence between capital goods strength and household consumption softness highlights a dual-track recovery, raising concerns about sustainability unless employment and wage growth improve meaningfully in the coming quarters.
- Global headwinds remain material, including slower external demand, crude price fluctuations, and trade-related uncertainties. These factors could suppress export-linked manufacturing and heighten input cost volatility, particularly in core commodities.
- While policy transmission has supported infrastructure momentum, broader industrial expansion will require revival in private capex, credit flow to MSMEs, and visible recovery in domestic demand—especially urban-led consumption.
- A favourable monsoon could provide upside for non-durables in H2FY26, but overall IIP momentum is likely to remain volatile and range-bound until both global macro stability and domestic demand normalization align more firmly.

Source: Internal assessment based on RBI DBIE data

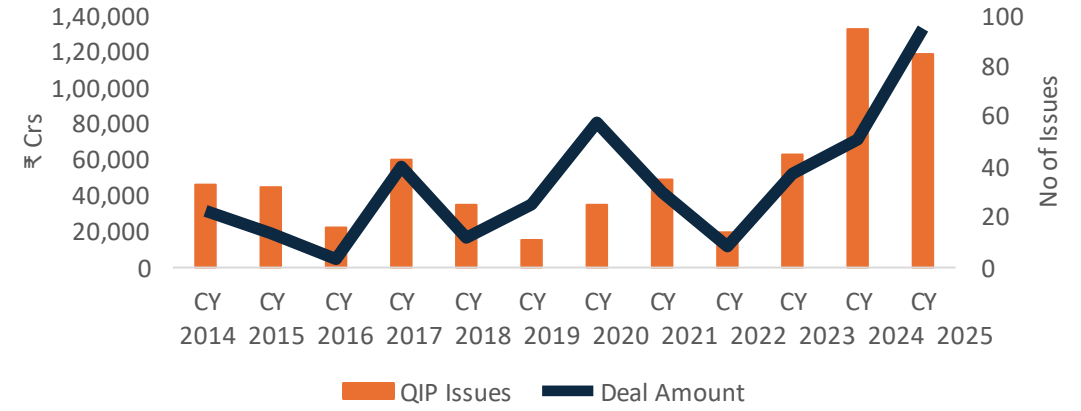
4. Capex



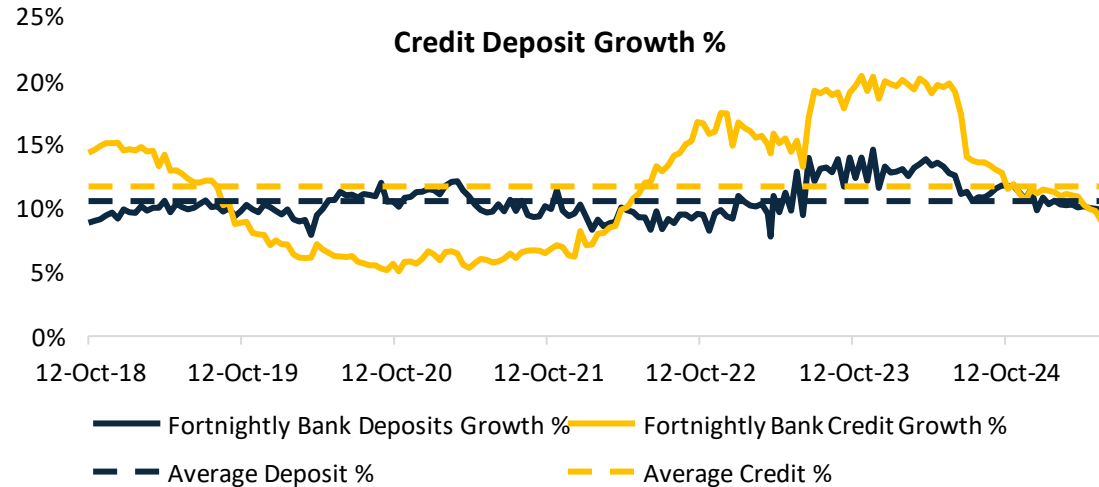
Credit Deposit Ratio



QIP



Credit Deposit Growth %

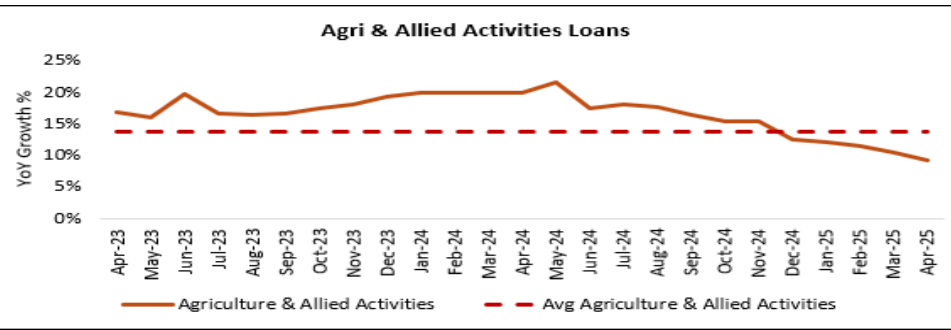


Capacity Utilization

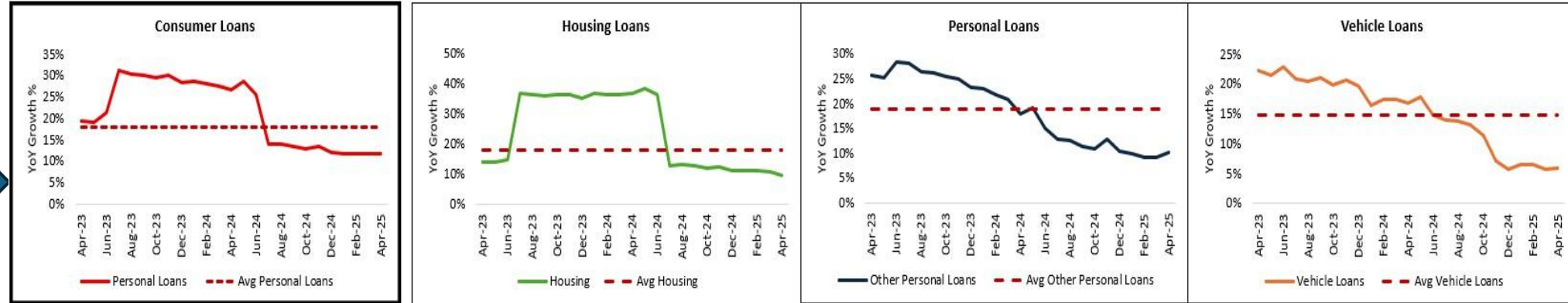




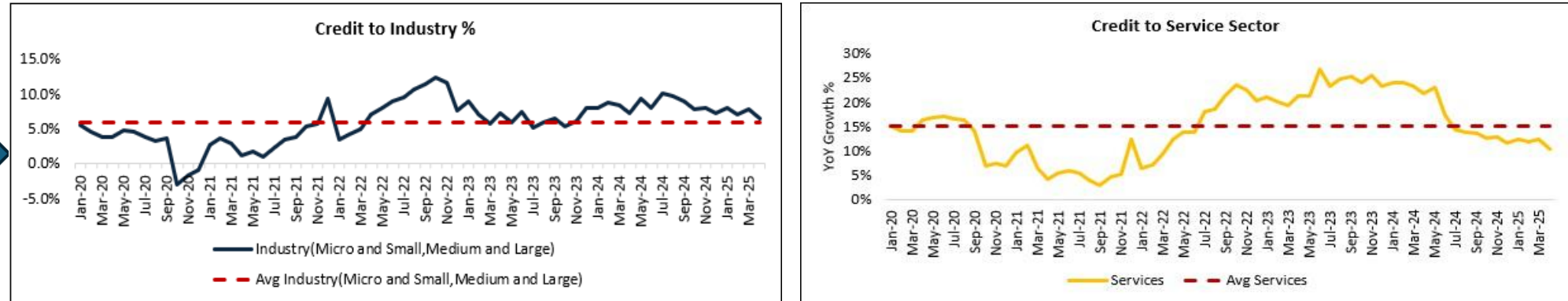
Credit to Agri



Credit to Consumer



Credit to Industry



Shifting Gears: From Aggressive Lending to Quality-Focused Credit



Credit Growth Trends and CDR:

- **Systemic credit growth has declined to 8.98% YoY** in the fortnight ended May 30, **the lowest in three years**. This is owing to lenders **becoming more cautious and prioritizing asset quality over growth** amid higher stress in the microfinance and unsecured segments. The last time credit growth in the system was below 9% was in March 2022. Meanwhile, **deposit growth in the system at 9.89% YoY has outpaced credit growth by 100 bps**.
- According to RBI data, total deposits in the system stood at ₹231.7 trillion, while total credit was at ₹182.8 trillion. During the fortnight ended May 30, **deposits increased by ₹2.84 trillion**, whereas **credit grew by ₹0.6 trillion**. This state that lenders were **continuously tightening the underwriting standards**.
- Due to the slower pace of credit growth in the system, **the outstanding Credit Deposit Ratio (CDR) has moderated to 78.92%**, while incremental CDR has declined to 72.7% from 98.8 per cent a year ago.
- **During the same period last year, credit growth outpaced deposit growth, with the credit-deposit growth gap at 700 bps**. The gap had pushed the CDR of the banking system higher, so much so that the **RBI had expressed concern time and again and asked the system as a whole to bring it down**.
- Since July last year, credit growth has moderated from the high double-digit levels witnessed in 2024. This slowdown has been largely driven by **measures implemented by the RBI**, including an **increase in risk weights on bank lending to non-banking financial companies and on unsecured loans such as personal loans and credit card borrowings**.
- Interest rates remained **elevated until February**, when the RBI's monetary policy committee (MPC) began its easing cycle. The **MPC has cut repo rate by 100 bps so far this year of which 50 bps was front loaded only recently on 6th June**. As a result, thus far a **major chunk of Indian corporates turned to overseas debt capital markets or QIPs, better-rated corporates also tapped the domestic markets to borrow long and at cheaper rates than the banks were offering**. However, **Bank Credit offtake is expected to rise post the rate cut transmission**. The deeper rate cut in June will aid overall credit growth in the segment. However, it will take longer for corporate borrowing from traditional banks to pick up, as alternative sources of funding continue to remain attractive.

Deposit Growth Trends:

- Despite the deceleration, **the deposit base remains robust, underpinned by the growing preference for term deposits**.
- **Term deposits continued to dominate, accounting for 59.5% of total deposits as of March 2025** (vs 60% last year). This shift was driven by **higher interest rates**, making term deposits an attractive investment avenue, especially for **risk-averse savers**.
- Within term deposits, there is a clear tilt toward **medium-term maturities**: nearly 68.4% had original maturities of one to three years, reflecting both depositor preference for flexibility and banks' appetite for stable funding.
- The share of term deposits offering interest rates of 7% and above surged to 72.7% (March 2025) from 64.2% a year ago and just 33.5% in March 2023, **demonstrating aggressive rate competition for deposit mobilization**.
- Large-sized deposits (₹1 crore and above) **formed 45.1% of total term deposits**, up from 43.7% last year, **indicating rising participation from high-value depositors**.
- **Savings deposits lost share** (29.1% from 30.8% in March 2024 and 33% in March 2023), while current deposits remained stable at 9.8%, suggesting **businesses and individuals preferred locking in higher-yielding term products or shifted a portion of savings to equity markets**.
- **Households remained the mainstay of deposit growth**, accounting for 60.2% of the total as of March 2025; within this, female depositors held a 20.7% share, and senior citizens contributed 20.2%—pointing to the **growing financialization of household savings**.
- Geographically, **metropolitan branches led with 11.7% growth**; rural (10.1%), semi-urban (8.9%), and urban (9.3%) centers followed, highlighting ongoing **urbanization and deposit mobilization efforts in tier-1 cities**.



Capacity Utilization Pause:

- **Improved** and remains above the long-term average (LTA) in Q4 FY25, **indicating healthy underlying industrial activity and lending appetite**, albeit with selective **sectoral deployment. Corporates appear to be holding back on significant capex plans, awaiting greater clarity on tariff structures and a sustained recovery in domestic demand.**

Sectoral Credit Deployment Trends:

- **Agri & Allied loans:** Growth rate slipped below LTA from the recent quarter onwards, possibly reflecting a high base effect.
- **Credit to Large Corporates:** Remains well above LTA, underlining banks' preference for low-risk, high-ticket lending.
- **SMID (Small, Mid, and Micro Enterprises):** Credit growth has dropped below LTA in recent months, indicating stricter bank credit standards.
- **Housing loans (50% of Personal Loans):** Below LTA for three consecutive quarters, possibly reflecting a high base effect.
- **Consumer Durable And Consumer Loans (25% of Personal Loans):** Both have trended below LTA for several months, highlighting a domestic demand-side slowdown and possibly increased lender risk aversion.
- **Vehicle loans (11% of Personal Loans):** Persistently below LTA, possibly due to cyclical slowdown in auto demand and tighter underwriting norms.
- **Gold Loans (4% of Personal Loans):** Gold loans have increased a lot because gold prices are high, so people can get bigger loans by pledging the same amount of gold. Since personal loans have become harder to get, many are choosing gold loans as an easier and faster option. Also, banks and NBFCs are offering better rates and higher loan amounts. This trend is likely to continue, especially in smaller towns and rural areas.
- **FD (Fixed Deposit) and Financial Asset Loans (2% of Personal Loans):** Which had dipped below the long-term average (LTA), have now risen above it again — due to a rise in these asset values.
- **Education (2% of Personal Loans):** Currently above LTA, with growth decelerating in recent months.

QIP fundraising:

- Indian corporates tapped capital markets aggressively, **with ₹1.33 lakh crore raised through QIPs in FY25—a record high**, signaling healthy investor appetite and **providing alternate funding avenues for the private sector.**

Composition Shifts and Outlook:

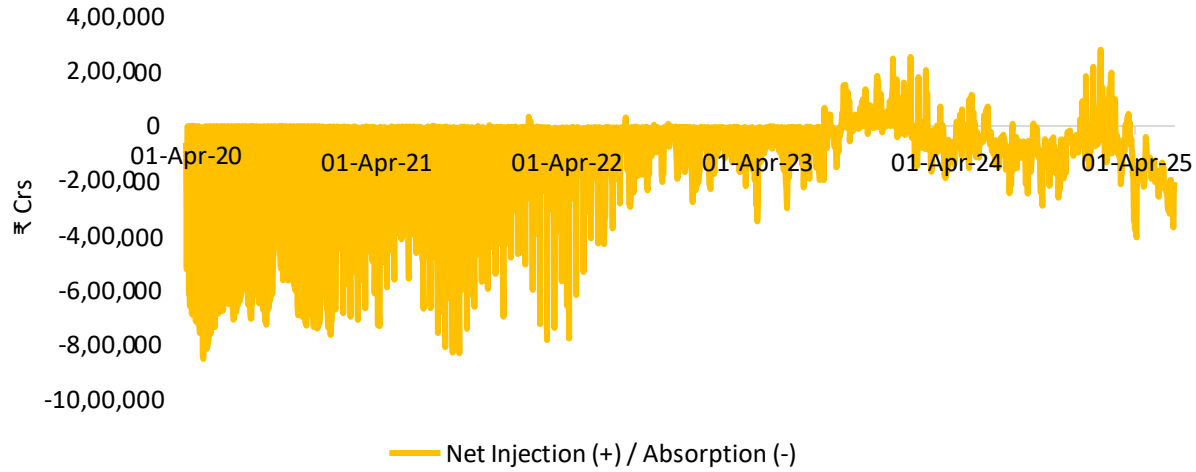
- **The ongoing shift toward higher-rate term deposits is expected to continue in FY26 as long as rate differentials remain favorable.**
- **The structural tilt in credit deployment, toward large corporates and away from retail/small-ticket segments—suggests banks are prioritizing asset quality and risk management over aggressive balance sheet growth.**
- **While overall credit growth has moderated, due to a transitional slowdown in domestic demand and geo-political uncertainties, leading to delayed Capex spending, the underlying system remains healthy; deposit mobilization is robust, capacity utilization is above historical averages, and capital market funding (via QIPs and Public Debt issuances) is active, collectively supporting financial stability. As interest rates decline further, a pickup in bank credit growth is likely.**



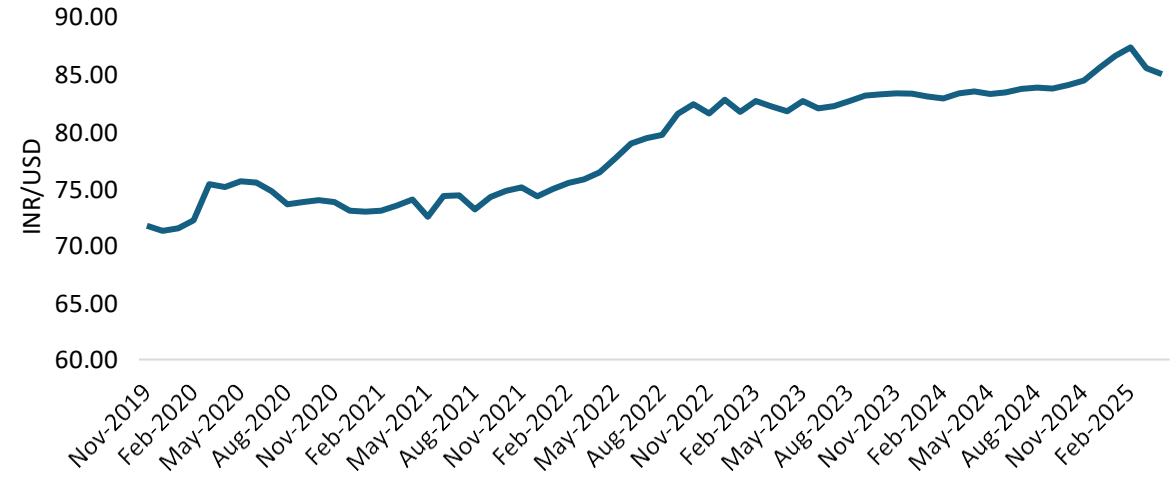
5. Liquidity



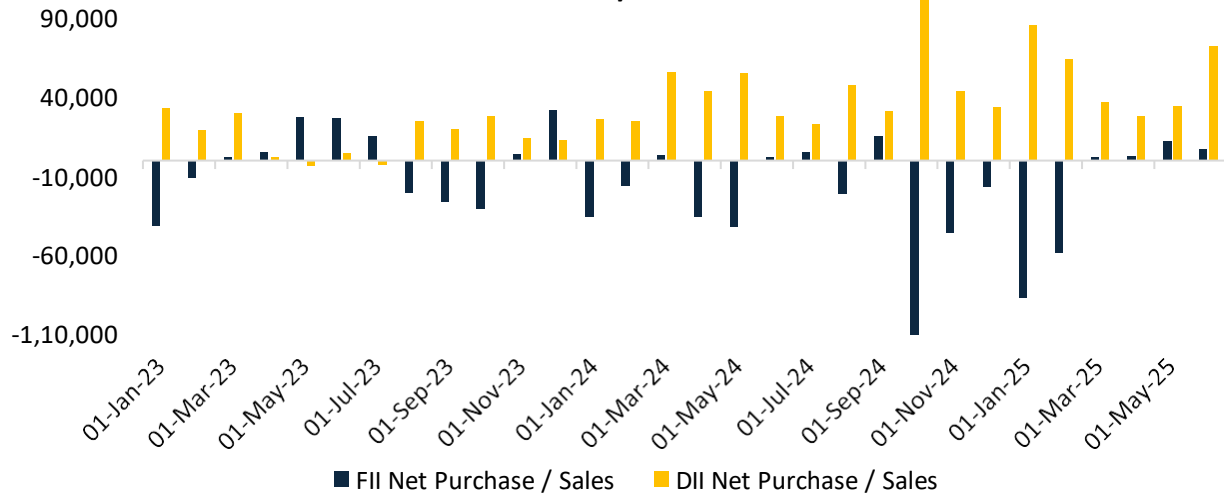
Net Injection(+)/Absorption(-) of Excess Liquidity



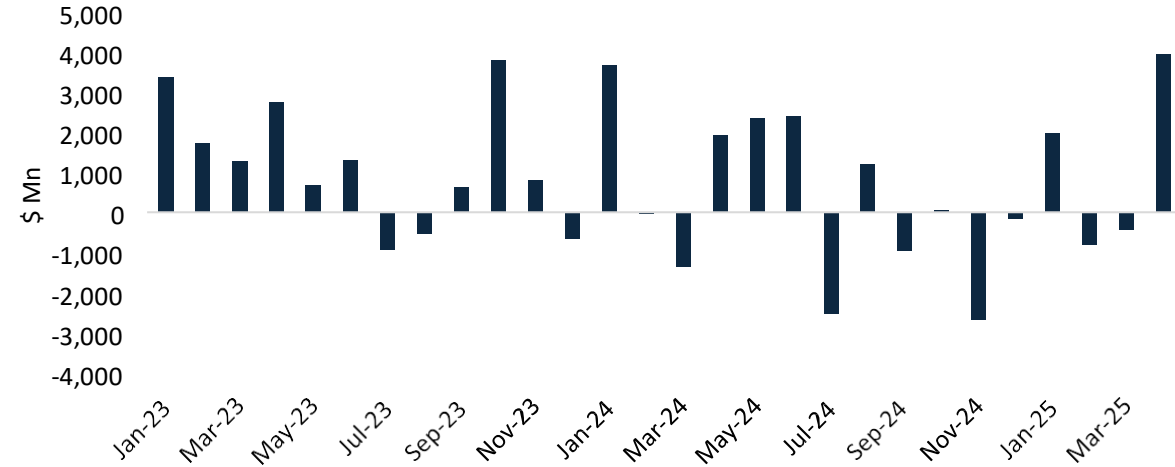
INR/USD



FII / DII

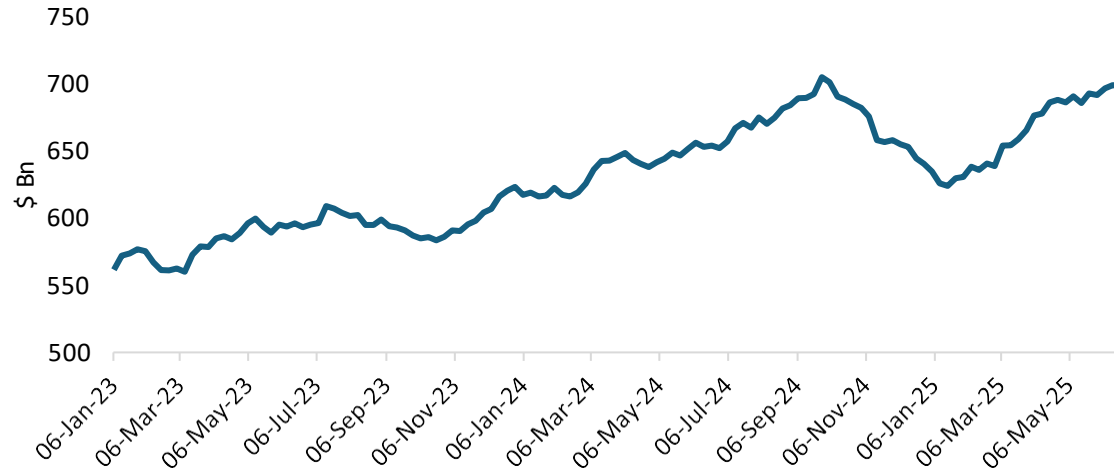


Net FDI

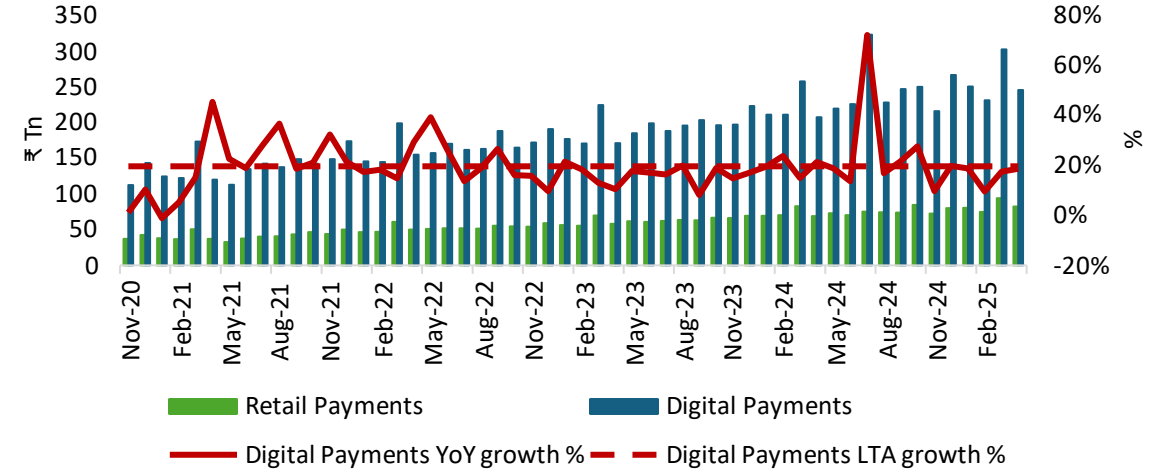




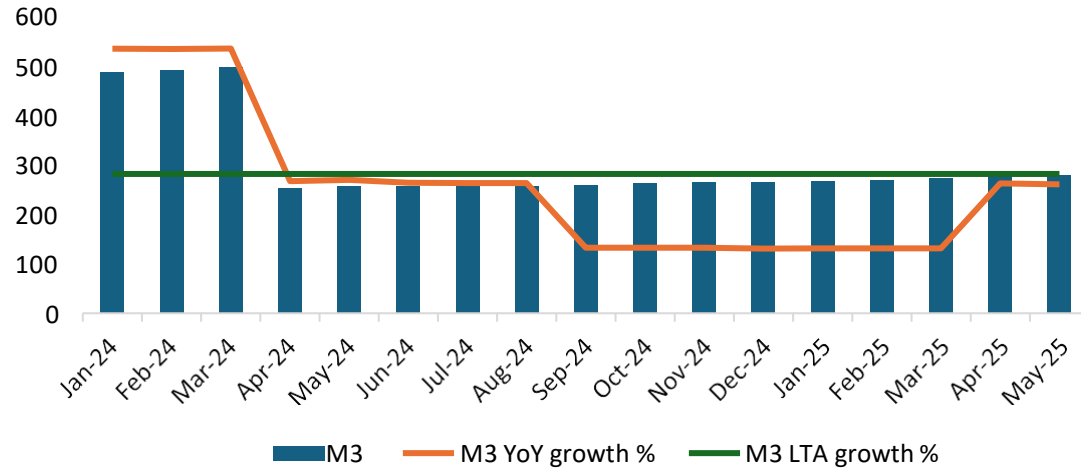
Foreign Exchange Reserves (USD Bn)



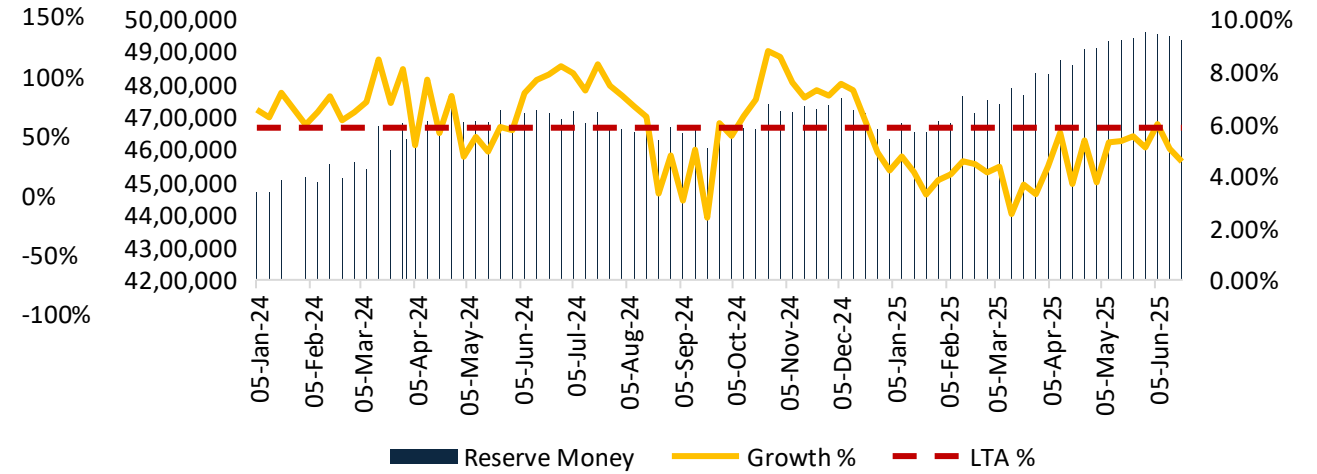
Payments



Money Supply



Reserve Money





FII Reliance to DII Resilience : A Strategic Shift in India

	Financial year (INR cr)	FII Net flows	DII Net flows	Nifty Returns	Who moved the market
FII Dominance	FY 13	100,088	-66,936	8.3%	FII
	FY 14	74,482	-54,072	13.1%	FII
	FY 15	63,761	-19,264	26.8%	FII
	FY 16	-44,909	78,687	-5.4%	FII
Mixed phase	FY 17	25,362	29,932	16.9%	DII/FII
	FY 18	-78,531	114,600	8.7%	DII
	FY 19	-26,002	72,407	8.2%	DII
	FY 20	-90,044	128,208	-26.8%	FII
	FY 21	201,377	-132,389	49%	FII
DII Dominance	FY 22	-274,244	221,660	19.4%	DII
	FY 23	-198,639	255,236	1.5%	DII
	FY 24	208,211	206,717	23.6%	DII/FII
	FY 25	-1,27,041	6,08,035	5.3%	DII

This table offers a compelling narrative of how market leadership in India has gradually shifted from Foreign Institutional Investors (FIIs) to Domestic Institutional Investors (DIIs) over the past decade, and what this means for equity market resilience and investor behavior.

Key Observations:

1. FII Dominance (FY13–FY16):

During this period, markets were heavily influenced by FII flows. In FY13-FY15, strong positive FII flows corresponded with healthy Nifty returns, underscoring their dominance. Interestingly, in FY16, despite DIIs pumping ₹78,687 crore, a large FII outflow of ₹44,909 crore led to a negative market return of -5.4%, highlighting how dominant FIIs were in setting the market direction.

2. Mixed Phase (FY17–FY21):

This was a transitional period where both FIIs and DIIs alternated leadership roles. FY20 and FY21 highlight stark contrasts: FY20: FIIs pulled out ₹90,044 crore even as DIIs supported with ₹128,208 crore. Still, the market crashed -26.8%, driven by FII panic (likely due to COVID-19). FY21: FIIs returned with ₹201,377 crore inflows, even as DIIs booked profits (outflows of ₹132,389 crore). Nifty surged 49%, confirming FIIs still had sway during sharp rallies.

3. DII Dominance (FY22–FY25):

A structural shift is evident here. Even as FIIs sold aggressively (net outflows of over ₹600,000 crore cumulatively in FY22-FY23), DIIs cushioned the blow, enabling the market to post positive returns. In FY24 and FY25, the flows have become more balanced or even DII-led. In FY25, DIIs pumped in a record ₹6,08,035 crore, while FIIs were net sellers again. Yet, the market delivered positive returns (5.3%), showing increasing insulation from FII volatility.

Insights & Implications:

Rise of Domestic Firepower: The growing clout of mutual funds, pension funds (EPFO, NPS), and insurance money has empowered DIIs to absorb FII shocks.

Retail Participation Boom: Underlying the DII surge is retail participation in SIPs, especially post-COVID, reducing the market's vulnerability to global capital flight.

Decreasing FII Monopsony: India's equity market is no longer a playground for FIIs alone; it reflects maturing domestic capital markets.

Macro-Market Decoupling: This transition has helped the market increasingly decouple from global risk-off sentiment—making Indian equities structurally more resilient.

Strategic Takeaway:

This table doesn't just show fund flows - it reflects a structural shift in market dynamics, where domestic investors are emerging as the new anchors of Indian equity markets. For investors and policymakers alike, it reinforces the importance of nurturing domestic savings and investment flows to build long-term market stability.



Understanding the Surge in Certificate of Deposit (CD) Issuances: A Deep Dive into RBI's Latest Research and the relationship between Liquidity, Credit growth, and CD issuances

The Reserve Bank of India's latest Monthly Bulletin includes a key research piece titled *"Drivers of CD Issuances: An Empirical Assessment"*, offering timely insight into a significant funding trend in the Indian banking system – the sharp rise in Certificate of Deposit (CD) issuances.

What Are CDs and Why Are They Important Now?

- **Certificates of Deposit (CDs) are short-term, unsecured, tradable money market instruments issued by banks to raise funds, typically for up to one year. In essence, they are IOUs used by banks to manage short-term liquidity needs, often purchased by institutional investors like mutual funds.**
- Historically a niche tool, CDs have now become mainstream as banks grapple with tightening liquidity and robust credit demand. The RBI paper underscores this structural shift.

Key Findings: What Drives CD Issuances?

1. Credit Growth Outpacing Deposits

- **When incremental credit growth outpaces deposit accretion, banks face funding mismatches. This credit-deposit gap pushes them to tap market-based instruments like CDs.** The study finds a direct correlation between high incremental credit-deposit ratios and increased CD issuances. Post Covid, with the financialising of savings, deposit growth began to slow down, and banks faced a rising Credit-Deposit Ratio (CDR) problem. This is when banks started to look for alternate sources of funding such as CDs.

2. Tight System Liquidity

- **CD issuances spike when systemic liquidity is tight.** The paper highlights that banking system liquidity deficits – when more banks are borrowing than lending in the interbank market – significantly boost CD activity.
- **Case in Point:**
- **I-CRR in 2023:** The RBI's imposition of a 10% incremental Cash Reserve Ratio post-₹2000 note withdrawal locked up liquidity, triggering a surge in CD issuances.
- **Quarter-End Effects:** Advance tax outflows and reduced government spending in March tighten liquidity, leading to higher CD issuances.

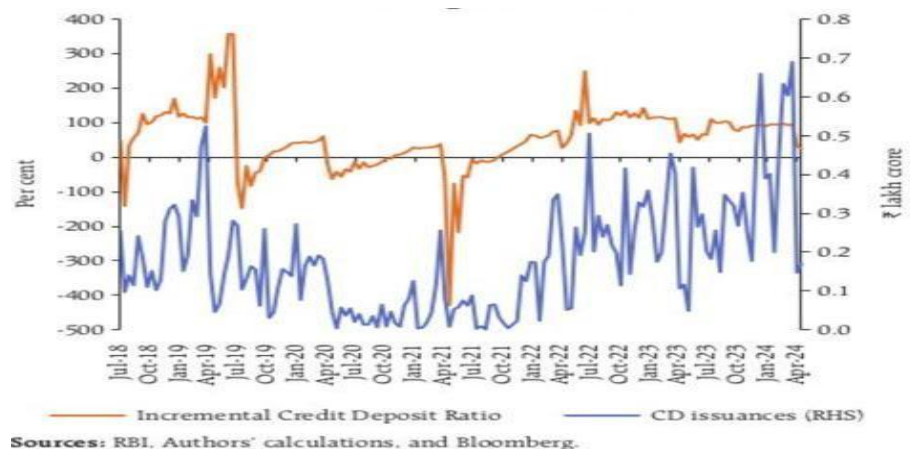
3. Market Volatility Dampens CD Demand

- **Higher financial market volatility (proxied by VIX) negatively impacts CD issuances. Volatility deters investor participation, as risk aversion leads to a preference for safer assets like G-Secs, and credit demand also slows as businesses delay expansion.**

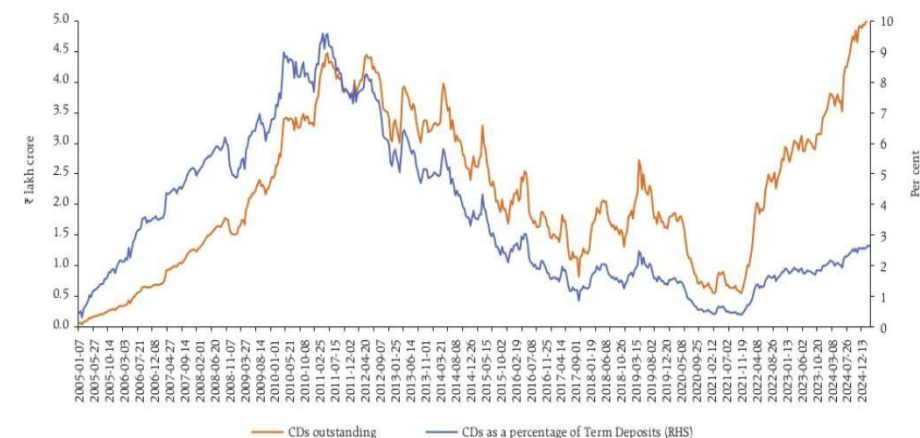
4. Interest Rate Expectations

- CD issuance volumes and tenors are highly sensitive to interest rate expectations:
- During **rate hikes**, banks issue **longer-tenor CDs** to lock in funding at current rates.
- During **rate cuts**, they prefer **shorter-tenor CDs**, anticipating cheaper funding ahead.
- **Expectations of rising rates discourage both issuance and investment in CDs.**

CD Issuances and Incremental Credit Deposit Ratio (ICR)



CDs outstanding and as a percentage of Term Deposits



The Structural Shifts: Post-COVID Trends:

Issuer Shift: Public Sector Banks Take the Lead

- Before 2022, private banks dominated CD issuances (85% share). But since early 2022, PSU banks have taken over, accounting for 69% of issuances by end-2024. This marks a significant change in the dynamics of short-term bank funding.

Investor Base Shift: Mutual Funds Dominate

- CDs are now largely held by mutual funds (~85% share), up from a more diversified base earlier. This links CD market depth to capital market flows — if investors pull money from debt funds, CD demand could dry up rapidly.

The Numbers Tell the Story:

- **CD issuances hit ₹3.7 lakh crore** in Q4 FY25 — a historic high.
- In **March 2025 alone**, ₹1.17 lakh crore of CDs were issued — more than the entire system-wide issuances during the COVID years.
- For comparison, **May 2020** saw issuances of just ₹386 crore — a near-zero figure as banks sat on surplus liquidity and credit growth was muted.

The Bottom Line:

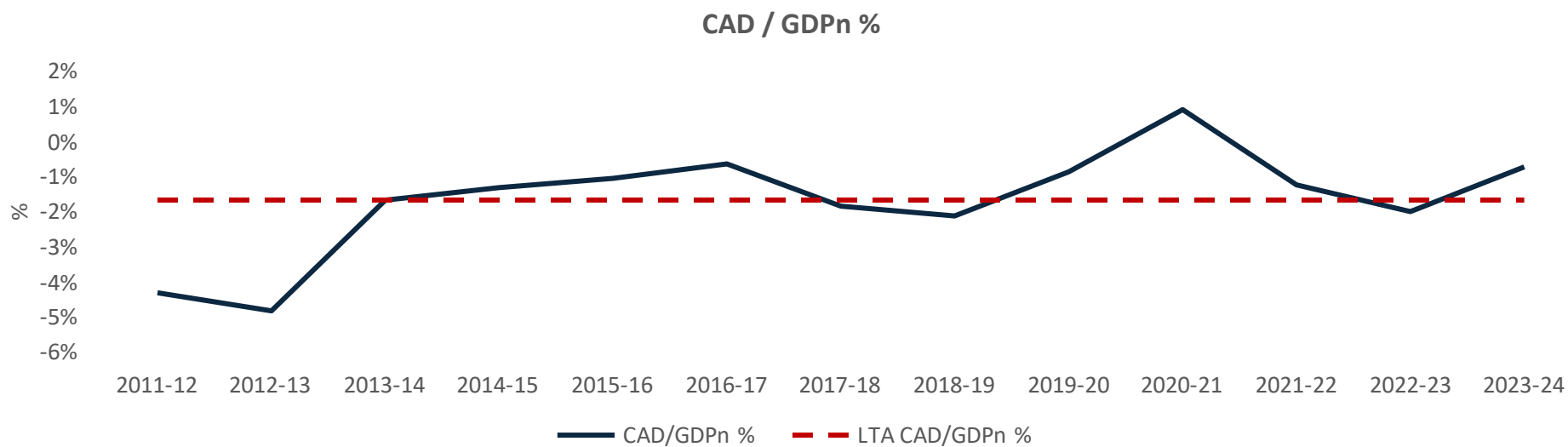
CDs have become a vital instrument for banks to manage liquidity mismatches, especially in an environment of:

- **Slower CASA / deposit growth**
- **High credit demand**
- **Tight systemic liquidity**
- **Shifting investor preferences in relation to market volatility / uncertainty.**

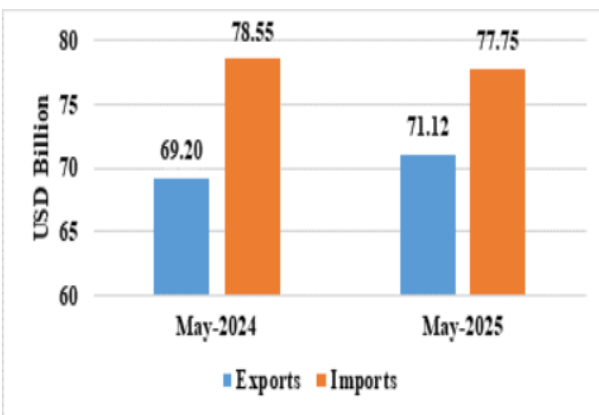
CDs are no longer peripheral. They are central to how banks manage funding in today's dynamic environment, and their usage reflects broader macro and market trends in credit growth, system liquidity, and market uncertainty.



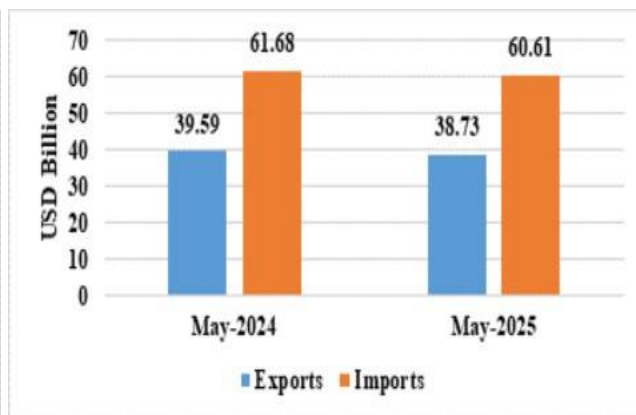
6. Trade



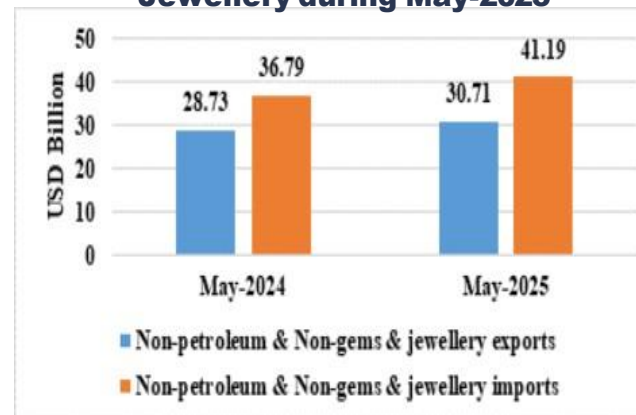
Total Trade during May-2025



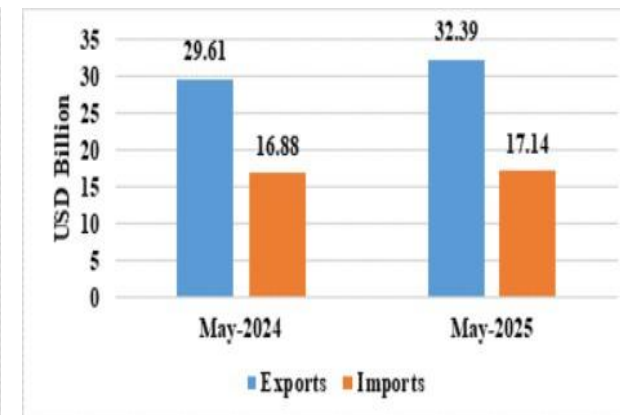
Merchandise Trade during May-2025



Trade excluding Petroleum and Gems & Jewellery during May-2025



Services Trade during May-2025





Overall Trade Balance

- On a YoY basis, **exports declined by 2.2% while imports declined by 1.6%**. The trade balance also improved from the \$22.0 billion deficit recorded in May 2024. **The moderation in trade deficit is a positive development for the external sector and may help cap the rise in the current account deficit for Q1FY26. India's merchandise trade deficit narrowed sharply to \$21.9 billion in May 2025**, down from \$26.4 billion in April. The sequential **improvement was primarily driven by a significant drop in oil imports**, despite exports remaining largely flat.

Merchandise Exports and Imports

- Exports:** Merchandise exports stood at \$38.7 billion in May, registering a **marginal 0.6% MoM growth after an 8.3% MoM contraction in April. Non-oil exports rose 6.3% MoM** to \$33.1 billion, **led by electronics** (+24% MoM), **engineering goods** (+4% MoM), and **marine products** (+25.4% MoM). However, **12 of 31 key export items saw sequential declines**, with **gems & jewelry falling 5% MoM** and key **Agri exports like rice and oil meals seeing double-digit drops**.
- Imports:** Imports contracted **6.6% MoM** to \$60.6 billion, primarily on **account of a 29% MoM decline in oil imports** (\$14.8 billion). **Gold imports also eased to \$2.5 billion** (-17.7% MoM). **Non-Oil Non-Gold (NONG) imports rose 5.4% MoM** to \$43.3 billion, **reflecting a healthy undercurrent of a gradual improvement in domestic demand**. Strong sequential **gains were noted in project goods** (+55%) and **chemical products** (+74.6%).

Services Trade

- India's services exports in May were at \$32.4 billion (-1.4% MoM)**, while **imports rose modestly to \$17.1 billion (+1.4% MoM)**. This resulted in a net surplus of \$15.3 billion (April: \$15.9 billion). On a YoY basis, **services exports rose 9.3%**, **aided by steady demand from GCC markets and robust performance in IT and business services**. The services trade continues to act as a critical buffer amid merchandise trade volatility.

Key Sectoral Export Trends - YoY

- Gainers:** Electronic goods (+54.1%), chemicals (+16%), pharma (+7.4%), readymade garments (+11.3%), marine products (+25.4%)
- Losers:** Rice (-10.6%), oil meals (-28.3%), fruits & vegetables (-19.7%), spices (-8.3%)
- Export to the US saw a 17% YoY rise in May, with a notable **22% YoY growth during a two-month period of April–May FY26, driven by frontloaded shipments ahead of the July 2025 deadline on reciprocal tariff imposition**.

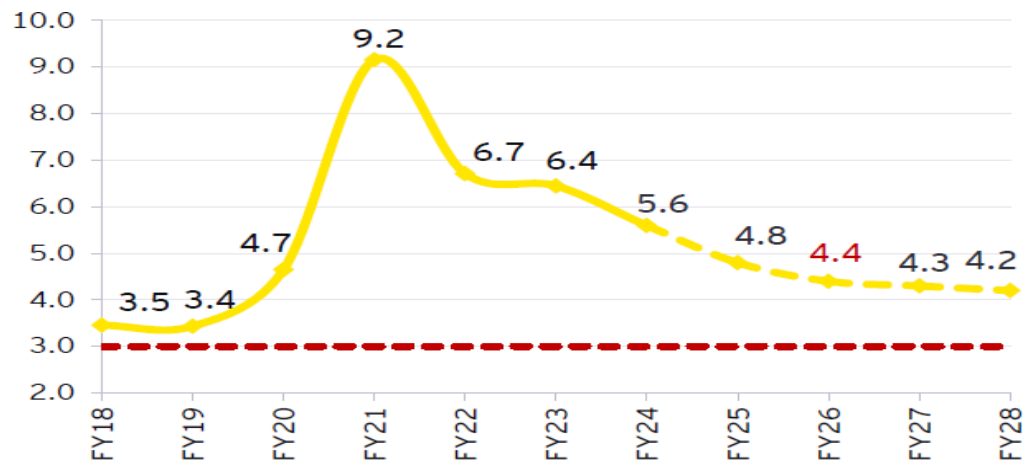
Outlook

- Global oil prices remained volatile due to tensions in the Middle East, however with the recent de-escalation, we expect oil prices to stabilize over the near to medium term, without any supply side disruptions. Sensitivity analysis suggests that CAD/GDP could stay in the 0.5–0.7% range if crude averages \$65–70/bbl through FY26. A \$10/bbl rise in crude oil prices can widen India's trade deficit equivalent to ~0.4% of GDP.**
- India continues to engage in calibrated trade talks with major partners to mitigate risks from protectionist measures.**
- Exports may weaken due to frontloading in Apr-May and a transitory global slowdown, but imports are expected to hold firm, driven by local demand and government policy push.**
- The narrowing trade deficit in May provides some comfort on the external balance front and could keep the FY26 CAD/GDP near the 1% mark (FY25E: 0.7%). However, geopolitical and trade-related risks remain elevated.**
- The services sector remains structurally strong, though YoY growth may moderate a high base effect seen in prior years.**
- BoP deficit for FY26 is estimated at \$8.7 billion, with FX markets likely to be influenced by geopolitical flux and monetary divergence. The RBI is expected to intervene selectively to manage rupee volatility, with USD/INR likely to hover in the 85.5–86.5 band.**

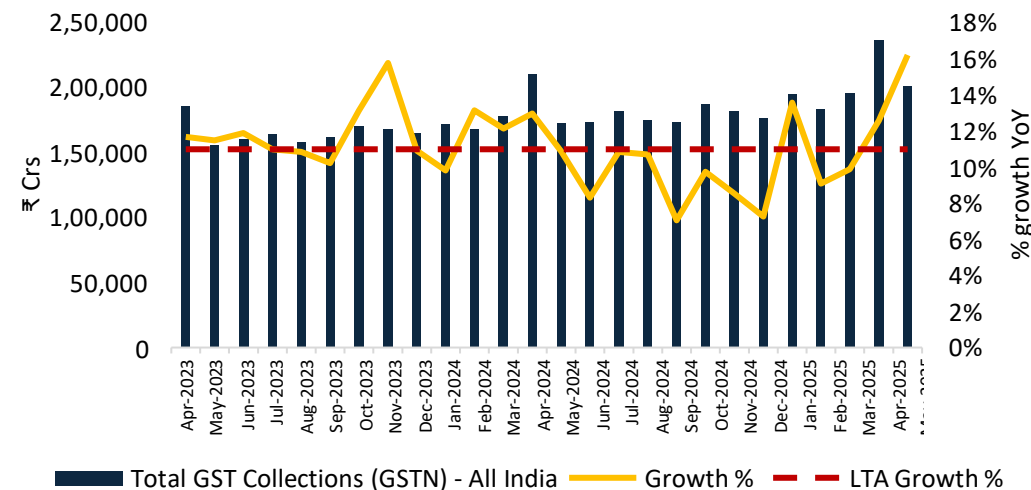
7. Fiscal Situation



GOI's Fiscal Debt / GDP – Glide Path



GST Collections



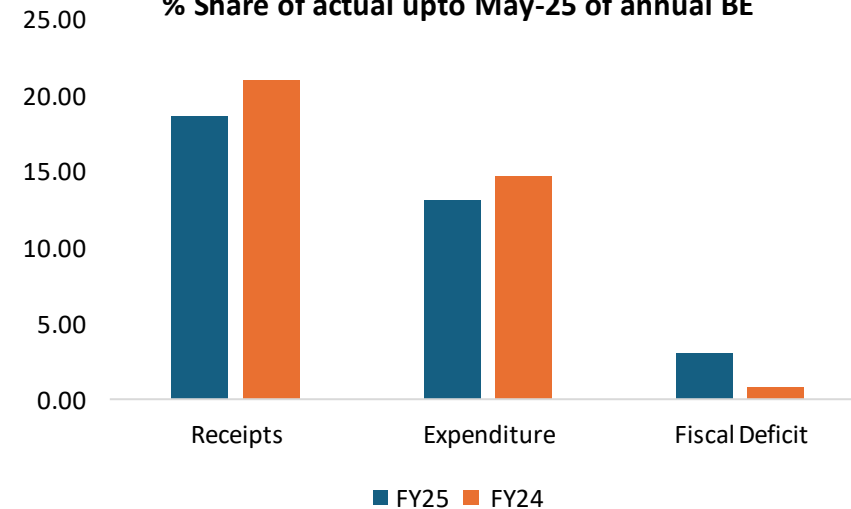
GOI's Fiscal Position

	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

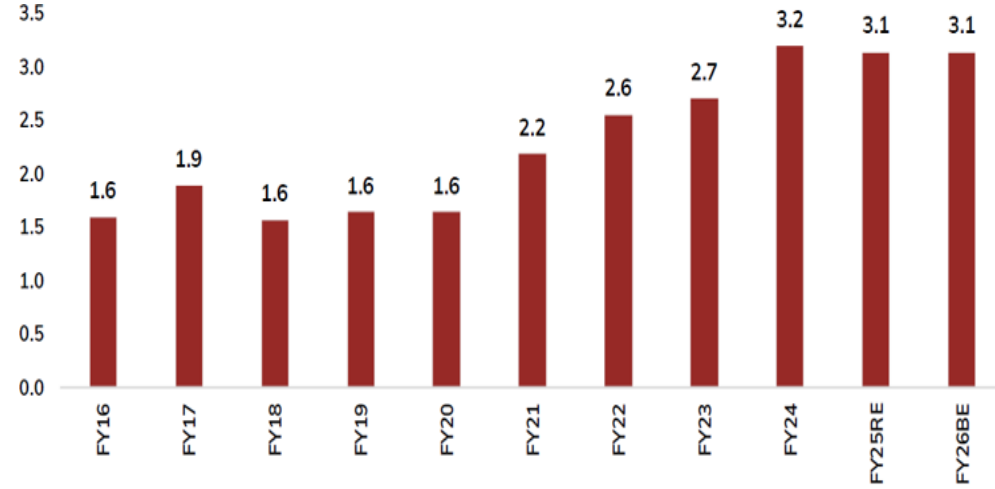
	FY23	FY24	FY25RE	FY26 BE
Direct tax revenues	6.1	6.6	6.9	7.1
Indirect tax revenues	5.1	5.1	5.0	4.9
Gross Tax revenues	11.2	11.7	11.9	12.0
Net Tax revenues [A]	7.7	7.9	7.9	7.9
Non-tax revenues [B]	1.0	1.4	1.6	1.6
Disinvestmt & Others [C]	0.3	0.2	0.2	0.2
Total Revenue [A+B+C]	9.0	9.4	9.7	9.8
Capital Exp [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

% Share of actual upto May-25 of annual BE

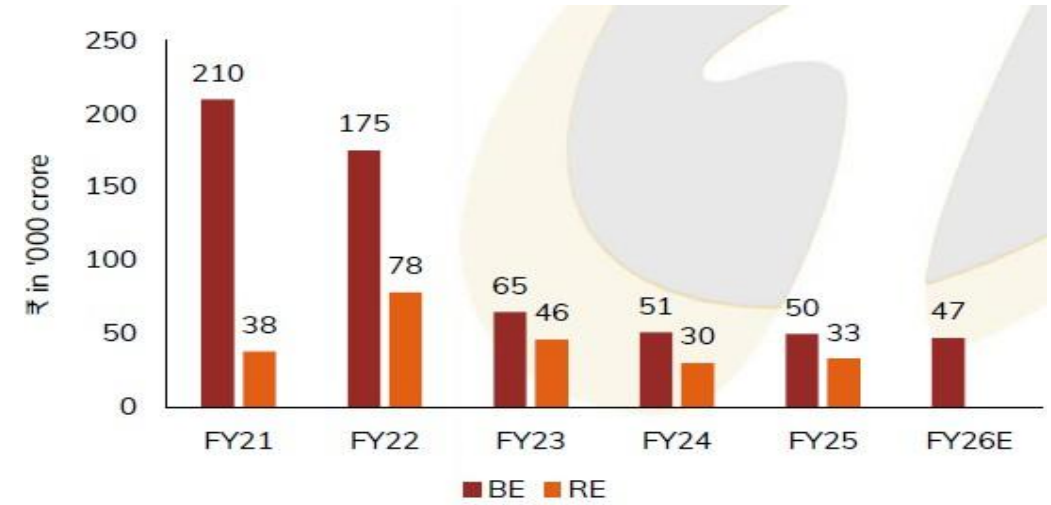




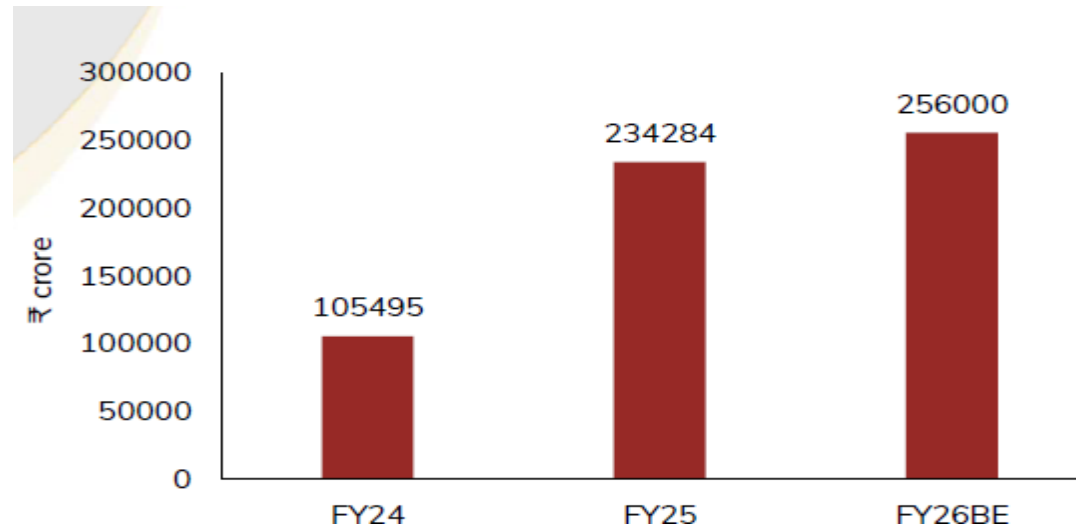
Capex as a % of GDP



Disinvestment Target



Payout from the RBI



India's Fiscal Position: Strong Start to FY26 with Robust Non-Tax Revenue and Capex Rebound



Fiscal Deficit & Consolidation Trajectory

- The Union government reported a fiscal deficit of ₹13,163 crore for April-May FY26, accounting for just 0.8% of the full-year target. This marks a significant improvement from ₹50,615 crore in the same period last year and represents the lowest April-May fiscal gap since monthly tracking began in 1997.
- 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.
- The improvement is underpinned by stronger-than-expected non-tax revenue and front-loaded capital spending, reflecting a shift in fiscal priorities towards growth-supportive outlays post-election.

Capital Expenditure Rebound

- Capital expenditure surged to ₹2.21 trillion in the first two months of FY26, achieving 19.7% of the annual target—well ahead of the ₹1.44 trillion disbursed in the same period last year.
- This front-loading of capex likely reflects both executional catch-up from Q1FY25 election-related pause and prioritization of infrastructure and public asset creation as key levers of fiscal stimulus.
- The pick-up in capex reinforces the quality of fiscal spending and improves the growth multiplier of budgeted allocations, particularly when revenue buoyancy is supportive.

Expenditure Profile

- Total expenditure during April-May stood at ₹7.46 trillion (14.7% of FY26 BE), compared with ₹6.23 trillion in the corresponding period of FY25.
- Revenue expenditure reached ₹5.25 trillion (13.3% of BE), up from ₹4.80 trillion last year, driven by interest payouts, subsidy disbursements, and salary obligations.
- Despite the rise, the expenditure composition remains healthy, with a growing tilt towards productive capex over routine revenue spend, aligning with fiscal quality objectives.

Revenue Mobilization & Non-Tax Windfall

- Net tax collections were recorded at ₹3.51 trillion (12.4% of BE), showing moderate progress given subdued momentum in customs and excise segments.
- In contrast, non-tax revenue jumped sharply to ₹3.57 trillion—61.2% of the full-year estimate—driven by a substantial dividend transfer from the central bank and healthy asset monetization flows.
- Together, total revenue receipts touched ₹7.33 trillion, covering 21% of the FY26 target and registering ~24% YoY growth—more than double the budgeted growth assumption of 10.8%.

Fiscal Outlook & Risk Balance

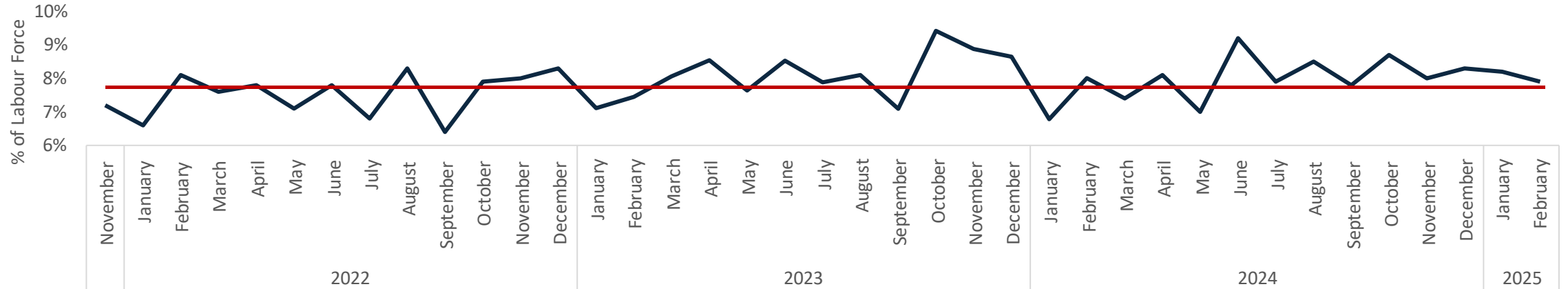
- The strong start to FY26 reinforces confidence in the government's ability to meet its fiscal targets without compromising developmental spending.
- However, risks persist on the receipts side, especially if nominal GDP growth undershoots or if disinvestment and capital market-linked inflows remain weak.
- Despite slower tax momentum, the buffer from non-tax and non-debt capital receipts has created headroom to accommodate cyclical fluctuations.
- Discussions are ongoing on the potential shift from a point-target to a fiscal deficit range (e.g., 3.7-4.3%) beyond FY26—offering greater flexibility in managing evolving macro conditions while ensuring long-term debt sustainability.



8. Employment



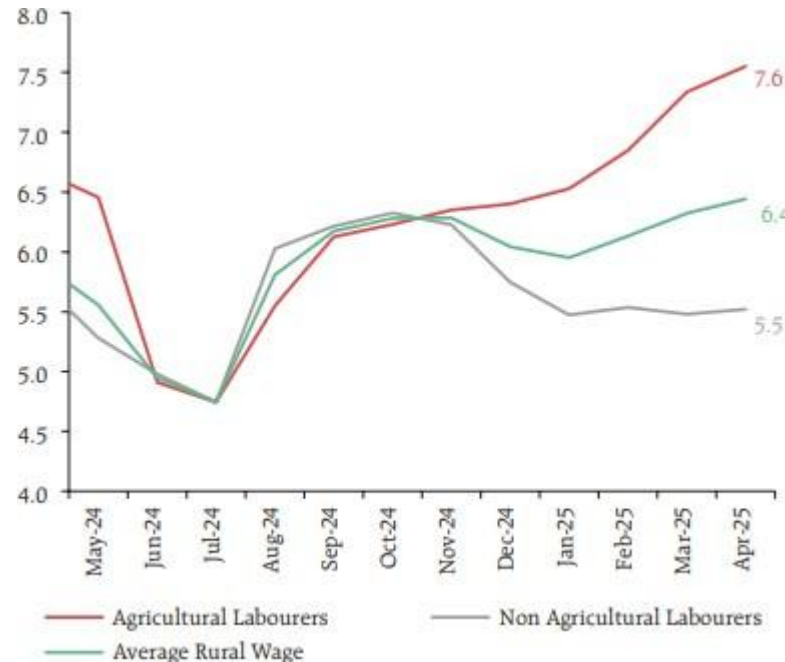
Unemployment Rate



Households Demand for Work under MGNREGS – growth



Rural Nominal Wage



Employment Conditions Update – May 2025

- As per the PMI survey, **job creation in organised manufacturing and services sectors remained strong in May 2025.**
- During May 2025, household demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) **picked up, driven by higher wage rates and limited farm employment in the pre-sowing period.**
- The all-India **unemployment rate rose to 5.6% in May (from 5.1% in April)**, with a **sharper rise in rural areas due to seasonal factors and heatwave-related work disruptions.**
- Labour market momentum softened marginally** as job postings under the Naukri JobSpeak Index moderated, led by **slower hiring in IT, retail, and BFSI sectors.**
- However, sectors like **insurance, oil & gas, real estate, and emerging technologies saw increased hiring**. PMI employment indices continued to reflect healthy payroll additions across organised sectors.
- Overall, labour market indicators remain mixed, with rural stress and sector-specific job weaknesses partly offset by resilience in formal employment segments.**

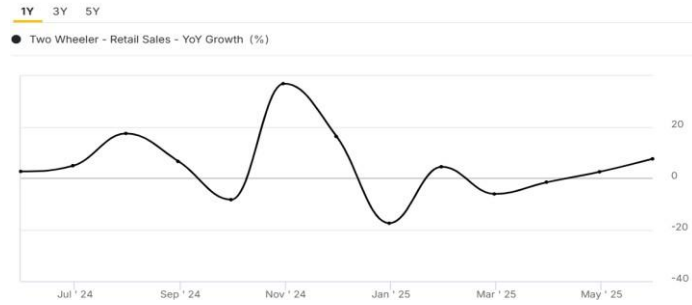
Source: RBI Bulletin and Internal assessment



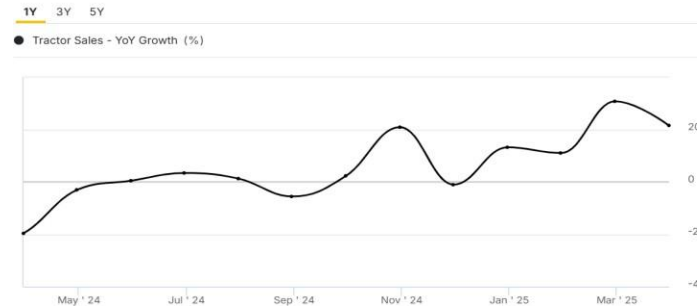
9. Demand Indicators



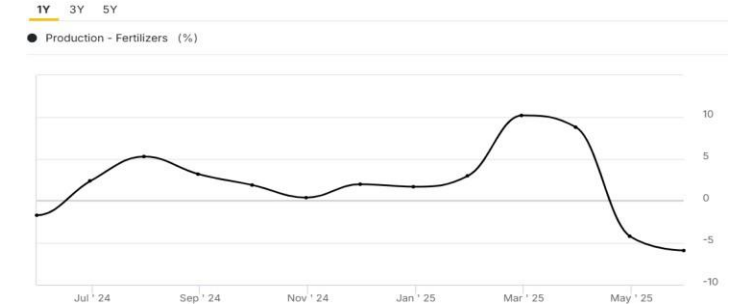
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



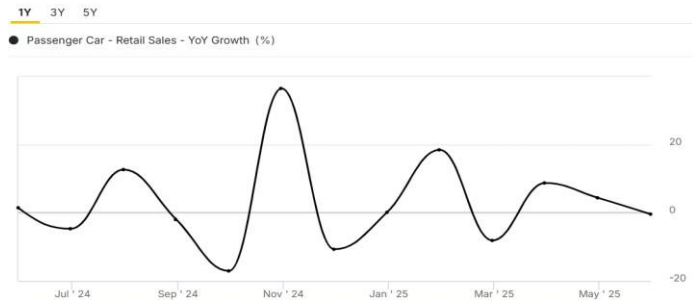
TRACTOR SALES - YOY GROWTH (%)



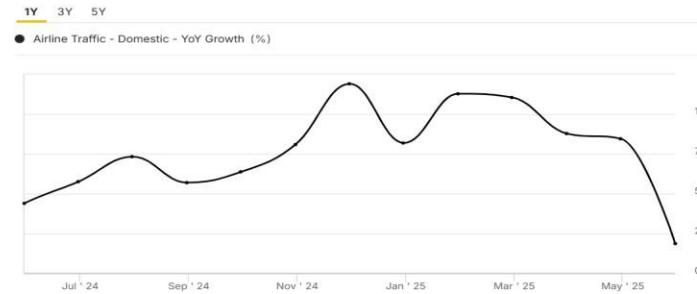
PRODUCTION - FERTILIZERS (%)



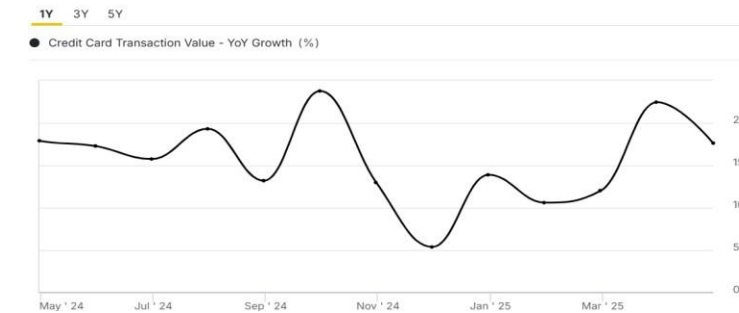
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



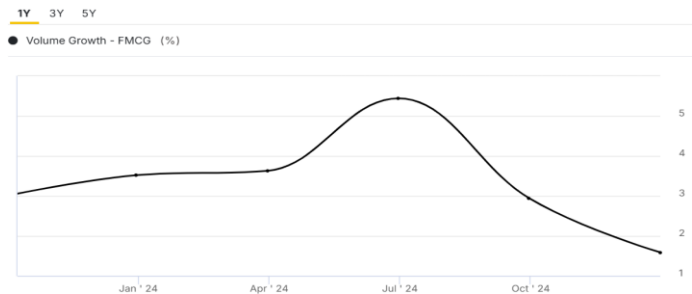
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



VOLUME GROWTH - FMCG (%)



Select High Frequency Indicators

Rural Demand

Rural demand indicators were mixed. Tractor sales declined due to seasonality, but two-wheeler retail sales rose, aided by improving sentiment and higher wage payouts under MGNREGS. Fertilizer sales saw a mild dip, but FMCG volume growth in rural areas rose, reflecting healthy demand.

Urban Demand

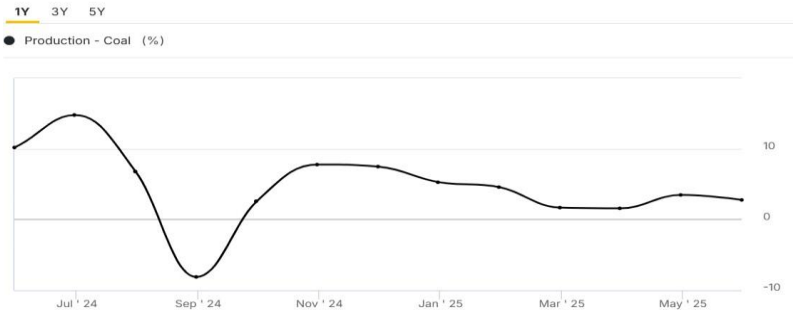
Urban demand moderated slightly post-festive restocking. Passenger vehicle sales slowed, particularly in the entry-level segment. Credit card spending and airline passenger traffic also saw a sequential dip, although overall levels remain high. FMCG demand in urban areas are still weak and yet to pick up.

Outlook:

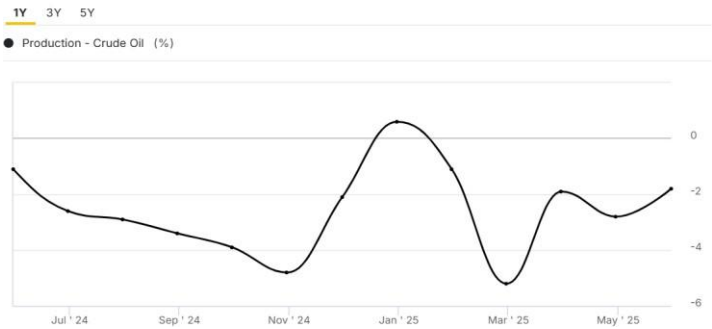
High-frequency indicators suggest a soft patch in urban demand, while rural demand remained more resilient driven by normal monsoons and agricultural activity.



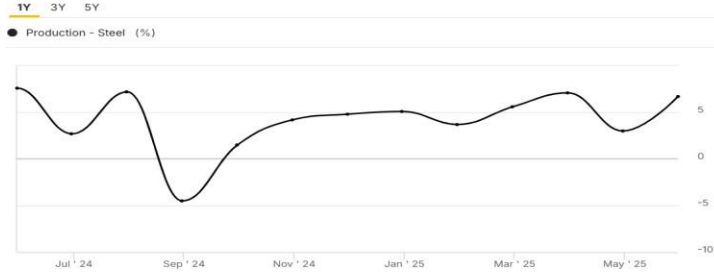
PRODUCTION - COAL (%)



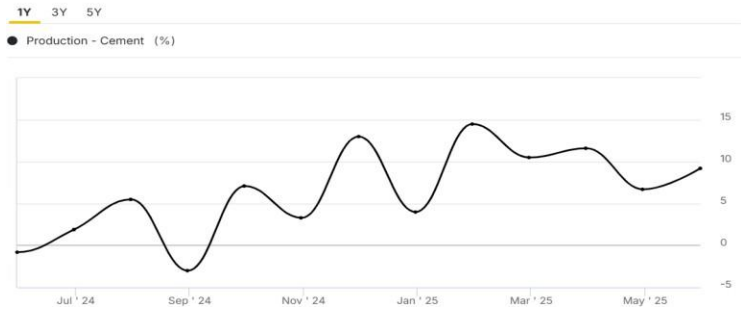
PRODUCTION - CRUDE OIL (%)



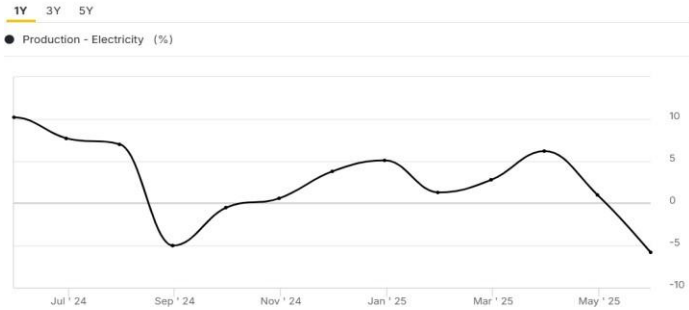
PRODUCTION - STEEL (%)



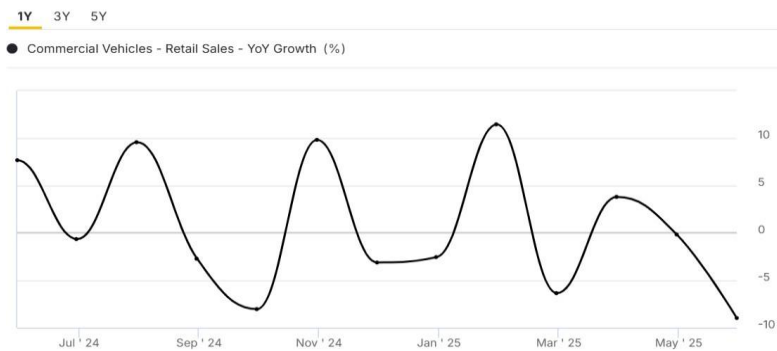
PRODUCTION - CEMENT (%)



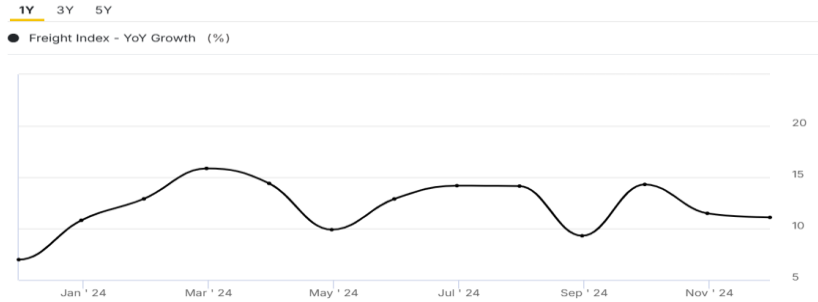
PRODUCTION - ELECTRICITY (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



FREIGHT INDEX - YOY GROWTH (%)



High-frequency indicators suggest that aggregate industrial demand remained steady

Production and imports of capital goods posted sharp growth, though infrastructure-related segments like steel and cement moderated to 6.0% and 6.7% growth. Electricity output dipped, and commercial vehicle sales slowed in May, but overall freight and coal production indicators remained stable. Port cargo grew 5.6% in April-May, while domestic air passenger traffic rose 3.7% in May, down from 9.7% in April. Toll collections and e-way bills also grew strongly.

Resilient Services Sector

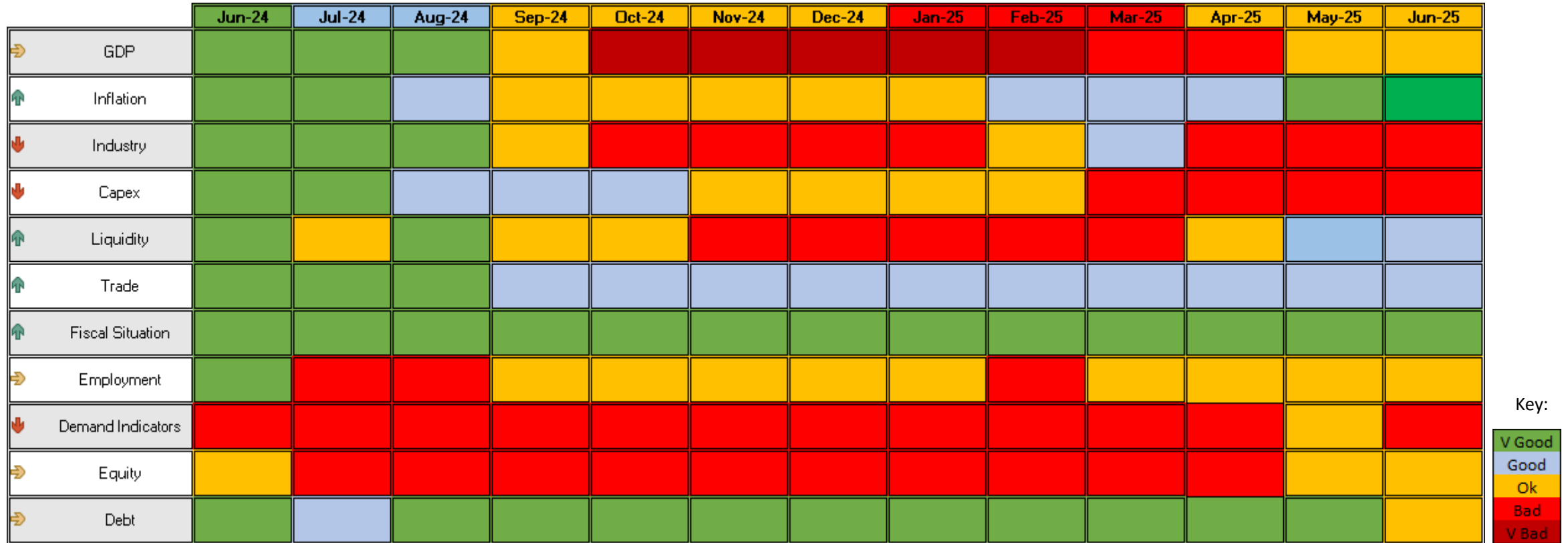
PMI Services stood at 58.8 in May, indicating strong expansion. Services exports rose 8.8% YoY in April.

Outlook:

India's economic activity stayed resilient. Industrial activity remained broadly stable; services momentum was strong; and agriculture indicators remained supportive with favorable crop sowing and comfortable buffer food stocks. A meaningful recovery in domestic demand is likely to be the catalyst for companies to ramp up capacity utilization and revive capital expenditure plans. Until then, industrial activity is expected to remain subdued.



Economic Heatmap



Cautious Optimism

The Indian economy currently finds itself in a measured and cautious phase, with private sector capital expenditure moderating amid lingering uncertainties surrounding global tariff regimes and trade policies. This wait-and-watch approach by corporates is evident in the subdued momentum across key industrial segments, despite otherwise stable macroeconomic conditions. However, there are notable tailwinds. As highlighted in the RBI's bulletin, inflation remains well anchored within the central bank's target range, Repo rate cut by 50 bps and systemic liquidity continues to be in comfortable surplus. After rate cut the RBI will have a limited room to consider policy rate reductions. Yet, for this policy impulse to translate into sustained, broad-based recovery, we must witness a tangible improvement in aggregate demand, both from urban consumers and rural households. Strengthening consumption fundamentals through improved income visibility and employment generation will be critical in converting macro-stability into durable growth momentum.



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%								7.92%
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 %	12%	15%	16%
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

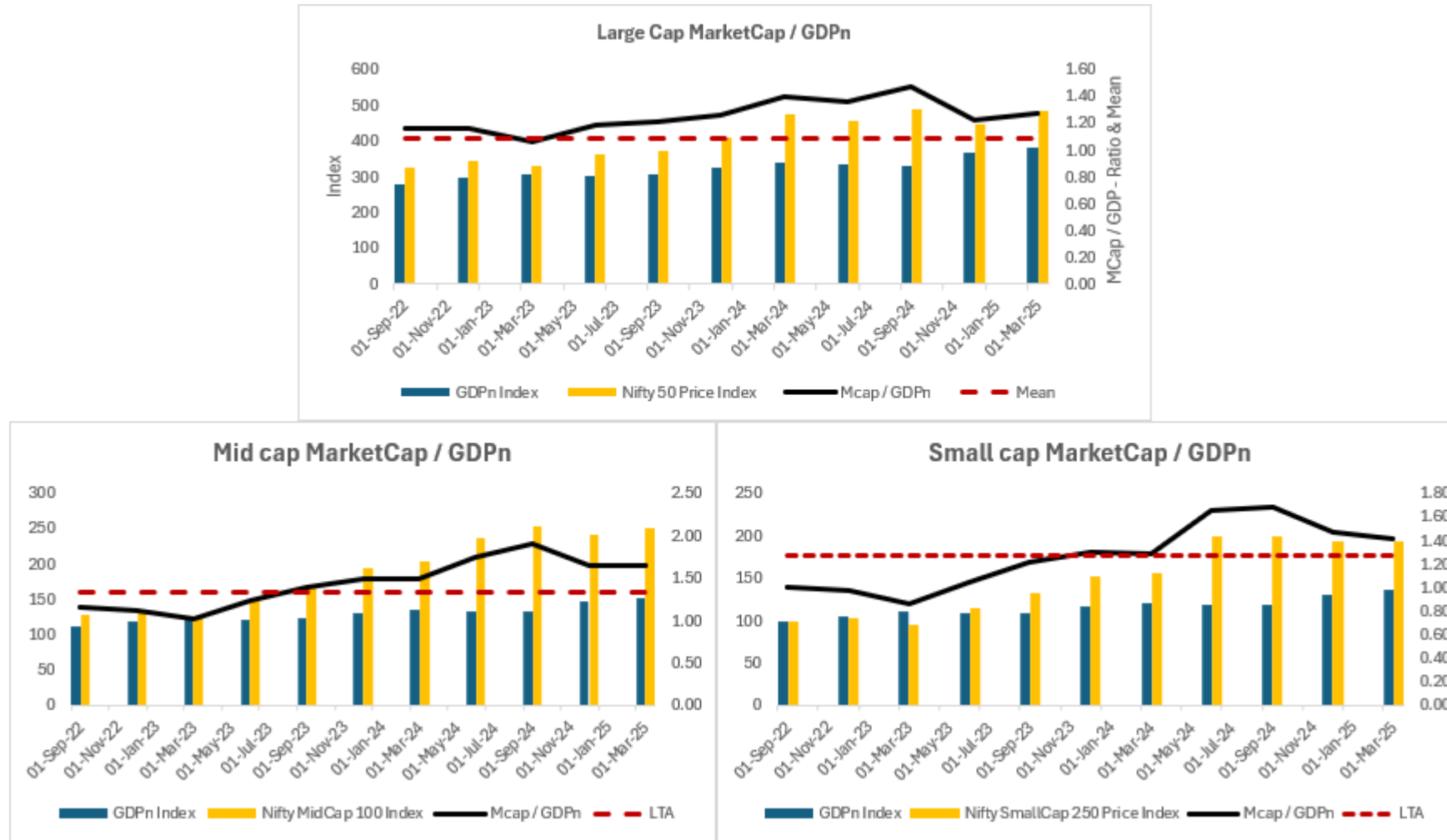
Tempered Down Expectations

- From Oct 2024 till June 2025, the Nifty 50 Index has been flat of ~0%, 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 ~16% over the past ~12 years**. As we start CY 2025 with a modest 8% return for Nifty 50, **we expect returns in the Large Cap segment to pick 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	33.66	32.31	4%	Fairly Valued
Small Cap	33.87	25.60	32%	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 14% & 19%, whereas Small Caps are currently trading at premium of approx 11%** (as per Buffet Indicator), as on 30th June 2025. **EPS estimates for FY 2025 and FY 2026 are 6.2% and 11.4% respectively, which seems encouraging going forward.**

Source: Internal assessment based on RBI DBIE data and NSE India and Bloomberg

India Inc: Q1FY26 Outlook – Green Shoots, but Broad-Based Recovery Still Elusive

- India Inc has **entered FY26 on a relatively stronger footing, with Q1FY26 expected to post improved earnings versus the same period last year**. Analysts attribute this to a **favourable base effect, stabilizing rural demand, and normal monsoon expectations**. However, **earnings growth is likely to remain uneven and concentrated in select sectors, with limited signs of a broad-based recovery**.

Key Drivers of Q1FY26 Performance:

- Domestic Demand Resilience**: Rate-sensitive sectors such as **banks, NBFCs, select auto, and real estate** are expected to benefit from **sustained domestic consumption and stable interest rates**.
- Strong Performance in Services**: **Aviation, telecom, and hospitality** are projected to maintain momentum on the back of **demand recovery and pricing power**.
- Energy Sector Tailwinds**: **Lower input costs** could improve **marketing margins for downstream oil marketing companies (OMCs)** and gas distributors in the quarter.
- Rural Demand Recovery**: A **normal and timely monsoon** is expected to **lift farm incomes and support rural consumption**, potentially driving **recovery in FMCG and discretionary segments**.

Sectoral Challenges:

- External Headwinds**: Export-linked sectors such as **IT, pharma, and textiles** are likely to face earnings pressure due to global macro uncertainties, including **geopolitical risks, US tariff threats**, and tepid demand from key international markets.
- IT Sector Drag**: Continued weakness in discretionary tech spending and client delays may weigh on topline and margins for the IT services space.
- Valuation Constraints**: Elevated valuations across several sectors limit room for positive surprises, even as earnings growth recovers selectively.

Earnings Growth Trends:

- Q4FY25 saw **10–12% EPS growth**, but FY25 full-year earnings grew **less than 5%**, with **downgrades still outpacing upgrades heading into FY26**.
- Analysts estimate **12–14% Nifty EPS growth in FY26**, suggesting cautious optimism. However, **margin expansion - the key driver of earnings in recent years, may have peaked, as premiumization trends and cost rationalization plateau**.
- India's corporate revenue growth has remained below 10% for eight consecutive quarters**, trailing other emerging markets. With the **earnings differential narrowing**, the risk of **FII outflows** is rising.

Mcap	Sales Growth %	EBITDA Growth %	PAT Growth (%)	vs Expectations
MOFSL Universe (297)	5.9%	8.9%	9.6%	Above
Large Cap (86)	5.9%	9.2%	9.7%	Above
Mid cap (89)	6.4%	12.5%	19.1%	Above
Small Cap (122)	4.8%	-6.1%	-15.8%	In Line



Macro Context:

- **GDP growth is expected to moderate to 6.5% in Q1FY26** from **7.4% in Q4FY25**, which was buoyed by lower subsidy payouts rather than broad-based economic strength.
- **Private consumption remains a concern, particularly in urban India**, with rural consumption expected to do the heavy lifting in H1FY26.
- **High-frequency indicators suggest a still-fragile consumption recovery**. While falling inflation may provide support, a **sustained upcycle in household spending is not yet visible**.

Outlook:

- **While Q1FY26 may show YoY improvement on the back of base effects and rural recovery, broad-based earnings momentum remains elusive. With the margin-led growth cycle nearing its limit and external headwinds pressuring export-oriented sectors, earnings upgrades are likely to remain sporadic. The market's expectation of mid-teen EPS growth over the next two years appears optimistic unless there is a meaningful pickup in topline growth and consumption. We maintain a Conservative stance, with a selectively bullish outlook favouring domestic cyclicals and energy plays while staying cautious on export-heavy and richly valued segments.**

Sectoral Outlook



Sector Name	Outlook
Metal & Mining	- The steel sector is currently facing price and demand headwinds amid a weak global macro environment. Domestic flat steel prices have corrected ~4% from their May 2025 peak, though they remain above import parity levels. Global steel prices are declining across major markets — China, the US, and Europe — driven by subdued end-use demand, elevated inventories, and seasonal slowdown due to monsoons. Raw material prices (iron ore and coking coal) are also under pressure due to weakened demand and improved supply, which supports margins for non-integrated players. In India, high inventory (~14 million tons), tepid exports (down 18% YTD FY26), and competitive global seaborne pricing are likely to keep domestic steel prices subdued. - Despite near-term price pressure, steel margins are expected to recover in 1QFY26, aided by price support from anti-dumping duties (SGD) and softening input costs. Non-integrated steelmakers (e.g., JSPL, JSTL) are better positioned in this environment, while integrated players like TATA, SAIL, and NMDC face relative underperformance risk. Overall sector view: Cautious near term; selective positive bias toward non-integrated players.
Pharma	Pharmaceutical Sector View – Tepid Volume Recovery, Pricing-Led Growth Continues - The Indian Pharmaceutical Market (IPM) began FY2026 on a subdued note, with YoY growth moderating to 6.9% in May 2025 after a relatively stronger April print. On a trailing twelve-month (TTM) basis, IPM growth stood at 7.6% YoY, only marginally higher than the 7.3% growth seen a year earlier. The underlying trend continues to show that pricing and new product launches are the primary contributors to growth, while volume expansion remains constrained, indicating persistent end-market sluggishness. - A segment-wise breakdown shows chronic therapies outpacing acute therapies, supported by higher realisations in categories such as cardiac, oncology, respiratory and neurology. However, acute therapies have underperformed due to a weak seasonal backdrop. The volume contribution to MAT growth improved to 110 bps (from near-zero in the prior year), but still lags long-term averages, suggesting only a tentative recovery in underlying demand. - Market share churn continues, with some mid-tier and large players gaining share due to pricing agility and new launches, while others have ceded ground due to weaker brand traction and portfolio alignment. However, these shifts remain within a relatively narrow band and reflect competitive intensity more than structural change. - On the downside, the continued rise of alternate low-cost distribution channels including Jan Aushadhi, trade generics, and private pharmacy chains poses a structural challenge to branded IPM growth. Current estimates suggest a 120–160 bps annual volume drag on the branded segment due to the growing adoption of generics, a trend expected to persist through FY2028. This shift raises concerns over the sustainability of pricing-led growth and margin resilience, particularly if the share of branded generics continues to decline without resolution of quality concerns in the generics channel. Overall sector view: Moderately cautious — while near-term growth will likely be driven by pricing and product innovation, volume recovery remains shallow, and the rise of low-cost generic channels poses a structural overhang on long-term branded portfolio expansion.
Automobiles & Components	Automobile & Components Sector View – Regulatory Overhaul Poses Near-Term Risk to 2W Segment - The Indian two-wheeler (2W) segment may face a significant regulatory shift with the proposed mandate of anti-lock braking systems (ABS) for all engine capacities starting CY2026. If implemented, this move would impact nearly 84% of the domestic 2W market, which currently operates without ABS due to sub-125 cc engine configurations. - The proposed regulation is aimed at enhancing road safety, especially given that 2W riders account for nearly 44% of all road accident deaths. However, the mandatory inclusion of single-channel ABS could increase vehicle prices by Rs3,000–5,000 per unit, implying a 4–6% price hike for entry-level motorcycles and scooters. This price sensitivity is critical, as it directly affects demand in the mass-market and price-conscious segments, particularly in rural and semi-urban areas. - While the safety upgrade may be structurally beneficial, the short- to medium-term impact on volume growth could be adverse. Industry growth expectations for FY2027E, currently pegged at 6% YoY, may be revised lower to flat or low-single-digit growth if the norms are enforced as anticipated. The scooter and moped segments, which will be 100% affected, may see demand headwinds due to a compressed affordability envelope. - On the components side, the 2W ABS supply chain is poised for structural growth, with a projected 5x expansion in industry size. This regulatory shift is likely to catalyze revenue growth opportunities for ABS suppliers, particularly those with scale, localization advantage, and embedded OEM relationships. However, this demand will also need to be balanced against cost and margin pressures in a potentially volume-depressed environment. Overall sector view: Cautiously watchful — while the long-term shift toward enhanced safety standards is welcome, regulatory-driven cost inflation may disrupt near-term demand, especially in price-sensitive sub-segments. Auto component players aligned with ABS systems stand to benefit structurally, but OEMs exposed to low-end 2W models may see pressure on growth and earnings beginning FY2027.
Banks	Banking Sector – Policy Relief Helps, But Credit Demand Still Weak - The RBI has taken steps to ease pressure on banks through recent regulatory changes. For Small Finance Banks, lowering the priority sector lending (PSL) requirement from 75% to 60% gives more room to lend in safer and more profitable areas. However, tough targets like lending to small and marginal farmers remain, so profit gains may take time. Separately, the RBI also eased project finance norms by reducing the provisioning needed for infrastructure loans. This removes a major hurdle and supports banks with such exposures. Still, these changes may not lead to a quick recovery in credit growth. Many companies are cautious about taking new loans for capex, and the share of infrastructure loans has already fallen. Banks are also dealing with costly deposits and pressure on margins. Overall sector view: These steps help reduce regulatory burden and give banks more flexibility, but real loan growth depends on stronger demand from borrowers.

 IT Services	IT Services – Demand Environment Stable, But Deal Momentum Uneven - The global IT services sector is navigating a mixed macro environment—with revenue growth holding up, but bookings momentum showing signs of weakness. While technology spending is not being paused, clients are increasingly prioritizing large, multi-year transformation deals over smaller discretionary projects. This shift is leading to greater competition in the large -deal space and more frequent vendor consolidation exercises. - The demand environment remains broadly stable, especially in sectors like financial services and public services, but growth across other verticals is becoming more uneven due to macro uncertainties and sector-specific pressures. Regional demand also varies, with stronger traction in North America and parts of Europe, while Asia shows mixed trends. - Bookings have declined year-on-year, raising concerns around near-term visibility for FY2026 growth, particularly in the second half. The slowdown in generative AI-related bookings and revenue is also noteworthy. Although AI adoption continues, much of the current investment appears to be repurposed from existing tech budgets rather than incremental, delaying the net positive revenue impact. As a result, AI-driven benefits are expected to be neutral-to-modest over the next 2-3 years. - Margins have held up despite softening gross margins, aided by improvements in pricing and operational efficiencies. However, headwinds from tariff uncertainties, cautious enterprise spending, and lower inorganic growth contribution will continue to weigh on growth acceleration. Overall sector view: Neutral with selective tailwinds – The sector remains fundamentally resilient, but muted deal conversions, slower AI monetization, and competitive intensity are likely to cap near-term upside. Medium-term performance will hinge on the pace of large-deal closures, cost optimization, and the eventual scale-up of AI-led services.
Healthcare Services	Diagnostics – Cost Control by Online Players Eases Competitive Intensity - The diagnostics sector is witnessing a shift in dynamics as online players scale back aggressive discounting and marketing. After two years of sharp price hikes and cost optimizations, most e-diagnostic platforms have moved toward a profitability-focused strategy. Gross margins have improved meaningfully in FY2024, aided by reduced discounts and 30-60% cuts in marketing spends, along with lower discretionary SG&A and controlled staffing costs. - While these moves have helped reduce operating losses, they have also led to a visible slowdown in revenue growth, as lower promotional intensity has impacted volumes. Growth for online platforms decelerated to single-digit or low double-digit levels in FY2024, down from much stronger momentum during FY2021–23. This moderation reduces the disruptive pressure on traditional diagnostics players, which had seen test volume growth slow in recent years due to heightened online competition. - The current environment suggests that price-led competition is normalizing, though pricing gaps between online and offline players remain. The shift in strategy by digital players is expected to reduce incremental volume migration, creating room for a gradual recovery in organic volume growth for incumbents. However, with a larger number of organized players in the ecosystem post-COVID, volume growth is likely to remain measured rather than sharp. Overall sector view: Moderately positive – The intensity of pricing and promotional pressure from online players is easing, which should support a stable operating environment and gradual recovery in volumes for the broader diagnostics sector. Sustained cost discipline by e-diagnostics platforms is likely to reinforce this trend going forward.
Oil & Gas	Oil & Gas – Geopolitical Price Spike Mixed for Sub-Sectors - The recent 21-25% spike in crude oil prices since end-May, triggered by escalating Iran-Israel tensions, highlights the sensitivity of global energy markets to geopolitical risks. While concerns over potential disruption in the Strait of Hormuz (SOH)—a critical chokepoint for 20-27% of global LNG and oil trade—are rising, any sustained supply impact is seen as unlikely given the strategic importance of the corridor. - The current price surge appears to be driven more by sentiment than fundamentals, as oil markets were in surplus before the conflict, and there remains significant spare capacity with OPEC+ and the potential for higher US production if prices stay elevated. In the absence of a broader regional escalation, prices are expected to normalize, with long-term averages likely reverting toward the US\$70/bbl range. - For the sector, the implications are divergent across sub-segments. Higher crude prices are positive for upstream companies, especially with windfall taxes rolled back and low probability of reinstatement in the near term. Upstream players also stand to benefit from improved gas price realizations, where pricing is linked to oil benchmarks. - Conversely, for downstream oil marketing companies (OMCs), the outlook is more nuanced. While higher crude typically squeezes margins, retail fuel prices have been frozen, and earlier expectations of price cuts are now on hold. This effectively preserves strong marketing margins in the near term. If prices had been reduced, reversing them in the event of further volatility would have been politically difficult. Thus, the price spike acts as a near-term cushion, delaying pricing interventions. Overall sector view: Mixed – The current environment supports upstream earnings but poses structural challenges for OMCs, despite temporary margin gains. Long-term trends will continue to depend on price discipline, demand normalization, and policy clarity around pricing autonomy.
Chemicals	- The chemicals sector is showing early signs of recovery, with stabilizing demand and improving volumes, particularly in downstream categories and domestic agrochemicals. The fourth quarter of FY24 saw better offtake due to seasonal strength and restocking. While realizations remain weak amid oversupply and subdued global demand, operating margins have begun to stabilize, aided by lower raw material costs and improved utilization. Export-facing segments continue to grapple with headwinds from global destocking and regulatory scrutiny, especially from Europe. Demand from major overseas markets like Europe and China remains tepid, pushing a broader export recovery further out. - Specialty chemicals linked to sectors such as pharmaceuticals, construction, and automobiles exhibited steady demand resilience, while pharma intermediates performed relatively well due to their non-cyclical nature. Domestically, sentiment in agrochemicals improved ahead of the sowing season. Most companies have moderated their capex plans, focusing instead on brownfield expansions and operational efficiency. Inventory and receivable management have improved, supporting healthier cash flows and balance sheets. - However, pricing pressure persists in commoditized chemicals, limiting near-term upside. Despite this, structural demand drivers—such as import substitution, China+1 diversification, and rising domestic consumption—remain supportive. Environmental compliance and sustainability initiatives, including investment in green chemistry and ESG practices, are becoming more integral to long-term strategy. While profitability is expected to recover gradually as margins normalize, the near-term outlook remains cautiously optimistic with the recovery momentum slowly gaining strength.
Electronics Manufacturing Services	The EMS sector reported strong growth in Q4FY25, driven by robust demand across consumer durables, industrials, and communication segments. Clean energy, automotive, and strategic electronics led vertical-wise growth, supported by increased outsourcing trends and policy tailwinds like PLI schemes. Export markets, particularly the US, contributed significantly to revenue, reflecting global diversification in supply chains under the China+1 strategy. Operating margins expanded across several players, driven by better product mix, scale benefits, and higher contribution from high-margin verticals. However, pressure from working capital intensity and thin margins continues to constrain liquidity and profitability. On the capex front, several players have announced aggressive investment plans to expand manufacturing capacity, especially in segments like air conditioning, consumer electronics, and defence-tech. The government's push toward localization and rising domestic electronic consumption remain long-term structural positives. While revenue visibility remains strong supported by robust order books, margin sustainability and execution efficiency will be key as the sector continues to scale. Overall, the EMS sector remains a structural growth story, backed by favorable macro drivers, rising domestic and export demand, and policy support, albeit with near-term risks around cost pressures and capital intensity.

Monthly LBMA Price and Domestic Spot Price changes and movement



Safe Heaven Asset

- Gold prices in May saw a pause in uptrend after four consecutive months of gains, ending the month nearly flat. Trading was largely rangebound with **gains capped by global gold ETF outflows and a high base in April**. At the same time **tariff related policy risks, a weaker dollar, and rising inflation expectations supported prices**. Gold **regained momentum in June rising 5% in month to date driven by a flare up in geo-political tensions following the Israel-Iran attack and a rebound in ETF demand**. YTD gold remains a standout performer up ~32% in USD terms.
- Whenever the US Fed has cut interest rates in the past, Gold prices have rallied. Going forward, if the US Fed cuts interest rates post president Trumps invention and current rhetoric, this will provide further upward momentum to rising Gold prices.**

Looking Ahead:

- Seasonal and wedding related purchases may support gold demand later this year. Investor interest is likely to strengthen as gold's appeal as a safe-haven asset and portfolio diversifier heightens amid global economic uncertainties and financial market volatility.**

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.**

Headwinds

- **Subdued earnings** due to **slowing urban consumer demand & US tariff uncertainty.**
- **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.
- Uncertainty over **Trump's impending trade policies.**

Outlook

- **Heightened Volatility with an Upward Bias**

Suggested Strategy

➤ *Neutral Equity*

Category	Stance
Large Cap	Neutral
Mid Cap	Neutral
Small Cap	Underweight

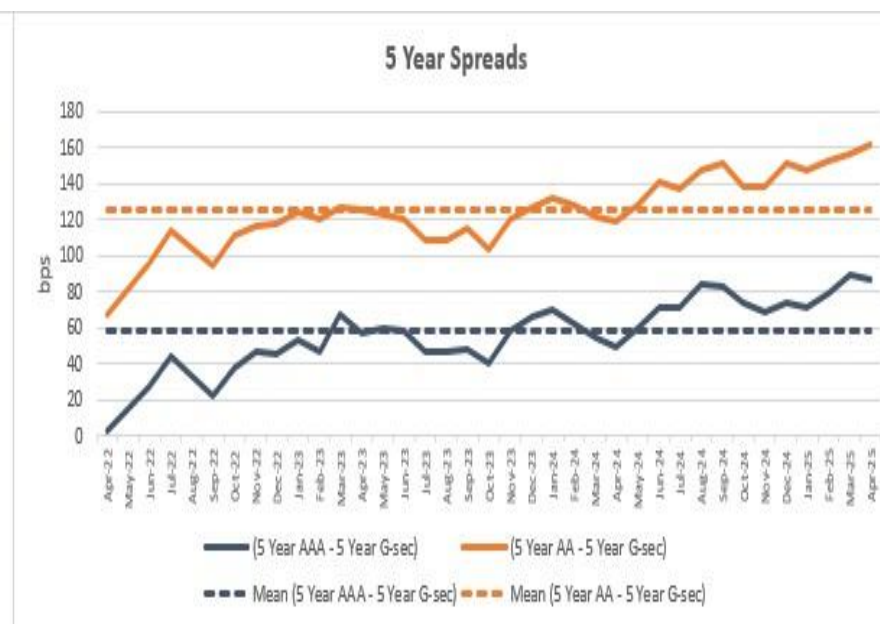
➤ *Neutral Gold*



Debt Outlook



Yields & Spreads



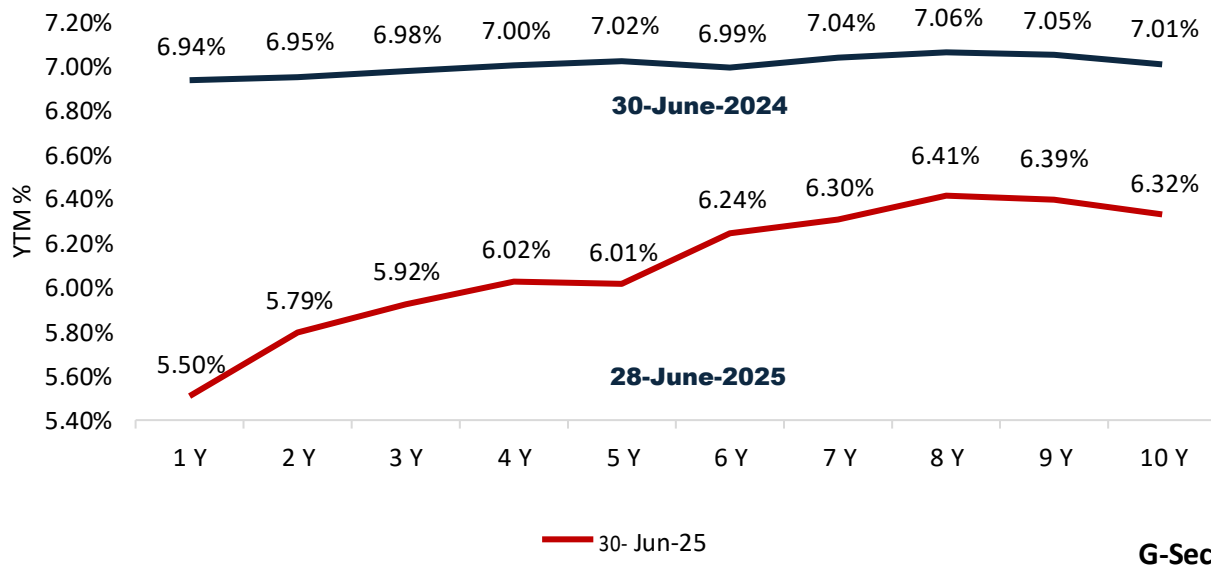
The **spreads** between high quality and high yield papers have **been rising**, and **still remain above the long run average**, hence investors should be selective while choosing high yielding papers to gain proportionate risk premium. The recent softening of long-end yields has played out well for duration-focused strategies. However, with the yield curve now appearing broadly fair and aligned with macro fundamentals, the risk-reward proposition for extending duration has diminished materially. Going forward, we see limited merit in maintaining an aggressive duration stance, and would instead advocate a more balanced approach, with a bias towards rolldown and carry-oriented positioning.



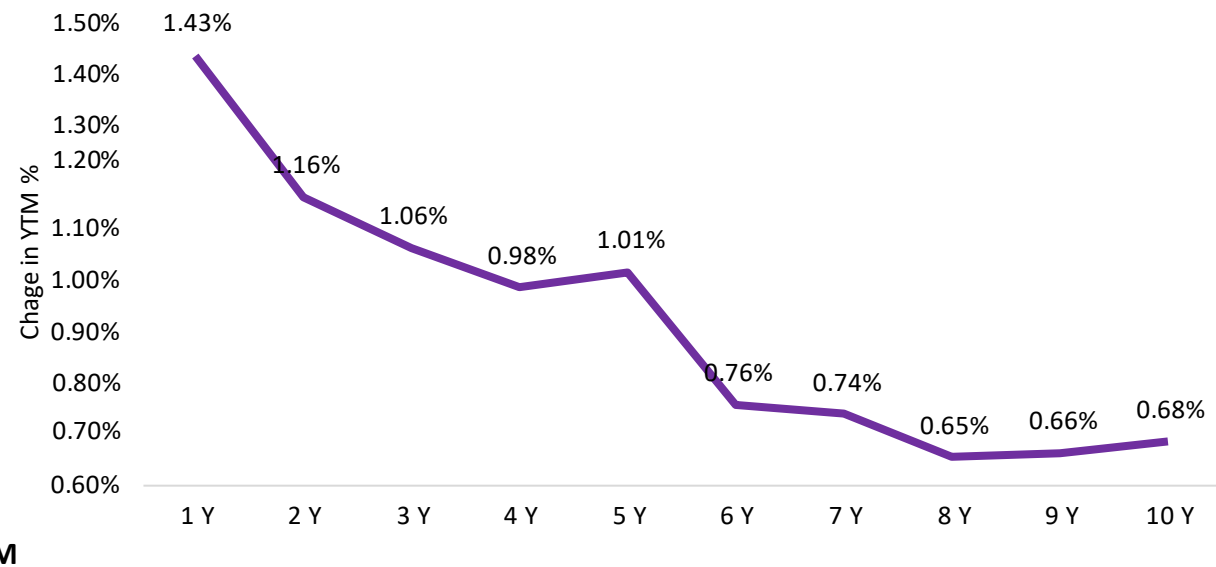
Yields Curve Dynamics



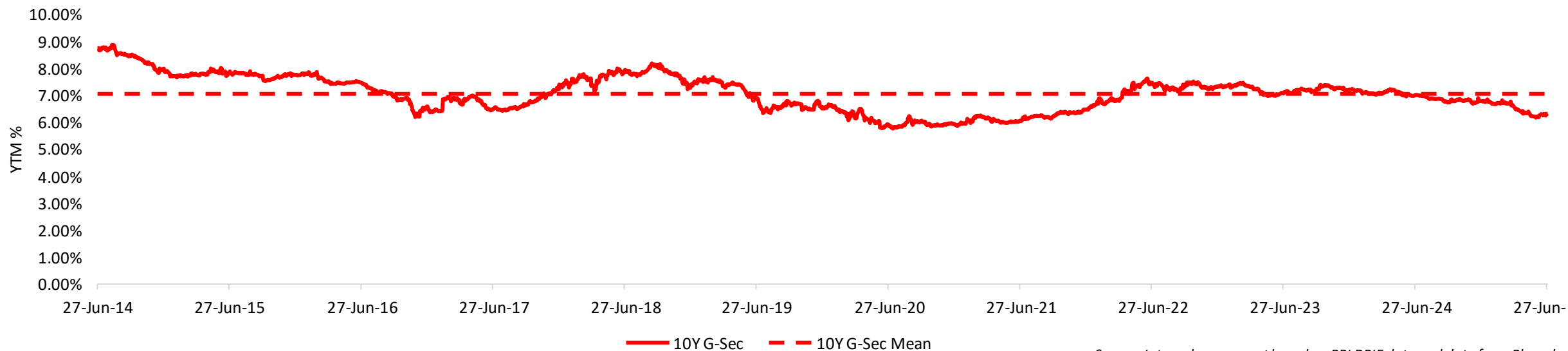
Change in Yield Curve



10Y GSec 1Y Delta - Bull Steepening



G-Sec YTM





Debt Market Outlook



RBI's Surprise Move:

The RBI surprised everyone by announcing a huge INR 1.25 lakh crore Open Market Operations (OMO) program for May. They had already increased April's OMO by INR 40,000 crores unexpectedly. With the RBI dividend payment coming up, nobody expected more OMOs in May. Including these new OMOs, the RBI will have pumped over INR 5 lakh crores into the system in the first 5 months of this year. However, the RBI also changed its stance to 'neutral', meaning it is no longer signaling conservatism. This move has created some confusion among investors, as it appears to be at odds with the otherwise pro-growth measures recently announced. In our view, this shift was likely intended to reassure markets about the central bank's continued vigilance on inflation management.

The Big Picture - Three Key Points:

1. **Global uncertainties are increasing** and will slow down India's growth too
2. **The government is being financially responsible** by keeping spending controlled. This conservative approach will benefit India in the long run, even if it means slower growth in the short term
3. **Monetary policy (RBI) has the most room to help** the economy right now. With inflation under control and currency risks manageable, the RBI can cut rates and support growth

Why is RBI Pumping So Much Money?

We think there are three possible reasons:

➤ **Reason 1: Managing Dollar Positions**

- The RBI has a large forward dollar position (about USD 79 billion) with much of it expiring within 3 months. The central bank might be closing some of these positions and using OMOs to balance out the impact on rupee liquidity.

➤ **Reason 2: Creating Bigger Cash Surplus**

- The RBI might want to keep much more cash in the banking system (2-3% of deposits instead of the usual 1-2%) to make sure interest rate cuts reach all parts of the economy effectively.

➤ **Reason 3: Controlling Government Bond Yields**

- The RBI could be trying to keep government bond yields low to help rate cuts work better across the economy. However, we think this is the least likely reason.



What This Means for Markets and Investors:

Bond Markets:

- Bond market volatility should stay low (unless there are major global shocks)
- Direction is clear - yields should continue falling
- With our expectation of repo rate falling to 5.50% (or even lower), controlled government spending, stable inflation, and active RBI support, bonds still offer good value
- The yield curve has normalized, making mid-term bonds (up to 5 years) relatively attractive
- State government bonds are also attractive for 6-7 year investments

Key Risks for Investors:

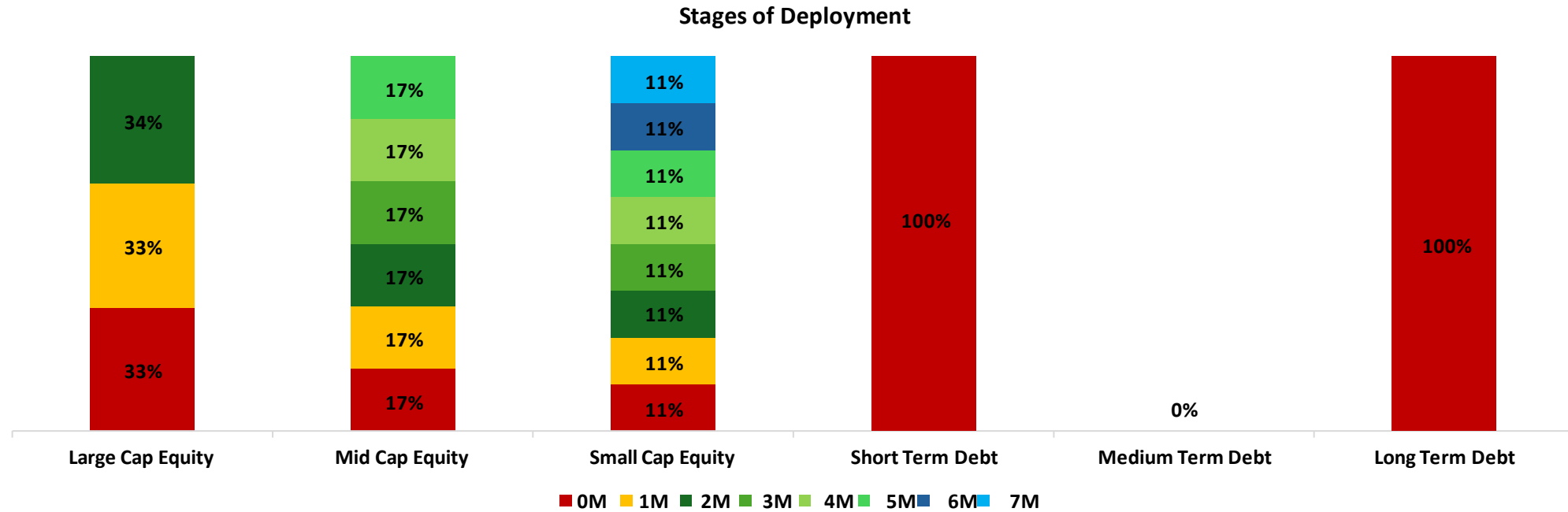
- **Reinvestment risk** remains the biggest concern - investors need to choose the medium term duration of 5-7 years based on their needs.
- Market sentiment can shift quickly if global growth weakens further or oil prices spike. This would impact inflation and may reduce RBI's room to keep easing.
- Credit quality remains important, while sovereign and state bonds look safe, investors should be selective when investing in lower-rated corporate debt, especially in uncertain economic times.

Outlook

With the yield curve now appearing broadly fair and aligned with macro fundamentals, the risk-reward proposition for extending duration has diminished materially. Going forward, we see limited merit in maintaining an aggressive duration stance, and would instead advocate a more balanced approach, with a bias towards rolldown and carry-oriented positioning.

Deployment Strategy





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

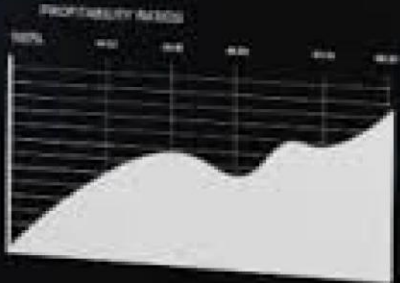
Indicators signaling fair valuation -

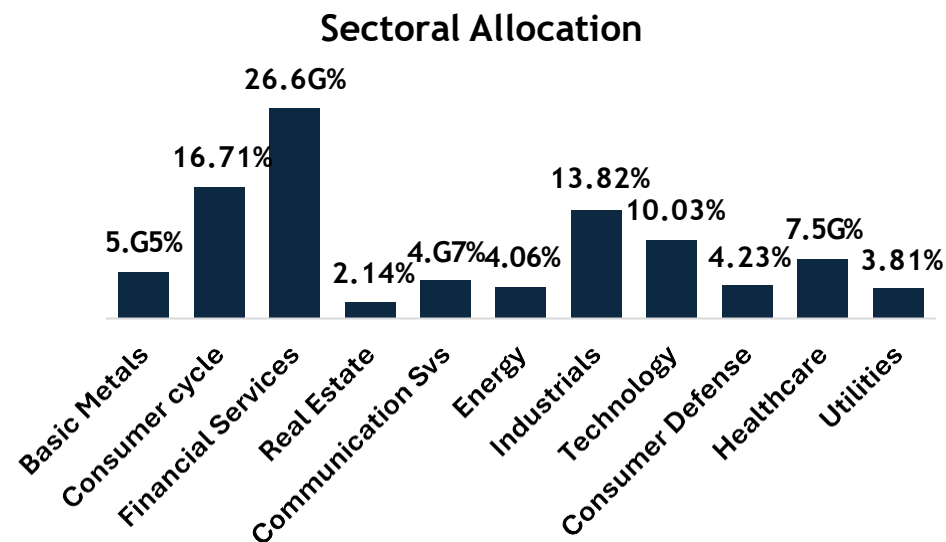
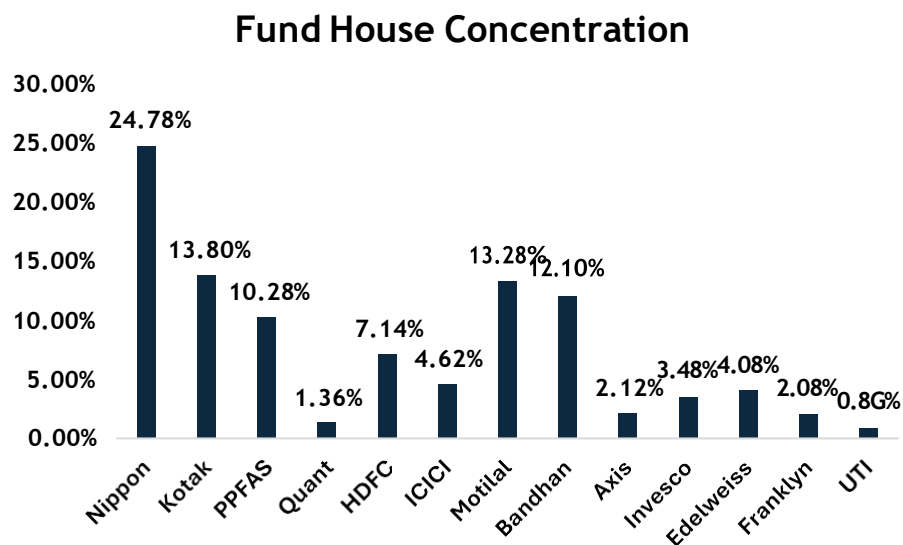
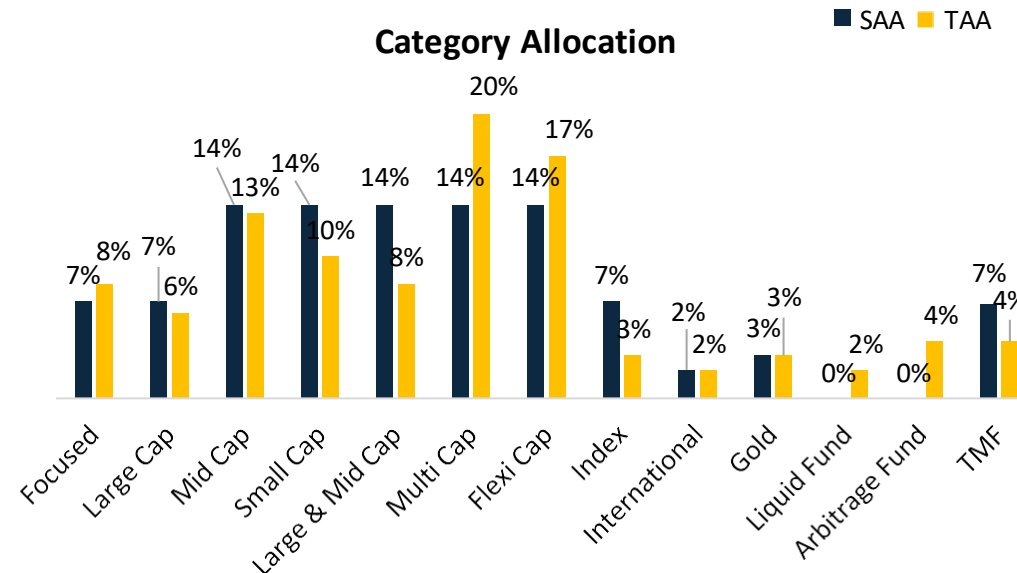
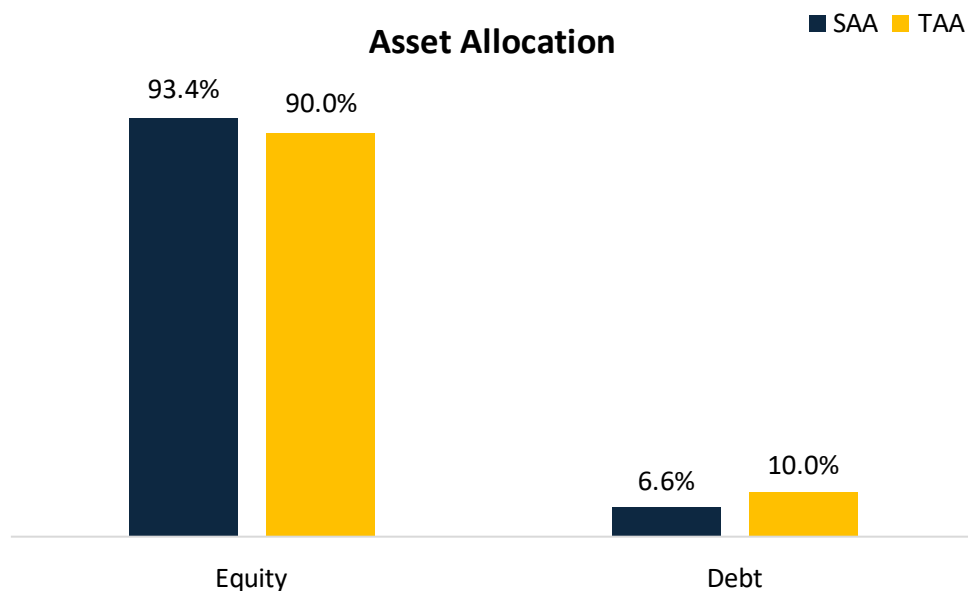
- VIX at 13 levels
- FII's have been net buyers in June due to a stable/depreciating USD and profitable carry. DII's have been net buyers as well
- Liquidity surplus
- Investment and GFCF have risen in the past quarter signaling a possible revival of Pvt Capex
- TTM PE for Large and Mid Caps Indices indicate fair valuation

Deployment Strategy:

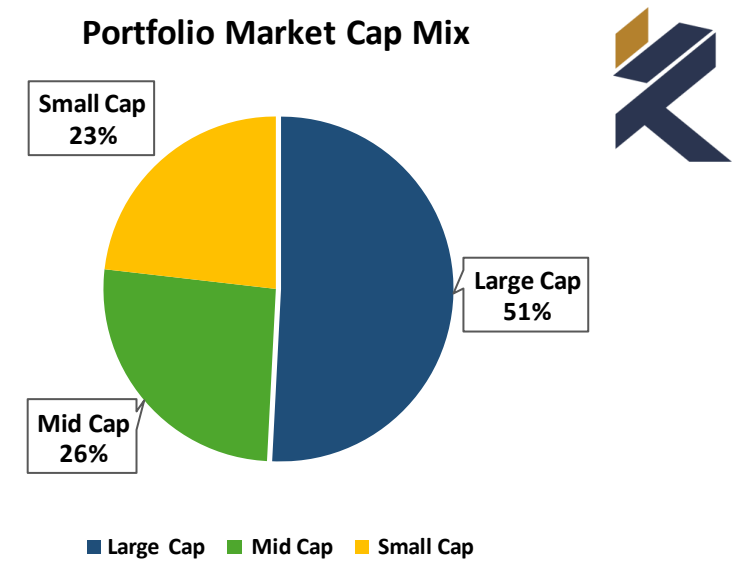
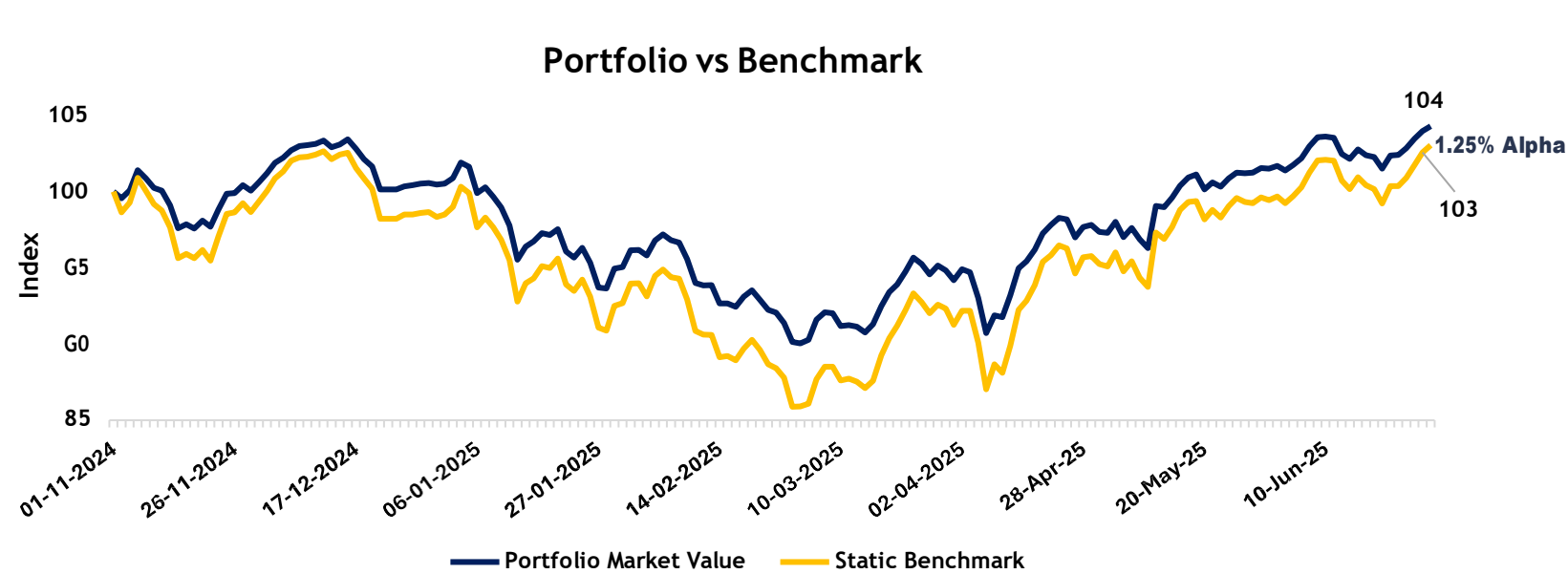
Staggered Deployment over the next 9 months -

- Large Cap - 33% immediate deployment and 33% in each month in the next 2 months
- Mid Cap - 17% immediate deployment and 17% in each month in the next 5 months
- Small Cap - 11% immediate deployment and 11% in each month in the next 8 months
- Debt - 100% immediate deployment (bullet strategy at the mid range (5-7 yrs) of the yield curve)





***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 27th June 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 the Model Portfolio. Optimus Prime Model Portfolio is an Aggressive portfolio strategy



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	4.29%	3.04%
Standard Deviation (annualized)	12.99%	17.30%
Beta	0.83	1.00
Alpha	1.25%	
Information Ratio	4.28	
Downside Capture	69.88	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.19%	0.77%	0.29%	1.25%

Debt Portfolio Analytics

Debt Measures	Apr-25
Average MoD	5
Average Maturity	6.7 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 27th June 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.



Current Investment Portfolio Stance: **Conservative**



At the most recent Investment Advisory Committee meeting, it was unanimously agreed to maintain a **Neutral investment approach, with a measured tilt towards a moderately pro-risk stance**. This decision reflects the committee's ongoing caution **amid global macroeconomic uncertainties, especially surrounding the evolving tariff regime** introduced under President Trump's administration, which is expected to lead to heightened market volatility and a subdued return environment.

As a result, the portfolio's equity allocation **remains underweight by 3.4%, marginally up again at previous month level**. Within equities, we continue to hold a **~7% underweight position in Mid and Small Cap segments**, aligning with our risk-controlled framework.

While global capital flows continue to reflect a cautious undertone, recent market stability and evolving economic signals prompt us to adopt a neutral stance at this juncture. Domestically, the **softening trajectory in urban consumption** trends, **muted Gross Fixed Capital Formation in the private sector**, and signs of a **broader global slowdown** further reinforce our view that equity return expectations for CY 2025 should be tempered. Recent **earnings plateau** during the Q4FY25 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 1.25%**, driven primarily by **Product Selection Alpha in the Mid 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 0.83**, an **Information Ratio of 4.28**, **highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 70%**, **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 global 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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