

Embracing complexity to capture Alpha

Dear Investors,

As we approach the close of 2025, India's economic landscape presents a nuanced yet encouraging picture, one marked by emerging domestic momentum, policy stability, and a measured path of recovery amid global turbulence. Real GDP growth of 7.8% in Q1 FY26 reaffirmed India's position as the fastest-growing major economy, supported by front-loaded public capex, benign inflation, and resilient rural consumption. Inflation has undershot earlier projections, averaging 2.6% for FY26, aided by GST rationalization, food disinflation, and contained core pressures, creating space for the RBI to maintain a neutral stance while ensuring financial stability.

Industrial activity is gradually firming, with IIP growth anchored by manufacturing strength and double-digit expansion in infrastructure and capital goods output, even as mining and utilities lag. Liquidity conditions remain comfortably in surplus, supported by phased CRR cuts and proactive RBI interventions, ensuring smooth policy transmission. Credit growth has returned to double digits, driven by retail and services, while high-capacity utilization and improving business sentiment point to a nascent private capex recovery.

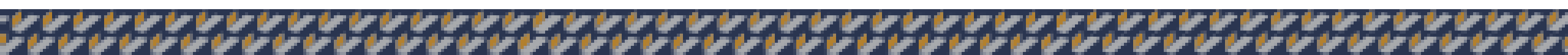
While global capital flows and external demand remain cautious, India stands out as a relative bright spot, underpinned by healthy corporate balance sheets, fiscal discipline, and policy continuity. The festive-season uplift, coupled with early signs of a broader investment revival, suggests that the domestic cycle may be turning a corner. Sustaining this momentum will depend on the durability of demand and the unfolding trajectory of the US trade regime, but the medium-to-long term story remains robust.

At Kilika Capital, we believe this environment rewards discipline and selectivity - focusing on quality businesses, resilient volume & earnings growth, and sectors positioned to benefit from structural shifts and policy reforms. We continue to adopt a flexible approach to Tactical Asset Allocation, responding dynamically to macro and market developments.

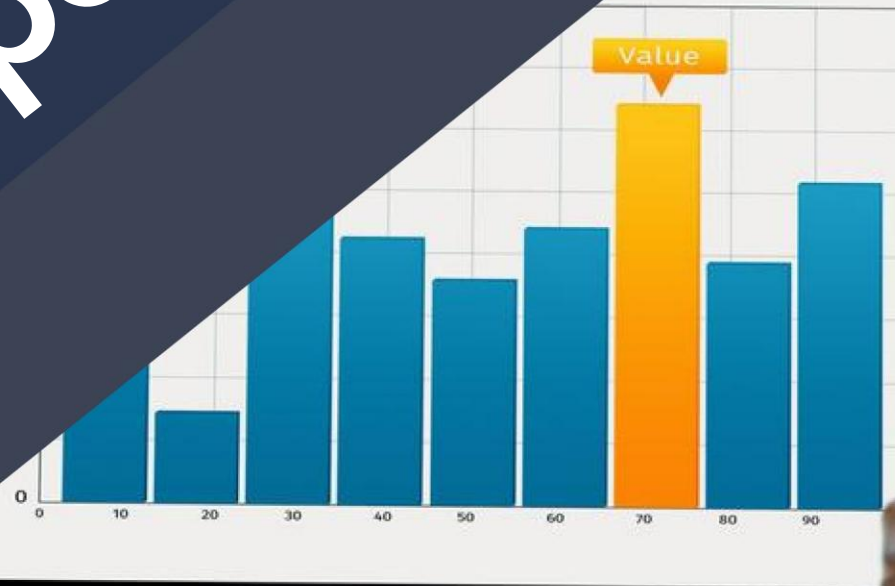
We hope you find this edition insightful.

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!?

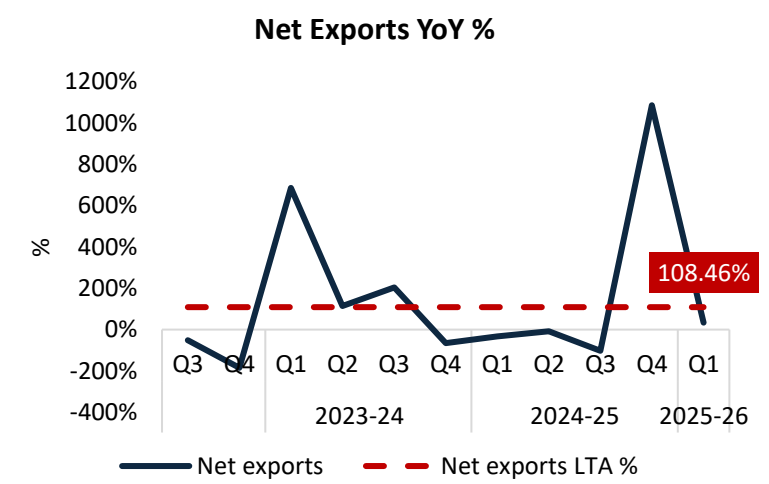
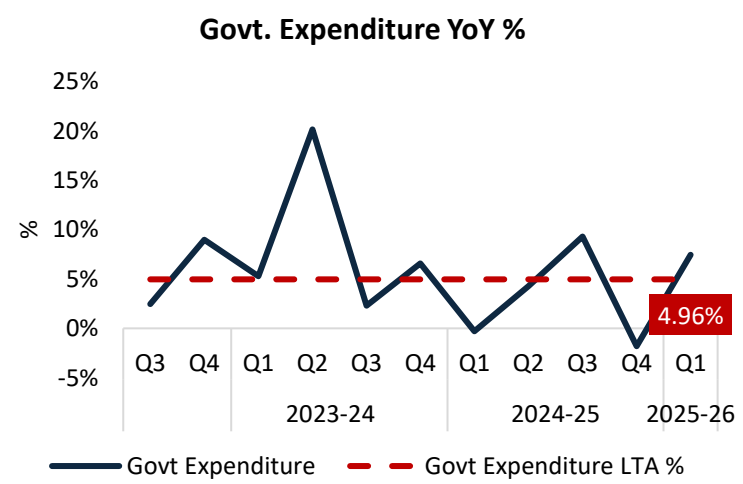
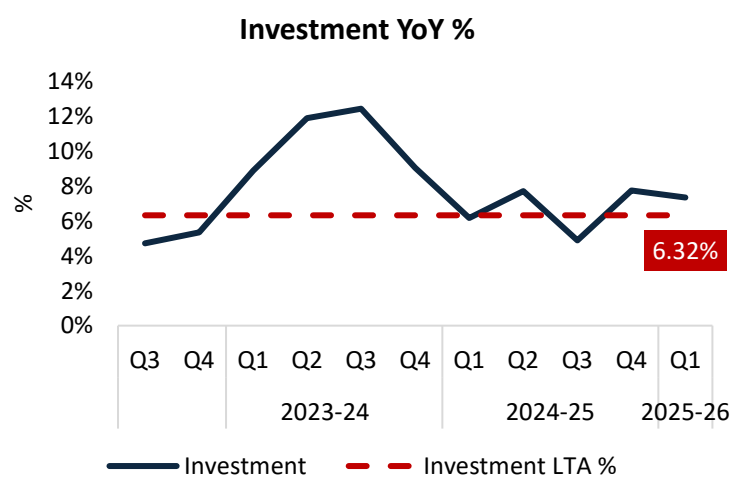
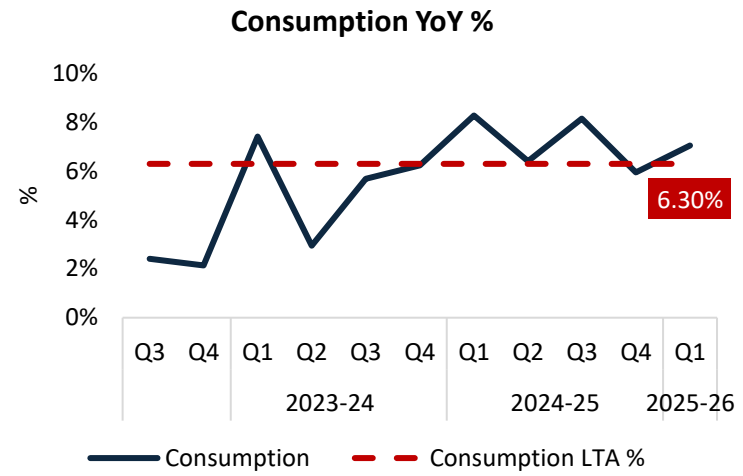
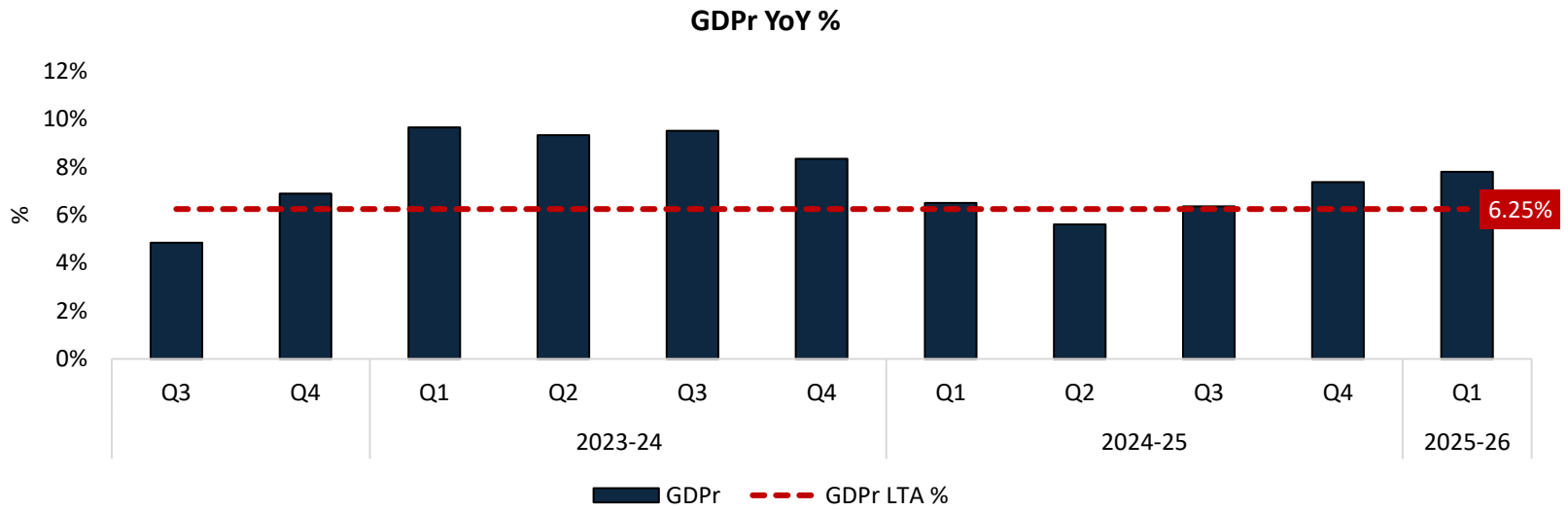
Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured—we've got your back. After all, when we win, you win. And we're in it for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



Macro-Economic Outlook



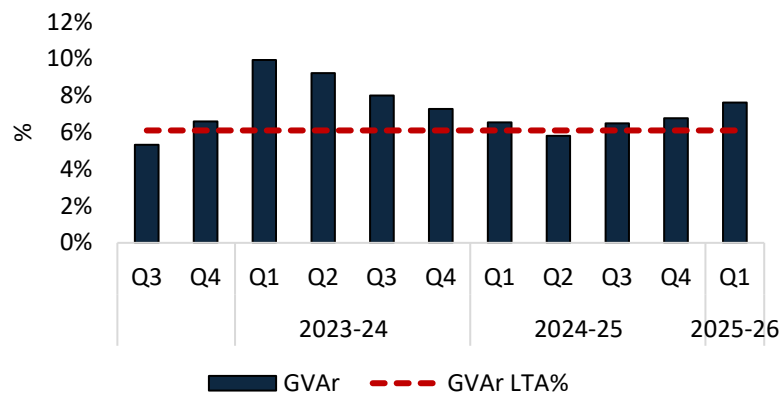
1. GDP (Gross Domestic Product)



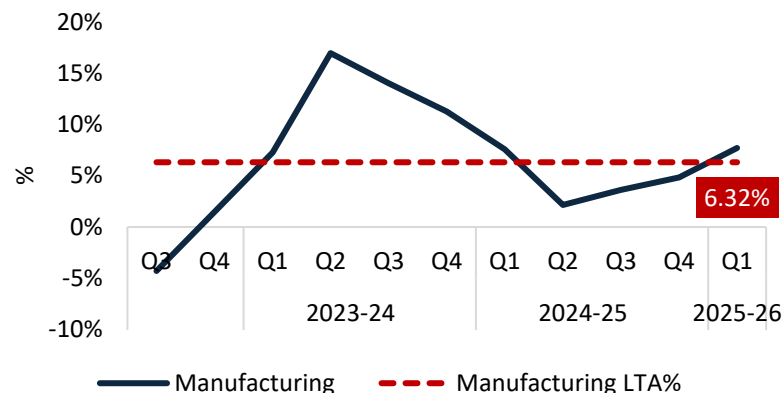


GVA (Gross Value Added)

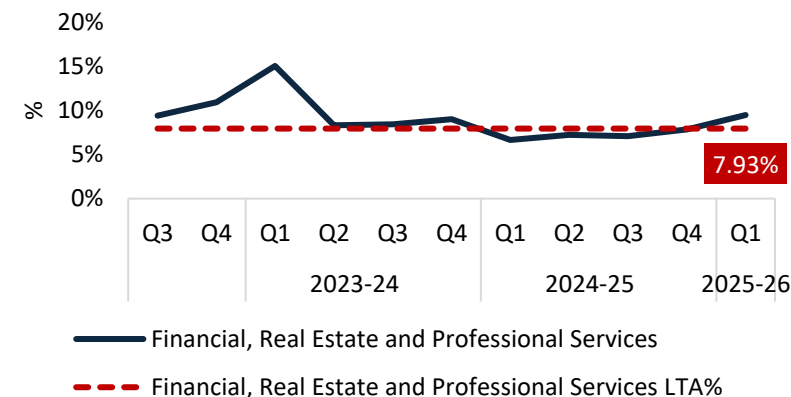
GVAr YoY%



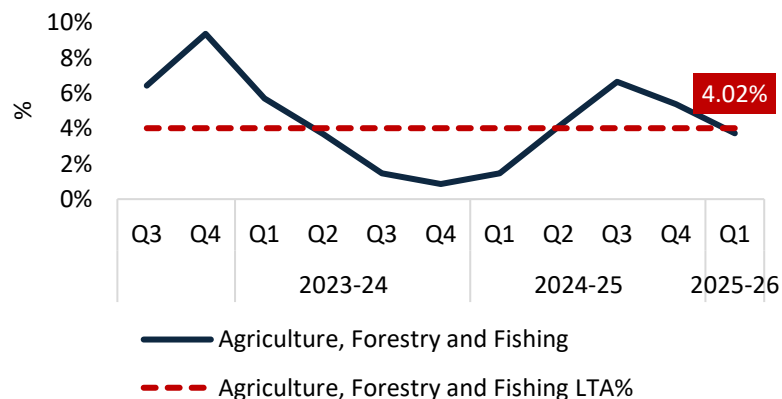
Manufacturing YoY%



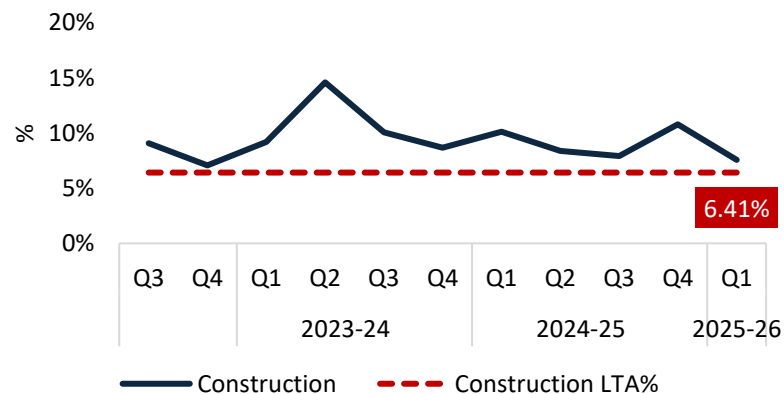
Finance, Real Estate, Services YoY%



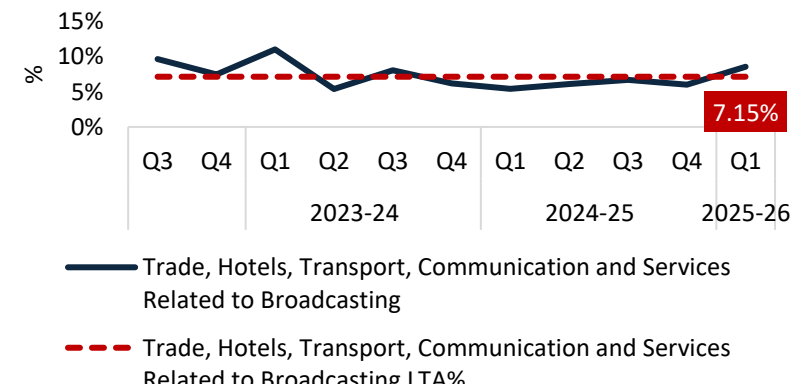
Agriculture YoY%



Construction YoY%



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





India Q1 FY26 GDP Analysis and Economic Outlook

Headline Growth

- **Robust Q1 Expansion:** India's **real GDP grew 7.8% year-on-year** in Q1 FY26, marking an acceleration of 7.8% YoY in this quarter (Q1 FY26) and well **above 6.5% in Q1 FY25**. Gross Value Added (**GVA**) **growth stood at 7.6% YoY** (up from 6.8% in Q4 and 6.5% a year ago), indicating broad-based gains. This is the fastest quarterly growth in over a year, keeping India as the world's fastest-growing major economy (for context, China grew 5.2%, and the US 3.3% in the same quarter).
- **Lower Inflation Boosted Real Growth:** A **benign inflation environment** underpinned these strong real numbers. **Nominal GDP grew only 8.8% in Q1, implying the GDP deflator (a measure of price inflation in the economy) was around 1%** – much lower than usual. This **extremely soft deflator** meant that **real, inflation-adjusted growth was higher** than it would be in a high-inflation scenario. In other words, **lower price levels helped support higher real GDP growth**, giving the economy a temporary lift in the headline figures in real terms. However, **nominal GDP growth was subdued at 8.8% YoY, as compared to a 9.7% growth rate in the same quarter last year, which paints the true picture.**

Sectoral Contributions

- **Agriculture – Moderate Growth:** The agriculture sector grew at a **modest 3.7% YoY in Q1**. This is a **steady but moderated pace** compared to the previous quarter's spike (over 5% in Q4, which had benefitted from a bumper rabi harvest). A **normal monsoon and harvest** supported farm output, but growth has **leveled off** to a more typical rate. Agriculture's contribution, while positive, was **smaller relative to faster-growing sectors.**
- **Industrial Sector – Mixed Performance:** Industry saw **uneven growth** across its sub-sectors. **Manufacturing was a bright spot**, expanding about **7.7% YoY** thanks to improved factory output (possibly due to **frontloading** ahead of the tariff announcement by the US), restocking, and softer input costs. Likewise, **construction activity rose 7.6%**, reflecting a continued **infrastructure push** and robust real estate projects – making it a key driver within industry. In contrast, **mining and utilities underperformed**, mining output actually **contracted by 3.1%** (year-on-year), hit by excessive early monsoon rains and a high base, while **electricity, gas & water** supply managed only **0.5% growth** as **cooler weather dampened power demand.** These weak spots in mining and power tempered the overall industrial GVA growth.
- **Services Sector – Key Growth Engine:** **Services led the economy's expansion**, clocking an estimated **high-single to low-double-digit growth (around 9–10% YoY overall) in Q1**, making it the **biggest contributor** to the GDP uptick. Within services, **finance and real estate** services showed **strong momentum** – supported by **slow but rising credit off-take** (bank lending) and steady **real estate demand**. The **trade, hotels, transport & communications segment** (which includes retail, tourism, and logistics) also posted **healthy growth**, benefiting from **improving consumer mobility and travel**. For instance, domestic air travel and hospitality services continued to recover, and **freight movement remained solid**, reflecting resilient demand. Even **public administration and defence** (government services) **grew steadily**, though at a more moderate pace, providing a stable backbone to services GVA.
- **Overall, manufacturing and services were the primary drivers of Q1 growth, more than offsetting weaker spots like mining and agriculture. (In summary: manufacturing rebounded, construction boomed, and services surged, whereas mining lagged and agriculture growth normalized.)**



Capex and Consumption Trends:

- **Surge in Capital Expenditure (Capex) – aided by government spending:** Investment activity picked up, powered chiefly by **government spending**. Public **capital expenditure soared** – the central government's capex in Q1 was **front-loaded, rising over 50% YoY** as authorities pushed outlays into infrastructure projects early in the year. Big boosts came **from spending on railways, roads, housing, and urban development**. This aggressive public capex provided a major **lift to gross fixed capital formation** (investment demand) in the economy. In contrast, **private sector capex remained subdued**. Most large businesses are still **cautious about new investments, given global uncertainties and existing excess capacities**. Outside of a few pockets (like green energy, electronics, and some capacity expansion by cash-rich corporates), **private investment has yet to show a broad-based recovery**. The upshot is that government infrastructure spending is **doing the heavy lifting on investment**, while **private capex is in a slow lane, awaiting clearer signals of sustainable demand**.
- **Private Consumption – Resilient with Rural Strength:** Consumer spending held up as a vital growth pillar in Q1. **Private consumption grew steadily**, underpinned by **easing inflation and improving incomes**, especially in rural India. Notably, **rural demand outpaced urban demand** – rural FMCG (fast-moving consumer goods) volumes grew about **8.4% YoY**, roughly double the **4.6% growth in urban areas**. This indicates that **villages and small towns are currently driving consumption growth**, helped by **good agricultural output and government support programs**. Higher rural wages and steady farm prices have put more spending power in villagers' hands. **Urban consumption**, while growing slower, is gradually recovering too, we saw modest upticks in areas like passenger vehicle sales and air travel. **Lower food and fuel inflation in Q1** increased households' real purchasing power, which supported spending on items like groceries and discretionary goods. However, consumers are still value-conscious, evidenced by trends such as a shift to smaller product packs in FMCG – and spending by lower- and middle-income groups remains somewhat guarded after the inflation squeeze of the past year. **Overall, consumption was a solid backbone of Q1 growth, with rural markets leading the way and urban areas improving slowly incrementally**.
- **Trade and External Sector: Export and import trends** reflected both global and domestic conditions. **Merchandise exports faced headwinds from weak global demand – major markets like the US and Europe saw slower growth**, which capped overseas orders for Indian goods (especially in textiles, electronics, and other labour-intensive products). On the flip side, **imports shrank slightly in Q1**, owing to **lower international commodity prices (e.g. cheaper oil)** and **somewhat soft domestic demand for imported goods**. This meant that **net exports were less of a drag on GDP than before** – the drop in imports helped offset the export weakness to some extent. Additionally, **there are signs of front-loading of exports to the US** ahead of the 50% US tariffs (some exporters rushed shipments before new trade barriers hit), which temporarily propped up export figures in Q1. **Service exports (like IT services) continued to grow, albeit at a moderated pace as global tech spending slows**. **Overall, the external sector's contribution to Q1 growth was mixed: it's not fueling growth, but thanks to lower imports, it also didn't significantly subtract from growth in the quarter**.
- **Fiscal Support and Reforms:** The government's fiscal policy provided **tailwinds for demand**. Apart from higher spending, **tax changes** have played a role – for example, the government implemented some **income tax relief (putting a bit more money in consumers' hands)**, and is discussing **Goods and Services Tax (GST) reforms to rationalize the GST structure**. Some GST rate tweaks (such as tax cuts in certain consumer segments) were in the works. While these reforms aim to **boost consumption** and simplify the tax regime, they also **pose a challenge of potential revenue loss (an estimated ₹1.6 trillion impact, as per some analyses)**. The authorities indicated **that ample GST cess reserves could buffer any short-term revenue shortfall**. In Q1, fiscal policy struck a balance – **supporting growth through spending** and targeted tax measures, while keeping the **fiscal deficit on track** (the deficit for Apr–June was about 17.9% of the annual target, which is manageable). **This fiscal prudence alongside pro-growth outlays provided a stable backdrop for the economy**.



Risks and Headwinds:

- **Trade Tensions and Export Risks:** External headwinds are the biggest downside risk. Foremost is the **new US tariff regime targeting Indian exports**. The United States has imposed or is about to **impose steep tariffs (as high as 50%) on certain Indian goods, effective end of August**. These punitive tariffs could shave an **estimated 50bps off India's GDP growth going forward**, by hurting export volumes. **Critical labour-intensive industries – like textiles, apparel, leather, and some engineering goods – are particularly vulnerable**. The US is a key market for these products, **so higher duties may lead to order cancellations or loss of price competitiveness**. This not only affects export revenues but **also threatens jobs in those sectors** as a second order derivative (e.g. fewer orders for garment factories could mean layoffs for workers). Such job losses and wage cuts in export-oriented industries would likely **feed back into weaker domestic consumption** in subsequent quarters. In short, **a deteriorating global trade environment – exemplified by US-India trade frictions – is a prominent risk that could drag down growth through the export channel and related employment**.
- **Weak Global Demand:** Even aside from tariffs, the **global economic slowdown is a concern**. World growth in 2025 is forecast to decelerate to around **2.9% (from 3.3% in 2024)**, as per S&P Global. Key export markets are experiencing softer demand – Europe faces sluggish growth, China's recovery is cooling, and high interest rates in the West are tempering consumption there. This **weak external demand** means Indian exporters of everything from IT services to auto parts are seeing fewer new orders. **IT/BPO services**, a big export earner for India, could see clients cutting back or delaying projects if the US/EU economies weaken, impacting India's service exports and employment in the tech sector. Additionally, **subdued global commodity prices** (while positive for inflation) reflect weaker global industrial activity, which can spill over to India's manufacturing exports. **Overall, tepid global demand acts as a headwind, making it harder for India to rely on export-led growth at least in the near term**.
- **Domestic Structural Constraints:** Despite near-term momentum, **structural issues at home pose headwinds to sustaining high growth**. Job creation remains a concern – while the economy is growing, the pace of **quality employment growth is lagging**. There are reports of **job losses or lacklustre hiring** in sectors like export manufacturing (due to external demand issues) and even in some domestic services. **Unemployment or underemployment**, especially among youth, could hurt consumer confidence and spending power over time. **Private sector risk appetite is another issue**, many companies, having deleveraged in recent years, are still reluctant to kick off a new investment cycle comparable to the mid-2000s boom. Without a strong pickup in private capex, **led by confidence in future demand**, India's growth may **stay below its potential**. Additionally, **rural vulnerabilities** (like if the **monsoon's distribution is poor, certain regions could face distress**) and **urban cost-of-living pressures** (housing, services inflation) can **act as drags on consumption for some population segments**. In summary, **India faces headwinds from both external and internal fronts – from trade wars and global slowdowns to domestic structural challenges – all of which inject a note of caution** into the otherwise positive growth story.
- **Monetary and Financial Risks:** The macro policy backdrop poses some constraints. The Reserve Bank of India (RBI) has shifted to an **accommodative stance earlier this year**, including a cumulative 50 bps (0.50%) rate cut in the first half of 2025. However, with the economy running relatively strong and external risks mounting, the **RBI is now cautious**. It has **indicated limited room for further rate cuts in the near term**, given that core inflation is still around target and any global commodity flare-up could reignite price pressures. The central bank is also mindful of financial stability – global monetary conditions are tightening, and abrupt capital flow reversals or currency pressures (perhaps due to global risk-off sentiment) would require policy flexibility. Thus, **monetary policy might not provide much additional stimulus beyond what's done**, which is a risk if growth were to falter. On the financial side, **India's banking system is stable** overall, but rising global interest rates and risk aversion could make borrowing costlier for Indian firms and government on international markets. Global geopolitical developments (like a flare-up in oil prices due to conflicts, or volatility from major economy policy changes) **remain an ever-present risk that could impact India via higher import costs or reduced investor confidence**. For example, India still imports ~80% of its oil needs – any oil price spike would strain inflation and the import bill, potentially forcing difficult policy trade-offs. The current geopolitical climate – including the conflict in Ukraine, Middle East tensions, and US-China strategic rivalry – adds an overhang of uncertainty that could translate into economic headwinds (through trade, oil, or financial channels) for India.



Q1 was only the fifth time since FY16 that real growth rose, nominal growth slowed

Year-on-year growth in GDP (%), quarterly
Figures for the preceding quarter shown in brackets



Low wholesale inflation was the reason earlier; this time, retail inflation is low, too

Year-on-year inflation (%) in quarters when real growth rose and nominal growth slowed



A sharp slowdown in nominal GDP growth may upset Centre's Budget math

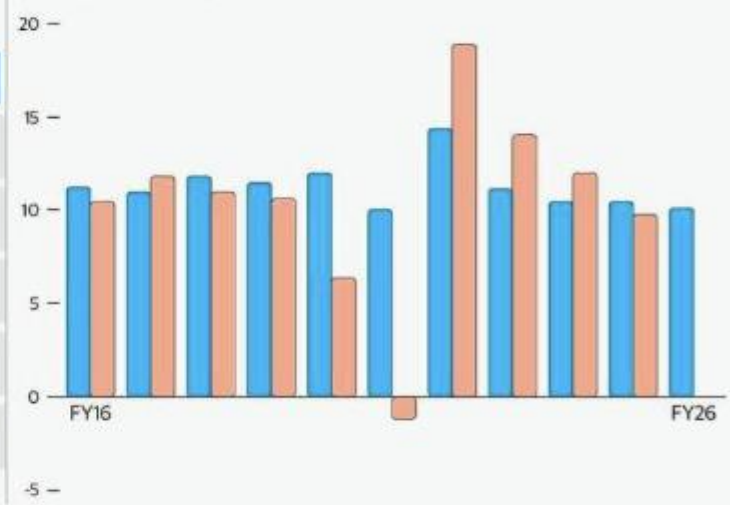
How key Budget indicators will need to be adjusted if FY26 nominal GDP growth slows down to 7.5% (vs. current requirement of 8%), to keep the ratio estimates intact

	Budget estimates as % of GDP	At 7.5% nominal growth
Fiscal deficit	4.4	space to reduce by ₹6,578 crore
Debt	56.1	will have to be cut by ₹83,919 crore
Expenditure*	14.2	will have to be cut by ₹21,237 crore
Revenue**	9.8	will have to increase by ₹14,659 crore
Gross tax revenue	12.0	will have to increase by ₹17,903 crore

Analysis based on back-of-the-envelope calculations, without taking into account the spillover impact of slower growth on revenue generation.
*Assuming unchanged revenue; **Assuming unchanged expenditure

Actual nominal GDP growth has undershot the Budget aim more often than not

Projected in Budget Actual Nominal GDP growth (in %)



Source: Statistics ministry, Budget documents, CMIE, Mint analysis

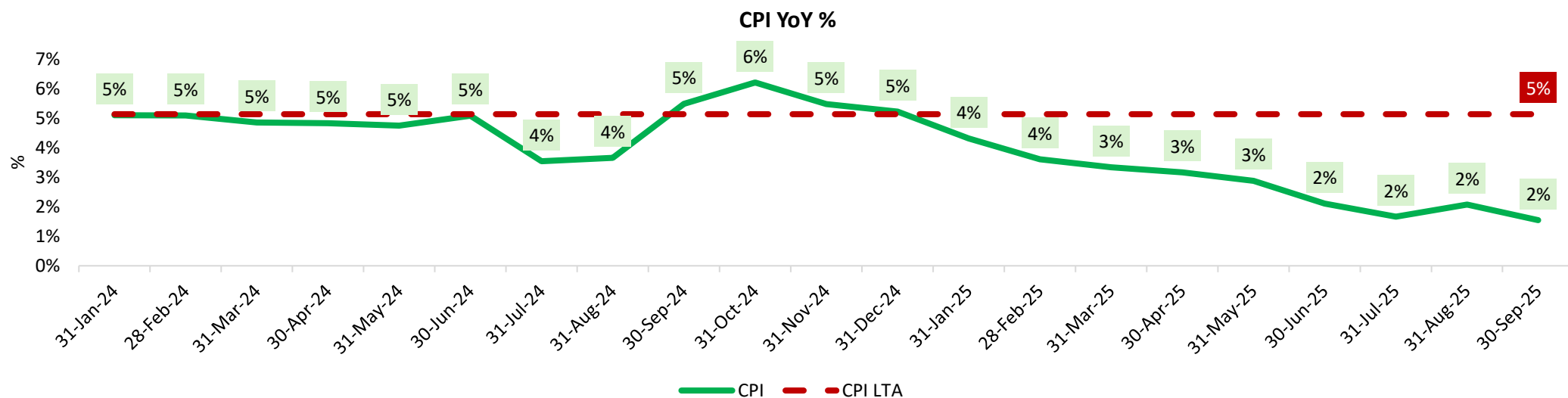
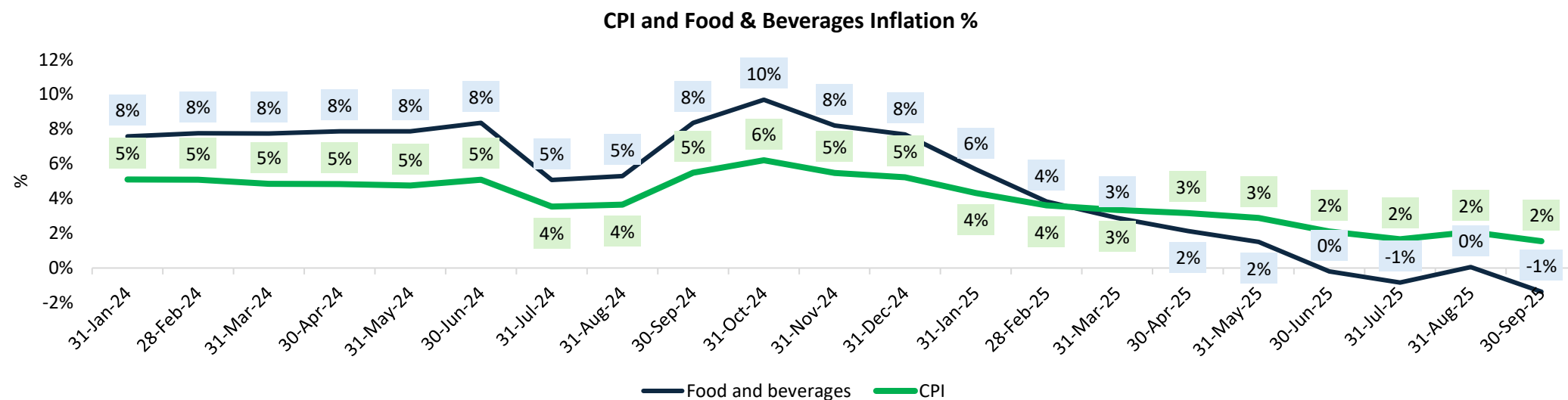
- Slack in Nominal Growth and Corporate Profits:** An interesting challenge is the “good problem” of low inflation. **With inflation sharply lower, India’s GDP expanded by 7.8% in real terms in the June quarter, exceeding expectations, but nominal growth slowed sharply to 8.8% amid low inflation—just a percentage point higher than real growth.** Economists warn this rare narrowing between nominal and real growth could persist through FY26, with **projections of 7.5–8.0% nominal growth and 6.0–6.5% real growth, weighed down by the impact of steep U.S. tariffs.** While low inflation boosted real GDP (as discussed), slow nominal growth can be a double-edged sword. It implies **slower growth in incomes, corporate revenues, and tax collections in cash terms.** Many companies are seeing only modest increases in their sales values due to flat prices, **which could squeeze profit margins** if input costs don’t fall similarly. **Government tax revenue** (especially GST and corporate taxes) **could also come in lower than expected if nominal expansion stays muted,** potentially limiting fiscal space in later quarters. Moreover, if nominal GDP growth stays below ~10%, **India’s debt-to-GDP dynamics and budget assumptions** (often predicated on higher nominal growth) **might face pressure.** In essence, **unusually low inflation** (while positive for consumers) presents a risk in the **form of sluggish nominal growth,** which may signal **underlying demand softness** and **affect business earnings and fiscal math.** Policymakers will be watching this “**nominal GDP slack**” closely. Additionally, weak nominal growth has **wide fiscal consequences** since it underpins Budget assumptions; **any slippage forces cuts in fiscal deficit and spending targets, squeezing the government’s ability to support growth.** Already, **tax collections are lagging badly while expenditure pressures are rising, and experts caution that sluggish sales volumes, muted revenue momentum, and structural risks could create a negative loop of weaker demand, wages, and growth.** With Budget targets requiring ~8% nominal expansion, falling short could **derail fiscal consolidation and further strain the economy.**

Outlook:



- **Growth Forecast – Cautiously Optimistic:** Given the Q1 upside surprise, there is an acknowledgment that **India could still achieve mid-6% growth for the year, but with a clear downside bias – meaning risks are tilted toward growth ending up a bit lower if things go wrong. Simply put, economists see 6%+ growth as likely but not a guarantee, as several one-off boosters in Q1 (like the low deflator and early government spend) may not persist. However, the current boost to domestic consumption spending and initial signs of a pickup in GFCF is a definite tailwind.**
- **Domestic Demand as the Mainstay:** Domestic consumption is expected to remain the lynchpin of growth through FY26. **Strong household spending – especially if rural areas continue to prosper, will be crucial to offset external weakness.** The outlook assumes a **normal monsoon**, which should bolster agricultural output and rural incomes, feeding into steady rural consumption. **Urban consumption could further improve as inflation stays in check.** There are also policy **tailwinds for consumers: the RBI's earlier 100 bps of rate cuts in 2025 (and even a CRR cut to ease credit) are expected to lower borrowing costs and stimulate credit growth**, helping big-ticket consumption like home and auto purchases. On the fiscal side, **income tax relief measures and greater spending on rural welfare schemes are likely to put additional disposable income in people's hands.** Moreover, a possible **"next-gen" GST reform is on the horizon** which could reduce tax rates on certain consumer goods– if implemented, that would give a **further boost to consumption.** The reliance on domestic consumption is a double-edged sword, though: it provides resilience (since India is less dependent on exports for growth), but if for any reason local demand falters (say due to higher inflation or weak wage growth), there aren't many other growth engines firing. For now, however, **all eyes are on domestic demand to carry the momentum.**
- **Global Uncertainty Remains a Wild Card:** Global factors inject **significant uncertainty** into India's FY26 outlook. The implementation of the 50% US tariffs is a looming cloud. **The latter part of FY26 will start to feel the impact of those trade barriers more fully.** We may see export growth in sectors like apparel, gems & jewelry, and machinery slow to a crawl or even contract as the tariffs bite, which could trim a few tenths of a percent from GDP growth (as noted, analysts predict a hit). Additionally, the **general global slowdown means external demand will likely stay soft; India won't get much of a lift from the export sector**, and some drag is possible. Geopolitical risks are also ever-present: for instance, any escalation in the Russia-Ukraine conflict or Middle East tensions could send oil and commodity prices higher, which would hurt India (worsening trade deficit and inflation). Another risk is global financial conditions – **if major central banks keep rates higher for longer or if investor sentiment worsens, emerging markets like India could see capital outflows or currency volatility, which might compel tighter monetary conditions domestically.** In summary, **the global environment is a source of downside risk – policymakers and businesses are factoring in a lot of uncertainty, which is one reason the outlook, while positive, isn't more bullish.**
- **Policy Stance – Supportive but Watchful:** India's **policy mix in the coming quarters is expected to be supportive of growth, yet prudent. On the monetary front** – as mentioned, the RBI has delivered substantial easing (100 bps repo cuts) and will likely pause to assess the impact. With inflation currently comfortable (headline CPI near or below 5%) but potentially rising later (due to base effects or oil fluctuations), the **RBI is in a wait-and-watch mode.** The central bank has also indicated it's **mindful of global risks** (like the US tariff situation) and thus **might hold some ammunition in reserve.** We shouldn't expect aggressive further rate cuts unless growth really falters – the bar for more monetary stimulus is higher now. **On the fiscal front** – the government signaled commitment to its budgeted GDP growth range (6.3–6.8%) and fiscal deficit target (~4.4% of GDP). It will **likely continue high infrastructure spending, seeing it as essential to crowd-in private investment and create jobs.** At the same time, it **must manage the trade-off: any revenue shortfall from tax cuts or slower nominal growth has to be balanced by either higher asset sales or cutting non-capex expenditure to avoid fiscal slippage.** The upcoming GST Council meetings (starting in September) and possibly a mid-year fiscal review will be key to watch – if the economy needs a demand boost, the government might advance some consumer-friendly tax changes or step up rural spending. Conversely, if commodity prices spike or the deficit looks pressured, policy may tighten belts. Overall, expect a steady policy course: **RBI providing liquidity and rate stability, and the government maintaining capex momentum while pursuing structural reforms (like GST simplification) to underpin medium-term growth.** Clarity on these policies and consistent execution will be important for sustaining investor confidence in this uncertain period.
- **Balancing Resilience and Constraints:** The **outlook for India's economy** is thus a **balance of optimism and caution.** On one hand, India has shown **remarkable resilience – domestic rural consumption and public investment are driving a respectable growth rate that outstrips most major economies. Healthy bank balance sheets, a strong startup ecosystem, and formalization gains** (evident in rising digital transactions and tax compliance) all bode well for continued momentum. If the **monsoon remains favorable and inflation stays low, assuming urban demand picks up post the tax reforms. the combination of an already robust rural consumption combined with an anticipated bump in urban consumption, could keep growth around the low to mid-6% mark this fiscal year**, despite higher export tariffs, which is a robust outcome in the current global context. **On the other hand, structural constraints and external headwinds are likely to prevent any runaway acceleration. The lack of a broad-based private capex revival means the economy is not firing on all cylinders** – a sustained nominal GDP growth path, for instance, would require much higher private investment and productivity gains than we currently see. **Labour market challenges (skill gaps and insufficient formal job creation) and the slowdown in world trade put a lid on how fast India can expand** without encountering bottlenecks. **The most likely scenario for FY26 is GDP growth around 6–6.2%, assuming a revival in domestic demand; otherwise, growth could moderate closer to 5.5%.**

2. Inflation



CPI Inflation hits 99-month low — Food disinflation and a low base effect drive headline CPI down to 1.54% in September 2025



Headline CPI

- **Sharp fall in headline inflation:** Headline CPI inflation dropped to **~1.5% YoY in September 2025** – the lowest since mid-2017 – from 2.1% in August. This marks the **eighth consecutive month with inflation below the RBI's 4% target**.
- **High base effect and yearly comparison:** A year ago (Sep 2024), inflation was well above 5%, so the current reading reflects a **favorable base effect** – last year's high prices make this year's annual inflation look especially low (indeed, about 0.5% points of the Sep decline is due to base effects).
- **Policy context:** The RBI's October review highlighted this **significant moderation** in inflation, noting the outlook has turned "even more benign" amid the **plunge in food prices and GST tax cuts**. Consequently, the Monetary Policy Committee kept the **repo rate unchanged at 5.5%**, opting to **wait and watch** as prior easing transmits through the economy.

Food Inflation

- **Food prices in deflation:** Food and beverages inflation slid back into **negative territory** at **-1.4% YoY in September**, driven by a steep fall in **vegetable, pulses, and spice prices**. These staples became much cheaper compared to last year's levels, pulling the overall food index down.
- **Base effect and broad moderation:** Improved supplies and a **high base from last year's food price surge** combined to sharply lower food inflation. Most other food categories also saw **price growth ease** – for example, **cereals, milk, fruits, and edible oils experienced much softer inflation** – which heavily dragged down headline CPI. Only a couple of items (e.g. **sugar and meat**) **saw slight inflation upticks** amid this broad cooling in food prices.

Core Inflation

- **Underlying (core) inflation firming up:** In contrast to the headline trend, **core CPI (excluding food and fuel) edged up** to about **4.6% YoY** in September from 4.2% in August. This indicates that **underlying price pressures** remain firmer than the overall CPI.
- **Drivers – gold, silver, and housing:** The uptick in core was largely led by **surging gold and silver prices** (which fall under the "personal care and effects" category) and a notable pick-up in **housing inflation**. Even **excluding gold and silver, core inflation rose slightly (to ~3.2% from 3.0%)**, propelled by higher **housing rents** and **"pan, tobacco and intoxicants"** prices.
- **Mixed trend within core:** Importantly, not all core components are heating up – several categories like **footwear, health care, education, transport & communication, and recreation** saw inflation **moderate in September**. Nonetheless, the persistence of core inflation around 4–5% (driven by sticky items like housing and gold) is **noteworthy and somewhat concerning**, as it suggests **underlying demand-driven price pressures still linger**.

Rural–Urban Divergence

- **Rural inflation lower than urban:** Price trends diverged between rural and urban areas. **Rural CPI inflation** eased to roughly **1.1% YoY in September**, significantly lower than **urban CPI inflation** at about **2.0%**. Rural households, on average, experienced barely any inflation in aggregate, whereas cities saw a modestly higher rate.
- **Food vs. non-food dynamics:** The gap is largely explained by **food prices**. **Rural consumption has a higher weight of food**, and the plunge in food inflation benefited rural areas more, pushing rural inflation down. In urban areas, **stickier non-food components** (like **housing rentals and various services**) **kept inflation a bit higher**. In short, **rural areas reaped a bigger reward from falling food prices**, while urban inflation was propped up by elements less affected by the food deflation.



GST Cut Impact

- **GST 2.0 and CPI:** The GST rate rationalization in mid-2025 (GST 2.0) slashed tax rates on a broad set of goods, directly affecting about **11.4% of the CPI basket**. Notably, many daily-use and household items saw large tax cuts – for example, **biscuits, shampoos, soaps (FMCG goods)** dropped from an 18% GST to 5%, and consumer durables like **air conditioners and refrigerators** saw GST reduced from 28% to 18%. Such hefty tax reductions, if passed on, are likely to translate into sizeable price drops for consumers in those categories.
- **Pass-through and CPI impact:** The actual impact on CPI inflation will depend on **producer pass-through**. An RBI's analysis suggests pass-through is likely to be **partial**, as firms may not fully pass on the tax savings to consumers. Factors like **changes in input tax credit, the removal of compensation cess on certain goods, and general price stickiness could blunt the effect**. In other words, while the GST cuts should help **cool inflation** (by directly lowering taxes on many items), the realized relief in retail prices might be modest if producers retain part of the margin instead of lowering prices one-for-one. How this plays out remains to be seen.

Outlook

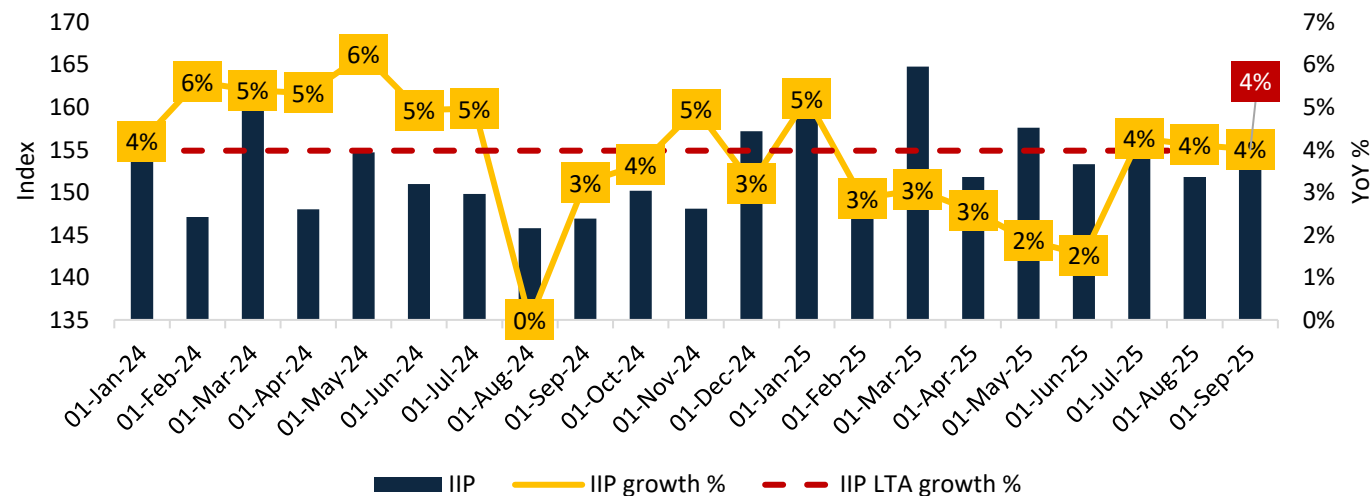
- **Benign near-term outlook:** The inflation environment is expected to remain comfortably low in the near term. A good monsoon and improved sowing for the winter (rabi) crop – coupled with record-high reservoir levels, point to ample upcoming food supply. This bodes well for keeping food prices in check in the coming months. Additionally, the recent GST tax cuts are likely to further dampen price pressures, especially in consumer goods. As a result, the RBI projects inflation to stay below the 4% target on average for the current fiscal year; in fact, it has revised down its 2025–26 average CPI forecast to ~2.6% (from around 3.7% earlier).
- **Late-year uptick expected:** Inflation may rise modestly later in the year. The RBI cautions that by the final quarter of 2025–26, the effect of the earlier high base is likely to fade and some demand-pull pressures could re-emerge as economic activity picks up (aided by past rate cuts and recovering consumption). In other words, the current ultra-low readings won't persist indefinitely – headline inflation is expected to edge up from the current trough, though staying in a moderate range.
- **Risks to watch:** Several risks cloud the inflation outlook. Weather-related shocks are a key concern, for example, any untimely rains could disrupt food production and drive prices up. External factors are also pivotal: volatile global commodity prices (for example oil price volatility on account of geo-politics) or other imported cost pressures can quickly spill over into domestic inflation. Although inflation remains subdued at present, the gradual fading of the favourable base effect, combined with an anticipated pick-up in domestic demand, and potential weather-related or geopolitical shocks, could reverse this trend. Policymakers, therefore, must stay alert and proactive
- **Overall, however, the balance of factors – strong food supply prospects, tax cuts, and contained core inflation (ex-gold & silver) – suggests that inflation will stay manageable barring any major surprise, aligning with the RBI's current optimism.**



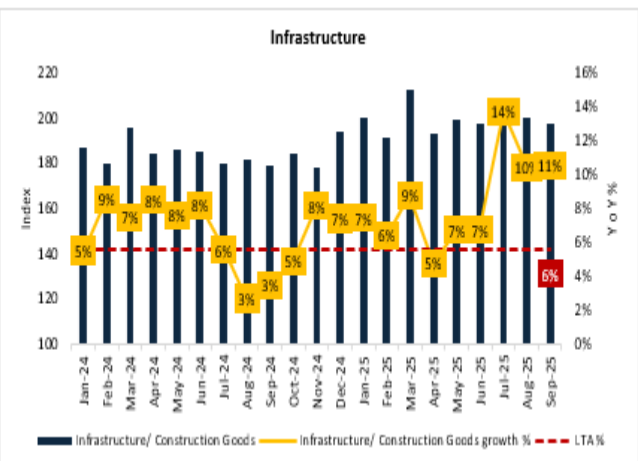
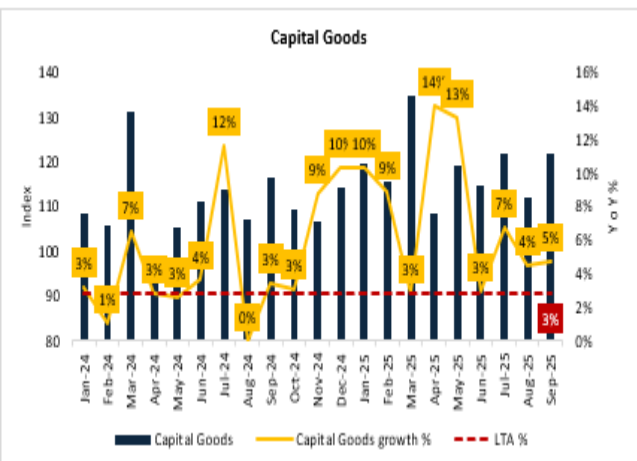
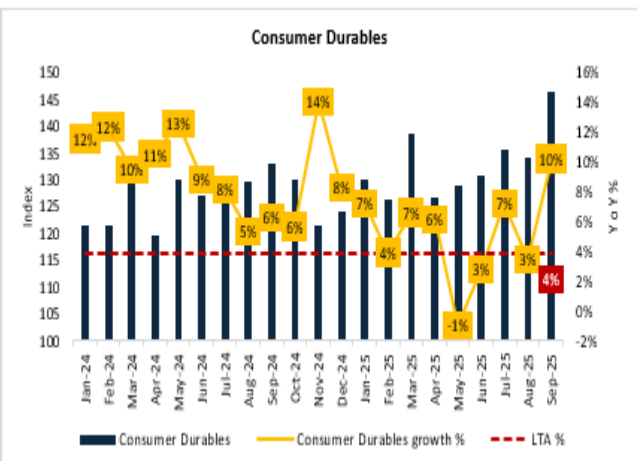
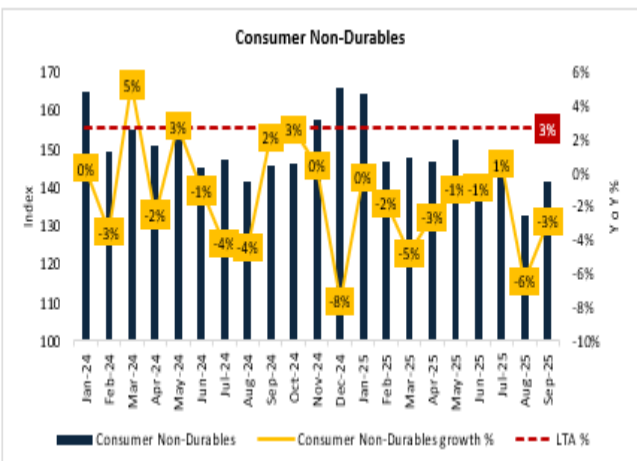
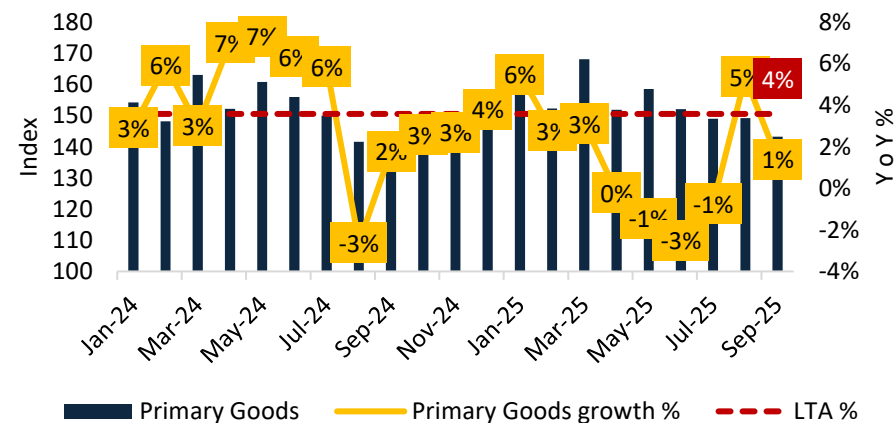
3. IIP (Index of Industrial Production)

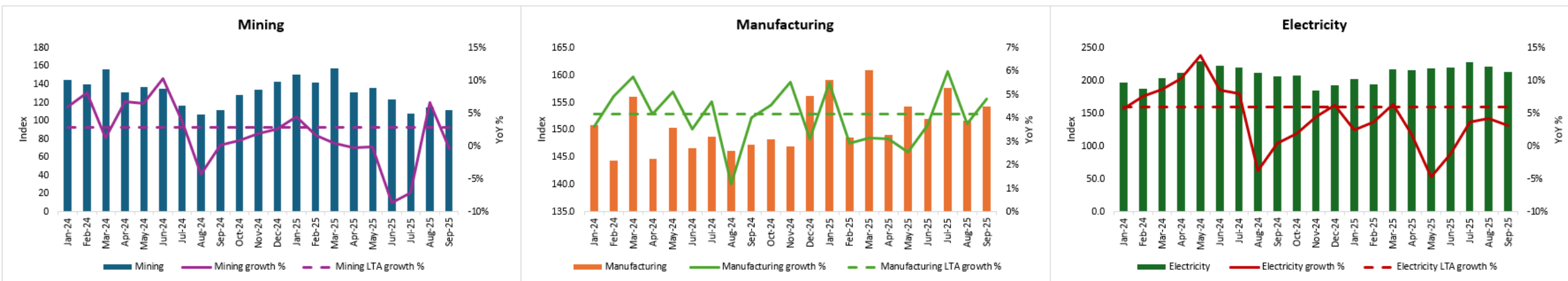


IIP - Industry



Primary Goods





India's Industrial Production in September 2025 – H1 FY26 Trends and Analysis

Sectoral IIP Trends

- India's Index of Industrial Production (IIP) grew by **4.0% YoY in September 2025**, maintaining the same pace as in August (quick estimate). This marked an improvement over the 3.2% growth recorded in September 2024. Manufacturing was the chief driver – **manufacturing output rose 4.8% YoY** (versus 4.0% in Sep 2024), contributing the bulk of the IIP uptick. In contrast, mining output contracted by 0.4% (down from 0.2% growth a year ago), **while electricity generation grew marginally by 3.1%.** **Given manufacturing's large weight (~78% in the index), its solid performance offset mining's weakness and lifted the overall industrial growth rate. Power output also provided a mild boost after last year's flat performance, reflecting recovering electricity demand.**
- Looking at the broader trend, **industrial activity moderated in the first half of FY2025-26 (H1 FY26).** During April–September 2025, IIP **expanded 3.0% YoY, down from the 4.1% growth in H1 of FY2024-25.** This slowdown was mainly due to a **soft start in Q1 FY26 (Apr–Jun 2025), when industrial growth slipped to about 2.0% (versus a robust 5.5% in Q1 of the previous year).** **By Q2 FY26 (Jul–Sep 2025), the pace recovered to an average in the mid-3% range, helping to partially close the gap with the prior year. In fact, industrial output in July 2025 jumped to a six-month high, led by manufacturing gains.** The divergence can be traced to sectoral trends: manufacturing maintained moderate momentum, but mining and utilities faced headwinds earlier in the year. Overall, the sectoral data for **September underscore a resilient manufacturing-led recovery, albeit one balancing out persistent pockets of weakness in mining.**

Use-Based IIP Insights

- An analysis of IIP by use-based classification reveals a mixed landscape in September 2025, with **strength in investment-driven segments and a split in consumption categories.**
- Infrastructure/Construction goods output surged 10.5% YoY** – a sharp acceleration from just 3.5% growth in September 2024. **This double-digit rise reflects vigorous infrastructure activity, underpinned by public capex projects and construction demand.**
- Capital goods production also posted a solid 4.7% YoY increase, improving upon the 3.5% growth of a year ago.** The continued expansion of capital goods **suggests ongoing investment momentum and capacity creation in the economy.**



- **Intermediate goods**, which feed into other production processes – **grew 5.3% (versus 4.3% last year)**, indicating healthy supply-chain activity and restocking.
- Together, these figures depict a **robust demand for core industrial inputs and equipment**. Notably, **infrastructure/construction goods and capital goods were among the top contributors to September's IIP growth**, highlighting that industrial growth was firmly supported by investment-led demand in H1 FY26.
- In contrast, consumer-oriented segments showed divergent trends. **Consumer durables output climbed 10.2% YoY in September**, a significant acceleration from 6.3% growth in the same month last year. This **marks a strong rebound in big-ticket consumer goods like automobiles, appliances, and electronics**. Drivers include **improving urban demand, new product launches, and possibly manufacturers ramping up production ahead of the festive season**. By September, **production of items like passenger vehicles and white goods was on an upswing, reflecting greater consumer willingness to spend on discretionary goods**.
- On the other hand, **consumer non-durables (fast-moving consumer goods) saw output decline by 2.9%**, a sharp reversal from the 2.2% growth a year earlier. The contraction in non-durables – which include **food products, beverages, household essentials**, etc **points to underlying weakness in mass consumption demand**. Alternatively, **dampening in consumption may also reflect inventory management to avoid stranded taxes ahead of the GST rationalisation**. If firms **anticipated GST rate changes, they might have accelerated or decelerated shipments/production of certain non-durables, causing glitch in output**. Elevated input costs earlier and uneven rainfall in some regions could have also dampened production of certain consumables. Consequently, the consumer sector is bifurcated – **durables are in a clear upswing** (boosted by pent-up and festive demand), while **non-durables are lagging** due to softer demand for essentials. The net effect is that consumption's contribution to IIP is coming more from discretionary spending uptick than from everyday goods. Policymakers will take note of the non-durables slump, as **it may signal a slowing momentum or caution among lower-income consumers despite easing inflation**.

Manufacturing Momentum and Sectoral Drivers

- The manufacturing sector, which comprises nearly 78% of the IIP – displayed encouraging momentum through September 2025. **Manufacturing output grew 4.8% YoY** for the month, building on a tepid first quarter. In fact, manufacturing growth hit a **six-month high by July 2025 and remained robust thereafter, a testament to resilient domestic demand**. Industry data show that **13 out of 23 manufacturing subsectors** recorded positive year-on-year growth in September, signaling a broad-based (if not uniform) recovery across the factory sector. The expansion was driven by a few star performing industries: **basic metals, electrical equipment, and automobiles**. According to official data, **production of basic metals jumped 12.3%, electrical equipment output soared 28.7%, and motor vehicles (including trailers) rose 14.6%** compared to a year ago. These three industries alone contributed substantially to the overall manufacturing uptick. The **surge in basic metals output** reflects strong demand for metal products – **consistent with the boom in infrastructure construction and automotive production**. Likewise, the **electrical equipment sector's 28.7% spike** points to heavy demand for electrical machinery, appliances and components, likely **fueled by investments in power infrastructure, electronics and capital goods**. In the auto industry, both domestic sales and exports of vehicles and auto parts have been buoyant, translating into a **14.6% rise in vehicle and trailer production**. Notably, within these sectors, there were specific product lines driving growth – for example, higher production of **steel slabs, hot-rolled coils and alloy steel flats** boosted the metals category, while **electric transformers, switchgear apparatus and other electrical gadgets led gains in electrical equipment**. The **automobile segment** benefitted from **strong output of auto components, commercial vehicles, and axles**, indicating **revival across both passenger and heavy vehicle demand**. Overall, manufacturing has been propelled by such high-performing industries that are leveraging both domestic infrastructure needs and consumer demand for durable goods.



- Crucially, the manufacturing revival in H1 FY26 has been **domestically driven**. Firms have been ramping up production to meet internal demand, while **external demand has been less of a growth engine**. Survey indicators like the PMI (Purchasing Managers' Index) for manufacturing remained in expansionary territory – averaging above 58 in Q2 FY26 – supported by **strong growth in domestic new orders** and upbeat business sentiment. In other words, Indian manufacturers are seeing healthy order flows from local consumers and businesses, which is spurring output. **Export order growth, by contrast, has moderated**, with the PMI's new export orders index weakening in recent months. This **reflects the impact of global trade frictions and tariffs, particularly those involving major markets like the US, which have started to weigh on external demand for India's industrial goods**. Indeed, Indian exporters in sectors such as textiles, electronics and engineering goods have been facing slower overseas orders amid a sluggish global climate. Fortunately, **input cost conditions have been favorable**: commodity prices and supply bottlenecks eased compared to the previous year, which **improved profit margins for manufacturers** and enabled them to scale up production without significant price pressures. Many companies used this breathing room to rebuild inventories and fulfill pent-up domestic demand. In sum, **manufacturing activity in April–September 2025 exhibited solid momentum rooted in – internal demand** (infrastructure, auto, capital goods), **low input cost pressures**, and **recovering consumer sentiment**. The diverse sectoral drivers – from steel to automobiles to electronics – underscore that the manufacturing uptick has not been confined to a narrow base. **Going forward, sustaining this momentum will hinge on continued domestic demand strength to offset any further weakness in exports. The upcoming festive and holiday season is expected to provide an additional lift to consumer-facing manufacturing industries, even as external headwinds persist.**

Energy and Mining Performance

- Performance in the **mining and utilities sectors has been relatively subdued in FY26**, acting as a mild drag on overall industrial growth. The **mining sector** in particular has struggled: mining output fell **0.4% YoY in September 2025**. The **southwest monsoon's impact** was a key factor – heavy rains and flooding in core mining areas curtailed extraction activity during the months in review. For example, **coal mining often faces output losses in peak monsoon, and this year was no exception with mines in eastern and central India hampered by rainfall**. Beyond weather, **structural and global factors have kept mining subdued**. **Production of crude oil and natural gas continued to decline on a yearly basis – in September, crude oil output was down 1.3% and natural gas down 3.8% YoY reflecting maturing oil fields and limited new extractions**. **Coal production** too saw a **slight YoY dip of 1.2% in September** as **domestic coal demand leveled off and inventories were drawn down from earlier stockpiling**. These **declines in the fossil fuel segments** (which form a big part of mining) aligned with the weakness observed in the IIP's primary goods category. However, with the monsoon season now over, **some rebound in mining output can be expected in the coming months as mines resume full operations and the demand for coal rises in the winter power season**.
- The **electricity (power) sector** has seen a moderate uptick, though its growth has been far from dramatic. **Electricity generation in September 2025 was up 3.1% YoY**, a healthy improvement compared to the low 0.5% growth in September 2024. Part of this apparent surge is a **base effect** – the year-ago period had unusually sluggish power output due to an extended monsoon and lower industrial power use, so the 3.1% rise in Sep 2025 comes off that depressed base. More fundamentally, power output earlier in FY26 was dampened by milder weather. During Q1 FY26, **India experienced a relatively cooler summer; as a result, air-conditioning and irrigation demand was down and all-India electricity consumption actually fell about 1.5% YoY in Apr–Jun 2025**. **Electricity generation remained muted in Q1 due to a lower-than-usual summer and reduced cooling demand**. This led to a decline in thermal power generation by early FY26, **partly offset by higher output from hydro and renewable sources**. **By Q2 FY26, conditions normalized: industrial demand for power picked up alongside manufacturing activity, and a rebound in agriculture power use occurred as late monsoon rains tapered off**. **The result was modest positive growth in power generation in August–September**. With **3.1% YoY growth in September**, the electricity sector contributed modestly to IIP growth, after being a neutral factor for much of H1. On the plus side, there were **no major power supply disruptions or coal shortages this year** as seen in some previous years; supply was reliable.



- **As weather effects abate and if new mining projects (e.g. coal blocks and mineral mines) come on stream, one can expect a marginal improvement in mining and energy contributions in H2.** For now, however, **mining and utilities remain the laggards** of India's industrial recovery, in contrast to the dynamic manufacturing sector.

Comparison of IIP with Core Sector Performance

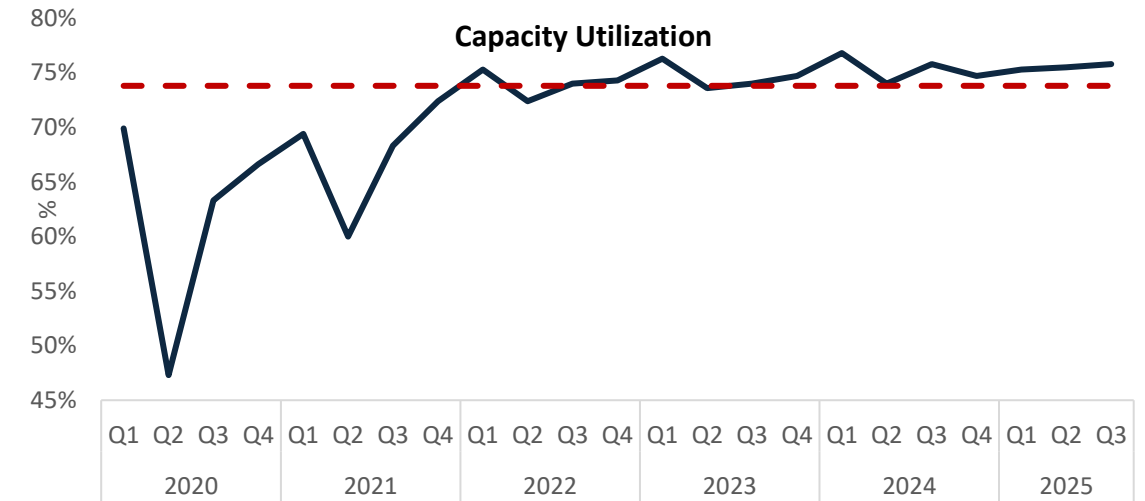
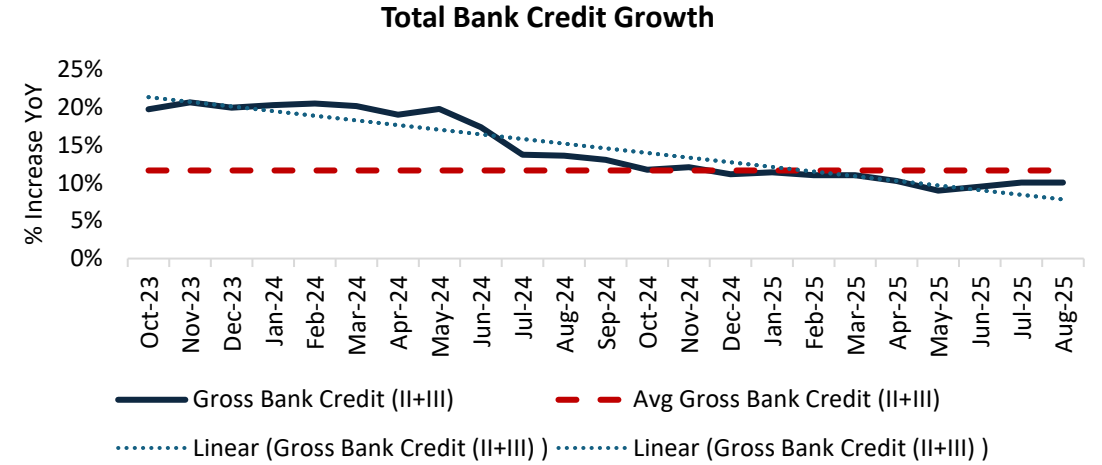
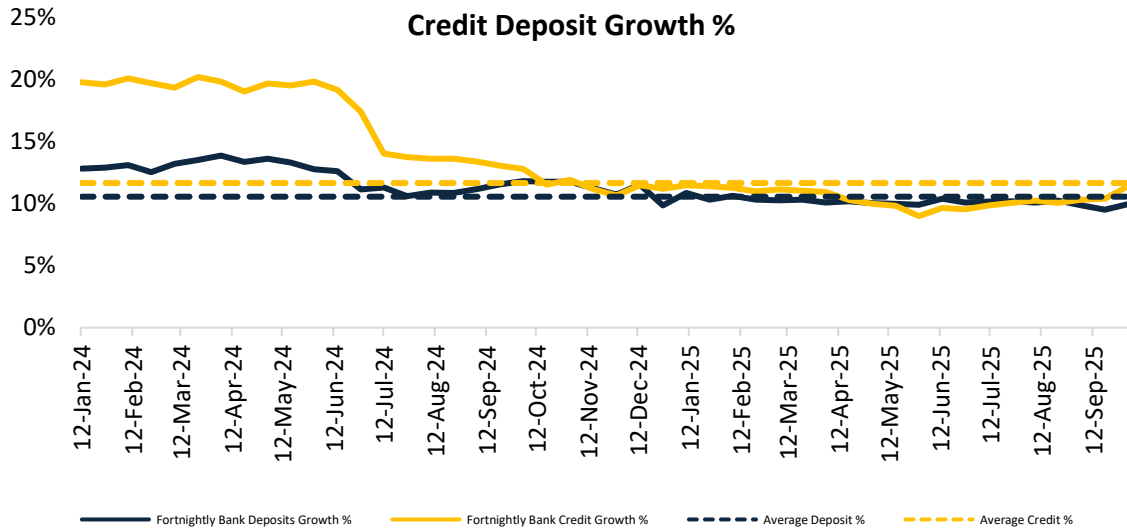
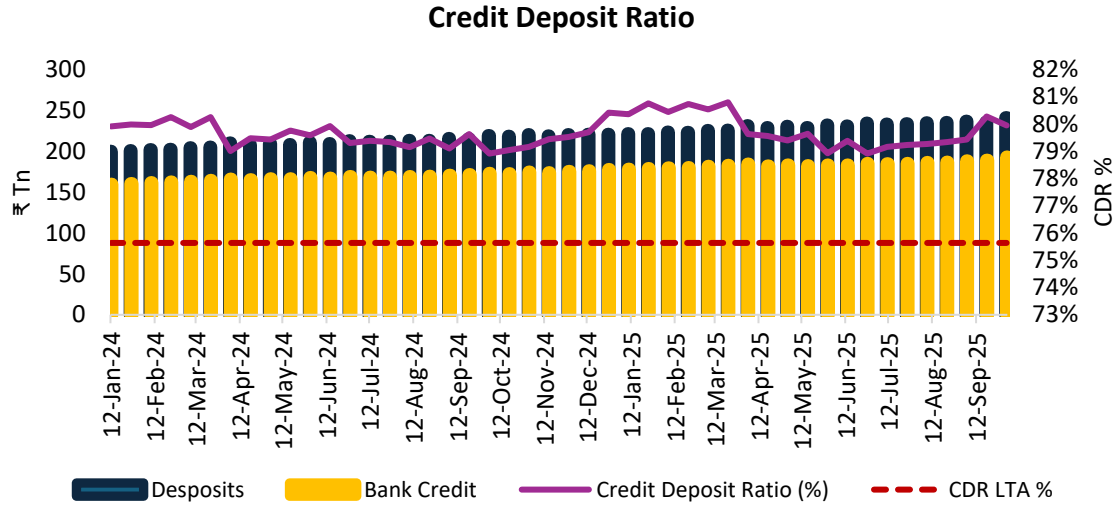
- It is interesting to compare the IIP with India's **Eight Core Industries (ECI) index**, as the **core industries make up 40.3% of the IIP's weight and often foreshadow industrial trends**. In September 2025, the core sector index grew **3.0% YoY**, slightly slower than the 4.0% growth of the overall IIP. This disparity suggests that **sectors outside the core (such as certain manufacturing industries) provided an extra boost to industrial growth**. The core industries' performance was mixed: **steel, cement, electricity, and fertilizers output increased** in September, whereas **coal, crude oil, natural gas, and refinery production declined**. The strong showing of steel and cement bolstered the ECI, but the contraction in energy-related industries dragged it down. Notably, **steel output surged by 14.1%** in September (and was up 11.0% cumulatively in Apr–Sep) – **this aligns with the 12.3% growth in basic metals reported in the IIP and underscores how a buoyant construction and engineering sector lifted both core and manufacturing indices**. **Cement production rose 5.3%** in September (7.7% in H1), **reflecting booming construction activity**, which also fed into the robust 10.5% growth of infrastructure goods in the IIP. On the flip side, **petroleum refinery output contracted by 3.7% YoY** in September – a significant drag, given that **refinery products have the largest weight in the core index (~28%)**. The **decline in refining (as well as the 1.2–3.8% declines in coal, crude oil, and gas production)** points to challenges such as maintenance shutdowns, OPEC+ production curbs affecting crude availability, and a high base effect from last year's post-pandemic energy surge. These energy-sector contractions held back the core index and, by extension, showed up as weakness in the IIP's mining and primary goods components.



Outlook

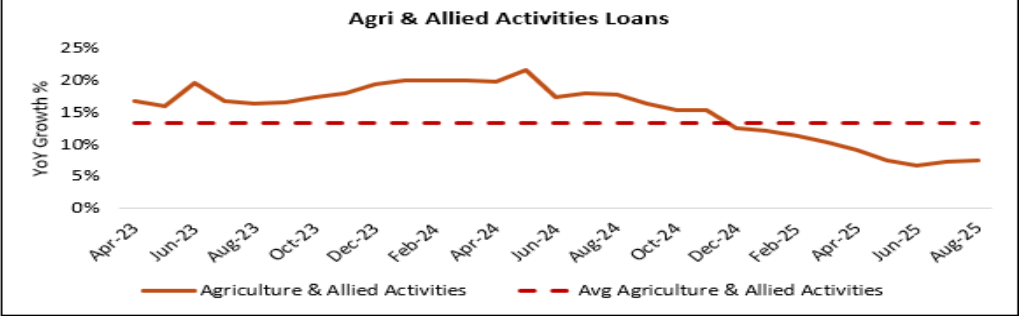
- **Domestic economic conditions** paint an **optimistic outlook** for industrial production in the second half of FY2025–26. A combination of factors is expected to sustain the **industrial recovery**, albeit at a **moderate pace**. **Inflation has eased significantly**, with CPI inflation dropping to its lowest level since 8 years. This cooling of price pressures boosts consumers purchasing power and reduces input costs for manufacturers, thereby creating a more supportive environment for industrial growth.
- The **Reserve Bank of India has maintained a neutral stance** (noting space to support growth if needed) keeping the policy repo rate unchanged at 5.5%, after earlier rate cuts. Financial conditions are thus conducive, with **easier credit availability** and lower borrowing costs for businesses – a factor that **should encourage investment in capacity expansion and spur demand for capital goods**. Importantly, the **festive season in H2 FY26** (covering major festivals in October–December 2025) which is likely to **provide a timely boost to consumer demand**. Firms across automotive, electronics, and appliance industries typically see a surge in sales during this period and have ramped up production in anticipation. **The strong double-digit growth in consumer durables output in September suggests manufacturers were already building inventory for festival sales. This momentum is expected to carry into October, translating to higher IIP readings for consumer goods.**
- The **above-normal monsoon and satisfactory sowing have brightened agricultural prospects** and should **lift rural spending** on both consumer goods and fertilizers/tractors in late 2025, albeit some sluggishness witnessed in consumer non-durables recently. **Government capital expenditure remains a tailwind** as well. The continued push on infrastructure projects (roads, railways, housing, energy) will keep factories busy producing steel, cement, capital equipment, and construction materials. Notably, the output of infrastructure goods and capital goods has been growing robustly, and **this trend should persist given the central government's commitment to front-loaded capex in FY26.**
- **External conditions, however, remain a source of downside risk** for India's industrial outlook. **Global demand has been relatively weak and uncertain**, which could limit growth in India's export-oriented industries. The **world economy in late 2025 faces multiple headwinds** – growth in key markets like Europe and China has been subdued, and although the US showed resilience earlier in the year, its outlook is now clouded by high interest rates and geopolitical tensions.
- Furthermore, **global commodity prices and currency movements** inject uncertainty. While lower oil prices have helped reduce input costs, any sudden spike (due to geopolitical events) could hurt India's energy-intensive industries. Heightened conflict or a global financial shock would indirectly hit India's industrial sector via softer external demand and caution in private investment.
- In addition, the resurgence of **volatility in global capital markets and exchange rates** (e.g. a strengthening US dollar vs the rupee and capital outflows from emerging markets) could tighten financial conditions domestically, countering the RBI's stance.
- **In summary, the outlook for India's industrial production is one of cautious optimism.** The **resilience of domestic demand – buoyed by low inflation, festival season spending, and government-led investments, should keep the industrial sector on a growth trajectory in the coming months. While the drag from consumer non-durables warrants close monitoring. Sustaining momentum will depend on the continued strength of infrastructure activity and a gradual recovery in mass consumption.**

4. Capex

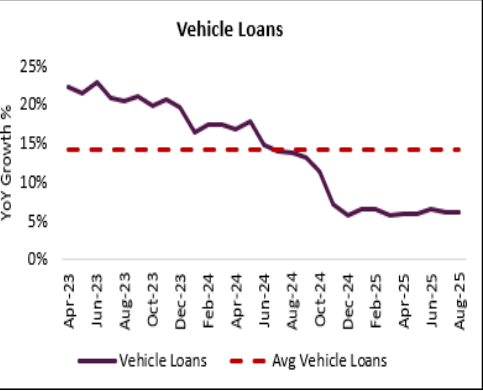
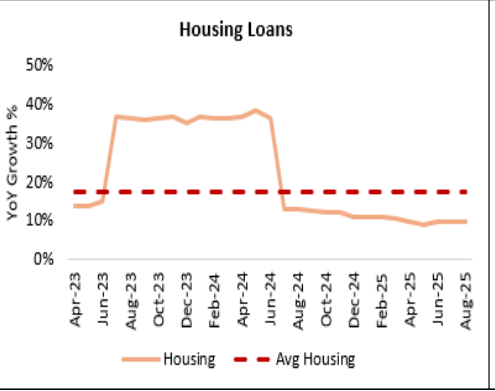
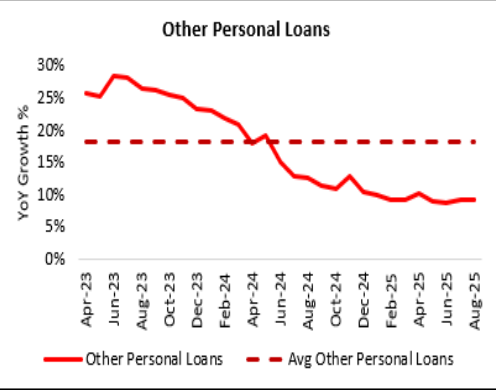
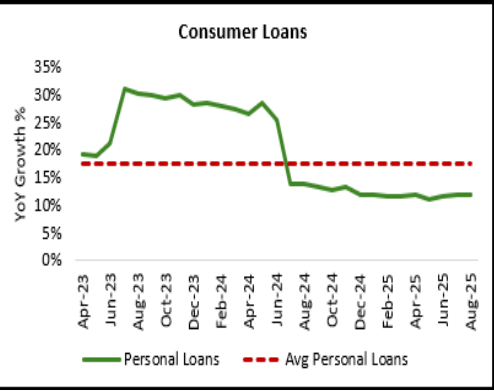




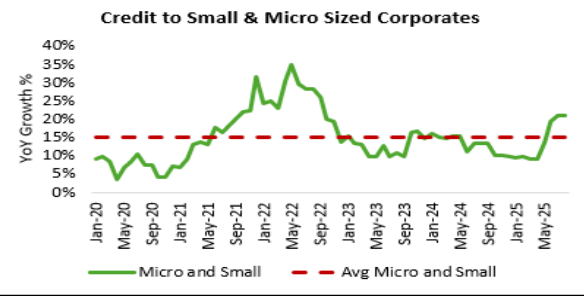
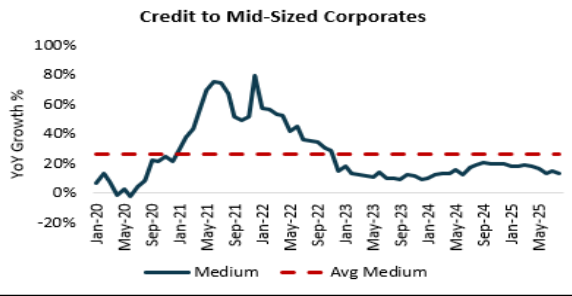
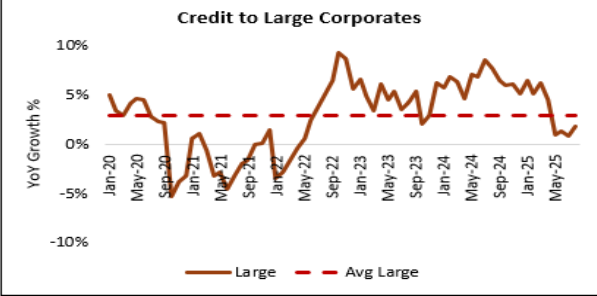
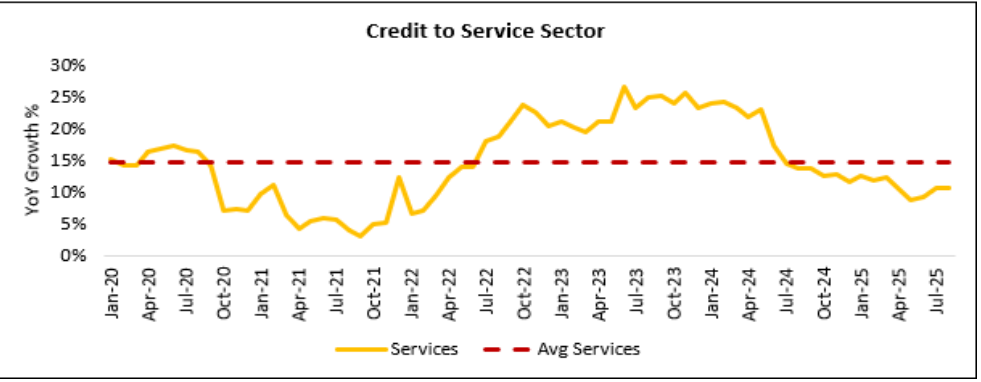
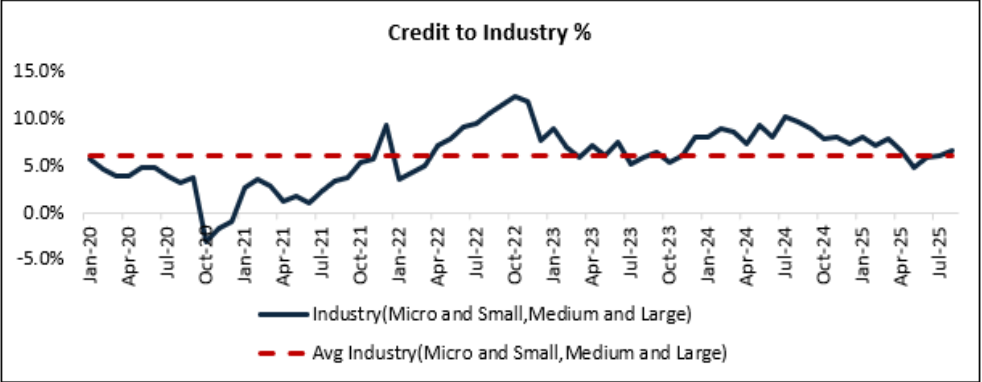
Credit to Agri



Credit to Consumer



Credit to Industry





India's Capex (Credit and Deposit) Trends – September 2025 Analysis

Credit Growth Momentum and Drivers

- **Double-Digit Credit Expansion:** Bank credit growth has accelerated to **11.4% year-on-year (YoY)** as of end-September 2025, up from about 10.3% a month earlier. **This marks a pickup in lending momentum in the second half of FY2025-26, with credit growth now outpacing deposit growth.** While slightly lower than the ~13% pace seen a year ago, **this double-digit expansion is still robust and supportive of real economic activity.**
- **Broad-Based Lending, Led by Retail and Services:** The credit upturn is broad-based across sectors. **Personal loans and Services credit are leading the charge**, reflecting buoyant consumer demand and service-sector activity. **Industrial credit growth has been more moderate but remains steady** – importantly, **lending to micro, small and medium enterprises (MSMEs) continues to be a prime driver of industrial credit expansion.** Even previously sluggish segments are perking up: **credit to the infrastructure sector has seen a marginal uptick, and agricultural loans have also registered an improvement in growth. This suggests that bank lending is now reaching a wider swath of the economy.**
- **Comparison to Earlier Periods:** Through the first half of FY2025-26 (H1 FY26), credit growth hovered in the high-single to low-double digits – a moderation from last year's rapid clip (non-food bank credit was growing ~13.3% YoY in Sep 2024, versus ~10% in Sep 2025). The recent uptrend to 11%+ indicates renewed momentum building in lending. **In absolute terms, outstanding bank credit stood at ₹192.7 lakh crore by early October 2025. This sustained credit momentum has been underpinned by healthier balance sheets in the financial system and the borrowers' willingness to borrow amid a domestic demand uptick and improving economic prospects, which together are boosting banks' willingness to lend.**
- **Key Drivers:** Several factors are propelling this credit growth. **Festive season demand** and a general uptick in consumer spending have spurred retail loan growth (e.g. higher financing for vehicles, consumer durables during the festive sales). Businesses, anticipating strong festival sales, have ramped up inventories – GST e-way bill volumes hit record highs in September as firms stocked up ahead of festivals. This inventory build-up and festive demand impulse, aided by recent GST tax rate cuts and promotional offers, have translated into greater working capital and trade credit needs. Additionally, **improving credit conditions** – thanks to **lower interest rates** and **ample liquidity** – have made borrowing more attractive, encouraging firms to seek bank funds for new projects and operational needs. **Overall, domestic economic resilience and strong consumption are fueling a virtuous cycle of credit growth.**

Deposit Dynamics and Liquidity Positioning

- **Steady Deposit Growth, but Lagging Credit:** Bank deposit growth stood at **9.9% YoY as of end-September 2025**, a healthy pace but slightly trailing the faster credit expansion. Deposits have grown steadily (up from 9.8% a month prior) yet have **not kept fully in step with loan growth.** This credit-deposit gap – where lending is growing a bit faster than deposits – has persisted in recent months. By early October, bank deposits in aggregate reached roughly ₹212–215 lakh crore (estimated), providing a large funding base, though one expanding a tad slower than credit demand.
- **Moderation from Last Year's Highs:** Deposit growth has **eased compared to the previous year's highs.** For instance, between June 2024 and June 2025 deposits were growing above 11% YoY, but by Q3 2025 the growth is in the 9–10% range. Several factors explain this moderation. **Interest rates on deposits have come down** over 2025 in line with the policy rate cuts – banks' weighted average term deposit rate on new deposits fell by over 100 basis points during Feb–Aug 2025. With banks offering lower rates, some savers likely shifted to higher-yield avenues like small savings schemes. Indeed, the government kept small savings scheme rates unchanged for Q3 FY26 at relatively attractive levels (above the normal formula-based rates), which may have lured a portion of household savings away from bank deposits. Despite this, deposit growth near 10% indicates that liquidity in the system remains adequate to support credit expansion.



- **RBI's Liquidity Support:** Recognizing the need to bridge the deposit-credit growth gap and keep funding conditions easy, the **RBI has proactively bolstered systemic liquidity**. A key move was the **reduction in the Cash Reserve Ratio (CRR)** for banks in a phased manner. Starting September 2025, the central bank began implementing a CRR cut (announced earlier) which will release about ₹2.5 lakh crore of primary liquidity into the banking system by December 2025. This infusion of funds eases any potential funding crunch and lowers banks' cost of funds (since less money is parked idle with the RBI). **In essence, the RBI is ensuring that banks have ample cash on hand to lend, even as deposit growth is a touch lower than credit growth.**
- **Comfortable Liquidity Conditions:** Thanks to the RBI's measures and government spending patterns, **overall liquidity in the banking system has remained in surplus through H1 FY26**. Banks on average have been net lenders in the overnight money markets, indicating excess liquidity. The RBI has been actively managing liquidity via its repo and reverse-repo operations to keep short-term interest rates stable. As a result, money market rates have largely aligned with the repo rate, and **financial liquidity conditions are described as "comfortable"**. **In summary, banks' liquidity positioning is sound – deposit inflows, though slightly slower, are steady, and RBI support through CRR cuts and open market operations has created a supportive funding environment. This allows banks to continue financing credit growth without straining their balance sheets.**

Private Capex Trends and Sentiment

- **Revival in Investment Activity:** Private sector capital expenditure (capex) – **after a prolonged lull – is gradually picking up**. Gross Fixed Capital Formation (GFCF), a broad measure of investment, expanded at a strong pace in Q1 FY2025-26. This pushed the investment-to-GDP ratio to 34.6% in Q1 FY26, up from 33.9% in the previous quarter. Such a level of investment is among the highest in recent years, **indicating that firms are starting to spend more on new capacity, construction, and equipment. The data underscores a nascent revival in the private investment cycle, supported initially by government capex but now with early signs of greater private participation.**
- **Sectoral Variations – Caution in Exports:** Importantly, the pickup in private capex is not uniform across all sectors. **Export-oriented and global-facing industries have been more cautious in committing new investments. These sectors face external headwinds – global trade uncertainties, softening overseas demand, and geopolitical risks – which have made companies hesitant to embark on large expansions despite strong domestic conditions.** For instance, sectors like textiles, electronics or auto components (which rely on exports) have seen some capex delay as firms wait for clearer global signals. This shows up in data and surveys, with business leaders in export industries citing uncertainty abroad as a key concern. In contrast, sectors focused on domestic demand (e.g. consumer goods, infrastructure, services) are more upbeat and have seen comparatively better investment momentum. **Overall, private investment sentiment is improving but the revival is gradual and sector-specific, not yet an across-the-board surge.**



Capacity Utilisation and Investment Readiness

- **High Capacity Use – Nearing Limits:** Capacity utilisation in India’s manufacturing sector has risen to robust levels, reflecting the economy’s growth momentum. In Q1 FY2025–26, factory capacity utilisation reached about **75.8%**, which is well above the long-term average (~73.8%). This is a notable increase, up 30 basis points from the previous quarter, and marks one of the highest capacity use rates in recent years. In simple terms, **factories are running three-quarters full, a sign that existing production lines are being worked harder as demand picks up. Such “stretched” capacity utilisation typically signals that many industries are approaching their production limits on existing facilities.**
- **Implications for New Investment:** When **capacity utilisation sustains at elevated levels, firms usually start planning new capacity additions**, essentially, building new plants or expanding current ones. The rationale is straightforward: to avoid missing out on sales due to capacity constraints, businesses invest in additional machinery and factories. The current high utilisation rates “generally necessitate new capacity additions” to keep up with demand. In other words, **if factories remain this busy, companies will feel pressure to capitalise on the strong demand by expanding production capacity. This dynamic is a positive leading indicator for capex: the more capacity is utilised, the more likely it is that corporate boards will approve new investment projects to boost future output.**
- **Sentiment and Surveys:** Forward-looking surveys reinforce that industries are gearing up for expansion. In the RBI’s latest Industrial Outlook Survey (for Q3 FY26), manufacturing firms reported optimistic expectations for output, order books, and overall business conditions. Similarly, service sector and infrastructure firms also conveyed optimism about the demand and investment climate. Such optimism typically correlates with greater willingness to commit capital to new ventures. Furthermore, with government policies encouraging manufacturing (e.g. production-linked incentive schemes, streamlined approvals), the environment is set for companies to translate high capacity use into concrete investment plans. We are likely at the cusp where many firms are drawing up blueprints for factory expansion or technology upgrades – essentially priming the pump for the next private capex cycle as they seek to relieve capacity bottlenecks and capture future growth.



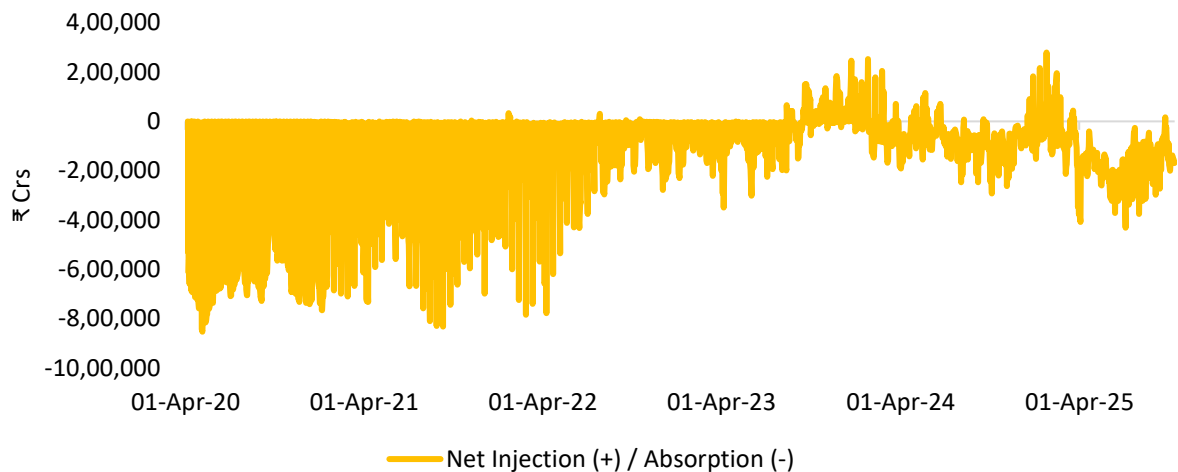
Forward Outlook: Q3 FY26 and Beyond

- **Near-Term Outlook (Q3 FY26):** The **October–December 2025 quarter is poised to see continued economic strength**. The **festive season** (spanning major festivals like Dussehra and Diwali in October–November) is providing a **noticeable boost to consumption and credit demand**. Early indicators from October **show retail loan offtake rising as consumers finance big-ticket purchases** (vehicles, appliances) and **businesses borrow to build festival inventories**. In fact, in September we already saw businesses ramping up production and inventory ahead of festivals, **supported by the GST tax cuts** that made goods cheaper. **Payment data showed a sharp uptick in transaction values – a sign of festive spending**, which was aided by the GST rate reductions and holiday discounts online. This bodes well for bank credit in Q3, especially in the **personal loan, credit card, and trade finance segments**. We can **expect credit growth to remain in double digits through Q3, potentially inching up further if festival consumption momentum is strong and more importantly, ‘sustainable’**. Deposit growth may also see a seasonal uptick as cash circulates during the festive months and eventually gets redeposited post-festivities. **Overall, the credit momentum is likely to hold firm in Q3, backed by upbeat consumer and business sentiment.**
- **Private Investment Trajectory:** Looking beyond the immediate quarter, **the stage appears set for a more broad-based pickup in private capex in 2026**. The confluence of **high capacity utilisation, low borrowing costs, and government policy support** suggests that more companies will advance their expansion plans. We anticipate that sectors which have been running close to full capacity – for example, cement, steel, chemicals, electronics, and auto manufacturing – will announce new projects or expand existing facilities going into 2026. **The order books and enquiries for capital goods are already showing improvement, and capital goods production/imports have been growing (though with some monthly volatility)**. **Private investment in sectors like renewable energy, electric vehicles, and electronics (aligned with government incentives) is also expected to accelerate**. While **export-driven industries might remain somewhat restrained** until global conditions improve, the robust domestic demand should encourage even those firms to invest in efficiency and quality upgrades in the interim. **In sum, we foresee a gradual but steady strengthening of the private capex cycle – not a sudden boom, but a building up of investment across diverse sectors as confidence solidifies.**
- **Risks and External Outlook:** Despite the generally upbeat domestic scenario, a few **headwinds** bear watching as we look beyond FY26. **Globally, if major economies slow down more than expected or if financial markets tighten abruptly, India’s export-driven sectors and capital flows could be affected**. Global headwinds – such as **persistent geopolitical tensions or higher-for-longer interest rates in advanced economies** – remain a downside risk. These could **dampen external demand for India’s goods and add volatility to commodity prices and exchange rates**. Domestically, one risk could be if inflation were to flare up unexpectedly (say due to a poor monsoon or supply shock), which might constrain the RBI’s ability to keep rates low; however, current projections show inflation well under control. Also, **while consumer demand is strong now, it will need continued income growth and job creation to sustain – any faltering there could soft-pedal consumption and, by extension, credit growth**. That said, the **baseline outlook for India’s economy remains robustly positive**. Analysts **forecast real GDP growth around 6–6.5% in the coming quarters, indicating a solid demand environment**. Combined with **supportive policies**, this should **keep the capex cycle on an upward trajectory**. We **expect private capex to gradually broaden and strengthen through 2026, infrastructure spending to remain high, and bank credit to grow in the 10–12% range supported by adequate liquidity**. In essence, **India’s capex trends are set to build further momentum – laying the groundwork for a virtuous cycle of investment, capacity creation, and productivity gains that will sustain growth in the years ahead, even as vigilance is maintained against any global or domestic challenges that arise.**

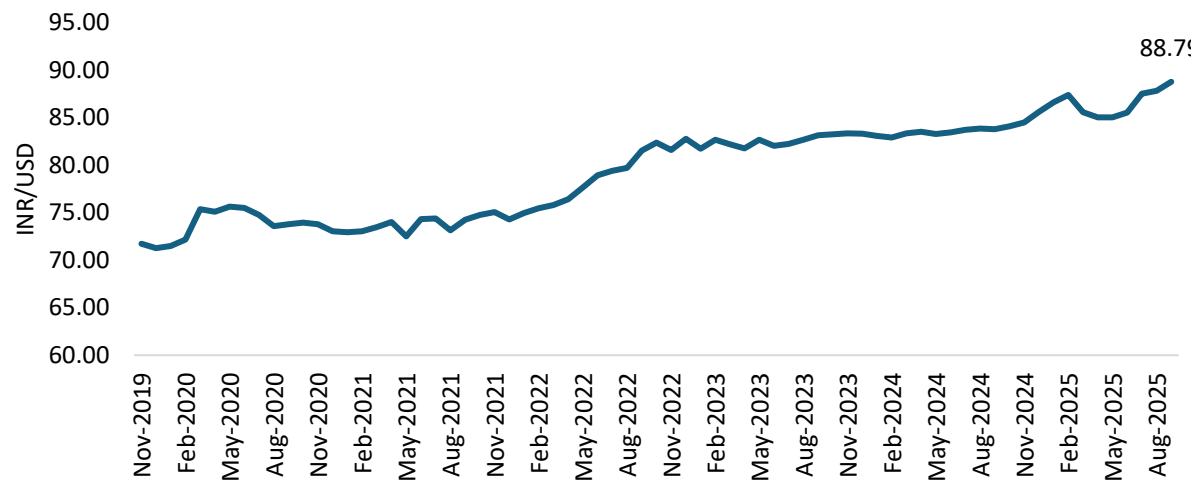
5. Liquidity



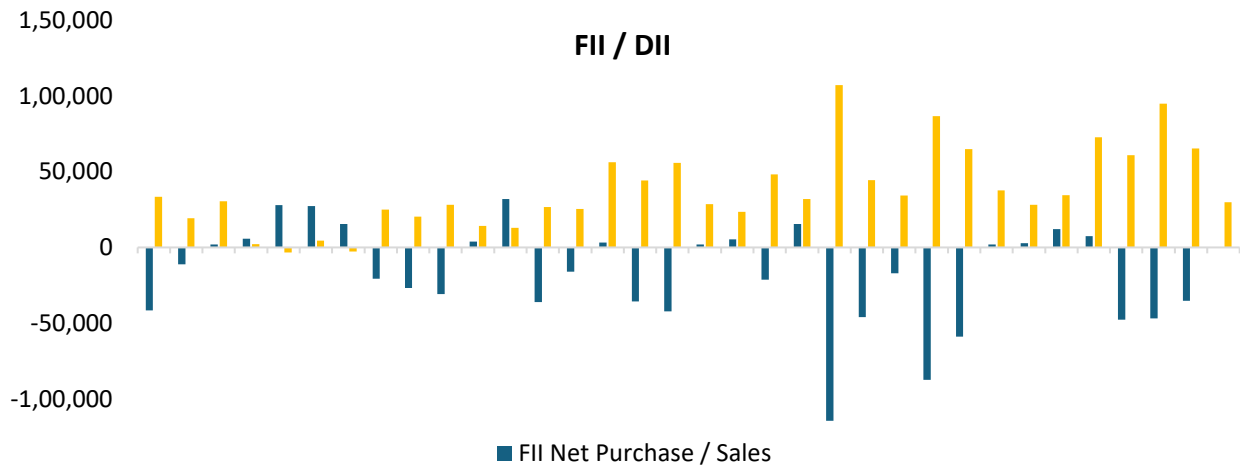
Net Injection(+)/Absorption(-) of Excess Liquidity



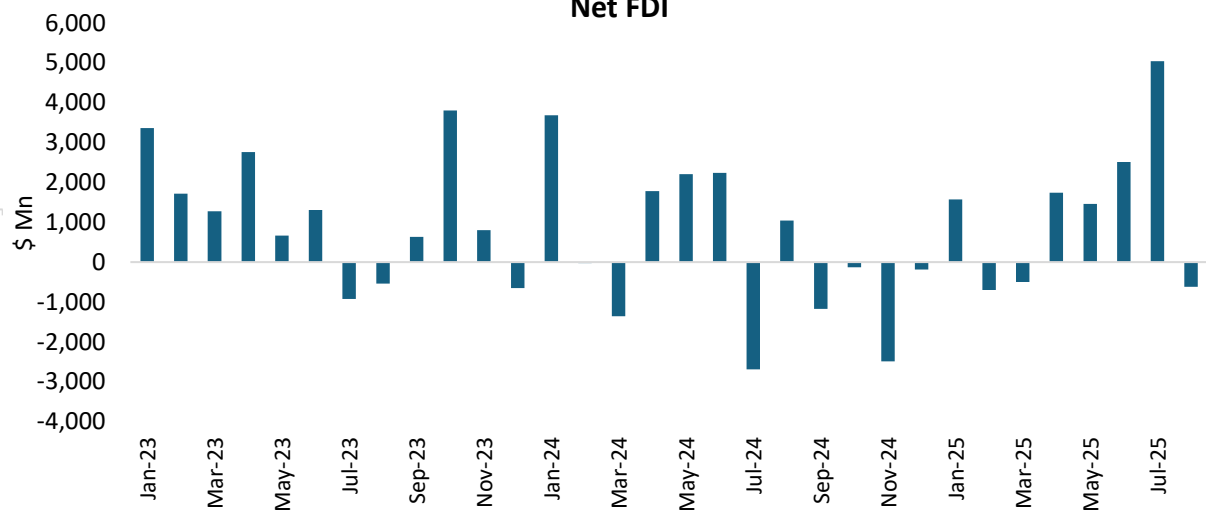
INR/USD



FII / DII

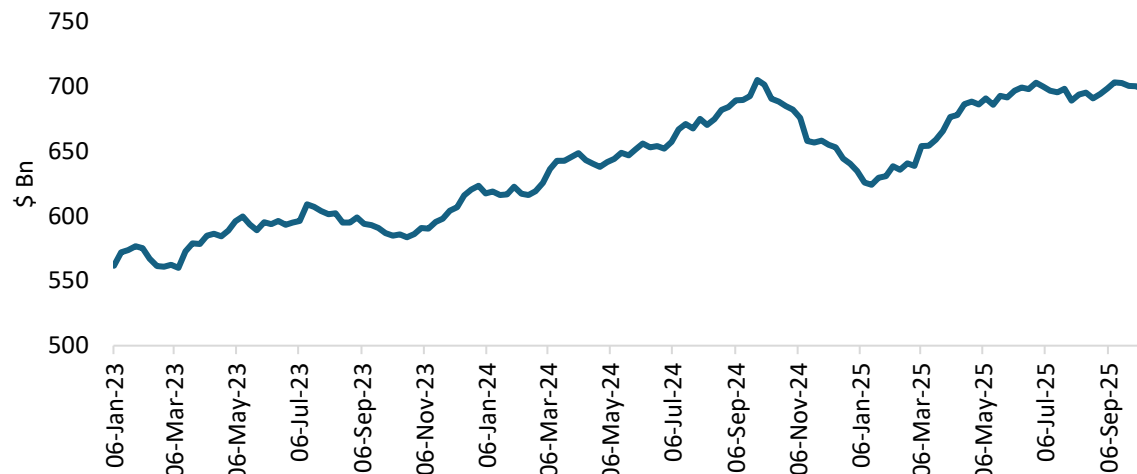


Net FDI

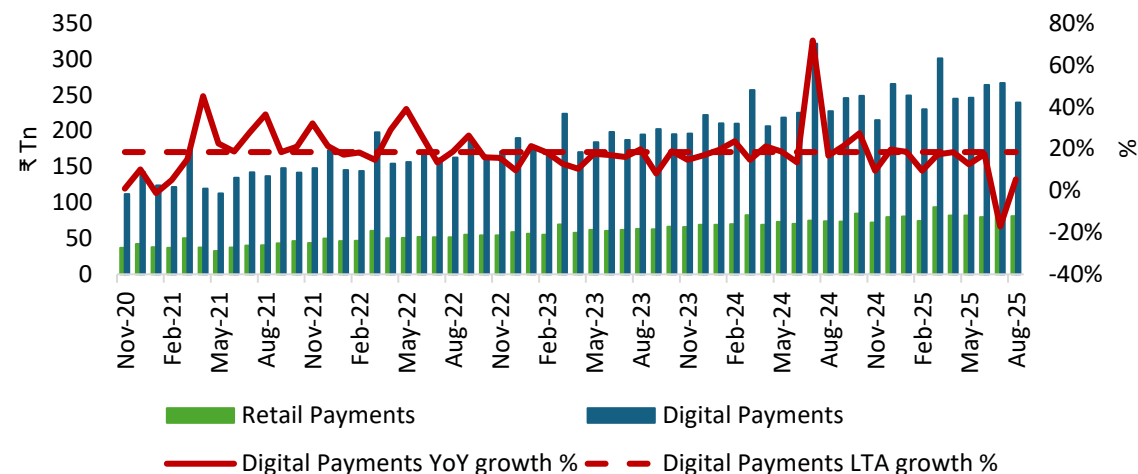




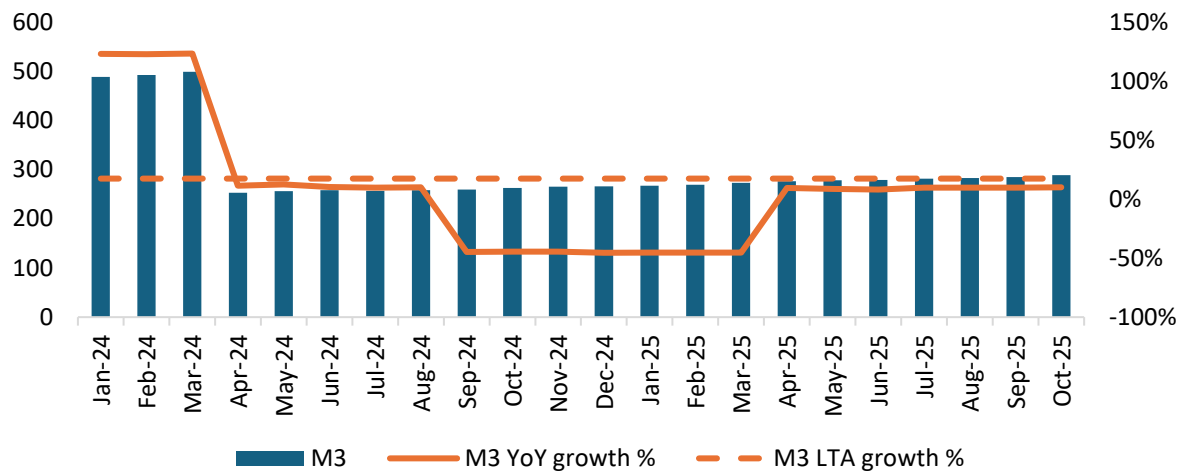
Foreign Exchange Reserves (USD Bn)



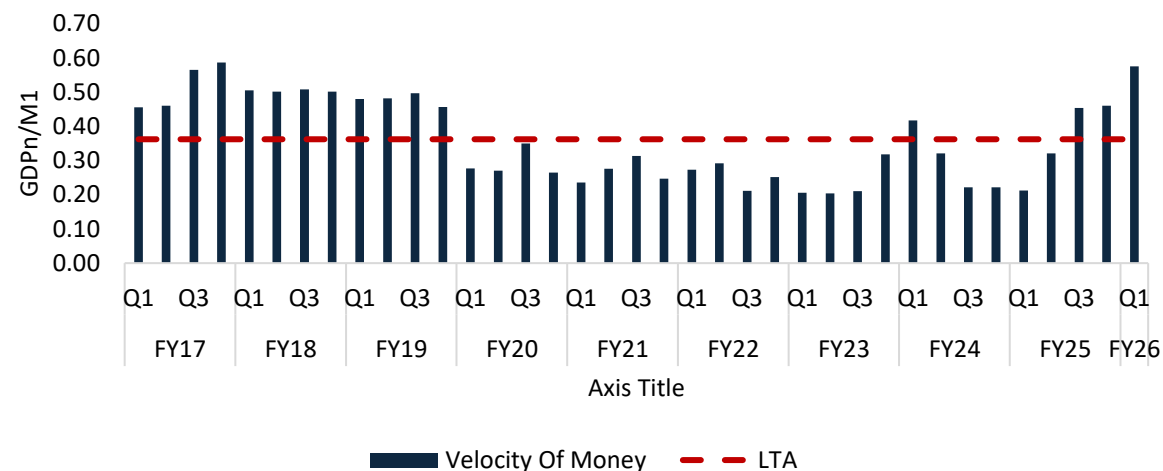
Payments



Money Supply



Velocity of Money



Liquidity in India – Surplus, but Demand is the Bottleneck



Where we are?

India's banking system liquidity has **swung from ample surplus to a near-deficit in the span of a few months**. After enjoying a liquidity surplus of roughly ₹3 lakh crore in August, the system saw this cushion erode to almost zero by late October. The Reserve Bank of India (RBI) undertook a phased 100 basis-point Cash Reserve Ratio (CRR) cut (in four 25 bps steps from September through November) to inject about ₹2.5 lakh crore of durable liquidity. This was meant to keep conditions easy, and initially it did help boost surplus funds. However, several factors have since tightened liquidity sharply:

- **Tax Outflows and Cash Demand:** **Tax payments in mid-September** and **a seasonal rise in currency demand (ahead of festivals)** pulled substantial money out of bank deposits, shrinking the surplus. By mid-September, the surplus had fallen below ₹1 lakh crore, a dramatic drop from the prior month's levels.
- **RBI's Forex Intervention:** To stabilize a depreciating rupee, the **RBI sold dollars in the forex market** and allowed foreign exchange forward contracts to mature without rollover. These actions withdrew rupee liquidity from the system. In fact, **a significant portion of the CRR cut injection was offset by these interventions**, effectively neutralizing some of the liquidity boost.
- **Changing RBI Operations:** Back in June, when liquidity was abundant, the RBI had been draining excess funds via Variable Rate Reverse Repo (VRRR) auctions. But as conditions tightened post-August, the central bank reversed course. It **reintroduced Variable Rate Repo (VRR) auctions** – essentially lending money to banks – to alleviate short-term shortages. For example, in late September the RBI offered an overnight repo of ₹1 lakh crore to help banks cover temporary gaps. This marked a clear shift from surplus management to deficit management.
- **Core Liquidity Turning Deficit:** A notable development by late October was that **“core” liquidity** – a metric that accounts for underlying durable liquidity factors excluding one-off operations – turned mildly negative (**around ₹0.8 lakh crore in deficit**). In simple terms, banks as a whole now need net support from RBI (rather than parking excess funds with RBI). The central bank even canceled a scheduled government bond auction in late October, a signal that it was concerned about tightening conditions and rising bond yields. **All told, the liquidity backdrop has moved from an era of plenty to one where the RBI must actively manage and inject funds to maintain equilibrium.**

Why lending hasn't exploded?

Despite a period of surplus liquidity and even rate cuts earlier in the year, bank lending hasn't surged in tandem. The bottleneck is not the availability of funds, but rather a lack of runaway credit demand and other structural factors:

- **Moderate Credit Demand:** **Businesses and consumers are borrowing, but not at breakneck speed.** Bank **credit growth, while in double digits, is lower than last year's pace**. This reflects that economic activity, though solid, isn't generating insatiable new credit needs. Many large companies have deleveraged in recent years or have healthy cash flows, reducing their need for bank loans. Likewise, consumers are cautious, keeping big-ticket borrowings (like mortgages or auto loans) growing steadily but not excessively. **In essence, there's enough money to lend, but fewer takers ready to absorb a flood of new credit.**
- **Alternative Funding Channels:** Where there is **financing demand**, it's **often being met outside traditional bank loans**. Corporates are increasingly tapping **bond markets and other instruments**. For instance, **issuances of commercial paper have risen notably this year**, indicating that well-rated companies find market borrowing attractive. This means banks are facing less loan demand from top-tier borrowers who once relied solely on bank credit. **The surplus liquidity in the system found its way into these money markets and bond purchases, rather than fueling a broad-based lending boom.**
- **Bank Caution and Pricing:** **Banks, for their part, remain prudent.** After past episodes of bad loans, lenders are choosier with whom they lend to, **focusing on credit quality over volume**. The ample liquidity did allow banks to cut deposit and lending rates (facilitating some monetary transmission of RBI's rate cuts), but it didn't lead to reckless lending. In fact, competition for good borrowers kept lending rates competitive, but banks did not substantially loosen credit standards. Also, deposit rates didn't fall as much as policy rates, which kept banks' funding costs from dropping too far – so they maintained some discipline in how low they'd price loans. **All this resulted in a situation where lending grows at a controlled, measured pace.**



- **Capacity Utilization and Investment Cycle:** On a macro level, India is at the **start of a recovery, but not an overheated one. Capacity utilization in industries is improving gradually, not spiking** to levels that force companies to immediately build new plants via heavy borrowing. **Private capital expenditure, while picking up, is supported partly by internal accruals and equity, not just bank debt.** Until businesses truly feel the need for expansive growth capital, **credit offtake is likely to remain 'moderately robust'**. Simply put, the demand for credit, influenced by confidence in economic prospects, is the limiting factor. The banking system has the liquidity to lend and the willingness to support creditworthy projects, but the projects must emerge.

What it means?

The current landscape underscores a crucial point: **liquidity is necessary but not sufficient to spark credit growth.** The RBI's infusions ensured that lack of cash wasn't a constraint – the system has been flush for most of 2025 – yet credit expansion stayed linked to the real economy's appetite. This dynamic has several implications:

- **Policy Stance and Transmission:** The RBI's comfortable liquidity stance earlier helped keep money market rates aligned with the repo rate, **aiding monetary policy transmission.** Now, as liquidity tightens, the central bank's challenge is to prevent unwarranted spikes in short-term rates that could choke off growth. The recent shift to deficit mode has been met with swift RBI actions (like repo auctions), indicating the RBI is keen to keep borrowing costs broadly stable. They are effectively signaling that while they won't allow excesses, they also won't let a cash crunch derail the economy. **This balancing act means the policy stance remains carefully calibrated: accommodative enough to support growth, but alert to any inflationary risks.**
- **Limited Impact of Liquidity Alone:** The fact that lending didn't explode despite easy liquidity suggests that simply adding money to the system has its limits in spurring growth. **Economic activity is currently more constrained by cautiously optimistic sentiment and structural factors than by interest rates or liquidity availability.** For policymakers, this means **complementary measures (fiscal support, reforms to boost investment demand) are crucial.** It also implies that the RBI can afford to be patient on the interest rate front, with inflation under control and credit demand moderate, there's no need to tighten aggressively. Conversely, it also knows that **cutting rates or pumping even more liquidity might not significantly accelerate growth until confidence and demand pick up.**
- **Bank Strategy and the Economy:** **For banks, the scenario underscores the importance of credit quality and judicious liquidity management over sheer loan volume.** With abundant liquidity, banks did not drop their guard – a positive outcome for financial stability. From an economic standpoint, the measured credit growth has so far kept inflationary pressures in check (no lending spree to overstimulate demand) while still supporting genuine needs. It indicates **the economy is on a sustainable path: growing without the excesses of a credit bubble.** However, **if legitimate credit demand begins to rise (say, due to a pickup in private investment or consumption), the system is well-placed to fund it without stress, given banks are well-capitalized and, until recently, held large liquidity buffers.** In short, the current conditions mean **India has avoided both extremes – neither a liquidity crunch nor a credit boom, threading a middle path that the RBI is striving to maintain.**

Net FDI

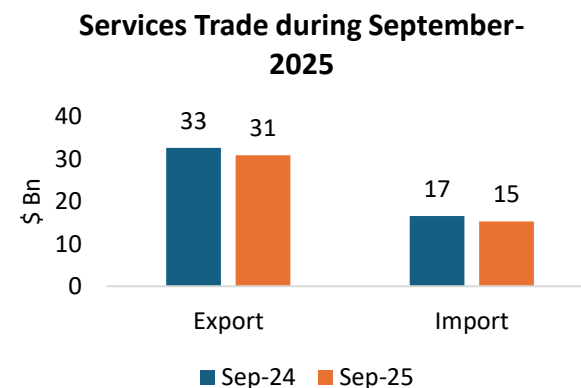
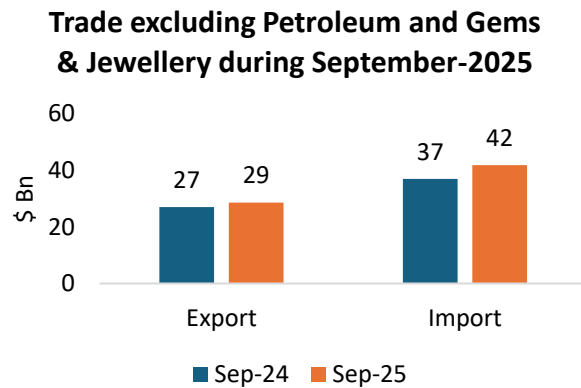
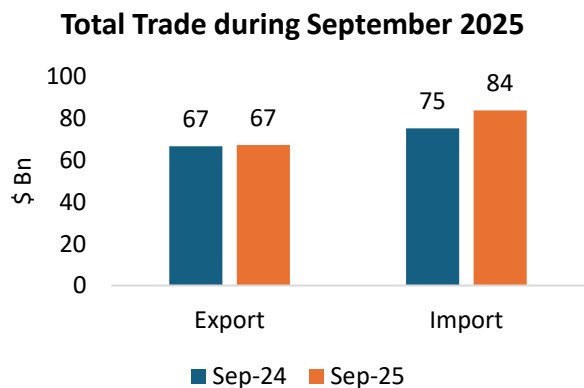
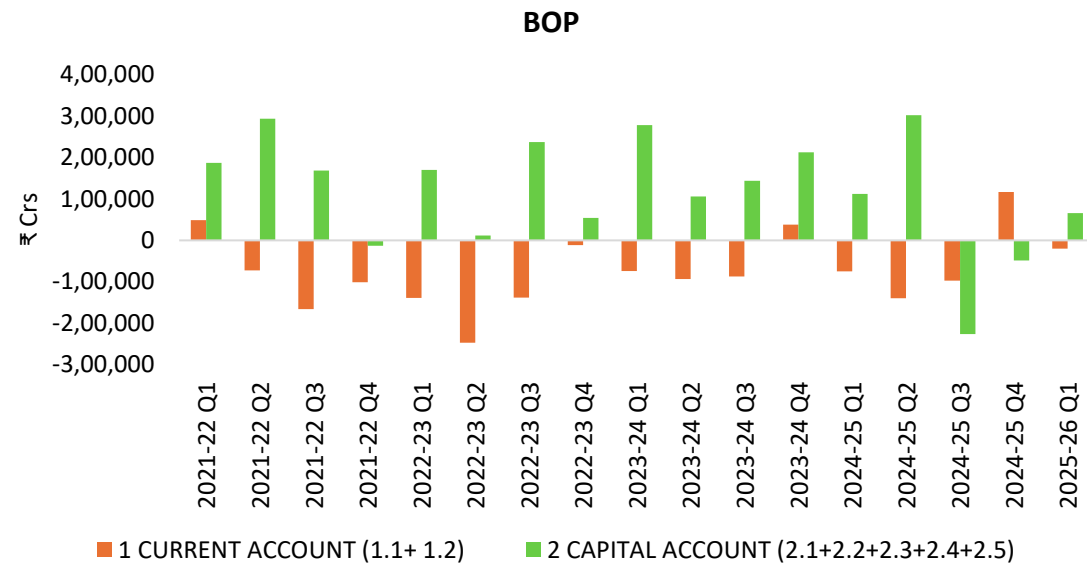
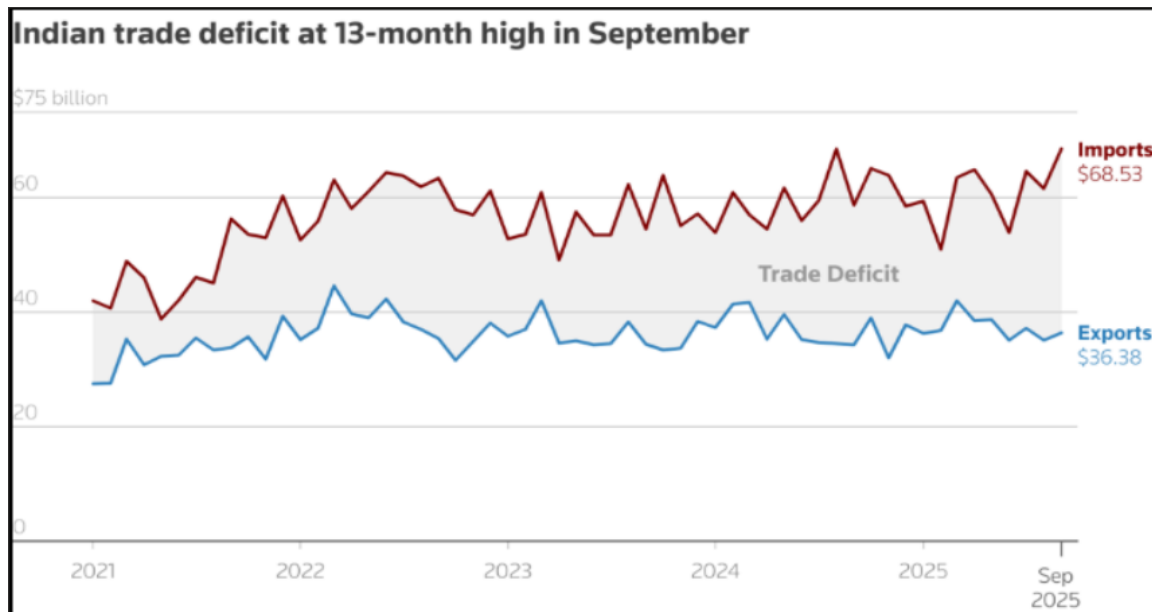
Foreign Direct Investment flows into India have been moderate in FY2025–26 so far (April through October). Net FDI, which accounts for inbound investments minus outbound investments and profit repatriations has **improved slightly compared to the same period last year, but the figures underline a cautious global investment climate.** **Gross FDI inflows have held up reasonably well,** thanks to interest in sectors like manufacturing, computer services, and financial services. However, **outflows in the form of dividends, profit repatriation, and Indian companies investing abroad have been high,** resulting in only a **modest net inflow.** **Year-to-date FY26 net FDI is a bit higher than the low base of FY25, reflecting that while foreign investors continue to invest in India, they are also taking significant profits back home.** This **trend of subdued net FDI suggests that India is attracting foreign investment interest, but global uncertainties and investors' need for returns are keeping the net additions in check.** Going forward, most analysts expect net FDI inflows to remain steady but not spectacular, meaning India can count on stable long-term foreign investment support, even if it's not a major windfall for the balance of payments this year.



Outlook

- **Liquidity Management:** Expect the RBI **to proactively ensure liquidity remains adequate but not excessive**. The remaining tranches of the CRR cut will be completed by end-November, and the central bank stands ready to conduct Open Market Operations or additional repo auctions if needed. **We anticipate that the RBI will not allow a prolonged liquidity deficit; any persistent shortfall in the banking system will likely be met with timely infusions to keep the system comfortably liquid.**
- **Interest Rates and Money Markets:** Short-term interest rates may see occasional upward pressure during tight liquidity episodes (for instance, around large tax outflow dates or heavy forex intervention bouts), but the RBI's interventions should prevent any disorderly spike. **Overall, money market rates are expected to trade close to the repo rate, as policy intent is to anchor the overnight rate.** The central bank's quick responses in late October suggest a commitment to smoothing volatility, so market participants can plan on largely stable funding costs with only brief tightness.
- **Credit Growth Trajectory:** We **do not foresee an abrupt take-off in credit growth in the immediate term – that will depend on a stronger revival in investment demand and sustained consumer borrowing appetite.** However, if the economic momentum builds into 2026, which it has already shown initial signs of, banks have significant headroom to lend before liquidity becomes a constraint. In the meantime, **credit growth is likely to continue at a healthy, moderate pace. Credit demand could pick up gradually in sectors like small businesses and retail as rate cuts earlier in the year transmit further, but a dramatic jump in lending seems unlikely without a corresponding sustainable upswing in economic activity.**
- **External Influences:** Global factors will play a role in domestic liquidity. **If the rupee comes under renewed pressure** (due to global market shifts or oil price moves), the **RBI may intervene in the forex market again, which could tighten rupee liquidity.** In such a case, we expect the RBI to counterbalance by injecting liquidity via open market bond purchases or other tools to prevent domestic rates from climbing. Conversely, if capital flows improve (e.g foreign portfolio investments returning), that could naturally ease some liquidity strain. **Essentially, the RBI's toolkit allows it to manage the tug-of-war between supporting the rupee and maintaining local liquidity, and we believe policy will remain nimble on this front.**
- **Government Spending and Cash Flows:** A supportive factor on the horizon is government expenditure. **Typically, later in the fiscal year the government draws down its cash balances to boost spending on projects and subsidies. Such spending will release funds into the economy, partly alleviating liquidity. We expect that as government outlays accelerate in the coming months, they will offset some of the earlier drags (like tax collections and intervention drains).** This should help move the system back into a modest surplus by the end of the fiscal year, all else being equal.
- **Overall Stance:** The big picture is of an RBI in “monitor and manage” mode. The central bank is focused on ensuring that liquidity (or the lack of it) doesn't become an impediment to growth. We expect a neutral-liquidity stance going forward – not flooding the market as was done in the high-surplus days, but also not tolerating a crunch. This balanced approach means the system will likely operate with a slight surplus bias, just enough to keep things running smoothly. Stakeholders can take some confidence that while demand drives the credit cycle, the RBI will keep the plumbing in good order.

6. Trade



India's Trade Snapshot – September 2025



In **September 2025**, India's merchandise exports were **\$36.38 billion (up ~6.7% YoY)** while imports **surged to \$68.53 billion (up ~16.7% YoY)**. This pushed the **goods trade deficit to \$32.15 billion**, the widest in over a year. The deficit spike represents a clear **inflection point**, with **import growth far outpacing exports**. Notably, **imports hit an all-time monthly high**, driven by **bullion and key inputs**, even as export growth, though positive, remained modest. **On a sequential basis, imports jumped sharply from August** (rising ~\$7 billion), whereas exports inched up only slightly. This imbalance underscores a **demand-surge in imports** (partly seasonal and policy-driven) versus **constrained export momentum**, resulting in the **largest trade gap since Aug 2024**. Economists note that such a widening of the goods deficit, if sustained, could weigh on the **current account balance and put pressure on the INR**.

Services Trade

India's **services trade** remained a crucial balancing item in September. **Services exports were \$30.82 billion for the month, contracting ~5.5% YoY**, while **services imports at \$15.29 billion fell ~7.5% YoY**. Despite the dip in gross service trade, **the net services surplus was about \$15.5 billion in September**. This surplus **offset roughly half of the merchandise deficit**, softening the overall trade shortfall (goods + services) **to \$16.6 billion**. The narrowing in services export growth likely reflects **softening global IT and business services demand**, but robust **remittances and other invisibles continue to support the external balance** (services exports in Apr–Sep rose ~6% YoY). In effect, services trade remained a vital cushion for the external sector, **partially countering the large goods deficit**.

Category	FY 2023	FY 2024	YoY Change (FY24)	Apr–Sep FY25 (H1)	YoY Change (H1 FY25)	Share of Total (%)	Comment / Trend
Computer & Information Services	155	181	17%	~93	12%	~48 %	Strong structural driver; IT + software exports resilient despite global slowdown, however caution needs to be exercised amid a slowdown in Indian IT services.
Other Business Services	93	100	8%	~53	10%	~26 %	Includes consulting, professional, R&D, engineering; fastest-growing sub-segment (~21 % CAGR over past decade).
Transportation	34	29	-13%	~14	-5%	~8 %	Lower freight demand; global trade softness post-pandemic normalisation.
Travel (Tourism & Personal)	16	20	19%	~10	18%	~5 %	Recovered post-COVID; inbound tourism improving but below 2019 levels.
Financial & Insurance Services	7	8	10%	~4	9%	~2 %	Steady growth from fintech, cross-border financial ops.
Government & Other Services	5	5	9%	~2.5	7%	~1 %	Minor component; includes defence, public admin, etc.
Total Services Exports	309	342	11%	~177	+6 % (YoY Apr–Sep)	100 %	Net surplus ~ US \$ 145 bn in FY24; continues to cushion large goods deficit.



Exports: The moderate export growth in Sep-2025 masks stark divergences across sectors. **High-value manufactures and select commodities led the expansion:**

- **Electronics exports jumped ~50% YoY** to \$3.12 billion, reflecting India's gains in mobile and electronics assembly (PLI-driven capacity) and strong external tech demand.
- **Refined petroleum products rose ~15% YoY** to \$4.96 billion, aided by firm refining margins and demand in African and Asian markets (despite a YoY dip in crude prices).
- **Agrifood exports were robust: Rice surged 33% YoY** (to \$0.92 billion) amid strong global demand, and **marine products rose 23% YoY** (to \$0.78 billion) on higher seafood orders.
- **Drugs & pharma** exports also inched up (~2.5% YoY) to \$2.62 billion, maintaining steady growth.
- **Engineering goods**, the largest export category, grew ~3% YoY to \$10.11 billion – a tepid rise indicating weak global capital goods demand.

Meanwhile, **traditional labor-intensive exports showed weakness**, partly due to external shocks. **Textile and garment exports contracted ~10% YoY** in September, and **gems & jewellery exports were flat** (+1% YoY) – these sectors were **hit by steep U.S. tariffs and softer global consumer demand** (e.g. US-bound shipments of readymade garments and cut diamonds fell). **The imposition of 50% tariffs by the U.S. on Indian textiles, apparel, gems, and seafood** (effective end-Aug) led to an abrupt drop in exports to the U.S. market from September onward. Indeed, **goods exports to the U.S. fell over 20% MoM in Sep** (down to \$5.4 billion from \$6.9 billion in Aug), highlighting the impact on these sectors.

Imports: Import growth was broad-based and front-loaded in September, with a few categories dominating the surge:

- **Bullion imports skyrocketed** ahead of the festive/wedding season. **Gold imports nearly doubled to \$9.6 billion** (from ~\$5 billion in Aug), and **silver imports also spiked**, as **jewelers and investors built inventories**. This reflects **festive demand (Diwali) and investment flows** (e.g. strong inflows into gold ETFs amid weak equity returns). **Gems & precious stones imports** (including gold/silver) were **up ~13% YoY** (non-oil, non-gold imports grew 13% YoY, indicating **most of the incremental import bill came from precious metals**).
- **Electronics and machinery imports** jumped significantly. **Electronics imports** (consumer electronics, components) rose in tandem with **booming domestic sales of gadgets and festive stockpiling**. Record **GST e-way bill generation in September** (highest ever) shows businesses aggressively **restocking ahead of the festival season**, contributing to a spike in imported consumer durables and components.
- **Fertilizer imports** increased, bolstered by **procurement for the upcoming rabi crop season and relatively high global fertilizer prices**. This added to the import bill (government efforts to ensure fertilizer availability likely led to heavy imports in Q3).
- **Crude oil & petro-product imports**, which form **~30% of India's import basket**, saw a **moderate rise**. In value terms, **oil imports were ~\$14 billion in Sep (up ~5–6% YoY)**, reflecting **slightly higher crude prices and steady volume demand**. Notably, India **continued to import discounted Russian crude heavily, which tempered the YoY growth in oil import costs**.
- **Other imports:** Key industrial inputs presented a mixed picture – e.g. **coal imports fell (~16% YoY)** amid high domestic coal output, and **iron & steel imports declined ~8% YoY**; but **organic chemicals and plastics imports were roughly flat to slightly down**, indicating some domestic substitution. **Consumer goods imports** (besides gold and electronics) like precious stones (for jewellery re-export) and automobile components likely rose with domestic demand. **Overall, non-oil, non-precious imports climbed ~13% YoY – a sign of strong underlying demand for capital and consumer goods.**



From a **fiscal and macro perspective**, these commodity-wise movements have dual implications. The **surge in gold and electronics imports**, while indicating **robust domestic consumption, worsens the trade deficit and current account balance**, potentially **weakening the rupee**. However, higher gold imports also incidentally boost customs revenue (import duties) in the short run. The **widening trade gap in oil** adds **inflationary risks (higher import costs)** and enlarges India's **fuel subsidy burden** if crude prices rise. On the export side, **strong pharma and engineering exports** support **manufacturing growth and GST collections**, but **export declines in textiles and gems** may hit sectoral **employment and income**, with possible **fiscal costs (e.g. export incentive outlays)**. Thus, the **sectoral trade shifts in September carry significant macro-fiscal ramifications, influencing everything from the current account deficit (CAD) to tax revenues and subsidy bills, the net effect likely to show up in the CAD and Fiscal Deficit numbers.**

External Risk Influences

- **U.S. Tariffs and Trade Tensions:** A major external shock in late August – the **U.S. imposing up to 50% tariffs on ~\$8 billion of Indian exports** – reverberated fully in September's trade figures. As noted, exports to the U.S. fell sharply, especially in tariff-targeted categories (textiles, apparel, gems/jewellery, seafood, leather). Roughly **55% of India's exports to the U.S. by value became subject to these higher tariffs**. This has started to **reconfigure export flows**: producers are seeking alternative markets (e.g. Middle East, EU) to redirect shipments, but short-term pain is evident in September's data. The **RBI's October 2025 bulletin** downplayed the long-term growth impact, noting that **India's domestic demand-driven economy can absorb the hit** and that the **50% US tariff "does not pose a major concern" for overall GDP growth**. Nevertheless, we believe that the tariffs are a clear **downside risk for export sectors**, prompting ongoing **bilateral trade talks**. (Trade officials from India and the US met in mid-October to negotiate relief; a first deal tranche is targeted by end-November.) Beyond the US-India tariff spat, **global trade headwinds persist, slowing demand in Europe and China**, and other **protective measures (e.g. EU's carbon border tax, US chip export curbs)** could weigh on India's export outlook. **Rising protectionism in the US and policy uncertainty globally add to macro risks**, even as India's economy remains resilient. Indeed, September's scenario, with **external demand weakening while trade barriers increase**, underscores the importance of **diversifying export markets and moving up the value chain** to mitigate such geopolitical shocks.
- **Festive Season and Front-loading Dynamics:** September's trade pattern was also influenced by **seasonal and anticipatory behavior**. The sharp jump in imports (notably gold, electronics, and consumer goods) reflects **festive season front-loading**. Firms **brought forward imports of inventory** in anticipation of peak sales during October–November festivals (Navaratri/Diwali). The **record GST e-way bills** in September (a proxy for shipment volumes) confirm that businesses engaged in **substantial stockpiling ahead of festivals. This front-loading can distort monthly trade figures – September saw an import bulge that may partially unwind later**. Similarly, **importers of electronics and machinery likely expedited orders** before expected policy changes: the government had signaled potential **import licensing curbs on IT hardware**, prompting firms to import laptops and components earlier (mitigating future supply risks). On the export side, a reverse dynamic played out with the US tariffs: many exporters **shipped goods earlier (in Aug) to beat the tariff effective date**, leading to a payback drop in September. Furthermore, **festive demand for gold** (for jewelry during Dhanteras/Diwali) traditionally leads to a **Q3 import spike**; this year it was amplified by attractive prices and investment demand. The confluence of these factors – **festive buying, policy-induced import timing, and tariff-induced export timing** – created an unusual **surge in the September trade deficit**. While some of this is transitory, it accentuates India's exposure to **seasonal and exogenous swings**. Future policy might respond to such spikes (e.g. **the government has in the past hiked import duties or imposed quotas on gold when deficits soared**). The RBI, for its part, is attuned to these patterns; it emphasized the **need for vigilance given "considerable uncertainties" in the global outlook** and the importance of building **resilience against external shocks**.

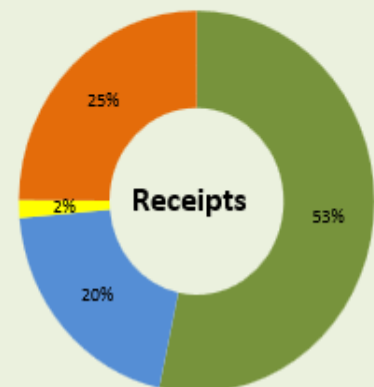


- **Near-Term Trade Trajectory:** Looking ahead, the **trade deficit may moderate from September's peak** but is likely to **remain elevated in the coming months**. The import spike from festive front-loading could ease by November – for instance, **gold imports should normalize down from September's unsustainable highs once the Diwali demand is met**. Similarly, consumer electronics imports might soften after the holiday sales season. However, **oil imports** present an **upside risk**: with Brent crude hovering in the \$80–90 range and potential winter supply issues, **India's oil import bill could stay high (or rise further if prices jump)**. **External demand for exports** is a concern – key markets (US, EU, China) are forecast to grow slower or face recessions in late 2025, which may **weigh on India's export volumes** across **textiles, industrial goods, and IT services**. The **new US tariffs** will continue to drag on export performance in affected sectors until a resolution is found; even if a partial deal is reached, it may only roll back tariffs in stages. Nonetheless, some support may come from **strong orders in newer markets and resilient sectors** (e.g. Middle East demand for engineering goods, Africa/Latin America demand for low-cost exports, and sustained growth in electronics exports). On balance, **merchandise export growth could slip into low single-digits or stagnate in Q4 2025, while imports, fueled by domestic demand, will likely grow faster** – implying that the **trade deficit stays wide**. Economists now project India's **current account deficit for Jul–Sep 2025 (Q2 FY26) to widen markedly** – ICRA estimates a **CAD of \$13–15 billion in Q2, (~1.5% of GDP)**, up from just \$2.4 billion in Q1. This would be the **largest CAD in percentage terms since late 2019**, though still moderate compared to the taper-tantrum era.
- **Forward-Looking Assessment:** The **outlook for India's trade** is one of **caution** with **significant external risks**. **Export growth** faces headwinds from **weak global demand and lingering trade protectionism**, but India's **export mix is gradually shifting** – higher-value segments (electronics, engineering, pharma) are growing, which could bolster export earnings in the medium term. Meanwhile, **import growth** will track India's robust domestic economy; capital goods imports might rise as investment picks up, and consumption-driven imports will remain strong barring any demand shock. The net effect is likely a **sustained trade deficit at relatively higher levels** (though slightly below the September peak), implying a **higher CAD for FY25–26 (~1.2–1.5% of GDP)** than the previous year. This is **manageable** but demands attention – especially if oil prices or geopolitical events (Middle East tensions, for example) cause a further spike in imports. The **balance of payments** should stay in **modest surplus** with continued inflows; however, any **shortfall in financing (e.g. a sudden FII outflow and sluggish net FDI)** could pressure the rupee. The **INR has already depreciated ~3–4% this year; a gradual slide is expected**, but a sharp depreciation is not, given **RBI's demonstrated interventions and ~\$700 billion war-chest**. **External debt metrics remain comfortable (reserves cover ~93% of external debt)**, reducing rollover risks.
- In summary, **September 2025 marked a turning point** with an **outsized trade deficit driven by one-off and structural factors**. Going forward, we anticipate **some correction in these extremes** (e.g. bullion imports cooling post-festive), but the **underlying trend of strong import demand outstripping export growth may persist**. Policy-makers will thus keep a close eye on **external risks**: the progress of **US-India trade negotiations** (a successful deal could remove some tariff drag), the trajectory of **global commodity prices**, and the health of **world trade**. Barring further shocks, India's domestic growth momentum (projected ~6.5–7% GDP growth) will continue to pull in imports, and if exports can hold their ground or improve in new markets, the trade gap can be kept in check. The **outlook is one of cautious optimism with a new base of ~1.2–1.5% of GDP amid a slowdown in IT services exports and sluggish foreign inflows**, with the expectation that **India's solid macro fundamentals – low inflation, strong banking system, and ample FX reserves**, will provide **resilience** even as external imbalances have increased. Nonetheless, the **boardroom consensus** is that **vigilance and agility in trade policy** are essential: managing the **CAD and currency with minimal disruption, supporting exporters through diversification and competitiveness measures**, and judiciously **curbing non-essential imports** if needed. This will ensure that India navigates the rest of the year without undermining its macroeconomic stability, leveraging the **services surplus and domestic demand strength as buffers** against a challenging global trade environment.

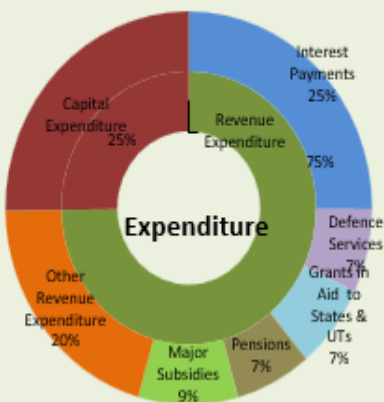
7. Fiscal Situation

Financial Year 2025-26

As at the end of Sep-25



Net Tax Revenue
Non Debt Capital Receipts



Total Receipts

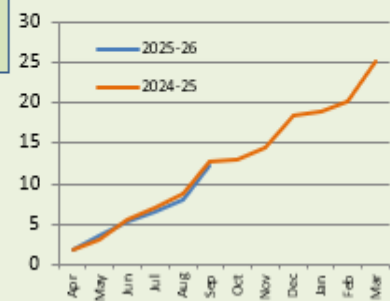
₹ 17,30,216 49.5% of BE 5.7% YoY Growth ▲

Tax Revenue (Net)

₹ 12,29,370

43.3% of BE

-2.8% YoY Growth ▼

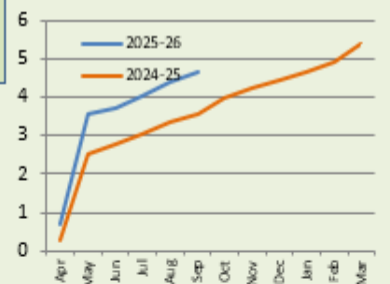


Non Tax Revenue

₹ 4,66,076

79.9% of BE

30.5% YoY Growth ▲

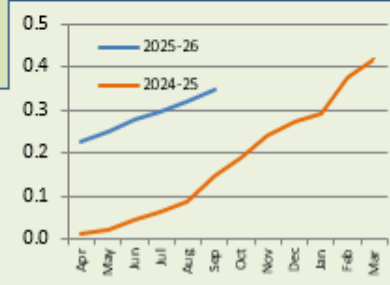


Non Debt Capital Receipts

₹ 34,770

45.8% of BE

138.1% YoY Growth ▲



Total Expenditure

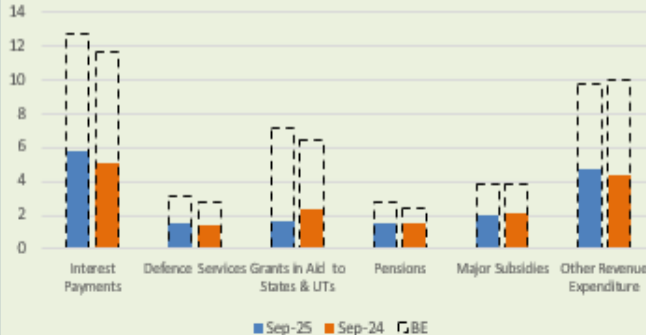
₹ 23,03,339 45.5% of BE 9.1% YoY Growth ▲

Revenue Expenditure

₹ 17,22,593

43.7% of BE

1.5% YoY Growth ▲



Capital Expenditure

₹ 5,80,746

51.8% of BE

40.0% YoY Growth ▲



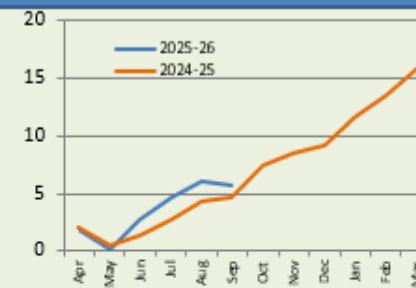
Fiscal Deficit

₹ 5,73,123

36.5% of BE

1.6% of GDP

20.8% YoY Growth ▲



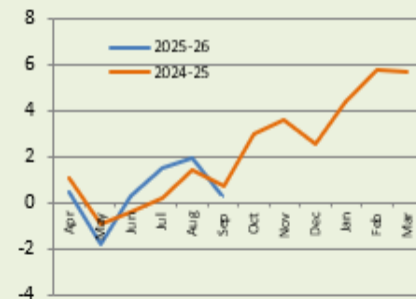
Revenue Deficit

₹ 27,147

5.2% of BE

0.1% of GDP

-63.4% YoY Growth ▼



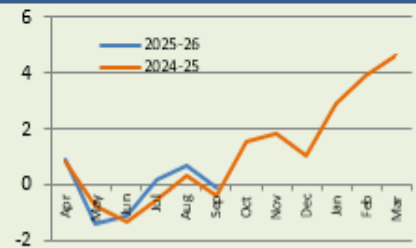
Primary Deficit

₹ -5,059

-1.7% of BE

0.0% of GDP

87.5% YoY Growth ▲





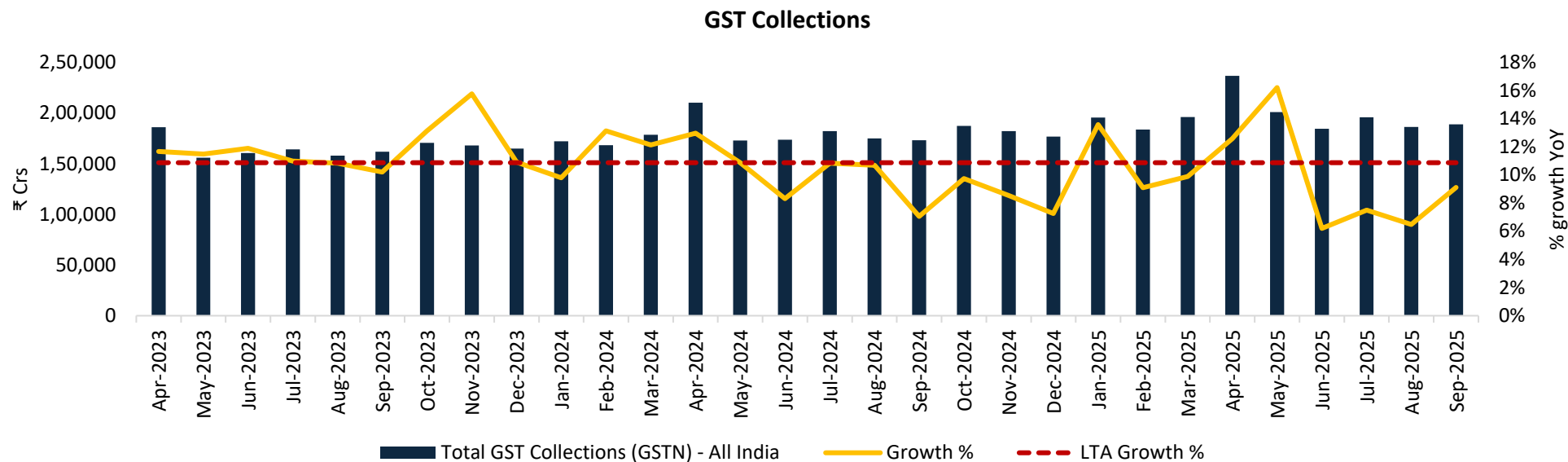
India's Fisc – a tale of cautious optimism

India's fiscal position in the first half of FY26 reflects a **measured but disciplined approach to consolidation**, with the central government's fiscal deficit at ₹5.73 trillion, which is about **36.5% of the full-year budget estimate of ₹15.7 trillion, or 4.4% of GDP**. The outturn indicates relative **comfort in fiscal management so far**, especially when compared to the 29.4% ratio seen in the same period last year, even as expenditure growth has remained robust. **Total expenditure during April–September 2025 stood at ₹23.03 trillion (43.5% of the annual target), driven primarily by capital spending of ₹5.8 trillion, which has already crossed 51% of the full-year estimate.** This sustained capex push underscores the government's emphasis on infrastructure-led growth, consistent with its medium-term strategy of crowding-in private investment.

On the receipts side, fiscal performance has been aided by a substantial non-tax windfall, particularly the record ₹2.56 trillion dividend transfer from the Reserve Bank of India, which significantly bolstered revenues in the first half. **Net tax revenues reached ₹12.3 trillion (43.3% of the target), reflecting moderate growth of around 2.8% in gross tax collections — a deceleration relative to nominal GDP growth, hinting at soft buoyancy in direct and indirect taxes.** Non-tax revenue, by contrast, was nearly 80% of the annual target, reflecting the one-off inflows.

While the first-half performance appears favourable, we note **that sustaining the consolidation path will depend critically on revenue momentum in the latter half of the year, especially given the ambitious spending plans.** The fiscal arithmetic remains contingent on nominal GDP growth of around 10.1% (any slowdown closer to 8% would mechanically raise the deficit ratio). **The government's medium-term objective of reducing the fiscal deficit to below 4.5% of GDP by FY26 and public debt to ~50% of GDP by 2030–31 therefore rests on maintaining this delicate balance between growth support and fiscal prudence.**

From a macroeconomic perspective, India's H1 FY26 fiscal performance presents a cautiously optimistic yet finely balanced picture. The fiscal trajectory remains broadly on track, with the deficit at 36.5% of the full-year target, supported by strong capital expenditure execution and buoyant non-tax receipts, particularly the record dividend from the RBI. This has provided temporary fiscal space without derailing the consolidation roadmap. At the same time, subdued tax buoyancy underscores the need for stronger revenue mobilisation in the second half of the year to sustain the pace of consolidation amid rising developmental and welfare spending. Overall, the government appears well-positioned to meet its FY26 fiscal deficit target of ₹15.69 trillion, or 4.4% of GDP — an improvement from ₹16.85 trillion (5.6% of GDP) in FY25 — keeping it aligned with the medium-term objective of reducing the deficit below 4.5% by March 2026. However, external and domestic headwinds could test this resolve. The recently imposed US tariffs, with potential spillover effects on select export-oriented industries, may necessitate targeted fiscal support to safeguard competitiveness. Likewise, the ongoing GST restructuring designed to stimulate consumption could marginally add to short-term fiscal pressures. Consequently, fiscal policy in the coming quarters will need to carefully balance growth support with prudence, maintaining investor confidence while ensuring that consolidation remains credible and sustainable.



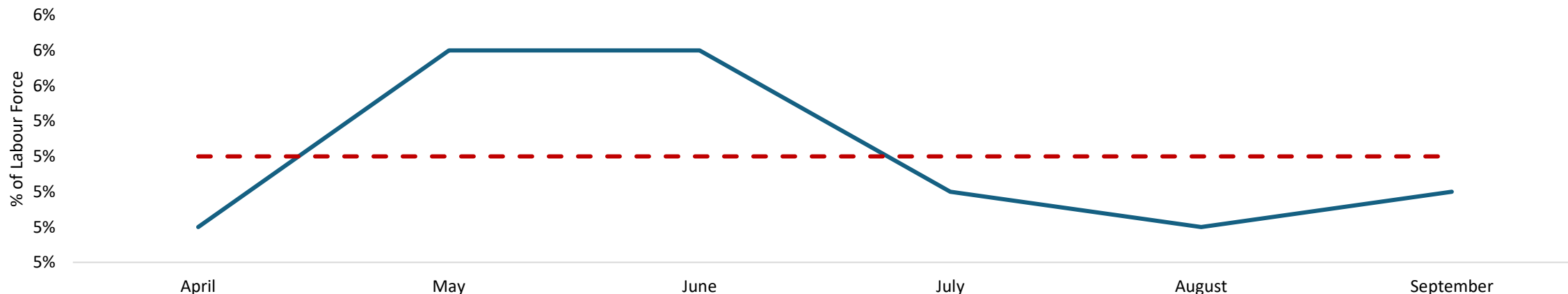
GST Collection September 2025

- India's Goods and Services Tax (GST) collections **rose to ₹1.89 lakh crore in September 2025**, marking a **strong ~9% increase over the same month last year**, and a rebound from ₹1.86 lakh crore in August. This also positions **September as the third-highest gross collection ever since the GST regime was introduced in 2017**, underlining **resilient consumption and robust tax compliance**.
- The strong performance was **supported primarily by domestic transactions**, which witnessed sustained strength in segments such as retail, logistics, and services, even as goods imports rebounded modestly, in contrast to August's contraction, **on the back of higher festive-season inventory build-up, particularly in electronics, gold, and silver**.
- This elevated collection figure also suggests that **front-loading of economic activity ahead of the festive cycle and the proposed GST rate changes in Q3 FY26 may have contributed to September's buoyancy**. The timing of Diwali in early November may have pulled forward both retail demand and business invoicing into September.
- September stands as one of the last few months under the old GST architecture**, with reforms taking effect post-October. Given this transition, collections in subsequent months may display transitory softness, as businesses adapt to the revised rate structures, rationalized slabs, and compliance system updates expected to be rolled out by the GST Council.

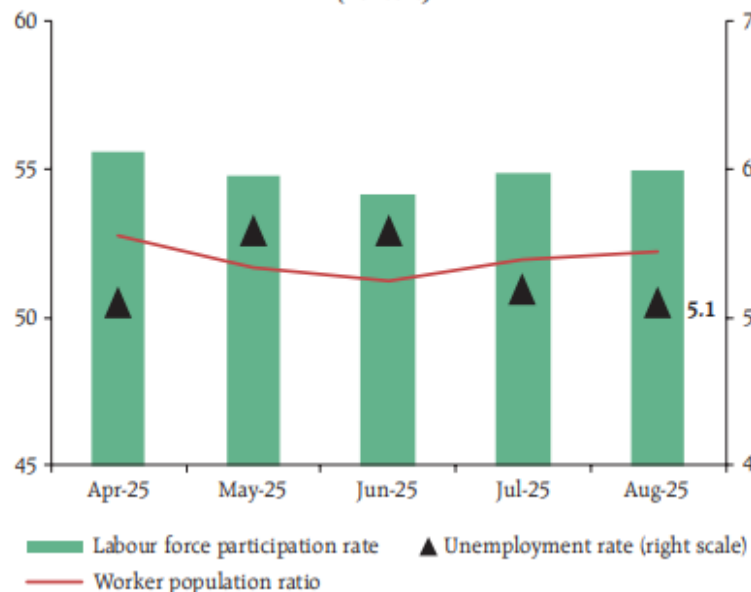
8. Employment



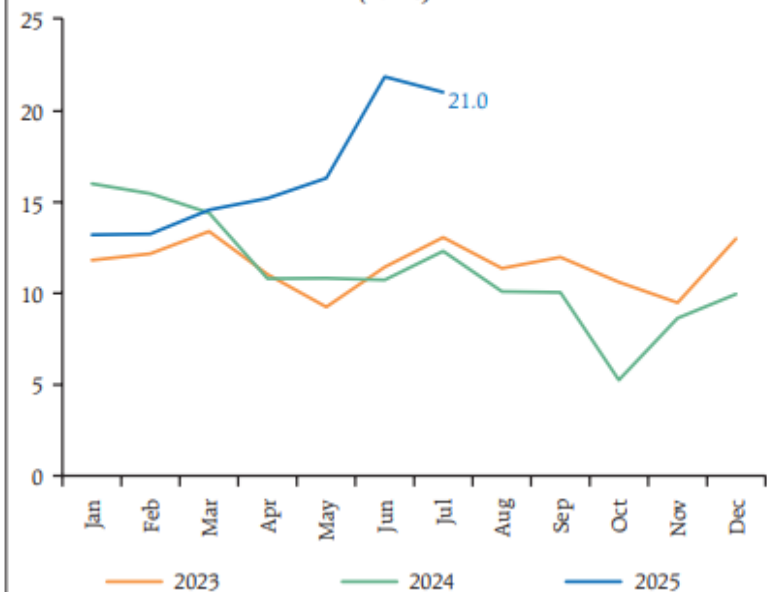
Unemployment Rate



a. Monthly Periodic Labour Force Survey
(Per cent)



b. Net Payroll Additions in EPFO Records
(Lakhs)



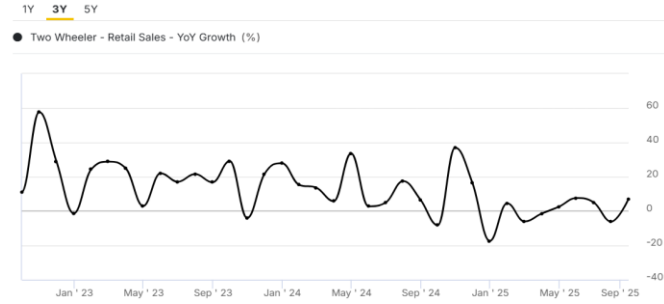
Employment Conditions Update – September 2025

- India's unemployment rate raised to 5.2% (CWS basis), with rural unemployment at 4.5% and urban at 6.3%, reflecting mild improvement in urban labor absorption post-monsoon.
- Youth unemployment (15–29 yrs) remained elevated at 14.2%, still reflecting deep skilling gaps and uneven sectoral recovery.
- Employment mix remains skewed: 53% self-employed, 27% wage-employed, and 20% casual labour, pointing to sustained dependence on informal and low-quality jobs.
- Labour force participation rate (LFPR) stood at 55.4%, higher in rural (57.6%) than urban (51.1%) areas; gender gap persists (77.5% men vs 34.2% women).
- Female LFPR saw marginal gains, improving to 34.2% in September, with female unemployment steady at 5.3%; urban women still lag significantly.
- Overall, Labor market remains gradually improving but structurally weak – gains in rural and female segments are positive, but persistent youth unemployment and informality highlight the need for deeper reforms in skilling and job creation.

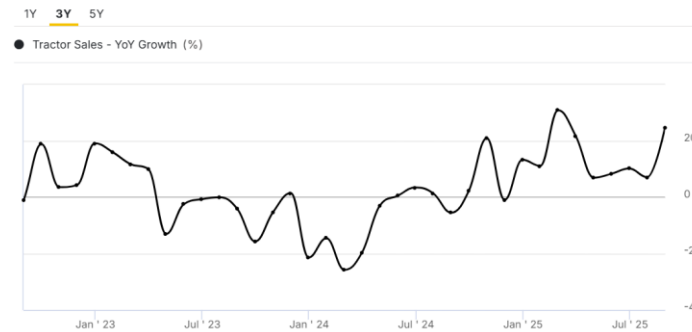
Source: RBI Bulletin and Internal assessment

9. Demand Indicators

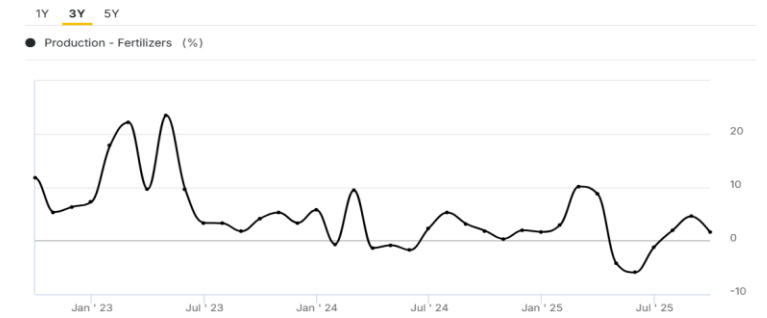
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



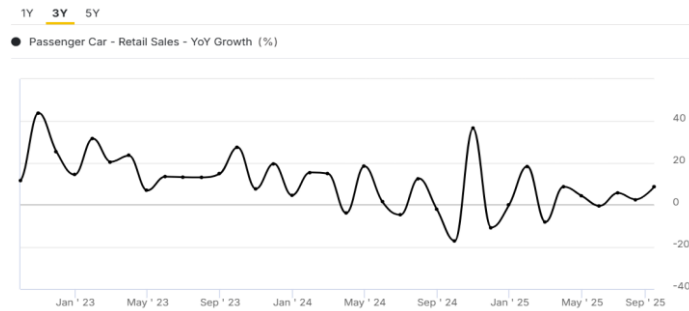
TRACTOR SALES - YOY GROWTH (%)



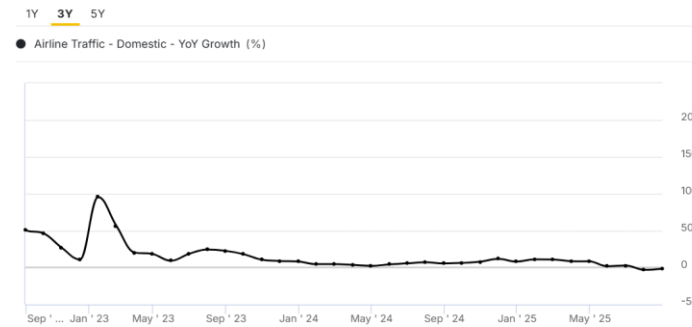
PRODUCTION - FERTILIZERS (%)



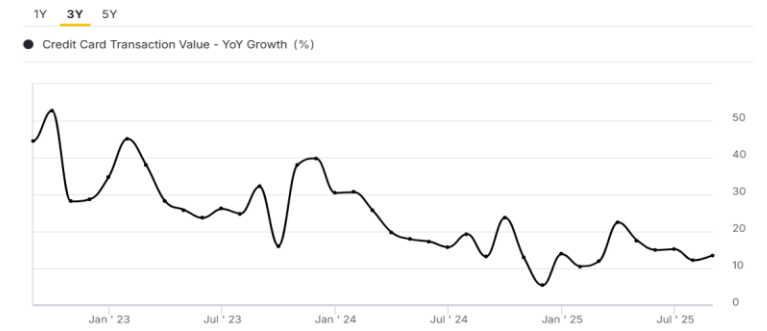
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



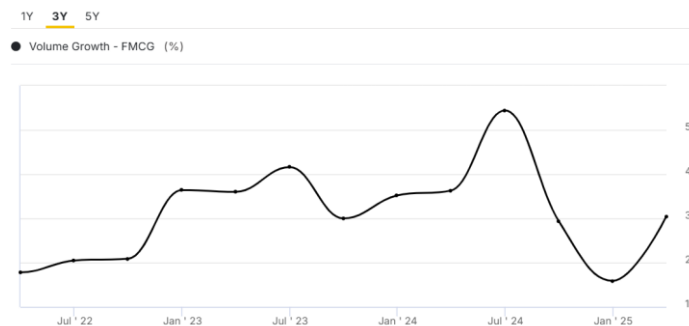
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



VOLUME GROWTH - FMCG (%)



Select High-Frequency Indicators (September 2025)

Rural Demand

Rural indicators improved modestly: moderate fertiliser production and strong monsoon support incomes and sowing conditions, while tractor sales climbed but two-wheeler sales remained flat. The net effect – **rural demand remains steady but cautious.**

Urban Demand

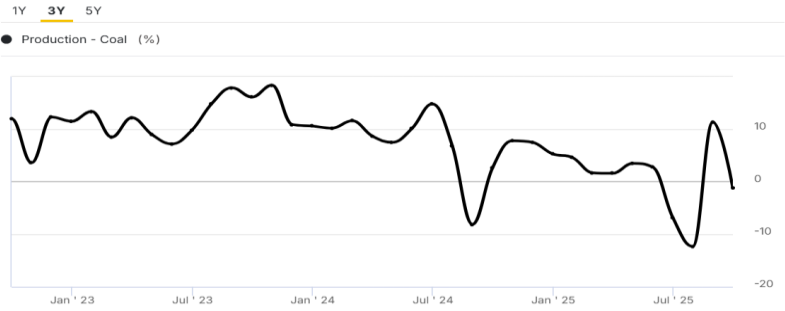
Urban consumption remained mixed: passenger vehicle sales were flat and credit-card transaction growth moderated, **signalling softer discretionary spending**; meanwhile FMCG volumes edged up slightly as input costs eased, and services-sector activity stayed resilient.

Outlook

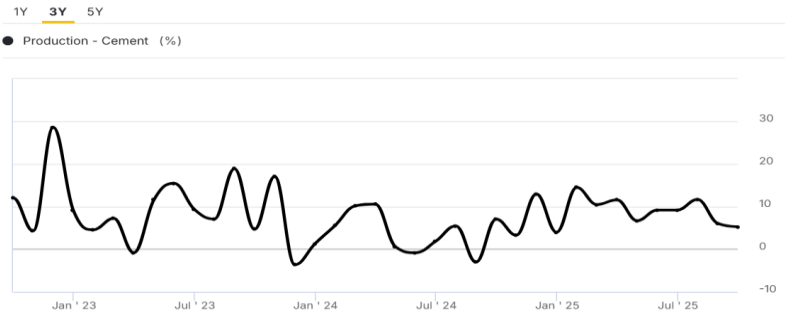
Overall consumption demand is stable with initial signs of broad acceleration amid the festive season. Key drivers to watch are monsoon outcomes (excesses), global commodity price trends, the extent to which recent interest-rate and tax/GST cuts pass through into retail credit and households' spending power, and persistence of the festive season momentum.



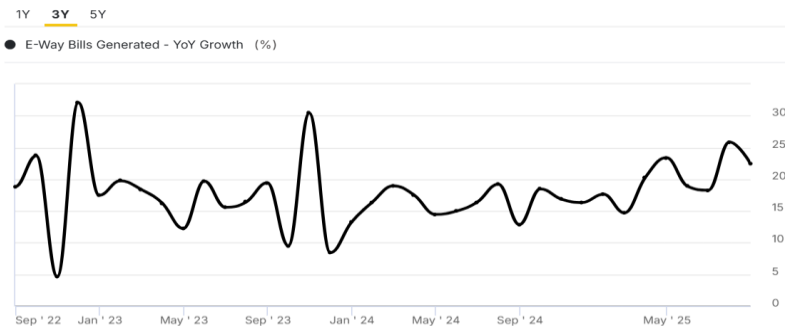
PRODUCTION - COAL (%)



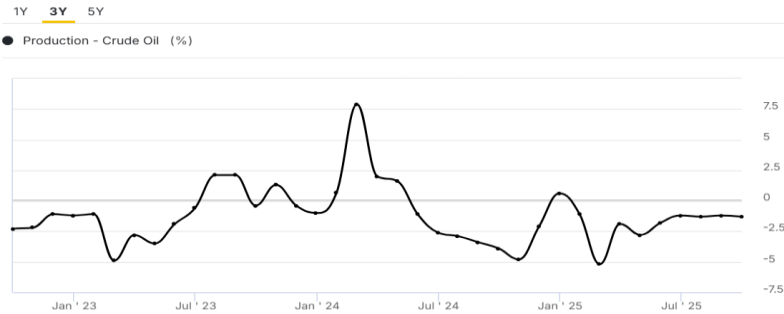
PRODUCTION - CEMENT (%)



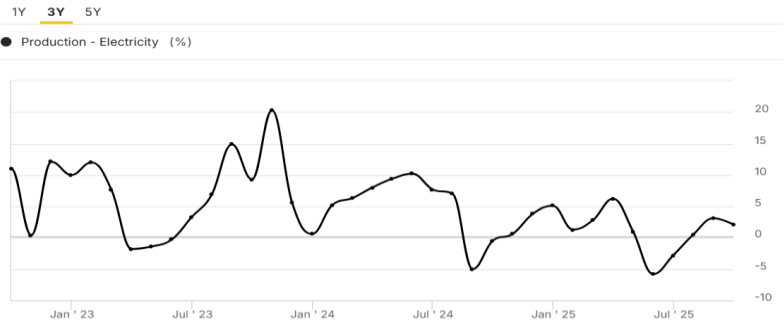
E-WAY BILLS GENERATED - YOY GROWTH (%)



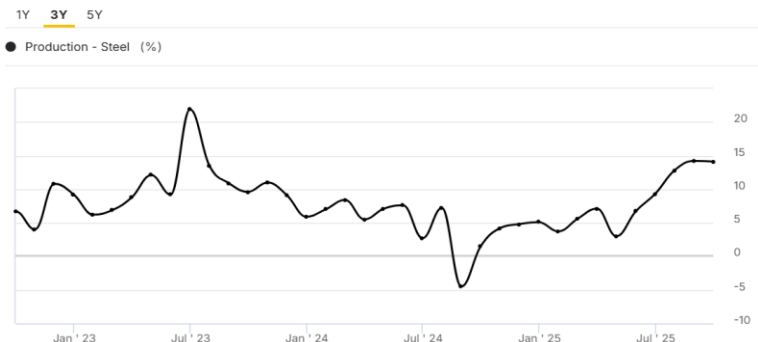
PRODUCTION - CRUDE OIL (%)



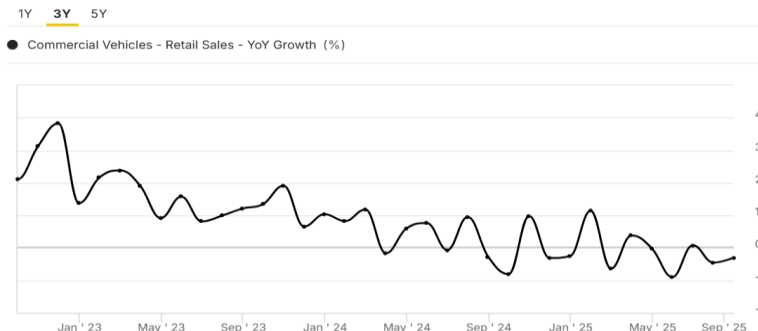
PRODUCTION - ELECTRICITY (%)



PRODUCTION - STEEL (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



Industrial Activity

Core sector momentum was steady with signs of an uptick. Steel and cement production remained healthy, supported by infrastructure activity, while electricity demand picked up on seasonal loads. Coal output and crude oil production stayed weak. Freight indicators and e-way bills points to resilient logistics activity. GST collections eased on base effects but remained robust in absolute terms.

Services Sector

Services outperformed. PMI-Services hit **a 15-year high at 62.9 on stronger orders and hiring.**

Outlook

High-frequency indicators point to an inflection point in industrial activity, with firms largely in a wait-and-watch mode for clearer signs of a sustained pickup in domestic demand before committing to new capex. The key risks to this outlook arise from elevated US tariffs, a decelerating global economy, and currency pressures that could amplify volatility in commodity prices.



Economic Heatmap



	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
↓ GDP	Good	Good	Good	Ok	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Ok	Bad	Bad	Bad	Bad
↑ Inflation	Good	Good	Good	Ok	Ok	Ok	Ok	Ok	Good	Good	Good	Good	Good	Good	Good	Good	Good
→ Industry	Good	Good	Good	Ok	Bad	Bad	Bad	Bad	Ok	Good	Bad	Bad	Bad	Bad	Bad	Bad	Ok
→ Capex	Good	Good	Good	Good	Good	Ok	Ok	Ok	Ok	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok
→ Liquidity	Good	Ok	Good	Ok	Ok	Bad	Bad	Bad	Bad	Bad	Ok	Good	Good	Good	Good	Good	Ok
→ Trade	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Ok	Ok	Ok	Ok
↑ Fiscal Situation	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
↑ Employment	Good	Bad	Bad	Ok	Ok	Ok	Ok	Ok	Bad	Ok	Ok	Ok	Ok	Ok	Ok	Good	Good
→ Demand Indicators	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Bad	Bad	Bad	Ok	Ok
→ Equity	Ok	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Ok	Bad	Bad	Bad	Ok
→ Debt	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Ok	Ok	Ok	Ok	Ok

Key:

✓ Good
Good
Ok
Bad
✓ Bad

Cautious Optimism

India's macroeconomic backdrop reflects nascent domestic momentum amid external headwinds. The policy repo rate is steady at 5.50% with a neutral stance, as the RBI balances growth support with price stability. Inflation has undershot expectations, with FY26 CPI now projected at 2.6% on the back of GST rationalisation and easing food prices, while core inflation remains contained. Growth remains domestically driven, with real GDP projected at 6.8% for FY26 and Q1 GDP expanding 7.8% year-on-year, supported by consumption, public spending, and investment. High-frequency indicators show early signs of an uptick in domestic demand, and if this sustains, the capex cycle, which is already showing nascent revival, could gain further traction. The macro position is stable, with CAD at 0.2% of GDP and liquidity conditions comfortably in surplus with the RBI actively managing liquidity. Even as inflation softens, the MPC is pausing further easing to let earlier actions transmit amid global and tariff-related risks. Overall, the outlook remains one of 'cautious optimism', underpinned by low inflation, strengthening domestic demand, and stable fiscal conditions, though external uncertainties warrants vigilance.



Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.81%			9.1%
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-2%	8.6%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	-1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.7%	14.7%	15.1%
Standard Deviation	21.6%	26.2%	30.1%
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

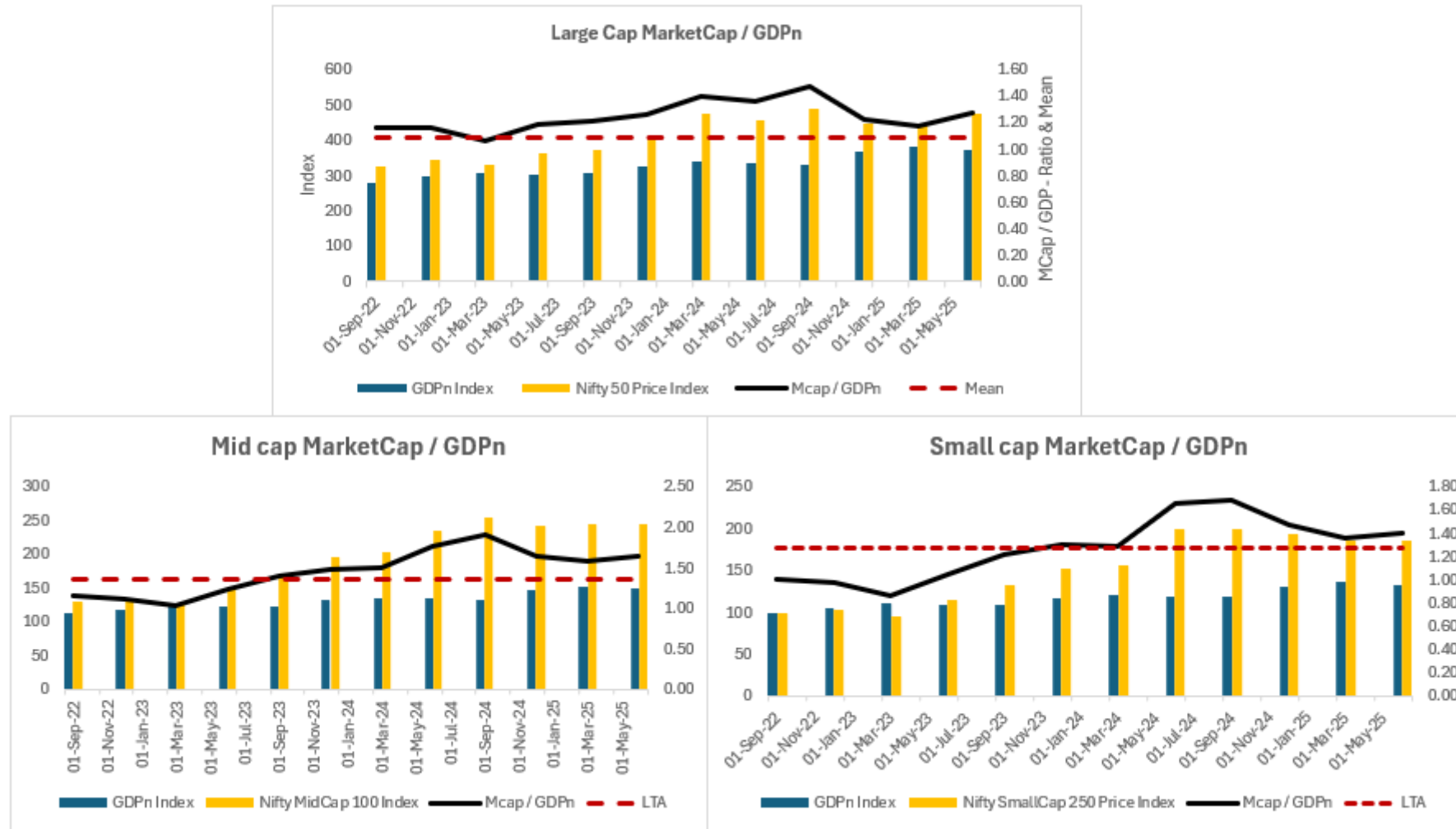
Tempered Down Expectations

- In the last 12 months, the Nifty 50 Index has risen 0.8%**, reflecting a clear time correction. **Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years.** 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 and Small Caps registered a CAGR of ~15% each over the past ~20 years and ~12 years respectively. We expect returns to improve going forward, supported by the ongoing uptick in domestic demand as the festive season gathers momentum, aided by recent tax rate reductions and the introduction of a simplified, lower GST regime. The capex cycle, too, is beginning to show early signs of revival. However, the sustainability of this recovery will hinge on the durability of domestic demand and the eventual outcome of the final US trade negotiations.**
- 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 seem to be Fairly-valued and Mid Cap and Small Cap are overvalued.**

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.47	23.85	-6%	Fairly Valued
Mid Cap	34.69	32.32	7%	Overvalued
Small Cap	30.91	26.24	18%	Overvalued



Buffett Indicator



Nifty 50 Index EPS estimates for FY26/FY27 had seen the steepest cuts in the past 6 years, barring the Covid phase. The **present valuations remain high as evidenced in the premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 14% & 18%, whereas Small Caps are currently trading at premium of approx 9% (as per Buffet Indicator), as on 23rd October 2025.**

The new world order – Gold, the reserve Asset

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

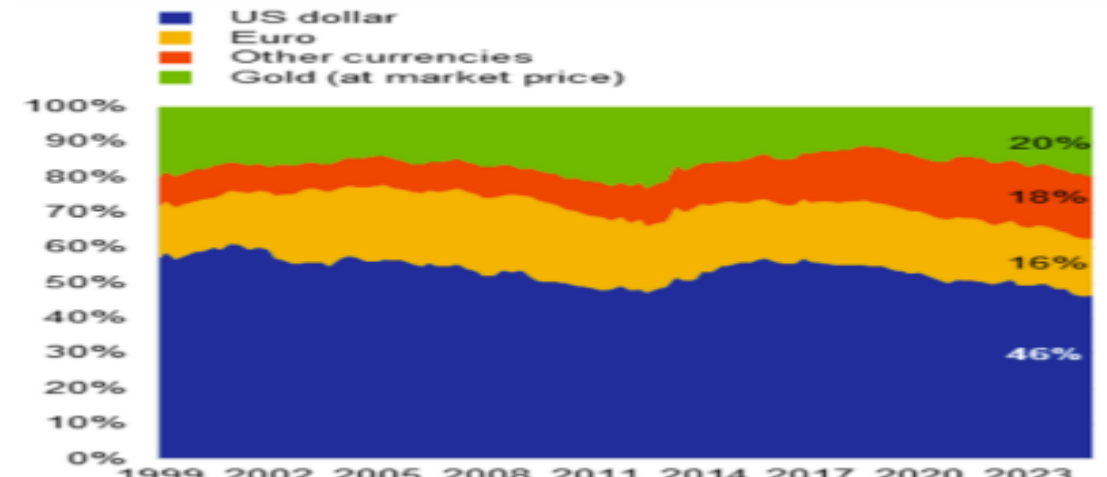
The resurgence of gold as a reserve asset has accelerated since February 2022, coinciding with the onset of the Russia-Ukraine conflict. The U.S. response, in particular, the sanctioning and freezing of Russia's USD-denominated reserves, triggered a strategic rethink among global central banks. Heightened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

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



Source: ECB, DSP, Data As of June 2025

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



Source: ECB, DSP, Data As of June 2025



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

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

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

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

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

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

Particulars	Values
Total mined Gold (above ground stock in tonnes)	2,18,065
Total mined Gold (above ground stock in Bn troy oz)	7.01
US M2 money supply (\$ Bn)	22,195
Value of Gold per troy ounce wrt US M2 (\$)	3,166
Additional 50% EU M2 money supply (\$ Bn)	9,243
Value of Gold per troy ounce wrt EU M2 (\$)	1,318
Total Value of Gold per troy ounce (\$)	4,484
Price range of Gold per troy ounce (\$)	3,825
(₹/\$)	88.00
Derived Price range of Gold per 10 gms (₹)	1,08,222
Current Gold Silver Price Ratio	91
Average Gold Silver Ratio since 2015	69
Derived Price range of Silver per troy ounce (\$)	55
Derived Price range of Silver per kg (₹)	1,56,843

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, even at the currently high tariffs imposed by the US.**
- **Inflation well under control** and well within the RBI's comfort level.
- A small but **comfortable liquidity surplus**. This deliberate easing of liquidity would be instrumental in lowering borrowing costs, which in turn will help **revive private capex.**
- **Uptick in Domestic Demand on account of tax rate cuts, a new lower GST regime, and the festive consumption boom.**
- **Corporate India's healthy balance sheets and low leverage**, enabling them to benefit from a **future cyclical recovery and capex upcycle, the early signs of which are visible. Q2 and subsequently Q3 results will be an important indicator of this.**

Headwinds

- **Sluggish global growth**, compounded by the **50% US tariff regime**, poses a significant drag on overall economic prospects and makes India uncompetitive in the US market.
- **Valuations remain elevated, particularly in the Mid and Small Cap segments**, though the exuberance has moderated considerably compared to six months ago.

Outlook

- **Volatility to persist with an Upward Bias in the medium term.**

Suggested Strategy

➤ **Neutral Equity**

Category	Stance
Large Cap	Neutral
Mid Cap	Neutral
Small Cap	Underweight

➤ **Underweight Gold**



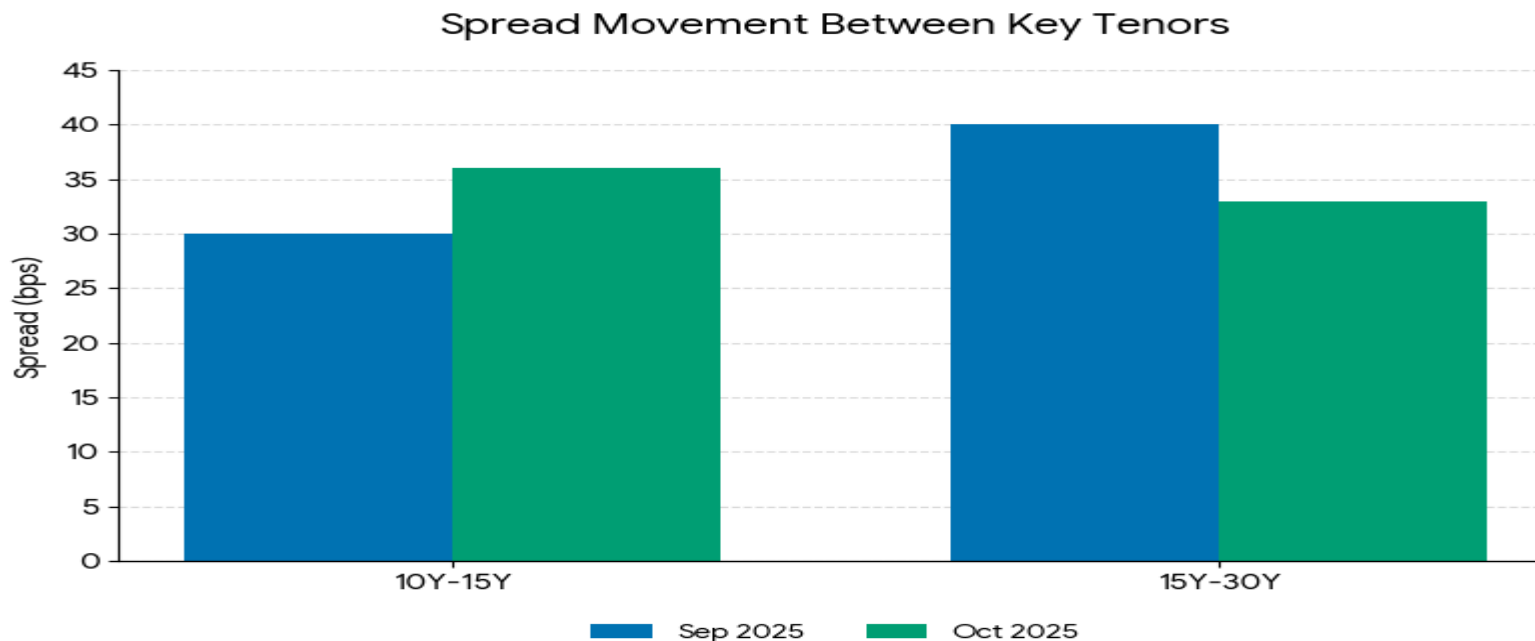


Debt Outlook





Yields & Spreads



Yield Curve Movements

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

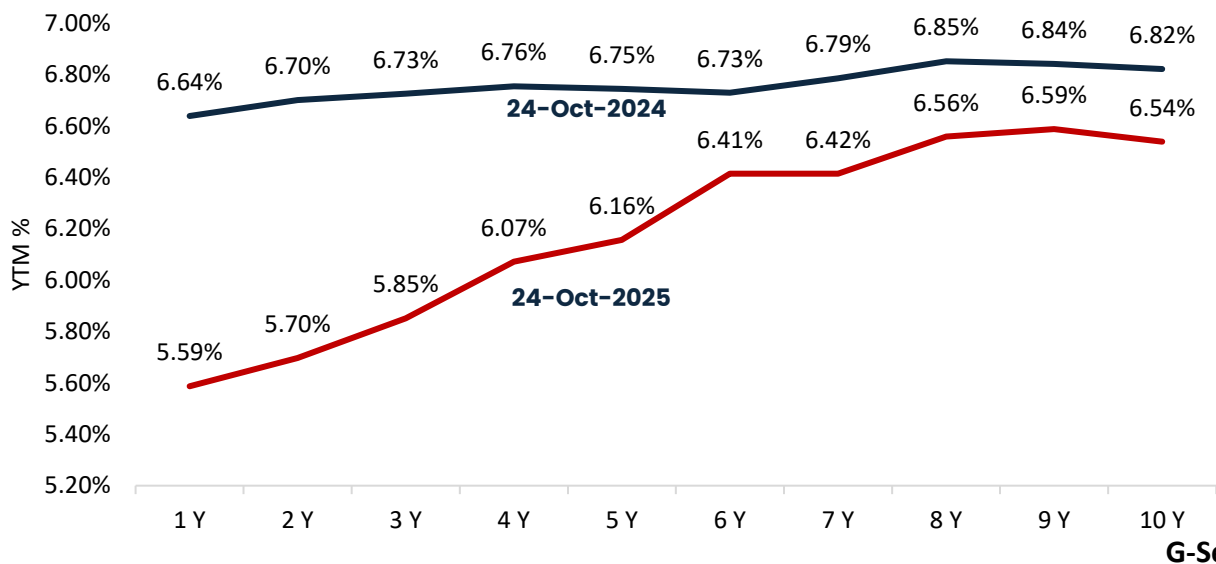
- The spread between 15-year and 10-year bonds has widened the most. This is partly due to limited supply in the 10-year space (thanks to RBI bond purchases), which directed negative economic sentiment towards the 15-year segment.
- The spread between 30-year and 15-year bonds has narrowed from high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



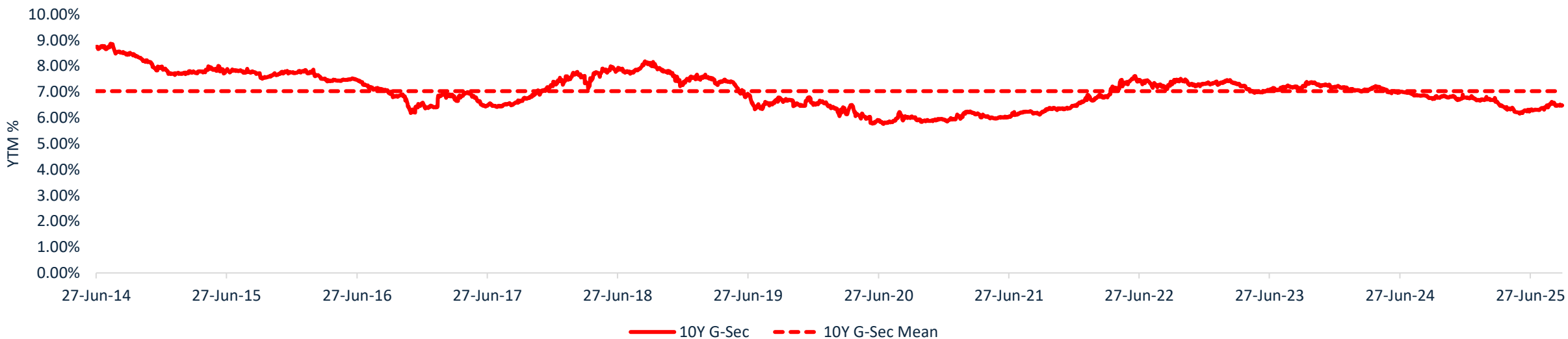
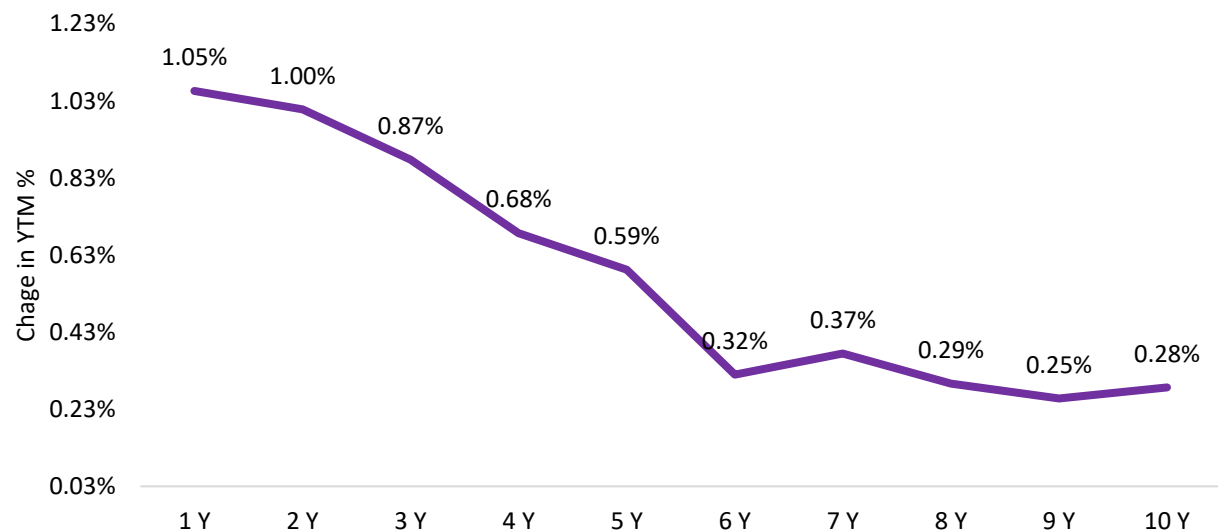
Yields Curve Dynamics



Change in Yield Curve



1Y Delta - Bull Steepening





Debt Market Outlook & Strategy



RBI's Latest Policy: A Hawkish Pause Explained

RBI's Policy: A Tough Pause, Not a Soft One

The RBI has decided to pause rate cuts at 5.5%, even though growth is slowing. This pause feels “hawkish” because the RBI is signalling that future rate cuts will not come easily. Inflation has dropped mainly due to cheaper food prices, which can quickly rise again. Core inflation (excluding food and fuel) remains sticky near 4%. So, the RBI prefers to wait and see how earlier cuts and liquidity injections work before acting again.

Why is the RBI Cautious:

India's economy is still growing faster than most, but global growth is weakening, and tariffs and global uncertainties add pressure. The RBI believes that the earlier 100 bps of rate cuts are yet to fully filter through. Cutting too soon could overstimulate demand and push inflation back up. In short, the RBI wants to avoid short-term boosts that may cause long-term problems.

Rupee Defence Tightens Liquidity:

To protect the rupee from volatility, the RBI has been selling U.S. dollars in the market. This absorbs rupees from the system, reducing banking liquidity. When liquidity falls, borrowing costs rise. This means the RBI may soon need to inject liquidity through Open Market Operations (OMOs), where it buys government bonds to put money back into the system.

Yield Curve: Steeper but Stable

Short-term rates are likely to stay around 5.25-5.50% for a while, as RBI holds policy tight. Meanwhile, if OMOs resume, medium-term bonds (5-10 years) will benefit the most. Long-term yields may stay higher due to fiscal and supply concerns. So, the yield curve stays steep — short-term rates stable, longer-term rates higher. Translation: Medium-term government bonds are likely to perform best.

Market Strategy

Credit spreads (extra return over government bonds) have narrowed as supply was low, but could widen again as credit demand rises. Corporate bonds may become slightly riskier if liquidity tightens, however we do not envisage any near-to-medium term issues with liquidity. Accordingly, core debt portfolios should maintain a quality bias, with a preference for government securities in the 6-8-year maturity range while avoiding excessive exposure to ultra-long durations. Selective, tactical allocations to the credit risk segment may be considered to capture incremental yield opportunities, particularly in light of our constructive view that strengthening domestic demand could spur a revival in the private capex cycle.

Deployment Strategy



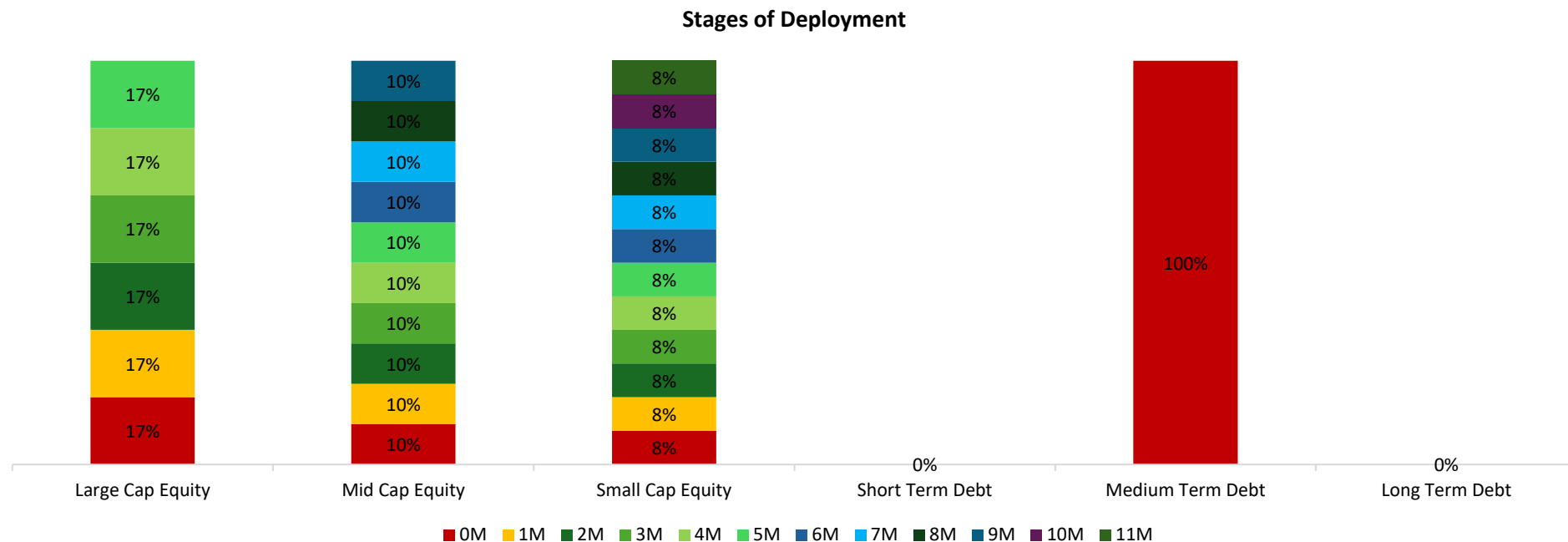
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14390.47

15782.41

Deployment



Indicators:

Indicators signaling over heated market conditions –

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

Indicators signaling fair valuation –

- VIX at 11.76 levels
- FI's & DI's have been net buyers
- Liquidity surplus
- Investment and GFCF have risen in the past quarter signaling a possible revival of Pvt Capex
- TTM PE for Large and Mid Caps Indices indicate fair valuation

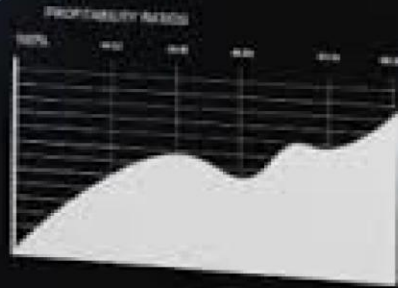
Deployment Strategy:

Staggered Deployment over the next 12 months –

- Large Cap – 16.67% immediate deployment and 16.67% in each month in the next 5 months
- Mid Cap – 10% immediate deployment and 10% in each month in the next 9 months
- Small Cap – 8.33% immediate deployment and 8.33% in each month in the next 11 months
- Debt – 100% immediate deployment (bullet strategy at the medium end (6–8 yrs) of the yield curve.

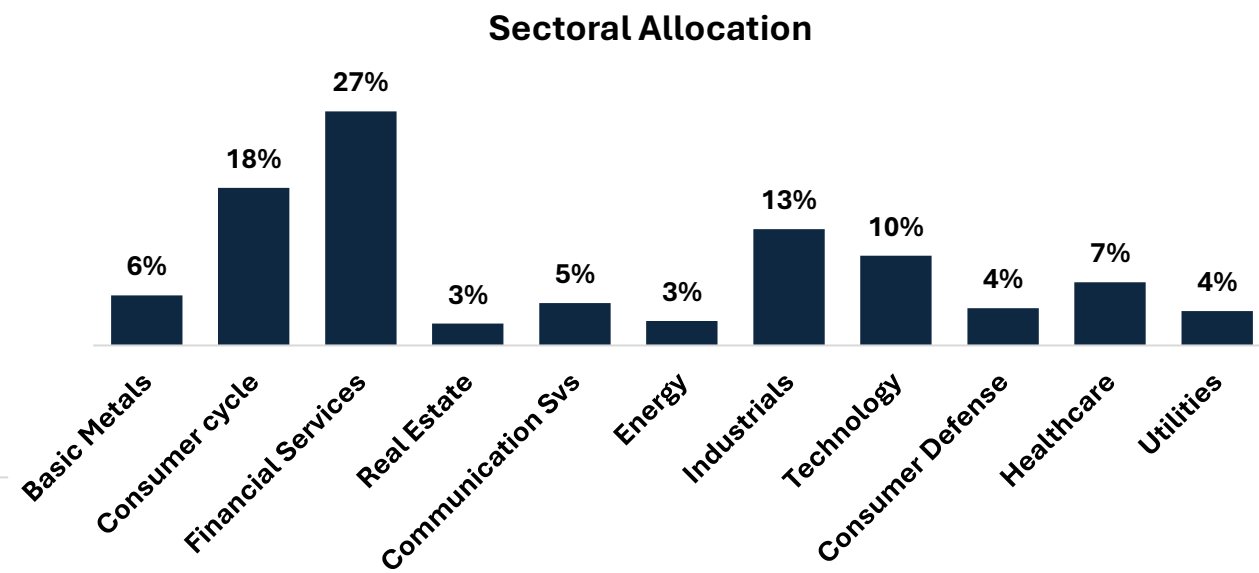
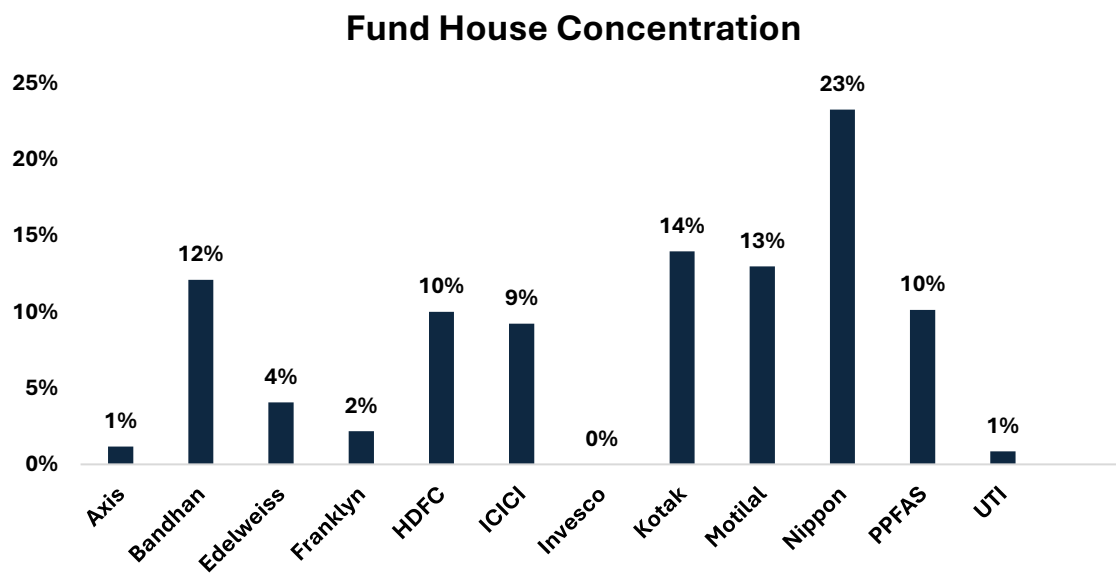
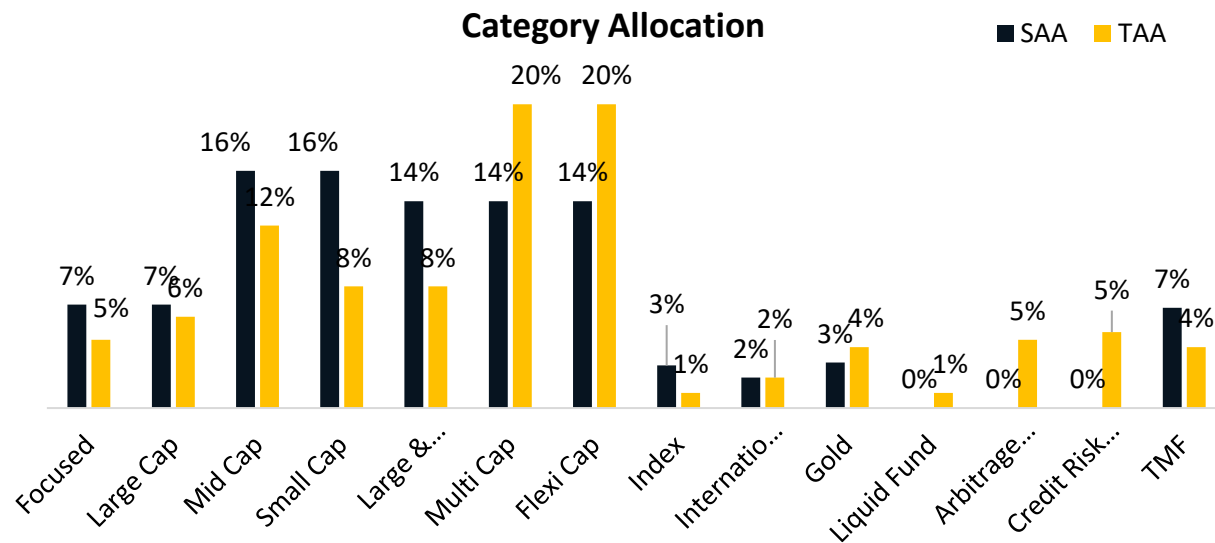
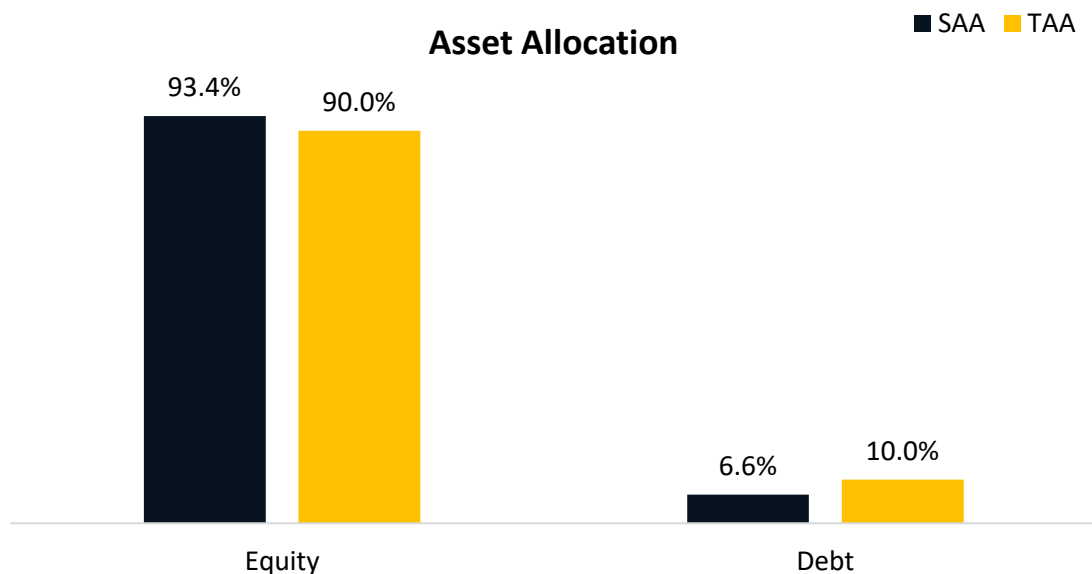
Optimus Prime Model Portfolio

Aggressive Strategy



100% 9.12% 18.25%

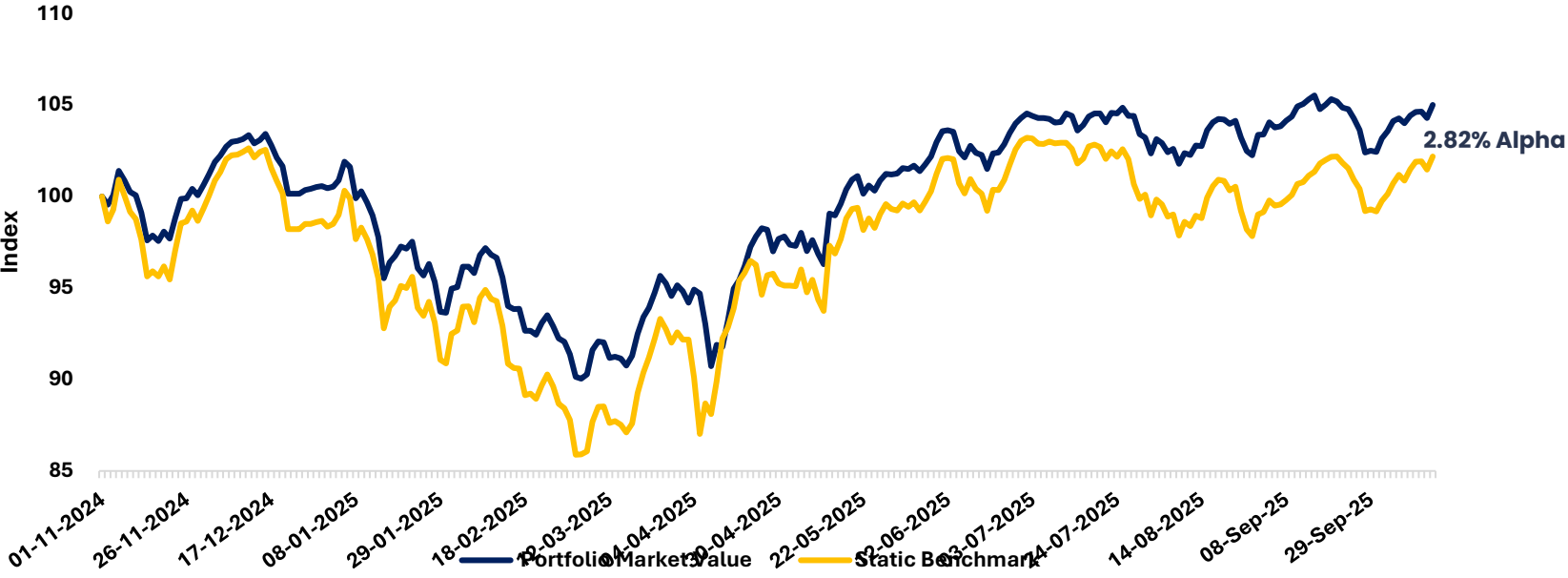




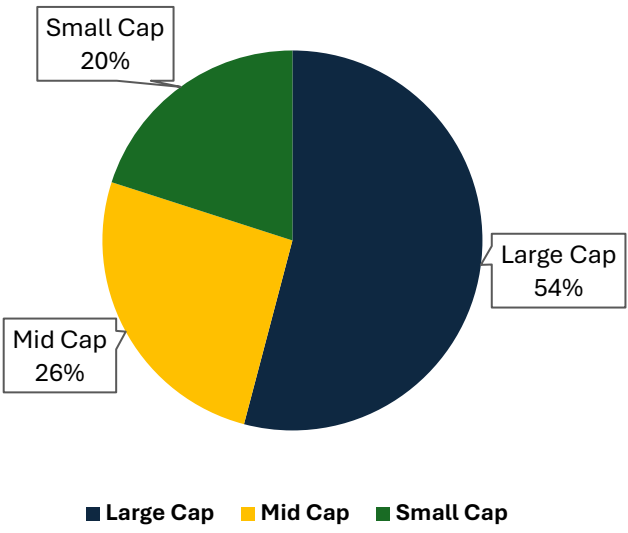
***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation**, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th October 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 vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	5.01%	2.19%
Standard Deviation (annualized)	11.18%	14.67%
Beta	0.61	
Alpha	2.82%	
Information Ratio	5.04	
Downside Capture	58.29	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.01%	2.65%	0.16%	2.82%

Debt Portfolio Analytics

Debt Measures	Oct-25
Average MoD	4.2
Average Maturity	5.6 yrs
Average Coupon	NA
Average YTM	7.3 %

Average Credit Rating	Oct-25
AAA	37.0%
AA	46.1%
A	16.9%

***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 15th October 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.



Current Investment Portfolio Stance: **Neutral**



At the most recent Investment Advisory Committee meeting, it was unanimously agreed to **shift to a Neutral investment approach, from the previous Conservative stance, with a measured and gradual tilt towards a moderately pro-risk stance as part of a long-term equity strategy.** This decision reflects the committee's ongoing caution **amid global macroeconomic uncertainties, especially surrounding tariff uncertainties amid slow global growth.**

As a result, the portfolio's **equity allocation remains underweight by 2.4%.** Within equities, we continue to hold a **~6% underweight position in Mid Caps and a ~12% underweight position in Small Caps,** aligning with our risk-controlled framework.

Global capital flows continue to reflect a cautious undertone, but India remains a relative bright spot. While urban consumption has moderated, early **signs of a pickup in demand and improving rural sentiment** indicate **a potential inflection in growth momentum. Corporate balance sheets are strong, leverage remains low, and government-led infrastructure spending continues to underpin activity.** Though private sector **Gross Fixed Capital Formation has been muted, the improving demand backdrop and policy continuity are expected to catalyse a new investment cycle.** The Q1 earnings season pointed to a temporary consolidation rather than a structural slowdown, and **with inflation benign, liquidity abundant, and fiscal and external positions stable, the macro setup for FY2025-26 appears conducive for a gradual re-rating in equities.** Overall, **India's medium- to long-term outlook remains constructive** – anchored by well-contained inflation, comfortable liquidity conditions, and robust corporate fundamentals that position the economy to benefit meaningfully from a **future cyclical recovery and capex upturn once domestic and global demand strengthen.**

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 2.8%,** driven primarily by **Product Selection Alpha in the Large and Small Cap space.** Importantly, the portfolio has maintained a **low Beta of 0.6,** and an **Information Ratio of 5.0, highlighting strong risk-adjusted performance.** With a **Downside Capture of approximately 58%, the portfolio displays effective downside protection** relative to the benchmark in a volatile market.

Going forward, the committee will maintain a **flexible approach to Tactical Asset Allocation,** guided by the **pace of domestic demand recovery, the trajectory of capex cycle, and the outcome of Q2 earnings season.** Asset allocation will be reviewed and realigned as necessary, in response to evolving macroeconomic trends and market dynamics.

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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