KILIKA
CAPITAL

Embracing complexity to capture Alpha

January 2026

Dear Investors,

As we enter 2026, the Indian macroeconomic landscape presents a rare and nuanced configuration: growth remains resilient, inflation has retreated far more decisively than anticipated, liquidity conditions are accommodative yet well-controlled, and financial markets are navigating a transition from policy-led tailwinds to fundamentals-driven differentiation. This environment is neither exuberant nor fragile, but it is one where disciplined capital allocation matters more than it has in recent years.

Nominal economic growth has moderated in the near term, largely reflecting unusually benign inflation rather than a deterioration in real activity. Consumption continues to anchor the economy, supported by easing financial conditions and stable employment dynamics, while investment activity shows early signs of revival, albeit unevenly across sectors. Services remain the dominant engine of growth, manufacturing momentum is gradually rebuilding, and infrastructure-linked activity continues to provide an important counterbalance to global uncertainty.

From a policy standpoint, the Reserve Bank of India has navigated the disinflationary phase with notable precision. Cumulative rate cuts, calibrated liquidity injections, and proactive balance-sheet management have ensured effective transmission without compromising macro stability. Importantly, with inflation expected to normalise toward the 4% target over the coming quarters, the policy environment is now shifting from aggressive easing to one of cautious and targeted support. This transition has meaningful implications for both equity valuations and fixed-income returns.

Credit dynamics reinforce this message. The expansion underway is broadening but not overheating. Growth is increasingly driven by services, MSMEs, and secured retail lending, while large corporates continue to rely on internal accruals and market-based financing rather than bank balance sheets. Capacity utilisation remains below traditional investment trigger points, suggesting that the capex cycle is still in its early innings. This provides durability to growth, but also argues against indiscriminate risk-taking.

Financial markets, meanwhile, are reflecting these cross-currents. Domestic liquidity is ample, yet the bond market has remained cautious, with yields staying elevated relative to the policy rate - an indication that investors are demanding greater clarity on inflation normalisation, fiscal dynamics, and global capital flows. In equities, leadership is narrowing, dispersion is rising, and returns are increasingly a function of volume led growth, earnings quality, balance-sheet strength, and sectoral positioning rather than broad based expansion.

Against this backdrop, our stance remains deliberate and selective. In fixed income, the opportunity lies in capturing carry and rolldown without overextending duration prematurely. In equities, we continue to favour businesses with strong cash-flow visibility, pricing power, and prudent capital allocation, while remaining mindful of valuation asymmetries that have built up across segments of the market.

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

We thank you for your continued trust and partnership. At Kilika Capital, our focus remains unchanged: to navigate complexity with clarity, protect capital through cycles, and compound wealth through informed, long-term decision-making.

As we begin a new calendar year, we wish you and your families a happy, healthy, and prosperous New Year. We look forward to continuing our journey together in 2026.

Best regards,

Siddharth Jadeja

Investment Strategy Report

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KILIKA CAPITAL

WHO WE ARE?

ABOUT US

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

OUR MISSION

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

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

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

Siddharth Jadeja, CFA – The Strategist

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

Smitha Iyer – The Operational Hawk

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

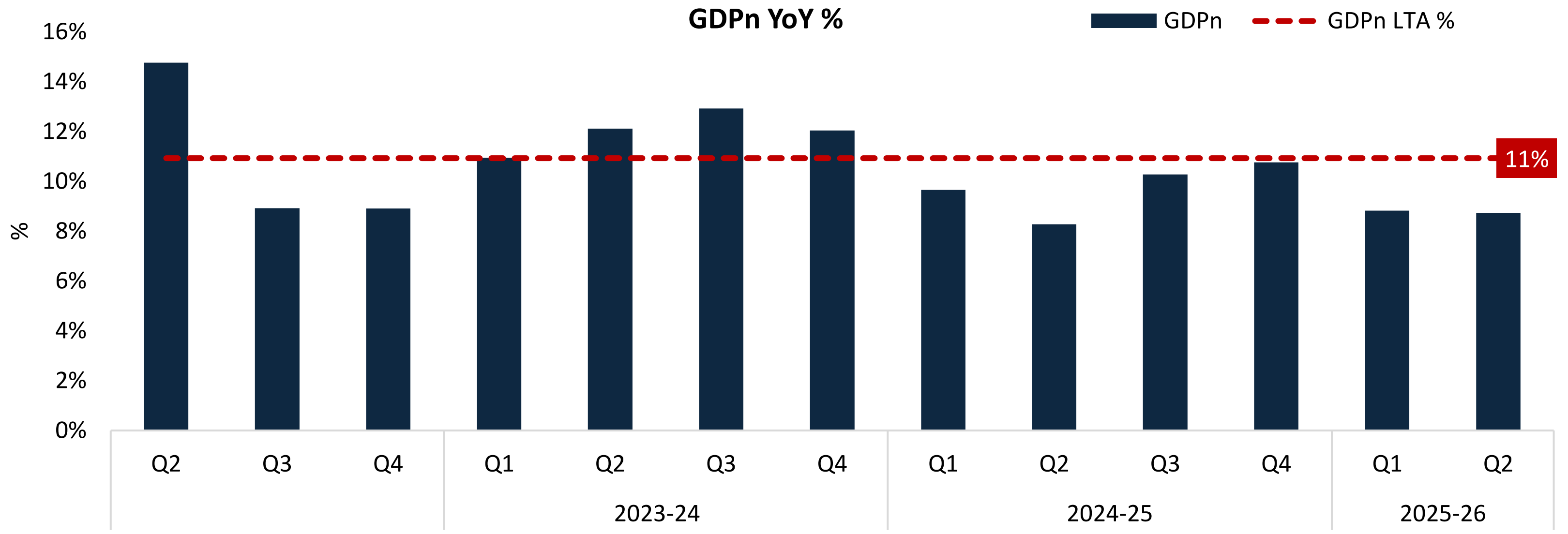
Piyush Sharma – The Creative Wizard

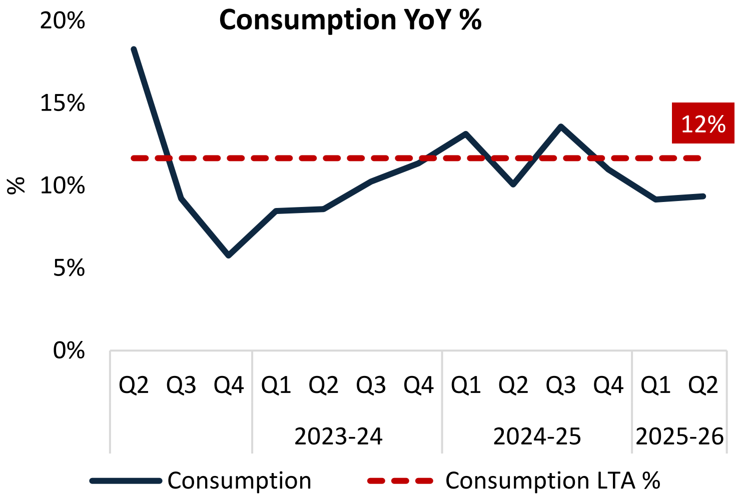
Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model,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

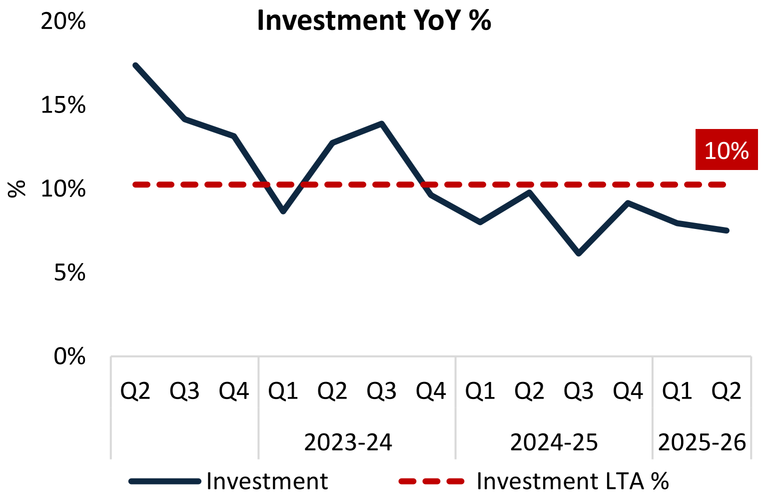
Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured—we've got your back. After all, when we win, you win. And we're in it for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

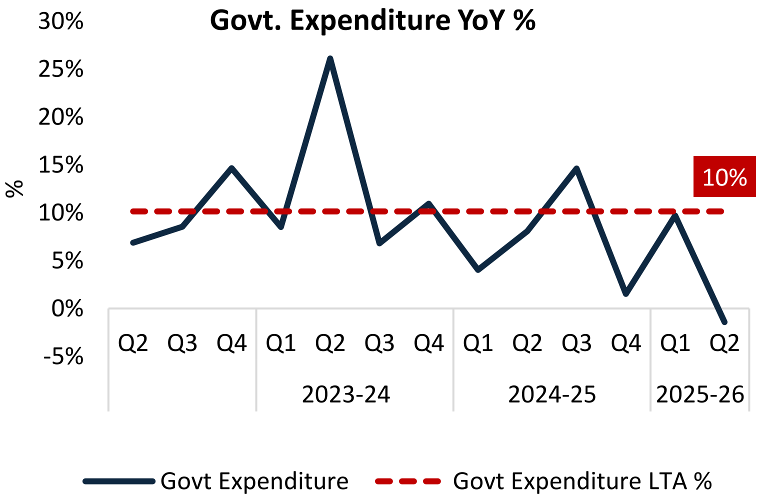
Macro-Economic Outlook

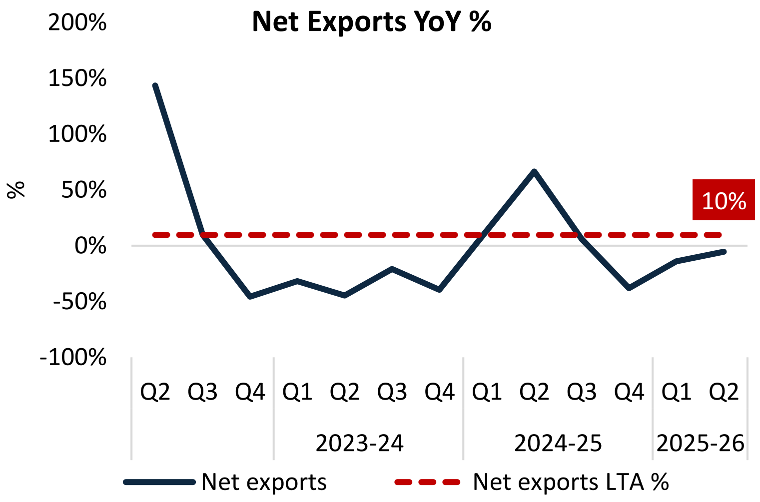
1. GDP (Gross Domestic Product)





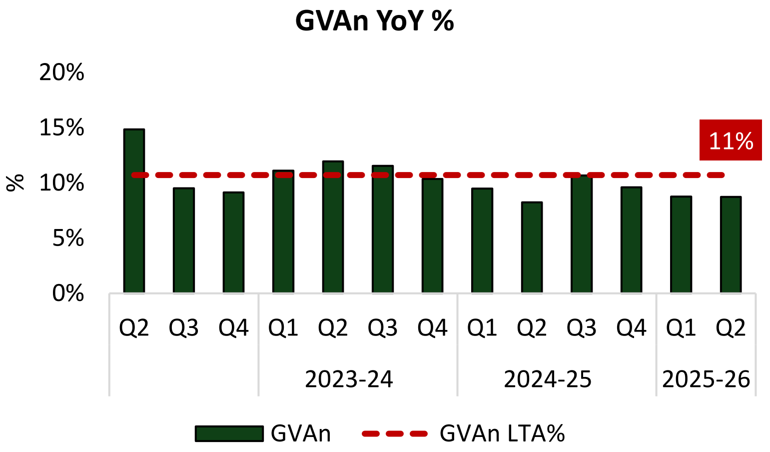


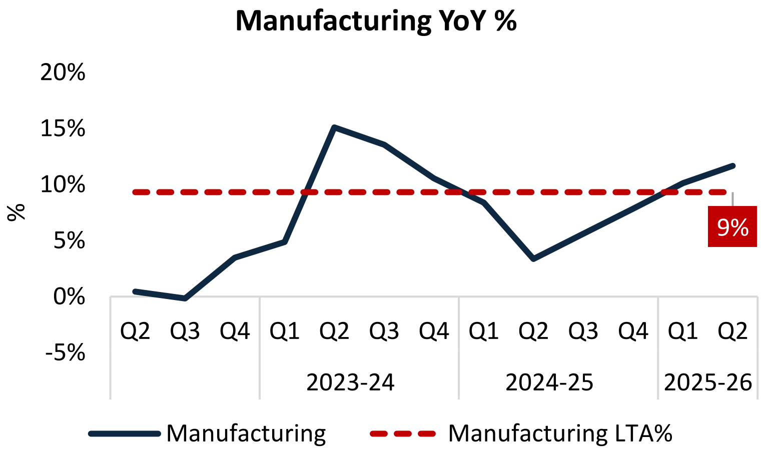


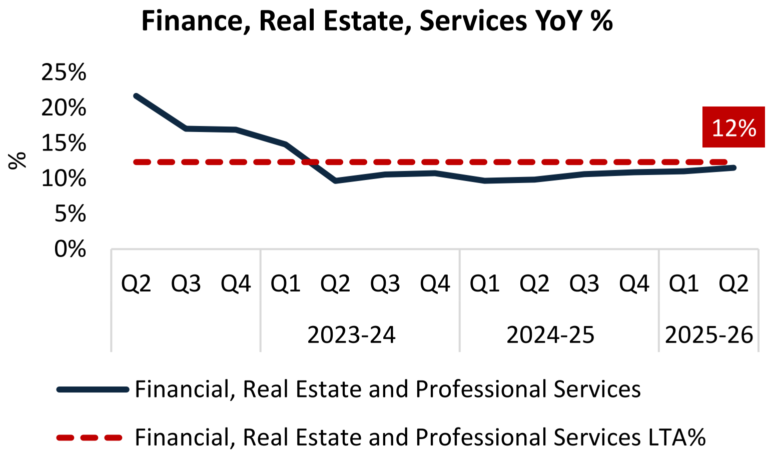


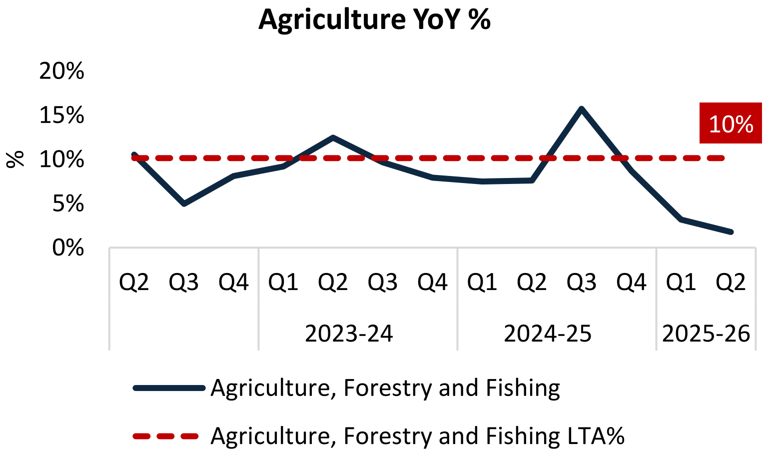
Source: Internal assessment based on RBI DBIE data

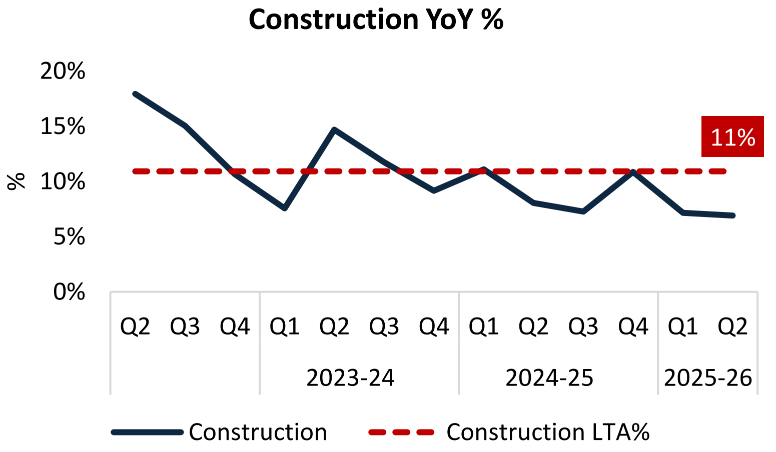
GVA (Gross Value Added)

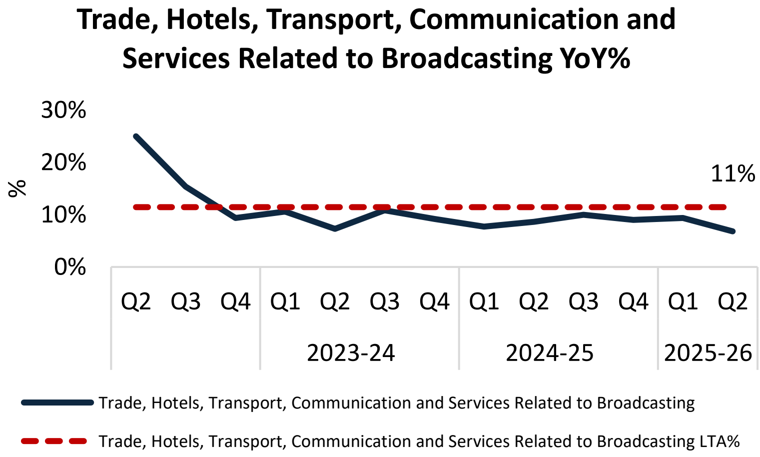












Source: Internal assessment based on RBI DBIE data

India's GDP and GVA in Q2 FY2025-26 (July–September 2025) – Nominal Analysis

Summary Highlights:

- **Moderate Nominal Growth:** India's nominal GDP in Q2 FY2025-26 stood at **₹85.25 lakh crore**, **up 8.7%** year-over-year (YoY) from ₹78.40 lakh crore in Q2 FY2024-25. Nominal GVA (Gross Value Added) was **₹77.69 lakh crore**, also rising **8.7%** YoY from ₹71.45 lakh crore a year ago**. This reflects moderate broad-based economic expansion with low inflation (the gap between real GDP growth of 8.2% and nominal growth 8.7% was minimal)**.

- **Services Lead Growth:** The services (tertiary) sector which accounts for ~60% of GVA, was the **largest and fastest-growing contributor**, **expanding ~10.6% in nominal terms YoY (against a LTA of 12% YoY)** . Within services, **financial & real estate services** and **public administration/defence** grew in double-digits, making them key drivers of overall GVA growth. **Trade, hotels, transport, and related services grew more moderately**.

- **Muted Industry Growth:** The industry sector (encompassing mining, manufacturing, utilities, construction), which accounts for ~26% of GVA, **saw strong nominal growth (~8.7% YoY against a LTA of 9.9% YoY). Manufacturing in particular accelerated sharply (~11.7% nominal growth YoY), reflecting early signs of a capex cycle recovery and a favorable base. Construction maintained moderate growth (~6.9%), supported by ongoing infrastructure and real estate activity**. However, **mining output contracted in value terms (approx. -4.3%), dragging down the primary sector**.

- **Agriculture Moderates**: Agriculture, forestry & fishing posted **subdued nominal growth (~1.8% YoY against a LTA of 10.1% YoY).** This modest rise suggests nearly **flat real output growth (3.5% real) combined with lower price inflation for farm produce, resulting in only a small nominal increase**. It marked a slower expansion compared to the ~7.6% nominal growth in the same quarter last year.

- **Demand-Side Drivers:** On the expenditure side, **private consumption (PFCE) remained the backbone of GDP (about 62% of GDP) and grew ~9.3% YoY against a LTA of 11.7%** in nominal terms, indicating **an uptick in household spending / domestic demand. Investment (GFCF) grew ~7.5% YoY against a LTA of 10.2% YoY, reflecting early signs of capex lead capital formation**. In contrast, **government consumption (GFCE) dipped ~1.4% YoY in nominal terms as public spending was curtailed after a strong Q1**. **Net exports deficit narrowed slightly as export growth (~11%) outpaced import growth (~8%) in rupee terms, despite a still sizeable trade gap**.

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

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

Agriculture, Forestry & Fishing

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

Industry (Mining, Manufacturing, Utilities, Construction):

- **Overall Performance:** The broad industry sector GVA (encompassing mining, manufacturing, electricity/utilities, and construction) reached **₹19.47 lakh crore** in Q2 FY2025-26, **up 8.7% YoY against a LTA of 9.9% YoY**, from ₹17.82 lakh crore in Q2 FY2024-25. This robust growth in nominal terms **indicates an early rebound in industrial activity, outpacing the mere 4.7% increase seen in the same quarter of the previous year**. Industry contributed roughly 25–26% of total GVA in Q2.

- **Manufacturing:** Manufacturing GVA surged to **₹11.29 lakh crore**, registering a **+11.7% YoY jump (against a LTA of 9.3% YoY)** from ₹10.10 lakh crore in Q2 last year. This double-digit nominal growth is a sharp improvement over the ~3.4% growth a year ago. **It reflects strong domestic demand (especially during the run-up to festive season) and companies ramping up production**. In real terms, manufacturing grew 9.1% – indicating only modest inflation in manufactured goods prices. This sector's revival marks a turnaround from its laggard status a year prior, and was a **key driver of the overall GDP uptick**.

- **Mining & Quarrying:** In contrast, the mining sector's nominal GVA **contracted**. It fell to **₹1.02 lakh crore** in Q2 FY25-26 from ₹1.07 lakh crore in Q2 FY24-25, a **–4.3% YoY decline against a LTA of 6.3% YoY**. Mining output was **hampered by lower production of coal and crude oil, and global commodity price softness**. This decline dragged on the industry sector's performance. (Notably, mining had already seen a slight dip in the same quarter last year at current prices.) Mining contributes a small share (around 1–2% of GVA), but its downturn meant the **primary sector (agriculture + mining) grew only ~1.2% nominally**.

- **Electricity, Gas & Water (Utilities):** The utilities segment GVA was **₹1.99 lakh crore, rising about +3.7% YoY (against a LTA of 11.9% YoY)** from ₹1.92 lakh crore. **Growth in this sector was moderate, and notably *lower* than its real growth (4.4%), implying output gains were partly offset by lower tariffs or input costs leading to subdued nominal growth**. Utilities form ~3% of GVA and provided a small positive push.

- **Construction:** Construction GVA climbed to **₹6.19 lakh crore** in Q2 FY25-26, **up +6.9% YoY (against a LTA of 10.9% YoY)** from ₹5.79 lakh crore. Nominal construction growth remained high, though slightly below the 8.0% seen in Q2 last year. **This reflects an early uptick in infrastructure projects and real estate**. Real construction growth was 7.2%, so price changes in this sector were moderate. Construction constituted about 8% of GVA and, along with manufacturing, **underscored the resilience of India's industrial base**.

Services (Tertiary Sector):

- **Overall Performance:** The services sector continued to be the **engine of growth**, with nominal GVA reaching **₹46.65 lakh crore** in Q2 FY2025-26, **up +10.6% YoY (against a LTA of 12% YoY)** from ₹42.19 lakh crore in the same quarter previous year. This ~10%+ growth in the largest sector of the economy boosted overall GVA significantly. Services accounted for about 60% of total GVA in Q2 (by far the largest share). In the year-ago period, services had grown 10.3% nominally, so **the sector maintained a strong momentum**.

- **Trade, Hotels, Transport & Communication:** This grouping – reflecting consumer-facing services and transportation – grew to **₹13.39 lakh crore** in Q2 FY25-26, a **+6.8% YoY rise (against a LTA of 11.4% YoY)** from ₹12.53 lakh crore in Q2 FY24-25. **Growth here was positive but comparatively modest**, slower than the ~8.6% seen a year earlier. **Sectors like retail trade, hospitality, transport, and communications had already rebounded strongly in the post-pandemic period last year, so the base was high. The 6.8% nominal uptick suggests moderate real growth (7.4% at constant prices) with slight price deflation (e.g. lower fuel prices reducing transport revenues)**. This segment formed ~17% of total GVA.

- **Financial, Real Estate & Professional Services:** This was the **largest single subsector** of GVA and **one of the fastest-growing**. Its GVA rose to **₹20.91 lakh crore** in Q2 FY25-26 from ₹18.75 lakh crore a year prior, marking a **+11.5% YoY increase against a LTA of 12.3% YoY**. This double-digit growth was **driven by robust banking and financial services, real estate activities, and professional services**. It accelerated from ~9.8% growth in the year-ago quarter, **indicating strong credit growth, buoyant property markets, and corporate demand for services**. At constant prices, this subsector grew 10.2%, so there was modest price inflation. With about **27%** share in GVA, financial & real estate services provided a major lift to overall GVA.

- **Public Administration, Defence & Other Services:** Government and public-oriented services also saw very high growth. GVA for public administration, defence and other services (which include education, health and other personal services) climbed to **₹12.35 lakh crore** in Q2 FY25-26, **up +13.2% YoY (against a LTA of 12% YoY)** from ₹10.91 lakh crore in Q2 FY24-25. This ~13% nominal expansion was on top of a strong 12.9% growth in the previous year's quarter**, indicating continued scale-up of government services and social spending (e.g. higher government employee salaries, education and health outlays). Notably, this occurred even as direct government consumption expenditure actually fell in Q2 (see below), implying that a good portion of the growth came from salary increases and service value additions**. This subsector comprised ~16% of GVA and was a significant contributor to the overall services surge.

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

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

- Nominal GDP can also be examined from the **expenditure side**, i.e. by looking at spending components: private consumption, government consumption, investment, and net exports. In Q2 FY2025-26, GDP (expenditure) totaled ₹85.25 lakh crore, **up 8.7% YoY**. The composition and growth of the key demand-side components are as follows (all values in current prices).

- **Private Final Consumption Expenditure (PFCE)** – *Household and private sector consumption*: **₹53.29 lakh crore** in Q2 FY25-26, **up ~9.3% YoY** from ₹48.74 lakh crore in Q2 FY24-25. PFCE alone contributed about **62.5% of GDP** in the quarter, highlighting **that domestic consumption remains the bedrock of the economy**. The near double-digit nominal growth in consumption **indicates an early uptick in consumer demand. In real terms, private consumption grew 7.9%, so the nominal increase was driven only marginally by higher prices. Strong spending was observed in both goods and services, aided by the festive season onset and rising incomes. This healthy consumption growth helped power the overall GDP expansion**.
- **Government Final Consumption Expenditure (GFCE)** – *Government consumption (current spending on goods and services)*: **₹7.73 lakh crore** in Q2 FY25-26, which **declined by –1.4% YoY** from ₹7.84 lakh crore in Q2 FY24-25 (nominal). Government spending formed roughly **9.1% of GDP** this quarter. **The drop in GFCE indicates a pullback in routine government expenditure compared to the previous year**. Notably, in real terms GFCE contracted even more (–2.7% YoY), suggesting fiscal consolidation or **timing effects (the government had front-loaded some spending in Q1, then pared back in Q2). Despite lower government consumption in Q2, overall GDP growth remained high, reflecting that the private sector (households and businesses) drove the expansion this quarter**.
- **Gross Fixed Capital Formation (GFCF)** – *Investment in fixed assets like machinery, infrastructure, buildings*: **₹26.01 lakh crore** in Q2 FY25-26, **up ~8.2% YoY** from ₹24.04 lakh crore in Q2 FY24-25. This fixed investment component accounted for about **30.5% of GDP**. **The growth in GFCF suggests early momentum in capital spending – both public capex and private investment in the quarter under review**. Although slightly slower than the 7.8% real growth last quarter (indicating modest price increases in capital goods), an ~8% rise on a high base is significant, although still much lower than its LTA of 10.2% YoY. **Sectors like infrastructure construction, industrial capacity addition, and real estate development contributed to this investment uptick. The gross investment rate (including changes in stocks) remains around one-third of GDP, supporting future productive capacity**. It's also worth noting **changes in inventories (stocks)** and **valuables (like precious metals)**, which are smaller components of investment. **Changes in inventories** amounted to ₹1.28 lakh crore and **grew ~7% YoY**, while **expenditure on valuables (mostly jewelry, etc.)** was ₹2.40 lakh crore, actually **contracting about –22.7% YoY** (after a spike last year). **These fluctuations had a marginal effect on overall investment trends**.

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

Overall Year-over-Year Growth:

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

India's economy grew by **8.7% in nominal terms** in Q2 FY2025-26. **The year-over-year comparison highlights that this quarter's growth was much stronger than the 5.6% nominal GDP growth recorded in Q2 FY2024-25** (which in real terms was 5.6% as well). The acceleration to 8.7% nominal (8.2% real) reflects both **favorable base effects** and **genuine pickup in economic momentum**. **While India remains some distance from its long-term average growth rate of 10.7% YoY, recent data suggest a clear improvement in momentum, with early signs pointing to a nascent recovery in economic activity. Importantly, inflation was relatively subdued during this period – the GDP deflator implied only ~0.5% inflation – so the nominal growth closely mirrored real growth**. **Once inflation converges to the RBI's 4% target, we expect nominal GDP growth to return to a sustained double-digit trajectory**.

Short to Medium Term Growth Outlook and RBI Policy Signals:

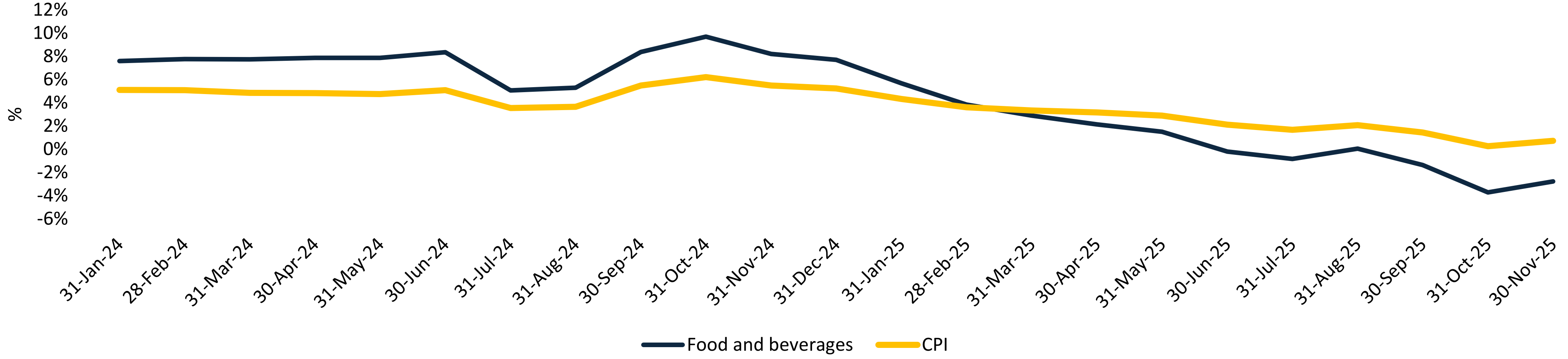
- **The outlook for India's economy remains broadly positive, though it is tempered by the challenges of low nominal growth and global headwinds.**
- **Growth Outlook: India's near-term growth outlook is promising. Various high-frequency indicators (eg GST collections, industrial production, PMI, capex growth etc) point to a relatively stronger momentum carrying into Q3**. The RBI's Monetary Policy Committee, in its latest statement, **revised the full year FY2025-26 real GDP growth forecast upward to 6.8%**, consistent with an expectation of **waning base effects and a softer global environment. Consumption is expected to remain the primary growth driver, supported by earlier rate cuts and benign inflation, while investment activity should gradually strengthen as domestic demand improves and the capex cycle gains traction**. However, policymakers do note that risks from abroad could cap the upside. Overall, the tone is one of cautious optimism – domestic demand strength and policy support should keep growth around the mid-6% range in coming quarters, barring any major shocks.
- **Inflation Expectations:** Inflation (the GDP deflator being WPI Inflation) is currently extremely low, but the RBI expects it to gradually **move back up towards the 4% target by the next fiscal year**. The projection of **2.6% CPI inflation for FY26** suggests that through the remainder of this fiscal year, inflation will remain below target (well under the upper tolerance band of 6%). **This comfortable outlook is driven by favorable food prices (a good harvest has kept food inflation muted) and softer global commodity prices**. However, RBI commentary also flags that **some of this disinflation is due to one-off factors** (for example, base effects from high prices last year, or temporary dips in certain food prices). The RBI's internal models **likely foresee headline inflation rising toward 4% in FY27 as these effects wane, which puts nominal GDP back in double digits**.

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

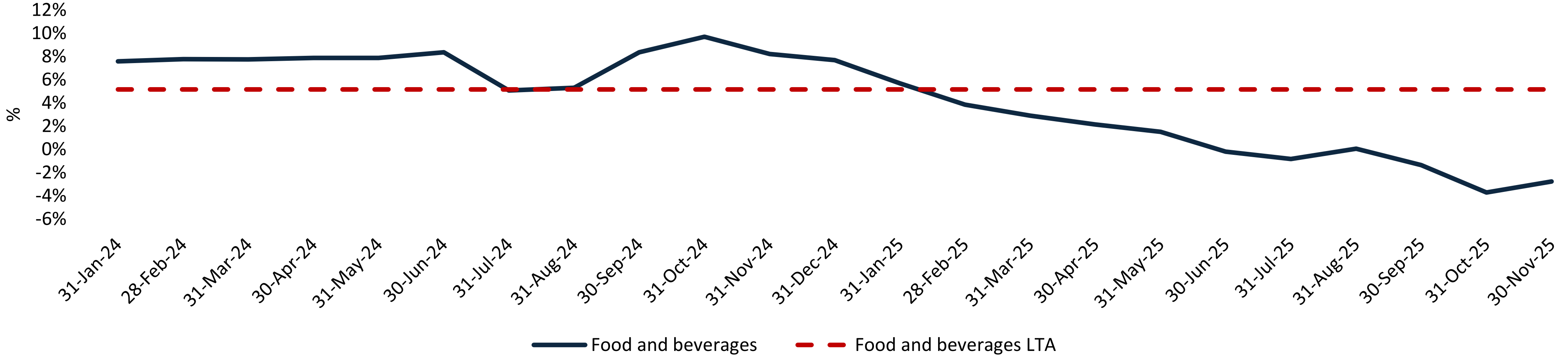
- **External risks (trade tensions and global demand weakness).**
- **Weak capital flows on account of a weak INR.**
- **Structural domestic challenges in employment and private FDI investment.**
- **Fiscal risks from slowing nominal GDP growth.**

2. Inflation

CPI and Food & Beverages Inflations %



Food & Beverages Inflation YoY %



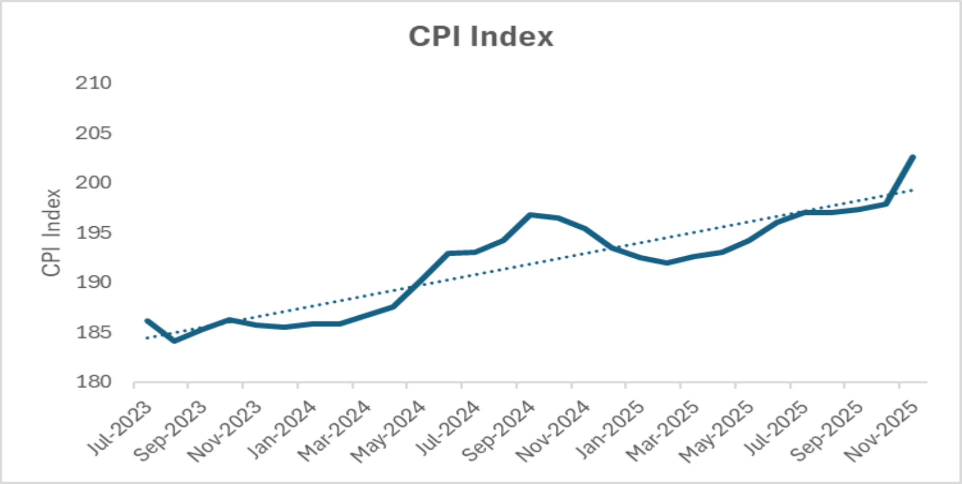
Source: Internal assessment based on RBI DBIE data

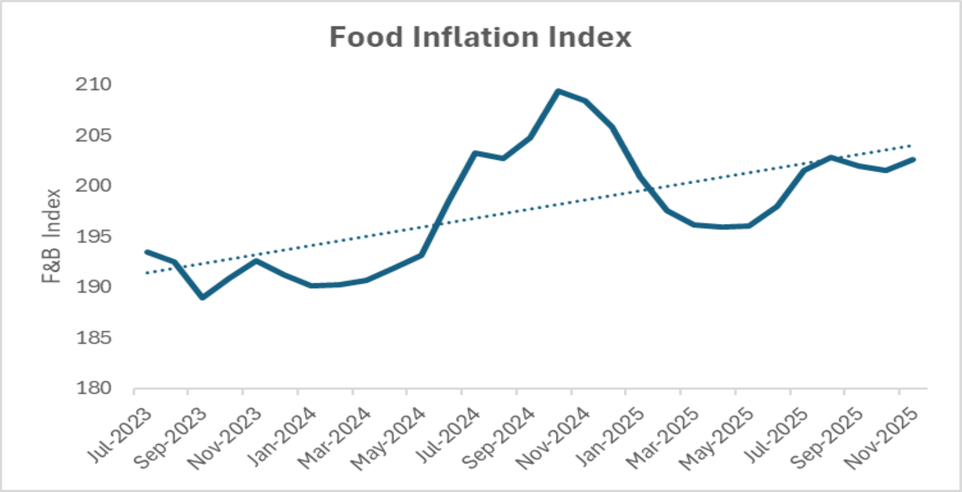
India's CPI Inflation: Benign with Gradual Normalisation Ahead

Headline Consumer Price Inflation (CPI):

In November 2025 India's headline **CPI inflation ticked up to 0.71% YoY, from a near-record low of 0.25% in October. CPI ex-food inflation also grew at a modest 3.02% YoY (3.03% YoY in October).** Hence the aggregate CPI remained well below the RBI's 2–6% target range.

On a **MoM basis, CPI grew by 0.3% with food inflation picking momentum at 0.5% MoM in November (-0.2% MoM in October).**





Overall, the headline inflation profile remained benign, **driven mainly by food disinflation, however slowly trending upward on a MoM basis.**

Food Inflation:

- Food prices continued to fall in November, with **Food Inflation at -2.78% YoY (up from -3.72% YoY in Oct)**. In annual terms this was still deep deflation, led by staples.
- **MoM Trends: Food prices picked up its monthly momentum rising at 0.5% MoM with;**
  - Vegetable prices rising 2.6% for the month. Within vegetables, heavy weights like tomato registered a de-growth of -12.5% MoM (-9.4% MoM in October).
  - Potato prices increased 5.6% MoM (1.3% MoM in October).
  - Onion prices grew 0.2% MoM (-3.5% MoM in October).
  - Pulses grew marginally at 0.1% after remaining in the negative territory for 12 months (-0.7% MoM in October).
  - Cereal prices grew 0.05% MoM with rice prices falling by 0.2% MoM and wheat registering sequential increase of 0.2% MoM.
  - Milk prices grew 0.1% MoM while egg prices grew by 5.2% MoM.
  - Fruit prices declined by 0.9% MoM.
  - Oil prices registered a flat growth for the month from a decline of 0.4% MoM in October.

- In sum, the **food basket continued to exert downward pressure on headline CPI, but the pace of food deflation has markedly eased due to better supply and a fading favorable base, leading to an upward MoM trend.**

<u>Core Inflation</u>:

- Core inflation (CPI excluding food and fuel) was broadly stable. Core (ex-food, fuel, pan&tobacco) stood at **4.3% YoY in November (4.4% in October)**.
- Importantly, **this reading was skewed by a surge in precious-metals prices: gold CPI jumped ~58.5% YoY and silver ~65.5% YoY, reflecting base effects and uncertaintly in global markets**.
- **Excluding these jewelery items, "core" CPI stood at ~2.4%, indicating muted underlying price pressure**.
- **Other non-food categories showed little firming**: services like transport, communications, housing etc, had inflation in the low single-digits. In fact, some key core components eased (eg - clothing/footwear inflation remained low, while transport & communication inflation was under 1%).
- **MoM Trends**:
    - RBI Core inflation (ex-food, fuel, PTI) came lower at 0.1% MoM in November vs 0.7% MoM.
    - Housing prices grew by 0.2% MoM lower than 0.9% MoM in October.
    - Clothing and footwear prices registered a growth at 0.1% MoM.
    - Miscellaneous components grew by 0.2% MoM in November, with Transport and communication (+0.1% MoM) & Health (+0.1% MoM), HH goods and services' (+0.1% MoM), and Personal Care and Effects (+0.5% MoM) registering sequential increases (within Personal Care and Effects, gold prices registered a momentum of 1.0%MoM while silver prices grew by 1.8% MoM). On the other hand, Education (-0.1% MoM) registered sequential decline.
- **Overall, structural demand remains soft, so the non-food core remained benign (~2.4% YoY) once volatile metals are stripped out**.

<u>Rural–Urban Divergence</u>:

- Inflation increased in both rural and urban areas, but from different bases. **Urban CPI** inflation rose to **1.40% YoY in November (from 0.88% YoY in October)**, while **rural CPI** inched back into positive territory at **0.10% YoY (from -0.25% YoY)**.
- **Food deflation narrowed in both segments** – urban food inflation was -3.60% YoY in November vs -5.18% in October, and rural was -4.05% YoY in November vs -4.85% YoY in October.
- In short, **both rural and urban indexes saw inflation climb above October's record lows, but inflation remains extremely low across the country. The larger urban uptick reflects its lower food share and still-positive housing/education prices, whereas rural inflation is only marginally positive as agricultural price declines persist**.

Outlook:

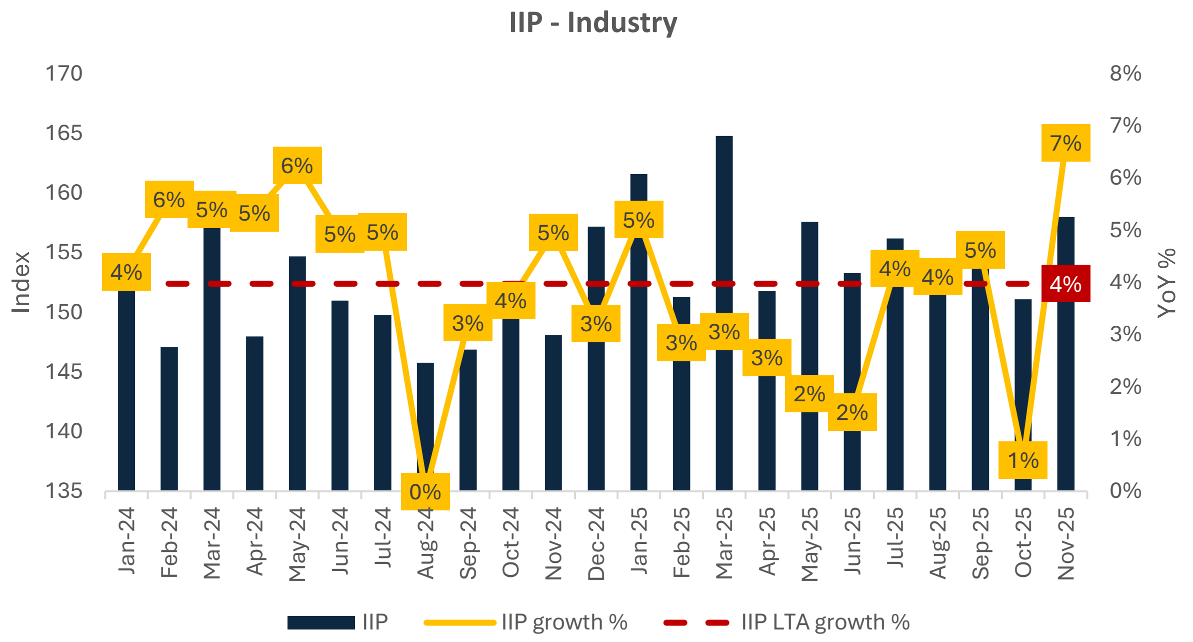
The Reserve Bank of India responded to the recent ultra-low inflation prints with a 25 bps rate cut in its December 2025 policy, lowering the repo rate to 5.25%. The MPC described the current phase as “Goldilocks,” combining robust growth with the FY26 GDP projection raised to 7.3% and exceptionally low inflation. Reflecting this shift, the RBI sharply reduced its FY26 CPI forecast to 2.0% (earlier 2.6%). Quarterly projections place headline inflation at 0.6% in Q3 FY26, rising modestly to ~2.9% in Q4 once the base effect fades, and gradually moving toward ~4% by early FY27 (3.9% in Q1 and 4.0% in Q2).

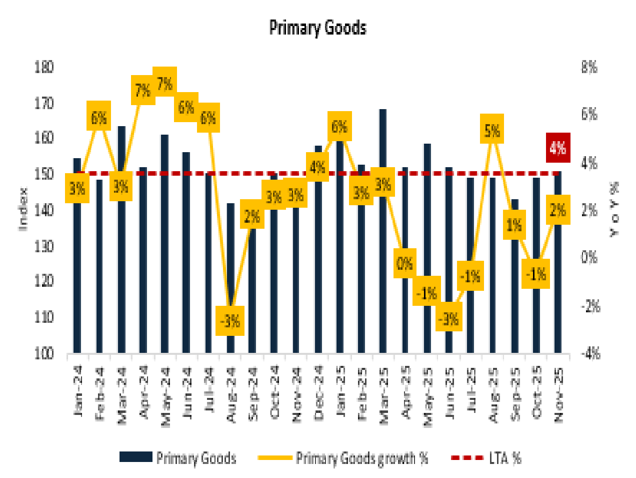
Given this evolving backdrop, **we do not expect further rate cuts, even if the US Fed eases policy**. Several structural considerations reinforce this pause;

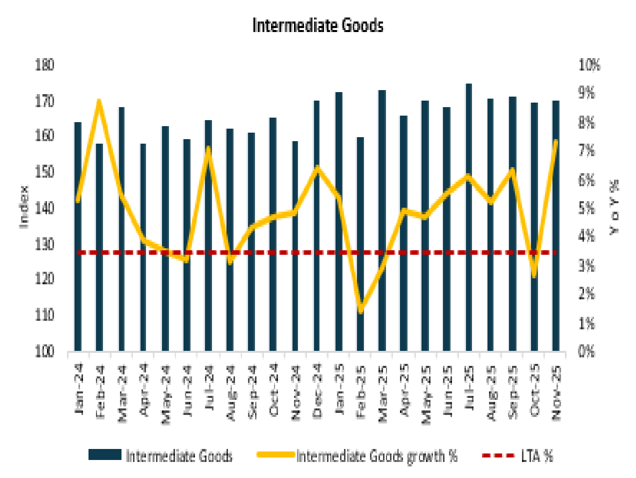
- **A new CPI series with updated weights is expected in 2026, likely reducing the influence of food, which has been driving current disinflation.**
- **Forward-looking inflation projections already point to 4% in the first half of FY27, keeping the real policy rate near 1.25%, a level consistent with macro stability.**
- **Additionally, the rupee continues to face depreciation pressures, and maintaining an adequate India–US interest rate differential remains essential for foreign capital flows. A 5% INR depreciation adds ~35 bps to headline CPI, underscoring the need for caution. INR has depreciated against the USD at an annual rate of ~3.4% per year over the last 10 years.**

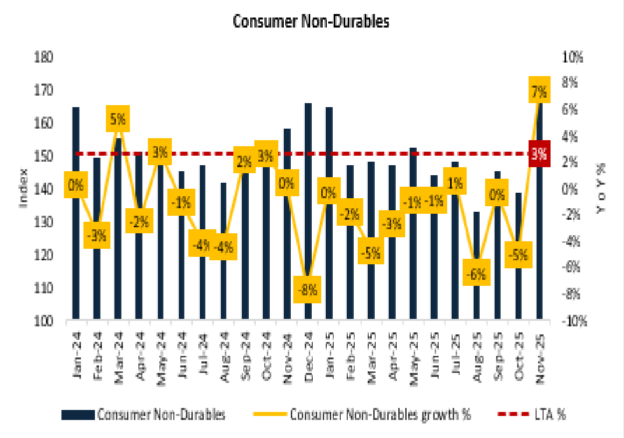
Overall, the **inflation trajectory is expected to remain low but gently rising through FY26, before normalizing toward RBI's 4% target in FY27**. This provides the RBI room to stay accommodative but cautious, supporting growth while avoiding risks of currency volatility or premature loosening. **The central bank’s focus will remain on ensuring a smooth glide path for inflation back toward 4% while preventing excess INR depreciation and preserving financial stability**.

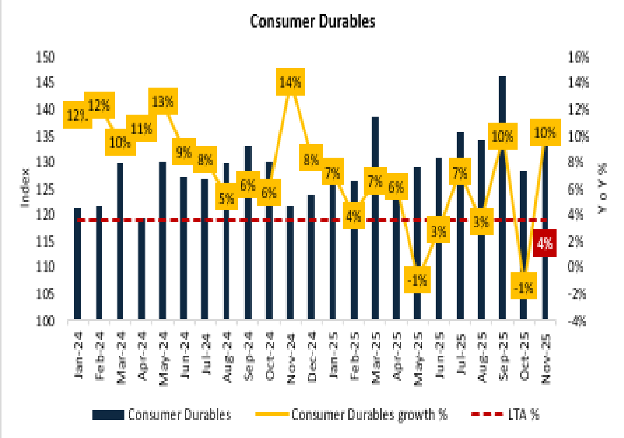
3. IIP (Index of Industrial Production)

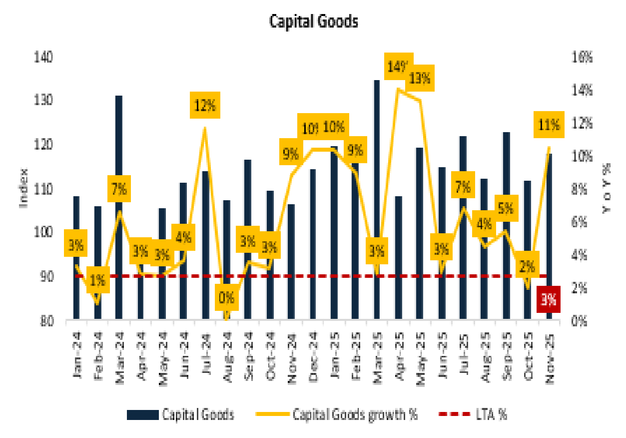


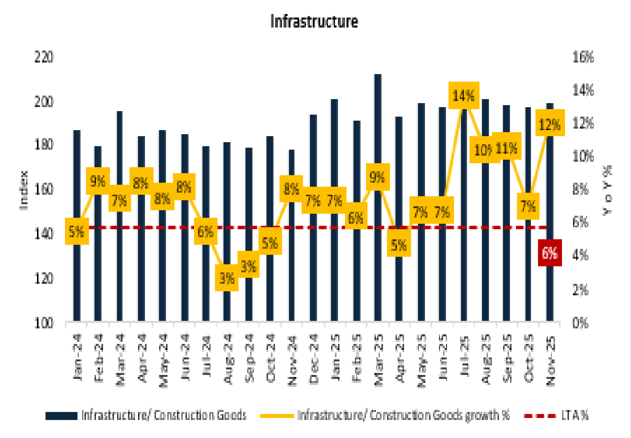




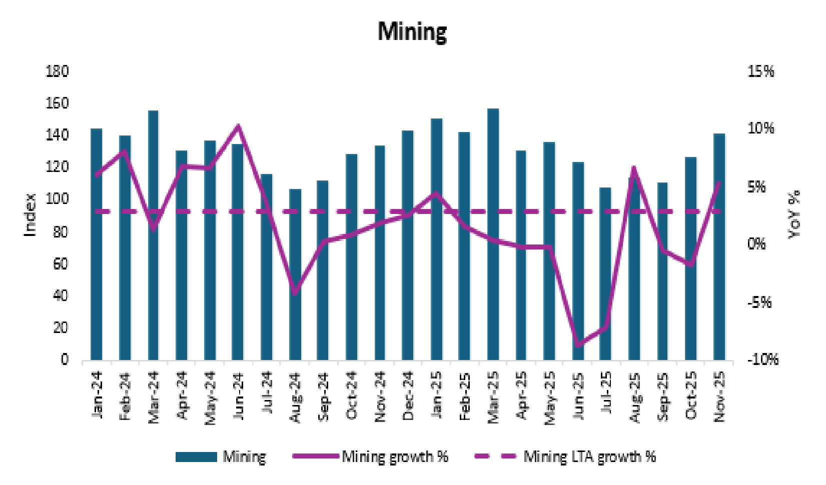


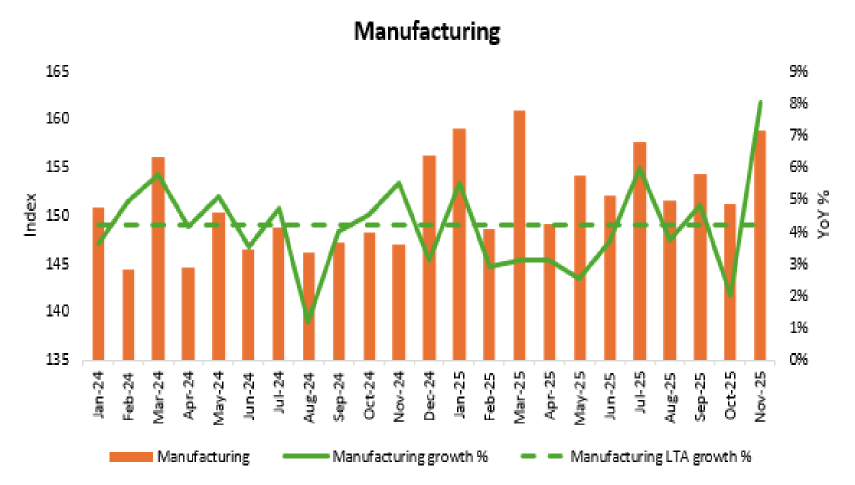


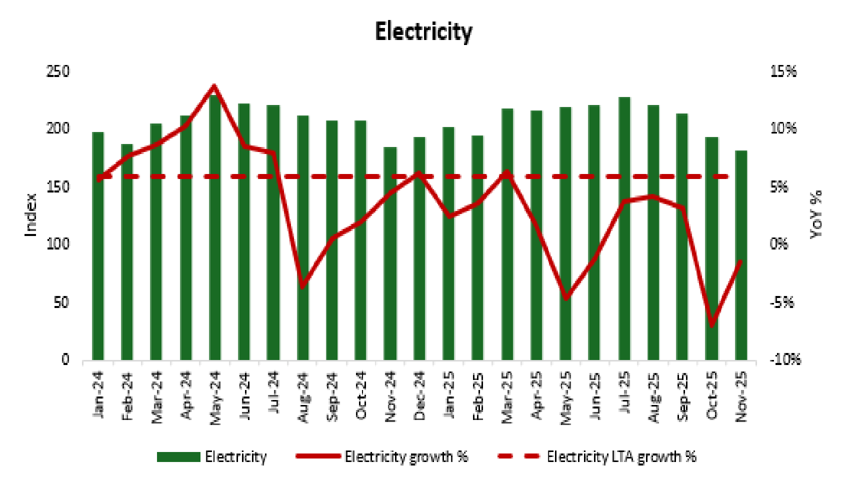




Source: Internal assessment based on RBI DBIE data







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

Headline IIP Update:

India's industrial output **growth hit a two-year high of 6.7% in November 2025**, driven by **strong performances in manufacturing and mining sectors**.

Sectoral Trends:

- **Manufacturing Sector**: Manufacturing output grew 8%, significantly higher than the 5.5% recorded a year ago, a principal driver of the overall rise. 20 out of 23 manufacturing industry groups showed positive growth. Major contributors included basic metals, fabricated metal products, pharmaceuticals, and motor vehicles. This momentum was driven by the rationalization of GST rates on various consumer products, which took effect on 22 September. This policy shift, aimed at boosting demand and consumption in the country ahead of the festive season, resulted in an accumulation of manufacturing orders as businesses moved to capitalize on the benefits of the GST rate rationalization.
- **Mining Sector**: Mining production rebounded with 5.4% growth. Growth in the mining sector rebounded due to the conclusion of the monsoon season and strong growth in metallic minerals such as iron ore
- **Power Sector**: Electricity production contracted by 1.5% in November, compared to growth in the same month last year.
- **Infrastructure & construction goods** and **Capital goods** saw double-digit expansion.
- **Consumer durables** and **non-durables** also recorded healthy growth.

Source: Internal assessment based on RBI DBIE data

Outlook:

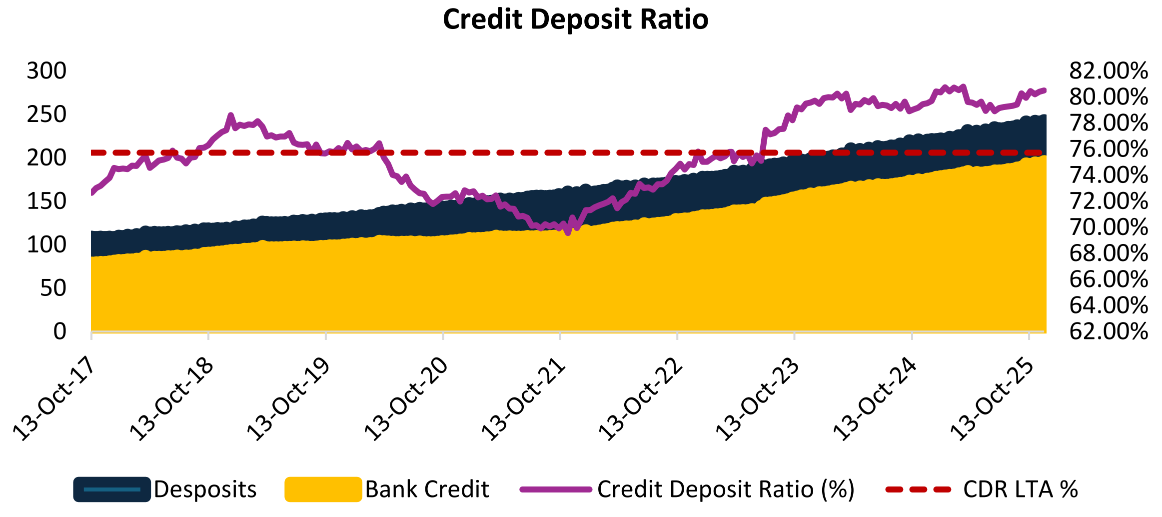
The rebound follows a weaker October showing and was supported by GST rationalization ahead of the festive season, which stimulated manufacturing orders. Restocking, consumption pick-up after festivals, and normalisation in some industrial segments contributed to the uptick. The stronger IIP figure suggests improving industrial momentum, with notable strength in manufacturing and mining. However, ongoing challenges remain in sectors like power generation, which may moderate overall industrial expansion in coming winter months.

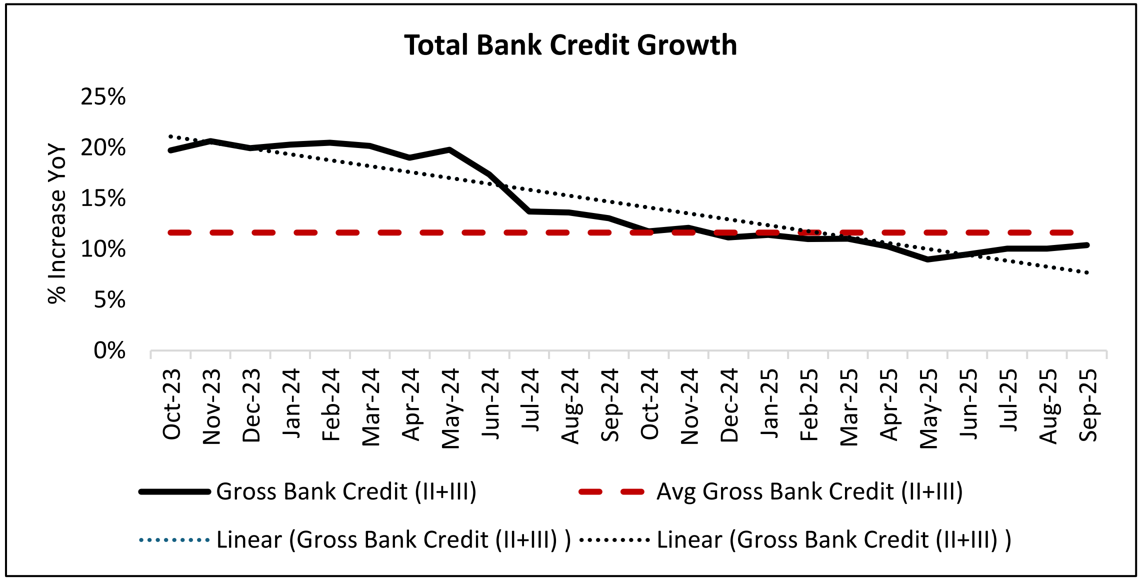
The impact of the US tariffs and penalties is likely to reflect across some of the manufacturing segments, partly offsetting the positive impact of the GST rate rejig. We expect the IIP growth to ease to 3.5-5.0% in December 2025, as the base effect normalizes and the benefit from restocking wanes. However, in the road ahead, robust consumption demand on the back of a reduction in interest rates, soft inflation and income-tax relief should support industrial production.

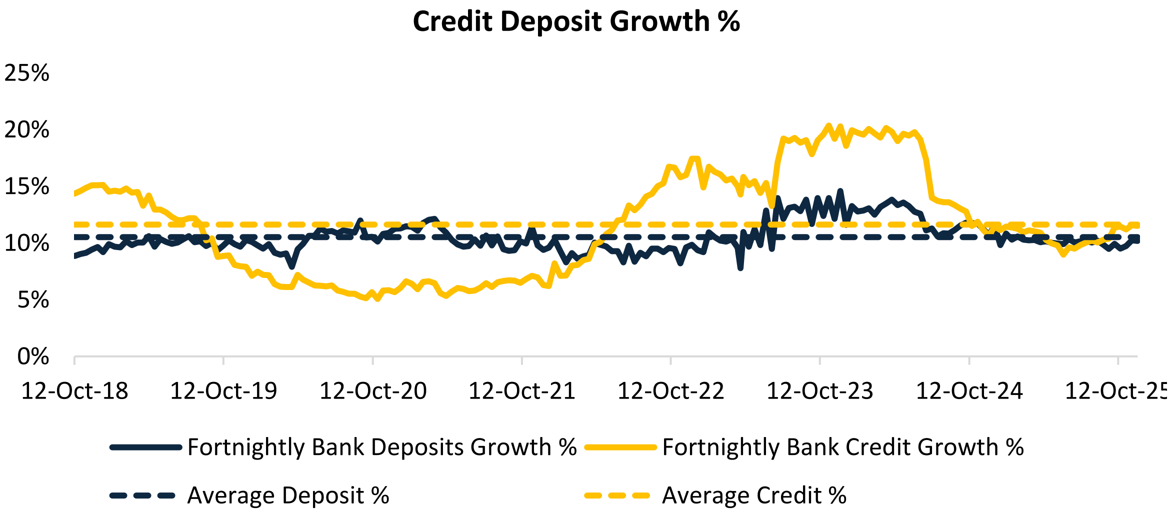
Risks:

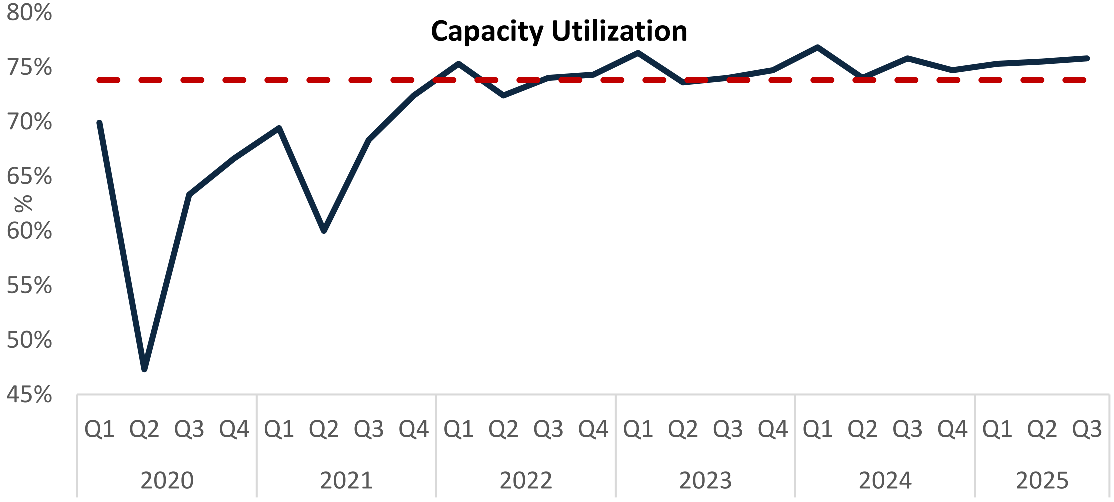
- **External demand and tariffs** – the biggest risk is prolonged weakness in export-oriented manufacturing if the 50% US tariffs stay in place for most of 2026.
- **Energy & core sector softness** – negative coal and crude growth plus weak electricity in Oct-Nov prints show that energy-intensive industry is under strain, partly cyclical and partly structural as renewables gain share.

4. Capex



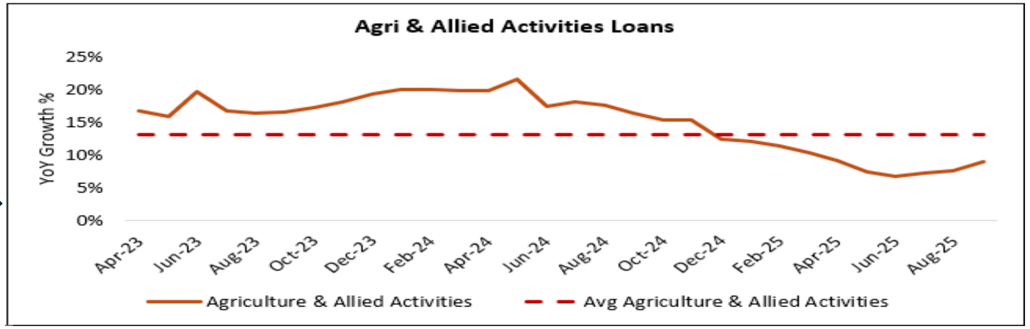




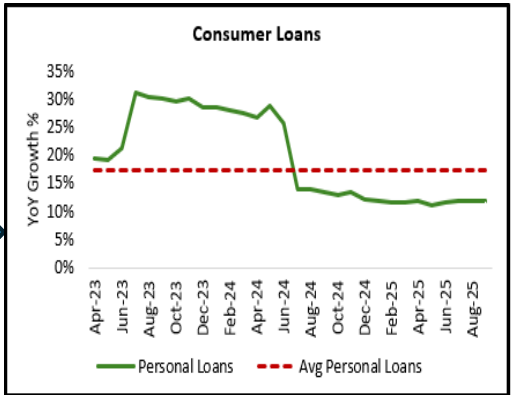


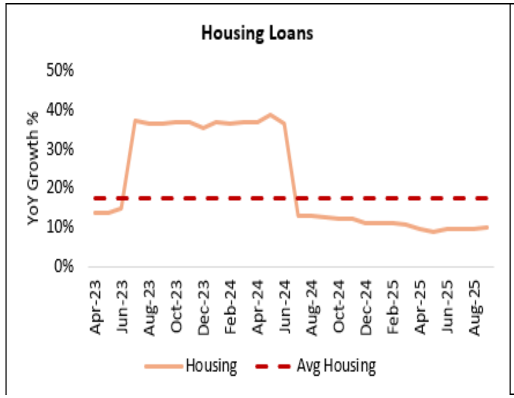
Source: Internal assessment based on RBI DBIE data

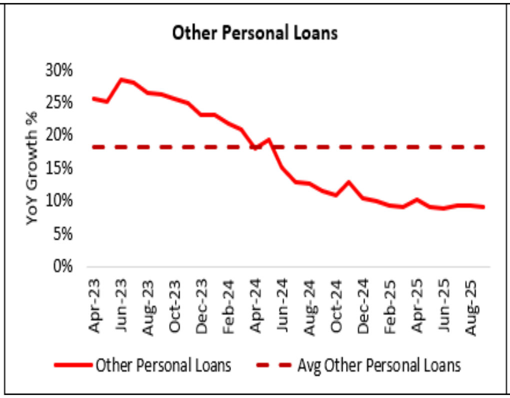
Credit to Agri

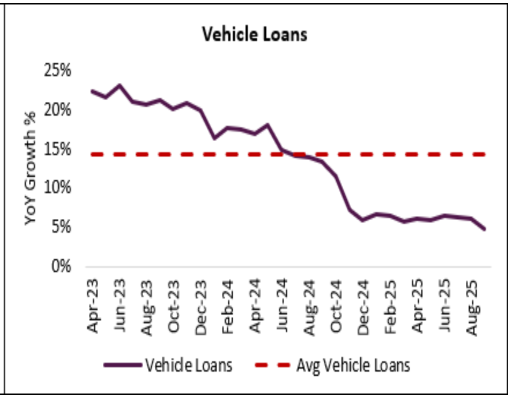


Credit to Consumer

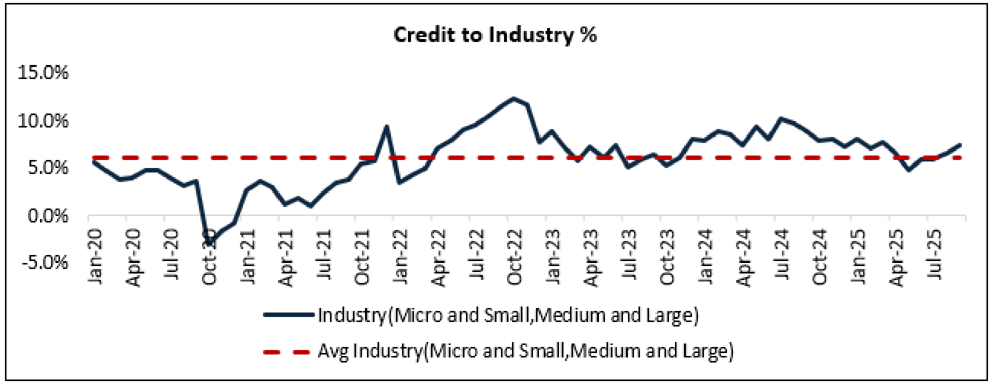


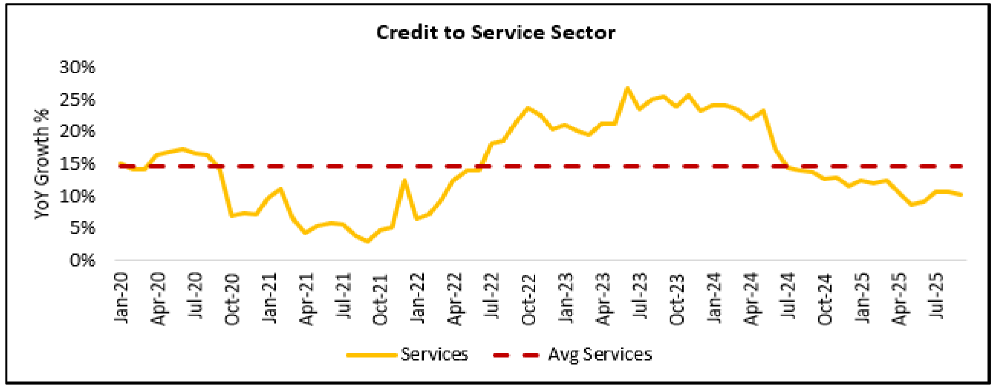


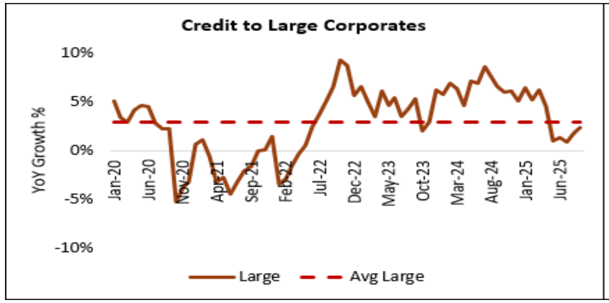


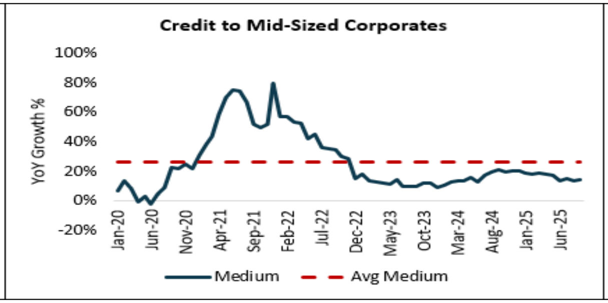


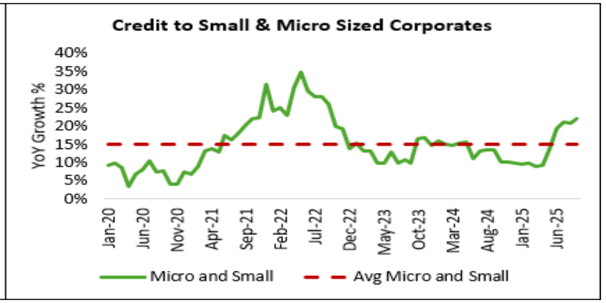
Credit to Industry











Source: Internal assessment based on RBI DBIE data

India’s Bank Credit: An Analytical Review

Credit to Agri:

We observe that agricultural lending has grown steadily, but the pace has moderated to the high single digits. Strong monsoons and robust crop prospects (particularly for rabi) have bolstered farmer incomes, sustaining demand for farm credit. Government priority-sector lending targets and crop loan programs continue to underpin the agri credit segment, but much of the low-hanging fruit has already been picked up. Interestingly, some growth in loans against gold jewellery has recently been reclassified from agriculture to retail, which modestly tames the headline agri credit figures. In practice, agri credit growth around 9% YoY (vs LTA of ~13.2%) suggests a healthy but mature segment, reflecting both supportive policy and the limits of raising new farm investment when much of the land is already near full use.

Credit to Consumer:

Consumer credit – encompassing personal loans, education financing and the like – remains healthy (growth of 11.7% YoY vs LTA of 17.4% YoY), driven by sustained household income gains. We see double-digit growth in segments like education and secured personal loans, reflecting steady demand for large-ticket and livelihood-related expenses. However, growth in high-risk segments has slowed: stricter norms on unsecured lending have curbed new volumes of credit cards and consumer durables. In fact, credit card exposure has become a smaller share of retail loans, and cards now only grow mid to low single-digits as banks focus on higher-credit quality borrowers. In sum, consumer credit is robust but its composition is shifting toward secured, higher-quality loans rather than pure unsecured spending. Housing and Vehicle loans comprise a bulk of this segment, growing at 10.1% and 4.7% YoY respectively vs their LTAs of 17.3% and 14.2% YoY respectively. A pickup in domestic demand which is expected by H1FY27 would likely be seen here, with this segment catching up to its long-term average.

Credit to Industry:

Industry lending shows a bifurcated trend. On aggregate, credit to industry is modestly positive at 7.3% YoY growth vs a LTA of 6.1% YoY, but this hides a stark divergence by firm size. Credit to small and medium enterprises has surged (20%+ YoY) on fresh lending programs and inventory replenishment in a recovering economy. By contrast, lending to large and mid sized corporates has been quite subdued. Large companies continue to fund growth largely through bonds, equity and foreign borrowings rather than bank loans – a classic case of disintermediation. This is consistent with companies running very low net debt levels and preferring to deploy internal cash or dilute stake at high valuations. In short, banks are doing more of the MSME and small-sized corporate lending, while the top-tier firms tap markets. Manufacturing demand is recovering broadly in line with our expectations, however, capacity addition requirements remain subdued, keeping corporate capex borrowing restrained. We expect this to improve alongside a pickup in domestic demand, early indications of which are already becoming visible.

Credit to Services:

The services sector continues to drive the credit cycle. Lending to services is growing at 10.2% YoY (vs a LTA of 14.8% YoY), supported by buoyant software exports, logistics, warehousing, and parts of the hospitality and trade sector. We see especially strong credit growth in technology services, shipping, infrastructure development and commercial real estate, where companies are tapping working capital and project finance. Lending to NBFCs (which fund housing and consumer loans) has accelerated from trough levels, as weaker spreads in wholesale money markets make bank funding attractive again. Overall, bank credit to services outpaces the industry segment, reflecting resilient business activity and expanding working-capital needs. If anything, the services sector’s higher credit growth underscores that domestic demand is powering the expansion, even while traditional industries remain more subdued.

Private Capex Trends and Sentiment:

Private-sector capex remains surprisingly muted. Large companies are sitting on record cash, paying down debt, and even parking funds in liquid assets rather than plowing profits into new factories. Surveys confirm that existing capacity utilization (especially in manufacturing) has barely crossed the mid-70% mark, which is traditionally viewed as the trigger for fresh investment. In practical terms, many firms report that current facilities are sufficient to meet demand, so they see no urgency to expand capex. On the flip side, we have seen an uptick in greenfield project announcements – particularly in IT, renewables and consumer sectors – partly reflecting optimistic intentions as policies turn friendlier. Budget 2026 commentary suggests economists expect a private capex pick-up next year (aided by consumption-led demand, GST cuts and a low interest rate regime), but historical caution suggests that pipeline projects often take time to translate into completed investment. In sum, sentiment is gradually improving, but the private capex cycle is still in early stages. We remain alert to shifts in corporate confidence: if demand remains strong and financing and liquidity conditions stay easy, balance sheets will then lean towards new projects. Yet for now, the advance signals remain cautiously optimistic.

Deposit Dynamics and Liquidity Positioning:

Bank deposits have grown steadily (roughly 9–10% YoY recently), but slightly lag credit growth, causing the system-wide credit-deposit ratio to tick higher toward ~80–81%. In practice, deposit accretion is comfortably above pre-covid norms, supported by robust rural and household savings. Yet the differential between deposit and credit growth has narrowed, meaning banks are deploying a greater share of funds into loans. Liquidity in the banking system remains ample: the RBI is actively buying government bonds and conducting swap auctions to inject durable liquidity, and the large surplus means money-market rates have stayed at the lower end of the range. Deposit rates have softened as the policy rate eased, but funding pressure is low. With the RBI signaling continued liquidity support and the credit cycle gaining steam, we view bank liquidity as broadly comfortable. The higher loan-deposit ratio is not excessive by historical standards, but it does reflect tighter liquidity conditions relative to a year ago. Going forward, we expect deposit growth to stay healthy but moderating as yields decline, keeping the focus on how loans expand versus stable deposit mobilization.

Capacity Utilisation and Investment Readiness:

Capacity utilisation in industry is proving to be the brake on investment acceleration. RBI's own surveys and industry reports indicate manufacturing utilisation around the mid-70s percentile, and it hasn't trended higher despite strong demand indicators. Service-sector companies have more flexibility (they can ramp up via outsourcing, contract labor, etc.), but even so, they report limited idle capacity for expansion. In effect, firms are telling us that the trigger point for new plant/equipment is still ahead – many sectors only invest when utilisation sustainably nears 80%. In today's context, that means there is still slack. This observation aligns with the weak capex uptick: if companies see unused capacity and ample hiring flexibility, they delay big-ticket spending. The implication for credit is that much of the corporate lending demand is channeled into working capital, refinancing or incremental upgrades rather than core capacity expansion. We note that segments like fast-moving consumer goods, infra, and some logistics are reporting higher capacity usage, suggesting they may be among the first to step up investment. Overall, though, the economy retains a cushion of idle capacity, which tempers inflationary pressures and suggests room for continued growth even before a full-blown capex revival.

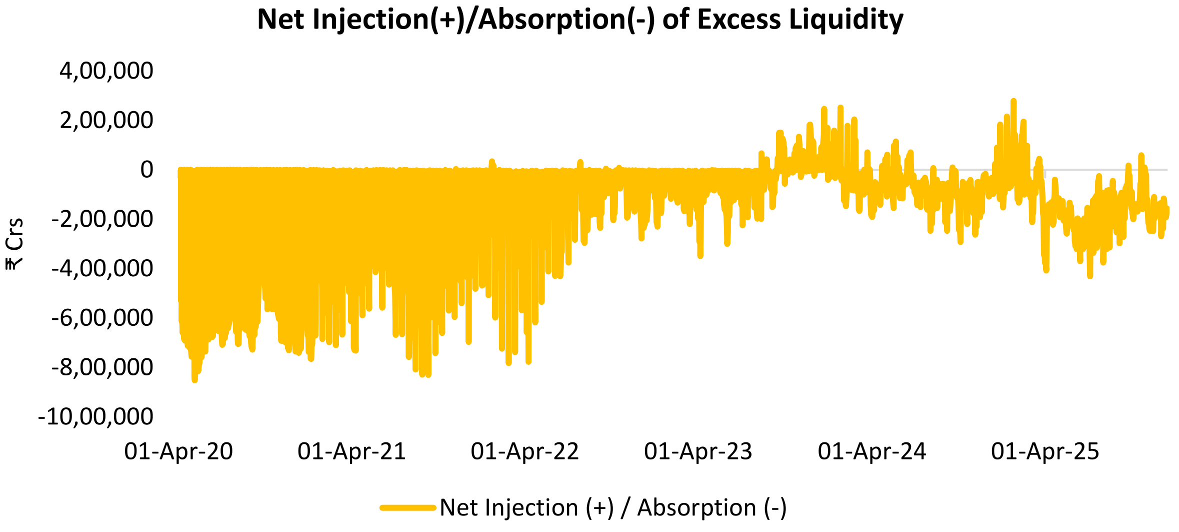
<u>Forward Outlook</u>:

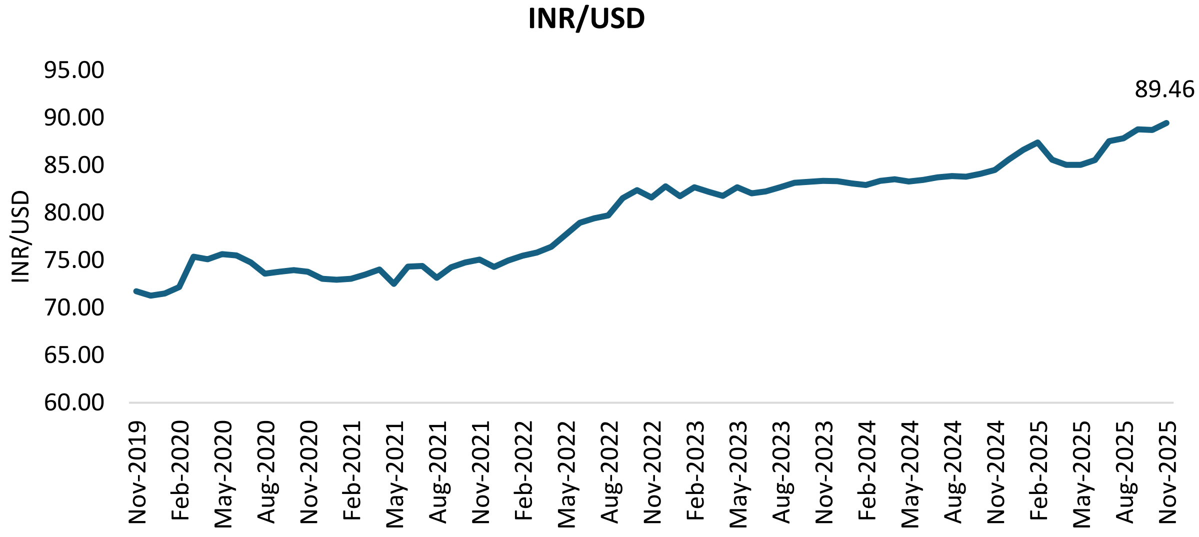
Looking ahead, **we expect credit expansion to remain robust into 2026 (currently growing at 10,4% YoY vs a LTA of 11.6%), though the pace may vary by sector**. Monetary easing (125 bps of rate cuts in 2025, with more room on the table if needed) and fiscal stimulus (GST rationalization, targeted infrastructure capex) have set the stage for higher borrowing demand in the second half. **Retail credit should continue to drive the cycle; as disposable incomes rise, housing and auto loans are likely to grow steadily, and further financial innovation may sustain strong flows into secured consumer credit**.

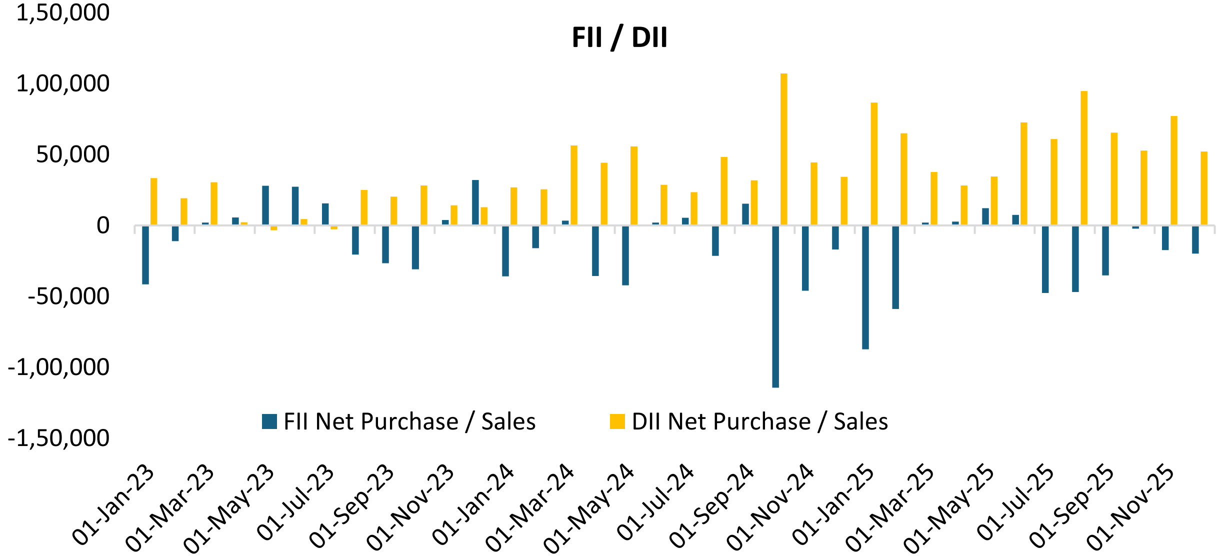
The moderation in deposit growth suggests banks will need to rely more on capital markets or RBI funding for incremental liquidity, but ample reserves make this manageable. On the corporate side, **we anticipate a gradual shift: should utilisation rates stay firm and new projects clear approvals, larger firms might start tapping banks more aggressively**. However, even then, we expect they will still prefer a mix of funding sources (including bond issuances, capital markets, and internal accruals). In sum, **macro momentum is strong and inflation benign, so the financial conditions are primed for a healthy uptick in lending.**

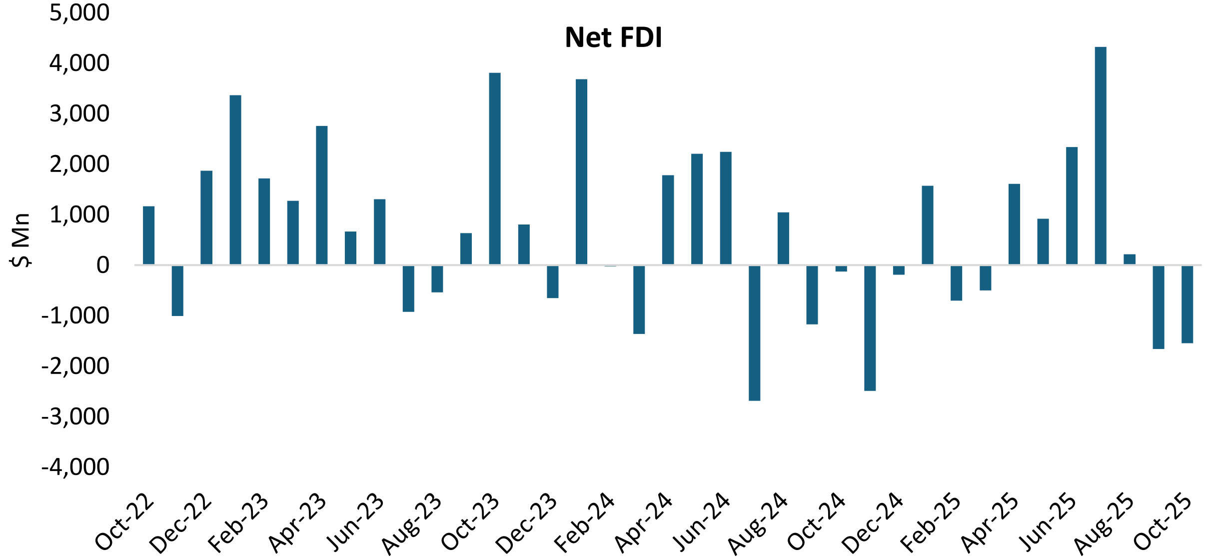
Our outlook is cautiously optimistic: credit growth of low- to mid-teens percent is achievable, reinforcing real GDP growth near or above 7–7.5%. The main risk remains whether private businesses translate improved sentiment into action; if they hold back, credit-driven growth could undershoot potential. But as of December 2025, the balance of factors – low rates, stable inflation, ample liquidity and rising demand – all signal an early cycle of credit expansion phase, which we expect to sustain India's growth engine in the near term.

5. Liquidity

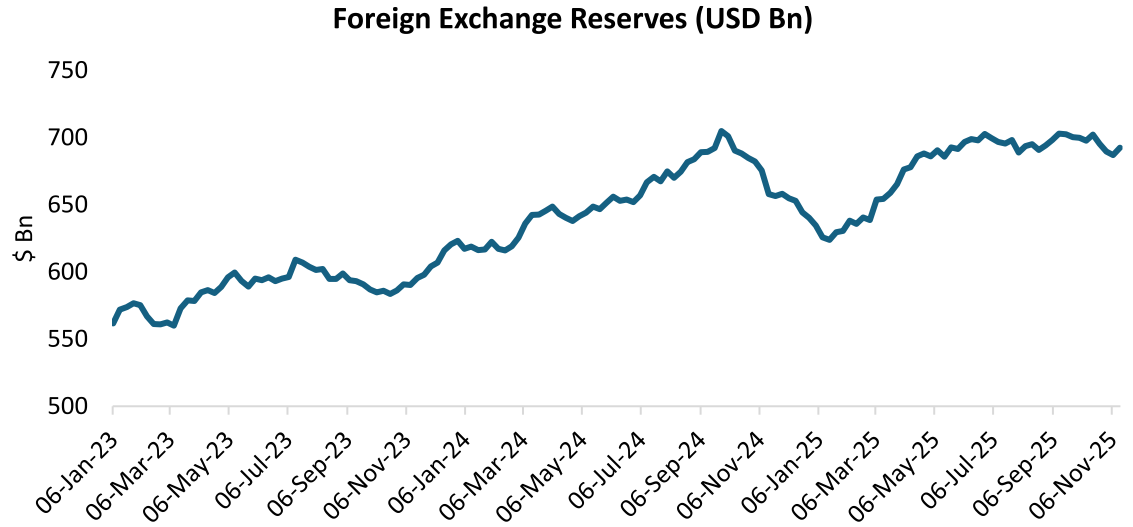


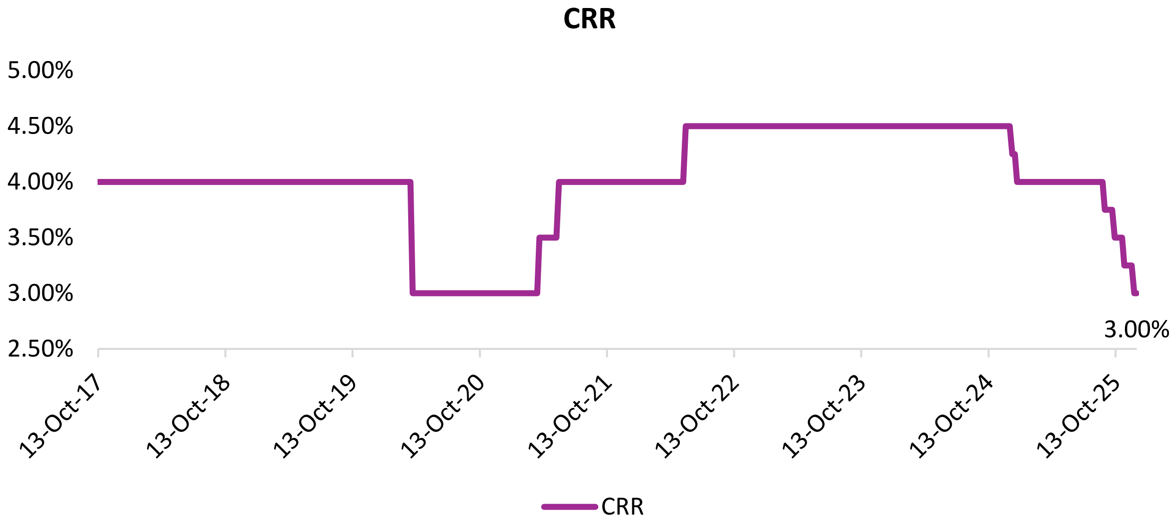


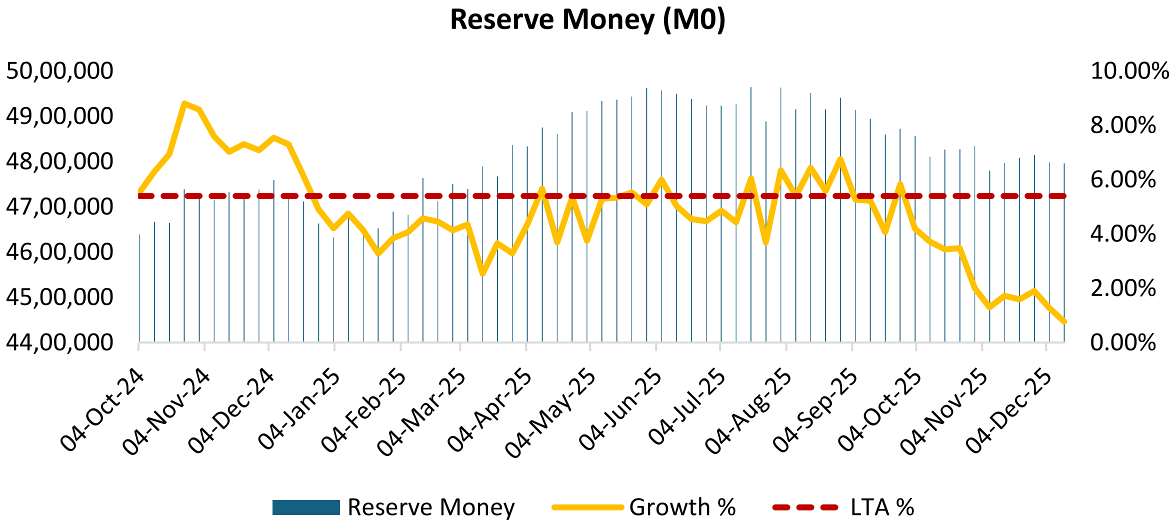


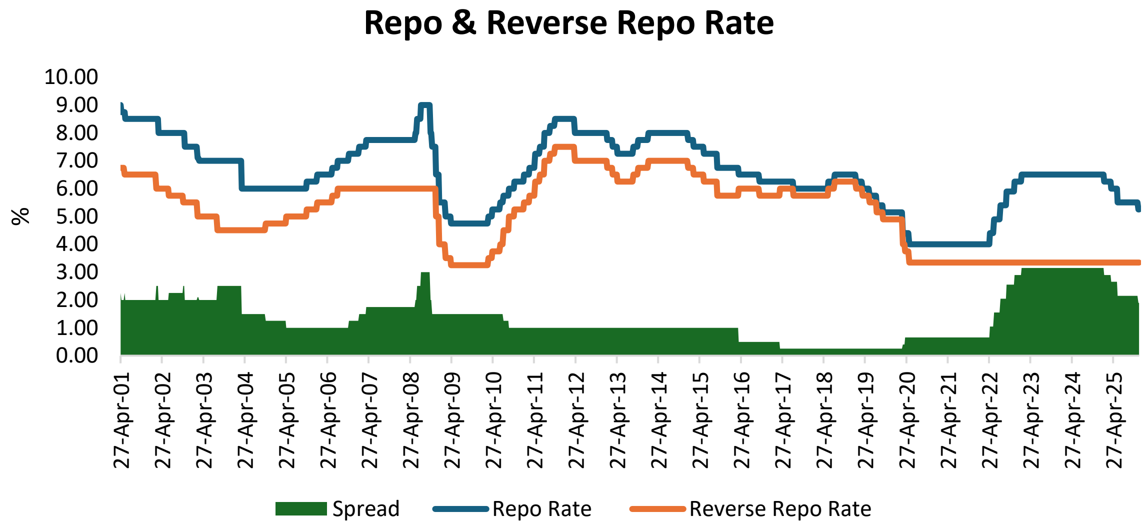


Source: Internal assessment based on RBI DBIE data









Source: Internal assessment based on RBI DBIE data and Bloomberg

System Liquidity and Money Market Conditions

Liquidity in India's banking system oscillated between surplus and episodic tightness in the second half of 2025. Average system liquidity remained comfortably positive, with **durable liquidity surplus estimated at roughly ₹2.60 lakh crore by late November**, reflecting RBI operations and residual funding buffers. Seasonal and fiscal factors, including advance tax and GST outflows, intermittently tightened liquidity, briefly pushing conditions toward neutrality before RBI interventions. RBI actively managed funding conditions via a mix of durable and short-term tools. As part of the December policy package, the **central bank injected an estimated ₹1.45–₹1.5 lakh crore of durable liquidity through OMOs** and a **USD/INR buy–sell swap of USD 5 billion to support the transmission of monetary policy**. Late-December measures further expanded durable liquidity support, with the RBI announcing plans to purchase government securities and conduct a **USD 10 billion, three-year buy–sell swap, amounting to a multi-trillion-rupee infusion to counter tightening funding conditions**. Interbank call and tri-party repo rates remained close to the policy repo rate despite these seasonal swings, indicating that the weighted average overnight funding cost stayed broadly anchored within the monetary policy corridor.

Monetary Policy and Interest Rates:

The monetary policy stance remained neutral, with the **policy repo rate trimmed cumulatively by 125 bps during 2025**. By the December meeting, the repo rate stood at 5.25%. The Standing Deposit Facility (SDF) rate was correspondingly 5.00% and the Marginal Standing Facility (MSF) and Bank Rate at 5.50%. These easing moves were complemented by the **CRR cuts (down a total of 100 bps to 3.5%)**, which **freed up base money and raised the banking system's reserve-deposit ratio**. **Deposit growth remained strong – total bank deposits grew over 10% YoY – reflecting ample liquidity, while credit growth was also healthy (~11% YoY)**. **The combined effect was a rise in the money multiplier and base money growth**.

Lending and deposit rates shifted lower. Transmission of policy easing was broad-based. The weighted average lending rate (WALR) on new rupee loans fell by roughly 70 bps (Feb–Oct 2025), and even outstanding loan rates eased by about 60–65 bps. On the deposit side, banks cut interest on fresh term deposits sharply (over 100 bps lower than early 2025), and rates on outstanding deposits eased by around 30–35 bps. In money markets, short-term rates fell in line with policy. Three-month Treasury bill yields and CP/CD rates were lower by roughly 1.1–1.4 percentage points (with 3M T-bill ~113 bps down and 3M commercial paper ~124 bps down since early year), mirroring the cumulative rate cuts and ample funds. **The overall yield curve remained range-bound: government bond yields eased immediately after each rate cut, then drifted up later on expectations that the easing cycle might be concluding. By mid-December, the 10-year G-sec yield was around the mid-6% level (it had peaked near 6.63% in early December and settled around 6.57% after RBI's bond purchases), modestly above its mid-November value**. **Hence, the term spread (10y vs 3m) widened slightly (by about 10–15 bps) over the period, indicating a modest steepening of the yield curve**. Overall, policy easing together with active liquidity management kept money-market rates close to the floor and fostered continued easing across funding rates.

Money Supply and Monetary Aggregates:

Underlying the accommodative stance, monetary aggregates expanded at near or above trend rates. **Reserve money (adjusted for CRR changes) grew about 9.4% YoY by early December 2025 (versus ~6.3% a year ago), largely driven by an 9.5% increase in currency in circulation as the festive and winter cash demand season kicked in**. **Money supply (M3) was about 9.9% higher year-on-year by late November (vs 9.7% a year earlier), reflecting robust deposit growth and higher currency in circulation. Velocity of money also improved in Q2 to 0.42, trending above the LTA of 0.36**. The CRR cuts reduced banks' required reserves and increased the money multiplier. Banking-sector credit growth also firmed up: **non-food credit was growing around 11–11.5% YoY by mid-November, compared to about 11.2% a year ago, indicating early stage uptick in credit demand in industry, services and retail on the back of improving consumer demand.**

Bond Market Developments:

Government bond markets remained reasonably stable, with **yields fluctuating in a narrow range**. **After each policy announcement, yields briefly softened, but softened further only modestly as markets priced in the cumulative easing**. Mid-December OMOs helped to contain yields; for instance, after peaking around 6.63% on the 10-year benchmark on Dec 10, aggressive OMO purchases helped bring it down to ~6.57% by Dec 18. **Corporate bond yields generally moved in tandem: investment-grade corporate spreads versus G-sec narrowed or held steady**. Data for late 2025 show AAA-rated 1- and 3-year bond yields roughly unchanged (around 6.7% for 1-year, 7.0% for 3-year) relative to mid-November, with spreads over government yields in single digits (up or down a few basis points). **Lower-rated (AA/BBB) corporate yield spreads were also broadly stable or mildly lower**. Overall issuance remained active.

Foreign Exchange and External Balances:

Recent INR depreciation drivers:

The INR's weakness against the USD has been a function of **transient external pressures** rather than any material deterioration in India's macro fundamentals.

- First, **interest-rate differentials have remained narrow, with US policy rates stayed higher for longer**, sustaining dollar strength and **keeping carry incentives skewed away from EM Fx**.
- Second, **FII portfolio flows have been episodic and negative and largely arbitrage / carry -driven**. FII equity and debt flows have lacked durability, increasing the INR's sensitivity to global risk-off episodes.
- Third, the current account has periodically widened on the back of **commodity-linked import volatility (notably gold)**, even as services exports remain resilient, as well as a **slowdown in US exports on account of the high tariffs**.
- Finally, the **RBI has allowed orderly depreciation, intervening primarily to smooth volatility rather than defend a specific level**, consistent with its broader inflation-management and reserve-preservation framework.

Over the near term, the **INR is likely to remain range-bound with a mild depreciating bias (~3-4 % YoY)**, reflecting global USD dynamics and residual **uncertainty** around the **merchandise tariff structure** and the **timing and pace of Fed easing**. A more durable INR stabilisation would require;

- a clearer downshift in US real rates and **widening of the interest rate differential**.
- **sustained FII participation** beyond tactical flows and **more resilient net FDI flows** with more gross inflows and lesser PE/VC outflows.
- continued **containment of the current account within a sub-2% of GDP band**.

In effect, **the sudden INR weakness should be viewed as a transient macro-shock absorber, not a signal of external fragility**.

Capital Flows and Investment Flows:

Global capital flows into India were subdued but diversified. Foreign portfolio investors **(FPIs) were net sellers** of Indian assets over the last half of 2025. From April through early December, FPIs withdrew roughly US$0.7 billion in net terms, largely from equities; debt flows were relatively steady. In contrast, **domestic institutional investors (DIIs) remained active buyers in the equity market, helping to offset foreign outflows and support equity valuations**.

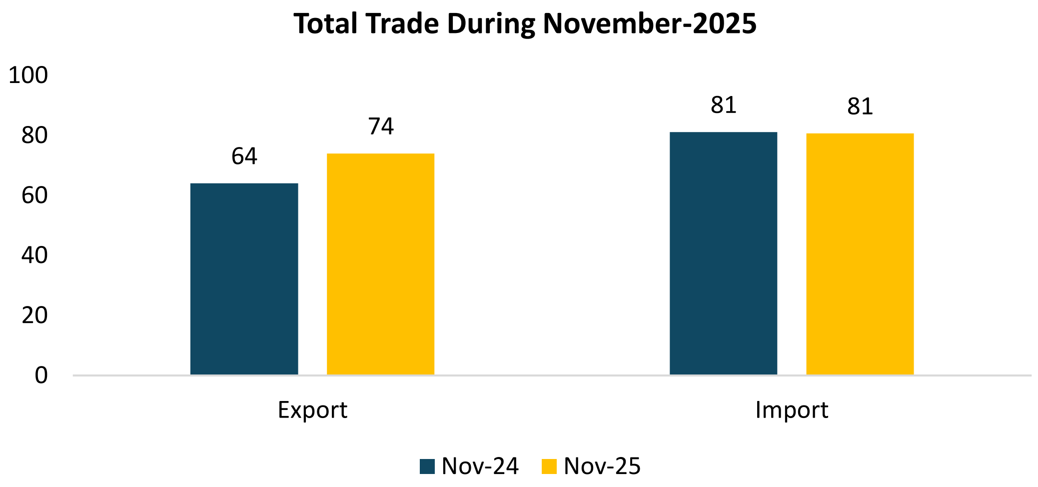
Foreign direct investment (FDI) was a highlight of capital flows. **Gross FDI inflows in April–September 2025 jumped roughly 16% year-on-year to about US$50.4 billion (against US$43.4b)**, with Singapore, Mauritius and the US accounting for around 70% of inflows. The **financial services sector received nearly 60% of FDI, followed by manufacturing, power and telecom**. Crucially, net FDI inflows surged as repatriations from foreign investors slowed: **net FDI was about US$7.6 billion in April–Sept 2025-26, more than double the US$3.4 billion in the same period last year**.

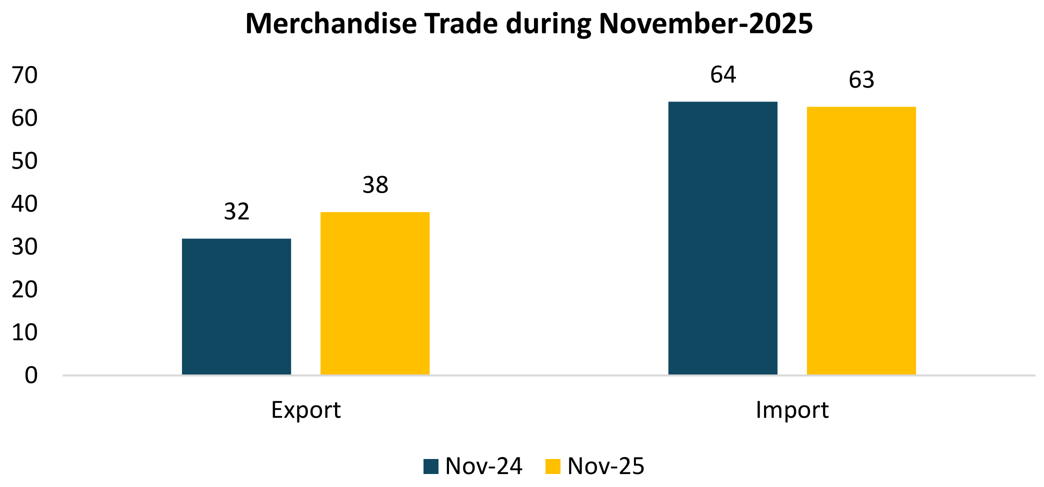
Overall, India's capital-account financing remains resilient at present. However, until interest-rate differentials turn more favourable and carry conditions become structurally positive, FII flows are likely to remain volatile and opportunistic. FDI inflows, in turn, will hinge on continued progress in ease-of-doing-business reforms, as well as the willingness of long-term financial investors to commit capital with longer holding horizons rather than tactically allocating to India.

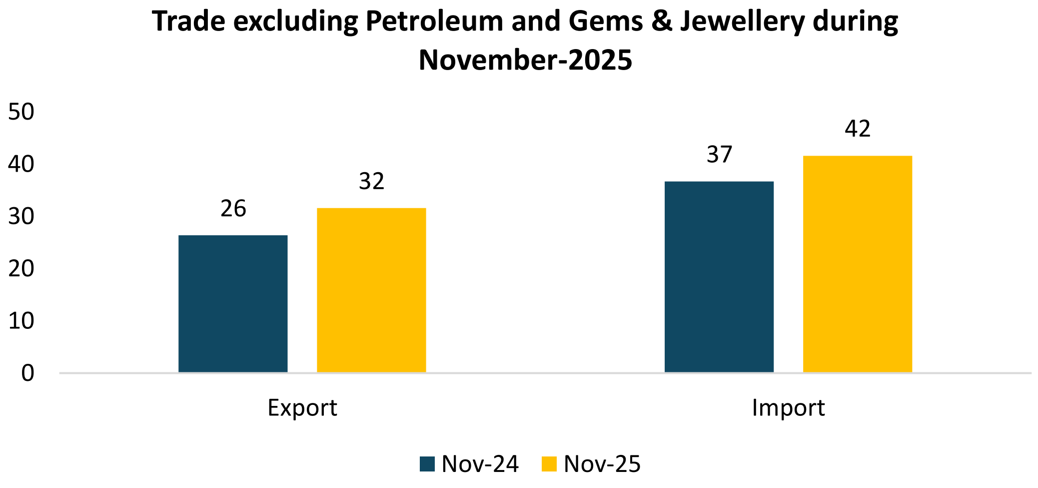
Policy Implications and Outlook:

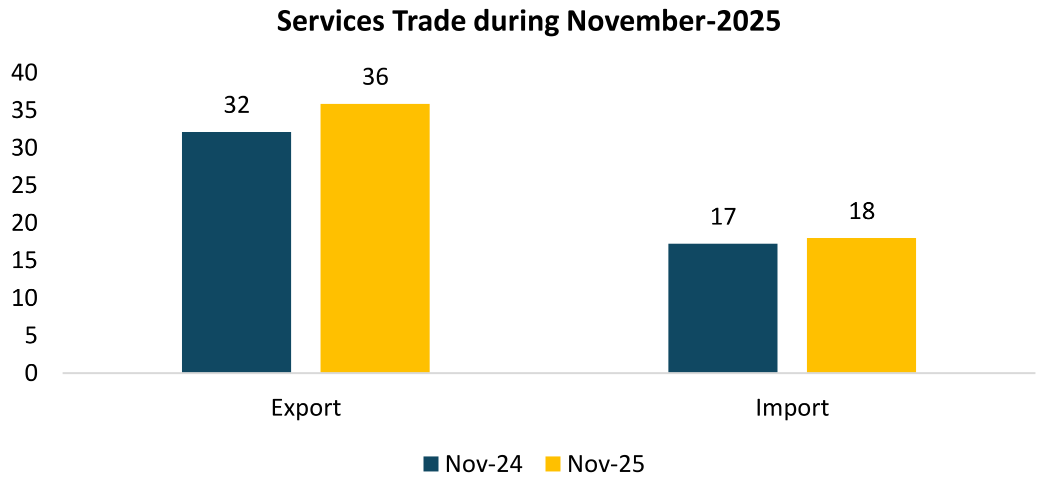
In summary, India's liquidity and monetary conditions at end-2025 were characterized by **abundant domestic liquidity, supportive policy rates, and a balanced external position in-spite of the lingering India-US trade deal**. The easing cycle has been transmitted steadily into lending rates and broader money-market rates, supporting credit flows and economic activity. **Seasonal and fiscal factors intermittently tightened liquidity, but RBI interventions (CRR cuts, OMOs, swap operations) have offset these squeezes, ensuring that banking-system funding costs remain low**. The **rupee is under mild downward pressure from global forces, but foreign-exchange reserves and policy buffers are ample, at-least until a definitive trade deal is struck with the US**. **Foreign investment flows have been cautious on the equity side, though FDI seems to be on the uptrend**. Looking ahead, with inflation well-anchored and growth steadily rising, monetary policy is likely to remain supportive of growth, while RBI tools will continue to smooth both domestic liquidity and exchange rate volatility. **The combination of persistent liquidity surpluses, ample reserves, and active policy management underpins a stable financial environment for an investment and credit cycle uptick into 2026**.

6. Trade









Source: RBI, PIB

Trade Deficit Normalises as Gold Shock Reverses; CAD Set to Improve Sharply into Q4FY26

India's merchandise **trade deficit moderated sharply in November to USD 24.5 bn, from a multi-year high of USD 41.7 bn in October**, confirming that the **October print was largely an aberration driven by a one-off surge in precious-metals imports rather than a structural deterioration in trade dynamics**. The correction was led by a USD 10.7 bn sequential decline in gold imports, alongside a moderation in non-oil, non-gold (NONG) imports and a **meaningful recovery in exports**.

Merchandise Exports:

- Exports **rebounded strongly, rising 19.4% YoY and 10.9% MoM to USD 38.1 bn**, reversing October's contraction. The improvement was **broad-based**, with **24 of 31 categories recording sequential growth**. Engineering goods, electronics, and textiles showed sustained momentum, while gems and jewellery stabilised after a sharp October drawdown. Importantly, **non-oil exports rose 12.4% MoM, suggesting that the recovery is not purely price- or base-driven but reflects improving volumes and diversification across sectors**. That said, **select agri exports (rice, marine products) remain soft, reflecting global price pressures and trade policy uncertainty**.

Merchandise Imports:

- On the import side, **the sharp MoM contraction of 17.6% to USD 62.7 bn was dominated by gold, which fell back to USD 4.0 bn from USD 14.7 bn in October**. Silver imports also corrected materially. **NONG imports declined -4.3% MoM despite healthy YoY growth (16.8% YoY), signalling some easing in investment- and consumption-related demand after a strong early-FY26 run-rate. Capital-intensive categories such as machinery, electronics, and transport equipment softened sequentially, while project-goods imports were lumpy, consistent with an early stage capex cycle uptick rather than a sustained acceleration**.
- Within NONG imports;

Sequential upticks:	**Sequential declines:**
• Project goods (+192.3% MoM) • Pearls & Stones (+76.7% MoM) • Fruits & Vegetables (+4.7% MoM) • Cotton & Raw waste (+27.9% MoM) • Sulphur & Unroasted Iron Pyrites (+42.8% MoM)	• Chemical & Material Products (-13.1% MoM) • Transport Equipment (-2.2% MoM) • Electronic Goods (-2.9% MoM) • Machine Tools (-14.4% MoM) • Pulses (-1.3% MoM) • Fertilizer (-5.4% MoM) • Vegetable Oil (-4.7% MoM)

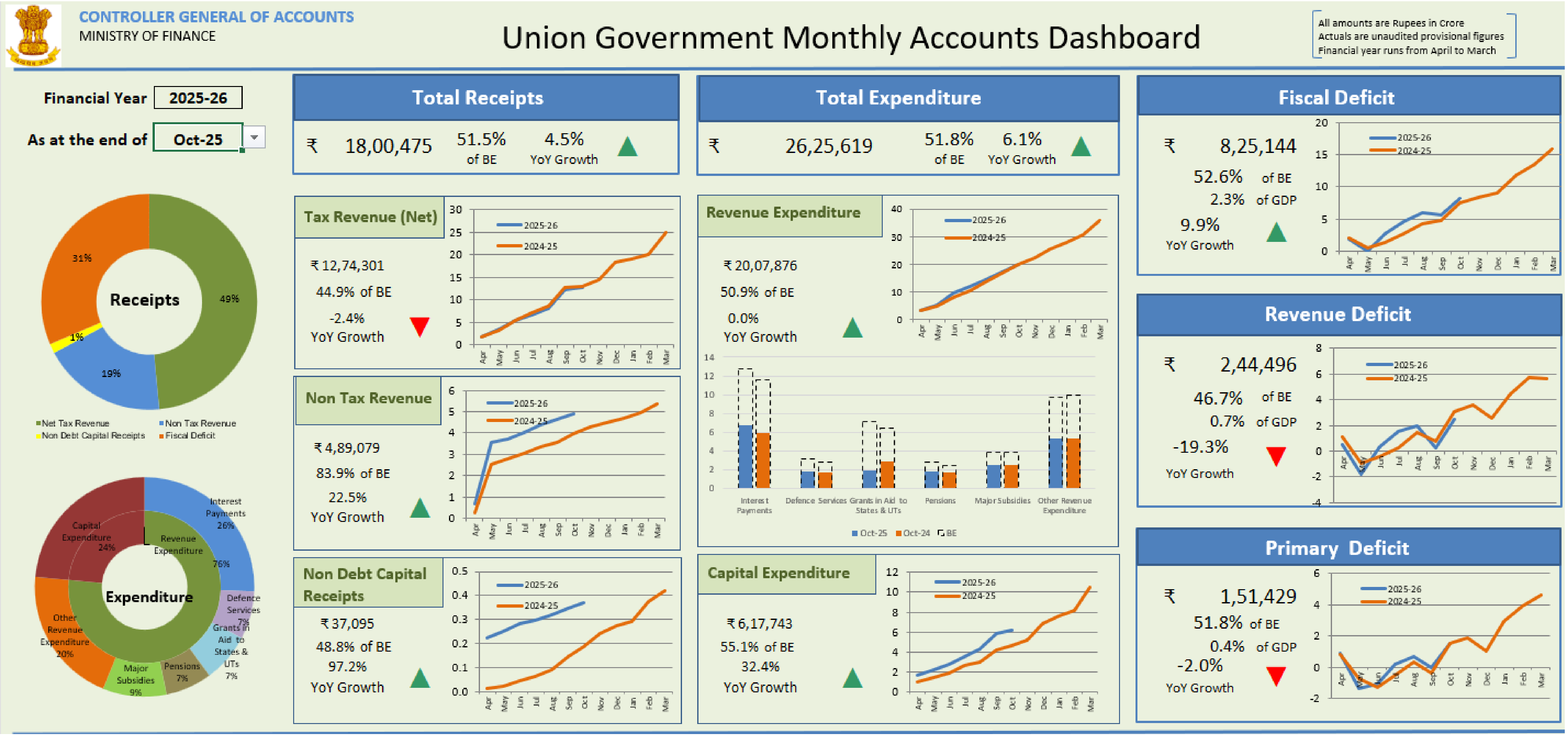
Services:

- The services account continues to provide a crucial stabilising anchor. **Net services surplus improved modestly to USD 17.9 bn**, with exports growing at a double-digit YoY pace (11.7% YoY & 2.0% MoM) and imports rising at a much slower clip (4.1% YoY & 1.3% MoM). **The resilience of services exports, particularly IT and business services remains a key differentiator for India's external balance and materially dampens volatility in the goods trade**.

CAD Outlook:

- **October Spike Likely the Peak -** With the **October gold-led bulge now unwinding, we expect the worst of the trade deficit prints to be behind us**. The October spike will mechanically push Q3FY26 CAD/GDP higher, which we estimate at ~2.0–2.1%. However, **assuming gold imports revert to trend levels and NONG trade normalises, the CAD should compress meaningfully in Q4FY26 to ~0.6–0.8%**, aided further by softer global crude prices and steady services inflows.
- **INR: Structural Pressures Persist Despite Improving Trade Math -** Despite the improving trade trajectory, **the INR remains under pressure**. In **CY 2025**, the INR has been the weakest Asian currency, **depreciating ~5.6%**, reflecting - **persistent FPI outflows, an adverse interest-rate differential, and elevated global risk premia**. The recent depreciation has occurred even amid a softer USD, **underscoring the dominance of capital-flow dynamics over near-term trade fundamentals**. That said, a **narrowing CAD, stabilising trade flows, and the potential for incremental inflows as global investors refocus on India's relative growth premium should help limit further downside**. On balance, **we expect USD/INR to trade in a range of 90.25–90.75 in Q4FY26**, with **volatility increasingly driven by portfolio flows rather than the current account**.
- **Bottom line - November's data reinforce the view that India's external position remains fundamentally resilient. The October trade shock now appears transitory, the CAD is set to improve meaningfully into Q4, and while INR pressures persist, they are increasingly financial-flow driven rather than reflective of a deteriorating external balance.**

7. Fiscal Situation



Source: CGA

Govt Capex Soars as Revenues Flag, Testing Fiscal Goals

Capital Expenditure: Growth-Focused Surge:

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

Revenue Expenditure: Prudence and Restraint:

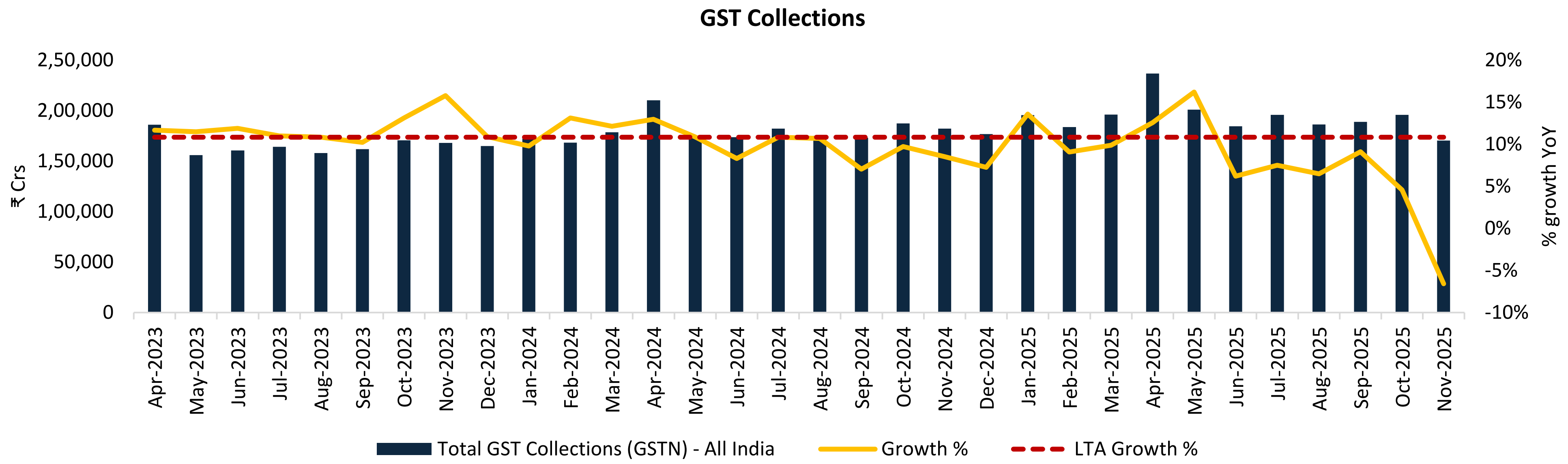
On the current expenditure side, **the government exercised marked restraint**. Revenue (operational) spending **grew a mere 1.5% in H1 FY26** – a sharp deceleration compared to the previous year. This modest growth was **achieved by trimming discretionary outlays: for instance, major subsidies (food,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

Receipts: Sluggish Taxes, Buoyant Non-Tax Windfalls:

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

Fiscal Deficit: Widening on Capex Push:

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



GST Collections: Resilient Demand Amid Rate Rationalization

GST revenues remain robust, though growth has moderated in the wake of recent tax rate cuts. Gross GST collection in **November 2025 stood at ₹1.96 lakh crore**, marking a **4.6% year-on-year increase**. While this is a healthy absolute number — hovering near historic highs — the annual growth rate was the slowest of the fiscal year so far. The subdued growth is largely explained by a late-September GST rate rationalization (significant tax reductions on a range of items) and a brief pause in purchases before the rate cuts took effect. These factors temporarily dampened the year-on-year comparison. **Despite the moderation, the collection figure signals resilient underlying demand**: consumers continued to spend strongly during the festive season, keeping revenues close to the ₹2 trillion mark. In fact, November's GST haul was higher than the previous month, indicating sustained momentum in consumer activity even after the key festivals. A closer look reveals a divergent trend — **domestic GST grew modestly (~2–3% YoY)**, whereas **GST on imports recorded a sharper uptick**, reflecting heavy consumption of imported goods during the period. This suggests that while domestic levies saw a smaller pick-up due to the tax cuts, import-linked GST provided underlying support to the headline. Tax refund payouts under GST also spiked (nearly 40% YoY) as compliance improved, but this too held down net growth. Overall, GST collections demonstrate a mix of strength and softness: the tax base has broadened and monthly inflows are high, yet the rate of increase has ebbed because of deliberate policy reliefs and base effects. We interpret this as a transient dip — the result of pro-consumer tax tweaks, and expect collections to stabilize or bounce back once the full impact of revived demand and normalized rates is felt. **The upshot is that consumption tax data still portrays an economy with solid demand fundamentals, even as policymakers fine-tune rates to balance inflation and revenue.**

Source: Tijori and RBI DBIE

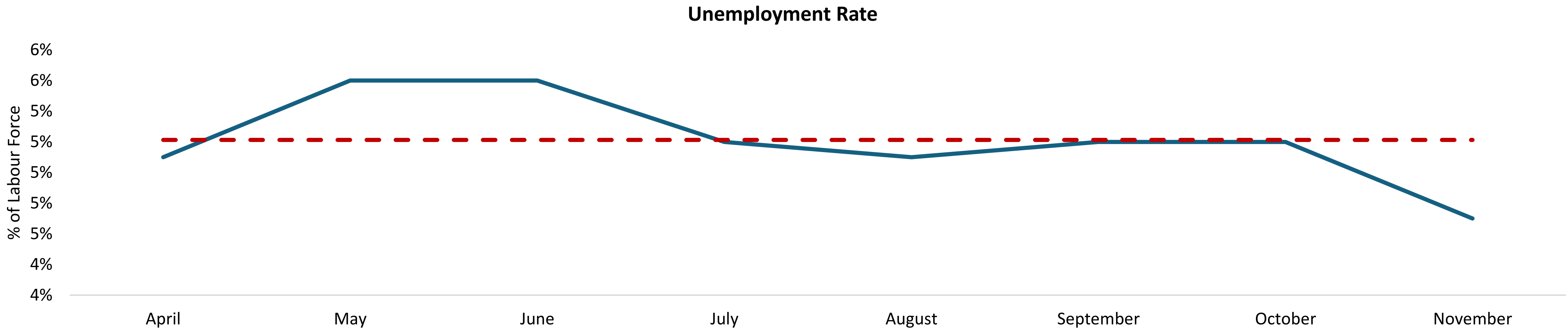
Direct Tax Collections: Sluggish Momentum in Income and Profits

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

Fiscal Outlook

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

8. Employment



Employment & Labour Market Update –November 2025

1. **Unemployment steady at lower levels; urban softness persists**
   India's labour market remained broadly stable through November, with the **all-India unemployment rate holding near 5.2%**, largely unchanged from October. Rural unemployment edged marginally lower, reflecting post-kharif agricultural absorption and easing demand for distress employment, while **urban unemployment showed mild stickiness**, pointing to slower hiring momentum in formal urban sectors after the festive peak. **Overall stability suggests that labour supply and absorption remain broadly balanced, even as hiring normalises from festival-led highs**.

2. **Participation gains sustained, led by rural and female workforce**
   Labour force participation (LFPR) and worker population ratios (WPR) **remained elevated in November**, sustaining levels seen in October and close to multi-month highs. Gains continue to be driven by **rural participation and rising female workforce engagement**, signalling gradual but persistent broadening of labour market inclusion. Importantly, **participation strength has not reversed post-festivals, indicating that recent gains are structural rather than purely seasonal**.

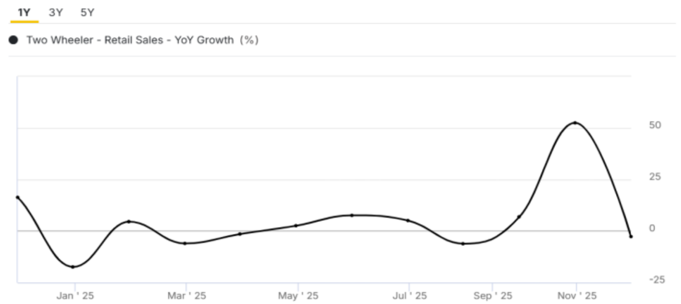
3. **High-frequency signals mixed but point to gradual normalisation**
   High-frequency indicators reflected **mixed but stabilising labour conditions**. PMI employment sub-indices for manufacturing and services remained in expansionary territory, albeit with moderation from festive highs, indicating **continued job creation but at a slower pace**. At the same time, **MGNREGS work demand declined further**, **reinforcing evidence of improving rural employment conditions. Online hiring indicators softened sequentially, consistent with a post-festive cooling rather than a deterioration in labour demand**.

Overall assessment:
India's November labour data point to **incremental improvement with underlying structural frictions intact. Participation continues to rise, especially among rural workers and women**, but **employment gains remain skewed toward lower-productivity and informal activities**, rather than broad-based urban formal job creation. Urban labour markets appear to be entering a consolidation phase after festival-driven hiring, while rural labour conditions are gradually improving. Absent targeted interventions to boost female participation and create higher-quality urban jobs, labour market tightening is likely to remain **slow and uneven**, implying that **India's demographic dividend is being realised only partially in the near term**.

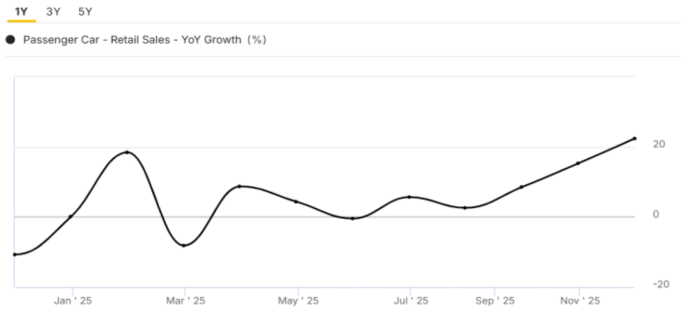
Source: RBI Bulletin and Internal assessment

9. Demand Indicators

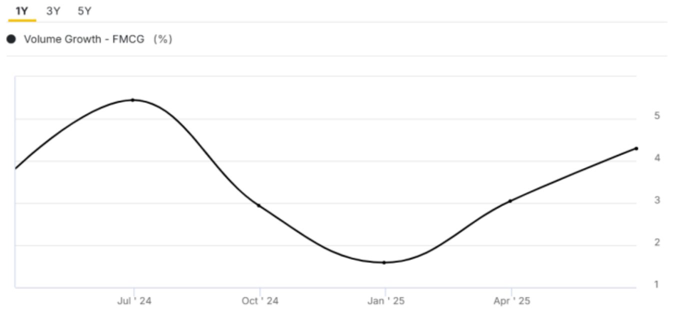
TWO WHEELER - RETAIL SALES - YOY GROWTH (%)



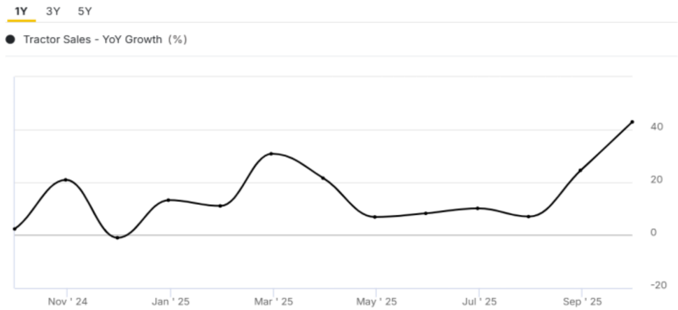
PASSENGER CAR - RETAIL SALES - YOY GROWTH (%)



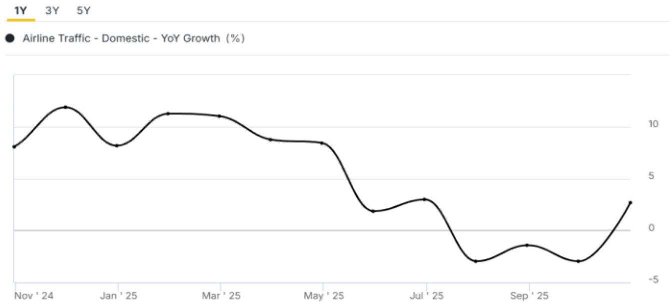
VOLUME GROWTH - FMCG (%)



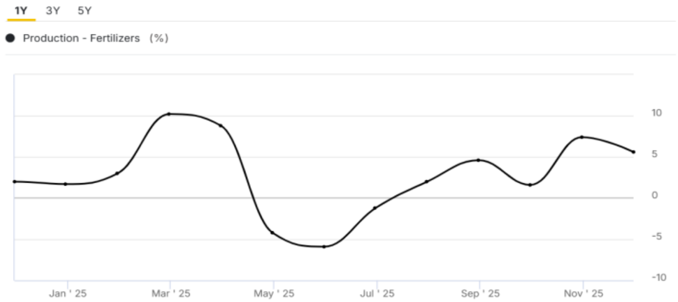
TRACTOR SALES - YOY GROWTH (%)



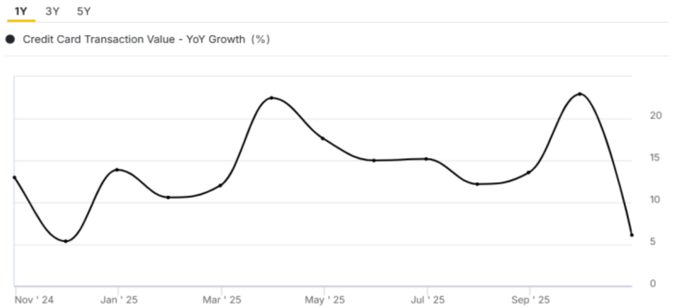
AIRLINE TRAFFIC - DOMESTIC - YOY GROWTH (%)



PRODUCTION - FERTILIZERS (%)



CREDIT CARD TRANSACTION VALUE - YOY GROWTH (%)



Select High-Frequency Indicators (November 2025)

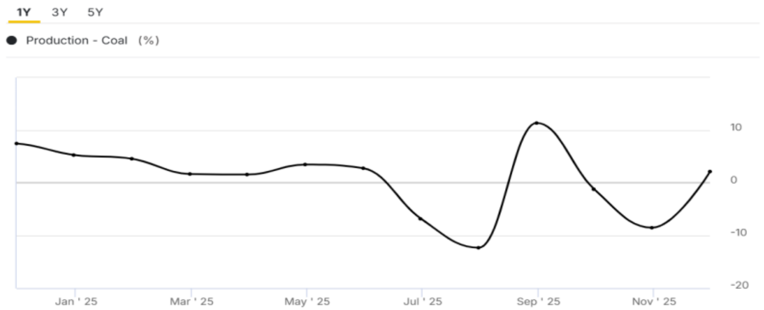
Rural Demand:
Rural demand remained resilient in November, though momentum moderated sequentially after the festive peak. Tractor sales and fertiliser production continued to show positive year-on-year growth, supported by healthy kharif outcomes, strong reservoir levels, and improved crop sowing progress. Two-wheeler sales cooled from October's festive highs but stayed in expansionary territory, indicating that underlying rural purchasing power remains intact. The sustained decline in MGNREGS work demand further points to reduced distress employment and better farm-linked labour absorption**. Overall, rural consumption appears to be transitioning from festival-led spikes to income-supported stability, rather than experiencing a sharp post-festival drop-off**.

Urban Demand:
Urban demand indicators in November were mixed and increasingly selective. Passenger vehicle sales maintained positive growth, supported by year-end buying and improved financing conditions, while domestic air traffic recovered modestly after a post-festive dip, reflecting steady discretionary spending among higher-income cohorts. At the same time, credit-card transaction growth moderated, signalling more cautious spending behaviour among middle-income households amid slower urban employment momentum and fading festival effects. Digital payment growth remained healthy but showed signs of normalization, reinforcing the view that urban consumption is no longer broad-based, but concentrated in premium and experience-driven segments.

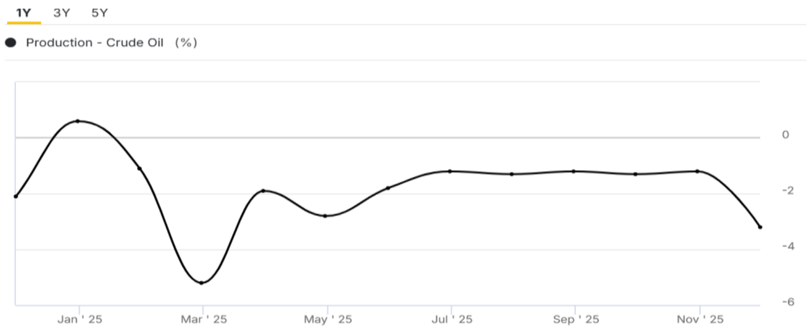
Demand Outlook:
Taken together, November's indicators suggest that consumption remains above trend but is normalising. Rural demand continues to provide the primary cushion, while urban demand is stabilising from a thorough rather than accelerating. With inflation at exceptionally low levels and real incomes supported by tax rationalisation and easing financial conditions, downside risks to consumption appear limited in the near term. However, the durability of demand beyond the festive and policy boost will depend on job creation in urban areas and sustained rural income momentum.

Source: Internal assessment based on data from Tijori Finance

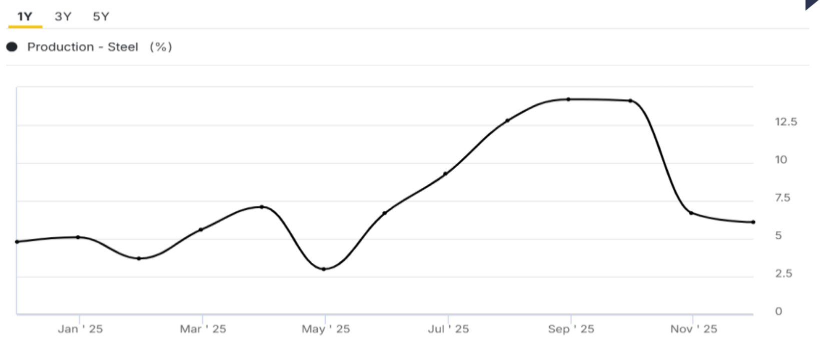
PRODUCTION - COAL (%)



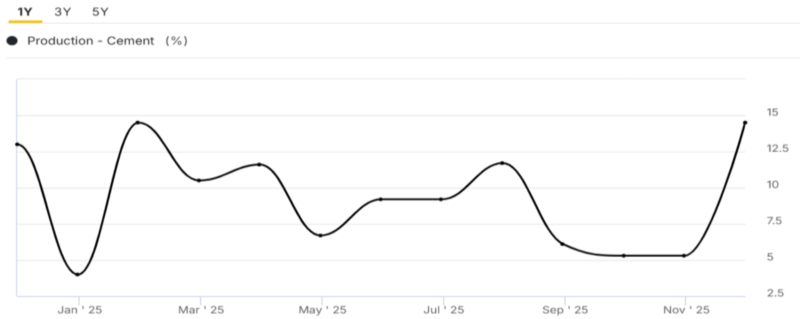
PRODUCTION - CRUDE OIL (%)



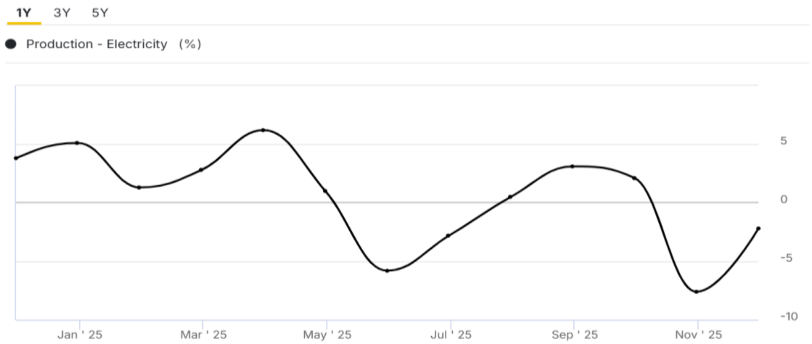
PRODUCTION - STEEL (%)



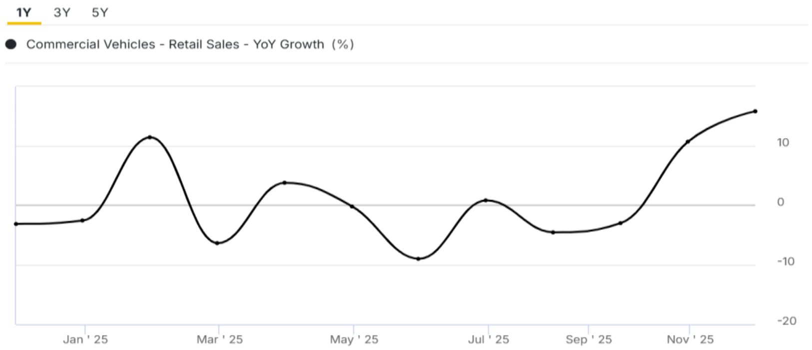
PRODUCTION - CEMENT (%)



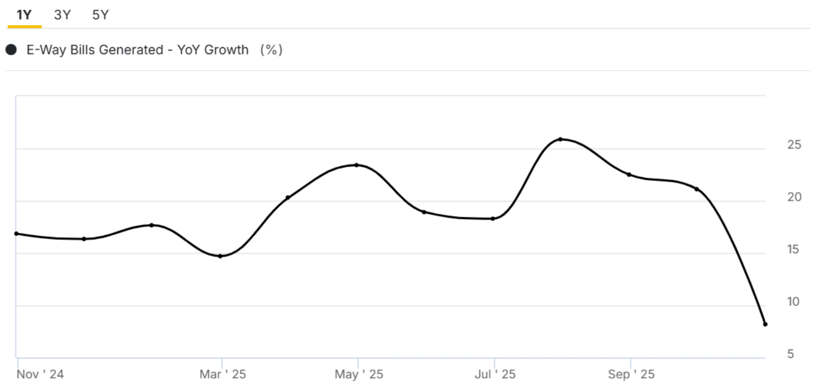
PRODUCTION - ELECTRICITY (%)



COMMERCIAL VEHICLES - RETAIL SALES - YOY GROWTH (%)



E-WAY BILLS GENERATED - YOY GROWTH (%)



Source: Internal assessment based on data from Tijori Finance

Industrial & Services Activity (November 2025)

Industrial Activity:

Industrial momentum in November was uneven, reflecting sector-specific divergences. Core industrial indicators showed strength in steel, cement, and fertilisers, supported by infrastructure activity, construction demand, and agricultural input usage. In contrast, coal, crude oil, natural gas, and electricity output remained subdued, partly due to weather effects, base distortions, and softer incremental energy demand. Manufacturing PMI stayed firmly in expansionary territory, though easing from earlier highs, pointing to continued growth in output and order books but at a more measured pace. The data suggest that manufacturing strength is increasingly capex- and infrastructure-led, rather than driven by energy-intensive heavy industry.

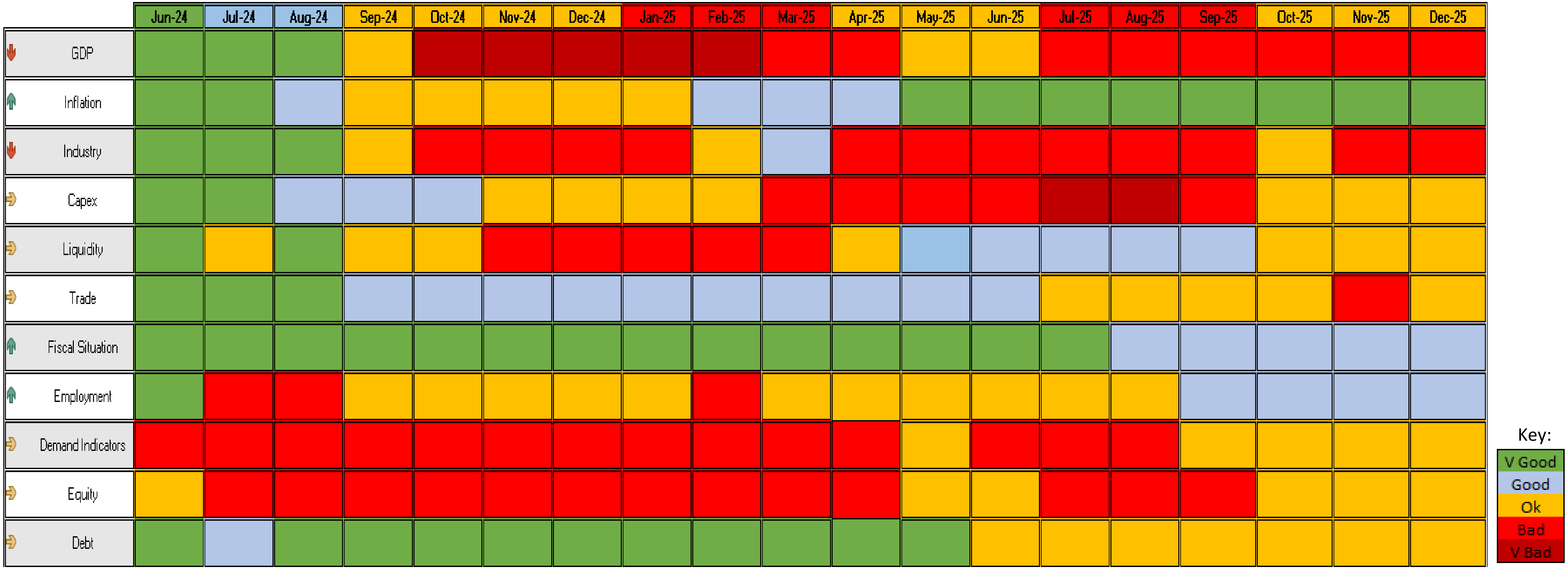
Services Sector:

Services continued to anchor overall economic momentum in November. PMI-Services remained comfortably above the expansion threshold, supported by domestic trade, transport, financial services, and business services. High-frequency indicators such as GST e-way bills, port cargo traffic, and airline activity remained resilient, though some moderation was visible after the festive surge. Slower electricity demand growth and softer digital transaction momentum point to pockets of demand fatigue, but overall services activity remains broad-based and domestically driven, insulating growth from external demand headwinds.

Industrial & Services Outlook:

Overall, November's data depict an economy operating above trend but entering a phase of consolidation. Manufacturing and services continue to expand, supported by benign inflation, easing financial conditions, and public-sector capex, even as energy-sector weakness and global demand uncertainty cap upside. The balance of evidence suggests a gradual shift toward investment-led growth, with consumption normalising and services providing stability. Sustaining momentum will require easing supply-side bottlenecks in energy, maintaining capex traction, and navigating global demand volatility carefully.

Economic Heatmap



Cautious Optimism

India's macroeconomic backdrop reflects nascent domestic momentum amid external headwinds. The policy repo rate is steady at 5.25% with a neutral stance, as the RBI balances growth support with price stability. Inflation has undershot expectations, with FY26 CPI now projected at 2.6% on the back of GST rationalisation and easing food prices, while core inflation remains contained at ~4%. Growth remains domestically driven, with real GDP projected at 6.8% for FY26 and Q2 GDP expanding 8.7% YoY on a nominal basis, supported by consumption and investment. High-frequency indicators show early signs of an uptick in domestic demand, and if this sustains, the capex cycle, which is already showing nascent revival, could gain further traction. The macro position is stable, with fiscal deficit estimated at the target 4.4% of GDP for FY26 and liquidity conditions in surplus with the RBI actively managing liquidity, albeit a transitory rising CAD amid US tariff pressure and heavy gold imports. Even as inflation softens, the MPC is likely to pause further easing to let earlier actions transmit amid global and tariff-related risks. Overall, the outlook remains one of 'cautious optimism', underpinned by low inflation, strengthening domestic demand, comfortable liquidity, and stable fiscal conditions, though external geopolitical uncertainties and a general global slowdown warrants vigilance.

Equity Outlook

Market Cap Risk-Return Profile/ PE-Multiples

Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.51%	1.87%	-0.21%	10.6%
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 %	11.7%	14.7%	15.1%
Standard Deviation	21.5%	26.1%	30.0%
Avg Months with +ve return / yr	7	8	7
Avg Months with -ve return / yr	5	5	6
Avg Months with >6% decline / yr	1	2	1
No of Years	26	20	12

Tempered Down Expectations

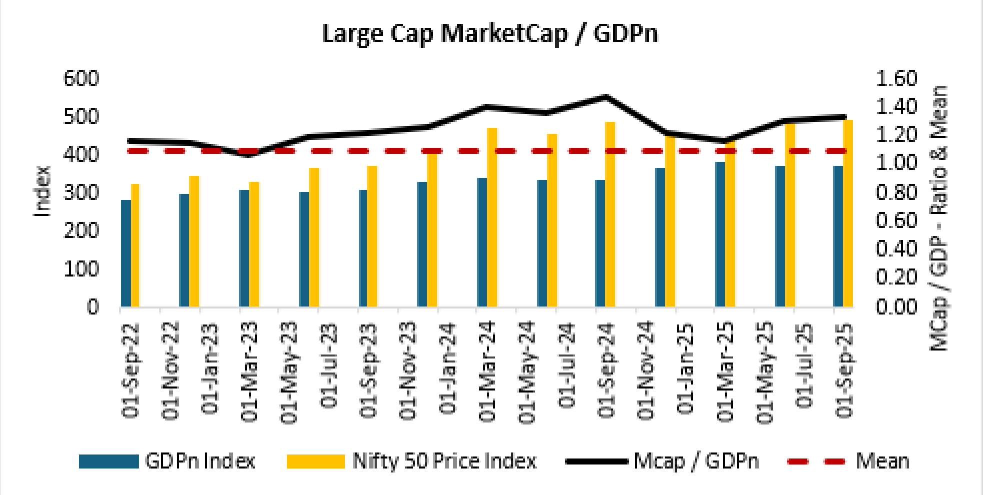
- **In the last 12 months, the Nifty 50 Index has risen 10.6%**, reflecting a clear recovery phase. **Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years**. Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. **Similarly Mid and Small Caps registered a CAGR of ~15% each over the past ~20 years and ~12 years respectively. We expect returns to improve going forward, supported by the ongoing uptick in domestic demand as the festive season gathers momentum, aided by recent tax rate reductions and the introduction of a simplified, lower GST regime. The capex cycle, too, is beginning to show early signs of revival. However, the sustainability of this recovery will hinge on the sustainability of domestic demand and the eventual outcome of the US trade negotiations.**

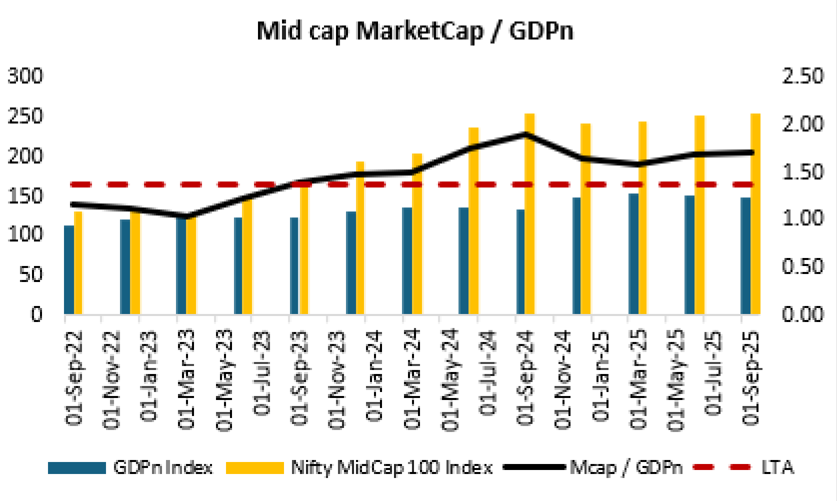
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.

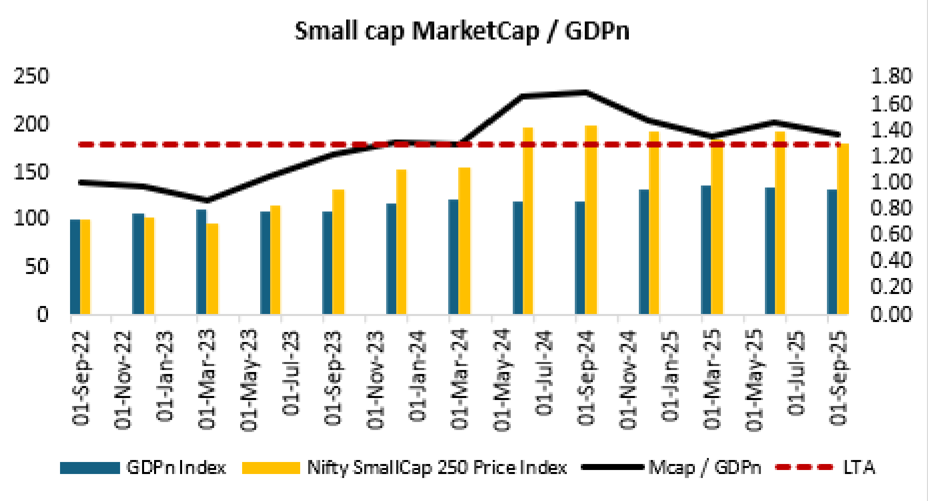
- **As per TTM PE valuations, Large Cap and Mid Cap seem to be Fairly-valued and Small Caps slightly overvalued.**

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.12	23.83	-7%	Fairly Valued
Mid Cap	33.15	32.36	2%	Fairly Valued
Small Cap	28.51	26.38	8%	Overvalued

Buffett Indicator







Nidty 50 Index EPS estimates for FY26/FY27 had seen the steepest cuts in the past 6 years, barring the Covid phase. The **present valuations remain high as evidenced in the premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 18% & 20%, whereas Small Caps are currently trading at premium of approx 5%** (as per Buffet Indicator), as on 24rd November 2025.

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

India's Q2 FY26 Corporate Earnings – Sectoral Analysis

Overview:

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

Core Nifty 50 earnings grew in low double digit

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

Q2 FY26 Results Analysis:

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

BFSI (Banking, Financial Services & Insurance):

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

Information Technology (IT):

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

Automobiles:

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

Fast-Moving Consumer Goods (FMCG):

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

Consumer Discretionary & Retail:

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

Pharmaceuticals:

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

Capital Goods (Industrials):

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

Metals & Mining:

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

Energy – Oil & Gas:

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

Power & Utilities:

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

Real Estate & Construction:

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

Conclusion:

- Q2 FY26 showcased a deepening of India's corporate earnings recovery, albeit unevenly across sectors. Domestically oriented sectors – banks, autos, real estate, capital goods – largely capitalized on sustained demand and supportive macros (government capex, easing inflation), while globally linked sectors like IT and select export manufacturers felt the pinch of external slowdown. Cost dynamics played a crucial role: sectors with input tailwinds (e.g. metals, cement, OMC refiners) enjoyed margin relief, whereas those facing rising costs or intense competition (consumer staples, utilities) saw profit growth underwhelm.

- Over the near term, the overall outlook remains positive. Multiple macro tailwinds – a likely pause or reversal in interest rate hikes, recent GST tax cuts to spur consumption, and the government's continued infrastructure push – are expected to contribute to stronger H2 performance in sectors like financials, consumer discretionary, and construction. Many companies have guided for a better second half, especially where Q2 was weather-affected. Risks from global factors (geopolitical uncertainty, volatile commodity prices) persist, but India's domestic demand is providing a cushion that should keep most sectors on a growth footing in the coming quarters.

- In the medium term, the narrative is one of cautious optimism turning into confidence. Unlike past cycles, this earnings recovery is broad-based and backed by structural reforms. Sectors such as Banking are well-capitalized and provisioning adequately, setting the stage for sustained earnings growth. Manufacturing and Industrials are riding a capex boom with the government's policies like PLI (Production-Linked Incentives) and a renewed private capex cycle on the horizon. Consumer sectors are expected to benefit from a young demographic and rising income levels; once the current consumption soft patch normalizes, companies anticipate a return to mid- to high-single-digit volume growth, which combined with better margins can drive healthy profitability.

- Overall, India Inc. enters the last quarter of FY26 on a solid footing. The Q2 scorecard is a mixed bag with the resilience of core sectors evident, and even in pockets of weakness, course-correction (be it pricing actions, cost cuts, or policy support) is actively underway. Both retail investors and institutional players can take away that the corporate earnings cycle is in an upswing phase, albeit with speed bumps and a diversified sectoral approach remains key.

Gold

The new world order – Gold, the reserve Asset

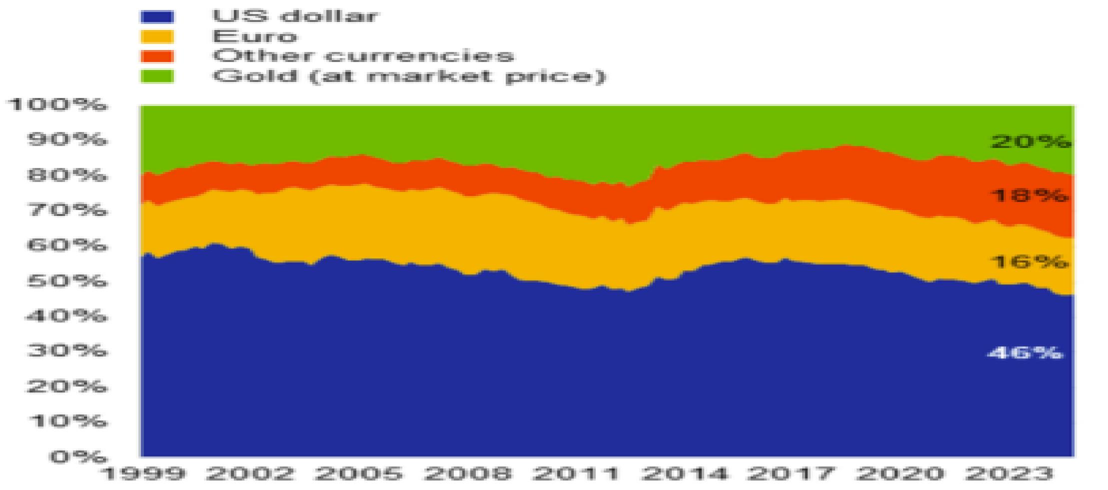
Contrary to popular perception, a country's foreign exchange reserves are not directly held in physical currency notes but largely consist of sovereign debt securities, such as US Treasury Bonds. Over the past two decades, the composition of global reserve assets has shifted markedly. Gold's share fell from roughly 20% to about 10%, only to rebound back to 20%, primarily at the expense of both the U.S. dollar and the Euro. Notably, the Euro's credibility is underpinned by both the U.S. dollar and the geopolitical backing of NATO. This trend of replacing the reserve asset calls into question the traditional nexus between the dollar's reserve status and the US's ability to finance persistent twin deficits.

The resurgence of gold as a reserve asset has accelerated since February 2022, coinciding with the onset of the Russia-Ukraine conflict. The US response, in particular, the sanctioning and freezing of Russia's USD-denominated reserves, triggered a strategic rethink among global central banks. Heightened concerns about the politicization and potential weaponization of US Treasuries as reserve assets prompted many countries to diversify towards gold to reduce exposure to dollar-centric risk.

US Attempt To Use USD As Tool For Sanction Has Sparked A Global Rush For Gold

Source: ECB, DSP, Data As of June 2025

Gold Rising In Global Official Reserves At The Cost Of All Currencies



Source: ECB, DSP, Data As of June 2025

Source: World Gold Council

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

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

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

Simultaneously, the US faces increasing external financing headwinds as major creditors, notably China, reduce their holdings of Treasuries in search of Gold. As demand for US Treasuries wanes, yields rise (or do not fall in line with the US Fed’s expectations), further diminishing the appeal of emerging markets to Foreign Investors in a risk-off sentiment.

Valuations remain chiefly driven by broader global economic conditions and episodes of heightened uncertainty. Consequently, investors continue to view these metals, particularly gold, as dependable stores of value and as strategic diversifiers that strengthen a portfolio’s risk-return profile. That said, given ongoing uncertainty in U.S. dollar flows, the potential for sudden trend reversals or halt in the central bank purchases cannot be overlooked. That said, we view gold primarily as a diversification tool that enhances the overall risk-return profile of an investor’s portfolio, rather than as an asset class expected to deliver supernormal returns going forward—particularly after the strong rally over the past year.

Source: World Gold Council, DSP Netra

Strategy

Tailwinds

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

Headwinds

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

Outlook

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

Suggested Strategy

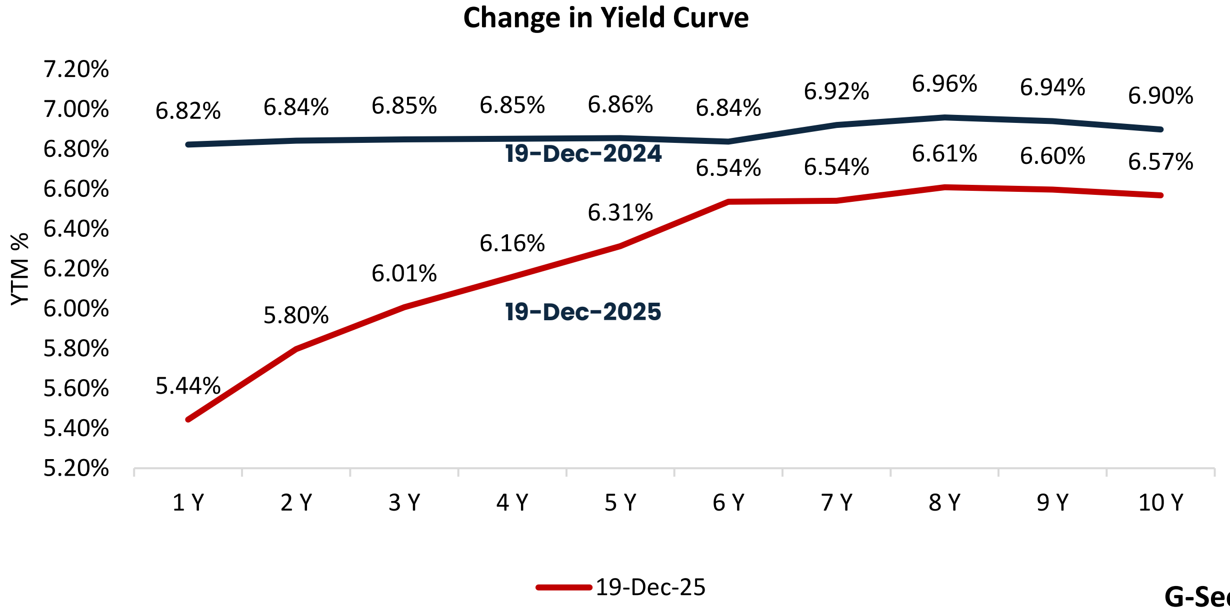
➢ ***Neutral Equity***

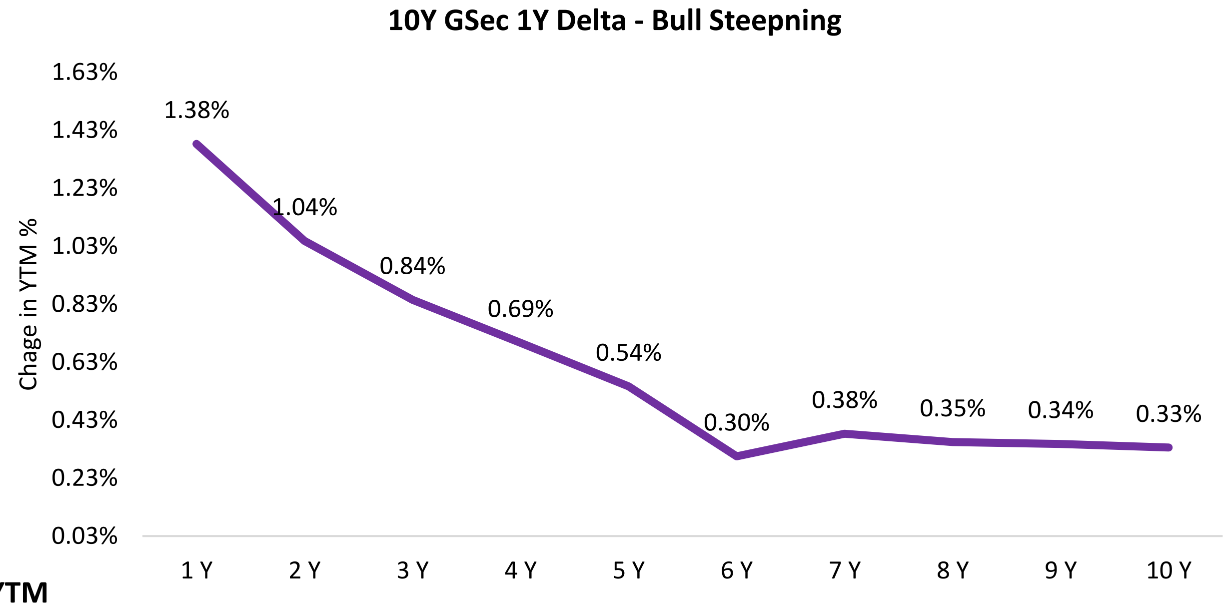
Category	*Stance*
Large Cap	*Neutral*
Mid Cap	*Neutral*
Small Cap	*Underweight*

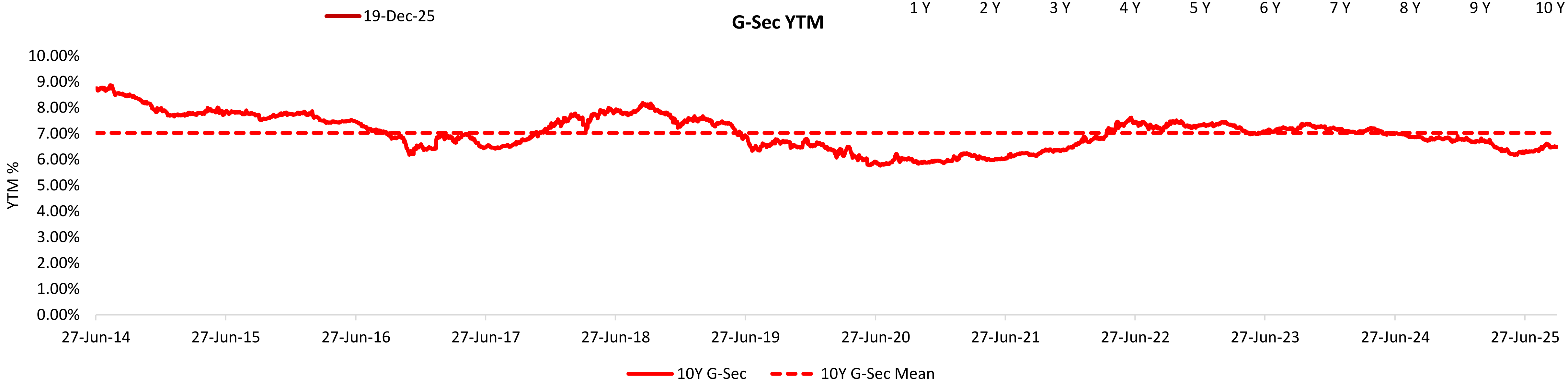
➢ ***Underweight Gold***

Debt Outlook

Yields Curve Dynamics







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

Debt Market Outlook & Strategy

December 2025 Debt Market Outlook

In our view, India's current economic mix – **moderate growth with low inflation** – warrants a nuanced bond strategy. Real GDP grew about **8.2% YoY in Q2 FY26** (vs 7.8% in Q1), well above consensus, even as CPI inflation stayed modest. This unusually benign mix reflects a **base effect and very low price deflator**: Nominal GDP growth was only ~8.7%, underscoring the muted inflation backdrop. Recent monthly data reinforce this: food inflation momentum in November was actually negative and core inflation is running in the ~mid 4% range, while industrial output growth by 6.7% YoY in Nov (after a slowdown in Oct). In short, India is seeing **moderate real growth with below-trend prices**, which means real yields are relatively high and long-term bonds look expensive on a fundamental basis. The RBI now projects headline and core CPI around the 4% target for H1 FY2027, implying inflation will pickup but remain tame. We interpret this as **room for bond yields to stay near current levels and further rally potential is limited unless growth weakens or inflation undershoots** even more.

External Environment and Global Factors

One of the more consistent features of the post-pandemic macro landscape has been **the persistent outperformance of the US economy relative to expectations**. Even as growth moderated through 2025, it remained materially stronger than what was anticipated at the start of the year, **despite facing twin supply-side shocks in the form of higher goods tariffs and tighter labour supply driven by immigration controls**.

In hindsight, a confluence of factors helped cushion the slowdown. **Financial conditions remained looser than headline policy rates would suggest**, **the effective pass-through of higher tariffs to end-consumers was slower and weaker than feared**, and **private-sector capital expenditure, particularly related to AI and digital infrastructure provided a meaningful growth impulse**. As a result, economic momentum slowed but did not deteriorate sharply, defying more pessimistic forecasts.

Importantly for fixed income markets, concerns around a disorderly rise in US bond yields also failed to materialise. **Fiscal slippage appeared to be partially offset by incremental tariff revenues, inflation pass-through remained muted or delayed, and long-duration supply was actively managed**. With the **US macro narrative stabilising** and **growth concerns resurfacing in parts of the developed world**, the **US dollar ceased to weaken further, removing an anticipated tailwind for emerging markets including Indian bond markets**.

Meanwhile, **China's dynamics** are just as relevant. Its **persistent trade surplus and weak commodity prices continue to exert a global deflationary effect on goods inflation**. In other words, **even as India's import bill has surges, cheaper inputs from China help keep global prices in check**. **Against a backdrop of subdued nominal growth and structurally elevated twin deficits, the room for further bond market tailwinds appears constrained.**

India's Disinflationary Phase

India has witnessed a notable and broad-based moderation in inflation over the past year. While a portion of the decline reflects the **inherently volatile behaviour of food prices**, which may partially reverse, what stands out is the **sustained softness across core inflation components** as well. This **disinflationary environment has been accompanied by a deceleration in nominal growth**. While some of this slowdown can be attributed to **statistical effects**, the broader trend is corroborated by **moderation in high-frequency indicators such as tax collections**, even after adjusting for recent tax reductions. In our assessment**, part of this slowdown reflects the impact of relatively tight monetary and liquidity conditions prevailing between late last year and early this year**.

Since then, policy settings have decisively turned more accommodative. Liquidity conditions have eased, policy rates have been cut, and **regulatory measures have been relaxed**. Given the inherent lags in monetary transmission, the **full impact of this policy reversal is yet to be reflected** and should, in our view, **lead to a re-acceleration in nominal growth** over the coming quarters. Even as periodic foreign exchange interventions have resulted in transient liquidity drains, the RBI has remained proactive in ensuring that system liquidity is adequately replenished.

However, not all the drag on nominal growth appears cyclical. A **more persistent disinflationary force is emanating from China's export of excess industrial capacity**, which is being absorbed by the rest of the world and exerting downward pressure on global traded-goods prices (as mentioned earlier). While we remain mindful that correlation does not imply causation, the **persistence and scale of this external deflationary impulse merit close monitoring**, as it may continue to weigh on domestic pricing power for an extended period.

India's External Account Dynamics

The **Indian rupee has faced depreciation pressures over the past year**, despite the US dollar being broadly range-bound to weaker for much of the period. This divergence has been driven primarily by **subdued capital inflows**, raising the possibility of a second consecutive year of a negative balance of payments, a relatively rare outcome in India's macro history.

With the currency having already adjusted meaningfully, and with nominal growth expected to recover as domestic monetary conditions ease, we believe **the probability of capital flows turning more supportive over the year ahead has improved**. In particular, the scope for incremental debt inflows remains underappreciated, especially in the context of India's much-anticipated inclusion in global bond indices, which could act as a structural anchor for portfolio flows. While capital flows are inherently volatile, recent developments in India's merchandise trade dynamics warrant closer attention. The post-pandemic evolution of the goods trade balance across geographies reveals a pronounced widening of the deficit with China and Hong Kong. This trend aligns with the broader global phenomenon of China exporting excess industrial capacity in response to subdued domestic demand.

In our view, this external deflationary impulse poses a meaningful challenge to a broad-based revival in India's manufacturing capex cycle and is likely to act as a cap on any sustained acceleration in core inflation. Against this backdrop, a macro policy mix characterised by a competitively valued currency and a "lower-for-longer" interest rate environment may be both necessary and appropriate to preserve growth momentum.

The Missing Risk Appetite in Indian Bonds

Over the past year, the RBI has delivered 1**25 bps of policy rate cuts** and conducted **bond purchases exceeding ₹6 lakh crore**. Had this trajectory been known at the start of the year, market consensus would almost certainly have expected materially lower government bond yields by year-end. **Yet**, reality has diverged sharply from that intuition. As we write, **the 10-year government bond yield remains stubbornly near 6.60%, roughly 135 bps above the repo rate**. Even more striking, **the 5-year yield is still over 100 bps above repo**, despite the possibility of one final rate cut and a high likelihood of an extended pause thereafter. **The long end of the curve remains elevated** as well, though supply-demand dynamics there are more specialised.

This persistence of elevated yields tells us something important: **risk appetite is weak across the curve, not just at the long end**.

What the Yield Curve Is Telling Us - Two curve relationships are particularly instructive:

- **The 5-year–1-year spread has steepened sharply -** This suggests that investors are not fully confident that today's low policy rates will quickly translate into easier conditions across the economy. They want extra compensation to lend money for a few years, even though short-term rates are low.
- **The 30-year–10-year spread remains wide -** This indicates investors are uneasy about long-term risks such as future government borrowing, inflation uncertainty, and supply of bonds. They are demanding a higher return to lock money away for decades.

While it is normal for the curve to steepen toward the end of a rate-cut cycle, the current configuration appears excessive. This is especially relevant because:

- A **final rate cut remains possible** and **Policy rates are likely to stay unchanged for a prolonged period thereafter**.
- The **10-year–5-year spread is only ~25–30 bps** - suggesting the 10-year is relatively expensive compared to both shorter and longer maturities.

Hence, in our view, **the 5-year segment is a better barometer of effective monetary transmission than the long end**. Its **elevated yield reinforces the conclusion that risk appetite is broadly missing, rather than selectively absent at ultra-long maturitie**s.

Supply Dynamics Still Matter

A key factor **suppressing bond market enthusiasm** has been **duration supply**. Over recent years, both **central and state governments have meaningfully increased the average maturity of their borrowings, pushing more paper into longer tenors**.

Looking ahead, there is a reasonable chance that from **FY27 onward the central government attempts to modestly shorten its issuance profile**, potentially by **shifting part of borrowing toward treasury bills**. This would help:

- **Reduce average maturity**, and
- **Relieve pressure across the curve, not just at the long end**.

However, this intent must be balanced against the government's parallel objective of **smoothing its redemption profile, which limits how aggressively average** maturities can be reduced. As a result, **even with some adjustment, overall duration supply is likely to remain elevated**.

Studies suggests that gross bond supply will rise meaningfully from the next financial year, even assuming partial substitution toward treasury bills. This implies that term premia should remain wide.

Our Positioning: Where We See Value

Given this backdrop, our preferences are deliberately selective:

Government Bonds

We favour the **4–7 year segment**, which offers a relatively clean expression of:

- A **prolonged period of current (or marginally lower) repo rates**.
- Further RBI **OMOs aimed at offsetting tightening liquidity conditions**.

We are **cautious on maturities beyond this range** due to:

- **Persistently weak risk appetite.**
- **Significant duration supply over the medium term.**
- **Limited visibility on sustained demand at the long end**.

Corporate Bonds

The dynamics here differ. **Pressure is concentrated near the 1-year segment**, while **maturities beyond 3–4 years are relatively flat, largely due to limited supply**. In this space, we find the **2–4 year segment relatively more attractive from a risk-reward standpoint**.

Bond Market Outlook:

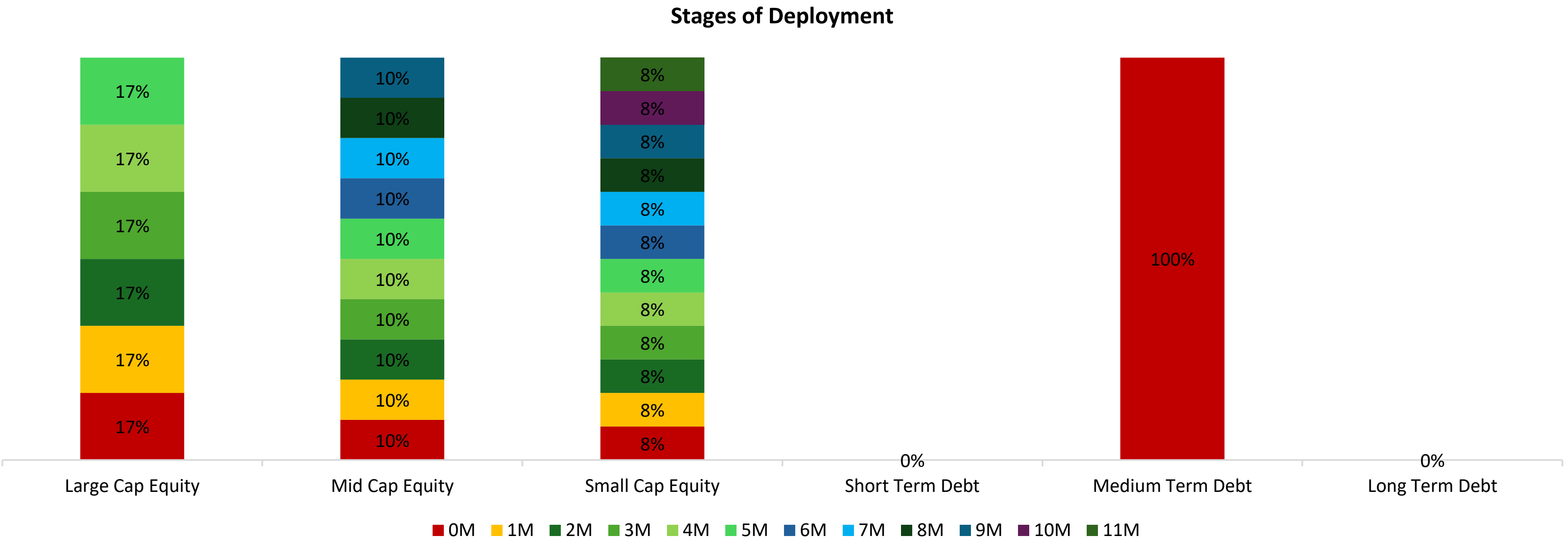
- **G-Bonds – 4-7 years segment preferable.**
- **C-Bonds – 2-4 year segment preferable.**

- **Duration exposure should be moderate and controlled, not aggressive.**
- **Segment selection matters more than outright duration calls, across both SLR and non-SLR curves.**
- **Investment horizons need to be longer than usual, as volatility is likely to persist even in the absence of policy shocks.**

- **A natural question arises: why allocate to fixed income at all beyond liquid or overnight funds? The answer is straightforward. With policy rates likely to remain low for an extended period, returns on near-riskless instruments are increasingly unattractive. Selective exposure to the right parts of the curve offers a more efficient way to earn income without taking undue risk**.

Deployment Strategy

Deployment



Indicators:

Indicators signaling over heated market conditions –

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

Indicators signaling fair valuation –

- VIX at 9.52 levels
- DII's have been net buyers
- Liquidity surplus
- Exports and Imports data are signaling a possible pickup in domestic demand
- Revival of Pvt Capex
- TTM PE for Large Cap Indices indicate fair valuation

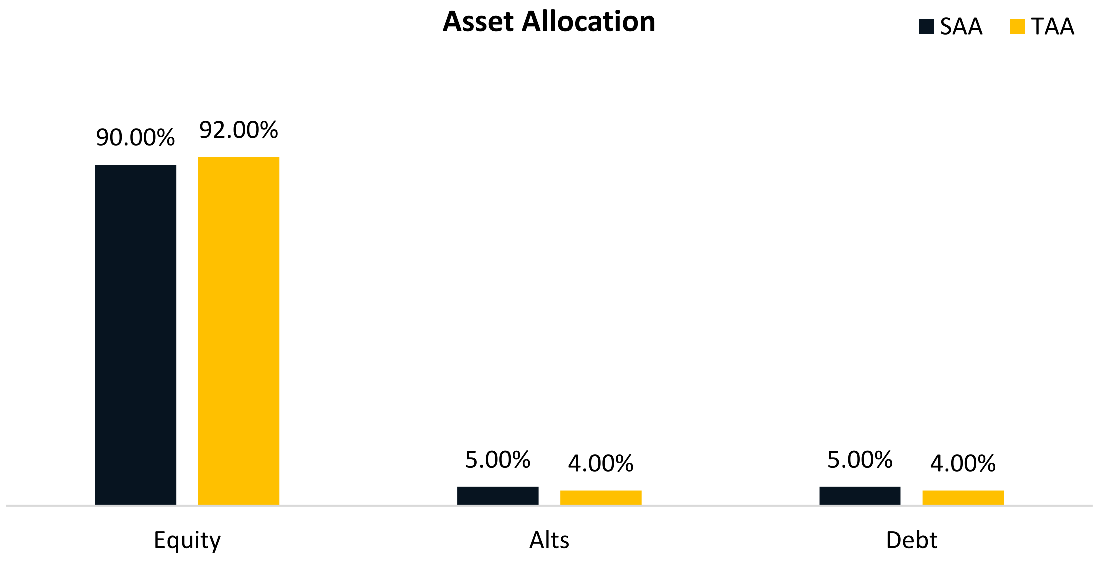
Deployment Strategy:

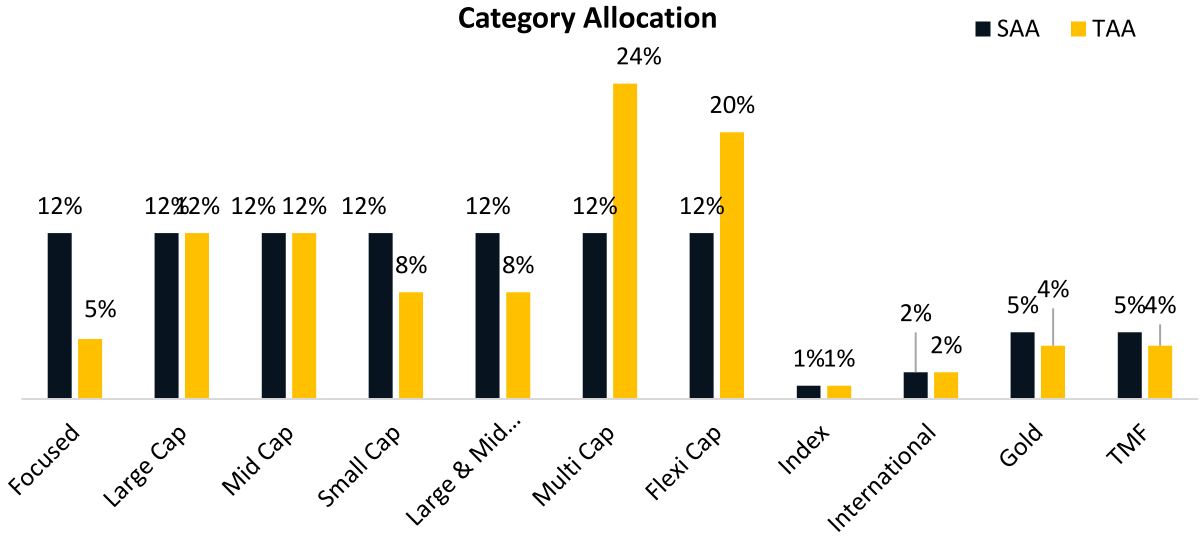
Staggered Deployment over the next 12 months –

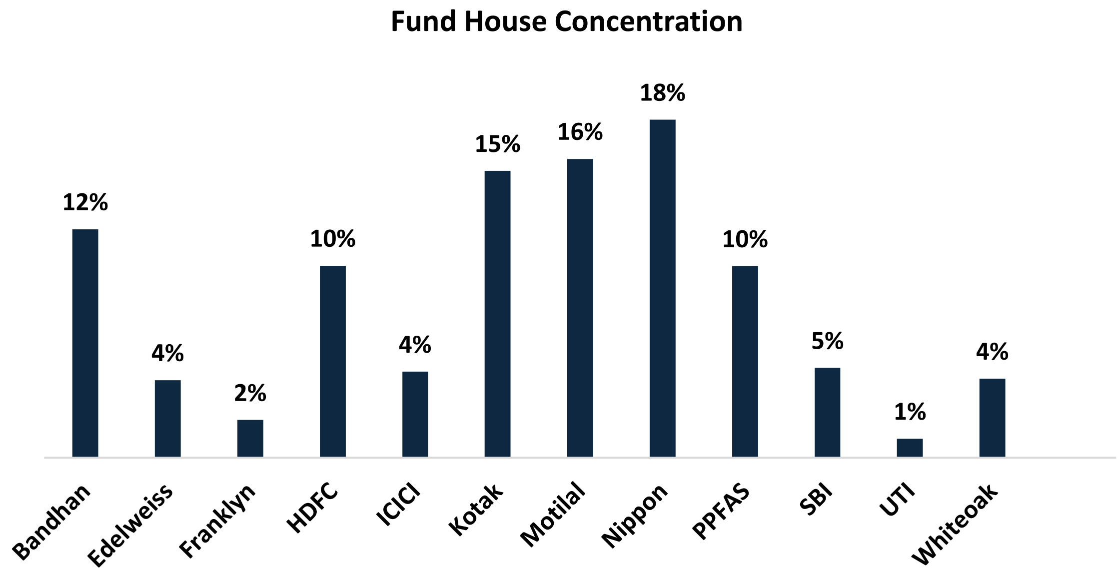
- Large Cap – 16.67% immediate deployment and 16.67% in each month in the next 5 months
- Mid Cap – 10% immediate deployment and 10% in each month in the next 9 months
- Small Cap – 8.33% immediate deployment and 8.33% in each month in the next 11 months
- Debt - 100% immediate deployment (bullet strategy at the medium end (4-7 yrs) of the yield curve.

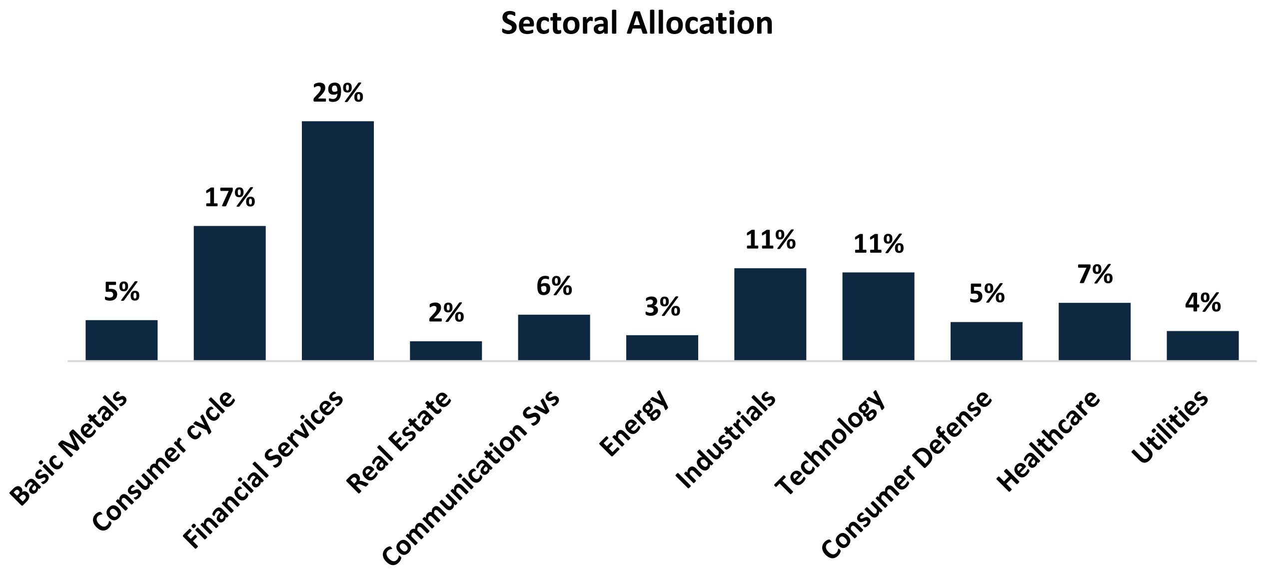
Optimus Prime
Model Portfolio

Aggressive Strategy



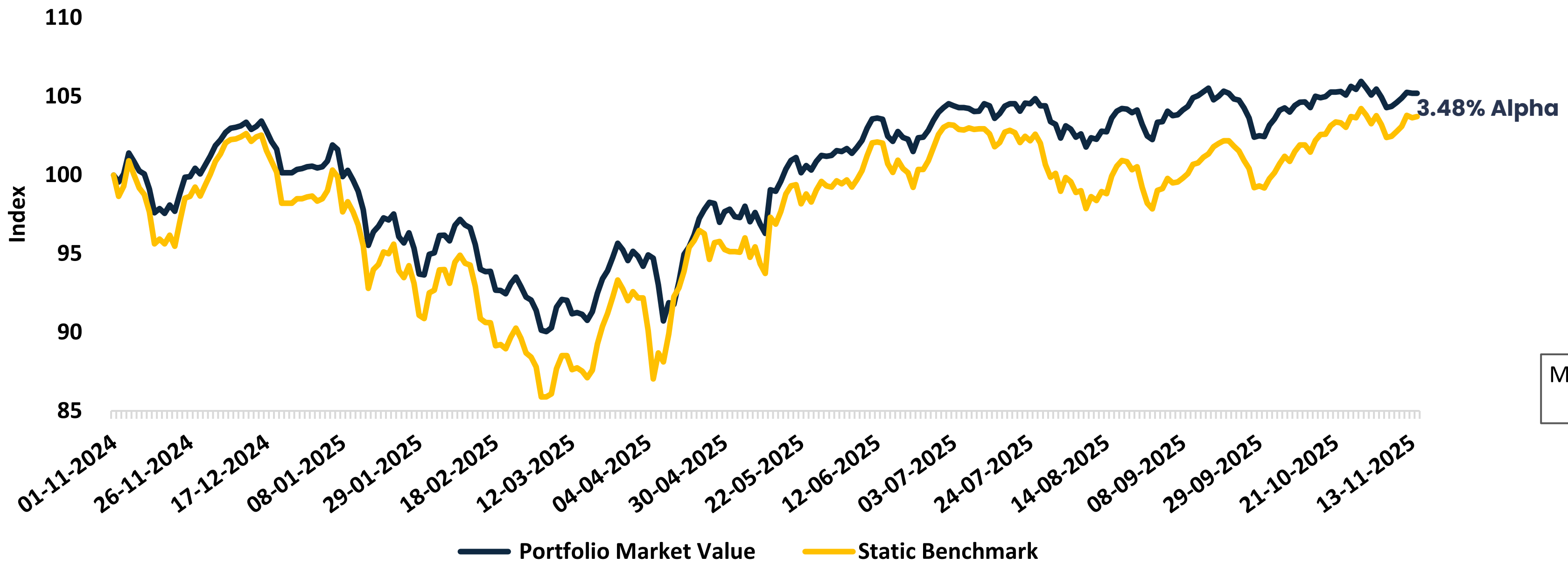




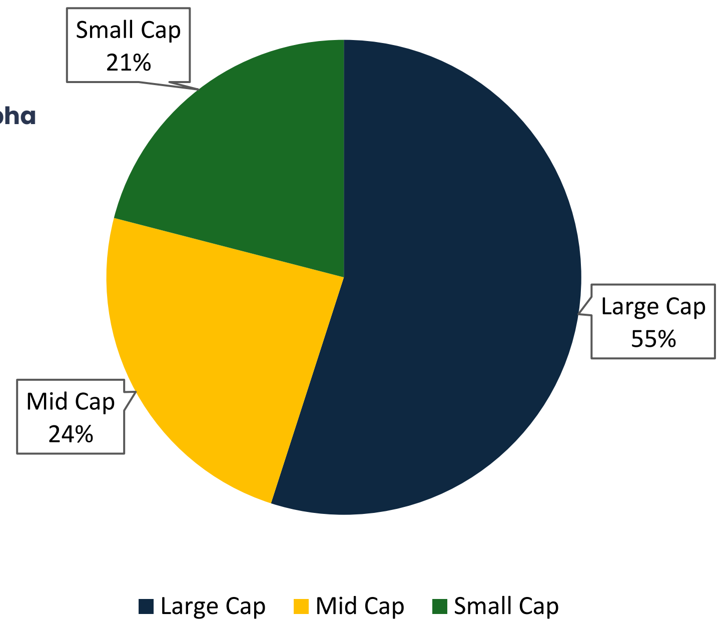


SAA - Strategic Asset Allocation* & ***TAA - Tactical Asset Allocation*, *Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th December 2025, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives. The benchmark weights remain static as per the SAA. The constituent benchmarks and their respective weights are: NSE 500 India TR INR - 36.00%, NSE 100 India TR INR - 11.80%, NSE Midcap 150 TR INR - 15.60%, NSE Smallcap 250 TR INR - 15.60%, NSE 200 India TR INR - 13.60%, NSE 50 TR INR - 0.80%, NIFTY 11-15 YR G-SEC INDEX - 6.60%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy.*

Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
CAGR Return %	**6.04%**	2.56%
Standard Deviation (annualized)	**10.79%**	13.87%
Beta	**0.62**	
Alpha	**3.48%**	
Information Ratio	**7.39**	
Downside Capture	**62.67**	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
0.33%	1.89%	1.25%	3.48%

Debt Portfolio Analytics

Debt Measures	Dec-25
Average MoD	**4.70**
Average Maturity	6.2 yrs
Average Coupon	NA
Average YTM	**6.09 %**

Average Credit Rating	Dec-25
AAA	**100%**
AA	0%
A	0%

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Current Investment Portfolio Stance: Neutral

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

As a result, the portfolio's **equity allocation is currently neutral**. Within equities, we continue to hold a **~9% underweight position in Mid Caps and a ~12% underweight position in Small Caps**, aligning with our risk-controlled framework.

Global capital flows continue to reflect a cautious undertone, but **India remains a relative bright spot**. While urban consumption is showing early **signs of a pickup in demand** and a **robust rural sentiment amid a high base** indicate **a potential inflection in growth momentum**. **Corporate balance sheets are strong, leverage remains low, and government-led infrastructure spending continues to underpin activity**. Though private sector **Gross Fixed Capital Formation has been relatively muted, the improving demand backdrop and policy continuity are expected to catalyse a new investment cycle**. The **Q2 earnings season pointed to a gradual pickup in topline**, albeit uneven, and **with inflation benign, liquidity abundant, and fiscal and external positions stable, the macro setup for FY2026-27 appears conducive for a gradual re-rating in equities**. Overall**, India's medium-to long-term outlook remains constructive.** The economy is positioned to benefit meaningfully from a **future cyclical recovery and capex upturn once domestic and global demand structurally strengthen**.

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 3.5%**, driven primarily by **Product Selection Alpha**. Importantly, the portfolio has maintained a **low Beta of 0.6**, and an **Information Ratio of 7.4, highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 63%, the portfolio displays effective downside protection** relative to the benchmark in a volatile market.

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

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

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