

# Monthly Communication

February 2025

# Market Outlook

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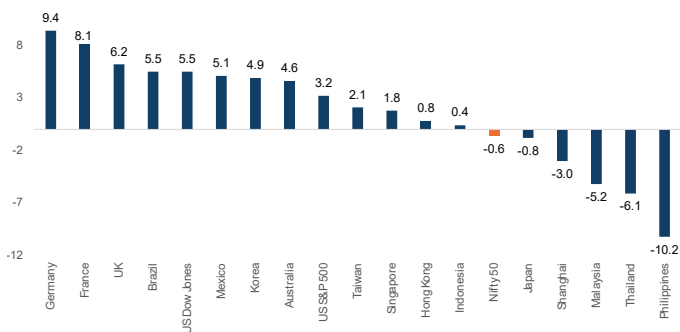
## Market Update

In January 2025, the Indian equities were volatile where the Nifty index declined by 0.6% for the month, registering its fourth consecutive monthly loss. However, the broader markets had a real challenging month with the midcap and small cap indices down 6.1% and 9.9% respectively. All the sectors ended the month in red, with Real - estate, Consumer Durables and Healthcare falling the most by 13.2%, 10.2% and 7.7%, respectively. Key domestic developments included the RBI announcing several measures to enhance liquidity in the banking system and the Q3FY25 earnings broadly being tepid.

On the investment front, Foreign Portfolio Investors (FPIs) sold \$8.6 billion of Indian equities in secondary market by January 29. Domestic Institutional Investors (DIIs) were net buyers, acquiring \$10 billion worth of stocks by the end of the month. Meanwhile, global markets saw mixed results: the Philippines recorded a significant loss of 10.2%, while Thailand (-6.1%) and Malaysia (-5.2%) also experienced declines. On the positive side, markets in Germany (+9.4%), France (+8.1%), and UK (+6.2%) saw gains.

International economic developments included the US Federal Reserve maintaining the policy rate steady. Meanwhile, Chinese startup DeepSeek released a cost-effective AI model, raising concerns about increased competition and its implications for the tech sector.

## Global and regional indices 1 Month performance (%)



Source: Bloomberg, Kotak Institutional Equities (Data as on 31st January 2025 in local currency)

## Macro Update

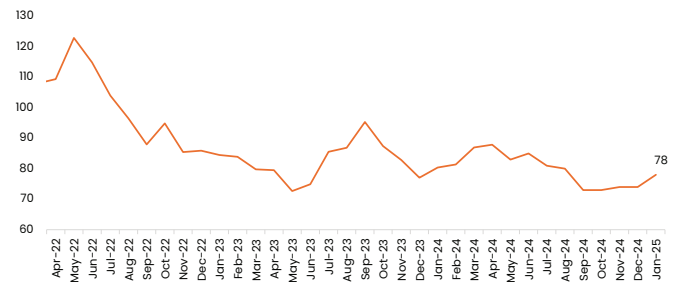
In January, the National Statistics Office (NSO) estimated India's FY25 real GDP growth at 6.4%, against 8.2% in FY24. Inflationary pressures continued easing, with the Consumer Price Index (CPI) falling to 5.2% in December, from 5.5% in November. On the other hand, the Wholesale Price Index (WPI) rose to 2.4% in December YoY, up from 1.9% the previous month. Industrial production continued its recovery, registering a 5.2% growth in November, in comparison to 3.5% growth in October.

India's exports grew by 6% during the April-December 2024 period compared to the same months in 2024, while imports rose by 6.9%, leading to a trade deficit of \$79.5 billion for the first three quarters of FY2025. The country's 10-year government bond yield ended January at 6.8%, while the USD/INR exchange

rate reached an all-time low of 86.6. Brent crude oil prices also rose, closing at around \$78 per barrel in January.

Gross GST collections were ₹1.95 lakh crore in January, reflecting a 12.3% rise compared to January 2024, and 10.5% increase month-on-month.

## Brent Crude



Source: Bloomberg

## Union Budget 2025

The Union Budget 2025 presents a comprehensive and strategic approach towards realizing India's vision of a "Viksit Bharat" by 2047, placing emphasis on four critical engines of growth: Agriculture, MSMEs, Human Capital Investment, and Export Promotion. For agriculture, the budget takes a targeted approach, expanding the Kisan Credit Card scheme to enhance productivity in 100 low-yield districts and launching initiatives to make India self-reliant in pulses. These measures are designed to address the long-term challenges in agriculture while improving rural incomes.

For MSMEs, the budget outlines significant credit guarantees and support measures, particularly in labor-intensive sectors such as footwear, food processing, and toy manufacturing, which are key drivers of both exports and domestic manufacturing. As MSMEs account for a large portion of employment and economic output, these measures are expected to unlock substantial growth potential in the sector. The budget also makes substantial investments in human capital with a focus on expanding IIT capacities, introducing new medical seats, and strengthening healthcare infrastructure—including critical facilities like daycare cancer centres. This investment in people, coupled with an emphasis on digital connectivity for educational institutions and skill development, is likely to pay off in the form of a more capable workforce, poised to support India's growth trajectory.

On the export front, the budget emphasizes improving credit access, addressing logistics bottlenecks, and reducing non-tariff barriers for MSMEs. Initiatives like the Bharat TradeNet platform and modernized air cargo warehousing are designed to make Indian exports more competitive and accessible in the global market.

## ◆ Fiscal Discipline with Strategic Infrastructure Spending

From a fiscal perspective, the government is focused on fiscal consolidation, with a targeted reduction in the fiscal deficit to 4.4% of GDP by 2025-26. While the fiscal deficit reduction is important, the government has maintained its commitment to infrastructure development, with the revised estimate for

infrastructure spending at ₹10.18 lakh crore. This continued investment in infrastructure will act as a key enabler of long-term economic growth, providing the necessary framework for enhanced productivity and competitiveness across sectors.

Additionally, the budget's emphasis on tax relief, particularly the income tax reforms aimed at middle-income taxpayers, is expected to stimulate discretionary consumption, further supporting economic activity.

#### ◆ Conclusion: A Balanced Approach to Long-Term Growth

Budget 2025 represents a well-balanced approach, carefully positioning India for sustained economic growth. The focus on infrastructure, tax reform, and MSME support aligns well with the country's long-term objectives. Investment in human capital and sectoral development sets the stage for the creation of a highly competitive workforce, crucial for India's evolution into a "Viksit Bharat" by 2047. For investors, the budget is a positive signal of macroeconomic stability and growth-oriented policies, providing a conducive environment for capital deployment over the medium to long term.

#### Market Outlook

Multiple factors hit the markets during the month, causing a lot of nervousness. Mid and small caps fell sharply, as many stocks were trading at very stretched valuations and small earnings disappointments caused severe price damage. The start of the Trump era also led to huge volatility, with announcements of huge tariffs on Mexico and Canada causing swings in currencies and stocks. This was followed by deferment of the tariffs for a month the very next day. In India, the budget was good but temporarily led to huge sector movements, with consumer facing stocks doing well and capital goods bearing the brunt.

After these huge swings and volatility, we do believe that Indian equity markets are stabilizing. The current correction has brought some semblance to valuations. Corporate earnings for the December quarter have been better than the previous quarter and it is expected that the January - March 2025 quarter will again start to see double digit corporate earnings growth. Hopefully Trump-led news flow will also stabilize and the upcoming Modi visit to the US to meet Trump might also act as a small catalyst.

Overall, we do believe that a steady but slow uptick is expected in equity markets. Swings will continue but much narrower than seen off late. Portfolio damage has been seen in January, but the fundamental focus makes us believe that the bounce back will also be equally sharp.

[Click here to view video on Union Budget 2025](#)





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As per SEBI Circular No. SEBI/HO/IMD/DF6/CIR/P/2020/24 dated February 05, 2020, details of industry benchmark and AIF level performance versus Benchmark Reports are available at <https://www.nseindia.com/products-services/aif-benchmark-report> and <https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-funds-benchmarks.html>

#### Compliance Officer details under AIF:

Mr. Biharilal Deora, Tel: 022-68846600

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#### Principal Officer and Compliance Officer Details under PMS:

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Compliance Officer: Mr. Biharilal Deora, Tel: 022-68846600

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#### Principal Officer and Compliance Officer Details under IA:

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