
KILIKA CAPITAL
Embracing complexity to capture Alpha
May 2026

Dear Investors,

The world changed on 28 February 2026. Operation Epic Fury - the coordinated US-Israeli strikes on Iran set in motion the most consequential geopolitical shock to India's external sector since the 2022 Russia-Ukraine conflict. Six weeks in, the Strait of Hormuz remains effectively closed. Brent, which opened the year at USD 66-67 per barrel, briefly touched USD 126 before settling into a volatile USD 100-110 range. For India, which imports over 85% of its crude and sources more than half its LNG from Brent-indexed Gulf contracts, the transmission has been immediate and multi-dimensional, a record low rupee approaching 94, FPI outflows running at their highest monthly pace of the year, a Nifty that has corrected sharply from recent peaks, and an RBI caught between its easing instincts and the inflationary reality of triple-digit crude.

And yet, it would be a mistake to let the noise of the crisis obscure the signal of the underlying economy.

India entered FY27 with arguably the strongest domestic macro foundation it has had in a decade. Real GDP grew 7.8% in Q3 FY26, broad-based across manufacturing, construction, and services. The new national accounts base year reveals an economy that is more industrial and more formally structured than previously measured. Headline inflation stood at just 3.2% in February, with core subdued. Bank credit is growing at 14.5% YoY. Capacity utilisation has crossed above its long-term average, historically the trigger for a broad-based private capex cycle. Trade agreements with the US, EU, and UK have been concluded or are materially advanced. Corporate balance sheets are lean, liquid, and profitable. The RBI has delivered 125 basis points of rate cuts since February 2025. These are not marginal positives. They are the preconditions for a sustained growth re-rating, and they have not gone away.

What has changed is the near-term risk calculus, and it hinges almost entirely on a single variable: how long does the Hormuz closure last?

The base case, and the one we assign higher probability, is that the conflict de-escalates meaningfully by end-May. If the Strait reopens near-term, oil corrects toward USD 80-90 per barrel, the rupee partially recovers, the RBI resumes its easing cycle in H2 FY27, and the Nifty, deeply oversold, with F&O long positioning at multi-year lows, stages a sharp recovery. FY27 GDP absorbs a 30-50 basis point hit and rebounds.

The private capex upcycle, delayed but not derailed, picks up where it left off. In this scenario, the current dislocation represents a compelling entry point for investors with a long term horizon.

The tail risk is a prolonged blockade extending into Q2 FY27. The IEA has warned that April supply conditions will be worse than March as pre-war inventory buffers will be exhausted. At sustained crude prices of USD 110-120 per barrel, India's macro stability comes under pressure. The current account deficit is likely to widen to ~2.0-2.5% of GDP, while CPI inflation risks breaching the RBI's 6% upper tolerance band. The initial shock is typically absorbed by the government via fuel tax adjustments and subsidies, thereby straining the fiscal position. This is followed by partial pass-through to India Inc, leading to margin compression, and eventually to consumers through higher retail prices, dampening discretionary demand. In such a scenario, the MPC is caught in a stagflationary trade-off between growth and inflation.

The resulting tightening bias, coupled with weakened demand conditions, risks derailing the nascent private capex cycle before it gains meaningful traction. In this scenario, the macroeconomic consequences are structural rather than transient, and portfolio positioning would need to reflect a more sustained adjustment.

This edition of the Kilika Capital Investment Strategy Report is written at this inflection point - between two very different FY27s. Our task, as it always is, is to separate cyclical noise from structural signal, and to translate complexity into clarity. The domestic story is intact. The external shock is real but exogenous. The next one to two months are pivotal.

We remain cautiously optimistic, with the emphasis, for now, firmly on caution.

We thank you for your continued trust and partnership.

Best regards,

Siddharth Jadeja

Investment Strategy Report

Contents

KILIKA CAPITAL

WHO WE ARE?

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

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

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

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

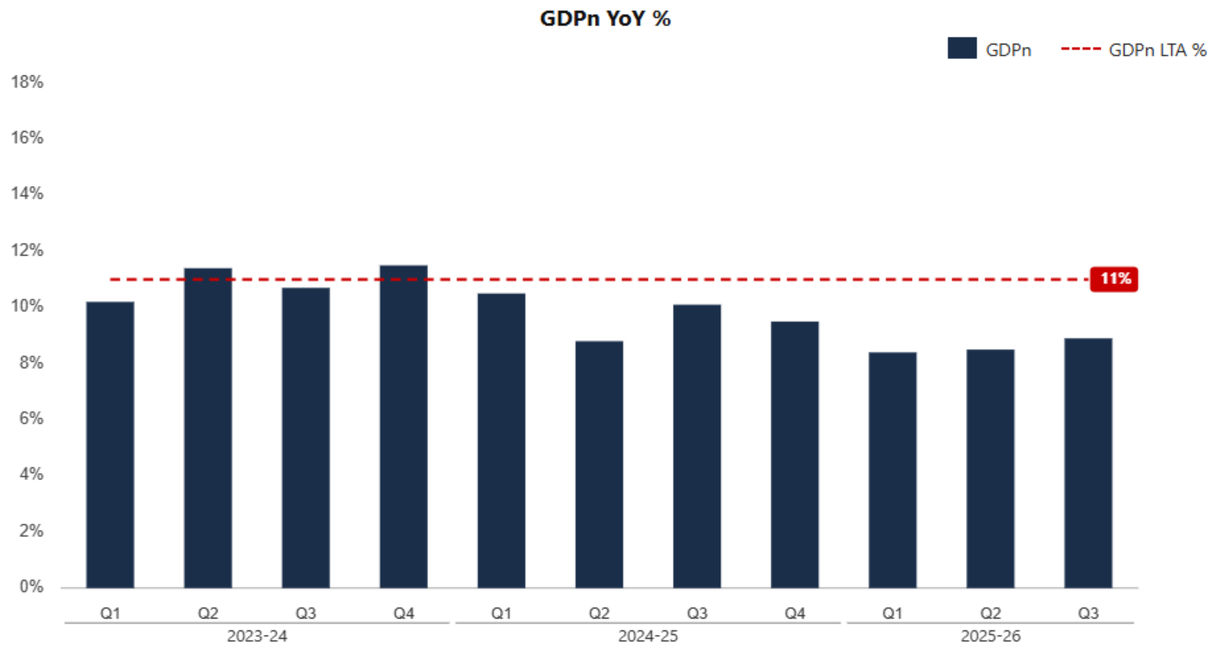
Smitha Iyer – The Operational Hawk
If you ever wonder who keeps our house in perfect order, meet Smitha Iyer, the head of operations and our very own perfectionist-in-chief. Chemical Engineer, an alumna of Welingkar Institute Of Business Management, Smitha is an MBA in finance with over 8 years of experience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

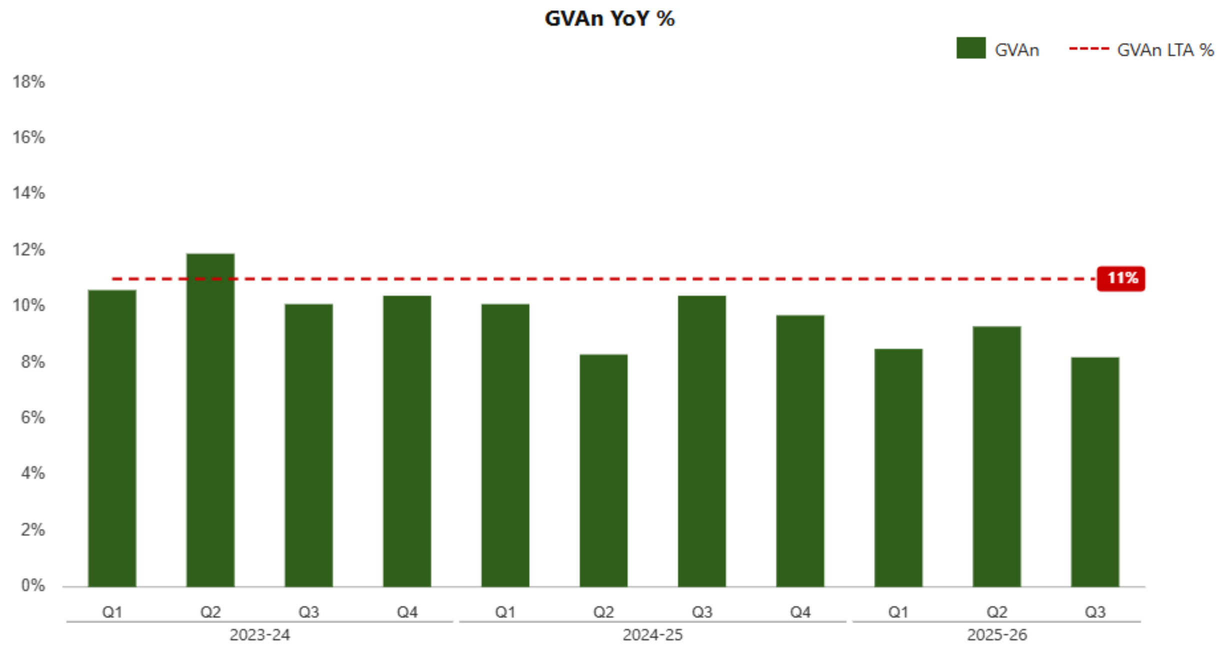
Piyush Sharma – The Creative Wizard
Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund,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

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

Macro-Economic Outlook

1. GDP (Gross Domestic Product)





Source: Internal assessment based on RBI DBIE data

India GDP Q3 FY2025-26: Quarterly Deep Dive

The Headline Print: Reading 7.8% Correctly

- **India's real GDP grew at 7.8% YoY in Q3 FY2025-26**, the October–December 2025 quarter, marking a sharp acceleration from the 6.2% recorded in Q2 (July–September 2025). The print comfortably exceeds the Long-Term Average (LTA) of approximately 6.8–7.0% and firmly cements India as the fastest-growing major economy globally for a third consecutive year.
- However, context is everything. The Q3 print benefits from a moderately favourable base, Q3 FY2024-25 had printed at 6.2% under the old series (a multi-quarter low). Under the new base year series, that comparable has been slightly adjusted, but the directional story holds. The acceleration is **real and broad-based**, not a statistical artefact.

Demand-Side Drivers

- **Private Final Consumption Expenditure (PFCE) is growing at 7.6% YoY, the strongest pace in three years**. Rural India has meaningfully recovered, aided by a bumper Kharif harvest, moderating food inflation, and robust MGNREGS disbursements in H1. Urban consumption, while still healthy, is showing signs of the post-pandemic revenge-spending cycle normalising.
- **Gross Fixed Capital Formation (GFCF)** continues to punch above its weight at **7.1% growth**, **sustained almost entirely by government capital expenditure**. The Union Budget FY2025-26 maintained capex at 3.4% of GDP and the Q3 data confirms that this is transmitting into real economic activity through the construction and manufacturing supply chains.
- **Exports grew at 8.3% YoY in Q3**, the best quarterly performance in FY26. **Services exports - primarily IT, BPO, and GCC activity held up despite a decelerating global IT spend environment**. **Merchandise exports benefited from electronics and auto-component shipments under PLI-supported capacity**.

The Base Year Overhaul - What Changed, Why It Matters

- On 27 February 2026, the Ministry of Statistics and Programme Implementation (MoSPI) released India's rebased national accounts - shifting from **FY2011-12 to FY2022-23** as the new reference year. This is not a routine update. It is the most comprehensive methodological overhaul of India's national accounts in 14 years, and its implications for historical comparisons, debt-to-GDP ratios, capex intensity metrics, and sector allocations are material.

Why 2022-23?

- The old 2011-12 base had become a 14-year-old benchmark anchored to a pre-GST, pre-digital payments, pre-formalization era. FY2022-23 was selected as the first clean post-COVID 'normal' year with comprehensive data across the formal and informal sectors. The new series incorporates:
- Double deflation in Agriculture & Manufacturing - separate deflators for output and inputs, replacing the old single-deflator approach. This is methodologically superior and closer to international best practice.
- Proportional Denton method for quarterly benchmarking, ensuring more accurate quarterly-to-annual alignment of data.
- Expanded price indices covering 500–600 items (vs ~180 previously), better reflecting the consumption basket of a modern Indian economy.
- Administrative data integration - GST, PFMS (government financial data), MCA21 (corporate accounts), and e-Vahan (vehicle registrations) now feed directly into sectoral estimates, dramatically improving coverage of the formal economy.

The Revision Impact: Old Series vs New Series

- The table below summarises the key headline revision across fiscal years. Investors should note that the back-series to FY2012-13 is expected only by December 2026. Until then, longer-horizon trend comparisons remain provisional.

Metric	Old Series (Base 2011-12)	New Series (Base 2022-23)	Δ Revision
FY2023-24 Real GDP Growth	8.2%	7.2%	−1.0 pp
FY2024-25 Real GDP Growth	6.5%	7.1%	+0.6 pp
FY2025-26 est (Real GDP)	7.4%	7.6%	+0.2 pp
FY2023-24 Nominal GDP	9.6%	11.0%	+ 1.4 pp
FY2024-25 Nominal GDP	9.8%	9.7%	~flat

The key narrative: **manufacturing and the secondary sector have been revised upward**, reflecting better capture of formal manufacturing activity through GST data. **Services, particularly informal services, have been revised downward,** the new methodology is more conservative on imputed output. For equity investors, this is a sectoral realignment story: India is more industrial than the old series suggested, and less dependent on informal services activity.

What This Means for Key Ratios

- GDP Deflator: The new series implies a lower GDP deflator for FY24, which means nominal GDP in that year was higher as a share of the new nominal base. Watch for revised debt/GDP and capex/GDP ratios from the government - they will shift.
- Per-Capita Income: Revised nominal GDP changes the absolute per-capita income figure. India is closer to the US$3,000 per-capita threshold under the new series than previously measured.
- Sectoral Weights in Indices: Brokers and quants will need to recalibrate sector-weight models for portfolio construction if they were anchored to old-series GDP shares.

Sectoral Performance - The Full Picture

- The breadth of Q3's growth is arguably its most important characteristic. **Seven of eight sectors recorded accelerating or stable growth**. The sole laggard - Mining & Quarrying is a structural constraint (regulatory delays in mine allocation) rather than a cyclical one.

Sector	Q1 FY26	Q2 FY26	Q3 FY26*	Trend	Assessment
Manufacturing	9.8%	10.2%	**11.4%**	↑ Accelerating	Star performer; PLI dividends accruing
Construction	8.1%	8.6%	**9.2%**	↑ Strong	CapEx multiplier at work
Financial, RE & Prof. Svcs	7.0%	6.8%	**7.5%**	↑ Recovering	Credit expansion + FDI inflows
Trade, Hotels, Transport	6.1%	6.4%	**7.2%**	↑ Momentum	Festive season + tourism revival
Public Admin & Defence	9.5%	8.8%	**9.0%**	→ Stable	Govt capex front-loaded
Agriculture & Allied	3.8%	4.1%	**4.5%**	↑ Improving	Rabi outlook positive
Electricity & Utilities	7.2%	7.5%	**8.1%**	↑ Solid	Renewable capacity additions
Mining & Quarrying	2.1%	1.8%	**2.4%**	→ Muted	Coal stable; metals subdued

Manufacturing: The Story of This Cycle

- At **11.4% YoY in Q3**, manufacturing has now printed double-digit growth for six of the last eight quarters. **This is the PLI scheme delivering** - electronics (mobile phones, components), auto and auto-ancillaries, pharmaceuticals, and food processing are the primary drivers. The new base year's double-deflation methodology may actually be slightly understating manufacturing output, since input cost deflation (lower commodity prices in Q3) was significant; under double-deflation, lower input costs boost value-added measurement.

Agriculture: Quiet Outperformer

- Agriculture at **4.5% in Q3** is at a multi-year high for the sector, **aided by a normal Southwest Monsoon in 2025, better Kharif output, and improved reservoir levels** heading into the Rabi season. The rural economy's recovery is not yet fully priced in - rural FMCG volumes, two-wheeler sales, and Kisan Credit Card disbursements all corroborate the on-ground turnaround.

Services: Mixed, but Net Positive

- The **trade, hotels, and transport cluster** - the bellwether for urban and tourism-driven services accelerated to **7.2% in Q3**, its best print of FY26, **driven squarely by the festive season (Dussehra–Diwali–Christmas) and strong inbound tourism**. The **financial services complex recovered to 7.5%** after a brief deceleration in Q2, with **credit growth running at 13–14% and insurance premium growth back above 10%**.

Policy Implications - RBI, Fiscal & Beyond

- **Reserve Bank of India: The Green Light**
- **A 7.8% Q3 real GDP print with a 1.1% implied GDP deflator - the narrowest nominal-real wedge** in eight quarters gives the RBI substantial operational room. The more interesting debate is whether the RBI will signal a reduction in the Cash Reserve Ratio (CRR) to inject durable liquidity, particularly relevant if FPI outflows create transient tightness. But the key theme here is **operation flexibility**.
- **Fiscal Policy: Consolidation Without Contraction**
- The government's **capex-first, revenue-consolidation-second** approach is clearly paying off in the Q3 numbers. Construction at 9.2%, manufacturing multipliers firing, public administration steady - this is exactly what the fiscal arithmetic was designed to deliver. The challenge entering FY2026-27 is maintaining capex intensity at 3.4% of (higher, revised) GDP while also compressing the fiscal deficit toward 4.4% of GDP. Our read: **the new higher nominal GDP base actually makes fiscal consolidation optically easier - the deficit-to-GDP ratio improves even at the same absolute deficit level, thus crowding-in atleast public investments**.

India vs The World - The Alpha Story

- **7.6% real GDP growth for FY2025-26 in an environment where the US is expanding at ~2.5%, the Eurozone is stagnating at 0.8–1.2%, China is adefending a 4.5–5.0% floor, and Japan is struggling to break 1% - India is not merely an outlier. It is the only major economy with both accelerating growth AND an improving structural data quality story. The new base year upgrade actually matters for global institutional allocators: it removes a longstanding credibility discount that sophisticated investors applied to Indian GDP data.**
- **For fixed income global investors: India's inclusion in global bond indices (JPMorgan, Bloomberg) means GDP revisions directly impact sovereign spread models. A higher nominal GDP base implies a lower debt/GDP ratio — this is incrementally positive for India's sovereign credit narrative and should support further yield compression at the long end of the curve.**
- **For equity investors: The sectoral story of 'more industrial, less informal services' under the new series aligns with where equity markets have already been migrating — manufacturing, capex, infrastructure, and formal consumption. The data has caught up with the market's instinct in our view.**

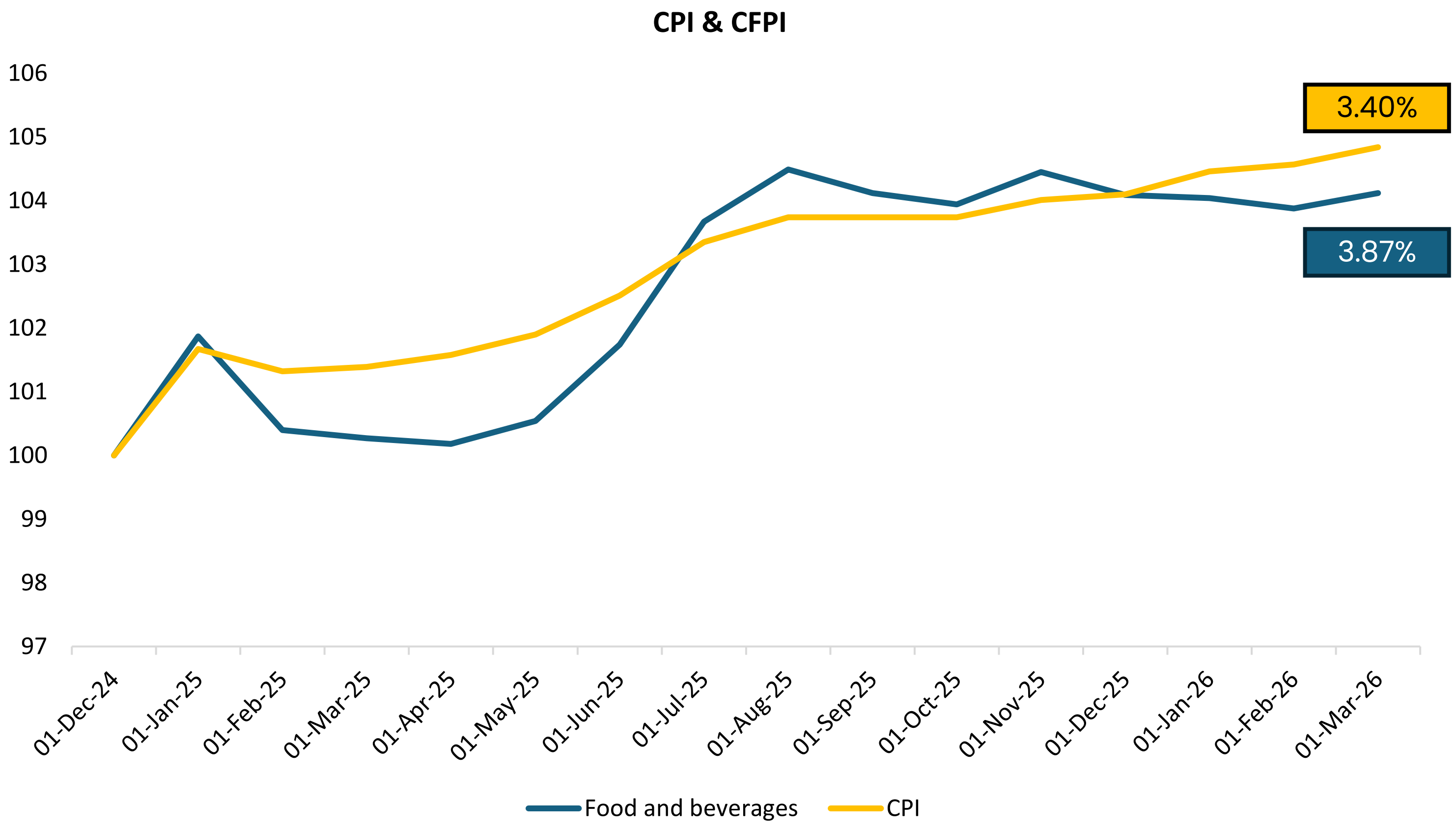
Strategic Outlook – What to Watch in the next 3 Quarters

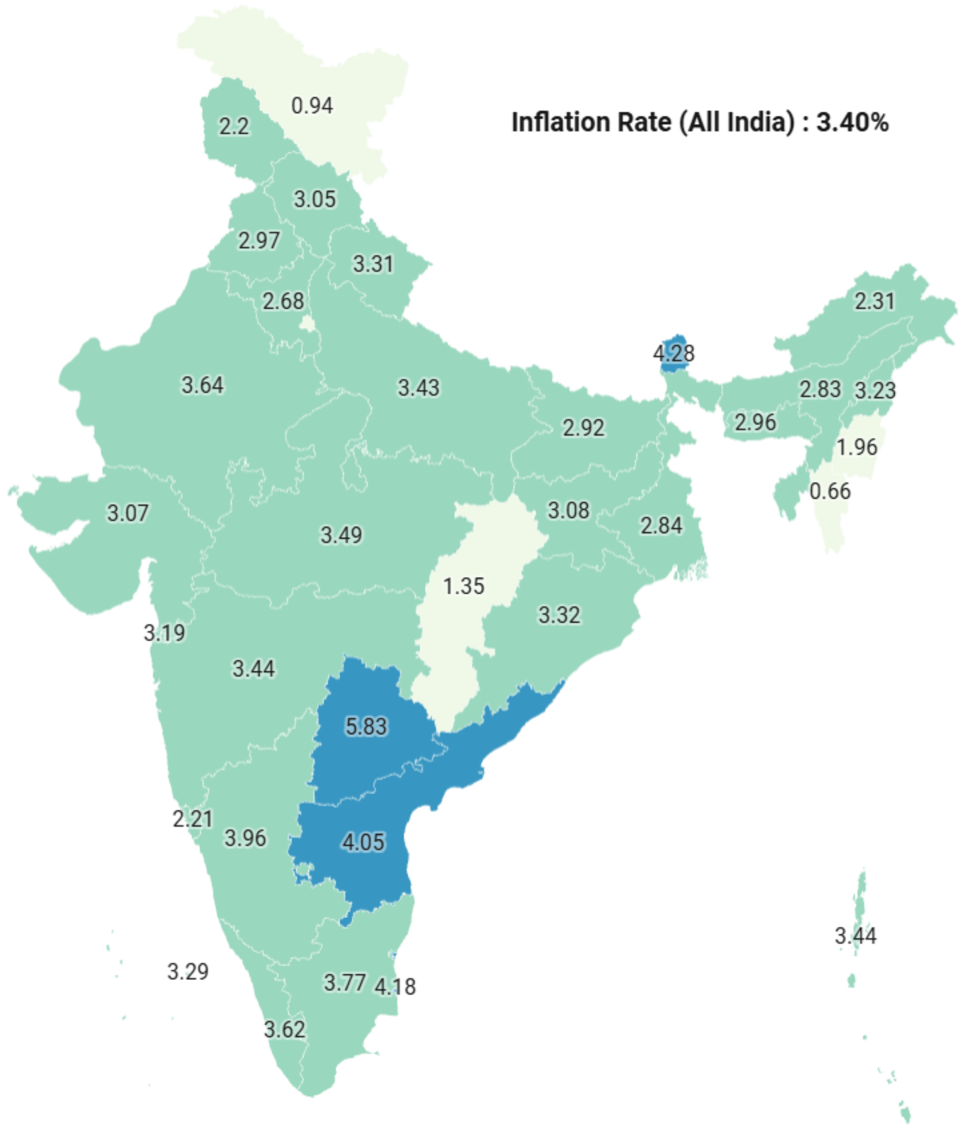
Signal	Theme	Implication for Portfolios
POSITIVE	Manufacturing & CapEx	PLI scheme payoffs continuing. Double-digit manufacturing growth expected into Q4 FY26. Government capex, if maintained at 3.4% of GDP in FY27 Budget, keeps the construction multiplier firing.
WATCH	Services Sector Revision	Under the new base year, services growth has been revised downward. IT/ITES sector faces global headwinds. The full back-series reconciliation (expected Dec 2026) may cause further narrative revision.
WATCH	GDP Deflator Trajectory	The current narrow 1.1pp nominal-real wedge suggests benign inflation. If crude/metals re-accelerate, the deflator widens - this changes the real rate calculus for RBI faster than markets expect.
RISK	US Tariff Escalation & a prolonged US/Israel-Iran War	Export-oriented manufacturing (electronics, auto components) exposed to any fresh US tariff actions. Oil prices could shoot up, negatively impacting India macros Also, global risk-off reducing FDI/FPI flows could dampen GFCF growth.
RISK	Monsoon & Base Effects	A below-normal monsoon (low probability currently) reverses the rural consumption recovery visible in Q3. Additionally, the Q3 FY26 base will be a high-bar comparator for Q3 FY27.

Our 12-Month View: Constructive turned Cautious

India enters FY2026-27 with genuine momentum. The manufacturing cycle is at an inflection point. Rural consumption recovery is at a mature phase. The RBI has operational headroom and the political will to infuse liquidity. The base year upgrade removes a structural data-credibility overhang. However, the twin shocks of the US-Israel-Iran war since February 2026 which has effectively shut the Strait of Hormuz and pushed Brent crude above $110/bbl have fundamentally altered the risk calculus. India imports ~85% of its crude oil, and the energy shock is transmitting through a weaker rupee, widening current account deficit, and reviving inflation anxieties, compressing the RBI's room to stay accommodative. We revise our base case to 6.5–7.0% real GDP for FY2026-27 (down from 7.4–7.8%), with upside if: (a) a de-escalation in the Iran war is reached and the Strait of Hormuz reopens by April end, allowing oil to normalise toward $80/bbl, (b) monsoon is normal or above-normal, and (c) the government's interim and full budgets stay on the public capex track. Downside scenario of 5.8–6.2% materialises if (a) the Hormuz closure extends beyond May 2026, crude sustains above $110/bbl for another quarter, and/or (b) US tariff escalation broadens to include Indian electronics and pharmaceuticals.

2. Inflation





Source: Internal assessment based on RBI DBIE data

March CPI: A Calm Print Masking a Brewing Inflation Storm

Headline Inflation – Calm on the Surface, Pressure Building Underneath

- **Headline CPI for March 2026 came in at 3.4%, up from 3.21% in February and 2.74% in January, a steady upward drift since the new series launched.** This is a 13-month high when compared with the back-series data, yet it sits comfortably below the RBI's 4% medium-term target and came in marginally below the consensus estimate of 3.46%. The sequential momentum is also firming, CPI rose 0.3% (MoM) in March versus just 0.1% (MoM) in February. **The uptick was not driven by any single shock but by a broad-based firming across food, fuel and select non-food items. Put simply, inflation is rising but is not yet at a level that should cause alarm.**
- What matters more is context. This is only the third print under the revised CPI (base 2024=100), which now tracks 358 items versus 299 earlier and includes online and digital market prices. The weight of non-food items has increased, reflecting how Indians actually spend today. The Government has also kept petrol and diesel pump prices unchanged despite **Brent surging past $100/bbl, which means Oil Marketing Companies are absorbing the hit for now. That has effectively capped headline CPI in March. But if crude stays elevated and with the India oil basket now at ~$120/bbl factoring in freight and insurance, this buffer cannot last indefinitely. The headline number looks benign today, but the pressure underneath is building**.

Core Inflation – Flat at 3.4%, but the Cracks Are Showing

- **Core CPI (excluding food & beverages and electricity, gas & other fuels) remained essentially flat at 3.4% in March, unchanged from February**. On the surface, this suggests underlying demand pressures are stable and not accelerating. However, the composition tells a more nuanced story. Sequentially, Housing & Electricity rose 0.59% (MoM), Clothing & Footwear gained 0.26% (MoM), and Restaurants & Accommodation moved up 0.36% (MoM), all categories that typically reflect sustained demand rather than supply-side noise. On the other hand, **Personal Care & Miscellaneous items fell 0.3% (MoM) after surging 1.5% (MoM) in February, largely because gold and silver prices moderated on a month-on-month basis**.
- At the state level, the divergence is telling that Telangana's core CPI is near the 6% mark, while most northern and eastern states remain well below the national average. **The RBI projects core inflation at 4.4% for FY27, and excluding precious metals, even lower. That projection still looks achievable if the pass-through from higher crude remains contained. But here's the risk: manufacturers in the RBI's Q4 FY26 industrial outlook survey reported higher input costs and signalled intent to pass them on to consumers. If they follow through, core inflation could grind higher through H2 FY27. For now, the demand side looks moderate and core is not signalling overheating but it is no longer providing the comfort it did a quarter ago**.

Food Inflation – Tomatoes Surge, Onions Crash: A Tale of Two Baskets

- **Food inflation, measured by the Consumer Food Price Index (CFPI), rose to 3.87% in March from 3.47% in February**. Sequentially, food & beverage prices surged 0.25% (MoM), reversing the 0.15% (MoM) decline of February. The story here is entirely about vegetable prices, tomato surged 35.99%, cauliflower jumped 34.11%, coconut (copra) rose 45.5%, and green chillies climbed 32.88%. On the other hand, onion prices fell a sharp 27.76%, potato dropped 18.98%, garlic was down 10.18%, and key pulses like arhar/tur (-9.6%) and chickpeas (-7.9%) continued to moderate. The picture is mixed, some vegetables are inflating aggressively while staples and pulses are providing relief.
- **Food & beverage inflation is likely to cross the 4% mark in April, led by vegetables, edible oils, and readymade food. The bigger worry is the monsoon. IMD has forecast rainfall at just 92% of the long-period average (LPA) for the upcoming southwest monsoon, with Skymet at 94%. Both agencies see a 66–70% probability of below-normal or deficient rainfall conditions. If this materialises, kharif crop output particularly rice, pulses, and oilseeds would take a hit, and the price relief we are seeing in pulses today could evaporate by Q3 FY27. Food inflation remains the single biggest swing factor for headline CPI, and the monsoon forecast makes the outlook genuinely uncertain**.

Rural vs Urban – Two Indias, Two Inflation Stories

- The rural-urban divergence continues to be a persistent feature. **Rural CPI inflation stood at 3.63% in March, up from 3.37% in February, while urban inflation edged up to 3.11% from 3.03%. The gap of ~52 bps is meaningful.** Rural food inflation was higher at 3.96% versus 3.71% in urban areas, which makes sense, rural India's consumption basket is more food-heavy, and supply-side pressures (transport costs, intermediary margins) tend to be more acute in rural markets. **The LPG price hike also impacts rural households disproportionately. LPG is a bigger share of their fuel basket compared to urban areas where piped gas penetration is higher**.
- **From a demand perspective, the rural inflation uptick suggests that price pressures are not entirely supply-driven. Rural demand has been recovering, two-wheeler sales, FMCG volumes, and rural credit growth have all shown improvement in recent quarters. Higher MSPs and government transfer programmes are supporting rural incomes. However, if the monsoon disappoints, rural incomes could come under pressure, especially for rain-fed agricultural states. That would create a peculiar situation, higher food prices hurting rural consumers while simultaneously squeezing farm incomes in drought-hit regions. Urban inflation, at 3.11%, remains subdued but rising reflective of an earlier weaker discretionary demand, but slowly increasing**.

Housing Inflation – Rents Quiet, but LPG Is Doing the Talking

- **Housing inflation stood at 2.11% in March, virtually unchanged from 2.12% in February. Rural housing inflation was notably higher at 2.54% versus 1.95% in urban areas. The consolidated housing, water, gas & fuel index, however, rose sharply to 2.0% from 1.5% in February, driven primarily by the LPG price hike. On an annual basis, LPG cylinder prices jumped 5.3% in March versus just 1.6% in February. Sequentially, LPG surged 3.6% (MoM), reversing the 0.1% (MoM) decline earlier. Piped natural gas prices also moved up. Beyond LPG, coal (+4.3%), firewood & chips (+4.2%), and biogas (+5.1%) all rose, while electricity prices saw a contraction of 2.4%**.
- The pure rent component within housing remains moderate and typically moves with a lag, it reflects lease renewals and imputed rents rather than real-time market conditions. Residential property prices in major metros have been firming up for several quarters now, and at some point this will feed into CPI housing. The base effect is also worth watching, as housing inflation under the new series builds its own base, annual prints could inch higher. **For now, housing is not a concern, but the fuel-related components within the broader housing, water, gas & fuel category have become a clear transmission channel for the West Asia shock, and this is where the action is**.

State-Wise Inflation – Telangana at 5.83%, Mizoram at 0.66%: One Country, Many Regimes

- The state-level picture reveals significant divergence. Telangana recorded the highest inflation at 5.83%, followed by Andhra Pradesh (4.05%), Karnataka (3.96%), Tamil Nadu (3.77%), and Rajasthan (3.64%). At the other end, Mizoram had the lowest at 0.66%, followed by Chhattisgarh at 1.35%. Karnataka and Tamil Nadu re-entered the top five in March after slipping out in February, while Kerala dropped out despite still recording 3.62%. **The southern states are clearly bearing a disproportionate burden**, Telangana's food inflation was 5.83%, and Karnataka's was 3.96%, well above the national average. **This likely reflects a combination of local supply bottlenecks, higher fuel pass-through into transport costs, and the weight of precious metals in these states' consumption baskets.**
- What is striking is the imported inflation picture at the state level. In Telangana, imported inflation has crossed the 12% mark. In states like Kerala, UP, Tamil Nadu and Andhra Pradesh, it is hovering around 7.5%, while only Goa and Delhi have imported inflation below the overall headline. **The weighted contribution of imported inflation to overall CPI is now around 43%, nearly half of the inflation we are seeing is being driven by external price shocks rather than domestic demand. This state-level divergence reinforces the point that national-level averages mask sharp regional pain points**.

Services Inflation – Sticky, Creeping, and Hard to Reverse

- **Services inflation is where the stickiness lies. Restaurants & accommodation services rose to 2.88% in March from 2.73% in February** a seemingly modest move, but it has been creeping higher for three straight months (2.87% in January, 2.73% in February, 2.88% in March). On a sequential basis, this category rose 0.36% (MoM). **The driver is clear, higher commercial LPG prices are being passed through by restaurants, dhabas and hotels**. Education inflation stood at 3.3%, Recreation, sports & culture at 2.3%, and Paan, tobacco & intoxicants surged to 4.23% from 3.49% in February. These are **service categories where pricing tends to be sticky on the way up, once restaurants and service providers raise prices, they rarely reverse them.**
- **The Personal Care, Social Protection & Miscellaneous category was an outlier at 18.65%, but this is almost entirely driven by precious metals, silver jewellery inflation at 148.6% and gold/diamond at 45.92%. Stripping that out, the underlying services basket is inflating in the 2.5–3.5% range, which is broadly manageable. But looking ahead, higher ATF (aviation turbine fuel) prices will feed into airfares, commercial LPG will keep pushing restaurant costs, and rising input prices across sectors will add to services inflation. Transport inflation remained flat at 0.0% in March, but this is only because pump prices are frozen, the moment OMCs pass through even a portion of the crude shock, transport and logistics costs will spike. That remains a significant latent risk sitting outside the current CPI print**.

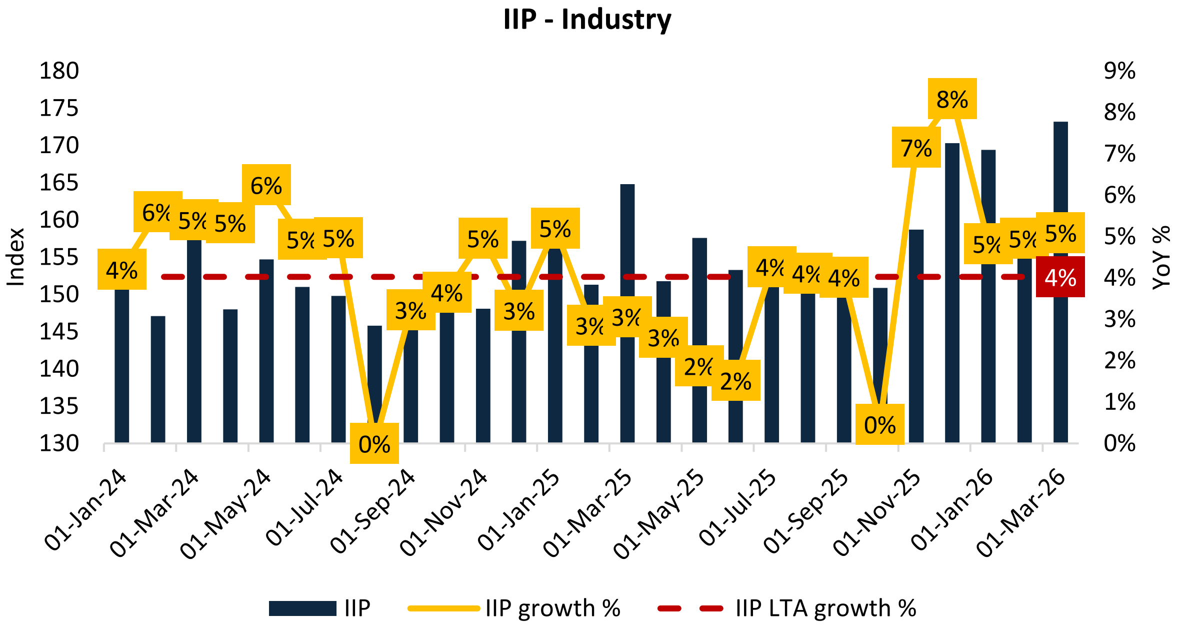
Crude Oil Shock – $120/bbl at the Door, but CPI Hasn't Felt It Yet

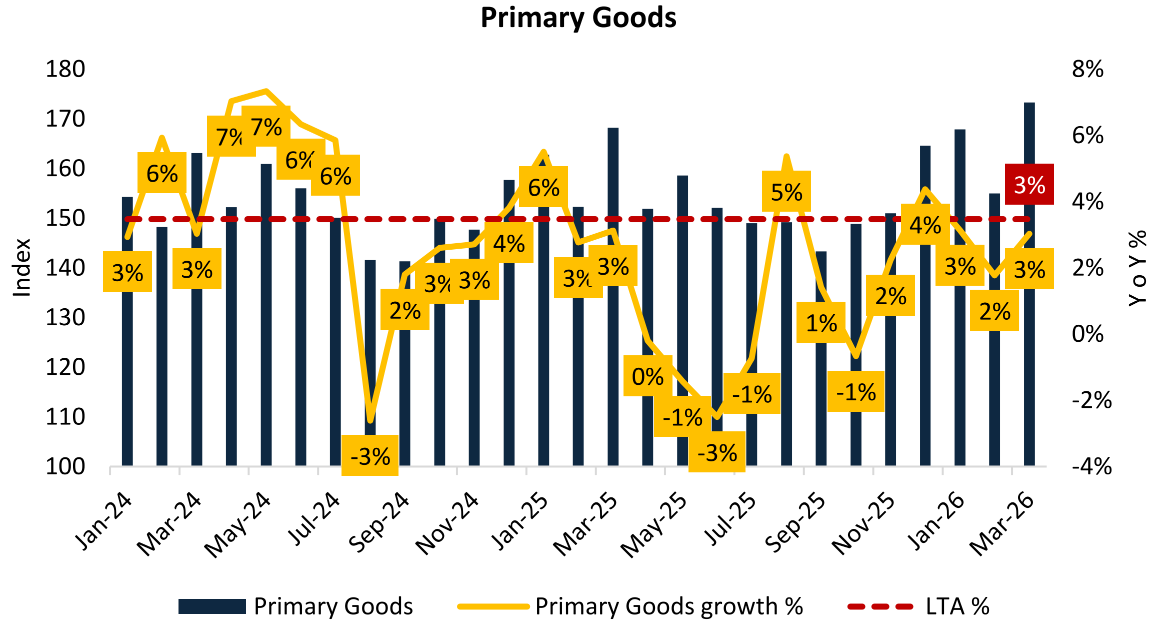
- **The US-Iran conflict escalated sharply in late February 2026, with Iran's closure of the Strait of Hormuz disrupting ~20% of global crude supply. Brent surged from ~$72/bbl pre-conflict to nearly $120/bbl at its peak, and as of late March was trading around $98–100/bbl. The India crude oil basket, factoring in higher freight and war-risk insurance, is now at ~$120/bbl. For an economy that imports 88% of its crude, this is a significant external shock. Yet, the March CPI print shows only limited pass-through so far. Fuel inflation at the CPI level rose to 1.65% from just 0.14% in February, driven primarily by the ₹60 hike in domestic LPG cylinders and higher industrial diesel and premium petrol prices announced in early March. But retail petrol and diesel pump prices in metros have been held unchanged, Delhi petrol remains at ₹94.77/litre.**
- **The transmission channel so far has been narrow, LPG → fuel CPI → restaurant costs → some downstream effects on packaging and logistics. The RBI projects Q1 FY27 CPI at 4.0%, and given the current momentum, April itself should comfortably breach that mark, pushing headline CPI into the upper half of the MPC's target range. The key question is whether pump prices will be revised post the ongoing state elections. If they are, the shock will broaden significantly into transport, logistics, and effectively every goods category. Every $10/bbl rise in crude adds roughly 35–40 bps to headline CPI. With the India basket $45–50/bbl above pre-conflict levels, the theoretical inflation impact is 150–200 bps, most of which is being absorbed by OMCs and the exchequer for now. This is not a sustainable equilibrium, and the longer crude stays elevated, the greater the probability of a disorderly pass-through**.

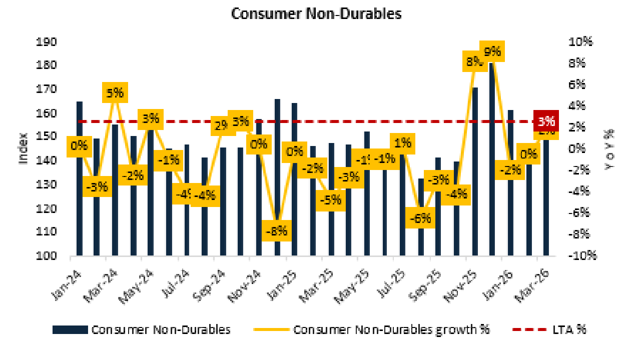
Outlook – The Benign Phase Is Over: What the Next 3–6 Months Look Like

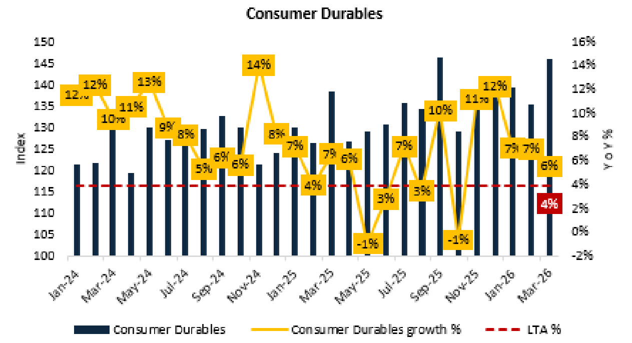
- **Inflation is heading higher, that much is clear. The RBI projects FY27 headline CPI at 4.6%, with a quarterly trajectory of 4.0% in Q1, 4.4% in Q2, 5.2% in Q3, and 4.7% in Q4. Based on the data we are seeing, this projection looks reasonable with upside risks. April itself will likely breach 4.0%, driven by vegetables, edible oils, the lagged impact of LPG hikes on restaurants and accommodation, and rising ATF costs feeding into airfares. Food & beverage inflation should cross 4% in April, and this alone can push headline CPI close to the RBI's Q1 estimate of 4.0%. Core inflation, currently at 3.4%, is likely to grind higher as manufacturers pass through input cost increases, the RBI's own industrial outlook survey confirms this intent. The combination of cost-push from crude and demand-pull from recovering rural consumption creates a classic inflation convergence.**
- **The monsoon is the wildcard that could change the entire trajectory. IMD's forecast of 92% of LPA and Skymet's 94% both flag a below-normal season, with a 66–70% probability of poor rainfall conditions. There is a 30% chance of outright deficient rainfall or drought-like conditions per Skymet's estimate. Historically, when rainfall falls below 90% of LPA, agricultural GVA either contracts or barely grows, the drought years of 2002, 2009, 2014 and 2015 are clear evidence. A weak monsoon would hurt kharif output particularly rice, pulses, and oilseeds unwinding the price moderation we currently see in pulses and potentially triggering government export restrictions, as we saw in 2023. This could push food inflation to 5%+ by Q3, which is exactly why the RBI projects headline CPI peaking at 5.2% in Q3 FY27. Rural demand, which has been recovering on the back of government transfers and higher MSPs, would also take a direct hit, creating a stagflationary pocket in the agricultural economy.**
- **On the crude oil front, the situation remains volatile. Even if the West Asia conflict sees an early resolution, global crude is likely to average $85–90/bbl in FY27, with the burden shared between households, the Government, and OMCs. But if the conflict prolongs and pump prices are eventually revised upward likely post state elections, transport and logistics inflation will spike, creating second-round effects across the entire goods basket. The RBI's latest household inflation expectations survey already shows a rise in both 3-month and 1-year expectations, which is a red flag for monetary policy. For now, the RBI is expected to remain on an extended pause, looking through the supply-side shock. But I think the chances of a rate hike in H2 FY27 have risen meaningfully. If inflation expectations de-anchor and headline CPI persistently overshoots the RBI's 4.6% FY27 projection, the MPC will have no choice but to act.**
- **To sum up the March print at 3.4% is deceptively calm. The combination of a potential monsoon deficit, elevated crude prices, LPG-driven fuel pass-through, and firming input costs across sectors points to a clear upward trajectory. The key risks are: (1) El Niño-driven monsoon failure pushing food inflation above 5%, (2) a post-election fuel price revision broadening the crude shock into CPI, (3) second-round effects from rising input costs and higher household inflation expectations, and (4) state-level divergence where southern states like Telangana and Andhra Pradesh are already experiencing inflation well above the national average. The benign phase of CPI inflation is behind us. What comes next requires careful watching and we think the market is underpricing the upside risk to inflation at this point**.

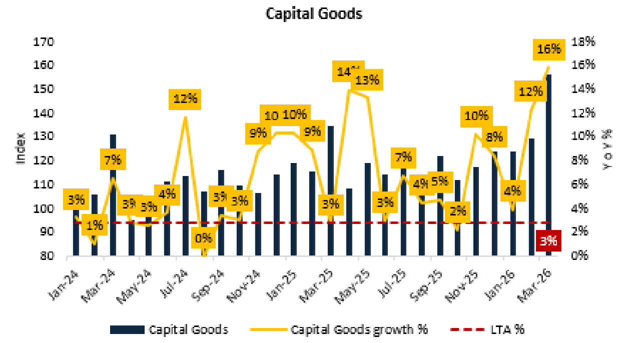
3. IIP (Index of Industrial Production)

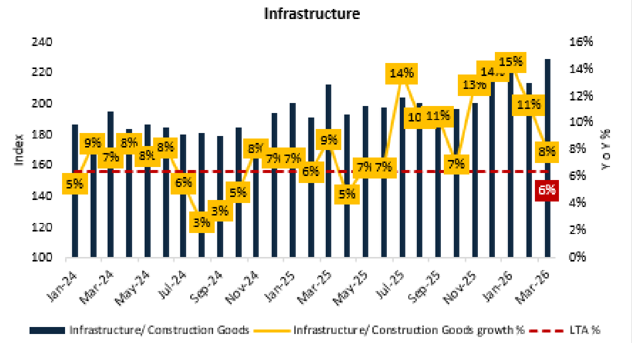




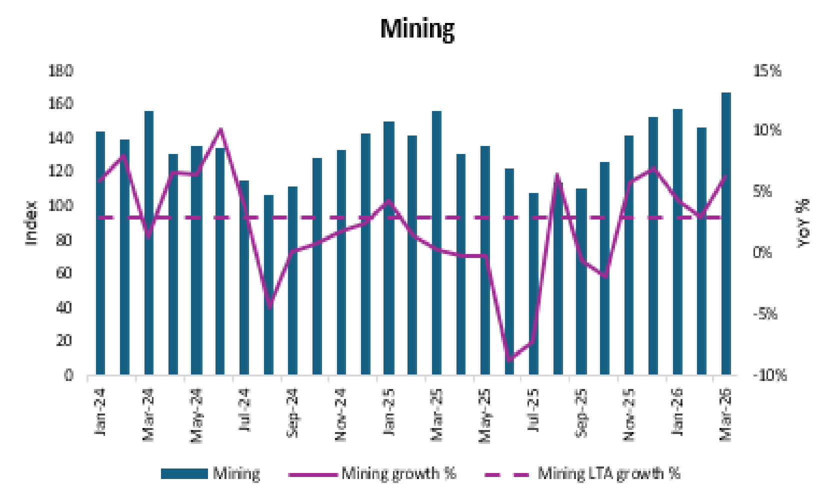


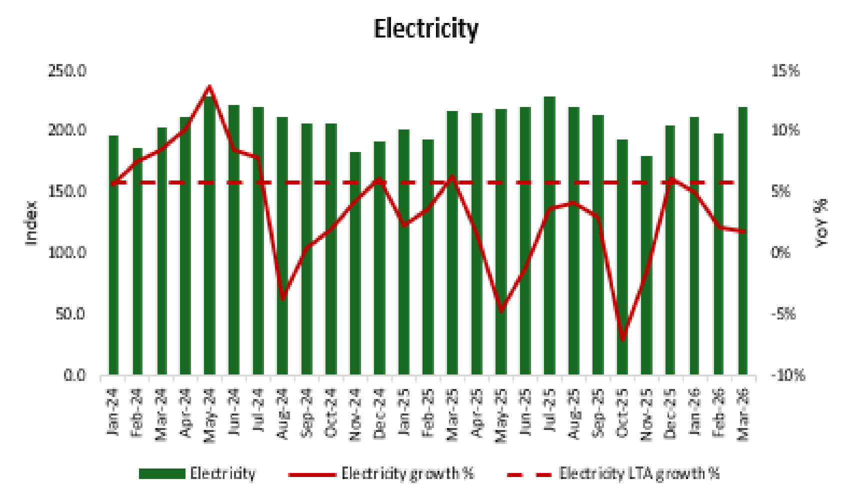






Source: Internal assessment based on RBI DBIE data





Index of Industrial Production (IIP)

A Soft Landing, Not a Stall

- India's **Index of Industrial Production grew 4.1% YoY in March 2026, moderating from 5.2% YoY in February** (subsequently revised to 5.1%). The headline number, while optically softer, needs to be read against two important backdrops. **First, the March 2025 base was not particularly favourable at 3.9%, which means the sequential deceleration is real and not a statistical artefact. Second, the West Asia conflict, which escalated sharply in Q4 FY26, introduced genuine supply-side disruptions through elevated crude prices, freight volatility and input cost pressures across the manufacturing chain**.
- The IIP index rose to 173.2 in absolute terms from 166.3 a year ago. **Within the manufacturing sector, 14 out of 23 NIC two-digit industry groups recorded positive growth, which is a reasonable breadth reading**. The top three contributors were basic metals at 8.6%, motor vehicles, trailers and semi-trailers at 18.1%, and machinery and equipment at 11.2%. The auto components sub-segment and commercial vehicles drove the vehicles category, while MS slabs, flat products of alloy steel and HR coils drove the metals segment.
- **For the full year FY26, IIP growth came in at 4.1%, only a marginal improvement over the 4.0% posted in FY25. This effectively means industrial growth has plateaued at around the 4% mark for two consecutive years**, a range that is consistent with what we have observed through most of the 2011-12 base year series, barring the Covid-distorted years.

Under the Hood, Manufacturing Holds but Power Fades

- **Manufacturing production rose 4.3% YoY in March 2026, down from 5.9% in February, but full-year manufacturing growth improved to 5.0% in FY26 from 4.1% in FY25. This is a meaningful upgrade and reflects a broadening of the industrial base, particularly in auto, steel and capital equipment segments**. We view this positively as it suggests that **domestic capacity utilisation is inching higher** and the **PLI-linked manufacturing corridors are beginning to deliver volume outcomes**.

Source: Internal assessment based on RBI DBIE data

- **Mining output was the standout in March, jumping to 5.5% YoY from 3.1% in February**. The pickup was **driven by coal and iron ore, where production ramped up ahead of the monsoon season**. However, **the full-year mining growth was a disappointing 1.4% in FY26, continuing the structural decline** that has plagued the sector since FY13. Three consecutive years of near-zero or negative growth between FY13 and FY15 set the tone, and the sector has never convincingly recovered on a sustained basis.
- **Electricity generation was the weakest link in March, growing just 0.8% YoY versus 2.3% in February**. This is partly seasonal, as March typically falls in the transition window between winter and pre-summer peaks when residential and commercial cooling demand has not yet reached full intensity. There is also an **adverse base effect, as electricity generation had risen 7.5% in March 2025**. On a full-year basis, however, electricity has historically been the most resilient sector, with its FY21 contraction being the mildest at just 0.5%, and its all-time high growth of 14.8% coming in FY15.

The Capex Engine Roars, Rural Consumption Limps

- The use-based classification tells a far more nuanced and, in some ways, more important story than the headline number. **Capital goods output surged 14.6% YoY in March 2026, accelerating from an already strong 12.4% in February**. This is the single most analytically significant data point in the entire release. Capital goods **reflect corporate and government investment in machinery, equipment and capacity expansion**. A print of this magnitude **signals that the private capex cycle, which we have been tracking for several quarters, is gaining genuine traction and is no longer limited to select pockets**.
- **Infrastructure and construction goods grew 6.7% YoY, a deceleration from 11.1% in February** but **still consistent with the pattern of government capital expenditure accelerating during Q4 of each fiscal year when budget disbursements typically pick up pace. The sharp pullback from February's elevated print likely reflects normalisation rather than any genuine weakness in the pipeline**.
- The **Consumer segment remains the area of greatest concern. Durables growth held up at 5.3%, supported by urban discretionary spending on appliances, electronics and passenger vehicles. Non-durables, however, grew just 1.1%, the weakest reading in the use-based basket. Non-durables are a direct proxy for mass-market and rural consumption, covering FMCG staples and everyday essentials. The persistent weakness here confirms that the consumption recovery remains heavily skewed towards urban and middle-income cohorts, while rural demand continues to lag despite a reasonably good rabi season**.
- **Intermediate goods grew 3.3% and primary goods rose 2.2%, both moderate readings that suggest steady throughput in the industrial supply chain** without any signs of overheating or sharp destocking.

PMI Validates the Narrative, Flags the Risks

- **The HSBC India Manufacturing PMI fell sharply to 53.9 in March 2026 from 56.9 in February, its lowest reading in nearly four years and the weakest since September 2021**. The **PMI trajectory through the quarter was telling**. It **rose from 55.0 in December 2025 to 55.4 in January, peaked at 56.9 in February, and then dropped to 53.9 in March, slipping below the long-run average of 54.2. This pattern confirms that the West Asia escalation was the primary disruptive force in March, rather than any underlying deterioration in the domestic investment cycle**.
- **New orders and output sub-indices rose at their slowest pace since mid-2022, reflecting softer domestic demand and elevated uncertainty. Input cost inflation hit a 43-month high, driven by aluminium, chemicals, fuel and steel prices, yet output price inflation remained relatively modest, as firms absorbed margins to retain customers in a competitive environment. This margin compression is a critical signal and one that equity analysts covering industrials and consumer staples should note carefully**.
- **The export orders sub-index, interestingly, surged to the strongest expansion since September 2025, with new business reported from Asia, Europe and the Americas. This divergence between softening domestic demand and robust export orders is a distinctive feature of the current cycle and suggests that Indian manufacturers are gaining competitive positioning in global supply chains, even as the domestic macro environment faces near-term headwinds**.

- **Services PMI also eased to 57.5 in March from 58.1 in February, a 14-month low, dragging the Composite PMI to 57.0 from 58.9, the weakest expansion in over three years**. Employment growth, however, accelerated to its fastest pace since mid-2025 across both manufacturing and services, which is a lagging but constructive signal for income formation and downstream consumption.

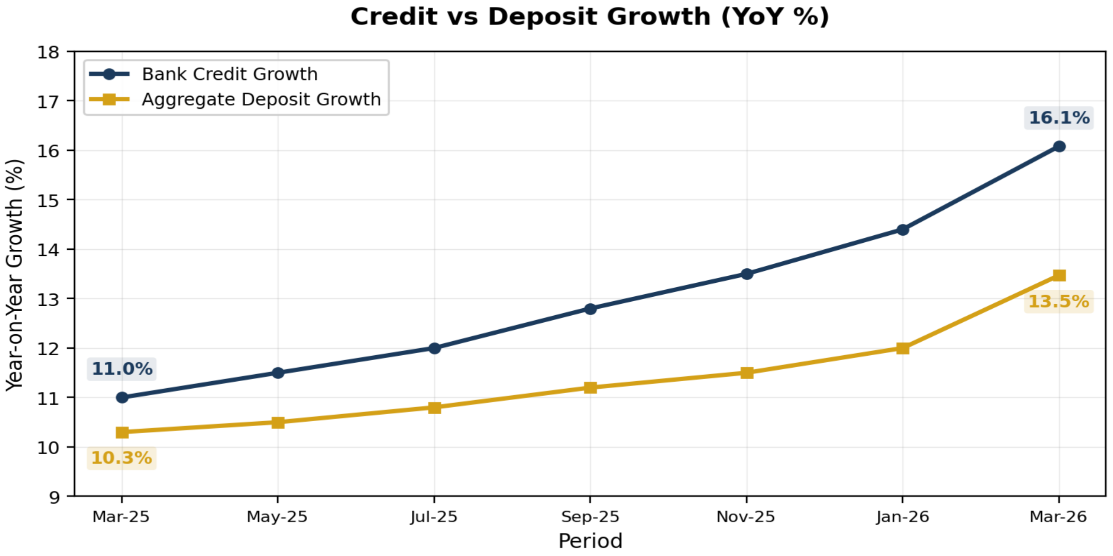
The Tectonic Shifts Beneath the Surface

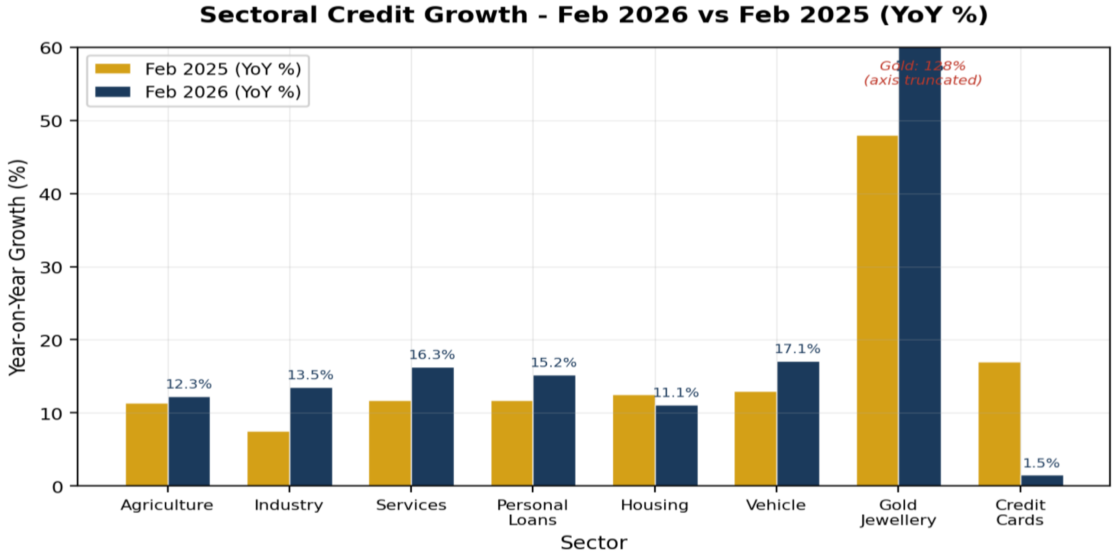
- **The March 2026 print marks the final release under the 2011-12 base year series. The NSO will transition to the new IIP series with 2022-23 as the base year**, with the first release scheduled for May 28, 2026. This is not merely a statistical rebasing exercise. The **new series will feature an expanded item basket** that includes laptops, vaccines, LED bulbs and aerospace components, while removing obsolete products such as fluorescent tubes, CFLs and kerosene. Minor minerals and gas supply will also be included for the first time, in line with IRIIP 2010 guidelines. We expect the base revision to meaningfully alter sectoral weights and potentially lift headline IIP growth by 50-100 basis points, given the inclusion of high-growth new-economy segments.
- **The geopolitical overlay remains the dominant near-term risk. The West Asia crisis has pushed Brent crude above its FY26 average, introduced freight volatility through the Red Sea corridor, and triggered precautionary inventory building across the manufacturing chain. For India, the transmission mechanism is straightforward. Higher crude feeds into a wider current account deficit, pressures the rupee, elevates imported input costs for manufacturers, and ultimately compresses either margins or demand, depending on the extent of pass-through**.
- We also see **a structural shift in the composition of industrial output**. The **sustained outperformance of capital goods and infrastructure segments over consumer non-durables suggests that the growth mix is increasingly investment-led rather than consumption-driven**. While this is positive for long-term productive capacity, it also raises questions about the sustainability of growth if the consumption base does not broaden meaningfully over the next two to three quarters.

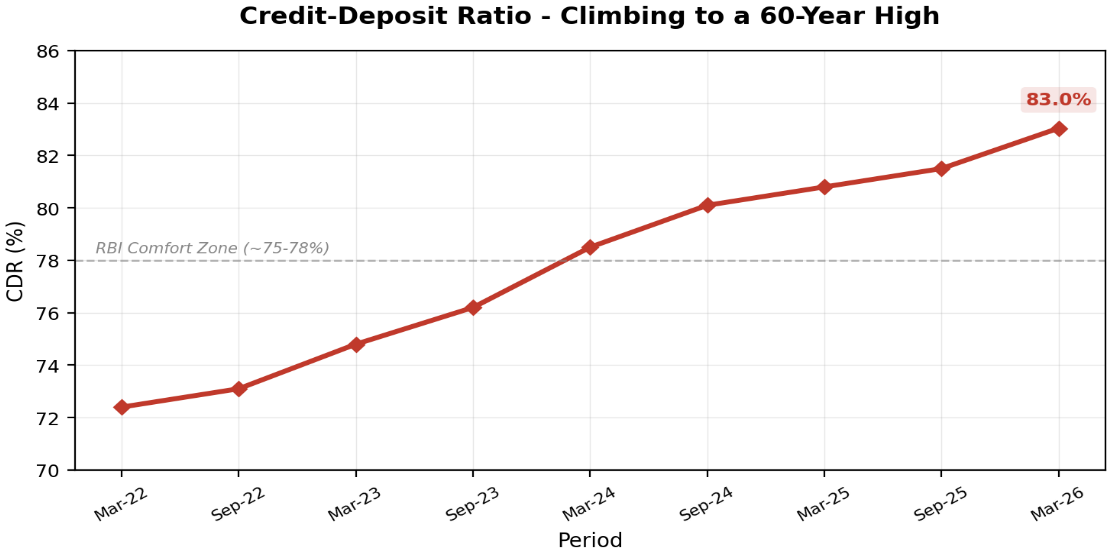
Where We Go From Here

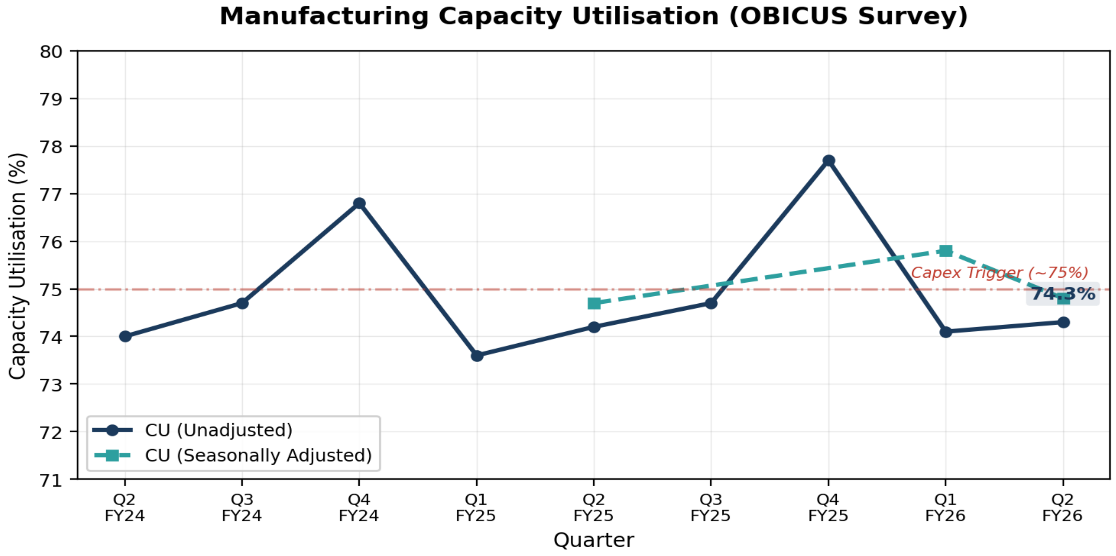
- **We expect IIP growth in FY27 to settle in the 4.5-5.5% range under the old series construct, supported by a robust government capex pipeline, improving private investment sentiment, and the lagged benefits of RBI's rate easing cycle. The April 2026 flash Manufacturing PMI at 55.9, recovering from 53.9 in March, provides early validation that the March dip was more disruption-driven than structural.**
- **The key variables to watch are crude oil trajectory, which remains hostage to West Asia developments, the monsoon and its impact on rural incomes and non-durable demand, and the pace of credit growth to the MSME and industrial segments. We believe the capital goods momentum is durable, backed by PLI disbursements, government infrastructure spending of over Rs 11 lakh crore budgeted for FY27, and the early stages of a private corporate capex revival in steel, cement, energy and electronics.**
- **On the risk side, a sustained Brent above $85-90 per barrel would materially dent the manufacturing margin picture and could push IIP growth towards the lower end of our range. The durables-to-non-durables divergence is the domestic macro canary. If non-durable growth does not improve towards 3-4% in H1 FY27, we would view it as evidence that the rural and mass-market consumption recovery has stalled, with implications for both growth forecasts and monetary policy calibration.**
- **The transition to the 2022-23 base year IIP, with its modernised product basket and improved data capture, should provide a more accurate reading of India's evolving industrial landscape. We welcome this overdue statistical upgrade and will recalibrate our tracking models once the new series is published in late May.**

4. Capex









Source: Internal assessment based on RBI DBIE data

Lending, Savings & The Capex Gamble

Credit Growth, Deposit Stress, Sectoral Shifts & India's Investment Cycle

- **Bank credit closed FY26 at 16.08% YoY growth against deposits at 13.47%, pushing the credit-deposit ratio to 83.04% on March 15, 2026**, the highest reading since 1962. **This re-acceleration, from FY25's trough of 11.03%, was engineered by 125 bps of repo cuts, 100 bps of CRR reduction releasing roughly Rs.2.5 lakh crore, and a deliberate easing of project finance and risk-weight norms**. The cost of that re-acceleration is a funding squeeze that is forcing banks to tap wholesale markets at record pace, with FY26 CD issuances hitting Rs.14 trillion.
- Beneath the headline, the composition reveals regulatory fingerprints everywhere. **Gold loans surged 128% (price-driven and reclassification-inflated), credit card growth collapsed to 1.5% (risk-weight-driven), and industry credit nearly doubled its pace to 13.5% (structural capex cycle pickup)**. **Manufacturing capacity utilisation at 74.8% (seasonally adjusted, Q2 FY26) sits tantalisingly close to, but still below, the 75% threshold that historically triggers a broad-based private capex cycle. Government capex continues to do the heavy lifting at Rs.12.20 lakh crore budgeted for FY27, while private sector investment intentions, though at their highest since FY15, carry a dismal 14-15% realisation rate**.

The Credit Comeback – Real or Engineered?

- **Non-food bank credit grew 14.3% YoY for the fortnight ended February 28, 2026**, against 11.1% in the comparable period a year earlier. **Overall bank credit at March 31, 2026** stood at Rs.213.61 trillion, **up 16.08% YoY, the fastest pace since FY24**. The April 15 fortnight print of 15.0% strips out some year-end balance-sheet effects and provides a cleaner read. **The trajectory has been steep and consistent, climbing from a cycle low near 9% in mid-2025 through 11.5% (November), 14.0% (December), 14.4% (January) and 14.3% (February) and finally 15.0% (15th April)**.
- The sectoral mix is healthier than the aggregate suggests. **Industry credit nearly doubled its growth rate to 13.5% from 7.5% a year ago**, with **infrastructure, engineering, chemicals and textiles as lead drivers**. Within industry, **micro and small enterprises grew 31.2% and medium enterprises 22.3% in January 2026, reflecting both PLI-related disbursements and working capital demand**. **Services credit accelerated to 16.3%, powered by bank lending to NBFCs (17.8%) and commercial real estate (16.2%)**. **Agriculture held steady at 12.3%**.

Personal Loans – Where the Regulator Left Its Fingerprints

- **Aggregate personal loan growth at 15.2% masks dramatic divergences underneath**. **Vehicle loans grew 17.1% in January 2026, reflecting festive demand spillover and new-model launch cycles. Housing at 11.1% has moderated from the post-Covid highs but remains healthy, underpinned by the repo-linked EMI transmission discussed in our liquidity note. Education loans are growing steadily, supported by rising overseas enrolments**.
- The two outliers tell the real story. **Credit card outstandings decelerated to just 1.5% YoY in January 2026, a fraction of the 17-20% historical norm. This is almost entirely a regulatory artefact**. The November 2023 risk-weight hike to 150% on credit card receivables made unsecured revolving credit prohibitively expensive for banks on a risk-adjusted return basis. The impact was precisely as intended, throttling the unsecured-retail boom that the RBI had flagged as a systemic concern.
- On the other extreme, **gold jewellery loans surged roughly 128% YoY** to Rs.4.28 trillion by February 2026. **Domestic gold prices have risen approximately 80% over the past year**, peaking at Rs.1.79 lakh per 10g in January before moderating to around Rs.1.53 lakh in mid-April. **Higher collateral values mechanically increase eligible loan amounts under the same LTV norms. Part of the surge also reflects one large bank reclassifying an agriculture sub-category into gold loans in May 2024, which inflates the YoY comparison**. The RBI issued comprehensive Master Directions on gold lending in June 2025, with full compliance effective April 1, 2026. The new tiered LTV structure sets 85% for loans up to Rs.2.5 lakh, 80% for Rs.2.5-5 lakh, and 75% above Rs.5 lakh, with bullet repayments capped at 12 months and per-borrower pledges capped at 1 kg jewellery. Deputy Governor Swaminathan J noted in February 2026 that system-level LTV remains below 70% with no asset-quality concerns, although early-vintage delinquency readings of 1.1% warrant monitoring.
- **Retail credit's overall footprint has nearly doubled from 10.1% of GDP in FY16 to 18.1% of GDP in FY25, a structural shift that reflects both financial deepening and regulatory arbitrage towards secured products post-November 2023**.

Deposits Are Losing the Race – and Banks Know It

- Aggregate deposits reached Rs.262.30 trillion at end-March 2026, up 13.47% YoY, a meaningful acceleration from FY25's 10.28%. Yet **deposit growth has consistently lagged credit by 200-300 bps through FY26**, pushing the **system-wide credit-deposit ratio to 83.04% on March 15, 2026**, the highest since 1962. After year-end normalisation, CDR settled near 81.4% in mid-April, still well above the **historical median of 74.4% and the RBI's informal comfort zone of 75-78%**.
- The funding strain is most visible in incremental flows. **Mid-March 2026 incremental CDR ran at 103.9%, meaning banks lent Rs.103.90 for every Rs.100 of fresh deposits raised. The full-FY26 incremental CDR moderated to 95-96%, still far above FY25's 85%. By bank group, PSBs sit at a comfortable 74.4%, but private banks are running at 92-94% and small finance banks above 105%.**
- **The CASA ratio is drifting back toward its pre-Covid 40% level from a post-Covid peak near 45%, with savings deposit growth at a 10-year low. Banks have responded by tapping wholesale markets at record pace. FY26 Certificate of Deposit issuances hit Rs.14 trillion, roughly 30% above FY25**, with Q4 alone at Rs.5.27 lakh crore. The structural driver is unmistakable: **bank deposits' share of household financial assets fell from 53% in 2020 to 43% in FY25, while mutual funds climbed from 8% to 12%**. Annual household MF inflows nearly doubled to Rs.4.7 lakh crore in CY2025. **RBI Governor Malhotra has acknowledged this shift as "healthy for the economy" but it poses a medium-term challenge for banks' liability franchises**.

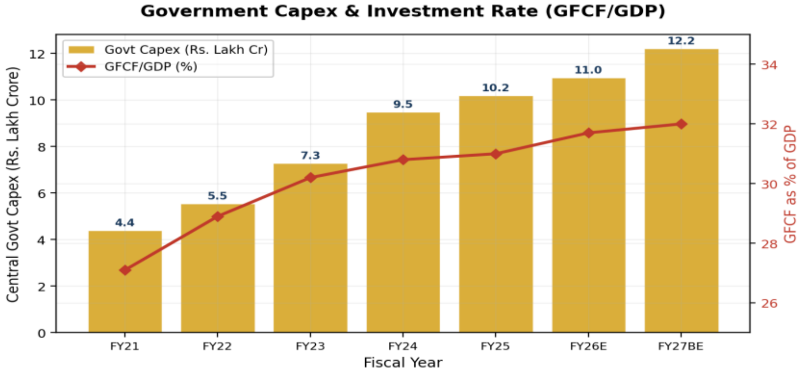
The Factory Floor – Capacity at 74.8% and Waiting

- The OBICUS Q2 FY26 survey recorded manufacturing capacity utilisation at 74.3% unadjusted and **74.8% seasonally adjusted**, a 100 bps seasonal-adjusted decline from Q1 FY26's 75.8%. The reading is **essentially flat against the long-term average of 73.8% and sits just below the ~75% threshold that the RBI has consistently flagged as the trigger for fresh capacity creation**.
- The **order-book** detail paints a more cautious picture. **New orders rose 6.5% QoQ, reversing Q1's 4.6% decline, but pending orders fell, suggesting backlog-clearing rather than fresh structural demand. Finished-goods inventory grew as production outpaced absorption. Output gap analysis suggests it remains around -5.2% in Q2 FY26, indicating considerable slack**. The **April 2026 Monetary Policy Report cites "improving manufacturing capacity utilisation" as a growth tailwind but stops short of declaring a positive output gap**.

The Capex Relay – Government Sprints, Private Sector Jogs

Government Has Been Running This Show

- **Real GFCF grew 7.1%** in the FY26 Second Advance Estimates, with the new GDP series placing **nominal GFCF at roughly 31.7% of GDP, the highest in over a decade**. **Government capex is the visible engine**. The Union Budget FY26 allocated Rs.11.21 lakh crore (3.1% of GDP), and CGA actuals through February 2026 show Rs.9.3 lakh crore deployed (79.7% of RE), up 15% YoY. Roads (63% of BE absorbed in H1) and Railways (57%) led execution. The **FY27 Budget raised the bar to Rs.12.20 lakh crore, maintaining 3.1% of GDP with an 11.5% increase over FY26 RE**.



Private Capex – Intentions Rising, Realisation Lagging

- **Private corporate investment intentions are improving but modest by historical standards**. An RBI study pegged FY24 bank-sanctioned project costs at Rs.3.91 lakh crore, the highest since FY15, with **projected deployment of roughly Rs.2.67 lakh crore in FY26 versus Rs.2.2 lakh crore in FY25**. **Infrastructure dominates at 50.6% of sanctioned projects, with Power and Roads leading. But the envisaged-to-realised conversion ratio has averaged just 14-15% post-2011, compared to 40.5% in 1971-2011. At 0.8% of GDP, envisaged capex remains a fraction of pre-2013 magnitudes of 3-6%**.

- The financing channel has improved meaningfully. As noted earlier, **bank credit to industry accelerated sharply**, with **infrastructure and engineering as lead segments**. **Capital-goods IIP grew 8.1% YoY in December 2025**, **capital-goods imports rose 9.2% in Q2 FY26**, and the **April 2026 Manufacturing PMI at 55.9 explicitly cited capacity expansion and technology investment**. Corporate balance sheets are ready: the December 2025 Financial Stability Report noted **decreasing leverage** with **sizeable cash buffers** and **comfortable interest coverage ratios**.

The Regulatory Architecture – Tighten, Then Ease

- The **RBI has executed a textbook tightening-then-easing cycle over FY24-FY26:**
    - The **November 2023 risk-weight hikes (125% on unsecured personal loans, 150% on credit cards, 25 ppt add-on for bank-to-NBFC lending) successfully throttled the unsecured boom**.
    - **The February 2025 rollbacks then restored the NBFC add-on and cut microfinance risk weights**.
    - **The June 2025 Project Finance Directions replaced the punitive 5% construction-phase provisioning with 1.0-1.25%, removing a major friction from infrastructure lending**.
    - The **April 2026 LCR norms replaced the originally proposed 5% digital-deposit run-off with 2.5%, unlocking an estimated Rs.2.7-3 lakh crore of lending capacity**.
- **Asset quality provides the comfort for this easing. System GNPA at 2.1-2.2% (September 2025) is a multi-decadal low and Net NPA at 0.5% a record**. But the **tail is concentrated: 53.1% of retail loan slippages originate in unsecured products, 76% of slippages at private banks come from unsecured exposure, and bank-NBFC interconnectedness is elevated with 80% of acquired pools sourced from a small set of originators. Household debt at 41.3% of GDP sits above its five-year average. These are not imminent risks, but they define the boundary of how far the easing cycle can run**.

What Comes Next - Outlook

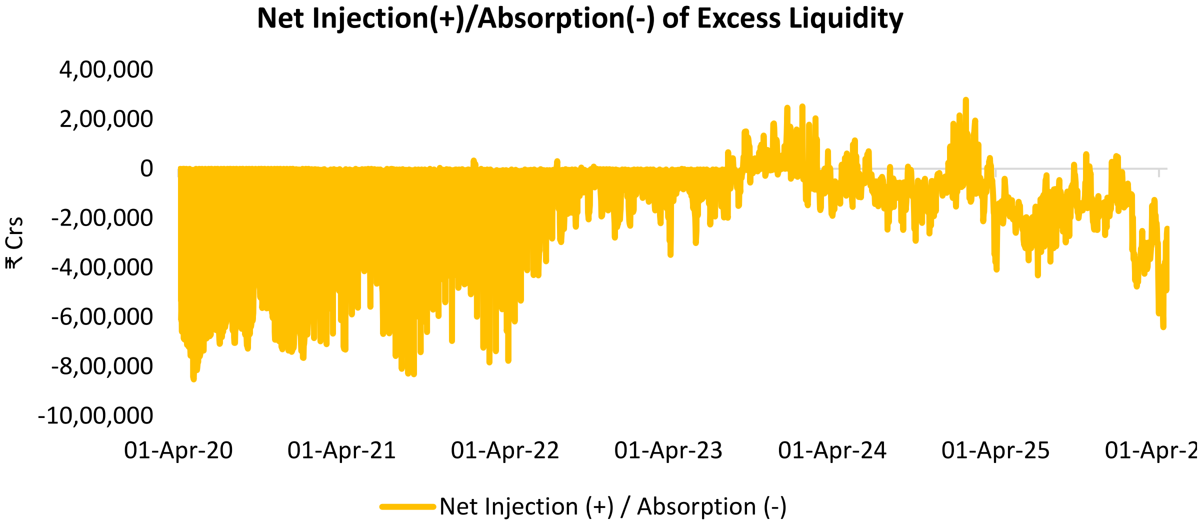
- I expect bank credit growth to moderate to 13-14% in FY27 from FY26's 16.08% peak. The base effect alone will shave 200-300 bps, and the April 2026 LCR norms, while lighter than originally proposed, will still constrain incremental lending at the margin. The composition should continue to tilt towards industry and infrastructure as the project finance easing flows through sanctioned pipelines. Personal loan growth will remain healthy at 12-14%, with housing and vehicle loans doing the heavy lifting while credit card and unsecured growth stay muted.

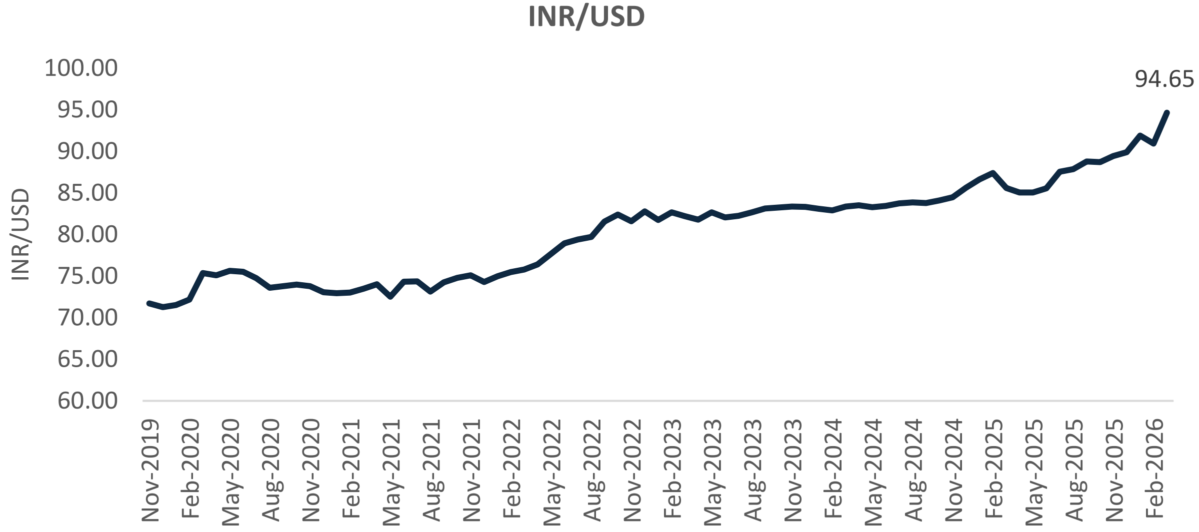
- The deposit challenge is structural and will not be resolved in FY27. I expect deposit growth around 11-12%, with the CDR remaining elevated at 80-85%. Banks will continue relying on CDs and bulk term deposits, keeping marginal funding costs high and compressing NIMs by 15-25 bps from FY26 levels. The CASA ratio will drift further towards 38-39%.

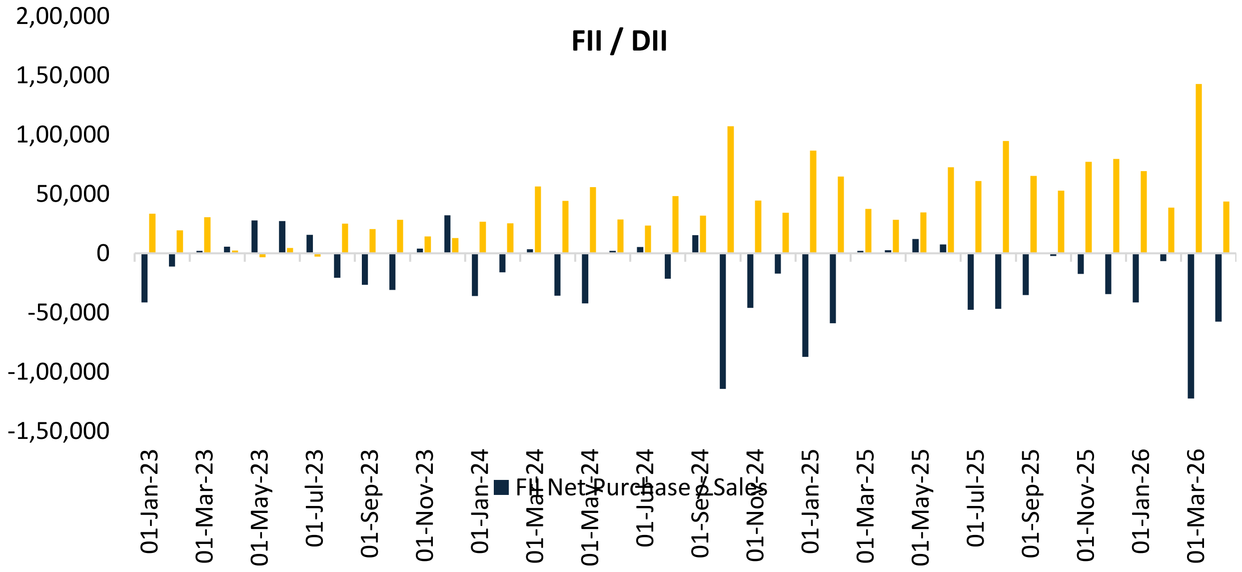
- On the capex cycle, I see government capex executing at 90-95% of the Rs.12.20 lakh crore FY27 target, provided the fiscal deficit trajectory holds at 4.3% of GDP. Roads, Railways and Defence will continue to lead, with the Semiconductor Mission adding a new vertical. Private capex will remain selective rather than broad-based. The 74.8% capacity utilisation reading is not yet sufficient to trigger an economy-wide investment upswing. My expectation is that CU needs to sustain above 76-77% for two consecutive quarters before large-scale greenfield capacity additions materialise. That is unlikely before H2 FY27 at the earliest, and depends critically on whether the West Asia supply shock resolves and consumption demand sustains its Q2-Q3 FY26 momentum.

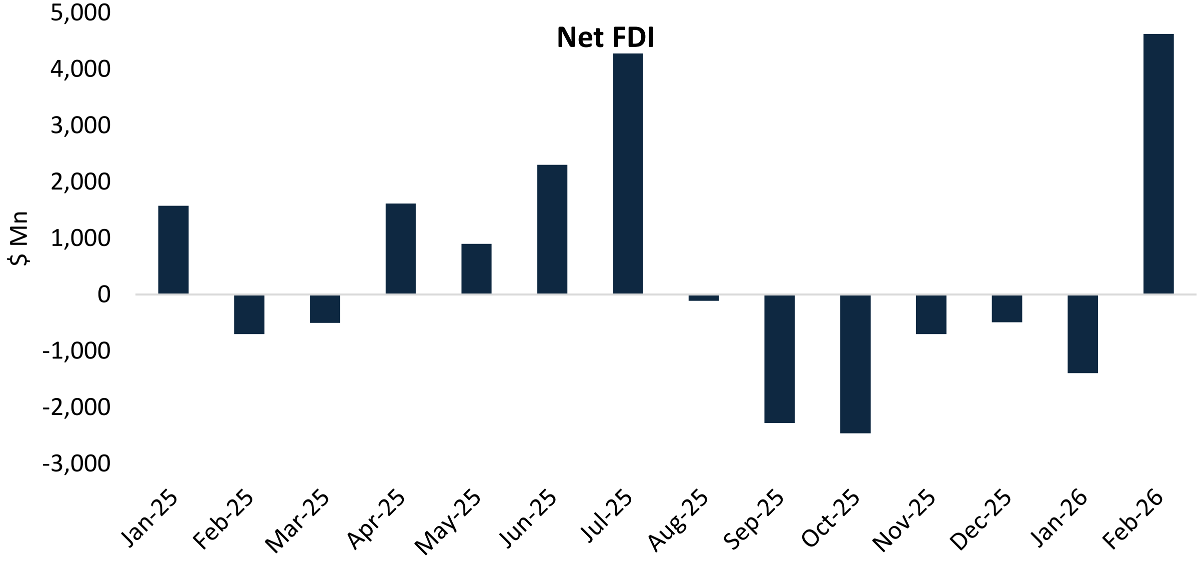
- The MPC will likely stay on hold at 5.25% through at least June 2026, with one additional 25 bps cut possible in H2 FY27 if crude stabilises below $100 and the monsoon delivers normally. The real GDP projection of 6.9% and CPI at 4.6% for FY27 appear reasonable but carry asymmetric risks. On the balance, India's credit cycle is in a healthy mid-expansion phase, with the right sectors (industry, infrastructure, housing) leading and the right segments (unsecured, credit cards) being restrained. The binding constraint is not credit supply, which is abundant, but credit demand from a private sector still waiting for capacity utilisation to cross the trigger threshold. When that happens, and it will, the transmission machinery built by 125 bps of cuts and Rs.14 lakh crore of liquidity injection will be ready.

5. Liquidity



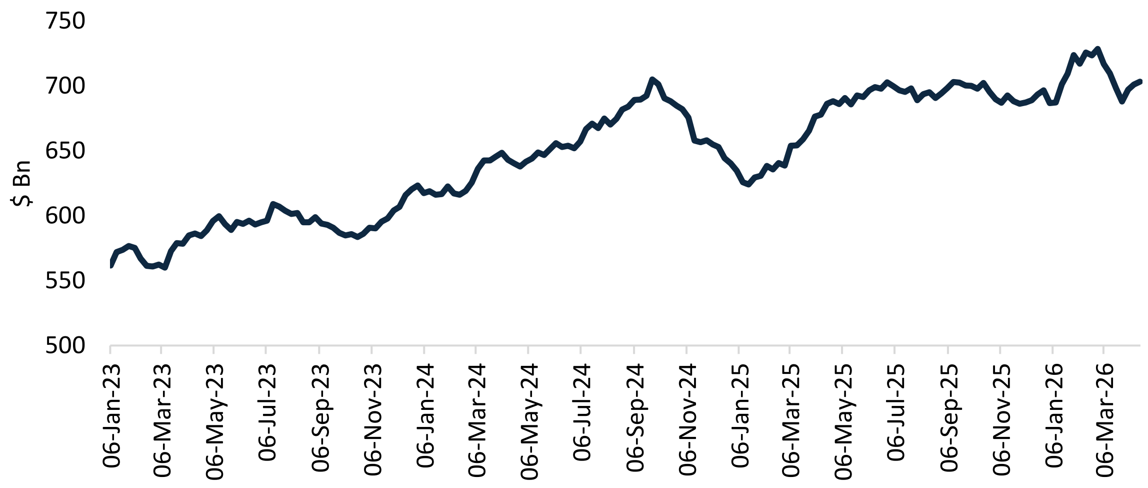




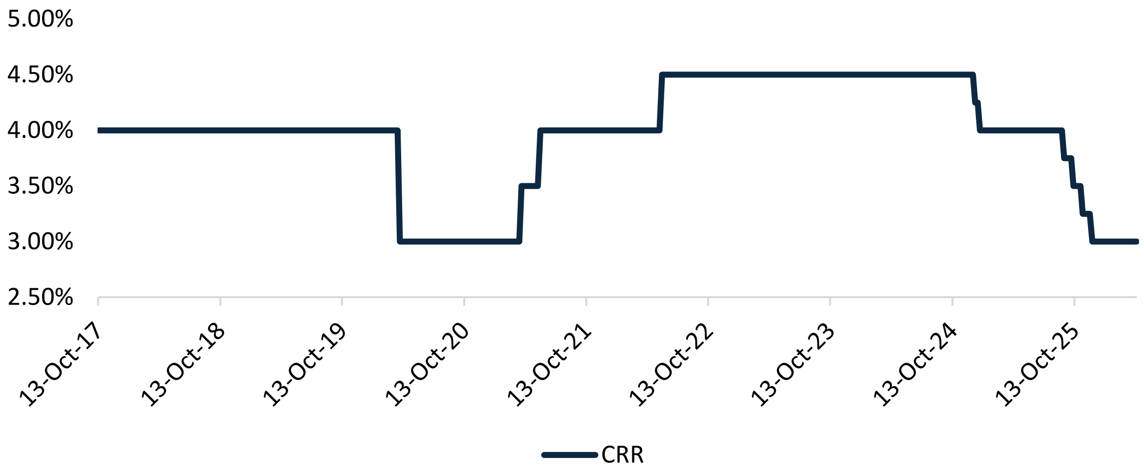


Source: Internal assessment based on RBI DBIE data

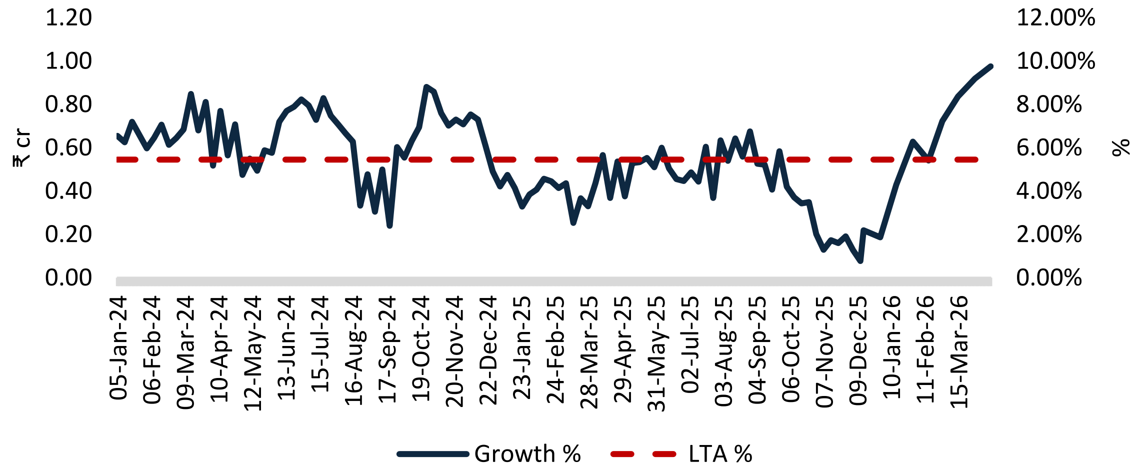
Foreign Exchange Reserves (USD Bn)



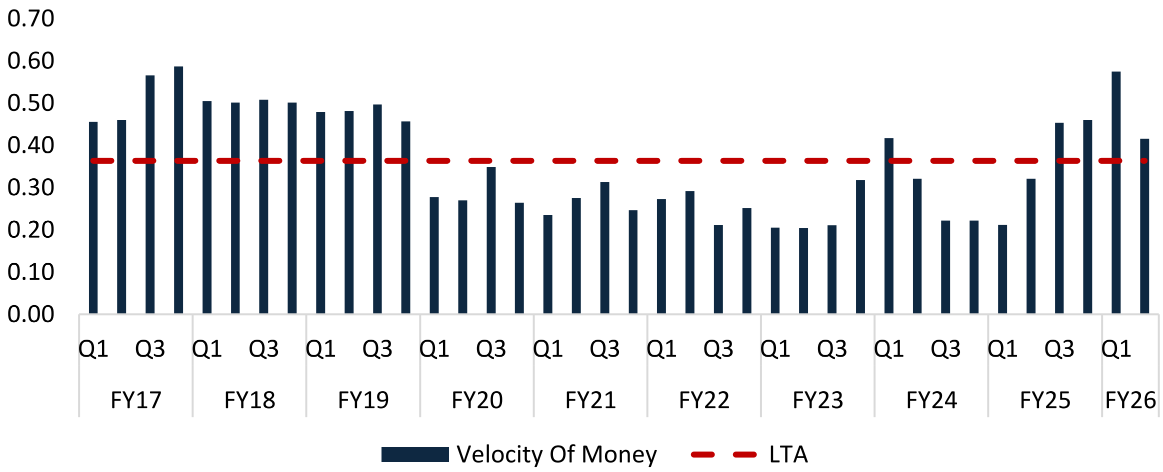
CRR



Reserve Money (M0)



Velocity of Money



Source: Internal assessment based on RBI DBIE data

Flush, Fragile & Fighting: India's Liquidity Tightrope

- **India's banking system has moved into a regime of pronounced liquidity surplus as of mid-April 2026, with net LAF absorption touching ₹4–5 trillion**. This surplus driven by a convergence of year-end government spending, G-Sec redemptions, cumulative CRR cuts of 100 bps, and calibrated RBI OMO purchases, represents a structural shift from the intermittent tightness observed in Q3:2025–26. **The surplus is, however, coexisting with elevated short-term rates in the CD/CP market, persistent FPI outflows (US$16.5 billion in FY26), a 6.2% depreciation in the INR (H2), and a West Asia conflict that had pushed crude to multi-year highs near US$118/barrel (Brent is at 107.75 at the time of writing this note)**.
- The Reserve Bank is managing a delicate balancing act, injecting durable liquidity to support transmission of the 125 bps cumulative rate cut, while simultaneously absorbing transient surpluses through VRRR auctions and defending the rupee through FX intervention. This note dissects the drivers, interlinkages, and forward risks across seven dimensions i.e. system liquidity, capital flows, FX dynamics, rate transmission, digital payments, policy stance, and the integrated macro framework.

The Plumbing Beneath the Surface

₹5 Trillion and Counting - What the Surplus Really Means

- The Indian banking system is operating in a sustained surplus regime as of mid-April 2026. System liquidity, as measured by net balances under the LAF, stood at an average daily surplus of ₹2.3 lakh crore since the February MPC meeting. By the third week of April, the surplus had surged past ₹5 trillion for five consecutive days, driven overwhelmingly by year-end government spending (₹3–3.5 trillion) and large G-Sec redemptions (₹86,403 crore and ₹34,791 crore). On April 17, the surplus was estimated at ₹4.09 trillion approximately 1.8% of NDTL, well above the RBI's optimal band of 0.6–1.1% of deposits.
- This surplus, however, did not emerge linearly. In H2:2025–26, average daily absorption under the LAF declined to ₹1.43 lakh crore from ₹2.29 lakh crore in H1, reflecting the combined drag of festive-season CiC expansion, volatile FX operations, and seasonal tax outflows. System liquidity briefly dipped into deficit on three occasions October 20–22 (GST), December 16–29 (advance tax plus GST), and March 20–21, before reverting to surplus each time.

The Daily Tug-of-War: LAF, VRR 0026 VRRR in Action

- The SDF absorbed an average of ₹2.20 lakh crore daily in H2 (up from ₹1.84 lakh crore in H1), while MSF recourse remained negligible at ₹0.02 lakh crore. The RBI conducted 44 VRR and 7 VRRR auctions during H2 to modulate transient liquidity. In April alone, the RBI conducted two VRRR auctions each with a seven-day tenure of ₹2 trillion each were conducted on April 10 and April 17, absorbing ₹2.00 trillion in each instance. The April 17 auction attracted bids of ₹2.28 trillion against a notified amount of ₹2 trillion reflecting banks' eagerness to park surplus funds with the RBI accepting at a 5.24% cut-off rate and 5.23% weighted average rate.

Follow the Money:

Driver (₹ crore)	H1:25–26	Q3:25–26	Q4:25–26*	H2:25–26*
CiC [withdrawal(-) / return(+)]	-74,052	-1,25,023	-2,08,489	-3,33,512
Net Forex Purchases(+)/Sales(-)	-1,41,591	-3,28,665	14,632	-3,14,033
GoI Cash Balances [build-up(-)/drawdown(+)]	-3,44,103	74,298	26,974	1,01,272
Net OMO Purchases(+)/Sales(-)	2,39,223	1,81,435	4,06,900	5,88,335
Required Reserves (CRR + NDTL change)	15,674	1,67,530	-17,776	1,49,754

**Q4 and H2 data up to March 15, 2026. Source: RBI Monetary Policy Report, April 2026.*

- The table reveals a critical structural feature. Currency in circulation withdrew ₹3.34 lakh crore in H2, the single largest drain. Simultaneously, net forex sales of ₹3.14 lakh crore reflecting the RBI's rupee defence operations compounded the drain. These twin drags were offset by massive OMO purchases of ₹5.88 lakh crore and CRR releases (₹2.50 lakh crore cumulatively in FY26), alongside USD/INR buy/sell swap auctions (₹2.27 lakh crore) and term repos (₹1.62 lakh crore). The total durable and transient liquidity injection by the RBI in FY26 amounted to approximately ₹13.78 lakh crore an extraordinary scale reflecting the confluence of seasonal, cyclical, and geopolitical pressures.
- **Verdict: The current surplus is a product of both seasonal tailwinds (year-end government spending, G-Sec maturities) and structural policy action (CRR cuts, OMOs). The seasonal component will dissipate as new-year government spending normalises, but the structural component CRR at a historically low 3.0%, ₹7.39 lakh crore in OMO purchases provides a durable floor. The regime is best characterised as structurally accommodative with transient volatility.**

Who's Bringing Money In, Who's Taking It Out

FDI: The Quiet Anchor

- **Gross FDI inflows surged 18.1% YoY to US$88.3 billion during April 2025 February 2026**, signalling sustained long-term confidence in India's structural growth story. **Net FDI improved to US$6.3 billion from US$1.5 billion a year ago**, with net flows turning positive in February after six consecutive months of negative readings. **Manufacturing, IT services, financial services, and communications accounted for over two-thirds of equity inflows**. Singapore, US, Mauritius, Japan, and the Netherlands remain the top source countries, contributing approximately three-fourths of total inflows. **The FDI pipeline, bolstered by greenfield project announcements of US$65 billion in April–January, represents a stable, non-volatile source of external financing and structural liquidity support**.

FPI: The US$16.5 Billion Exit and a Fragile Pause

- FPI flows present a sharply contrasting picture. **Net FPI outflows totalled US$16.5 billion in FY26, driven almost entirely by the equity segment**. The outflows were episodic: cautious sentiment through H1 on global trade tensions and **India-US deal uncertainty** gave way to a brief recovery in February following the **India-EU FTA** and **interim India-US trade deal framework**. The eruption of the **West Asia conflict** in late February triggered a massive reversal US$13.1 billion in net outflows in March alone, the largest since the pandemic. Even the debt segment, which had attracted US$3.1 billion in net inflows during April–February on safe-haven demand, saw US$1.0 billion in outflows in March.
- **Early April data suggest a tentative stabilisation. After seven weeks of cumulative outflows of approximately US$5 billion, a modest net inflow of US$106 million was recorded in the week ending April 24**. The improvement is driven by reduced selling pressure (from a peak of US$1.2 billion per week to US$180 million) and **tactical ETF inflows (US$220 million)**, rather than a genuine return of active investor conviction. **US domiciled funds have turned marginal buyers (US$225 million) after US$3.3 billion in prior outflows. This is best read as a pause, not a pivot**.

DIIs: The Wall That Held

- **DIIs, particularly mutual funds and insurance companies, have been the critical counterbalance to FPI selling**. Throughout March and early April, DIIs consistently recorded significant net buying, absorbing foreign selling pressure and preventing disorderly market declines. **SIP flows to equity mutual funds remained robust at approximately ₹25,000–30,000 crore per month**, underpinning a **secular domestic savings-to-equities rotation**. This DII buffer has effectively decoupled domestic equity stability from FPI volatility a structural improvement relative to prior episodes of capital flight.

Liquidity Impact

FDI inflows provide stable, long-cycle FX supply with a positive multiplier on domestic liquidity (forex purchases by RBI inject rupee liquidity). FPI outflows, conversely, create dual pressure: they drain rupee liquidity as the RBI sells dollars to defend the INR, and simultaneously depress equity and bond markets, tightening financial conditions. The DII counterbalance operates primarily in the secondary market and does not replace the primary FX supply that FPI provides. **The net effect in H2 has been a measurable liquidity drag from the FPI–FX channel, partially offset by RBI's OMO and swap operations**.

The Rupee's Balancing Act: Defence, Drain & Dollar Wars

From 87 to 94 - A Depreciation in Three Acts

- The Indian rupee depreciated 6.2% against the US dollar in H2:2025–26, making it one of the weaker-performing Asian currencies during this period. The depreciation unfolded in three distinct phases. First, **a gradual weakening through Q3 on sustained FPI outflows and elevated corporate dollar demand**. Second, a **brief appreciation in early February following the India-US trade deal announcement**. Third, **a sharp sell-off in March as the West Asia conflict escalated the rupee hit a record low of 94.65 on March 30 before recovering to the 92.9–93.8 range in April on ceasefire optimism and RBI measures**.

Selling Dollars, Draining Rupees: The Sterilisation Trap

- **The RBI's FX intervention in H2 was aggressive and multi-pronged**. Net forex sales totalled approximately ₹3.14 lakh crore (~US$37–38 billion) in H2, directly draining rupee liquidity from the banking system. Forex reserves declined from an all-time high of US$728.5 billion in late February to US$688.1 billion by end-March, before recovering to US$700.9 billion by the week ended April 10. **Beyond spot intervention, the RBI deployed several unconventional tools: a March 27 directive limiting authorised dealers' net open position in INR to US$100 million (prompting unwinding of approximately US$30–40 billion in arbitrage positions), asking oil companies to source dollars through a special window rather than the spot market, and conducting USD/INR buy/sell swap auctions of US$10 billion in February–March**.
- The critical insight is that **rupee stability is being maintained at the direct cost of rupee liquidity. Every dollar sold by the RBI to defend the INR simultaneously withdraws an equivalent quantum of rupee liquidity from the banking system. This is precisely why the RBI has had to compensate through massive OMO purchases (₹5.88 lakh crore in H2) and CRR cuts to sterilise the liquidity impact of its own FX operations. The OMO–FX intervention loop is the single most important feature of India's current monetary plumbing: the RBI is running a dual-track operation tightening on the FX side and easing on the domestic liquidity side simultaneously**.

Real Exchange Rate: Correction or Capitulation?

- **In real effective exchange rate terms, the INR depreciated 3.3% between September 2025 and February 2026, driven primarily by nominal depreciation rather than relative price effects.** The 40-currency REER adjustment has been broadly in line with peer economies, suggesting that the competitiveness correction is not disproportionate. However, the implied volatility in 1-month at-the-money options spiked sharply in March reaching 8.3% before moderating in April, indicating that markets continue to price elevated tail risk around the INR.

From Liquidity to Your EMI: How Rate Cuts Are Travelling - 89 of 125 bps Delivered - The Asymmetric Pass Through

Metric	Repo Cut	WALR (Fresh)	WALR (O/S)	WADTDR (O/S)
Easing Cycle (Feb'25 to Mar'26)	-125 bps	-89 bps	-87 bps	-47 bps
Interest Rate Effect (Fresh Loans)	-125 bps	-92 bps	—	—

Source: RBI Monetary Policy Report, April 2026. O/S = Outstanding.

- Monetary policy transmission through the easing cycle has been satisfactory but asymmetric. The 125 bps cumulative repo rate reduction since February 2025 has passed through 89 bps to fresh lending rates and 87 bps to outstanding lending rates. The interest rate effect (which strips out compositional shifts) shows an even stronger **92 bps transmission to fresh loans**. **On the deposit side, outstanding rates have declined only 47 bps reflecting elevated competition for term deposits and banks' reluctance to pass through rate cuts on the liability side as quickly as on the asset side**.
- The share of EBLR-linked loans which transmit mechanically with the repo rate has risen to 65.4% of outstanding floating-rate loans (from 62.9% in June 2025), ensuring faster transmission on the lending side. The MCLR, however, declined only 20 bps in H2, reflecting banks' marginal funding costs remaining elevated due to competitive deposit pricing. The CD rate at 7.18% and CP rate at 7.29% (3-month averages since February policy) are trading 193 and 204 bps above the repo rate respectively a significant anomaly that reflects term liquidity stress even amid overnight surplus.

UPI & the Invisible Accelerator: Digital Money in Motion

- **Digital payments continued to register robust growth through FY26, with volume growth averaging 25–30% y-o-y and value growth in the 12–18% range. In March 2026, digital payment volumes grew 18.5% YoY while values expanded 12.8%. The moderation from the 30+% peaks earlier in the year reflects base normalisation rather than any structural deceleration**.
- The liquidity implications of India's digital payments transformation are increasingly material. The accelerating substitution of physical cash by UPI and other digital modes is structurally reducing the growth rate of currency in circulation or, more precisely, reducing the incremental demand for CiC relative to nominal GDP growth. This has two effects. First, it **reduces the CiC drag on system liquidity**, as a lower share of base money needs to be locked up in physical notes. Second, it **increases the velocity of the narrow money stock, as digital balances turn over far more rapidly than physical cash**. The **money multiplier rose to 5.99 as of March 15, 2026 (from 5.72 a year ago) partly reflecting CRR cuts but also consistent with an accelerating digital-cash substitution trend**.
- Over a medium-term horizon, the continued expansion of UPI (which processed over 16 billion transactions in March 2026) and real-time payment infrastructure **represents a structural tailwind for monetary transmission. Faster payment velocity means that liquidity injections propagate more rapidly through the financial system, reducing the lags that have historically characterised Indian monetary policy**.

What the RBI Is Doing vs. What It Wants You to Believe - The Rs.13.78 Lakh Crore Playbook

- The scale of intervention is extraordinary. **The RBI injected ₹13.78 lakh crore through durable and structural measures in FY26**. In H2 alone, interventions exceeded ₹10.5 lakh crore more than three times the H1 figure reflecting the cascading liquidity drain from CiC expansion, FX defence operations, and advance tax cycles. The heavy H2 skew underscores that **the RBI was not merely managing routine liquidity but actively compensating for the monetary tightening effect of its own FX intervention**.

Tool	H1:2025–26	H2:2025–26	Full Year
CRR Cut (bps / approx. ₹ cr)	62,500	1,87,500	2,50,000
OMO Purchase Auctions (₹ cr)	2,39,203	5,00,000	7,39,203
USD/INR Buy/Sell Swap (₹ cr)	—	2,26,885	2,26,885
Term Repo Auctions (₹ cr)	25,731	1,36,504	1,62,235
Total Injection (₹ cr)	3,27,434	10,50,889	13,78,323

Source: RBI Monetary Policy Report, April 2026.

Neutral on Paper, Accommodative in Practice

- **The April MPC held the repo rate unchanged at 5.25% (SDF at 5.00%, MSF at 5.50%) with a unanimous vote**. The neutral stance was retained. Governor Malhotra's commentary was calibrated: acknowledging geopolitical risks while emphasising India's "stronger fundamentals" and "resilience to withstand shocks." On liquidity, the **forward guidance was unambiguous** "we will continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy."
- **Interpretation: The RBI's actions reveal a stance that is de facto accommodative on liquidity, de jure neutral on rates. The hold on rates reflects genuine uncertainty the West Asia supply shock complicates the inflation outlook (crude near US$118/barrel, potential El Niño risks), making further cuts risky even as growth impulses warrant easing. The liquidity stance, by contrast, is unambiguously supportive: the RBI is willing to inject virtually unlimited durable liquidity to ensure the 125 bps of rate cuts already delivered transmit fully to the real economy. The VRRR operations in April are tactical managing transient surplus that exceeds the optimal band not strategic tightening**.

Connecting the Dots: The Unified Macro Picture

This is the most important section. The preceding analysis system liquidity, capital flows, FX dynamics, rate transmission, digital payments, and policy stance does not operate in silos. The interactions between these channels define the true state of India's monetary conditions.

One Loop to Rule Them All

- **FPI outflows → INR depreciation → RBI dollar sales → rupee liquidity drain → RBI OMO/CRR injection → surplus liquidity → lower short-term rates → WACR below repo**.
- This is the dominant loop governing India's macro-financial conditions today. FPI selling (US$16.5 billion in FY26, with US$13.1 billion in March alone) exerts depreciation pressure on the rupee. The RBI defends the currency through dollar sales, which directly withdraws rupee liquidity. To prevent this from tightening domestic monetary conditions which would undermine the transmission of its own 125 bps rate cut the RBI offsets with OMO purchases, CRR cuts, and swap auctions. **The net result is a system that is flush with rupee liquidity (₹4–5 trillion surplus) even as FX reserves have drawn down from their peak**.

Flush Overnight, Starved for Term - The Hidden Crack

- A striking feature of the current environment is the divergence between overnight and term liquidity conditions. **The WACR is trading below the repo rate (5.08–5.11% against a 5.25% repo), confirming abundant overnight liquidity. Yet CD rates at 7.18% and CP rates at 7.29% are trading 193–204 bps above the repo, an extraordinary spread that points to term liquidity stress. This disconnect arises because: (a) uncertainty around the durability of the surplus makes banks reluctant to lend term in the money market, (b) elevated hedging costs and geopolitical risk premia have widened term spreads, and (c) competitive deposit pricing is keeping banks' marginal funding costs high**.

The Scoreboard: Where Do We Stand Right Now?

- **Current position:** System **liquidity is in a transient super-surplus of ₹4–5 trillion**, well above the RBI's optimal band of 0.6–1.1% of NDTL. The **WACR is 14–17 bps below the repo rate wider than the 5–10 bps the RBI considers optimal**.
- **Dominant drivers: Year-end government spending** (₹3–3.5 trillion), **G-Sec redemptions** (₹1.2 lakh crore), **CRR at a record-low** 3.0 per cent, and ₹7.39 lakh crore in **OMO purchases**.
- **On the drain side**: **CiC expansion** (₹3.34 lakh crore in H2), **net forex sales** (₹3.14 lakh crore), and **episodic tax outflows**.

Structural vs Transient

- **The current super-surplus is largely transient seasonal government spending and G-Sec maturities will normalise in Q1:FY27. However, the structural floor is materially higher than a year ago, underpinned by cumulative CRR cuts (100 bps), massive OMOs, and swap-based liquidity. Unless the RBI reverses its OMO stance or hikes the CRR, both of which are highly unlikely in the current growth-supportive environment system liquidity will settle in a comfortable surplus of ₹1.5–2.5 lakh crore once the seasonal tailwinds fade. The regime is not structurally tightening; it is temporarily volatile around an accommodative baseline**.

Outlook: My Call on What Comes Next

- Looking ahead, I expect the transient super-surplus to normalise towards ₹1.5–2.5 lakh crore by mid Q1:FY27 as seasonal government spending tapers and fresh advance tax cycles commence. However, the structural floor will remain materially higher than a year ago, anchored by the CRR at a record-low 3.0%, a massive ₹7.39 lakh crore OMO stock, and the ongoing digital payments-driven improvement in money velocity. Unless the RBI reverses course on OMOs or hikes the CRR both of which I consider highly unlikely in the current growth-supportive context system liquidity will remain in comfortable surplus territory through FY27.

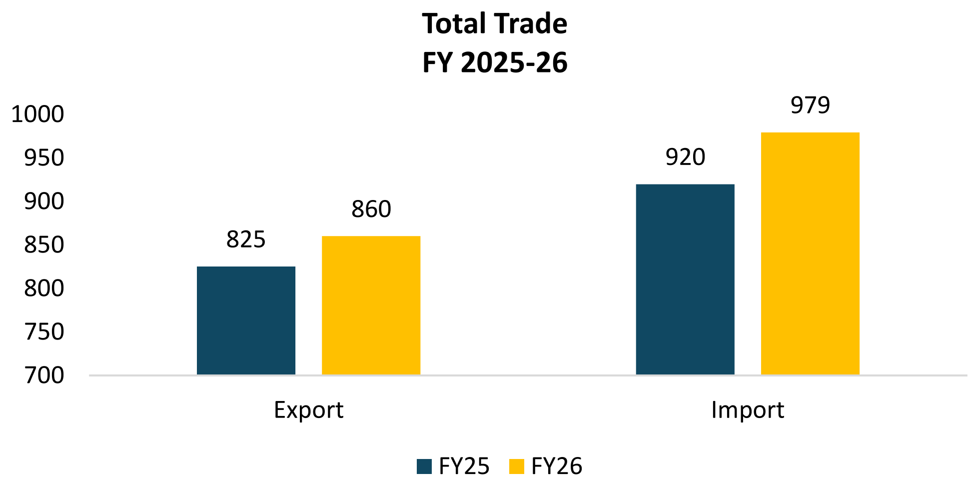
- On the rate trajectory, I see the MPC on an extended pause at 5.25% through Q1–Q2:FY27. The West Asia supply shock has complicated the inflation calculus the RBI's own projection of 4.6% CPI for FY27 carries significant upside risk from crude (currently near US$95–118/barrel range), potential El Niño disruptions to the south-west monsoon, and second-round effects from elevated fuel and logistics costs. Even if headline inflation remains within the 4% target, core inflation's quiescence may not survive a sustained energy shock. The bar for further cuts has risen meaningfully since February. My base case is one additional 25 bps cut in H2:FY27, conditional on crude stabilising below US$100 and the monsoon delivering at or above normal.

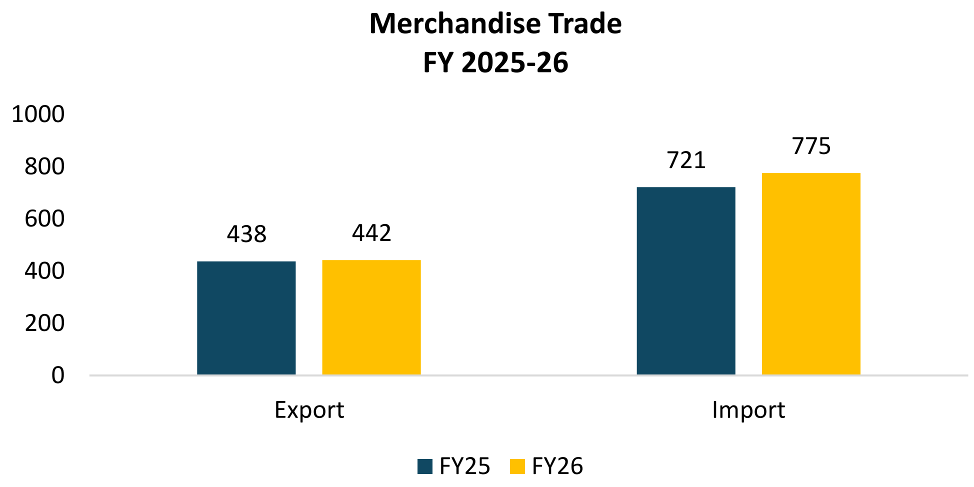
- On the INR, the near-term trajectory hinges on three variables: the West Asia ceasefire durability, the pace of FPI flow normalisation, and crude oil prices. The rupee has stabilised in the 92.5–93.8 range following the RBI's NOP restrictions and the directive to oil companies. I expect this range to hold through Q1 if the ceasefire extends, with the risk skewed towards 94–95 on any escalation. The RBI's reserve buffer at ~US$701 billion remains adequate for 11 months of import cover, but the forward book at US$77.7 billion limits incremental intervention capacity. The key watch is whether FPI flows genuinely normalize, the tentative US$106 million inflow in the week of April 24 is encouraging but insufficient to call a turning point.

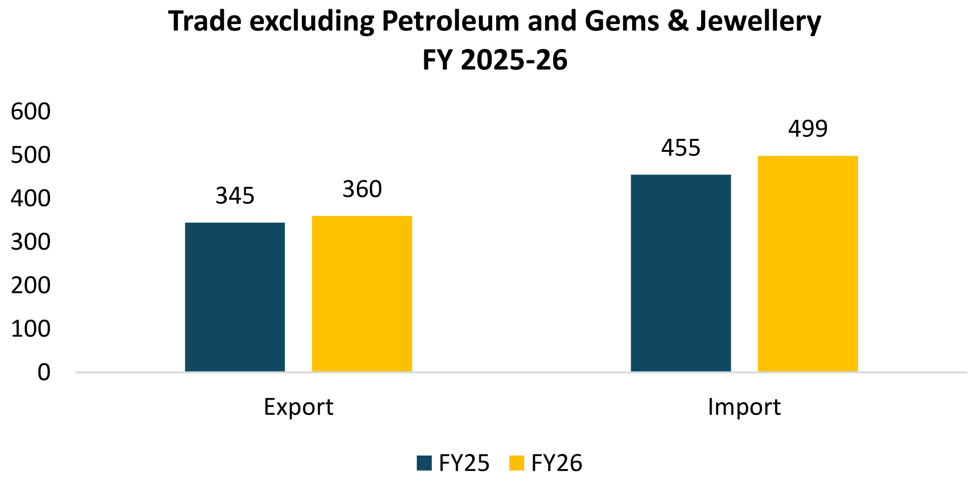
- On capital flows, I remain cautious on FPI but constructive on FDI. The FPI stabilisation underway is tactical and ETF-driven, not reflective of a fundamental reassessment of India's risk-return profile by active global investors. A sustained FPI recovery will require stronger earnings visibility (Q4 results will be critical), a meaningful de-escalation in West Asia, and stabilisation of the US rate trajectory. FDI, by contrast, is on a structurally improving path gross inflows at US$88.3 billion and a robust greenfield pipeline of US$65 billion suggest that long-term investors continue to see India as a preferred manufacturing and services destination. DII flows will remain the anchor of domestic market stability, supported by ₹25,000–30,000 crore in monthly SIP inflows. On a side note the India AI story or lack of thereof will also play a role in FDI as well as FPI flows in the medium term.

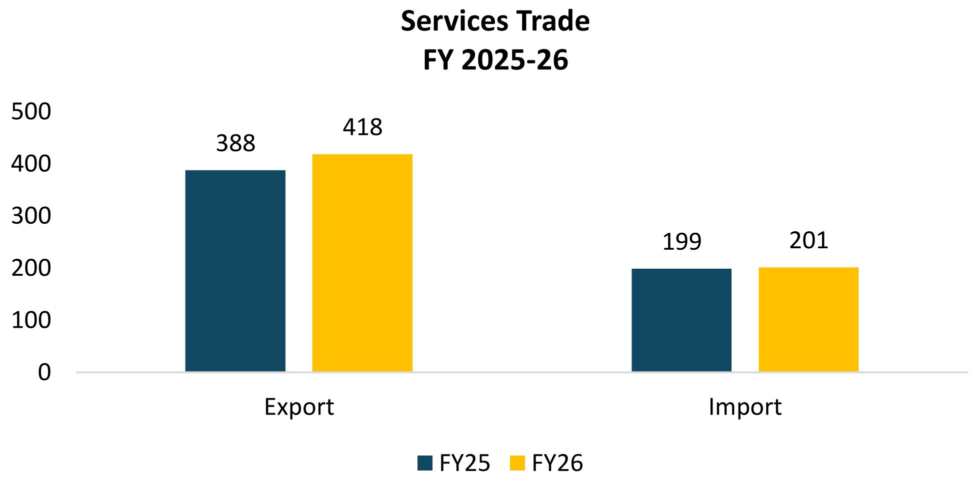
The bottom line: India's monetary plumbing is in solid shape. The RBI has demonstrated exceptional nimbleness in managing the liquidity–Fx–rates trilemma. The structural underpinnings of the surplus, low CRR, large OMO stock, improving digital velocity provide a durable floor for monetary conditions. The risks are real but manageable: West Asia is the tail risk, El Niño is the seasonal risk, and FPI flows are the swing variable. My central expectation is that system liquidity will settle in a comfortable surplus of 0.8–1.2% of NDTL by mid-FY27, with the WACR trading 5–10 bps below the repo rate precisely the zone the RBI's own optimal liquidity framework targets. The regime is not tightening; it is recalibrating from a transient super-surplus towards a sustainable accommodative equilibrium. That is a healthy outcome for an economy that needs rate transmission to flow through, even as it braces for external shocks.

6. Trade









Source: RBI, PIB

India External Sector: A Wider Hole to Fill

The Big Picture (FY26 Full Year):

- **For the full year FY26, India's total trade deficit widened to USD 119 bn from USD 95 bn in FY25**. The gap grew by USD 24 bn in one year. FY26 goods imports rose 7.5% to USD 775 bn. FY26 goods exports barely moved at 0.9%, ending at USD 442 bn. Services surplus grew but could not fully offset the widening goods gap.
- The March 2026 month itself looked soft. March goods exports fell 7.4% YoY to USD 38.9 bn. March goods imports fell 6.5% YoY to USD 59.6 bn. But the soft March import number is misleading. **It reflects weak gold buying at record prices and a brief oil supply shock, not weak demand.**

Exports: Narrow Wins, Broad Weakness

- **FY26 goods exports at USD 442 bn grew less than 1%. In a year when global trade grew over 3%, this is clear underperformance. FY26 non-oil exports held up better at USD 388 bn, up 3.6%. FY26 oil exports fell sharply as refining margins shrank through the year.**
- The weakness was broad in the March month. March non-oil non-gems exports came in at USD 31.7 bn, down from USD 34.3 bn a year ago. **Gems and jewellery continues to bleed as US demand stays weak. Textiles, leather and marine products are sluggish. The only steady support across the year came from engineering goods, electronics and handicrafts**.
- **The US tariff overhang is the quiet reason behind slow export growth. Orders are being delayed, not cancelled. If tariff talks stall, FY27 export growth stays near 1%. If they go well, it jumps to 4%. That gap is what markets should focus on.**

Imports: The Real Pressure Point

- **FY26 non-oil imports grew 12% to USD 601 bn. This tells us domestic demand was actually strong through the year. The weakness is only in oil and gold. March oil imports fell because of lower prices and cargoes pulled into February during the Strait of Hormuz scare. That number is likely to bounce back in April.**
- **The bigger worry for FY26 was electronics. India is now assembling more phones at home and exporting them. But we are importing even more components and machines to make them. This is the PLI paradox. The export gain is real but the import bill is growing faster. Until we make components here, this drag stays.**
- **March gold imports fell sharply as prices hit new highs and buyers backed off. For the full FY26, gold still came in at USD 55-60 bn. A 10% move in gold prices either way shifts the annual trade number by USD 5-6 bn. It remains the single most volatile swing factor year after year.**

Services: The Real Shock Absorber

- **FY26 services exports grew 7.9% to USD 418 bn. The FY26 services surplus rose to USD 214 bn from USD 189 bn in FY25. This is the one line that kept the external account from looking ugly. Global capability centres are now a steady earner, not a one-off trend.**
- **But the market is taking this support for granted. FY26 services exports are now 25% of GDP. Any slowdown in US tech spending or tighter visa rules will hit the current account directly. This is a risk that no one seems to be pricing**.

Trade Deficit and CAD (FY26 Full Year):

- **The FY26 goods trade deficit hit USD 333 bn, a record. Even with a bigger services surplus and FY26 remittances near USD 130 bn, the FY26 current account deficit should land at 1.4-1.6% of GDP. FY25 CAD was below 1%. Still manageable, but clearly moving in the wrong direction.**
- **What matters more is how this deficit is being funded. FDI flows were patchy through FY26. Equity flows were choppy. The funding leaned on debt flows and banking capital this year. This is why the CAD feels heavier than the number suggests. Quality of funding has weakened even as the size has grown.**

Rupee: Less Room to Absorb Shocks

- The rupee held up well through FY26, but only because RBI was active. Reserves were used on weak days and rebuilt on strong days. This kept the currency range-bound and hid real pressure underneath.
- Going into FY27, the cushion is thinner. A widening trade gap, weaker FDI and a still-strong REER mean less buffer if a shock hits. Sustained oil above USD 90 or a global risk-off event can push the rupee to the weaker end of its range quickly.

What to Watch in FY27:

Three things matter:

1. First is oil. The Gulf ceasefire is holding but Hormuz infrastructure damage is still being repaired. Freight and insurance costs remain high. FY27 Brent averaging above USD 85 adds USD 12-15 bn to the annual import bill and pushes CAD near 1.8%.
2. Second is the US trade deal. Sectoral exemptions being negotiated will decide whether FY27 exports of textiles, auto parts and pharma recover or stay flat.
3. Third is electronics. The monthly component import line is the earliest signal on whether PLI is building real value or just assembly capacity.

Outlook:

- FY27 is likely to be a year of moderate stress, not crisis, provided FY27 growth holds up near 6.5-6.8% and inflation stays close to the 4% target for most of the year. This gives policy room to stay supportive. FY27 current account deficit is likely to widen to 1.6-2.0% of GDP on Brent averaging USD 85-90 and services exports growing at 9-10%.
- The rupee is likely to stay managed but with a weaker bias than in FY26. Bonds remain supported by steady domestic demand. The real test is whether FDI returns and whether electronics starts adding real value at home. If both happen, the external picture turns stable by late FY27. If not, CAD settles near 2% and becomes a drag rather than a cushion.

7. Fiscal Situation

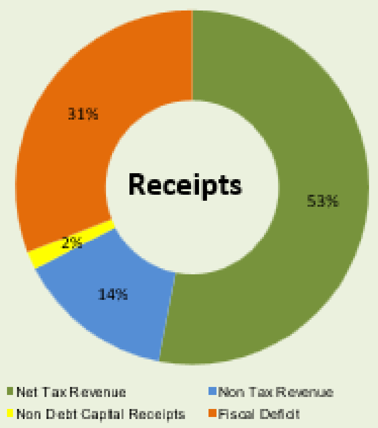
CONTROLLER GENERAL OF ACCOUNTS
MINISTRY OF FINANCE
GOVERNMENT OF INDIA

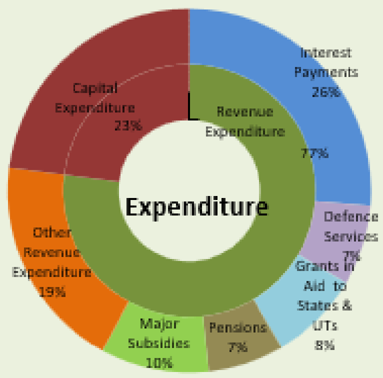
Union Government Monthly Accounts Dashboard

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

Financial Year 2025-26

As at the end of Feb-26



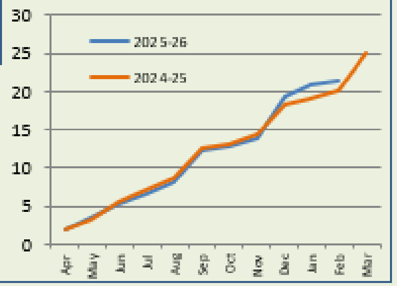


Total Receipts

₹ 27,91,943 | 82.0% of RE | 9.6% YoY Growth ▲

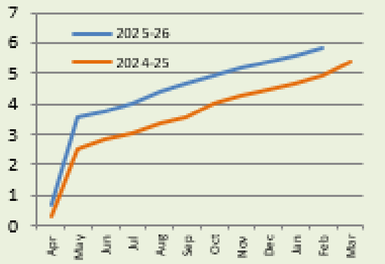
Tax Revenue (Net)

₹ 21,45,223
80.2% of RE
6.4% YoY Growth ▲



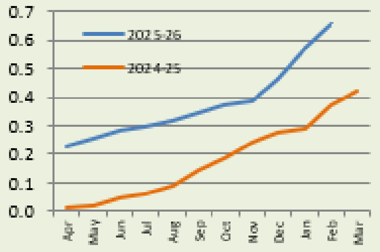
Non Tax Revenue

₹ 5,81,173
87.0% of RE
17.8% YoY Growth ▲



Non Debt Capital Receipts

₹ 65,547
102.4% of RE
75.4% YoY Growth ▲

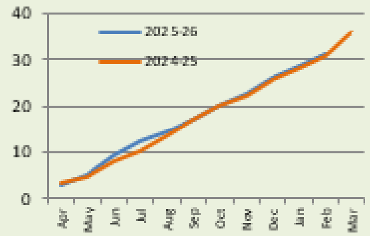


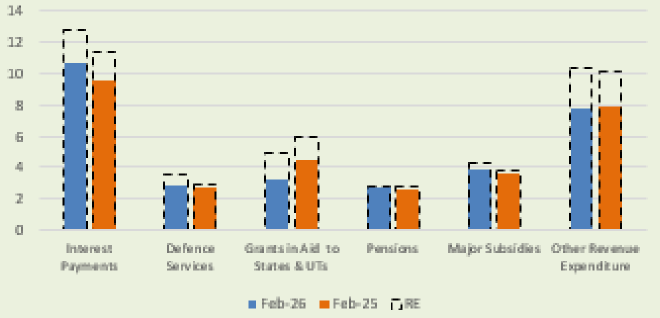
Total Expenditure

₹ 40,44,592 | 81.5% of RE | 3.9% YoY Growth ▲

Revenue Expenditure

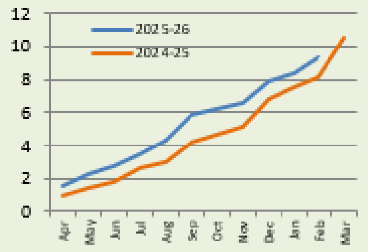
₹ 31,15,270
80.5% of RE
1.1% YoY Growth ▲





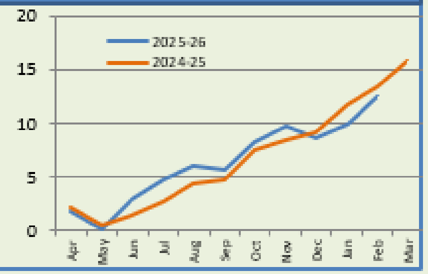
Capital Expenditure

₹ 9,29,322
84.8% of RE
14.5% YoY Growth ▲



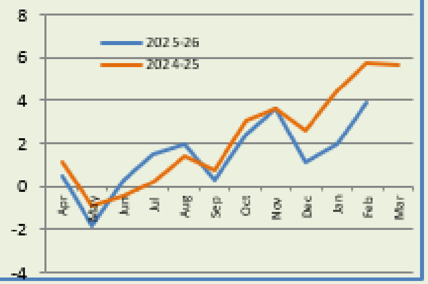
Fiscal Deficit

₹ 12,52,649
80.4% of RE
3.6% of GDP
-7.0% YoY Growth ▼



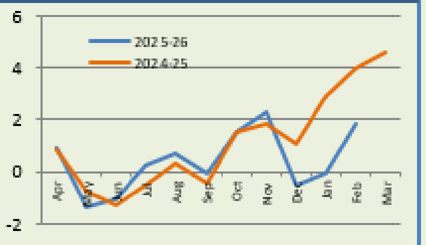
Revenue Deficit

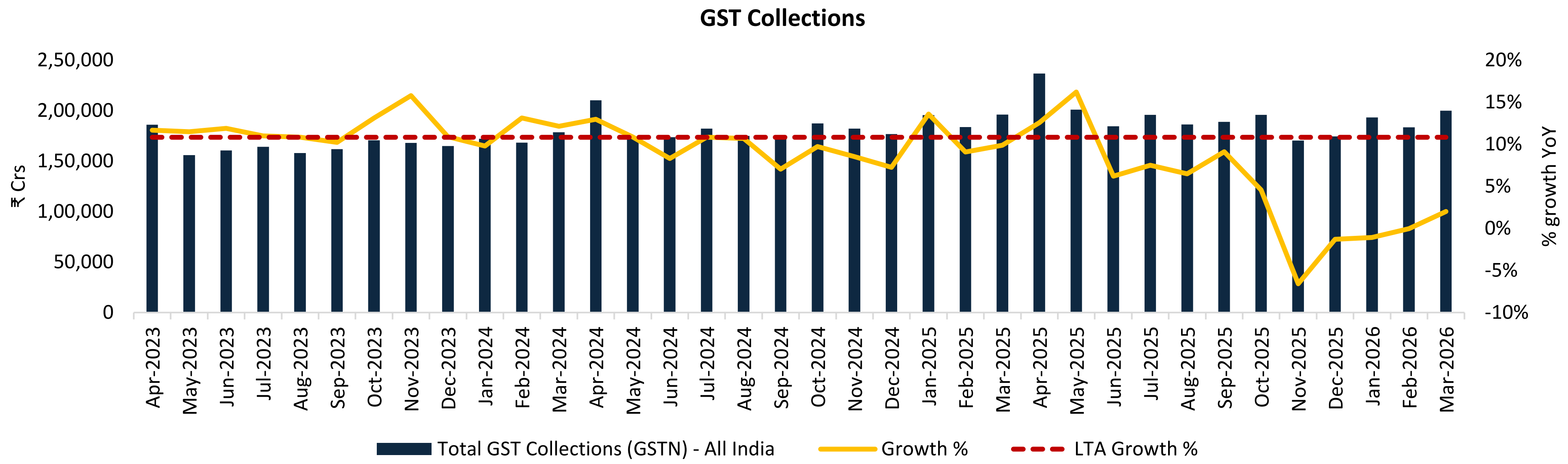
₹ 3,88,874
73.8% of RE
1.1% of GDP
-32.1% YoY Growth ▼



Primary Deficit

₹ 1,87,344
65.9% of RE
0.5% of GDP
-52.5% YoY Growth ▼



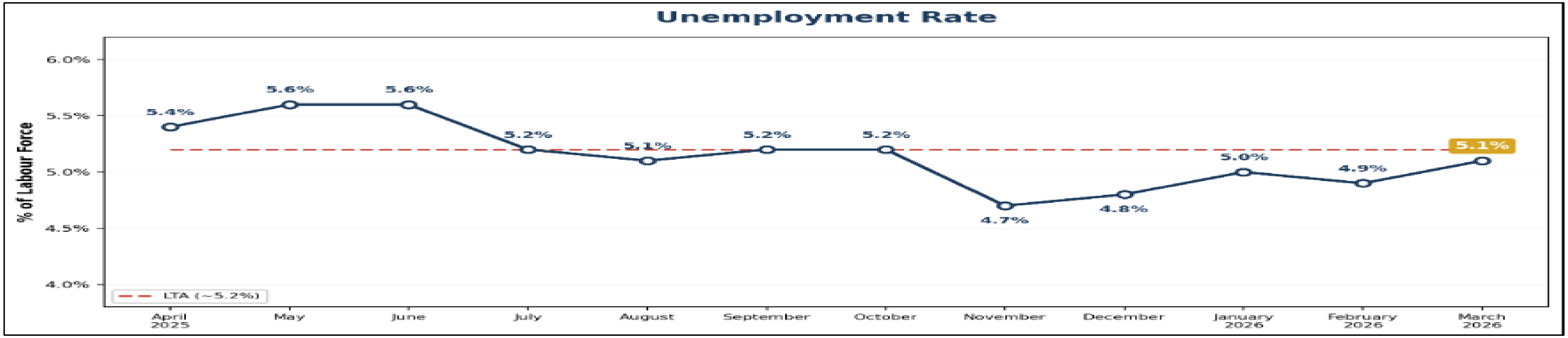


India's GST Collections up to March 2026: The Rs.2 Lakh Crore Milestone Closes a Strong FY26

- **India's GST collections in March 2026 breached the Rs.2 lakh crore** mark for the first time in FY26, with **gross revenue at Rs.2,00,064 crore (+8.8% YoY),** recovering sharply from February's Rs.1,83,609 crore. This was the **second-highest monthly print ever**, behind only April 2025's Rs.2.36 lakh crore which benefited from year-end filing surges. The moderation in domestic revenue growth (+5.9% YoY to Rs.1,46,202 crore) was more than offset by a strong 17.8% surge in import GST to Rs.53,861 crore, reflecting elevated commodity imports and rupee pass-through effects on customs duty base**.** The component-wise breakup stood at **CGST Rs.40,549 crore, SGST Rs.53,268 crore, IGST Rs.1,06,246 crore.** Net GST revenue after refunds of Rs.22,074 crore stood at Rs.1,77,990 crore (+8.2% YoY), with domestic refunds rising 31.2% indicating faster processing while IGST export refunds declined 10.6%. Cumulative FY26 gross collections hit Rs.22,27,096 crore (+8.3% YoY), with the **tax base now exceeding 1.5 crore registered taxpayers**. Compensation cess collections continue to normalise following the January 2026 phase-out for most categories, which mechanically suppresses headline growth comparisons.
- **The underlying consumption base remains firm, and with the cess distortion fully washing out from April onwards, GST collections should sustain 9-10% YoY growth through H1 FY27, comfortably holding above Rs.1.85 lakh crore per month, broadly tracking nominal GDP growth and the structural uplift from GST 2.0 rate rationalisation.**

Source: Tijori and RBI DBIE

8. Employment



Unemployment – UR Edges Up to 5.1% in March; Urban Softening Surfaces, Labour Market Loses February Momentum

Dynamics:

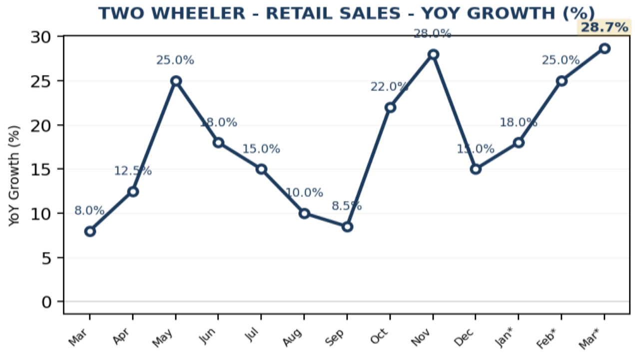
- Urban hiring cooled, rural held steady. **India's unemployment rate rose to 5.1% in March 2026 from 4.9% in February**, reversing the improvement seen earlier. **Urban UR climbed from 6.6% to 6.8%, reflecting softer services-sector hiring, a seasonal construction slowdown, and cautious recruitment amid global uncertainty. Rural UR edged up marginally from 4.2% to 4.3%, remaining structurally stable**. The March print is a five-month high, erasing the gains made since December 2025's 4.8% trough.
- LFPR and WPR both softened. **The Labour Force Participation Rate (LFPR) dipped to 55.4% from 55.9% in February**. Rural LFPR declined to 58.0% from 58.7%, while urban LFPR held relatively stable. Worker Population Ratio (WPR) fell to 52.6% from 53.2%, with urban WPR easing to 46.8% from 47.0% and rural WPR declining to 55.5% from 56.3%. The simultaneous decline in both LFPR and WPR alongside rising UR is a cautionary signal, indicating some workers may be exiting the labour force rather than being absorbed.
- Female participation reversed; youth stress persists. **Female LFPR fell to 34.4% from 35.3%**, and female WPR declined to 32.6% from 33.5%, interrupting the multi-month improvement trend. **Rural female UR held unchanged, but urban female UR edged higher. Youth unemployment (15-29 age group) rose to 15.2% from 14.8%**, with female youth UR at 17.7% **underscoring the persistent gender-skills mismatch in formal sector absorption**.

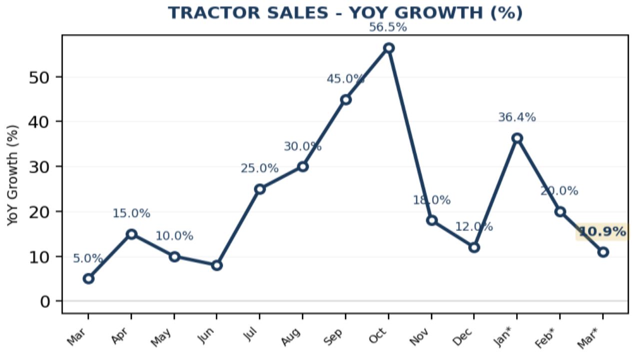
Overall Assessment:

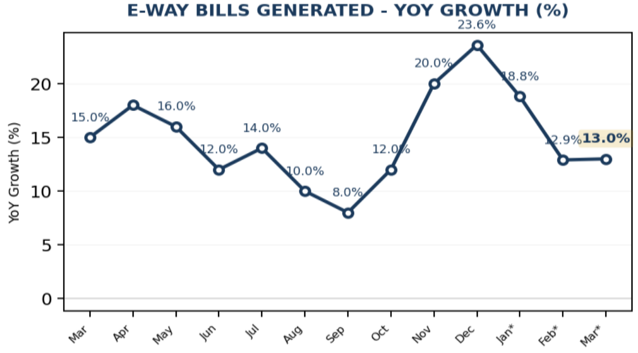
- **March 2026's 5.1% print signals a temporary softening rather than a structural deterioration. The uptick aligns with softer economic momentum visible in the March Manufacturing PMI (53.9, a 45-month low) and services-sector caution around the West Asia conflict. The key context is that the H2 FY26 improvement arc remains intact on a trend basis: UR averaged ~5.0% in Q4 FY26 versus ~5.3% in Q2. However, the simultaneous decline in LFPR and WPR is the real concern as it suggests the February recovery in workforce participation was fragile. The employment outlook heading into Q1 FY27 is watchful rather than alarming. Government capex execution (as discussed in the capex section) and the April Manufacturing PMI recovery to 55.9 should support construction and industrial hiring. The principal downside risk remains GenAI-led headcount rationalisation in IT services narrowing formal white-collar hiring, even as overall blue-collar and gig employment stays resilient.**

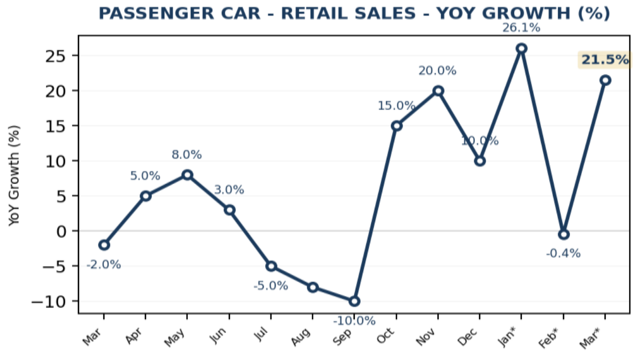
Source: RBI Bulletin and Internal assessment

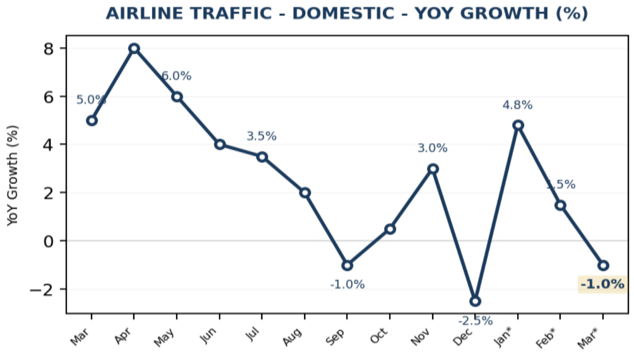
9. Demand Indicators

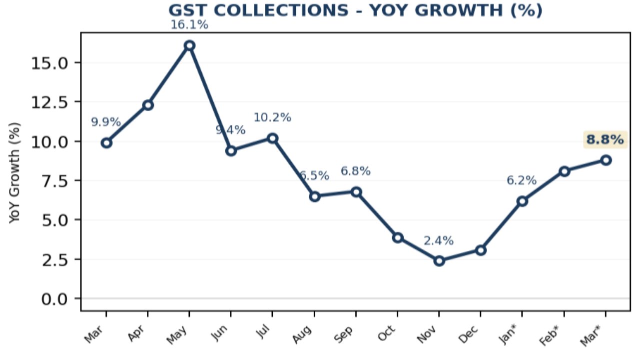










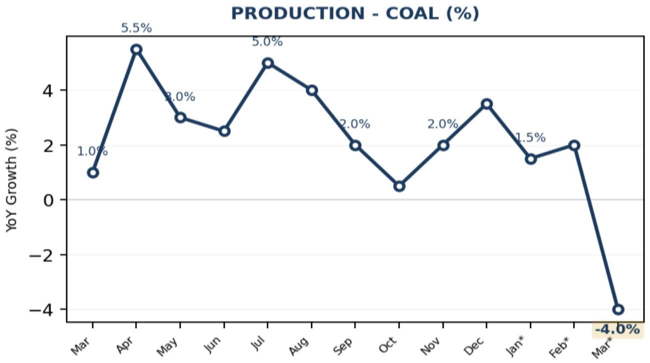


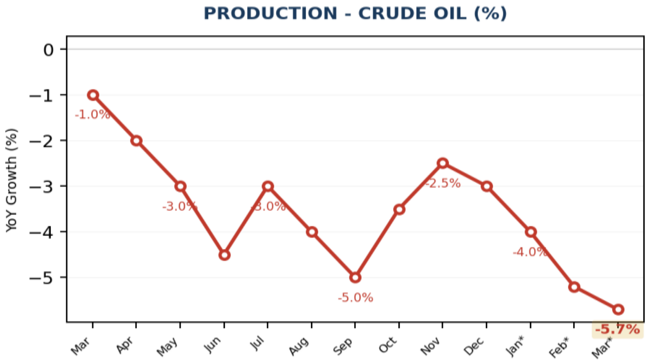
Select High-Frequency Indicators (March 2026) - West Asia Shock Hits Industry, but Auto & Consumption Hold Firm

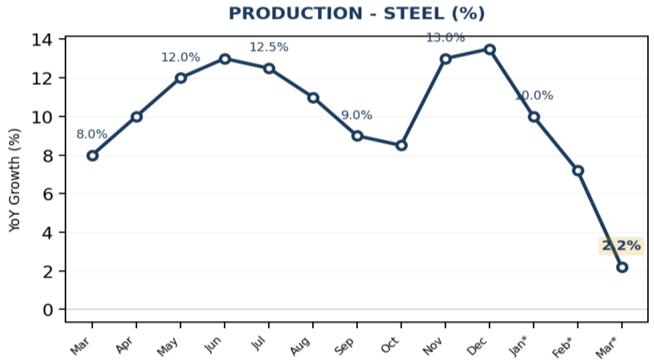
- **Rural Demand:** Two-wheeler retail surged +28.7% YoY in March (FADA data), the strongest monthly print of FY26, confirming that rural consumption is on a structurally higher trajectory post-GST rationalisation. Wholesale two-wheeler volumes grew ~20% YoY (SIAM), with scooters (+29.8%) outpacing motorcycles (+12.9%). Tractor retail grew +10.9% YoY, moderating from February's stronger print but sustaining double-digit momentum. MGNREGS work demand data for March is pending release, but the trend through February (8th consecutive month of contraction at -14.1% y-o-y) suggests rural labour has found better-paying employment; this is structurally positive.
- **Urban Demand:** Passenger vehicle wholesale grew +16.0% YoY to 4,42,460 units (SIAM), sustaining the structural pivot of PV demand into non-metro India. Three-wheelers surged +21.4% YoY. Domestic airline traffic was subdued, estimated at ~1.5% YoY growth for 11M FY26, weighed down by West Asia-linked airspace disruptions, fuel surcharge levies, and the IndiGo regulatory impact. GST collections at Rs.2,00,064 crore (+8.8% YoY) breached the Rs.2 lakh crore mark for the first time in FY26. E-Way Bills hit a record 140.6 million (+13% YoY), the third all-time high in four months, validating broad-based goods movement. The Rs.12L income-tax exemption is an upcoming tailwind.

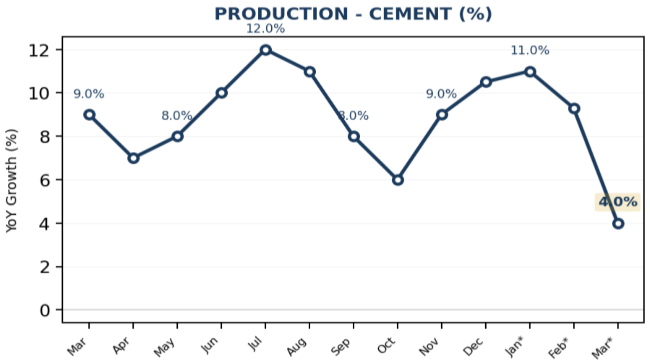
Demand Outlook: March confirms that the auto-consumption complex remains resilient despite the onset of the West Asia shock. The rural cushion is firm and broadening. Urban demand is holding, though airline traffic is the weak link. With CPI low, RBI in a 50bps cut cycle (paused), and Budget FY27 disposable income support, downside risks are contained provided crude does not sustain above $100. Key Monitorables: Whether the income-tax relief translates into measurable urban consumption uplift from Q1 FY27. The duration and escalation path of the West Asia conflict remains the critical swing factor for oil prices, input costs, freight, CPI (imported inflation), and the INR.

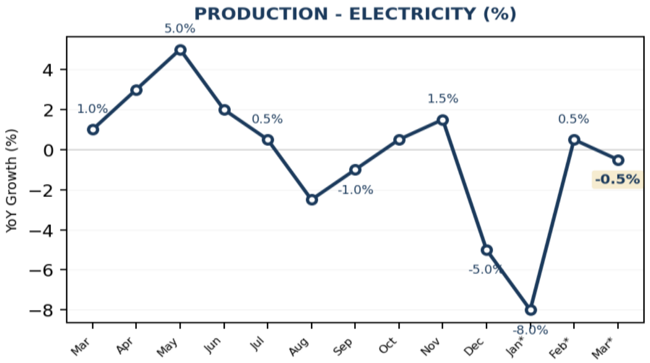
Source: Internal assessment based on data from Tijori Finance

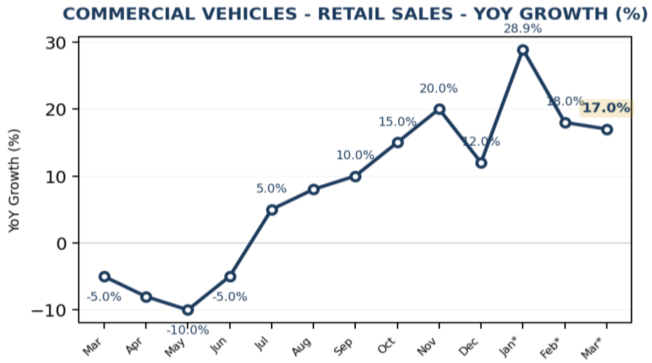












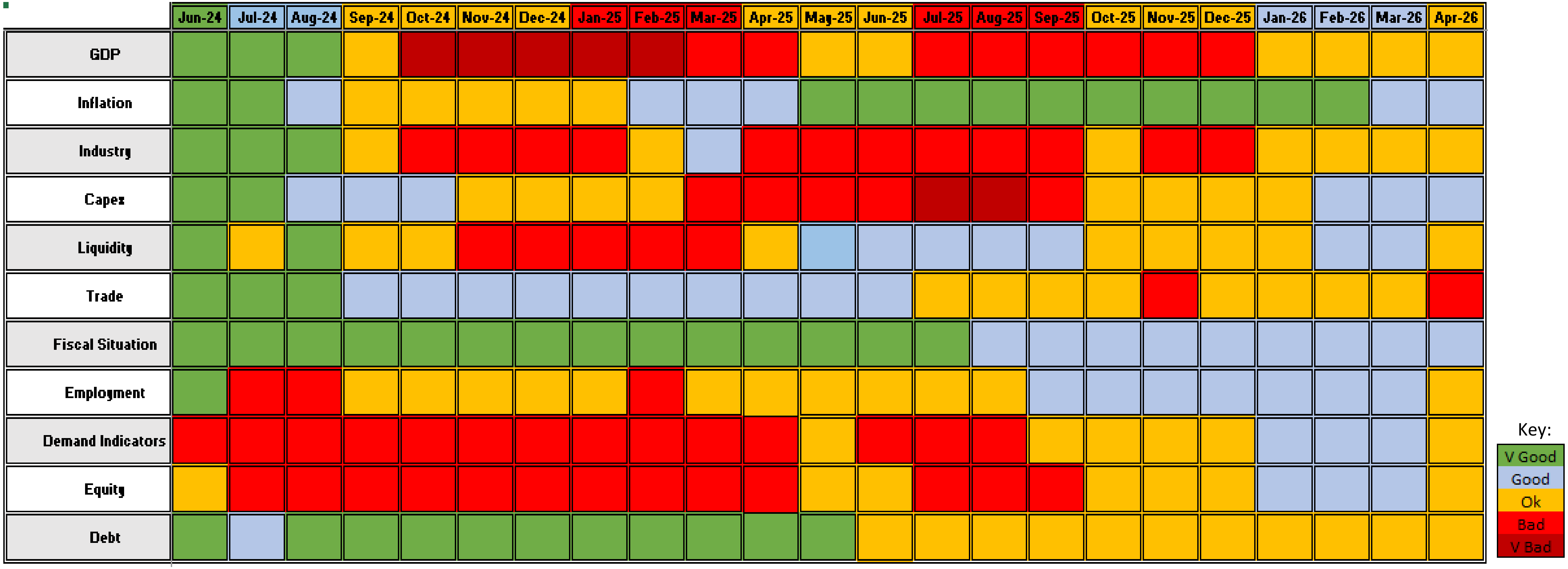
Industrial & Services Momentum (March 2026) – West Asia Delivers First Blow; Fertiliser Collapses, Steel and Cement Hold

- **Industrial Activity:** Core Sector (ICI) contracted -0.4% YoY in March 2026, the first decline in five months and the worst print in 19 months, marking a sobering end to FY26. The West Asia conflict's supply-chain impact was immediate and severe. Fertiliser production collapsed -24.6% (worst in 13 years) due to imported raw material shortages via the Strait of Hormuz. Crude Oil contracted -5.7% (structural field-depletion, 6th+ consecutive month of decline) and Coal fell -4.0% reflecting base effects and lower thermal demand from a mild March. Electricity generation slipped -0.5%. On the positive side, Steel grew +2.2% and Cement +4.0%, decelerating from February's stronger prints but confirming that infrastructure and construction demand remain intact. Natural Gas surged +6.4%, and Refinery products inched up +0.1%. For full-year FY26, cumulative ICI growth stood at 2.6% versus 4.5% in FY25, a five-year low, with Steel (+9.1% cumulative) and Cement (+8.6%) the standout performers and five of eight sectors posting their weakest growth in five years.
- **Services Sector:** HSBC Services PMI held at 58.1 in March (43rd consecutive month above 50), while Manufacturing PMI fell sharply to 53.9, the lowest since June 2022 as input cost pressures from crude and logistics hit order books. Composite PMI remained robust at 57.7, though the manufacturing drag is increasingly visible. Commercial vehicle wholesale volumes grew double-digit in March, with Tata Motors CV up +17% and VECV +10%, reflecting LCV freight recovery and M&HCV replacement demand post-GST rationalisation.

Industrial & Services Outlook: The March data marks the first tangible impact of the West Asia conflict on India's industrial output. The fertiliser collapse is a direct supply-chain casualty, not a demand issue, and will normalise once import routes stabilise. Steel and cement holding positive growth, alongside record E-Way bills and robust CV volumes, confirms that the capex-consumption virtuous cycle is intact beneath the energy-sector noise. IIP growth is expected to slow to ~1-2% in March (from 5.2% in February). The key question for Q1 FY27 is whether crude sustains above $100/barrel. If the Strait of Hormuz normalises and ceasefire holds, industrial momentum should recover to 4-5% IIP growth by June. If not, the fertiliser, refinery, and electricity sectors will continue to drag, and elevated input costs will compress manufacturing margins. The April Manufacturing PMI recovery to 55.9 with new orders at 10-month highs is an early positive signal. Government capex at Rs.12.20 lakh crore, PLI-driven electronics/auto output, and the rate-cut transmission pipeline provide incremental tailwinds.

Source: Internal assessment based on data from Tijori Finance

Economic Heatmap



Cautious Optimism Under a Lengthening Shadow

India enters FY27 with a structurally sound domestic economy. What has changed sharply is the external environment. The US-Israel-Iran war (February 28, 2026) and Iran's effective blockade of the Strait of Hormuz has unleashed the most severe energy supply shock since the 1970s. Its impact on India is first order with the second and third order being even more severe. And the outcome hinges almost entirely on how quickly it ends.

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%									-8.3%
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

- **In the last 3 months, the Nifty 50 Index has fallen ~5%. Historically, the Nifty 50 has given a CAGR of ~12% over the past ~27 years**. Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. **Similarly Mid and Small Caps registered a CAGR of ~15% each over the past ~21 years and ~13 years respectively. We expect returns to improve going forward, supported by India's strong internal macros. However, geopolitics currently appears to be the primary driver behind the recent weakness in the broader market, and until the United States and Iran reach some form of de-escalation or settlement, markets are likely to remain under pressure with a downward bias and elevated volatility.**

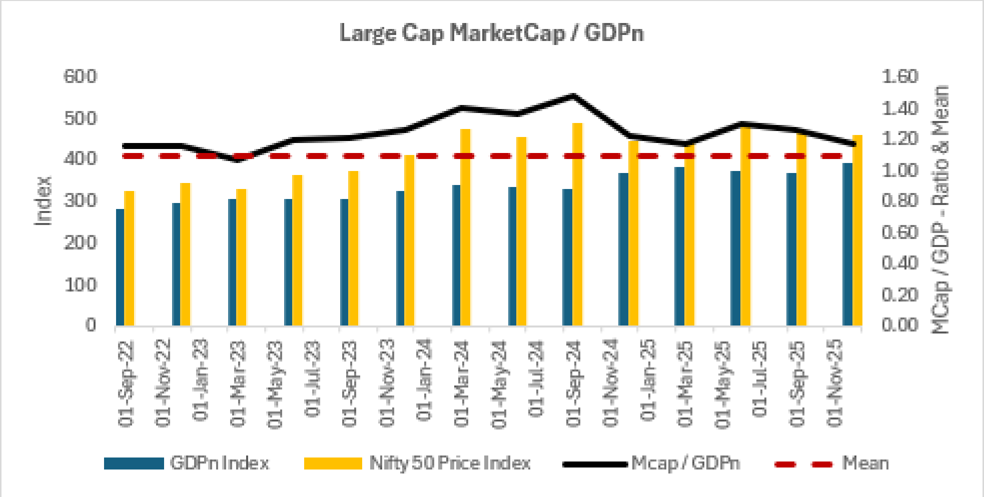
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.

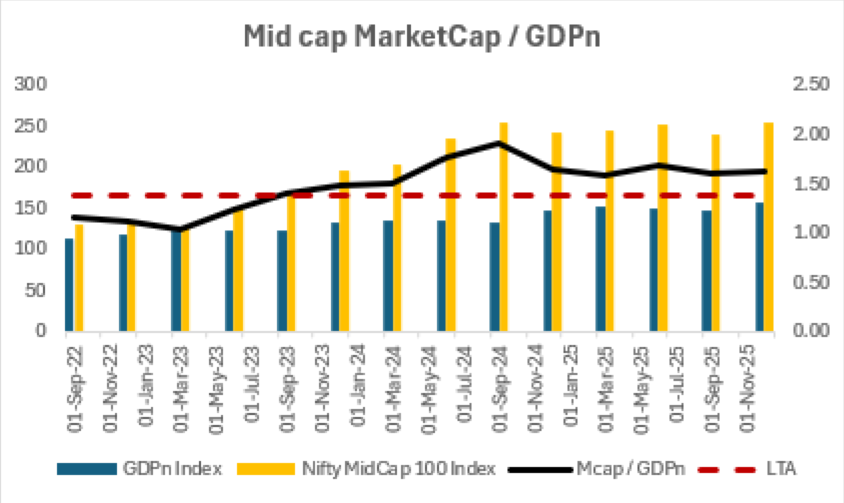
- **As per TTM PE valuations Large Cap appear to be Undervalued. Mid Cap seem to be Fairly-valued, and Small cap seem to be Overvalued**

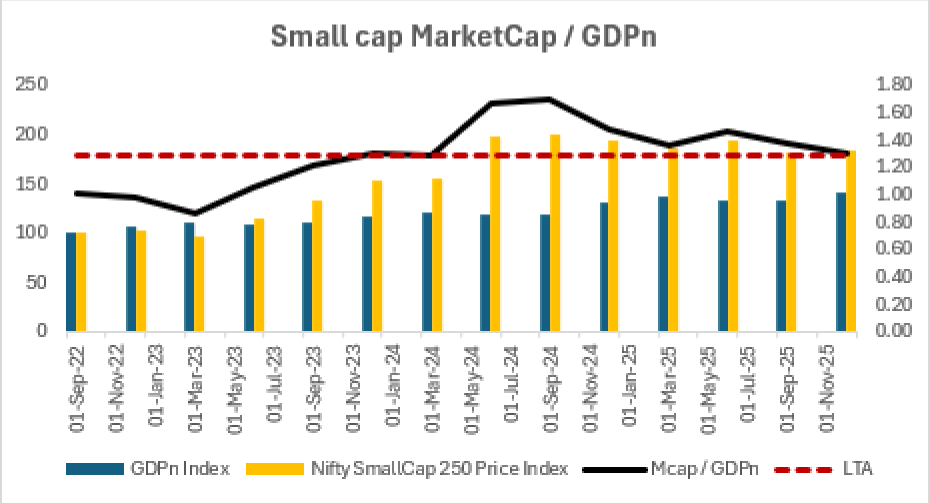
Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	20.80	23.77	-12%	Undervalued
Mid Cap	35.80	32.41	10%	Fairly Valued
Small Cap	29.96	26.46	13%	Over Valued

Source: NSE and Bloomberg

Buffett Indicator







The present valuations remain moderate to attractive as evidenced in the premiums exhibited in their Mcap/GDP ratios where Mid Caps are currently trading at a premium of approx 14%, whereas Large Caps & Small Caps are currently trading at smaller premium of approx 6% & 1% respectively (as per Buffet Indicator), as on 30st Apr 2026.

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

Iran War: Sectoral Transmission Channels for Indian Industry

How the Shock Transmits: It's Not Just Oil

The Strait of Hormuz carries ~20 mnbpd of oil and oil products globally. For India, 54% of crude imports, 60% of LNG, and 90% of LPG transit through the Strait. Crude oil availability itself is manageable near-term – India has ~40 days of strategic reserves, the IEA has released 400 mn barrels, and Russian barrels are being redirected. The real stress points are oil products (LPG, naphtha, bitumen) and natural gas, where there are no spare global capacities and India's storage cover is critically thin: LNG at under 5 days, LPG at 15–20 days. Beyond hydrocarbons, the Gulf accounts for ~45% of global sulphur exports, ~30% of methanol production, ~30% of urea trade, and ~9% of aluminium output – each feeding directly into Indian industrial value chains. This is not a single-commodity shock but a multi-input, multi-sector supply squeeze with staggered inventory exhaustion timelines.

Oil & Gas: Upstream Gains, Downstream Pain

Upstream producers benefit directly – every $5/bbl adds ~11–12% to EBITDA. But downstream is ugly: oil marketing companies face negative marketing margins of ~Rs 30/litre on petrol/diesel with near-zero pass-through ability (four state elections this year). Every $1/bbl above the budgeted $70 costs the exchequer Rs 100 bn; at a sustained $90 average, the fiscal hit is Rs 2 trillion – forcing a trade-off between wider fiscal deficit and lower government capex. LPG under-recovery exceeds Rs 300/cylinder even after the Rs 60 hike. City gas distributors face 15–30% EBITDA compression on gas cost pass-through lag. Refining margins have spiked to >$25/bbl (vs normalised $8), benefiting complex refiners, but petchem feedstock diversion is already constraining downstream production.

Infrastructure & Cement: Government Capex at Risk

The Rs 12.2 lakh crore budgetary capex is now under fiscal pressure. If government absorbs the oil subsidy burden, capex becomes the adjustment variable. Infra companies with Middle East order books face execution slowdowns and deferred ordering. Unlike earlier oil spikes, higher prices are not boosting ME economies this time – lower export volumes offset price gains. Cement faces no direct ME supply chain exposure, but every 10% increase in international pet-coke and coal prices contracts EBITDA by ~8% (Rs 130/tonne), plus polypropylene-linked packaging costs add another Rs 80/tonne. Bitumen availability from ME is directly impacted, hitting the roads sector.

Fertilizers: Input-Cost Shock, Not Availability Crisis (Yet)

Near-term supplies are comfortable – lean demand period with kharif buying starting only from mid-May. But stress is building: urea plants are cutting utilisation due to gas shortages, DAP is the most exposed on import-chain vulnerability (Saudi supply Hormuz-locked, China has suspended fertilizer exports), and sulphur – 77% of India's imports sourced from ME – is seeing immediate price spikes. India needs ~18 mn tonnes of urea through August; even with a 20% production cut, the gap is ~2 mn tonnes requiring imports (Russia via Suez is the fallback). If disruption persists into kharif, subsidy bill balloons, landed costs surge, and food inflation follows.

Chemicals & Petrochemicals: Margin Squeeze with a Lag

Most chemical chains with crude-linked inputs pass through cost inflation with a quarter lag – Q4 FY26 may show inventory gains while Q1 FY27 faces the real margin test. Most exposed: methanol (Gulf controls 30–35% of global production), ammonia, and crude-linked petrochemicals (ethylene, propylene, benzene). With LPG prioritised for households, gas is being diverted from petchem feedstock, constraining domestic production. PE/PP prices are already elevated; if disruption extends beyond weeks, focus shifts from price hikes to sourcing risk and plant run-rates.

FMCG & Consumer: Packaging Cost Inflation

Crude-linked packaging inputs – PET chips, HDPE, liquid paraffin, flexible laminates – account for ~8–15% of operating costs. Margin pressure materialises only if crude stays elevated beyond 1–2 months (from Q1 FY27). Palm oil prices tend to follow crude, impacting soaps and detergents. A ~3% price hike needed at $85/bbl; ~5–6% at $100/bbl. Organised players can gain share as they're better positioned to pass through costs versus unorganised.

Automobiles: Urea Shortage Could Immobilise the Diesel Fleet

An underappreciated risk. India imports 50–60% of technical-grade urea from ME, used in diesel exhaust fluid (DEF) – mandatory for all BS-VI diesel trucks/buses with engine interlock. SIAM flags no visibility of supply beyond early April. A DEF shortage could immobilise a significant portion of the commercial diesel fleet, disrupting logistics nationwide. Crude derivatives constitute 40–45% of tyre RM costs; forging/casting companies dependent on gas-fired furnaces face direct production constraints.

Textiles & Home Improvement: Near-Term Gains, Medium-Term Risk

Polyester yarn prices up 15–20% on MEG/PTA supply disruption, creating inventory gains for producers holding 30–40 days of stock. Cotton yarn spreads widened, benefiting spinners. Persistently high crude would weigh on apparel demand. Tiles face 70–150 bps EBITDA margin risk on gas cost inflation (Morbi-based production especially vulnerable); wood panels see 30–60 bps margin pressure from resin and energy costs.

Airlines, Alcobev & RAC: Direct Cost Hits

ATF is 35–40% of airline costs; every 10% ATF hike hits EBITDA by ~15%, compounded by ME airspace shutdowns forcing costly rerouting. Alcobev's vulnerability is glass bottle costs – furnaces rely on natural gas, with only 1–2 months of inventory before cost inflation bites. RAC manufacturing disrupted by LPG shortages for heat exchangers during peak summer; EMS vendors more exposed than brands. Industry shifting to oxyacetylene/PNG alternatives at elevated costs.

Sugar: A Rare Beneficiary

Higher crude incentivises sugarcane-to-ethanol diversion in Brazil (season starts April), tightening global sugar supply. Domestic production revised down to <32 MT, potentially enabling 0.6–1 MT of Indian exports. Sustained high crude may prompt government to accelerate ethanol blending beyond 20%, supporting distillery utilisation.

Strategy

Tailwinds

- India's strong government finances reflect underlying structural resilience, with the twin deficits - both **fiscal and current account deficits remain well-contained and manageable, for now.**
- **Inflation well under control** and well within the RBI's comfort level, for now.
- **Uptick in Domestic Demand on account of tax rate cuts, a new lower GST regime.** This trend is visible is in various high frequency indicators.
- **Corporate India's healthy balance sheets and low leverage**, enabling them to benefit from an impending **cyclical recovery and capex upcycle, the early signs of which are visible. Q4 results will be an important indicator of this.**
- **Valuations now seem to be in the reasonable zone for many sectors.**
- **The newly announced trade deals** provide comfort to export oriented companies and market sentiment as well.

Headwinds

- **Limited exposure to AI-led growth themes** - Compared with other emerging markets, India has relatively fewer scalable, listed AI-centric platforms. This has reduced India's appeal within global AI-driven capital allocation, keeping incremental foreign portfolio flows directed toward markets with clearer AI monetisation stories.
- **INR depreciation amid persistent foreign outflows** - Continued FPI outflows, alongside periodic private equity exits have exerted pressure on the INR versus the USD (+₹95/$). Currency weakness dampens USD-denominated returns for foreign investors, acting as a further deterrent to fresh equity inflows.
- **Geopolitical shock from the US-Israel-Iran war and Hormuz disruption** — The ongoing Operation Epic Fury, now in its second month, has effectively shut the Strait of Hormuz — the conduit for ~20% of global oil supply and over 60% of India's crude imports. Brent has surged from 66–67/bbl in January–February to $100+. For an economy that imports 85%+ of its crude and sources more than half its LNG from Brent-indexed Gulf contracts, this is a dual physical and financial shock - widening the CAD, stoking imported inflation, compressing OMC margins, and pressuring the rupee to record lows of +₹95. The conflict has already triggered a sharp correction in the Nifty from recent peaks, accelerated FPI outflows, and pushed the 10Y G-Sec yield higher to ~7.06% as markets reprice the inflation and external balance trajectory. A prolonged conflict would materially constrain the RBI's room to resume easing and risk derailing the nascent private capex recovery.

Outlook

- **Volatility to persist due to the current geopolitics, however with an Upward Bias in the medium term due to strong Macros and a high probability of de-escalation of the war.**

Suggested Strategy

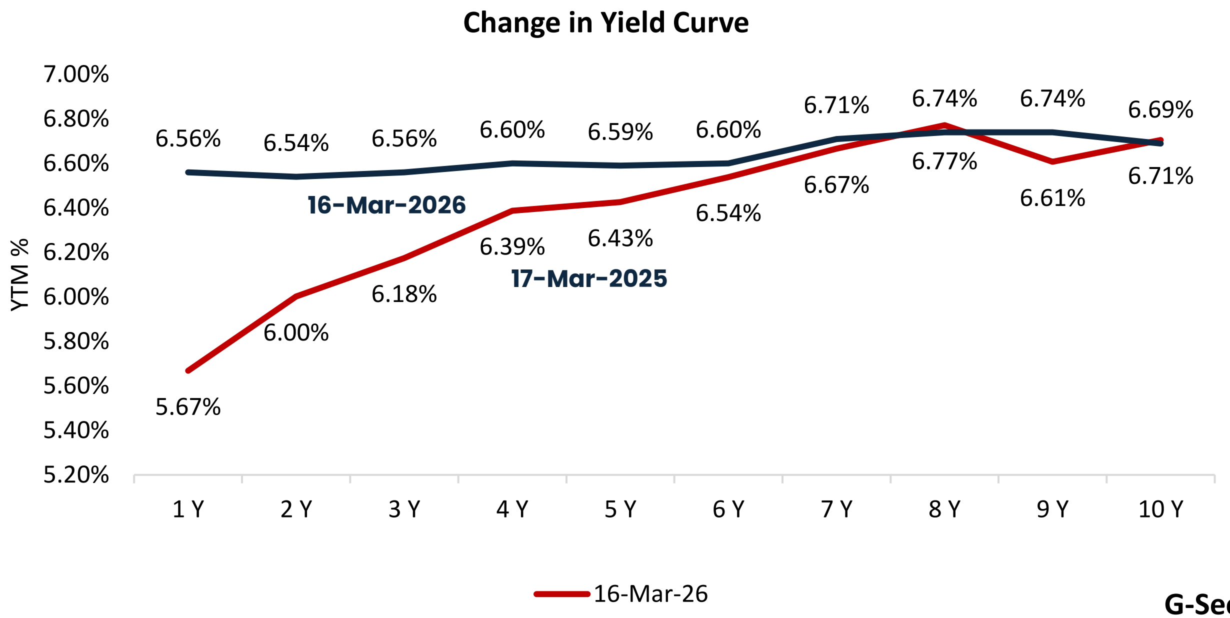
➢ **Neutral Equity**

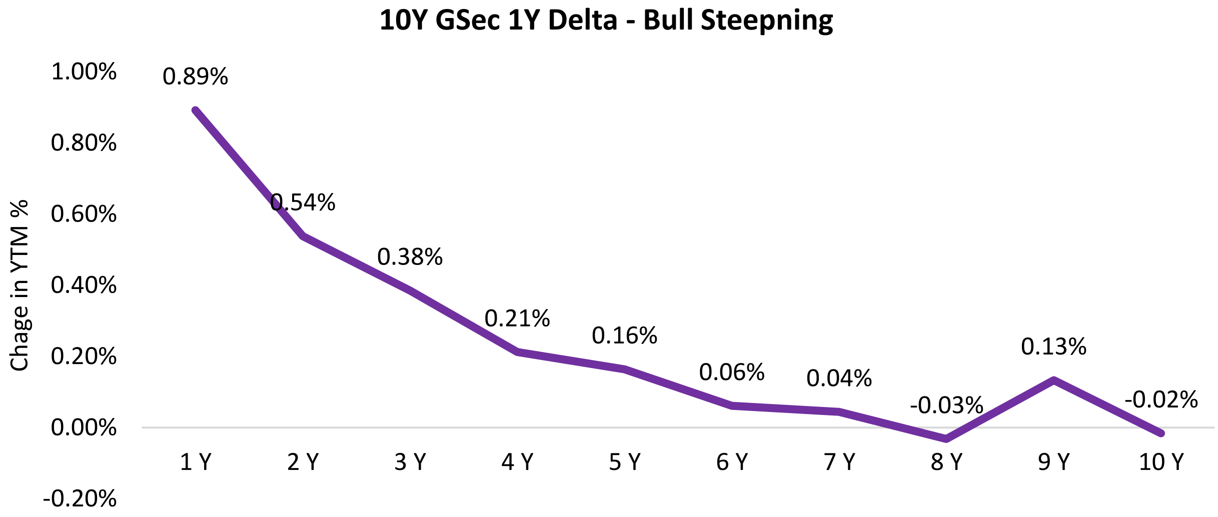
Category	*Stance*
Large Cap	*Neutral*
Mid Cap	*Neutral*
Small Cap	*Neutral*

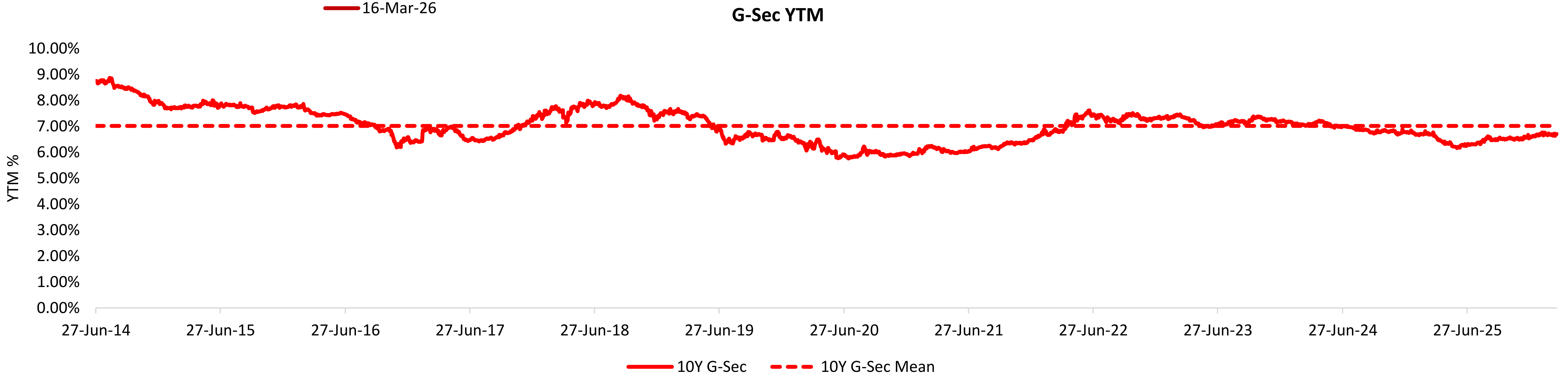
➢ **Neutral Gold**

Debt Outlook

Yields Curve Dynamics







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

Debt Market Outlook & Strategy

A Violent Repricing: Markets Swing from Easy Money to Rate Hike Panic

A Month That Rewired Market Assumptions

- **A month ago, Indian fixed income markets were anchored firmly in the 'lower for longer' narrative**. The policy rate cycle had seemingly peaked, the RBI was actively buying bonds, overnight rates were drifting comfortably below the repo rate, and the dominant question was when not whether more easing would come. **Today, the conversation has shifted so dramatically that markets are pricing in substantial and imminent rate hikes**. It is quite striking how much ground we have covered in such a short span, and worth pausing to assess how much of this repricing is warranted and how much is overshoot.
- **The trigger, of course, is the West Asia conflict now stretching beyond a month despite recurring optimism for a conclusion**. The energy shock continues alongside, with concerns rising as inventories deplete. But the supply hit is not limited to energy alone. It extends to other commodities as well, both directly and indirectly via escalation in transportation costs. What has forced a real shift in thinking is not merely the price impact but the more permanent damage sustained by key gas facilities in the region that may delay full restoration of supply for a lengthy time frame. These forces, **if prolonged might impact the fiscal and current account balances. The market has been forced to stop treating this as a transient disruption and start pricing duration and persistence**.

The Dovish Overhang That Set the Stage

- To understand why the current adjustment has been so sharp, one has to recognise the degree of dovishness that had been injected into the system even before the war. In our own framework, we had been somewhat uncomfortable with the 'lower for longer' narrative for a while, and particularly with the additional easing that RBI had undertaken since December. This had largely taken two forms. **First, the central bank stepped up intervention in the government bond market despite healthy spot levels of rupee system liquidity. Second, it stopped variable rate operations to absorb excess liquidity, which allowed collateralised overnight rates to fall to levels much below the policy rate**.
- To be clear, we recognised that the inflation-growth trade-off was favourable and hence allowed the continued focus on transmission. **However, the worry for us is different if the sustainable level of current account deficit has moved higher, does it mean the sustainable neutral level of rates has moved higher? The lack of sufficient net capital flows had been bothering us, and the question of whether this had implications for the equilibrium level of interest rates was one we had struggled with for some time. This is what made us uncomfortable with the narrative and, more specifically, with the additional dovishness layered on since December**.
- **The consequence of this pre-existing dovish overhang is that when the geopolitical shock hit, the starting point was already stretched. The market wasn't just repricing a commodity shock; it was simultaneously unwinding a dovish positioning that had been building for months. This double adjustment is a key reason why the move in yields has been as violent as it has been.**

When Defending the Rupee Spooked the Bond Market

- Perhaps the most counter-intuitive development of recent weeks has been the bond market's reaction to the RBI's administrative measures to defend the rupee. Logically, an arrest in the currency's fall should provide some comfort. Instead, the bond market immediately leapfrogged to the next question: **does this signal a shift in monetary policy approach? More specifically, the worry that crystallised was whether early rate hikes may now be in the offing aimed not just at the new inflationary pressures from the war but also to try and mitigate currency pressures.**

- This reaction also brought parallels with 2013. While it is true that the overall external account is under pressure, the current account and inflation dynamics are very different from 2013. Furthermore, our own argument about potentially higher neutral rates is meant to be incremental, it is largely about pushing against the 'lower for longer' theme presented almost as an automatic base case. **By no means are we suggesting that a 'rate defence' is needed. The market, in its anxiety, appears to have conflated caution with crisis.**

What the MPC Actually Told You — If You Were Listening

- Against this backdrop of market anxiety, the MPC kept policy rates on hold and left the stance unchanged. No surprise there. What mattered was the substance of the assessment, and here the Governor was more revealing than the headline suggests.
- **The starting point, and this deserves emphasis, is that the RBI views the macro foundation growth, inflation, and current account as quite resilient and able to absorb short-term shocks. GDP growth for FY27 is projected at 6.9% (Q1: 6.8%, Q2: 6.7%, Q3: 7.0%, Q4: 7.2%), CPI inflation at 4.6% (Q1: 4.0%, Q2: 4.4%, Q3: 5.2%, Q4: 4.7%), and critically, core inflation is pegged at 4.4% and the MPC notes that excluding precious metals it is even lower, indicating that underlying inflation pressures are expected to remain contained. This is a deliberate signal the concern is imported and supply-driven, not demand-led**.
- **The most consequential remark, however, was the Governor's observation that "the initial supply shock can potentially transform into a demand shock over the medium term if the restoration of supply chains is delayed." This framing is critical. It tells you the MPC is viewing this episode as something that impacts both growth and inflation simultaneously not just as a one-dimensional inflation problem that demands a textbook tightening response. Combined with the press conference comments around real policy rates being "quite high" currently and that it is still "quite possible that lower rates continue for a long time," the message is clear: the bar for any change in policy direction is very high.** The market was pricing a reversal that the central bank is plainly not contemplating in the near term.

Neither 2020 Nor 2022 — Why the Analogies Break Down

- The narrative for RBI had shifted aggressively in favour of expecting policy tightening, with parallels getting drawn with the post-pandemic rate hikes starting 2022. Indeed, we ourselves had done so in our previous note a month back. It may be recalled that was a period of rapid rate adjustments, also in response to a commodity shock triggered by the Russia-Ukraine war.
- However, as some economists have already noted, the current episode is not just a price shock but a quantity one as well. Physical infrastructure has been damaged. The restoration timeline is uncertain. This means it sits somewhere between the 2020 pandemic episode (which brought central bank easing) and the 2022 commodity shock (which brought tightening) in terms of its features. While no one is arguing for rate easing in the context of India, the extent of hikes priced now also seems more than adequate given the dual nature of the shock.
- **The global narrative is shifting as well. In the first three weeks of the war, markets were focussed almost exclusively on the inflationary impact. In many major markets like Euro and UK, pricing went from some central bank easing to rate hikes; in the US, all future Fed rate cuts were priced out. But over the past week, there is a discernible shift from inflation alone to now considering the growth damage.** Policy-rate-sensitive 2-year bond yields in major developed markets have fallen over the past few days — especially in the US, where the Fed's dual mandate requires it to be mindful of growth. **This matters for India too. If the global narrative is beginning to accommodate a growth-damage scenario, the domestic rate hike pricing looks even more extreme.**

The Anatomy of the Yield Move: Sequencing, Overshoots, and Corrections

- The way Indian yields have moved over the past month is itself a story worth unpacking. In the initial period, government bond yields barely budged — largely reflecting the RBI's heavy bond purchases at the time. Most of the pressure during that phase was borne by interest rate swaps and corporate bond yields. The government bond market, in a sense, was living in an artificial calm.

- **When the central bank stepped back over the past couple of weeks, this calm broke. Heavy SDL supply, increased pessimism on the war's duration, and the rupee defence measures combined to push government bond yields up substantially. The last few days were notable where almost all market yields — government bonds, bank CDs, corporate bonds, swaps — spiked sharply.**
- Market yields, it is important to remember, don't just reflect exact mathematical expectations of policy rate changes. They are also considerably influenced by participants managing their risk positions. When everyone is trying to reduce duration simultaneously, the move amplifies. There may distinctly be overshoots in play for now which will probably smoothen out as volatility starts to normalise.
- Post the MPC and the ceasefire announcement, the correction has followed the expected pecking order: OIS rates first (these had been pricing the most aggressive tightening), followed by government bonds, then corporate bonds and money market rates. The last of these will ease more gradually over time, supported by strong system liquidity and a progressively less tight credit-deposit ratio at banks — reflecting both seasonal credit slowdown and a possible growth-related dampening of credit demand.

The Curve Debate: Steepening Has Limits

- With near-term rate hike fears receding post the MPC, the government bond curve has started steepening again. This is logical as a relief trade, but it has limits to how far it can go.
- **Here is the tension: while it is appropriate to push back on the timing and pace of hikes, it is perhaps imprudent to wish away any policy rate normalisation altogether. Average inflation will move up considerably, almost any way one cuts it. Some rate hike(s) towards the latter part of the year should still be expected. The world is probably at higher neutral rates, and India has external account pressures to contend with. So while the curve can steepen from the extremes it had reached, the structural case for a relatively flat curve at somewhat higher levels remains intact.**
- The front end of the corporate curve, up to 3–4 year maturities, remains relatively flat and continues to offer decent carry. The long end of the government bond curve — specifically the 14-year and 40-year points — had cheapened to levels that make them genuinely attractive, particularly on a re-flattening thesis. The belly, as it often is in such environments, is the least interesting place to be.

The Fiscal Question: Intent Still Intact

- **The finance ministry still seems seriously endeavouring to keep fiscal deficit targets intact.** This is despite the recent steep cut in excise duties on petro products, as well as the obvious upward pressure on the fertiliser subsidy bill. The hike in export duties and the economic stabilisation fund will partly mitigate the impact.
- **The ability to hold on to fiscal targets will eventually depend on the size and persistence of the current shock. However, the relevant question is not about a few basis points of slippage but whether the intent on fiscal management may be shifting. And this doesn't appear to be the case thus far at all. For bond markets, the signal matters more than the decimal.**

What We Did, Why It Changed, and Where We Stand Now

- Most portfolio approach heading into this episode was clear and consistent with the macro concerns outlined above: look for relative value where changes in policy rates would have lesser effects, keep duration underweight, and use swaps where needed since they seemed to be cheap protection. Participants were comfortable running positions in the non-SLR curve, which had already moved up and flattened, reflecting credit-to-deposit ratio stress rather than any change in repo rate expectations, hedged where needed via swaps. **We also remained strongly underweight duration as well as underweight government bonds, which we believed were being held back artificially by heavy RBI bond purchases.**

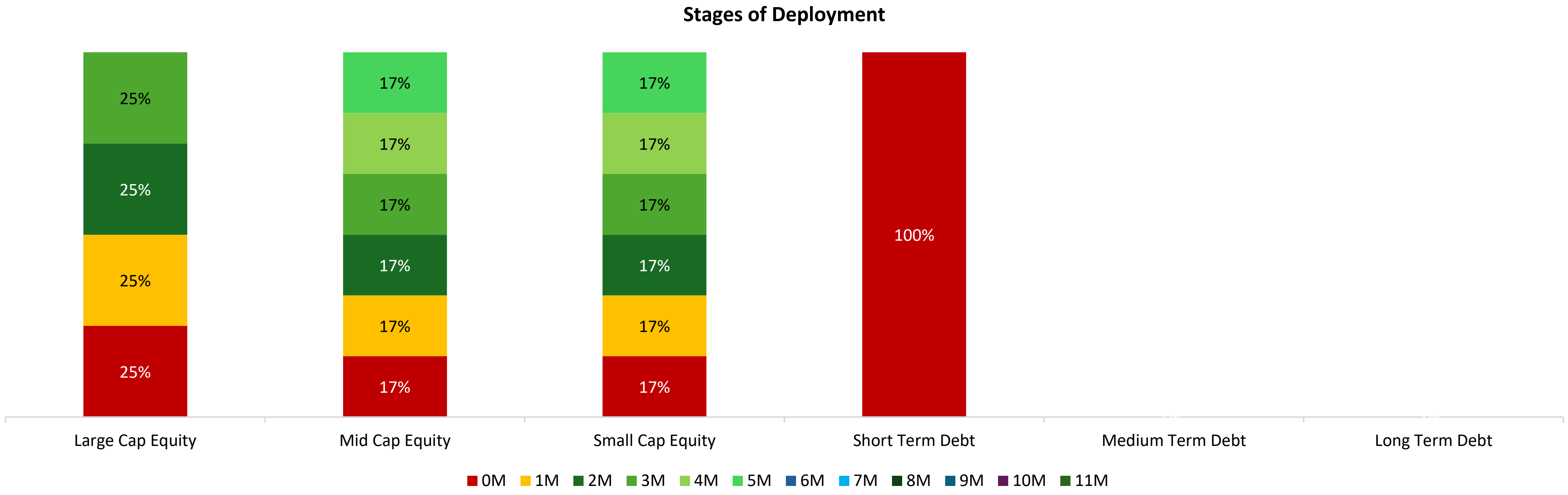
- Two developments forced a reassessment. First, government bond yields have moved up to levels that are genuinely attractive, and the curve has started to flatten as we had expected. Second, and more decisively, swap rates have spiked to levels where they are accounting for very substantial rate hikes already. They are no longer offering any obvious protection. When your hedge is pricing in a scenario that you believe is unlikely and one that the central bank itself has pushed back against - the hedge ceases to serve its purpose. Indeed, it becomes a source of risk rather than a mitigant.
- Participants unwound swaps and added government bonds, largely in 14-year and 40-year maturities, consistent with our view of curve flattening, across a host of our portfolios.

The Outlook: Conviction with Eyes Open

- **Bond markets have breathed a sigh of relief with the combination of the ceasefire and the monetary policy assessment. The RBI/MPC assessment essentially challenges any market idea that a policy rate reversal is imminent. The assessment suggests the bar for any change in policy direction was anyway quite high — the ceasefire simply reinforced what was already the central bank's base case.**
- **One should push against extreme expectations on both sides: the idea of near-term and rapid rate hikes, or the idea of no hikes at all. The truth, as it usually does, likely lies in between. Some normalisation in the latter half of the year is probable. The world is at higher neutral rates. India's external account demands a somewhat higher equilibrium than what the pre-war narrative assumed. But the dual nature of this shock — price and quantity, inflation and growth — constrains how fast and far the RBI can go.**
- **The risks are real and bear stating plainly. The geopolitical situation, despite the ceasefire, remains fragile — the physical damage to gas infrastructure will take time to repair regardless of political outcomes. CPI inflation is projected to peak at 5.2% in Q3 FY27, and upside risks from conflict escalation and weather events are non-trivial. The external account remains under pressure, and the question of whether the current account deficit is sustainable, continues to gnaw at us. Currency pressures, while temporarily arrested, carry an inflation pass-through that could reassert itself.**
- **Though valuations have cheapened, it is also true that the neutral levels of rates have likely moved up. Thus, focus on risk management, as well as sufficiently long investment horizons alongside a healthy appetite for absorbing short-term volatility, is still as much the need of the hour as it was a month ago. We have repositioned, not because the world has become safer, but because the market had moved to price a scenario that was more extreme than the fundamentals warrant. That gap was the opportunity. Maintaining the discipline to recognise when the gap closes — or reverses — is what will matter going forward.**
- **The stance is - no action is warranted presently, until some clarity emerges on the geo-political front.**

Deployment Strategy

Deployment



Indicators:

Indicators signaling over heated market conditions –

- FII's been net sellers
- VIX at ~18.5 levels
- Market Cap/GDP for Small Cap Index above its LTA's signaling lofty valuations

Indicators signaling fair valuation –

- DII's have been net buyers
- Market Cap/GDP for Large and Mid Cap Indices below their LTA's signaling Fair valuations
- Liquidity management by RBI
- Exports and Imports data are signaling a possible pickup in domestic demand
- Revival of Pvt Capex & Industrial Production & PMI

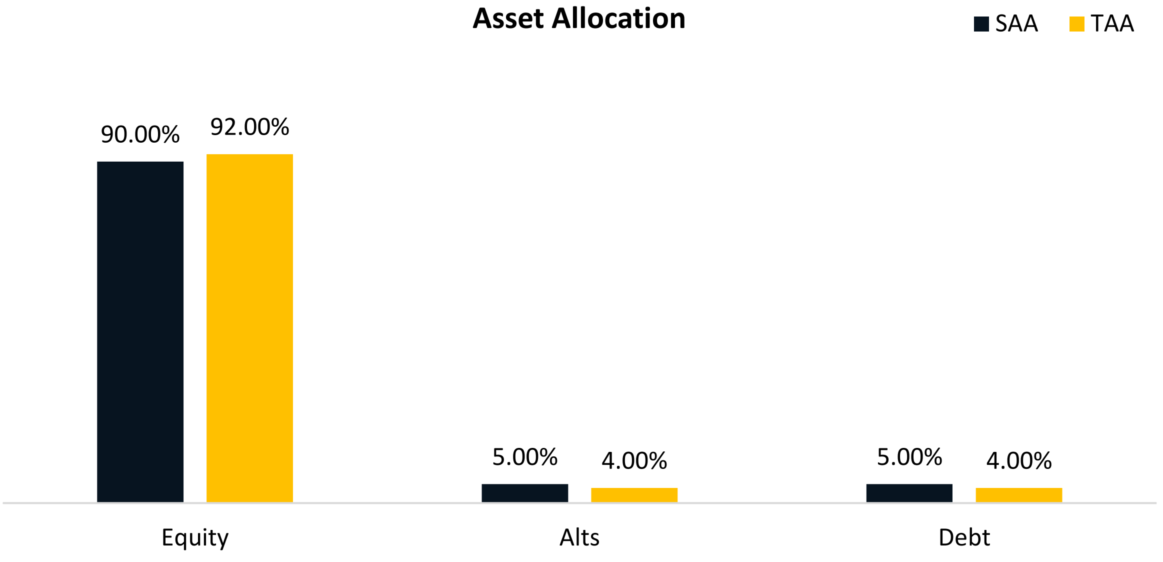
Deployment Strategy:

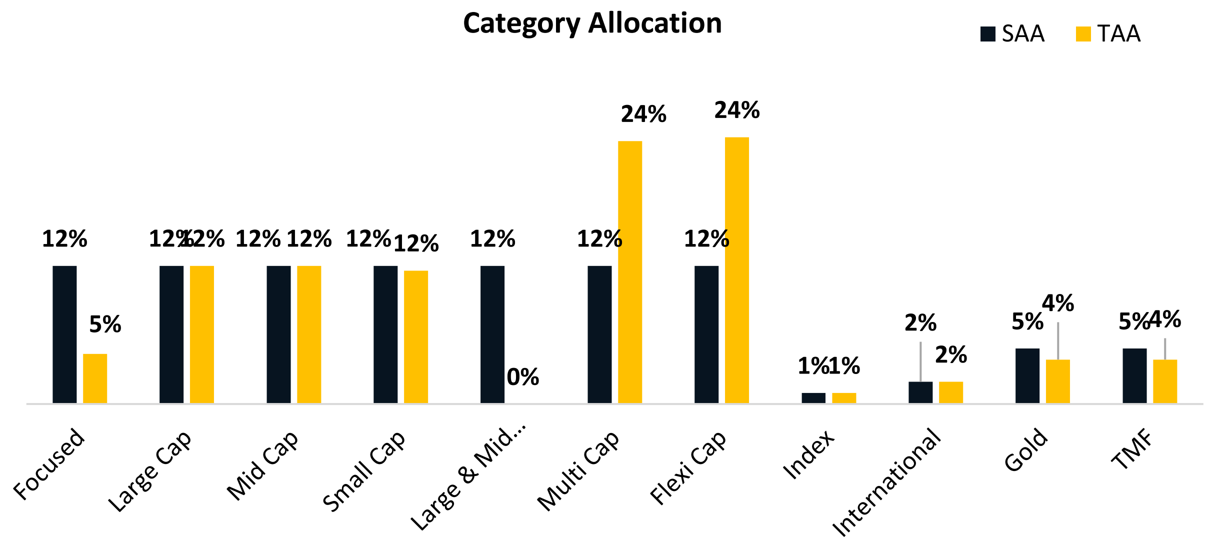
Staggered Deployment over the next 12 months –

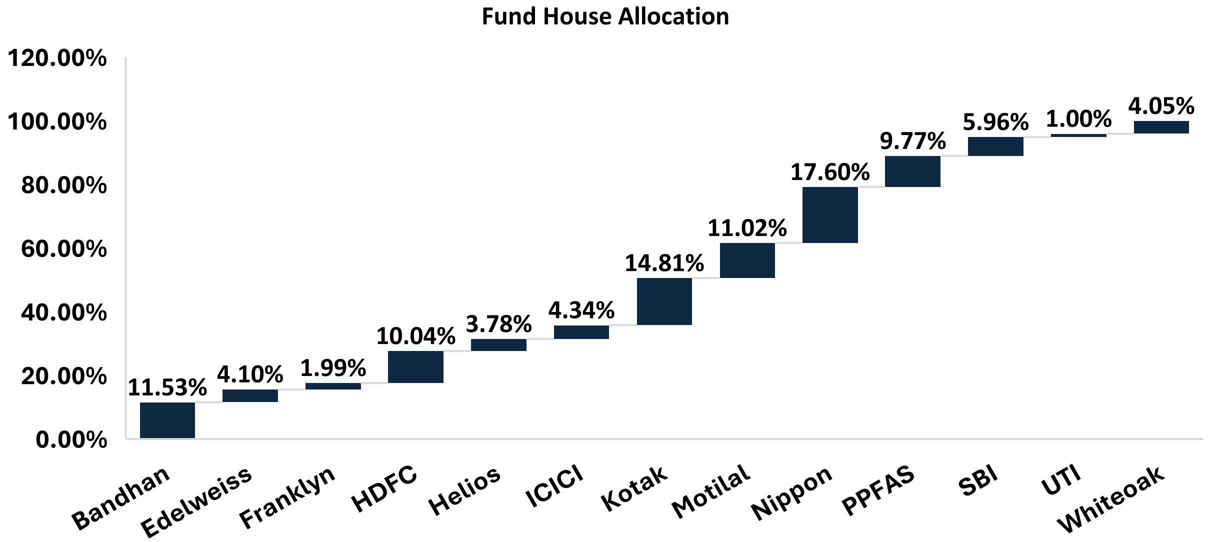
- Large Cap – 25% immediate deployment and 25% in each month in the next 3 months
- Mid Cap – 16.66% immediate deployment and 16.66% in each month in the next 5 months
- Small Cap – 16.66% immediate deployment and 16.66% in each month in the next 5 months
- Debt - 100% immediate deployment (bullet strategy at the short end (0-3 yrs) of the yield curve.

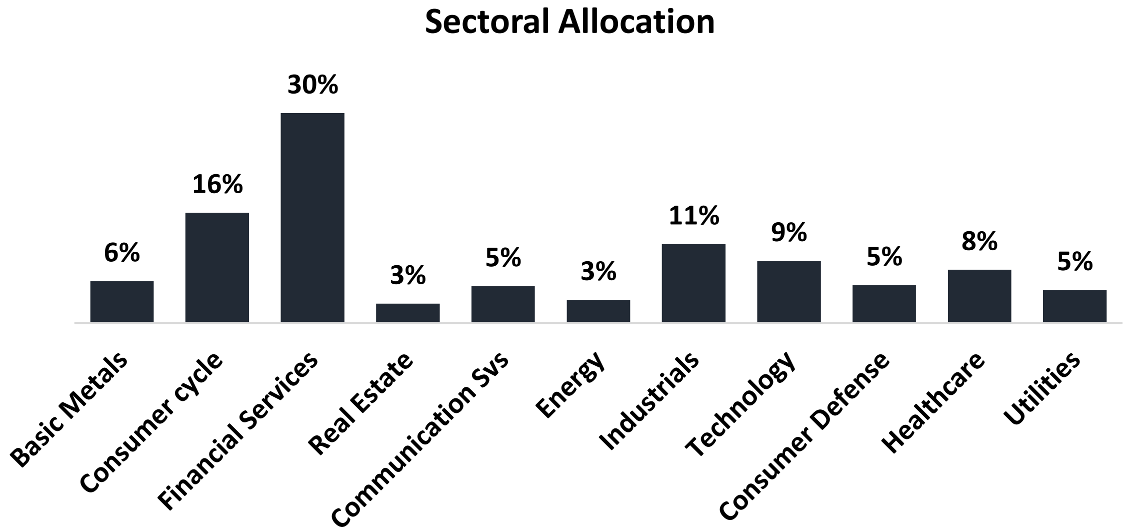
Optimus Prime Model Portfolio

Aggressive Strategy

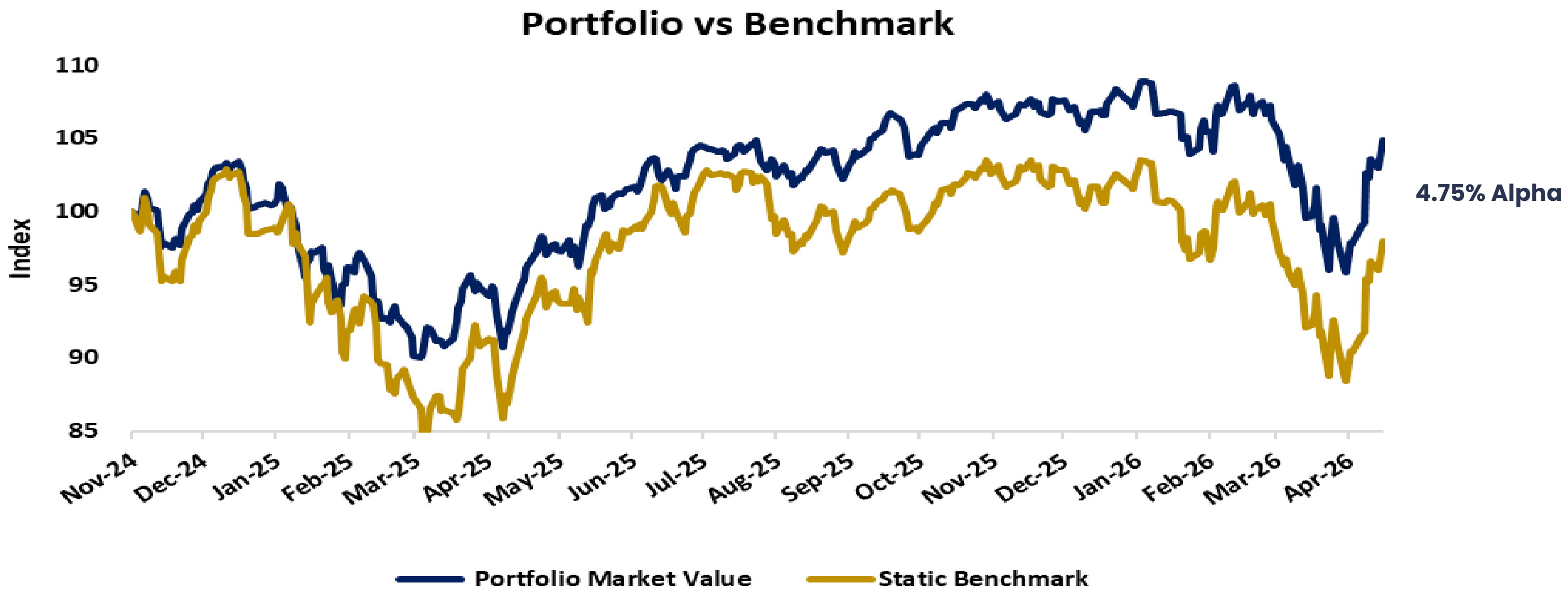


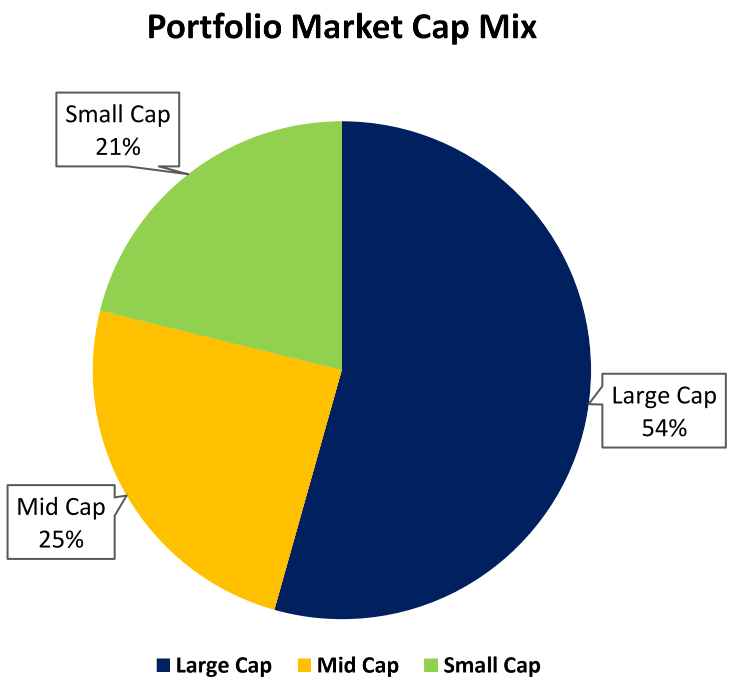






SAA – Strategic Asset Allocation & **TAA – Tactical Asset Allocation.** *International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th April 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
CAGR Return %	**3.31%**	-1.44%
Standard Deviation (annualized)	**12.49%**	16.01%
Beta	**0.48**	
Alpha	**4.75%**	
Information Ratio	**8.58**	
Downside Capture	**72.76**	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.44%	**5.10%**	**-0.79%**	**4.75%**

Debt Portfolio Analytics

Debt Measures	Mar-26
Average MoD	**5.98**
Average Maturity	4.92 yrs
Average Coupon	NA
Average YTM	**7.20 %**

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 April 2026, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR – 5.00%, NSE 100 India TR INR – 30.00%, NSE Midcap 150 TR INR – 30.00%, NSE Smallcap 250 TR INR – 30.00%, NIFTY 11-15 YR G-SEC INDEX – 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.*

Current Investment Portfolio Stance: Neutral

Positioning & Portfolio Update
At our most recent Investment Advisory Committee meeting, the Committee unanimously resolved to maintain a Neutral investment stance. This reflects a deliberate and considered response to the current environment, one characterised by elevated geopolitical risk, oil-driven inflationary pressure, and meaningfully compressed visibility on near-term earnings trajectories.

Our equity allocation is accordingly neutral. Within equities, we carry an approximately 8% underweight in Mid Caps and a 12% underweight in Small Caps, consistent with our risk-controlled framework and our preference for capital preservation over beta-seeking in conditions of heightened uncertainty.

Despite prevailing volatility, portfolio positioning has delivered strong results. We generated an Alpha of 4.75%, driven primarily by Product Selection Alpha. The portfolio maintained a Beta of 0.48, an Information Ratio of 8.58, and a Downside Capture of approximately 72.76% - collectively reflecting disciplined risk management and effective downside protection relative to the benchmark.

The Hormuz Shock: The World in a Lurch
The US-Israel attack on Iran on 28 February 2026 triggered the largest oil supply disruption in recorded history. At its peak, Brent crude approached $128/bbl, as Asian refiners scrambled to replace locked-in Middle Eastern supply. A two-week ceasefire announced on 8 April briefly sent crude prices down over 9%. The reprieve was short-lived. Iran re-imposed Strait of Hormuz restrictions after the US signalled its naval blockade would remain in force until a comprehensive nuclear agreement is reached. President Trump has since rejected Iran's proposal to reopen the Strait, and US Central Command is reported to have briefed the White House on potential further military action. As of 30 April, Brent is trading in a volatile $109–$115/bbl range — roughly 55–65% above pre-conflict levels, having touched $120/bbl intraday on 29 April, a four-year high.
Hormuz throughput remains severely restricted at approximately 3.8 mb/d, compared to over 20 mb/d in February before the crisis. Alternative routing, through Saudi Yanbu, UAE Fujairah, and the Iraq-Ceyhan pipeline to Turkey has partially offset the shortfall, but the combined capacity of these alternatives (~9 mb/d) falls well short of pre-crisis levels. The IEA has characterised this as the largest supply disruption in the history of the global oil market. The United Arab Emirates has also made a shock exit from OPEC+, introducing a further variable into supply dynamics. Goldman Sachs estimates that global oil consumption in April may be running ~3.6 mb/d below February levels, with weakness concentrated in jet fuel and petrochemical feedstocks.
The path to normalisation remains unclear. Even in a scenario of near-term de-escalation, analysts broadly agree that restoring Hormuz flows to pre-conflict levels will take months given the backlog of tanker traffic, damaged energy infrastructure, and residual risk premium that shipowners will price into routes through the region.

India: Fundamentals Intact, Pressure Accumulating

India's macro fundamentals remain meaningfully stronger than in prior crisis episodes, and the RBI has been explicit about this. That said, the Hormuz shock is now visibly transmitting into the real economy, and the full pass-through is yet to run its course.

Inflation: CPI rose to 3.40% in March 2026 - the highest print under the new 2024-base series, from 3.21% in February. Food inflation accelerated to 3.87%, while transport inflation remains near flat at ~2.3%, partly because the government pre-emptively cut excise duties on petrol and diesel by ₹10/litre on 27 March. This fiscal cushion has contained the immediate pump-price shock, but it also narrows the government's room to absorb further oil price escalation. The April CPI print due 12 May will reflect a further step-up, as energy and input cost pass-through works through supply chains. The RBI's own FY27 CPI projection of 4.6% (vs 2.1% in FY26) captures this dynamic, but that forecast was calibrated before Brent's latest leg higher toward $120/bbl. The RBI held the repo rate at 5.25% at the 8 April MPC meeting - neutral stance maintained for the third consecutive meeting. FY27 GDP growth was revised down to 6.9% from 7.4%. The MPC's language acknowledged that the current inflationary shock is supply-side in nature, making rate hikes a blunt and largely ineffective instrument. A hike scenario remains a tail risk, becoming relevant only if CPI durably breaches 5% in combination with continued rupee weakness. Conversely, the rate cut cycle that delivered 125 bps of easing in FY26 is firmly on pause. The next pivot point is the June 3–5 MPC meeting, by which time the Committee will have two additional CPI prints and better visibility on the Hormuz situation.

Energy Exposure: India imports approximately 50% of its crude oil and 60% of its LPG demand through the Strait of Hormuz. Indian refiners have partially pivoted to Russian supply and alternative routes, though at a cost premium. The government has raised export duties on diesel (₹21.5/litre) and aviation fuel (₹29.5/litre) to protect domestic availability. The rupee, trading near ₹95/USD, is amplifying the imported inflation effect and widening pressure on the current account.

Activity Indicators: India's industrial output grew 4.1% YoY in March 2026, down from 5.2% in February and the first official data point fully capturing the post-conflict environment. The picture is a tale of two speeds: capital goods expanded a strong 14.6% and infrastructure/construction goods grew 6.7%, supported by sustained government capex - both segments holding up well. Against that, the core sector (which accounts for ~40% of IIP) contracted 0.4% — its weakest reading in 19 months — as coal, crude oil, fertilisers, and electricity output declined. Manufacturing PMI fell to 53.9 in March, its lowest since June 2022, from 56.9 in February. The merchandise trade deficit narrowed to $20.67 billion in March from $27.10 billion in February, but driven by a contraction in both exports (-7.4%) and imports (-6.5%) — not a healthy narrowing. High-frequency demand signals remain broadly resilient: e-way bill generation was up 12.9%, two-wheeler retail sales grew 28.7%, and tractor sales rose 10.9%. The divergence between resilient consumption at the ground level and weakening industrial and energy output is the defining tension in India's current data.

Outlook and Portfolio Strategy

The Committee will maintain a flexible approach to Tactical Asset Allocation. Our near-term framework is anchored on three variables: the pace of recovery in domestic demand, the trajectory of the capex cycle, and the evolution of the US-Iran conflict - particularly any development that might alter Hormuz transit flows or the ceasefire calculus. Within equities, the underweight to Mid and Small Caps is intentional. These segments carry higher sensitivity to domestic demand conditions, liquidity, and earnings momentum, all of which face headwinds in the current environment. We will reassess incremental allocation here as visibility improves. On fixed income and duration, no action is warranted presently. The RBI's neutral stance and sharp upward revision to its inflation forecast have materially tempered the near-term case for rate cuts. A duration opportunity may emerge in H2 FY27 if oil prices ease and the rupee stabilises - this will be evaluated at the June MPC and our next scheduled review. Gold remains a core portfolio position. Safe-haven demand, rupee depreciation, and structural central bank buying continue to support the constructive view.

Our priority in this environment is clear: preserve capital, manage downside risk, and generate consistent Alpha. The portfolio's demonstrated ability to deliver an Information Ratio of 8.58 with a Beta of 0.48 in the current environment is a meaningful validation of that approach.

Key Monitorables:

Hormuz reopening

HIGH

The single most important variable. Each week of disruption adds ~0.1–0.2% to the FY27 CPI trajectory. A durable ceasefire and restoration of flows to 70% of pre-conflict levels would materially reduce risk.

Crude price trajectory

HIGH

Brent at ~$91/bbl today; EIA forecasts Q2 2026 peak of ~$115/bbl before gradual normalisation. Watch the ceasefire expiry and Iran-US talks closely.

April CPI (12 May)

HIGH

March 3.40% is likely not the peak. Energy and food pass-through effects expected to push the print higher. Sets the tone for the June 3–5 RBI MPC meeting.

RBI June MPC

MEDIUM

Rate hike scenario relevant only if CPI durably breaches 5% with continued INR weakness. A rate cut in H2 FY27 remains possible if oil eases. Key bifurcation for fixed income.

Q4 FY26 earnings & FY27 guidance

MEDIUM

Management commentary across banks, industrials, and consumer names through May will drive the FY27 earnings revision cycle. Modest downgrades appear mostly priced in.

FII flows & INR

MEDIUM

With Rupee at ~₹95/USD; forex reserves at $696bn provide a buffer. FII reversal likely requires crude stabilisation + West Asia de-escalation. INR trajectory compounds inflation risk.

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