

# Valuation INDIA

# Valuation ARABIA

FEBRUARY 2026 EDITION

## India & Global Macro Pulse

# Policy, Trade, Capital & Structural Signals

The past month has delivered significant macroeconomic and policy developments reshaping India's growth trajectory and influencing global capital flows. From the conclusion of the India–EU Free Trade Agreement to updated NITI Aayog frameworks, RBI monetary signals, and fresh IMF projections, this edition delivers a comprehensive analytical read across the forces shaping India's medium-term economic positioning.

### Policy Reform

NITI Aayog priorities, state competitiveness & green industrial strategy

### Trade Integration

India–EU FTA concluded; export diversification accelerating

### Monetary Signals

RBI vigilance on inflation, liquidity & banking stability

### Global Divergence

India at ~6%+ growth vs. sub-2% in advanced economies

## EXECUTIVE SUMMARY

# The Strategic Landscape: What This Edition Covers

February 2026 marks a pivotal inflection point in India's macroeconomic narrative. The convergence of trade agreement milestones, manufacturing policy upgrades, energy transition frameworks, and monetary recalibration has created a complex but broadly constructive environment for institutional capital and long-horizon strategic positioning. Understanding the interplay between these forces is essential for navigating the months ahead.

At the corporate level, Q3 earnings divergence has reinforced a fundamental truth: India's structural growth story remains resilient, but capital allocation is becoming significantly more disciplined and policy-sensitive. Hyper-growth models are giving way to efficiency-focused frameworks, and investors are differentiating sharply between businesses with structural tailwinds and those carrying legacy leverage.

## Core Thesis

India's growth trajectory remains intact. The structural pillars – domestic demand, trade integration, manufacturing expansion, and digital infrastructure – continue to provide durable support. However, global headwinds and regulatory evolution will increasingly determine competitive advantage.

The coming quarter is best characterised as a period of **measured expansion** rather than exuberant growth – where policy stability and disciplined capital allocation shape outcomes more decisively than short-term market sentiment.

## Five Macro Themes

- India's structural growth momentum continues
- Global growth is moderating across advanced economies
- Manufacturing and energy transition are long-term catalysts
- Regulatory oversight and tax governance are tightening
- Capital allocation is becoming increasingly selective

This edition examines how trade agreements, manufacturing policy, energy transition strategies, monetary conditions, and global growth divergence collectively shape India's medium-term economic positioning – providing actionable signals for institutional investors, corporate strategists, and policy analysts.

# NITI Aayog: Manufacturing, Green Growth & State Competitiveness

Recent NITI Aayog updates underscore three priority themes that are collectively reorienting India's economic architecture over the medium to long term. These themes – Global Value Chain integration, green industrial strategy, and state-level competitiveness – are not isolated policy exercises. They represent an integrated framework designed to shift India from a services-dominant economy towards a balanced industrial growth model with significantly higher export intensity.



## Global Value Chain Integration

India is accelerating integration into global supply chains across **electronics & semiconductors**, defence manufacturing, renewable energy equipment, and advanced materials. This is expected to drive increased capital formation in industrial corridors, higher export intensity of manufacturing output, and a gradual structural shift away from the services-dominant growth model that has characterised the past two decades.



## Energy Transition & Green Industrial Strategy

NITI Aayog continues to advance frameworks around **green hydrogen development**, battery storage ecosystems, renewable capacity expansion, and carbon intensity reduction. The macroeconomic implications are substantial: capital reallocation toward clean energy sectors, infrastructure-led investment cycles, and materially increased participation in ESG-linked global funding pools – positioning India as a credible destination for climate-aligned institutional capital.



## State-Level Growth Divergence

Recent competitiveness assessments reveal **widening performance gaps** among Indian states. Gujarat and Tamil Nadu lead in manufacturing on the strength of port access and industrial clusters; Karnataka and Telangana dominate in services and IT via digital infrastructure; Maharashtra maintains a logistics advantage through integrated transport networks. This divergence will influence domestic capital concentration, infrastructure prioritisation, and employment migration trends through 2026 and beyond.

## STATE COMPETITIVENESS

# State-Level Industrial Divergence: A Deeper Analysis

The widening performance differentials across Indian states represent one of the most consequential structural dynamics for domestic capital allocation and investment strategy over the coming decade. NITI Aayog's latest competitiveness assessments make clear that a handful of states are pulling decisively ahead – and the structural advantages underpinning their leadership are deepening, not narrowing.

For institutional investors and corporate strategists, state-level divergence is no longer a background consideration. It is an active variable in site selection, supply chain design, workforce planning, and regulatory risk assessment. The ability to identify which states offer durable structural tailwinds versus cyclical advantages will increasingly separate superior capital allocation from suboptimal positioning.

Category	Leading States	Structural Advantage
Manufacturing	Gujarat, Tamil Nadu	Port access, established industrial clusters, SEZ ecosystems, skilled labour pools
Services & IT	Karnataka, Telangana	Digital infrastructure, talent concentration, startup ecosystems, global connectivity
Logistics	Maharashtra	Integrated transport networks, financial services hub, multi-modal connectivity
Emerging Hubs	Andhra Pradesh, Rajasthan	Renewable energy capacity, infrastructure build-out, competitive land costs

Three downstream implications warrant close monitoring. First, domestic capital concentration will increasingly favour a narrow set of high-performing states, potentially creating feedback loops that further entrench existing advantages. Second, infrastructure prioritisation at the national level – including dedicated freight corridors and PM GatiShakti initiatives – may partially offset structural disadvantages in lagging states, but the pace of catch-up remains uncertain. Third, employment migration trends will accelerate as workers follow capital, creating demographic and fiscal pressures in both origin and destination states that policymakers will need to actively manage.

- State divergence is not merely an economic observation – it has direct implications for portfolio construction, sectoral exposure, and risk assessment for any institutional investor with significant India allocations.

# India–EU Free Trade Agreement: Strategic Significance & Sectoral Impact

The conclusion of India–EU Free Trade Agreement negotiations represents arguably the most consequential trade development for India in the past decade. A comprehensive framework covering goods, services, and regulatory cooperation with the European Union – India's largest trading bloc partner – opens a structural upgrade pathway for export-oriented industries and signals a step-change in India's willingness to engage with high-standard international trade architecture.

The strategic context matters as much as the commercial mechanics. The agreement arrives at a moment of accelerating global trade fragmentation, with China-plus-one supply chain strategies actively reshaping where multinational corporations locate manufacturing and sourcing. India's ability to offer a credible, rules-based trade environment with preferential EU market access positions it as a natural beneficiary of this structural reordering – particularly in sectors where European buyers are actively seeking diversification from concentrated Asian supply chains.

## Textiles & Apparel

Tariff reductions unlock meaningful cost competitiveness against Bangladesh and Vietnam, potentially redirecting substantial EU buyer flows toward Indian manufacturers.

## Marine Products & Gems

Improved market access for seafood and gems & jewellery addresses longstanding tariff asymmetries and opens premium European consumer markets.

## Auto Components & Engineering

Integration into European automotive supply chains accelerates as Tier-1 and Tier-2 suppliers gain preferential access to EU OEM procurement programmes.

## Services & Digital Trade

Regulatory cooperation provisions create a foundation for expanded IT, professional services, and digital services trade – a significant prize given India's established service export infrastructure.

The broader trade architecture is also strengthening. India's growing network of agreements – including the EFTA pact and various regional arrangements – reinforces a deliberate strategy of diversifying export destinations amid slowing global trade growth. For capital market participants, this translates into improved earnings visibility for export-oriented corporates, reduced concentration risk in India's external account, and a more favourable medium-term current account outlook. Implementation timelines and sector-specific rules of origin will be critical variables to monitor as the agreement moves toward ratification.

# RBI Policy Direction: Calibrated Vigilance in an Uncertain Landscape

The Reserve Bank of India continues to project a posture of calibrated vigilance – a framework that balances the imperative of supporting domestic growth with the disciplined management of inflation, liquidity, and financial system stability. In the current global environment, where monetary policy divergence across major central banks is creating significant capital flow volatility, the RBI's measured approach represents a meaningful source of institutional credibility for India's macroeconomic positioning.

## Policy Priorities

- **Inflation vigilance:** Core inflation trends remain under active monitoring, with particular attention to food price volatility and global commodity pass-through
- **Liquidity calibration:** System liquidity management is being actively adjusted to ensure credit availability without fuelling speculative excess
- **Banking system stability:** Asset quality metrics remain robust, with gross NPA ratios at multi-year lows across scheduled commercial banks
- **Credit quality monitoring:** Retail and MSME credit growth remains strong; concentration risk in unsecured lending segments is under surveillance

## Implications for Capital

Domestic consumption remains well-supported by real income growth and credit availability. Real estate and infrastructure financing continues to benefit from a constructive rate environment.

Capital formation metrics remain stable, providing a reliable foundation for corporate investment planning through the near term.

**Key external risks:** Global commodity price volatility, geopolitical disruptions to energy markets, and potential spillover from advanced economy monetary policy shifts remain the primary channels through which external stress could transmit into India's financial system.

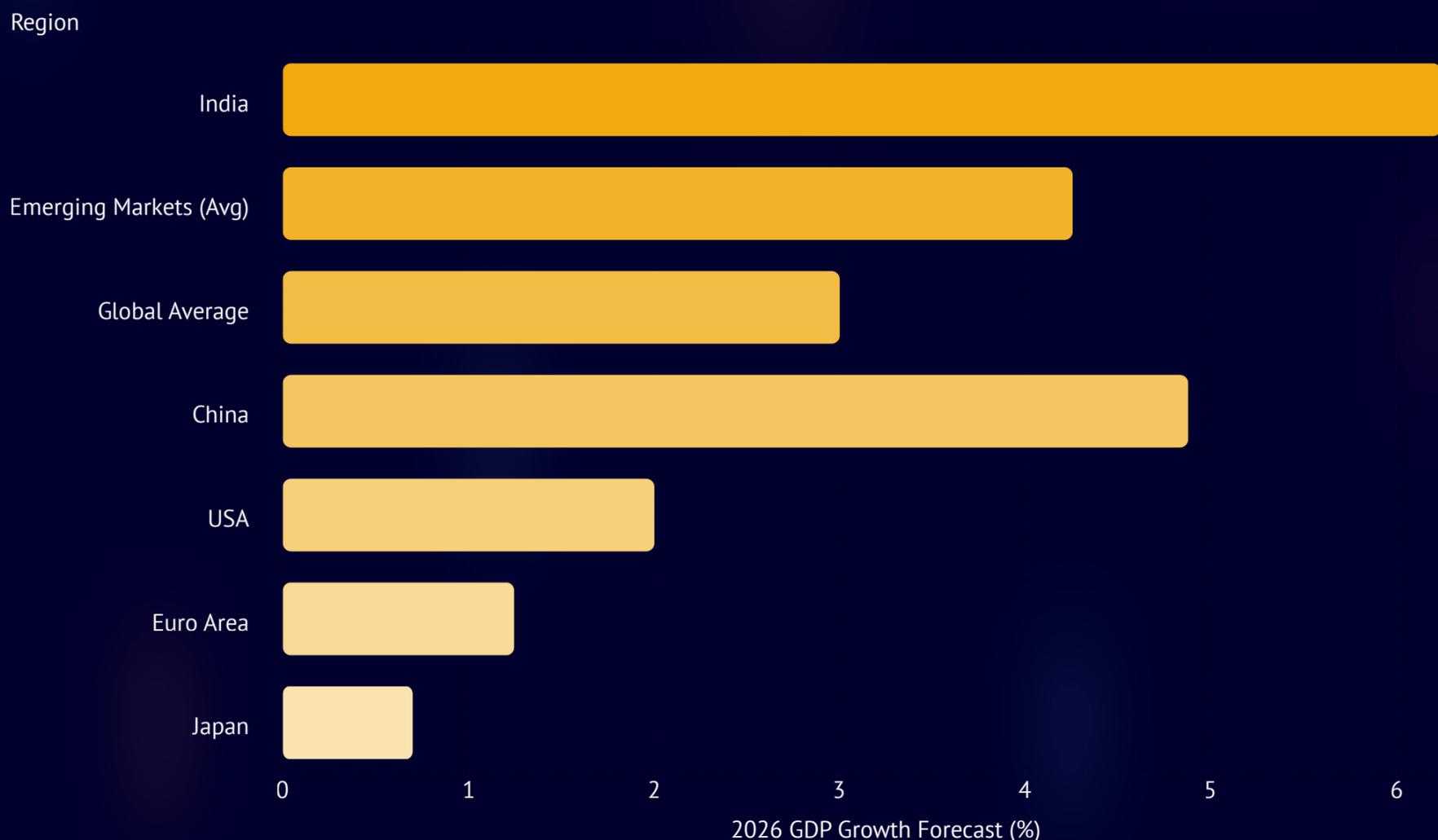
For institutional investors, the RBI's policy trajectory signals a broadly supportive environment for domestic rate-sensitive assets through the near term, with the caveat that global shock scenarios – particularly an energy price spike or a sharp USD strengthening cycle – could force a reactive policy response. The central bank's demonstrated capacity for pre-emptive communication and credible commitment to price stability provides a meaningful buffer, but it is not a complete insulator from external volatility. Monitoring RBI commentary and liquidity operations data will remain essential inputs for any India fixed-income or currency strategy in 2026.

# IMF & UN Projections: India in a World of Growth Divergence

The latest IMF and UN economic updates paint a picture of persistent global growth moderation – and within that context, India's relative macroeconomic positioning has rarely appeared more differentiated or more strategically significant. Global GDP growth is projected in the range of 2.7–3.0% for 2026, a figure that sits meaningfully below the long-term post-war average and reflects the cumulative drag from tighter monetary conditions, elevated debt levels, and structurally slowing productivity growth in advanced economies.

## Key Observations

- India remains the **fastest-growing major economy** globally at ~6%+
- Advanced economies are collectively sub-2%, reflecting structural deceleration
- Emerging markets show divergent performance – India, Indonesia, and Vietnam leading; others stagnating
- Global trade fragmentation risks persist, creating both threats and opportunities
- Capital reallocation toward higher-growth regions is an active macro theme



For global capital allocators, the growth divergence narrative has direct portfolio implications. The widening differential between India's growth trajectory and that of advanced economies – particularly when adjusted for institutional quality, demographic dividends, and policy reform momentum – creates a compelling structural case for sustained overweight positioning in India-linked assets. The critical question is not whether India will grow faster than developed markets, but whether the pace of structural reform and corporate governance improvement is sufficient to absorb the capital flows that this growth premium will continue to attract. On current evidence, the answer appears broadly affirmative – but execution risk in infrastructure delivery and regulatory consistency warrants continued monitoring.

# Supreme Court Ruling on Offshore Investments & Evolving Tax Governance

The recent Supreme Court ruling impacting the tax treatment of offshore investments – notably involving historic treaty structures routed through Mauritius – represents a significant marker in India's evolving approach to cross-border capital governance. The ruling signals heightened judicial scrutiny of capital routing arrangements that, while historically compliant, may no longer align with India's progressively strengthened general anti-avoidance principles and its commitments under the OECD's Base Erosion and Profit Shifting framework.

For institutional investors with legacy offshore structures, the practical implications require immediate attention. Historical treaty benefits that were previously well-established may now face retrospective scrutiny in specific circumstances, and the compliance burden for demonstrating substantive economic activity in intermediate jurisdictions has increased materially. The ruling reflects a broader international trend toward substance-over-form analysis in cross-border tax matters – one that India has increasingly aligned itself with as it seeks to balance foreign capital attraction with revenue integrity.

1

## Heightened Scrutiny

Cross-border capital routing arrangements – particularly those involving low-substance intermediate jurisdictions – will face closer examination by tax authorities and the judiciary.

2

## Compliance Expectations

Institutional investors must ensure robust substance documentation for offshore structures. Demonstrating genuine economic presence in intermediate jurisdictions is no longer optional.

3

## Regulatory Oversight

The ruling reinforces India's commitment to transparency and alignment with OECD BEPS standards – a signal that governance frameworks will continue to tighten, not relax.

4

## Strategic Repositioning

Sophisticated investors will review legacy structures and migrate toward arrangements with genuine operational substance and full documentation – ahead of rather than in response to regulatory action.

More broadly, the ruling is best understood not as an isolated judicial event but as a data point within a coherent and accelerating trajectory. India's tax governance framework is undergoing a structural upgrade – one that simultaneously seeks to maintain India's attractiveness as an investment destination while eliminating arrangements that erode the domestic tax base. This dual objective creates a nuanced environment in which well-structured, genuinely substantive foreign investment continues to receive strong institutional support, but legacy optimisation strategies will face increasing headwinds. The message for institutional capital is clear: transparency, substance, and proactive compliance are the non-negotiable foundations of sustainable cross-border investment positioning in India.

# Q3 Earnings Divergence: What the Corporate Landscape Is Telling Us

The Q3 earnings season has delivered a set of results that, taken collectively, illuminate the deeper structural shifts underway in India's corporate economy. Divergence – between sectors, between business models, and between companies with genuine earnings power and those dependent on volume growth or margin expansion – is the defining characteristic of the current reporting cycle. For capital allocators, this divergence is not noise; it is signal.

Company	Result	Trend	Broader Economic Signal
Tata Consumer Products	+38% profit	Outperform	Consumer staples resilience; branded FMCG pricing power intact
Vodafone Idea	Loss narrowed	Stabilising	Telecom sector stabilisation, but leverage overhang persists
Asian Paints	Profit declined	Under pressure	Margin compression in discretionary demand; input cost sensitivity

The technology sector presents a more complex picture. Selective layoffs at edtech firms and leadership restructuring at major IT companies reflect a systemic recalibration rather than isolated corporate events. The hyper-growth phase – characterised by aggressive hiring, rapid geographic expansion, and tolerance for sustained cash burn in pursuit of market share – is giving way to a discipline-first model in which cost rationalisation, operational efficiency, and return on invested capital are the primary management objectives.

## Consumption Resilience

Branded consumer staples continue to demonstrate pricing power and volume stability, underpinned by rising real incomes and urbanisation trends. Long-term structural tailwinds remain firmly intact.

## Margin Normalisation

Discretionary and input-cost-sensitive sectors are navigating a margin normalisation cycle. Companies with strong pricing power and low commodity exposure are differentiating clearly from peers.

## Tech Efficiency Pivot

The technology sector's shift from hyper-growth to efficiency reflects a global repricing of growth capital. Profitability and cash generation are now the primary metrics driving valuation re-rating.

## Telecom Leverage Watch

While loss narrowing signals operational improvement in telecom, elevated debt levels remain a structural constraint. Sector consolidation dynamics and ARPU recovery will be critical to monitor.

# Structural Themes, What to Watch & Closing Assessment

India enters the coming quarter with a strong structural position supported by policy reforms, trade integration, domestic demand resilience, and continued manufacturing expansion. The five dominant macro themes that have emerged from this month's analysis collectively reinforce a fundamental message: India's growth trajectory remains intact, but global integration and regulatory evolution will increasingly determine competitive advantage. The period ahead is one of **measured expansion** – where policy stability, regulatory clarity, and disciplined capital allocation will shape outcomes far more decisively than short-term market sentiment.

## → India's Structural Growth Momentum Continues

Supported by trade integration, domestic demand strength, and infrastructure-led investment cycles. The fundamental growth story remains durable and multi-year in horizon.

## → Global Growth Is Moderating

Advanced economies face sub-2% expansion, affecting export demand channels. India's domestic demand buffer provides meaningful insulation, but external sector vigilance is warranted.

## → Manufacturing & Energy Transition Are Long-Term Catalysts

Industrial policy and green investments are structurally reshaping capital allocation patterns. ESG-linked and climate-aligned capital flows will be an increasing source of investment support.

## → Regulatory Oversight Is Increasing

Tax, governance, and compliance standards are tightening across dimensions. Proactive structural review of cross-border arrangements is a strategic imperative, not an optional exercise.

## → Capital Allocation Is Becoming More Selective

Investors are differentiating sharply between resilient and leveraged business models. Quality, earnings durability, and governance are the primary screens driving capital deployment decisions.

## Key Variables to Monitor

1

### India–EU FTA

Implementation timelines and sector-specific rules of origin

2

### State Industrial Metrics

State-level expansion data and capital concentration trends

3

### RBI Policy

Monetary policy shifts in response to inflation or global shocks

4

### Energy Investment

Green transition announcements and green hydrogen milestones

5

### Corporate Restructuring

Sector consolidation, leadership transitions, and earnings quality

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# Our Operations

Valuation India and Valuation Arabia provide comprehensive advisory services across the Indian subcontinent and the Middle East, delivering strategic financial solutions that drive growth, compliance, and enterprise value.

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