

India Rewind is a monthly update from DSP's Investment Desk.

It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

Foreign investor interest momentum continued in June, with net equity inflows of ~US\$2.4 Bn—the highest monthly flows so far in CY25. Domestic institutional investors remained steady buyers with inflows of ~US\$8.5 Bn. In YTD25, MSCI India Index returned ~5.9% (on the back of falling inflation risks, resilient macros, and a clear shift toward monetary easing) vs. MSCI EM ~13.7% and MSCI DM ~8.6%. MSCI India's forward PE is at ~21.4, with the 2FY now trading at ~1.04SD above its long-term averages. Monthly SIPs inflows reached a record high of ~US\$ 3.1 Bn in India, highlighting the preferred form of investment for India's retail investors.

Global markets have continued to exhibit heightened volatility, with last month proving no exception. The recent escalation in Middle East tensions, carry significant implications for India's economy and financial markets given the country's substantial reliance on imported crude oil. However, India's proactive diversification of crude sources helped contain the fallout from the supply shocks.

Electronics Manufacturing: A Key Pillar of India's Industrial Expansion- India's electronic manufacturing industry has undergone exceptional expansion over the past decade, with output rising ~4.5 times (from ~\$30 Bn in FY15 to ~\$140 Bn in FY25 – please refer chart 1 below). This growth has been underpinned by a mix of government incentives, import substitution, and rising domestic demand. The sector momentum is further reflected by robust foreign direct investment (FDI) it has attracted across both consumer and industrial electronics segments (from ~\$2.4 Bn in FY15 to ~\$7 Bn in FY25 – please refer chart 2 below).

A standout success within this industry has been the rapid evolution of smartphone manufacturing. India has transformed from importing 74 million units to exporting 68 million units by FY25. Notably, India now contributes nearly 20% of global iPhone production, a sharp rise from virtually zero in FY17. Leading manufacturers such as Foxconn and Tata Electronics have made substantial investments in component manufacturing facilities, signaling broader ambitions in electronics. This expansion has not only supported economic growth but also created numerous job opportunities and positioned India as a key player in the global electronics market.

Despite the impressive growth in electronic manufacturing, electronics remain India's second-largest import, reflecting continued reliance on imported components. To address this gap, the government is now prioritizing on backward integration, with an aim to double local value addition to 35–40%. The policy focus is evolving from mere assembly to building deeper domestic value chains, with new segments like semiconductors and data centers expected to see meaningful investments.

To support this transition and encourage further growth, both central and state governments have introduced various subsidy schemes for capital-intensive segments such as OSAT, ATMP, and semiconductor fabs. States have been proactive in offering additional incentives, including reduced land and power costs, stamp duty waivers, and more. These state initiatives, combined with central subsidies, aim to boost high-investment areas and attract significant FDI across both consumer and industrial electronics segments. This transition not only addresses import dependency but also positions India as a critical node in global technology supply chains.

Looking ahead to FY26, key growth drivers include higher income tax rebates boosting disposable income, moderating inflation enabling further monetary easing, sustained banking system liquidity, and early monsoons supporting rural incomes.

Chart 1: Electronics Manufacturing Output Nearly Quadruples in a Decade (in US\$ bn)

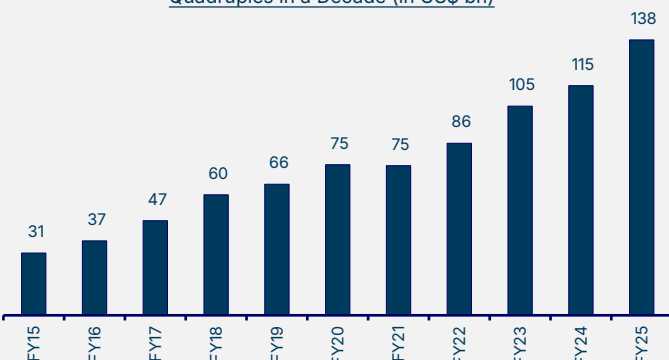
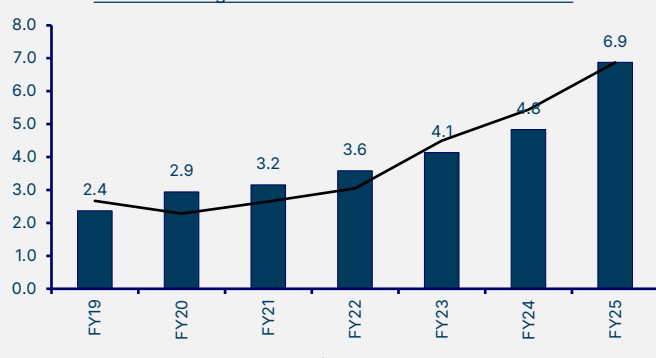


Chart 2: Rising FDI in Electronics: A Multi-Year Trend



Info Sources: CLSA, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Securities, UBS. Data as of May 2025. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year, YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets, NSO- National Statistics Office.



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Past Issues:

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3928	4310
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2784	3029
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	6.4
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.7	3.5
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.50
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	5.8
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	87.0	84.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-284.9	-318.8
Exports, USD bn	337	320	296	429	456	440.2	438.6	424.7
Imports, USD bn	518	478	398	619	720	683	723	744
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-32	-35
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	5	10
Total FX reserves, USD bn	413	478	577	607	578	646	654	701
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	18.3	16.3
Credit ratings								
Moody's	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E - Estimates

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