

India Market Pulse | August 30, 2025

Every cycle's difficulty carries the seed of the next opportunity.

Macro Update: India Defies Gravity

India's economy shattered expectations in **Q1 FY26 (Apr–Jun 2025)** with **7.8% real GDP growth** and **7.6% GVA growth**, outpacing forecasts (RBI: 6.5%, Street: 6.8%). This marks a sharp acceleration from 7.4% in the March quarter.

- **Drivers of Growth:**
 - **Consumption:** PFCE +7% YoY, supported by falling inflation and income tax cuts (contributed 4pp to GDP).
 - **Investment:** Gross fixed capital formation +7.8% YoY.
 - **Exports:** +6.3% YoY, but net exports negative due to strong imports.
 - **Sectors:**
 - Manufacturing: +7.7% (vs 4.9% in Q4FY25)
 - Services: Star performer – Financials/Real Estate/Professional Services +9.5%, Trade/Hotels/Transport +8.6%, Public Services +9.8%.
 - Construction: +7.6% (slowed vs 10.8% in Q4FY25).
 - Agriculture: Weak at +3.7%.
- **Nominal GDP:** +8.8% (vs 10.8% in Q4FY25) as inflation (deflator) dropped to 1%.

Investment Implication: Strong domestic demand and capital formation provide a cushion against global shocks. Despite near-term earnings volatility, macro fundamentals remain resilient.

US Tariffs – The Big Headwind

From **27th August 2025**, the US imposed **50% tariffs** on ~60% of imports from India (effective tariff rate: 33.6%).

- **Impact:**
 - Direct: Hits ~18% of Indian exports, especially labour-intensive sectors (textiles, gems, shrimps).
 - Indirect: Risk of job losses, loss of competitiveness vs. ASEAN & China.
 - Estimated drag: **0.2–0.3% of FY26 GDP.**

- **Government Response:**
 - GST cuts (two-slab structure: 5% & 18%) to boost consumption.
 - Policy push in renewables, domestic reforms, and trade engagement with UK, Japan, China.
 - Fiscal support likely for worst-hit sectors.

Investment Watchpoint: Near-term export headwinds may weigh on earnings and markets, but strong domestic levers (festive season, rural recovery, GST cuts) can soften the blow.

Credit Rating Boost: S&P Upgrade

- **India upgraded from BBB- to BBB** (first in 18 years).
 - Drivers: Strong growth, infra push, fiscal discipline, low inflation.
 - Impact:
 - Lower sovereign borrowing costs.
 - Improved FPI/FDI flows.
 - Sentiment booster despite tariff risks.
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GST Reform – A Demand Catalyst

The simplified **two-slab GST structure (5% & 18%)** is expected to:

- Lower compliance burden & prices.
 - Boost consumption across rural & urban markets.
 - Revive demand in textiles, real estate, MSMEs, healthcare, and consumer durables.
 - Employment boost in labour-intensive sectors.
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Corporate Earnings – Transition Phase

- Q1 FY26 marks a shift from high-growth earnings to a slower, **consumption-led recovery**.
 - Swing factor for FY26 = **domestic demand resilience vs. global drag**.
 - Likely **bottoming-out year** before FY27 re-acceleration.
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Inflation & Interest Rates

- **India CPI (July 2025):** +1.6% YoY (8-year low), core 4.1%.
- **US CPI (July 2025):** +0.2% headline, +0.3% core → Fed cuts expected Sept'25.
- **RBI stance:** On hold, but low inflation supports domestic demand.
- **Investment Positive:** Softer USD and dovish Fed may aid EM flows, INR, and bond markets.

Key Takeaways

- ✓ India's **macro cushion:** Ratings upgrade + GST reform + benign inflation.
- ✓ Near-term **headwinds:** US tariffs, weak earnings momentum, global geopolitics.
- ✓ **Opportunities:** Domestic demand revival (festive season, monsoons, pay hikes).

RNM Universe & Markets

- The RNM Universe underperformed the NIFTY in August, as export-focused small and mid-caps corrected on tariff concerns, even though their underlying structural business strength remains intact.

	April Returns	May Returns	June Returns	July Returns	August Returns	YTD Returns
RNM CAPITAL TRUST UNIVERSE	8.6%	7.3%	2.3%	0.9%	-4.0%	15.4%
NIFTY	3.5%	1.7%	3.1%	-2.9%	-1.4%	3.9%
NIFTY TRAILING P/E	21.21	21.94	23.01	22.33	22.03	22.33
NIFTY FORWARD P/E	19.28	19.95	20.92	20.30	20.02	20.02