

MARKET STRATEGY

- Budget
- Monsoon
- Inflation
- Valuation
- Earnings



Sumit Pokharna

sumit.pokharna@kotak.com

+91 22 6218 6443

Shrikant Chouhan

shrikant.chouhan@kotak.com

+91 22 6218 5408

MARKET OUTLOOK FOR AUGUST 2024

Domestic equity market performed strongly in August 2024

The Nifty-50 Index gained 3.9% in the Month of Aug and reached a new high in the month. Meanwhile, the Nifty Midcap Index gained 5.6% and the Nifty Smallcap Index gained 4.3% in the same period. Market focus has swiftly moved on from the Union Budget, unveiled in the week, to the ongoing Q1FY25 earnings season. The FY2025 Union Budget delivered a judicious balance between capital expenditure, fiscal prudence and welfarism, while providing (1) minor tweaks in individual tax rates and (2) rationalizing capital gains across asset classes. Sector-wise, all prominent sectors ended in green especially IT (+13%), Pharma (+10.4%), FMCG (+9.4%), Infra (+4.0%), Energy (+5.5%), and Auto (+5.9%), except Bank (-1.5%), and Realty (-1.0%).

Union Budget key extracts

In the Union Budget, the government targeted Gross Fiscal Deficit/Gross Domestic Product at 4.9% for FY25 with net tax revenue growth of 11% over FY24RE, receipts growth of 16%, and expenditure growth of 7% (revenue expenditure growth of 5% and capital expenditure of 17%). Gross GSec borrowing was pegged at Rs14 lakh crore and net borrowing at Rs11.6 lakh crore (broadly unchanged from interim budget).

The Union Budget outlined five employment and skilling related schemes: 1. targeting first-time employees in the formal sector registered with EPFO and providing one month's wage (up to Rs15,000) in three instalments, 2. incentivizing both employees and employers in the manufacturing sector (with salaries up to Rs1 lakh) by offering benefits based on their EPFO contributions during first four years for additional employment of first-time employees, 3. providing support to employers by reimbursing Rs3,000 per month for two years towards their EPFO contribution for each additional employee with salary of up to Rs1 lakh per month, 4. skilling 20 lakh youth over five years in collaboration with state governments and industry, along with upgrading 1,000 Industrial Training Institutes, and 5. offering internship opportunities to 1 cr youth in 500 top companies over the next five years, with an internship allowance of Rs5,000 per month and a one-time assistance of Rs6,000.

FY2025 monsoon: normal with uneven spatial distribution

Till July 26, cumulative rainfall was 2.6% above long-term average while weekly rainfall was 27% above long-term average. On a cumulative basis, rainfall was excess in central India and southern India, and deficient in northern India, and east and north-east India. Out of the 36 subdivisions, till date, eight have received deficient rainfall, 15 have received normal rainfall, and 13 have received excess rainfall.

Retail food price: softer prices

Average weekly prices fell for vegetables, and pulses, while oils prices increased in the week-ending July 25. Price inflation was high for cereals and pulses while vegetables have a favorable base effect from last year's levels. Compared to last week, in the week-ending July 25, cereals prices were flat (7.9% higher over same week last year), pulses prices fell 0.1% (16% higher over same week last year), vegetables prices fell 0.9% (5.2% lower over same week last year), oil prices increased 1.3% (1.8% lower over same week last year). We note this is based on Department of Consumer Affairs' prices for select products and not the official inflation data.

Sowing status: buoyed by pulses sowing

As of July 25, the total kharif acreage was 2.3% higher than the same period last year. Compared to same period last year, rice sowing was 0.2% lower at 2.16 cr hectares. Oilseeds acreage was 3.8% higher at 1.72 cr hectares while pulses acreage at 1.02 cr hectares was 14.1% higher than last year. Coarse cereal acreage was 5% higher at 1.53 cr hectares. Sugarcane acreage was 1.1% higher at 0.58 cr hectares, and cotton acreage was 6.9% lower at 1.06 cr hectares.

Reservoir levels: remain deficient but improving

Basin-wise reservoir levels remained deficient. Among major river basins, Krishna (west and south), Tapi (central and west), and West flowing southern rivers were surplus. Cauvery (south), Ganga (north and east), Godavari (west and south), Indus (north India), Mahanadi (central and east), Narmada (central and west) were deficient. Basins and reservoirs levels were around 4.5% below long-term average and 19% below last year levels for week-ending July 25.

Global Central Banks Policy:

- The Bank of Japan (BoJ) announced an interest rate increase and a bond tapering plan, in an aggressive move that signals the central bank's growing confidence in the recovery of the domestic economy and its concern about a sharply weaker yen.
- BOJ raised short-term policy rate to 0.25% from 0-0.1%. BOJ to halve monthly bond buying to Y3 lakh crore in Q12026. Rate hike and cut in bond buying is supported by broadening wage hikes, rising services prices. Governor does not rule out another rate hike in 2024.

US rate cuts: Rate cuts priced in, earnings cuts less so

- The gradual weakening of the US economy, especially in the labor markets, with the consistently soft inflation prints, has sharply increased the probability of the US Fed cutting rates. A cut in US rates may see higher EM and India inflows. However, the recovery trajectory in the export-oriented Indian sectors will depend on the growth trajectory of the US economy.

Outlook and Valuation

We expect India's real GDP to grow by 6.9% yoy in FY25E and 6.5% in FY26E. We expect average CPI inflation to rise by 4.5% in FY25E and 4.2% in FY26E.

We expect Nifty-50 index EPS of Rs1,086 in FY25E (earlier Rs.1093) and Rs1,248 in FY26E. On these estimates, the Nifty-50 index is trading at a PE of 22.9x/19.9x FY25E/FY26E earnings. Currently, we believe most investment stocks are trading at expensive valuations. However, the strategy should be to keep investing on every dip with a medium to long term view and preferable sectors are BFSI, Realty and Pharmaceuticals.

Key Risk

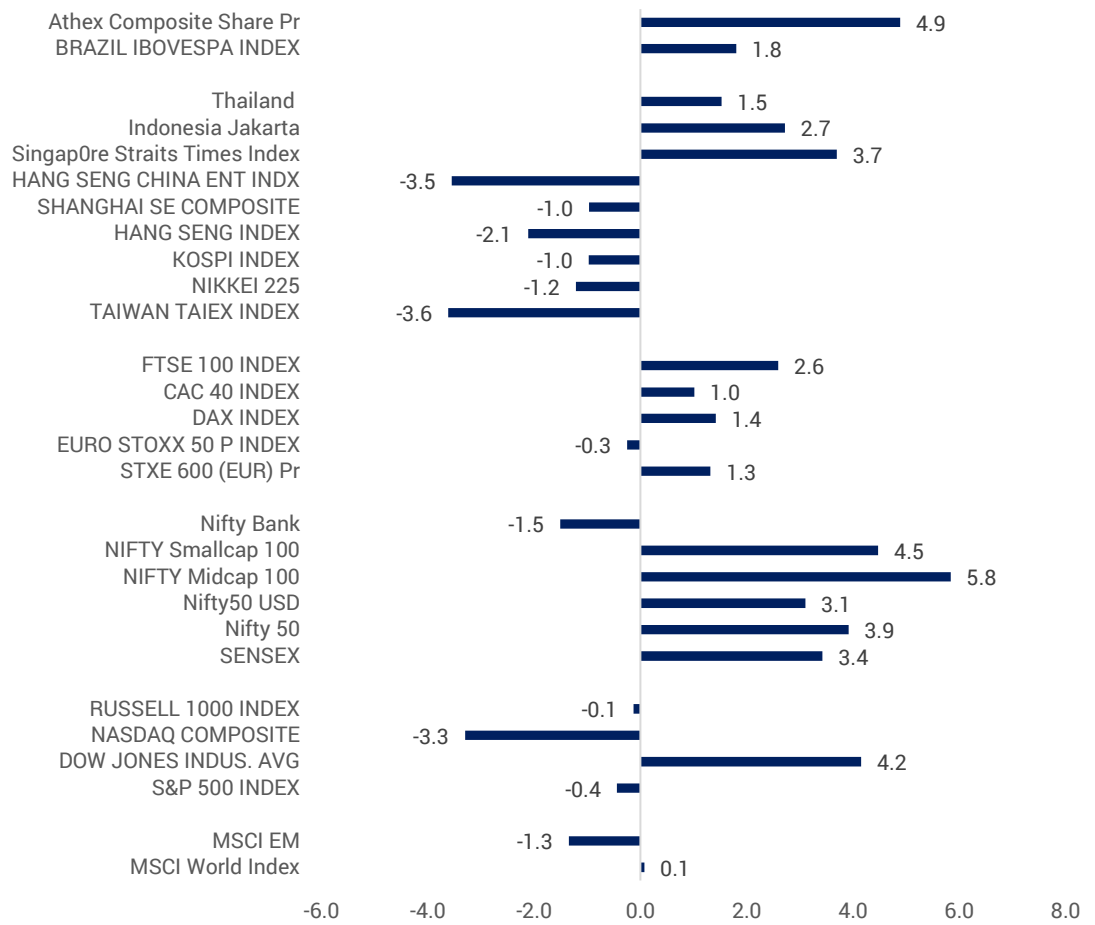
- Global growth slowdown or recession in key economies
- Sharp increase in crude prices
- Geopolitical risk
- Weaker than expected monsoon

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs)*	Fair Value (Rs)	Mkt cap. (Rs cr)	EPS (Rs)		EPS growth (%)		P/E (x)		P/BV (x)		RoE (%)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
					HDFC Bank	BUY	1,616	1,850	1,230,252	89	107	11	21	18
HDFC Life Insurance	BUY	716	805	153,903	8	10	16	16	85	73	9.9	9.4	12	13
Infosys	BUY	1,868	2,050	775,703	63	72	8	14	29	26	8.2	7.6	29	30
Jindal Steel and Power	BUY	988	1,165	100,810	50	81	(15)	63	20	12	2.1	1.8	11	16
Reliance Industries	ADD	3,010	3,300	2,036,801	119	132	15	11	25	23	2.4	2.1	10	10
DLF	ADD	889	960	220,092	14	22	31	55	62	40	5.3	4.9	9	13

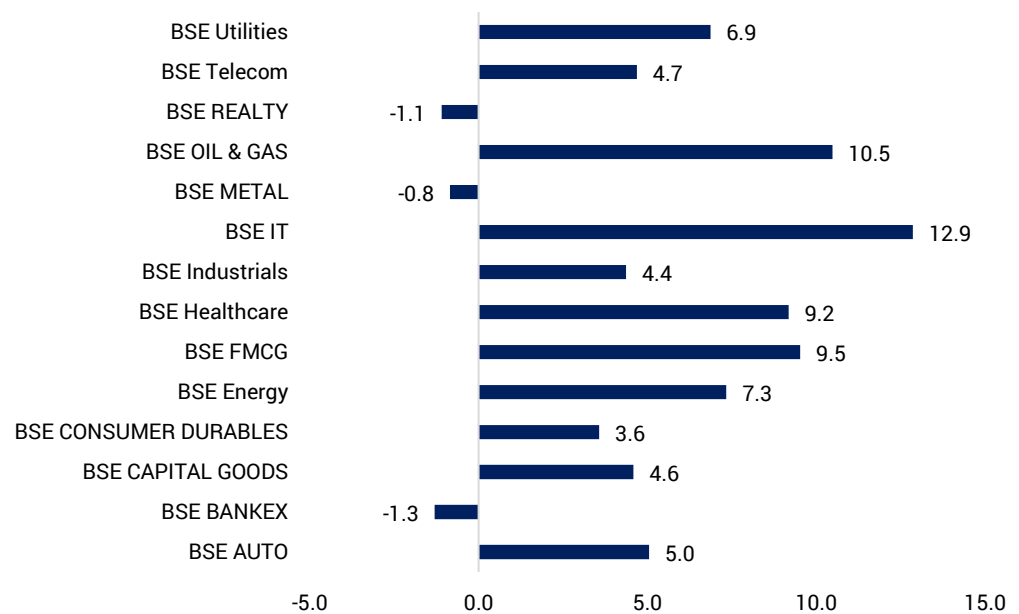
Source: Kotak Institutional Equities Research, * The above valuation summary is based on closing prices of 31 July 2024

Exhibit 1: World Indices Performance – For month of July 2024 (%)



Source: Bloomberg

Exhibit 2: Sectoral Indices Performance in the month of July 2024 (%)



Source: Bloomberg

Exhibit 3: India's Key Economic Calendar

Date	Event
1-Aug	HSBC India PMI Mfg
5-Aug	HSBC India PMI Composite
5-Aug	HSBC India PMI Services
8-Aug	RBI Repurchase Rate
8-Aug	RBI Cash Reserve Ratio
12-Aug	CPI YoY
12-Aug	Industrial Production YoY
14-Aug	Wholesale Prices YoY
22-Aug	HSBC India PMI Mfg
22-Aug	HSBC India PMI Composite
22-Aug	HSBC India PMI Services
30-Aug	GDP YoY

Source - Bloomberg

Exhibit 4: US Key Economic Calendar

Date	Event
1-Aug	Initial Jobless Claims
1-Aug	S&P Global US Manufacturing PMI
2-Aug	Change in Nonfarm Payrolls
2-Aug	Average Hourly Earnings MoM
2-Aug	Labor Force Participation Rate
2-Aug	Underemployment Rate
5-Aug	S&P Global US Services PMI
5-Aug	ISM Services Index
6-Aug	Trade Balance
8-Aug	Initial Jobless Claims
14-Aug	CPI MoM
14-Aug	Real Avg Hourly Earning YoY
15-Aug	Initial Jobless Claims
15-Aug	Industrial Production MoM
22-Aug	Initial Jobless Claims
22-Aug	S&P Global US Manufacturing PMI
22-Aug	S&P Global US Services PMI
22-Aug	S&P Global US Composite PMI
29-Aug	GDP Annualized QoQ
29-Aug	GDP Price Index
29-Aug	Initial Jobless Claims

Source - Bloomberg

Exhibit 5: Eurozone Key Economic Calendar

Date	Event
1-Aug	HCOB Germany Manufacturing PMI
1-Aug	HCOB Eurozone Manufacturing PMI
1-Aug	Unemployment Rate
1-Aug	CPI MoM
1-Aug	Unemployment Rate
1-Aug	Industrial Production MoM
2-Aug	Industrial Production YoY
2-Aug	Manufacturing Production MoM
2-Aug	Unemployment Change
5-Aug	Industrial Production YoY
5-Aug	Unemployment Rate
5-Aug	HCOB Germany Services PMI
5-Aug	Industrial Output MoM
6-Aug	CPI YoY
6-Aug	Wholesale Price Index MoM
6-Aug	Unemployment Rate
7-Aug	CPI MoM
7-Aug	Unemployment Rate
8-Aug	CPI MoM
8-Aug	Unemployment Rate
9-Aug	CPI YoY
12-Aug	Current Account Balance
12-Aug	CPI MoM
12-Aug	Unemployment Rate
13-Aug	CPI MoM
14-Aug	CPI YoY
14-Aug	CPI MoM
14-Aug	GDP YoY
14-Aug	GDP Constant Prices YoY
14-Aug	Employment QoQ
15-Aug	CPI MoM
20-Aug	Unemployment Rate
20-Aug	CPI YoY
20-Aug	CPI YoY
21-Aug	Unemployment Rate
27-Aug	GDP YoY

Source - Bloomberg

HDFC Bank (HDFCB)-BUY

Result Update

Current Market Price (CMP)

Rs.1,616

Target Price

Rs.1,850

Rationale:

- HDFC Bank reported a largely unchanged sequential operating profit.
- NIM (Net Interest Margin) expansion remains the key thesis but there was no progress to show this quarter.
- Overall results were not surprising as we expect only a steady improvement.
- We maintain BUY rating with FV at Rs1,850 (from Rs1,750)
- We value the bank at 2.3X book for RoEs at ~16% level but highlight that this path to re-rate is likely to be slow.

Result update:

Positives:

- NIM was flat qoq at ~3.5%.
- Asset quality metrics was stable with gross NPLs at 1.3% and net NPLs at 0.4%
- Slippages were lower at ~1.3% and credit cost stood at ~40 bps.
- RoA was 1.8% and RoE was ~14%.

Negatives:

- Loan growth was sluggish (down ~1% qoq) led by decline in corporate and agri portfolios.
- Sluggish trend in deposits during the quarter.
- Non-interest income was up ~16% yoy, but down ~41% qoq.

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HDFC Life Insurance (HDFCLIFE) - BUY

Result Update

Current Market Price (CMP)

Rs. 716

Target Price

Rs. 805

Rationale:

- High ULIP growth, mostly through bancassurance, led to 18% VNB and 23% APE growth in Q1FY25.
- HDFC Life smartly managed margins by accelerating non-par, term products and increasing protection coverage in ULIPs.
- Valuations remain favorable; we tweak forecasts and remain assertive.
- Retain BUY with a Fair Value of Rs.805 (up from Rs775).

Q1FY25 Earnings Update:

👍 Positives:

- HDFC Life reported 18% VNB growth in Q1FY25, driven by 23% APE growth.
- HDFC Life reported 40% APE growth in bancassurance.
- Non-par APE was up 39% yoy for Q1FY25.
- Annuities APE was up 23% yoy in Q1FY25, driven by direct/online channel.

👎 Negatives:

- Lower margins drag down operating RoEV in Q1FY25.
- We expect surrender penalty guidelines to impact Co.'s margins by about 1.5%

(EV – Enterprise Value, VNB – Value of New Business, APE – Annual Premium Equivalent)

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Infosys (INFO) – BUY

Result Update

Current Market Price (CMP)

Rs.1,868

Target Price

Rs.2,050

Rationale:

- All-round performance; raise estimates and Fair Value.
- Posts strong 3.6% c/c qoq growth aided by large deals and one-offs.
- Increases guidance to conservative 3-4%; another strong TCV wins quarter.
- Well-positioned for recovery in demand.
- We value Infosys at 26x (24x earlier) Sep'26E (Mar'26E earlier) earnings, leading to a revised fair value of Rs2,050 (Rs1,750 earlier). Maintain BUY.

Q1FY25 Earnings update:

Positives:

- In c/c terms, revenue grew 3.6% qoq (1.1% beat on KIE estimate) and 2.5% yoy.
- Net profit increased 6.2% qoq and 7.1% yoy and beat our estimates by 2%.
- Infosys increased FY25 revenue growth guidance to 3-4% from 1-3% earlier.
- New TCV of US\$240 cr grew 21.3% qoq and 85% yoy, impressive.

Negatives:

- Employee pyramid deteriorated as a consequence of weak demand environment in FY24.

C/C: Constant Currency. TCV: Total Contract Value.

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JINDAL STEEL AND POWER (JSP) – BUY

Result Update

Current Market Price (CMP) Rs. 988	Target Price Rs.1165
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Rationale:

- JSP's Q1FY25 standalone EBITDA came in line with our estimates with higher volumes offsetting lower spreads.
- Higher EBITDA from subsidiaries led to beat at consolidated level but this cannot be extrapolated.
- JSP continues to outperform peers on margins led by improving product mix, higher flats, and ramp-up of captive coal mine.
- Growth projects witnessing further 3-6 months of delay.
- Stock is currently trading at valuation of 12.2x P/E FY26E EPS.
- We trim earnings and Fair Value to Rs1,165/share; maintain BUY.

Q1FY25 Result Update:

Positives:

- JSP's consolidated EBITDA of Rs2,830 cr (+4.7% yoy, +13% qoq) was 6% higher than our estimates.
- Steel sales volume, at 2.09 mn tons, was +4% qoq (+14% yoy).

Negatives:

- Growth & margin accretion projects have been delayed by 2-3 qrt. in revised capex plan.

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Reliance Industries (RELIANCE) – ADD

Result Update

Current Market Price (CMP)

Rs.3,010

Target Price

Rs.3,300

Rationale:

- With telecom tariff hikes done, investor focus will shift to upcoming annual general meeting (likely announcements on consumer business IPOs) & recovery in retail/O2C.
- Reported net debt moderated further.
- Q1FY25: Consolidated EBITDA weaker for O2C, retail, E&P; digital in line.
- We expect earnings (EPS) to grow by 15.3% in FY25E and 11% in FY26E.
- Our sum-of-the-parts valuation (SOTP)-based Fair Value is Rs3,300/share.

Q1FY25 Earnings update:

👍 Positives:

- R-Jio's EBITDA (+2.3% qoq, +11% yoy) was in line with our estimate.
- R-Jio's PAT (+2% qoq, +12% yoy) came in 1% above our estimates.

👎 Negatives:

- RIL's consolidated EBITDA (-9% qoq, +2% yoy) was ~1% below our estimates.
- With subdued refining & petchem, O2C was particularly weak (EBITDA -22% qoq; -14% yoy; 3% below KIE).
- Organized retail had another muted quarter (EBITDA -3% qoq; 4% below KIE).

PAT: Profit after tax. EBITDA: Earnings before interest, depreciation, tax & amortization. E&P: Exploration & Production. O2C: Oil to Chemical.

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DLF (DLFU) – ADD

Result Update

Current Market Price (CMP)

Rs.889

Target Price

Rs.960

Rationale:

- Strong pre-sales and cash generation; larger plans ahead.
- Strong launch guidance of Rs42000cr for FY25 and Rs62500cr beyond FY25.
- Steady trends at DCCDL; portfolio occupancy stable at 93%.
- Strong start to the year lends credibility to our full-year estimate.
- Maintain ADD with a revised FV of Rs960/share (from Rs910/share).

Q1FY25 earnings update:

Positives:

- DLF reported strong Q1FY25 pre-sales of Rs6400cr, aided by Rs5600cr sales from Privana West.
- Overall collections in Q1FY25 rose 88% yoy and 35% qoq to Rs29700cr.
- Further revised its development pipeline upward for FY25 to 1.28 cr sq. ft.
- Healthy gross leasing of 15 lakh sqft aided occupancy during the quarter at DCCDL.

Negatives:

- DLF recognized modest revenues of Rs1362.4 cr ((-)4% yoy, (-)36% qoq), owing to lower deliveries during the quarter.

(DCCDL: rental arm, FV: Fair Value)

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- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
Head of Research
shrikant.chouhan@kotak.com
+91 22 6218 5408

Arun Agarwal
Auto & Auto Ancillary, Building Material,
Cement, Consumer Durable
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal, CFA
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Rini Mehta
Research Associate
rini.mehta@kotak.com
+91 22 6218 6433

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

Pankaj Kumar
Construction, Capital Goods & Midcaps
pankajr.kumar@kotak.com
+91 22 6218 5498

Amarjeet Maurya
Internet Software & Services
amarjeet.maurya@kotak.com
+91 22 6218 6427

Shasvat Shah
Research Associate
shasvat.shah@kotak.com
+91 22 6218 6440

Veer Trivedi
BFSI
veer.trivedi@kotak.com
+91 22 6218 6432

TECHNICAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Sayed Haider
sayed.haider@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTE
prasenjit.biswas@kotak.com
+91 33 6615 6273

Karan Kulkarni
karan.kulkarni@kotak.com
+91 20 6608 3292

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