

INDIA: RESILIENT GROWTH, TIGHTER MARGIN FOR ERROR

Capital-market developments and portfolio implications for private wealth clients

5.25% RBI REPO RATE	6.7% FY27 GDP FORECAST	4.45% JULY CPI	6.7% JULY IIP GROWTH
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PERSPECTIVE

India continues to offer one of the strongest domestic growth profiles among major economies. Manufacturing, services, infrastructure activity and bank credit remain supportive. The investment environment, however, has become less forgiving: food and fuel risks are rising, monsoon distribution is uneven, foreign equity flows remain cautious and valuations are demanding in parts of the mid- and small-cap market.

For investors, this is not a broad risk-off signal. It is a case for remaining invested while becoming more selective. Portfolio outcomes over the next phase are likely to depend less on multiple expansion and more on earnings delivery, cash conversion, balance-sheet strength and the price paid for growth.

EXYST HOUSE VIEW

Retain strategic equity exposure, deploy new money in measured tranches and favour businesses with visible cash flows, pricing power and limited balance-sheet risk.

RBI: INFLATION VIGILANCE RETURNS

The Monetary Policy Committee retained the repo rate at 5.25% and continued with a neutral stance. The RBI projects FY2026-27 real GDP growth at 6.7% and CPI inflation at 5.0%, with inflation expected to peak near 5.9% in Q3 before moderating. July CPI was 4.45%, indicating that the easy disinflation phase has likely passed.

- Near-term rate cuts are no longer the central case unless food and crude-oil pressures ease materially.
- Debt portfolios should emphasise high-quality accrual and measured duration rather than aggressive rate bets.
- Rate-sensitive equities must now be supported by earnings growth, not only expectations of monetary easing.

GROWTH PULSE AND THE NEXT DATA POINT

Industrial production expanded 6.7% year-on-year in July, reinforcing the strength of manufacturing and investment-linked activity. The Q1 FY2026-27 GDP estimate is scheduled for release at 4:00 PM IST on 31 August; this note has been prepared before that release. The composition of growth - particularly private consumption, gross fixed capital formation and manufacturing - will matter more than the headline alone.

INVESTMENT MESSAGE

India's investment cycle presently appears healthier than its consumption cycle. Leadership should remain tilted toward formal-sector lenders, manufacturing, infrastructure and capital-goods businesses.

THE MACRO SIGNALS THAT MATTER FOR PORTFOLIOS

Monsoon and commodity risk

Cumulative rainfall remained roughly 13% below the long-period average through 26 August, with substantial regional variation. A strengthening El Nino increases the risk of weaker agricultural output, food inflation and softer rural discretionary demand. At the same time, water storage and rainfall distribution - not only the national rainfall total - will determine the eventual economic effect.

- Potential beneficiaries: irrigation systems, pumps, pipes, water treatment, crop-efficiency products and organised agri-input platforms.
- Areas to monitor: rural discretionary consumption, crop-linked supply chains and businesses unable to pass through higher food or energy costs.
- Crude oil remains a two-way risk for inflation, the current account, the rupee and corporate margins.

Banks: strong assets, tighter liability economics

Bank credit was growing around 17.7% year-on-year against deposit growth of approximately 13.3%. System gross NPA improved to 1.68% and net NPA to 0.40%, but system net interest margin moderated to 3.21% from 3.26% a year earlier. Asset quality remains excellent; deposit mobilisation is becoming the more important constraint.

FAVOUR	MONITOR	AVOID / LIMIT
Strong CASA and retail-deposit franchises; diversified NBFC funding; adequate capital.	Loan-to-deposit growth, deposit repricing, unsecured exposure and incremental credit costs.	Aggressive balance-sheet growth funded by costly wholesale liabilities or weak underwriting.

Domestic savings are cushioning foreign selling

Foreign investors recorded approximately US\$11.6 billion of equity outflows during April-July, while debt attracted around US\$7.3 billion. In contrast, July equity mutual-fund inflows were ₹24,697 crore and monthly SIP collections reached ₹31,961 crore. Industry AUM stood at approximately ₹85.76 lakh crore.

JULY FLOW CATEGORY	NET FLOW	CLIENT READING
Small-cap funds	₹7,768 crore	Strong demand; crowding and valuation discipline are essential.
Mid-cap funds	₹6,192 crore	Structural participation, but earnings must catch up with prices.
Flexi-cap funds	₹4,709 crore	Continued preference for manager-led allocation flexibility.
Large-cap funds	₹1,322 crore outflow	Potential contrarian opportunity in quality large caps.
Gold ETFs	₹1,559 crore	Diversification demand remains firm amid geopolitical risk.

FLOW CONCLUSION

Domestic flows are making corrections more orderly, but steady inflows do not remove valuation risk. Liquidity should not be mistaken for an earnings moat.

REGULATION AND MARKET STRUCTURE

Broader access through online bond platforms

SEBI has expanded the permitted offering of Online Bond Platform Providers to include Section 54EC bonds, listed government securities, State Development Loans, Treasury Bills, listed Sovereign Gold Bonds and eligible products regulated by IFSCA and other financial-sector regulators. This improves access, but platform availability does not eliminate credit, liquidity, tax or reinvestment risk.

- Evaluate bonds at the portfolio level: credit quality, cash-flow timing, liquidity, taxation and issuer concentration remain decisive.
- Overseas instruments require separate FEMA and Liberalised Remittance Scheme assessment.

InvIT distributions: look beyond headline yield

SEBI will permit debt-funded major maintenance expenses for road projects to be added back while calculating distributable cash flow, subject to unitholder approval, auditor certification and disclosure. The change can support initial distributions, but the borrowing consumes leverage headroom and creates future repayment obligations.

EXYST DUE-DILIGENCE LENS

Assess InvITs using operating cash flow after maintenance needs, leverage, debt maturity and distribution sustainability - not the headline distribution yield alone.

ETF operating framework

SEBI has extended the implementation timeline for revised ETF base-price, price-band, pre-open call-auction and close-out procedures. The development is operational rather than thesis-changing. For clients, bid-ask spreads, market depth, tracking difference and execution discipline remain important selection criteria.

EXYST ALLOCATION FRAMEWORK

THEME	STANCE	PORTFOLIO RATIONALE
Private banks & quality NBFCs	Selective positive	Credit growth and asset quality remain strong; prefer superior liability franchises.
Capital goods & power T&D	Positive	Manufacturing, grid investment, infrastructure and order visibility remain supportive.

THEME	STANCE	PORTFOLIO RATIONALE
Defence & electronics manufacturing	Accumulate on corrections	Localisation and order books are structural; valuation discipline is essential.
Healthcare & domestic pharma	Positive	Defensive earnings, domestic demand and comparatively lower commodity sensitivity.
Water & irrigation	Selective positive	Uneven rainfall strengthens the long-term case for water efficiency and irrigation.
Infrastructure	Positive, quality-led	Government capex and industrial investment support demand; avoid excessive leverage.
IT services	Neutral / selective	Potential tactical support, but global demand and pricing visibility remain mixed.
Rural discretionary	Cautious	Rainfall, crop income and food inflation require greater visibility.
Gold	Maintain strategic allocation	Useful geopolitical, inflation and currency-risk diversifier.

Portfolio construction priorities

- Use staggered deployment instead of one-time allocation in expensive market segments.
- Rebalance portfolio overlap across direct equities, active funds, index funds and ETFs.
- Preserve a liquidity reserve for volatility-led opportunities and near-term liabilities.
- Prioritise free cash flow, governance and balance-sheet strength over narrative-led growth.
- Keep fixed income diversified by issuer and maturity; retain strategic gold allocation.

CLIENT COMMUNICATION: STAYING INVESTED WITH DISCIPLINE

India's domestic economy remains resilient, supported by manufacturing, infrastructure spending, services and healthy financial-sector balance sheets. The investment backdrop is nevertheless becoming more sensitive to food prices, crude oil, rainfall and global capital flows. The next phase of returns is therefore likely to reward earnings quality and valuation discipline more than broad market momentum.

Exyst Ventures continues to favour strong balance sheets, visible cash flows and structural domestic-growth themes. We believe volatility should be used for measured accumulation rather than aggressive one-time deployment. Diversification across equity, high-quality fixed income, liquidity and gold remains central to preserving optionality while participating in India's long-term compounding opportunity.

THE CORE MESSAGE

Remain invested, but raise the quality threshold. The portfolio should be built to withstand inflation, liquidity shifts and valuation compression - not merely participate in rising markets.

WHAT WE ARE MONITORING NOW

SIGNAL	WHY IT MATTERS
Q1 GDP composition	Consumption versus investment will help identify the next phase of earnings leadership.
September rainfall and crop estimates	Key for food inflation, rural demand and the RBI's policy flexibility.
Brent crude and the rupee	Affects inflation, the current account, imported input costs and corporate margins.
Bank deposits and NIM	Will determine whether rapid credit growth remains profitable and sustainable.
FPI versus DII flows	Indicates whether domestic savings can continue absorbing global risk reduction.
Mid- and small-cap earnings	Required to justify valuations and distinguish durable compounders from liquidity trades.

SOURCES AND DATA NOTE

Primary sources: Reserve Bank of India (Governor's Statement and MPC Minutes, August 2026); Ministry of Statistics and Programme Implementation (July CPI and IIP); India Meteorological Department (Extended Range Forecast dated 27 August 2026); Association of Mutual Funds in India (July 2026 monthly data); Securities and Exchange Board of India (OBPP, InvIT and ETF circulars dated August 2026); National Stock Exchange market data. Data are as available on the morning of 31 August 2026 and may subsequently be revised.

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