

Embracing complexity to capture Alpha

Dear Investors,

India's macroeconomic trajectory remains resilient relative to global peers, but the underlying drivers of growth are becoming increasingly asymmetric. Real GDP has been buoyed by front-loaded public capex and an unusually soft deflator, while private consumption and corporate investment remain subdued. Domestic demand lacks breadth; incremental support may emerge from fiscal transfers, GST rationalization, and rural stimulus on account of a healthy monsoon, but these are unlikely to fully offset weak urban discretionary spending and muted private sector risk appetite in the near term.

Externally, punitive U.S. tariffs and a weakening global cycle pose significant headwinds. The resulting strain on merchandise exports—and by extension the current account deficit, at a time when foreign capital inflows are highly selective, together with pressure on employment in labor-intensive sectors, and constraints on fiscal buoyancy amid an expansionary stance, could materially exacerbate downside risks to growth. At the same time, the compression in nominal GDP growth, narrowing the gap with real growth, raises some concerns for corporate topline expansion, and most importantly – real wage growth, potentially reinforcing a negative feedback loop.

The base case remains low-6% growth for FY26, but with a downside bias should global shocks intensify or domestic reforms underdeliver. In this environment, policy remains supportive yet constrained, with limited monetary space and fiscal prudence balancing stimulus. For investors, this environment calls for discipline - prioritizing resilient earnings visibility, robust balance sheets, and sectors positioned to benefit from structural reforms, while retaining flexibility to capitalize on tactical asset allocation opportunities and systematically adding exposure on market dislocations.

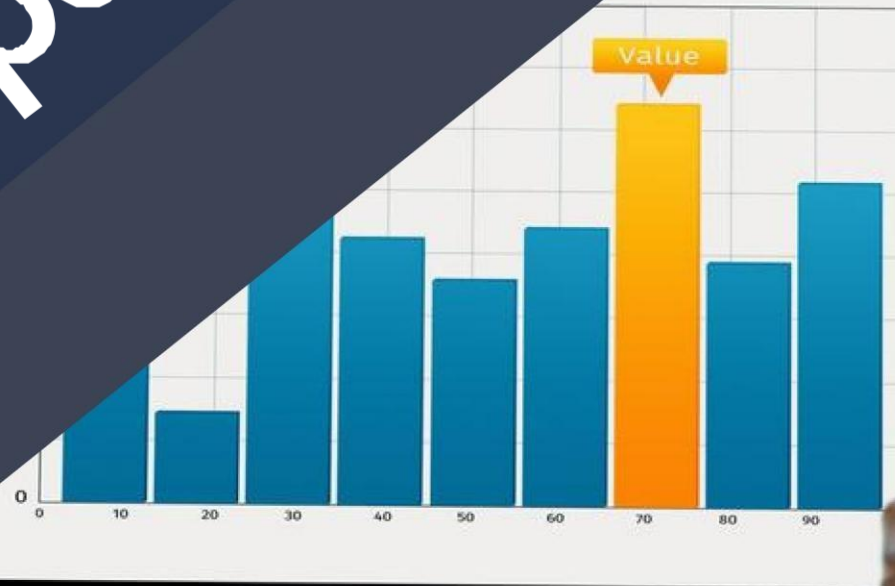
A lot more in our newsletter. We hope you enjoy the read..

Best regards,

Siddharth Jadeja



Investment Strategy Report





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KILIKA CAPITAL





WHO WE ARE?



ABOUT US

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

OUR MISSION

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

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

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

Siddharth Jadeja, CFA – The Strategist

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

Smitha Iyer – The Operational Hawk

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

Piyush Sharma – The Creative Wizard

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

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

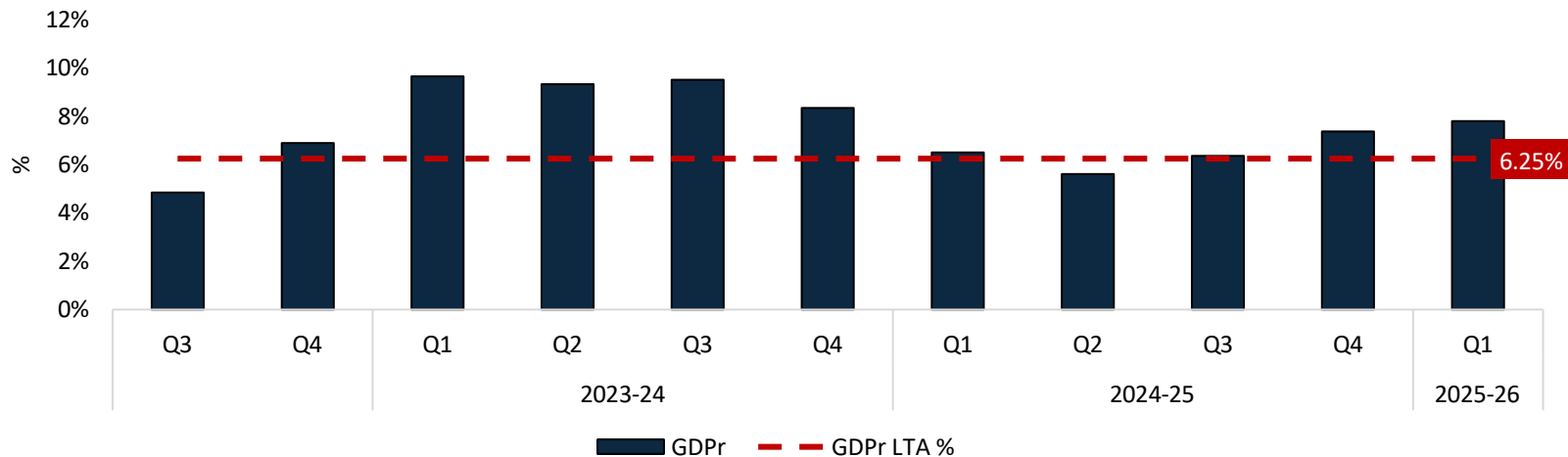
Macro-Economic Outlook



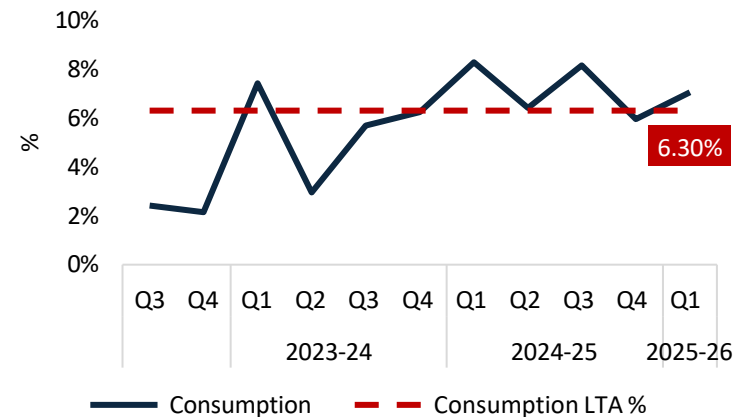


1. GDP (Gross Domestic Product)

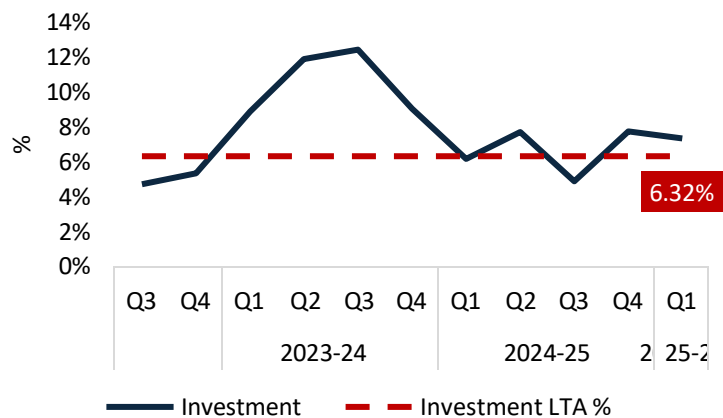
GDP YoY %



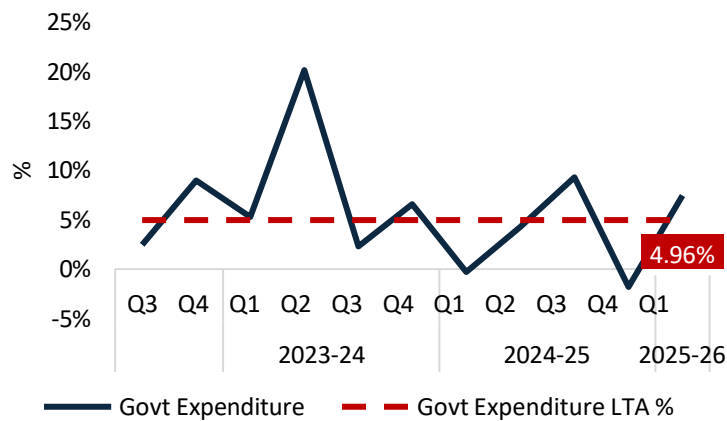
Consumption YoY %



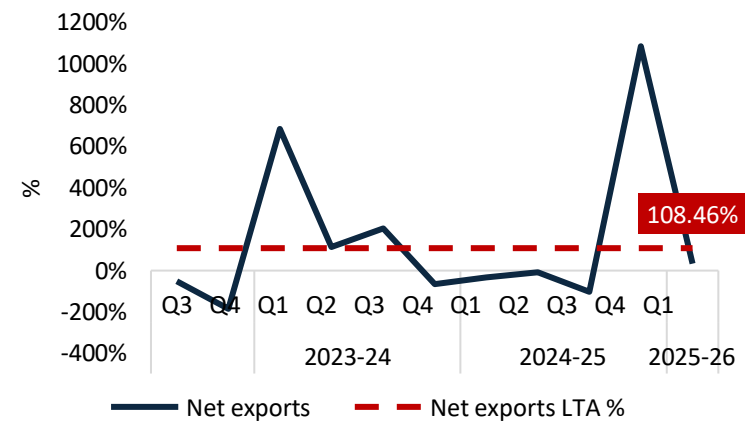
Investment YoY %



Govt. Expenditure YoY %



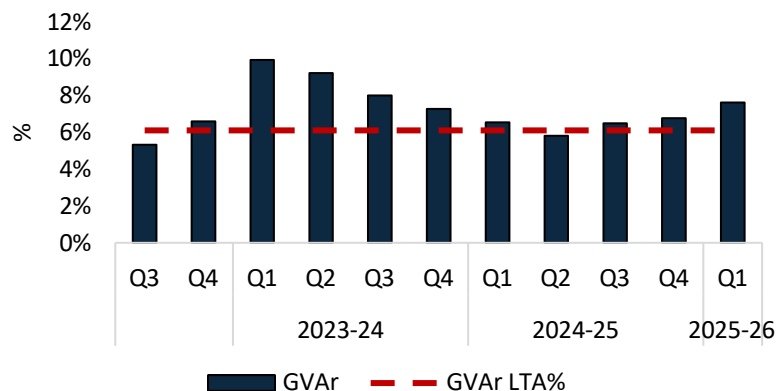
Net Exports YoY %



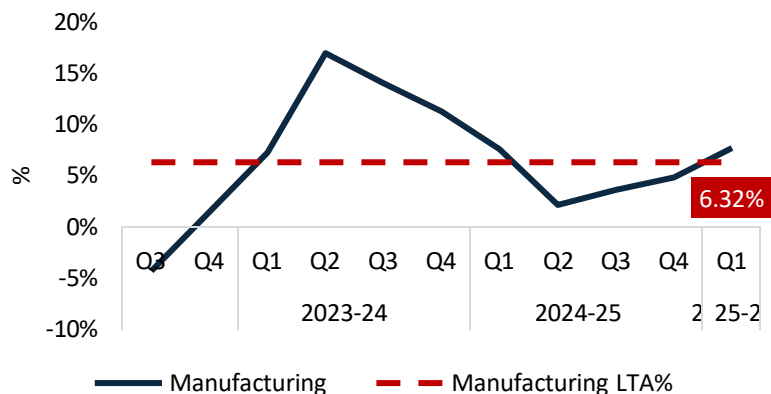


GVA (Gross Value Added)

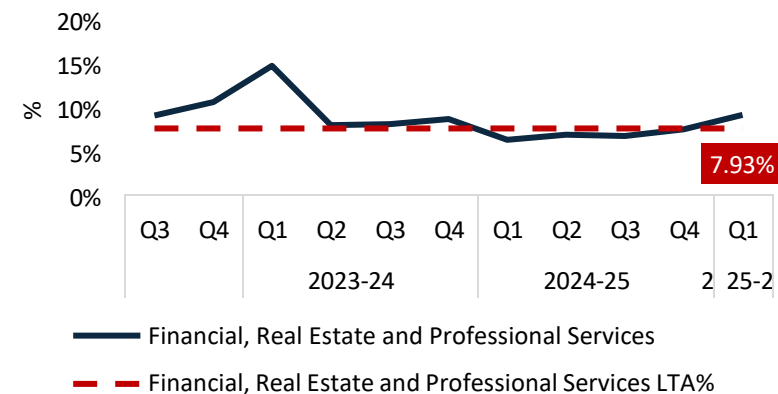
GVAr YoY%



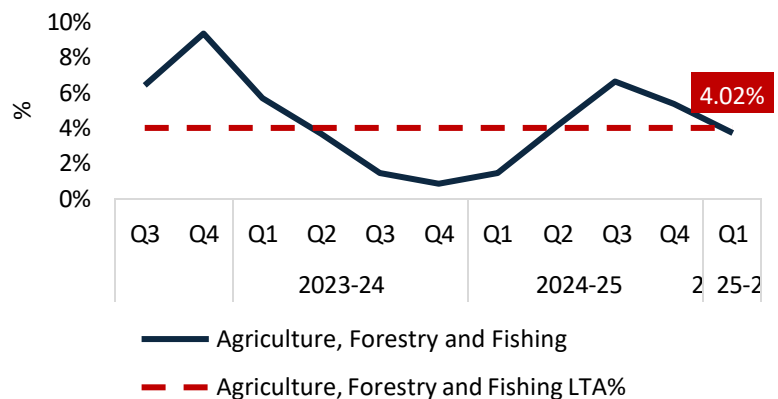
Manufacturing YoY%



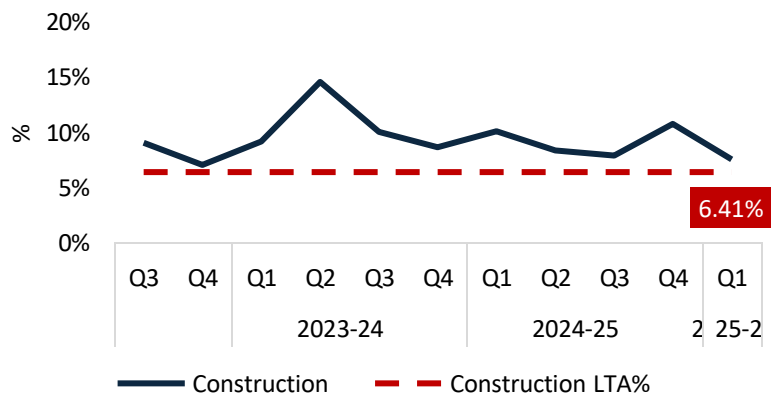
Finance, Real Estate, Services YoY%



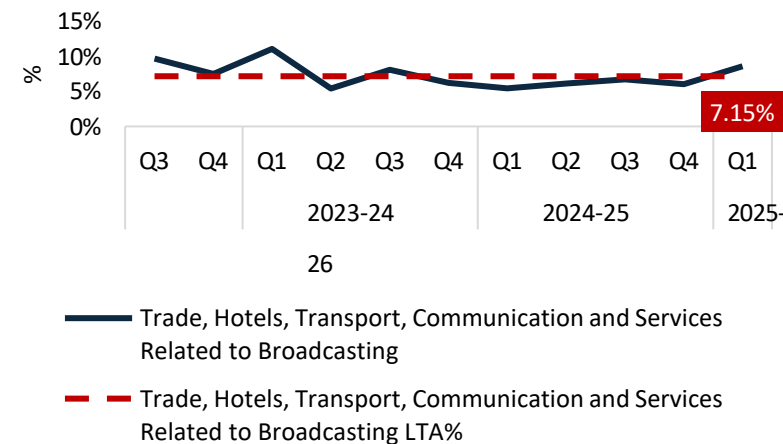
Agriculture YoY%



Construction YoY%



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



Source: Internal assessment based on RBI DBIE data



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

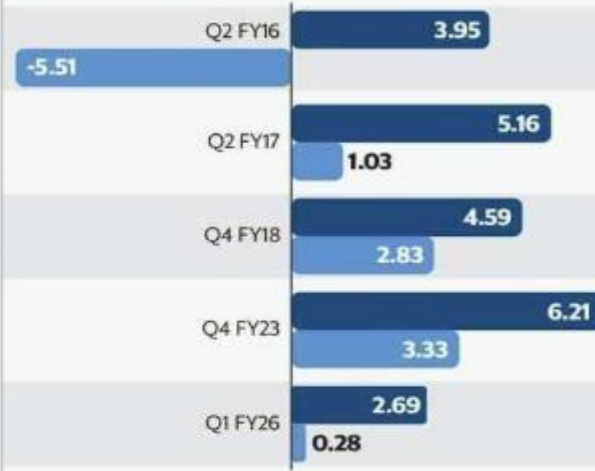
Year-on-year growth in GDP (%), quarterly
Figures for the preceding quarter shown in brackets



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

■ Retail prices ■ Wholesale prices



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

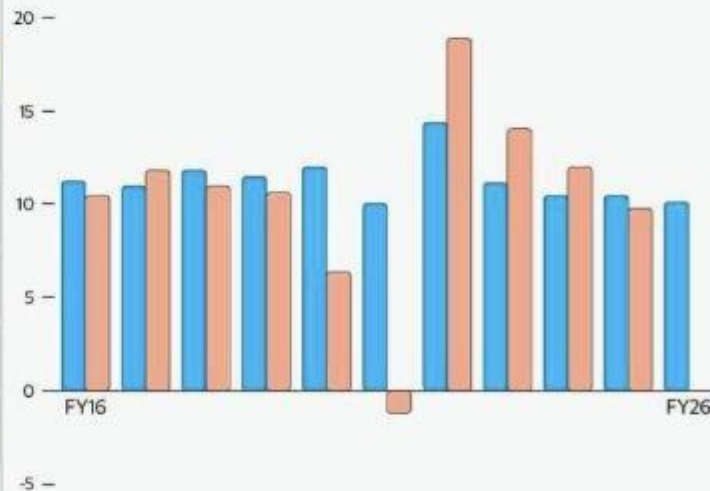
	Budget estimates as % of GDP	At 7.5% nominal growth
Fiscal deficit	4.4	space to reduce by ₹6,578 crore
Debt	56.1	will have to be cut by ₹83,919 crore
Expenditure*	14.2	will have to be cut by ₹21,237 crore
Revenue**	9.8	will have to increase by ₹14,659 crore
Gross tax revenue	12.0	will have to increase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

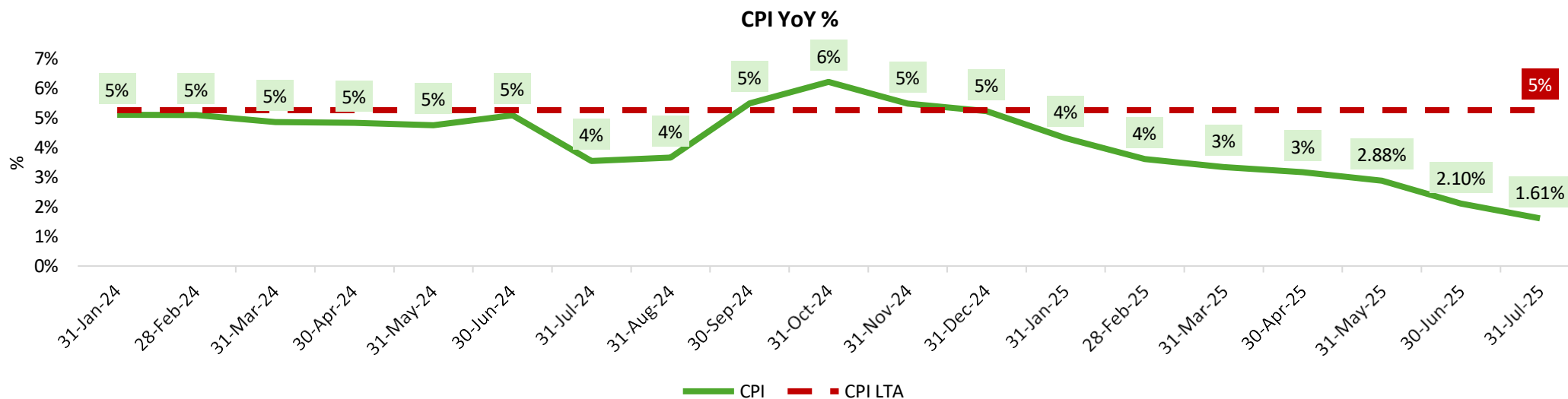
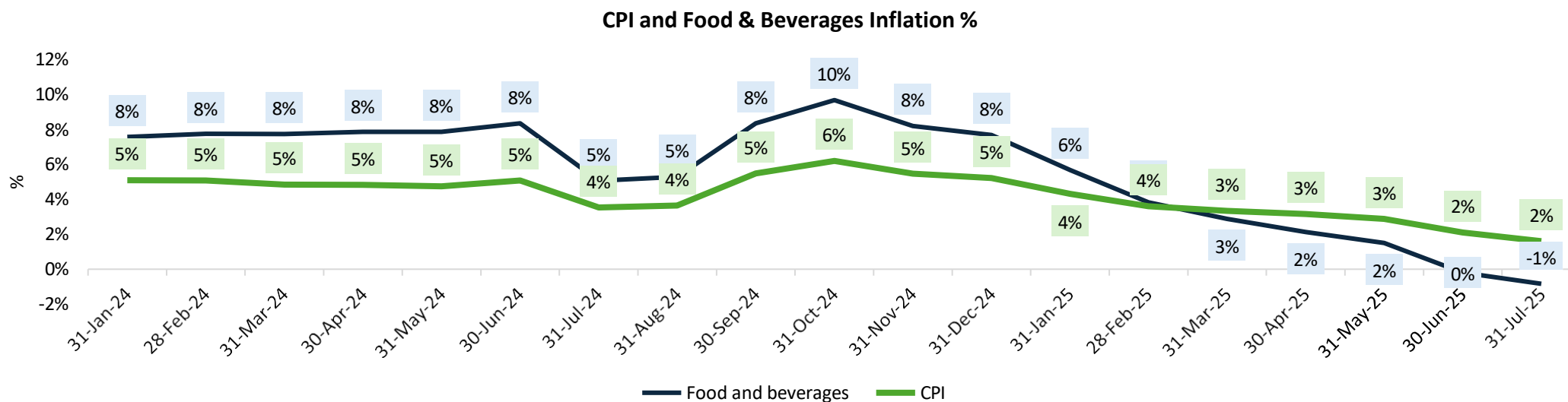
- Slack in Nominal Growth and Corporate Profits:** An interesting challenge is the **“good problem”** of low inflation. **With inflation sharply lower, India’s GDP expanded by 7.8% in real terms in the June quarter, exceeding expectations, but nominal growth slowed sharply to 8.8% amid low inflation—just 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.**
- **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 hits multi-year low — July 2025

Headline CPI Momentum

- Headline **CPI eased to 1.6% YoY in July** (from 2.1% in June), **the lowest since 2017**.
- On a MoM basis, **prices went up by 0.9%** (June was +0.6%).
- Going ahead, **CPI growth is expected to increase to ~2.5% YoY next month**, with **FY26 averaging around 3.0–3.2% as the low base effect fades**.

Food: Falling YoY, but rising month-to-month

- **YoY: Food prices dropped 1.8%**. Vegetables (-20.7%), pulses (-13.8%), spices (-3.1%) and meat (-0.6%) were cheaper than last year.
- **MoM: Food rose 2.0% in July**. Vegetables jumped (+11.6% led by tomato +16.7%, onion +7%, potato +2.6%), fruits rose 2.8%, edible oils rose 2.0% MoM (still +19% YoY).
- **Soft spots:** Pulses (-1.0% MoM), cereals (-0.1%), milk (+0.3%), eggs (+1.8%), prepared meals (+0.3%).
- **Takeaway: YoY food prices look soft due to last year's high base, but MoM momentum is picking up again.**

Fuel & Energy: Flat

- Prices were nearly **flat** (-0.04% MoM). LPG (-0.1%), kerosene (-2.8%), other kerosene (-1.0%) fell, while electricity (+0.2%) inched up; petrol/diesel stayed flat.
- **YoY:** Fuel inflation at 2.7%, muted due to domestic price controls.
- **Takeaway:** Fuel remains **largely stable**, with domestic pricing shielding households from global oil swings; **only a sharp global shock could change the picture**.

Core Inflation (ex-food & fuel): Lower YoY, steady MoM

- Core inflation **~4.1–4.2% YoY down from 4.5% YoY last month; however up 0.4% MoM**.
- **MoM details:** housing (+0.5%), clothing/footwear (+0.2%), transport/communication (+0.2%), health (+0.5%), education (+0.6%), personal care (+0.5%), gold (+0.3%), silver (+4.9%).
- **Takeaway: Service sector inflation is easing YoY as domestic demand is tepid, which is keeping Core Inflation at bay.**

Rural–Urban & State Divergence

- **Rural inflation:** 1.2% YoY vs Urban: 2.1%.
- **States diverged:** Kerala (8.9%) highest; Assam (-0.6%), Bihar (-0.1%), Odisha (-0.3%), Telangana (-0.4%) in deflation.
- **Takeaway:** Inflation pressures are **uneven across geographies, rural areas benefit from cheaper food**, while **some states see deflation**, making it harder for policymakers to apply a single policy response.

Outlook

Policy stance: The repo rate is expected to **remain at 5.50%**, with a neutral policy tone and **limited scope for further cuts in the near term**.

Projection path: RBI expects FY26 inflation to average 3.1% (Q2: 2.1%, Q3: 3.1%, Q4: 4.4%). FY26 average ~3.0–3.2%. Q1FY27 near 4.9% as base effects fade.

Drivers to watch:

- **Food:** Vegetables and perishables will be the biggest swing factor.
- **Edible oils:** Prices remain high and sticky.
- **Fuel:** Largely policy-driven; global oil shocks remain the risk.
- **Core services:** Down YoY, but MoM still ticking up. Going forward, Domestic demand will be the key driver here.

Risks:

- Weather and reservoirs (any **monsoon issues** can quickly reverse food disinflation).
- Global backdrop (**oil/tariff shocks; weaker exports**).
- Precious metals (**gold/silver volatility feeding into CPI**).

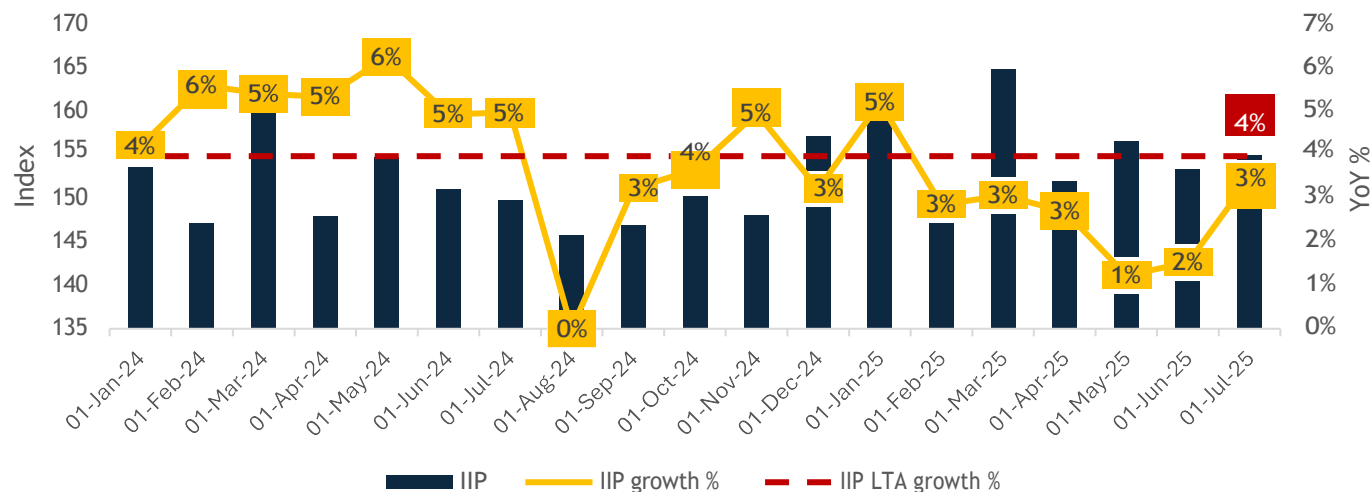
Conclusion:

- **FY26 is shaping up to be a low-inflation year, though monthly food prices could stay volatile. Inflation should climb back gradually toward the 4% mark by year-end as the base effect fades or even higher if domestic demand picks up later this year, leaving the RBI data-dependent.**

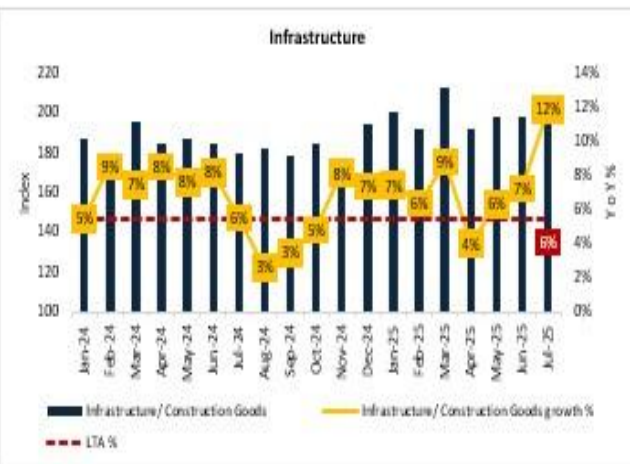
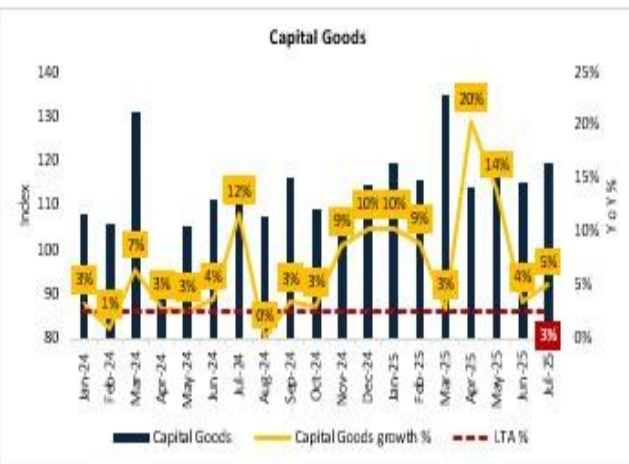
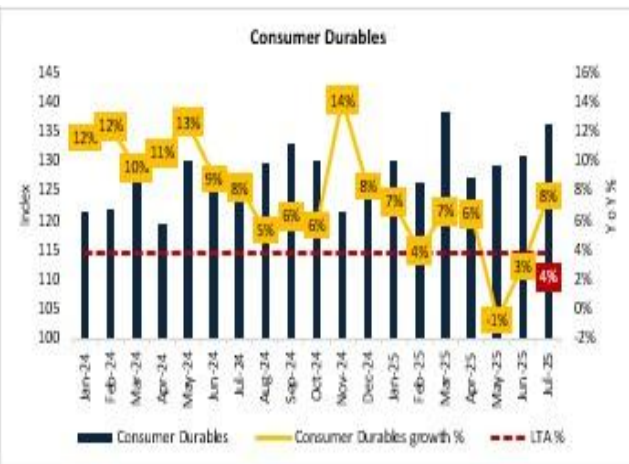
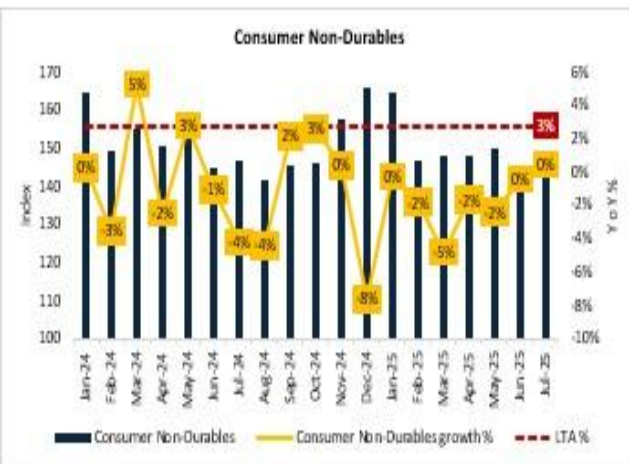
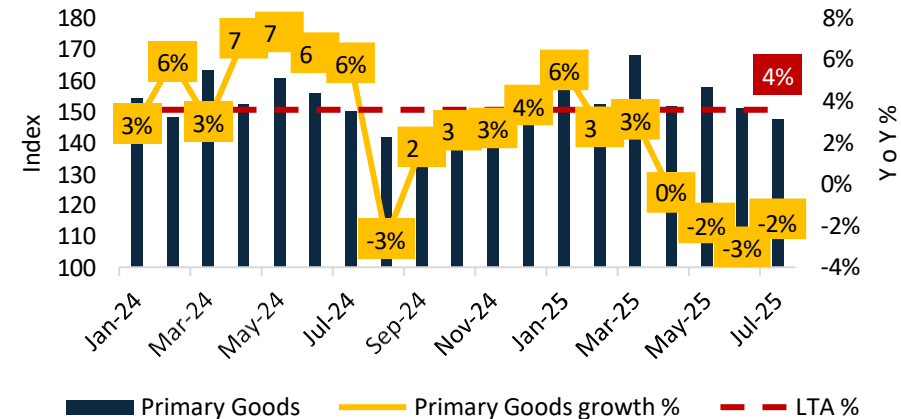


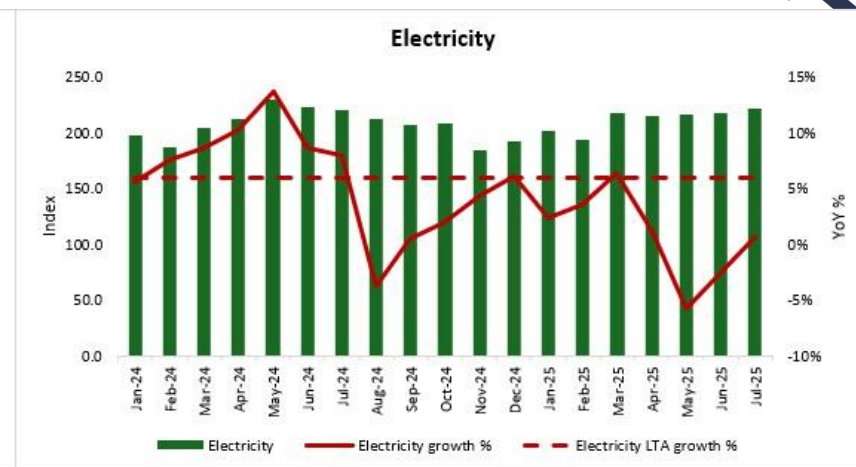
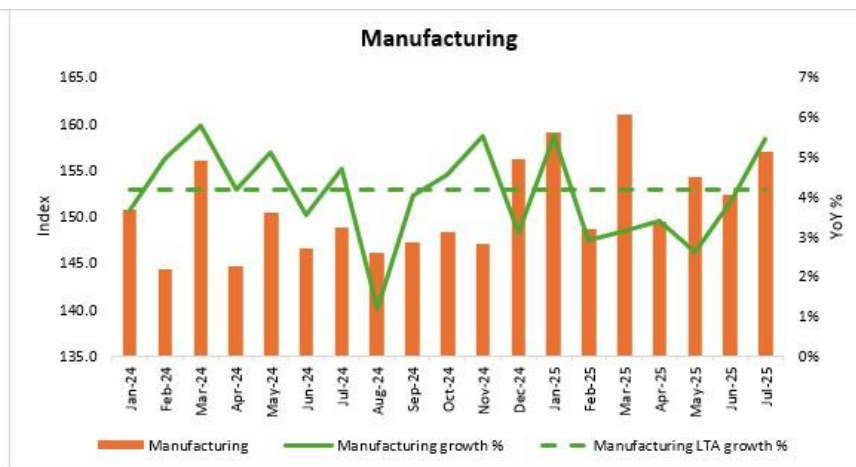
3. IIP (Index of Industrial Production)

IIP - Industry



Primary Goods





Industrial Growth Recovers in July 2025: Manufacturing Leads, Mining Drags

Industrial Production – July 2025 Update

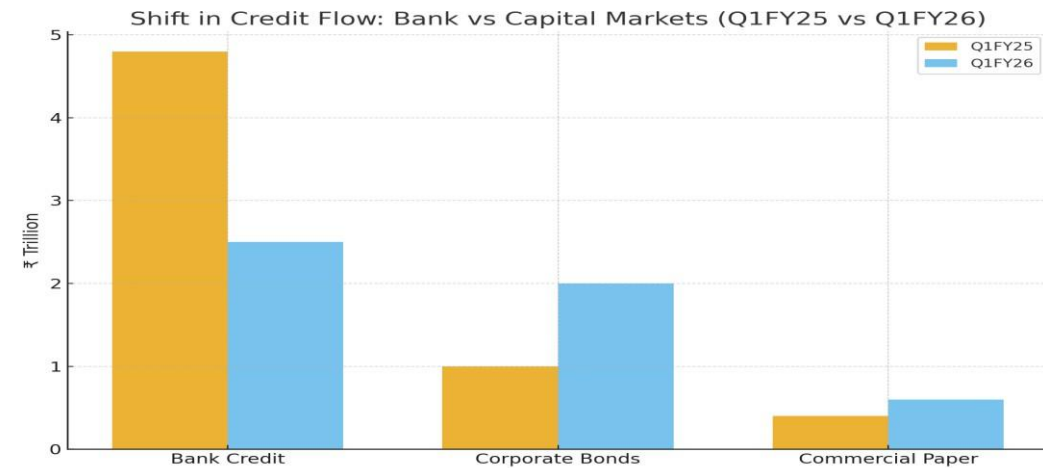
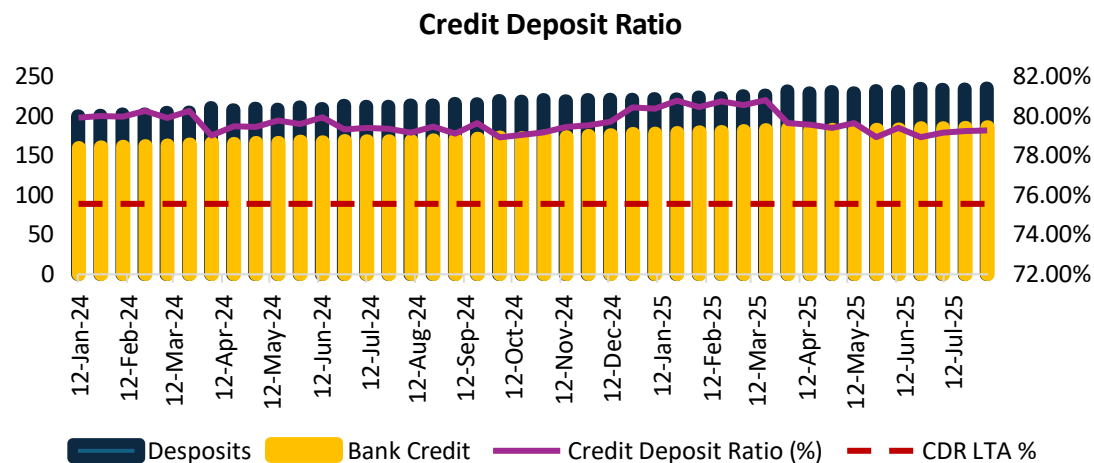
- IIP growth accelerated to 3.5% YoY in July (vs 1.5% in June), the strongest in four months, supported by manufacturing.
- Apr–Jul FY26 growth averaged 2.3% (vs 5.4% last year), underscoring still-muted industrial momentum.
- Sectoral Trends**
 - Manufacturing (5.4%):** 14 of 23 NIC-2 groups posted positive growth.
 - Basic metals (+12.7%):** Strength in MS slabs, HR coils, alloy steel products.
 - Electrical equipment (+15.9%):** Gains in electric heaters, switchgear, transformers.
 - Non-metallic mineral products (+9.5%):** Cement, clinker, marble supported infra demand.
 - Mining (-7.2%):** Weakness reflects lower output in key minerals, contrasting with strong demand in infra and metals.
 - Electricity (+0.6%):** Flat performance, with monsoon-driven moderation in cooling demand offsetting industrial usage.
- Use-Based Performance**
 - Strongest segments:**
 - Infrastructure/Construction goods +11.9% (government capex push).
 - Intermediate goods +5.8%.
 - Consumer durables +7.7%, aided by festive season pipeline.
 - Moderate/weak segments:**
 - Capital goods +5.0% (positive, but slower vs previous double-digit gains).
 - Primary goods -1.7%, reflecting mining drag.
 - Consumer non-durables +0.5%, indicating still weak rural consumption.
- Growth in infrastructure and intermediate goods reflects government-led orders and supply-chain restocking, whereas weak consumer non-durables and primary goods mirror soft household demand and rural headwinds.

Outlook

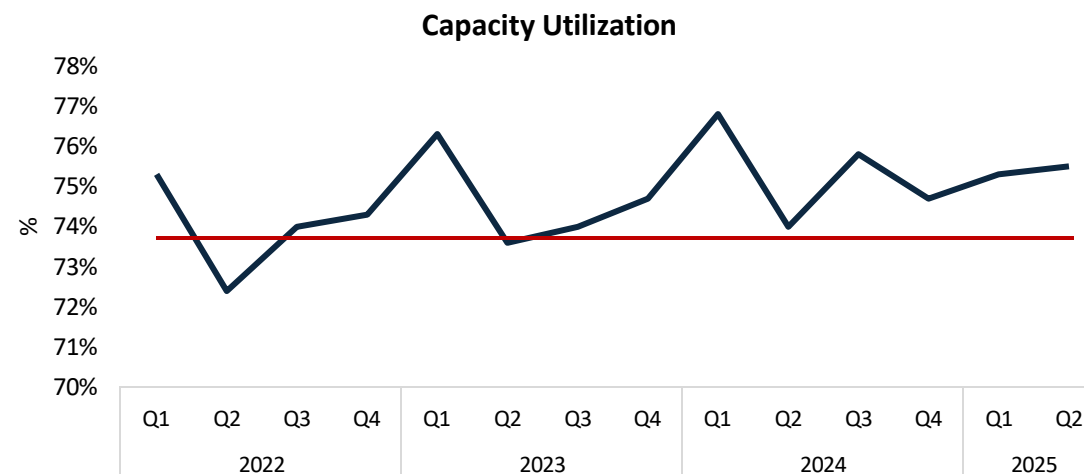
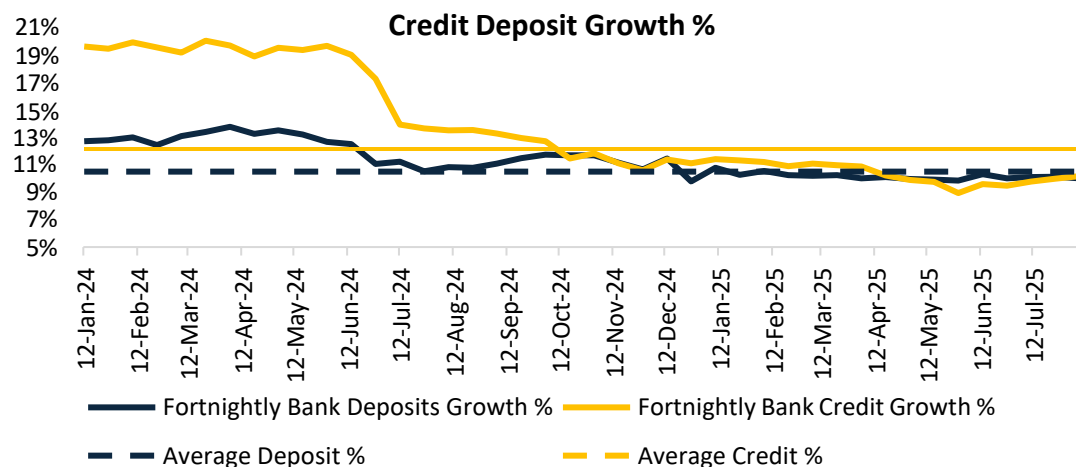
- The July rebound signals gradual industrial recovery, but the drag from mining and weak electricity highlight unevenness.
- Public capex and infra demand should keep supporting metals, cement, and electrical equipment in coming months.
- A dual-track recovery persists, led by government sponsored infra and industrial capex, but private consumption although picking up but still remains weak.
- External headwinds — including weak global demand and commodity volatility — pose further downside risk.
- A favourable monsoon and easing inflation is likely to support rural demand ahead, but a broad-based industrial upturn will depend on a revival in private sector spending and real income gains at the consumer level.
- Industrial recovery outlook remains uneven: while infra-led capex continues, softer household consumption, global slowdown, and the new trade headwinds may delay private-sector ramp up. Higher inflation, once the weak base effect wears off or commodity shocks would exacerbate downside risk.

Source: Internal assessment based on RBI DBIE data

4. Capex



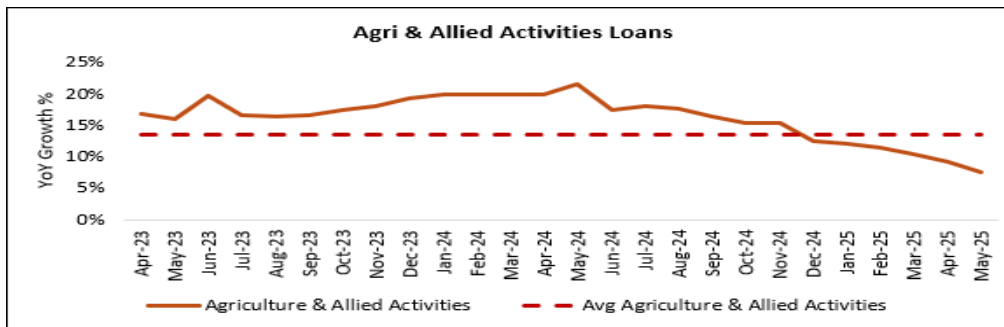
Source: Mint - 'Is credit demand really slowing? RBI's liquidity push tells a different story,' 5 Aug 2025



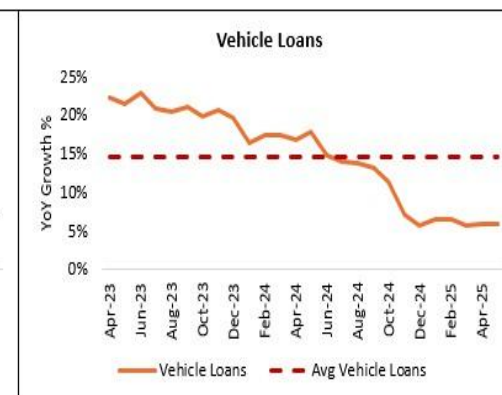
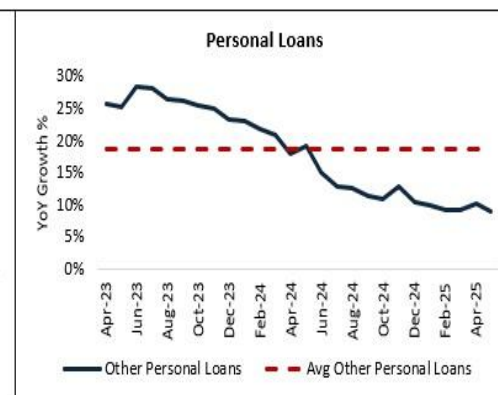
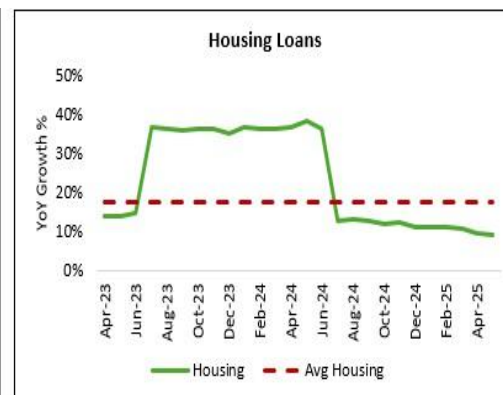
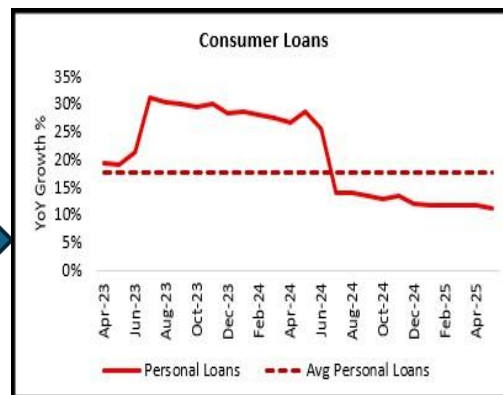
Source: Internal assessment based on RBI DBIE data



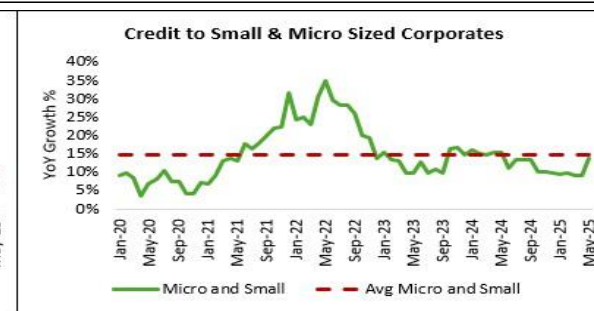
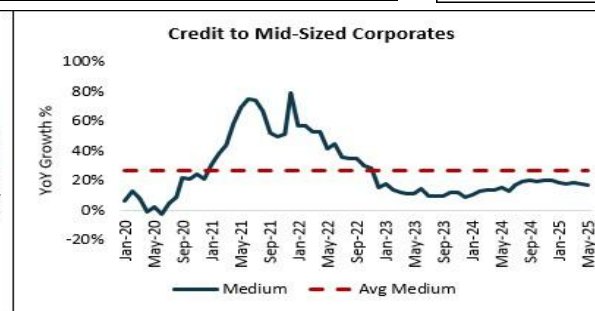
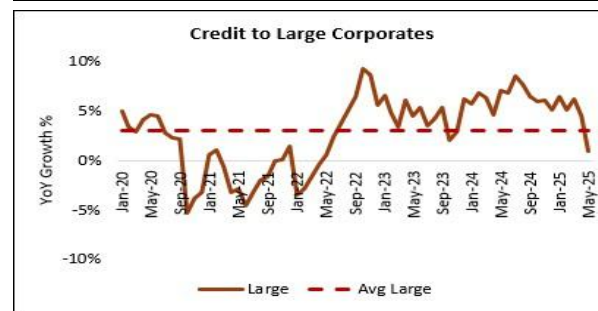
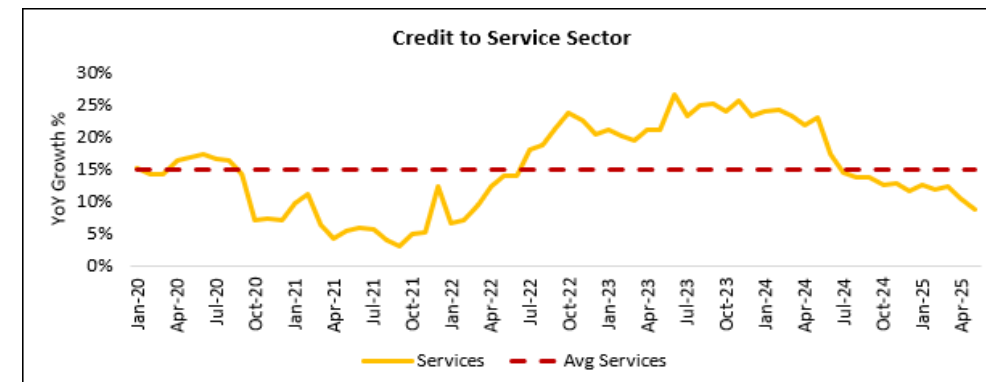
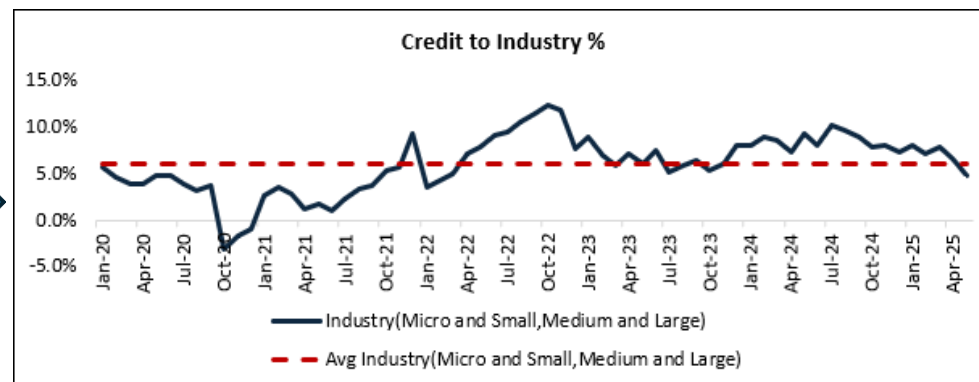
Credit to Agri



Credit to Consumer



Credit to Industry



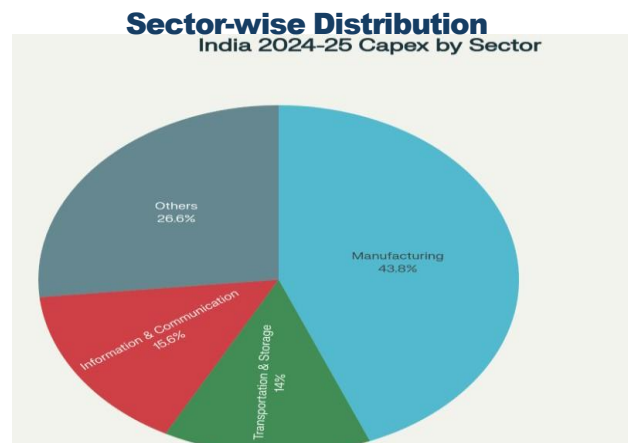
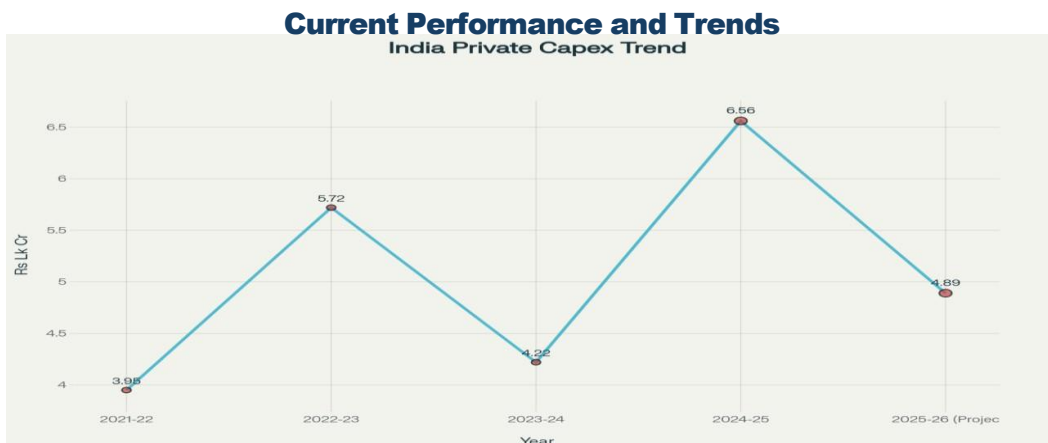


India's Private Capex - Current Situation and Outlook

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

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

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



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

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

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



Key Challenges and Constraints going forward:

Demand-side Concerns

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

Global Economic Headwinds

Global uncertainties including geopolitical tensions, trade wars create additional challenges. The fog of uncertainty has thickened with the US imposing a 50% tariff on India. Private capex announcements contracted 9% year-on-year in FY 2025, led by sharp declines in Services and Construction sectors.

Regulatory and Policy Uncertainty

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

Future Outlook and Projections:

Short-term Prospects (FY 2025-26) -

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

Medium-term Growth Potential -

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

Long-term Strategic Vision -

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

Investment Climate Assessment:

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

The slightly lower intended capex for FY 2025-26, though still above FY 2023-24 levels, reflects cautious planning after a strong FY 2024-25. India's private capex situation represents a complex interplay of record-breaking achievements in FY 2024-25, tempered by near-term caution and global uncertainties, but supported by strong fundamentals and government initiatives that position the country for sustained medium to long-term growth.



Credit Deposit Ratio Normalizing

When we look at the latest data, the story is not as simple as “credit growth is slowing.” For instance, as of August 8, **bank credit growth actually inched ahead of deposit growth, credit grew 10.22% YoY, slightly higher than deposits at 10.05%.** Just a **fortnight earlier, the trend was the opposite**, with **deposits at 10.2% and credit at 10%.** In absolute terms, scheduled commercial banks held ₹235 lakh crore in deposits and ₹186 lakh crore in outstanding credit. While this improvement is encouraging, **it still doesn’t yet signal a firm trend.** Bankers themselves are expecting a stronger pickup in credit growth from H2 onwards, **supported by festive demand**, which typically drives **both retail and working capital lending.**

Capacity Utilization and Capex Caution — Q2 FY26 Preview

Given this scenario, **India’s capacity utilization in Q2 FY26 ticked up slightly to 75.5%,** from 75.3% in Q1. This modest uptick aligns with soft demand visibility and uncertain tariff structure, firms are **still cautious about ramping up capital spending, even with more favorable policies in place.**

Despite the uptick in capacity utilization, **the take-away remains the same, businesses are holding back on aggressive capex,** especially in **consumer-facing and trade-exposed sectors until demand clarity and trade policy direction become more predictable.** In short, **current levels support recovery, but not enough to trigger capex acceleration.**

Bottom Line:

While Q2 shows a marginal rise in capacity utilization, the signal is one of measured optimism, not a green light for aggressive investment. Firms are staging readiness but wait and watch policy, while growth momentum and policy clarity firm up.



Sectoral Banking Credit Deployment Trends – Update

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

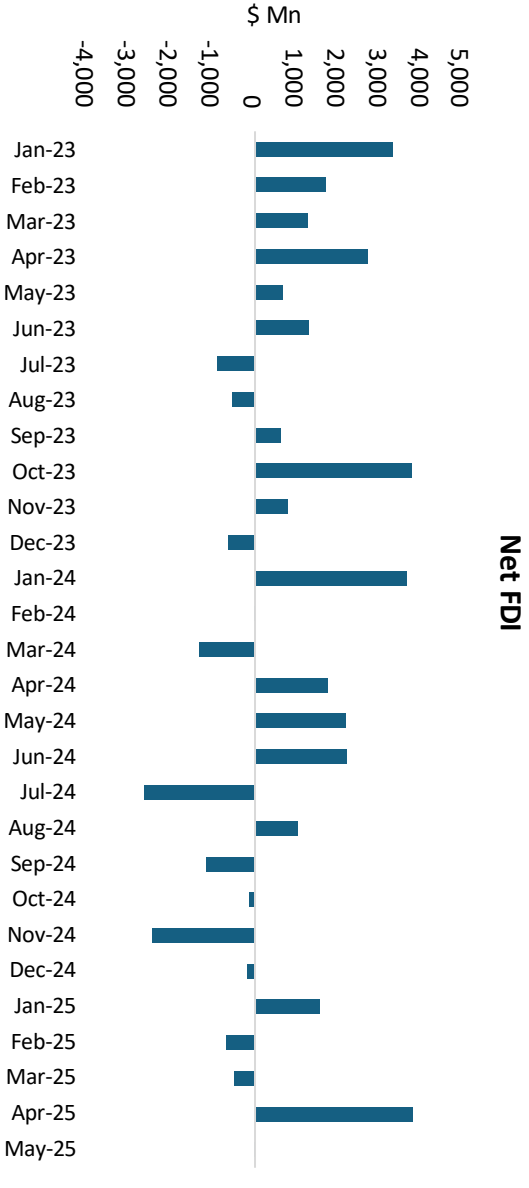
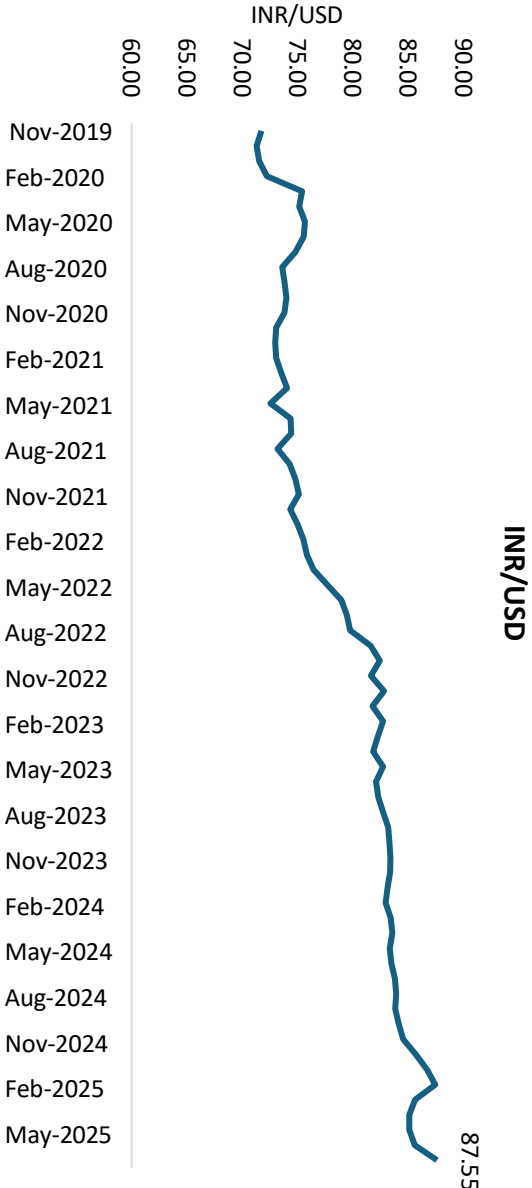
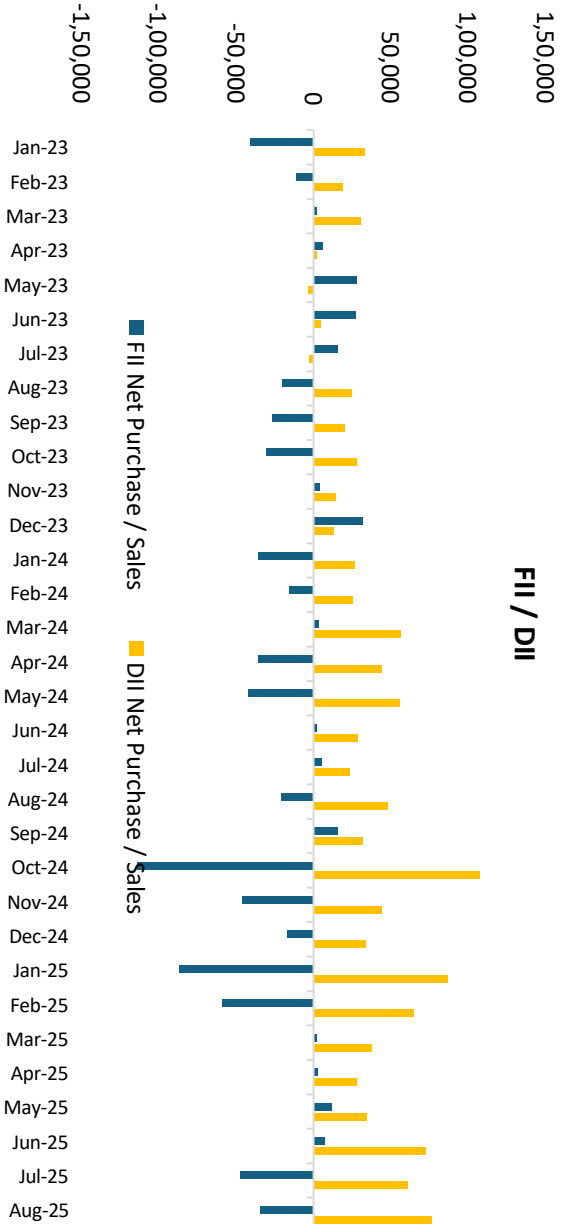
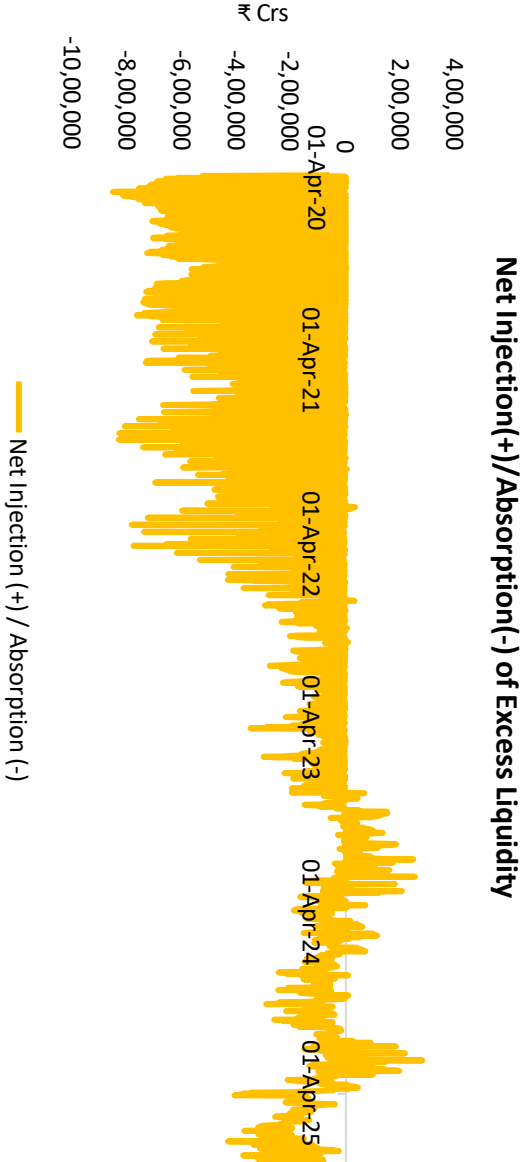
Below is a segment-wise assessment:

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

Composition Shifts and Outlook

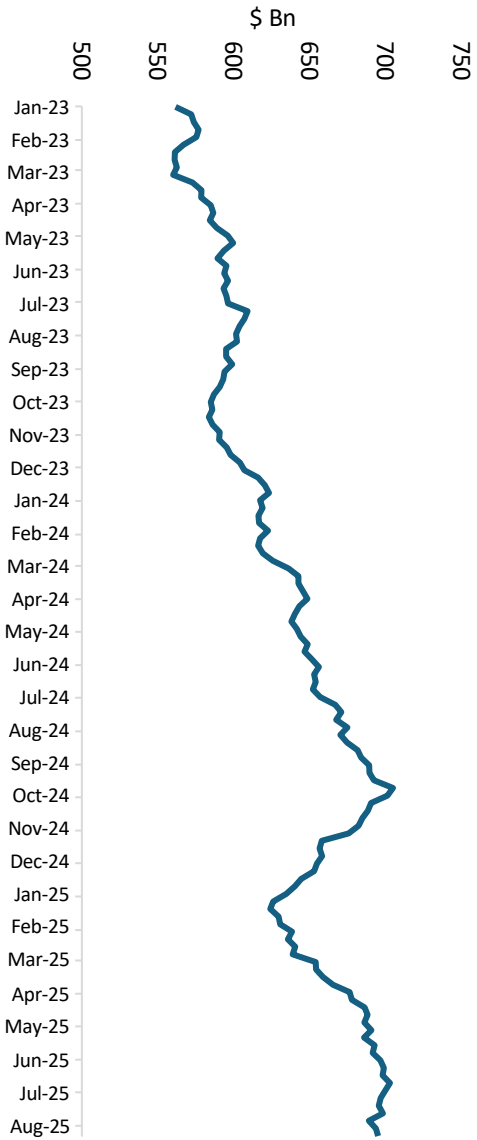
- **Credit deployment patterns have structurally shifted — banks are pivoting away from high-risk unsecured lending towards secured and higher-rated borrowers, especially large corporates and government-linked entities.**
- **Retail credit, especially in consumer durables, personal loans, and credit cards, has sharply slowed post-RBI risk-weight hikes, with a visible divergence in formal vs informal sector credit appetite.**
- **The transmission of 100 bps repo rate cut has been partial, owing to sticky cost of funds and more importantly, balance sheet conservatism.**
- **Forward guidance from major lenders suggests a gradual credit recovery in H2FY26, supported by:**
 - **Festive season-led consumption lift**
 - **Lagged impact of tax sops and fiscal transfers**
 - **Rural demand stability post-good monsoon**
- **However, any sustained pick-up is contingent on broader private capex revival, easing geopolitical headwinds, and RBI's ongoing liquidity stance.**
- **Baseline credit growth for FY26 is now pegged at 11–12%, but downside risks remain from trade protectionism, volatile commodity prices, and weak real wage growth in urban India.**
- **Credit demand hasn't collapsed it's simply moved away from banks toward capital markets, NBFCs, and private placements. Bank credit numbers look weak, but the overall flow of credit in the economy is steady (albeit with low growth), supported by RBI's liquidity push. Once India's trade dynamics stabilize and domestic demand strengthens, conditions will be conducive for the next credit cycle to unfold.**

5. Liquidity

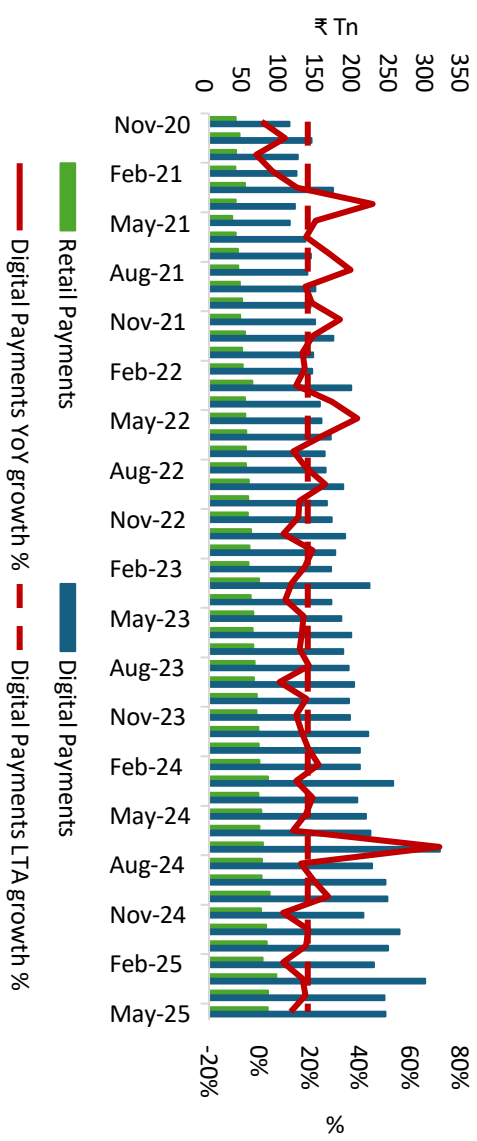




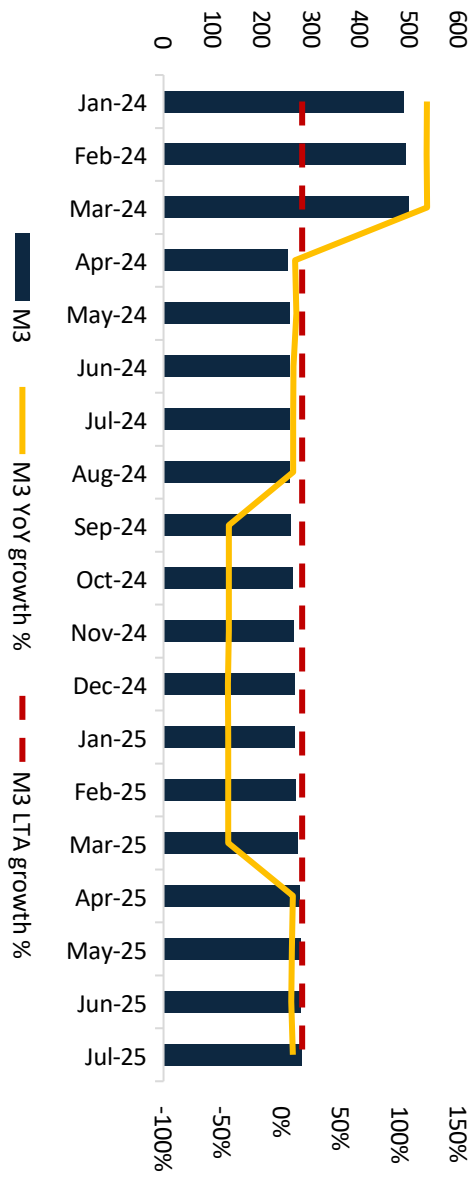
Foreign Exchange Reserves (USD Bn)



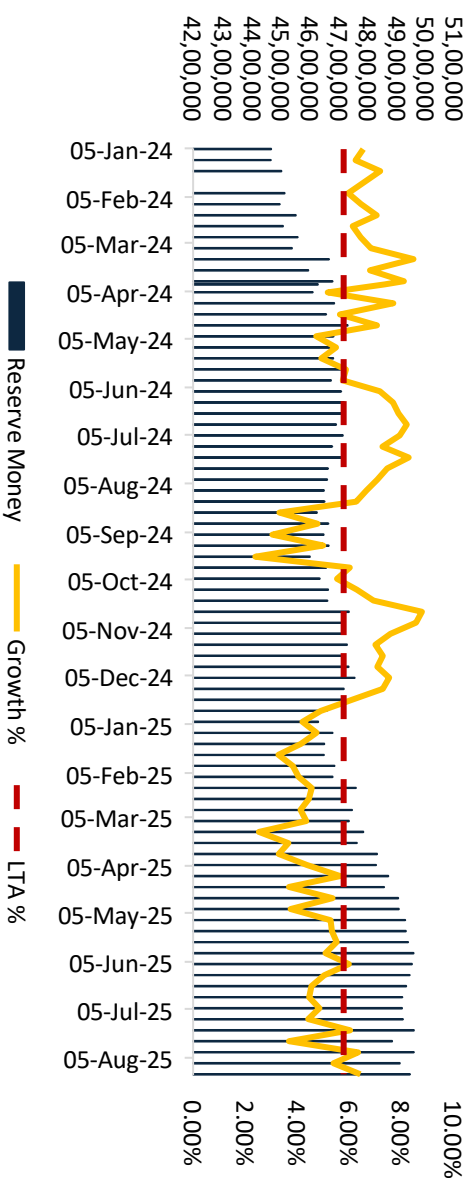
Payments



Money Supply



Reserve Money (M0)





Liquidity in India — Surplus, but demand is the bottleneck

Where we are:

- India's banking system is currently sitting on a **large liquidity surplus**, with excess funds in the range of **₹3–4 trillion through much of August**. This is a sharp reversal from the deficit of **~₹2.4 trillion seen at the end of FY24**, highlighting the aggressive easing steps taken by the RBI, **rate cuts of 100 bps in the last six months, a 100 bps CRR reduction, and liquidity injections through OMOs**. The result has been that the overnight weighted average call rate (**WACR**) **the operational target for monetary policy, has consistently traded below the repo rate (5.5%), often closer to the Standing Deposit Facility (5.25%), reflecting the sheer supply of liquidity**.
- In theory, such abundant liquidity should have encouraged banks to step up lending aggressively. **However, the reality is different, credit growth remains modest**, highlighting that **the constraint is not liquidity availability but demand visibility and frothy valuations**. Banks are struggling to deploy the surplus profitably **because corporates, still cautious on capex and demand outlook**, are not borrowing in size. Additionally, **companies are tapping capital markets and private placements to raise funds, taking advantage of elevated valuations**.

Why lending hasn't exploded:

- **Credit demand mix:** Big corporates have moved to bonds and CPs. **Corporate bond yields dropped 40–60 bps and CP rates by 100–150 bps post-RBI cuts**, making markets far **more attractive than bank loans**.
- **MSME offtake:** Banks are instead focusing on MSME lending, **where yields are higher and government credit guarantee schemes reduce risk**. While growth is visible here, it cannot fully offset weak corporate demand, leaving overall credit growth at ~10%.
- **Margins under pressure:** With **CASA deposits shrinking**, banks are increasingly dependent on **high-cost term deposits**. This **compresses net interest margins (NIMs) and discourages aggressive lending at thin spreads**.
- **Risk filters:** After a strong consumer cycle, lenders are tightening filters in retail/unsecured loans; approvals are more selective, tempering credit expansion.

What it means:

- **Liquidity is necessary but not sufficient to drive growth. Without a stronger revival in private investment and consumption, the surplus will keep getting absorbed through RBI's VRRR auctions instead of translating into credit momentum.**

Outlook:

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



DII vs FPIs — Why are FPIs selling while DIIs keep buying?

The facts:

- **FPIs:** Net equity outflows since July (>₹40k cr); five years of near-zero net inflows; foreign ownership at ~15-year low.
- **DIIs:** Record domestic inflows (TTM ~₹7.1 tn; MFs ~₹5.3 tn via SIPs) offset FPI selling; indices have been flat to slightly negative over 12 months despite big foreign outflows.

Why FPIs are selling:

- Global investors have been pulling money out of India largely due to **global growth concerns on account of US tariff policies and uncertainty** and because they see **valuations in India expensive. Most FPI's are redirecting funds into the safe heaven assets.** At the same time, **emerging markets as a group have been out of favour for years**, and **concerns around India's growth momentum, tariffs, currency pressures, and the medium-term outlook for favourable sectors like IT services add to caution.** On the other hand, **domestic investors (DIIs) are steadily buying through systematic investment plans (SIPs)** and by shifting household savings into equities, which helps cushion the impact of foreign selling. **However, if SIP momentum slows, India's market could again become more vulnerable to global outflows.**

Foreign Reserves — Comfortable buffer; used to smooth INR

- **Stock:** \$695.1 bn (week to Aug 15), below the \$704.9 bn peak (Sep '24) but still ample.
- **Policy use:** RBI leans against excess FX volatility (not a level target). With oil purchases, FPI outflows, and tariff noise, episodic intervention helps anchor INR expectations.
- **What it means:** Reserves give space to absorb shocks (oil spikes/FPI outflows) so macro/financial conditions don't tighten abruptly.



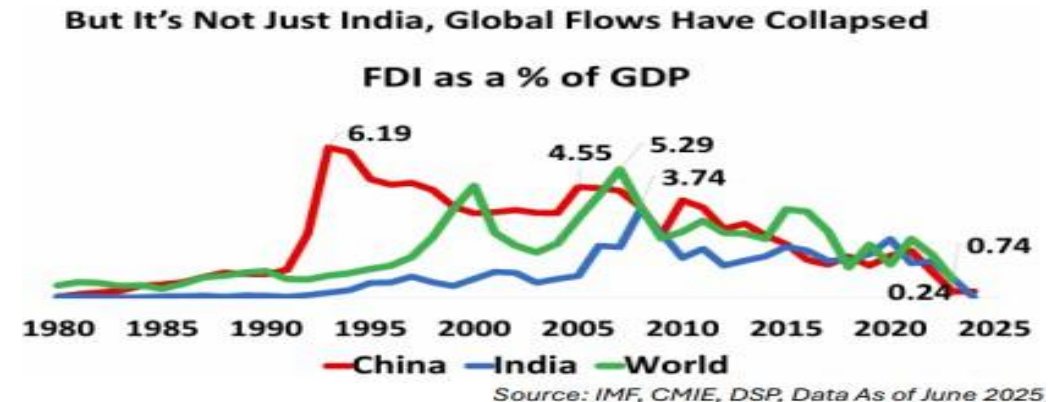
Who moved my FDI!

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

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

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

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

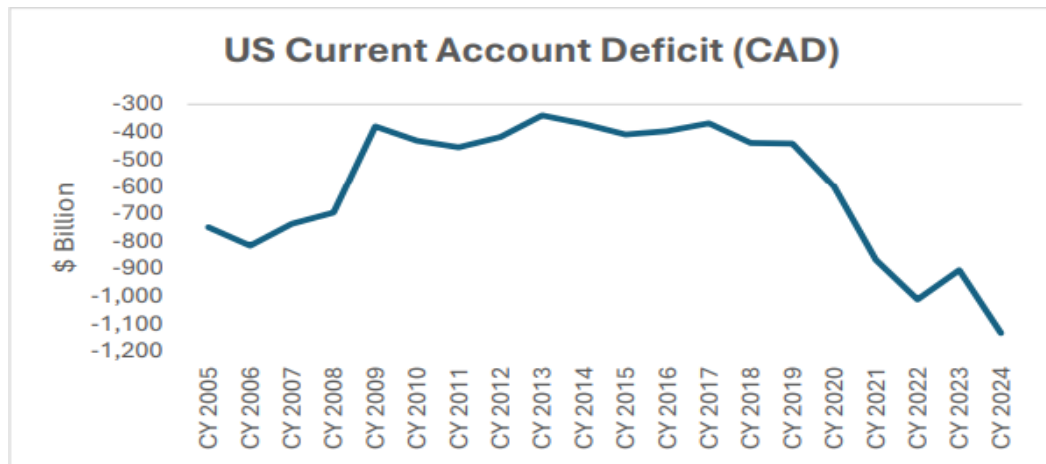


- If and when global flows rebound and if India continues to maintain macroeconomic stability along with strong microeconomic delivery these flows could return. For now, however, they remain a cause for concern.



Weakening US Dollar Flow leading to a fall in Net FDI

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



Source: U.S. Bureau of Economic Analysis

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

As a result two forces are at play;

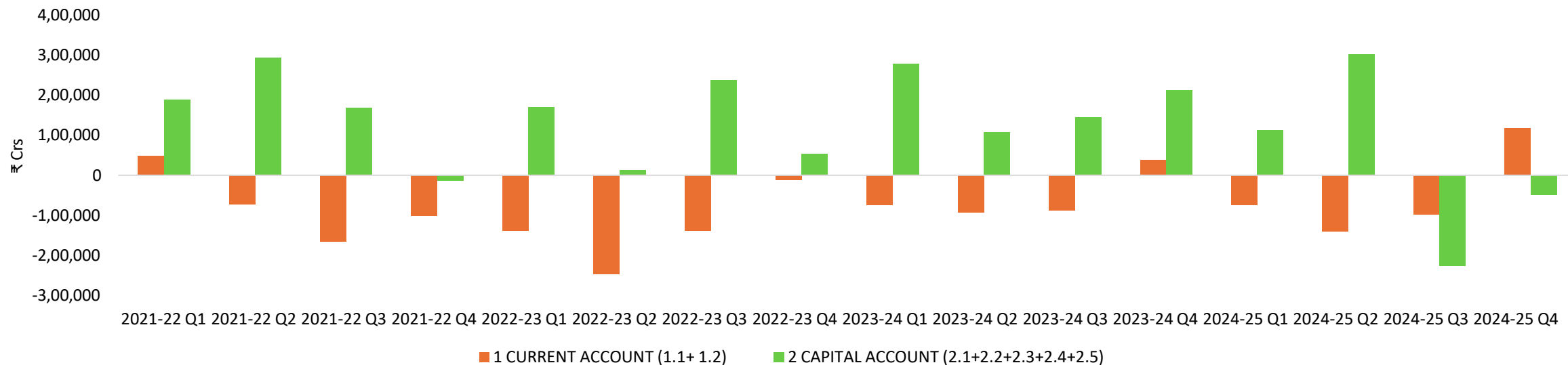
- ❖ The imposition of tariffs is expected to curb U.S. import demand, placing structural downward pressure on the world's reserve currency, the US dollar. The DXY index has already witnessed a fall from around 110 to the high-90s, reflecting both policy-induced and structural weakness.
- ❖ Slower global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

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

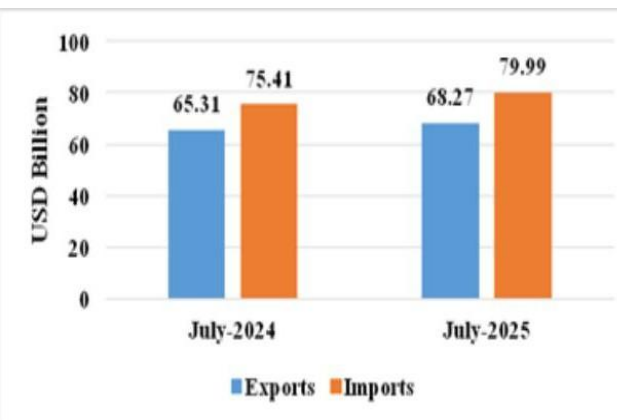
6. Trade



BOP



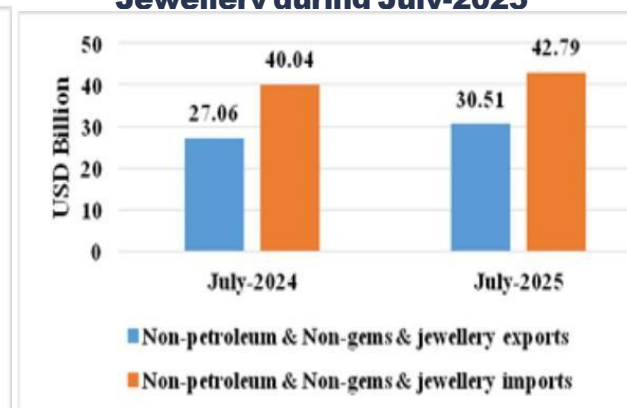
Total Trade during July-2025



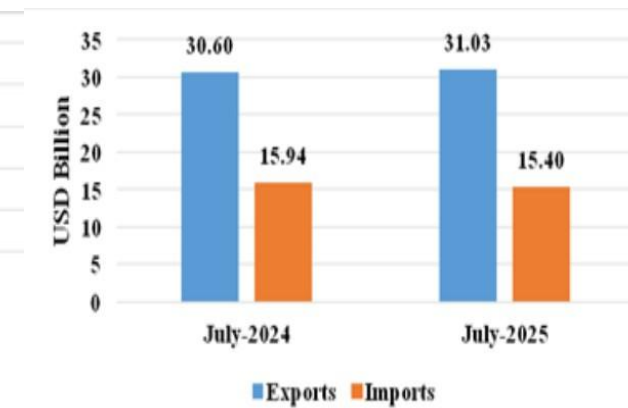
Merchandise Trade during July-2025



Trade excluding Petroleum and Gems & Jewellery during July-2025



Services Trade during July-2025



India's Trade Snapshot – July 2025



Overall Trade Balance

- India's goods exports rebounded after two months of contraction, **rising 7.3% YoY to \$37.24 bn**, aided by a **surge in shipments to the US ahead of reciprocal tariffs** and **recovery in other key markets**.
- Merchandise imports also rose 8.6% YoY to \$64.6 bn**, pushing the trade deficit to an eight-month high of \$27.35 bn.
- Services exports expanded 1.4% to \$31.03 bn**, while **imports contracted 3.4% to \$15.4 bn, generating a \$15.6 bn surplus**.
- Combining goods & services, **total exports grew 4.5% to \$68.3 bn**, while total **imports rose 6% to \$80 bn**, reflecting broad external momentum despite global uncertainties.

Merchandise Exports and Imports

- Exports:** Growth was driven by **engineering goods** (+13.7%), **electronics** (+33.9%), **drugs & pharma** (+14%), **chemicals** (+7.2%), and **gems & jewellery** (+28.9%). **Non-petroleum & non-gems exports rose 12.7% YoY to \$30.5 bn**, led by **electronics** (+46.9%), **pharma** (+5.9%), **readymade garments** (+1.2%).
- Imports:** **Petroleum & crude oil remained the largest driver** (+7.4% YoY, \$15.5 bn). **Gold imports surged 13.8% to \$3.97 bn**, **electronics imports climbed 12.8% to \$9.8 bn**, and **fertilizers spiked 133% to \$1.6 bn**.

Services Trade:

- Services continued to act as a **stabilizing buffer**, offsetting merchandise deficit pressures.
- July's \$15.6 bn services surplus** was led by **IT, consulting, and R&D exports**.
- Digitally Delivered Services (DDS) maintain strong traction, reinforcing India's global positioning as the 4th largest DDS exporter.

Key Trade Trends and Sectoral Insights:

- Electronics exports continued double-digit growth**, consolidating India's push in high-tech categories.
- Gems & jewellery exports benefited from inventory front loading**, with +28.9% YoY growth.
- Engineering goods, particularly auto components and capital machinery, showed resilience despite tariff headwinds, most likely from inventory front loading**.

Geographic Highlights:

- US exports** surged ahead of tariff hikes, most likely due to **front loading before the 50% US tariffs kick in**.
- Exports to ASEAN, EU, and West Asia** also turned positive after a two-month contraction, **highlighting market diversification**.
- Progress on multiple FTAs** (for example EFTA from Oct 1, Oman signed, EU/UK fast-tracked, ASEAN review by Oct) should **bolster trade** visibility going into H2FY26.

Outlook

- Merchandise exports are expected to remain volatile, with risks from tariff wars, commodity price swings, and weak global demand**.
- Non-oil exports (electronics, pharma, engineering) are expected to anchor momentum, while oil exports may stay subdued**.
- Imports may remain firm due to crude, gold, and fertilizers, keeping the trade deficit elevated in the near term**.
- Services exports should continue to provide a structural cushion, offsetting merchandise volatility**.
- Policy support via FTAs, export promotion missions (EPM), and diversification will be critical in sustaining competitiveness**.
- FX markets may stay influenced by capital flows and RBI's intervention band of ₹85.5–86.5/USD**.



The Tariff Conundrum

US Tariffs:

In August 2025, the U.S. government doubled tariffs on most imports from India to **50%**, following through on threats to punish India for not halting imports of Russian oil. An **initial 25% tariff had already been placed on a range of Indian goods; the extra 25% “punitive” duty brought total U.S. tariffs as high as 50%**, a level likened to a de facto trade embargo by some analysts. This is among the steepest tariff regimes the U.S. has applied to any trade partner, **comparable to rates faced by China and Brazil**.

India’s exposure to the U.S. market is substantial. The **US is India’s largest export destination (worth about \$86.5 billion in 2024), accounting for roughly 20% of India’s goods exports**. The **new tariffs cover an estimated 55–66% of Indian exports to the US**, primarily consumer and industrial goods. Targeted products include garments and textiles, gems and jewelry, footwear, sporting goods, furniture, chemicals, leather goods, and seafood. US officials justified the move on strategic grounds, arguing India’s discounted oil trade with Russia was underwriting Moscow’s war effort, and demanded India **“simply stop buying Russian oil” to remove the extra 25% duty**. New Delhi has denounced the tariffs as “unjustified and unreasonable,” calling out a double standard given Western countries’ own dealings with Russia.

The escalation came after five rounds of U.S.-India trade talks failed to reach a compromise. Negotiators had aimed to reduce U.S. tariffs to ~15% (similar to levels in deals with Japan and the EU). With the tariff hike now in effect, India’s government is bracing for economic fallout but also viewing the crisis as impetus to accelerate internal reforms and reduce reliance on any single export market.

India’s trade surplus with US (\$ bn)

Source: Commerce Department



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



Macroeconomic Impact:



Growth and GDP:

The tariff shock is expected to noticeably dent India's economic growth. Various estimates suggest that if the 50% US tariffs persist for a year, India's annual GDP growth could be 0.5–1.0 percentage point lower than it otherwise would be. The impact is closest to a “trade embargo” on India. **In effect, India's growth could slip from the mid-6% range into the low-5% territory**, undermining what has been one of the world's fastest-growing large economies.

Trade Balance and External Sector:

The US buys roughly 2.2–2.3% of India's GDP worth of exports. A sharp drop in these shipments will adversely affect India's current account. Analysts estimate overall **merchandise exports to the US could fall by 40–45%, a loss of about \$30–37 billion per year.** This alone could **widen India's trade deficit by ~0.5% to ~2.7% of GDP (previously 2.2% of GDP) and current account deficit to 1.2% of GDP (previously 0.6% of GDP)**, assuming import spending doesn't contract correspondingly. **The balance of payments is under additional pressure from capital outflows – foreign portfolio investors have already sold nearly \$10 billion of Indian assets year-to-date amid global risk aversion. The reduced dollar inflows from exports, combined with portfolio outflows, put the rupee under depreciation pressure and may prompt policymakers to reassess external financing needs.**

Inflation and Currency:

The immediate inflation impact is ambiguous. **On one hand, a cooling of export demand acts as a drag on growth, which could dampen inflation. On the other, the rupee's slide to record lows (breaching ₹88 per US\$ for the first time) raises the cost of imports and in turn imported inflation.** The Reserve Bank of India intervened to stabilize the currency after it hit an all-time low of ₹88.3/\$, as unhedged importers rushed for dollars. A sustained weaker rupee will make imported commodities (like oil) pricier, posing some upside risk to inflation. The RBI may thus face a delicate trade-off: supporting growth through easier monetary policy versus containing any import-price inflation pass-through from the depreciated currency. So far, India's inflation outlook remains manageable and core price pressures have been moderating, giving the central bank some leeway.

Employment:

The greatest macro concern is employment, "the more potent and second derivative effect of tariffs". Export-focused sectors are typically labor-intensive, so the tariff shock threatens jobs in industries that employ millions of Indians. India's overall urban unemployment was around 7% in mid-2025, and that figure could climb if U.S. orders dry up. Economists warn that “millions of workers” could be affected across textiles, apparel, footwear, gems, and other sectors reliant on U.S. demand. One estimate is that **up to 2 million jobs are at risk in the near term as firms face order cancellations and margin pressure.** Early signs include reports of export factory shutdowns and inventory build-ups (as unsold goods meant for the U.S. are diverted to domestic markets at lower prices). **Rising joblessness, particularly in export hubs and among small manufacturers, would in turn weigh on consumer spending in those communities. This negative feedback loop – tariff shock to exports, to factory output, to jobs and incomes, to consumption – is a key mechanism by which the trade measures could slow India's broader GDP growth in the long run.**

Fiscal and Policy Response:

While not a direct macro indicator, it's worth noting that **the government may need to consider fiscal support for affected sectors, which could have budgetary implications. Any large-scale relief package or export incentive scheme might strain the fiscal deficit, though so far officials have indicated these tariffs, if prolonged, will be met with targeted support rather than broad stimulus.** The RBI, for its part, will likely monitor if export weakness and global uncertainty call for **accommodative policy or liquidity measures.**

In sum, the **macroeconomic impact of the U.S. tariffs is materially negative – cutting into growth, pressuring external balances, and endangering employment, but India's economy, with its diversified base and strong domestic drivers, has some resilience to absorb the shock over time.**



Sectoral Impact:

The tariff increase is **highly sector-specific**, hitting certain Indian industries particularly hard while sparing others. Key impacts by sector include:

Textiles & Apparel:

These are India's classic **labor-intensive** exports and now among the worst hit. **About \$10–11 billion of Indian textile and garment exports go to the US annually.** With US import duties on them now **effectively ~50–64%** (up from low teens earlier), **Indian apparel is suddenly far more expensive in the US market. Competitors like Bangladesh, Vietnam, and Cambodia (which face much lower tariffs) are poised to grab market share.** The Apparel Export Promotion Council estimates **Indian suppliers now suffer roughly a 30% cost disadvantage versus Bangladeshi or Vietnamese rivals.** Major clothing hubs such as **Tirupur (Tamil Nadu), the NCR, and Bengaluru face severe order declines. A potential 70% collapse in US-bound textile shipments is projected if the tariffs persist**, which would be a devastating blow for the \$180 billion Indian textile industry.

Gems & Jewellery:

The US is a top market for India's diamonds, gold jewelry, and gemstones (**about \$10 billion of exports yearly**). These now incur **around 52% total tariffs** in the US. **Surat's diamond polishing units and Mumbai's jewelry industry – which together employ hundreds of thousands, are bracing for a sharp fall in orders.** The Gems and Jewellery Export Promotion Council likened the impact to an “earthquake,” as **Indian gems could lose their price edge and up to 70% of exports in this category may evaporate if US buyers shift to alternatives.** Jewelry exporters might attempt to re-route to markets like the Middle East or Europe, but absorbing the loss of the US market (which accounts for ~40% of India's gem-jewelry exports) will be challenging in the short term.

Seafood (Shrimp and Others):

The US is a major buyer of Indian seafood, especially frozen shrimp from coastal states like Andhra Pradesh and Odisha. India **exported about \$2.4 billion of shrimp to the U.S. last year.** Under the new regime, U.S. tariffs on Indian seafood reportedly **total 60% (including existing duties).** Such a high rate will likely render **Indian shrimp uncompetitive**, threatening the livelihood of **aquaculture farmers** in hubs like **Visakhapatnam.** Competing exporters (e.g. **Thailand, Vietnam**) **stand to benefit** as U.S. importers pivot away from high-tariff Indian seafood. **Other agricultural/food exports – basmati rice, spices, tea – roughly \$6 billion to the U.S. – also face 50% duties**, eroding demand and allowing rivals (Pakistan in rice, Sri Lanka in tea, etc.) to gain ground.

Leather & Footwear:

The US buys a significant share of India's leather goods and footwear (India's **Agra and Kanpur regions are major suppliers of leather shoes** to U.S. brands). These goods are part of the **“labor-intensive” cohort identified by GTRI**, and exporters expect a substantial hit. In Agra, for instance, small and mid-sized shoemakers fear many products have become “commercially unviable” to ship at a 50% tariff. Some are exploring other markets like Europe or the Middle East to offset the U.S. downturn. The Council for Leather Exports has warned that **without relief, job losses in this sector could be severe.**

Automobiles & Auto Components:

The tariffs apply to finished automobiles and many auto parts, although the U.S. had existing 25% auto tariffs in some cases. India's **auto component makers (a \$17+ billion export industry)** count the US as a key market for products like engine parts, tires, and forgings. Global Trade Research Initiative (GTRI) analysis flagged the **automotive sector (vehicles and components) among the hardest-hit by the 50% tariff regime.** This threatens factories in automotive hubs (Chennai, Pune, etc.) and could disrupt supply chains – some Indian parts suppliers might lose U.S. contracts in favor of suppliers from **tariff-free countries like Mexico.** However, one slight relief is that **passenger vehicles were exempted from the new tariff if they were already covered under separate US national-security tariffs. Still, most auto-component exports (not subject to prior tariffs) now face the full brunt of the 50% duty.**



Handicrafts and Carpets:

Niche exports worth ~\$2–3 billion are set to face near collapse in U.S. sales, with countries like **Turkey and Nepal taking India's place.**

Chemicals and Metals:

Indian exports of **steel, aluminum and copper to the U.S. (about \$4.7 billion combined)** were **already under a 25% US Section 232 tariff and remain at those levels – they are exempt from the new 25% add-on.** However, some **downstream metal products and organic chemicals (another \$2.7 billion of exports)** will **see tariffs exceed 50%, straining small manufacturers.**

Information Technology:

IT services, a major India-U.S. trade item, are **not directly affected** by goods tariffs, but any **broader economic slowdown in the West could indirectly soften service export growth.**

Exempted Sectors:

Crucially, not all sectors are hit. The US excluded certain strategic imports from India from the additional tariffs. Notably, **generic pharmaceuticals and active pharmaceutical ingredients (APIs)** – a cornerstone of India's exports – are exempt, as are **electronics (e.g. smartphones, IT hardware)** and **refined petroleum products**. These three categories form a large share of India's export value to the US (pharma alone is over half of the \$27.6 billion in exempt exports). Their exclusion provides a silver lining: India's booming pharma sector (critical for U.S. healthcare) remains unscathed, and electronics exporters (including many multinational manufacturers based in India) avoid disruption. Petroleum product trade (India sometimes exports refined fuels to the U.S.) is likewise not subject to the tariff hike – possibly to avoid raising U.S. energy costs. **The exemptions mean roughly 30–34% of India's U.S. exports by value remain duty-free, which will soften the overall impact versus a blanket tariff.**

Overall, however, **India's traditional export engines are under severe strain. GTRI projects that India's total merchandise exports to the US in FY2025–26 could plunge to about \$49–50 billion, a 43% decline from ~\$87 billion in the previous year. Such a contraction across multiple sectors is unprecedented in recent times. The ripple effects will be felt in factory towns across India. The government and industry bodies are therefore moving quickly to find alternate markets for these goods, provide interim support to affected firms, and engage diplomatically to resolve the trade standoff.**



Trade & Geopolitical Realignment and Strategy:

The tariff conflict is prompting strategic reorientation in India's trade and foreign policy. Key elements of India's response include:

Export Diversification Efforts:

India is accelerating initiatives to diversify its export markets and reduce over-reliance on the U.S. market. In recent years India had already been seeking new trade pacts, and this shock adds urgency. Notably, India signed a **free trade agreement with the UK in 2025**, aiming to boost exports in absence of U.S. access.

Negotiations with the European Union for a broad trade deal (FTA) are being pursued with renewed vigor, as are **talks with Canada and Australia**. The government is also **dispatching trade missions to the Middle East (Gulf states), East Asia, and Africa** to tap growing markets and capitalize on goodwill in those regions. The Global South is a particular focus: India is positioning itself as a reliable trading partner to emerging economies, leveraging forums like the G20 and BRICS to open channels for its exports. Analysts note that if the U.S. "shuts itself off" to Indian goods, India will find other buyers among BRICS and developing countries – much as Russia redirected its oil exports post-sanctions.

Import Substitution & Domestic Demand:

Prime Minister Narendra Modi's government has **doubled down on its "Make in India" and self-reliance (Atmanirbhar) narrative** in response to the tariffs. Modi publicly appealed for Indians to buy domestic products to make up for lost external demand. Additionally, to spur domestic consumption, New Delhi is considering fiscal measures: for example, a **proposal to cut Goods and Services Tax (GST) rates on a range of consumer items** (food, textiles, cement, etc.) to stimulate spending. By **boosting internal demand, the aim is to absorb some of the excess supply that can no longer find a market in the US**. This kind of export-to-domestic rebalancing could, in theory, soften the blow to GDP and employment, though **its effectiveness will depend on the government's fiscal capacity and consumers' response**.

Export Promotion and Relief:

The government is formulating **targeted relief for export industries** to help them weather the storm.. Industry groups like the FIEO (Federation of Indian Export Organisations) have lobbied for measures such as a one-year **moratorium on loan repayments** for affected small exporters. Likewise, sector bodies (e.g. Apparel Export Promotion Council) seek interest rate subventions or subsidies to offset the high cost of credit in India (8-12% interest) versus competitors (3% in China). The Commerce Ministry is also enhancing duty drawback and tax rebate programs (like RoDTEP and RoSCTL) to improve exporters' cost-competitiveness by refunding embedded taxes. These steps, coupled with a ₹15,000 crore (~\$1.8 billion) interest equalization scheme recommended by GTRI, aim to prevent mass business failures in sectors like apparel, gems, and seafood.

"India+1" Strategy:

In a novel approach, policy advisors have suggested India **establish offshore export hubs – an "India+1" strategy** – in countries that have favorable trade terms with the US. By investing in manufacturing or assembly in third countries (for example, setting up joint ventures in the UAE, Mexico, or Africa), Indian firms could **route some production through those locations to bypass U.S. tariffs**. This is analogous to how some Chinese firms responded to US tariffs by shifting production to Vietnam or Mexico. While **this strategy may be complex and longer-term, it underlines India's determination to maintain access to the U.S. consumer market indirectly, and to not let its global supply chain integration be reversed entirely by one country's tariffs**.



Geopolitical Realignment – China and Russia:

The tariff fallout is also influencing India's broader geopolitical stance. India-U.S. relations, which had been warming (with growing defense and strategic cooperation), have hit an unexpected hurdle. In contrast, **India is carefully warming its equation with China in the economic realm. In a significant development, Modi met with Chinese leaders for the first time in years at the SCO summit, signaling a pragmatic thaw in ties. India has begun to welcome Chinese investments in certain sectors again, a notable shift after years of restrictions following the 2020 border clash.** This does not mean a full strategic realignment toward Beijing, but India seems to be hedging its bets, keeping communication open with China as leverage against Western economic pressure.

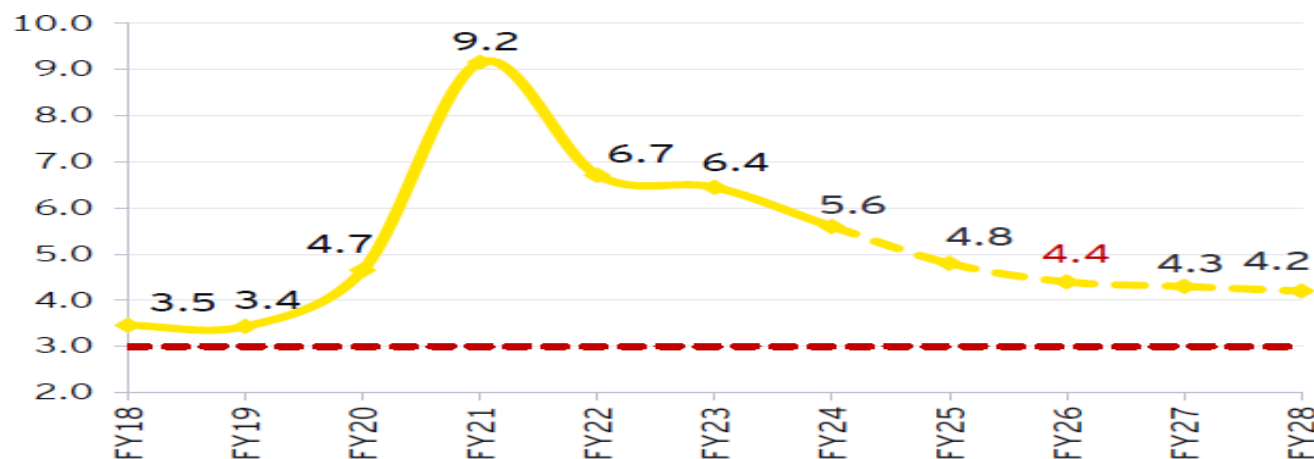
Simultaneously, India remains steadfast with Russia – an “all-weather friend” providing critical energy and defense needs. Even as U.S. tariffs intend to penalize Russian oil imports, **India has made clear that its energy security comes first, and it will continue buying from Russia (which now supplies ~40% of India's crude, up from <1% pre-2022).** Indeed, New Delhi has devised rupee-based payment mechanisms to pay for Russian oil, reducing dependence on the U.S. dollar and blunting the impact of financial sanctions. Indian officials underscore that they will take “all necessary measures” to safeguard national economic interests, even if that means absorbing short-term pain from tariffs. This stance resonates with other developing nations who perceive Western trade penalties as overreach, potentially bolstering India's leadership role in forums like BRICS and the G77.



7. Fiscal Situation



GOI's Fiscal Debt / GDP – Glide Path



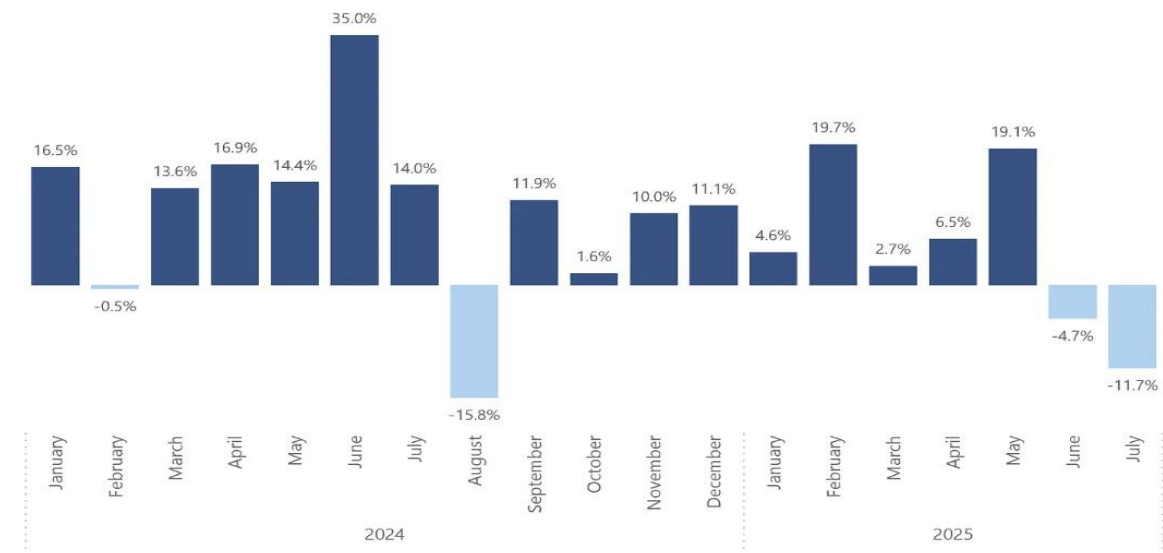
GOI's Fiscal Position

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

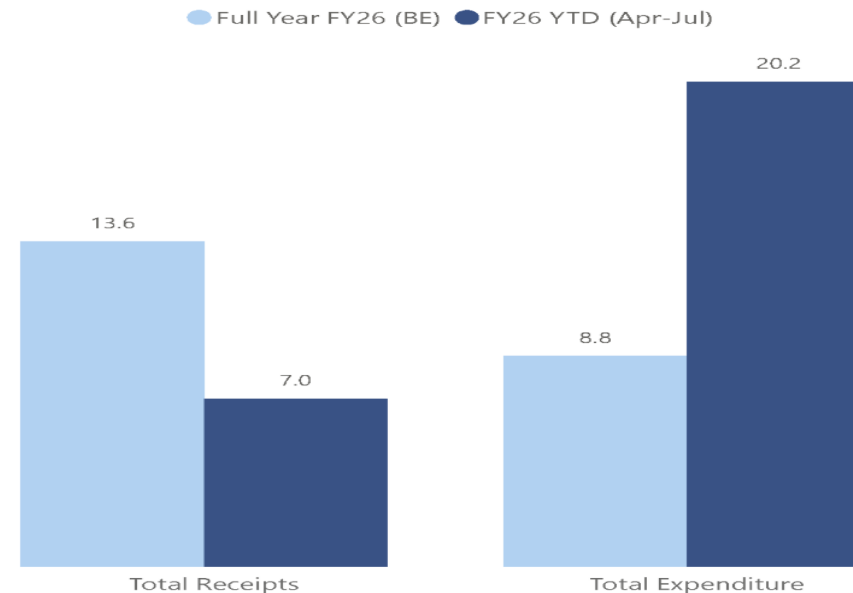
GOI's Fiscal Position - as a % of GDP

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

Central Government Gross Tax Collection



Central Government Receipts vs Expenditures - Growth



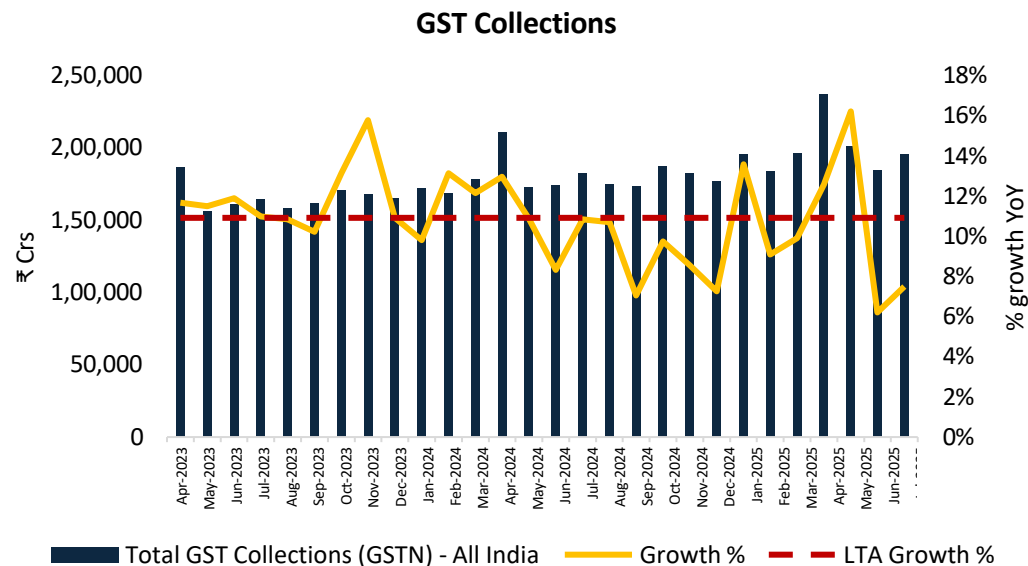
India's Fisc – in a spot of bother

Gross Tax Revenue

- Central Government's Gross Tax Collections declined for the second consecutive month in July. **Gross Tax Collections declined 12% YoY in July following a 5% decline in June. Personal Income Tax Collections are the primary drag. They dropped 35% YoY in July and 12% in June.** Excluding Personal Income Tax, overall tax revenues grew 6% YoY in July. **The decline in Personal Income Tax Collections is primarily due to two factors. On one hand, the tax slabs have seen significant relaxation this year, which will impact advance tax and monthly TDS collections. And on the other hand, the due date for filing tax returns for Individuals was extended to 15th September, which normally tends to be 31st July. So there is an element of shifting of timing of tax collections (due to a change in due date) and also a decrease in tax liability for individuals.**

Expenditure

- Till July, Gross tax revenues have grown by less than 1% and even excluding the personal income tax collections, tax collections have grown by 7% YoY. Total receipts have grown by 7% including the large dividend from the RBI. Furthermore, the announced reduction in GST rates will only add to the revenue loss in the second half of the year.. **Therefore, the key takeaway is that, as things stand now, the government's full-year budget estimate of a 12.5% growth in tax revenue and 14% growth in total receipts looks optimistic. Government expenditure, in contrast, has risen by over 20% YoY, compared with the budgeted projection of high single-digit growth, likely driven by front-loaded capex in the first half of the year to stimulate demand. This momentum is expected to persist into H2, supported by fiscal measures to cushion the impact of higher-than-anticipated US tariffs. And thus, unless the revenue trajectory improves substantially, the government will have to run a higher fiscal deficit and concomitantly higher market borrowings, further straining the debt market.**



GST Collection August 2025

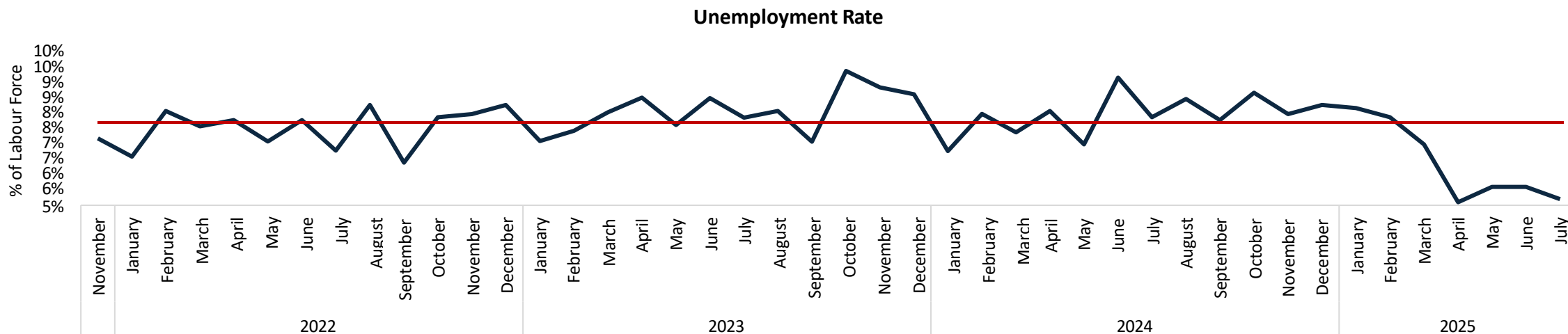
- India's Goods and Services Tax (GST) collections reached **Rs 1.86 lakh crore in August, a 6.5% increase over the same month last year**. However, the collection for the month of August is slightly lower than that of July's, when the collection was at Rs 1.96 lakh crore, which had been the second-highest monthly collection since the tax's rollout in 2017. **After adjusting for refunds, the net revenue records at Rs 1.67 lakh crore, showing a growth of more than 10% compared to August 2024.**
- Factors that contributed to the surge in the GST collection include **domestic transactions, including import of services**, that recorded 9.6% growth while revenues from **goods imports contracted marginally by 1.2%**.
- This is one of the penultimate months where the collection has happened in the existing tax structure, as the **government plans to bring the GST reforms by Diwali, in order to boost consumption demand. Hence, collection post October are likely to be lower.**

Fiscal Deficit & Trajectory

- Overall, the fiscal consolidation path remains well on track for now, with the FY26 deficit targeted at ₹15.69 trillion, or 4.4% of GDP, compared with ₹16.85 trillion (5.6% of GDP) in FY25. This aligns with the Centre's medium-term objective of reducing the deficit to below 4.5% by March 2026. However, given the recently imposed US tariffs and their impact on select industries, the government may consider targeted relief measures to support exporters, which could exert some pressure on fiscal balances. In addition, the recent GST restructuring aimed at boosting demand may also add to fiscal pressures.**



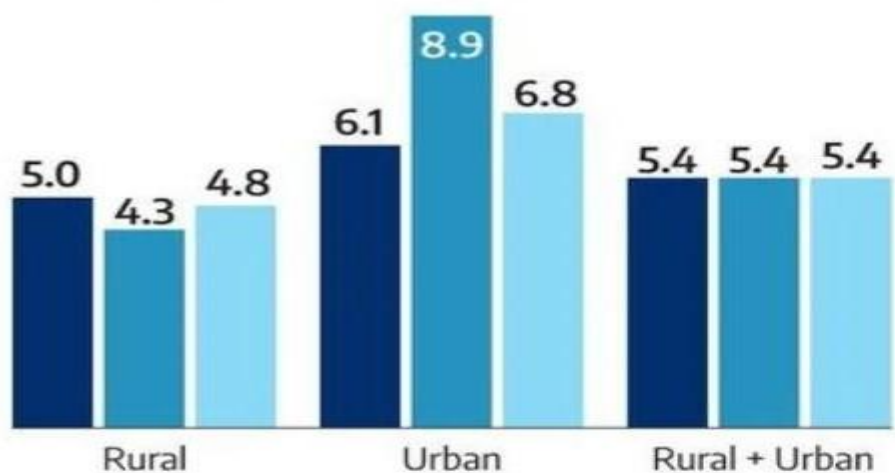
8. Employment



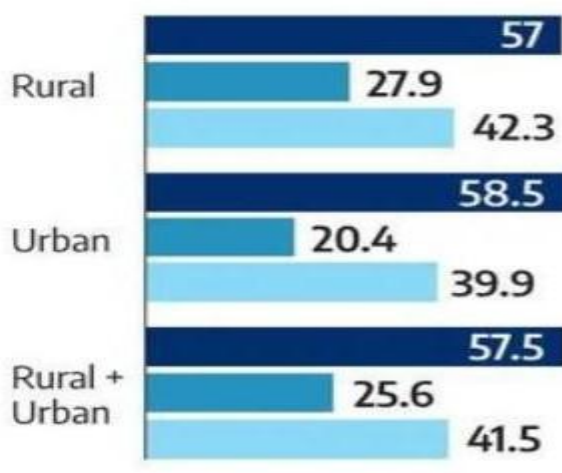
Book of jobs

■ Male ■ Female ■ Person

Unemployment rate (%) in CWS in Q1



LFPR (%) in CWS in Q1



CWS: Current weekly status.; LFPR: Labour force participation rate Source: NSO

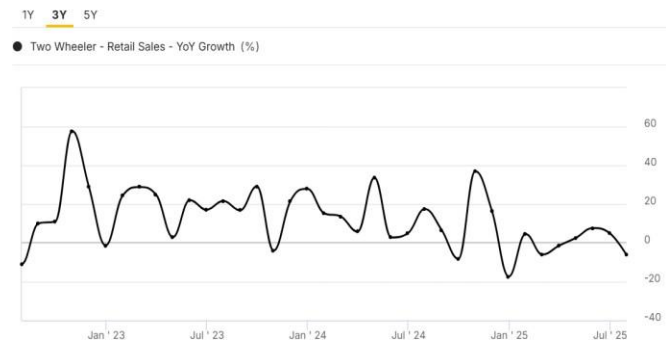
Employment Conditions Update – Q1 FY26 (Apr–Jun 2025)

- India's unemployment rate stood at 5.4% in Q1 (CWS basis), with rural at 4.8% and urban higher at 6.8%, reflecting lingering stress in cities.
- Youth unemployment (15-29 yrs) remains elevated at 14.6%, with a sharper gap for females (16%) vs males (14.1%).
- Employment composition shows 54% self-employed, 26% wage employees, and the rest as casual labour, pointing to reliance on informal work.
- The labour force participation rate (LFPR) was 55% overall - stronger in rural (57.1%) than urban (50.6%); gender gap persists (77.3% men vs 33.4% women).
- Female participation showed a positive turn in July, with LFPR rising to 33.3% (from 32% in June) and unemployment easing to 5.2%.
- The new quarterly PLFS methodology offers sharper, timely estimates and confirms that rural employment remains relatively resilient, while urban markets are still lagging.
- Overall: Employment momentum is steady but uneven – rural and female participation show gradual gains, while urban youth unemployment highlights the challenge of quality job creation.**

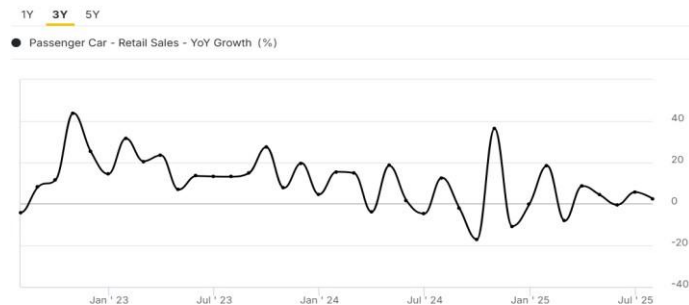
Source: RBI Bulletin and Internal assessment

9. Demand Indicators

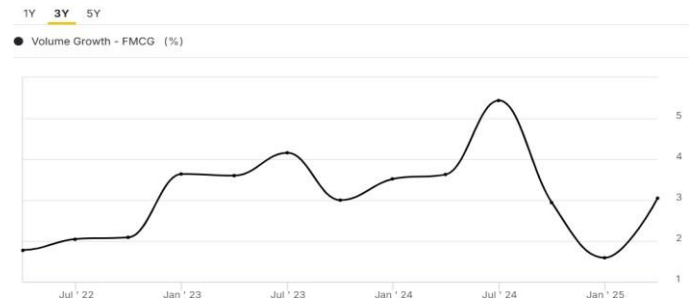
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



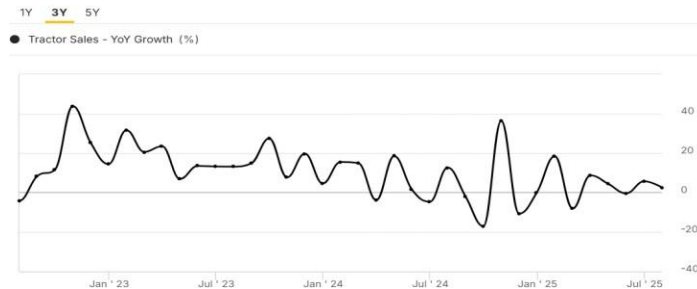
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



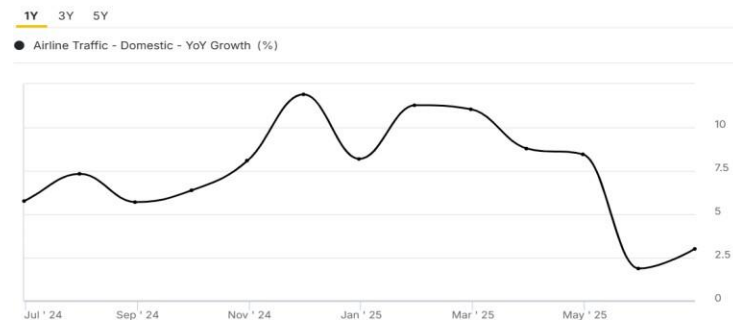
VOLUME GROWTH - FMCG (%)



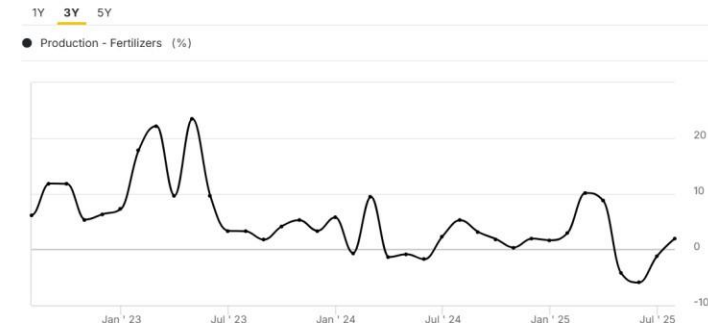
TRACTOR SALES - YOY GROWTH (%)



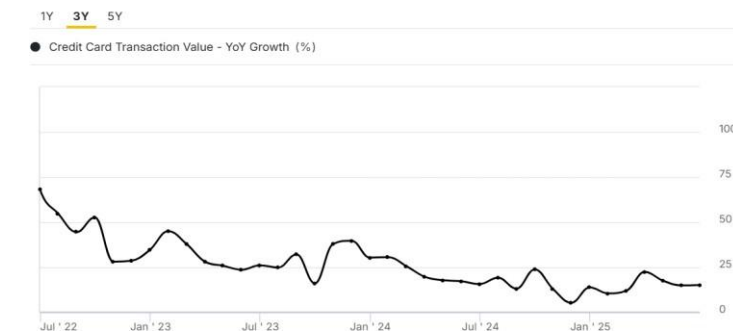
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



PRODUCTION - FERTILIZERS (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



Select High-Frequency Indicators (July 2025)

Rural Demand

Rural indicators were mixed. Tractor sales growth was flat, but two-wheelers showed weakness, while fertiliser output increased, reflecting support from farm incomes., though easing food inflation and healthy sowing conditions are cushioning rural demand.

Urban Demand

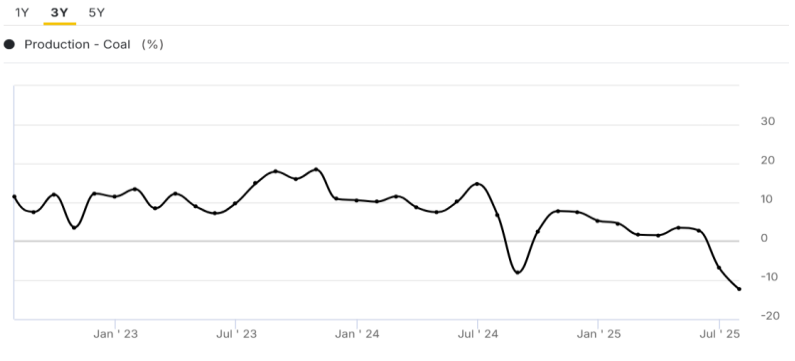
Urban indicators were mixed as well with Passenger vehicle sales growth was flat, with high base effects kicking in. Credit card transaction growth moderated, suggesting softer discretionary consumption. FMCG volumes improved modestly, aided by easing input costs. Air traffic remained strong, though sequential momentum softened.

Outlook

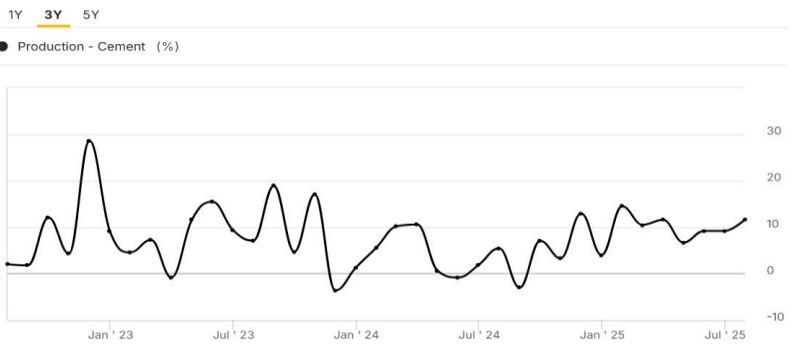
Consumption demand indicators remained largely flat, with little evidence of a pickup in domestic activity. Key factors to monitor include monsoon patterns, global commodity trends, and the pass-through of recent interest rate, income tax, and GST cuts to retail credit.



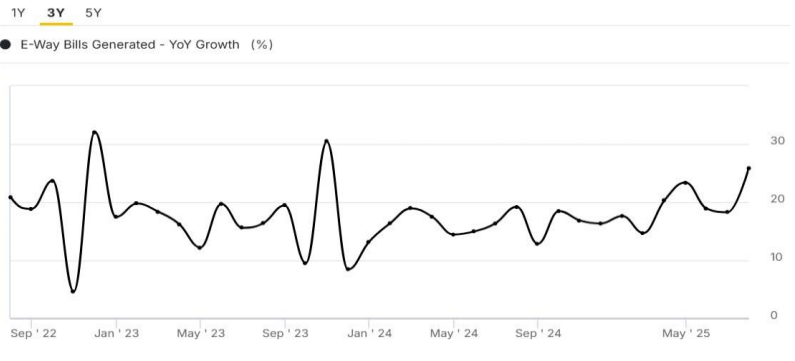
PRODUCTION - COAL (%)



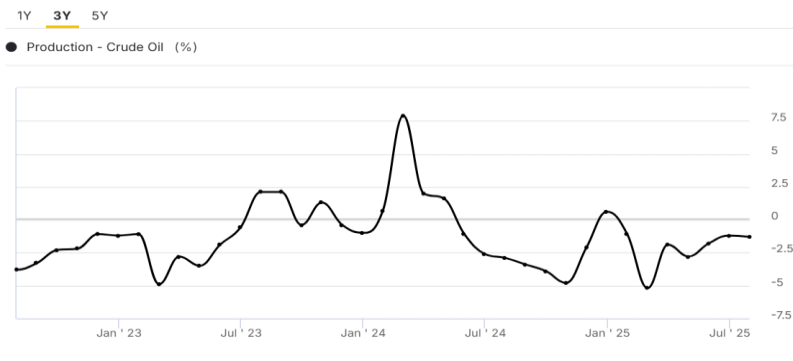
PRODUCTION - CEMENT (%)



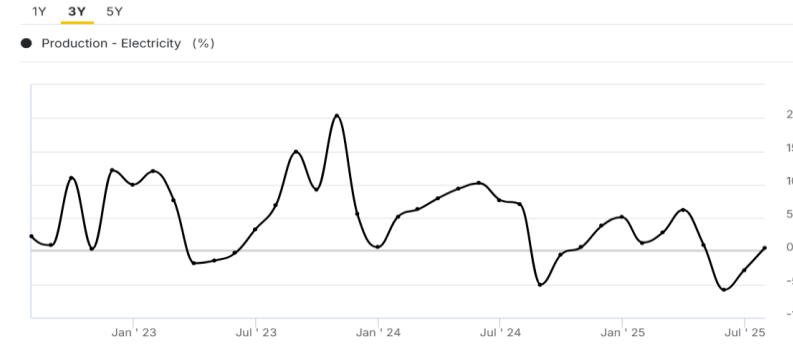
E-WAY BILLS GENERATED - YOY GROWTH (%)



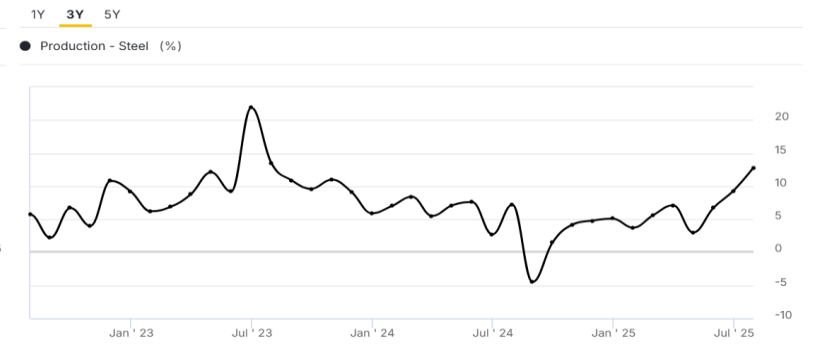
PRODUCTION - CRUDE OIL (%)



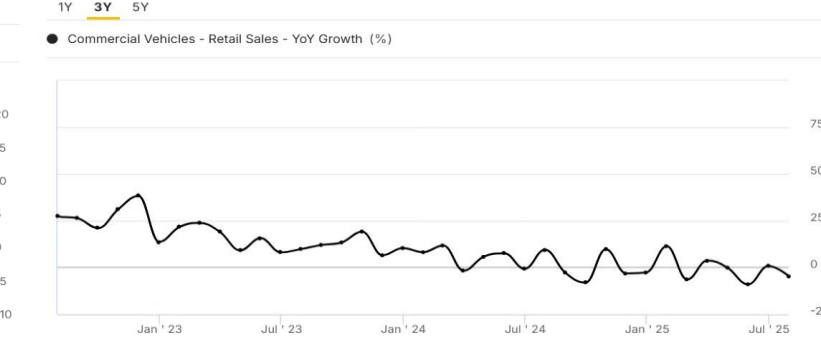
PRODUCTION - ELECTRICITY (%)



PRODUCTION - STEEL (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



Industrial Activity

Core sector momentum was steady but flattish. 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 pointed to resilient logistics activity. GST collections eased on base effects but remained robust in absolute terms.

Services Sector

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

Outlook

High-frequency indicators suggest industrial activity remains resilient, though momentum is uneven. Key risks stem from elevated US tariffs, a slowing global economy, and currency pressure leading to higher commodity prices, and weak domestic demand.



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
↓ GDP	Good	Good	Good	Ok	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Ok	Bad	Bad
↑ Inflation	Good	Good	Good	Ok	Ok	Ok	Ok	Ok	Good	Good	Good	Good	Good	Good	Good
↓ Industry	Good	Good	Good	Ok	Bad	Bad	Bad	Bad	Ok	Good	Bad	Bad	Bad	Bad	Bad
↓ Capex	Good	Good	Good	Good	Good	Ok	Ok	Ok	Ok	Bad	Bad	Bad	Bad	Bad	Bad
↑ Liquidity	Good	Ok	Good	Ok	Ok	Bad	Bad	Bad	Bad	Bad	Ok	Good	Good	Good	Good
→ Trade	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Ok	Ok
↑ Fiscal Situation	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
↓ Demand Indicators	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Bad	Bad	Bad
↓ Equity	Ok	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Bad	Ok	Ok	Bad	Bad
→ Debt	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Ok	Ok	Ok

Key:

✓ Good
Good
Ok
Bad
✓ Bad

Cautious

The Indian economy is currently navigating a difficult phase, with private sector capital expenditure expected to be subdued amid persistent uncertainties - particularly those stemming from the US trade policies and tepid domestic demand. This “wait-and-watch” stance by corporates is reflected in the muted activity across key industrial sectors, which have shown up in the subdued GDP and IIP numbers for the past few quarters, despite otherwise supportive macroeconomic conditions. Inflation remains anchored within the RBI’s target range, systemic liquidity is comfortably in surplus, and the fiscal deficit is currently under control. However, potential government support for tariff-impacted industries could weigh on fiscal stability going forward. For a sustained and broad-based recovery to take hold, a meaningful revival in aggregate demand - both urban and rural, is imperative. Enhancing consumption demand by reducing income and consumption taxes, and quality employment generation will be critical to translating macro-stability into enduring growth momentum. Only then can the long-anticipated credit cycle gain traction. In the near term, however, the 50% US tariffs are likely to act as a drag on recovery prospects.



Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												CY
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2025	-1%	-6%	6%	3%	2%	3%	-3%	12%					17.3%
2024	0%	1%	2%	1%		7%	4%	1%	2%	-6%	0%	-2%	8.6%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	12.1%	14.7%	15.0%
Standard Deviation	21.7%	26.3%	30.3%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	2	1
No of Years	26	20	12

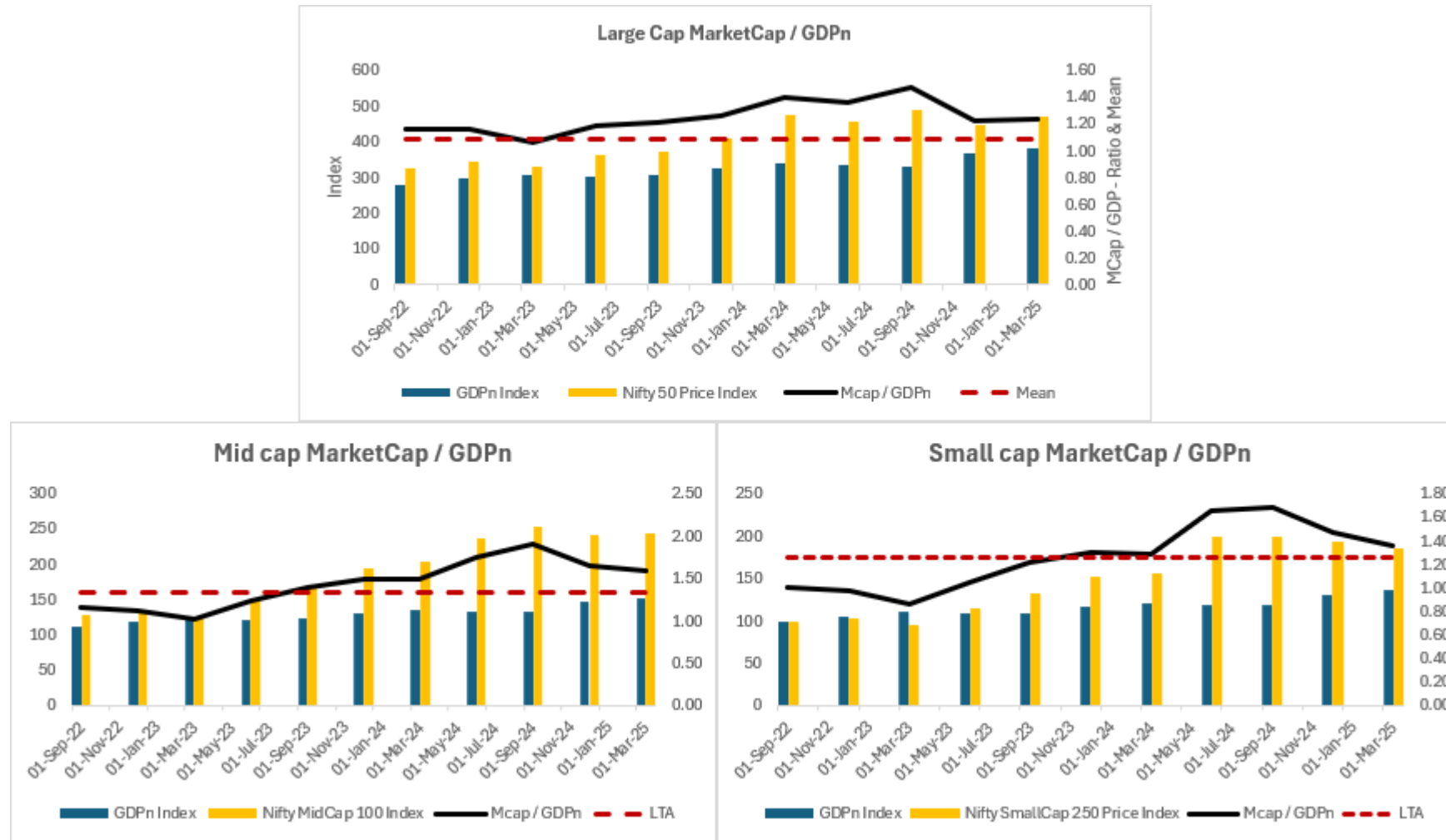
Tempered Down Expectations

- From Oct 2024 till August 2025, the Nifty 50 Index has risen 0.79%, reflecting mean reversion from lofty valuations. Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years, with an average of only 1 month in a year where returns have declined by 6% or more (this number is the almost the same for mid and small caps). Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. Similarly Mid Caps registered a CAGR of ~15% over the past ~20 years and Small Caps registered a CAGR of ~15% over the past ~12 years. With CY 2025 returning 17% for Nifty 50, we expect returns for the first half of the year in the Large Cap segment to be subdued, especially since the US tariff headwinds weigh in and global growth momentum slows. Mid and Small Caps have given a return of ~24% each in CY 2024 which followed 44% and 56% return respectively in CY 2023. Hence, we expect returns in Mid and Small Cap Indices to be subdued in CY 2025 with reversion to their long-term mean.
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.
- As per TTM PE valuations Large Cap and Mid Cap seem to be Fairly-valued and Small Cap are overvalued.

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	21.76	23.88	-9%	Fairly Valued
Mid Cap	31.44	32.32	-3%	Fairly Valued
Small Cap	32.57	25.97	25%	Overvalued



Buffett Indicator



The present lofty valuations are further evidenced in the **high premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 12% & 16%, whereas Small Caps are currently trading at premium of approx 7%** (as per Buffet Indicator), as on 25th August 2025. **EPS estimates for FY 2025 and FY 2026 are 6.2% and 11.4% respectively, which seems encouraging going forward, however uncertainty over US tariff policies remain and are not yet fully factored into current valuations.**

Valuation Concerns



Sales Growth Momentum Fading

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

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

Corporate Margins at Multi-Year Highs Amid Subdued Revenue Growth

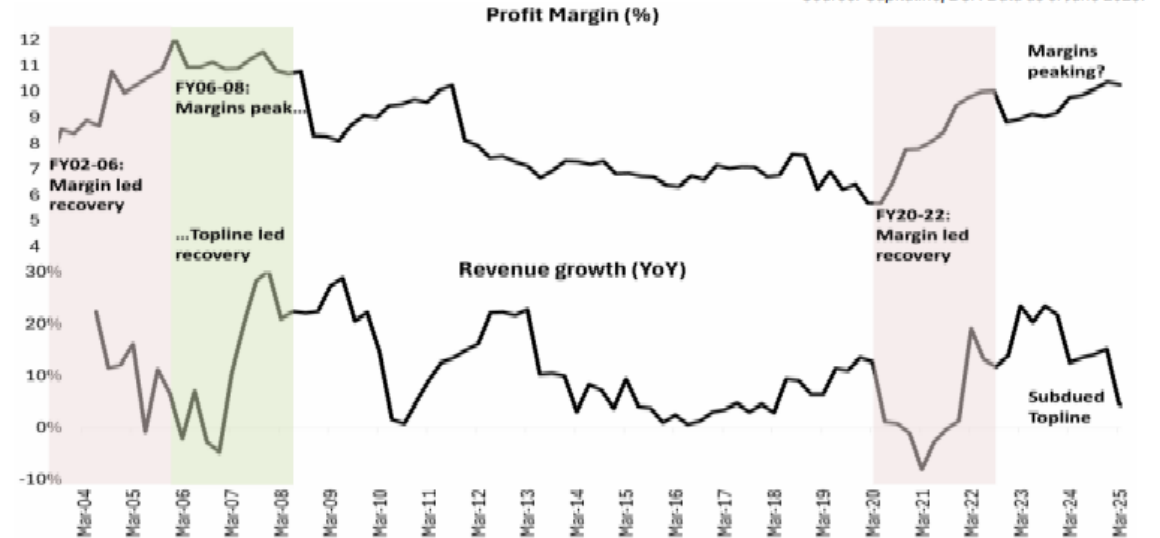
Median Operating Margins (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Construction Materials	24.9	23.6	17.0	18.5	18.5	12.9	13.9	12.7	14.5	14.4	12.7	18.7	19.4	16.8	12.3	15.2	12.9
Oil, Gas & Consumable Fuels	10.8	12.2	14.3	9.4	10.9	8.0	10.0	9.8	12.4	14.4	13.7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

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

Profit Growth Momentum Is Waning

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

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



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



Strong Balance sheet on account of Deleveraging

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

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

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

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

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

Muted capex due to lack of demand visibility

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

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



Source: Bloomberg, DSP. Data As of June 2025



Valuation concerns amid sluggish Demand

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

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

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

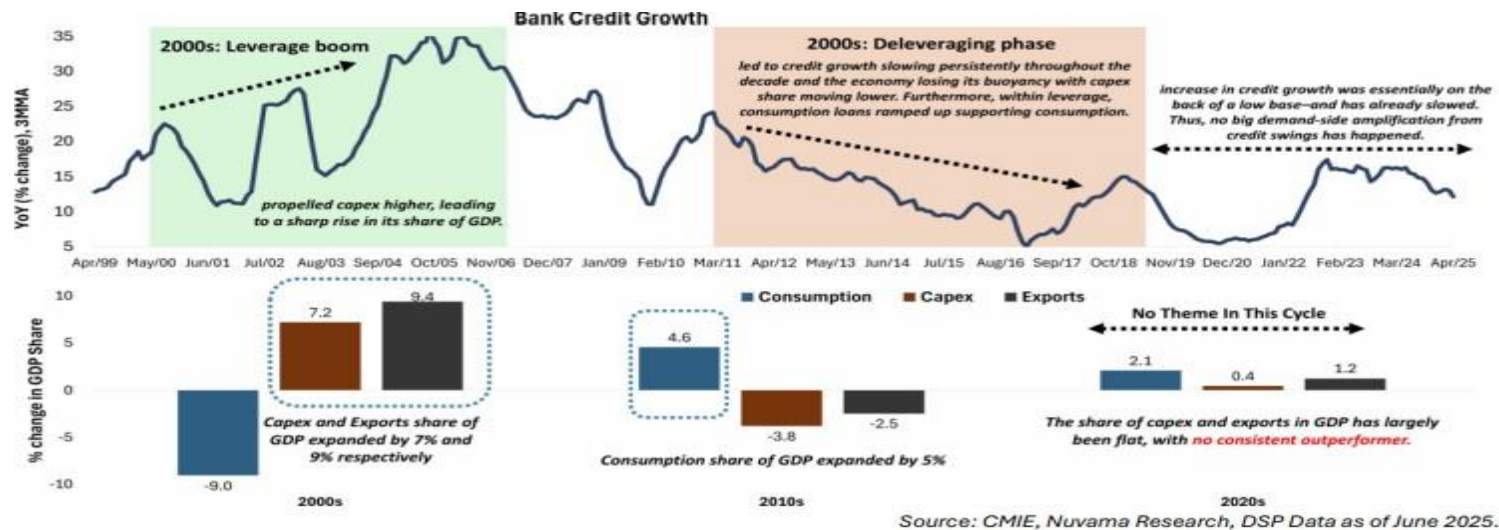
Operating Cash Flow (OCF) Margin measures how efficiently a company converts its revenue into actual cash from core business activities. It reflects the quality of earnings by focusing on cash profitability rather than accounting profits. **Sustained strength in operating cash flows has resulted in elevated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

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



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

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



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

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

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



Results Analysis



Earnings and Profit Trends:

BSE500 **profits have now realigned with weak topline growth**, with moderation in earnings visible across sectors. **For FY26, the demand outlook remains uncertain due to global deflationary pressures from a narrowing US trade deficit, delay in corporate capex due to weak domestic demand environment, and weak household incomes. Elevated margins, leaving limited room for efficiency gains, pose additional challenges to earnings acceleration, creating downside risks to consensus forecasts.**

Valuations and Market Dynamics:

Flatlining 1-year forward EPS, coupled with still-elevated valuations, may cap upside potential despite robust domestic flows. We maintain a preference for large-caps over SMIDs. **FY26 earnings downgrades continued, with consensus trimming EPS estimates by ~2%. Forward EPS remains flat despite rollovers, similar to pre-Covid conditions.** Street forecasts still imply a 14% earnings CAGR for FY25-27E, though **risks remain from weak demand, soft credit growth, corporate cost-cutting, and uncertain exports. Nifty consensus EPS: FY25E – ₹1,010; FY26E – ₹1,106; FY27E – ₹1,277.**

Segment Performance & Themes:

- **BSE500 (ex-OMCs):** Reported topline/profit growth of 7% YoY, with margins holding up despite subdued revenue momentum. Cement and Chemicals delivered stronger profit growth, while Industrials and Durables underperformed.
- **SMIDs:** Profit growth remained broadly in line with large-caps. However, consensus expects sharp profit acceleration in FY26E-27E, which could disappoint given subdued demand trends, raising questions about the sustainability of SMIDs' valuation premium.
- **Wages:** Wage bill growth for BSE500 was 7% YoY in Q1FY26, consistent with FY25 trends and marking a fifth consecutive quarter of sub-10% wage bill growth. While potential income tax and GST cuts may provide relief, their ability to revive sentiment remains uncertain.
- **Banking:** Focus is shifting from liquidity-driven growth to asset quality. After posting strong post-Covid profits, banks now face headwinds. Concerns have moved from high LDRs (FY24) and slowing growth (FY25) toward asset quality pressures in FY26. Rising stress in MSME segments requires close monitoring.
- **Financials:** Sector-wide profit growth slowed sharply to sub-10%. Bank profits were subdued, though insurers performed relatively better. Capital markets participants reported a pickup in profit growth.
- **Consumption:** FMCG topline improved, but margins softened. Discretionary consumption weakened broadly, with durables most impacted. Prospective income tax/GST cuts could aid margins.
- **Domestic Investment:** Cement profitability per tonne improved; however, Industrial sector profitability appears to be peaking.
- **Exporters:** IT companies saw muted earnings and topline, while auto exporters weakened. Pharma and Chemicals had a strong Q1FY26, though export risks persist amid global trade tensions.
- **Commodities:** Mixed performance. Ferrous players' profits improved, while non-ferrous were flat. Energy profits rose YoY, albeit from a low base.

Easing liquidity and potential consumption support measures are positives, but high valuations and slowing profit momentum pose headwinds at present.



Key Observations and Highlights

Q1FY26 earnings: Earnings momentum continues to be weak

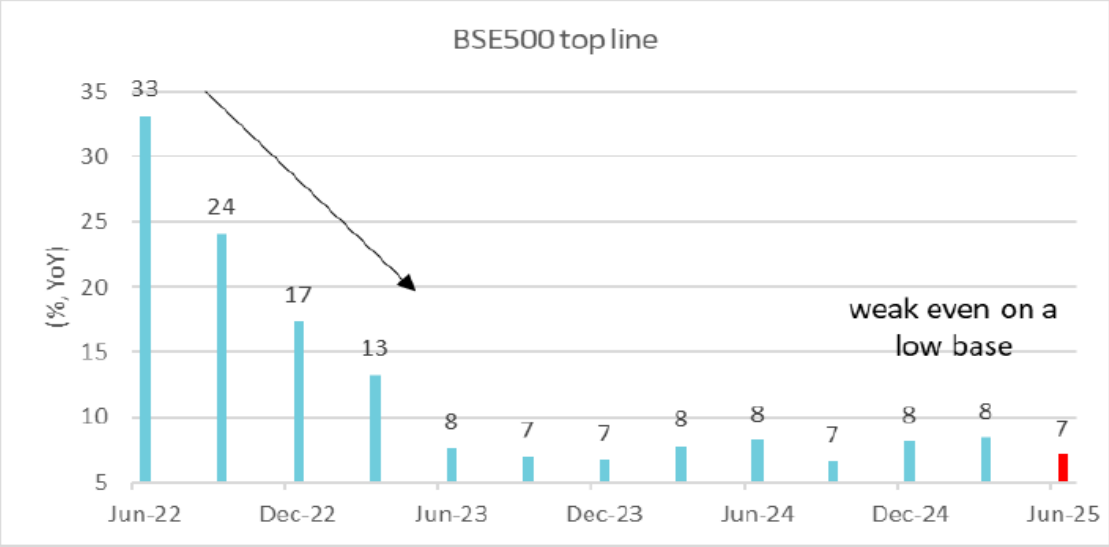
For the BSE500 (ex-OMCs), **Q1FY26 was another subdued quarter** with both **topline and profit growth remaining in single digits**. Profit growth for the BSE500 (ex-BFSI and commodities), which had shown acceleration in Q4FY25, reversed in Q1FY26. **Topline growth, meanwhile, remained stuck in single digits for the ninth consecutive quarter**.

PAT growth moderates in Q1FY26...



Source: Capitaline, Nuvama Research
Note: OMCs and fertilizers are excluded from BSE500 sample space;
Note: For BFSI, NII + OI is considered as topline

Top-line growth remains in single digits for ninth straight quarter...



Source: Capitaline, Nuvama Research
Note: OMCs and fertilizers are excluded from BSE500 sample space
Note: For BFSI, NII + OI is considered as topline

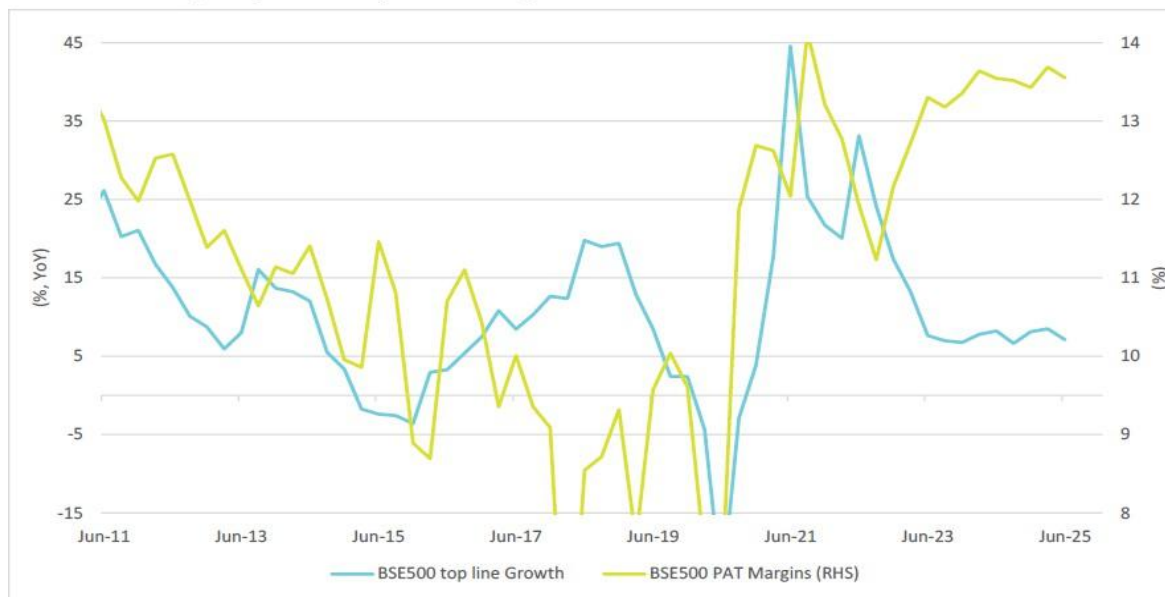
In FY25, topline momentum weakened across most domestic cyclical sectors such as BFSI, Industrials, and Autos. Persistent topline weakness was also visible in Paints, Energy, Metals, IT, and Export-oriented Autos. Sectors that witnessed a sharp deceleration included Durables, Apparel/Retail, and Power, while FMCG and Cement stood out with an acceleration in topline growth.

Since the post-Covid recovery, the bulk of the earnings rebound has come from margin expansion rather than revenue growth. This margin improvement has been driven by cost rationalisation, balance-sheet deleveraging (lower interest expenses and credit costs), and enhanced pricing power amid supply-chain disruptions. However, in FY25, margin expansion largely plateaued. Over the past five quarters, margins have stabilised, but the critical question remains: can margins be sustained in the face of slowing topline growth?



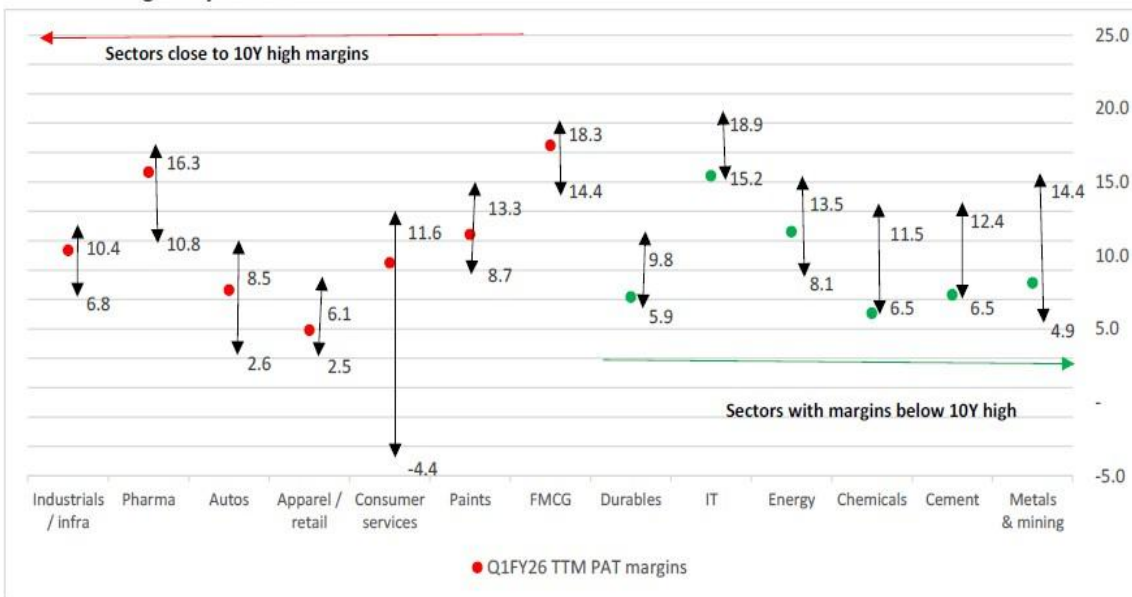
At a sectoral level, margins for most industries are already near decadal highs. **For most sectors, while further margin expansion, will be difficult to achieve without either a demand revival or a supply-side tailwind (e.g., lower oil prices).** On the other hand, **sectors currently operating at relatively low margin levels are beginning to show early signs of improvement, suggesting that the process of margin mean reversion has already begun.**

BSE500 PAT margin expansion may be stabilising



Source: Capitaline, Nuvama Research
Note: OMCs and fertilizers are excluded from BSE500 sample space

BSE500 margins by sector



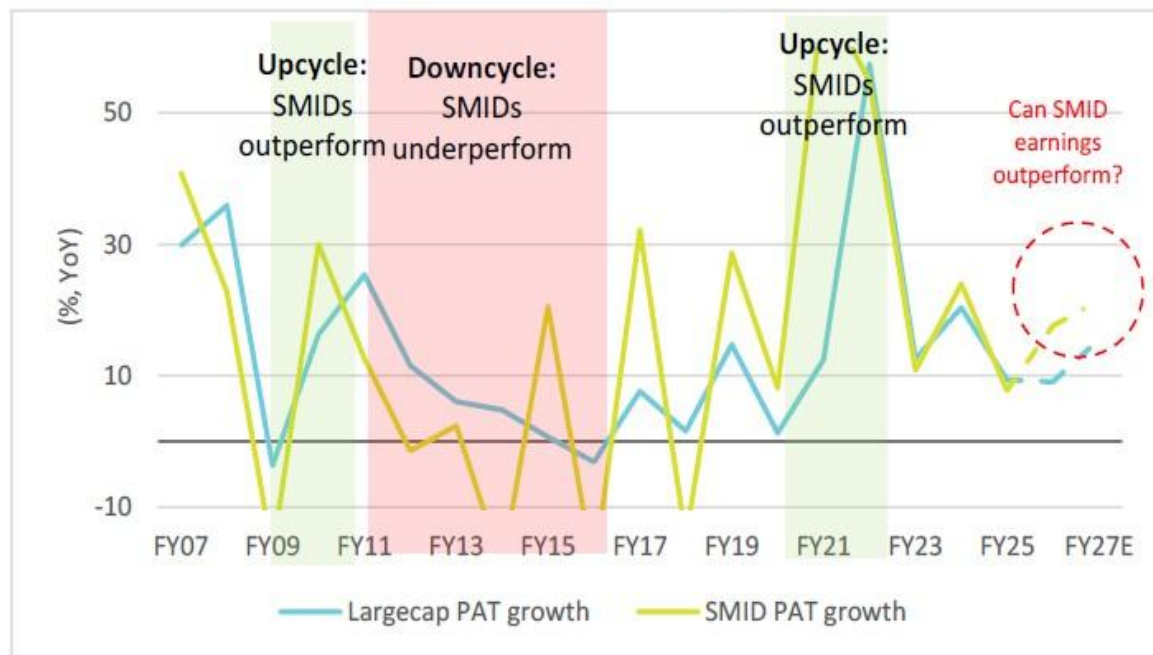
Source: Bloomberg, Nuvama Research; Note: OMCs and fertilizers are excluded from BSE500 sample space;
The top and bottom are last 10Y peak and bottom

For SMIDs, profits continue to track large-caps, but margin dynamics are structurally different. SMID margins are lower on average and far more cyclical, with greater margin expansion during a bull cycle and a smaller during a bear cycle, understandably, **given their higher growth orientation.** Hence, post-Covid, SMIDs saw a sharper improvement in profit margins than large-caps despite similar topline performance. However, **with the market undergoing a time correction at present, SMIDs now appear more vulnerable to margin compression than their large-cap peers.**



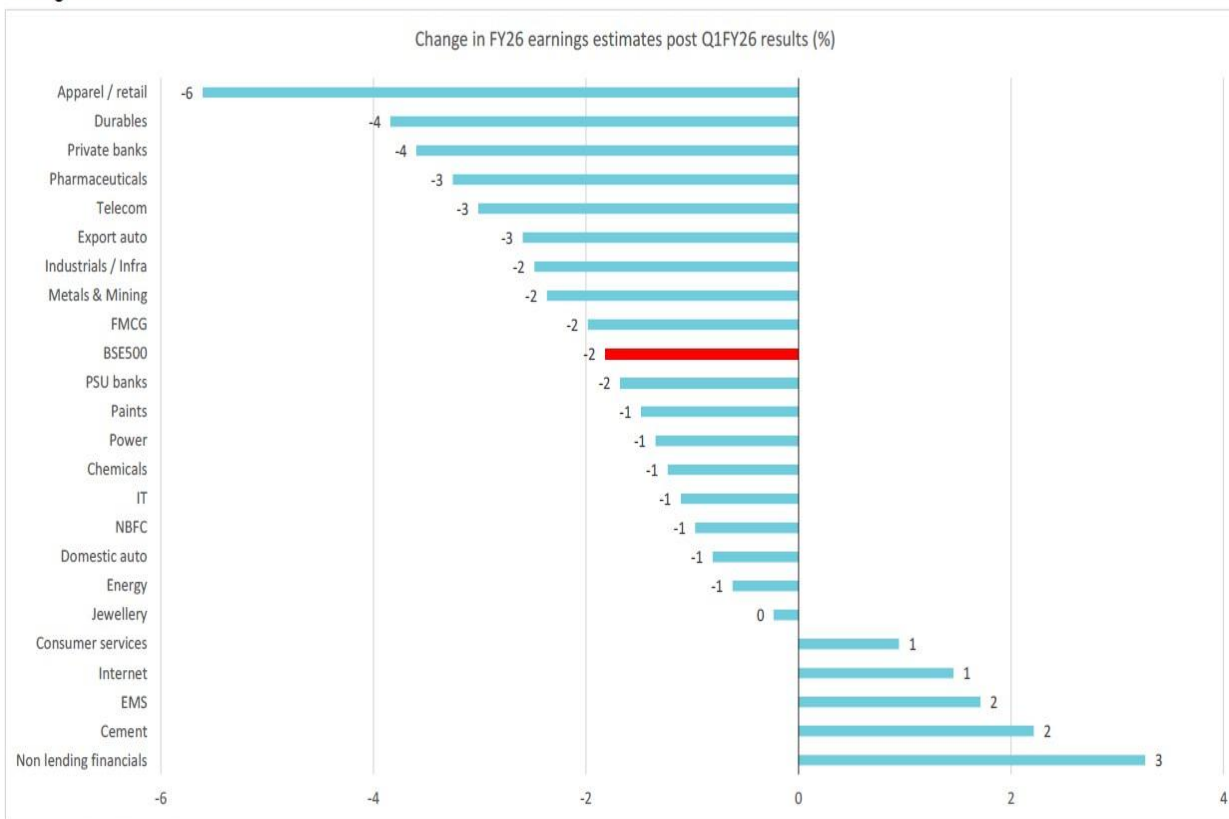
SMID profits, which had outpaced large-caps meaningfully in FY24, have since converged with large-caps through FY25 and Q1FY26. **For FY26, consensus is building in a strong rebound in SMIDs' profitability relative to large-caps.** This could prove optimistic, as growth momentum is still slow across the board, with key domestic indicators showing persistent signs of deceleration. **If SMIDs fail to deliver on profit growth versus large-caps, the risks to their elevated valuation premiums could be significant.**

Consensus forecasting SMIDs' profit shall outgrow large caps'



Source: Bloomberg, Nuvama Research; Note: OMCs and fertilisers are excluded from BSE500 sample space. Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500. Estimates are Bloomberg consensus.

Changes in FY26 EPS forecasts across sectors



Source: Bloomberg, Nuvama Research

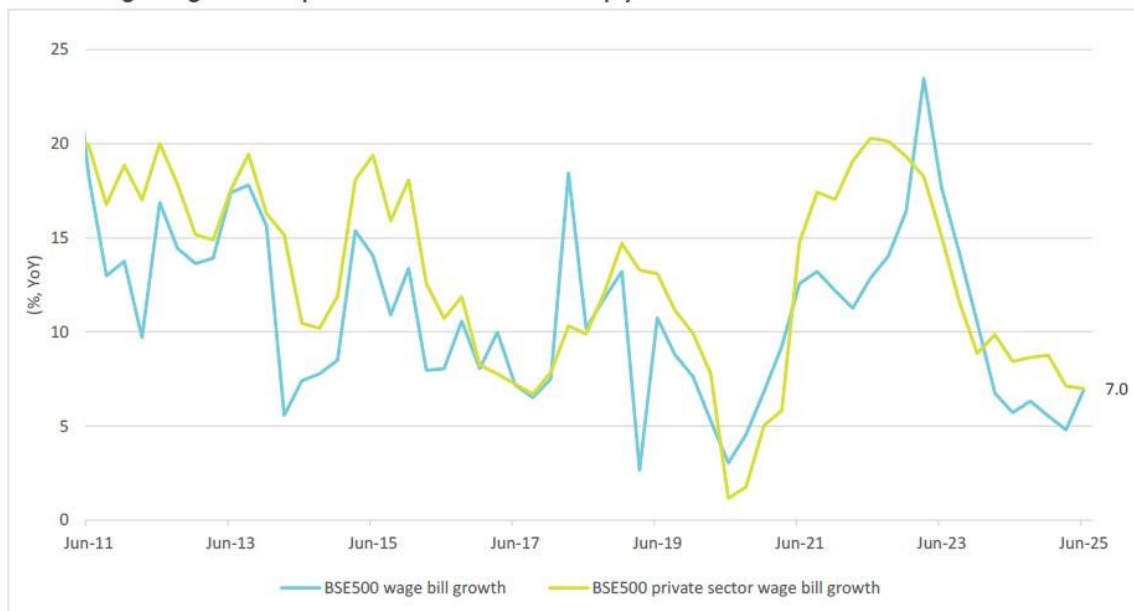
Earnings estimates for FY26 continue to face downgrades, with the BSE500 seeing a further 2% cut. Over the past year, FY26E EPS for the BSE500 has been reduced by nearly 10%, with an even sharper downgrade for SMIDs. The pace and persistence of these earnings cuts remain a concern and warrant close monitoring.

As a result of these sustained downgrades, 1-year forward EPS has stagnated, with the current FY26E EPS now broadly in line with what FY25E EPS was a year ago. A similar pattern is evident in SMIDs. This flattening of forward EPS estimates poses a risk of capping market upside.

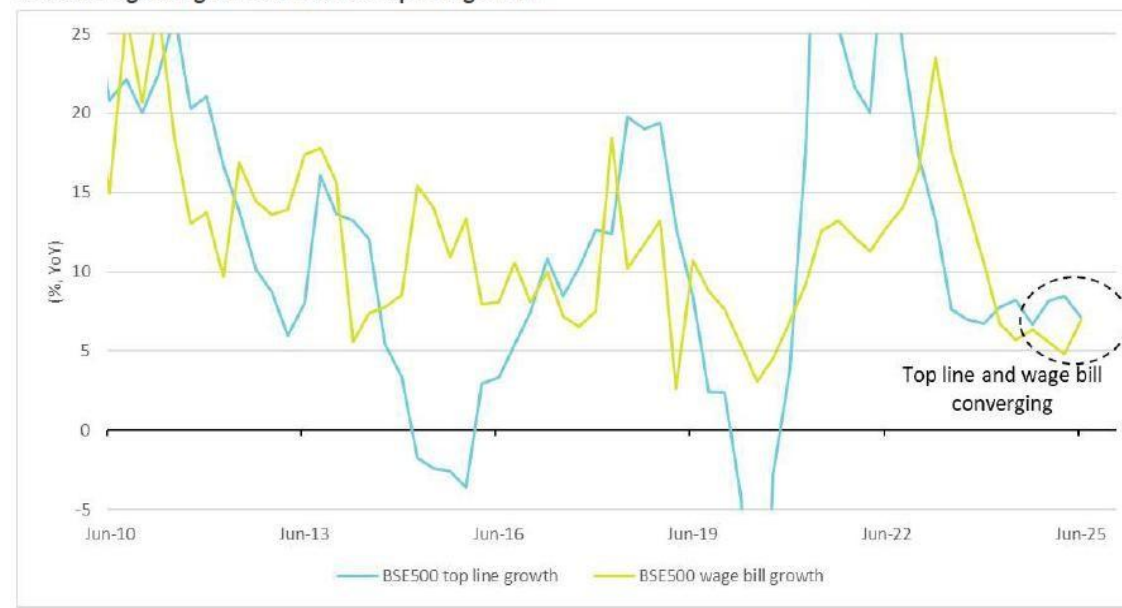
Wage Growth continues to be weak

Wage bill growth remained subdued in Q1FY26, with overall BSE500 wages rising sub 10% (just ~7% YoY), broadly in line with FY25 levels. Private sector wage growth too has slowed to 7–8% YoY, marking a decadal low (ex-Covid).

BSE500 wage bill growth for private sector moderates sharply



BSE500 wage bill growth similar to top-line growth



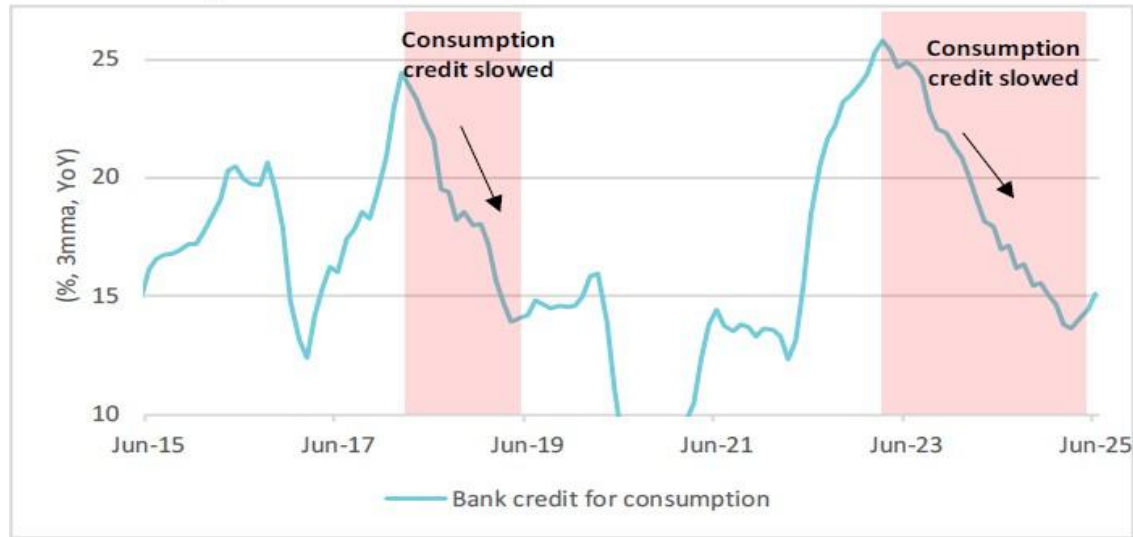
In FY24, wage bill growth had outpaced topline growth, supported by margin expansion as falling input prices boosted profitability and reduced pressure on corporates to manage employee costs. With those tailwinds now behind, wage bill growth has converged with topline growth. Looking ahead, should margin pressures intensify, there is a risk that wage growth could soften further from current levels.

While income and consumption tax cuts may provide a temporary boost to household disposable incomes amid muted wage growth, additional policy support will likely be needed to drive a sustainable recovery in consumption and domestic demand. Only once such a structural improvement is visible are corporates likely to step up capex, thereby initiating an investment cycle that could, in turn, fuel volume growth.



Demand outlook continues to be weak

India's consumption loans too have slowed



Source: CMIE, Nuvama Research;

The demand outlook hinges on three key variables: **global conditions**, **domestic consumption**, and **capex**.

On the global front, **world trade remains weak**, and the risk of renewed pressure from higher US tariffs could narrow the US current account deficit, creating a deflationary backdrop for global growth.

Domestically, consumption depends on wages, leverage, and wealth, all three of which currently **appear weak**. In FY25, **consumption loan growth slowed meaningfully mainly due to a stricter regulatory framework**, while the **wealth effect also moderated in line with softer equity markets**. **Real wage growth** across the board have been **negligible** despite a low inflation environment.

Policy measures such as **lower income tax slabs (to boost disposable incomes)** and a **revamped GST structure (to reduce prices)** may provide some support. However, whether these steps are sufficient to **trigger a durable revival in consumption**, and thereby sustain domestic demand momentum, **remains uncertain**.

Looking ahead, the focus will remain firmly on topline growth.



Sectoral Outlook



Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Banking & Financial Services (BFSI)	Revenue/Profit Trends: Financial sector profit growth moderated to single digits in Q1 FY25–26. Banks saw only modest YoY profit increases (~sub-10%) as rising provisions and slowing credit growth weighed on earnings. Non-lending financials (insurance, capital markets) fared slightly better with higher YoY profit growth. Margins: Net interest margins (NIMs) compressed for most lenders due to the cumulative repo rate hikes earlier (funding costs up) and recent repo cuts squeezing asset yields. Many banks managed to trim operating expenses, which helped partially offset margin pressure. Loan Growth & Demand: Loan demand decelerated amid a slowing macro environment. Sector loan growth has cooled from double-digit levels as corporate credit demand softened and retail loan growth normalized. On the positive side, deposit growth improved thanks to better system liquidity and banks raising deposit rates. Key Drivers/Drags: Positives: Strong deposit inflows and cost control supported banks' performance. Most lenders maintained healthy asset quality, though a few saw improvements. Negatives: Credit costs ticked up (particularly in MSME and lower-tier retail segments) for many banks, denting profits. Mixed asset quality trends emerged – only a handful of banks reported clear improvement while others saw higher-than-expected provisioning. Outlook & Structural Themes: Near-term, banks are shifting focus from aggressive growth to managing asset quality as post-pandemic stress starts to surface in certain segments. Loan growth is expected to remain moderate given high interest rates and cautious lending. Structural themes: Indian BFSI is well-capitalized, but faces an inflection where the tailwind of post-Covid low credit costs is fading. The sector will be navigating an asset quality cycle turn (especially in unsecured and MSME loans) and fintech/digital competition, even as credit demand gradually recovers with economic activity. Overall, a stable but careful outlook is warranted for financials.
Information Technology (IT Services)	Revenue Trends: Q1 FY25–26 was a soft quarter for IT services. Large-cap IT companies saw muted revenue growth (low single-digit YoY), with most reporting weak top-line momentum. In contrast, mid-tier IT firms outperformed – several mid-caps (e.g. Coforge, Persistent) delivered double-digit YoY revenue growth, outpacing their larger peers. Margin Behavior: Operating margins were generally stable to slightly down. Wage hikes and lower utilization put mild pressure on margins for large caps, though cost optimizations and an favorable rupee helped limit the damage. Mid-sized firms maintained healthy margins despite growth investments. Currency remains a swing factor – a sharp INR appreciation is a key risk to margins. Demand Environment: IT demand weakened as clients grew cautious. The banking/financial sector (a major client segment) saw project ramp-downs, and there was tariff/macro uncertainty in some markets. Overall deal flow was actually a bright spot – Q1 saw robust deal signings (the highest YoY growth in bookings in five quarters) indicating a good pipeline. However, conversion of these bookings to revenue will take time, and near-term demand is expected to remain challenging for the next 1–2 quarters amid macro uncertainties. Key Drivers/Drags: Drivers: Continued demand for cloud services, digital transformation and vendor consolidation benefited select firms. Strong deal wins in areas like cost takeout and automation are setting the stage for future growth. Drags: Clients delayed or downsized discretionary IT spending due to global growth concerns. Europe and BFSI weakness, plus longer decision cycles, dragged down growth. A key sector risk is adverse currency movement – a stronger rupee vs. USD could hit rupee revenues and profitability. Outlook & Structural Themes: Near-term outlook is cautious – most IT firms have guided for a weak H1 FY26 and hope for a pickup later in the year. Cost optimization deals dominate currently, but any uptick in global economic sentiment could revive discretionary tech spending. Structural themes: The sector is focusing on automation and AI (e.g. generative AI offerings) as new growth engines, and mid-tier companies are carving out niches and gaining share (mid-caps consistently growing faster than large-caps). Over the longer term, digital transformation and cloud adoption remain intact themes, but pricing pressure and high base effects will keep growth moderate. Expect the industry to emphasize large deal wins and emerging tech (AI, analytics, cloud) to drive the next leg of growth once macro conditions improve.
Automobiles	Revenue Trends: The auto sector's revenue in Q1 FY25–26 grew modestly, supported more by price/mix than by volume. Automakers benefited from continued premiumization (shift to higher-end models) and selective price hikes, which drove YoY revenue growth despite only tepid volume gains. Export-focused auto companies struggled, as global demand softness pulled down overseas sales. Margin Behavior: EBITDA margins were under pressure across many auto OEMs. Input cost inflation had eased versus last year, but the quarter saw subdued volumes and lingering cost pressures (e.g. higher expenses for new emission norms and EV investments) that kept YoY margin performance muted. Companies with better product mix and cost control managed flattish margins, while others saw slight margin erosion. Overall, no major margin expansion yet for autos in Q1. Volume/Demand: Demand was mixed by segment. Passenger vehicle (PV) sales growth moderated after a strong previous year, though the SUV and premium car segments still saw healthy demand. Two-wheeler (2W) volumes began to improve (helped by a favorable base and rural recovery signs). Commercial vehicles (CV) were a weak spot – domestic truck/bus sales were lackluster, and the outlook for heavy vehicles (especially global trucks) remains muted for FY26. Overall industry volumes were up only slightly, with growth mainly coming from new model launches and pent-up demand in select pockets. Key Drivers/Drags: Drivers: New product launches and consumer preference for higher-end models supported average selling prices and revenue growth. Easing commodity prices (steel, etc.) versus last year provided some cost relief. Government policies – e.g. a possible GST tax cut on smaller vehicles or incentives for EVs – are anticipated to boost volumes ahead. Drags: Export demand was a drag, with key export markets in Africa and Asia remaining weak (hurting export-oriented players). Domestic demand, while stable, is off its peak; high interest rates and fuel prices kept some entry-level buyers away. Additionally, rising competition (especially in EVs and new entrants) and the transition costs to electric mobility weighed on some companies. Outlook & Structural Themes: Outlook: Automakers are generally optimistic about domestic volume growth in coming quarters – management commentaries across 2W, PV, and tractor segments remain positive on demand recovery. Festive season demand and a normal monsoon could support sales. However, global outlook is muted (especially for exports) and the CV cycle may stay soft, so overall growth will be moderate. Structural themes: The auto sector is in the midst of a technology transition – with aggressive moves toward electric vehicles (EVs) and stricter emission norms shaping investment patterns. Companies that can successfully ride the EV adoption curve (launching competitive EV models) and capitalize on premiumization trends are likely to outperform. Additionally, the push for safety features and connected car tech is adding to vehicle costs but could be a long-term differentiator. In summary, the sector's long-term theme is one of transformation (EVs, smart mobility) amid cyclical demand swings.

Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Consumer Goods (FMCG – Fast-Moving Consumer Goods)	Revenue/Volume Trends: FMCG companies posted a notable uptick in sales in Q1, with many reporting their highest volume growth in several quarters. Both urban and rural markets contributed: urban demand showed visible recovery (helped by higher disposable incomes and easing inflation), and rural demand remained solid, aided by a good monsoon and crop output. This resulted in mid-to-high single-digit revenue growth for most staples makers, a clear improvement from the prior year’s slowdown. Margin Behavior: Margins were under strain in Q1 for FMCG, but the pressure is believed to have bottomed out. Companies were still running through high-cost raw material inventory from previous quarters, which kept Q1 gross margins and EBITDA growth subdued. Commodity costs (edible oils, packaging, etc.) have since corrected, so the expectation (as noted by management commentary) is that margins will improve from Q2 onwards as lower input costs kick in. Many firms held back on major price cuts, so as input cost pressures ease, operating leverage should help margins expand. Volume/Demand: Volume growth was healthy, signaling improving demand elasticity. Companies saw higher offtake particularly in food, beverages, and personal care categories. Urban grocery (GT) channels returned to growth after a few weak quarters, and modern trade continued to grow. Rural volumes, which had been a concern last year, stabilized thanks to better farm incomes. Some pantry stocking was observed as consumers gained confidence with lower inflation. Overall, volume growth outpaced value growth in some staples, indicating pricing was not the sole driver of sales. Key Drivers/Drags: Drivers: Cooling inflation (consumer inflation hit an 8-year low during the quarter) and recent RBI rate cuts boosting disposable income lifted consumer sentiment. New product launches and increased marketing in certain segments (foods, premium personal care) also spurred growth. Drags: High-priced raw material inventory temporarily hurt Q1 gross margins. There was also intense competition in some categories leading to higher trade promotions, which, coupled with ad spend rationalization by companies, impacted short-term margin uptick. But these drags are largely transient as input cost volatility has subsided. Outlook & Structural Themes: Outlook: FMCG companies expect a better H2 as margin pressures ease and volume momentum continues. Stable raw material trends mean companies might resume margin expansion from Q2. Consumption is likely to get a further fillip if rural incomes stay strong and if any tax cuts materialize (the government hinted at possible GST or income tax relief, which would support spending). Structural themes: There is a clear trend of premiumization and health-focused products in FMCG – consumers are moving to premium variants (e.g. premium personal care, healthier food options), and companies are innovating accordingly. Distribution channels are also evolving, with e-commerce and direct-to-consumer sales gaining a larger share of the pie in staples. Lastly, cost efficiencies and supply chain optimization (post-Covid) have become permanent focus areas, which should structurally improve FMCG margin profiles in the long run.
Consumer Discretionary & Retail	Revenue/Volume Trends: Q1 was challenging for discretionary consumption. Several segments saw a broad-based slowdown in revenue. For example, consumer durables (like appliances, electronics) had flat to slightly negative growth – early and heavy monsoons cut short the summer, hurting sales of cooling products (air conditioners, refrigerators). In the retail domain, apparel and footwear companies reported muted growth as demand stayed soft. However, there were pockets of strength: Jewellery retailers posted strong double-digit sales growth, fueled by robust wedding and festive demand. Overall, discretionary spending remained cautious, with Q1 trends similar to the prior quarter in many categories. Margin Behavior: Margins in discretionary sectors were under pressure. In durable goods, companies faced lower capacity utilization due to weak summer demand, and many are carrying excess inventory (especially AC makers) that will take time to normalize. This led to discounting and weaker margins. In apparel/retail, elevated costs and lackluster sales meant operating deleverage – margins declined or stayed weak. Quick-service restaurants (QSRs) also saw margins hit as they resorted to heavy value offers to entice consumers, sacrificing some gross margin. On the positive side, jewelry retailers enjoyed healthy margins thanks to improved operating productivity and product mix. But across most other discretionary categories, Q1 margins were below last year’s levels. Demand Dynamics: Demand remained subdued for non-essential consumer products. High-ticket items (like consumer electronics and appliances) faced demand deferment due to unseasonal weather and inflationary concerns earlier in the year. Footwear and fashion retailers noted that consumer sentiment hasn’t fully picked up, leading to another soft quarter of volumes. QSR chains reported negative-to-flat same-store sales growth (SSSG) in Q1 (continuing the weakness from Q4), indicating people cut down on dining out frequency. The bright spot was jewelry: both volume and value were strong, indicating that occasion-driven spending (weddings) remained resilient even as everyday discretionary spends were curtailed. Key Drivers/Drags: Drivers: Some positive drivers include a pickup in wedding season demand (benefiting jewelry and ethnic apparel). Certain durables like cables & wires saw robust demand driven by industrial capex and housing electrification needs. Companies focusing on premiumization in durables (higher-end models, smart features) managed to hold margins and attract affluent customers despite the slowdown. Drags: The biggest drag was climate – an early monsoon and cooler weather hit summer product sales hard. Moreover, consumers remain value-seeking; in QSR, for instance, brands had to push value meals, which hurt margins. Higher competitive intensity in categories like paints and home appliances also forced heavier promotions. Overall consumer sentiment for discretionary spend is still in recovery mode, which dragged down sales growth in these segments. Outlook & Structural Themes: Outlook: The discretionary sector expects some improvement later in the year – a normal festive season and any government consumption stimulus (like tax cuts) could lift spending. Inventory overhang in durables (like ACs) should clear by H2, aiding a restocking-driven bounce-back. However, if inflation rises again (e.g. food inflation uptick) it could crimp discretionary spend. Structural themes: A key theme is premiumization vs. mass market bifurcation – companies with premium offerings continue to see relatively better demand (wealthier consumers are less affected by inflation), whereas mass market segments struggle, leading firms to refine product mix. Another structural shift is the growth of omni-channel retail: post-pandemic, consumers are comfortable buying discretionary goods online, so traditional retailers are adapting with online channels. In QSR and retail, a focus on unit economics and smaller store formats is emerging to drive efficiency. Overall, while short-term cycles affect demand, the long-term rise of India’s middle class and urbanization remains intact, meaning discretionary consumption should bounce back; companies that innovate and target value-for-money along with premium ranges will capture that growth.
Oil & Gas (Energy ex-Utilities)	Revenue Trends: The energy sector (oil & gas) saw a mixed Q1. Oil Marketing Companies (OMCs) like refiners benefited from a very low base last year – refining and fuel marketing revenues grew, and YoY profit jumped on improved gross refining margins (GRMs) vs the loss-making quarter last year. However, sequentially, refining revenue was tempered by inventory losses as crude oil prices fell during Q1, which dented the top-line of downstream companies. Upstream companies (oil producers) had relatively flat revenue; crude realization was stable, but production volumes were stagnant. Gas companies faced headwinds from lower prices and volumes – for example, natural gas transmission volumes were weak, impacting GAIL’s revenue outlook. Margin Behavior: Refining margins improved YoY (on a weak base) but were volatile through the quarter. OMCs saw better GRMs than last year, but Q1’s margins were partly offset by inventory valuation losses as crude prices declined. Marketing margins for petrol/diesel turned positive, improving OMC profitability. In upstream, EBITDA margins remained healthy due to cost controls, though any cut in government-mandated gas prices hurt gas segment margins. City Gas Distribution (CGD) companies continued to face margin pressure as they received a smaller allocation of cheap domestic gas, forcing them to use costlier LNG to meet demand. Overall, the sector’s margin picture was better than a year ago (when subsidies and cost shocks hit), but not uniformly strong. Volume/Demand: Domestic fuel demand was reasonably robust – petrol and diesel consumption grew modestly YoY, indicating steady economic activity. However, an early monsoon slowed demand in late Q1 for diesel (less irrigation pump use) and jet fuel (fewer trips), slightly curbing volumes. Gas demand was soft; industrial gas consumption was tepid and CGD volume growth slowed due to high prices. Oil production volumes are in gradual decline (natural field declines), and despite efforts, upstream output guidance was revised down (e.g. ONGC cut its production outlook due to inability to fully arrest declines). In summary, demand growth for oil products was moderate, while gas and crude production volumes were underwhelming. Key Drivers/Drags: Drivers: A major positive was the government’s decision to compensate OMCs for past losses – a sizeable LPG subsidy payout has been approved (for prior under-recoveries on cooking gas), which, when received, will bolster OMC financials. Additionally, the refining business benefited from favorable product cracks for petrol/ATF earlier in the quarter. Drags: Global factors acted as drags – concerns of a China slowdown and high global inventories kept crude oil prices in check, limiting upstream upside. Policy changes like the cut in domestic gas price formula reduced realizations for producers and CGDs. Operationally, maintenance shutdowns in some refineries and gas pipeline constraints also dragged volumes. Outlook & Structural Themes: Outlook: The rest of FY26 looks cautiously positive for oil & gas: OMCs should see normalized marketing margins and any government support (like LPG subsidies) will further aid profits. Upstream companies bank on stable to slightly higher crude prices in H2, but production challenges persist. Gas segment may improve if industrial demand picks up and with more LNG terminals coming online reducing input costs. Structural themes: The sector is straddling traditional and new energy. We see large players (e.g. RIL) accelerating investments in renewable energy and petrochem diversification – this quarter RIL’s new energy (solar, etc.) business execution picked up pace, pointing to a structural pivot. Another theme is the push for gas-based economy: despite short-term margin pain for CGDs, long-term plans to expand city gas networks continue. The industry also faces the ongoing challenge of energy transition – over time, fossil fuel demand growth may plateau as EV adoption and renewable power rise, so oil & gas firms are strategizing for diversification. In sum, in the near term, improved refining margins and policy support provide a tailwind, while longer-term the focus is on transitioning to cleaner energy portfolios.



Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Power Utilities	Revenue/Generation Trends: Q1 FY25–26 was subdued for the power utilities segment. Electricity demand grew only ~2% YoY, a much slower pace than usual. An early and intense monsoon was a key factor – cooler temperatures and heavy rains reduced the need for cooling (AC load) and even impacted some industrial power usage. As a result, thermal power generation volumes were flat-to-down and renewable energy output was also temporarily affected by cloudy conditions in key solar states. Power transmission companies saw steady revenue (as contracted), but overall generation-linked revenue for utilities was weak in Q1. Margin/PLF Behavior: With lower demand, plant load factors (PLFs) for thermal plants fell. Many coal-fired plants operated at reduced utilization, which hurts their efficiency and margins. Lower spot electricity prices (due to softer demand and adequate supply) meant merchant power players earned less. Renewable energy players faced some curtailment during the grid’s low demand period. However, the regulated utilities (state GENCOs, NTPC etc.) maintained decent margins due to cost pass-through models, and transmission companies had stable EBITDA as their tariffs are fixed. In summary, margins were mixed: merchant and renewable power producers saw margin compression, while regulated transmission and generation maintained margins but with minimal growth. Demand Dynamics: Power demand patterns were unusual this quarter. April saw normal demand, but from May-June, heavy rainfall sharply cut cooling demand (air conditioning load in both residential and commercial segments). Industrial demand also cooled off slightly, partly weather-related and partly due to some manufacturing slowdown. By late June and into Q2, demand started rebounding as monsoon impacts normalized. Importantly, underlying drivers like electrification and urbanization continue – so a temporary weather-driven dip doesn’t reflect the longer-term trend. The demand for power is expected to recover to a more typical mid-single-digit growth in subsequent quarters, especially with anticipated economic pickup and possibly a hotter late summer. Key Drivers/Drags: Drivers: Continuous growth in household electrification and commercial activity provides a baseline support for power demand. Government infrastructure push (railway electrification, rural electrification) also boosts structural demand. Drags: The Q1 drag was clearly the weather – an active monsoon earlier than usual dampened demand significantly. Additionally, execution challenges slowed capacity expansion in some areas: transmission rollout faced right-of-way and labor shortages, causing delays. Another drag for certain players like energy exchanges (e.g., IEX) is regulatory change – the introduction of market coupling could reduce volumes or pricing power for exchanges. Outlook & Structural Themes: Outlook: Power demand has already started rebounding in Q2 as weather normalized. Coupled with expected growth in economic activity, utilities should see improved volume offtake. The second half of FY26 is typically stronger due to summer and festive loads. We remain positive on the sector’s momentum ahead as renewable capacity additions also gather pace. Structural themes: The power sector is undergoing a shift with a huge renewable energy build-out. India’s push for solar and wind means an increasing share of generation will be renewable; this creates a need for grid upgrades and storage solutions – a structural area of investment. Another theme is Power T&D (transmission & distribution) modernization: significant capex (₹9+ trillion plan over a decade) is allocated to strengthen the grid (e.g., new high-voltage lines, HVDC projects). Companies in the T&D equipment space are seeing multi-year high order books and operating at peak capacities to meet this demand. So, while near-term results were weather-hit, the structural outlook for utilities and power infrastructure remains robust, driven by policy thrust and the energy transition.
Metals & Mining	Revenue Trends: Metals & mining sector results were a mixed bag in Q1. Ferrous metal companies (steel producers) generally showed revenue growth, helped by higher steel prices year-on-year and steady domestic demand. Non-ferrous metal producers (aluminum, zinc, etc.), on the other hand, saw more muted top-line results as global base metal prices remained soft. Overall, metals sector revenue was flat to slightly up YoY, with steel doing better than aluminum/zinc. Mining companies (like coal and iron ore miners) had stable production, but any price decline in commodities capped their revenue growth. Margin Behavior: Steelmakers enjoyed margin improvement compared to last year. The combination of higher steel prices and significantly lower coking coal costs boosted steel EBITDA margins. Many steel companies saw profitability rebound from the margin squeeze they faced in the prior year. However, sequentially, margins may have come off peak as domestic steel prices softened a bit towards quarter-end and volumes dipped QoQ. Non-ferrous metal companies’ margins were under pressure – although cost of production (CoP) fell thanks to lower input costs, the drop in aluminum and zinc prices eroded their EBITDA YoY. So, ferrous players had margin tailwinds, while non-ferrous faced margin headwinds in Q1. Volume/Demand: Steel demand domestically was decent (infrastructure and auto sectors continued to consume steel), but steel production/sales volumes were slightly lower QoQ due to an early monsoon and some maintenance shutdowns. Exports of steel also slowed. For non-ferrous metals, volumes for aluminum and zinc were stable; global demand hasn’t grown much, but production was largely steady. Mining output (coal, iron ore) was sufficient to meet demand, with coal having a strong supply (helping power sector needs). In summary, volume growth was not a big story – it was more price and cost movements driving earnings this quarter. Key Drivers/Drags: Drivers: In steel, a key driver was the year-over-year drop in input coal costs and improved realizations. Government capex on infrastructure (roads, rail, construction) kept domestic steel demand resilient. Certain steelmakers also moved up the value chain (specialty steel) aiding realizations. Drags: For steel, the early monsoon hit construction activity, thus reducing steel volume offtake QoQ. Also, global recession fears have started to cap steel export orders. In non-ferrous, weak global prices for aluminum and zinc were a major drag – despite companies becoming more cost-efficient, market prices slipped, hurting profits. Additionally, Chinese supply in metals remains a concern (higher output from China can suppress global prices). Outlook & Structural Themes: Outlook: Q2 might be softer for steel as some price correction has occurred and Q1’s benefits (low coal cost) normalize – indeed, analysts expect steel earnings to be subdued in Q2. Non-ferrous earnings could improve slightly QoQ if metal prices pick up off recent lows, which is possible with any China stimulus. The medium-term outlook for metals hinges on global economic trends; domestic demand alone may not drive big growth, so global pricing is key. Structural themes: A significant theme is the China+1 supply chain shift benefiting Indian metal and mining companies in the long run. For example, diversifying supply chains could support Indian aluminum and specialty steel exports. Another structural factor: decarbonization – steel companies are gradually moving toward greener steel (electric arc furnaces, etc.) and miners towards sustainable practices, which will shape capex plans. Also, consolidation in the metals space (larger players acquiring stressed assets in steel) has improved the industry structure in steel, potentially leading to more pricing discipline domestically. Overall, while cyclical volatility is ever-present in metals, Indian players are focusing on cost efficiency and value-added products to navigate the cycle.
Pharmaceuticals & Healthcare	Revenue Trends: The pharma sector saw decent growth in Q1, with a divergence between domestic and export markets. Domestic pharma (Indian market) continued its strong trajectory – key therapy areas like cardiac and anti-infectives grew in double digits, boosting local sales. Companies added to their field force (medical reps) to drive penetration, which is yielding results in higher prescription volumes. Export markets were mixed: Emerging markets (EM) and rest-of-world geographies delivered positive growth (many reported double-digit growth in these regions), but the US generics business remained challenging for several players due to price erosion on key molecules. Overall, large pharma companies still posted mid-to-high single-digit revenue growth YoY, and hospitals/healthcare service providers saw robust revenue gains (driven by patient footfall recovery). Margin Behavior: Pharma margins were under slight pressure in Q1. While domestic business is high-margin, the US generic price erosion and some one-time factors hurt blended margins. For instance, a top-selling generic (gRevlimid) is seeing continued price and volume erosion as more competition enters, which subdued margins for companies reliant on it. EBITDA margins for many big pharma firms were flat to down YoY. On the healthcare services side, hospitals had good operating leverage from higher occupancy, but those undertaking aggressive expansion (adding new beds) experienced a temporary dip in margins and returns due to pre-operating costs. Diagnostic companies saw a rebound in test volumes, helping margins stabilize after heavy competition-led compression last year. Net-net, sector margins were manageable but not markedly improved, due to ongoing pricing pressures in exports. Volume/Demand: Volume growth was notable in domestic pharma – higher patient visits and elective surgeries post-Covid meant more prescriptions. The expansion of field force by companies indicates expectations of sustained volume growth locally. For exports, volume was stable but pricing is the issue; in the U.S., volumes of base generics can be flat or growing, but at much lower prices. Healthcare services (hospitals) saw strong volume growth: in-patient admissions and occupancy rates improved significantly as people returned for treatments; many hospitals operated near optimal capacity, and new facilities are ramping up. Diagnostics labs witnessed volumes rebound (people went back to preventive testing, etc.), although pricing remained competitive. Key Drivers/Drags: Drivers: Domestic market growth was driven by chronic therapies (cardiac, diabetes) and a rebound in acute therapies (anti-infectives, respiratory) due to higher incidence of routine ailments and doctor visits. New product launches in India and some high-value launches in the US (complex generics, specialty drugs) provided a boost to select companies. Hospitals benefited from strategic expansions – those who added capacity are seeing revenue growth as new beds get filled. Drags: The US pricing environment remains a major drag – policy risk in the US around drug pricing and buyer consolidation continues to squeeze generic prices. Certain companies faced litigation risks on specific products (e.g., patent challenges, as noted for gMybetriq for some firms), which could cloud future sales. Also, high R&D expenditure for developing complex generics and biosimilars is a drag on near-term profits, though necessary for future pipeline. Outlook & Structural Themes: Outlook: The pharma sector outlook is cautiously optimistic. Domestic sales should continue high-single or double-digit growth given rising healthcare awareness and penetration into smaller cities. US generics might stabilize as the worst of price erosion passes and new launches (including complex generics and specialty) in H2 FY26 kick in. Healthcare services (hospitals, diagnostics) are expected to maintain strong growth, though margins for hospitals might be tempered by the cost of new capacity coming online. Structural themes: One big theme is the pivot to complex products – Indian pharma is investing in complex generics, biosimilars, and specialty drugs (including novel drug delivery) to reduce reliance on plain generics. Another theme is global diversification: companies are expanding in emerging markets, which are growing faster and offer better pricing, to offset US challenges. For healthcare providers, consolidation and expansion into Tier-2 cities is a structural trend, as is digital health (tele-consultation, online pharmacy tie-ups) complementing traditional channels. In summary, pharma is balancing short-term headwinds (pricing, costs) with long-term growth levers like innovation, new market expansion, and higher domestic healthcare spending.



Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Chemicals & Agrochemicals	Revenue Trends: The chemicals sector (including specialty chemicals and agrochemicals) had moderate growth in Q1. Specialty chemical makers saw a gradual recovery in demand on a low base – many posted single-digit to low teens revenue growth YoY as order flows improved slightly. Export demand remained lukewarm due to customers holding low inventory amid global uncertainty (e.g., U.S. tariff questions made overseas clients cautious). Agrochemicals (Agri inputs) companies, however, enjoyed healthy revenue growth thanks to a strong start to the Kharif sowing season; good monsoon rains led to robust volume uptick in fertilizers and crop protection products. Overall, the sector’s top line was a mixed bag – decent domestic-driven growth for agri-chem and selective specialties, but still below potential in export-oriented chemicals. Margin Behavior: Margins in chemicals were under slight stress due to pricing pressure. In specialty chemicals, while volumes improved, increased supply (particularly from China ramping up capacity) kept realizations under pressure. This capped margin expansion. Some companies benefited from lower raw material prices (e.g., certain petrochemical inputs), which helped margins a bit. Agrochemicals/fertilizers saw stable to improving margins, as many could raise prices or sell higher-value product mix; however, a few agrochem companies faced margin check from higher input costs and channel inventory buildup. By and large, chemical companies managed margins through cost control, but pricing power was limited – EBITDA margins were flat to slightly down YoY for many, as any cost relief was passed on to customers in competitive markets. Volume/Demand: Volumes were on a recovery path for specialty chemicals – after a destocking phase in previous quarters, customers (especially overseas) began ordering again, albeit slowly. Domestically, sectors like pharmaceuticals, dyes, and auto (key end-users for specialty chems) maintained steady demand. In agrochemicals, volume growth was strong double-digit as farmers increased usage of fertilizers (DAP, NPK) and pesticides due to favorable monsoon and acreage. Some agrochem companies even faced product shortages (e.g., a DAP fertilizer shortfall that was met by higher NPK production). So, volume was a positive story, especially in agri inputs, while specialty chem volumes were gradually improving from a slump. Key Drivers/Drags: Drivers: A notable positive theme is “China+1” – global customers are increasingly looking at Indian chemical suppliers to diversify sourcing. This thematic tailwind continues to favor Indian specialty chemical firms and helped keep order inquiries strong. Also, new capacities that Indian companies have added (often under PLI schemes or expansion projects) are ramping up and contributing to growth. In agrochem, good monsoon and low channel inventory at the start drove a restocking and robust sales in Q1. Drags: Global headwinds: U.S./EU demand for discretionary chemicals remained weak; uncertainties like U.S. tariffs on Chinese goods caused some order deferrals. Additionally, higher output from Chinese competitors created oversupply in certain products, pressuring prices. Within India, agrochemical channel inventory turned elevated by quarter-end (due to the sales surge), which could slow orders in Q2. Environmental compliance costs and export logistics issues also mildly dragged on a few specialty chemical exporters. Outlook & Structural Themes: Outlook: The sector outlook is improving gradually. Specialty chemical makers expect volume-led recovery to continue through FY26 as clients finish destocking. Exports could pick up if global conditions stabilize, and any resolution on tariffs will remove uncertainty. Agrochem demand in H2 will depend on the remainder of the monsoon and crop patterns; for now, the expectation is for sustained demand given normal monsoon predictions. Structural themes: The big structural theme is the China+1 strategy – global supply chains are shifting, and India is emerging as a key alternative supplier for chemicals. This is leading to multi-year capex cycles for Indian chemical companies, building capacity for both import substitution and exports. Another theme is product specialization: companies are moving up the value chain to focus on complex chemistries, custom manufacturing (CDMO for global players), and high-margin products rather than commodity chemicals. Additionally, stricter environmental regulations in China create an opening for Indian firms, but conversely, Indian companies are also investing in cleaner processes to meet ESG expectations worldwide. Overall, chemicals are positioned for long-term growth, although short-term demand fluctuations and price competition remain elements to manage.
Capital Goods & Engineering	Revenue Trends: The capital goods and engineering sector continued its strong run in Q1, posting solid revenue growth driven by domestic infrastructure demand. Companies in power T&D equipment, electricals, and machinery reported robust execution on their record order books. Many firms saw double-digit YoY revenue gains as they worked through orders for power transmission projects, rail electrification, factory automation, etc. Order inflows remained buoyant as well – most players received healthy new orders, especially in power and renewable energy-related segments. The only soft spot was in general commercial capex: private sector new capex (like new factories) is reviving slowly, so segments tied solely to private corporate capex saw only modest growth. But overall, infrastructure-led demand (from government and PSU orders) kept revenues growing handsomely. Margin Behavior: Margins in capital goods held at multi-year highs. Many engineering companies benefitted from operating leverage (higher volumes on fixed costs) and better pricing power in niche segments. For example, transformer and switchgear makers, running at high capacity utilization, maintained strong OPMs. Favorable product mix (more high-margin products like HVDC equipment) and efficiencies from past cost-optimization also helped. A few companies flagged very high valuations of input costs last year now normalizing – that means raw material cost pressures have eased, supporting margin stability. Overall, EBITDA margins were flat to slightly up for a number of capital goods firms, a notable achievement given some input cost volatility; this suggests operational efficiencies and pricing discipline are in play. Volume/Demand: Demand was robust, particularly from public sector projects. The ongoing power transmission capex supercycle in India (and select overseas markets) drove strong volume off-take of transformers, cables, and other T&D gear. Companies supplying to railways, metro, and defense also saw high execution volumes on the back of government orders. On the flip side, demand from private industrial capex is only selectively visible (in sectors like data centers, electronics manufacturing, green hydrogen); broad-based private sector ordering remained somewhat tentative. Nonetheless, most capital goods companies operated at high capacity utilization due to the sheer volume of govt and export orders, with some even expanding capacity to meet demand. Key Drivers/Drags: Drivers: A key driver is the government’s infrastructure push – massive planned investments in power T&D (₹9+ trillion over 10 years), rail network upgrades, renewable energy projects, etc., are directly benefiting capital goods firms. Additionally, export demand for certain Indian engineering goods (like transformers, electrical equipment) picked up from markets in Middle East, Africa where infrastructure spend is strong. Companies also cite improved operational efficiencies and technology upgradation that allow them to deliver large orders profitably (digitalization in project execution, etc.). Drags: The sector’s main challenge is the high base and rich valuations; some companies are concerned that current growth rates may normalize as orders get executed. Also, supply-side issues like skilled labor shortages or component delays can hinder execution (there were pockets of labor availability issues, though easing now). Another potential drag is if private capex does not broad-base soon – the industry would remain overly reliant on government orders, which can be lumpy. Outlook & Structural Themes: Outlook: The outlook remains optimistic. The order backlog for most leading capital goods companies is at record highs, providing revenue visibility for the next 2–3 quarters. We expect continued strong execution in power infrastructure, and now even private sectors (like steel, cement, electronics) are showing early signs of capex which could contribute in coming quarters. Any pickup in broad private capex would be upside. Structural themes: One theme is selective growth pockets until a broad private capex revival: companies are focusing on areas like green energy (solar, wind equipment), data centers, and electrification (EV charging infrastructure, etc.) which are seeing investment even as other areas wait. Over the medium term, as corporate balance sheets are stronger and capacity utilization in manufacturing rises (~75% RBI CUF currently), a more secular private capex cycle is expected to kick off – capital goods firms are positioning for that by being selective but ready to scale. Another structural element is Make in India and PLI schemes: government incentives for domestic manufacturing (electronics, solar modules, defense) are leading to new factories, which in turn is demand for industrial equipment. In summary, capital goods are in a favorable multi-year phase of public capex, with huge opportunities coming once private sector investment broadens – the sector is fundamentally stronger (leaner, more tech-oriented), enabling it to ride this cycle profitably.
Construction, Cement & Building Materials	Revenue/Order Trends: Construction and EPC companies (engineering/procurement/construction) reported healthy order books and modest revenue growth. Order inflows improved for most construction firms, especially in segments like roads, rail, and urban infra. However, execution on ground was slower than desired (monsoon and clearance delays), so revenue recognition grew only mildly. Cement sector had a strong top-line showing – industry volumes rose in high single-digits YoY on the back of increased government infrastructure spending and housing demand. Cement realizations (prices) also inched up during the quarter due to price hikes in select regions. In building materials (home décor segment such as plywood, laminates, pipes), Q1 performance was muted – many companies saw flat or slight declines in revenue as demand was soft and an early monsoon hit the construction activity (especially hurting seasonal sales of paints, pipes, etc.). Margin Behavior: Cement makers saw margin pressures ease slightly. While power & fuel costs were still high (due to a lag effect of previous fuel price spikes), the impact was lower than before, and higher realizations plus volume leverage helped. Many cement companies improved EBITDA/tonne sequentially, though YoY margins were not fully back to normal yet. Construction contractors maintained stable margins as input costs (steel, cement) stabilized and companies managed labor/costs well; however, intense competition in bidding kept margins in check. In building materials, margins were hit – for example, wood panel manufacturers saw earlier high timber costs squeeze margins until prices softened later in the quarter. Pipe manufacturers faced both competitive pricing and inventory losses due to PVC price drops. Thus, except for cement which is on a margin mend, most building material players had weaker YoY margins. Volume/Demand: Demand drivers were bifurcated. Cement demand was robust thanks to infrastructure projects and real estate construction – government project execution (roads, metro, rural housing) kept cement consumption growing strongly. Private housing construction also provided support in urban pockets. Construction services demand remained high (as seen in order wins), but actual work done was slower due to monsoon onset and sometimes labor shortages; this means a lot of work is pushed to coming quarters. Building material demand (tiles, plywood, fittings) was lukewarm as the early monsoon and fewer new real-estate launches in Q1 led to fewer orders; the home renovation market also took a breather. That said, there are early greenshoots in woodpanel: timber prices fell and imports reduced, which should improve competitiveness and possibly spur demand ahead. Key Drivers/Drags: Drivers: Government spending is the big driver here – public infra projects (highways, rail, irrigation) are fueling demand for construction services and materials. Cement sector specifically is driven by public capex and urban housing, and companies also managed to implement price hikes which aided revenues. In building materials, any softness in Q1 is expected to be transient – drivers like rising middle-class incomes and home improvement trends remain intact, just deferred by seasonal factors. Drags: For construction, execution challenges (labor availability, delayed site clearances, heavy rains) remain an issue, causing slower revenue booking. Competitive intensity in tenders can erode contractor margins. Cement faces a drag from rising costs – petcoke/coal prices had spiked last year and some of that hit is still flowing through, as noted in higher power/fuel cost this quarter. Building material firms were dragged by weak demand and high competition; in pipes, aggressive competition and falling PVC prices caused inventory losses. Also, government curbs on spending (if any fiscal tightening) could slow project awards, impacting the whole chain. Outlook & Structural Themes: Outlook: The outlook is upbeat for H2 FY26 as construction activity typically accelerates post-monsoon. Cement demand is expected to remain strong – analysts anticipate double-digit volume growth for FY26 if infrastructure momentum continues. Prices might rise marginally to cover any cost inflation. For construction firms, execution will pick up as they rush to meet order deadlines, which should boost revenues. Building material demand should also bounce back as projects delayed by rains resume; additionally, softening raw material costs (timber, PVC, etc.) will help volumes and margins. Structural themes: A key theme is consolidation and formalization – in cement, large players are getting larger (big mergers/acquisitions recently), potentially leading to more pricing power and efficiency. In construction, the focus is on companies with asset-light models and diversification (e.g., those taking projects in roads, rail, metro, etc., reducing dependence on any one segment). Urbanization and housing remain long-term themes: India’s housing shortage and smart cities initiative mean sustained demand for cement and building materials in the long run. Also, green construction is emerging – use of eco-friendly materials and techniques (like green cement, energy-efficient buildings) is slowly picking up, which may shape future product demand. In summary, after a weather-induced blip, the structural demand for infrastructure and housing keeps this sector on a growth trajectory, with companies adapting via scale and innovation.



Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Real Estate	Sales/Revenue Trends: Real estate developers had a somewhat mixed Q1. Pre-sales (new residential sales) were a bit soft in Q1, largely due to a lower number of new launches. Many developers held back launches (perhaps waiting for festive season or approvals), leading to fewer units sold compared to the previous quarter. However, underlying demand in mid-premium and luxury housing segments stayed strong, and whatever inventory was available continued to see bookings. Commercial real estate (office leasing) was stable, though not a big driver this quarter. Overall, most large listed developers still posted YoY growth in sales bookings, but sequentially there was a moderation. Margins/Financials: Real estate P&L margins are less immediately relevant due to project completion-based accounting for many, but some trends are visible. Collections were slower in Q1 – the monsoon quarter typically sees a slight dip in customer payments, which along with ongoing construction costs resulted in a rise in net debt for a few companies. Developers have been managing input costs (cement, steel) via bulk procurement, so project-level margins remain intact, but corporate margins can swing based on revenue recognition timing. In short, no major change in margin outlook; the key monitorable is companies’ debt levels and cost of capital, which ticked up slightly if sales slowed. Volume/Demand: Housing demand drivers remain intact – low home loan rates (still relatively low, despite some increases), rising incomes, and the desire for home ownership continue to support demand. In Q1, volume (units sold) dipped only because of limited new supply, not due to lack of buyer interest. Many projects launched in previous quarters continued to sell and see good absorption. Tier 2 city demand is also picking up for branded developers. On the commercial side, office space absorption in top cities was moderate as corporates evaluate hybrid work needs, but segments like data center real estate and high-end retail saw good demand. Key Drivers/Drags: Drivers: Developers aggressively pursued land acquisitions and business development in Q1 – many struck JVs or bought land parcels, indicating confidence in future demand. This land banking is a positive for medium-term growth. Housing affordability remained a driver: stable prices (many developers held prices largely steady) plus moderate interest rates kept affordability reasonable for buyers. Drags: Fewer new launches was the primary drag on sales – a supply-side issue. Also, project approval delays in some cities meant pipeline launches got pushed out. Another drag is higher debt – some developers’ debt inched up due to slower collections and continued land investments, which could pressure financials if not matched by sales in coming quarters. Outlook & Structural Themes: Outlook: The outlook for real estate is positive heading into the festive season. Developers have lined up a robust launch pipeline for Q2/Q3, which should rejuvenate sales. Pent-up demand for homes, especially in the mid-income and luxury segments, is expected to drive strong booking values in H2. Interest rates, while off lows, are still in a comfortable range, and banks are keen on home loan growth, which will support buyers. Structural themes: One big theme is the market share shift to organized players – post RERA and industry consolidation, large branded developers are capturing a bigger slice of housing demand. This is why even with overall market fluctuations, the majors are doing well. Another theme is the focus on execution and delivery – timely completion has become a selling point, and leaders are investing in construction technology to deliver as promised, building customer trust. The commercial real estate structural story is the growth of new formats like co-working and the demand for quality office space from global capability centers in India – this will drive differentiated demand (although Q1 was quiet, the medium-term is promising). In summary, real estate sector is in an up-cycle with strong fundamentals; short-term dips aside, the combination of urbanization, favorable demographics, and regulatory reforms is creating a more sustainable growth path for developers.
Telecom	Revenue Trends: The telecom sector reported solid revenue growth in Q1 FY25–26, primarily driven by continued subscriber additions in 4G/5G and increased data usage. Industry leader Bharti Airtel and others saw double-digit YoY revenue growth. However, ARPU (average revenue per user) improvement was modest as there were no major tariff hikes during the quarter. The overall mobile subscriber base grew slightly, and more importantly, the broadband (FTTH) segment saw a surge in users as telcos expanded fiber-to-home services. Margin Behavior: Margins remained healthy for telcos. With the bulk of heavy 5G capex done in prior years, operating leverage is kicking in – incremental revenue largely flows through to EBITDA. Q1 EBITDA margins were robust (in some cases improved) owing to cost efficiencies and the absence of significant network cost spikes. Additionally, the “peak capex cycle is behind”, meaning depreciation and interest expenses will plateau, helping bottom lines. One caution is that entry-level plans offer a lot of data at low prices, which caps ARPU growth – but companies managed to hold margins through upselling higher plans to some extent. Subscriber/Demand Changes: Data demand is soaring. Per-user data consumption hit new highs in Q1, continuing to grow as 4G/5G adoption deepens. Subscribers are increasingly consuming video and digital services, driving up usage. Home broadband saw a notable jump – telcos aggressively rolled out fiber networks and bundled offerings, leading to a rise in home internet subscribers. Overall mobile subscriber counts were stable; Jio and Airtel continued to add 4G subscribers (often upgrading 2G users), while Vodafone Idea saw some customer churn. The industry is essentially a two-player market now (Jio and Airtel dominating), which helps maintain pricing discipline (though minimum tariffs are still low). Key Drivers/Drags: Drivers: The push into home fiber broadband is opening a new revenue stream – telcos are leveraging existing fiber to capture broadband market share, capitalizing on work-from-home and high streaming demand. Additionally, digital service bundling (OTT content, fintech, cloud services for enterprises) is driving customers to higher-priced plans, supporting revenue. Drags: India’s pricing structure remains skewed to low-end – generous data allowances in cheap plans leave little incentive for upgrades. This means ARPU growth is largely dependent on eventual tariff hikes, which regulators and companies are contemplating but moving slowly on. Another drag is the financial stress of the weakest player (Vi); while not a direct drag on Airtel/Jio’s performance, the overall sector’s investments in rural coverage etc. could suffer if one player struggles. Lastly, high spectrum debt and government dues mean telcos have significant cash outflow, though most have managed this via fundraising. Outlook & Structural Themes: Outlook: The telecom sector outlook is positive with an expectation of tariff hikes in the next few quarters to bolster ARPUs (both Jio and Airtel have signaled need for higher tariffs). Data volume growth will continue unabated, and 5G rollouts will unlock new enterprise use-cases (though consumer monetization of 5G will take time). Structural themes: The industry structure is now essentially an oligopoly (2+1 players) which should ensure more rational pricing and stable investments. 5G and digital services are the big themes – operators are not just telecom providers but digital service platforms now, offering content, payments, cloud, IoT solutions, etc., to drive ARPU eventually. Also, with core networks largely upgraded, telcos will focus on improving free cash flow generation – as noted, the peak capex intensity is past, so operators are looking at better cash flows and deleveraging ahead. In summary, telecom remains a growth sector with huge data demand, and if pricing improves structurally, it could see significant profit expansion in coming years.
Media & Entertainment	Revenue Trends: The media sector had a subdued Q1 overall, with one notable exception. Theatrical and cinema segment (e.g., PVR-INOX) delivered strong YoY growth – theatre operators saw high footfalls and record-high advertising and food & beverage spends per head. Hollywood movie releases did well, and Bollywood also showed a comeback with a few hits, boosting multiplex revenues. In contrast, TV broadcasters and print media faced revenue declines as advertising income was soft. Major advertisers like FMCG companies cut ad spends in Q1, which led to broadcasting ad revenues falling. Subscription revenues for TV (DTH/cable) were flat as cord-cutting trends continue. Digital media (OTT platforms) saw user growth but revenue is not disclosed in these earnings in the same way. Net-net, media sector revenue was sluggish except for cinema exhibitors. Margin Behavior: Margins diverged within media. Multiplex/cinema chains saw improved margins due to operating leverage (higher admissions without proportionate rise in fixed costs) and strong F&B/advertising revenue contribution. Their EBITDA margins expanded nicely YoY. Broadcasters, however, experienced margin pressure as lower ad revenues directly hit profits (many costs are fixed in nature like content costs). Some broadcasters cut operating costs (including content spends and marketing) to mitigate the revenue drop, helping hold margins to an extent. Overall, media companies are in cost-control mode on the broadcasting side, while cinema is enjoying post-pandemic normalization benefits. Audience/Demand Changes: Audience behavior is showing interesting trends – cinema has rebounded (people are back in theatres for major releases), indicating pent-up demand for out-of-home entertainment. Meanwhile, traditional TV is seeing engagement challenges, especially among younger audiences shifting to OTT streaming; this in turn affects advertisers’ willingness to spend on TV. The quarter didn’t have big sports events (aside from IPL spill-over in early April) so sports broadcasters had a quieter quarter after IPL. In advertising, sectors like FMCG and consumer goods pulled back ads during Q1 (possibly to protect margins amid input costs), but others like auto and e-commerce were steady. Key Drivers/Drags: Drivers: Content pipeline is a big driver – the film side had strong content (both Hollywood blockbusters and some Hindi hits) drawing audiences, and Q2 is expected to have more big releases which should drive continued growth. Also, anecdotally, advertisers are expected to come back in sectors like FMCG as they launch new products and with festive season approaching (ad spends usually rise in H2). Drags: Advertising is cyclical – ad revenues for broadcasters declined in Q1 as companies cut marketing budgets in a slow consumption environment. This is the primary drag for TV media. Another structural drag is the shift of eyeballs to digital: advertisers are reallocating budgets to digital platforms (social media, search, OTT), which drags traditional media growth. Additionally, the ongoing economic pressures on some sectors mean ad spending may recover gradually rather than in a spike. Outlook & Structural Themes: Outlook: Media companies are hopeful for a rebound in Q2 and onward, as indicated by a strong content lineup and signs that advertisers have a robust pipeline of campaigns for the festive season. The ICC Cricket World Cup in Q3 will also likely boost ad revenues across TV and digital. Structural themes: The media landscape is undergoing a digital transformation. OTT streaming and digital advertising are capturing growth, so traditional players are adapting by launching their own streaming platforms and integrated ad offerings. Another theme is consolidation – e.g., the merger of PVR-INOX has created a stronger entity in cinemas, and broadcasters might also see M&A or alliances to better compete with OTT. In advertising, data-driven targeted ads (digital) versus mass ads (TV/print) is the shift; media companies that can offer multi-platform reach will have an edge. Ultimately, while the near-term is improving with cyclical recovery, the structural trajectory is a gradual pivot from pure traditional media to a hybrid model blending TV, film, and digital to engage audiences and advertisers.



Sector Name	Q1 FY2025–26 Earnings: Sector Performance Summary and Outlook
Internet & New-Age Technology	Revenue/Usage Trends: India’s new-age internet sector (online platforms, e-commerce, SAAS, etc.) witnessed growth recovery signs in Q1. For instance, B2B ecommerce and classifieds (like IndiaMART) showed improving metrics – IndiaMART saw a revival in traffic and business enquiry volumes, with its collections growing ~17.5% YoY, the highest in 7 quarters. Consumer internet segments (food delivery, quick commerce) continued to grow orders but at a moderated pace compared to the pandemic surge. Overall, most internet companies still delivered YoY revenue growth in Q1, though some like enterprise communication (e.g., Route Mobile) had hiccups as a large client insourced services. Profitability/Margins: Many internet firms are moving toward better unit economics. Several listed new-age companies trimmed their EBITDA losses or even turned profitable due to cost optimization. For example, a prominent food and grocery delivery business (Blinkit under Zomato’s umbrella, referenced as “Eternal” in the text) significantly curbed its losses through controlled marketing spend and operating efficiencies. Route Mobile, despite a growth hit, actually improved its EBITDA margin sequentially to 11.3% after a series of weak quarters. Still, absolute margins in many digital businesses remain thin or negative, but the trend is toward improvement with focus on cost and shedding unprofitable segments. User/Volume Changes: User engagement remains high on internet platforms. E-commerce user numbers and order frequencies are steady; any slowdown is more macro-driven rather than user abandonment. In segments like online recruitment, Naukri (Info Edge) saw a slight dip in billings in Q1 due to clients deferring contracts, but this picked up in July (post-Q1) with double-digit billing growth, indicating a rebound. This suggests that volumes (job postings, etc.) are still there, just timing issues. Overall, internet user bases are either stable or growing – the challenge has been monetization and spending by enterprise clients in some B2B services, which is now gradually recovering. Key Drivers/Drags: Drivers: Digital adoption in India continues to be a secular driver – more SMEs are coming online (boosting B2B platforms), more consumers are transacting online for food, shopping, travel, etc. Companies have also rationalized their operations; the ones that survived the funding winter have become leaner and more focused, which is driving better metrics (e.g., improved supplier retention in IndiaMART, better take rates). Drags: Certain external factors dragged growth: global IT spending cuts affected SaaS-oriented firms, regulatory changes in sectors like online gaming created uncertainty, and as seen with Route Mobile, a large client’s shift in sourcing can abruptly hit a growth trajectory. Additionally, in some cases, the post-Covid normalization means lower growth rates now that the high base of the pandemic digital boom is behind. Outlook & Structural Themes: Outlook: Cautiously optimistic – internet companies expect growth momentum to improve in coming quarters as macro conditions stabilize. For example, management commentary from Info Edge is “cautiously optimistic” about sustaining growth in the recruitment business going forward. Fintech and online commerce are also poised to benefit from festive season and general economic pick-up in H2. Structural themes: A key theme is the drive towards profitability – after years of cash burn, investors and companies are now emphasizing clear paths to profit. This is changing strategies: we see consolidation (smaller players being acquired or exiting), focus on core profitable segments, and price discipline (fewer deep discounts). Another structural trend is that many Indian internet firms are diversifying revenue (e.g., adding financial services, advertising revenue streams, etc.) to reduce dependence on a single source. Also, the environment of funding has changed – more scrutiny and lower valuations mean only those with sustainable models are thriving. In essence, the sector is maturing: growth is continuing but with a sharper eye on profitability and sustainable unit economics, which bodes well for its long-term viability.

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.

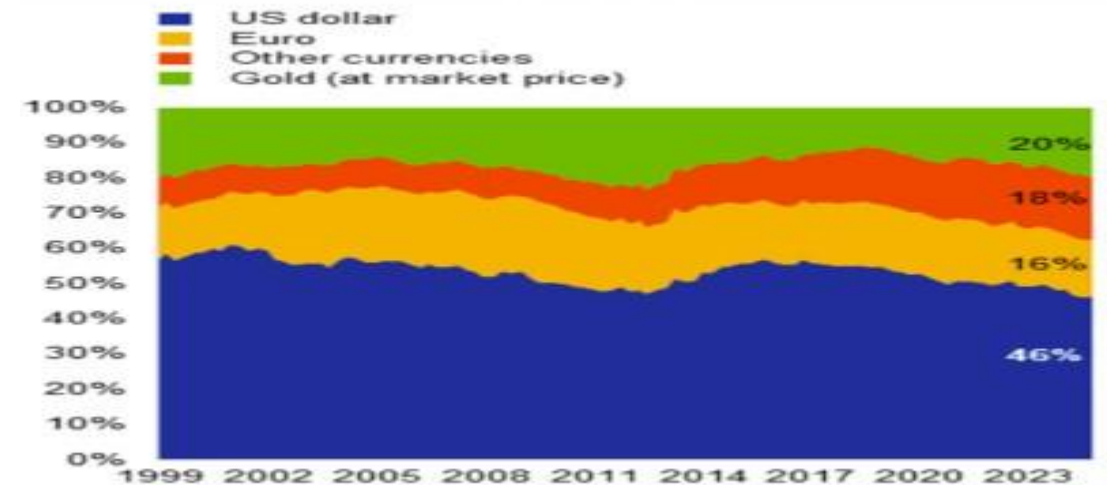
The resurgence of gold as a reserve asset has accelerated since February 2022, coinciding with the onset of the Russia-Ukraine conflict. The U.S. response, in particular, the sanctioning and freezing of Russia's USD-denominated reserves, triggered a strategic rethink among global central banks. Heightened 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 sustained price rally given the constrained supply.

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

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

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

Derived Price of Gold and Silver:

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

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

Tailwinds

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

Headwinds

- **Weak Domestic demand.**
- **Sluggish global growth**, compounded by a **slowdown in domestic momentum** amid 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 Small Cap segments**, though the exuberance has moderated considerably compared to six months ago.

Outlook

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

Suggested Strategy

➤ *Underweight Equity*

Category	Stance
Large Cap	Neutral
Mid Cap	Underweight
Small Cap	Underweight

➤ *Neutral Gold*

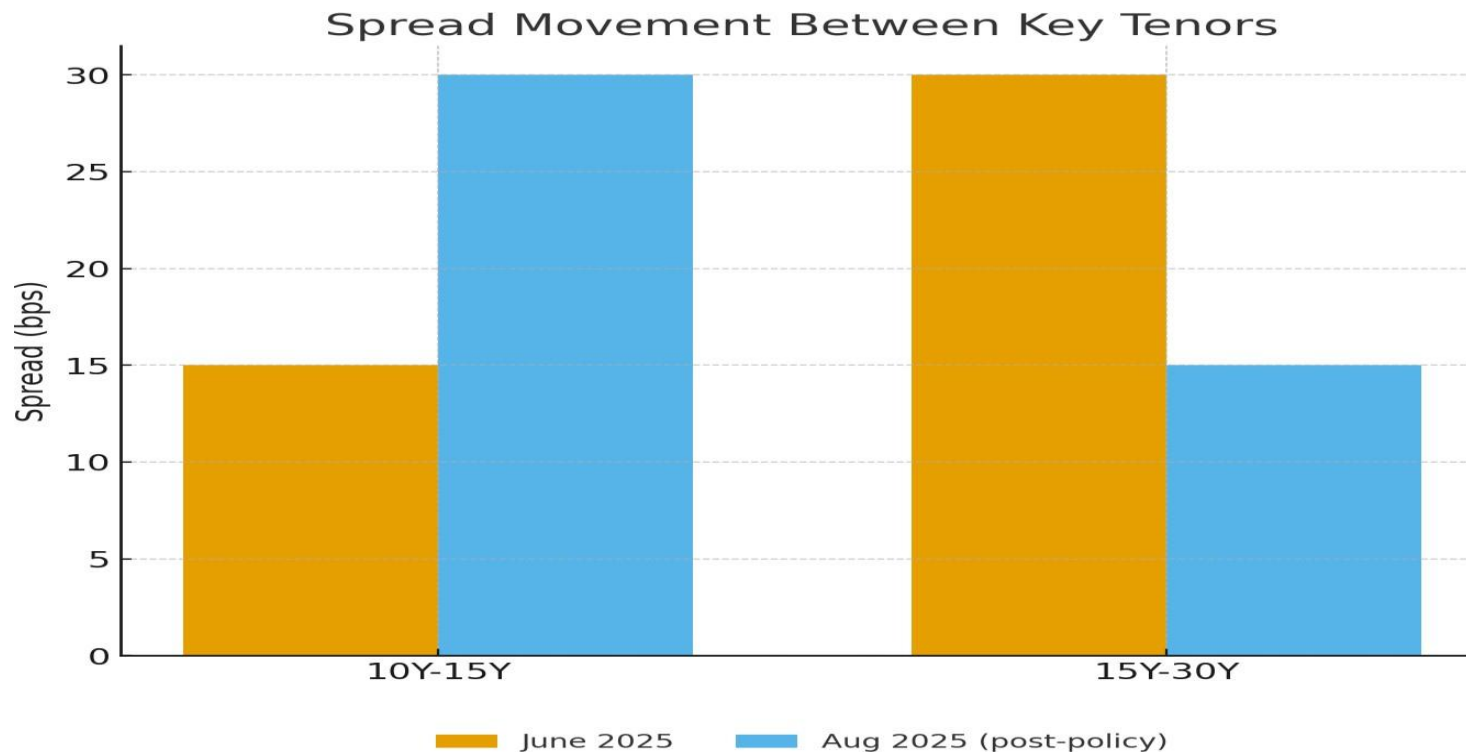


Debt Outlook





Yields & Spreads



Yield Curve Movements

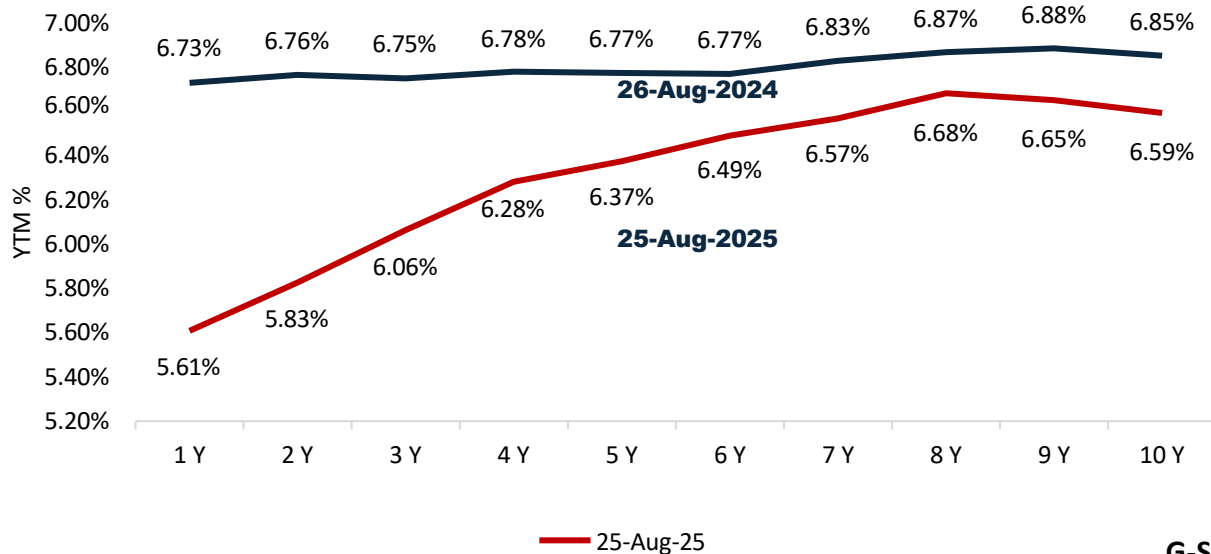
Since June, the curve has steepened, but not equally across all segments.

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

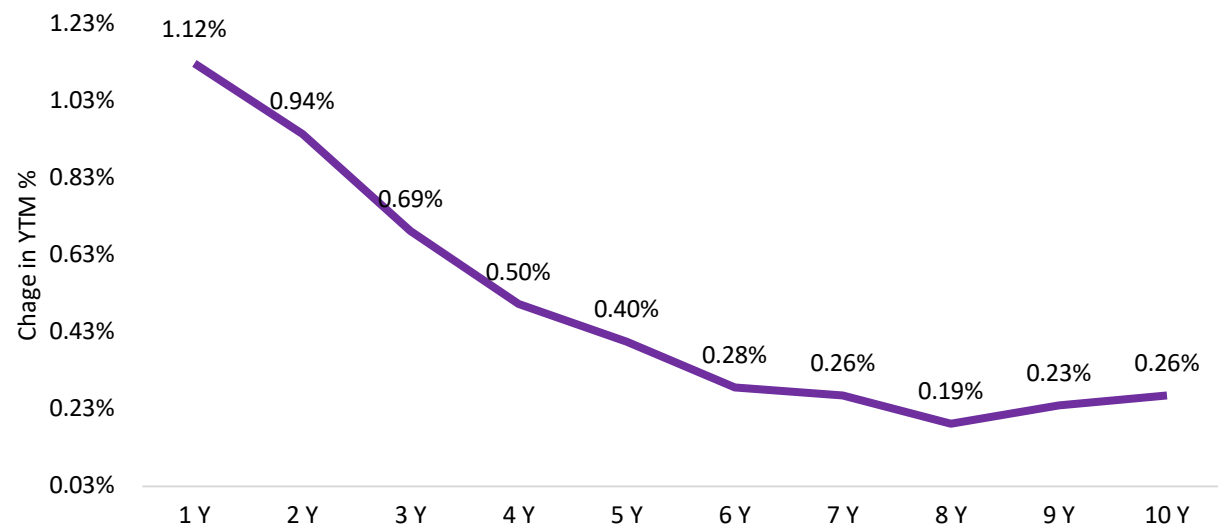


Yields Curve Dynamics

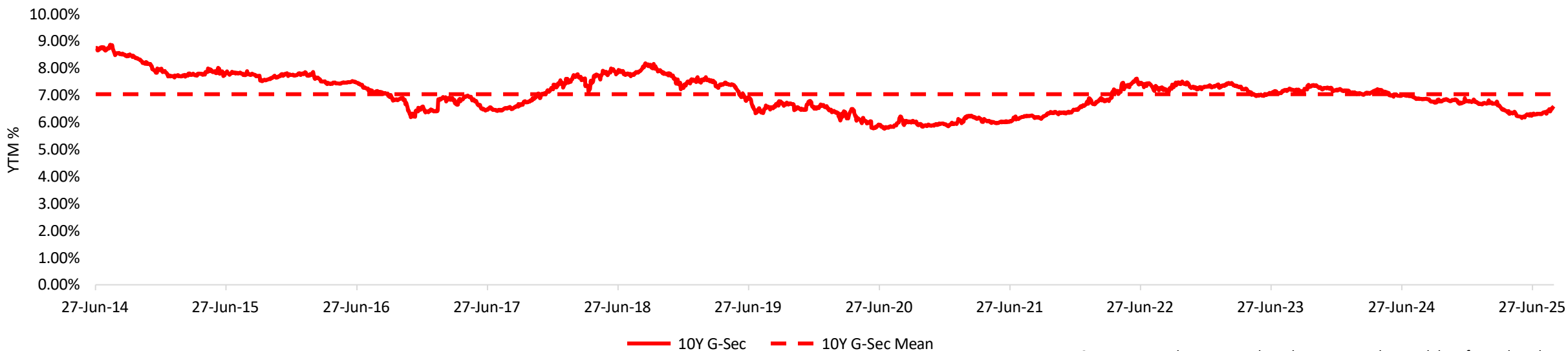
Change in Yield Curve



10Y GSec 1Y Delta - Bull Steepening



G-Sec YTM





Debt Market Outlook



RBI's Latest Policy: A Hawkish Pause Explained

The **Reserve Bank of India (RBI)** decided not to change interest rates this time, keeping the repo rate at 5.5% and maintaining a “neutral stance.” This was largely expected, but some market participants had **still hoped for a small cut of 0.25% given the present economic slowdown**. What stood out was not the pause itself, but the fact that RBI made it clear that **the bar for future cuts is now higher**. In other words, **this was a hawkish hold**, a pause that feels tough rather than soft.

So, why this hawkishness?

Inflation: RBI cut its inflation forecast for FY26 by 0.6% from 3.7% to 3.1% for FY 2025-26, but stressed that much of the fall **came from food prices, which are volatile and can reverse**. Core inflation (prices excluding food and fuel) is still steady around 4%. Moreover, **RBI expects inflation to rise again by end-FY26 and reach about 4.9% in Q1FY27**.

Growth: The RBI expects India's economy to **remain resilient** despite the global growth slowdown and the headwinds from higher US tariffs. The **past rate cuts** (cumulatively 100 bps since February) have **not been fully transmitted across the economy yet**. A cautious pause allows time to assess their impact. Given the slow lag of monetary policy adjustments, immediate further cuts could risk overstimulating an economy.

RBI's Evolving Approach

- Over the last year, **RBI cut rates aggressively** (100 bps in six months) and **pumped liquidity** (₹10 trillion, including CRR cuts) into the system to support growth. Having frontloaded easing, **RBI now wants to slow down and avoid overdependence on monetary policy**. That is why they have **shifted the focus back to inflation risks and long-term stability**.
- But for markets, this shift has been confusing. First, RBI surprised everyone by cutting rates and adding liquidity more than expected. Now, very quickly, it is sounding more cautious. This sudden change in signals has unsettled investors, who like clear and steady guidance. As a result, **bond yields** (the interest rates at which the government and companies borrow in markets) **moved up after the policy announcement, which makes borrowing more costly**. **Furthermore, potential government support for tariff-impacted industries could weigh on fiscal stability going forward, further increasing bond yields**.

The Broader Macro Picture

- **Here's the catch:** while RBI talks about being cautious, **the global economy is already slowing. India too is showing signs of weaker momentum, corporate sales growth has slowed, and both corporate and income tax collections are falling**. The underlying growth cycle seems soft, even if RBI's stance has hardened.
- **This mismatch in the RBI's policy stance vs the growth outlook, has led to a steepening of the yield curve in India.**



What This Means Going Forward

- **The bar for another rate cut is higher.** Unless growth slows significantly further, the RBI is unlikely to cut rates in the near term. If the current U.S. tariffs continue and GDP contracts significantly, the RBI may be compelled to reduce interest rates. **For now, the central bank seems inclined to wait and assess how resilient the Indian economy proves to be.**
- Global backdrop matters. With the US slowing and no other big economy stepping up, **global bond yields may fall further in coming quarters.** If that happens, **Indian bonds too will likely rally**, regardless of RBI's cautious tone.

Outlook: Tactical Positioning

- **We maintain a long duration bias, but with more selective positioning given RBI's hawkish tone and global slowdown concerns.**
- **The yield curve has steepened further, with the gap between short- and medium-term bonds widening as markets reprice expectations. This has made the 10–15 year segment relatively more attractive for carry and roll-down.**
- **At the longer end, the 30-year segment now offers limited incremental value as the spread over 15-year bonds has compressed.**
- **In the near term, we see better opportunities in the 15-year government bond segment, balancing yield pickup with manageable volatility.**
- **Overall, we remain constructive on duration but prefer to stay tactically positioned at the longer end of the curve, while awaiting more clarity on growth and inflation trajectories.**

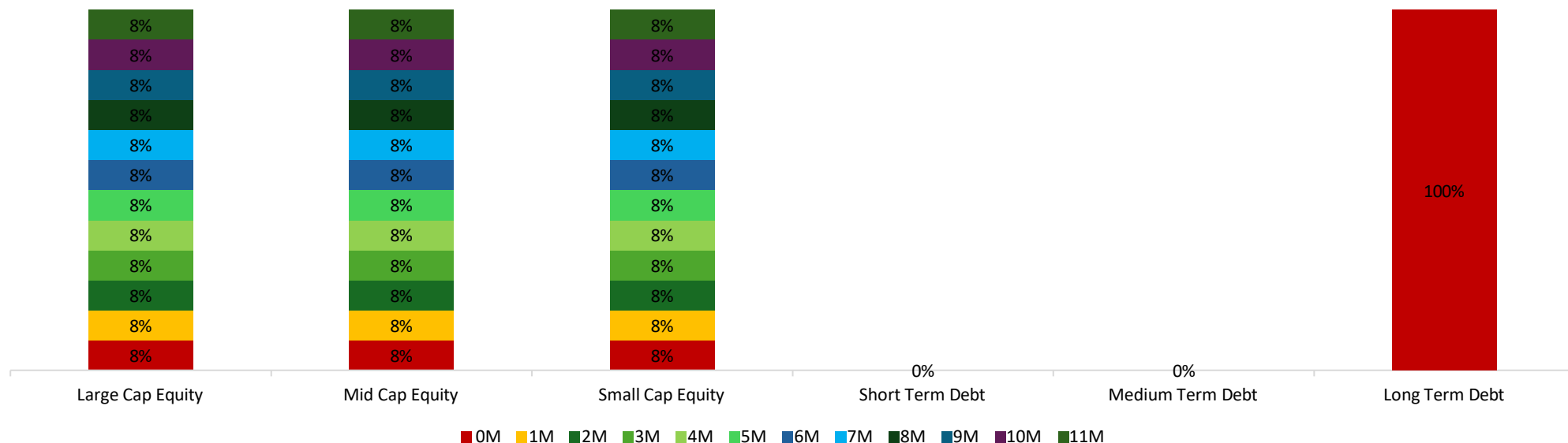
Deployment Strategy



Deployment



Stages of Deployment



Indicators:

Indicators signaling over heated market conditions –

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

Indicators signaling fair valuation -

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

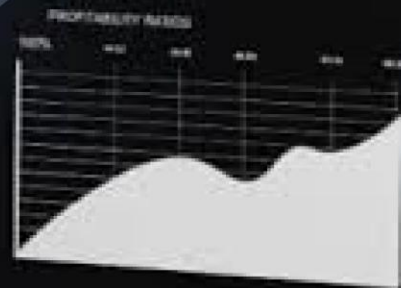
Deployment Strategy:

Staggered Deployment over the next 12 months -

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

Optimus Prime Model Portfolio

Aggressive Strategy

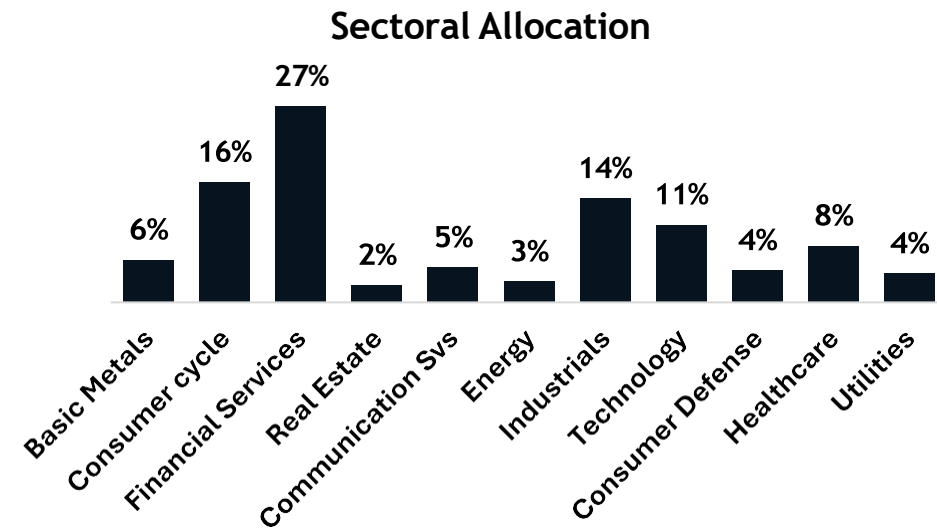
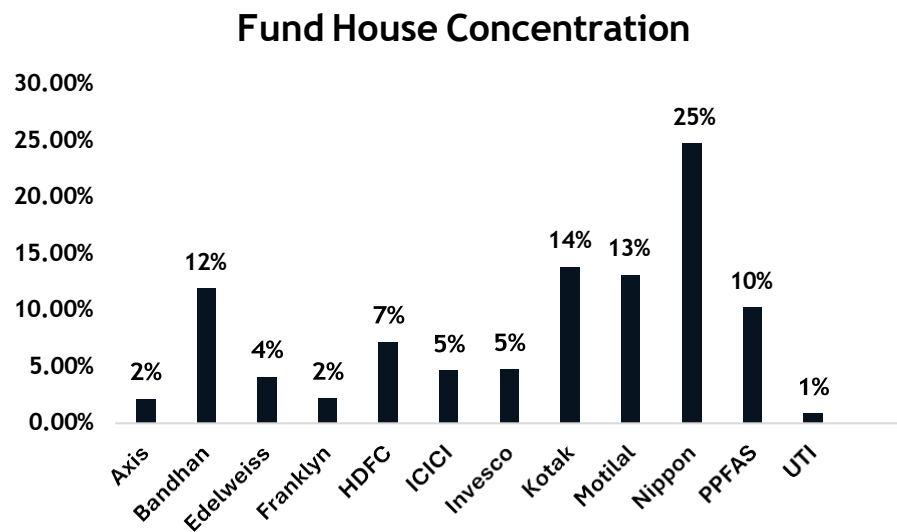
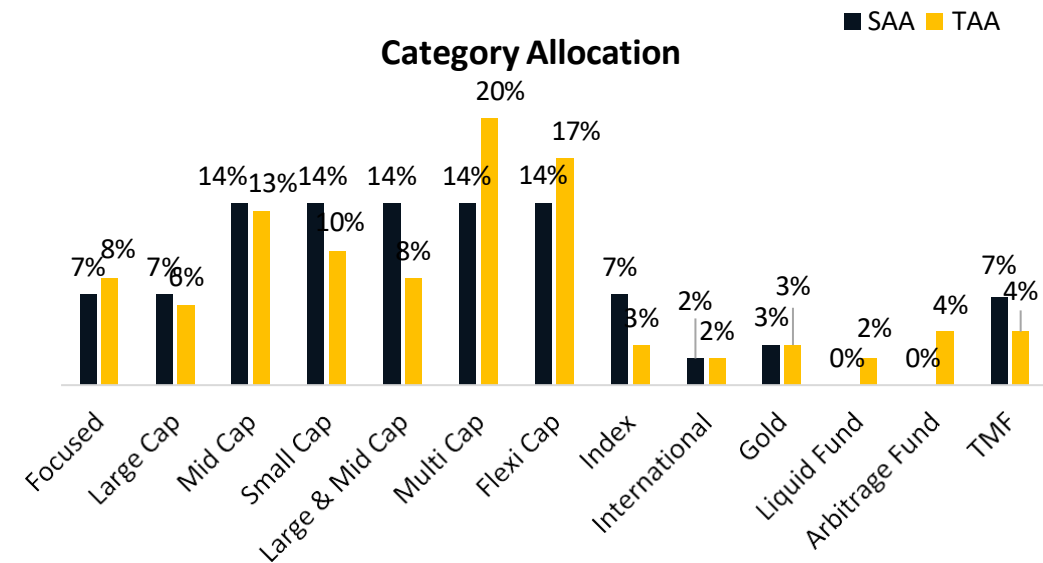
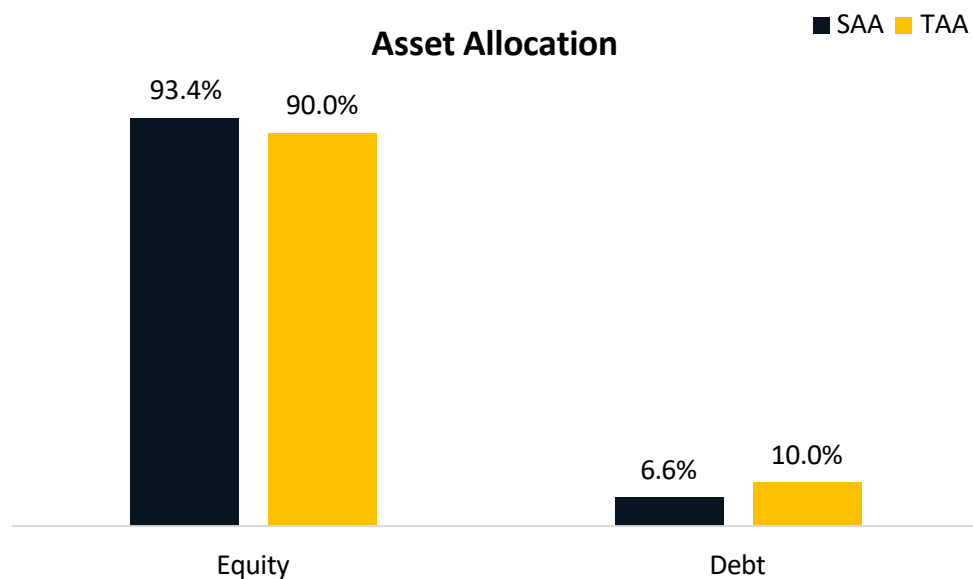


100% 9.12% 18.25%

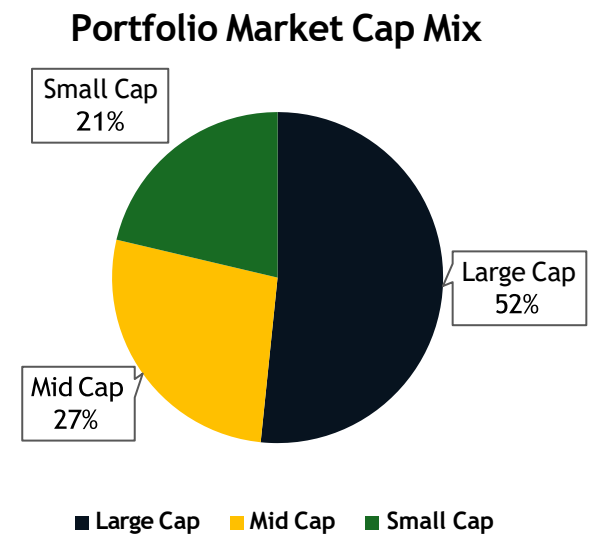
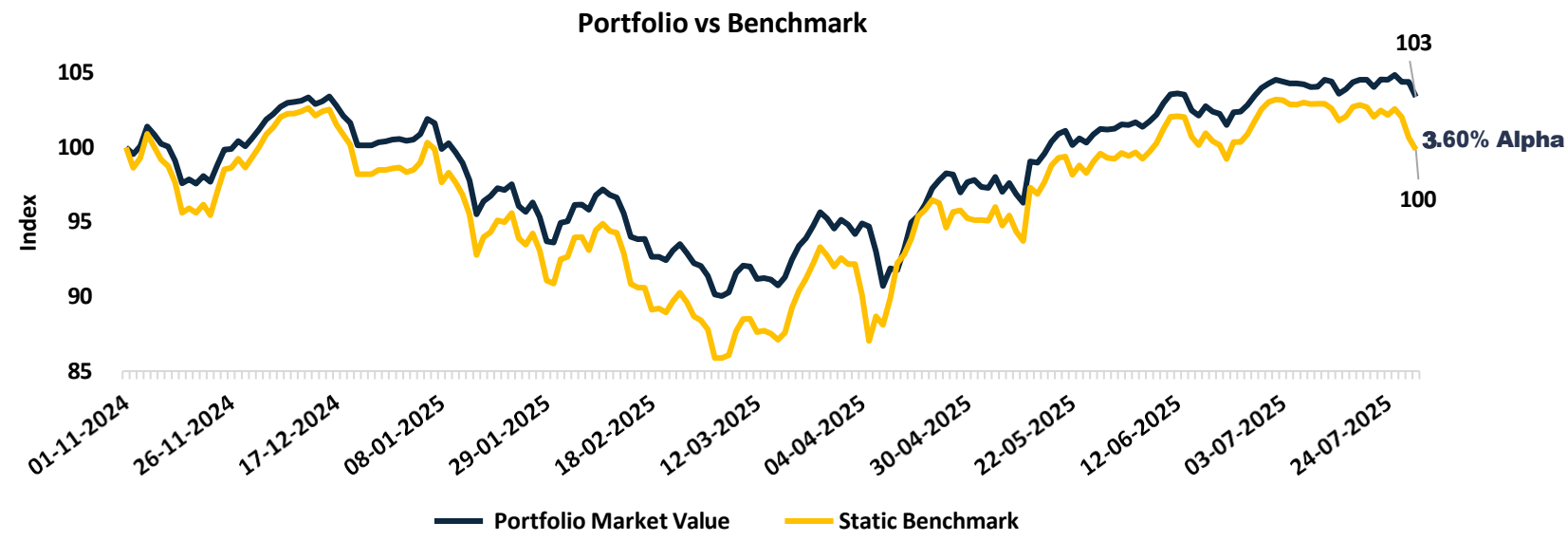


GROWTH

Analytics



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



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	4.14%	0.53%
Standard Deviation (annualized)	11.65%	15.44%
Beta	0.87	
Alpha	3.60%	
Information Ratio	6.02	
Downside Capture	58.29	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.23%	3.29%	0.08%	3.60%

Debt Portfolio Analytics

Debt Measures	Apr-25
Average MoD	4.9
Average Maturity	6.5 yrs
Average Coupon	NA
Average YTM	6.8 %

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

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



Current Investment Portfolio Stance: **Conservative**

At the most recent Investment Advisory Committee meeting, it was unanimously agreed to maintain a **Conservative investment approach, with a measured tilt towards a moderately pro-risk stance as part of a long-term equity strategy**. This decision reflects the committee's ongoing caution **amid global macroeconomic uncertainties, especially surrounding the 50% tariff hikes** introduced on India, which is expected to lead to **heightened market volatility** and a **subdued return environment domestically as well as globally**.

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

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

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

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 3.6%**, driven primarily by **Product Selection Alpha in the Large and Small Cap space and a healthy Asset Allocation Alpha at the short end of the yield curve**. Importantly, the portfolio has maintained a **low Beta of 0.87**, and an **Information Ratio of 6.02, 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 continue with the current stance until there is visibility on **domestic demand recovery** and **greater clarity on how resilient the Indian economy proves to be to the recent US tariff hikes**. Asset allocation will be reassessed in line with evolving macro and market conditions.

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





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THANK YOU

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