



KILIKKA
CAPITAL

Embracing complexity to capture Alpha

Dear Investors,

As we step into the final stretch of CY2025, we find ourselves navigating an environment that is both remarkably fluid and structurally promising. The Indian economy continues to display a rare combination of resilience and composure, delivering 8.7% nominal GDP growth in Q2 FY26 in a world where major economies are contending with stagnation, tariffs, and policy uncertainty. What is particularly noteworthy is the economy's quality of growth; driven not by transitory fiscal impulses but by strengthening private consumption and investment cycle, benign inflation, and a services sector operating at full stride.

Inflation, for now, has all but dissolved as a macro constraint. The lowest headline CPI print in the history of the series at 0.25% is less a sign of weakening demand and more an artefact of supply abundance, GST rationalisation, and unusually favourable base effects. Core inflation, once adjusted for volatile components like gold, continues to soften, a sign that the system's underlying price pressures remain extremely well-anchored. This has materially expanded the RBI's policy latitude. With 100 bps of cumulative cuts already delivered in 2025 and transmission gaining traction, financial conditions are finally aligned with the needs of a maturing business cycle.

At the same time, the credit landscape has begun to evolve in telling ways. Bank credit growth remains steady at ~11%, but beneath the aggregate is a decisive rotation. MSME and services credit are accelerating, retail credit is gravitating toward secured segments such as housing and vehicles, and unsecured personal loans are normalising after a period of exuberance. Large corporates continue to rely heavily on primary equity and bond markets, NBFCs, and foreign borrowings, resulting in a more diversified and healthier financial intermediation structure. Taken together, these shifts point toward an economy that is both formalising and broadening, with capital flowing to segments where productivity and cash flows are strongest.

Liquidity, too, has undergone a structural transformation. After months of surplus, the system swung into periodic deficit, driven by festive currency demand, fiscal flows, and significant RBI intervention to stabilise the rupee. Yet, policy control has remained impeccable. The RBI has demonstrated a level of tactical finesse, alternating between CRR cuts, variable-rate repos, and reverse repos to keep overnight rates firmly anchored. The result is a financial system that is neither overstimulated nor constrained: liquidity is abundant where it needs to be, and disciplined where excess might have fostered risk.

External flows have added another layer of complexity. FPI equity flows have turned tactical - risk-off in export-facing sectors, opportunistic in domestic cyclical, but debt flows have remained structurally positive following global bond index inclusion. FDI continues to be the silent anchor, deepening India's integration into global supply chains despite episodic friction from U.S. tariffs and visa-related policy noise. Meanwhile, Domestic Institutional Investors (DIIs), now the largest marginal buyer of Indian equities have become a stabilising force, cushioning the market against global volatility and reinforcing the market's reliance on domestic savings.

At the same time, it is important to recognise that the macro landscape is not without its pressure points. The latest IIP print, at just 0.4% YoY, underscores an emerging softness in both rural and urban consumption and highlights how uneven the industrial recovery remains beneath the headline GDP strength. The external sector, too, warrants close attention - the current account deficit is likely to drift wider as the terms of trade remain unfavourable and import demand normalises, even as export momentum is constrained by weak global demand. Compounding this is the policy overhang from the recent U.S. tariff regime, uncertain in duration and scope, which continues to cloud visibility for India's labour-intensive export industries. These factors do not alter the medium-term trajectory, but they do introduce near-term volatility and reinforce the need for disciplined positioning and prudent risk management as we navigate the coming quarters.

Against this backdrop, our investment philosophy at Kilika Capital remains uncompromisingly consistent - dispassionate analysis, disciplined positioning, and strategic adaptability. Cycles will turn, shocks will arrive, and narratives will shift, but the long-term compounding of well-chosen assets remains anchored in fundamentals, not sentiment.

In this edition, we present a detailed assessment of macroeconomic dynamics, corporate credit flows, liquidity conditions, and the interplay of foreign and domestic capital. For investors like you - sophisticated, patient, and deeply aligned with the India growth story, we believe this environment calls not for caution, but for clarity. The opportunity set in India is broadening, not narrowing. The challenge is not finding growth, but allocating to it with the right balance of conviction and prudence.

As always, we thank you for your trust and partnership. At Kilika Capital, our endeavour is simple yet exacting: to convert complexity into insight, insight into strategy, and strategy into long-term alpha.

Best regards,

Siddharth Jadeja

Investment Strategy Report





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KILKA CAPITAL

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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 thought rigorous analysis is *nothing short of magic*. Siddharth, a passionate sports enthusiast who has played cricket at the state level, brings the same unwavering discipline and never-give-up attitude to Kilika Capital.

Smitha Iyer – The Operational Hawk

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

Piyush Sharma – The Creative Wizard

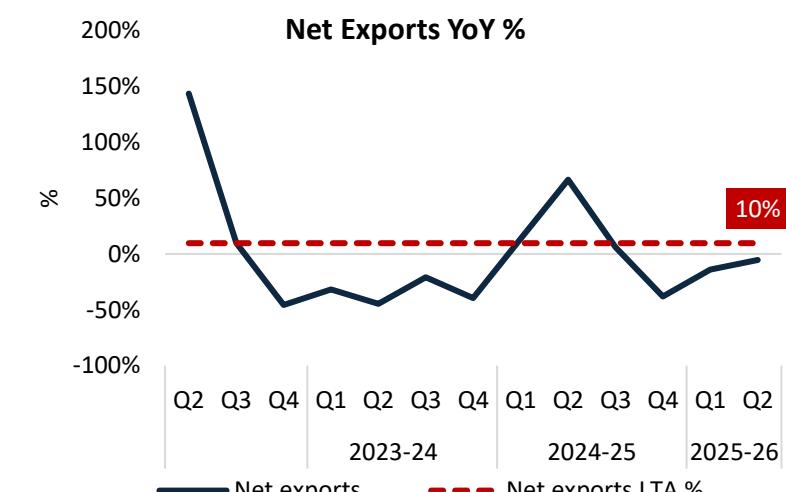
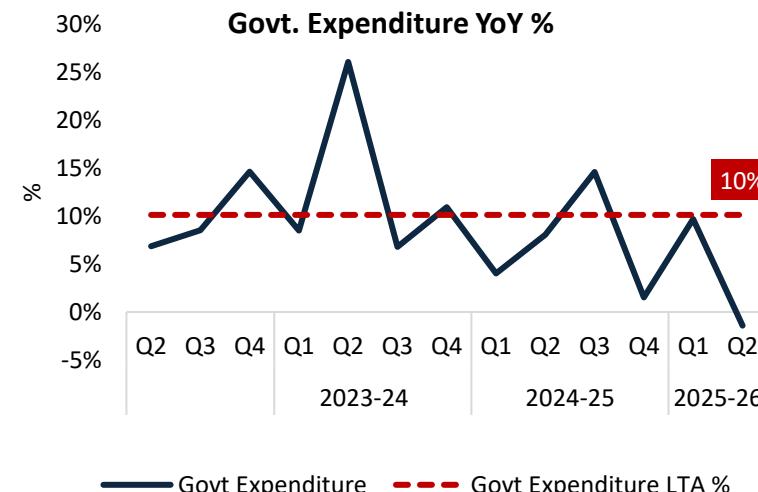
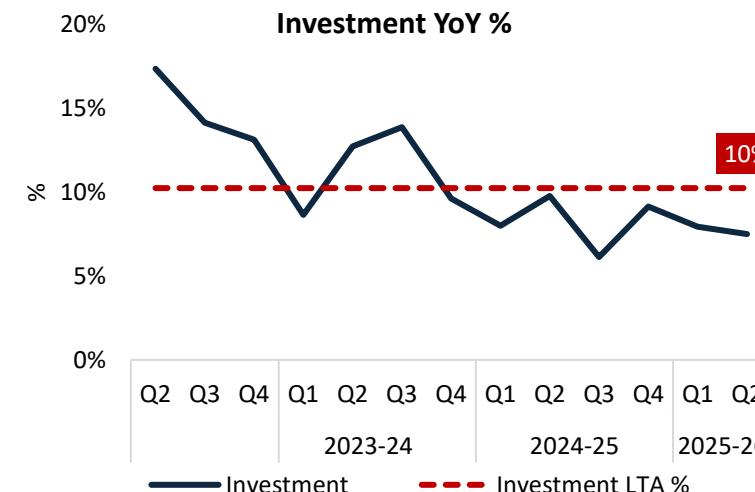
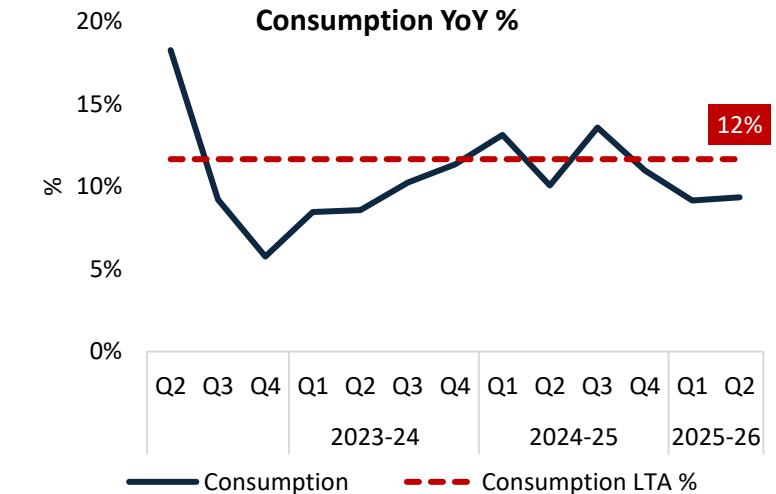
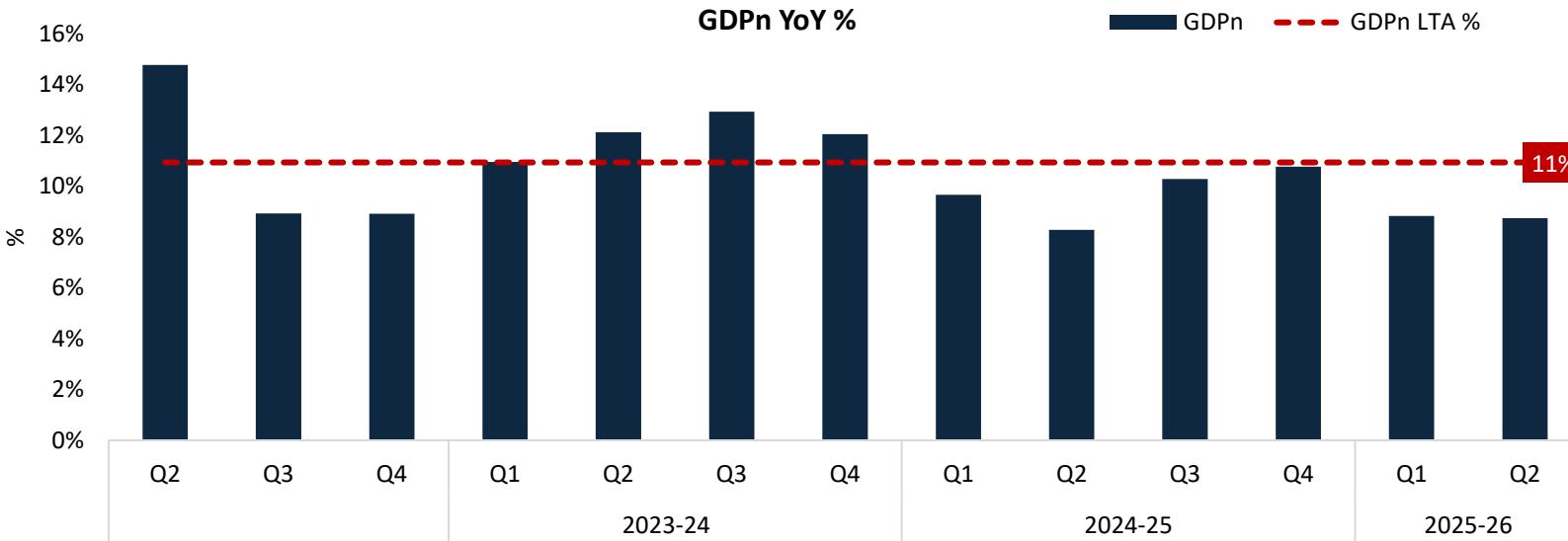
Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model,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

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

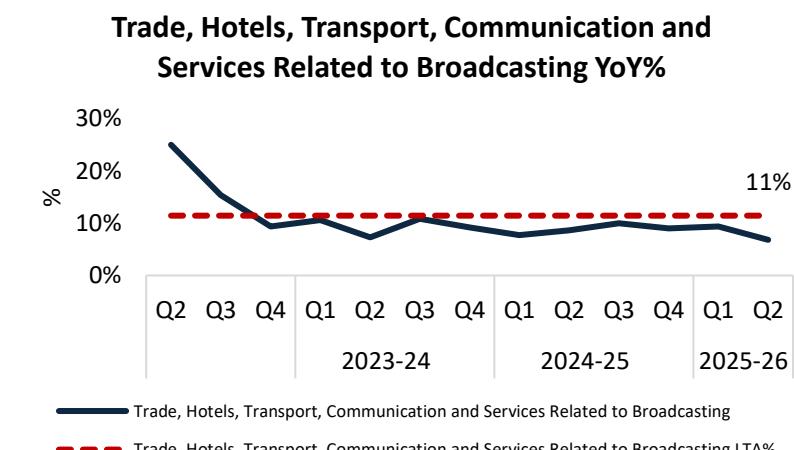
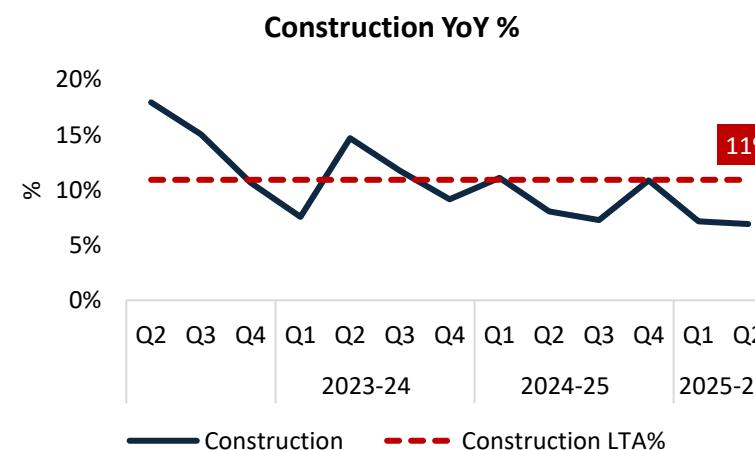
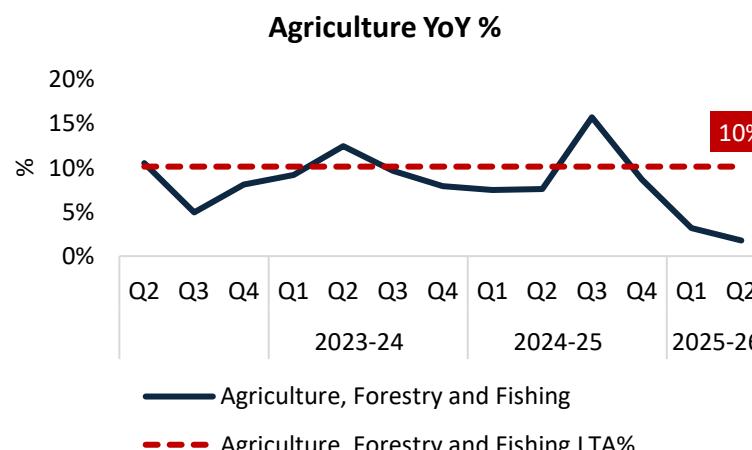
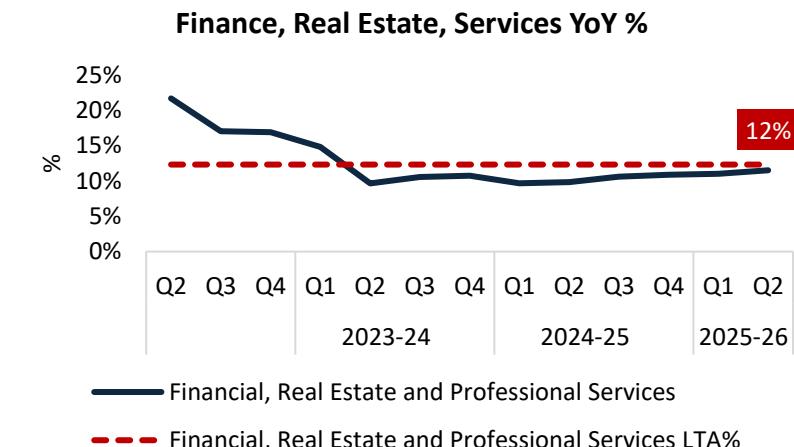
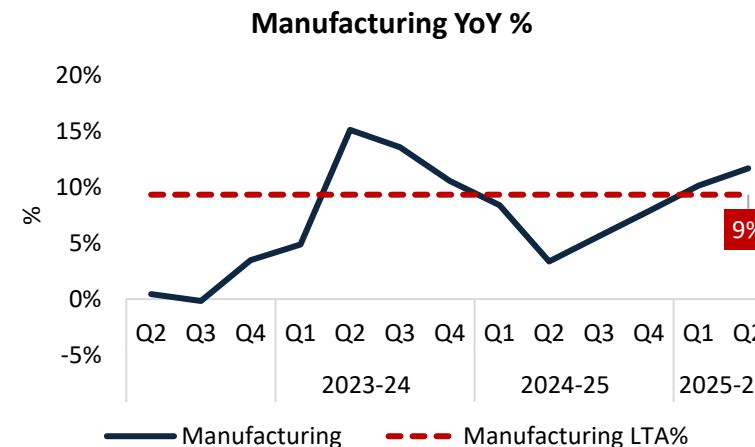
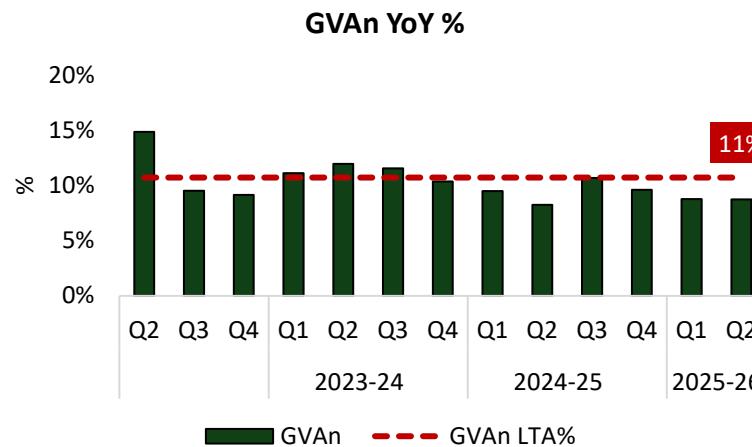
Macro-Economic Outlook



1. GDP (Gross Domestic Product)



GVA (Gross Value Added)





Summary Highlights

- **Robust Nominal Growth:** India's nominal GDP in Q2 FY2025-26 stood at ₹85.25 lakh crore, up 8.7% year-over-year (YoY) from ₹78.40 lakh crore in Q2 FY2024-25. Nominal GVA (Gross Value Added) was ₹77.69 lakh crore, also rising 8.7% YoY from ₹71.45 lakh crore a year ago. **This reflects broad-based economic expansion with low inflation (the gap between real GDP growth of 8.2% and nominal growth 8.7% was minimal).**
- **Services Lead Growth:** The services (tertiary) sector was the **largest and fastest-growing contributor, expanding ~10.6% in nominal terms YoY**. Within services, **financial & real estate services** and **public administration/defence** grew in double-digits, making them key drivers of overall GVA growth. **Trade, hotels, transport, and related services** grew more moderately.
- **Industry Rebounds:** The industry sector (encompassing mining, manufacturing, utilities, construction) **saw strong nominal growth (~9% YoY)**. Manufacturing in particular accelerated sharply (over 11% nominal growth YoY), reflecting robust domestic demand and a favorable base. Construction maintained high growth (~7%), supported by ongoing infrastructure and real estate activity. However, **mining output contracted in value terms, dragging down the primary sector**.
- **Agriculture Moderates:** Agriculture, forestry & fishing posted **subdued nominal growth (~1.8% YoY)**. This modest rise suggests nearly **flat real output growth (3.5% real) combined with lower price inflation for farm produce, resulting in only a small nominal increase**. It marked a slower expansion compared to the ~7.6% nominal growth in the same quarter last year.
- **Demand-Side Drivers:** On the expenditure side, **private consumption (PFCE)** remained the backbone of GDP (about 62% of GDP) and grew ~9.3% YoY in nominal terms, indicating **strong household spending**. **Investment (GFCF)** grew ~8.2% YoY, reflecting sustained capital formation. In contrast, **government consumption (GFCE)** dipped ~1.4% YoY in nominal terms as public spending was curtailed after a strong Q1. **Net exports deficit narrowed slightly as export growth (~11%) outpaced import growth (~8%) in rupee terms, despite a still sizeable trade gap**.

Nominal GVA by Sector – Q2 FY2025-26 vs Q2 FY2024-25

Sectoral composition of India's GVA in Q2 FY2025-26 (nominal terms). Agriculture and allied activities contributed ~14% of GVA, while industry (including mining, manufacturing, utilities, construction) accounted for ~26%. Services made up the largest share at ~60% of GVA. Within services, **Financial, Real Estate & Professional Services** formed about 27% of total GVA – the single largest segment – followed by **Trade, Hotels, Transport & Communication** (~17%) and **Public Administration, Defence & Other Services** (~16%).

Agriculture, Forestry & Fishing

- **Output and YoY Growth:** The agriculture and allied sector GVA was ₹10.56 lakh crore in Q2 FY2025-26, a mere +1.8% increase from ₹10.37 lakh crore in Q2 FY2024-25. This nominal growth was modest, reflecting relatively flat real agricultural growth (3.5% at constant prices) coupled with low or negative price inflation for many crops.
- **Context:** This marks a **significant deceleration compared to the ~7.6% nominal growth seen in the year-ago quarter**. A good monsoon in 2024 had boosted last year's output; in 2025, agricultural output growth was moderate. Additionally, **softer food prices curtailed the nominal gains**. Agriculture's contribution to overall GVA growth was therefore limited in Q2 FY25-26, and the sector's share in GVA held around 14%.



Industry (Mining, Manufacturing, Utilities, Construction)

- **Overall Performance:** The broad industry sector GVA (encompassing mining, manufacturing, electricity/utilities, and construction) reached ₹19.47 lakh crore in Q2 FY2025-26, up ~9.3% YoY from ₹17.82 lakh crore in Q2 FY2024-25. This robust growth in nominal terms **indicates a strong rebound in industrial activity, outpacing the mere 4.7% increase seen in the same quarter of the previous year.** Industry contributed roughly 25–26% of total GVA in Q2.
- **Manufacturing:** Manufacturing GVA surged to ₹11.29 lakh crore, registering a **+11.7% YoY jump** from ₹10.10 lakh crore in Q2 last year. This double-digit nominal growth is a sharp improvement over the ~3.4% growth a year ago. **It reflects strong domestic demand (especially during the run-up to festive season) and companies ramping up production.** In real terms, manufacturing grew 9.1% – indicating only modest inflation in manufactured goods prices. This sector's revival marks a turnaround from its laggard status a year prior, and was a **key driver of the overall GDP uptick.**
- **Mining & Quarrying:** In contrast, the mining sector's nominal GVA **contracted.** It fell to ₹1.02 lakh crore in Q2 FY25-26 from ₹1.07 lakh crore in Q2 FY24-25, a **-4.3% YoY decline.** Mining output was **hampered by lower production of coal and crude oil, and global commodity price softness.** This decline dragged on the industry sector's performance. (Notably, mining had already seen a slight dip in the same quarter last year at current prices.) Mining contributes a small share (around 1–2% of GVA), but its downturn meant the **primary sector (agriculture + mining) grew only ~1.2% nominally.**
- **Electricity, Gas & Water (Utilities):** The utilities segment GVA was ₹1.99 lakh crore, **rising about +3.7% YoY** from ₹1.92 lakh crore. **Growth in this sector was moderate, and notably lower than its real growth (4.4%), implying output gains were partly offset by lower tariffs or input costs leading to subdued nominal growth.** Utilities form ~3% of GVA and provided a small positive push.
- **Construction:** Construction GVA climbed to ₹6.19 lakh crore in Q2 FY25-26, **up +6.9% YoY** from ₹5.79 lakh crore. Nominal construction growth remained high, though slightly below the 8.0% seen in Q2 last year. **This reflects sustained activity in infrastructure projects and real estate.** Real construction growth was 7.2%, so price changes in this sector were moderate. Construction constituted about 8% of GVA and, along with manufacturing, **underscored the resilience of India's industrial base.**

Services (Tertiary Sector)

- **Overall Performance:** The services sector continued to be the **engine of growth**, with nominal GVA reaching ₹46.65 lakh crore in Q2 FY2025-26, **up +10.6% YoY** from ₹42.19 lakh crore in the same quarter previous year. This ~10%+ growth in the largest sector of the economy boosted overall GVA significantly. Services accounted for about 60% of total GVA in Q2 (by far the largest share). In the year-ago period, services had grown 10.3% nominally, so **the sector maintained a strong momentum.**
- **Trade, Hotels, Transport & Communication:** This grouping – reflecting consumer-facing services and transportation – grew to ₹13.39 lakh crore in Q2 FY25-26, a **+6.8% YoY rise** from ₹12.53 lakh crore in Q2 FY24-25. **Growth here was positive but comparatively modest**, slower than the ~8.6% seen a year earlier. **Sectors like retail trade, hospitality, transport, and communications had already rebounded strongly in the post-pandemic period last year, so the base was high.** The 6.8% nominal uptick suggests moderate real growth (7.4% at constant prices) with slight price deflation (e.g. lower fuel prices reducing transport revenues). This segment formed ~17% of total GVA.
- **Financial, Real Estate & Professional Services:** This was the **largest single subsector** of GVA and **one of the fastest-growing**. Its GVA rose to ₹20.91 lakh crore in Q2 FY25-26 from ₹18.75 lakh crore a year prior, marking a **+11.5% YoY increase.** This double-digit growth was **driven by robust banking and financial services, real estate activities, and professional services.** It accelerated from ~9.8% growth in the year-ago quarter, **indicating strong credit growth, buoyant property markets, and corporate demand for services.** At constant prices, this subsector grew 10.2%, so there was modest price inflation. With about **27%** share in GVA, financial & real estate services provided a major lift to overall GVA.



- **Public Administration, Defence & Other Services:** Government and public-oriented services also saw very high growth. GVA for public administration, defence and other services (which include education, health and other personal services) climbed to ₹12.35 lakh crore in Q2 FY25-26, up +13.2% YoY from ₹10.91 lakh crore in Q2 FY24-25. This ~13% nominal expansion was on top of a strong 12.9% growth in the previous year's quarter, indicating continued scale-up of government services and social spending (e.g. higher government employee salaries, education and health outlays). Notably, this occurred even as direct government consumption expenditure actually fell in Q2 (see below), implying that a good portion of the growth came from salary increases and service value additions. This subsector comprised ~16% of GVA and was a significant contributor to the overall services surge.

Overall, the sectoral GVA mix in Q2 FY2025-26 shows an economy fueled by services and industry. Services output increased the most in absolute terms and maintained the largest share of economic activity, while industrial sectors (especially manufacturing and construction) provided a strong supporting push. Agriculture's growth was tepid, reflecting challenges in that segment, and mining output shrank, but these were outweighed by the robust expansion in other sectors. The net result was an 8.7% YoY rise in total nominal GVA, mirroring the pace of GDP growth and underscoring broad-based economic strength.

GDP by Expenditure Components – Q2 FY2025-26 vs Q2 FY2024-25

- Nominal GDP can also be examined from the **expenditure side**, i.e. by looking at spending components: private consumption, government consumption, investment, and net exports. In Q2 FY2025-26, GDP (expenditure) totaled ₹85.25 lakh crore, up 8.7% YoY. The composition and growth of the key demand-side components are as follows (all values in current prices).
- **Private Final Consumption Expenditure (PFCE)** – Household and private sector consumption: ₹53.29 lakh crore in Q2 FY25-26, up ~9.3% YoY from ₹48.74 lakh crore in Q2 FY24-25. PFCE alone contributed about 62.5% of GDP in the quarter, highlighting that domestic consumption remains the bedrock of the economy. The near double-digit nominal growth in consumption indicates robust consumer demand. In real terms, private consumption grew 7.9%, so the nominal increase was driven only marginally by higher prices. Strong spending was observed in both goods and services, aided by the festive season onset and rising incomes. This healthy consumption growth helped power the overall GDP expansion.
- **Government Final Consumption Expenditure (GFCE)** – Government consumption (current spending on goods and services): ₹7.73 lakh crore in Q2 FY25-26, which declined by -1.4% YoY from ₹7.84 lakh crore in Q2 FY24-25 (nominal). Government spending formed roughly 9.1% of GDP this quarter. The drop in GFCE indicates a pullback in routine government expenditure compared to the previous year. Notably, in real terms GFCE contracted even more (-2.7% YoY), suggesting fiscal consolidation or timing effects (the government had front-loaded some spending in Q1, then pared back in Q2). Despite lower government consumption in Q2, overall GDP growth remained high, reflecting that the private sector (households and businesses) drove the expansion this quarter.
- **Gross Fixed Capital Formation (GFCF)** – Investment in fixed assets like machinery, infrastructure, buildings: ₹26.01 lakh crore in Q2 FY25-26, up ~8.2% YoY from ₹24.04 lakh crore in Q2 FY24-25. This fixed investment component accounted for about 30.5% of GDP. The healthy growth in GFCF suggests continuing momentum in capital spending – both public capex and private investment in the quarter under review. Although slightly slower than the 7.8% real growth last quarter (indicating modest price increases in capital goods), an ~8% rise on a high base is significant. Sectors like infrastructure construction, industrial capacity addition, and real estate development contributed to this investment uptick. The gross investment rate (including changes in stocks) remains around one-third of GDP, supporting future productive capacity. It's also worth noting changes in inventories (stocks) and valuables (like precious metals), which are smaller components of investment. Changes in inventories amounted to ₹1.28 lakh crore and grew ~7% YoY, while expenditure on valuables (mostly jewelry, etc.) was ₹2.40 lakh crore, actually contracting about -22.7% YoY (after a spike last year). These fluctuations had a marginal effect on overall investment trends.



- **Net Exports (Exports – Imports)** – Trade balance contribution to GDP: In Q2 FY25-26, **exports of goods and services** were ₹18.38 lakh crore (growing ~11.0% YoY from ₹16.55 lakh crore a year ago) while **imports** were ₹21.38 lakh crore (+8.4% YoY from ₹19.73 lakh crore). Thus, the net exports figure was –₹3.00 lakh crore, a negative contribution as India imported more than it exported (trade deficit). **Compared to Q2 FY24-25's deficit of –₹3.18 lakh crore**, the trade gap **narrowed slightly** in nominal terms. **Export growth was relatively strong (double-digit) helped by services exports and certain merchandise categories, whereas import growth was moderate, dampened by lower commodity import costs.** As a percentage of GDP, exports were about 21.6% and imports 25.1%, so **net exports contributed roughly –3.5% of GDP. The smaller drag from net exports this quarter (vs last year) meant that external trade was a mild improvement to the GDP growth math.** However, net exports remained negative, meaning domestic consumption and investment were the main engines of growth rather than an export surplus.

Overall Year-over-Year Growth: India's economy grew by **8.7% in nominal terms** in Q2 FY2025-26. **The year-over-year comparison highlights that this quarter's growth was much stronger than the 5.6% nominal GDP growth recorded in Q2 FY2024-25** (which in real terms was 5.6% as well). The acceleration to 8.7% nominal (8.2% real) reflects both **favorable base effects** and **genuine pickup in economic momentum.** **Importantly, inflation was relatively subdued during this period – the GDP deflator implied only ~0.5% inflation – so the nominal growth closely mirrored real growth.**

From a sectoral perspective, **secondary (industry) and tertiary (services) sectors provided the bulk of the uplift**, with **services alone contributing about 6 percentage points to the 8.7% GVA growth** (given its large share and ~10% growth). **Industrial GVA added roughly 2-3 percentage points.** In contrast, the **primary sector (agriculture and mining) barely added to growth** due to its near-stagnant nominal output. On the expenditure side, **consumer spending and capital investment were the twin pillars of demand, more than offsetting the slight drag from reduced government outlays.** The **year-over-year comparison** thus paints a picture of an economy in Q2 FY2025-26 that is **expanding strongly on a broad base – driven by private sector activity** – in contrast to the more modest growth a year earlier.

Overall, India's Q2 FY2025-26 economic performance in nominal terms was robust, with GDP and GVA both posting high single-digit growth. The comparison to the previous year underscores improved momentum, especially in manufacturing and services, and a favorable low-inflation environment. These trends bode well for the full-year outlook, as sustained consumption and investment are expected to keep growth elevated, while moderate inflation ensures that nominal gains translate closely into real economic progress. The economy's resilience amid global headwinds (and despite a dip in government spending) in this quarter reinforces India's status as one of the fastest-growing major economies in the world.



- The outlook for India's economy remains **broadly positive**, though it is tempered by the **challenges of low nominal growth and global headwinds**.
- **Growth Outlook:** India's near-term growth outlook is promising. Coming off the stronger-than-expected H1 performance, **various high-frequency indicators** (e.g. **GST collections, industrial production, PMIs**) point to **momentum carrying into Q3**. The RBI's Monetary Policy Committee, in its latest statement, **revised the full-year FY2025-26 GDP growth forecast upward to 6.8%**. This implies **some moderation in growth in H2 (since H1 growth averaged ~8%)**, consistent with an expectation of **waning base effects and a softer global environment**. A projected 6.8% real GDP growth would still make India the fastest-growing major economy this year. **Consumption is expected to remain the main growth driver, supported by past rate cuts and easing inflation, while investment activity is likely to gradually improve**. However, policymakers do note that risks from abroad could cap the upside. Overall, the tone is one of cautious optimism – domestic demand strength and policy support should keep growth around the mid-6% range in coming quarters, barring any major shocks.
- **Monetary Policy Stance:** With **inflation so low and growth relatively strong, the RBI has been able to adopt an accommodative policy stance**. In the first half of 2025, the RBI cut the **repo rate by a cumulative 100 basis points** (from 6.25% to 5.25%), reversing some of the earlier tightening. These rate cuts, along with ample liquidity in the banking system, have started to transmit into lower lending rates – the average bank lending rate on fresh loans fell by ~83 bps between February and September 2025. As of Q2 FY26, the RBI is **holding the policy repo rate steady**, assessing that the current 5.25% rate is appropriately supportive. Importantly, the RBI has signaled "**cautious vigilance**" going forward. **While acknowledging that inflation is well below target now, the central bank is aware that this situation may be transitory (e.g. food price base effects could fade, global oil prices could rise)**. Core inflation remains around the mid-2% range and that monetary policy has to guard against future price pressures even while fostering growth. In practice, this means the RBI is likely to **pause on further rate cuts in the near term**, unless growth falters significantly. The stance is effectively one of **wait-and-watch** – accommodative but not aggressively easing – with a focus on ensuring inflation expectations stay anchored at target over the medium term. The central bank also emphasizes the need to maintain financial stability, so it will calibrate policy carefully if external conditions change.
- **Inflation Expectations:** Inflation (the GDP deflator) is currently extremely low, but the RBI expects it to gradually **move back up towards the 4% target by next fiscal year**. The projection of **2.6% CPI inflation for FY26** suggests that through the remainder of this fiscal year, inflation will remain below target (well under the upper tolerance band of 6%). **This comfortable outlook is driven by favorable food prices (a good harvest has kept food inflation muted) and softer global commodity prices**. However, RBI commentary also flags that **some of this disinflation is due to one-off factors** (for example, base effects from high prices last year, or temporary dips in certain food prices). The RBI's internal models **likely foresee headline inflation rising toward 4% in FY27 as these effects wane**. **Inflation expectations among households have also eased**, thanks to the current low prints, which is a positive development. The RBI will aim to keep expectations anchored but will be alert to any resurgence – for instance, they note that "**global commodity price increases or El Niño-related weather shocks**" could pose upside risks. For now, though, **India is in a Goldilocks zone on inflation, allowing monetary policy to prioritize growth**. The RBI's approach is to monitor the situation closely: enjoy the low inflation while it lasts, but be ready to respond if prices begin climbing again.
- **Financial and External Conditions:** Financial conditions in India are **benign and supportive of growth** at present. **Liquidity is adequate and credit is flowing: non-food bank credit grew ~10% YoY as of end-September with especially strong credit expansion to households and MSMEs, indicating confidence**. Equity and bond markets have been buoyant as well, aided by both global liquidity and India's growth narrative. On the external front, **India's external sector position is solid** despite the trade deficit spike. The **current account deficit is manageable** (only 0.2% of GDP in Q1 FY26), and importantly, **foreign exchange reserves are around \$690–700 billion, enough to cover 11 months of merchandise imports**. The **capital account remains robust but volatile**, with net FDI/FPI inflows and NRI deposits totaling over \$30 billion in Q1. **India's external debt-to-GDP ratio is low and stable**, and the **ratio of volatile capital flows to reserves has improved (declined) in 2025**, giving a cushion against any sudden outflows. These factors provide confidence that India can weather moderate external shocks. Looking ahead, the central bank projects that capital flows will **remain quite strong for the rest of the year**, thanks to India's growth attractiveness, though it remains **vigilant about global market volatility**. Overall, financial conditions are expected to stay accommodative, barring a sharp shift in global risk sentiment. The **banking system is well-capitalized and asset quality is improving, which means domestic financial stability risks are contained**. This backdrop, combined with the RBI's prudence, should help sustain India's growth momentum into FY26, even as some external support wanes.

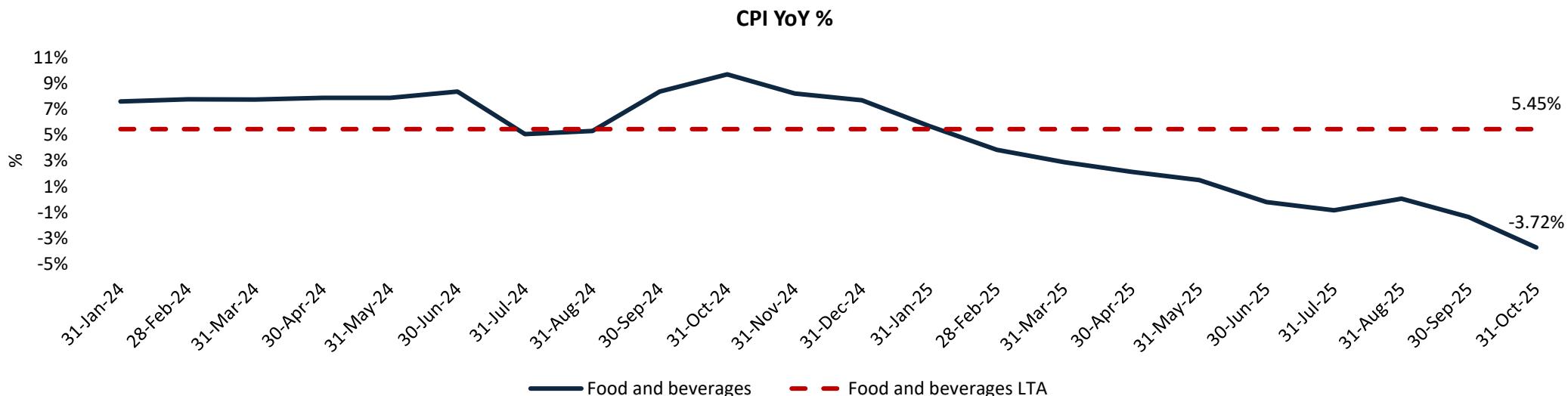
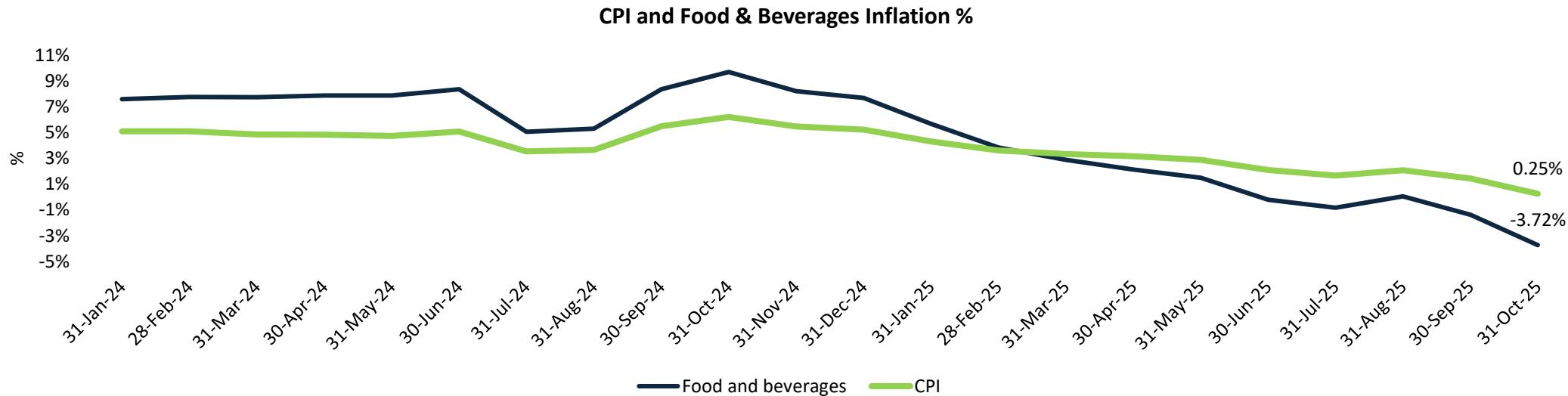


Key Macro-Economic Headwinds for India's Growth Outlook

- **External Risks (Trade Tensions and Global Demand Weakness)**: India's export sector faces significant external headwinds from both heightened trade frictions and a softer global economy. Persistent trade tensions – including recent U.S. tariff hikes on imports – have “cast a shadow on India’s trade” by undermining export prospects. At the same time, a broader global growth slowdown is weakening external demand for Indian goods and services, posing a drag on export-driven industries. These external pressures risk dampening India’s overall growth momentum, as slower exports can reduce industrial activity and widen the trade deficit, making the economy more dependent on domestic demand to sustain high growth.
- **Financial Market and Capital Flow Risks**: India is also vulnerable to volatility in global financial markets and capital flows. Tighter global financial conditions or sudden shifts in investor risk appetite can spur capital outflows from emerging markets, which in India’s case would pressure the rupee and domestic asset prices. Such capital flow volatility can complicate macroeconomic management – for instance, a weaker currency can import inflation and raise borrowing costs. Policymakers remain wary that geopolitical or monetary shocks abroad could “tighten global financial conditions, raising borrowing costs for emerging markets,” thereby straining India’s financing environment. While India’s fundamentals are relatively strong, these external financial risks could disrupt investment and credit conditions, posing a threat to sustained growth.
- **Domestic Structural Challenges (Labor Market and Investment)**: Despite fast headline growth, India grapples with structural domestic challenges in employment and private investment. Job creation has lagged the expanding workforce, and “wage growth has stalled” – a sign that economic growth has not translated into sufficient broad-based employment gains. This slack in the labor market depresses consumer demand and highlights the risk of “jobless growth.” At the same time, private capital expenditure, albeit on an uptick, remains subdued. Private investment as a share of GDP has been on a downward trend since the late 2000s, recently hitting a multi-year low despite government incentives. Corporates have been cautious about new capacity expansion, citing weak demand and other uncertainties. These structural issues matter because insufficient jobs and low private capex constrain India’s longer-term growth potential – limiting improvements in productivity and incomes – and make the economy more reliant on government spending for stimulus.
- **Fiscal Risks from Slowing Nominal GDP Growth**: An additional concern is India’s unusually low nominal GDP growth in recent periods, which has slipped to single digits even as real GDP remains high. This reflects very low inflation and weak pricing power in the economy. Slower nominal growth directly erodes fiscal health: government tax collections are falling short of targets as “benign inflation is starting to weigh on fiscal math”. With consumer price inflation barely above 0% and wholesale prices in deflation, revenue growth has softened, and in the absence of one-off windfalls, public finances would be under stress. Moreover, weak nominal GDP expansion mechanically drives up the debt-to-GDP and deficit ratios (since the GDP denominator grows more slowly). The implication is a tighter fiscal space – India risks higher deficits or spending cuts if nominal growth stays low – which could force hard trade-offs in policy and potentially dampen public investment in infrastructure or social programs that support growth. Maintaining fiscal sustainability thus becomes more challenging in a low-inflation, low-nominal-growth environment, underscoring this as a key headwind to India’s economic performance.



2. Inflation





Headline CPI

India's retail inflation (CPI) stood at just **0.25% year-on-year in October 2025**, plunging from 1.44% in September and marking the lowest inflation rate since the current CPI series began in 2013. This is far below the Reserve Bank of India's 2–6% target band, reflecting an exceptionally **sharp disinflation**. The steep drop – about 119 basis points from the prior month – was driven by several converging factors:

- **GST Tax Cuts:** The full-month impact of Goods and Services Tax rate reductions (implemented earlier) significantly lowered prices of various goods and services.
- **Favourable Base Effect:** Inflation in October 2024 was over 6%, so the year-ago high base magnified the extent of the current decline.
- **Supply-Side Tailwinds:** Abundant domestic harvests (thanks to a good monsoon) and smoother supply chains boosted food availability, while globally **benign commodity prices** (notably crude oil) helped keep costs down.
- **Broad Price Easing:** Many **key items turned cheaper**. Government data noted falling inflation (or outright deflation) across a range of categories – from food staples to footwear and even transport costs. These widespread price drops reinforced the overall disinflationary trend.

Bottom line: October's inflation print represents a historic low, underpinned by one-off policy effects and unusually strong supply conditions. It indicates that price pressures in the economy have temporarily evaporated beyond what was anticipated.

Food Inflation

- Food prices **fell by 5.02% year-on-year** in October, a startling deflation in the CPI's food basket. This is the steepest food price drop on record, a dramatic turnaround from the high food inflation seen last year. **Ample agricultural output and proactive supply management (including buffer stock releases and imports for key staples)** created an **excess supply** scenario, causing food costs to shrink across the board. The deflation was most **pronounced in perishables – vegetable prices plunged by over 25%** on average, with essentials like onions, potatoes and tomatoes crashing well into double-digit decline territory. Likewise, **pulses** (lentils) became about 16% cheaper than a year ago amid improved crop yields and imports. **These corrections were amplified by the fact that a year ago, many of these items were coming off price spikes; as those past shocks abated, current prices look markedly low in comparison.**
- However, the food basket's decline was not universal. A few sub-categories **bucked the trend**: for instance, **edible oils and fats became ~11% more expensive** year-on-year, and **milk and eggs** saw modest 1–2% price increases. These upticks likely reflect lingering cost pressures (such as earlier global oilseed shortages or higher feed costs for livestock) even as other food prices slumped. On the whole, though, the **food and beverages group fell about 3.7%** – an unprecedented contraction. Such broad-based food deflation – spanning staples, vegetables, and protein sources – was the single biggest contributor to October's dip in headline inflation. With **food comprising roughly 46% of the CPI basket, its downturn had an outsized impact on the overall price index**. In essence, **cheap harvests and heavy base effects in food have temporarily turned India's inflation engine from hot to cold, delivering relief to consumers at the grocery store for now.**

Core Inflation

- **Core inflation** (which strips out volatile food and fuel costs) told a different story, remaining **around the mid-4% range in October** – much higher than the headline rate. By official estimates, core CPI was about 4.3–4.4%, barely changed from the previous month and **relatively sticky**. In fact, October's core inflation was the highest in two years, underscoring that underlying price trends outside of food have not collapsed the way food prices did. This divergence highlights how **essential and service-related prices are still rising steadily even as grocery prices fall**. Notably, the **core figure was boosted by a surge in precious metals prices – gold in particular spiked**, making jewellery and ornament prices much costlier and artificially nudging core inflation up. If one **excludes gold and other such volatile items, the true underlying core inflation is considerably lower** – by some estimates dropping to an **all-time low for the CPI series**. In other words, **demand-pull inflation is subdued, and the apparent firmness in core inflation is partly a statistical illusion caused by specific price spikes (like gold) rather than broad-based price pressure.**



- Within core categories, there is a **clear split** between **softer goods prices** and **more persistent services inflation**. On one hand, **tax cuts and discounts have cooled goods inflation** – for example, clothing and footwear saw only ~1.7% inflation, with footwear prices even falling year-on-year after GST rate reductions. On the other hand, **services and housing costs remain on a gentle rise**. Urban **housing inflation held at 2.96%** in October (virtually unchanged from 2.98% in September), indicating that **rents and home prices continued their steady climb** despite overall disinflation. Similarly, essential services like **education (3.5% YoY)** and **healthcare (3.9% YoY)** registered **modest but persistent increases**. Price stickiness in these sectors – often driven by wages, administered costs, or **steady demand** – means that even in a low-inflation environment, consumers are still seeing gradual increases in service expenses. Meanwhile, the **transport and communication segment showed only ~0.9% inflation**, down from the previous month, reflecting stable fuel prices and possibly telecom price competition. Overall, core inflation's composition suggests that **goods prices (excluding food) have largely adjusted downward – aided by tax policy and weak (but gradually growing) demand** – whereas **services inflation remains positive but contained, with no signs of spiraling**. Policymakers will take some comfort in the fact that **underlying inflationary momentum is quite weak**, even if the core number looks higher on the surface due to a few anomalous price increases.

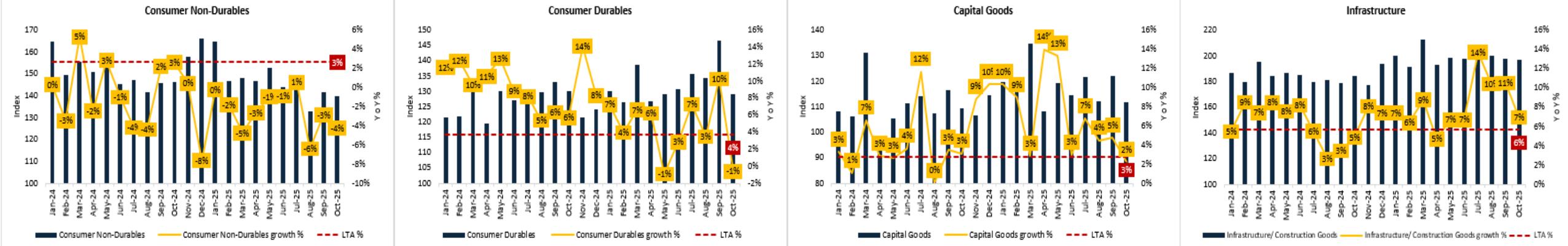
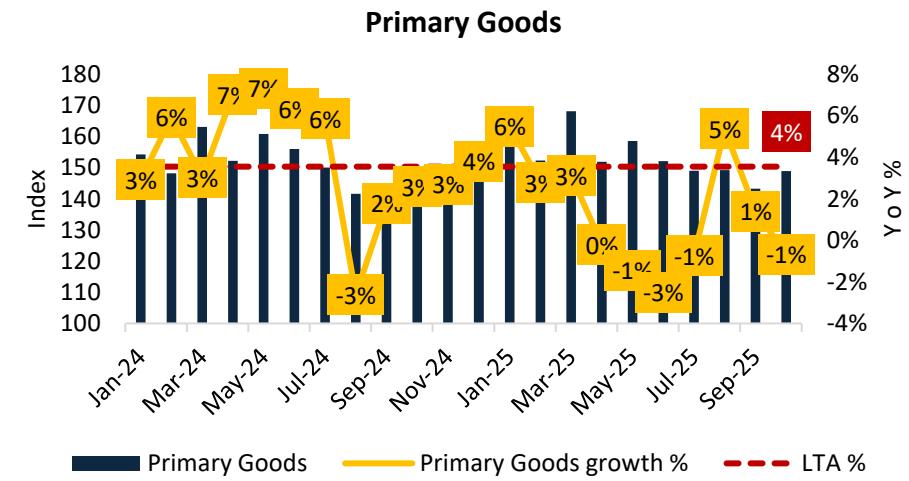
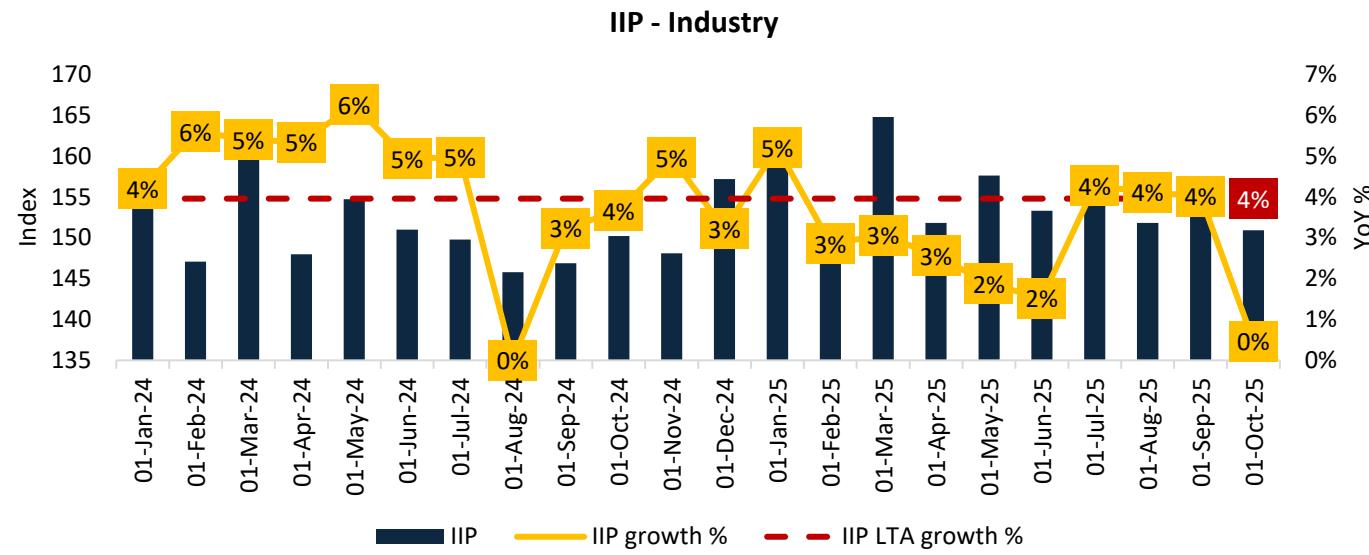
Rural–Urban Divergence

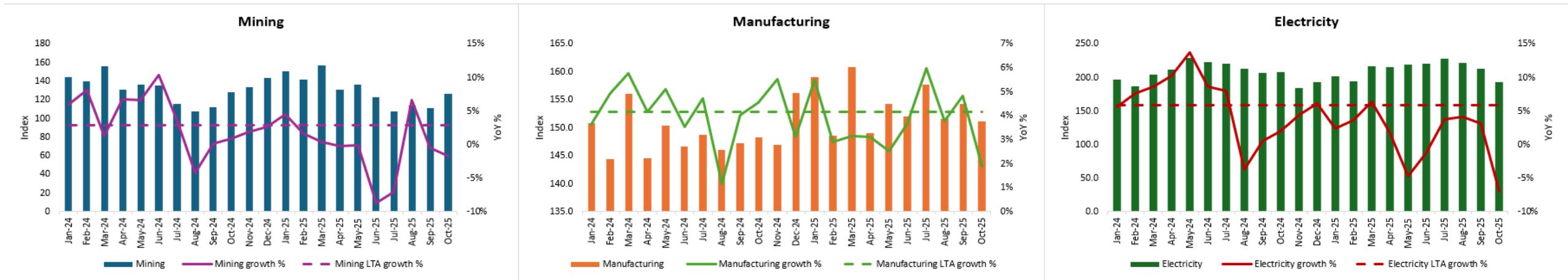
- October revealed a stark rural–urban gap in inflation. In **rural areas**, the CPI actually **fell by 0.25%** year-on-year (i.e. a slight deflation), according to provisional data. In contrast, **urban CPI inflation was +0.88%**, still above zero albeit much lower than earlier months. This **divergence largely stems from differing consumption patterns: rural households spend a much larger share of their budget on food, while urban households spend relatively more on housing and services**. The **steep drop in food prices** thus **impacted rural inflation disproportionately** – with food inflation at **–4.85%** in rural India, rural consumers benefited strongly from cheaper essentials. This drove the rural CPI into deflationary territory. In **urban centers, food deflation was also significant, but its effect was partly offset by other costs**. Crucially, expenses that loom larger in cities – like housing – did not experience any deflation. (Notably, the CPI's housing index, which rose ~3%, is only measured for urban areas).
- Urban core services such as **education, healthcare, and personal care continued to climb modestly**. These **ongoing increases in non-food prices** kept **urban inflation slightly positive**, even as grocery bills dropped. In essence, October's price collapse was felt **most keenly in India's villages and smaller towns**, where food dominates budgets, whereas city dwellers saw a milder reprieve. **This rural–urban inflation divergence underscores how a single national inflation figure can mask very different local experiences**: rural families are currently seeing a rare period of overall price contraction, while urban families still face small inflation in rent, utilities, and services despite relief on food items. Policymakers will be mindful of these distributional nuances – the **windfall of disinflation** has been greater in the countryside, where it can boost real incomes, but any policy response must also consider that urban cost of living hasn't fallen as dramatically.

Outlook

- Near-term, inflation is likely to remain subdued** around these historic lows. The combination of **ample food supplies and recent tax cuts** will continue to feed through the price system for a while, and incoming data over the next few months should still show inflation comfortably below the 4% midpoint target. However, this ultra-low inflation phase is expected to be **transitory**. As the winter and spring months roll in, the **favorable base effects** that have been suppressing the year-on-year figures will begin to **wane**, mathematically nudging inflation higher. **Core price trends, while currently soft are not collapsing, and a stabilization (or slight uptick) in food prices from today's depressed levels is anticipated**. We foresee a **gradual rise back toward moderate inflation** once these base distortions fade; in fact, we estimate headline inflation will revert to roughly ~4% as conditions normalize. In the medium term, **inflation is expected to settle close to the RBI's target range**, assuming normal monsoons and stable global commodity prices. Put differently, **India is not on the cusp of a deflationary spiral – rather, it is enjoying a brief window of extremely low inflation that will likely give way to more typical levels**. The central bank thus finds itself with room for a **cautious policy easing to support growth, yet it remains vigilant**. Going forward, **upward drift in inflation is likely to be gradual**, and the overall outlook is one of benign inflation dynamics, barring unforeseen supply shocks, **consumer prices should stay well-mannered, gradually aligning back to the comfort zone without overshooting**.

3. IIP (Index of Industrial Production)





India's Industrial Production in October 2025 – Festive Disruptions and Sectoral Divergence

Headline IIP Update

- Industrial output grew just **0.4% YoY** in Oct 2025 – a sharp drop from **4.6% in Sep 2025** and much slower than **~3.7% in Oct 2024**. The slowdown marked a 14-month low, largely due to fewer working days amid multiple festivals (Dussehra, Diwali, Chhath).

Sectoral Trends

- Mining:** Output contracted **-1.8% YoY** (vs +0.9% a year ago) as prolonged monsoon rains disrupted mining activity and dampened mineral demand.
- Manufacturing:** Output **rose 1.8% YoY** (down from 4.4% in Oct 2024). **Growth was driven by basic metals (~+6.6%), refined petroleum (~+6.2%), and automobiles (~+5.8%)**, but **only 9 of 23 manufacturing industries saw output increase – indicating narrow-based momentum**. This tells you that metals and auto-linked value chains are still providing a floor to overall manufacturing, even as many export-oriented light manufacturing sectors (textiles, leather, some chemicals) are hurt by tariffs and weak external demand.
- Electricity:** Generation **fell -6.9% YoY** (a sharp reversal from +2.0% in Oct 2024), as extended rainfall and cooler temperatures curbed power demand across many states.



Use-based Analysis

Investment / capex side – still reasonably resilient, but moderating:

- **Infrastructure / construction goods** is the standout at +7.1% YoY growth, even higher than last year's 4.0%. This aligns with strong public capex and ongoing private projects in steel, cement and related core sectors.
- **Capital goods** are growing 2.4% YoY, slightly slower than the 3.1% a year ago but still positive, indicating that the investment cycle remains intact, even if global demand is softening.

Intermediate and primary goods – broad-based cooling:

- **Primary goods** have swung from +2.6% YoY growth rate to -0.6% YoY de-growth, consistent with weaker mining and power, and some front-loading of production earlier in the year.
- **Intermediate goods** growth has slowed from a growth rate of 3.7% YoY to 0.9% YoY, signalling a broad moderation in the industrial pipeline and inventory adjustment.

Consumption – the weakest link:

- **Consumer durables**: from a strong +5.9% YoY growth last October to -0.5% YoY de-growth now. That's a near 600bps swing, despite festive season advertising and discounts. It echoes anecdotal reports of softer high-ticket urban demand and the impact of higher US tariffs on some export-oriented product lines.
- **Consumer non-durables**: from +2.7% YoY growth rate to a de-growth of -4.4%, pointing to stresses in everyday essentials – often a proxy for rural demand and low-income consumption. This is arguably the most concerning element in the October print.

Net-net, October 2025 IIP is an investment-heavy, consumption-light story, with capex and construction are holding up the index, while both rural and urban consumption look soft on a YoY basis.

How does this square with other high-frequency data?

- **Eight core industries index**: 0% YoY in October, with coal, crude oil and gas all contracting; steel and cement remained in positive territory, consistent with the strong infra/construction goods reading in IIP.
- **PMIs**: Manufacturing PMI at 56.6 in November (still robust expansion, but slower than earlier in the year). Services PMI at 59.8 in November, with strong domestic demand but weaker exports; composite PMI remains high.
- **GST collections**: October 2025 GST is up 4.6% YoY, suggesting that underlying nominal demand is not collapsing, even though the volume-side IIP print is weak.
- **Policy backdrop**: The RBI has raised its FY26 GDP growth forecast to 6.8% and kept repo at 5.50%, with markets now debating the timing of a first rate cut amid cooling inflation.

So, IIP is the weak outlier in an otherwise still-healthy macro data set, heavily distorted by calendar and weather effects and the first-round impact of US tariffs.



Outlook: what should we infer from the October print?

Near-term (next 1-2 quarters):

Mechanical rebound likely in November–December IIP as:

- Working days normalise
- Power demand reverts with the end of the extended monsoon
- Front-loaded festive disruptions fade.

However, headline industrial growth is unlikely to return to high single digits quickly because:

- Core industries are decelerating (Apr–Oct core growth only 2.5%).
- US tariffs (50%) on a wide range of Indian exports will continue to weigh on textiles, leather, gems & jewellery, engineering goods and some chemicals, all important IIP components.

Working assumption:

October is probably the trough, but we should expect only a gradual climb-back to ~4–5% IIP growth, not a sharp V-shaped recovery, unless there is a trade-policy breakthrough.

Medium-term (FY26 and beyond):

Positives:

- **Capex engine:** Strong infra/construction goods and positive capital-goods growth point to a still-intact investment cycle, underpinned by government spending and private projects in renewables, data centres, transport, and metals.
- **Services strength:** Services PMI near 60 and healthy GST suggest that the broader economy is still expanding solidly, which will ultimately feed back into industrial demand.
- **Macro policy mix:** With inflation easing and RBI signalling comfort on growth, there is room for incremental monetary accommodation if global risks materialise, which would be supportive for interest-sensitive industrial segments.

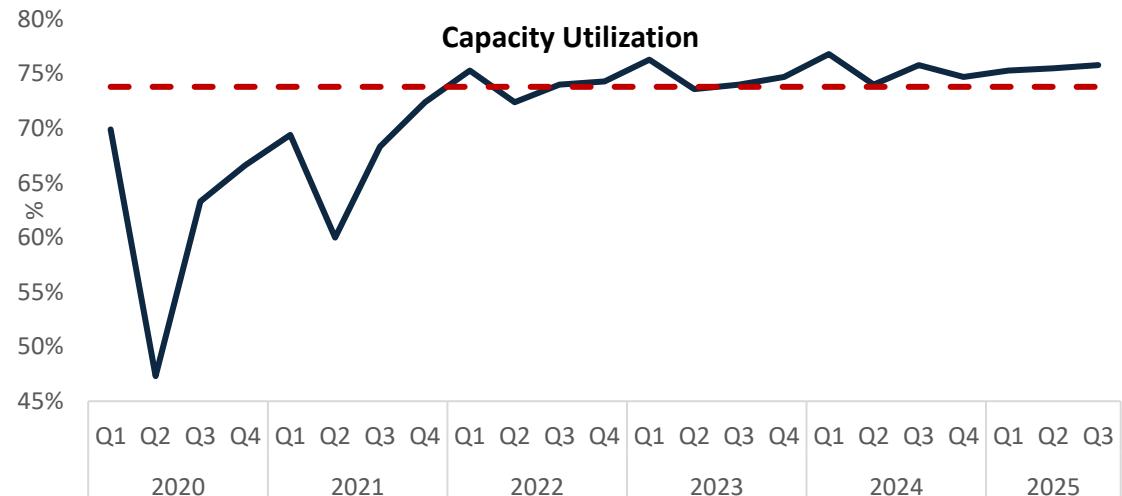
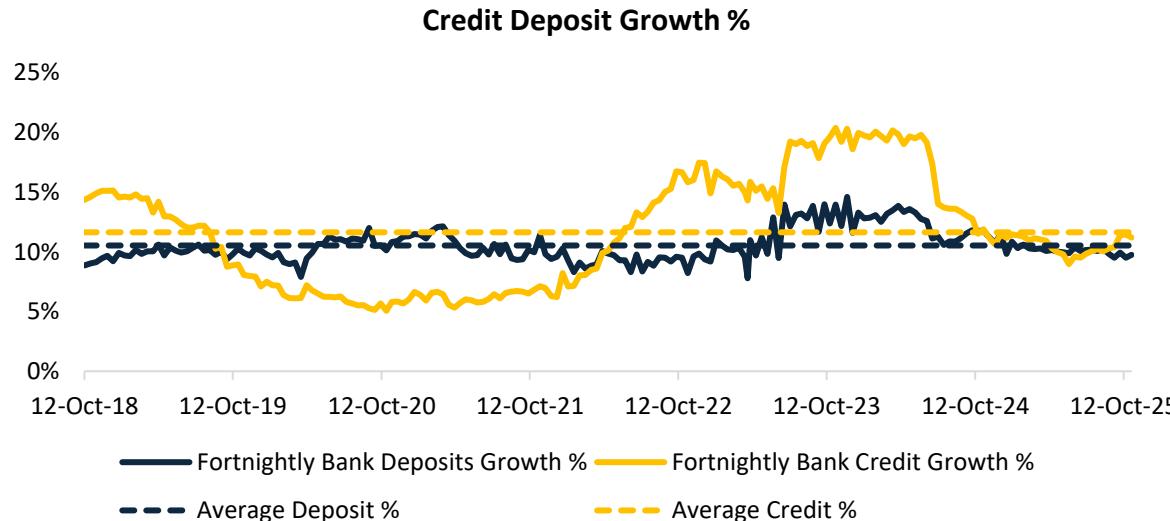
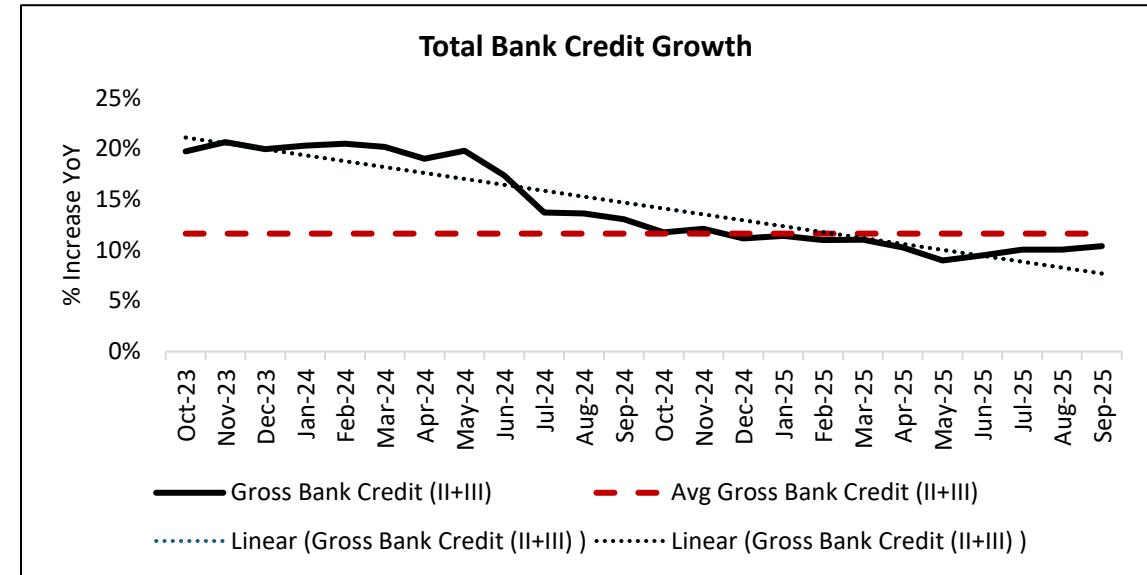
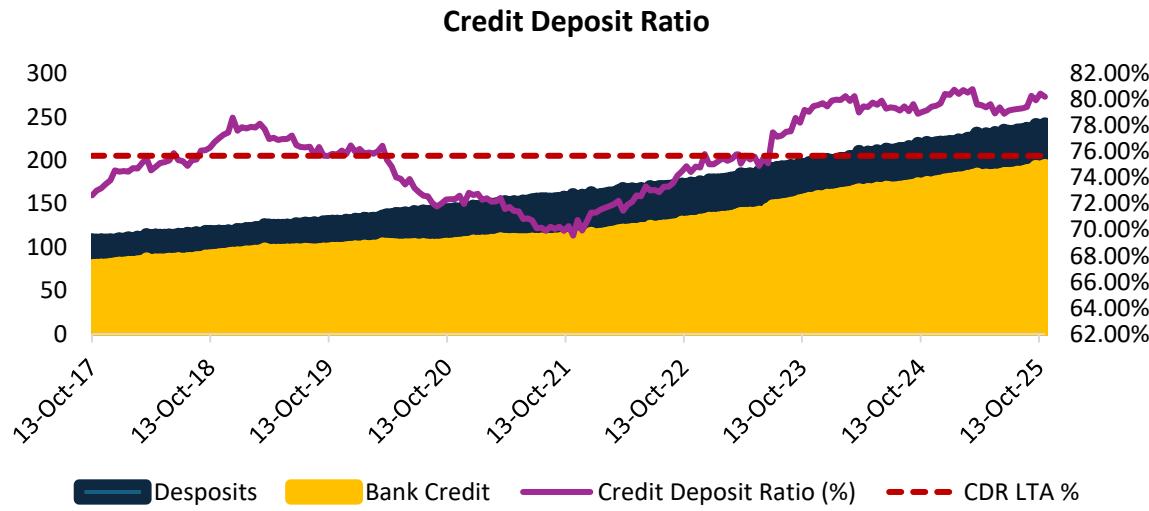
Risks:

- **External demand and tariffs** – the biggest risk is prolonged weakness in export-oriented manufacturing if the 50% US tariffs stay in place for most of 2026.
- **Energy & core sector softness** – negative coal and crude growth plus weak electricity in October show that energy-intensive industry is under strain, partly cyclical and partly structural as renewables gain share.
- **Consumption fatigue** – two consecutive weak readings in consumer non-durables would be a clear warning on rural and low-income demand if the trend persists beyond October's distortion.

Baseline view:

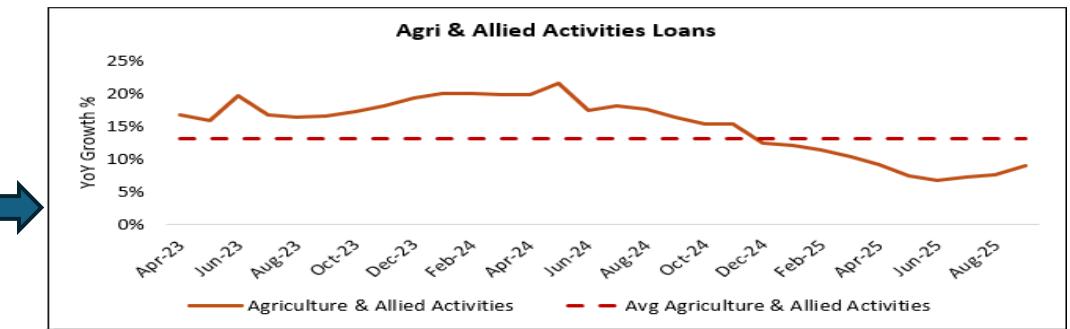
Treat the 0.4% October IIP print as a “growth scare” rather than the start of a structural downturn. Expect sequential normalisation from November onwards, but with full-year industrial growth settling lower than last year, unless there is meaningful relief on the trade front. The composition of growth will remain skewed towards investment and services, with consumer goods manufacturing and export-oriented sectors lagging.

4. Capex

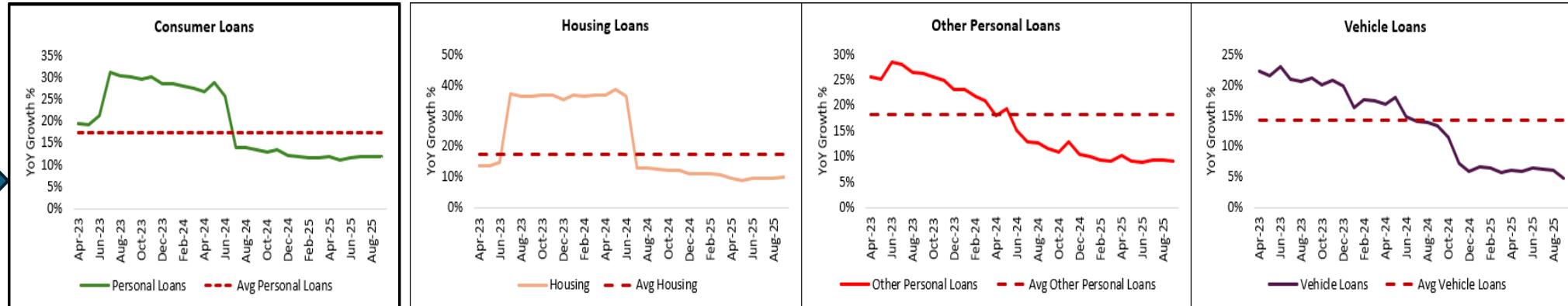




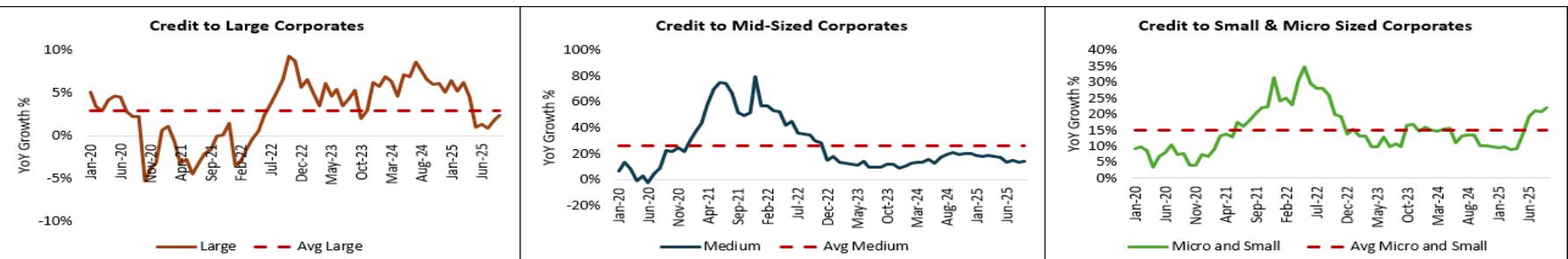
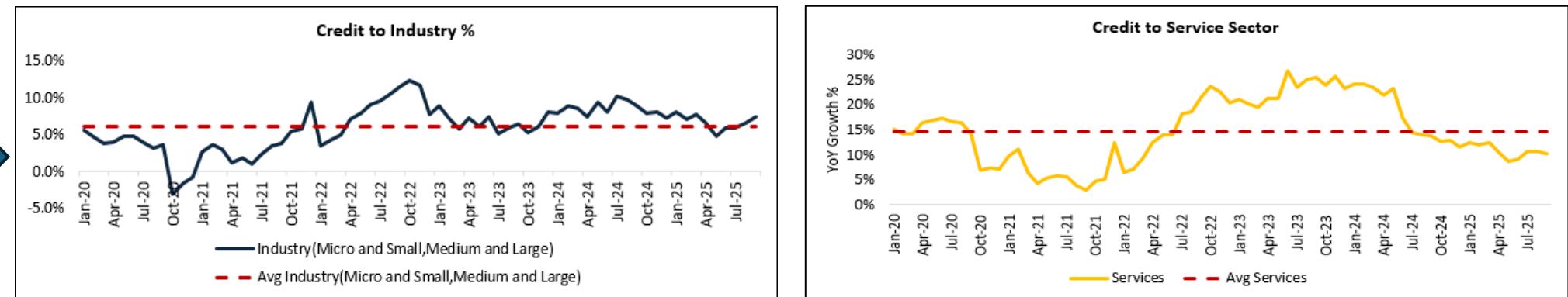
Credit to Agri



Credit to Consumer



Credit to Industry





India's Bank Credit: An Analytical Review

India's latest sectoral bank-credit data shows that the credit cycle remains **healthy but increasingly uneven**, with overall **non-food credit expanding a little above 11% YoY**. The pace is slightly slower than last year, yet the underlying composition has shifted meaningfully. Credit growth is now being driven by **industry (especially MSMEs), services, and secured retail products**, while **agriculture and unsecured personal loans have moderated**. The picture that emerges is of an economy where **investment activity is holding up well, services continue to outperform, and household borrowing behaviour is becoming more cautious and collateral-oriented**.

Credit to Industry: MSMEs Drive the Cycle, Large Corporates Lag

Credit to industry has strengthened, **rising around 10% YoY, a clear acceleration compared with the previous year's pace**. The most striking feature is the **disproportionate role of Micro and small enterprises (MSMEs)**, which are seeing credit growth in the mid-20% range, while **medium enterprises are growing in the high teens**. This reflects **expanding working-capital needs across value chains such as construction, engineering, auto-ancillary, and organised light manufacturing, as well as ongoing formalisation and deeper banking penetration into smaller firms**. In contrast, **large industry credit remains subdued, growing only in the mid-single digits**. This is less a sign of weakness and more evidence of **funding disintermediation**, with **large corporates increasingly relying on bond markets, internal accruals, and external borrowings instead of bank loans**. The industrial credit story, therefore, is one of **broad-based expansion, concentrated in MSMEs, with banks deploying capital selectively and favouring smaller but high-velocity borrowers often supported by guarantee schemes or priority-sector frameworks**. From a risk perspective, this tilt warrants ongoing monitoring, but current asset-quality outcomes remain stable.

Credit to Services: Still the Strongest Performer in the System

The services sector continues to be the **single largest contributor to bank credit growth, expanding at a pace comfortably above the system average**. Growth is supported by **strong credit demand from sectors such as software services, logistics, shipping, and commercial real estate** – each reflecting both domestic activity and resilient services exports. **Bank lending to NBFCs also remains robust, though growth has moderated compared with previous years**, underscoring a **more calibrated approach** from lenders. Services credit is now a structural pillar of the banking system, and its sustained momentum aligns with India's macro composition, where services contribute more than half of GVA and continue to lead the post-pandemic expansion. The **credit data reinforces the view that India's services economy remains healthy and investment-oriented, even as global uncertainties persist**.

Credit to Agriculture: Growth Normalises After a Strong Run

Agricultural lending is **expanding in the high-single digits, significantly below the exceptionally strong growth recorded last year**. The moderation reflects a **combination of base effects, more muted input-cost inflation, and a clearer classification of gold-collateralised loans that previously inflated agricultural outstanding figures**. While the slowdown **may signal softer rural consumption and lower working-capital needs for farmers, the overall pace remains steady and consistent with historical norms**. Importantly, moderate growth in this segment reduces systemic risk, given the inherent volatility of agricultural cash flows and the sector's sensitivity to monsoon dynamics. The data suggests that **agri credit is stabilising at a more sustainable level**, even though rural demand indicators outside the credit domain still warrant close observation.



Credit to Retail: Strong but Rotating Toward Secured Lending

Retail remains the largest and most dynamic component of the credit system, with year-on-year growth around 14%. However, the internal mix has undergone a marked transformation. Growth is being driven primarily by secured products – notably housing loans, vehicle loans, and gold loans, while unsecured components such as credit cards, consumer durable loans, and general personal loans have decelerated into single digits.

- **Housing credit** is growing at a healthy low-teens rate, supported by urban incomes and sustained demand for home ownership.
- **Vehicle loans** are also expanding steadily, reflecting stable auto sales and improving consumer sentiment at the upper-income brackets.
- The standout is **Gold Loans**, which have grown exceptionally fast due to both reclassification effects and a behavioural shift among households preferring to borrow against gold rather than take unsecured credit.
- Conversely, the slowdown in **Unsecured Retail Lending**, driven by regulatory tightening and banks' own risk prioritization, signals cautious consumer lending behaviour by banks, especially in discretionary spending categories. Retail credit is therefore still a growth engine, but with better risk-adjusted characteristics compared with the earlier phase dominated by unsecured expansion.

Private Capex Trends and Sentiment

Private sector capital expenditure is showing a clear upswing, reflecting renewed optimism among businesses. During Q2 of FY2025-26, the total cost of new capex projects sanctioned by banks and financial institutions surged compared to the previous quarter, pointing to markedly improved investment sentiment among private corporates. A large share of these fresh investment intentions is concentrated in infrastructure-oriented sectors – notably power, construction, roads and bridges – which together account for the bulk of planned projects. This indicates that companies are channeling capital into expanding the economy's core productive capacity. Importantly, firms are not relying solely on domestic bank credit to fund expansion: external funding avenues have become more active as well. Capital raised for capex via overseas borrowings and public equity (IPOs) increased in Q2 compared to the previous quarter, underscoring that businesses are leveraging diverse financing sources to support their investment plans. The broad-based rise in private capex – across sectors and funding channels – signals a decisive turn in business confidence. Corporates appear more willing to commit to long-term projects, a development which bodes well for future growth, employment, and productivity gains in the economy.

Overall Assessment of Bank Credit and Outlook

India's credit cycle remains firm, broadening, and relatively clean, even as the headline growth rate plateaus. The composition of growth – more towards industry (particularly MSMEs), services, housing, vehicles, and gold-backed loans, suggests that the economy's investment and services engines are running well, but consumption is more polarised, especially at the lower-income and unsecured-credit segments. Banks appear to be in a late-cycle mindset: still willing to grow but increasingly risk-discriminating, preferring collateralised and cash-flow stable segments.

Over the next few quarters, credit growth in the 10–12% range looks sustainable, supported by stable asset quality, comfortable capital buffers, and gradual monetary easing prospects. The primary areas that warrant monitoring include MSME asset quality, NBFC exposures, and the behavioural dynamics behind strong gold-loan demand. On balance, however, the credit data supports a constructive macro outlook, reinforcing the narrative of an economy led by investment, services, and formal-sector expansion, even as pockets of consumption remain soft.



Deposit Dynamics and Liquidity Positioning

Deposits are growing steadily at roughly **9.5–10% YoY**, but this pace continues to **trail behind the faster credit growth**. As credit expansion outstrips deposit mobilization, the **credit-deposit gap has widened to about 1.6 percentage points**. This **dynamic is pushing banks' loan-to-deposit ratios higher**, nudging them to compete more aggressively for funds. In fact, in-spite of ample liquidity in the system, **wholesale deposit rates have inched up in response** to the rising credit-deposit ratio, indicating banks' heightened demand for liquidity. Despite this pressure, overall **liquidity conditions** in the banking system remain comfortably balanced. **Short-term money market rates have stayed aligned with the policy repo rate**, even through temporary tight spots, suggesting that **banks have generally been able to meet funding needs without strain**. Moreover, some excess cash still remains in the system with banks have been parking about ₹1.6 lakh crore in the central bank's deposit facility (slightly more than in the previous month) while barely using the emergency borrowing window. **This combination of steady deposit inflows and supportive liquidity management has helped banks fund robust credit growth so far, although maintaining this balance will be an ongoing focus as credit demand stays strong**.

Capacity Utilisation and Investment Readiness

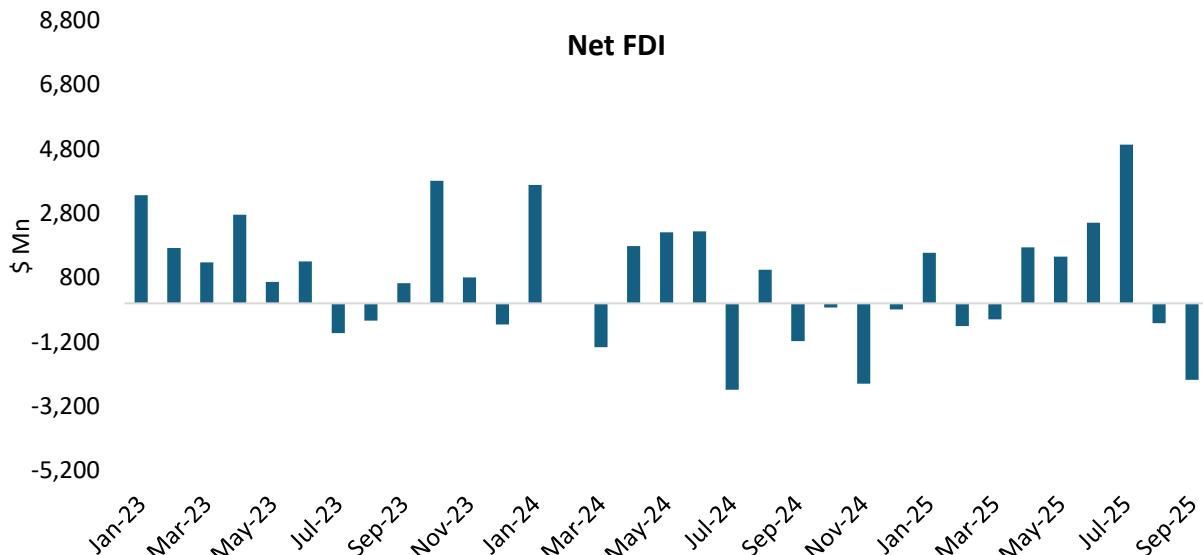
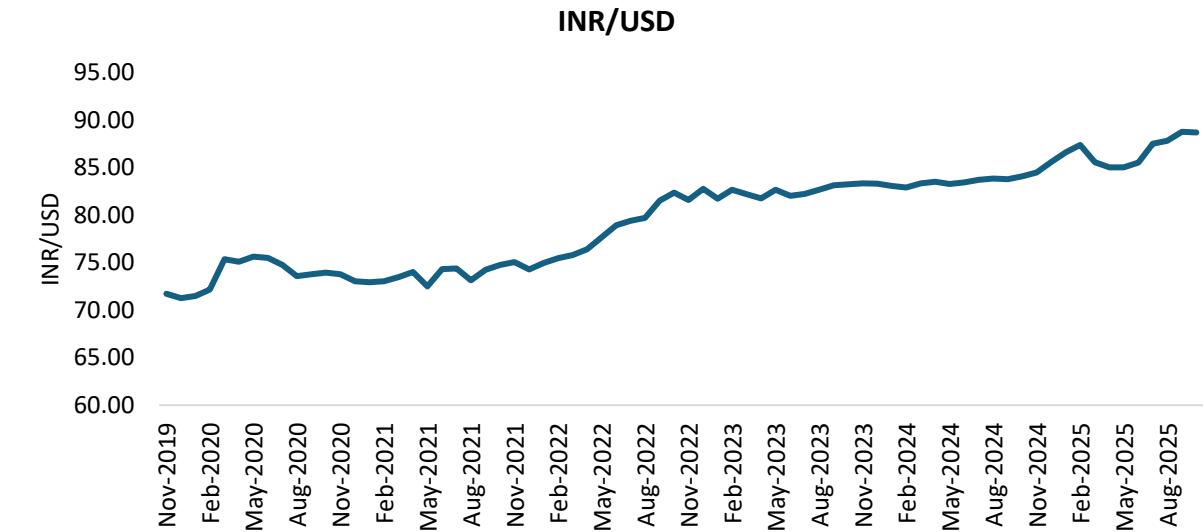
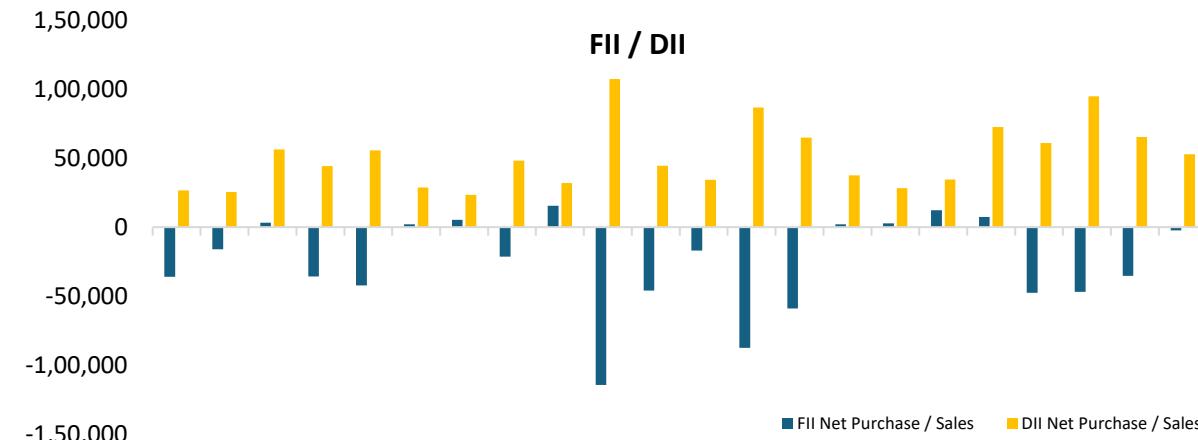
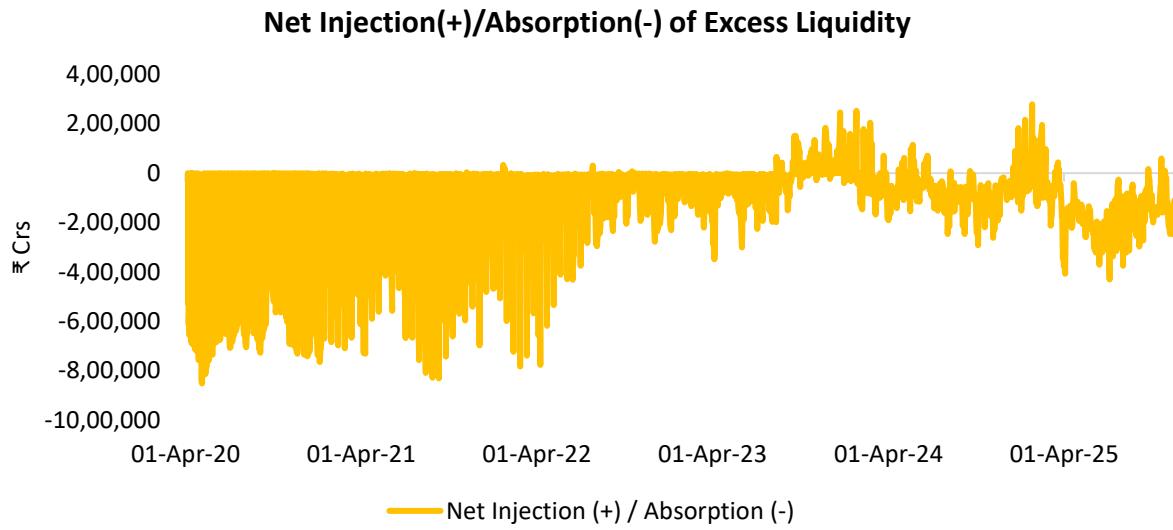
Manufacturing **capacity utilisation remains high by historical norms, even after accounting for typical seasonal variations**. Industrial capacity use usually peaks in the March-ending quarter and dips in the June quarter each year. In line with this pattern, utilisation eased in Q1 of FY2025–26 from a late-FY2024–25 high, but importantly, the level of use in early-2025–26 was still higher than a year before, indicating a tightening of slack over time. Current capacity usage is estimated to be in the **mid-70s% range**, which is quite robust. At these levels, many factories are approaching the limits of their existing production capabilities – a classic precursor to new investment. In essence, companies have **less idle capacity** left, so they are increasingly “investment-ready” – primed to build out additional capacity. **This is corroborated by forward-looking indicators: the manufacturing PMI for October climbed further into expansion territory, driven by a sharp rise in output and new orders on the back of resilient domestic demand. Such strong demand signals, combined with high capacity utilization, are encouraging firms to plan for expansion to avoid future bottlenecks**. Overall, the elevated capacity use and positive business sentiment suggest that the private sector is poised to undertake further capex, reinforcing a virtuous cycle of investment-led growth.

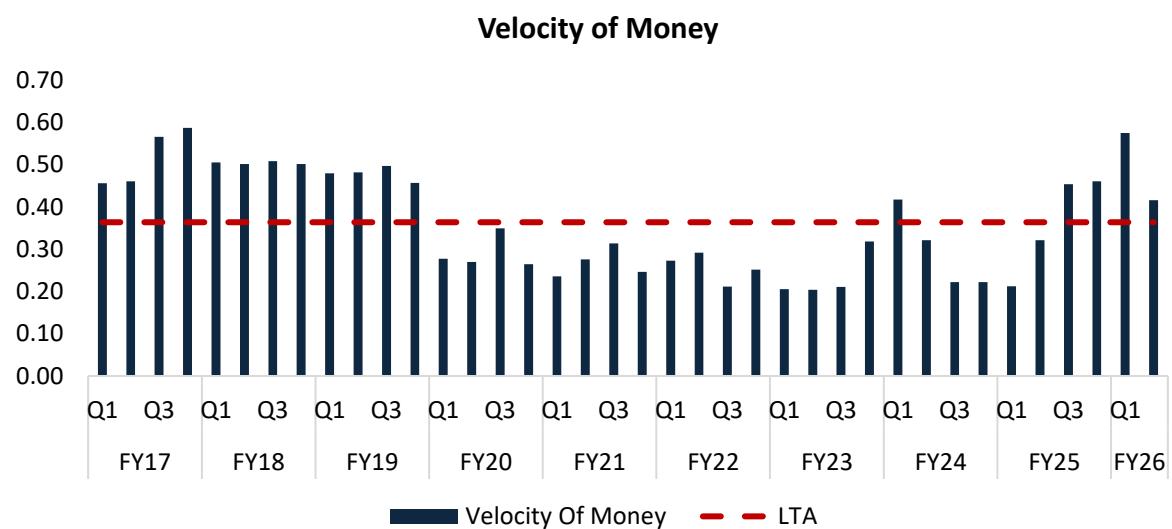
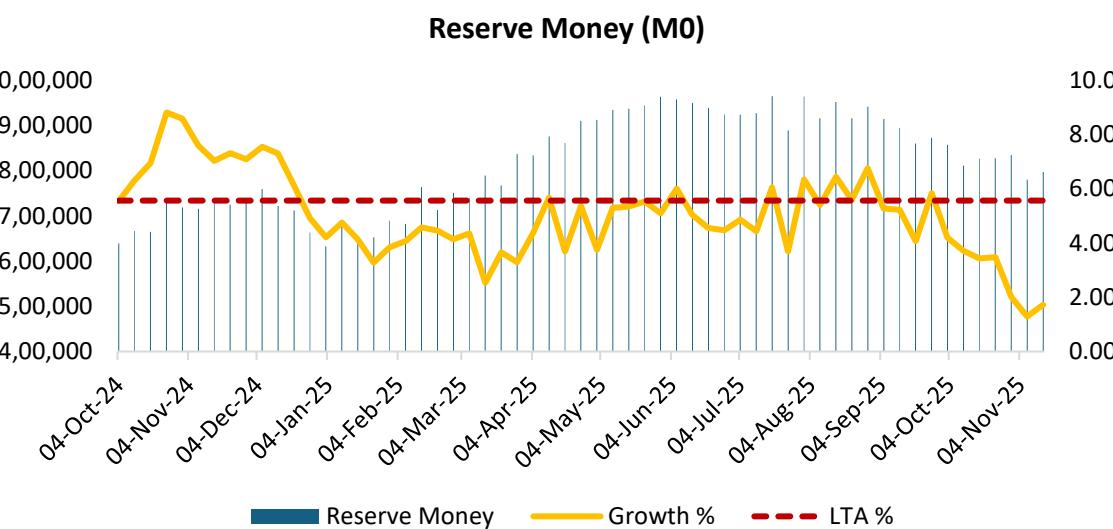
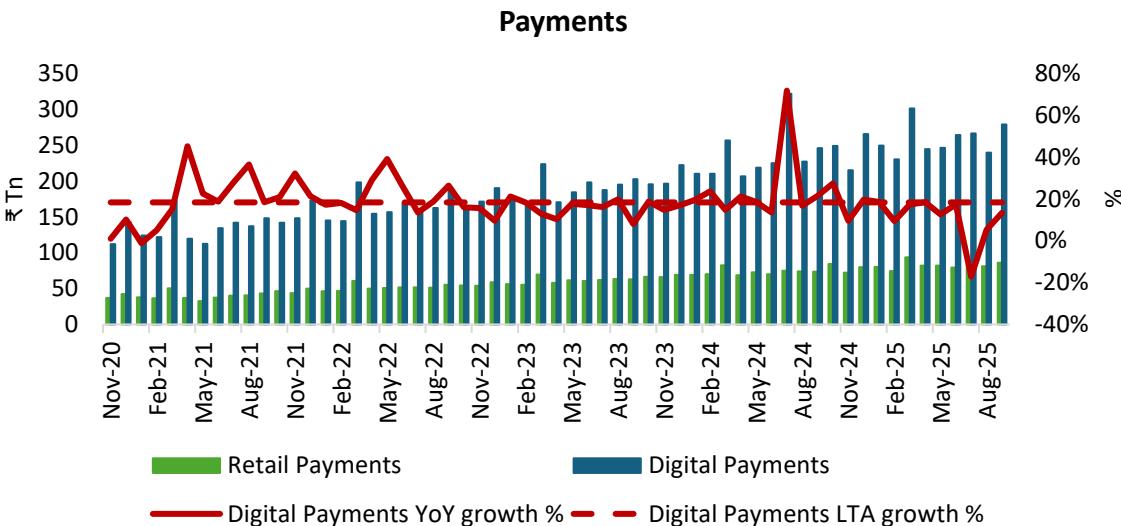
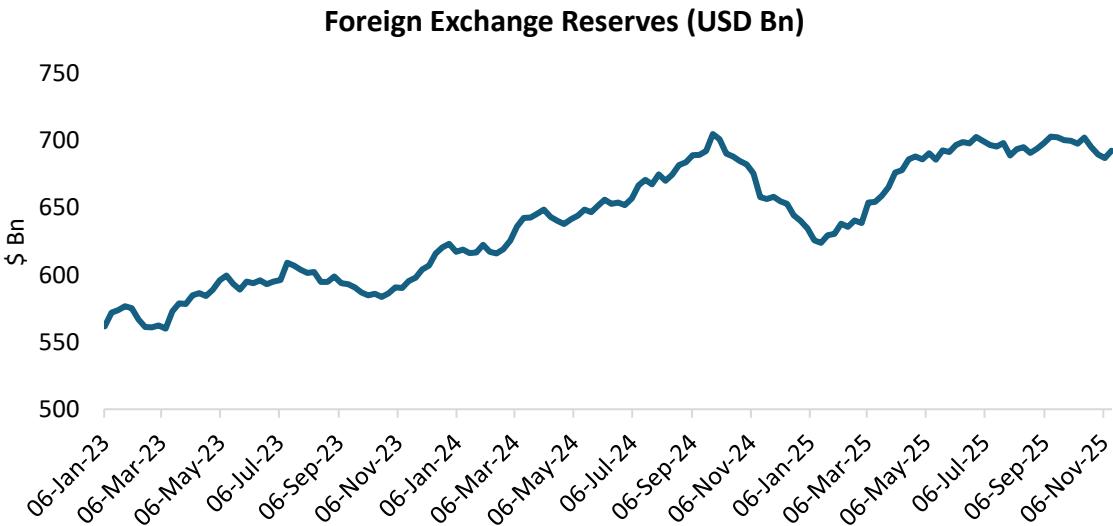
Forward Outlook

Looking ahead, the economic momentum appears poised to continue, with robust credit expansion and rising private investments sustaining a strong growth trajectory (indeed, official forecasts for full-year GDP growth have been revised upward to ~6.8%). This virtuous cycle of credit-fueled activity and new capacity creation should support output and job gains in the coming quarters, benefiting businesses and consumers alike. At the same time, a key challenge will be to ensure funding keeps pace with credit demand where banks will need to attract sufficient deposits (or alternative financing) so that liquidity remains adequate to fuel growth. The current low-inflation environment provides room for supportive monetary conditions, which can help keep borrowing costs favorable and financial conditions benign. Policymakers are likely to maintain an accommodative stance while staying vigilant to prevent any overheating or build-up of financial imbalances as the expansion unfolds, especially amid weak global growth and US tariff uncertainty. Overall, the outlook is cautiously optimistic: strong domestic demand and active private capex form a positive feedback loop for growth, and as long as financial stability is managed prudently, India's economy is well placed to progress on a higher growth path.



5. Liquidity







Where We Are

- **Liquidity Flip:** India's banking system liquidity **has swung from abundant surplus to intermittent deficit over the past few months**. After a phase of easy money through late summer, conditions tightened by October – with net liquidity even dipping into negative territory on several days. **This reversal was driven by seasonal and policy factors, large government cash outflows (e.g. tax payments) and a surge in currency demand during the festival season shifted out funds from banks.** These factors temporarily pushed the system from a surplus into deficit, underscoring how swiftly excess liquidity can evaporate.
- **RBI's Balancing Act:** The Reserve Bank of India (RBI) has **actively managed liquidity** to smooth these fluctuations. It implemented a **phased 1%-point cash reserve ratio (CRR) cut from September to November, intended to release roughly ₹2.5 trillion into the system**. However, much of this infusion was **offset by RBI's own actions – notably heavy dollar sales in the forex market which withdrew rupee liquidity**. The CRR cut's impact was **partly absorbed by the RBI's FX interventions**, muting the net boost to liquidity. As a result, the **expected injection was smaller than anticipated**. The RBI also conducted **frequent variable-rate repo auctions (11 of them in late October) to temporarily inject funds during deficit episodes**. Conversely, when surplus conditions returned by **mid-November, it resumed variable-rate reverse repos to absorb excess cash**. **This dynamic approach – adding funds when money was tight and sucking up the surplus when it rebounded – kept the overnight interbank rate generally aligned with the policy repo rate**.
- **Forex and Other Drains:** A less visible but critical factor behind the liquidity crunch was the **RBI's defense of the rupee**. Facing bouts of rupee depreciation pressure, the central bank intervened by selling U.S. dollars (including unwinding forward contracts), which directly pulled rupees out of the banking system. In fact, **roughly \$14 billion of RBI forward dollar contracts were set to mature in Oct–Nov 2025, on top of nearly \$6 billion that had matured in September**. **These outflows, combined with spot market interventions since late August, drained an estimated ₹1.5 trillion from system liquidity**. The **festival-season cash leak** – people withdrawing cash for spending – further amplified the squeeze, as **did routine quarter-end government balances**. By mid-October, the **daily average liquidity surplus had fallen to about ₹1.3 trillion, less than half its level in August**. In late October, banking liquidity actually stayed in deficit for a string of days (e.g. a ₹2,600 crore net shortfall on Oct 22) before the RBI's injections kicked in. In short, a confluence of **forex intervention, festive currency demand, and fiscal cash flow effects** flipped the system from surplus to tight in a matter of weeks.

Why Lending Hasn't Exploded

- **Tepid Credit Appetite:** Despite periods of ample liquidity earlier in 2025, **India's bank lending has grown at a steady, not runaway, pace**. Bank credit was expanding around 10–11% YoY by October – robust but far from an unsustainable boom. In essence, having lots of cash to lend didn't automatically translate into a lending surge because **borrowers weren't clamoring for loans at any price**. Many **companies have been cautious about new capital expenditure, especially in the wake of geopolitical uncertainty, tariff uncertainty, and weak domestic demand**, and some had already deleveraged after the pandemic. **Where financing was needed, corporates often had internal surpluses or found cheaper funds elsewhere, so demand for bank credit was moderate**.
- **Alternative Funding Channels:** One major reason **bank loan growth remained moderate is that Indian firms increasingly tapped non-bank funding**. The **flow of total financing to the commercial sector actually rose significantly this year**, but much of it was **supplied via equity capital markets, corporate bonds, foreign capital, and non-bank lenders rather than traditional bank loans**. Companies took advantage of buoyant capital markets – raising money through bond issuances and equity offerings – as well as borrowing from non-banking financial companies (NBFCs). **Data for April–October 2025 show that nearly half of the funding to the corporate sector came from such non-bank sources (corporate debt, NBFC credit, equity/FDI), while the contribution of bank credit was relatively smaller**. In fact, corporate bond issuance jumped (supported by stable or lower bond yields), and NBFCs aggressively grew their loan books to businesses. Even foreign direct investment stepped in as a source of project finance. This **diversification of funding meant that companies weren't solely reliant on banks – thus, banks' loan growth stayed decent but unspectacular**.

- **Prudence Over Aggression:** Banks themselves have **not been in a rush to exponentially expand credit, prioritizing asset quality after the bad-loan cleanup** of the past decade. Having learned from the last credit cycle, lenders exercised more caution, especially in riskier segments. They **tightened underwriting for unsecured loans and were selective in lending to certain sectors (e.g. some banks curbed exposure to volatile NBFCs or leveraged corporates)**. This risk-aware posture, coupled with **regulatory nudges (like higher capital requirements for certain loan categories earlier and only recent rollback of some risk weights)**, **kept credit growth from becoming “too much of a good thing.”** In addition, **deposit growth, while steady, has trailed credit growth (9.5–10% YoY deposits vs 11% credit)**, forcing banks to compete for funds and keep lending rates relatively firm. Higher lending rates naturally tempered some credit demand. All told, the **supply of credit was ample, but the appetite for credit was measured** – a mix of borrower caution, alternative finance options, and banks’ own disciplined stance explains why easy liquidity didn’t morph into an indiscriminate lending boom.

What It Means

- **Monetary Transmission:** The recent liquidity gyrations tested the RBI’s ability to maintain control over short-term interest rates. By and large, the central bank succeeded – the **weighted average call rate (overnight interbank rate) stayed tightly anchored around the policy repo rate through these swings**. This means **monetary policy signaling remained effective**: even when **liquidity was surplus, the RBI absorbed enough cash to prevent the call rate from falling far below repo**; when **liquidity was scarce, it injected funds to cap any spike above repo**. Such fine-tuned operations ensure that **policy rate cuts or hikes translate to market rates as intended**, rather than being drowned out by excess cash or crunch-driven volatility. Bank deposit and lending rates, in turn, have adjusted gradually in line with policy moves. Notably, in recent months deposit rates plateaued and some even edged down, while lending rates on fresh loans have seen marginal declines – indicating that earlier tightening is passing through and perhaps hinting at a peaking of the interest rate cycle. **Stable funding costs also owe to the RBI’s liquidity management keeping conditions on an even keel.**
- **Economic Activity:** The **interplay of liquidity and credit growth has kept financial conditions supportive of the real economy** without fostering imbalances. Moderation in bank credit growth, counter-intuitive in a high-liquidity environment, suggests that **economic expansion in 2025 has not been constrained by credit availability** – if anything, firms have been choosy in drawing debt. The fact that **overall funding to the economy rose (thanks to non-bank channels)** means **businesses still got financing for expansion, just via more diverse avenues**. This is a healthy development: it indicates that India’s economy could grow on a broader base of financing, reducing over-reliance on bank loans. It also implies that the **lack of a credit boom may help contain future financial risks – growth is being financed in a balanced way rather than by a leverage binge**. On the flip side, the **tempered credit demand might reflect companies’ cautious sentiment regarding new investments**. Companies appear to be in a wait-and-watch mode, looking for a sustained and broad-based revival in domestic demand, early signs of which are now visible, alongside clarity on the India-US trade deal. In essence, ample liquidity prevented any squeeze on legitimate credit needs, but it did not overheat the economy – a **Goldilocks outcome (neither too tight nor excessively loose) that aligns with the RBI’s aim of fostering growth without fueling inflation or asset bubbles**.
- **RBI’s Policy Stance:** Recent developments highlight the RBI’s **nimble approach** in navigating its dual objectives. The central bank has maintained a vigilant anti-inflation stance (holding policy rates relatively high) while using liquidity tools to ensure that this doesn’t inadvertently choke credit to productive sectors. The decision to cut CRR – essentially an accommodative step to free up bank funds, even as policy rates were kept unchanged shows a nuanced calibration between liquidity and interest rate policy. By doing so, the RBI signaled that it wants to avoid undue tightening of financial conditions. At the same time, the fact that it later mopped up surplus cash via reverse repos in November indicates it hasn’t swung to an excessively dovish liquidity stance either. The message is one of **measured support: the RBI will supply liquidity when needed to prevent market stress, but it will also withdraw liquidity when it’s abundantly above requirement – all to keep the system in balance**. Importantly, the central bank has been transparent in this balancing act, communicating that it **stands ready with permanent tools** like open market operations (OMOs) if systemic liquidity were to tighten too persistently. This reassures markets that while the RBI remains focused on its inflation mandate, it will not allow a liquidity crunch to disrupt credit flow or financial stability.



Foreign Capital Flows – Interplay of Foreign Capital Flows with Domestic Institutional Capital

Foreign capital flows into India in FY 2025–26 are sending a very clear message: **FDI is quietly strengthening, FPIs are de-risking Indian equities but rotating into debt, and DILs have become the structural “sponsor” of the market.**

Macro backdrop for flows in FY 2025–26 (so far)

- **Growth:** Real GDP is running hot – Q2 FY26 (Jul–Sep 2025) printed 8.2% YoY, with full-year forecasts clustered around 6.8–7%.
- **Rates:** RBI has already delivered ~100 bps of cuts in 2025, with the street expecting another cut or two as inflation remains benign.
- **FX:** The rupee has weakened to around ₹90/\$, down ~5–6% YTD, with RBI now allowing more flexibility and intervening only to curb disorderly moves in line with a REER framework.
- **External headwinds:** 50% US tariffs on select Indian exports, visa-fee hikes and a still-uncertain India–US trade deal have dented sentiment and contributed to both FPI outflows and softer net FDI in some months.

Against this backdrop, the behaviour of FDI vs FPI vs DIL is diverging in an instructive way.

FDI – quietly strong, but with choppiness in net flows

The **run-rate in FY 2025–26** –

- FY 2024–25 base: India recorded US\$ 81.0 bn of total FDI inflows, **up 14% YoY**, with services the single largest component (≈19% share).
- H1 FY 2025–26 (Apr–Sep 2025): Total FDI inflow: about **US\$ 50.4 bn, up 16% YoY** – highest ever for the first half of a financial year.
- Q1 FY26 (equity only): **US\$ 18.6 bn, up ~15% YoY**.
- Q2 FY26 (equity only): **US\$ 16.4 bn, up ~20.5% YoY**.

So on a gross basis, FDI is accelerating, with the annualised run-rate for FY26 now comfortably above FY25.

Net FDI, exits and composition –

RBI's November bulletin notes that **net FDI in Apr–Sep doubled to ~US\$ 7.6 bn versus the previous year**, but with a **sharp pickup in outward flows (PE/VC exits, buybacks, outbound M&A)**. September is a good illustration – gross inward FDI was US\$ 6.6 bn, but net FDI turned negative because large IPO-driven exits by PE/VC funds more than offset fresh inflows. **Sectorally, the inflows remain skewed to – Manufacturing, retail/wholesale, communication and financial services, and IT/computer services, all of which continue to attract fresh equity.**

FDI is still sticky and growth-aligned, but the net number is noisier because India is now big enough to also see sizable capital leaving via successful monetisations. From a macro perspective, the FDI story remains supportive, especially for manufacturing and services capex.



FPIs/FIIs - equity risk-off, debt risk-on

Equities - risk-off and highly tactical:

On the equity side, FY26 so far is characterised by **persistent but punctuated selling**. Over **CY 2025**, **FPIs have pulled out roughly US\$ 17 bn from Indian equities** **FPI ownership in India Inc slipped another ~63 bps, reflecting about US\$ 8.7 bn of net equity outflows during the period.**

Monthly pattern (cash equities) -

- Jul–Sep 2025: consecutively heavy selling – about ₹17,700 cr (Jul), ₹34,990 cr (Aug) and ₹23,885 cr (Sep) of net outflows.
- October 2025: a sharp reversal with net inflows of ₹35,598 cr, the highest monthly FPI equity buying in 2025; of this, ₹14,610 cr in the secondary market.
- November 2025: outflows resume, ₹3,765 cr net selling.
- First 3 days of December: FPIs have already sold ~US\$ 0.8–0.9 bn, more than double November's entire outflow in just three sessions, as the rupee cracked through 90/\$ and risk-off returned.
- **Sector-wise, the heaviest selling in the Jul–Sep quarter was in IT and healthcare, where US tariffs and visa-related uncertainty are directly biting into earnings visibility.**

FPIs are de-risking equity exposure, especially in globally sensitive, export-facing sectors, and are treating India more tactically – selling strength when valuations are rich and the rupee is weakening.

Debt - structural bid from index inclusion, but off peak:

The picture in debt is almost the mirror image. **India's staged entry (June 2024–March 2025) into J.P. Morgan's EM Bond Index pulled in nearly ₹2 trillion (~US\$ 24 bn) of FPI debt flows into government bonds, materially improving demand-supply**. By end-2024, total FPI purchases of government bonds were about ₹1.24 trillion – the strongest in four years. **2025 has seen some moderation versus those record levels, but foreign ownership of GoI bonds still hit a record ₹3.11 trillion (~US\$ 35 bn) by late October 2025**, around 6.8% of FAR-eligible outstanding. **Multiple global bond-index inclusions (J.P. Morgan, Bloomberg, FTSE Russell) plus RBI's 100 bps of cuts in 2025 have collectively made Indian duration structurally attractive to real-money investors.**

While equity FPIs are a net drag, debt FPIs are now a stabilising pillar of the BoP. However, the “index inclusion sugar-rush” has already played out; incremental flows will be more sensitive to the rupee path and US rate moves.

DIIs - the new anchor shareholder

Domestic institutions have decisively become the marginal buyer of Indian equities.

Quantum of flows –

- In CY 2024, DIIs bought about ₹5.25 trillion in Indian equities.
- In CY 2025 so far, they have already exceeded ₹7.0 trillion of net buying, a new record and still rising:

So, domestic institutions are absorbing more than 100% of FPI equity supply, plus adding incremental demand on top.



Retail-led structural bid (SIPs) -

- Underpinning this DII strength is the retail SIP engine. SIP inflows hit an all-time high of ₹29,361 cr in September 2025, up 4% MoM and nearly 20% YoY. October 2025 SIPs climbed further to ₹29,529 cr, with ~9.45 crore active contributing SIP accounts. **SIP AUM now stands at ~₹16.25 trillion**, around 20% of mutual fund industry AUM, which itself is just shy of ₹80 trillion.
- Add to this the **steady allocations from insurers, banks, pension funds and NPS**, and you get a domestic savings super-cycle that is increasingly independent of global risk appetite.

DIIs have effectively become “price setters” at the margin. Their behaviour is driven more by EPFO/NPS allocations and SIP flows than by global risk-on/off, which is why Indian equities can trade at a persistent valuation premium despite aggressive FPI selling.

Outlook

Liquidity

The coming months are poised to bring a **gradually improving equilibrium in India’s banking liquidity and credit interplay**. With the bulk of the CRR cuts now implemented, banks are entering 2026 with more durable liquidity buffers to support lending. Indeed, **credit growth is projected to see a second-half uptick – analysts estimate full-year bank credit expansion at about 11–12% for 2025–26, slightly higher than last year and above the post-pandemic average**. Easing inflation and previous rate cuts (the RBI has reportedly trimmed policy rates by 100 bps since early 2025) should start bolstering loan demand, especially in retail segments, while corporates may gradually increase borrowing for new investments as confidence returns in domestic demand. The RBI is expected to maintain its agile approach to liquidity management: we anticipate it will continue conducting fine-tuning operations to prevent any unwarranted tightness, especially as government spending and credit demand typically rise towards the financial year-end. **External factors – from global interest rate moves to oil prices, remain wild cards, but India’s healthy forex reserves and improved current account position provide a cushion. Overall, the outlook is one of cautious optimism: liquidity conditions will likely stay comfortable but not excess, policy rates could remain on hold with a mild easing bias, and credit growth should pick up in a measured fashion.**

FDI vs FII vs DII

FDI: constructive but currency and trade will matter

Base case (next 12–24 months) – With H1 FY26 total FDI inflows already at US\$ 50.4 bn (+16% YoY), **a full-year number in the US\$ 90–100 bn range is plausible if momentum holds into H2. The manufacturing FDI push** (PLIs, China+1, infra, renewables, defence, electronics) and **services/tech (SaaS, GCCs, fintech)** should continue. However, net FDI could remain choppy because **PE/VC exits via IPOs and secondary placements** will stay elevated, especially with strong domestic valuations. A **weaker rupee** makes fresh FDI attractive in local-currency terms but may also prompt timely repatriation where IRRs are already met. Watch-points remain the progress (or breakdown) in the **India–US trade deal**, and the **pipeline of large strategic/PE deals in manufacturing and infra**.

FPIs: more nuanced split between equity and debt

- Equity FPIs** – With **US\$ 17 bn-plus equity outflows in CY25 already and ownership down to multi-year lows**, a portion of the de-risking is probably done in the near term. That said, the combination of – **Rich valuations, Rupee weakness, and Policy uncertainty on trade** means that FPIs are likely to remain tactical – i.e., buying capitulation and selling euphoria, rather than running large structural overweights. Base case for FY26 as a whole – **equity FPI flows are likely to end modestly negative or near flat, but with very high intra-year volatility around macro data, Fed/RBI moves and trade headlines**.

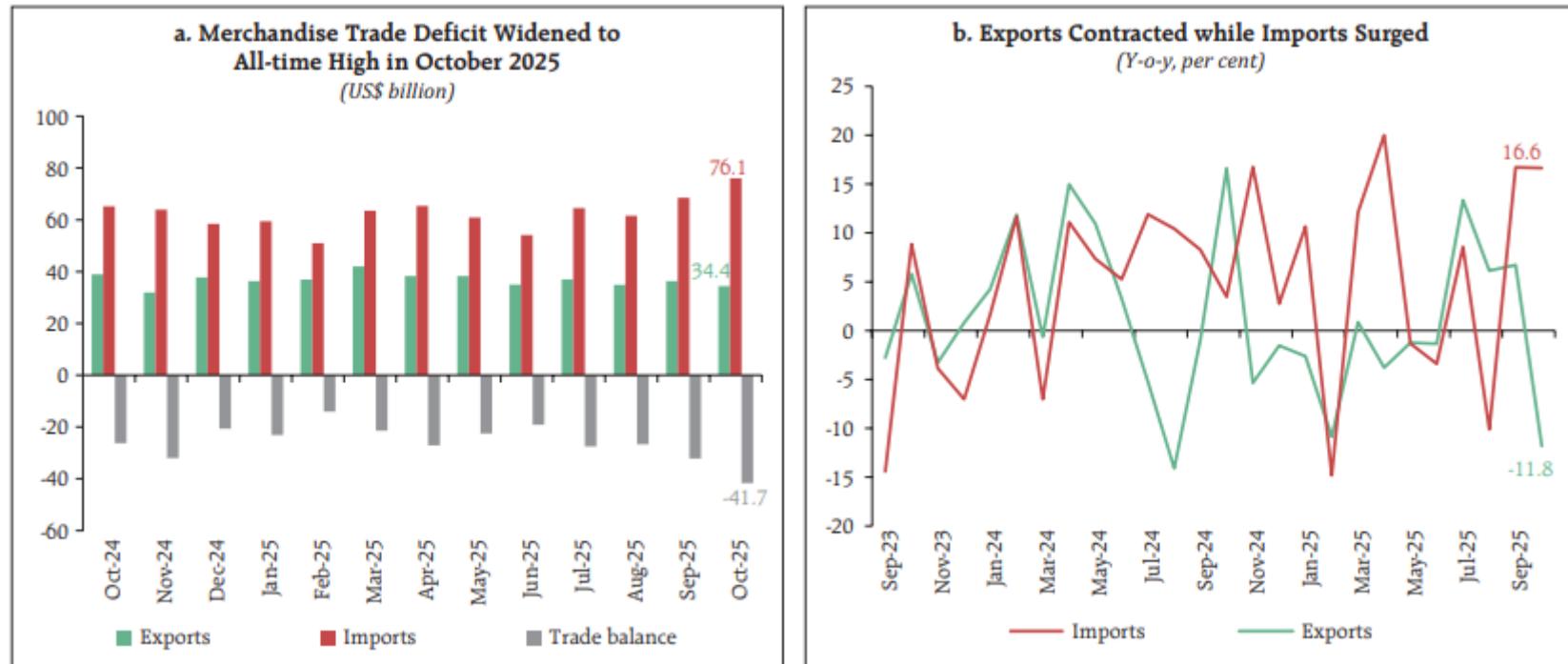


- **Debt FPIs** - The **heavy lifting from index inclusion (JPM, Bloomberg, FTSE) is behind us**, but foreign ownership of GoI bonds is now at structural highs and likely to edge up further as India's weight stabilises in global indices. With **RBI already 100 bps into an easing cycle and India still offering positive real yields versus many DMs**, the risk-reward in rupee debt remains favourable in most global asset-allocation frameworks. Base case is - **steady but smaller FPI debt inflows versus 2024-early-2025, enough to support the BoP but not enough to fully offset equity outflows if global risk aversion spikes.**

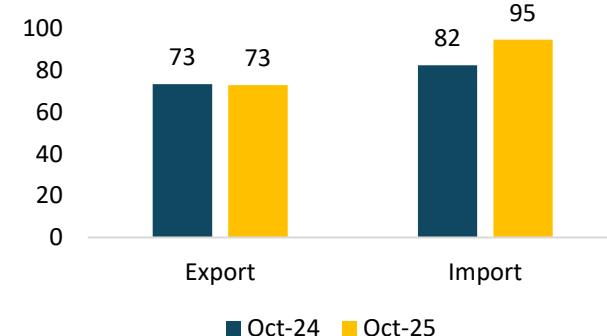
DII^s - domestic “sponsor bid” is structural, not cyclical

The financialisation of household savings (MFs, insurance, NPS) is still in the middle innings, not late. With SIPs now ~₹30k cr/month and growing, even a modest 5-10% annual growth in SIP contributions implies an additional fresh equity demand every year, independent of market levels. Regulatory nudges (NPS, insurance, corporate retirement solutions) and product innovation (target-date and multi-asset funds, passive strategies) will continue to thicken the DII base. Base case - **DII^s remain net buyers of Indian equities through FY26-27, though the pace of buying could moderate if: earnings disappoint, or if regulators/tax changes alter the attractiveness of some products in the upcoming budget.**

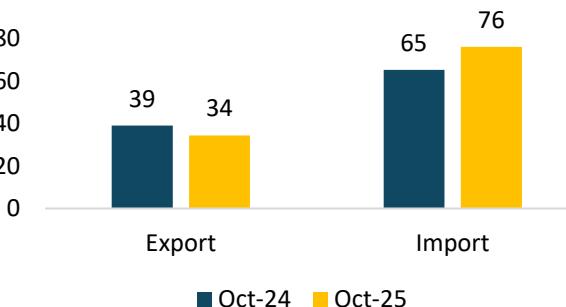
6. Trade



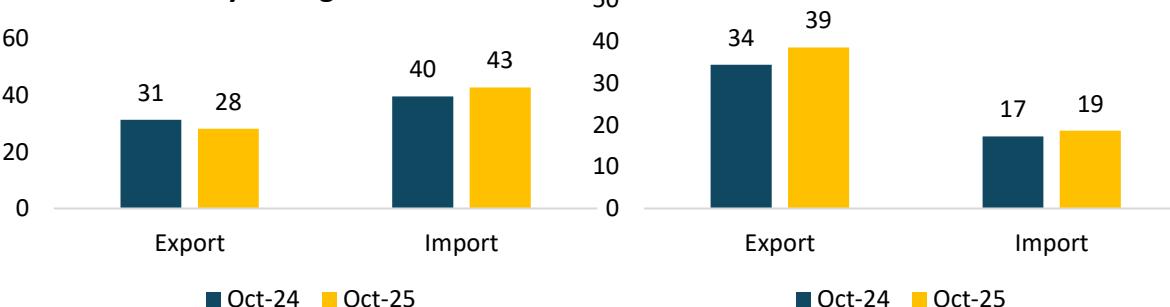
Total Trade During October-2025



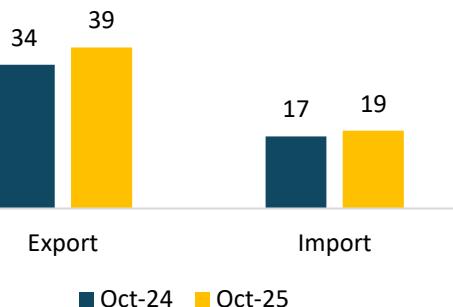
Merchandise Trade during October-2025



Trade excluding Petroleum and Gems & Jewellery during October-2025



Services Trade during October-2025



India's October 2025 Trade Shock: Navigating a Record Deficit Amid Global Headwinds

- **Record Goods Trade Deficit:** October's merchandise trade gap surged to an unprecedented high (around US\$41.7 – 42.0 billion), far above forecasts. Exports fell sharply (about \$34.4 bn, down ~11.8% YoY) while imports jumped (about \$76.1 bn, up ~16.6% YoY). The deficit widened from ~\$26.2 bn a year earlier and \$32.2 bn in Sept 2025. In other words, India bought far more in October than it sold overseas, the largest gap on record. This gap is now large and threatens to weaken the rupee and put pressure on reserves unless offset by other inflows.
- **Surge in Gold and Silver Imports:** The biggest driver of the deficit was bullion imports. October gold imports tripled year-on-year, reaching about \$14.7 bn (up from ~\$4.9 bn a year ago). This jump reflects both festival/wedding demand and investors stocking up amid soaring prices (gold rose ~64% over the year). Silver imports also jumped sharply (industrial demand for silver has risen), amplifying import growth. In fact, the widening gold deficit alone (what India spends on gold minus its gold exports) grew by ~\$17 bn over three months, accounting for most of the October shortfall. In short, precious metals – especially gold – were the “villains” pushing the gap out of the park.
- **Other Import Drivers (Oil, Machinery, Electronics):** Beyond bullion, other imports rose on domestic demand. Crude oil imports were roughly flat (about \$14.8 bn in Oct vs ~\$14.0 bn in Sept), so oil did not significantly dampen the deficit. However, imports of capital and intermediate goods – electronics, machinery parts, fertilizers, chemicals etc. – all increased, reflecting broad-based restocking and robust domestic demand.
- **Exports Under Pressure:** On the export side, October saw a broad decline in shipments. Overall goods exports slipped to about \$34.4 bn (11.8% lower than a year ago). Many sectors – engineering goods, gems & jewellery, chemicals and textiles recorded weaker shipments. Only a few categories (electronics, marine products, certain Agri-commodities) managed growth. The slowdown reflects slowing global trade and elevated uncertainty. Indeed, export volumes to most major markets shrank; exports to 17 of the top 20 destinations fell, even as shipments to China and Hong Kong grew. In short, foreign demand softened just as India's imports heated up.
- **Impact of U.S. Tariffs:** Contributing to weaker exports was the new U.S. tariff regime. In late August the U.S. imposed additional duties (up to 50%) on a range of Indian goods. October was the second full month under these tariffs. Shipments to the U.S. fell about 9% year-on-year (to roughly \$6.3 bn) despite a small rebound from September levels. Key labor-intensive exports (textiles, gems, leather, shrimp, etc.) were worst hit. This tariff shock helps explain why total exports underperformed and will likely continue to weigh on shipments to India's largest export market, until an agreement is reached.
- **Strong Services Surplus and External Offsets:** Crucially, the goods deficit has been largely offset by India's strong services and remittances. Services exports continued growing (around \$38–39 bn in Oct vs ~\$31 bn a year ago) while services imports were much lower (~\$18.6 bn). This left a services trade surplus of nearly \$20 bn in October. Remittance inflows were also healthy. These financial inflows and export services earnings have so far kept the overall current account in a sustainable zone, despite the large goods gap. In other words, on a balance-of-payments basis the picture is less dire than the goods numbers alone suggest.
- **Macroeconomic Implications:** A deficit this wide is unusual in peacetime and has several effects. It tends to put downward pressure on the rupee, since more dollars are needed to pay for imports. (Indeed, analysts have noted the currency is trading near its lows on this data.) It can also drain foreign exchange reserves if financed by central bank sales. Finally, a bigger import bill can add to inflationary pressure (imported inflation) and worsen the fiscal outlook if oil subsidies or debt servicing rise. However, India's policy buffers are strong: the current account has run only a modest deficit (around 0.6–2.1% of GDP over the last decade), and foreign capital continues to flow in. In short, while unsettling, the October surge in the trade deficit does not by itself constitute a crisis – the balance of payments remains relatively resilient.
- **Outlook – What's Next?** We expect the trade deficit to shrink from this peak in the coming months. The gold and silver buying was partly seasonal (festival and weddings) and speculative; once prices stabilize and demand normalizes, bullion imports should cool. Lower global commodity prices would also help narrow the oil deficit. On the export front, any resolution of U.S. tariff issues (trade talks are ongoing) would help exports recover. Meanwhile, the services surplus is likely to remain robust, softening the impact on the overall balance. In sum, the data suggest caution: the widening deficit flags potential vulnerabilities (currency swings, price pressures) in the short run. But the underlying economy is still growing steadily; inflation is low, and policy is geared to cushion shocks. Once gold demand cools and a India-US tariff agreement is reached, India's trade gap should ease back from its October high over the next few months.

7. Fiscal Situation



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MINISTRY OF FINANCE
GOVERNMENT OF INDIA

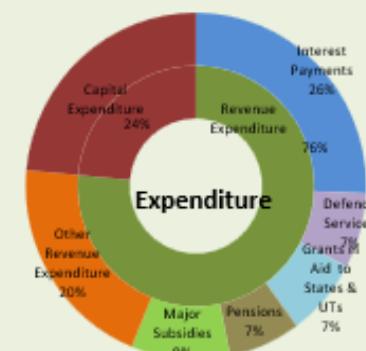
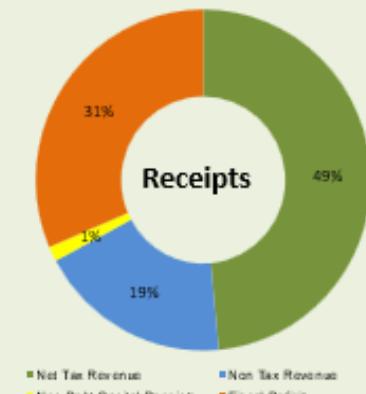
Union Government Monthly Accounts Dashboard

All amounts are Rupees In Crore
Actuals are unaudited provisional figures
Financial year runs from April to March

Financial Year **2025-26**

As at the end of

Oct-25



Total Receipts

₹ **18,00,475** 51.5% of BE 4.5% YoY Growth 

Tax Revenue (Net)

₹ **12,74,301** 44.9% of BE -2.4% YoY Growth 

Non Tax Revenue

₹ **4,89,079** 83.9% of BE 22.5% YoY Growth 

Non Debt Capital Receipts

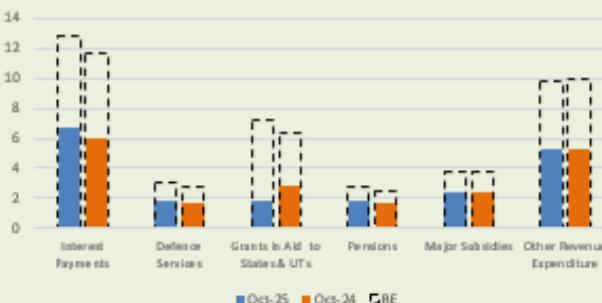
₹ **37,095** 48.8% of BE 97.2% YoY Growth 

Total Expenditure

₹ **26,25,619** 51.8% of BE 6.1% YoY Growth 

Revenue Expenditure

₹ **20,07,876** 50.9% of BE 0.0% YoY Growth 



Capital Expenditure

₹ **6,17,743** 55.1% of BE 32.4% YoY Growth 

Fiscal Deficit

₹ **8,25,144** 52.6% of BE 2.3% of GDP 9.9% YoY Growth 

Revenue Deficit

₹ **2,44,496** 46.7% of BE 0.7% of GDP -19.3% YoY Growth 

Primary Deficit

₹ **1,51,429** 51.8% of BE 0.4% of GDP -2.0% YoY Growth 

Govt Capex Soars as Revenues Flag, Testing Fiscal Goals



Capital Expenditure: Growth-Focused Surge

- India's central government accelerated capital spending at an exceptional pace, underscoring its growth-first fiscal strategy. **Capital expenditure surged by over 30% year-on-year in the first seven months (April–October) of FY 2025–26, reaching about ₹6.2 trillion – 55% of the full-year budgeted target by October.** This front-loaded infrastructure push (up from ~42% of target a year ago) reflects a deliberate effort to **crowd-in private investment and build capacity**, even if it meant a larger early-year deficit. Such **robust capex momentum** – 40% higher in H1 FY26 compared to H1 FY25 – signals the **government's intent to spur long-term growth**. However, it also concentrates fiscal pressure in the year's first half, implying that without a revenue pick up, the pace of spending may need calibration later to avoid overshooting the annual capex allocation. **The strategy illustrates a classic balancing act: investing aggressively in public works to boost future growth, while hoping that improved economic activity and private-sector response will, in time, justify the fiscal stretch.**

Revenue Expenditure: Prudence and Restraint

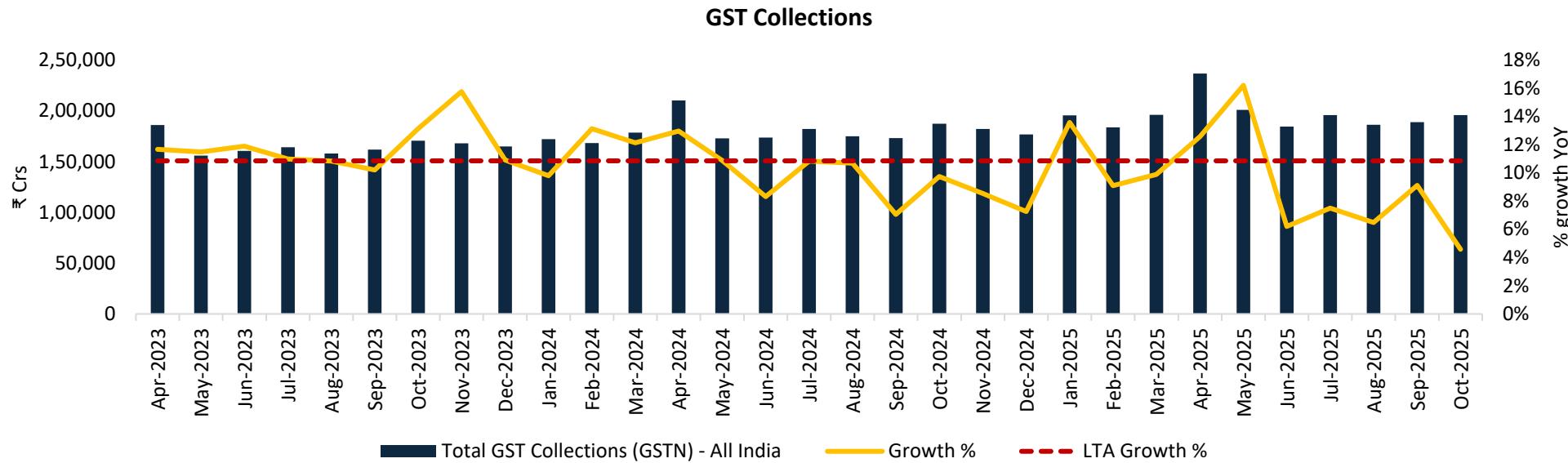
- On the current expenditure side, **the government exercised marked restraint**. Revenue (operational) spending grew a mere **1.5% in H1 FY26** – a sharp deceleration compared to the previous year. This modest growth was **achieved by trimming discretionary outlays: for instance, major subsidies (food, fertilizer, fuel) were pared down by about 5.7% year-on-year in H1, even as inevitable costs like interest payments rose ~12%**. By October, **revenue expenditure stood at only ~50.9% of the annual budget**, lower than the ~54% pace in the same period last year. Such discipline suggests a conscious effort to **contain routine spending** and create fiscal space for capital investments. The government's tighter grip on day-to-day expenditures – from administrative outlays to subsidies – has partially offset softer revenues, indicating a commitment to fiscal prudence. That said, **a large portion of revenue spend is essentially fixed (interest, pensions, defense, etc.), limiting flexibility**. The **ability to sustain growth in these expenditures** will be crucial; thus far, **spending restraint has helped prevent an even larger deficit given the revenue slowdown**.

Receipts: Sluggish Taxes, Buoyant Non-Tax Windfalls

- Government receipts have been a mixed bag**, with tax revenues underperforming even as one-off non-tax inflows offered relief. **Total receipts (net to the Centre)** reached around ₹18 trillion by October, about **51.5% of the Budget Estimate (BE)** – slightly behind the typical mid-year pace (last year was ~53.7% of BE). **Net tax revenues** in particular have lagged: the Centre garnered only **44.9% of its full-year tax target by October**, reflecting tepid tax growth and higher devolution to states. In fact, after transferring a larger share to state governments, the Centre's **net tax receipts actually contracted year-on-year in H1** – gross tax collections rose modestly, but this was more than offset by nearly ₹8.35 lakh crore devolved to states (up ₹1.12 lakh crore YoY). Underlying this weakness was a broad-based slowdown: **gross tax revenue increased only ~4% YoY during April–October, as both direct and indirect taxes lost momentum**. By contrast, **non-tax revenues have far outperformed**, reaching **83.9% of the annual target by October**. A large **dividend transfer from the central bank (₹2.7 lakh crore, up from ₹2.1 lakh crore last year)** bolstered these inflows, alongside other one-time receipts. This windfall has provided a timely buffer against the tax shortfall. The reliance on such non-recurring sources, however, highlights a risk: **sustainable fiscal strength will eventually require a revival in core tax buoyancy**. The current receipts pattern – **soft tax growth masked by extraordinary non-tax gains** – underscores the importance of rejuvenating economic activity and tax compliance to broaden the revenue base going forward.

Fiscal Deficit: Widening on Capex Push

- India's **fiscal deficit has widened noticeably in the year to date**, revealing the tension between aggressive spending for growth and weaker revenue inflows. **By end-October, the deficit hit ₹8.25 lakh crore, about 52.6% of the FY26 Budget Estimate**. This marks a deterioration from ~46.5% of BE in the same period last year. The slippage is largely attributable to the dynamics discussed: an **intentional front-loading of capital investments alongside a disappointingly slow revenue uptick**. Put simply, the government has spent roughly half of its annual budget already, but recouped less than half of expected revenues, creating a larger gap. The **mid-year deficit expansion** reflects the strategy of **prioritizing growth-enhancing outlays (capex up 32% YoY) despite revenue underperformance**. Officials still aim to contain the full-year deficit to **4.4% of GDP (down from 4.8% last year)**, in line with the medium-term consolidation roadmap. Yet, with the current trajectory, meeting that target will be challenging. Both **receipts and expenditures are near 52% of yearly targets**, an ostensibly balanced progression – but the quality of this balance is suboptimal (more borrowing-financed spending, less organic revenue). Achieving the fiscal goal may require adjustments in the coming months: either a **pick-up in revenues** (e.g. via higher tax collections in the latter part of the year) and/or a **moderation in spending growth** to compensate. The government's commitment to fiscal discipline will be tested as it juggles supporting the economy and maintaining credibility on deficit control. **Notably, global investors and rating agencies will be watching if India adheres to its consolidation path (aiming for a 4.4% deficit next year) without derailing the economic recovery, making this a delicate policy tightrope.**



GST Collections: Resilient Demand Amid Rate Rationalization

GST revenues remain robust, though growth has moderated in the wake of tax rate cuts. Gross GST collection in October 2025 stood at ₹1.96 lakh crore, marking a **4.6% year-on-year increase**. While this is a healthy absolute number – hovering around record levels – the annual growth rate was the **slowest of the fiscal year so far**. The subdued growth is largely explained by a late-September **GST rate rationalization** (significant tax reductions on a range of items) and a **brief pause in purchases before the rate cuts took effect**. These factors temporarily dampened the year-on-year comparison. **Despite the moderation, the collection figure signals resilient underlying demand**: consumers continued to spend strongly during the festive season, keeping revenues close to the ₹2 trillion mark. In fact, **October's GST haul was higher than the previous month, indicating momentum in consumer activity heading into the festivals**. A closer look reveals a divergent trend – **domestic GST grew only ~2% YoY, whereas GST on imports jumped ~13%**. This suggests that import-heavy consumption (e.g. electronics, gold for the festive period) was a big contributor, while domestic levies saw a smaller uptick due to the tax cuts. Tax refund payouts under GST also spiked (nearly 40% YoY) as compliance improved, but this too held down net growth. Overall, **GST collections demonstrate a mix of strength and softness**: the **tax base has broadened and monthly inflows are high**, yet the **rate of increase has ebbed because of deliberate policy reliefs and base effects**. We interpret this as a transient dip – the result of pro-consumer tax tweaks – and expect collections to stabilize or bounce back once the full impact of revived demand and normalized rates is felt. The upshot is that **consumption tax data still portrays an economy with solid demand fundamentals, even as policymakers fine-tune rates to balance inflation and revenue**.

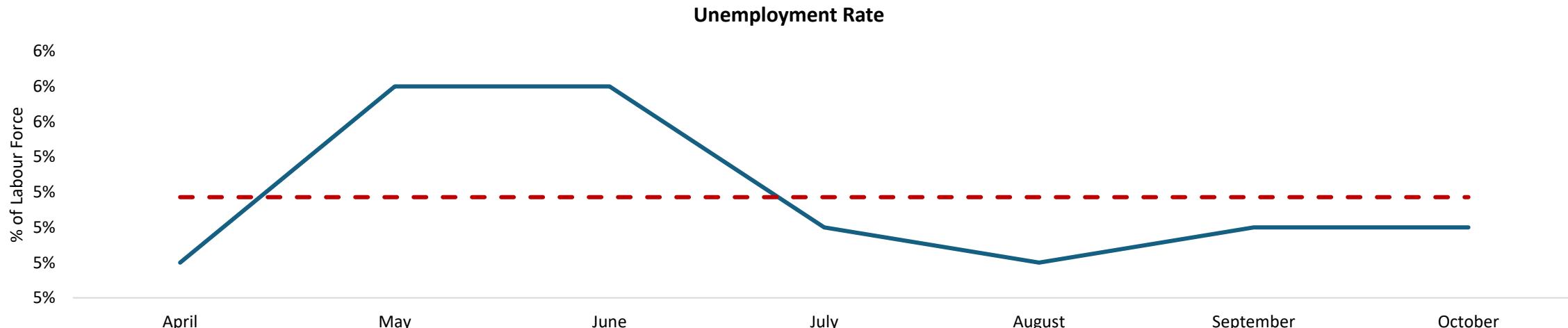
Direct Tax Collections: Sluggish Momentum in Income and Profits

- **Direct tax receipts have grown, but at a pace notably below both last year's trend and budget expectations.** As of early November, **net direct tax collections** (after refunds) stood at about ₹12.9 trillion, up ~7% year-on-year. This mild growth was propped up by a sharp decline in tax refunds issued (refund outflows fell ~18% YoY) – effectively boosting the net tally. **Gross direct tax inflows**, by contrast, rose by only ~2.1% YoY in April–October, revealing an **underlying weakness in both corporate tax and personal income tax receipts**. Corporate tax payments have been particularly subdued, reflecting **softer corporate earnings growth** and possibly the impact of past rate cuts for new manufacturing firms; net corporate tax was up only about ₹5.37 trillion vs ₹5.08 trillion a year ago (~5–6% growth). **Personal income tax collections fared slightly better**, rising from ₹6.62 trillion to ₹7.19 trillion (~8–9% growth) in the same period, which **points to stable employment and wage trends supporting tax deduction at source and advance taxes**. Even so, the **overall direct tax buoyancy is disappointing against a nominal GDP that is growing faster**. With only roughly half of the ₹25.2 trillion annual **direct tax target** collected so far, the **required growth in the remaining months is steep**. Meeting the **budgeted 12.7% increase** in direct taxes would entail an aggressive pickup in collections – an unlikely scenario unless economic activity accelerates markedly or one-time tax enforcement gains materialize. The **shortfall in direct taxes is a double-edged concern**: it not **only stretches the fiscal deficit** but also **hints unevenness in the recovery (corporate profits and high-end incomes appear to be lagging)**. Policymakers may need to **diversify revenue sources or tighten compliance further**, as the current underperformance in direct taxes poses a risk to fiscal math's. On a positive note, the **tax base has not shrunk – absolute collections are higher than last year** – but the momentum is far from the vigorous growth anticipated. Ensuring that direct taxes resume a healthy growth trajectory is vital for fiscal sustainability, as these taxes are progressive and central to the government's resource pool.

Fiscal Outlook

- **India's fiscal outlook presents a careful balancing act between supporting growth and maintaining discipline.** The challenge ahead is to **navigate the rest of the year with measured adjustments** so that ambitious public investment plans do not derail the deficit target. Revenue mobilization will need to strengthen – through **improved tax buoyancy and compliance** – for the fiscal math to work out, especially since windfall non-tax gains may not repeat at the same scale. If revenues continue to undershoot, the government faces tough choices: it may contemplate **rationalizing certain expenditures or deferring some outlays** to prevent a substantial slippage. At the same time, policymakers recognize that **sustaining economic momentum is crucial**; thus, **any fiscal tightening is likely to be calibrated so as not to stifle the ongoing recovery**. In essence, **the near-term priority is to manage within current constraints (possibly via spending efficiency and targeted revenue efforts) to meet this year's deficit commitment, while the longer-term imperative is to broaden the tax base and foster higher growth, which will organically improve the fiscal position**. The government's commitment to fiscal consolidation remains evident, but it is tempered by a pragmatic understanding that **credible consolidation must coexist with growth**. Markets and stakeholders can take some comfort that **India is charting a path of gradual fiscal improvement – one that seeks to rein in the deficit over time without sacrificing the investments needed for future growth**.

8. Employment



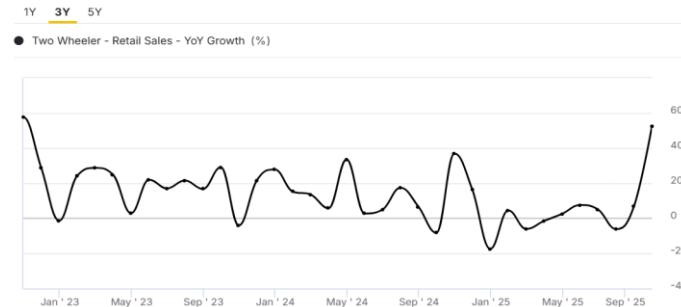
Employment & Labour Market Update – October 2025

- Unemployment broadly stable at 5.2%** India's labour market remained broadly stable in Q2 FY26, with the **all-India unemployment rate easing to 5.2% from 5.4% in Q1**. In October, the **rate stayed at 5.2%**, with a marginal **decline in rural unemployment offset by a slight uptick in urban joblessness**, suggesting post-monsoon rural demand held up better than urban hiring.
- Rural and female participation drive higher LFPR** Labour force participation and worker population ratios rose to their **highest levels since May 2025**, with gains in **both rural and urban areas** but led by **stronger participation of rural women**. This signals a gradual broadening of labour market inclusion and better utilisation of labour in rural India.
- High-frequency indicators show mixed but improving conditions.** High-frequency signals were mixed: **PMI employment indices for manufacturing and services stayed in the expansion zone**, indicating **continued formal job creation**, while the **Naukri JobSpeak index contracted** due to festive clustering. At the same time, falling **MGNREGS work demand** points to **improving rural labour market conditions** rather than **distress-driven job seeking**.

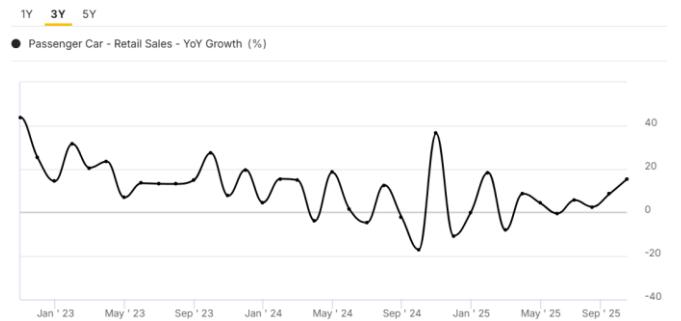
India's latest labour data point to gradual improvement but underline deep structural fault-lines: participation is rising at the margin, yet gains are overwhelmingly rural and male-driven. The persistence of very low female LFPR and WPR, especially in urban areas, means a large share of working-age women remains economically idle, capping the economy's effective labour supply and productivity potential. Higher rural engagement relative to cities suggests that recent employment gains are skewed toward lower-productivity activities, rather than being anchored in formal, urban jobs. Without targeted measures to raise female and urban participation, through childcare, safety, transport, and skill-linked job creation, the near-term outlook is one of slow, incremental tightening in labour metrics, but with India's demographic dividend only partially realised.

9. Demand Indicators

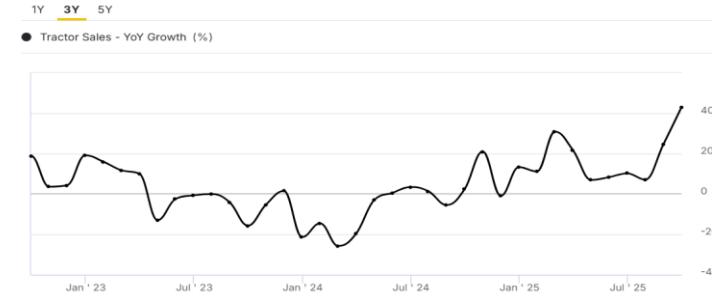
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



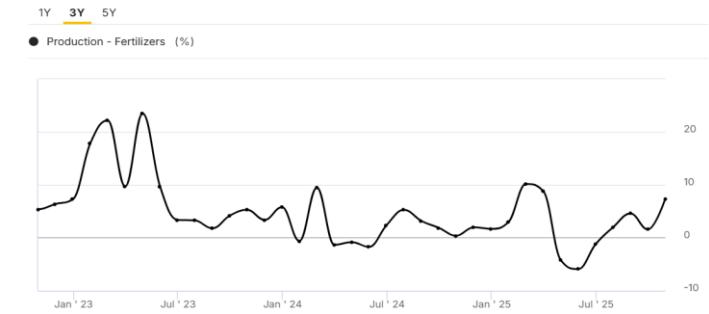
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



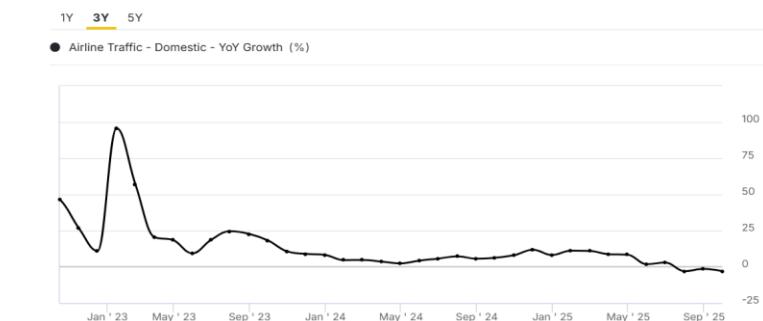
TRACTOR SALES - YOY GROWTH (%)



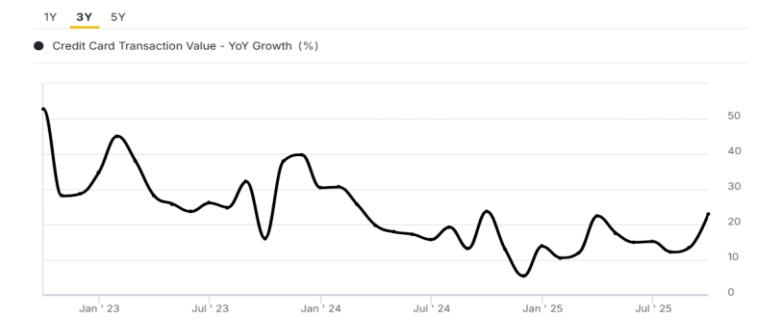
PRODUCTION - FERTILIZERS (%)



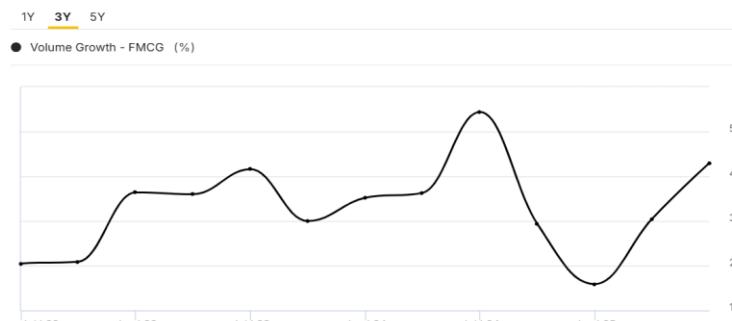
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



VOLUME GROWTH - FMCG (%)



Select High-Frequency Indicators (October 2025)

Rural Demand

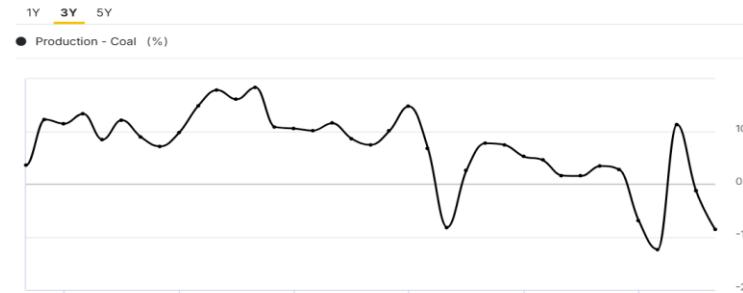
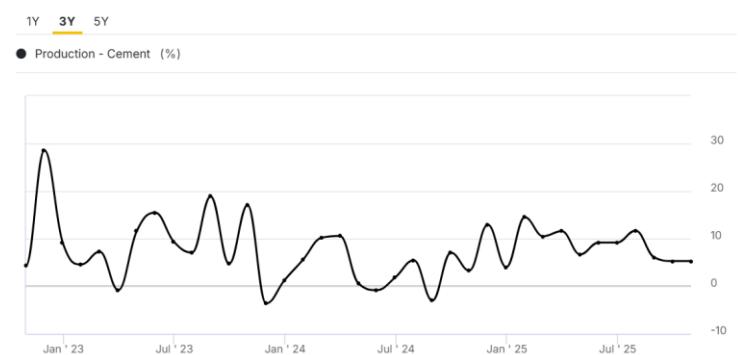
Rural demand led the **overall upturn in October**. RBI highlights that favourable monsoon progress, firm agricultural activity, GST rate cuts and festive spending pushed two-wheeler and rural auto sales to their fastest YoY growth in the current series, with fertiliser and tractor indicators also holding up. Taken together, this **points to a broad-based improvement in rural incomes rather than just a one-off festival bump**.

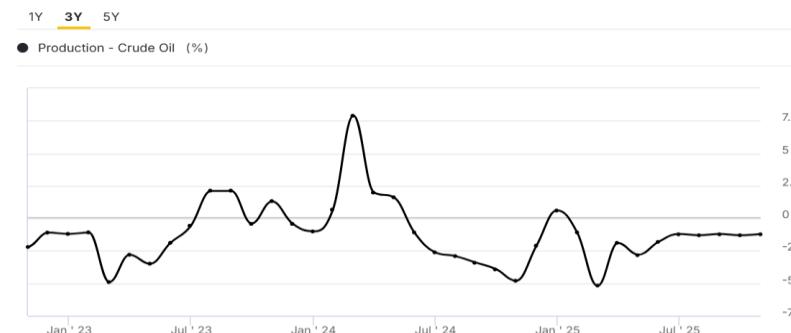
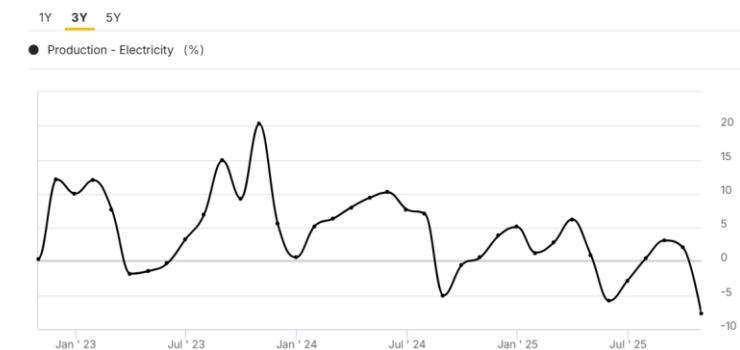
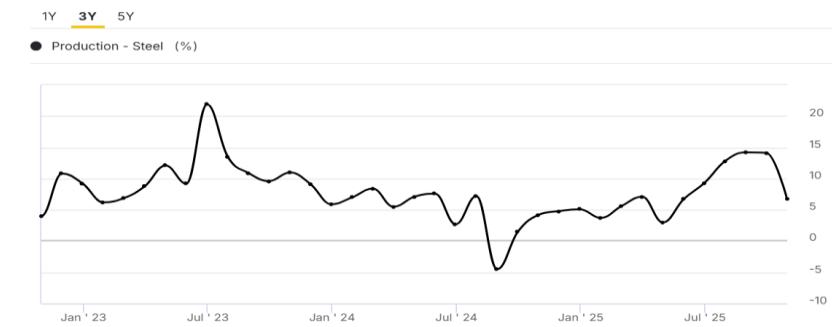
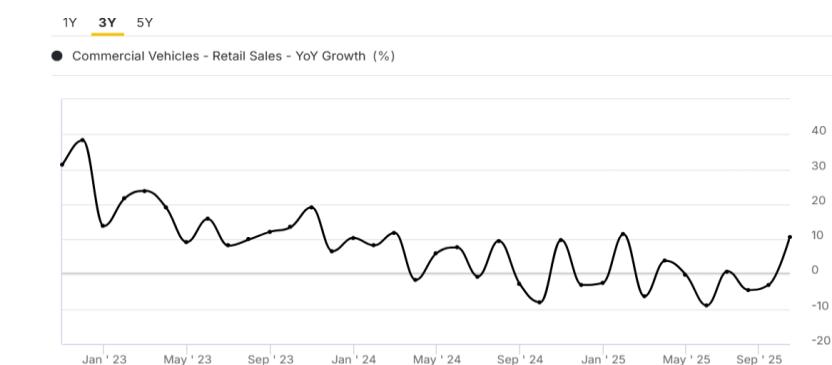
Urban Demand

Urban demand also **strengthened, though in a more selective way**. Passenger vehicle sales logged their strongest growth in nine months and domestic air traffic expanded, signalling healthier discretionary spending at the upper end of the income distribution. At the same time, the moderation in digital-payment and credit-card growth suggests more cautious, staggered spending patterns among urban households, rather than an across-the-board consumption boom.

Demand Outlook

Combined, these indicators show consumption entering the festive quarter from a position of strength but on a two-speed track – rural demand doing most of the lifting while urban demand improves more gradually. Record-low headline inflation of around 0.25% and GST-driven price cuts are supporting real incomes, yet much of the current impulse is policy and festival-linked, implying some risk of normalisation once these supports fade. High-frequency indicators in the coming quarter will be critical in determining whether the recent uptick in domestic consumption is sustainable or merely transient.

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

Industrial momentum in October was mixed. The **Eight Core Industries index was flat YoY**, with robust growth in fertilisers, steel, cement and refinery products offset by contractions in coal, crude oil, natural gas and electricity output. Manufacturing PMI readings near 59 still point to solid expansion in order books and production, but energy-sector weakness and softer external demand are emerging as clear speed-breakers.

Services Sector

Services continued to **anchor growth**. PMI-Services eased from September's multi-year high but remained comfortably in expansion around 59, indicating ongoing strength in domestic-oriented trade, transport, finance and business services even as export-facing segments cooled. High-frequency indicators such as GST e-way bills, port cargo and airline traffic remain resilient, though weaker electricity usage and slower digital-payment growth flag pockets of softness on the margin.

Industrial & Services Outlook

Overall, October's high-frequency data describe an economy operating above trend, with manufacturing and services both aided by festive demand, GST-related cost relief and supportive financial conditions. At the same time, flat core-sector output, slumping power generation and a record trade deficit underscore capacity and external-sector constraints that could cap the pace of expansion if left unaddressed. The balance of evidence suggests a gradual shift towards more investment-led growth, but sustaining momentum will require easing energy bottlenecks and managing global demand shocks carefully.



Economic Heatmap



Key:

V Good
Good
Ok
Bad
V Bad

Cautious Optimism

India's macroeconomic backdrop reflects nascent domestic momentum amid external headwinds. The policy repo rate is steady at 5.50% with a neutral stance, as the RBI balances growth support with price stability. Inflation has undershot expectations, with FY26 CPI now projected at 2.6% on the back of GST rationalisation and easing food prices, while core inflation remains contained. Growth remains domestically driven, with real GDP projected at 6.8% for FY26 and Q2 GDP expanding 8.7% YoY on a nominal basis, supported by consumption and investment. High-frequency indicators show early signs of an uptick in domestic demand, and if this sustains, the capex cycle, which is already showing nascent revival, could gain further traction. The macro position is stable, with fiscal deficit estimated at the target 4.4% of GDP for FY26 and liquidity conditions in surplus with the RBI actively managing liquidity, albeit a transitory rising CAD amid US tariff pressure and heavy gold imports. Even as inflation softens, the MPC paused further easing to let earlier actions transmit amid global and tariff-related risks. Going forward, there is certainly some headroom for the RBI to cut rates further by 25bps, in order to further stimulate domestic growth. Overall, the outlook remains one of 'cautious optimism', underpinned by low inflation, strengthening domestic demand, comfortable liquidity, and stable fiscal conditions, though external geopolitical uncertainties and a general global slowdown warrants vigilance.

Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.51%	1.88%	-6%	10.8%
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-2%	8.6%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	2%	-1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	-14%	2%	0%	9%	5%	4%	6%	54.8%
2006	6%	2%	11%	5%	-14%	8%	13%	5%	14%	12%	18%	-2%	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%	15%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.7% 	14.8% 	14.8%
Standard Deviation	21.6% 	26.2% 	30.1%
Avg Months with +ve return / yr	7	8	6
Avg Months with -ve return / yr	5	4	6
Avg Months with >6% decline / yr	1	2	1
No of Years	26	20	12

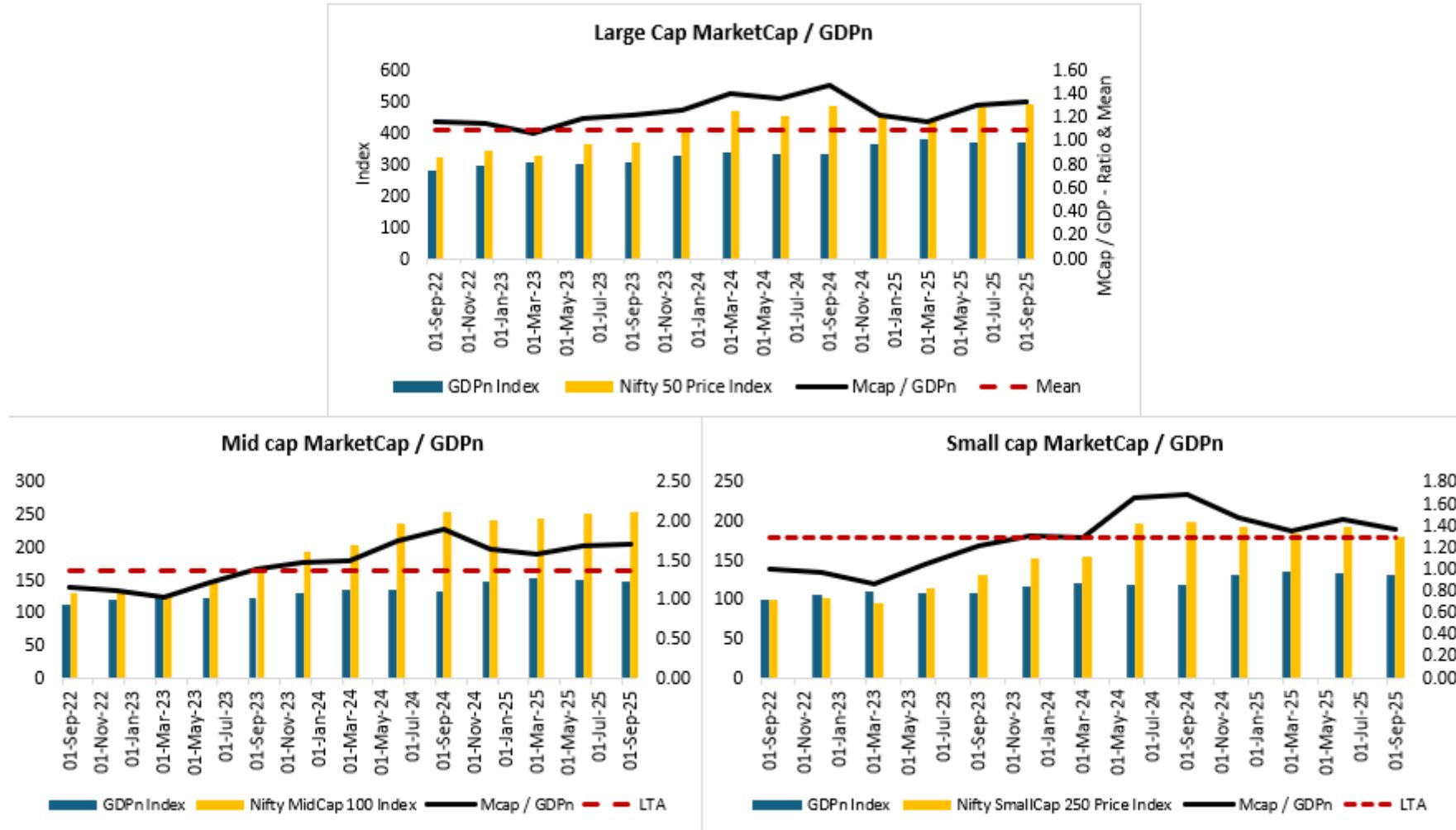
Tempered Down Expectations

- In the last 12 months, the Nifty 50 Index has risen 8.62%, reflecting a clear recovery phase. Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years. Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. Similarly Mid and Small Caps registered a CAGR of ~15% each over the past ~20 years and ~12 years respectively. We expect returns to improve going forward, supported by the ongoing uptick in domestic demand as the festive season gathers momentum, aided by recent tax rate reductions and the introduction of a simplified, lower GST regime. The capex cycle, too, is beginning to show early signs of revival. However, the sustainability of this recovery will hinge on the sustainability of domestic demand and the eventual outcome of the final US trade negotiations.
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.
- As per TTM PE valuations, Large Cap and Mid Cap seem to be Fairly-valued and Small Cap are overvalued.

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.06	23.84	-7%	Fairly Valued
Mid Cap	33.18	32.35	3%	Fairly Valued
Small Cap	29.01	26.33	10%	Overvalued



Buffett Indicator



Nidty 50 Index EPS estimates for FY26/FY27 had seen the steepest cuts in the past 6 years, barring the Covid phase. The **present valuations remain high as evidenced in the premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 18% & 20%, whereas Small Caps are currently trading at premium of approx 6%** (as per Buffet Indicator), as on 24th November 2025.



India's Q2 FY26 Corporate Earnings – Sectoral Analysis

Overview:

India's corporate earnings in Q2 FY26 showed broadly positive momentum, with domestic demand helping several sectors post healthy growth despite global headwinds. Aggregate earnings grew at a low double-digit pace year-on-year, though performance varied significantly across sectors. Robust festive-season demand, easing input costs, and policy supports (e.g. GST rate rationalizations) provided tailwinds in sectors like Automobiles, Cement, and Oil & Gas, while prolonged monsoons and external sluggishness weighed on FMCG, Infrastructure, and export-oriented industries. Notably, oil marketing companies, agro-chemicals, PSU banks, and building materials delivered positive surprises in Q2, whereas consumer durables and power utilities underperformed expectations. The table below illustrates the divergence in sector-wise revenue growth and profitability for the quarter, setting the stage for a deep-dive analysis into each sector's trends, drivers, and outlook.

Core Nifty 50 earnings grew in low double digit

Nifty-50	Sales		EBITDA		EBITDA Margin (%)		PAT	
	Sep-25	% YoY	Sep-25	% YoY	Sep-25	YoY (bps)	Sep-25	% YoY
Sectors (INR mn)								
Auto and Auto Anc. Ex TMPV	9,65,157	15.5	1,38,069	2.8	14.3	-177	1,15,171	12.6
Capital Goods	7,37,472	11.5	85,017	9.7	11.5	-19	52,122	16.2
Cement	2,89,813	24.6	34,605	47.7	11.9	186	20,361	28.0
Consumer Durables	2,50,653	18.0	31,234	17.3	12.5	-7	19,996	10.9
Consumer Discretionary	47,241	17.1	8,132	26.9	17.2	134	4,508	6.5
FMCG	4,42,024	1.7	1,17,407	1.3	26.6	-10	87,447	0.0
Pvt Bank	7,41,363	4.9	6,09,024	6.4	82.1	115	3,93,431	1.3
NBFC	60,276	10.3	31,011	13.0	51.4	124	23,072	11.4
PSU Bank	4,29,841	3.3	3,19,041	8.9	74.2	384	2,01,597	10.0
Insurance	1,01,380	9.6	NA	NA	NA	0	26,690	12.0
Healthcare	3,71,033	9.4	90,539	3.5	24.4	-140	63,067	4.3
Information Technology	17,89,136	5.4	4,17,159	6.3	23.3	19	2,78,325	2.7
Metals & Mining	12,86,213	11.0	1,97,625	37.9	15.4	299	74,112	112.5
Oil, Gas & Consumable Fuels	32,21,153	7.4	7,02,987	6.7	21.8	-14	3,22,756	-7.3
Power	5,20,526	-3.3	2,05,432	-4.8	39.5	-65	81,266	4.6
Services (Logistics, Ports & Aviation)	91,675	29.7	55,503	27.0	60.5	-128	31,091	27.2
Telecommunication	5,21,454	25.7	2,95,614	35.3	56.7	401	67,917	60.4
Total	1,29,11,351	8.0	33,64,860	6.7	26.1	-30	17,91,212	1.0
Total ex financial	1,15,78,492	8.3	24,05,785	6.4	20.8	-37	11,46,422	-1.0
Total ex financial, commodity, TMPV, Eternal & Indigo	60,26,183	10.0	14,78,711	10.2	24.5	3	8,21,270	9.7



Q2 FY26 Results Analysis:

The revenue growth spectrum ranged from double-digit expansion in Autos, Retail/Discretionary, and Capital Goods to flat or negative growth in sectors like Utilities and Real Estate/Construction (impacted by seasonal factors). This reflects strong domestic consumption in certain pockets versus weather and price-related slowdowns elsewhere.

BFSI (Banking, Financial Services & Insurance):

The financial sector saw steady but unspectacular growth in Q2 FY26. **Bank lending** picked up pace, with loan growth improving to ~11% YoY in Q2 from ~10% in Q1. Net interest margins (NIMs) appeared to have bottomed out; banks generally held NIMs stable and are poised for gradual improvement from Q3 onward as expensive deposits get repriced lower. Asset quality remained healthy – credit costs were stable and gross NPAs continued to trend down, so provisions were well-contained. **Life insurers** delivered a strong quarter despite regulatory noise; industry individual premium (APE) grew ~6% YoY in 1H FY26 (on a high base) and value of new business (VNB) margins expanded ~120 bps YoY to ~21.3%. This was achieved through favorable product mix shifts and cost controls that offset the loss of input GST credit on insurance premiums. **Asset managers** (AMCs) also posted solid operational performance with double-digit revenue growth on rising equity assets, though their net profits were flat-to-down due to weak treasury income. **Outlook:** Near-term, banking sector earnings are set to accelerate as credit growth inches up and margins expand moderately – H2 is seasonally stronger for loan demand, and recent GST tax cuts on smaller vehicles and consumer goods could spur credit offtake. In the medium term, the BFSI sector is expected to sustain mid-teens profit growth, underpinned by improving credit uptake, resilient financial metrics, and expanding insurance penetration. Analysts forecast ~15% CAGR in sector earnings over FY26–28, reflecting this broad-based optimism.

Information Technology (IT):

Q2 FY26 was subdued for Indian IT services, a departure from the usual seasonal strength. Revenue growth at the top IT firms remained in the low single-digits – most large caps managed only ~1%–2.5% QoQ growth in constant currency (and a few mid-single-digit YoY), as clients curtailed discretionary tech spending amid macro uncertainties. The Telecom-Media-Tech (TMT) vertical was particularly soft, and deal ramp-ups were slower in some cases. On the positive side, order bookings (total contract value) stayed robust, supported by clients' vendor consolidation and efficiency-focused programs. Many IT companies even **raised the lower end of their FY26 revenue guidance** by about 100 bps, signaling some optimism, though they kept the upper end unchanged given persistent caution in the demand environment. Profitability surprised on the upside – **EBITDA margins** expanded sequentially by 0.6 to 1.6 percentage points across several firms, aided by operational efficiencies, cost controls (e.g. lower hiring and travel costs), and rupee depreciation benefits. As a result, net profits saw slight growth (~4% YoY aggregate for the sector) despite the tepid top line. **Outlook:** In the near term, IT majors indicate that challenges will persist – clients in BFSI and retail are still delaying projects and optimizing spend, which will likely keep revenue growth muted for a couple more quarters. However, the strong deal win momentum and large order backlogs offer comfort that once macro headwinds abate, a demand rebound could materialize. In the medium term (FY27 and beyond), the sector is cautiously optimistic: as deferred projects resume and new tech budgets for digital transformation kick in, Indian IT could see a more **constructive growth environment**. For now, management commentary remains focused on cost discipline and mining existing clients, with an eye on FY27 for a potential inflection.

Automobiles:

The auto sector was a bright spot in Q2, extending its recovery with strong volume-led growth. Auto OEMs (excluding tractors) under coverage reported revenue growth of about **15% YoY**, driven by better vehicle sales across segments and improved realizations (richer model mix). Demand was robust for both passenger vehicles (helped by new model launches and easing supply constraints) and commercial vehicles (as economic activity picked up), while two-wheeler sales showed early signs of revival. Sector EBITDA increased ~12% YoY, translating to largely stable operating margins – higher raw material costs began creeping in, but this was offset by **operating leverage** and cost efficiencies. Net profits rose ~11–12% YoY in aggregate, a tad below consensus expectations due to a couple of companies seeing one-off impacts (e.g. an OEM taking notional investment losses, another facing lower other income). Compared to Q1, most automakers saw an uptick in both sales and margins as the festive season production ramp and price increases kicked in. **Key drivers:** Softer commodity prices until Q2 (especially steel and rubber) provided a margin cushion, though managements flagged some raw material inflation returning in H2. New product launches and premiumization (higher SUV and premium motorcycle mix) also boosted realization per vehicle. **Outlook:** Near-term, automakers are cautiously optimistic – the upcoming quarters (over the near term) could see a marginal hit to margins from rising input costs (steel prices have inched up), but this should be partly offset by continued volume growth and better product mix. With the wedding and festive season demand in H2 and possible incentives (like the GST cut on smaller vehicles announced), sales momentum is expected to remain healthy. In the medium term, the auto sector's earnings outlook remains strong as the cycle turns up: easing interest rates, a pickup in rural demand (for two-wheelers and tractors), and operating leverage from higher capacity utilization should support profitability even if commodity costs normalize.

Fast-Moving Consumer Goods (FMCG):

Q2 was muted for consumer staples, with the FMCG sector delivering only ~1-5% YoY revenue growth in aggregate. After a decent Q1, demand softened notably in September due to **GST reforms impacting trade inventory** (distributors reduced offtake ahead of tax structure changes) and an extended monsoon dampening rural sales. Volume growth was largely flat to low-single-digit for most staple companies, as **intense competition** (especially in personal care categories) and weak consumer sentiment in mass segments persisted. Operating margins were under slight pressure – even though input costs for key commodities (palm oil, crude derivatives, etc.) were relatively stable, companies ramped up trade promotions and consumer offers, and had higher expenses in some cases, leading to EBITDA up only ~1-2% YoY. Within the broad FMCG space, however, **sub-segments diverged**: alcoholic beverages and premium discretionary products outperformed staples. For example, leading alcobev players saw ~12% YoY revenue growth and an impressive ~27% jump in EBITDA on the back of premiumization and a favorable policy change (the reopening of a large southern state market). Paint companies, though clubbed under discretionary, also showed signs of revival – industry leader Asian Paints surprised with ~11% volume growth, indicating that the intense competitive war in paints may be abating. **Outlook:** FMCG companies are hopeful for a better H2. Over the near term, a combination of **moderating inflation** and improving urban demand (with the post-monsoon festival and wedding season) could lift volumes. Key to watch will be rural demand – so far recovery there has been patchy, but a good winter crop and government support could spur rural consumption. In the medium term, the sector remains structurally positive: with inflation cooling, companies should regain pricing power and focus on premiumization, which along with cost efficiencies should gradually restore margins. Managements underscore that the worst of the margin pressure is likely past, and categories like alcobev and paints are set for sustained growth, while core staples should see a gradual recovery if consumer confidence improves.

Consumer Discretionary & Retail:

Consumer discretionary segments had mixed fortunes in Q2 FY26. In **Retail**, results reflected resilience in pockets of demand despite some transitory headwinds. Jewelry retailers, for instance, managed to post steady sales growth – market leader Titan delivered a stable performance even amid record-high gold prices, thanks to steady festive demand, whereas a smaller eastern India jeweler saw a dip due to the Shraddh period and heavy rains, only to rebound strongly in October. **Fashion apparel chains** continued to grow revenues in high-single digits to low teens; one premium retailer (Trent) sustained its growth despite a muted overall apparel market, and a value retailer (V-Mart) achieved strong 11% same-store sales growth by driving internal efficiencies and reducing losses in an acquired online subsidiary. **Quick-service restaurants (QSR)** faced a challenging environment as consumer spending on eating-out remained cautious. Most QSR players saw modest growth or declines, but a few outliers stood out: Domino's (Jubilant Foodworks) recorded high single-digit like-for-like sales growth, leveraging its delivery channel strength, and Restaurant Brands Asia (Burger King India) managed to improve margins through supply chain efficiencies. On the other hand, some franchise operators (for Pizza Hut, etc.) struggled with weak dine-in traffic. Meanwhile, **consumer durables** (e.g. appliances) had a seasonally weak quarter – cooling products like air conditioners saw poor sales after an unusually mild summer and the early monsoon left channels with excess inventory. Major AC makers reported YoY revenue declines and had to offer discounts to clear stock. Smaller home appliances and electronics fared better, sustaining steady growth, but overall the durables segment's EBITDA fell ~12% YoY with a notable margin dip. **Outlook:** Near-term, discretionary demand is expected to pick up with the festive and wedding season (especially for jewelry, apparel, and premium QSR offerings). Retailers are optimistic that improved footfalls and some easing in inflation will spur consumer spending in H2. However, companies remain cautious on segments like ACs – channel inventory buildup could continue to weigh on aircon sales until the next summer season, though the upcoming change in energy efficiency ratings (BEE norms from January 2026) may prompt a **pre-buying uptick** as dealers clear old stock. In the medium term, the outlook for consumer discretionary is positive, albeit with differentiation: urbanization, rising incomes, and brand penetration should drive growth for organized retail and premium products, whereas value retail and QSR will rely on expanding their reach and menu innovation to tap into the mass market. A sustained recovery in consumer confidence, especially in rural areas, will be crucial for broad-based discretionary spending to accelerate.

Pharmaceuticals:

The pharma sector had a **positive Q2 FY26**, with revenue growth of about **15% YoY** for the companies under coverage. Export markets were the key driver: sales in the US market grew ~9.8% YoY despite some high-value drugs (like generic Revlimid) seeing lower contributions, as companies offset these with new launches (e.g. generic Entresto) and market share gains in other molecules. Revenues from other international markets (ex-US) were robust too, supported by geographic expansion and a broadening portfolio. The **domestic Indian pharma business** continued its steady trajectory with ~10% YoY growth, maintaining momentum from Q1. Chronic therapy areas (cardiac, anti-diabetes, etc.) outperformed, aided by price increases and new product introductions, whereas some acute therapy sales were slightly affected by the GST tax structure transition (which impacted distribution temporarily). Importantly, sector margins held up well. Gross margins were flat YoY around 67-68%, and EBITDA margin for the sector stayed ~26.5%, roughly unchanged from last year. Companies managed this even as certain costs (like wages and R&D) rose in mid-teens, through **cost optimization initiatives** and operating leverage from higher sales. One outlier was Dr. Reddy's, whose margin contraction dragged the average slightly, but overall profitability was stable. Net profits for the pharma universe jumped ~22% YoY in Q2, indicating improved operating performance and some one-time gains for select firms. **Outlook:** Near-term, pharma companies expect export momentum to sustain – the US generics environment, while competitive, is seeing fewer price erosions now, and Indian companies have a strong launch pipeline. Additionally, emerging markets and branded exports should continue growing. On the domestic front, the transition to the new GST regime on trade discounts should sort out by Q3, restoring normalcy in the supply chain. **In the medium term**, the sector's prospects are solid: an aging population and rising chronic disease burden support high-single-digit growth in domestic pharma sales, and companies are increasingly focusing on complex generics, specialty drugs, and contract development & manufacturing (CDMO) opportunities globally. With margins steady and productivity improving, analysts expect healthy mid-teen earnings growth from pharma, albeit with quarterly volatility due to factors like product launch timing and foreign exchange movements.

Capital Goods (Industrials):

Industrial and capital goods companies delivered an in-line performance in Q2, reinforcing the uptrend in India's capex cycle. Sector revenue grew ~12% YoY, driven by strong execution on order backlogs – especially in areas like power T&D equipment, engines, and rail engineering. Many firms saw double-digit revenue gains as they worked through robust order books; for instance, **Hitachi Energy** and **Cummins India** (key players in T&D equipment and engines, respectively) each grew ~18–27% YoY this quarter (outperforming estimates). Overall, operating margins for the capital goods universe expanded about 40 bps YoY to 10.8%. This mild margin improvement was due to a favorable project mix (more execution of higher-margin orders) and benefits of scale. A few companies with niche products saw substantial margin jumps – e.g. a government electronics unit and an engine maker expanded their margins by several percentage points on better mix and cost controls. Order inflows remained a mixed story: aggregate new orders were up ~20% YoY in Q2 (excl. a large one-off order for a major contractor). Notably, if we exclude that big export order (~₹756 bn for L&T), the rest of the coverage saw flat YoY order inflow, indicating some **softness in domestic ordering** – likely due to delays in tendering and the general election-related model code of conduct approaching. Even so, order books are at record highs in most companies, providing strong revenue visibility. **Outlook:** In the near term, capital goods firms expect execution to further **accelerate in H2**, as a bunch of projects reach billing milestones and the weather is more conducive (many projects were delayed by monsoons in H1). Margins may see continued stability or slight improvement as commodity prices (steel, copper) remain range-bound and companies benefit from operating leverage. The sector's medium-term outlook is very robust: government infrastructure spending on rail, defense, renewables, and electrification remains in high gear, and private capex is gradually picking up in areas like chemicals and electronics manufacturing. These drivers, combined with a favorable product mix, position the industrial sector for a healthy growth trajectory over FY25–28. Analysts and company guidance generally point to double-digit revenue CAGR and improving profitability over the next 3–4 years, underpinning bullish sentiment on capital goods.

Metals & Mining:

Metals companies saw improved earnings in Q2 thanks to cost tailwinds, even as metal prices were under pressure. In **steel (ferrous metals)**, realisations were softer – global steel prices fell amid a glut of cheap exports from China, compressing spreads for Indian mills. Despite this, most steel producers posted YoY profit growth because input costs dropped significantly: coking coal prices were much lower than last year, and companies also pushed higher volumes. This combination of **lower raw material costs and higher output** boosted steel EBITDA, offsetting the price decline. Domestic steel demand stayed strong (+7.8% YoY in Apr–Oct 2025) on infrastructure and auto sector uptake, which helped mills run at high capacity. Going forward, steel makers caution that Q3 margins might shrink a bit as coking coal costs have ticked up and prices remain subdued – however, they aim to compensate through further volume growth, better product mix (more value-added steel), and ongoing cost reduction initiatives. Meanwhile, **non-ferrous metal** players (aluminum, zinc, etc.) had a solid quarter. Firm base metal prices in early Q2 and increased volumes contributed to revenue growth. These companies also benefited from efficiency moves, such as shifting to more renewable power to cut energy costs. Aluminum producers in particular saw support from global market dynamics: aluminum prices have been underpinned by lower LME inventories and supply issues (smelter disruptions in Europe and caps on Chinese output). Overall, the Metals & Mining sector's Q2 revenues rose about 9–11% YoY, and EBITDA jumped ~20–38% YoY, with aggregate net profit more than doubling year-on-year (aided by the low base of last year's weaker profits). **Outlook:** Near-term, the metals outlook is cautiously positive. The second half is seasonally stronger for steel demand (construction activity rises post-monsoon), which should support volumes. However, global headwinds persist – most metals are expected to be in at least a slight surplus globally, which could cap price upsides. Indian producers remain shielded to an extent by domestic demand resilience. For ferrous, any margin compression from cost inflation in Q3 might reverse if steel prices stabilize and as volume growth continues. In the medium term, the metals & mining sector could see relatively stable performance: while global prices may stay range-bound, Indian demand (from infrastructure, autos, and housing) is on a secular uptrend. Companies are also expanding product portfolios (e.g. specialty steel, value-added aluminum) to protect margins. Barring another surge in input costs, the sector's earnings are expected to be on a smoother trajectory compared to the past commodity cycles, with returns bolstered by more efficient operations.

Energy – Oil & Gas:

Q2 FY26 was a mixed bag for the energy sector, reflecting divergences between downstream and upstream segments. **Downstream oil companies** (refining & marketing) posted strong results. With crude oil prices relatively stable, state-run oil marketing companies (OMCs) took advantage of robust refining margins and even recorded inventory gains as product prices rose during the quarter. This was a stark contrast to the losses OMCs suffered a year ago – consequently, their profits jumped sharply YoY. Healthy auto fuel demand domestically and improved retail fuel pricing (after earlier price freezes) meant marketing margins were also solid. Additionally, the government approved a subsidy for LPG (cooking gas) to compensate OMCs, which will be paid out over the coming year, further shoring up their outlook. On the other hand, **upstream producers** (oil & gas extraction) had a weaker Q2. Companies like ONGC and Oil India were hit by a combination of higher operating costs and lower gas prices/volumes, leading to earnings misses. Domestic natural gas prices were softer and allocation of cheap domestic gas to city distributors was cut, forcing them to buy expensive LNG – this hurt volumes and margins for city gas distribution (CGD) firms as well. Meanwhile, **gas utility and transmission** (e.g. GAIL) saw declines in petrochemical profits (due to global downturn in petrochem spreads) and lower gas throughput on some pipelines. One bright spot was LNG importation – Petronet LNG reported healthy profit growth thanks to strong regasification volumes and better marketing spreads. **Outlook:** In the near term, the Oil & Gas sector should continue to benefit from domestic consumption strength. Refiners are entering Q3 with still-elevated gross refining margins, though these may normalize somewhat. The timely reimbursement of LPG subsidies will bolster OMC cash flows and reduce under-recovery concerns. Upstream companies face a challenging environment unless oil prices rise – their gas segment realizations are capped by administered pricing and recent cuts, so any earnings upside would have to come from oil price increases or cost cuts. Over the medium term, India's energy demand trajectory (for fuels and gas) is robust, which bodes well for refiners and marketers – volumes will keep growing. OMCs are diversifying into petrochem and EV charging to future-proof margins, which could add incremental profits. Upstream firms are focusing on improving recovery rates and exploring new fields, but structural growth there is modest. Overall, the energy sector's profitability is expected to be **stable to improving**: downstream will likely see better cumulative earnings (compared to the past volatile years) due to policy support and pricing freedom, while upstream remains the swing factor tied to global crude trends.



Power & Utilities:

The power sector had a relatively soft Q2 as weather patterns dampened electricity demand. All-India power consumption was up only ~3% YoY, a modest uptick but much better than the unusual -1% YoY decline seen in Q1 (when cooler weather and rains curbed demand). Peak demand did hit a new high of 230 GW in August 2025, showing the system's growing capacity, but overall, an extended monsoon into October kept the need for power (especially cooling demand) lower than normal. **Merchant power prices** fell accordingly – average exchange prices were around ₹3.8 per kWh in Q2, about 14% lower YoY. In terms of financials, power generation and utility companies had mixed results. Excluding one-off gains for Coal India last year, the sector's PAT was up only ~4% YoY. Many generators saw flat or slightly lower profits due to higher fuel costs (for those relying on imported coal) and the effect of lower short-term power tariffs. However, a few utilities shone: for example, CESC (an integrated utility) grew PAT ~19% YoY by cutting distribution losses in certain circles and seeing demand uptick in its licensed areas. A common theme was that a lot of capacity – both renewable and conventional – is scheduled to **commission in the second half** of FY26, which temporarily inflated costs in H1 but will add to revenues in H2. Grid companies like Power Grid had subdued asset addition in H1 but plan a large jump in infrastructure rollout in H2. **Outlook:** The near-term outlook for utilities is improving. As monsoon effects fade, Q3 and Q4 should see higher power demand (seasonal pickup in agriculture and then summer cooling demand by end-Q4). The bunching of project commissions means generation volumes will rise – companies are set to bring significant new capacity online (including renewables, where India already achieved 50% of its installed capacity from non-fossil sources, well ahead of target). This new capacity will start contributing to earnings and also reflects long-term growth potential. Over the medium term, the power sector is poised for steady expansion driven by India's push for renewable energy and electrification. Utilities are investing heavily in solar, wind, and grid upgrades. While this is capital intensive, it promises sustainable growth – both in volumes and regulated returns. Margin-wise, power generators' profits will depend on fuel cost pass-through and efficiency, but distribution reforms (like privatization of discoms and smart metering) could gradually reduce losses in the system, benefiting integrated players. Overall, expect moderate profit growth ahead, with green energy initiatives and steady demand as key pillars of the power sector's story.

Real Estate & Construction:

The real estate sector (especially residential realty) continued its strong upcycle in Q2, even as construction EPC companies had a slower quarter. **Residential Real Estate:** Housing demand remained robust across top cities, undeterred by monsoon seasonality. Developers in our coverage saw record sales – in fact, for 8 of the top 11 listed players, H1 FY26 was the best first half ever for pre-sales, totaling ₹731 billion (up 47% YoY). Sales were particularly strong in Bengaluru and other key markets, indicating genuine end-user as well as investor demand. Low mortgage rates (relative to history), sustained wage growth in IT/financial hubs, and limited new inventory in certain micro-markets have kept an upward pressure on both volumes and prices. While revenue recognition for real estate (which depends on project completion) was up only modestly (~6% YoY in Q2 as per reported financials), the cash flow picture via pre-sales is extremely healthy. Developers also maintained or improved their operating margins on projects delivered, thanks to steady pricing and cost management, yielding a ~3-4% YoY rise in aggregate PAT for real estate companies. **Construction/Infrastructure:** In contrast, infrastructure EPC firms (roads, highways, etc.) had a **weak Q2**. The extended and intense monsoon across India delayed execution on many sites, and some companies faced client-side holdups in new project startups. As a result, several infra companies reported YoY revenue declines in Q2 (industry revenue down ~12% YoY). Profitability was mixed; a few firms managed to protect margins, but many saw lower absorption of fixed costs leading to PAT declines (sector PAT down ~12% YoY). Concerned by H1 underperformance, a number of companies revised down their full-year revenue guidance – for example, **NCC Ltd** even withdrew its FY26 guidance, and others like PNC Infratech, Dilip Buildcon, HG Infra, Ashoka Buildcon, and KNR all cut their expected revenue growth ranges. On the bright side, a couple of companies (with niche focus or strong order books) maintained guidance, anticipating a catch-up in H2. The overall order pipeline remains solid: the National Highway Authority and other agencies continue to tender out projects, and some big-ticket awards (like TOT highway bundles and bullet train works) are on the anvil. A leading toll-road player, IRB Infra, for instance, has a robust ₹320 bn order book and sees a ₹550 bn bidding pipeline, underpinning confidence for a rebound. **Outlook:** Over the near term, real estate developers are bullish that sales momentum will sustain – the festive season in Q3 and continued urban demand (especially for mid-premium housing) should support bookings. Developers are launching new projects to capitalize on the demand, though they remain mindful of not oversupplying. Homebuyer affordability is still reasonable, and with developers offering attractive payment plans, the **real estate upcycle** appears intact. For construction EPC, the expectation is that execution will **sharply rebound in H2 FY26** once the weather is favorable and project sites mobilize fully. Many companies anticipate Q4 in particular to be very strong (as government agencies also push to meet fiscal-end targets). This back-ended growth implies some margin improvement too as fixed costs get spread. In the medium term, both real estate and construction are poised for robust growth. Real estate benefits from structural housing demand (favorable demographics, urbanization, and shift from unorganized to branded developers), and the financial health of major developers is the best it has been in a decade – giving them capacity to scale new projects. Construction/infrastructure, on the other hand, will be propelled by the government's sustained capex drive (roads, rail, metro, airports) and the eventual revival of private capex in industrial projects. Companies with strong balance sheets and order books (3-4x book-to-bill ratios) are set to gain disproportionately. Thus, while execution hiccups may intermittently occur (as seen in Q2), the overall growth trajectory for the sector remains upward.



Conclusion:

- Q2 FY26 showcased a deepening of India's corporate earnings recovery, albeit unevenly across sectors. Domestically oriented sectors – banks, autos, real estate, capital goods – largely capitalized on sustained demand and supportive macros (government capex, easing inflation), while globally linked sectors like IT and select export manufacturers felt the pinch of external slowdown. Cost dynamics played a crucial role: sectors with input tailwinds (e.g. metals, cement, OMC refiners) enjoyed margin relief, whereas those facing rising costs or intense competition (consumer staples, utilities) saw profit growth underwhelm.
- Over the near term, the overall outlook remains positive. Multiple macro tailwinds – a likely pause or reversal in interest rate hikes, recent GST tax cuts to spur consumption, and the government's continued infrastructure push – are expected to contribute to stronger H2 performance in sectors like financials, consumer discretionary, and construction. Many companies have guided for a better second half, especially where Q2 was weather-affected. Risks from global factors (geopolitical uncertainty, volatile commodity prices) persist, but India's domestic demand is providing a cushion that should keep most sectors on a growth footing in the coming quarters.
- In the medium term, the narrative is one of cautious optimism turning into confidence. Unlike past cycles, this earnings recovery is broad-based and backed by structural reforms. Sectors such as Banking are well-capitalized and provisioning adequately, setting the stage for sustained earnings growth. Manufacturing and Industrials are riding a capex boom with the government's policies like PLI (Production-Linked Incentives) and a renewed private capex cycle on the horizon. Consumer sectors are expected to benefit from a young demographic and rising income levels; once the current consumption soft patch normalizes, companies anticipate a return to mid- to high-single-digit volume growth, which combined with better margins can drive healthy profitability.
- Overall, India Inc. enters the second half of FY26 on a solid footing. The Q2 scorecard, with its mix of "good, bad and ugly," provides valuable insights; the resilience of core sectors is evident, and even in pockets of weakness, course-correction (be it pricing actions, cost cuts, or policy support) is actively underway. Both retail investors and institutional players can take away that the corporate earnings cycle is in an upswing phase, albeit with speed bumps and a diversified sectoral approach remains key.



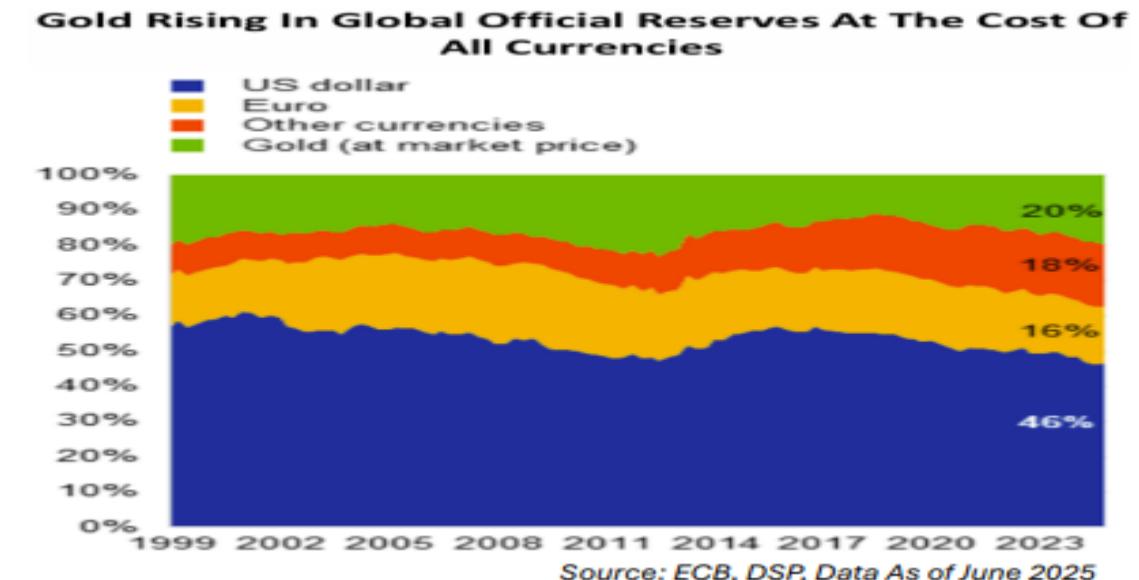
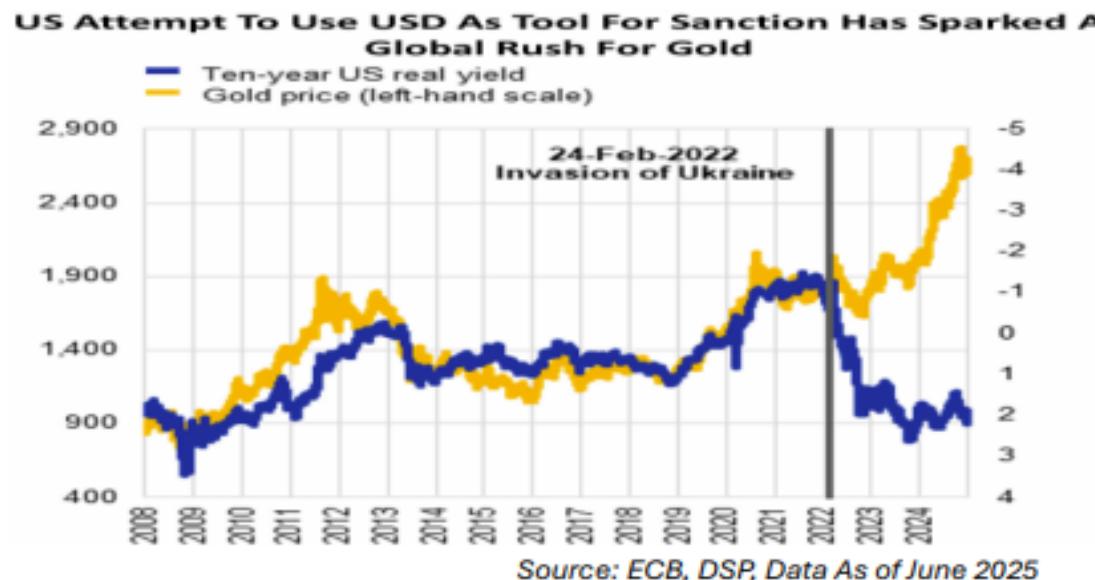
Gold



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.





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

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

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

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

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.



Strategy

Tailwinds

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

Headwinds

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

Outlook

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

Suggested Strategy

- **Neutral Equity**

Category	Stance
Large Cap	Neutral
Mid Cap	Neutral
Small Cap	Underweight

- **Underweight Gold**

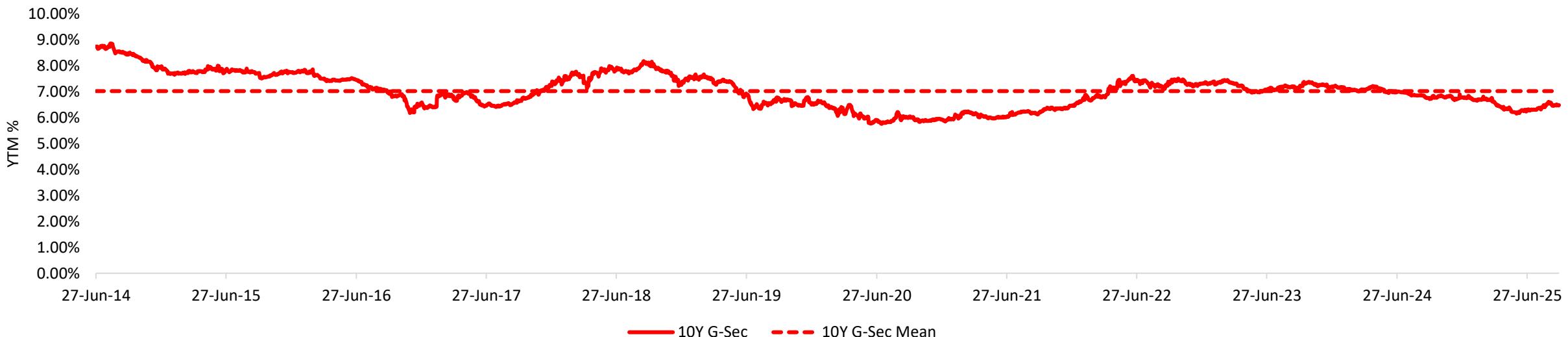
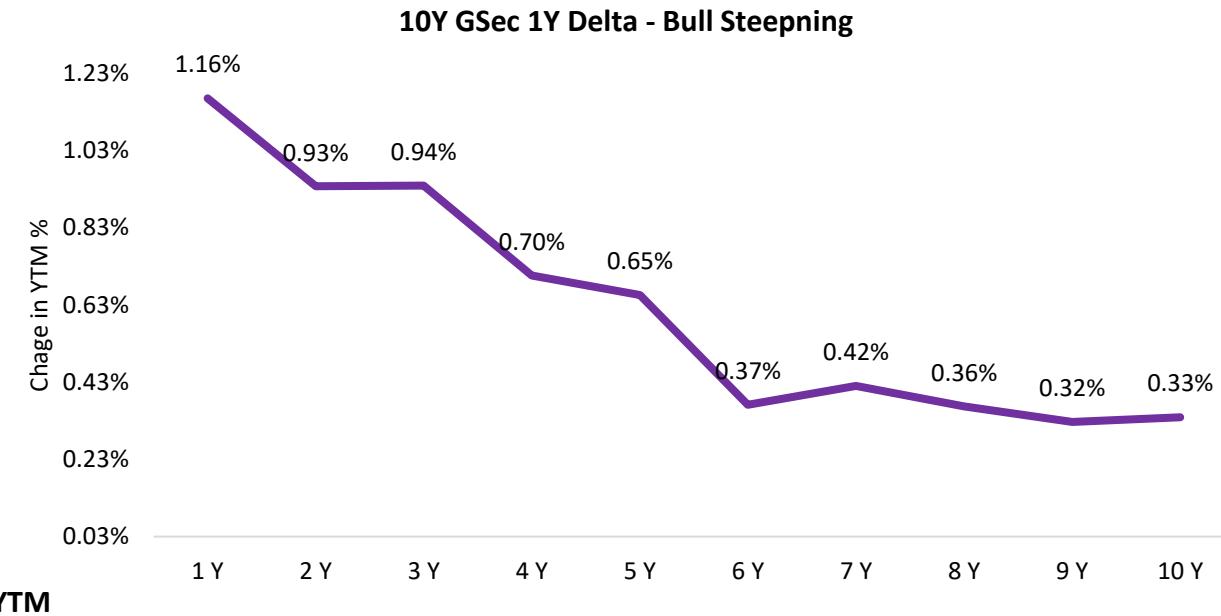
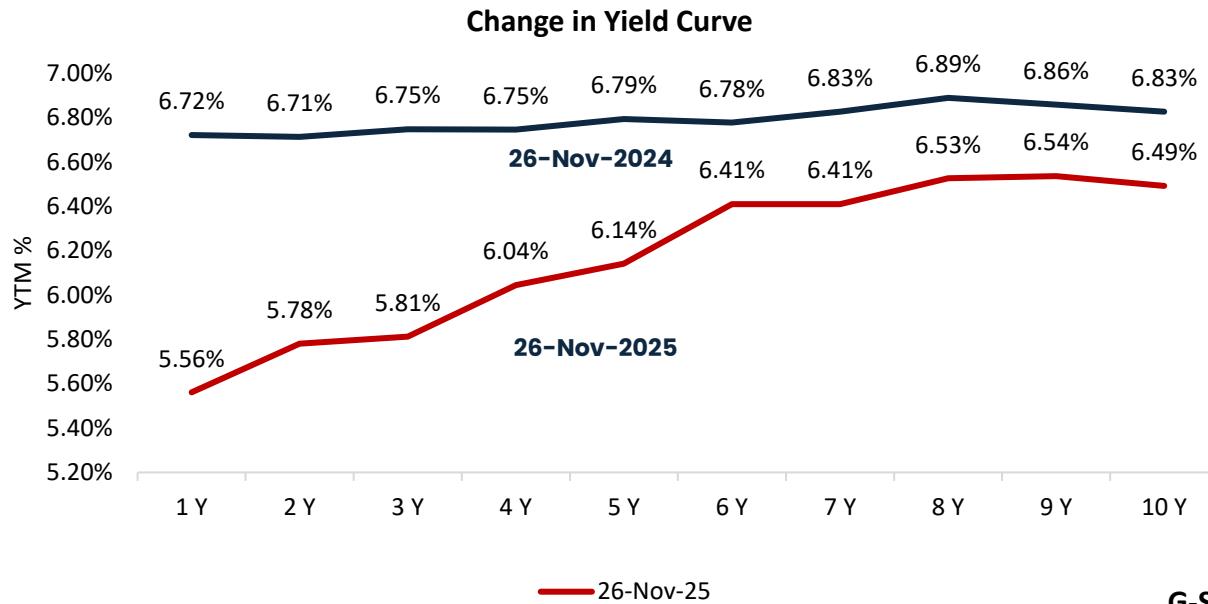


Debt Outlook





Yields Curve Dynamics





Debt Market Outlook & Strategy

Global Macro: The Return of U.S. Exceptionalism

After a brief period of dollar consolidation earlier in the year, the U.S. growth-rate differential versus the rest of the world has widened again.

Growth & Productivity Divergence

U.S. GDP prints have consistently outperformed advanced-economy peers, supported by strong capex – particularly in AI, automation, and data infrastructure – lifting productivity expectations. The rate differential may have compressed marginally due to the Fed's pivot, but **real-rate differentials remain distinctly dollar-supportive.** Meanwhile, **Europe and Japan have exhibited anaemic growth momentum, depressing their yield curves** and reinforcing global capital flows into USD assets.

A Sticky Dollar Smile

The “Dollar Smile” is back in play – **the U.S. is benefitting simultaneously from relative macro strength and safe-haven flows amid geopolitical uncertainty. This upgrades the USD's carry-adjusted attractiveness, even in a soft-landing scenario. For India, this implies a mechanical depreciation pressure on INR through the trade-weighted channel, regardless of domestic fundamentals.**

India's External Accounts: Structural Balance-of-Payments Frictions

The INR's depreciation is not indicative of a crisis but a reflection of India's structural BoP profile.

CAD Dynamics – India's current account deficit (CAD) has widened modestly due to – an inconclusive and elusive US tariff deal, Higher gold imports, facilitated by resilient domestic incomes; Energy import elasticity, with crude staying range-bound despite global supply adjustments; A plateauing of services-surplus acceleration, especially in IT/ITES revenues. Even a **CAD of ~1.5–2% of GDP requires steady portfolio and FDI inflows to remain comfortably financed.** Any deceleration, particularly in FDI, where global flows have slowed, naturally pressures the INR.

Portfolio Flows: Two-Way Volatility

FPIs have shown a high beta to global risk sentiment and U.S. yields. **Equity flows remain constructive over the medium term, but debt flows have been sensitive to the U.S. curve, limiting INR appreciation phases.** India's inclusion in global bond indices (JP Morgan GBI-EM and others) is supportive, but inflows are arriving in calibrated tranches; the step-up in FX supply is gradual, not discontinuous.



RBI's Regime: Glide-Path Currency Management, Not Defence

The RBI's FX philosophy over the past 3–4 years has been to smooth volatility, not target levels. Crucially, **The RBI has permitted measured nominal depreciation to maintain INR competitiveness**. FX reserves (~USD 640B+) are used judiciously, ensuring the INR does not become a one-way bet. Intervention tends to intensify near "inflection zones" where speculative positioning deepens, but the broad signal is clear: **the INR is allowed to adjust to fundamentals. This is an important departure from earlier cycles where aggressive defence generated macro rigidities and imported monetary constraints.**

Why the INR Is Depreciating Now: The Multi-Factor Explanation

- **Yield Differentials Still USD-Positive:** Even with Fed rate cuts, real yields in the U.S. remain structurally higher than in India's G-Sec curve on a risk-adjusted basis. This keeps carry-seeking flows USD-oriented.
- **Strong Import Demand + Stable Oil:** India's domestic growth impulse (investment cycle + consumption resilience) has kept import volumes buoyant. This creates structural dollar demand, while oil has remained sufficiently high to avoid meaningful relief.
- **Corporate External Borrowing Moderation:** Indian firms' appetite for ECBs has softened, reducing a key source of USD supply.
- **A Broad-Based EM Currency Weakness:** The INR's move is consistent with the Asia ex-Japan currency complex, all of which have depreciated as the dollar regained momentum. Relative to peers, the INR's depreciation has actually been modest—reflecting RBI intervention and India's macro stability.
- **Inconclusive Indo-US trade deal:** Where currently the export tariffs are 50%.



RBI Ramps Up Defense of the Rupee

- In India, the central bank – the Reserve Bank of India (RBI) – has been working to stabilize the rupee's value against the rising dollar. Late last year, the RBI had aggressively intervened in the currency market by selling U.S. dollars to prop up the rupee, which significantly drained domestic rupee liquidity (it pulled a lot of rupees out of circulation). After that intense phase, the RBI eased off intervention for a while, especially as the global dollar weakness earlier this year reduced pressure on the rupee. During that respite, the RBI was able to **rebuild liquidity in the banking system** and even reduce some of its forward dollar liabilities (essentially refilling its coffers and preparing for future needs).
- Recently though, as the dollar bounced back, the rupee came under pressure again. In response, the **RBI stepped up its support for the rupee**, selling dollars from its reserves to prevent the rupee from falling too sharply. These operations are significant in scale and have noticeably tightened rupee liquidity in the market. Essentially, when the RBI sells dollars and buys rupees to defend the currency, it sucks rupees out of the financial system. As a result, **banking system liquidity has been shrinking**, even though the RBI had taken measures like cash reserve ratio (CRR) cuts earlier to add liquidity. In fact, by October the surplus liquidity in India's banks fell to its lowest level of the year – dropping from about ₹5.2 trillion in mid-September to ₹3.6 trillion by mid-October – despite an infusion from a June CRR reduction. According to traders, **the RBI's dollar sales drained roughly ₹1.5–2 trillion of liquidity in October alone while defending the rupee** (which hit record lows around ₹90.4 per USD). This liquidity pullback is not yet as severe as the big crunch we saw late last year, but the trend is important to monitor.
- Because the RBI is very proactive about ensuring there's enough money for banks to lend (supporting credit flow to the economy), we can expect the central bank to counteract this liquidity tightening soon. The most likely tool is **Open Market Operations (OMOs)** – where the RBI buys government bonds from the market and pays out rupees, thereby injecting liquidity. Our base case expectation is that the RBI will resume large-scale OMOs between now and the end of the fiscal year. We anticipate roughly **₹2 lakh crore (₹2 trillion) or more of bond purchases by the RBI between December and March** to replenish liquidity. In fact, analysts note the RBI may have scope to inject on the order of ₹1–1.5 trillion via OMOs initially, and some estimate about ₹2 trillion of total purchases over the next 4–5 months is plausible. If the **dollar's strength persists and the rupee remains under pressure**, the RBI might have to do even more than this (i.e. even larger liquidity infusions) to keep the system adequately supplied with funds while continuing to defend the rupee's exchange rate.
- Another development to note is that **Indian bank credit growth is once again outpacing deposit growth**, creating an "incremental credit-deposit wedge." This means the rate at which banks' loan books are growing is higher than the rate at which they are garnering new deposits. For example, by the end of October, bank loans were growing about 11–11.3% year-on-year while deposits were growing around 9.5–9.7%. In other words, demand for credit is rising faster than the supply of fresh money coming into banks. This dynamic tends to tighten liquidity in money markets (banks have less excess cash as they lend more of it out). The RBI acknowledged this "wedge" turning positive again – after a period when deposit growth had caught up, now credit expansion is pulling ahead. The bottom line is that **the period of very easy liquidity and slowing credit-deposit ratios is ending**; we are shifting back into a phase of some liquidity strain that likely needs RBI action, coupled with a bit of pressure on banks to fund increased lending.

Implications for the Bond Market and Strategy

- In summary, **we see a window of opportunity in medium-term government bonds, thanks to the RBI's likely interventions and the evolving liquidity situation**. The earlier environment could be described as "ample liquidity + improving (lower) credit-to-deposit ratio," which was very supportive for bonds. Now we are transitioning to an environment of "**tightening liquidity + worsening credit-to-deposit ratio**," which typically prompts counter-measures by the RBI. Since broad-based dollar weakness is on hold for now (the dollar isn't falling globally, as discussed), the RBI will probably continue its forex intervention to stabilize the rupee. That means, concurrently, **the RBI will need to pump in rupees through OMOs to offset the money sucked out by those interventions. This backdrop – RBI back in the bond market as a big buyer, plus a bit of stress in short-term funding – makes medium-duration Indian government bonds attractive again in the near term**.
- Why medium-duration government bonds? **When the RBI injects liquidity via OMOs, it typically buys government bonds in the 5–10 year maturity segment (banks and traders tend to sell those bonds the most to the RBI, then look to reinvest in similar maturities). That support increases demand and prices for bonds in that intermediate range**. Right now, short-term interest rates are anchored by the RBI's rate cuts and loose policy stance, while long-term rates have remained somewhat high – so the yield curve (the gap between short-term and long-term yields) is quite steep. In fact, with the RBI likely holding the **overnight rate around 5.25%** for a long period (after the last rate cut), short-term yields should stay low. Unless markets start anticipating the RBI will reverse course and hike rates (which is not expected anytime soon), this **steep yield curve will persist – short-term yields low, long-term yields relatively higher**. In such a scenario, the **best risk-reward is often in the middle of the curve: those bonds benefit from RBI buying and still have decent yields, without the high volatility of the longest maturities**.

- Indeed, we have already seen signals that **intermediate tenor government bonds are the best way to play “beta”**, i.e. to get broad market exposure as rates fall. In recent weeks, **corporate bond spreads (the extra yield corporate bonds pay over government bonds) had shrunk as there was limited new corporate bond supply**. For instance, by end-October the gap between 10-year AAA corporate bond yields and 10-year government bond yields narrowed to about 68 basis points – a significant compression. **This tightening of spreads reflected high demand and low supply of corporates. However, we expect this trend may start to reverse: as the economy moves into a busier lending season and banks' credit-to-deposit ratio is under pressure, more companies might issue bonds and banks might be less flush with funds, which would cause corporate yields to rise relative to government yields (widening spreads).** At the same time, if the RBI resumes OMOs and buys government securities, that will specifically support government bond prices. Therefore, **we prefer to take interest rate exposure via government bonds of appropriate maturities in our short-term and intermediate-term bond funds, rather than via corporate bonds. In short, to capture the general fall in yields (“play beta”), the most efficient way is through medium-maturity g-secs (government securities) at the moment.**
- In our active duration bond and gilt funds, we are positioning accordingly. We **overweight 6–8 year maturity government bonds**, as we feel this segment offers the best value under current conditions. That said, we are not extending to extremely long durations (like 30-year bonds) in a big way – the period of making outsized gains from maximum duration is likely over. Earlier in the easing cycle, when many rate cuts were ahead, holding very long-term bonds (“blunt” maximum duration bets) made a lot of sense to capture falling yields. Now, however, we are nearing the **end of the RBI's rate cutting cycle** (perhaps one last 0.25% cut is likely) and, as noted, the RBI's actions (OMOs) will mainly benefit the middle part of the curve. There is still some room for bond gains, especially if that one more rate cut comes and large OMOs happen, but we must recognize overall market appetite for risk is weaker and we're late in the easing phase. Thus, we expect the **yield curve to continue steepening even as overall yields drift lower** – meaning short-term yields could fall with RBI cuts/liquidity, but longer-term yields may not fall as much and could even inch up relative to the short end. This view was tested recently: when the **government unexpectedly reduced long-term bond supply for the second half of the fiscal year and state loan issuance also came in lower than expected, the yield curve briefly flattened (long-term yields fell a bit). But that was short-lived; the curve steepened back again, with long-duration bonds underperforming the short-to-mid segment. This reaffirmed our belief that investors are hesitant to drive long-term yields much lower from here.**

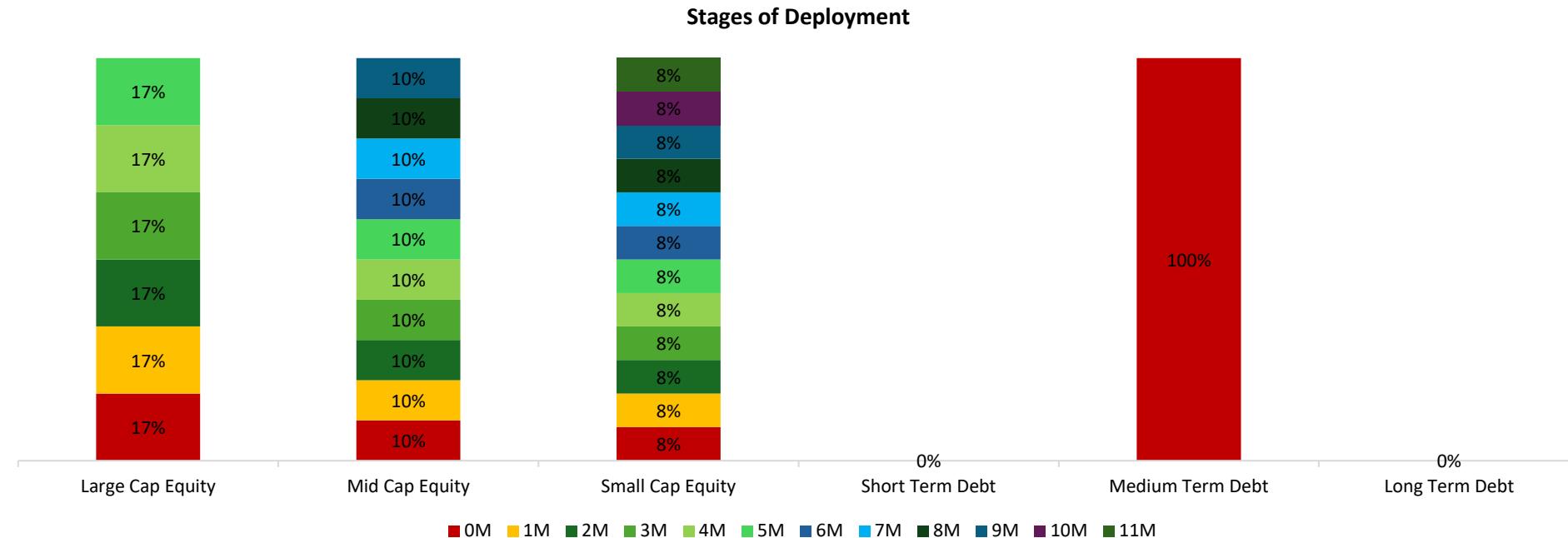
Suggested Strategy

In light of these factors, our strategy remains to focus on the belly of the curve (around 6–8 year bonds) to capture the remaining benefits of the easing cycle and RBI support, while avoiding the volatility and risks that come with ultra-long bonds. By holding a moderate duration, we aim to benefit from any further decline in yields (from that last rate cut or OMO-induced rallies), but we also guard against the scenario where long-term rates rise due to fiscal, CAD, or inflation concerns.

Deployment Strategy



Deployment



Indicators:

Indicators signaling over heated market conditions –

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

Indicators signaling fair valuation –

- VIX at 12.24 levels
- DII's have been net buyers
- Liquidity surplus
- Revival of Pvt Capex
- TTM PE for Large Cap Indices indicate fair valuation

Deployment Strategy:

Staggered Deployment over the next 12 months –

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

Optimus Prime Model Portfolio

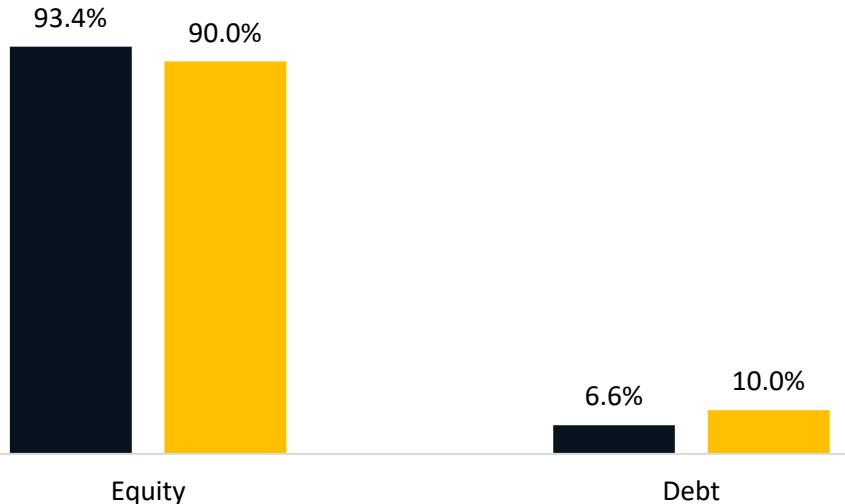
Aggressive Strategy





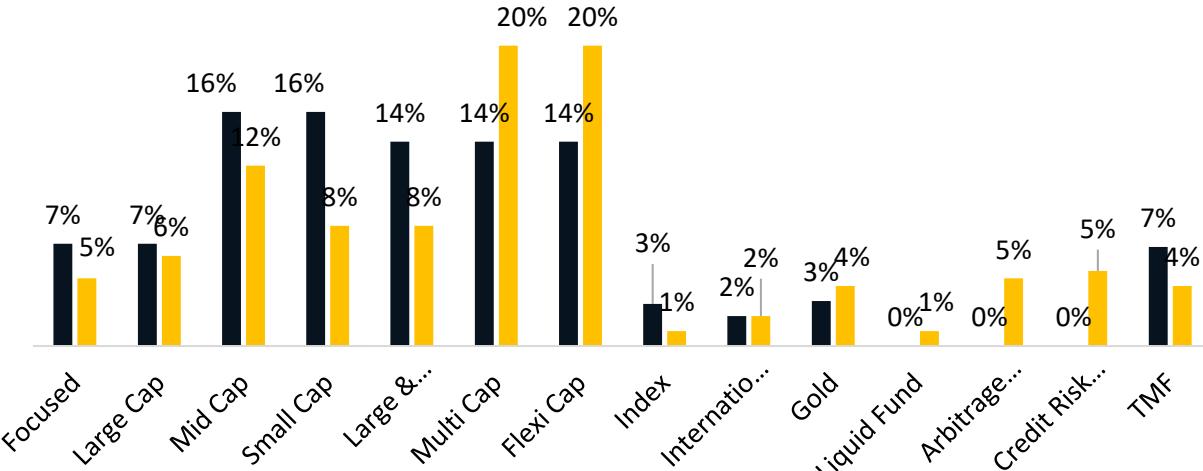
Asset Allocation

■ SAA ■ TAA

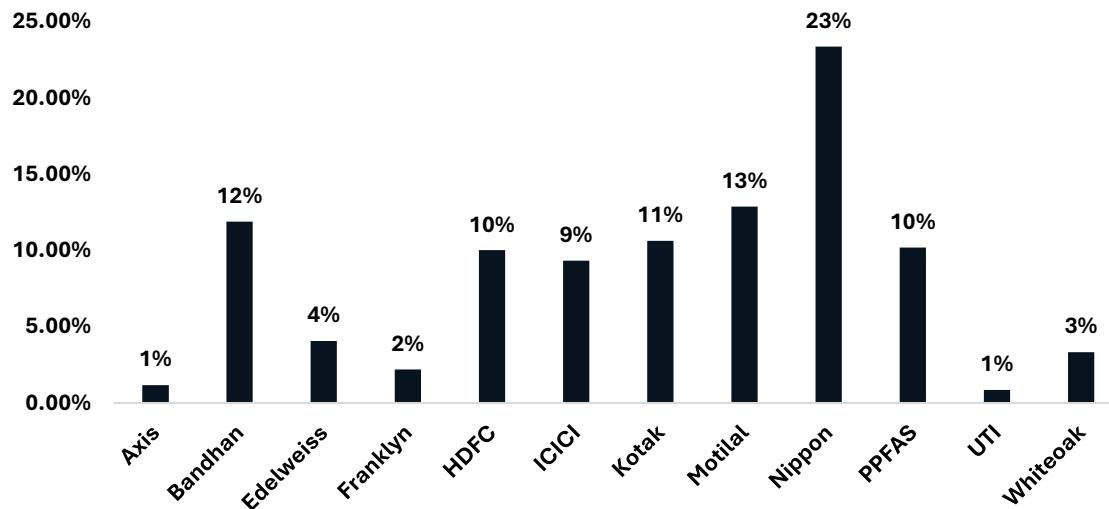


Category Allocation

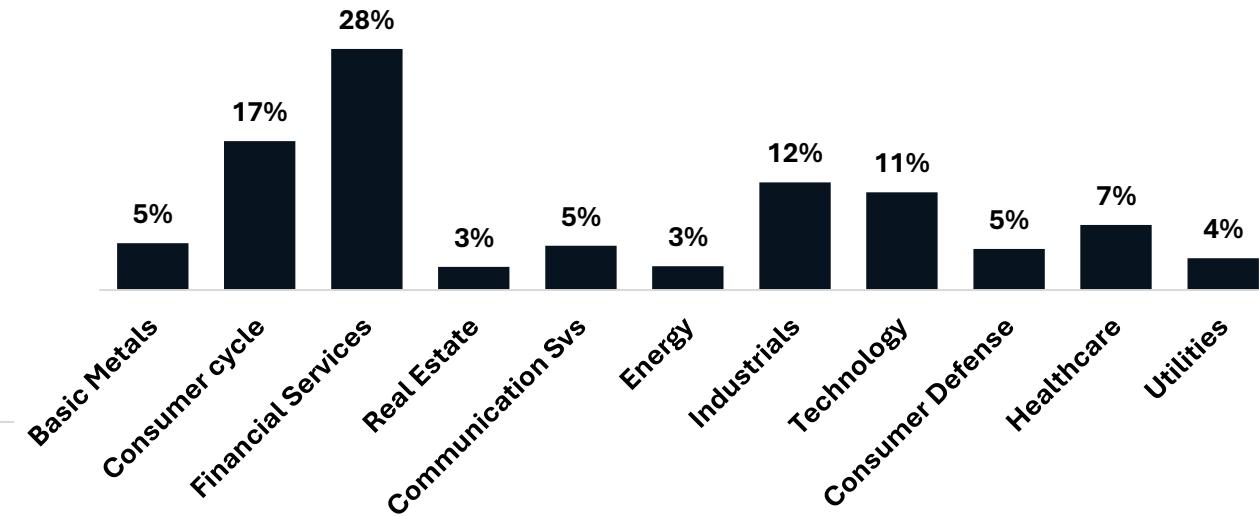
■ SAA ■ TAA



Fund House Concentration



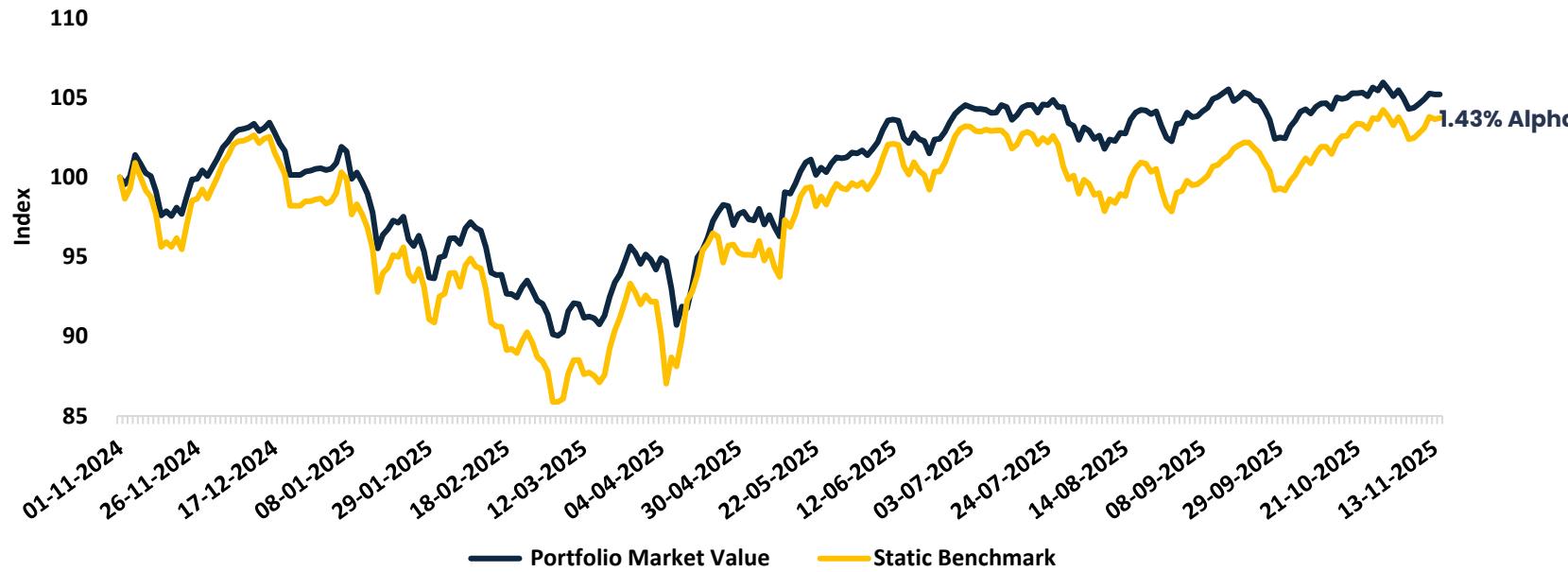
Sectoral Allocation



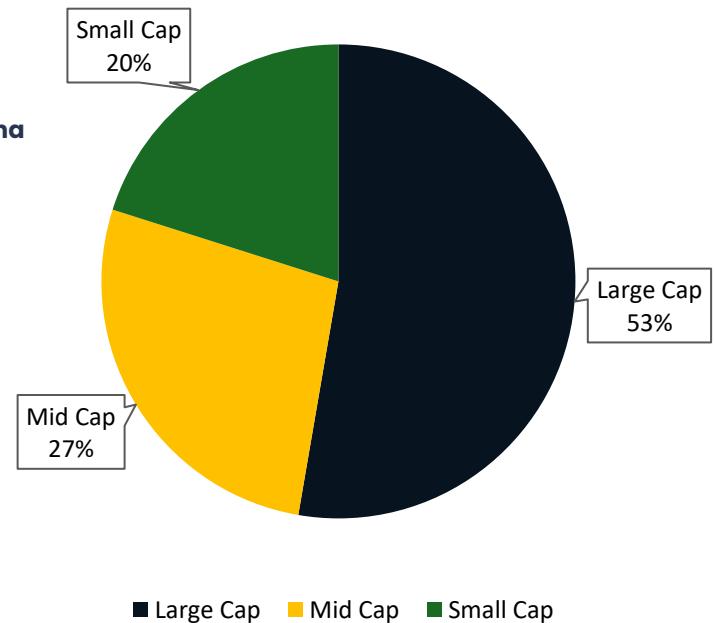
***SAA – Strategic Asset Allocation & TAA – Tactical Asset Allocation**, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically,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



Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
CAGR Return %	5.02%	3.59%
Standard Deviation (annualized)	10.80%	14.64%
Beta	0.61	
Alpha	1.43%	
Information Ratio	2.75	
Downside Capture	58.29	
Asset Allocation Alpha	Product Selection Alpha	Timing
-0.06%	2.19%	-0.70%
		Total Alpha
		1.43%

Debt Portfolio Analytics

Debt Measures	Nov-25
Average MoD	3.15
Average Maturity	2.44 yrs
Average Coupon	NA
Average YTM	7.07 %
Average Credit Rating	Nov-25
AAA	37.0%
AA	46.1%
A	16.9%

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

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

As a result, the portfolio's **equity allocation is currently neutral**. Within equities, we continue to hold a **~6% underweight position in Mid Caps and a ~13% underweight position in Small Caps**, aligning with our risk-controlled framework.

Global capital flows continue to reflect a cautious undertone, but India remains a relative bright spot. While urban consumption is showing early signs of a pickup in demand and a robust rural sentiment amid a high base indicate a potential inflection in growth momentum. Corporate balance sheets are strong, leverage remains low, and government-led infrastructure spending continues to underpin activity. Though private sector **Gross Fixed Capital Formation has been relatively muted, the improving demand backdrop and policy continuity are expected to catalyse a new investment cycle**. The Q2 earnings season pointed to a gradual pickup in topline, albeit uneven, and with inflation benign, liquidity abundant, and fiscal and external positions stable, the macro setup for FY2025-26 appears conducive for a gradual re-rating in equities. Overall, India's medium-to long-term outlook remains constructive. The economy is positioned to benefit meaningfully from a **future cyclical recovery and capex upturn once domestic and global demand structurally strengthen**.

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 1.4%**, driven primarily by **Product Selection Alpha**. Importantly, the portfolio has maintained a **low Beta of 0.6**, and an **Information Ratio of 2.8, highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 58%**, the portfolio displays effective downside protection relative to the benchmark in a volatile market.

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

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



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