

The massive GDP undershoot has meant that the policy trade-offs have become even more acute as the economy looks to be in a stagflationary state. Even as the RBI's growth/inflation forecast will see significant downward/upward revisions, an immediate rate cut may not be easy for the MPC to justify, especially as their commentary has been assertive on durable disinflation being the primary mandate. Nonetheless, the pressure on convention easing is only going to mount as growth looks structurally pale. The timing and window of cuts is tricky and small amid fluid global dynamics, while the RBI may also want to weigh the FX cost of rate cuts (liquidity implication/sterilization cost, and imported inflation). Non-conventional policy tools like liquidity easing could act as a good balancing act, with a CRR reversal to pre-Covid 4% level, implying an infusion of Rs1.2trn at a time when core liquidity may steadily move to a deficit ahead with unsterilized FX intervention and CIC leakages. We watch for easing regulatory-lending norms ahead to revitalize the waning credit offtake.

#### How has one growth print changed the macro narrative to a stagflationary one?

Policy tradeoffs have become even more challenging with the emerging cracks in the domestic story. Inflation dynamics have been unfavorable over the last few months, led by perishables in food category and gold, with Q3FY25 likely overshooting RBI's forecast by ~70-80bps and FY25E likely to see a miss of ~40bps from RBI's estimate of 4.5%. However, the Q2 growth shocker has meant that the RBI's optimistic FY25 growth estimate of 7.2% should see a revision of at least 50-60bps (Emkay: 6%). Even as H2FY25 is already seeing sequential pick-up in public spending (more revex than capex), general government budgeted capex will likely be missed by ~0.5% of GDP (estimated BE: 5.4%). We see urban consumption staying pale ahead, led by weaker incomes, with pick up in rural consumption being cyclical in our view. This, in conjunction with other cyclical headwinds like: 1) pressuring corporate margins amid fading terms-of-trade benefits on input costs, 2) tighter lending standards, and 3) weaker exports, have meant that a massive growth undershoot requires a dynamic policy response, especially as inflation remains higher than the 4% durable mandate.

#### What could hurdle the conventional tool of rate cut response in December?

- (1) Even as inflation is likely to ease to sub-5% by end-Mar '25 (led by easing food), **it is far from the 4% durability the RBI has been seeking** in order to avoid any feedback loop to generalized inflation. The recent RBI commentary has been assertive on this front, albeit with a presumption that growth is robust. To be fair, some sequential growth gains are visible in pockets, but we are a far cry from a sustained and steady growth picture. **The MPC vote split could move to 4-2**, as some members turn their focus on the growth undershoot.
- (2) **The window and timing of massive rate cut(s) is also tricky and small**, if we take into account the fluid global dynamics. The US Fed may deliver a shallow cycle amid re-emergence of the risk of 'high for long' scenario, with likelihood of rising global-term premium driving higher yields, led by greater macro volatility, persistent inflation plus large fiscal deficits, and higher debt issuances. This restrains the flexibility of EM CBs to solely focus on domestic dynamics.
- (3) **A rate cut could further put downward pressure on INR**, at a time when the RBI is already intervening heavily in spot, forward, and NDF market in the last few months (estimated spot+forward intervention: USD35bn; NDF: ~USD60bn). We are inclined to believe that the policy choice has been to keep INR in the middle of the EM Asia pack, even as there is natural disproportionate pressure on INR vs peers. **The RBI may want to weigh the FX cost of rate cuts** (liquidity implication and sterilization cost as well as upward pressure on imported inflation) while deciding on their timing.

#### Are unconventional policy tools like liquidity and regulatory easing an easy bet?

System liquidity has been steadily tightening in Q3FY25, after a comfy Q2FY25. Even adjusting for estimated government surplus, the core deficit has fallen as government spending rose, led by: 1) heavy unsterilized FX intervention (~USD35-40bn), and 2) seasonal CIC leakage (~Rs600-700bn). This trend should continue, with CIC drag in Q4 and possible pressure on FPI outflows, implying deep deficit in system liquidity in Q4FY25, sans RBI's liquidity infusion. Thus, pre-empted liquidity infusion could lead to better transmission of cuts when the RBI commences the cut cycle. With long-term VRRs turning ineffective, a blunt 50bps CRR cut is a high possibility (leading to ~Rs1.2trn liquidity infusion). We note that CRR is still higher than pre-Covid level and does not even require an MPC vote. We also do not rule out some easing in regulatory lending norms ahead to stimulate the waning credit offtake.

**Madhavi Arora**

madhavi.arora@emkayglobal.com  
+91 22 6612 1341

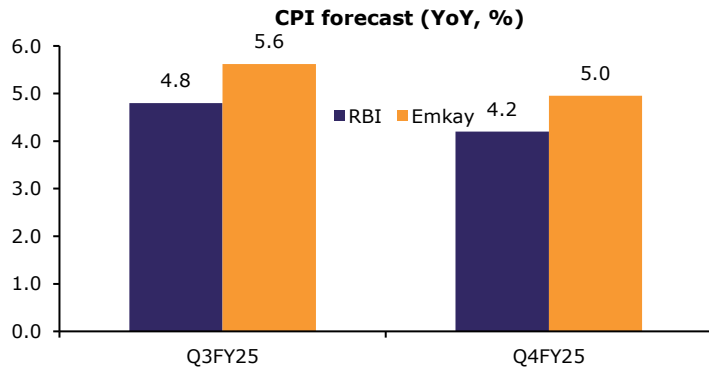
**Harshal Patel**

harshal.patel@emkayglobal.com  
+91 22 6624 2434

#### Key highlights:

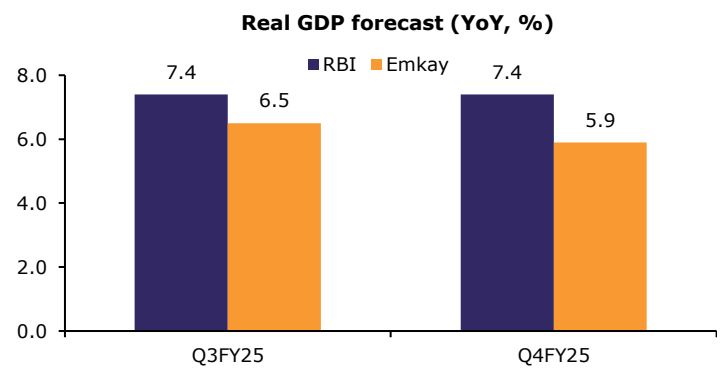
- **RBI's growth/inflation forecasts to see significant downward/upward revisions**
- **Rate cut call remains tricky**
- **CRR cut possible to support liquidity**

**Exhibit 1: RBI's inflation forecast likely to be missed on the upside...**



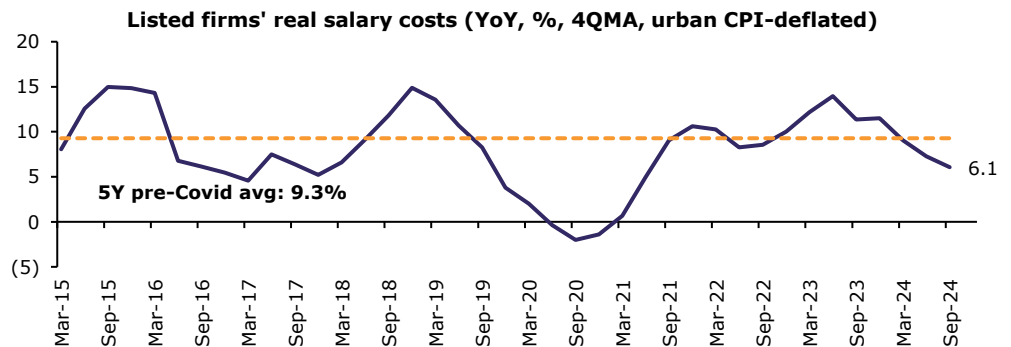
Source: RBI, Emkay Research

**Exhibit 2: ...while growth forecast will need to be revised downward**



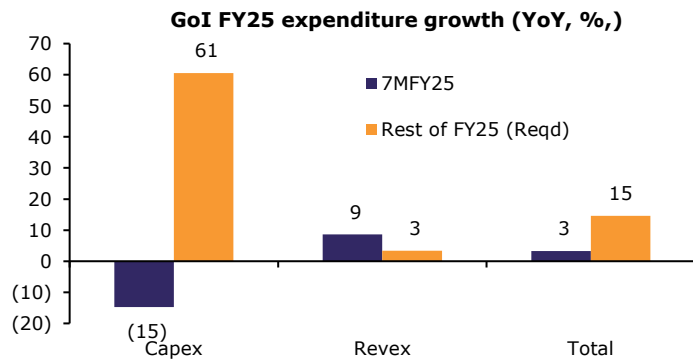
Source: RBI, Emkay Research

**Exhibit 3: Real urban wages have been steadily declining and are well below pre-Covid levels**



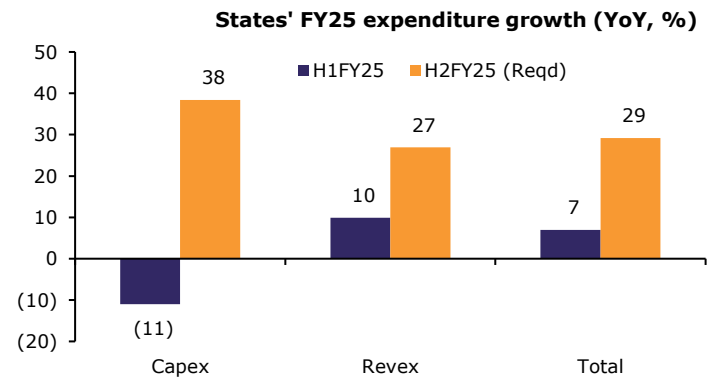
Source: Capitaline, MOSPI, Emkay Research

**Exhibit 4: Centre needs huge step-up in capex for rest of FY25**



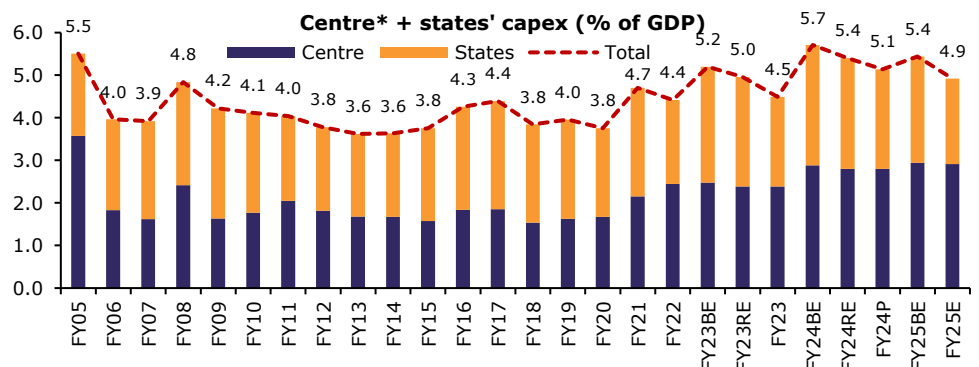
Source: CGA, Union budget documents, Emkay Research

**Exhibit 5: States also need significant increase in their capex**



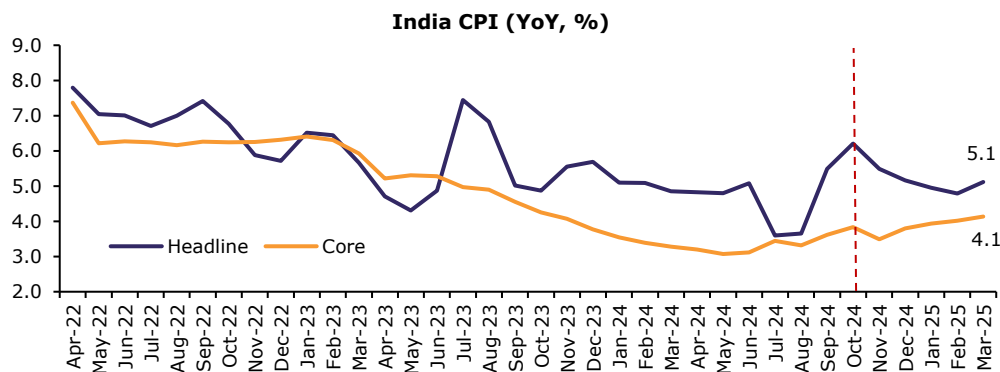
Source: CAG, States' budget documents, Emkay Research

**Exhibit 6: While the Centre is likely to match its FY25BE capex/GDP target, states could see undershoot of up to ~0.5% of GDP**



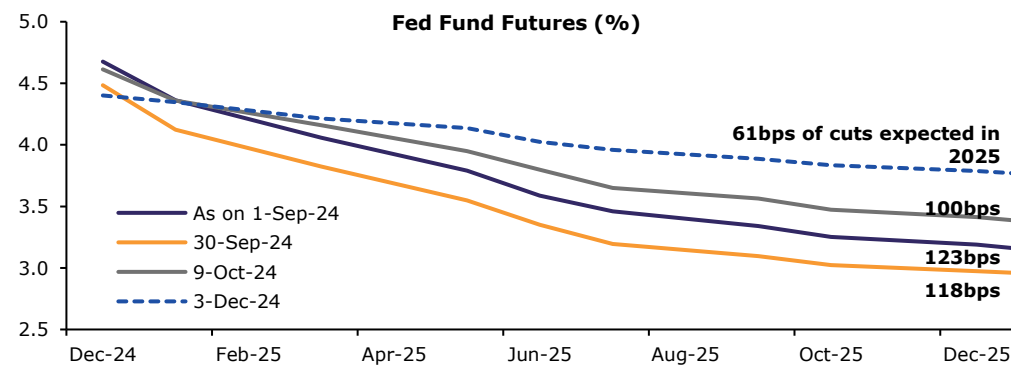
Source: CGA, CAG, Union and state budget documents, Emkay Research estimates; Note: \*Centre's capex is ex-capex loans to states

**Exhibit 7: FY25E headline CPI at ~4.9%; core at 3.6%**



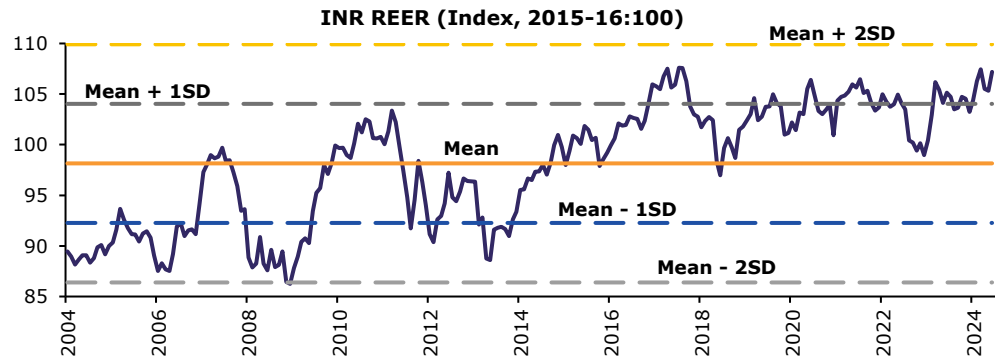
Source: MOSPI, Emkay Research estimates

**Exhibit 8: Fed Funds Futures pricing has moved higher for 2025**



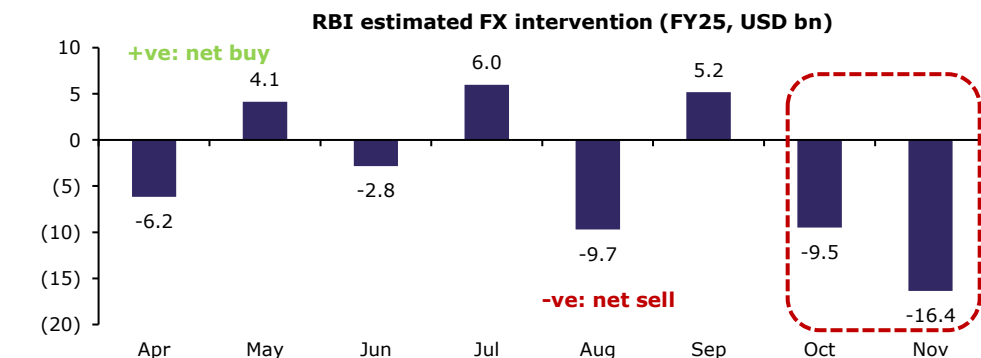
Source: Bloomberg, Emkay Research

**Exhibit 9: REER is overvalued despite RBI keeping the exchange rate contained**

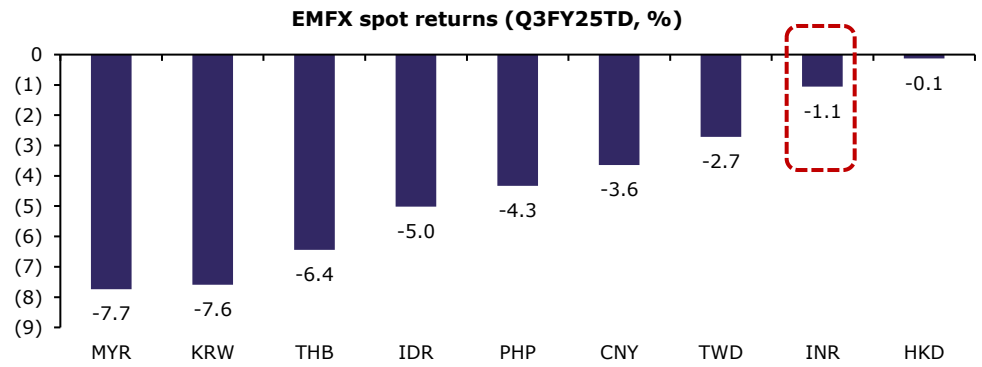


Source: RBI, Emkay Research

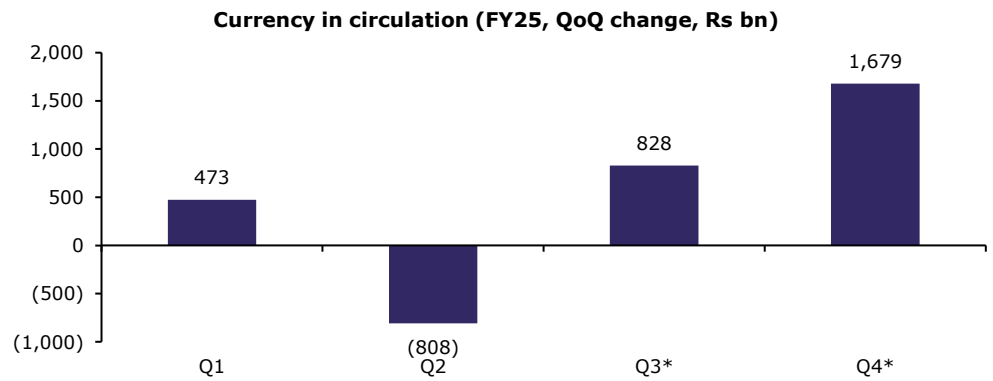
**Exhibit 10: Heavy FPI outflows have forced RBI to intervene strongly to support the INR...**



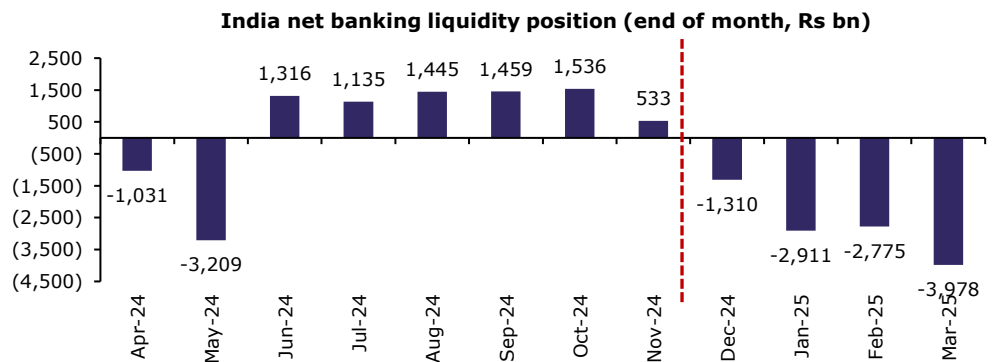
Source: Bloomberg, Emkay Research

**Exhibit 11: ...which has helped keep the INR contained, while broader Asia EMFX has sold off**

Source: Bloomberg, Emkay Research

**Exhibit 12: CIC trends will be unfavorable in Q3 and Q4...**

Source: RBI, Emkay Research estimates; Note: Data for Q3 and Q4 is an Emkay estimate

**Exhibit 13: ...leading to system liquidity moving to deep deficit by Q4, absent RBI action**

Source: RBI, Emkay Research estimates

**GENERAL DISCLOSURE/DISCLAIMER BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX), Multi Commodity Exchange of India Ltd (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) (hereinafter referred to as "Stock Exchange(s)"). EGFSL along with its [affiliates] offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.emkayglobal.com](http://www.emkayglobal.com).

EGFSL is registered as Research Analyst with the Securities and Exchange Board of India ("SEBI") bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any Stock Exchange nor its activities were suspended by any Stock Exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges had conducted their routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to its existing clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the clients simultaneously, not all clients may receive this report at the same time. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. EGFSL may have issued or may issue other reports (on technical or fundamental analysis basis) of the same subject company that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Users of this report may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports of EGFSL. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the research published by any other analyst or by associate entities of EGFSL; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its affiliates. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

This report has not been reviewed or authorized by any regulatory authority. There is no planned schedule or frequency for updating research report relating to any issuer/subject company.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

**Disclaimer for U.S. persons only:** Research report is a product of Emkay Global Financial Services Ltd., under Marco Polo Securities 15a6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of Financial Institutions Regulatory Authority (FINRA) or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors. Emkay Global Financial Services Ltd. has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**RESTRICTIONS ON DISTRIBUTION**

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Except otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

**ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)**

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associated persons<sup>1</sup> may have served as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate may have Financial Interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

<sup>1</sup> An associated person is defined as (i) who reports directly or indirectly to such a research analyst in connection with the preparation of the reports; or (ii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial Interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

**COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her associate/relative's may have Financial Interest/proprietary positions in the securities recommended in this report as of December 3, 2024
- EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Report  
**Disclosure of previous investment recommendation produced:**
- EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's may have material conflict of interest in the securities recommended in this report as of December 3, 2024
- EGFSL, its affiliates and Research Analyst or his/her associate/relative's may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the December 3, 2024
- EGFSL or its associates may have managed or co-managed public offering of securities for the subject company in the past twelve months.
- EGFSL, its affiliates and Research Analyst or his/her associate may have received compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
- EGFSL, its affiliates and/or and Research Analyst or his/her associate may have received any compensation or other benefits from the subject company or third party in connection with this research report.

**Emkay Rating Distribution**

Ratings	Expected Return within the next 12-18 months.
<b>BUY</b>	>15% upside
<b>ADD</b>	5-15% upside
<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	<15% downside

**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

**OTHER DISCLAIMERS AND DISCLOSURES:****Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) :-**

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her associate/relative's may have financial interest in the subject company.

EGFSL or its associates and Research Analyst or his/her associate/ relative's may have material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst or his/her associate/relatives may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst may have served as an officer, director or employee of the subject company.

EGFSL or its affiliates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. . Emkay may have issued or may issue other reports that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Emkay Investors may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the research published by any other analyst or by associate entities of Emkay; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. EGFSL or its associates may have received compensation from the subject company in the past twelve months. Subject Company may have been client of EGFSL or its affiliates during twelve months preceding the date of distribution of the research report and EGFSL or its affiliates may have co-managed public offering of securities for the subject company in the past twelve months.