# India’s Headlines Got Worse. The Investment Case Got Better.

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## Key Takeaways

- Despite headline noise from U.S. tariffs and mixed earnings, India’s structural growth pillars—credit expansion, services exports and infrastructure delivery—remain firmly intact in 2025.
- Renewed investor skepticism contrasts with accelerating domestic manufacturing, surging digital infrastructure and robust public capex, creating potential for market re-rating.
- For long-term investors, India’s current perception gap offers a strategic entry point into a recalibrating economy still on track to become a top global growth engine.

In 2025, India has experienced a subtle shift in global perception. While the previous few years saw India basking in geopolitical tailwinds and investor enthusiasm, this year's headlines have been more complex—driven by external trade frictions, political recalibrations and investor rotation into other emerging markets. The August 1 imposition of 25% U.S. tariffs on select Indian exports sent a signal that global protectionism is not just a China story.[1] Meanwhile, questions have emerged about the durability of domestic consumption and private investment amid a modest earnings season. The "India story" has felt like it required some defense.

Yet dig beneath the headlines and a different reality emerges—one grounded in structural resilience rather than cyclical volatility. Credit growth remains among the strongest in the world, consumer demand is evolving rather than eroding, and India's infrastructure rollout has accelerated with visible on-the-ground delivery.[2] The services sector continues to outperform, bolstered by a still-booming global appetite for outsourcing, information technology (IT) and fintech exports. And while trade tensions made for splashy headlines, they have catalyzed a renewed push for self-reliance through "Make in India," PLI reforms and a focus on deepening domestic manufacturing capacity.[3]

From a market perspective, this moment may represent a reset—not a reversal. Equity valuations have held steady, earnings revisions are constructive for the second half of the fiscal year, and both public and private capital remain committed to the India opportunity. For long-term investors, these periods of sentiment

divergence often precede re-rating opportunities. In the sections that follow, we lay out the evidence that India's macro- and microeconomic engines remain in gear—and why this phase may ultimately strengthen, not weaken, the long-term investment case.

## Credit Growth and Consumer Demand Sustaining Momentum

India's expanding credit cycle and strong consumer demand are core pillars of future output growth. International Monetary Fund (IMF) Real Gross Domestic Product (GDP) growth is forecast at 6.7% in 2025 and 6.4% in 2026.[4] Retail credit growth—particularly in home loans, micro, small and medium enterprises (MSME) lending and personal finance—is accelerating, supported by the improved transmission of monetary policy after the 50-basis-point (bp) rate cut by the Reserve Bank of India (RBI) in June.[5]

India recorded ~15.7% bank credit growth in FY2024–25, one of the fastest among major economies. Formalization of credit via digital platforms and deeper rural penetration has structurally improved access.[6] The consumption side is also evolving, with semi-urban demand for two-wheelers, electronics and fast-moving consumer goods products surpassing pre-pandemic levels, supported by rising disposable income.[7]

## Robust Services Sector Expansion

India’s Services Purchasing Manager's Index (PMI) climbed to 60.5 in July 2025, an 11-month high, led by strong demand in financial services, transport, IT-enabled services and hospitality. The Composite PMI touched 61.1, suggesting multi-sectoral expansion. Global demand for Indian outsourcing and technology exports continues to scale.[8]

Recent milestones include FY2024–25 services exports crossing USD 350 billion, up from ~USD 310 billion the previous year. This represents more than double the value of some manufacturing exports. Software, cloud and fintech services have extended reach into tier-2 and tier-3 cities, where new hiring and urbanization are accelerating.[9]

## Massive Infrastructure Investments

India's infrastructure story is not just about future commitments—it already shows delivery on the ground. The National Infrastructure Pipeline (NIP) is progressing steadily with more than 7,400 projects sanctioned. The government allocated ~USD 140 billion in capital expenditure for FY2025–26—about 3.1% of GDP, and up 16% from the previous year.[10]

Completed milestones include 15,500 kilometers of national highway construction in the last three years, full operationalization of 11 new airports and expanded freight corridors that have reduced cargo travel time by 25%–40% in key industrial zones. Looking ahead, policy makers are advocating for an increase in public capital expenditures to ~USD 230 billion annually to meet a potential USD 8 trillion economy by 2035.[11]

## Tech and Green Infrastructure Commitments

India is building the backbone for a digital-first, low-carbon economy. In July 2025, Google announced a USD 6 billion investment to establish a 1 gigawatt (GW) data center in Andhra Pradesh, with USD 2 billion earmarked for renewable power infrastructure to support the facility. This adds to Andhra Pradesh's ambitious goal of building 6 GW of data center capacity, with 1.6 GW already under construction.[12]

In terms of existing progress, India already houses 13 hyperscale data centers and ranks among the top five countries globally for digital payment penetration. United Payments Interface transaction volume in FY2024–25 crossed USD 120 billion, nearly double pre-pandemic levels, reflecting a maturing fintech ecosystem.[13]

## Market Re-Rating and Equity Outlook

India's macro stability, earnings visibility and capital deployment make it a standout among emerging markets. Some analysts indicate that the Sensex Index has the potential to hit 89,000 by June 2026, implying ~10% upside from current levels, driven by resilient household balance sheets, rural demand recovery and a government-led infrastructure push.[14]

Equity markets already reflect this optimism. The Nifty 50 Index recorded five consecutive quarters of positive flows into constituent companies from domestic institutions, even as global funds trimmed exposure elsewhere.[15] Despite Q1 FY26 corporate earnings growing only ~7.5%, structural confidence remains intact—particularly in capex-linked sectors, financials and consumer durables. Looking ahead, analysts project earnings growth to re-accelerate to ~10%–12% in FY26, driven by operating leverage in manufacturing, a revival in rural demand and improved margins as input cost pressures ease. Recovery in private capex and credit expansion is expected to support stronger earnings momentum in the second half of the fiscal year.[16]

## Renewed "Make in India" Push Post-Tariffs

The imposition of 25% U.S. tariffs on Indian exports (effective August 1, 2025) has led to a direct and vocal policy response.[17] Prime Minister Narendra Modi used the moment to reaffirm India's commitment to domestic manufacturing, urging industries to embrace self-reliance and build internal capabilities across defense, electronics, energy and pharmaceuticals.[18]

India has already declined a proposed F-35 fighter jet deal with the U.S., opting to accelerate indigenous defense manufacturing under "Make in India." On the ground, India's electronics manufacturing output grew by more than 40% in FY2024–25, with mobile phone production alone topping USD 45 billion, up from USD 30 billion just three years ago.[19]

Going forward, the government is refreshing PLI schemes (performance-linked incentives) to focus on deeper supply chain localization—especially in components and critical technologies. The broader aim is to reduce India's import dependency and build strategic autonomy in light of rising global protectionism.

## Conclusion

While 2025 has undoubtedly complicated the narrative around India—introducing geopolitical headwinds, uneven earnings and global investor rotation—the underlying macroeconomic, industrial and financial architecture remains intact, if not stronger. Credit growth continues to outpace peers, public capex is not just promised but delivered, and India's ascent in services and digital infrastructure has moved beyond the metros into tier-2 and tier-3 engines of growth.

The strategic pivot in manufacturing—spanning defense, electronics and clean energy—is not a reactive policy stance but a deliberate reanchoring of national capacity in response to global volatility. Milestones like USD 387 billion in services exports, USD 45 billion in mobile phone production and more than 15,500 kilometers of highway development signal an economy that is building with intent, not drifting on sentiment.

For long-term investors, this divergence between short-term headlines and structural data creates an unusual advantage: the ability to lean into strength when perception wavers. India's story in 2025 isn't about fragility; it's about recalibration. And in that recalibration lies the next leg of opportunity.

[1] Source: I. Khandekar, "U.S.India standoff is about more than Russian oil," Reuters, 8/5/25.

[2] Source: U. Chachra and B. Gambhir, "India Economics – Macro Indicators Chartbook: Balancing Growth and Stability amid Uncertainty," Morgan Stanley India Company Private Limited, 7/24/25.

[3] Source: Chachra & Gambhir, 2025, pp. 22–23.

[4] Source: "World Economic Outlook: A critical juncture amid policy shifts" (update released July 2025), International Monetary Fund, April 2025.

[5] Source: "All banks need to swiftly pass on 50bps rate cut to customers: RBI Bulletin," The Economic Times, 6/26/25.

[6] Source: "Highlights of the annual banks' performance in FY 2024–25" [press release], Reserve Bank of India, May 2025.

[7] Source: "FMCG Growth Momentum Shifts: Rural India and Small Players Take Charge" [market analysis], NielsenIQ, 2025.

[8] Source: "India services growth hits 11month high in July on stronger exports, PMI shows," Reuters, 8/5/25.

[9] Source: "Services exports reach USD 387.5 billion in FY 2024–25" [Government of India press release], Press Information Bureau, 5/1/25.

[10] Source: "Highlights of Union Budget 202526" [Government of India press release], Press Information Bureau, 2/1/25.

[11] "Yearend review 2024–25: Ministry of Road Transport and Highways" [Government of India press release], Press Information Bureau, 3/1/25; R. Rao, "Nandan Nilekani outlines blueprint for India to unlock $8 trillion economy by 2035," Fortune India, 3/13/25.

[12] Source: "Google to invest $6 billion in southern India data centre, sources say," Reuters, 7/30/25.

[13] Sources: "India Hyperscale Data Center Market Size, Share and Forecast" [industry report], Credence Research, 10/8/24; "UPI Handles 84% of India's Retail Payment Volume in FY25: RBI report" [online article], Medianama, 5/30/25.

[14] Source: S. Sethuraman, "Morgan Stanley sees Sensex at 89,000 by June 2026, upside potential of 8%," Business Standard, 5/21/25.

[15] Source: "A study on the impact of FII and DII net investments on Nifty 50 index. Journal of Emerging Market Research, 2015–2025 trends," Neliti, 2025.

[16] Source: "India's corporate earnings growth stays weak, banks and IT firms disappoint," Reuters, 8/5/25.

[17] Source: Khandekar, 2025.

[18] Source: "PM Modi hails India's journey towards self-reliance and global leadership in defence manufacturing" [press release], Government of India Prime Minister's Office, 4/1/25.

[19] Sources: "India to decline F35 fighter jet deal after Trump's 25% tariff salvo" [news article], The Economic Times, 8/1/25; "Make in India's leap in electronics manufacturing & exports" [Government of India press release], Press Information Bureau, 4/8/25.