

India Newsletter

June 2025

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India market update

In May, the MSCI India Index recorded a modest increase of 1.1%, underperforming the MSCI Emerging Markets Index, which rose by 4.0%. Sector-wise, industrials, real estate, and IT led the gains, while utilities, consumer staples, and healthcare underperformed. By market capitalization, small caps outpaced other segments, with MSCI India Small Cap rising 8.2%, compared to Mid Cap (+2.6%) and Large Cap (+0.8%).

India's Q4 FY25 GDP grew by 7.4%, up from 6.4% in Q3, resulting in full-year FY25¹ GDP growth to 6.5%. This underscores India's position as the fastest-growing major economy. Growth was supported by stronger consumption, net exports, robust services activity, and a recovery in agriculture. For FY26, GDP growth is projected to moderate to 6.0–6.5%, lower than the 8.0–9.0% range observed in FY22–FY24, but still indicative of healthy momentum.

Corporate earnings for Q4 FY25 met expectations, with modest profit growth helping to avoid further earnings downgrades. However, small caps faced challenges due to weaker results in select commodity and financial stocks, emphasizing the importance for careful stock selection. Strong earnings were observed in metals, healthcare, capital goods, PSU banks², and chemicals while private banks and oil & gas (excluding OMCs³) underperformed. Nifty PAT⁴ (excluding financials) grew 7% year-on-year. For FY26 earnings are projected to grow by ~10.5%, with topline recovery being a key factor.

Headline CPI inflation eased for the sixth straight month, reaching 3.16% in April—the lowest since July 2019—driven by softer food prices. A favourable monsoon, easing global supply chains, and moderating commodities are expected to keep inflation in check. In response, the Reserve Bank of India (RBI) implemented a 50bps repo rate cut (double the expected reduction) and announced a phased 100bps CRR⁵ reduction, aimed at injecting ₹2.5 trillion into the banking system.

Our SBI FM's proprietary equity market sentiment indicator remains below zero and continues to act as a contrarian signal. Recent trends suggests optimism has significantly corrected, presenting potentially attractive entry points for long-term investors.

¹In India, the fiscal year (FY) runs from April 1st to March 31st of the following year. Therefore, FY25 would cover the period from April 1st, 2024, to March 31st, 2025.

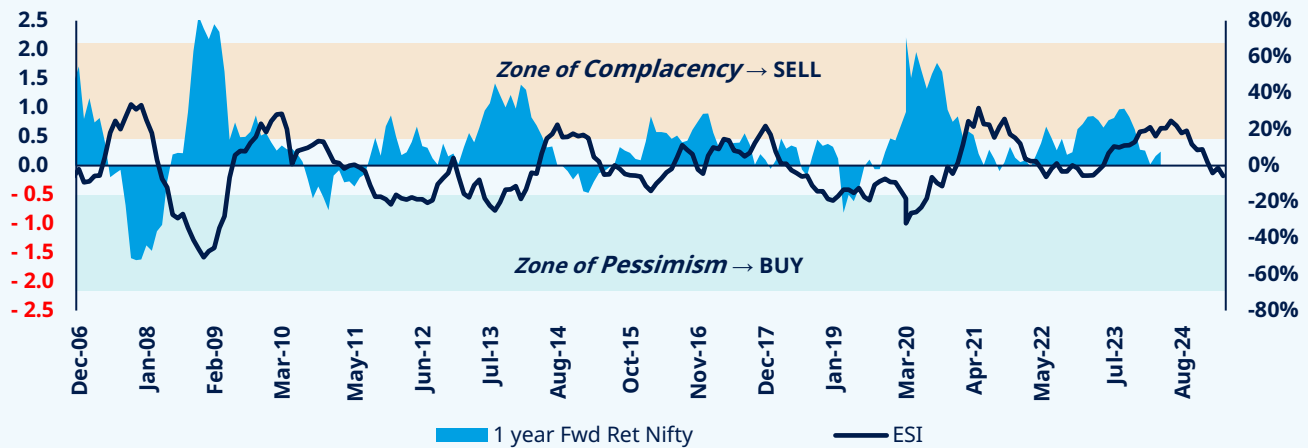
²PSU Banks, or Public Sector Undertaking Banks, are banks in which the government (either central or state) holds a majority stake, typically more than 50%.

³OMCs, or Oil Marketing Companies, are companies involved in the refining, distribution, and marketing of petroleum products such as petrol, diesel, kerosene, and LPG.

⁴Nifty PAT means the aggregate Profit After Tax of all the companies included in the Nifty 50 Index. Analysts often use this metric to assess the overall profitability and earnings growth of the top companies in the Indian stock market.

⁵Cash Reserve Ratio or CRR is the percentage of deposits a bank must keep with the RBI.

Equity sentiment remains below zero

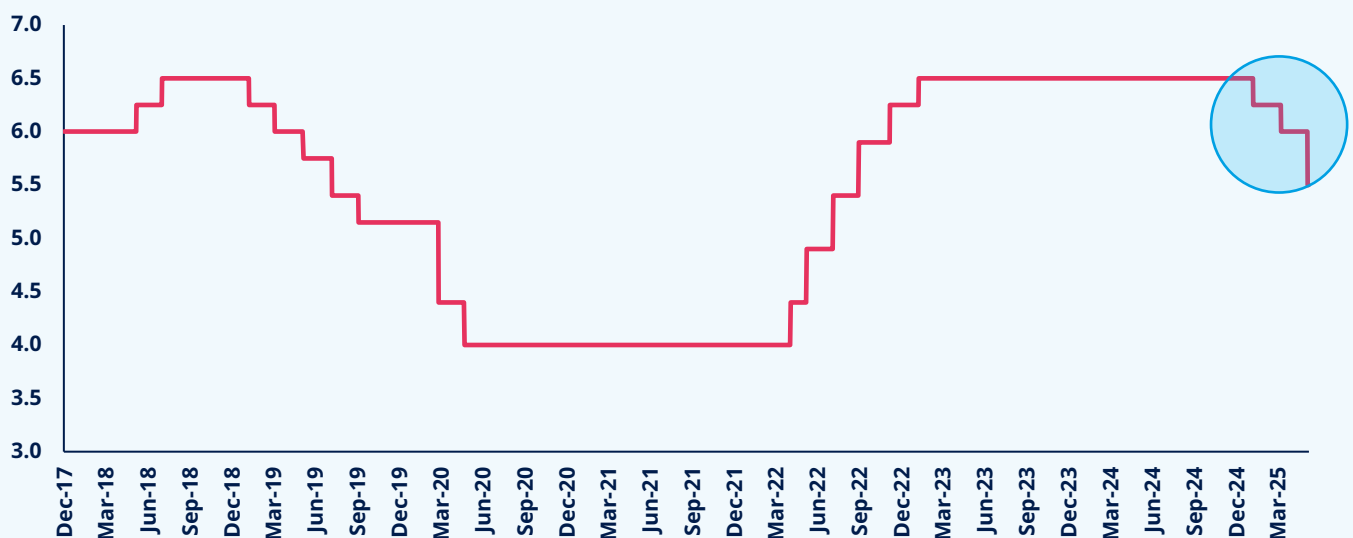


Source: Bloomberg, FactSet, SBI FM Research; ESI = Equity sentiment Index, data as of 31 May 2025.

RBI Turns PRO-Growth: Will bold rate cuts spark India's next investment cycle?

In a notable move to support economic growth, the Reserve Bank of India, in its bi-monthly monetary policy, surprised markets by delivering a 50 basis points (bps) cut in the repo rate⁶—double the anticipated 25bps reduction.

To date, the RBI has reduced the repo rate by 100bps this year in an effort to stimulate growth

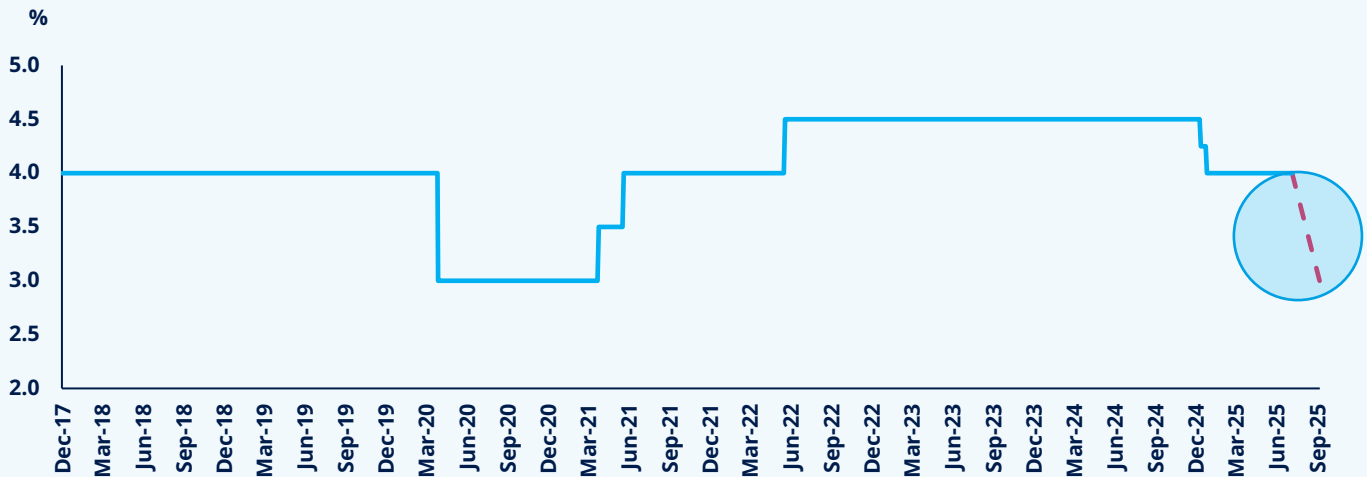


Source: Reserve Bank of India; Bloomberg; SBI FM, June 2025. For illustrative purposes only.

Additionally, the RBI also announced a phased 100bps reduction in the Cash Reserve Ratio (CRR), to be implemented in four tranches of 25bps each. These measures reflect the RBI's proactive approach to providing monetary support amid an increasingly complex and uncertain global macroeconomic backdrop.

⁶The repo rate (short for repurchase rate) is the interest rate at which a country's central bank—such as the RBI—lends money to commercial banks, typically for short-term needs, against government securities as collateral.

Central Bank reduced CRR to a Covid-19 low

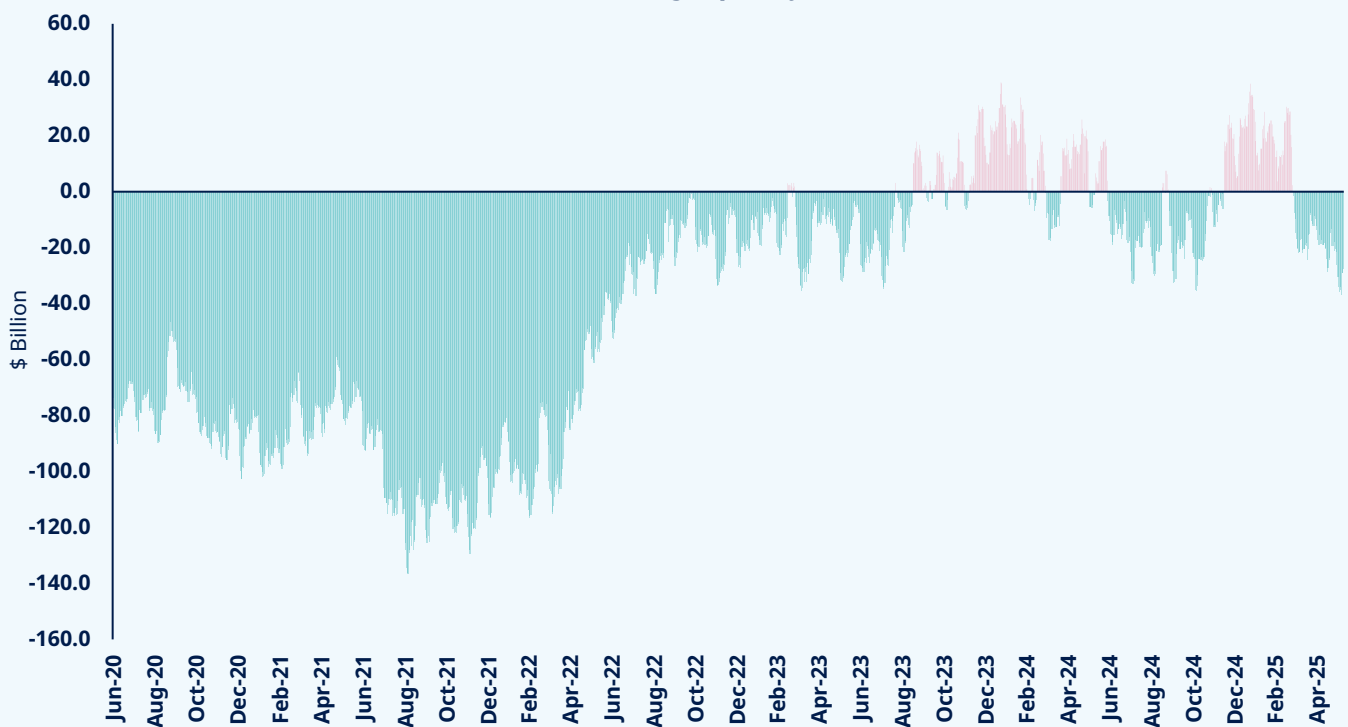


Note: the CRR cut will start from September 2025.

Source: Reserve Bank of India; Bloomberg; SBI FM, June 2025. For illustrative purposes only.

The phased CRR reduction—expected to inject approximately ₹2.5 trillion (~USD 25 billion) into the banking system by December 2025—will bring the ratio back to its pandemic-era low, reinforcing the RBI's intent to ensure sufficient banking system liquidity and facilitating smoother monetary transmission.

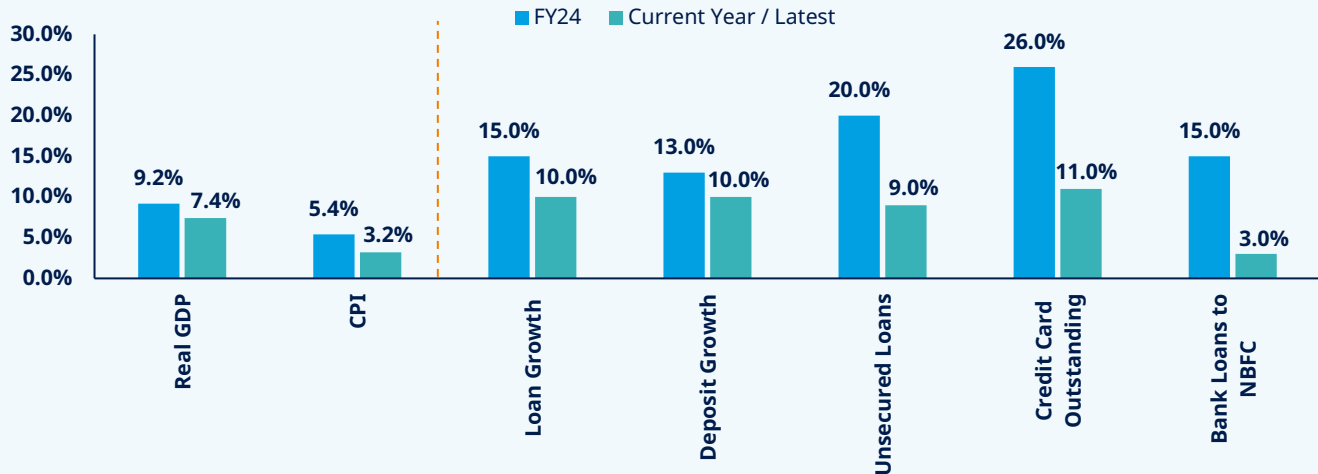
Banking liquidity



Source: Reserve Bank of India; Bloomberg; SBI FM, June 2025. For illustrative purposes only.

Tighter lending conditions in recent quarters had weighed on credit growth and, by extension, overall economic activity.

Credit slowdown echoes in economic slowdown



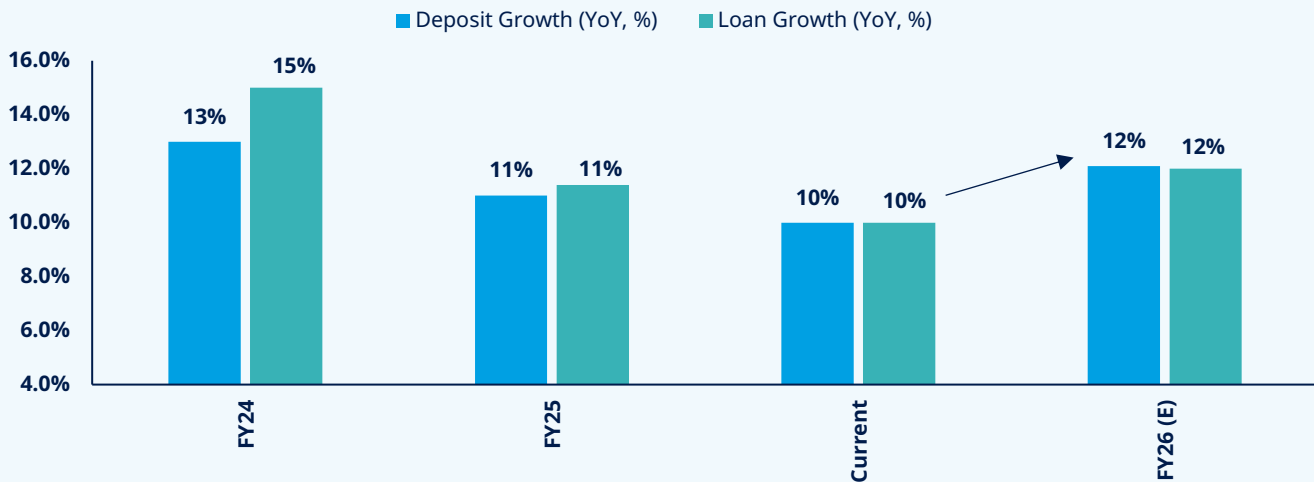
Note: data is for the financial year (FY), which starts in April and ends in March.

Source: MOSP⁷ Reserve Bank of India; SBI FM, June 2025. For illustrative purposes only.

In the assessment we conducted at SBI FM, this proactive easing, combined with stabilising inflation and disciplined fiscal policy, creates a conducive environment for a sustained, investment-led recovery. Credit growth is expected to accelerate by 150–200bps over the next 12 months, supported by an improving macroeconomic backdrop and a more accommodative lending environment.

A more relaxed credit environment is likely to encourage private sector borrowing, potentially driving broader economic expansion.

From credit drag to credit revival



Note: gross non-performing loan (NPL) ratio across bank groups, quarterly data; March fiscal end (%), 4QFY2025. Data is for the financial quarters. The financial year starts in April and ends in March.

Source: Reserve Bank of India; Bloomberg. Street estimates for FY26; SBI FM, June 2025. For illustrative purposes only.

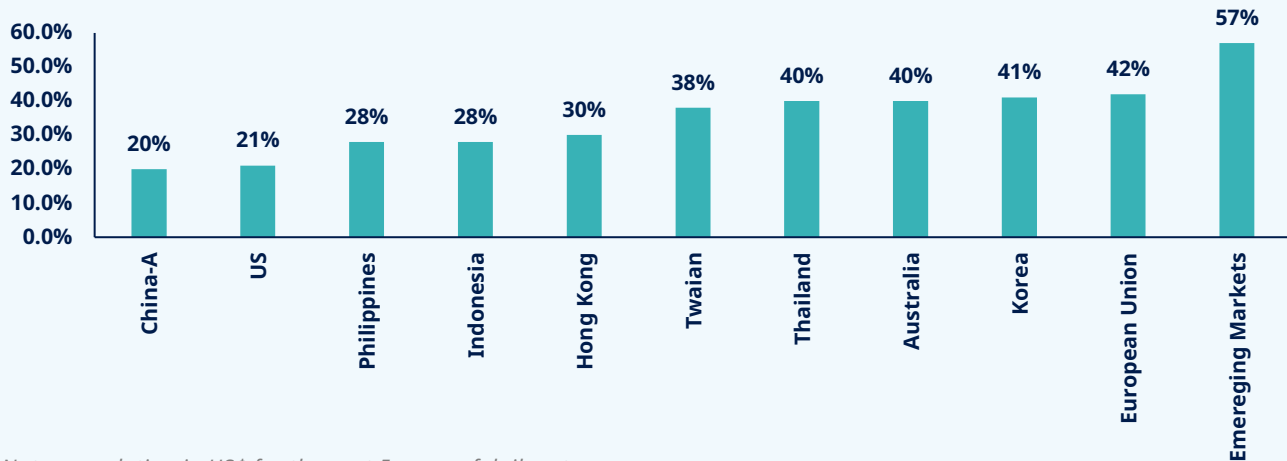
With corporate balance sheets in a stronger position, inflation under control, and policy easing gaining traction, India's monetary stimulus could pave the way for a new cycle of capital formation, earnings growth, and a selective equity re-rating.

⁷MOSPI or Ministry of Statistics and Programme Implementation, is a government body in India responsible for collecting, analyzing, and disseminating statistical data related to the country's economy, society, and development.

Q&A: Can Indian market justify its valuation?

India has demonstrated its potential to be a long-term wealth creator. Local equity market has not only delivered strong absolute returns but also offered diversification benefits due to its relatively low correlation with other major equity markets.

India has low correlation to other major MSCI markets



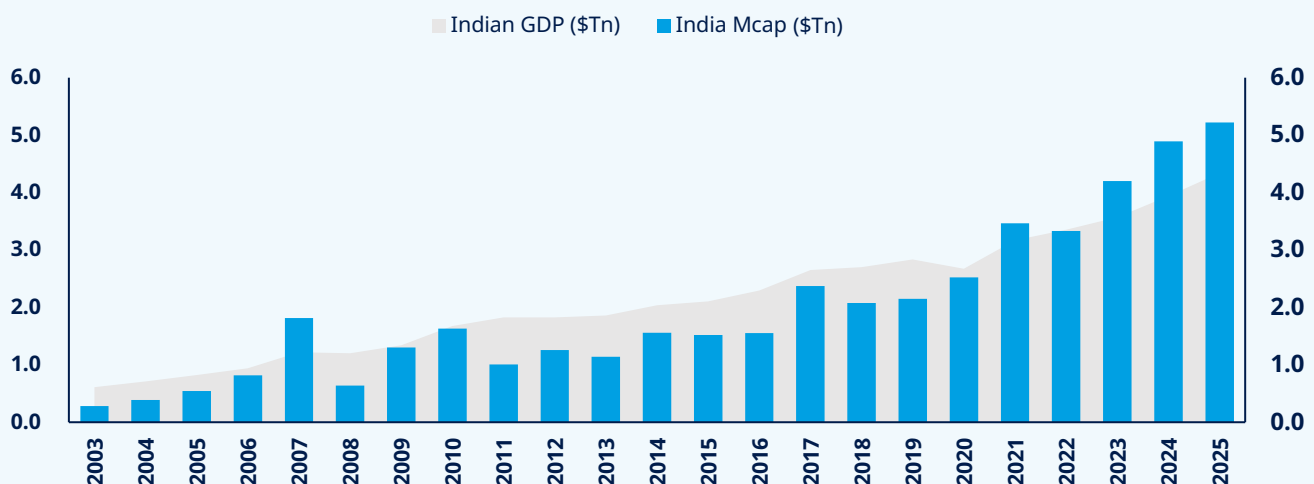
Note: correlation in US\$ for the past 5 years of daily returns.

Source: MSCI, FactSet; Bloomberg; SBI FM, June 2025. For illustrative purposes only.

The key question, however, remains: can India's equity market justify its current valuation levels?

At SBI FM, we believe the answer lies in the strength of the underlying economy. India's market valuation should be assessed in the context of its macroeconomic momentum. With consistent GDP growth, favourable demographics, and improving capital efficiency, the economy provides a structural buffer to market valuations—supporting returns even when entry points appear expensive.

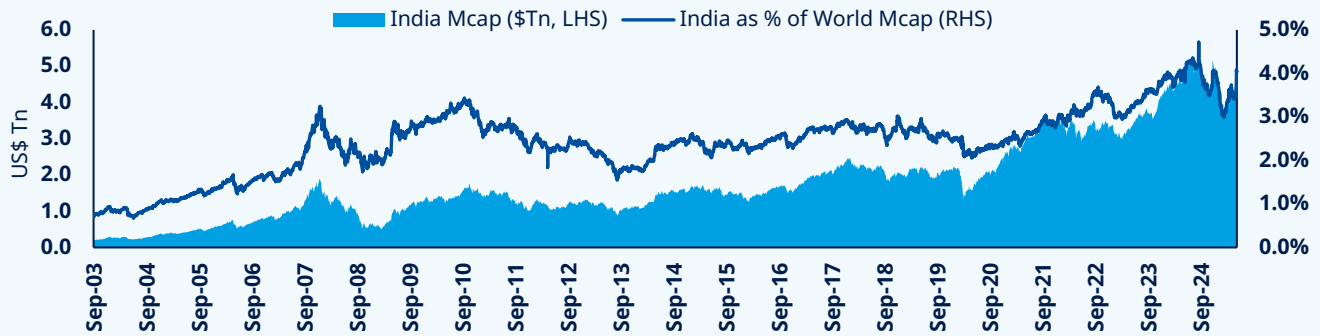
India's market capitalization is growing in line with the economy



Source: IMF; Bloomberg; SBI FM, June 2025. The chart above shows the year-on-year growth (Y-o-Y). For illustrative purposes only.

In addition, India's share of global equity market capitalization has steadily expanded, reflecting its growing importance in global portfolios.

India's share of world equity market capitalization

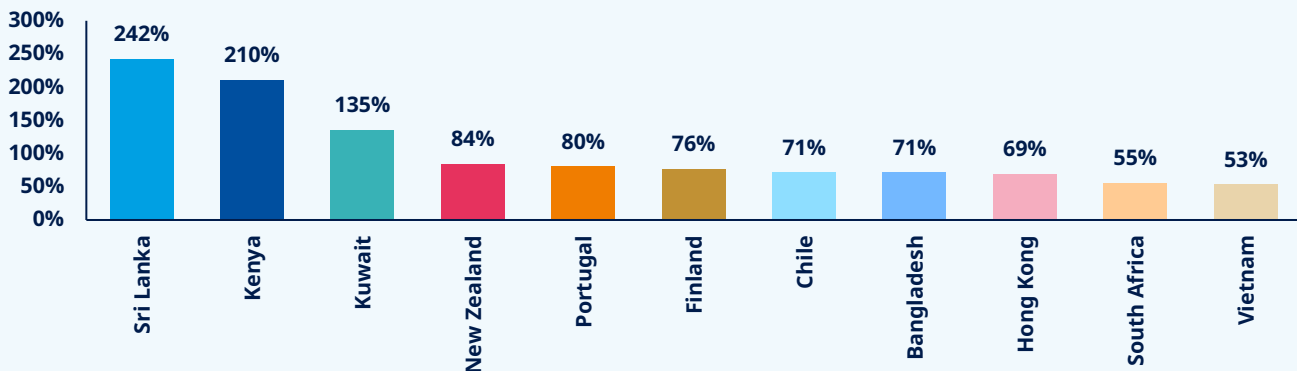


Note: the information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied. Securities investments are subject to market risks.

Source: SBI FM, Bloomberg. Data as of 30 May 2025.

Ultimately, the scale of India's economic growth is significant, with the country adding the economic equivalent of ~2.4x Sri Lanka or ~1.35x Kuwait annually.

Economy size of countries equivalent to India's yearly addition to its economy



Note: the above chart shows how much India adds yearly to its economy compared to other economies.

Source: CEIC; Bloomberg; SBI FM, June 2025. For illustrative purposes only.

In SBI FM's view, this scale and consistency of India's growth offer a compelling hedge against valuation concerns, particularly for long-term investors seeking exposure to resilient, growth-oriented markets.

Important information – Marketing Communication

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