India on the Rise: Market Outlook & Investment Trends

28th March 2025

Brief

Sr. No.	Particular
1	Introduction
2	Macroeconomic Overview
3	Capital Market Performance in INR
4	Capital Market Performance in USD
5	Fixed Income Market
6	Foreign Investments & Currency Market
7	Emerging Sectors & Opportunities
8	Risks & Challenges
9	Conclusion: Navigating the India Opportunity
10	Appendix –Seasonality & Important Information

Introduction

Introduction

Brief on India's Economic Growth & Financial Markets

- India remains **one of the fastest-growing economies**, with GDP growth projected at **6-7%** for 2025.
- Strong domestic demand, digital transformation, and government initiatives like '**Atmanirbhar Bharat**' and '**Make in India**' are boosting economic activity.

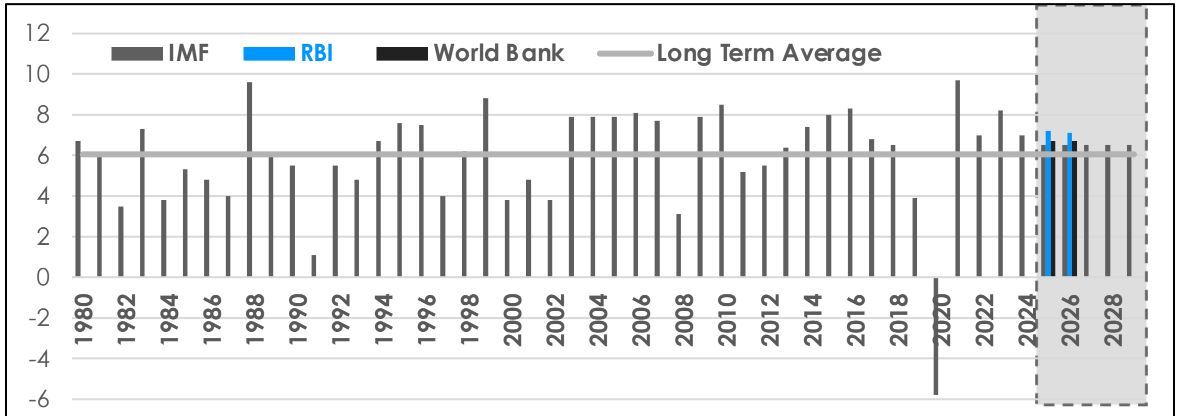
Key Sectors Driving the Economy

- IT & Software Services
- Manufacturing
- Renewable Energy
- Infrastructure
- Digital Payments
- Pharma

Investment Opportunities for 2025 and Beyond

- Public and private equity
- Government bonds
- Fintech
- New-age digital businesses.

Real GDP growth (Annual % change)



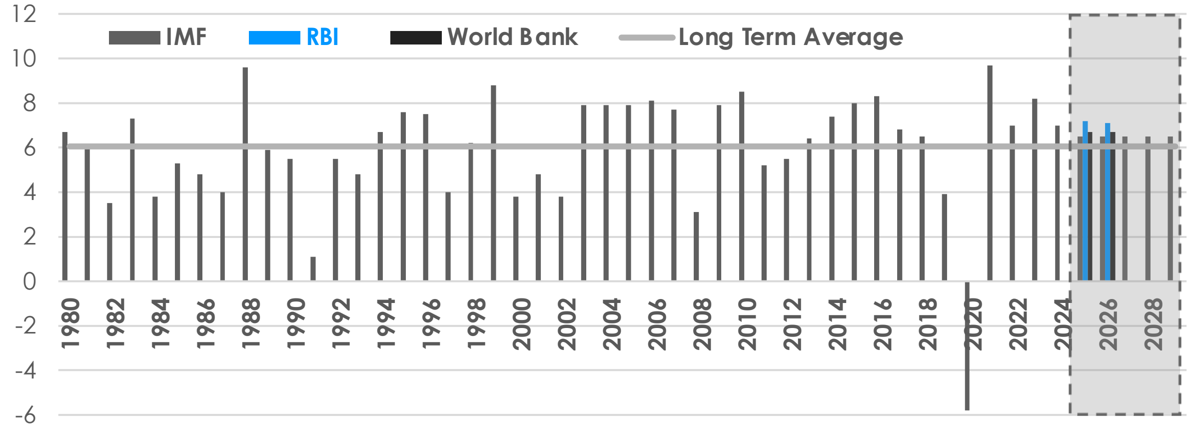
As per World Bank's Long-Term Growth Modeling (LTGM), India's long-term GDP growth rate is projected to stabilize around **6.5% by 2035**, before gradually slowing to **5.5% by 2050**, reflecting economic maturation and demographic shifts.

GDP Contribution (2023-2024 %)

Macroeconomic Overview

Macroeconomic Overview

GDP Growth



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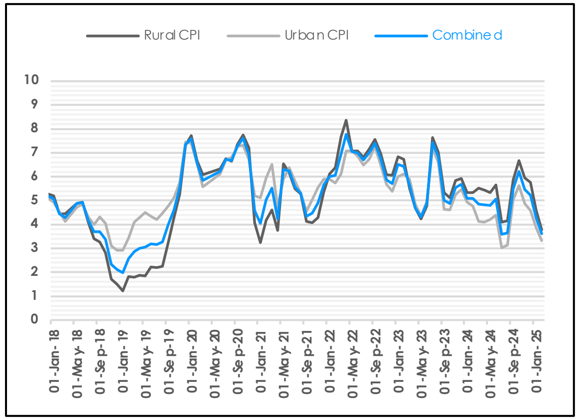
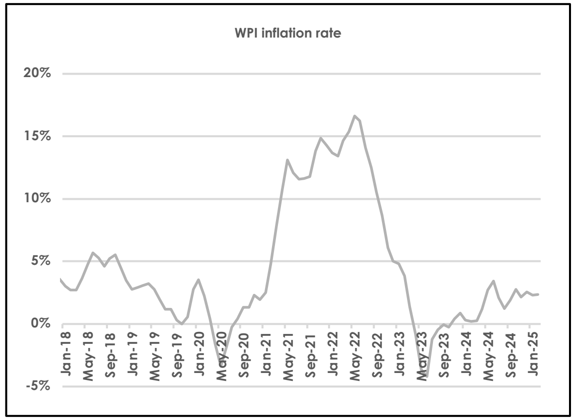
Inflation Trends

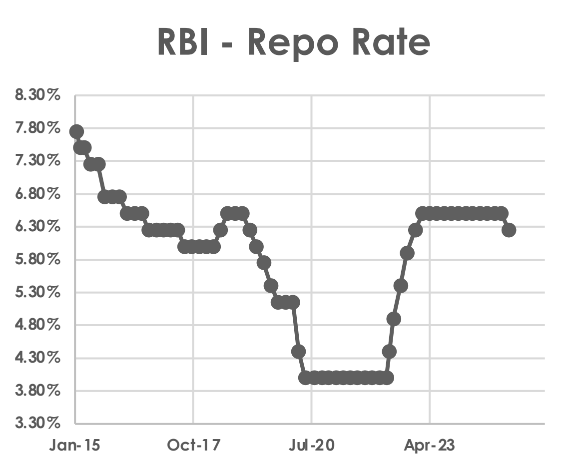




The Reserve Bank of India (RBI) has projected the Consumer Price Index (CPI) inflation to average **4.8%** for the fiscal year 2024-25 (FY25) and to moderate to **4.2%** for FY26.

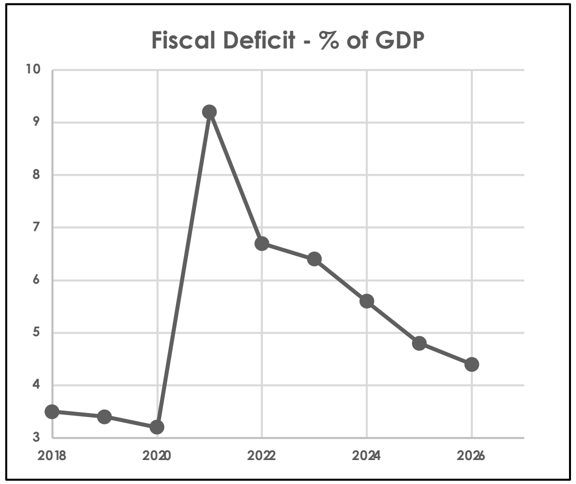
Interest Rates & RBI Policy Stance

- **Recent Rate Cut:** On February 7, 2025, the Reserve Bank of India (RBI) reduced the repo rate by 25 basis points, bringing it down from **6.50% to 6.25%**, aiming to stimulate economic growth amid easing inflation.
- **Neutral Policy Stance**: Despite the rate cut, the RBI maintained a '**neutral**' policy stance, focusing on achieving a durable alignment of inflation with the target while supporting growth.
- **Anticipated Future Rate Cuts:** Market analysts project further rate cuts in 2025, with expectations of an additional **50 basis points reduction by August**, as the RBI seeks to balance growth and inflation dynamics.
- **Mid to Long-Term Projections (2027-2031):** Specific forecasts for the RBI's policy rates beyond 2026 are limited. However, the central bank's actions will likely be influenced by factors such as **domestic inflation trends, economic growth rates, and global financial conditions**.



Fiscal Deficit & Government Spending

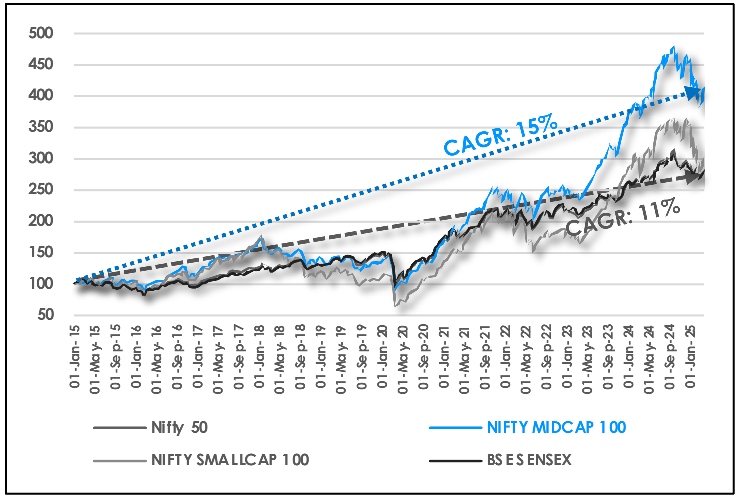
- **Fiscal Deficit Reduction:** The government aims to decrease the fiscal deficit from **4.8% of GDP in FY 2024-25** to **4.4% in FY 2025-26**, demonstrating a commitment to fiscal consolidation.
- **Expenditure Growth:** Total government expenditure for **FY 2025-26** is projected at **₹50.65 trillion**, a **7.4% increase** over the revised estimates for **FY 2024-25**, with capital expenditure earmarked at **₹11.21 trillion** (3.1% of GDP) to boost infrastructure development.
- **Gross Borrowing Plans:** The government plans to raise **₹8 trillion** through bond sales from **April to September 2025**, accounting for **54%** of the estimated gross borrowing for the upcoming fiscal year.
- **Debt-to-GDP Ratio Goal:** A strategic objective has been set to reduce the central government's debt-to-GDP ratio from **57.1% in FY 2024-25** to **50% by March 2031**, promoting long-term fiscal sustainability.



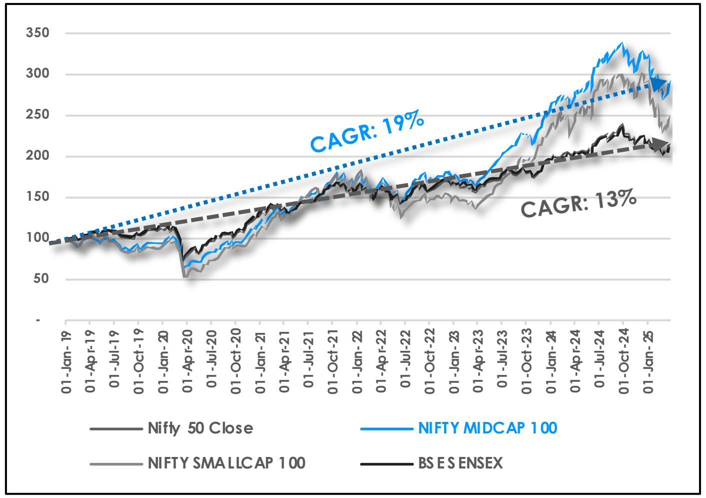
Capital Market Performance in INR

Capital Market Performance in INR - Indices

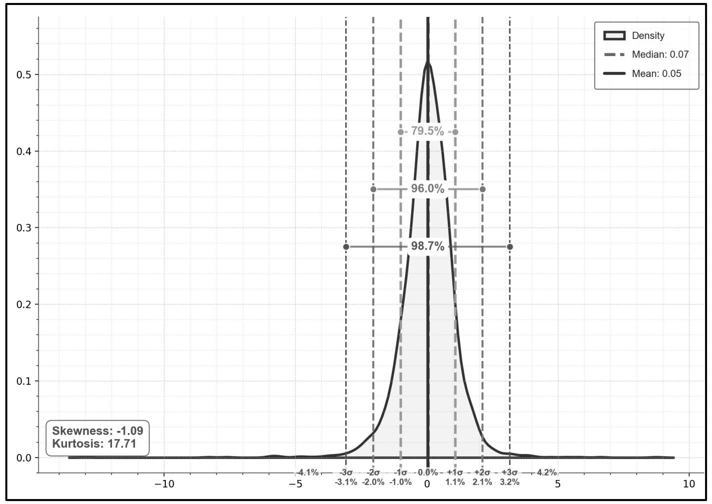
Major Indices (10 Year Performance) (1st Jan 2015 = 100)



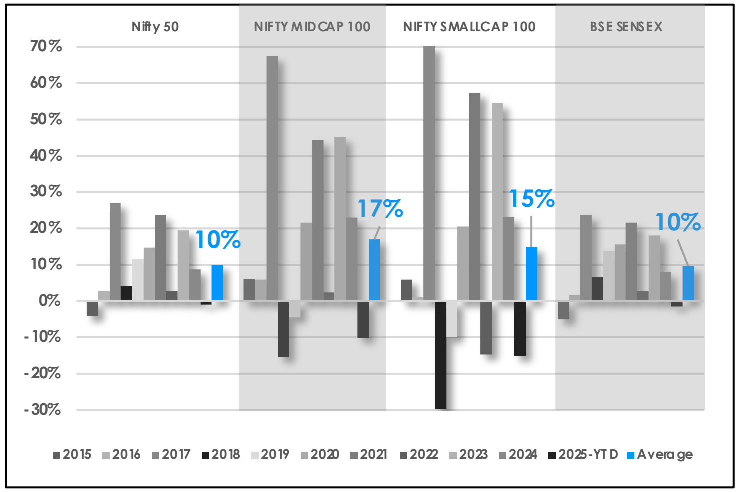
Major Indices (6 Year Performance) (1st Jan 2019 = 100)



Density Plot Nifty 50 (10 Years, daily returns)



Historical Returns – 10 Years



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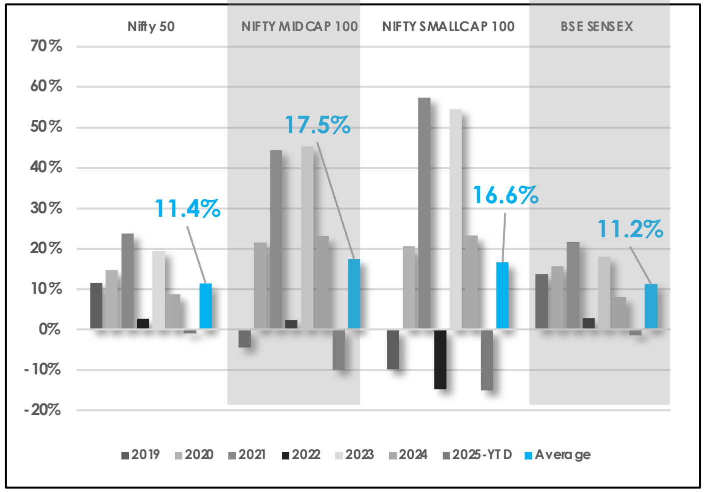
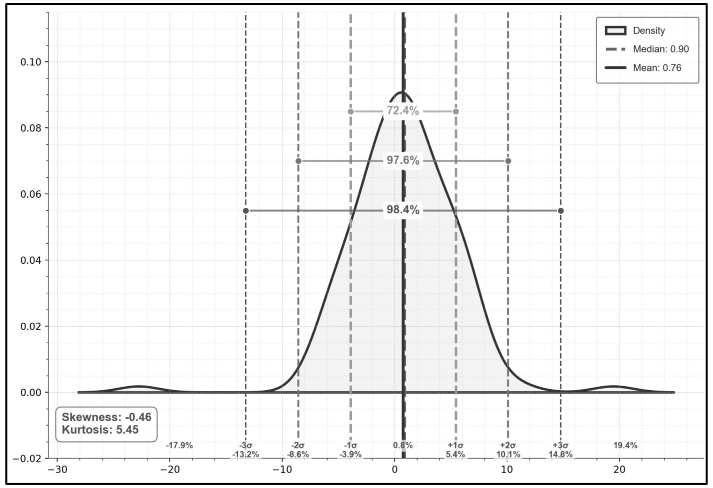
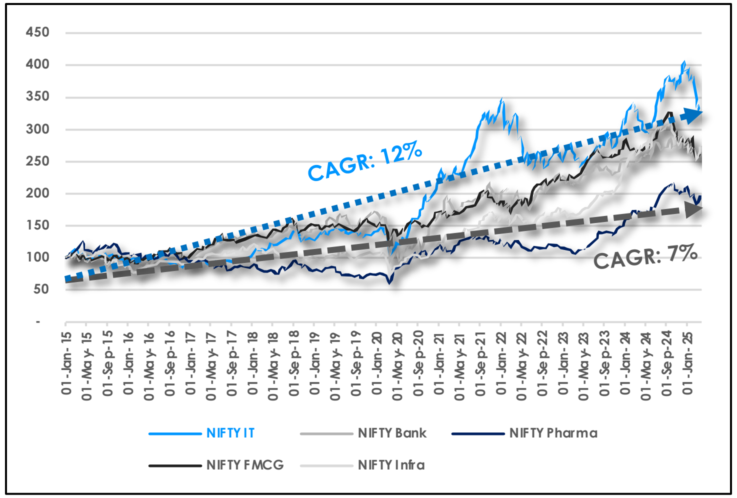


Density Plot Nifty 50 (10 Years, Monthly returns)



Capital Market Performance in INR - Sectors

Sectoral Performance (10 Years) (1st Jan 2015 = 100)



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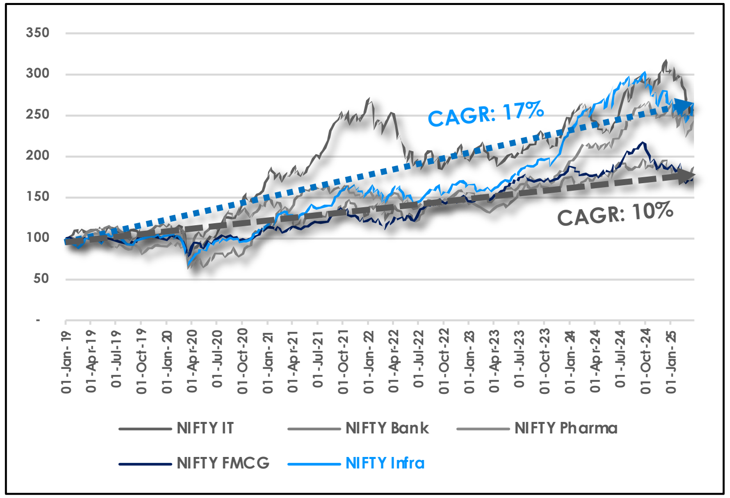
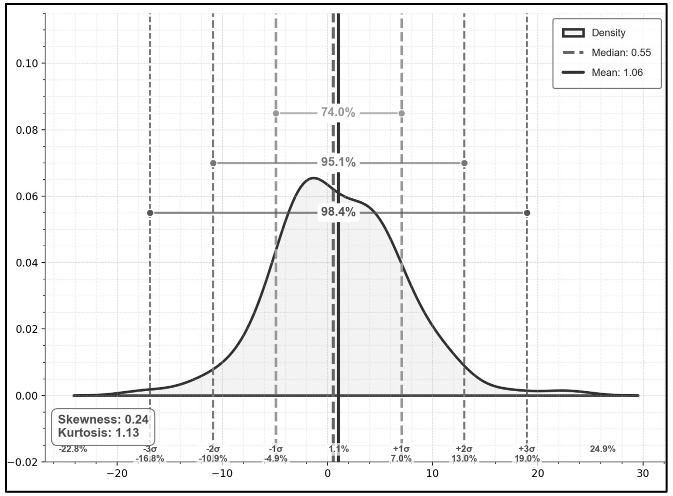
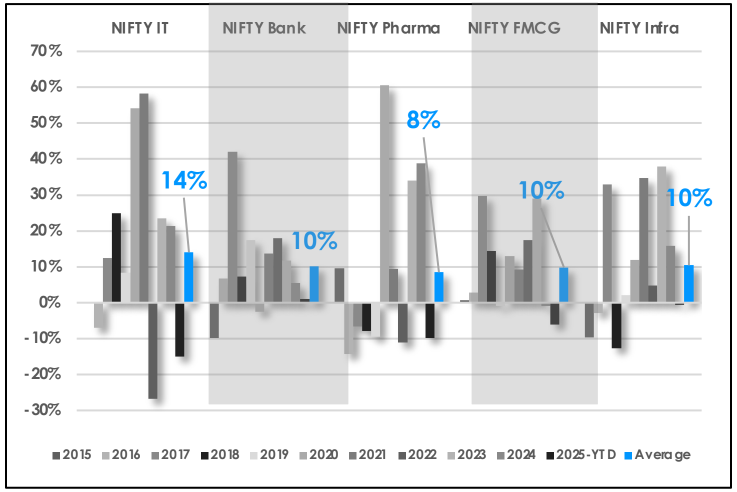


Density Plot Nifty IT (10 Years, Monthly returns)



Historical Returns – 10 Years



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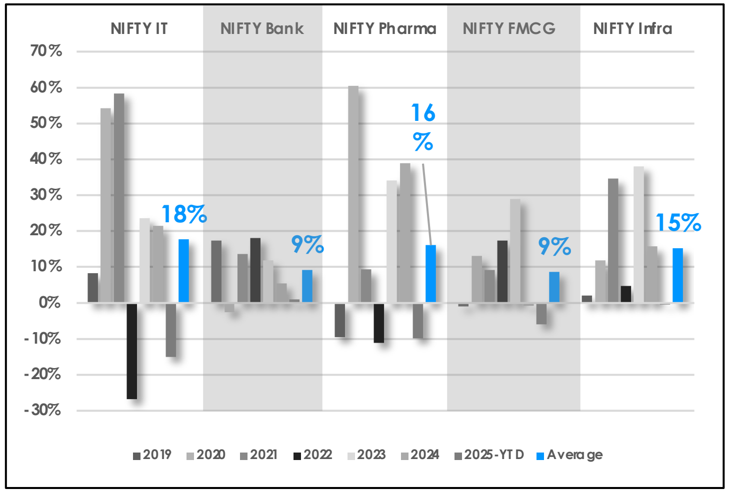
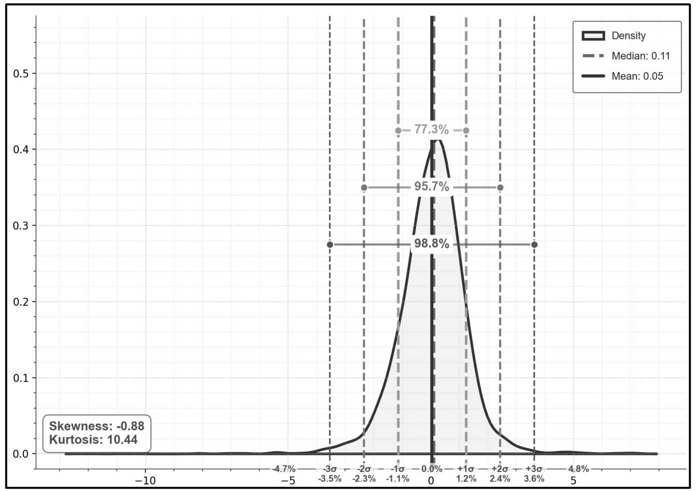
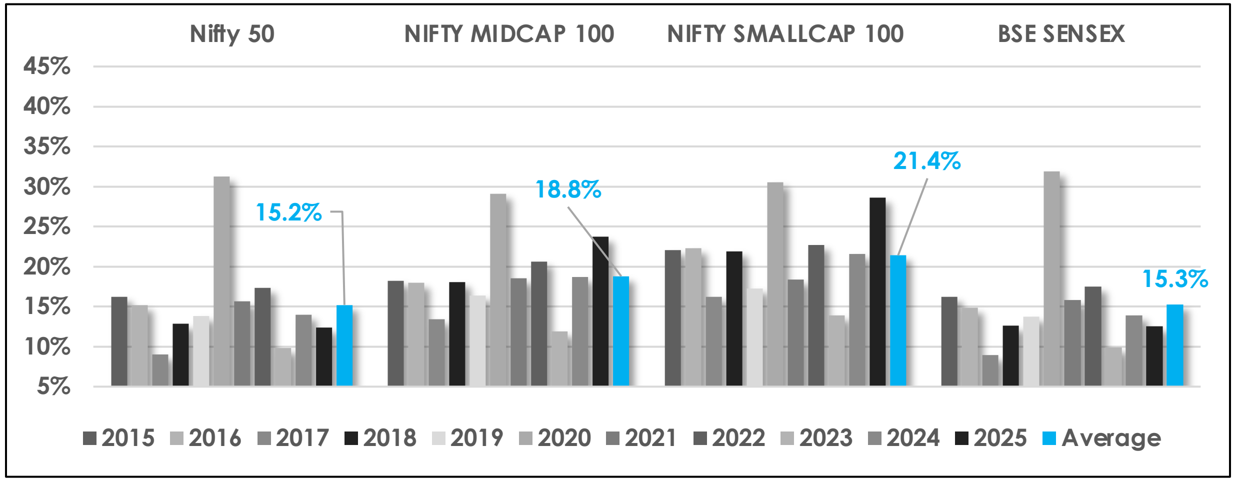


Density Plot Nifty Infra (6 Years, Monthly returns)



Capital Market Performance in INR – Volatility

Annualized Volatility - Indices



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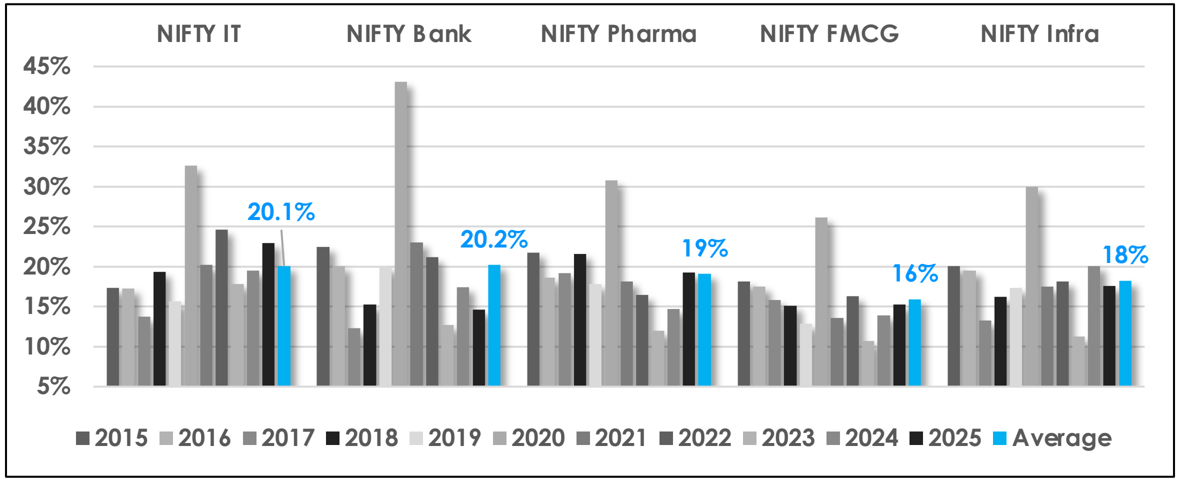
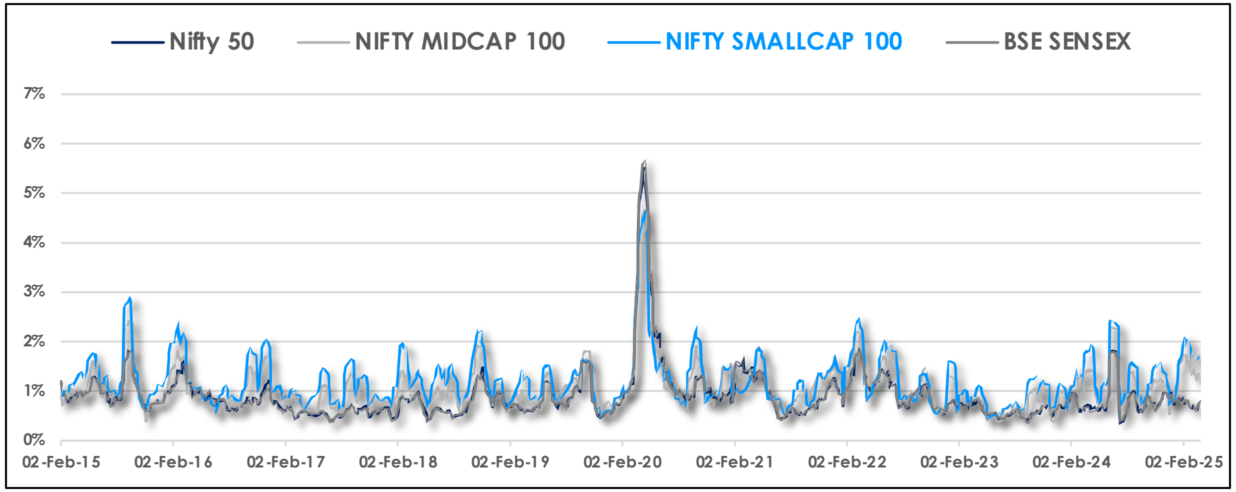


Rolling Volatility (1 month) - Indices



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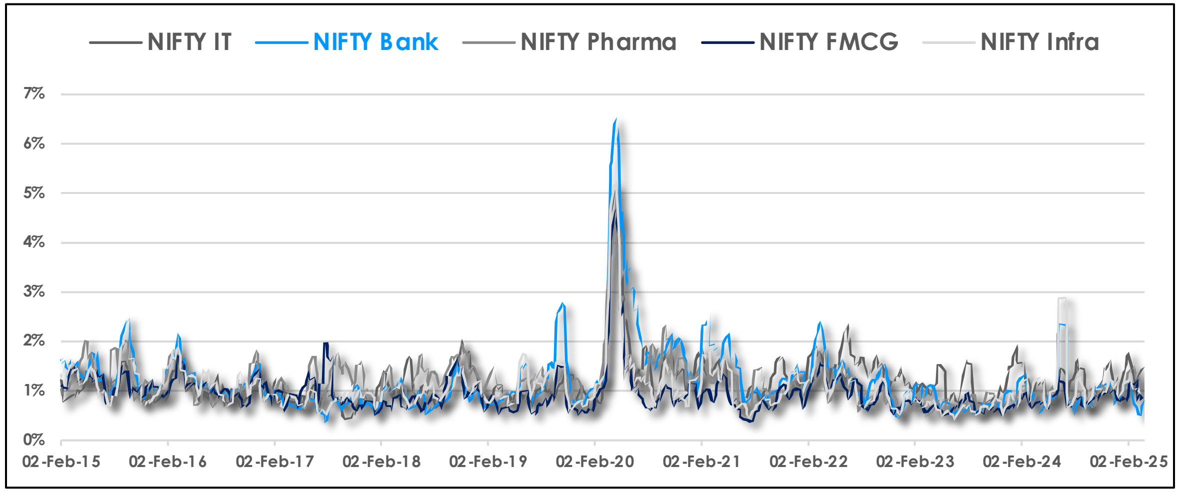
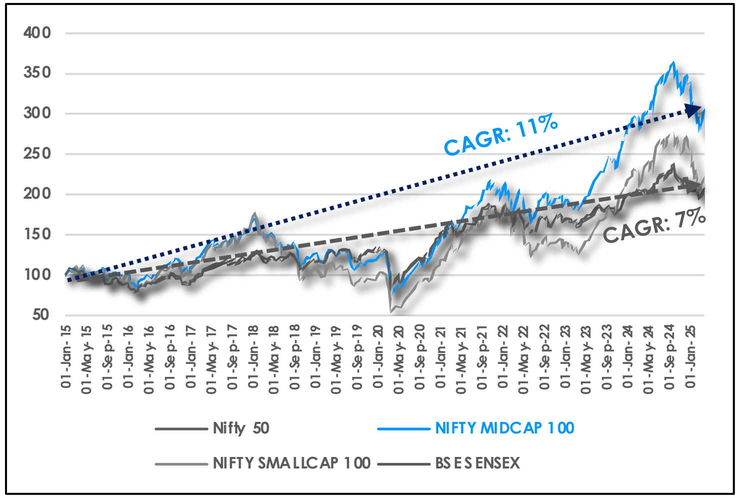


Capital Market Performance - USD

Capital Market Performance in USD - Indices

Major Indices (10 Year Performance) (1st Jan 2015 = 100)



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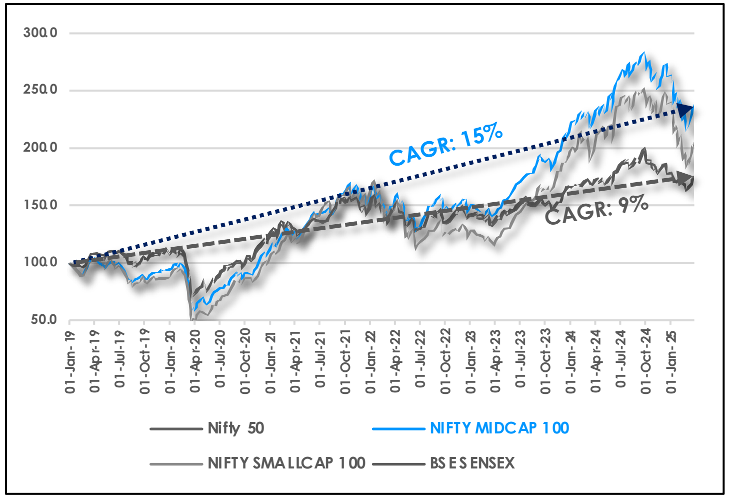

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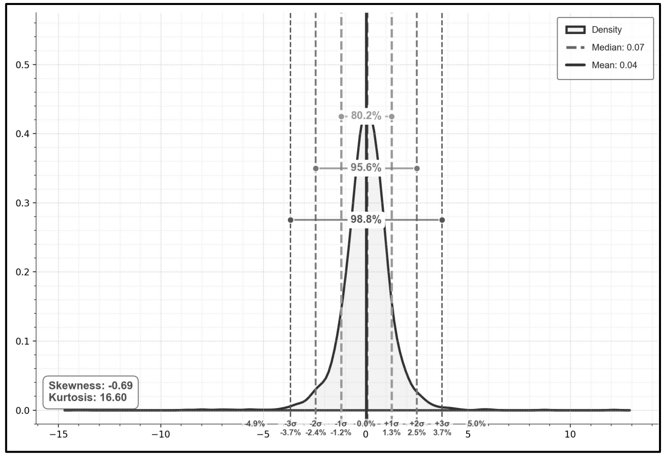
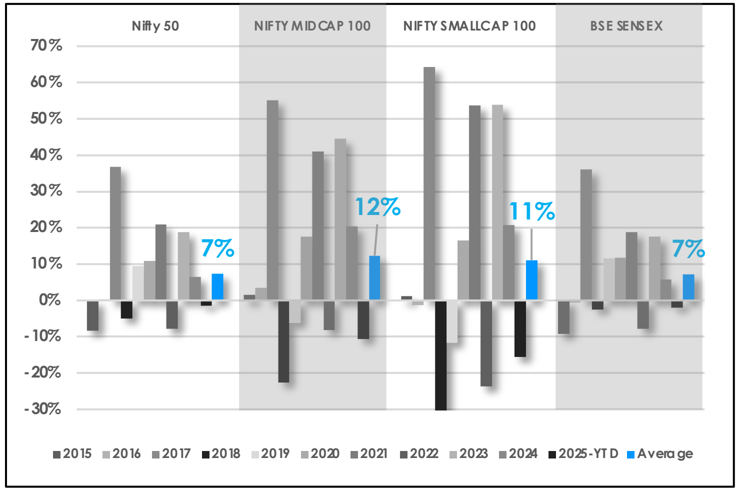


Historical Returns – 10 Years



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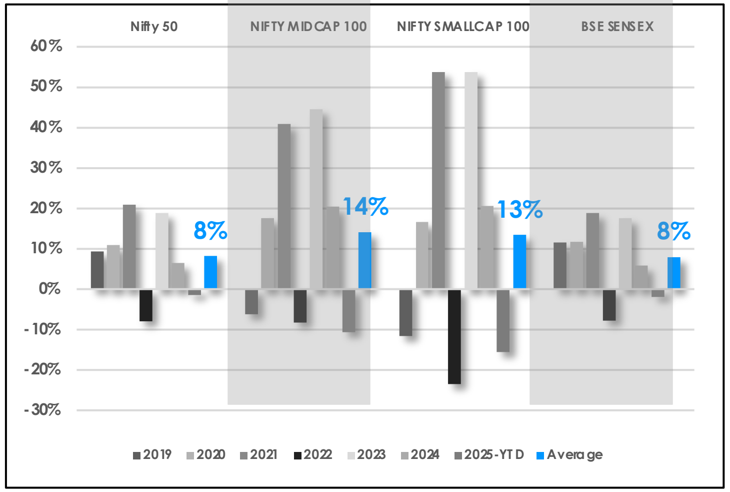

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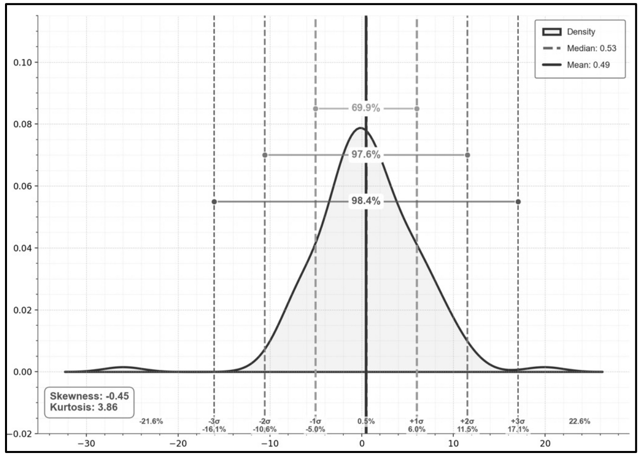

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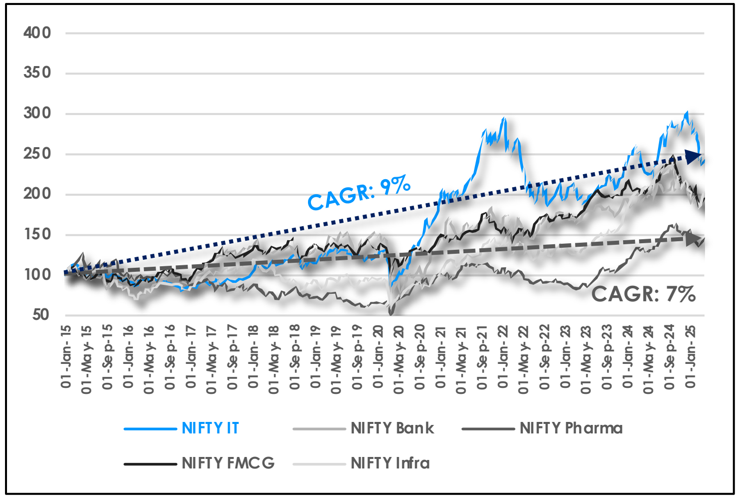

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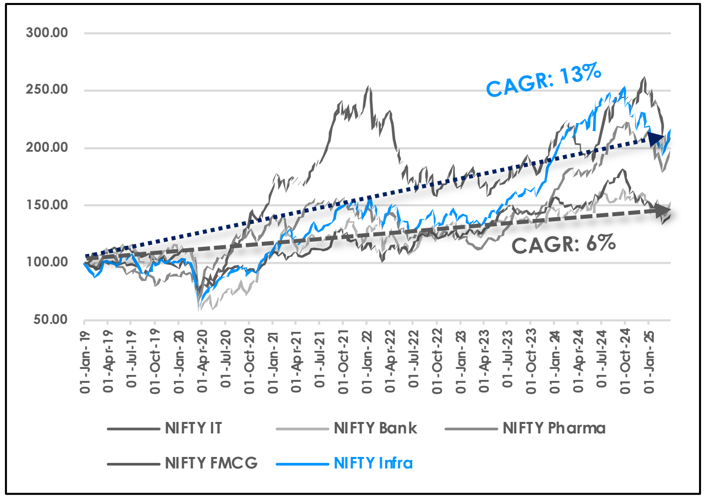
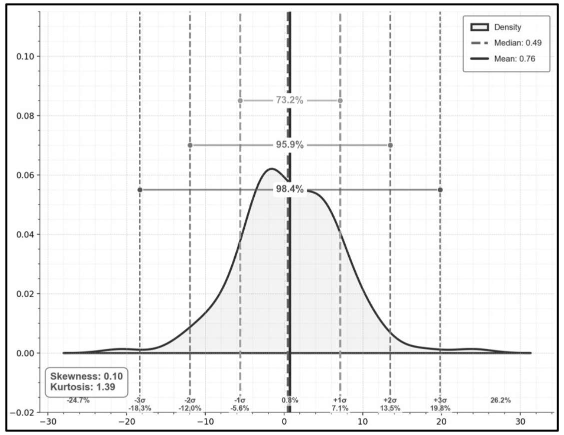


Density Plot Nifty IT (10 Years, Monthly returns)



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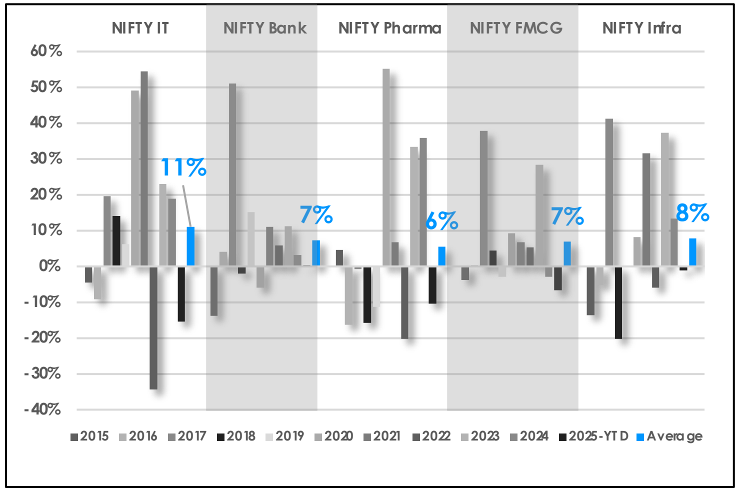

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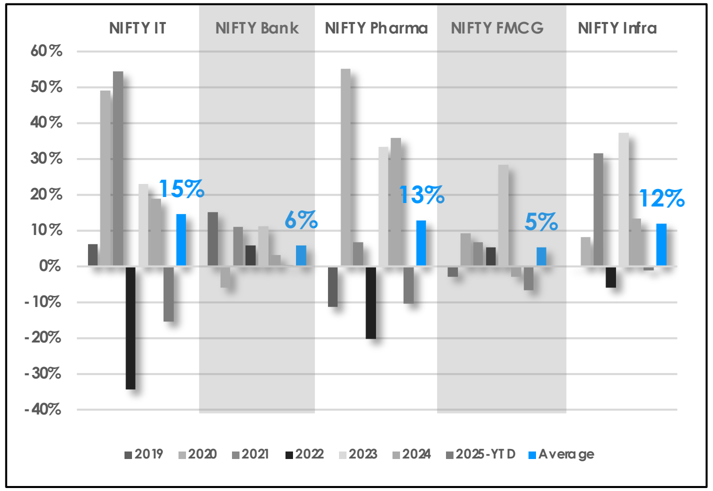
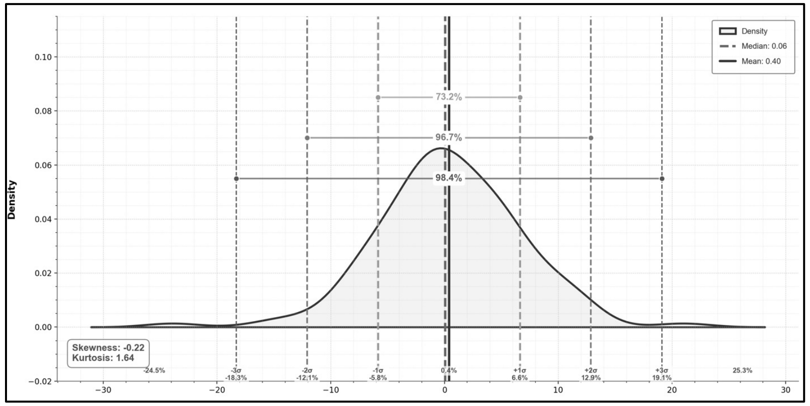
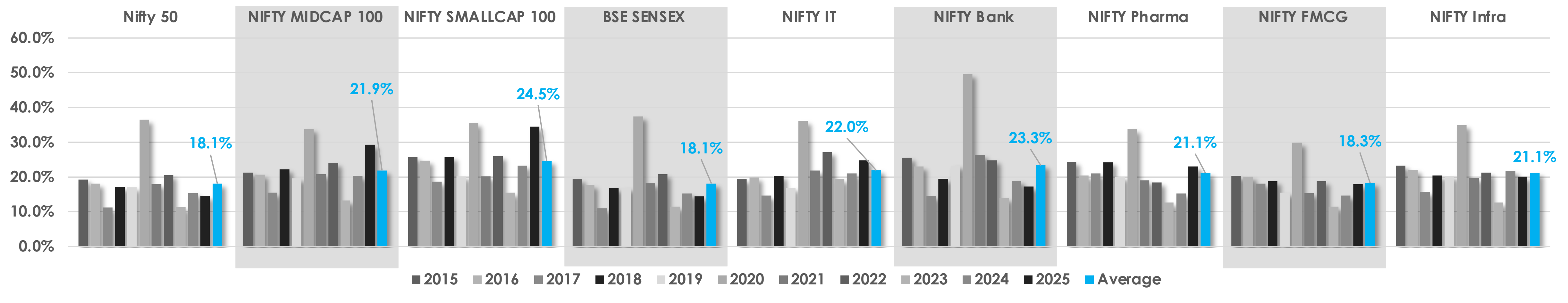


Density Plot Nifty Infra (6 Years, Monthly returns)

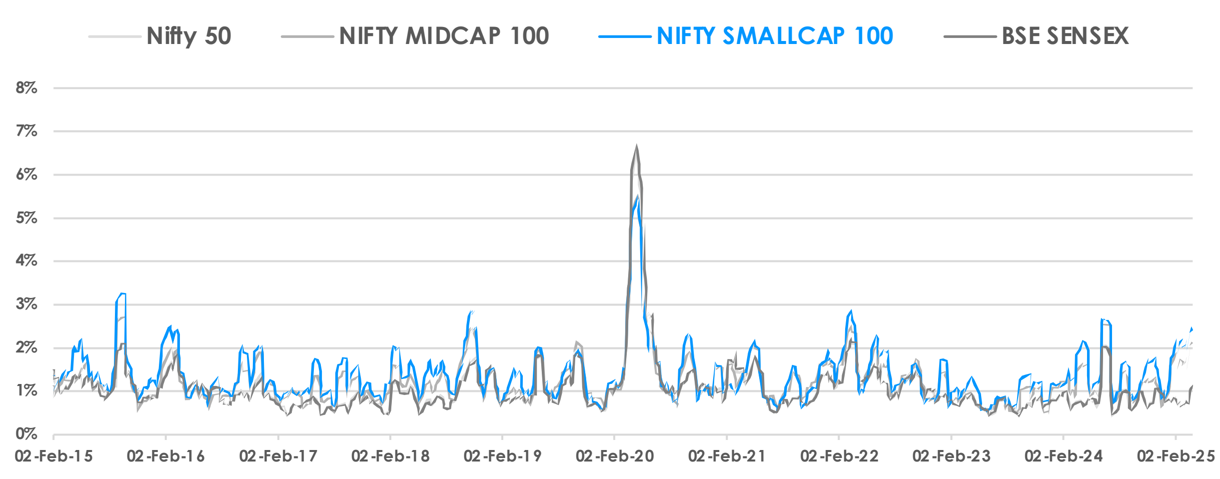


Capital Market Performance in USD – Volatility

Annualized Volatility – Indices & Sectors



Rolling Volatility (1 month) - Indices



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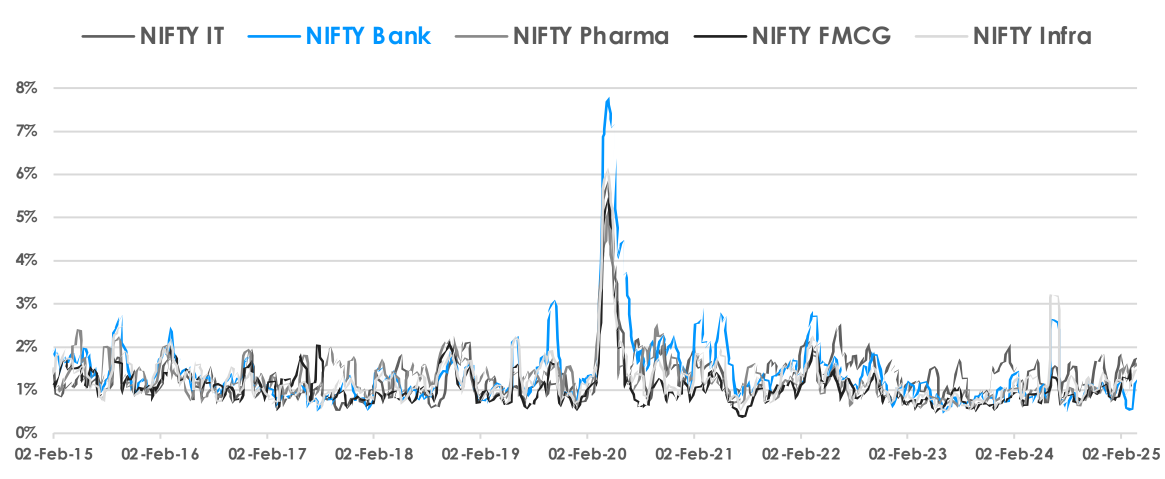
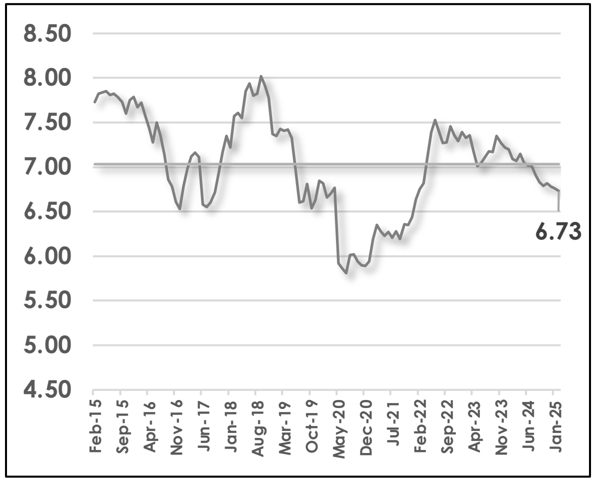


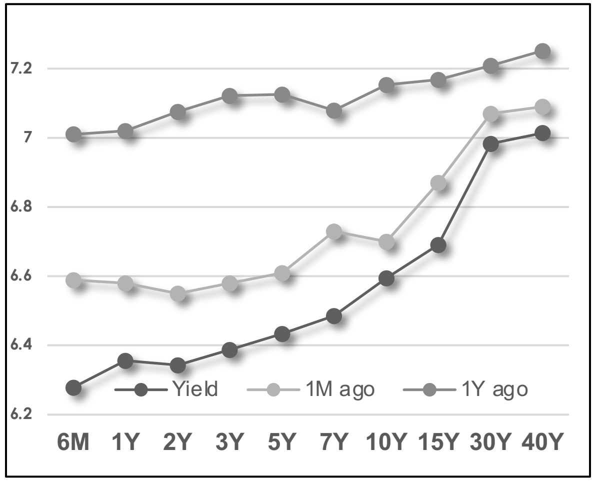
Fixed Income Market

Fixed Income Market – Government Bonds

10Y & 5Y G-Sec Yield



Yield Curve Trend

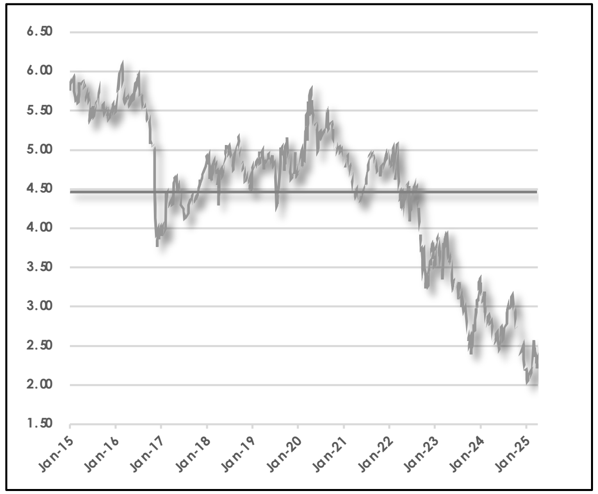


- **Current yields:** Upward sloping from 6.25% (6M) to 7% (40Y), steepening after 15Y mark
- 1-month ago: Generally higher than current yields, converging at longer terms
- **1-year ago:** Consistently higher (7-7.25%) across all terms, showing **significant rate decrease YoY**
- **Normal positive slope maintained across all periods, suggesting economic growth expectations**

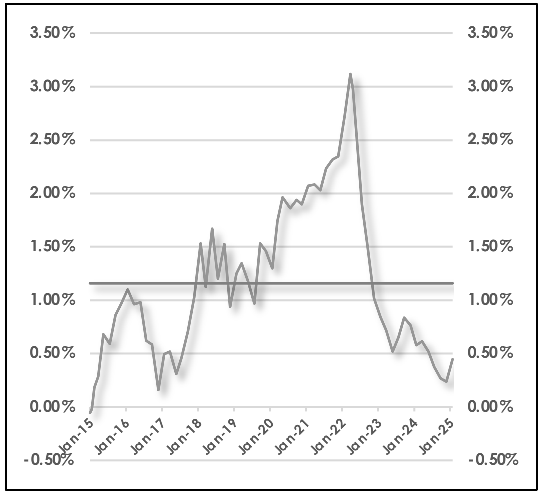
OMO Commentary – Impact of RBI bond purchases

- RBI conducts Open Market Operations (OMOs) by purchasing/selling government securities in the **secondary market to regulate money supply and manage long-term interest rates**
- In **April 2025**, RBI announced plans to purchase **₹80,000 crore of G-Secs** across four ₹20,000 crore tranches (April 3, 8, 22, 29) to enhance market liquidity
- First auction saw strongest demand for mid-to-long dated securities with **8.24% GS 2033** receiving highest allocation (**₹7,660 crore**)
- Cut-off yields ranged from **6.35% (short-term) to 6.64% (long-term)**, reflecting RBI's targeted intervention across different maturity segments
- These operations support the current positive yield curve slope and **demonstrate RBI's proactive approach to maintaining orderly market conditions amid changing interest rate environment**

India-US10Y Yield Spread



10Y G-Sec - Repo Rate Spread

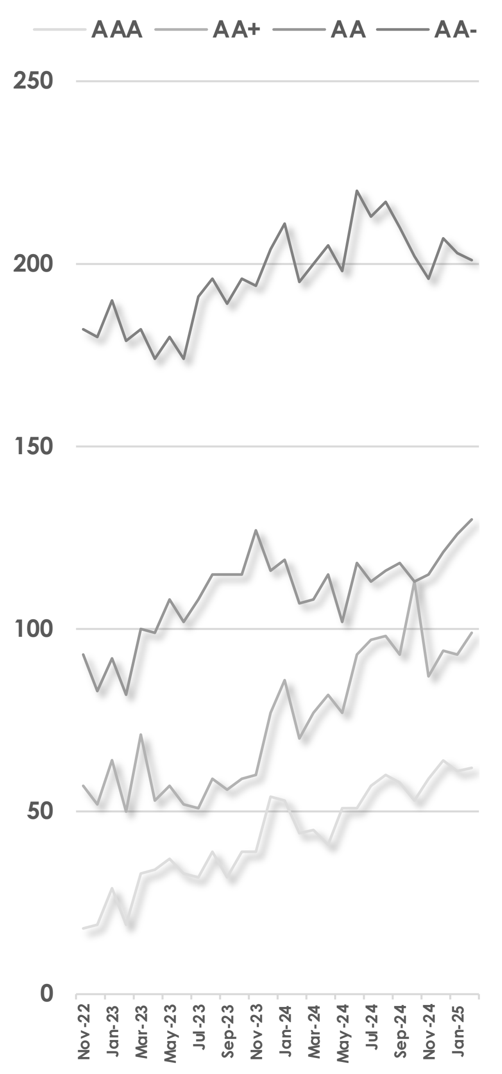


Fixed Income Market – Corporate Bonds

Credit Spreads: Reflecting Risk Perception

- **Definition**: Credit spreads represent the additional yield investors demand for holding corporate bonds over government securities (G-Secs), compensating for credit risk and issuer uncertainty.
- **Market Behavior**: These spreads tend to widen during periods of financial stress or uncertainty (when investor risk aversion rises) and narrow in more stable or optimistic (risk-on) environments.
- **Credit Rating Impact**: Lower-rated bonds (e.g., AA-, BBB, high-yield) exhibit wider spreads compared to higher-rated bonds (e.g., AAA, AA), reflecting higher perceived default risk.
- **Tenor Influence**: The term to maturity (tenor) affects spreads — longer tenors generally command higher spreads due to increased exposure to interest rate volatility and credit risk over time.

Spread Over 5Y G-Sec yields (bps)



Credit Rating Trends: Upgrades Outpace Downgrades

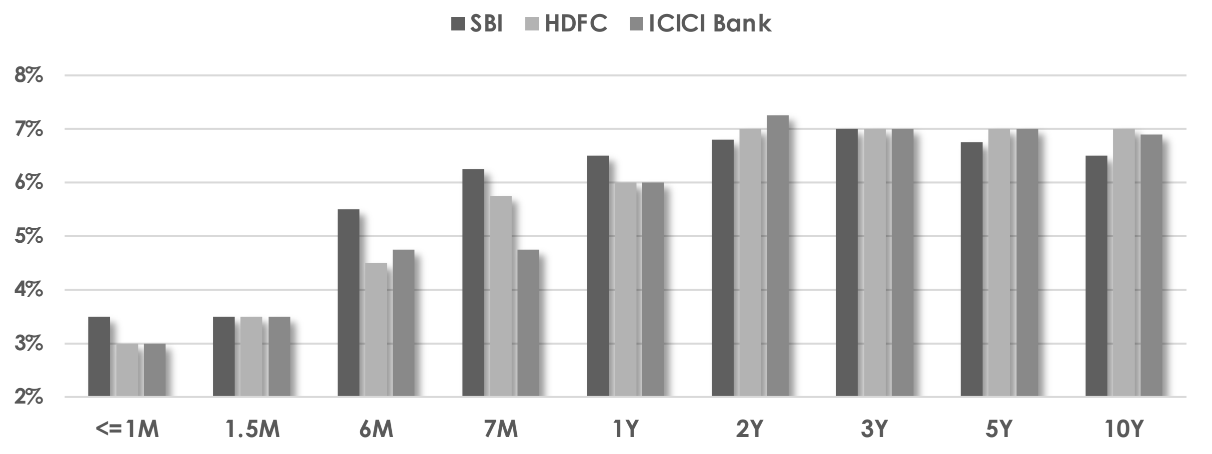
- **CRISIL Ratings Credit Ratio moderated but remains elevated:** Stood at 1.79x in H2 FY24 (vs 1.91x in H1 FY24), indicating continued positive momentum (Upgrades > Downgrades).
- **Upgrade Rate (12.0% H2 FY24):** Remains above the 10-year average (~11%), driven by domestic demand, infra spending, and healthy corporate balance sheets.
- **Downgrade Rate (6.7% H2 FY24):** Close to the 10-year average (~6.4%), with export-linked sectors and those facing commodity price volatility seeing some pressure.
- **Overall: Corporate India shows resilience, supported by deleveraging and domestic economic activity.**

High-Yield vs. Investment Grade Performance

- **Investment Grade (BBB- & above)**: Characterized by lower yields and higher credit stability, this segment has benefitted from corporate deleveraging and strong balance sheets.
- **High Yield (BB+ & below)**: Offers higher return potential but entails elevated credit and liquidity risk. Historically more prone to downgrades, especially among MSMEs and during economic slowdowns.
- **Relative Performance Tracking**: Total returns across these categories can be monitored using bond indices (e.g., CRISIL, NSE, S&P BSE) and debt mutual fund performance data (e.g., AMFI, Value Research).

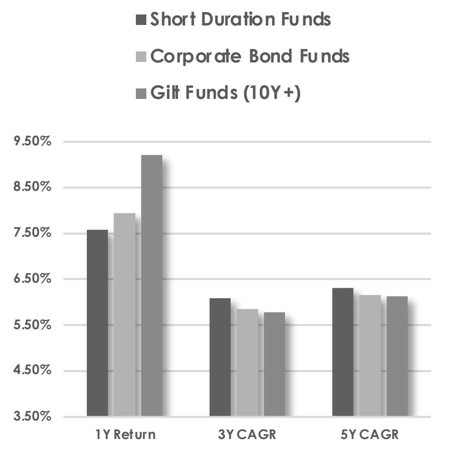
Fixed Income Market – FDs & Debt Mutual Funds

FD Interest Rates

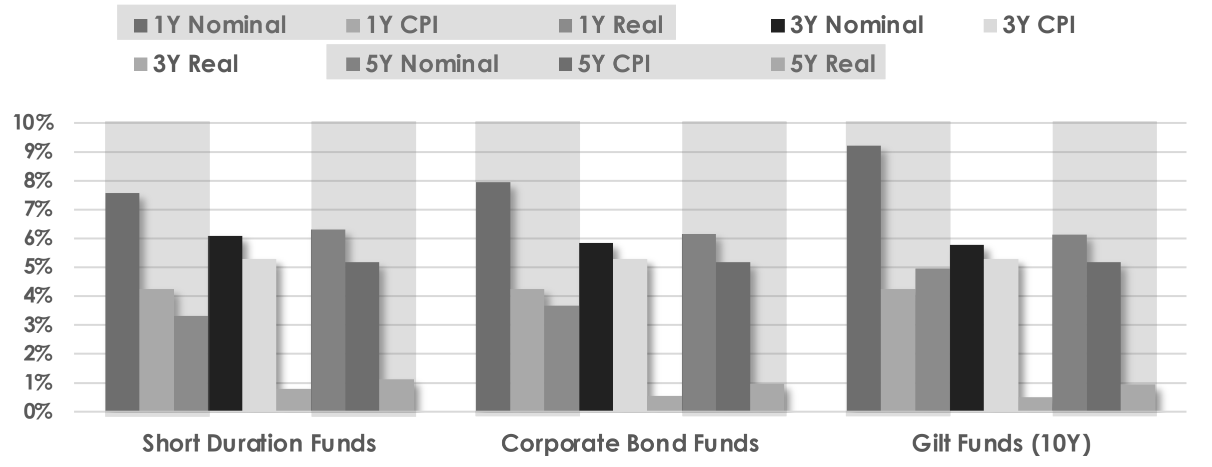


Debt MF Returns

Category	1Y Return	3Y CAGR	5Y CAGR
Short Duration Funds	7.58%	6.08%	6.31%
Corporate Bond Funds	7.94%	5.85%	6.16%
Gilt Funds (10Y)	9.21%	5.78%	6.13%



CPI Inflation vs Returns (Real return view)



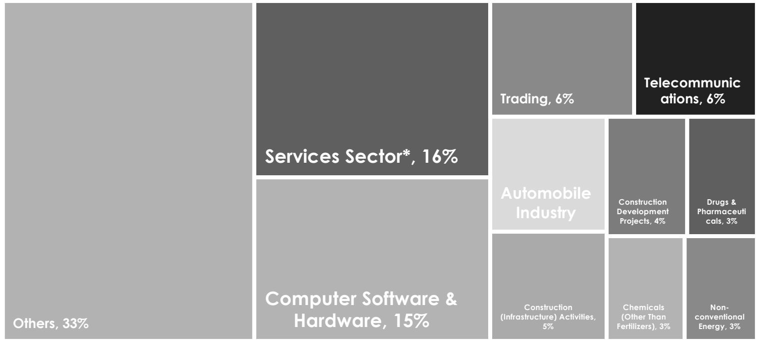
Investor Insight

- Investors must **look beyond nominal returns—real return tracking is essential** in high inflation environments.
- Duration strategy matters:
  - **short duration funds offer stability**,
  - while **gilt funds offer potential upside with interest rate sensitivity**.

Foreign Investment & Currency Market

Foreign Investment & Currency Market

FDI Flows – Sector wise equity inflow from Apr 2000 to Dec 2024



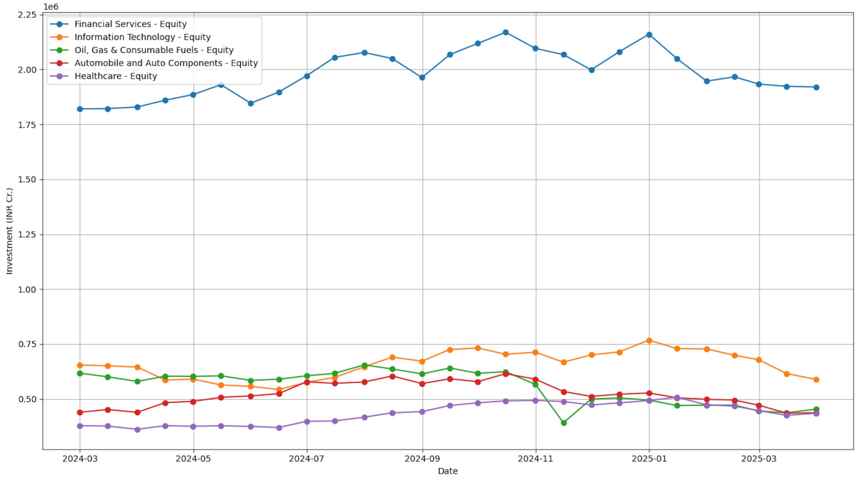
Total Inflow: USD 720B

*Services include financial, banking, insurance, outsourcing, R&D, courier, tech testing, etc.

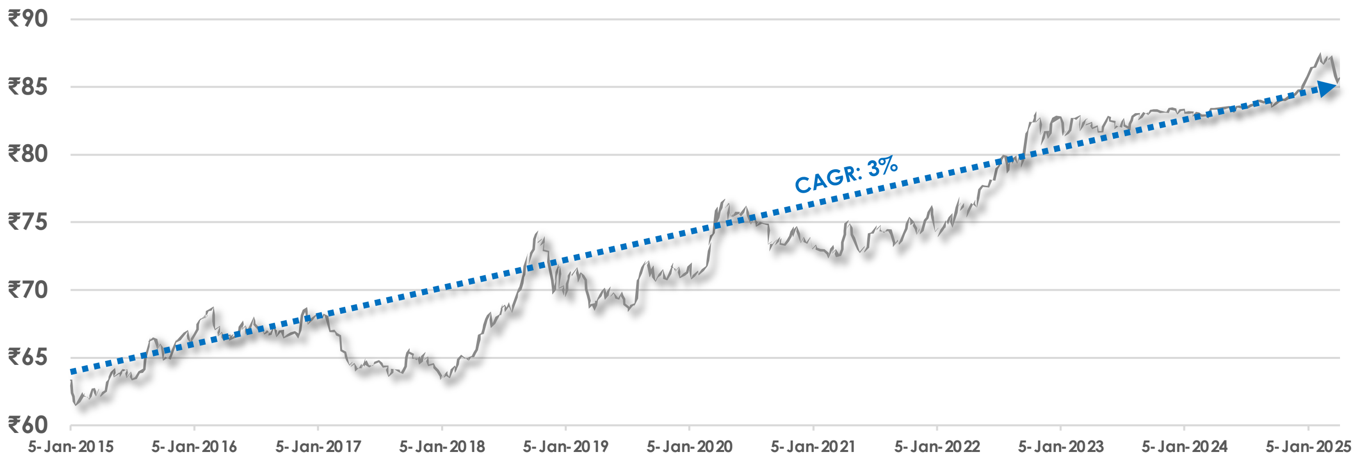
FDI Trend

- **Total FDI equity inflow (Apr–Dec 2024):** ₹3.4 lakh crore (~**USD 40.67 billion**)
- Slight dip from **FY24** full-year value (~**USD 44.4 billion**)
- Despite global uncertainties, India continues to attract **stable and diversified FDI**

FII Flows - AUC



INR/USD Exchange Rate



Impact of Global Macro Events

- **US Fed Cycles:** Rate hikes (2022–23) led to FII outflows; easing from late 2023 supported inflows & INR stability.
- **Crude Oil Volatility:** Price shocks (esp. 2018, 2022, 2023) stressed INR & CAD; remains a key risk.
- **China+1 Shift:** Global realignment post-COVID accelerated FDI into India's manufacturing, EVs, renewables.
- **Global Risk Events:** COVID, geopolitical tensions, and bank crises led to short-term volatility but long-term resilience.
- **Resilient Sectors:** Over 10Y, stable FDI in IT, Manufacturing, Digital Infra, Pharma – positioned well for 6Y horizon.

Emerging Sectors & Opportunities

Emerging Sectors & Opportunities

Technology & AI

- India's AI market projected to reach **$17B by 2027** (30% CAGR).
- Surge in AI start-ups, cloud infra, and SaaS exports.
- Govt initiatives:
    - **IndiaAI Mission** – focused on compute capacity, datasets, & research.
    - **AI Research Centers** – 3 Centers of Excellence launched across top institutes to develop foundational models & applied AI solutions.
    - **National Quantum Mission (2023–2031)** – ₹6,000 Cr initiative to develop quantum computers, secure communication, and advanced quantum sensors.
    - **Digital Public Infrastructure** - UPI, Aadhaar, ONDC enabling innovation at scale.

EV & Renewable Energy

- EV market CAGR **~49%** *(2015-2023)*; strong growth in 2W, 3W segments.
- Renewable capacity doubled in the last decade – solar leads.
- Key policies: **FAME II, Green Hydrogen Mission, PLI for Battery Storage**.

Manufacturing & PLI Schemes

- **PLI Schemes (₹2L+ Cr)** for electronics, pharma, semiconductors, and textiles.
- India emerging as a **"China+1"** hub for global supply chains.
- Electronics exports up **>50% YoY (2023-2024)**; Apple & Foxconn expanding footprint.

Digital Payments & FinTech

- **UPI transactions > ₹1,300 Cr/month** *(as of 2024)*; fastest-growing globally.
- FinTech valuation set to cross **$150B by 2025**.
- Supportive ecosystem: **Digital India**, API stack, regulatory sandbox.

India is at the cusp of a **tech-industrial transformation**, with policy push, global realignment, and digital infrastructure as key tailwinds. These sectors will likely dominate **investment narratives** over the medium term.

Risks & Challenges

Risks & Challenges

Global Recession & Geopolitical Risks

- Persistent concerns over a **global slowdown**, especially in the US and EU, may dampen exports and foreign investments.
- **Geopolitical tensions** (Russia-Ukraine, China-Taiwan, Red Sea conflict, trade war) disrupt global supply chains and commodity flows.
- **Oil price volatility** due to conflict zones can affect India's import bill and fiscal balance.

Inflation & Rate Hike Concerns

- Though moderating, **core inflation** remains sticky due to food and fuel price shocks.
- **Interest rate hikes** by major central banks (Fed, ECB) may trigger capital outflows from emerging markets like India.
- **RBI's stance** remains cautious; further tightening could impact consumer demand and credit growth.

Strengthening Tech & Crypto Regulations in Response to Data Misuse & Privacy Breaches for exploitation

- **Global momentum around tech regulation is intensifying**, particularly in **data privacy** — a necessary shift in response to increasing misuse with regards to exploitation of personal information. Regulatory scrutiny is also rising in areas like antitrust and AI ethics.
- **Crypto market under scrutiny** – lack of clear domestic regulation poses risks for investors and FinTech firms.
- Potential **overregulation or policy uncertainty** may slow innovation in emerging sectors like AI, quantum, and blockchain.

Conclusion: Navigating the India Opportunity

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India presents a **compelling long-term investment proposition**, underpinned by strong macroeconomic fundamentals, favorable demographics, ongoing structural reforms, and a burgeoning digital economy. The resilience shown amidst global uncertainties highlights the depth of its domestic market and the effectiveness of policy support.

Significant opportunities exist across various sectors, particularly those benefiting from the digital transformation, infrastructure development, green energy transition, and advanced manufacturing push. Capital markets, while offering attractive potential returns in both INR and USD terms, come with inherent volatility influenced by domestic and global factors. The fixed income market provides diversification opportunities, albeit with careful consideration required for inflation and credit spreads.

However, investors must remain cognizant of the outlined risks. Global economic conditions, geopolitical instability, persistent inflation, and evolving regulatory landscapes necessitate a **disciplined and selective approach**. Careful monitoring of policy actions, currency movements, and market sentiment is crucial.

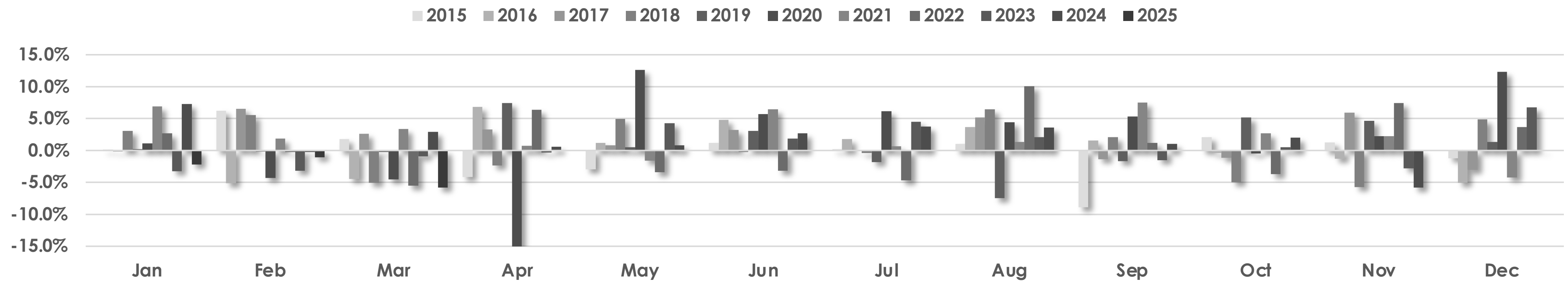
Overall, while challenges persist, the positive structural drivers supporting India's growth trajectory remain largely intact. For investors with a **long-term horizon and a robust risk management framework**, India continues to offer a significant allocation opportunity within emerging market portfolios. Navigating its complexities effectively will be key to unlocking its potential.

Appendix

Seasonality

Monthly Returns

Nifty 50	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Avg
Jan		0.1%	-0.2%	3.1%	0.2%	1.1%	6.9%	2.7%	-3.3%	7.3%	-2.2%	**1.6%**
Feb	6.2%	-5.1%	6.6%	5.6%	-0.2%	-4.3%	1.9%	-0.3%	-3.2%	-0.2%	-1.1%	**0.5%**
Mar	1.8%	-4.4%	2.6%	-5.1%	-0.3%	-4.5%	3.4%	-5.5%	-0.9%	3.0%	-5.8%	**-1.4%**
Apr	-4.1%	6.8%	3.3%	-2.4%	7.4%	-25.9%	0.7%	6.4%	-0.3%	0.6%		**-0.8%**
May	-3.0%	1.2%	0.8%	5.0%	0.5%	12.6%	-1.6%	-3.4%	4.3%	0.8%		**1.7%**
Jun	1.2%	4.8%	3.2%	-0.2%	3.1%	5.7%	6.4%	-3.2%	1.9%	2.7%		**2.6%**
Jul	0.2%	1.8%	0.0%	-0.4%	-1.8%	6.1%	0.7%	-4.7%	4.5%	3.8%		**1.0%**
Aug	1.1%	3.7%	5.2%	6.5%	-7.5%	4.4%	1.3%	10.1%	2.1%	3.6%		**3.1%**
Sep	-8.9%	1.6%	-1.4%	2.1%	-1.7%	5.3%	7.5%	1.2%	-1.5%	1.1%		**0.5%**
Oct	2.1%	-0.4%	-1.2%	-5.0%	5.2%	-0.5%	2.7%	-3.7%	0.5%	2.0%		**0.2%**
Nov	1.3%	-1.3%	5.9%	-5.7%	4.7%	2.2%	2.3%	7.4%	-2.8%	-5.8%		**0.8%**
Dec	-1.2%	-5.0%	-3.1%	4.8%	1.3%	12.3%	-4.3%	3.7%	6.7%	-0.1%		**1.5%**
Avg	**-0.3%**	**0.3%**	**1.8%**	**0.7%**	**0.9%**	**1.2%**	**2.3%**	**0.9%**	**0.7%**	**1.6%**	**-3.0%**	
CAGR	**-3.9%**	**2.7%**	**27.6%**	**4.5%**	**11.7%**	**15.1%**	**25.7%**	**3.2%**	**19.5%**	**9.2%**		



Important Information

Quantwater Tech Investments
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Thank You!

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