

India Newsletter

September 2025

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MARKET OVERVIEW: India market update

In August, MSCI India Index declined by 2.4%, underperforming the MSCI Emerging Markets Index, which gained 1.2%. Among sectors, consumer discretionary, consumer staples and materials were the best performers, while financials, real estate, and utilities lagged. By market capitalization, large caps relatively outperformed, with the MSCI India Large Cap Index falling by 2.2%, compared to declines of 3.5% in both the MSCI India Mid Cap and Small Cap indices.

India's macroeconomic indicators remained broadly stable. Goods and Services Tax¹ (GST) collections rose to INR 1.86 trillion, up from INR 1.74 trillion year-on-year (YoY), reflecting resilient domestic activity. Exports grew 6.7% YoY to USD 35.1 billion despite higher U.S. tariffs, while imports declined 10.1% to USD 61.6 billion, narrowing the trade deficit to USD 26.3 billion.

Core infrastructure sectors rebounded strongly, with output rising 6.3%—the fastest in 13 months—driven by coal (+11.4%), steel (+14.2%), and cement (+6.1%), signalling renewed industrial momentum. The automotive and equipment segments posted 2.84% YoY growth, led by tractors (+30.14%), commercial vehicles (+8.55%), and two-wheelers (+2.18%). Declines were recorded in three-wheelers (-2.26%) and construction equipment (-26.45%), possibly due to buyers deferring purchase in anticipation of lower GST rates following Prime Minister Narendra Modi's August 15 announcement on GST rationalisation. Consumer Price Index² (CPI) inflation moderated to 2.07% YoY, well within the Reserve Bank of India's target range, while Wholesale Price Index³ (WPI) inflation turned positive at 0.52%, driven by rising prices in food, non-food articles, and select manufacturing categories.

SBIFM's proprietary equity market sentiment indicator remains below zero, acting as a contrarian signal. Recent market activity suggests that excessive optimism has corrected, creating more attractive long-term entry opportunities. Equity valuations have become more reasonable amid easing bond yields and moderating price-to-earnings multiples. SBIFM's preferred metric—the earnings yield-to-bond yield spread—stands at -2.34%, slightly above its historical average of -2.18%, indicating valuations are more balanced relative to bond yields.

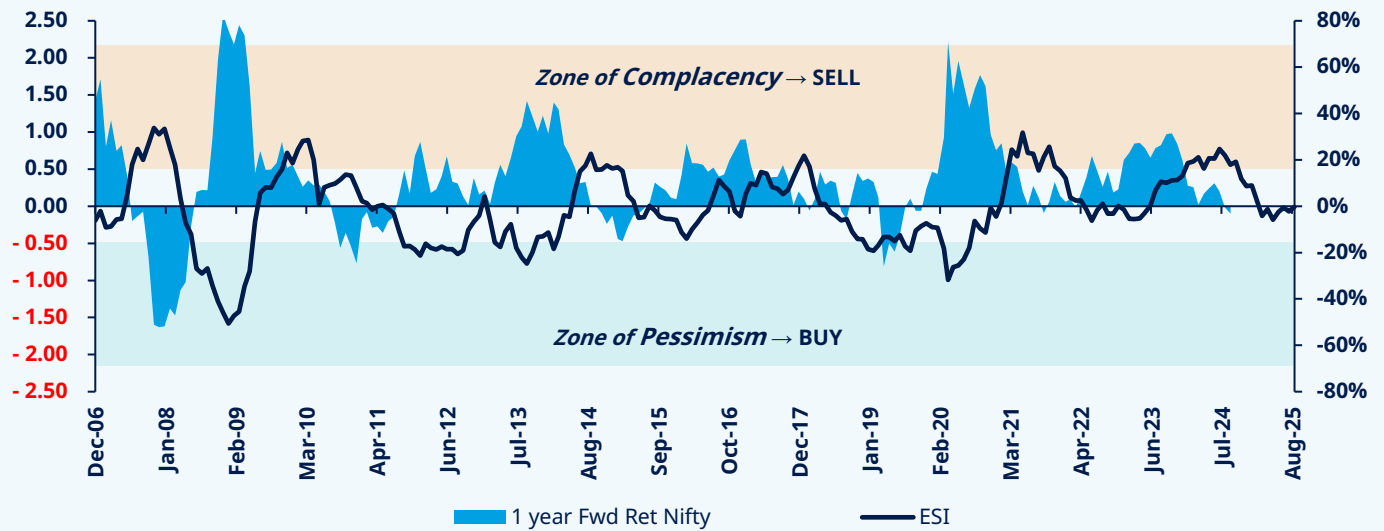
While near-term volatility may persist due to global uncertainties, SBIFM maintains a constructive long-term outlook for Indian equities. Corporate profitability as a share of GDP is improving, balance sheets remain healthy, and macroeconomic conditions support a new cycle of capital formation and earnings growth—setting the stage for selective re-rating opportunities.

¹GST: Is a comprehensive indirect tax introduced in July 2017 to replace multiple state and central taxes with a unified nationwide system.

²Consumer Price Index: measures changes in the price of a basket of goods and services at the retail level and is used to track inflation affecting consumers.

³Wholesale Price Index: Is a measures changes in the price of goods at the wholesale level and is used as an indicator of inflationary trends in the economy.

Equity sentiment remains below zero



Source: Bloomberg, FactSet, SBI Funds Management Research, as of 31 August 2025; ESI = Equity sentiment Index.

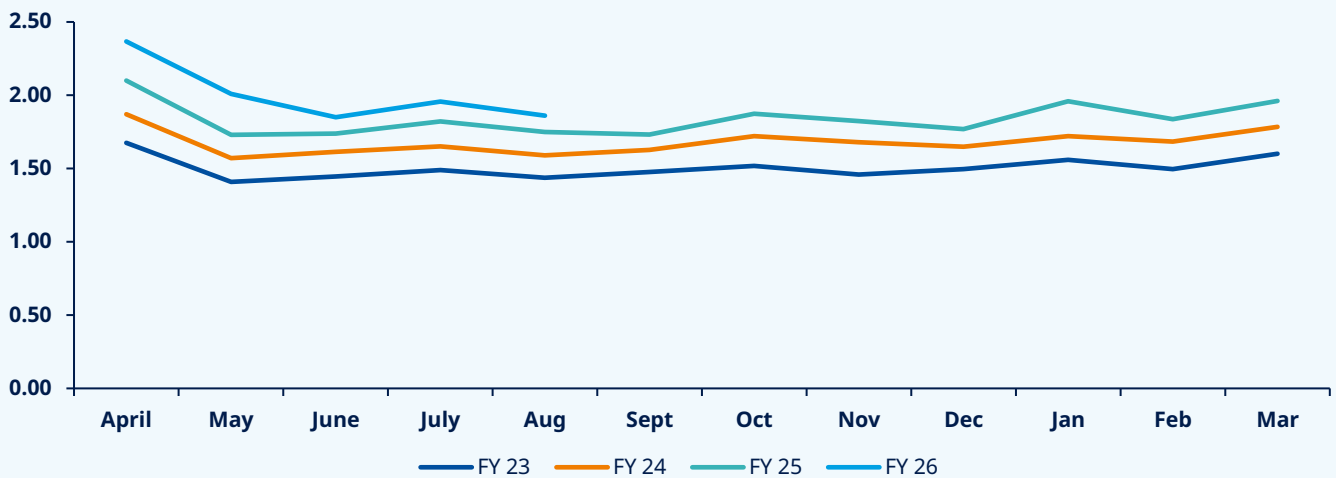
GST 2.0: A reform to accelerate India’s growth trajectory

India’s GST, introduced in 2017, was a landmark reform aimed at unifying the country’s complex indirect tax system. In 2025, the reform has entered its second phase—GST 2.0—bringing a simplified structure, broader compliance, and sectoral benefits across the economy.

The transition from a four-slab system to a dual-rate structure (5% and 18%), with a special 40% rate for luxury and “sin goods⁴”, has significantly reduced complexity for businesses. This simplification is particularly beneficial for micro, small and medium-sized enterprises (MSMEs), which previously struggled with classification and compliance burdens. The new structure has made it easier for businesses to plan, price, and pass on benefits to consumers.

Despite global headwinds and seasonal demand fluctuations, GST collections rose 6.5% year-on-year in August 2025, indicating strong domestic demand and improved tax compliance. GST 2.0 is set to boost the consumption and compliance.

GST collections (in INR Trillion)

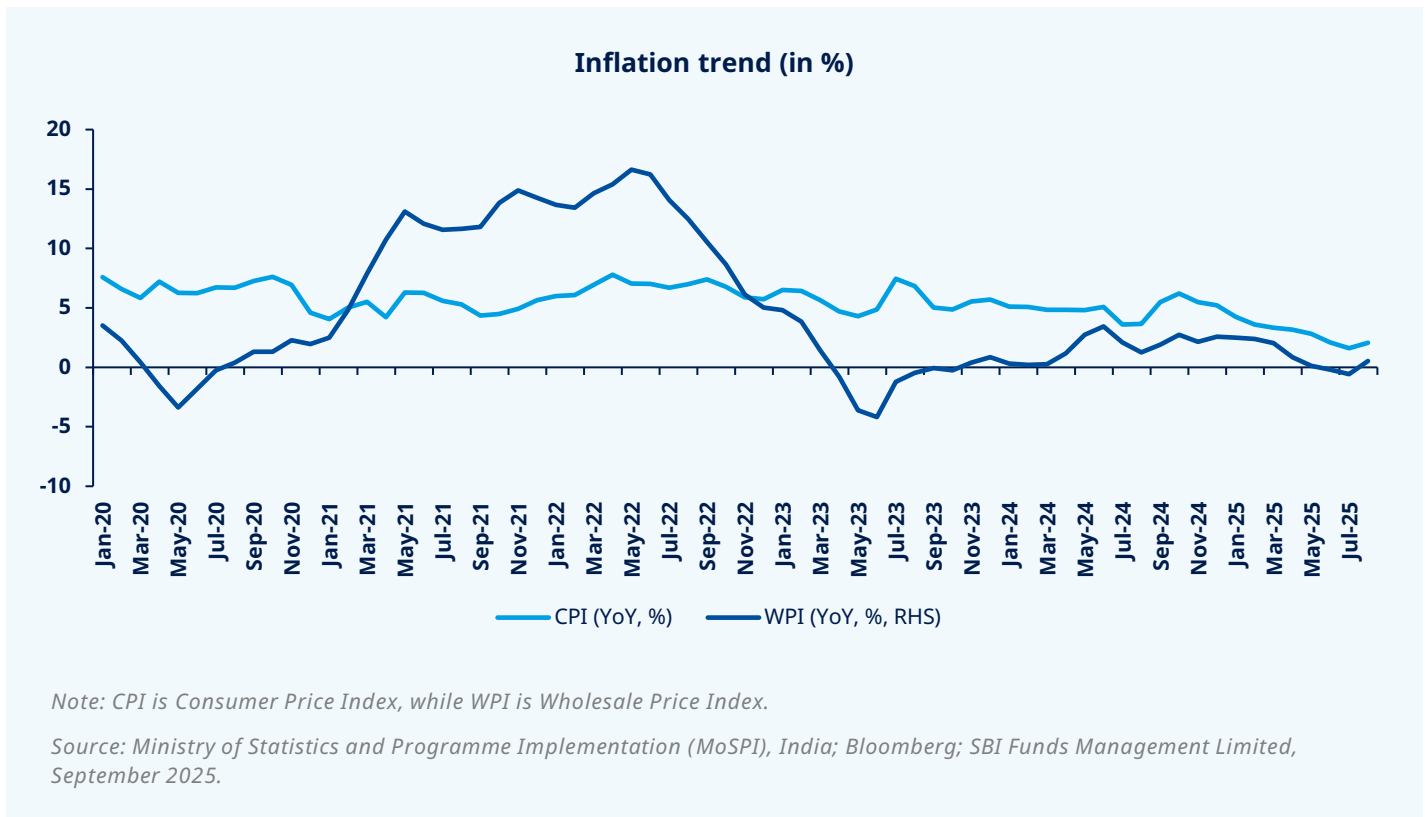


Note: India’s financial year (FY) begins in April and ends in March.

Source: Goods and Services Tax Network (GSTN); SBI Funds Management Limited. September 2025.

⁴Sin goods refer to products considered harmful to health or society, such as alcohol and tobacco, which are subject to higher taxation under India’s GST framework.

While inflation has remained within the RBI's target range, global commodity prices have been volatile. GST reform also is expected to have a positive impact on inflation management. By reducing GST rates on essential items such as cement, small cars, and medical devices, the government has helped keep inflation in check.



Moreover, GST has accelerated the formalization of the economy. The integration of digital payments and real-time invoice matching has led to greater transparency and reduced tax evasion. Digital payments—a proxy for formal economic activity—have shown robust double-digit growth in both volume and value terms, reflecting the increasing penetration of digital commerce and compliance. SBIFM expects GST 2.0 to enhance these trends.

High frequency indicators - economic activity (in %)

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
GST e-way bills	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8
GST Revenue	10.3	10	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5
Toll Collection	9.4	6.8	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8
Electricity Demand	4	-5	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2
Petroleum Consumption	10.7	-3.1	-4.4	4.1	10.6	2	3	-5.2	-3.1	0.2	0.7	1.4	-4
Digital Payments - Volume	36.7	34.9	36.3	40.3	30.1	33.1	33	26.7	30.8	30	29.2	28.3	29
Digital Payments - Value	22.1	16.7	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.9

Notes: The y-o-y growth (in %) has been calculated for all indicators. The heatmap is applied to data from April 2023 to July 2025. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. For digital payments data, zero growth is taken as the lower bound.

Sources: Reserve Bank of India; Goods and Services Tax Network (GSTN); RBI; Central Electricity Authority (CEA); and Ministry of Petroleum and Natural Gas, SBI Funds Management Limited, August 2025. For illustrative purposes only.

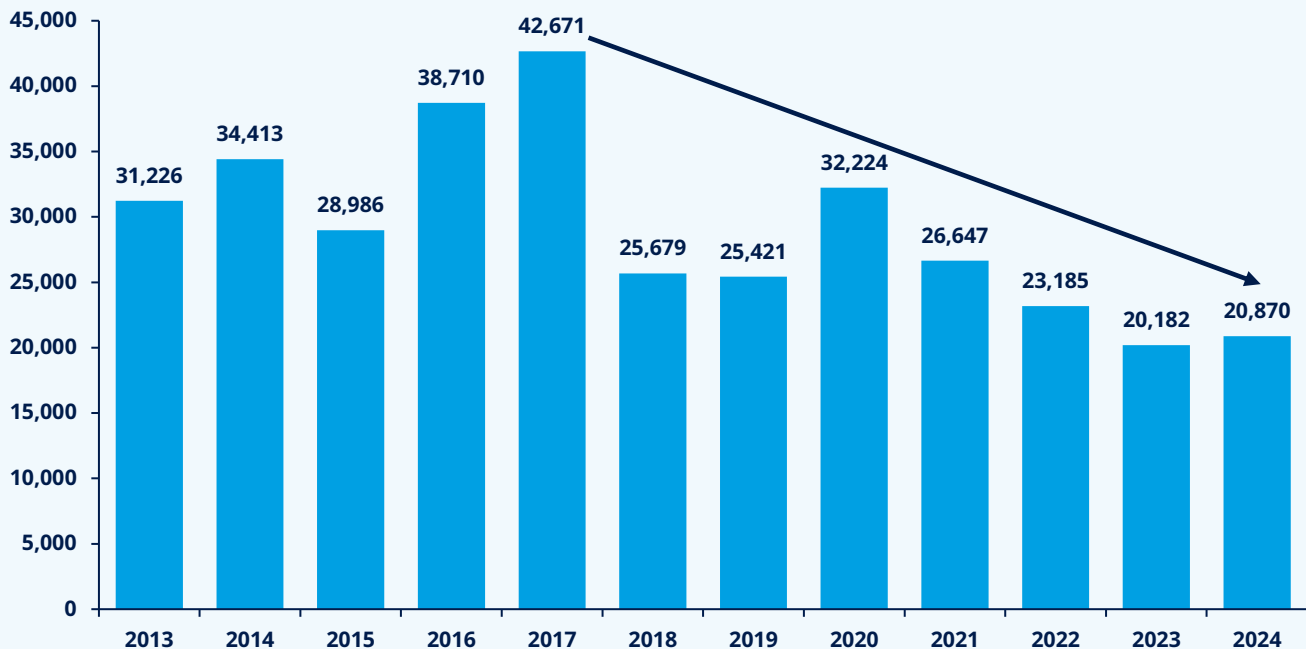
In summary, GST 2.0 represents a significant step in the evolution of India's indirect tax framework. The changes are aimed at simplifying business operations, supporting compliance, and improving transparency. While its full economic impact will depend on effective implementation and broader macroeconomic conditions, the reform is expected to influence consumption patterns, fiscal revenues, and the pace of formalisation over time.

Indian IT sector: Resilience amid global policy shifts

India's IT sector, a key contributor to the economy, is undergoing a strategic adjustment in response to evolving global labour policies, most notably, the recent overhaul of the U.S. H-1B visa program.

The U.S. government's decision to impose a USD 100,000 one-time fee on new H-1B visa applications has prompted Indian IT firms to reassess their global workforce strategies. While this fee represents a notable cost increase, the sector has gradually reduced its reliance on H-1B visas over the past decade. Currently, only 3–5% of employees are on H-1B visas, compared with 20–30% in earlier years.

Applications for H-1B visas have been declining since the highs of 2017 applications for H-1B visas



Source: USCIS; SBI Funds Management Limited. September 2025.

This strategic shift is reflected in the localization of hiring. Companies such as TCS, Infosys, Wipro, and HCL now employ 50–80% of their US workforce locally, reducing dependency on visa-based staffing and aligning with client preferences for onshore delivery. In addition, firms are making greater use of L1 visas, nearshoring to Canada and Latin America, and adopting cost-sharing arrangements with clients to manage operational expenses.

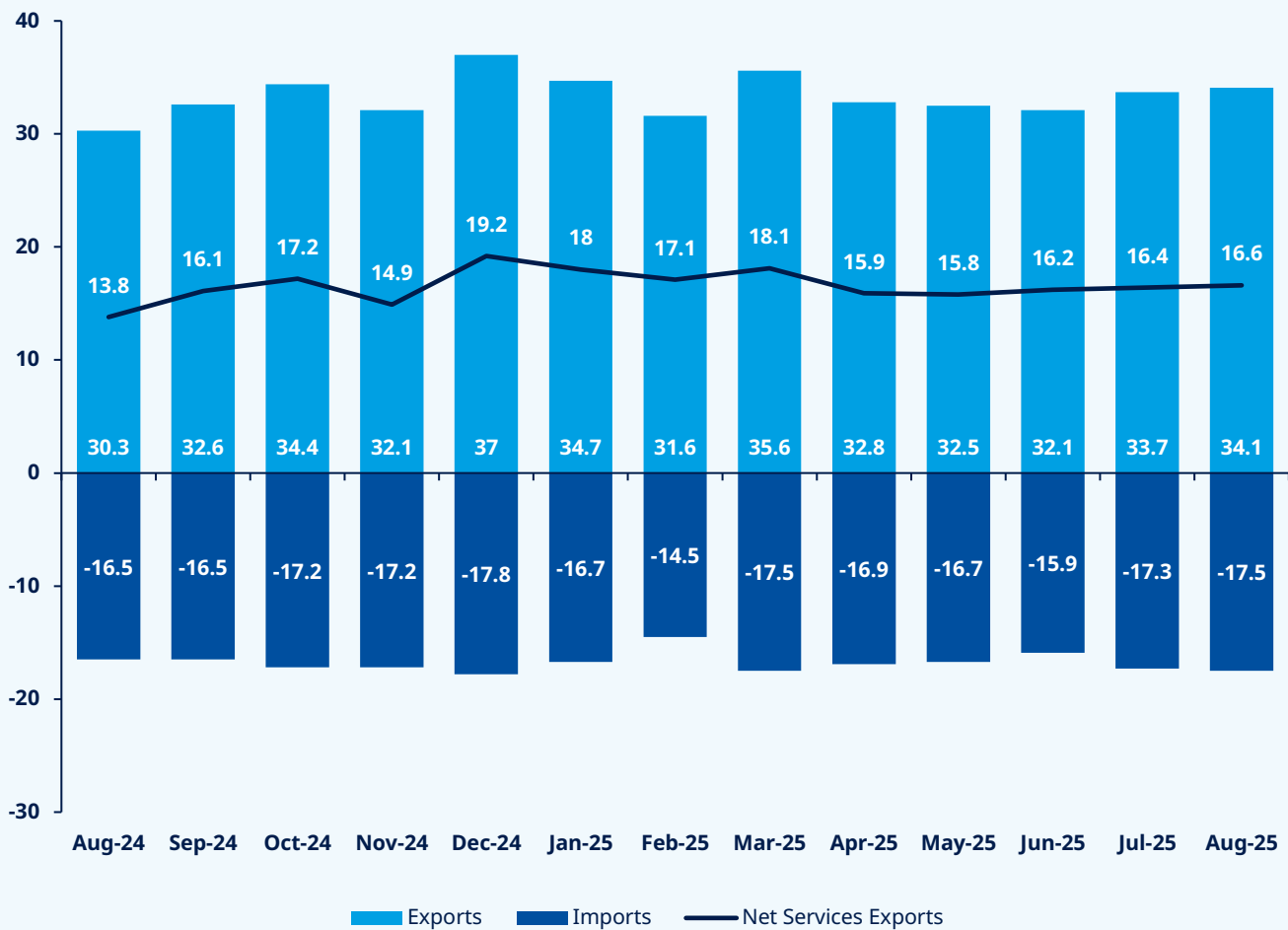
India is also expanding its role as a Global Capability Centre⁵ (GCC) hub. According to NASSCOM⁶, GCCs are projected to grow at over 29% CAGR⁷ by 2030, as multinational corporations increasingly establish innovation, analytics, and support centres in the country. This trend is contributing to services export growth and reinforcing India's position in global value chains.

⁵GCC (Global Capability Centres), are offshore units established by multinational corporations to perform strategic functions such as research, analytics, technology development, and business support.

⁶NASSCOM (National Association of Software and Service Companies) is the premier trade body and chamber of commerce for India's technology industry, representing the IT services, business process management, and software sectors.

⁷CAGR = Compound Annual Growth Rate.

Foreign trade – services (in USD Billion)



Notes: GCC stands for Global Capability Centre.

Source: PIB; Ministry of Statistics and Programme Implementation, Govt. of India, SBI Funds Management Limited, September 2025.

Overall, the sector continues to adapt to policy changes through diversification of delivery models, increased localisation, and investment in digital capabilities. While global policy shifts present operational challenges, they also encourage strategic adjustments that could support the sector's long-term competitiveness.

Important information – Marketing Communication

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