KILIKA CAPITAL

Embracing complexity to capture Alpha

June 2025

Dear Investors,

At first glance, the Indian economy appears to be navigating a phase of macroeconomic consolidation, supported by a favorable inflation trajectory, moderating external imbalances, and a constructive fiscal position. Declining crude oil prices, stabilized food inflation, and softer metal costs are contributing to a disinflationary trend, helping compress the current account deficit and improve fiscal optics - factors that have bolstered investor sentiment in recent months.

However, this apparent macro stability should not breed complacency. The economic outlook remains precariously balanced, reflecting the reality of a new global regime defined by shorter and more volatile business cycles. In contrast to the past, shocks now arrive with greater frequency and intensity, disrupting price stability and asset valuations. The structural realignment of global trade, marked by a retreat from multilateralism and a proliferation of protectionist policies, has distorted markets and fundamentally redefined the globalization narrative. Layered atop this are geopolitical tensions, climate-related disruptions, leading to supply chain fragilities, which have collectively embedded a new kind of uncertainty into the system - one that is persistent rather than transitory. These factors have materially altered the calculus for policymakers, corporates, and investors alike.

Within this volatile backdrop, the equity markets are beginning to reflect this elevated uncertainty. As we progress through the current quarterly earnings season, there has been a visible trend of earnings downgrades, multiple re-ratings and de-ratings across sectors, and more conservative forward guidance from corporates. The market is re-pricing risk to account for this reality, and the assumption of linear or high growth in perpetuity, is being increasingly questioned.

The implication is clear; we are no longer in an environment where long-term growth trajectories can be taken as a given. The premium now lies in adaptability, scenario-based planning, and risk-aware capital allocation. Investors and policymakers alike must shift from a static to a dynamic mindset. The playbook must now account for volatility as a structural feature, not an episodic aberration. One that treats volatility not as a temporary dislocation, but as a defining feature of a new economic order.

Best regards,

Siddharth Jadeja

Investment Strategy Report

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KILIKA CAPITAL

WHO WE ARE?

ABOUT US

Kilika Capital is a **bespoke investment management firm** catering to the highly specialized and sophisticated needs of high net worth, ultra-high net worth individuals, family offices, and institutional investors through a comprehensive range of **tailored investment management solutions**. With a deep understanding of our investors, we offer a comprehensive range of **quality investment management solutions**, with an objective to enable our investors to achieve their financial objectives rooted in integrity, discipline, intelligence, and **analytical rigour**.

With about three decades of experience in the field of finance we have a reasonable grasp of an investors requirements not to mention the **expertise** to deliver this requirement. In short, with a **research and technology centric approach**, we are the bridge which solves the problem.

We know the value of long-term relationships, and the challenges and opportunities of growing the value of one's investment portfolio and protecting it. We strive to be **agile** and to remain relevant as the preferred investment management partner. And, as an institution, we act **responsibly** towards employees, stakeholders and society. In all we do, we are inspired by our sole purpose: **creating Alpha**.

The strength of the firm lies in its detailed and rigorous research, lead by an **experienced team of experts** and enabled by the **best in class technology platforms** that help us quantitatively and qualitatively evaluate investment options. With precision analytics and implementation, the combination of **superior functional expertise and great customer service enables us to deliver great value to our investors**.

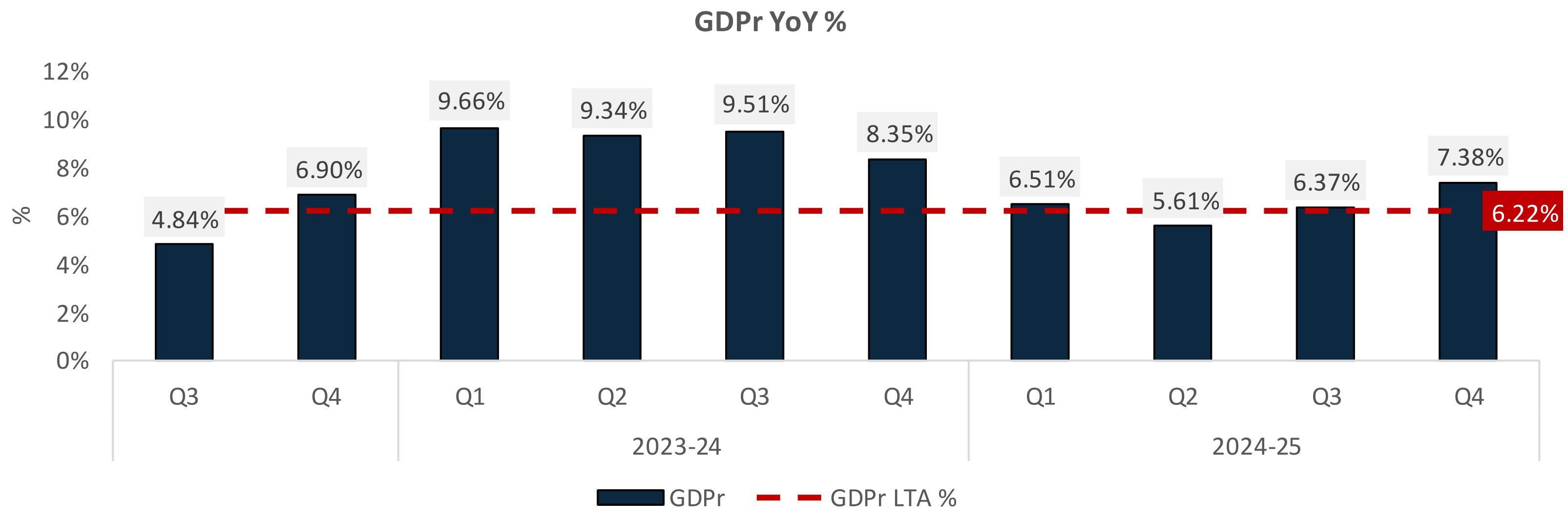
Our core values of absolute customer centricity, rigorous research, seamless execution capabilities, transparency, integrity, and respect - guide all of us in all that we do.

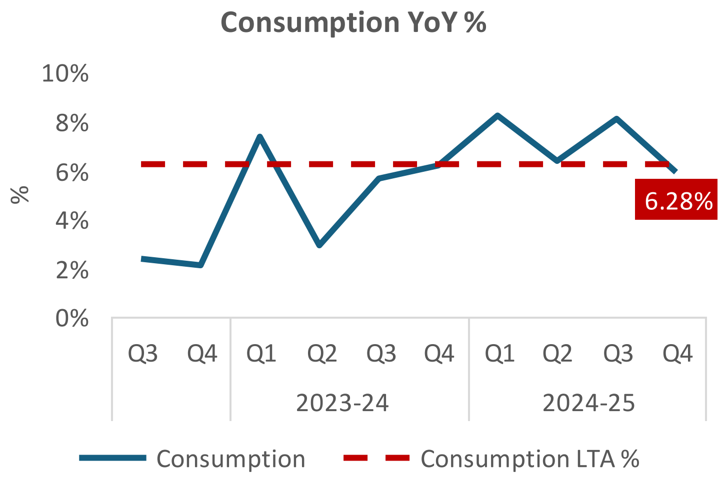
OUR MISSION

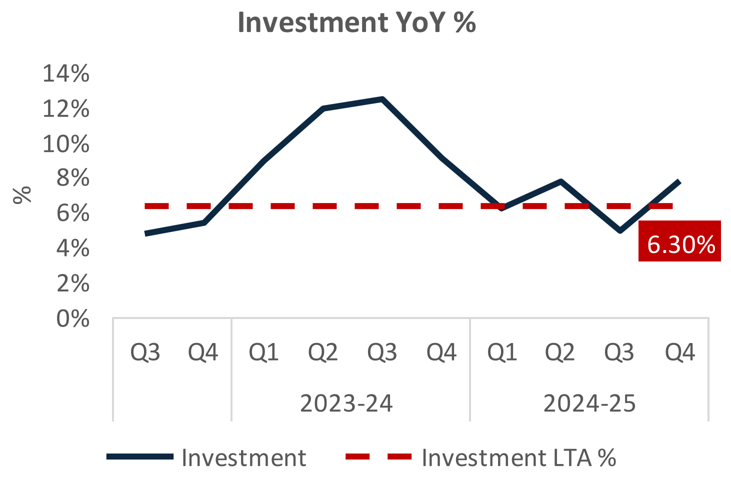
At Kilika Capital, our sole mission is to **generate Alpha** for our investors by providing **high quality solutions** for their financial objectives. In short, we take the **responsibility** of managing your money.

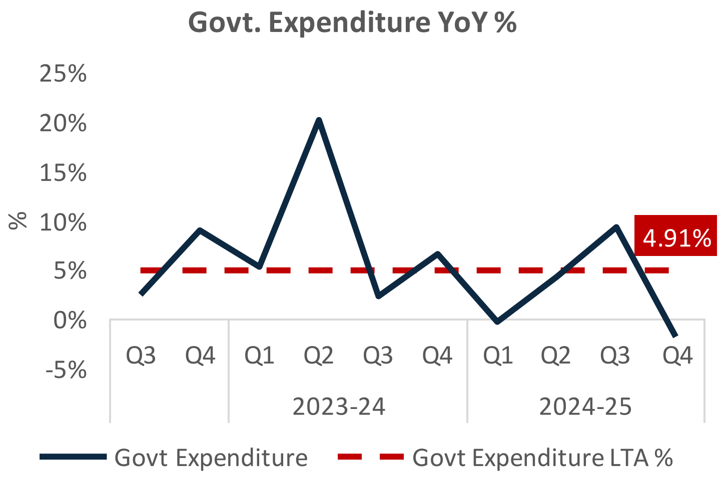
Macro-Economic Outlook

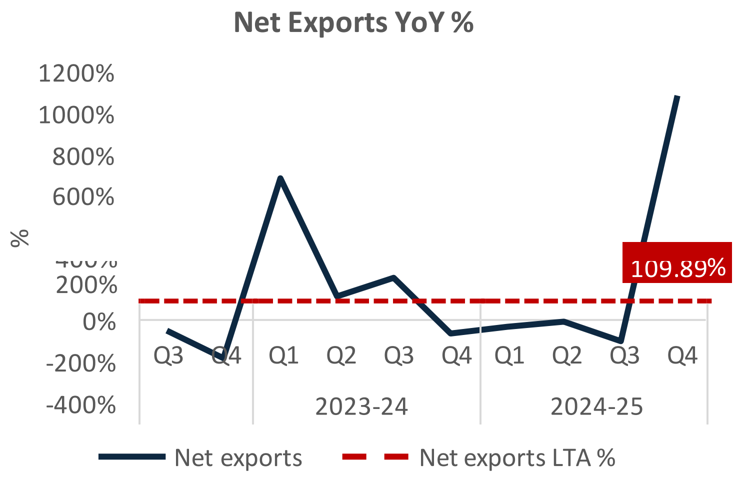
1. GDP (Gross Domestic Product)





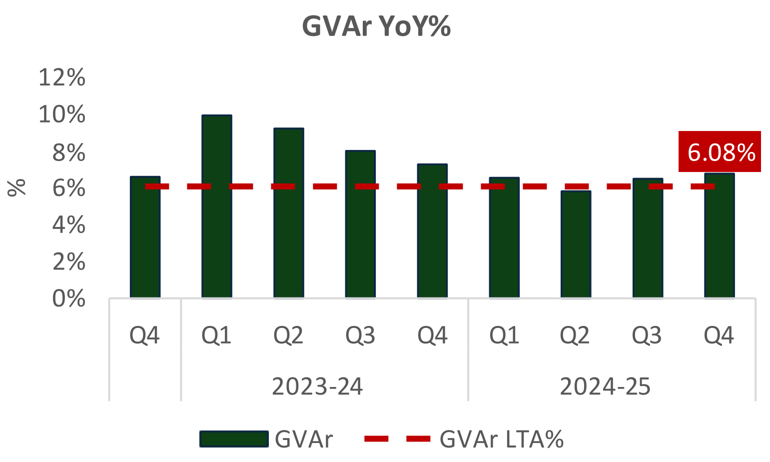


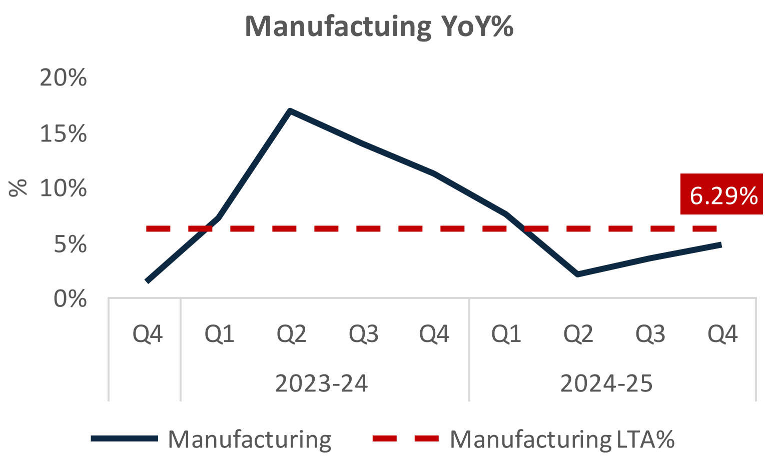


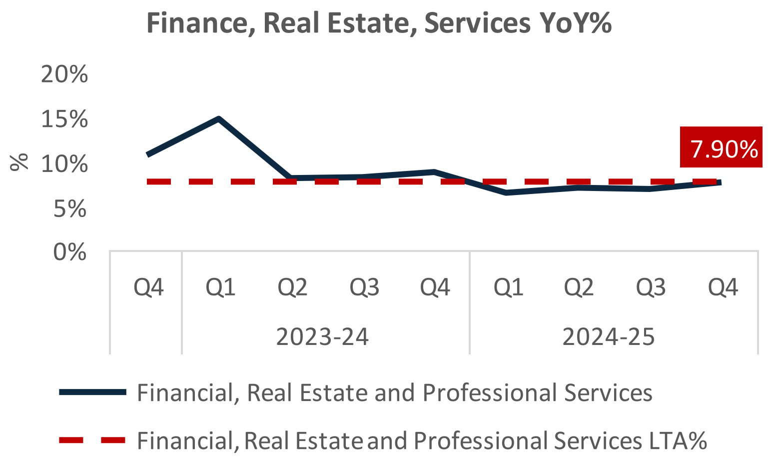


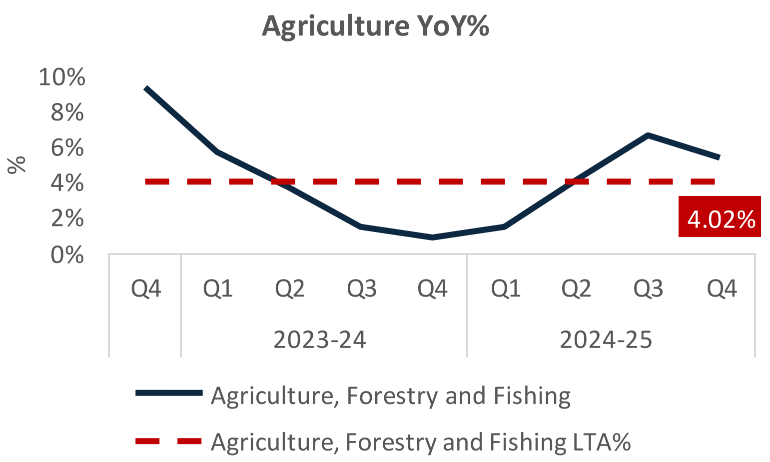
Source: Internal assessment based on RBI DBIE data

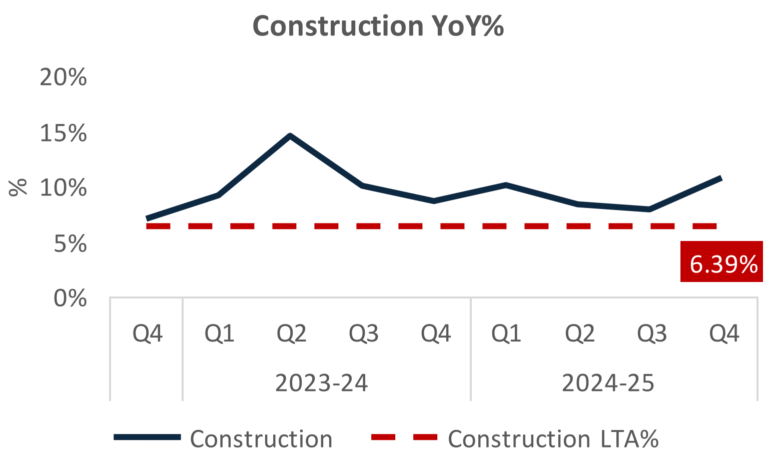
GVA (Gross Value Added)

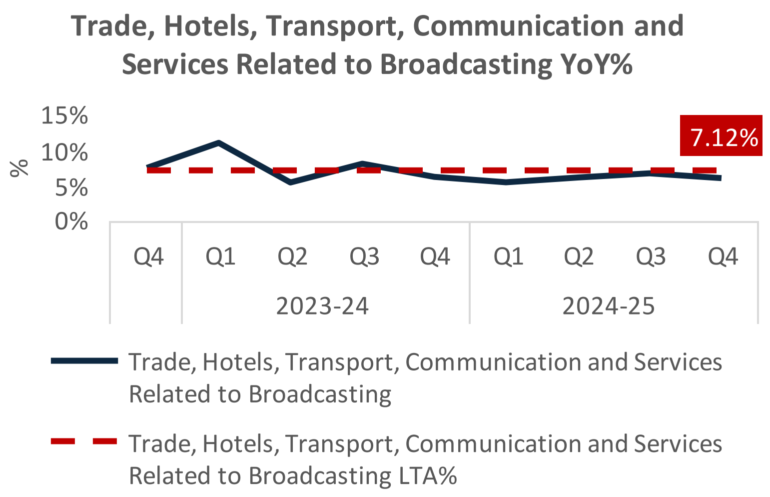












Source: Internal assessment based on RBI DBIE data

Gradual Pickup in Growth Momentum but Private Sector in Slow Lane

- **India's real GDP grew 7.4% in Q4 FY2024-25, bringing full-year growth to 6.5%.** After a mid-year dip, growth regained momentum in the second half, especially in the final quarter. Gross Value Added (GVA) growth for Q4 was 6.8%, led by agriculture, construction, and services, while manufacturing underperformed.
- Growth Drivers and Sectoral Dynamics
- Agriculture, construction, and services were the key engines for Q4 GVA growth.
- Manufacturing lagged with a modest 4.8% increase.
- On the demand side, private final consumption expenditure rose 7.2% (up from 5.6% in the prior year), while overall investment expanded 7.1% (lower than 8.8% last year), gaining strength in the second half.
- Capex Breakdown: Government, Household, Private
- **Government Capex:**
  - Over the past 3-4 years, strong central and state government capital expenditure—particularly in infrastructure such as railways, highways, and public projects—has provided a critical boost to GDP growth.
  - For the coming year, central government capex is expected to moderate, especially in traditional sectors like railways and highways, with uncertainty around new project allocations.
  - State government capex faces fiscal constraints and increasing populist commitments, potentially limiting urban infrastructure investments.
- **Household Capex:**
  - Household capital expenditure, particularly in real estate, has been a significant driver in recent years.
  - Demand for high-end residential projects is expected to slow, as higher property prices and lower confidence—especially among IT sector employees—impact affordability.
  - Despite this, medium-term prospects for the housing sector remain positive, backed by demographic trends and urbanization.
- **Private Capex:**
  - Private sector capital expenditure has remained subdued, limited to sectors like power generation, metals & mining, and essential maintenance in oil, gas, and telecom.
  - Only a few corporates have the balance sheet strength and risk appetite for large projects, marking a sharp contrast to the aggressive investment cycle of FY2004–12.

Source: Internal assessment and KIE reports

Consumption and Employment

- Domestic consumption is gradually recovering, driven by improved rural incomes, tax relief for high-income households, and possible savings from lower fuel prices.
- However, the upside is capped by persistent employment challenges and sluggish income growth among low- and middle-income groups, while even high-income household consumption may lose momentum due to fewer repeat big-ticket purchases.
- Job creation remains concentrated in agriculture (mainly rural women) and the gig economy (urban men), while high-quality employment growth is still limited.

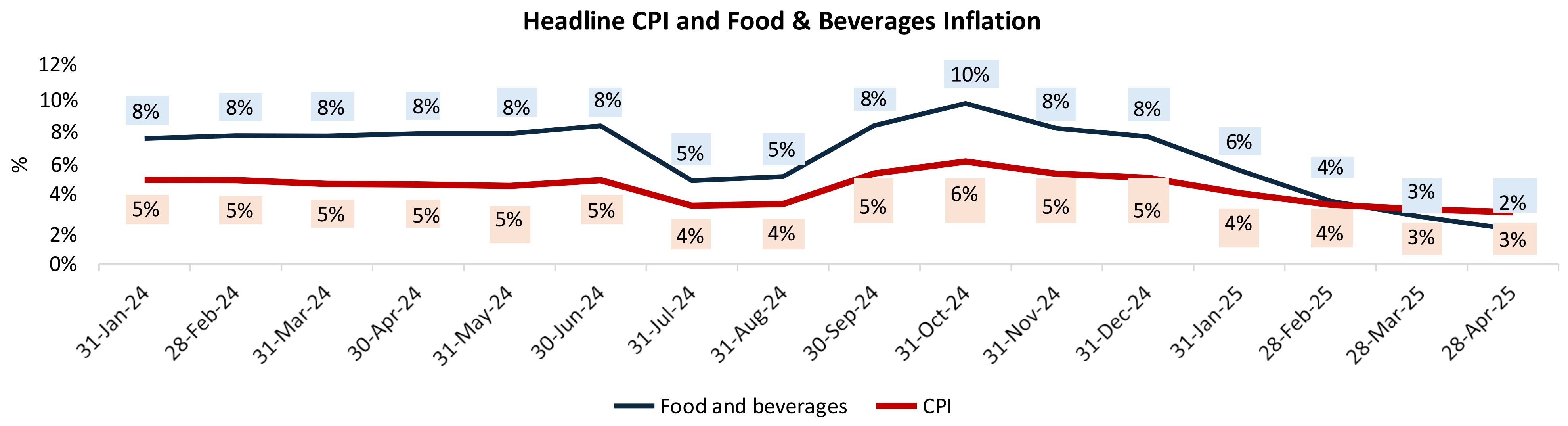
Outlook and Risks

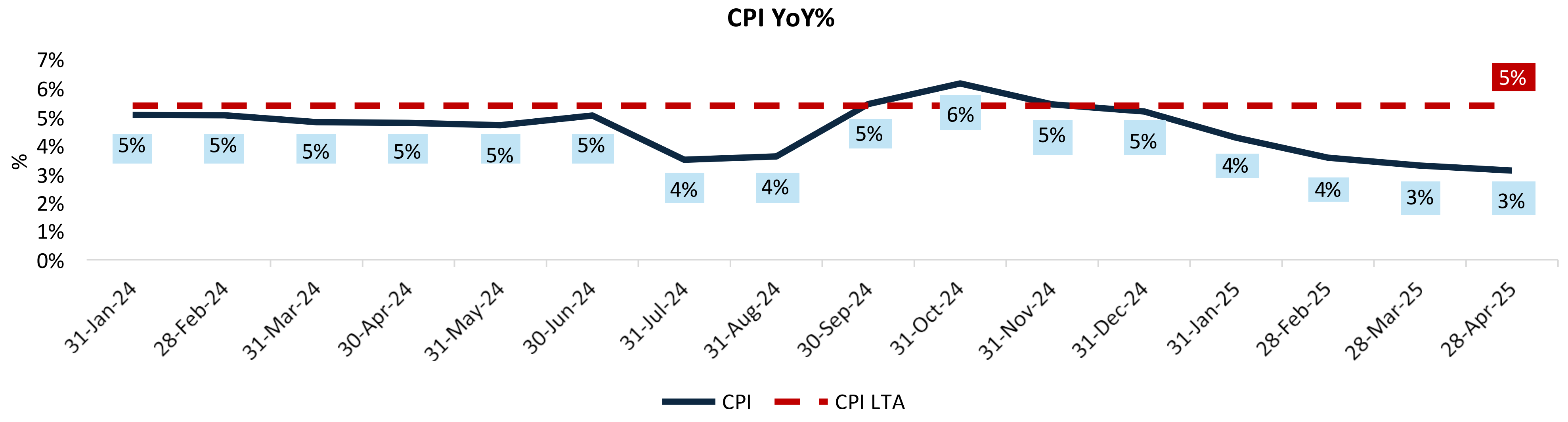
- Agriculture is poised for another good year, with an early, above-normal monsoon likely to boost rural incomes and demand.
- Fiscal management remains on track, with the government meeting its deficit target and continuing capital expenditure support.
- Monetary policy is expected to be accommodative, with analysts projecting a 50–100 bps rate cut, provided inflation stays close to target.
- **External risks are significant:** Global trade tensions and policy uncertainty, especially from the US, could impact exports and investment.
- Sustained growth will depend on navigating these global headwinds, maintaining capex momentum, and accelerating reforms to foster a robust business environment.

Headwinds:

- The recovery in the **Private Consumption growth was due to festival spending, majorly led by rural economy on the back of good kharif harvest.** As indicated by Nielsen IQ survey, **FMCG volume growth was robust at 9.9% for rural sector while it was at 5.0% for urban sector in Q3FY25. Government spending grew by 8.3% from 3.8%.** However, the **worry comes from Gross Fixed Capital Formation (GFCF) or the investment demand that grew by 5.7% YoY in Q3FY25 but contracted by 2.5% on a QoQ basis, marginally down from 5.8% YoY in Q2 and has been in the sub-6% range in the last four quarters. We expect Centre and State capex to pick up in FY26, but the worry on Private Sector Capex may continue due to lack of clarity on the trade front.** The **Private Sector's intended capital expenditure is likely to contract by a quarter to ₹4.9 lakh crore in FY26, as compared with ₹66.6 lakh crore in FY25,** data from the inaugural 'Forward-Looking Survey on Private Sector Capex Investment Intentions' released by the National Statistics Office (NSO) show. While the intended capex for FY26 is higher than the actual spending done in FY24 at ₹4.2 lakh crore, it is lower than ₹5.7 Lakh crore spent in FY23. Data from Centre for Monitoring Indian Economy (CMIE) show **private-sector capex fell nearly 9% on-year to ₹26.8 lakh crore in FY25, the lowest in three years.** To be sure, it is for the second consecutive year that private capex fell on a year-on-year basis, implying the post-Covid pick-up was short-lived. The finance ministry's March bulletin has highlighted that the **uncertainties stemming from global developments constitute a key risk for the growth outlook for FY26.** More than trade, the report notes, **the perception of prolonged uncertainty may cause the private sector to put its capital formation plans on hold.**
- **Further, the outlook remains heavily clouded with downside risks amid global trade uncertainties surrounding merchandise exports and trade balances, due to the impending tariffs, which would in turn affect corporate margins as well as current account balances, and this subsequently is likely to put pressure on India's capital account, especially in times where smart money (FPI) is extremely volatile and investment capital (FDI) is drying up.**

2. Inflation





Source: Internal assessment based on RBI DBIE data

Inflation Well Under Control, Tariff Risks Persist

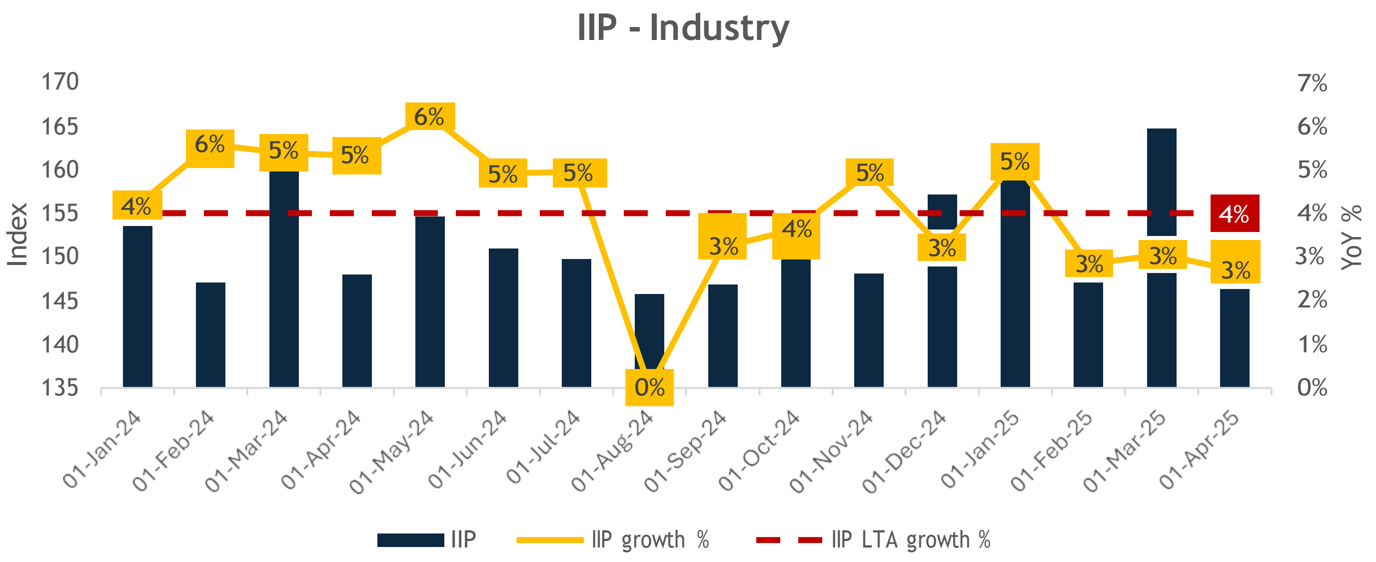
Commentary:

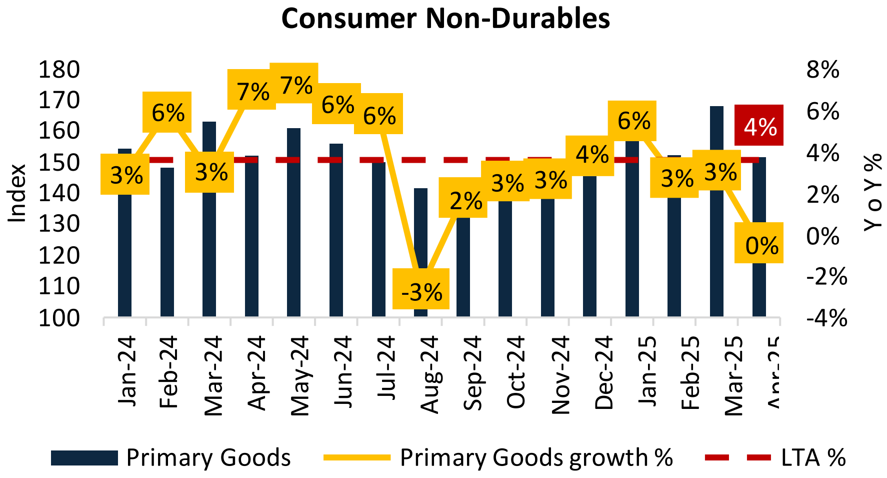
- India's **CPI inflation eased to 3.16% YoY in April 2025,** down from 3.34% in March, **marking the lowest level in over six years,** well within the **RBI's 4% target range in the near term.**
- **The decline was largely driven by a sharp fall in food inflation to 1.78%** (from 2.69%), **the lowest since November 2021. Disinflation was seen across vegetables, eggs, pulses, cereals, meat & milk products.** Vegetables (-10.98%), pulses (-5.2%) posted the deepest deflation, indicating a strong supply-led correction.
- On the other hand, prices of coconut oil (+50.03%) saw significant increases.
- **Rural and urban food inflation stood at lower levels,** reflecting broad-based softening in food prices across segments.
- **Urban headline inflation rose to 3.43% in April, while Rural inflation dropped to 3.25%, reflecting a divergence in pricing dynamics across geographies.**
- **Recent drops in crude and edible oil prices, driven by tariff-related global demand concerns, eased inflation pressures.**
- Precious metals such as gold (+34.09%) and silver (+31.57%) topped the inflation chart, reflecting increased demand as investors sought safe-haven assets amid rising trade tensions and tariff-related uncertainties.
- **Fuel & light inflation, which accounts for ~7% of total inflation, reversed to 2.92% from 1.48%**, while **housing inflation edged up to 3.03% (vs 2.91%)**, **education to 3.98% (vs 3.83%), health to 4.26% (vs 4.12%), and transport & communication to 3.30% (vs 2.93%), indicating modest increases in core and service categories.**

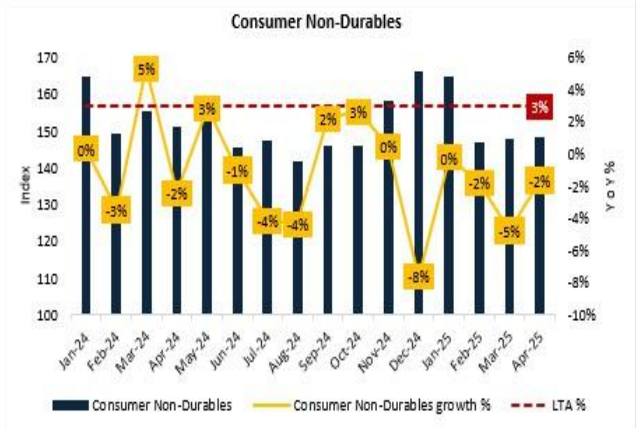
Outlook:

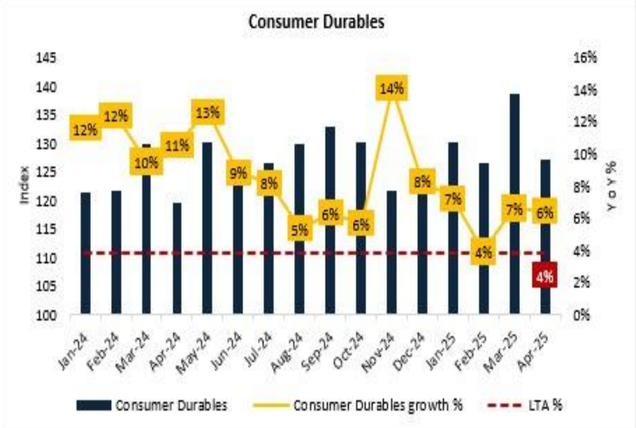
- **Headline CPI is likely to remain within 3.5-3.8% in FY26, supported by food-led disinflation and a high base effect**. However, **vegetable price reversal in May due to soaring temperatures in North India and unseasonal rains in southern states could pose near-term volatility risks.**
- A normal monsoon forecast by IMD and Skymet bodes well for agricultural output, but global tariff concerns and **commodity market swings remain key uncertainties that may affect the imported inflation trajectory.**
- **Crude oil prices are expected to stay soft** in the near term amid **global slowdown risks** and **trade policy uncertainties.**
- **With inflation easing and growth still moderate, a 25-50bps rate cut in the current fiscal looks likely**, with the next review of the MPC during June 4-6. The RBI's Monetary Policy Committee has cut the policy repo rate by a cumulative 50 basis points since February.
- **We expect the RBI to keep banking system liquidity in surplus,** at least over the next few months, to ensure a **smooth policy transmission and avoid any credit squeeze in the event of any global trade-led disruption.**

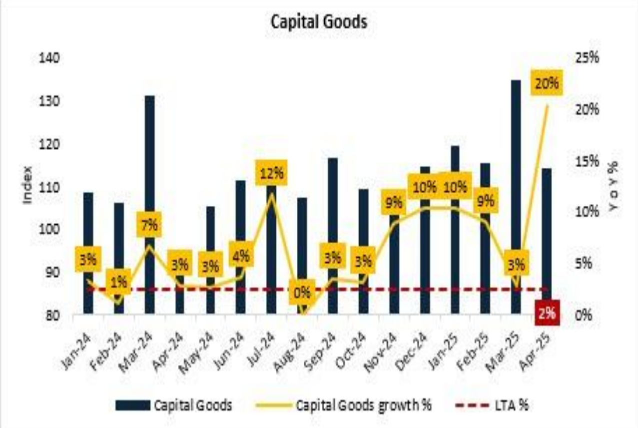
3. IIP (Index of Industrial Production)

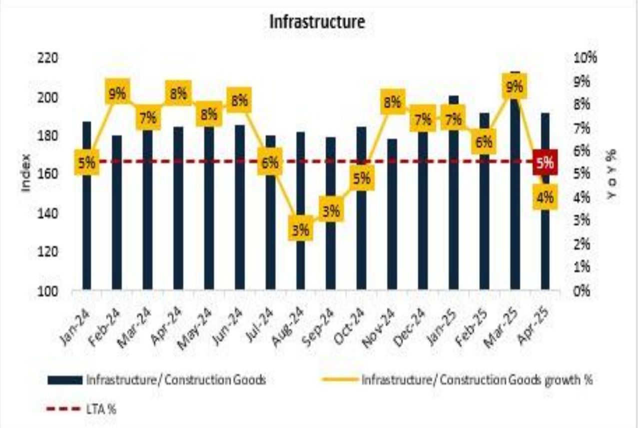




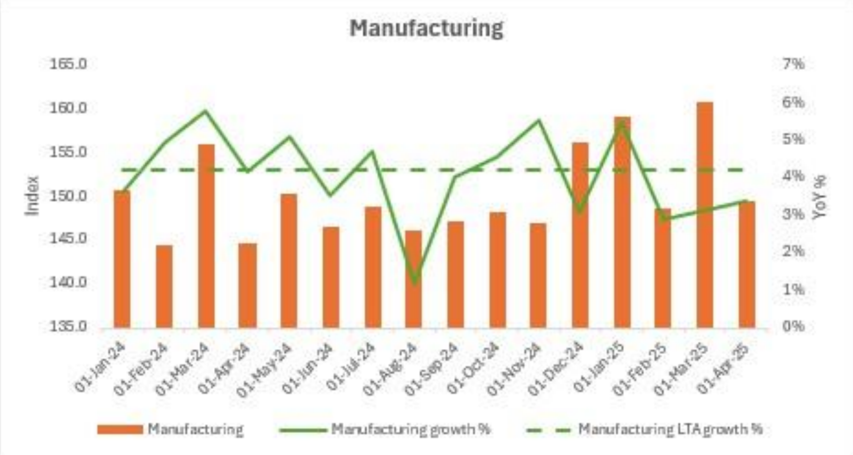


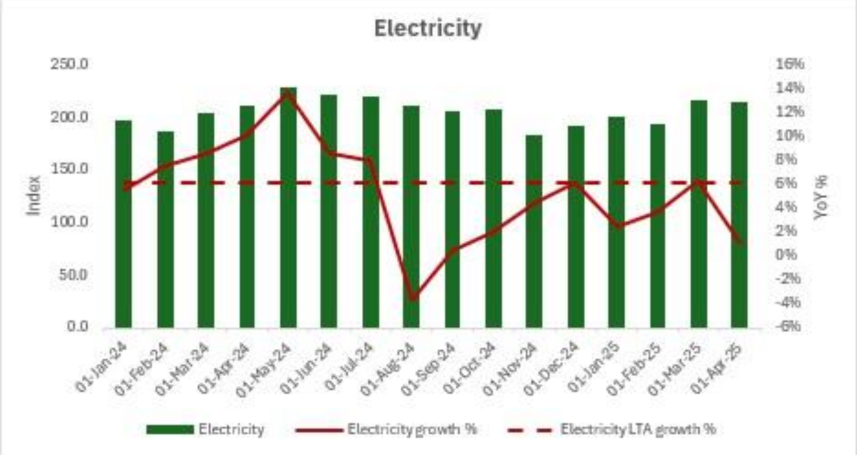






Source: Internal assessment based on RBI DBIE data





Industrial Growth in April 2025: Fragile Recovery Amid Sectoral Divergence

- **India's industrial growth remained moderate in April 2025, with the IIP rising by 2.7% YoY a sequential slowdown from March's 3.0%.** The **softer trend reflects lingering sectoral imbalances and a fading base effect,** with the industrial recovery proving fragile and uneven.

Sectoral Trends and Drivers

- **Manufacturing posted a 3.4% YoY expansion,** signaling continued **resilience but at a modest pace.** The breadth of recovery improved, as 16 out of 23 manufacturing groups grew, **led by basic metals, automobiles, and machinery.** Notably, **robust growth in basic metals was driven by demand for steel pipes, billets, and alloy products, indicating ongoing infrastructure and auto sector activity.** Machinery and auto-related manufacturing saw double-digit gains, **reflecting capex-linked demand and a catch-up in mobility segments.**
- However, **the pace remains below pre-pandemic highs,** with export-facing sectors still **affected by global uncertainty and input cost volatility.**
- **Mining contracted 0.2% YoY,** marking a reversal from earlier months. **This downturn likely stems from both lower commodity prices and softer demand for raw materials** as power and construction sector growth plateaus. **Persistent policy and environmental constraints may also be weighing on output.**
- **Electricity generation rose 1.1% YoY**, a slowdown compared to previous months. The moderation reflects stable—but not accelerating—industrial activity, **as well as improved efficiencies and base normalization after last year's surges.**

Use-Based Perspective

- **Capital goods output surged 20.3%** YoY, highlighting **continued public and private investment in machinery and equipment.** This is a positive signal for future capacity building and infrastructure rollout, **suggesting some durability in investment demand even as overall momentum softens.**
- Intermediate and infrastructure/construction goods both registered solid 4%+ growth, indicating that supply chains and construction projects remain active, supported by government spending and real estate activity.
- Consumer durables grew 6.4%, supported by demand in white goods, vehicles, and festival-related restocking. However, consumer non-durables fell 1.7%, extending a trend of subdued demand in staples and essentials—possibly due to rural demand headwinds and changing spending patterns.
- Primary goods output slipped 0.4%, highlighting volatility in basic commodity consumption.

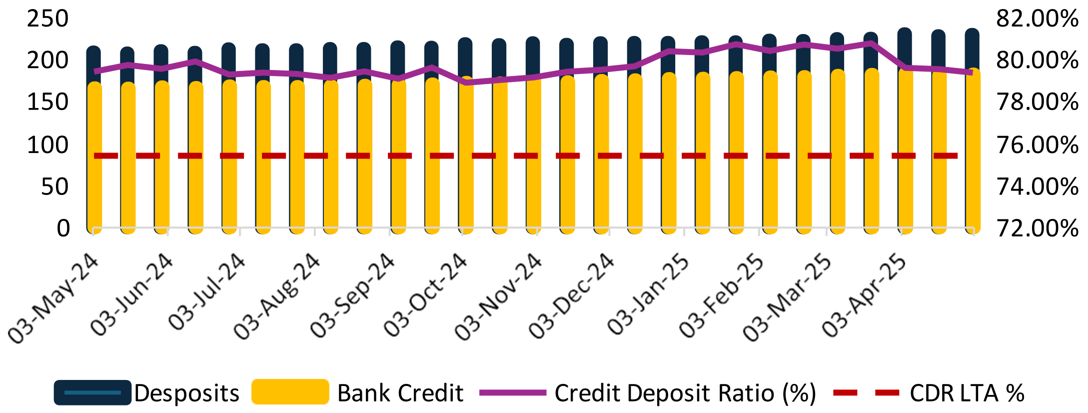
Outlook

- **The broadening of growth across manufacturing segments is a positive, particularly in capital-intensive industries and autos. However, persistent softness in mining and non-durables signals that the recovery is not yet entrenched across all sectors.**
- **Slowing electricity growth and negative prints in mining and primary goods reflect both cyclical cooling and the drag from global trade uncertainty, including weaker exports and ongoing commodity price pressures.**
- **External factors remain a major risk: The outlook for industrial growth is clouded by geopolitical tensions, US tariff policy, and potential disruptions to global supply chains. Any rise in tariffs or trade friction may encourage temporary front-loading of inventories, but risks stalling sustained production gains.**
- **Looking ahead, capital goods strength should support investment-led growth, while a normal monsoon and improving rural sentiment could aid non-durables later in FY26. Nevertheless, overall IIP momentum is likely to stay muted unless global conditions stabilize and domestic consumption picks up more broadly.**

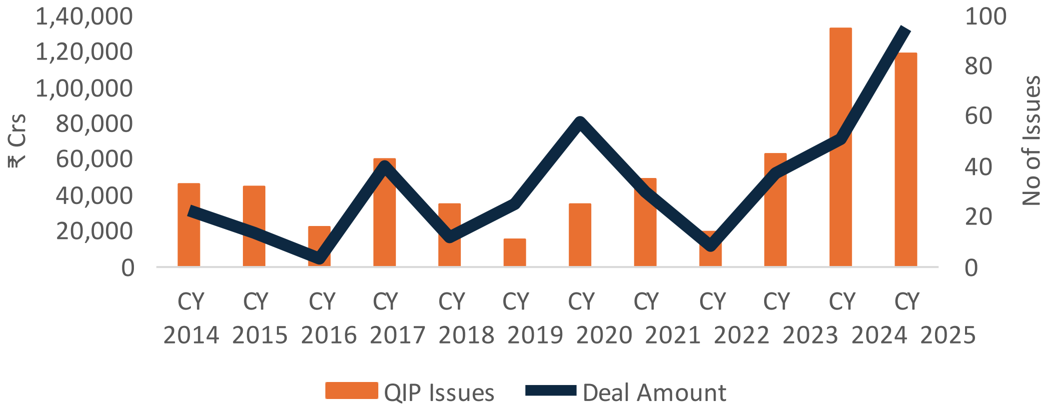
Source: Internal assessment based on RBI DBIE data

4. Capex

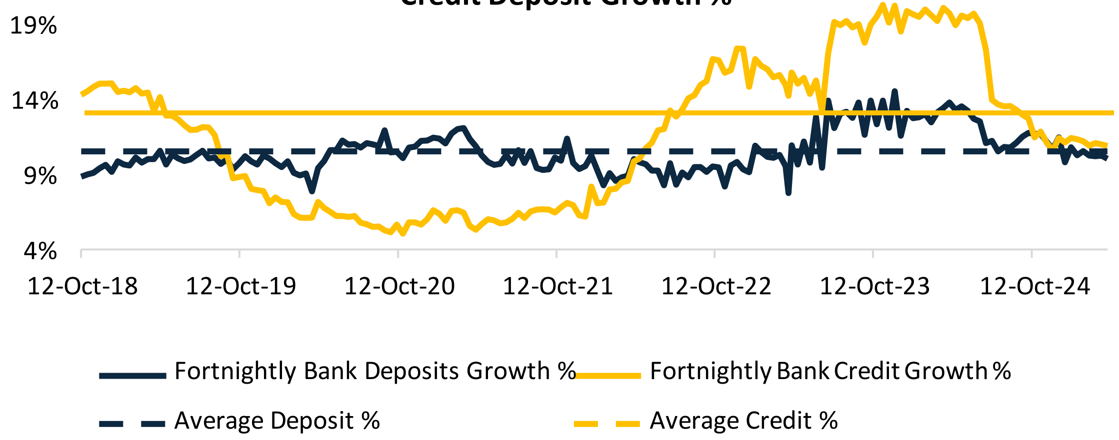
Credit Deposit Ratio



QIP



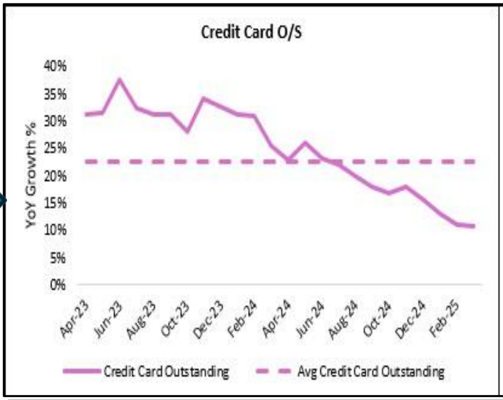
Credit Deposit Growth %

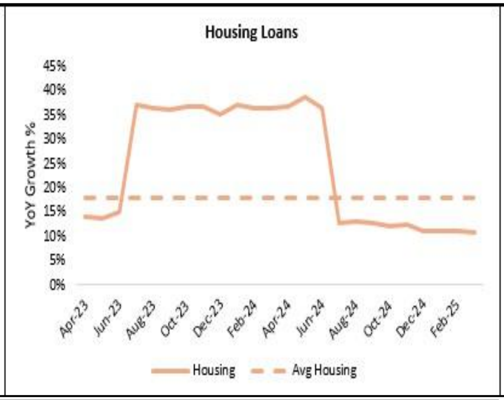


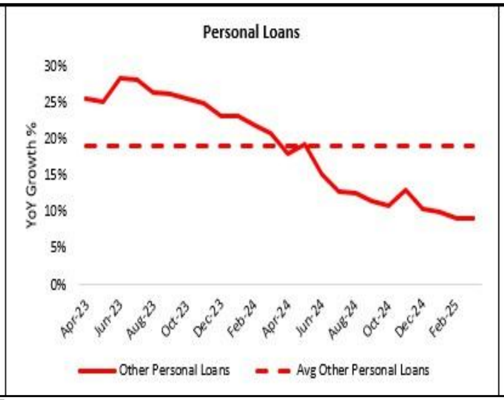
Capacity Utilization

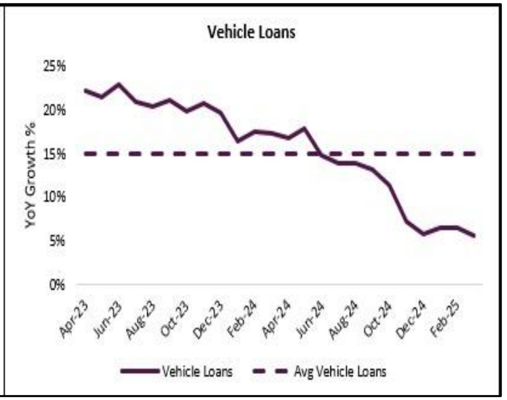
Source: Internal assessment based on RBI DBIE data

Credit to Consumer

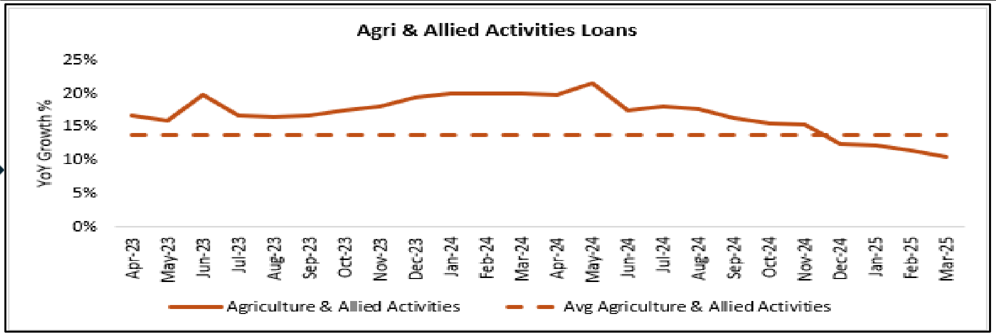




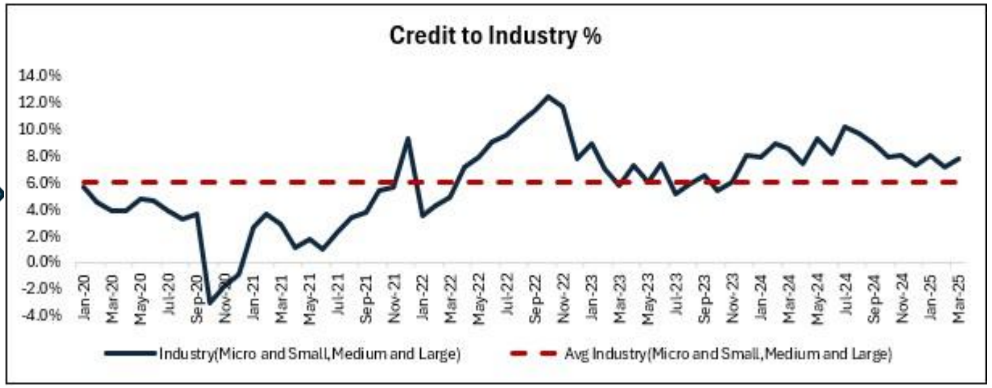


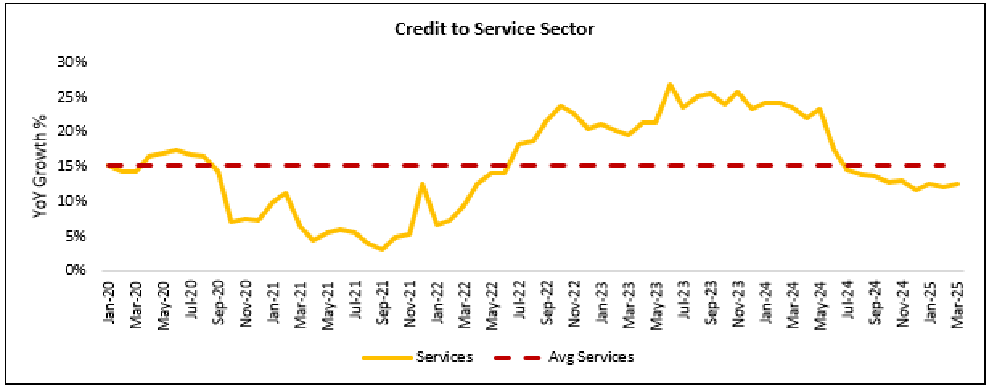


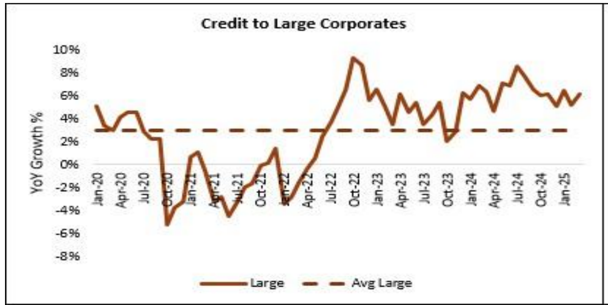
Credit to Agri

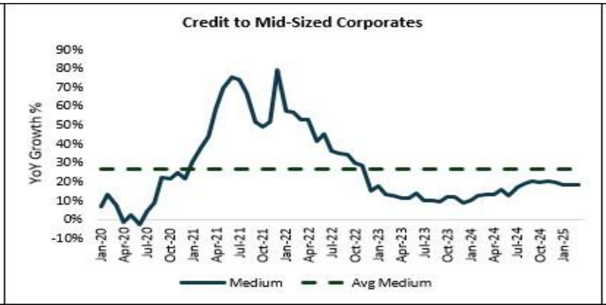


Credit to Industry









Source: Internal assessment based on RBI DBIE data

Structural Shifts Amid Slower Momentum

Deposit Growth Trends

- **Bank deposit growth moderated to 10.6% YoY in FY25**, down from 13% in FY24, **indicating a normalization from the post-pandemic liquidity surge.** Despite the deceleration, **the deposit base remains robust, underpinned by the growing preference for term deposits.**
- **Term deposits continued to dominate, accounting for 59.5% of total deposits as of March 2025** (vs 60% last year). This shift was driven by **higher interest rates**, making term deposits an attractive investment avenue, especially for **risk-averse savers.**
- Within term deposits, there is a clear tilt toward **medium-term maturities**: nearly 68.4% had original maturities of one to three years, reflecting both depositor preference for flexibility and banks' appetite for stable funding.
- The share of term deposits offering interest rates of 7% and above surged to 72.7% (March 2025) from 64.2% a year ago and just 33.5% in March 2023, **demonstrating aggressive rate competition for deposit mobilization**.
- Large-sized deposits (₹1 crore and above) **formed 45.1% of total term deposits**, up from 43.7% last year, **indicating rising participation from high-value depositors.**
- **Savings deposits lost share** (29.1% from 30.8% in March 2024 and 33% in March 2023), while current deposits remained stable at 9.8%, suggesting **businesses and individuals** preferred locking in **higher-yielding term products.**
- **Households remained the mainstay of deposit growth**, accounting for 60.2% of the total as of March 2025; within this, female depositors held a 20.7% share, and senior citizens contributed 20.2%—pointing to the growing financialization of household savings.
- Geographically, **metropolitan branches led with 11.7% growth**; rural (10.1%), semi-urban (8.9%), and urban (9.3%) centres followed, highlighting ongoing **urbanization and deposit mobilization efforts in tier-1 cities**.

Credit Growth and Deployment

- While deposit growth remained healthy, credit growth was subdued. **Bank credit expanded 12% YoY in FY25** (vs 15% a year ago), **with non-food credit at 12%** (down from 16.3% in FY24), reflecting **cautious lending amid evolving macro conditions.**
- **Capacity utilization improved** and remains above the long-term average (LTA) in Q4 FY25, **indicating healthy underlying industrial activity** and **lending appetite,** albeit with selective **sectoral deployment.**
- In sectoral deployment, trends were mixed:
  - Agri & allied loans: Growth rate slipped below LTA from the recent quarter onwards, possibly reflecting risk aversion and rural distress.
  - Housing loans: Below LTA for three consecutive quarters, hinting at cooling in the real estate credit cycle as property prices rise and sentiment moderates.
  - FD (Fixed Deposit) loans: Recently dipped below LTA, reflecting both tight funding costs and possibly shifting household credit demand.
  - Vehicle loans: Persistently below LTA, possibly due to cyclical slowdown in auto demand and tighter underwriting norms.
  - Education and gold loans: Both above LTA, but education loans are now showing resistance to stay above trend, with growth decelerating in recent months.
  - Consumer durable and consumer loans: Both have trended below LTA for several months, highlighting demand-side caution and possibly increased borrower risk aversion.
  - Credit to large corporates: Remains well above LTA, underlining banks' preference for low-risk, high-ticket lending and a revival in corporate capex.
  - SMID (Small, Mid, and Micro Enterprises): Credit growth has dropped below LTA in recent months, indicating renewed stress in the MSME sector or stricter bank credit standards.

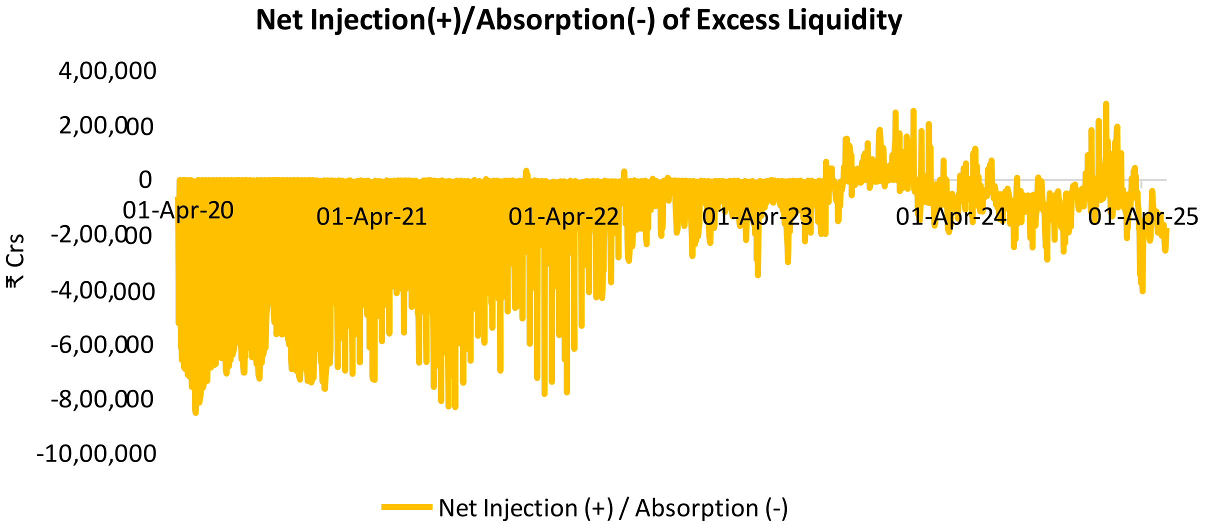
QIP fundraising

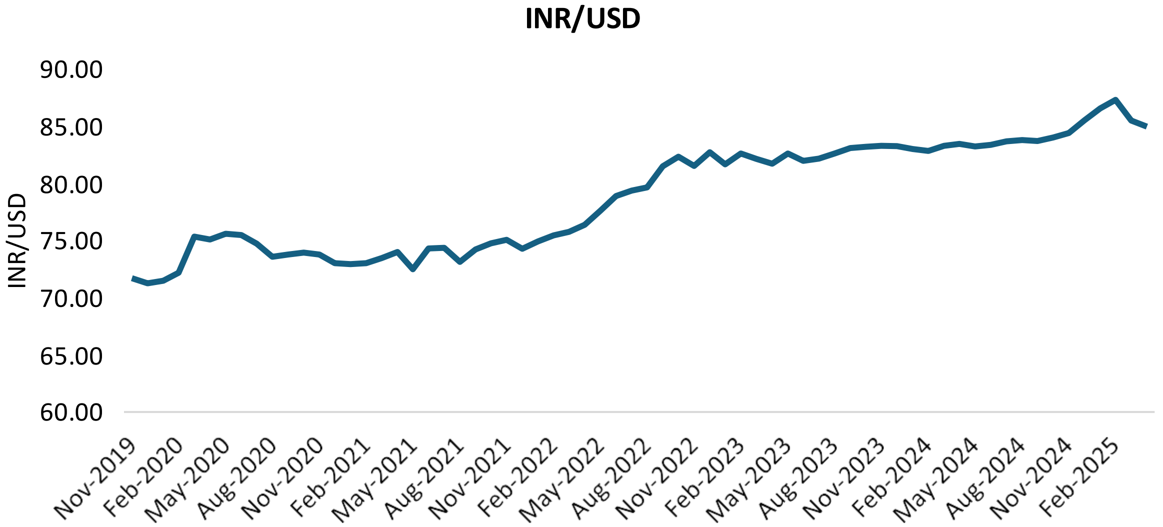
- Indian corporates tapped capital markets aggressively, **with ₹1.33 lakh crore raised through QIPs in FY25—a record high**–signaling healthy investor appetite and **providing alternate funding avenues for the private sector.**

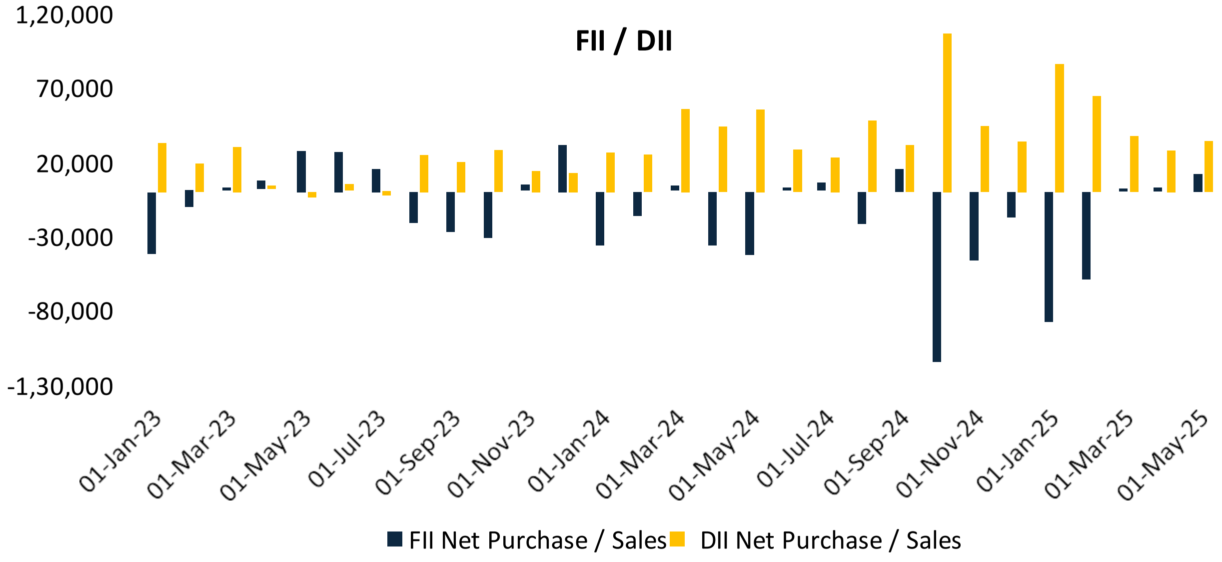
Composition Shifts and Outlook

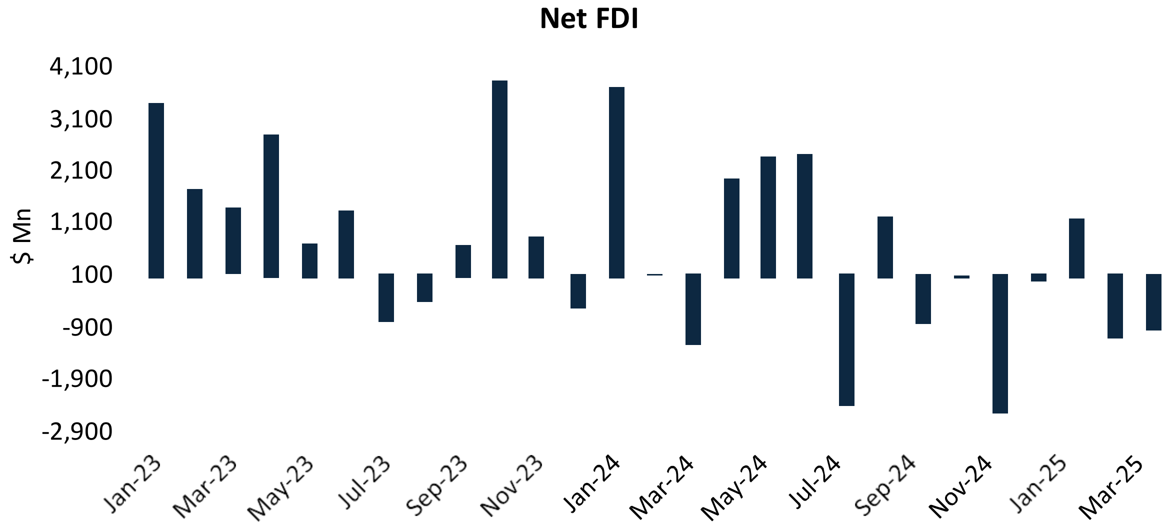
- The ongoing shift toward higher-rate term deposits is expected to continue in FY26 as long as rate differentials remain favorable.
- The structural tilt in credit deployment—toward large corporates and away from retail/small-ticket segments—suggests banks are prioritizing asset quality and risk management over aggressive balance sheet growth.
- While overall growth rates have moderated, the underlying system remains healthy: deposit mobilization is robust, capacity utilization is above historical averages, and capital market funding (via QIPs) is active, collectively supporting financial stability.

5. Liquidity



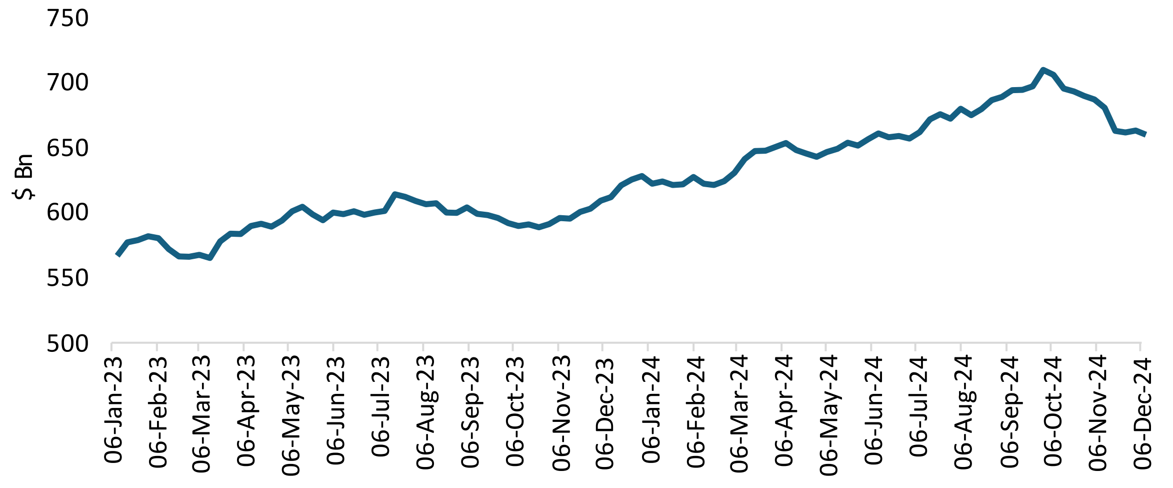




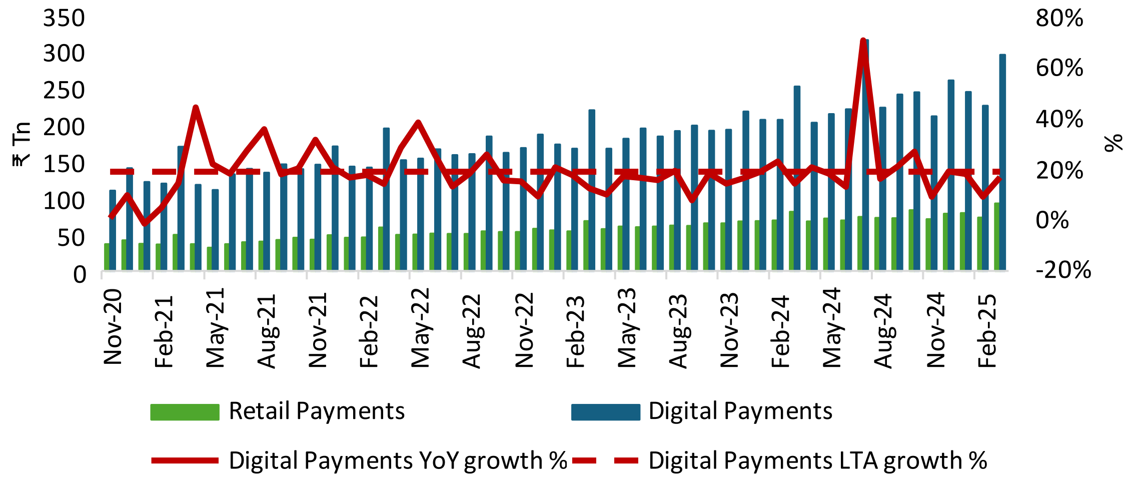


Source: Internal assessment based on RBI DBIE data

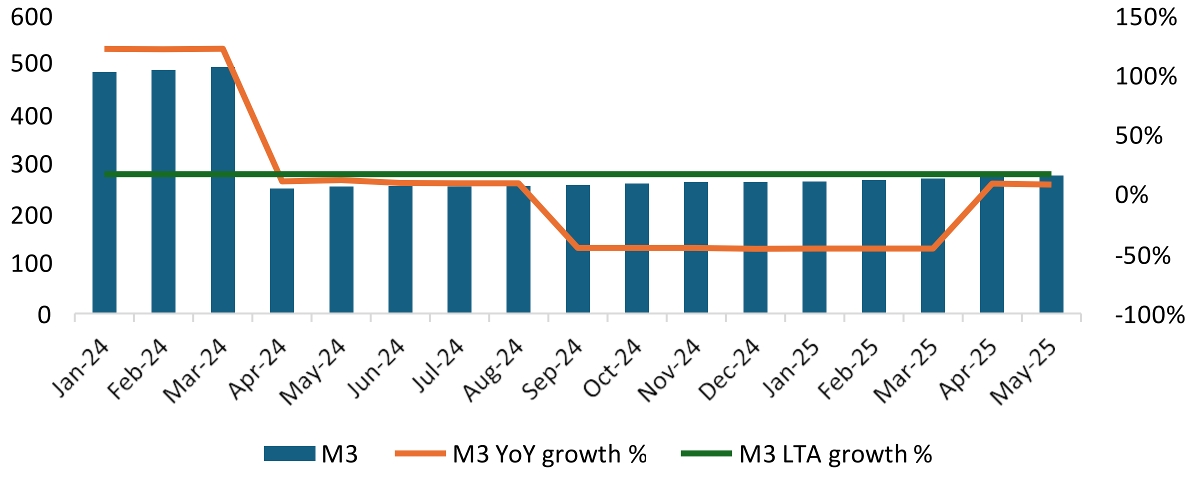
Foreign Exchange Reserves (USD Bn)



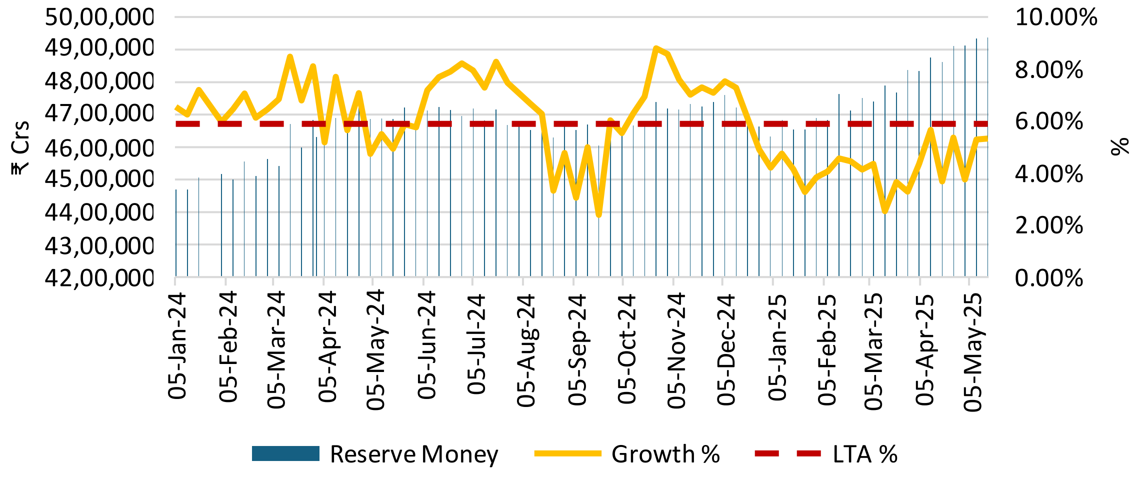
Payments



Money Supply



Reserve Money



Source: Internal assessment based on RBI DBIE data and Bloomberg

FII Reliance to DII Resilience : A Strategic Shift in India

Phase	Financial year (INR cr)	FII Net flows	DII Net flows	Nifty Returns	Who moved the market
FII Dominance	FY 13	100,088	-66,936	8.3%	FIIs
	FY 14	74,482	-54,072	13.1%	FIIs
	FY 15	63,761	-19,264	26.8%	FIIs
	FY 16	-44,909	78,687	-5.4%	FIIs
Mixed phase	FY 17	25,362	29,932	16.9%	DIIs/FIIs
	FY 18	-78,531	114,600	8.7%	DIIs
	FY 19	-26,002	72,407	8.2%	DIIs
	FY 20	-90,044	128,208	-26.8%	FIIs
	FY 21	201,377	-132,389	49%	FIIs
DII Dominance	FY 22	-274,244	221,660	19.4%	DIIs
	FY 23	-198,639	255,236	1.5%	DIIs
	FY 24	208,211	206,717	23.6%	DIIs/FIIs
	FY 25	-1,27,041	6,08,035	5.3%	DIIs

India's Liquidity Landscape

- **April and May 2025 saw significant shifts in India's banking and monetary liquidity.** The Reserve Bank of India (RBI) took center stage, **infusing large amounts of cash into the system and fine tuning multiple policy levers to ensure that banks had ample funds for lending,** while also safeguarding financial stability.

Record RBI Surplus Transfer:

- A landmark event was the **RBI's record surplus transfer of ₹2.69 trillion** to the government for FY25–substantially higher than the previous year's ₹2.11 trillion. This was possible despite the **RBI raising its Contingent Risk Buffer (CRB) to 7.5%,** the top of its new range. The robust surplus stemmed from massive gross dollar sales of $399 billion and strong income from government securities and foreign assets. While the government gained extra fiscal breathing room (enough to reduce the deficit by about 20 basis points), markets were a little disappointed, having expected a transfer closer to ₹3 trillion. **If the CRB hadn't been raised, the surplus could have exceeded ₹3.5 trillion.** However, the higher buffer gives the RBI more flexibility in managing profits and risks amid global volatility.

Aggressive Liquidity Injection & Policy Moves:

- The RBI injected **approximately ₹1.2 trillion into the system in April through OMO** (open market operations) bond purchases and foreign exchange swaps. Another **₹1.25 trillion infusion is planned for May**, rolled out in four tranches. Long-term variable rate repo (VRR) auctions provided an extra ₹1.5 trillion. As a result, **surplus liquidity as of April 28 reached ₹2 trillion.**

Cash Reserve Ratio (CRR) and LCR Adjustments:

- The RBI announced a **phased 100 basis point reduction in the CRR—from 4% to 3%**–to be implemented from **September to November 2025**. This move will inject around **₹2.5 lakh crore** into the banking system, lowering **funding costs for banks and supporting more lending.** Additionally, the RBI relaxed liquidity coverage ratio (LCR) requirements by reducing the extra run-off factor for digital deposits, which is expected to free up **₹2.7–3 trillion for credit growth.** As of now, most banks' LCR ratios are comfortably above regulatory minimums, at 115-130%.

Repo Rate Cut and Policy Stance:

- **In June, the RBI's Monetary Policy Committee cut the repo rate by 50 basis points to 5.5%,** marking its third consecutive cut in 2025. The policy stance shifted from **"accommodative" to "neutral"** reflecting a balanced approach as the RBI waits for more economic data to guide further decisions.

Market Response & Yields:

- Government bond yields, especially on 10-year securities, eased by 33 basis points during FY25, closing at 6.24%. The new 10-year bond yield briefly touched 6.20%. However, the spread between Indian and US 10-year yields narrowed to a 20-year low (164 bps), partly due to rising US Treasury yields. This, combined with profit booking and foreign investor selling, led to some weakness in Indian bonds.

Rupee & Forex Reserves:

- The rupee depreciated to ₹86 per dollar, affected by foreign outflows from equities and increased dollar demand from banks. Near-term, the rupee may weaken further to ₹86.50-86.60, but over the medium term, it could appreciate if the dollar weakens globally and India's economic fundamentals stay strong.
- India's **total forex reserves dipped to $685.7 billion by mid-May** (down $4.9 billion in a week), while **gold reserves fell nearly 6%** to $81.2 billion. SDR holdings and the IMF reserve position also dropped slightly. This recent volatility in reserves partly reflects interventions to counter global trade tensions and geopolitical uncertainties.

Digital Payments & Cash Usage:

- Digital payment volumes continue to soar. In May 2025, **UPI transactions hit a record 18.68 billion** (₹25.14 trillion in value), a **33% year-on-year jump in volume.** Daily UPI transactions rose to over 602 million. IMPS, FASTag, and AePS systems also registered solid MoM and YoY growth, underscoring India's rapidly evolving payment landscape.
- Despite this digital surge, **Notes in Circulation (NiC) reached around ₹34.8 trillion in 2024**, up sharply from ₹2.1 trillion in 2001. **Growth in cash demand has slowed in recent years, especially as high-denomination notes and widespread ATM access have made it easier for people to hold less cash.**

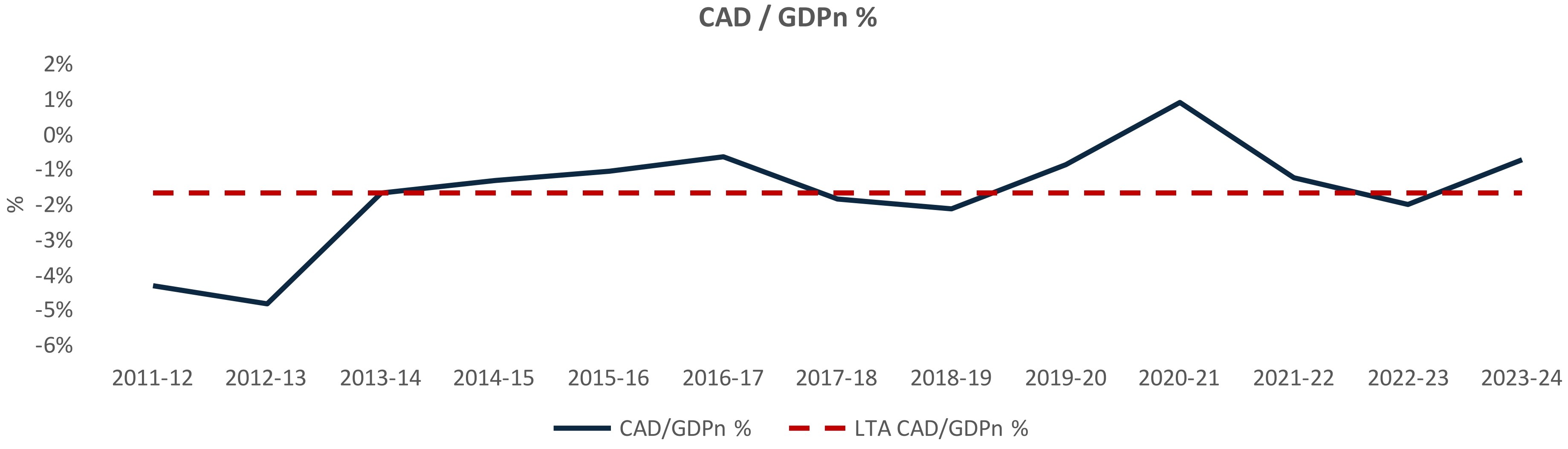
Credit Card & Bank Lending Trends:

- **Credit card spending was robust, up 18% YoY in April** (₹1.84 trillion), **though slightly lower than March's high.** Net card additions, while stable MoM, were down 25% YoY, indicating that banks are now more focused on cross-selling and maintaining credit quality than on rapid growth. Bank lending capacity is set to increase further as the CRR cut is implemented, and the combination of liquidity injections and LCR relaxations is expected to support both credit growth and economic activity going forward.

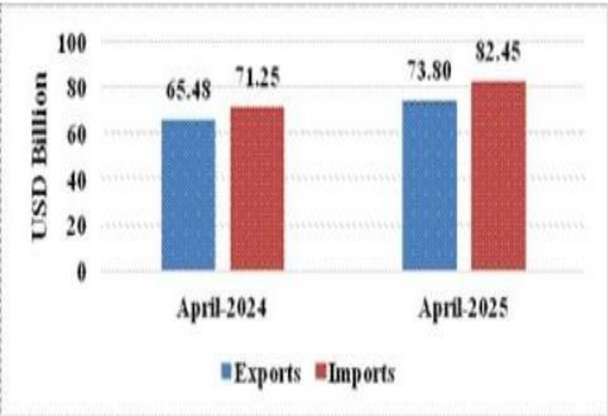
Conclusion:

- **The RBI's actions in recent months show a strong commitment to keeping the banking system well-supplied with liquidity, while also managing risks from global uncertainty and changing capital flows. The record surplus transfer, aggressive liquidity infusions, CRR cuts, and payment system advances position India to support growth and financial stability. However, market and currency volatility, and the need for continued vigilance in managing reserves and credit risks, will remain key watchpoints in the coming quarters.**

6. Trade

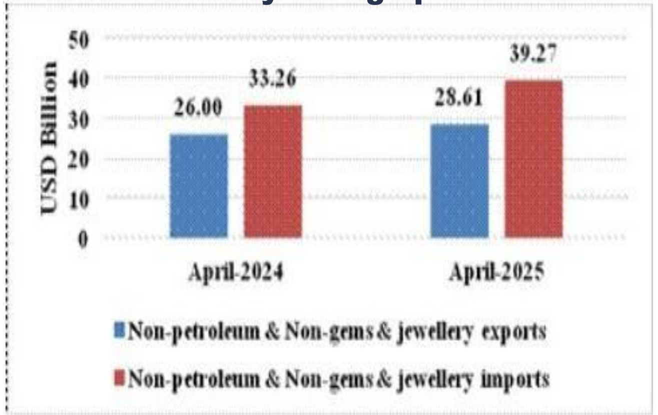


Total Trade during April-2025

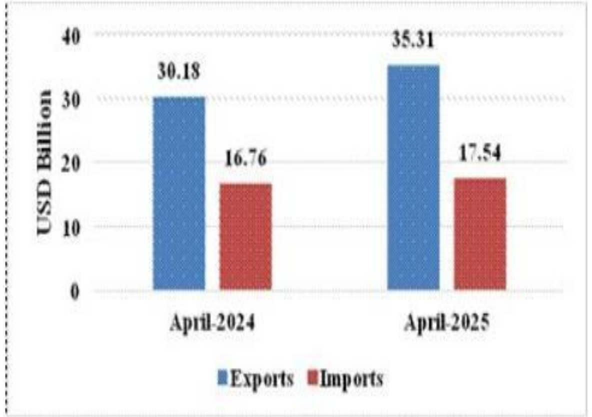


Merchandise Trade during April-2025

Trade excluding Petroleum and Gems & Jewellery during April-2025

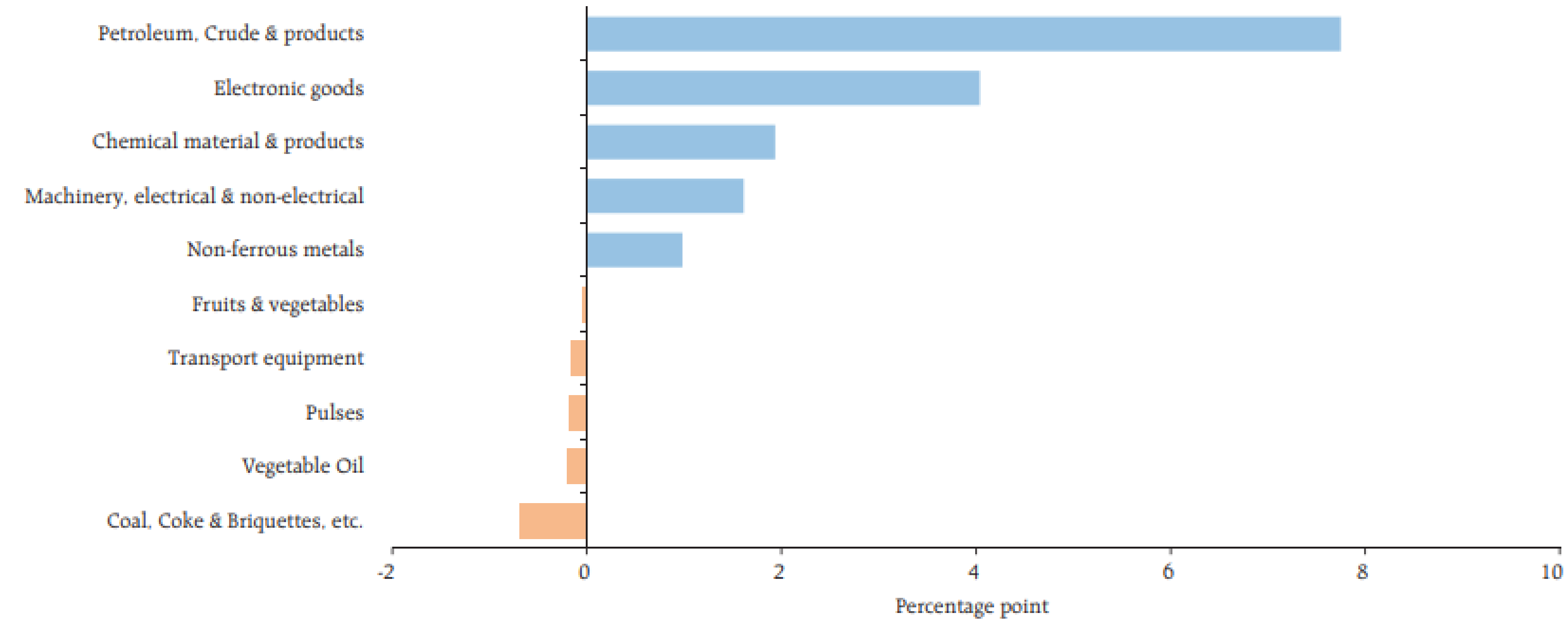


Services Trade during April-2025

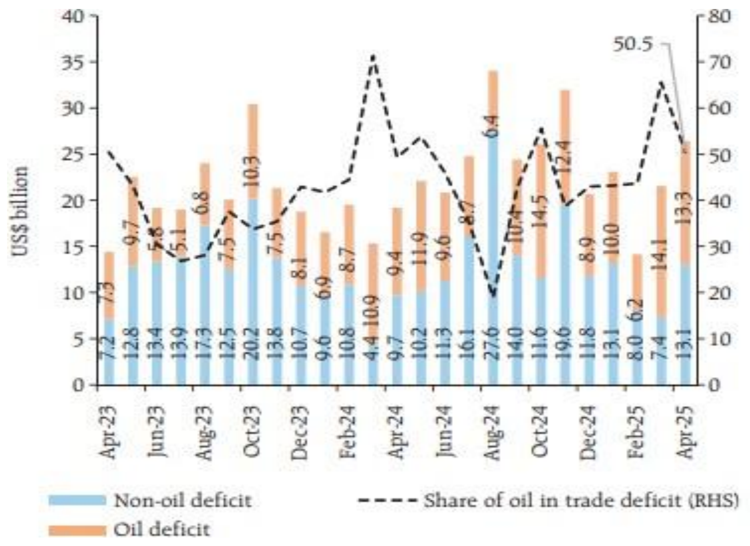


Source: Economic Survey / DGCIS, M/o Commerce & Industry

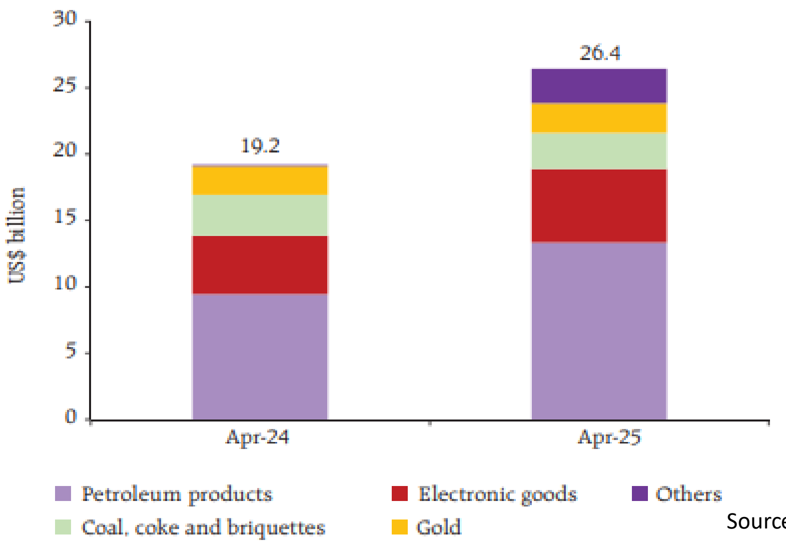
India's Merchandise Imports – Relative Contribution (April 2025 over April 2024)



Decomposition of India's Merchandise Trade Deficit



Commodity-wise Merchandise Trade Deficit



Source: KIE

India's Trade Snapshot — April 2025: Key Trends

Overall Trade Balance

- Total trade deficit (merchandise + services) **widened to $8.65 billion (April 2025)** vs $5.77 billion (April 2024).
- **Merchandise trade deficit rose to $26.4 billion** (from $19.2 billion a year ago).
- **Oil deficit increased to $13.3 billion** (from $9.4 billion), now making up 50.5% of the total trade deficit.
- **Non-oil deficit also widened to $13.1 billion** (from $9.7 billion).
- **Services sector surplus reached $17.77 billion.**

Merchandise Exports

- **Grew 9.0% YoY to $38.5 billion in April 2025,** aided by a favorable base effect.
- 23 of 30 major commodities (86.2% of export basket) posted YoY growth.
- **Key positive contributors:** Electronic goods, Engineering goods, Petroleum products, Gems & jewellery & Ready-made garments (all textiles)
- **Negative contributors:** Organic & inorganic chemicals, Iron ore, Oil meals, Oil seeds & Other cereals
- Exports to 11 of 20 major destinations expanded; US, UAE, Netherlands were top destinations.

Merchandise Imports

- Expanded 19.1% YoY to $64.9 billion (April 2025), due to both positive momentum and base effect.
- 23 of 30 major commodities (82.5% of import basket) showed growth.
- **Major drivers:** Petroleum, crude & products, Electronic goods, Chemical materials & products, Machinery & Non-ferrous metals,
- **Drags on imports:** Coal, coke & briquettes, Vegetable oil, Pulses, Transport equipment & Fruits & vegetables
- Imports from 17 of 20 major sources increased, especially from China, Russia, UAE, US.

Services Trade

- Services exports (estimated): $35.31 billion (+17% YoY)
- Services imports: $17.54 billion (+4.6% YoY)
- Net services surplus: $17.77 billion

Annual FY 2024-25 Highlights

- Total exports (merchandise + services): $824.9 billion (+6% YoY, record high)
- Cumulative merchandise exports: $437.42 billion (+0.08% YoY)
- Non-petroleum exports: $374.08 billion (+6% YoY)

Sectoral Export Growth (FY 2024-25 YoY)

❑ **Strong double-digit growth in:**

- Coffee (+40%)
- Tobacco (+37%)
- Electronic goods (+32%)
- Rice (+20%)

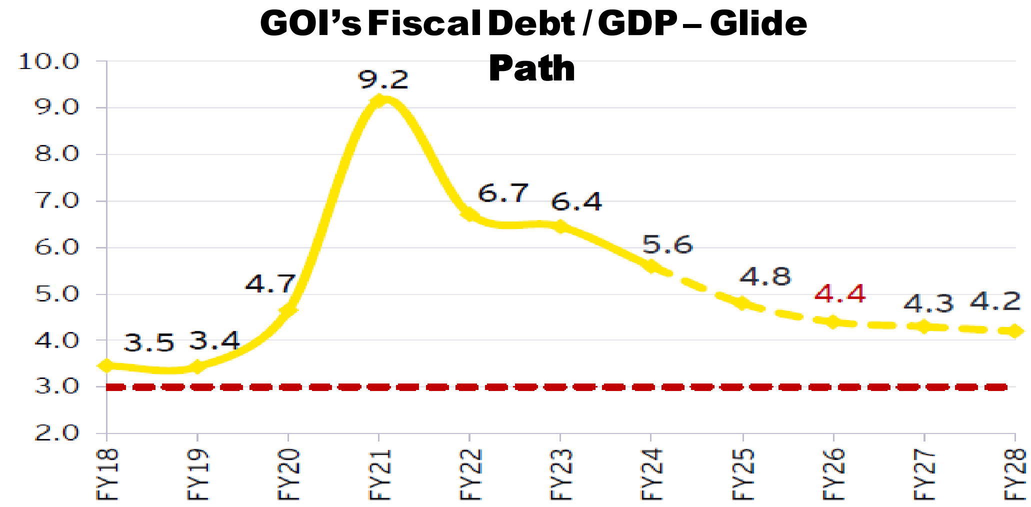
❑ **Moderate gains:**

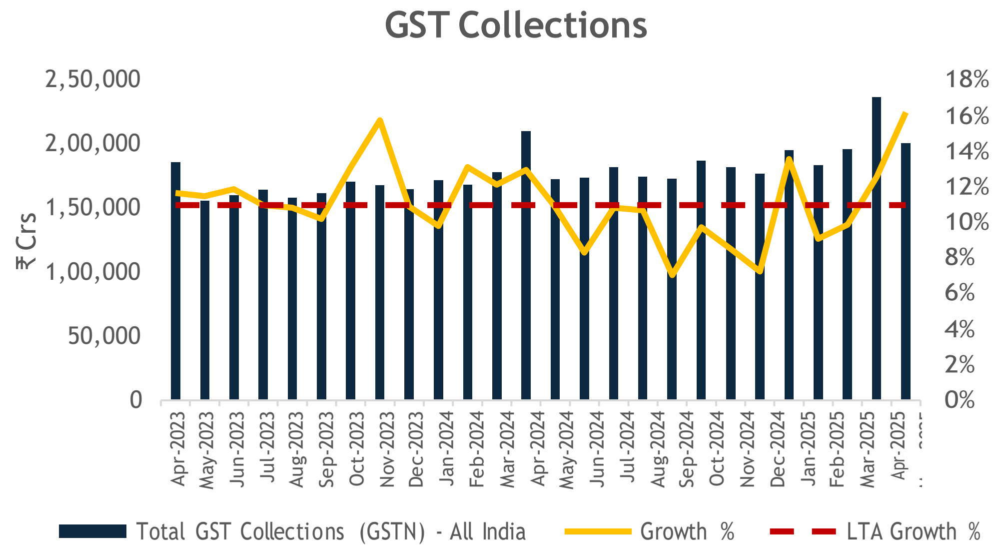
- Jute, meat & dairy, tea, carpet, plastics, RMG textiles
- High-value sectors:
- Engineering goods (+7%)
- Pharma (+9%)

❑ **Stable to modest rise:**

- Cereal products, minerals, fruits & vegetables (5-9%)

7. Fiscal Situation





GOI's Fiscal Position

	FY23	FY24	YoY (%)	FY25RE	YoY (%)	FY26 BE	YoY (%)
Direct tax revenues	16.6	19.6	17.9	22.4	14.4	25.2	12.7
Indirect tax revenues	13.9	15.1	8.5	16.2	7.1	17.5	8.3
Gross Tax revenues	30.5	34.7	13.6	38.5	11.2	42.7	10.8
Net Tax revenues [A]	21.0	23.3	10.9	25.6	9.9	28.4	11.0
Non-tax revenues [B]	2.9	4.0	40.8	5.3	32.2	5.8	9.8
Disinvestmt & Others [C]	0.7	0.6	-17.2	0.6	-1.3	0.8	28.8
Total Revenue [A+B+C]	25	28	13.6	31	12.8	35	11
Capital Exp [D]	7.4	9.5	28.2	10.2	7.4	11.2	10.1
Revenu Exp [E]	34.5	34.9	1.2	37.0	5.8	39.4	6.7
Total Expenditure [D+E]	41.9	44.4	6.0	47.2	6.1	50.7	7.4
Fiscal Deficit	-17.4	-16.5	NA	-15.7	NA	-15.7	NA
Nominal GDP	272.4	295.4	8.4	324.1	9.7	357.0	10.1
Fiscal deficit as (%) of GDI	6.4	5.6		4.8		4.4	

GOI's Fiscal Position - as a % of GDP

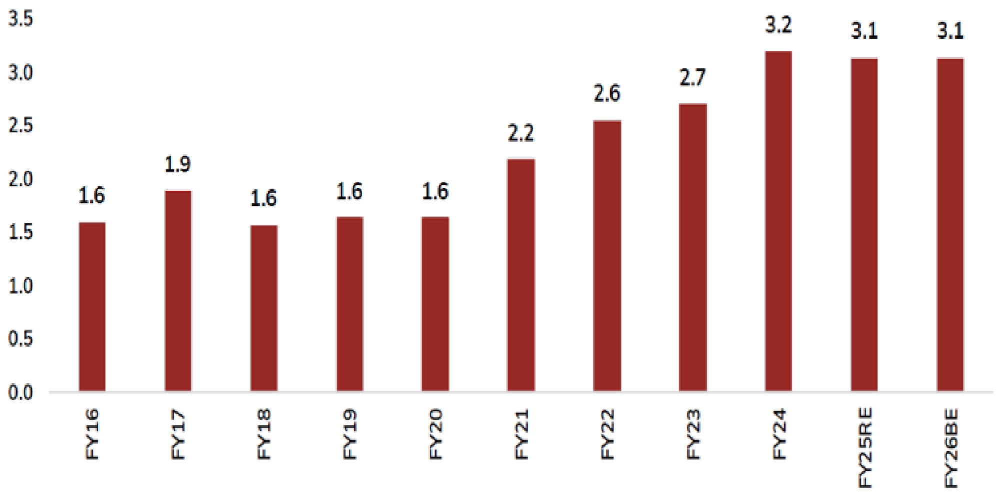
	FY23	FY24	FY25RE	FY26 BE
Direct tax revenues	6.1	6.6	6.9	7.1
Indirect tax revenues	5.1	5.1	5.0	4.9
Gross Tax revenues	**11.2**	**11.7**	**11.9**	**12.0**
Net Tax revenues [A]	7.7	7.9	7.9	7.9
Non-tax revenues [B]	1.0	1.4	1.6	1.6
Disinvestmt & Others [C]	0.3	0.2	0.2	0.2
Total Revenue [A+B+C]	**9.0**	**9.4**	**9.7**	**9.8**
Capital Exp [D]	2.7	3.2	3.1	3.1
Revenu Exp [E]	12.7	11.8	11.4	11.0
Total Expenditure [D+E]	**15.4**	**15.0**	**14.6**	**14.2**
Fiscal Deficit	**6.4**	**5.6**	**4.8**	**4.4**

GOI's Fiscal Position - growth rates

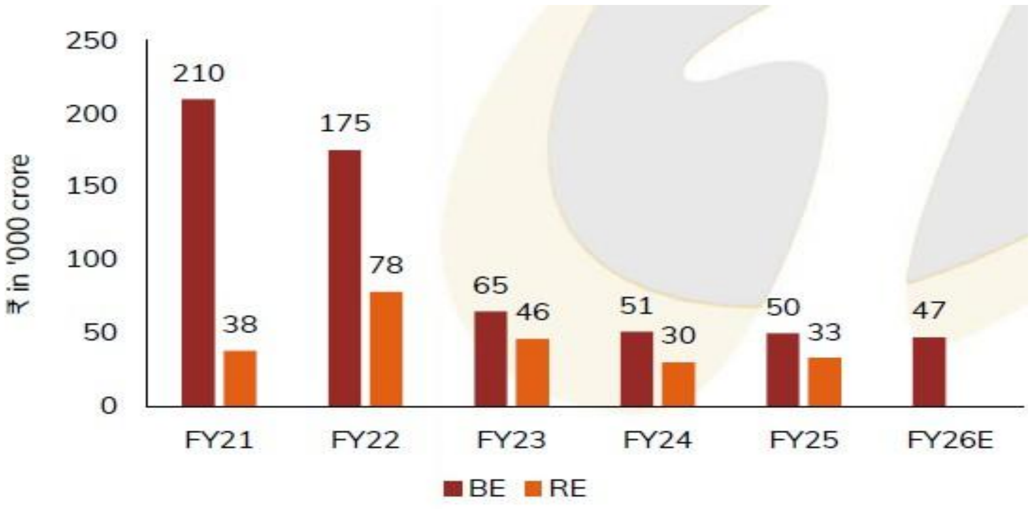
	FY21	FY22	FY23	FY24	FY25RE	FY26BE
GDP	1,97,46,000	2,36,64,637	2,72,40,712	2,95,35,667	32400627	35964696
Gross Tax Revenue	**10.3%**	**11.4%**	**11.2%**	**11.7%**	**11.9%**	**12.0%**
Corporate Tax	2.3%	3.0%	3.0%	3.1%	3.0%	3.0%
Income Tax	2.5%	2.9%	3.1%	3.5%	3.9%	4.0%
GST	2.8%	3.0%	3.1%	3.2%	3.3%	3.3%
Others (Excise+Customs)	2.7%	2.5%	2.0%	1.9%	1.7%	1.6%
Total Exp	17.8%	16.0%	15.4%	15.0%	14.6%	14.2%
Capital	2.2%	2.5%	2.7%	3.2%	3.1%	3.1%
Revenue	15.6%	13.5%	12.7%	11.8%	11.4%	11.0%
Growth in Capex		39.1%	24.8%	28.2%	7.4%	10.1%
Growth in RevEx		3.8%	7.9%	1.2%	5.8%	6.7%
Fiscal deficit(%)	**9.2%**	**6.7%**	**6.4%**	**5.6%**	**4.8%**	**4.4%**
Subsidies						
Fertiliser	0.65%	0.65%	0.83%	0.59%	0.53%	0.47%
Food	2.74%	1.22%	1.05%	0.67%	0.61%	0.57%
Petroleum	0.19%	0.01%	0.03%	0.04%	0.05%	0.03%
Interest	**3.4%**	**3.4%**	**3.5%**	**3.7%**	**3.5%**	**3.9%**
Gross Borrowing	**6.9%**	**4.8%**	**5.2%**	**5.2%**	**4.3%**	**4.2%**

Source: KPMG and ICICI Direct Budget report

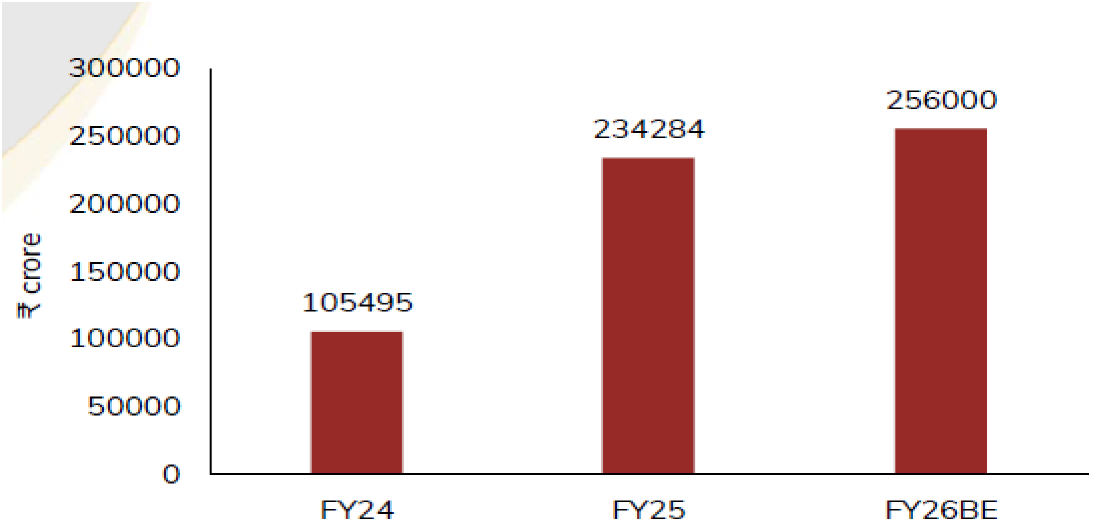
Capex as a % of GDP



Disinvestment Target



Payout from the RBI



GOI's Debt / GDP

Years	GoI's Revenue Deficit/Fiscal Deficit ratio	Centre	Combined (IMF)
		Debt to GDP ratio	
FY15	71.6	50.1	67.1
FY16	64.3	50.1	69.0
FY17	59.1	48.3	68.9
FY18	75.1	48.2	69.7
FY19	70.0	48.1	70.4
FY20	71.4	50.7	75.0
FY21	79.7	60.7	88.4
FY22	65.1	57.4	83.5
FY23	61.6	56.5	81.7
FY24	46.2	57.5	83.0
FY25 (RE)	38.9	56.1	83.1
FY26 (BE)	33.4	55.1	82.6

Source: KPMG and ICICI Direct Budget report

Fiscal Discipline

Key Budget and Fiscal Developments

- **Fiscal Deficit:**
  On the fiscal deficit front, the central government maintained a disciplined approach. The FY25 fiscal deficit stood at ₹15.77 trillion, marginally above the revised estimate of ₹15.70 trillion, but well below the FY24 level of ₹16.54 trillion. This outcome was supported by both higher revenue and capital expenditure, with the deficit ratio contained at 4.8% of GDP, in line with the official target. The FY26 target has been further tightened to 4.4% of GDP, indicating a sustained commitment to fiscal consolidation despite challenging global and domestic conditions.

- **Borrowing:**
  The government's gross market borrowing was raised to ₹14.8 trillion for FY25, up from ₹14.0 trillion in the previous year, as market interest rates stabilized and investor appetite remained robust. Net borrowing, however, remained well anchored, aided by substantial receipts from the Reserve Bank of India (RBI).

Receipts and Expenditure

- Revenue Performance:
  Net tax receipts for FY25 reached ₹24.99 trillion, representing 97.7% of budget estimates and reflecting strong GST and direct tax collections. Non-tax revenues stood at ₹5.38 trillion (101.2% of budget), benefiting from a record RBI dividend payout of ₹2.11 trillion–a 141% YoY increase–providing a vital buffer to the exchequer.

- Expenditure Execution:
  Total central government expenditure was ₹46.56 trillion (98.7% of budget), with capital expenditure reaching ₹10.52 trillion—exceeding targets by 3.3% and demonstrating the government's continued emphasis on investment-led growth. Revenue expenditure also increased to ₹36.04 trillion (97.4% of budget), largely on account of higher welfare allocations and increased outlays for flagship schemes.

Central, State, and Household Capex Momentum:

- **Central Government Capex:**
  As detailed above, central capex intensity remains high, with allocations to infrastructure, defence, and housing driving total outlays. Execution was back-loaded due to the general election, with a robust pipeline expected in the final quarters of FY25 and into FY26.

- **State Government Capex:**
  State capex remains a vital component of India's overall investment momentum. Despite fiscal constraints and rising social expenditure commitments, aggregate state capex is expected to record modest growth in FY25, supported by central transfers and incentives for infrastructure projects. However, risks remain due to potential delays in project execution, populist spending in the run-up to state elections, and capacity constraints in urban local bodies. Several major states are targeting urban infrastructure (metros, water, sanitation), but actual realization will hinge on both revenue buoyancy and administrative bandwidth.

- **Household Capex:**
  Household capital formation, especially in the form of housing investment, continues to play a significant role in gross fixed capital formation (GFCF). While the past 2-3 years have seen robust growth driven by low interest rates and urban demand, the pace has moderated in FY25 due to higher property prices, cautious sentiment in the IT sector, and some cooling in mortgage lending. However, medium-term prospects remain positive, supported by demographics, urbanization, and government policy support for affordable housing.

Source: Internal assessment based on RBI DBIE data

Tax Collection & Non-Tax Revenue

- **GST Collections:**
  India's GST collections hit a record ₹2.37 lakh crore in April 2025 (+12.6% YoY), on strong domestic demand and a sharp rise in import-related GST (+20.8%). Net GST receipts (post-refunds) stood at ₹1.73 trillion in May, up 20.4% YoY, even as refunds rose. The sequential moderation from April's all-time high reflects normalizing trade activity, though underlying business momentum remains robust, as indicated by record e-way bill generation (119 million in April, second-highest ever). GST receipts may remain elevated in coming months if strong goods movement persists.

- **Direct Taxes & Dividends:**
  Income tax and corporate tax performance was healthy but faces some downside risk in FY26 due to potentially weaker markets and lower capital gains. Non-tax revenue benefitted from a historic RBI dividend, with further upside possible in FY26 if surplus transfers exceed budget estimates.

Personal Income Tax & Consumption Support

- **Tax Relief Measures:**
  The Union Budget 2025-26 introduced the most significant overhaul in personal tax structure to date, raising the exemption limit from ₹7 lakh to ₹12 lakh. This move is expected to inject additional disposable income of ₹30,000 to ₹1.1 lakh per annum for 30-40 million taxpayers, potentially boosting private consumption through the multiplier effect. The expected cost to the exchequer is ~₹1 trillion (0.3% of GDP).

- **Consumption Outlook:**
  This tax relief, alongside increased allocations for rural and social schemes, is likely to support near-term consumer sentiment and drive an uptick in demand—especially as inflation eases and rural incomes rise on the back of a strong monsoon and Kharif harvest.

Disinvestment & Divestment

- **Targets & Realization:**
  The disinvestment target for FY26BE is maintained at ₹47,000 crore, in line with recent years. However, receipts may undershoot budget estimates due to challenging market conditions and subdued investor appetite.

Risks, Offsets & Outlook

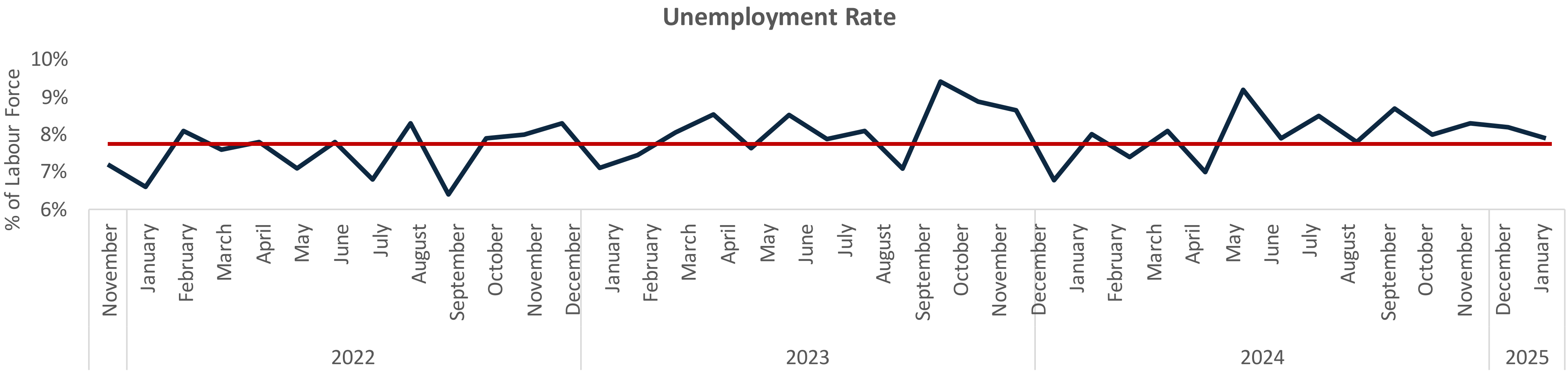
- **Receipts Downside:**
  Tax revenues could face pressure from lower-than-expected GDP growth and weaker market-linked collections (especially STT and capital gains). Gross tax revenue is estimated to be ₹1 trillion below budget, while non-tax receipts may fall short on lower divestment.

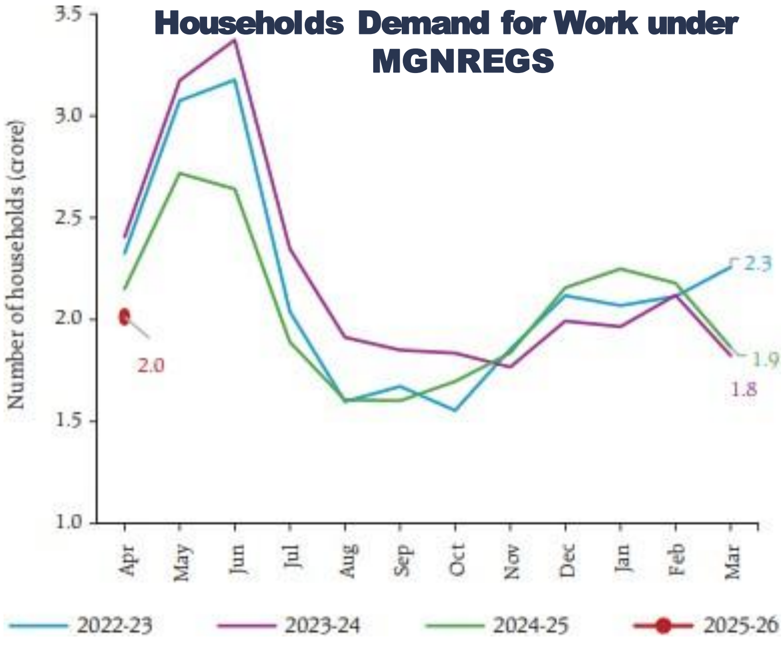
- **Expenditure Flexibility:**
  The government retains some leeway to defer or reallocate up to ₹1–1.5 trillion in spending (0.3-0.4% of GDP) by postponing new schemes and non-essential expenditures, providing a buffer to absorb revenue shocks or reorient spending toward priority sectors.

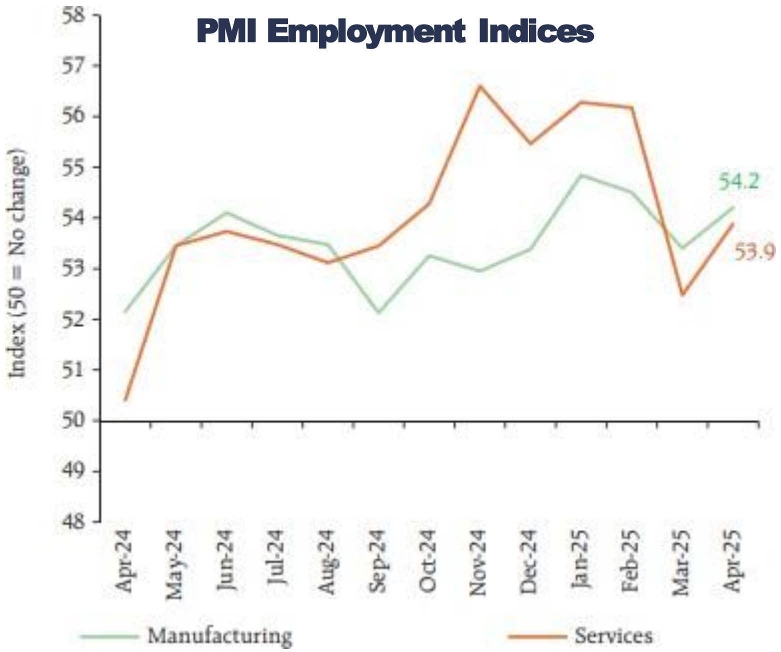
- **Overall Fiscal Position:**
  With the help of a higher nominal GDP base and robust RBI surplus transfer, the government is well-placed to meet its FY26 fiscal deficit target of 4.4% of GDP, barring major adverse shocks. Fiscal quality remains preserved, with capex-led spending prioritized, and space available to adjust policy as needed if global or domestic risks materialize.

Source: Internal assessment based on RBI DBIE data

8. Employment





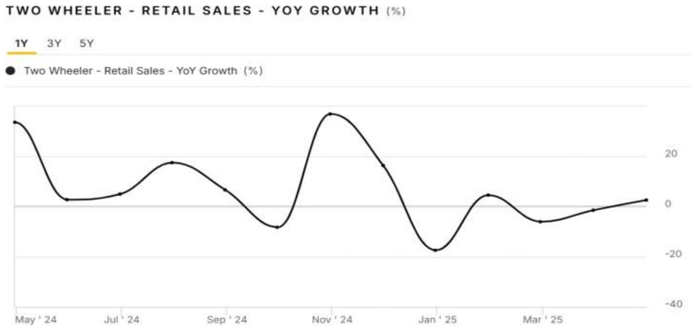


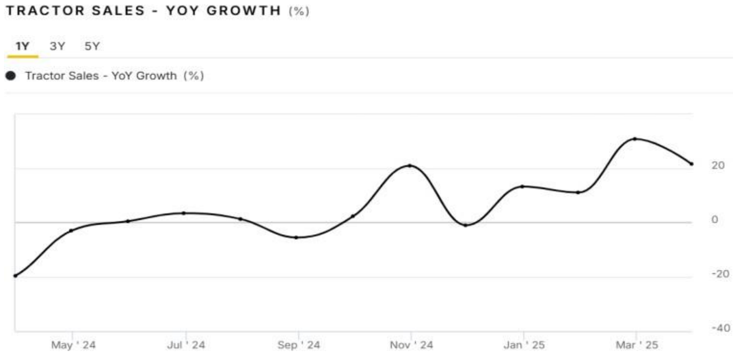
Employment Conditions Update April - 2025

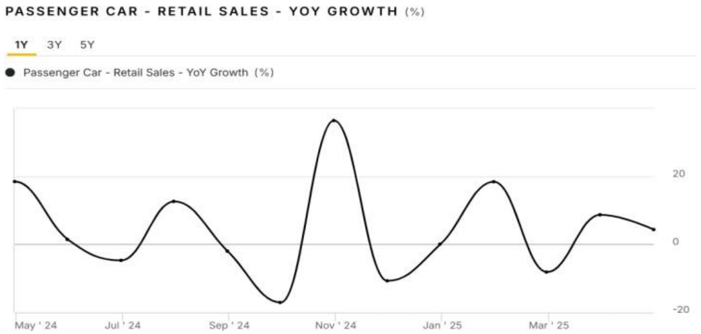
- As per the PMI survey, job creation in organized manufacturing and services sectors picked up pace in April 2025.
- During April 2025, **household demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) rose by 7.9%** sequentially; however, it remained at its lowest level for the month of April since the onset of recovery from the pandemic.
- During April 2025, household demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) rose by 7.9 per cent sequentially; however, it remained at its lowest level for the month of April since the onset of recovery from the pandemic.
- **Labour market conditions in India are showing positive trends,** particularly with the **increasing participation of women in the workforce.** The **Labour Force Participation Rate (LFPR) has increased to 60.1% in 2023-24 from 57.9% in the previous year and 49.8 in 2017-18.**
- The labour market in Jan-Dec 2024 remained resilient. **The LFPR and WPR came down in 2024, driven entirely by a fall in LFPR and WPR among rural females**

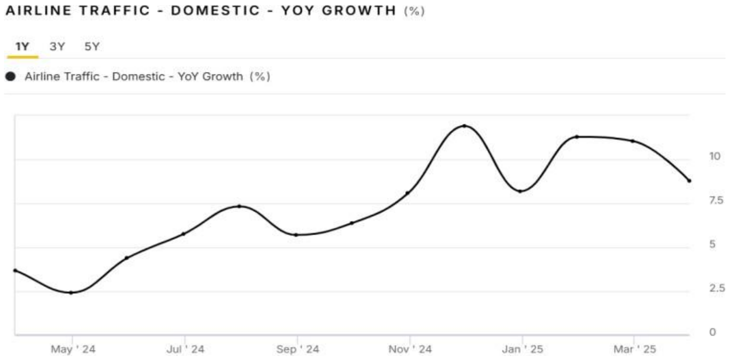
Source: RBI Bulletin and Internal assessment

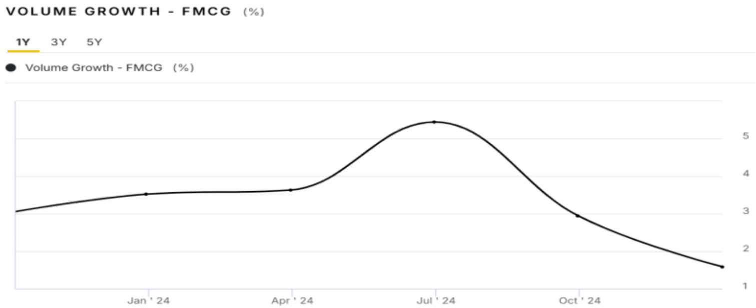
9. Demand Indicators











Select Consumer Demand Indicators

Rural Demand

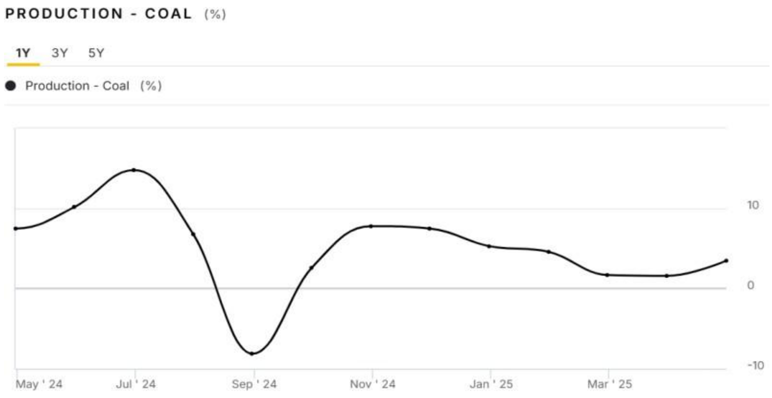
Tractor sales is down primarily due to the preponement of the Chaitra Navratri festival to March, which led to a shift in seasonal demand. This resulted in higher sales in March and a subsequent dip in April. **and fertilizer sales have seen a mild downtick**, urea offtake dropped by 23.5% year-on-year in April 2025. This decline was attributed to substantial carryover stocks from previous months, which reduced the immediate need for new purchases. In contrast, **two-wheeler sales have been on a decline**, reflecting a divergence in rural consumption trends.

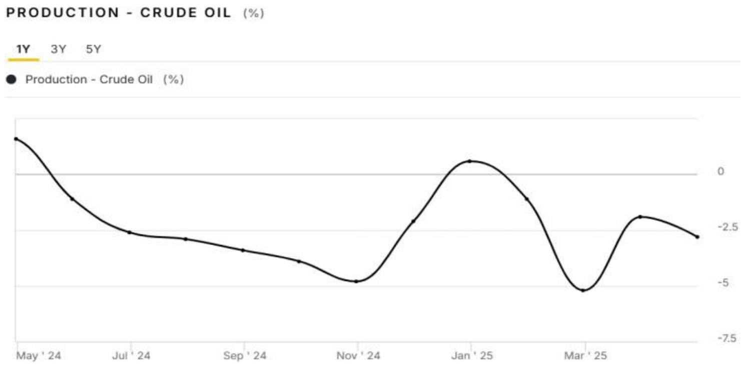
Urban Demand

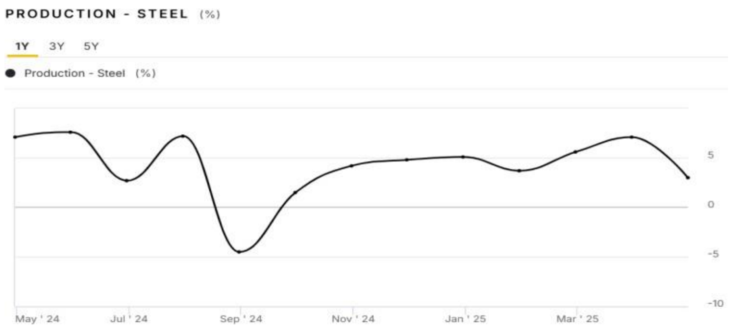
Sales of Passenger Vehicles, FMCG Volume growth, Credit card transactions and Airline passenger traffic experienced a downtick just after the festive season.

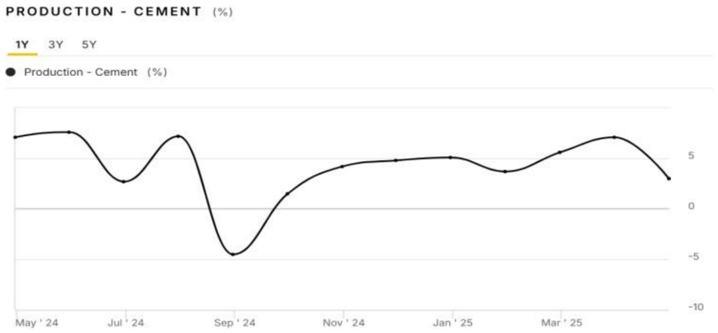
High-frequency indicators suggest that rural demand remains resilient, buoyed by improved agricultural activity, while urban demand appears to be entering a soft patch, reflecting a broader slowdown in discretionary consumption.

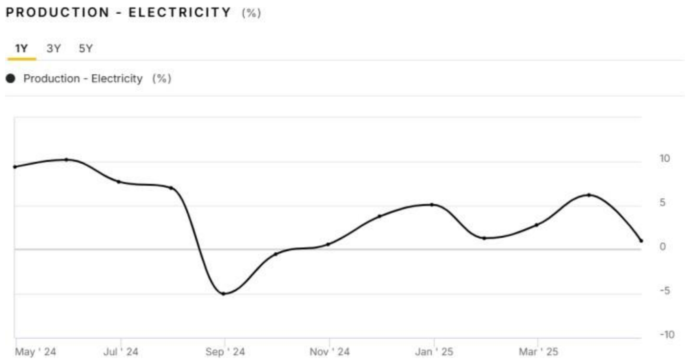
Source: Internal assessment based on data from Tijori Finance

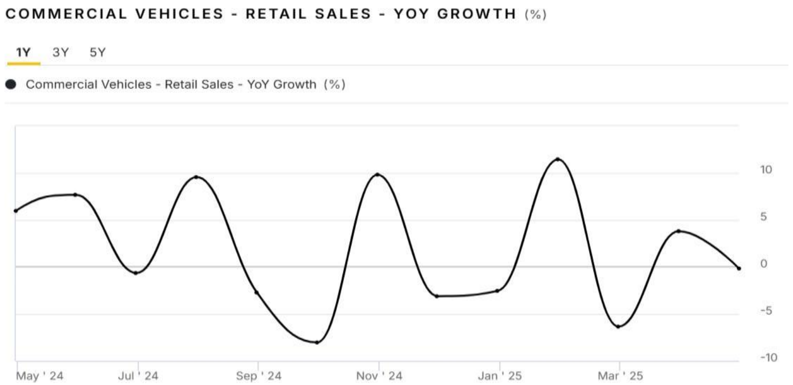


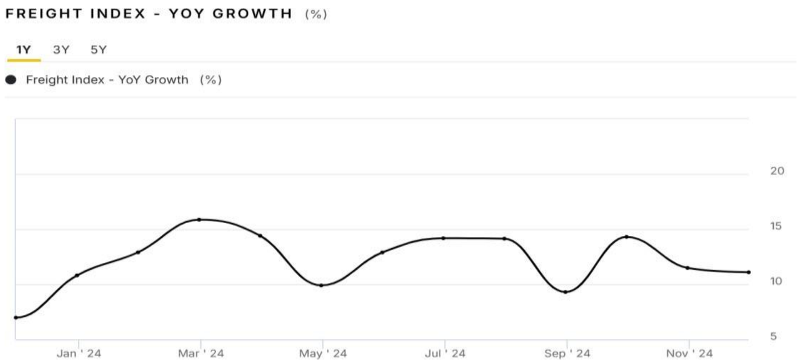












Select Industrial Demand Indicators

- **High frequency indicators suggest that aggregate demand remained broadly resilient in April 2025.** The Reserve Bank of India's (RBI) May 2025 bulletin highlighted that supply chain pressures remain below the historical average levels in April – particularly for the services sector reflect resilience in economic activity in April. **Many firms appear to be postponing significant capital expenditures, awaiting clearer policy directions**.
- In summary, **India's industrial sector is experiencing a phase of cautious growth, India's external sector remained resilient notwithstanding global uncertainty impacting supply chains.**

Source: Internal assessment based on data from Tijori Finance

Economic Heatmap

Cautious Optimism

The Indian economy currently finds itself in a measured and cautious phase, with private sector capital expenditure and GDP growth moderating amid lingering uncertainties surrounding global tariff regimes and trade policies. This wait-and-watch approach by corporates is evident in the subdued momentum across key industrial segments, despite otherwise stable macroeconomic conditions .However, there are notable tailwinds. As highlighted in the RBI's April 2025 Bulletin, inflation remains well anchored within the central bank's target range, Repo rate cut by 50 bps and systemic liquidity continues to be in comfortable surplus. After rate cut the RBI will have a limited room to consider policy rate reductions. Yet, for this policy impulse to translate into sustained, broad-based recovery, we must witness a tangible improvement in aggregate demand, both from urban consumers and rural households. Strengthening consumption fundamentals through improved income visibility and employment generation will be critical in converting macro-stability into durable growth momentum.

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%	1%								3.99%
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%	14.9%	15.5%
Standard Deviation	21.7%	26.4%	30.5%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	2	1
No of Years	26	20	12

Tempered Down Expectations

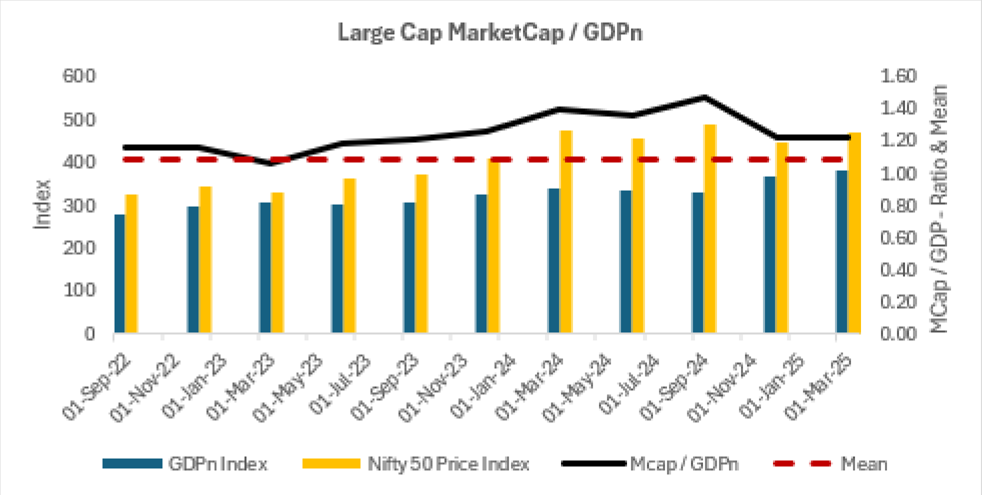
- **From Oct 2024 till May 2025, the Nifty 50 Index has declined ~1%**, sparking caution among investors. **Historically, the Nifty 50 has given a CAGR of ~12% over the past ~26 years**, with an average of only 1 month in a year where returns have declined by 6% or more (this number is the almost the same for mid and small caps). 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 Caps registered a CAGR of ~15% over the past ~20 years and Small Caps registered a CAGR of ~15% over the past ~12 years**. As we start CY 2025 with a modest 3% return for Nifty 50, thus exhibiting mean reversion from the past two years, **we expect muted returns in the Large Cap segment, atleast in the first 9 months of this calendar year**. Mid and Small Caps have given a return of ~24% each in CY 2024 which followed 44% and 56% return respectively in CY 2023. Hence, **we expect returns in Mid and Small Cap Indices to be subdued in 9M of CY 2025 with reversion to their long-term mean**.

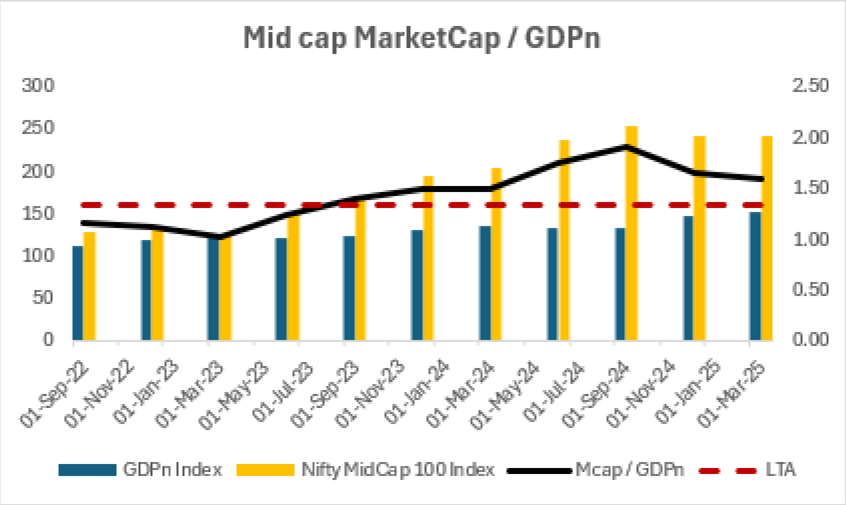
- The Risk-Return Matrix shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.

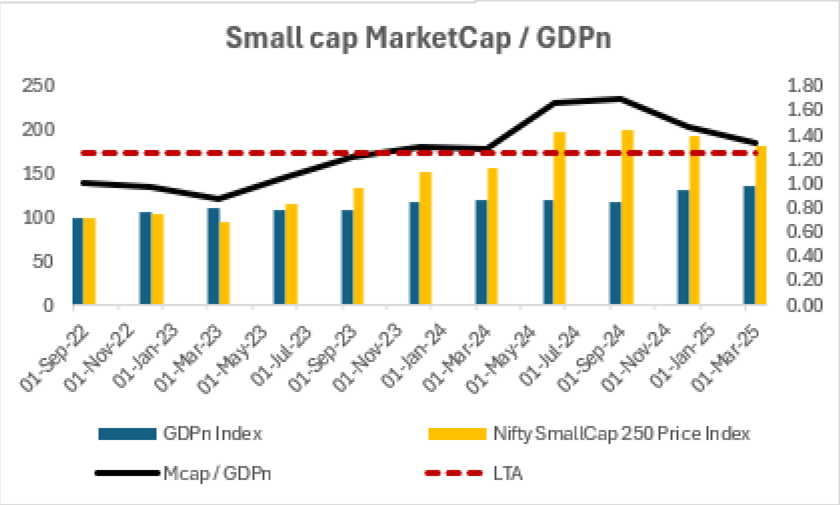
- **As per TTM PE valuations Mid Cap and Small Cap seem to be marginally Overvalued and Large Caps Fairly-valued.**

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.24	23.91	-7%	Fairly Valued
Mid Cap	32.84	32.30	2%	Overvalued
Small Cap	32.19	25.39	27%	Overvalued

Buffett Indicator







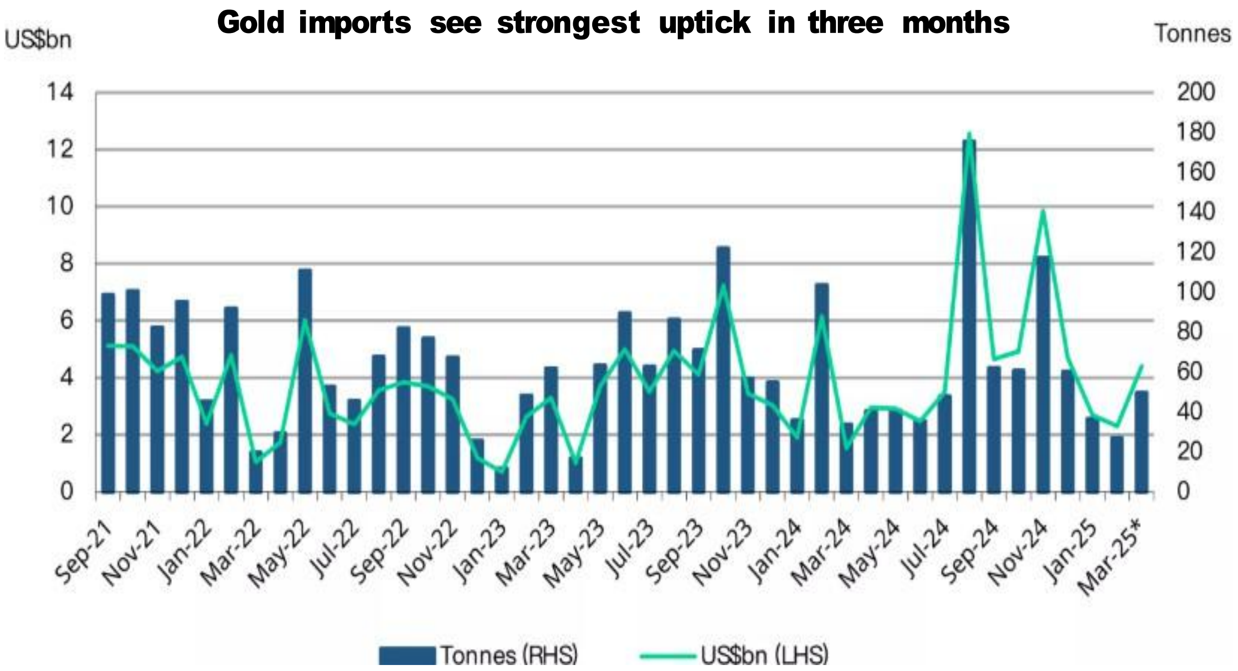
The present lofty valuations are further evidenced in the **high premiums exhibited in their Mcap/GDP ratios where Large Caps and Mid Caps are currently trading at premiums of approx 12% & 16%, whereas Small Caps are currently trading at small premium of approx 6%** (as per Buffet Indicator), as on 30th May 2025. **EPS estimates for FY 2025 and FY 2026 are 11.2% and 13.4% respectively, which seems encouraging going forward**.

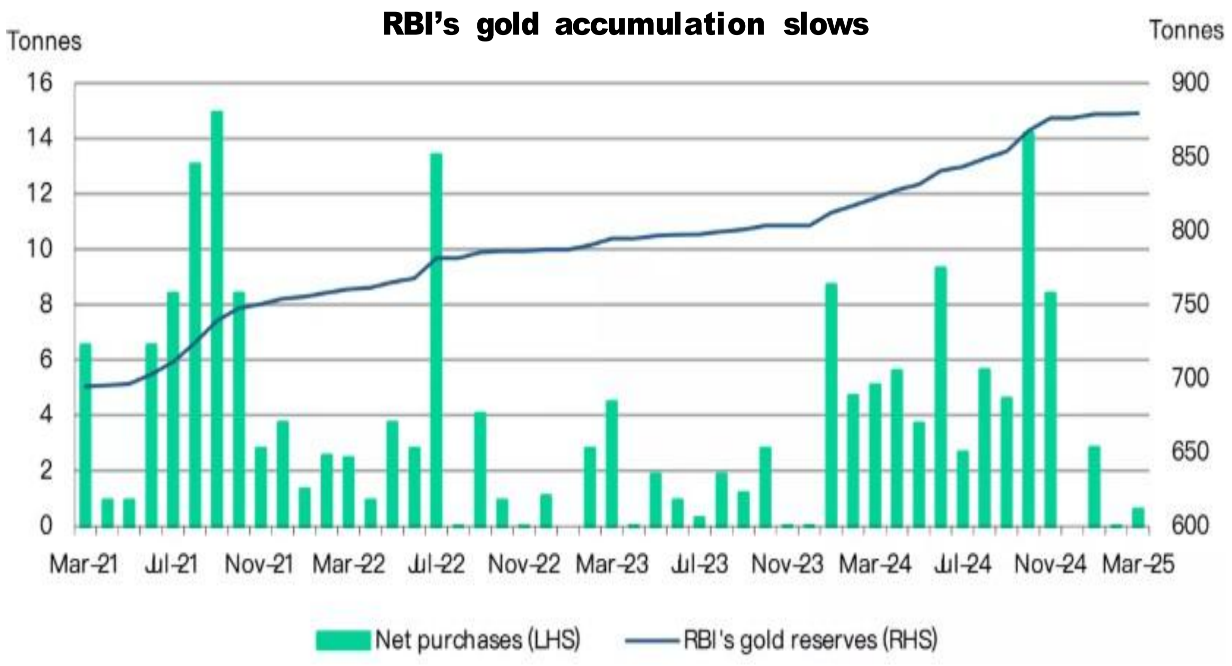
Source: Internal assessment based on RBI DBIE data and NSE India and Bloomberg

Corporate Earnings Q4 FY25

Sector	Outlook
Automobiles & Components	**4QFY25 Auto Sector Review – Muted Performance with Diverging Segmental Trends** The auto sector concluded 4QFY25 with broadly muted performance, aligning with expectations. Aggregate revenue growth across OEMs stood at ~5% YoY, supported by robust demand in tractors and moderate volume growth in PV, CV, and 2W segments. However, operating metrics remained under pressure due to elevated discounts and promotional spends, leading to stable EBITDA margins and subdued gross margins (-20 bps YoY). In the ancillary space, diversified auto component players benefited from strong CV and tractor demand and steady replacement market trends, though global headwinds and raw material cost pressures led to a 2% YoY decline in EBITDA and a 160 bps contraction in gross margins. Tire companies posted healthy topline growth, but margin expansion was constrained by rubber price inflation; however, the recent correction in rubber and crude oil prices is expected to support margin recovery from 1QFY26 onward. Meanwhile, the luxury vehicle segment remained under pressure, with marginal YoY volume decline amid tariff concerns and demand headwinds in export-linked markets. Notably, bearing companies outperformed, driven by favorable mix, strong aftermarket and railway demand, and operational leverage, leading to double-digit EBITDA and PAT growth. Going forward, input cost dynamics will be a key watchpoint, with rising domestic steel prices potentially impacting OEM margins by 50-100 bps, while tire manufacturers could benefit from 150-200 bps margin tailwinds if lower raw material prices persist. The overall sector outlook remains selective, with normalization in demand and commodity trends likely to influence near-term profitability.
Banks	Loan growth slowed to ~10% YoY in 4QFY25, driven by <10% growth at private banks, while public banks maintained 12% growth. Private banks also lost market share and showed weakness across both small and large ticket sizes. Despite stable asset quality, private banks are focusing on liability management and risk control rather than aggressive lending. Mid-tier private banks faced asset quality concerns, especially in microfinance, further dampening growth. FY26 lacks strong tailwinds, with banks expected to maintain a cautious stance amid global uncertainties and margin risks from EBLR-linked loans. Overall, loan growth is expected to stay near current levels.
Insurance	The insurance industry reported a mixed Q4FY25, with life insurers showing moderate APE growth (-4% to +11%) and margin compression (35-300 bps YoY) due to a shift in product mix towards ULIPs and non-par savings, and regulatory impact from surrender value guidelines. Non-life insurers saw earnings distortion from accounting changes, with weak vehicle sales but improved commercial pricing. Going forward, falling interest rates are expected to support non-par sales, while ULIPs may stabilize amid equity market recovery. Retail protection continues strong, and credit life is poised to recover in FY26. Despite near-term agency challenges and margin pressures, the sector remains focused on long-term growth, with HDFC Life best positioned among life insurers and ICICI Lombard well-placed in non-life.
Cement	The outlook for the cement industry in FY2026 is robust, with net profits for Nifty-50 cement companies expected to surge by 53%, largely due to a sharp rebound from the low profitability base of FY2025 and strong volume growth supported by ongoing residential real estate construction. Although margins were pressured for most of FY2025 by the industry's inability to fully pass on higher power and fuel costs, a marked improvement was observed in the final quarter. However, there are significant downside risks to both consensus and our earnings forecasts for FY2026-27, as persistent supply-demand mismatches and aggressive capacity expansions by several players may undermine pricing power and profitability. Notably, the sector's earnings are highly sensitive to even small changes in realizations, and the historical trend of frequent consensus downgrades suggests that current Street expectations may prove optimistic. While a rebound in profitability appears likely in the near term, sustaining this recovery will be challenging amid elevated supply pressures and continued market competition.

Gold



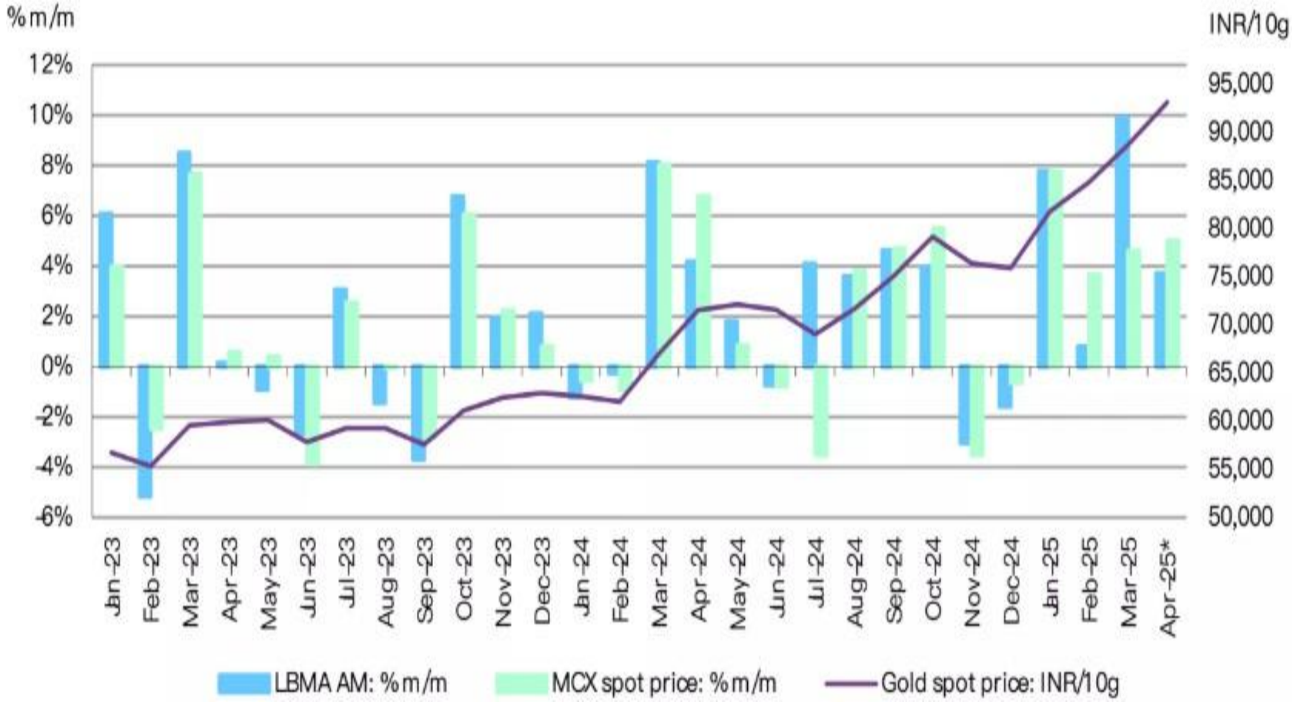


The Modern Era Gold Rush

- China continues to **buy Gold to diversify their massive FX reserves and US Bond reserves**, as part of their '**de-dollarization' program**.
- Despite record high prices, gold imports **rebounded sharply in March and April** after two consecutive months of decline, the sharp uptick suggests a **resurgence in demand** and underscores a **continued interest in gold, even at elevated prices.**
- The RBI added a modest **0.6t of gold to its reserves** in March, resuming purchases after a pause in February. **This brings the RBI's total gold holdings to 879.6t, or 11.7% of its total foreign exchange reserves, the highest level both in quantum and share.** Over the past year, gold's share in the RBI's forex reserves has risen nearly 4%, reflecting a net addition of 57.5t to its holdings. Yet recent trends suggest a moderation in the central bank's gold buying. After consistently purchasing an average of 6.6t per month from January to November 2024, the RBI took a breather in December and February. And in January and March its purchases were notably below the previous monthly average. This recent pattern in gold purchases may suggest a more measured approach from the RBI.
- **Whenever the US Fed has cut interest rates in the past, Gold prices have rallied. Going forward the US Fed is looking to cut interest rates, albeit not at the same pace as originally expected. This will provide further momentum to rising Gold prices.**

Source: World Gold Council

Monthly LBMA Price AM and domestic spot price changes and movement



Gold ETFs hit pause on inflows

Gold buyers turn selective

- **Gold's steep climb** and **ongoing volatility** are keeping many consumers on the sidelines, with demand for jewellery continuing to be limited to need based purchases, particularly for weddings.
- While festive buying has continued, it remains modest and localised, often tied to specific regions and communities. At the same time, **the investment appeal of gold is gaining prominence.** Anecdotal reports suggest that **demand for bars and coins has been resilient, even at high price levels.** Amid broader **financial market turmoil and uncertainty, gold's role as a store of value is becoming more pronounced, reflecting a shift in consumer behaviour from consumption-driven purchases to wealth preservation.**
- **Indian gold ETFs recorded modest net outflows in March,** following ten consecutive months of sustained, strong inflows. Despite the outflows, **assets under management (AUM) climbed to a record high,** driven by the surge in gold prices, while investor participation continued to grow as new accounts were added. **Investor interest in this asset class continues to grow with 0.13mn new investor accounts (or folios) added during the month,** bringing the total number of gold ETF investor accounts to a **record 7mn**. In the last twelve months **1.9mn folios were added to gold ETFs.**

Looking Ahead:

- **Seasonal and wedding related purchases may support gold demand this month and next. Investor interest is likely to strengthen as gold's appeal as a safe-haven asset and portfolio diversifier heightens amid global economic uncertainties and financial market volatility.**

Source: World Gold Council

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.**
- **Inflation easing** and well within the RBI's comfort level.
- The prevailing **liquidity surplus** enables effective transmission of anticipated **rate cuts**, which is expected to lower borrowing costs and catalyze a **revival in capex**
- **Consumption boost** in the Budget, which is showed up in the Q4 GDP numbers.

Headwinds

- **Subdued earnings** due to **slowing urban consumer demand & US tariff uncertainty.**
- **Valuations remain elevated, particularly in the Mid and Small Cap segments**, though the exuberance has moderated considerably compared to six months ago.
- **Global uncertainty** with rising US bond yields.
- Uncertainty over **Trump's impending trade policies**.

Outlook

- **Heightened Volatility with an Upward Bias**

Suggested Strategy

➢ ***Overweight Equity***

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

➢ ***Neutral Gold***

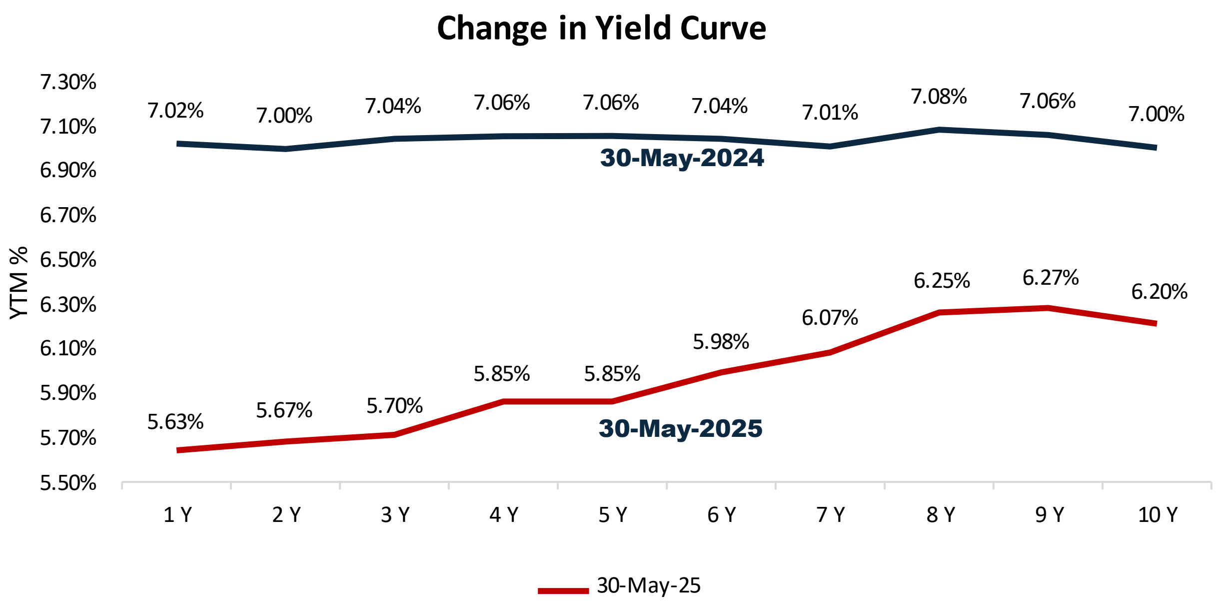
Debt Outlook

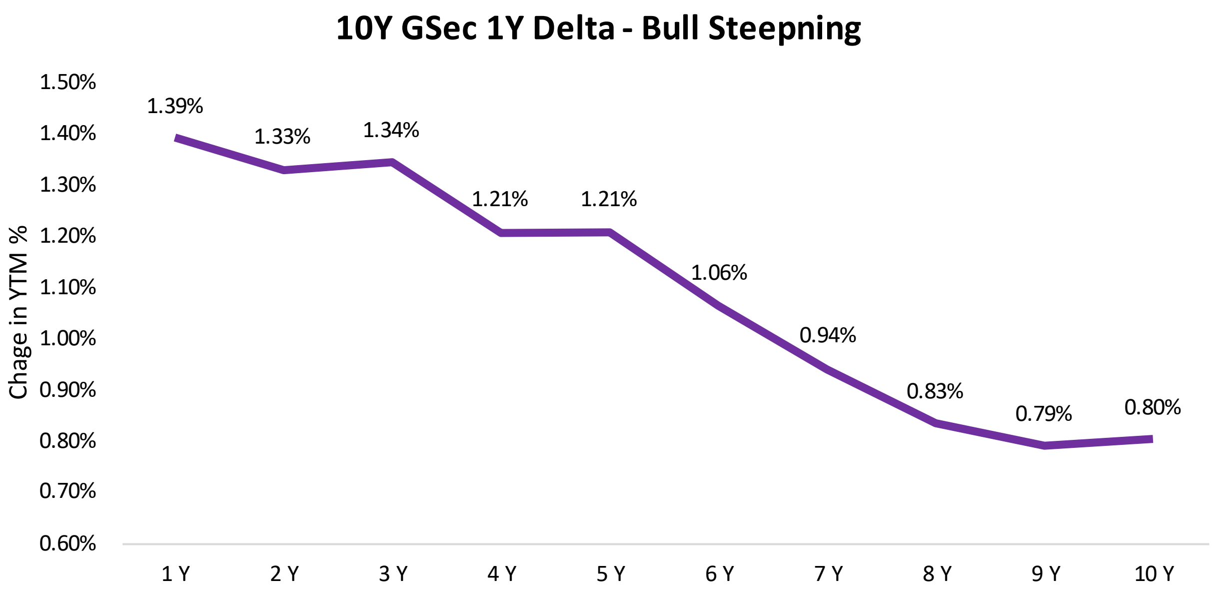
Yields & Spreads

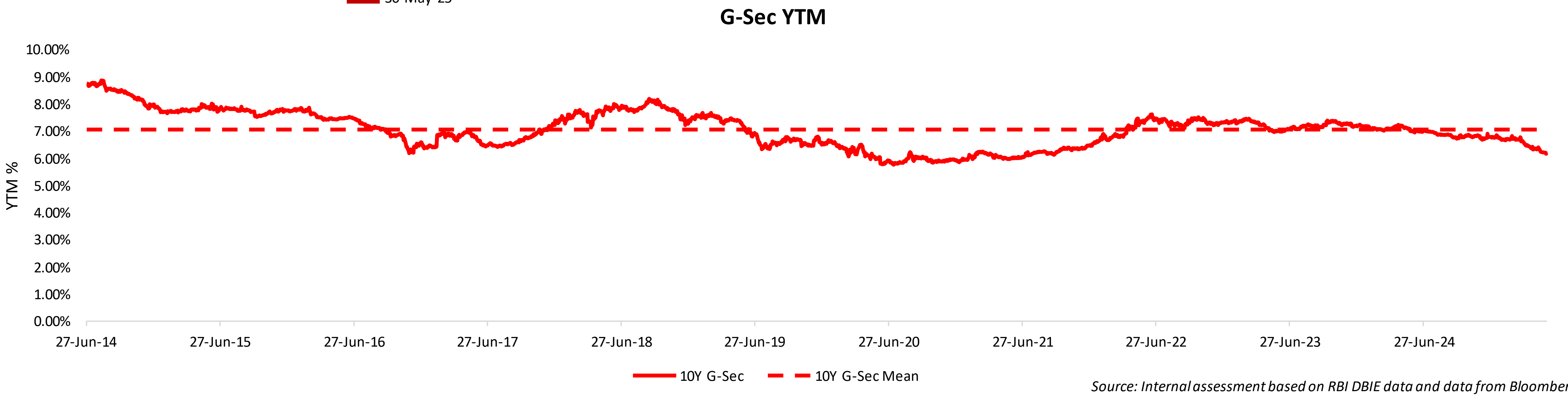
The **spreads** between high quality and high yield papers have **been rising**, and **still remain above the long run average, hence investors should be selective while choosing high yielding papers to gain proportionate risk premium**. **Cooling yields at the long end of the yield curve are providing impetus to returns from a duration strategy as well as credit risk strategy.**

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

Yields Curve Dynamics







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

Debt Market Outlook

RBI's Surprise Move:

The RBI surprised everyone by announcing a huge INR 1.25 lakh crore Open Market Operations (OMO) program for May. They had already increased April's OMO by INR 40,000 crores unexpectedly. With the RBI dividend payment coming up, nobody expected more OMOs in May. Including these new OMOs, the RBI will have pumped over INR 5 lakh crores into the system in the first 5 months of this year.

The Big Picture - Three Key Points:

1. **Global uncertainties are increasing** and will slow down India's growth too
2. **The government is being financially responsible** by keeping spending controlled. This conservative approach will benefit India in the long run, even if it means slower growth in the short term
3. **Monetary policy (RBI) has the most room to help** the economy right now. With inflation under control and currency risks manageable, the RBI can cut rates and support growth

Why is RBI Pumping So Much Money?

We think there are three possible reasons:

- **Reason 1: Managing Dollar Positions**
- The RBI has a large forward dollar position (about USD 79 billion) with much of it expiring within 3 months. The central bank might be closing some of these positions and using OMOs to balance out the impact on rupee liquidity.
- **Reason 2: Creating Bigger Cash Surplus**
- The RBI might want to keep much more cash in the banking system (2-3% of deposits instead of the usual 1-2%) to make sure interest rate cuts reach all parts of the economy effectively.
- **Reason 3: Controlling Government Bond Yields**
- The RBI could be trying to keep government bond yields low to help rate cuts work better across the economy. However, we think this is the least likely reason.

What This Means for Markets and Investors:

Bond Markets:

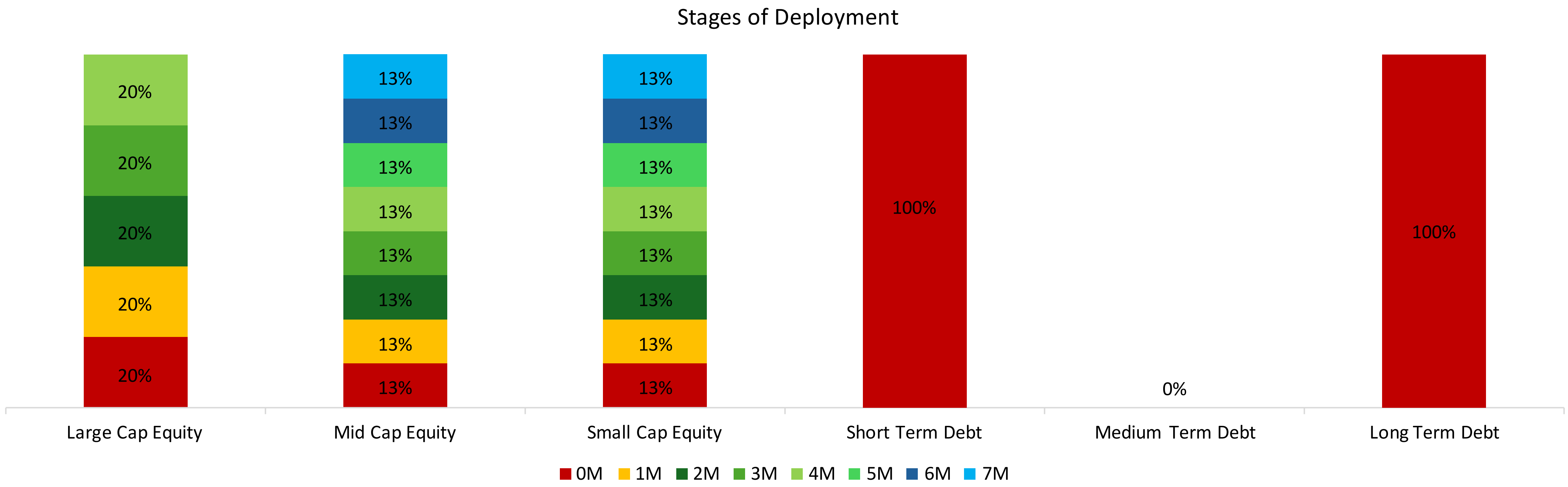
- Bond market volatility should stay low (unless there are major global shocks)
- Direction is clear - yields should continue falling
- With our expectation of repo rate falling to 5.50% (or even lower), controlled government spending, stable inflation, and active RBI support, bonds still offer good value
- The yield curve has normalized, making mid-term bonds (up to 5 years) attractive
- State government bonds are also attractive for 6-7 year investments

Key Risks for Investors:

- **Reinvestment risk** remains the biggest concern - investors need to choose the right duration based on their needs
- Investment decisions should consider your tolerance for short-term volatility and investment time horizon

Deployment Strategy

Deployment



Indicators:

Indicators signaling over heated market conditions –

- VIX at 16 levels
- Market Cap/GDP for Large Cap and Mid Cap Indices well below their LTA's signaling lofty valuations
- Private Capex subdued for now
- TTM PE for SMID Caps Indices still above their LTA
- FII's have been net sellers since Oct due to depreciating rupee and un/less profitable carry

Indicators signaling fair valuation -

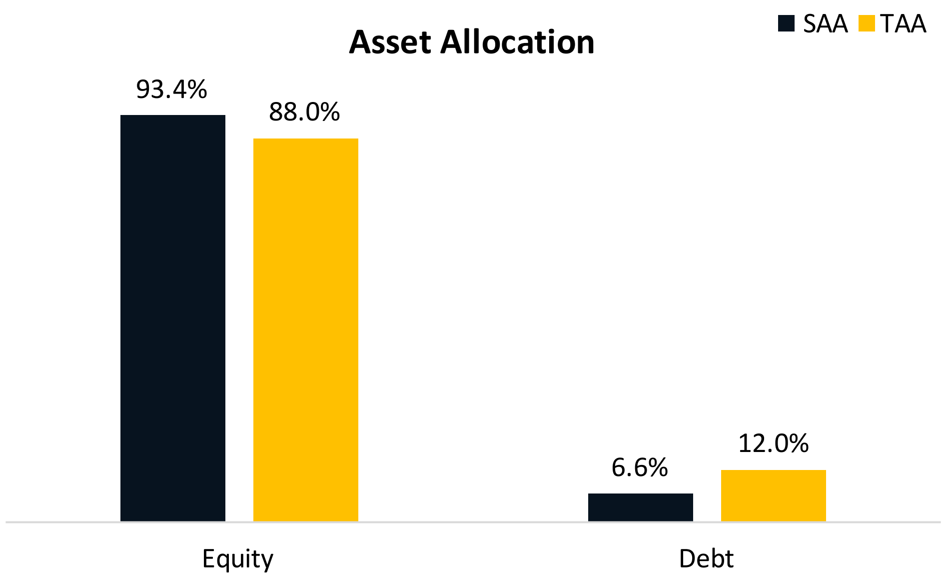
- Services Exports and Imports signaling a possible favorable reversal in domestic demand
- TTM PE for Large Cap is favorable and Market Cap/GDP for Small Cap is close to it's LTA
- DII activity
- Liquidity surplus

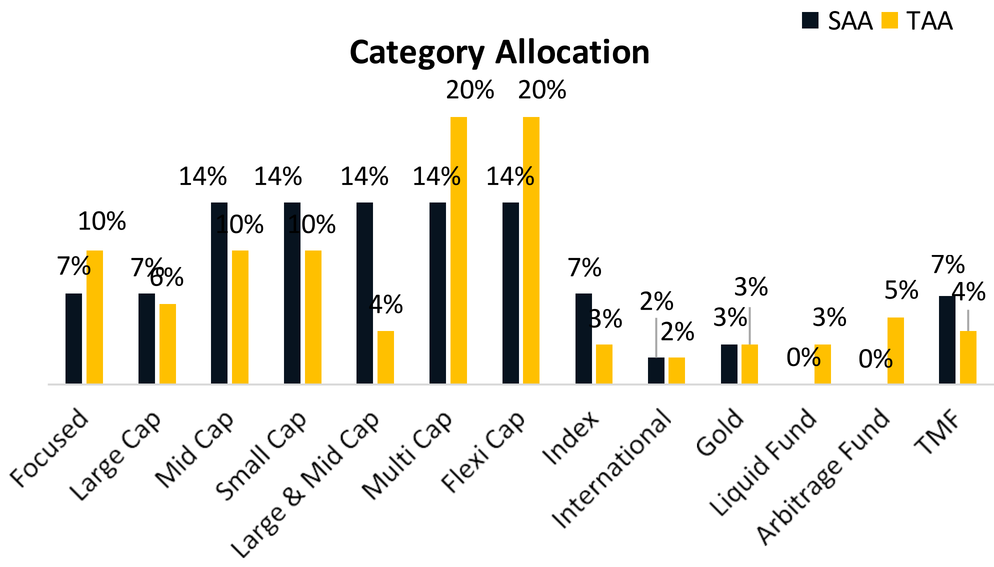
Deployment Strategy:

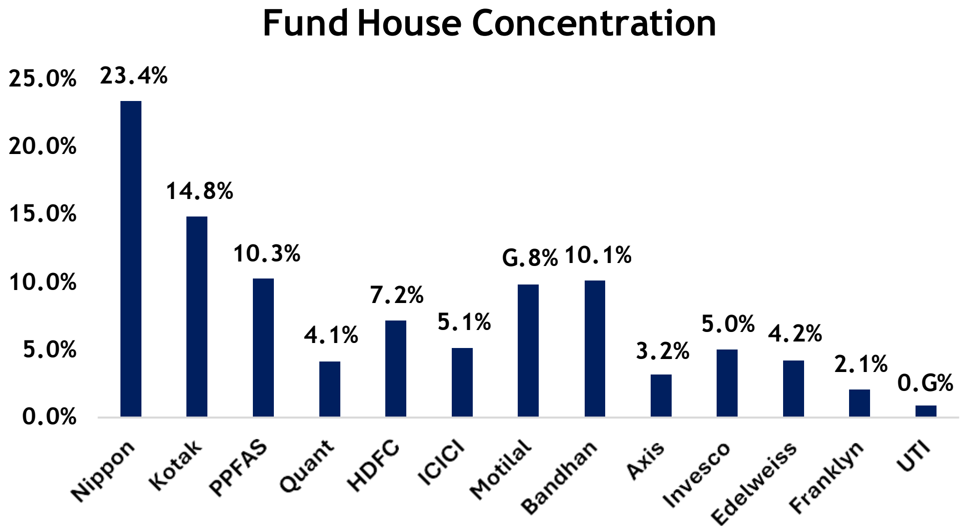
Staggered Deployment over the next 10 months -

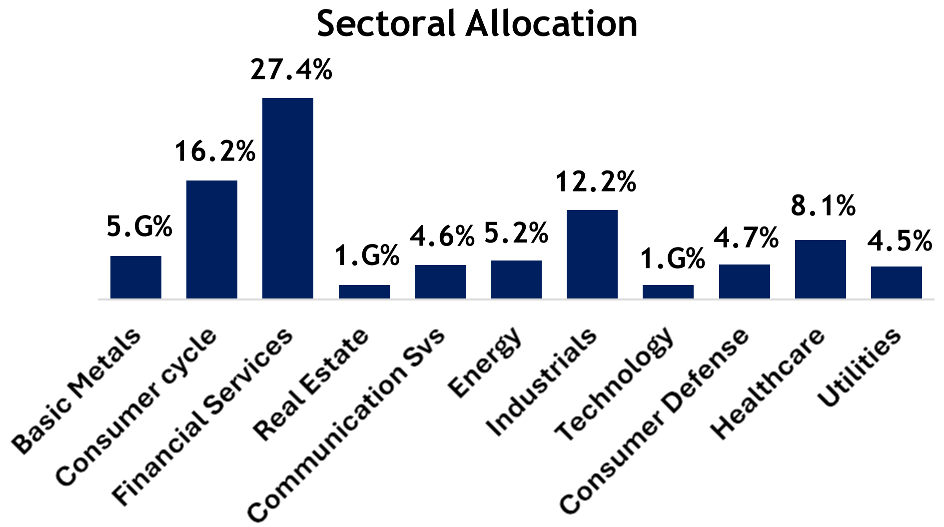
- Large Cap – 20% immediate deployment and 20% in each month in the next 4 months
- Mid Cap – 13% immediate deployment and 10% in each month in the next 7 months
- Small Cap – 13% immediate deployment and 10% in each month in the next 7 months
- Short Term and Long Term Debt – 100% immediate deployment (Barbell strategy)

Optimus Prime
Model Portfolio



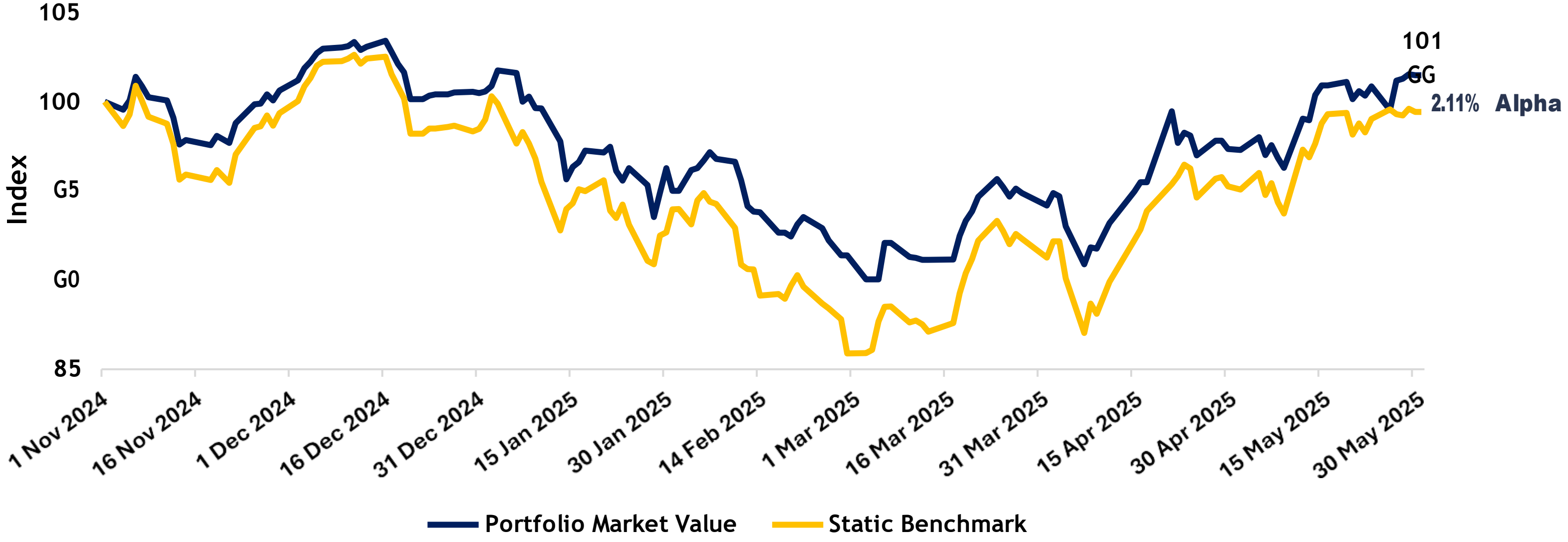




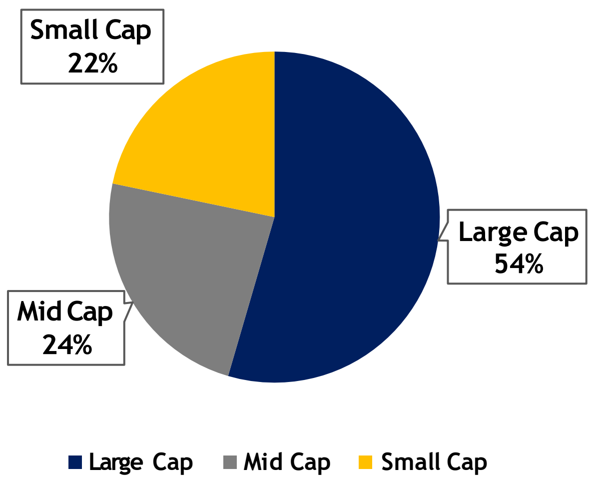


*****SAA - Strategic Asset Allocation** & **TAA - Tactical Asset Allocation**, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date – 1st November 2024, Portfolio values are as on 30th April 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 and pre exit load if applicable in the Model Portfolio. Optimus Prime Model Portfolio is an Aggressive portfolio strategy*

Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	**1.50%**	-0.57%
Standard Deviation (annualized)	**14.76%**	17.30%
Beta	**0.80**	
Alpha	**2.06%**	
Information Ratio	**2.29**	
Downside Capture	**10.59**	

Asset Allocation Alpha	Product Selection Alpha	Timing	Total Alpha
1.28%	**1.71%**	**-0.92%**	**2.06%**

Debt Portfolio Analytics

Debt Measures	Apr-25
Average MoD	5
Average Maturity	6.5 yrs
Average Coupon	NA
Average YTM	**6.8 %**

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

**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 30th May 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.*

Current Investment Portfolio Stance: Conservative

At the most recent Investment Advisory Committee meeting, it was unanimously agreed to maintain a **Neutral investment approach, with a measured tilt towards a moderately pro-risk stance**. This decision reflects the committee's ongoing caution **amid global macroeconomic uncertainties, especially surrounding the evolving tariff regime** introduced under President Trump's administration, which is expected to lead to heightened market volatility and a subdued return environment.

As a result, the portfolio's equity allocation **remains at 7.4%, marginally up again at previous month level**. Within equities, we continue to hold a **~7% underweight position in Mid and Small Cap segments**, aligning with our risk-controlled framework.

While global capital flows continue to reflect a cautious undertone, recent market stability and evolving economic signals prompt us to adopt a neutral stance at this juncture. Domestically, the **softening trajectory in urban consumption** trends, **muted Gross Fixed Capital Formation in the private sector**, and signs of a broader global slowdown further reinforce our view that equity return expectations for CY 2025 should be tempered. Recent **earnings plateau** during the Q4FY25 result season provide additional evidence of earnings easing.

Nevertheless, our **medium-to-long-term outlook on India remains constructive**. We take comfort in the country's **robust fiscal position and external current account balances**, **well-anchored inflation**, and **sufficient liquidity surplus** in the banking system, all of which create a conducive backdrop for effective transmission of upcoming rate cuts. **Corporate India also appears well-positioned, with healthy balance sheets and low leverage**, enabling them to benefit from a future cyclical recovery.

Despite the prevailing volatility, our current positioning has delivered favorable results. The portfolio generated a strong **Alpha of 2.06%**, driven primarily by **Product Selection Alpha in the Mid and Small Cap space and a healthy Asset Allocation Alpha at the short end of the yield curve**. Importantly, the portfolio has maintained a **Beta of 0.80**, an **Information Ratio of 2.29, highlighting strong risk-adjusted performance**. With a **Downside Capture of approximately 10.59%, the portfolio displays effective downside protection** relative to the benchmark in a general bear market.

Going forward, the committee will continue with the current stance until there is visibility on **domestic demand recovery and greater clarity on global tariff developments**. Asset allocation will be reassessed in line with evolving macro and market conditions.

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

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THANK YOU

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