KILIKA CAPITAL

Embracing complexity to capture Alpha

July 2026

Dear Investors,

Last month we wrote to you from an inflection point, poised between two very different versions of FY27, with the whole story hanging on a single question: how long would the Strait of Hormuz stay shut. This month we can report that the question has, at last, answered itself, and answered it rather well.

The Strait has reopened. Under a US-Iran framework deal the blockade that defined the spring has been lifted, tankers are moving again, and the one number that sits at the top of every Indian investor's spreadsheet has done precisely what we hoped. Brent, which touched roughly USD 128 per barrel at the peak of the crisis, now trades near USD 71 to 72, a fall of more than 40% from the highs. For an economy that imports over 85% of its crude, this is no footnote; it is the single largest relief valve available to us, and it has swung fully open. The import bill eases, the current account breathes, inflation loses its most dangerous driver, and the RBI regains room it had quietly surrendered. The antagonist that stalked three consecutive letters has, for now, left the stage.

We would be poor stewards, however, if we simply exhaled and declared victory. Markets rarely leave the theatre empty for long, and no sooner had the Gulf drama closed than a new actor walked on from an entirely different direction, Washington. US trade policy has replaced West Asian energy as the dominant near-term risk to our thesis. A negotiated 18% rate now sits uneasily against a Section 301 proposal that could lift India's effective tariff from 10% to 22.5%, with the 24 July expiry as the date to watch. For thin-margin exporters in textiles and leather, this is the variable to size around this summer. The worry has not disappeared; it has merely changed its passport.

Beneath these shifting external dramas, the domestic engine has done what good engines do, run on, largely indifferent to the weather outside. India closed FY2025-26 with real GDP growth of 7.7%, the fastest among major economies for a third year running, and the fourth quarter carried genuine investment muscle: gross fixed capital formation surged 10.8% and machinery imports rose 24.9%, the fingerprints of a real capex revival rather than mere government front-loading. Industrial production accelerated to 5.1% in May on the new series, with capital goods up 12.9%, now twelve consecutive months of double-digit growth. Capacity utilisation has held above its long-run average at 75.2% for a second straight quarter, historically the level at which boardrooms stop debottlenecking and start building, while bank credit compounds at 17.7%, comfortably outpacing deposits. These are not the vital signs of an economy that needs rescuing; they are the preconditions for a sustained re-rating.

There is one honest caveat, and we will not tuck it away in a footnote. The comfortable phase of the inflation cycle is behind us. Headline CPI rose to 3.93% in May, its fifth consecutive monthly climb and the highest print of the rebased series, as fuel pass-through and a summer vegetable spike. We remain below the RBI's 4% target, but the direction has turned, and the central bank's own path now has inflation crossing 4% imminently and peaking near 5.9% in Q3 FY27. At its June review the RBI held the repo at 5.25% and kept its neutral stance, trimming FY27 growth to 6.6% while lifting its inflation projection to 5.1%. We read the easing cycle as complete for now; the next move, whenever it comes, will depend on crude staying tame and the monsoon behaving, the IMD's forecast of a below-normal season at around 90% of the long-period average being the one cloud we watch most closely.

Markets, for their part, have already done a great deal of the worrying on our behalf. The Nifty is down roughly 8% for the year, which on our reading leaves large caps trading close to fair value and, in places, into outright undervalued territory, with mid caps fairly priced and small caps still rich. Foreign portfolio investors remain net sellers, with FY27 outflows already running heavy, drawn away by dollar strength and the gravitational pull of the global AI trade. Yet domestic flows have absorbed almost all of it: steady SIP contributions and patient institutional buying have made DIIs the dominant owners of Indian equities, a quiet coup that has changed who sets the tone in our market. The India VIX, near 13, says the crowd is calm. This is a market that has priced in a great deal of bad news and is waiting, not panicking.

And so we arrive at the decision that defines this letter. A month ago we let the emphasis shift modestly off caution. This month, having watched the energy risk resolve, valuations turn reasonable, and the domestic engine reaffirm itself, our Investment Advisory Committee has gone further and voted unanimously to move the house stance from neutral to aggressive. We express that conviction where it is safest, with an overweight in large caps, and we deploy it with discipline rather than abandon, staggering fresh capital over the coming months so that we keep powder dry for the dislocations a world juggling tariffs and a nervous monsoon will inevitably serve up. Conviction, we have long held, is best worn with a seatbelt.

The domestic story is not merely intact; it has strengthened. The external shock that dominated three seasons of these letters has eased from worsening, to fragile, to genuinely behind us. A new risk has taken its place, as one always does, but for the first time in many months the balance of probabilities sits firmly on our side. We are no longer cautiously optimistic. We are, with our eyes open and our belts fastened, simply optimistic.

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

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

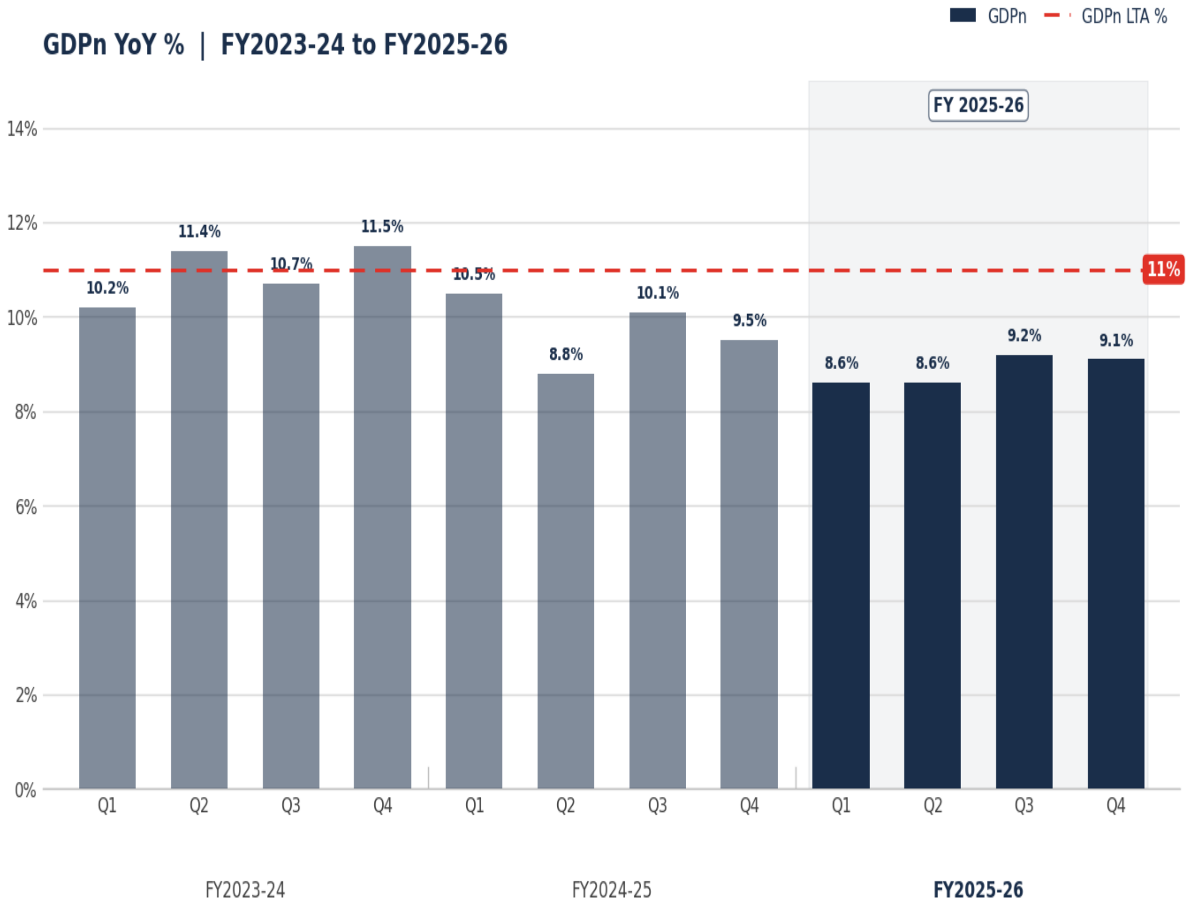
Piyush Sharma – The Creative Wizard
Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund,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

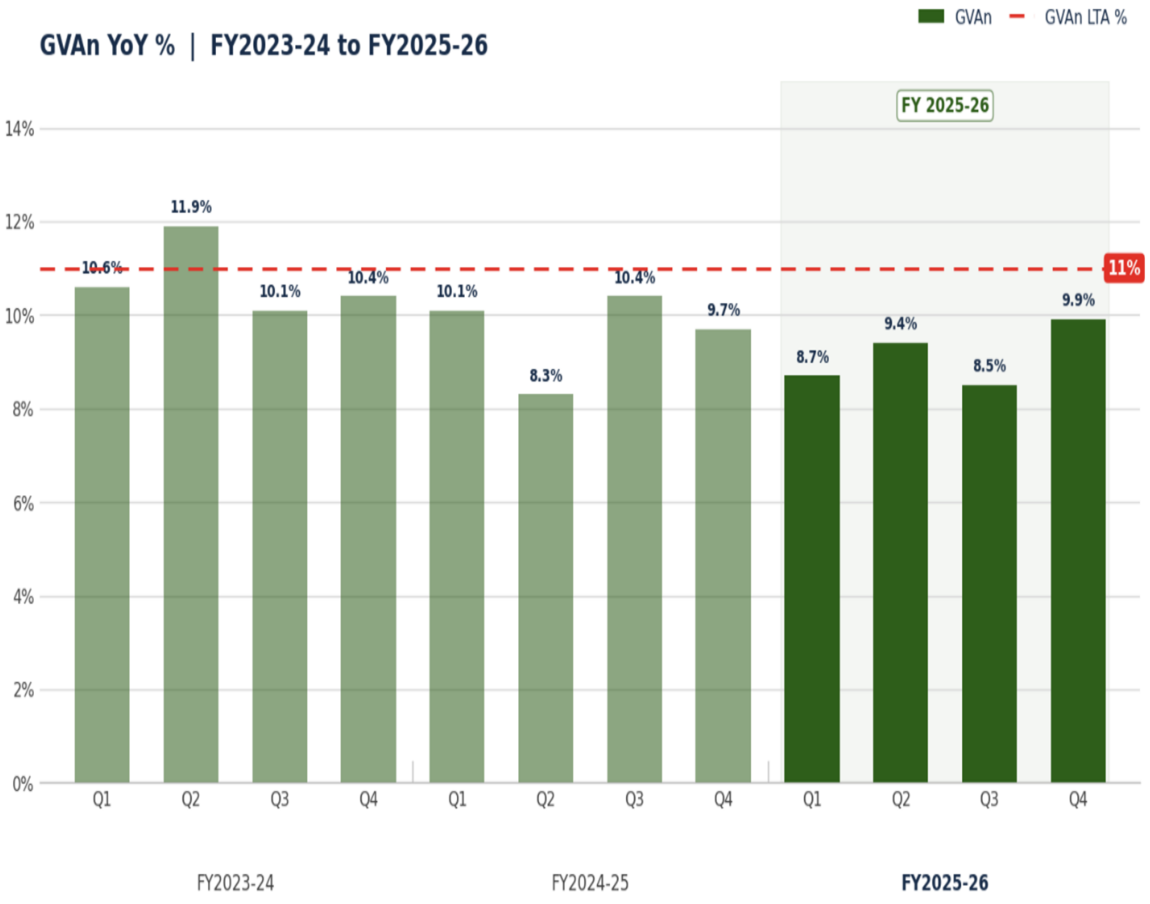
Harris Lunis - The Fundamentals Detective
Harris Lunis is a research-driven finance professional with a sharp eye for fundamentals and a curiosity that extends well beyond the balance sheet. Armed with a Master's in Finance, he specializes in deep-dive sector research, financial modelling, and valuation frameworks - turning complex data into clear, investment-ready insights. Backed by a strong academic record and CA Inter, Harris brings structure, rigor, and consistency to financial statement analysis, forecasting, and valuation. He keeps a close watch on global markets, macro indicators, and geopolitics, with a particular interest in how U.S. policy decisions ripple through the global economic system. When he's not dissecting companies or tracking indices, Harris is likely on the field playing cricket or football, a discipline that mirrors his approach to investing: patient, precise, and long-term oriented. His analytical mindset and fundamentals-first thinking fit seamlessly with our firm's long-term investment philosophy.

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: MoSPI Provisional Estimates, FY2025-26

India GDP Q4 FY2025-26: Quarterly Deep Dive

The Headline Print: Reading 7.8% Correctly

- **India's real GDP grew at 7.8% YoY in Q4 FY2025-26**, the January–March 2026 quarter, a modest sequential easing from 8.0% in Q3 but comfortably above the Long-Term Average (LTA) of roughly 6.8–7.0%. With this print, **full-year FY2025-26 real GDP growth lands at 7.7%** — up from 7.1% in FY2024-25 — keeping India the **fastest-growing major economy** for a third consecutive year.
- Context matters. These are the **Provisional Estimates (PE) released by MoSPI on 5 June 2026**, the first read to incorporate full Q4 actuals, and they revise the full year up versus the Second Advance Estimates of February. Crucially, the Q4 story is **investment-led strength meeting a high export base** — domestic momentum held firm even as global trade frictions and the energy shock bit.

Demand-Side Drivers

- **Gross Fixed Capital Formation (GFCF) is the standout at 10.8% YoY in Q4**, the strongest quarterly investment print of FY26 and a clear step-up from 8.2% over the full year. Machinery & equipment imports surging **24.9% YoY** corroborate a genuine private-plus-public capex revival, not merely government front-loading.
- **Private Final Consumption Expenditure (PFCE) grew 7.1% in Q4**, sustaining the FY26 full-year pace of 7.7% — the strongest consumption year in three. Rural demand stayed resilient on a healthy harvest and easing food inflation, while urban spending normalised after the post-pandemic surge.
- **Exports grew just 3.7% YoY in Q4** (real), the softest quarter of the year, as the Strait of Hormuz disruption, elevated freight, and softening global IT spend weighed on goods and services shipments alike. Imports decelerated sharply to 1.9%, leaving net exports a smaller drag than feared.

Closing the Year: What the Provisional Estimates Confirm

- The 5 June 2026 PE release completes the FY2025-26 picture on the **rebased 2022-23 series** (adopted 27 February 2026). Real GDP reaches **₹323.12 lakh crore** and nominal GDP **₹346.36 lakh crore**, with **growth of 7.7% and 8.9% respectively**. **Real GVA grew 7.9% and nominal GVA 9.1%.**

Where the Growth Came From

- The **secondary and tertiary sectors carried the year**, **expanding 8.8% and 9.3% in real terms**, while the **primary sector moderated to 3.2%** as **agriculture normalised off a strong FY25**. Three blocks — **Manufacturing, Trade/Hotels/Transport, and Financial/Real Estate/Professional Services — printed double-digit nominal growth**.
- **Manufacturing real GVA rose 10.7% for the full year** even as Q4 cooled sharply to 7.3%, reflecting a high base and softer commodity-linked value-add late in the year.
- **Tertiary activity accelerated through the year, ending at 9.9% in Q4**, with **Trade, Hotels & Transport the single strongest sector at 12.5%** — a travel, logistics and digital-services surge.
- **Net taxes grew 6.4% in real terms**, a touch slower than GVA; nominal net taxes rose 6.6% as subsidy outgo (fertiliser +21.7%) stayed elevated.
- **High-frequency indicators validate the print**: **finished steel consumption +10.4% and cement +8.2% in Q4, commercial-vehicle sales +19.0%, and CGST collections +9.0% — a broad-based, formal-economy expansion**.

The Full-Year Scorecard: FY25 vs FY26

- The table below summarises the FY2025-26 outturn against FY2024-25. The standout is the **real acceleration alongside a softer nominal print — a function of a lower deflator, i.e. disinflation rather than weaker volumes**.

Metric	FY2024-25 (FRE)	FY2025-26 (PE)	Δ Change
Real GDP Growth	7.1%	7.7%	+0.6 pp
Nominal GDP Growth	9.7%	8.9%	−0.8 pp
Real GVA Growth	7.3%	7.9%	+0.6 pp
Real GDP (₹ lakh cr)	299.89	323.12	+7.7%
Per Capita GDP (₹)	2,12,979	2,27,447	+6.8%

The key narrative: **the secondary and tertiary sectors led FY2025-26**, with **manufacturing and financial/real-estate services driving the acceleration**, while the **primary sector slowed to 3.2% on an agricultural base effect**. For equity investors, the FY26 outturn confirms a **capex- and services-led expansion** rather than a consumption-only story.

What This Means for Key Ratios

- GDP Deflator: The **nominal-real wedge narrowed to ~1.2pp for the full year** (8.9% nominal vs 7.7% real), the tightest in several years. **This signals genuine disinflation and keeps debt/GDP optics honest**.
- Per-Capita Income: Per-capita GDP rose to **₹2,27,447 (+6.8%)** and per-capita NNI to ₹1,93,480, keeping India on track toward the US$3,000 per-capita threshold under the rebased series.
- Investment Intensity: **GFCF held at 32.3% of GDP**, with the Q4 10.8% surge pointing to a **firmer FY27 investment base — relevant for capex-geared sectors and the construction multiplier**.

Sectoral Performance - The Full Picture

- The breadth of FY26 growth is its defining feature, but **Q4 marks a rotation**: **manufacturing cooled while services and construction strengthened. Seven of eight sectors still posted positive momentum into the final quarter — a laggard rotation, not a broad slowdown**.

Sector	Q2 FY26	Q3 FY26	Q4 FY26	Trend	Assessment
Manufacturing	12.7%	12.8%	**7.3%**	↓ Cooling	Sharp Q4 slowdown; high base
Construction	8.9%	6.7%	**8.4%**	↑ Firm	CapEx multiplier intact
Financial, RE & Prof. Svcs	10.3%	11.6%	**10.4%**	↑ Strong	Credit + real-estate strength
Trade, Hotels, Transport	10.5%	11.2%	**12.5%**	↑ Accelerating	Travel & logistics surge
Public Admin & Defence	5.4%	4.9%	**5.8%**	→ Steady	Govt spending firm
Agriculture & Allied	2.7%	1.7%	**3.6%**	↑ Rebounding	Rabi-led recovery
Electricity & Utilities	3.6%	1.5%	**4.1%**	↑ Recovering	Demand pick-up
Mining & Quarrying	6.1%	4.7%	**5.4%**	→ Steady	Output holds up

Manufacturing: From Star to Soft Patch

- **At 7.3% YoY in Q4, manufacturing slowed markedly** from 12.8% in Q3 and 12.7% in Q2, **though the full year still printed a robust 10.7%.** The deceleration reflects an **unfavourable high base, softer export demand, and commodity-linked value-add compression** under double deflation late in the year. **This is a cyclical cooldown, not a structural reversal** — FY26 manufacturing remained the strongest in the new series.

Agriculture: A Late Rebound

- **Agriculture grew 3.6% in Q4**, rebounding from a soft 1.7% in Q3 and lifting the full-year primary print to 3.2%. A **favourable Rabi harvest** and **total food-grain production up 9.6% in Q4** (cereals +10.5%) underpinned the recovery. The rural impulse — **visible in tractor and two-wheeler offtake — should carry into early FY27**.

Services: The New Engine

- **The trade, hotels and transport cluster surged to 12.5% in Q4**, its strongest print of FY26, on travel, tourism and logistics strength (international air traffic +11.1%). **Financial, real estate and professional services held double-digit at 10.4%, sustained by 13–14% credit growth and resilient real estate**. Services, not manufacturing, closed FY26 as the growth engine.

Policy Implications - RBI, Fiscal & Beyond

- **Reserve Bank of India: Room, With One Eye on Oil**
- **A 7.8% Q4 real print with a ~1.2pp nominal-real wedge** — benign domestic inflation — would ordinarily give the RBI clear easing room. But the **energy shock complicates the call**: with Brent elevated and the rupee under pressure, the MPC must weigh growth support against imported-inflation risk. Durable-liquidity tools (CRR, OMOs) are the more likely lever than aggressive rate cuts.
- **Fiscal Policy: Consolidation Made Easier**
- **The capex-first stance is validated by the Q4 GFCF surge to 10.8%**; **construction (8.4%) and public administration (5.8%) confirm the multiplier is firing**. With nominal GDP at ₹346.36 lakh crore, the **deficit-to-GDP ratio improves optically** even at a constant absolute deficit, giving the government room to sustain capex intensity into the FY2026-27 Budget while still consolidating.

India vs The World - The Alpha Story

- **7.7% full-year real GDP growth** in a world where the US is expanding ~2.5%, the Eurozone is stagnating at 0.8–1.2%, China is defending a 4.5–5.0% floor, and Japan struggles near 1% leaves India the standout major economy — now with an **accelerating, broad-based and rebased data series** that removes a longstanding credibility discount.
- **For fixed-income investors:** A **higher, cleaner nominal GDP base lowers the debt/GDP ratio** and **supports India's sovereign-credit narrative** within global bond indices (JPMorgan, Bloomberg) — incrementally positive for long-end yields, the energy-driven fiscal and CAD risk notwithstanding.
- **For equity investors:** FY26 confirms the rotation markets had already begun pricing — **capex, financials, real estate and travel/logistics over commodity-linked manufacturing**. The **Q4 manufacturing soft patch is a tactical caution, not a thesis breaker**.

Strategic Outlook – What to Watch in FY2026-27

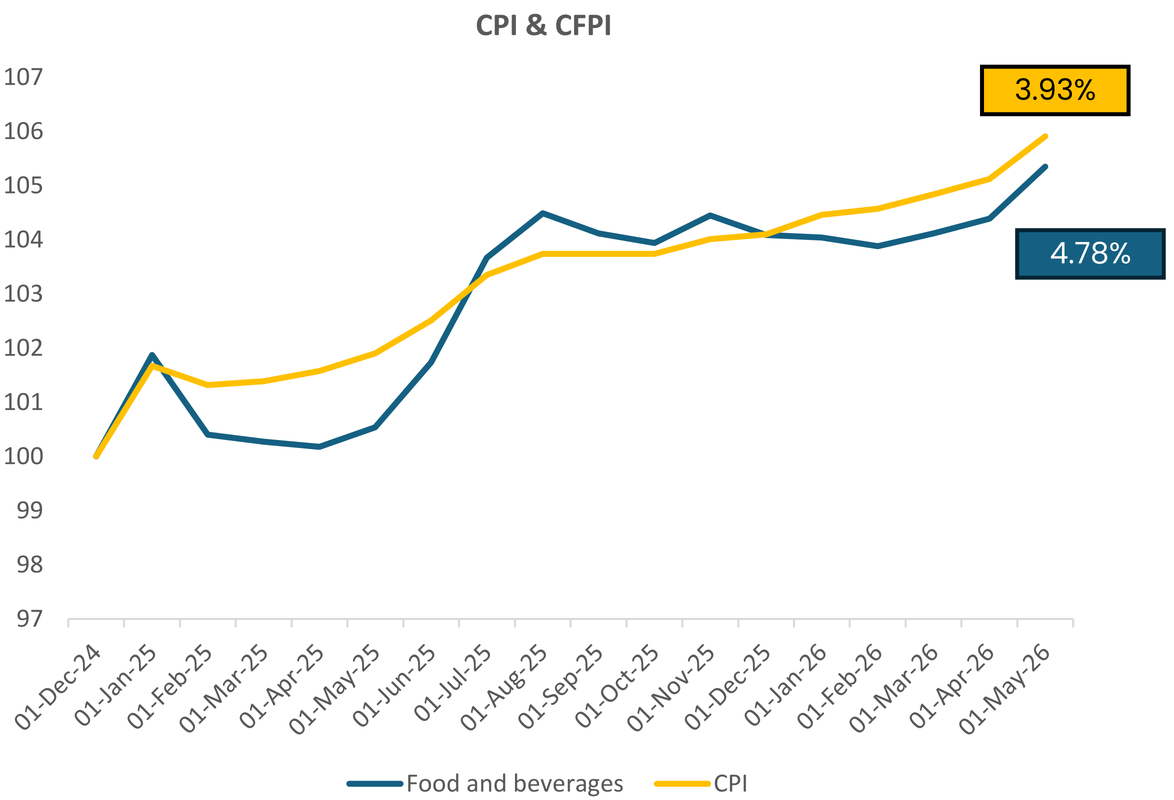
Signal	Theme	Implication for Portfolios
POSITIVE	**Investment & CapEx Cycle**	GFCF surged 10.8% in Q4 and machinery imports +24.9%; a firmer investment base supports construction, capital goods and financiers into FY27 if the Budget holds capex near 3.4% of GDP.
POSITIVE	**Services Leadership**	Trade, hotels & transport (12.5%) and financial/real-estate services (10.4%) closed FY26 as the growth engine; travel, logistics and credit-linked names remain well-placed.
WATCH	**Manufacturing Soft Patch**	Q4 manufacturing cooled to 7.3% from 12.8% on a high base and soft exports. Watch whether this is one-quarter noise or the start of a slower export-linked phase.
WATCH	**Geopolitical Pressures**	The ceasefire and reopening of the Strait of Hormuz have eased pressure on crude prices, inflation, the rupee, and India's current account deficit. However, with India importing over 85% of its crude needs, any renewed escalation remains a key macro risk for FY27.
RISK	**Exports, Tariffs & Base Effects**	Q4 exports slowed to 3.7%; fresh US tariff actions on electronics/pharma and a high FY26 base raise the bar for FY27 export-led growth.

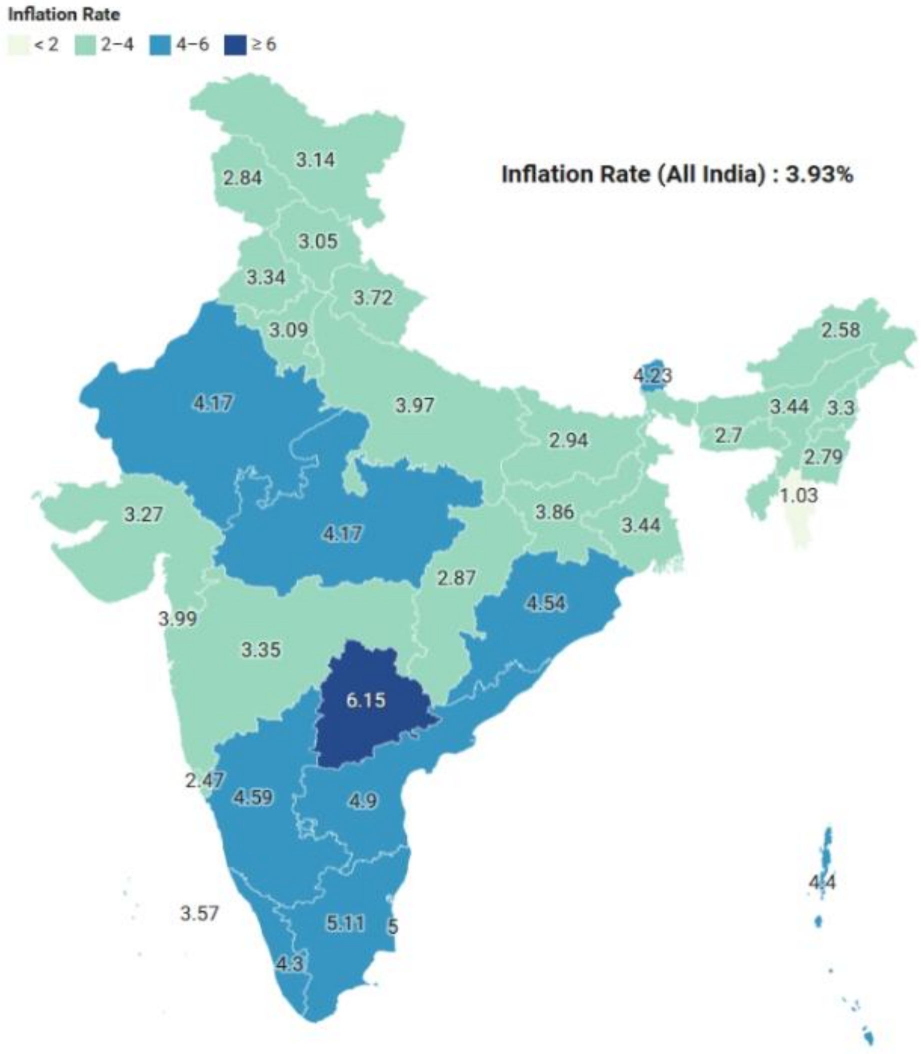
Our 12-Month View: Constructive, The Ceasefire Window

India enters FY27 with strong domestic fundamentals, supported by robust FY26 GDP growth, healthy investment activity, and resilient consumption trends. The key change since Q4 has been the transition from an active Middle East conflict to a fragile ceasefire, resulting in a sharp correction in crude oil prices and easing pressure on inflation, the current account deficit, and the rupee. While this improves the outlook for growth and potentially reopens the door for RBI easing, the recovery remains conditional on the ceasefire holding and energy markets continuing to normalize and a close to normal monsoon. Our base case remains constructive, with FY27 growth expected at 6.5–7.0%, supported by domestic demand, government capex, and improving macro conditions. However, geopolitical risks, particularly around the Strait of Hormuz and ongoing negotiations with Iran, as well as the monsoons, remain the key variables to monitor.

Based on MoSPI Provisional Estimates of GDP, Q4 FY2025-26 (5 June 2026).

2. Inflation





Source: Internal assessment based on RBI DBIE data

Inflation’s Chill is Over: CPI Sneaks Back Towards the 4% Line

Headline

- **Headline CPI inflation rose to 3.93% in May 2026, up from 3.48% in April 2026 and the highest reading since the rebased series began in January 2026.** The 45 basis point monthly acceleration is the steepest in the new series, which has now risen for five consecutive months from 2.75% in January 2026, 3.21% in February 2026, 3.40% in March 2026 and 3.48% in April 2026. The print sits just below the RBI medium term target of 4%, but in our reading the proximity to target matters less than the direction, which has turned decisively after the unusually benign FY26.
- **We see May 2026 as an inflection.** The disinflation that defined FY26, food in outright deflation late last year, crude contained and a 125 basis point easing cycle, has unwound. The drivers behind the May rise, **fuel pass through and a renewed food impulse, are supply side and slow to reverse, which is why we treat the sub 4% headline as the last comfortable print rather than evidence of stability**.

Food

- **Food inflation reaccelerated, with the Consumer Food Price Index at 4.78% in May 2026 against 4.20% in April 2026.** Food and beverages stood at 4.55%. The pressure is concentrated, not broad. Tomato inflation jumped to 48.43% in May 2026 from 35.26% in April 2026, ginger rose to 32.49% from 14.36%, while potato remained in deep deflation at minus 23.71% and peas at minus 11.47%. This is a classic summer vegetable spike layered onto a firming base, and monetary policy has no instrument that addresses it directly.
- **The signal we weight most is restaurant pricing, discussed under Services, because menu repricing converts a transient vegetable shock into a persistent one.** For now we read food as an **upside risk that hinges almost entirely on the monsoon and the kharif sowing window through June and July 2026**.

Core and Underlying Pressures

- **Underlying inflation remains distorted by precious metals rather than by broad demand. The personal care, social protection and miscellaneous goods division ran at 18.46% in May 2026, the highest of any broad division, driven by silver jewellery at 155.23% and gold, diamond and platinum jewellery at 40.93%. These are global price and rupee effects rather than domestic demand signals**, and they flatter any naive ex food, ex fuel measure. Stripping the metals impulse, the underlying trend is firmer than a year ago but not yet broad based.
- **What concerns us more is the early breadth in services and the prospective second round effects from fuel. With transport turning positive and freight sensitive categories yet to fully reflect the May fuel hikes, we expect the underlying measure to harden through Q2 FY27 even if metals volatility partially unwinds**.

The Rural-Urban Divergence

- The national figure masks a widening gap. **Rural CPI was 4.25% in May 2026 against urban CPI at 3.53%**, a **72 basis point spread that has widened** from 58 basis points in April 2026. Rural food inflation at 4.85% also ran ahead of urban at 4.66%. **Rural households carry a higher food and fuel weight and have fewer substitution options, so the same shock lands harder outside the cities**.
- We flag this because the rural skew complicates the policy read. **A headline near target understates the inflation actually experienced by the rural consumer, and a weak monsoon would compress rural incomes precisely as rural prices accelerate**.

Housing Holds Steady, but Watch the Margins

- **Housing inflation remained contained at 2.12% in May 2026, with rural housing at 2.73% and urban housing at 1.91%**. The category continues to act as a stabiliser within the basket, absorbing none of the food and fuel volatility seen elsewhere and holding well below the headline.
- We do not see housing as a near term risk to the trajectory. It is the one major division insulated from the crude and currency channel that is driving the rest of the index, and we expect it to stay range bound.

State Dispersion

- **Regional dispersion is wide.** Of 36 states and union territories, between 12 and 14 printed above the national rate in May 2026. Telangana again led at 6.15%, extending its run as the highest inflation state since January 2026, while Mizoram was lowest at 1.03%. The southern and eastern belt sits clearly above the all India figure, and Delhi remains notably soft.

Services

- **Services inflation is the sticky tell we watch most closely. Restaurants and accommodation rose to 5.75% in May 2026 from roughly 4.2% in April 2026, a sharp move that reflects input cost pass through, notably LPG and food, into menu prices. Once services repricing occurs it rarely reverses, and it feeds household inflation expectations more durably than a vegetable spike.**
- **We read the services pickup as the mechanism through which a supply shock becomes embedded. If restaurant and broader services inflation continues to firm into Q2 FY27, the case for treating current pressures as purely transitory weakens materially.**

Crude and the Import Channel

- **The fuel impulse is the single most important development in this print. State oil marketing companies raised petrol and diesel prices four times in May 2026, the first increases in four years, after absorbing under recoveries while Brent climbed on the West Asia conflict. Transport inflation flipped from minus 0.01% in April 2026 to 1.75% in May 2026. With India importing over 85% of its crude and the rupee in the region of 94 to 96 per dollar, every move in global crude is amplified in rupee terms with no domestic production buffer.**
- **The first round transport effect is visible. The second round, higher freight feeding into food, manufactured goods and construction materials, typically arrives with a lag of a couple of months, which is why we expect the June and July 2026 prints to be more informative than May. The crude and currency channel, in our view, is the dominant upside risk to the trajectory**.
- The recent **U.S.–Iran agreement and the prospective reopening of the Strait of Hormuz have triggered a sharp correction in crude prices and may ease some of the immediate upside pressure on fuel costs; however, the durability of this relief remains uncertain given the fragile nature of the deal, potential supply disruptions, and the lag with which lower global oil prices transmit to domestic retail fuel prices**.

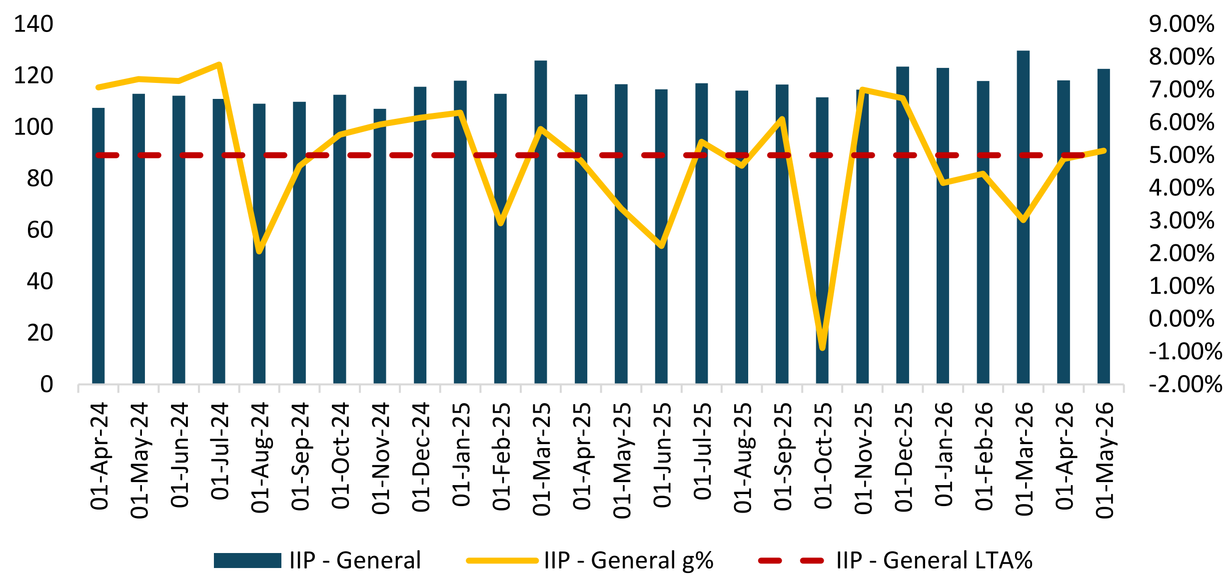
What Lies Ahead - Momentum has turned. The Comfortable Phase is Behind us

Several factors will determine whether the inflation trajectory tracks the RBI's baseline or breaks higher.

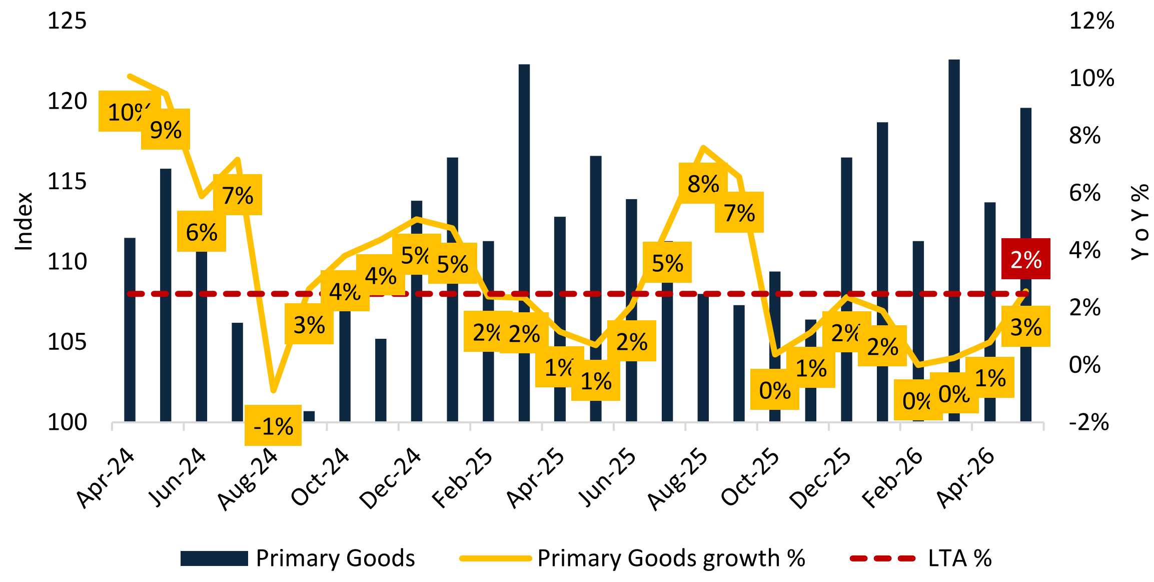
- **The RBI held the repo rate at 5.25% at its June 2026 meeting and retained a neutral stance, an appropriate response to a print still below target with the fuel impulse only beginning to transmit. Alongside the hold, the RBI lowered its FY27 GDP growth projection to 6.6% from 6.9% and lifted its FY27 CPI projection to 5.1%, with the quarterly path rising from 4.2% in Q1 to 5.1% in Q2 and peaking at 5.9% in Q3 FY27, within touching distance of the 6% upper tolerance band.**
- **Our base case follows that trajectory. We expect the headline to cross 4% in the coming prints as fuel pass through completes and food stays firm, with the <u>monsoons being the decisive swing variable for the second half.</u> We view the easing cycle as complete and judge the balance of risks to be tilted toward tightening rather than further cuts over FY27. The comfortable phase of the inflation cycle is, in our assessment, behind us.**

3. IIP (Index of Industrial Production)

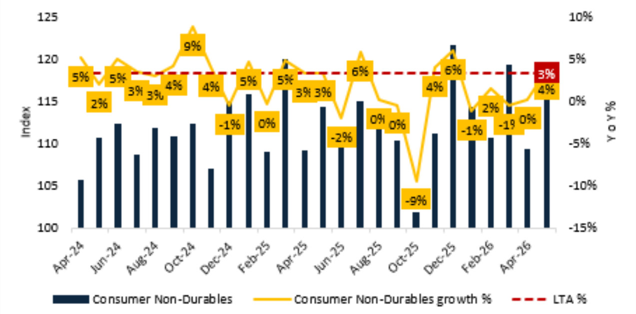
IIP - Industry



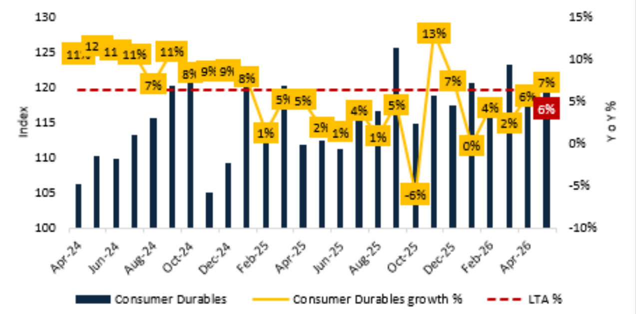
Primary Goods



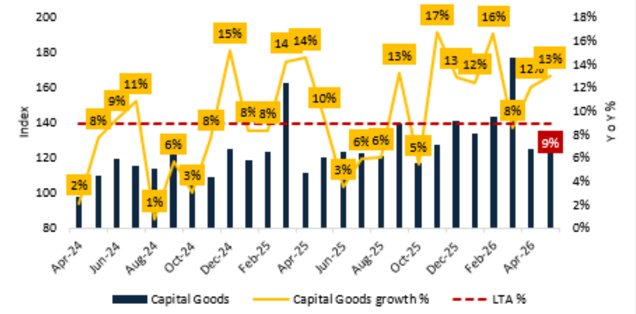
Consumer Non-Durables



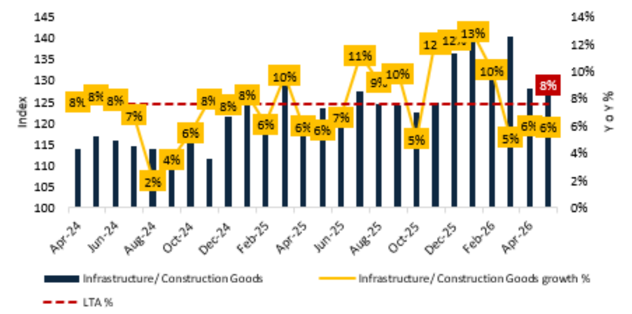
Consumer Durables



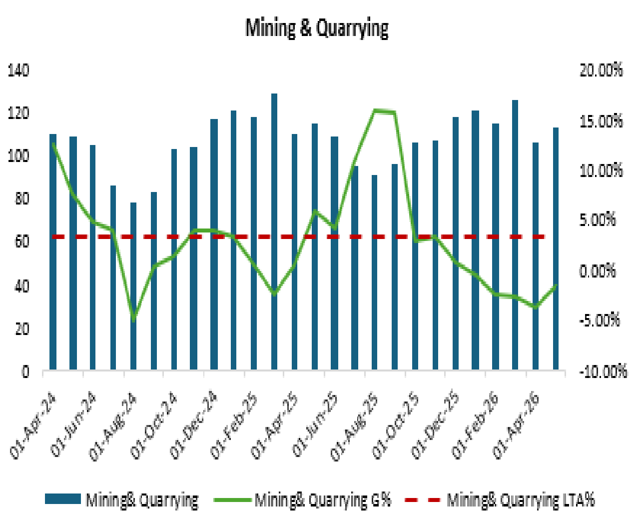
Capital Goods

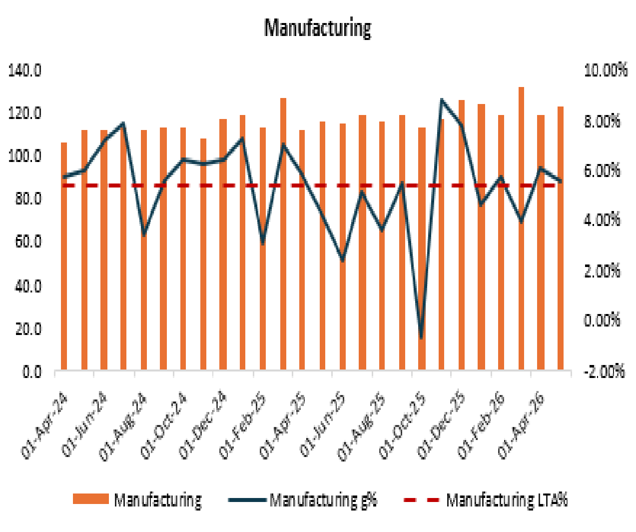


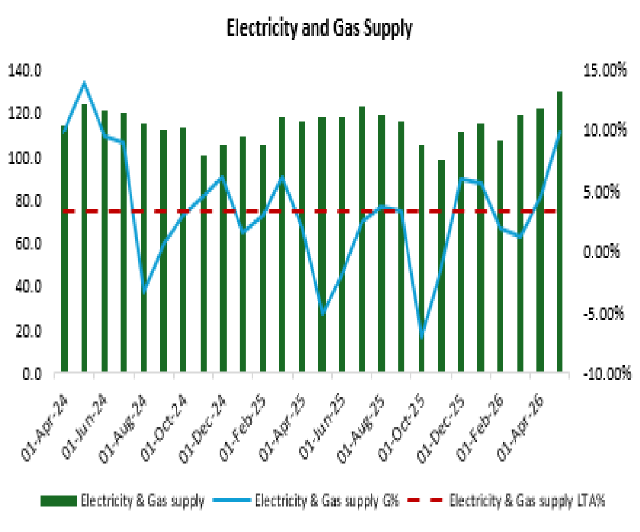
Infrastructure

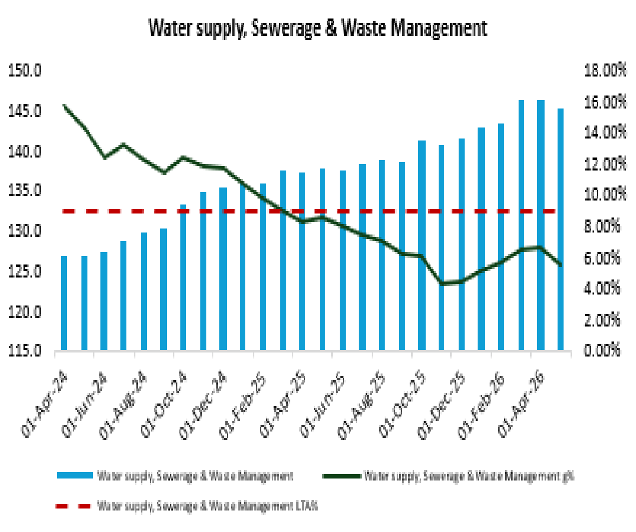


Source: Internal assessment based on RBI DBIE data









India IIP Deep Dive

Headline Tells a Stronger Story Than the Tape Suggests

- **India's Index of Industrial Production grew 5.1% YoY in May 2026, accelerating from 4.9% in April** (updated print under the new PPI-based series) and dramatically stronger than the 3.4% recorded in May 2025. The IIP index print of 122.7 against 116.7 a year ago confirms that **industrial momentum has carried into Q1 FY27 with conviction, despite the elongated overhang of the West Asia conflict and elevated crude prices**. The cumulative Apr-May FY27 growth of 5.1% is the cleanest signal we have so far that the FY26 plateau at 4.1% has given way to a step-up in industrial activity at the start of the new fiscal.
- Two things stand out before going into the details. First, this is the first release under MoSPI's adopted Output PPI deflator framework, which supersedes the WPI-based new series published on 1 June 2026. The shift affects 234 of the 463 item groups in the IIP basket, representing 36.02% of total index weight. We discuss the methodology shift later in this note, but at the headline level, it has lifted FY26 IIP growth to 4.3% under the new framework versus 4.1% under the WPI-based old series. Second, the **breadth has improved, with 16 of 23 manufacturing industry groups at NIC 2-digit level posting positive growth in May 2026, slightly narrower than April's 17 but well above the breadth seen through most of FY26**.

Power and Manufacturing Carry the Quarter, Mining Drags

- **Manufacturing, which carries a 76.06% weight in the new series, grew 5.5% YoY in May 2026, marginally easing from April's 6.1%** (revised up from 6.2% on the new PPI basis). **The cumulative Apr-May FY27 manufacturing print at 5.8% versus 5.0% in May 2025 indicates a genuine pickup in factory throughput rather than a one-off base effect**. Within manufacturing, the standout was **electrical equipment growing 20.8% YoY,** driven by switchgear, circuit breakers, control panels, transformers, and UPS/solid-state drives, all consistent with sustained capex into power infrastructure and data center build-out. **Motor vehicles, trailers and semi-trailers grew 14.5%,** with passenger cars, auto components and commercial vehicles each contributing meaningfully. **Basic metals, the largest weighted manufacturing sub-segment at 9.20%, grew 4.6%,** supported by HR coils and sheets of mild steel, HR plates and alloy/stainless steel bars. **Computer and electronic products grew 11.4%, while other transport equipment expanded 14.3%.**

Source: Internal assessment based on RBI DBIE data

- On the drag side, **wearing apparel contracted 8.8%, printing and reproduction of recorded media fell 10.3%,** and **coke and refined petroleum products declined 4.7%, the latter reflecting refinery throughput rationalisation amid weak global product margins**. **Tobacco products, chemicals and chemical products, leather and related products, and wood products also remained in negative territory, all of which we read as a combination of sectoral capacity adjustment and softer consumer non-durable demand pockets**.
- **Electricity and Gas Supply was the standout sectoral performer with 9.9% YoY growth in May 2026**, a dramatic swing from the 5.1% contraction recorded in May 2025. The April print was 4.6%, so May represents a sharp acceleration. The granular sub-sectoral data reveals where the strength came from. **Renewable electricity generation grew 18.0% YoY (index at 153.8 against 130.3), continuing to outpace non-renewable generation, which itself grew a healthy 8.8%. Total electricity output expanded 11.1%, while gas supply contracted 7.1% YoY**, the only soft spot in the energy basket. The renewable sub-index is now a powerful new analytical tool that did not exist under the 2011-12 series, and it confirms that the energy transition is showing up in real-time industrial output, not just in installed capacity additions.
- **Mining and Quarrying contracted 1.6% YoY in May 2026**, narrowing from the 3.8% decline in April but still firmly in negative territory. The cumulative Apr-May FY27 mining print at -2.7% versus 3.2% in the year-ago period is the **single biggest sectoral concern in this release**. The drag is concentrated in fuel minerals at -6.4%, reflecting weak coal and petroleum extraction, and non-metallic minerals at -6.1%. Metallic minerals, which now include rare earth minerals under the revised series, grew a striking 18.3% YoY, indicating that the strategic minerals push is beginning to deliver volume outcomes. **Water Supply, Sewerage and Waste Management, the new sector introduced in the 2022-23 series with a 2.02% weight, grew 5.5% YoY**, supported by 6.9% growth in sewerage and waste management and 4.3% growth in water supply.

Capex Continues to Lead, Consumption Finally Joins the Party

- The use-based classification continues to confirm the investment-led character of the current cycle, but with an important new development. **Capital Goods grew 12.9% YoY in May 2026, accelerating from 12.0% in April**, and the Apr-May FY27 cumulative print at 12.5% is the strongest two-month start to any fiscal year we have observed under the comparable series. The PPI-based series shows FY26 capital goods growth at 10.4%, well above the 8.3% reported under the WPI-based old series, suggesting that the real volume of investment goods production was structurally underestimated in earlier readings.
- **Consumer Durables grew 7.2% YoY in May, accelerating sharply from 5.6% in April. We view this as a meaningful signal that urban discretionary demand is firming up, particularly given that the air-conditioner-heavy May base would normally weigh on the print. Consumer Non-Durables grew 3.6%, a substantial improvement from the 0.2% recorded in April and the 1.1% seen in March 2026. This is the first sustained pickup we have seen in non-durables in several quarters, and if it holds through Q1 FY27, it would suggest that the rural and mass-market consumption recovery has finally begun. The Apr-May FY27 cumulative non-durables print at 1.9% is still modest, so we do not want to overstate the case, but the directional shift is unambiguously positive**.
- **Infrastructure and Construction Goods grew 5.9% YoY, in line with April's 6.0%, reflecting steady government capex flow** rather than the lumpiness that often characterizes Q4 prints. Intermediate Goods grew 5.8%, moderating from April's 10.3% but still solid, suggesting healthy throughput in the industrial supply chain. **Primary Goods at 2.6% remains the weakest segment, dragged by the fuel minerals weakness in mining.**

The PPI Deflator Shift Quietly Reshapes the Data

- Buried beneath the headline number is arguably the most significant statistical change to India's industrial production measurement framework in over a decade. MoSPI has shifted from using the Wholesale Price Index to the Output Producer Price Index as the deflator for value-based items in the IIP basket. The change affects 234 of the 463 item groups, representing 36.02% of total index weight. The Output PPI series with base year 2022-23 was released by DPIIT on 15 June 2026, and the present IIP release supersedes the WPI-based 2022-23 series published on 1 June 2026.

- This is not a cosmetic adjustment. Output PPI provides a more granular price structure than WPI, and for items where production is reported in value terms (typically machinery, electrical equipment, electronics and chemicals), the deflator choice materially affects the estimation of real output. The methodology change is in line with international best practice and the recommendation of the Technical Advisory Committee on the IIP base revision, and it also sets the stage for eventual adoption of PPI-based volume estimation in the National Accounts framework.
- The impact on historical growth rates is informative. Under the new PPI-based series, FY26 IIP growth reads at 4.3% against 4.1% under the older WPI-based series, FY25 reads at 5.7% against 4.0%, and FY24 reads at 6.8% against 5.9%. Manufacturing growth in FY26 is now 4.8% versus 5.0% under the old series, and mining growth is 3.7% versus 1.4%. The capital goods segment shows the largest upward revision, with FY26 growth at 10.4% under PPI versus 8.3% under WPI. We view this as a more accurate reflection of industrial reality, particularly for the post-pandemic capex cycle, where WPI-based deflation likely understated real volume growth in value-reported items.
- For our institutional clients, the practical implication is that historical IIP comparisons require careful handling. The new series is available from April 2023 onwards on the e-Sankhyiki portal, and we will be rebuilding our high-frequency tracking models accordingly.

PMI Cross-Read Validates the Tape, Flags June Caution

- **The May 2026 IIP print sits cleanly with the HSBC India Manufacturing PMI, which rose to 55.0 in May from 54.7 in April, a three-month high.** The final PMI reading was revised up from the flash estimate of 54.3, and the gains were **driven by faster expansion in new orders, output and purchasing. Domestic demand was the primary engine, with intermediate and capital goods sales supported by infrastructure spending and new business wins. This dovetails with the IIP capital goods print at 12.9% and intermediate goods at 5.8%. Manufacturers also stockpiled finished goods at the fastest pace since 2015, taking finished goods inventories to an 11-year high, a signal that producers are positioning for sustained order flow**.
- **Services PMI for May 2026 was revised up to 59.8 (final) from the flash 58.9, a six-month high, indicating that the services side of the economy is also operating at a strong clip. The picture is therefore one of broad-based momentum across both sides of the private sector, even as employment growth has moderated**.
- **The caution flag comes from the June 2026 flash data. Manufacturing PMI fell to 54.5 in June from 55.0 in May, with new export orders growing at the slowest pace since March 2023 and business confidence weakening to its lowest level in close to four years. Services PMI flash fell to 57.3 from May's 59.8, the weakest services expansion since January 2025. Input cost inflation remains elevated, driven by energy, fuel, materials and transport costs linked to the persistent West Asia geopolitical tensions. We therefore expect June IIP, scheduled for release on 28 July 2026, to print softer than May, likely in the 4.0-4.5% range, before recovering as base effects turn favourable through Q2 FY27**.

Energy Transition Now Shows Up in Real-Time Data

- **The standout structural takeaway from this release is the granular renewable electricity sub-index, which now allows us to track the energy transition at monthly frequency. Renewable generation grew 18.0% YoY in May 2026 and is up 18.8% in the Apr-May FY27 cumulative, against non-renewable growth of 8.8% and 5.2% respectively**. The renewable index at 153.8 (against base 100 in 2022-23) means **non-thermal generation has expanded by more than half in just three years, well above what the old series could capture**. For our equity coverage of power utilities, renewable IPPs, transformer manufacturers, transmission EPC players, and the broader power-equipment ecosystem, this is now a high-frequency data point we will integrate into sector tracking models.
- The West Asia situation continues to be the dominant near-term risk to the industrial outlook. Brent crude remained elevated through Q1 FY27, only just moderating, and the May PMI commentary explicitly cites the conflict as the primary source of cost pressure on energy, fuel, materials and transportation. The June flash PMI weakness, particularly in export orders, indicates that global demand is now beginning to feel the second-order effects. **For India, the channels are familiar. Higher crude pressures the rupee and widens the current account deficit. Imported input cost inflation compresses manufacturing margins, especially in chemicals, plastics and metals. Freight costs rise as global shipping routes are disrupted. And ultimately, either margins compress or end-demand softens, depending on the pass-through ability of the producer**.

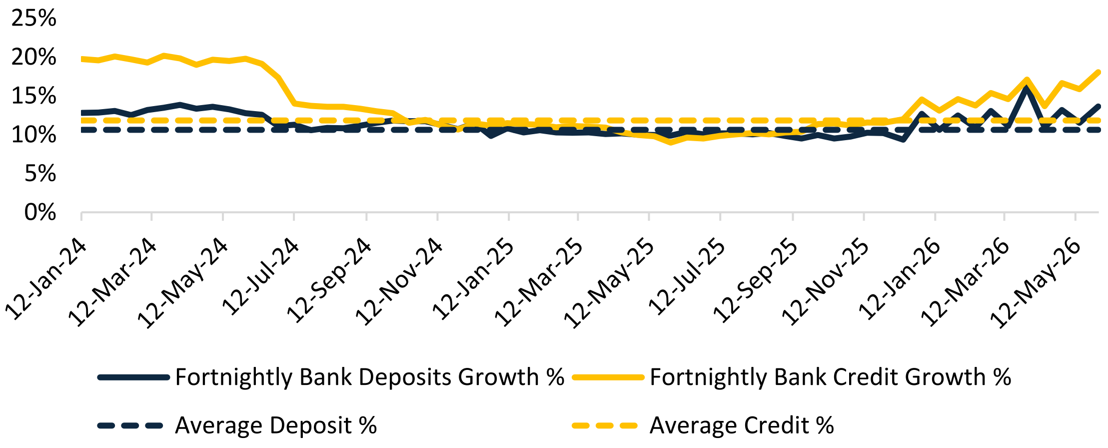
- On the offsetting side, the rare earth minerals inclusion in the metallic minerals sub-index, with data sourced from IREL (India) Limited, signals that India is finally building a domestic statistical base for tracking strategic mineral capacity. The 18.3% growth in metallic minerals in May 2026 reflects this, and as China's rare earth supply chain dominance becomes an increasingly important geopolitical lever, India's own production capability becomes a portfolio-level theme worth tracking.
- **The capital goods strength remains the most important structural signal in the entire dataset**. Twelve consecutive months of double-digit growth in capital goods output, with the FY26 print under the new series at 10.4% and **Apr-May FY27 cumulative at 12.5%, gives us conviction that the private capex cycle that began in late FY25 is durable and broadening**. This is **consistent with the listed-company capex commentary across cement, steel, energy, electronics, and infrastructure, where order books continue to lengthen and capacity announcements continue to flow**.

Where We Go From Here

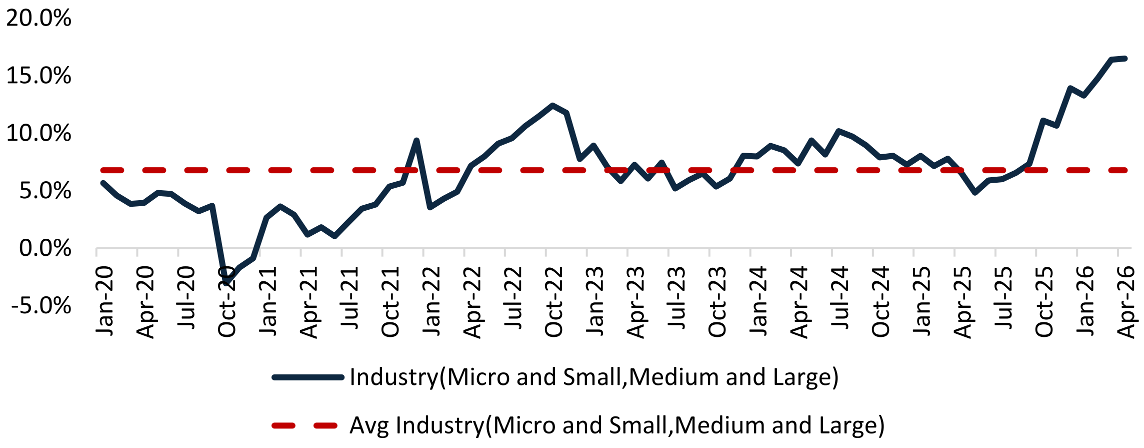
- **We expect FY27 IIP growth to settle in the 5.0-6.0% range under the new PPI-based series, supported by sustained capital goods strength, an emerging consumption recovery, and the continued ramp-up of PLI-linked manufacturing output. The first two months of the fiscal at 5.1% cumulative provide a reasonable launch pad, and we expect the trajectory to dip modestly through Q2 FY27 as the West Asia overhang weighs on June and July prints, before recovering into Q3 FY27 as the festive build-up commences and base effects turn favourable.**
- **The three variables we will watch most carefully are crude oil, the monsoon, and rural demand. A sustained Brent above $90 per barrel would compress margins materially, particularly for refining, chemicals and downstream manufacturing, and could pull the headline IIP into the lower end of our range. The IMD has projected a below-normal monsoon for 2026, and if this materializes, it would dent the non-durables recovery. The non-durables trajectory from 1.1% in March to 0.2% in April to 3.6% in May is the data point we are most encouraged by, but we want to see at least one more month of confirmation before treating it as a structural trend.**
- **On the policy side, the RBI's accommodative bias is consistent with the IIP picture, and we expect the policy rate trajectory to be data-dependent through H1 FY27, with crude and CPI being the binding constraints rather than industrial momentum. The fiscal capex flow remains robust, with the Centre's effective capital expenditure budgeted at over Rs 11 lakh crore for FY27, and state capex also accelerating in early reads. We see this as the most durable underpinning of the capital goods and infrastructure segments.**
- **Finally, the methodological strengthening of the IIP through the PPI deflator adoption deserves a separate mention. India's statistical infrastructure is now meaningfully closer to international best practice, and the higher historical growth prints under the new framework provide an upward bias to how analysts should think about real industrial activity. We welcome the change and view it as a structural positive for the credibility of India's macroeconomic data architecture.**
- **The June manufacturing PMI print at 54.2, a three-month low versus 55.0 in May, corroborates the near-term caution we have flagged above. New orders and output growth were the weakest in four years outside of March, and the export sub-index registered the softest reading in 39 months, consistent with the West Asia demand overhang feeding through to Indian goods exports. On the inflation side, input cost momentum eased to the slowest pace since February and output charges moderated to a three-month low, which aligns with our view that easing crude and softer commodity pressures should provide margin relief through H1 FY27 if sustained. However, the manufacturer sentiment sub-index has retreated to a five-month low, and this is the soft-data signal we take most seriously as a leading indicator for the June and July IIP prints. Net-net, the PMI reinforces our expectation of a Q2 FY27 dip before the festive-led recovery, and we will watch the July reading closely for confirmation that new orders have troughed and ready for am uptick.**

4. Capex

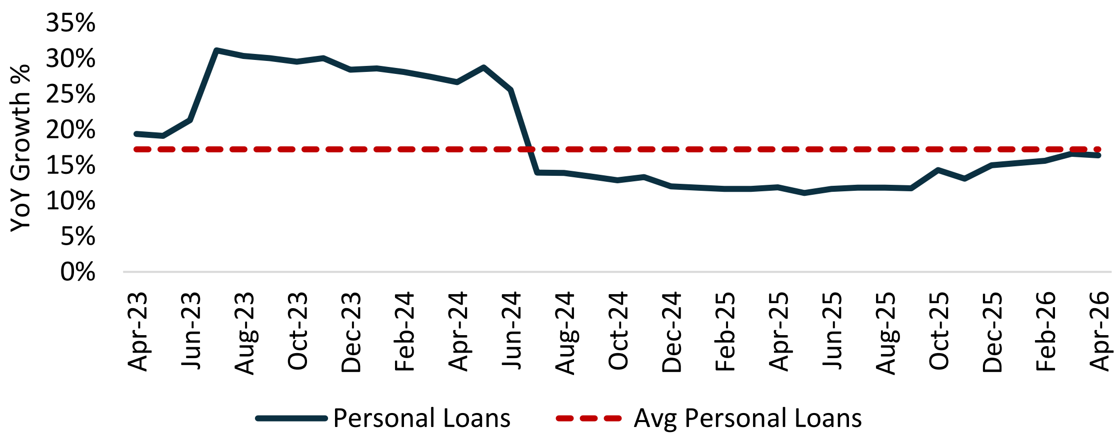
Credit Deposit Growth %



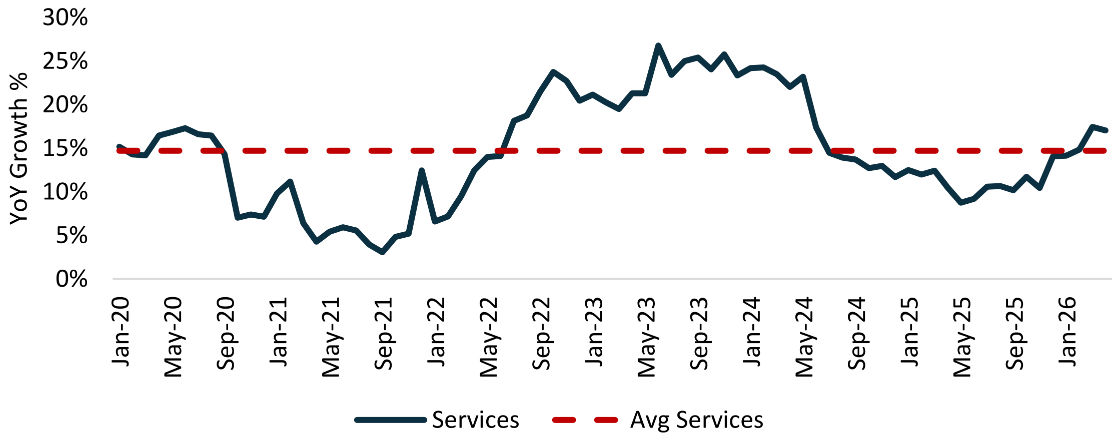
Credit to Industry %



Consumer Loans



Credit to Service Sector



Source: Internal assessment based on RBI DBIE data

INDIA CAPEX & CREDIT CYCLE MONITOR

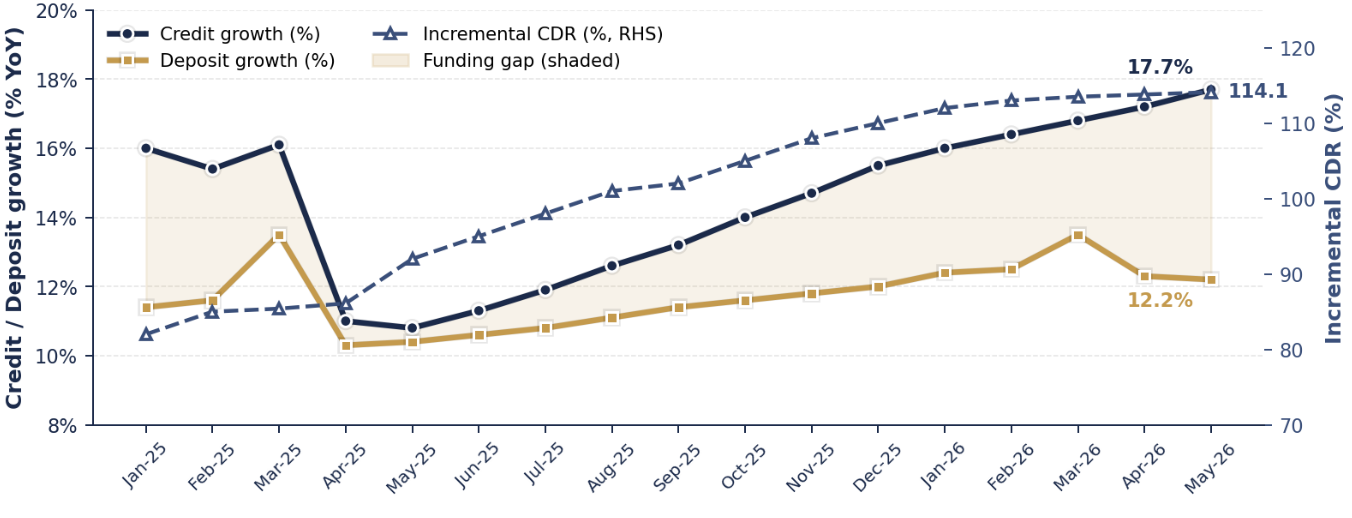
Credit growth widens its lead over deposits as capacity utilisation strengthens, lifting investment readiness into FY27

DASHBOARD *Snapshot as of latest available data*		
SCB Credit Growth (May-26) **17.7% YoY**	SCB Deposit Growth (May-26) **12.2% YoY**	Credit-Deposit Ratio (Apr-26) **82.0%**
Incremental CDR (May-26) **114.1%**	Non-Food Credit Growth **17.4% YoY**	Capacity Utilisation (Q4 FY26) **75.2%**
WALR Fresh Loans Δ **-83 bps**	Policy Repo Rate **5.25%**	CPSE Capex (Apr-26 YoY) **+63%**

Credit Engine Pulls Ahead of Deposits as the Funding Gap Widens

Scheduled commercial **bank credit growth accelerated to 17.7% YoY** as of May 31, 2026, extending a divergence that has been visible since September 2025. **Deposit mobilisation, in contrast, eased marginally to 12.2% YoY** from **12.3%** a month earlier. The funding gap is therefore widening even as the policy easing cycle is well under way, and the **incremental credit-deposit ratio has now climbed to 114.1%,** a level which implies that banks are funding more than the entire fresh deposit flow into new loans and **drawing on existing liquidity buffers or wholesale liabilities to bridge the shortfall. We read this as a clear demand-side signal that the credit cycle is firming, but it also flags a liabilities-side constraint that banks will have to address before the second half of FY27.**

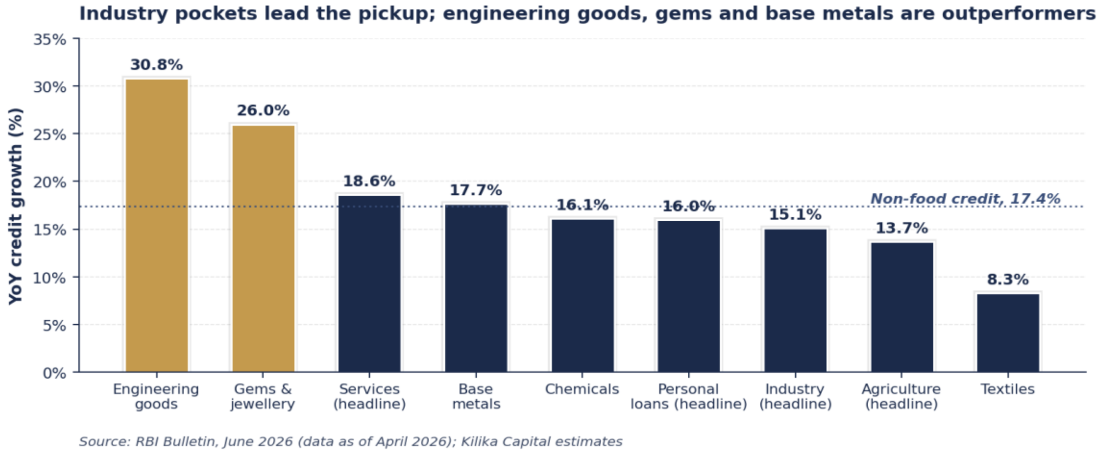
Credit growth has consistently outpaced deposit growth since Sep 2025; ICDR has crossed 110%

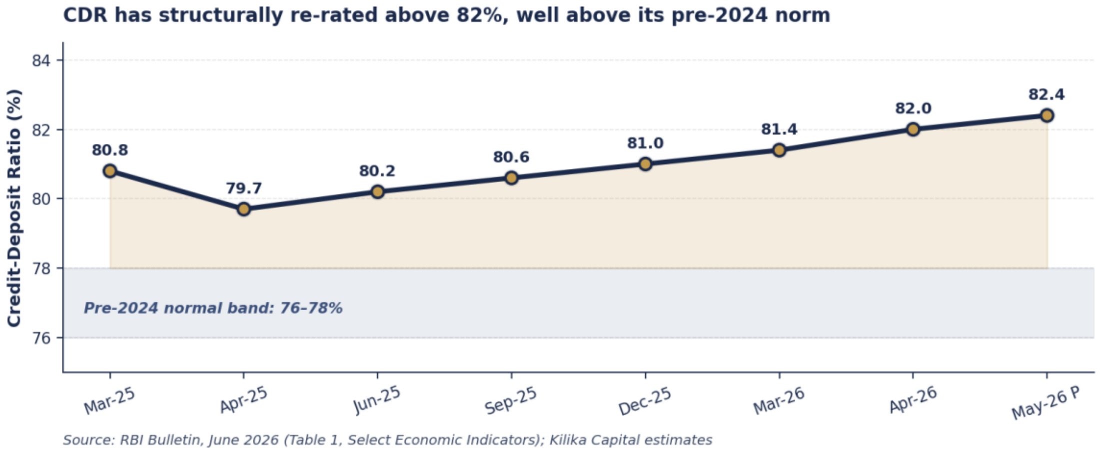


Source: RBI Bulletin, June 2026; Kilika Capital estimates

CDR Re-Rates Above 82% on Structural Credit Outperformance

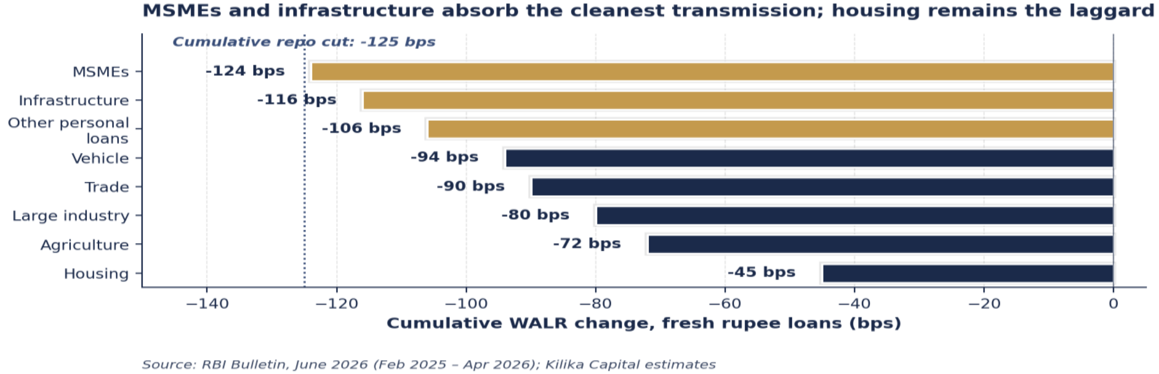
The **credit-deposit ratio has structurally re-rated and stood at 82.0% in April 2026**, materially above its pre-2024 **normal band of 76% to 78%.** The trajectory has been consistent rather than episodic, with successive monthly readings printing higher highs through FY26. We estimate that without a meaningful pickup in deposit growth, the headline CDR could press towards **83%** by the end of Q3 FY27. The corollary for funding costs is that any new deposit accretion will likely be skewed to bulk and term liabilities, which limits the room for further softening in the weighted average domestic term deposit rate even as the policy repo rate stays at **5.25%**.





Industry and Services Anchor a Broadening Sectoral Pickup

Sectoral deployment data for April 2026 confirms that the **credit pickup is broadening** rather than narrowing. **Services credit grew at 18.6% YoY, industry credit at 15.1%, and personal loans at 16.0%.** Within industry, the outperformance is concentrated in capex-sensitive subsectors, with **engineering goods at 30.8%, gems and jewellery at 26.0%, base metals at 17.7% and chemicals at 16.1%. Agriculture, at 13.7%, and textiles, at 8.3%, remain the laggards.** The **composition matters because metals, chemicals and engineering goods together capture much of the manufacturing capex cycle, and their lead over headline credit growth typically precedes a broader pickup in private fixed investment by two to three quarters.**



Personal Lending Holds Steady With Gold Loans Providing the Floor

Within personal loans, the headline 16.0% YoY growth masks two structurally different drivers. Housing and vehicle finance continue to expand at a steady pace, supported by stable urban employment conditions and the cumulative 125 bps of policy easing that has been pushed through the EBLR-linked book in full. Gold loans, in contrast, have displayed steady, almost defensive, growth. We interpret the gold loan trajectory as a counter-cyclical proxy for household working-capital stress at the lower end of the income distribution, and we will watch the gold loan growth gap relative to overall personal loans as an early indicator of any household balance-sheet strain.

Capacity Utilisation Above Long Run Average Signals Investment Readiness

The early results of the OBICUS survey place **manufacturing capacity utilisation at 75.2% in Q4 FY26, above the long-term average of 74.0%.** This is the first time in three years that **CU has held above the long-run mean for two consecutive quarters**, which historically has been the **threshold at which corporates begin to commit to greenfield capex rather than merely brownfield debottlenecking**. The CU reading dovetails with the sectoral credit data above. Industries with the highest credit growth, namely engineering, base metals and chemicals, are also the industries that typically front-run capacity additions when CU crosses **75%. We estimate that the private capex cycle is now in the early innings of an acceleration phase rather than the planning phase.**

Government Capex Front Loaded While Private Capex Awaits Critical Mass

The fiscal arm of the capex cycle remains forward-leaning. **Central government capex is budgeted to expand by 11.5% in FY27** on a headline basis, while effective capital expenditure inclusive of grants-in-aid to states is budgeted to grow at **22.1%.** The acceleration is already visible in the high-frequency data, with **capex by large central public sector enterprises and four key government entities rising 63% YoY in April 2026.** This sequencing matters. **Public capex provides the demand pull which, combined with elevated CU and easier funding costs, completes the conditions that have historically triggered private capex inflection. The missing piece remains the order-book intensity at the consumer-facing end, where weak global merchandise demand and a deficient monsoon outlook could yet delay the handoff from public to private investment.**

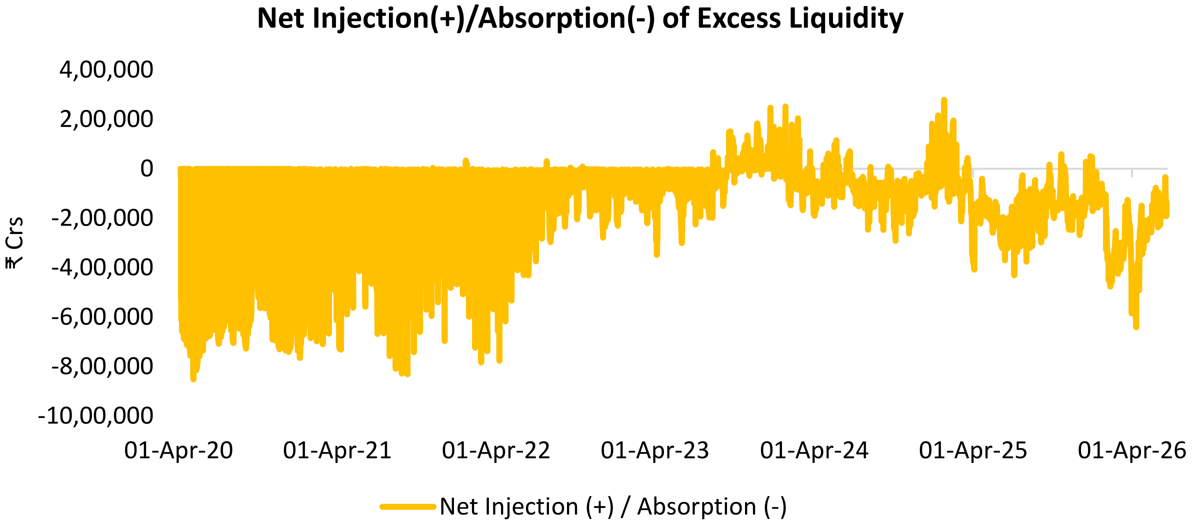
Transmission Asymmetry Reveals Where Rate Cuts Are Biting Hardest

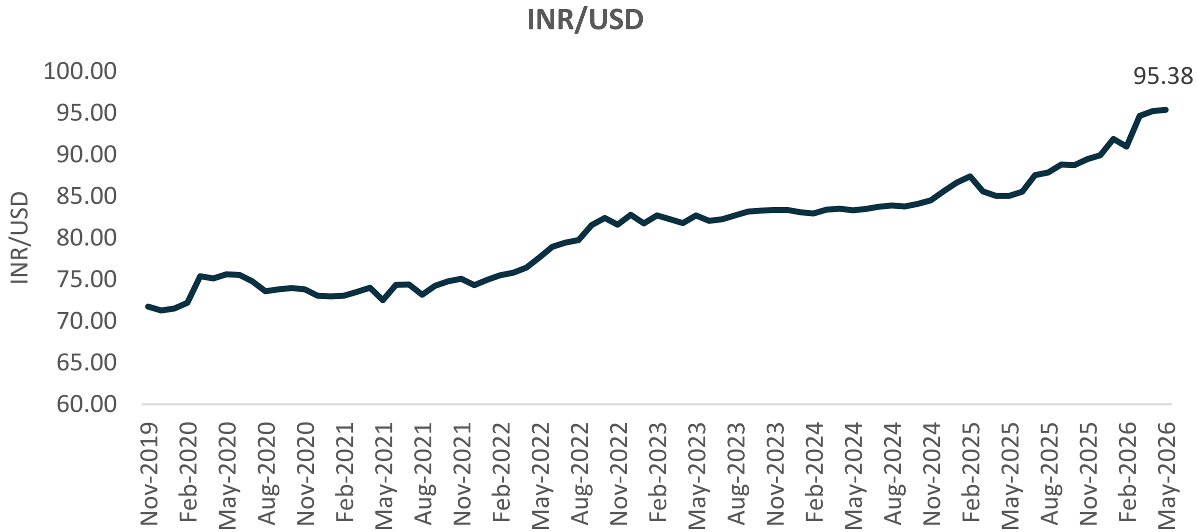
Pass-through of the 125 bps cumulative repo rate cut between February 2025 and April 2026 has been distinctly uneven. For fresh rupee loans, the largest cuts have flowed through to MSMEs at -124 bps, infrastructure at -116 bps and other personal loans at -106 bps, which are precisely the segments most levered to the capex cycle and to working-capital expansion. Housing, at -45 bps, remains the standout laggard, reflecting the longer reset cycles of legacy MCLR-linked books and competitive pricing dynamics. The EBLR channel has absorbed the full -125 bps, while 1-Year MCLR has moved only -45 bps, which means the marginal borrower from segments still anchored to MCLR is yet to see meaningful relief. **This asymmetry argues for a sectoral rather than a uniform read on the impulse from monetary easing into real activity.**

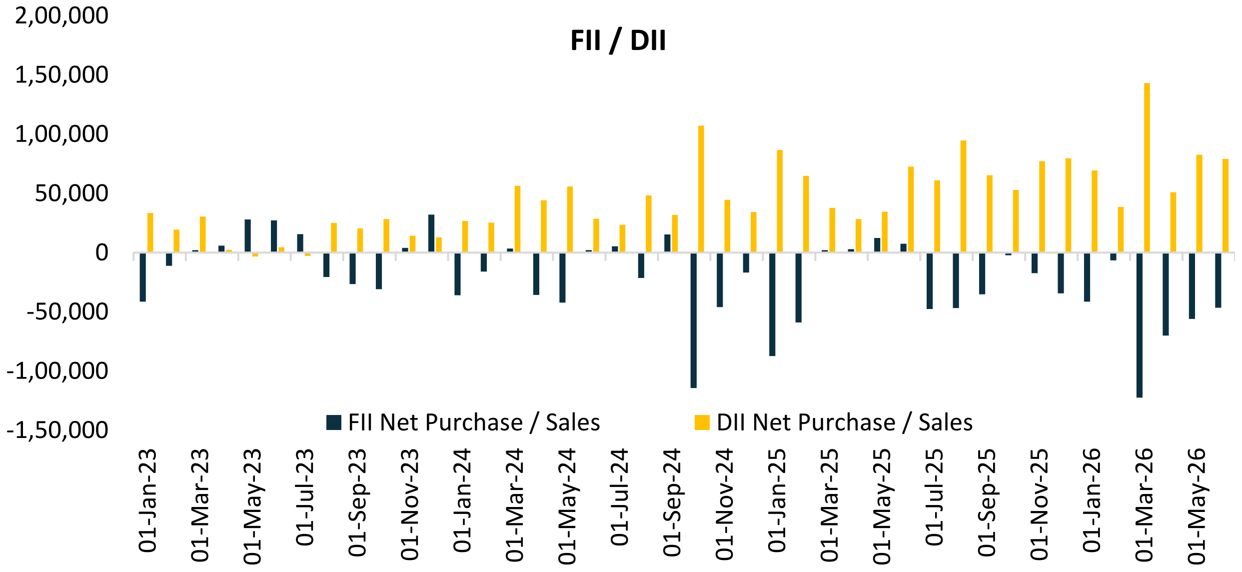
What We Are Watching From Here

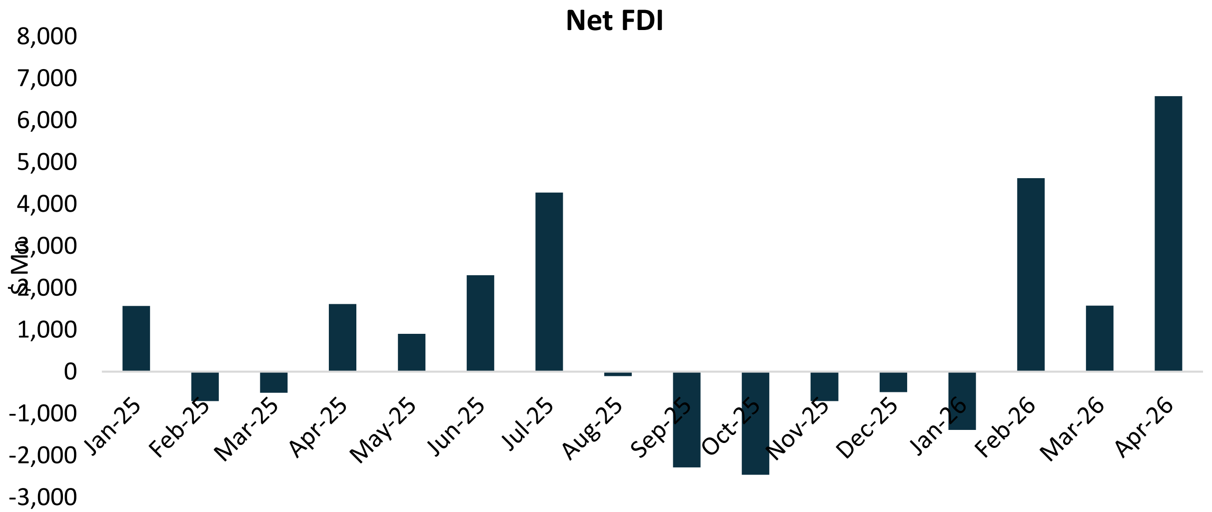
We see four signals as binding for the next leg of the capex and credit cycle. First, the deposit growth trajectory through Q2 FY27 will determine whether the CDR re-rating becomes a sustained 82% to 83% regime or whether banks will need to lean harder on certificates of deposit. Second, the Q1 FY27 OBICUS print will tell us whether the 75.2% CU reading consolidates or fades. Third, the spread between credit growth in capex-sensitive industries (engineering, base metals, chemicals) and headline industry credit, currently around 3 to 16 percentage points, is our preferred lead indicator for the timing of private capex commitments. Fourth, the gold loan growth delta relative to personal loans will frame the household stress picture. We expect the credit cycle to remain in expansion mode through FY27 and we estimate that the inflection from public-led to private-led capex will become visible in reported corporate orderbooks by Q3 FY27.

5. Liquidity



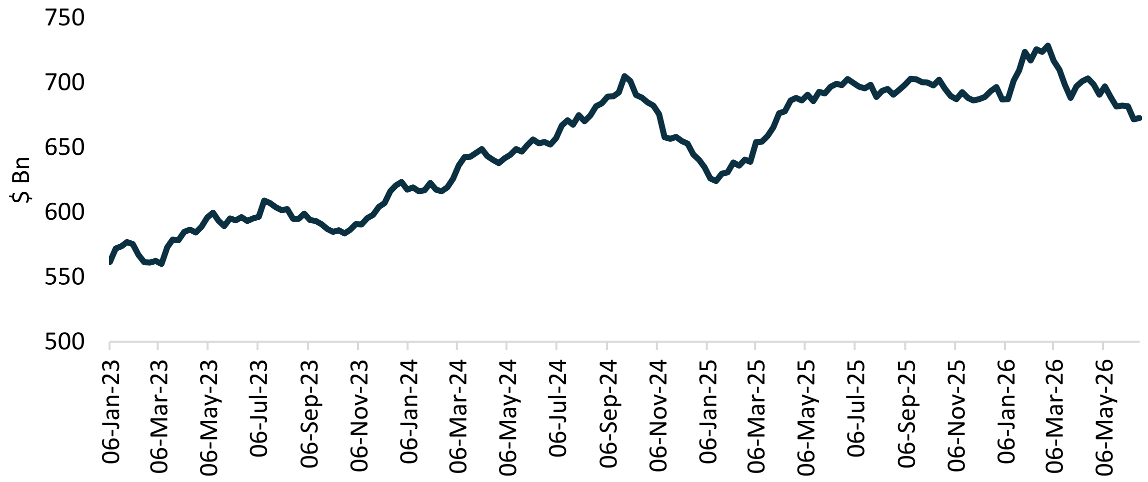




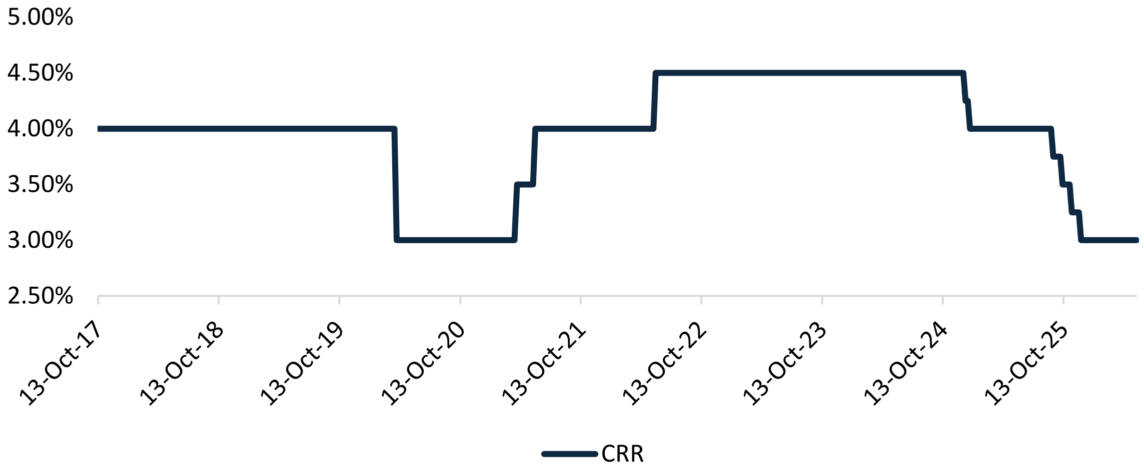


Source: Internal assessment based on RBI DBIE data

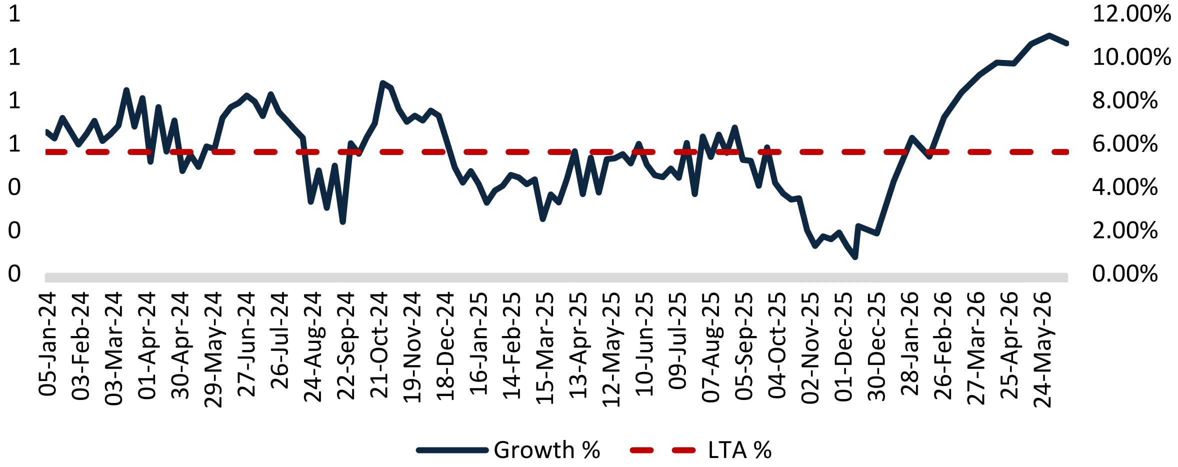
Foreign Exchange Reserves (USD Bn)



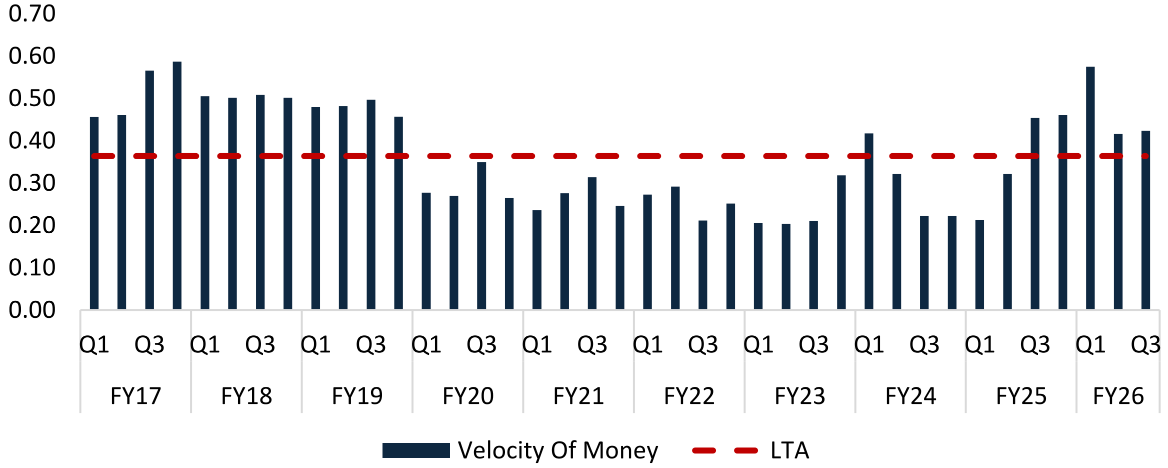
CRR



Reserve Money (M0)



Velocity of Money



Source: Internal assessment based on RBI DBIE data

Liquidity Stays Comfortable on the Headline, but the Wholesale Channel Is Bargaining for Stable Funding

- **System liquidity has returned to durable surplus. The net daily LAF absorption averaged ₹2.63 lakh crore since the April MPC**, with the **WACR trading 4 bps below the policy repo** post-April. The RBI conducted **11 VRR and 2 VRRR operations** between April 9 and June 3 to fine-tune the system. Money market spreads have eased materially since the February-April policy window, with **3-month T-bill at 5.34% (vs 5.32%), CD at 6.75% (vs 7.16%) and CP at 6.99%(vs 7.45%).** The CRR phase-down, OMO purchases and the **May $5 Bn USD/INR 3-year buy-sell swap** have collectively done the heavy lifting on durable rupee liquidity.
- **But the wholesale channel is signalling residual stress.** The **3-month CP–T-bill spread widened marginally from 217 bps in May to 219 bps in June (to 18th),** with NBFC issuers still paying up for term funding. The deeper read is structural. **With SCB credit growth at 17.7% YoY** (May 31) running **5.5 percentage points ahead of deposit growth at 12.2%,** banks are being forced to defend term-deposit pricing to bridge the credit-deposit gap. This is why the RBI explicitly noted that **monetary transmission has moderated during March-April 2026, with deposit and lending rates firming up marginally. WALR on fresh rupee loans has declined 83 bps against a 125 bps repo cut**, and incremental pass-through is now negligible. We read this as the liabilities-side constraint, not the policy stance, becoming the binding bottleneck.

The Rupee Is Being Engineered, Not Defended. The RBI Has Found a Way to Inject Rupee Liquidity Without Spending Dollars

- **FX reserves have begun to rebuild while the rupee has been managed gently lower**. Forex reserves rose to **$682.3 billion as of May 29, 2026**, up from $681.4 billion a week earlier, restoring **import cover to approximately 11 months** and **external-debt coverage** to **89.1%.** The INR closed April at **94.30 vs 94.60 at end-March**, reflecting the RBI's approach of allowing gradual depreciation rather than mounting an aggressive defence. **The $5 Bn USD/INR 3-year buy-sell swap conducted in May is the signature instrument — it injects durable rupee liquidity without depleting reserves, effectively buying time on the FX channel.**
- **The June 5 policy announcements widened the structural capital window decisively.** The Governor announced **FAR expansion to all new 15, 30 and 40-year G-sec issuances, removed FPI limits on short-term, concentration and individual securities** under the General Route, and granted **LTCG and withholding tax exemption on FPI G-sec interest**. For PSU ECBs, a **concessional forex swap facility runs until 30 September 2026; AD banks raising 3-5 year FCNR(B) deposits will have full hedging cost coverage** over the same window. On the trade side, **trade deals with EU concluded and Oman effective June 1** join **earlier deals with UK and EFTA**. These are structural rather than tactical interventions, and they will **support the BoP through FY27 even if FPI risk-off persists.**

Inflation Has Split Into Two — Headline Stays Below Target, WPI Has Spiked Sharply, and the MPC Now Has to Read Both at Once

- **Headline CPI remained below the 4% target for the second consecutive month**. CPI was 3.5% in April vs 3.4% in March, with core CPI stable at 3.7% and the precious-metals-stripped core at just 2.1% to 2.2%, among the softest underlying readings of the cycle. **Food inflation edged up to 4.0%** but **fuel CPI remained muted at 0.4%** as retail petrol and diesel were unchanged through April. The demand-pull picture remains benign, supported by stable urban employment (**PLFS unemployment 5.2% in April**) and well-stocked foodgrains (rice and wheat at 5.1× and 6.2× buffer norms).
- **But WPI inflation delivered a major upside shock**. WPI jumped from **3.9% in March to 8.3% in April**, with a month-on-month index gain of 3.9% — **the sharpest momentum reading in the current (2011-12) series. Fuel and power WPI printed 24.9% YoY** as the partial pass-through of high global crude began in May (petrol +7.4%, diesel +8.4%). Indian basket crude averaged **$114.5/bbl in April, moderating to $106.2 in May**, and the post-truce backdrop points to further easing. **We read the MPC's June 5 hold as a deliberate decision to wait for the WPI shock to confirm transience before resuming the easing cycle eventually.**

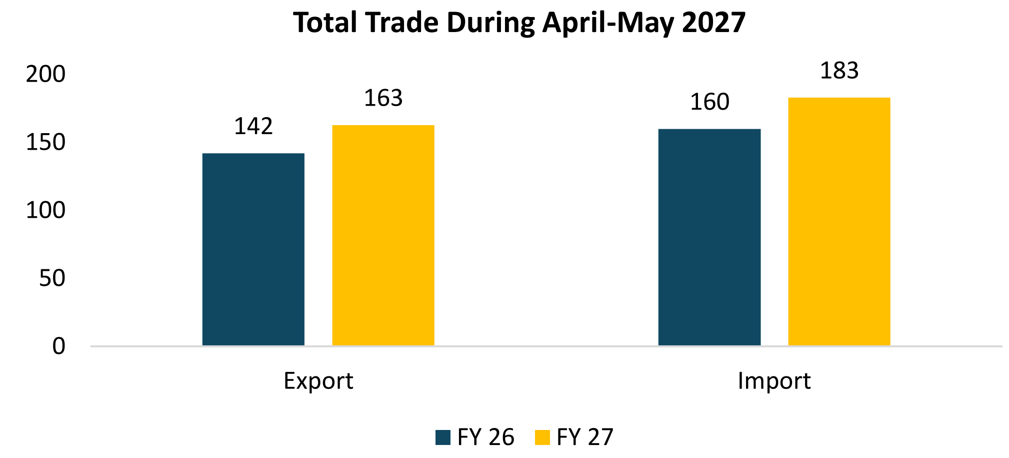
FPIs Continue to Sell, but the External Account Is Being Rebuilt From the Capital and Trade Sides

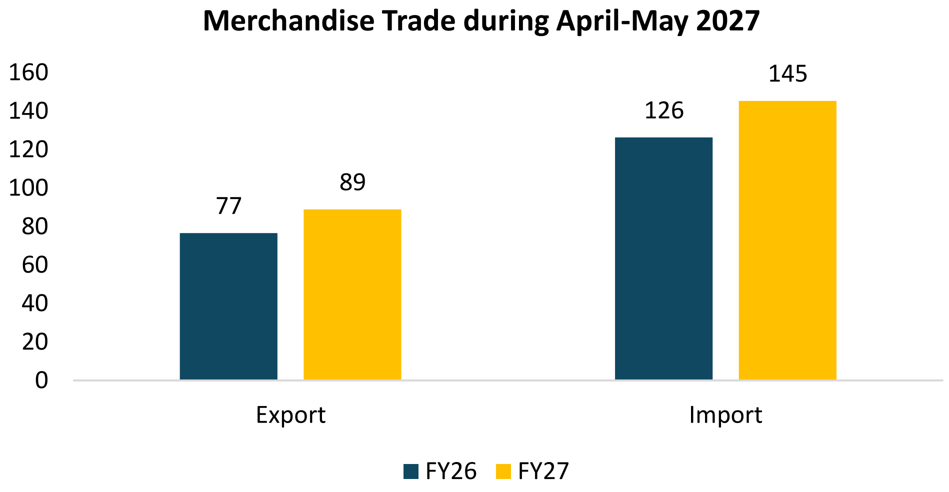
- **FPI outflows have remained heavy and persistent.** Net FPI flows to India recorded outflows of **$13.7 billion in 2026-27 so far (April 1 to June 2),** almost entirely in equities at **-$13.4 billion**. Drivers remain familiar — dollar strength, US Treasury yield carry, AI-led mega-cap rotation in DM equities, and West Asia geopolitical premium. **India's growth premium has not yet been enough to reverse the flow**, though we note **the India VIX fell from 18.5 at end-April to 12.7 on June 18**, and FPI debt sentiment improved markedly on the FAR expansion announcement.
- **The counterweight is FDI, trade architecture and household-side stability. Gross FDI rose 17.3% to a historical peak of $94.5 billion in FY26** from $80.6 billion in FY25; **net FDI tripled-plus to $7.7 billion from $1.0 billion**, supported by lower repatriation and reduced outward FDI. The 100% FDI opening of the insurance sector, ECB framework liberalisation, ethanol blending push and easier FDI from land-bordering countries together broaden the structural capital base. Net FDI in April 2026 came in above the comparable April 2025 level for the second consecutive month. The RBI is comfortable letting FPI exit at the margin because the FDI, swap and FAR architecture is now doing the BoP heavy lifting.

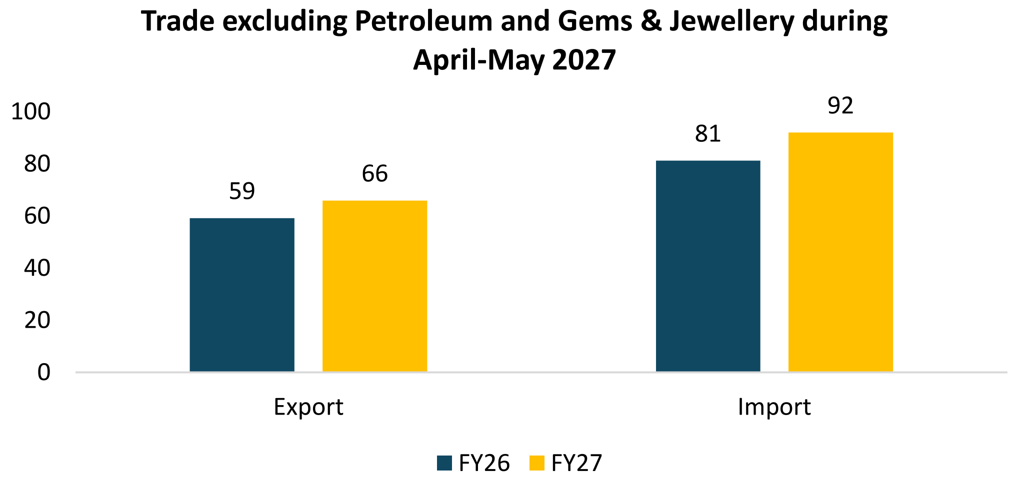
The June 5 Pause Is Not the End of the Cycle. It Is the RBI Waiting for the WPI Shock to Confirm Transience and the Credit-Deposit Gap to Close

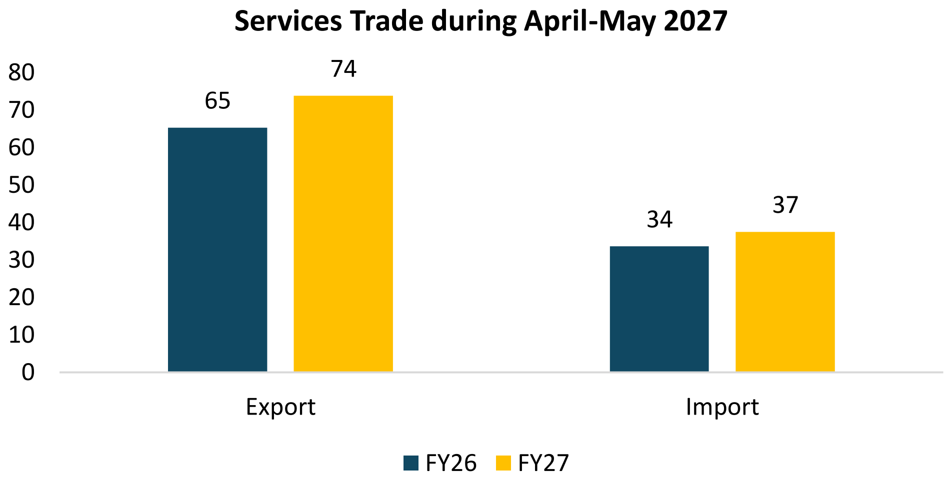
- **The MPC voted unanimously to hold the repo at 5.25% with stance unchanged at neutral**. GDP growth was projected at **6.6% for FY27 (Q1 6.6%, Q2 6.3%, Q3 6.5%, Q4 6.8%).** The forward language was carefully calibrated. Strong capacity utilisation, sustained credit flows and government capex were flagged as supportive of investment activity; weak global demand, elevated freight and insurance costs, and the IMD's **below-normal monsoon forecast at 90% of LPA** were listed as downside risks. The RBI explicitly committed to ensuring **appropriate liquidity in the banking system to facilitate monetary policy transmission**, which we read as a guarantee that surplus liquidity conditions will be defended through the next quarter.
- **Our base case is that the policy repo remains at 5.25% through Q2 FY27**. We see **one further 25 bps cut available in H2 FY27** conditional on three triggers. First, **Indian basket crude needs to stabilise below $80/bbl for two consecutive months** to confirm that the April WPI shock is genuinely transient. Second, the **southwest monsoon must deliver close to the 90% LPA forecast**, with no El Niño-led shortfall (NOAA assigns 82% probability of El Niño emerging May-July 2026). Third, the **credit-deposit gap should narrow from the current 5.5 percentage point divergence to under 3 percentage points to free the WALR transmission channel.**

6. Trade









Source: RBI, PIB

A Record that Hides A Wider Gap

- **India's merchandise exports printed a fresh monthly high of USD 45.20 billion in May 2026, growing 18.0% YoY against May 2025.** Yet the celebration ends there. **Imports surged 20.6% YoY in the same period to USD 73.41 billion, pushing the merchandise trade deficit out to USD 28.21 billion against USD 22.56 billion in May 2025**. The headline rate of export growth is one of the strongest single-month prints we have seen in the post-pandemic cycle, but at this stage in the FY27 trade cycle the import pull is structurally outrunning the export push.
- **The combined goods-and-services position widened to a deficit of USD 10.51 billion in May 2026 from USD 6.79 billion in May 2025.** On a cumulative April-May FY27 basis, the merchandise gap is now USD 56.44 billion against USD 49.65 billion in April-May FY26, a 13.7% widening at the bi-monthly cut, and the services surplus has expanded to USD 36.31 billion from USD 31.69 billion. **We read the first two months of FY27 as a continuation of the structural pattern we flagged in April: strong, diversified gross flows on both sides of the trade account, with the net deteriorating because import-intensity in the domestic recovery is rising faster than export-intensity.**

Export Drivers — Refining Arbitrage and Heavy Engineering Carry the Print

- **The export composition in May 2026 is dominated by two pillars: refined petroleum products and engineering goods, which together contributed roughly USD 5.4 billion of the USD 6.9 billion absolute year-on-year increase in merchandise exports against May 2025.** Petroleum products exports rose 54.9% YoY in May 2026, to USD 8.42 billion against USD 5.44 billion in May 2025. **This is the most direct manifestation of the West Asia disruption thesis we have been running since the FY26 fourth quarter. With Gulf throughputs intermittently affected and global crack spreads elevated, Indian complex refiners with secured discounted feedstock have run hot, and the export book has captured the margin.**
- **Engineering goods exports, our preferred read on the underlying manufacturing cycle, expanded 24.5% YoY in May 2026, to USD 12.31 billion against USD 9.89 billion in May 2025. This is the single largest export category by absolute size and the swing is meaningful**. Organic and inorganic chemicals exports rose 12.7% YoY to USD 2.72 billion, electronic goods rose 11.6% YoY to USD 5.10 billion, and gems and jewellery rose 6.7% YoY to USD 2.53 billion. We note in the second tier the unusually large prints in Other Cereals (+262.7% YoY in May 2026), Meat, Dairy & Poultry Products (+42.5% YoY), Oil Meals (+24.6% YoY), Handicrafts excluding hand-made carpets (+23.9% YoY), Plastics & Linoleum (+21.8% YoY), and Iron Ore (+14.8% YoY). **The breadth here is real, even if some of the headline percentages are off a low base**.

Imports Composition — Crude Re-routing, Silver Cliff, Pearls Collapse

- **The May 2026 import composition tells a sharper story than the export side. The non-petroleum, non-gems-and-jewellery import line rose to USD 46.09 billion against USD 41.44 billion in May 2025, an 11.2% YoY expansion that we attribute to the broad-based revival in capital-goods and intermediates imports tracking the engineering and electronics export push. Petroleum imports outside this carve-out account for most of the residual widening**, with crude oil pulled in from a deliberately re-diversified source set rather than the usual West Asia base.
- **Three categories collapsed in May 2026 in a way that is more policy-driven than cyclical. Silver imports fell 86.7% YoY**, the most violent single-month contraction we have seen in any precious-metals category in recent years. **Pearls, Precious & Semi-Precious Stones imports fell 26.5% YoY**, and **Project Goods imports fell 64.1% YoY**. The **silver and pearls prints are the direct fingerprint of the May 13 customs notification raising the duty on gold and silver**. The **Project Goods compression is consistent with a pause in large turnkey infrastructure ordering ahead of the FY27 budget cycle and is not in our reading a demand signal**. We also note moderate declines in Iron & Steel imports (-12.5% YoY), Machine Tools (-8.1% YoY), and Newsprint (-6.7% YoY).

Trading Partner Geography: A Visible Energy Pivot

- **The country-wise prints for May 2026 read as one of the cleanest snapshots of India's external pivot we have seen this fiscal.** On the export side, **Singapore expanded 69.0% YoY in May 2026, South Africa 116.2% YoY, Tanzania 196.9% YoY, Italy 87.5% YoY, and Sri Lanka 150.3% YoY**. The cumulative April-May FY27 picture is similar with Singapore at +123.8% YoY, Tanzania at +172.2% YoY, Sri Lanka at +183.3% YoY, South Africa at +62.2% YoY, and China at +25.9% YoY. **The Singapore and China prints in particular are large enough in absolute terms to move the national exports line, and they confirm that the re-routing of finished electronics and engineering output through Southeast Asian hubs is now a structural feature rather than a one-off**.
- **On the import side, the energy diversification trade is now unambiguous. Oman imports rose 305.7% YoY in May 2026, Brazil 358.8% YoY, Russia 63.5% YoY, the United States 54.4% YoY, and China 23.4% YoY**. The Russia print resumes a trajectory that had stalled in February-March 2026 when US tariff signaling temporarily compressed Indian refiner appetite. The Brazil and Oman prints are new and material, and we read them as evidence that Indian refiners are not just leaning back on Russia but are actively building a third and fourth alternate barrel ahead of any future Hormuz episode. The cumulative April-May FY27 import-source picture confirms the pattern with Russia +40.0% YoY, China +22.2% YoY, Oman +277.6% YoY, USA +19.4% YoY, and Brazil +180.4% YoY.

Services – The Cushion Holds, and Quietly Widens

- **Services exports for May 2026 are estimated at USD 36.76 billion against USD 32.46 billion in May 2025, a 13.3% YoY expansion. Services imports rose 14.1% YoY to USD 19.06 billion against USD 16.70 billion in May 2025. The net services surplus widened to USD 17.70 billion in May 2026 from USD 15.76 billion in May 2025, a 12.3% YoY expansion**. On a cumulative April-May FY27 basis the services surplus is USD 36.31 billion against USD 31.69 billion in April-May FY26, an absolute widening of USD 4.62 billion. Services exports growth at 13.0% over the bi-monthly base is in line with the run-rate we modelled in our FY27 macro framework.
- **The services surplus continues to act as the structural cushion against the merchandise deficit. In May 2026 the services surplus absorbs roughly 63% of the merchandise gap, against around 70% in May 2025. We flag that even though absolute services dollars are rising, the cushion ratio is now slipping at the margin because imports are outrunning the cushion. If this slippage extends through the second quarter, the FY27 current account picture will deteriorate faster than the merchandise data alone suggests. We will be watching the RBI's June and July services prints closely for any sign of a slowdown in software and consultancy exports following the May AI-tooling cycle in the US**.

The Gold Tariff Reset: A Necessary Move, Imperfectly Timed

- **On May 13 2026, via Customs Notification No. 16/2026, the Finance Ministry raised the effective customs duty on gold and silver from 6% to 15%, reversing the two-year-old July 2024 cut.** The proximate trigger is unambiguous in the macro data. FY26 gold imports printed at USD 71.98 billion against USD 58.01 billion in FY25, a 24.1% YoY jump in dollar value even as volumes contracted from 757.09 tonnes to 721.03 tonnes. **Gold accounted for approximately 9% of the total FY26 import bill and emerged as the single largest non-essential drag on the current account. The policy intervention was necessary**.
- **Our critique is on timing and design.** First, the hike landed mid-month, which means the May 2026 trade data shows only a partial-month effect — the silver collapse of 86.7% YoY in May 2026 is real but understated relative to what the June print will show. Second, the historical record on duty hikes is poor on the revenue side and reliable only on the smuggling side. Each major hike since 2013 has been followed by a multi-tonne expansion in unofficial inflows, with the July 2022 episode standing as the clearest recent example. Third, the design lacks a parallel tightening of the India-UAE TRQ window, which in our view leaves the largest single duty-arbitrage channel structurally open. We expect official monthly gold imports to compress materially through Q1 FY27 and then partially mean-revert through the third quarter as the IIBX channel at GIFT City and the UAE TRQ allocation absorb a meaningful share of dampened official demand.

West Asia – The Ceasefire Helps, But the Hedge Stays On

- **The May 2026 trade print is the first month to incorporate the announced de-escalation between the United States and Iran on the West Asia conflict. The petroleum products export surge of 54.9% YoY captures the tail of the disrupted period rather than the post-ceasefire baseline**, since refining throughput and product trade lag the spot shock by several weeks. On **the import side, however, the data already shows that Indian refiners have not unwound their diversification. Russia, Brazil, Oman, and the United States are all up sharply against May 2025, and these are not cargoes that were booked in the last two weeks of May — they were sourced in March and April under the assumption that Hormuz exposure had to be reduced as a permanent feature of the energy book**.
- **We continue to assume a non-trivial residual probability of a renewed Hormuz episode through FY27, and we read the trading-partner data as confirmation that Indian state-owned refiners share this view in their procurement behaviour.** The medium-term consequence is a slightly higher landed crude cost in benign quarters than would be required by spot economics, in exchange for a meaningfully lower delivery risk in a disrupted quarter. For the trade account, this means crude imports may run hotter in dollar terms than the underlying volume picture would suggest. We have built this into our FY27 current account forecast at a 10-15 basis point premium versus the naive scenario.

FY26 Retrospective and Forward view: Consistent on Exports, Hotter on Imports

- **FY26 closed with total exports at USD 860.09 billion (+4.2% YoY) and total imports at USD 979.40 billion (+6.5% YoY), with a merchandise deficit of USD 333.19 billion against USD 283.50 billion in FY25, the largest annual gap on record.** The FY26 picture was **dominated by a record gold import surge, sticky crude exposure to Hormuz, and a services surplus that did the heavy lifting on the current account**. Our FY27 baseline view, built before this release, was for total exports of approximately USD 935-955 billion and total imports of approximately USD 1,055-1,080 billion, implying a current account deficit of roughly 1.4-1.6% of GDP.
- **This May 2026 print is broadly consistent with our FY27 baseline on the export side and slightly hotter on the import side.** The two months April-May FY27 deliver cumulative exports of USD 162.69 billion (+14.7% YoY) and imports of USD 182.83 billion (+14.4% YoY), an annualised run-rate at the upper edge of our band on both sides. **The marquee positives are the engineering goods acceleration, the Singapore and China export prints, and the Brazil-Oman energy diversification. The marquee risks are the merchandise deficit trajectory, the unresolved post-ceasefire shape of the West Asia premium, and the second-order effect of the gold duty reset on the unofficial channel. We hold our FY27 current account deficit band at 1.4-1.6% of GDP and we shift our positioning preference toward a marginal underweight in import-intensive consumer discretionary names through the first half of FY27, with an overweight in domestic engineering, refining, and electronics manufacturing services exposed to the export pull. We expect the June 2026 print, due in mid-July, to clarify both the gold duty pass-through and the post-ceasefire petroleum products glide path**.

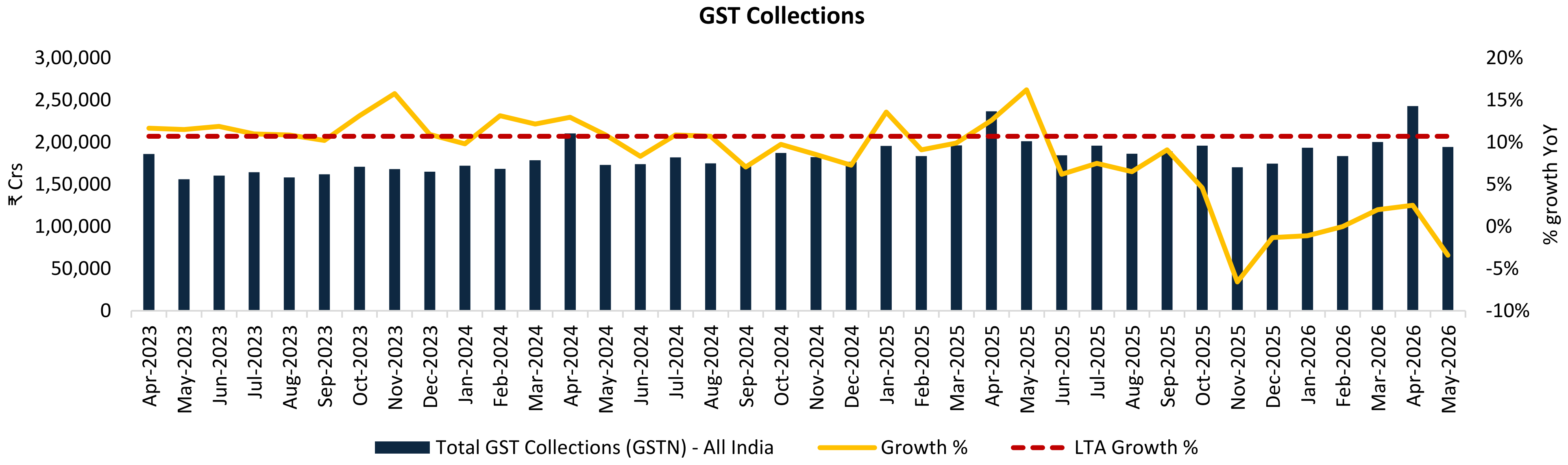
Outlook:

- **India's FY27 trillion-dollar export target now looks more reachable, with May 2026 setting a record at USD 45.20 billion merchandise and USD 81.96 billion total exports, up 15.83 percent year-on-year, and the April–May cumulative running 14.66 percent ahead.**
- **The central shift since April is that the energy risk has flipped. The Strait of Hormuz, previously the biggest wild card, is reopening under a US–Iran framework deal, and crude has fallen toward USD 80. That eases the import bill, the current account, and inflation, though the relief is phased rather than instant given the lag in getting tankers and Gulf supply moving.**
- **In its place, US trade policy has become the dominant near-term risk. The negotiated 18 percent rate sits against a Section 301 proposal that could push India's effective tariff from 10 to 22.5 percent, making the July 24 expiry the key date for thin-margin exporters like textiles and leather.**
- **Supporting concerns: the trade deficit is widening as imports (crude, gold, electronics) outpace exports, gold demand stays structurally firm despite the duty hike, and the rupee remains weak near 95–96, propped up by the RBI's June flow-mobilisation package (~USD 40 billion potential) and ~USD 690 billion in reserves.**
- **The net view stays cautiously constructive. The thesis holds, with risk improving on energy and worsening on trade policy, and the US tariff schedule is the variable to size around through July.**

7. Fiscal Situation

FY26 Provisional Actuals vs. FY27 Budget. The Fiscal Scorecard

Metric	FY26 BE	FY26 RE	FY26 PA (CGA)	FY27 BE
Fiscal Deficit (Rs. Trillion)	15.69	15.58	**15.19**	16.13
Fiscal Deficit (% of GDP)	4.4%	4.4%	**4.4%**	4.3%
Net Tax Revenue (Rs. Trillion)	31.29	—	**33.00**	34.20
Total Expenditure (Rs. Trillion)	50.65	49.60	**49.00**	53.18
Capital Expenditure (Rs. Trillion)	11.21	10.90	10.18	**12.20**
Revenue Deficit (% of GDP)	1.5%	—	~1.4%	1.3%
Our FY27 Estimate (% of GDP)				**~4.7%**



Source: CGA Provisional Actuals (June 1, 2026); DBIE

India's GST Collections. June 2026 at Rs.1.95 Lakh Crore (+13.9% YoY). Import IGST Drives Headline, Domestic Revenue Grows a Steady 6.5% YoY

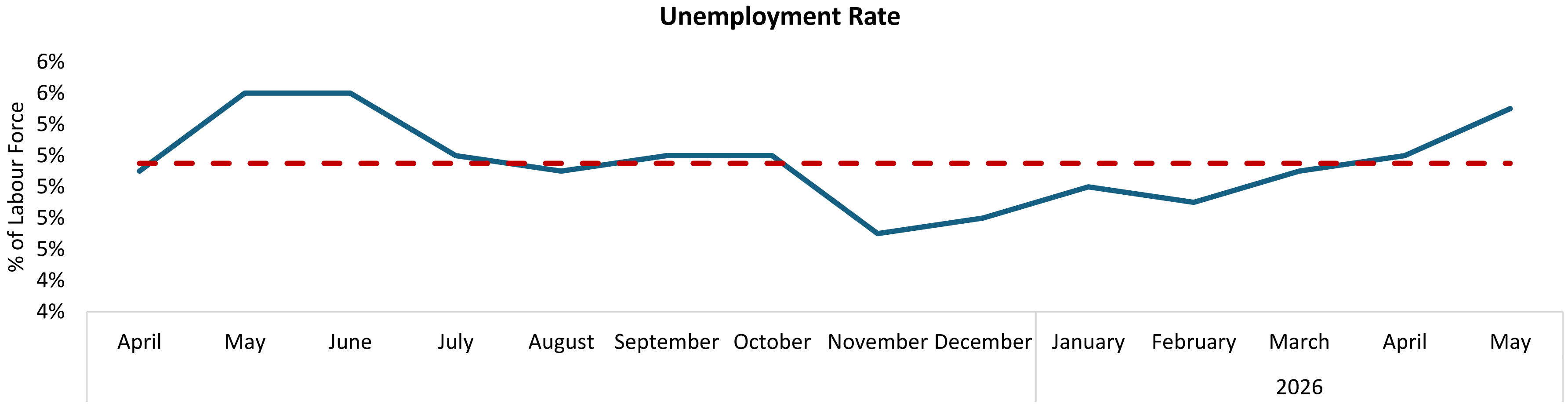
- India's GST collections in June 2026 stood at **gross revenue of Rs.1,94,812 crore (+13.9% YoY)**, a sharp acceleration from May's +3.2% print and materially above the Rs.1.71 lakh crore June 2025 base. The optical strength is real but partly base-driven, since June 2025 marked the trough of the post rate rationalisation dislocation. The component wise breakup stood at **CGST Rs.37,376 crore, SGST Rs.45,116 crore, IGST Rs.1,12,320 crore (of which imports contributed Rs.60,038 crore)**. **Import IGST surged 34.6% YoY**, the standout driver of the month, reflecting the double effect of crude oil sustaining above $100 amid the West Asia conflict and genuine capital goods import momentum linked to industrial capex. Domestic gross revenue grew a **steadier 6.5% YoY to Rs.1,34,774 crore**, confirming that the underlying consumption tax base is running at roughly nominal GDP pace once cess distortions are stripped out. **Net GST revenue after refunds stood at Rs.1,62,377 crore (+11.2% YoY)**, with gross refunds up 29.1% YoY to Rs.32,436 crore as export related IGST refunds and domestic refund processing continue to accelerate. **Cumulative Q1 FY27 gross collections reached Rs.6,31,699 crore (+8.4% YoY)**, with year to date net at Rs.5,40,218 crore. State wise, **Uttar Pradesh (+19%), Assam (+17%), Punjab (+14%), Gujarat (+12%) and Maharashtra (+9%)** led the industrial cluster, while Tamil Nadu (-2%), Rajasthan (-5%) and Madhya Pradesh (-5%) contracted, pointing to uneven regional demand.

- **The June print validates our view that the structural floor for monthly GST has now reset above Rs.1.90 lakh crore, with GST 2.0 rate rationalisation adding an incremental compliance and formalisation dividend. We estimate FY27 gross collections tracking Rs.24-24.5 lakh crore (+8-10% YoY)** against the FY26 base of Rs.22.27 lakh crore, with H1 tracking the upper end as the June 2025 low base washes out through July and August. **The key swing factor remains import IGST**, which has grown 26.2% YoY on a YTD basis to Rs.1,77,273 crore and is now contributing roughly 28% of gross collections versus 24% a year ago. Sustained crude above $100 keeps flattering the headline, but we caution that a resolution to the West Asia situation would compress import IGST meaningfully and expose domestic collections as the true underlying signal. **Domestic GST growth at 2.8% YTD is the number to watch**, as it captures pure consumption without the crude and capex import overlay. The divergence between double digit headline growth and mid single digit domestic growth is the central tension in the print, and we expect the gap to narrow through Q2 as import base effects normalise. Compensation cess collections continue to unwind post the January 2026 phase out, which mechanically drags reported headline growth by 60-80 bps and should fully wash out by September 2026.

Capex Powers Through the Revenue Dip

- The **April-May fiscal deficit at Rs 1.62 trillion, or 9.6% of the FY27 BE**, has **widened over 12-fold YoY** and warrants close monitoring, though the headline print masks a more nuanced picture. **Revenue receipts contracted 1% YoY to Rs 6.99 trillion** as excise collections fell nearly 20% following the March cut of Rs 10 per litre on petrol and diesel, while **total expenditure rose 18% YoY to Rs 8.81 trillion**, underscoring that the government has front-loaded spending rather than lost fiscal control. The **capex flow is the standout, with Rs 2.51 trillion** disbursed in the first two months, **up 13% YoY**, and **21% of the FY27 target of Rs 12.22 trillion already met**, which reinforces our capital goods stance embedded in the IIP outlook above. The May **fiscal surplus of nearly Rs 2 trillion, aided by the record RBI dividend of Rs 2.87 trillion**, provides a meaningful buffer against the H1 revenue softness we anticipate from the excise cut and moderating GST momentum. With Brent cooling post the West Asia de-escalation, **we now expect only a marginal overshoot versus the 4.3% of GDP target for FY27**, and the binding constraint remains **crude sustaining below $85 per barrel** and the **monsoon delivering close to normal to protect rural GST buoyancy**. Net-net, the **fiscal impulse to industrial activity remains firmly positive**, and this is the single most important underpinning of our **5.0-6.0% FY27 IIP growth range**.

8. Employment



Unemployment — Headline UR Rises to 5.5% in May 2026; Urban Labour Market Strength Offsets Rural Seasonal Weakness

- **Labour market dynamics: Rural softness lifts headline unemployment despite improving urban conditions. India's headline unemployment rate (UR) rose to 5.5% in May 2026 from 5.2% in April (+30 bps MoM)**, though it remained slightly below the 5.6% recorded a year earlier. **The increase was entirely rural**, with UR rising to 5.1% from 4.6%, **reflecting the typical post-rabi and pre-kharif employment lull**. **Urban UR improved further to a 13-month low of 6.4% from 6.6%, indicating continued resilience in formal-sector hiring. Overall, the headline deterioration appears largely seasonal rather than cyclical**.
- **LFPR and WPR weaken; employment softens at the margin. Labour Force Participation Rate (LFPR) declined to 54.4% in May from 55.0% in April, while Worker Population Ratio (WPR) fell more sharply to 51.4% from 52.2%. Rural LFPR and WPR recorded the largest declines, while urban WPR remained broadly stable. The key signal is that WPR fell faster than LFPR, implying employment contracted more rapidly than the labour force, contributing to the rise in unemployment and suggesting some moderation in labour-market momentum**.
- **Female labour market: Urban women remain the bright spot. Female LFPR declined to 32.8% from 33.9%, led by a sharp fall in rural participation. In contrast, urban female participation was largely stable**, while urban female UR declined to 8.2% from 8.5%, the lowest reading in the current series. This continues to support the view that **formal-sector hiring remains favourable for women in urban services and consumer-facing industries, even as rural labour indicators soften seasonally**.

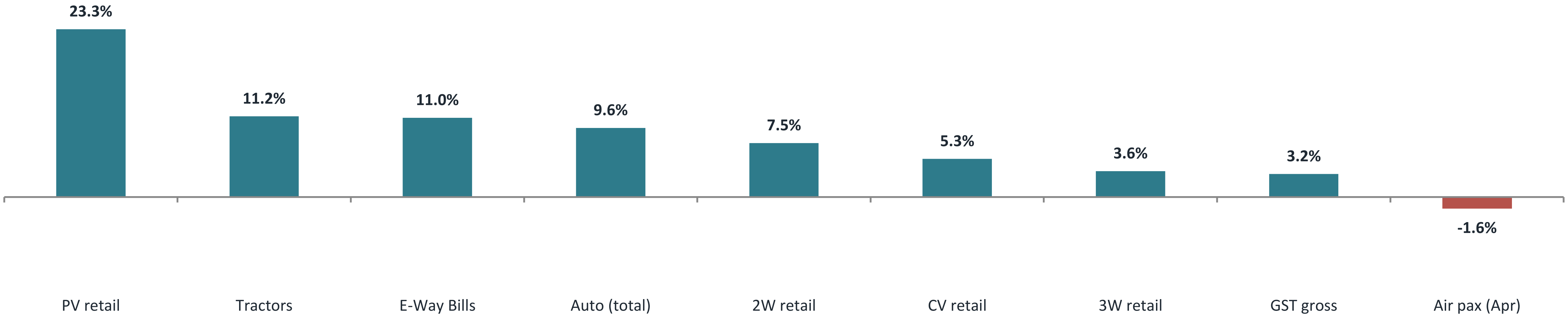
Overall Assessment

- **The May 2026 print reflects a labour market that is softening modestly beneath a relatively stable headline. Falling participation, weaker WPR, and rural employment weakness point to some loss of momentum, but these concerns are offset by improving urban labour-market conditions, particularly among women. We expect rural indicators to recover as kharif sowing activity gathers pace, making the June and July releases critical in determining whether the current weakness is merely seasonal or the start of a broader cyclical slowdown. Monsoons will be a decisive factor here**.

Source: RBI Bulletin and Internal assessment

9. Demand Indicators

Consumer Demand Momentum



Select high-frequency indicators, May 2026. West Asia truce holds and monsoon risk builds, yet Bharat-led consumption stays resilient.

Rural demand

Rural retail led the May print. Passenger vehicles surged 23.3% YoY (rural 30.4% vs urban 18.8%), a best-ever May, on a small-car revival, healthy bookings and a richer CNG and EV mix. Tractors rose 11.2% and three-wheelers 3.6%, both record Mays, while two-wheelers grew 7.5% (rural 4.7%). CV retail at 5.3% saw rural (8.1%) outpace urban (2.6%), confirming goods-movement demand is broadening beyond the metros.

Urban demand

Urban demand held but moderated at the margin. Overall auto retail grew 9.55% YoY though it eased 6.8% MoM on the post-April lull, the heatwave and a late monsoon. GST gross rose 3.2% to Rs 1.94 lakh crore (adjusted for a year-ago telecom one-off, gross +9% and net +10.1%); E-Way Bills climbed 11.0% to 136.1 million, the fourth-highest ever. Domestic air traffic stayed the soft spot, down 1.6% YoY in April as ATF rose 23.5%.

Demand outlook

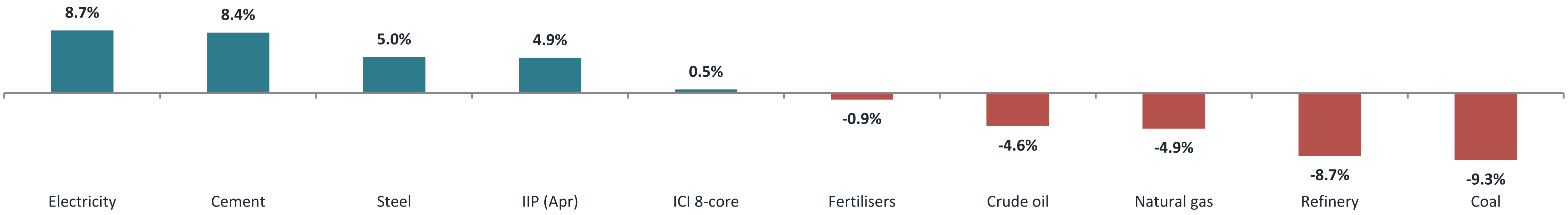
The consumption complex remains structurally resilient entering FY27. EV penetration crossed 11% for the first time as four May fuel-price hikes accelerated the powertrain shift. Headline CPI firmed to 3.93% in May (rural 4.25%, above the 4% mark) and the RBI held the repo at 5.25% with a neutral stance on 5 June, preserving real-income support. We watch monsoon progress against a subnormal and El Nino forecast, fuel pass-through and the truce.

Source: Internal assessment based on data from Tijori Finance

55.0
MFG PMI (MAY)
3-month high

59.8
SERVICES PMI (MAY)
6-month high

Industrial & Services Momentum



Industrial and services momentum, May 2026. Energy-sector drag deepens, but steel, cement and power hold the capex cycle.

Industrial activity

Core-sector output (ICI) grew just 0.5% YoY in May (April final 1.8%) as the energy block dragged: coal fell 9.3%, refinery products 8.7%, natural gas 4.9% and crude oil 4.6%, on heatwave-led thermal substitution, weak extraction and West Asia disruption. Fertilisers slipped 0.9%. The construction block held firm, with cement 8.4%, electricity 8.7% and steel 5.0% on sustained government capex. IIP rose 4.9% in April, manufacturing 6.2%.

Services sector

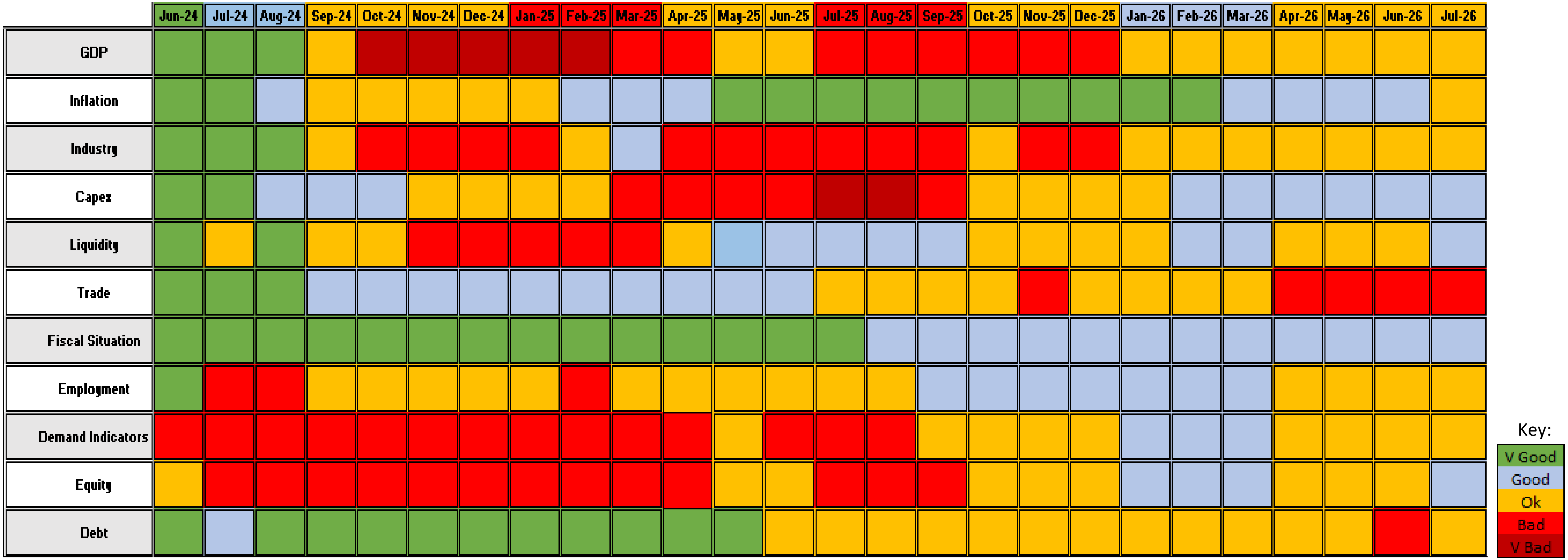
Services momentum stayed strong. The HSBC Services PMI was revised up to 59.8 in May, a six-month high, while Manufacturing PMI rose to 55.0, a three-month high, on faster new orders and output led by domestic demand. June flash readings softened (services 57.3, manufacturing 54.5) as fuel costs and gas shortages weighed, yet both held firmly in expansion. E-Way Bills and GST throughput corroborate resilient underlying activity.

Industrial & services outlook

We expect industrial momentum to recover toward 4 to 5% as Hormuz-linked supply pressures normalise and the energy base effect fades. Steel and cement should stay supported by the central capex pipeline, PLI-led manufacturing and rate-cut transmission. We watch the monsoon pass-through to power and fertiliser demand, ATF and freight feed-through from any breakdown in the truce, and the July core-sector and IIP prints.

Source: Internal assessment based on data from Tijori Finance

Economic Heatmap



Tailwinds Outweigh Headwinds

India entered CY26 with a structurally sound domestic economy. What changed sharply was the external environment, which explains the deterioration in headline macros from Feb-Mar 2026 onwards. The US-Israel-Iran war (beginning February 28, 2026) and Iran's effective blockade of the Strait of Hormuz triggered the most severe energy supply shock since the 1970s. With peace talks now progressing and the Strait reopened, much of that headwind is behind us: crude oil prices have normalized to near pre-war levels, and India's CAD and fiscal position appear well under control. Private and public capex are in the early stages of an upcycle, with domestic demand also showing signs of a visible uptick. The one remaining headwind is the monsoon. The IMD is forecasting a below-normal season, which is likely to pressure food inflation, already elevated on account of an unfavorable base, however still well within the RBI's comfort level.

Equity Outlook

Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2026	-3%	-1%	-11%	7%	-2%	2%							-8.1%
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%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.5%	14.4%	14.6%
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

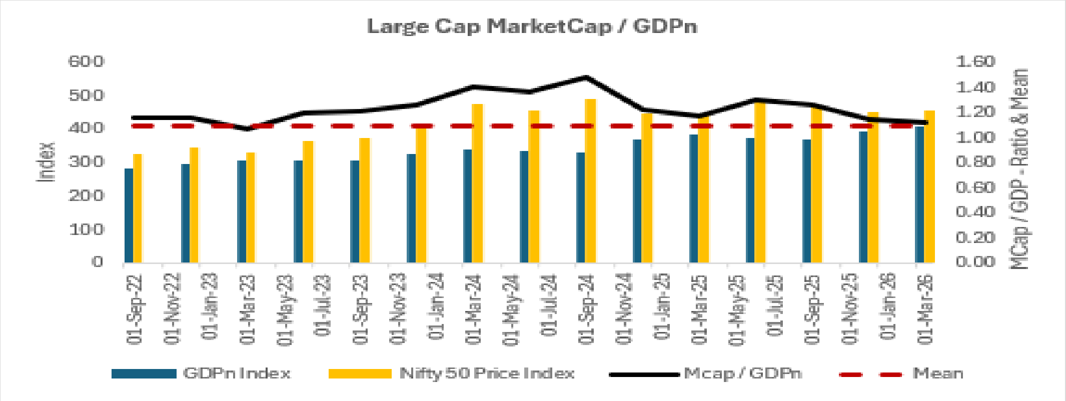
Ample Tailwinds

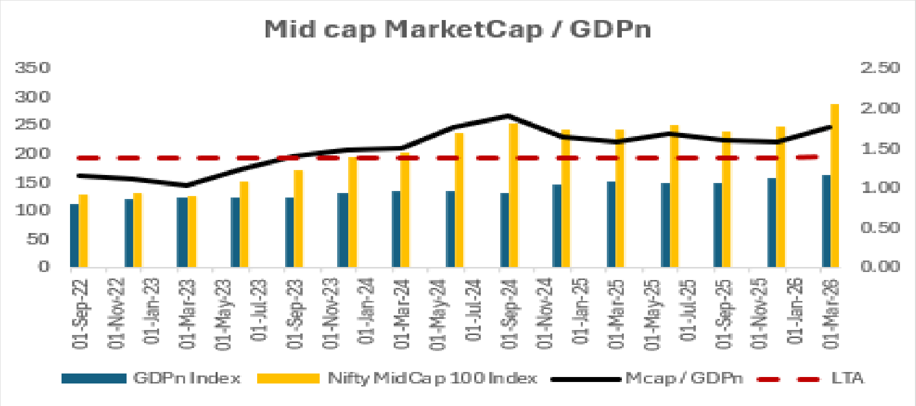
- The Nifty 50 is down ~8% YTD despite a recovery during April–June; however, history suggests that periods of correction have often created attractive entry opportunities, with the index delivering a long-term CAGR of ~12%. Improving domestic macros, easing inflation, healthy corporate balance sheets, and early signs of a private capex cycle continue to support the medium-term outlook.
- The Risk-Return Matrix highlights the higher return potential of Mid and Small Caps, albeit with correspondingly higher volatility relative to Large Caps.
- **On valuations, Large Caps appear Undervalued, Mid Caps Fairly Valued, and Small Caps Overvalued, suggesting a more favourable risk-reward proposition in the large-cap segment at current levels**

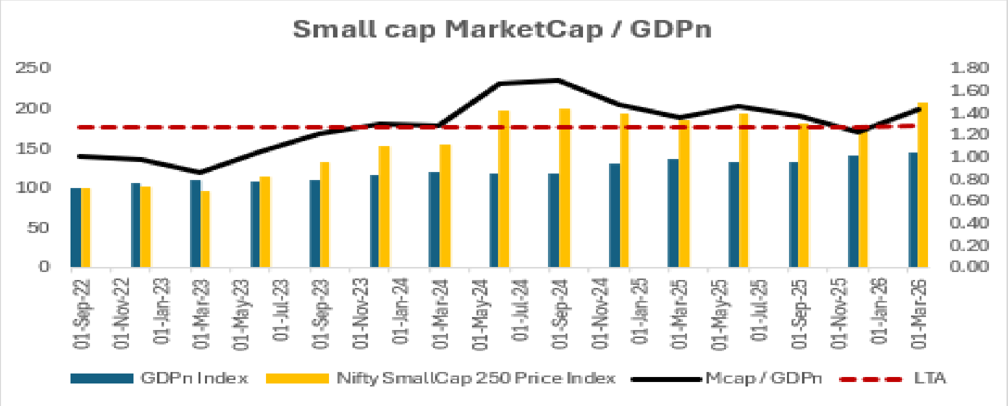
Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	20.20	23.73	-15%	Undervalued
Mid Cap	29.78	32.38	-8%	Fairly Valued
Small Cap	35.14	26.68	32%	Over Valued

Source: NSE and Bloomberg

Buffett Indicator







Present valuations remain moderate to attractive as evidenced by the premiums exhibited in their MCap/GDP ratios, where Large Caps are currently trading at a premium of approximately 2%, Mid Caps at a premium of approximately 20%, and Small Caps at a premium of approximately 10% to their respective long-term averages (as per the Buffett Indicator), as on 30th June 2026..

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

Sectoral Performance and Outlook

Banking & Financial Services

Q4 FY26 Performance:

The banking sector delivered a healthy Q4 FY26, with system credit growth holding at 13 to 15 percent year-on-year and asset quality broadly stable outside pockets of microfinance and unsecured retail stress. Net interest margins were largely stable as the bulk of the December repo cut had been transmitted and term deposits repriced. Public sector banks outperformed, aided by favourable credit-to-deposit ratios and steady recoveries, with Bank of India reporting a 15 percent rise in net profit alongside a sharp fall in NPAs. PSU banks were the best-performing sector in FY26, returning 26.61 percent, while the private bank index declined 5.59 percent.

Outlook:

We expect the sector to enter FY27 on firmer footing as margins bottom out and credit costs ease alongside moderating microfinance stress. Capital positions are comfortable, with median CAR above 17 percent, supporting healthy lending into retail, MSME and corporate segments. The RBI opening of acquisition financing and relaxed corporate exposure norms are incremental positives. Near-term margin reset on variable-rate loans remains a monitorable, and large banks with stronger CASA franchises are better placed. We favour selective exposure given the divergence between resilient PSU performance and weaker private bank sentiment through the year.

Information Technology

Q4 FY26 Performance:

IT services delivered a steadier Q4 FY26 than the prior quarter, with leaders returning to modest constant-currency growth. Infosys closed FY26 above the USD 20 billion revenue mark, growing 3.1 percent in constant currency for the year, with Q4 revenue of USD 5.04 billion up 4.1 percent year-on-year and an operating margin near 21 percent, supported by record large-deal wins of USD 14.9 billion and free cash flow of USD 3.7 billion. Mid-tier firms again outpaced larger peers on AI-led deal ramp-ups in BFSI and technology verticals. Profitability held within the low-twenties despite Labour Code provisioning.

Outlook:

We expect a cautious recovery through FY27, with managements guiding to modest revenue growth and stable margins of roughly 20 to 22 percent. Enterprise clients are moving from AI pilots to scaled deployments, with AI-led services emerging as a meaningful revenue stream. Deal pipelines remain healthy across BFSI and manufacturing, and Global Capability Centres continue to expand. Hiring stays selective, concentrated in AI, cloud and cybersecurity. The pace at which deal wins and AI adoption convert into recognisable revenue, alongside the US tariff overhang on discretionary technology spend, will determine the strength of the FY27 acceleration.

Pharmaceuticals & Healthcare

Q4 FY26 Performance:

Pharma posted a mixed Q4 FY26. Sector revenue grew around 10 to 12 percent year-on-year, led by domestic formulations in chronic therapies such as cardiology, diabetes and oncology, but aggregate profitability fell, with coverage-universe PAT estimated down 6 to 14 percent year-on-year. The principal drag was the gRevlimid exclusivity cliff in the US from January 2026, which compressed earnings for players most exposed to the molecule. A rupee past 90 to the dollar aided export realisations, GST on several medicines was cut to 5 percent, and the early March launch of generic semaglutide set up an FY27 tailwind.

Outlook:

We retain a constructive structural view, anchored by ageing demographics, rising chronic-disease prevalence and India expanding position as a global CDMO hub. Domestic formulations should sustain 8 to 12 percent growth, supported by chronic-therapy momentum, new launches and the obesity and diabetes opportunity around GLP-1 generics. US pressures persist, though complex injectables, peptides and biosimilars offer richer margins for differentiated portfolios. We expect EBITDA margins in the 18 to 22 percent band through FY27, with earnings re-acceleration likeliest for innovator-aligned and specialty-heavy companies as the gRevlimid base normalises.

Automobiles & Auto Ancillaries

Q4 FY26 Performance:

Q4 FY26 capped a strong year for autos. Passenger vehicles recorded their highest-ever Q4 at 13.16 lakh units, up 13.2 percent year-on-year, while FY26 PV volumes reached a record 46.43 lakh units, up 7.9 percent, with a sharp H2 recovery of 16.7 percent reversing a soft first half (SIAM). GST rationalisation, personal income tax relief and successive repo cuts lifted affordability across segments. Electric penetration accelerated, with electric PV registrations up over 80 percent in FY26 and electric two-wheeler share reaching around 9 percent. Auto ancillaries benefited from volume leverage, partly offset by precious-metal and commodity cost pressures.

Outlook:

We see the structural growth trajectory intact for FY27, with some normalisation after a strong base. Industry projections point to mid-single-digit PV wholesale growth and 6 to 9 percent two-wheeler growth, while tractor expansion may moderate after Maharashtra subsidy-led gains. The long-term story is increasingly defined by electrification, supported by PM E-DRIVE, PLI incentives and aggressive OEM investment. CAFE norms and mandatory safety compliance may raise entry-level pricing and constrain the sub-compact segment. A richer product mix, steady EV ramp-up, rural income recovery and export expansion should keep the sector on a 6 to 8 percent volume path.

Capital Goods

Q4 FY26 Performance:

Capital goods delivered a differentiated Q4 FY26. Order inflows and revenues broadly held up, with transmission and distribution a clear standout as renewable evacuation, grid stability and data-centre demand drove ordering for transformers, switchgear and specialty cables. Data centres emerged as a major cross-cutting theme across power generation, cooling and electrification suppliers. Margins were pressured as most firms could not fully pass through commodity inflation and a weaker rupee. The escalating West Asia conflict disrupted execution and supply chains for internationally exposed players, a headwind that intensified into Q1 FY27.

Outlook:

We remain selectively positive and policy-anchored. Central government capex reached approximately Rs 10.8 trillion in FY26, around 98 percent of the revised target, with the FY27 Union Budget sustaining elevated infrastructure and defence allocations. The energy-transition super-cycle, encompassing grid modernisation, battery storage and green hydrogen, should sustain T&D and equipment demand through the decade, with data centres an emerging high-value vertical. Private capex recovery is expected to lead in electronics manufacturing, EV supply chains and renewables. Copper, aluminium and zinc cost pressures, alongside geopolitical execution risk, remain near-term margin monitorables

Infrastructure (EPC & Construction)

Q4 FY26 Performance:

Infrastructure faced a mixed Q4 FY26. Industry order inflow improved modestly to around Rs 565 billion versus Rs 548 billion in the prior quarter, with diversified and railway players outperforming road EPC. Execution and earnings, however, lagged. L&T, the sector bellwether, reported a 3.1 percent fall in Q4 net profit to Rs 5,326 crore and FY26 revenue growth of 12 percent against a 15 percent guidance, citing roughly Rs 50 billion of revenue lost to West Asia disruptions and domestic water-project delays. Its order backlog stood at a record Rs 7.4 trillion, with international orders at 52 percent.

Outlook:

we maintain a constructive medium-term stance underpinned by policy tailwinds, with the FY27 Union Budget lifting infrastructure capital expenditure across roads, railways and urban projects. Order books provide multi-year revenue visibility, and working-capital pressures should ease as government disbursements improve. EPC players sit on favourable risk-reward given low inflows, muted growth expectations and modest valuations, with diversification into solar, transmission and railways supporting growth. Geopolitical execution risk and receivable cycles remain critical differentiators, and we prefer diversified players over those with concentrated road EPC exposure.

Power & Renewable Energy

Q4 FY26 Performance:

The power sector saw moderating demand alongside record clean-energy momentum in Q4 FY26. Electricity generation grew just 3 percent year-on-year, the slowest Q4 in six years, even as solar generation rose 24 percent and wind 11 percent (CREA). Installed capacity reached around 533 GW by March 2026, with non-fossil sources at roughly 53 percent and solar near 150 GW. FY26 marked the highest-ever annual capacity addition, with renewables contributing about 75 percent. Grid integration emerged as a structural constraint, with meaningful solar and wind curtailment concentrated in high-renewable states such as Gujarat.

Outlook:

We view the structural growth trajectory as among the most compelling in the economy, with India tracking ahead of schedule toward 500 GW of non-fossil capacity by 2030. Solar module prices remain near historic lows, keeping project economics attractive, while the FY27 Budget enhanced grid and transmission allocations support execution. The T&D segment is entering a multi-year upcycle as evacuation corridors, pumped storage and smart metering require significant deployment, and the absorption challenge makes storage central. Green hydrogen is emerging as a credible adjacent opportunity, and peak demand continues to set fresh records.

Fast Moving Consumer Goods (FMCG)

Q4 FY26 Performance:

FMCG closed FY26 on a resilient note. Leading companies reported stronger-than-expected Q4 earnings as rural demand recovery, premiumisation and product innovation offset inflationary and freight pressures. Nestle India posted a standout quarter with net sales up 22.6 percent year-on-year and net profit up 27 percent. Sector data pointed to a softer underlying volume backdrop, with rural growth easing in the December quarter before improving, while GST rate cuts and income tax relief supported demand. Operating profitability held broadly stable as companies passed through commodity costs and quick commerce kept expanding in urban markets.

Outlook:

We expect sector revenue growth of 6 to 8 percent in FY26, a rebound from FY25 levels, with the recovery led by volume normalisation and modest realisation gains. Rural India structural consumption upgrade remains a multi-year theme, with rising basket sizes narrowing the urban-rural gap. GST rationalisation and Budget tax relief should provide an incremental urban consumption boost. Quick commerce, now a sizeable share of metro FMCG sales, is reshaping distribution. Input-cost volatility in palm oil, coffee and wheat, alongside intensifying competition from regional and D2C brands, will constrain margin expansion through FY27.

Cement & Building Materials

Q4 FY26 Performance:

Cement delivered a strong Q4 FY26, its seasonally peak quarter, as pricing discipline returned and demand firmed. UltraTech reported India grey cement volumes of 42.41 million tonnes, up 9.3 percent year-on-year, with capacity utilisation at 89 percent, consolidated EBITDA up 21 percent year-on-year, and EBITDA per tonne rising 11 percent year-on-year to a multi-year high of Rs 1,253. FY26 consolidated profit crossed Rs 8,000 crore for the first time. National cement production rose around 8.6 percent for the year to 491.4 million tonnes, and consolidation continued, with UltraTech reaching 200 MTPA, the first such milestone outside China.

Outlook:

We hold a positive medium-term view aligned with India infrastructure investment cycle. Prices recovered across regions in early 2026, supporting profitability, and industry volumes are expected to settle around 7 to 8 percent growth as consolidation reduces fragmented price competition. Cost efficiency through higher green-power mix, alternative fuels and lower lead distances is increasingly visible in operating leverage, with UltraTech raising green power toward 85 percent by FY30. Rising petcoke and energy costs are a near-term margin headwind. Sustained capacity expansion will require demand growth to keep pace to prevent margin dilution.

Metals & Mining (Steel)

Q4 FY26 Performance:

Steel delivered a strong Q4 FY26 as the safeguard-duty-led price recovery fed through to margins. Domestic HRC prices rose around 11 to 12 percent year-on-year and quarter-on-quarter, with spot HRC reaching about Rs 52,400 per tonne. Tata Steel reported consolidated adjusted EBITDA up 20 percent quarter-on-quarter to Rs 9,950 crore, with standalone EBITDA per tonne of Rs 15,245, while JSW Steel posted Indian-operations EBITDA up about 40 percent quarter-on-quarter at Rs 11,622 per tonne. FY26 domestic demand reached 163.7 million tonnes, up 7.7 percent, while exports rose 36 percent and imports fell 32 percent, reinforcing India net-exporter status.

Outlook:

We retain a constructive view, supported by strong domestic demand, policy protection and price recovery. We expect domestic steel demand to grow around 7 to 8 percent, driven by infrastructure, automotive and capital goods end-markets. The three-year safeguard duty extension, notified at end-2025, has restored pricing power and a meaningful floor for domestic prices, with margins set to expand further into Q1 FY27. Risks include a potential rollback of safeguard duties post the sunset period, the ambitious 80 to 85 million tonne capacity expansion pipeline, and persistent Chinese export pressure on global prices. Green steel is a long-horizon opportunity.

Real Estate

Q4 FY26 Performance:

Residential real estate sustained its multi-year upcycle in Q4 FY26, with premium and luxury segments continuing to outperform even as overall volumes moderated from peak levels. Launch-heavy developers reported robust pre-sales while those without major launches were muted. Godrej Properties recorded record FY26 pre-sales of Rs 34,171 crore, up 16 percent year-on-year across 17,515 units, likely making it the largest listed developer by bookings, while Lodha posted FY26 pre-sales of Rs 20,530 crore with Q4 consolidated PAT of around Rs 1,008 crore. Office leasing momentum stayed resilient, and developers continued aggressive land acquisition for multi-year visibility.

Outlook:

We see FY27 as a phase of moderated but sustainable growth, transitioning toward execution-driven consolidation. Affordability is improving as banks pass through repo cuts to home-loan rates, and a single-window clearance framework should compress approval timelines and lift execution velocity. The commercial segment remains a high-conviction area as Grade A demand stays firm and GCC expansion continues, while REITs and emerging SM-REITs improve capital efficiency. Near-term risks include supply overhang in select luxury micro-markets and approval delays. Price appreciation should continue to outpace income growth in residential presales for leading listed developers.

Consumer Durables & Electronics

Q4 FY26 Performance:

Consumer durables saw a divergent Q4 FY26. Electronics manufacturing services sustained strong momentum on PLI benefits and import substitution in mobiles and IT hardware, with players such as Dixon outperforming. Cooling, however, had a difficult year, as the room air-conditioner industry contracted around 10 to 12 percent in FY26 on a high base and a milder summer. Voltas reported a sharp profit decline despite record quarterly revenue as margins compressed under copper and aluminium inflation, rupee depreciation and intense competition across more than sixty brands. The white-goods PLI scheme drew investment commitments from 85 companies.

Outlook:

We expect the sector to regain momentum through FY27, anchored by low appliance penetration, rising household incomes and accelerating electrification. The RAC industry is expected to rebound to 15 to 20 percent volume growth in FY27, aided by the GST cut from 28 to 18 percent and modest price hikes. EMS companies remain well placed to benefit from global supply-chain reconfiguration away from China, deepening India role as a manufacturing and export hub. Premium and connected categories should outgrow the market. Commodity-price volatility, rupee depreciation on import-dependent inputs and Chinese competition are key risks.

Strategy

Tailwinds

- **Strong macroeconomic stability**, with healthy GDP growth and manageable fiscal and external deficits. **Inflation well under control** and well within the RBI's comfort level, for now.
- **Domestic consumption recovery** driven by tax reforms, improving rural & urban demand, and supportive inflation trends.
- **Early signs of a private capex upcycle**, supported by strong order books across industrial and infrastructure sectors.
- **Healthy corporate balance sheets and low leverage**, enabling companies to invest and capitalize on growth opportunities.
- **Broader earnings participation** across sectors, indicating a more sustainable recovery.
- **Reasonable valuations** in several sectors after the FY26 consolidation phase.
- **Continued policy support and infrastructure spending**, benefiting manufacturing, defence, energy, and logistics.
- **Trade agreements and supply-chain diversification trends** supporting export-oriented industries.
- **Favourable monetary environment**, with lower interest rates and adequate liquidity supporting growth and investment.

Headwinds

- **Global growth slowdown risks** – Weak external demand could impact exports, particularly IT services, chemicals, textiles, and manufacturing.
- **Geopolitical and commodity price risks** – Global conflicts and supply-chain disruptions remain key risks to inflation, growth, and market sentiment.
- **FPI flow volatility** – Global risk-off sentiment, India's anti-AI theme, US interest rates, and dollar strength may continue to drive intermittent foreign outflows.

Outlook

- **Volatility may persist in the near term, but the market retains a positive medium-term bias, supported by strong domestic fundamentals, improving earnings visibility, and a gradually strengthening investment cycle.**

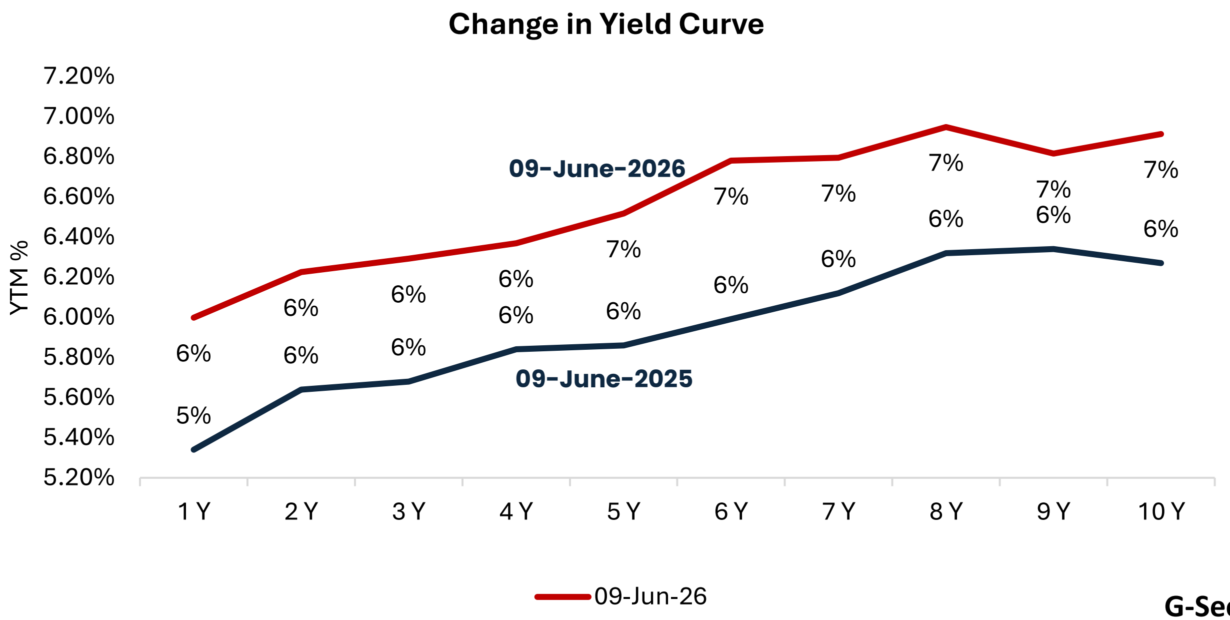
Suggested Strategy

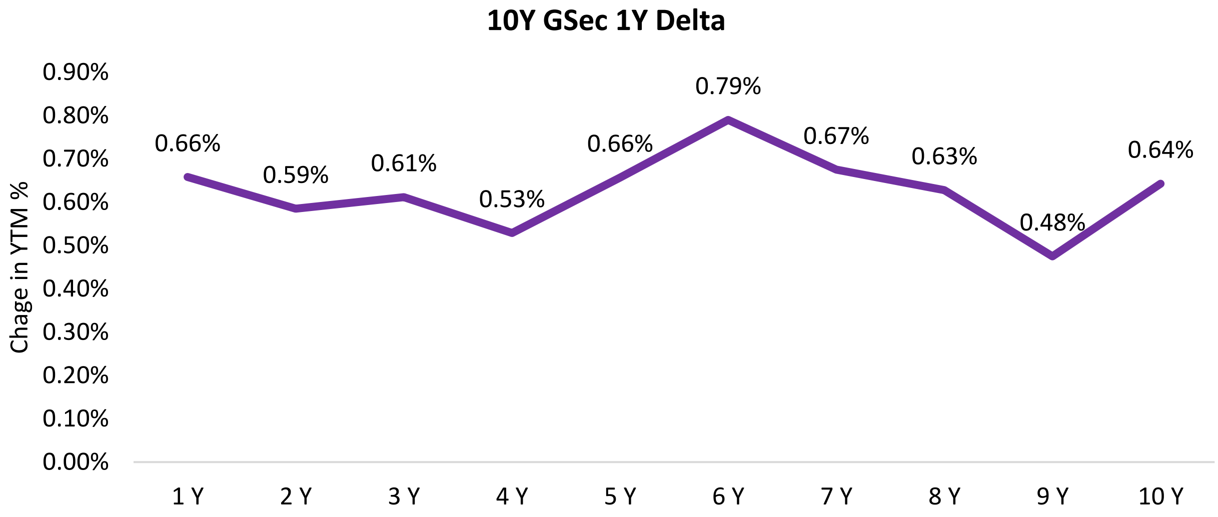
➢ **Gradual Accumulation**

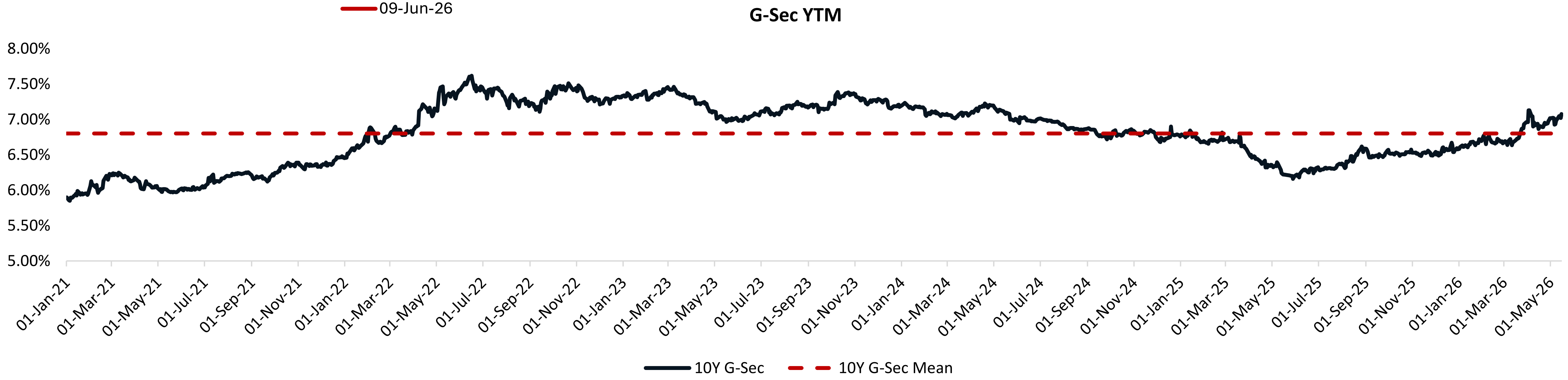
Category	***Stance***
Large Cap	*Optimistic*
Mid Cap	*Cautiously Optimistic*
Small Cap	*Risky*

Debt Outlook

Yields Curve Dynamics







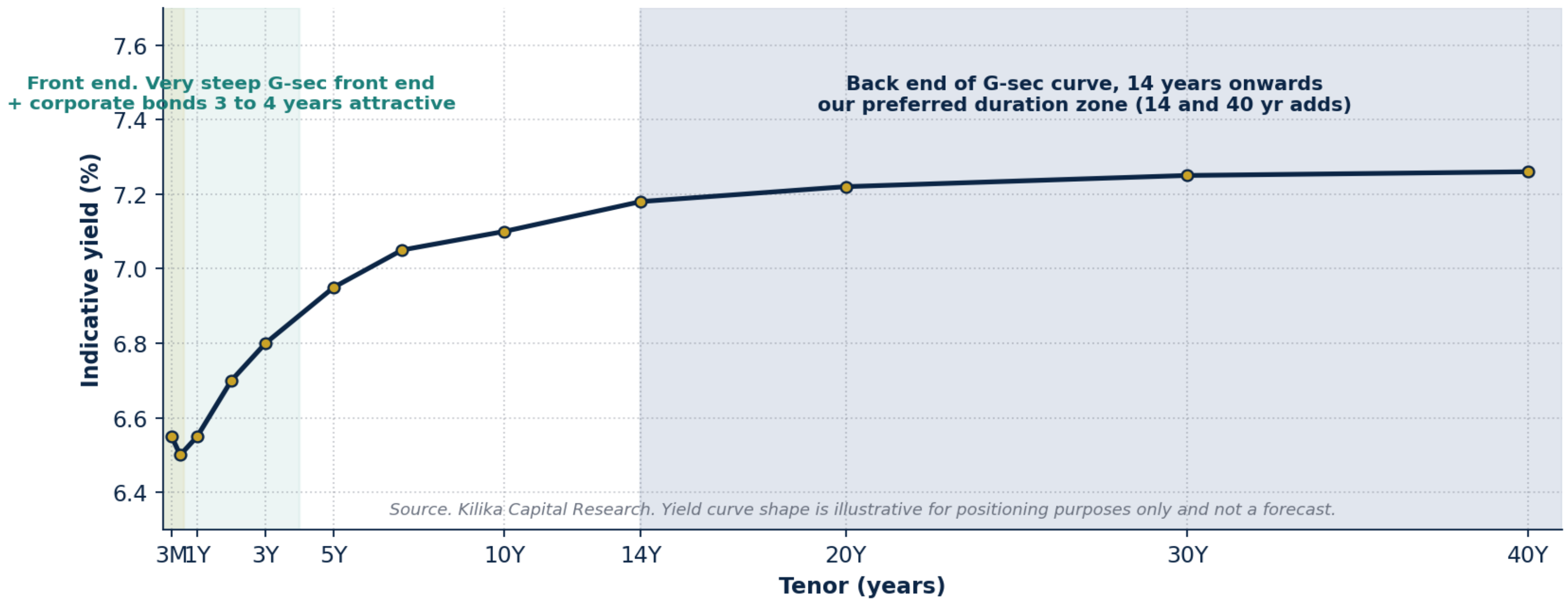
Source: Internal assessment based on RBI DBIE data and data from Bloomberg

June 2026 BoP alleviation measures, Government and RBI

Measure	Authority	Effective / window	Intended channel
FPI investments in G-secs exempt from income tax on interest and capital gains	Govt	1 Apr 2026	Portfolio inflows, index inclusion
FAR list expanded to include new 15, 30 and 40 year government bond issuances	RBI	Immediate	Long end demand, duration anchor
Concessional forex swap to incentivise ECB by PSUs	RBI	Till 30 Sep 2026	FX flow, bank funding
Full hedging cost facility to AD banks for fresh 3 to 5 year FCNR (B) deposits	RBI	Till 30 Sep 2026	FX flow, bank funding
Time for realisation of export proceeds restored to nine months	RBI	Immediate	Current account, exporter relief

Source. RBI Monetary Policy Statement and Government notification, June 2026. Kilika Capital Research.

Kilika positioning across the curve, post June 2026 policy



Source. Kilika Capital Research. Yield curve shape is illustrative for positioning purposes only and not a forecast.

Debt Market Outlook & Strategy

The BoP Pivot Begins, Bonds Find Their Floor - *We stay overweight duration at the back end, selective at the front*

The June package puts a floor under the balance of payments narrative. Bond valuations were always about funding strain, not the repo rate. With the strain easing, we lean further into duration via the 14 and 40 year points and find the front end of corporates and money markets attractively priced for the right horizon.

Our Lens, Funding Strain Drives Yields Not Rate Hike Fears

- Despite sound macros, **net capital flow into India has weakened significantly**, and this predates the West Asia war. The weakness owes largely to two factors. First, **higher global rates have eroded the relative attractiveness of Indian assets**. Second, **competing narratives for global capital flows, particularly the AI theme, have absorbed allocations that may otherwise have come to emerging markets**. The **West Asia war has further accentuated the balance of payment (BoP) stress, and hence the funding stress in the system**. To us, this is the predominant lens through which to view the war, rather than from a traditional growth-inflation trade-off. **Market rates are reflecting the funding strain more than fears of rate hikes, and most market rates are quite attractively priced even assuming a 75 to 100 bps repo rate hike.**
- With inflation pressures rising, **we now expect 75 bps or so of repo rate hikes over a period of time as a base case.** However, so long as RBI does not lose control of the narrative on how many hikes lie ahead, this should not worry most of the market rate curve. The exception is the very front end of the government bond curve, which remains relatively steep.

Why We Just Added Duration Back, Positioning for the Binary

- The combination of accentuated BoP stress from the duration of the war, alongside continued momentum in global rates and capital absorption themes, had led us to go underweight duration in our prior updates. However, since late last week there has been more **optimism with respect to some resolution of the conflict**. From strictly a markets standpoint, a key variable we track is the number of **ships passing through the Strait of Hormuz, which has also picked up**. **Should progress continue toward resolution, some of the recent funding stress can start to get alleviated domestically.** This can happen both via relief on commodity prices and on the rupee. The latter effect can get more pronounced should some credible steps on dollar raising be announced as well.
- It is well understood that a lot of the above is binary in nature. Nevertheless, and with as much (or as little) information as is available with us, **it seemed to make sense to add back duration risk. We have done so over the latter part of last week, largely via 14 and 40-year government bonds as before.** It is to be noted that this is entirely positioning for the binary outcome, with all its attendant risks, and the underlying BoP stress points remain for now. However, the underlying picture has been around for a long time and argues for higher rates over time than before. **This theme may still allow for downward adjustments of yields from current levels, should the binary risk resolve for the better, even as yields remain higher than they were before**.

- **A more permanent resolution of BoP pressure will need one or both of two factors to turn. Global rates, or a fatiguing of the AI and allied themes in terms of incremental capital absorption.** This can turn attention back to other narratives, especially as the rupee has cheapened substantially. The fatiguing of the AI theme itself can take rates lower. Alternatively, any weakness in the US labour market may lead to rekindling of Fed rate cut expectations. **For the time being, however, both these (AI and US labour market) seem to be incrementally strengthening**.

RBI Stays Its Hand, but the Inflation Tone Has Shifted

- The RBI and MPC kept policy rates and stance unchanged, while flagging both upside risks to inflation and downside risks to growth. The uncertainty in assessment is understandable and expected, given the uncertainties from the West Asia conflict, as well as evolving forecasts with respect to the south-west monsoon. The Governor in his statement was also quite clear in acknowledging that the risks of higher inflation have amplified and that the MPC "will continue to remain data-dependent and closely monitor the developments, including supply side pressures getting embedded in the general price level and inflation expectations." This also helps make another point. **Some rate hikes are likely going to be prudent given that average inflation will almost decidedly settle higher.** The quantum and timing are somewhat a matter of judgement. The judgement taken today was to acknowledge evolving risks and stand by as needed.
- **The policy rate decision, to us, was almost a matter of indifference for the time being. To elaborate, our view is that some rate hikes will be needed, but only to adjust to the higher inflation outlook. Specifically, there is no case to us for using this as any sort of currency defence. Thus, our expectation is of a gradual 75 bps odd hike over a period of time. So long as RBI and MPC communication is clear in not letting market expectation overshoot the trajectory, it really does not matter to the current level of market yields whether the repo rate is somewhat higher**.

A BoP Down Payment Stronger Than the Street Expected

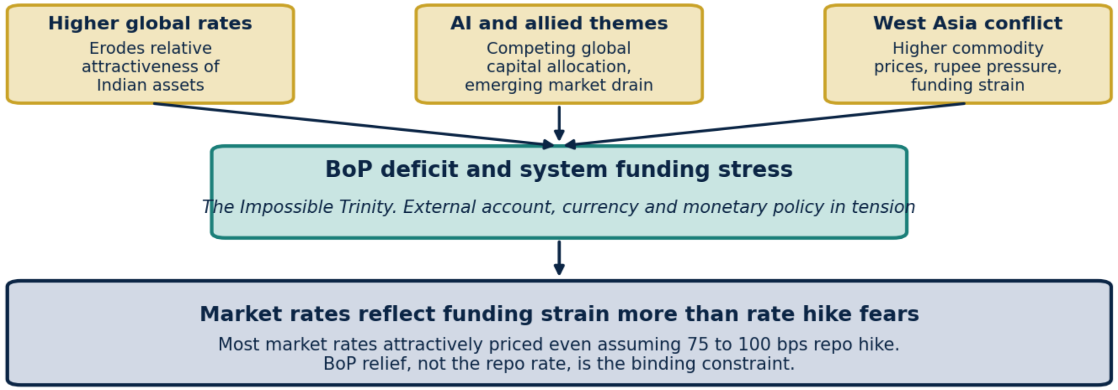
- **Our entire market view framework has been around the funding stress stemming from the BoP deficit that has been in play now for several quarters**. We have tracked this to three likely sources. One, **higher global rates**. Two, competing **global capital allocation themes like AI**. Three, most recently, **the West Asia conflict**. The implication from the BoP pressure could be best summarised in the form of the impossible trinity framework, which illustrates the tension between the external account, currency and monetary policy. Thus, **RBI's policy rate setting basis the domestic growth-inflation trade-off was no longer serving as anchor for market rates**, even accounting for higher global rate volatility. **Hence, if some stability could be reattained on the BoP, most market rates would once again look quite attractive, irrespective of likely tweaks ahead in the repo rate.**
- **The set of announcements by RBI and government in early June make a significant down payment toward alleviating stress on our BoP.** The government has notified that foreign portfolio investor (FPI) investments in government securities will be exempt from income tax on any interest or capital gain, effective 1st April 2026. On its part, the RBI has also unveiled meaningful measures, including the following. One, expanding the list of FAR securities to include new issuances of 15, 30 and 40-year government bonds. Two, a concessional forex swap till 30th September 2026 to incentivise ECB by PSUs. Three, a similar facility for bearing the full hedging cost till 30th September 2026 to AD banks for raising fresh 3 to 5-year FCNR (B) deposits. Four, restoration of the time for realisation of export proceeds to nine months.

- Taken together, these are meaningful steps and stronger than market expectations, and should serve to put a floor on the BoP narrative. We look forward to meaningful capital flows in the months ahead. This will also help directly alleviate funding stress for banks. It also makes more likely the inclusion of Indian government bonds in global indices. Equally important to us is the signalling effect. The government and RBI are now actively working toward shoring up the BoP. Temporary measures to improve capital flows had seemed in the offing, given that policy focus was squarely on the external account. The June package has now formalised that pivot.

Our Stance, Overweight the Back End and Selective at the Front

- Given this, bond valuations look attractive to us, even after accounting for the fall in yields in early June. As discussed, valuations were not being derived from fears of likely repo rate hikes but were more reflective of BoP pressures. We are turning overweight duration. Positioning for the Binary, and are now much more inclined to continue carrying this position. If the tailwind created today is further augmented by cessation of war and some fatigue in the AI story, the period of the bond benign environment can stretch much further than currently envisaged.
- From a valuation standpoint, we continue to prefer the back end of the government bond curve (14 years onwards) and corporate bonds up to 3 to 4 years. The front end of the non-SLR curve, including money market instruments, is exhibiting very large levels of stress from the funding issue emanating from BoP pressure. For appropriate investment horizons, and with requisite appetite for intermittent volatility, these now seem quite attractively priced, especially if even one level of stress alleviation is around the corner. Cessation of war can provide the first meaningful trigger. A more permanent resolution still depends on global rates or the AI theme turning. As always, this represents our view as of date and may change going forward.

Our framework. From BoP stress to bond market view



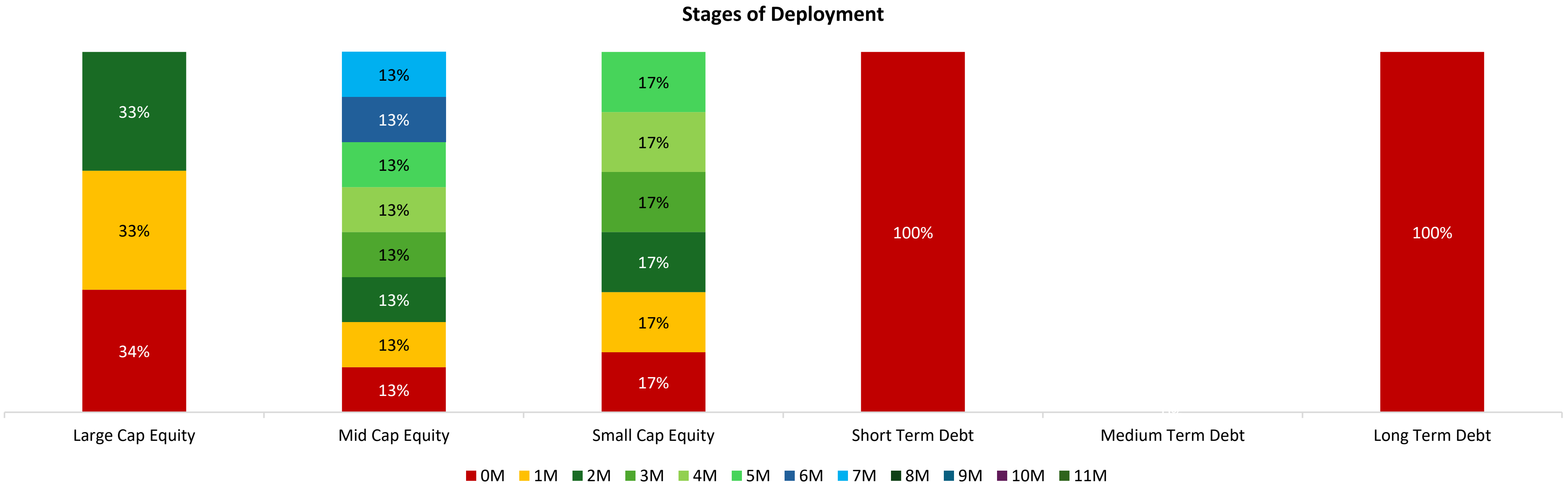
Triggers we watch. Strait of Hormuz traffic, cessation of war, AI theme fatigue, US labour weakness, Fed cut repricing

Resolution of either global rates or the AI theme provides the permanent BoP fix.
June 2026 measures put a floor on the narrative and signal active policy intent.

Source. Kilika Capital Research.

Deployment Strategy

Deployment



Indicators:

Indicators to track for caution –

- FIIs remain net sellers, but outflows have moderated to their lowest levels since the conflict began.
- India VIX at ~13.05 reflects subdued volatility and a constructive market environment (Evolving geopolitical concerns)
- Mid- and small-cap Market Cap/GDP ratios remain above long-term averages, suggesting rich valuations

Indicators signaling turnaround and optimism –

- DII's have been net buyers, providing stability and support to equity markets.
- Large-cap valuations are at their most attractive levels in the last three financial years.
- Supportive RBI liquidity is fostering a healthy credit environment.
- Stronger exports (India–UK FTA) and easing imports support the external sector.
- Private capex is holding up, signaling cautious optimism in the investment cycle.

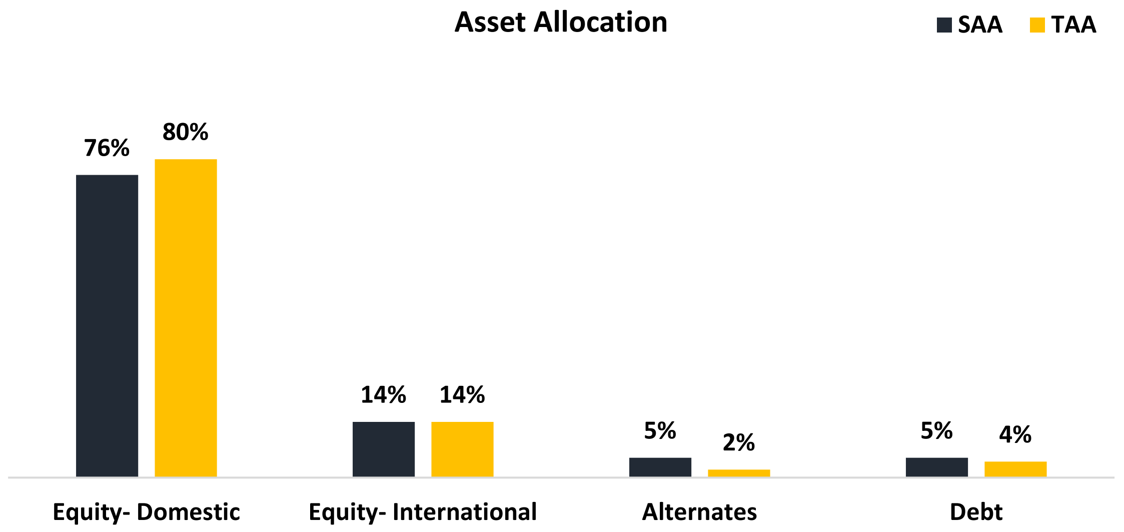
Deployment Strategy:

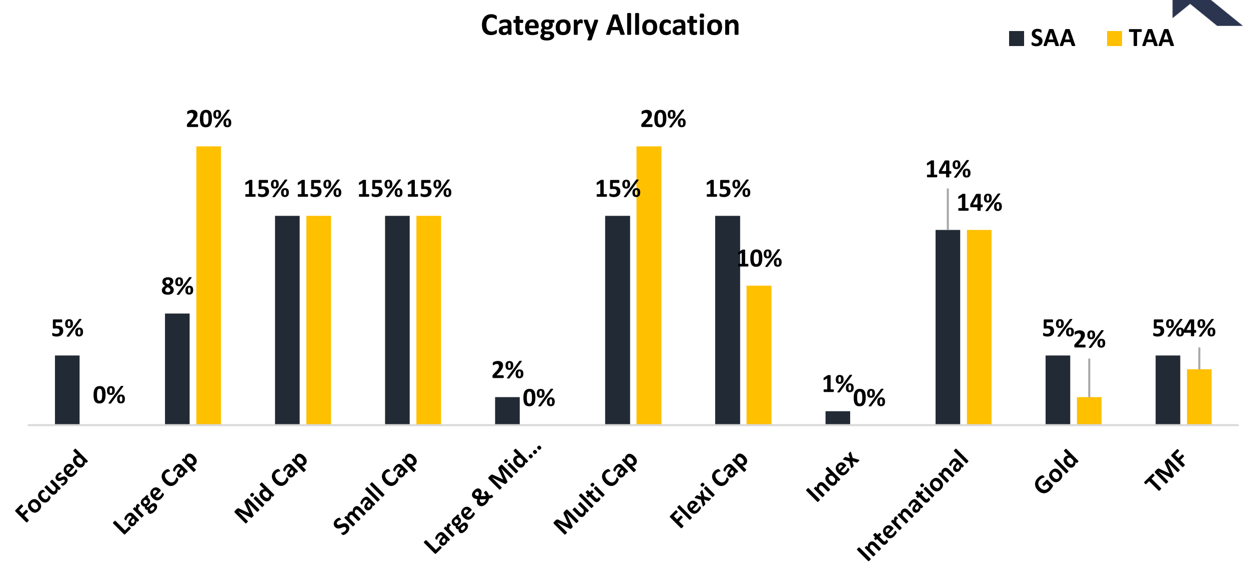
Staggered Deployment over the next 12 months –

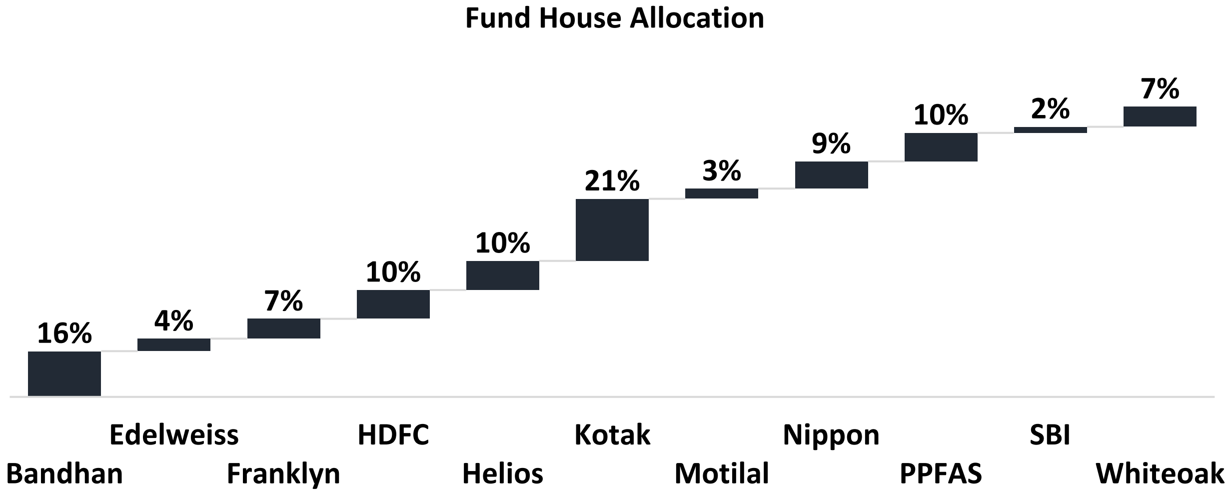
- Large Cap – 34% immediate deployment and 33% in each month in the next 2 months
- Mid Cap – 12.5% immediate deployment and 12.5% in each month in the next 7 months
- Small Cap – 12.5% immediate deployment and 12.5% in each month in the next 7 months
- Debt - 100% immediate deployment (barbell strategy at the short end (0-3 yrs) of the yield curve or Arbitrage Funds, and long term govt debt (14+ yrs)

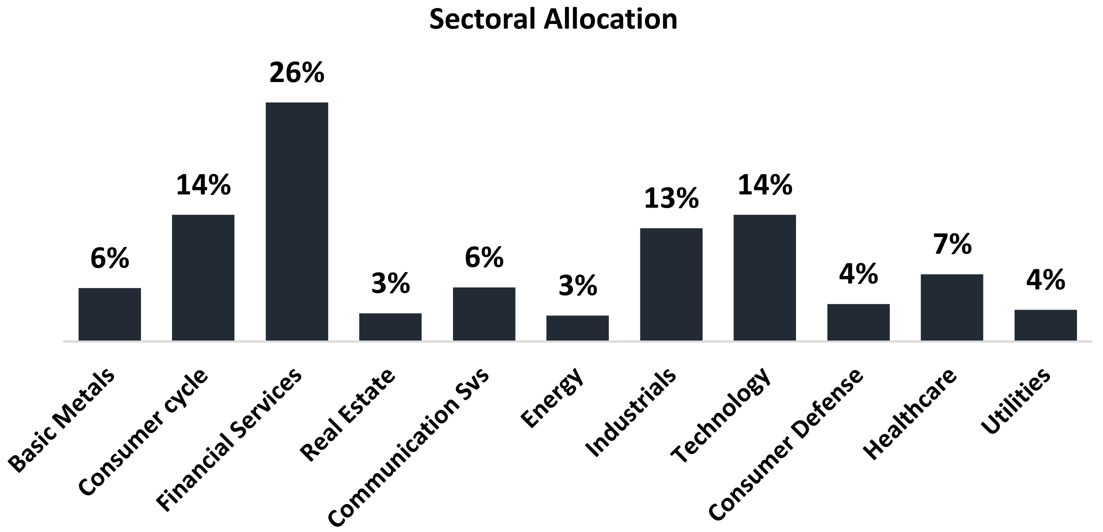
Optimus Prime Model Portfolio

Aggressive Strategy

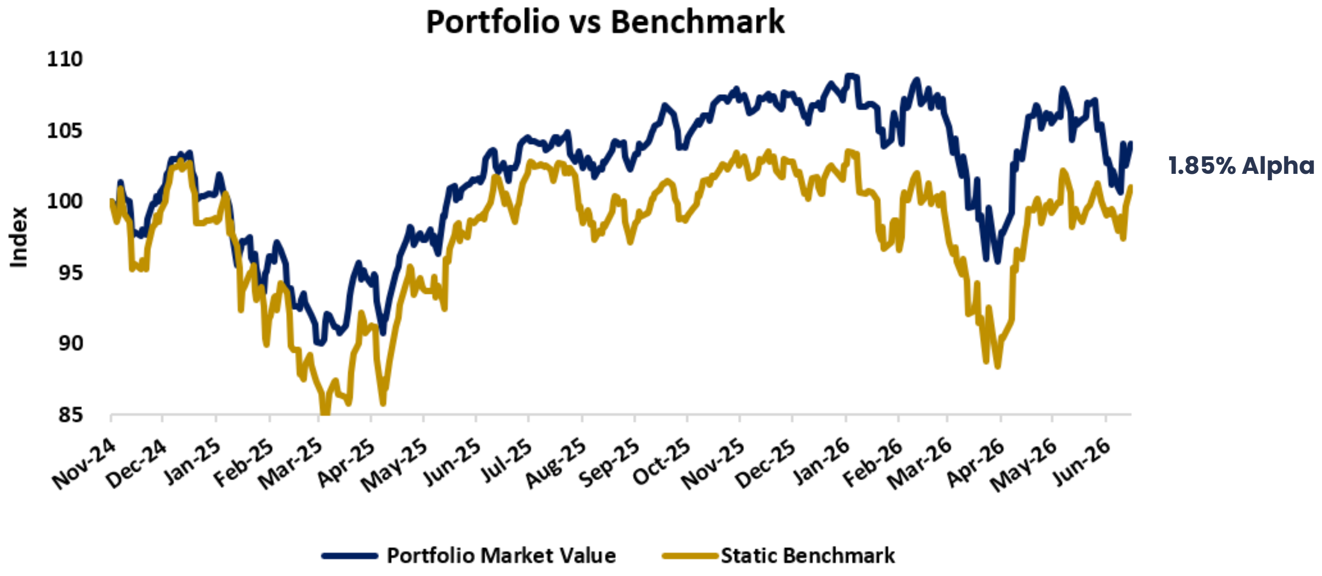


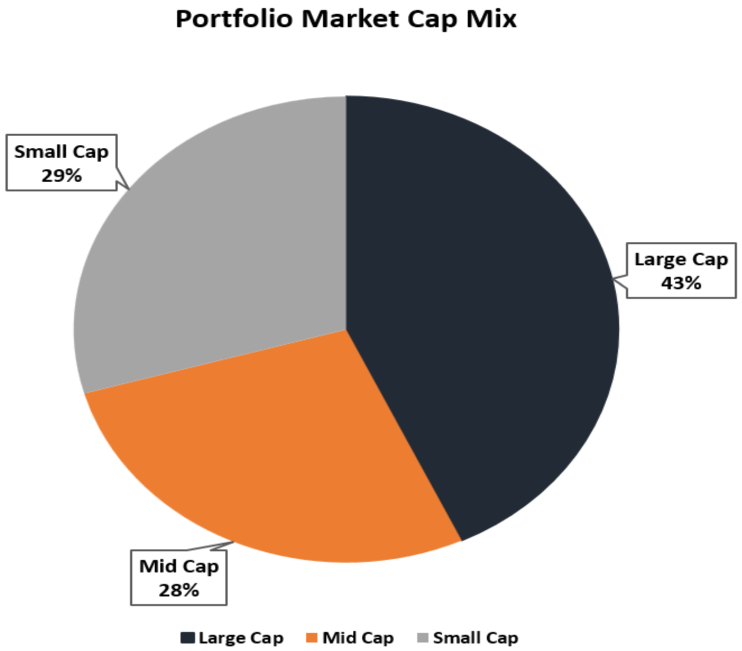






SAA - Strategic Asset Allocation** *&* ***TAA - Tactical Asset Allocation. *International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically,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

Analytics	Portfolio	Benchmark
Abs / CAGR Return	**4.05% / 2.48%**	1.02% / 0.63%
Standard Deviation (annualized)	**12.75%**	15.85%
Beta	**0.48**	
Alpha (Abs / CAGR)	**3.03% / 1.85%**	
Information Ratio	**3.64**	
Downside Capture	**72.76**	

Debt Portfolio Analytics

Debt Measures	Mar-26
Average MoD	**4.01**
Average Maturity	3.33 yrs
Average Coupon	NA
Average YTM	**5.22 %**

Average Credit Rating	Mar-26
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 July 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: Aggressive

Positioning & Portfolio Update

At our most recent Investment Advisory Committee meeting, the Committee unanimously resolved to shift an **Aggressive investment stance**.

Our shift to an aggressive stance is underpinned by a domestic macro backdrop that has strengthened even as the external environment turned more benign. India closed FY2025-26 with **real GDP growth of 7.7%**, keeping it the fastest-growing major economy for a third consecutive year, with Q4 investment momentum particularly strong — **GFCF surged 10.8% YoY** and machinery imports rose 24.9%, confirming a genuine private-plus-public capex revival. **Capacity utilisation held above its long-run average at 75.2%** for a second consecutive quarter, a level that has historically triggered a shift from brownfield to greenfield capex, while **system credit growth of 17.7% YoY continues to outpace deposits**, evidencing firming investment demand. **Headline inflation, at 3.93% in May, remains within the RBI's comfort band**, and the central bank's June measures to widen the FAR window, ease FPI limits and exempt G-sec interest from LTCG and withholding tax mark a structural, not tactical, effort to shore up the balance of payments. On the external front, the **reopening of the Strait of Hormuz and Brent's retreat from a peak of ~$128/bbl to the $71-72 range materially de-risks India's import bill**, given the economy imports over 85% of its crude, thus keeping **CAD in a very comfortable territory**. Meanwhile, **equity markets have already priced in a substantial amount of bad news: the Nifty has corrected roughly 8% YTD, leaving Large Caps trading close to fair value**. Taken together, **a resilient growth engine, an early-stage private capex upcycle, healthy corporate balance sheets, a de-risked energy and currency outlook, and valuations that already reflect a fair degree of caution, we see the balance of risks having shifted sufficiently to justify moving our stance from neutral to aggressive, while retaining our large-cap overweight as the risk-controlled expression of that view**.

Our equity allocation has accordingly pivoted to an aggressive approach. Within equities, we carry an approximate 9% overweight in Large Caps an approximately 5% underweight in Mid Caps and a 4% underweight in Small Caps, consistent with our risk-controlled framework and our preference for capital preservation over beta-seeking in conditions of short-to-medium term volatility. Our Asset Allocation has now pivoted to a 4% overweight in Equities and balanced out with a 3% underweight in Alternates and 1% underweight stance in Debt.

Despite prevailing volatility, portfolio positioning has delivered strong results. We **generated an Alpha of 3.03% on an absolute basis, driven primarily by Product Selection Alpha. The portfolio maintained a Beta of 0.48, an Information Ratio of 3.64, and a Downside Capture of approximately 72.76% - collectively reflecting disciplined risk management and effective downside protection relative to the benchmark**.

Key Monitorables:

Crude price trajectory
HIGH

Brent has normalised to $71-72/bbl after the Hormuz reopening, down sharply from the ~$128 peak. Sustained levels below $80 for two straight months would be the RBI's trigger to resume easing; a renewed Gulf disruption remains the key upside risk to inflation, the CAD and the rupee.

CPI inflation trajectory
MEDIUM

Headline CPI rose to 3.93% in May, its fifth straight monthly increase, as fuel pass-through and a summer vegetable spike offset a still-benign core. The RBI's own path has CPI crossing 4% imminently and peaking near 5.9% in Q3 FY27. Monsoon progress and kharif sowing through June-July are the swing factors for H2.

Valuations & Q1 FY27 results
HIGH

Large caps remain the most attractively priced cohort, near fair value. Q1 FY27 commentary on capex, volumes and margins across banks, industrials and consumer names will set the tone for the FY27 earnings revision cycle and guidance; modest downgrades already look priced in.

FII flows & the anti-AI trade
MEDIUM

FPIs remain net sellers, with $13.7bn of FY27 outflows so far on dollar strength, US treasury yield carry and AI-led mega-cap rotation in DM and EMs. India VIX has eased from 18.5 to ~12.7, and FDI/FAR reforms are absorbing much of the BoP pressure. A durable reversal likely needs crude sustained stabilisation and India's gradual re-rating into the global AI narrative.

Monsoons
HIGH

The IMD is forecasting a below-normal 2026 monsoon (~90% of LPA) against an 82% NOAA-assigned probability of an emerging El Nino. A weak monsoon would pressure rural incomes and food inflation just as CPI is already trending higher on an unfavorable base, and would complicate the RBI's room to resume easing in H2 FY27.

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THANK YOU

Piyush Sharma
E-Mail: piyush@kilikacapital.com

Harris Lunis
E-Mail: harris@kilikacapital.com

Siddharth Jadeja, CFA
E-Mail: siddharth@kilikacapital.com