India Rewind

June 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.

Foreign investor interest improved notably in May, with net equity inflows of ~US$2.3 Bn—the highest monthly flows so far in CY25. This marks a reversal from persistent FPI outflows in the first quarter. Domestic institutional investors remained steady buyers with inflows of US$7.9 billion. In YTD25, MSCI India Index returned ~2.6% vs. MSCI EM ~7.6% and MSCI DM ~4.2%. MSCI India's forward PE is at ~ 21.1, with the 2FY now trading at ~1.08SD above its long-term averages.

After a subdued start to FY25, the central government has significantly accelerated its capital expenditure. Capex spending touched ~$47 Bn in just March and April—up 65% YoY (partly impacted by low base)—and now accounts for ~40% of the full-year target. Sustained execution on this front will be key to supporting investment-led growth in FY26.

In a surprise move, the RBI cut the repo rate by 50 bps to 5.5%, marking a cumulative 100 bps reduction since February. Parallelly, a phased 100 bps cut in the Cash Reserve Ratio (CRR)—to be completed by November—will inject ~$30 Bn into the banking system. These measures reflect the central bank's shift to an accommodative stance in support of domestic demand.

India's real GDP grew 7.4% YoY in Q4FY25, supported by improved government spending, stronger construction activity, and services demand linked to events such as the Maha Kumbh. For FY25, real GDP growth stood at 6.5%, in line with NSO's estimates. The year's performance reflects a normalization from the high base of FY24 and aligns with India's pre-COVID growth trajectory.

Sectoral insights following the latest earnings season 4Q FY25:

- Health Care: US generics market showed steady to strong growth for India-listed pharma firms, driven by easing price pressures and new product launches. Despite lingering concerns about potential US tariffs and ongoing pricing challenges, India's generics retained a competitive edge due to scale & cost leadership, and the outlook remains cautiously optimistic with new launches and a favourable currency environment helping offset headwinds.

- Information Technology: The IT services sector showed a mixed performance in Q4FY25, reflecting a cautious and uncertain macro environment that continues to weigh on demand; however, margins held up better. While deal pipelines remain healthy, client hesitation and potential deferrals are creating pressure on revenue conversion. The BFSI vertical remains relatively stable, but sectors, such as manufacturing, retail, and healthcare, are facing headwinds due to tariff-related uncertainty.

- Banks: The sector witnessed a mixed quarter, with business momentum gaining a mild pace amid a busy 4Q. However, the margin outcome was divergent for the private and public banks. Most of the large private banks had seen a sequential improvement in NIMs amid lower-day adjustments in 4Q, while public banks continue to see a moderation in NIMs, although calibrated at low single digits.

- Capital Goods: Order inflow growth was healthier than expected, particularly buoyed by the continued momentum in power T&D. Indian defence pipeline remains strong in near term on account of emergency procurement, as well as for medium-to-long term from both - base and large orders. The pipeline from cement, steel, petrochemicals, etc. is yet to fructify into firm orders, while select sectors such as power T&D, renewable energy, data centres, real estate, defence, etc. continue to witness healthy traction.

- Auto: The auto segment (excluding tractors) saw ~2% YoY growth in domestic volumes during the quarter, with rural demand outpacing urban. Most key segments, except three-wheelers, posted a low single-digit growth in Q4. The recent budgetary support by the government, particularly income tax cuts for the middle-income class, is expected to boost demand, especially for price-sensitive segments like 2Ws

- Consumer Staples: Most of the companies witnessed limited volume growth, typically in the low to mid-single digits. Rural demand continues to show gradual improvement, while urban demand remains subdued. While a slowdown persists across consumer segments, demand trends are expected to improve gradually, supported by income tax benefits, interest rate cuts, and gradual improvements in the macro environment.

- Consumer Durables: The cable and wire (C&W) segment saw strong growth, led by a pick-up in government capex, consistent strong demand in the power sector (including renewable energy), real estate, and higher export demand. Meanwhile, a delayed summer and early rains in south and west regions led to subdued demand for cooling products in the secondary market. The EMS sector reported another robust quarter driven by the execution of a strong order book.

India's long-term fundamentals remain robust, supported by healthy RoEs, clean corporate and bank balance sheets, and a stable macro backdrop with controlled inflation, fiscal deficit and current account.

Info Sources: Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Securities, UBS. Data as of May 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.

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India at a Glance

DSP ASSET MANAGERS

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3928	4310
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2784	3029
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	6.4
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.7	3.5
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	5.8
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	87.0	84.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-284.9	-314.6
Exports, USD bn	337	320	296	429	456	440.2	438.6	421.0
Imports, USD bn	518	478	398	619	720	683	723	736
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-32	-33
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	5	10
Total FX reserves, USD bn	413	478	577	607	578	646	654	701
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	18.3	16.3
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

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