panorama

August 2025

Key Insights:

Operating margins in the listed corporate sector have trended upward over the past 15 years

- Margin expansion has been driven primarily by the manufacturing sector
- Margins in the services sector have remained broadly stable, while those in construction have declined
- High initial margins have declined over subsequent years (FY11-25) as new entrants eroded profitability
- Operating margins in telecom, hospitality, and logistics sectors in FY25 are well above their long-term averages
- Expect competitive intensity to pick up in sectors with high margins and low barriers to entry

Subdued inflation and a slowing economy call for at least one more 25-bps rate cut

- CPI inflation fell to an eight-year low of 1.55% YoY in July 2025, while core inflation stayed elevated at 4.2%
- However, core inflation ex. gold & silver stands at a modest 3.15%, indicating subdued underlying pressures
- Leading indicators, excluding rural metrics, point to a significant slowdown in economic activity since May 2025
- We currently see minimal upside risks to inflation, while significant downside risks to growth exist
- Hence, there is room to implement another 25-50 bps of rate cuts in the current easing cycle

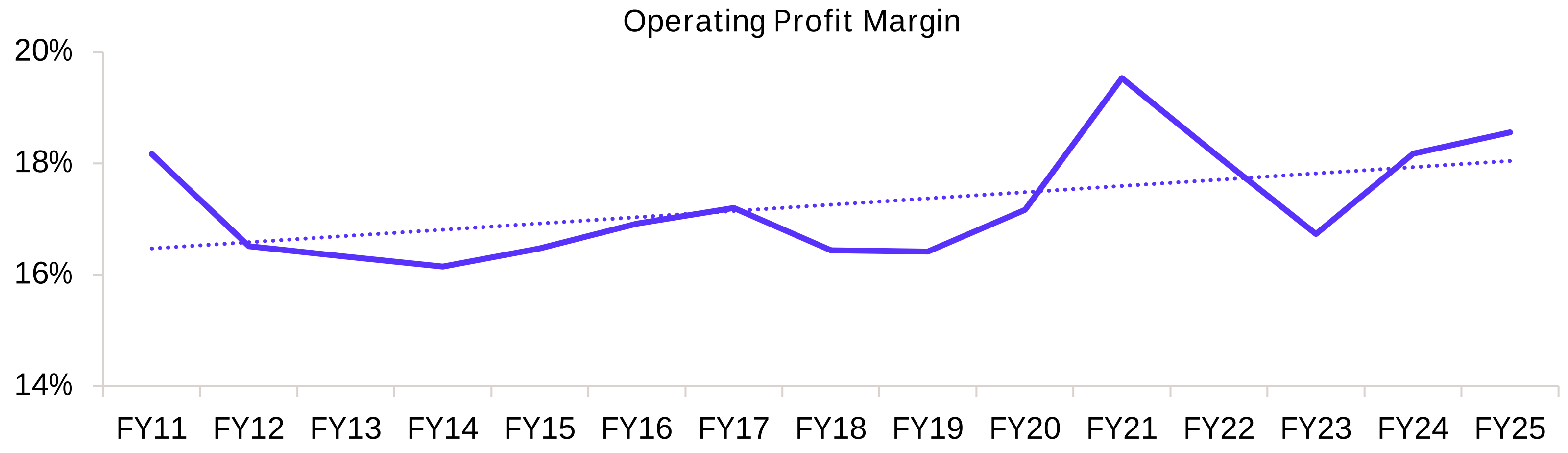
Corporate bond issuance has picked up owing to favourable market interest rates

- Corporate bonds are up 13% YoY and commercial paper 18% YoY, versus muted bank credit growth of 9–10%
- High-rated corporates/NBFCs can raise funds at much lower rates through market borrowings
- Low-rated corporates/NBFCs and MSMEs would still need to rely on banks for funding

Corporate Margins

Operating profit margins have broadly trended upward over the past 15 years

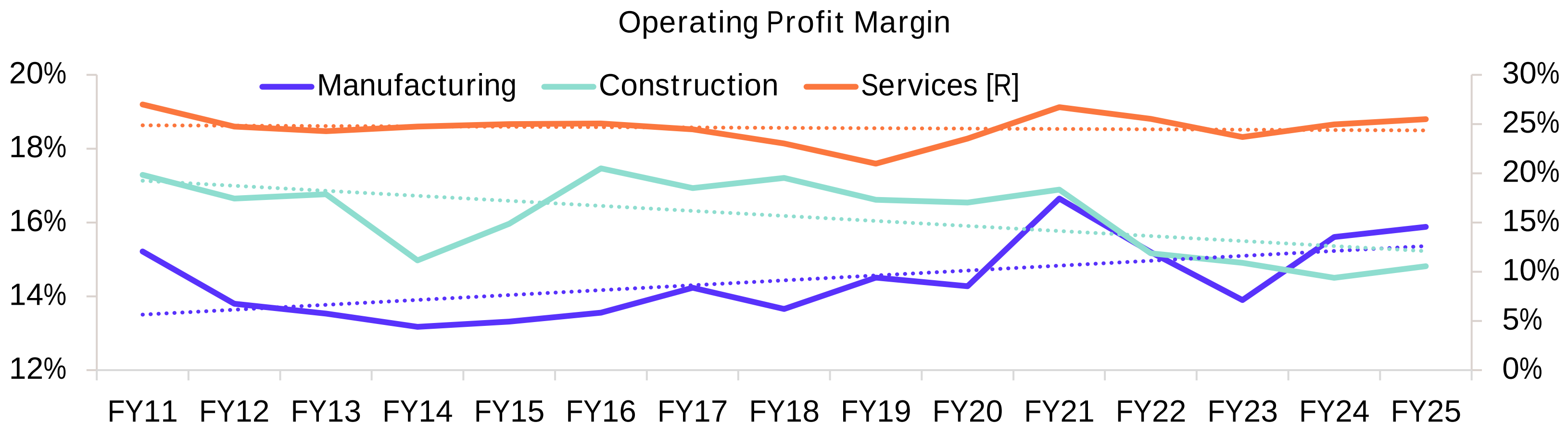
Margin expansion has been driven primarily by the manufacturing sector, while margins in services have remained flat



The operating profit margins for the listed corporate sector have broadly trended upwards over the past 15 years

Indian corporates have generally prioritized profitability over scale

The shift toward premium products in specific sectors could have also contributed to higher overall margins



The margin expansion has been driven primarily by the manufacturing sector

Margins in the services sector, on aggregate, have remained broadly flat, but there are wide divergences across sub-sectors

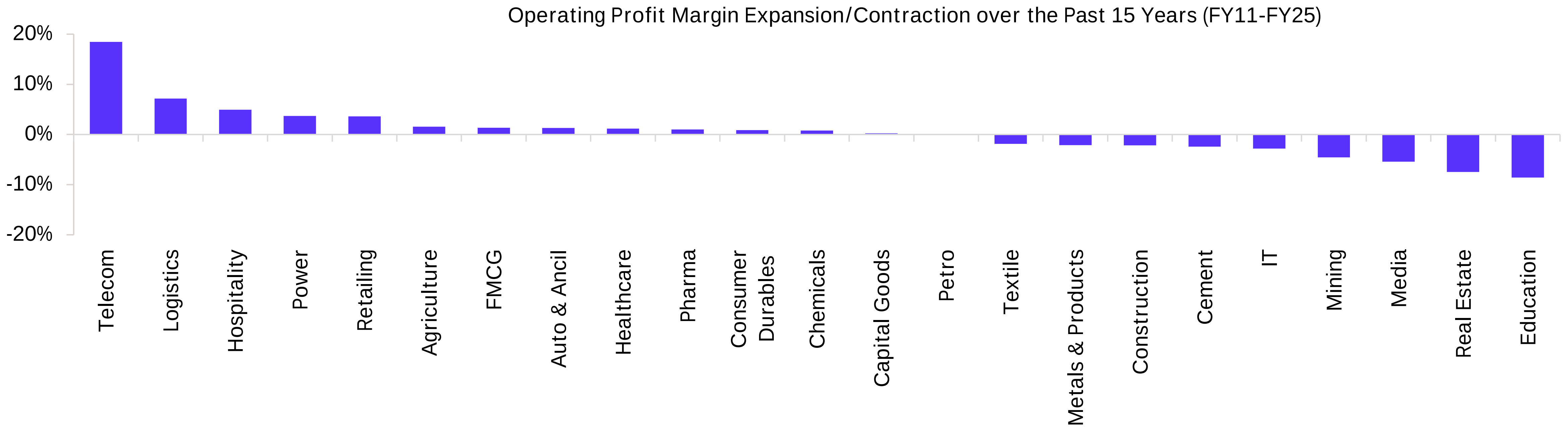
Construction has witnessed a decline in profitability over the past 15 years

Source: Ace Equity, 360 ONE Asset Research

Note: The above analysis is based on a set of listed companies and excludes sectors such as mining, petroleum, metals, and power

Telecom sector has recorded the widest expansion in margin

Logistics, hospitality, power, and retail sectors have also witnessed significant margin expansion



Margin expansion in the telecom sector has been driven by reduced competitive intensity and significant barriers to entry

Logistics, hospitality, and power sectors have also witnessed substantial margin gains

Margins in the retail sector have also improved, albeit from a very low base

FMCG operating margins have expanded despite an increase in competitive intensity in the sector

Education, real estate, cement, and construction are the key sectors that have witnessed a decline in operating profit margins

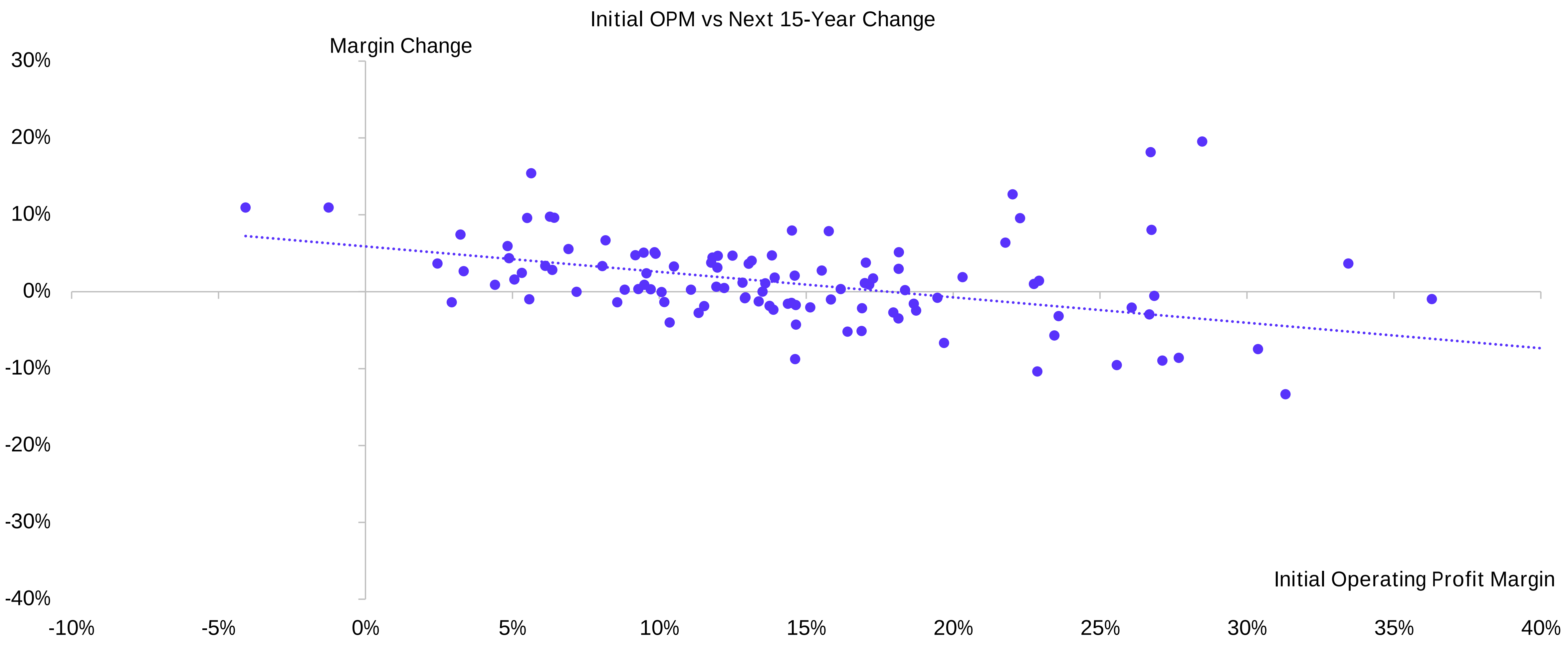
Decline in IT margins has kept the aggregate services sector margins flat

Source: Ace Equity, 360 ONE Asset Research

Note: Margin change is computed as the difference between the average for FY23–FY25 and the average for FY11–FY13

Negative correlation between initial margins and change over the next 15 years

High margins attract new entrants or aggressive expansion from existing players, eroding profitability



Source: Ace Equity, 360 ONE Asset Research

Note: Margin change is computed as the difference between the average for FY23–FY25 and the average for FY11–FY13; initial operating margins refer to the FY11–FY13 average

Telecom, hospitality, and logistics margins well above their long-term average

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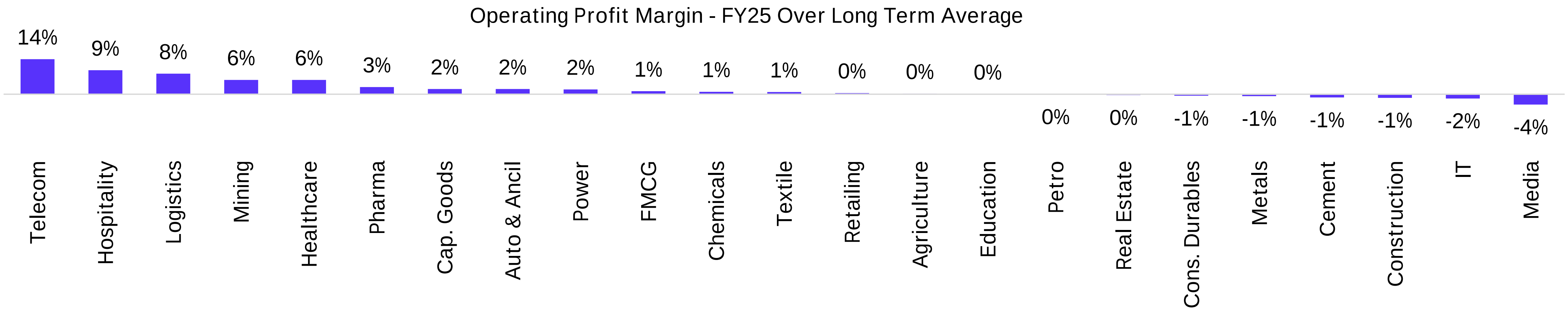
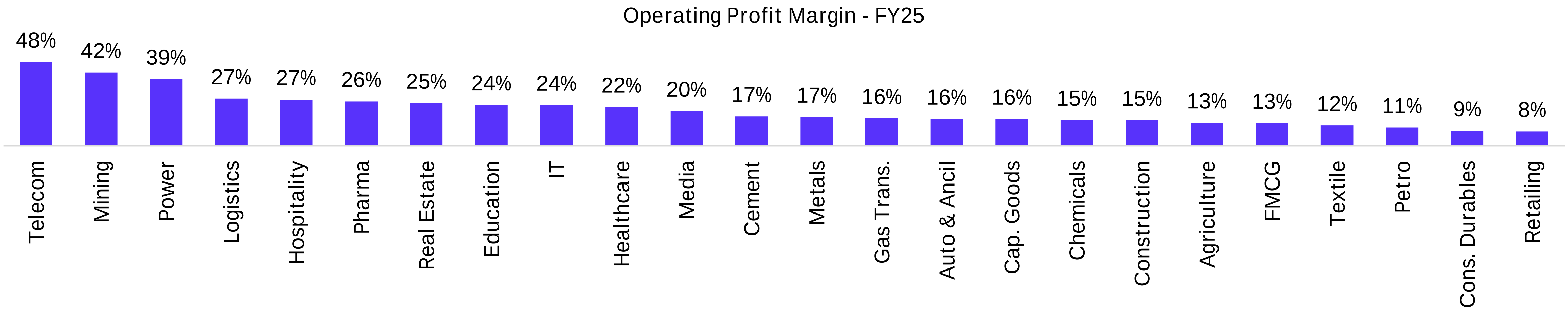
Expect competitive intensity to pick up in sectors with high margins and low barriers to entry



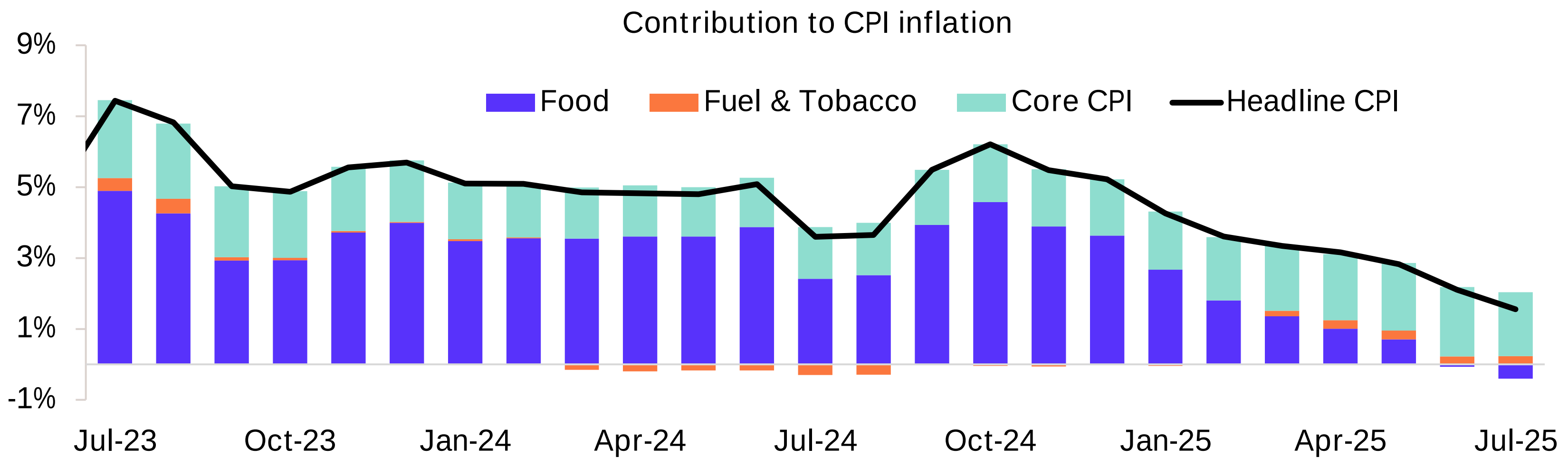


Source: Ace Equity, 360 ONE Asset Research

Monetary Policy

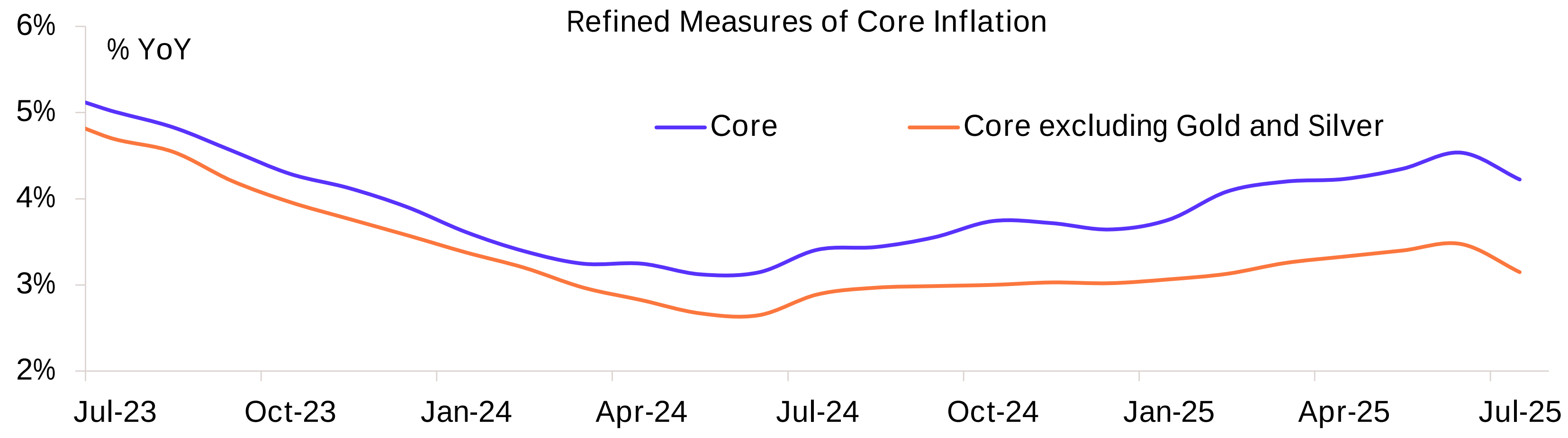
CPI inflation drops to an 8-year low of 1.55% YoY in July 2025

Core inflation (excluding gold & silver) also remains benign at 3.15% YoY



The steady decline in headline inflation has primarily been driven by a correction in food inflation

Healthy monsoon progress and robust kharif sowing should help keep food inflation contained



Core inflation remains comparatively elevated at 4.2% in July 2025, largely supported by higher gold prices

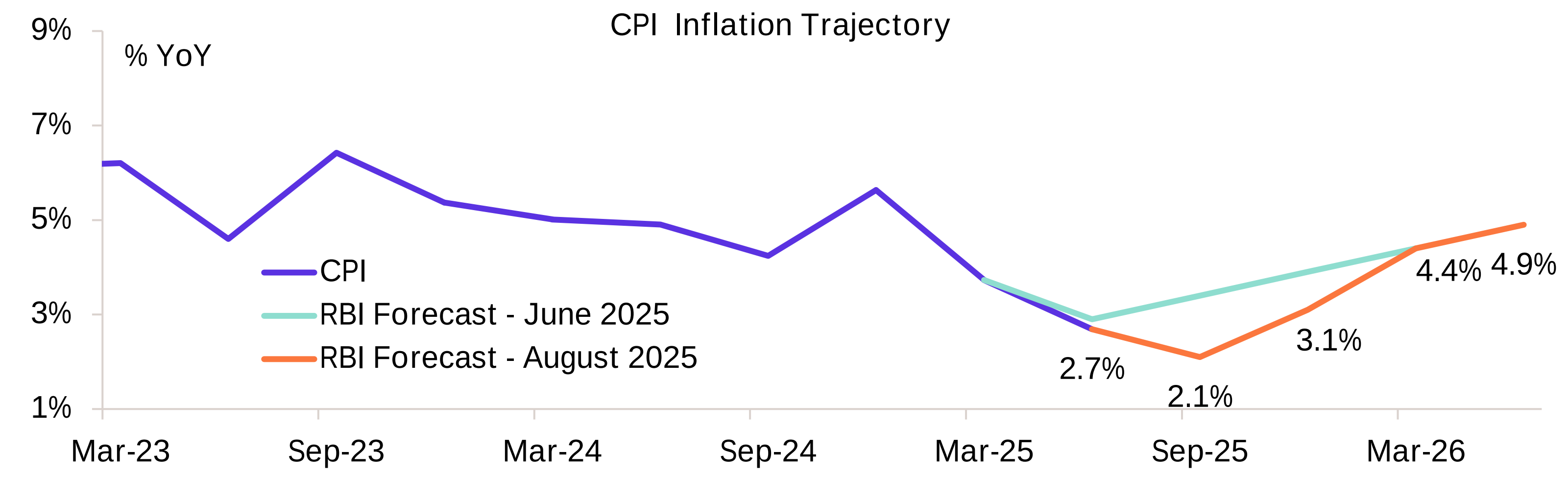
Core inflation, excluding gold and silver, stands at a modest 3.15% YoY

Hence, the underlying inflationary pressures remain quite subdued

Source: MOSPI, 360 ONE Asset Research

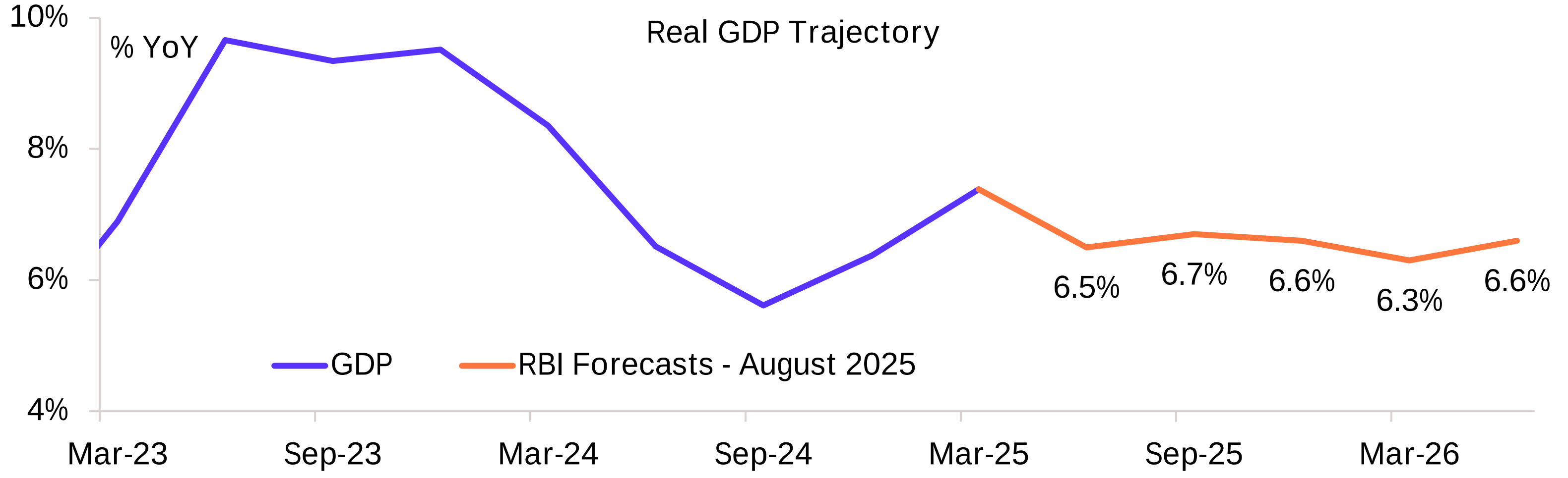
RBI revised CPI projections lower in the August 2025 policy

Growth projections remain unchanged, but visible downside risks persist



The RBI has lowered its FY26 CPI inflation projection to 3.1% in August 2025 from 3.7% in the previous policy

At present, we foresee minimal upside risks to the inflation trajectory



The RBI has retained its FY26 GDP growth projection at 6.5% YoY, although significant downside risks to the growth trajectory persist, mainly stemming from an uncertain external environment

Source: RBI, 360 ONE Asset Research

Leading indicators, excluding rural, point to subdued economic activity

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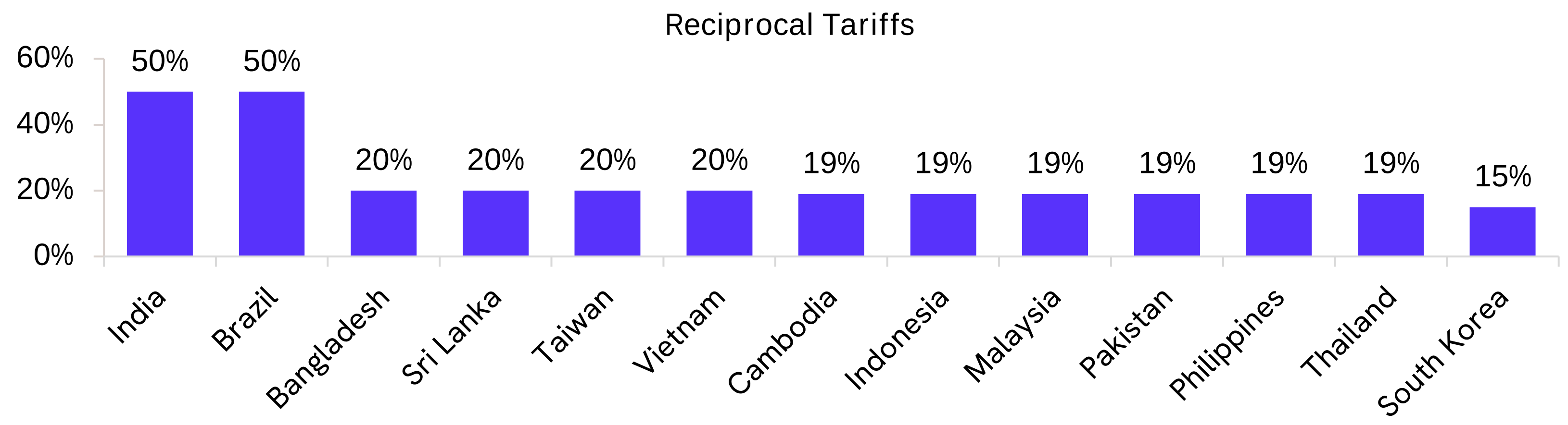
Multiple indicators point to a slowdown in activity over the past three months

Indicator	Unit	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Rural Wage Growth	YoY%	6%	6%	6%	6%	7%		
2 Wheeler Registrations	YoY%	5%	-6%	-1%	3%	8%	5%	-6%
Tractor Registrations	YoY%	4%	-16%	-7%	7%	2%	8%	11%
3 Wheeler Registrations	YoY%	7%	-2%	-6%	24%	6%	7%	1%
MGNREGS Work Demanded	Cr Nos.	2.7	2.7	2.4	2.7	3.8	3.5	2.0
Agricultural Credit	YoY%	12%	11%	10%	9%	7%	7%	
Passenger Car Registrations	YoY%	19%	-8%	10%	5%	1%	6%	0%
Airport Passengers Handled	YoY%	13%	11%	9%	10%	3%	4%	
E-way Bill Generations	YoY%	23%	15%	20%	23%	19%	19%	26%
GST Collections	YoY%	12%	9%	10%	13%	16%	6%	8%
Steel Consumption	YoY%	9%	11%	14%	6%	8%	9%	7%
Cement Production	YoY%	13%	9%	11%	6%	8%	7%	
IIP	YoY%	5%	3%	4%	3%	2%	2%	
PMI Manfuacturing	Index	58	56	58	58	58	58	59
PMI Services	Index	57	59	59	59	59	60	61

Source: CMIE, 360 ONE Asset Research

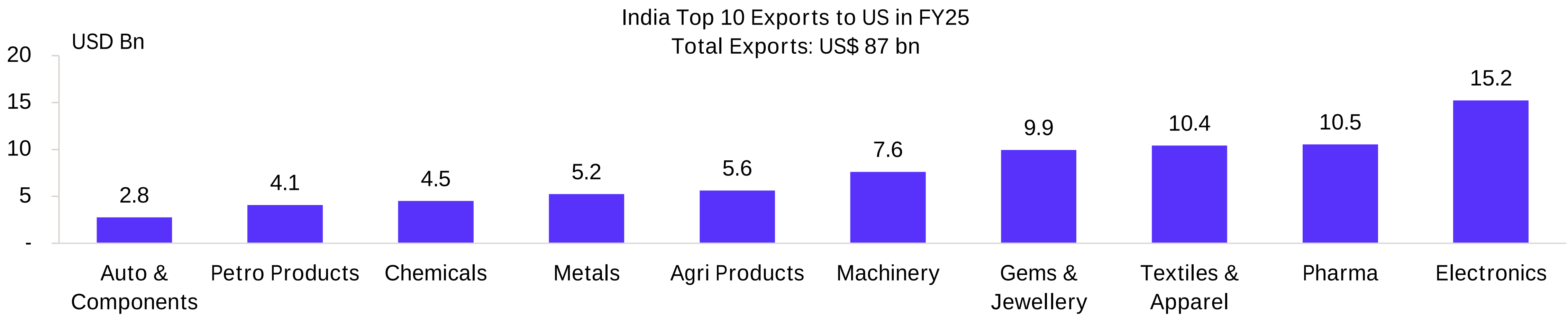
Rising growth risks justify another 25-50 bps of rate cuts

Higher tariffs on India's exports to the US could push down economic growth



Higher tariffs on India's exports to the US, along with persisting global uncertainty, pose downside risks to the growth trajectory

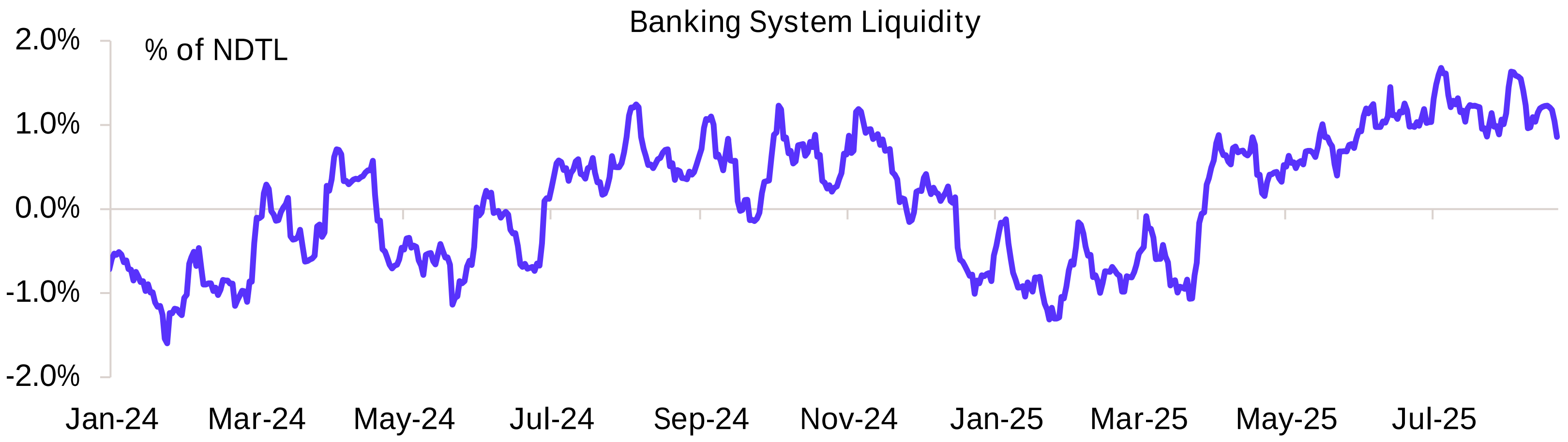
Hence, we see scope for another 25–50 bps of rate cuts, as benign inflation allows room to prioritise growth



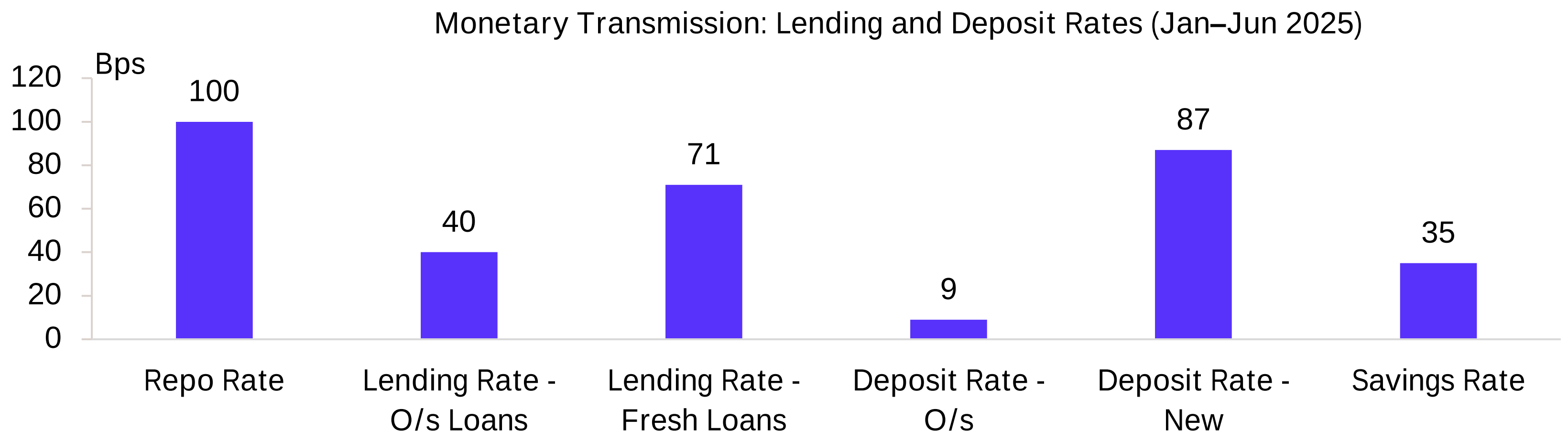
Source: White House, CMIE, 360 ONE Asset Research

Transmission to credit and deposits is underway following the rate cuts

The RBI is maintaining a large liquidity surplus, ensuring swifter transmission of rate cuts to the broader economy



The RBI is maintaining surplus liquidity to ensure faster transmission of the 100 bps rate cuts to credit and deposit rates



The transmission to bank deposit and lending rates is still underway, although the pace so far has been swift

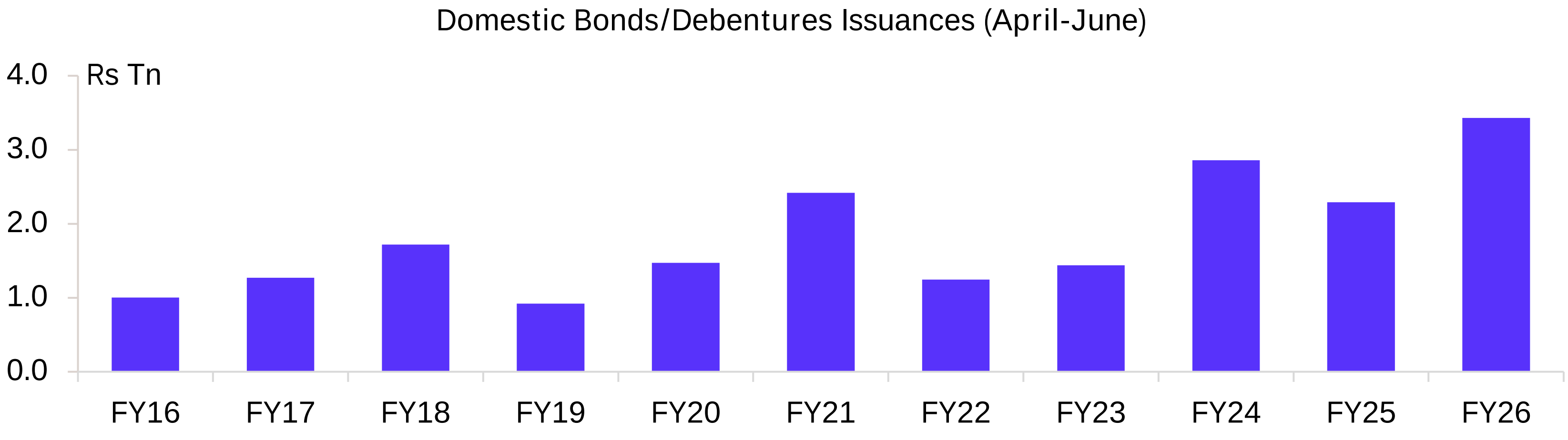
Source: CMIE, RBI, 360 ONE Asset Research

Note: NDTL – Net Demand and Time Liabilities. Data on savings rate relate to 5 major banks.

Corporate bonds

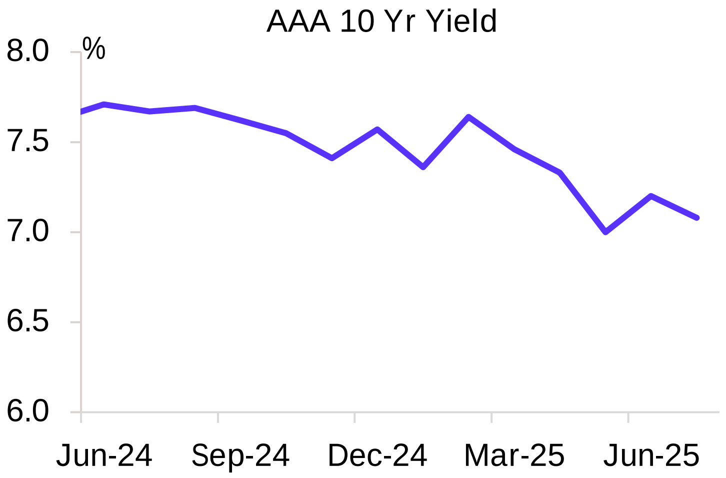
Corporate bond issuance have picked up in Q1FY26

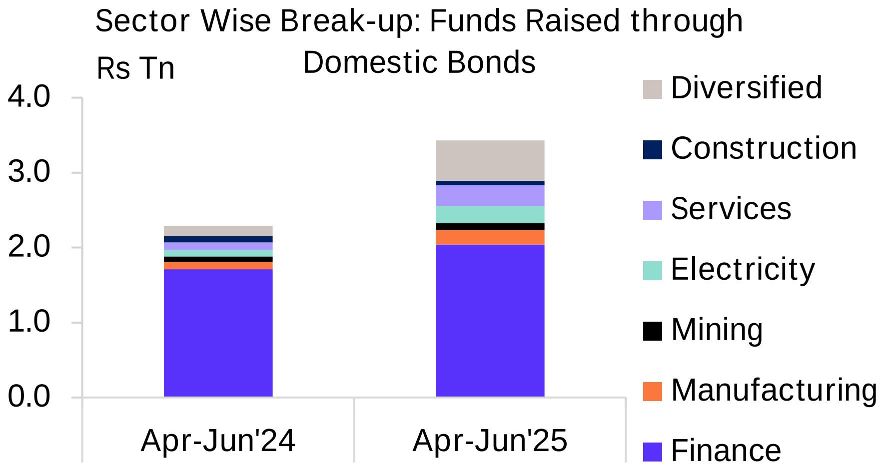
The pickup in issuance is broad-based, with the financial sector recording the largest increase



Corporate bond issuances in Q1FY26 stand at Rs 3.4 tn, significantly higher than Rs 2.3 tn raised in Q1FY25

The fall in yields has helped boost issuances





Issuances have picked up across all sectors

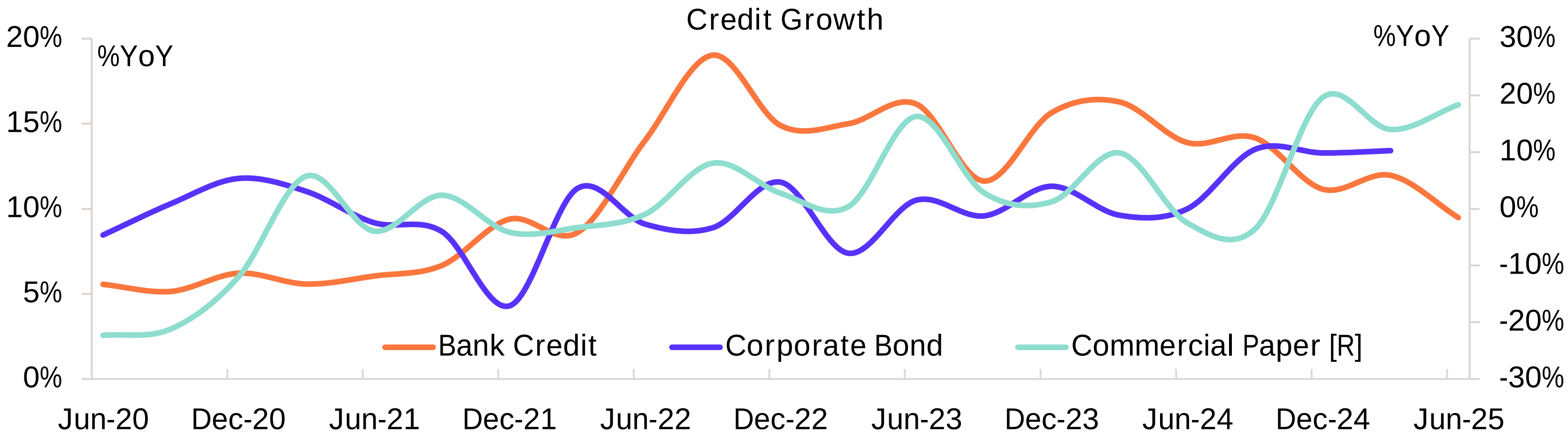
The financial sector continues to account for the largest share and has seen the steepest increase in issuances

NBFCs have relied on market borrowings as bank credit to them has slowed due to regulatory tightening

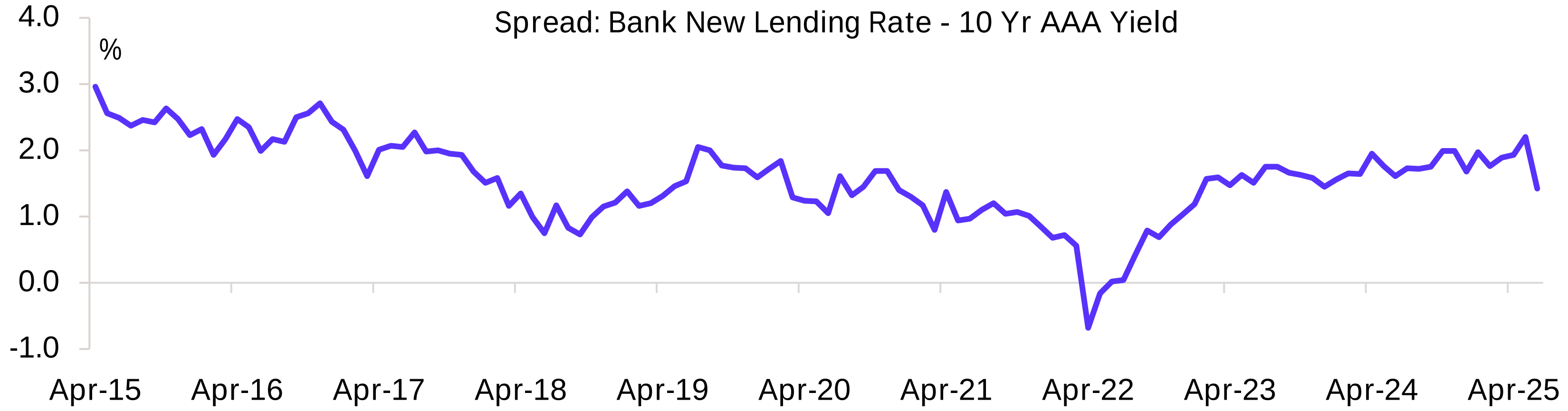
Source: CMIE, 360 ONE Asset Research

Corporate bonds and commercial paper have offset weak bank credit

The wide gap between banks' lending rates and 10-year AAA yields has made market borrowings far more attractive



Corporate bonds are growing at 13% YoY and commercial paper at 18% YoY, compared to muted bank credit growth of around 9–10% YoY



High-rated corporates/NBFCs can raise funds at much lower rates through the corporate bond market than via bank loans

We expect this trend to continue for high-rated firms/NBFCs, while low-rated corporates and MSMEs may still need to rely on banks for funding

Source: SEBI, RBI, CMIE, 360 ONE Asset Research

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