

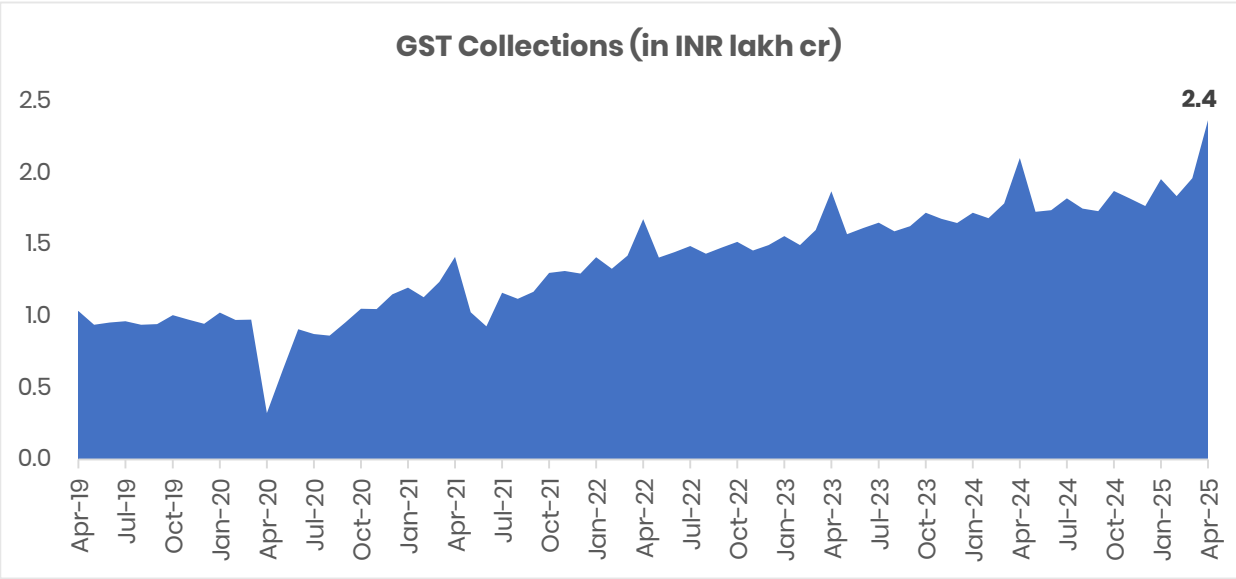
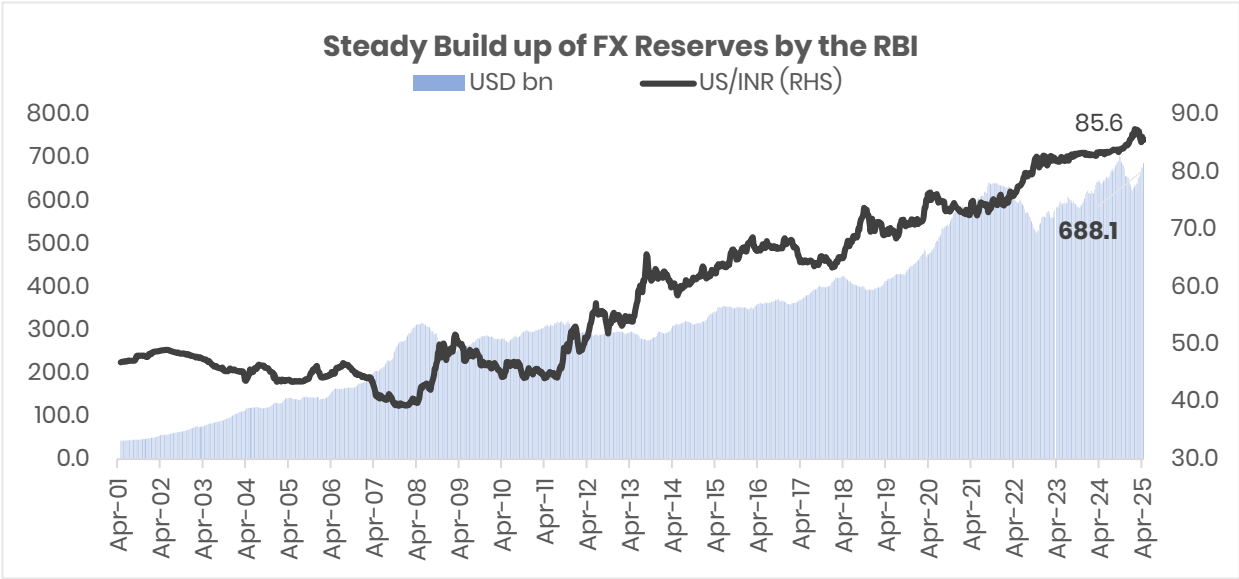
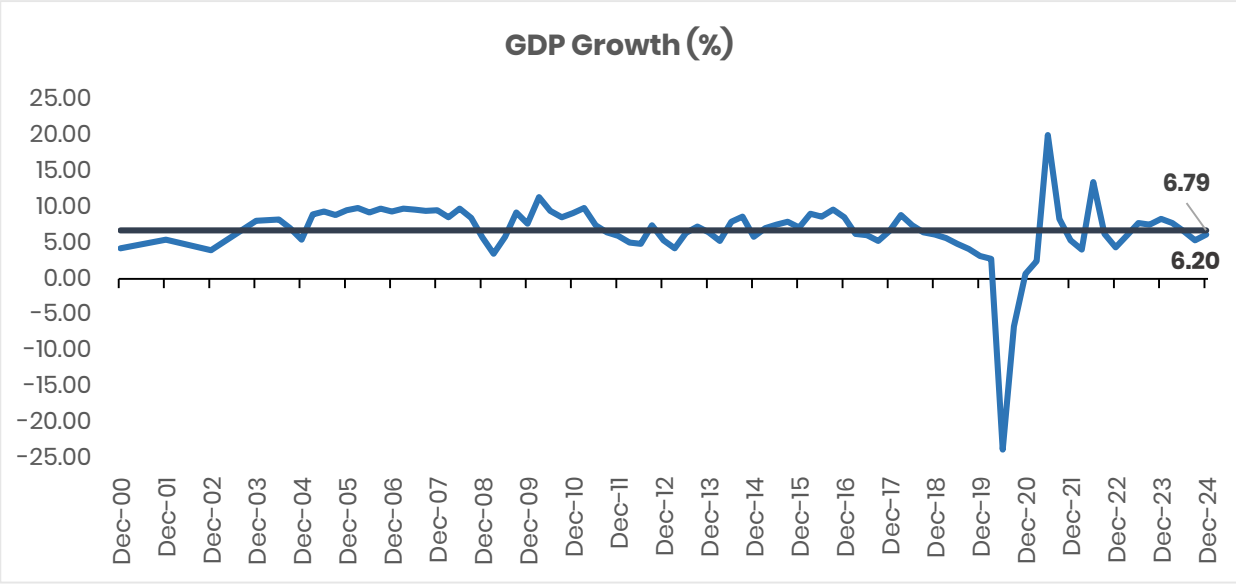
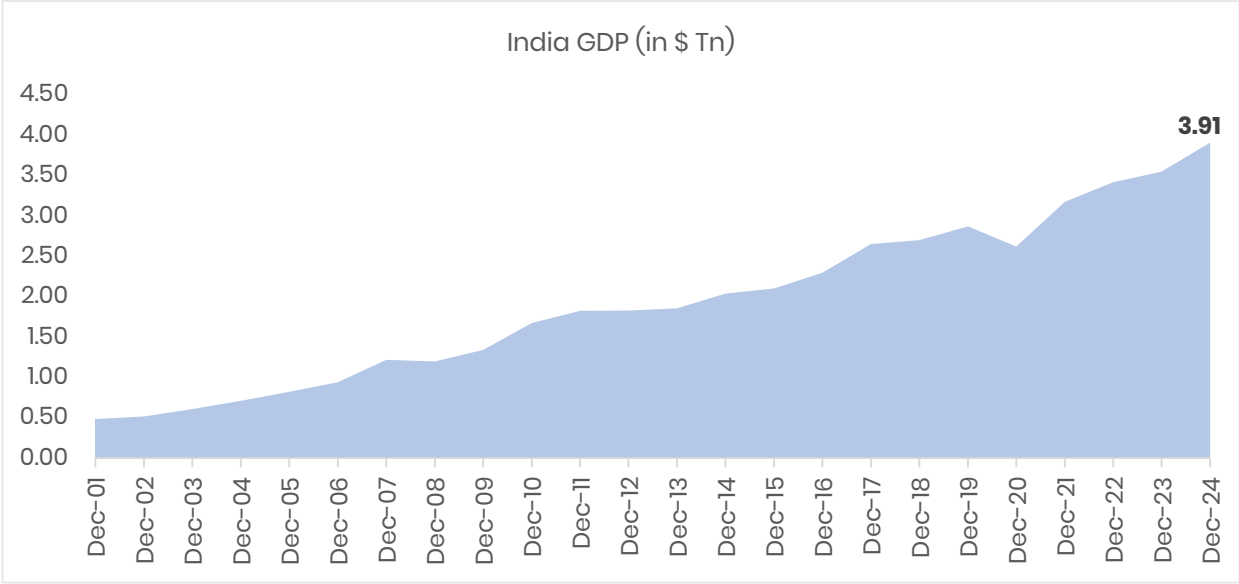
Fixed Income Navigator

A Monthly Dose of Insights

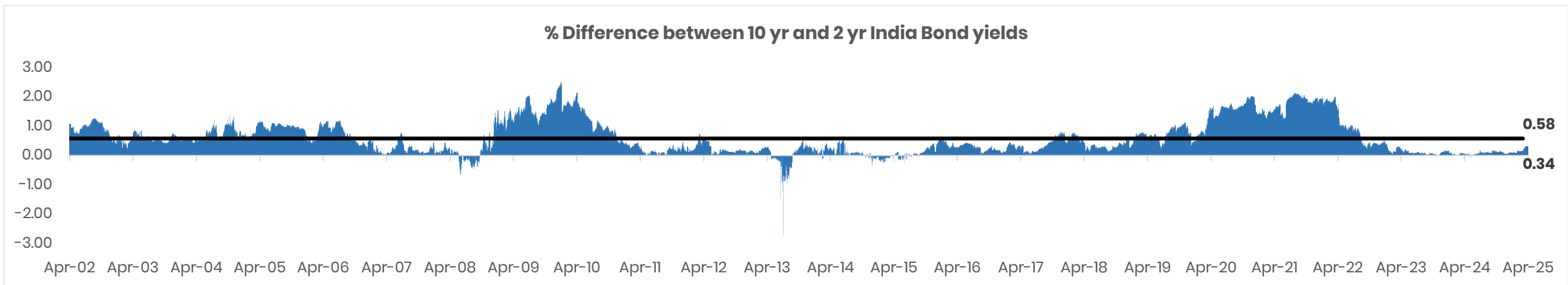
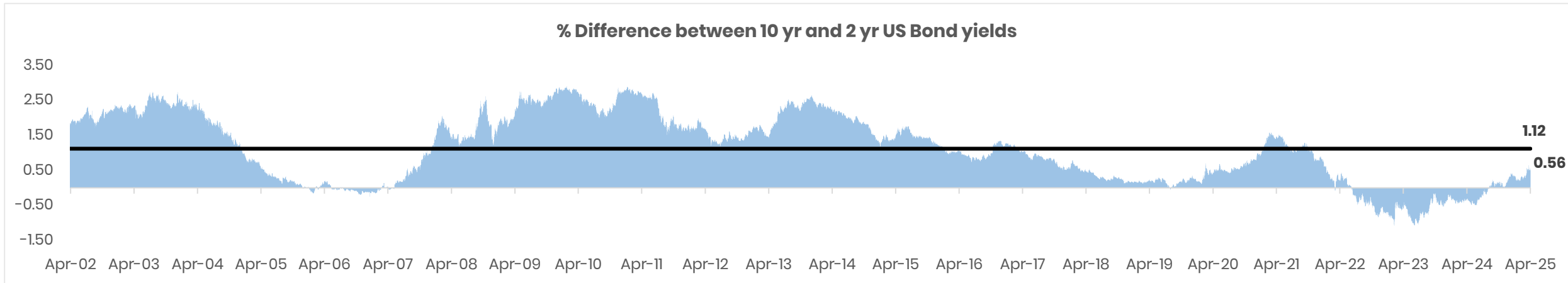
May 2025

MACRO ECONOMIC INDICATORS

India is the 4th largest economy with a GDP of USD 4.19 tn*

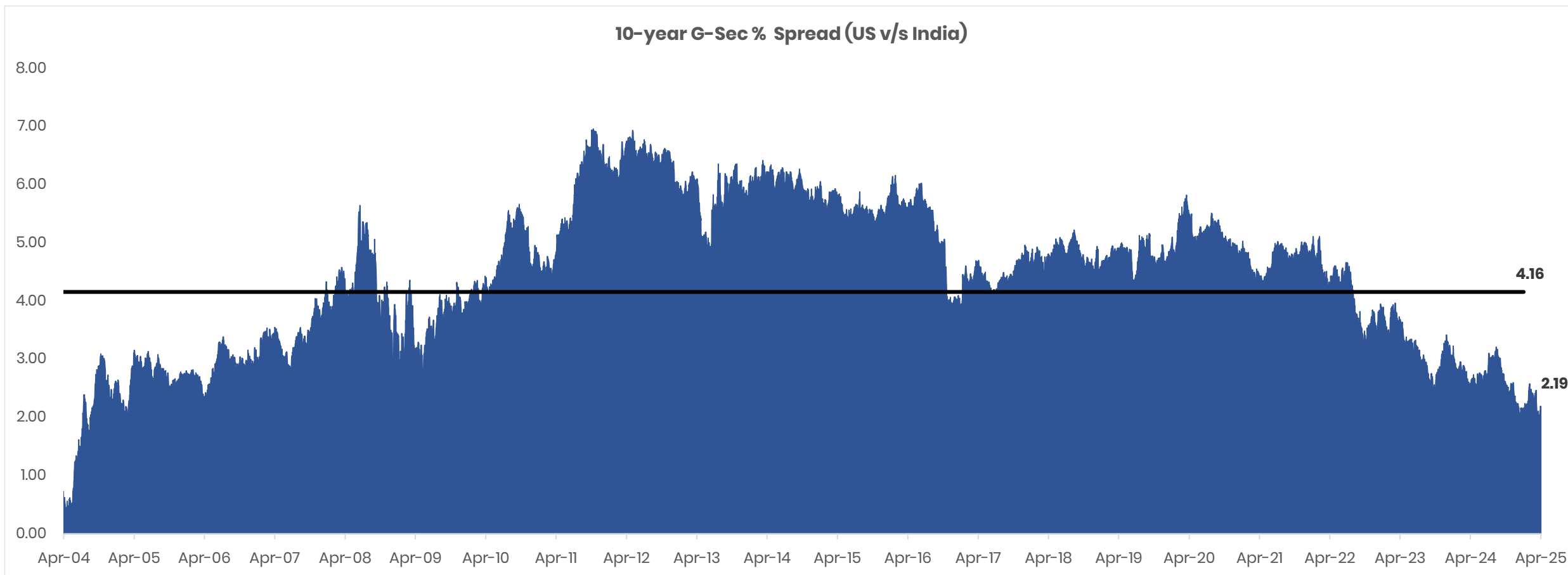


US bond yield spread is rising gradually



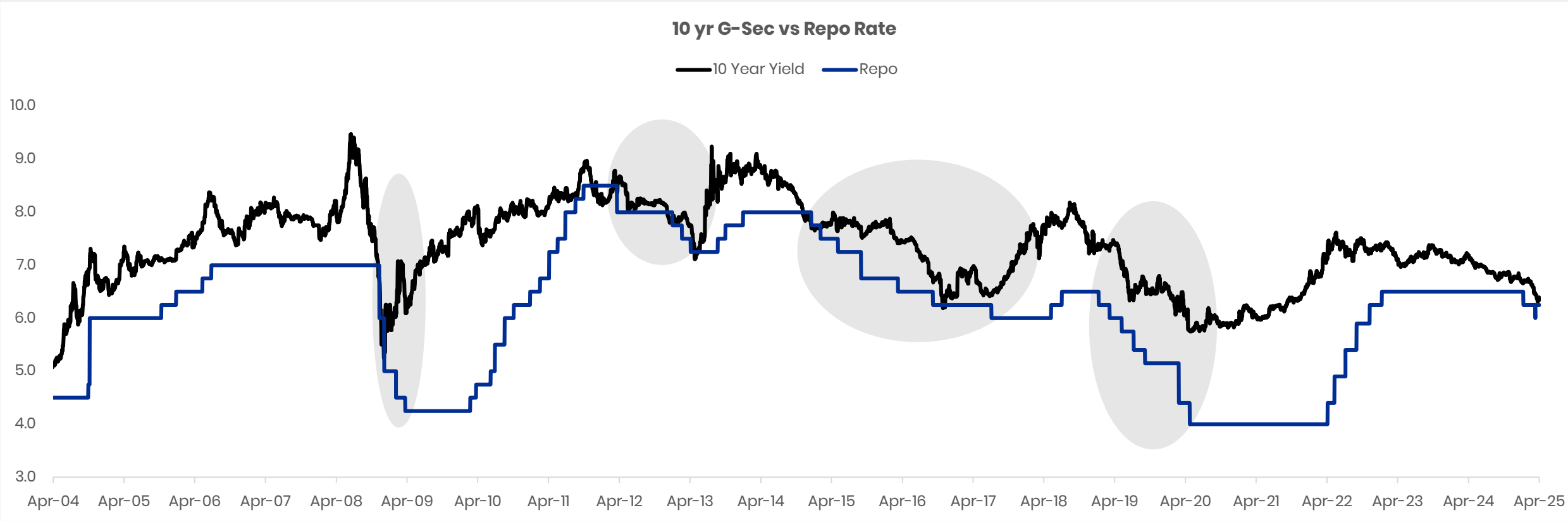
- The spread in the US bond yields have increased over the past month primarily due to 28 bps fall in 2-year bonds
- India's 10-year to 2-year yield spread is at 34 bps (LTA: 58 bps) whereas, for US it is at 56 bps (LTA: 112 bps), both are well below their LTAs

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



- The spread between India and US 10-year bonds yield has cooled off in April following a 23 bps fall in India 10-year G-sec
- A stable government, strong macro indicators, and India's inclusion in the JP Bond Index have helped India to keep the yield in check

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

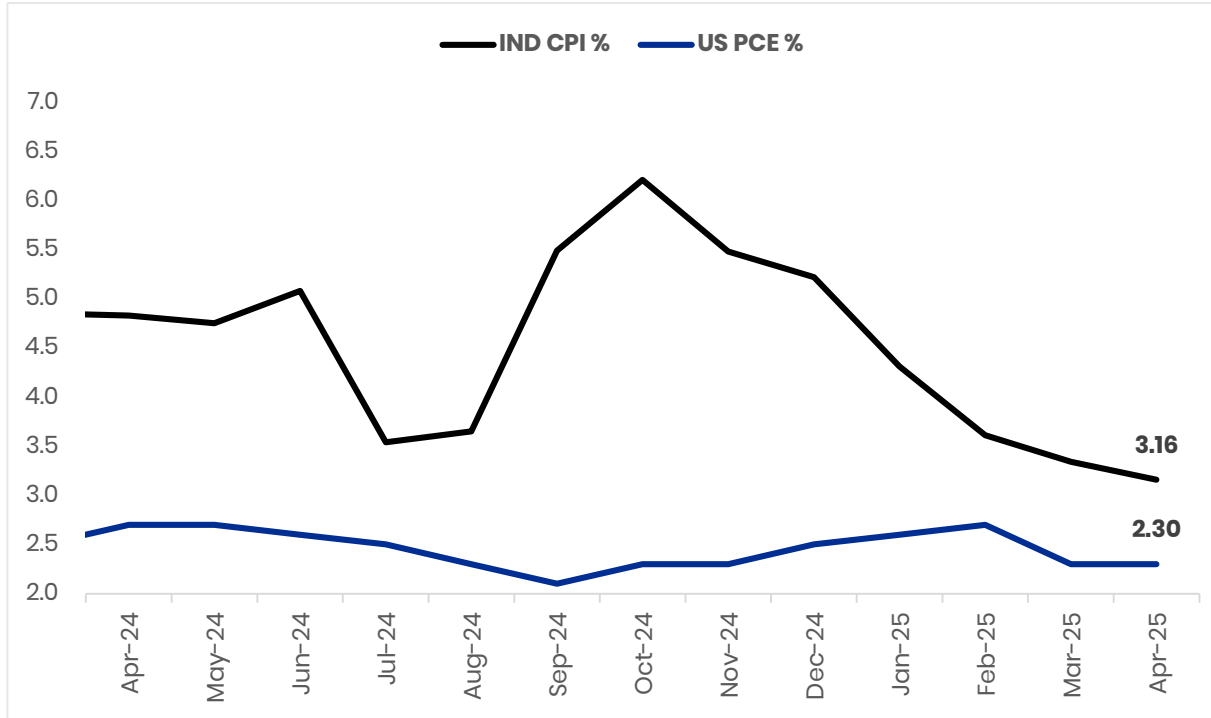


Past instances of the yield declining before a rate cut ➡

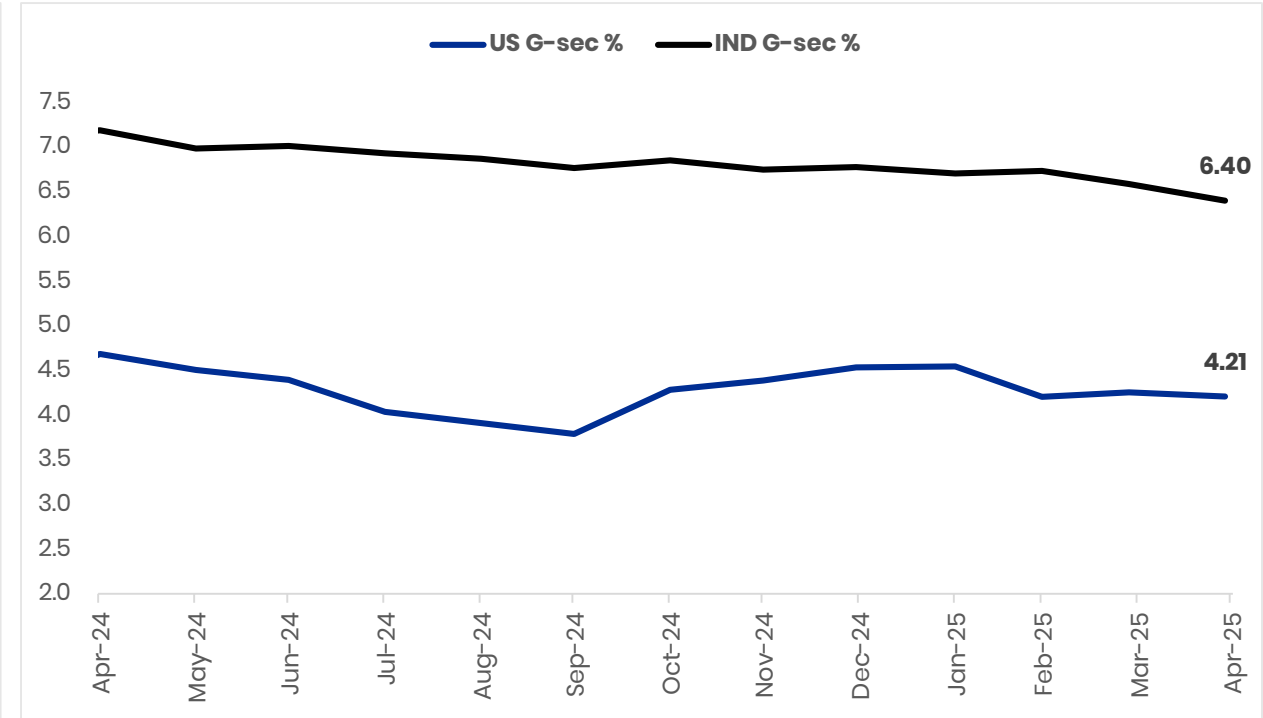
| Period | Yield Decline Start | First Rate Cut |
|-----------|---------------------|----------------|
| 2008-2009 | Jul-08 | Oct-08 |
| 2011-2013 | Nov-11 | Apr-12 |
| 2014-2017 | Apr-14 | Jan-15 |
| 2018-2020 | Sep-18 | Feb-19 |
| 2025-? | Jun-22 | Feb-25 |

Source: India Spread- Bloomberg, RBI | *RBI cut down the interest rate by 25 bps from 6.25% to 6.00% in its April 2025 meeting

Inflation in India is cooling down, while in US it is stable



Inflation: Retail inflation in April is at 3.16%, down from 3.34% in March due to significant decline in vegetable and food prices. CPI (Consumer Price Index) inflation is projected at 4.00% for FY26.



Yield: India's 10-year G-sec yield has been gradually declining over the past one year, while US Treasury yield, has been volatile over the past few months

Recent Happening: At its April meeting, Reserve Bank of India (RBI) slashed the interest rate by 25 bps to 6.00% from 6.25% for the second time in a row. The MPC also changed its stance from 'neutral' to 'accommodative' monetary policy, signalling the intended direction of policy rates going forward, which is either a status quo or rate cut (given there are no shocks)

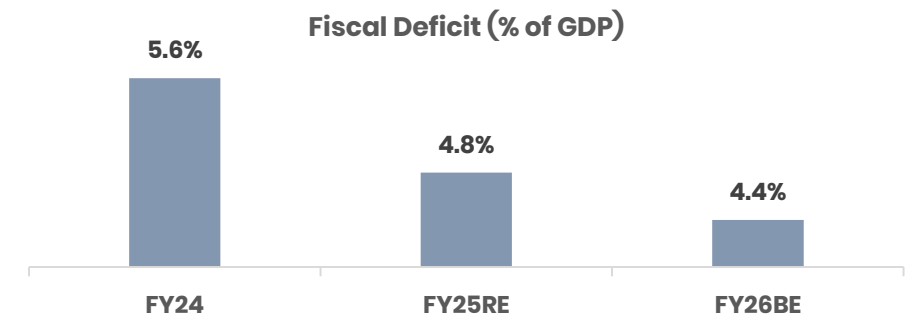
Focus on fiscal consolidation and consumption

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).

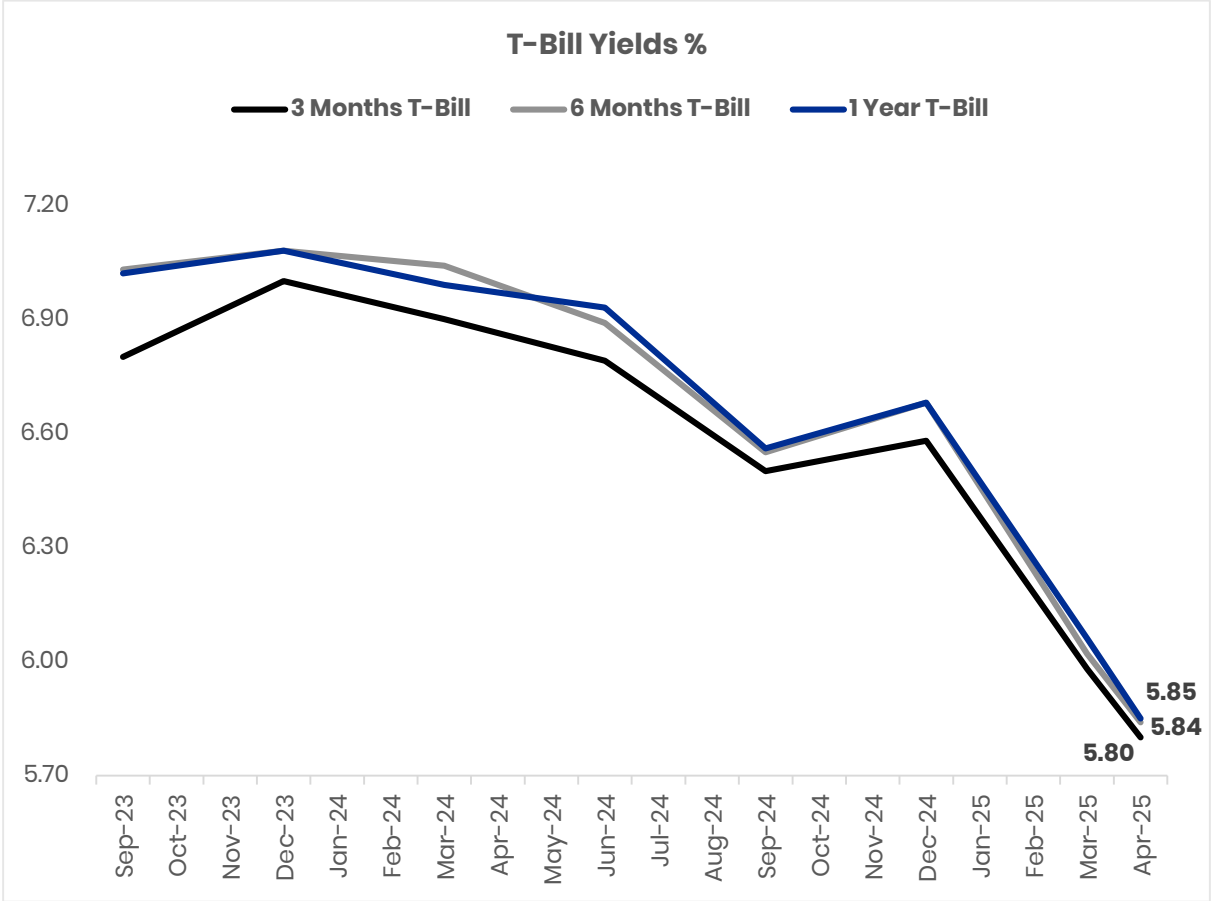
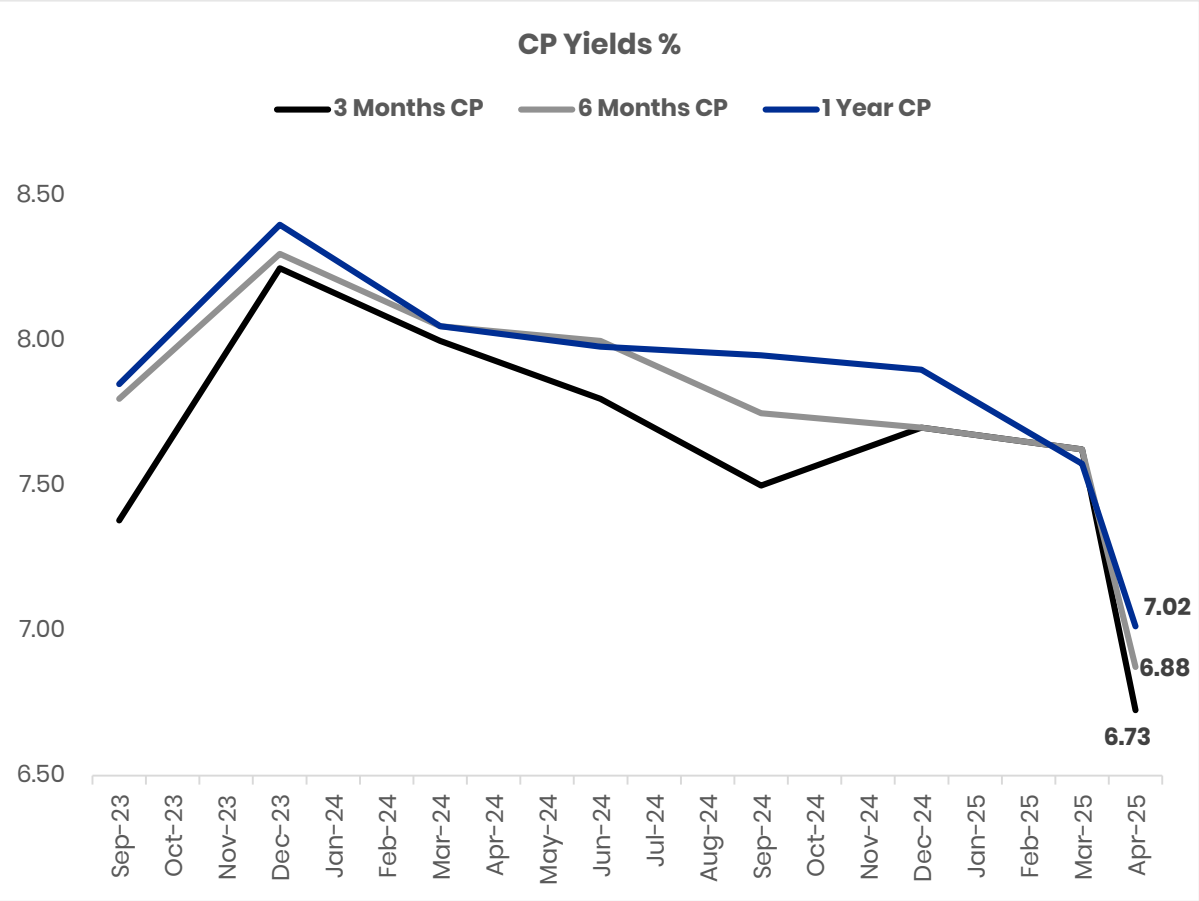
After making these changes, the fiscal deficit stands at INR 15.7 tn in FY25RE from INR 16.1 tn in FY25BE (reduction of INR 438 bn). Consequently, the fiscal deficit is expected to come down to 4.8% of GDP in FY25RE from 4.9% of GDP in FY25BE, despite lower nominal GDP growth of 9.7% YoY in FY25 vs. 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

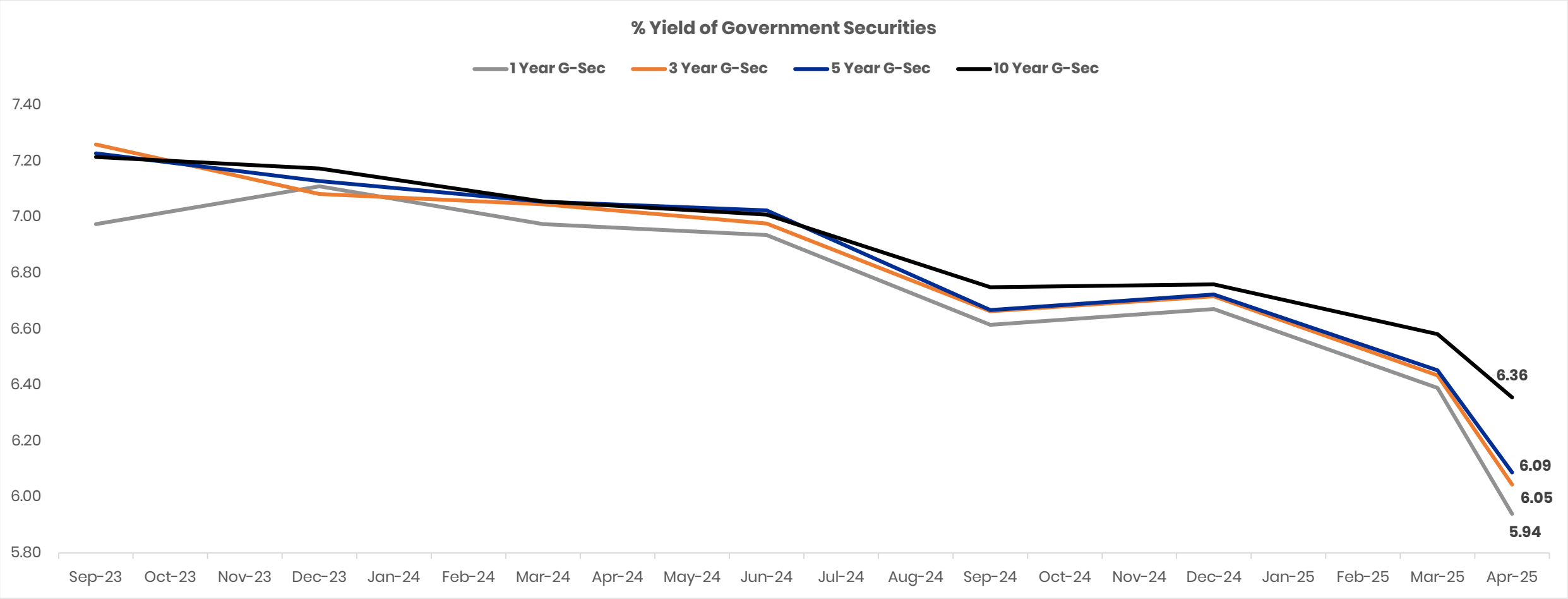
T-bill yields continued their down trend



➤ T-bills across tenure has seen a drop QoQ which is in line with the rate cut done by the RBI in April

Source: NSE; Bloomberg; RBI and External Sources. Data as on 30th Apr 2025. The above data is shown quarterly | CP – Commercial Paper | T-Bill – Treasury Bill

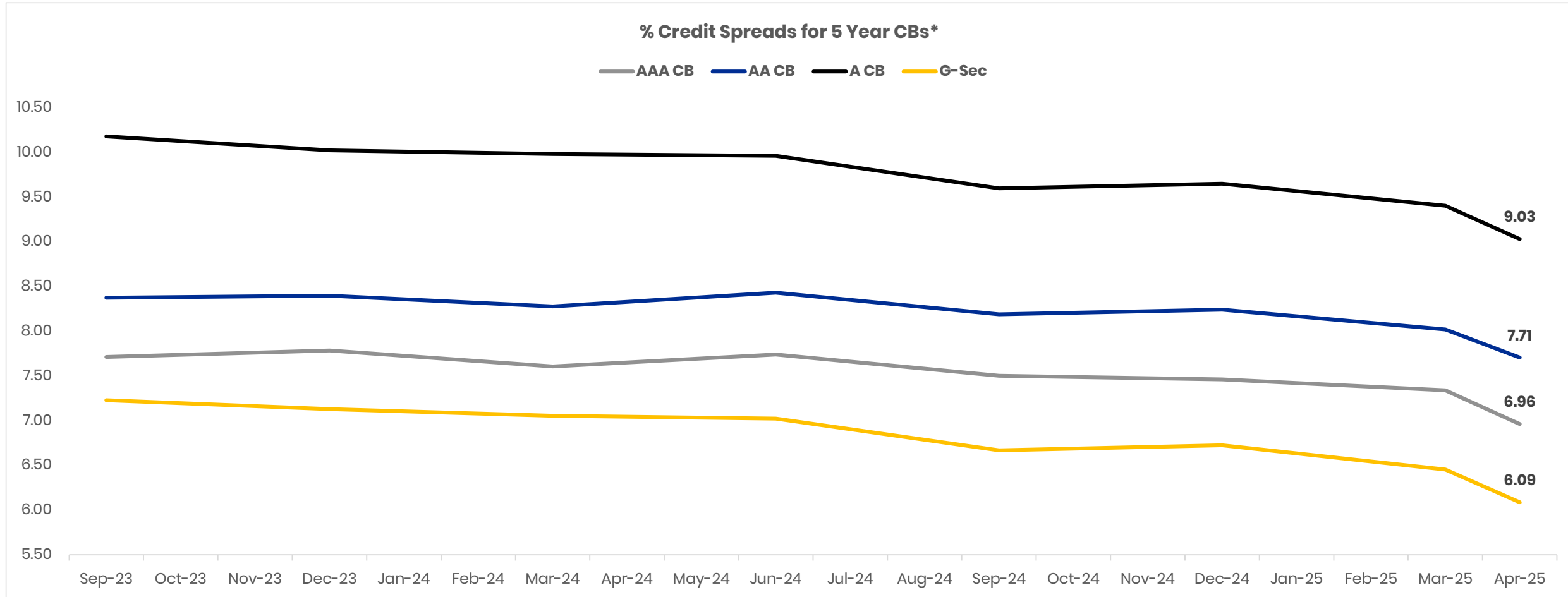
Downtrend in G-Secs continues across durations



➤ In Apr'25, yields of Government Securities declined across all maturities. This is second consecutive decline after December quarter.

Source: NSE; Bloomberg; RBI and External Sources. Data as on 30th Apr 2025. The above data is shown quarterly

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



- Credit spread between the G-Sec & AAA rated CB stands at 0.87%, down from 0.89%, whereas with AA rated CB it is 1.62% v/s 1.57% in March quarter
- 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 % | | | | | | SI | 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 | | | | | | | | | | |
| Active Duration Funds | | | | | | | | | | | | | | | | | |
| ICICI Pru All Seasons Bond Fund | Manish Banthia | Jan-10 | 14.64 | 11.12 | 10.13 | 8.47 | 7.27 | 8.90 | 8.53 | 4.13 | 1.29 | 7.32 | 64.03 | 32.95 | 2.77 | 0.25 | |
| Floating Rate Bonds | | | | | | | | | | | | | | | | | |
| HDFC Floating Rate Debt Fund | Shobhit Mehrotra | Oct-07 | 11.04 | 8.95 | 9.04 | 7.84 | 6.96 | 7.83 | 4.55 | 1.60 | 0.49 | 7.25 | 83.59 | 13.23 | 2.89 | 0.29 | |
| ICICI Pru Floating Interest Fund | Rohan Maru | Nov-05 | 9.79 | 7.84 | 8.50 | 7.67 | 6.91 | 7.65 | 4.13 | 1.18 | 1.18 | 7.50 | 68.14 | 29.65 | 1.76 | 0.45 | |
| Dynamic Fund | | | | | | | | | | | | | | | | | |
| Bandhan Dynamic Bond Fund | Suyash Choudhary | Dec-08 | 18.35 | 11.43 | 10.52 | 8.05 | 5.85 | 7.81 | 28.17 | 12.03 | 1.57 | 6.87 | 97.33 | 0.00 | 2.38 | 0.29 | |
| DSP Strategic Bond Fund | Sandeep Yadav | May-07 | 19.83 | 12.28 | 11.40 | 8.40 | 6.33 | 7.06 | 27.68 | 10.99 | 1.2 | 7.07 | 88.42 | 3.24 | 8.02 | 0.32 | |
| Arbitrage Funds | | | | | | | | | | | | | | | | | |
| Edelweiss Arbitrage Fund | Bhavesh Jain | Jun-14 | 6.61 | 6.74 | 7.19 | 6.73 | 5.48 | 6.19 | 0.46 | 0.45 | 1.06 | 6.54 | 17.83 | 77.91 | 4.26 | -- | |
| Invesco India Arbitrage Fund | Deepak Gupta | Apr-07 | 6.62 | 6.70 | 7.22 | 6.92 | 5.62 | 6.59 | 0.30 | 0.28 | 1.06 | 6.37 | 7.55 | 22.05 | 70.40 | -- | |
| Kotak Equity Arbitrage Fund | Hiten Shah | Sep-05 | 6.91 | 6.90 | 7.37 | 6.92 | 5.67 | 6.92 | 0.62 | 0.62 | 1.05 | 6.63 | -9.79 | 89.53 | 0.68 | -- | |
| Equity Saving Fund | | | | | | | | | | | | | | | | | |
| ICICI Pru Equity Savings Fund | Dharmesh Kakkad | Dec-14 | 12.15 | 7.92 | 9.34 | 8.88 | 11.14 | 7.95 | 2.18 | 1.41 | 0.96 | 6.39 | -- | -- | -- | -- | |
| Kotak Equity Savings Fund | Devender Singhal | Oct-14 | 17.53 | 5.89 | 7.91 | 11.88 | 12.96 | 9.26 | 2.78 | 2.24 | 1.77 | 6.61 | -- | -- | -- | -- | |

Exclusive Offers

Secondary Market Bond Yields

| ISIN | SECURITY DESCRIPTION | MATURITY | IP DATES | RATINGS | QUANTUM | YIELD |
|--------------|---|---|-------------|----------------------|--|--------|
| INE08XP07282 | 12.00% AKARA CAPITAL ADVISORS PRIVATE LTD. 2028 | 14-08-2028 | MONTHLY | BBB ICRA | MULTIPLE OF 10 LAKHS | 14.50% |
| INE0Z4807015 | 14.50% CUMULATIVE CYQUIRE INDIA PRIVATE LIMITED NCD 2028 (HINDUJA GROUP ENTITY) | 17-03-2028 | ON MATURITY | CARE BBB- Stable | MULTIPLE OF 10 LAKHS | 12.90% |
| INE04HY07229 | 12% VEDIKA CREDIT CAPITAL 2029 | 04-04-2029 | MONTHLY | IVR A- | MULTIPLE OF 5 LAKHS | 12.58% |
| INE148I07IR6 | 8.43% SAMMAAN CAPITAL LIMITED 2028 | 23-02-2028 | ANNUALLY | CRISIL AA | MULTIPLE OF 10 LAKHS | 11.60% |
| INE07HK07791 | 10.95% KRAZYBEE SERVICES PVT. LTD. 2026 | 50% 23-01-2026; 50% 23-07-2026 | MONTHLY | CARE A- | MULTIPLE OF 10 LAKHS | 11.40% |
| INE583D07596 | 10.50% UGRO CAPITAL LTD. 2028 | 24-10-2028 | MONTHLY | IND A+ | MULTIPLE OF 5 LAKHS | 11.00% |
| INE101Q07BA9 | 10% MUTHOOTU MINI FINANCIERS LTD 2028 | 21-03-2028 | MONTHLY | CARE A- | MULTIPLE OF 5 LAKHS | 10.67% |
| INE02VP07065 | 9.80% IKF HOME FINANCE LIMITED 2028 | 25% 24 JUN 2027; 25% 24 SEPT 2027; 25% 24 DEC 2027; 25% 24 MAR 2028 | QUARTERLY | A BY CARE | MULTIPLE OF 5 LAKHS | 10.05% |
| INE605Y07197 | 9.80% AUXILO FINSERVE PVT. LTD. 2028 | 29-01-2028 | QUARTERLY | CRISIL A+ | MULTIPLE OF 5 LAKHS | 9.95% |
| INE605Y07189 | 9.70% AUXILO FINSERVE PVT. LTD. 2027 | 29-01-2027 | QUARTERLY | CRISIL A+ | MULTIPLE OF 5 LAKHS | 9.95% |
| INE0GCN07039 | 9.95% ADANI AIRPORT HOLDINGS LIMITED 2028 | 12-06-2028 | ANNUALLY | IND A+ | MULTIPLE OF 5 LAKHS | 9.91% |
| INE658F08235 | 9.49% KERALA INFRASTRUCTURE INVESTMENT FUND BOARD (GUARANTEED BY THE GOVERNMENT OF KERALA , LISTED NCD) - 2029 | 25% 8 Jan 2029; 25% 8 Apr 2029; 25% 8 Jul 2029; 25% 8 Oct 2029 | QUARTERLY | AA BY INDIA & ACUITE | 10 LAKHS ONLY | 9.74% |
| INE348L07209 | 9.57% MAS FINANCIAL SERVICES LTD. 2027 | 21-06-2027 | MONTHLY | AA- CARE | MULTIPLE OF 5 LAKHS | 9.60% |
| INE121A08PB7 | 9.45% CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED PERP 2033 | 01-03-2033 | ANNUALLY | ICRA AA | 5 LAKHS ONLY | 9.15% |
| INEIC3207032 | 9.35% TELANGANA STATE INDUSTRIAL INFRASTRUCTURE CORPORATION LIMITED 2032 (GUARANTEED BY THE GOVERNMENT OF TELANGANA , SENIOR SECURED NCD) | 25% 31 Mar 2032; 25% 30 Jun 2032; 25% 30 Sep 2032; 25% 30 Dec 2032 | QUARTERLY | IRA AA | MULTIPLE OF 10 LAKHS (LIMITED QUANTUM) | 8.95% |

*Above mentioned rates are tentative as on 15th May'25 & subject to change as per market conditions. Kindly check the availability of 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.