



Complete Investment Banking Solutions

ECOCAPSULE

Growth With (Purse) Strings Attached

October 2025



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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY (1/2)

Tariffs established as the new abnormal though their disruptive edge is yet to fully cleave off economic realities

After months of uncertainty, US tariffs now appear set to stay — with evolving country and product coverage — though their full economic impact is still unfolding. Chinese exports to the US fell 33% y/y in Aug'25, but overall shipments rose 4.4%, indicating supply chain rerouting rather than disruption. Inflationary pressures have been shared largely by exporters and retailers, with consumers now beginning to feel the pinch. The US has refrained from duties on critical items like electronics and generic drugs, acknowledging key trade-offs. As tariff effects percolate through the economy, their long-term structural impact may be locked in before fully visible.

Global environment leading to diversification from USD as the world looks for alternate hard assets

The near-term fallout of recent US policy choices is still evolving, but their longer-term effects are becoming clearer. The erosion of US dominance is reflected in declining demand for US Treasuries — with global Central Banks now holding more gold than US Treasuries for the first time in 30 years. As the USD's primacy wanes, precious metals have gained, though no credible reserve alternative has yet emerged. The CNY remains a distant contender, while growing political interest in cryptocurrencies signals a search for new anchors in the shifting global monetary order.

Race to rebalance investments could create a melting pot which is simmering with asset bubbles

Amid shifting capital flows across asset classes, a parallel transformation is unfolding in the real economy. Artificial intelligence has become the new investment frontier, with capital chasing unproven models under the belief that “AI can fund its own growth.” Valuations have surged, exemplified by OpenAI's recent USD 500 bn valuation, making it the world's most valuable private startup. Yet, many AI use cases remain speculative, and monetisation pathways are far from clear. For investors, discernment and measured optimism may prove more valuable than blind conviction in the AI narrative.

Domestic consumption expected to cushion the descent for growth in H2

India faces steep 50% US tariffs, prompting a pivot to domestic growth levers. Both the Union and States have amped up their capex in YTD FY26, which is set to reflect in GFCF. Realising that the backbone of an inward looking services economy like India is consumption, GST rate changes have been instituted coinciding with the festive season. As per CAIT, this will boost festive sales to Rs. 4.75 trn – an all-time record. Early signs of enthusiasm are reflected in auto retail sales, which showed strong growth on year during the Navarathri period.

EXECUTIVE SUMMARY (2/2)

RBI ushers in a new era of (de)regulation to ease credit flow to productive sectors

With a view to improve credit access at a time when private capex is selective and corporate leverage is low, the Central Bank has taken several steps. This includes a draft proposal removal of the sector level cap on lending to large borrowers – which provides a relief to big players in times like now when banking rates may be favourable vis-à-vis the bond market. The restriction on banks from doing acquisition finance is also proposed to be removed, along with greater lending limits for LAS, loans against units of REIT/InvIT, and removal of caps for lending against listed debt. Streamlining of risk weights for Basel III capital and a very gradual glide path towards ECL norms implementation also provide wiggle room. As a good omen in light of these auspicious developments, C/D ratio exceeded 80% for the first time in FY26 for the fortnight ended 19 Sep'25.

Equity markets buoyant on domestic investor interest despite scepticism of global investors

India remains amongst the busiest primary equity markets in CY25, with Oct'25 set to be a record month for issuances. This comes at a time when net FPI equity outflow was at USD 18 bn in YTD CY25. Plainly, domestic investors have shown a voracious appetite to mop up large issuances and reposed their faith in the markets even when foreign investors have stumbled. We expect primary market issuance in FY26 to be similar to FY25 levels.

A multipronged approach is being followed in India – capex is being done by the Government, eased tax norms are instituted to trigger private consumption, and principle based lending norms are in store to smoothen credit flow - to ameliorate global pressures. The message is – control the controllables and the uncontrollable shall become controllable.

MACROECONOMIC OVERVIEW

H1 GROWTH EXPECTED TO BE BETTER THAN H2

REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
GVA	7.6	6.8	6.5	5.8	6.5	7.3	8.0	9.2	9.9
Agriculture and allied	3.7	5.4	6.6	4.1	1.5	0.9	1.5	3.7	5.7
Industry	6.3	6.5	4.8	3.8	8.5	9.5	11.8	15.1	7.3
Mining and quarrying	-3.1	2.5	1.3	-0.4	6.6	0.8	4.7	4.1	4.1
Manufacturing	7.7	4.8	3.6	2.2	7.6	11.3	14.0	17.0	7.3
Electricity, gas & water supply	0.5	5.4	5.1	3.0	10.2	8.8	10.1	11.7	4.1
Construction	7.6	10.8	7.9	8.4	10.1	8.7	10.0	14.6	9.2
Services	9.3	7.3	7.4	7.2	6.8	7.8	8.3	7.5	12.5
Trade, hotel, transport & comm.	8.6	6.0	6.7	6.1	5.4	6.2	8.0	5.4	11.0
Finance, real estate and prof serv.	9.5	7.8	7.1	7.2	6.6	9.0	8.4	8.3	15.0
Public admin., defence & Other svcs	9.8	8.7	8.9	8.9	9.0	8.7	8.4	8.9	9.3

REAL GDP EXPENDITURE COMPONENTS

Change (% y/y)	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
GDP	7.8	7.4	6.4	5.6	6.5	8.4	9.5	9.3	9.7
Private final consumption exp. (PFCE)	7.0	6.0	8.1	6.4	8.3	6.2	5.7	3.0	7.4
Govt. final consumption exp. (GFCE)	7.4	-1.8	9.3	4.3	-0.3	6.6	2.3	20.1	5.3
Gross capital formation (GCF)	7.3	7.8	4.9	7.7	6.2	9.1	12.4	11.9	8.9
Gross fixed capital formation (GFCF)	7.8	9.4	5.2	6.7	6.7	6.0	9.3	11.7	8.4
Exports	6.3	3.9	10.8	3.0	8.3	7.7	3.0	4.6	-7.0
Imports	10.9	-12.7	-2.1	1.0	-1.6	11.4	11.3	14.3	18.0

- Real GDP growth outpaced market estimates, with domestic anchors like strong consumption and robust capital formation driving domestic it. This was despite crosswinds from muted trade and global tariff turmoil. Notably, manufacturing took the reigns of industrial growth, with services, led by financials, outshining other sectors
- Nominal GDP will remain challenged in FY26 as inflation sinks, and we expect an 8.5% y/y figure to register*

INDIA ON BRINK OF FESTIVE PICKUP

INDICATOR	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25
INDUSTRY													
Manufacturing PMI	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7
IIP (%y/y)	3.2%	3.7%	5.0%	3.7%	5.2%	2.7%	3.9%	2.6%	1.9%	1.5%	4.3%	4.0%	
Eight Core (%y/y)	2.4%	3.8%	5.8%	5.1%	5.1%	3.4%	4.5%	1.0%	1.2%	2.2%	3.7%	6.3%	
Finished Steel Consumption (%y/y)	10.3%	8.9%	9.5%	5.2%	10.9%	10.9%	13.6%	6.0%	8.1%	9.3%	7.3%	10.0%	
2W Retail Sales (%y/y)	-8.2%	36.3%	15.8%	-17.6%	4.2%	-6.3%	-1.8%	2.3%	7.3%	4.7%	-6.5%	2.2%	6.5%
PV Retail Sales (%y/y)	-16.7%	32.4%	-13.7%	-2.0%	15.5%	-10.3%	6.3%	1.6%	-3.1%	2.5%	-0.8%	0.9%	5.8%
SERVICES/CONSUMPTION													
Services PMI	57.7	58.5	58.4	59.3	56.5	59	58.5	58.7	58.8	60.4	60.5	62.9	60.9
Petrol Consumption (%y/y)	3.0%	8.7%	9.6%	11.1%	6.7%	5.0%	5.7%	5.0%	9.2%	6.8%	5.9%	5.5%	5.1%
Diesel Consumption (%y/y)	-1.9%	0.1%	8.5%	5.9%	4.2%	-1.3%	0.9%	4.2%	2.1%	1.5%	2.4%	1.2%	0.9%
Railway Freight Volume (%y/y)	6.0%	1.4%	1.4%	1.7%	-1.6%	-3.0%	3.0%	3.6%	2.7%	0.9%	0.0%	9.1%	5.3%
Port Cargo Volume (%y/y)	5.8%	-3.4%	-5.0%	3.4%	6.2%	7.4%	13.3%	7.0%	4.4%	5.5%	4.0%	2.5%	
Electricity supply (% y/y)	0.4%	0.8%	3.8%	5.2%	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%	1.6%	3.9%	3.0%
Total Airport Footfall (%y/y)	8.1%	9.8%	13.2%	10.5%	13.5%	11.2%	9.3%	10.3%	3.0%	3.7%	-1.0%	3.9%	-4.0%
Fastag revenues (%y/y)	10.4%	10.4%	14.5%	13.3%	19.0%	18.3%	14.5%	21.6%	20.0%	17.5%	19.6%	18.7%	20.0%
UPI transactions (%y/y)	30.7%	37.0%	23.9%	27.5%	27.5%	20.2%	25.2%	21.9%	23.0%	19.8%	21.5%	20.6%	20.6%
Gross GST Revenues (%y/y)	6.5%	8.9%	8.5%	7.3%	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%	7.5%	6.5%	9.1%

CONSUMPTION BEACON AUGMENTED BY FLASHING INDUSTRIAL GROWTH

Industrial growth likely springboarded on domestic resilience, despite global cues

- Manufacturing PMI of 57.7 in Sep'25 is suggestive of a strongly expansionary industrial output, as buoyant demand helps producers pass on commodity led input price hikes. Rising export orders reflect demand from Asia as punitive tariffs dent US demand.
- IIP's strong growth in Aug'25 is supported by mining and electricity rebound, while eight core index grew at the strongest pace in over a year due to steel, cement and coal. Steel trade flows show divergence, with exports rising 54% y/y, while imports falling 31% y/y in Aug'25, as anti-dumping guardrails take effect.
- Rainfall stood at 108% of LPA for the monsoon season, with North-West exceeding LPA by 27%. Despite that, power generation grew 3.2% y/y in Sep'25, with Western region leading charge, indicative of robust industrial activities even as cooling demand remains subdued. Robust mining activity is reflected in surge in power generation in Eastern region

GST reforms boost consumption at start of festive season, firecrackers to shower in Oct'25

- GST collections' 9.1% y/y surge in Sep'25 is reflective of buoyant demand and efficient tax administration, despite tax cuts being passed on to consumers at accelerated pace. Robust e-way bill generation and onset of festive season bodes well for consumption story
- Petrol and diesel sales corroborate with high freight movement and festive mobility in Sep'25
- Notably, according to Unicommerce, e-commerce volumes rose 21% y/y, while q-comm volumes rose 85% y/y in the 6-day festive season sale period, indicative of buoyant discretionary demand and consumer's impulsive preference for instant delivery

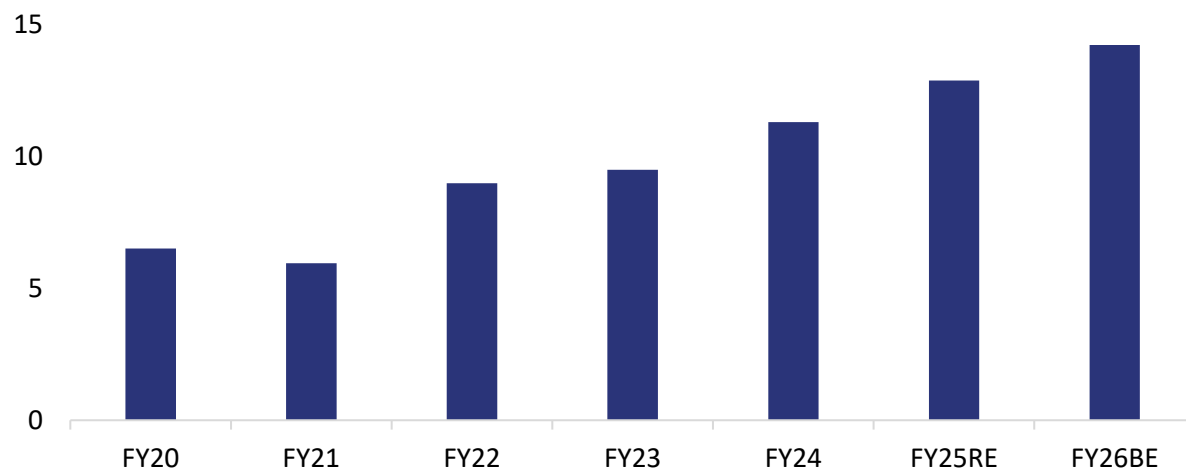
UNION MAINTAINS FISCAL PATH WITH BORROWINGS IN CHECK

ITEM (Rs. bn)	FY24A	FY25PE	FY26BE	GROWTH FY26BE/FY25PE	5MFY25	5MFY26	GROWTH 5MFY26/5MFY25	5MFY26/FY26BE
Corporation Tax	9,111	9,868	10,820	9.7%	2,246	2,293	2.1%	21.2%
Income Tax	10,447	11,830	14,380	21.6%	4,523	4,410	-2.5%	30.7%
Customs Duty	2,331	2,329	2,400	3.1%	943	831	-11.9%	34.6%
Excise Duty	3,054	3,003	3,170	5.6%	1,040	1,119	7.6%	35.3%
Service Tax	4	0	1		0	-2		
GST	9,572	10,316	11,780	14.2%	4,325	4,543	5.0%	38.6%
Other Taxes	39	50	50	0.0%	33	22		
Gross tax revenue	34,655	37,952	42,702	12.5%	13,327	13,440	0.8%	31.5%
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	4,557	5,301	16.3%	37.3%
Net tax revenue	23,273	24,987	28,374	13.6%	8,738	8,104	-7.3%	28.6%
Non-Tax Revenue	4,018	5,375	5,830	8.5%	3,345	4,403	31.7%	75.5%
Non-debt Capital Receipts	598	418	760	81.7%	89	320	260.6%	42.1%
Total Receipts	27,888	30,781	34,964	13.6%	12,172	12,827	5.4%	36.7%
Revenue Expenditure	34,943	36,035	39,443	9.5%	13,514	14,493	7.2%	36.7%
Capital Expenditure	9,492	10,520	11,211	6.6%	3,010	4,316	43.4%	38.5%
Total Expenditure	44,434	46,555	50,653	8.8%	16,524	18,809	13.8%	37.1%
Revenue Deficit	7,652	5,671	5,238	-7.6%	1,431	1,985	38.8%	37.9%
Fiscal Deficit	16,546	15,773	15,689	-0.5%	4,352	5,982	37.5%	38.1%
Nominal GDP	2,95,357	3,27,718	3,56,979	8.9%				
Fiscal Deficit (% of Nominal GDP)	5.6%	4.8%	4.4%					

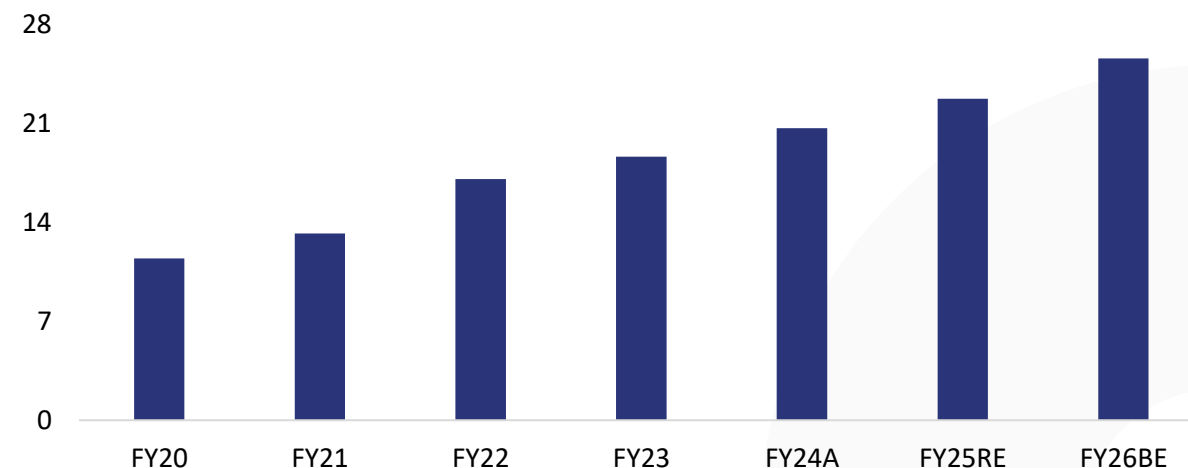
- Gross tax revenues have remained flattish in 5MFY26 due to a fall in income tax collections being offset by moderate rise in corporation taxes and GST. GST relief provided is expected to lead to a shortfall of ~Rs. 480 bn
- Expenditure has steadily increased on both capital and revenue front as the Union has taken pole position once again in stimulating the GDP amidst lagging private capex. Nevertheless, with borrowings for FY26 expected to be ~Rs. 100 bn below BE, fiscal deficit goals are likely to be achieved

STATES RECEIVE EXTRA DEVOLUTION FROM THE UNION

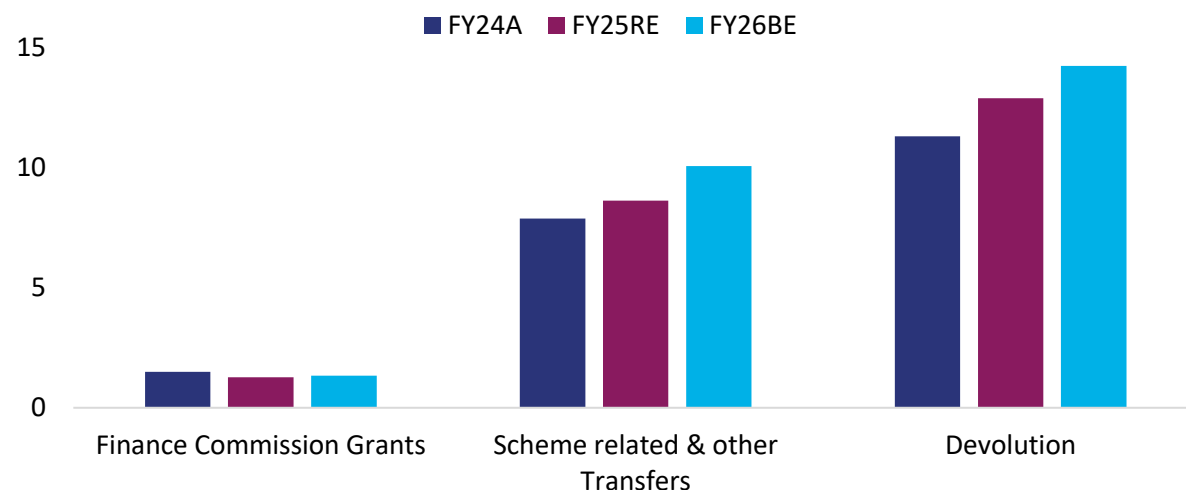
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



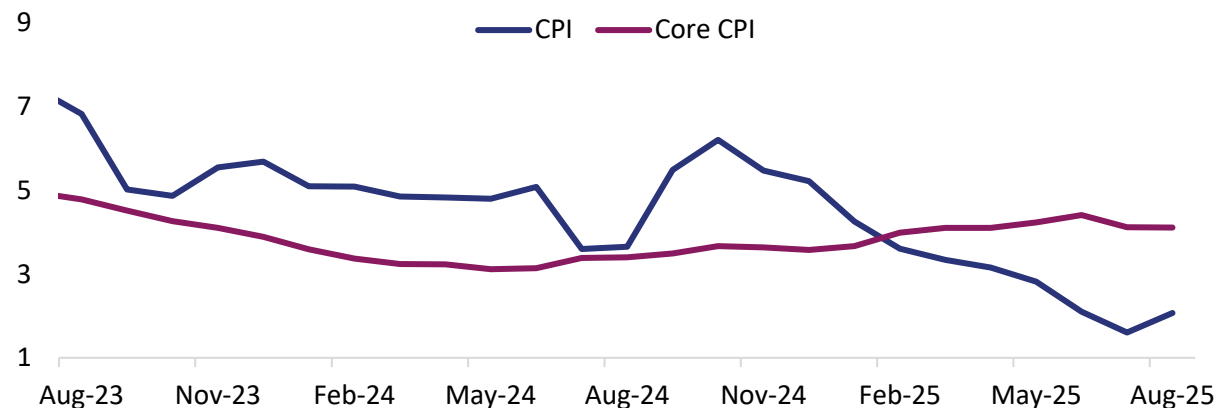
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



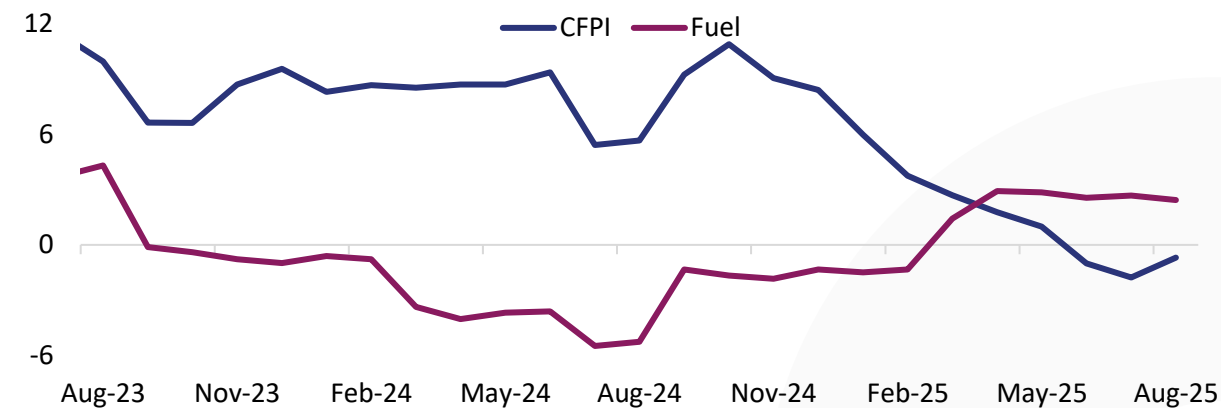
- Union released an additional tax devolution of Rs. 1.01 trn to State governments. This is in addition to normal monthly devolution due to be released on 10 Oct'25. U{ received the highest allocation at Rs. 182 bn, followed by Bihar at Rs. 102 bn
- GST Compensation cess was effectively removed for most goods starting 22 Sep'25, with exceptions on sin products lasting only until loans raised for State compensation are fully repaid

INFLATION CONCERNS HAVE RECEDED TO THE BACKGROUND

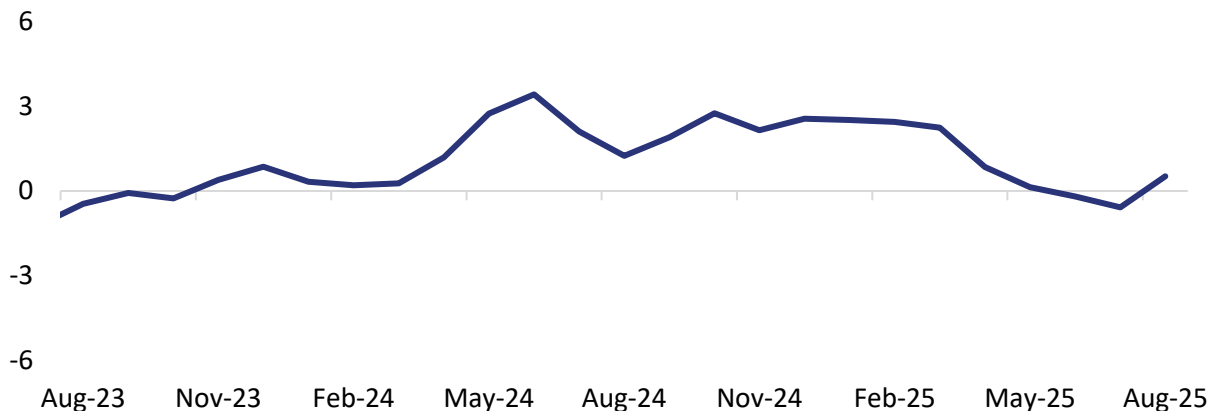
CONSUMER PRICE INDEX (CPI) & CORE CPI (% Y/Y)



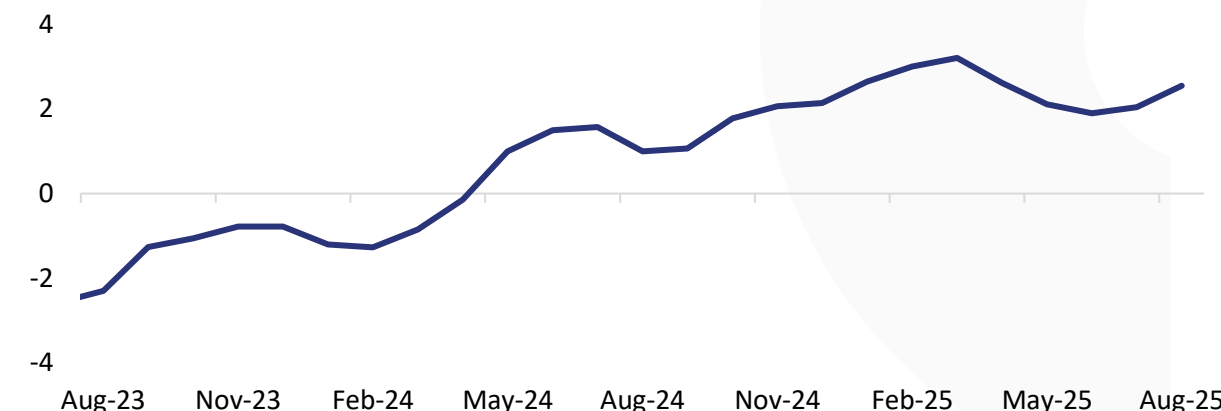
CFPI AND CPI: FUEL (% Y/Y)



WHOLESALE PRICE INDEX (WPI) (% Y/Y)



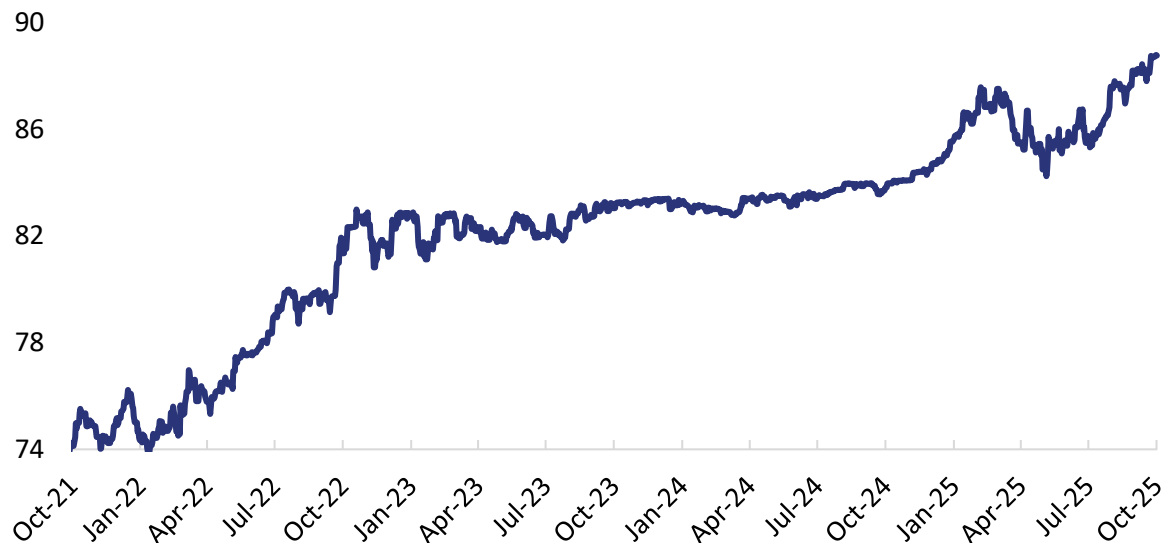
WPI: MANUFACTURED PRODUCTS (% Y/Y)



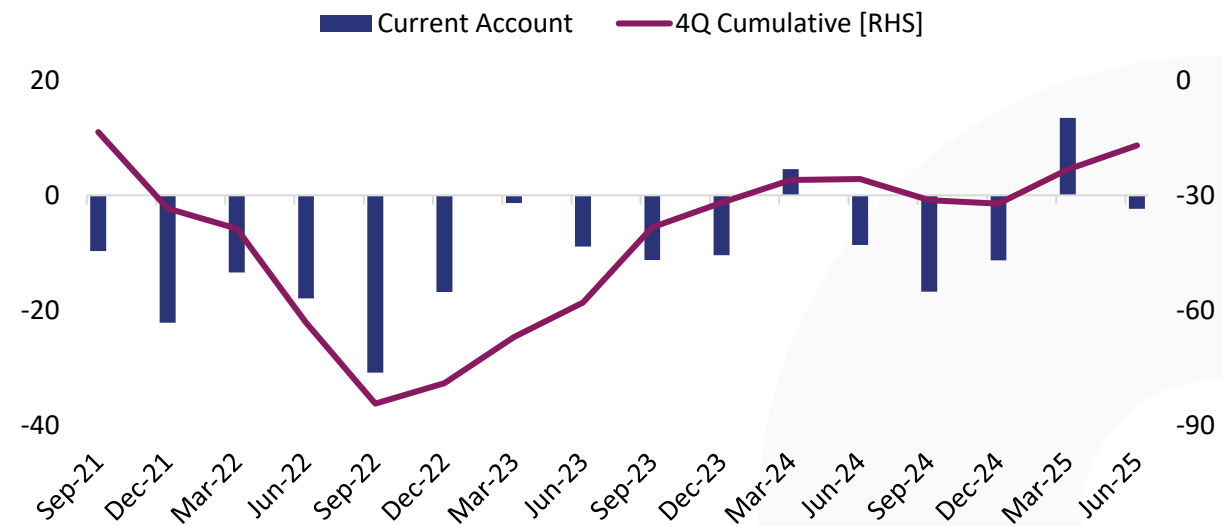
- CPI rose from its nadir to the lower end of the tolerance band driven by softer core inflation and lesser contractions in food inflation. MPC has slashed its target for headline CPI by 50 bps at 2.6% in FY26, with ample monsoon and reservoir levels aiding food inflation while GST cuts aide the Core
- WPI posted its first positive reading in 3 months as global commodity price hikes raised the ante for manufactured products, countered by decline in both primary articles and fuel & power. Notably, edible fats and oil seeds became dearer, while sharp corrections were seen in potato and onion prices

CURRENT ACCOUNT DEFICIT REMAIN MANAGEABLE DESPITE TRADE CONCERNS

USD/INR EXCHANGE RATE (Rs. per USD)



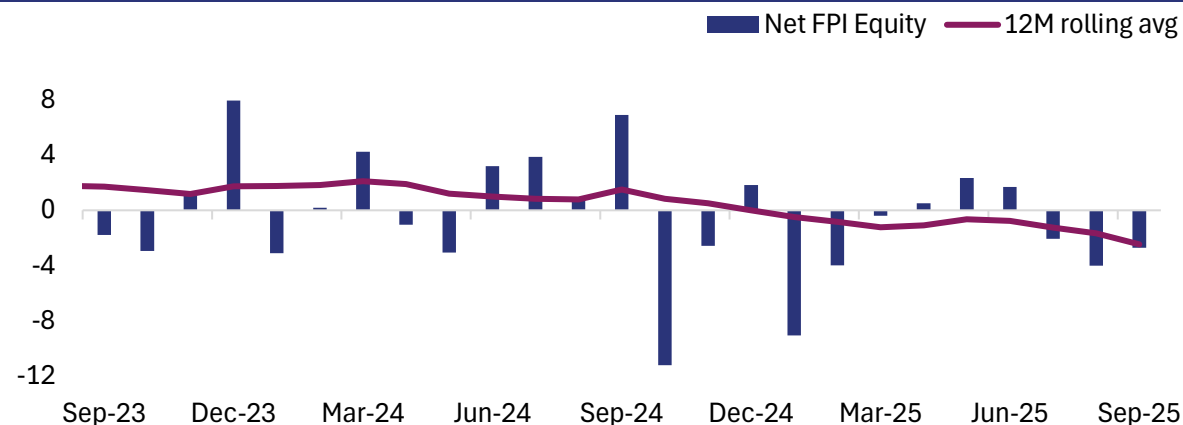
CURRENT ACCOUNT BALANCE (USD bn)



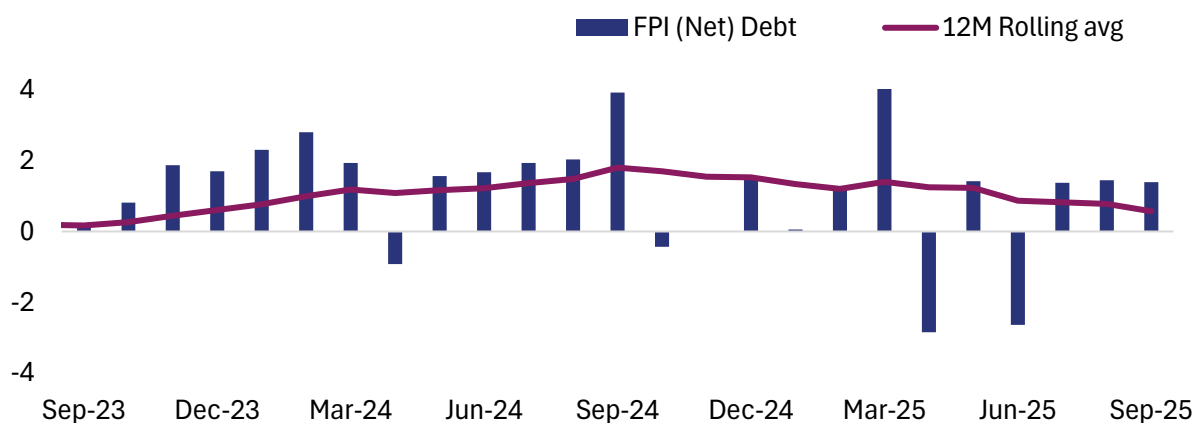
INDICATOR	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25
Forex Reserves (USD Bn)	705.8	682.1	659.4	635.7	630.6	638.7	668.3	688.4	691.3	698.1	690.1	690.7	702.6
Goods Imports (%y/y)	7.8%	1.9%	16.1%	2.3%	10.3%	-16.3%	11.4%	19.1%	-1.7%	-3.7%	8.6%	-10.1%	
Oil Imports (%y/y)	6.5%	17.0%	6.5%	-9.0%	-13.4%	-29.6%	16.3%	25.6%	-26.2%	-8.4%	7.5%	9.3%	
Non-oil Imports (%y/y)	8.2%	-3.2%	19.7%	6.3%	19.9%	-11.3%	9.4%	16.3%	10.0%	-2.0%	9.0%	-14.3%	
Goods Exports (%y/y)	-0.3%	16.6%	-5.3%	-1.5%	-2.6%	-11.1%	0.7%	8.6%	-2.8%	-0.1%	7.3%	1.8%	
Oil Exports (%y/y)	-30.6%	-25.1%	-52.2%	-31.6%	-59.7%	-30.4%	-9.5%	1.9%	-30.7%	-15.9%	-25.0%	-21.3%	
Non-oil Exports (%y/y)	6.7%	25.5%	7.8%	5.1%	14.5%	-6.3%	2.2%	10.3%	4.4%	2.9%	13.8%	6.3%	
Goods Trade Balance (USD Bn.)	-24.4	-26.1	-32.0	-20.7	-23.1	-14.1	-21.5	-26.6	-22.1	-18.8	-27.3	-26.5	
Services Exports (%y/y)	14.6%	22.7%	14.2%	16.9%	12.1%	11.7%	18.7%	8.9%	9.6%	12.0%	10.3%	2.8%	
Services Imports (%y/y)	13.5%	28.0%	26.1%	13.9%	12.6%	-4.7%	5.3%	1.0%	-1.0%	5.1%	8.5%	-5.3%	
Overall Trade Balance (USD Bn)	-8.4	-8.9	-17.1	-1.5	-5.1	3.0	-3.4	-10.6	-6.4	-2.6	-10.9	-10.9	

FII FLOWS DIVERGENT IN EQUITY AND DEBT

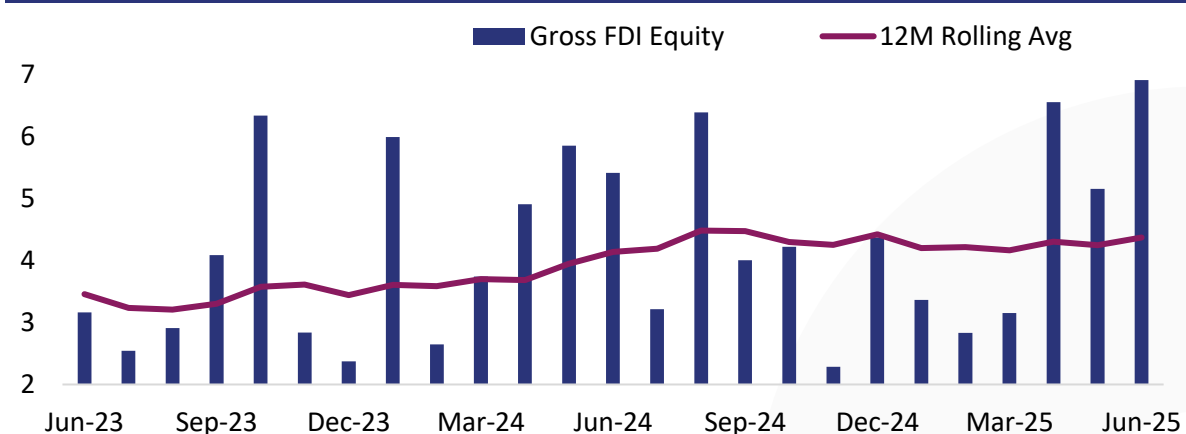
NET FPI EQUITY INFLOW (USD bn)



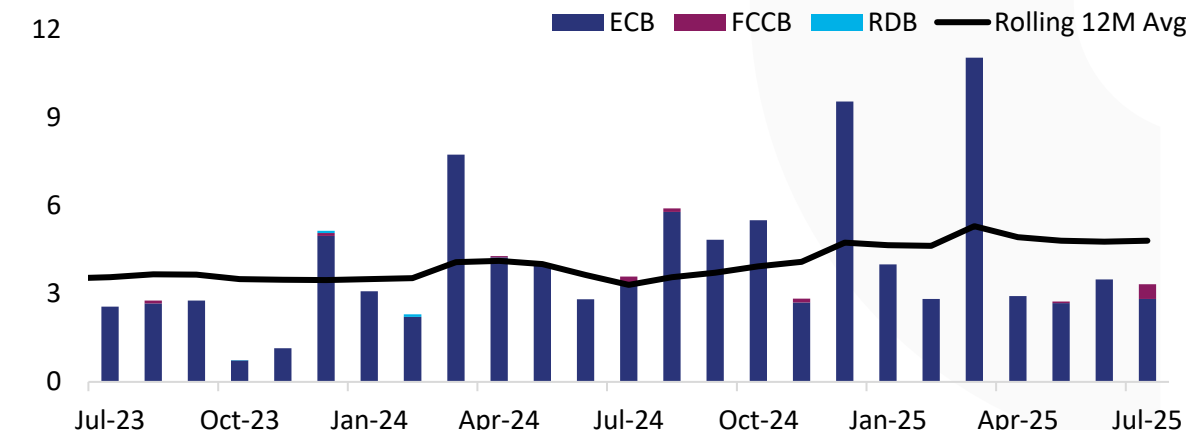
NET FPI DEBT FLOWS (USD bn)



GROSS FDI EQUITY INFLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



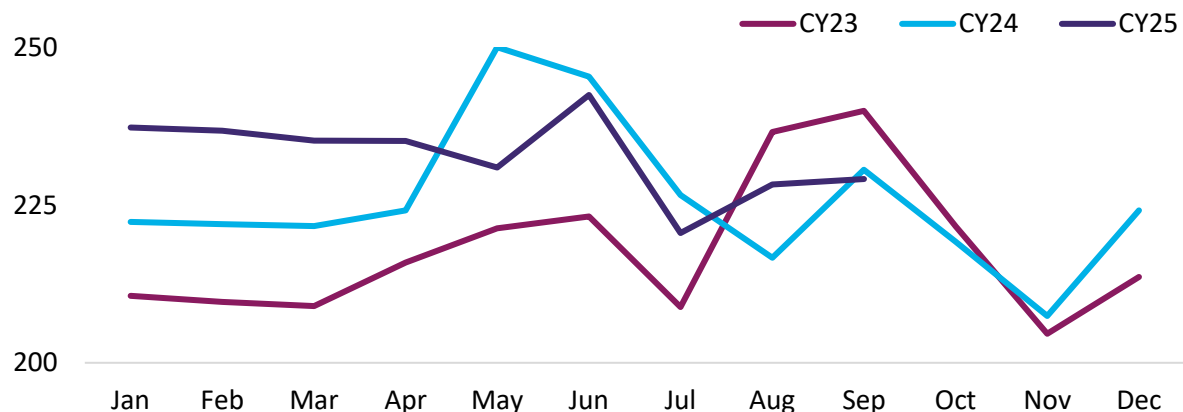
- FPIs withdrew USD 2.7 bn worth from domestic equities in Sep'25, taking the total outflow for 9MCY25 to USD 17.5 bn, its second highest since inception. The previous exodus in 9MCY22, to the tune of USD 22 bn, was due to breakout of Russia-Ukraine war and aggressive US rate hikes, offset to net USD 16.5 bn outflow in CY22, lower than current
- Debt inflows hit highest mark in 7-months, with copious flows through FAR securities, as elevated yields and strong fundamentals attracts patient capital

SECTORAL UPDATES

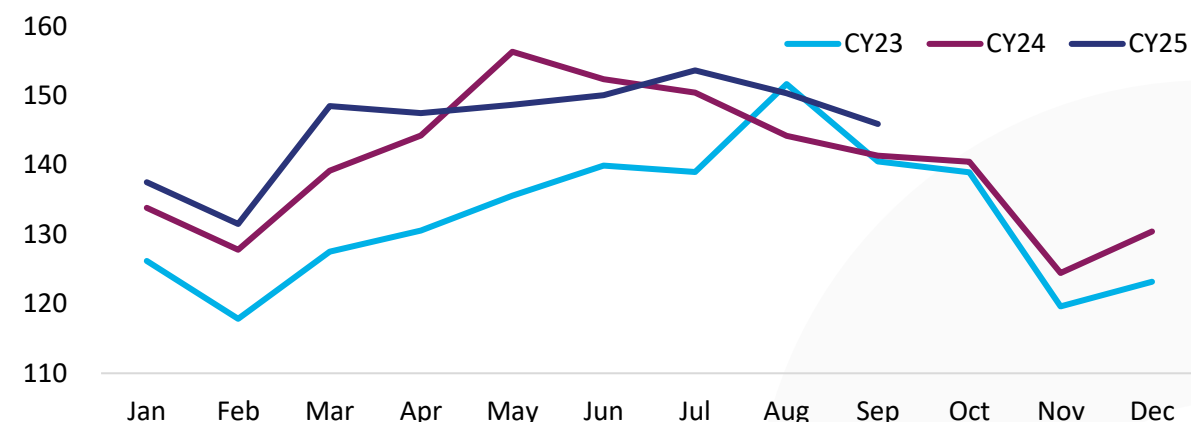


POWER DEMAND REMAINS MUTED IN SEP'25

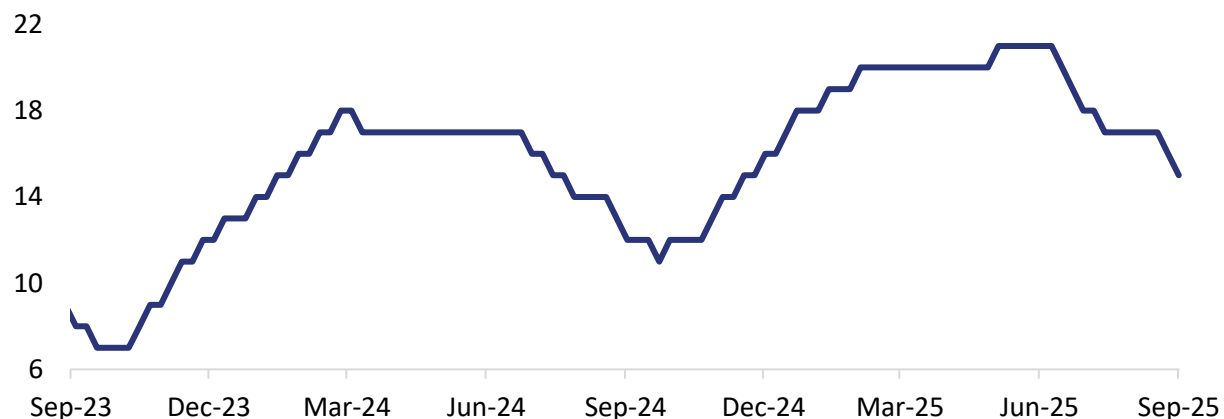
PEAK POWER DEMAND (GW)



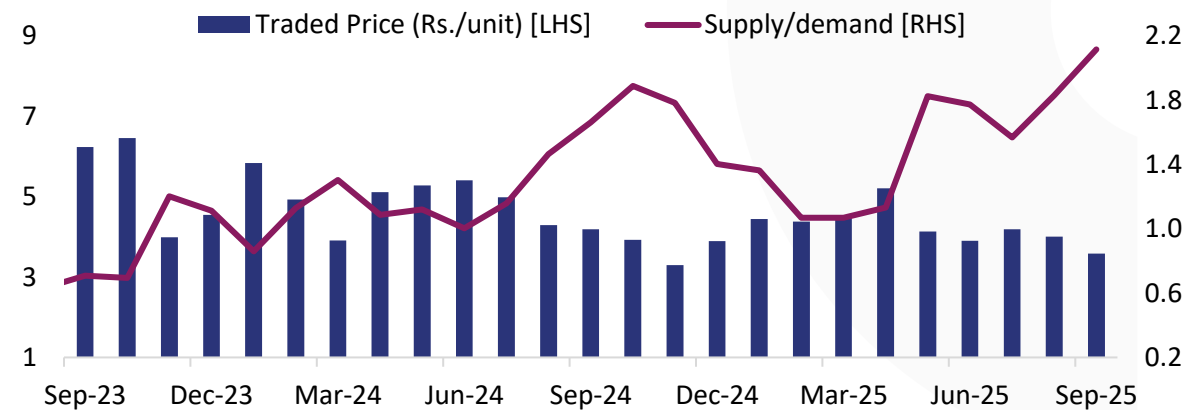
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



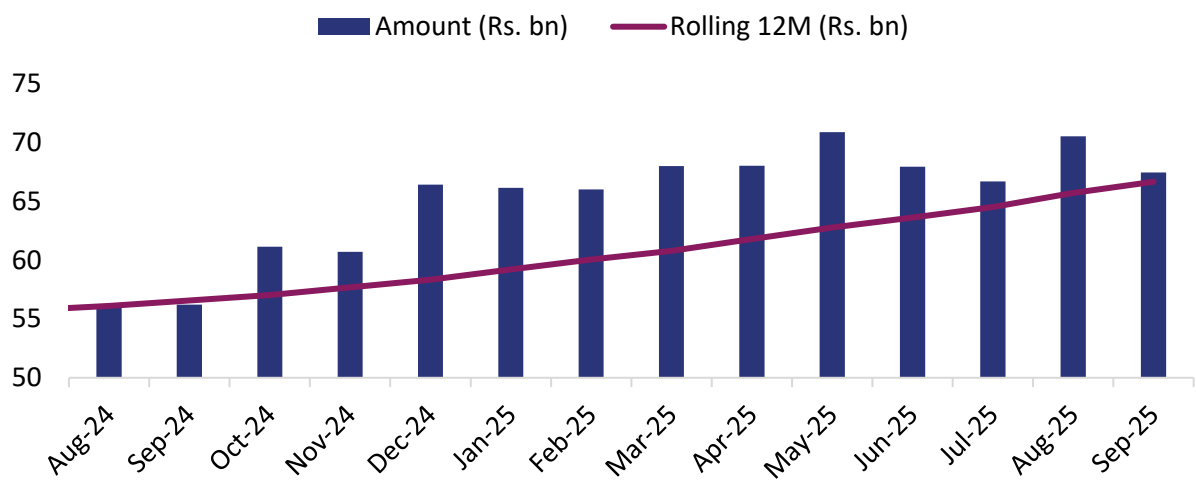
SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Power consumption rose 3.2% y/y to 145 BU in Sep'25. DAM prices fell 15% y/y to Rs. 3.6 /unit, as high renewable generation provided supply side liquidity.
- MNRE has proposed to include solar wafers under ALMM from Jun'28, provided there are atleast 3 independent manufacturers by then. Further, Union is expected to rebid ~40 GW of stalled RE projects in the absence of PPAs, where no notable investments have happened. In relief to discoms, GoM has discussed new reform-based scheme for debt restructuring

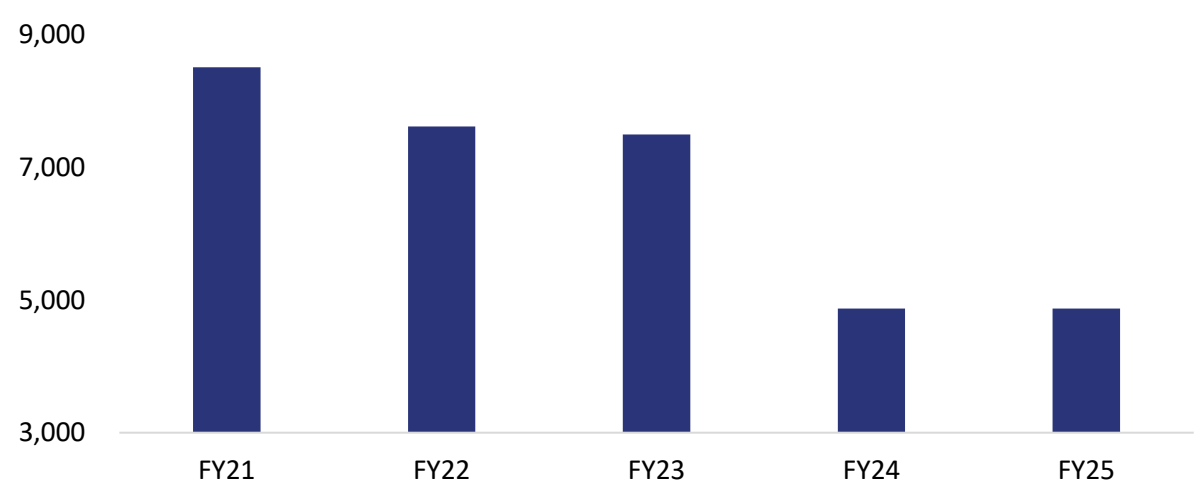
UNION AIMS TO REVAMP HIGHWAY CONCESSION AGREEMENTS

FASTAG COLLECTIONS

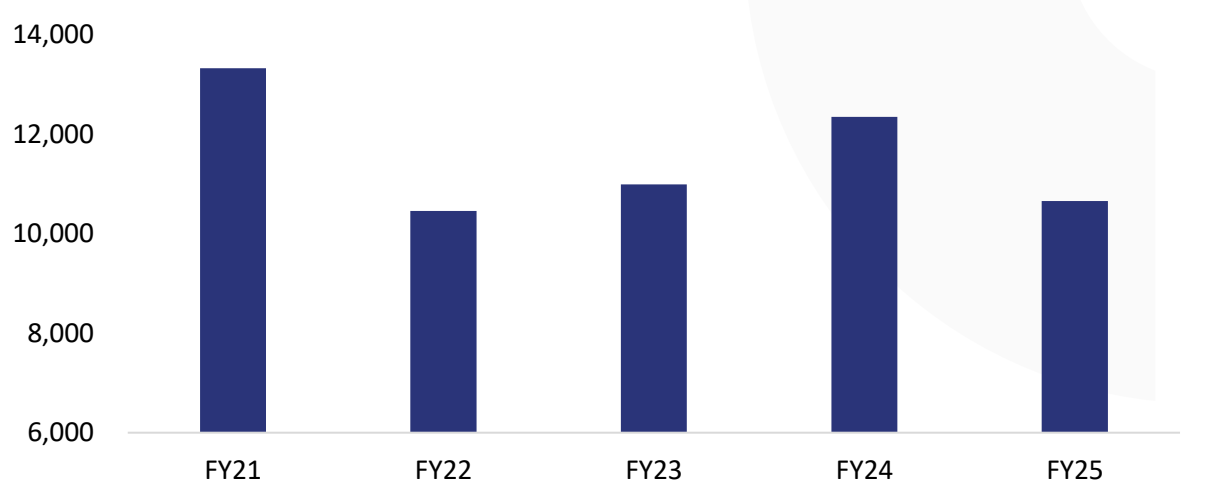


- FasTag collections rose 20% y/y in Sep’25, lower than the bumper collections of Aug’25
- Union tightened the bid provision framework for highway projects and introduced stringent criteria to improve execution, accountability and transparency
- According to media sources, Union is planning to introduce new model concession agreements, allowing investors to take entire risk of construction of greenfield highways and collect toll during concession

NATIONAL HIGHWAY AWARDING (km) – 11MFY



NATIONAL HIGHWAY CONSTRUCTION (km)



CREDIT GROWTH ON REDEMPTION PATH

INDICATOR	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25
CREDIT												
Non-food credit growth (%y/y)	11.5%	10.6%	11.1%	11.4%	10.9%	10.9%	10.2%	8.8%	9.3%	9.9%	9.9%	10.3%
Industry credit growth (%y/y)	7.9%	8.0%	7.2%	8.0%	7.1%	7.7%	6.6%	4.8%	5.5%	6.0%	6.5%	
Services credit growth (%y/y)	12.7%	13.0%	11.7%	12.5%	12.0%	12.4%	10.5%	8.7%	9.0%	10.6%	10.6%	
Personal credit growth (%y/y)	12.9%	13.3%	12.0%	11.8%	11.7%	11.7%	11.9%	11.1%	12.1%	11.9%	11.8%	
DEPOSITS												
Total Deposits (%y/y)	11.7%	11.2%	11.5%	10.8%	10.6%	10.3%	9.9%	10.0%	10.4%	10.1%	10.1%	9.8%
Time Deposits (%y/y)	13.2%	11.5%	11.4%	11.0%	11.0%	10.7%	10.4%	8.9%	9.2%	9.5%	9.1%	8.8%
Demand Deposits (%y/y)	11.6%	8.9%	12.3%	9.4%	7.7%	7.0%	6.4%	18.0%	19.6%	14.6%	17.9%	17.7%
KEY RATIOS												
C/D Ratio (%)	79.0%	79.5%	80.4%	80.4%	80.8%	80.7%	80.8%	79.6%	78.9%	78.9%	79.2%	79.3%
Investment/Deposit Ratio (%)	29.8%	29.7%	29.6%	29.9%	30.0%	29.9%	29.7%	29.3%	28.9%	28.6%	28.8%	28.8%
KEY RATES												
1Y MCLR (Median-All SCB)	8.95%	9.00%	9.00%	9.00%	9.05%	9.00%	9.00%	8.95%	8.90%	8.75%	8.60%	8.60%
WALR – fresh (%)	9.54%	9.40%	9.25%	9.33%	9.40%	9.35%	9.26%	9.20%	8.62%	8.81%	8.75%	
WALR – o/s (%)	9.88%	9.87%	9.85%	9.87%	9.80%	9.77%	9.68%	9.67%	9.44%	9.38%	9.32%	
WADTDR – fresh (%)	6.44%	6.46%	6.57%	6.62%	6.55%	6.72%	6.34%	6.11%	5.75%	5.61%	5.56%	
WADTDR – o/s (%)	6.96%	6.98%	7.00%	7.09%	7.10%	7.11%	7.11%	7.07%	7.00%	6.92%	6.87%	
Repo Rate	6.50%	6.50%	6.50%	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%

RBI'S REGULATION REVAMP TO AIDE CREDIT GROWTH RESURGENCE

Democratisation of credit means that personal loans and MSMEs drive credit demand as large corporates flock to capital markets

- MSMEs led the credit bandwagon with 18.5% y/y growth in Aug'25, with tariff-exempt sectors such as electronics growing strongly, while textile, rubber and wood display resilience. Large industries rose only 2% y/y; however, removal of large borrower framework promises credit offtake to large conglomerates.
- Services credit growth rose at a constant pace, aided by Union's push in the shipping industry, along with resilience in CRE and Trade. NBFCs credit continues to remain morose
- Despite slower growth than fiery pandemic era, personal loans drive credit demand dictated by glittery gold loans and LAS, combined with stability in housing and vehicle loans.

Transmission to deposit rates fuller than lending, as banks avoid NIM squeeze

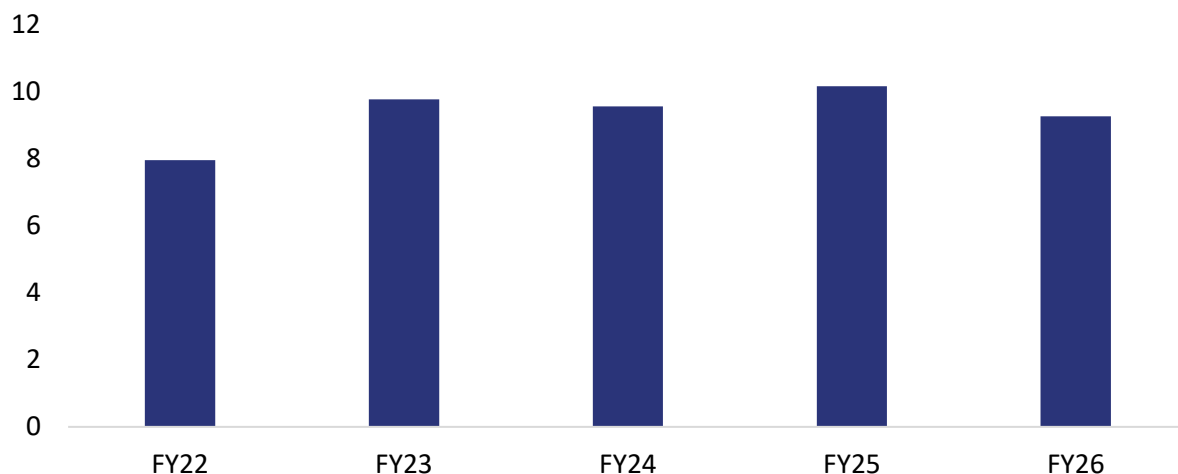
- Deposit growth has held the ~10% y/y mark for most of CY25, stronger than nominal GDP growth, with changing catalysts. Growth in demand deposits, faster than time deposits, is indicative of banks preference to raise low-cost CASA share, as ample profits and availability of cheap capital has helped banks to ease down on deposit fervour
- Transmission to both lending and deposit rates is excellent in the current rate cycle due to high share of EBLR. Transmission to outstanding lending rates is much faster than deposit rates – hence margins could be squeezed for banks. Bank MCLR to Union G-sec spread is now low compared to historical levels. This means a pickup in bank credit could ensue

RBI announces slew of measures for easing bank regulations

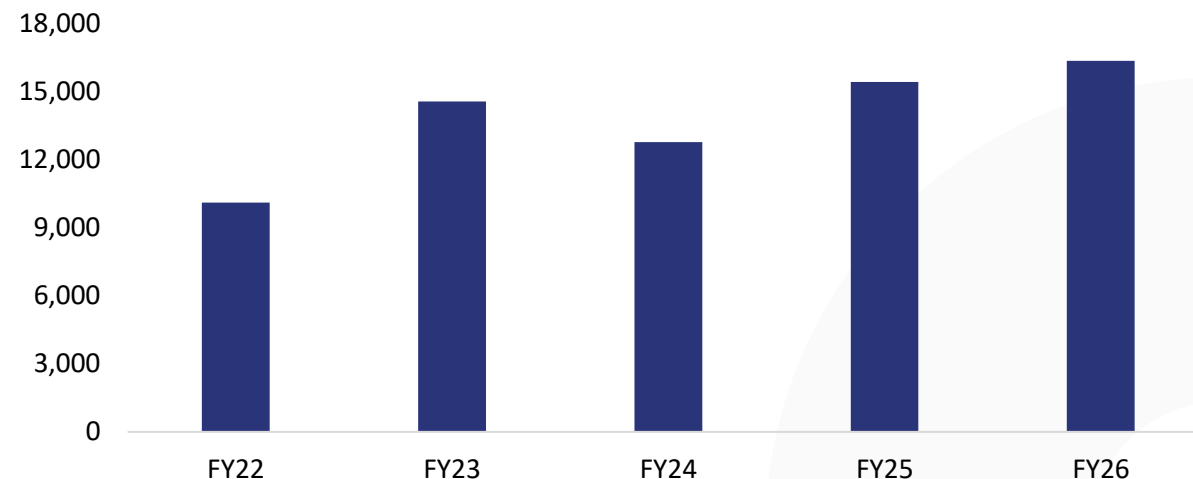
- RBI Governor Mr. Malhotra unveiled key banking reforms in the Oct'25 MPC. ECL framework and revised Basel 3 norms are planned to be effective from Apr'27, with new Basel 3 norms notably easing risk weight requirements for MSMEs and residential real estate lending
- Further, lending limits for LAS have been enhanced, ceiling on lending against listed debt is removed, large borrower framework has been withdrawn and proposed ban on overlap of activities between bank and group entities has been stripped, lending operational freedom and enhancing banks' sources of revenue
- Risk based deposit insurance allows higher rated banks to lower their costs, while new ECB framework rationalizes borrowing limits, maturities and cost of borrowings for SCBs

GST RATIONALIZATION LEADS TO PREMIUM DEFERRALS IN INSURANCE SECTOR

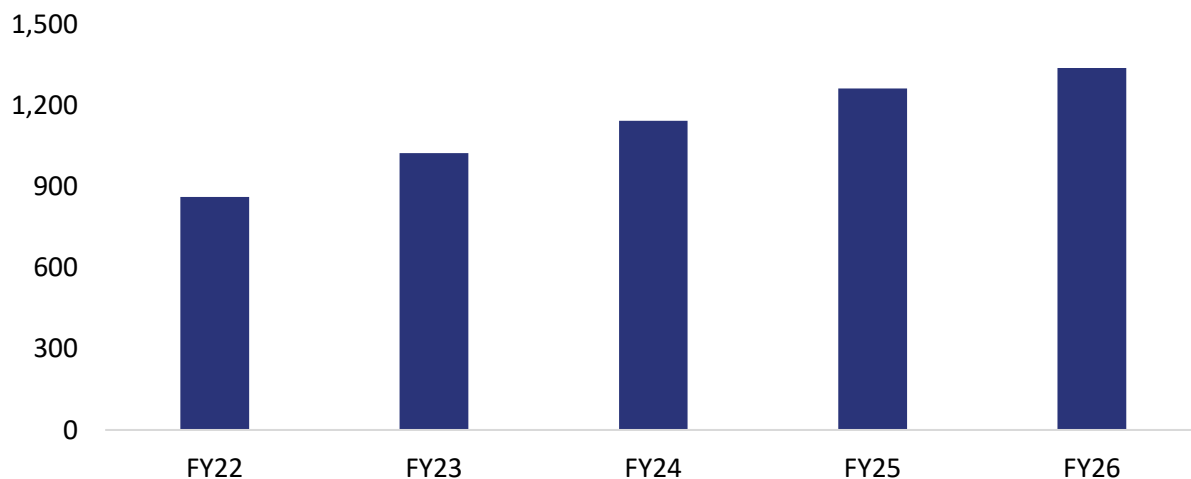
NEW LIFE INSURANCE POLICIES – 5MFY (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE – 5MFY (Rs. bn)



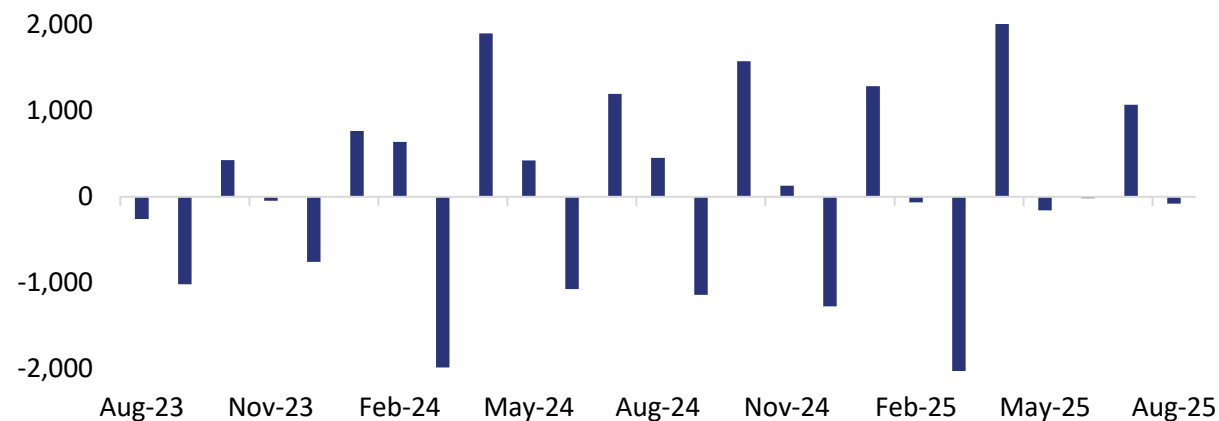
GROSS DIRECT PREMIUM- NON- LIFE INSURANCE – 5MFY (Rs. bn)



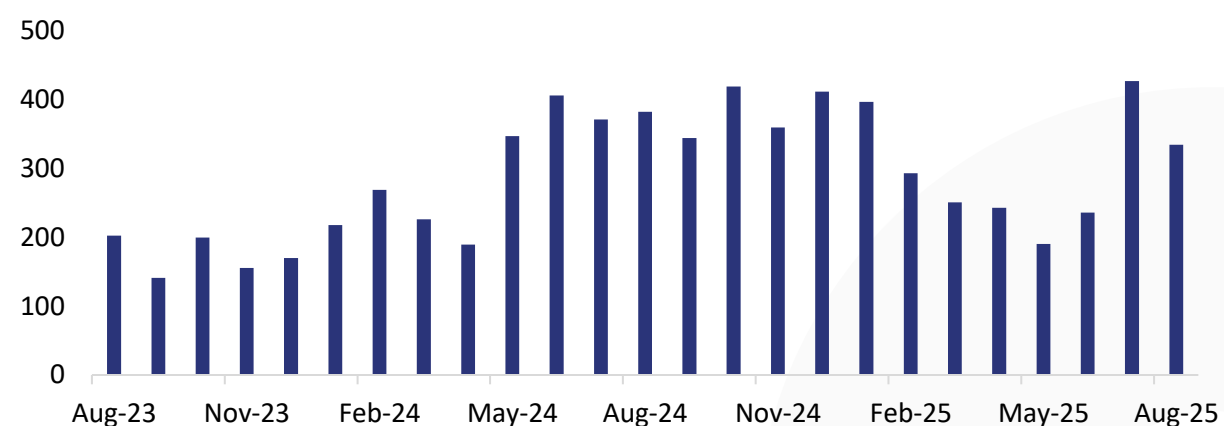
- Life insurance new business premiums dropped 5.2% y/y in Aug'25 to Rs. 309 bn, with strong growth in private sector, offset by steep decline in public sector insurers, mainly owing to group single premiums.
- Non-life insurers' premia rose at a modest pace of 1.6% y/y in Aug'25, driven by GST-based deferrals, slower PV sales and decline in crop insurance. Steady growth in health, fire and engineering has somewhat offset this slowdown.

MF'S EQUITY INFLOW REMAINS STRONG WITH VOLATILITY IN DEBT INFLOW

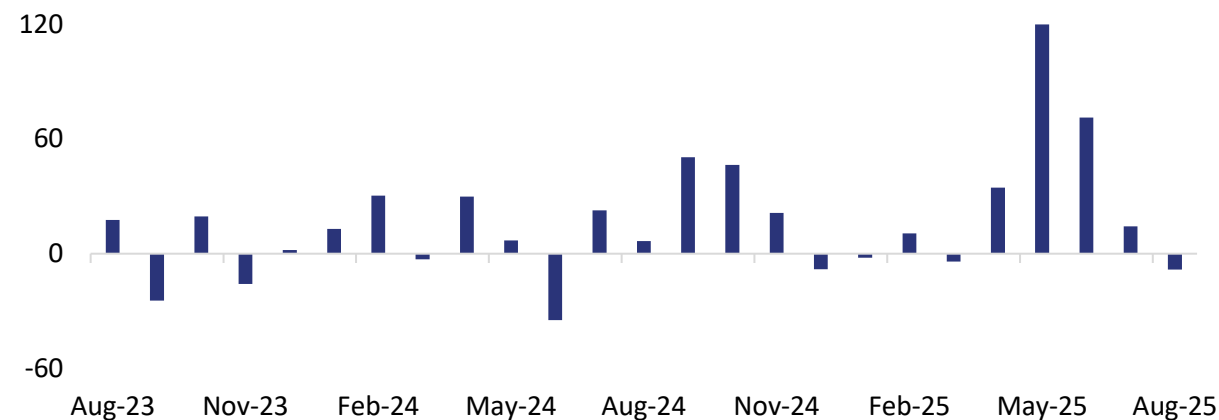
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



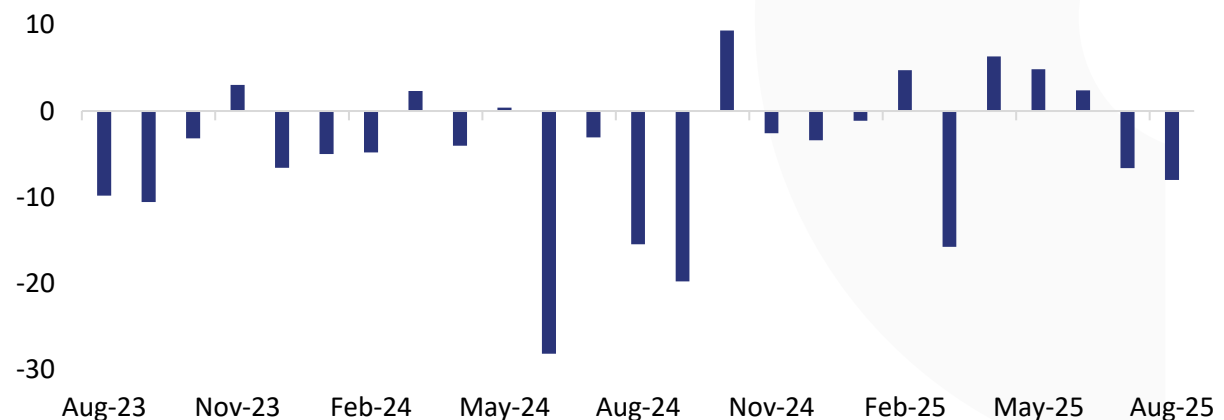
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)



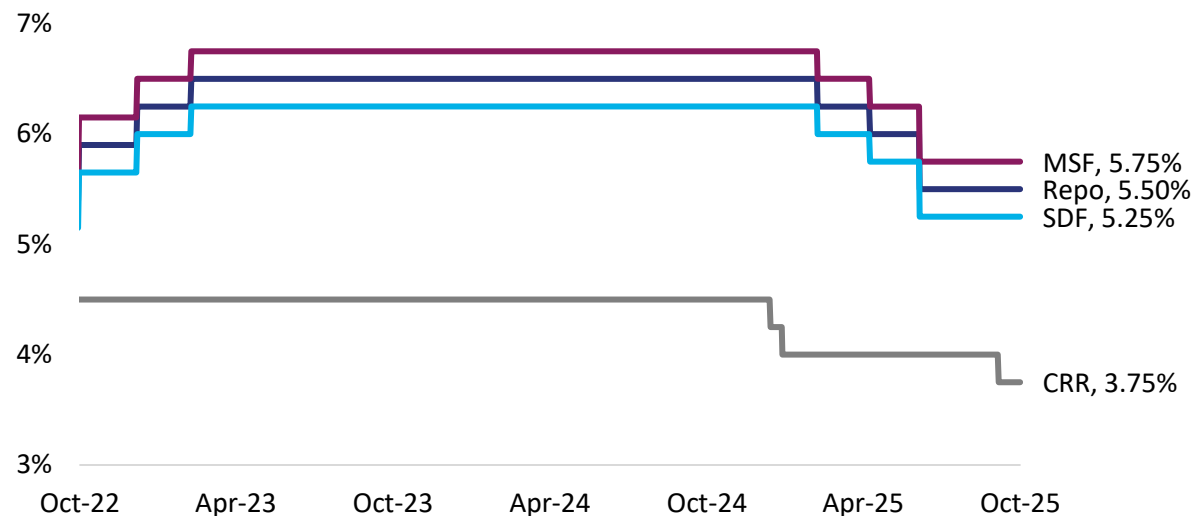
- Higher rates and profit booking in corporate bonds weighed on debt funds outflows. Severe outflows were seen in liquid funds and inflows into lower duration funds tanked
- Equity funds saw inflows, albeit at 22% y/y slower pace, clocking Rs. 334 bn. There was traction in mid- and small- cap funds, with thematic funds seeing another good month
- SEBI has classified REITs as equity instruments, allowing MF managers flexibility to include them in their schemes. Notably, InvITs are still classified as hybrid instruments

MONETARY POLICY AND YIELDS

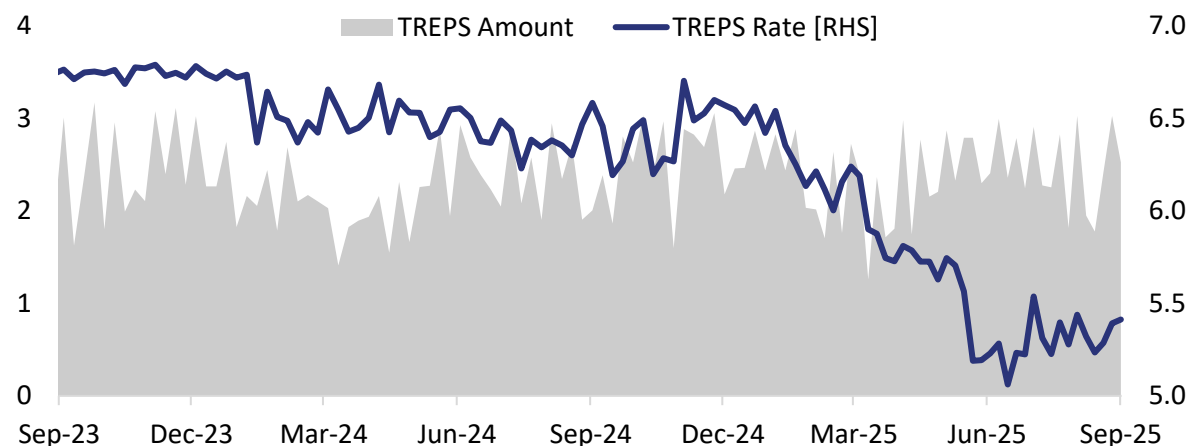


STATUS QUO ON KEY MONETARY POLICY PARAMETERS

KEY RATES (%)



TREPS DAILY AVG VOLUME (Rs. Bn.) AND RATE (%)



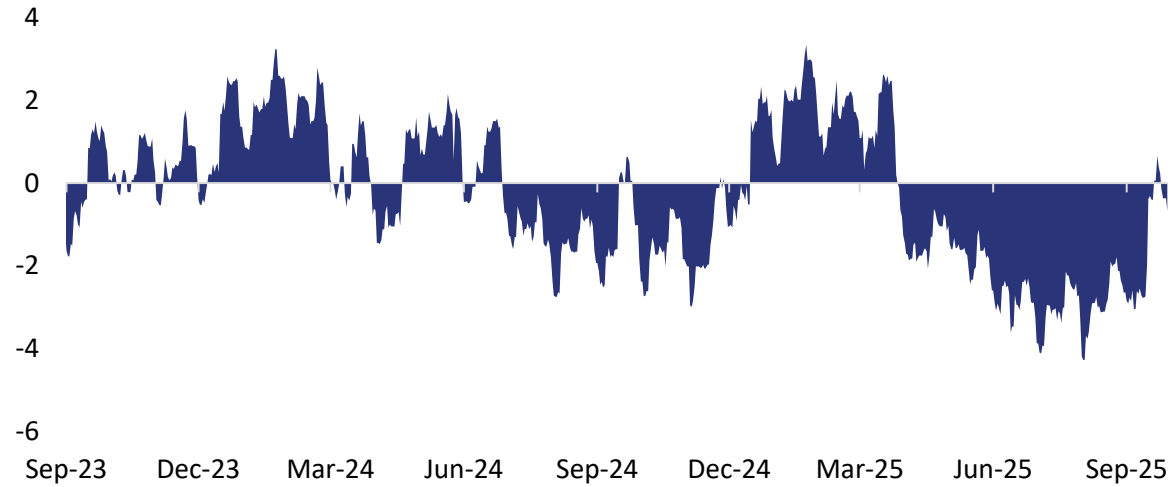
STANCE OF POLICY

DATE	STANCE	VOTE
30-Sep-22	WITHDRAWAL OF ACCOMMODATION	5-1
07-Dec-22	WITHDRAWAL OF ACCOMMODATION	4-2
08-Feb-23		
06-Apr-23	WITHDRAWAL OF ACCOMMODATION	5-1
08-Jun-23		
10-Aug-23		
06-Oct-23		
08-Dec-23		
08-Feb-24		
05-Apr-24		
07-Jun-24	WITHDRAWAL OF ACCOMMODATION	4-2
07-Aug-24		
09-Oct-24	NEUTRAL	6-0
05-Dec-24		
07-Feb-25		
09-Apr-25	ACCOMODATIVE	6-0
06-Jun-25	NEUTRAL	6-0
06-Aug-25		
01-Oct-25	NEUTRAL	4-2

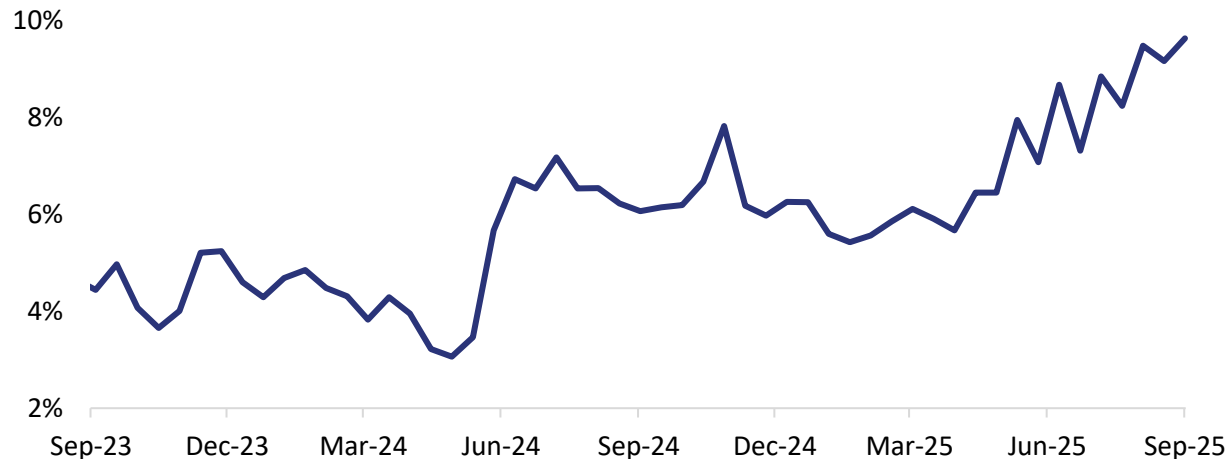
- Repo & associated rates were kept unchanged unanimously. Stance was kept at Neutral by a slimmer majority than last time, indicating changing mood of MPC towards cuts
- We anticipate another ~25bps rate cut in the current cycle, with the timing depending on growth figures in H2

LIQUIDITY SURPLUS FOR MOST OF SEP'25

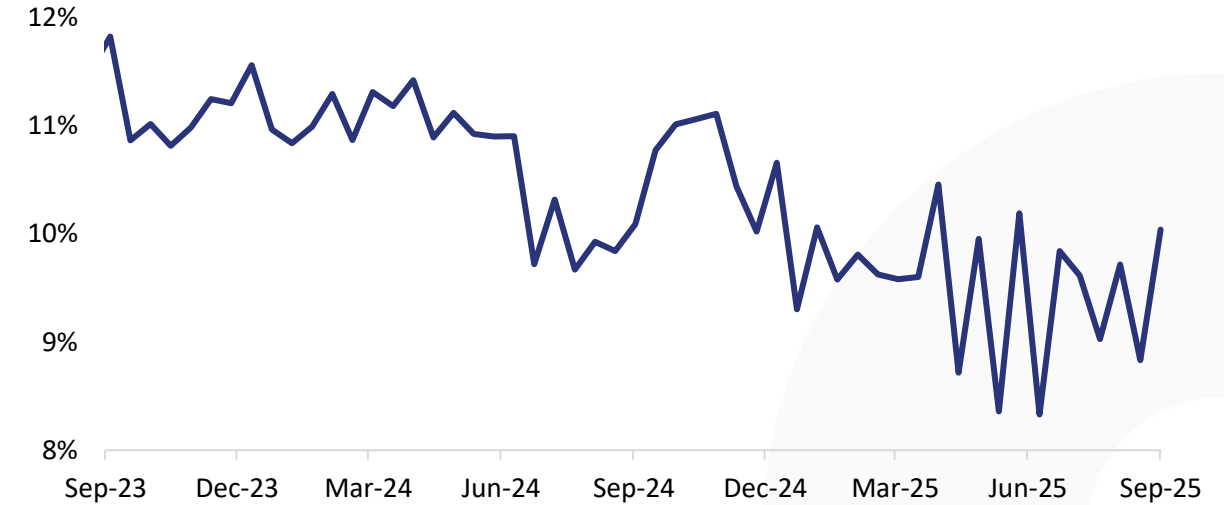
BLOOMBERG INDIA LIQUIDITY INDICATOR* (Rs. trn)



CURRENCY WITH PUBLIC (Y/Y)



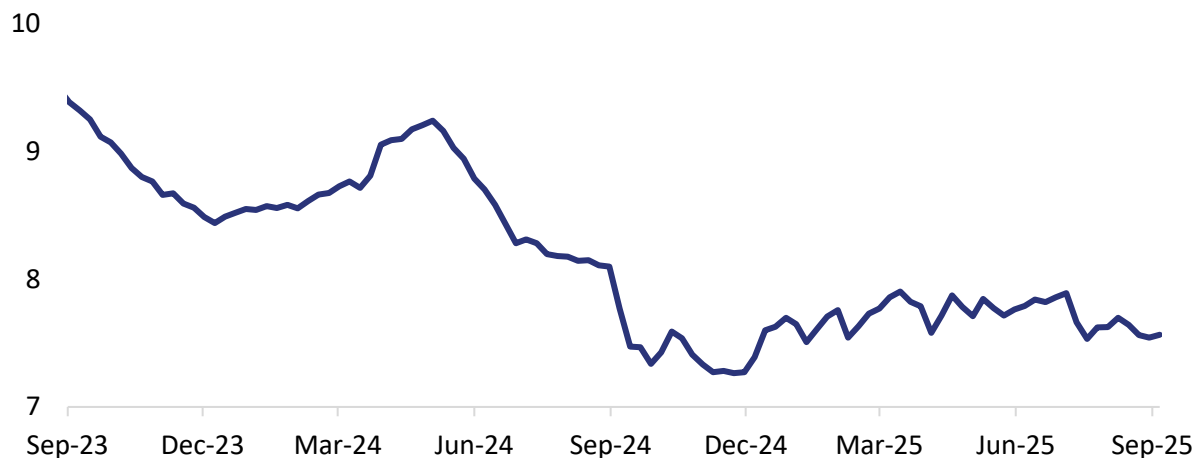
MONEY STOCK M3 (Y/Y)



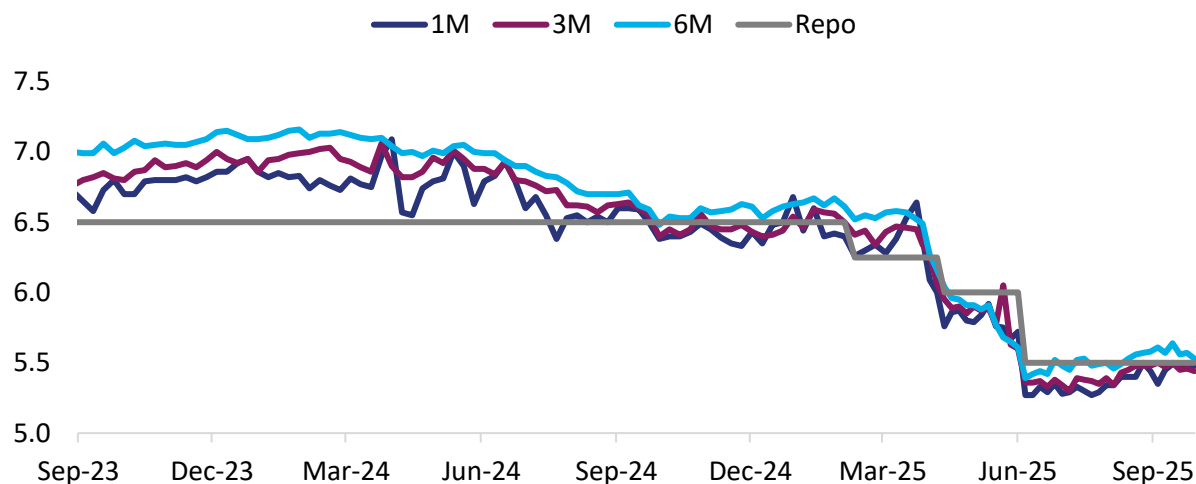
- While liquidity surplus has decreased in the last month as liquidity surplus dwindled sharply in mid-Sep'25 driven by copious tax outflows, with buoyant GST collections coupled with advance tax payments

CORPORATES ACTIVELY TAP CP MARKET

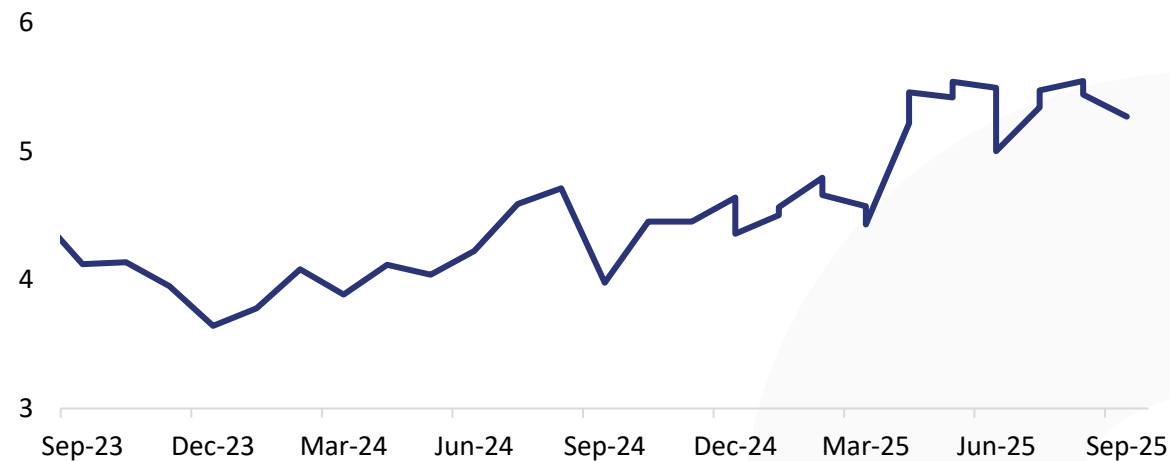
T-BILL OUTSTANDING (Rs. trn)



T-BILL SECONDARY YIELDS & REPO (%)



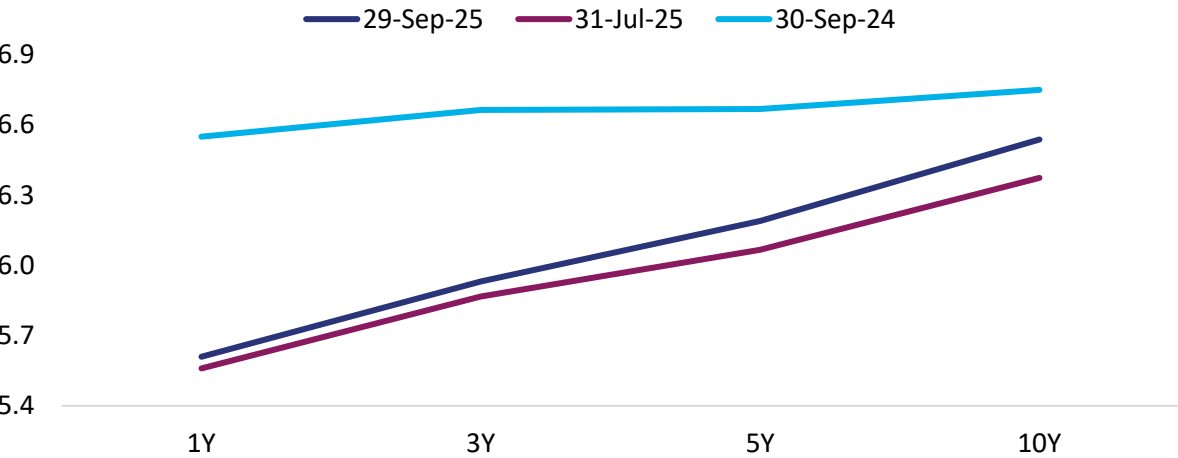
COMMERCIAL PAPER OUTSTANDING (Rs. trn)



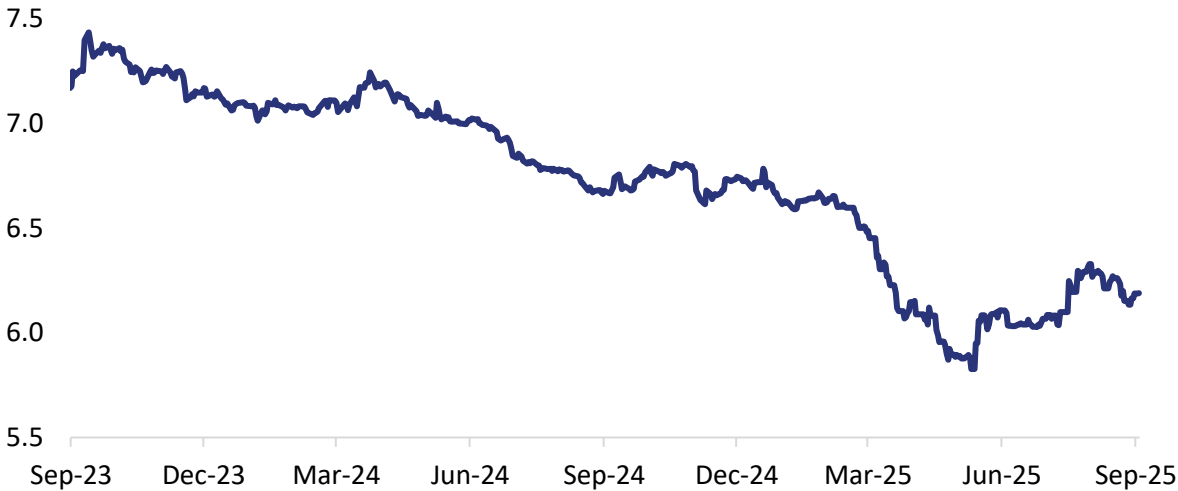
- T-Bill yields have ascended, with significant steepening across tenors, as expectations of rate cuts in Oct'25 dwindled. 91-day T-Bill and lower tenors continue to skip on sides of the repo rate.
- Falling yields and plush liquidity led to robust CP issuances in 1st half of Sep'25. Outstanding CPs later plummeted as liquidity was withdrawn, with large number of maturing CPs

UNION G-SEC YIELDS HAVE INCREASED IN RECENT TIMES

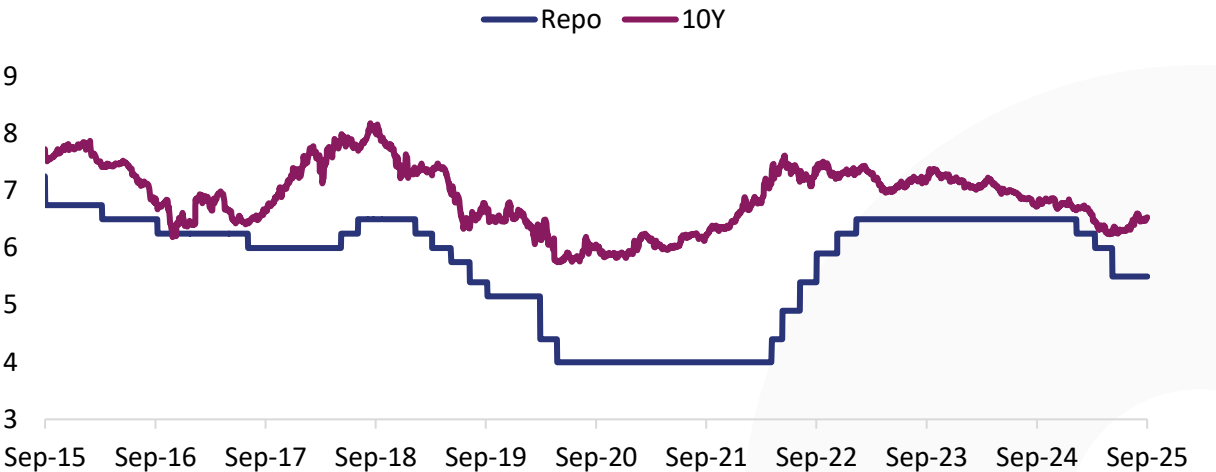
YIELD CURVE (%)



G-SEC YIELD (5 YEARS) (%)



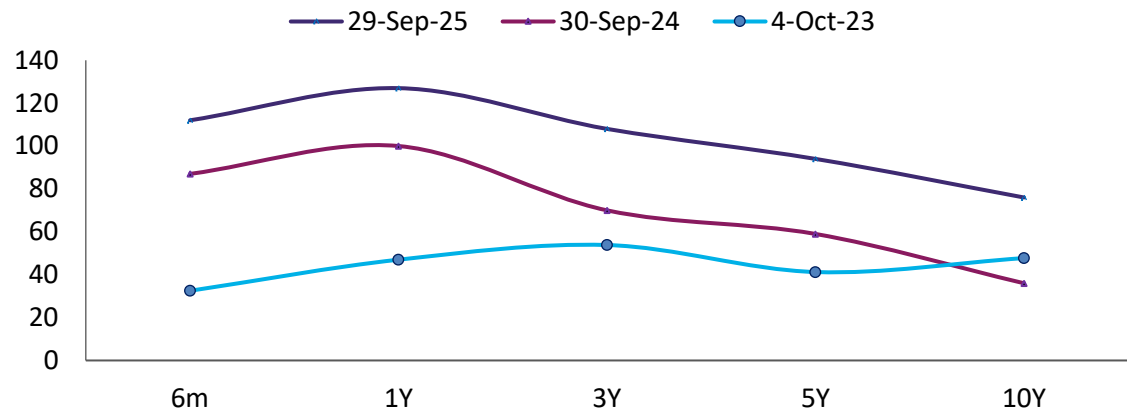
UNION G-SEC YIELD (10 YEARS) VS REPO (%)



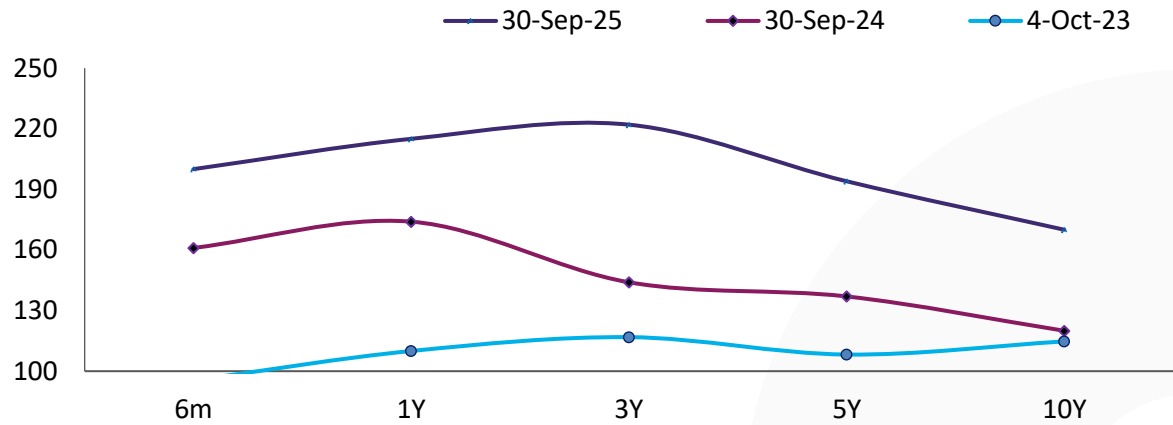
- Union G-sec yields have increased since last MPC (Aug'25) owing to slimmer liquidity combined with lower chance of rate cuts as per the market
- *Broader outlook remains sensitive to currency volatility and the RBI's operations. We expect 10Y Union G-sec to remain at 6.50% ± 0.25%*

OIS RATES REMAIN NEAR REPO

FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



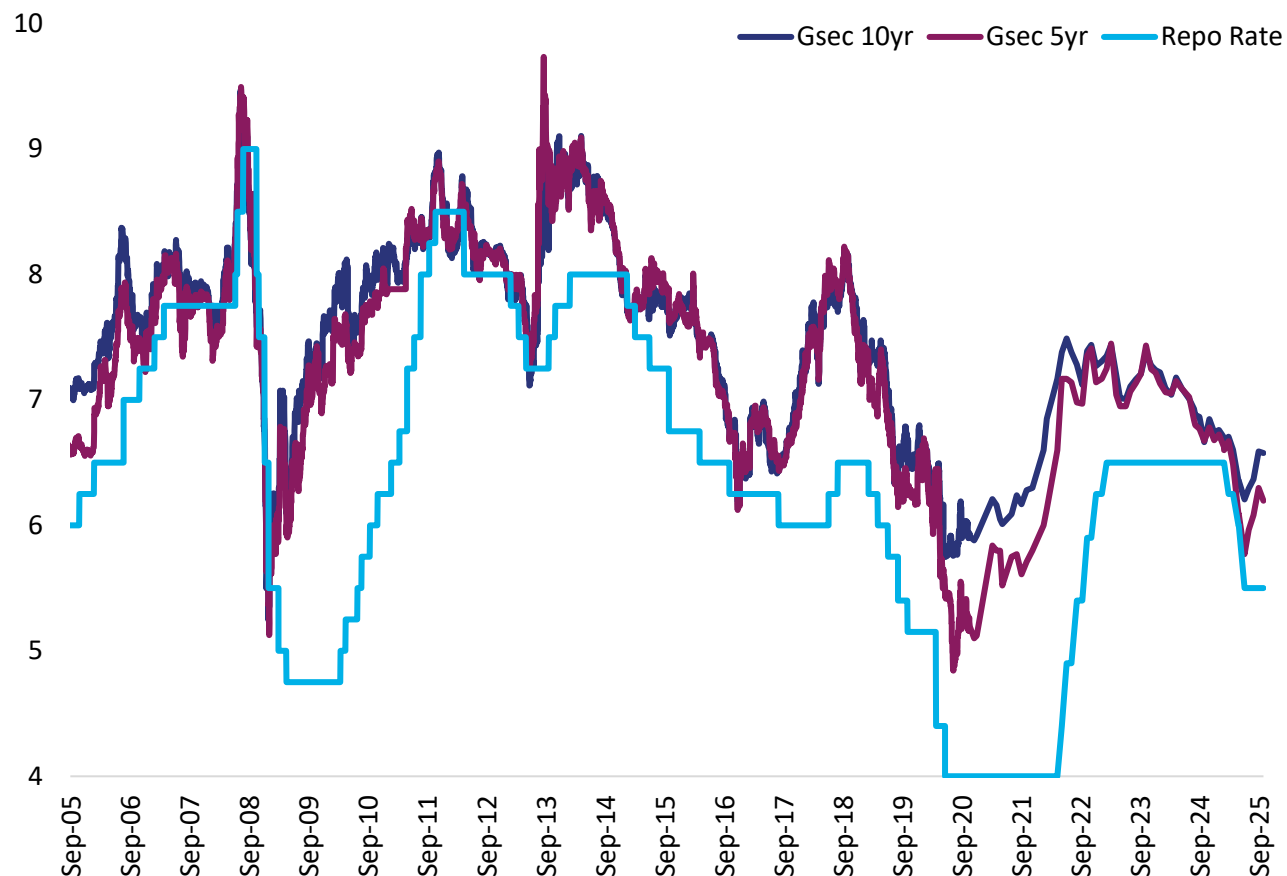
OIS 5 -YEAR (%)



- 1Y OIS rates have been steadily inching downwards, past the repo rate, as markets assess room for further rate cuts. Steady 5Y OIS indicate anchored expectations for long-term WACR.
- Corporate spreads have compressed in Sep'25, especially in the higher tenors and up the credit spectrum, as revival of institutional demand and availability of high quality papers boost bond markets. SGS spreads too are relieved, with banks shunning incremental G-Sec ownership for SGS

OUTLOOK ON G-SEC YIELDS

KEY RATES (%)



- We expect headline inflation (CPI) to be around RBI's projection in FY26 with evenly balanced risks
- We expect general government (Union + State) fiscal deficit ~7.1% of GDP in FY26

YIELD OUTLOOK

We expect 10Y G-Sec yields to remain $\sim 6.50\% \pm 25\text{bps}$ in the coming months

Below are the upside and downside risks to our yield outlook:

Yield softening triggers

- Inclusion in global bond indices
- Liquidity surplus
- Softening in commodity prices due to global slowdown

Yield hardening triggers

- Higher CPI print than estimate
- Higher crude price- impact on fiscal position and inflation
- Higher government borrowing
- Currency volatility as seen in CY13 and CY18

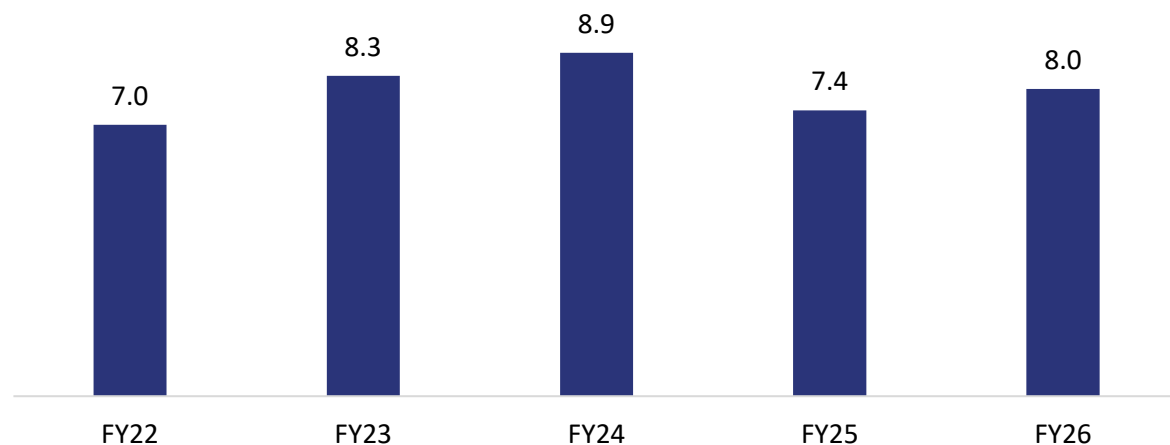


CAPITAL MARKETS

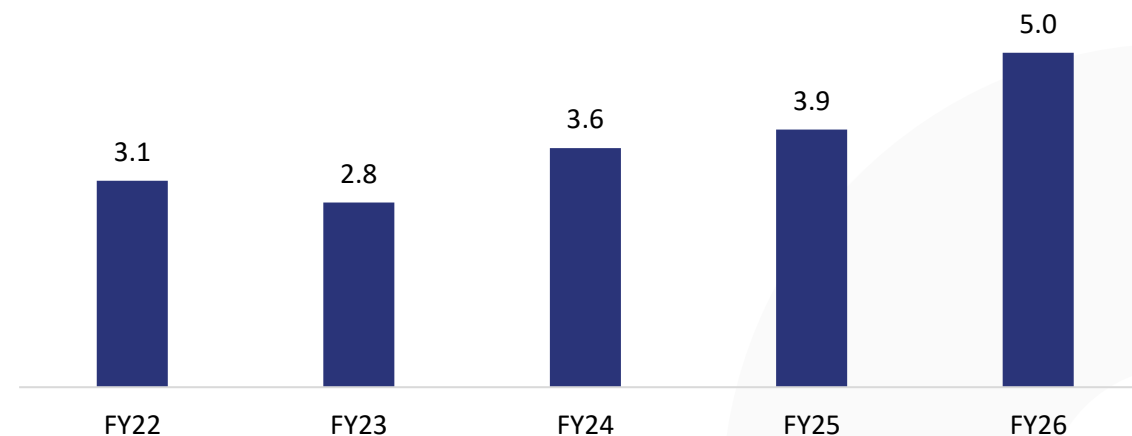


STATES RAMP UP BORROWINGS AS REVENUE GROWTH TO BE MUTED

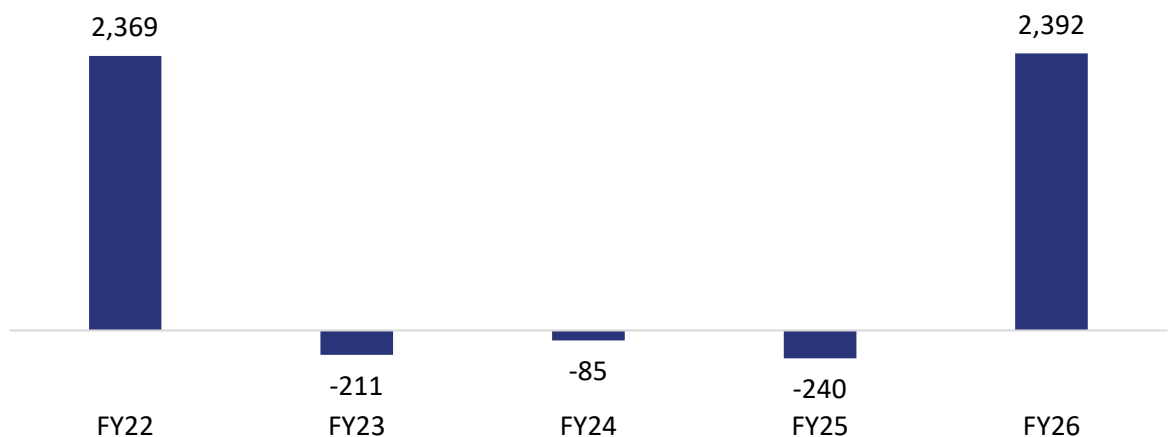
G-SEC: GROSS AMOUNT RAISED (Rs. trn) – H1FY



SGS BIDS ACCEPTED (Rs. trn) – H1FY



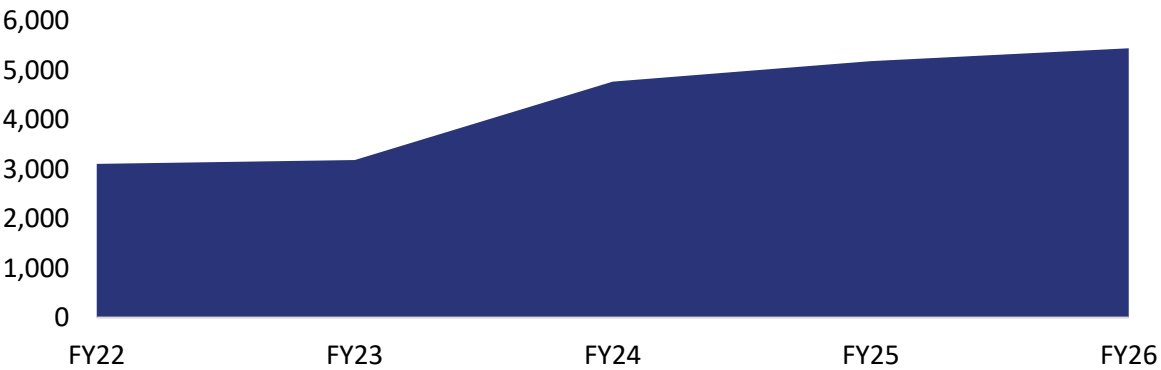
CUMULATIVE NET OMO PURCHASES (Rs. bn) – H1FY



- G-Sec issuances were in-line with indicative, with yields settling down ~15 bps m/m for similar tenors. Indicative calendar for H2FY26 reveals a proliferation of 10Y securities and lower, while curbing long tenor papers, adjusting to market demand.
- SGS issuances rose 25% y/y in Q2FY26, with Maharashtra, Tamil Nadu and Telangana being the largest borrowers. Notably, Bihar and Madhya Pradesh more than doubled their issuances with exacerbated capex commitments

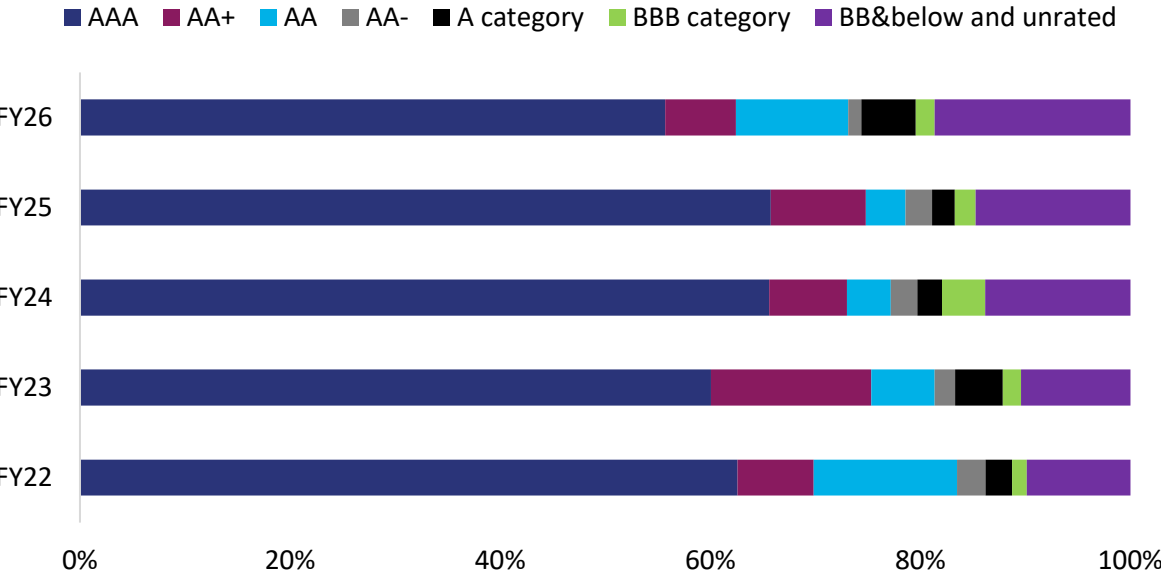
INCREASING SHARE OF BELOW AA RATED ISSUANCES IN CORPORATE BONDS

GROSS PRIVATE PLACEMENTS – H1FY (Rs. bn)

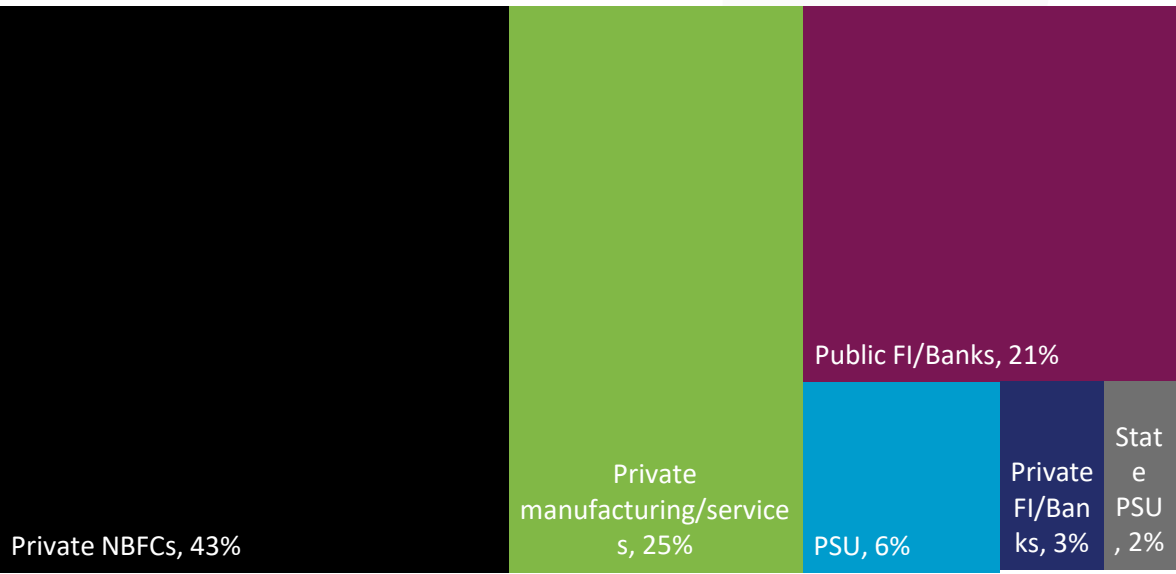


- Gross issuances rose ~35% m/m in Sep’25, amidst abundant liquidity and demand from institutions
- Notable issuers in Sep’25 include infrastructure firms, hospitals and manufacturing companies garnering ~46% share, aiming to secure long-term fixed cost financing
- Short dated issuances were muted, mainly from NBFCs. Notably, share of AAA rated papers in Sep’25 is lowest since May’14, as FPI and wealth managers chase higher yields

GROSS ISSUANCE WITH RATING SPLIT – H1FY (%)

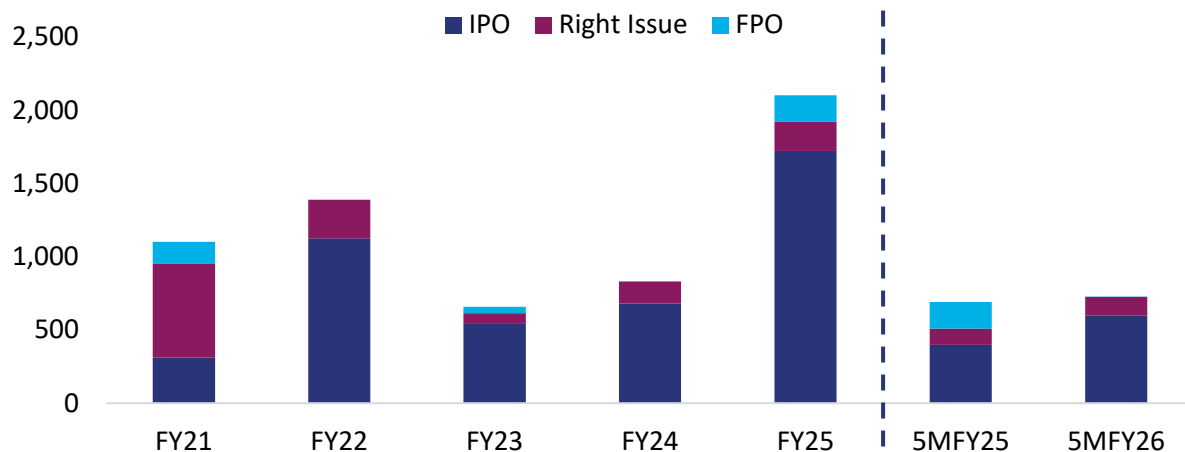


ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- H1FY26



SLEW OF IPO LINED UP FOR THE EQUITY MARKETS

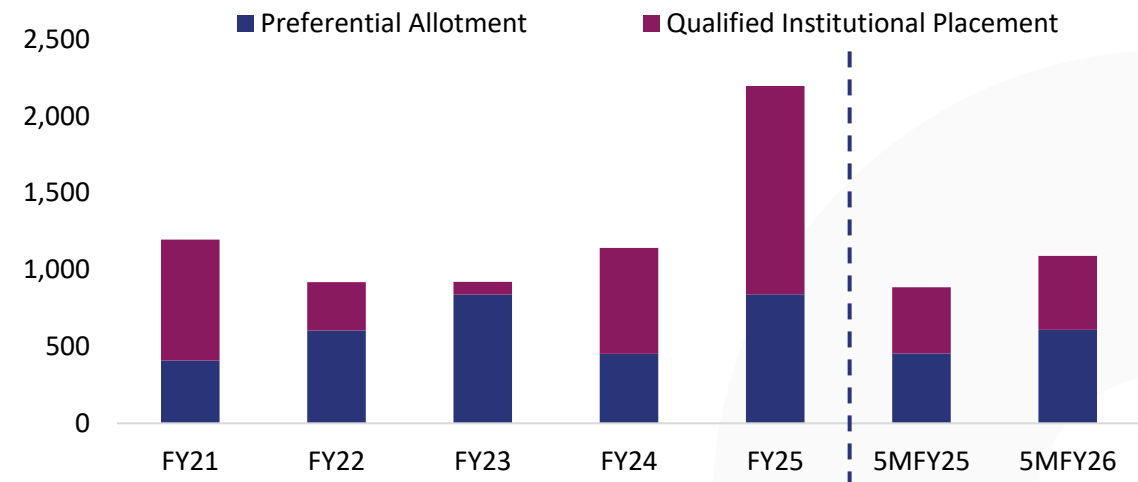
EQUITY MOBILISATION THROUGH PRIMARY MARKETS - PUBLIC AND RIGHTS ISSUE (Rs. Bn)



EQUITY CAPITAL RAISED - PUBLIC AND RIGHTS ISSUE (Rs. bn)

SECTOR	FY25	5MFY26
Financial Services	239.6	222.7
Capital Goods	181.3	98.8
Consumer Services	287.0	75.1
Automobile and Auto Components	366.6	54.4
Construction Materials	4.0	41.0
Healthcare	148.2	39.0
TOTAL	2,101.9	727.7

EQUITY MOBILISATION THROUGH PRIMARY MARKETS – PRIVATE (Rs bn)



- Equity Primary market has picked up in Q2 after a dull Q1. Record DRHP filings and potential IPO list in coming months indicates FY26 IPO issuance to remain buoyant as was in FY25
- IPO pipeline remains robust, with several household names of Fintech sector joining the bandwagon and a big financial conglomerate eyeing to cement its capital position
- Preferential allotments too gathered further pace in Sep'25, with large issuances from a housing focused NBFC and a real estate player.

GLOBAL SNAPSHOT



GOLD PRICE SOARS AS UNCERTAINTY GOES

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	3.3%	1.0%
Copper	4.1%	5.5%
Aluminium	2.5%	2.6%
Iron Ore 62% Fe*	1.8%	10.4%
Gold	11.1%	45.0%
Brent Crude	-2.9%	-10.0%
Natural Gas	11.6%	15.5%
Newcastle Coal	-4.8%	-26.8%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXI Index	0.0%	-3.3%
USD/EUR	-0.3%	-5.8%
USD/JPY	0.5%	3.0%
USD/GBP	0.7%	-1.2%
USD/CNY	-0.2%	1.5%
USD/INR	0.6%	5.9%

Note: Positive numbers indicate strengthening USD

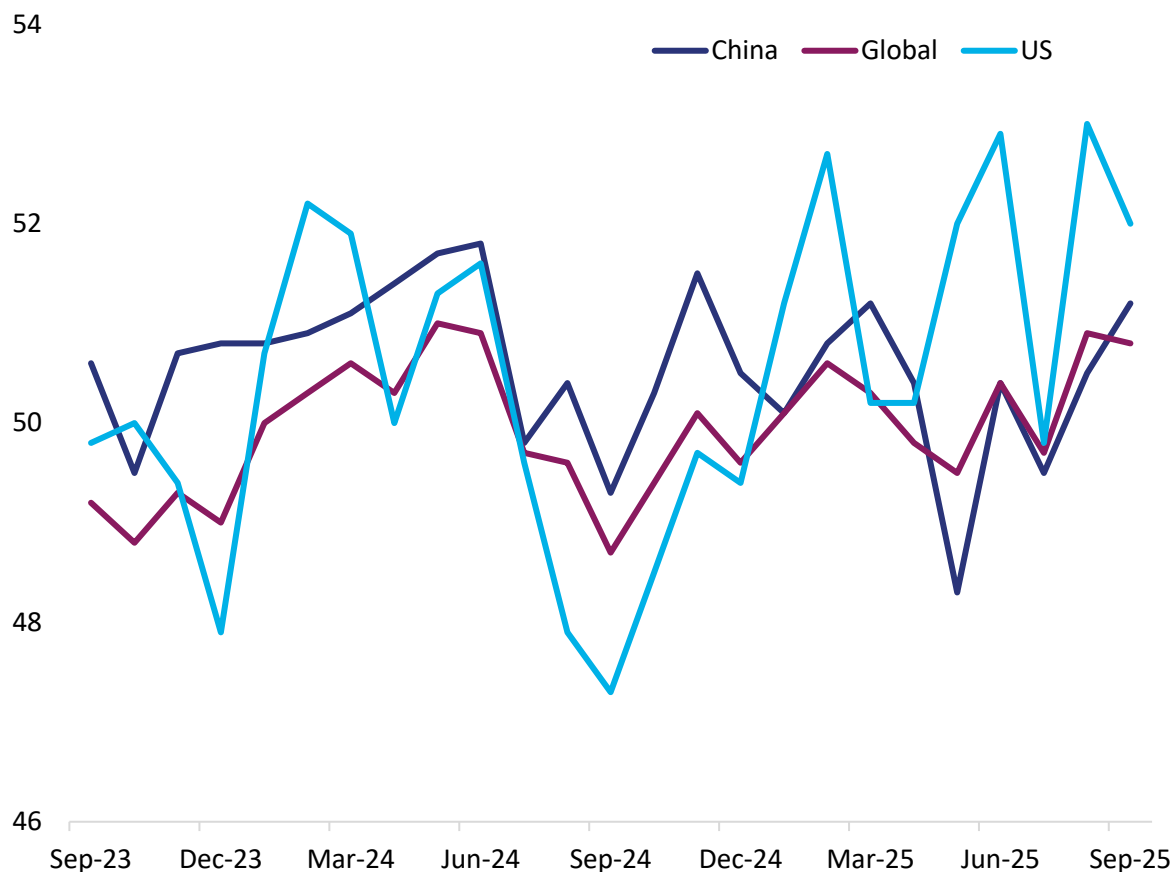
EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	3.5%	17.2%
Nikkei 225	5.5%	15.1%
STOXX Europe 600	1.2%	7.2%
FTSE 100	1.7%	13.0%
BSE Sensex 30	0.0%	-4.6%
Hang Seng	5.3%	19.7%
IBOV	3.5%	10.4%

- Gold marked its strongest monthly surge in over 5 decades, with early Sep'25 volatility boosting safe-haven bids, with government shutdown prolonging the misery
- USD continued to strengthen against INR. This is despite USD remaining flat against other currencies in Sep'25
- Equity rallies were broad-based, surmounting walls of worry, with rate cuts, trade deals and AI momentum driving markets, amidst supply chain recoveries in West Asia

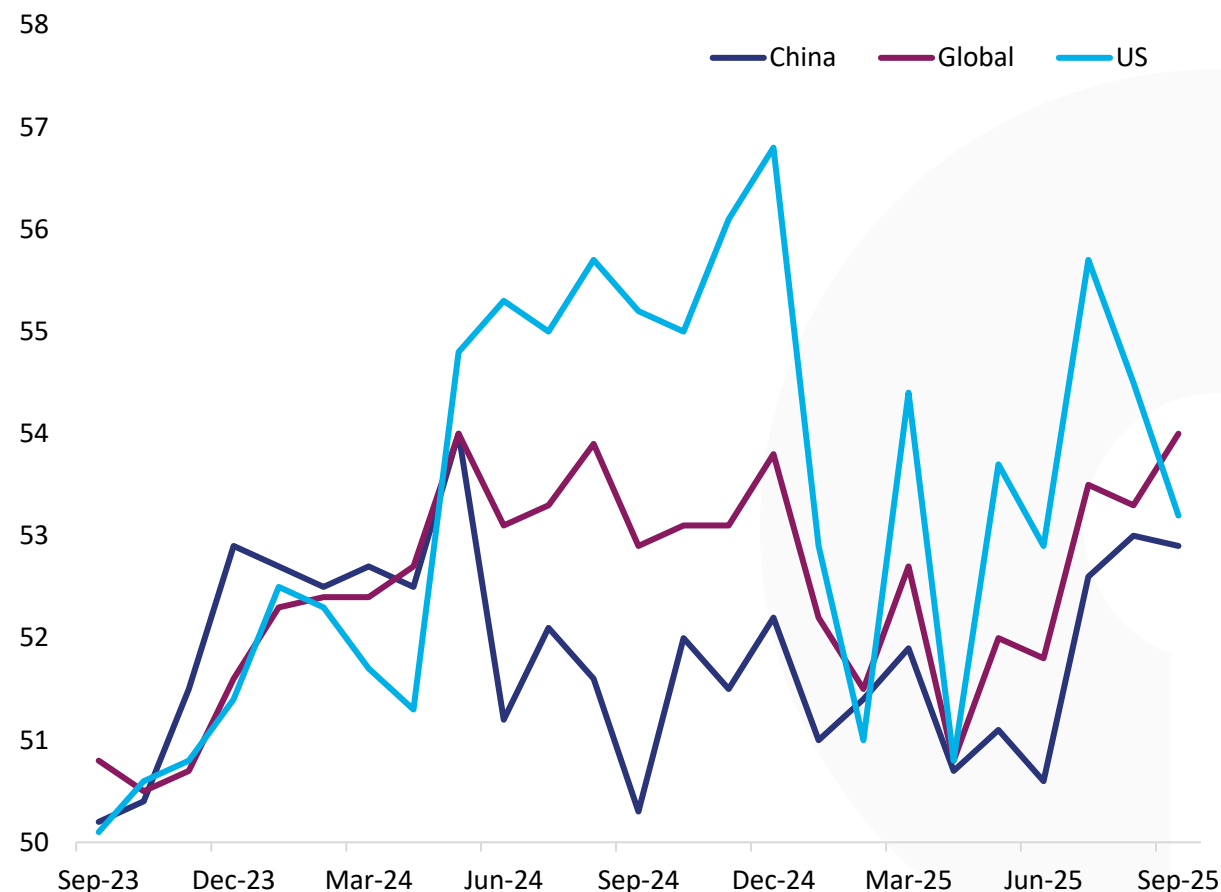
1Y & 1M change are as of 01 Oct'25, * CFR China

TARIFFS IMPACT ON GROWTH MOMENTUM YET TO BE FELT

GLOBAL PMI- MANUFACTURING



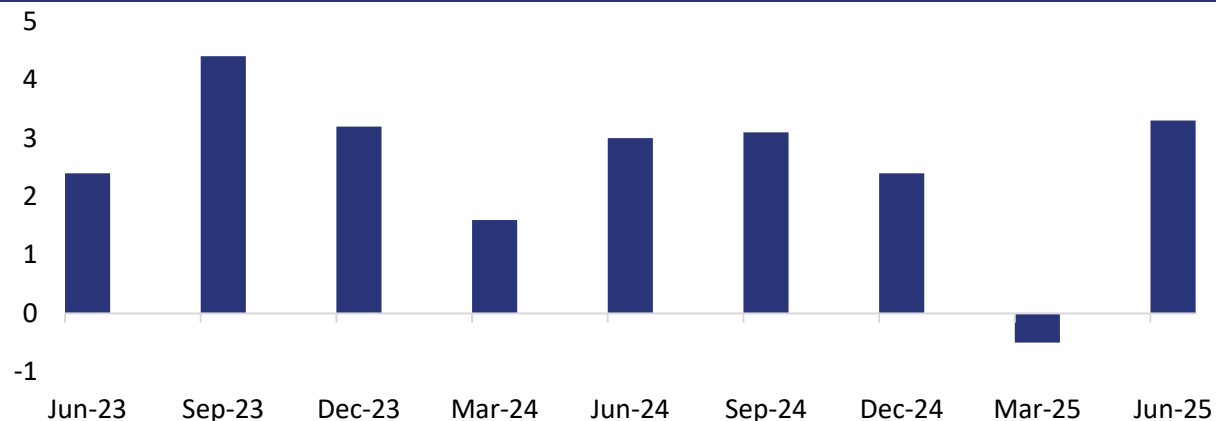
GLOBAL PMI- SERVICES



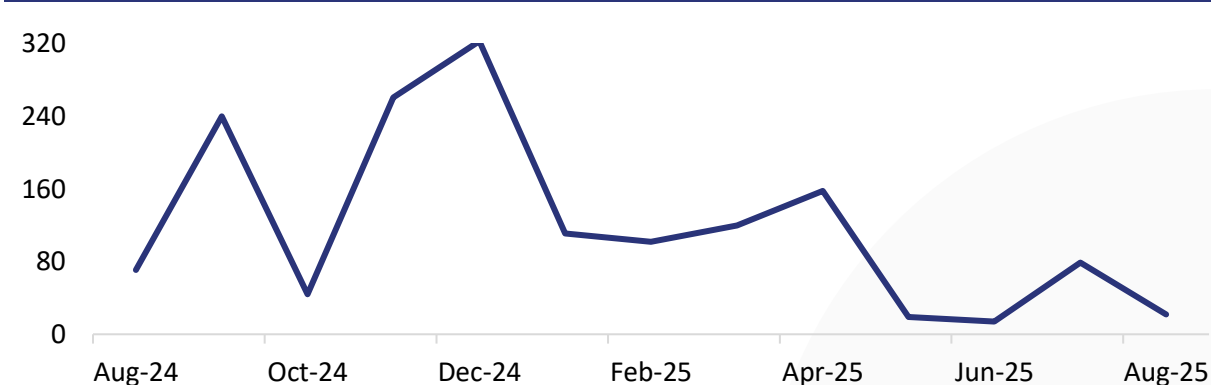
- Global manufacturing PMI remains expansionary in Sep'25, with consistent rise in output and new orders, while exports faded again due to tariff uncertainty. US manufacturing signaled solid yet slower improvements with tariffs reportedly the dominant factor pushing output prices. Eurozone manufacturing contracted, but China and India supported global growth
- Global Composite PMI pared back from a highs, signalling a softening growth impetus. Services traction was seen in financial and consumer services, with tariffs raising operating costs.

STRONG US ECONOMIC PERFORMANCE MUDDLED WITH WEAK INDICATORS

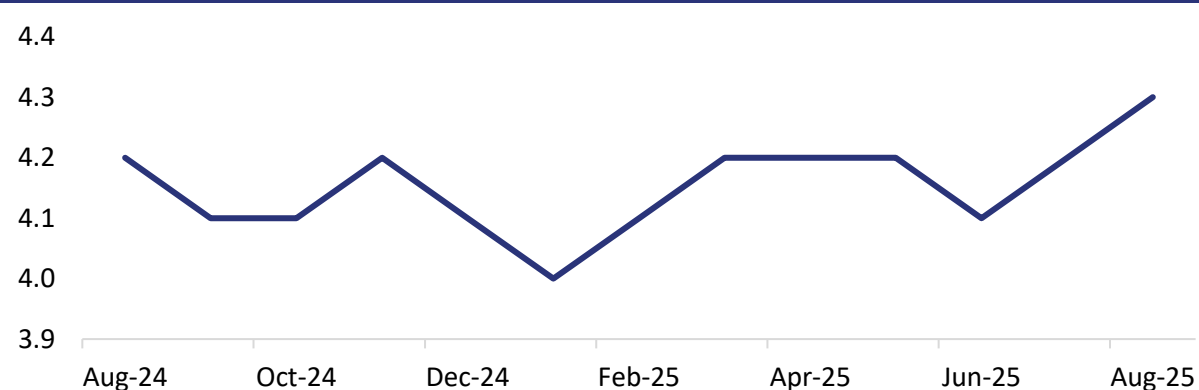
US REAL GDP GROWTH (% Q/Q SAAR)



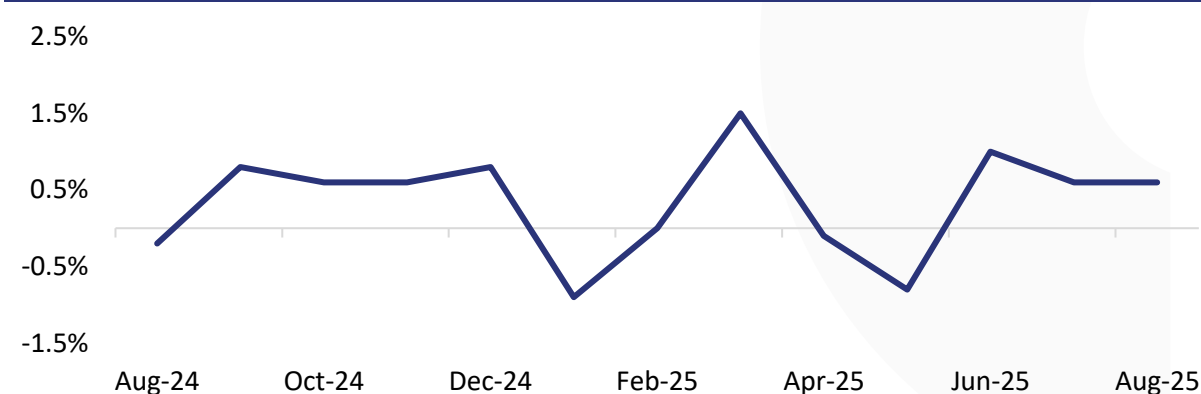
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



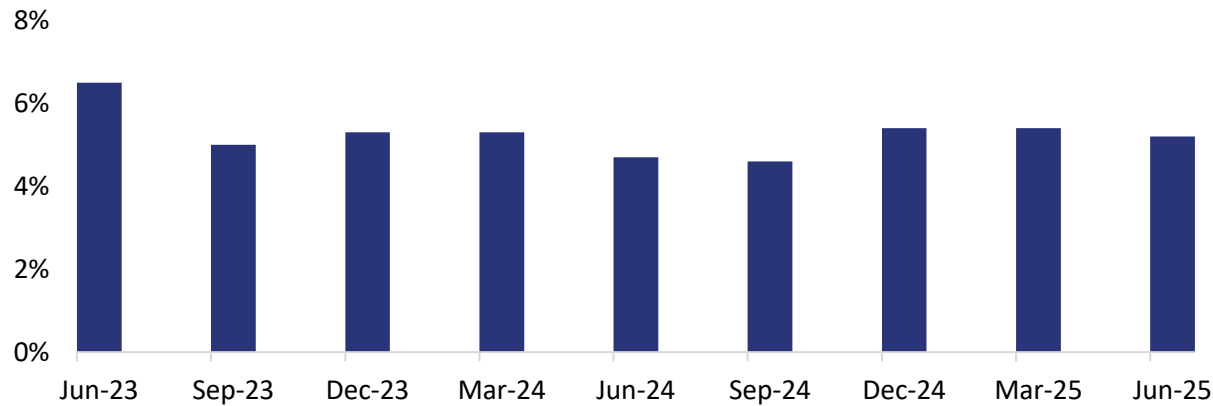
RETAIL SALES (M/M)



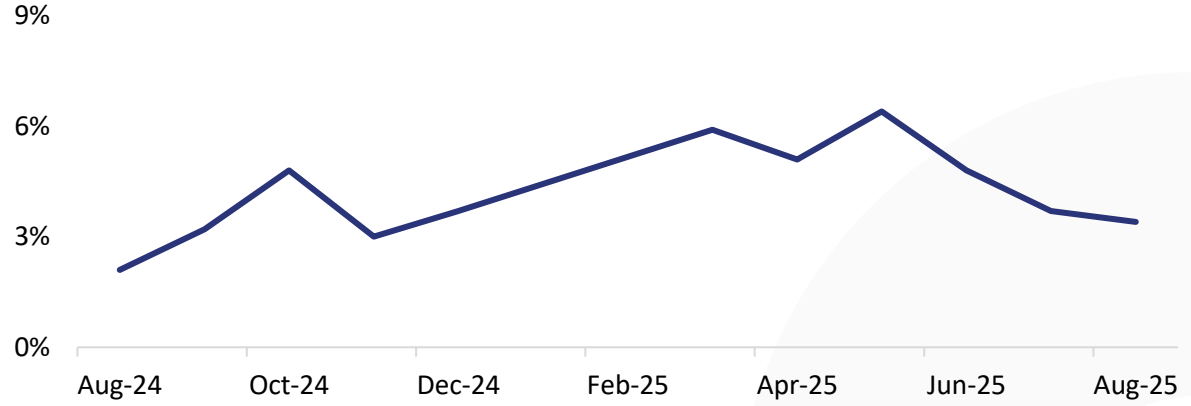
- US GDP rose 3.8% q/q saar in Q2CY25 (Q1: -0.5% q/q saar), upward revised 0.5pp. Consumption grew 2.5% q/q saar (+0.9pp), while 30% q/q saar drop in imports helped add 5pp to growth. Consumer spending exceeded expectations despite anxiety over tariffs, with retail sales rising 0.6% m/m.
- Annual revisions to the US non-farm payrolls indicated that US added 911k fewer jobs in 12-months ending Mar'25, its largest downward revision in nearly 3 decades, halving average monthly pace of additions to 70k, with notable losses in retail and manufacturing. US government shutdown has threatened to further complicate the cracks in the labour markets.

MIXED ECONOMIC SIGNALS IN CHINA

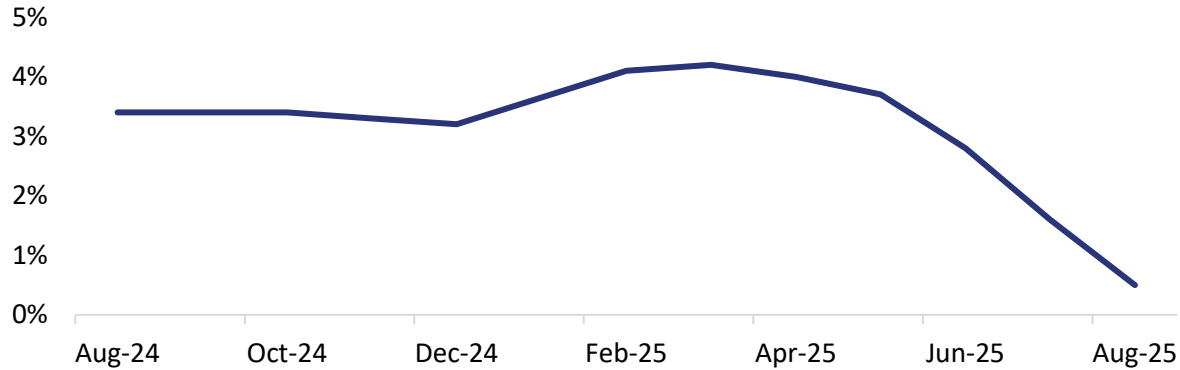
CHINA REAL GDP GROWTH (% Y/Y)



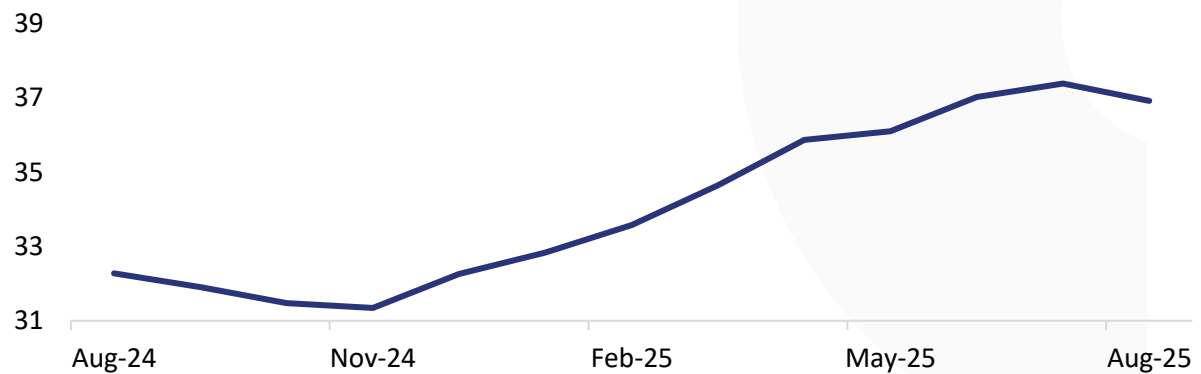
RETAIL SALES (% Y/Y)



FIXED ASSET INVESTMENT (% Y/Y)



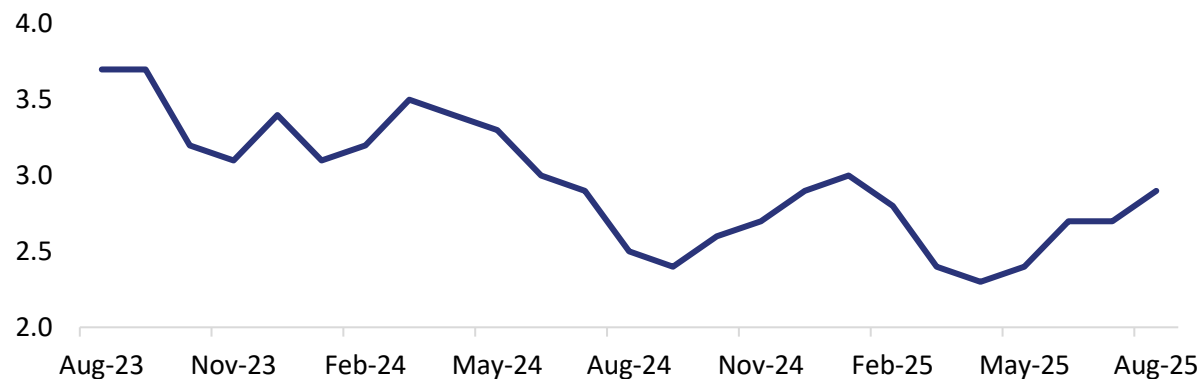
AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



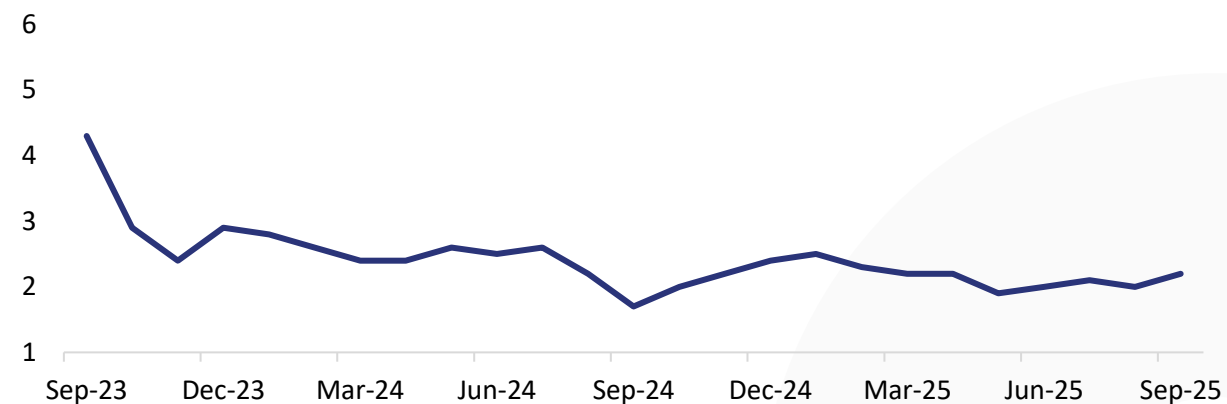
- In Aug'25, industrial output slipped to worst in 12 months, while housing slump exacerbated fixed asset investment slowdown. Retail sales inched downwards due to persistently weak domestic demand, with festive spending boosting expectations for Sep'25. Outstanding CNY loans rose 6.8% y/y in Aug'25, at record low pace
- Notably, industrial profits rose 20.4% y/y in Aug'25 as policymakers cracked down on cost competitions in key sectors like autos, solar and steel

TARIFF-LED INFLATION IMPACTS YET TO CRYSTALLISE

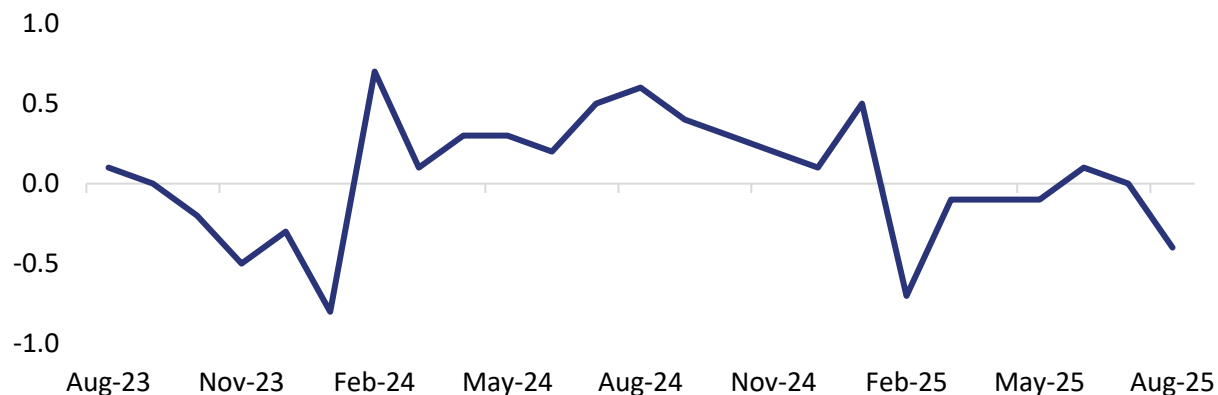
US CPI (% Y/Y)



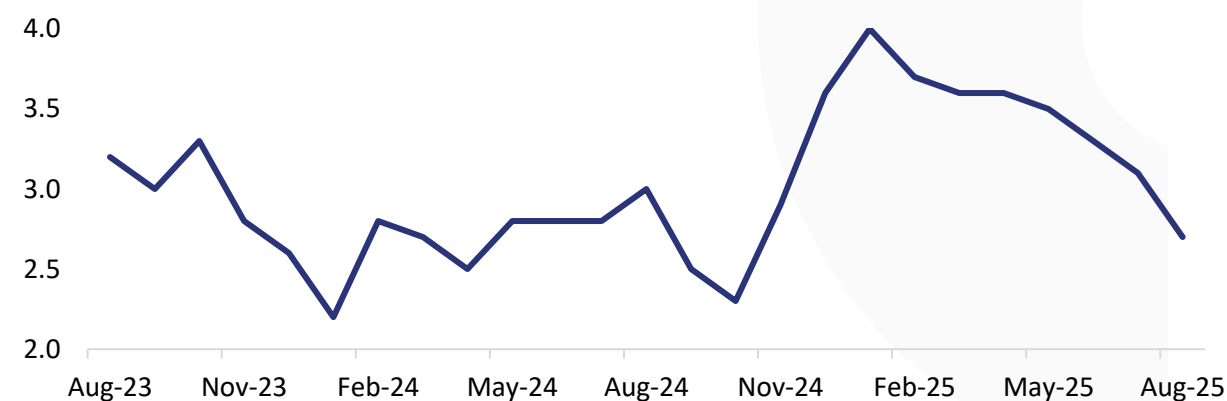
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



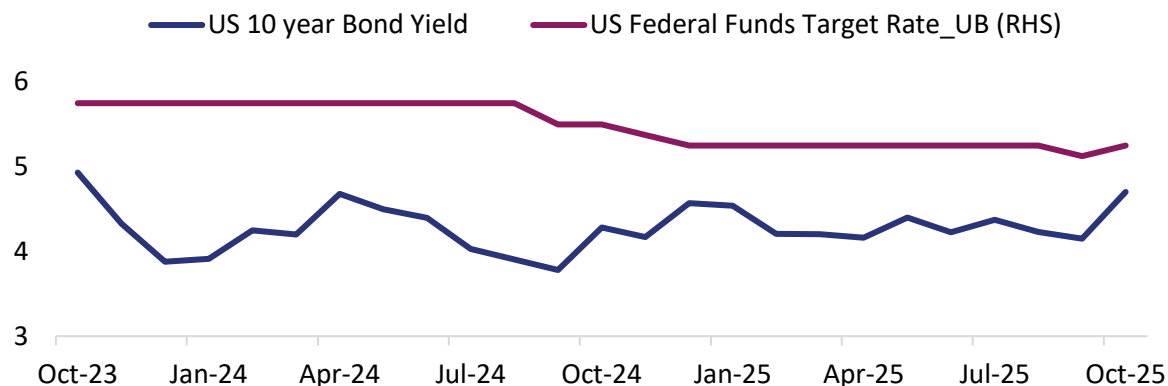
JAPAN CPI (% Y/Y)



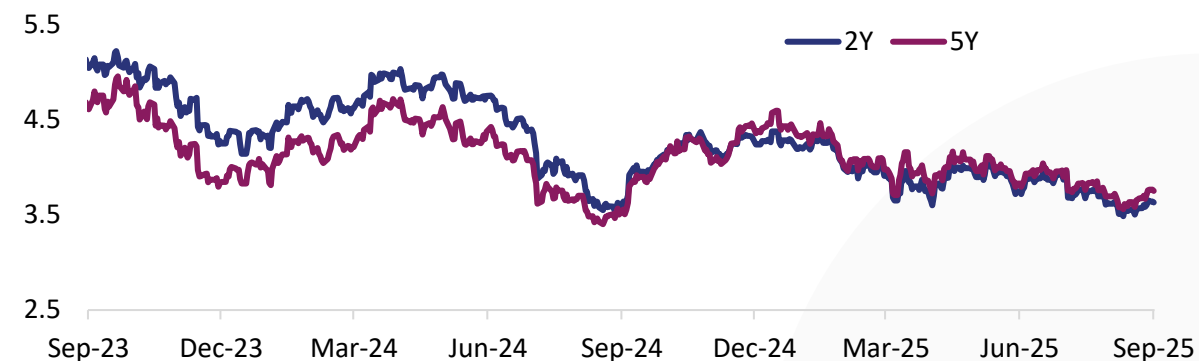
- US inflation rose to 9-month high in Aug'25, with services led hike in core inflation offset by subdued energy prices, with tariffs raising input costs across the board.
- Chinese prices remain in deflation on weak domestic demand, dipping food prices, and high base. CPI fell more than expected with pork process tanking

SOURING LABOUR MARKET DATA FORCES FED INTO A RATE CUT

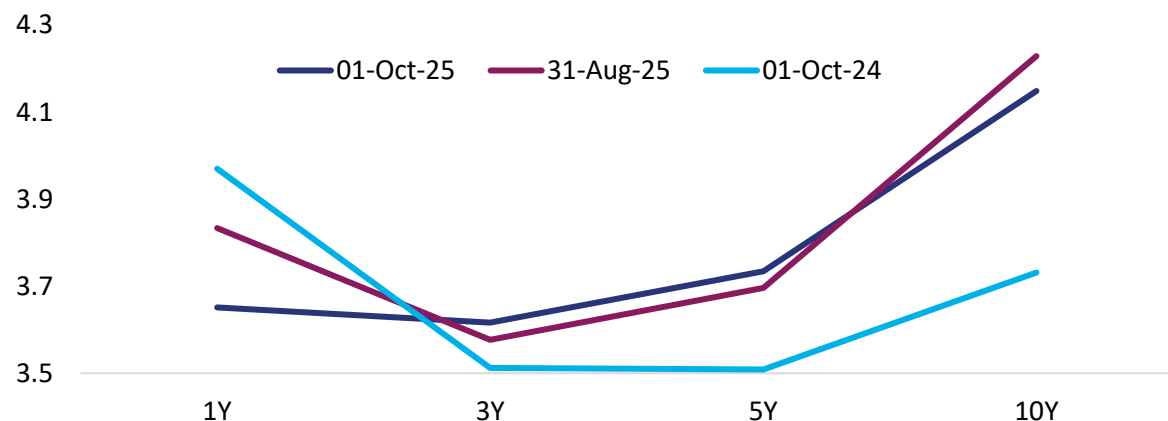
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



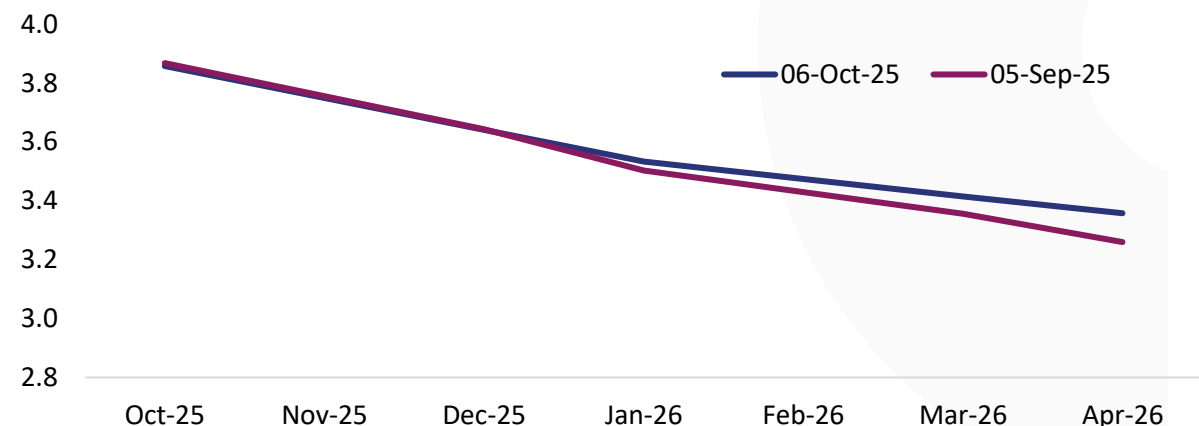
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



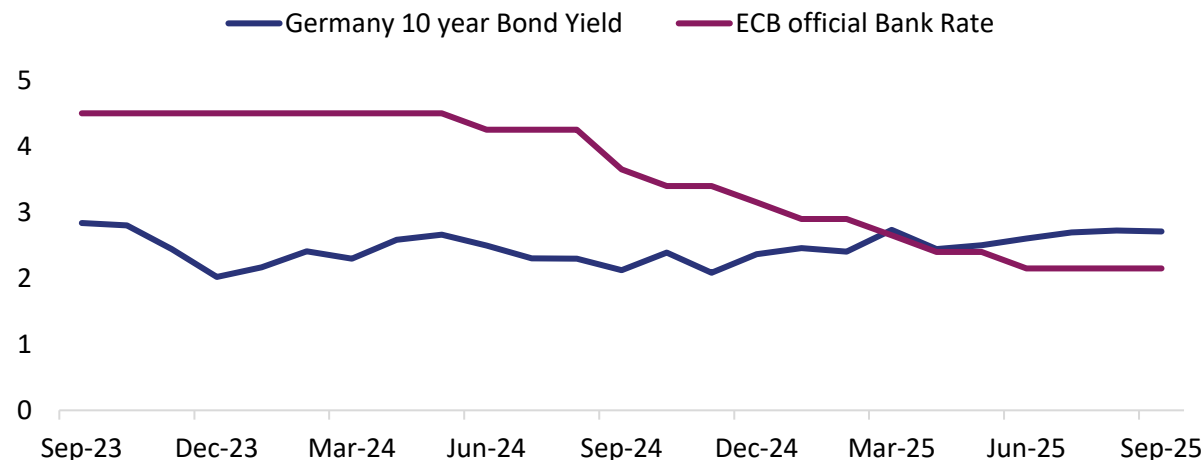
MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



- US FOMC cut policy rates by 25 bps to 4% - 4.25%, with 11-1 vote, as downside risks to softening labour markets have risen. Dissenter Mr. Miran opted for outsized 50 bps cut. Mr. Powell noted a complex divergence in the dual mandate in a "low hiring-low firing" economy with tariffs complicating the persistently above target inflation path
- SEP points towards 2 more rate cuts in CY25 and another in CY26, 25 bps lower vs previous. Consequently, markets are pricing in 72% chance of 2 rate cuts in CY25

AE PAUSE RATE CYCLE, EM PLOUGH ON WITH EASING

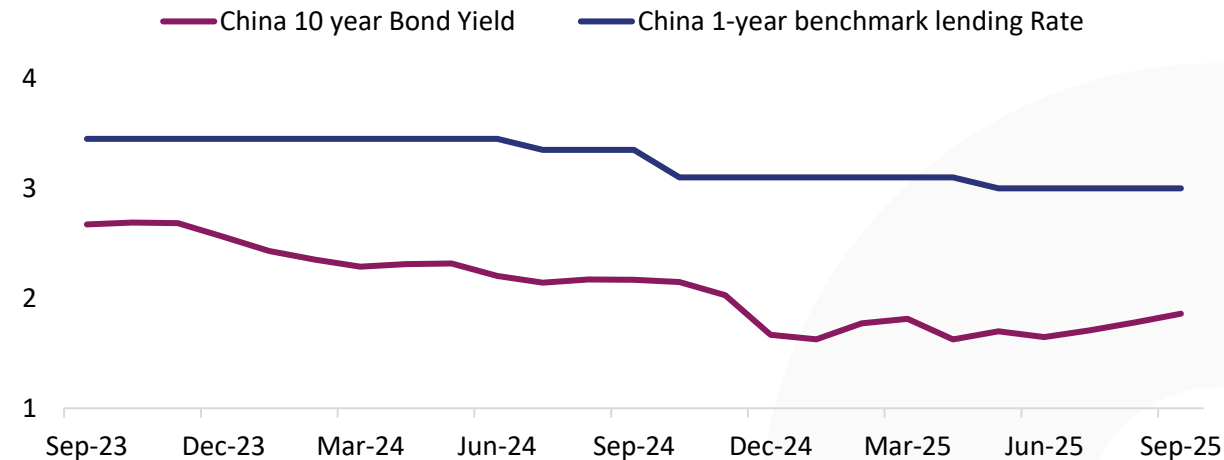
EUROZONE 10-YEAR BOND YIELD VS POLICY RATE (%)



POLICY RATE OF OTHER MAJOR CENTRAL BANKS

REGION	MAR'22	MAR'23	MAR'24	MAR'25	CURRENT
England	0.75%	4.25%	5.25%	4.50%	4.00%
Japan	-0.10%	-0.10%	0.10%	0.50%	0.50%
Brazil	11.75%	13.75%	10.75%	14.25%	15.00%
Australia	0.10%	3.60%	4.35%	4.10%	3.60%
Canada	0.75%	4.50%	5.00%	2.75%	2.50%
S. Korea	1.25%	3.50%	3.50%	2.75%	2.50%
S. Africa	4.25%	7.75%	8.25%	7.50%	7.00%
Russia	20.00%	7.50%	16.00%	21.00%	17.00%

CHINA 10-YEAR BOND YIELD VS POLICY RATE (%)



- AE CBs hold rates despite global rate cuts:
 - EU held its policy rate at 2%, with inflation in control and growth in sight
 - BoJ's paused hawkishly, citing moderate recovery amidst trade uncertainty
- EM Central Banks extend policy support:
 - Bank Indonesia cut policy rate by 25 bps to support slow economy
 - Brazil kept Selic at 15%, as inflation risk persists, with rate cuts only in sight after Mar'26

ECONOMIC CALENDAR

GLOBAL ECONOMIC CALENDAR – (06 OCT – 17 OCT)

DATE	AREA	EVENT	PERIOD
6	VN	GDP	3Q
6	IN	HSBC India PMI Composite	Sep F
6	EC	Retail Sales	Aug
7	US	Trade Balance	Aug
8	JN	Trade Balance	Aug
8	US	FOMC Meeting Minutes	
9	CH	New Yuan Loans	Sep
9	CH	Aggregate Financing	Sep
10	JN	PPI	Sep
10	US	U. of Mich. Sentiment	Oct P
13	IN	CPI	Sep
13	CH	Trade Balance	Sep

DATE	AREA	EVENT	PERIOD
14	IN	Wholesale Prices	Sep
14	EC	ZEW Survey Expectations	Oct
15	CH	PPI	Sep
15	CH	CPI	Sep
15	JN	Industrial Production	Aug F
15	US	CPI	Sep
15	IN	Trade Balance	Sep
16	UK	Industrial Production	Aug
16	EC	Trade Balance	Aug
16	US	PPI Final Demand	Sep
17	EC	CPI	Sep F
17	US	Industrial Production	Sep

GLOBAL ECONOMIC CALENDAR – (20 OCT – 31 SEP)

DATE	AREA	EVENT	PERIOD
20	CH	Loan Prime Rate	
20	CH	New Home Prices	Sep
20	CH	GDP	3Q
20	CH	Retail Sales	Sep
20	CH	Industrial Production	Sep
22	JN	Trade Balance	Sep
22	UK	CPI	Sep
24	JN	S&P Global Japan PMI Composite	Oct P
24	IN	HSBC India PMI Composite	Oct P
24	EC	HCOB Eurozone Composite PMI	Oct P
24	US	S&P Global US Composite PMI	Oct P

DATE	AREA	EVENT	PERIOD
24	US	New Home Sales	Sep
27	CH	Industrial Profits	Sep
29	US	FOMC Rate Decision	
30	GE	GDP	3Q P
30	EC	GDP	3Q A
30	US	PCE Price Index	3Q A
30	JN	BOJ Target Rate	
30	JN	BOJ GDP Forecast	4Q
31	JN	Industrial Production	Sep P
31	JN	Retail Sales	Sep
31	EC	CPI	Oct P

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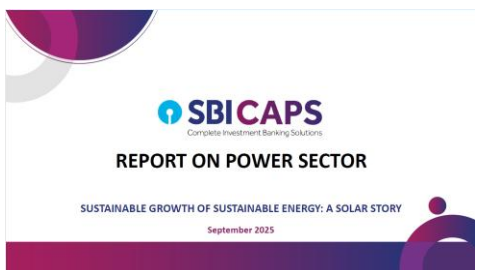


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