

## Overview:

For the month ended August 2025, the Nifty 50 index was down by 1.38% over the previous month. The Nifty Midcap 100 index was down by 2.91%, while the Nifty Smallcap 100 index was down by 4.12%. Largecaps outperformed midcaps and smallcaps. Within sectors, Auto, Consumer Goods, and Consumer Durables outperformed the broader market whereas pharma, healthcare, realty and oil & gas underperformed.

Sr. No.	Index Name	Aug-25
		M-o-M Change
1	NIFTY 50	-1.38%
2	NIFTY Midcap 100	-2.91%
3	NIFTY Smallcap 100	-4.12%
4	NIFTY Auto	5.52%
5	NIFTY Bank	-4.12%
6	NIFTY Financial Services	-4.06%
7	NIFTY FMCG	0.59%
8	NIFTY IT	-0.34%
9	NIFTY Media	-0.88%
10	NIFTY Metal	-1.41%
11	NIFTY Pharma	-4.25%
12	NIFTY Private Bank	-3.79%
13	NIFTY PSU Bank	-1.39%
14	NIFTY Realty	-4.56%
15	NIFTY Consumer Durables	0.85%
16	NIFTY Oil & Gas	-4.20%
17	NIFTY Healthcare Index	-3.56%

Source: National Stock Exchange of India

Foreign funds (FIIs /FPIs) were net sellers in August 2025 at USD3.99bn whereas domestic institutions remained net buyers at USD10.82bn. Foreign funds are net sellers at USD14.92bn for the calendar year up to August 30, 2025 whereas domestic institutional investors continued their steady participation, recording net inflows of USD59.3bn for the same period. Amid heightened global uncertainty, foreign investors have been consistent sellers in the Indian equity market. However, the sharp rise in domestic flows, particularly through systematic investment plans (SIPs), which have nearly tripled over the past five years, has provided a stable source of long-term capital. This steady inflow has enabled domestic institutional investors (DIIs) to cushion market volatility and counterbalance foreign selling pressure. As a result, DIIs now hold around 20% of the NIFTY 500, surpassing the ownership levels of foreign investors, a structural shift that underscores the growing influence of domestic capital in Indian markets.

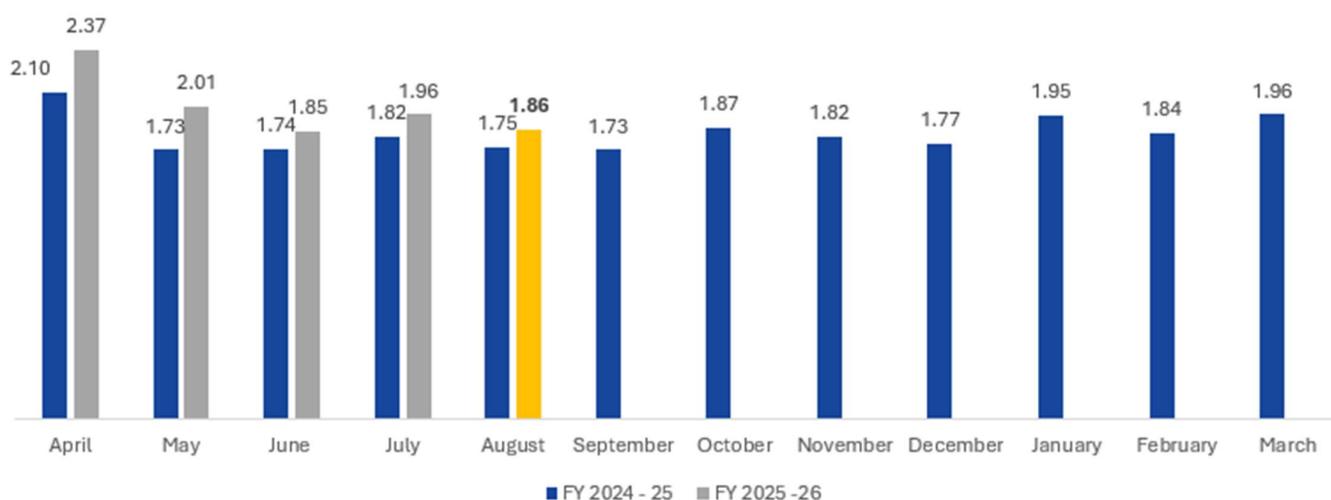
**Fig: Fund flows**

(USD mn)	Curr	MTD	CYTD
FII - Cash	-695	-3,994	-14,923
DII - Cash	1,303	10,824	59,308
FII - Debt	-10	773	847

Source: Axis Capital

On the macroeconomic front, Goods and Services Tax (GST) revenue for August 2025 stood at INR1.86 trillion, up 6.29% YoY. India’s GST collections have grown steadily with average monthly GST collections clocking over INR2 trillion for the first time in first four months of FY2026 (April - July 2025), outpacing the average monthly collections for the same period in FY2022 and FY2025.

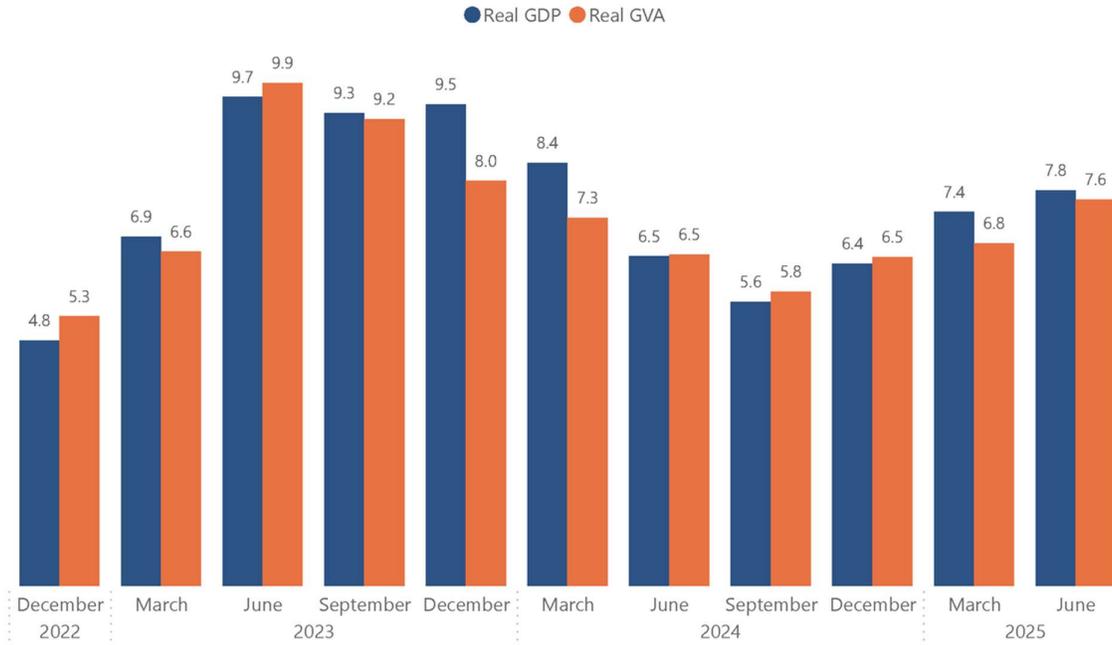
**Fig: GST collections trend (in INR Trillion)**



Source: EquiPoise Capital Research, GOI

India’s GDP grew 7.8% YoY in the first quarter FY2026, marking the strongest growth in the past five quarters and significantly ahead of consensus estimates of around 6.6%. Real GVA growth also came in at 7.6%, almost 80bps higher than first quarter of FY2025, indicating a broad-based expansion across sectors. The data highlights strong momentum in economic activity and suggests resilience in domestic demand.

**Fig: Real GDP Growth (YoY%)**



Source: India Data Hub

S&P has upgraded India’s sovereign credit rating from BBB- to BBB, making it the first upgrade in last 18 years and despite the 50% tariffs/sanctions imposed by US. The upgrade is significant as it underscores the government’s progress on fiscal consolidation, policy consistency, better quality of public spending, a strong external position, effective inflation management, and sustained economic growth.

India's current account deficit stood at USD2.4bn or 0.2% of GDP in the first quarter of FY2026. This is a marked improvement compared with a deficit of USD8.6bn or 0.9% of GDP, in the same quarter a year ago and USD13.5bn or 1.3% of GDP in the immediately preceding quarter i.e. quarter four FY2025.

India’s manufacturing sector recorded robust growth in August 2025, with the HSBC India Manufacturing Purchasing Managers’ Index (PMI), compiled by Standard and Poor’s (S&P) Global, rising to 59.3, its highest level in nearly 18 years. The strong performance was supported by a surge in domestic demand, which drove substantial increases in factory orders and production. The PMI has now remained in the expansion zone for the 50th consecutive month, signaling sustained momentum in the sector. Growth was particularly strong in intermediate goods, followed by capital goods and consumer goods, with companies also reporting improved alignment of supply with demand. While international demand growth softened slightly due to tariff uncertainties in the US, overall order inflows held up well, demonstrating the resilience of domestic demand. Companies secured fresh orders from clients across Asia, Europe, the Middle East, and the US, ensuring broad-based growth.

India’s services sector continued its strong run, hitting a 15-year high in August on new orders and rising output led by international demand. The HSBC India Services Purchasing Managers’ Index (PMI) climbed to 62.9, up from 60.5 in July, according to S&P Global data. Demand buoyancy, efficiency gains, and greater inflows of new business were among the key reasons for the strongest growth since 2010.

Foreign direct equity investments saw 15% growth year-on-year to USD18.63bn billion during the first quarter of the financial year 2025-26 (Q1FY2026) with US being the top source of inflows.

Government of India announced “Next-Gen GST Reforms”. The highlight of GST reforms is the rationalization of the currently complex four-tier rate structure (5%/12%/18%/28% - with cess in some cases) to a simplified, mostly two-tier rate structure (5%/18%) with a demerit rate of 40% for select items categorized as sin or luxury goods. Importantly, there are certain silent yet deep-impact reforms as well. The government is focusing on the ease of doing business and ease of living by bringing in several structural reforms in the GST structure and streamlining/expediting various processes. New rates will become applicable for most products/services from September 22, 2025, thus striving to pass on the benefits to end consumers during the two major festive seasons.

**Fig: Next-Gen GST Reforms: Rate cuts effective from Sept 22, 2025**



Source: Government of India

## Our view:

Government of India announced GST reforms focused on the common man, his health and well-being. GST on life-saving medicines, personal and health insurance has been brought down to 0% (earlier 18%). Daily household essential items and agriculture inputs have been brought down to 5% (earlier 18% or 12%). Government said “Lower rates result in increased compliance and buoyancy, so these rate cuts are sustainable.” This, we believe, is a valid point and assessment of “loss in revenue” is better if done over next two quarters. There was a fear that India’s economy was running on only one engine i.e. government capital expenditure hence not sustainable. Government has moved in a calibrated manner and used the more arduous path of investment led growth (even during Covid pandemic) followed by cut in corporate tax rate then personal income tax exempt up to INR1.2mn and now GST rate cut. This is another strong nudge to corporates to push capex, to take risk, and a boost for consumption hence private capital expenditure hence jobs hence overall economy. The message is loud and clear; Government has done the heavy lifting, has put the much-needed infrastructure in place on mission scale (still doing it), has ensured inflation remains low (India’s CPI inflation is 1.55%), has in a disciplined manner brought down fiscal deficit drastically, yet maintained high GDP growth, ensured high levels of forex reserves and now boosted consumption to encourage the private sector to come forward. (Table of old and new GST rates above in this note).

However, US punitive tariffs/sanctions of 50% remain a dampener for equity market. We highlighted the dynamics of India-US trade (exports and imports breakup) in our previous month’s note.

## INDIA’S TRADE EXPORTS TO US in CY2024

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	Articles of Apparel and Clothing Accessories (knitted + not knitted)	4.7
6	Organic Chemicals	3.5
7	Mineral Fuels, Mineral Oils and Products of Their Distillation	3.0
8	Made-Up Textile Articles, Worn Clothing	2.9
9	Vehicles	2.7
10	Articles of Iron or Steel	2.6
	<b>Total exports by India to the US</b>	<b>87.4</b>

Source: US International Trade Commission

Of the above list of exports, pharmaceuticals and electronics are exempt from tariffs. While US tariffs do threaten India’s labour-intensive exports to American shores, shipments worth around USD30 billion covering pharmaceuticals and electronic products such as smartphones, semiconductors and energy are so far secure from steeper duties given that they are under an exemption list.

India exported pharmaceuticals as well as electronics products (mostly smartphones) to the tune of USD10.5 billion and USD14.6 billion in FY2025, constituting ~30% of its overall outbound shipments to the US.

Interestingly, India’s petroleum exports to US, worth USD4.09 billion in FY2025 are also currently secure from US tariffs thanks to energy being in the exemption list as well. So, today India buys Russian oil, refines it and sells the oil products to US without incurring any tariff i.e. zero tariff on India’s petroleum products exports to US.

So nearly 34% of India’s exports to US are secure from US tariffs.

Product	Proposed tariff (%)
Smartphones	0
Pharma	0
Oil products	0
Shrimps	50
Machinery, mechanical appliances	51
Diamonds, gold and products	52
Carpets	53
Organic Chemicals	54
Woven apparel	60
Knitted apparel	64

The industries which are worst hit are textiles, apparel, chemicals, gems & jewellery, machinery, and shrimp exports. The companies within these industries will face margin/earnings pressure and that too directly proportional to their exposure to US market. However, today India’s GDP is USD4.1 trillion and impact of 50% tariff on USD57 billion of trade exports should not materially impact India’s economy and its growth. Interestingly, despite the noise regarding “punitive sanctions” on India, the 21<sup>st</sup> edition of India - US joint military exercise called “Yudh Abhyas” (War Studies) began in Alaska on September 1, 2025. India and the US also held a 2+2 Intersessional Dialogue on August 25, 2025, focusing on trade, energy security, and defense collaboration. The meeting aimed to advance a new ten-year defense framework and emphasized a free Indo-Pacific. India and US remain in close contact and in a dialogue to achieve Bilateral Trade Agreement. We are closely monitoring the news flow.

We believe Indian economy has been set on a strong consumption as well as investment led structural growth path as also seen through the macroeconomic indicators. However, we expect market to be volatile and look forward to the outcome of bilateral trade agreement between India and US. Our portfolio reflects our focus on infrastructure, telecom, engineering, textiles, and capital goods. We maintain underweight on technology services, metals, energy, and real estate. We remain steadfast on our conviction picks in the portfolio.

We maintain that India's long term growth story, despite all the global uncertainties, is intact and corrections present an opportunity for long term investors.

**Ashish A. Wakankar**

Founder and Chief Investment Officer

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