

# India 2025 and Beyond: Challenges, Opportunities and the Staying the Course



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In a world where economic narratives often swing between extremes like boom or bust, stimulus or slowdown, India's story stands out for its quiet consistency. It's not a tale of overnight success, nor one of dramatic turns. Instead, it's a narrative of steady progress, built on fundamentals and increasingly backed by data.

India's GDP grew by 7.4% in Q4 FY25, lifting full-year growth and exceeding expectations. This was led by a continuation of

a trend that reflects underlying resilience. The broader economy, captured through Gross Value Added (GVA), also displayed positive momentum, supported by manufacturing, services and even agriculture. Retail inflation eased to 3.16% in April, the lowest in six years, making room for more accommodative policy and giving consumers a bit of breathing space.

India's manufacturing PMI stood at 57.6 in May, indicating sustained industrial activity. While slightly off recent highs, it remains well above the expansion threshold, highlighting continued demand and capacity utilisation. The chemical sector, in particular, has shown promising signs. With global tariffs making Chinese goods more expensive, India is benefiting from the China+1 strategy. Lower pricing pressure and improved operational leverage are adding tailwinds to the sector, a trend confirmed in recent Q4 FY25 earnings commentary.

India is like Rahul Dravid, not a flashy Virender Sehwag. India's economy isn't chasing short-term gains, but is steadily building a strong, long-term foundation—like a well-paced partnership in cricket. This calm and measured approach is evident across macro and micro indicators.

Globally, the picture is far more uncertain. The OECD recently lowered its global growth forecast for 2025, citing persistent trade tensions, sticky inflation, and lacklustre industrial activity. Manufacturing PMIs across the developed world continue to struggle. The US, despite strong equity markets, is weighed down by its ballooning debt, now over \$36 trillion, and rising delinquency rates. China, meanwhile, has tried to stimulate its economy through measures like cutting the Reserve Requirement Ratio, but its consumer-driven recovery remains tepid. Deflation persists and its debt-to-GDP ratio is nearing 300%, with heavy reliance on investment-led growth rather than domestic consumption.

In comparison, India's macro indicators reflect a more balanced approach. The debt-to-GDP ratio stands at around 80%, significantly lower than many developed

countries. Importantly, this borrowing is not going towards short-term giveaways but long-term capital formation of roads, railways, manufacturing and rural infrastructure. Fixed asset formation grew by 7.6% in FY25, driven by cement, passenger vehicles, pharmaceuticals and steel, sectors that typically respond to strong demand expectations.

Structural changes continue to reshape India's growth story. India has overtaken Japan to become the fourth-largest economy in nominal dollar terms. The past decade has seen dramatic improvements in access to basic services. LPG coverage has expanded from 56% to 100%. Over 95% of Indian households now have tap water access, compared to just 43% a decade ago. Domestic PNG connections, solar rooftop adoption and affordable housing have all seen exponential growth.

Agriculture, a vital yet often overlooked player, has been a major contributor. FY25 recorded the highest-ever food grain production at 353.96 million tonnes, up 6.5% from the previous year. Crops such as rice, wheat, maize and pulses showed healthy year-on-year increases. Even categories like moong and soya bean recorded double-digit growth. These developments are not only supporting rural incomes but also helping anchor food inflation. The India Meteorological Department has forecast an above-normal monsoon and current reservoir levels are 22% higher than last year. These factors bode well for both the Kharif and Rabi crop cycles.

On the consumption front, momentum is picking up. Imports of non-oil and non-gold items have risen, which is a clear indicator of broader demand across sectors. Budgetary measures have been tailor-made to enhance disposable income across a wide range of income groups, offering post-tax income benefits of 4–6% in most brackets. Additionally, higher tax rebates are easing the EMI burden for many households, supporting housing finance and discretionary consumption. With the anticipated implementation of the 8th Pay Commission, more income is likely to flow into sectors such as education, consumer electronics, healthcare, home improvement and travel, areas that can benefit from enhanced affordability and urban aspirations.

When the government pays more, the people spend more. Money finds its way into the economy like water into fields, fostering segments such as home appliances, housing, aviation and wellness. The upcoming commission revision could play a similar role in driving a mini consumption cycle.

Interest rate cuts have begun to ease the pressure on borrowers. With the Reserve Bank of India reducing the repo rate by 50 basis points (making it 100 basis points cumulatively in this cycle) and shifting to a neutral stance, the cost of borrowing is expected to come down. This is particularly relevant for housing loans, personal finance and MSME lending. It also means lower EMIs, higher affordability and improved consumer sentiment.

GST collections grew by 12.6% in April and 16.4% in May 2025, well ahead of nominal GDP growth. This points

to increased tax compliance and greater participation from small and mid-sized enterprises in the formal economy.

Equity markets have reflected the broader economic strength. The Nifty 50 is trading at a 15% premium to its long-term average. Midcaps are up 19% over historical average while small caps are trading at a striking 52% premium. While this indicates optimism, it also signals caution. High valuations can outpace actual earnings growth, leading to volatility if expectations reset.

That said, the earnings season has broadly supported market enthusiasm. In Q4 FY25, earnings beats exceeded misses across the Nifty 50. Midcap companies posted a 19.1% year-on-year jump in profit after tax, while large caps recorded 9.7% growth. Strong performance came from banking, capital goods, pharmaceuticals and manufacturing. With fair valuations across many sectors now, future returns will likely depend more on earnings growth than multiple expansion. The market seems to be transitioning from a liquidity-driven rally to one that is increasingly earnings-led, with returns expected in the high single-digit to low double-digit range over the medium term.

However, about 183 companies in the BSE 500 are trading above 50 times trailing P/E. In such a stretched market, selectivity becomes critical. For many investors, maintaining a neutral weight on equity allocation appears prudent at this stage, with the flexibility to increase exposure during market corrections. One does not wear a raincoat after the storm has passed. Similarly, increasing allocations should ideally happen during corrections, not when the market is already up 15–20%.

Investor flows have been strong and steady. Domestic Institutional Investors have provided a robust counterbalance to volatile FPI flows. DIIs have sufficient liquidity to provide market support during periods of correction. Systematic Investment Plans (SIPs) have gained traction, especially among young and first-time investors, offering a disciplined approach to wealth creation.

There has also been a clear trend towards passive investing. A growing range of index funds and ETFs spanning large caps, midcaps, small caps, smart beta strategies and commodities are offering investors simple, low-cost access to market growth. These funds typically maintain low tracking errors and competitive expense ratios, making them increasingly attractive to long-term investors.

For investors looking to average out entry costs in current markets, Systematic Transfer Plans (STPs) over the long term could be an effective strategy. Rather than diving headfirst into the market, a disciplined, phased approach could help you avoid shocks and stay invested. It's not about timing the market but it's about time in the market.

SIPs in passive and active funds alike have demonstrated strong long-term performance. This reinforces the importance of staying the course, regardless of short-term market moves.

Gold and silver have also regained favour, not just among retail investors but also central banks. India's

allocation to gold in its forex reserves has increased and many investors are now diversifying their portfolios by adding small allocations to these precious metals. This isn't about moving away from equities but about understanding that in a volatile global environment, diversification is essential.

Healthcare innovation is on the rise. CAR T-cell therapy has been introduced at a fraction of global prices and Indian SMEs are supplying high-tech tools to multinational giants like Apple. Telemedicine and virtual consultations from Indian doctors to global patients are becoming a commonplace. Meanwhile, Bengaluru is contributing nearly 25% to global chip design, a figure that speaks volumes about India's rising tech capabilities.

India's education system, once criticised for brain drain, is now seeing a reversal. More IIT graduates are choosing to stay and work in India, thanks to a flourishing startup ecosystem and expanding Global Capability Centres (GCCs). These trends indicate that India is not just exporting talent but creating opportunities that retain and nurture it. Education, consumer electronics and healthcare, among others, are seeing a shift from import dependence to local innovation, presenting new growth avenues for long-term investors.

Sectors like tourism, aviation and home improvement are also set to benefit from rising disposable incomes, aspirational spending and infrastructure improvements. A stronger travel ecosystem is emerging, with more Indians flying domestically and internationally. This is good for airlines and also the broader consumption landscape.

However, some concerns remain. Net FDI fell sharply in FY25 to just ₹353 crore, even though gross inflows rose. Increased repatriation and outbound investments contributed to this decline, indicating global capital is becoming more cautious. While India remains an attractive destination, we must continue to create an environment that invites long-term foreign participation.

Equity valuations, though supported by earnings, require caution. Overexuberance in small and midcaps can lead to sudden corrections. Investors must remain rational and measured. Large caps offer stability and continue to anchor most portfolios. Midcaps offer long-term potential but need patience. Small caps too can add flair but one needs to tread with caution owing to expensive valuations.

Corrections are not to be feared but understood. A 10% dip might feel unsettling, but it is often the price of long-term growth. Timing the market rarely works. Staying invested, using tools like SIPs and STPs and focusing on asset allocation is how wealth is built sustainably.

India's story today is not just about what could be, it's about what already is. Quiet consistency, smart investments and structural intent have brought us here. If we stay on course, continue building with balance and invest with purpose, we're not just poised for fast growth but for good growth.

In the end, investing is not about catching every high or avoiding every low. It's about staying on the journey. That's how real wealth is built—steadily, intentionally and with conviction.