

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.

February marked an important inflection in capital flows toward Indian equities. Net FII inflows reached ~USD 2.5bn, the strongest monthly print in 17 months, with the DII flows being ~USD 4.2bn. The reversal followed the India-US trade agreement, which reduced tariff rates from 50% to 18%, improving India's relative trade competitiveness versus several EM peers and compressing the external risk premium that had constrained foreign allocation through much of last year. Policy clarity, more than liquidity, appears to have triggered the initial shift in positioning.

The shift in flows coincides with a stabilising macro backdrop. India's Q3FY26 GDP growth at 7.8% reinforces that domestic activity remains resilient, while headline CPI at 2.75% remains benign. The RBI maintained the repo rate at 5.25% with a neutral stance, signalling confidence in the growth-inflation balance. At the same time, INR movement has remained contained during the month despite a firm dollar environment, helping reduce currency-related risk premium that had also weighed on foreign allocation decisions through much of last year.

In market terms, MSCI India (USD) recovered ~1.4% during the month, though it has declined ~4% lower YTD. MSCI EM, by contrast, advanced ~5.4% during the month, supported by strength across North Asian markets including Korea, Japan and Taiwan. Geopolitical risk in the Middle East has escalated materially. Such conflicts over last 20 years have triggered a short-term risk-off sentiment for Indian markets. Historical evidence suggests the impact has been relatively contained, with drawdowns shallow and recoveries reasonably swift once uncertainty stabilizes.

Earnings momentum is now reinforcing this improving capital narrative. Q3FY26 delivered double-digit topline growth, with aggregate sales up ~10% YoY and EBITDA and PAT rising ~14% and ~17%, respectively, adjusted for one-offs. Revenue growth has strengthened sequentially, accelerating to ~10% in Q3FY26 from mid-single digits earlier in the year, indicating that GST rationalisation, income-tax relief and earlier rate easing are beginning to transmit into demand. More importantly, earnings growth is broadening rather than remaining concentrated, suggesting operating leverage is turning positive across a wider base. However, the recent uptick in Brent and other commodity prices warrants monitoring for margin sustainability.

Beyond cyclical earnings, India's positioning within the global AI and data centre investment cycle adds a structural dimension to capital flows. With global AI spending projected near USD 1.5 trillion in 2025 and energy constraints limiting expansion in developed markets, India's lower power costs and expanding renewable base strengthen its case as a cost-efficient infrastructure hub. Sustained digital infrastructure investment can improve the composition of external financing by attracting durable FDI, reducing reliance on episodic portfolio flows

The durability of February's foreign inflows will ultimately depend on sustained earnings delivery, stability in the dollar and global real yields amid heightened geopolitical risks, and continued currency and policy stability at home. If these conditions hold, improving earnings breadth and structural growth visibility could allow foreign participation to normalise gradually, marking a transition from liquidity-led volatility toward earnings-led stability.

Info Sources: Elara Capital, Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, UBS, Kotak Securities. Data as of February 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	-370.3
Exports, USD bn	320	296	429	456	440.2	441.8	449.3	479.8
Imports, USD bn	478	398	619	720	683	729	788	850
Current account balance, USD bn	-25	24	-39	-67	-25	-23	-39	-62
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	697
Total external debt, % GDP	19.5	21.4	19.1	18	18.1	17.1	18.1	17.0
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 February 2026

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