

KILIKA CAPITAL

Embracing complexity to capture Alpha

November 2026

Dear Investors,

Diwali is on 8 November this year, and everyone at Kilika Capital wishes you and your families a bright, healthy and prosperous festival. We would like to earn that wish with a straight account of where things stand.

Last month we wrote that the risk had moved from the price of goods to the price of money. In October it came home. September CPI rose to 5.54%, the first print above 5% in the rebased series and a ninth consecutive increase. We had expected that crossing in Q3 FY27, and it arrived a month earlier. The RBI raised the repo rate by 25 basis points to 5.50%, as we had expected, its first hike since February 2023, and moved to calibrated tightening. What began as an imported shock is now being repriced at home. Eleven of the twelve CPI divisions accelerated, restaurants are at 9.36%, and the monsoon ended 12.6% below normal, the weakest in over a decade.

What has needed no correction is the business. Q1 GDP grew 7.8% in real terms and 10.3% in nominal terms, led by investment: fixed capital formation rose 11.9% and now stands at 34.3% of GDP. Bank credit is growing 19.4% and manufacturing capacity utilisation is 76.3%. Private companies accounted for 86.3% of new projects announced in the first half of FY27, against 68.7% in the half before. The private cycle is now carrying the baton, as central capex growth slowed to 8.5% in July and August from 23.7% in Q1. The October flash PMIs agree, with services at 56.2 and manufacturing at 54.9.The Q2 results are telling the same story. Of the fourteen sectors we track, six delivered, four were mixed and four lagged. Capital Goods, on record order books, and Banking & Financial Services both reported high double-digit profit growth. The strain is in margins, not demand: record passenger-vehicle volumes came with high double-digit profit declines at the two largest makers on commodity costs. A reading tip for the next two months: Diwali fell on 20 October last year and falls on 8 November this year, so October's industrial output should flatter and November's should disappoint. Read the two together.

Now the parts we would not put in a brochure. Prices have not peaked. We expect October CPI, due on 12 November, to cross 6%, with a peak of about 6.2% to 6.4% in November and December. SBI Research sees about 6.8%. With CPI above 6% and the repo at 5.50%, the real policy rate turns negative, which a tightening stance will not tolerate for long. We expect another 25 basis points in December, a cycle ending between 5.75% and 6.00%, and no rate cuts in FY27.

The external account is carrying the weight of the barrel. Brent closed at $104.51 on 15 October, with the Strait of Hormuz effectively shut and tanker flows about 43% below pre-conflict levels. The six-month goods deficit is US$ 177.64 billion against US$ 156.88 billion a year ago. September's monthly narrowing was gold: imports of the metal fell 81.27%, and without that the deficit would have widened by US$ 5.83 billion. We see the current account at the top of its 1.8% to 2.3% band, arguably beyond, in the current state of economy. The rupee touched 96.71 on 9 October and has since recovered to about 94.8, but on RBI curbs on hedging, not on fundamentals. Reserves fell US$ 59.7 billion between 4 September and 9 October, to US$ 726 billion, and after forward commitments the usable pool is closer to US$ 525 billion.

The flood of liquidity is receding. The daily banking surplus fell from a record ₹7.8 lakh crore in September to ₹3.6 lakh crore in October. On 19 October the RBI went from absorbing cash to injecting ₹1 lakh crore, and banks must now hold 99% of their mandatory cash reserve every day. We expect the system to move towards balance through November and December. The deposit surge that built the surplus rests largely on US$ 133 billion of one-time FCNR(B) inflows, not on a change in savers' habits.

Festive demand is strong but not clean. September vehicle retail rose 31.8% to a record 25.37 lakh units, and the dealers' association itself calls it the most base-distorted print of the year, because buyers had deferred purchases ahead of last year's GST cuts. Passenger-vehicle dealer inventory is at 43 to 45 days against a recommended 21. Domestic air traffic has fallen for a fourth month, and the September PMI recorded the second-largest build-up of finished-goods stocks in almost twelve years. We upgraded Demand Indicators to Good on our heatmap, and we did so knowing this.

Foreign investors sold again in October, a sixteenth consecutive month, about ₹52,929 crore on our latest exchange data. Domestic institutions bought about ₹61,720 crore, covering it. But a market that relies on one side to absorb the other, is a market where sentiment and liquidity set the price, which is how we think about it.

So we hold our Aggressive stance, and we would like to explain it through the three clocks a market runs on. In the short term the market is driven by sentiment, in the medium term by liquidity, and in the long term by earnings.

Sentiment is poor, and we do not try to time it: foreign investors have sold for sixteen months, Brent is above $100 and the VIX has risen to about 15. Liquidity has just turned, from flood towards balance, and the RBI has said the next move is a hike or a pause. That is why we stagger our deployment, with Large Caps over three months, Mid Caps over five and Small Caps over ten, and keep new debt money in money markets until the rate path is clear. Earnings are the clock we are paid to read, and they point the right way: investment at 34.3% of GDP, record order books, and a Q2 season in which the investment-linked sectors delivered. The Nifty is down 13.4% this year. Large Caps trade at 18.7 times earnings against a 23.6 times long-run average, a 21% discount against 17% a month ago, and Mid Caps are 19% below theirs. Small Caps sit 16% above, down from 25%, so we are buying the discount fastest where it is.

We keep ourselves honest with three exit triggers. One is tripped, with crude above $100. A second is nearer, as our rate range now tops out at 6.00%, the line we drew. The third, earnings, has not been tripped. Any second and we move to Neutral. Since inception the portfolio has returned 3.22% against -1.22% for its benchmark, an Alpha of 4.44%, on a Beta of 0.51 and a Downside Capture of 73%.

Diwali is when India closes the old books and opens new ones. We close ours on a year that has been hard on prices and on sentiment, and we open them as Samvat 2083 begins with portfolios that own the discount. May the festival of lights bring you and your families health, happiness and prosperity. Shubh Deepavali.

With thanks, as always, for your trust and partnership.

Best regards,

Siddharth Jadeja

Investment Strategy Report



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KILIKA CAPITAL



WHO WE ARE?

ABOUT US

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

OUR MISSION

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

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

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



Siddharth Jadeja, CFA – The Strategist

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



Bhavya Bundela- The Crunch Time Queen

Bhavya Bundela doesn't just crunch numbers, she commands them. With over six years of steering high-stakes financial reporting and corporate finance projects across global giants like KPMG and Danone, she's been the secret sauce behind IPO-prep DRHPs, seamless Ind AS/IFRS transitions, and multi-industry makeovers. From decoding financials of companies to leading XBRL missions like a boss, Bhavya brings spreadsheet sorcery, project precision, and presentation prowess all rolled into one. Whether it's wrangling audits, forecasting like a finance oracle, or managing teams with flair, she gets it done, and makes it look easy. Fluent in balance sheets, budgets, and good vibes.

WHO WE ARE?



Smitha Iyer – The Operational Hawk

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



Piyush Sharma – The Creative Wizard

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



Harris Lunis - The Fundamentals Detective

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

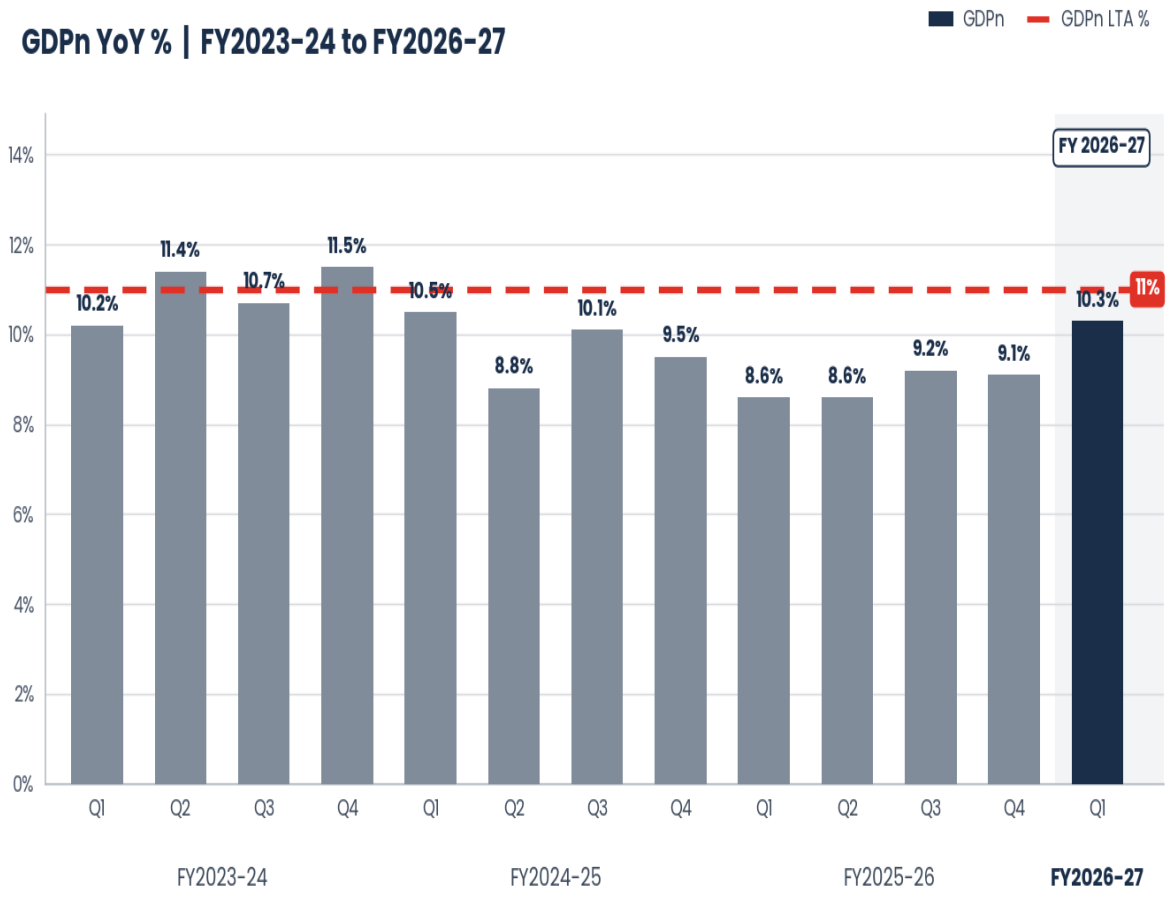
Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured -we've got your back. After all, when we win, you win. And we're in it for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

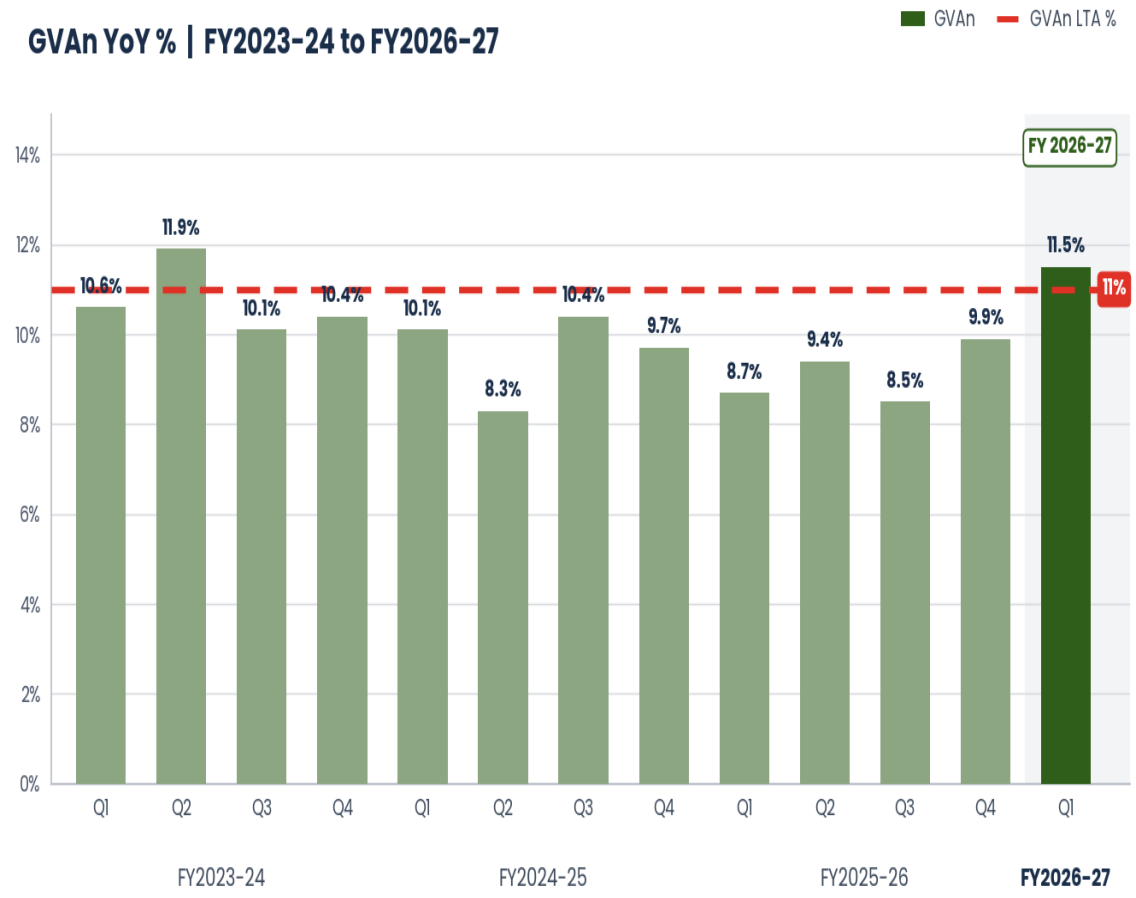
Macro-Economic Outlook



1. GDP (Gross Domestic Product)

Start with nominal, because nominal is the part nobody disputes. **Q1 nominal GDP grew 10.3% and nominal GVA 11.5%, against long-run averages near 11% for both. The economy is compounding roughly in line with its own history**. Everything being argued about this quarter, the 7.8% real print, the deflator, the rebasing, is an argument about how to split that nominal number into price and volume.





Source: MoSPI Quarterly Estimates, Q1 FY2026-27

Q1 FY2026-27: Reading the Print in Plain English

The Headline

- **India's economy grew 7.8% in real terms in the April-June 2026 quarter, against 6.9% a year earlier and a long-run average of roughly 6.8-7.0%. Nominal growth, the actual rupee value of what was produced, was 10.3%.** Real GDP was Rs 81.36 lakh crore and nominal GDP Rs 88.27 lakh crore. **Real GVA, which strips out taxes and subsidies and is the better read on production, grew 8.2% against nominal GVA of 11.5%.**
- These are the first quarterly estimates for FY2026-27, released by MoSPI on 31 August 2026 alongside a full revision of the back series. On the revised numbers Q4 FY2025-26 now reads 8.6% against the 7.8% first reported, so Q1 is a step down from a stronger base rather than a fresh acceleration.
- Note one detail that explains a lot. At the GVA level, nominal ran well ahead of real, as it normally does. At the GDP level the gap narrowed to 2.5 percentage points. The difference between the two lines is **net taxes, where real growth was 3.9% but nominal fell 0.4%, because the fertiliser subsidy rose 57.6% and Union excise fell 22.4%. Subsidies are subtracted in the GDP build, so a subsidy surge mechanically drags nominal GDP below nominal GVA.**

Where the Demand Came From

- **Investment did the heavy lifting. Gross fixed capital formation grew 11.9%**, the first double-digit investment print of the new series and more than double last year's 5.8%, **lifting investment to 34.3% of GDP from 31.4%**. Two independent checks agree with it: **machinery and equipment imports rose 51.5% and capital goods IIP 15.2%**. Those are physical things, ordered and shipped.
- **Household consumption grew 7.1%, up from 6.8%, and still holds 55.6% of nominal GDP**. It remains the largest block of demand but is no longer the fastest-growing one.
- **Exports grew 12.0% in real terms, the best quarter in three years, while real imports fell 1.1% even as nominal imports rose 30.9%. That divergence is price, not volume: the same barrels and components simply cost far more**. Net exports therefore added about 3.0pp to headline growth and statistical discrepancies subtracted about 3.2pp, almost exactly offsetting. Domestic final demand, at roughly 8.4pp, is the cleaner read.

Where the Output Came From

- **Services led at 10.0%. The largest single block, financial, real estate, IT and professional services at 27% of nominal GVA, grew 12.1%, the strongest print in the series. Industry grew 8.6%, while the primary sector slowed to 2.9% as mining contracted 2.4%. Electricity swung to 8.9% from minus 1.8%, construction reached 7.7% and public administration 7.5%. Seven of eight sectors expanded.**

The One Number That Needs Explaining

- **Manufacturing real GVA grew 9.2% while nominal manufacturing GVA grew only 7.7%, an implicit deflator of about minus 1.5%**. Manufacturing prices did not fall. This is what a change in measurement method looks like when input costs run ahead of output prices, and it is the source of most of the argument about this print. We take it apart overleaf.

Metric	Q1 FY2025-26	Q1 FY2026-27	Δ Change
Real GDP Growth	6.9%	7.8%	+0.9 pp
Nominal GDP Growth	8.1%	10.3%	+2.2 pp
Real GVA Growth	7.0%	8.2%	+1.2 pp
Real GDP (₹ lakh cr)	75.46	81.36	+7.8%
Nominal GDP (₹ lakh cr)	80.00	88.27	+10.3%

The two tables say the same thing in different ways: growth accelerated, and it accelerated in the right places.

Three Ratios Carry the Message

- **Investment intensity.** GFCF is 34.3% of GDP against 31.4%, with nominal GFCF up 20.4%. This is the strongest single argument in the release for capex-geared sectors and the construction multiplier.
- **Consumption share.** Households held 55.6% of nominal GDP against 55.8%, growing 9.9% in nominal terms. Still the largest demand block, no longer the fastest - the composition of this cycle is investment, not consumption.
- **The deflator.** Nominal 10.3% against real 7.8% implies an economy-wide deflator of about 2.5%, against roughly 1.2pp for FY26 as a whole. Read one way, that is producer-price inflation returning through the energy channel. Read another, it is a low number when CPI averaged 3.9% and producer prices around 9%. Both readings have serious advocates; we deal with the dispute overleaf.

And One Line in the Sector Table

- **Manufacturing volumes are firming while its deflator is negative. Strong output, compressed value**. That combination is the quarter in miniature.

Sector	Q1 FY25	Q1 FY26	Q1 FY27	Trend	Assessment
Manufacturing	9.9%	8.3%	**9.2%**	↑ Firming	Volumes strong; deflator negative
Construction	8.1%	5.2%	**7.7%**	↑ Firm	CapEx multiplier intact
Financial, RE & Prof. Svcs	8.5%	8.8%	**12.1%**	↑ Strong	Credit + real-estate strength
Trade, Hotels, Transport	8.1%	9.8%	**8.5%**	→ Steady	Travel normalising off base
Public Admin & Defence	6.9%	4.6%	**7.5%**	↑ Firming	Govt spending steps up
Agriculture & Allied	2.6%	4.4%	**3.6%**	↓ Moderating	High base; wheat near flat
Electricity & Utilities	9.8%	-1.8%	**8.9%**	↑ Rebounding	Demand plus base effect
Mining & Quarrying	15.7%	12.4%	**-2.4%**	↓ Contracting	Fuel minerals and gas weak

Two Questions Behind the Number: Rebasing and Double Deflation

What Rebasing Actually Does

- A base year is the reference point against which real growth is measured. India moved from a 2011-12 base to 2022-23, adopted on 27 February 2026, with the fully revised back series published on 31 August 2026. Rebasing does not recalculate growth; it re-measures the level of the economy using current weights and better data — ASUSE and PLFS survey data replacing proxy estimates, expanded GST records, e-Vahan for vehicle consumption, PFMS for government spending, and Supply-and-Use Tables that force total supply to equal total use. Roughly 500-600 price indicators now do the deflating, against about 180 before.
- One fact is widely missed: rebasing lowered India's nominal GDP by about 3-4%. That pushed the FY26 fiscal deficit from 4.4% to 4.5% of GDP and central debt from 56.2% to 58.1%. A revision engineered to flatter would have enlarged the denominator, not shrunk it.

What Double Deflation Actually Does

- Real output is nominal output divided by a price index. Under single deflation, one output price index is applied to value added as a whole. Under double deflation - the international standard, now used in India for manufacturing and agriculture - output and inputs are deflated separately, and real value added is real output minus real intermediate consumption.
- The two methods diverge whenever input and output prices move apart. When input prices fall faster than output prices, single deflation flatters real growth; that is what inflated India's manufacturing numbers during the 2014-16 oil crash. When input prices rise faster, as now, double deflation can produce a negative implicit deflator: nominal value added is squeezed by the input bill while real value added tracks volumes. Crude and gas producer prices rose 58.0% against manufactured output prices of 10.7%. Manufacturing real 9.2% against nominal 7.7% is the arithmetic signature of that, not evidence of falling prices.

Strategic Outlook – What to Watch in FY2026-27

Signal	Theme	Implication for Portfolios
POSITIVE	**Investment & CapEx Cycle**	GFCF surged 11.9% in Q1 with machinery imports +51.5% and IIP capital goods +15.2%; investment at 34.3% of GDP supports construction, capital goods and financiers through FY27.
POSITIVE	**Services Leadership**	Financial, real estate and professional services (12.1%) drove a 10.0% tertiary block; credit-linked, real-estate and IT-services names remain well-placed.
WATCH	**Manufacturing Margin Squeeze**	Real manufacturing GVA of 9.2% against nominal 7.7% implies a negative deflator. Watch whether input-cost pass-through restores pricing power or compresses FY27 margins further.
WATCH	**Energy & Terms of Trade**	Crude and natural gas PPI rose 58.0% and the nominal import bill 30.9%. With India importing over 85% of its crude needs, any renewed escalation feeds straight into inflation, the rupee and the current account deficit.
RISK	**Data Composition & Base Effects**	Net exports added ~3.0pp while discrepancies subtracted ~3.2pp, so the expenditure side does not independently confirm the production side. The 2.5% deflator is the live dispute. Domestic final demand at ~8.4pp is the cleaner read.

Our 12-Month View: Constructive, With Price Risk Replacing Growth Risk

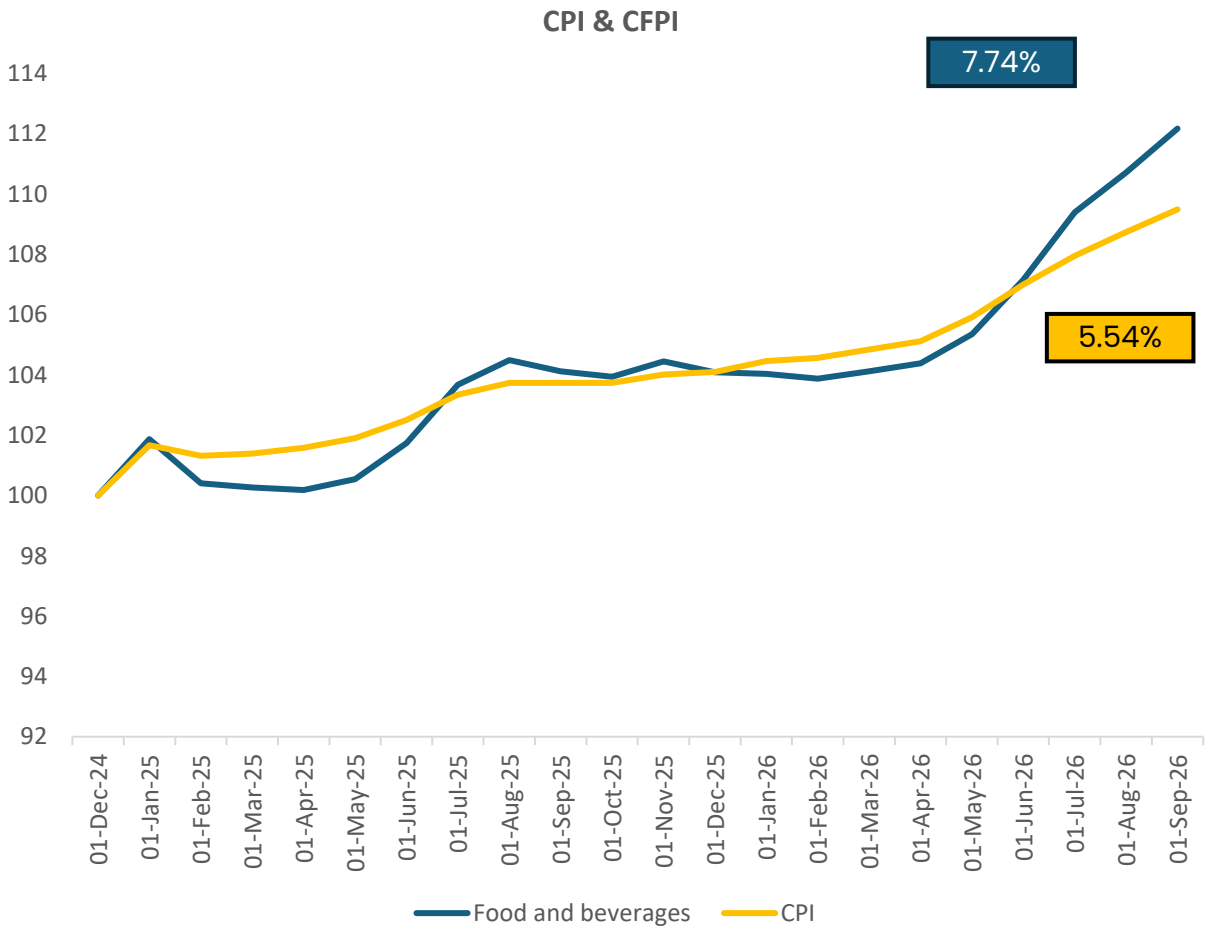
Strip away the methodology argument and the investment case is unchanged. Whether real growth is 7.8% or the 5.0-5.5% the sceptics prefer, the nominal economy is compounding at 10.3%, and nominal is the currency in which earnings, tax collections and debt ratios are actually settled. The composition is not in dispute: investment at 34.3% of GDP, machinery imports up 51.5%, capital goods output up 15.2%, industry credit at 19.2%. Those are counts, not deflated estimates.

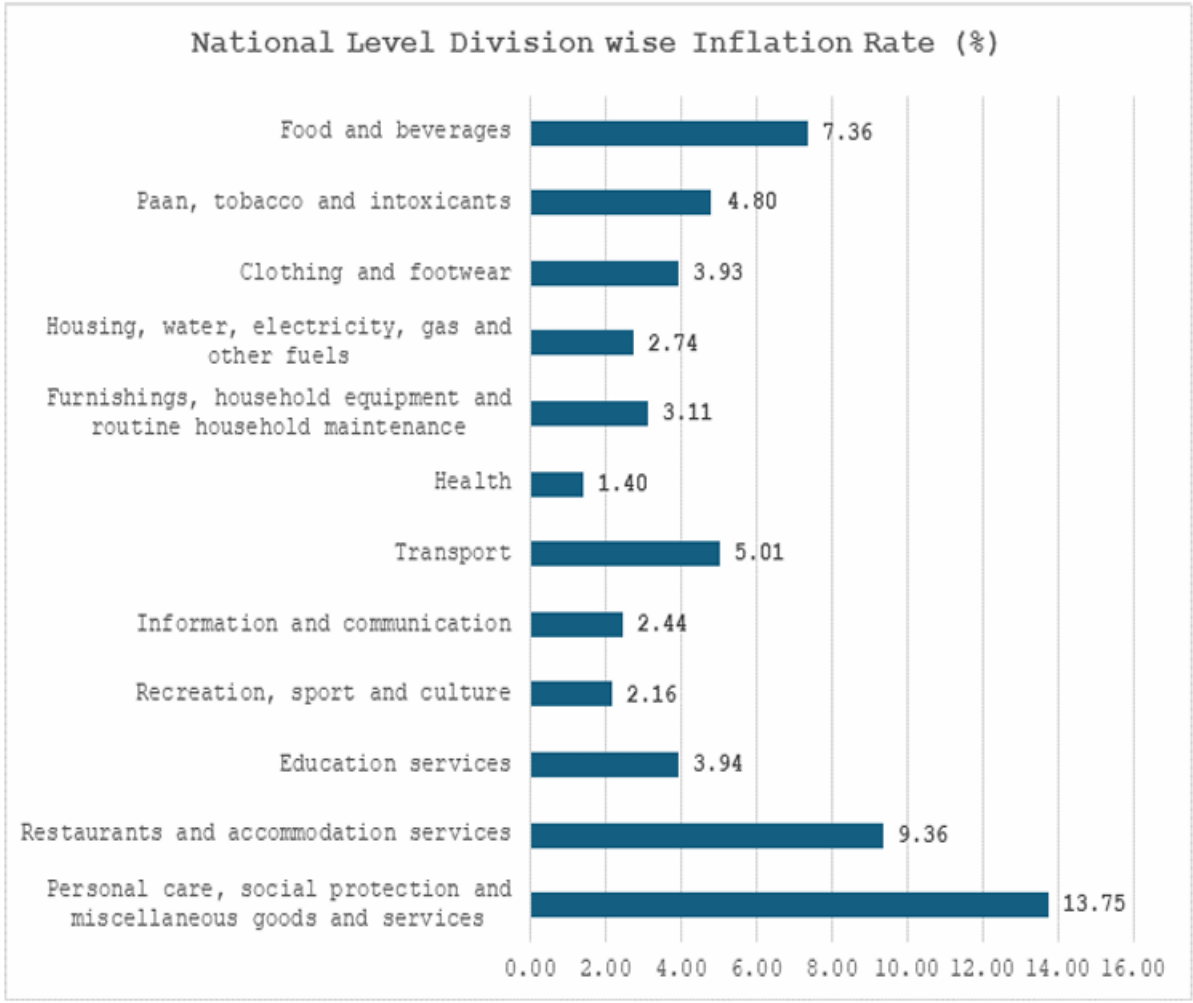
The risk has migrated from growth to prices and the external account. Crude and gas producer prices up 58.0%, a nominal import bill up 30.9% and a negative manufacturing deflator point to imported inflation working through corporate margins for another two to three quarters, already visible in roughly 20% revenue growth against 15% profit growth. A deficient and uneven monsoon is likely to keep food-inflation risks elevated, with weaker Kharif yields and limited soil moisture raising concerns over Rabi sowing and wheat, pulses and oilseed output.

We hold FY27 GDP growth at 7.0-7.5%, below the headline run rate and above the sceptics, and we would own the capex chain over the consumption chain on the strength of the composition rather than the level.

Based on MoSPI Quarterly Estimates of GDP, Q1 FY2026-27 (31 August 2026).

2. Inflation





Source: Internal assessment based on MOSPI and RBI DBIE data

Through the 5% Line: CPI at 5.54% as Food Breaks Out and the Base Turns

Headline

- **Headline CPI inflation accelerated to 5.54% in September 2026 from 4.83% in August 2026, a ninth consecutive monthly rise and the first print above 5% in the rebased series.** August was revised up from 4.82%. The 71 basis point step is almost double August's move, and the sequence now reads 2.74%, 3.21%, 3.40%, 3.48%, 3.93%, 4.38%, 4.45%, 4.83% and 5.54%. The index rose 0.69% over the month, close to August's 0.73%, but it was flat a year earlier against a 0.38% rise in August 2025, so **momentum is holding at an annualised pace above 8% and the base has stopped absorbing it**.
- **Last month we read the print as confirmation that the cycle had turned, and September shows how quickly that turn can compound.** The metals division finally began to unwind, which should have flattered the headline, and instead food, freight, fuel and restaurant prices more than filled the gap. **Eleven of the twelve divisions accelerated, and the only one that eased was the metals division.** This is no longer a narrow story.

Food

- **Food inflation jumped to 7.74% in September 2026 from 5.97% in August 2026, with the food and beverages division at 7.36% against 5.66%.** The food index rose 1.30% over the month against a 0.35% fall a year earlier. The vegetable drag is fading fast. Tomato deflation narrowed to minus 8.62% from minus 31.09% and potato to minus 11.50%, while onion more than doubled again to 108.09% from 48.78%, garlic rose to 54.62% and lemon to 36.41% from 15.15%. Ginger eased to 62.85% from 73.82%. **The items that held food down are running out of room to fall, and the ones pushing it up are still accelerating.**
- **Rural food inflation at 8.06% now runs almost 90 basis points ahead of urban at 7.18%, and both jumped from 6.17% and 5.64% in August.** Food inflation reached double digits in two large states, Tamil Nadu at 10.62% and Andhra Pradesh at about 10.2%, followed by Odisha at 9.58%, Karnataka at 9.08% and Maharashtra at 8.91%. **Food is now the main driver of the headline, and the monsoon outcome means it will stay that way.**

Core and Underlying Pressures

- **The metals distortion has finally begun to unwind, and the headline rose anyway.** The personal care, social protection and miscellaneous goods division eased to 13.75% from 15.17%, with the other personal effects group at 38.69% against 44.56% and silver jewellery down to 87.80% from 106.81%. **The contribution we expected to shrink is now shrinking, so the step up in the headline came from everywhere else.**
- **Strip metals out and the underlying trend is still hardening.** Transport firmed to 5.01% from 4.60%, its first print above 5%, with operation of personal transport equipment at 7.46%, goods freight at 14.73% and vehicle deflation narrowing to minus 2.56% from minus 4.38%. Electricity, gas and other fuels firmed to 3.24%, clothing to 3.93% and furnishings to 3.11%. **Price pressure is now broad and is no longer confined to a few volatile items.**

The Rural-Urban Divergence

- The rural-urban gap widened again, and sharply. **Rural CPI was 6.08% in September 2026 against urban CPI at 4.88%, a 120 basis point spread, up from 93 basis points in August 2026 and the widest of the rebased series. Rural households carry a higher food and fuel weight and have fewer options to substitute**.
- The rural economy is now absorbing **a monsoon that ended 12.6% below normal, the weakest in over a decade**, and **rural CPI has crossed 6%, the upper limit of the RBI's tolerance band, while the national figure is still below it.**

Housing Drifts Higher, as Expected

- **Housing and utilities inflation firmed to 2.74% in September 2026 from 2.61% in August 2026, with rural at 3.44% and urban at 2.33%.** Actual rentals rose 2.37% and maintenance, repair and security of dwellings 4.05%, while electricity, gas and other fuels firmed again to 3.24% from 3.09%, with the rural sub index at 3.77%. Last month we said this division would drift higher rather than stay range bound, and it has. The move is gradual, but rents and maintenance costs reset slowly and rarely reverse.

State Dispersion

- **Dispersion stayed wide even as the national rate moved up.** Eleven of 36 states and union territories printed above the national rate of 5.54% in September 2026, against thirteen above a lower bar in August. Puducherry led at 6.86%, followed by Tamil Nadu at 6.81%, Odisha at 6.70%, Madhya Pradesh at 6.68% and Telangana at 6.64%. Mizoram was lowest at 2.85%, with Nagaland at 3.22% and Delhi at 3.40%. **The highest and lowest states are still about 400 basis points apart, and the food-led southern and eastern states still lead.**

Services

- **Services inflation deteriorated again. Restaurants and accommodation accelerated to 9.36% in September 2026 from 8.38% in August 2026, with food and beverage serving services at 9.39%.** Education services firmed to 3.94%, with urban at 4.55%, while health at 1.40% and information and communication at 2.44% stayed benign.

- Restaurant inflation rose almost 100 basis points in a single month. **It is now closing in on 10% and has risen in every month of the rebased series, which confirms that menus are being repriced.** Menu prices are set for the season and do not fall when onion or tomato prices do, so this component will keep core inflation firm into FY28.

Crude and the Import Channel

- **The September print shows the August crude spike reaching transport and freight.** The transport division crossed 5% at 5.01%, operation of personal transport equipment held at 7.46%, goods freight firmed to 14.73% and passenger transport services rose 3.75%. Petrol, diesel and LPG are captured on the 15th of each month, so the September reading reflects Brent trading above 100 dollars per barrel after the Saudi pipeline outage. **Freight inflation of nearly 15% is now feeding into the prices of goods that have to be transported.**

- October will be no easier. **Brent ended September above 100 dollars per barrel, and futures only fall to about 91 dollars by May 2027. With India importing over 85% of its crude and the rupee near 95 per dollar, the crude and currency channel remains the main upside risk alongside food, and it lands in the October and November prints**.

Monsoon Ends in Deficit

- **The monsoon ended the season 12.6% below its long period average, the weakest in over a decade.** June was 36.5% below normal and July only 1% above, and the late recovery we were hoping for did not come, with the deficit at 15% in mid-September. The shortfall was concentrated in the south at 28% below normal and the east and northeast at 25% below. The RBI estimates reservoir levels at about 20% below last year, and El Nino remains the dominant phase into early 2027. **Weaker kharif output and poor soil moisture for rabi sowing keep food inflation expectations elevated through Q4 FY27 and into Q1 FY28.**

What Lies Ahead – Inflation Through 6% and More Rate Hikes

Several factors will determine how high inflation peaks and how far the RBI tightens.

- **The RBI raised the repo rate by 25 basis points to 5.50% in October 2026, its first hike since February 2023, and changed its stance from neutral to calibrated tightening.** The SDF moved to 5.25% and the MSF to 5.75%. It raised its FY27 CPI projection to 5.2% from 5.0%, with 4.9% in Q2, 6.0% in Q3, 5.7% in Q4 and 5.6% in Q1 FY28, put core inflation at 4.4%, and raised FY27 GDP growth to 7.1% from 6.7%. September CPI at 5.54% takes the Q2 average to 4.94%, in line with that path.

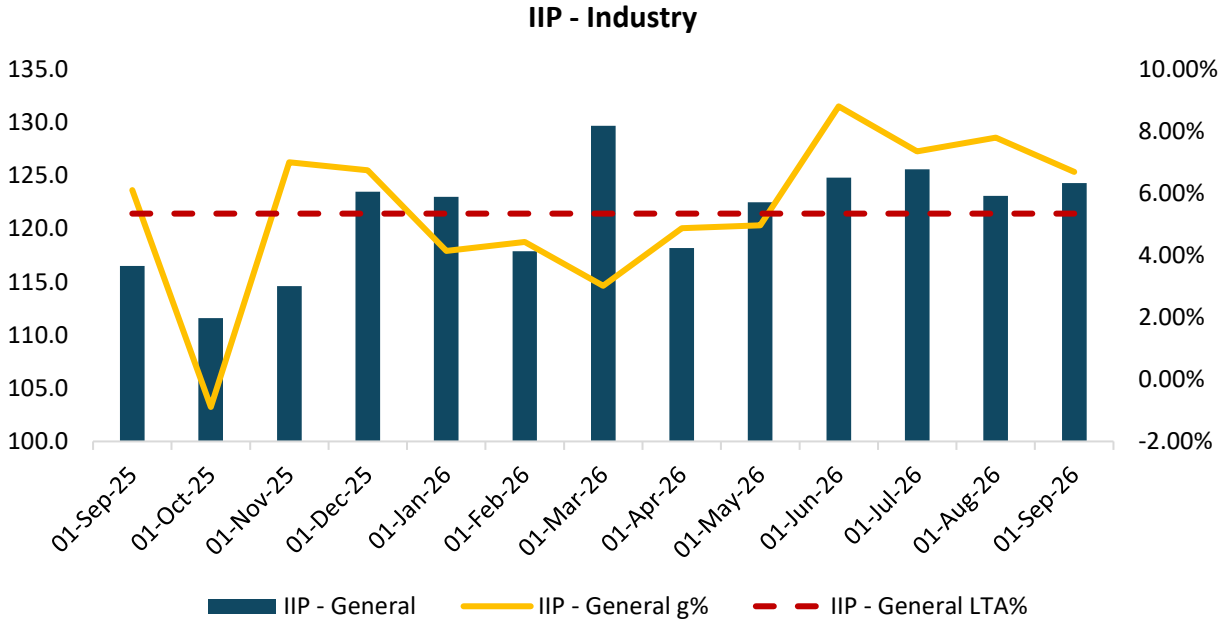
- **Our base case is that CPI crosses 6% in October and peaks at about 6.2% to 6.4% in November and December.** The base works against the headline from here, because the index was flat between September and October 2025 and rose only 0.26% in November 2025. Even a 0.3% monthly rise in October takes the headline to about 5.9%. **We expect Q3 FY27 to average about 6.2%, slightly above the RBI's 6.0%, and Q4 to ease to 5.5% to 5.7% as winter vegetables arrive, which puts FY27 CPI at about 5.2%.**

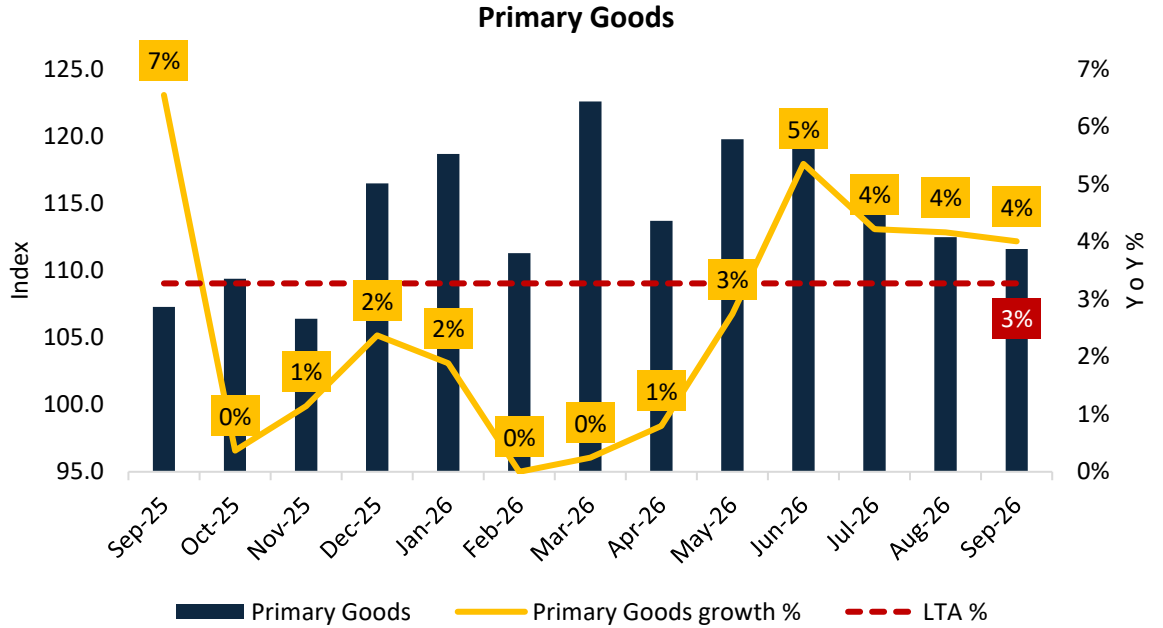
- **The risks are mostly on the upside. If crude stays above 100 dollars per barrel and poor soil moisture hurts the rabi crop, monthly momentum of 0.5% to 0.7% would take CPI to 6.5% to 6.8% by November or December and keep Q4 above 6%**. SBI Research expects a peak of about 6.8% in November. The main downside risk is a sharp fall in vegetable prices once the kharif harvest arrives, but with onion above 100% and tomato deflation almost gone, there is little room left for that.

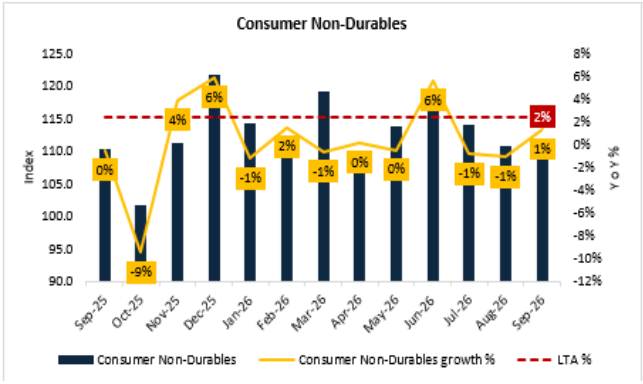
- **We expect a further 25 basis point hike at the December 2026 review, taking the repo rate to 5.75%, and see the cycle ending at 5.75% to 6.00%.** With CPI above 6% and the repo rate at 5.50%, the real policy rate turns negative, which a calibrated tightening stance will not tolerate for long. A second hike to 6.00% in February 2027 becomes likely if the October and November prints are above 6.3% or core inflation moves above 4.5%. SBI Research expects 6.00% by December, possibly through a single 50 basis point move. **We see no case for rate cuts in FY27.**

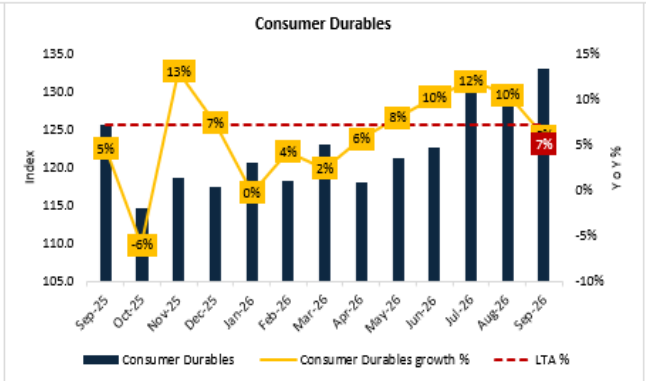
- **The October CPI print, due on 12 November 2026, is the next test. A reading above 6% would confirm a December hike. Growth at 7.1% gives the RBI room to put price stability first, and we expect the committee to stay hawkish until headline CPI is back within 4% to 5% on a sustained basis, which we do not see before Q1 FY28.**

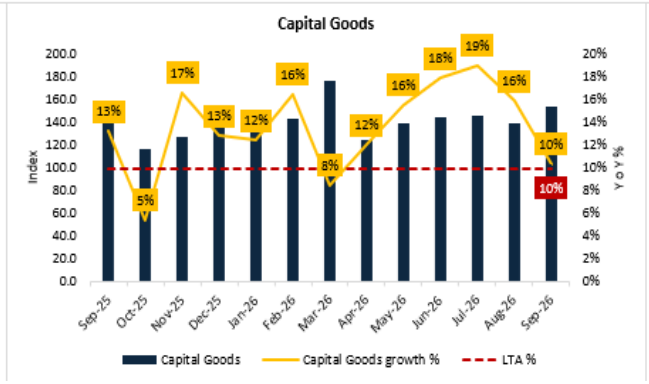
3. IIP

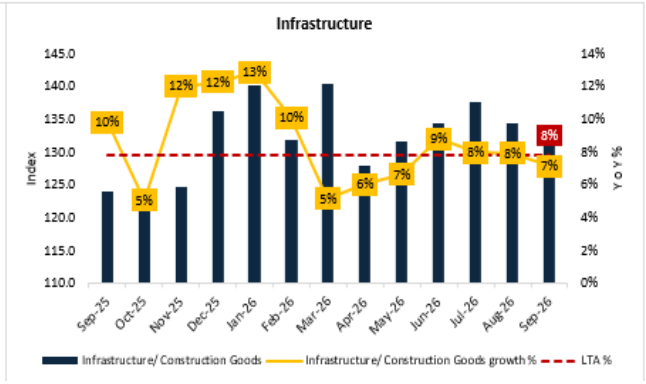




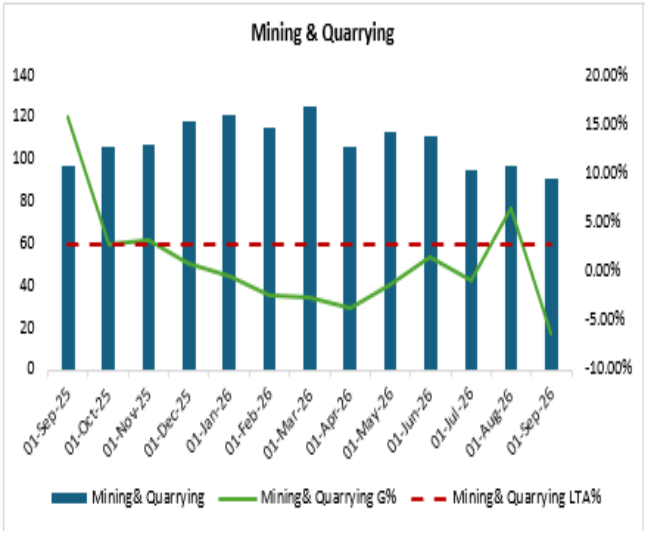




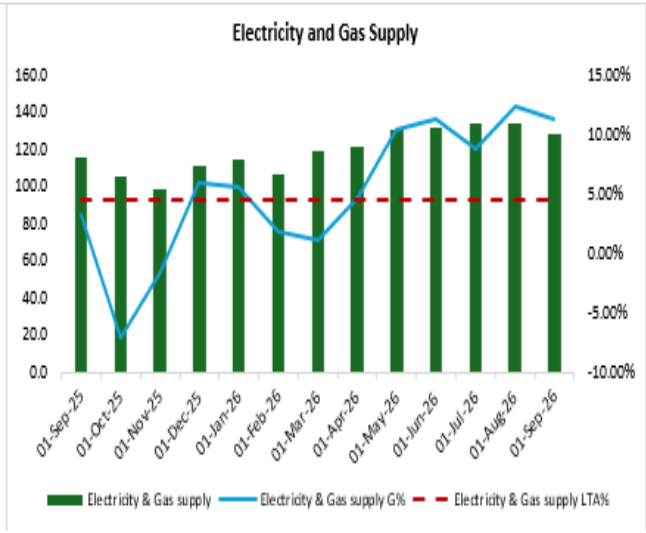


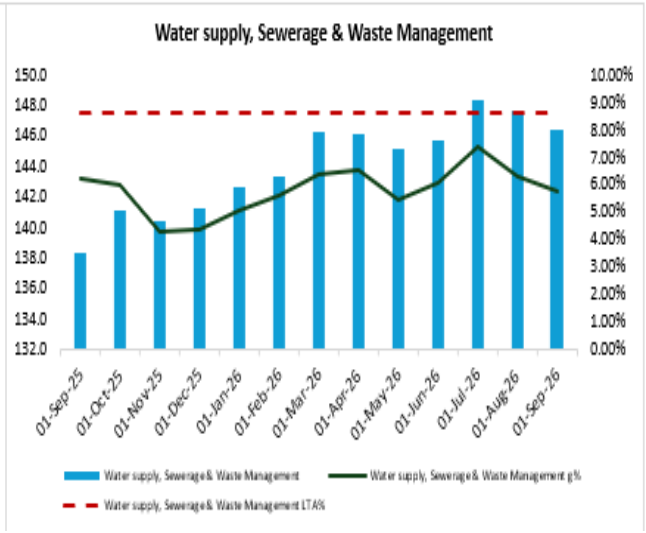


Source: Internal assessment based on RBI DBIE data









A Slower Month, Not a Weaker Economy

Growth Slips to 6.7%, and Last Year Did Most of the Damage

- India's Index of Industrial Production (IIP), which measures the physical volume of goods produced by factories, mines and power plants, **grew 6.7% year on year in September, a four month low and below the 7.3% the market expected**. August was revised down to 7.8% from 8.0%. On a month on month basis, the index still rose 1.0% to 124.3 from 123.1, so output did not fall. For April to September, growth stands at 6.8% year on year, well ahead of 4.4% in the same period last year.
- The headline **slowdown is mostly a base story**. Last year, IIP growth jumped from 4.7% in August 2025 to 6.1% in September 2025, and manufacturing from 3.6% to 5.5%. This year's growth is measured against that tougher comparison, and the base rose by more than growth fell. For manufacturing, the base climbed 1.9 percentage points while growth eased only 1.0 point. The RBI's own assessment in its October policy is that manufacturing is holding well despite cost pressures, which fits a timing slowdown rather than a demand slowdown.

Factories Slow, Power Stays Hot, Mines Sink Deeper

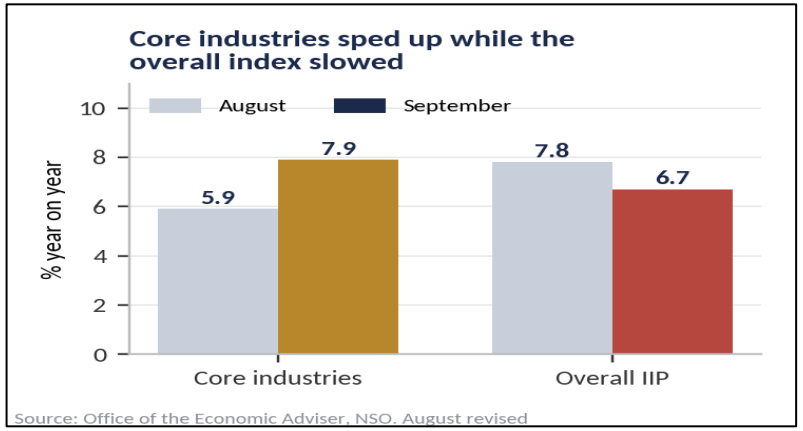
- **Manufacturing (about 76% of the index) grew 7.6% year on year, down from 8.6% and ending three straight months above 8%. 17 of 23 industry groups grew.** The leaders are tied to investment and mobility. Electrical equipment grew 33.9% on demand for switchgear, circuit breakers and power backup systems, rubber and plastics grew 19.9%, and motor vehicles grew 19.0% on cars, commercial vehicles and components. Six groups contracted, led by wood products (minus 10.5%), pharmaceuticals (minus 8.9%) and apparel (minus 5.2%).
- **Electricity and gas supply grew 11.2% year on year, still the fastest sector**, against 12.3% in August. The mix shifted sharply. Renewable generation slowed to 4.3% from 15.4% as monsoon winds and hydro flows faded, so coal based plants filled the gap with 16.5% higher generation. **Gas supply fell 6.7%, a direct result of disrupted supplies from West Asia**. Water supply, sewerage and waste management grew 5.8%, its slowest since May.

Source: Internal assessment based on RBI DBIE data

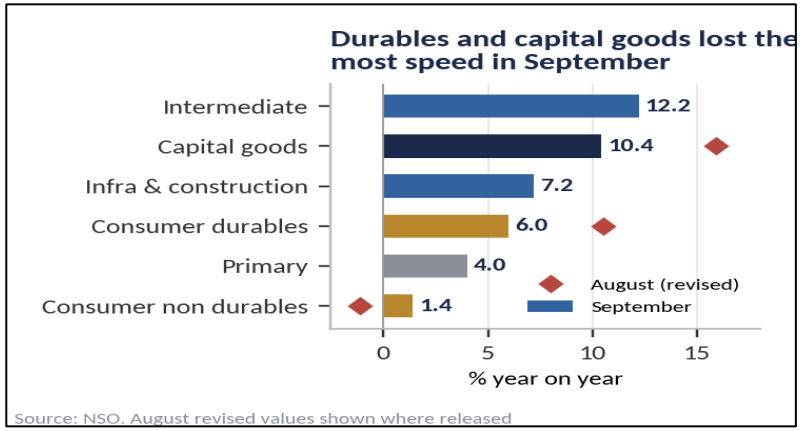
- **Mining and quarrying contracted 6.2% year on year, its third straight decline and the sharpest since September 2023, against a high base of 15.7% growth last September. There is an apparent puzzle here. The core industries data shows coal output up 10.7% and iron ore up 18.4% in September, yet mining in the IIP fell. The answer lies in coverage. The IIP's mining index also includes non metallic and minor minerals such as limestone, sand and stone, which are quarried in the open and were held back by late monsoon rains.**

Basic Inputs Speed Up While the Rest of the Factory Floor Cools

- **The Index of Eight Core Industries, which covers coal, crude oil, natural gas, refinery products, fertilisers, steel, cement, electricity and iron ore and makes up about a third of the IIP, accelerated to 7.9% year on year in September from a revised 5.9%. Coal (10.7%), refinery products (10.3%), cement (9.8%) and electricity (11.4%) all picked up. Only the gas linked industries stayed weak, with natural gas down 4.6%, fertilisers down 11.7% and crude oil down 1.4%.**
- **This divergence is the most useful signal in the release. Core industries sped up by 2.0 percentage points while the overall index slowed by 1.1 points, so the slowdown came entirely from outside the core, mostly from finished manufactured goods. Basic inputs are gearing up for the post monsoon construction season, while the production of finished goods has eased after a strong run of festive stocking in July and August.**



Source: Office of the Economic Adviser, NSO. August revised



Source: NSO. August revised values shown where released

The Festive Season Reached Showrooms Before It Reached Production Lines

- **The use based classification groups goods by who buys them, and here five of six categories slowed in September. Consumer durables, such as vehicles, appliances and phones, nearly halved to 6.0% year on year from 10.5%, despite the start of the festive season. Two timing effects explain most of this. Last year, Diwali fell on October 20 and GST rates were cut on September 22, so September 2025 saw heavy production ahead of both, which makes this year's base unusually high. This year, Diwali falls on November 8, so festive production shifts into October.**
- **Capital goods, the machinery firms buy to expand capacity, slowed to 10.4% from 15.9%, the weakest reading of FY27. This matches the September manufacturing PMI, where capital goods were the weakest segment, and the RBI's data showing Central government capex growth slowing to 8.5% in July and August from 23.7% in Q1. Intermediate goods, the parts and materials used to make other products, held up at 12.2%, and infrastructure and construction goods grew 7.2%. Primary goods grew 4.0%, weighed down by mining. Consumer non durables, everyday staples such as food, soaps and medicines, returned to growth at just 1.4% after two months of contraction.**

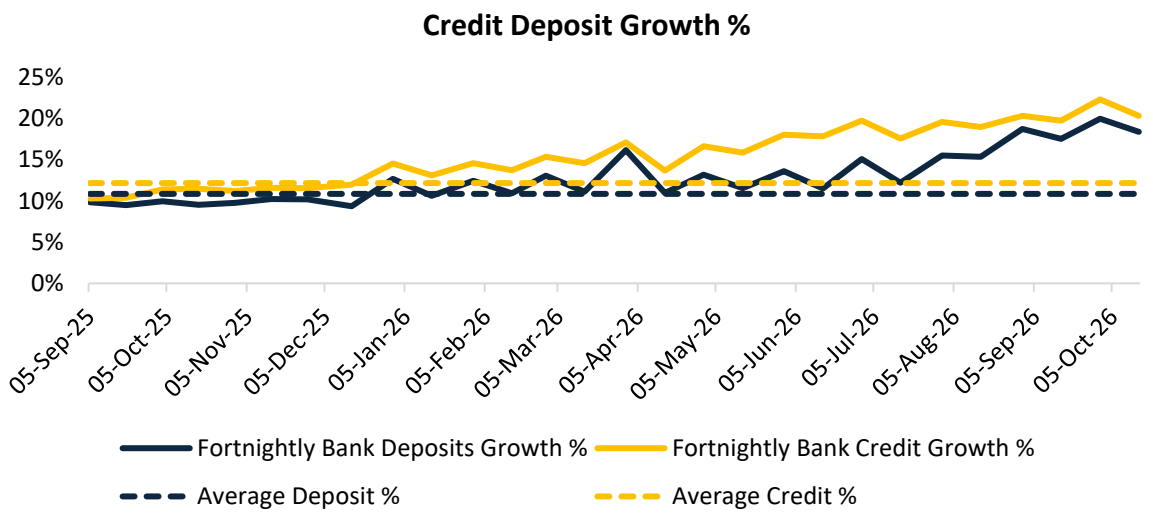
What Is Really Moving the Numbers

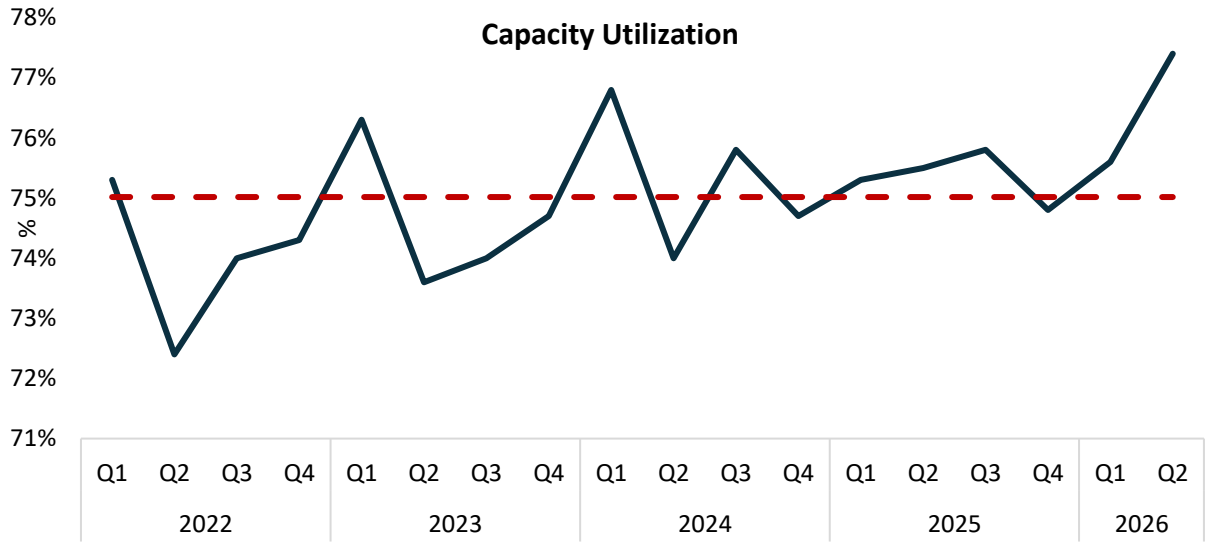
- **The West Asia conflict is visible line by line**. Gas supply, fertilisers and crude oil are all contracting because imported gas and feedstock are scarce and costly. Yet refinery output grew 10.3%, because the same conflict has widened margins on fuel exports, which rose 66% year on year in July and August. **Geopolitics is hurting gas based industries and helping refiners at the same time**.
- **A weaker rupee is raising the cost of making things**. With the rupee near 95 to the dollar, imported electronic components, chemicals and steel cost more. The September PMI shows input costs rising faster, especially for electronics, pharmaceutical items and steel. Firms are passing part of this on, with output prices rising fastest in consumer goods. **Higher shelf prices, alongside food inflation of 5.7%, explain why staples volumes are barely growing**.
- **Export facing industries are struggling**. Apparel and pharmaceuticals, both heavily exposed to the US market, are contracting. **Tariff uncertainty and pricing pressure on generic medicines are weighing on these sectors**.
- **Policy, not consumers, is driving the strongest lines**. Electrical equipment growing 33.9% reflects spending on power grids, renewable energy and data centres, much of it government or regulated. This demand is less sensitive to interest rates, giving manufacturing a floor.
- **Warehouses are filling up**. The September PMI recorded the second largest build up of finished goods stocks in almost 12 years, and intermediate goods output is still growing in double digits. **Firms have produced ahead of expected festive sales. If those sales disappoint, production could slow in the following months as firms work through their stocks**.

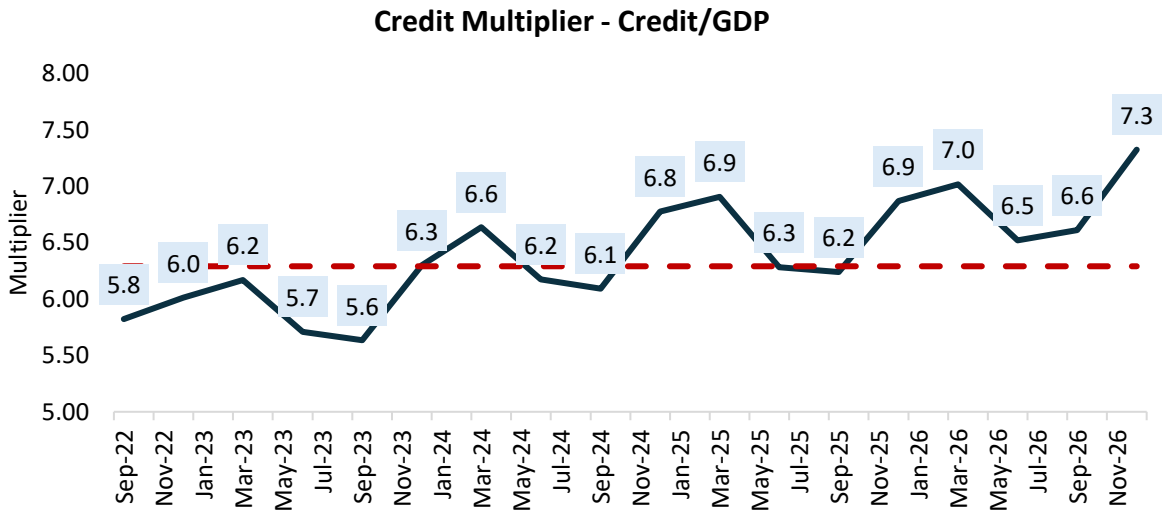
Outlook: Momentum Holds, but the Pace Is Set to Moderate

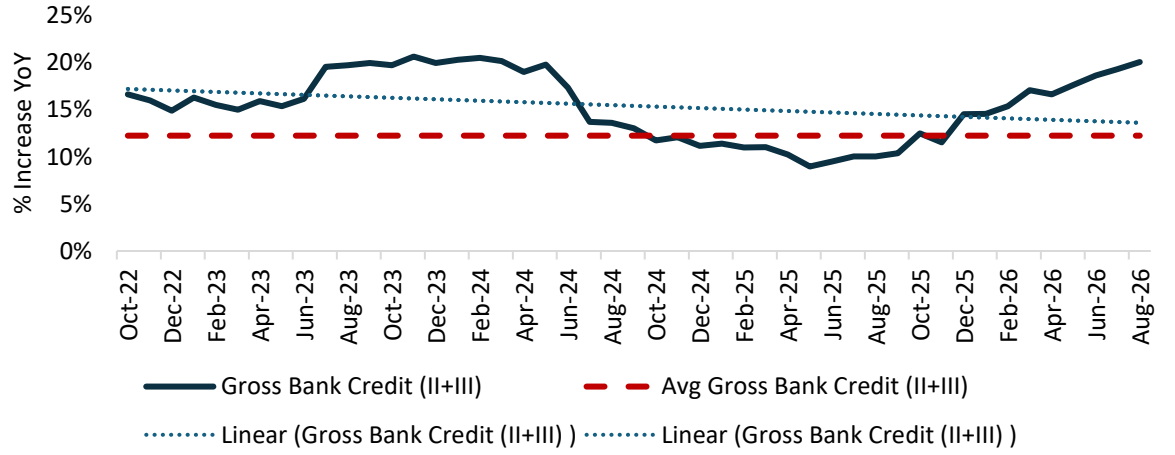
- **The RBI expects economic activity to hold its momentum with some moderation. In its October policy, it noted that manufacturing is holding well despite cost pressures, raised its FY27 GDP forecast by 40 bps to 7.1%, and sees growth easing to 6.9% in Q3 from 7.2% in Q2. On the support side, it points to the Government's continued infrastructure spending, a rebound in private capex, strong credit flows and new trade agreements. On the risk side, it flags global uncertainty, supply chain disruptions, and a weak monsoon together with El Niño, which could hurt the rabi crop and rural demand.**
- **October should show a sharp jump in year on year growth, because Diwali in October last year cut factory working days and left a very weak base, while this year's festive production falls in October. November is likely to look soft for the opposite reason, so the two months should be read together. Beyond that, three factors will set the pace:**
    - **The October rate hike raises borrowing costs for durables and machinery, the two categories that have just slowed.**
    - **Gas and fertiliser output will stay weak until West Asian supplies normalise.**
    - **And the large build up of finished stocks means production must be followed by sales, or firms will cut output.**
- **With power, electrical equipment and infrastructure inputs still strong, we expect industrial growth to remain healthy, but led more by investment linked and input industries than by consumer goods.**

4. Capex



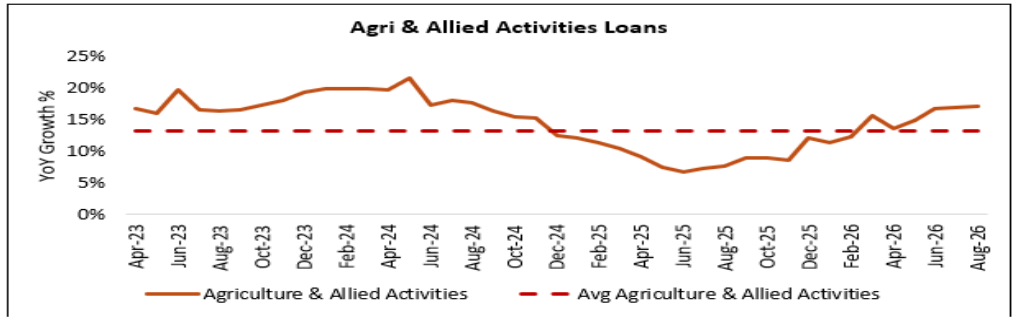




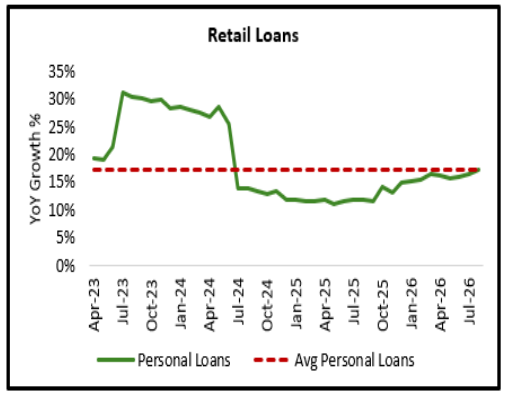


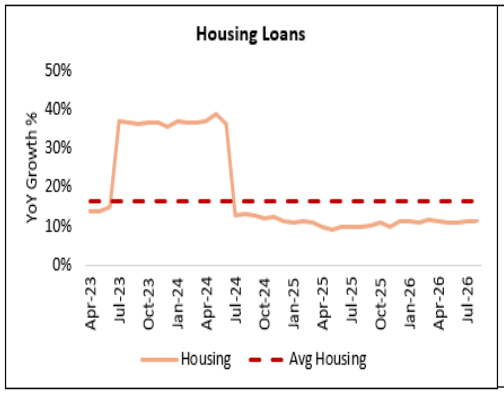
Source: Internal assessment based on RBI DBIE data

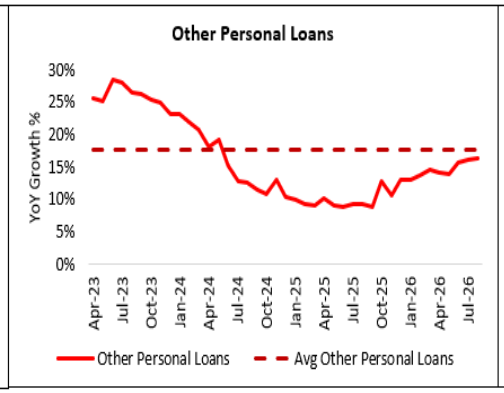
Credit to Agri

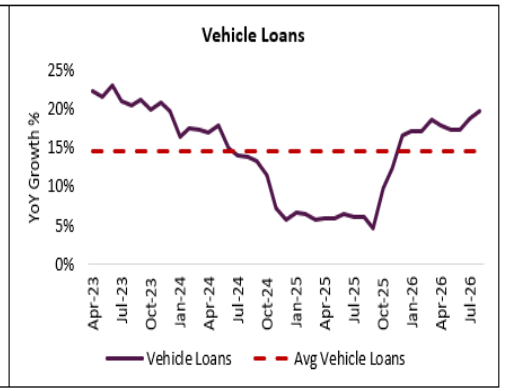


Credit to Consumer

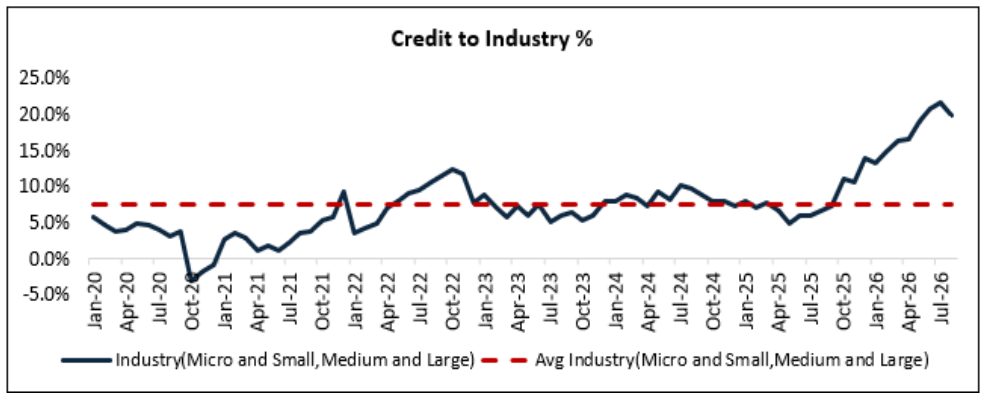


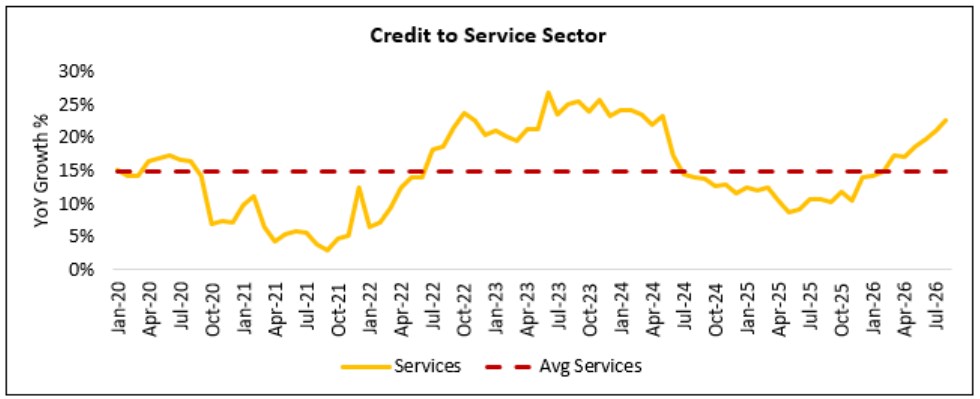


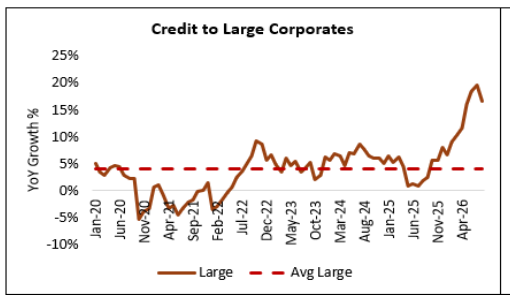


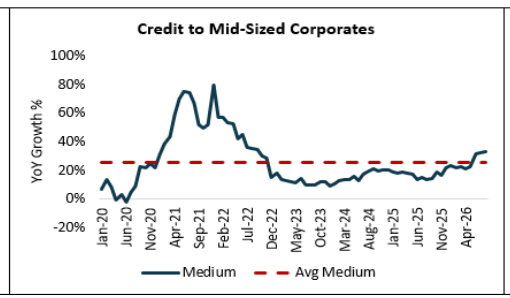


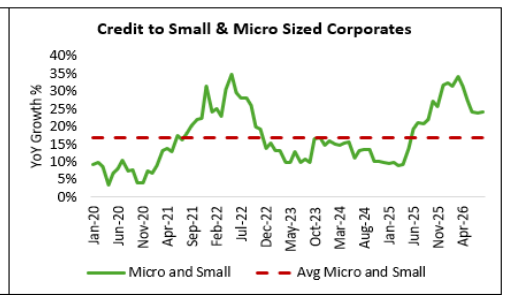
Credit to Industry











Source: Internal assessment based on RBI DBIE data

Credit Is Building Capacity, Now It Has to Survive Costlier Money

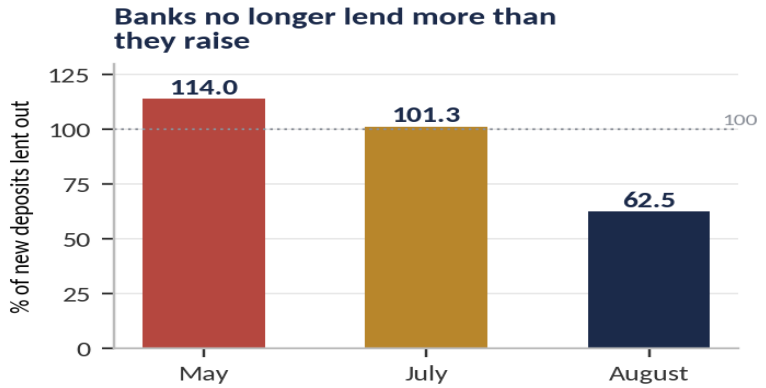
Bank credit is growing at nearly twice last year's pace, factories are running above their long term average capacity, and more of the new loans are going into machinery, power and mid sized businesses than into consumer borrowing. That is what an investment cycle looks like in the banking data. The question for the coming months is whether it can hold its pace now that the RBI has raised rates and the cheap foreign currency money that funded it has stopped coming in.

Credit Is Running at Twice Last Year's Speed

- **Bank credit grew 19.4% year on year on September 30**, against roughly 10% a year ago. **Counting all sources**, including bonds, commercial paper and foreign borrowing, credit to **the commercial sector grew 16.3% in FY27** so far, against 12.2% a year earlier. Funds flowing to businesses rose to ₹17.46 lakh crore in April to August, from ₹11.24 lakh crore a year ago.
- Three forces explain the acceleration. First, **demand for working capital and project loans has risen with investment, as shown by capital goods imports growing 23.6% in August**. Second, the **bond market has become costlier, with 3 year AAA corporate bond yields at 8.11% in mid October and corporate bond issuance down to ₹3.26 lakh crore in April to August from ₹3.96 lakh crore, so firms are turning to banks**. Third, **banks have chosen loans over government bonds. Their investment to deposit ratio fell to 26.1% in August from 28.6% a year ago**, meaning a smaller share of every deposit is being parked in safe securities.

Deposits Caught Up, but Not Because Savers Changed Their Habits

- **Deposit growth reached 17.8% year on year in August and September, up from 13.3% in June. The trigger was the RBI's swap window, which brought in US$ 133 billion of foreign currency non resident deposits between June 8 and August 31. Domestic savers tell a different story. Households are steadily moving money into financial markets, with monthly SIP inflows into mutual funds reaching a record ₹32,490 crore in September, while currency in circulation grew 13.3% as families drew cash ahead of the festive season. So the deposit surge is real, but it rests on a one time inflow rather than a lasting shift back to bank savings.**
- The benefit has shown up in pricing. Banks needed fewer expensive bulk deposits, so the average rate on fresh term deposits fell 28 bps in July and August. Lending rates on fresh loans went the other way, rising 8 bps, partly because more loans went to higher yielding segments. For banks, margins improved. For borrowers, money did not get cheaper.



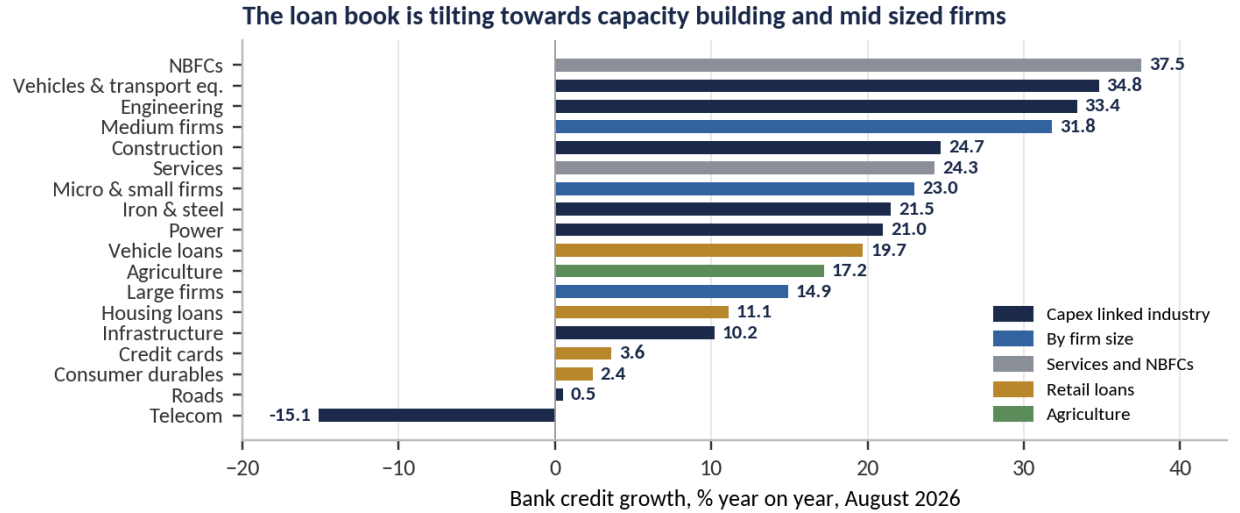
Incremental credit deposit ratio, year on year. Source: RBI

The Funding Gap Has Closed, for Now

- **The credit deposit ratio, the share of deposits lent out, eased to 80.3% in August from 82.0% in July**. The more telling measure is **the incremental ratio, the share of new deposits lent out over the past year, which fell to 62.5% in August from about 114% in May, when banks were lending more than every new rupee they raised**. The **money multiplier, which shows how much broad money the system creates from each rupee of central bank cash, rose to 6.3 from 5.8 a year ago**, according to the RBI, as people held a smaller share of their money in cash. **Bank credit to GDP has also crossed 60%, the highest in over a decade. Bank health supports this expansion, with gross NPAs at 1.67% and capital adequacy at 17.87% in June**.

Follow the Loans and You Find the Factories

- Industry (+19%). Credit to capacity building sectors leads. Vehicles and transport equipment grew 34.8%, engineering 33.4%, construction 24.7%, chemicals 23.5%, iron and steel 21.5% and power 21.0%. Within infrastructure (+10.2%), roads (+0.5%) and telecom (minus 15.1%) lag as those companies repay loans or use bond markets.
- By firm size. Medium firms (+31.8%) and micro and small firms (+23.0%) are borrowing far faster than large corporates (+14.9%). The RBI notes that lending to large industry has picked up sharply, but mid sized firms are carrying the cycle, helped by priority sector lending and formalisation.
- Services (+24.3%). Bank loans to NBFCs grew 37.5%, as NBFCs pass bank money on to smaller borrowers. Commercial real estate grew 22.5% and trade 20.1%.
- Agriculture (+17.2%). Farm credit remains strong despite a monsoon that ended 13% below normal, as farmers borrow to bridge weaker incomes.
- Personal loans (+16.9%). Secured borrowing leads, with vehicle loans up 19.7% and housing a steadier 11.1%. Unsecured consumption credit has nearly stalled, with credit cards at 3.6% and consumer durables at 2.4%. Gold loans rose 83.2%, inflated by a bank's reclassification of farm loans and by record gold prices.



Source: RBI Bulletin October 2026, Tables 15 and 16. Gold loans (83.2%) excluded, distorted by reclassification and prices

Private Capex Has Taken Over the Baton From Government

- The RBI's survey shows seasonally adjusted **capacity utilisation in manufacturing rising 110 bps to 76.3% in Q1 FY27**, above its long period average. When factories run this full, firms need new capacity to meet demand, and the data shows they are building it. **Private companies accounted for 86.3% of new projects announced in H1 FY27, against 68.7% in the previous half year. Meanwhile, Central government capex growth slowed to 8.5% in July and August from 23.7% in Q1. The handover from public to private investment that policymakers have waited for is visible in these numbers**.

Three External Shocks Testing the Cycle

- **The West Asia conflict has pushed the Indian crude basket to US$ 116 a barrel in September, raising input costs and squeezing the margins that fund internal capex. The rupee, near 95 to the dollar, makes imported machinery costlier, at a time when capital goods imports are growing over 20%.** Firms are still borrowing abroad, with external commercial borrowing registrations doubling to US$ 30.4 billion in April to August, but the RBI's new foreign exchange risk reserve has raised hedging costs on that debt. **Globally, higher bond yields and rate hikes by major central banks have tightened financing conditions everywhere. None of these has stopped the cycle so far, but together they raise the cost of every new project**.

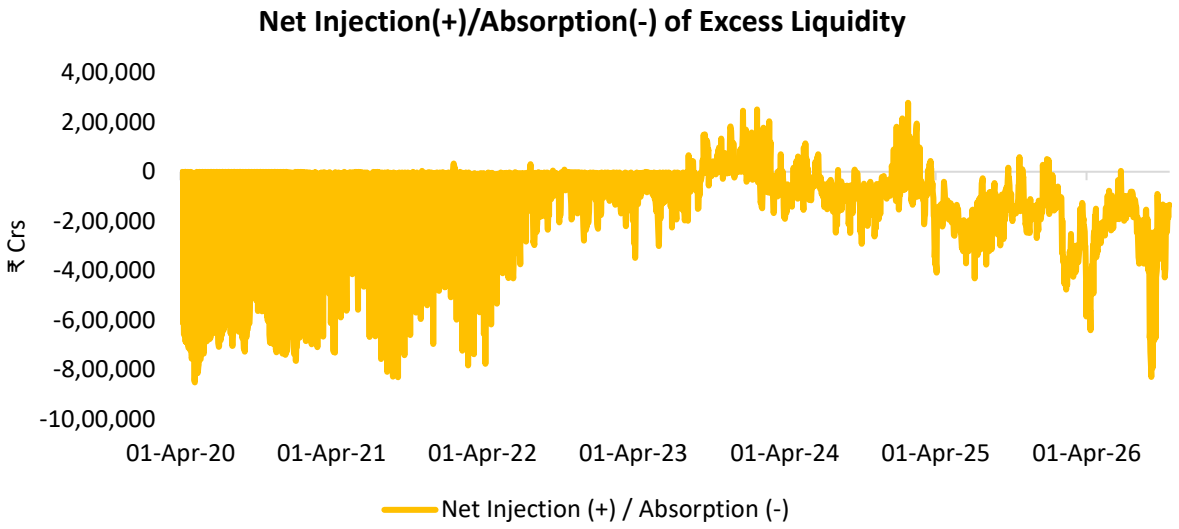
Outlook: Strong Foundations, Slower Pace

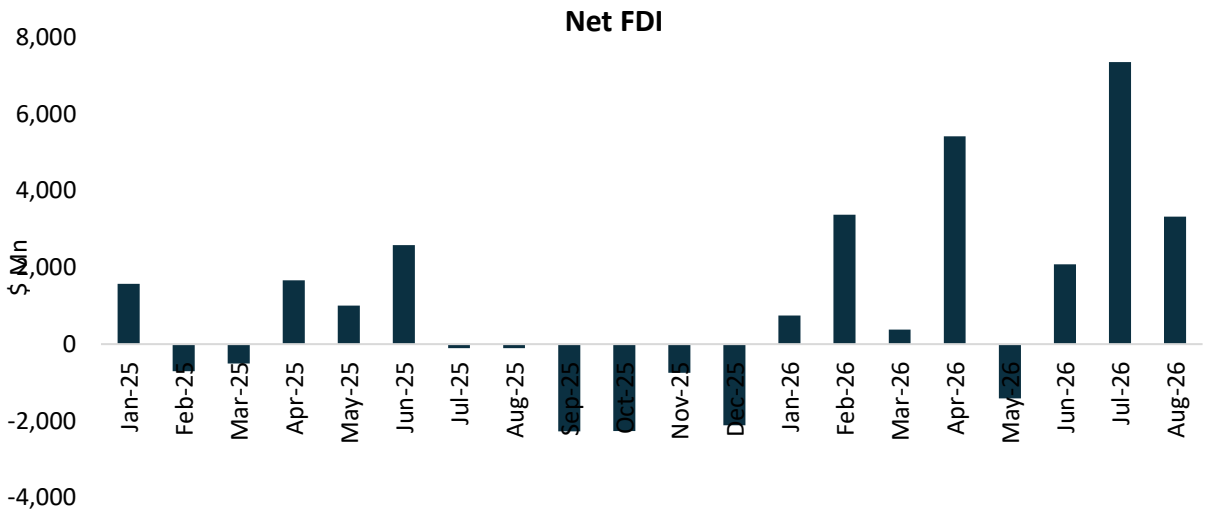
What the RBI is saying. The RBI expects the Government's infrastructure thrust, a rebound in private capex and strong credit flows to support investment, and describes the revival in private investment as gathering pace gradually. At the same time, the MPC has flagged strong growth in money and credit as an inflation risk and has said rate cuts are off the table, with the next move a hike or a pause.

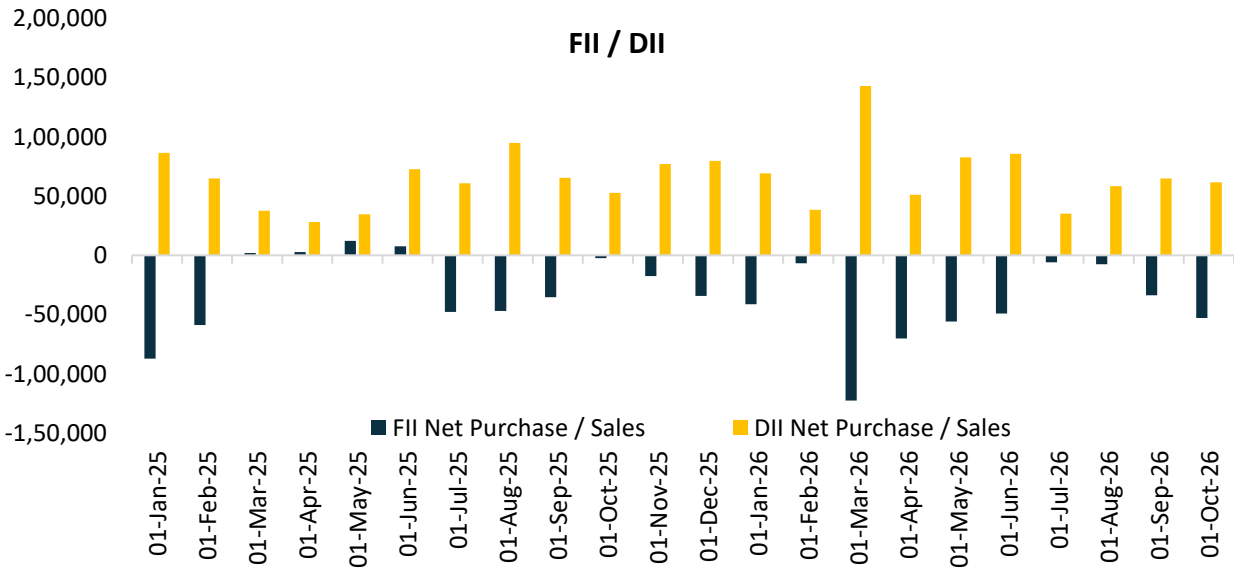
The next month. We expect credit growth to stay high in November, supported by festive retail demand and projects already in the pipeline, but the rate hike will start to show in pricing as banks reset loans linked to the repo rate. Deposit growth should stay elevated because the dollar deposits raised over the summer remain on bank balance sheets.

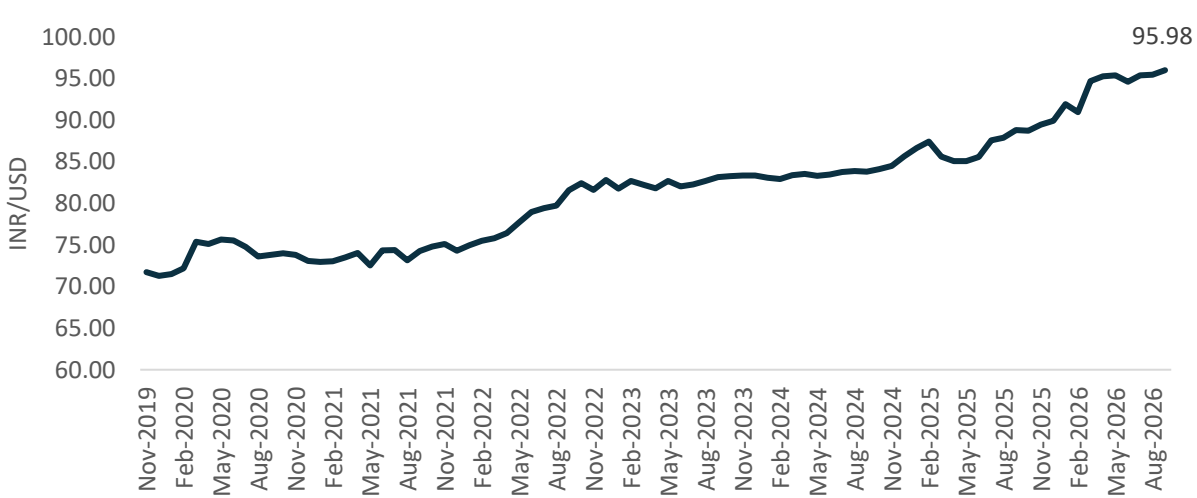
By March 2027. We expect credit growth to moderate gradually, because higher borrowing costs will slow consumer and working capital loans first, while long gestation project lending continues. The incremental credit deposit ratio is likely to drift up again once the foreign currency inflow stops boosting deposits, so funding will tighten without becoming a constraint, given strong bank capital and liquidity. Private capex should continue, with power, engineering, metals and construction leading, though at a slower pace as costly oil and a weak rupee raise project costs. The cycle's direction looks secure. Its speed now depends on how quickly crude and global yields ease.

5. Liquidity









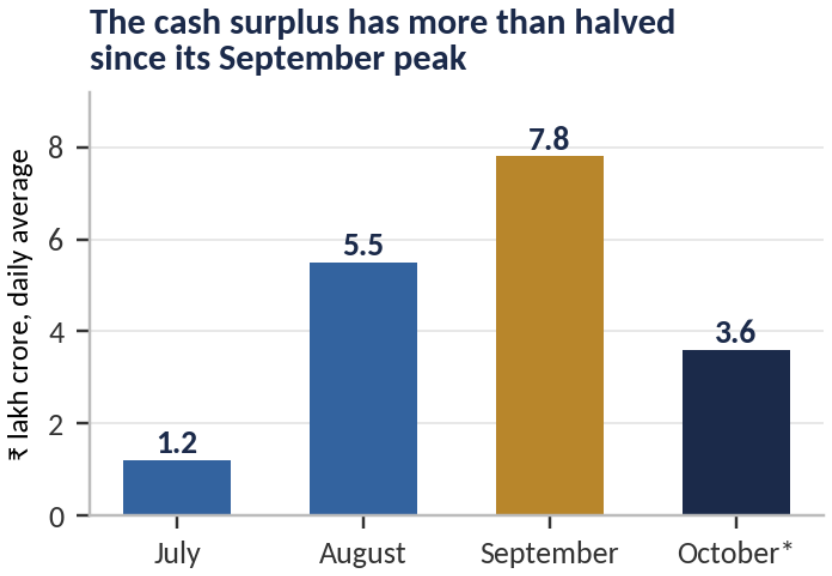
Source: Internal assessment based on RBI DBIE data

The Flood Recedes, the Firewall Goes Up

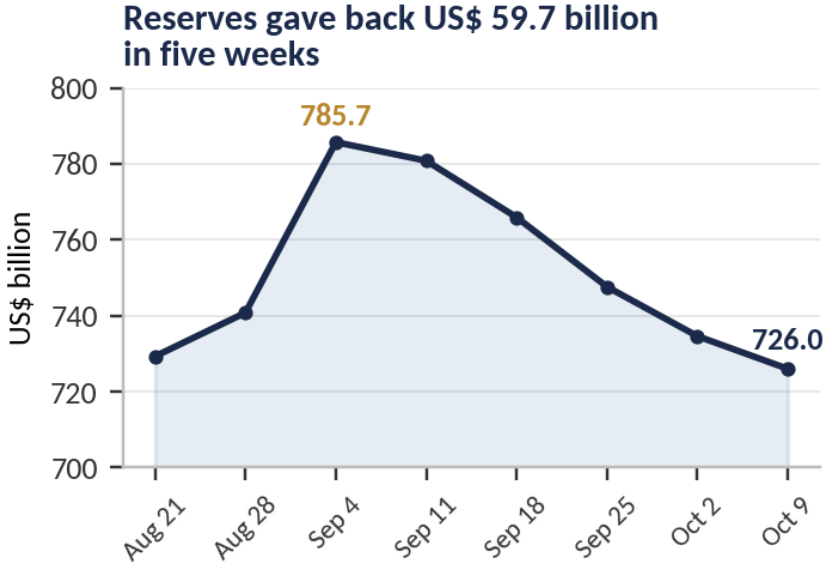
In September, **India had more spare cash in its banking system than at any point in its history.** In October, the **RBI raised the repo rate by 25 bps to 5.50%, changed its stance to calibrated tightening,** and said plainly that rate cuts are off the table. Between those two events, the story of Indian liquidity changed direction. The surplus built by foreign currency deposits is now being drained, partly by design and partly by the cost of defending the rupee. Our analysis follows that money from the banking system to the RBI's balance sheet, into the currency market, and out through foreign investors.

Overnight Money Finally Costs What the RBI Says It Should

- The daily cash surplus, measured as the money banks park with the RBI under the Liquidity Adjustment Facility (LAF), fell to an average of **₹3.6 lakh crore in October (up to the 19th) from a record ₹7.8 lakh crore in September.** Three forces did the draining. **Bond sales under open market operations (OMOs)** removed ₹1.25 lakh crore across September and October, **GST payments** moved cash from banks into the government's account, and from October 16 **the RBI required banks to keep 99% of their mandatory cash reserve (CRR)** with it every single day, up from 90%. That last change looks technical, but it quietly locks away cash that banks were using for daily lending.
- The result is that policy is working again. The **weighted average call rate (WACR), the overnight rate the RBI targets**, **traded 18 bps below repo in September but only 5 bps below in October**, and moved into the upper half of the corridor late in the month. Three month Treasury bill yields rose 28 bps, bank certificates of deposit (CDs) 55 bps and NBFC commercial paper 29 bps. **The most telling signal came on October 19, when the RBI injected ₹1 lakh crore through a variable rate repo. Only weeks earlier it was absorbing cash. When a central bank switches from draining to lending within a month, it tells us the surplus has thinned to the point where short squeezes appear.**



*Up to October 19. Source: RBI Bulletin October 2026



Source: RBI weekly statistical supplement

Money Is Growing Faster Than the Economy Can Spend It

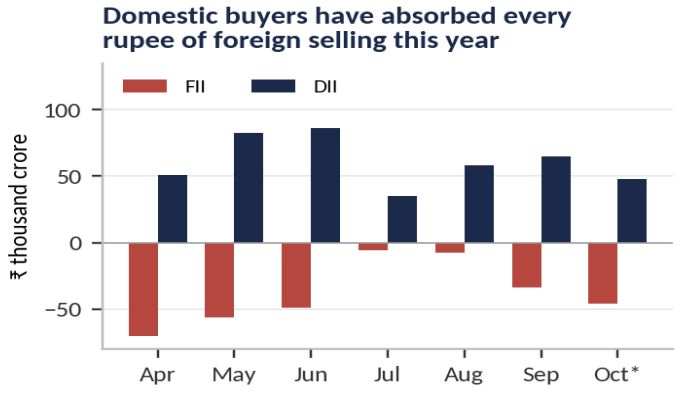
- Not every money measure matters equally this month. Reserve money (M0), the cash the RBI itself creates, grew a steady 12.1%. The number that stands out inside it is currency in circulation, up 13.3%, its fastest in five years, as households drew cash ahead of the festive season. **Broad money (M3), which adds bank deposits, grew 16.9%**, while narrow money (M1), the cash and current account balances used for daily transactions, grew about 15.5%. M2 adds little here, since post office savings barely move.
- The real insight lies in two ratios we calculated from RBI data. **The money multiplier, M3 divided by M0, rose to 6.3 from 5.8 a year ago, because the FCNR(B) inflows created a large pool of deposits on a relatively small base of central bank cash. The velocity of money, how many times each rupee changes hands in a year, has fallen to about 1.06 from 1.13, since M3 is growing at 17% while nominal GDP grew only 10.3% in Q1. In simple terms, money is piling up faster than it is being spent. Today it sits largely in term deposits. As banks lend it out, with credit already growing 19.4%, velocity can turn up and that money starts chasing goods and services. This is exactly why the MPC flagged strong growth in money and credit as an inflation risk, and why we see this gap as a reason the tightening cycle may not end with one hike.**

The RBI's Dollar Pile Is Smaller Than It Looks

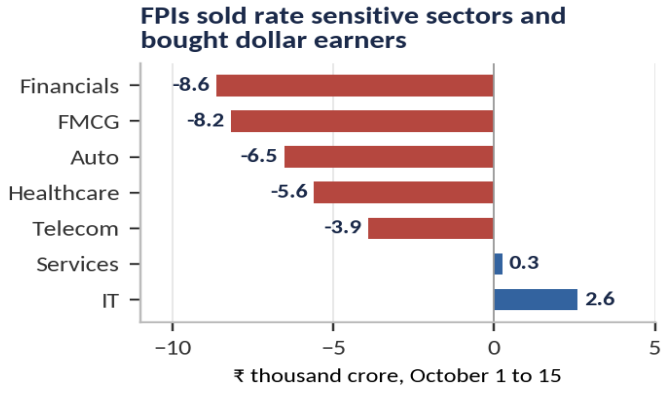
- Forex reserves peaked at a record US$ 785.7 billion on September 4 and fell for five straight weeks to **US$ 726.0 billion by October 9**, a drop of US$ 59.7 billion. Some of this is lower gold prices, but most is the RBI selling dollars to steady the rupee. **Reserves still cover 10.6 months of goods imports, or 8.4 months once services are included.**
- There is a less visible layer. To absorb the FCNR(B) dollars, the RBI bought US$ 18.7 billion in July and US$ 43.3 billion in August, and promised to sell those dollars back when the deposits mature. Its outstanding net forward sales reached US$ 200.1 billion at the end of August. Those dollars are already committed, so **the reserves the RBI can freely deploy are closer to US$ 525 billion**. The relief is timing, since US$ 176.6 billion of these commitments fall due after more than a year. **Near term, the pressure is manageable. Over the next two to three years, it is a known claim on reserves that limits how hard the RBI can defend the rupee.**
- **This matters for liquidity too. Every dollar the RBI sells takes rupees out of the banking system. In October, dollar sales have replaced bond sales as the main drain, which is why we expect the RBI to slow or pause its OMO sales from here**.

The Rupee Found a Floor, Not a Fix

- **The rupee slid to 96.71 per dollar on October 9, close to its record low, as crude oil and a strong dollar pushed importers to buy dollars in advance**. Corporate forward dollar purchases hit a record US$ 77 billion in September. On October 10, the **RBI responded with three measures. Banks must now hold a foreign exchange risk reserve of 20% on rupee derivatives where clients buy dollars**, the **limit for hedging without an underlying exposure was cut from US$ 100 million to US$ 5 million**, **and state oil companies now buy their daily dollars directly from the RBI rather than in the market. The rupee recovered to about 94.8 by October 23.**
- **We read these as measures that remove speculative demand, not measures that change fundamentals. The Indian crude basket averaged US$ 116.1 a barrel in September, the trade deficit widened to US$ 58.7 billion in July and August, and foreign investors are still selling**. The oil company window also shifts a large, steady dollar demand onto the RBI's own reserves, so the reserve drain will continue even if the rupee looks calm. Meanwhile, **the real effective exchange rate appreciated in September because Indian inflation is running above that of trading partners, which slowly erodes export competitiveness. We expect the rupee to trade in a managed range with a mild weakening bias rather than strengthen, unless crude falls meaningfully**.



*October up to 22nd, provisional. Exchange cash market data



Source: NSDL fortnightly sector data

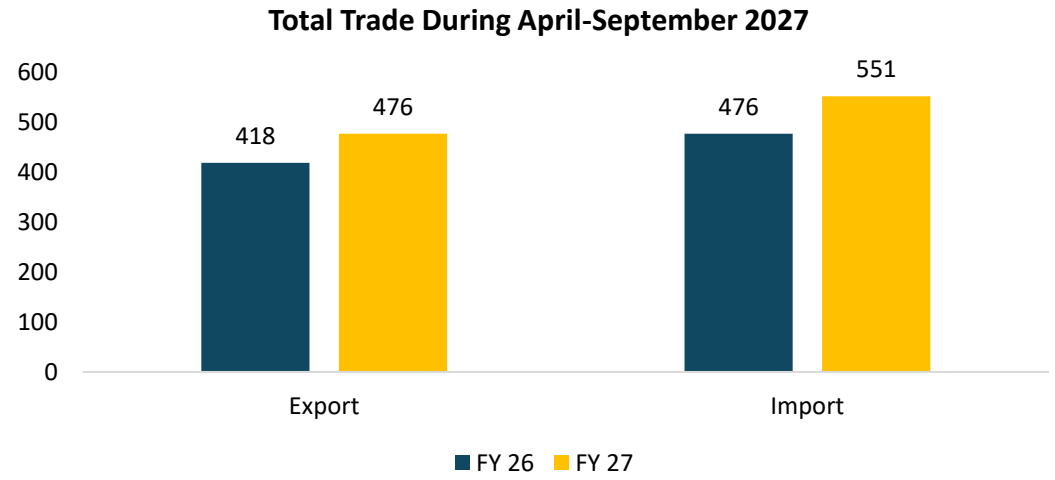
Patient Money Stays, Fast Money Leaves Equity

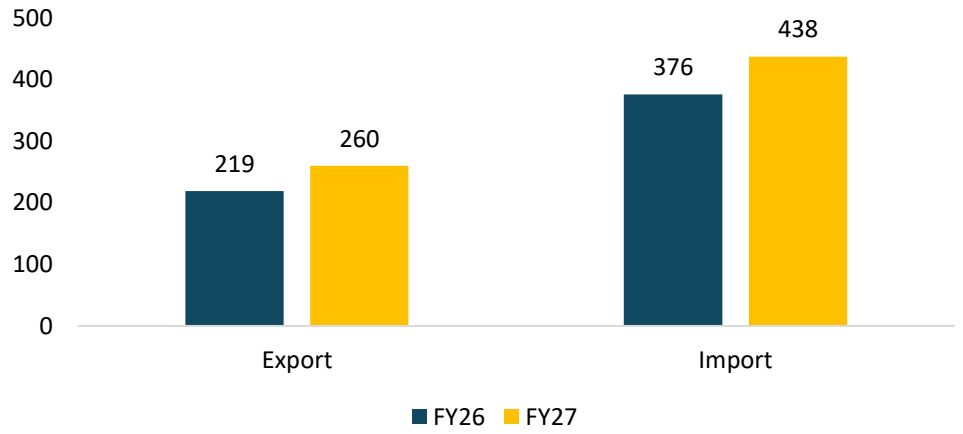
- **Net FDI, which subtracts money foreign companies take home from what they bring in, rose to US$ 13.8 billion in April to August from US$ 9.6 billion a year ago. Gross inflows were US$ 54.9 billion,** but repatriation of US$ 23.4 billion absorbed 43% of it, and Indian companies invested US$ 17.7 billion abroad. **The improvement is real, driven by higher inflows and slower outward investment, but net FDI alone cannot offset portfolio outflows of this size**.
- **Foreign portfolio investors (FPIs) pulled out US$ 12.2 billion in FY27 up to October 16, almost entirely from equity**. They sold ₹48,056 crore of Indian shares in October up to the 25th, taking calendar 2026 outflows to a record ₹3.08 lakh crore, nearly double all of 2025. Debt flows were roughly flat. FPIs withdrew ₹3,858 crore from index eligible bonds and ₹1,332 crore through the voluntary retention route, but added ₹3,737 crore in the general route.
- **Why equity and not debt?** We see three reasons. First, **the return available on safe US assets, with the US 10 year yield above 5%, now competes with Indian equities** whose dollar returns are being cut by a weaker rupee. Second, **global funds are rotating toward the AI trade in North Asian markets, where valuations are cheaper and earnings upgrades stronger**. Third, **crude above US$ 110 threatens Indian corporate margins**. **Debt held up because Indian bonds now pay a three year high of 7.39%, and much of that money is passive index money that does not trade on sentiment. The sector pattern confirms the logic. FPIs sold financials, FMCG, autos, healthcare and telecom, the sectors most exposed to higher rates and costlier inputs, and bought only IT, a dollar earner that gains when the rupee weakens**.
- Domestic institutions have absorbed the selling. DIIs bought ₹64,759 crore in September against FII sales of ₹33,864 crore, and about ₹47,895 crore in October against FII sales of ₹45,934 crore, leaving foreign ownership at multi year lows. The flows are clearly yield driven. In the week to October 23, as the US 10 year yield eased from 5.36% to about 5%, FPIs turned net buyers on two days.

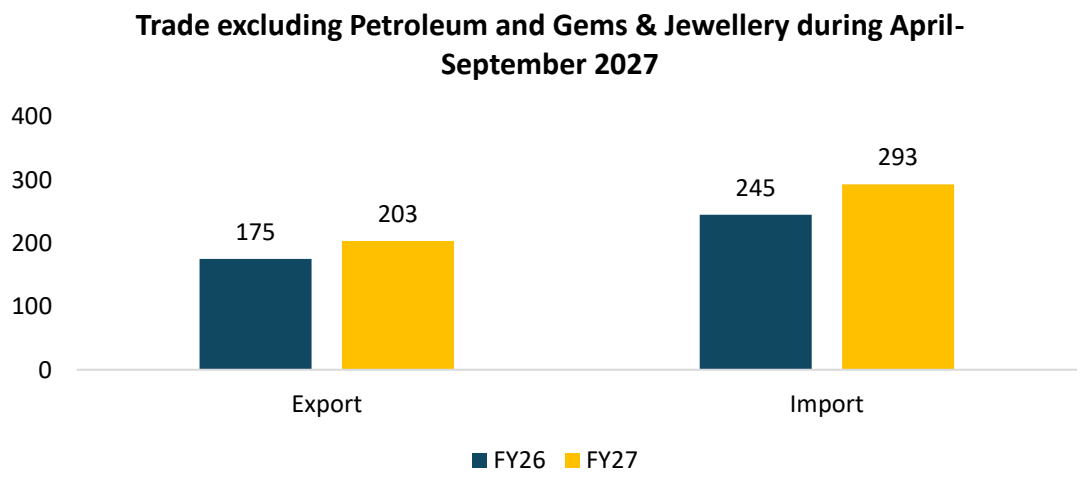
Outlook: From Surplus to Balance, With the RBI Steering Closely

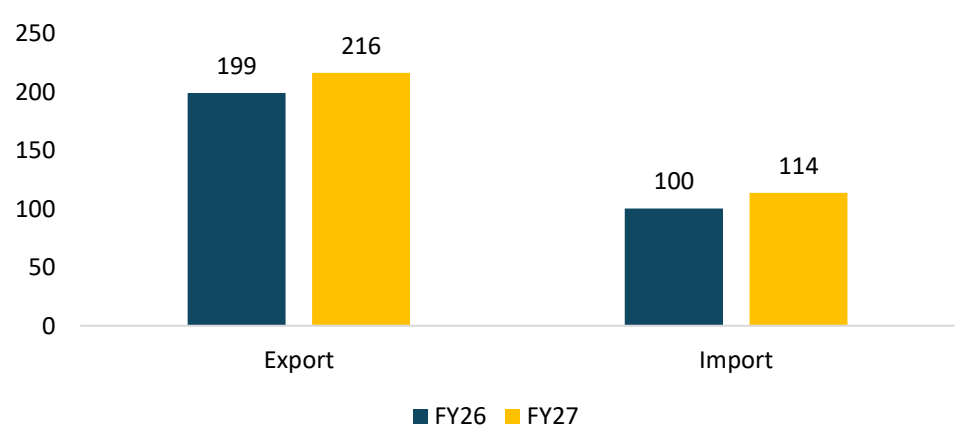
- **The RBI has said it will use an appropriate mix of liquidity tools to align the call rate with the repo rate, and that the next move can only be a hike or a pause**. Read with the data, this points to a clear shift. **We expect the banking system to move from a large surplus towards balance through November and December**, because festive cash withdrawals, dollar sales to defend the rupee, the tighter daily CRR rule and mid December advance tax payments all pull cash out at the same time. **Government spending will offset part of this, but not all**.
- That shift has three consequences. First, the **RBI is likely to stop selling bonds and lean on short term repo injections** instead, because its dollar sales are now doing the draining. Second, **short term borrowing costs for banks, NBFCs and companies should stay firm, so the rate hike transmits more fully than the last easing cycle did**. Third, a **renewed fall in reserves is likely while oil companies draw dollars from the RBI, which keeps the rupee managed rather than free**. **What would change this view is a sharp fall in crude or US yields. Either would slow foreign selling, ease the pressure on reserves and give the RBI room to pause. Without that, the liquidity cushion built over the summer will keep shrinking, and the market should prepare for tighter money rather than easier money into the new year**.

6. Trade









Source: RBI, PIB

The Deficit Narrows Again, and Gold Is Still Doing the Work

- **India's merchandise exports rose 23.06% YoY to USD 44.40 billion in September 2026** against USD 36.08 billion in September 2025, **the second straight month of growth above 20%. Merchandise imports rose only 8.00% YoY to USD 74.61 billion**, so the export line outgrew the import line by fifteen points against twelve in August. **The monthly goods trade deficit narrowed to USD 30.21 billion from USD 33.00 billion a year earlier**, the second year-on-year improvement in a row, although it widened by USD 3.35 billion from August's USD 26.86 billion.
- **The combined goods-and-services deficit narrowed to USD 13.30 billion in September 2026 from USD 14.17 billion in September 2025.** Cumulatively, April-September FY27 total exports reached USD 476.20 billion (+13.84% YoY) and imports USD 551.13 billion (+15.68% YoY), leaving a six-month overall deficit of USD 74.93 billion against USD 58.10 billion a year earlier, with the merchandise gap now USD 177.64 billion against USD 156.88 billion, a 13.2% widening, down from 18.7% at April-August. **We would still not call this the turn, because the monthly improvement is again a gold effect and the cumulative arithmetic is still deteriorating.**

Export Drivers – Electronics Keeps Compounding

- **Electronic goods again took the front of the export book, up 70.44% YoY to USD 5.31 billion from USD 3.11 billion**, and petroleum products rose 31.90% YoY to USD 6.22 billion from USD 4.71 billion. Engineering goods, our preferred read on the manufacturing cycle, rose 20.91% YoY to USD 12.17 billion and remain the largest category by absolute size, organic and inorganic chemicals rose 24.21% YoY to USD 2.94 billion, and cotton yarn, fabrics, made-ups and handloom products 20.76% YoY to USD 1.12 billion. **Electronics and petroleum together added USD 3.71 billion of the USD 8.32 billion rise in merchandise exports, about 45% of the increment, and only one of the two is a price story.**
- **Non-petroleum exports rose 21.71% YoY to USD 38.18 billion and non-petroleum, non-gems-and-jewellery exports 22.01% YoY to USD 34.81 billion**, so the non-commodity core held its pace rather than fading. The second tier was broad, with Other Cereals (+49.88% YoY) the fastest line of the month, followed by Handicrafts (+43.19% YoY), Meat, Dairy & Poultry (+35.18% YoY), Plastic & Linoleum (+24.81% YoY), Carpet (+19.81% YoY) and Gems & Jewellery (+18.95% YoY). **Drugs and pharmaceuticals grew just 4.68% YoY, so the pharma book remains the laggard even as US-bound exports accelerated to 47.99% YoY.**

Imports Composition – Gold Collapses and the Core Climbs Faster

- **Non-petroleum imports rose only 2.22% YoY to USD 56.27 billion while non-petroleum, non-gems-and-jewellery imports rose 21.99% YoY to USD 51.64 billion**, **and the gap between those two numbers is the whole story of this print. The petroleum import bill, on our calculation, rose to roughly USD 18.34 billion from USD 14.03 billion, a 30.7% increase that is largely price. Gems and jewellery imports collapsed to roughly USD 4.63 billion from USD 12.72 billion, a 63.6% fall off an unusually high September 2025 base, and that single line is what turned the monthly deficit**.
- **The decomposition is unambiguous.** The gold and jewellery line delivered USD 8.62 billion of deficit relief, against USD 3.03 billion of further net core deterioration and USD 2.80 billion of additional net oil drag, which nets to the USD 2.79 billion improvement in the headline gap. Gold imports fell 81.27% YoY and silver 49.11%, with Project Goods (-86.85% YoY), Fertilisers (-22.18% YoY), Newsprint (-9.1% YoY), Iron & Steel (-5.33% YoY) and Wood & Wood Products (-3.41% YoY) also declining. **Strip gold out and the merchandise deficit widened by USD 5.83 billion, so the import-intensity problem we have flagged since April is still compounding.**

Trading Partner Geography – The US Rebounds off a Weak Base

- **The export-destination data again reached well beyond the Asian corridor.** In September 2026, exports to Singapore rose 169.16% YoY, Malaysia 119.69% YoY, Egypt 90.09% YoY, the United States 47.99% YoY and China 24.05% YoY by change in value. The cumulative April-September FY27 picture is led by Tanzania (+122.51% YoY), Singapore (+103.05% YoY), Malaysia (+82.85% YoY), China (+36.07% YoY) and the United States (+11.11% YoY). **US-bound exports accelerating to 47.99% YoY from 21.83% in August says the 10% duty layer is being absorbed rather than destroying volume, though part of the jump is a base effect, as September 2025 shipments to the US were weak.**
- **On the import side, the energy-diversification trade is now the structural default.** In September 2026, imports from Oman rose 331.82% YoY, Korea 52.93% YoY, Singapore 36.44% YoY, China 31.52% YoY and Russia 25.63% YoY. The cumulative April-September FY27 import-source picture is starker still, with Oman up 210.9% YoY, Brazil up 143.13% YoY, Russia up 51.97% YoY, China up 27.82% YoY and the United States up 25.98% YoY. **Russia is the exposure to watch, so the cheapest barrel now carries no tariff tail risk.**

Services – The Cushion Thins, and It Is Still an Estimate

- **The services cushion narrowed.** Services exports slipped 0.87% YoY to USD 36.35 billion while services imports grew 8.97% YoY to USD 19.44 billion, taking the monthly net surplus to USD 16.91 billion against USD 18.83 billion in September 2025, **a 10.2% fall. That is a year-on-year contraction in services exports, the weak spot of an otherwise strong print. With the goods deficit at USD 30.21 billion, the services surplus offsets about 56% of the merchandise gap against roughly 57% a year earlier, so the cushion is holding only because the hole itself shrank.**
- One caveat carries real weight. The release notes that the latest services data is for August 2026 and that the September figure is an estimate, and pro-rata revisions cut the implied April-August services surplus to USD 85.80 billion from the USD 86.71 billion we reported last month. The cumulative April-September FY27 services surplus is USD 102.71 billion against USD 98.77 billion a year earlier, on services exports of USD 216.31 billion (+8.69% YoY) and imports of USD 113.60 billion (+13.33% YoY), so the cushion covers about 58% of the merchandise gap against 63% a year ago. **We continue to treat the services surplus as the binding variable for the current account.**

Gold and Silver Duty – The Cumulative Line Is Now Firmly Negative

- **The fifth clean month of data confirms the compression has deepened.** Gold imports fell 81.27% YoY and silver 49.11% in September, and total gems and jewellery imports fell to roughly USD 4.63 billion from USD 12.72 billion. Cumulatively, April-September FY27 gems and jewellery imports work out to about USD 30.82 billion against USD 39.41 billion a year earlier, a 21.8% decline, against the 1.8% decline we reported a month ago. **The precious-metals channel is delivering net import relief at the cumulative level for a second month running**.
- **We are keeping our critique.** The design objection stands, since a duty of this kind, raised from 6% to 15% on 13 May 2026, has a poor historical record on revenue and a reliable one on driving unofficial channels, and an 81.27% single-month collapse in the gold line is more consistent with deferral, channel-shifting and a high base than with genuine demand destruction. **We would still not build structural deficit improvement off this measure, and we expect the gold line to normalise into the festive quarter, which would remove most of September's headline improvement.**

West Asia – Hormuz Stays Shut and Crude Holds Above USD 100

- **The Strait of Hormuz remains effectively closed and attacks on shipping have intensified in October.** Brent peaked near USD 108 in September and closed at USD 104.51 on 15 October, against an August average of USD 91, while physical Dated Brent near USD 130 shows the strain in prompt supply. Tanker flows are about 43% below pre-conflict levels, around two dozen vessels were hit in two weeks, Houthi strikes have reached Saudi targets, and no reopening arrangement has been announced since the June ceasefire collapsed. **USD 84 to 90 was not a floor, and we now treat USD 100 as the working floor until a corridor is agreed.**
- **September's data again vindicates the hedge thesis we have run since Q4 FY26.** Imports from Oman are up 331.82% YoY in the month and 210.9% cumulatively, Russia 25.63% and 51.97%, and Brazil 143.13% cumulatively, so refiners are sourcing structurally outside the Gulf chokepoint. Petroleum exports of USD 6.22 billion against a petroleum import bill of roughly USD 18.34 billion leave a net oil drag of USD 12.12 billion, USD 2.80 billion wider than a year earlier, and USD 10.59 billion wider cumulatively. **The offset is narrowing, and October's price lands in the next print.**

Trade Policy – The Deal Is Close but Unsigned, and the Probe Is Live

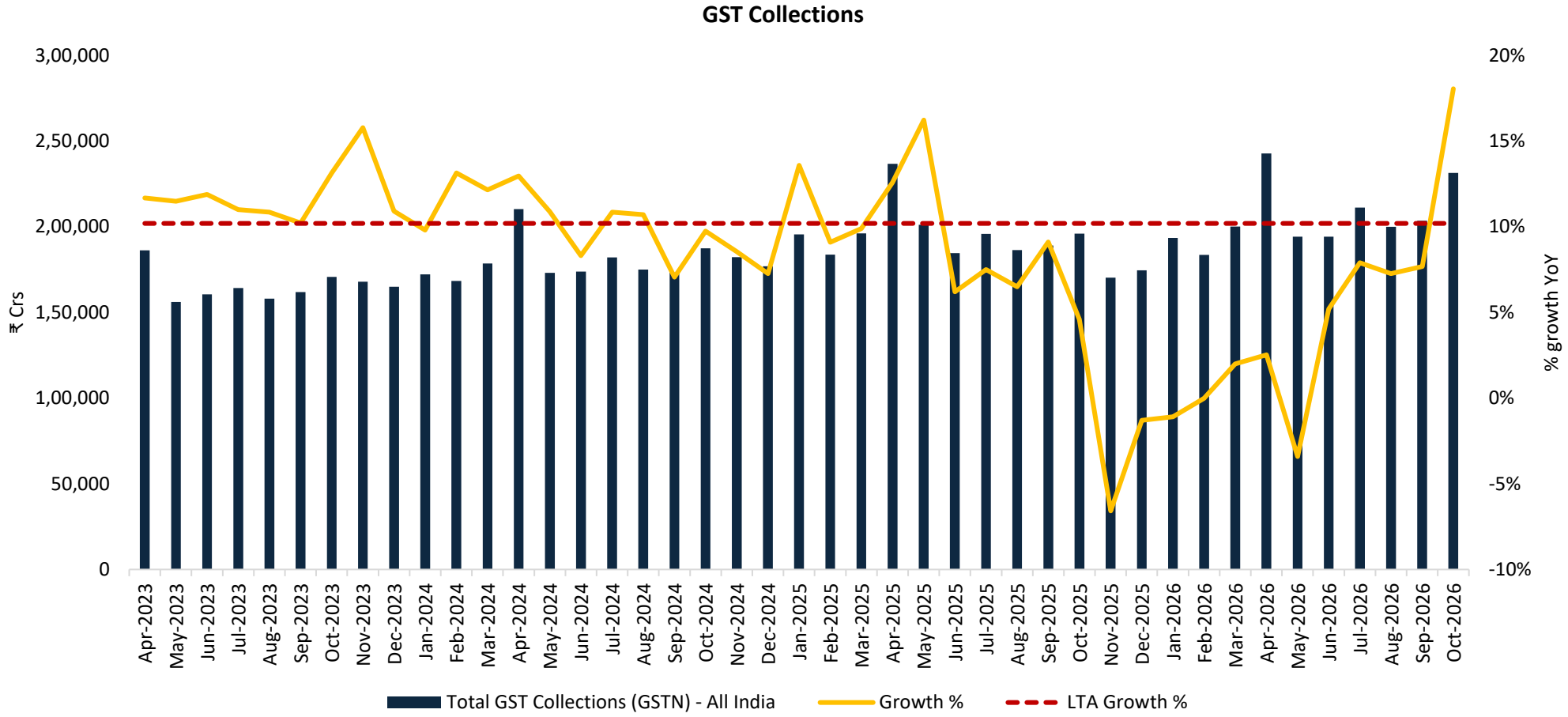
- **The first tranche of the bilateral deal is close but not signed.** The trade minister said on 15 October that the first tranche is in legal drafting, US negotiators said earlier this month that a deal was not imminent, and signing is tied to the Section 301 probes on rival exporters. The 10% Section 301 band on India is unchanged, the effective rate remains MFN plus 10%, and steel and autos remain under Section 232 duties. **A 47.99% US export print under a 10% duty layer says the tariff is being absorbed in margin and freight rather than volume, though the weak base flatters it.**
- **The excess-capacity proceeding remains the live risk.** It is the binary event for engineering, electronics, metals and textiles, precisely the lines carrying this print, and the market reading is that a further layer of up to about 8% would restore the 18% headline of the February framework. The offset remains the FTA calendar. The India-UK CETA has been in force since 15 July, the India-New Zealand FTA, with duty-free access on 100% of Indian lines, enters into force on 20 October, and the India-EU agreement is due to be signed in December and take effect by February or March 2027. **Handicrafts (+43.19% YoY), cotton yarn and made-ups (+20.76% YoY) and marine products (+8.79% YoY) are where we expected CETA to show.**

Outlook

- **September is another strong export print, but the narrowing again rests on one line.** Merchandise exports of USD 44.40 billion (+23.06% YoY) grew fifteen points faster than imports, the combined deficit narrowed to USD 13.30 billion from USD 14.17 billion, and cumulative April-September exports are running 13.84% ahead. **The USD 177.64 billion cumulative goods gap, not the export line, remains the constraint.**
- **The monthly improvement is gold, not structure.** The 63.6% fall in gems and jewellery imports delivered USD 8.62 billion of relief against USD 3.03 billion of net core deterioration and USD 2.80 billion of extra net oil drag, and cumulatively the **core accounts for USD 19.86 billion of the USD 20.76 billion widening in the merchandise gap**. **Strip gold out and nothing has turned.**
- **Energy risk remains elevated.** With the Strait shut, Brent at USD 104 to 106 after a September peak near USD 108 and **normalisation not expected before early 2027**, the crude bill, current account, rupee and imported inflation stay exposed; the diversified barrel and a 31.90% petroleum export print cushion the net, not the gross.
- **Tariff risk is contained, not resolved.** The 10% Section 301 band is holding and US-bound exports grew 47.99% YoY in September, but the excess-capacity proceeding remains open, **and we would not add export beta into them.**
- **We hold our FY27 current-account band and stay overweight domestic engineering, electronics and FTA-advantaged export manufacturing against a marginal underweight in import-intensive consumer discretionary. The net view stays cautiously constructive, with a gold-flattered monthly print, a thinning cumulative invisibles offset, a rupee near its record low and crude above USD 100 the risks to size around.**

- That said, India's current account deficit is expected to widen materially in FY27, with published estimates still clustering in a 1.8% to 2.3% of GDP range against FY26's actual 0.6% of GDP (-USD 25.2 billion), and the spread across those estimates is almost entirely a function of the crude assumption, which at Brent of USD 104 to 106 (after a September peak near USD 108) now sits above the USD 85 to USD 95 band on which those forecasts were built. The April-September data supports the wider half of that band and arguably beyond it: the merchandise gap has already reached USD 177.64 billion against USD 156.88 billion a year earlier, and the overall goods-and-services deficit USD 74.93 billion against USD 58.10 billion, a 29% widening that is difficult to reconcile with the sub-2% forecasts still on the table. September's monthly narrowing, to a combined deficit of USD 13.30 billion from USD 14.17 billion, is real but almost entirely a gold effect, and we would not extrapolate it. The offsets remain real but thinning, with the April-September services surplus at USD 102.71 billion against USD 98.77 billion, but services imports growing 13.33% against 8.69% services export growth, so the invisibles cushion is expanding more slowly than the goods gap and now covers ~58% of the merchandise deficit against 63% a year earlier.
- Key risks to the outlook are a prolonged Hormuz closure keeping crude above USD 100, a structurally wider merchandise deficit that some forecasters do not see narrowing at all through FY27, a normalisation of the gold import line into the festive quarter, and moderating services and remittance growth off FY26's high base, partly offset by the India-UK CETA in force, the India-New Zealand FTA from 20 October and the India-EU agreement due by early 2027. As we have argued since April, financing risk rather than the current account itself is the bigger swing factor. The central bank's 25 basis point hike to 5.50% in October, its first in over three years, alongside FCNR(B) hedging support and concessional forex swaps for PSU overseas borrowing, is aimed at holding the balance of payments in surplus even if the current account gap widens. But with the rupee near 95-96 to the dollar, a whisker from its record low, continued portfolio outflows and crude above USD 100, the roughly USD 15 billion BoP surplus still embedded in published estimates looks optimistic.

7. Fiscal Situation



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

India's GST Collections - October 2026 at Rs.2.31 Lakh Crore (+22.9% YoY). Import IGST Surges 42.2% While Domestic Growth Hits an FY27 High of 15.8%

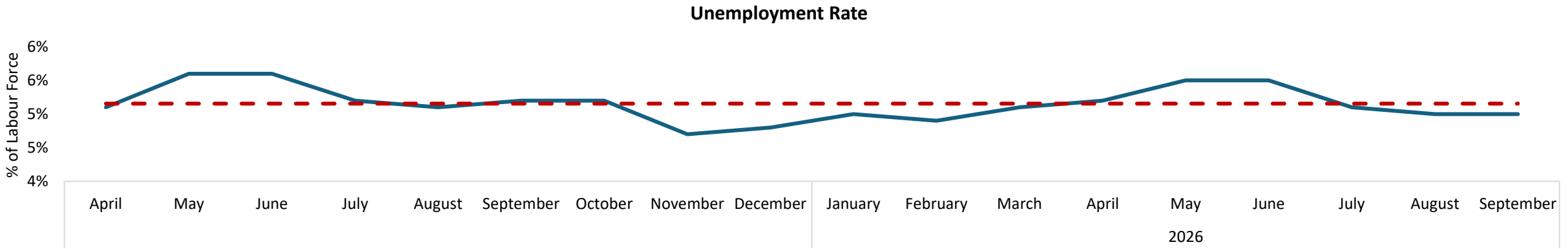
- India's GST collections in October 2026 stood at **gross revenue of Rs.2,31,290 crore (+22.9% YoY)**, a sharp step up from September's +14.7% print and the highest non-April collection on record, against the Rs.1,88,125 crore October 2025 base. The component wise breakup stood at **CGST Rs.42,935 crore, SGST Rs.51,340 crore, IGST Rs.1,37,015 crore (of which imports contributed Rs.72,246 crore)**. **Import IGST rose 42.2% YoY**, the standout driver for a fifth consecutive month and up from September's 25.9%, as the crude risk premium tied to the Strait of Hormuz escalation deepened. Domestic gross revenue grew **15.8% YoY to Rs.1,59,044 crore**, up from September's 10.1% and comfortably the best domestic print of FY27, helped by pre-festive channel stocking and a soft base, as September 2025 purchases were deferred ahead of the GST rate rationalisation. **Gross refunds rose 6.5% YoY to Rs.27,934 crore**, with domestic refunds up 9.8% to Rs.14,007 crore and export refunds up 3.4% to Rs.13,927 crore, which still left **net GST revenue at Rs.2,03,356 crore (+25.6% YoY)** against September's +18.1%. **Cumulative FY27 gross collections through October reached Rs.14,77,569 crore (+13.2% YoY)**, with year to date net at Rs.12,69,486 crore (+12.6% YoY). State wise, **Jharkhand (+31%), Madhya Pradesh (+29%), Punjab (+25%), Uttar Pradesh (+24%), Andhra Pradesh (+24%) and Karnataka (+18%)** led the industrial cluster, while Gujarat (+16%) and Maharashtra (+13%) tracked near the average and Tamil Nadu (+3%) lagged. Sikkim (-28%), Ladakh (-20%), Puducherry (-7%) and Himachal Pradesh (-2%) contracted, with Assam's +47% again a base distortion.

- **The October print clears our Rs.2.00 lakh crore structural floor by Rs.31,290 crore**, and for the first time this year the domestic leg, not imports alone, is doing the lifting. **We raise our FY27 gross collection estimate to Rs.25.0-25.5 lakh crore (+12-14.5% YoY)** from Rs.24.5-25.0 lakh crore, against the FY26 base of Rs.22.27 lakh crore, as the seven month run rate of Rs.2.11 lakh crore annualises to Rs.25.3 lakh crore. **The key swing factor remains import IGST**, which has grown 29.3% YoY on a YTD basis to Rs.4,44,158 crore and now contributes 30.1% of gross versus 26.3% a year ago, at 31.2% in October alone. The line remains largely crude repricing, and a Hormuz resolution would compress it sharply. **Domestic gross growth at 7.4% YTD is the number to watch**, up from 6.1% through September, as it captures consumption without the crude and capex import overlay. On a net basis domestic revenue is up 6.0% YTD, with domestic refund growth cooling further to 19.7% at Rs.1,18,350 crore. The divergence between headline and domestic growth widened to 580 bps YTD from 550 bps, so the Q3 convergence we expected is being delayed by crude rather than by weak consumption. We read October's domestic strength with some caution as part of it is base, and November's print, which captures the Navratri to Diwali window, will be the cleaner test.

Fiscal Deficit Steady at 42% of Target as September Tax Inflows Fund a Capex Surge

- The **April-September fiscal deficit at Rs 7.14 trillion, or 42.1% of the FY27 BE of Rs 16.96 trillion**, runs ahead of the 36.5% pace a year ago and is roughly **25% higher YoY**, though September alone added only about Rs 0.04 trillion. **Total receipts of Rs 18.35 trillion covered 50.3% of BE against 49.5% a year ago**, with non-tax revenue at Rs 4.81 trillion or 72.2% of BE on the central bank dividend, and non-debt capital receipts at 66.4% of BE versus 45.8% a year ago. **Net tax revenue at Rs 12.76 trillion tracked 44.5% of BE versus 43.3% a year ago**, up about 4% YoY, with the September advance tax instalment adding about Rs 4.4 trillion and reversing August's devolution-driven dip. Total expenditure of Rs 25.50 trillion was 47.7% of BE, and the **capex flow remains the standout at Rs 6.55 trillion, 53.6% of the FY27 target of Rs 12.22 trillion against 51.8% a year ago, up about 13% YoY**, with September alone at Rs 1.45 trillion, reinforcing our capital goods stance. Revenue expenditure of Rs 18.95 trillion at 45.9% of BE carries interest of Rs 6.46 trillion, about 37% of revenue receipts, and major subsidies of Rs 2.23 trillion at 54% of BE, up 10% YoY, with urea at 73% of BE offsetting a near-absent petroleum subsidy at 10%. **The revenue deficit narrowed to Rs 1.38 trillion and the primary deficit to Rs 0.68 trillion**, against Rs 0.27 trillion and a small primary surplus a year ago. With **Brent averaging about $114 in September against $91 in August and holding above $100 through October**, crude has stayed above $90 through Q3, so our **25 bps slippage versus the 4.3% of GDP target for FY27 is now the base case**. Net-net, the **fiscal impulse to industrial activity remains firmly positive**, and this is the single most important underpinning of our **5.0-6.0% FY27 IIP growth range**.

8. Employment



Unemployment — Headline UR Holds at 5.0% in September 2026; Urban Participation Revives as the Rural Gains Pause

- **Headline UR holds at 5.0%; the rural improvement pauses**, with rural unemployment edging up to 4.2%. **India's headline unemployment rate (UR) was unchanged at 5.0% in September 2026 (0 bps MoM), 20 bps below the 5.2% recorded a year earlier**. The composition shifted, with **rural UR edging up 10 bps to 4.2% from 4.1%**, ending the run of declines, while **urban UR rose for a third month to 6.9% from 6.8%**. On a year-on-year basis, rural UR improved by 40 bps from 4.6%, urban UR was 10 bps higher from 6.8%, male UR eased to 4.9% from 5.1% and female UR to 5.2% from 5.5%.
- **LFPR and WPR slip marginally, but urban participation strengthens**; urban WPR is now at its highest since October 2025. **Labour Force Participation Rate (LFPR) eased 0.1 pp to 55.5% in September, above 55.3% a year earlier, while Worker Population Ratio (WPR) was 52.7% from 52.8%, up from 52.4% a year ago**. Urban LFPR rose 0.3 pp to 50.7% and urban WPR 0.2 pp to 47.2%, both still 0.2 pp below a year ago, while rural LFPR eased 0.2 pp to 58.0% and rural WPR 0.3 pp to 55.5%, still up 0.6 pp and 0.7 pp respectively year-on-year. Male WPR was 73.6%, up 0.4 pp year-on-year.
- Female labour market: **Urban women lead the month, though urban female unemployment keeps rising**. **Female LFPR eased 0.2 pp to 34.6% in September** and stood 0.5 pp above its year-earlier level, led by urban women, whose LFPR climbed 0.5 pp to 25.9%, the highest since October 2025, while rural female LFPR fell 0.5 pp to 38.9% from 39.4%, still 1.0 pp above a year ago. **Female WPR was 32.8% from 33.0%**, up 0.5 pp year-on-year, with rural female WPR at 37.4% from 37.8% and rural female UR steady at 3.9%, the lowest of 2026 and 40 bps below a year earlier. On unemployment, however, the **urban female UR rose for a fourth consecutive month to 9.2% from 8.9%, so more urban women are now looking for work than are finding it, and they continue to face the tightest conditions in the survey**.

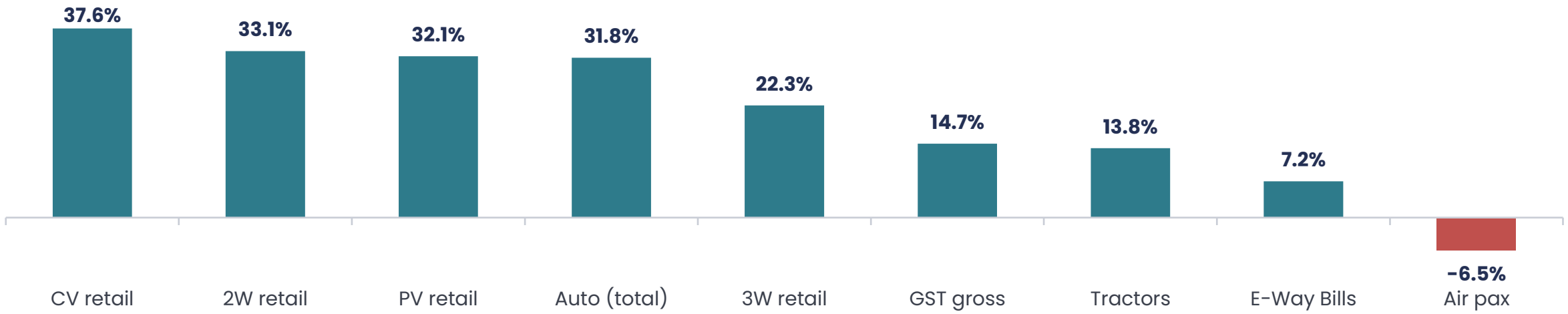
Overall Assessment

- **The September 2026 print is a pause rather than a reversal, with the headline UR steady at 5.0%, the LFPR at 55.5% and the WPR at 52.7%, each within 10 bps of August. The composition is the story: rural UR at 4.2% against urban UR at 6.9% is an unchanged 270 bps gap, but the drivers have swapped, with rural LFPR and WPR slipping while urban LFPR and WPR rose to their highest since October 2025 and urban UR rose again. The monsoon closed nearly 13% short, the worst since 2015, and kharif sown area is 1.1% below last year, so we read the rural softening as the sowing cycle ending against a weaker harvest outlook. We stay of the view that the improvement is rural and cyclical, and we would call the urban recovery a turn only once urban UR follows.**

Source: RBI Bulletin and Internal assessment

9. Demand Indicators

Consumer Demand Momentum



Select high-frequency indicators, September 2026. Vehicle retail jumps on a weak base, while air travel keeps shrinking.

Rural demand

Rural demand rebounded. Total vehicle retail rose 31.8% YoY to a record 25.37 lakh units, though FADA flags this as the most base-distorted print of the year, since buyers had deferred purchases in September 2025 ahead of the GST cuts. Two-wheelers rose 33.1% to 17.90 lakh, with rural and urban growing at the same pace. Tractors recovered to 13.8%, though a 13% monsoon shortfall strains rural incomes.

Urban demand

Urban demand is firm but uneven. Passenger vehicles rose 32.1% to 4.27 lakh units, albeit on a low base, and CV retail crossed 1 lakh units on 37.6% growth. GST gross rose 14.7% to Rs 2.04 lakh crore, with domestic GST up 10.1%. E-Way Bills grew 7.2% to a record 141.5 million. Electric two-wheelers reached an 11.6% share, a new high. Domestic air traffic fell 6.5% to 1.18 crore, its fourth monthly decline.

Demand outlook

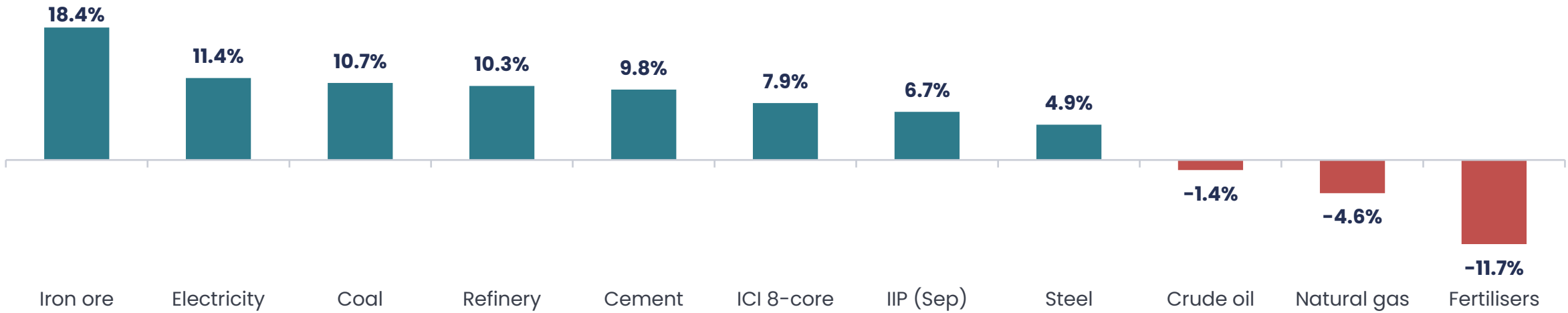
Volumes are strong, but the quality of demand needs watching. PV dealer inventory has climbed to 43 to 45 days against a recommended 21, which points to heavy festive discounting. CPI rose to 5.54% in September, with rural inflation at 6.08% against urban 4.88%, eroding rural purchasing power. The RBI raised the repo rate to 5.50% on 7 October, lifting EMIs just as festive buying peaks.

Source: Internal assessment based on data from Tijori Finance

54.9
MFG PMI (OCT FLASH)
eases from 55.1

56.2
SERVICES PMI (OCT FLASH)
rises from 55.2

Industrial & Services Momentum



Industrial and services momentum, September and October 2026. Core inputs accelerate, factory output cools, services lead.

Industrial activity

IIP growth slowed to 6.7% YoY in September, a four-month low, with August revised down to 7.8%. Manufacturing grew 7.6% against a tougher base and mining fell 6.2%. Capital goods slowed to 10.4% and consumer durables to 6.0%. Core-sector output (ICI) moved the other way, rising to 7.9% from 5.9% as coal (10.7%), iron ore (18.4%) and refinery products (10.3%) picked up.

Services sector

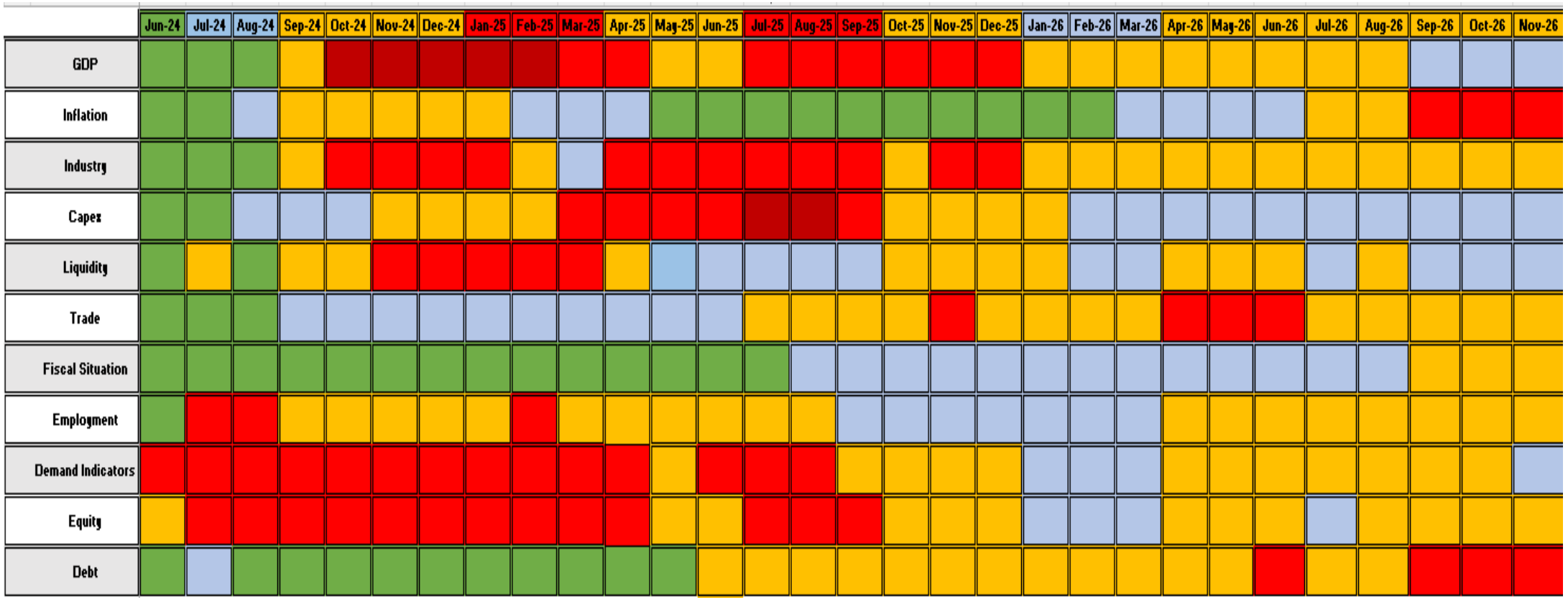
Services are now leading. The October flash Services PMI rose to 56.2 from 55.2, while Manufacturing PMI eased to 54.9 from 55.1. The composite reached 56.7, its fastest since June, and new export orders grew at the quickest pace since June 2025. The weak spot is hiring, which grew at its slowest pace this year.

Industrial & services outlook

October IIP should jump on the base effect, as Diwali fell in October last year, before November turns soft. Beyond the festive swing, investment-linked inputs and power should keep industry growing. The RBI expects momentum to hold with some moderation, with GDP growth easing to 6.9% in Q3. Risks are the October rate hike, crude near $115, gas supply via Hormuz and finished-goods stocks near a 12-year high.

Source: Internal assessment based on data from Tijori Finance

Economic Heatmap



Tailwinds Hold, Headwinds Come Home

November's column reads four Goods, five Oks and two Bads, and only one cell has moved. Demand Indicators goes from Ok to Good on record vehicle retail of 25.37 lakh units and October domestic GST up 15.8%. We would not over-read it: FADA calls the vehicle print the most base-distorted of the year, and air traffic has fallen four months running. The rest of the tailwind is intact. GDP, Capex and Liquidity stay Good on 7.8% Q1 growth, 11.9% investment growth, bank credit up 19.4% and private firms accounting for 86.3% of new projects announced in H1. What has changed is where the headwinds come from. In October they were imported, and they are now being repriced at home. CPI rose to 5.54%, a ninth straight increase, with eleven of twelve divisions accelerating, restaurants at 9.36% and a monsoon that ended 12.6% short. The RBI has answered with its first hike, to 5.50%, and the liquidity surplus has already halved from ₹7.8 lakh crore to ₹3.6 lakh crore, which makes Liquidity the next cell at risk. We expect CPI above 6% in October and another 25 bps in December, and we hold FY27 growth at 7.0–7.5%

Equity Outlook



Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2026	-3%	-1%	-11%	7%	-2%	1%	2%	-1%	-6%	0.00%			-13.4%
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 %	11.3%	14.1%	14.1%
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	2	1
No of Years	27	21	13

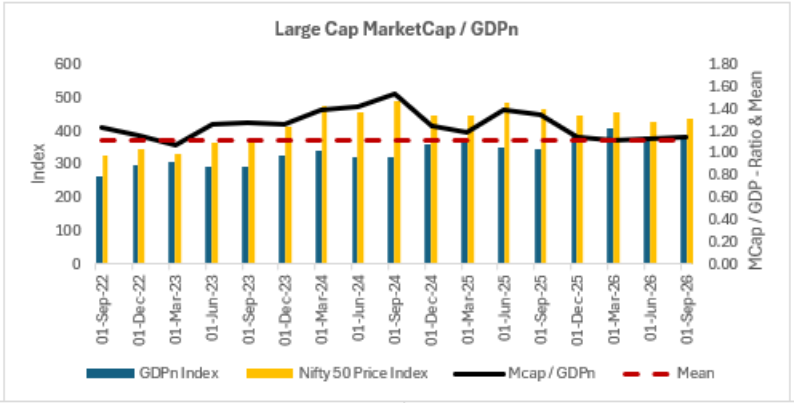
Ample Tailwinds

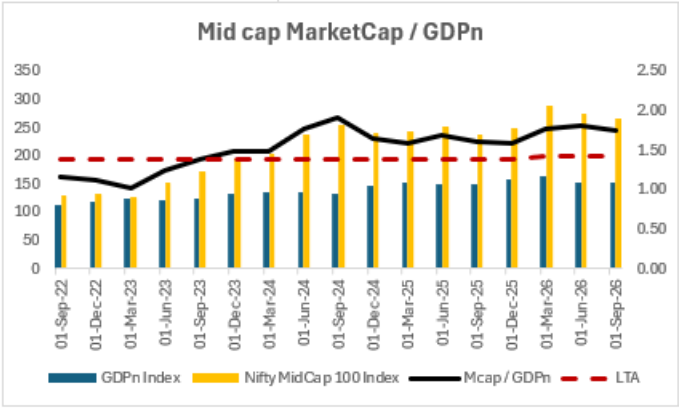
- The Nifty 50 is down 13.43% CYTD, with geopolitical tensions, elevated global yields, and oil-price volatility keeping near-term sentiment cautious. However, resilient domestic demand, and improving private capex are providing support to the Indian economy and corporate earnings. With earnings expected to strengthen despite high crude prices through FY27, the medium-term outlook remains constructive, though global risks could keep volatility elevated in the short term.
- The Risk-Return Matrix highlights the higher return potential of Mid and Small Caps, albeit with correspondingly higher volatility relative to Large Caps.
- **On valuations, Large Caps and Mid Caps appear Undervalued, and Small Caps Overvalued, suggesting a more favourable risk-reward proposition in the large-cap and mid-cap segment at current levels**

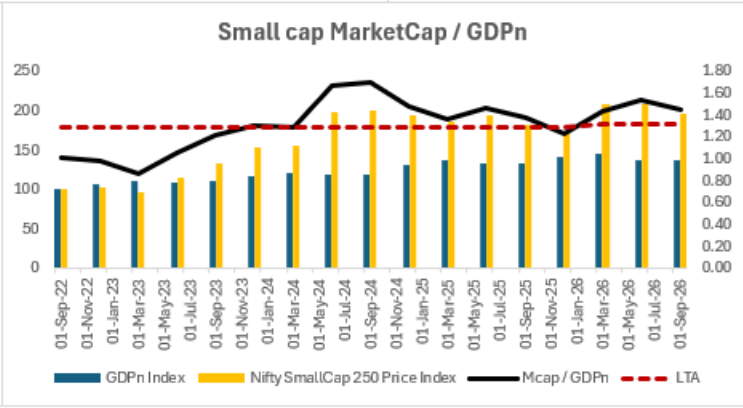
Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	18.71	23.64	-21%	Undervalued
Mid Cap	25.98	32.22	-19%	Undervalued
Small Cap	31.77	27.29	16%	Over Valued

Source: NSE and Bloomberg as on 27th October 2026

Buffett Indicator







Present valuations remain moderate to attractive as evidenced by the premiums exhibited in their MCap/GDP ratios, where Large Caps are currently trading at a premium of approximately 3%, Mid Caps at a premium of approximately 18%, and Small Caps at a premium of approximately 9% to their respective long-term averages (as per the Buffett Indicator), as on 31th October 2026.

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

Q2 FY27 Sector Scorecard

Sector	Revenue / volume growth (YoY)	Profit growth / margins (YoY)	Q2 verdict	Outlook
Two-Wheelers	High double-digit	High double-digit	**Strong**	**Positive**
Power & Renewable Energy	Double-digit generation	High double-digit	**Strong**	**Positive**
Capital Goods	Double-digit, record orders	High double-digit	**Strong**	**Positive**
Banking & Financial Services	Double-digit NII and credit	High double-digit	**Strong**	**Positive**
Metals & Mining	Double-digit steel volumes	Triple-digit on low base	**Strong**	**Selective**
Cables & Wires, Room ACs	High double-digit	High double-digit	**Strong**	**Positive**
FMCG	Double-digit, volume-led	Food up, HPC margins down	**Mixed**	**Neutral**
Infrastructure (EPC)	Double-digit, road EPC weak	Up overall, road EPC down	**Mixed**	**Selective**
Cement	Double-digit to flat volumes	Margins compressed	**Mixed**	**Improving**
Information Technology	Low single-digit in CC	Double-digit, rupee-aided	**Mixed**	**Cautious**
Pharmaceuticals	Double-digit	Double-digit decline	**Weak**	**Cautious**
Passenger Vehicles	Record volumes	High double-digit decline	**Weak**	**Cautious**
Real Estate	Mid single to double-digit fall	Weak reported income	**Weak**	**Cautious**
EMS	High double-digit	Sharp decline	**Weak**	**Cautious**

Sectors ranked by Q2 FY27 delivery. Shading reads green for strong growth, gold for moderate or mixed, red for decline or pressure. Growth is year-on-year unless stated; CC is constant currency, NII is net interest income, HPC is home and personal care.

Source. Company filings, Kilika Capital Research

Who Delivered and Who Lagged in Q2 FY27, so far

Delivered (6 sectors)	Mixed (4 sectors)	Lagged (4 sectors)
Two-Wheelers Record volumes and exports drove high double-digit revenue and profit growth	**FMCG** Strongest volume growth in several years, but HPC margins hit by input inflation	**Pharmaceuticals** gRevlimid erosion drove a double-digit PAT decline despite double-digit revenue growth
Power & Renewable Energy Strong demand and firm exchange prices; merchant-heavy generators posted triple-digit profit growth	**Infrastructure (EPC)** Diversified players grew, while road EPC inflows and margins fell sharply	**Passenger Vehicles** Commodity inflation drove a high double-digit PAT decline despite record volumes
Capital Goods Record ordering; high double-digit order and profit growth despite mixed margins	**Cement** Healthy volumes at the leader; margins squeezed by fuel and conflict-related costs	**Real Estate** Reported revenue declined; pre-sales mixed, though collections stayed strong
Banking & Financial Services High double-digit PAT growth for lenders and large NBFCs; asset quality improved	**Information Technology** Rupee-aided double-digit growth; low single-digit constant currency momentum	**EMS** High double-digit revenue growth, but profits declined sharply on margin pressure
Metals & Mining Triple-digit steel profit growth on a low base; non-ferrous at record margins		
Cables & Wires, Room ACs High double-digit revenue and PAT growth on T&D, solar and data centre demand		

Source. Company filings, Kilika Capital Research

Sectoral Performance and Outlook

ALL 1209/5219		
Revenue	Gross Profit	Net Profit
3,538,193	648,616	397,227
(26.72 %)	(32.96 %)	(34.62 %)

LARGE CAP		
Revenue	Gross Profit	Net Profit
2,243,219	419,711	276,830
(29.18 %)	(36.09 %)	(38.11 %)

MID CAP		
Revenue	Gross Profit	Net Profit
856,146	177,299	88,510
(20.24 %)	(24.8 %)	(25.63 %)

SMALL CAP		
Revenue	Gross Profit	Net Profit
386,412	62,257	34,279
(27.59 %)	(33.45 %)	(35.42 %)

Banking & Financial Services

Q2 FY27 Performance:

BFSI posted strong profits in Q2 FY27, with lender net interest income growing in the double digits year-on-year and PAT delivering high double-digit growth. Credit growth stayed in the double digits, but margins diverged and treasury gains fell as bond yields rose. Asset quality improved further, and large NBFCs also delivered high double-digit profit growth.

Outlook:

Margin stabilisation has played out only partly, and we expect an uneven NIM recovery in H2 FY27 as deposit repricing lags. Credit growth and asset quality remain supportive. We prefer franchises with strong deposit bases and pricing discipline.

Information Technology

Q2 FY27 Performance:

IT delivered steady but muted execution. Rupee revenue and PAT posted double-digit year-on-year growth, flattered by a weak rupee, while large-cap constant currency growth stayed flat to low single-digit sequentially. AI revenue scaled sharply, but guidance diverged, with one large cap cutting its FY27 growth guidance to low single digits.

Outlook:

We moderate our view on momentum. Q3 is seasonally soft and large-cap guidance points to a muted H2, while AI is adding pricing pressure on legacy work. Mid-caps continue to outperform, and we favour them over large caps.

Pharmaceuticals & Healthcare

Q2 FY27 Performance:

Pharma stayed weak on profits. Revenue posted double-digit year-on-year growth, but PAT saw a double-digit decline as gRevlimid sales dropped, with US revenue for leading players falling anywhere from high single digits to high double digits. India formulations posted double-digit growth, and hospital revenue delivered high double-digit growth.

Outlook:

We push out the recovery, with US earnings likely soft through H2 FY27 until replacement launches fill the gRevlimid gap. The domestic market, emerging markets and hospital capacity additions remain the anchors. We prefer domestic-heavy franchises and hospitals.

Automobiles & Auto Ancillaries

Q2 FY27 Performance:

Autos split sharply. Two-wheelers delivered high double-digit growth in both revenue and profits on record volumes and exports. Passenger vehicles hit record volumes, but commodity inflation sharply compressed EBITDA margins at the two largest car makers and drove a high double-digit decline in PAT.

Outlook:

Car makers are taking further price hikes and margins may have troughed, but recovery depends on commodity costs. The high H2 base from last year's GST cuts is the key watch-out. We prefer two-wheelers with export and EV exposure over passenger vehicles.

Capital Goods

Q2 FY27 Performance:

Capital goods delivered strong numbers on record ordering. The largest engineering player posted high double-digit growth in orders and PAT and double-digit revenue growth, though margins contracted. A leading power equipment major delivered high double-digit order growth with margins expanding.

Outlook:

Record order books give multi-year visibility and T&D demand keeps strengthening. However, domestic infrastructure ordering showed deferrals, international exposure adds geopolitical risk and fixed-price contracts face cost inflation. We stay positive on the cycle but selective on valuations.

Infrastructure (EPC & Construction)

Q2 FY27 Performance:

Infrastructure execution stayed weak on monsoon disruption, cost inflation and geopolitical tensions. Road EPC inflows fell sharply from a year ago. Construction revenue posted double-digit growth and profits high double-digit growth, but road-focused players saw margins and profits fall sharply.

Outlook:

We reinforce our preference for diversified players with transmission, water and railway exposure over road EPC, where revenue should slow into FY28. Execution should improve post-monsoon, while working capital and receivables remain the key monitorables.

Power & Renewable Energy

Q2 FY27 Performance:

Power had a strong quarter on demand. Generation posted double-digit year-on-year growth, coal PLFs improved meaningfully and exchange prices delivered high double-digit growth. Reported generators posted high double-digit profit growth, rising to triple-digit growth for merchant-heavy names.

Outlook:

We turn more positive on generation. October demand delivered high double-digit growth, and new thermal capacity arrives only from FY29, keeping the market tight. Risks are demand normalisation and fuel costs. We prefer integrated generators with merchant exposure over pure renewable players.

Fast Moving Consumer Goods (FMCG)

Q2 FY27 Performance:

FMCG staged a volume-led recovery, with leading players posting double-digit sales growth and high single-digit to low double-digit volume growth, the strongest in several years. Profits diverged, as food companies expanded margins while home and personal care margins fell on raw material inflation.

Outlook:

We upgrade our near-term demand view but stay cautious on margins. Input inflation, a poor monsoon, higher ad spends and the GST base lapping from Q3 threaten H2 FY27. We prefer companies with pricing power and premium portfolios.

Cement & Building Materials

Q2 FY27 Performance:

Cement posted solid volumes but weak margins as input costs peaked. The largest player posted double-digit volume growth with EBITDA per tonne improving, while a large peer saw flat volumes and a high double-digit decline in EBITDA per tonne on fuel and conflict-related costs.

Outlook:

We expect margin recovery from Q3 FY27 as fuel costs normalise and late-September price hikes hold. Consolidation favours scale players. We prefer cost leaders with pricing discipline over volume-led expansion.

Metals & Mining (Steel)

Q2 FY27 Performance:

Metals extended their run of strong profits. Steel volumes posted double-digit growth and profits delivered triple-digit growth on a low base, though EBITDA per tonne fell sequentially on coking coal costs. Non-ferrous led, with record margins and triple-digit profit growth.

Outlook:

We stay cautious, as sequential steel margin compression signals the price tailwind has peaked and the base turns tougher in H2 FY27. Non-ferrous remains supported by tight supply and a weak rupee. We prefer non-ferrous over ferrous exposure.

Real Estate

Q2 FY27 Performance:

Real estate saw a wide gap between operating and reported metrics. Pre-sales were mixed, ranging from strong bookings on luxury launches to a low to mid single-digit decline elsewhere, while collections delivered high double-digit growth at one major. Reported revenue fell by mid single digits to high double digits at two large developers.

Outlook:

We expect slower growth as the pre-sales cycle normalises, with FY27 bookings hinging on heavy H2 launch pipelines. Net cash balance sheets limit risk, but weak income growth caps mid-market demand. We prefer developers with strong collections and visible launches.

Consumer Durables & Electronics

Q2 FY27 Performance:

Durables posted strong top-line growth with mixed profit conversion. Cables and wires delivered high double-digit growth in both revenue and PAT, and room AC primary sales likely posted high double-digit growth, while EMS revenue grew in the high double digits but profits fell sharply.

Outlook:

We remain positive on cables and wires on T&D, solar and data centre demand. Input inflation is forcing double-digit price hikes in room ACs, which could temper demand, and EMS margins stay pressured. We prefer cables and wires.

Strategy

Tailwinds

- **Macroeconomic resilience** underpinned by strong GDP growth and robust private and public capex. The upcoming festive season is expected to provide a further boost to consumption, with healthy momentum already evident across key high-frequency indicators.
- **Resilient earnings** performance, supported by improving demand, operating leverage and healthy profitability, with Q2 FY27 results declared so far reflecting encouraging revenue growth and sustained momentum in earnings despite high crude oil prices.
- **Strong corporate balance sheets and private capex** supported by robust order books across infrastructure, power, manufacturing and industrials
- **Continued government focus on infrastructure, manufacturing, and defence**, reinforcing investment-led growth through public spending and PLI initiatives.
- **Supply-chain diversification toward and from India** supporting manufacturing, exports and global companies seeking resilient production bases (multiple FTAs).

Headwinds

- **Persistent geopolitical tensions and elevated crude-oil risks** could pressure inflation, corporate margins and India's external balances.
- **FPI flow volatility** may continue amid global risk aversion, US monetary-policy hawkishness, elevated DM yields, and currency movements.

Both the above are exogenous risks India cannot control but must absorb.

- **AI disruption and global technology spending** remain key headwinds for Indian IT and Indian equities at large, representing a significant endogenous risk. The AI cycle is a double headwind for India: it compresses pricing in the traditional IT services book faster than it creates offsetting revenue, while also redirecting global EM allocations toward markets that offer more direct exposure to the semiconductor buildout. As a result, India's weight in the MSCI EM index has declined, while Taiwan and Korea have absorbed a greater share. FII outflows of around ₹3 lakh crore in the ongoing CY26 have already exceeded the whole of 2025, cushioned only by domestic institutional buying.
- **Hawkish RBI stance** remains a key risk for equities, as elevated rates and tighter liquidity could pressure valuations, corporate borrowing costs and rate-sensitive sectors.

Outlook

- **While near term volatility may persist, the market retains a positive medium term bias, underpinned by strong domestic fundamentals, encouraging earnings performance in the Q2 FY 27 results declared so far and a strengthening private investment cycle.**

Suggested Strategy

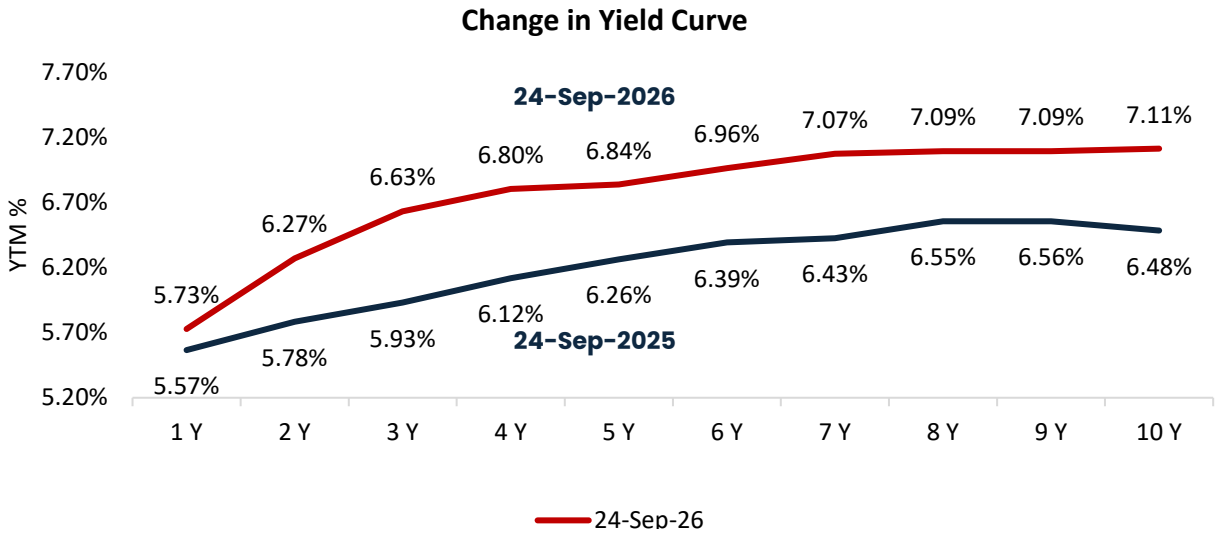
➢ **Gradual Accumulation**

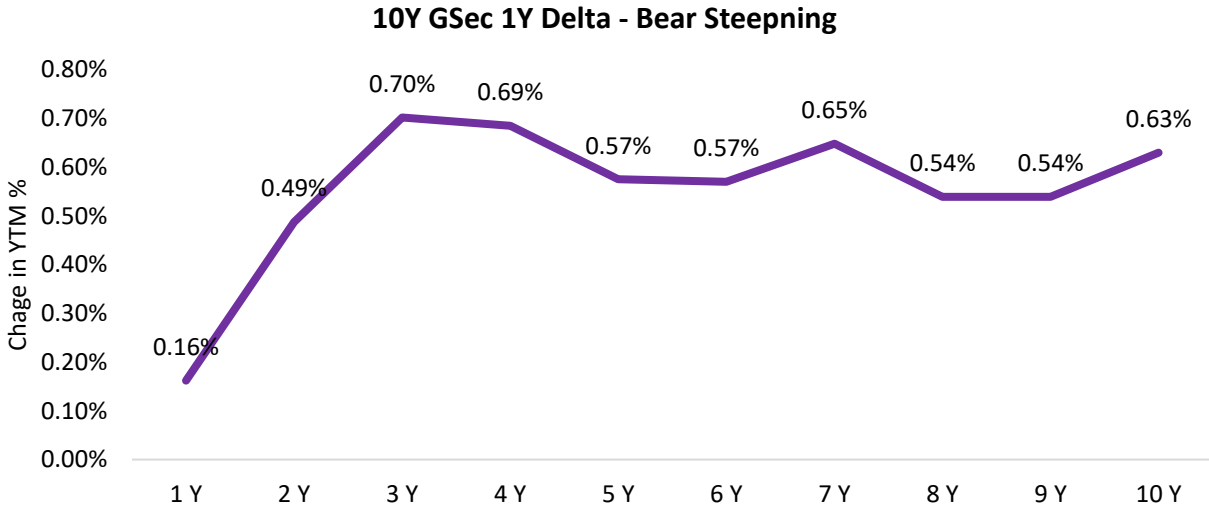
Category	*Stance*
Large Cap	*Optimistic*
Mid Cap	*Cautiously Optimistic*
Small Cap	*Risky*

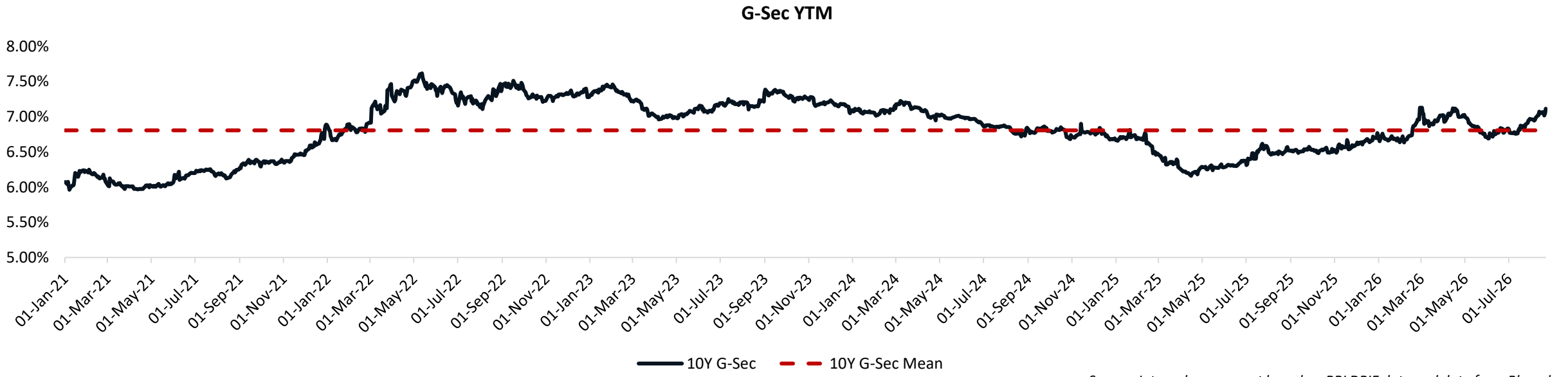
Debt Outlook



Yields Curve Dynamics







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

Debt Market Outlook & Strategy

Rates Need to Rise - we see the repo rate at 6% in the coming MPC meets and stay cautious on duration

Key Takeaways

- Inflation risk is going up, not down. Prices are rising across commodities, and demand at home is strong.
- Interest rates around the world have moved higher. India cannot keep its rates far below the rest of the world.
- Indian banks are holding too much spare cash. This has pushed short-term market rates well below the policy rate.
- Our call. We expect the central bank to drain this cash and raise the repo rate (the rate at which it lends to banks) from 5.25% to 5.5% in the current meeting. We stay conservative on duration.

The story in one picture



Source. Kilika Capital Research

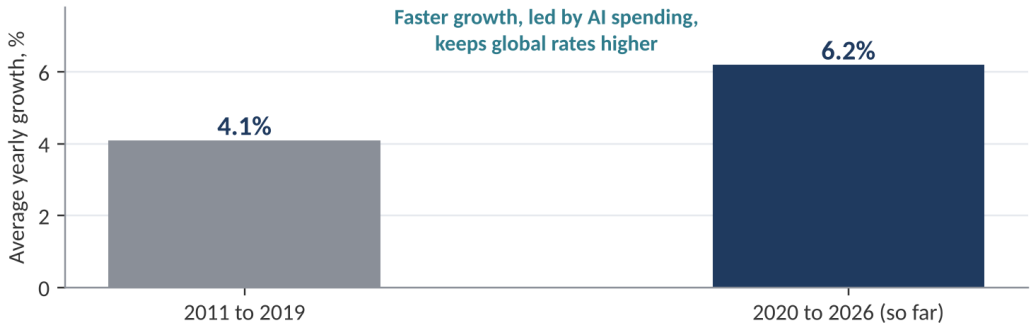
Inflation Risk Is Rising

- **It is not just oil.** Food and farm prices are rising too. A broad commodity index is back at its March to April highs, **even though oil is cheaper now than it was then.**
- **Home-grown pressure.** Rains have been uneven, GDP growth is strong and bank credit is growing about 18%. All three push prices up.
- **Comfort is fading.** Inflation data so far looks fine, but we no longer rely on low core inflation (prices excluding food and fuel) to keep policy on hold. The minutes of the last policy meeting already sounded more hawkish.

Global Rates Have Moved Higher

- The US is growing faster. **Heavy spending on AI has lifted average nominal growth to 6.2% since 2020, against 4.1% in 2011 to 2019**. This spending is not slowed much by higher rates.
- **Investors want a higher real return**. Bond yields are rising mainly because investors demand more return after inflation (real yield). Heavy borrowing to fund **AI is also adding to bond supply**.
- The US central bank is firmly focused on inflation. **Markets expect another 0.75% to 1% of US rate hikes**, and the dollar is strengthening again.
- Why this matters for India. **We import energy and run a current account deficit, so we compete for the same foreign money. Our rates must keep pace with the world. This is normal policy tightening, not a defence of the rupee**.

The US economy is growing faster than before 2020

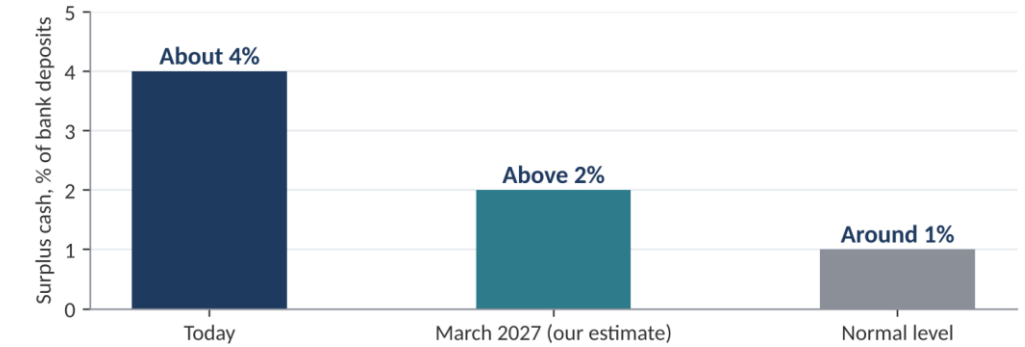


Source. Kilika Capital Research. US nominal GDP growth, average

Too Much Cash in Indian Banks

- **Where the cash came from.** Foreign currency deposits from overseas Indians (**FCNR**) have reached USD 127 bn, with total inflows at USD 136 bn. Once converted into rupees, this money has flooded the banks.
- **How big the surplus is. Spare cash in the system (core liquidity) is about 4% of NDT**L, roughly banks' deposit base, against a normal level near 1%. **Even by March 2027, we expect it to stay above 2%**.
- **What it has done to rates.** Overnight rates have fallen to 4 to 4.5%, below even the 5% floor of the policy band, and short-term money-market yields are below 6%. The central bank's short-term cash absorption (VRRR) has not been enough**. In practice, money is cheaper than the 5.25% repo rate suggests**.

Banks hold far more spare cash than normal



Source. Kilika Capital Research estimates. Core liquidity as % of NDTL

Market rates have fallen well below the policy rate



Source. Kilika Capital Research. Indicative range for collateralised overnight rates

What We Expect From Here

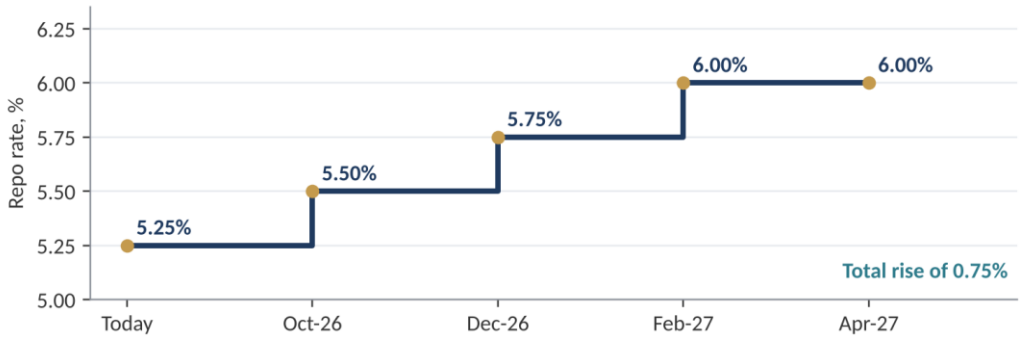
We see the central bank acting in three steps, and soon. The longer it waits, the bigger the adjustment needed.

Step 1, pull overnight rates back up to the repo rate.

Step 2, remove the extra cash for good. Likely tools are FX swaps, MSS bonds (special bonds issued to soak up cash), OMO sales (selling government bonds to banks) and possibly a CRR hike (making banks park more cash with the central bank). A CRR hike is the least likely, as it sends the strongest tightening signal.

Step 3, raise the repo rate to 6% by April 2027, a total rise of 0.75%. This is higher than we expected earlier.

Our expected path for the repo rate



Source. Kilika Capital Research estimates. Timing of each step is indicative

How We Are Positioned

- Short-term yields should rise as overnight rates move back up to the repo rate.
- Long-term bonds have little support while global yields keep climbing.
- **So we stay conservatively to very conservatively positioned on duration across our fixed income funds. This reflects our current view and may change at any time**

Our time frame, the 3 to 6 month segment

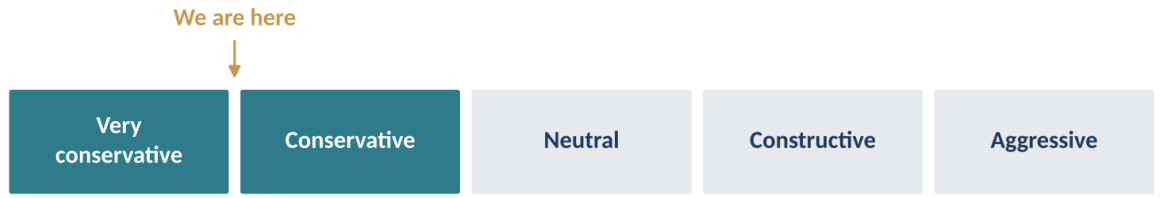
Near term, cash stays plentiful. The banking system is in surplus by about ₹4.67 lakh crore (25 September 2026). As government spending returns advance tax money to banks, overnight rates such as TREPS may soften further and stay below the repo rate before the October policy meeting.

This is the window we are focused on. The **money market portfolio, the 3 to 6 month segment**, with papers maturing between December 2026 and February 2027. **CDs** over T-bills. Within this window we are overweight Certificates of Deposit (short-term papers issued by banks) and underweight Treasury bills (short-term government papers).

Why this window works. **This part of the curve is steeper, so it offers good carry (the interest we earn) and roll-down (a price gain as the paper moves closer to maturity)**. Our duration call stays low, with a modified duration of 132 days as on 30 September 2026, which limits the impact of a possible October rate hike.

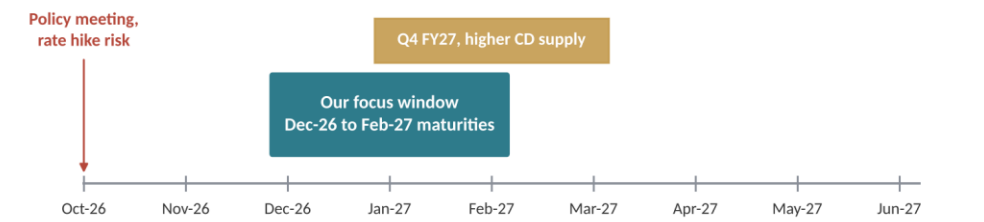
A cushion for January to March. **Credit demand usually picks up in Q4 FY27 and banks raise more money through CDs, which can push CD yields up. Staying in this window keeps us defensive through that period, until supply and market conditions settle**.

Our stance on duration (interest rate risk)



Source. Kilika Capital Research

Our time frame, the 3 to 6 month segment

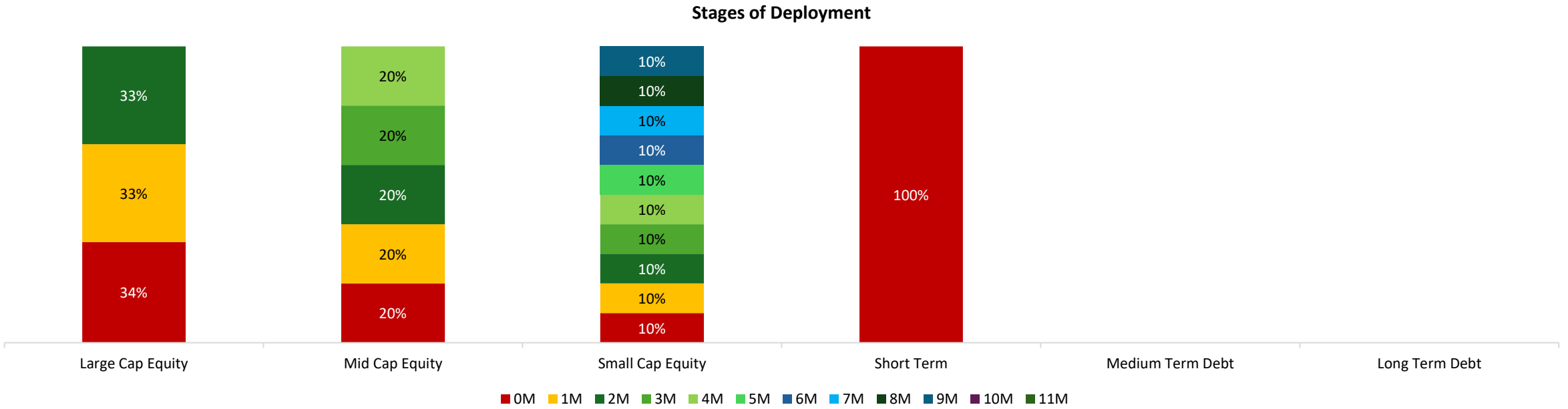


Source. Kilika Capital Research

Deployment Strategy



Deployment



Indicators:

Indicators to track for caution –

- FII flows remain negative, with global interest rate hikes and geopolitical risks continuing to influence market sentiment.
- India VIX at ~15.30 – Volatility has risen from subdued levels, reflecting increased market caution, while geopolitical tensions, elevated crude prices and global macro risks could drive further spikes.
- Small-cap valuations remain above long-term averages despite the recent correction, leaving limited room for disappointment if earnings recovery is slower than expected in the coming quarters.

Indicators signaling turnaround and optimism -

- DIIs remain strong net buyers, providing stability amid sustained selling pressure from FIIs.
- Private capex and infrastructure spending continue to support the investment cycle.
- Large-cap and Mid cap valuations remain relatively attractive.

Deployment Strategy:

Staggered Deployment over the next 12 months -

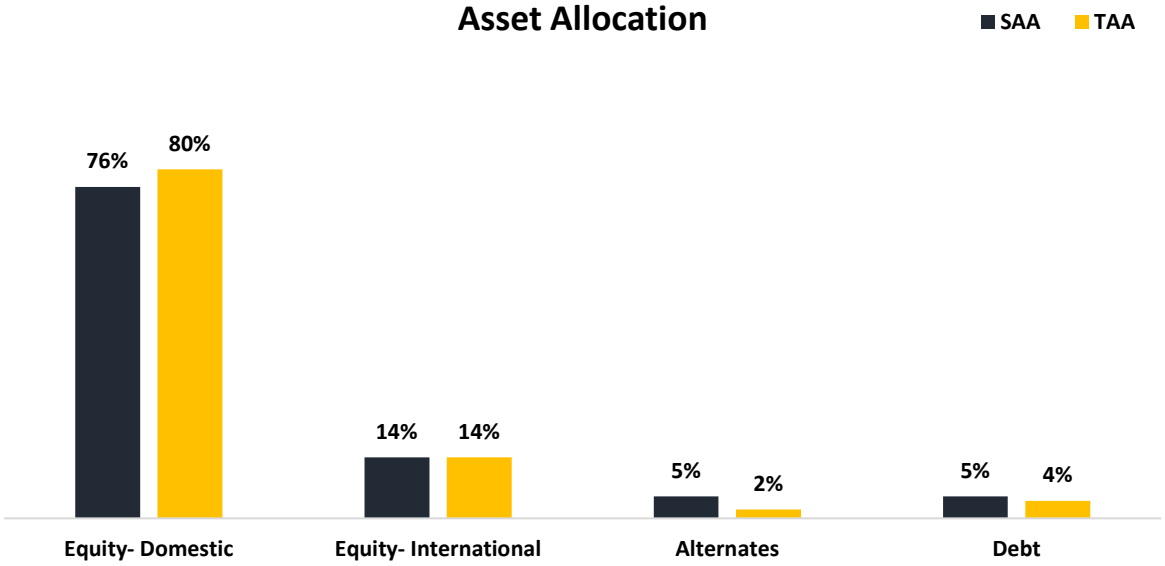
- Large Cap – 34% immediate deployment and 33% in each month in the next 2 months
- Mid Cap – 20% immediate deployment and 20% in each month in the next 4 months
- Small Cap – 10% immediate deployment and 10% in each month in the next 9 months
- Debt –100% immediate deployment. Money Market for parking until we have more clarity to form a view on interest rates - India and DMs.

Optimus Prime Model Portfolio

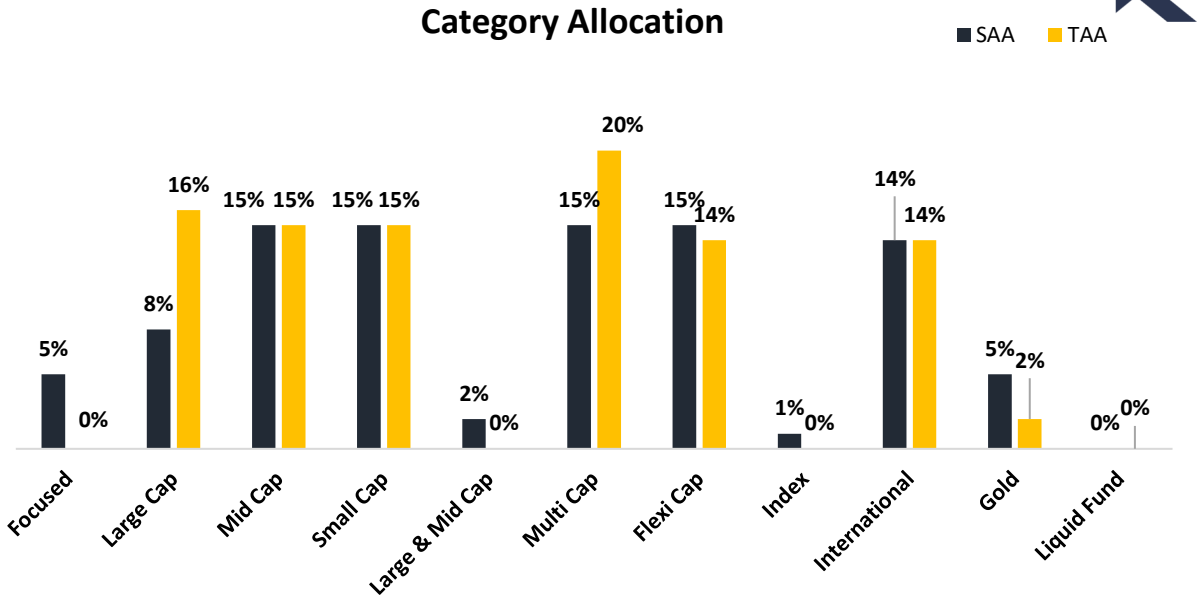
Aggressive Strategy



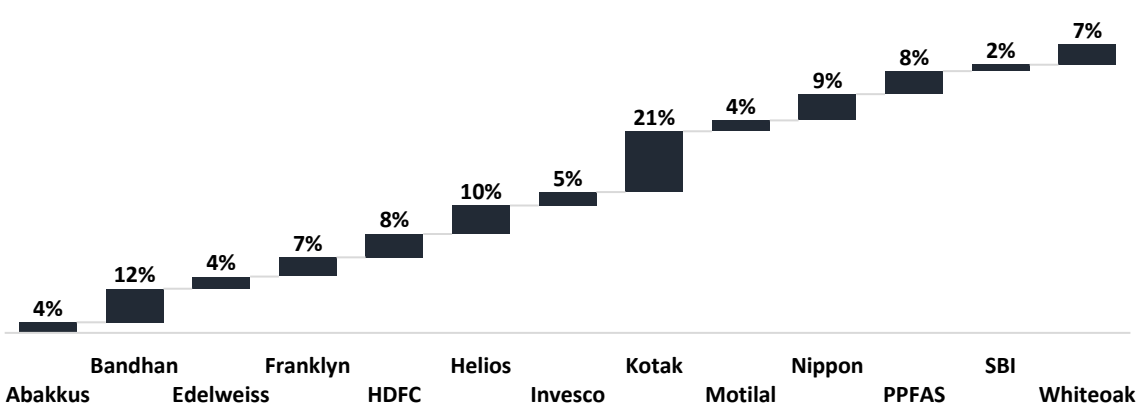
Asset Allocation



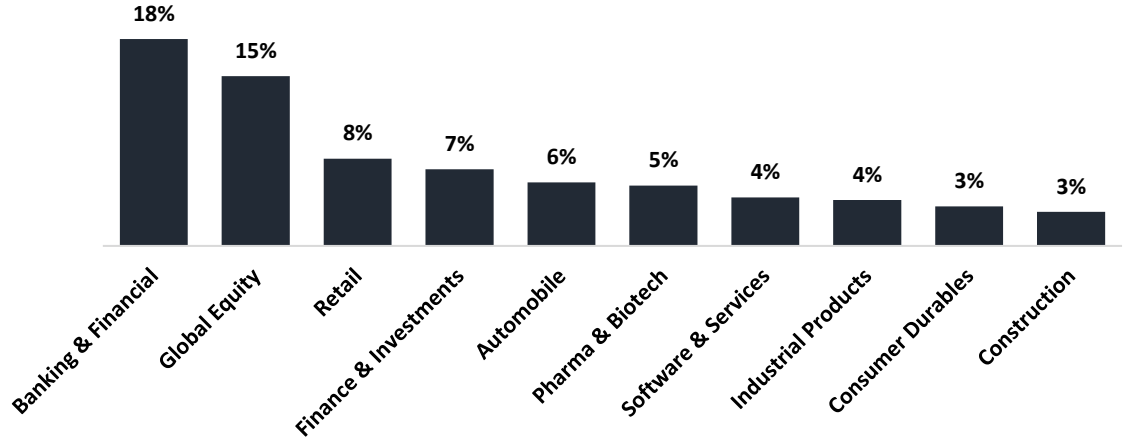
Category Allocation



Fund House Allocation

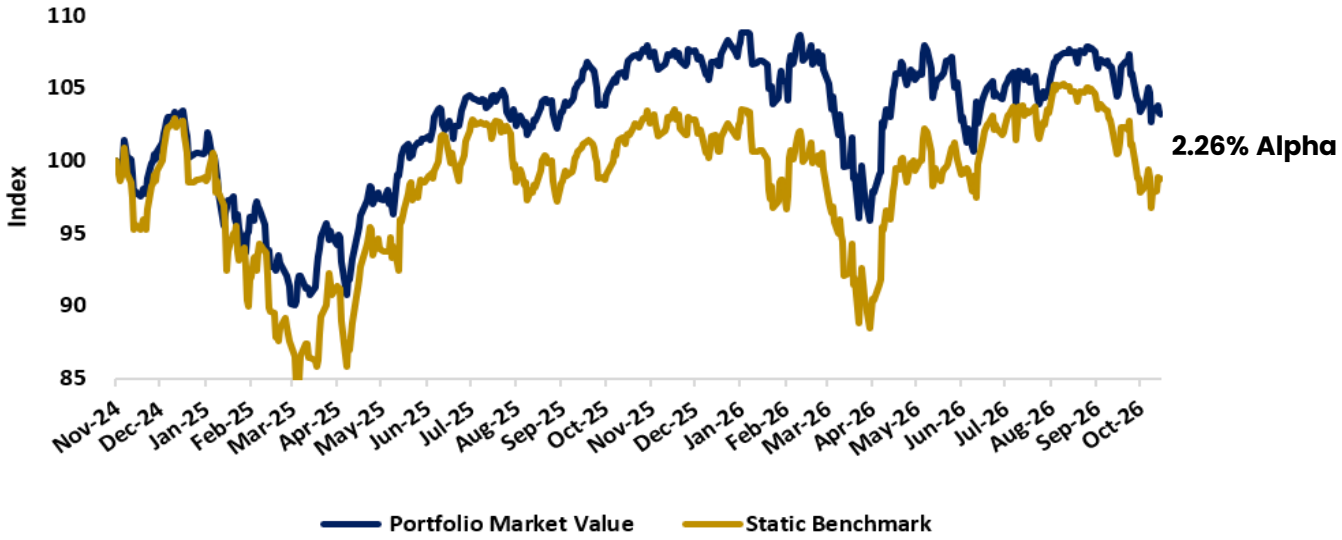


Sectoral Allocation (Top 10)



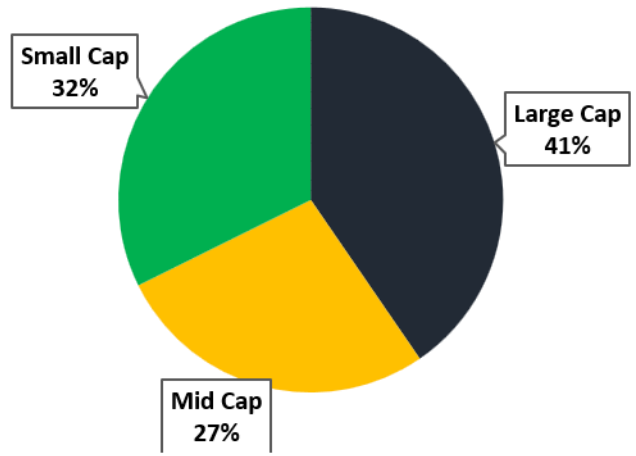
**SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation. International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th Oct 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 Small cap 250 TR INR – 30.00%, NIFTY 11-15 YR G-SEC INDEX – 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.*

Portfolio vs Benchmark



2.26% Alpha

Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Abs / CAGR Return	**3.22% /1.64%**	-1.22% / -0.63%
Standard Deviation (annualized)	**12.22%**	15.11%
Beta	**0.51**	
Alpha (Abs / CAGR)	**4.44% / 2.26%**	
Information Ratio	**5.84**	
Downside Capture	**73.06**	

Debt Portfolio Analytics

Debt Measures	Sep-26
Average MoD	**4.64**
Average Maturity	5.57 yrs
Average Coupon	NA
Average YTM	**7.17 %**

Average Credit Rating	Sep-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 Oct 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 Small cap 250 TR INR – 30.00%, NIFTY 11-15 YR G-SEC INDEX – 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.*

Current Investment Portfolio Stance: Aggressive

Positioning & Portfolio Update

Our Investment Committee has retained the Aggressive stance adopted in July 2026. We stay constructive on Large and Mid Caps, bottom-up in selection and heavily skewed towards Quality.

We hold it with the same exit trigger tripped and a second one closer than a month ago. Brent closed at $104.51 on 15 October, the Strait of Hormuz remains effectively shut with tanker flows about 43% below pre-conflict levels, and we now treat $100 as the working floor until a corridor is agreed. The stance survives because the business and the price both still support it. On the business, Q1 investment grew 11.9%, bank credit is growing 19.4%, and private companies accounted for 86.3% of new projects announced in H1 FY27, against 68.7% in the previous half year. We would not call that pillar stronger than last month. September IIP slowed to 6.7%, mostly on base, and capital goods slowed to 10.4%, the weakest of FY27. The Q2 results show no break, though: Capital Goods and Banking & Financial Services both reported high double-digit profit growth, on record orders in the former. On price, the Nifty is down 13.4% for the year and the discount has widened. Large Caps trade at 18.7x P/E against a 23.6x long-run average, 21% below against 17% a month ago. Mid Caps sit at 26.0x against 32.2x, 19% below against 7%, while Small Caps are 16% above their average, down from 25%. Foreign investors are selling for a sixteenth consecutive month and domestic institutions have bought against it.

The risk is still the price of money, and it is now domestic as well as imported. September CPI rose to 5.54%, a ninth straight increase and the first print above 5% in the rebased series, with eleven of twelve divisions accelerating. The RBI raised the repo rate by 25 basis points to 5.50% in October and moved to calibrated tightening. We expect CPI above 6% in October, another 25 basis points in December, a cycle ending at 5.75% to 6.00% and no cuts in FY27. The rupee recovered from 96.71 on 9 October to about 94.8 by 23 October, but reserves fell US$ 59.7 billion between 4 September and 9 October. We size for the tightening rather than forecast past it.

The allocation is unchanged and expresses the view conservatively. Tactically we hold domestic equity at 80% against a 76% strategic weight, a 4% overweight funded by a 3% underweight in Alternates and 1% in Debt, with International unchanged at 14%. Within categories we hold Large Caps at 16% against 8% strategic and Multi Cap at 20% against 15%. On a look-through basis the book is 41% Large, 27% Mid and 32% Small Cap, with Banking & Financial the largest sector exposure at 18.0%. Deployment stays staggered by valuation: Large Caps complete within three months, Mid Caps over five and Small Caps over ten, and new debt money stays in money markets until the rate path is clear.

The positioning has been paid for. Since last month's report the portfolio's since-inception return has eased from 4.44% to 3.22% and the benchmark's from 0.43% to -1.22%. That is an Alpha of 4.44% (2.26% annualised), up from 4.01%, on a Beta of 0.51, standard deviation of 12.22% against 15.11%, an Information Ratio of 5.84 and a Downside Capture of 73.06%.

Current Investment Portfolio Stance: Aggressive

Positioning & Portfolio Update

What takes us to Neutral, reported rather than restated. Crude: Brent sustained above $100. Still tripped, with normalisation not expected before early 2027. Rates: a cycle beyond 75 basis points, a repo above 6.00%. Not tripped, but nearer. Our range now tops out on that line, and a CPI path of 6.5% to 6.8% would put it under pressure. Earnings: a Q2 FY27 season that spreads downgrades beyond the crude-cost sectors into Financials, Capital Goods and IT. Not tripped. Financials and Capital Goods delivered, and the damage sits in Passenger Vehicles, Pharma, EMS and Real Estate. IT is the one to watch, with one large cap cutting FY27 growth guidance to low single digits. One is live. Any second and we move to Neutral.

Key Monitorable:

Crude & Geopolitics

HIGH

Brent closed at $104.51 on 15 October with Hormuz effectively shut and tanker flows ~43% below pre-conflict levels; we treat $100 as the working floor. The diversified barrel (Oman +211%, Brazil +143% Apr-Sep) caps the damage, not the price. The CAD tracks the top of its 1.8-2.3% band.

Inflation Trajectory

HIGH

September CPI at 5.54% was the ninth straight rise and the first print above 5%, with food at 7.74% and rural at 6.08%. October CPI on 12 November is the test: above 6% confirms a 25 bps hike in December. We see a peak of 6.2-6.4% in November-December.

Q2 FY27 Results & Valuations

MEDIUM

The Nifty is down 13.4% CYTD. Large Caps trade at 18.7x against a 23.6x long-run average, a 21% discount; Mid Caps are 19% below and Small Caps 16% above. Q2 split 6 sectors delivered, 4 mixed and 4 lagged; margins are the swing factor for H2.

US & DM Yields

HIGH

The US 10Y eased from 5.36% to about 5% in the week to 23 October. Indian bond yields are at a three-year high of 7.39%, yet the spread over the US is still well short of the 350-450 bps norm. The rupee recovered from 96.71 to ~94.8 on RBI curbs, not on fundamentals.

The Anti-AI Trade

MEDIUM

Global funds keep rotating towards the North Asian AI trade, and India's weight in MSCI EM has fallen. Q2 showed the cost: IT growth was rupee-aided, constant currency was flat to low single-digit, and one large cap cut FY27 guidance. FPIs bought IT in October.

FPI Flows

MEDIUM

Foreign investors have sold for a sixteenth straight month: ₹52,929 crore in October so far on exchange data, after ₹33,864 crore in September, taking CY26 beyond the ₹4.46 trn recorded to October. DIIs bought ₹61.720 crore in October, covering it.

Source: Internal assessment based on data from MoSPI, RBI, NSDL, US Federal Reserve (H.15), NSE and Bloomberg. Market levels as on 15–27 October 2026.

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