

Future Outlook of Capital Markets

14th June 2025

ANANDRATHI
Institutional Equities



Global growth expected to remain stable, India to retain 'fastest growing major economy' tag

Actuals(FY)		India	China	USA	Japan	Germany	World
	2021	9.7	8.6	6.1	2.7	3.7	6.6
	2022	7.6	3.1	2.5	0.9	1.4	3.6
	2023	9.2	5.4	2.9	1.5	-0.3	3.5
	2024	6.5	5.0	2.8	0.1	-0.2	3.3
	Median	8.4	5.2	2.8	1.2	0.6	3.6

IMF Forecasts(FY)		India	China	USA	Germany	Japan	World
	2025E	6.2	4.0	1.8	-0.1	0.6	2.8
	2026E	6.3	4.0	1.7	0.9	0.6	3.0
	20267	6.5	4.2	2.0	1.5	0.6	3.2
	Median	6.3	4.0	1.8	0.9	0.6	3.0

Inflation to stabilize after experiencing geopolitical and pandemic related turbulence

Actuals(CY)		India	Germany	USA	Japan	China	World
	2021	5.5	3.2	4.7	-0.2	0.9	4.7
	2022	6.7	8.7	8.0	2.5	2.0	8.6
	2023	5.4	6.0	4.1	3.3	0.2	6.6
	2024	4.7	2.5	3.0	2.7	0.2	5.7
	Median	5.4	4.6	4.4	2.6	0.6	6.1

IMF Forecasts(CY)		India	US	Japan	Germany	China	World
	2025E	4.2	3.0	2.4	2.1	0.0	4.3
	2026E	4.1	2.5	1.7	2.0	0.6	3.6
	2027E	4.0	2.1	2.0	2.1	1.4	3.3
	Median	4.1	2.5	2.0	2.1	0.6	3.6

Post Covid countries have shifted their focus towards fiscal consolidation

	Germany	China	United States	India	Japan
2021	-3.2	-3.0	-12.1	-6.7	-12.6
2022	-2.1	-2.7	-5.4	-6.5	-9.5
2023	-2.5	-3.8	-6.2	-5.5	-8.0
2024	-2.8	-3.0	-6.4	-4.8	-5.8
Median	-2.6	-3.0	-6.3	-6.0	-8.8

Resilience amid Geo-political concerns

- The average Sensex correction at lowest points during Indo-Pak tensions was 7.5% and the median, 3.5%. In relative terms (vs. S&P 500), both mean and median were positive, indicating outperformance by India during these periods. FPI flows, also, for the balance, remained positive and turned substantially negative during only two of the 10 episodes.
- Even after the Russia Ukraine standoff (Feb'22), Indian markets corrected by 7% immediately and later stabilized. Rising crude oil and inflationary concerns resulted in correction up to 10% by Jun'22. Markets later reached their all time high by the year end.

Impact of heightened India-Pakistan tensions on the Sensex and FPI flows

Event	Year	From	To	Maximum correction, %		FPI equity flow, Rs. '000 crore
				Sensex	Sensex relative to S&P500	
Major insurgency in Jammu and Kashmir	1990	1-May-90	31-Dec-90	-3.5	7.1	n.a.
Kargil War	1999	3-May-99	26-Jul-99	1.6	5.6	3.5
Indian Parliament Attack	2001	13-Dec-01	1-Oct-02	-13.5	16.3	3.3
Kaluchak Massacre	2002	14-May-02	31-May-02	-9.5	-8.6	-0.2
Mumbai Train Blasts	2006	11-Jul-06	31-Jul-06	-6.3	-3.7	0.4
26/11 Mumbai Attacks	2008	26-Nov-08	31-Dec-08	0.5	5.3	1.3
Pathankot Attack	2016	2-Jan-16	31-Jan-16	-8.4	0.6	-12.2
Uri Attack and Surgical Strikes	2016	18-Sep-16	29-Sep-16	-2.7	-2.7	4.9
Pulwama Attack and Balakot Airstrikes	2019	14-Feb-19	1-Mar-19	-1.9	-1.6	11.2
Revocation of Article 370 (J&K)	2019	5-Aug-19	31-Aug-19	-1.7	1.4	-15.0
2020 LoC Ceasefire Violations	2020	1-Jan-20	25-Feb-21	-37.0	-6.3	213.7
Pehalgam Attack	2025	22-Apr-25	10-May-25	-0.2	-2.8	20.7
Mean				-7.5	1.2	21.1
Median				-3.5	0.6	2.3

Source: SEBI, BSE, CEIC Database, Press reports, Anand Rathi Research.

Conclusion

- The global economic growth is expected to moderate, amid concerns of slowdown on account of trade tariffs and protectionist policies.
- As the inflation has moderated, major central banks are into rate cut cycle with cautious path.
- Post a jump in fiscal deficit during Covid period, most economies have reverted towards fiscal consolidation.
- The geo-political problems have minimal impact on the Indian Equities market.

Indian economy

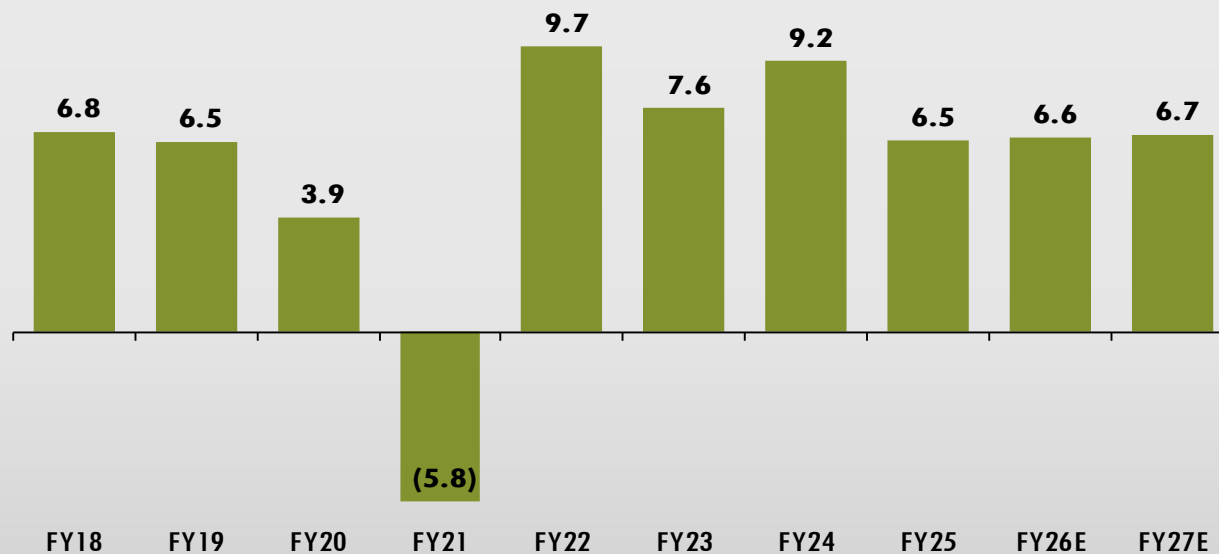
SECOND-HALF HOLDS PROMISES

ANANDRATHI
Institutional Equities



India to continue as fastest growing major economy with 6.6% growth for FY26e

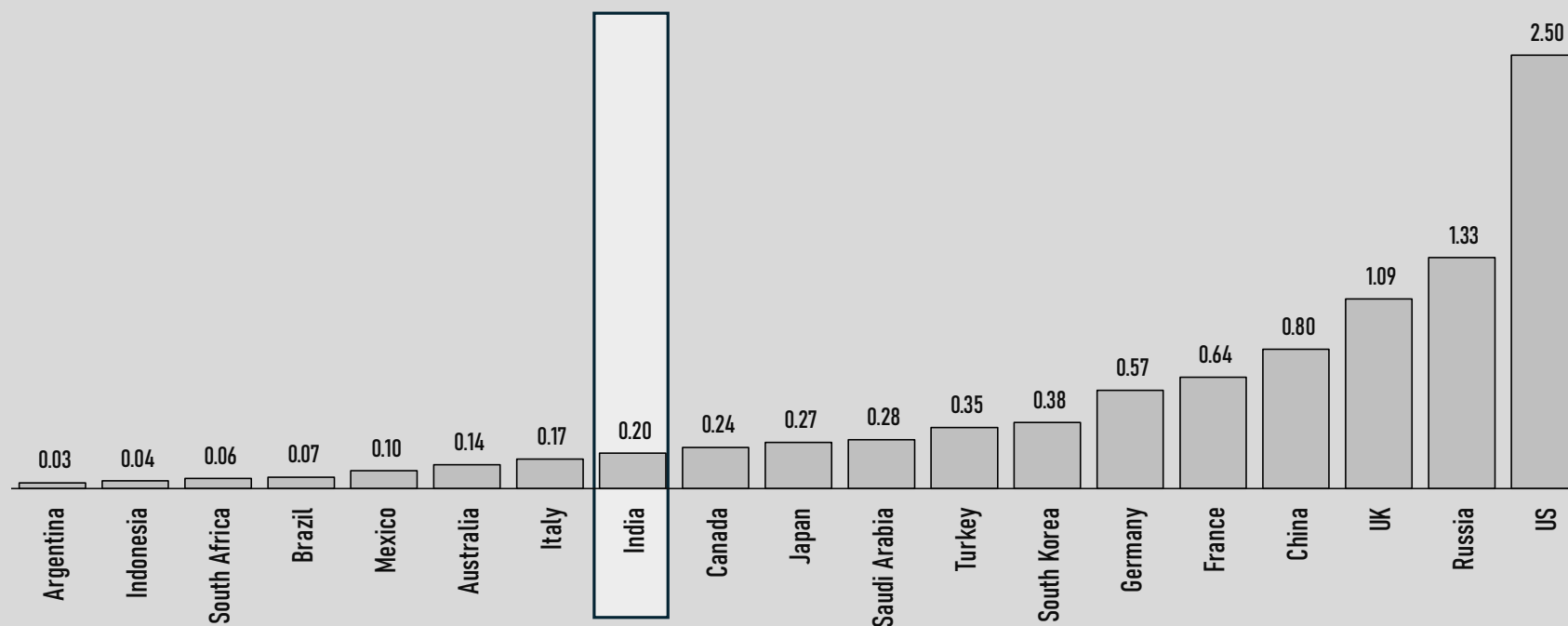
Real GDP (y/y%)



Note: MOSPI and Anand Rathi Estimates

India Relatively Less Impacted by Geopolitical Uncertainties

Geo-political Uncertainty Index, Average- 2015-24



Source: SEBI, CEIC Database, ARWL.

Note: Dario Caldara and Matteo Iacoviello based on words related to geopolitical tensions in leading international newspapers..

Union Budget 2025-26 – a visionary budget



This budget has a strategic vision, focused on achieving the 'Viksit Bharat' goal by 2047, rather than being a transitional budget.

- Glide path to fiscal deficit continues with a target to achieve 4.4% of GDP by FY26e. This provides an opportunity for India's credit rating upgrade.
- The emphasis on capital expenditure is strong, with effective capex up 17% to Rs 19 trn (including budgetary capex and off-budget allocations). Emphasis on PPP model to steer private capex.
- The simplification in taxation and reduction of personal income tax rates will increase disposable income and is expected to stimulate household consumption, particularly in the discretionary spending segments and savings and investments of the middle and upper-middle-income groups.

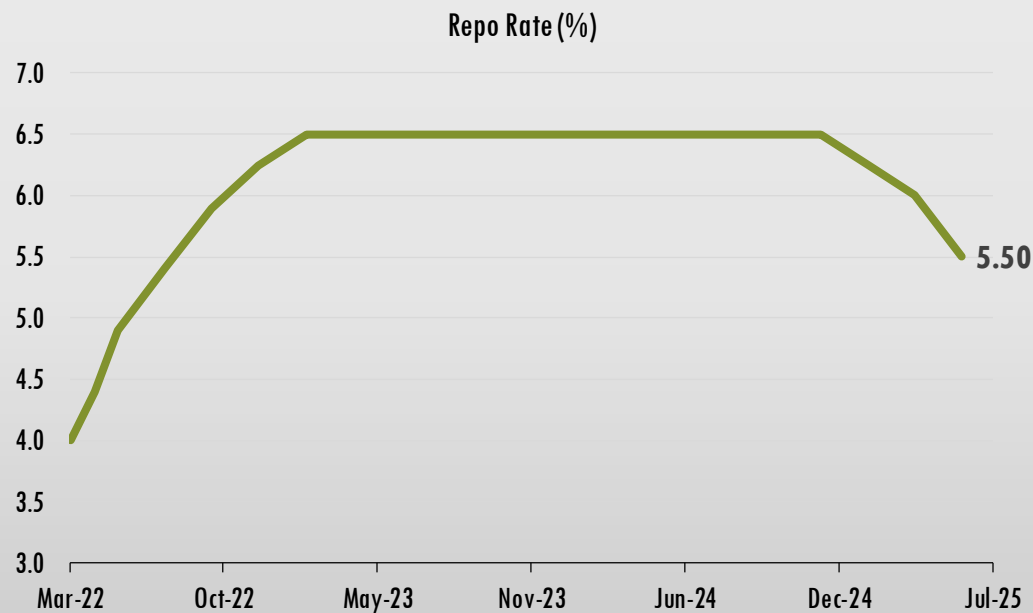
Government finances - revenues continue to be robust, fiscal deficit projected at 4.4% of GDP in FY26

		2023-24	2024-25	
Particulars		INR lakh cr	INR lakh cr	% change y-o-y
a	Tax Revenues	34.66	37.95	9.5
b	Non Tax Receipts	4.62	5.79	25.3
c	Total Receipts (a +b)	39.28	43.75	11.4
d	Less: Transfer to States	11.38	12.96	13.9
e	Net Receipts to Centre (c-d)	27.90	30.78	10.3
f	Total Expenditure	44.43	46.56	4.8
g	Fiscal Deficit (f - e)	16.53	15.77	-4.6
h	Fiscal deficit (% of GDP)	5.5	4.8	

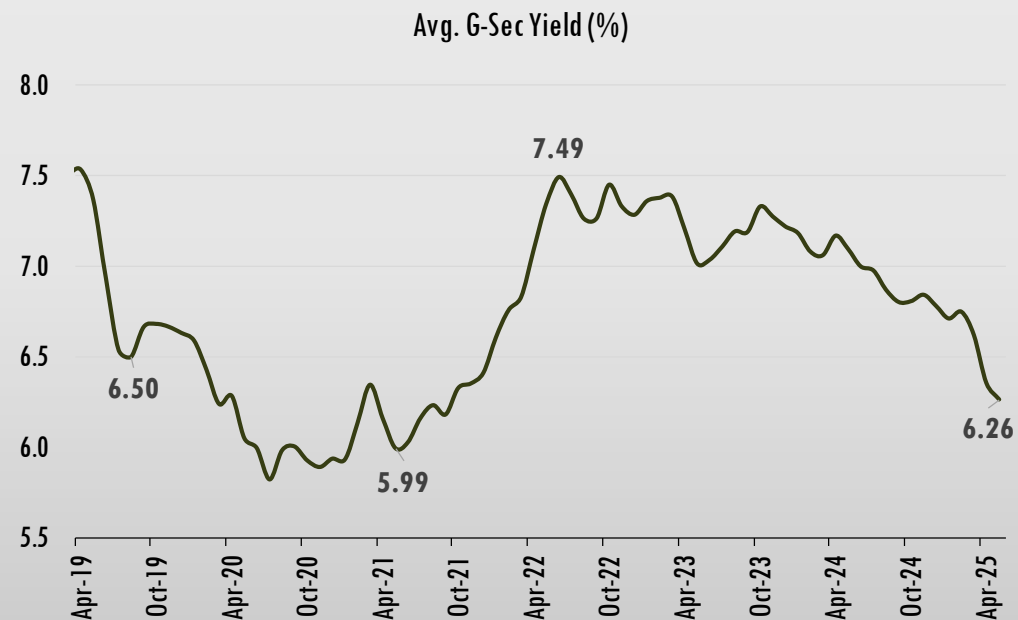
2025-26e	
INR lakh cr	% change y-o-y
42.70	12.5
6.59	13.7
49.29	12.7
14.33	10.5
34.96	13.6
50.65	8.8
15.69	-0.5
4.4	

- Fiscal deficit declined to 4.8% of GDP for FY25 as expenditure remained under control.
- Receipt of 2.7 lakh crore dividend from RBI has helped the fiscal position favourable for FY26
- Fiscal deficit to GDP ratio likely to be lower than the budgeted estimates for FY26.

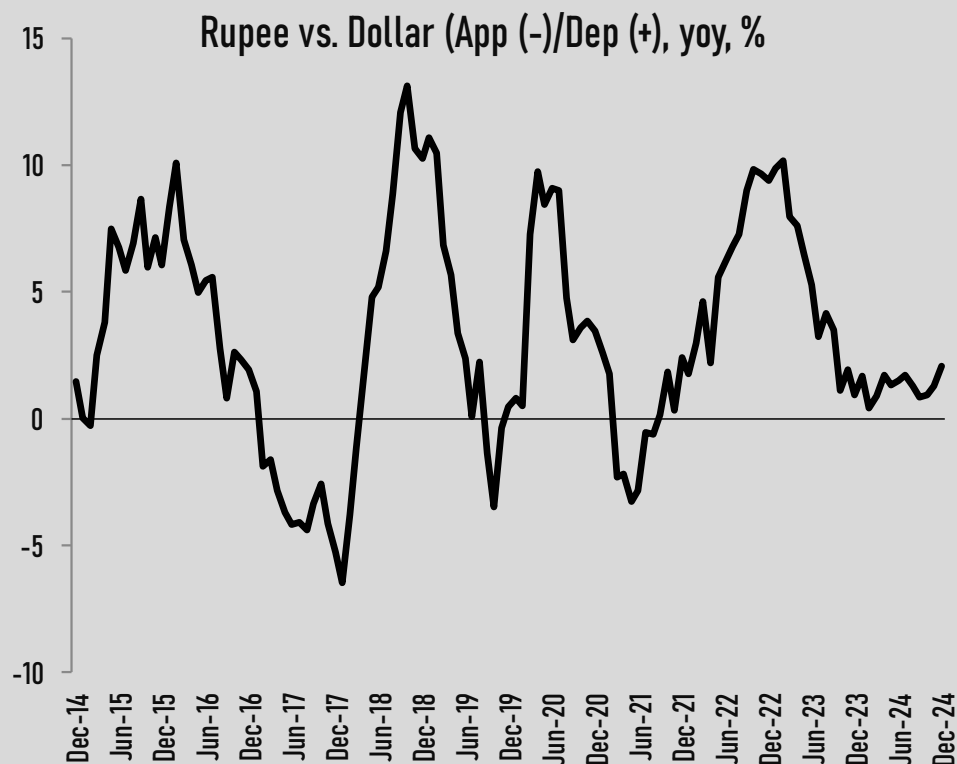
Bond yields expected to moderate on account of lower deficit and borrowings, expected policy rate cut and India's inclusion in global bond indices attracting higher debt inflows



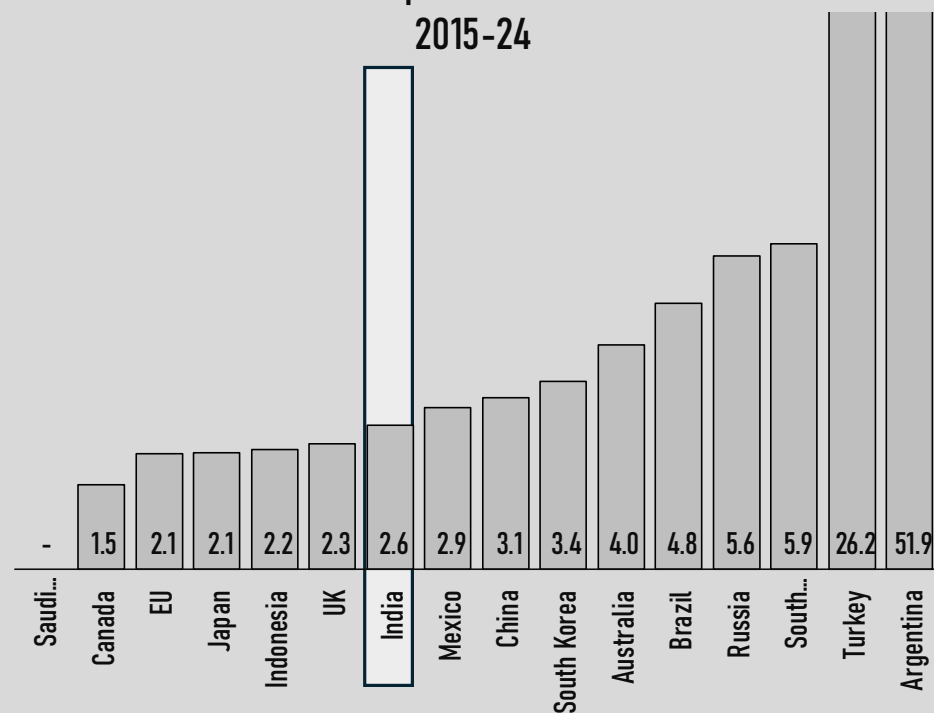
Source: RBI, CCIL.



Despite Phases of Large Moves , Rupee, has been a Relatively Stable Currency



Annual median depreciation versus US dollar - 2015-24



Source: CEIC Database ARWL.

How India's Journey and Future Being Seen by the Western Liberal Media in 2024



April 27, 2024

On Economy

India, the world's fastest-growing big country ... private-sector confidence at its highest since 2010. ... (India) may rank third by 2027, ... American firms have 1.5m staff in India, more than in any other foreign country.

On Services Exports

A second, more novel pillar is services exports, which have reached 10% of GDP. ... Indian IT firms have marketed "global capability centres"—hubs that sell multinationals R&D and services such as law and accounting.

On Infrastructure

a massive programme of infrastructure ... 149 airports, double the number a decade ago, and is adding 10,000km of roads and 15GW of solar-energy capacity a year. ... digital payments, modern capital markets and banks, ...

On PM Modi

... Mr Modi ... deserves credit for forcing through stalled reforms, ... concentration in business is falling, corruption has waned. ... India will continue to grow strongly. So will its middle class: 60m people, ... by 2027, (it will be) 100m ...

Conclusion

- With expected 6.6% growth in FY26, India continues to be the fastest growing major economy.
- With inflation below the target level of 4% and moderating food and crude prices, the RBI has cut the repo rate by total 100 bps in 2025 so far and has prioritized growth.
- The fiscal position of the government remains favorable with expenditure under check. Record dividends from RBI is likely to result in lower fiscal deficit .
- Bond yields have moderated towards 6.25%.
- The strong fundamentals shall position India as an attractive investment destination.
- Capex both public and private is expected to pick up pace.

Indian equity market

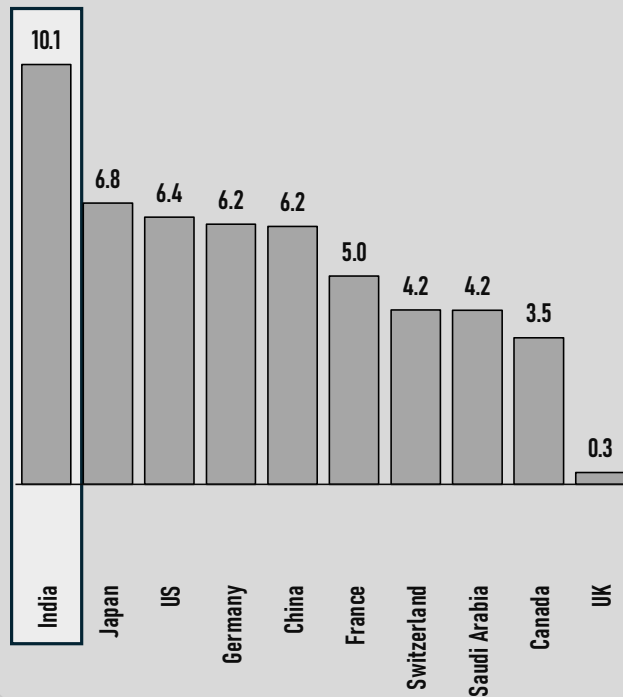
LOOKS ATTRACTIVE DESPITE CONCERNS

ANANDRATHI
Institutional Equities

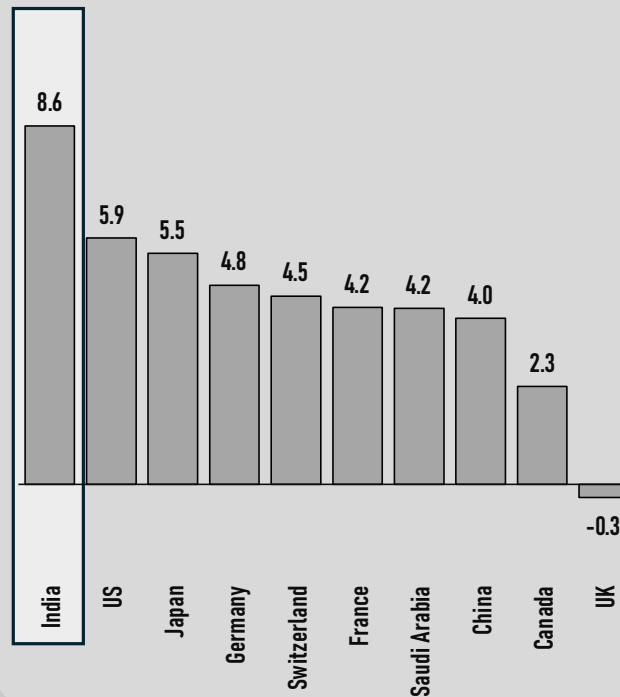


India Best Performing Equity Market by US Dollar Return in Last 10 years

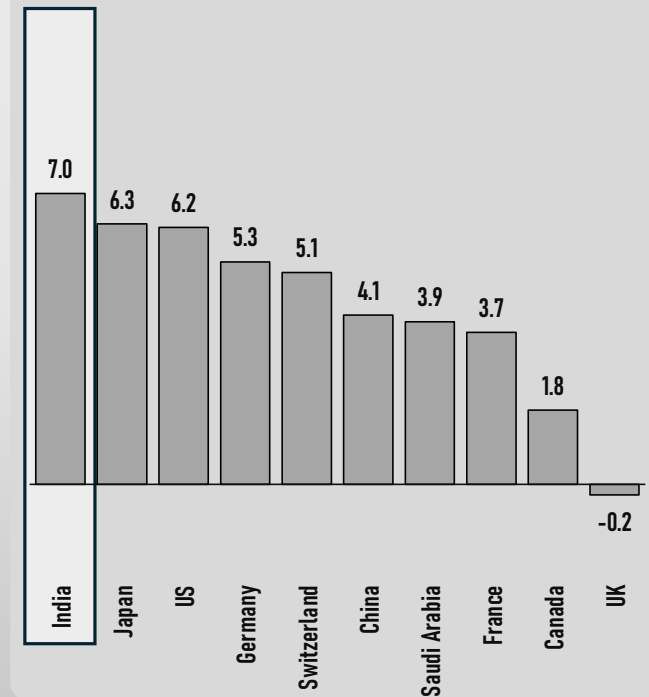
Average 1-year USD return - 2015-24, %



Average 3-year USD return - 2015-24, %



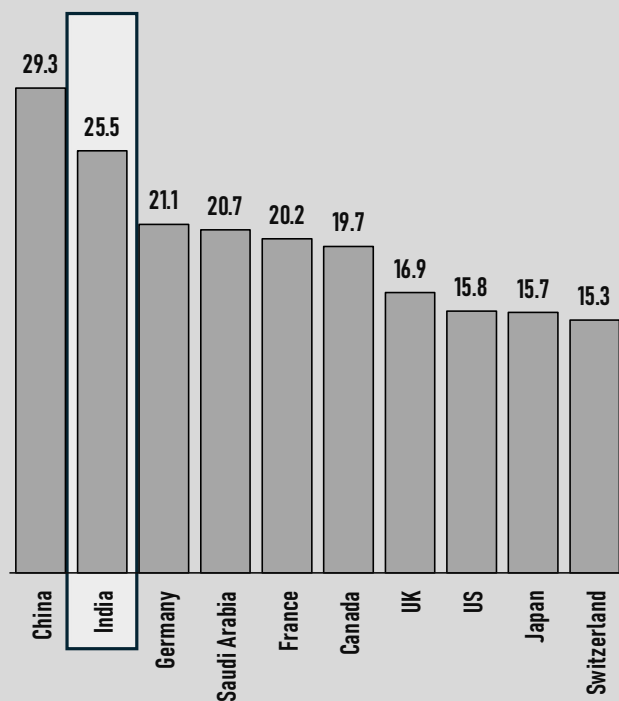
Average 5-year USD return - 2015-24, %



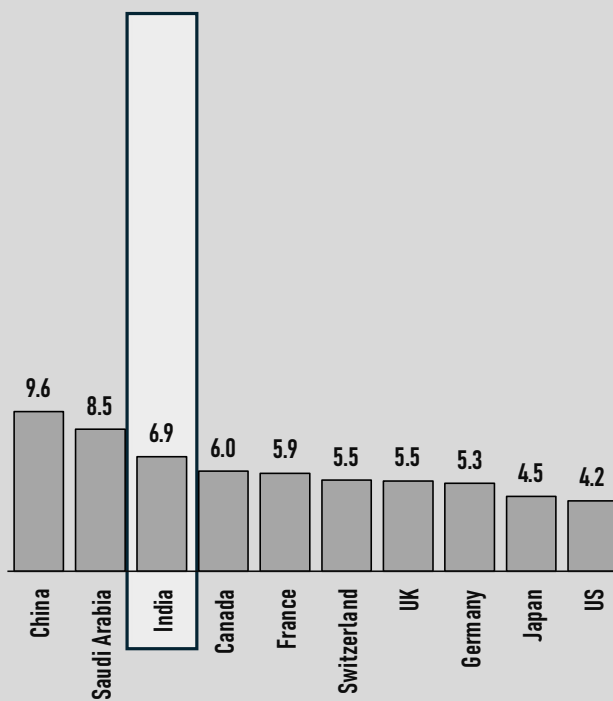
Source: CEIC Database, ARWL

Longer-Term Volatility of Indian Equities Comparable with Developed Countries

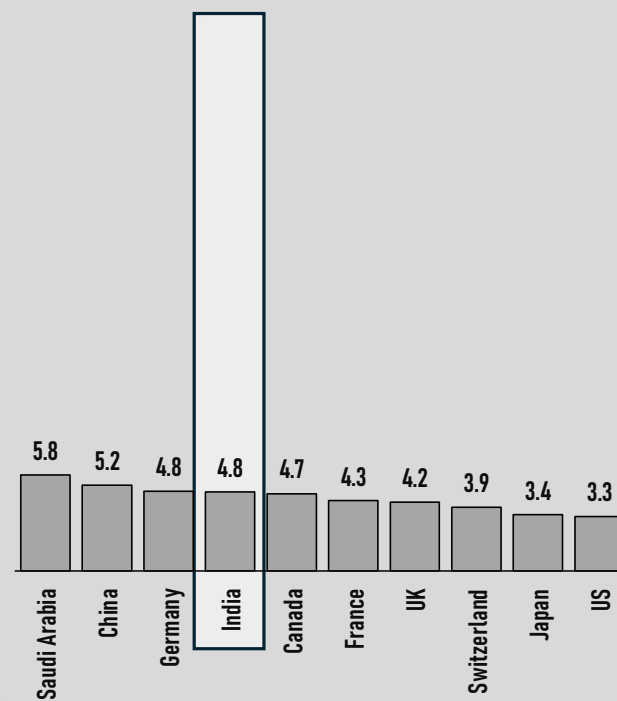
Average 1-year return volatility, %



Average 3-year return volatility, %



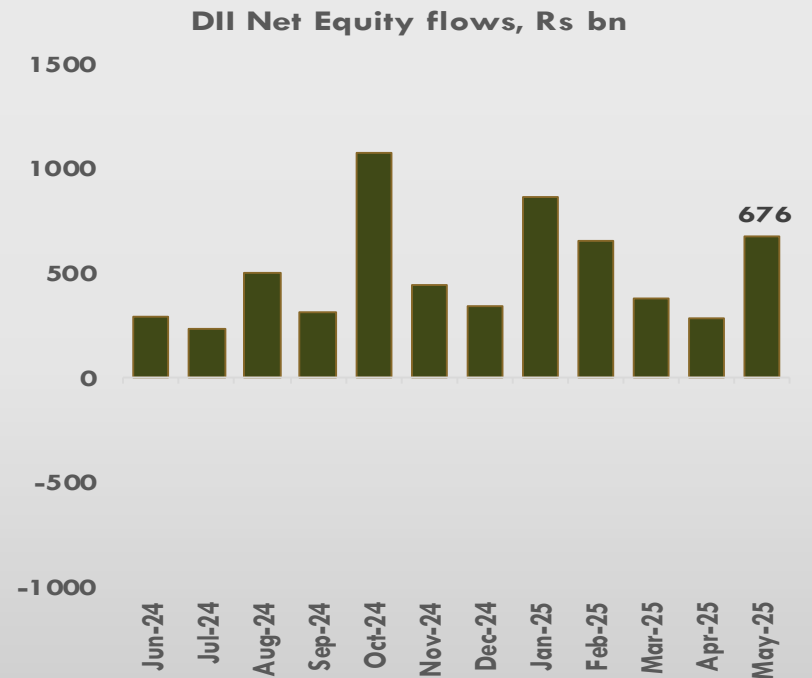
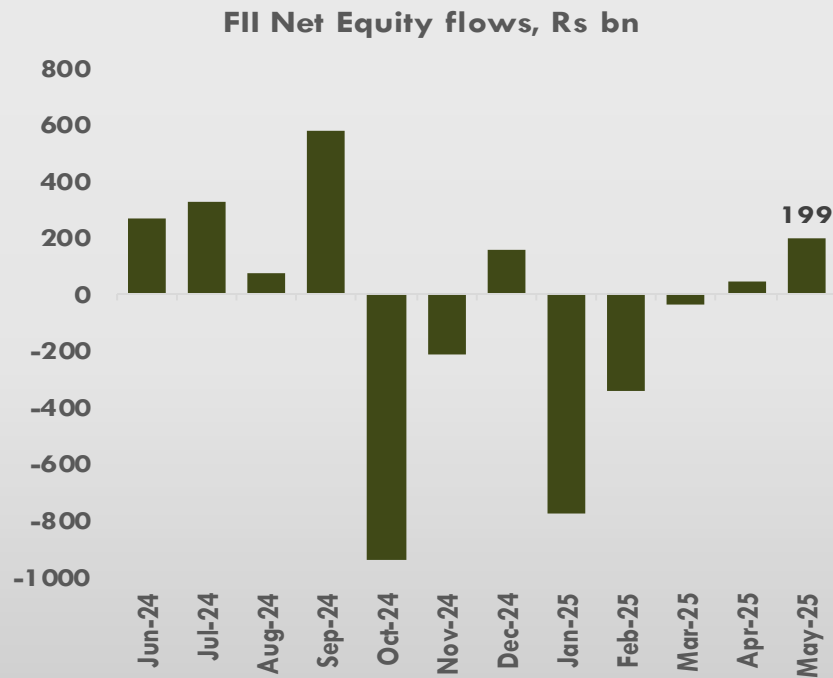
Average 5-year return volatility, %



Source: CEIC Database, ARWL.

Note: Used standard deviation as measure of volatility.

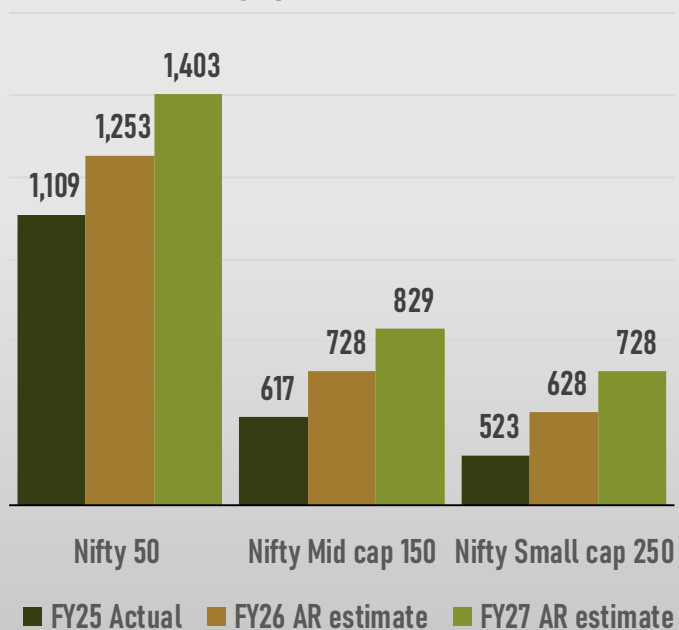
FII outflows counterbalanced by strong DII flows



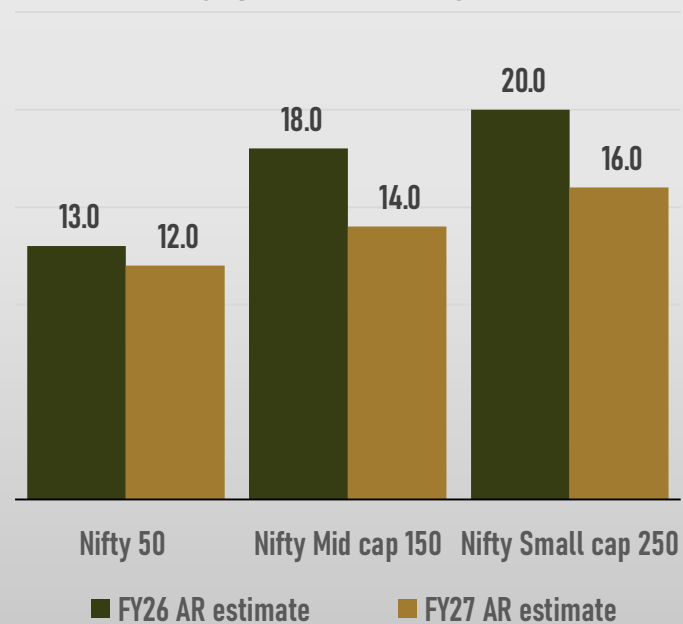
Source: CEIC

Earnings growth look optimistic; expect Nifty 50 to register growth of 13% for FY26 and 12% for FY27

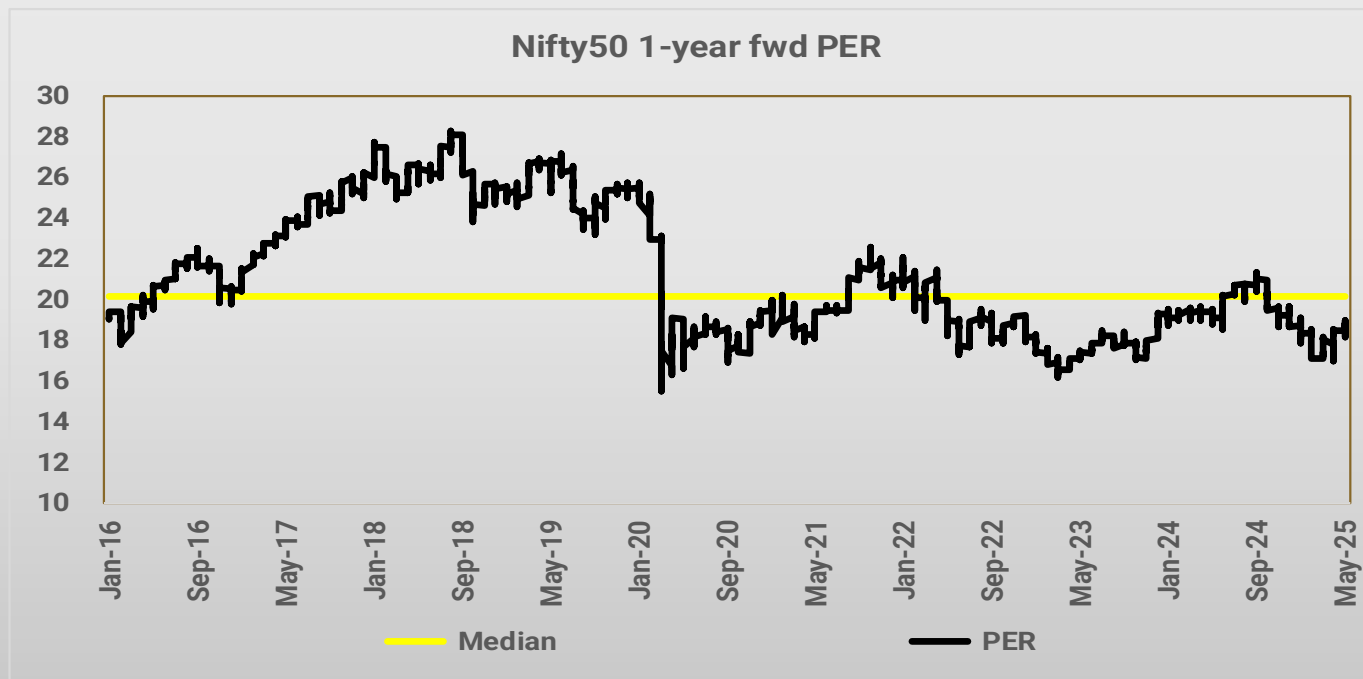
Earnings per share (EPS), Rs.



Earnings per share (EPS) growth, %



Nifty 50, after recent correction, trades at 18.6x one-year forward earnings, below its long-term average of 20.5x indicating an attractive entry point



India - Past, Present and the Future

		Mar-15	Mar-20	Mar-25	Mar-29e	Growth rate, %		
						2015-20	2020-25	2025-29e
GDP	Rs. Lakh crore	125	201	331	553	10.0	10.5	10.8
	USD billion	1,996	2,704	3,821	5,504	6.3	7.2	7.6
Per capita GDP	USD	1,600	2,048	2,753	3,825	5.1	6.1	6.8
Nifty 50	Index	8,491	8,598	23,519	40,000	0.3	22.3	11.2
Sensex	Index	27,957	29,468	77,415	1,30,000	1.1	21.3	10.9
Market cap	Rs. Lakh crore	101	113	413	830	2.3	29.5	15.0
	USD billion	1,625	1,526	4,766	8,268	-1.2	25.6	11.7
MF equity flow (annual)	Rs. '000 crore	68	84	507	934	4.2	43.3	13.0
	USD billion	11	11	59	93	0.7	39.0	9.7
MF equity AUM	Rs. '000 crore	306	579	2,945	7,329	13.6	38.5	20.0
	USD billion	49	78	340	730	9.7	34.3	16.5
FPI Equity Portfolio	Rs. '000 crore	2,078	2,118	6,680	12,583	0.4	25.8	13.5
	USD billion	333	285	771	1,253	-3.1	22.0	10.2
Rupee	Per USD	62.45	74.35	86.64	100.44	3.6	3.1	3.0

Source: Government of India, RBI, SEBI, NSDL, CDSL, BSE, NSE, CEIC Database, ARWL.

Conclusion

- India continues to remain the fastest growing economy. Despite geopolitical tensions and trade related disruptions, India's structural strengths reinforce its position as a stable and attractive investment destination.
- India Inc. continues to exemplify resilience and growth potential despite market disruptions, with the Nifty50 trading at 18.6x one-year forward earnings estimates, below its long-term average of 20.5x
- An 13% earnings growth forecast for FY26, anchored in optimism around strong macro fundamentals remains solid, with no material downside risks. These factors reinforce confidence in Indian equities as a growth engine.
- Risks- Despite an overall constructive macroeconomic outlook, the potential for escalating geopolitical tensions and rising bond yields could amplify market volatility.

Thankyou