

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 participation has started showing signs of revival. After three months of selling, FIIs turned net buyers in October with ~US\$ 2bn of equity inflows, the strongest monthly print of 2025. The reversal was driven by softer US yields, improving risk sentiment, and progress on US–India trade discussions. Domestically, there was ~US\$ 5.9bn of inflows, anchored by SIP contributions of ~US\$ 3.3bn. Yet, with cumulative CY25 outflows still at ~US\$ (15.3)bn, foreign participation remains shallow while DIIs continue to buy at ~US\$ 72.7 bn. FII ownership in midcaps is now near five-year highs, while in large caps it sits at multi-year lows. Going ahead, sustained inflows will depend on global liquidity, policy stability, and whether India’s earnings recovery broadens over the next 12–18 months. India’s domestic macro environment remains firmly supportive with the IMF raising India’s FY2026 GDP growth outlook to 6.6% from 6.4%.

The government has approved the terms of reference (ToR) for the 8th Central Pay Commission (CPC). While the commission has 18 months to submit its recommendations, the process could be fast tracked in CY26 if consumption recovery remains sluggish. At a time when urban consumer demand has weakened, the 8th CPC could provide a ~US\$ 42bn (Centre + States) boost to government employees’ income, equivalent to around 1% of GDP. This would imply a 15% YoY rise in central government employees’ salary and pension bill to ~US\$ 100bn, with states witnessing a similar increase to ~US\$ 216bn. Following the 7th Pay Commission, private final consumption expenditure (PFCE) growth accelerated to ~7.9% in FY17, driven by strong demand in autos, consumer durables, real estate, and discretionary segments. Notably, past pay revisions did not derail central capex, as higher tax revenues— supported by rising incomes and consumption— helped mitigate fiscal pressures. That said, states’ capex intensity did moderate post-implementation.

GST 2.0 rollout is a key policy intervention to spur consumption demand; it has begun to lift affordability and sentiment across consumption categories. HUL repriced over 1,200 SKUs, covering 40% of its portfolio now taxed at 5%, while appliance makers such as Havells and Voltas highlighted 10 percentage-point cuts on ACs and LEDs. Auto OEMs also reported encouraging trends—Maruti’s dealer billings on the first festive day reached multi-year highs, and Bajaj Auto absorbed a 40% cost hike without raising prices. While initial data points to a genuine demand bump, most managements remain watchful, calling the post-festive quarter the true test of endurance. Management commentary across sectors largely echoes this optimism, tempered by caution but the tone remains balanced—policy measures have lifted sentiment, but the strength of rural incomes and sustained consumption through FY26 will decide how broad the recovery becomes.

For the remainder of FY26, three factors are likely to shape the market’s trajectory. The first is the breadth of the earnings recovery in Q3FY26, which will determine if the current upcycle extends. The second is the continuity of FII inflows, contingent on stable global risk sentiment and macro conditions. And the third is the transmission of policy support—through GST cuts, income-tax relief, and rate easing— into on-ground demand, which will ultimately decide whether India’s recovery evolves into a broad-based and sustainable phase through H2FY26.

Recent actions by policy makers to boost Household consumption

| Date   | Intent / Announcement                       | Impact                                                                                                                                                                           |
|--------|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Feb-25 | Govt. started focusing on consumption boost | No tax up to income of Rs.1.2mn (~US\$ 13500), which will give a boost of ~US\$ 11bn                                                                                             |
|        | Rural demand revival                        | It will be led by conducive Agri conditions and higher real wage growth                                                                                                          |
|        | RBI cut interest rate                       | Expected to add ~US\$ 112bn liquidity into the system, leading to 62bps fall in borrowing cost                                                                                   |
| Sep-25 | Govt. announced GST rate cut                | ~US\$ 14.6bn direct boost to consumption                                                                                                                                         |
| Sep-26 | 8 <sup>th</sup> Pay Commission              | 8th CPC to provide \$42bn to Central and States Govt. employees 'income (~ 1% of GDP). The 8th CPC is likely to be implemented by Sep’26, with retrospective effect from Jan’26. |

Info Sources: Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Capital, UBS, Kotak Securities. Data as of October 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, HUL – Hindustan Unilever. Past performance should not be taken as an indication or guarantee of future performance



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Past Issues:

- India Rewind October 2025
- India Rewind September 2025

|                                          | FY19  | FY20  | FY21  | FY22  | FY23  | FY24   | FY25   | FY26E  |
|------------------------------------------|-------|-------|-------|-------|-------|--------|--------|--------|
| Economic Activity and Employment         |       |       |       |       |       |        |        |        |
| GDP, USD bn                              | 2,701 | 2,871 | 2,668 | 3,176 | 3,390 | 3,568  | 3910   | 4133   |
| GDP per capita, USD                      | 2,036 | 2,141 | 1,969 | 2,321 | 2,451 | 2,554  | 2771   | 2904   |
| Real GDP growth, %                       | 6.5   | 4.0   | -6.6  | 8.7   | 7.2   | 8.2    | 6.5    | 6.7    |
| Prices, Interest Rates and Money         |       |       |       |       |       |        |        |        |
| CPI inflation, % y/y (average)           | 3.4   | 4.8   | 6.2   | 5.5   | 6.7   | 5.4    | 4.6    | 2.4    |
| Repo rate, % (year-end)                  | 6.25  | 4.4   | 4.0   | 4.0   | 6.50  | 6.50   | 6.25   | 5.25   |
| 10-year bond yield, % (year-end)         | 7.4   | 6.1   | 6.2   | 6.8   | 7.3   | 7.1    | 6.5    | 6.5    |
| USDINR (year-end)                        | 69.2  | 75.4  | 73.5  | 75.8  | 82.3  | 83.0   | 85.6   | 88.0   |
| Fiscal Accounts                          |       |       |       |       |       |        |        |        |
| General government budget balance, % GDP | -5.9  | -7.8  | -13.9 | -9.5  | -9.4  | -8.5   | -8.0   | -7.6   |
| Balance of Payments                      |       |       |       |       |       |        |        |        |
| Trade balance, USD bn                    | -180  | -158  | -102  | -189  | -266  | -243.2 | -287.2 | -319.2 |
| Exports, USD bn                          | 337   | 320   | 296   | 429   | 456   | 440.2  | 441.8  | 429.0  |
| Imports, USD bn                          | 518   | 478   | 398   | 619   | 720   | 683    | 729    | 748    |
| Current account balance, USD bn          | -57   | -25   | 24    | -39   | -67   | -25    | -23    | -50    |
| Foreign direct investment (net), USD bn  | 30.7  | 43.0  | 44.0  | 38.6  | 35    | 18     | 1      | 5      |
| Total FX reserves, USD bn                | 413   | 478   | 577   | 607   | 578   | 646    | 668    | 700    |
| Total external debt, % GDP               | 20.1  | 19.5  | 21.4  | 19.1  | 18    | 18.1   | 17.1   | 16.4   |
| 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. Data as of October 2025

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