Overview:

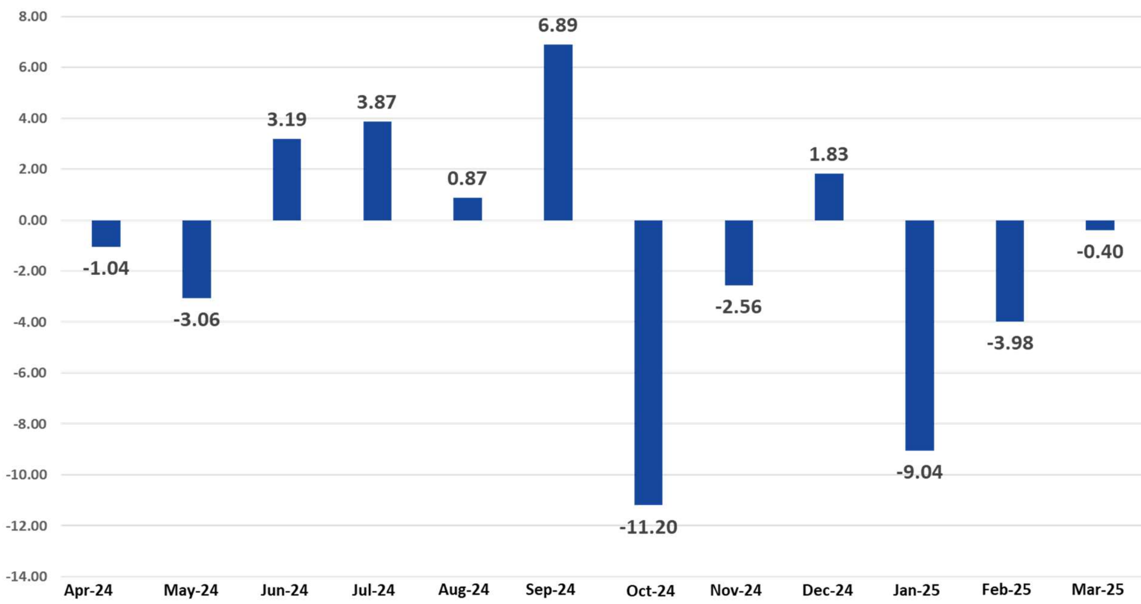
For the month ended March 2025, the Nifty 50 index was up 6.30% over the previous month. Nifty Midcap 100 index was up by 7.84%, while the Nifty Smallcap 100 index was up by 9.49% reflecting strong market sentiment and broad-based buying. Small caps, represented by the Nifty Smallcap 100 outperformed midcaps and large caps. Within sectors, banking & financial services, media, metal, pharma, oil & gas, realty, and healthcare outperformed Nifty 50, whereas auto, technology, and consumer durables underperformed.

Sr No.	Index Name	Mar-25 M-o-M Change
1	NIFTY 50	6.30%
2	NIFTY Midcap 100	7.84%
3	NIFTY Smallcap 100	9.49%
4	NIFTY Auto	3.89%
5	NIFTY Bank	6.66%
6	NIFTY Financial Services	8.88%
7	NIFTY FMCG	5.72%
8	NIFTY IT	-1.16%
9	NIFTY Media	6.37%
10	NIFTY Metal	10.62%
11	NIFTY Pharma	6.68%
12	NIFTY Private Bank	6.23%
13	NIFTY PSU Bank	10.82%
14	NIFTY Realty	6.69%
15	NIFTY Consumer Durables	3.46%
16	NIFTY Oil & Gas	10.00%
17	NIFTY Healthcare Index	7.85%

Source: National Stock Exchange of India

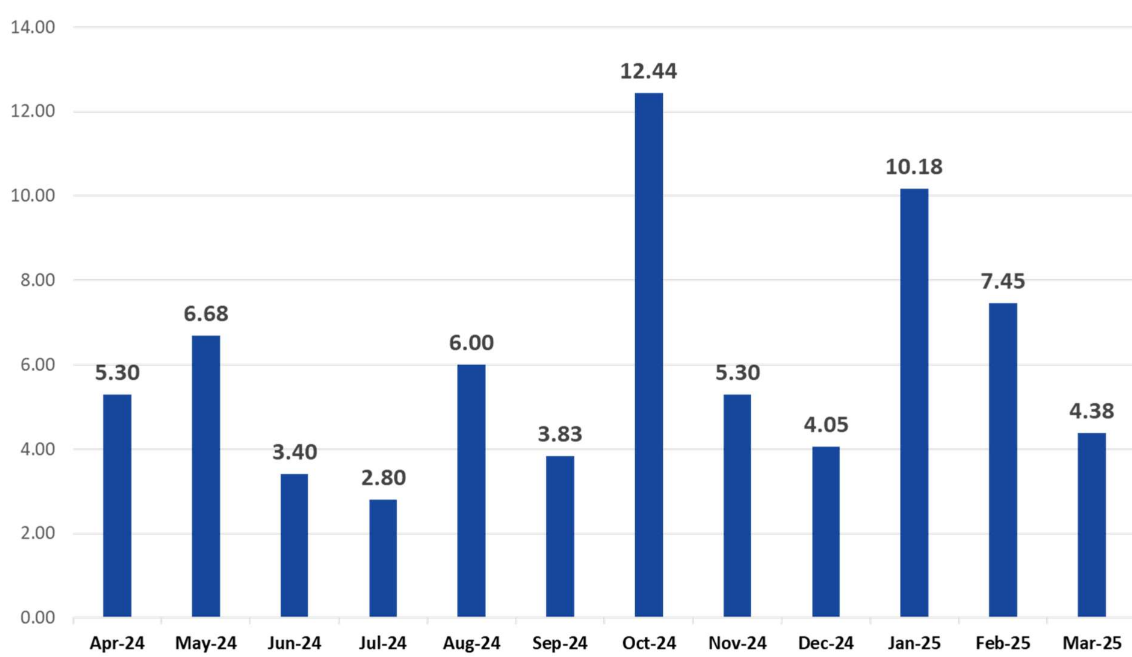
Foreign funds (FIIs/FPIs) were net seller in March 2025 at USD0.40bn and domestic institutions were net buyers at ~USD4.38bn. In FY2025, foreign funds were net sellers at USD14.63bn and domestic funds were net buyers at USD71.81bn. The last major exit of foreign funds from the Indian market occurred in 2022, when they recorded a net sell-off of USD18.47bn, driven by post-pandemic uncertainties. Over the past five financial years, foreign funds have been net sellers in three of those years, reflecting “profit-taking mode” towards Indian equities. In contrast, domestic institutional investors (DIIs) have been net buyers in four out of the last five years, providing stability to the market despite foreign outflows. This shift highlights the growing influence of domestic capital in absorbing foreign sell-offs and supporting market resilience.

Fig: Monthly foreign fund flows (USD bn)



Source: EquiPoise Capital Research

Fig: Monthly Domestic fund flows (USD bn)



Source: Money Control, EquiPoise Capital Research

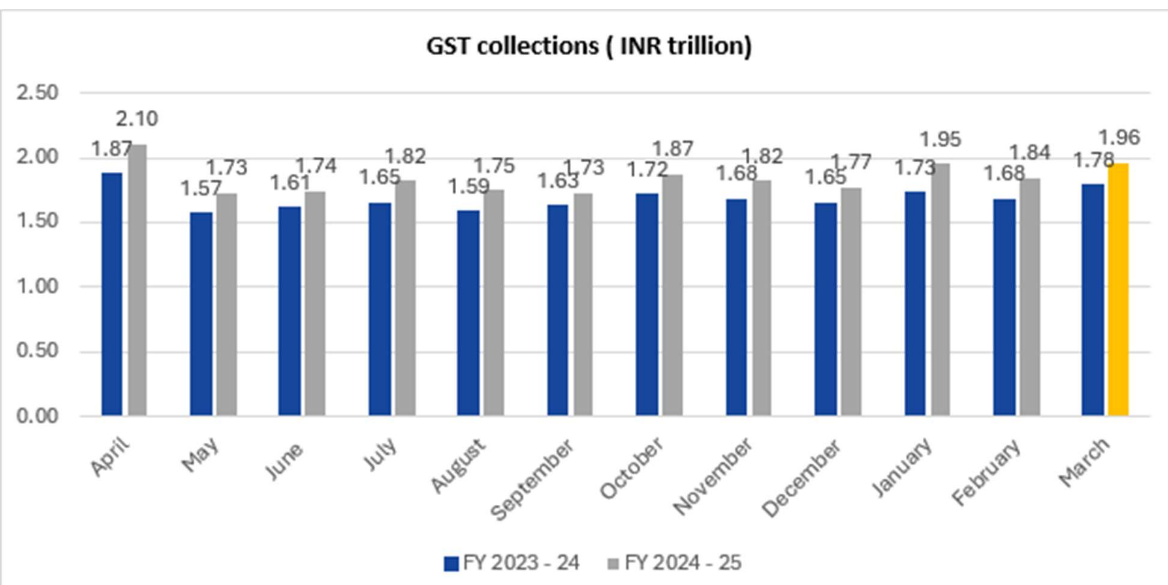
Over the last 12 months in USD terms, the MSCI India Index (+2%) has underperformed the MSCI EM Index (+6%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM Index by a robust 76% thereby reflecting merits of long term investment approach.

Fig: MSCI India notably outperforms MSCI EM by 76% in the last 10 years

Source: Motilal Oswal

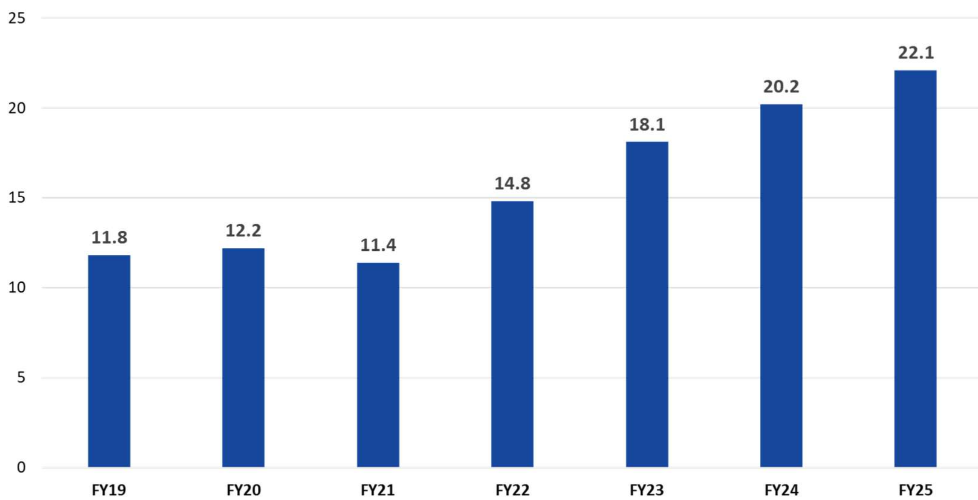
On the macroeconomic front, Good and Services Tax (GST) revenue for March 2025 were INR1.96 trillion, up 9.9% YoY. FY2025 marks a significant milestone in India's tax collections, with total gross GST revenue reaching INR22.08 trillion, reflecting a 9.50% year-on-year growth. The average monthly GST collection for the fiscal year stood at INR1.84 trillion, exceeding the previous year's average of INR 1.68 trillion. This consistent increase highlights strong economic activity, improved compliance, and a resilient consumption trend across sectors.

Fig: GST collections trend (in INR trillion)



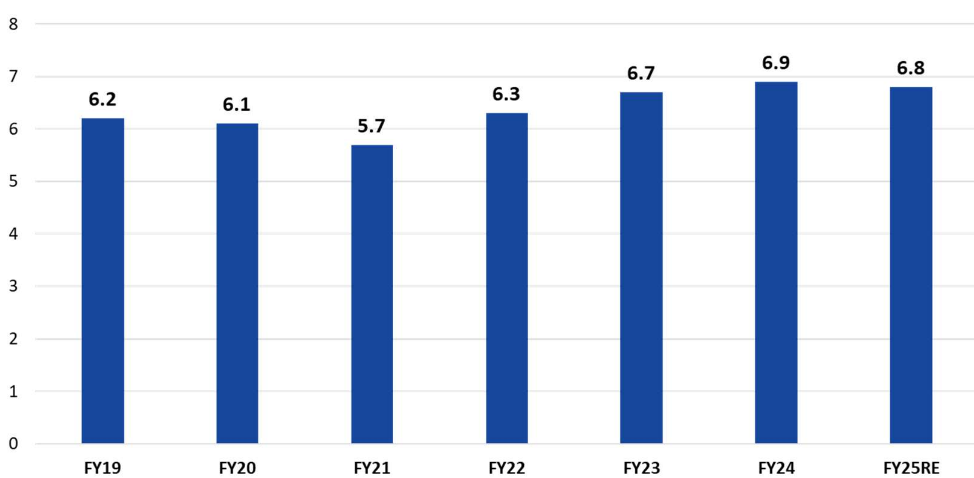
Source: EquiPoise Capital Research

Fig: GST Collection INR Trillion



Source: Ministry of Finance, EquiPoise Capital Research

Fig: GST Collection as % of GDP



Source: EquiPoise Capital Research

India's current account deficit (CAD) for Q3FY25 stood at USD11.5bn (1.1% of GDP), rising marginally from USD10.4bn in Q3FY24 but improving from USD16.7bn (1.8% of GDP) in Q2FY25. The widening CAD was driven by a higher merchandise trade deficit, which increased to USD79.2bn from USD71.6bn a year ago. However, a strong services trade surplus of USD51.2bn, supported by growth in IT, business, travel, and transportation services, helped moderate the impact. Remittances from overseas Indians crossed USD129bn in 2024, this is the third consecutive year when remittances have crossed USD100bn mark.

The Unified Payments Interface (UPI) recorded 19.78bn transactions in March 2025, amounting to INR24.77 trillion. This marks the highest-ever monthly transaction volume and value since UPI's inception in April 2016. For the first time, UPI crossed INR24 trillion in transaction value and 18bn in volume in a single month. On an annual basis, UPI transactions in FY25 surged by 30% in value to INR260.56 trillion from INR199.96 trillion in FY24. Volume saw an even sharper growth of 42%, reaching 185.85bn transactions compared to 131.14bn in the previous fiscal year.

India's real GDP growth recovered to 6.2% year-on-year (YoY) in the October-December 2024 quarter, after hitting a seven-quarter low in the previous period. A closer look at key macroeconomic indicators reflects a resilient economy, supported by strong domestic demand and sectoral improvements.

- Auto sales increased 4% YoY in March 2025, with total sales for FY25 reaching 4.3mn units, reflecting a 2% annual growth.
- The National Highways Authority of India (NHAI) expanded its highway construction activity in FY25, completing 5,614 kilometers—a 9% year-on-year (YoY) increase.
- Sectoral Gross Value Added (GVA): The services sector remained the primary growth driver, expanding 7.4% YoY. Industrial output rebounded to 4.5% YoY, largely supported by growth in construction, despite a slowdown in the mining sector.
- Agriculture output improved to 5.6% YoY, benefiting from a favorable monsoon season, which supported higher yields.
- Private consumption rose 6.9% YoY, driven by strong rural demand and higher spending during the festive season.
- Consumer Price Index (CPI) inflation eased to a seven-month low of 3.6%, reflecting a slowdown in food and beverage inflation.
- Purchasing Managers' Index (PMI) showed diverging trends. Manufacturing PMI softened to 56.3, indicating a slight moderation in new orders and production activity. In contrast, Services PMI climbed to 59, supported by strong demand and productivity gains.
- India's defence exports surged 12.04% YoY, reaching a record INR23,622cr. (~USD2.76bn) in FY25, up from INR21,083cr. (~USD2.46bn) in FY24, reflecting the country's growing presence in the global defence market.

Our view:

US has unveiled the minimum 10% base tariffs on all imports and imposed 26% reciprocal tariff on all imports from India. The 26% tariff on India looks reasonable from a relative perspective. Reciprocal tariff is at 54% for China, 46% for Vietnam, 37% for Thailand, 32% for Taiwan, 25% for Korea, 24% for Japan and Malaysia, and 20% for EU. As expected, there were carve-outs for Canada and Mexico to protect USMCA (~28% of US imports). Reciprocal tariff announcements come across as a relief, as no incremental adverse impact on large exporting sectors like IT services, pharma and autos. We believe, bigger worries are on weaker US economic outlook, which is a negative not only for IT services, other exporters but overall global economy.

There is no escaping from the fact that, India does levy higher tariffs, and India does have a trade surplus. India's goods trade surplus with the US was USD46bn in 2024 (1.2% of GDP); with US being India's top goods exports destination (18% share). India's software exports to US are also large (USD103bn in FY2024 per RBI). For some time now, aggregate tariff rates in India have been rising. Also, it is believed by many that tariff increases have provided Indian manufacturing firms the protected space needed to grow and achieve scale economies. But overall, the data is quite clear, the protection approach has not yielded any great benefits on manufacturing competitiveness in the aggregate. There may be an example here or there, but the Indian industry's share of global exports has stagnated, and even fallen, in recent years. Moreover, high import tariffs have also prevented Indian industry from plugging into the global value chains that dominate international trade today. And, therefore, it is critical that India use US tariffs to its advantage and reduce its own tariff rates. Tariff protection, while necessary, just like "Covid Lockdowns" should be only a temporary measure, time bound to set the house in order. World is littered with many examples - present and past, showcasing tariffs, duty protection and reservations don't help in the long run, in fact are detrimental.

We are quite hopeful that India will further use this opportunity to remain steadfast on its staggered tariff reduction path and do what is needed without giving an unnecessary shock to the economy which many experts believe US is doing. We are also encouraged by the "non-reactionary" approach taken by this government. We believe, announced tariffs are the peak and India will negotiate the same downwards. India is also working on a Bilateral Trade Agreement (BTA) with the US which is targeted to be rolled out by late 2025. Possibly higher defense and oil & gas imports from the US could help negotiations.

While India has less dependency on global trade versus some of its Asian peers but considering the huge trade deficit India runs, India is vulnerable to adverse impact of tariffs. India's energy imports (crude is 21% of imports, pet gas 3.7%) and gold (7% of the basket) have been resilient hence falling exports could complicate the situation. For global trade impact a lot will depend on how EU and China which has excess capacities respond. Also, this may not be the end of the tariff war - EU is said to be trying to move this tariff war from goods to services. Services taxation is a lot more complicated but if EU is successful in targeting taxation on services, India has a problem because service exports is where India has done well in the last 10 years and has seen 3.1% merchandise exports CAGR and 8.4% services exports CAGR. Overall, the uncertainty is not good for global economy/markets and not good for India as well.

Fig: Trade Policy uncertainty highest since 1930s

Source: EPU

Fig: Top 10 items exported by India to the US

No.	Description	2024 (US $bn)
1	Electrical Machinery and Equipment	14.1
2	Pharmaceutical Products	12.5
3	Precious Metals, Pearls, Precious or Semiprecious Stones	11.6
4	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances	6.8
5	Organic Chemicals	3.5
6	Mineral Fuels, Mineral Oils and Products of Their Distillation	3.0
7	Made-Up Textile Articles, Worn Clothing	2.9
8	Vehicles	2.7
9	Articles of Iron or Steel	2.6
10	Articles of Apparel and Clothing Accessories	2.4
	Total exports by India to the US	**87.5**

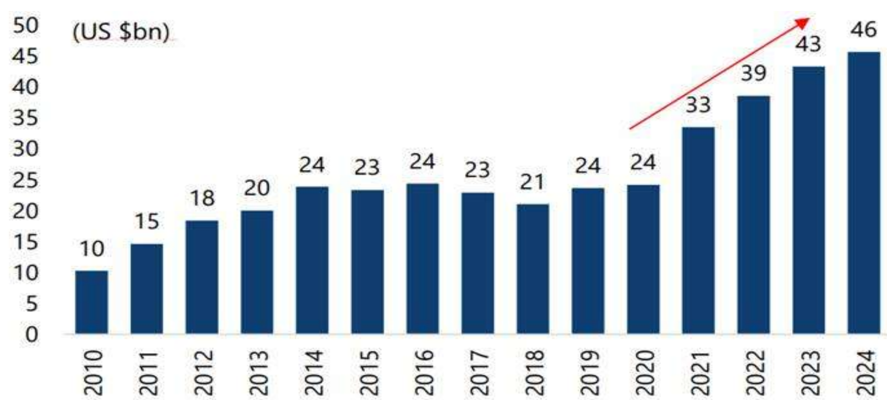
Source: US International Trade Commission

Fig: Top 10 items imported by India from the US

No.	Description	2024 (US $bn)
1	Mineral Fuels, Mineral Oils and Products of Their Distillation	12.6
2	Precious Metals, Pearls, Precious or Semiprecious Stones	5.3
3	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances	3.3
4	Aircraft, Spacecraft, and Parts Thereof	3.0
5	Electrical Machinery and Equipment	2.2
6	Medical or Surgical Instruments and Apparatus	2.0
7	Plastics and Articles Thereof	1.4
8	Edible Fruit and Nuts; Peel of Citrus Fruit or Melons	1.2
9	Organic Chemicals	1.1
10	Miscellaneous Chemical Products	1.0
	Total imports by India from the US	**41.8**

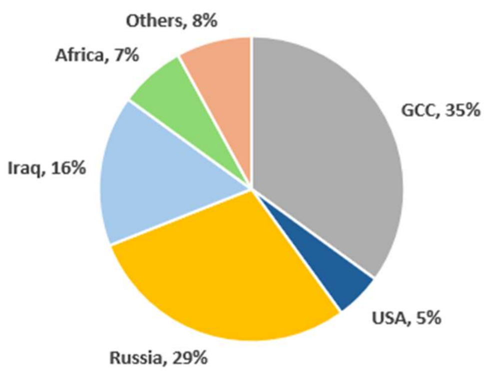
Source: US International Trade Commission

Fig: India's goods trade surplus with US has nearly doubled since Covid



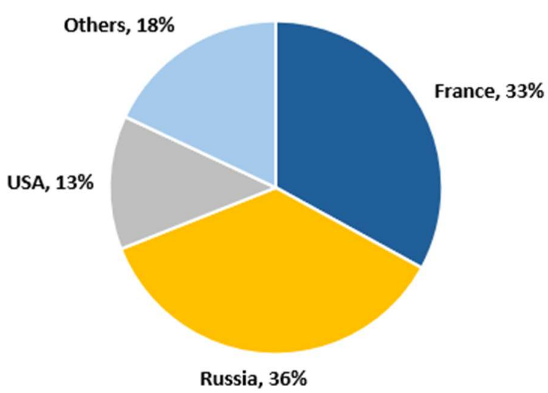
Source: US International Trade Commission

Fig: Oil imports by India country-wise



Source: Ministry of Commerce, EquiPoise Capital Research

Fig: Defence imports by India country-wise



Source: SIPRI, EquiPoise Capital Research

We believe, given the unprecedented policy response (imposition of across-the-board tariffs), it is hard for anyone to say with any great precision what the impact of these tariffs on the US or the global economy will be. The baseline expectation would be that these tariffs would increase inflation and trigger an economic slowdown. We are concerned that either of these events on a standalone basis are a negative development and for the two to happen together, is a double whammy, which will be difficult for the entire world to deal with. We reiterate that the best way to navigate market uncertainty and volatility is to follow a disciplined, long term, systematic investment approach.

We maintain that India's long term growth story is intact, corrections present an opportunity for long term investors.

Ashish A. Wakankar
Founder and Chief Investment Officer
EquiPoise Capital Management Private Limited
April 07, 2025.

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