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# TRU INSIGHTS

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September 2025



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## From the MD & CEO's desk



*“Despite tariff headwinds and global volatility, India’s strong domestic growth drivers remain intact. The recent upgrade of India’s sovereign rating, resilient rural and urban consumption, and the government’s GST restructuring measures highlight long-term opportunities. While near-term volatility persists with FII outflows and elevated valuations, supportive macro indicators and the prospect of policy easing suggest resilience ahead.”*

Dear Investors,

Markets remained volatile in August, with the Nifty declining for the second straight month following the U.S. President’s announcement of a 25% punitive and 25% baseline tariffs on key Indian exports. Labour-intensive sectors like textiles, gems & jewelry, and aquaculture were hit hardest, raising job-loss concerns. FIIs continued to remain net sellers amid tariff and growth-related concerns, while DIIs remained buyers.

The Q1FY26 GDP print surprised positively as GDP growth accelerated to 7.8% YoY from 7.4% in Q4FY25. However, the newly imposed tariffs are estimated to shave off 0.6%–0.8% from GDP growth going forward. To mitigate the impact and stimulate domestic demand, the government has approved a comprehensive restructuring of the GST framework. While the GST rationalization will lead to some short-term revenue loss, it is expected to help drive consumption growth and mitigate any adverse impact of US tariffs on GDP growth.

U.S. Fed Chair Jerome Powell’s Jackson Hole address acknowledged the dual challenges posed by the ongoing tariff war: upside risks to inflation and emerging downside risks to employment. His remarks hinted at a possible shift in policy stance, leading markets to price in a rate cut in the upcoming September FOMC meeting.

Back home, the RBI’s MPC kept the repo rate unchanged at 5.5% In its August 2025 monetary policy review despite lowering the CPI inflation projection for FY26 by 60 bps to 3.1%, which was perceived as hawkish by the markets. However, adverse impact of U.S. tariffs and disinflationary impact of the proposed GST restructuring could provide elbow room to the RBI to cut rates in the future.

S&P Global Ratings upgraded India’s sovereign credit rating to ‘BBB’ from ‘BBB-’ in August, the first such upgrade in 18 years. While the immediate impact on markets may be limited, this upgrade is a significant positive for the medium term, as it is expected to enhance investor confidence and potentially attract greater foreign capital flows.

From a valuation perspective, the Nifty 50 index is currently trading at ~22.5x FY26E (vs 10-year avg of 20.4x) and ~19.7x FY27E (vs 10-year avg of 17.3x) on consensus EPS estimates. The recent market run-up has left limited room for re-rating, suggesting that future returns will likely mirror earnings growth.

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 a deep dive on: **“Global Investment themes.”** 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 your guide in navigating the investment journey.

Warm Regards,

*Dhiraj Relli*

**MD and CEO – HDFC Securities**





# Macro Economic Highlights

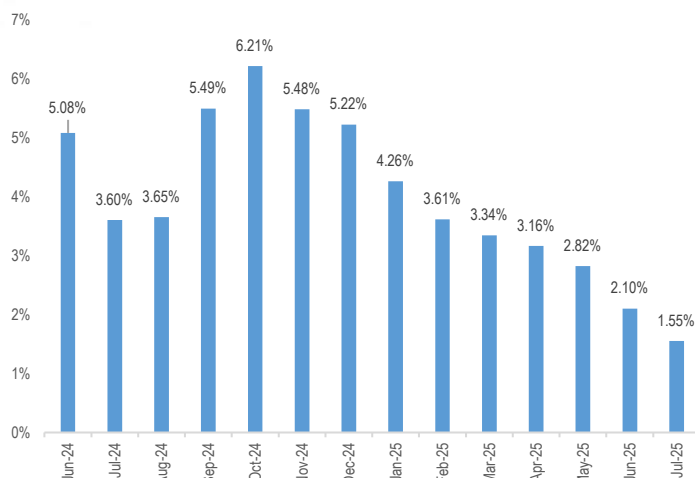
## Domestic growth momentum sustains amid Global economic disruptions

India's CPI inflation eased to 1.55% in July, the lowest since 2017, while GDP expanded 7.8% in the June quarter, supported by manufacturing, construction, and services. Services PMI touched a record 65.6, and GST collections in August were ₹1.86 lakh crore, up 6.5% YoY. On the global front, the U.S. doubled tariffs on Indian imports to 50%, the E3 nations triggered UN "snapback" sanctions on Iran, and PM Modi engaged with Xi Jinping and Vladimir Putin at the SCO Summit.

# Domestic Macro Highlights

**Inflation:** India's annual consumer price inflation eased to 1.55% in July, down from 2.1% in June, marking the ninth consecutive month of decline and the lowest level since June 2017. For the first time since 2019, inflation slipped below the RBI's 2%-6% tolerance band, raising expectations of a rate cut later this year. The moderation was driven by food prices, which contracted 1.76% YoY, in sharp contrast to a 1.06% increase in June. Vegetables were the biggest driver, plunging 20.69% following a 19% fall in the prior month.

## India CPI Inflation



Source: MoSPI

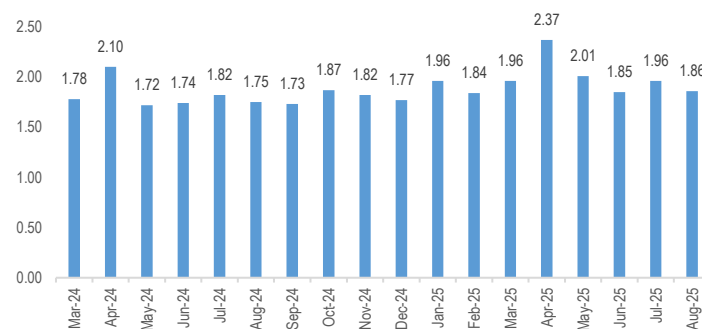
**India's PMI Shows Strong Growth in August:** Economic activity registered record strength in August. The HSBC India Services PMI rose to a new high of 65.6, up from 60.5 in July, fueled by strong domestic and export demand leading to a sharp rise in new business. The HSBC India Manufacturing PMI also advanced to 59.3 in August, the sharpest improvement in operating conditions in 17.5 years. Production expanded at the fastest pace in nearly five years, while new orders climbed at the quickest rate in 57 months. Employment growth extended to an 18th straight month, though at the slowest pace since November 2024. The resilience of domestic demand continues to offset the drag from the recently imposed 50% U.S. tariff.

**India's Economy Grew Faster Than Expected:** The Indian economy grew 7.8% in the June quarter, exceeding the RBI's 6.5% estimate. Growth was broad-based: manufacturing expanded 7.7%, construction 7.6%, and services 9.3%. While real GDP growth remained robust, nominal GDP growth showed signs of softening. At its August meeting, the RBI's Monetary Policy Committee retained its 6.5% growth projection for both the first quarter and the full fiscal year.

**GST Collections:** Goods and Services Tax collections stood at ₹1.86 lakh crore in August, reflecting a 6.5% YoY increase, but falling short of July's ₹1.96 lakh crore. Despite this dip, average monthly collections in current fiscal year have climbed to ₹1.84 lakh crore, compared with ₹1.68 lakh crore in the previous fiscal year. However, GST refunds fell 20% YoY, amounting to ₹19,359 crore versus ₹24,170 crore in August 2024.

## India's GST Collections declined from Rs. 1.96 lakh crore in July-25 to Rs. 1.86 lakh crore in August-25

India's GST Collection in Rs. Lakh Crore



Source: gst.gov.in

**Tax Overhaul in India: New GST Slabs Approved:** The Goods and Services Tax (GST) Council in India has approved a major tax overhaul, consolidating the four-tier structure into two main slabs of 5% and 18%, effective September 22, 2025. This is seen as a significant move to boost domestic consumption and has several key implications for the market. Industries that will likely benefit from the changes include the automobile, consumer durables, and FMCG sectors, as taxes on items like small cars, air conditioners, and daily essentials have been reduced. Conversely, luxury goods and beverage companies may face headwinds due to a new 40% "sin tax" on products such as soft drinks, luxury vehicles, tobacco products and larger motorcycles.

# Global Macro Highlights

## Trade & Tariff Implications

**U.S. Tariffs Double on India:** On August 27, U.S. President Donald Trump's decision to double tariffs on Indian imports to as high as 50% came into force, escalating tensions between two democracies that had, in recent decades, emerged as strategic partners. The move, in retaliation to India's continued purchases of Russian oil, is expected to weigh heavily on exporters - particularly in Gujarat - threatening thousands of jobs. Nearly 55% of India's \$87 billion in merchandise exports to the U.S. could be affected (according to exporter group estimates, Reuters). Unlike Japan, South Korea, and the EU, India was unable to secure a negotiated settlement, though the Indian government has pledged relief measures for impacted sectors.

**U.S. and EU Avert Trade War with 15% Tariff Deal:** The European Union has formally proposed the removal of its tariffs on U.S. industrial goods and some agricultural products. This move, which was outlined in a joint statement from both parties on August 28, 2025, is intended to secure the U.S. commitment to reduce tariffs on European automobiles retroactively from August 1, 2025. Under the July 28 trade deal, the U.S. agreed to a 15% tariff on EU imports, a significant reduction from the previously threatened 30% duty, while European cars will see their tariffs reduced from 27.5% to 15%. This legislative proposal must be approved by the European Parliament and Council to take effect.

## Geopolitical Landscape

**PM Modi Attends SCO Summit, Meets Xi and Putin:** Prime Minister Narendra Modi attended the Shanghai Cooperation Organization (SCO) Summit in Tianjin, China (August 31-September 1, 2025), marking his first bilateral meeting with President Xi Jinping in seven years. The discussion centered on easing border tensions and rebuilding peace and trust. Modi also held talks with Russian President Vladimir Putin on expanding trade and defense cooperation as well as Putin's scheduled December visit to India. The summit, which included leaders from Pakistan, Iran, and Turkey, placed cross-border terrorism high on its agenda.

**E3 Nations Trigger "Snapback" Sanctions on Iran:** On August 29, 2025, France, Germany, and the U.K. (the E3) notified the UN Security Council of Iran's "significant violations" of the 2015 Joint Comprehensive Plan of Action (JCPOA) or Iran nuclear deal, triggering a 30-day process to restore sanctions. This is due to the move which follows stalled nuclear talks and recent U.S.-Israeli strikes on Iranian facilities. Once reinstated, the sanctions will be re-imposed as far back as 2006 and will include an arms embargo, restrictions on missile development, and asset freezes on more than 121 individuals and entities.

**Trump and Putin Meet in Alaska, No Breakthrough on Ukraine:** A highly anticipated meeting between U.S. President Trump and Russian President Putin concluded on August 15 without a major breakthrough on the Ukraine conflict. While the lack of a clear agreement on a ceasefire or peace deal caused some market volatility, the fact that the leaders met was seen by some as a positive step toward dialogue.

## Monetary Strategies & Inflationary Pressures

**France's Inflation Dips in August:** According to preliminary data from INSEE on August 29, 2025, French consumer price inflation slowed to 0.8% YoY in August, down from 0.9% in July. It came off the back of declines in energy and manufactured product prices, while inflation in food and services came in at 1.6% and 2.1%, respectively. German inflation, meanwhile, jumped to 2.1% in August from 1.8% in July.

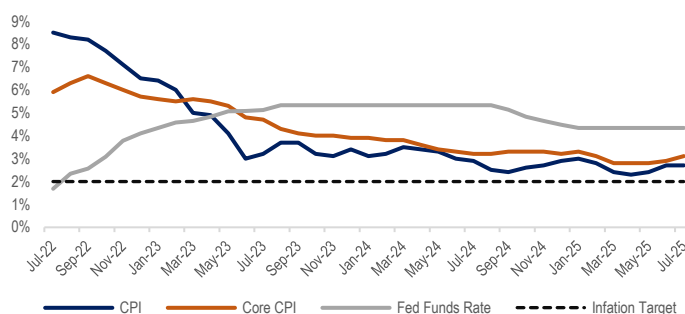
**Japan's Inflation Eases in July:** Japan's inflation rate moderated to 3.1% in July 2025, from 3.3% in June - the lowest since November 2024. Electricity prices fell 0.7%, the first decline since April 2024, while gas prices stabilized after a 2.7% rise in the prior month.

## US Inflation and Interest Rates:

The U.S. inflation rate remained steady at 2.7% YoY in July 2025, unchanged from June. Price pressures increased for used cars and trucks (4.8% vs 2.8% in June), transportation services (3.5% vs 3.4%) and new vehicles (0.4% vs 0.2%) while inflation steadied for food (2.9% vs 2.9%). The annual core consumer price inflation rate in the United States, which excludes volatile items like food and energy, rose to 3.1% YoY in July 2025, the steepest in five months, from 2.9% in June.

## US inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Reserve



# Equity Market

## Equities Weaken as Tariff Shocks and Earnings Concerns Weigh on Sentiment



After a short-lived rebound in early August, Indian equities lost ground with the Nifty slipping 1.4% and mid- and small-cap indices falling by 2.9% and 4.1%. The downturn was led by renewed U.S. tariff measures imposing 25% duties on Indian goods, alongside a muted Q1FY26 earnings season that failed to inspire confidence. While FIIs turned sellers amid global uncertainty and growth concerns, DIIs stepped in with steady inflows that softened the overall impact. Elevated valuations, especially in mid and small caps, combined with external headwinds and cautious corporate guidance, suggest that near-term momentum could remain fragile even as structural reforms and policy support provide an underlying cushion.

# Equity Outlook

*“Indian equities saw a second month of decline, with Nifty down 1.4% and sharper corrections in mid and small caps. The sell-off was driven by U.S. tariff announcements and muted Q1FY26 earnings, partly offset by steady DII inflows. While near-term volatility remains, market direction is likely to hinge on earnings momentum and macro policy support.”*

Indian equities declined for a second consecutive month in August, with the Nifty falling 1.4%. Broader markets underperformed as the Nifty Midcap 100 and Smallcap 100 dropped 2.9% and 4.1%, respectively. Foreign institutional investors (FIIs) remained net sellers, citing concerns over U.S. tariffs and muted Q1FY26 results, while domestic institutional investors (DIIs) provided support through steady buying.

Following July's correction, equities staged a brief rally in early August before retreating sharply in the third week after the U.S. administration imposed a 25% punitive tariff, alongside a baseline 25% duty on most Indian goods. While sectors such as electronics and pharmaceuticals were exempt, labor-intensive industries like textiles, gems & jewellery, and aquaculture bore the brunt, raising fears of significant job losses.

India's economy grew 7.8% YoY in Q1FY26, up from 7.4% in Q4FY25. However, U.S. tariffs are expected to trim 0.6–0.8% from GDP growth. To cushion the impact, the government has approved a sweeping GST overhaul, shifting to a simplified two-rate structure of 5% and 18%, while introducing a 40% slab for luxury and sin goods. The 12% and 28% slabs would be eliminated, with most items migrating to the new lower rates.

While the restructuring may result in a short-term revenue loss, it is expected to boost consumption demand by lowering prices of essential goods and services. The reform is also likely to have a deflationary effect, giving the RBI more room to ease rates.

Q1FY26 earnings were muted, though aggregate performance improved, supported by positive PAT growth versus last year. The outlook for earnings is set to strengthen as heavyweight sectors—BFSI, IT, and consumption—appear to have bottomed out. This stabilization provides a base for broader corporate earnings to recover in the coming quarters.

The U.S. Federal Reserve refrained from cutting rates in its last FOMC meeting. However, Chair Jerome Powell, speaking at Jackson Hole, noted rising downside risks to employment, even as tariffs add upward pressure on inflation. Powell indicated the balance of risks may warrant a policy adjustment, prompting markets to price in a potential rate cut at the September meeting.

A combination of GST cuts, benign inflation, declining interest rates, and fiscal support (including income tax relief) is expected to fuel a revival in consumption. Additionally, the repricing of bank deposits will gradually moderate net interest margins (NIMs), while improving credit growth is poised to support earnings momentum through FY26.

The Nifty 50 currently trades at ~22.5x FY26 EPS (10-year avg: 20.4x) and ~19.7x FY27 EPS (10-year avg: 17.3x). The recent rally has left little scope for further re-rating, implying that index returns will largely track earnings growth from here.

We maintain a preference for large caps, given stretched valuations in mid- and small-cap indices, which are trading at substantial premiums to historical averages. Our favored sectors include large banks, auto, consumer discretionary, real estate, cement, and capital goods. We remain underweight on oil & gas, mid-cap IT, small banks, and metals.





# Debt Market

## Despite inflation moderating, RBI remains cautious amid global uncertainties

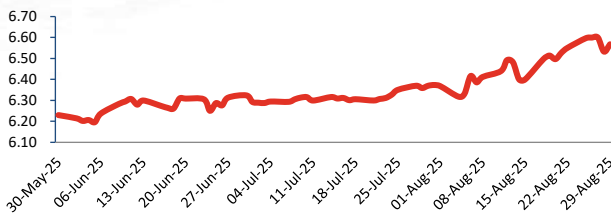
August presented a mixed picture for India's fixed income markets. The RBI's hawkish stance and a weaker rupee pushed the yields higher. Yet, this cautious tone was set against a backdrop of easing inflation and a significant upgrade to India's sovereign rating by S&P Global Ratings, the first in nearly two decades. This upgrade reflects a strong vote of confidence in India's economic resilience, even as a decline in banking system liquidity added to the month's complex narrative.

# Fixed Income Outlook

India's 10-year G-sec yield closed August at 6.57%, up 20 bps from 6.37% in July, rising sharply throughout the month. The increase was driven by a hawkish tone from the RBI following its August monetary policy meeting, mounting concerns over fiscal slippage due to proposed GST rate rationalization, and persistent INR weakness against the USD.

## India's 10-Year G-Sec Yield rose by 20 bps to 6.57% in August 2025

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



Source: CCIL

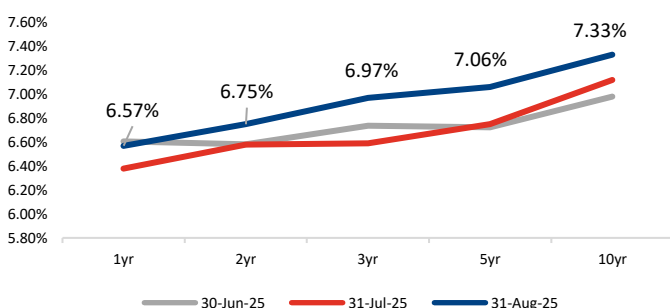
In its August 2025 monetary policy review, the RBI's Monetary Policy Committee (MPC) unanimously decided to keep the repo rate unchanged at 5.5%, maintaining a neutral policy stance. Despite global uncertainty and tariff concerns, the RBI retained its FY26 GDP growth forecast at 6.5%. However, the CPI inflation projection for FY26 was lowered by 60 bps to 3.1%. This move was perceived as hawkish, as the RBI raised the bar for future rate cuts and signaled a wait-and-watch approach, prioritizing price stability amid global uncertainties and allowing the full transmission of earlier rate cuts to take effect.

USD/INR weakened from 87.5 in July to 88.2 in August, a further depreciation of nearly 0.8%. This move was driven by FPI outflows and heightened global tariff anxiety.

Bond yields faced upward pressure from concerns over potential fiscal slippage. The proposed GST rate rationalization raised investor worries about a short-term revenue shortfall for the government. This heightened the risk of increased market borrowing contributing to the sharp rise in yields during the month.

Spreads on 3-5yr AAA PSU corporate bond yields have widened to 80-90 bps over corresponding G-secs, offering an attractive investment opportunity from an accrual perspective.

## AAA PSU Corporate Bond Yield Curve

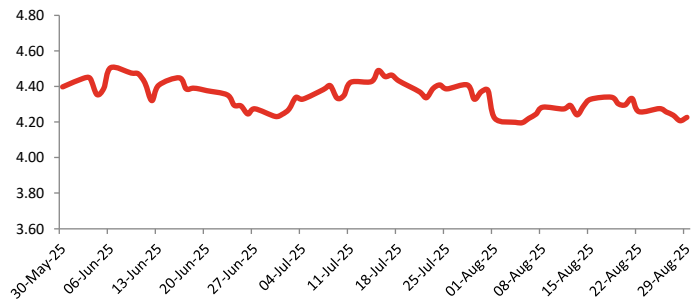


Source: Bloomberg

US 10-year Treasury yield fell to 4.23% in August (down from 4.38% in July). This decline was primarily driven by a notably more dovish tone from Fed Chair Jerome Powell at the annual Jackson Hole Symposium. Powell's remarks signaled a shift in focus from inflation to the labour market, which is showing signs of weakness, particularly after significant downward revisions to Non-Farm Payrolls (NFP) figures for prior months. These strengthened expectations of near-term rate cuts by US Fed.

## US Yields fell by 15 bps to 4.23% in August 2025

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



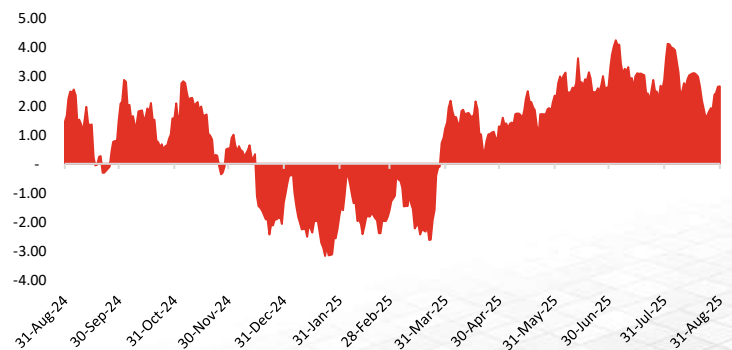
Source: Investing.com

S&P Global Ratings upgraded India's sovereign credit rating to 'BBB' from 'BBB-' in August, the first such upgrade in 18 years. This landmark development reflects confidence in India's strong economic fundamentals and improved policy framework. While the immediate impact on markets may be limited, this upgrade is a significant positive for the medium term, as it is expected to enhance investor confidence and potentially attract greater foreign capital flows.

India's banking system liquidity surplus saw a modest decline to an average of Rs 2.84 lakh cr in August down from Rs 3.04 lakh cr in July. The RBI continues to remain nimble in its liquidity management to ensure smooth interest rate transmission to the economy.

## RBI's Measures Finally Easing Liquidity Crunch

India's banking system liquidity (Rs Lakh cr)



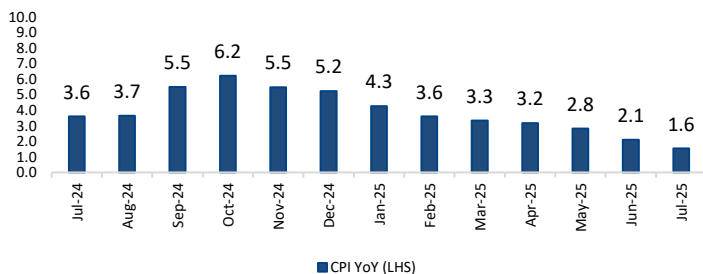
Source: RBI

# Fixed Income Outlook

India's CPI inflation eased to an eight-year low of 1.6% YoY in Jul 2025 primarily due to a moderation in food prices and a favourable base effect. The inflation print was lower than the market forecast of 1.8%.

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

CPI Inflation YoY%



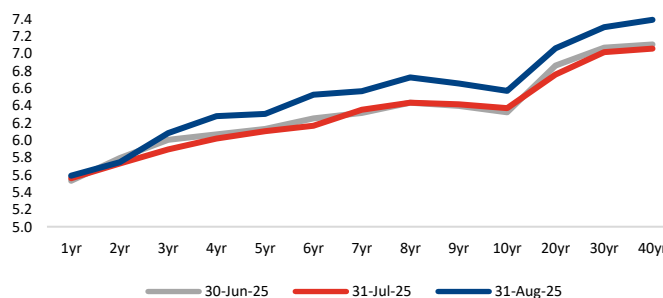
Source: Investing.com

Despite lowering its inflation projection, the RBI has adopted a more hawkish stance, effectively raising the threshold for any future rate cuts. While there remains a room for a 25–50 bps repo rate cut if growth deteriorates sharply due to tariff shocks, the RBI is firmly in "wait-and-watch" mode at present. Given current conditions, we do not expect any further rate cuts in the near term.

With long-term G-sec yields remaining elevated and term spreads (spread between repo rate and long-term yields) at higher-than-historical levels, there is a tactical opportunity to take a duration call. This would allow investors to benefit from a potential fall in long-term yields or a compression in the term spread.

## G-Sec Yield Curve has recently steepened

G-Sec Yield Curve



Source: Bloomberg

Domestic fixed income markets will continue to be driven by a mix of global and domestic factors. Key drivers include a more dovish stance from the US Fed, ongoing moderation in domestic inflation, and robust banking system liquidity. India's recent sovereign rating upgrade by S&P is also a significant medium-term positive. However, risks remain, amplified by global volatility, particularly related to tariff policy, and potential fiscal concerns arising from GST rate rationalization.





# Deep Dive

## Global Themes To Keep On The Radar Beyond India (Part-1)

As the macro landscape continues to evolve in 2025, investor portfolios can benefit from selective global exposures beyond India. We highlight three global themes drawing strong attention beyond India: **1) Gold Miners** for leveraged upside to record gold prices; **2) U.S. 30-Year Treasuries** (long bonds) to lock in multi-year-high yields and potential capital gains; **3) Semiconductors** to capture the AI-driven tech supercycle. In the current market context, diversification beyond Indian equities will help investors mitigate concentration risks as well as participate in structural opportunities unfolding globally.

## Global Themes To Keep On The Radar Beyond India

### Executive Summary:

Global markets in 2025 are navigating a multi-layered environment: moderating CPI inflation in developed economies, persistent fiscal deficits, divergent central bank policy paths, and a re-ordering of geopolitical alliances. Equity markets have delivered selective gains, but dispersion across sectors and geographies is widening. In this context, strategic asset allocation demands a mix of high-quality income sources and structural growth opportunities that extend beyond the domestic investment universe.

This note highlights **three global investment themes** with strong investment merit, particularly where Indian markets currently offer limited direct access:

- **Gold Miners:** Leveraged exposure to sustained gold price strength, driven by central bank accumulation, currency debasement concerns, and emerging market demand. Gold miners have begun to outperform the underlying metal in 2025, offering attractive earnings leverage and valuation upside.
- **U.S. 30-Year Treasuries:** Long-duration U.S. government bonds are currently yielding near multi-year highs, offering a rare chance to lock in attractive real returns for the long term. While duration risk remains a key consideration, the strategic appeal is amplified by the potential for significant capital gains if inflation moderates / economic growth slows.
- **Semiconductors:** A critical enabler of AI, 5G, EVs, and cloud infrastructure, dominated by non-Indian players. The sector remains structurally poised for growth despite short-term cyclicity.

Our analysis blends macro drivers, valuation metrics, and performance data, providing both tactical and strategic considerations.

### A. Global Investment Theme – 1: Gold Miners

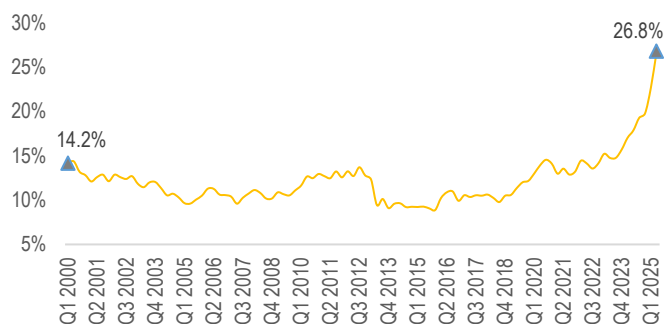
**Summary:** We believe that Gold's long-term outlook remains well-supported driven by strong global / US money supply growth, de-dollarization trends and continued central banks demand. However, in our view, gold mining equities are in an even better position to capitalize on this positive environment. The gold mining sector has emerged out from a period of rising costs, suggesting that profit margins will be strong and cash flow returns will continue to benefit from high gold prices. Moreover, the valuations of major miners are at very attractive levels indicating significant upside potential.



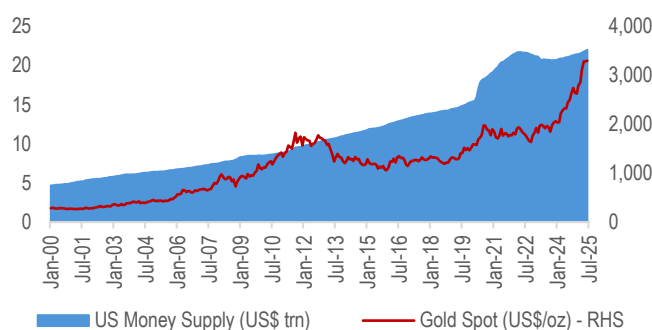
### **Investment Rationale:**

- **Positive long-term outlook on Gold:** We believe several factors point to a constructive outlook for gold's future performance – i) Central banks are expected to continue purchasing gold, which will help to support its price and attract investors; ii) anticipated market instability due to Trump's economic policies is likely to increase interest in gold; iii) easing inflation and falling interest rates should provide support; iv) the trend of de-dollarization, especially in emerging markets and v) Strong global money supply growth.

Gold as % of total central bank reserves...



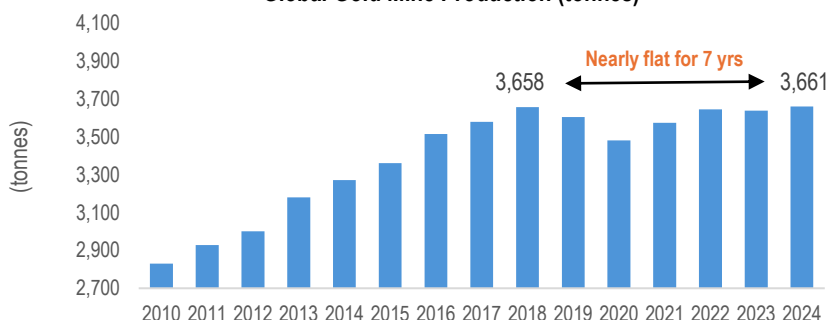
...US money supply is driving gold prices higher



**Source:** World Gold Council, Bloomberg, HDFC TRU. **Note:** Priced as on 31 July 2025.

- **Global gold output has plateaued:** Gold production has hit a plateau, a trend that's held for the past seven years. This stagnation is a direct consequence of historically low capital expenditure in the mining sector, which has severely limited the discovery of new gold deposits. With very few major gold mining projects on the horizon for the next five to seven years, this flat supply trend is likely to persist. *This significant lack of investment in the sector, leading to a plateau in production, could be an early indicator of a "gold supercycle."*

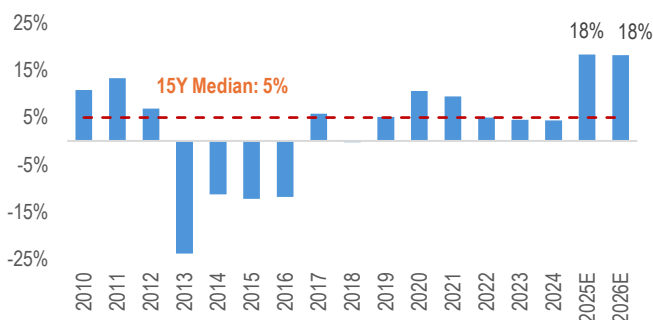
Global Gold Mine Production (tonnes)



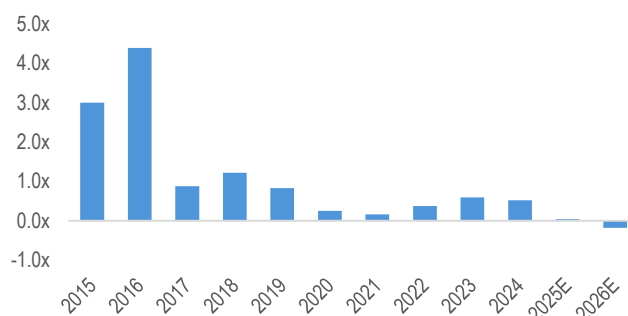
**Source:** World Gold Council, HDFC TRU.

- **Efficient management and enhanced governance:** After experiencing a significant downturn that followed the bull market of 2011, gold mining companies have significantly changed their practices. In the past, companies often borrowed heavily to finance new, sometimes low-quality mines, which led to high debt and write-downs when gold prices fell. However, over the last decade, these companies have learned to control costs. Their expenses have grown at a much slower rate than the price of gold, which has more than doubled. As a result, many gold mining companies have improved their balance sheets and reduced their debt, making them more resilient to market fluctuations.

FTSE Gold Mines Index: Return on Equity (%)



FTSE Gold Mines Index: Net Debt / EBITDA (x)



**Source:** Bloomberg, HDFC TRU. **Note:** The FTSE Gold Mines Index reflects the performance of the worldwide gold mining companies.

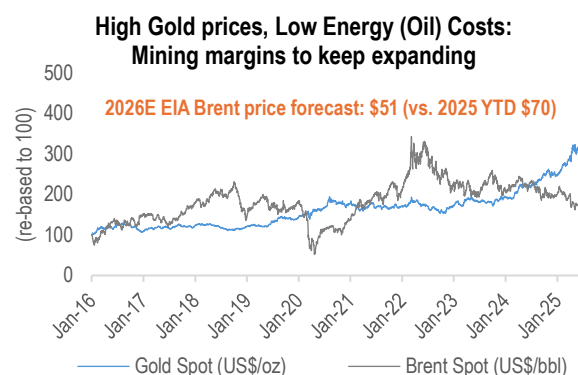
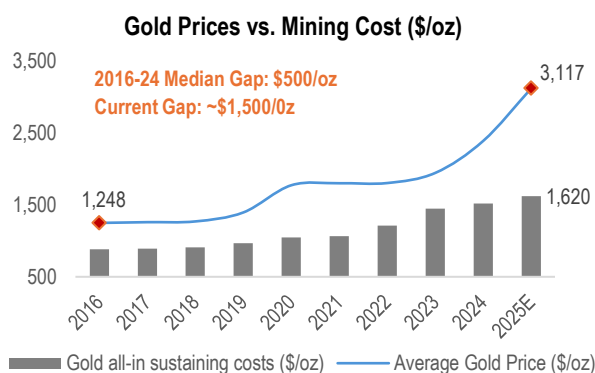


• **Earnings upgrades expected to continue:**

- Analysts are consistently forecasting lower gold prices in their financial models. As shown in the table below, there is a strong disparity between consensus price forecasts for gold and their respective forward prices. **This is poised to drive significant earnings revisions.**
- We also anticipate a consistent uplift in profit margins, fueled by a weak oil price outlook (diesel is a key fuel used in mining operations), and a widening gap between realized gold prices and the All-in Sustaining Costs (AISC). **This fundamental shift suggests a strong, positive outlook for the sector.**

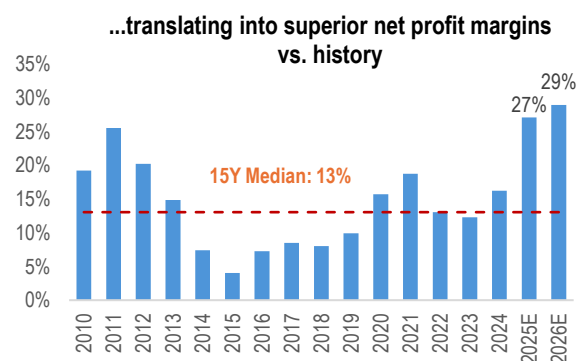
Commodity Forward Price Curve	Spot	Q3CY25	Q4CY25	CY2025	CY2026	CY2027	CY2028
Gold Current Forward Price (\$/t oz)	3,366	3,359	3,405	3,257	3,499	3,602	3,780
Analyst Forecast (Median)		3,335	3,325	3,178	3,250	3,050	2,977
Variance (% chg.)		-1%	-2%	-2%	-7%	-15%	-21%

**Source:** Bloomberg, HDFC TRU. **Note:** Priced as on 25 August 2025.



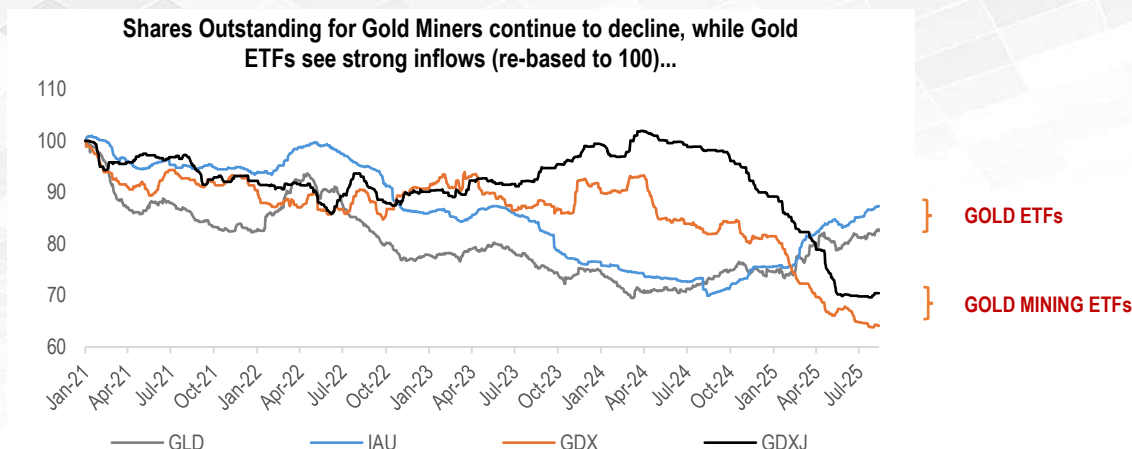
**Source:** Newmont Corp 10K, Investing.com, Bloomberg, HDFC TRU.

**Note:** For 2025, the Gold all-in sustaining cost is the guidance issued by Newmont and the Avg. Gold Price is till 31 July, 2025.



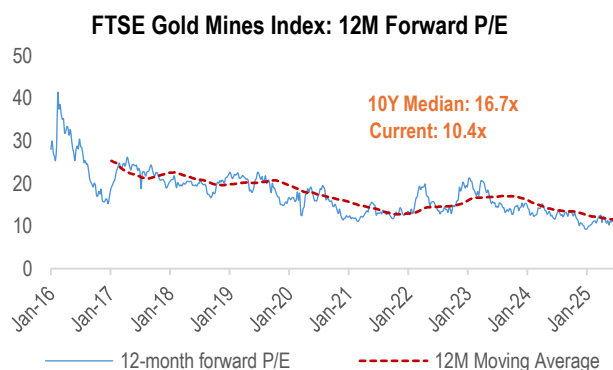
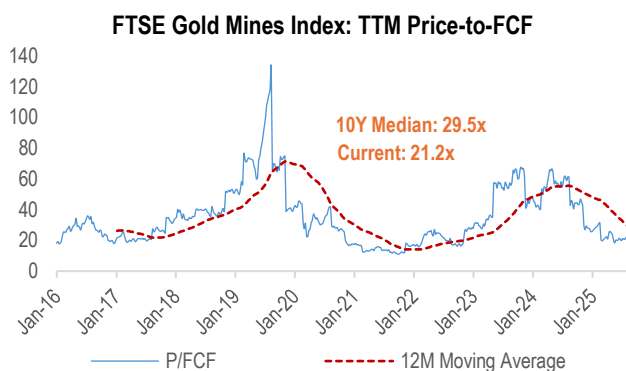
**Source:** Bloomberg, HDFC TRU. **Note:** Gold mining stocks represented by the FTSE Gold Mines Index.

- **Gold ETFs are seeing strong inflows, but mining equities remain relatively under-owned:** Despite a compelling bull market in precious metals, investor flows into gold mining equities have been surprisingly absent. Gold Mining ETFs are seeing a decline in number of shares outstanding indicating redemptions are exceeding creations. Since the start of the year, the VanEck Gold Miners ETF (GDX) and the VanEck Junior Gold Miners ETF (GDXJ) have seen unit redemptions of over 20%, reflecting a significant withdrawal of capital from the sector. This mirrors the past behaviour of gold ETFs right before their prices soared and thus presents a compelling opportunity: strong companies trading at bargain prices.



**Source:** Bloomberg, HDFC TRU. **Note:** GLD & IAU are Gold ETFs, while GDX and GDXJ are Gold Miners ETF listed in the US.

- **Valuations of gold mining stocks at attractive levels:** Gold miners are experiencing a period of strong financial performance. They are successfully expanding their profit margins and generating significant cash flows. Furthermore, many companies in the sector have fortified their balance sheets. Despite these positive developments, their stock valuations remain depressed. Key valuation metrics, such as the price-to-free cash flow (P/FCF) and price-to-earnings (P/E) ratios, are trading below their 12-month moving averages and historical norms.



**Source:** Bloomberg, HDFC TRU. **Note:** Priced as on 31 July 2025.

### Key Challenges and Risks:

- **Managing capital discipline.** Capital is the main risk for the mining sector. Companies are prioritizing shareholder returns over capital expenditures, which, combined with rising maintenance costs and fewer new gold discoveries, has led to a focus on acquiring existing assets and expanding brownfield projects. This trend is driving industry consolidation, limiting new exploration, and could constrain future gold supply.
- **Cost escalations.** Rising costs for labour, energy, and taxes are pushing up gold's total cash costs. This is preventing higher gold prices from fully boosting share prices. To combat this, miners are using technology and long-term labour agreements to improve efficiency and stabilize costs.
- **ESG Impact.** Gold miners increasingly struggle with ESG compliance as access to capital tightens, investor pressure mounts, and shareholder activism intensifies. Balancing profitability with demands for sustainable practices is a critical challenge for the industry.

### Our Take:

- **Gold's long-term outlook is robust.** This is primarily driven by increasing investment from individuals and central banks seeking safe-haven assets amid rising global uncertainty.
- **Attractive Valuations.** Despite this positive trend in gold prices, the valuations of gold mining companies have not yet fully reflected it. To improve valuations, cost management will remain a critical focus, even as gold prices rise.

## B. Global Investment Theme – 2: U.S. 30-Year Treasuries

**Summary:** The 30Y US Treasury is a key pillar of global fixed income markets, offering unmatched safety, liquidity, and long-duration exposure. With yields currently elevated relative to historical averages, long bonds present an attractive entry point for investors seeking to lock in risk-free returns for the long-term. While duration risk remains high, any moderation in inflation or signs of slowing growth could drive capital gains, reinforcing the case for strategic allocation. For Indian investors, where direct access is limited, exposure through offshore ETFs or global funds presents a differentiated opportunity unavailable in domestic markets.

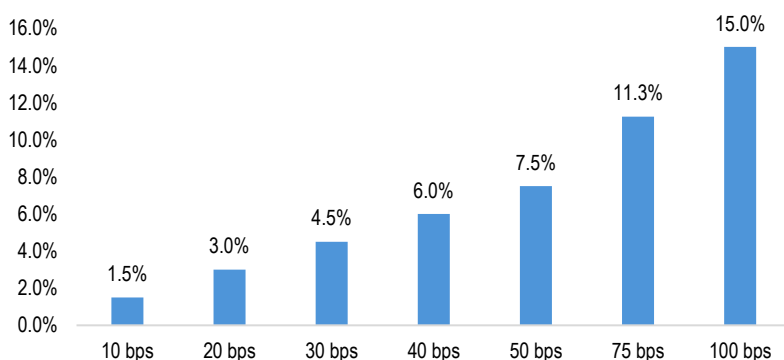


**Understanding Bond Dynamics:** Investors often turn to bonds for their stability and capital protection, however, it's worth noting that bonds prices can move sharply in response to interest rate changes. The relationship between bond price and its yield is crucial to understand this dynamic. When interest rate (or bond yield) falls, bond price rises and vice versa. Bonds with longer duration exhibit more significant changes in price in response to fluctuations in interest rates. This is measured by modified duration (MD) which represents the change in bond price with change in bond yield.

$$\% \text{ change in bond price} = - (\% \text{ change in yield}) \times (\text{MD})$$

At 5% coupon rate and yield, MD of 10Y bond is ~8 and that of 30Y bond is ~15. This means that a 1% fall in yield leads to approx. 8% capital gain for 10Y bond and 15% capital gain for 30yr bond. Considering the modified duration of 15 for 30Y bond, below is the scenario analysis of probable change in bond price in US 30yr G-sec with different levels of fall in yield.

**Probable bond price change in US 30Y G-Sec with fall in yields**



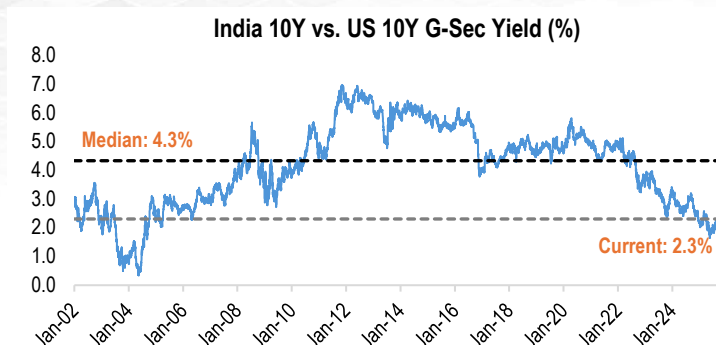
**Source:** HDFC TRU calculations based on bond dynamics.

**Note:** Changes in bond price shown above are absolute; accrual gain/coupon income has not been considered.



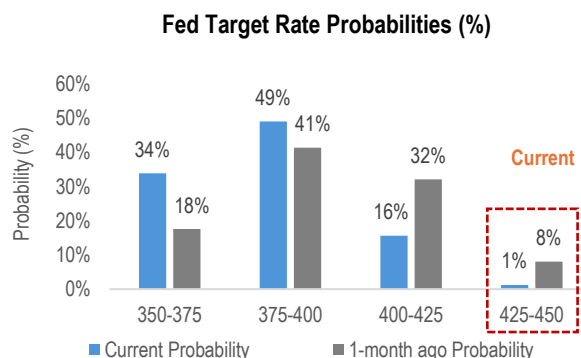
## Investment Rationale:

- **Potential for mean reversion:** With the India-US 10-year bond yield spread currently near 230 bps (well below its historical averages) there is a potential for mean reversion. If the spread moves back toward its historical range, the adjustment is most likely to play out through a fall in US yields rather than a rise in Indian yields.



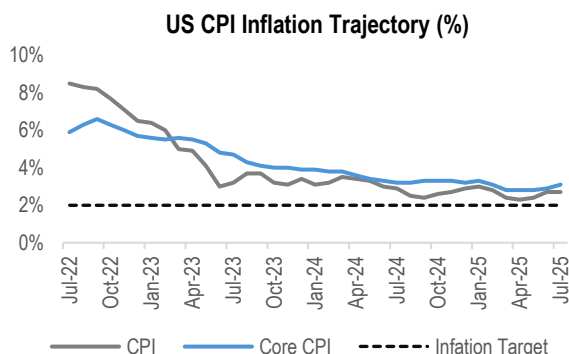
**Source:** Bloomberg, HDFC TRU. **Note:** Data as of 22 Aug 2025.

- **US Fed Rate Cuts:** Fed has maintained its policy rate at 4.25-4.5% since Dec'24 and is widely expected to cut rates soon. As per the CME FedWatch tool, market is factoring 50/75bps cut in Fed funds rate in CY25 with the odds at 49% / 34%, respectively. Cut in policy rates could lead to a fall in government bond yields.



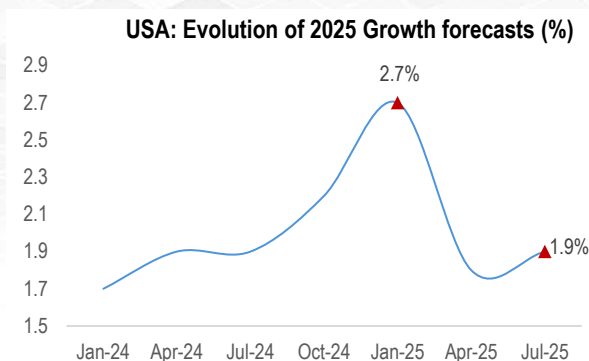
**Source:** CME FedWatch Tool, HDFC TRU. **Note:** Data as of 24 Aug 2025.

- **US Inflation Easing Towards the Fed's Target:** Currently CPI inflation in US is 2.7% (July'25). While not yet at the 2% Fed's target, steady disinflation could relieve pressure on the Fed to maintain tight monetary policy, a trend that could lower yields.



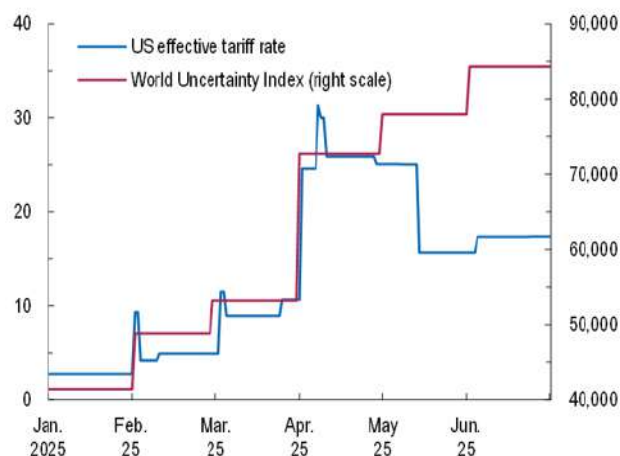
**Source:** Trading Economics, HDFC TRU.

- **Economic Slowdown or Recession:** IMF had lowered US economic growth forecast to 1.9% in July'25 from their earlier estimate of 2.7% in Jan'25. In a slowing economy with a softening labour market and business sentiment, demand for risk-free assets like government bonds could increase.



Source: IMF, HDFC TRU.

- **Potential for Geopolitical / Financial Shocks:** New trade tariffs, global political events, or financial market volatility can provoke a “flight to safety,” causing investors rush into Treasuries, leading to fall in yields. The global economic uncertainty index remains high despite a recent decrease in effective tariff rates. The US and China temporarily paused their trade tariffs, but the US is threatening higher tariffs on other trading partners.



Source: IMF, HDFC TRU.

- **Moderation in Treasury Supply and Yield Curve Control:** While large-scale government borrowing has contributed to high yields, any signals of fiscal improvement or Fed intervention can shift demand in favour of Treasuries, capping or reducing yields.

### Key Risks of Investments in US Treasuries:

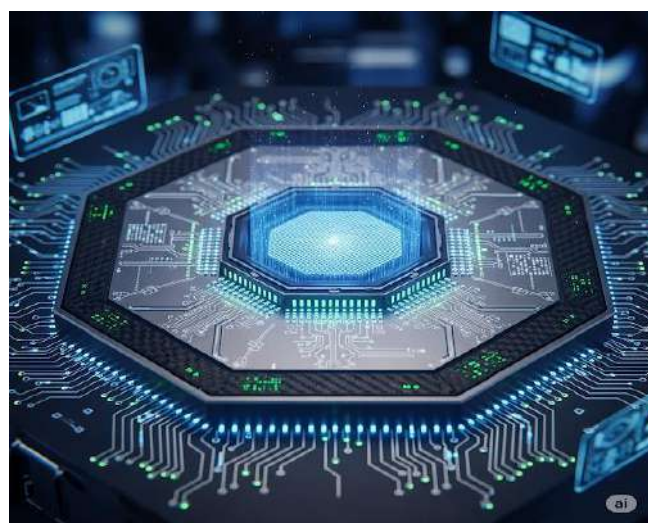
- **Interest Rate Risk:** Higher duration bonds are much more sensitive to changes in interest rates. Any adverse movement in bond yields or interest rates could lead to capital loss.
- **Currency Risk:** For an Indian resident investing in US treasuries, all returns are denominated in US dollars. If the INR depreciates against USD, Indian investors can gain additional return on currency conversion. However, in case the INR appreciates vs. USD, overall INR returns may reduce.

## Our Take:

- **Interest Rate Sensitivity.** For bonds of the same maturity, those with lower coupons and yields, such as U.S. bonds, have a higher Modified Duration (MD). This makes them more sensitive to interest rate changes than higher-yielding alternatives like Indian bonds. As a result, U.S. bonds are more effective for interest rate strategies, offering greater potential for price gains when rates fall.
- **Mean Reversion in the yield spread gap.** The spread between U.S. and Indian 10Y bond yields has narrowed to a 20-year low of around 230 bps due to the Fed's hawkish policies and persistent inflation. A return towards the historical average of 430 bps would likely be caused by a decrease in U.S. yields, not an increase in Indian yields.
- **Capitalizing on Duration Risk.** Despite the ongoing duration risk, any signs of slowing economic growth or moderating inflation could lead to significant capital gains. This potential for price appreciation makes a strategic allocation to U.S. bonds a compelling investment consideration.

## C. Global Investment Theme – 3: Semiconductors

**Summary:** The global semiconductor sector experienced significant growth in CY24, with sales reaching \$631bn, an increase of 20% y/y and exceeding earlier forecasts. This trend is expected to continue, with a projected \$728bn in sales for CY25, putting the industry on track to hit \$1trn by 2030. This robust performance is reflected in the stock market, where the top-20 global semiconductor companies' combined market cap soared to \$7.8trn as of 31 July 2025, a 25% y/y increase. As we look ahead, the trajectory of the semiconductor industry is set to be fueled by megatrends such as electrification, digitization, and the accelerating deployment of AI and Internet of Things (IoT) technologies.



## Investment Rationale:

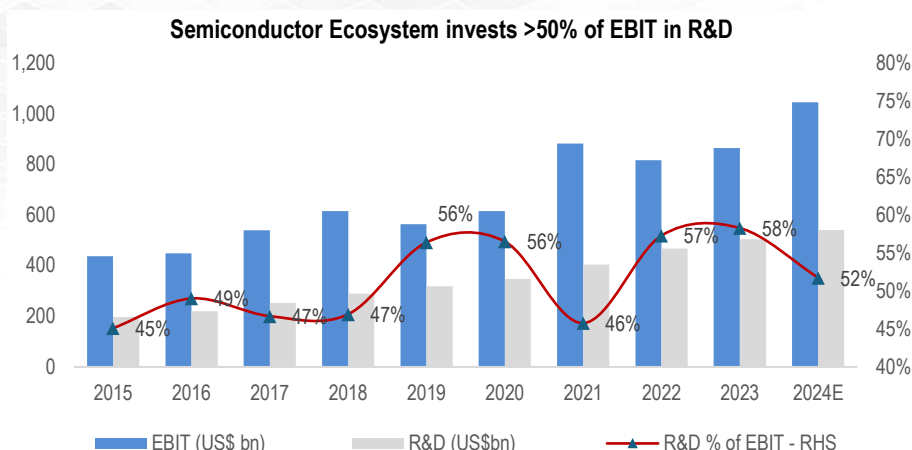
- **Semiconductors form the backbone of the digital economy:** Semiconductors are the fundamental building blocks of virtually all modern technology. From smartphones and computers to electric vehicles (EVs), medical devices, and industrial automation, chips are essential. This ubiquitous demand creates a broad and resilient market for the industry.
- **Generative AI chips; key growth driver:** For Gen AI chips, the most critical semiconductor segments are Logic and Memory. Logic chips are the "brains" that perform the complex calculations (e.g., GPUs, CPUs, AI Accelerators, etc.) and Memory chips are the "data storage powerhouses." Gen AI workloads require an immense amount of data, and fast access to this data is crucial. In 2024, the Logic and Memory segment comprised >60% of the overall global sales and are now expected to grow by 29% and 17%, respectively, in 2025.

Semiconductor Products (YoY %)	2024	2025E	2026E
Discrete Semiconductors	-13%	-1%	9%
Optoelectronics	-5%	-1%	3%
Sensors	-4%	8%	5%
Analog	-2%	3%	5%
Micro	3%	4%	5%
<b>Logic</b>	<b>21%</b>	<b>29%</b>	<b>9%</b>
<b>Memory</b>	<b>79%</b>	<b>17%</b>	<b>18%</b>
<b>Total Products</b>	<b>20%</b>	<b>15%</b>	<b>10%</b>

**Source:** World Semiconductor Trade Statistics, HDFC TRU.



- **Relentless focus on innovation:** The industry is relentlessly focused on innovation, driven by the principle of making chips smaller, faster, and energy-efficient. This leads to a constant cycle of new product development and technological breakthroughs, ensuring long-term growth. Key areas of innovation, such as advanced packaging (e.g., TSMC's CoWoS) and the development of specialized chips, are further cementing the competitive advantage of leading companies.



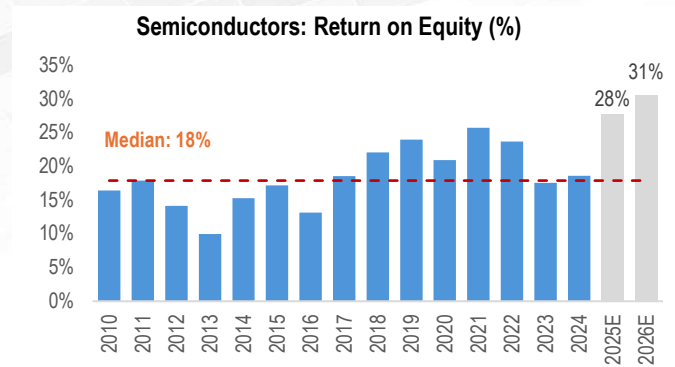
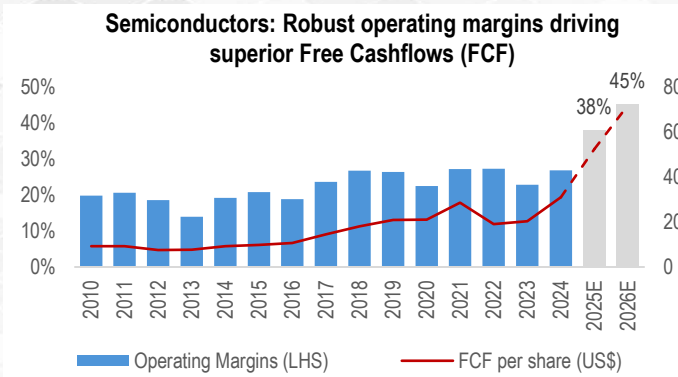
Source: Deloitte, HDFC TRU.

- **Favourable Policy Tailwinds:** The semiconductor sector is enjoying strong policy tailwinds as governments worldwide recognize its strategic importance for economic growth and national security. In the US, the CHIPS and Science Act offers large subsidies, tax incentives, and R&D funding to expand domestic capacity, while the EU's Chips Act targets doubling market share by 2030 through manufacturing and supply chain investments. Asian countries like India, South Korea, and Japan are also offering production-linked incentives, grants, and infrastructure support to attract global foundries and strengthen local ecosystems. These measures address supply chain vulnerabilities exposed during the pandemic and stimulate long-term demand from sectors such as EVs, 5G, AI, and green technologies. Collectively, they are set to accelerate capacity expansion, reduce reliance on concentrated geographies, and support sustainable growth and profitability in the industry.

Country	Semiconductor Supply Chain Investments / Incentives
US ( <a href="#">here</a> )	To date, \$32.5bn in grants have been awarded, and \$5.85bn in loans have been approved to 32 companies across 48 projects. In fact, companies in the semiconductor ecosystem have announced over 130 projects across 28 states, totalling more than \$600bn in private investments, since 2020.
European Union ( <a href="#">here</a> )	EU's Chips Act provides for policy-driven incentives in excess of €43bn until 2030. It also puts in place a framework to increase production capacity to 20% of the global market by 2030.
India ( <a href="#">here</a> )	Union Cabinet in 2021 approved the India Semiconductor Mission (ISM) with a ₹76,000 cr outlay to boost fabrication, design, and manufacturing. Total approved projects under ISM reached 10 with cumulative investments of around ₹1.60 lakh cr in 6 states.
Japan ( <a href="#">here</a> )	Japan plans to invest JPY10 trn (US\$65 bn) or more by 2030 to boost the country's chip and artificial intelligence industries via subsidies and other financial incentives.
China ( <a href="#">here</a> )	China has promoted its domestic semiconductor industry for a decade through investment funds, including the National Integrated Circuit Investment Fund (\$21bn in 2014, \$35bn in 2019, and \$41bn in 2023) and local funds, along with incentives like tax breaks and loans. Total government investments are estimated to exceed \$190bn.

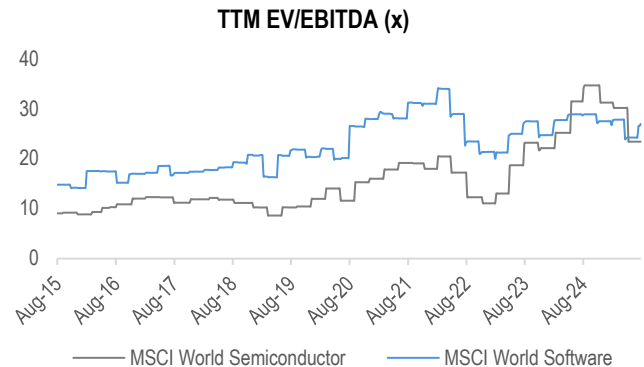
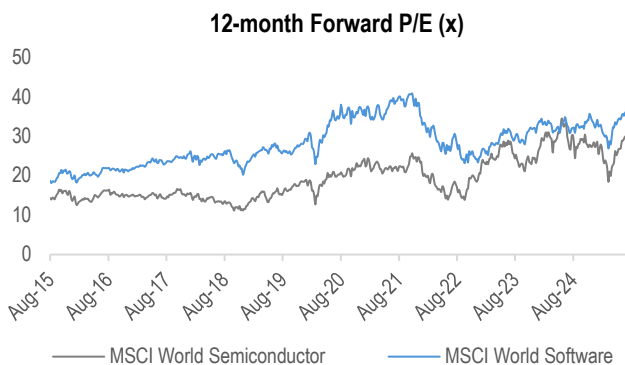
Source: PwC, Media Reports, HDFC TRU.

- **Attractive Financial Profile:** Semiconductor companies deliver superior operating margins, strong cash flow generation, disciplined capital allocation and balance sheet strength. This sets them apart as both a growth sector as well as a cash-generative play, rare in the broader technology universe.



**Source:** Bloomberg, HDFC TRU. **Note:** Semiconductor stocks represented by MSCI World Semiconductor & Semiconductor Equipment Index.

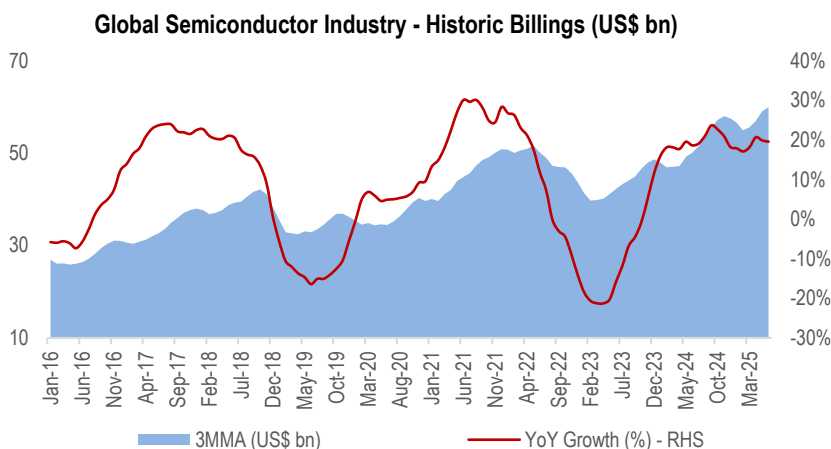
- **Valuations:** In the semiconductor sector, valuations remain one of the most debated aspects of the investment thesis. On an absolute basis, leading players often trade at premium multiples compared to the broader market, reflecting their dominant market positions, secular growth tailwinds, and strong financial profiles. However, when benchmarked against other technology subsectors (such as software), semiconductor valuations appear attractive.



**Source:** Bloomberg, HDFC TRU.

### Key Challenges / Risks:

- **The semiconductor industry has historically been extremely cyclical.** The semiconductor industry has a history of being cyclical, experiencing periods of both growth and contraction. While the extreme highs and lows seen between 1990 and 2010 have become less pronounced, the frequency of these market contractions appears to have increased.



**Source:** World Semiconductor Trade Statistics, Deloitte, HDFC TRU. **Note:** MMA stands for Monthly Moving Average.

- **Supply Chain Concentration:** Semiconductor manufacturing is heavily concentrated in a few geographies, notably Taiwan and South Korea. Rising geopolitical tensions, such as U.S.-China trade restrictions, potential Taiwan conflict risks, or export bans, pose significant threats to supply stability.
- **Technological Disruption and Execution Risk:** The industry is highly R&D intensive, requiring constant innovation to stay ahead. Failure to advance to the next process node or delays in product launches can lead to loss of market share. At the same time, rapid shifts in technology, such as new architectures, alternative computing models, or breakthroughs in quantum computing, could disrupt existing leaders.

#### Our Take:

- **Structural Growth Story.** Semiconductors sit at the heart of the digital economy, enabling technologies ranging from AI, cloud computing, and 5G to electric vehicles and renewable energy. This positions the sector for multi-decade growth, even if near-term cycles create volatility.
- **Policy Support.** With governments globally recognizing chips as critical infrastructure, the industry is benefiting from unprecedented policy incentives (U.S. CHIPS Act, EU Chips Act, India's Semiconductor Mission). This enhances supply-chain resilience and underpins a long runway for capacity expansion and profitability.



## ANNEXURES:

### Q. UCITS ETF vs US ETFs: Brief Overview and Taxation Impact for Indian Investors ?

Feature	UCITS ETF	US-domiciled ETFs
Regulation & Investor Protection	UCITS stands for Undertakings for Collective Investment in Transferable Securities. It is regulated by a strict European Union (EU) directive.	Regulated by the laws of the Securities and Exchange Commission in the U.S.
Domicile Country	Ireland / Luxembourg	USA
Availability to Indian Investors	Can be purchased by Indian investors, often through an international brokerage account. UCITS ETFs are a popular option for European investors and are becoming more accessible globally.	US-domiciled ETFs are a popular choice for their large size, high liquidity, and competitive fees. Access for Indian investors is typically through an international brokerage platform.
Capital Gains Taxation	The domicile country (e.g., Ireland) generally does not levy capital gains tax on the sale of ETF units by non-residents. However, capital gains are taxed in India based on the holding period [LTCG (>2 yrs) at 12.5%; STCG (<2 yrs) at income tax slab rate].	No tax is payable in the US on capital gains for non-resident investors. However, capital gains are taxed in India based on the holding period [LTCG (>2 yrs) at 12.5%; STCG (<2 yrs) at income tax slab rate].
Dividends Taxation	Dividends are subject to withholding tax in the country where the underlying stocks are held. For instance, a Irish-domiciled ETF holding U.S. stocks will be subject to a 15% U.S. withholding tax on dividends (see <a href="#">here</a> ). However, in India, the gross dividend amount (before foreign taxes) is added to the total income and taxed as per the investor's applicable income tax slab rate. Since India doesn't have a tax treaty with Ireland, there's no credit mechanism for the 15% fund-level deduction.	A direct investment in a US-domiciled ETF, is subject to a 30% withholding tax (see <a href="#">here</a> ) for Indian residents. The remaining 70% is remitted to the investor. However, in India, the gross dividend amount (before U.S. tax) is added to the investor's total income and taxed as per the applicable income tax slab rate. The investor can claim a Foreign Tax Credit for the 30% tax already paid in the U.S. to avoid double taxation.
Inheritance / Estate Tax	Domiciled outside the U.S., therefore, the U.S.-based assets are not considered U.S.-situs assets. This is significant because it means there's no U.S. estate tax exposure.	For Indian resident investors, the U.S. estate tax can be a significant concern. A tax of up to 40% is levied on the value of U.S.-situs assets that exceed \$60,000 at the time of death (see <a href="#">here</a> ). Unlike an income tax, this is a tax on the total asset value, posing a substantial risk to high-net-worth portfolios.

\*surcharge and cess as applicable.

**Note:** Investing in global markets comes with its own set of complexities, and it's essential for investors to be mindful of tax and regulatory requirements. Additionally, all foreign investments must comply with the RBI's annual limits and reporting regulations. To avoid compliance issues and unexpected tax liabilities, investors should stay up-to-date on RBI regulations and ensure their investment platforms meet all necessary guidelines. It's always a good idea to consult a tax advisor for personalized advice before investing in foreign securities.

### Q. UCITS ETF vs US ETFs: What should Indian investors prefer?

For Indian investors, the choice between a UCITS ETF and a US-domiciled ETF depends on two key factors:

- **Tax efficiency:** The primary tax advantage of UCITS ETFs for Indian residents is the potentially lower withholding tax on dividends. A U.S.-listed ETF is subject to a 30% withholding tax for Indian residents, while a UCITS ETF domiciled in Ireland or Luxembourg that holds U.S. stocks is often subject to a lower 15% withholding tax. However, from an Indian investor's perspective, **accumulating UCITS ETFs** are a more tax-efficient choice as dividends never get distributed and are automatically reinvested, which means no Indian dividend tax. However, in case of a **distributing UCITS ETF**, India doesn't have a tax treaty with Ireland and therefore there is no credit mechanism for the 15% fund-level deduction. Secondly, a UCITS ETF also doesn't have any US estate tax exposure, while in case of a US ETF, an estate tax of up to 40% is levied on the value of U.S.-situs assets that exceed \$60,000 at the time of death.
- **Liquidity and AUM:** US-domiciled ETFs are often the largest and most liquid in the world. High liquidity is a significant advantage, as it makes it easier to buy and sell at fair prices.

## Q. Example and performance of an UCITS-compliant ETF?

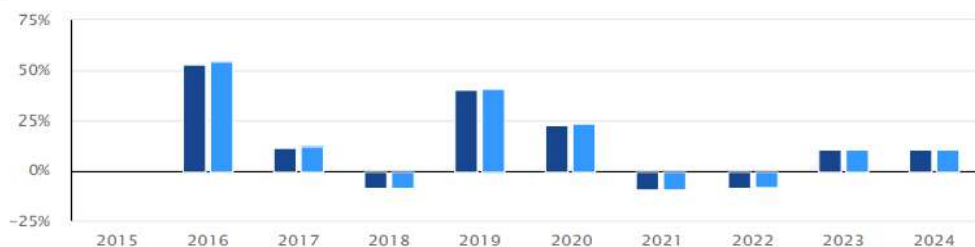
**VanEck Gold Miners UCITS ETF is the most common and widely traded UCITS Gold Mining ETF.**

- **Benchmark:** NYSE Arca Gold Miners Index
- **Shares Outstanding:** 30,300,000.
- **TER:** ~0.53% p.a.
- **Domicile:** Ireland
- **Focus:** Provides exposure to the largest global gold mining companies
- **Income Treatment:** Re-investment.

### Performance History (%)

Month End as of 31 Jul 2025	1 MO*	3 MO*	YTD*	1 YR	3 YR	5 YR	10 YR	ETF INCEPTION
ETF	-0.63	5.36	52.16	38.17	27.00	5.01	15.12	10.83
GDMNTR (Index)	-0.58	5.51	52.65	38.84	27.62	5.47	15.65	11.33

### Past Performance as of 31 Dec 2024



● VanEck Gold Miners UCITS ETF ● Benchmark Index (NYSE Arca Gold Miners Index)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
VanEck Gold Miners UCITS ETF	53.3	11.6	-9	40.2	23.1	-9.7	-8.9	10.1	10.1	10.1
Benchmark Index (NYSE Arca Gold Miners Index)	54.2	12.2	-8.7	40.9	23.7	-9.4	-8.6	10.6	10.6	10.6

**Source:** VanEck Gold Miners UCITS ETF Factsheet. **Note:** \*Reference periods indicate cumulative performance, not annualized.

## Q. List of major Domestic ETFs that offer overseas equity exposure?

Passive Global ETFs	NAV (INR)	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (%)
Mirae Asset Hang Seng TECH ETF	21.2	2.5	9.9	-2.7	67.8	14.6
Mirae Asset NYSE FANG+ ETF	130.9	3.3	14.4	14.5	42.3	44.6
Mirae Asset S&P 500 Top 50 ETF	53.7	4.6	15.0	9.4	23.8	24.3
Motilal Oswal Nasdaq 100 ETF	200.8	3.2	13.3	9.8	25.7	24.7
Motilal Oswal NASDAQ Q 50 ETF	81.3	6.6	15.2	7.9	28.0	14.6
Nippon India ETF Hang Seng BeES	412.4	2.6	10.6	10.2	52.7	15.6

**Source:** ACE MF. **Note:** Priced as on 22 August, 2025.

## Reading Room

### Why Indian equities still aren't a bargain?

**Indian Equities are Trading at a Premium:** A Mint analysis of over 4,000 BSE-listed firms reveals that Indian markets are still not a bargain. Unlike the pandemic lows in March 2020, when nearly two-thirds of companies traded below 10x earnings, today, deep discounts are rare. A staggering 22% of companies now trade above 60x earnings, accounting for 28% of the total market wealth.

- **Growth Justifies the Premium:** While the Nifty 50's P/E ratio of 22x is elevated compared to its Asian peers like South Korea and China, many experts argue that this premium is justified by India's robust economic fundamentals. Factors such as world-leading GDP growth (6-7%), a young population, a rising middle class, and structural reforms like GST and the IBC are cited as reasons for a favourable long-term outlook.

- **Domestic Investors are Absorbing Foreign Selling:** Foreign Portfolio Investors (FPIs) have been net sellers in the Indian market, offloading ₹1.13 trillion in equities so far in calendar year 2025. However, this selling has been absorbed by a massive ₹4.74 trillion in buying from Domestic Institutional Investors (DIIs). This strong domestic support has been a key factor in keeping market valuations resilient despite foreign outflows.

- **Focus on Selective Stock Picking:** Given the high valuations, market experts believe the focus should shift from broad-based buying to "bottom-up stock picking." The current market setup is seen as an opportunity for disciplined investors to reposition their portfolios towards "structural winners" that have strong balance sheets and where near-term headwinds are already priced in.

[CLICK HERE TO READ THE FULL ARTICLE](#)

### How Wall Street Flooded the Market With Gimmick Funds

- **The rise of "ETF Slop":** The article defines "ETF slop" as a flood of new, low-value ETFs designed for views and clicks, similar to the concept of "AI slop" in digital content. A record number of new ETFs have been launched in 2025, and many of them are considered "slop" due to their gimmick-based strategies.

- **Leveraged and inverse ETFs:** The first wave of this slop included leveraged and inverse single-stock ETFs, which are easy to create and target traders seeking juiced exposure to popular stocks like Tesla and Nvidia. While they can be "ruinous" if used incorrectly, the article notes they are at least transparent about their purpose and are used by some as a tool.

- **The "Yield Game":** The "real slop" is identified as a new wave of "income" ETFs that use options-selling strategies to generate eye-popping, but often misleading, yields. These funds, pioneered by issuers like YieldMax, have attracted billions of dollars despite consistently underperforming the underlying stocks they are based on.

- **The "Price of Slop":** The article argues that these new "income" funds sell a misleading promise of high yield while burying total return and risk disclosures. This strategy is highly lucrative for issuers, but it makes it harder for investors to find valuable products and often leads to long-term underperformance for those who buy in.

[CLICK HERE TO READ THE FULL ARTICLE](#)





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