

India Rewind is a monthly update from DSP's Investment Desk.

It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

March marked one of the sharpest risk-off phases for Indian equities in recent years, as the escalation of the West Asia conflict triggered a surge in crude oil prices, heightened currency volatility, and a sharp reversal in foreign flows. MSCI India corrected ~14% during the month, as elevated energy prices revived concerns around inflation, fiscal pressures, and external balances. FPIs sold ~US\$12bn of Indian equities in March, the highest monthly outflow on record, while domestic investors absorbed the supply with even stronger DII inflows.

Despite the sharp market correction, macro fundamentals remained relatively resilient. High-frequency indicators showed early divergence: industrial production remained healthy in February (up ~5.2% YoY), while manufacturing PMI moderated to 53.9 in March, reflecting rising input costs and supply-side disruptions rather than a collapse in demand. Services activity and employment trends remained supportive, helping cushion the broader growth momentum.

On the external front, elevated crude prices and supply disruptions around the Strait of Hormuz pushed Brent sharply higher during March, placing pressure on the rupee, which depreciated ~4% over the month. Policy response was swift and coordinated. The Government cut excise duties on petrol and diesel to absorb part of the oil shock and stabilise retail fuel prices, while the RBI tightened forex market regulations, including capping banks' net open positions (to US\$100mn), to curb speculative pressure on the currency. These measures helped contain second-round inflation risks and reduce near-term financial stability concerns, even as volatility persisted.

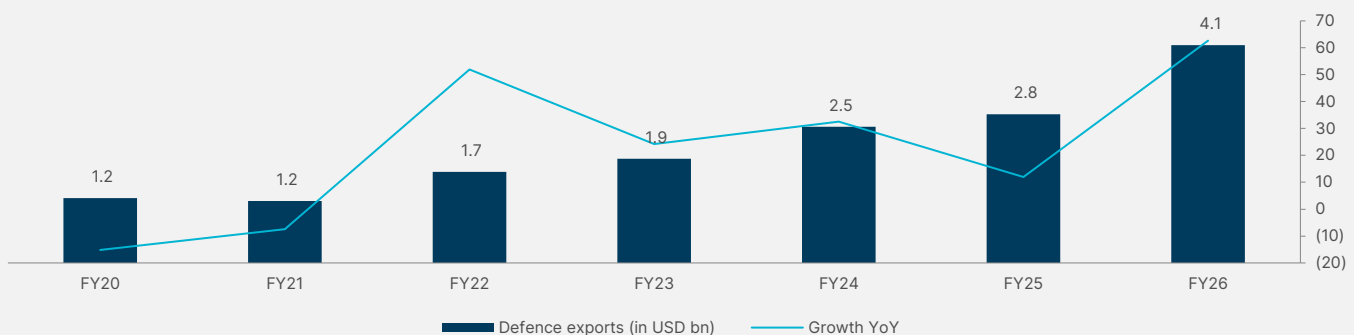
From a fiscal standpoint, revenue trends remained healthy, supported by strong tax and non-tax collections, while central government capex rebounded sharply in February after a brief moderation. However, sustained energy subsidies and excise adjustments could create some near-term fiscal pressure if elevated crude prices persist. India's merchandise trade deficit narrowed sequentially in February, aided by easing imports, while a strong services surplus continued to provide a partial offset to external pressures.

Inflation edged higher in February (~3.2% YoY) but remains well within the RBI's tolerance band, allowing policymakers to maintain a wait-and-watch stance. Growth expectations remain relatively intact, with global agencies continuing to view India as one of the fastest-growing major economies, even as near-term risks from geopolitics and energy markets remain elevated.

Defence exports are emerging as a meaningful structural tailwind. India's defence exports reached a record ~USD 4.1bn in FY26 up from ~USD 17mn in FY14 (see chart of the month below), with ~USD 1.8bn contributed by private players. The government's ambition is to scale defence exports to ~USD 5.3bn by 2029-30, supported by continued indigenisation and faster procurement/contracting cycles. More broadly, defence exports have scaled materially, with private sector contribution expanding sharply, alongside a rising domestic procurement share.

Following the March correction, valuations across market segments have reset meaningfully. MSCI India currently trades at 18.2x on a 12-month forward basis, which is ~7% below its 10-year average of 19.7x. Simultaneously, MSCI India's forward P/E premium to MSCI EM has fallen from ~100% in Aug'2024 to its long-term average of ~60%. While near-term sentiment remains sensitive to developments in West Asia and crude prices, India enters this phase with stronger policy credibility, healthier domestic demand drivers, and significantly better external buffers than during past global shock episodes.

Chart of the Month: India's Defence Exports is Scaling Up Fast



Info Sources: Elara Capital, Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, UBS, Kotak Securities. Data as of March 2026. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year; YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets, FTA – Free Trade Agreement. Past performance should not be taken as an indication or guarantee of future performance



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	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Economic Activity and Employment								
GDP, USD bn	2,871	2,668	3,176	3,390	3,568	3910	3904	4096
GDP per capita, USD	2,141	1,969	2,321	2,451	2,554	2771	2748	2858
Real GDP growth, %	4.0	-6.6	8.7	7.2	8.2	6.5	7.6	7.0
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	4.8	6.2	5.5	6.7	5.4	4.6	1.9	3.7
Repo rate, % (year-end)	4.4	4.0	4.0	6.50	6.50	6.25	5.25	5.25
10-year bond yield, % (year-end)	6.1	6.2	6.8	7.3	7.1	6.5	6.8	7.0
USDINR (year-end)	75.4	73.5	75.8	82.3	83.0	85.6	92.0	94.0
Fiscal Accounts								
General government budget balance, % GDP	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.3	-7.4
Balance of Payments								
Trade balance, USD bn	-158	-102	-189	-266	-243.2	-287.2	-338.8	-367.1
Exports, USD bn	320	296	429	456	440.2	441.8	449.3	469.2
Imports, USD bn	478	398	619	720	683	729	788	836
Current account balance, USD bn	-25	24	-39	-67	-25	-23	-39	-63
Foreign direct investment (net), USD bn	43.0	44.0	38.6	35	18	1	10	15
Total FX reserves, USD bn	478	577	607	578	646	668	705	645
Total external debt, % GDP	19.5	21.4	19.1	18	18.1	17.1	18.1	15.7
Credit ratings								
Moody's	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB	BBB
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E – Estimates. Data as of March 2026

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