

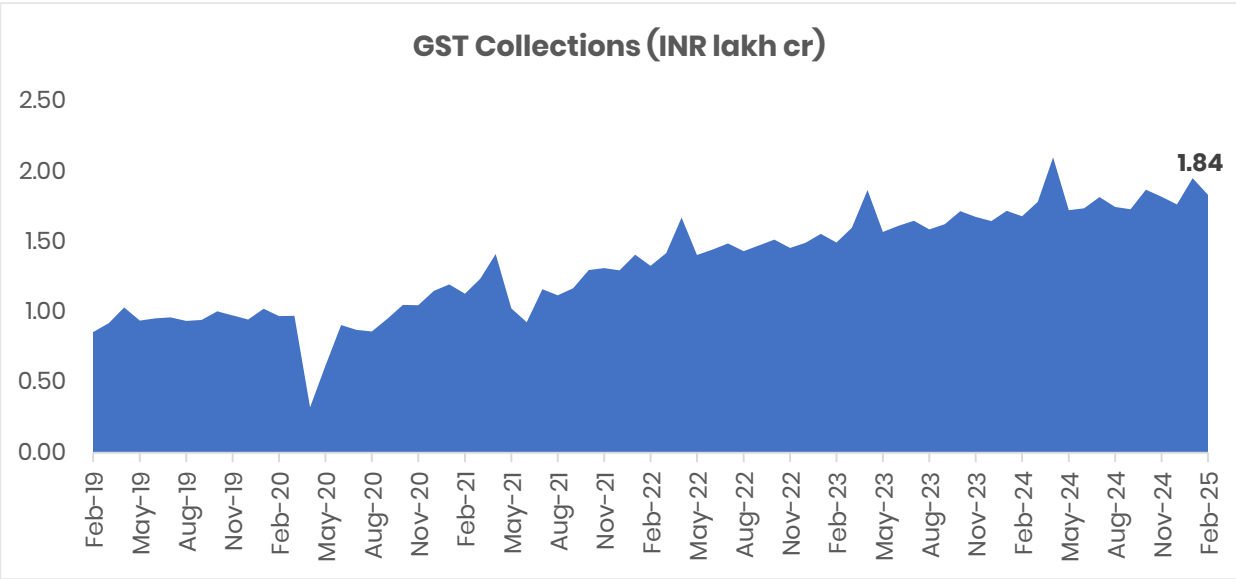
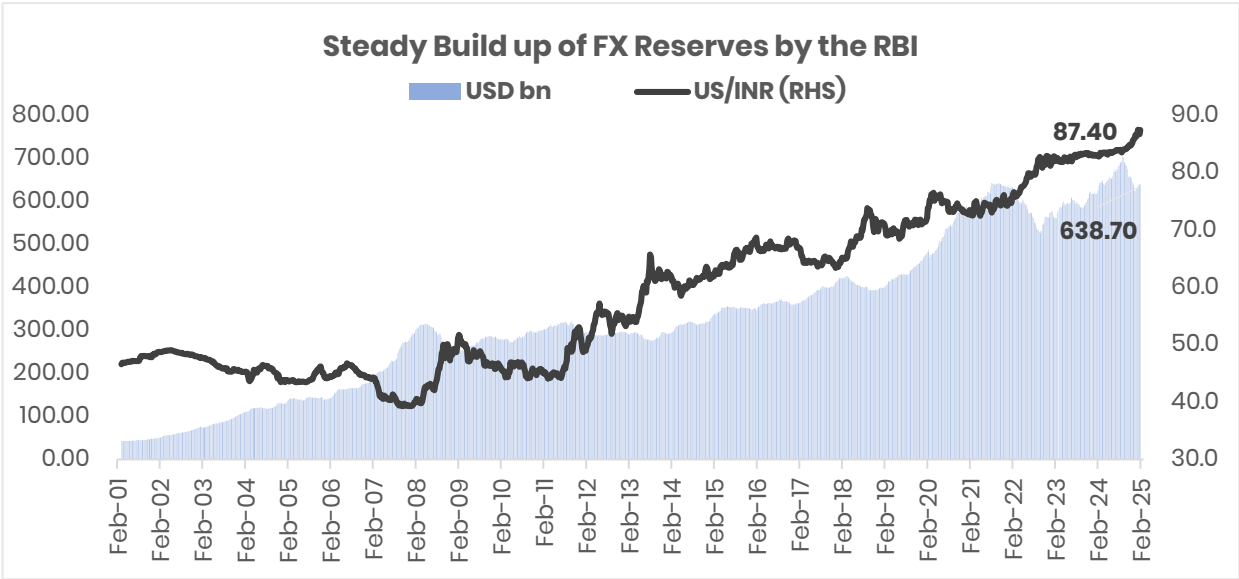
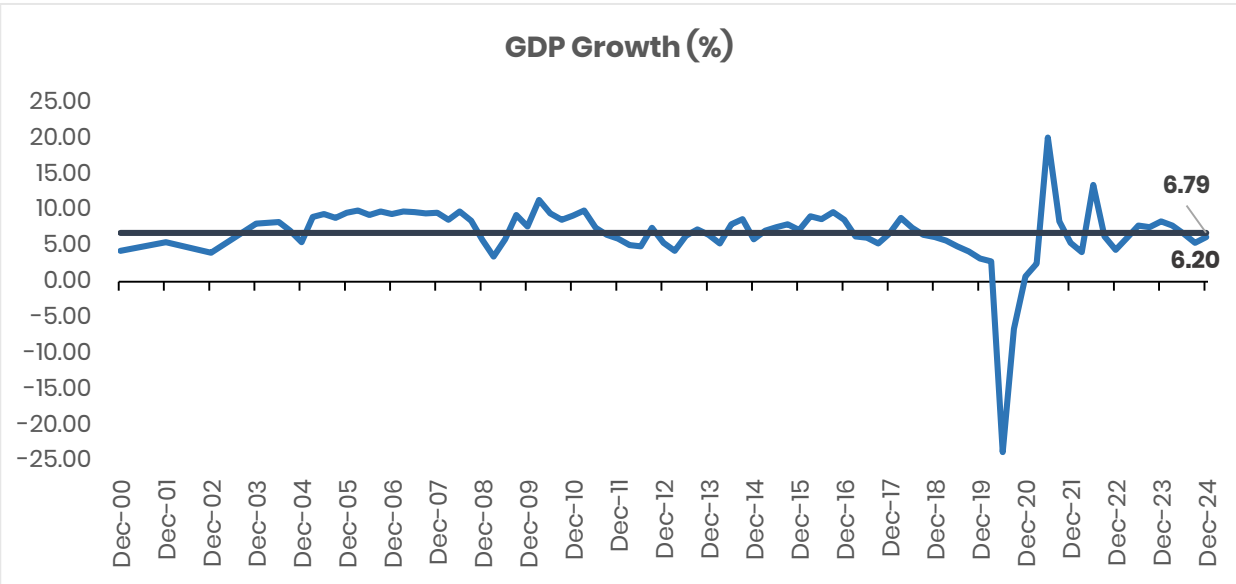
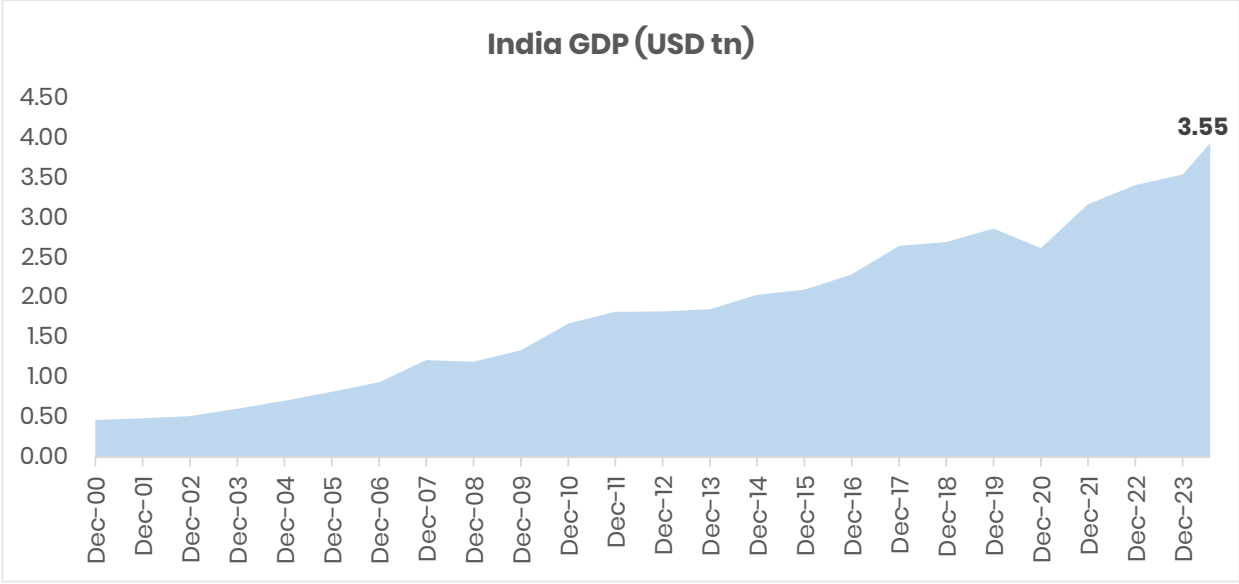
Fixed Income Navigator

A Monthly Dose of Insights

March 2025

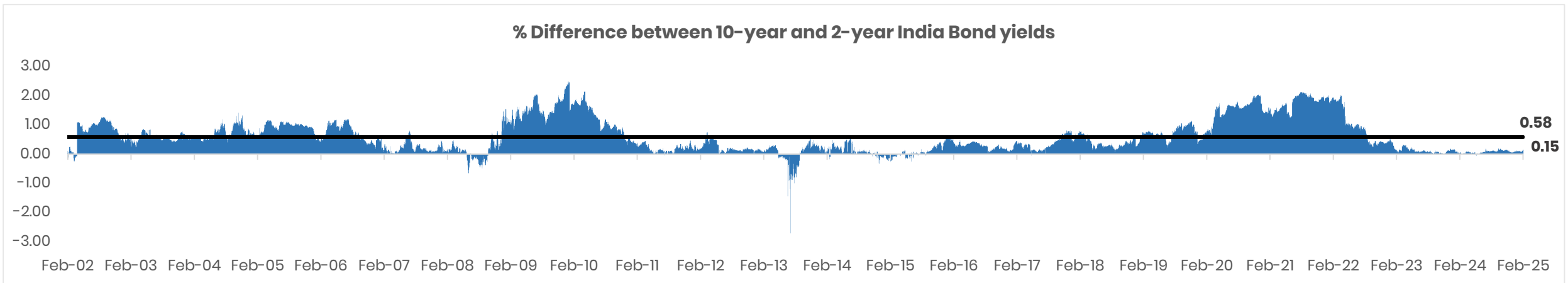
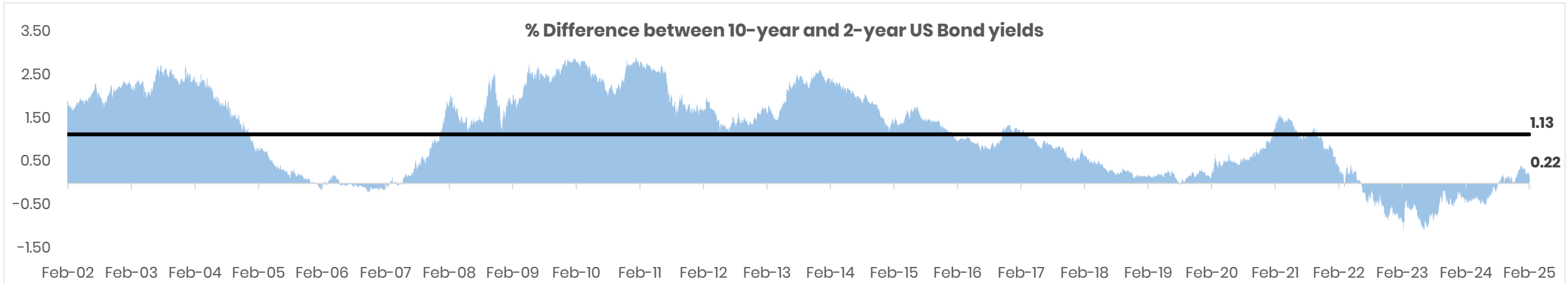
MACRO ECONOMIC INDICATORS

India is the 5th largest economy with a GDP of USD 3.94* tn



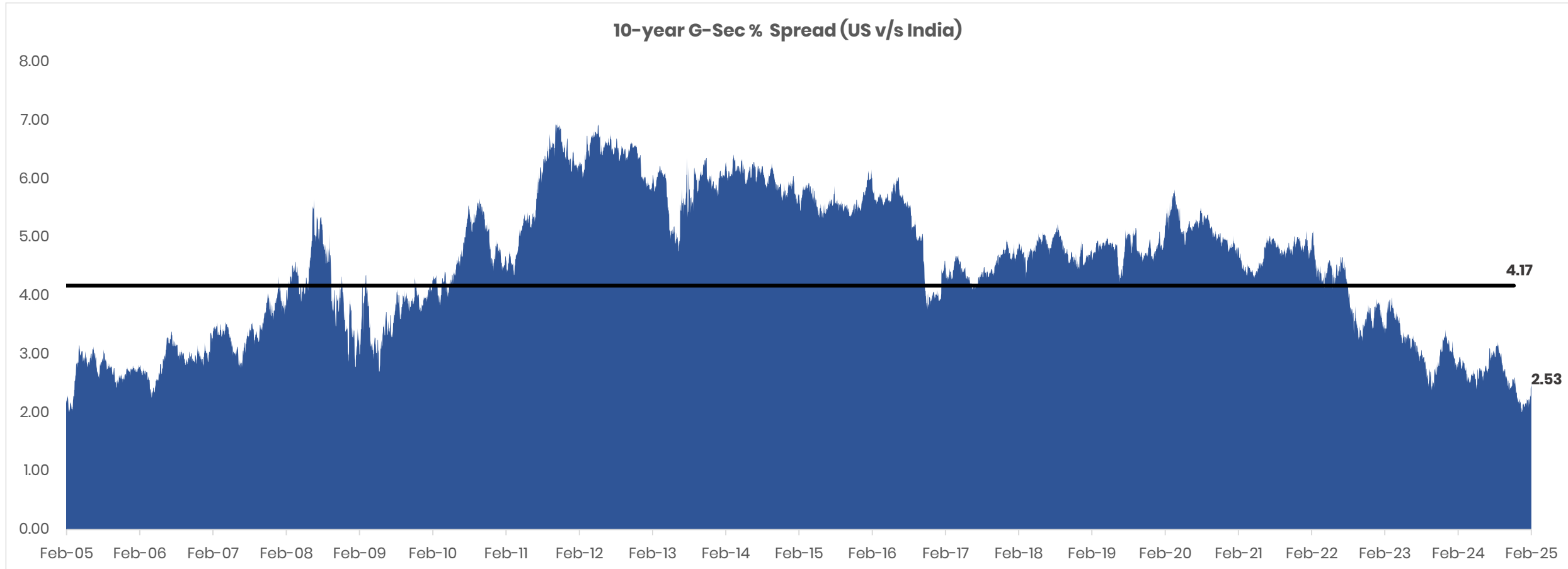
Source: US Spread – Investing.com, India Spread– Bloomberg, LTA – Long Term Average | *While the chart shows data till Dec'23, the GDP is USD 3.94 tn as on July'24 as per IMF Est.

US bond yield spread is rising gradually



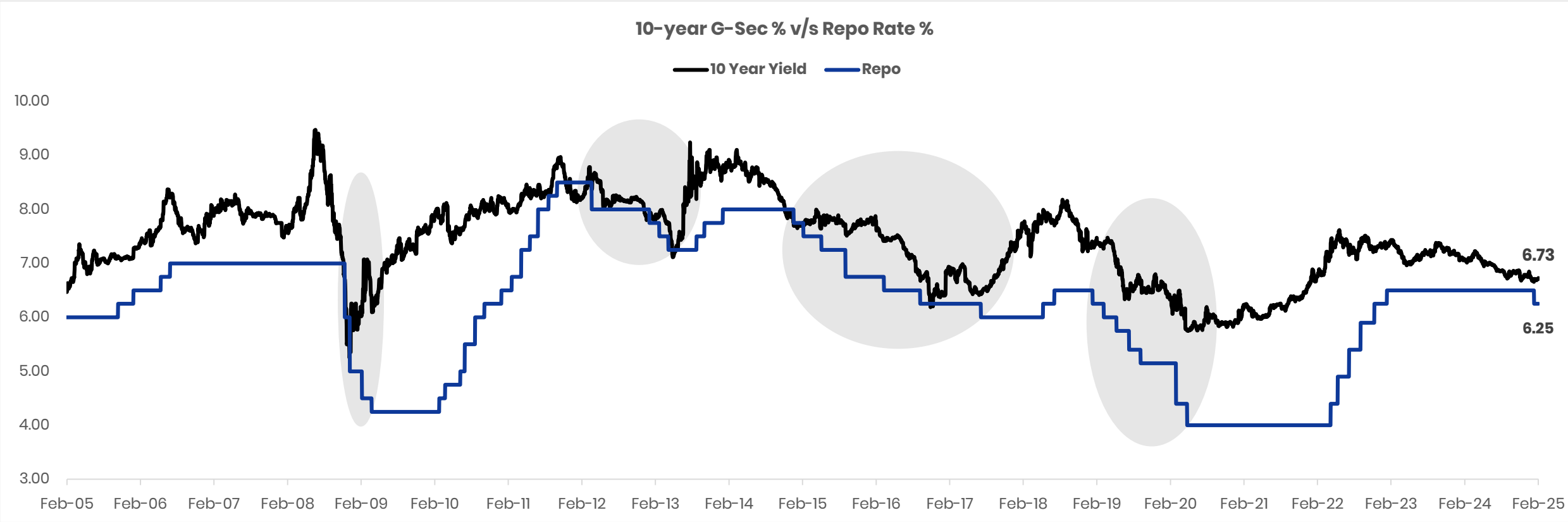
- The US economy is showing signs of growth, as the yield on 10-year government bonds is now consistently above 2-year yield
- India's 10-year to 2-year yield spread is at 15 bps (LTA: 58 bps) whereas, for US it is at 22 bps (LTA: 113 bps), both are well below their LTAs

10-year US-India spread is still below its long term average



- The India-US bond yield spread has been below its long term average of 4.17% for past 3 years (approx.) as investors remain bullish on India
- A stable government, strong macro indicators, and India's inclusion in the JP Bond Index have helped the country to keep the yield in check in recent years

10-year G-Sec yield started to decline in anticipation of rate-cut*

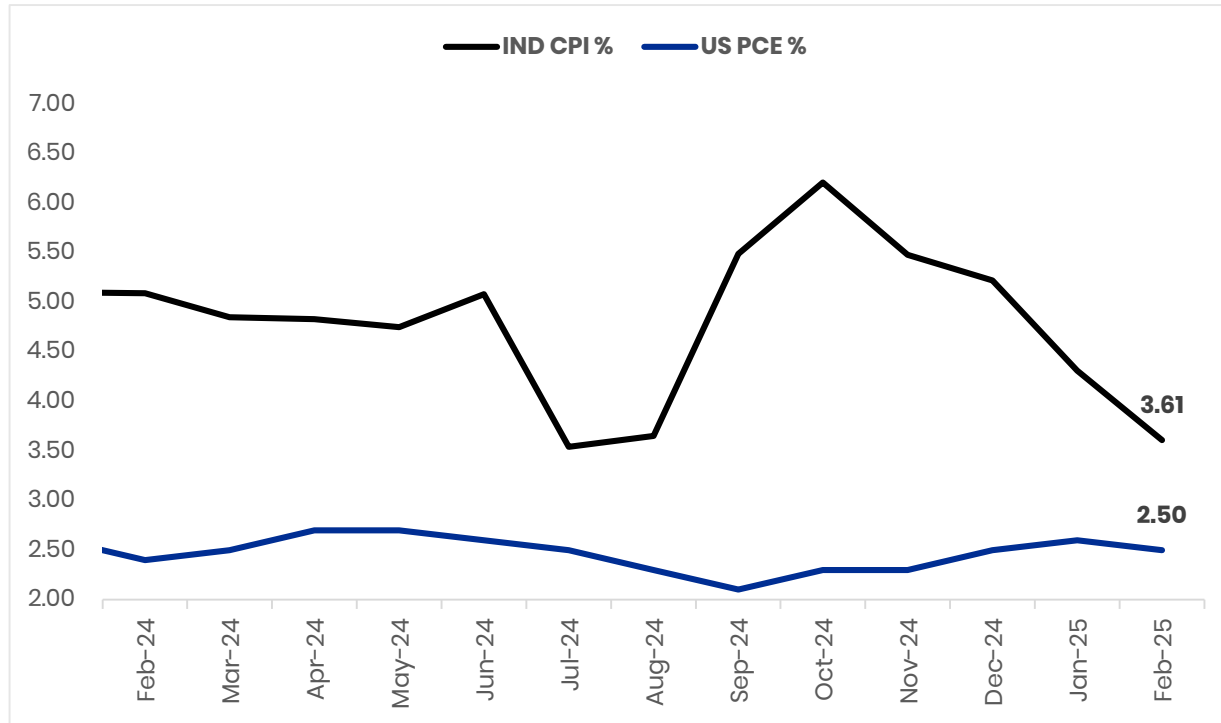


Past instances of the yield declining before a rate cut ➡

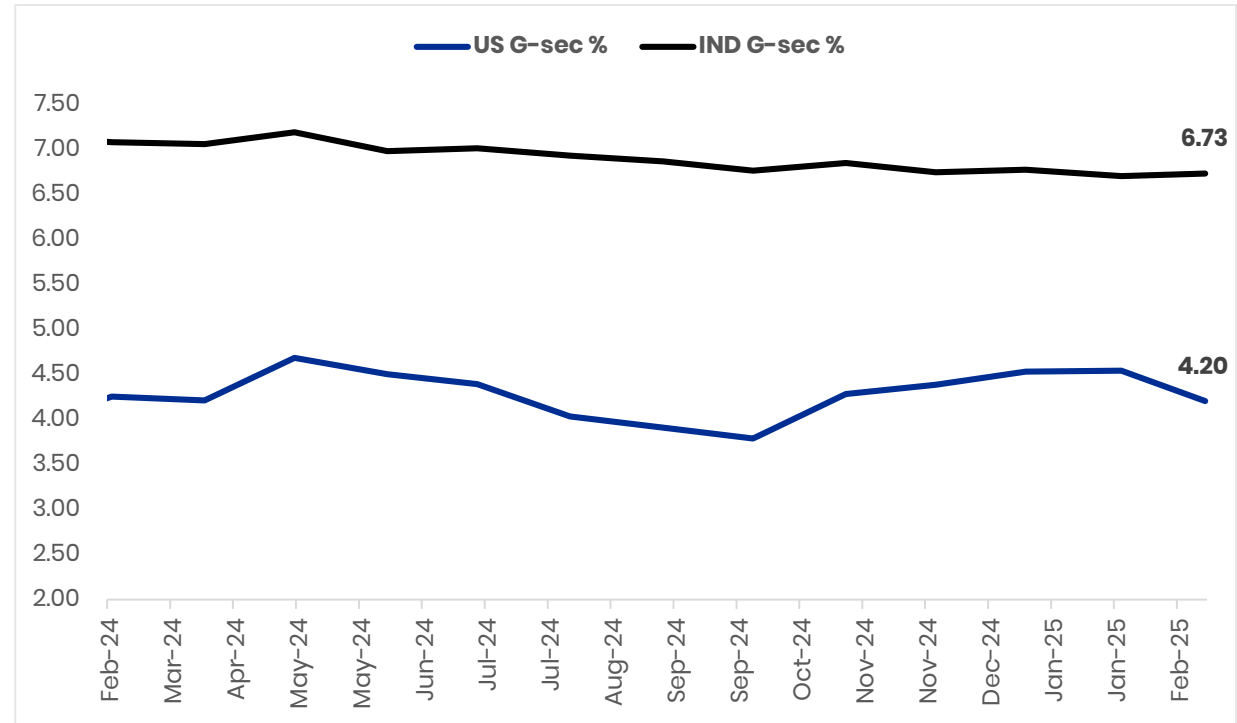
Period	Yield Decline Start	First Rate Cut
2008-2009	Jul-08	Oct-08
2011-2013	Nov-11	Apr-12
2014-2017	Apr-14	Jan-15
2018-2020	Sep-18	Feb-19
2025-?	Jun-22	Feb-25

Source: India Spread- Bloomberg, RBI | *RBI cut down the interest rate by 25 bps from 6.50% to 6.25% in its February 2025 meeting

Inflation in India is cooling down, while in US it is moving up



Inflation: Retail inflation in February is at 3.6%, down from 4.3% in January due to significant decline in vegetable and food prices. CPI (Consumer Price Index) inflation is projected at 4.80% for FY25.



Yield: India's 10-year G-sec yield has been gradually declining over the past one year, while US Treasury yield, after rising since October 2024, have dropped by 30 bps.

Recent Happening: At its February meeting, Reserve Bank of India (RBI) agreed to cut down interest rate by 25 bps to the 6.25% from 6.50% for the first time in nearly five years. The MPC also decided to continue with the 'neutral' monetary policy stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth

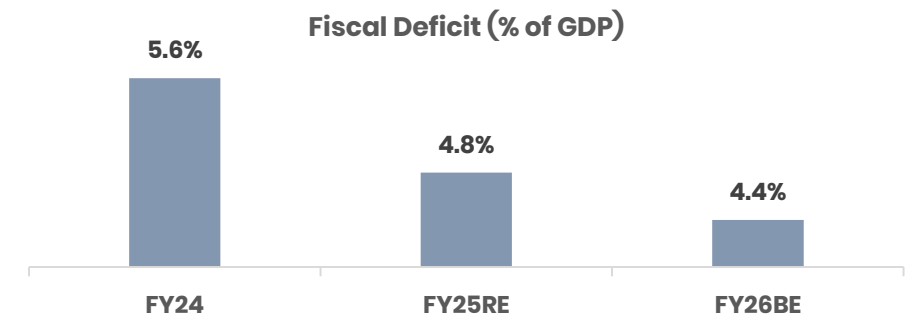
Focus on fiscal consolidation and consumption

India's Finance Minister Nirmala Sitharaman presented her 8th consecutive budget in the parliament on 1st Feb'25, providing significant tax relief to the middle class. For the first time in many years, **the budget shifted its focus from investment led growth to consumption/savings-driven growth.**

However, the focus on fiscal consolidation remained intact, with the FY26 fiscal deficit target pegged at 4.4% of GDP, lower than the glide path target of 4.5%, which is positive for debt sustainability. The Finance Minister announced that, from FY27 onward, the central government would keep its fiscal deficit in each year (from FY27 to FY31) such that the Central Government debt is on a declining path **to attain a debt-to-GDP ratio in the 49-51% range by FY31.** While the government reduced its total receipt estimates to INR 31.5 tn in FY25RE from INR 32.1 tn in FY25BE (reduction of INR 602 bn), the expenditure target was reduced to INR 47.2 tn in FY25RE from INR 48.2 tn in FY25BE (reduction of INR 1040 bn).

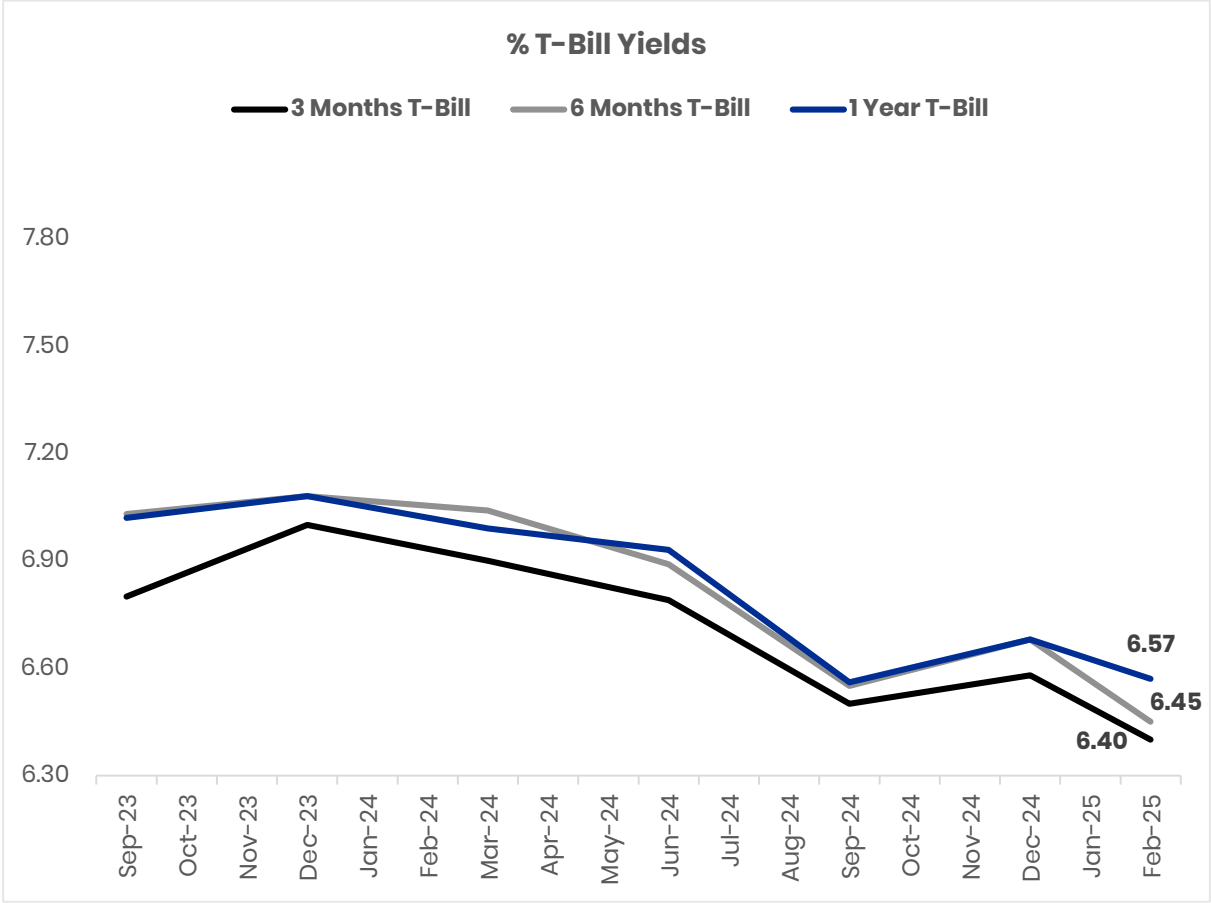
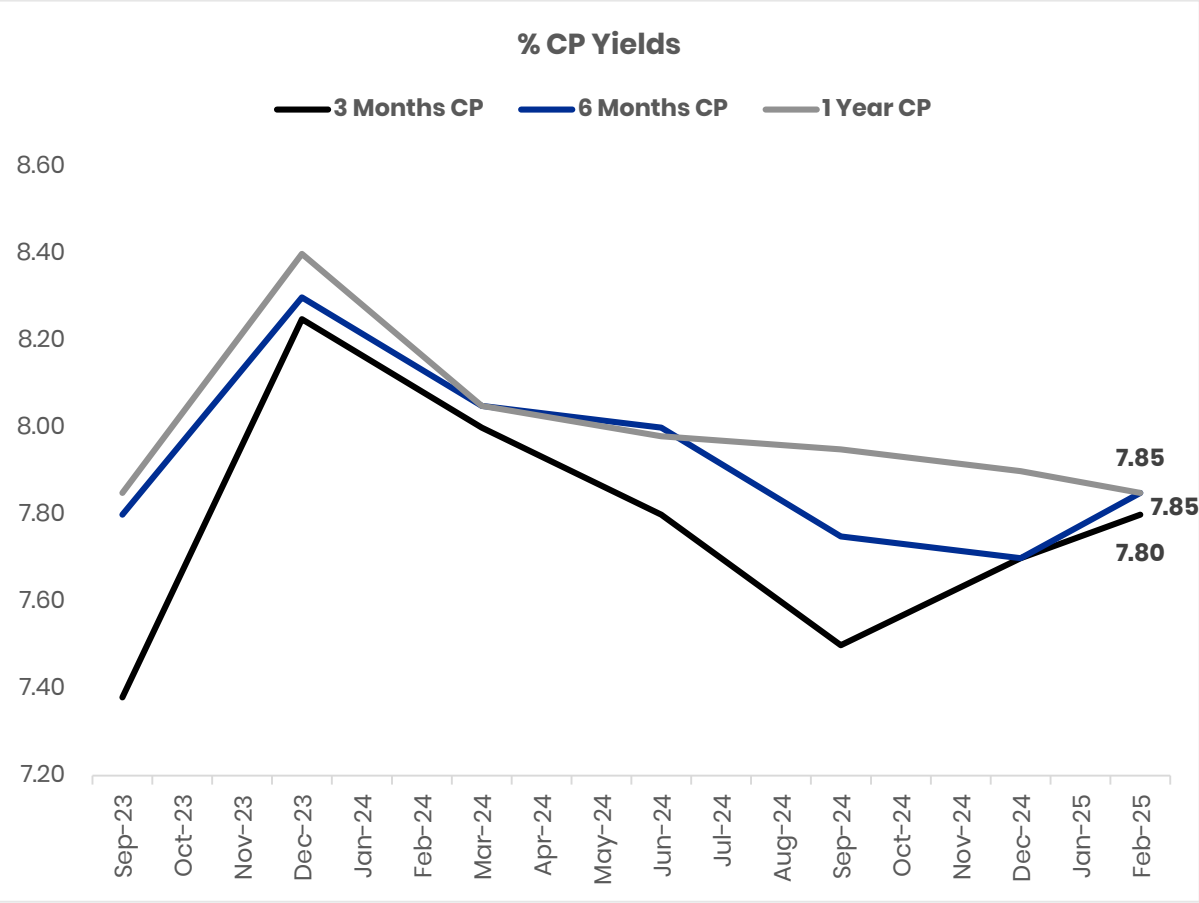
After making these changes, the fiscal deficit stands at INR 15.7 tn in FY25RE from INR 16.1 tn in FY25BE (reduction of INR 438 bn). Consequently, the fiscal deficit is expected to come down to 4.8% of GDP in FY25RE from 4.9% of GDP in FY25BE, despite lower nominal GDP growth of 9.7% YoY in FY25 vs. earlier expected 10.5% YoY in FY25BE. For FY26, the GoI expects total receipts to rise 11.1% YoY to INR 35.0 tn in FY26BE. Further, total expenditure is budgeted to grow at a three-year high pace of 7.4% YoY to INR 50.7 tn. The GoI has budgeted a fiscal deficit of 4.4% of GDP for FY26, implying a consolidation of 40 bps next year.

Category	FY25RE (INR t)	FY25RE (% of GDP)	FY26BE (INR tn)	% YoY*	FY26BE (% of GDP)
Revenue					
1. Total receipts	31.5	9.7	35.0	11.1	9.8
2. Revenue receipts (a+b)	30.9	9.5	34.2	10.8	9.6
Gross taxes	38.5	11.9	42.7	10.8	12.0
a. Net taxes	25.6	7.9	28.4	11.0	7.9
Direct taxes	22.4	6.9	25.2	12.7	7.1
i. Corporation taxes	9.8	3.0	10.8	10.4	3.0
ii. Income taxes	12.6	3.9	14.4	14.4	4.0
b. Indirect taxes	16.2	5.0	17.5	8.3	4.9
i. Goods & Services Tax (GST)	10.6	3.3	11.8	10.9	3.3
b. Non-tax revenue	5.3	1.6	5.8	9.8	1.6
Expenditure					
3. Total expenditure (a+b)	47.2	14.6	50.7	7.4	14.2
Core spending	31.5	9.7	33.6	6.7	9.4
a. Revenue expenditure	37.0	11.4	39.4	6.7	11.0
Interest payments	11.4	3.5	12.8	12.2	3.6
Defense	4.3	1.3	4.3	-0.4	1.2
Grants to States/UTs	6.2	1.9	7.4	20.6	2.1
b. Capital expenditure	10.2	3.1	11.2	10.1	3.1
Fiscal deficit (1-3)	15.7	4.8	15.7		4.4
Revenue deficit (2-a)	6.1	1.9	5.2		1.5
Nominal GDP	324.1		357.0	10.1	



UPDATE ON YIELDS

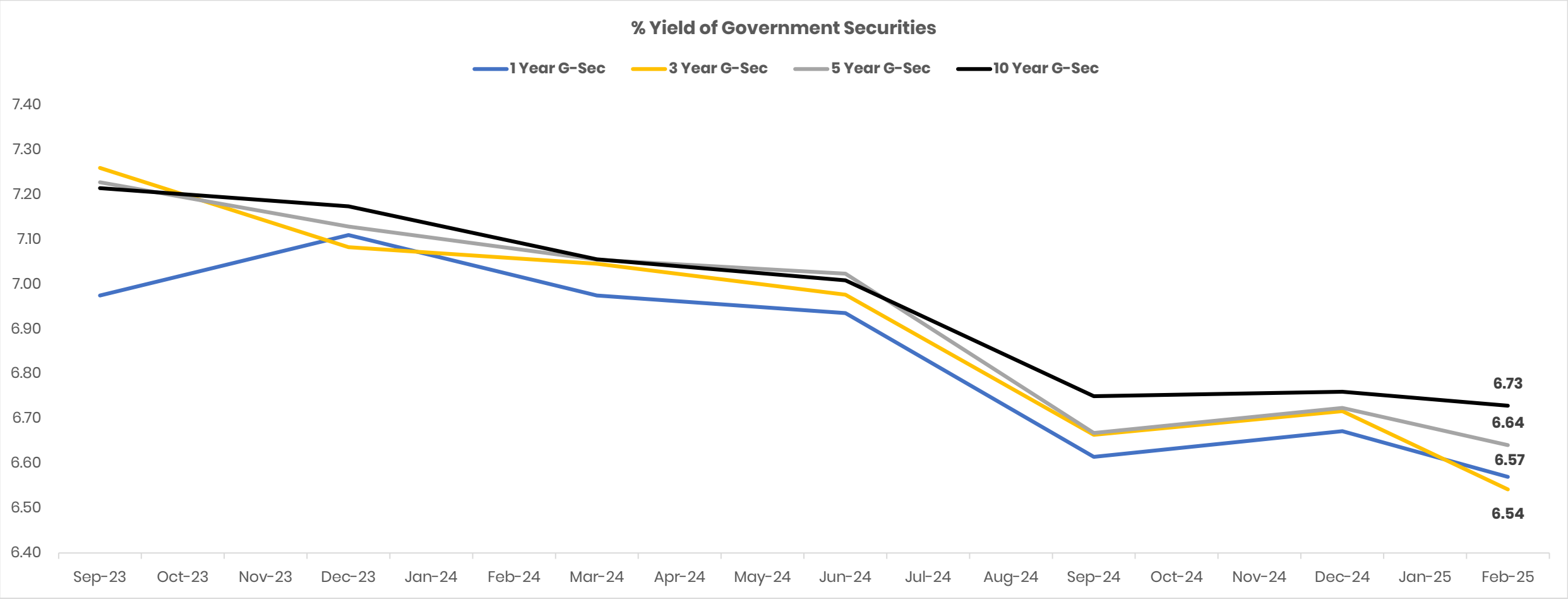
T-bill yields continued their down trend after a rebound



➤ 3-month and 6-month CP Yields saw a slight rise in their yields QoQ, while 1 year CP yield fell by 5 bps to 7.85%

Source: NSE; Bloomberg; RBI and External Sources. Data as on 28th Feb 2025. The above data is shown quarterly | CP – Commercial Paper | T-Bill – Treasury Bill

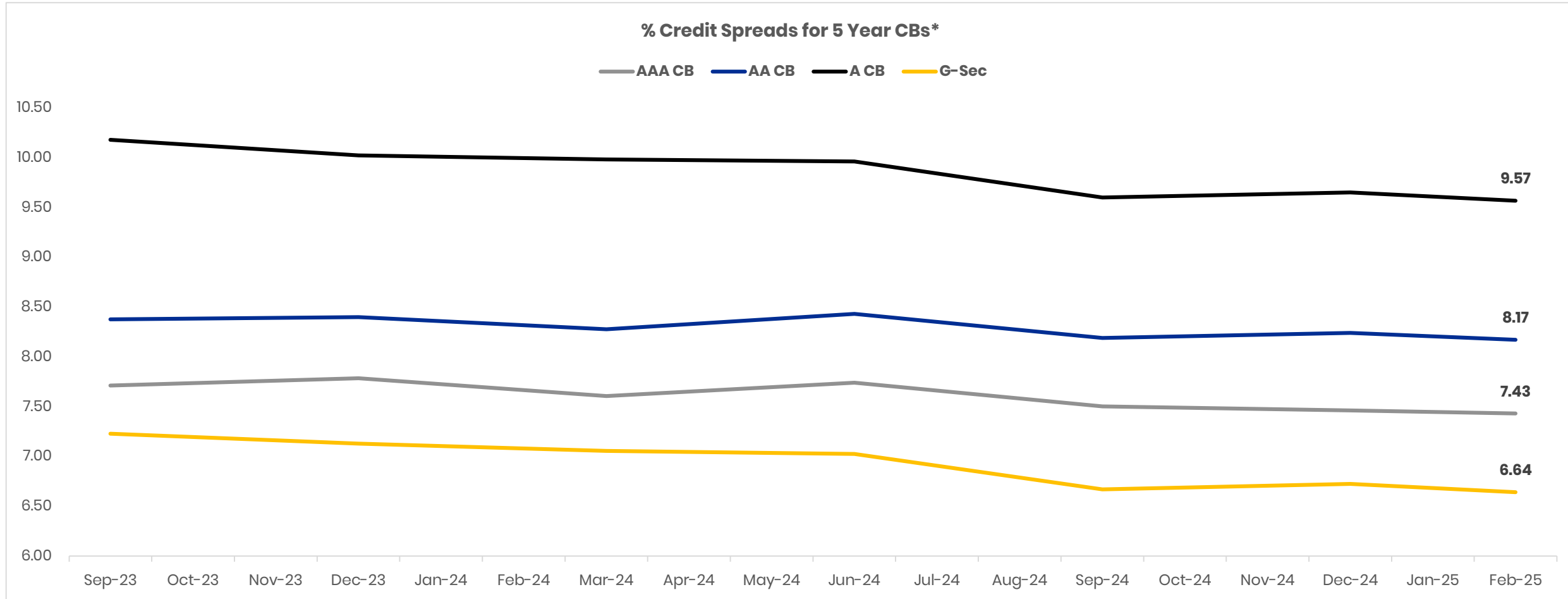
Downtrend in G-Secs continues across durations



➤ In Feb'25, yields of Government Securities declined across all maturities after a slight rise in December quarter

Source: NSE; Bloomberg; RBI and External Sources. Data as on 28th Feb 2025. The above data is shown quarterly

G-Sec yield spreads increased slightly in Feb'25 v/s CBs*



- Credit spread between the G-Sec & AAA rated CB stands at 0.79%, up from 0.74%, whereas with AA rated CB it is 1.53% v/s 1.52% in December
- Spreads are expected to remain elevated. Given this, the RBI reduced the Repo Rate, as G-secs are highly sensitive to Repo cuts

House Views & Recommendations

With the evolving interest rate scenario, we believe the duration play is in its last leg and long term yields to remain higher for longer and hence **duration can be exited fully**. Actions by RBI on rate cuts and liquidity, are likely to result into steepening in yield curve.

We recommend fixed income portfolio to be **Overweight on Accrual Strategies**

- Accrual can be played across the credit spectrum by allocating **45% – 55% of the portfolio** to Performing Credit & Private Credit Strategies, InvITs & Select NCDs
 - 30% – 35% may be invested in Performing Credit Strategies/NCDs and InvITs
 - 20% – 25% may be invested in Private Credit including Real Estate/Infrastructure strategies and select NCDs
- **25% – 35% of the portfolio** may be invested in Arbitrage Funds (minimum 3 months holding period), Floating Rate Funds (9 – 12 months holding period), Absolute Return Long/Short strategies (minimum 12 – 15 months holding period)
- For tax efficient fixed income alternative solutions, **20% – 25% of the portfolio** may be allocated in Conservative Equity Savings funds (minimum 3 years holding period)

Recommended Mutual Funds : Debt

Scheme name	Fund Manager	Inception Date	Annualised Return %						Avg Maturity (years)	Mod Duration (years)	Exp. Ratio %	Gross YTM %	Sov & AAA %	Below AAA %	Call & Cash %	Unrated %
			3 Months	6 Months	1 Year	3 Year	5 Year	SI								
Active Duration Funds																
ICICI Pru All Seasons Bond Fund	Manish Banthia	Jan-10	6.5	7.3	7.8	7.2	6.8	8.8	8.9	4.3	1.3	7.8	60.3	35.1	4.3	0.3
G-Sec Funds																
BHARAT Bond ETF – April 2033	Dhawal Dalal,	Dec-22	4.3	7.0	8.2	-	-	8.1	7.9	5.7	0.0	7.3	97.3	-	2.7	-
HDFC NIFTY G-Sec Jun 2036 Index Fund	Anupam Joshi	Mar-23	6.0	7.1	8.5	-	-	9.6	11.2	7.4	0.4	7.0	97.9	-	2.1	-
HDFC Long Duration Debt Fund	Shobhit Mehrotra	Jan-23	2.9	4.2	7.2	-	-	8.7	30.3	12.0	0.7	7.3	97.8	-	1.9	0.3
Mirae Asset CRISIL IBX Gilt Index – April 2033 Index Fund	Amit Modani	Oct-22	6.9	7.7	8.5	-	-	8.8	7.7	5.6	0.4	6.9	96.4	-	3.6	-
Nippon India Nivesh Lakshya Fund	Pranay Sinha,	Jul-18	3.7	5.1	7.5	7.4	5.7	8.6	22.0	10.6	0.6	7.1	97.5	-	2.2	0.3
Ultra Short Term Fund																
HDFC Ultra Short Term Fund	Anil Bamboli	24-Sep-18	6.6	6.9	7.3	6.5	5.8	6.2	0.6	0.4	0.7	7.7	91.0	6.9	1.8	0.3
ICICI Pru Ultra Short Term Fund	Manish Banthia	03-May-11	6.5	6.9	7.2	6.5	5.8	7.4	0.6	0.4	0.8	7.7	73.1	18.7	7.9	0.3
Floating Rate Bonds																
HDFC Floating Rate Debt Fund	Shobhit Mehrotra	Oct-07	7.1	7.3	8.1	7.2	6.7	7.8	4.5	1.4	0.5	7.7	84.7	11.5	3.5	0.3
ICICI Pru Floating Interest Fund	Rohan Maru	Nov-05	6.8	6.9	7.9	7.2	6.6	7.6	4.7	1.0	1.2	8.1	65.0	31.7	2.8	0.5
Bandhan Dynamic Bond Fund	Suyash Choudhary	01-Dec-08	2.2	3.1	6.2	5.8	5.6	7.6	28.3	11.9	1.6	7.2	98.3	0.0	1.4	0.3
DSP Strategic Bond Fund	Sandeep Yadav	09-May-07	1.8	4.2	6.7	6.6	5.9	6.9	28.1	10.5	1.2	7.1	92.6	6.2	0.9	0.3

Recommended Mutual Funds : Debt

Scheme name	Fund Manager	Inception Date	Annualised Return %						Avg Maturity (years)	Mod Duration (years)	Exp. Ratio %	Gross YTM %	Sov & AAA %	Below AAA %	Call & Cash %	Unrated %
			3 Months	6 Months	1 Year	3 Year	5 Year	SI								
Arbitrage Fund																
Edelweiss Arbitrage Fund	Bhavesh Jain	Jun-14	7.0	6.7	7.2	6.6	5.5	6.2	0.5	0.5	1.1	7.3	17.1	--	--	--
Invesco India Arbitrage Fund	Deepak Gupta	Apr-07	6.9	6.5	7.2	6.8	5.6	6.6	0.5	0.4	1.1	7.1	3.8	--	--	--
Kotak Equity Arbitrage Fund	Hiten Shah	Sep-05	7.0	6.7	7.4	6.8	5.6	6.9	0.3	0.3	1.0	7.0	1.6	--	--	--
Equity Savings Fund																
ICICI Pru Equity Savings Fund	Dharmesh Kakkad	05-Dec-14	0.6	2.2	6.9	8.2	9.0	7.8	1.7	1.1	1.0	7.0	13.1	--	--	--
Kotak Equity Savings Fund	Devender Singhal	13-Oct-14	-20.2	-7.9	4.7	10.1	11.2	9.0	2.0	1.5	1.8	7.1	15.1	--	--	--

Exclusive Offers

Secondary Market Bond Yields



EXCLUSIVE OFFER FOR THE DAY						
ISIN	SECURITY DESCRIPTION	MATURITY	IP DATES	RATINGS	QUANTUM	YIELD
INE982X08109	13.85% SATYA MICROCAPITAL LIMITED 2029	12-07-2029	MONTHLY	BBB+ CRISIL	MULTIPLE OF RS.5 LAKHS	14.40%
INE0BUS07BN6	11.00% INDEL MONEY LIMITED 2026	18-08-2026	MONTHLY	BBB+ CRISIL	MULTIPLE OF RS.5 LACS	12.40%
INE07HK07791	10.95% KRAZYBEE SERVICES PRIVATE LIMITED 2026	23-07-2026	MONTHLY	A- CARE	MULTIPLES OF 10 LAKHS	12.00%
INE549K08509	10.45% MUTHOOT FINCORP LIMITED 2032	24-12-2032	MONTHLY	AA-/STABLE	MULTIPLE OF RS.5 LAKHS	10.95%
INE01HV07528	10.11% VIVRITI CAPITAL LTD 2026	23-12-2026	QUATERLY	A+ CARE	MULTIPLES OF 10 LAKHS	10.34%

**Above mentioned rates are tentative as on 11th Mar'25 and subject to change as per market conditions. Kindly check the availability of stock before closing the deal | Please refer to T&Cs | IP: Interest Payment*

Thank You!

Motilal Oswal Financial Services Limited (MOFSL)* Member of NSE, BSE, MCX, NCDEX CIN No.: L67190MH2005PLC153397

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***Such representations are not indicative of future results.**

Investment in securities market are subject to market risks, read all the related documents carefully before investing.