kotak Securities

DECEMBER 2024

MARKET STRATEGY

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MARKET OUTLOOK FOR DECEMBER 2024

Domestic equity market performance was subdued in November 2024

After a sharp correction in the last month, the Nifty-50 Index further lost 0.3% in November. Meanwhile, the Nifty Midcap Index gained 0.5% and the Nifty Smallcap Index gained 0.3% during the same period. The market has corrected by almost 3% in the first half of the month. In the month of November, global market sentiment saw sharp volatility in the aftermath of Republicans winning all three branches of the US government, resulting in rising US bond yields and dollar, as well as the US equity markets beating most EMs. Meanwhile, the Q2FY25 earnings season continued to remain weak, with more misses than hits observed. Further, Indian market sentiments were impacted by (1) the geopolitical flare-up between Russia and Ukraine and (2) adverse news surrounding the Adani group. However, in the last week of the month, we saw a recovery in the market. During the month, IT (6.8%), Realty (2.1%), and Bank (1.1%) ended in green. Energy (4.6%), Metal (3.1%), Pharma (2.1%), FMCG (2.1%), Infra (1.0%), and Auto (0.6%) are all in red.

Inflation spiked in October

CPI inflation in October spiked to 6.2% driven by both food and core inflation. Food inflation (10.9% yoy) was led by sharp price increases in vegetables, oils and fats, eggs, and fruits. Core inflation (3.8% yoy) increased 0.6% mom (September: 3.5% yoy, 0.3% mom) led by a sharp rise of 1.9% mom in personal care due to surge in gold prices by 4.7% mom.

Weak corporate profit growth reflects on Q2FY25 GDP growth

Real GVA growth in Q2FY25 decelerated sharply to 5.6% (GDP growth at 5.4%) led by the manufacturing sector even as the services sector held up. Consumption growth was relatively strong at 6% while investment growth decelerated to 5.4%. We revise down our FY25-26 GDP growth estimates to 6.1% (earlier: 6.7%; H2FY25E: 6.2%) and 6.4% (earlier: 6.5%).

Calls for December rate cut will increase; February policy now more likely

While demand will increase for a rate cut in next week's December policy, we assign a higher probability to a February (compared to our earlier call of the first rate cut in April policy) contingent on a steady disinflation over the next couple of months and evolution of high frequency data. We expect the RBI to revise down its FY25 GDP growth estimate while being ready to act as multiple domestic and global issues play out.

Favorable base supports IIP growth

IIP growth in September was at 3.1% (August: (-) 0.1%). As per the sectoral classification, manufacturing sector led the growth at 3.9% (August: 1.1%), electricity sector growth was 0.5% ((-)3.7%), and mining growth was 0.2% ((-4.3%). In terms of the use-based classification, all categories registered positive growth.

India October trade deficit widens

Goods trade deficit in October widened to US$27.1 bn from US$20.8 in September with an expansion in both exports and imports. Exports picked up by 17.3% yoy in October to US$39.2 bn (September: US$34.6 bn), driven by growth in electronics goods exports. Imports in October grew 3.9% yoy to record high of US$66.3 bn (September: US$55.4 bn). Oil imports were at US$18.3 bn (September: US$12.5 bn), while non-oil imports were at US$48 bn (September: US$42.8 bn) driven by primarily by gold. Services trade surplus remained steady at US$17 bn. We retain our FY25 CAD/GDP estimate at 1.2% (1.3% in FY26E) while reducing capital flows resulting in negative BOP, which will weigh on INR. The near-term worry on external balance will center around capital flows given the anticipation of policy shifts in the US and China.

Voting for continuity

BJP's impressive victory in Maharashtra in the recent elections, following its win in Haryana in October 2024, is likely to result in continuity of the central government's development agenda, notwithstanding the loss in Jharkhand. We see (1) limited overall fiscal consolidation, (2) ramp-up of central government capex in H2FY25 and (3) near-term sentiment boost for the market, even as valuations stay rich and fundamentals weakish.

Likely stronger US growth will favor US markets

The Republican Party's complete control of the presidentship, the house (likely) and the senate may result in pro-growth economic policies, such as (1) lower tax rates for corporates and individuals and (2) a higher focus on domestic manufacturing. The market has already factored in (1) higher earnings for the US market and (2) a stronger US dollar. EMs are even less likely to find favor with asset allocators, especially in light of likely worsening in global geopolitics and trade. FPI outflows from India may accelerate in the near term, given the dominance of passive inflows in FPI flows. Lastly, any large fiscal stimulus from China to offset the negatives of higher US tariffs on Chinese imports could be a further negative for FPI flows into India.

Q2FY25 results weak in general; misses punished

Q2FY25 net income of the Nifty-50 Index grew 5%, moderately ahead of our expectation of 3.7% growth, and Q2FY25 net income of KIE Coverage Universe grew 0.8%, below our expectation of 1.9% increase. The positive surprise came from banks (especially SBI), while many sectors missed estimates quite significantly. The weak yoy performance reflects the high base of the oil marketing companies in Q2FY24. Q2FY25 EBITDA of the Nifty-50 Index declined 0.9% versus our expectation of 4.4% growth. The weak Q2FY25 operating results reflect some of our long-standing concerns around (1) the Street's optimistic profitability and volume assumptions and (2) disruption threats across sectors.

Outlook and Valuation

We remain hopeful about (1) a recovery in investment demand in H2FY25, driven by a pickup in government spending in H2FY25 and recovery in household investment in residential real estate, (2) a pickup in private sector investment and (3) a gradual recovery in private consumption. India's macro-economic outlook is quite decent, with most of the macroeconomic parameters looking (1) reasonably solid (CAD/BoP) and/or (2) manageable inflation (barring the recent jump, linked to a spike in vegetable prices) and fiscal outlook.

We expect the net profits of the Nifty-50 Index to grow 4.8% in FY25E (EPS of Rs1,034) and 16.3% in FY26E (EPS of Rs1,204). On these estimates, the Nifty 50 Index is trading at 23.1x/19.9x FY25E/FY26E earnings. The strategy should be to keep investing on every dip with a medium to long-term view and preferable sectors are BFSI, IT, Realty and Pharmaceuticals.

Key Risk

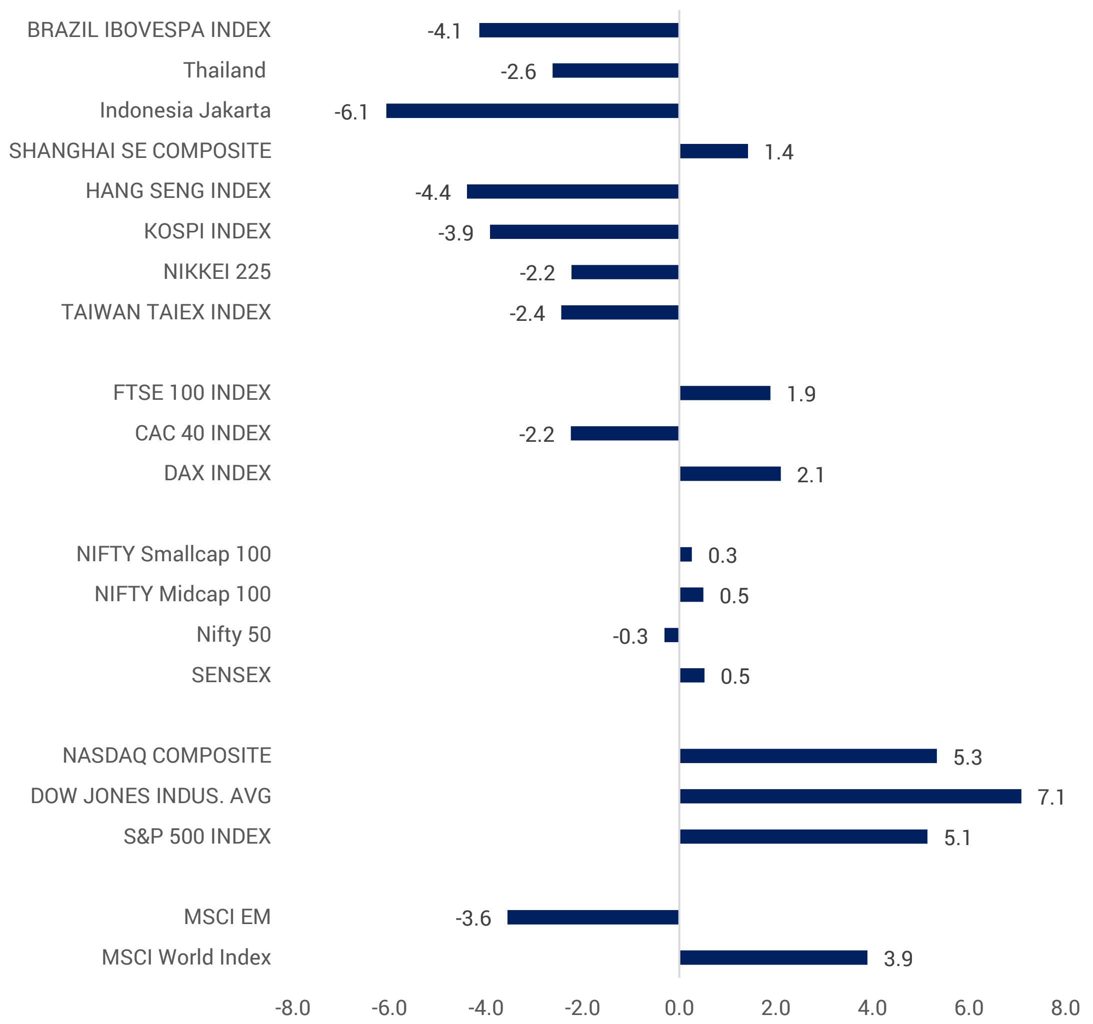
- Global growth slowdown or recession in key economies
- High commodity prices could impact economy and earnings in some sectors
- Further escalation of geo-political tensions

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs)*	Fair Value (Rs)	Mkt cap. (Rs cr)	EPS (Rs) FY26E	EPS (Rs) FY27E	EPS growth (%) FY26E	EPS growth (%) FY27E	P/E (x) FY26E	P/E (x) FY27E	P/BV (x) FY26E	P/BV (x) FY27E	RoE (%) FY26E	RoE (%) FY27E
Cholamandalam	ADD	1,234	1,500	103,738	60.9	77.1	24.4	26.7	20.3	16.0	3.5	2.9	19.3	19.8
Cummins India	BUY	3,484	4,100	96,568	81.2	96.3	19.6	18.6	42.9	36.2	12.3	10.8	30.5	31.8
Gravita India	ADD	2,177	2,500	15,028	57.7	72.0	30.4	24.8	37.8	30.3	10.5	8.3	31.4	30.6
ITC	ADD	477	540	596,453	18.3	20.0	9.6	9.0	26.0	23.9	7.6	7.2	28.4	30.3
LTIMindtree	ADD	6,172	6,750	182,817	202.7	233.2	24.2	15.1	30.5	26.5	7.1	6.2	24.8	25.0
S H Kelkar And Company	BUY	282	370	3,908	12.3	16.5	21.6	34.9	23.0	17.1	2.7	2.4	12.3	14.8
Timken India	ADD	3,370	3,800	25,349	72.5	90.3	27.9	24.5	46.5	37.3	7.6	6.4	17.7	18.5

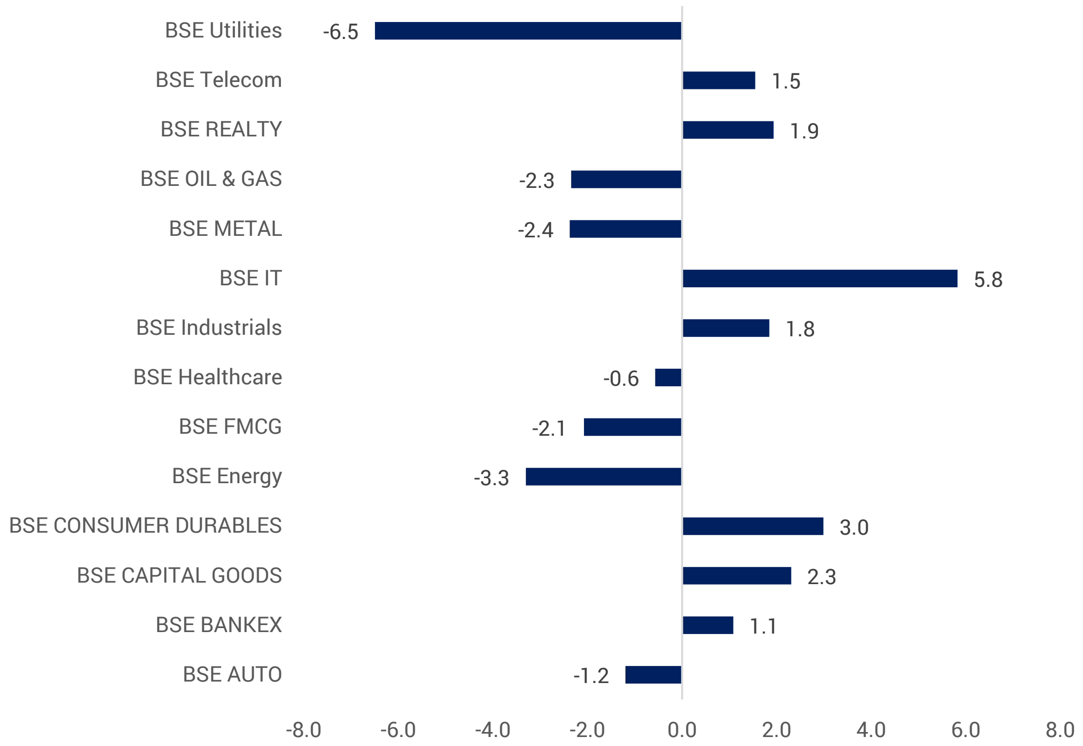
*Source: Kotak Institutional Equities Research, * The above valuation summary is based on prices as on 29 Nov 2024*

Exhibit 1: Global Indices Performance – For month of November 2024 (%)



Source: Bloomberg

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



Source: Bloomberg

Exhibit 3: Key Economic Calendar for India, US and Europe for December 2024

Date Time	Event
India	
2-Dec-24	HSBC India PMI Mfg
4-Dec-24	HSBC India PMI Composite
4-Dec-24	HSBC India PMI Services
12-Dec-24	CPI YoY
12-Dec-24	Industrial Production YoY
13-Dec-24	Trade Balance
23-Dec-24	BoP Current Account Balance
31-Dec-24	Eight Infrastructure Industries
US	
Date Time	Event
2-Dec-24	S&P Global US Manufacturing PMI
4-Dec-24	S&P Global US Services PMI
4-Dec-24	S&P Global US Composite PMI
5-Dec-24	Initial Jobless Claims
6-Dec-24	Unemployment Rate
6-Dec-24	Underemployment Rate
11-Dec-24	CPI MoM
12-Dec-24	Initial Jobless Claims
19-Dec-24	FOMC Rate Decision (Upper Bound)
19-Dec-24	FOMC Rate Decision (Lower Bound)
19-Dec-24	Fed Interest on Reserve Balances Rate
19-Dec-24	GDP Annualized QoQ
19-Dec-24	Initial Jobless Claims
20-Dec-24	PCE Price Index MoM
Europe	
2-Dec-24	HCOB Eurozone Manufacturing PMI
4-Dec-24	HCOB Eurozone Services PMI
4-Dec-24	HCOB Eurozone Composite PMI
5-Dec-24	Retail Sales MoM
13-Dec-24	Industrial Production SA MoM
18-Dec-24	CPI MoM
18-Dec-24	Construction Output MoM
20-Dec-24	Consumer Confidence
30-Dec-24	ECB 1 Year CPI Expectations
30-Dec-24	ECB 3 Year CPI Expectations

Source - Bloomberg

Dated: 29th November, 2024

Cholamandalam (CIFC) - ADD

Result Update

Current Market Price (CMP)	Target Price
Rs. 1234	**Rs. 1500**

Rationale:

- Chola's Q2FY25 overall performance was broadly in line.
- Weakness in the horizon, does not change the core thesis though.
- Multi-product model helps deliver stable RoAs.
- Profitability drops across segments.
- We cut estimates, retain ADD with a revised FV of Rs1,500.

Q2FY25 Earnings Update:

Positives:

- Chola's PAT was up 26% yoy on the back of 35% NII growth.
- Co. reported strong 33% yoy AUM growth despite moderate 13% yoy growth in disbursements.
- NIM likely to remain stable.

Negatives:

- Faster growth in new segments led to elevated cost-to-AAUM ratio of 3.3% (up 10-20 bps yoy and qoq).
- Credit quality was a tad weak, reflected by 20 bps qoq rise in credit costs.
- New businesses reported sharp 63% yoy and 9% qoq rise in gross stage-3 loan.

(AUM – Asset Under Management, NII – Net Interest Income)

Click here For detailed report dated 28th October 2024. Note: CMP & valuation may differ due to difference in dates.

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Dated: 29th November 2024

Cummins India (KKC) – BUY

Company Update

Current Market Price (CMP)	Fair Value (FV)
Rs.3,484	**Rs.4,100**

Rationale:

- Our checks with dealers suggest increased price competition from KKC in the sub-250 kva segment (30% of powergen sales), a segment where it lags KOEL.
- It also brings out difficulty for peers to challenge KKC in the 320kVA and above.
- Emerging competition from Weichai and MTU needs to be watched out for.
- We marginally trim near-term estimates while marginally raising FY26/27 estimates.
- KKC is our top pick in the capital goods coverage; Retain Rs4100FV & BUY.

(EBITDA: Earnings before interest, depreciation, amortization and tax, PAT: Profit after tax, CPCB: Central Pollution Control Board, KVA: Kilo-volt ampere, CAGR: Compounded annual growth rate)

Company update:

Positives:

- Sharing the price cut burden with OEMs to match peers in sub-250 kva range.
- Well-placed in the 320 kva and above category.
- We assume 15-16% CAGR in revenue/EBITDA/PAT over FY24-27E.

Negatives:

- Demand going through phase of transient weakness on aftereffects of CPCB IV.
- We note downside risks to our 20% EBITDA margin assumption.

Click here

For detailed report dated 26th November 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 29th November 2024

Gravita India (GRAV) - ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.2177	**Rs.2500**

Rationale:

- GRAV reported a healthy 24.4% yoy PAT growth in Q2FY25, 3.5% higher than our estimate.
- EBITDA margins at 10.5% (100 bps yoy, 50 bps qoq) were aided by an arbitrage opportunity on higher domestic lead prices versus LME.
- Volumes were tepid with 7.7% yoy growth and should recover in H2FY25E.
- Recent regulatory developments such as a reverse charge mechanism for GST on metal scrap and a penalty on battery OEMs for recycling obligations should drive the formalization of the recycling industry and benefit GRAV.
- We trim earnings and FV, factoring weaker volumes. Maintain ADD.

2QFY25 Result Update:

Positives:

- Volumes, at 48.7 kt, increased 7.7% yoy (2.3% qoq).
- Domestic scrap availability has increased owing to policy tailwinds, and is expected to improve further in the coming months.
- Expansion plans on track, new verticals to drive diversification.

Negatives:

- Volumes were muted versus guidance due to lower lead volumes (8.7% yoy, 0.6% qoq).

Click here To read the detailed report

Dated: 29th November 2024

ITC (ITC)-ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.477	Rs. 540

Rationale:

- ITC reported 6%/5%/3% yoy growth in revenues/EBITDA/PAT.
- We expect earnings to grow by 9.6% in FY26E & grow by 9.0% in FY27E.
- Stock is currently trading at valuation of 23.9x P/E FY27E EPS.
- We value ITC using Sum of the Parts (SoTP) methodology.
- We trim FY25-27E EPS & revise our SoTP-based FV to Rs540 (from Rs535).

Q2FY25 Earnings Update:

Positives:

- ITC's gross revenue (ex-agri business) grew 5.9% yoy.
- Cigarette volume growth was steady at ~3% (in line).
- EBITDA grew 4.9% yoy to Rs6335.2 cr (~1% beat).
- Agri-business grew by 47% yoy, led by leaf tobacco.

Negatives:

- Paperboard & packaging remained impacted by low-priced Chinese supplies.
- There is competition in FMCG and weakness in paperboards.

Click here For detailed report dated 25th Oct 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 29th November 2024

LTIMindtree (LTIM) – ADD

Company Update

Current Market Price (CMP)	Target Price
Rs.6,172	Rs.6,750

Rationale:

- Comfortably placed to deliver consistent, healthy growth.
- Foundational elements are in place to reach revenue target of US$1,000 cr.
- Strong play in focus verticals of BFSI and hi-tech.
- Large transformation-focused deals increasing in the pipeline.
- Gradual increase in EBIT margin toward medium-term aspiration of 17-18%.
- Retain ADD with an unchanged fair value of Rs6,750.

Company update:

Positives:

- LTIM is gearing up to drive the next wave of productivity benefits leveraging generative AI.
- LTIM is well positioned to continue growth recovery in H2FY25E & FY26E.
- LTIM has a strong play in the focus verticals of BFSI & hi-tech, which will enable further expansion.

Negatives:

- Many clients are still not ready to adopt generative AI.

EBIT: Earnings before interest and taxes. BFSI: Banking, financial services and insurance. AI: Artificial Intelligence.

Click here For detailed report dated 27th Nov 2024. Note: CMP & valuation may differ due to difference in dates.

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Dated: 29th November 2024

S H Kelkar and Company (SHKL) – BUY

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.282	**Rs.370**

Rationale:

- Q2FY25 reveals good revenue growth; growth investments impact margins.
- These heavy upfront investments do drive material cuts to FY25E-27E EPS.
- This reflects management's bullishness on growth potential in coming years.
- The stock remains inexpensive at 22X FY26E P/E.
- Underpinning positive stance with a revised FV of Rs370 (24X Dec 2026E P/E).

(CDCs= creative development centers; P/E = Price to Earnings; EPS = Earnings Per Share)

Q2FY25 Earnings Update:

Positives:

- Growth was driven primarily by smaller accounts and the Unilever contract.
- Management guided revenues around Rs2100 cr for FY25, implying 14%+ growth.
- Free cash flow generation should exceed Rs200 cr starting FY27.
- Management's decision to invest in capacity expansion projects worth Rs200 cr across India and Europe.

Negatives:

- Margins weaker due to an inferior product mix & investments in new CDCs.
- Tariff moves by the US are a risk factor to watch.

Click here For detailed report dated 19th November 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 29th November 2024

Timken (TMKN) - ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.3370	**Rs.3800**

Rationale:

- Q2FY25 EBITDA was impacted due to weakness in export market.
- We expect near term to remain muted; medium-term growth prospect remain strong.
- We expect revenue to increase at CAGR of 14% over the next three years.
- We have cut our FY25-27E EPS estimates by 6-8% on lower revenue/EBITDA margin.
- We expect earnings per share (EPS) to grow by 27.9% in FY26E and 24.5% in FY27E.
- Retain ADD; revise DCF-based FV to Rs3,800; implied valuation of 44x Sep'26E EPS.

Q2FY25 Earnings update:

Positives:

- Revenue: >20% yoy growth in railways and industrial segment revenues.
- Strong order book in the domestic railway business.

Negatives:

- Weaker-than-expected revenue and gross margin print.
- EBITDA margin 17.7% (-220 bps yoy/-30 bps qoq) was 130 bps below our estimate.
- Net profit of Rs89.9 cr (-3% yoy and -7% qoq) was 14% below our estimates.

(EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; CAGR: Compound Annual Growth Rate; FV: Fair Value; DCF: Discounted Cash Flow)

Click here For detailed report dated 6th Nov 2024. Note: CMP & valuation may differ due to difference in dates.

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Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
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
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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