

India Newsletter

August 2025

In this edition...

- **India market update**
- **Tariff turbulence:** Can India stay resilient?
- **India's consumption engine:** Structural and scalable

MARKET OVERVIEW: India market update

In July 2025, the MSCI India Index declined 5.2%, underperforming the MSCI Emerging Markets Index, which gained 1.7%. Among sectors, consumer staples, healthcare, and consumer discretionary outperformed, while information technology, real estate, and energy lagged. By market capitalization, small caps showed relative resilience, with the MSCI India Small Cap Index falling 4.1%, compared with declines of 4.6% and 5.3% in the Mid Cap and Large Cap indices, respectively.

India's macroeconomic indicators remained broadly stable. GST¹ collections rose to INR 1.95 trillion from INR 1.84 trillion in June, supported by steady domestic consumption and trade. Exports (goods and services) grew 4.5% year-on-year (YoY) to USD 68.27 billion, while imports rose 6.1% to USD 79.99 billion. Core sector output expanded 2% YoY, led by strong growth in steel (+12.8%), cement, fertilizer, and electricity, offset by declines in coal, crude oil, and natural gas.

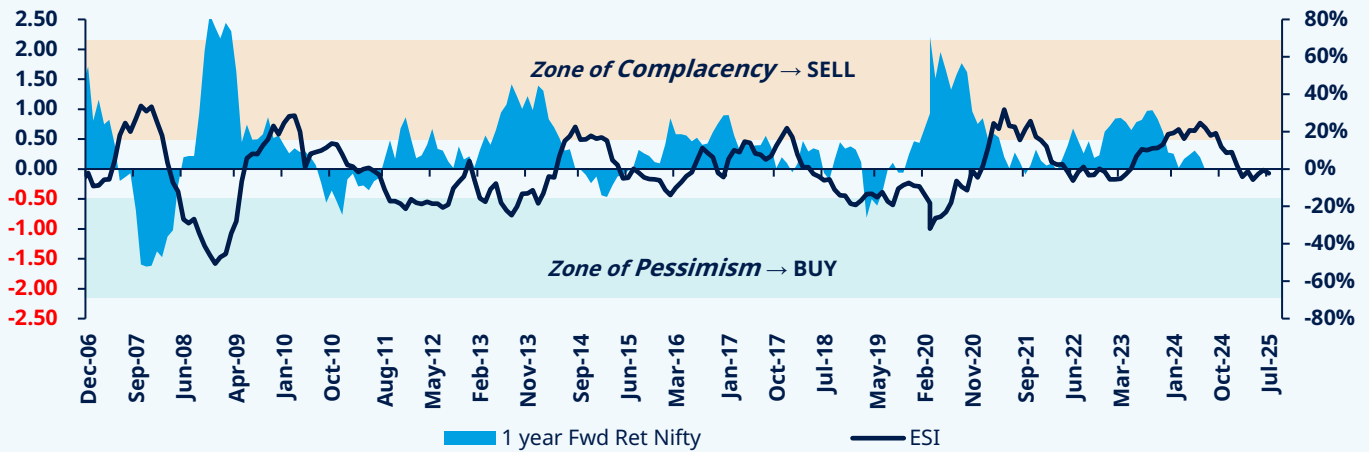
Consumption trends were mixed. Tractor sales surged on the back of agricultural subsidies and favourable monsoons, signalling rural strength. Passenger vehicle (PV) sales saw a late-month rural uptick in rural markets, while commercial vehicle (CV) growth was modest, driven by urban institutional demand. Overall auto retail volumes declined due to a high base and weather-related disruptions, though a post-monsoon and festive-season rebound is anticipated.

Inflationary pressures eased further. Headline retail inflation (CPI) fell to 1.55%—its lowest level since June 2017—driven by food deflation of -1.76%. Wholesale price inflation (WPI) remained negative for a second month at -0.58%, reflecting declines in food articles, mineral oils, crude petroleum, and basic metals. In a notable development, S&P Global upgraded India's long-term sovereign rating to 'BBB' from 'BBB-', citing strong fundamentals and prudent policymaking.

SBIFM's proprietary equity market sentiment indicator remains below zero, continuing to serve as a contrarian signal. Recent market moves indicate that prior excessive optimism has largely corrected, creating potentially more attractive long-term entry opportunities. Equity valuations have turned more reasonable amid easing bond yields and a moderation in price-to-earnings multiples. SBIFM's preferred metric—the earnings yield to bond yield spread—now stands marginally above its historical average. While near-term volatility could persist given global uncertainties, India's long-term equity outlook remains constructive. Corporate profitability as a share of GDP is rising, balance sheets are healthy, and macro conditions support a new cycle of capital formation and earnings growth—laying the groundwork for selective re-rating opportunities.

¹Goods and Services Tax (GST): is a value-added indirect tax levied on most goods and services sold for domestic consumption in India. GST collections are an important indicator of economic activity, reflecting consumption trends.

Equity sentiment remains below zero



Source: Bloomberg, FactSet, SBIFM Research; ESI = Equity sentiment Index.

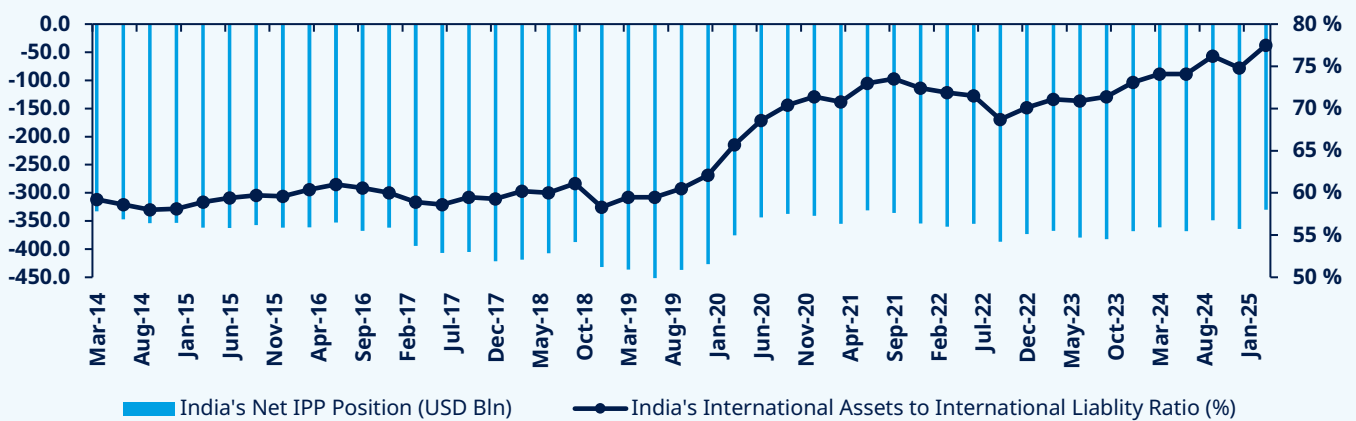
Is India resilient amid trade headwinds?

At the end of July, U.S. President Donald Trump announced a 25% tariff on Indian goods, followed by an additional 25% hike in early August. The measures are reportedly linked to trade barriers and U.S. concerns over India's defence and energy ties with Russia. Despite this renewed pressure, India is likely to navigate the turbulence arising from renewed U.S. tariff actions, thanks to its robust macroeconomic and microeconomic fundamentals.

1. Strong external fundamentals provide a buffer

India's external sector has strengthened considerably. The international investment position² (IIP) shows that external assets now cover 77.5% of international liabilities, the highest ratio in 16 years, up from 60% a decade ago. This structural improvement reduces currency depreciation risk and enhances resilience to global shocks.

Remarkable improvement in India's international investment position (IIP)



Note: Since India runs a current account deficit³ (CAD), it requires foreign capital inflows to finance it. India is, thus, a net borrower from the rest of the world (RoW), which means that India's foreign liabilities (or inflows) to the RoW have exceeded its foreign assets (or outflows). Resulting in a negative net IIP position. Data until March 2025.

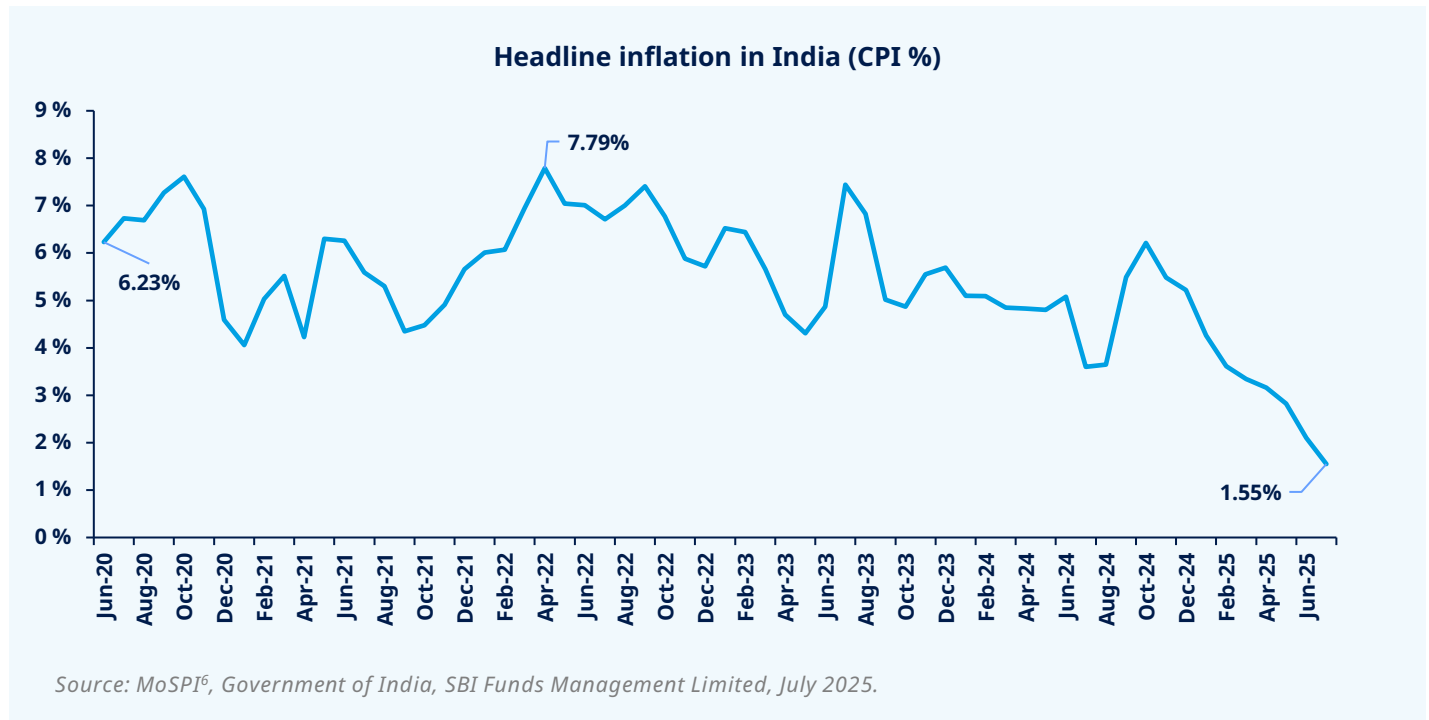
Source: Reserve Bank of India; SBI Funds Management Limited, July 2025. For illustrative purposes only.

²International Investment Position: is a measure of a country's external financial assets and liabilities.

³Current Account Deficit: is when a country's imports of goods, services, and transfers exceed its exports.

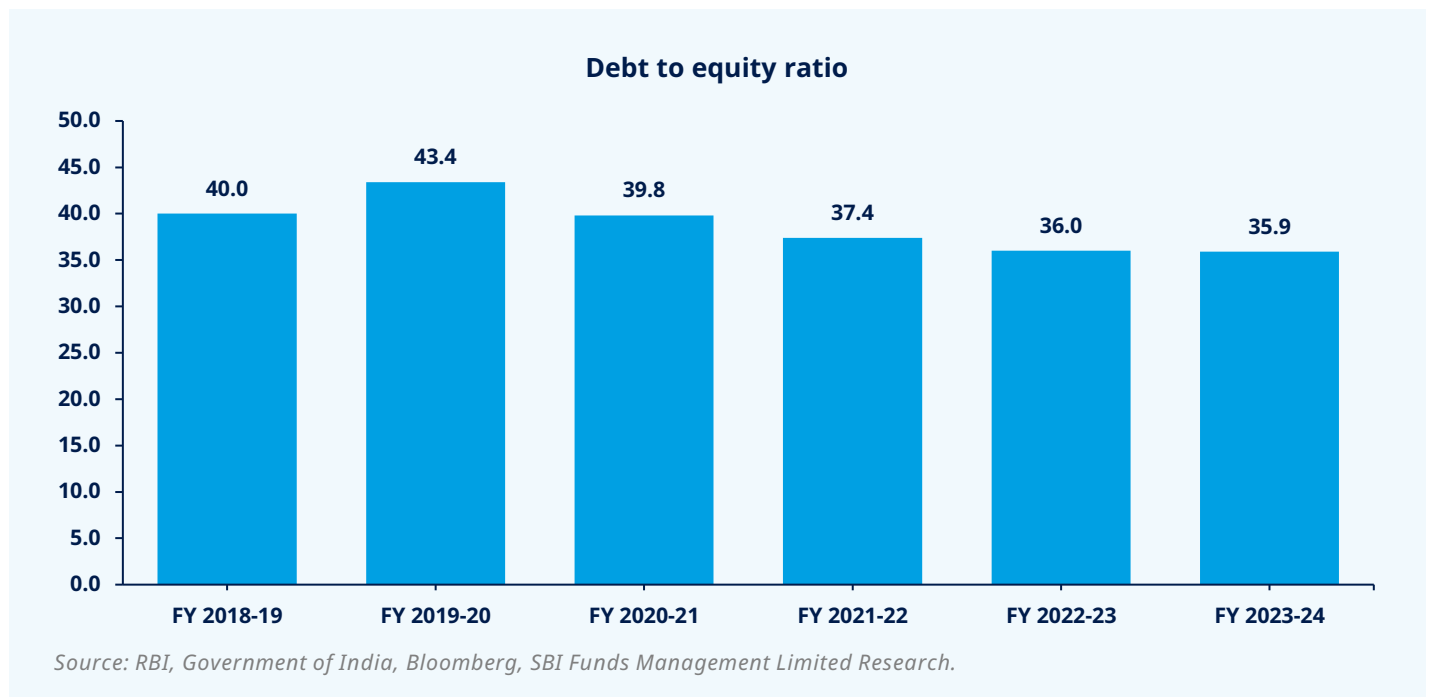
2. Inflation under control, policy space intact

Inflationary pressures have eased significantly. Retail inflation (CPI⁴) declined to 1.55% in July 2025, the lowest since June 2017, while wholesale inflation (WPI⁵) remained negative at -0.58%. This disinflationary trend provides the Reserve Bank of India (RBI) with room to support growth if needed.



3. Corporate balance sheets are healthy

Corporate India has deleveraged significantly, with net debt-to-equity at multi-year lows. This improved financial strength enhances capacity for capital expenditure.



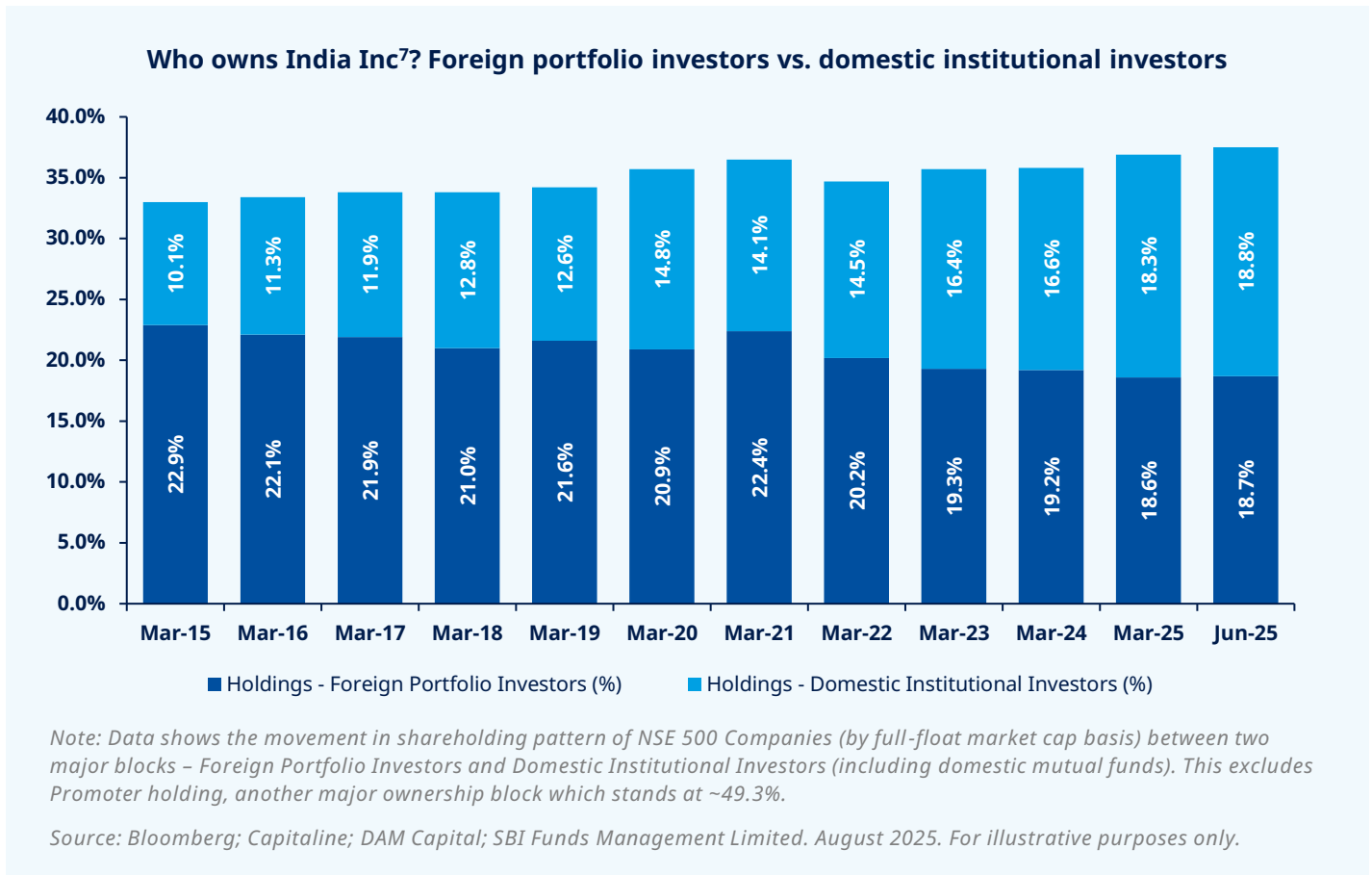
⁴Consumer Price Index: it measures the average change in prices paid by consumers for goods and services.

⁵Wholesale Price Index: it tracks the average change in prices of goods at the wholesale level.

⁶MoSPI: Ministry of Statistics and Programme Implementation; the Government of India agency responsible for statistical data, surveys, and economic indicators.

4. Domestic investors cushion volatility

The ownership structure of Indian equities is shifting. Domestic Institutional Investors (DIIs) have steadily increased their ownership share in Indian equities, reducing dependence on foreign portfolio inflows and mitigating vulnerability to external capital flight.



While near-term volatility from U.S. tariffs and global uncertainty may persist, India’s structural strengths—sound external metrics, low inflation, healthy corporate balance sheets, and rising domestic investor participation—provide a solid foundation. Historically, such disruptions have at times catalysed reform, paving the way for the next stage of economic growth.

India’s consumption engine: Structural and scalable

Domestic consumption remains the bedrock of India’s growth, accounting for approximately 57–60% of GDP. Unlike export-led economies, India’s resilience is anchored in its internal demand base, making consumption a structural driver of long-term expansion.

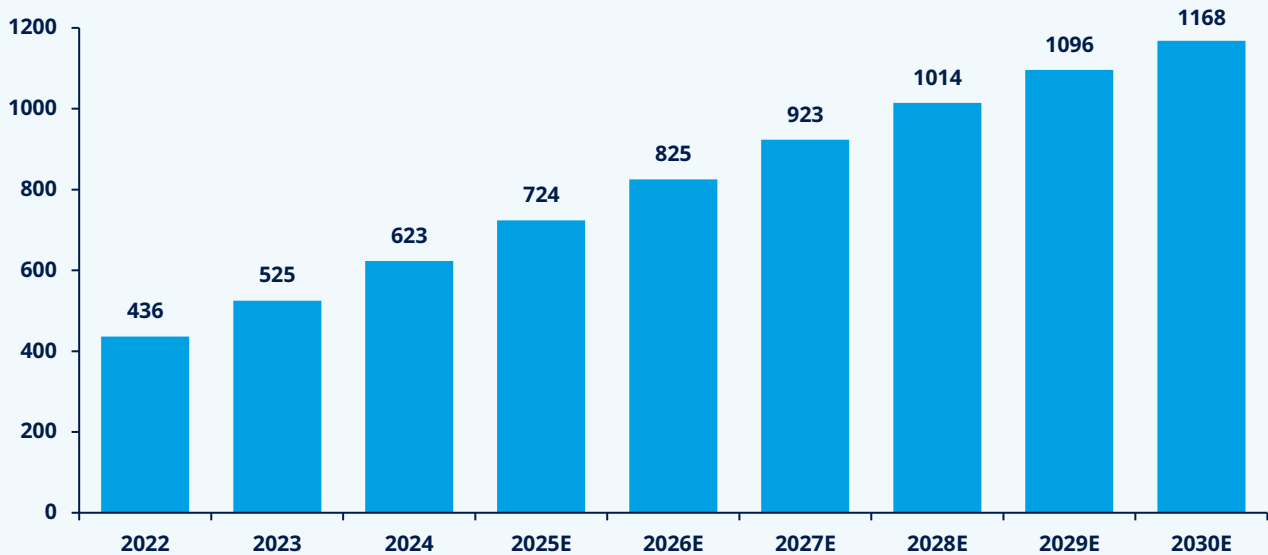
1. The rise of the Indian middle class

India’s middle class, defined by household expenditure and adjusted for PPP⁸, is expanding rapidly. This demographic transformation is central to sustained consumption growth, particularly in discretionary categories.

⁷India Inc: is a collective term referring to India’s formal, organised corporate sector.

⁸PPP or Purchasing Power Parity: is an economic metric that compares currencies by the amount of goods and services they can buy in their respective countries.

Rise of India's middle class (in millions)

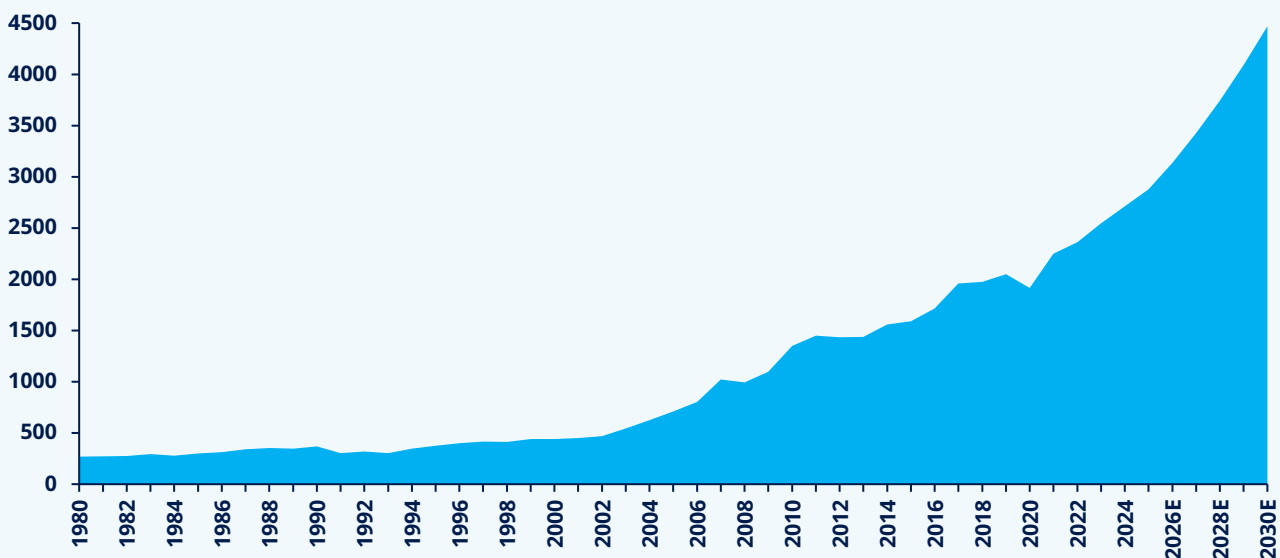


Source: The Brookings Institution, J.P. Morgan. SBIFM Research, 2024.

2. Per capita income growth

India's GDP per capita increased from USD 1,928 in 2020 to USD 2,850 in 2024, with the IMF⁹ projecting USD 3,120 in 2025. As income levels rise, purchasing power improves, unlocking latent demand across sectors. Currently, India's spending-to-income ratio remains low relative to global peers, indicating significant room for consumption expansion.

GDP per capita, current prices (U.S. dollars per capita)



Source: IMF, World Economic Outlook, SBIFM Research, 2024.

3. Digital and structural transformation

India's consumer economy is undergoing a transformation driven by urbanisation, tech adoption, and digital infrastructure. Key segments are scaling rapidly.

⁹IMF: International Monetary Fund.

Growth across segments

Segment	2024 Value	2030 Projection	CAGR
FMCG	US\$158 billion	US\$615.87 billion	28%
Retail Market	US\$1.065 trillion	US\$1.93 trillion	10%
D2C Market	US\$80 billion	US\$267 billion	~25%
Quick Commerce	US\$3.5 billion	US\$35–40 billion	~37%

Source: FICCI-Deloitte Massmerize Report 2025, NielsenIQ, Deloitte India Consumer Survey, SBIFM Research.

India's consumption story is not just intact—it's accelerating. With rising affluence, digital enablement, and favourable demographic momentum are set to keep domestic demand at the forefront of India's growth trajectory through the decade.

Important information – Marketing Communication

Unless otherwise stated, all information contained in this document is from Amundi Asset Management S.A.S. and is as of 29 August 2025. Diversification does not guarantee a profit or protect against a loss. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management S.A.S. and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. This material does not constitute an offer or solicitation to buy or sell any security, fund units or services. Investment involves risks, including market, political, liquidity and currency risks. Past performance is not a guarantee or indicative of future results.

Date of first use: 29 August 2025

Doc ID: 4769150