
TRU INSIGHTS

August 2025



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From the MD & CEO's desk



“Despite geopolitical tensions and tariff-led headwinds, Indian equities continue to offer a long-term investment opportunity. Strong rural demand, robust government capex, and improving urban consumption trends remain key tailwinds. While recent FII outflows and weak Q1FY26 earnings triggered short-term volatility, expectations of earnings revival from Q2FY26 and supportive macro indicators suggest resilience.”

Dear Investors,

July and early August have been eventful, shaped by escalating geopolitical complexities and shifting global trade dynamics. The United States, under its recently announced "Liberation Day" executive order, has imposed higher tariffs on imports from several trading partners, including India, raising fresh concerns over global economic growth.

In the midst of these challenges, central banks have adopted a wait and watch stance. With the U.S. Fed keeping its benchmark rate unchanged in its July FOMC meeting citing inflation concerns, markets started building in a total of 25bps rate cut for the rest of 2025. However, a weak set of U.S. non-farm payroll data for July 2025 led to a quick recalibration with market participants now anticipating rate cuts beginning as early as September.

Domestically, a combination of subdued inflation and potential headwinds to growth, particularly from the impact of U.S. tariffs on Indian exports, may prompt the RBI to adopt a more dovish stance, despite keeping the policy repo rate unchanged at 5.5% in the August MPC meeting.

On the markets front, Indian equities sold off in July for the first time in five months primarily driven by strong FII outflows on back of a tariff war induced uncertainties and lackluster Q1FY26 earnings season so far. The Nifty fell by 2.9% in July while the Mid and small cap indices fell by 3.9% and 5.8% respectively.

While India's macro setup remains broadly resilient, headwinds from trade frictions and weak global demand could dent growth to some extent. However, strong rural demand and government capex along with gradual improvement in urban demand should offset the adverse impact of external shocks to the economy. Moreover, we anticipate improvement in corporate earnings growth from Q2FY26 onwards supported by a favourable base effect and early onset of the festive season.

From a valuation perspective, Nifty is currently trading at ~20.3x 12-month forward consensus EPS, representing an 11% premium to its 10-year average of 18.3x. The Nifty Mid-cap and Small-cap indices are however trading at ~26.5x and ~25.4x forward EPS, reflecting premiums of 16% and 62% to their respective historical averages. Given the relative overvaluation in the mid & small case space we continue our preference for large caps.

In this edition of **Tru Insights**, we unpack the evolving global and domestic macro narratives, share our perspective on emerging opportunities in fixed income, and explore a timely feature: **“Decoding Crypto Investing in India.”** Our **Reading Room** continues to bring you a thoughtfully curated collection of essays designed to inspire long-term, strategic thinking.

We thank you for your continued trust and hope **Tru Insights** remains a steady compass in your investment journey.

Warm Regards,

Dhiraj Relli

MD and CEO – HDFC Securities



Macro Economic Highlights

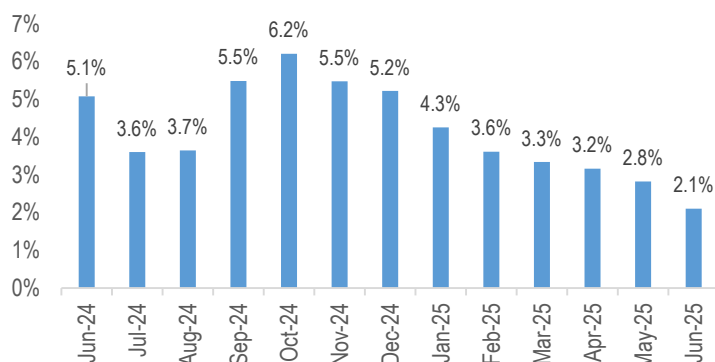
India holds firm on growth as global economy battles inflation and tariff shocks

India's CPI inflation eased to 2.10% in June 2025, a 6-year low, while manufacturing PMI rose to 59.1, signalling robust domestic momentum. GST collections hit ₹1.96 lakh crore (+7.5% YoY), and fiscal deficit stood at ₹2.8 lakh crore (17.9% of FY26 target), aided by a record ₹2.69 lakh crore RBI dividend. Meanwhile, US core inflation ticked up to 2.9%, UK CPI to 3.6%, and ECB held rates at 2% amid tariff uncertainty. The US imposed a 25% tariff on Indian imports. IMF raised global growth forecasts to 3%, but warned of risks from escalating trade and geopolitical tensions.

Domestic Macro Highlights

Inflation: India's CPI continued its downward trajectory in June, easing to 2.1%, a level not seen in over six years and below market expectations. This followed a print of 2.8% in May and marked the eighth consecutive month of decline in consumer inflation. The moderation was largely attributed to a significant drop in food inflation, which stood at -1.06% in June (the first annual decrease since early 2019), compared to 0.99% in the previous month. This sustained cooling in inflation offers the RBI greater flexibility to adopt a more accommodative monetary stance, especially amid potential headwinds from escalating US tariff measures.

India CPI Inflation



Source: MoSPI

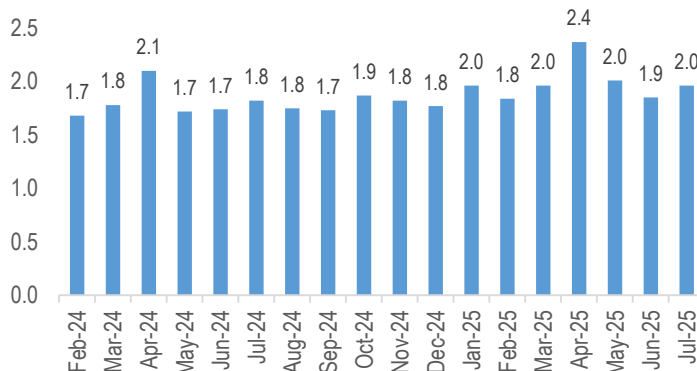
India's Manufacturing Surges, Services Slows in July PMI: India's manufacturing activity remained robust in July 2025, with the HSBC India Manufacturing PMI rising to 59.1 from 58.4 in June, its strongest reading since March 2024. The momentum was driven by a near five-year high in new orders and a fifteen-month high in output growth. However, the data also revealed some softening in employment trends, with job creation slowing to an eight-month low, and business sentiment dipping to a three-year low. On the other hand, the HSBC India Services PMI edged down to 59.8 in July from 60.4 in June, still indicative of strong expansion. The decline was cushioned by a pickup in foreign demand.

India's Fiscal Deficit at 17.9% of Target in April-June: India's fiscal deficit stood at ₹2.8 lakh crore (\$31.96 bn) for IQFY25, accounting for 17.9% of the full-year target, reflecting a narrower gap compared to the same period last year. Total receipts reached ₹9.41 lakh crore (26.9% of budget estimates), bolstered by robust tax and non-tax revenue of ₹5.4 lakh crore and ₹3.73 lakh crore, respectively, as well as record ₹2.69 lakh crore dividend from the RBI, up from ₹2.11 lakh crore in the previous year.

GST Collections: Goods and Services Tax (GST) collections remained buoyant in July 2025, reaching ₹1.96 lakh crore - a 7.5% YoY increase, driven by healthy domestic consumption and resilient imports. This marked the seventh consecutive month of collections exceeding ₹1.8 lakh crore. However, net GST revenue grew at a slower pace of 1.7%, settling at ₹1.68 lakh crore, primarily due to a substantial 66.8% surge in refunds. For the April-July period, gross GST revenues totaled ₹8.18 lakh crore, up 10.7% YoY.

India's GST Collections rose from Rs. 1.90 lakh crore in Jun-25 to Rs. 2.0 lakh crore in July-25

India's GST Collection in Rs. Lakh Crore



Source: gst.gov.in

India's Industrial Output Slows in June: Industrial production growth moderated in June 2025, expanding by 1.5% YoY, slightly below expectations and lower than May's 1.9% rise (revised). This marks the weakest pace of industrial activity since August 2024. The manufacturing sector was the sole contributor to growth, rising 3.9% YoY in June versus 3.2% in May. In contrast, the mining sector witnessed contraction of -8.7% YoY, driven by the drop in coal prices and softer export demand from China and the electricity sector witnessed contraction of -2.6% YoY.

Global Macro Highlights

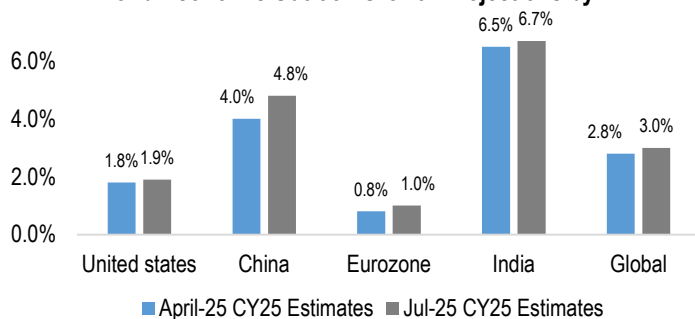
Trade & Tariff Implications

US Imposes Country-Specific Tariffs Starting August 7: On July 31, 2025, President Donald Trump signed an executive order enacting a new tariff regime affecting over 60 countries. These country-specific duties, ranging from 10% to 41%, will take effect from August 7, 2025. Imports from nations not explicitly listed will face a baseline 10% tariff. India, notably, is subject to a 25% duty, reflecting concerns over trade imbalances and its continued dealings with Russia. However, goods already loaded and in transit to U.S. ports before August 7 will be exempt if cleared for consumption by October 5. Attempts to transship goods to avoid these tariffs will attract a punitive 40% levy and associated penalties.

Global Growth Projections

IMF ups Global Growth Forecast, Warns of Tariff Risks: In its July 2025 update of the World Economic Outlook, the IMF raised its global GDP growth forecasts to 3.0% for CY2025 and 3.1% for CY2026, up from April's projections of 2.8% and 3.0%, respectively. The revision is attributed to several factors: accelerated imports ahead of impending tariffs, slightly lower effective U.S. tariff rates, improved financial conditions, and fiscal expansion in key economies. The U.S. and China, both saw upward revisions. Nonetheless, the IMF cautioned that rising tariffs, geopolitical instability, and heightened uncertainty continue to pose significant risks to the global outlook.

World Economic Outlook Growth Projections by IMF



Source: IMF World Economic Outlook update Jul 2025

Geopolitical Landscape

Trump Enacts the "Big Beautiful Bill": On July 4, 2025, Trump signed into law the "One Big Beautiful Bill Act". The legislation permanently extends the 2017 tax cuts, significantly increasing funding for immigration enforcement, and is expected to add over \$3 trillion to the national debt, now at \$36.2 trillion. Critics have raised concerns over its social impact, especially projected Medicaid cuts that could see 11.8 million Americans lose health coverage.

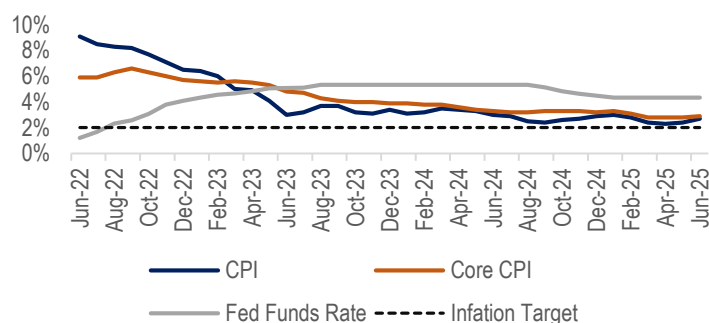
EU Proposes €2 Trillion Budget: On July 16, 2025, the European Commission unveiled a proposed €2 trillion (\$2.31 trillion) budget for the 2028–2034 cycle. Representing 1.26% of the EU's Gross National Income (up from 1.13% in the current plan). The proposal emphasizes competitiveness and defense, allocating €451 billion to a new European Competitiveness Fund and a fivefold increase to €131 billion for defense and space. The budget, which still needs approval from member countries and the European Parliament, is already facing criticism over its size and new funding methods.

US Inflation and Interest Rates:

US core inflation measure hits 2.4% in May: In June 2025, the annual U.S. core consumer price inflation rose to 2.9%, up from May's four-year low of 2.8%. The overall CPI climbed 2.7% year-on-year in June, compared to 2.4% in May, its highest reading since February. On a monthly basis, core prices grew by 0.2% in June, following a 0.1% rise in May.

US inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Reserve

Fed's September rate cut odds rise: On Wednesday, July 30, 2025, the U.S. Fed had held interest rates steady in the 4.25%-4.50% range for the fifth consecutive meeting, despite pressure from President Donald Trump to lower them. In a rare split decision, two governors dissented, preferring a 25 basis point cut. However, following the U.S. jobs report on August 1, 2025, that showed cracks in the labour market, traders are now pricing in a 92.1% chance of the Fed cutting rates in its next meeting in September, compared with 63% a week earlier. Moreover, San Francisco Federal Reserve Bank President Mary Daly said that given mounting evidence the U.S. jobs market is softening and no signs of persistent tariff-driven inflation, the time is nearing for rate cuts.

Equity Market

Markets Take a Breather Amid Global Shifts and Valuation Concerns



After five consecutive months of gains, Indian equities saw a sharp correction in July, with the Nifty down 2.9% and broader mid- and small-cap indices declining by 3.9% and 5.8% respectively. The reversal was triggered by fresh U.S. tariff shocks—25% duties on Indian imports—as well as weaker-than-expected corporate earnings and softening global demand. Foreign investors turned net sellers for the first time since February 2025, while domestic institutional investors remained active buyers. Despite the sell-off, stretched valuations, especially in the mid- and small-cap space, and looming global uncertainties suggest that market momentum may remain volatile in the near term.

Equity Outlook

“Indian equities saw their first monthly decline in five months, with Nifty down 2.9% in July, led by FII outflows amid global tariff concerns. While earnings were muted, a recovery is expected from Q2FY26, supported by festive demand and a favourable base. Valuations remain stretched, especially in mid and small caps, warranting selective positioning”

Indian equities fell in July, with the Nifty closing in the red for the first time in five months, down by 2.9%. Mid & small caps underperformed the nifty closing down by 3.9% and 5.8% respectively for the month. FIIs turned net sellers in Indian equities for the first time since Feb-25, on back of renewed concerns over U.S. tariffs and an underwhelming Q1FY26 results season, while DIIs remained large buyers.

July and early August have been eventful, shaped by rising geopolitical complexities and evolving global trade dynamics. The United States, under the newly issued “Liberation Day” executive order, has imposed elevated tariffs on imports from several trade partners, duties ranging from 10% to 41% which will be applicable from the 7th of August. While Indian imports will attract tariffs of 25%, several countries seen as competitors to India, like Vietnam and Bangladesh will attract lower tariffs than India which is likely to undermine the competitiveness of India exporters.

The U.S. fed adopted a wait and watch approach and kept its benchmark rate unchanged in its July FOMC meeting citing possible inflationary impact of tariffs. This led to markets building in a single 25 rate cut in 2025 though the dot plots continued to indicate a cumulative 50bps rate cut for the rest of the year. However, a weak set of U.S. non-farm payroll data led to a quick recalibration with market participants now anticipating rate cuts beginning as early as September. While the July NFP data came in below expectations the numbers for May and June 2025 were revised down by a total of 258k indicating a weak labour market.

Back home, subdued inflation along with possible challenges to growth due to increased U.S. tariffs on Indian exports combined with the rising expectations of a Fed rate cut in its September policy meet may allow the RBI to adopt a dovish stance. While the RBI is likely to leave rates unchanged in its August policy meet market participants have stated building in cumulative 25-50bps rate cuts in FY26.

Overall corporate earnings during the quarter have been muted along expected lines we believe that the earnings growth outlook will improve as the year progresses. We expect a pickup in earnings growth from Q2FY26 onwards, supported by a favourable base effect and early onset of the festive season. Additionally, key sectors such as BFSI, consumption, and IT are expected to bottom out by then, which will contribute to earnings growth at the aggregate level. Favourable earnings base for large earning sectors such as Oil & Gas and Metals will help overall Nifty earnings growth in FY26.

While India’s macro setup remains broadly resilient headwinds from trade frictions and weak global demand could dent growth to some extent. However, strong rural demand and Government capex along with gradual ongoing improvement in Urban demand should offset the adverse impact of external shocks to the economy.

From a market perspective, valuations remain elevated, especially in the Mid and Small cap segments. The Nifty is trading at P/E multiple of ~20.3x 12M forward consensus EPS which is at ~11% premium to its long-term average of 18.3x. Given that the Nifty is moderately expensive relative to its historical average we expect index returns to mirror earnings growth over the next year. However, the Nifty Mid cap and small cap indices are trading at 26.5x and 25.4x 12M forward consensus EPS, which are at a ~16% and 62% premium to their long-term historical averages indicating overvaluation relative to large caps.

From a sectoral perspective we continue our preference for large banks and IT, consumer discretionary, real estate, cement, and capital goods, while maintaining an underweight stance on oil & gas, mid-cap IT, small banks, and NBFCs.



Debt Market

RBI Holds Rates Steady, but Rupee Slide and Global Volatility Keep Bond Markets on Edge

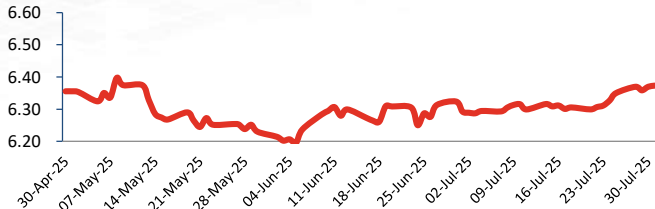
India's 10-year G-sec yield closed July at 6.37%, largely stable through the month but inching higher towards the end as the rupee weakened sharply to 87.5 against the USD, driven by FPI outflows and global tariff-related anxieties. While headline CPI inflation eased to 2.1% YoY in June, well below consensus estimates, the RBI's MPC kept the repo rate unchanged at 5.5% and maintained a neutral stance, signalling a data-dependent approach. Improved banking system liquidity averaging ₹3.04 lakh crore in July—provided some support, but global market volatility and a cautious Fed continue to pose near-term challenges for bond market sentiment.

Fixed Income Outlook

India's 10-year G-sec yield closed July at 6.37% (vs. 6.32% in June)—largely rangebound for most of the month but moving higher in the last week. This late-month uptick reflected a sharp rupee depreciation and mounting concerns about the impact of new global tariff threats.

India's 10-Year G-Sec Yield rose by 5 bps to 6.37% in July 2025

Indian 10 Year G-Sec Movement (For last 3 months)



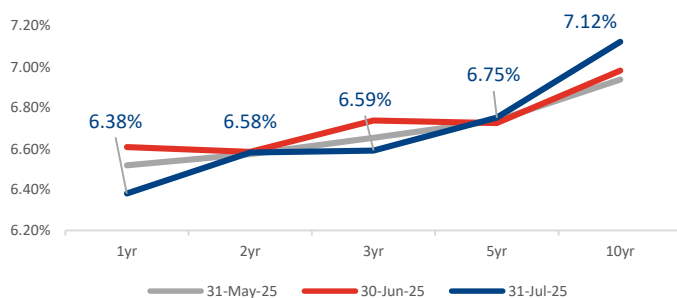
Source: CCIL

RBI's Monetary Policy Committee voted unanimously to keep the policy repo rate unchanged at 5.5% in August meeting. The MPC also decided to continue with neutral monetary policy stance. While a neutral stance indicates limited scope for further easing, the RBI Governor hinted that future action would be dependent on how growth performs – therefore, not closing the door on further rate cuts completely. RBI retained FY26 GDP growth forecast at 6.5% but lowered CPI inflation projection by 60 bps to 3.1%. Importantly, CPI inflation for Q1 FY27 is projected at 4.9%.

USD/INR weakened from 85.7 in June to 87.5 in July—a depreciation of nearly 2.1%. This move stemmed from FPI outflows, a stronger dollar index (DXY), and persistent global tariff anxiety, all of which pressured the rupee.

Spread between 3-5yr AAA PSU corporate bond and corresponding G-sec is healthy at 60-70 bps (at the time of writing) and provides a good investment opportunity from an accrual perspective.

AAA PSU Corporate Bond Yield Curve

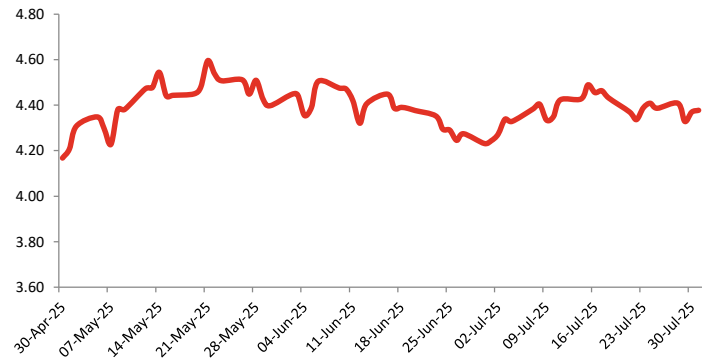


Source: Bloomberg

US 10-year Treasury yield rose to 4.38% in July (up from 4.23% in June). This reflected continued resilience in US economic and jobs data and still-elevated CPI inflation readings, dampening hopes for near-term Fed easing.

US Yields rose by 15 bps to 4.38% in July 2025

US 10 Year G-Sec Movement (For Last 3 Months)



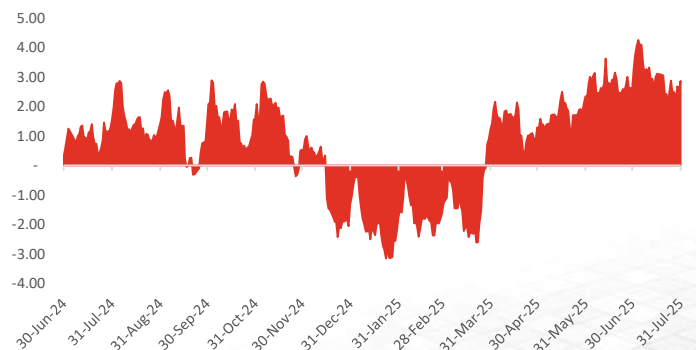
Source: Investing.com

US Fed held its policy rate steady at 4.25–4.50% (vote: 9-2). The July FOMC statement revealed a more cautious tone, acknowledging that growth of economic activity moderated in the first half of the year, in contrast to its previous assessment of solid expansion. Despite the dovish shift in the official statement, the Fed Chair struck a more hawkish note at the press conference, emphasizing high uncertainty related to both tariff policy and inflation, and reiterating a wait-and-watch approach.

India's banking system liquidity improved further, with the average surplus at Rs 3.04 lakh crore in July (vs. Rs 2.74 lakh crore in June). Increased government spending contributed to easier liquidity conditions.

RBI's Measures Finally Easing Liquidity Crunch

India's banking system liquidity (Rs Lakh cr)



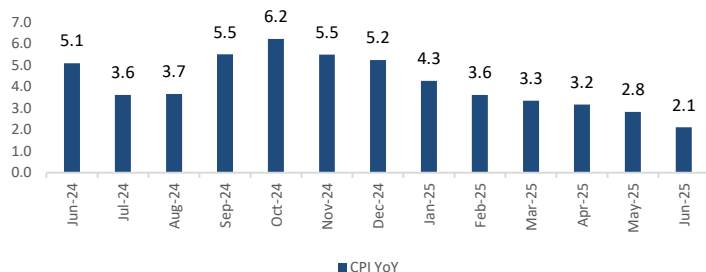
Source: RBI

Fixed Income Outlook

India's headline CPI inflation cooled further to 2.1% YoY in June (down from 2.8% in May), aided by a favourable base and ongoing food price moderation. However, on a sequential basis, CPI increased 0.6% MoM, indicating some underlying volatility. Notably, the inflation reading surprised to the downside versus the consensus estimate of 2.5% YoY.

India's Inflation Rate Eases in June 2025 Due to Drop in Food Prices

CPI Inflation YoY%



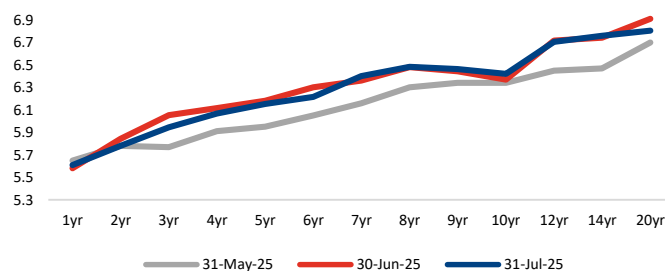
Source: Investing.com

In our base case, we expect policy repo rate to remain unchanged at 5.5% in FY26. Given the RBI's inflation projections, the space for another 25-50 bps rate cut remains in place. However, we expect RBI to utilize this space only if there is a significant downside risk to growth. We expect banking system liquidity conditions to remain comfortable in the medium term. In the near-term, INR depreciation and resulting intervention by RBI could act as a drag on liquidity.

Spread between long tenure (30-40yr) and 10yr G-sec has widened to 65-75 bps recently. Given the favourable G-sec demand supply dynamics and stable macroeconomic environment, long tenure G-secs could benefit from compression in this term spread.

G-Sec Yield Curve has recently steepened

G-Sec Yield Curve



Source: Bloomberg

Subdued inflation and robust banking system liquidity are supportive, however, global volatility—amplified most recently by tariff jitters and rupee weakness—remains a key risk for fixed income market.



Deep Dive

Decoding Crypto Investing in India: Opportunity or Mirage?

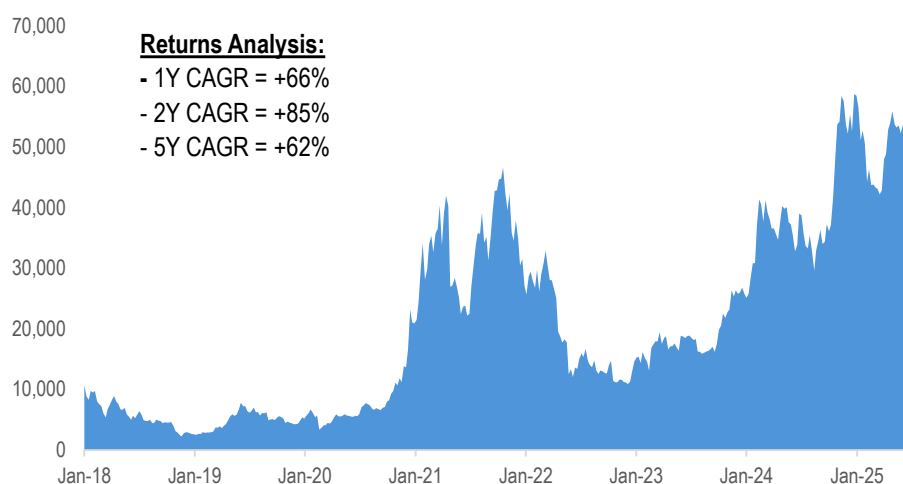
Crypto investing in India is facing a dual reality: growing enthusiasm, especially among youth and wealthy institutions, juxtaposed with a complex regulatory and tax landscape. While globally recognized as an emerging asset class, India maintains a cautious stance, prioritizing risk mitigation. India's stringent tax framework, including a 30% flat tax rate (plus applicable surcharge and 4% cess) and 1% TDS on Virtual Digital Assets (VDAs), is perceived as restrictive. Despite Bitcoin's historical outperformance against traditional assets (such as equities, gold), significant systemic risks like custody issues and cyber threats persist. The Indian government has focused on integrating VDAs into the country's financial oversight mechanisms through its tax regime / anti-money laundering regulations, while also exploring its own Central Bank Digital Currency (CBDC).

Decoding Crypto Investing in India: Opportunity or Mirage?

Executive Summary - The Evolution of Crypto Investing:

Globally, crypto investing has matured from an experimental pursuit into an emerging asset class attracting attention from retail investors, institutional allocators, and sovereign regulators alike. Over \$4trn in market capitalization is now spread across thousands of digital assets, led by Bitcoin and Ethereum. Institutional participation has accelerated following the launch of regulated Bitcoin spot ETFs in the U.S., approved by the SEC in 2024, with firms like BlackRock, Fidelity, and Ark Invest entering the fray. Countries such as Switzerland, Singapore, and the UAE have built progressive, crypto-friendly regulatory frameworks, fostering innovation while enforcing investor protection. Meanwhile, mainstream financial institutions are exploring blockchain use cases in payments, tokenized securities, and settlement systems. Despite this progress, the landscape remains fragmented, with inconsistent tax rules, patchy oversight, and varying investor rights across jurisdictions. For global investors, crypto now represents both a frontier of innovation and a complex arena requiring robust governance, compliance, and risk discipline. However, in India, this rise has been met with a complex interplay of enthusiasm, taxation, regulatory ambiguity, and systemic risk.

Crypto Market Index 10 Market-Cap Performance



Source: Bloomberg. **Note:** (1) Crypto Market Index 10 measures the market cap-weighted performance of up to the 10 largest crypto assets and is quarterly rebalanced; (2) **Data Period:** Jan'18 to July'25.

This deep-dive note presents a comprehensive examination of crypto investing in India from the perspective of portfolio construction, taxation, custody, and regulatory compliance. It outlines how Indian investors are accessing digital assets, the implications of India's stringent 30% tax (plus applicable surcharge and 4% cess) and 1% TDS framework, and how these instruments compare to more traditional, regulated asset classes like equities.

We explore:

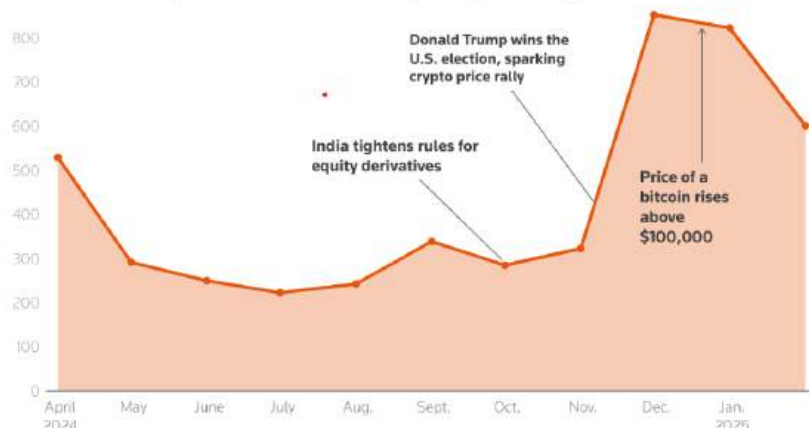
- The **investment avenues** available to Indian residents, from domestic platforms to global exchanges.
- The **evolving regulatory landscape**, highlighting key milestones, FIU oversight, and India's alignment with global AML norms.
- A detailed look at **crypto taxation** and how it impacts net returns.
- **Risks and vulnerabilities** ranging from price volatility to cyber theft, exchange collapses, and regulatory clampdowns.
- Comparative insights on **risk-adjusted returns vs. equities**, using real-world data and historical context.

What's driving India's Cryptocurrency boom?

- **Stagnation in traditional assets:** With equities and fixed-income delivering tepid returns, many affluent Indians are reallocating to cryptos (like Bitcoin) as an alternative growth engine. This trend isn't just among high net worth individuals (HNIs); even smaller-city retail investors view crypto as a way to boost incomes amid limited prospects in conventional markets.
- **Favourable global momentum:** The return of U.S. President Trump, seen as pro-crypto, has added momentum to the global digital asset rally and influenced Indian policymakers' perception. Bitcoin also recently hit record highs, sparking renewed interest among Indian investors. Major global exchanges Coinbase and Binance have also re-entered the Indian market, seeing India as a potential \$2.5 billion opportunity that could scale to \$15 billion by 2035.
- **Youth-driven adoption:** According to media reports, India hosts over 100 million crypto users predominantly driven by the growing interest among the youth. This widespread adoption is fueled by rising smartphone penetration, affordable mobile data, and the ease of UPI payments.
- **Institutional shift:** Domestic Exchanges such as CoinDCX, CoinSwitch, Mudrex, and ZebPay have seen a massive surge in Indian family office participation in recent days with many gravitating towards long-standing blue-chip tokens such as Bitcoin and Ethereum. Between January and June, CoinDCX observed that nearly 50% of its total trading volumes were driven by over 3,500 High-Net-Worth Individuals (HNIs), family offices, and institutions. These entities had an average investment of over INR 50 lakh in monthly trading volume specifically on spot markets. Moreover, CoinDCX saw average per trade sizes of HNIs, which was about Rs 5 lakh per trade in June, increase by nearly 25-30% in July.

Trading volumes at Indian crypto exchanges have jumped

Cumulative monthly volume at four of India's largest crypto exchanges (in \$ million)



Source: Reuters, CoinGecko. **Note:** Data includes volumes for CoinDCX, Bitbns, Mudrex and ZebPay.

While interest in digital assets continues to rise, investment avenues in India remain **narrow, fragmented, and high-risk**, requiring careful due diligence and tax-aware execution.

Investment Avenues in India:

Despite regulatory ambiguity, India has witnessed growing interest in crypto assets. Access to crypto investments is available through a mix of domestic and offshore platforms, albeit within a highly constrained regulatory environment.

A. Major Investment Routes:

Feature/Aspect	Domestic Platforms	Offshore Platforms
Key Exchanges (Examples)	CoinDCX, ZebPay, Mudrex.	Binance, Bybit, Coinbase.
Legal Status in India	Legally allowed to operate if compliant with FIU-IND registration and AML/KYC.	Can legally operate if they register with FIU-IND and comply with PMLA obligations, including a penalty if operating without prior compliance. Some have faced scrutiny and blocks for non-compliance.
Ease of Fund Transfer (INR)	Direct INR deposits and withdrawals are usually straightforward via various Indian payment methods (UPI, Net Banking, etc.).	Direct bank transfers from Indian bank accounts to offshore crypto exchanges for the purpose of buying crypto are not straightforward and often discouraged or blocked by banks due to regulatory uncertainties and lack of explicit permissible purpose codes.
FIU-IND Registration	Required: Registered with the Financial Intelligence Unit (FIU) under the Prevention of Money Laundering Act (PMLA).	Required: Subject to oversight under anti-money laundering rules and required to register with FIU-IND under PMLA.
KYC & AML Norms	Adhere to basic KYC (Know Your Customer) and AML (Anti-Money Laundering) norms.	Subject to AML rules and required to comply with Indian KYC/AML rules.
SEBI / RBI Regulation	Remain outside the purview of SEBI (Securities and Exchange Board of India) or RBI (Reserve Bank of India) regulation, as of current information.	Despite the absence of formal, crypto-specific regulation, they must comply with FIU-IND for AML purposes. They are not directly regulated by SEBI or RBI in the same way traditional financial entities are.
Taxation in India	<ul style="list-style-type: none"> - Flat 30% tax (plus applicable surcharge and 4% cess) on gains from VDA transfers (selling, swapping, spending). - No deductions allowed except cost of acquisition. - Losses from crypto cannot be offset against other income or carried forward. - 1% TDS on VDA transactions exceeding ₹10,000 (or ₹50,000 for specified persons). This is automatically deducted by the Indian exchange. 	<ul style="list-style-type: none"> - Same flat 30% tax (plus applicable surcharge and 4% cess) on gains from VDA transfers. Indian users are responsible for self-declaring and paying taxes on profits earned on offshore platforms. - The 1% TDS rule applies even to transactions on offshore platforms if the income is taxable in India. However, offshore platforms typically do not deduct TDS, placing the onus on the Indian investor to ensure compliance.
Crypto ETFs	Remains unavailable in India from domestic AMCs due to regulatory prohibitions.	Global crypto ETFs by leading multi-national AMCs like Blackrock, Fidelity, etc. are showcased to Indian investors through brokers (such as Vested, Interactive Brokers, etc.). But we note that investing in global crypto ETFs is a complex issue with evolving regulations and more regulatory clarity needed on investment eligibility / tax regime.

B. Popular Crypto Assets: Institutional volumes focus on top-tier, high-market-cap tokens with robust liquidity.

Name	Price (US\$)	Circulating supply (mn)	Market Cap (US\$ bn)
Tether (USDT)	1.0	162	162
Ethereum (ETH)	3,761	121	454
Bitcoin (BTC)	117,388	19.9	2,336
Solana (SOL)	196	538	105
Dogecoin (DOGE)	0.27	150	41

Source: CoinGecko, Investing. **Note:** Priced as on 21 July 2025.

Regulatory Evolution: India's Tightrope Walk

India's overall stance related to crypto-currencies remains cautious, with a focus on mitigating risks related to money laundering, terror financing, and financial stability, while also acknowledging the potential of blockchain technology.

Year / Date	Key Milestone / Regulatory Evolution	Impact / Significance
Dec-13	RBI Issues First Cautionary Press Release: The Reserve Bank of India (RBI) issues its first warning to users, holders, and traders of Virtual Currencies (VCs) about potential financial, operational, legal, and security risks.	Marked the initial cautious stance of the central bank.
Feb-18	Finance Minister's Statement (Budget Speech): Then Finance Minister Arun Jaitley states that the government does not consider cryptocurrencies as legal tender and will take steps to eliminate their use in illegitimate activities.	Signaled the government's negative view on crypto as currency, but also acknowledged the underlying blockchain technology.
Apr-18	RBI "Banking Ban" Circular: RBI issues a circular prohibiting all regulated entities (banks, NBFCs, etc.) from dealing in VCs or providing services to facilitate crypto transactions.	Led to a significant disruption of crypto businesses in India as exchanges struggled to operate without banking services. Many exchanges either shut down or moved operations offshore.
Mar-20	Supreme Court Overturns RBI Ban (IAMAI v. RBI): The Supreme Court of India sets aside the RBI's 2018 circular, citing it as disproportionate and unconstitutional.	Provided a major relief to the crypto industry, leading to a resurgence in trading activities and the re-establishment of several Indian crypto exchanges. It established that crypto trading was not illegal in India.
Apr-21	Ministry of Corporate Affairs Amends Companies Act: Requires companies dealing in Virtual Currencies (VCs) to disclose their crypto holdings, profit/loss on transactions, and deposits/advances for crypto trading in financial statements.	Brought greater transparency to corporate involvement in crypto and aimed to track crypto exposure of companies.
Nov-21	"Cryptocurrency and Regulation of Official Digital Currency Bill, 2021" Listed: A bill aiming to ban all private cryptocurrencies while allowing for an official digital currency (CBDC) is listed for introduction in Parliament.	Created significant uncertainty and fear of a blanket ban, leading to a market downturn in India. The bill, however, did not pass.
Feb-22	Union Budget 2022 - Taxation of Virtual Digital Assets (VDAs): Finance Minister Nirmala Sitharaman announces a flat 30% tax on income from the transfer of any Virtual Digital Asset (VDA). Also, 1% Tax Deducted at Source (TDS) introduced on crypto transactions above a certain threshold.	This was a significant step as it implicitly recognized cryptocurrencies as "assets" for taxation purposes, even if not as legal tender. It formalized the taxation framework for crypto gains and transactions.
Mar-22	Finance Bill 2022 Amends Income Tax Act: Section 115BBH is inserted, codifying the 30% tax on VDA income. Section 2 of the Act is amended to define "Virtual Digital Assets."	Legally enshrined the new crypto tax regime.
Oct-Dec'22	RBI Launches CBDC Pilot (e₹-W and e₹-R): RBI initiates pilot programs for its Central Bank Digital Currency (CBDC) for wholesale (e₹-W) and retail (e₹-R) use.	Demonstrated India's focus on its own digital currency while maintaining a cautious stance on private cryptocurrencies.
Mar-23	Prevention of Money Laundering Act (PMLA) Extended to VDAs: The Ministry of Finance brings activities related to VDAs (exchange, transfer, safekeeping) under the purview of the PMLA.	Mandated crypto businesses to comply with stringent Anti-Money Laundering (AML) and Know Your Customer (KYC) norms and register with the Financial Intelligence Unit - India (FIU-IND). This significantly tightened compliance requirements.
Dec-23	FIU-IND Issues Show Cause Notices to Offshore VDA Service Providers: FIU-IND issues notices to several offshore crypto exchanges for non-compliance with PMLA.	Reinforced India's stance on enforcing AML/KYC regulations even for international platforms serving Indian users.
Feb-25	Income Tax Act, 1961, Amended (Finance Bill, 2025): Section 285BAA mandates reporting of crypto transactions by a reporting entity, with effect from 1 April, 2026.	Further strengthens the tax compliance framework and enhances the government's ability to track crypto transactions.

Current Status:

- Cryptocurrencies are legal to hold and trade in India but are not recognized as legal tender. It remains outside RBI and SEBI regulation and thus, no Indian crypto ETF or regulated mutual fund product is approved.
- India currently lacks a dedicated Crypto Act. However, crypto is treated as a virtual digital asset (VDA) under the Income Tax Act. Profits from VDA transfers are taxed at a flat 30% and a 1% TDS is applicable.
- Crypto businesses are subject to AML/KYC regulations under PMLA and must be registered with FIU-IND.
- India is actively exploring and piloting its own Central Bank Digital Currency (CBDC).

Taxation of Crypto in India:

India has implemented one of the most punitive tax frameworks globally for Virtual Digital Assets (VDAs) under the Income Tax Act. This framework aims to bring transactions involving these digital assets into the formal tax net and address concerns regarding money laundering and speculative trading.

Key Tax Rates and Deductions for VDAs:

Aspect	Tax Rate / Rule	Details
Tax on Income from Transfer of VDAs	Flat 30% + Surcharge + 4% Cess	Applies to all gains from selling, trading, or spending VDAs. No distinction between short-term or long-term gains.
Deductions Allowed	Only Cost of Acquisition	No other expenses (e.g., electricity for mining, internet charges, trading fees) are deductible.
Loss Treatment	No Set-off, No Carry Forward	Losses from VDAs cannot be offset against any other income or carried forward to future years.
TDS on VDA Sale (Sec. 194S)	1% of Sale Consideration	Applicable if transaction value exceeds ₹10,000 (or ₹50,000 for specified persons) during the FY.
Crypto Gifts	Taxable at recipient's slab rate if value > ₹50,000	Exempt if received from specified relatives or on specific occasions.

This comprehensive tax regime, while establishing clarity, has been perceived by many in the Indian crypto community as restrictive, potentially hindering innovation and driving some trading activities to offshore platforms. However, it signifies the government's intent to monitor and integrate the VDA ecosystem into the country's financial oversight mechanisms.

Systemic Risks in Crypto Investing:

While innovation is laudable, crypto as an asset class introduces multiple dimensions of risk beyond traditional investing. Systemic risk refers to the risk of collapse of an entire financial system or market, as opposed to the collapse of a single entity.

While the crypto market is still relatively small compared to traditional financial systems, its interconnectedness and unique characteristics introduce several systemic risks:

- **Custody Risk:** Many crypto investors rely on third-party exchanges or wallet providers to store their assets. These entities are vulnerable to hacking, theft, and operational failures. If a platform goes bankrupt or is compromised, investors may lose their assets with little to no recourse, as there are often no government-backed insurance schemes (like FDIC or SIPC in the US) for crypto holdings.
- **Cybersecurity Threats & Heists:** Heists and exchange collapses represent some of the most catastrophic events in the crypto world, leading to massive financial losses for investors and shaking confidence in the nascent industry. They highlight the significant risks associated with centralized cryptocurrency platforms and the broader digital asset ecosystem.

Notable Global Crypto Heists:

Year	Entity Hacked	Value Stolen (Approx. US\$ at time of attack)
2014	Mt. Gox	\$460 million (850,000 BTC)
2018	Coincheck	\$534 million (NEM tokens)
2021	Poly Network	\$610 million (Various tokens)
2022	Ronin Network	\$615 million (ETH & USDC)
2022	FTX	\$477 million (Various tokens)
2024	DMM Bitcoin	\$305 million (BTC)
2024	WazirX	\$230 million
2025	Bybit	\$1.5 billion (ETH)
2025	Coinbase (Estimated)	\$180 - \$400 million
2025	CoinDCX	\$44 million

Cybersecurity breaches at WazirX / CoinDCX resulted in many Indian users experiencing losses or concerns over the safety of their holdings on these platforms.

Note: The value stolen is an approximate figure at the time of the attack.

Comparative Analysis: Crypto vs. Equities

Attribute	Cryptocurrencies	Equities
Regulation	Emerging, fragmented	Mature, SEBI-regulated
Intrinsic Value	Largely speculative	Tied to cash flows, business fundamentals
Liquidity	24x7 markets	9:15 AM - 3:30 PM (India)
Transparency	Pseudonymous, limited disclosures	Full audited reporting
Tax Treatment	30%, no offset	12.5% / 20%, with offset and carry forward
Custody	Investor's responsibility	Depositories (NSDL/CDSL)
Historical Returns (CAGR)	BTC: 82% 10Y CAGR (Jun'15 – Jun'25)	Nifty 500 TRI: 11% 10Y CAGR (Jun'15 - Jun'25)
Maximum Drawdown (%)	BTC: 83% (Jun'15 – Jun'25)	Nifty 500 TRI: 46% (Jun'15 – Jun'25)

Risk-Return Analysis: Crypto vs. Equities vs. Gold

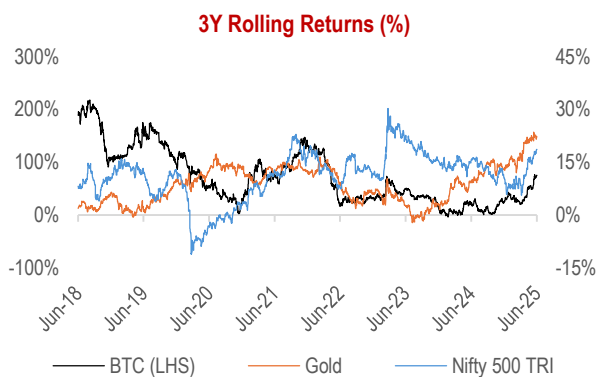
- Calendar-year returns: Bitcoin (BTC) has outperformed the Nifty500 TRI and Gold on an absolute returns' basis (>75% times) over the past 9 calendar years (see table below).

Date	Calendar Year Annual Returns (%)		
	Bitcoin	Gold	NIFTY500 TRI
2016	122%	9%	2%
2017	1,291%	13%	47%
2018	-72%	-2%	-10%
2019	89%	18%	7%
2020	302%	25%	15%
2021	57%	-4%	28%
2022	-65%	0%	-6%
2023	154%	13%	26%
2024	112%	27%	13%

Source: Bloomberg, Investing. **Note:** Returns are in USD terms.

- Rolling Returns:** BTC comfortably outperformed Gold and Nifty500 TRI on a rolling returns basis, delivering a 3Y and 5Y median return of 55% and 64%, respectively (vs. Gold ~9-10% and Nifty500 TRI ~11-12%).

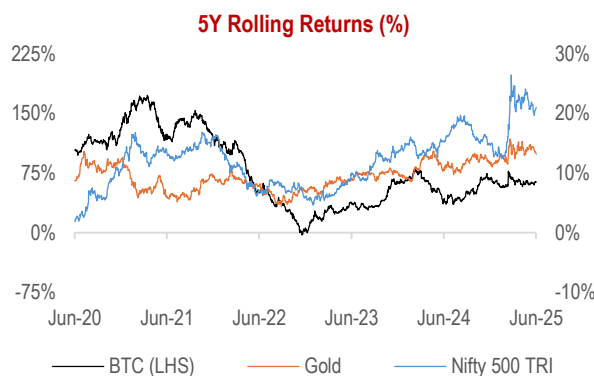
3 Years Rolling Returns (last 10 years) – “2,558” Observations:



3Y Rolling Returns (%)	BTC	Gold	Nifty500 TRI
Average Return (%)	72%	9%	11%
Median Return (%)	55%	9%	12%
% times Rolling Returns > 15%	90%	8%	26%
% times Rolling Returns < 0%	0%	3%	9%

Source: Bloomberg, Investing. **Note:** Returns are in USD terms.

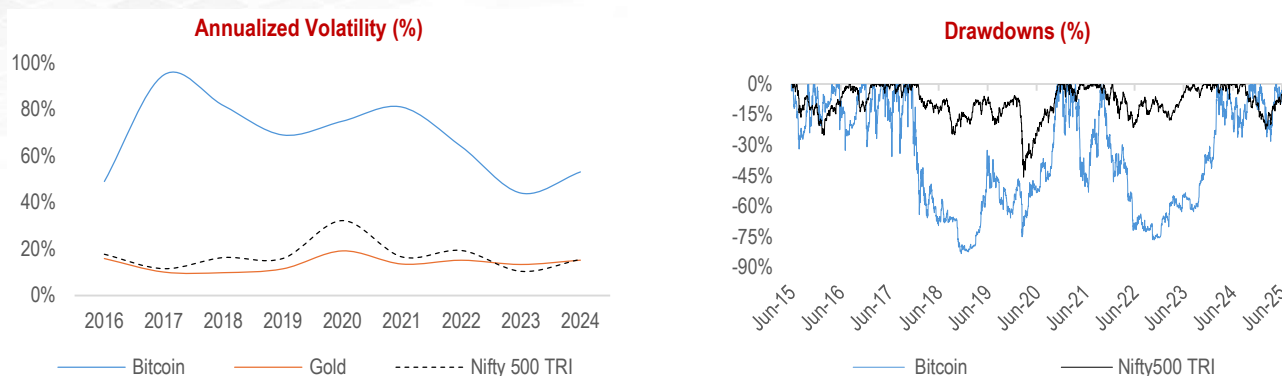
5 Years Rolling Average Returns (last 10 years) – “1,828” Observations:



5Y Rolling Returns (%)	BTC	Gold	Nifty500 TRI
Average Return (%)	77%	10%	12%
Median Return (%)	64%	9%	13%
% times Rolling Returns > 15%	96%	0%	23%
% times Rolling Returns < 0%	0%	0%	0%

Source: Bloomberg, Investing. **Note:** Returns are in USD terms.

- **Risk Evaluation:** While BTC has offered superior returns, they also come with significantly higher volatility and steeper drawdowns (i.e. maximum downside from a previous peak).
 - **Standard Deviation.** The annualized volatility of BTC is materially higher vs. the Nifty500 and Gold, reflecting its relatively riskier nature.
 - **Drawdowns / Downside Volatility.** BTC has seen a significantly higher drawdown vs. equities and that too for extended periods. For instance, the median drawdown for BTC during the last 10 years was around 35% vs. Equities (Nifty 500 TRI) at 8%.



Source: Bloomberg, Investing. **Note:** Returns are in USD terms.

Bridging the After-Tax Gap: How much additional Bitcoin return is needed to match the post-tax return of equities?

As highlighted above, in India, the tax implications for Bitcoin (and other Virtual Digital Assets - VDAs) are significantly different and generally higher than those for equities. This section aims to illustrate how much additional return Bitcoin needs to generate to offset this higher tax impact.

Let's assume a hypothetical scenario to demonstrate the difference in after-tax returns.

Assumptions:

- Investment Amount: INR 10,00,000.
- Nifty500 TRI Return: 12% (across all time-periods).
- Marginal Tax Rate (Equities - LTCG): ~15% (12.5% + Surcharge + Cess).
- Marginal Tax Rate (Crypto): ~39% (30% + Surcharge + Cess).

The below table highlights the additional return Bitcoin would need, so that Bitcoin's post-tax return = Equities post-tax return.

Holding Period	Nifty500 TRI	Bitcoin (BTC)	Additional Return (%)
1-year	12%	16.7%	4.7%
2-year	12%	16.4%	4.4%
3-year	12%	16.1%	4.1%
5-year	12%	15.6%	3.6%
7-year	12%	15.2%	3.2%
10-year	12%	14.7%	2.7%

Net-net, Bitcoin would need to generate approximately 3-5% additional return (across varied time periods) to offset the higher tax impact compared to equities.

Should Crypto Be in Your Portfolio?

Cryptocurrencies remain a **speculative satellite asset**, making it unsuitable for core allocations in ultra-high-net-worth portfolios under current conditions. Investors should exercise extreme caution and ensure robust due diligence until meaningful regulatory frameworks and investor protections are in place.

While crypto represents innovation, it also embodies significant risk. Investors are best served by aligning with asset classes that combine return potential, regulation, and robust risk management, such as equities, fixed income, and real estate.

However, high-risk investors still exploring crypto should only keep their actively traded assets in hot wallets (an internet-connected cryptocurrency wallet) for quick access and trading, while securely storing long-term holdings in cold wallets (stores cryptocurrency private keys offline, providing maximum security against online threats). Furthermore, high-risk investors should also be aware of the following critical factors:

- **High regulatory uncertainty:** The lack of comprehensive and consistent regulations creates an unpredictable investment environment.
- **Lack of investor protection:** Insufficient safeguards leave investors vulnerable to fraud, manipulation, and loss.
- **Unfavourable tax regime:** The current tax landscape for cryptocurrencies can be complex and inefficient.
- **Poor transparency and custodial risk:** Opacity in the market and risks associated with holding digital assets raise significant concerns.
- **Massive drawdowns:** Cryptocurrencies, historically, have been prone to extreme price fluctuations, including "massive drawdowns" where assets lose a significant portion of their value from their peak. High-risk investors must be prepared for the possibility of enduring such severe and prolonged declines, which can test emotional resilience and capital preservation.
- **Trump's pro-crypto rhetoric and policy:** Investors should exercise extreme caution, as the current surge in crypto prices driven by political rhetoric and policy shifts could be based on transient euphoria rather than fundamental value, making these gains highly susceptible to rapid reversals if the political landscape or actual policy implementations change.

Reading Room



How Private Equity Firms Are Creating Value with AI

- **Securing Commitment and Talent:** Successful private equity (PE) firms first secure buy-in from leadership at both the firm and the portfolio company. They then build a team, often relying on operating partners who understand deal making and using consultants or full-stack AI engineers for implementation rather than just data scientists.
- **Assessing AI Exposure and Due Diligence:** Before an acquisition, PE firms conduct a detailed AI diligence process to understand a target company's potential for value creation with AI. This includes assessing the impact on the workforce, the competitive landscape, and financial implications to guide investment decisions.
- **Implementing AI Use Cases with a Clear Roadmap:** After an acquisition, PE firms work with the portfolio company's leadership to create a clear roadmap for AI implementation. They use frameworks to identify and prioritize use cases, focusing on operational improvements that can be measured and will be attractive to a future buyer.
- **Focusing on Repeatable Processes and Measurable Value:** PE firms emphasize creating repeatable processes and deploying AI solutions that deliver demonstrable value within their ownership period. This includes addressing data quality issues selectively and using change management strategies to get buy-in from the company's internal teams.

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Growth Isn't the Only Way for Companies to Create Value

- **Focus on Stability:** A study of over 10,000 companies showed that stable firms with near-zero growth delivered market-average shareholder returns with lower volatility and were more resilient than their high-growth counterparts.
- **Four Core Strategies:** These successful, stable companies used four main approaches to create value:
 1. **The Asset-Light Play:** Shift from physical products to asset-light services to deepen customer relationships and improve margins.
 2. **The Gross Margin Play:** Enhance quality to improve pricing power and increase gross margins.
 3. **The Balance Sheet Play:** Vertically integrate to control more of the value chain and expand the asset base.
 4. **The Dividend Play:** Offer consistent, predictable dividends to create a "bond-like" stock, which attracts investors seeking stability.
- **Ownership and Risk:** A significant number of these firms had a controlling owner, which fostered a disciplined, long-term approach. They avoided high-risk moves like large-scale mergers and acquisitions.
- **Talent and Innovation:** To counter the challenges of a low-growth environment, these companies intentionally designed talent strategies that offered job security and horizontal career mobility. They also fostered innovation through continuous, incremental improvements rather than chasing disruptive breakthroughs.



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