

Embracing complexity to capture Alpha

Dear Investors,

Last month we wrote that supply chains adapt faster than narratives do. The barrel has since called our bluff.

We offered eighty dollars as the proof of it. Brent traded in the mid-eighties through early August, averaged ninety-one for the month, and sits near ninety-six this morning after fresh strikes cut Hormuz transits again. That is twice now we have called the direction and been overtaken inside a month, and we would rather record it than explain it. What has not changed is the mechanism underneath. April-July sourcing has Oman up 200.7%, Brazil 166.8% and Russia 59.7%, and refiners exported USD 6.92 billion of petroleum products in July, up 67.6%, monetising the same dislocation that inflates the import bill. The gross number frightens; the net one is a good deal smaller.

What has needed no correction is the domestic economy. The 31 August release put Q1 FY2026-27 real growth at 7.8% against 6.9% a year earlier, with the revised back series lifting Q4 FY26 to 8.6%. The composition is better than the headline. Gross fixed capital formation grew 11.9%, the first double-digit investment print of the rebased series and more than double last year's 5.8%, while machinery imports rose 51.5% and capital goods IIP 15.2%. This is order books and shipments, not accounting. Investment is now 34.3% of GDP against 31.4%.

We also owe you a change of mind. Last month we wrote that the credit boom was not building anything, that gold loans and lending to non-banks were doing the work while gross fixed assets across 2,383 listed companies grew 5.8%. Credit to industry is now compounding at 19.2%, and total bank credit at 19.3% against 15.4% deposit growth. The large corporate borrower, missing for more than a decade, is back. Set that beside 11.9% investment growth and central capex at 37% of the Rs 12.22 trillion target against 31% a year ago, and we think this cycle has turned rather than merely been announced.

The external ledger improved at the margin too. July exports rose 19.63% to USD 44.24 billion and outgrew imports for the first time in four months, engineering goods up 17.71% and electronics 57.40%. The 10% Section 301 outcome held, US-bound exports still grew 12.85%, and the India-UK CETA is in force. None of that closes a USD 118.6 billion four-month goods gap, or a current account now tracking 1.8 to 2.3% of GDP against 0.6% in FY26. It does say the export engine works while the import bill is being repriced.

Now the parts we would not put in a brochure.

The best number of the quarter is also the worst. Real manufacturing GVA grew 9.2% while nominal grew only 7.7%, an implicit deflator of about minus 1.4%: crude and gas producer prices rose 58.0% against manufactured output prices of 10.7%. Volumes are strong and the margin is being taken by someone else. That single wedge explains most of the earnings season - roughly 20% revenue growth against 15% profit growth, EBITDA margins down 2.1 points in pharma, 1.8 in cement, 1.5 in staples and 1.2 in autos. And FY27 estimates were cut hardest exactly where crude derivatives and packaging sit in the cost line.

Two sets of optics deserve a second look. August GST grew 14.8% gross but only 8.3% net as refunds jumped 67.9%, and import IGST at 29.0% is largely crude repricing; domestic gross growth is 5.3% year to date. The April-July fiscal deficit at 26.8% of budget flatters against 29.9%, but devolution to states is Rs 56,190 crore lower, so much of that comfort is transfer timing rather than tax buoyancy. And while July vehicle retail hit a record 25.91 lakh units, dealer inventory sits at 33 to 35 days with wholesales ahead of retail, E-way bills slowed from 14.5% to 6.0%, and urban unemployment has risen two months running to 6.7%.

Which brings us to prices, where the direction is now settled. July CPI at 4.45% was a seventh consecutive rise, but the step matters less than the mix. Food reaccelerated to 5.52%, rural inflation runs 88 basis points above urban, the widest of the series, and restaurants have reached 7.72%. Menu repricing of that size is where a supply shock stops being transitory, and it does not reverse when vegetable prices fall. The MPC held at 5.25% on 5 August, unanimously. The 19 August minutes were a different document: the Deputy Governor raised the possibility of a hike, two external members flagged recalibration. We regard the easing cycle as complete and no longer rule out 50 to 75 basis points, or an October start.

Flows have turned, and the reason is worth sitting with. Foreign investors bought Rs 20,200 crore in July and Rs 30,919 crore in August, the first two positive months after four of heavy selling, on rotation out of Asia's crowded chip trade. India's MSCI Emerging Markets weight has fallen from roughly 20% in mid-2024 to about 11%, Taiwan and Korea absorbing the difference. Being left out of the AI buildout cost us that re-rating; it is now what makes India the place to stand when that trade wobbles. We would not mistake a hedge for a thesis; calendar 2026 is still Rs 2.23 lakh crore of net selling. But domestics now own a record 21% of the Nifty 500 against a record-low 17% foreign.

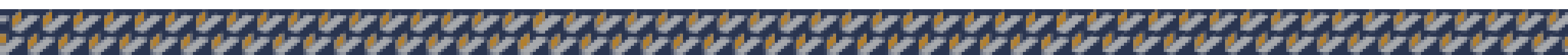
So we hold our Aggressive stance. Large caps trade at 20.3 times against a 23.7 times long-run average, a 14% discount, while small caps sit 26% above theirs; we express conviction where the discount is and keep staggering deployment rather than sprinting. On debt we have moved to full immediate deployment, parked in arbitrage and liquid until India and the developed markets give us rate clarity.

We opened by admitting we have twice been wrong on the barrel. We would rather be wrong on the barrel than on the business, and a beta of 0.49 with a downside capture of 73% is what buys us that license.

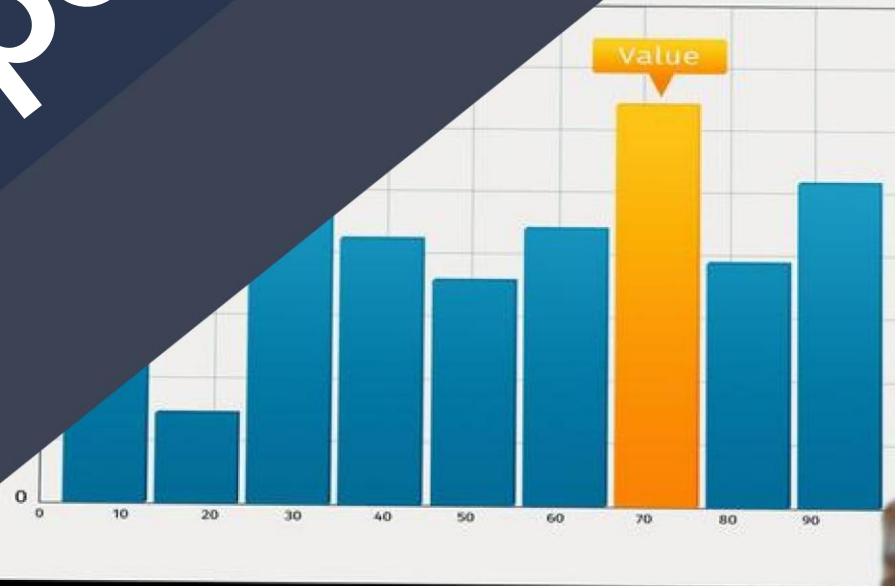
With thanks, as always, for your trust and partnership.

Best regards,

Siddharth Jadeja



Investment Strategy Report





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KILIKA CAPITAL



WHO WE ARE?



ABOUT US

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

OUR MISSION

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

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

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



Siddharth Jadeja, CFA – The Strategist

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



Bhavya Bundela- The Crunch Time Queen

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

WHO WE ARE?



Smitha Iyer – The Operational Hawk

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



Piyush Sharma – The Creative Wizard

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



Harris Lunis – The Fundamentals Detective

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

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



Macro-Economic Outlook

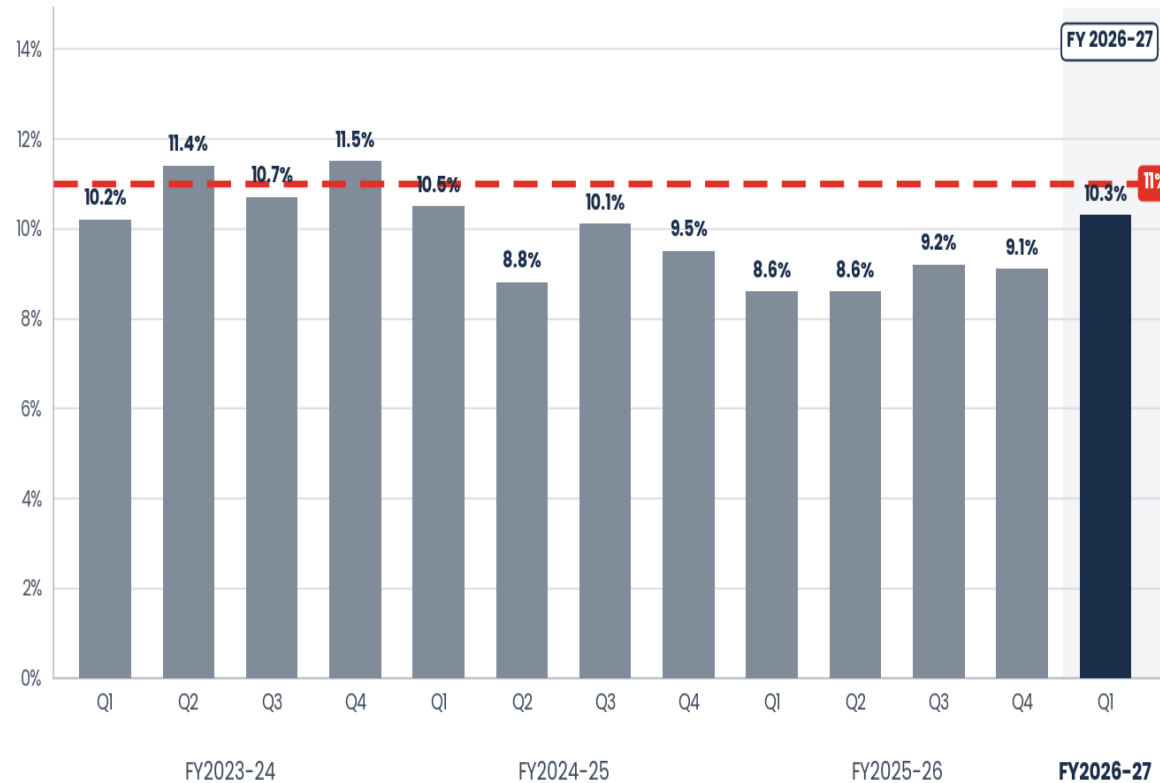


1. GDP (Gross Domestic Product)

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

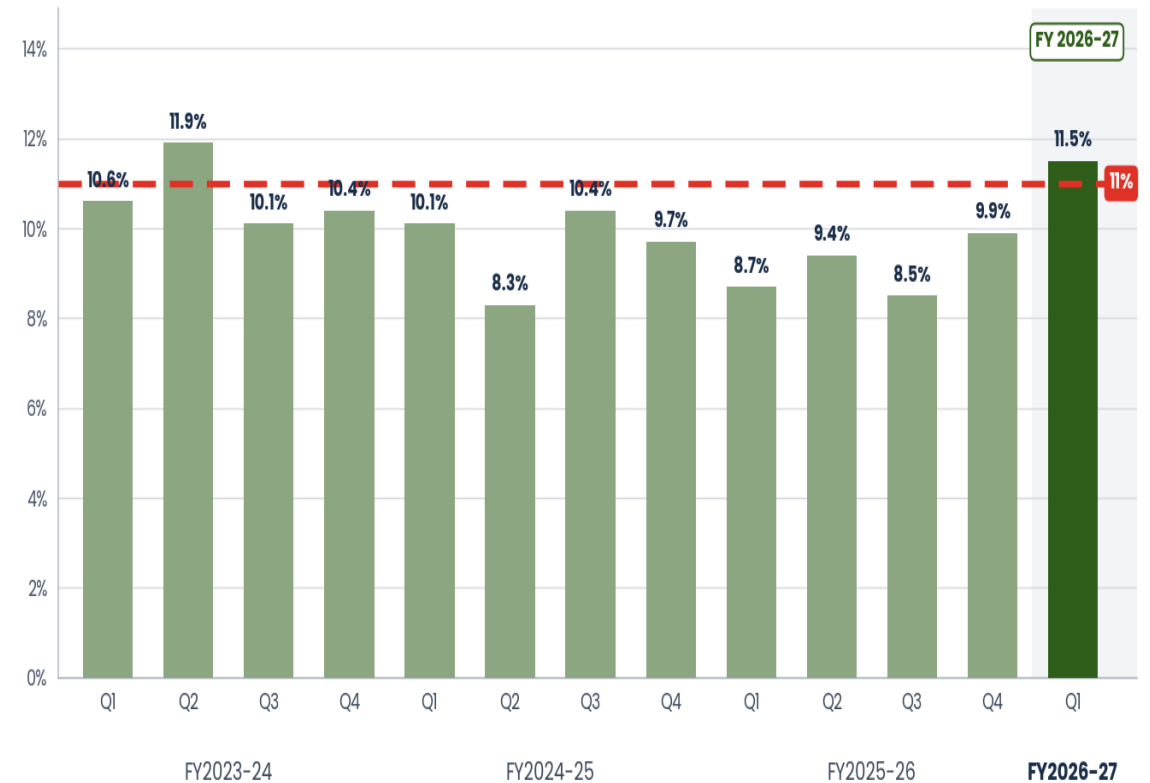
GDPn YoY % | FY2023-24 to FY2026-27

■ GDPn ■ GDPn LTA %



GVA n YoY % | FY2023-24 to FY2026-27

■ GVA n ■ GVA n LTA %





The Headline

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

Where the Demand Came From

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

Where the Output Came From

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

The One Number That Needs Explaining

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



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

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

Three Ratios Carry the Message

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

And One Line in the Sector Table

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

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



Two Questions Behind the Number: Rebasing and Double Deflation

What Rebasing Actually Does

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

What Double Deflation Actually Does

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



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

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

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

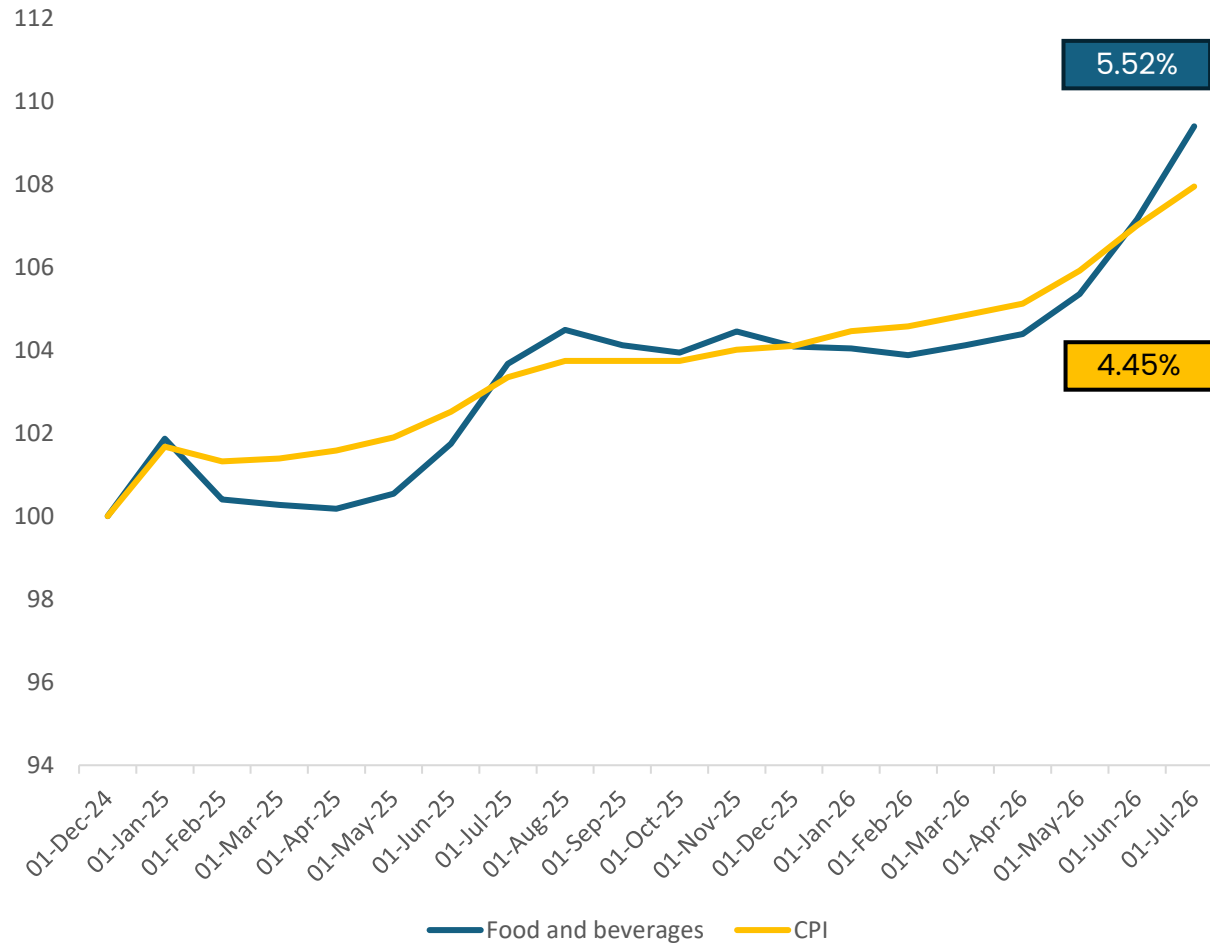
The risk has migrated from growth to prices and the external account. Crude and gas producer prices up 58.0%, a nominal import bill up 30.9% and a negative manufacturing deflator point to imported inflation working through corporate margins for another two to three quarters, already visible in roughly 20% revenue growth against 15% profit growth. A near-normal monsoon should keep food inflation contained, though wheat output near flat is a watch item into Rabi.

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

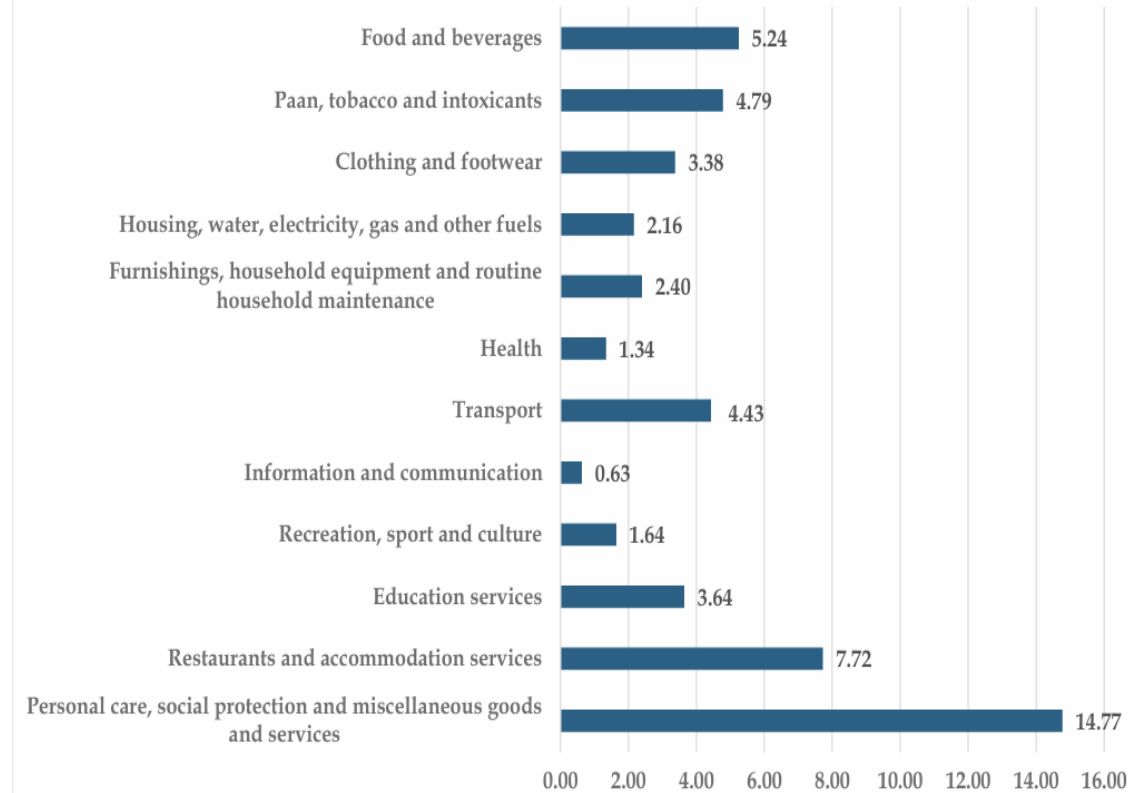
2. Inflation



CPI & CFPI



National Level Division wise Inflation Rate (%)





A Smaller Step but a Worse Mix: CPI at 4.45% as Metals Fade and Food Broadens

Headline

- **Headline CPI inflation edged up to 4.45% in July 2026 from 4.38% in June 2026, a seventh consecutive monthly rise and the highest print of the rebased series.** The 7 basis point acceleration is a sharp slowdown from the 45 basis point steps of May and June, and the sequence now reads 2.74%, 3.21%, 3.40%, 3.48%, 3.93%, 4.38% and 4.45%. The index still rose 0.88% over the month, so the small year on year gain reflects an unfavourable base rather than fading momentum.
- **We flagged last month that the sub 4% era was behind us, and July 2026 confirms it.** The headline is now a poor guide to the pressure underneath it: **the metals distortion that inflated earlier prints is unwinding just as food and services broaden, so a quieter headline conceals a worse composition.** We read this as consolidation above target, not a peak.

Food

- **Food inflation reaccelerated to 5.52% in July 2026 from 5.32% in June 2026, with the food and beverages division at 5.24% against 5.05%.** The drivers rotated again. Tomato swung to minus 4.59% from 31.92% and potato stayed deep in deflation at minus 16.56%, but onion jumped to 22.54% from 4.73%, ginger to 83.62% from 50.41% and garlic to 35.36% from 17.93%. **Deflation in one vegetable is simply being replaced by double digit inflation in the next.**
- **Rural food inflation at 5.79% now runs well ahead of urban at 5.05%, which itself eased from 5.09%.** The pressure is concentrated in the south, with food inflation at 9.13% in Andhra Pradesh, 7.87% in Telangana and 7.26% in Karnataka. **We continue to read food as the primary upside risk into the second half of FY27.**

Core and Underlying Pressures

- **The metals distortion is fading, and that is what flattered the July headline.** The personal care, social protection and miscellaneous goods division cooled to 14.77% from 16.72%, with silver jewellery at 109.84% against 133.24% and gold, diamond and platinum jewellery at 32.98% against 36.81%. **The division is still the highest in the index, but its contribution is now shrinking.**
- **Strip that out and the underlying trend is hardening, not softening.** Transport firmed to 4.43%, with operation of personal transport equipment at 7.36%, goods freight at 7.77% and restaurants accelerating sharply, as discussed overleaf. **We expect the underlying measure to firm through Q2 and Q3 FY27 as second round effects spread.**

The Rural-Urban Divergence

- The national figure continues to mask a widening gap. **Rural CPI was 4.84% in July 2026 against urban CPI at 3.96%, an 88 basis point spread that has widened from 81 basis points in June 2026 and is the widest of the rebased series.** Rural households carry a higher food and fuel weight and fewer substitution options, so the same shock lands harder outside the cities.
- We flag this because a deficient monsoon would compress rural incomes just as rural prices accelerate. **The headline understates what the rural consumer actually pays, and the policy read is harder than a 4.45% print suggests.**



Housing Holds Steady, but Watch the Margins

- **Housing inflation stayed contained at 2.22% in July 2026, with rural housing at 2.80% and urban at 2.01%.** Actual rentals rose 2.11% and electricity, gas and other fuels 2.02%, holding the wider housing and utilities division at 2.16%. It remains the one major division insulated from the crude and currency channel driving the rest of the index, and we expect it to stay range bound.

State Dispersion

- **Regional dispersion remains wide.** Eleven of 36 states and union territories printed above the national rate in July 2026. Telangana again led at 6.32%, marginally below its June reading, followed by Andhra Pradesh at 5.72%, Tamil Nadu at 5.44%, Madhya Pradesh at 4.91% and Karnataka at 4.89%. Mizoram was lowest at 1.84% and Delhi remains soft at 2.68%. **The leaders are all food led, which is why the southern belt sits so far above the all India figure.**

Services

- **Services inflation is where this print looks worst. Restaurants and accommodation accelerated to 7.72% in July 2026 from 6.91% in June 2026, with food and beverage serving services at 7.75%.** Education services firmed to 3.64% on the urban academic year reset at 4.17%, while health at 1.34% and communication at 0.63% stayed benign.
- This is the mechanism we have been watching for. **Menu repricing of this size is the point at which a supply shock becomes embedded in expectations, and it does not reverse when vegetable prices fall.** With restaurant inflation now approaching 8%, the transitory reading of these pressures is no longer available to us.

Crude and the Import Channel

- **The July fuel print flatters the outlook, and the reason is timing rather than easing.** The transport division firmed only modestly to 4.43% from 4.31%, and purchase of vehicles stayed deflationary at minus 4.37%. Petrol, diesel and LPG are captured on the 15th of each month, and Brent traded as low as 70 dollars per barrel on 2 July before renewed tanker attacks in the Strait of Hormuz drove it to 95 dollars by 23 July. **That spike lands in the August print, not this one.**
- Brent has since settled near 88 dollars per barrel with the strait still shut and Iranian loadings close to zero in August. **With India importing over 85% of its crude and the rupee near 95 per dollar after touching a record low close to 97, the crude and currency channel remains the dominant upside risk to the trajectory.**

Monsoon and the Kharif Swing

- **The monsoon has recovered from a very poor start, but not evenly.** After a June roughly 40% below normal, July delivered around 103% of the long period average, cutting the season deficit to 13% by end July and to about 11% by 9 August. Kharif sowing has closed most of the gap, from a 23% year on year contraction at end June to roughly 3% by end July, with acreage now at about 88% of normal. **Distribution is still the problem, with sowing sharply behind in Karnataka, Maharashtra and Odisha and the IMD expecting below normal Aug–Sept rainfall under El Nino conditions.**



What Lies Ahead – The Step Is Smaller but the Composition Is Worse

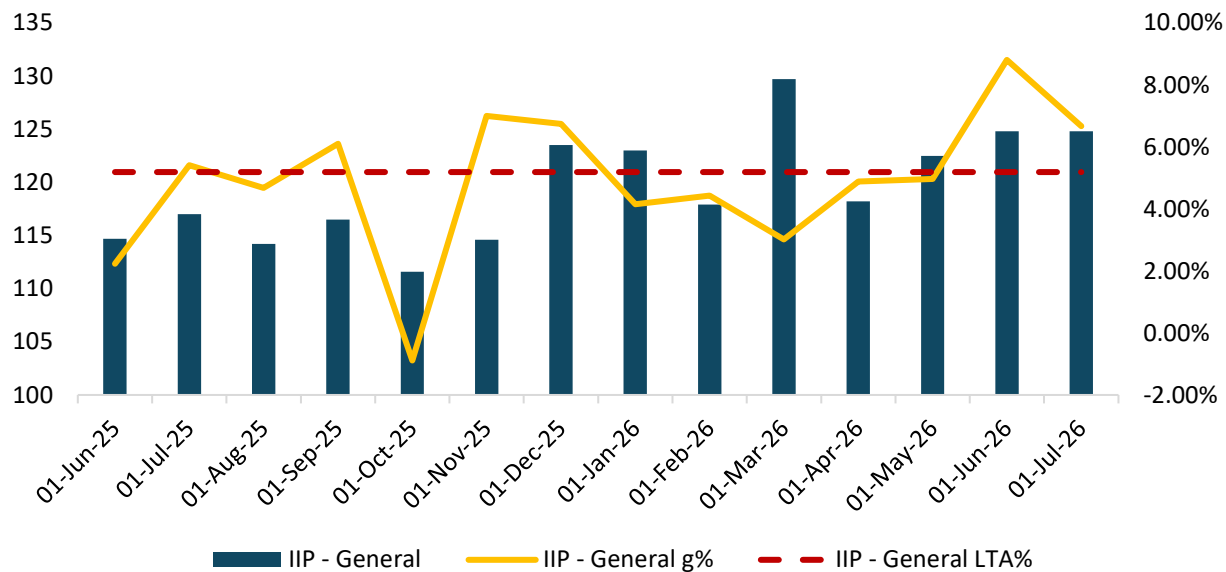
Several factors will determine whether the inflation trajectory tracks the RBI's baseline or breaks higher.

- **The RBI held the repo rate at 5.25% at its August 2026 meeting on a unanimous vote and retained the neutral stance, raised its FY27 GDP growth projection to 6.7% from 6.6% and trimmed its FY27 CPI projection to 5.0% from 5.1%, with the quarterly path at 4.7% in Q2 and 5.9% in Q3 FY27.** July at 4.45% is tracking a little below that Q2 path.
- **We are less comfortable than that revision implies.** The downgrade leans on the metals unwind and the monsoon recovery, both of which are already in the index, while **food, services and the crude channel are all still building. We expect the headline to keep climbing through Q2 FY27 and to test the upper half of the RBI's Q3 path as the August fuel spike and menu repricing transmit.**
- **We continue to view the easing cycle as complete, with the focus now shifting to incoming data for further confirmation of whether the RBI's next move will be a rate hike. While the smaller step in July changes the pace rather than the direction, the evolving data on growth, inflation, liquidity, crude, and the INR will be key in determining whether the balance of risks ultimately warrants tightening in FY27.**

3. IIP & ISP

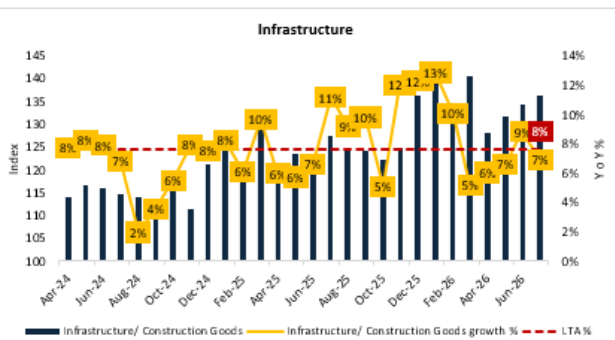
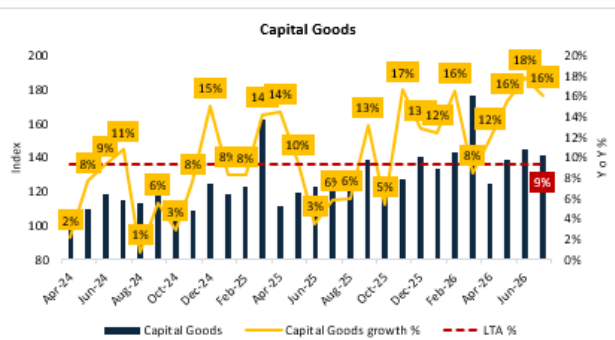
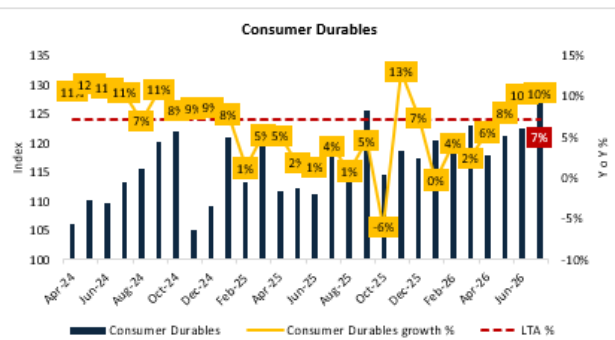
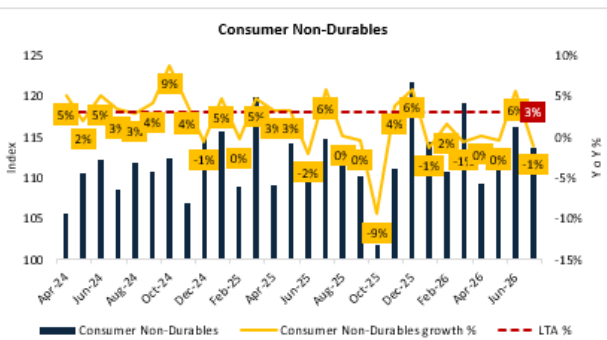
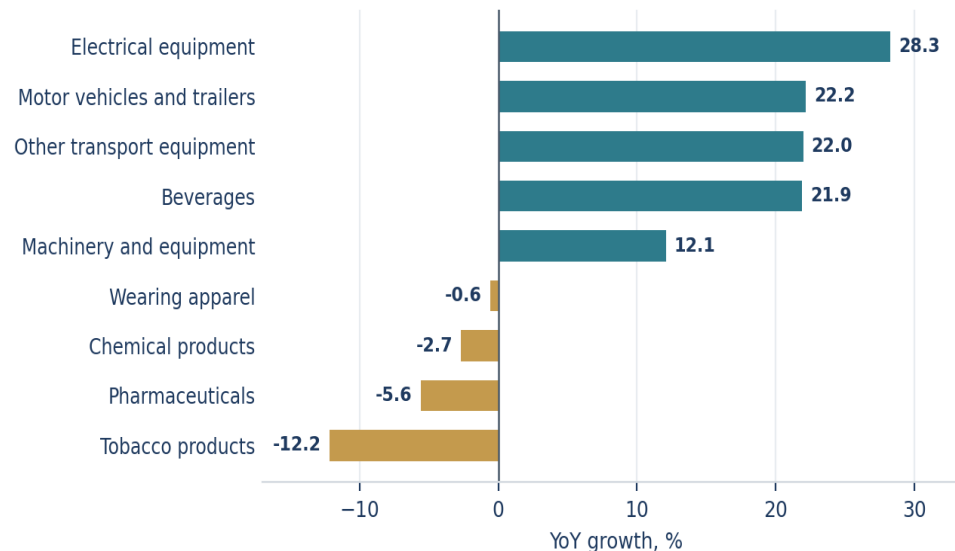


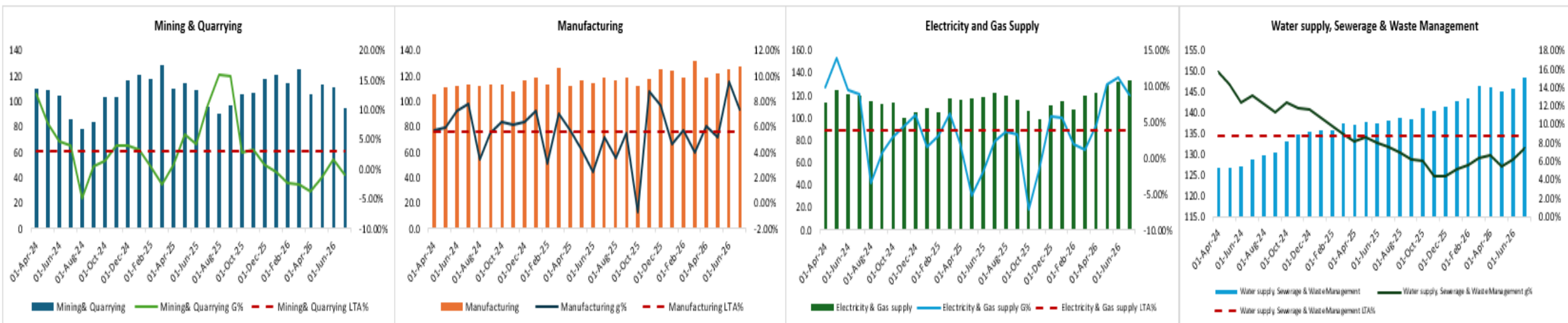
IIP - Industry



Investment linked manufacturing led, consumer facing lines dragged

Selected manufacturing industry groups, July 2026, YoY %





Industrial Output Holds Its Nerve

Growth cools to 6.7% from a strong June, but the mix has shifted towards investment and away from the consumer.

The Headline

- Industrial output grew 6.7% year on year in July 2026, easing by 210 basis points from an upwardly revised 8.8% in June.** The index stood at 124.8 against 117.0 a year earlier. Three of the four broad sectors expanded, and three of the four decelerated, which is the cleanest way to describe the month. **This is a moderation in pace, not a change in direction.**
- We would resist reading the slowdown as loss of momentum. June was an unusually strong print, helped by a favourable base and a burst of power demand, and it was revised higher after the fact. Sequentially the index is flat, and at 6.7% July is still comfortably above the 4.9% and 5.1% recorded in April and May. The honest read is that FY27 industrial activity is running at a genuinely higher level than last year, with a lumpy month to month path.**

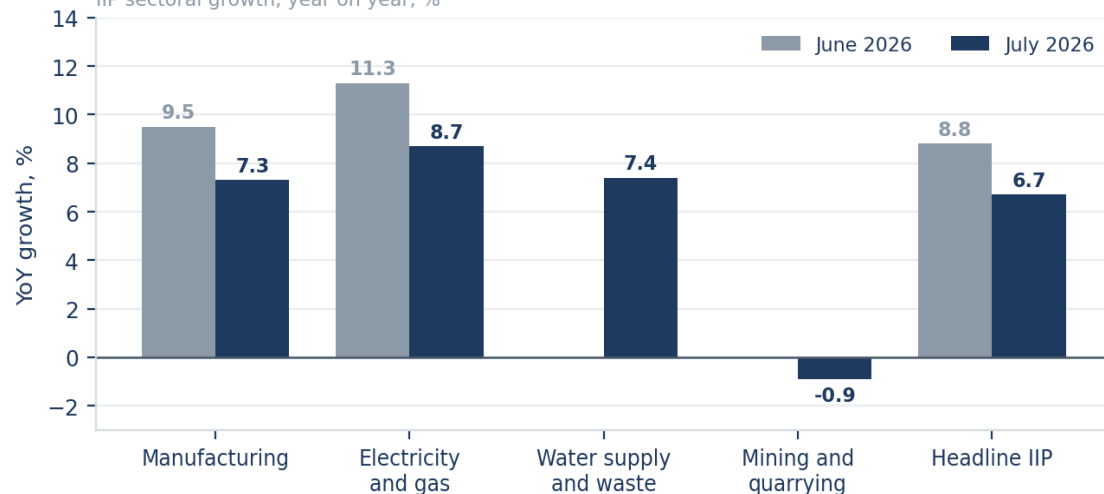
Manufacturing Carries The Index

- Manufacturing, which carries the largest weight in the series at 76.06%, grew 7.3% against 9.5% in June. Breadth held up well, with 19 of the 23 two digit industry groups expanding year on year.** That is the number we watch more closely than the headline, because it tells us whether growth is concentrated in one or two lines or spread across the factory floor. On that test, July passes.
- The leadership is unmistakably capital goods flavoured.** Electrical equipment rose 28.3%, motor vehicles, trailers and semi trailers 22.2%, other transport equipment 22.0% and machinery and equipment not elsewhere classified 12.1%. Beverages at 21.9% is the seasonal exception in an otherwise investment led list. Transmission and distribution equipment, commercial vehicles and industrial machinery are doing the work, which is consistent with the capex cycle we have been tracking through the power and electrical equipment complex.



Every broad sector slowed in July, mining slipped back into contraction

IIP sectoral growth, year on year, %



Where It Went Wrong

- **Four groups contracted.** Tobacco products fell 12.2%, pharmaceuticals 5.6%, chemical products 2.7% and wearing apparel 0.6%. Pharmaceuticals and chemicals are the two that matter for us, because both are export facing and both have been carrying the drag from tariff friction and softer external demand. Apparel tells the same story at the low value end.
- **Mining and quarrying is the other soft spot, contracting 0.9% after a positive June.** Non metallic minerals fell 12.5% and fuel minerals 1.3%, while metallic minerals grew 24.3%. The split is important. **India is mining more of what it smelts and less of what it burns, and the monsoon month is when that gap is widest.**

The Consumer Is Still The Weak Link

- Under the use based classification, **five of the six segments slowed in July, with consumer durables the only exception.** The one that concerns us is **consumer non durables, which contracted 1.0% after growing 5.6% in June.** This is the segment that maps most directly onto mass consumption, and it has been the softest part of the industrial story all year, including in May when it grew a modest 3.6% against capital goods at 12.9%.
- **So the shape of this recovery is clear enough. Investment and infrastructure linked production is running hot, urban discretionary demand is holding, and the everyday consumption basket is not participating.** That is a growth mix that supports GDP prints in the near term but does not yet broaden out into the household economy.

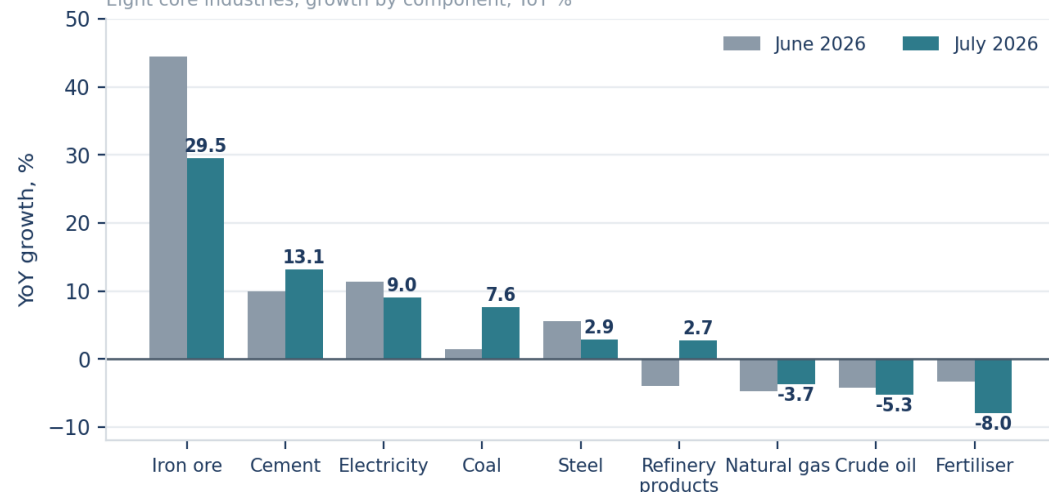
The Core Sector Cross Check

- **The eight core industries, which account for 40.27% of the IIP weight, grew 5.4% in July against a revised 6.0% in June.** Iron ore led at 29.5%, its third straight month of double digit growth, followed by cement at 13.1% and electricity at 9.0%. Coal accelerated sharply to 7.6% from 1.4%, and refinery products returned to growth at 2.7% after a 4.0% contraction. Steel eased to 2.9% from 5.6%.
- **The hydrocarbon and fertiliser block remains the persistent negative. Fertiliser production fell 8.0%, crude oil 5.3% and natural gas 3.7%.** Over April to July the core sector expanded 4.3% against just 1.5% a year earlier, with iron ore up 25.2%, cement 9.9% and electricity 9.3%. **The cumulative doubling in core sector growth is the single strongest piece of evidence that the industrial base is genuinely wider this year.**



Core sector at 5.4% in July, mining and construction inputs carry the index

Eight core industries, growth by component, YoY %



What The June Services Print Shows

- **The third trial print, for June 2026, showed 18 of 19 sub sectors growing against 16 in May, with air transport the only one still contracting. Eight sub sectors grew in double digits, unchanged from May but well below the 14 recorded in April.** Two of May's decliners turned positive, with postal and courier moving from a 1.0% contraction to 5.0% growth and information and broadcasting swinging from minus 7.6% to 4.6%. **Air transport fell for a third straight month and the decline widened to 6.0% from 2.8%.**
- **The more interesting story is the rotation in leadership. Real estate became the fastest growing segment at 24.7%, up from 17.7%, followed by retail trade at 18.0%, wholesale trade at 15.1%, administrative and support services at 14.4% and IT and computer related services at 13.5%. Wholesale trade and administrative services are the standout accelerations, from 3.7% and 5.0% respectively.** Against that, accommodation and food, which led May at 27.4%, more than halved to 10.2%, while telecommunications slipped below double digits at 9.5% and banking eased to 11.4%. In index terms accommodation and food still sits highest at 141.2, ahead of retail trade at 138.0 and road transport at 131.6, while air transport is lowest at 91.2, still below its base year level, with postal and courier at 103.2 and railway transport at 105.5.

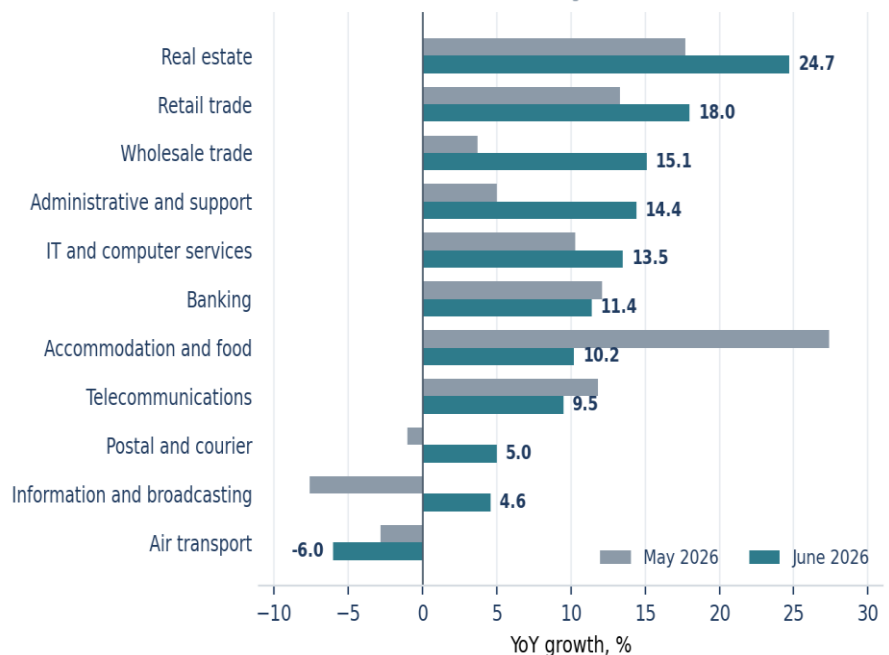
Reading The Two Together

- **Put side by side, the two indices tell a consistent story about where growth is coming from and a more uncomfortable one about where it is not. Industry grew 6.7% in July on capital goods, electrical equipment and construction inputs. Services grew on trade, real estate, IT and administrative support. Both indices are being carried by the investment and formal organised end of the economy, and in both the household facing components are the weak spot. Within the IIP, consumer non durables contracted 1.0%. Within the ISP, the most consumer exposed line, accommodation and food, lost more than half its growth rate in a single month.**
- **Two cross checks are worth noting. Wholesale and retail trade accelerating to 15.1% and 18.0% sits comfortably with the record vehicle retail and the GST throughput we have been tracking, which suggests the goods economy is moving even where factory output for the consumer basket is not. And air transport, contracting 6.0% and still below its 2024-25 base, is the cleanest corroboration across datasets of the weakness already visible in domestic passenger traffic. The services print does not contradict the industrial one, it explains why headline GDP has held up while the consumer facing pieces of both indices have been soft.**



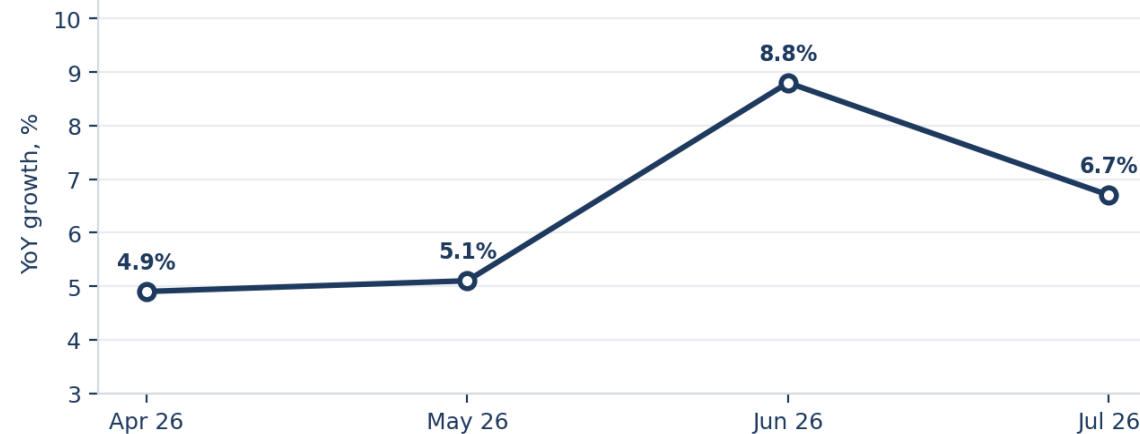
Services breadth widens to 18 of 19 sub sectors, but the leadership rotates

Index of Services Production, sub sector growth, YoY %



Momentum is real but lumpy, June was the outlier month

Headline IIP growth, FY27 so far, YoY %



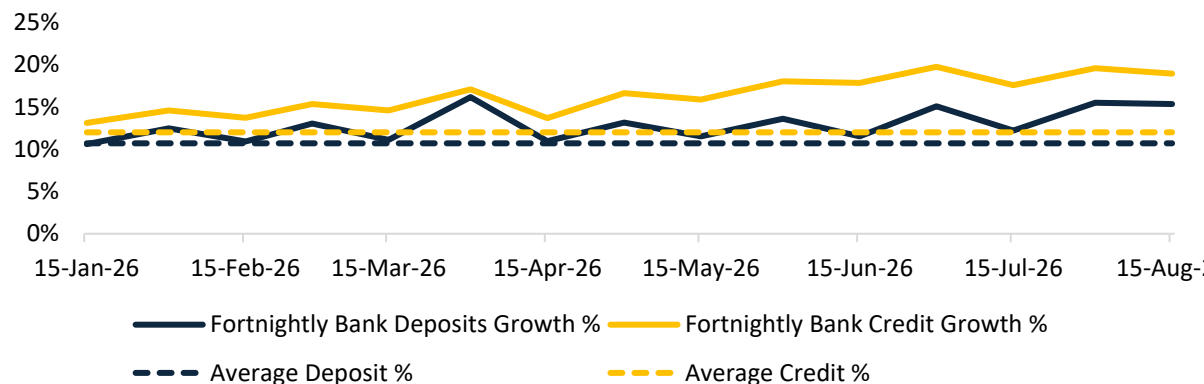
Outlook, What We Expect From Here

- The central bank left the policy repo rate unchanged at 5.25% in August with a neutral stance and a unanimous vote, and nudged its FY27 growth projection up to 6.7%, with quarterly estimates of 7.0%, 6.4%, 6.5% and 6.8%. Inflation for the year was trimmed to 5.0%, with the price path back loaded at 5.9% in the third quarter and 5.5% in the fourth. The policy authority has described manufacturing performance in the first quarter as healthy and domestic demand as resilient, which is consistent with what the July industrial data show.
- Our own view is that the second half will be harder work than the first. The favourable base fades from the September quarter, the growth projection itself steps down to 6.4% before recovering, and the inflation path turns adverse just as it does so, which limits how much support monetary policy can offer if industrial momentum cools. Crude remains the live risk, with West Asian supply disruption still capable of hitting refining margins, fertiliser economics and the input cost line across chemicals and metals.
- We therefore expect industrial output to settle into a 5% to 6.5% range for the balance of FY27 rather than repeat the June spike, with capital goods, electrical equipment, cement and metallic mining continuing to lead and oil, gas, fertiliser and export facing pharmaceuticals continuing to drag. On services we expect the ISP to stay comfortably positive, carried by trade, real estate, IT and administrative support, with air transport the lone persistent drag and accommodation and food normalising towards the rest of the pack after May's spike. Because the ISP is still a trial series covering roughly 60% of services output and arrives with a two month lag, we use it to confirm rather than to anticipate.
- The two numbers to watch are consumer non durables in the IIP and accommodation and food in the ISP. Until the household facing components of both indices turn, this remains a capex and formalisation led expansion with a consumption gap underneath it, and the second half will lean more heavily on services than on the factory floor.

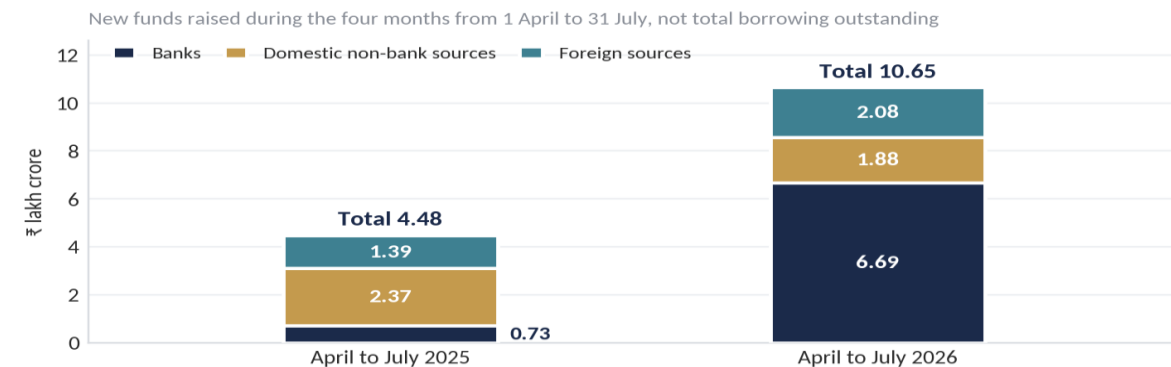
4. Capex



Credit Deposit Growth %

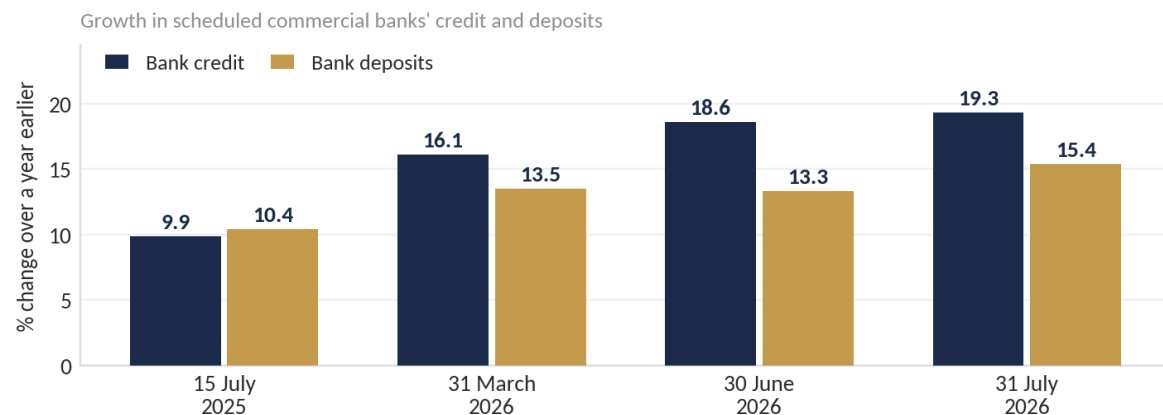


The money companies raised came from banks and from abroad



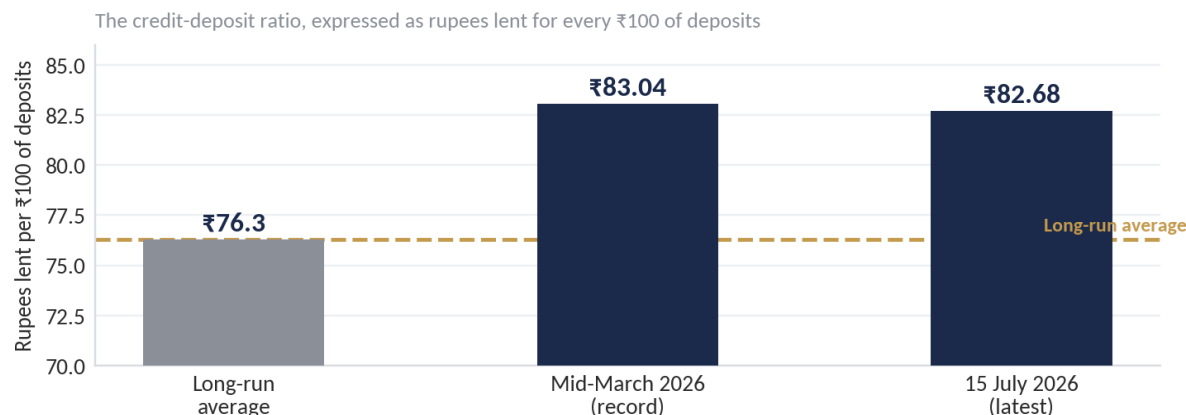
Note: 2026 figures are provisional. Components may not sum to the total because of rounding. Source: RBI Bulletin, August 2026, Table IV.2a.

Lending has pulled away from the deposits that fund it



Note: 15 July 2025 is the reporting fortnight; other dates are month-end. Sources: RBI Bulletin, August 2026; RBI DBIE.

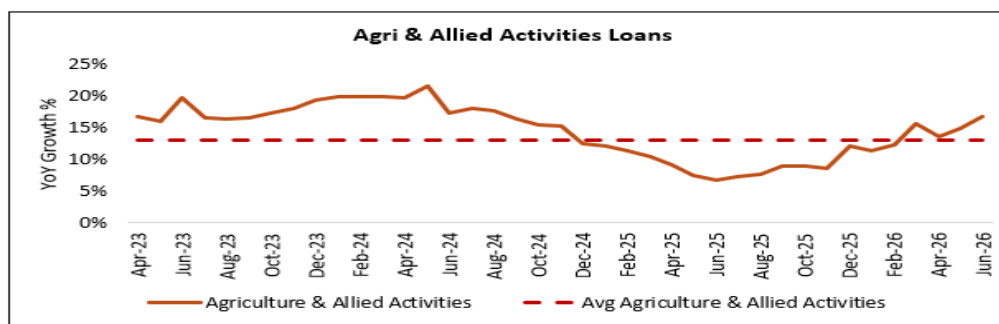
Banks have lent out almost every rupee they hold



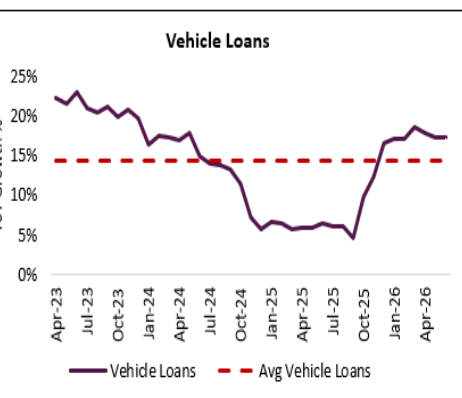
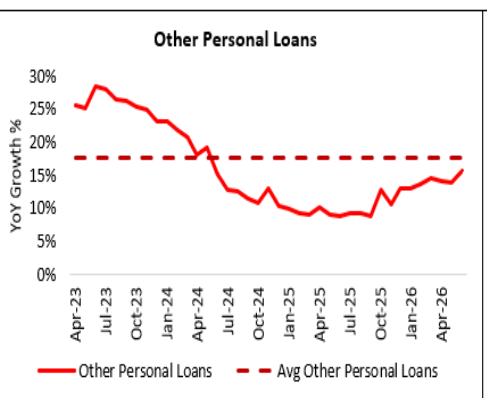
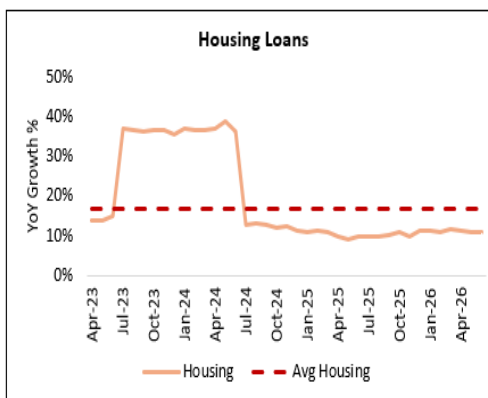
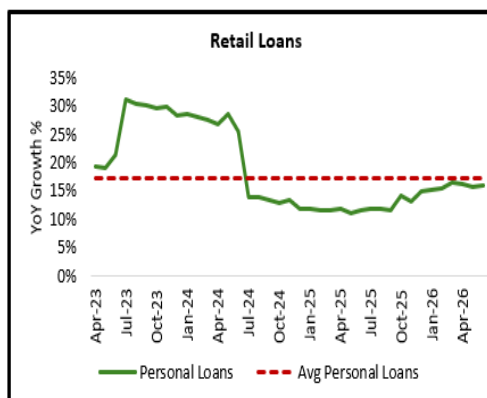
Sources: RBI DBIE; Kilika Capital internal assessment. Long-run average computed over the period since January 2009.



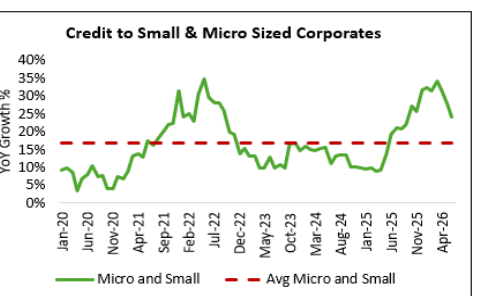
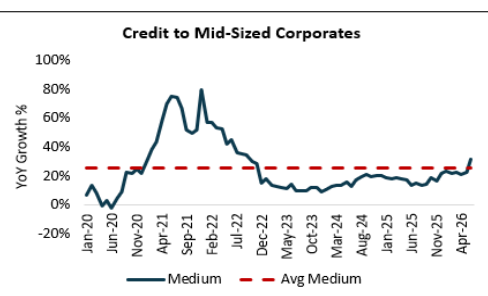
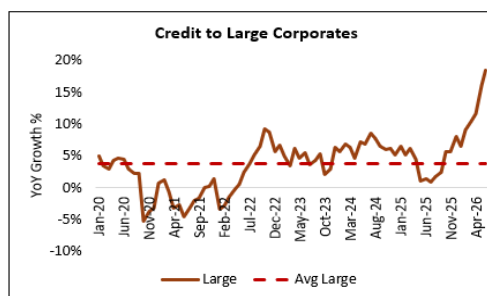
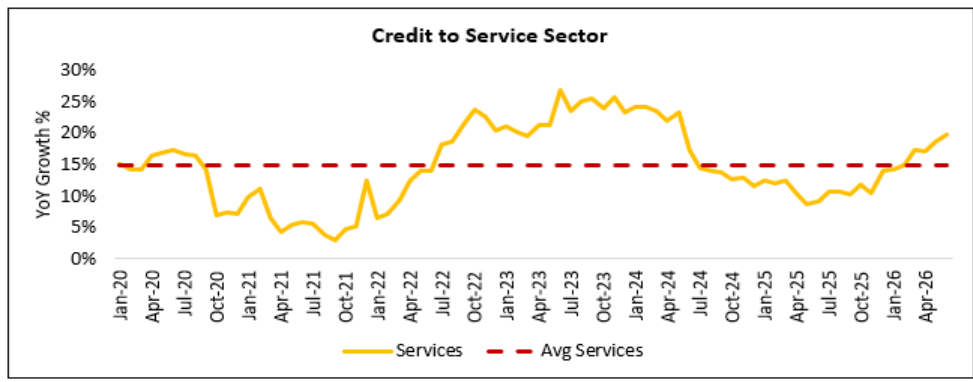
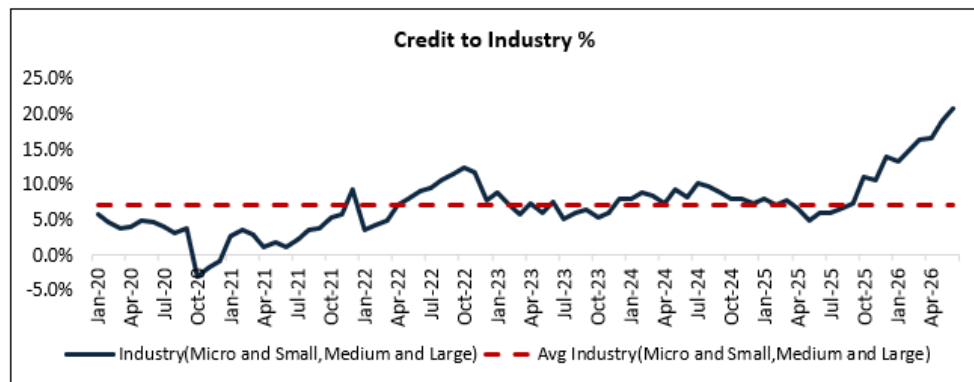
Credit to Agri



Credit to Consumer



Credit to Industry





Lending Has Outrun Its Funding

Banks are lending faster than they can fund themselves

- **Bank credit grew 19.3% over the year to 31 July while deposits grew 15.4%.** A year earlier the position was reversed, with credit at 9.9% and deposits at 10.4%. So the entire gap has opened in twelve months, and it opened because lending accelerated by around nine percentage points while deposits added five.
- The deposit problem is not that households have stopped saving. It is that they have changed where they save. **Money in savings accounts fell from 34.6% of total deposits in March 2022 to 28.7% in March 2026, while term deposits rose from 55.2% to 61.6%.** A savings account is cheap money for a bank. A term deposit is not. So each rupee a bank raises now costs it more than it used to, even though the RBI has not changed its policy rate.
- You can see this in the numbers. Across the rate-cutting cycle from February 2025 to June 2026 banks cut the rate on fresh deposits by 63 basis points. But in the most recent months that reversed, with fresh deposit rates rising 4 basis points in May and 16 basis points in June as competition for funds picked up. **Net interest margin, which is what banks earn on the difference between lending and borrowing, slipped to 3.21% in June 2026 from 3.26% a year earlier.**

There is very little room left on the balance sheet

- The **credit-deposit ratio** answers a simple question. For every ₹100 a bank holds in deposits, how much has it lent out? **At 15 July the answer was ₹82.68, just off the record ₹83.04 reached in mid-March, against a long-run average of about ₹76.**
- Why that matters takes one more step. A bank cannot lend every rupee it holds. A slice has to sit with the Reserve Bank as reserves, and a further slice has to be held in government securities. Once that is set aside, a ratio in the low eighties means the next loan a bank makes is not being funded by deposits at all. It is funded by borrowing in the money market and by the bank's own capital, both of which cost more than a deposit does. **Every additional loan written from here therefore earns a thinner spread than the one before it.**
- It is worth being precise about which constraint is binding. It is not capital. **Capital adequacy stood at 17.78% in June, comfortably above requirement, and bad loans are at a multi-decade low. The constraint sits on the other side of the balance sheet, in funding, and it bites through price rather than through any regulatory limit.**

The gap narrowed in July, but on borrowed time

- **Deposit growth jumped from 13.3% in June to 15.4% in July, a two-point move in a single month, and the RBI notes that this pulled the incremental credit-deposit ratio down with it. On the face of it, the funding squeeze eased.**
- **Almost all of that came from abroad. On 5 June the RBI removed the ceiling on rates banks may offer on foreign currency and non-resident rupee deposits and gave them a concessional swap facility alongside. Banks raised FCNR-B rates by as much as 450 basis points, and US\$65.4 billion arrived between 8 June and 21 August. That window closed to fresh deposits on 31 August. The July improvement is therefore a one-off rather than a change in the underlying position, and the September and October figures will show whether anything durable was gained.**



Companies borrowed a lot more

- **Between April and July, Indian companies raised ₹10.65 lakh crore of fresh funds, against ₹4.48 lakh crore in the same four months last year.**
- **Total borrowing outstanding stood at ₹323.14 lakh crore on 31 July, 17.4% higher than a year earlier, against 11.6% growth the year before. That is a real and meaningful pickup.**
- **The four-month figure looks dramatic because last year's four months were almost empty. Banks supplied just ₹0.73 lakh crore between April and July 2025, close to a standstill. Any ordinary year measured against a standstill will look like a multiple. This year banks supplied ₹6.69 lakh crore, roughly nine times as much, and that ratio tells you far more about how weak 2025 was than about how strong 2026 is.**
- **So when describing the strength of borrowing this year, we use the 17.4% figure.** The four-month numbers are still worth having, but for a different reason, which is what they show about where the money came from.
- Money from abroad rose to ₹2.08 lakh crore from ₹1.39 lakh crore, while money raised at home from lenders other than banks actually fell, to ₹1.88 lakh crore from ₹2.37 lakh crore. In other words, **companies borrowed less in the domestic bond market and more from banks and from overseas.** The reason is price. Bond issuance by companies in the June quarter was ₹2.95 lakh crore lower than a year earlier **because bond yields stayed high, with top-rated three-year paper at 7.53% in August against a ten-year government bond at 6.85%.** When borrowing through bonds gets expensive, companies walk back to their bank.
- One caution that the RBI itself attaches to these figures. The four-month flows and the total outstanding do not fully reconcile. Some housing finance companies were reclassified as non-bank finance companies, which moves balances between categories, and borrowings from abroad are recorded in rupees, so their value changes when the rupee moves. **A portion of the increase in the foreign line is therefore currency translation rather than new money.**

Where the credit is going

- **Growth is broad rather than concentrated in one place, which is the main respect in which this cycle differs from the unsecured lending boom of 2022 and 2023.** The line to watch is industry. Large companies have been the missing borrower for more than a decade, and their return is the difference between a credit cycle that funds consumption and one that funds new factories. On the evidence so far we would call it a turn rather than a trend.

Sector	Growth in June 2026	What it tells us
Services	21.4%	The fastest of the four, though a large part of it is lending to non-bank lenders rather than to services businesses
Industry	19.2%	Momentum sustained, and now helped by large industry after more than a decade of sluggish borrowing
Agriculture	16.8%	A sharp acceleration from 6.8% a year earlier
Personal loans	15.8%	Up from 11.7%, led by home loans and gold loans



Our reading

The lending is real, it is broad, and it sits on an unusually clean balance sheet. Bad loans are 1.68% of the book, the lowest in decades, and capital is ample. None of that is in question.

The funding behind it is the weaker half. July's improvement was bought with foreign deposits on a window that has now shut, the domestic deposit mix keeps getting more expensive, and the credit-deposit ratio leaves almost no headroom. We would therefore treat deposit growth, not credit growth, as the number that decides how long this can run.

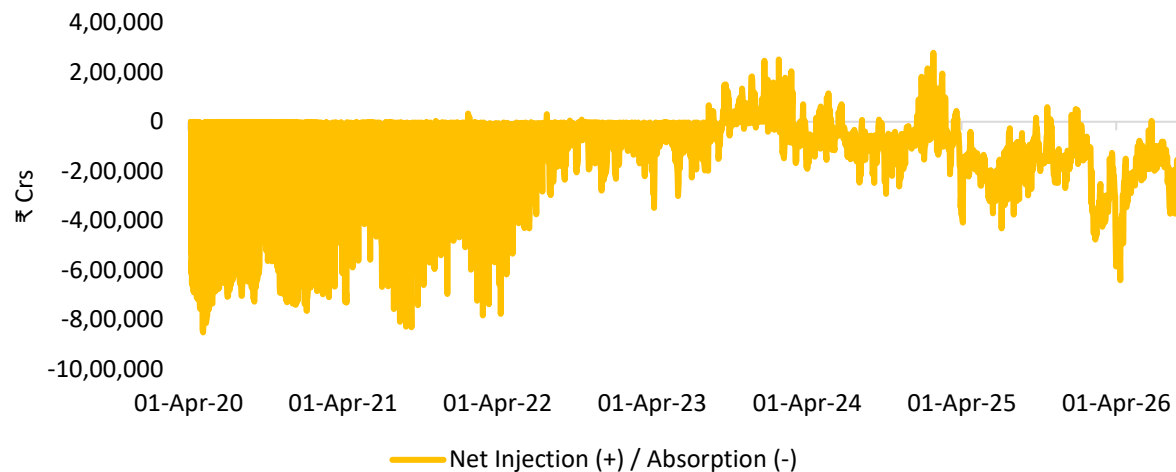
Three things we are watching:

- September and October deposit growth, the first clean months after the foreign deposit window closed on 31 August.
- The credit-deposit ratio against its long-run average of about ₹76. A sustained move back above ₹83 would force banks to bid up for deposits and squeeze margins further.
- Whether large industry keeps borrowing. That single line separates a consumption-led credit cycle from an investment-led one, and it is the question this year's numbers have not yet answered.

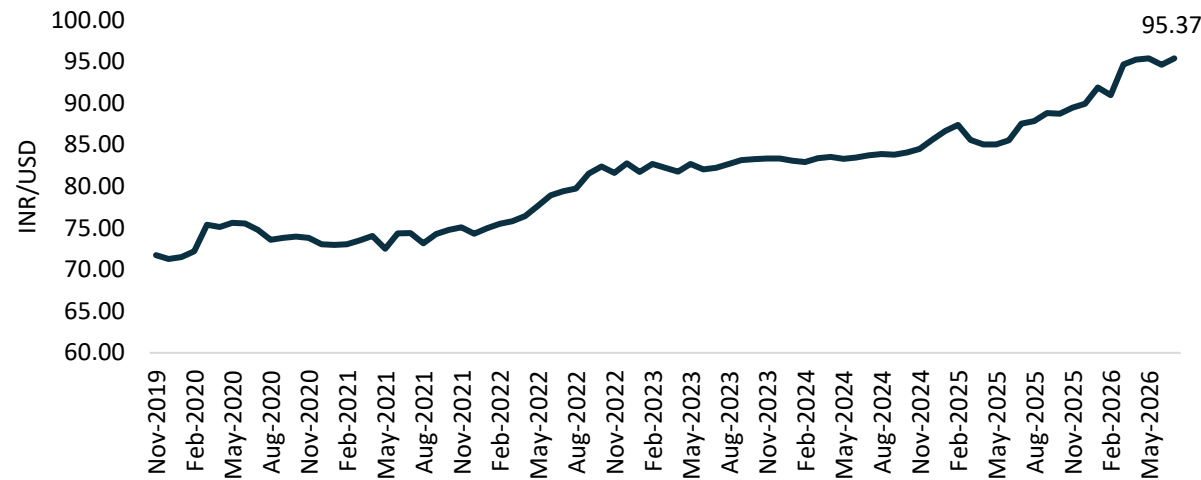
5. Liquidity



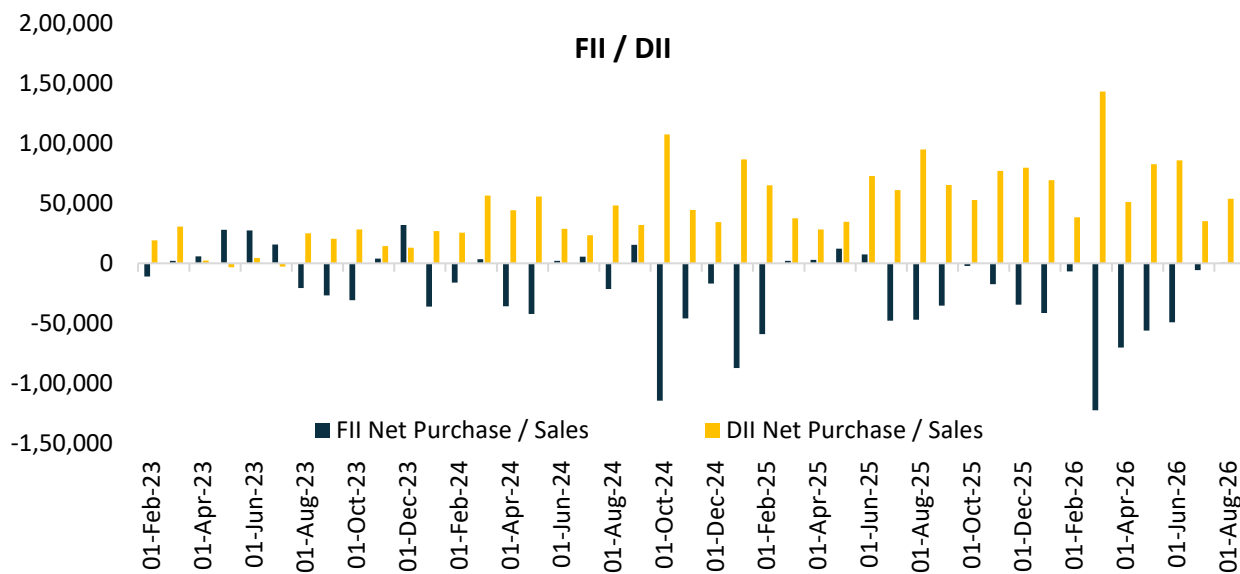
Net Injection(+)/Absorption(-) of Excess Liquidity



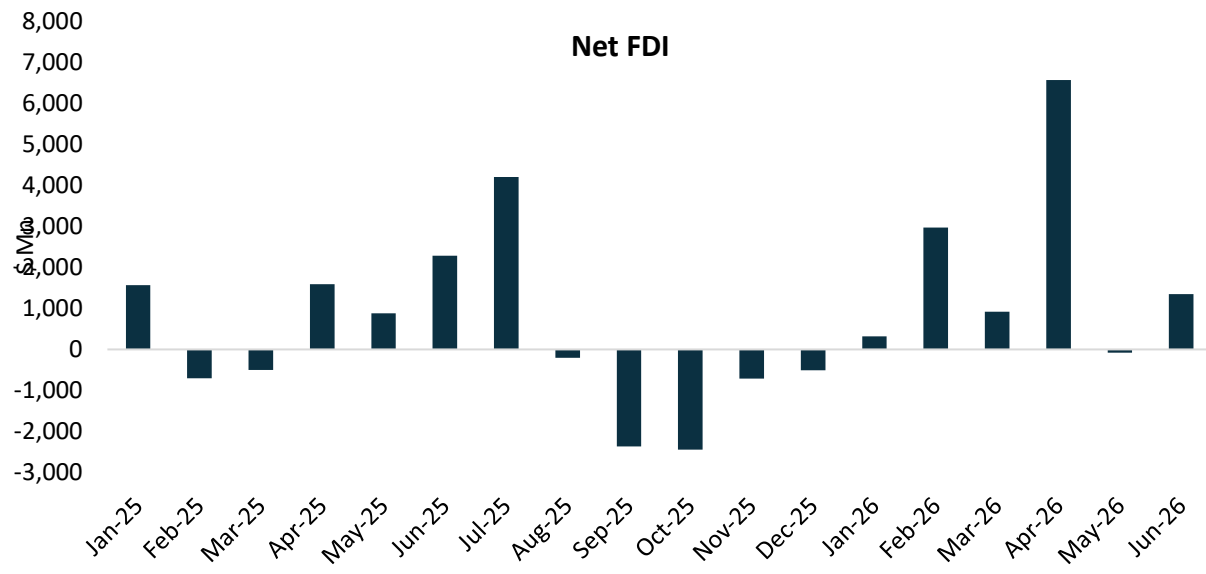
INR/USD



FII / DII



Net FDI



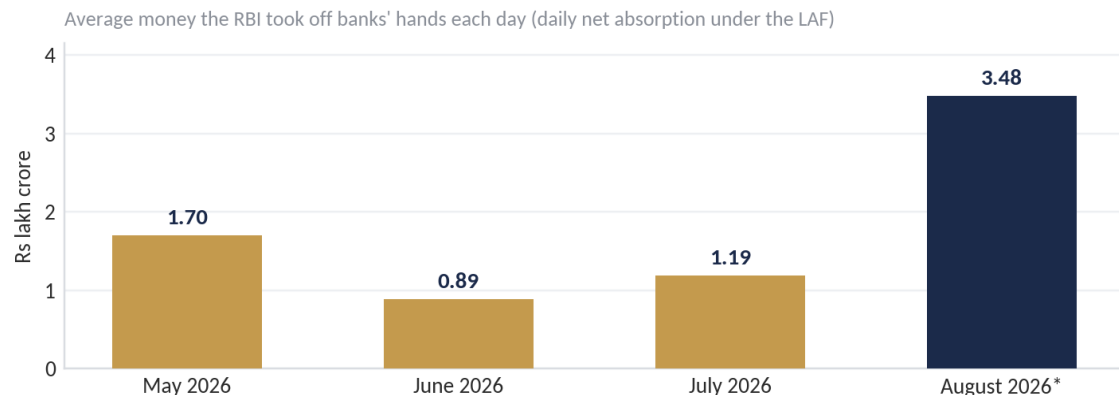


Too Much Cash in the System

The system is holding cash it never asked for

- Start with what liquidity actually means. At the end of every day, banks with money left over and banks that are short settle up with the Reserve Bank. When the RBI is mostly taking money in rather than lending it out, the system has a surplus. That is spare cash, and right now there is a great deal of it.
- **The RBI absorbed an average of ₹3.48 lakh crore every day in August up to the 21st.** In June the figure was ₹0.89 lakh crore and in July ₹1.19 lakh crore. So the **surplus has roughly quadrupled in two months.** This is not for want of trying to mop it up. The RBI ran sixteen absorption auctions in August alone, taking in ₹12.68 lakh crore cumulatively across them, and the cash still piled up. Money parked overnight at the RBI's floor facility rose from ₹1.60 lakh crore to ₹2.12 lakh crore, while emergency borrowing by banks who were short fell to just ₹857 crore. In plain terms, almost nobody in the system is short of money.

Exhibit 1. Spare cash in the banking system has almost quadrupled since June



*August data up to 21 August 2026. Source: RBI Bulletin, August 2026 (Governor's Statement and State of the Economy).

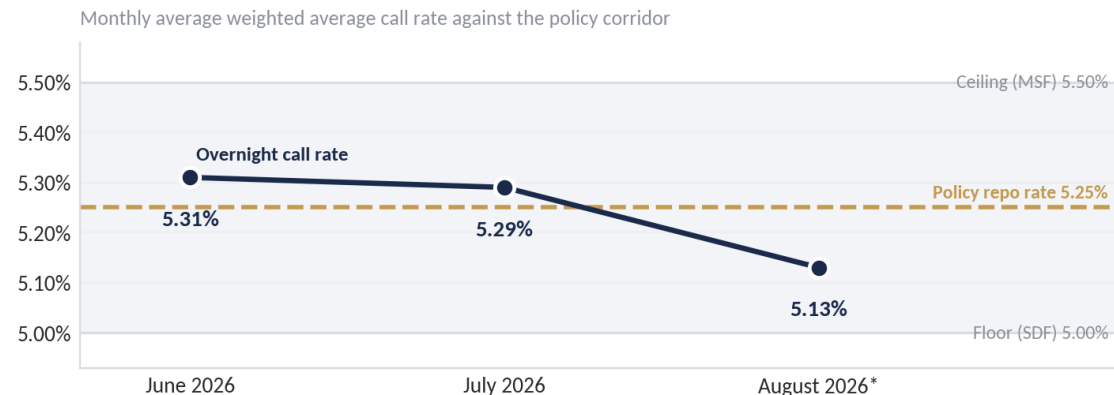
- **Where did it come from? Mostly from policy, not accident. In June the RBI opened several doors to foreign money in order to support the rupee. Deposits from non-resident Indians under the FCNR(B) window alone brought in US\$65.4 billion between 8 June and 21 August, and the RBI's own swap facility converts those dollars into rupees that land inside the banking system. Add government spending drawing down its cash balances, and the usual return of currency after the monsoon season, and you get the picture. Broad money is now growing at 14.7% a year.**

When cash is this plentiful, the policy rate stops being the price

- **The repo rate, currently 5.25%,** is the rate at which the RBI wants overnight money to change hands. It is the single lever through which every other interest rate in the country is supposed to move. For that to work, the actual overnight rate has to sit near it.
- It no longer does. **The overnight call rate** averaged 5.31% in June, 5.29% in July, and **5.13% in August up to the 21st. It has slipped below the policy rate and is drifting toward the 5.00% floor. Put simply, the RBI is quoting one price for money and the market is paying less than that.**



Exhibit 2. The price of overnight money has slipped below the RBI's own policy rate



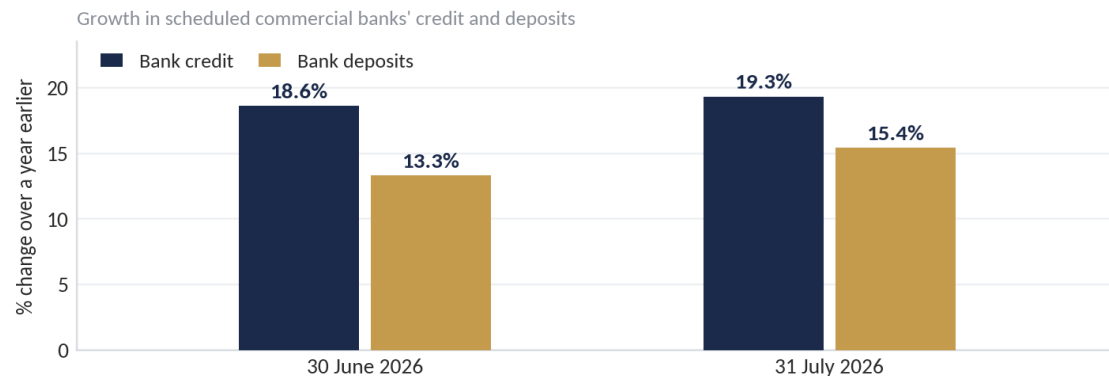
* August data up to 21 August 2026. Source: RBI Bulletin, August 2026.

- **This matters more than it sounds. If the RBI were to raise the repo rate in October, as a number of economists now expect after the hawkish tone of the August minutes, the increase would not travel. Lenders with cash to spare would keep lending below the new rate, and the hike would be an announcement rather than a policy. A rate rise the overnight market ignores is worse than no rate rise at all, because it costs the central bank credibility and buys nothing.**

The cash is not sitting idle, which cuts both ways

- **Bank lending grew 19.3% over the year to 31 July, while deposits grew 15.4%. Banks are extending credit around four percentage points faster than they are collecting the deposits to fund it, and the cash surplus is quietly plugging that gap. You can see the effect in short-term borrowing costs: rates on three-month certificates of deposit and commercial paper each fell by about 16 basis points in August, because banks flush with foreign deposits no longer needed to compete for funds.**

Exhibit 3. Banks are lending far faster than they are collecting deposits



Source: RBI Bulletin, August 2026 (State of the Economy).



- So the surplus is doing real work. It is holding down the cost of short-term credit for banks and companies at a time when loan demand is strong. That is precisely why draining it is a decision with consequences for the real economy, not a piece of technical housekeeping.

Fill turn Buyers in August

- Foreign portfolio money has also come back, which matters here because it is one of the pipes that fills the system with rupees. Foreign investors bought ₹30,919 crore of Indian shares in August after ₹20,200 crore in July, their first two positive months following heavy selling between March and June that took out ₹1.17 lakh crore in March alone. The reasons cited are better first-quarter earnings, a steadier rupee, easing geopolitical worry, and money rotating out of the crowded artificial intelligence trades elsewhere in Asia. Two qualifications are worth keeping. Foreign investors remain net sellers of about ₹2.23 lakh crore for the calendar year, so this is a reversal at the margin rather than a change in the annual position. And domestic institutions, which have been the steady buyers throughout, are investing money that already sits inside the banking system, so unlike foreign inflows their buying moves liquidity around rather than adding to it.

The RBI has a menu, and the tool it picks will tell you the target

Governor Malhotra said after the August policy that the surplus should peak around September and then be absorbed by the economy's normal needs. Market economists are less relaxed, with some expecting the surplus to approach ₹9 lakh crore to ₹10 lakh crore before it turns.

If the RBI decides to act, it has four instruments. It can impose an incremental cash reserve ratio, requiring banks to lock away a share of recent deposit growth. It last did this in August 2023, taking out more than ₹1 lakh crore and unwinding it in stages within two months. It can raise the ordinary reserve ratio. It can sell government bonds outright. Or it can sell dollars forward. The choice is informative, because each tool bites in a different place. **Reserve ratio measures hit short-term rates hardest, which is what you would do if the aim is to make a future repo hike stick. Bond sales press on long-term yields, which is what you would do if the aim is to influence the cost of long-dated borrowing.**

Our reading

This surplus is the by-product of a deliberate choice to attract foreign money in defence of the rupee. Having made that choice, the RBI cannot now leave the consequences alone if it wants the option of raising rates in October. We therefore expect a liquidity action to come before any rate action, and we would read the first drainage step, whenever it lands, as the genuine signal about an October rate hike, rather than as plumbing.

Four things we are watching:

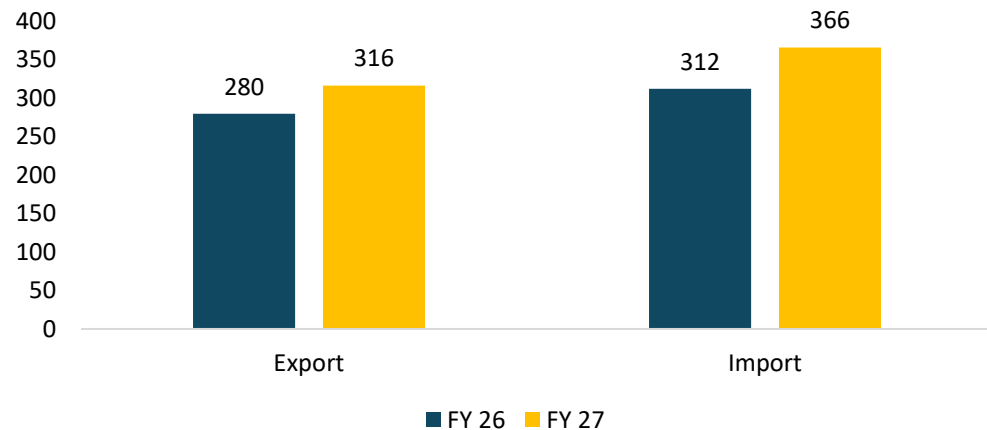
1. Whether daily absorption stays above ₹3 lakh crore through September, the month the Governor has flagged as the likely peak.
2. The overnight call rate against 5.25%. A gap of ten basis points or more, sustained, is the condition that forces the RBI's hand.
3. The FCNR(B) swap window, which closed to fresh deposits on 31 August. The inflow that created this surplus stops here, so part of the problem may solve itself.
4. Foreign portfolio flows are now the one liquidity pipe still open, since the FCNR window closed on 31 August, so we would watch whether the July and August buying holds into September rather than treat two months as a trend.
5. The gap between credit and deposit growth. If lending keeps outrunning deposits, the system absorbs the surplus on its own and the RBI can afford to do nothing.



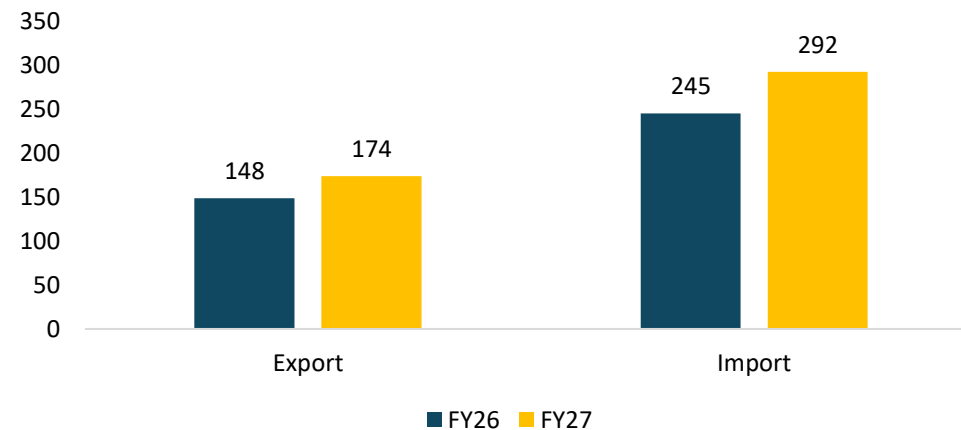
6. Trade



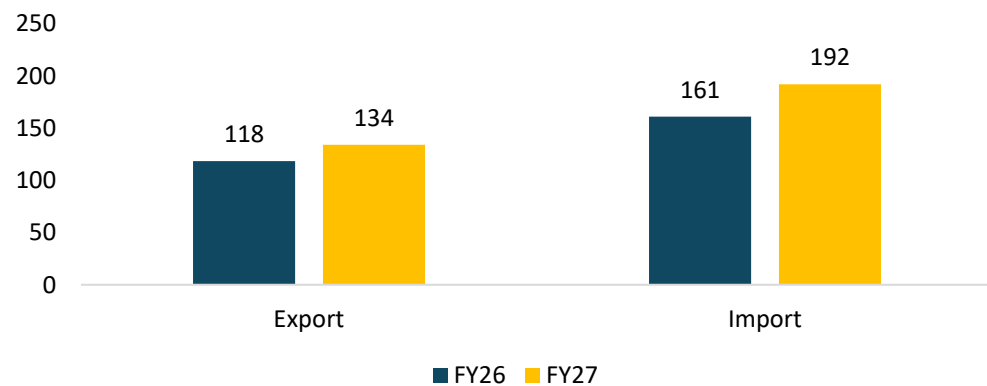
Total Trade During April-July 2027



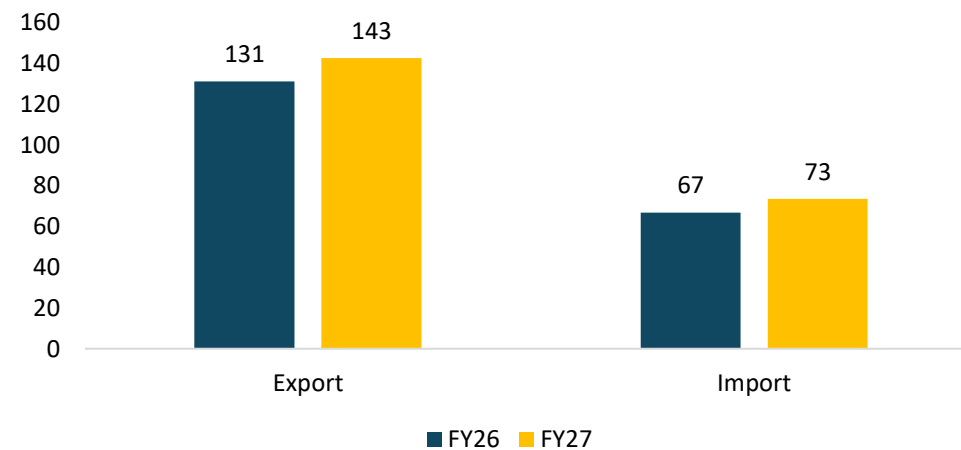
Merchandise Trade during April-July 2027



Trade excluding Petroleum and Gems & Jewellery during April-July 2027



Services Trade during April-July 2027





The Export Engine Finally Outruns the Import Pull

- **India's merchandise exports rose 19.63% YoY to USD 44.24 billion in July 2026 against USD 36.98 billion in July 2025, the strongest monthly print of this cycle.** Merchandise imports rose 17.51% YoY to USD 76.22 billion, so for the first time in four months the export line grew faster than the import line. **The monthly goods trade deficit still widened to USD 31.98 billion from USD 27.88 billion in July 2025, the widest monthly gap we have recorded this cycle.** The direction of travel has improved even though the level has not: the base gap is now wide enough that a two point export growth advantage barely dents it.
- **The combined goods-and-services deficit widened to USD 15.03 billion in July 2026 from USD 11.43 billion in July 2025.** Cumulatively, April-July FY27 total exports reached USD 316.42 billion (+13.16% YoY) and imports USD 365.85 billion (+17.28% YoY), leaving a four-month overall deficit of USD 49.43 billion against USD 32.32 billion a year earlier, with the merchandise gap now USD 118.60 billion against USD 96.66 billion, a 22.7% widening. **We read July as the first month of this cycle in which the composition of the deficit turned in India's favour even as the arithmetic did not, and as early evidence that the import-intensity problem we have flagged since April is peaking rather than compounding.**

Export Drivers – Petroleum and Electronics Take Back the Lead

- **Petroleum products swung back to the front of the export book, up 67.64% YoY to USD 6.92 billion from USD 4.13 billion, and electronic goods rose 57.40% YoY to USD 5.92 billion from USD 3.76 billion, the fastest print we have tracked in that line.** Engineering goods, our preferred read on the manufacturing cycle, rose 17.71% YoY to USD 12.24 billion and remain the largest category by absolute size, organic and inorganic chemicals rose 14.39% YoY to USD 2.80 billion, and cotton yarn, fabrics, made-ups and handloom products 8.40% YoY to USD 1.11 billion. **The petroleum reversal is a price effect and not a volume story: with the Strait shut and Brent near USD 90, refiners are realising far more on the same barrel, and that line alone contributes roughly seven and a half points of July's headline export growth.**
- **Non-petroleum exports rose 13.57% YoY to USD 37.32 billion and non-petroleum, non-gems-and-jewellery exports 14.87% YoY to USD 35.00 billion, so the non-commodity core is still doing the bulk of the work.** The second tier was broad, with Iron Ore (+78.35% YoY) the fastest line of the month, followed by Meat, Dairy & Poultry (+40.84% YoY), Cashew (+25.11% YoY), Marine Products (+17.83% YoY), Handicrafts (+15.55% YoY), Plastic & Linoleum (+11.01% YoY) and Cereal Preparations (+9.51% YoY). **Two lines deserve flagging. Gems and jewellery exports slipped to roughly USD 2.32 billion from USD 2.39 billion, giving up all of June's 34.64% surge, and drugs and pharmaceuticals grew just 0.74% YoY, which we read as the US tariff layer landing on India's two most US-exposed export books.**

Imports Composition – The Core Import Bill Is Now the Problem

- **Non-petroleum imports rose 17.46% YoY to USD 57.91 billion and non-petroleum, non-gems-and-jewellery imports 20.32% YoY to USD 51.82 billion, the fastest of the three import aggregates.** The **petroleum import bill**, on our calculation, rose to roughly USD 18.31 billion from USD 15.56 billion, **a 17.7% increase that is almost entirely price.** The **core import line growing faster than the oil line is the important detail of this print: July's overshoot is a capital goods, intermediates and electronics story tracking the manufacturing and export cycle, not an energy story, and that is the mechanical import-intensity problem at the heart of the deficit.**
- **On the downside, the precious-metals compression held. Silver imports fell 66.1% YoY and total gems and jewellery imports slipped to roughly USD 6.09 billion from USD 6.23 billion.** Sulphur & Unroasted Iron Pyrites (-47% YoY), Newsprint (-26.31% YoY), Pulp & Waste Paper (-22.61% YoY), Medicinal & Pharmaceutical Products (-3.96% YoY), Wood & Wood Products (-2.1% YoY) and Iron & Steel (-1.84% YoY) declined. **The Iron & Steel decline is the one we would watch: a falling steel import bill alongside 17.71% engineering export growth points to domestic mills displacing imported tonnage.**



Trading Partner Geography – The Energy Pivot Hardens

- **The export–destination data confirms the external re–routing is now structural. In July 2026, exports to Kenya rose 151.41% YoY, Singapore 83.7% YoY, Malaysia 73.03% YoY, China 64.57% YoY and the United States 12.85% YoY by change in value.** The cumulative April–July FY27 picture is led by Tanzania (+131.2% YoY), Sri Lanka (+111.76% YoY), Singapore (+97.11% YoY), South Africa (+69.75% YoY) and China (+35.97% YoY). **The United States appearing among the top five by change in value, at +12.85% YoY and with a 10% duty layer in place, is the single most reassuring line in the July release, and the Singapore and China prints are large enough in absolute terms to move the national exports number on their own.**
- **On the import side, the energy–diversification trade has hardened from a hedge into the base case. In July 2026, imports from Oman rose 150.36% YoY, Taiwan 111.3% YoY, Russia 83.85% YoY, China 34.42% YoY and the United States 18.11% YoY.** The cumulative April–July FY27 import–source picture is starker still, with Oman up 200.68% YoY, Brazil up 166.84% YoY, Russia up 59.65% YoY, China up 29.68% YoY and the United States up 22.42% YoY. **With the Strait still effectively closed, the Oman, Brazil and Russia barrels are no longer an insurance policy but the default sourcing map, and the Taiwan print is the semiconductor and component supply chain feeding the same electronics export book that grew 57.40% in July.**

Services – The Cushion Steadies but Covers Less

- **The services cushion steadied after June's wobble. Services exports grew 6.37% YoY to USD 35.89 billion and services imports 9.48% YoY to USD 18.94 billion, taking the monthly net surplus to USD 16.95 billion against USD 16.44 billion in July 2025.** That reverses the YoY contraction in the monthly cushion we flagged as a risk last month. **The relief is narrower than it looks: with the goods deficit at USD 31.98 billion, the services surplus now offsets about 53% of the merchandise gap against roughly 59% a year earlier, so the cushion is still growing more slowly than the hole it fills.**
- The cumulative position remains healthy. The April–July FY27 services surplus is USD 69.17 billion against USD 64.35 billion a year earlier, on services exports of USD 142.64 billion, which the release puts at 6.38% growth. Services imports at USD 73.47 billion against USD 66.81 billion are running well ahead of that pace, up 9.97% YoY, and this is the second consecutive month in which the import side of the invisibles account has outgrown the export side. **We continue to treat the services surplus as the binding variable for the current account. It is still the reason India's external balance is manageable, but a 6% export growth rate against a 10% import growth rate stops being an offset well before the end of the forecast horizon.**

Gold and Silver Duty – The Compression Holds Into Month Three

- **The third clean month of data confirms the May customs duty reset is still biting the silver line. Silver imports fell 66.1% YoY in July after a 73.62% fall in June, and total gems and jewellery imports slipped to roughly USD 6.09 billion from USD 6.23 billion.** Cumulatively, however, the picture inverts: April–July FY27 gems and jewellery imports work out to about USD 21.43 billion against USD 19.38 billion a year earlier, a 10.6% increase. **The duty has compressed the silver line and left the gold bill intact, so the precious–metals channel is no longer delivering net import relief at the cumulative level even though the monthly optics still flatter it.**
- **Our critique on design stands.** The duty reliably compresses official inflows in the metal it targets, but it has a poor historical record on revenue and a reliable one on driving unofficial channels, and the cumulative data now shows the compression being arbitrated into the untargeted metal rather than out of the import bill. **We continue to expect official silver imports to stay depressed through the first half of FY27 with the gold line carrying the precious–metals bill, and we would not build any structural deficit improvement off this measure.**



West Asia – Hormuz Stays Shut and the Diversified Barrel Becomes the Base Case

- **The Strait of Hormuz remains effectively closed and the conflict has not de-escalated since our June note.** The mid-June memorandum on reopening the Strait collapsed after attacks on tankers off the Omani coast, the naval blockade has been reimposed, and talks are deadlocked. Brent has traded in a USD 84 to 90 band through early August against the upper USD 90s a month ago. **The market is pricing a resolution it has not been given, and we would not underwrite the current price as the floor.**
- **July's data is the clearest vindication yet of the hedge thesis we have run since Q4 FY26.** Imports from Oman are up 150.36% YoY in the month and 200.68% cumulatively, Russia 83.85% and 59.65%, and Brazil 166.84% cumulatively, so refiners are sourcing structurally outside the Gulf chokepoint. **The offset shows up on the export side: petroleum product exports of USD 6.92 billion, up 67.64% YoY, mean refiners are monetising the same dislocation that inflates the crude bill, so we read the net oil drag as materially smaller than the gross import number implies.**

Trade Policy – The July Cliff Clears at 10%, With a Mid-August Sequel

- **The binary tariff outcome we told you to size around has resolved at the better end.** The 10% Section 122 surcharge lapsed at its 150-day limit on 24 July, and the USTR notice of 23 July placed India in the lower 10% band of the new Section 301 forced-labour tariffs, having initially slated it for 12.5%. The effective US rate is unchanged at MFN plus 10% but now rests on an open-ended legal basis rather than an expiring emergency authority, with steel and autos still under Section 232 duties and bilateral talks continuing. **We read the change in legal basis as a net positive for negotiating leverage and a net negative for the option value of the tariff lapsing, and July's 12.85% YoY growth in US-bound exports suggests the 10% layer is being absorbed rather than destroying volume.**
- **The next event is mid-August. A separate Section 301 proceeding on structural excess capacity is expected to open, and it is the live risk to engineering, electronics and metals.** The offset remains the FTA calendar. The India-UK CETA entered into force on 15 July, removing UK duties on 99% of Indian tariff lines from day one, with over USD 140 million of consignments moving on day one, and the India-EU agreement is on track for early 2027. **CETA covered only the back half of July, so none of its benefit is in this print; textiles, marine products, leather, gems and engineering are where it should start showing from August.**

Outlook

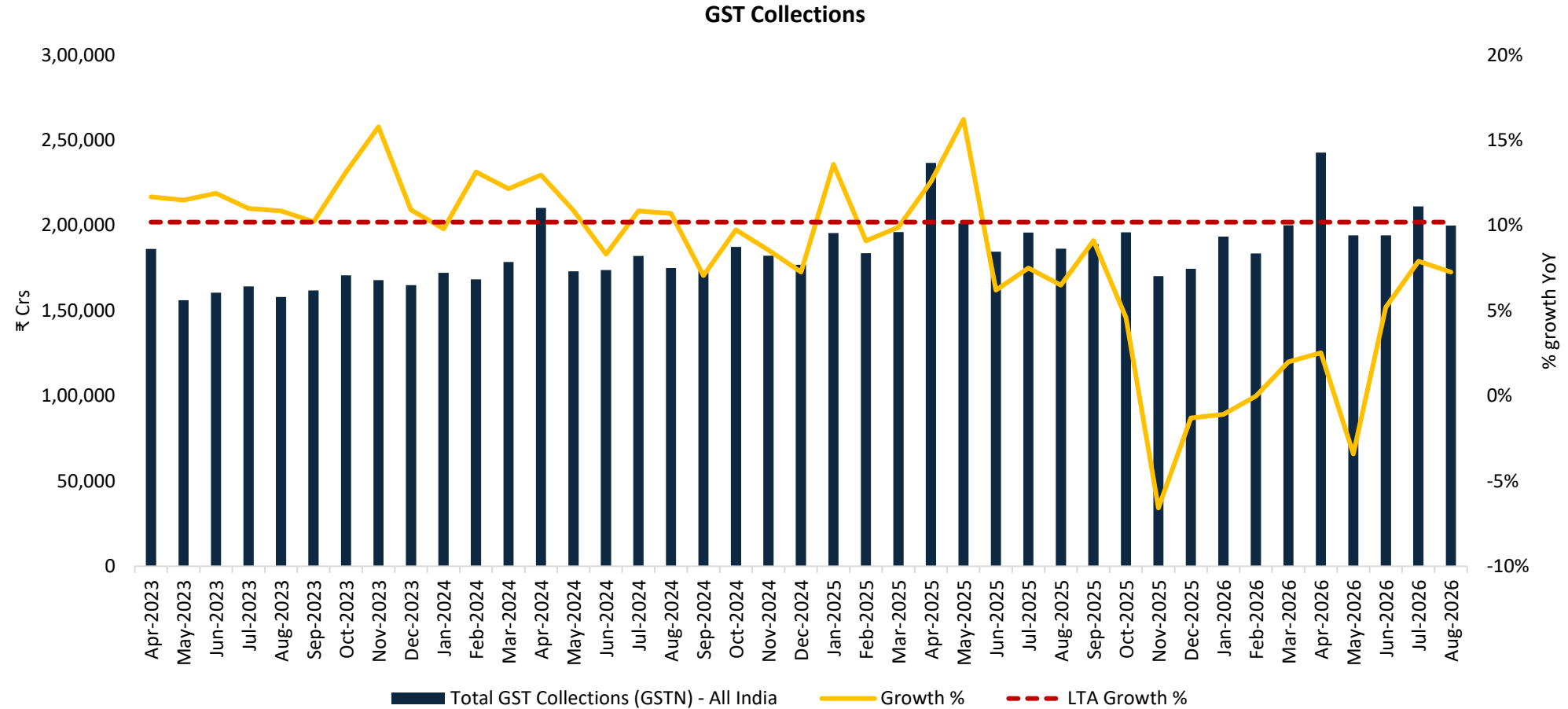
- **July is the best-composed export print of this cycle.** Merchandise exports of USD 44.24 billion (+19.63% YoY) grew faster than imports for the first time in four months, and a cumulative April-July running 13.16% ahead keeps the trillion-dollar export ambition in reach. **The USD 118.60 billion goods gap, not the export line, is the constraint.**
- **The deficit problem has moved from energy to the core.** Non-petroleum, non-gems imports grew 20.32% YoY against a 17.7% rise in the oil bill, so the widening is now **capital goods, intermediates and electronics tracking the manufacturing cycle. A better problem to have, but not a smaller one.**
- **Energy risk stays two-sided.** With the **Strait shut, Brent at USD 84 to 90 and normalisation not expected before early 2027, the crude bill, current account and imported inflation stay exposed; the diversified barrel and a 67.64% petroleum export print cushion the net, not the gross.**
- **Tariff risk has narrowed but not closed.** The 10% Section 301 outcome is the good end of the range and **US-bound exports still grew 12.85% YoY in July, but the mid-August excess-capacity proceeding is the next binary event and we would not add export beta into it.**
- **We hold our FY27 current-account band and stay overweight domestic engineering, electronics and CETA-advantaged export manufacturing against a marginal underweight in import-intensive consumer discretionary.** The net view stays cautiously constructive, with a thinning invisibles offset and a still-shut Strait the risks to size around.



- India's current account deficit is expected to widen materially in FY27, with published estimates now clustering in a 1.8% to 2.3% of GDP range against FY26's actual 0.6% of GDP (–USD 25.2 billion), and the spread across those estimates is almost entirely a function of the crude assumption, running from USD 85 to USD 95 per barrel. The April–July data supports the wider half of that band: the merchandise gap has already reached USD 118.60 billion against USD 96.66 billion a year earlier, and the overall goods–and–services deficit USD 49.43 billion against USD 32.32 billion, a run rate that is difficult to reconcile with the sub–1.5% forecasts that were still on the table a month ago. The offsets are real but thinning, with services and remittances continuing to outperform the merchandise drag and the April–July services surplus at USD 69.17 billion against USD 64.35 billion, but services imports growing 9.97% against 6.38% services export growth, so the invisibles cushion is expanding more slowly than the goods gap. Key risks to the outlook are a prolonged Hormuz closure keeping crude above USD 90, a structurally wider merchandise deficit that some forecasters do not see narrowing at all through FY27, and moderating services and remittance growth off FY26's high base, partly offset by the India–UK CETA now in force and the India–EU agreement due in early 2027. As we have argued since April, financing risk rather than the current account itself is the bigger swing factor, and the central bank's measures on FCNR(B) hedging support and concessional forex swaps for PSU overseas borrowing are explicitly aimed at holding the balance of payments in surplus even if the current account gap widens, with published estimates still pointing to a BoP surplus of roughly USD 15 billion for FY27.



7. Fiscal Situation





India's GST Collections. August 2026 at Rs.2.00 Lakh Crore (+14.8% YoY). Import IGST Holds the Headline, Refund Surge Drags Net Growth to 8.3% YoY

- India's GST collections in August 2026 stood at **gross revenue of Rs.1,99,853 crore (+14.8% YoY)**, a mild moderation from July's +15.4% print that lands effectively on the Rs.2.00 lakh crore mark, against the Rs.1,74,116 crore August 2025 base. The optical strength is again carried by the import leg, and this month the refund line does the damage. The component wise breakup stood at **CGST Rs.38,413 crore, SGST Rs.46,316 crore, IGST Rs.1,15,124 crore (of which imports contributed Rs.62,604 crore)**. **Import IGST surged 29.0% YoY**, the standout driver for a third consecutive month, tracking Brent averaging near \$91 per barrel in August against \$68 a year ago as renewed Strait of Hormuz escalation kept the crude risk premium embedded. Domestic gross revenue grew **9.3% YoY to Rs.1,37,249 crore**, a step down from July's 10.1% but still the second best domestic print of FY27. The refund line is the story of the month. **Gross refunds jumped 67.9% YoY to Rs.31,795 crore**, with domestic refunds up 72.6% to Rs.18,490 crore and export refunds up 61.8% to Rs.13,305 crore, which pulled **net GST revenue down to Rs.1,68,057 crore (+8.3% YoY)** against July's +15.8%. **Cumulative FY27 gross collections through August reached Rs.10,42,757 crore (+11.0% YoY)**, with year to date net at Rs.8,89,523 crore. State wise, **Uttar Pradesh (+19%), Telangana (+16%), Gujarat (+15%), Karnataka (+13%), Haryana (+12%) and Punjab (+12%)** led the industrial cluster, while Himachal Pradesh (-23%), Meghalaya (-21%), Uttarakhand (-9%), Odisha (-7%) and Andhra Pradesh (-7%) contracted, with Assam's +162% a base distortion.
- The August print validates our view that the structural floor for monthly GST has settled at Rs.2.00 lakh crore**, landing within Rs.150 crore of that mark, though the domestic catch up we flagged in July has stalled. **We retain our FY27 gross collection estimate of Rs.24.5–25.0 lakh crore (+10–12% YoY)** against the FY26 base of Rs.22.27 lakh crore, with the five month run rate of Rs.2.09 lakh crore annualising to Rs.25.0 lakh crore, the top of that range. **The key swing factor remains import IGST**, which has grown 27.3% YoY on a YTD basis to Rs.3,06,387 crore and now contributes 29.4% of gross versus 25.6% a year ago, rising to 31.3% in August alone. With Brent up roughly 34% YoY the line is largely crude repricing, and a Hormuz resolution would compress it sharply. **Domestic gross growth at 5.3% YTD is the number to watch**, as it captures consumption without the crude and capex import overlay. On a net basis domestic revenue is up only 2.7% YTD because domestic refunds have risen 29.2% to Rs.90,925 crore, and August's 72.6% domestic refund surge tells us the normalisation we called last month has not happened. The divergence between headline and domestic growth has widened marginally from 530 bps in July to 550 bps in August, so we push the expected convergence out to Q3 as import base effects normalise. Compensation cess continues to unwind post the January 2026 phase out and should wash out fully by September 2026.

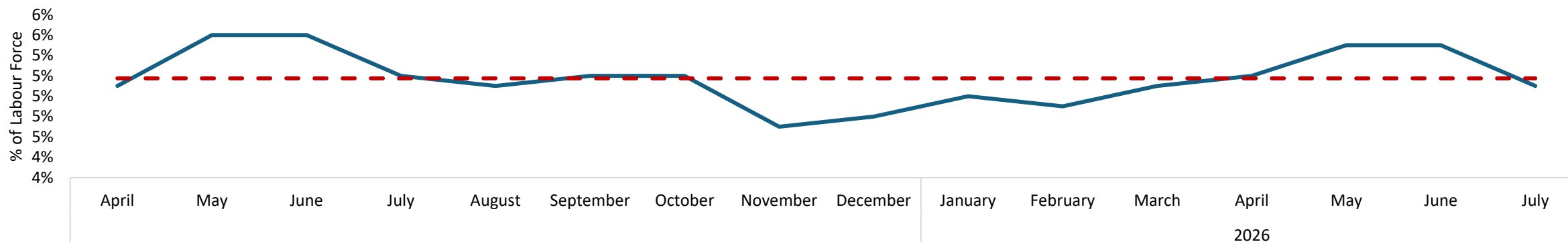
Capex at 37% of Target as Devolution to States Falls 13%

- The **April–July fiscal deficit at Rs 4.55 trillion, or 26.8% of the FY27 BE of Rs 16.96 trillion**, is a genuine improvement on the 29.9% run rate a year ago and, at roughly **3% lower YoY**, extends the consolidation seen in the Q1 accounts. The caution sits in the composition. **Total receipts of Rs 13.07 trillion covered 35.8% of BE against 31.3% a year ago**, with non-tax revenue at Rs 4.23 trillion or roughly 63% of BE on the central bank dividend, while **net tax revenue at Rs 8.45 trillion tracked 29.5% of BE versus 23.3% a year ago**, up close to 28% YoY. That number flatters the Centre. **Devolution to states of Rs 3.72 trillion is Rs 56,190 crore lower than a year ago, down 13.1% YoY**, so gross tax collections grew closer to 12% YoY on our estimate and much of the comfort is transfer timing, not tax buoyancy. Total expenditure of Rs 17.62 trillion was 32.9% of BE, and the **capex flow remains the standout at Rs 4.51 trillion, 37% of the FY27 target of Rs 12.22 trillion met against 31% a year ago, up 30% YoY**, reinforcing our capital goods stance. Revenue expenditure of Rs 13.11 trillion at 31.8% of BE carries interest of Rs 4.27 trillion, a third of revenue receipts, and subsidies of Rs 1.54 trillion at 37% of BE, still front-loaded on urea. **The Q1 primary surplus has been given back, with a Rs 28,578 crore primary deficit and a Rs 43,645 crore revenue deficit**, both July phasing effects rather than a trend change. With **Brent averaging near \$91 in August against \$84 in July**, our binding constraint of Brent below \$85 is breached, and we retain our **15–20 bps slippage versus the 4.3% of GDP target for FY27, widening to 25 bps if crude holds above \$90 through Q3**. Net-net, the **fiscal impulse to industrial activity remains firmly positive**, and this is the single most important underpinning of our **5.0–6.0% FY27 IIP growth range**.

8. Employment



Unemployment Rate



Unemployment — Headline UR Falls to 5.1% in July 2026; Kharif-Led Rural Absorption Lifts Participation and Employment Ratios

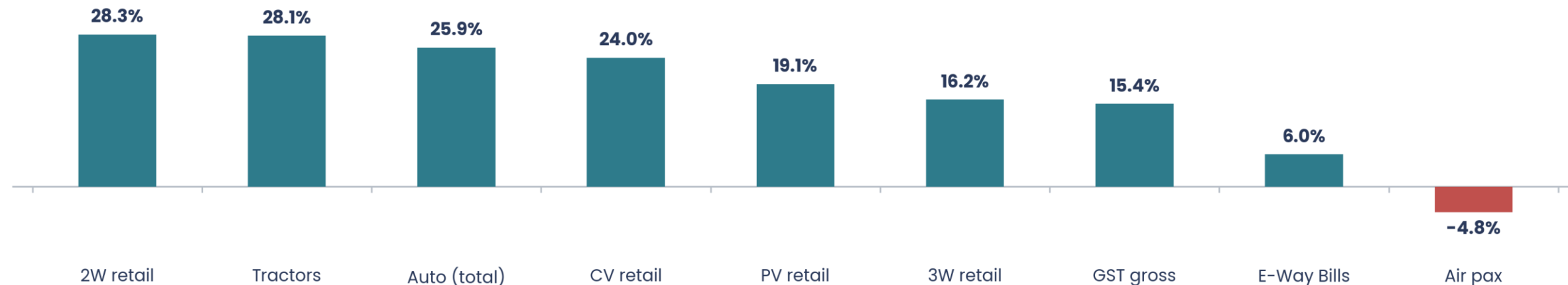
- **Unemployment Rate (UR) improves; Rural hiring turns decisively higher**, pulling the headline down to a five-month low. **India's headline unemployment rate (UR) declined to 5.1% in July 2026 from 5.5% in June (-40 bps MoM), remaining below the 5.2% recorded a year earlier.** The improvement was entirely rural, with **rural UR falling to 4.5% from 5.0% on kharif sowing absorption**, while **urban UR was broadly flat at 6.7% versus 6.6%**. On a year-on-year basis, urban UR improved by 50 bps to 6.7% from 7.2%, while male UR eased to 5.0% from 5.3% and female UR to 5.4% from 5.9%.
- **LFPR and WPR both rise**; the first joint upturn since February 2026. **Labour Force Participation Rate (LFPR) rose 1.0 pp to 55.4% in July, above 54.9% a year earlier, while Worker Population Ratio (WPR) increased to 52.5% from 51.4%.** Rural LFPR jumped 1.4 pp to 58.0% and rural WPR 1.6 pp to 55.4%, while urban LFPR edged up to 50.4% and urban WPR held at 47.0%. Male WPR strengthened to 73.3% from 72.9%, led by rural males at 74.7%.
- Female labour market: **Rural women drive the gains, though urban female unemployment ticks up. Female LFPR rose 1.7 pp to 34.4% in July** and stood 1.1 pp above its year-earlier level, led by rural women whose LFPR climbed to 38.8% — up 2.2 pp from 36.6% in June 2026, while urban female LFPR improved to 25.3% from 24.8%. **Female WPR increased to 32.5% from 30.8%**, with rural female WPR up 2.5 pp to 37.2%. On unemployment, however, the **urban female UR edged up to 8.8% from 8.4%**, indicating that participation gains among women remain intact even as urban female job-seekers faced tighter conditions this month.

Overall Assessment

- The July 2026 print depicts a labour market in which participation and employment moved higher together for the first time since February 2026, with the headline UR easing to 5.1% and the WPR rising to 52.5%. The gain is narrow in origin – almost entirely rural and timed with the kharif sowing cycle we had flagged as the key swing factor, leaving its durability contingent on monsoon progression and rural non-farm activity through Q2 FY27. The offsetting concern is urban conditions, where UR has risen for two consecutive months and the WPR has held flat at 47.0% year-on-year. On balance, we read the improvement as cyclically encouraging but not yet evidence of broadening formal-sector job creation.

9. Demand Indicators

Consumer Demand Momentum



Select high-frequency indicators, July 2026. Auto retail prints a record month and rural stays ahead of urban.

Rural demand

Rural retail led the July print again. Total vehicle retail hit a record 25.91 lakh units, up 25.9% YoY, with tractors at 28.1% and two-wheelers at 28.3% (rural 28.6% vs urban 27.9%). Passenger vehicles crossed 4 lakh units for the first time at 4.17 lakh, up 19.1%, with rural again outpacing urban. CV retail at 24.0% confirms goods-movement demand is broadening beyond the metros.

Urban demand

Urban demand held but the mix is shifting. EV registrations rose 66% to 3.28 lakh, taking penetration to 12.7%, with electric two-wheelers at 11.2% of their segment. GST gross rose 15.4% to Rs 2.11 lakh crore. E-Way Bills grew 6.0% to 139.8 million, the second-highest month on record though a sharp slowdown from June's 14.5%. Domestic air traffic stayed the soft spot, down 4.8% to 1.20 crore.

Demand outlook

The consumption complex enters the festive quarter with momentum but thinner support. Dealer inventory at 33 to 35 days is elevated and wholesales are running ahead of retail, which risks festive discounting. Headline CPI firmed to 4.45% in July (rural 4.84%, urban 3.96%) and the central bank held the repo at 5.25% with a neutral stance on 6 August, preserving real-income support. We watch inventory correction, the festive load-in and the freight slowdown flagged by E-Way Bills.

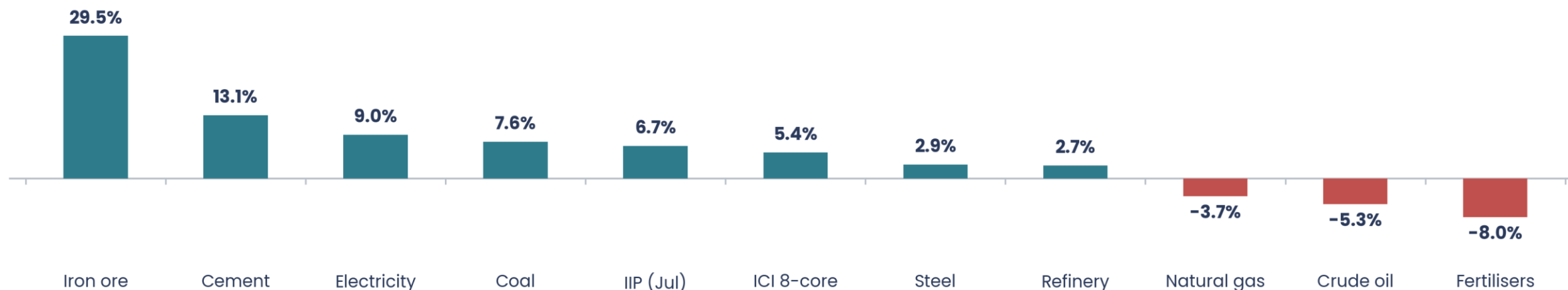
**52.9****MFG PMI (AUG FLASH)**

eases from 53.5

54.5**SERVICES PMI (AUG FLASH)**

rebound from 53.3

Industrial & Services Momentum



Industrial and services momentum, July and August 2026. Energy drag narrows, construction inputs firm, manufacturing new orders cool.

Industrial activity

Core-sector output (ICI) grew 5.4% YoY in July, off a June revised up to 6.0%. The energy block stayed negative but narrowed: fertilisers fell 8.0%, crude oil 5.3% and natural gas 3.7%, while refinery products returned to growth at 2.7% and coal accelerated to 7.6% from 1.4%. Construction inputs held firm, with cement 13.1%, electricity 9.0% and steel 2.9%. Iron ore led at 29.5%. IIP rose 6.7% in July, manufacturing 7.3%, mining minus 0.9%.

Source: Internal assessment based on data from Tijori Finance

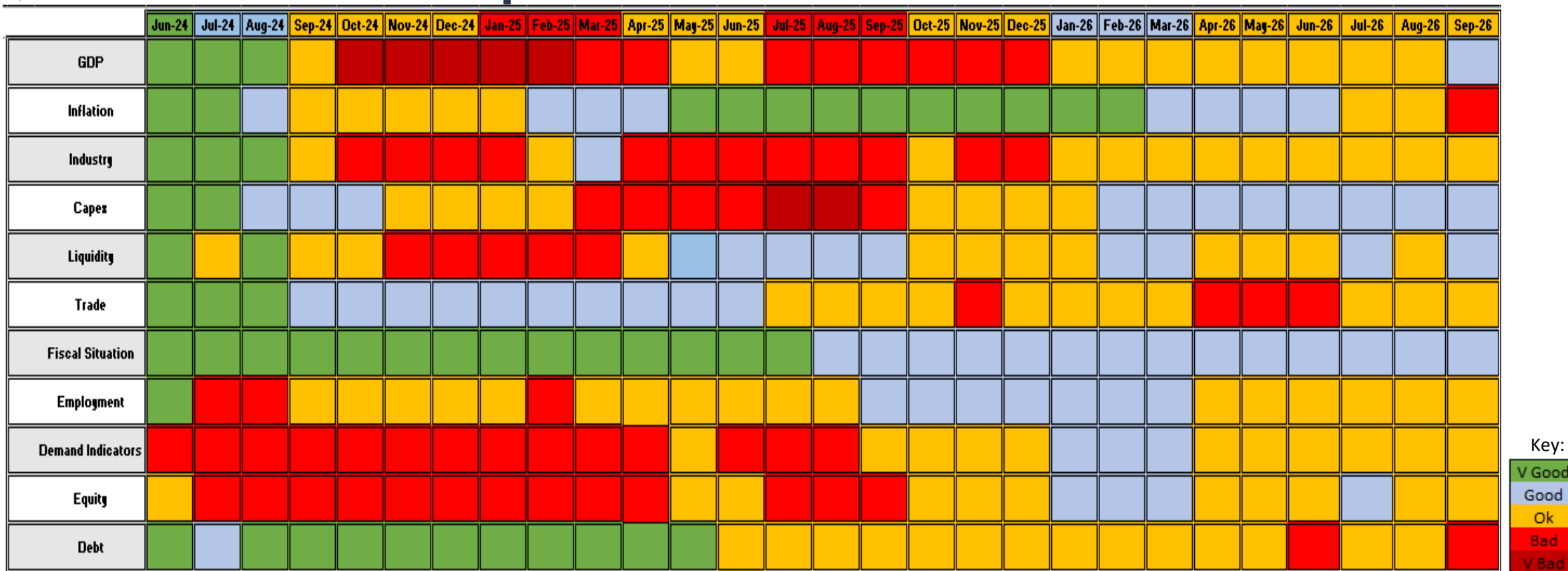
Services sector

Services momentum stayed strong. The HSBC flash Services PMI rose to 54.5 in August from 53.3 in July, while Manufacturing PMI eased to 52.9 from 53.5 on the weakest new-order growth in five years. The composite rose to 54.6, a 61st straight month above 50. Export growth slowed in both sectors and input-cost inflation cooled to a seven-month low, though output prices rose at the fastest pace since April.

Industrial & services outlook

We expect industrial momentum to settle in a 5% to 6.5% range through FY27 as the favourable base fades from the September quarter. Steel, cement and metallic mining should stay supported by the central capex pipeline, PLI-led manufacturing and rate-cut transmission. The central bank lifted FY27 growth to 6.7% and trimmed FY27 CPI to 5.0% in August, with the price path back-loaded at 5.9% in Q3. We watch consumer non-durables, which contracted 1.0% in July, crude, and the August core-sector print due 21 September.

Economic Heatmap



Tailwinds Domestic, Headwinds Imported

September's column says it plainly: Demand, GDP, Industry, Capex, Trade, Liquidity and Fiscal all read Good, and the only two reds are Inflation and Debt. That is not a growth problem. Q1 FY2026-27 delivered 7.8% real growth on 11.9% investment, central capex is 37% of target against 31% a year ago, and credit to industry is compounding at 19.2% after a lost decade. What has deteriorated is the price of goods and the price of money, and both are imported: a shut Hormuz, Brent near \$96, the rupee at 95.7 and DM yields at multi-decade highs. The growth question has been answered and we hold FY27 at 7.0-7.5%; the price question has not, and that is what we would size for from here.





Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples



Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2026	-3%	-1%	-11%	7%	-2%	1%	2%	-1%					-7.7%
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.51%	1.87%	-0.28%	10.5%
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-2%	8.6%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	-1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.5%	14.4%	14.6%
Standard Deviation	21.5%	26.1%	30.0%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	1	1
No of Years	27	21	13

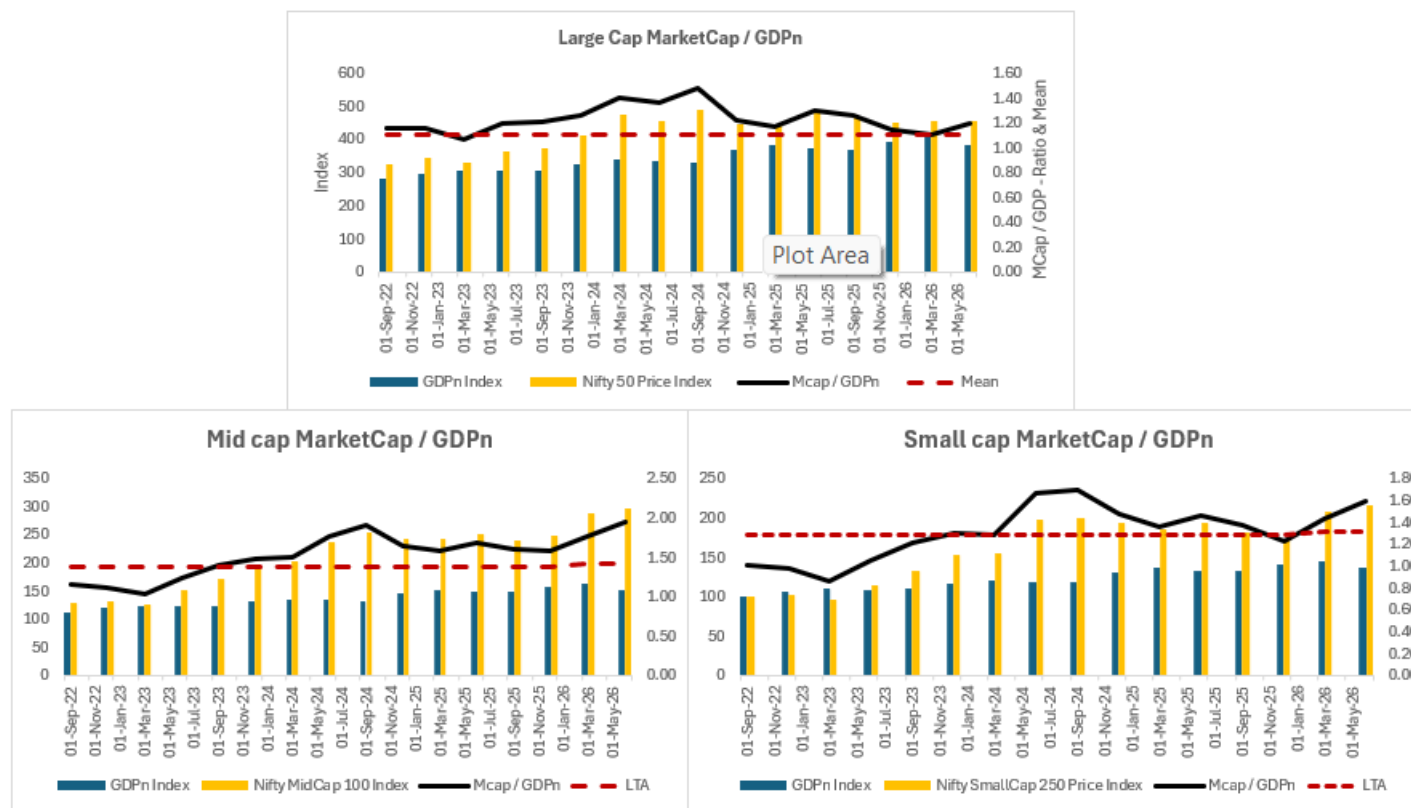
Ample Tailwinds

- The Nifty 50 is down 7.7% CYTD, with geopolitical tensions, elevated global yields, and oil-price volatility keeping near-term sentiment cautious. However, resilient domestic demand, and improving private capex are providing support to the Indian economy and corporate earnings. With earnings expected to strengthen through FY27, the medium-term outlook remains constructive, though global risks could keep volatility elevated.
- The Risk-Return Matrix highlights the higher return potential of Mid and Small Caps, albeit with correspondingly higher volatility relative to Large Caps.
- On valuations, Large Caps appear Undervalued, Mid Caps Fairly Valued, and Small Caps Overvalued, suggesting a more favourable risk-reward proposition in the large-cap and mid-cap segment at current levels**

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	20.32	23.69	-14%	Undervalued
Mid Cap	30.72	32.32	-5%	Fairly Valued
Small Cap	33.98	27.02	26%	Over Valued



Buffett Indicator



Present valuations remain moderate to attractive as evidenced by the premiums exhibited in their MCap/GDP ratios, where Large Caps are currently trading at a premium of approximately 7%, Mid Caps at a premium of approximately 27%, and Small Caps at a premium of approximately 18% to their respective long-term averages (as per the Buffett Indicator), as on 31th August 2026.

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



Sectoral Performance and Outlook



Banking & Financial Services

Q1 FY27 Performance:

BFSI delivered strong profits on a subdued top line in Q1 FY27. Aggregate sector revenue, measured as net interest income plus other income, grew only about 10 percent year-on-year despite strong credit growth, as margins stayed under pressure from higher cost of funds, lower portfolio yields and intense competition. PAT, however, accelerated to roughly 22 percent as credit costs normalised, particularly in microfinance. NBFCs led with profit growth near 45 percent, PSU banks grew about 21 percent and private banks about 16 percent, while SMID banks posted a sharp turnaround against large-cap peers.

Outlook:

We expect margins to stabilise from Q2 FY27 as strong FCNR (B) inflows ease funding cost pressure, with NBFCs benefiting from improved system liquidity with a lag. Asset quality outcomes were resilient across most lenders, and the higher agri and rural slippages logged during the quarter appear seasonal rather than structural. The key monitorable is credit growth, which could taper in H2 FY27 as the low-base tailwind fades and the credit multiplier stays weak. FY27 estimates were upgraded for banks, and we prefer franchises with stronger deposit bases.

Information Technology

Q1 FY27 Performance:

IT delivered another quarter of stable execution in Q1 FY27, with rupee revenue up about 15 to 16 percent year-on-year and PAT accelerating into the mid-teens. Dollar revenue disappointed, but a weak rupee cushioned the shortfall and lifted reported earnings. Mid-cap companies again outgrew large caps, with revenue led by large deal ramp-ups, vendor consolidation and sustained AI demand, while discretionary spending remained selective. EBITDA margins expanded marginally by 0.2 percentage points. Deal bookings were healthy and FY27 guidance was maintained, though decision-making cycles stayed extended.

Outlook:

We expect growth momentum to improve in Q2 FY27, with FY27 estimates broadly stable and the sector among the few to escape downgrades this quarter. A weaker rupee and stabilising supply disruptions should continue to support reported earnings as enterprise AI adoption moves into scaled deployment. The principal risks are external rather than operational. Stocks are now reacting more to global AI and anti-AI trades than to fundamentals, and any sharp rupee appreciation against the dollar would compress reported growth. We stay constructive, favouring names with margin and cash flow improvement.



Pharmaceuticals & Healthcare

Q1 FY27 Performance:

Pharma posted a weak Q1 FY27 despite reasonable top line. Sector revenue grew about 14 to 15 percent year-on-year, but PAT declined roughly 6 to 8 percent and EBITDA margins contracted 2.1 percentage points, the second sharpest fall across sectors. US generics remained soft on price erosion and an absence of new launches, while semaglutide API issues and subdued generic demand weighed on GLP-1 sales in India. Domestic chronic therapies continued to grow healthily. Healthcare services were dragged lower within consumer services, where aggregate profits fell sharply.

Outlook:

We retain a selectively constructive view. Multiple US launches should help close the gRevlimid gap, capital allocation through M&A and R&D is delivering faster-than-expected synergies, and CDMOs benefit from the peptide opportunity and an improving project pipeline. For hospitals, capacity ramp-up, operating leverage and CGHS reimbursement rates should sustain ARPOB growth. Raw material pricing and supply chain vulnerability remain near-term challenges, while rising doctor costs, oncology drug pricing and regulatory price caps weigh on margins and returns. FY27 estimates were cut about 2 percent.

Automobiles & Auto Ancillaries

Q1 FY27 Performance:

Domestic autos delivered strong top line but decelerating profits in Q1 FY27. Revenue rose about 23 to 25 percent year-on-year, supported by GST rationalisation, better affordability and adequate finance availability, with passenger vehicle domestic sales up around 26 percent. PAT growth moderated to roughly 12 to 14 percent as EBITDA margins contracted 1.2 percentage points on commodity inflation and a lag in pass-through to customers. Export auto was materially weaker, with margins down 1.9 percentage points, though the segment is showing early signs of turning as the rupee depreciates.

Outlook:

We expect profits to stay subdued as the low-base and GST tailwinds fade. Managements across two-wheelers, passenger vehicles and commercial vehicles have flagged H2 FY27 as a key watch-out given the high base created by GST rate cuts. The domestic tractor outlook is subdued on a high base, below-normal rainfall and the discontinuance of some state-level subsidies. The global CY26 outlook is turning more favourable for commercial vehicle, tractor and construction equipment OEMs, which benefits export-oriented ancillaries. FY27 estimates saw among the sharpest cuts across our coverage.



Capital Goods

Q1 FY27 Performance:

Capital goods delivered a strong Q1 FY27, with industrials and infrastructure revenue up about 14 to 15 percent year-on-year and PAT rising roughly 20 to 28 percent, aided by 0.6 percentage points of margin expansion. Power electrical equipment across the high-voltage value chain, spanning transformers, switchgear and gensets, was the standout, benefiting from robust execution, all-time-high order books and multi-year high operating margins on better pricing, favourable mix and higher utilisation. Private capex green shoots emerged in inquiry pipelines despite West Asia cost pressures, and SMID industrials outperformed large caps on profits.

Outlook:

We turn more selective from here. The structural T&D cycle remains robust, underpinned by the new NEP 2027-36 and rising power demand from data centres, EVs and urbanisation, and FY27 estimates were revised up modestly. Valuations, however, have moved sharply higher, with MNC high-voltage players trading at roughly 35 to 40 times FY30 peak earnings, leaving limited room for execution delays, margin normalisation or any moderation in ordering momentum. Cost inflation from the West Asia crisis, higher freight and rupee volatility remain risks for players with fixed-price order books.

Infrastructure (EPC & Construction)

Q1 FY27 Performance:

Infrastructure had a mixed Q1 FY27. Revenue visibility improved across most companies and payments from Jal Jeevan Mission projects began to flow through, easing a long-standing receivable overhang. Margins, however, remained weak and the working capital cycle deteriorated further. Within the broader domestic investment basket, revenue grew about 13 percent and PAT about 14 percent, with industrials carrying the segment while cement and real estate lagged. Labour shortages persisted for EPC players and were exacerbated by the ongoing Middle East conflict, particularly for those carrying significant regional exposure.

Outlook:

We maintain a constructive medium-term stance while acknowledging near-term execution friction. Labour constraints are expected to ease in H2 FY27, paving the way for smoother execution, and transmission rollout has already improved marginally as right-of-way issues eased. Order books continue to provide multi-year revenue visibility, and improving government disbursements should support working capital. Prolonged West Asia tensions remain the key risk to both execution timelines and cost. We continue to prefer diversified players with transmission, water and railway exposure over those concentrated in road EPC.



Power & Renewable Energy

Q1 FY27 Performance:

Power demand remained strong in Q1 FY27, growing 8.9 percent year-on-year on an intense summer that pushed peak demand to about 270 GW in May 2026, up 17.2 percent, further supported by a delayed monsoon onset. Higher merchant prices and improved thermal PLFs followed, although curtailment pressures persisted for some renewable players. Sector top line growth was weak at about 5 to 9 percent, but EBITDA margins expanded 1.2 percentage points and PAT grew roughly 6 to 16 percent. Transmission rollout improved marginally as right-of-way issues eased during the quarter.

Outlook:

We remain directionally positive on generation growth over the next two to three years. Demand has stayed robust in year-to-date FY27 at about 9.3 percent, and renewable additions are gathering pace with roughly 45 to 50 GW expected in FY27. Battery storage gains for renewable plus storage players remain contingent on demand growth, with any slowdown weighing on merchant prices and realisations for open capacity. Market coupling remains a key overhang for power exchanges. We stay selective given company and segment specific risks, with FY27 estimates trimmed marginally.

Fast Moving Consumer Goods (FMCG)

Q1 FY27 Performance:

FMCG was again lacklustre in Q1 FY27. Revenue grew only about 6 to 8 percent year-on-year, remaining stuck in the range it has occupied for two years, and PAT declined roughly 1 to 5 percent, with EBITDA margins contracting 1.5 percentage points. The quarter did benefit from the carry forward of low-cost inventory, which supported gross margins and operating leverage, but input-cost inflation from crude derivatives and packaging limited margin expansion for most companies. Underlying demand held up, aided by rural recovery, premiumisation and distribution expansion.

Outlook:

We expect profits to remain weak through FY27 as the low-base tailwind fades and the consumption stimulus from GST cuts normalises by H2 FY27. Raw material inflation linked to crude oil derivatives and packaging remains the key monitorable, with pass-through likely to stay lagged. Weak household incomes and a subdued credit multiplier are structural constraints on volume recovery, and El Nino poses an additional risk to farm incomes. FY27 estimates were cut about 4 percent. We prefer companies with pricing power and premium portfolios over broad staples exposure.



Cement & Building Materials

Q1 FY27 Performance:

Cement was better than expected on volumes but weak on profits in Q1 FY27. Volumes grew about 8 percent year-on-year and realisations improved roughly 3 percent quarter-on-quarter, yet revenue growth decelerated to around 8 percent and PAT declined 6 to 8 percent, with EBITDA margins contracting 1.8 percentage points. Profitability remained under pressure from higher input costs, mainly power and fuel and packaging. Cement was among the weakest performers within domestic investment, and SMID players materially underperformed their large-cap peers on earnings during the quarter.

Outlook:

We expect input costs to peak in Q2 FY27 and ease from Q3 FY27, which should restore margin momentum alongside easing competitive intensity. The trajectory of input costs, the pace of demand recovery and infrastructure capex will remain the key drivers of the space in the near term. FY27 earnings estimates saw one of the sharpest cuts across sectors at about 5 percent, reflecting the weak start to the year. We stay positive into the second half, preferring players with cost efficiency and regional pricing discipline over volume-led expansion.

Metals & Mining (Steel)

Q1 FY27 Performance:

Metals delivered a fourth consecutive quarter of strong profits in Q1 FY27. Revenue grew about 25 percent year-on-year and PAT surged roughly 54 to 67 percent, driven by a combination of supply shock, a weak rupee, a low base and the global AI capex boom. Non-ferrous earnings expanded quarter-on-quarter primarily on higher commodity prices, while steel margins improved on better realisations, partially offset by higher raw material costs. Industrial metal prices in rupee terms rose sharply through the year and have plateaued at elevated levels entering Q2 FY27.

Outlook:

We turn cautious after a strong run. Top line growth should start to moderate in H2 FY27 as tailwinds fade and the base effect catches up, with supply-side dynamics critical in shaping the trajectory from here. The sector is currently operating close to the upper end of its ten-year margin range, creating risk of operating deleverage if volumes or prices slow. FY27 estimates already saw mild downgrades of about 4 percent. We prefer non-ferrous exposure over ferrous given tighter supply, and stay underweight on valuation and base effects.



Real Estate

Q1 FY27 Performance:

Real estate delivered reasonable reported earnings but a concerning leading indicator in Q1 FY27. Revenue grew about 9 to 11 percent year-on-year with PAT up roughly 13 to 20 percent, yet pre-sales growth for listed developers slipped into contraction on a four-quarter moving average basis after a strong FY26. Sustenance sales remained healthy and leverage and collections were steady during the quarter, but launches were weak. Reported revenue also came in well below expectations, making the sector among the larger misses versus estimates this quarter.

Outlook:

We expect a period of slower growth as the pre-sales cycle turns. Weak household incomes and a subdued credit multiplier, with households still the leveraging agent after a decade of rising leverage, constrain the affordability-led demand that drove the last upcycle. Recognised revenue should hold up near term given the existing sold book, but a sustained pre-sales contraction would feed through to earnings with a lag. FY27 estimates were cut about 2 percent. We prefer developers with strong collections, low leverage and a visible launch pipeline.

Consumer Durables & Electronics

Q1 FY27 Performance:

Durables delivered a strong headline quarter, with revenue up about 13 to 15 percent year-on-year and PAT rising sharply on a low base and price increases. Cables and wires continued to outperform, supported by elevated commodity prices that are largely passed through, though volume growth stayed subdued at low-to-mid single digits for a second consecutive quarter. Large appliances grew double digits on an extended summer and partial price hikes, while margins compressed under commodity costs and revised BEE norms. EMS revenue grew 24 to 26 percent with profits lagging materially.

Outlook:

We expect cables and wires to remain structurally well placed, driven by higher T&D capex, rising solar investment and growing demand for optical fibre cables amid data centre and AI infrastructure expansion. For EMS, profitability should stay pressured by raw material costs, wage inflation and currency depreciation given the lag in cost pass-through, with muted mobile demand and rising working capital requirements as near-term headwinds. Whether the durables base effect sustains beyond the current summer is the key question. FY27 estimates were revised up modestly.

Tailwinds

- **Macroeconomic resilience** with India continuing to deliver strong growth despite global geopolitical and trade uncertainties. GDP on an uptick, Inflation and the twin deficits well under control, Pvt and Pub Capex boom amid sufficient liquidity, IIP/ISP resilient, and select High frequency indicators confirm the strength at a consumption as well as industrial level.
- **Sustained domestic demand** supported by healthy household finances, improving consumer confidence and a gradual recovery in discretionary spending.
- **Resilient earnings** with improving demand, operating leverage and healthy earnings growth. 20% YoY Revenue growth and 15% YoY PAT growth last quarter.
- **Strong corporate balance sheets and private capex** supported by robust order books across infrastructure, power, manufacturing and industrials
- **Continued government focus on infrastructure, manufacturing, and defence**, reinforcing investment-led growth through public spending and PLI initiatives.
- **Supply-chain diversification toward and from India** supporting manufacturing, exports and global companies seeking resilient production bases (multiple FTAs and a favourable US Trade deal)

Headwinds

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

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

- **AI disruption and global technology spending** remain key headwinds for Indian IT and Indian Equities at large, and very much an endogenous risk. The AI cycle is a double headwind for India. It compresses pricing in the traditional IT services book faster than it creates offsetting revenue, and it redirects global EM allocations toward markets that offer direct exposure to the semiconductor buildout. India's weight in the MSCI EM index has fallen from roughly 20% in mid-2024 to around 11% by May 2026, with Taiwan (~26%) and Korea (~23%) absorbing the share. FII outflows of ~₹2.3 lakh crore in the first five months of CY26 have already exceeded the whole of 2025, cushioned only by domestic institutional buying.

Outlook

- **Volatility may persist in the near term, but the market retains a positive medium-term bias, supported by strong domestic fundamentals, improving earnings visibility from Q2 FY 27, and a strengthening private investment cycle.**

Suggested Strategy

➤ Gradual Accumulation

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





Debt Outlook

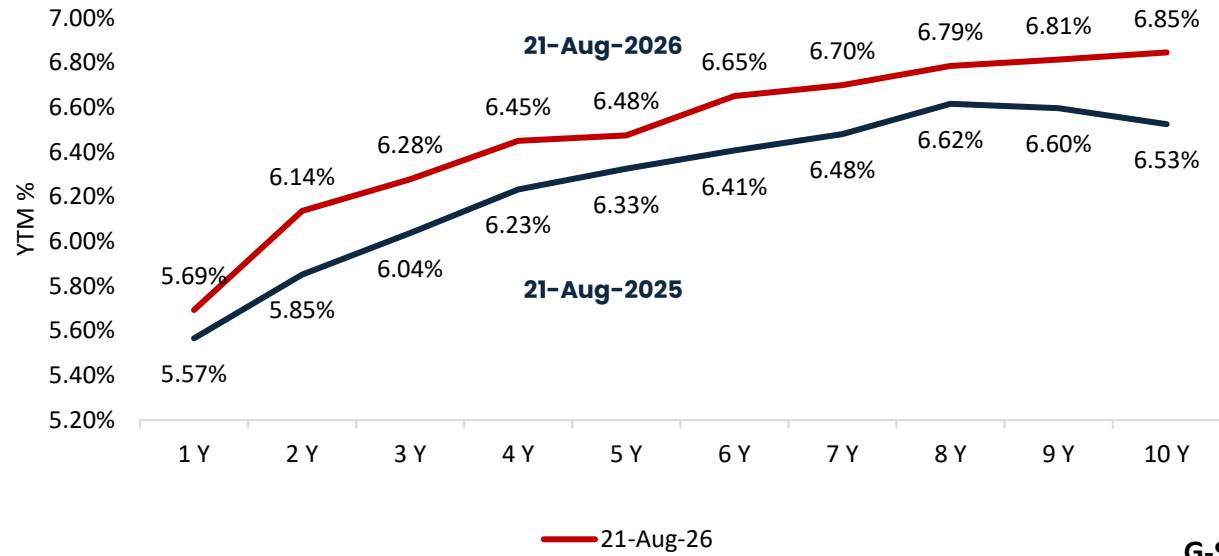




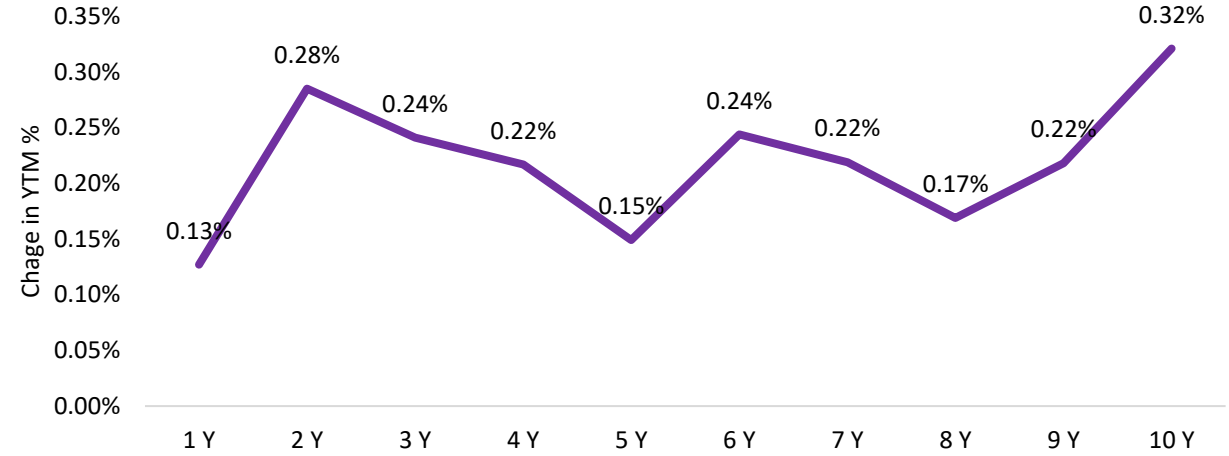
Yields Curve Dynamics



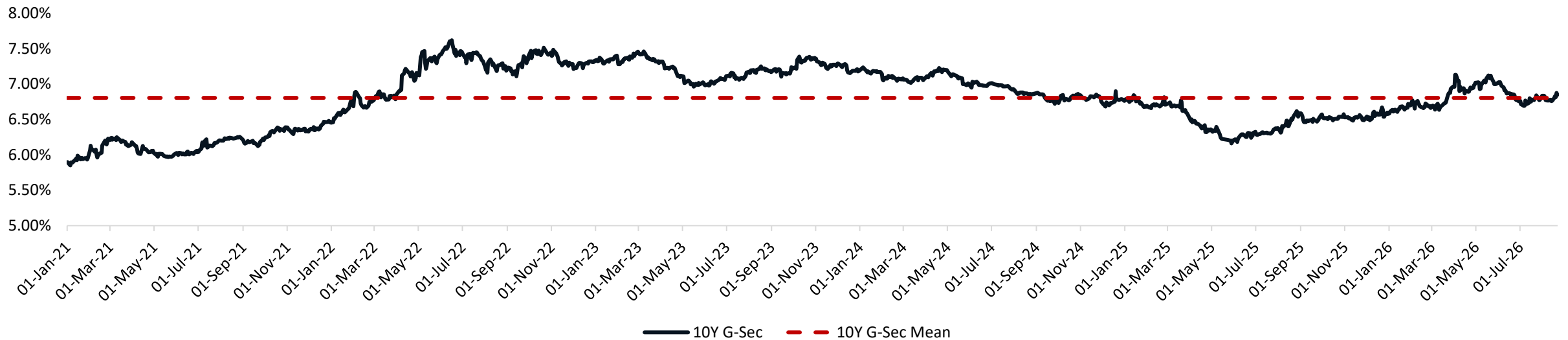
Change in Yield Curve



10Y GSec 1Y Delta - Bear Steepening



G-Sec YTM



Debt Market Outlook & Strategy



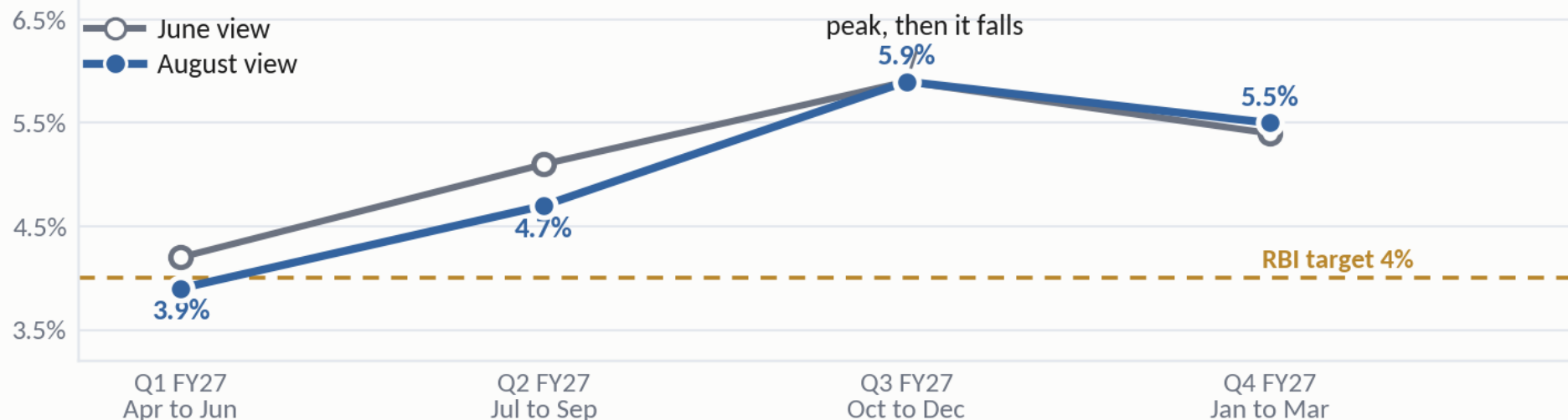
The Bond Market After the Minutes

The policy was benign

On 5 August the Monetary Policy Committee left the repo rate, the rate at which the RBI lends to banks and the anchor for every other rate in the country, unchanged at 5.25%, unanimously. It also cut its core inflation forecast. Core inflation strips out food and fuel, which move on monsoons and Middle East politics and come back down on their own. What is left moves only when businesses and workers begin expecting higher prices and passing them to each other, and that is the inflation, interest rates exist to fight. Hence, what RBI is indirectly signaling with a pause in interest rates despite high inflation, is that, inflation is currently not demand pull but rather supply push inflation, which is expected to eventually normalize under normal market conditions. **Growth was also marked up to 6.7% for the year.**

The RBI lowered its inflation path and cut its core forecast

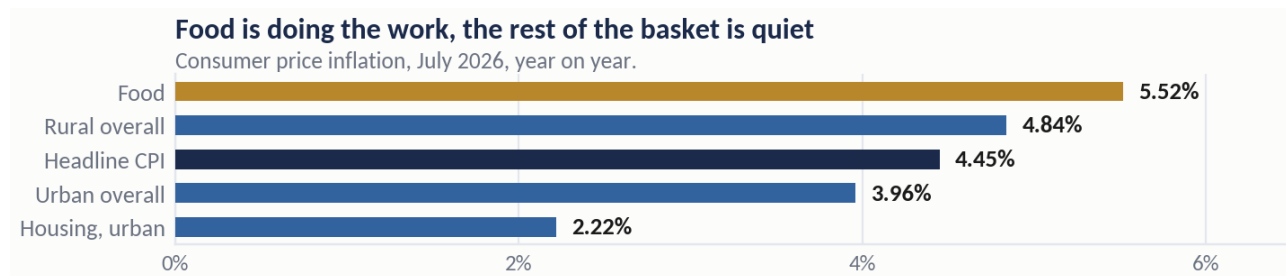
Projected CPI inflation, year on year. Full year core forecast cut 40 bps to 4.3%.





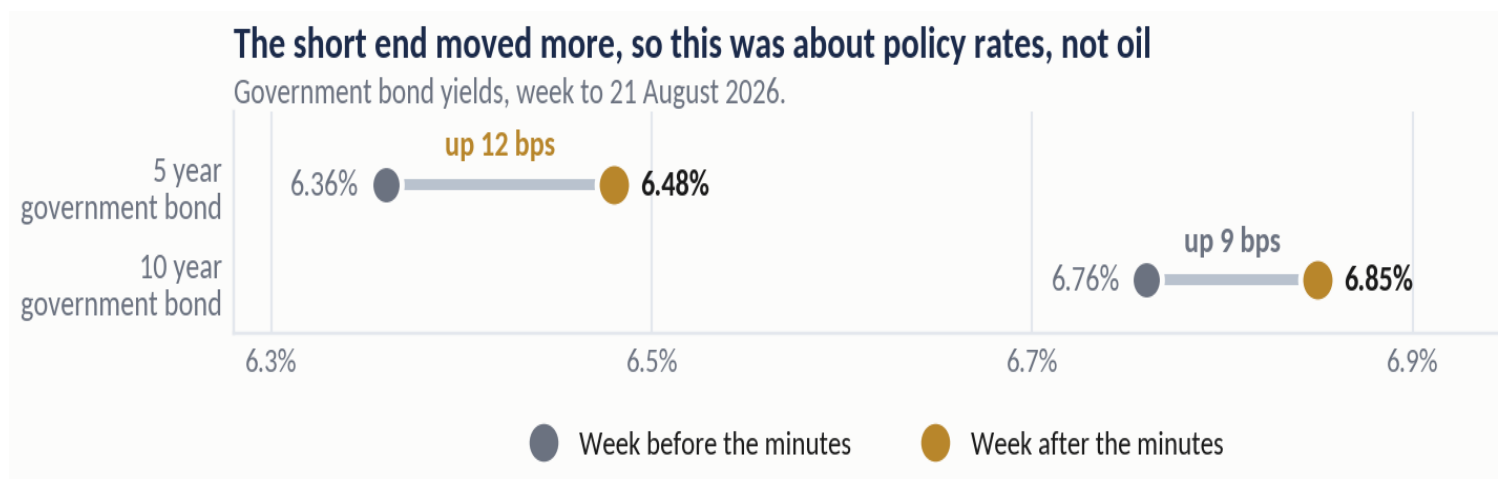
And the data agreed

July retail inflation was 4.45% against 4.38% in June, slightly below expectations. Food is doing nearly all of it, and rural inflation runs well ahead of urban, which is what a food driven rise looks like since food takes a larger share of a rural household budget. Housing, a fair proxy for the quieter part of the basket, is running at just 2.22%. So inflation is rising for reasons rate hikes cannot fix. On that evidence an investor can afford to own longer bonds, which is where we were for most of the month.



Then the minutes changed the question from if to when

- On 19 August the RBI published the minutes, the record of what members actually argued rather than the smoothed committee statement, and the tone was materially firmer. Deputy Governor Poonam Gupta **raised the possibility of a hike later this year**, and external members Ram Singh and Saugata Bhattacharya flagged a potential need for recalibration. Nobody had dissented on the day, but several were thinking a step ahead.
- This matters for a reason about market behaviour rather than economics. Once a market accepts that a hike is coming it stops asking whether and starts continuously repricing how much and how soon, so every release becomes a vote and the range of outcomes widens.



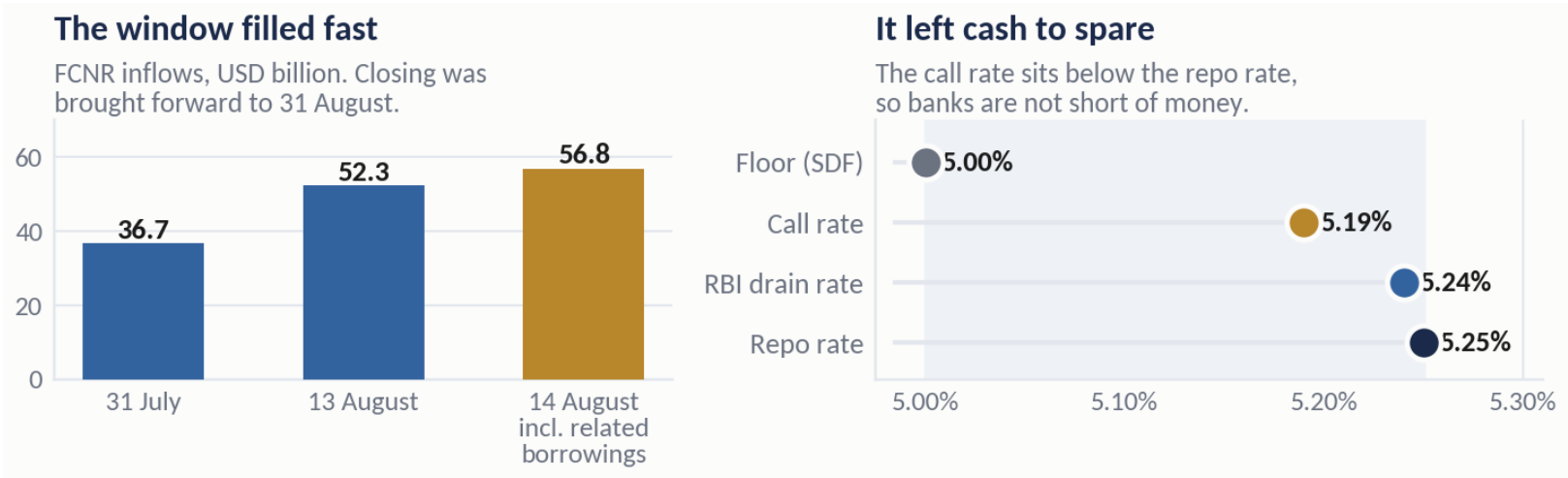


The rupee matters more than the repo rate

- Whether the RBI delivers 25 or 50 basis points makes little difference to a ten year bond at 6.85% when the repo rate is 5.25%. That cushion is already priced. The bigger question is the rupee, because of a constraint called the impossible trinity. A country cannot have (i) a stable currency, (ii) freely moving capital and an (iii) interest rate policy set purely for domestic needs all at once. It gets two of the three. India lets capital move and wants a stable rupee, so when the rupee is pressured the third leg gives way and domestic financial conditions tighten. That is why the cuts of the past year never passed fully into market rates. The pressure is external. India imports nearly all its crude, so one Middle East headline lifts the import bill, weakens the rupee and raises inflation at the same time, and foreign investors have taken a net USD 13.7 billion out of India this financial year.

The window that gave, and then took back

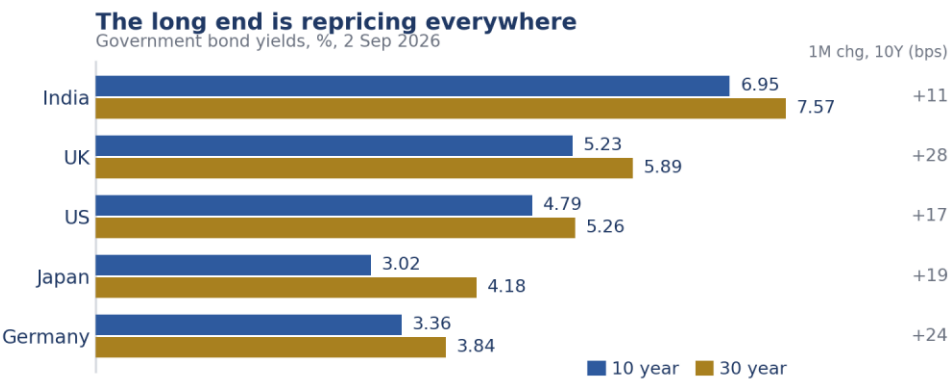
- From June the RBI let non-resident Indians deposit dollars with Indian banks (**FCNR - B**), the banks selling those dollars to the RBI for rupees and agreeing to buy them back at maturity at a rate fixed in advance. The swap was offered at par, removing the cost of hedging, and the deposits were exempted from reserve requirements so banks could deploy the whole amount. **Those dollars became rupee deposits, easing banks whose loan books had outgrown their deposits, and the system moved into a large cash surplus of about Rs 3.4 trillion.**
- Then on 14 August **the RBI advanced the closing of the window by a month.** The logic is defensible, since a subsidy carries a cost and loses its usefulness once the money is in.



What is pushing which way



What is pushing yields up	What is pulling them down
Brent back near USD 90+ on Middle East tension	Core inflation forecast cut to 4.3%, no sign of spreading
Rupee near record lows at 95.7 to the dollar	US data softening across jobs, spending and prices
FCNR window shut a month early, so its bond bid fades	Weak Chinese demand keeping a lid on oil
US 30 year Treasury at 5.29%, the highest since 2007	Reserves at USD 716.9 bn and cash surplus of Rs 3.4 trn



Stance

- **The call – Bear flattening, not steepening. New money parked until rate clarity, which runs through imported inflation, which runs through crude and Hormuz. Front end is an RBI call; the long end is not ours – it is twin deficits, Fiscal and CAD, plus the chart on the right. Once the negativity is priced, explore the long end; once the RBI's stance is clear, take the short end.**
- **Why global yields are up – Same three drivers everywhere: crude near USD 95 on Hormuz risk putting inflation back on the table; central banks flipped from cutting to hiking (Fed two-thirds priced for September, ECB near-certain next week on 3.3% euro inflation, BoJ hiking into fiscal expansion); and heavy issuance with the central bank buyer gone. Term premium is being rebuilt at the long end. Japan's 10Y at 3%, first time since 1996, is the marker. Risk-off plus money rerouting to AI leaves less capital for EM duration.**
- **Why it lands on us – Last column of the chart: our 10Y moved least of the five – we are dragged, not leading. The gap to the US is 216 bps at the 10Y and 231 at the 30Y, against 350–450 bps historically. That carry was the only reason foreign money took rupee risk; at 95.7 and sliding it no longer covers the currency. The bid confirms it – FAR(Fully Accessible Route) ₹55,518 cr in June to ₹627 cr in August, FCNR route now shut. Weaker rupee from here on is imported inflation, which kills the cut and prices the hike. So the front end reprices on the RBI, the long end on supply – twin deficits now absorbed only by insurance, pension and EPFO, at their yield, not ours. That is the bear flattening, with no domestic data point required.**
- **Where things stand – 3Y 6.31%, 5Y 6.58%, 10Y 6.95%, 30Y 7.57%, against a 5.25% repo. Past month: 5Y moved most, 10Y +11 bps, 30Y +9. Policy repricing at the front, imported term premium at the back.**
- **What changed – 5 August policy benign, 19 August minutes not. The committee has moved from whether to when. We no longer rule out 50–75 bps, or an October start.**
- **Watching – 3Y AAA at 94 bps over G-secs. The FCNR money that compressed it earlier, is leaving.**
- **What flips us – Crude meaningfully lower. US softness reaching long rates. Long term inflows and a steadier rupee. AI capex spread over a longer period. Any two and we are back in 10+ year G-secs.**

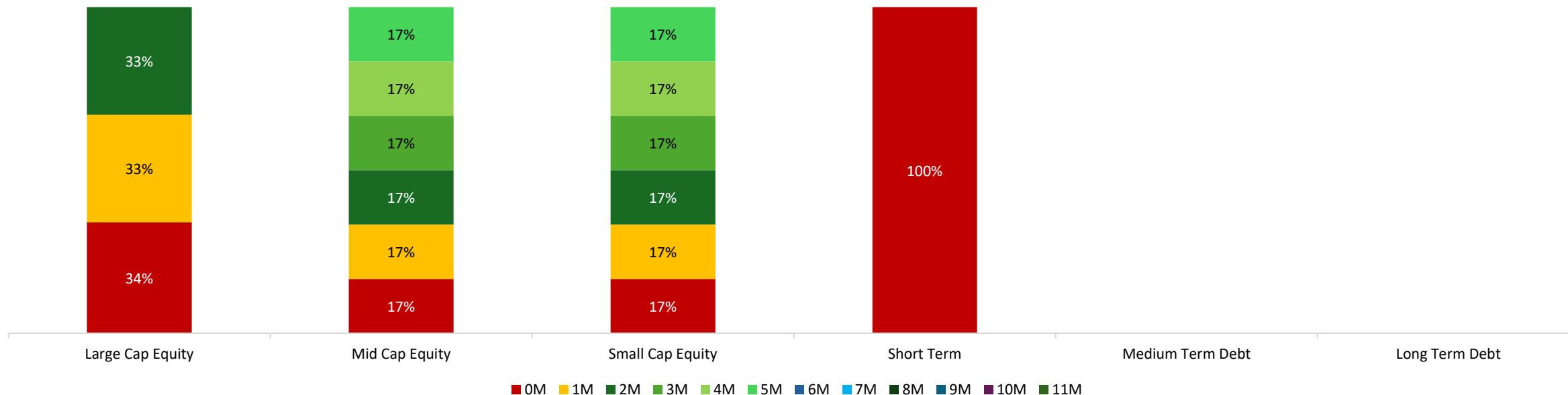
Deployment Strategy



Deployment



Stages of Deployment



Indicators:

Indicators to track for caution –

- FII flows remain negative, with global interest rates uncertainty and geopolitical risks continuing to influence market sentiment.
- India VIX at ~11.19 – Volatility remains subdued, though geopolitical or global macro risks could trigger a spike.
- Mid- and small-cap valuations remain above long-term averages despite the recent correction, leaving limited room for disappointment if earnings recovery is slower than expected in the coming quarters.

Indicators signaling turnaround and optimism –

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

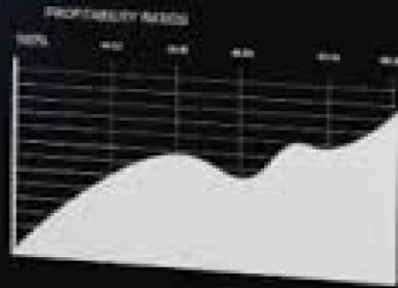
Deployment Strategy:

Staggered Deployment over the next 12 months –

- Large Cap – 34% immediate deployment and 33% in each month in the next 2 months
- Mid Cap – 16.67% immediate deployment and 16.67% in each month in the next 5 months
- Small Cap – 16.67% immediate deployment and 16.67% in each month in the next 5 months
- Debt –100% immediate deployment. Arbitrage Funds or Liquid Funds for parking until we have more clarity to form a view on interest rates – India and DMs.

Optimus Prime Model Portfolio

Aggressive Strategy



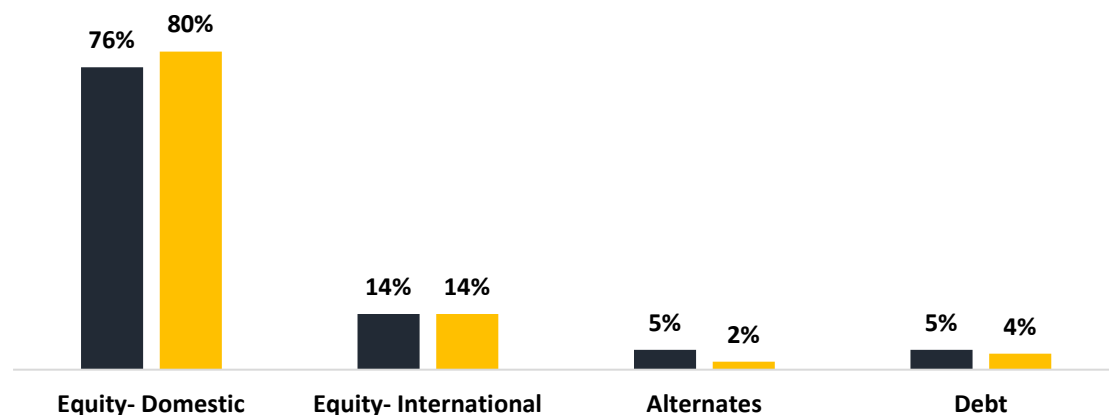
100%
9.12%
18.25%





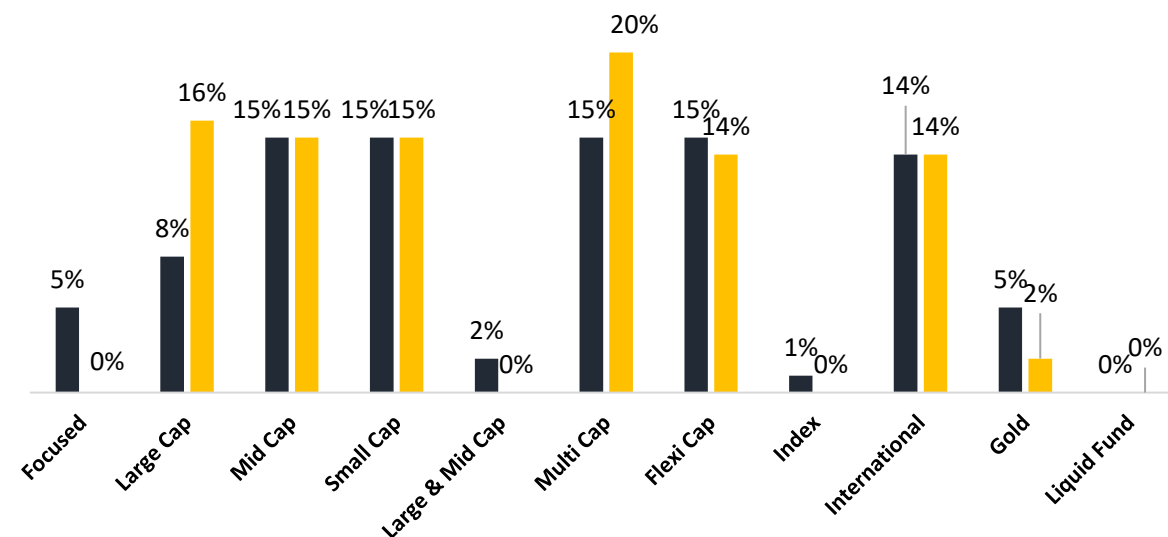
Asset Allocation

■ SAA ■ TAA

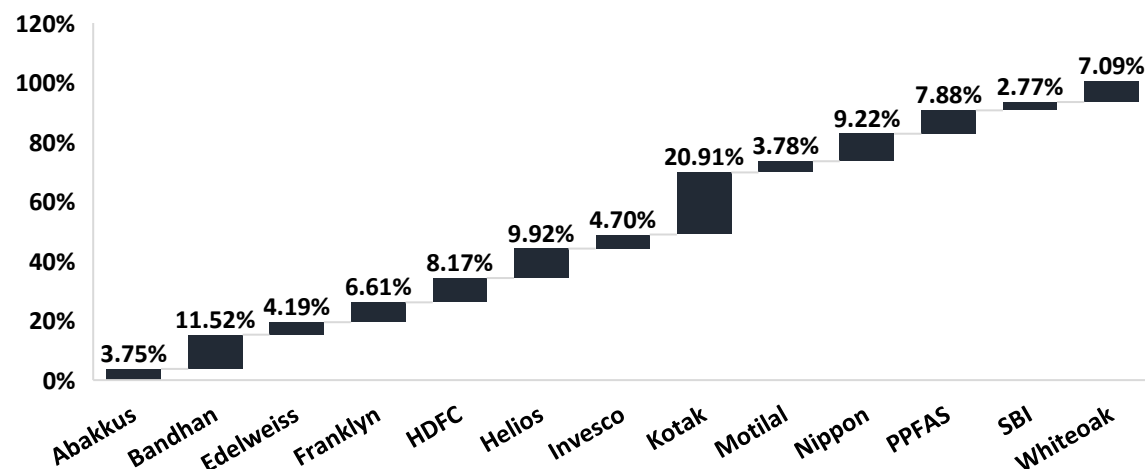


Category Allocation

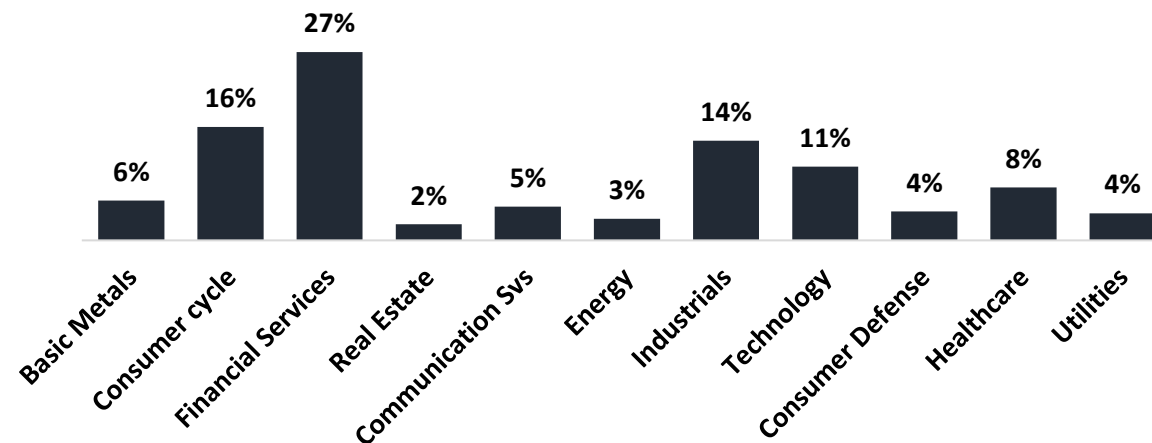
■ SAA ■ TAA



Fund House Allocation



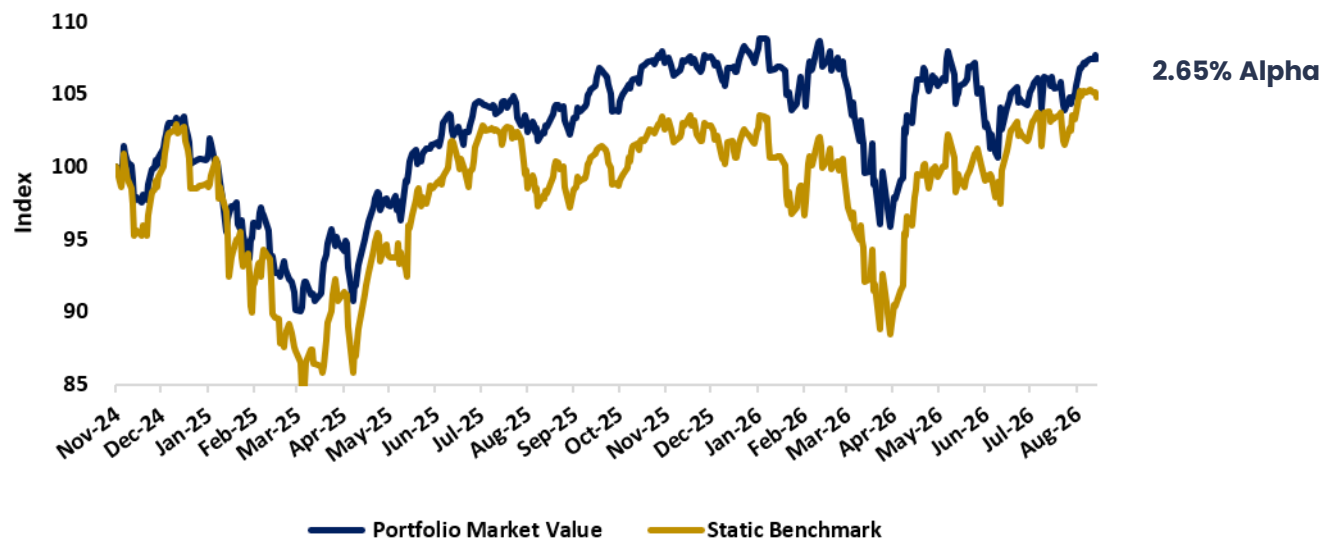
Sectoral Allocation



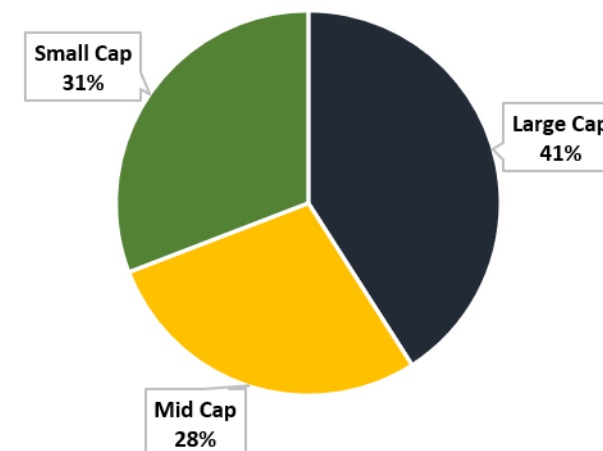
***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th Aug 2026, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Small cap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Abs / CAGR Return	7.43% / 4.10%	4.78% / 2.65%
Standard Deviation (annualized)	12.38%	15.38%
Beta	0.49	
Alpha (Abs / CAGR)	2.65% / 1.45%	
Information Ratio	3.33	
Downside Capture	72.76	

Debt Portfolio Analytics

Debt Measures	Aug-26
Average MoD	5.65
Average Maturity	4.72 yrs
Average Coupon	NA
Average YTM	7.17 %
Average Credit Rating	Aug-26
AAA	100%
AA	0%
A	0%

***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th Aug 2026, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Small cap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



Current Investment Portfolio Stance: **Aggressive**



Positioning & Portfolio Update

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

We hold that stance while stating plainly that the premise it was written on has changed. Last month's case rested on a reopened Hormuz and Brent retreating into the \$80s; the 8 July collapse of the ceasefire ended that inside a fortnight, and Brent is back near \$96 with the Strait shut. It survives because it never rested on that variable alone, and the two pillars that do carry it have strengthened. Q1 FY2026-27 real GDP grew 7.8% against 6.9% a year earlier, with Gross Fixed Capital Formation at 11.9%, the first double-digit investment print of the rebased series, and investment at 34.3% of GDP against 31.4%. Bank credit compounds at 19.3% against 15.4% deposit growth, with industry credit at 19.2% marking the large corporate borrower's return after a decade. On price, the market has done much of the work for us: the Nifty is down 7.7% CYTD and Large Caps trade at 20.3x against a 23.7x long-run average, a 14% discount; Small Caps sit 26% above theirs. Foreign investors bought Rs 20,200 crore in July and Rs 30,919 crore in August, their first two positive months after four of heavy selling, on rotation out of Asia's crowded AI trade, against Rs 2.23 lakh crore of net calendar-year selling. What has changed is where the risk sits: it has migrated from growth to prices and the external account. July CPI at 4.45% was a seventh consecutive rise, restaurant inflation near 8% marks where a supply shock becomes an expectations problem, the 19 August minutes moved the Committee from whether to when, and the current account is tracking the wider half of its 1.8-2.3% band. We size for that rather than forecast it.

The allocation expresses the view conservatively. Tactically we hold domestic equity at 80% against a 76% strategic weight, a 4% overweight funded by a 3% underweight in Alternates and 1% in Debt, International unchanged at 14%. Within equity, on a look-through basis this leaves roughly a 10% overweight in Large Caps, 6% underweight in Mid and 4% underweight in Small, with Financial Services the largest sector exposure at 27.8%. Deployment remains staggered across twelve months rather than sprinted.

The positioning has been paid for. The portfolio returned 7.43% absolute against 4.78% for the benchmark, an Alpha of 2.65% driven primarily by Product Selection, on a Beta of 0.49, standard deviation of 12.38% against 15.38%, an Information Ratio of 3.33 and a Downside Capture of 72.76%. Participating in the recovery while absorbing under three-quarters of the fall is how we intend to keep earning the right to be aggressive.

What would take us back to Neutral: Brent sustained above \$100, a tightening cycle running beyond 75 basis points, or a Q2 FY27 season that turns today's mild downgrades into a broad revision cycle. Any two and we reduce.





Key Monitorables:

Crude & Geopolitics

HIGH

Brent is back near \$96, up ~20% in a month on fresh US–Iran strikes and collapsing Hormuz transits. The diversified barrel — Oman +201%, Brazil +167% YTD, caps the damage, not the price. Above \$90 through Q3 costs 25 bps of fiscal slippage and a CAD near 2.3%.

Inflation Trajectory

HIGH

July CPI at 4.45% was the seventh straight rise, but food (5.52%) is doing the work while housing runs at 2.22%. The RBI's August path, FY27 at 5.0%, peaking 5.9% in Q3, assumed a cheaper barrel. The 19 August minutes moved the question from whether to when; 5–7 October is live.

Q2 FY27 Results & Valuations

MEDIUM

The Nifty closed 2 September at 23,914, down 7.7% CYTD. Large Caps trade at 20.3x against a 23.7x long-run average, a 14% discount; Small Caps sit 26% above theirs at 34.0x. October's Q2 print tests margins against crude costs and a fading GST base.

US & DM Yields

HIGH

Japan's 10Y hit 3.00%, a first since 1996; Bunds 3.35% (2011 high), gilts 5.25% (2008 high), UST 10Y 4.79% and 30Y 5.27%. Our 10Y at 6.95% pays only 216 bps over the US against 350–450 historically, and at 95.7 the rupee no longer covers it. September's Fed is ~65% priced for a hike.

The Anti-AI Trade

MEDIUM

India's absence from the AI hardware complex has flipped from penalty to hedge. Taiwan and Korea passed us on market cap in May on the chip trade; August's rotation out of it came back our way. The structural cost is that Indian IT now trades on the global AI tape, not its own order book.

FPI Flows

MEDIUM

Two months of buying — ₹20,199 cr in July and ₹27,186 cr to 25 August, the best month since September 2024 — against CY26 net selling of ₹2.27 trn. Two-thirds of July's came via the primary market. Domestics now own a record 21% of the Nifty 500 against a record-low 17% foreign.

Source: Internal assessment based on data from MoSPI, RBI, NSDL, US Federal Reserve (H.15), NSE and Bloomberg. Market levels as on 2–3 September 2026.

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