

# From the CIO's Desk

India Insights • Q3 2025

*Our commentary this month arrives at an inflection point. While Indian equities have lagged and sentiment remains subdued, we see this as healthy pressure rather than alarm. After three weeks of travelling across Asia last month, I came away more confident in India's entrepreneurial energy. Companies acknowledge near-term pressure from US demands and tariff noise, but they're responding with resilience. Moreover, encouraging signs are emerging beneath the headlines, with stronger household balance sheets, strong IPO activity, and policymakers doing all the right things to stimulate growth. The market is yet to take notice, and we think this is exactly the best time to buy.*

## Market Review

Indian equities have underperformed regional peers in recent months, declining 6.63% (in USD terms<sup>1</sup>) in Q3 2025. Investor sentiment weakened in July and August due to US tariff announcements, but September recorded a modest gain of 0.51%, driven by domestic policy support. Foreign Institutional Investors (FIIs) net sold USD 8.8 billion of Indian equities in Q3, bringing year-to-date (YTD) net outflows to USD 17.6 billion.<sup>2</sup>

Consumer Discretionary was the only sector to deliver positive returns in Q3, while all other sectors corrected. IT and Real Estate were the worst-performing sectors, down almost 16% each over the quarter. The IT sector faced headwinds from the US's \$100,000 hike in H-1B visa fees, raising concerns about squeezing margins for Indian IT firms reliant on US clients. Real Estate equities slumped amid declining housing sales and elevated property prices, despite the Reserve Bank of India (RBI) cutting interest rates in H1 2025. Across the top eight Indian cities, housing sales were up just 1% y/y in Q3 2025.<sup>3</sup> However, demand for premium housing (>USD 113k) saw strong demand, and accounted for more than half of the property sales.<sup>4</sup>

On the positive side, Consumer Discretionary names like B2C consumer platforms and autos performed well over the quarter, buoyed by India's recent goods and services tax (GST) reforms. The move to simplify

<sup>1</sup> Note: All return figures are in USD terms unless stated otherwise

<sup>2</sup> Source: SEBI, October 2025

<sup>3</sup> Source: IBEF, October 2025

<sup>4</sup> Source: Ibid.

rates to 5% and 18% (from 4 GST tiers) came into effect on September 22, 2025, reducing taxes on essentials, electronics, small cars, two-wheelers, and durables. Automobile sales were strong towards the end of September, thanks to the GST changes. The price cuts, high discounts, and pent-up demand drove 17% and 23% growth in passenger vehicle (PV) and two-wheeler (2W) sales during Navratri (the major Hindu festival period) of 2025 vs 2024.<sup>5</sup>

India's consumer price index (CPI) inflation rose to 2.07% y/y in August from 1.61% in July, reflecting the first monthly increase in 10 months. Economic activity stayed resilient, though the manufacturing purchasing managers' index (PMI) eased to 57.7 in September from 59.3 in August. Similarly, the services PMI declined by 1.6 points to 60.9, influenced by softer overseas orders. Despite these moderations, India's PMI readings remain the highest in the region.

## Performance Review

As of end September 2025, our India model portfolio (the "Portfolio") declined over the last 3 months, though it substantially outperformed the index.

At the sector level, Consumer Discretionary was the top absolute contributor in Q3 2025, driven by a robust monsoon season boosting rural demand, festive season tailwinds, and GST reforms that bolstered consumer sentiment and demand. Strategic short positions in Consumer Staples enhanced performance, capitalizing on underperformance in packaged goods and FMCG due to high valuations and shifting consumer preferences.

Financials, Energy, and Real Estate were the key detractors. Private sector banks faced margin pressures amid slower credit expansion during the quarter, while the Energy sector faced volatile commodity prices and global demand concerns. Real Estate slumped with declining housing sales, high property prices, and oversupply, triggering a valuation reset despite expected RBI rate cuts. However, with monetary easing gaining momentum, we believe these sectors will recover as domestic consumption strengthens.

## Top Contributors

Stock	Rationale
Le Travenues Technology Limited	Le Travenues Technology Limited (Ixigo), India's leading AI-powered online travel agent (OTA) platform, saw its shares rally strongly in Q3 2025, driven by robust festive travel demand and a favorable monsoon that spurred bookings. The company benefited disproportionately from sector tailwinds thanks to its AI-driven personalization, expanding market share in rail and bus segments, and resilient revenue growth amid rising Gen Z holiday spending.

<sup>5</sup> Source: Vahan, Morgan Stanley, October 2025

Eternal Limited	Eternal (formerly Zomato) saw its shares rally this quarter following robust Q1FY26 (April to June 2025) earnings that highlighted accelerated growth in its quick commerce (QC) business. Revenues in the QC division (Blinkit) jumped 154% y/y and surpassed Zomato's food delivery revenue for the first time. <sup>6</sup> Growth was fueled by the addition of 246 new dark stores, bringing its total to over 1,500. <sup>7</sup> The company is also accelerating its expansion target of 2,000 stores, to be achieved by the end of December 2025.
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## Top Detractors

Stock	Rationale
Reliance Industries Limited	Reliance's share price corrected in July due to disappointing Q1 FY26 earnings. Its oil-to-chemicals segment was hit by lower refining margins and maintenance shutdowns, while retail faced weakness in luxury demand. Profit-taking after a strong rally, foreign investor outflows, and global uncertainties from US trade tensions led to further pressure on the stock.
ICICI Bank Limited	After the July peak, shares in ICICI Bank pulled back as investors locked in profits. The July peak was driven by strong Q1FY26 earnings, but lofty valuations led to a subsequent revision. Sector-wide pressures were also felt from foreign investor outflows, a weaker banking index, and fears of Q2FY26 margin compression from slowing loan growth. Global uncertainties and domestic inflation further dampened sentiment, pushing the stock to correct despite robust fundamentals.

Note: Top contributors and detractors reflect the securities' absolute contribution to overall portfolio return during the period from June 30, 2025, to September 30, 2025. The portfolio characteristics do not reflect actual trading and may not reflect the impact that material economic and market factors may have had on the Firm's decision-making were it actually managing the strategy during those time periods. Any actual fund or product that the Firm manages will invest in different economic conditions and in different securities than those incorporated in the hypothetical and average actual portfolio characteristics. There is no representation that any fund that the Firm actually manages will perform as the hypothetical or average actual portfolio characteristics indicate. An investor may lose all of its investment in a portfolio. These results are based on simulated or hypothetical portfolio characteristics that have certain inherent limitations. Unlike the results in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account or fund will or is likely to achieve profits or losses similar to those being shown. The projected portfolio characteristics contained in this document are estimates as determined by the firm to the best of its ability and should be treated as such. The actual performance of the investment(s) may differ significantly as the performance of an investment can be impacted by a number of unforeseen and unpredictable factors. No representation is being made that any investment will or is likely to achieve profits or losses similar to those being shown. The information provided herein doesn't constitute and should not be considered as any form of financial opinion or recommendation.

## Portfolio Activity & Outlook

### India – It's time to up the game!

Indian equities have lagged regional peers year to date, and sentiment is subdued. We see that as healthy pressure rather than a red flag. After an unusually strong post-COVID rebound, policy makers prioritized macro stability over growth. Nominal GDP growth has moderated from 12–13% to 7–8%, which feels like a slowdown only because of the high base. In absolute terms, India remains the fastest-growing large

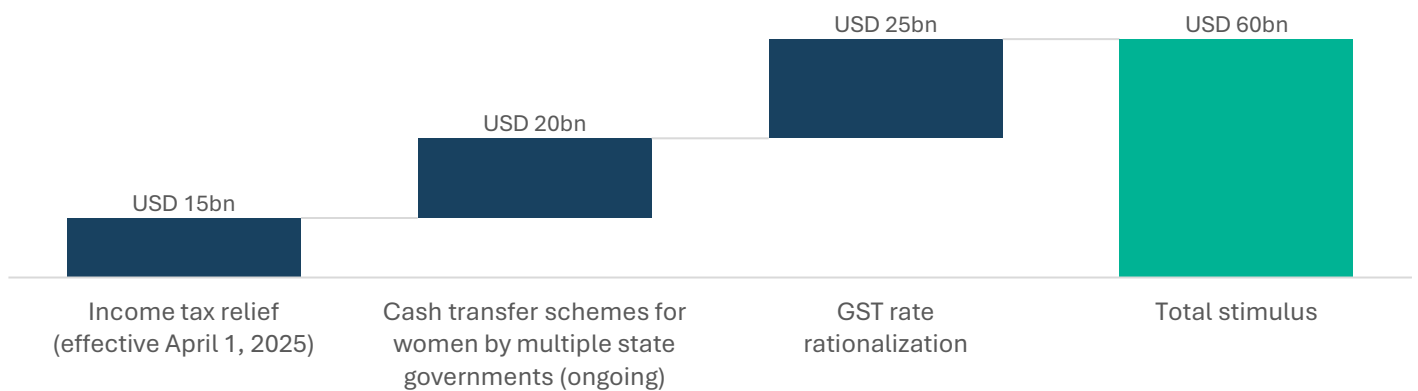
<sup>6</sup> Source: Company data, July 2025

<sup>7</sup> Source: Ibid.

economy. The grind is forcing a pivot toward productivity, which is precisely what is needed to sustain multi-year cycles.

Household balance sheets are quietly improving. Credit taken 12-18 months ago is getting repaid as disinflation eases the burden on wallets. That matters for consumption durability into FY26, particularly for discretionary spending and services. We also expect a policy-driven lift: roughly USD 60 billion of annualized consumption stimulus over FY26–27 (about 1.4% of GDP) via GST rate rationalization, personal income tax relief, and ongoing state cash-transfer schemes for women, supported by monetary easing and better credit availability. With private consumption at roughly 60% of GDP, even modest multipliers can meaningfully support growth.

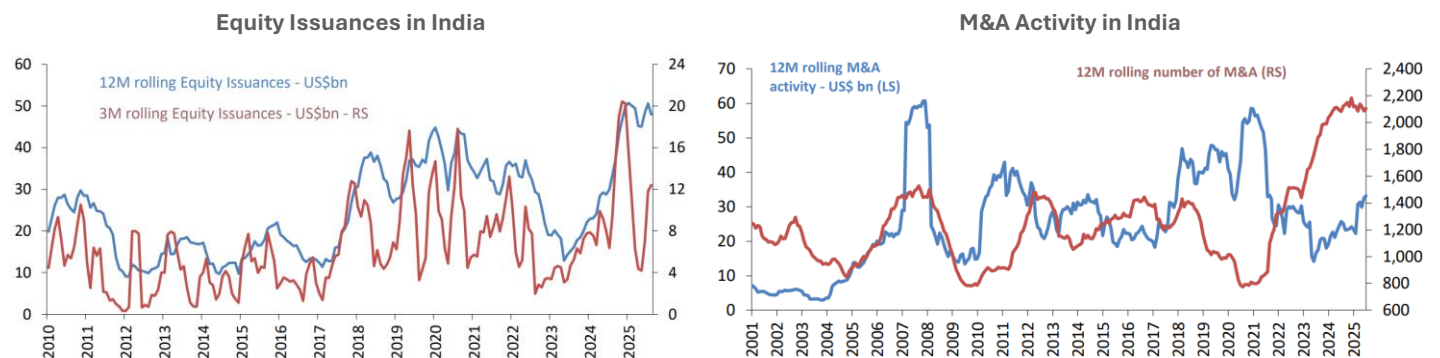
*Exhibit. Consumption to see a boost with USD 60 billion stimulus to FY27*



Source: UBS estimates, September 2025

On the corporate side, India has hosted a robust IPO calendar this year and ranks as the fourth-largest market globally for IPO fundraising in 2025.<sup>8</sup> Fresh equity has recapitalized a new cohort of companies that are beginning to hire, invest, and compete.

*Exhibit. Record primary raises plus strong M&A activity underscore broad-based corporate confidence*



Source: CMIE, RIMES, MSCI, Morgan Stanley, October 2025

<sup>8</sup> Source: IBEF, October 2025

Policy is catching up to this reality. Twelve to fifteen months ago, we sensed that policymakers were complacent about growth. Today, the tone is more urgent and execution-led. We are seeing targeted measures in areas like GST simplification, accelerated infrastructure spending, production-linked incentive (PLI) disbursements, and credit support for micro, small, and medium enterprises (MSMEs) and green manufacturing. This is similar to what we observed in China in mid-2024, when the Chinese authorities leaned in to revive animal spirits. India is now doing all the right things, even if markets have not yet rewarded it.

### India: Confidence rising on the ground

On the ground, our conviction is rising. After three weeks across Asia last month, I came away more confident in India's entrepreneurial energy. Companies acknowledge near-term pressure from US demand and tariff noise, but they're responding with productivity gains, disciplined pricing, and new order wins beyond the US. Export-oriented pockets will feel the US slowdown, yet we're seeing firms diversify with orders across Europe, deepen ties in China, and broaden their customer mix.

For us, this is a kid-in-a-candy-store moment. Everyone is reading the negative headlines, but few are sensing the micro data points and the operating tempo on the ground. Foreign institutional investors remain cautious, citing tariff frictions, a slower US end-market, and headline risks. That pessimism has pushed attention toward China and Korea at India's expense. History suggests the best time to add India is when investors are a bit bearish.

Investor positioning amplifies the opportunity. While Western FII's are staying on the sidelines, strategic capital is stepping in. We hear of Japanese investors taking equity stakes in smaller Indian financial firms and adding system liquidity, and Middle Eastern pools and Singaporean pensions increasing allocations. In a world keen to diversify geopolitical and institutional risk, India stands out as a natural regional ally with a reform-minded policy backdrop.

Our sense is that India won't let this current discomfort go to waste. The resilience of Indian entrepreneurs, honed by growing up in resource-scarce environments, positions them to navigate today's frictions and compound through the cycle. With sentiment still fragile and FII's underweight, we're using weakness to add selectively to high-quality franchises tied to productivity, domestic capex, and the formalization of consumption. The resilience is intact, and the opportunity set is broadening. Now is the time for India to up its game.

### **US-India developments: September 2025 read-through**

The recent H-1B developments are largely symbolic for now. Leading Indian IT and services firms have already pivoted to local hiring in the US, so near-term effects look limited. In a world of AI and job protection politics, we think that the more material watchpoints are onshore role exposure and AI-driven job replacement within the formal sector. More on that below.

Tariff noise remains the key uncertainty. Headlines, such as 100% tariffs on branded pharmaceuticals, underscore the US push to localize 20–30% of consumption. Regarding the tariff on branded drugs, regionally, pharmaceutical contract development and manufacturing organizations (CDMOs) may be

affected, but given their relatively low value add in the context of big pharma's 80–90% gross margins, much of the cost can be passed through. For India, the setup is relatively favorable for generic manufacturers, who stand to benefit.

### **Navigating the AI surge: Prioritizing adopters**

The AI landscape has accelerated dramatically in recent months, with headlines underscoring the scale of innovation and investment. September alone saw OpenAI's USD 100 billion partnership with NVIDIA for Project Stargate, expansions to five new US data centers in collaboration with Oracle and SoftBank, and Alibaba's launch of advanced Qwen3 AI models alongside a USD 3.2 billion funding round for cloud infrastructure. Early October saw OpenAI commit to 6GW of AMD-powered data centers, while also signing partnerships with Samsung and SK Hynix for Korean chips and AI data centers.

Tech enablers have a compelling capex story, with extraordinary sums flowing into investments. This echoes prior buildouts around Y2K of fiber optics and telco networks. As in those cycles, heavy spending on backbone infrastructure risks low returns for the builders.

Rather than chasing specific technologies or frontrunners in large language models (LLMs), we adopt an attributes-based lens to identify countries poised to benefit from these themes. Which nations possess the infrastructure, talent pools, policy frameworks, and supply-chain integration to contribute meaningfully to and capture value from this tech evolution?

In this vein, India exemplifies adopters excelling in AI inference and customization. In our view, the greater value accrues to the users of the AI infrastructure. We wrote in [January](#) that as AI infrastructure and hardware become commoditized, attention will shift to companies that deploy AI to enhance their core businesses. B2C platforms with large, engaged user bases and rich behavioral data can deliver true hyper-personalization with AI, delighting customers and capturing greater market share.

This adoption-focused strategy is already materializing across Indian enterprises. While India may not develop foundational LLMs like those emerging from the US and China, Indian companies are pioneering agentic AI applications tailored to their specific industries to drive substantial productivity gains. Some examples include a healthcare company leveraging AI to optimize prescription recommendations across its 15,000 clinicians, ensuring better drug allocation nationwide. One hotel chain we spoke with is deploying AI for predictive building maintenance, reducing downtime and operational costs. These targeted applications are demonstrating how AI adoption can enhance return on equity (ROE).

As adoption scales, dispersion within sectors will widen. We will see a clear divergence between companies that successfully integrate AI and those that lag behind. In this environment, traditional valuation metrics alone are insufficient. We are increasingly focused on identifying companies with the "right to win". These are companies that possess the organizational capabilities, data assets, and strategic positioning necessary for successful AI transformation.

History suggests that transformative technology cycles create new market leaders, and the winners of today may not be the same tomorrow. While still early stage, we expect superior AI adoption to manifest in accelerated growth rates over the coming years. India's current growth transition mirrors China's shift of the last decade, which produced multibagger winners like BYD, Xiaomi, and CATL. Indian entrepreneurs of today are a lot more confident compared to the previous generation, have greater access to credit, and

thanks to better infrastructure, digitization, and e-commerce/quick commerce platforms, have a much larger consumer market at their disposal.

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