

August 2025

FUND MANAGERS COMMUNICATION



Global Market:

During the month of July 2025: US S&P 500 index was up by 2.2%, Japan Topix was up by 3.2% and Nifty 50 down by 3.15%. Federal Reserve (Fed) left policy unchanged. The announcement by the Trump administration of several trade agreements & its impact has been keenly watched by markets. A number of recent activity indicators in China came in better than expected: the first-half GDP growth rate of +5.3% year on year (y/y) was above the 5% target, and industrial production was better than expectations, rising 6.8% y/y in June. Investors appreciated that the Chinese economy is showing signs of resilience as sentiment improved and the liquidity situation continued to recover.

IMF World Economic outlook: The International Monetary Fund has given GDP prediction for 2025 - world GDP growth at 3% & 3.1% for CY2026. The outlook for India is relatively stable supported by private consumption & revised upwards to 6.7% in CY2025 & 6.4% in CY2026.



Domestic Market:

GGST Collection: GST receipts in July month hit Rs. 1.96 lakhs crore, marking a 7.5% year on year growth.

Credit Growth: Credit growth in June rebounded to 9.5% y-o-y. Recent adjustments in risk weights for lending to NBFC's beginning Apr'25 and the notification to reduce the risk weights on MFIs will lead to an uptick in the sectors where credit offtake took a hit in 2024. Front-loaded rate cuts coupled with favourable liquidity conditions are expected to support credit uptake.

Fiscal Deficit: India's fiscal deficit rose in Jun'25. The deficit in the first three months also came significantly higher compared on account of higher expenditure. Capital Expenditure in FY26YTD was Rs.2.8 tn v/s Rs.1.8 tn in FY25 same period.

RBI Policy June 2025: The RBI surprised markets by frontloading its easing cycle with a sharper-than-expected 50 bps cut in the repo rate and a 100-bps reduction in the CRR. This decisive move makes the central bank's clear focus on supporting growth amid a benign inflation environment. Overall, these measures are likely to spur consumption and kickstart the private capex cycle.

CRR rates cut by 100 bps: This move comes as RBI continues to ensure ample surplus liquidity remains in the system to ensure smooth transmission of rate cuts to lending rates. This will infuse Rs. 2.5 trn of primary liquidity in the system starting 06 Sep'25.

GDP growth retained, inflation revised downwards. The RBI maintained its GDP growth projection at 6.5% for FY26 sighting favourable weather and continued momentum in services activity. At the same time, it reduced inflation forecast for FY26 by 30bps to 3.7%. Favourable weather condition is expected to support agricultural output while core inflation will continue to remain benign with falling commodity prices.

Core sector growth at 3-month high. Core sector growth showed some green shoots of momentum, rising to a 3-month high of 1.7% in June 2025. However, growth remained weak at 1.3% in Q1 FY26, compared to 6.2% in Q1 FY25. In Jun'25, the steel and cement sectors continued on a strong growth trajectory, posting robust y/y growth of 9.3% and 9.2%, respectively, supported by the government's ongoing capex push.

Auto numbers: In July 25 - in 2 wheelers Eicher and TVS motors posted double digit growth. In passenger vehicles sales number were muted, M&M has outperformed. Ahead, positive rural markets, festival/wedding season, rabi output cashflows, lower interest rates and higher disposable income, thanks to tax cuts, would keep the momentum healthy for Auto sales.

PMI: The HSBC India Manufacturing Purchasing Managers' Index (PMI), compiled by S&P Global rose to 59.1 in July a 16 month high. (Manufacturing PMI data is an economic indicator that measures the activity level in the manufacturing sector. It is based on a survey of purchasing managers across manufacturing industries and provides insights into business conditions, including production, new orders, employment, supplier delivery times, and inventory levels).

CPI: CPI inflation eased to 2.1% y-o-y, a 78 months low in June'25, primarily driven by a favorable base effect and lower-than-expected sequential increase in food price. Lower inflation should be supportive for lower interest rates.

IIP: IIP slowed to 1.5% YoY in Jun'25 vs 1.9% in May'25. India's industrial production growth continued to moderate in Jun'25. This was in line with our expectations, as the mining and electricity sectors have continued to report degrowth in recent months due to excess rains disrupting production. However, the manufacturing sector has helped support the overall index. Looking ahead, sustained government capex is expected to drive industrial activity and support higher growth.

Funds Flow: FII flows were negative in the month of July 2025 at Rs.24723 crores, DII flows remained healthy with positive inflows of Rs.47585 crores during the month.

Equity Market Outlook:

We are in middle of Q1FY26 results earnings season and results season has been mixed bag, with few sectors have reported healthy growth like Cement, Hotels, Insurance, wires & cables, selective Liquor company, power sector related companies, Few infra & construction companies, few private banks, while companies in IT sector, Oil and Gas, Tyres, few consumer companies, few private sector banks have reported weak set of numbers. Commentary from NBFC & Banks has been cautious on select pockets with higher provisions during the quarter. Many of the results are yet to come in coming few weeks time.

On 30 July 2025, the US government announced a 25% tariff on most Indian imports (effective 1 August), raising the average tariff rate from 10% to 25%. The Government of India is reviewing the implications, while reiterating its commitment to a fair, balanced bilateral relationship. US is India's largest export market, accounting for 18% of total exports. Goods exports to the US in 2024 stood at \$81 bn, with \$15 bn exempt from the new tariff. The impact will be keenly watched in coming quarters, as there would be some impact on few sectors and if there are any revised talks for negotiations.

Over all macro set up in India is quite comfortable with Brent Crude oil is now trading closer to \$65-70/bbl, healthy GDP growth, lower inflation, expected benefit of lower interest rates in coming quarters, liquidity easing by RBI, revival of government capex with capital expenditure in FY26YTD was Rs.2.8 tn v/s Rs.1.8 tn in FY25 same period, improved consumer discretionary demand led by tax deduction benefits and expected improvement in rural demand & early monsoon, benefits emerging from Global supply chain diversification would be positive factors. Recovery in profitability of corporate India is expected from Q3FY26 and gain momentum in the coming quarters. We remain constructive on India economy and Indian equities for investment for long term.



Regards,
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