India Rewind

September 2025

DSP ASSET MANAGERS

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.

August brought contrasting signals: external pressure from higher U.S. tariffs and domestic optimism around tax reform. The U.S. enacted 50% tariffs on Indian exports impacting nearly USD 60bn worth of export goods, straining labour - intensive sectors such as textiles, gems and jewellery, and processed foods. Flows and earnings reflected this mixed environment. FIIs sold ~US$ (3.3)bn in August as tariff concerns weighed on positioning, while DIIs absorbed the supply with ~US$ 10.8bn of inflows (all-time second highest monthly flows), anchored by SIP contributions above ~US$ 3.3bn. On a YTD basis, MSCI India Index returned ~0.9% vs. MSCI EM ~17% and MSCI DM ~12.7%. MSCI India's forward PE is at ~19.1, with the 2FY now trading at ~5.8% above its +1SD. FPIs have sold US$ (14.3)bn YTD'25 (vs ~$(0.8) Bn in 2024), while DIIs continue to buy at ~US$ 59.4bn in CY25.

Against this backdrop, the government's proposal for GST rationalisation emerged as the big policy story. The suggested two-slab system of 5% and 18%, alongside a possible 40% tier for sin and luxury goods, could provide a much-needed boost to consumption. Unlike tariffs, which weigh on exports, GST reform directly targets domestic affordability, offering a potential offset to global headwinds.

The proposal's sectoral implications are wide. Entry-level automobiles, now taxed at 28% plus cess, will shift to 18%, lifting demand in small cars and two-wheelers. Insurance premiums have fallen from 18% to nil, improving affordability and penetration in health and protection products. Cement, also at 28%, will move to 18%, easing housing and infrastructure costs with spillover gains for building materials and real estate. White goods such as air-conditioners and large TVs, that have shifted to 18%, would support formal retail demand. In FMCG, packaged foods and essentials have seen rates cut to 5%, helping value products gain traction. Collectively, the proposal focuses on categories with strong consumption multipliers.

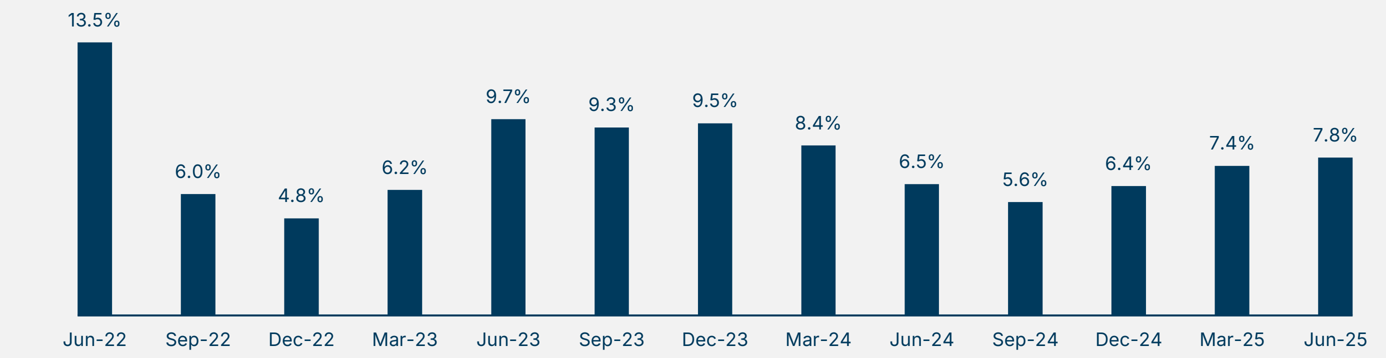
Beyond these immediate benefits, GST rationalisation represents a broader structural pivot. India's consumption growth has slowed in recent years despite solid macro fundamentals. Unlike income-tax rebates, which are confined to a narrower taxpayer base, GST cuts operate at the point of purchase, expanding affordability across all households. Although there could be potential tax revenue loss for the government, the incremental consumption unlocked could be much larger. Such a shift would not only alter household spending patterns but also improve earnings visibility and accelerate India's consumption-led growth cycle.

Q1FY26 Real GDP surprised on the upside at 7.8% YoY (up from 7.4% YoY in the previous quarter, refer chart of the month below), partly helped by a low GDP deflator (0.9% vs. 3.1% in the previous quarter), supported by strong government capex and robust services momentum. The upside in Real GDP is due to a slowing Nominal GDP (~8.8% vs. ~10.8% in the previous quarter) which historically has been a better guide amid sharply falling deflator. CPI inflation eased to an eight-year low of ~1.55%, while the Composite PMI rose to 63.2, a 17-year high. A normal monsoon and healthy kharif sowing boosted rural sentiment, supported by steady GST collections and strong trends in rural demand.

S&P Global upgraded India's sovereign rating to BBB from BBB-, while keeping the rating outlook stable. The upgrade was driven by the government's commitment to fiscal consolidation while continuing productive infrastructure spending. S&P also commended the sound economic fundamentals to underpin growth momentum over the medium term and monetary policy conducive to managing inflationary expectations.

While GST 2.0 details are awaited, its potential signals India's intent to revive consumption through structural tax reform. It could ease costs across housing, healthcare, mobility, and discretionary goods, thus providing a durable lever for growth as external trade pressures linger. With easing rates, income-tax cuts, upcoming GST normalization, and policy catalysts converging, H2FY26 offers a constructive setup for Indian equities.

Chart of the Month: Real GDP Growth (%YoY)



Info Sources: Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Capital, UBS, Kotak Securities. Data as of August 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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Past Issues:
- India Rewind August 2025
- India Rewind July 2025

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We hope you found this note interesting. We welcome your feedback on InvestmentStrategists@dspim.com

India at a Glance

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	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	4141
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2771	2910
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	4.6	2.8
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	85.6	87.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-287.2	-314.9
Exports, USD bn	337	320	296	429	456	440.2	441.8	424.6
Imports, USD bn	518	478	398	619	720	683	729	739
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	680
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 August 2025