

Monthly Round-up: India Macro Report (August 2026)



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Executive Summary (1/2)

Growth remains resilient, while rising food inflation and moderating manufacturing activity temper the outlook

7.8%

GDP growth in Q1 FY27
by RBI

6.4%

IMF GDP growth projection
for India in 2026

4.82%

CPI inflation in August



Macro momentum

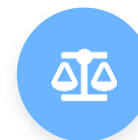
Softer PMI readings indicate activity normalizing from elevated levels, while services remain in expansion. Rising food inflation is the key near-term macro risk, potentially limiting monetary easing.



Markets & flows

Stronger domestic institutional participation and recovering mutual fund inflows support market liquidity.

However, volatile foreign flows and uneven sectoral performance highlight continued uncertainty in market sentiment



Policy & reform

Policy developments support financial-market infrastructure, MSME financing, domestic manufacturing, telecom verification & critical-mineral regulation. Their impact will depend on implementation & sector-level execution.

Sources: Aranca Research

Executive Summary (2/2)

Constructive with selectivity: inflation, foreign flows and currency weakness remain key watchpoints

INVESTMENT IMPLICATIONS & RISK:



Equities

CONSTRUCTIVE

Favour selective exposure to capital goods, telecom and other resilient sectors. Uneven sector returns and weaker FMCG, power & IT performance warrant stock and sector selectivity.



Fixed Income

MODERATELY CONSTRUCTIVE

Higher yields may improve prospective carry, but persistent inflation and funding pressures could delay monetary easing. Further yield increases would also create mark-to-market risks for existing bond holdings.



INR

NEUTRAL

Adequate foreign-exchange reserves provide an external buffer. Rupee weakness, oil-price volatility, the goods trade deficit and foreign portfolio flows remain key risks.



Key risks



Persistent food inflation



Weaker corporate earnings



Oil-price volatility



Renewed global risk aversion

Sources: Aranca Research

Infrastructure Growth Continues Amid Sector Divergence



Sector return

+5.4%



Manufacturing PMI

52.8



Core Industries output

+4.8% YoY



Government Capex

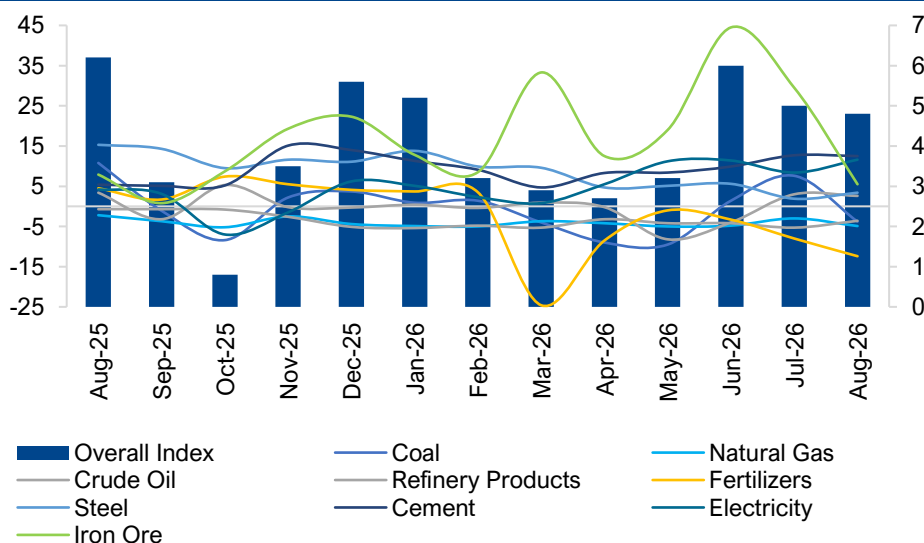
36.9% YoY

- India's infrastructure activity witnessed continued expansion in August, with core output up 4.8% YoY, led by cement and electricity, while other segments remained uneven. Rising steel and energy prices warrant monitoring of input-cost trends and margin resilience.

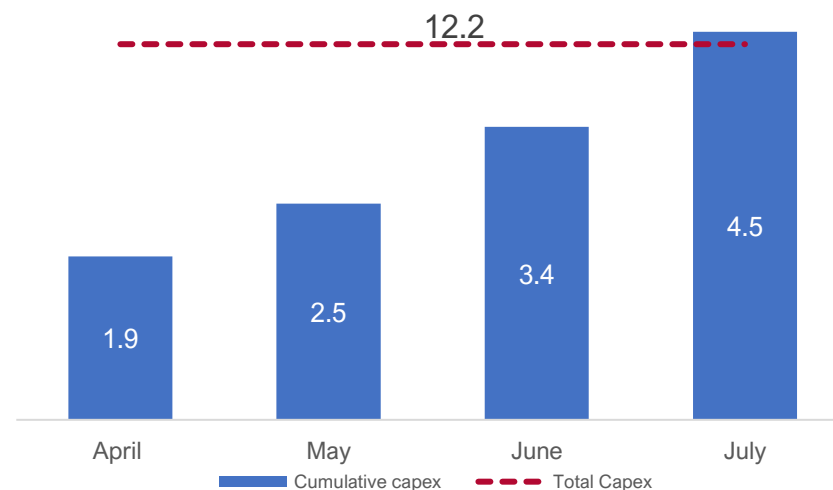


Investor implication: Infrastructure demand provides a supportive backdrop, but stock-level outcomes will depend on order-book conversion, execution capacity and working-capital discipline. Input-cost trends and contract structures remain key factors to monitor for margin performance.

Performance of Core Industries: Monthly YoY growth (%)



Union Government Capex – FY27 (INR lakh crore)



Sources: Aranca Research, PIB, CGA

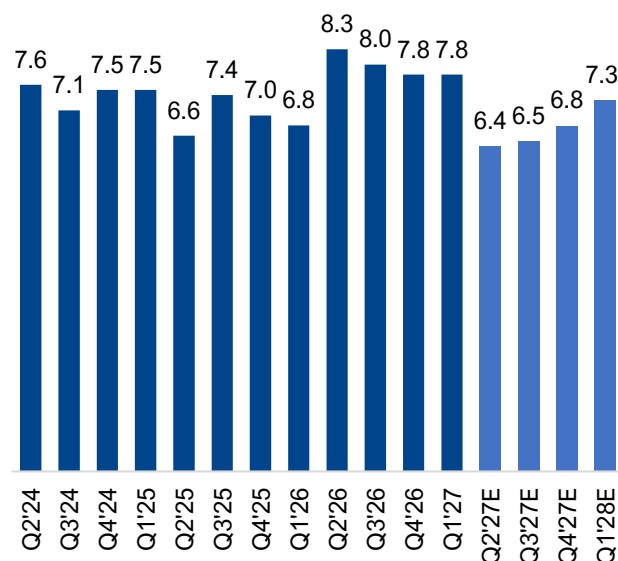
Growth Remains Resilient, but Inflation and Softer Manufacturing Temper the Outlook

- **Growth holds firm:** India's GDP grew 7.8% in Q1 FY27, though forecasts point to moderation in the coming quarters
- **Inflation remains elevated:** CPI rose to 4.82% in August from 4.45% in July, with food inflation reaching 5.95%
- **Activity diverges:** Services PMI improved to 54.1, while manufacturing PMI slipped to 52.8, its weakest expansion in five years



Investor implication: Resilient GDP growth and continued services-sector expansion support the domestic earnings outlook, while rising food inflation and moderating manufacturing activity warrant caution around near-term monetary easing and demand recovery.

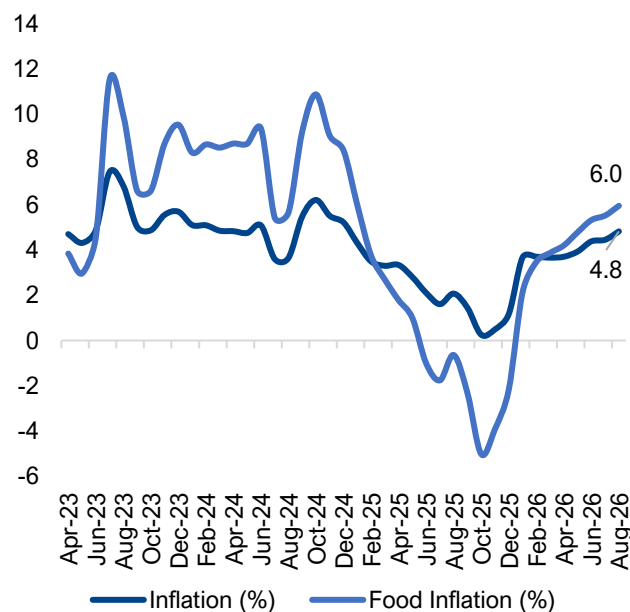
Quarterly GDP Growth (%)



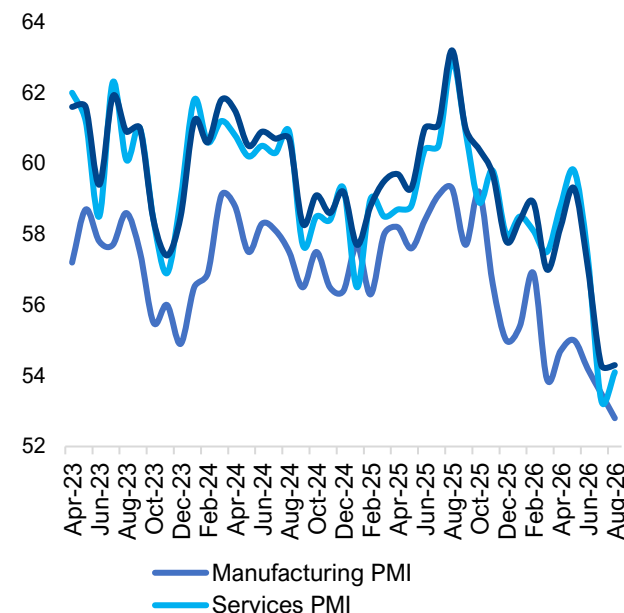
Latest release available as of September 2026

Sources: Aranca Research, MoSPI, RBI, IMF, Bloomberg

Consumer Price Index (CPI) Growth



Purchasing Managers' Index (PMI)

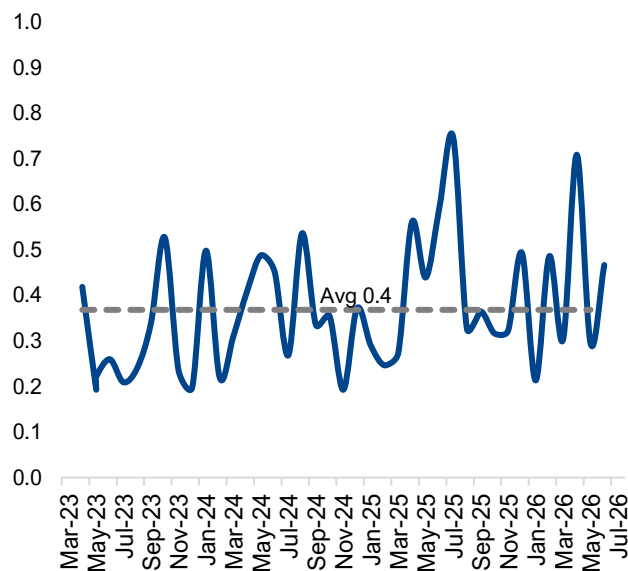


External Buffers Remain Adequate Despite Volatile Flows and a Persistent Goods Deficit

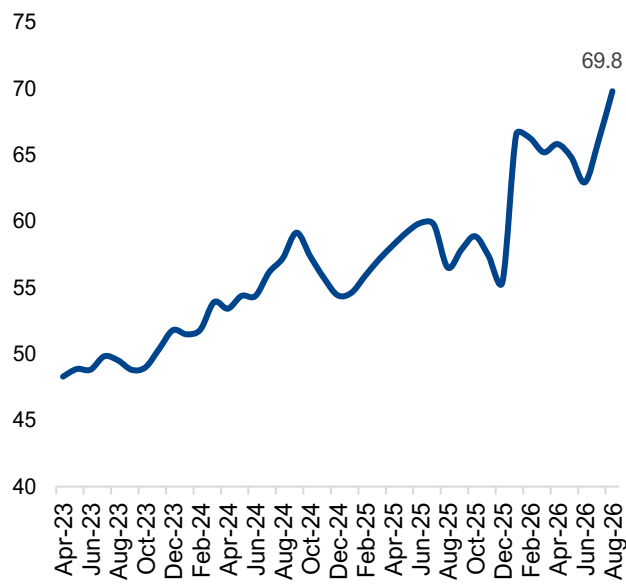
- FPIs returned to net buying in August, while domestic institutions continued to provide support to market liquidity
- FX reserves rose in August on inflows from NRI deposits and overseas borrowing, supported by RBI measures
- The merchandise trade deficit narrowed in August, supported by stronger export growth and lower gold imports

 **Investor implication:** Strong FX reserves provide a cushion against external shocks, while volatile FDI inflows and the persistent trade deficit leave the INR exposed to sustained import demand and renewed capital outflows

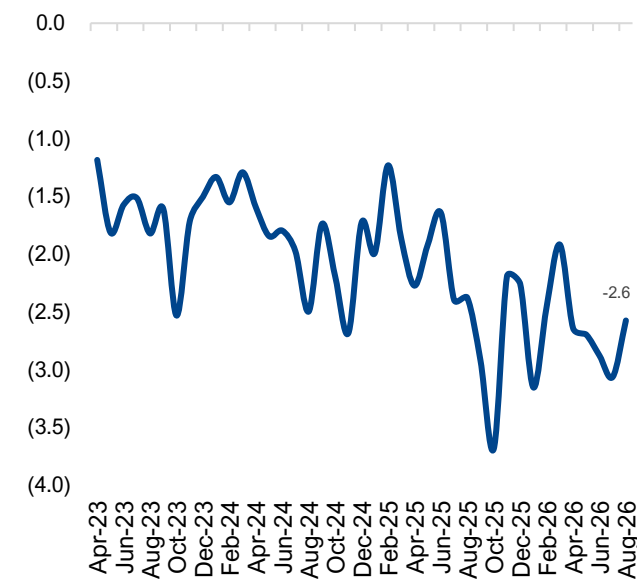
Foreign Direct Investment - FDI Inflows
(INR lakh crore)



Foreign Exchange Reserves
(INR lakh crore)



Trade Balance
(INR lakh crore)



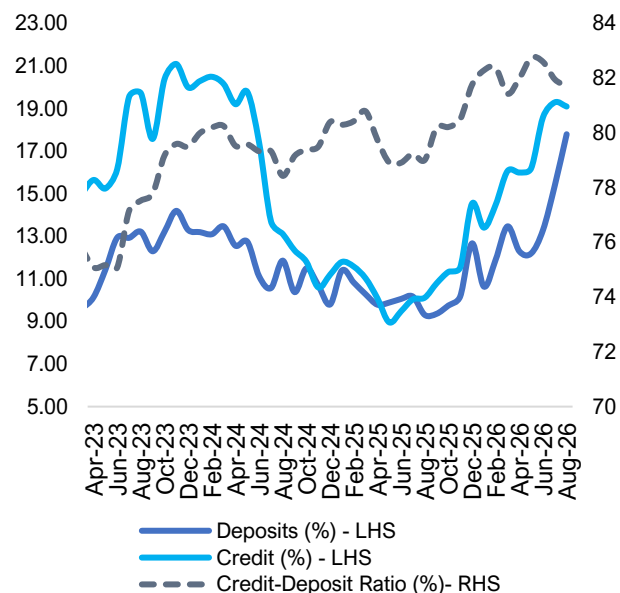
Sources: Aranca Research, RBI, DEA, DPIIT

Financial Conditions Remain Stable Amid Funding Pressures and Rupee Weakness

- Credit growth remained ahead of deposit growth in August, at 19.1% & 17.8%, respectively, keeping the credit-deposit ratio elevated
- The 10-year government bond yield rose to 6.95% in August from 6.84% in July, indicating a modest increase in borrowing costs
- The rupee hovered near ₹95.45/\$ in August, sustaining imported inflation and external financing pressures

 **Investor implication:** Strong credit growth supports lending activity, while elevated funding ratios, higher bond yields and rupee weakness warrant monitoring for potential pressure on bank margins, funding costs and import-sensitive sectors

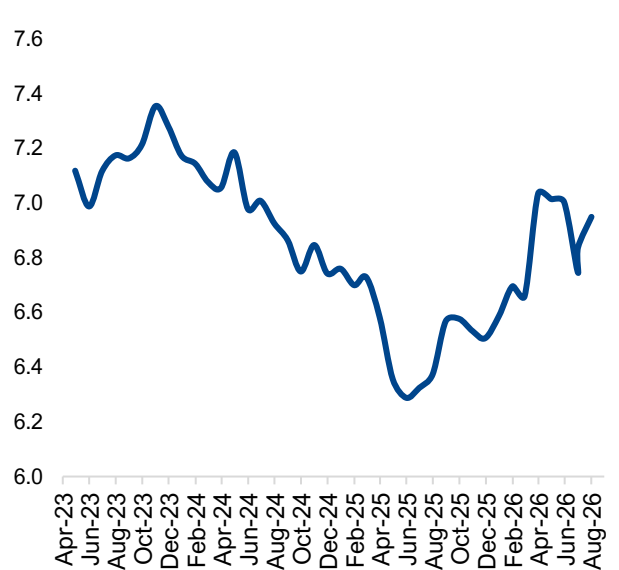
Deposits and Credit Growth (%)



As of Aug 2026

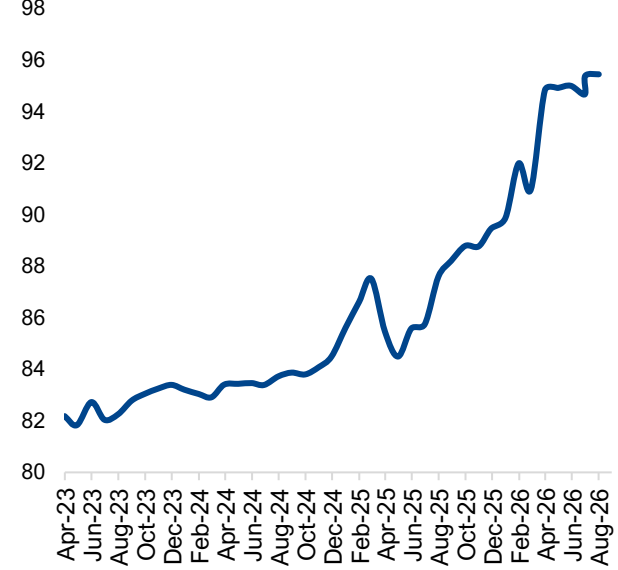
Sources: Aranca Research, RBI, Bloomberg

India 10Y Government Bond Yield (%)



As of 31st Aug 2026

USD/INR Exchange Rate Trend



As of 31st Aug 2026

Indian Equities Recover Selectively as Volatility Eases

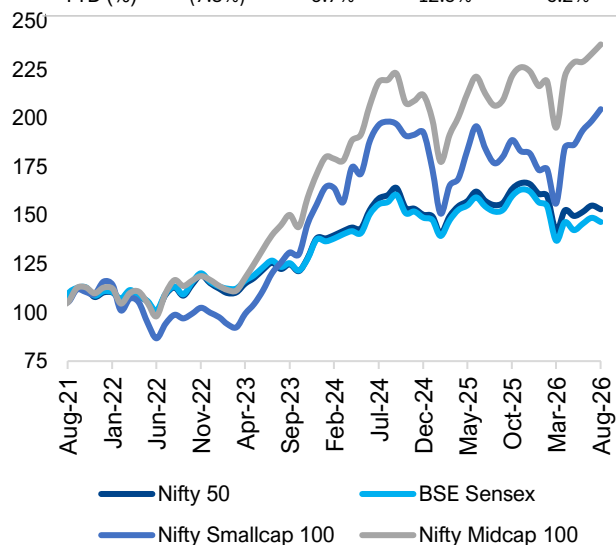
- Large caps declined amid global uncertainty and elevated crude prices, while mid- and small-caps gained on selective buying
- India VIX eased to 11.2, signaling lower near-term volatility despite weak benchmarks
- Domestic flows and stock-specific momentum supported broader markets, while heavyweight stocks dragged on indices



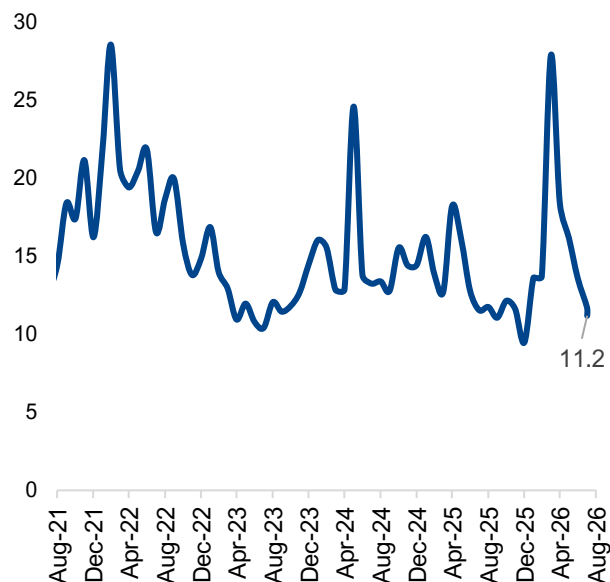
Investor implication: Improving market breadth supports selective risk appetite, but global uncertainty and uneven earnings momentum may limit a broad-based recovery. Foreign flows remain key to monitor

Equity Indices Performance

Metric	Nifty	Sensex	Midcap	Smallcap
1M (%)	(1.2%)	-1.5%	3.1%	2.1%
YTD (%)	(7.8%)	-9.7%	12.5%	6.2%

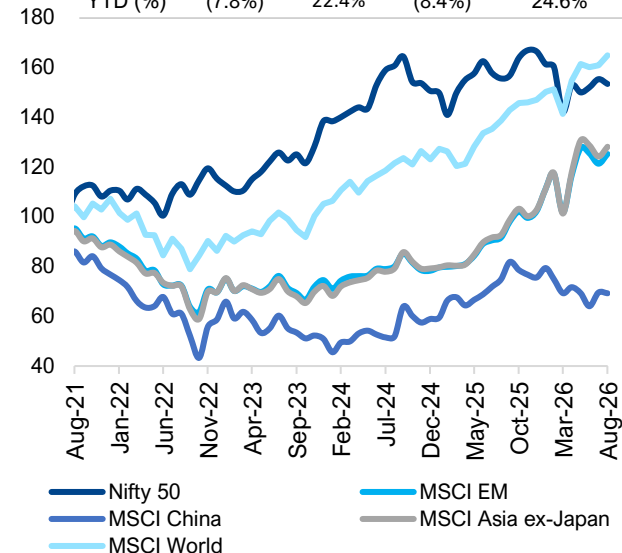


India VIX: Market Volatility



Global Equity Market Performance

Metric	Nifty 50	MSCI EM	MSCI China	MSCI Asia ex-Japan
1M (%)	(1.2%)	3.2%	(0.4%)	3.2%
YTD (%)	(7.8%)	22.4%	(8.4%)	24.6%



Sources: Aranca Research, Bloomberg (as on 31ST Aug 2026)

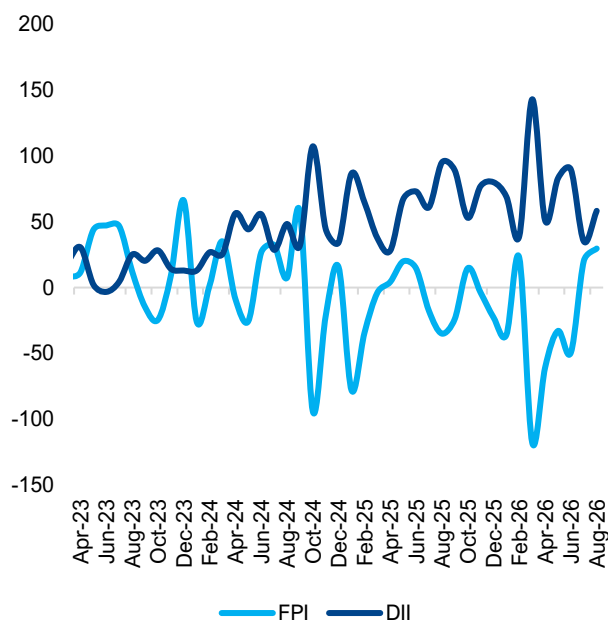
Institutional Flows Show Domestic Support Amid Volatile Foreign Participation

- FPI flows turned positive in August, while DII inflows strengthened to ~INR 58.3 thousand crore, supporting domestic market liquidity
- Mutual fund net inflows recovered in August following outflows of ~INR 52.9 lakh crore in June, although they remained below July's
- IPO activity increased in August, with IPO issuances rising to 40 from 33 in July and average IPO size increasing to INR 0.75k crore



Investor implication: Strong domestic flows support equities, while volatile foreign participation and smaller IPO sizes signal cautious sentiment and fundraising uncertainty

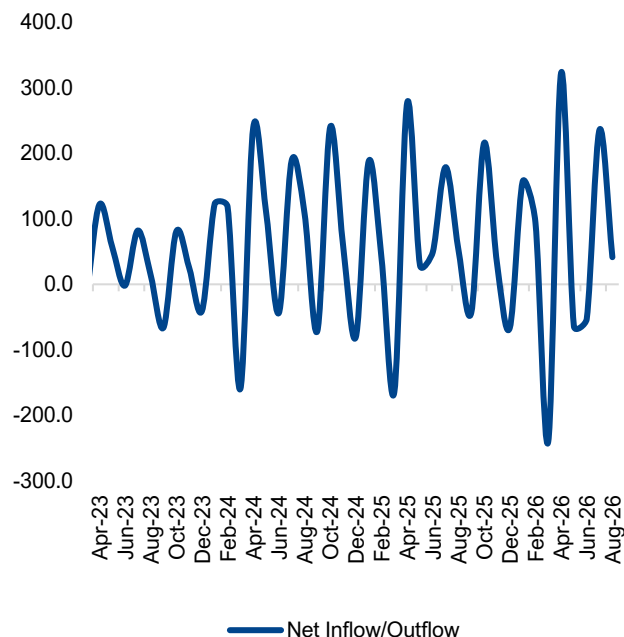
FPI/FII Equity Flows & DII
(INR 000's crore)



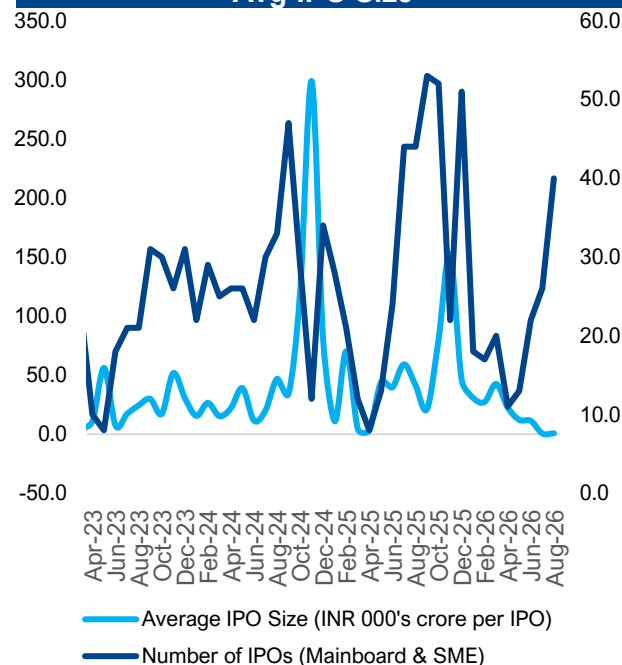
As of Aug 2026

Sources: Aranca Research, SEBI

Mutual Fund Net Inflows
(INR 000's crore)



Primary Market Activity: IPO Issuances and Avg IPO Size



India's Valuation Premium Narrows Amid Modest Earnings Growth

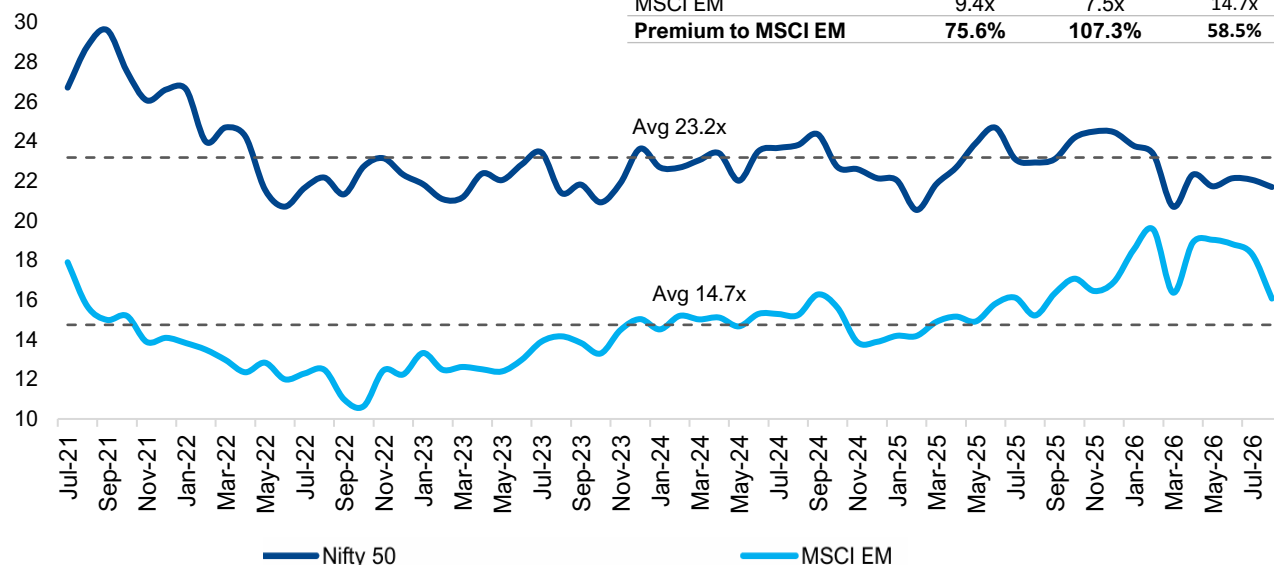
- Indian equities retain a premium over emerging markets, supported by domestic liquidity and structural growth prospects
- Earnings growth is expected to moderate amid a high base and uneven corporate performance
- Negative earnings revisions reflect cautious analyst expectations and limited scope for valuation expansion



Investor implication: India's valuation premium remains substantial despite moderating earnings growth, increasing the importance of earnings delivery and selective stock positioning

P/E Valuation: Nifty 50 vs. MSCI EM

P/E Valuation	2026F	2027F	Historical Avg. Premium
Nifty 50	16.5x	15.6x	23.3x
MSCI EM	9.4x	7.5x	14.7x
Premium to MSCI EM	75.6%	107.3%	58.5%



Consensus Earnings Growth & EPS Revisions

Metric	Nifty 50
CY26E EPS growth	18.9%
CY27E EPS growth	5.7%
Four-week CY26E EPS revision	(0.3%)
Four-week CY27E EPS revision	(0.1%)

Sources: Aranca Research, Bloomberg (as on 31st Aug 2026), Bloomberg Consensus Estimates (as of 23rd Aug 2026)

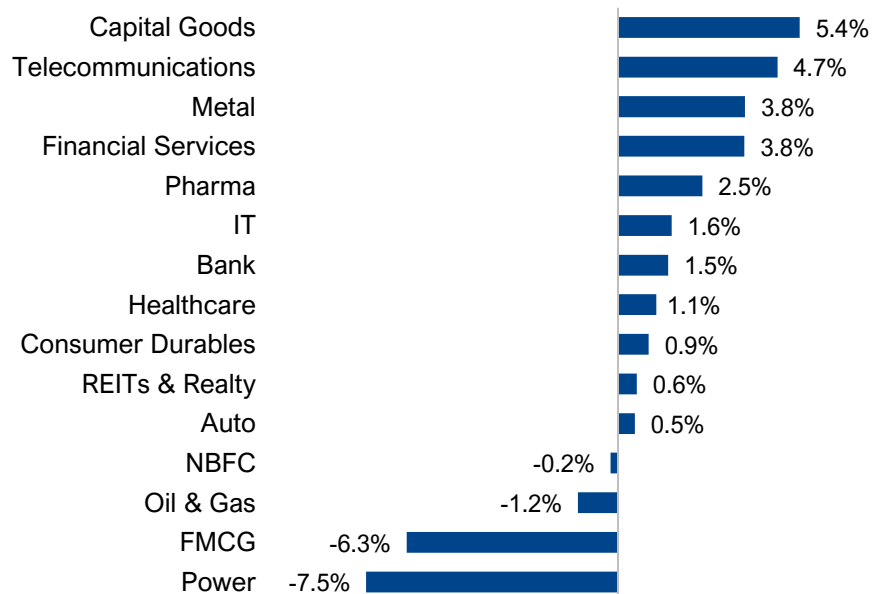
Sector Performance Reflects Diverging Domestic and Cyclical Trends

- Capital goods and telecommunications led Aug gains at 5.4% and 4.7%, respectively, while metal and financial services also posted positive returns, indicating broad-based strength across select sectors
- During Aug, FMCG and power lagged, while NBFCs and oil & gas also recorded negative returns, reflecting uneven sectoral momentum
- Over three years, metals, auto, pharma and healthcare delivered returns, while IT and FMCG trailed, highlighting divergent longer-term sector performance

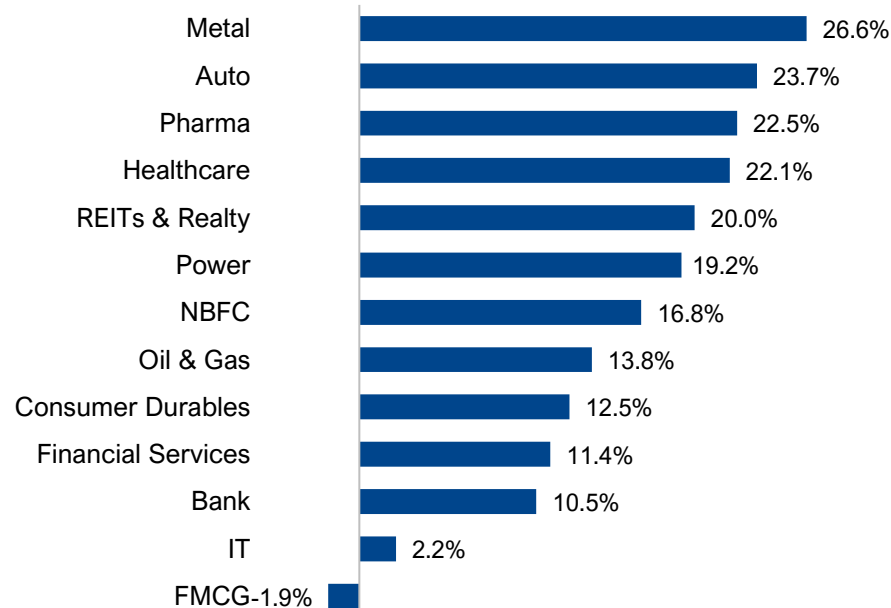


Investor implication: Cyclical and domestic-facing sectors offer opportunities, while divergent sector performance reinforces the need for selective, earnings-led positioning and careful assessment of demand trends

Sectoral Indices: August 2026 Returns (%)



Sectoral Indices: 3-Year Returns (%)



Sources: Aranca Research, NSE

Key Policy Developments Across Sectors in August 2026



BANKING / FINANCIAL SERVICES

Bankers' Books Evidence Bill Passed

Recognizes digital bank records as admissible evidence, subject to specified conditions.



MSME

MSME Amendment Strengthens Payment Framework

Introduces TReDS-based invoice settlement for CPSEs and a 90-day mediation timeline for specified disputes.



MINING / CRITICAL MINERALS

MMDR Amendment Expands Central Oversight

Revises regulation of mineral-bearing lands and specified state-level levies.



DEFENSE

405-Item Indigenization List Notified

Identifies defense components for domestic manufacturing, with estimated business potential of INR 3,070 crore.



TELECOM

New Telecom Rules Mandate Biometric Verification

Updates subscriber verification requirements to strengthen identity checks and address impersonation.



PHARMACEUTICALS

Drugs Rules Amended

Updates regulatory provisions governing drug and cosmetics-related activities.



NUCLEAR ENERGY

Draft SHANTI Rules Propose Composite Licensing

Proposes integrated licensing for nuclear plant construction, operation and decommissioning.



AGRICULTURE / COOPERATIVES

NCDC Amendment Expands Financing Scope

Broadens cooperative development financing activities, including support for industrial goods.

Sources: Aranca Research, PRS Legislative Research, Government of India (PIB), e-Gazette of India and Parliament of India

Upcoming Events and Market Watchpoints

5-7th Oct



RBI Monetary Policy Committee

Repo rate, liquidity conditions and monetary policy outlook

1st Oct



Manufacturing PMI (September)

Factory activity, new orders and manufacturing momentum.

6th Oct



Services PMI (September)

Services-sector activity, demand and business sentiment.

12 – 28th
Oct



CPI Inflation & Industrial Production (IIP)

September inflation and August industrial output; implications for rates and growth.

14th Oct



Wholesale Price Inflation (WPI)

Trade deficit, INR & external stability

2nd Nov



Manufacturing PMI (October)

Manufacturing demand, output and order-book trends.

4th Nov



Services PMI (October)

Services growth, new business and employment trends.

12 – 28th
Nov



CPI Inflation & Industrial Production (IIP)

October inflation and September industrial output

16th Nov



Wholesale Price Inflation (WPI)

October wholesale inflation and commodity-linked cost pressures

30th Nov



GDP Growth (Q2 FY27)

April–June/quarterly growth review, sector contributions and economic momentum

Sources: Aranca Research, RBI, MoSPI, MSCI, NSE



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researched by our analysis

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