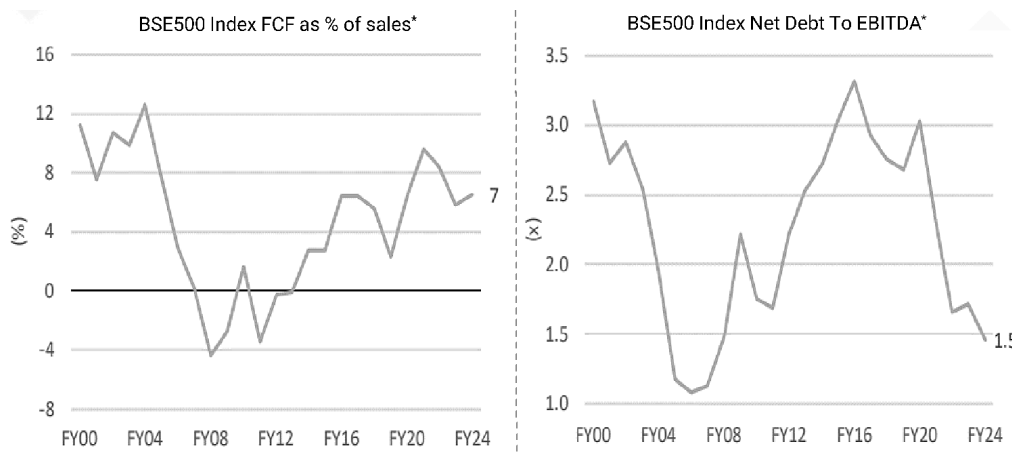




Indian Economy

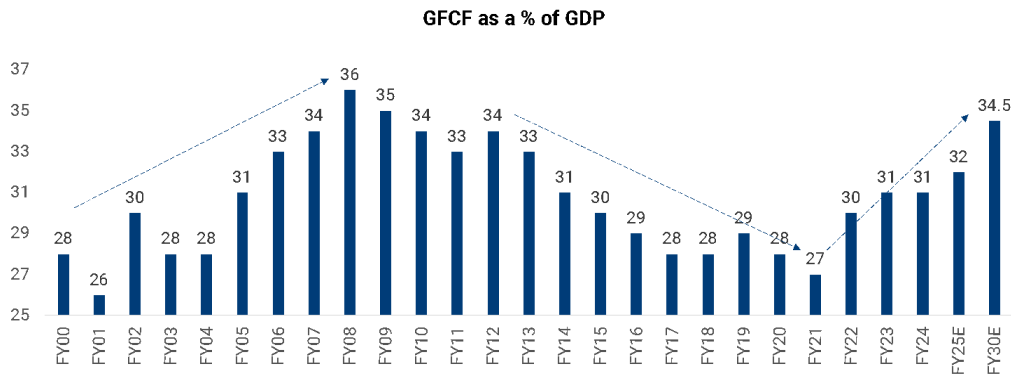
- Economic growth is recovering. GDP grew 6.2% in Q3FY'25. Full year GDP is projected to grow at 6.5%, implying further recovery in Q4. Pick-up in growth rate in Q3FY25 was led by revival in consumption, especially acceleration in Government consumption.
- PMI Manufacturing (56.3) and Services (59) both continue to be in strong expansionary mode. Services sector expansion highlights surge in domestic & international orders. The Economic Activity Index shows that the growth pick-up is sustaining.
- India Inc balance sheets are healthiest than they have been in decades. Free Cash flow as % of Sales is growing and Debt as % of EBITDA is decreasing.



Source: Bloomberg, Nuvama Research

- Rural demand continues to outpace urban demand. Monsoon has been good and all India reservoir levels are adequate.
- India is in a Capex upcycle. Capex spending has a significant multiplier effect of 2.45X on economic activity.

India's capex cycle now clearly visible,
more leg to capex upcycle before we touch previous peak of FY08



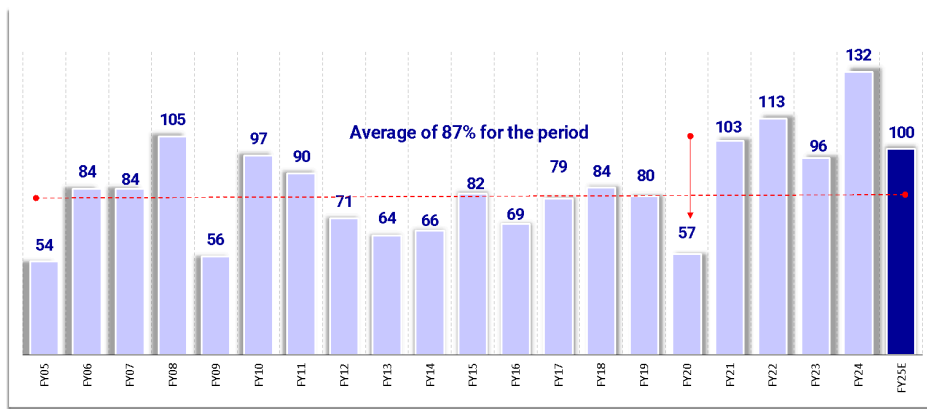
- Mr Modi's meeting with Trump resulted in the following: India-US trade to double to USD 500 Bn by 2030, 10 Year Defence cooperation framework outlined, increased US investments in India's Infrastructure, Manufacturing & Renewable sector.
- Share of equities (currently at 5.8%) as % of household assets in India has increased 3X over the last 10 years and there is room for expansion (US- equities 25% of household assets).

Global Economy

- Oil prices continue to moderate and are at multi-year lows (Brent -USD70/BI.). Downward pressure persists due to the outlook of a slowing global economy.
- US tariffs are set to rise to ~18% - the highest since The Great Depression.
- Global commodity prices remain benign in view of muted global growth.
- The US dollar has declined more than 4% (against a basket of currencies) YTD. The increasing probability of recession has put interest rate cuts back in consideration for this year. But a weaker dollar would result in a higher cost of tariffs for consumers & businesses leading to higher inflation.

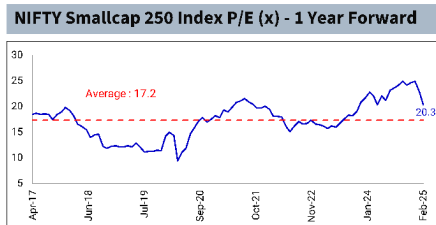
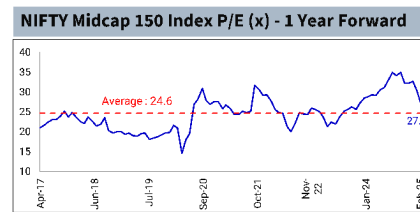
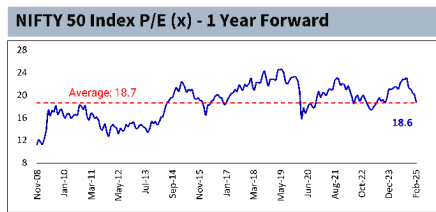
Outlook

- Going forward, India's growth is expected to remain steady the on back of resilient consumption, revival in Govt spending and easing monetary conditions. Urban demand is likely to get a boost from income tax relief and easing monetary policy while rural demand is likely to rebound on back of strong Kharif crop and better Rabi prospects. However, global uncertainties and slowdown due to restrictive trade policies could affect India's growth.
- Market Cap to GDP has corrected from an all-time high of 132% to 94% (based on CY'25 GDP)



Source: Motilal Oswal, As per latest data available

- NIFTY 50 is trading at ~19X FY26E PE. Premium for Large caps has come down, but premium of the broader market still remains higher than historical average.



Valuation	
Largecap	1% discount to historical average
Midcap	11% premium to historical average
Smallcap	18% premium to historical average

Source: Motilal Oswal, Bloomberg, As on 28th Feb 2025

- Over medium to long term, outlook on equities is positive considering structurally robust domestic growth outlook, healthy corporate profitability, strong macroeconomic fundamentals and supportive pro-growth policies. The risk return is clearly in favour of large caps followed by mid caps.
- **Debt:** 10 Yr GSec yield have hardened to 6.8% levels. The 10-year corporate bond spreads over GSec have widened over the last few months and are now trading closer to decadal highs. Rise is driven by strong growth in bond supply and relatively tight liquidity. Corporate bond yields are expected to fall & compress over the medium term.
- Overall yields are expected to remain rangebound with downward bias. Falling inflation and further policy rate cuts should be positive from a yield perspective. One can consider investment in medium duration (duration up to 5 yrs) categories, especially corporate bond dedicated funds. For relatively longer investment horizon, consider adding to longer duration funds as per risk appetite.

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