India Rewind

October 2025

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.

September presented a conflicting mix of domestic policy support and external risks. The sudden imposition of a US $100,000 fee on new H-1B visa filings and a 100% tariff on patented pharma exports revived concerns across export-oriented sectors. At the same time, with the rollout of GST 2.0, rates were rationalised in almost all sectors, thus signalling a clear policy shift toward demand revival. CPI remained contained within the 2-3% range, as monsoon progressed well. Alongside income tax relief in the FY26 Budget, these factors offered a supportive macro cushion as global headwinds gathered pace.

Initial demand response to GST 2.0 was strong, as vehicle registrations saw a healthy acceleration of ~20% YoY across both two-wheelers and passenger vehicles in the two weeks of the festive period thus far. While the festive start points to healthy sentiment in the entry and mid segments, the durability of this pickup will be crucial. Sustained recovery will depend on whether improved affordability translates into broader volume momentum through FY26 and beyond. However, this domestic traction was offset by renewed global concerns. The H-1B visa fee on new petitions weighed on IT sentiment, triggering fresh concerns on cost structures and earnings. The levy, over 20 times the earlier cap, disproportionately impacts firms with higher onsite dependency. IT companies with stronger offshoring, local hiring, and client diversification, will remain better positioned to absorb the shock.

Underlying macro indicators continued to signal resilience. E-way bill generation rose ~22% YoY in August, and GST collections grew ~6.5%, reflecting steady goods movement. Food inflation eased on improved supply, while core inflation softened further on input cost moderation and tax-led price resets. Reservoir levels remain high, supporting the upcoming rabi (winter crop) cycle. With deposit growth at ~10.1% and credit growth moderating to ~9.3%, monetary conditions remained stable—giving RBI the policy space to stay growth-supportive into Q3.

The RBI's Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 5.5% and maintained a Neutral stance. Going forward, the MPC's communication suggests this may be the last meeting in the wait-and-watch phase, with the possibility of rate cuts likely to resume from the December 2025 meeting. The inflation estimate was cut by 50bp to 2.6% for FY26E, down from 3.1% earlier, with a mild uptick likely in Q4FY26E. A normal monsoon (~8% surplus), steady kharif (summer crop) sowing (+0.6% YoY), and a favourable rabi (winter crop) outlook should ensure adequate food supply, keeping food inflation contained. On the growth front, the RBI raised its FY26 GDP projection by 30bp to 6.8%, reflecting robust Q1FY26 growth of 7.8%. RBI cited strong public capex, improving rural demand, and continued policy support as key factors sustaining domestic activity. They also unveiled several measures across bank resilience, credit flow, FX management, consumer protection and INR internationalisation, signalling a broader structural push beyond rate policy.

Despite favourable domestic signals, foreign flows remained cautious. FIIs sold ~US$ (1.5)bn in September as pharma duties and the potential visa fee hike weighed on positioning, while DIIs absorbed the supply with ~US$ 7.4bn of inflows, anchored by SIP contributions above ~US$ 3.2bn. On a YTD basis, MSCI India returned ~(1.7%) vs. MSCI EM 25.2% and MSCI DM 16.2%. MSCI India's forward PE is at ~19.1x, with the 2FY now trading at ~6.7% above its +1SD. FPIs have sold US$ (17.5)bn YTD'25 (vs ~$(0.8) Bn in 2024), while DIIs continue to buy at ~US$ 66.7bn in CY25. Most of the EM funds' EM/Asia overweight allocations are low vs. history and global funds are still underweight on India.

Looking ahead, the durability of early demand impulses will be closely watched. The upcoming Q2FY26 results and beyond will provide a clearer view on margin stability and volume uptick post-GST cuts and the pass-through impact across the value chain. While global risks—including a potentially restrictive Fed, evolving U.S. trade posture, and H-1B litigation outcomes—remain on the radar, India's internal dynamics appear resilient.

Info Sources: Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Capital, UBS, Kotak Securities. Data as of September 2025. 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, NSO- National Statistics Office. Past performance should not be taken as an indication or guarantee of future performance

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India at a Glance

DSP ASSET MANAGERS

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3910	4133
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2771	2904
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	6.7
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.6	2.4
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.25
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	6.5
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	85.6	88.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.6
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-287.2	-319.2
Exports, USD bn	337	320	296	429	456	440.2	441.8	429.0
Imports, USD bn	518	478	398	619	720	683	729	748
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-23	-50
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	1	5
Total FX reserves, USD bn	413	478	577	607	578	646	668	700
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	17.1	16.4
Credit ratings								
Moody's	Baa2	Baa2	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 September 2025

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