



KILIKA
CAPITAL

Embracing complexity to capture Alpha

February 2026

Dear Investors,

India enters this post-Budget, post-trade-deal phase with a balanced and increasingly self-sustaining macro configuration. Growth remains resilient, inflation has moved decisively off its trough, and policy conditions are supportive, but no longer expansionary by default. The economy is transitioning from a policy-driven recovery to a fundamentals-led cycle, where outcomes will depend far more on demand durability, capital allocation discipline, and execution.

The Union Budget reinforces this transition. The government has continued to prioritise capital expenditure, manufacturing competitiveness, and domestic demand resilience, while maintaining fiscal discipline. Public capex remains elevated and well-targeted, supporting near-term activity across infrastructure, cement, steel, engineering, and REE ecosystems, while also seeking to crowd in private investment over time. At this stage of the cycle, the stance is appropriately constructive rather than aggressive.

On the growth front, momentum remains domestically anchored, led by consumption and services. Industrial activity has improved meaningfully, with recent IIP data pointing to strength in manufacturing, capital goods, and infrastructure-linked segments. The next leg of expansion will require private capex follow-through, which is emerging gradually but remains selective. Recent trade-deal announcements with the US, UK, and EU improve medium-term visibility, though their economic impact is likely to be back-ended rather than immediate. Credit growth remains robust and broad-based, reflecting improving domestic demand and rising capacity utilisation across key sectors. Bank lending continues to be led by services, MSMEs, and secured retail segments, while industrial credit is gradually strengthening alongside public-sector capex and early signs of private investment recovery. However, credit growth is now outpacing deposit mobilisation, tightening system liquidity at the margin and shifting policy focus toward transmission and liquidity management rather than further rate cuts. Overall, credit conditions remain supportive of growth, but warrant monitoring as the cycle matures.

High-frequency indicators suggest the economy is operating above trend and gaining momentum. Consumption is in an acceleration phase, with rural demand providing stability and urban demand gradually firming, albeit with selective breadth.

Inflation dynamics remain favourable. After an unusually sharp, food-led disinflation, headline CPI appears to have bottomed. Core inflation now signals an early pickup in underlying demand across both urban and rural segments. The inflation path points to gradual normalisation rather than reflation, allowing policy to remain supportive without the need for further aggressive easing.

Liquidity and monetary conditions remain adequate, supported by the RBI's proactive balance-sheet management through CRR cuts, OMOs, and FX operations. Going forward, policy transmission is likely to rely more on liquidity management and yield-curve anchoring rather than rate cuts. Financial conditions remain accommodative, but no longer abundant - a meaningful distinction for asset allocation.



Indian equity markets face structural headwinds despite resilient domestic fundamentals. As global capital has gravitated toward markets offering direct exposure to the AI and advanced-technology cycle, through semiconductors, hardware, and platform ecosystems, India has ceded relative mindshare, leading FPIs to reallocate incremental capital toward these markets. Additionally, foreign fund exits have largely been driven by natural monetisation of long-held investments, rather than any anti-AI trade. These flows, however, have coincided with pressure on the INR, reducing currency-adjusted returns and near-term attractiveness for foreign portfolios. Within equities, dispersion is rising sharply: broad multiple expansion is unlikely, leadership is narrowing, and returns will increasingly depend on volume expansion and balance-sheet strength. Overall, this environment favours selective stock-picking over index exposure and is likely to remain volatile until global capital flows stabilise and currency pressures ease. Q3 earnings will be decisive in establishing demand visibility and margin sustainability. Continued momentum would materially enhance earnings confidence and could trigger a valuation rerating in the coming year leading to a constructive market environment over the next year.

The Indian IT services sector warrants a special mention. The sector is at a clear inflection point. GenAI-led automation is beginning to reshape demand, pricing, and operating models across the industry. Rather than driving uniform, broad-based sectoral growth, this shift is creating sharp differentiation between firms that can embed AI into delivery and those reliant on legacy, people-intensive models. The rapid proliferation of GCCs and the emergence of AI-native platforms are structurally altering the value chain. Advanced AI systems, developed by firms such as Anthropic are enabling enterprises to internalise work that was earlier outsourced, while achieving materially higher productivity at a fraction of historical costs. The productivity contrast is stark. Anthropic, with roughly 2,000 employees, commands valuations of ~350bn USD which equals the top 7 largest Indian IT services companies that employ 16 lakh people! This divergence is not merely a valuation anomaly; it reflects a step-change in output per unit of labour, driven by AI-first architectures rather than incremental efficiency gains. For Indian IT services, the implication is clear - growth will no longer be a function of sectoral tailwinds alone. Winners will be defined by their ability to move up the value chain, integrate GenAI into delivery - organically or inorganically, and shift from linear headcount-led models to outcome driven revenue streams. Those that fail to adapt, risk structural compression in pricing power, margins, and relevance over time.

In the debt markets, the opportunity lies in carry and roll-down, not aggressive duration extension. Yields are likely to remain range-bound amid gradual inflation normalisation and elevated supply of papers as the RBI actively manages liquidity.

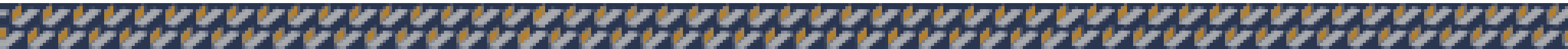
Bottom line - this is not a broad-beta environment. It is a phase that rewards selectivity, balance-sheet strength, and patience. Outcomes in the medium to long run, will be driven less by macro tailwinds and more by quality of execution and capital allocation discipline. Our approach remains anchored in navigating this transition with clarity - protecting capital through cycles and compounding wealth through informed, long-term decisions.

This edition of our Investment Strategy Report seeks to frame these dynamics clearly - separating cyclical noise from structural signals, and to translate a complex macro environment into actionable portfolio insights. Periods like this reward patience, discipline, and a willingness to look beyond consensus narratives.

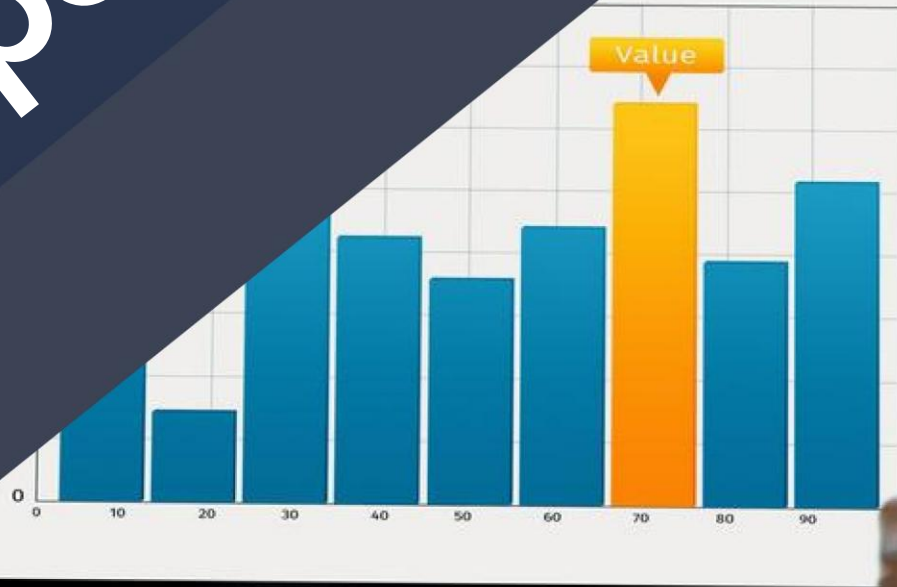
We thank you for your continued trust and partnership.

Best regards,

Siddharth Jadeja



Investment Strategy Report





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KILIKA CAPITAL





WHO WE ARE?



ABOUT US

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

OUR MISSION

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

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

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

Siddharth Jadeja, CFA – The Strategist

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

Smitha Iyer – The Operational Hawk

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

Piyush Sharma – The Creative Wizard

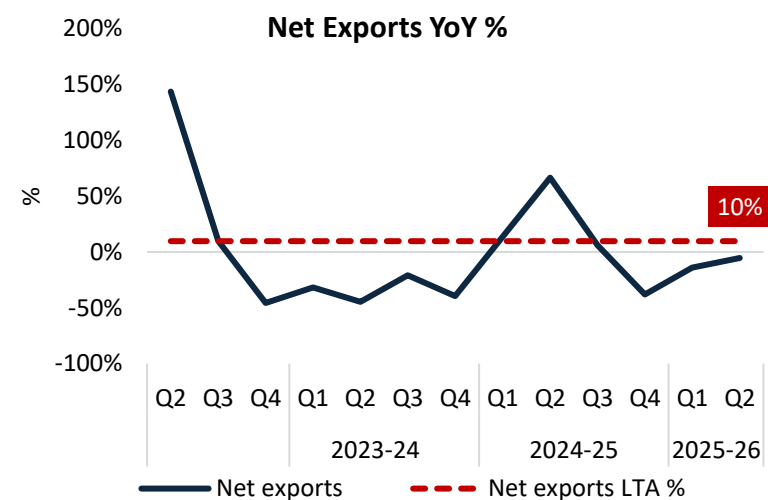
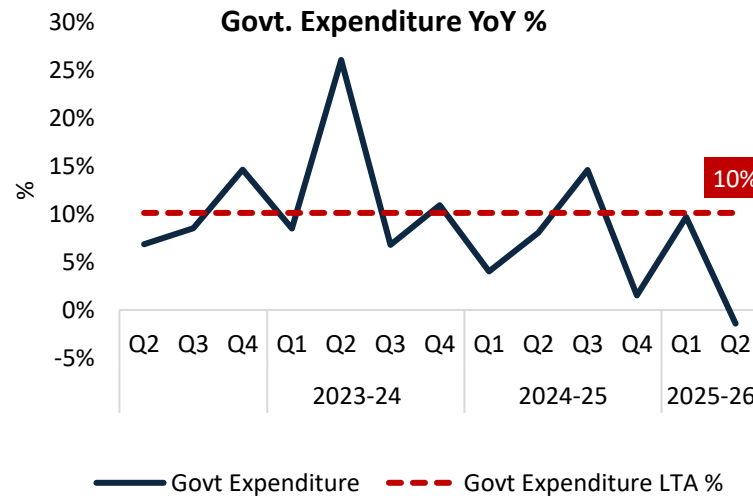
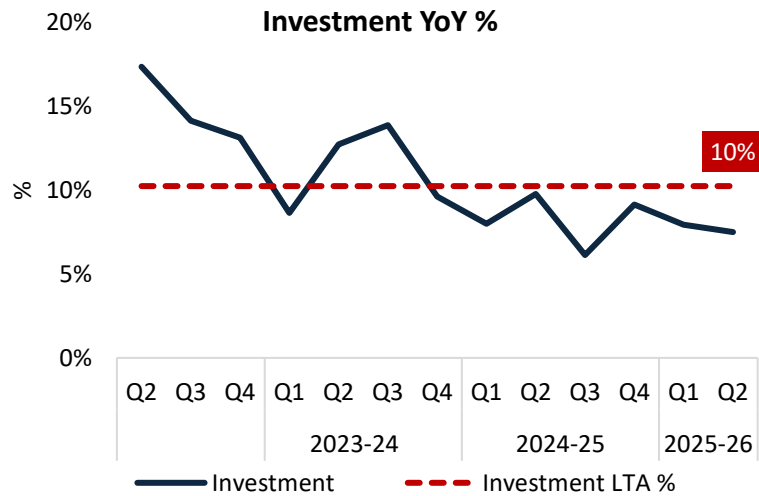
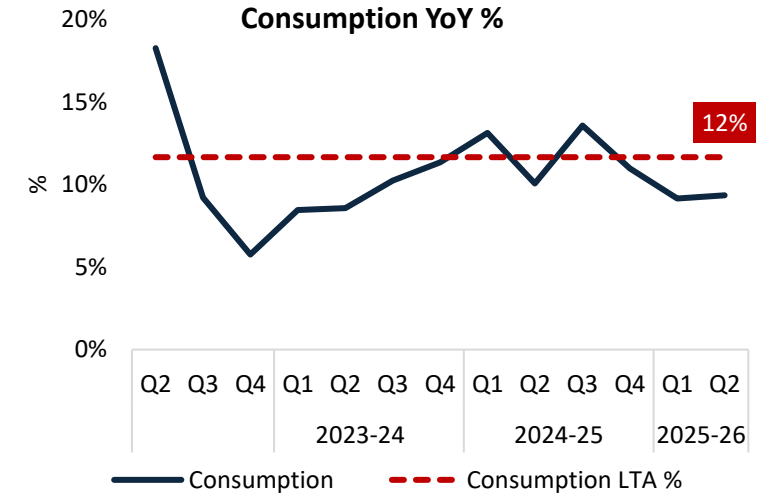
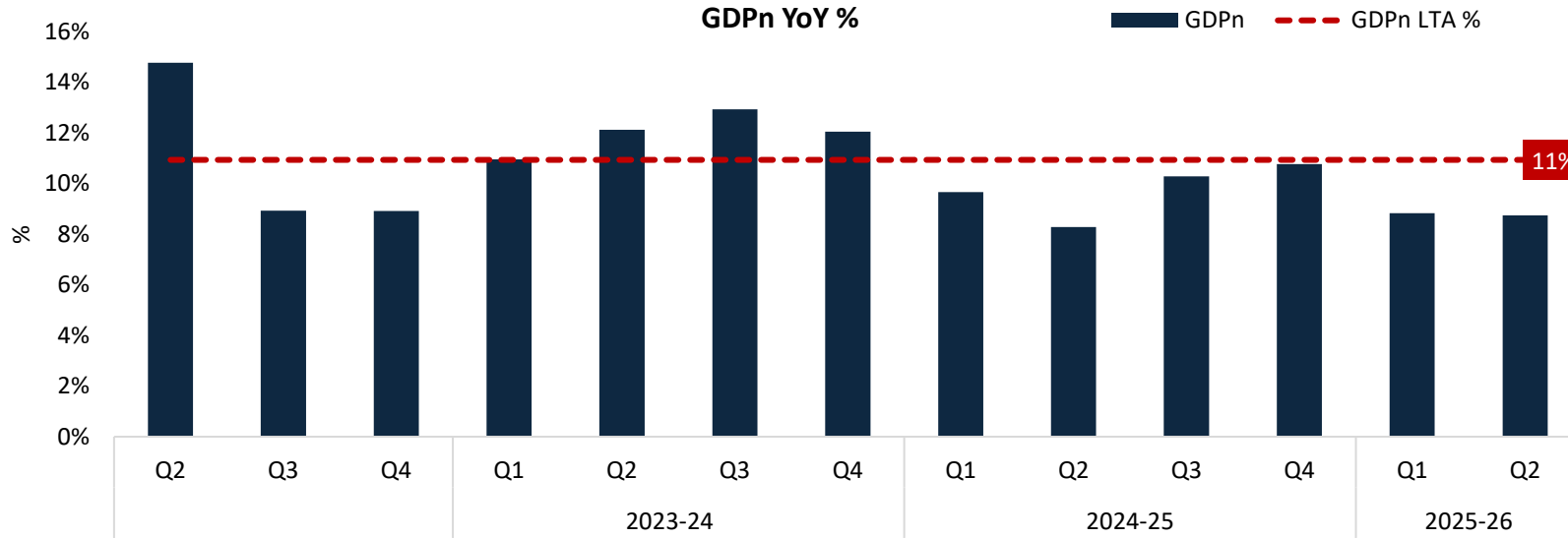
Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model,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

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

Macro-Economic Outlook



1. GDP (Gross Domestic Product)

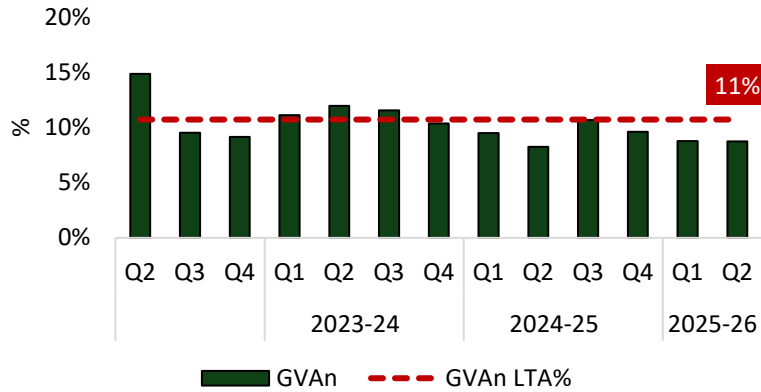


Source: Internal assessment based on RBI DBIE data

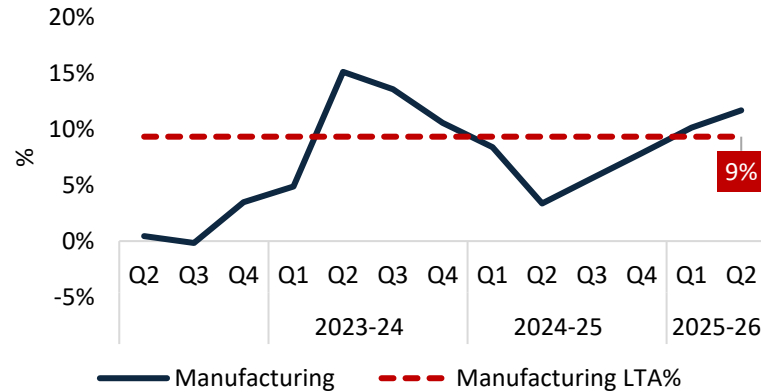


GVA (Gross Value Added)

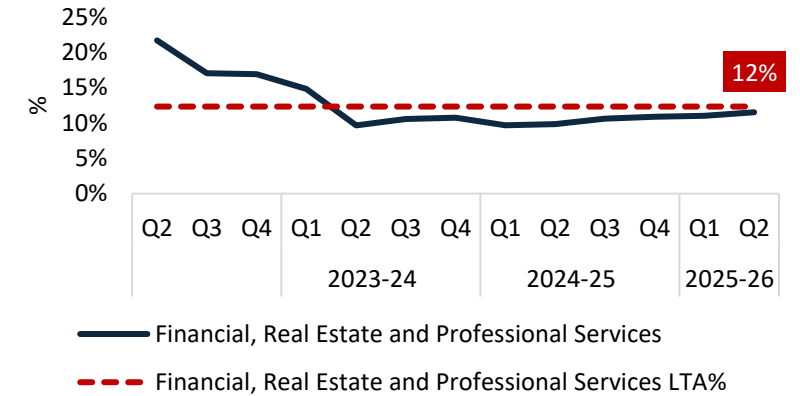
GVA_n YoY %



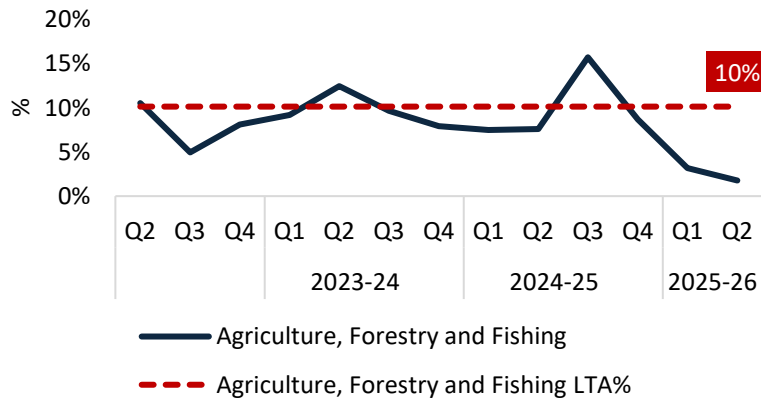
Manufacturing YoY %



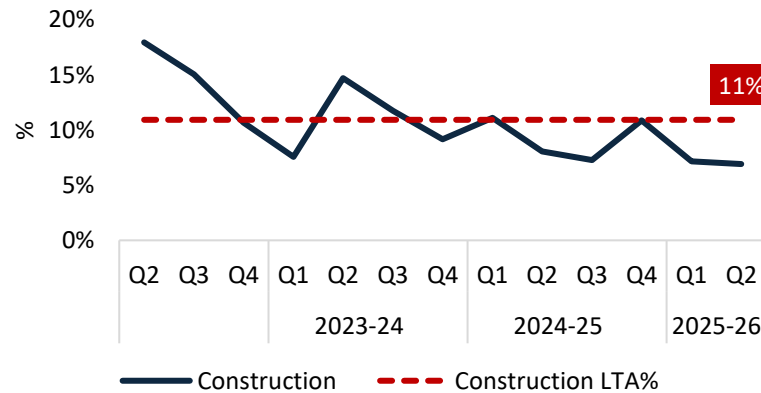
Finance, Real Estate, Services YoY %



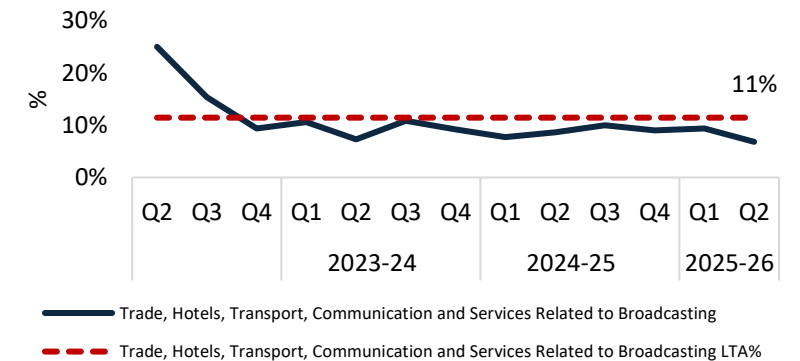
Agriculture YoY %



Construction YoY %



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





Summary Highlights:

- **Moderate 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 moderate 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 which accounts for ~60% of GVA, was the **largest and fastest-growing contributor, expanding ~10.6% in nominal terms YoY (against a LTA of 12% 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.**
- **Muted Industry Growth:** The industry sector (encompassing mining, manufacturing, utilities, construction), which accounts for ~26% of GVA, **saw strong nominal growth (~8.7% YoY against a LTA of 9.9% YoY). Manufacturing in particular accelerated sharply (~11.7% nominal growth YoY), reflecting early signs of a capex cycle recovery and a favorable base. Construction maintained moderate growth (~6.9%), supported by ongoing infrastructure and real estate activity.** However, **mining output contracted in value terms (approx. -4.3%), dragging down the primary sector.**
- **Agriculture Moderates:** Agriculture, forestry & fishing posted **subdued nominal growth (~1.8% YoY against a LTA of 10.1% 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 against a LTA of 11.7%** in nominal terms, indicating **an uptick in household spending / domestic demand.** Investment (GFCF) grew ~7.5% YoY against a LTA of 10.2% YoY, reflecting **early signs of capex lead 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.** 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 8.7% YoY against a LTA of 9.9% YoY**, from ₹17.82 lakh crore in Q2 FY2024–25. This robust growth in nominal terms **indicates an early 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 (against a LTA of 9.3% YoY)** 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 against a LTA of 6.3% YoY**. 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 (against a LTA of 11.9% 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 (against a LTA of 10.9% YoY)** from ₹5.79 lakh crore. Nominal construction growth remained high, though slightly below the 8.0% seen in Q2 last year. **This reflects an early uptick 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 (against a LTA of 12% 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 (against a LTA of 11.4% YoY)** 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 against a LTA of 12.3% YoY**. 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 (against a LTA of 12% 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 early signs of an economic revival.**

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 an early uptick in 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 growth in GFCF suggests early 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, although still much lower than its LTA of 10.2% YoY. **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:

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 in **an early expansion phase – driven by both private sector activity and ‘targeted’ government capex.**

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.** While India remains some distance from its long-term average growth rate of 10.7% YoY, recent data suggest a clear improvement in momentum, with early signs pointing to a nascent recovery in economic activity. Importantly, inflation was relatively subdued during this period – the GDP deflator implied only ~0.5% inflation – so the nominal growth closely mirrored real growth. Once inflation converges to the RBI’s 4% target, we expect nominal GDP growth to return to a sustained double-digit trajectory.



Short to Medium Term Growth Outlook and RBI Policy Signals:

- 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. Various high-frequency indicators (eg GST collections, industrial production, PMI, capex growth etc) point to a relatively stronger momentum carrying into Q3. The RBI's Monetary Policy Committee, in its latest statement, **revised the full year FY2025-26 real GDP growth forecast upward to 6.8% and 7.2% for FY2026-27**, consistent with an expectation of **waning base effects and a softer global environment**. **Consumption is expected to remain the primary growth driver, supported by earlier rate cuts and benign inflation, while investment activity should gradually strengthen as domestic demand improves and the capex cycle gains traction**. 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.
- **Inflation Expectations:** Inflation (the GDP deflator being WPI Inflation) is currently extremely low, but the RBI expects it to gradually **move back up towards the 4% target by the 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, which puts nominal GDP back in double digits**.

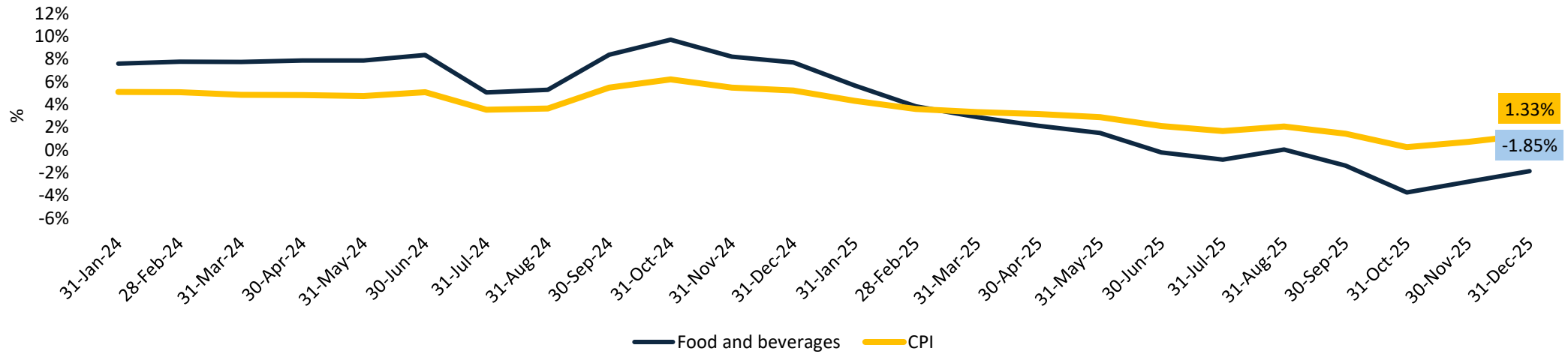
Key Macro-Economic Headwinds for India's Growth Outlook:

- **External risks (global demand weakness).**
- **Weak capital flows on account of a weak INR.**
- **Structural domestic challenges in employment and private FDI investment.**
- **Fiscal risks from slowing nominal GDP growth.**

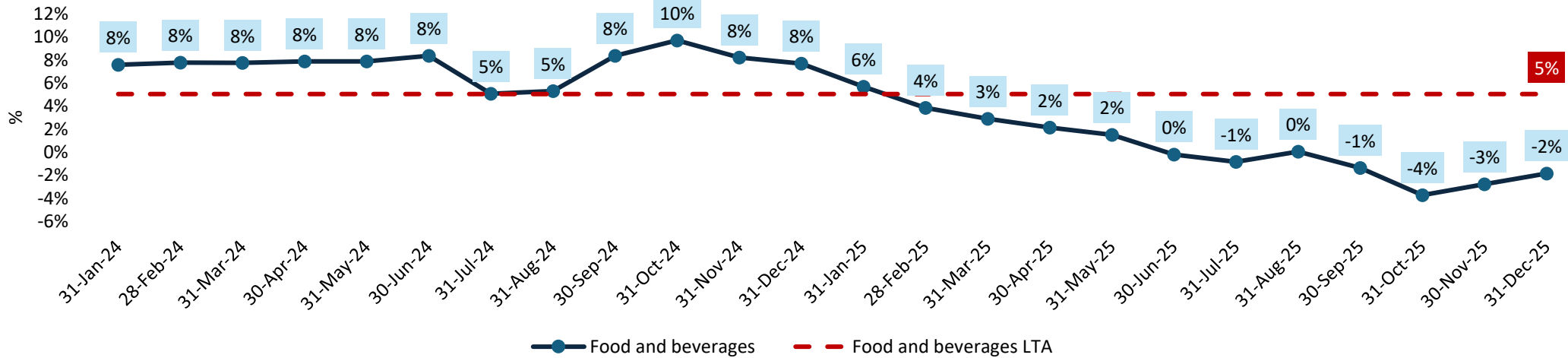
2. Inflation



CPI and Food & Beverages Inflation %



Food & Beverages Inflation YoY %



Source: Internal assessment based on RBI DBIE data



CPI Inflation in India: Disinflation, Expectations, and Policy Implications

India experienced an exceptionally benign inflation environment through late 2025, with headline CPI falling to historic lows before showing early signs of stabilization in December. The disinflation was **overwhelmingly food-led**, amplified by **favourable base effects**, while **underlying demand-side pressures remained weak**. **Core inflation, though optically sticky, was heavily distorted by precious-metal prices**; stripping out this noise reveals subdued underlying pricing power across the economy. **Inflation now appears to have bottomed, with a gradual normalization expected in 2026 rather than a sharp rebound**. This backdrop affords the RBI policy patience, with the **focus shifting from rate action to liquidity and market-stability management**, especially amid an impending CPI base revision.

Headline CPI: From Extreme Disinflation to Early Stabilisation

Headline CPI inflation rose modestly to 1.33% YoY in December 2025, up from 0.71% in November, following an all-time low of 0.25% in October. Despite the uptick, inflation **remains far below the RBI's 2–6% tolerance band and well under the 4% target midpoint**.

Crucially, the December increase was almost entirely **base-effect driven**. **Monthly price momentum remained muted**, with **CPI rising only 0.1% MoM, indicating no meaningful acceleration in current price formation**. Over Q4 2025, headline inflation averaged approximately 0.8% YoY, underscoring the depth of the disinflationary phase.

This prolonged undershoot reflects:

- **Persistent food price deflation**
- **Weak demand-pull pressures**
- **Stable supply conditions**

December marked the 11th consecutive month of inflation below the RBI's target, an outcome consistent with an **economy operating with significant slack**.

Food Inflation: Deflation Is Easing, Not Reversing

Food prices remained in deflation for the seventh consecutive month, with **Consumer Food Price Inflation (CFPI) at –2.71% YoY in December**, compared to –3.91% in November. While still negative, the **pace of deflation is clearly moderating**. On a sequential basis – Food prices declined only 0.25% MoM in December. This follows a +0.6% MoM increase in November, suggesting stabilization

Key Sub-Components:

- **Vegetables: Continued sharp correction (–2.9% MoM), led by tomatoes (–16.6%) and potatoes (–7.6%)**. This remains the single **largest deflationary force**.
- **Cereals: Broadly stable**; rice marginally lower, wheat flat – reflecting adequate output and buffer stocks.
- **Pulses: Essentially flat**, reinforcing food price stability.
- **Proteins: Firming trend – eggs (+6.2% MoM), meat and fish (+1.8%), and milk (+0.2%)**, signalling seasonal demand pressures.
- **Fruits & Edible Oils: Fruits continued to soften modestly; oils turned mildly positive**.

The composition of food inflation suggests the sharp mid-2025 correction has run its course. While **food prices are no longer exerting incremental downward pressure on headline CPI, there is also no evidence of a renewed inflation impulse**. **The most likely path is normalisation rather than rebound, barring supply shocks**.



Core Inflation: Optical Stickiness Masking Weak Demand

Headline core inflation (CPI excluding food and fuel) remained elevated at ~4.5–4.7% YoY in December, up marginally from November. However, this persistence is misleading. A **disproportionate share of core inflation in late 2025 was driven by precious metals - Gold prices rose ~6.2% MoM and Silver surged ~18% MoM**. These moves inflated the “personal care and effects” category within core CPI. **Once gold and silver are excluded, core inflation drops sharply to ~2.3–2.4% YoY, revealing very subdued underlying demand-side inflation.**

Component-wise Signals – Sequential (MoM) Dynamics:

- **Core CPI: rose 0.3% MoM in December**, accelerating from 0.1% MoM in November, indicating a **modest pickup** in sequential price momentum.
- **Housing prices: declined 0.8% MoM**, reversing from a +0.2% MoM increase in November, suggesting **continued softness in urban dynamics**.
- **Clothing & Footwear prices: increased 0.2% MoM**, reflecting **mild cost pass-through**.
- **Transport & Communication: registered a –0.1% MoM decline**, aided by **stable fuel prices** and **subdued telecom tariffs**.
- **Miscellaneous category: rose 0.7% MoM**, the **strongest contributor to core inflation during the month**. Break-up of

Miscellaneous Inflation:

- **Personal Care and Effects: surged +3.3% MoM**, the highest sequential increase within core CPI. Within this category:
 - **Gold prices rose 6.2% MoM.**
 - **Silver prices spiked 18.0% MoM.**
- **Health costs: increased 0.2% MoM.**
- **Household Goods & Services: rose 0.2% MoM.**
- **Education prices: edged up 0.1% MoM.**

Ex-precious metals, India’s core inflation profile in late 2025 is consistent with an economy operating below potential, marked by limited pricing power and cautious consumer behaviour.



Rural–Urban Divergence: Food Weights Matter

Inflation outcomes diverged sharply across geographies:

- **Rural CPI: 0.76% YoY**
- **Urban CPI: 2.03% YoY**

The gap is structurally explained:

- **Food constitutes >50% of rural CPI, amplifying the impact of food deflation.**
- **Urban CPI includes housing rents, absent in rural indices.**

Rural food disinflation was deeper (–3.08% YoY) than urban (–2.09%), keeping rural headline inflation near zero. Additionally, Urban inflation was relatively higher due to housing and services. Adjusting for gold, core inflation in both rural and urban areas is subdued, reinforcing the conclusion that demand weakness is broad-based rather than sector-specific.

Outlook: Normalisation, Not Reflation

Inflation has likely bottomed and should rise gradually through 2026 as:

- **Food deflation fades.**
- **Base effects turn neutral.**
- **Core components regain marginal traction.**

However, the expected trajectory is gentle, not disruptive. Most projections place headline CPI in the 2.6% through FY26 and 4% in FY27, thus converging toward the RBI's target midpoint.

Following a cumulative 125 bps reduction in the repo rate during 2025, which has brought the policy rate down to 5.25%, the **RBI has clearly shifted into a wait-and-watch stance**. With headline inflation exceptionally benign and underlying core demand pressures weak, further rate cuts appear unlikely unless growth undershoots materially, while a return to rate hikes is equally improbable in the near term. Instead, **the RBI's policy emphasis is expected to move away from headline rate actions toward active liquidity management, yield-curve stabilization, and orderly bond-market functioning, particularly in the context of an expanding government borrowing programme. Against a backdrop of elevated global volatility and currency sensitivity, the central bank is likely to rely more heavily on balance-sheet tools and open market operations (OMOs) to fine-tune financial conditions and liquidity, rather than adjust the policy rate.**

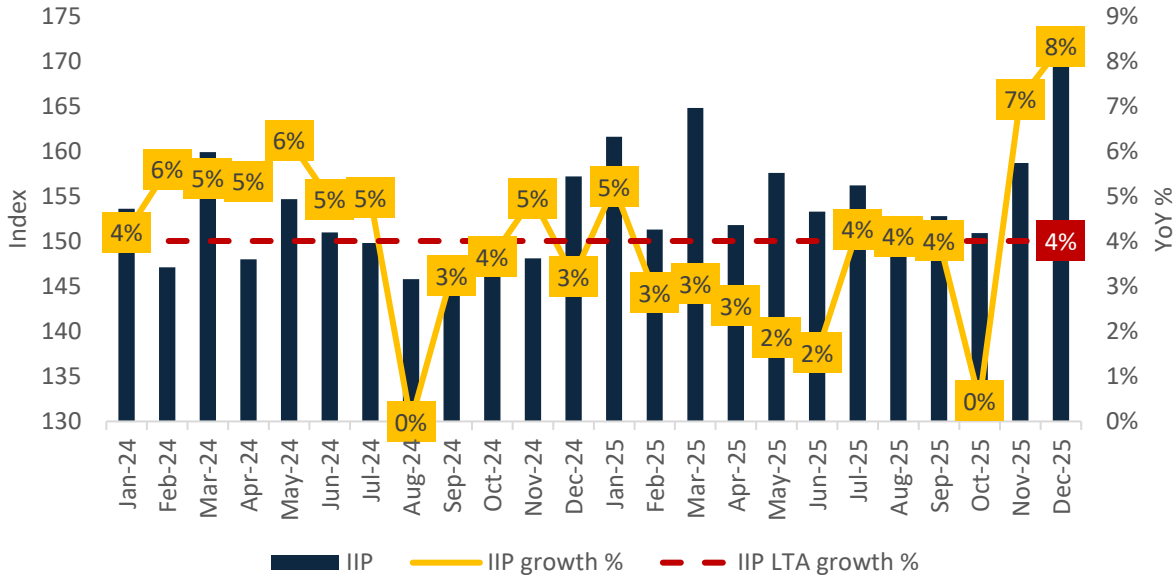
Bottom Line – India enters 2026 with inflation at multi-year lows, transitioning from extreme food-led disinflation toward normalization. Beneath the headline noise, true core inflation is still weak, signalling demand slack rather than overheating. This creates a favourable macro backdrop for policy stability with growth support, and financial-market anchoring, provided supply shocks remain absent and inflation expectations stay well-behaved.

For investors, the signal is clear – this is a low-inflation equilibrium normalising slowly, not the start of a reflation cycle.

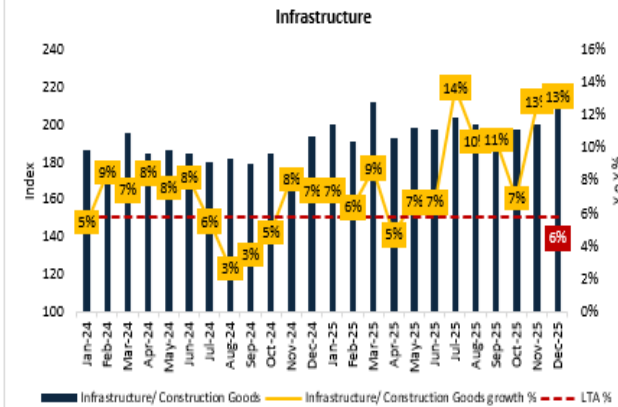
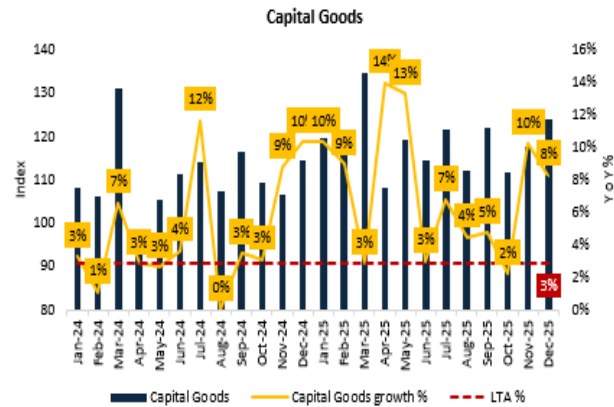
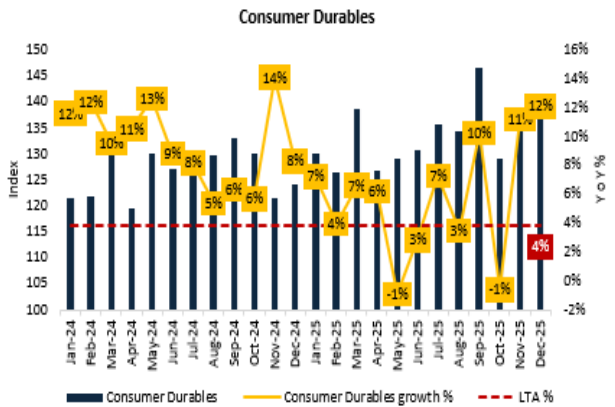
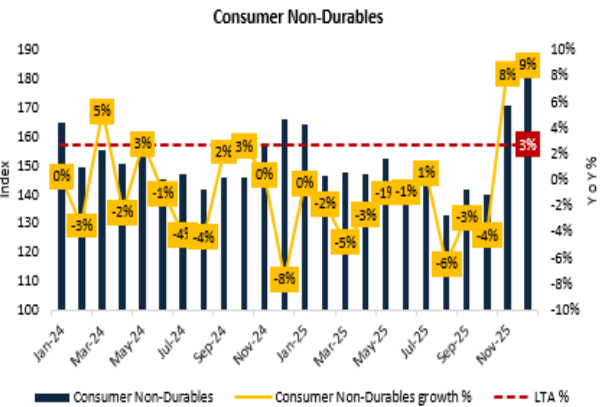
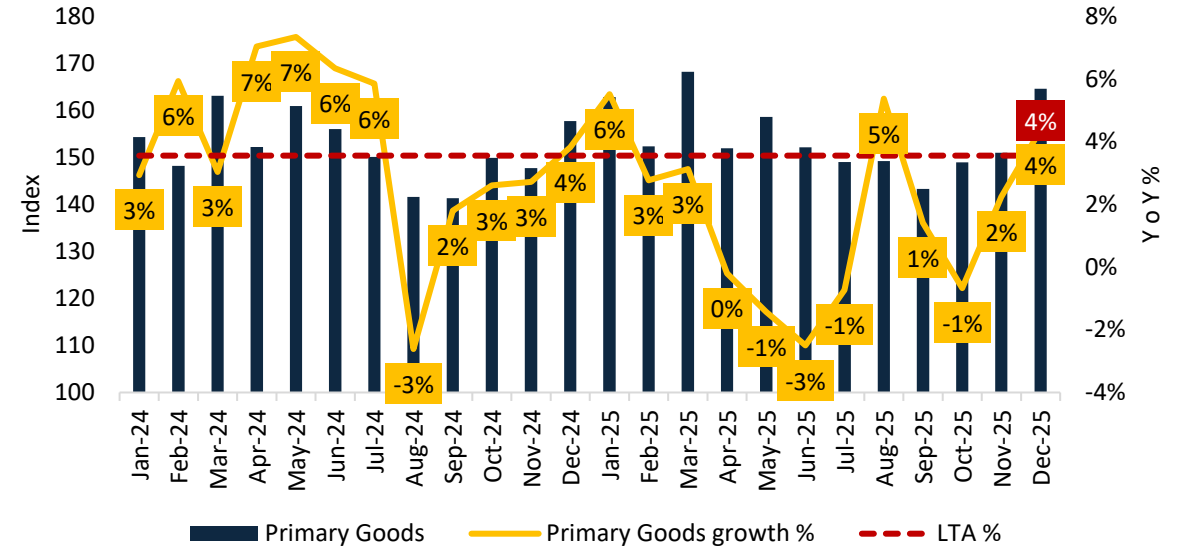


3. IIP (Index of Industrial Production)

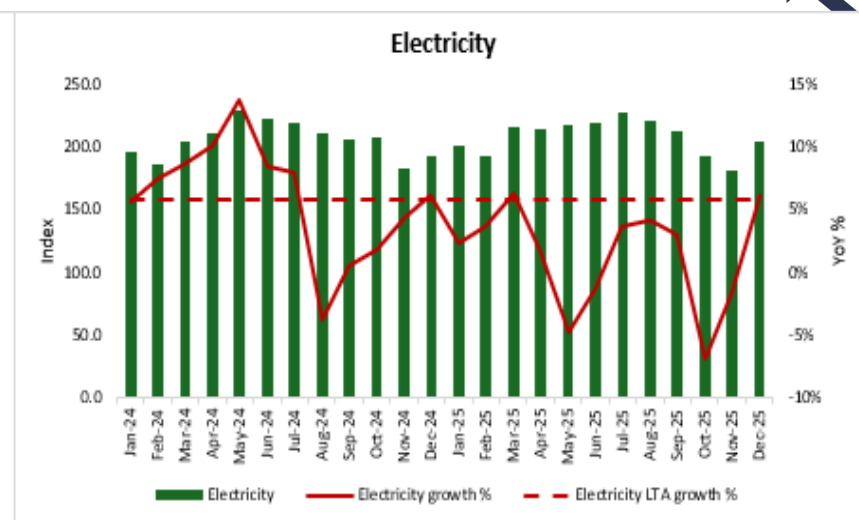
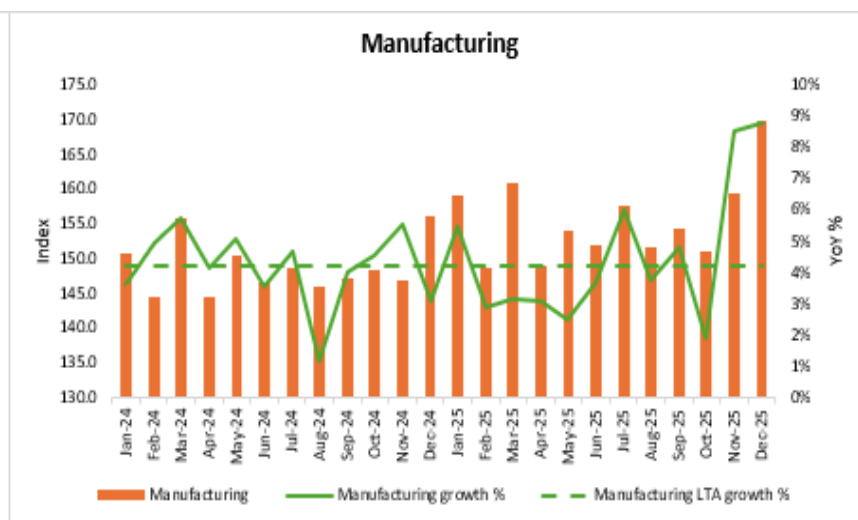
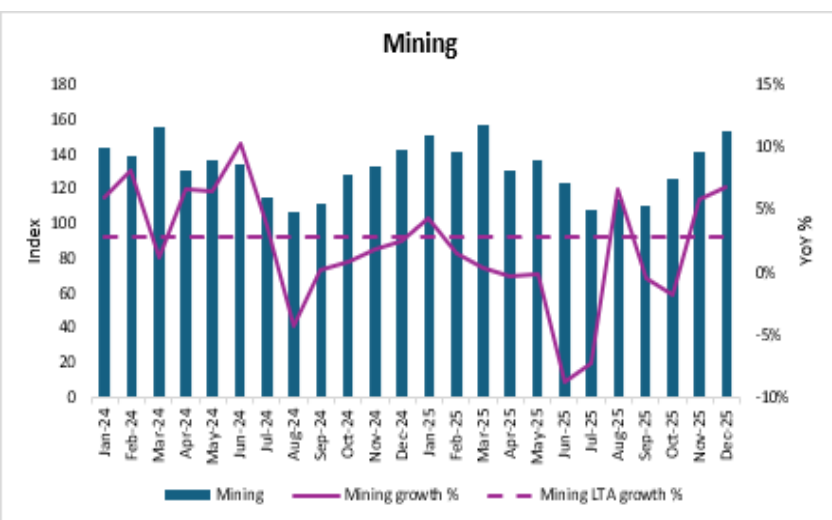
IIP - Industry



Primary Goods



Source: Internal assessment based on RBI DBIE data



India's IIP – December 2025 – A Clear Uptick Visible

Headline IIP

- India's industrial production accelerated sharply in December 2025. The Index of Industrial Production (IIP) grew by **8.33% YoY, the strongest pace in over two years**. This was up from 7.2%, as the IIP index rose to 170.3 from 158.0 a year ago. In seasonally adjusted terms, output rebounded decisively after the festive-season trough in October: October 2025 had seen near-flat growth (~0.4%), November surged back to the mid-single digits, and December extended that pickup. Overall, the headline data reflect a **broad-based revival in industry, pushing industrial GVA sharply higher in Q3 of FY2026 and outpacing forecasts**.

Sectoral Trends

- Manufacturing:** The largest sector again led the expansion, with factory output up **8.1% in December 2025**. Growth was driven by **broad-based strength in production of electronics and transport equipment**. In particular, output of computer, electronic and optical products jumped ~35%, while motor vehicles (including trailers and semi-trailers) and other transport equipment rose by roughly 33% and 25% respectively. **Crucially, 16 of 23 manufacturing sub-groups showed positive growth**. The **biggest sub-sector contributions came from basic metals (+12.7%), motor vehicles (+33.5%) and pharmaceuticals (+10.2%)** – reflecting gains in steel and alloy products, higher auto and auto-component production, and stronger drug and vaccine output. **In short, consumer-oriented durables and heavy intermediate goods both powered manufacturing, underscoring that demand is broad based rather than concentrated in one segment**.
- Mining:** Mining output rebounded to **+6.8% in December**, after a more modest November gain. The **post-monsoon pickup in coal and metallic minerals was a key factor**: iron ore and other raw materials saw renewed demand from steel and infrastructure projects. The mining index stood at 153.0 (2011-12=100), up from a lower base a year ago, **indicating that the sector finally shook off the contractionary effects of earlier monsoon disruptions**. Overall, mining's recovery added to the **broad-based nature of the IIP rise**.



- **Electricity: Power generation turned sharply positive, growing 6.3% in December.** This was a strong turnaround from the 1–2% contraction in November (and close to flat in earlier months). December’s 6.3% surge suggests revived industrial and residential power demand as winter and end-year activity picked up. **Stable coal and gas supplies and higher capacity utilisation at plants appear to have supported this rebound. Electricity’s shift from drag to driver was important for the headline IIP; as one industry observer noted, “revival in mining and electricity is a positive sign as it goes along with a buoyant business environment”.**
- **Infrastructure/Capital Goods:** Use-based data show **infrastructure and construction goods posting the strongest gains, up 12.1%** over the year, while **capital goods output rose 8.1%**. The 12.1% jump in infrastructure goods (cement, steel for construction, etc.) **points to ongoing strength in public works and building activity.** Machinery and equipment output (capital goods) also expanded healthily, suggesting **continued momentum in investment and industrial capex.** Together, these segments were among the top contributors to IIP growth. Indeed, higher steel and alloy production in basic metals (used in both infra and capital projects) was explicitly noted among manufacturing’s upswing.
- **Consumer Durables and Non-Durables:** Consumer-facing industries saw robust growth. **Durable goods jumped 12.3% YoY**, the fastest of any category. This reflects a **surge in output of cars, appliances, electronics and other long-lived items late in the year – likely aided by the tax cuts under GST rationalization (which lowered taxes on many durable consumer products) and festive/new-year restocking. Consumer non-durables (food, FMCG, pharmaceuticals, etc.) were also strong at +8.3%.** Notably, consumer durables reached a 13-month high and consumer non-durables a multi-year peak, implying that household demand has held up well into Q4.
- **Overall, all six use-based categories (primary, intermediate, capital, infra, durables, nondurables) expanded in December, highlighting the breadth of the upturn.**

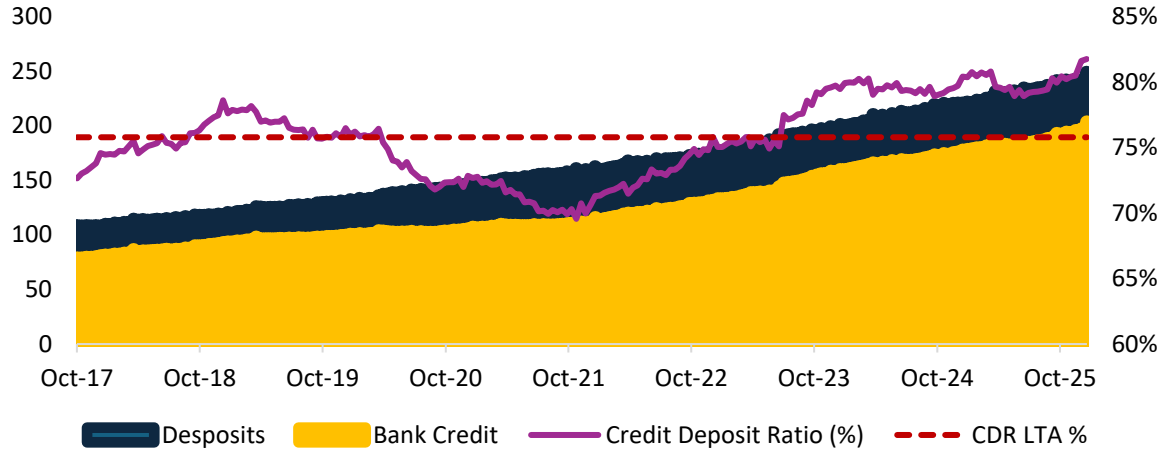
Outlook

- **Going forward, the industrial cycle appears poised for continued momentum, albeit with some moderating factors. Seasonally, the festive and year-end demand boost is now waning, and base-effects will become more challenging in early 2026. Economists expect growth to moderate from December’s pace: for instance, Ind-Ra forecasts IIP around 4–5% in January and full-year FY26 at ~4.5–5%, and ICRA sees January growth in the mid-single digits. Still, recent trends and policy settings are constructive. Macroeconomic indicators suggest strong foundations, with government tax cuts expected to sustain consumption and investment demand and robust agricultural output (a good monsoon harvest) providing a cushion for rural incomes, and to add to this India’s trade deals with the EU, UK and US could provide an additional boost.**
- **Nonetheless, several risks could slow the industrial upturn. Externally, a renewed global slowdown or potential trade conflicts could hurt exports and capex. Moreover, some of December’s jump reflects post-festival restocking and statistical base effects, which may not sustain. Consumer spending might level off after the holiday surge, especially if rural wages or farm incomes plateau especially with the El-Nino effect. Finally, any significant cutback in government infrastructure spending (after front-loading capex earlier in the year) could dampen the infrastructure goods sector.**
- **In summary, December’s IIP report paints a robust picture: industrial growth has regained traction, led by manufacturing and powered by both consumer and investment demand. Looking ahead, the cycle should remain on a firmer footing as compared to a year ago, but will need continued policy support and healthy global conditions to avoid an eventual slowdown.**

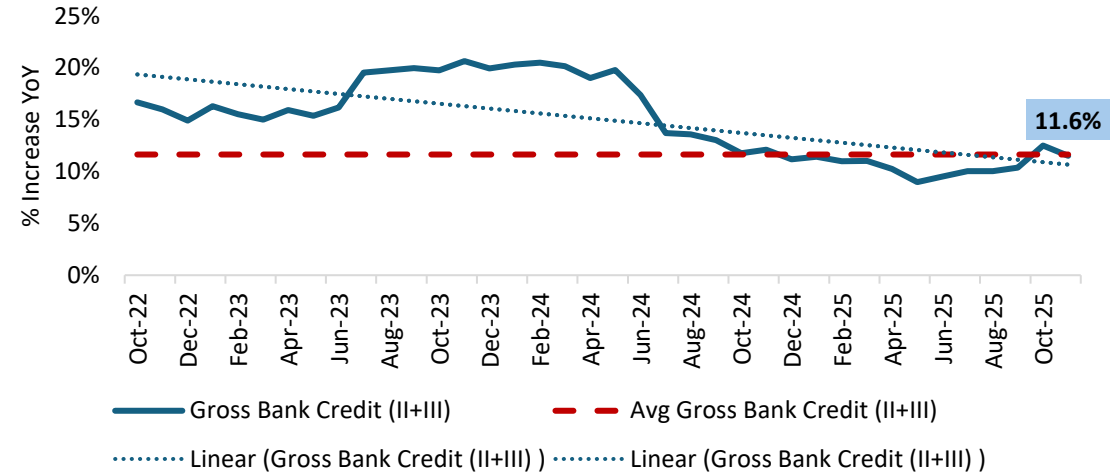
4. Capex



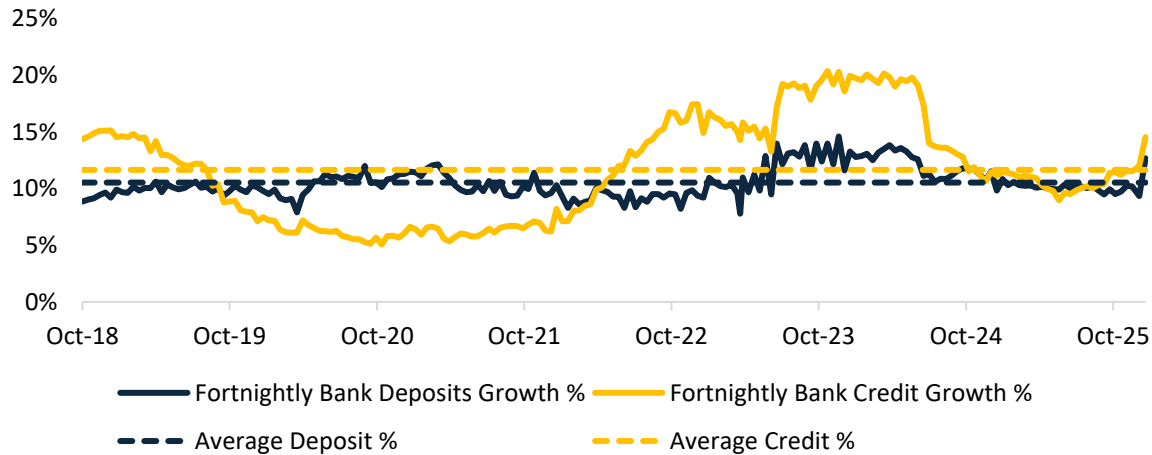
Credit Deposit Ratio



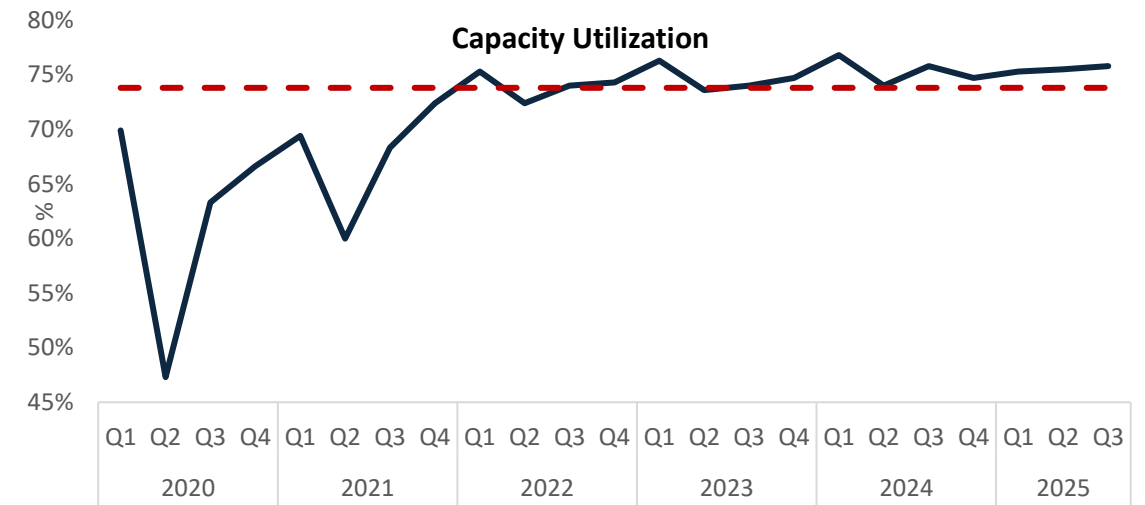
Total Bank Credit Growth



Credit Deposit Growth %



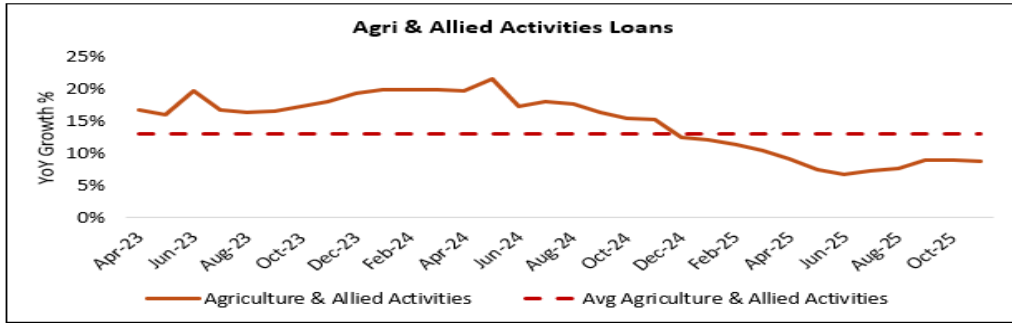
Capacity Utilization



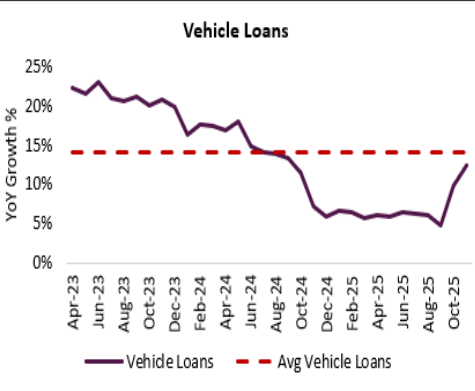
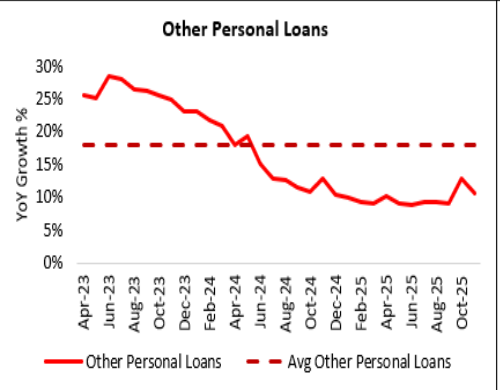
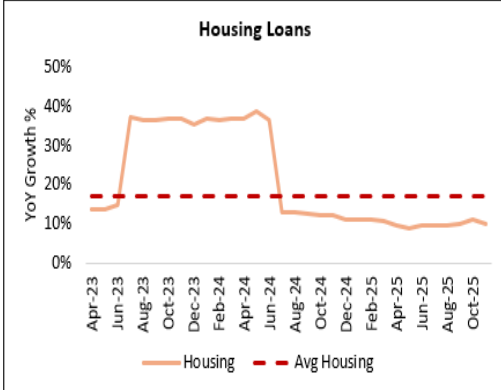
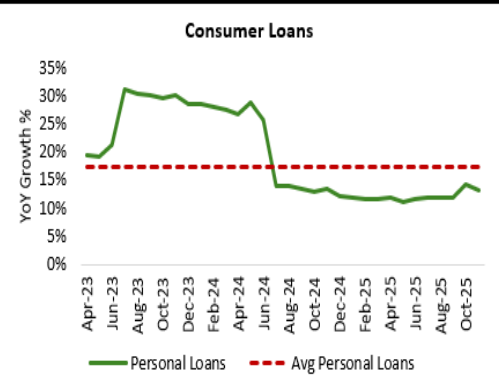
Source: Internal assessment based on RBI DBIE data



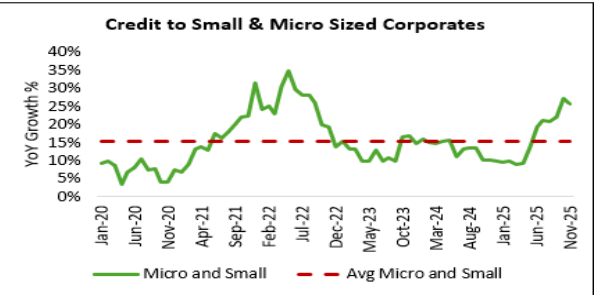
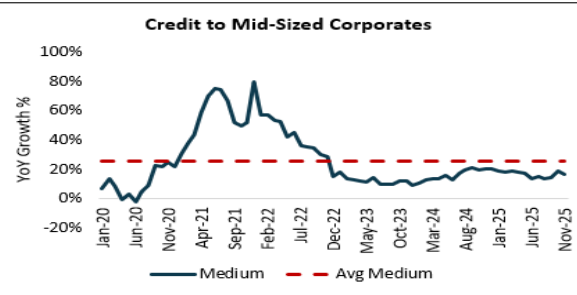
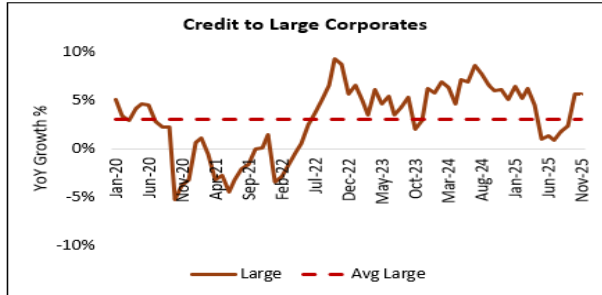
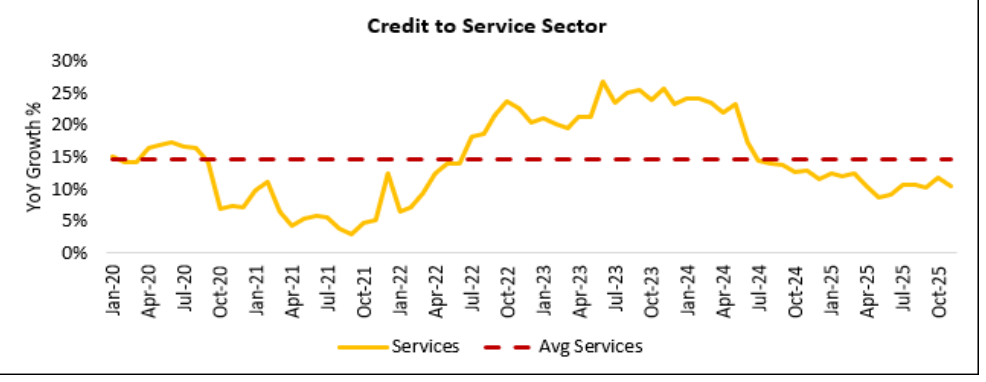
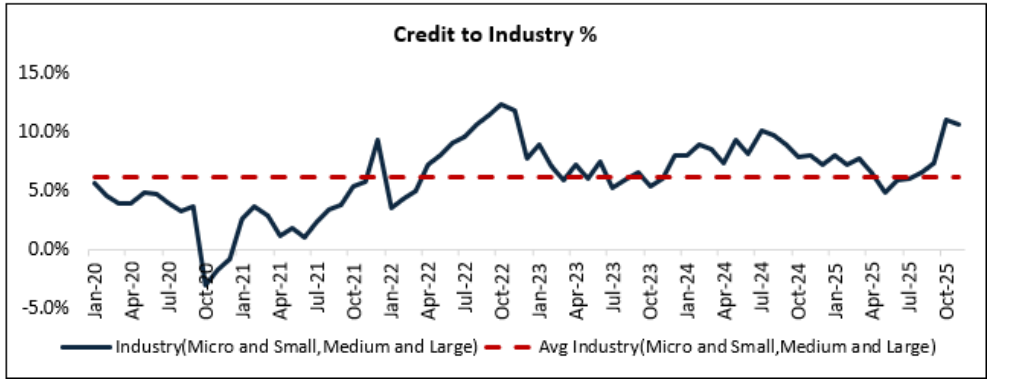
Credit to Agri



Credit to Consumer



Credit to Industry



Source: Internal assessment based on RBI DBIE data



India's Bank Credit – November 2025 – A Clear Uptick Visible

Credit to Agri

- Agricultural credit growth continued to moderate. As of the fortnight ending November 28, 2025, outstanding **credit to agriculture and allied activities was up about 8.7% YoY (against 15.3% a year earlier)**. This sharp **deceleration reflects last year's high base (robust farm lending in FY2024) and healthy rabi output**, which eased distress-driven borrowing. In dollar terms, **agri credit expansion is now roughly in line with its long-run trend, supported by continued government schemes (subsidised loans and insurance) and rural demand**. State-run banks remain the dominant providers of farm finance, but recent growth is closer to historical norms rather than past surge levels.

Credit to Consumer

- Growth in consumer/retail credit has shown signs of ebbing. The **"personal loans" segment (housing, vehicle, gold, credit cards, etc.) grew ~12.8% YoY by late November 2025, down from 13.4% a year ago**. Within this, **vehicle loans, financial asset and gold loans (secured) continued robust expansion, while growth of housing loans, unsecured personal loans, and credit-card outstanding has softened**. Overall, **consumer credit is expanding at a healthy pace but slightly below the recent peak, suggesting modest household demand**. Lenders report stable demand for everyday credit (especially secured auto and gold loans), whereas large-ticket retail loans (home loans, cards) have cooled. **This pattern – strong demand for secured personal loans, moderate gain in overall consumer debt, and a fall in unsecured debt – is broadly consistent with benign inflation, steady incomes, and the RBIs policy stance to check unsecured (risky) loans**.

Credit to Industry

- **Industry credit growth remains firm. Outstanding bank credit to industry grew ~9.6% YoY by November 2025, up from 8.3% a year earlier**. This is slightly lower than the ~10.0% rate recorded in late October, indicating a minor cooldown in November. Significantly, **lending to Micro, Small and Medium enterprises continues double-digit expansion**. Major **sectors driving this trend include infrastructure, engineering, textiles and petroleum/nuclear fuels, all seeing buoyant credit flows**. By contrast, **some large-industry segments (e.g. chemicals, capital goods) have been more muted, likely weighed down by high bond yields and cautious corporate spending**. In summary, **industrial credit growth is above its longer-term average (roughly 5–6%), reflecting sustained construction and manufacturing activity, but it has somewhat moderated from mid-2025 peaks as base effects fade**.

Credit to Services

- Lending to the services sector has shown **robust growth**, though momentum has plateaued slightly. Bank credit to services **expanded about 11.7% YoY by end-November 2025 (vs 12.8% a year ago)**. Services remains the fastest-growing broad category, underpinned by **strong credit to non-banking financial companies (NBFCs) and IT/software firms**. **Trade and commercial real estate segments also continue to grow**, albeit with a marginal deceleration compared to early FY2026. Overall, **service-sector loans are rising in line with elevated business activity and household spending**. **Improving demand for credit in finance, telecom and professional services (as seen in higher NBFC offtake) suggests confidence is fairly high, though exporters and travel/hospitality have shown only modest credit uptake amid uneven global demand, although this may show an uptick going forward given the focus in the recent budget on travel and hospitality**.



Private Capex Trends and Sentiment

- Despite a stable macroeconomic backdrop and healthy corporate financials, private-sector capital spending has remained unexpectedly muted. **Growth is stable and inflation is well-contained, and many firms report record profits and low debt levels. Nonetheless, fresh capex announcements by private companies had slowed down.** Projects Today data show new private investment intentions falling for the past two quarters, even as government project announcements surged. In Q3 FY2026, for example, total new infrastructure outlays rose 40% (driven by public projects) while private manufacturing and utilities projects slipped, shrinking the private sector's share of new proposals to under half. **In short, the ability to invest is there, but firms' willingness to commit to large greenfield capex remained relatively weak. Despite supportive domestic conditions, private capex remains muted as firms stayed in a "wait-and-watch" mode amid global uncertainties – trade tensions, geopolitical risks, and a weakening export outlook, raising fears that demand may not materialise when new capacity comes on stream. This caution is reinforced by structural constraints such as a high cost of capital, persistent manufacturing bottlenecks (land, power, logistics), and regulatory and policy uncertainty, which together dampen risk appetite. As a result, much of corporate spending has been confined to replacement and maintenance capex rather than fresh capacity creation, with companies preferring to sweat and refresh existing assets instead of undertaking large greenfield expansions. However with the announcement of multiple trade deals (with the US, UK, and EU), we expect private capex to gradually pick up in the coming quarters once the final blueprints of the various trade deals are ready, since domestic demand is already showing signs of an initial uptick and capacity utilization levels have already reached ~76%.**
- **On balance, Public infrastructure investment is at record highs (the Centre's capex roughly tripled since 2019 and is budgeted at ₹11.2 lakh crore in FY26 and 12.2 lakh crore in FY27), and an unprecedented pipeline of roads, rail lines and metro projects is driving demand for cement and steel. Cement and steel makers report robust order books from government contracts, and the rebound in infrastructure announcements in late 2025 is an encouraging near-term signal. However, sustaining growth over the medium term will require private investment to kick in. Unless a steadier flow of corporate projects emerges, current momentum (bank credit flows, job creation, etc.) may falter in the medium term.**

Deposit Dynamics and Liquidity Positioning

- Bank deposits have grown more slowly than credit in recent months. As of November 28, 2025, **aggregate deposits stood at about ₹242.6 lakh crore, a 10.2% increase YoY – down from 11.1% a year ago. In contrast, non-food credit was up ~11.4% in the same period, so credit is outpacing deposit mobilization.** Time deposits have decelerated, while demand (CASA) deposits rose strongly (15–20%) as customers shifted into current/savings accounts for liquidity. **The system credit–deposit (CD) ratio has inched up into the low 80% range. To maintain ample liquidity, RBI has supplemented deposits by cutting the Cash Reserve Ratio from 4% to 3% (several steps Sept–Dec 2025), and by large-scale open-market operations.** Indeed, the RBI reports injecting over **\$23 billion** of liquidity in H2–2025 (via forex swaps, OMO bonds, repos) to offset earlier drains. As a result, overnight rates (e.g. WACR) have held modestly above the policy repo, but **liquidity remains ample overall. In sum, deposit growth is moderating as compared to credit growth which has shot up in the recent months, while RBI's liquidity measures keep the banking system comfortably funded to augur an impending capex cycle.**

Capacity Utilisation and Investment Readiness

- Industry's operating capacity is broadly **healthy**. RBI's indicators show **manufacturing capacity utilisation at elevated levels (around mid-70s percent) in H2 FY2026 – above historical averages.** The Economic Survey notes that capacity utilisation is "above long-term averages," which supports further investment. **In infrastructure-heavy industries (power, roads) and manufacturing (electronics, autos), order backlogs are strong and firms report better sentiment. Surveys also indicate gradually rising business confidence. Overall, the industrial sector appears relatively ready to absorb fresh investment: existing capacity is largely employed, but not at unsustainable levels, suggesting scope for expansion without overheating.**



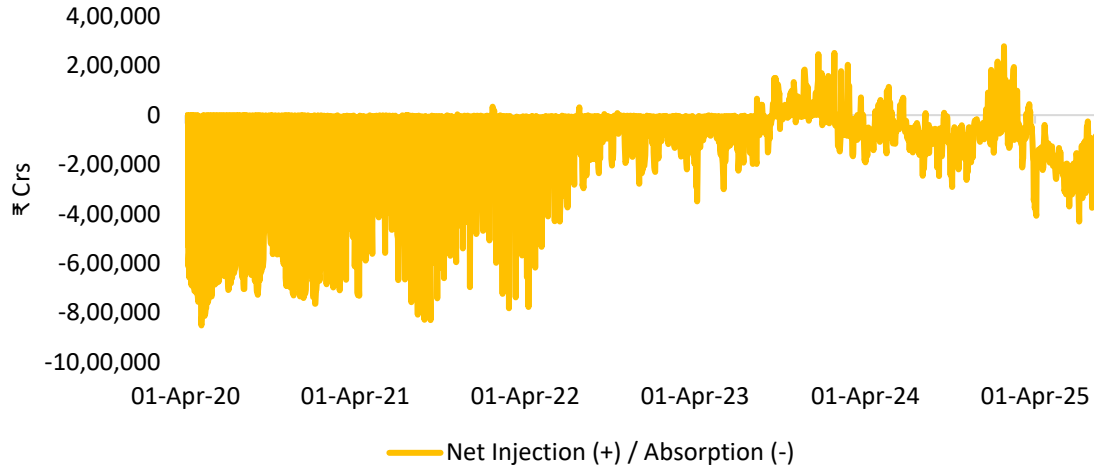
Forward Outlook:

- **Looking ahead, credit growth is expected to rise considerably once the final blueprints of the US, EU, and UK trade deals are finalised. With inflation well below target and domestic demand showing signs of an early uptick, we expect the RBI to hold the repo rate at 5.25% through at least the coming year. The focus will be on transmission of the earlier rate cuts (125 bps since early 2025) into broader lending rates and credit expansion. Easy liquidity (supported by CRR cuts and RBI's interventions) should underpin loan demand, particularly in construction, auto and retail segments. However, risks remain: a widening fiscal deficit and subsequently crowding out of investments and currency pressures on account of FPI fund outflows and PE exist. On the positive side, subdued core inflation and rising capacity utilisation allow for accommodative policy "for now". In sum, bank credit growth is likely to stay above historical norms and expand in coming months, fueled by robust agri, services and MSME demand, but with a cautious eye on global headwinds.**

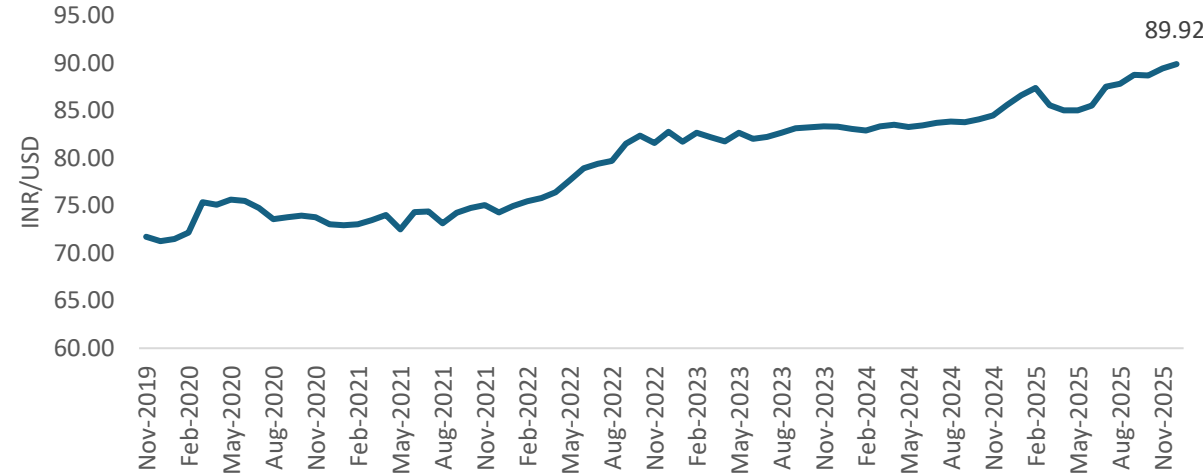
5. Liquidity



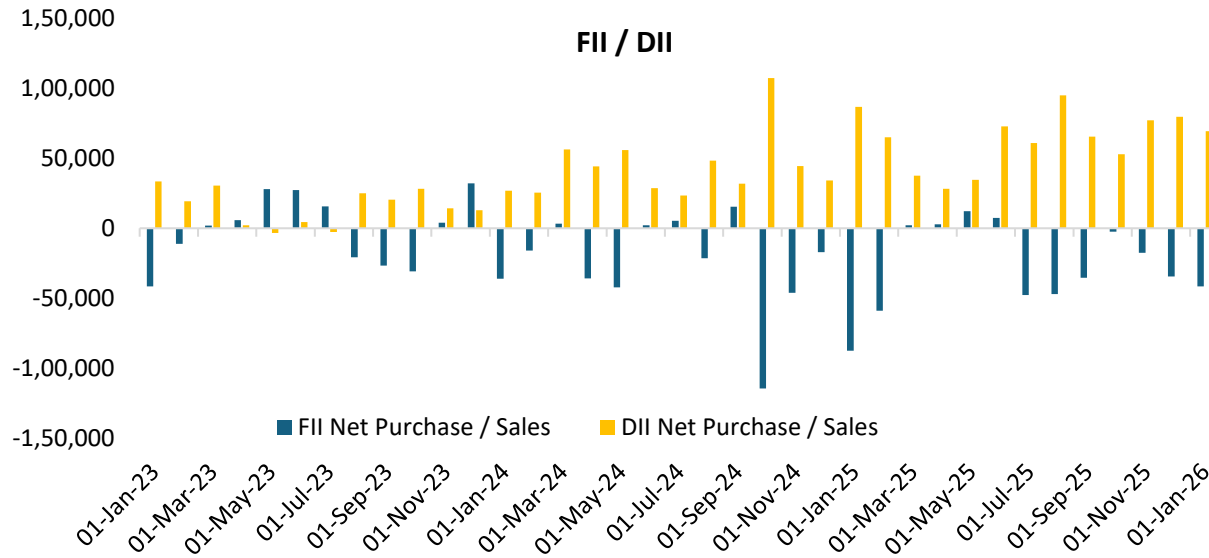
Net Injection(+)/Absorption(-) of Excess Liquidity



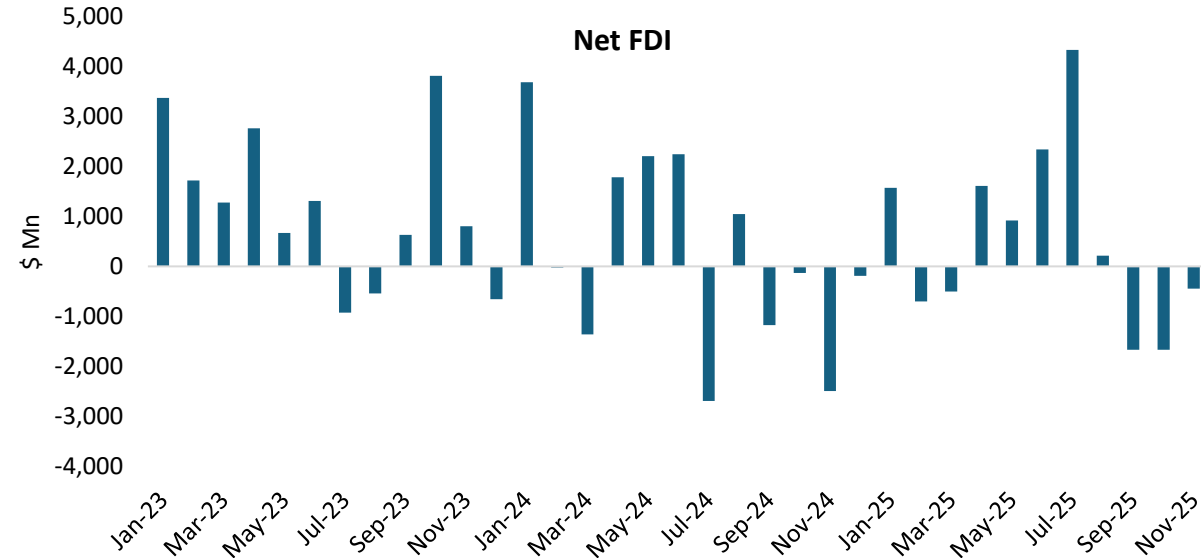
INR/USD



FII / DII

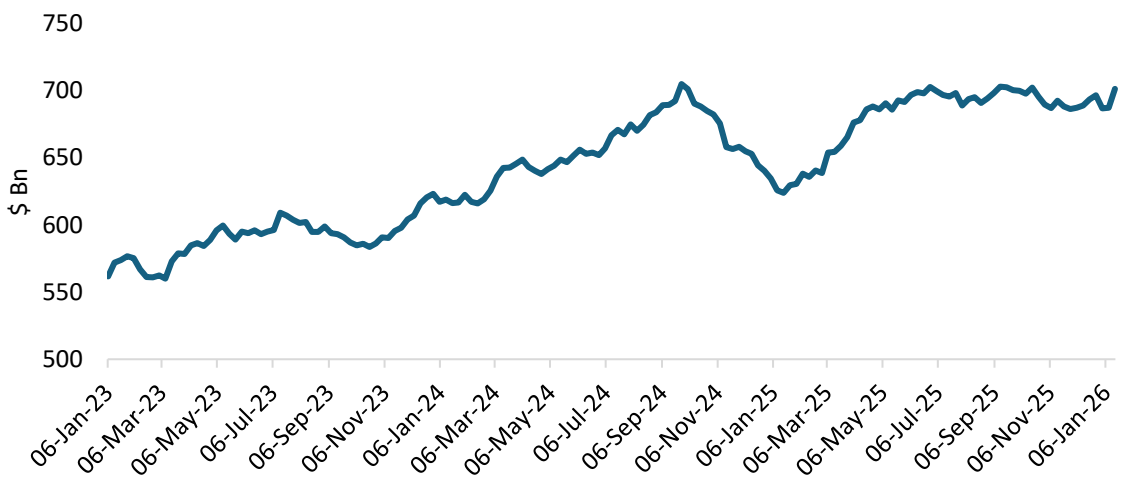


Net FDI

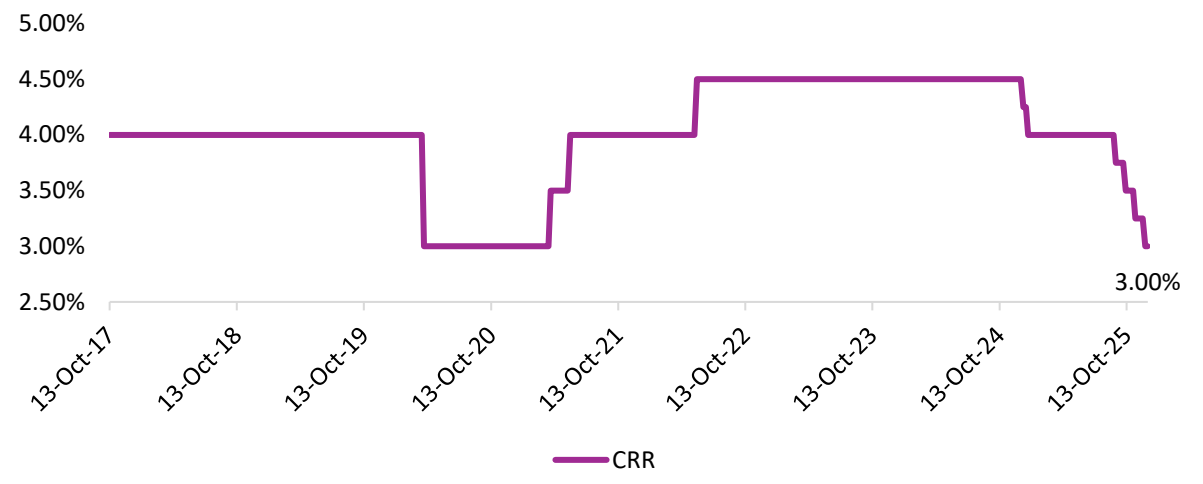




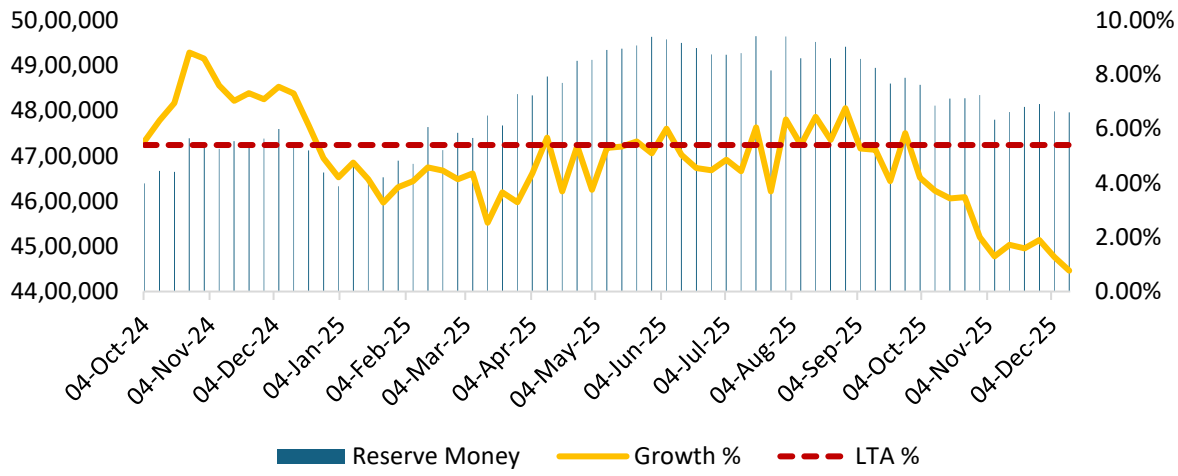
Foreign Exchange Reserves (USD Bn)



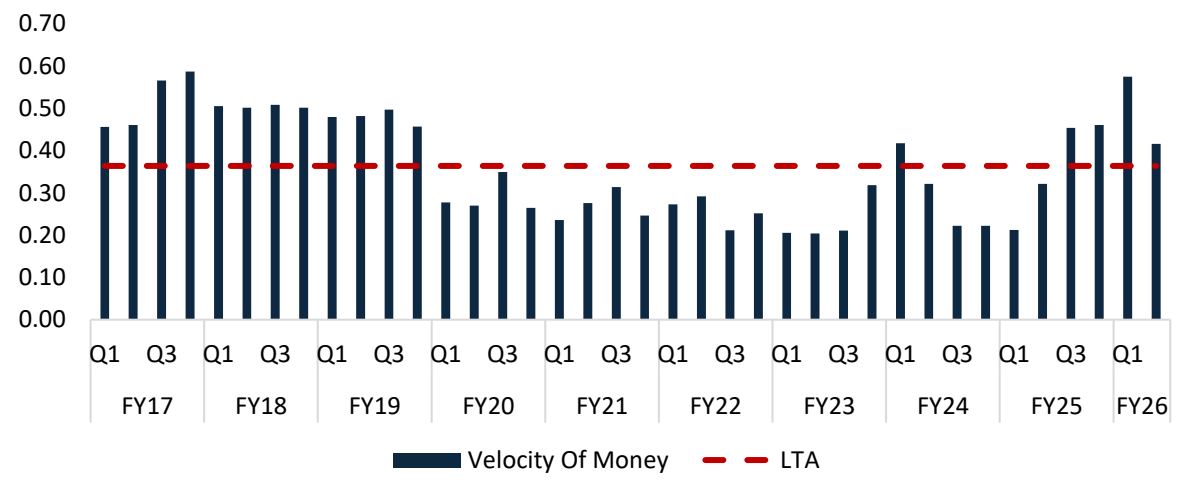
CRR



Reserve Money (M0)



Velocity of Money



Source: Internal assessment based on RBI DBIE data and Bloomberg



India's Liquidity and Monetary Policy Analysis – January 2026 – Comfortable for now

System Liquidity and Money Market Conditions

- Indian money markets have transitioned from **ample liquidity to tighter conditions as 2025 drew to a close**. After maintaining surplus liquidity for much of the year (averaging around ₹1–3 lakh crore surplus in mid-2025), **the banking system slipped into deficit by end-December**. Banks' borrowings from the RBI's liquidity window surged to about **₹1.69 lakh crore as of December 31, 2025** (up from just ₹0.27 lakh crore mid-month). This sharp jump reflected year-end pressures – **large tax outflows, a spurt in credit demand, and increased currency in circulation, which drained funds from the system**. The weighted average overnight call money rate consequently faced upward pressure, testing the upper band of the interest-rate corridor until the RBI intervened to contain it. In effect, headline liquidity numbers belied the stress underneath: even when the RBI's data showed a surplus, funds were unevenly distributed and often immobilized by the central bank's own forex interventions. **Thus, despite "surplus" liquidity on paper, effective liquidity was tighter – a fact evidenced by funding rates firming above the repo at times and bond yields rising in H2 2025.**
- The **RBI responded with an array of liquidity measures to ease conditions** as the system moved into 2026. **In December, it had already cut the Cash Reserve Ratio (CRR) in phases by a cumulative 100 basis points (to 3.0% of NDTL) – releasing about ₹2.5 lakh crore of base money by year-end and conducted sizable open market purchases and FX swaps to inject funds**. By late December, it announced fresh infusions: a **₹2 lakh crore round of Open Market Operation (OMO) bond purchases** (in multiple tranches) and a **\$10 billion 3-year USD/INR swap**, mostly scheduled in January. These **"durable" liquidity injections aimed to rebuild system liquidity to the RBI's comfort zone of ~0.6–1% of NDTL in surplus**. At the same time, the RBI continued fine-tuning short-term mismatches through Variable Rate Repo/Reverse Repo (VRR/VRRR) auctions to keep the overnight rate aligned with the 5.25% policy repo rate. Governor Sanjay Malhotra highlighted that it is possible to **inject** durable liquidity via OMOs on one hand while **sucking out** excess intraday liquidity via temporary reverse repos on the other – all with the goal of anchoring the operating rate (the call rate) close to target. By balancing these tools, **the RBI managed to calm the money markets**. Nonetheless, **the underlying trend is that credit growth outpacing deposit mobilization has pushed the system toward tighter liquidity**. The banking system's **credit-deposit ratio hit ~81.75% – a multi-decade high – by end-2025**, indicating banks are lending ~₹82 for every ₹100 of deposits. While this **reflects a robust uptick in credit demand in a growing economy, it also signifies thinner liquidity buffers**. Banks have been advised by regulators to shore up liquidity, and many are likely to raise deposit rates or moderate loan growth if this imbalance persists. **Overall, the money market tone at January 2026 is one of cautious easing – the RBI's large injections have prevented any disorderly spike in overnight rates, but conditions remain markedly tighter than the easy liquidity era of the pandemic.**

Monetary Policy and Interest Rates

- Monetary policy underwent a decisive pivot toward easing in 2025, against the backdrop of sharply lower inflation and tepid real growth. The Reserve Bank of India's Monetary Policy Committee (MPC) cut the policy **repo rate** by a **cumulative 125 basis points** during 2025, bringing it down from **6.50% to 5.25% by the December 2025 meeting**. The latest cut was **25 bps on Dec 5, 2025**, delivered unanimously by the MPC, which maintained a "neutral" stance while signaling openness to further easing, if warranted. This marked India's most aggressive rate-cutting cycle since 2019. **The rationale for easing was clear: consumer price inflation had collapsed far below the 4% target**. Starting from about 4.3% in January 2025, **CPI inflation fell to just 0.25% in October 2025** – a multi-year low – before inching up to 0.7% in November. Such an **unusually benign inflation environment (driven by an unexpected food price correction and favorable base effects)** meant that **inflation was below even the lower bound** of the RBI's tolerance band (2%). Governor Malhotra noted that since October, India had experienced "rapid disinflation" leading to a breach of the lower threshold, even as GDP growth stayed strong. With this "Goldilocks" scenario of **high growth and below-target inflation, the MPC judged that substantial policy space had opened up to support the expansion**. Indeed, the RBI revised its FY2025–26 inflation projection sharply down to just **2.0%** (from 2.6% earlier) and simultaneously raised its real GDP growth forecast to 7.3% (from 6.8%). **This optimistic outlook – inflation well within the target range and growth prospects robust – underpinned the RBI's accommodative tilt**. Policymakers emphasized that as long as inflation remains benign, "we expect the policy rates to be low" to cement the growth recovery.



- By January 2026, there are clear signs that **bank lending rates have come down appreciably**. Thanks to the external benchmark regime (about 65% of floating-rate loans are linked to the repo or other external benchmarks), banks passed on most of the 125 bps rate cut to consumers relatively quickly. Housing and other retail loan rates, for instance, have fallen, spurring credit offtake. **However, the transmission to market interest rates has been somewhat uneven – short-term money market rates and longer-term bond yields have not fallen in tandem with the repo** (this aspect is explored in later sections). For now, the **RBI has signaled satisfaction that the growth-inflation balance** firmly permits a pro-growth policy stance. Barring any flare-up of inflation or financial instability, **further modest easing is not off the table**. That said, some MPC members have begun voicing caution: with the policy rate already well below the last decade's average and **inflation expected to normalize toward 4% by mid-2026**. Overall, as of January 2026 the **RBI's priority is to nurture the nascent economic upswing with supportive interest rates, while remaining vigilant to any risks that could warrant a pause or rethink of this accommodative trajectory**.

Money Supply and Monetary Aggregates

- Monetary aggregates expanded at a brisk pace through late 2025, reflecting the combined effects of surging credit demand and the RBI's liquidity injections. **Broad Money (M3) growth accelerated into the double digits – by December 2025, growing around 12% YoY**, well above the ~9% pace a year earlier. This uptick was **underpinned by strong deposit and credit expansion in the banking system**. Total deposits of scheduled commercial banks stood at ₹253.77 lakh crore as of Dec 31, 2025, up from ₹225.22 lakh crore a year prior. This **~12.7% annual deposit growth marks a robust increase in the economy's nominal money stock**, and notably, the majority of the increment came in the form of time deposits (₹220.5 lakh crore) rather than demand deposits. **The public's clear preference for longer-term deposits amid falling inflation and lower interest rates suggests greater propensity to save in time accounts, which has helped banks fund the credit boom without an immediate spike in price pressures**. On the **credit side, bank lending has been exceptionally buoyant**. **Non-food credit outstanding reached ₹208.14 lakh crore** at end-December 2025, up from ₹181.95 lakh crore a year earlier. This is roughly **14.4% annual credit growth**, significantly higher than a year ago. In fact, an extraordinary ₹6.3 lakh crore jump in bank loans was recorded in just the month of December 2025, pushing the system-wide credit-deposit ratio to an all-time high of ~82%. Such a high credit-deposit ratio underscores the **credit-hungry nature of the economy's current phase – banks have been steadily deploying deposits into loans, supported by improved consumer and business confidence, festive season demand, and the lagged effect of rate cuts**. The healthy part of this story is that **much of the credit expansion appears to be genuine demand-driven** (housing, auto, corporate capex) rather than frothy lending, and **bank asset quality remains strong (gross NPAs ~2.1%, a multi-decade low)**. However, the **flip side is that loan growth outpacing deposit growth has started to strain liquidity, as discussed earlier, and could lead banks to compete for deposits by raising interest rates or moderating lending if this trend persists**.
- Beyond banks, other sources of money and credit have also contributed to liquidity in the economy. Currency in circulation continued to rise moderately in 2025 (though at a slower pace than deposits, given the push towards digital payments), and **reserve money (M0) saw periods of rapid expansion whenever the RBI injected durable liquidity via OMOs**. The RBI's balance sheet growth – through bond purchases and forex asset accumulation – directly feeds into reserve money, which then multiplies into broader aggregates – the multiplier effect. Importantly, **non-bank funding channels have augmented the overall financing available to the economy**. According to the RBI's January bulletin, the **total flow of financial resources to the commercial sector in FY2025-26 (up to Dec 31) was ₹30.8 lakh crore, a 44% increase** over the ₹21.3 lakh crore flow in the same period the previous year. **This figure includes not just bank credit but also corporate bond issuances, external commercial borrowings, and foreign direct investment (FDI) into India – all of which saw marked increases during 2025**. In particular, **FDI has remained a steady source of foreign capital, and Indian corporates have raised significant funds via bonds and equity issuances, taking advantage of the low-rate environment and optimistic growth outlook**. The uptick in money supply has therefore been accompanied by deepening financial markets and diversified funding for businesses. Crucially, **despite the faster money supply growth, inflation stayed subdued, implying a rise in money demand (higher output and transactions) rather than excess money chasing too few goods**. The **velocity of money likely increased alongside the economic pickup**. Going forward, **broad money growth may remain elevated as credit expansion continues, but the RBI's comfort with this is evident so long as inflation remains contained**. The central bank has noted that ample money supply is financing the economy's investment needs and **“flow of financial resources to the commercial sector” has improved significantly – a positive sign for sustaining growth**.



Capital Flows and Investment Flows

- **Capital flows** into and out of India saw notable shifts in 2025. On the **portfolio investment side, India experienced one of its largest ever bouts of foreign outflows, even as domestic investors stepped up.** Foreign Portfolio Investors (FPIs) were net sellers in Indian markets in 2025, particularly in equities. In fact, **FPIs pulled out about ₹1.6 trillion (\$18 billion) from Indian equities over the calendar year – the highest annual equity outflow on record.** This was driven by a combination of factors: **rich stock valuations after a long rally, softer corporate earnings in some sectors, weakening INR, and global uncertainties (including U.S. geopolitical and trade risks) that made investors cautious.** The trend extended into early 2026: in **January 2026 alone, FPIs sold over ₹33,500 crore (~\$4+ billion) of Indian equities, as global funds rotated towards booming tech markets in East Asia and domestic investors hedged with gold amid equity weakness.** On the debt side, FPI flows were more mixed – there were intermittent inflows into government bonds when yields were attractive, but also outflows when the rupee weakened. Overall, **portfolio flows in 2025–26 have been net negative, exerting downward pressure on the rupee and liquidity (forcing the RBI to compensate via OMOs).** However, many **analysts expect this tide to turn in 2026: India’s valuation multiples have moderated after the correction, and with easing inflation and the trade deal done, foreign investors could regain confidence. In fact, some market economists predict a revival of FPI inflows in the CY2026 quarter, assuming global interest rates peak and India’s growth–inflation dynamics stay favorable.**
- In contrast to fickle portfolio flows, **Foreign Direct Investment (FDI) into India remained a stable pillar of support.** The RBI’s data show that **FDI inflows saw a “marked increase” in 2025,** contributing substantially to the financial resource flows to the commercial sector. Sectors such as **electronics manufacturing, renewable energy, e-commerce, and fintech attracted sizeable investments from abroad, encouraged by production-linked incentive (PLI) schemes and India’s strong growth prospects.** During April–December 2025, **non-debt capital flows** (like FDI and equity issuance) helped finance the current account gap comfortably. The total external commercial financing (loans + bonds from abroad) was also robust – Indian companies tapped international markets for funds amid low global rates in early 2025, and while external commercial borrowing (ECB) moderated later (due to rising dollar rates), overall **corporate fundraising remained healthy.** Domestically, the **investment cycle showed signs of uptick: gross fixed capital formation has been growing, and government capital expenditure (especially on infrastructure) saw accelerated disbursements. The combination of budgetary capex push and private investment recovery meant that capital flows internally (banks channeling deposits to loans for industry, investors buying corporate bonds, etc.) were flowing into new projects.** For instance, **bank credit to industry and infrastructure grew in double digits after years of anemic growth, indicating improving investment sentiment. The flow of financial resources to the commercial sector – which includes bank credit, corporate bonds, commercial paper, and FDI – was nearly ₹30.8 lakh crore in the first nine months of FY26, far above the ₹21.3 lakh crore in the same period of the previous year. This 40%+ jump underscores the resurgence of investable funds available to Indian businesses.**
- Another noteworthy trend is the role of **domestic institutional investors (DIIs)** – such as mutual funds, insurance companies, and pension funds – in stabilizing markets. DIIs were **net buyers of equities to the tune of over \$20 billion in 2025, handily absorbing the FPI sales.** This reflects the **growing depth of India’s capital markets and the impact of household savings flowing into mutual funds (especially via SIPs) and insurance.** These domestic flows have lent a **degree of autonomy to Indian markets, reducing vulnerability to foreign sell-offs.** However, even DIIs have finite capacity, and they too adjust allocations (for example, shifting some funds to bonds or gold when equities look less attractive, as seen in the recent precious metals rally). On the **foreign exchange front,** beyond FPI and FDI, NRI deposits remained steady and India’s external borrowing was prudent (government external debt is mostly long-term and multilateral). India also benefited from some inbound portfolio investment in debt after being included in JPMorgan’s on-watch list for bond index inclusion, although full index inclusion (and the large inflows it could bring) is still pending.
- We also note that **volatile capital flows are complicating the external-account side of policy. Foreign investors sold roughly \$19 bn of Indian assets in 2025 and another ~\$4 bn by January 2026, helping drive the rupee to record lows (~₹92/\$) despite central-bank intervention. Such interventions (FX swaps and bond-purchases) support the currency but soak up liquidity, contributing to what observers call a “monetary trilemma” between stabilizing the rupee, anchoring borrowing costs, and allowing capital to move freely. Our view is that the RBI will continue using targeted swaps and OMO auctions to smooth rupee volatility and ensure system liquidity, while carefully monitoring financial stability. In balancing these trade-offs, we see scope for maintaining an easy stance (given benign inflation and strong growth) but recognise that the RBI must juggle growth support, macro-financial stability, and external-equilibrium objectives in tandem.**



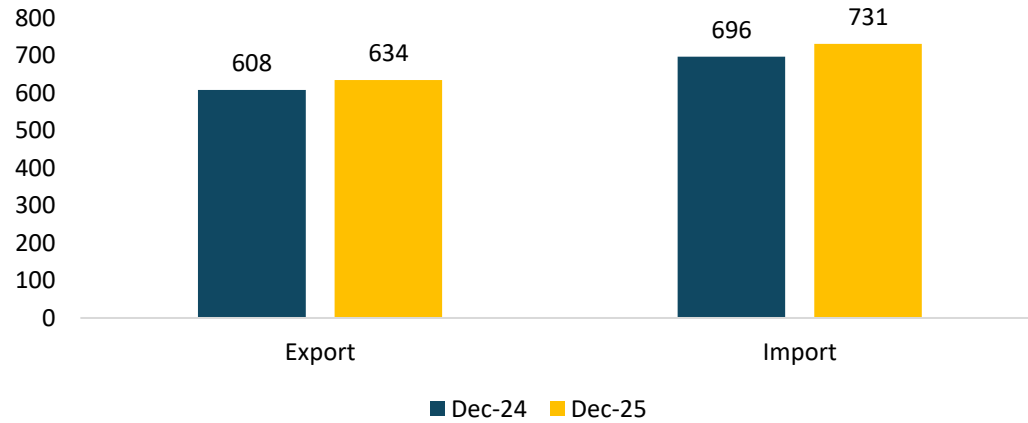
Policy Implications and Outlook

- We observe that **India's macro policy stance although 'neutral', remains broadly accommodative given exceptionally low inflation and robust growth.** As of Dec 2025 the RBI's repo rate stands at 5.25%, with headline CPI running well below target (around 1.7% Apr–Dec'25). The RBI has already eased policy by 125 bps last year, complemented by a 100 bps CRR cut to 3%. These actions, together with vigorous OMOs, have **flooded banks with liquidity: broad money is growing above 12% YoY and commercial credit flows (bank and non-bank) have surged.** However, **heavy government borrowing has pushed 10-year yields to ~6.7%, and banks face intermittent liquidity crunches when the RBI buys dollars to support the rupee.** In response, **we expect the RBI to maintain ample liquidity – using bond purchases, VRR repos and possible CRR fine-tuning – so that overnight rates stay near target and easy policy is transmitted into lending, while keeping an eye on asset-price inflation.**

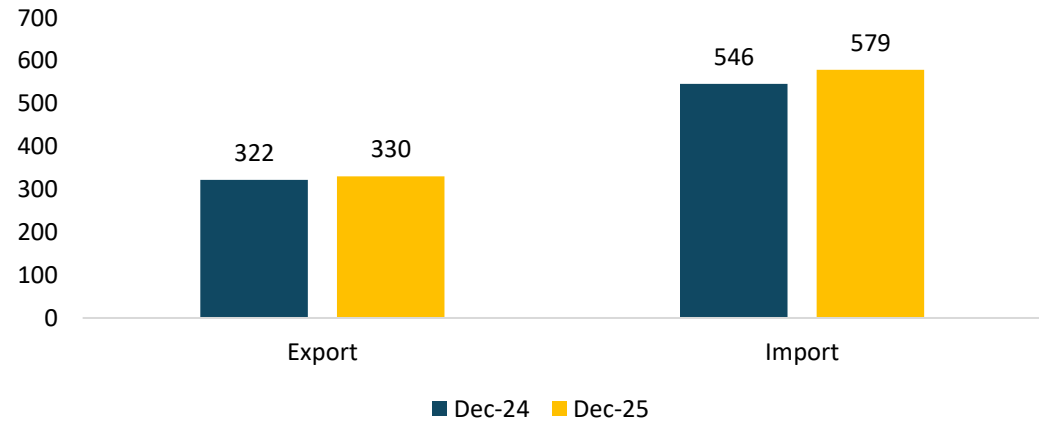
6. Trade



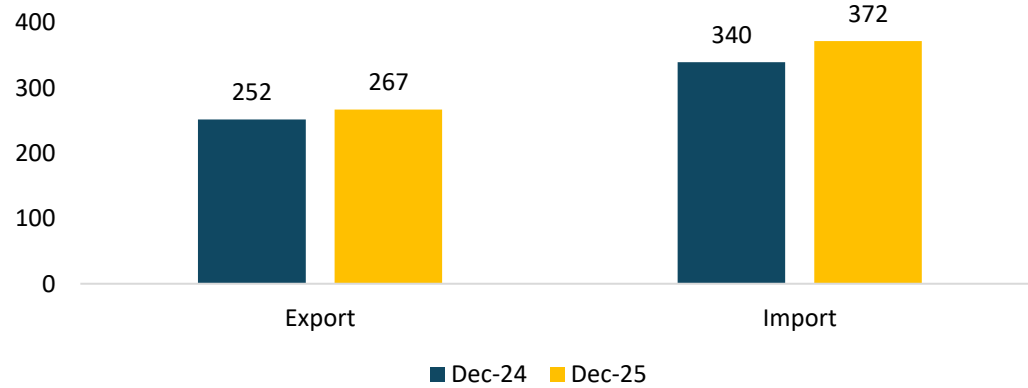
Total Trade During April-December-2025



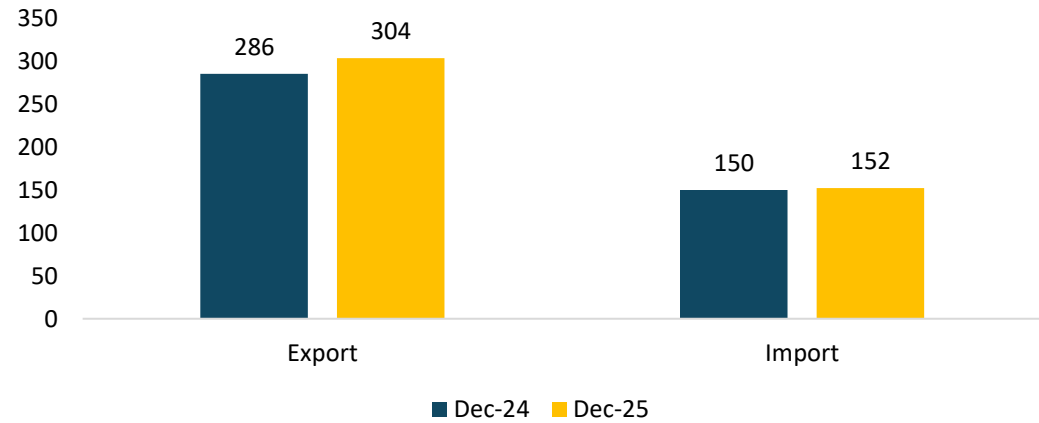
Merchandise Trade during April-December-2025



Trade excluding Petroleum and Gems & Jewellery during April-December-2025



Services Trade during April-December-2025

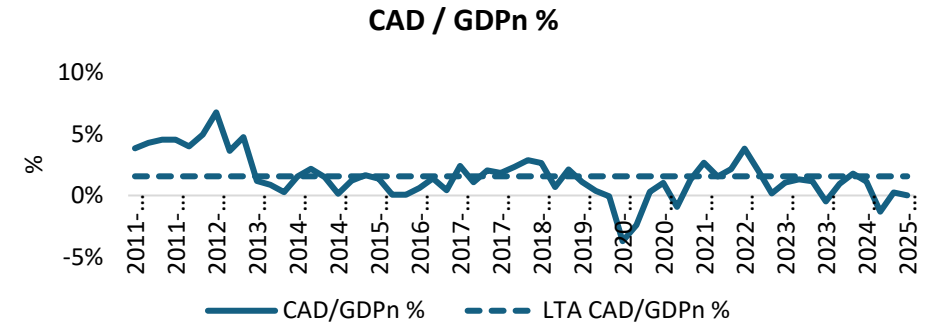


India's Trade Performance (April–December 2025) – Greenshots in Sight



Trade Summary (Apr–Dec 2025):

Trade Metric	Apr–Dec 2025
Merchandise Trade Balance	–\$248.3 bn
Services Trade Balance	+\$151.7 bn
Total (Goods + Services) Balance	–\$96.6 bn
Trade Deficit (Goods+Services) / GDP	~2.5–3% (est)
CAD / GDP	~1.5–2% (est)



Merchandise Trade Trends:

- We observed modest growth in merchandise exports alongside a sharper rise in imports during April–December 2025. **Goods exports totaled \$330.3 billion, up ~2.4% YoY**, reflecting tepid global demand in certain segments. In contrast, **merchandise imports surged to \$578.6 billion (about +5.9% YoY)**, outpacing exports and widening the goods trade deficit to **\$248.3 billion (vs. \$223.9 billion a year earlier)**.
- Export growth** was relatively **broad-based – 18 out of 30 major export categories (~56% of the export basket by value) saw expansion** in Apr–Dec 2025. **Key drivers included electronics, pharmaceuticals, engineering goods, and marine products**, which posted healthy gains. For instance, electronics exports rose sharply (e.g. +16.8% YoY in Dec 2025) and pharma exports continued to climb. However, **exports of certain commodities declined**, creating a drag – **notably petroleum products (amid softer global oil prices), rice, plastics, oil meals, and gems & jewellery saw year-on-year contractions**. These weak spots, largely reflecting **lower commodity prices and external trade restrictions**, tempered overall export performance.
- On the **import side, demand for oil and core imports remained robust**. Petroleum crude and products imports increased (supported by higher volumes and a rebound in global oil prices later in 2025), and imports of electronic goods, machinery and metals also grew strongly. This suggests **solid domestic investment and an initial uptick in consumption demand driving capital and intermediate goods imports**. At the same time, some import components **softened – gold imports fell (e.g. –12% YoY in Dec) amid high prices and past duty hikes, and imports of transport equipment, iron & steel and certain chemicals declined**. Overall, **18 of 30, ~35% of the import basket, saw growth in Apr–Dec, indicating import growth was somewhat concentrated in select sectors (notably energy and electronics)**.

Services Trade Trends:

- India's services trade surplus continued to rise, providing a crucial offset to the merchandise gap. **Services exports reached an estimated \$303.97 billion in Apr–Dec 2025, expanding ~6.5%** over the same period last year. This growth was driven by **resilient software, business, and transport services** – we observed that IT and business process services remained strong, even as global growth slowed, reflecting India's competitive niche. Meanwhile, **services imports were broadly flat, totaling \$152.2 billion (only ~1% higher YoY) as overseas travel and business service outflows stayed subdued**. Consequently, the **net services surplus jumped to \$151.7 billion** (up from \$135.5 billion a year prior). This rising services surplus has been **crucial in cushioning India's overall trade balance**. In fact, **net services exports now finance roughly 60% of the merchandise trade deficit** over this nine-month period, **underscoring how India's expanding services sector is mitigating external imbalances**.



Core Trade (Non-Oil, Non-Gold) Performance:

- Stripping out volatile commodity trade reveals a healthier core performance. **Non-petroleum exports grew ~5.5% YoY in Apr–Dec 2025** – higher than overall export growth – indicating solid demand for India’s non-commodity goods. In particular, **non-oil, non-gems & jewellery exports** were about **\$266.9 billion (up ~6% from \$251.7 billion in Apr–Dec 2024)**, reflecting strength in manufactured exports outside of petroleum and jewelry. On the import side, **core imports (excluding oil, gold, silver, precious stones) surged owing to strong initial uptick in domestic activity** – these non-oil, non-precious imports were **\$371.9 billion** in Apr–Dec 2025 vs. \$339.7 billion last year, a **~9.5% jump**. **Robust growth in core imports (especially capital goods and industrial inputs) suggests domestic investment and consumption were buoyant**, even as gold imports and oil moderated. The widening of the “core” trade deficit implies **domestic demand-driven imports have been a significant contributor to the negative trade gap, although this is a sign of an initial uptick in economic strength**. Importantly, adding oil to the import bill, the **oil import bill (~\$135 billion) remains a large structural component**, but it was slightly lower than the previous year, thanks in part to lower crude prices earlier in 2025.

Drivers of the Trade Deficit: Structural vs. Transitory:

- India’s trade deficit is driven by a mix of **structural factors and transitory forces**. **Structurally, India is a net importer of commodities – most critically, petroleum**. Energy imports alone constitute a large share of the import bill and ensure a baseline trade deficit in merchandise trade. This persistent oil-driven deficit is a structural feature that tends to keep the **merchandise trade balance in the red**. Additionally, **India’s import-heavy needs for capital goods and electronics to fuel development contribute to a structural gap**, as domestic production in some high-tech areas still lags demand. On the export side, **India’s export base, while diversifying, is still developing up the value chain**, which structurally limits how much goods export growth can outpace import growth.
- That said, **transitory factors in 2025 also widened the deficit**. A key cyclical element was the **global growth slowdown in late 2024 and 2025, which softened demand for some of India’s exports (e.g. textiles, certain consumer goods)**. We note, for example, that **after the US imposed a tariff hike on certain Indian steel products in August 2025, India’s exports to the US dipped in subsequent months** – a temporary policy shock that hurt export performance. Similarly, domestic policy changes (like export restrictions on specific food items such as rice) and high global interest rates curbing world trade have had short-term impacts on export volumes. **On the import side, India’s domestic economic rebound in late 2025 – with real GDP growth at ~7% – led to higher imports of machinery, electronics and inputs, a cyclical uptick linked to robust investment activity**. This cyclical import surge contributed to the deficit but **reflects healthy uptick in domestic demand**. Meanwhile, some transitory relief came from factors like lower gold imports (due to record-high gold prices dampening demand) and cheaper global commodity prices in early 2025, but these effects were outweighed by the import boost from economic expansion.
- In summary, the **current trade deficit (~\$96.6 billion net goods & services) has structural underpinnings (high commodity-import dependence) but has been accentuated by temporary forces such as global demand fluctuations and one-off policy impacts**. We assess that structural drivers account for the bulk of the deficit (oil alone accounting for a large portion), while transitory factors have caused year-to-year swings in the deficit’s size.



Outlook and Policy Perspective:

- Despite the wider trade deficit, **India's external sector position remains broadly stable and resilient.** The **combined goods and services deficit** of ~\$97 billion in Apr–Dec 2025 is approximately **2.5–3% of GDP** for the period (annualized), a level that is **manageable by historical standards.** This implies the **current account deficit (CAD)** – which includes trade plus remittances and capital income – likely stays around **~1.5–2% of GDP, well within sustainable levels despite reduced net FDI.** Indeed, the Reserve Bank of India (RBI) has noted that **comfortable foreign exchange reserves and a sustainable CAD continue to underpin external stability.**
- Looking ahead, we expect **India's trade dynamics to improve modestly** in the coming quarters, though global headwinds persist. Global growth forecasts for 2026 have been revised slightly upward but still signal a **moderation in world trade growth** – a cautionary sign for export demand. Our view is that merchandise export growth could remain moderate as overseas demand in advanced economies stays lukewarm. However, **service exports are likely to sustain momentum** (underpinned by IT and professional services), and lower global commodity prices (if they prevail) should contain the import bill for oil and other raw materials. This would help prevent a further widening of the trade gap. On the **policy front**, the **RBI appears sanguine about the external sector.** In recent communications, the central bank emphasized the resilience of the external sector and noted that the **current account deficit is within sustainable limits**, backed by strong fundamentals. This confidence in external stability has given the **RBI room to refocus on domestic growth and inflation.** In fact, with inflation easing by late-2025, the RBI cut the policy repo rate in December 2025, a move made possible in part because **external imbalances were under control** and not adding macroeconomic stress, despite the stalling of the India–US trade agreement.
- **Our overall assessment is that India's external position in Apr–Dec 2025 remained sound, albeit with reduced net FDI flows. The CAD is est to be at 1.5–2% and Trade Deficit at ~3% of GDP, is moderate and largely driven by growth-related imports and global factors rather than any domestic stress. We expect the trade deficit to gradually narrow going into 2026 as export growth picks up alongside a global recovery on account of the recent trade deals and import growth remains buoyant. External-sector risks – such as sudden oil price spikes or a sharper global slowdown – bear watching, but India's buffers (high reserves, credible policy framework) and dynamic services sector should continue to insulate the economy from external shocks. In the RBI's view (which we share), the external sector is stable, and this stability will support India's macroeconomic outlook, allowing policymakers to focus on sustaining growth while maintaining vigilance on inflation and external risks.**

7. Fiscal Situation



INR BN	FY24-25	FY25-26	FY25-26	FY26-27	% YoY	
	Actual	BE	RE	BE	FY27BE/FY26RE	Comments
Revenue Receipts	30366	34204	33423	35332	5.7	
Tax Revenue (Net of State Share)	25000	28374	26747	28669	7.2	Reasonable on the back of nominal GDP growth of 10%
Non-Tax Revenue	5366	5830	6677	6662	-0.2	
Capital Receipts	16162	16449	16225	18142	11.8	
Recovery of Loans	246	290	302	384	27.2	
Other Receipts	172	470	338	800	136.4	Disinvestment target set at INR 800Bn; needs monitoring
Borrowing & Other Liabilities	15744	15689	15585	16958	8.8	
TOTAL Receipts	46529	50653	49648	53473	7.7	
Revenue account other than interest payment	24853	26679	25947	27215	4.9	
Interest Payment	11156	12763	12743	14040	10.2	
TOTAL Expenditure	46529	50653	49648	53473	7.7	
Total Revenue expenditure	36009	39443	38691	41255	6.6	Control over revenue expenditure
Of which grants for creation of capital assets	2727	4272	3082	4927	59.9	
Total capital expenditure	10520	11211	10958	12218	11.5	strong growth in capital expenditure
Effective capital expenditure	13246	15483	14039	17145	22.1	strong growth in effective capital expenditure
REVENUE DEFICIT	5643	5238	5268	5923	12.4	
% of GDP	1.7%	1.5%	1.5%	1.5%		
FISCAL DEFICIT	15744	15689	15585	16958	8.8	fiscal deficit remains under control; Budgeted to decline to 4.3% of GDP in FY27BE
% of GDP	4.9%	4.4%	4.4%	4.3%		
PRIMARY DEFICIT	4589	2926	2842	2918	2.7	
% of GDP	1.4%	0.8%	0.8%	0.7%		
Nominal GDP	324114	356979	357139	393004		
Growth (%)	-1.1%	10.1%	10.2%	10.1%		nominal GDP growth assumptions appear realistic
Effective capital expenditure as % of total exp	28.5%	30.6%	28.3%	32.1%		
revenue expenditure as % of GDP	11.11%	11.05%	10.83%	10.50%		
capital expenditure as % of GDP	3.25%	3.14%	3.07%	3.11%		



Revenue

INR BN	2025A	2026BE	2026RE	2027BE	Change (%) 2026RE/2025	Change (%) 2027BE/2026RE	Comments
Receipts							
1. Revenue receipts (2d + 3)	30,366	34,204	33,423	35,332	10.1	5.7	
2. Gross tax revenues (a + b)	37,964	42,702	40,778	44,041	7.4	8.0	Assumption appears realistic given nominal GDP growth of 10%
2.a. Direct taxes	22,359	25,351	24,365	27,250	9.0	11.8	
2.a.1. Corporation tax	9,868	10,820	11,090	12,310	12.4	11.0	Assumes improvement in corporate earnings
2.a.2. Income tax (incl. other taxes)	12,491	14,531	13,275	14,940	6.3	12.5	
2.a.2.1. Securities transaction tax (STT)	522	780	637	737	22.0	15.8	Growth on back of higher STT
2.b. Indirect taxes	15,605	17,351	16,413	16,791	5.2	2.3	
2.b.1. Goods and Services Tax	10,270	11,780	10,465	10,190	1.9	-2.6	
2.b.2. Customs duty	2,332	2,400	2,583	2,712	10.8	5.0	
2.b.3. Excise duty	3,003	3,170	3,366	3,889	12.1	15.6	Hike in excise duty on the back of higher tax of cigarettes
2.b.4. Service tax	-0	1	-	-	-	-	
2.c Devolution to states, UTs, etc.	12,963	14,328	14,031	15,372	8.2	9.6	Devolution to states retained at 41%
2.d Net tax revenues (2 - 2.c)	25,000	28,374	26,747	28,669	7.0	7.2	
3. Non-tax revenues	5,366	5,830	6,677	6,662	24.4	-0.2	
3.a. RBI's transfer of surplus	2,104	2,104	2,686	2,686	27.7	0.0	Assuming similar transfer of dividend by RBI in FY27E
3.b. Telecommunications	848	824	1,408	1,171	66.1	-16.9	
3.c. Others	2,414	2,902	2,582	2,806	7.0	8.7	
4. Non-debt capital receipts (a + b)	418	760	640	1,184	53.1	84.9	
4.a Recovery of loans	246	290	302	384	22.6	27.2	
4.b Other receipts (incl. disinvestments)	172	470	338	800	96.7	136.4	Higher budgeted disinvestment receipts need close monitoring
5. Total receipts (1 + 4)	30,784	34,964	34,064	36,515	10.7	7.2	

Expenditure

INR Bn	2025A	2026BE	2026RE	2027BE	Change (%) 2026RE/2025	Change (%) 2027BE/ 2026RE	Comments
Expenditure							
6. Revenue expenditure	36,009	39,443	38,691	41,255	7.4	6.6	
6.a. Interest payments	11,156	12,763	12,743	14,040	14.2	10.2	
6.b. Subsidies	3,850	3,834	4,297	4,105	11.6	-4.5	Subsidies lower than FY26RE
6.c. Pay, allowances and pensions	7,543	7,825	7,873	8,151	4.4	3.5	
6.d. Agriculture and farmers' welfare	1,299	1,272	1,230	1,305	-5.3	6.1	
6.g. Rural development	1,767	1,878	1,870	1,944	5.9	3.9	
6.h. Drinking water, sanitation, etc.	464	989	410	943	-11.7	130.2	
6.i. Transfers to states	1,333	1,574	1,815	1,678	36.2	-7.6	
6.j. Police (Central forces)	1,351	1,438	1,463	1,525	8.3	4.3	
6.h. Others	5,290	5,659	4,866	5,183	-8.0	6.5	
7. Capital expenditure	10,520	11,211	10,958	12,218	4.2	11.5	Tracking Nominal GDP growth
7. a. Defence	1,706	1,924	1,974	2,310	15.7	17.0	Growth in defence expenditure continues
7. b. Railways	2,519	2,520	2,520	2,778	0.0	10.3	
7. c. Roads and highways	2,853	2,722	2,721	2,942	-4.7	8.1	
7. d. Loans for capex to states	1,499	1,500	1,500	2,000	0.1	33.3	
7. e. Housing and urban affairs	316	376	330	348	4.3	5.5	
7. f. Others	1,625	2,168	1,913	1,840	17.7	-3.8	
8. Total expenditure (6 + 7)	46,529	50,653	49,648	53,473	6.7	7.7	Quality of expenditure continues to improve

Revenue receipts are projected to grow by ~7% in FY 2026–27, while total expenditure is budgeted to rise by ~8%, resulting in an estimated fiscal deficit of ~4.3% of GDP. The slightly faster pace of expenditure growth relative to revenue underscores the government's calibrated expansionary stance at this stage of the cycle. While revenue growth remains healthy, expenditure continues to be skewed toward priority areas such as capital outlay and growth-supportive spending. The resulting fiscal deficit of 4.3% of GDP reflects a conscious trade-off—supporting economic momentum without materially compromising medium-term fiscal consolidation. Importantly, the deficit remains on a declining glide path, suggesting that fiscal credibility is being preserved even as near-term growth is prioritised.



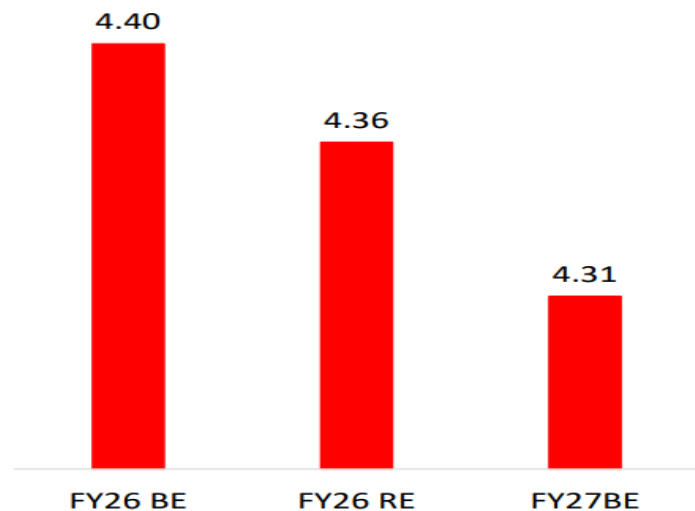
Fiscal Outlook and Consolidation

- The Union Budget FY2026-27 (FY27) continues on a path of gradual fiscal consolidation. The **gross fiscal deficit (GFD) is targeted at 4.3% of GDP, a modest improvement from 4.4% in the previous year**. This meets the government's medium-term fiscal roadmap, with an **aim to reduce debt-to-GDP to 55.6% in FY27 and around 50% by 2030-31**. The budget underscores a shift in fiscal anchor from one-year deficit figures to the debt ratio, emphasizing sustainable debt reduction over time. Importantly, **primary deficit (fiscal deficit net of interest payments) is contained near 0.7% of GDP, reflecting that much of the deficit is due to interest outgo**. By restraining revenue expenditure growth and sticking to deficit targets, the government signals commitment to prudence – a stance aimed at preserving market confidence and leaving credit space for the private sector (i.e. minimizing crowding-out).

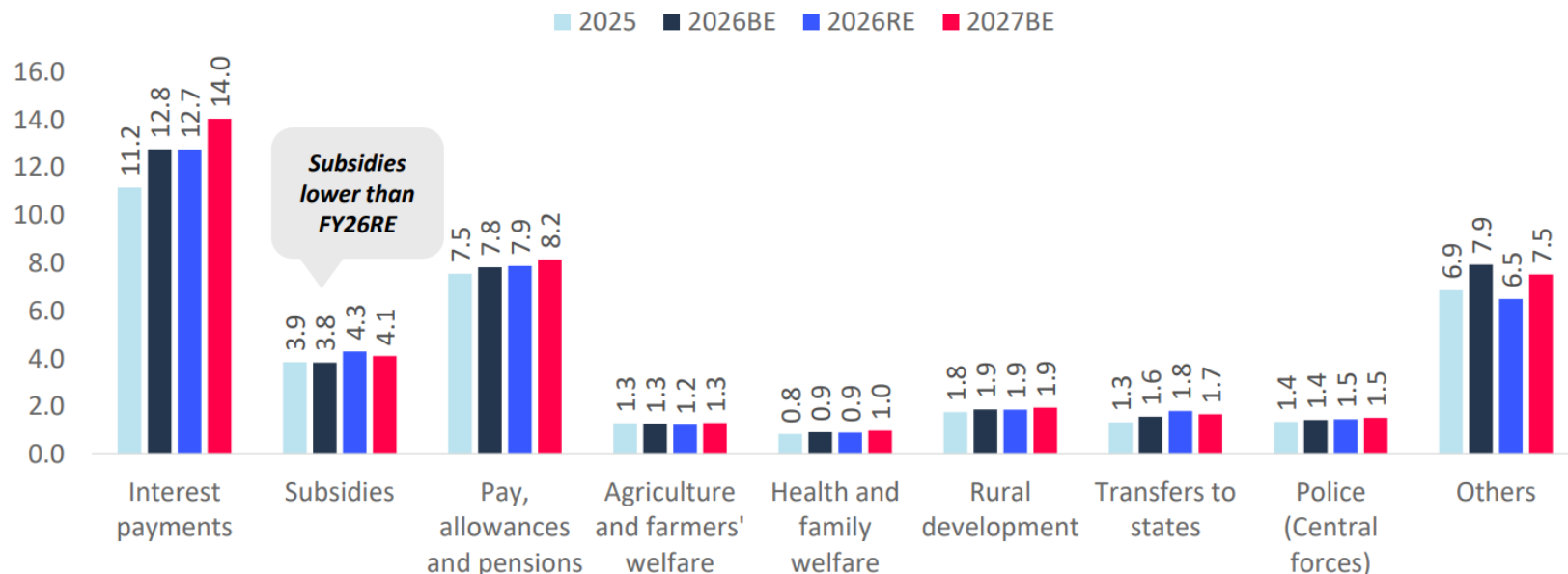
Revenue and Taxation Structure

- Revenue projections in Budget FY27 are cautiously optimistic. **Gross tax revenue is estimated at about ₹44.0 lakh crore, an ~8% increase over FY26 (RE)**. After devolving shares to states, the net tax revenue to the Centre is pegged around ₹28.6 lakh crore, up from ₹26.8 lakh crore in FY26. This assumes a **tax buoyancy under 1 (approximately 0.8) – reflecting subdued growth in collections due to last year's tax rate cuts**. **Direct taxes are forecasted to grow faster than nominal GDP (buoyancy >1), while indirect taxes (notably GST) lag behind (buoyancy ~0.3) after rate reductions**. Indeed, the **tax-to-GDP ratio is expected to dip slightly from 11.4% in FY26 (RE) to 11.2% in FY27**. Notably, **no changes in personal income tax slabs** were introduced, preserving the existing structure. Instead, the budget relies on stability and better compliance to raise revenue, alongside minor tweaks: for example, customs duties were streamlined (with some exemptions pruned) to encourage domestic value-addition. On the non-tax side, the **divestment target remains at a realistic ₹80,000 crore (similar to last year) to avoid overly ambitious revenue assumptions**. Overall, the tax structure signals continuity – providing a stable policy environment – while modestly higher collections are expected from an expanding tax base and economic growth.

Fiscal Deficit
(% Of GDP)



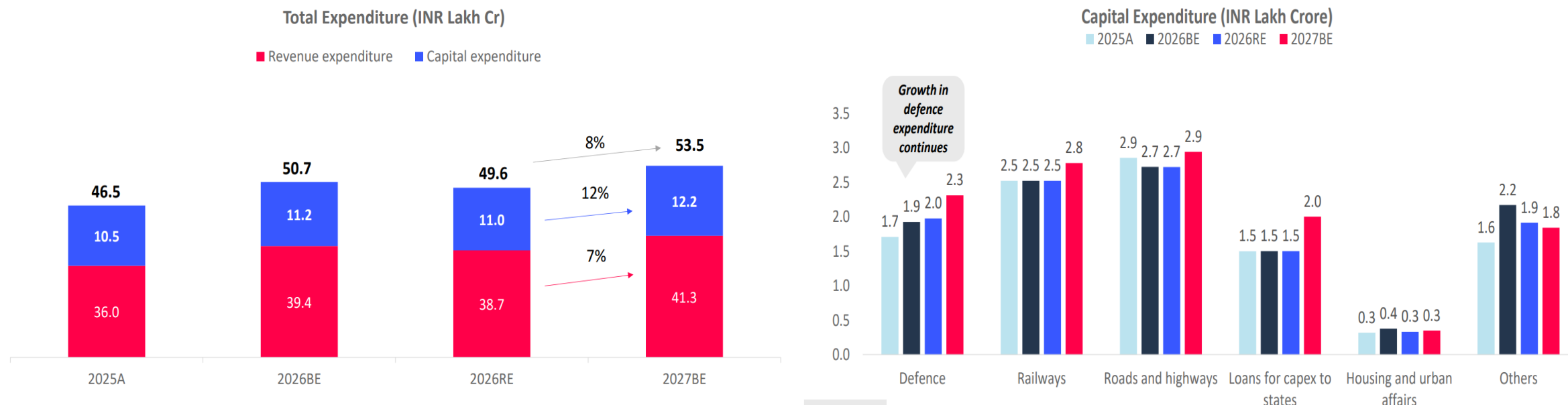
Revenue Expenditure (INR Lakh Crore)





Capital Expenditure and Infrastructure Push

- A key highlight of Budget FY27 is the **record boost to capital expenditure (capex), underscoring an infrastructure-led growth strategy**. Budgeted capex outlay is ₹12.2 lakh crore, an 11.5% increase over the current year's revised figure. This amounts to 3.1% of GDP dedicated purely to capital investments in FY27 – the highest in decades. Including grants for asset creation (to states, etc.), the effective capital expenditure rises to ₹17.14 lakh crore, which is about 4.4% of GDP. In fact, effective capex now comprises nearly 32% of total budget outlay, marking a decisive shift towards building long-term assets. The Finance Minister highlighted that **public capex has grown more than five-fold since FY15, reflecting sustained emphasis on infrastructure**. Major investments span **transportation (roads, railways, urban transit), logistics (new Dedicated Freight Corridors, national waterways, ports), energy infrastructure, and digital connectivity**. For instance, the Indian Railways received a historic allocation (around ₹2.9 trillion) to expand and modernize rail infrastructure (a record high). Additionally, an Infrastructure Risk Guarantee Fund is being established to incentivize private developers by mitigating project risks. This capex thrust is expected to not only directly boost construction activity and jobs, but also enhance the economy's productive capacity and competitiveness in the medium term.

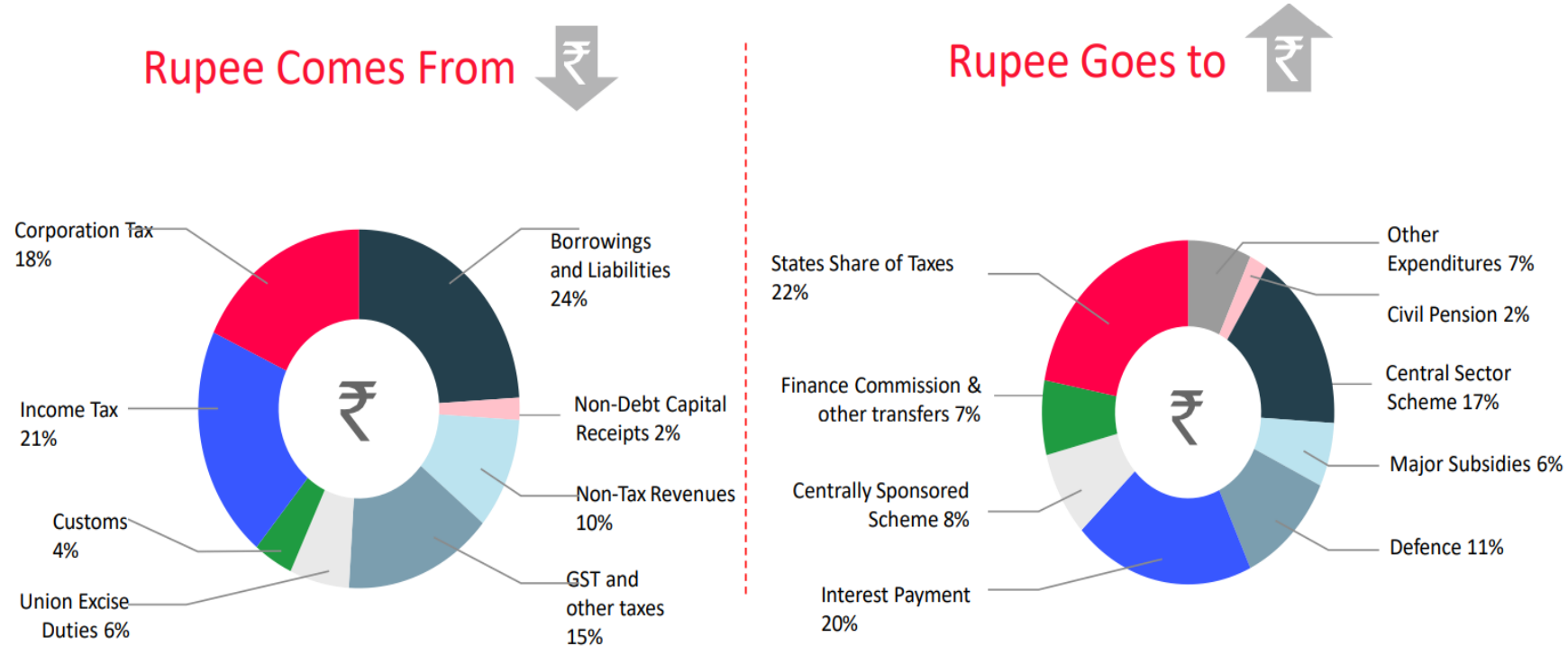


Budget Math: Deficit, Borrowing, and GDP Assumptions

- The budget's macro-fiscal math is built on realistic if slightly optimistic assumptions. It projects nominal GDP growth of 10.1% in FY27, based on real GDP growth around 6.8–7.0% plus GDP deflator (inflation) of ~3%. This assumption is crucial: higher nominal growth boosts tax revenues and makes the fiscal deficit ratio easier to contain. At a 10% growth rate, the budget comfortably accommodates a total expenditure of ₹53.5 lakh crore (7.7% above last year) while lowering the deficit to GDP ratio. However, if growth were to slip (say to 9% nominal), the consolidation would require more belt-tightening in the future.



- The FY27 fiscal deficit (GFD) of 4.3% of GDP translates to roughly ₹17.0 lakh crore of borrowing. Indeed, the government has announced a record market borrowing of ₹17.2 lakh crore (gross) for FY27, which is 17% higher than the current year's ₹14.6 lakh crore. After accounting for repayments, net borrowing is estimated at ₹11.73 lakh crore. This large supply of government bonds has raised concerns about upward pressure on yields; the benchmark 10-year yield spiked to around 6.8% post-budget on anticipation of heavy borrowing. The budget did not announce any immediate measures to expand demand for these bonds, meaning the RBI's support (OMOs or liquidity management) may be needed to prevent crowding out private credit.
- On the deficit composition, the revenue deficit is pegged at 1.5% of GDP, indicating that nearly two-thirds of the fiscal deficit is devoted to capital formation rather than operating expenses. In other words, borrowed funds are increasingly being used for investment (roads, rail, defense capital, etc.) rather than consumption. primary deficit (fiscal deficit net of interest payments) is contained near 0.7% of GDP, which indicates, interest payments, however, remain a significant burden – about 26% of total expenditure (taking up 40% of revenue receipts). This highlights why containing debt and interest costs is vital for fiscal health. The Budget Estimates (BE) vs Revised Estimates (RE) for the current year reveal that while the deficit target was met in FY26, it was achieved partly by curtailing expenditures in various ministries due to lower-than-projected tax receipts (tax revenue grew only ~6.7% in FY26 despite ~7.4% real GDP growth). For FY27, the government has set achievable targets – an 8% rise in tax revenue, 10% nominal GDP growth – leaving some buffer for slippage. The gross borrowing figure of ₹17.2 lakh crore, though high, is in line with market expectations (analysts had predicted ₹16–17.5 lakh cr). In sum, the budget math reflects a careful balancing act: gradually lower deficits without derailing growth spending, and bank on decent economic growth and efficient tax administration to make the numbers work.





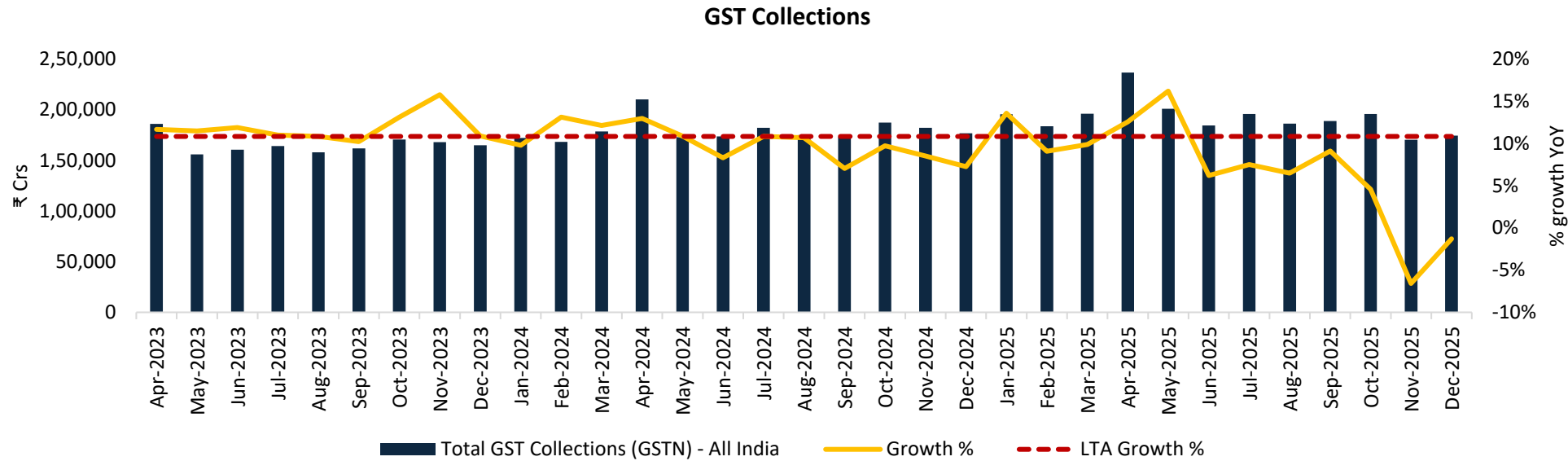
Implications for Private Investment and Crowding-In

- A central question for economists is whether high public spending will “crowd out” private investment or “crowd in” more private activity. The government’s stance in this budget is that high-quality public expenditure can crowd-in private investment by boosting overall demand and reducing infrastructure bottlenecks. With FY27’s capex push (in roads, railways, urban infrastructure, logistics, etc.), the state is effectively laying groundwork that lowers costs for businesses and can stimulate complementary private sector projects. Initiatives like the new Infrastructure Risk Guarantee Fund aim to de-risk private infrastructure investments, encouraging developers and financiers to partake in projects alongside government. As one expert noted, the focus has shifted to not just the scale of public spending but its ability to “*crowd in private participation through better risk sharing*” and diversifying beyond traditional sectors. Moreover, by maintaining fiscal discipline (deficit at 4.3%) the government tries to contain excessive rise in interest rates, thereby keeping credit available for businesses – an approach explicitly intended to avoid crowding-out.
- However, the actual impact on private investment will depend on broader economic conditions. Currently, private capital formation in India has been subdued – in fact, private companies’ share in gross capital formation dropped to a decade low in recent years. Factors such as tepid consumer demand, global uncertainties, and existing excess capacities have made firms cautious. The budget acknowledges this by not relying solely on the private sector to drive growth; instead, the public sector is taking the lead until private sentiment revives. The large government borrowing program, while necessary to fund infrastructure, does pose a risk of crowding-out if not managed – higher bond yields can raise borrowing costs for enterprises. The RBI’s role in yield management will be crucial in this regard. On the positive side, improved infrastructure and logistics (e.g. freight corridors, port upgrades, power supply) should eventually lower the cost of doing business, improving returns on private investment. The Production-Linked Incentive schemes and sectoral subsidies in the budget also aim to “pull in” private capital by sweetening the investment proposition in targeted industries.
- Overall, the crowding-in effect is expected in industries where public outlay directly enables new opportunities (such as manufacturing clusters, or digital infrastructure attracting data center investments), and where budget measures reduce risk (credit guarantees, project insurance). Indeed, the budget explicitly ties its capex strategy to unlocking private spending: effective capital expenditure is now almost as large as the fiscal deficit itself, suggesting that nearly all government borrowing is funneled into asset creation that could boost productivity and private sector confidence. If nominal GDP growth holds up and demand strengthens, we anticipate a virtuous cycle where private investment picks up – validating the government’s approach of using public investment as a catalyst. Conversely, if the external environment or domestic consumption falters, the private sector may continue to lag, leaving the public sector as the spender of last resort. In summary, Budget FY27 tilts decidedly toward the “*crowd-in*” thesis: it maintains fiscal discipline to avoid choking credit, while channeling spending into areas that generate multiplier effects and encourage businesses to invest alongside the state.



Key Positives and Negatives of Budget FY27

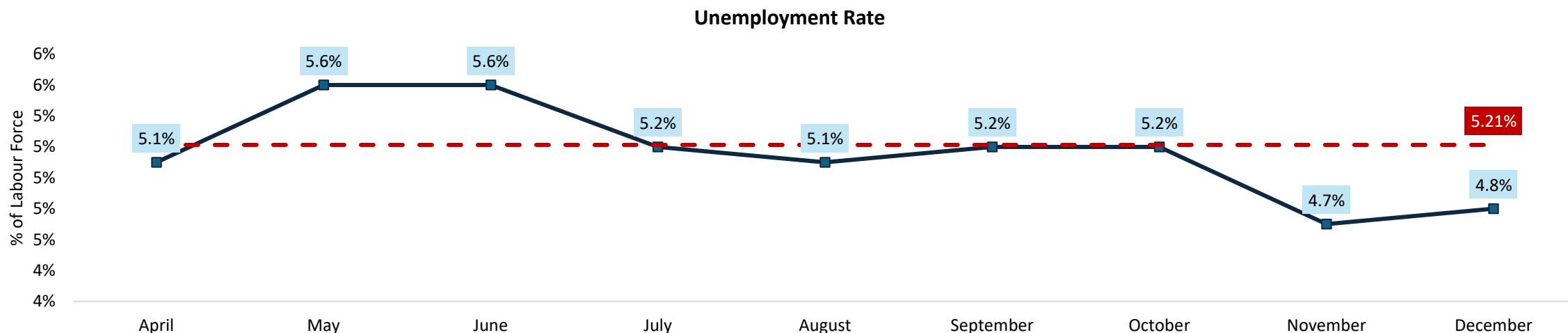
Positives (Strengths and Opportunities)	Negatives (Challenges and Concerns)
Prudent Fiscal Consolidation – Fiscal deficit lowered to 4.3% of GDP, signaling continued discipline and a sustainable debt trajectory. This restraint bolsters macro-stability and keeps India on course towards its medium-term debt target.	Slower Revenue Growth – Tax buoyancy is modest (overall tax-GDP slips to 11.2%). Previous tax cuts and conservative estimates mean limited fiscal headroom. Any growth shortfall or revenue shock could strain the deficit target and lead to crowding-out.
Record Infrastructure Spending – Capital expenditure raised to a historic ₹12.2 lakh crore (effective capex 4.4% of GDP), which should improve productivity, job creation, and crowd-in private investment in infrastructure and related sectors.	High Borrowing Requirement – Gross market borrowing of ₹17.2 lakh crore is the highest ever, potentially putting upward pressure on interest rates. Without measures to widen bond demand, there's risk of crowding-out private credit or increased debt servicing costs.
Boost to Manufacturing & Strategic Sectors – Targeted support for electronics, semiconductors, pharma, textiles, and rare earths (via PLI schemes and dedicated funds) is set to enhance domestic capacity and reduce import dependence. Over time this strengthens industrial growth and export competitiveness.	Limited Tax Reforms for Investors – No simplification or reduction in capital gains taxes, and a sharp STT hike on F&O trading. These may dampen investor sentiment in capital markets and were viewed as a missed opportunity to make markets more attractive amid foreign outflows.
MSME and Job Focus – Introduction of the ₹10,000 cr SME Growth Fund and expanded credit guarantees will ease financing for MSMEs. Support for labor-intensive industries (textile parks, cluster development) can boost employment and inclusive growth.	Cuts in Social & Welfare Outlays – In an effort to meet fiscal targets, certain social sectors saw relatively modest increases or spending curtailments. For example, FY26 spending in areas like education, health, and urban development fell short of initial allocations, which could slow progress in human capital development.
Investment-Friendly Moves – Longer tax holidays for data center operations and IFSC units, plus higher limits for NRI investment in equities, enhance India's appeal to global investors. Simplified customs tariffs and SEZ reforms should also lower costs for manufacturers and exporters.	Private Investment Still Weak – The onus of growth remains on government spending, as private capital expenditure is yet to rebound strongly. Until demand (domestic and international) improves significantly, there's a risk that the high public capex may not immediately translate into a proportional rise in private investment, tempering the crowd-in effect in the near term.



India's GST Collections up to Dec 2025: Resilient Momentum Amid Moderating Growth

India's GST collections in November–December 2025 **remained resilient in absolute terms but showed moderating YoY growth, reflecting policy-led rate cuts and base effects rather than demand weakness**. Gross GST stood at ~₹1.70 lakh crore in November (+0.7% YoY) and ~₹1.75 lakh crore in December (+6.1% YoY), down from October's festive peak of ~₹1.96 lakh crore, yet **cumulative collections for Apr–Dec 2025 still rose a healthy ~8.6% YoY to ~₹16.5 lakh crore**. The **softer growth was driven by GST 2.0 rate rationalisation, post-festive normalization and lower inflation, while import GST remained strong and compliance indicators (registrations, e-way bills, e-invoicing) stayed robust; higher refunds in December also weighed on net collections**. Overall, volumes, compliance and formalisation continue to support revenues, with GST **expected to stabilise around ₹1.7–1.8 lakh crore per month and deliver high-single-digit growth broadly in line with nominal GDP**.

8. Employment



Unemployment – UR Dips to 4.8% as Year-end Labour Conditions Improve

- **Unemployment remains contained; late-year easing visible** India's labour market stayed broadly stable through December, with unemployment remaining around the 4.8% and softening into the sub-5% range towards Nov-Dec. This suggests labour supply-demand conditions are holding up after the festive period, with no signs of broad-based stress in the aggregate PLFS unemployment metric.
- **Formal/organised hiring signals improve; non-IT hiring leads** High-frequency hiring indicators strengthened into year-end. The Naukri JobSpeak Index recorded healthy growth in December, led by fresh hiring in non-IT sectors such as insurance, hospitality and BPO, pointing to continued traction in organised services employment even as momentum remains selective.
- **Rural labour conditions remain comfortable; MGNREGS demand stays in contraction** Demand for work under MGNREGS remained in contraction for the sixth consecutive month in December, reinforcing the view that rural labour market conditions have stayed relatively supportive, with reduced reliance on the safety-net compared with earlier periods.

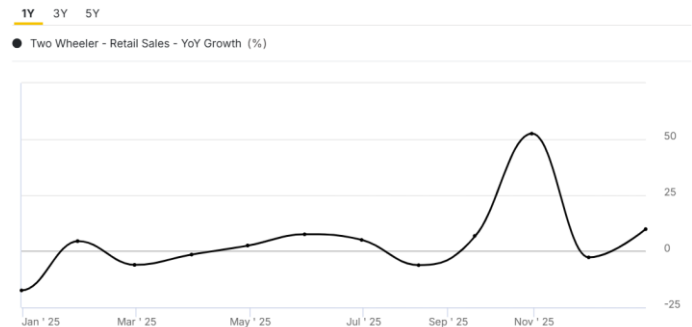
Overall Assessment:

Overall, December's labour signals are consistent with a steady-to-improving employment backdrop, led by organised-sector hiring pockets and stable unemployment. At the margin, PMI employment commentary indicates limited job shedding (about 2% of firms), implying that the bulk of firms reported no change rather than a broad deterioration—suggesting consolidation after the festive surge rather than a sharp cooling. That said, the IT services segment is an exception at the margin: as GenAI-led automation scales, firms are pruning select repetitive/support roles and slowing net hiring. This is leading to targeted headcount rationalisation even without a broad-based demand slowdown.

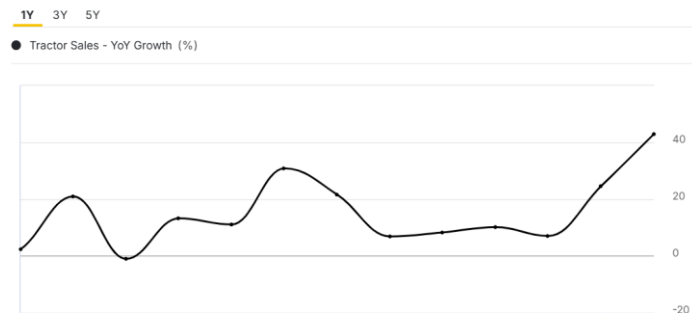


9. Demand Indicators

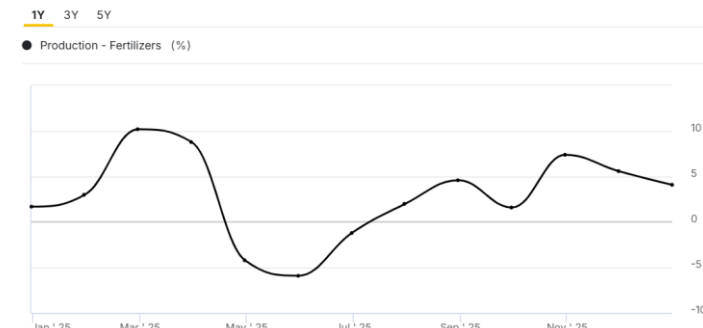
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



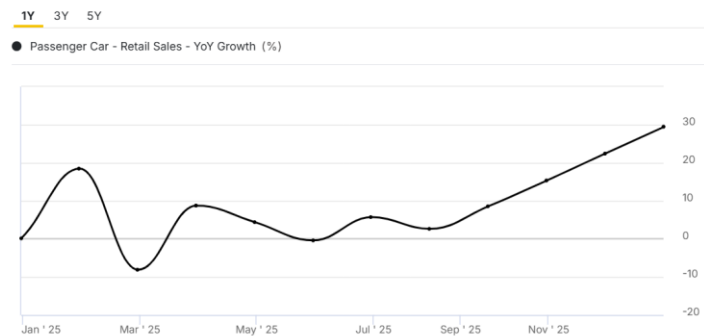
TRACTOR SALES - YOY GROWTH (%)



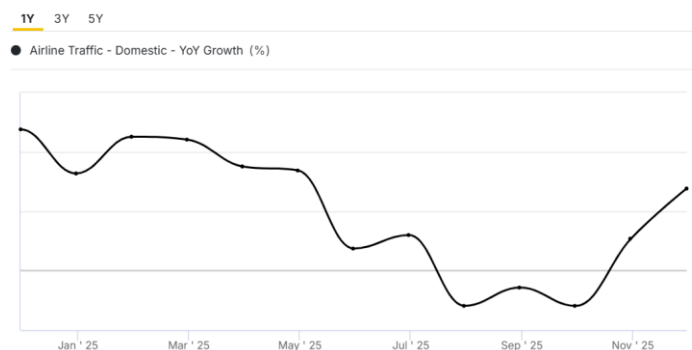
PRODUCTION - FERTILIZERS (%)



PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



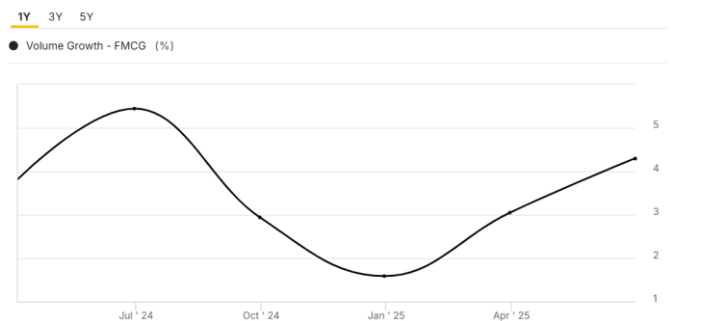
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



VOLUME GROWTH - FMCG (%)

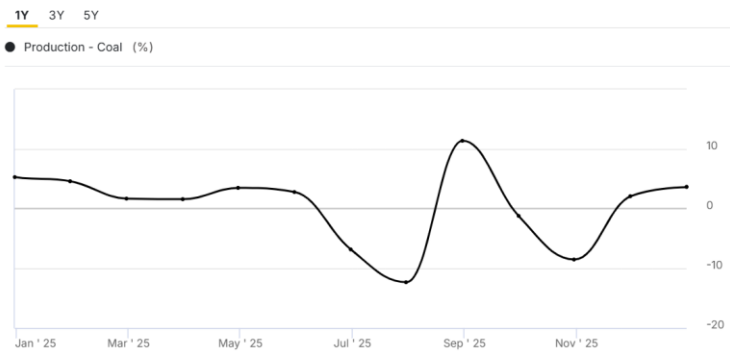


Select High-Frequency Indicators (January 2026) – An Uptick in Demand Clearly Visible

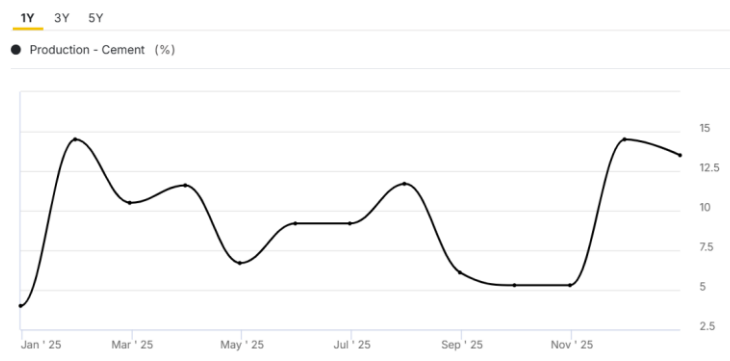
- Rural Demand:** Rural demand remained resilient into January, with the post-festival slowdown giving way to steadier, income-linked consumption. Tractor sales stayed strong, supported by a healthy rabi outlook and improving farm-cashflow visibility, while fertiliser production remained in positive territory, consistent with ongoing agricultural activity. Two-wheeler momentum, after cooling from festive peaks, stabilised and showed signs of recovery at the margin, indicating that underlying rural discretionary spending is holding up. MGNREGS demand stayed softer, suggesting lower distress-driven labour demand. Overall, rural consumption looks to be transitioning from festival-led spikes to a more durable, normalised trajectory rather than seeing a sharp drop-off.
- Urban Demand:** Urban demand was stable but continued to be selective. Passenger vehicle sales maintained an improving trend, aided by easier financing conditions and steady demand in higher-income cohorts. Domestic air traffic strengthened further, signalling continued appetite for travel and experience-led spends. Credit-card transaction growth, after a visible dip, began to recover, but the pattern still points to cautious spending behaviour in mass segments. In broad terms, discretionary demand looks strong; premium categories are firm, while broad-based consumption is accelerating. Net-net, urban consumption is holding up, but breadth remains the key watch-point.
- Demand Outlook:** Taken together, January indicators suggest consumption remains above trend but is now firmly in an acceleration phase. Rural demand continues to provide the primary cushion, while urban demand is gradually firming up but not yet broad-based. With inflation benign and financial conditions supportive, near-term downside risks to consumption appear limited. However, sustaining demand beyond seasonal and policy-related supports will hinge on continued rural income momentum and a clearer improvement in urban employment, real wage growth and breadth of discretionary spending.



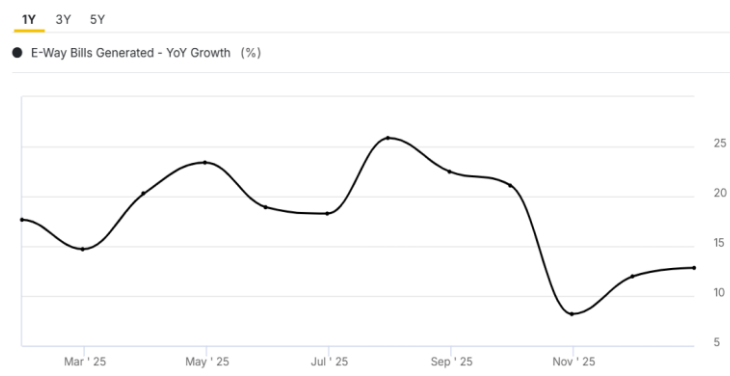
PRODUCTION - COAL (%)



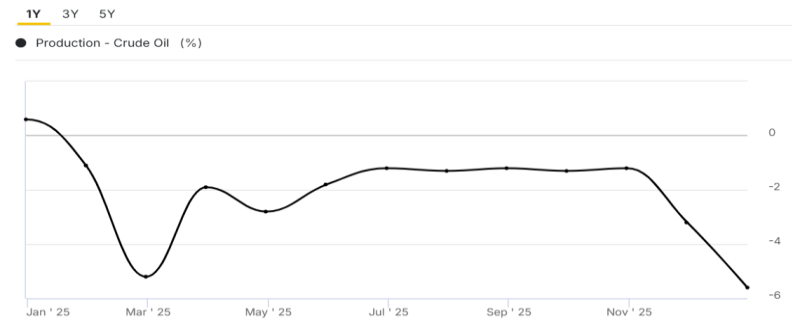
PRODUCTION - CEMENT (%)



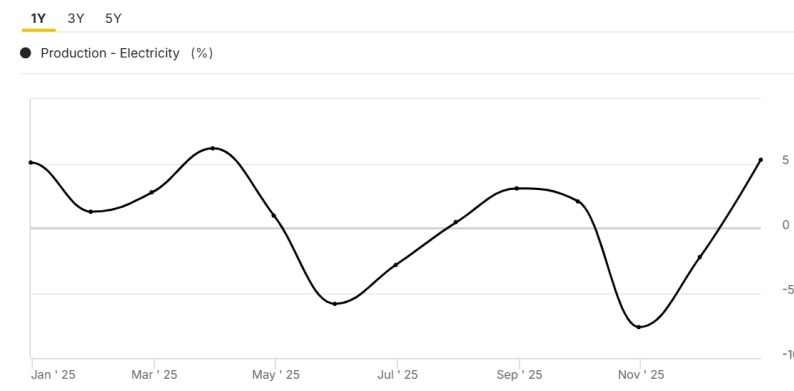
E-WAY BILLS GENERATED - YOY GROWTH (%)



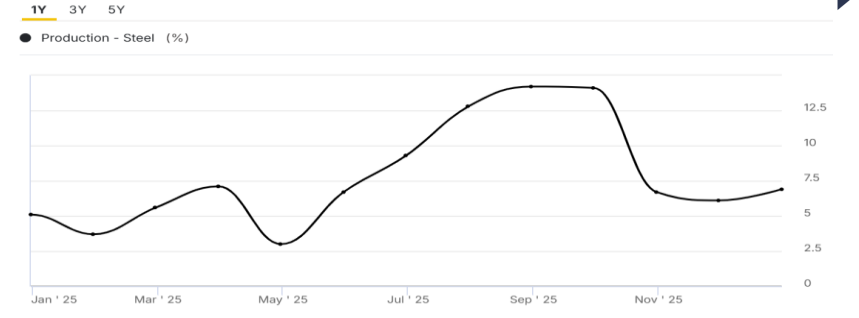
PRODUCTION - CRUDE OIL (%)



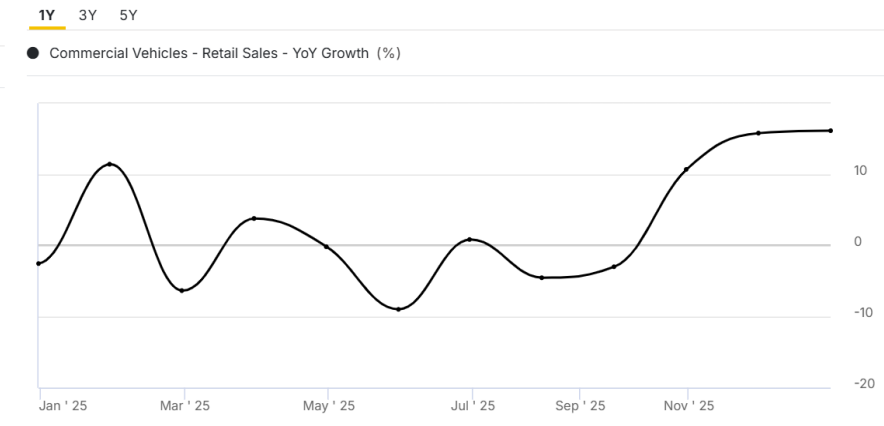
PRODUCTION - ELECTRICITY (%)



PRODUCTION - STEEL (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



Industrial & Services Momentum (January 2026) – Capex Ready to Grow as Sentiments Improve

- Industrial Activity:** Industrial momentum in January remained strong, with capex-linked sectors staying stronger than energy and extractives. Steel, Coal, and Cement continued to reflect the underlying strong momentum in infrastructure and construction activity. Fertiliser production remained supportive, consistent with ongoing farm-sector activity. In contrast, crude oil output stayed weak. Electricity output showed a meaningful rebound after a soft patch, but overall volatility remains elevated, partly due to weather and base effects. Manufacturing conditions remain expansionary, and the data suggest growth is broad-based and investment-led..
- Services Sector:** Services continued to anchor the overall momentum through January. Mobility and travel indicators stayed firm, and activity in trade, transport, financial services and contact-intensive segments remained supportive. Even as some digital transaction metrics show normalisation, the broader services pulse appears resilient and domestically driven. This remains an important stabiliser, insulating near-term growth from external demand uncertainty and providing a buffer against unevenness in industrial sub-segments.
- Industrial & Services Outlook:** **Overall, January data point to an economy operating above trend and accelerating. Manufacturing and services continue to expand, supported by benign inflation, easier financial conditions and public-sector capex, even as energy/extractive weakness and global uncertainty cap the upside. The balance of evidence still favours a gradual shift toward investment-led growth, with consumption normalising and services providing stability. Sustaining momentum will require keeping capex traction intact, easing supply-side frictions in energy and navigating global demand volatility carefully. The recent trade deals will provide a fillip to both manufacturing and service activities with a lag effect once the contours of tech deals are finalized and companies start utilizing and expanding capex, in general the signals are positive.**



Economic Heatmap

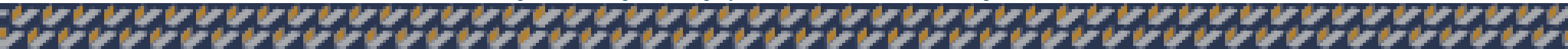


Key:

- V Good
- Good
- Ok
- Bad
- V Bad

Cautious Optimism

India's macroeconomic backdrop remains resilient, supported by steady domestic momentum amid shifting global dynamics as the trade policies unfold. The policy repo rate is unchanged at 5.25% with a neutral stance, as the RBI balances inflation anchoring with growth durability. Headline inflation has eased meaningfully, with FY27 CPI inflation projected by the RBI at 4.5%, aided an unfavourable base effect. Growth remains domestically driven, with RBI estimating real GDP growth at 7.2% for FY27, supported by healthy consumption and a gradual recovery in private capex. The recent US-India trade accord, which includes an 18% average tariff on select goods, is expected to support export-oriented sectors and improve trade sentiment, adding a significant tailwind to the growth outlook. High-frequency indicators suggest broad-based traction in demand and investment, and the capex cycle may see deeper traction if this trend sustains. Fiscal dynamics remain stable, with the FY27 deficit targeted at 4.3% of GDP, while liquidity remains in modest surplus, aided by RBI's operations amid manageable CAD and steady capital inflows. Despite moderating inflation, the MPC is expected to hold rates to allow full transmission of earlier tightening, while tracking global rate volatility and commodity risks. Overall, the outlook retains a stance of 'cautious optimism', supported by low inflation, improving trade prospects, stable fiscal fundamentals, and resilient domestic demand, though external fragilities and geopolitical shifts warrant continued vigilance.





Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %													CY
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2025	-3%	2%												-1.5%
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.51%	1.87%	-0.28%		10.5%
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%	10%	-2%	2%			6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%		27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%		-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%		18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%		75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%		-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%		54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%		39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%		36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%		10.7%
2003	-5%	2%	-8%	-5%	-13%	13%	5%	14%	4%	10%	4%	16%		71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%		3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%		-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%		-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	12.1%	15.4%	16.4%
Standard Deviation	21.5%	26.1%	30.0%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	1	1
No of Years	27	21	13

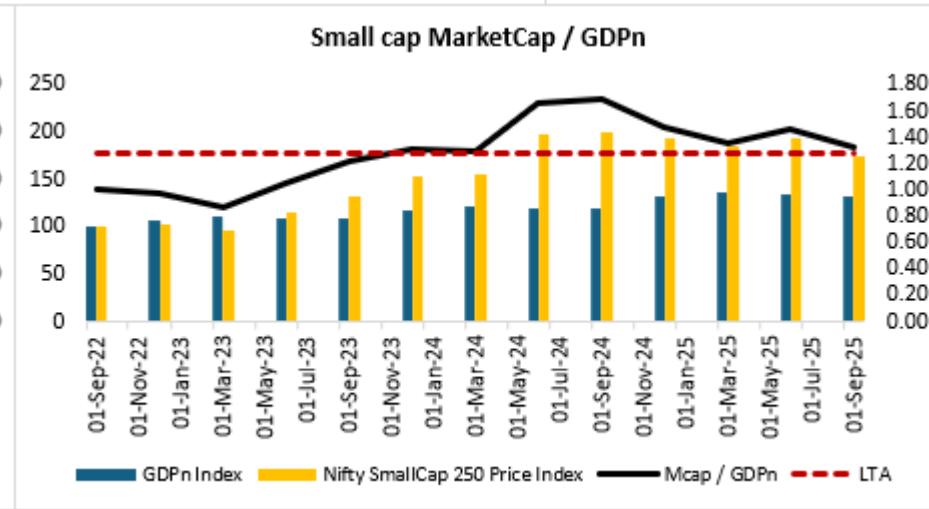
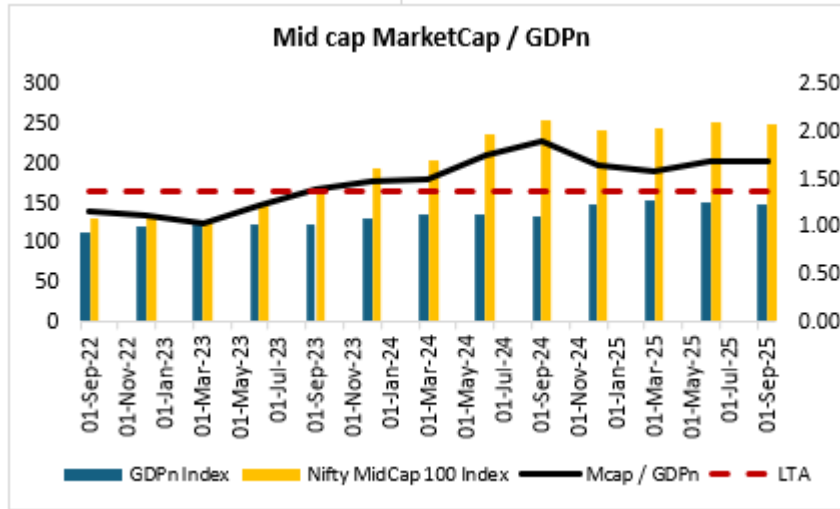
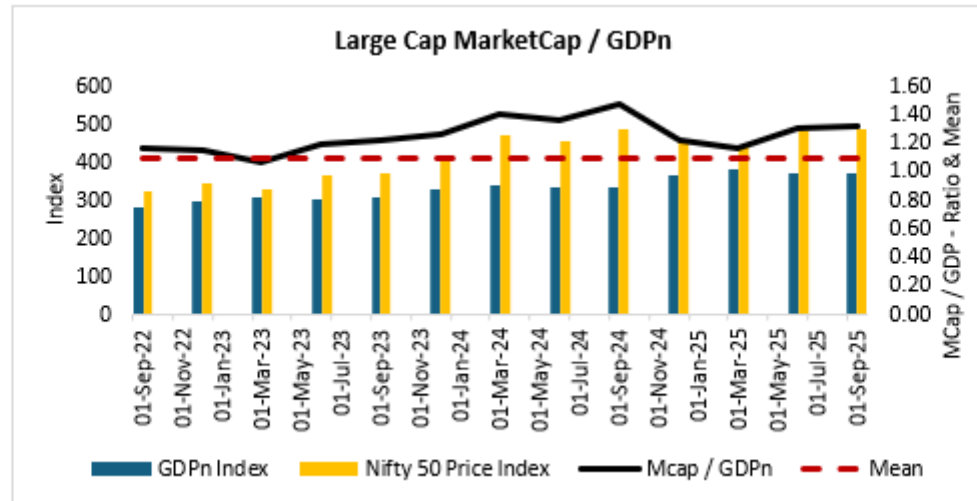
Ample Tailwinds

- In the last 2 months, the Nifty 50 Index has risen -1.5%. Historically, the Nifty 50 has given a CAGR of ~12% over the past ~27 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 ~21 years and ~13 years respectively. We expect returns to improve going forward, supported by the ongoing uptick in domestic demand aided by recent tax rate reductions and the introduction of a simplified, lower GST regime, as well as trade deal announcements improving general market sentiments. 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.
- 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, Mid Cap and Small cap seem to be Fairly-valued.

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	21.92	23.82	-8%	Fairly Valued
Mid Cap	32.42	32.37	0%	Fairly Valued
Small Cap	27.50	26.44	4%	Fairly Valued



Buffett Indicator



Nifty 50 Index EPS estimates for FY26/FY27 had seen the steepest cuts in the past 6 years, barring the Covid phase. The **present valuations remain high as evidenced in the premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 17% & 19%, whereas Small Caps are currently trading at premium of approx 3%** (as per Buffett Indicator), as on 02nd Feb 2025.



Sectoral Preview and Outlook

Cement

- **Q3FY26 (Preview):** The cement industry is tracking ~16% y-o-y revenue growth led by a sharp ~13% y-o-y volume rebound and a modest ~2–3% realizations uplift. Pricing was 1–2% lower QoQ due to softer demand in Oct–Nov, but dispatches improved meaningfully in December as infra execution picked up. Operating leverage and cost actions (fuel mix, logistics, power) should lift EBITDA/tonne ~20% y-o-y to ~₹900+. This should translate into ~35% y-o-y growth in operating profit despite sequential pricing softness. Overall, Q3 is volume-led with margins holding up better than feared.
- **Outlook - Positive :** Budget read-through is supportive for cement demand via housing + infra. PMAY allocation at ₹765bn (FY27BE) is materially higher versus FY26RE, which is positive for housing-linked cement offtake, while higher rural-employment outlays can also lift rural construction and repair demand. Road/rail/metro allocations remain supportive for project execution and steady volume visibility into FY27, though the near-term swing factor remains pricing discipline amid capacity additions. Competition could cap realizations in oversupplied regions even if volumes stay strong. Key monitorables are regional price trends, dealer inventory, and the pace of government project awarding/execution. Risks are a spike in coal/pet coke and any macro slowdown that dents construction momentum.

NBFC & Financial Services

- **Q3FY26 (Preview):** NBFCs likely delivered ~13% y-o-y AUM growth, led by vehicle finance and diversified retail lenders, while affordable housing stayed steady amid intense bank competition. Gold lenders benefited from higher gold prices and festive demand, whereas microfinance remained cautious sequentially with improving collections. NIMs likely improved ~10–15 bps y-o-y as borrowing costs eased and product mix tilted to higher-yield segments, though yields are competitive in prime lending. Credit costs remain above pre-pandemic levels but are trending down sequentially as delinquencies stabilise. Life insurance saw healthy premium momentum and AMC's benefited from market upmove and sticky SIPs, keeping earnings broadly resilient.
- **Outlook :** Sector outlook stays constructive, but the rate/yield environment is an important swing factor. Higher government borrowing can keep yields elevated, which is marginally negative for lenders' cost of funds (especially NBFCs) and treasury outcomes in financials, while STT hikes can temper near-term trading volumes for exchange/broking-linked plays. Offsetting positives include UPI incentives and policy measures that improve credit confidence in infrastructure financing (partial risk guarantee during construction), which can support credit flow and fee pools. Growth should remain healthy in retail segments, but competition will likely cap spreads in prime products and make underwriting discipline key. Asset quality is expected to remain benign, with risks concentrated in pockets of unsecured lending and microfinance. Regulatory changes and market-volume sensitivity remain the key headline risks.

Pharmaceuticals

- **Q3FY26 (Preview):** Pharma revenues are expected to rise ~13% y-o-y, driven by steady domestic branded growth (~9–11% y-o-y) supported by chronic therapies and new launches. US generics remain pressured by ongoing price erosion and heightened competition, with normalization in last year's high-value opportunities acting as a drag for US-exposed portfolios. Europe provides a cushion through biosimilar traction and tender opportunities, helping diversify growth. EBITDA growth is broadly in line with revenue, keeping margins largely stable with mix-driven divergence across companies. Compliance track record and complex-product contribution remain the key differentiators.
- **Outlook - Positive:** Budget impact is supportive for the medium-term healthcare and biopharma ecosystem. The Biopharma SHAKTI program is a clear positive for building scale in biologics/biosimilars manufacturing and strengthening India's global positioning, while medical value tourism hubs can lift ancillary demand and ecosystem depth over time. Import duty relief on select drugs (including oncology) supports affordability and volume traction in critical therapies. Over the next few quarters, export growth hinges on limited-competition launches and diversification away from commoditized US generics. Risks to monitor remain US price erosion, regulatory/FDA observations, and slower-than-expected ramp-up in complex platforms. Overall, the structural story remains intact with execution as the key driver of outcomes.



Consumer Discretionary

- **Q3FY26 (Preview):** Discretionary performance is bifurcated—hotels and jewellery are strong on wedding/festive demand, higher occupancy and better pricing power. Jewellery demand stayed resilient despite elevated gold prices, supported by exchange schemes, promotions and organized players gaining share. Apparel/footwear remained softer due to festive timing effects and still-cautious mass consumption. QSR growth leaned on store additions and pricing, with intense discounting limiting same-store momentum. Textiles/home exporters stayed weak amid uncertain global orders and cost pressures, keeping the segment under strain.
- **Outlook - Neutral:** Budget's rural employment thrust is a positive for broader consumption and should gradually support discretionary categories with meaningful rural/aspirational exposure, while easing inflation and tax support can improve spending propensity in urban pockets. Hotels remain structurally well-placed given limited near-term room supply and a supportive events calendar, sustaining RevPAR momentum. Jewellery demand should stay supported by weddings, though ticket sizes will remain sensitive to gold volatility. The near-term watch-outs are aggressive competitive discounting in QSRs and a slower recovery in mass apparel/footwear. Export-linked discretionary (textiles/home) remains the most vulnerable to global demand and policy/tariff uncertainty. Key risks include inflation flare-ups, demand fatigue post-promotions, and external shocks for exporters.

Information Technology (IT Services)

- **Q3FY26 (Preview):** Q3 is seasonally soft, with Tier-1 IT growth likely near-flat in constant currency due to furloughs and fewer working days, while Tier-2 names may do marginally better on niche wins. Demand remains mixed across verticals—cost takeout and run-the-business spending is steadier, while discretionary transformation remains cautious in select sectors. Margins should remain range-bound as rupee tailwinds and efficiency levers offset wage actions and softer utilization. Deal pipelines exist but ramp-ups are slower and more phased. Importantly, GenAI adoption is also driving targeted headcount rationalisation in routine roles, keeping net hiring muted despite stable revenues.
- **Outlook - Negative:** Sector outlook remains cautiously positive with AI and cloud as the core multi-year drivers, but near-term growth depends on client-budget confidence and conversion of pilots to scaled programs. Policy emphasis on data-centre buildout and digital infrastructure is supportive for the broader tech ecosystem and can pull through incremental cloud/modernization demand over time. At the same time, AI-led productivity is structurally changing the labour mix—routine testing/support and junior coding roles face pruning, while demand rises for AI, data, cybersecurity and cloud engineering talent. Guidance trajectories will hinge on deal closures, pricing discipline and the pace of discretionary spend recovery. Key risks are delayed ramp-ups, pricing pressure in commoditized work, and slower-than-expected monetization of GenAI initiatives. Net-net, the cycle is evolving rather than breaking—more selective growth with tighter workforce structures.

Banking

- **Q3FY26 (Preview):** Banks should post steady Q3 prints with ~12.5–13% y-o-y loan growth and ~11% deposit growth, keeping competition for liabilities elevated. NIMs are stable to marginally lower as repo cut transmission reduces yields, partly offset by easing deposit repricing pressure and stable liquidity. Fee income should track disbursement activity and payments, while treasury outcomes stay largely range-bound. Asset quality remains strong with low slippages and improving recoveries, supporting a continued decline in credit costs. Cost control remains intact, protecting operating leverage and ROE stability.
- **Outlook - Negative:** The key near-term swing is bond yields: higher government borrowing can keep yields elevated, which is marginally negative for treasury portfolios and can slow the pace of funding-cost relief. On the positive side, policy measures that improve credit confidence in infrastructure (risk guarantee during construction) can support long-duration lending opportunities, and stronger formalization via MSME receivables platforms can improve credit discipline in supply chains. Core credit demand should remain healthy on infra and retail tailwinds, but margin management becomes more important as yields reprice down. Asset quality is expected to remain benign, though unsecured retail and SME pockets need monitoring. Risks are sharper yield spikes, renewed deposit competition, or regulatory changes affecting fee pools and capital requirements. Overall, the earnings trajectory remains steady with manageable risks.



Consumer Goods (FMCG)

- **Q3FY26 (Preview):** FMCG saw a gradual recovery in volumes through the quarter after early channel disruptions, with November–December normalization and restocking supporting primary sales. Winter seasonality aided categories like beverages, skincare and health, while rural demand remained resilient and urban showed early green shoots. Revenue growth is ~8% y-o-y with modest pricing and improving volume mix. Input costs were broadly benign, supporting stable-to-better margins even as ad-spend and promotions rose during festive/wedding season. Operating leverage improved sequentially as volumes picked up, keeping earnings steady. Overall, the sector is transitioning from disruption to normalization.
- **Outlook - Neutral:** Budget's rural employment thrust is supportive for staple consumption and should aid volume recovery, especially for companies with deep rural distribution. As inflation eases, down-trading risk reduces and firms can push calibrated premiumization without losing mass traction. Category-specific policy nuances still matter—some sub-segments face less supportive tax treatment, which can influence formalization and competitive intensity. Margin outlook is stable if commodities remain range-bound, though competition may keep promotional intensity elevated. Execution focus will remain on distribution expansion, pack-price architecture and disciplined A&P deployment. Risks include commodity spikes (edible oils/crude-linked inputs) and uneven income transmission to rural demand.

Capital Goods & Power

- **Q3FY26 (Preview):** Capital goods is set for strong ~16% y-o-y revenue growth driven by execution on record order books across rail, T&D, defence and EPC. Margins should be stable-to-slightly higher on operating leverage and better mix despite commodity cost noise, supporting strong PAT growth. Order inflows remain healthy, anchored by government capex and selective export wins, which sustains revenue visibility. Power utilities remain steady with regulated returns and modest growth, with demand variability largely manageable. Overall, the quarter reinforces a continuing capex upcycle with strong execution intensity. Working-capital discipline and timely receivables remain key monitorables.
- **Outlook - Positive:** Budget impact is clearly positive: higher overall capex and support for rail/defence/infrastructure should keep order books replenished and execution strong. Manufacturing enablement measures (tool rooms) and continued thrust on connectivity add to the multi-year industrial cycle. For power, data-centre buildout is a demand tailwind, while policy support for CCUS and nuclear/solar ecosystems helps sustain the broader energy-transition capex pipeline. The key swing factors are execution capacity (manpower/supply chain), commodity volatility on fixed-price projects, and the pace of award/clearances. Export order momentum is supportive but remains sensitive to global macro conditions. Overall, the sector remains in a favourable multi-year upcycle with manageable risks if execution stays tight.

EMS (Electronics Manufacturing Services)

- **Q3FY26 (Preview):** EMS players are likely to report a steady-to-strong quarter, supported by continued momentum in electronics outsourcing, stable smartphone/IT hardware builds, and improving domestic value-add. Order flows remain healthy across consumer electronics, industrial electronics and auto-electronics, with select export programs also contributing. Execution should stay solid as capacities ramp and customer diversification improves beyond a single end-market. Margins are expected to be stable, helped by operating leverage and a gradual shift toward higher-complexity assemblies, though pricing remains competitive. Working-capital discipline and component availability will remain key monitorables through the quarter. Overall, the sector continues to look like a structural growth pocket rather than a cyclical one.
- **Outlook - Positive:** Budget proposals are **clearly positive for EMS** through deeper localisation and supply-chain strengthening. Allocations for the **Electronics Component Manufacturing Scheme (ECMS)** have been increased from **₹229.2bn to ₹400bn**, which should accelerate investments into **PCBs/components** and materially improve value-add in mobiles and IT hardware. In parallel, the launch of **ISM 2.0**—focused on equipment/materials, full-stack Indian IP and supply chains—should lift investments into fabs and the broader chip ecosystem over time. Together, these measures improve domestic sourcing, reduce import dependency, and expand the addressable opportunity for EMS/PCBA players. The key medium-term positives are higher localisation, better customer stickiness, and potential margin resilience as complexity rises. Risks remain execution intensity, competitive pricing, and any supply-chain disruptions, but the policy tailwind meaningfully strengthens the runway.



Agriculture

- **Q3FY26 (Preview):** Agri-linked plays (fertilisers, agri-inputs, tractors, rural discretionary) likely saw a mixed quarter with gradual improvement in sentiment. Rabi season traction and stable rural consumption supported volumes, but regional variability persisted. Input companies remained sensitive to channel inventory and pricing discipline after a volatile year. Tractor demand stayed linked to rural cashflows and financing availability. Overall, the quarter looks stable rather than strong, with demand improving but not broad-based.
- **Outlook - Neutral:** The Budget's impact is mixed for agriculture. Total fertiliser subsidy is INR 1,708bn for FY27BE (INR 1,168bn urea + INR 540bn complex), down 8% vs FY26RE INR 1,865bn, implying a softer subsidy tailwind for fertiliser companies. PM-KISAN allocation is flat at INR 635bn, so there is no material increase in farmer cashflows from this channel. Rural employment schemes are the positive counterweight: combined allocation rises 43% YoY to INR 1,257bn, supporting rural income opportunities. Net-net, rural income support helps demand-facing agri/rural themes, but input-side subsidy support is weaker.

Auto

- **Q3FY26 (Preview):** Auto demand was supported by festive momentum and improving retail traction, with segment-wise divergence. PVs stayed resilient on mix and launches, 2Ws improved gradually on stabilising rural demand, and CVs tracked infra activity and replacement demand. Margin trends were mixed—input costs manageable, but discounting and competition capped expansion in some pockets. Financing availability remained a swing factor for entry segments. Overall, Q3 was steady on volumes with profitability dependent on pricing discipline.
- **Outlook - Neutral:** Budget stance is neutral-to-positive over the medium term. Higher infra spending is a key enabler for demand via job creation and broader activity, supporting sector growth. The thrust to manufacturing/services and MSMEs should drive employment creation at the lower end, implying entry-level 2W and 4W may see revival in volumes over time. The clear positive is the EV ecosystem: PM e-drive outlay increases to INR 15bn (from INR 13bn), plus BCD exemption extension for Li-ion cell manufacturing capital goods and rare-earth magnet corridor planning.

Real Estate

- **Q3FY26 (Preview):** Real estate demand remained healthy, led by organised developers and sustained end-user preference for quality projects. Launch discipline supported pricing without creating inventory stress in key markets. Cash collections and execution remained strong for larger players, improving balance-sheet comfort. Affordable housing stayed more rate-sensitive versus premium categories. Commercial leasing was stable, but supply additions bear watching. Overall, Q3 reinforced consolidation—strong players gaining share and sustaining cashflows.
- **Outlook - Neutral:** Budget is supportive for affordable housing and land monetisation themes. PMAY allocation for FY27BE is raised to INR 735bn (vs INR 400bn in FY26RE), which is positive for affordable housing projects. The data-centre profitability exemption till 2047 is also flagged as positive, as large scale land deals can help developers. Recycling CPSE real estate through dedicated REITs is positive—release of land parcels can lower land inflation and bring down ownership cost. Key monitorables remain execution discipline and project-level cash conversion.



Oil & Gas

- **Q3FY26 (Preview):** Oil & gas earnings are driven by marketing margins, product cracks and inventory impact, not just crude direction. OMC performance depends on pump-price alignment and the trajectory of refining margins, while upstream tracks commodity realizations and currency. Gas utilities depend on volume growth and tariff structures; city gas hinges on industrial demand and vehicle adoption. Q3 is usually sensitive to crude volatility and policy signals, making quarter-to-quarter outcomes uneven. Overall, the segment remains policy- and spread-sensitive.
- **Outlook - Neutral:** Budget impact is broadly neutral, with a couple of key signposts. Petroleum subsidy allocation is INR 286bn for FY27BE, including LPG-related components; the deck notes no additional one-time grant in FY27BE for LPG under-recoveries beyond what was already accounted for earlier. On the positive side, no change in excise duty for petrol/diesel is supportive versus fears of a hike. Net-net, near-term earnings will still be decided by crude/GRMs and pricing policy rather than budget line items.

Power

- **Q3FY26 (Preview):** Power utilities are steady, with regulated returns and moderate demand growth keeping cashflows predictable. Generation performance depends on PLFs, coal availability and merchant pricing for non-regulated capacity. Renewables continue to scale, but outcomes hinge on execution and financing costs. Discom payment behaviour and receivables remain key for the ecosystem. Q3 is typically stable unless fuel availability or receivable cycles change materially. Overall, power remains a steady compounder segment with capex optionality.
- **Outlook - Positive:** Budget is positive on multiple levers. Exemption to a foreign company on income from procuring data-centre services from a specified data centre is positive - data centre boost to help increase in power demand. CCUS scheme with outlay of Rs 20,000 crore is positive - to increase regulated equities of thermal power plants. Extension of BCD exemption for imports required for nuclear power projects till 2035, expanded to all plants, is positive for new nuclear capacity. Surya Ghar allocation is up ~29% YoY vs FY26RE, supporting rooftop solar.

Metals & Mining

- **Q3FY26 (Preview):** Metals remain cyclical—realizations are driven by global prices, China signals and currency, while input costs decide earnings sensitivity. Steel demand in India stays supported by infrastructure and construction, helping volumes even when global pricing is volatile. Aluminium and other metals track global supply discipline and energy costs, benefiting integrated players in weak cycles. Mining outcomes depend on dispatches, auction dynamics and regulatory factors. Working-capital and inventory cycles can amplify quarterly volatility. Overall, domestic demand is supportive but realization risk remains high.
- **Outlook - Positive:** Budget is positive on logistics and new domains. Operationalising 20 new National Waterways connecting mineral-rich areas, industrial centres and ports is positive - a boost to connectivity for miners, improving project viability. Dedicated Rare Earth Corridors to promote mining, processing, research and manufacturing in Odisha, Kerala, Andhra Pradesh and Tamil Nadu is positive - a new domain for mining companies. Net-net, the budget improves “enablers” (logistics + new minerals), while price cycles still drive near-term earnings.



Infrastructure & Real Estate

- **Q3FY26 (Preview):** Infra execution remained healthy, supported by government-led awarding and steady post-monsoon activity. EPC players benefited from robust order books, while cash conversion depended on receivable cycles and project mix. Margin trends were shaped by execution pace and commodity costs, with contract structure (price variation vs fixed price) critical. Working-capital intensity remained a key differentiator across players. Real estate continued to see consolidation in favour of organised developers, with stronger collections supporting execution. Overall, both segments are execution-led with cash discipline as the main swing factor.
- **Outlook - Positive:** Infrastructure is supported by capex + specific scheme thrusts. Capital expenditure is up 9% to INR 12.2tn - commitment to higher capital spending is flagged as a key positive. Jal Jeevan Mission allocation for FY27BE is INR 676bn vs FY26RE INR 170bn (flat vs FY26BE), improving fund release and execution. 20 new national waterways are positive; EPC companies benefit given civil work scale and lower logistics costs once operational. Data-centre profitability exemption till 2047 is positive for EPC space-focused players. Union Budget FY27 Final Real estate positives are PMAY higher and CPSE land recycling via REITs (lower land inflation/ownership cost).

Aviation

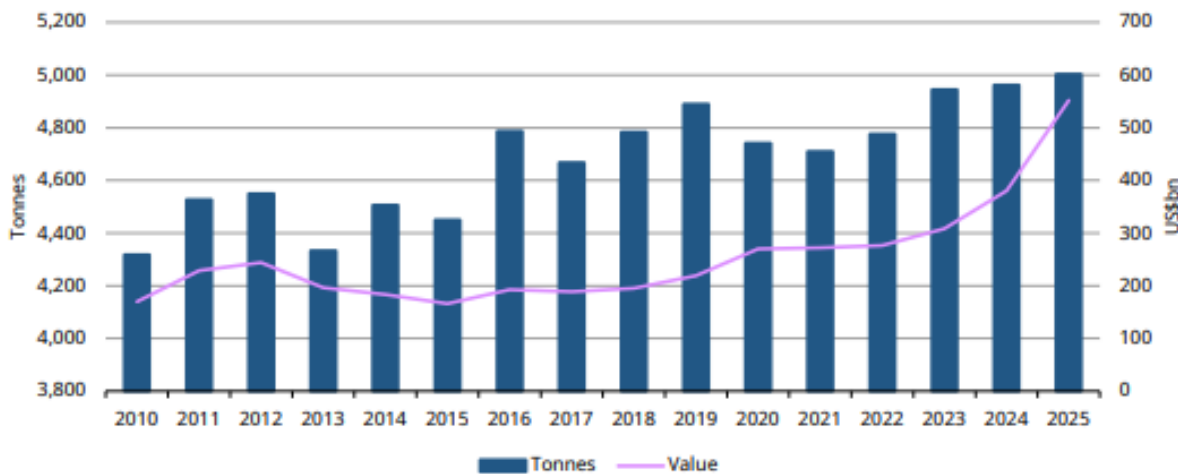
- **Q3FY26 (Preview):** Aviation demand remains strong, but profitability stays sensitive to ATF, FX and competitive intensity. Load factors are typically healthy, yet yields can soften if capacity additions outpace demand or fare wars intensify. Cost pressures from fuel, leases and maintenance can quickly overwhelm revenue gains. Q3 tends to benefit from travel momentum, but earnings visibility remains low due to volatile cost inputs. Overall, demand is a tailwind, while cost and pricing discipline decide outcomes.
- **Outlook - Neutral:** Budget impact is neutral but supportive for long-term ecosystem building. Exempting BCD on components and parts required for manufacture of civilian, training and other aircrafts is neutral - to help create domestic ecosystem and talent pool. Near-term profitability will still be driven primarily by ATF and FX, but this policy supports domestic manufacturing and maintenance ecosystem development over time.

Glittering Gold in India

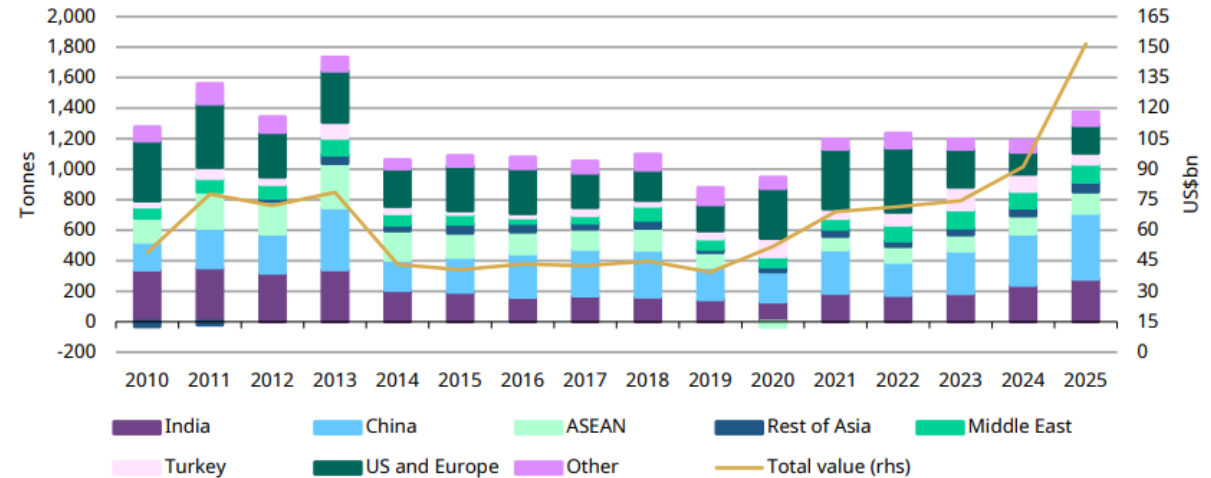
Gold’s 2025 run was not a “normal commodity rally” for India, it looked more like a macro-led repricing of the reserve asset. Globally, total gold demand (including OTC) crossed 5,000 tonnes for the first time, and the value of demand jumped to US\$555bn (+45% YoY) as the market logged 53 new all-time highs through the year. The price move was extraordinary: the LBMA (PM) gold price averaged US\$3,431/oz in 2025 (+44% YoY) and Q4 averaged US\$4,135/oz (+55% YoY). For an Indian investor, this matters because domestic gold behaviour is less about “buy/sell” and more about re-allocating within gold when prices surge - jewellery, coins/bars, and financial products respond very differently.

In India, the headline was a classic volume–value divergence in jewellery. Wedding/festival buying supported sequential momentum, but year-on-year volumes fell because affordability got hit by the record price environment. Yet value demand didn’t weaken - Q4 jewellery spend hit a record US\$19bn and full-year jewellery spend reached US\$49bn (record). The mechanism is simple and easy to see in real life: **most households operate with fixed budgets, so when gold prices rise sharply, they buy fewer grams, not “no gold.” Demand was pulled forward in October when prices dipped, then moderated as prices resumed their climb - exactly the sort of “buy-on-dips” behaviour that becomes visible in high-volatility gold years.**

Annual gold demand in tonnes and US\$bn*



Annual bar and coin demand by region, tonnes and US\$ value*





The more important structural shift for India in 2025 was financialisation and “pure investment” demand. Globally, bar-and-coin investment hit a 12-year high, and we can note that more than half of the record annual bar-and-coin value (US\$154bn) came from India and China combined. India-specific commentary reinforces that investment intensity was unusually strong, with two consecutive quarters of >90 tonnes for the first time since 2013, and record investment value of US\$32bn. In plain terms: when prices are ripping and uncertainty is high, Indian buyers prefer formats with lower “leakage” (making charges) and higher liquidity – bars, coins, and financial wrappers, because the intent is capital preservation and optionality, not consumption.

This is also why ETFs and digital gold started to matter more in the India story. A report of World Gold Council highlights a “phenomenal rise” in ETF buying, new product listings, and even notes digital gold transaction values rising sharply – signs that the buyer base is widening beyond traditional jewellery-driven households. A meaningful policy kicker is that India’s pensions regulator has permitted National Pension Systems funds to invest in gold and silver ETFs, which can steadily expand institutional participation over time. This matters because it changes the marginal buyer: institutional and systematic flows tend to be “stickier” than event-based retail buying, and can support prices even when jewellery volumes are constrained.

Another India-specific stabiliser is the monetisation channel, which reduces the need for outright selling even at record prices. We note that jewellery exchange remains strong, and that the growing practice of pledging gold as collateral has kept scrap supply relatively muted; by end-November, retail loans backed by gold jewellery with Indian banks stood at INR 3.6tn (US\$40bn), up 125% y/y. This is a key behavioural insight: in India, households often prefer to borrow against gold rather than liquidate it, which dampens recycling response and supports “hold gold” behaviour. Consistent with that, emerging markets such as India saw weaker recycling volumes even as global prices rose. In portfolio terms, this creates a feedback loop – gold remains both an asset and a liquidity backstop.

Looking ahead, the base case stays supportive for investment demand, while jewellery tonnage remains capped if prices stay elevated. WGC outlook explicitly expects another year of strong gold ETF inflows and robust bar-and-coin demand, while jewellery demand remains weak in a persistently high-price environment. For India, that translates into a market where the “why” of owning gold becomes more important than the “how”: if uncertainty persists, investment formats and ETFs should keep gaining share; if prices consolidate, jewellery grams can recover but likely with continued preference for organised retail and exchange-driven purchases.

The key watchpoints for India are (1) the path of global rates and risk sentiment (2) Central bank gold buying programs as part of their reserve currencies (3) the pace of ETF/digital adoption, and (4) whether gold loans/monetisation keep reducing the incentive to scrap-sell – because these four determine whether gold behaves like a tactical trade or a structural allocation in Indian portfolios.

Tailwinds

- India’s strong government finances reflect underlying structural resilience, with the twin deficits – both **fiscal and current account deficits remain well-contained and manageable.**
- **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 the transmission of low 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.** This trend is visible in various high frequency indicators.
- **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. Q3 results will be an important indicator of this.**
- **Valuations now seem to be in the reasonable zone for most sectors.**
- **The newly announced trade deals** provide comfort to export oriented companies and market sentiment as well.

Headwinds

- **Limited exposure to AI-led growth themes** – Compared with other emerging markets, India has relatively fewer scalable, listed AI-centric platforms. This has reduced India’s appeal within global AI-driven capital allocation, keeping incremental foreign portfolio flows directed toward markets with clearer AI monetisation stories.
- **INR depreciation amid persistent foreign outflows** – Continued FPI outflows, alongside periodic private equity exits—have exerted pressure on the INR versus the USD. Currency weakness dampens USD-denominated returns for foreign investors, acting as a further deterrent to fresh equity inflows.

Outlook

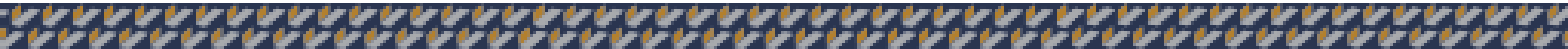
- **Volatility to persist with an Upward Bias in the medium term.**

Suggested Strategy

➤ **Neutral Equity**

Category	Stance
Large Cap	Neutral
Mid Cap	Neutral
Small Cap	Neutral

➤ **Neutral Gold**





Debt Outlook

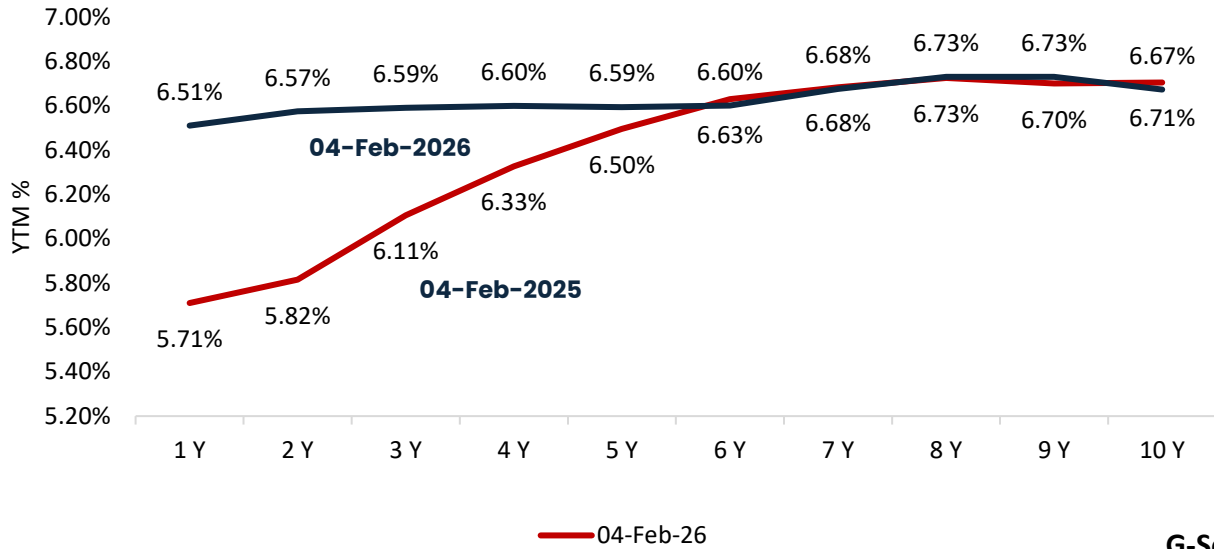




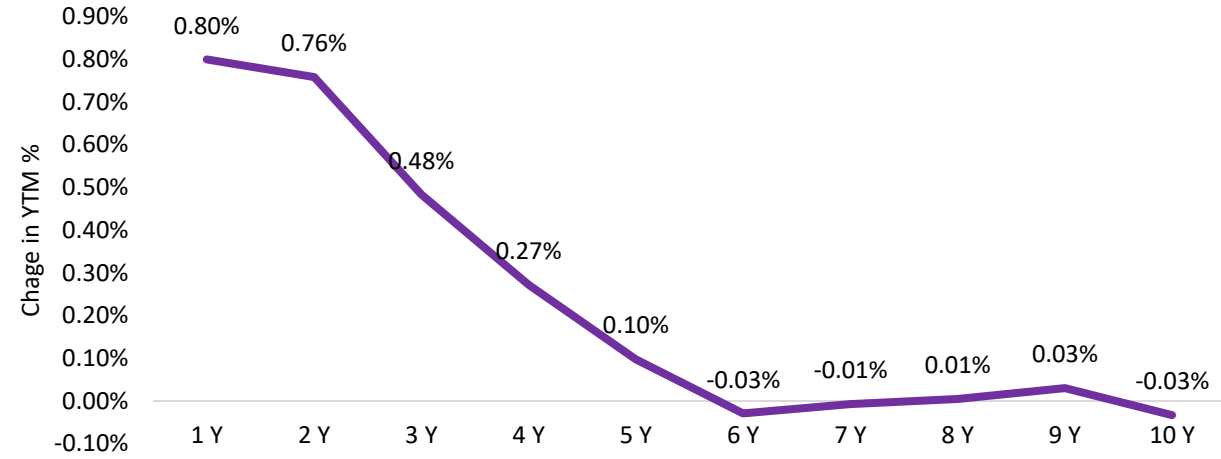
Yields Curve Dynamics



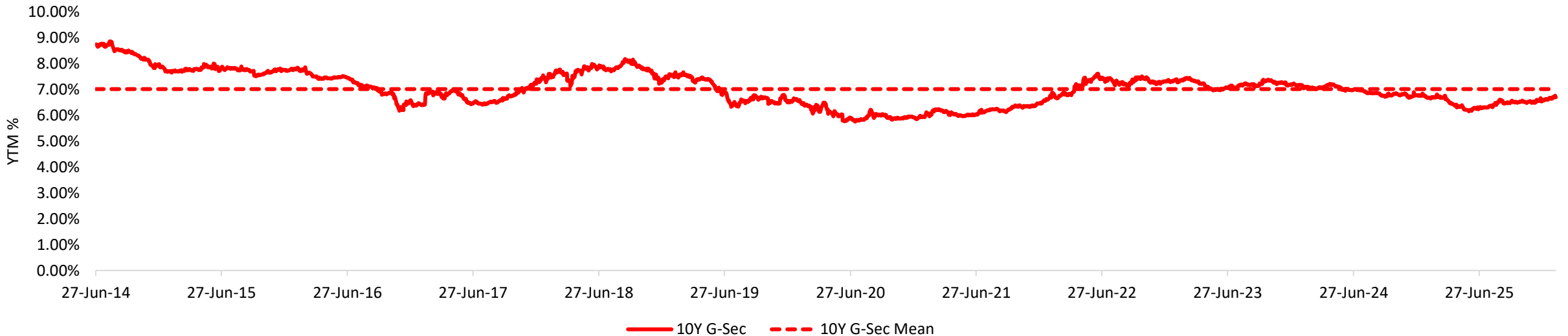
Change in Yield Curve



10Y GSec 1Y Delta



G-Sec YTM





Debt Market Outlook & Strategy

Monetary Policy Outlook

- Current conditions show persistently low inflation, giving the central bank room to remain accommodative. With headline and core inflation well contained, and growth steady, the RBI has already delivered significant easing over the past year (about 125bps of rate cuts). Markets still optimistically price in one more modest cut, but beyond that the expectation is for a prolonged pause. In other words, **policy rates are likely to stay “lower for longer”**. The central bank is also **proactively managing liquidity** – for example, through open market purchases and special repo operations – **to ensure financial conditions remain supportive for a capex push**. In sum, **we anticipate no hikes or cuts in the near term and rates will likely be held steady given the benign inflation backdrop, and uptick in credit growth given an increase in domestic demand and the trade agreements finalised**. However, the need to monitor global factors (such as currency movements and global growth) remain intrinsic to policy decisions going forward.

Government Bond Market and Yield Curve Dynamics

- The Indian government yield curve is unusually steep, reflecting **uneven demand across maturities**. **Short- and medium-term yields have moved sharply higher relative to the policy rate: for instance, the 5-year G-sec is trading roughly 1.0% above the repo rate, and the 10-year is about 1.35% above**. **By contrast, very long-term yields (e.g. 30-year) have not climbed at the same pace, so the curve flattens between 5 and 30 years**. This shape suggests **risk-averse sentiment: investors are demanding extra compensation for intermediate-term debt even though short-term policy is supportive and long-term outlook remains stable**, notwithstanding a sharp spike in the 10 year post the budget announcement, due to a higher than expected market borrowing number. **Normally one would expect the curve to steepen at the end of a cutting cycle, but here we believe this steepness mainly reflects scarcity of buyers and heavy supply of longer-dated paper**.
- **Looking ahead, government borrowing needs are set to rise**. Estimates indicate gross issuance of debt could reach **roughly ₹27–31 trillion in the coming fiscal year** (including central and state borrowings), up materially from the current year. The **weighted average maturity of past issuances has been increasing, and the government is considering shifts (for example, greater use of Treasury bills) to shorten maturity over time**. Overall, the **prospect of higher debt supply keeps term premia wide, especially beyond 10 years**. In this environment, the **10-year point looks relatively rich compared to the 30-year, and the 5-year point is a better reflection of actual policy transmission**.

Liquidity Conditions and Short-Term Funding

- **Systemic liquidity has tightened** due to a combination of factors. **Large government cash balances, tax and GST outflows at quarter-end, and the RBI’s own foreign exchange interventions have drained funds from the banking system**. As a result, **overnight and short-term money market rates have been elevated** – often trading at or above the policy repo rate despite the rate cuts. Certificate of Deposit and Commercial Paper yields have risen into the 7%+ range, and banks have found short-term funds relatively expensive.
- The **RBI has responded with a multi-pronged liquidity infusion**. In late January, for example, it announced about ₹1.25 trillion of new liquidity measures: conducting Open Market Operations (buying government bonds totaling roughly ₹1 lakh crore in February), a 90-day Variable Rate Repo for ₹25,000 crore, and a 3-year USD/INR swap (about \$10 billion). These steps are **aimed at neutralizing the seasonal and structural drains on cash, to prevent stress in the funding markets**. Indeed, **easing liquidity pressures should gradually bring down short-term funding costs**. Even so, **until credit-deposit pressures and large borrowing drain relent, overnight and short-tenor rates are likely to remain higher than pre-drain levels**. Investors should therefore plan for continued volatility in repo and money markets in the near term.



Corporate Bond Market and Credit Spreads

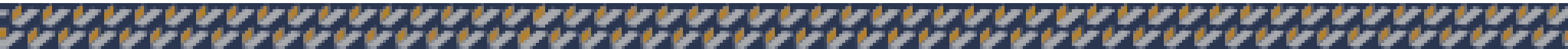
- The corporate debt market remains under strain in line with the broader market. **Yields on high-grade corporate bonds are elevated:** for example, AAA-rated 3–5 year papers are yielding in the high 6% to low 7% range, while AA credits are closer to 7.5–8%. These are roughly 100–180 basis points above similar-maturity government securities. **(Lower-rated corporates — A or BBB — see even wider spreads, often in the 9–10% yield range.) Credit spreads have widened by historic standards over the past year as investor caution has increased. Tight bank demand and underweighting by insurers/pension funds have also kept corporate yields rich.**
- Issuance trends reflect these dynamics. **Total corporate bond fundraising in 2025 was on par with 2024 (around ₹10 trillion), but activity slowed in the second half as yields remained high.** Issuers have been selective: **well-rated, high-quality companies (especially those rated AAA or high AA) have dominated the market, while many lower-rated firms have turned to bank loans instead of bond markets.** The supply of longer-tenor corporate bonds is relatively thin, which has made intermediate maturities (2–4 years) more attractive: shorter-term credit is scarce but expensive, and very long corporate funding is limited, so the **3–5 year point often offers a better risk/reward for those able to lock in financing. Overall, funding conditions are tight and spreads are wide, so corporate portfolio allocation should emphasize credit quality and liquidity.**

Portfolio Positioning by Tenor and Credit Quality

Given this environment, we advocate a **defensive, middle-curve bias** in portfolios. Specifically:

- **Government Bonds:** We prefer the 4–7 year segment of the G-sec curve. This range offers relatively attractive yields with moderate duration and benefits from the likely long pause in policy rates and ongoing RBI OMO support. We would avoid extending duration beyond the 7–10 year area, since long-maturity supply is heavy and long-term yields may stay under upward pressure from term premia. Very short-term treasuries (1–2 years) yield less advantage given the expectation of stable or slightly lower policy rates.
- **Corporate Bonds:** Within credit, priority should be given to high-quality names. AAA-rated and strong AA-rated issuers offer reasonable yield pickup with lower default risk. Short-to-medium corporate tenors (roughly 3–5 years) look attractive, as they capture decent spreads and avoid the year-end funding squeeze at the very short end. We remain cautious on lower-rated credit and longer durations in corporates, since spreads could widen further under stress. Investment horizons should be slightly longer to weather volatility, and overall portfolio duration exposure should be kept modest.

In summary, the strategy is to stay anchored in high-quality debt and mid-term maturities. This approach balances yield pickup against risk: it takes advantage of steep yields in the 3–7 year band (both sovereign and corporate) while sidestepping the pitfalls of near-term funding spikes and excessive long-term supply. By keeping duration moderate and credit quality high, the portfolio can navigate the current market turbulence with reduced vulnerability.



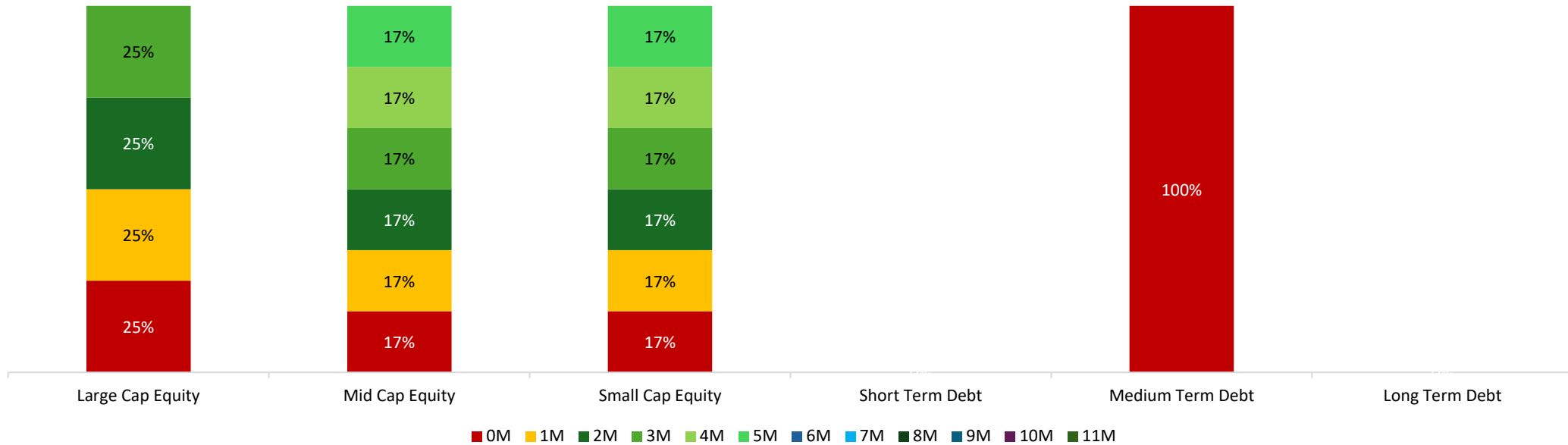
Deployment Strategy



Deployment



Stages of Deployment



Indicators:

Indicators signaling over heated market conditions –

- Market Cap/GDP for Large, Mid, and Small Cap Indices above their LTA's signaling lofty valuations
- FII's been net sellers

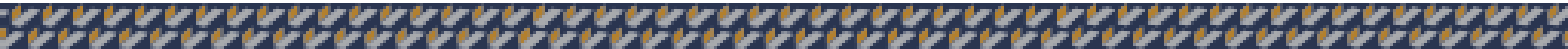
Indicators signaling fair valuation –

- VIX at 13.63 levels
- DII's have been net buyers
- Liquidity surplus
- Exports and Imports data are signaling a possible pickup in domestic demand
- Revival of Pvt Capex & Industrial Production
- TTM PE for all Indices indicate fair valuation

Deployment Strategy:

Staggered Deployment over the next 12 months –

- Large Cap – 25% immediate deployment and 25% in each month in the next 3 months
- Mid Cap – 16.66% immediate deployment and 16.66% in each month in the next 5 months
- Small Cap – 16.66% immediate deployment and 16.66% in each month in the next 5 months
- Debt – 100% immediate deployment (bullet strategy at the medium end (4-7 yrs) of the yield curve.



Optimus Prime Model Portfolio

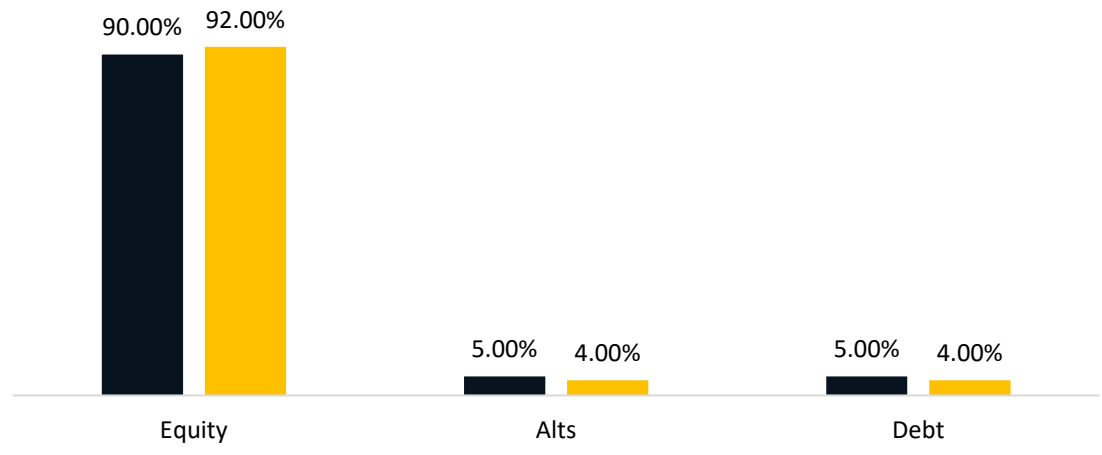
Aggressive Strategy





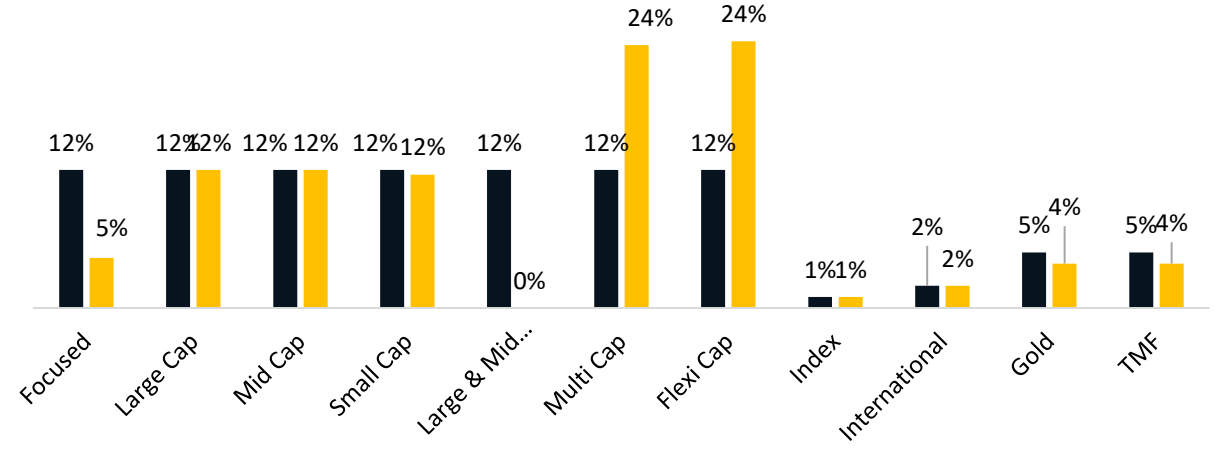
Asset Allocation

■ SAA ■ TAA

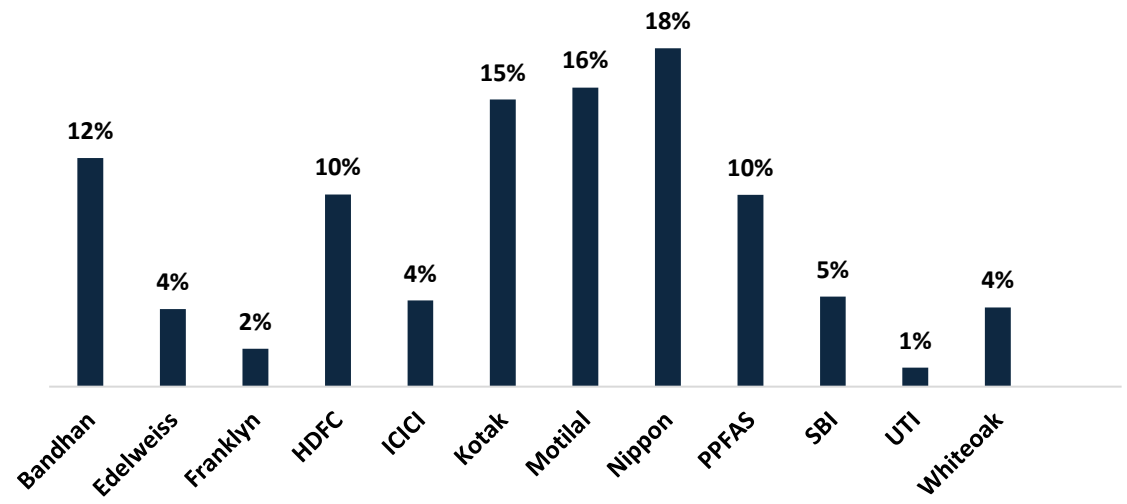


Category Allocation

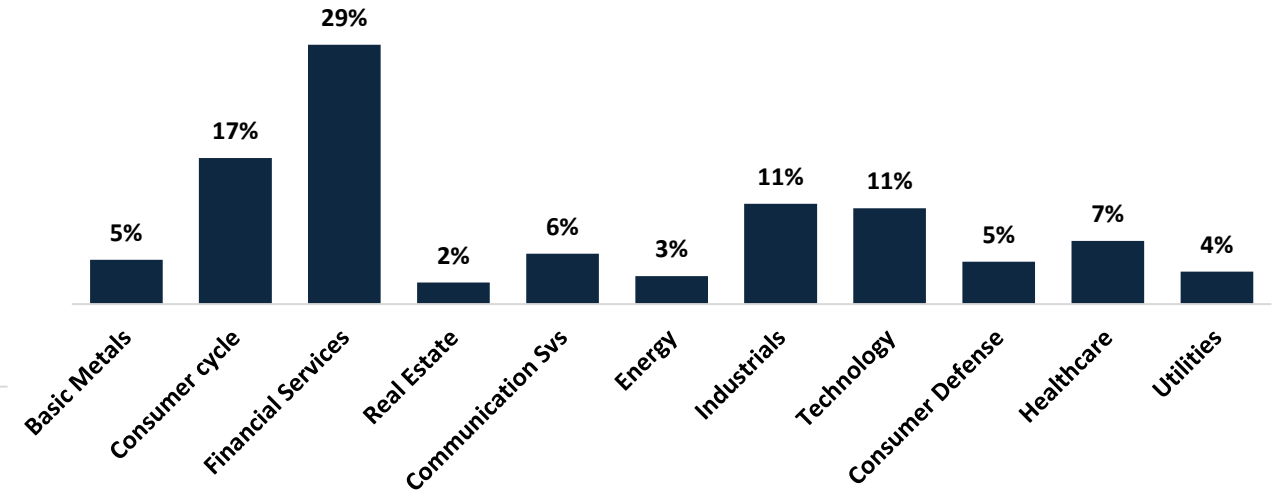
■ SAA ■ TAA



Fund House Concentration



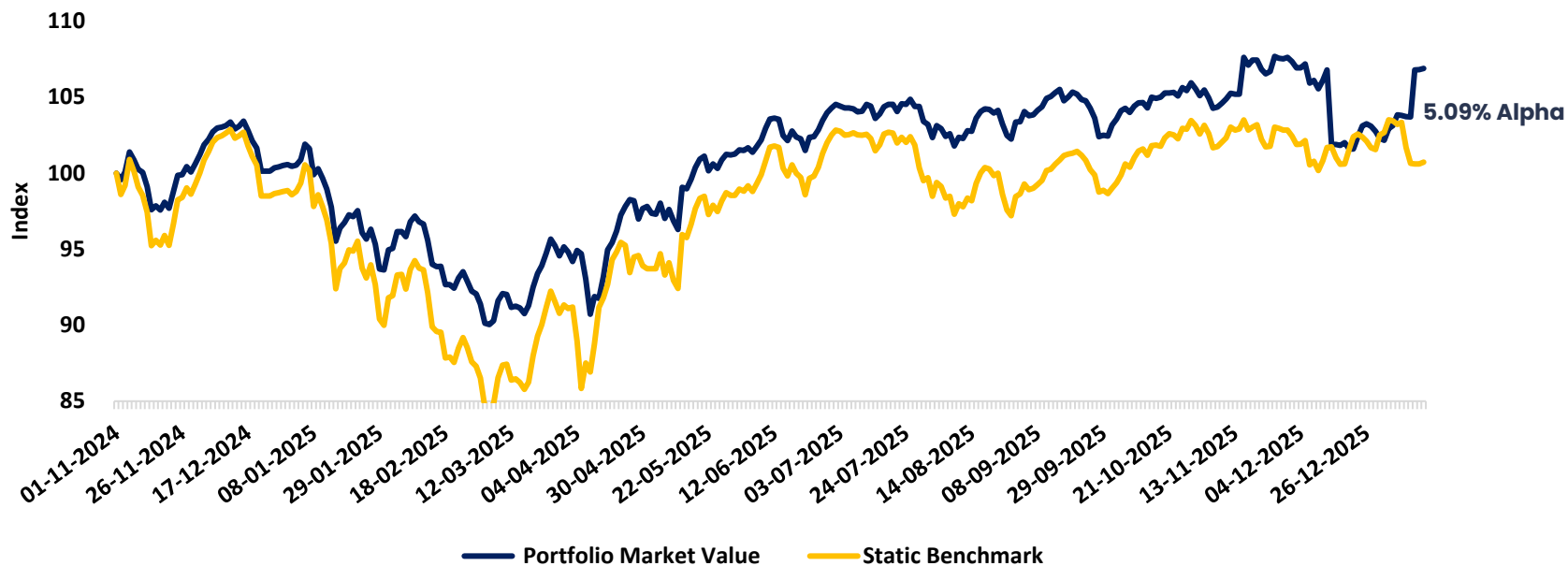
Sectoral Allocation



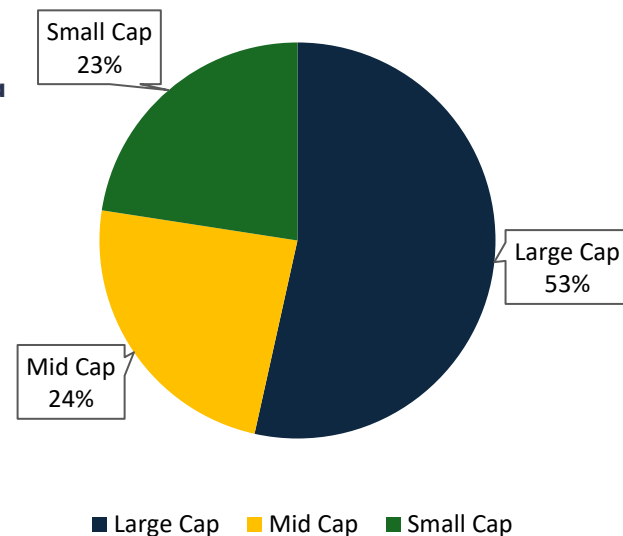
***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th January 2026, 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 for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Smallcap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark	
CAGR Return %	5.70%	0.61%	
Standard Deviation (annualized)	11.66%	14.31%	
Beta	0.57		
Alpha	5.09%		
Information Ratio	9.35		
Downside Capture	59.25		
Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.05%	3.80%	1.24%	5.09%

Debt Portfolio Analytics

Debt Measures	Dec-25
Average MoD	6.25
Average Maturity	5.02 yrs
Average Coupon	NA
Average YTM	6.89%
Average Credit Rating	Dec-25
AAA	100%
AA	0%
A	0%

***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are 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 January 2026, 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 for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Smallcap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



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 three 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 stance of '**cautious optimism**', supported by **India's strong macroeconomic fundamentals, a visible recovery in domestic demand, and the recent trade agreements announced with the US, EU, and UK**.

As a result, the portfolio's **equity allocation is currently neutral**. Within equities, we continue to hold a **~9% underweight position in Mid Caps and a ~10% 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 **Q3 earnings season point to a gradual pickup in topline**, albeit uneven, and with **inflation benign, liquidity abundant, and fiscal and external positions stable, the macro setup for FY2026-27 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 5.09%**, driven primarily by **Product Selection Alpha**. Importantly, the portfolio has maintained a **low Beta of 0.57**, and an **Information Ratio of 9.35, highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 59.25%**, 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 and the trajectory of capex cycle**. 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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THANK YOU

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