

MARKET STRATEGY

Wishing you a joyful
and prosperous
New Year 2025!

Equity Market
Performance

Domestic and
Global Macro
Economic Factors



Indian stock market
valuation – Where are we
with the market valuations?

Market
Outlook - 2025

Investment
Ideas for
long-term



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MARKET OUTLOOK FOR JANUARY 2025

Wishing You A Bright and Prosperous New Year

Domestic equity market performance was modest in 2024

In 2024, Sensex has gained 8.2% and Nifty 50 has gained 8.8%. Indian markets were volatile in 2024 with Sensex hitting a record high of 85,978 and Nifty touching a record of 26,277 in September. Even the Nifty Midcap 100 Index and Nifty Smallcap 100 Index were volatile in CY24; but they have outperformed the Nifty 50 Index and gained 23.86% and 23.94%, respectively. Notably, wide volatility in markets was due to geopolitical tensions, global economic weakness, global elevated interest rates, weak corporate earnings, elevated inflation levels, US presidential elections, and steep valuations of Indian markets. During 2024, BSE Healthcare (43.5%), BSE Realty (33.1%), BSE Consumer Durables (28.9%), BSE Industrials (28.4%), BSE Telecom (25.8%), BSE Auto (22.3%), BSE Capital Goods (21.8%), BSE IT (19.9%), BSE Oil & Gas (13.2%), BSE Utilities (13.0%), BSE Energy (8.8%), BSE Metal (7.0%), BSE Bankex (6.2%) and BSE FMCG (1.5%).

Market corrections often stem from uncertainties; however, improvements in domestic macroeconomic indicators play a crucial role in supporting the market during corrections. We anticipate that India's macroeconomic situation will improve in the coming quarters, with inflation expected to moderate. In the short to medium term, investors will be focusing on the Trump administration's trade and tariff policies, US Fed policy rate cut, RBI monetary policies, Union Budget, Q3 earnings season, etc. We believe RBI to go for a shallow 75 bps rate cut cycle starting February policy. We expect a great closure to 2025 with moderate growth and macroeconomic stability. We foresee the equity market gaining more momentum and commodities crossing their historic best in 2025. We believe companies with high-quality businesses, sustainable business models, superior visibility of earnings growth, and strong management are likely to outperform.

Gradual disinflation with upside risk from volatile food inflation

We retain FY25E and FY26E average headline CPI inflation forecast at 4.8% and 4.2%, respectively. While assuming a normal monsoon and estimating average inflation of 4.2% in FY26E, we acknowledge a high probability of sharp volatility in key food items. Increasing intermediate goods prices will continue to push core inflation toward the 4.5-5% range (average 4.6%), while weak demand should help in providing a cap.

Increasing concerns about growth slowdown

The Monetary Policy Committee (MPC) is worried about the lower-than-expected Q2FY25 real GDP growth. High-frequency indicators suggest economic activity is recovering in Q3FY25. MPC members have stated the need to bring down the cost of capital to stimulate investments and consumer demand. An interest rate cut will boost companies' investment plans and improve the scope of employment-linked schemes, helping induce a virtual cycle of wage growth and demand. We expect India's real GDP to grow by 6.1% in FY25E and 6.4% in FY26E. A cyclical recovery in government spending and an improvement in formal jobs (such as IT/ITeS) will support growth.

We retain our February rate-cut call

With headline inflation back within the RBI's target range, the new RBI MPC (two new members, including the RBI governor, will be added) will be tracking domestic growth and disinflationary trend, external sector risks (including impact on INR from US trade policy) and reaction of other economies and geopolitical developments in the run-up to the Feb'25 MPC. External sector

uncertainties will weigh on rate cut decisions, even as we continue with our call for a shallow 75 bps rate cut cycle starting February policy.

Tariff hikes: Not immediate risk for India, risks mostly for specific products/sectors

While India has a substantial goods trade surplus with the US, it is certainly not at the forefront. We do not expect India to be the first one to be targeted. An across-the-globe tariff hike of, say, 10% is unlikely to impact India much. Any specific action on India, if any, could be later and likely to be on specific products. India's trade surplus is mostly on the back of mobile phones, diamonds and jewelry, auto ancillaries, and textiles among others. Instead of tariff increases, the US may want India to increase imports of energy (LNG, crude, coal/coke), electronics, etc. to reduce the gap.

Immigration/Visa: Not an immediate risk for India, eventually might impact H1B visas

The Trump administration is likely to focus mostly on illegal immigrants in the first few months. Issues and measures to clamp down on legal immigration of skilled workers could follow. In the first couple of years of the first term, rejection rates for H1B visas had increased significantly. Intent to clamp down on H1B and L1 visas was visible, with multiple executive and legislative orders. However, numerous litigations led to most of these measures being neutralized. It is not clear what the stance will be in the upcoming term but IT/ITeS companies could be at some risk while global capability centers may continue to be unaffected, for now.

Rising adverse risks to trade and capital flows

In CY25, the key focus area will be global economic policies, especially in the US. These policies will likely reflect in India's external balance, as stagnant goods exports with significant downside risks and weak capital flows, given dollar strengthening risks in H1CY25. Even as services exports and remittances remain supportive, CAD/GDP is likely to widen to 1.5% in FY26E (FY25E: 1.2%) and BOP of US\$(-) 2,100 crore (FY25E: US\$(-)1,000 crore).

Strong headwinds to INR resilience

Evolving global and domestic fiscal and monetary policy expectations will keep the INR on a weakening bias. We see a change in the RBI's approach in allowing sharper moves in the INR. Factoring in the expected global and domestic macro conditions, we expect: the USD-INR to average around 84.4 for FY25E and around 86.5 in FY26E with risks on the upside, especially if tariff wars intensify.

Q3FY25: IT Services result expectation

Most IT services companies should report an acceleration in growth rates yoy albeit a gradual one. QoQ growth should be lower, but far better than last year. In our view, growth will be aided by core modernization, cloud and data from a horizontal standpoint, and financial services from a vertical standpoint. Coforge, Persistent, and HCLT should lead the growth, with 4.7%, 4.7%, and 4.4%, respectively. TCS (0.1%) and Mphasis (0.8%) will report a muted quarter. LTIM will likely report reasonable growth despite weak hi-tech. Infosys will likely deliver 0.7% and TechM 0.5% growth. Infosys, TCS, Coforge, and TechM are our top picks.

Outlook and Valuation

India maintains its position as one of the world's fastest-growing major economies, making it a compelling investment destination for global investors. While we remain confident in India's long-term growth opportunities, we advise investors to approach the market with a degree of cautious optimism.

We anticipate an increase in government spending during the third and fourth quarters of FY25E. This should help in GDP revival from the current levels. We believe retail investors which have been the backbone of the Indian markets are likely to continue to provide support.

In short, India's growth story remains intact, and we should maintain our confidence in long-term investing.

We expect the net profits of the Nifty-50 Index to grow 4.7% in FY25E (EPS of Rs1,033), 16.4% in FY26E (EPS of Rs1,203), and ~14% in FY27E (Rs.1,372). On these estimates, the Nifty 50 Index is trading at 19.7x/17.2x FY26E/FY27E earnings. We value Nifty 50 at a 5% discount (at 19.0x) to the last 10-year average PE of 20.0x on FY27E EPS and arrive at our Base case December 2025 Nifty target of 26,100. The strategy should be to keep investing on every dip with a medium to long-term view and preferable sectors are BFSI, IT, Realty, Pharmaceuticals, and Healthcare.

Key Risk

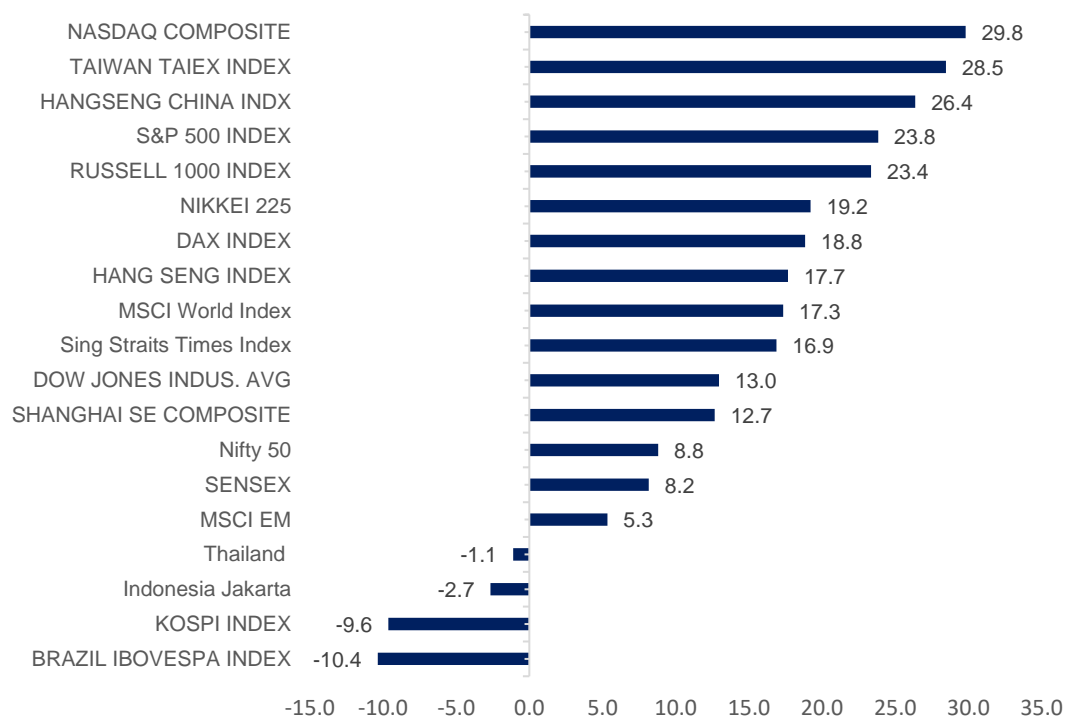
- Any meaningful escalation of geo-political tensions.
- Global growth slowdown or recession in key economies.
- High commodity prices could impact the economy and earnings in some sectors.

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 (%)	
					FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
					DLF	BUY	825	960	204,188	22	31	33	41	37
Godrej Agrovet	ADD	743	820	14,294	27	35	19	27	27	21	4.3	3.8	16	19
Infosys	BUY	1,880	2,200	780,627	72	80	14	11	26	24	7.6	7.3	30	32
Mahindra & Mahindra	BUY	3,007	3,400	373,942	114	126	11	10	26	24	4.7	4.0	19	18
Shriram Finance	BUY	2,889	3,650	108,649	273	334	1	22	11	9	1.7	1.5	17	18

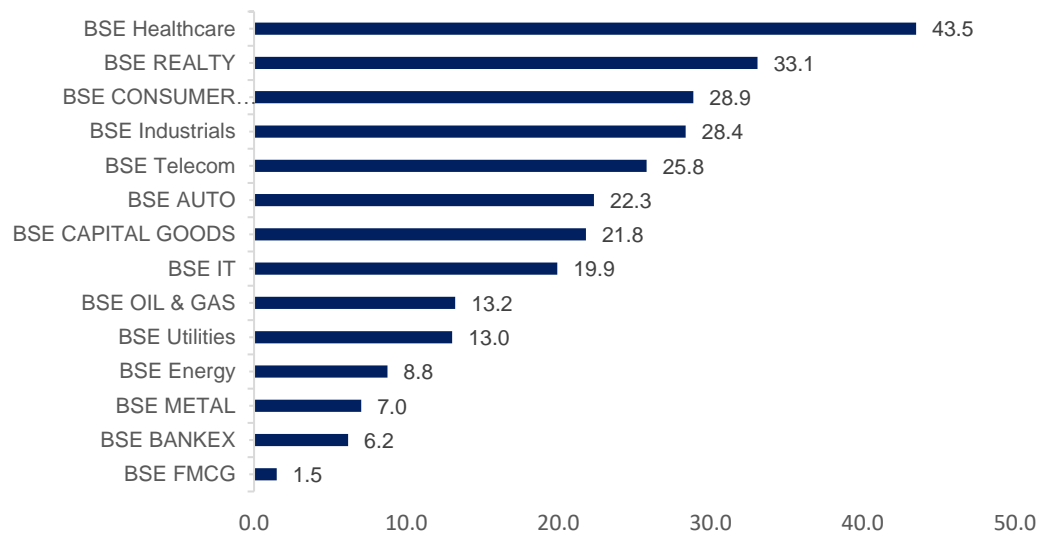
Source: Kotak Institutional Equities Research, * The above valuation summary is based on prices as on 31st Dec 2024.

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



Source: Bloomberg

Exhibit 2: Sectoral Indices Performance For 2024 (%)



Source: Bloomberg

Exhibit 3: Key Economic Calendar for India, US and Europe for January 2025

Date Time	Event
India	
2-Jan-25	HSBC India PMI Mfg
3-Jan-25	Foreign Exchange Reserves
6-Jan-25	HSBC India PMI Composite
6-Jan-25	HSBC India PMI Services
7-Jan-25	GDP Annual Estimate YoY
10-Jan-25	Industrial Production YoY
10-Jan-25	Foreign Exchange Reserves
13-Jan-25	CPI YoY
14-Jan-25	Wholesale Prices YoY
17-Jan-25	Foreign Exchange Reserves
24-Jan-25	HSBC India PMI Composite
24-Jan-25	HSBC India PMI Mfg
24-Jan-25	HSBC India PMI Services
24-Jan-25	Foreign Exchange Reserves
31-Jan-25	Fiscal Deficit YTD INR
31-Jan-25	Foreign Exchange Reserves
US	
2-Jan-25	Initial Jobless Claims
2-Jan-25	S&P Global US Manufacturing PMI
3-Jan-25	ISM Employment
6-Jan-25	S&P Global US Services PMI
6-Jan-25	S&P Global US Composite PMI
7-Jan-25	Trade Balance
7-Jan-25	JOLTS Job Openings
7-Jan-25	ISM Services Index
9-Jan-25	FOMC Meeting Minutes
9-Jan-25	Initial Jobless Claims
10-Jan-25	Unemployment Rate
15-Jan-25	CPI MoM
16-Jan-25	Initial Jobless Claims
23-Jan-25	Initial Jobless Claims
30-Jan-25	Fed Interest on Reserve Balances Rate
30-Jan-25	GDP Annualized QoQ
30-Jan-25	Initial Jobless Claims
Europe	
2-Jan-25	HCOB Eurozone Manufacturing PMI
6-Jan-25	HCOB Eurozone Composite PMI
6-Jan-25	HCOB Eurozone Services PMI
24-Jan-25	HCOB Germany Manufacturing PMI
24-Jan-25	HCOB Eurozone Services PMI

Source - Bloomberg

DLF (DLFU) – BUY

Result Update

Current Market Price (CMP) Rs.825	Target Price Rs.960
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Rationale:

- Weak pre-sales of Rs690 cr due to delay in launches.
- Management attributed the weakness to the delay in approvals.
- Aggressive growth plans across business segments.
- DLF is well positioned to capitalize on the housing demand with launch pipeline of Rs63500cr beyond FY25.
- We upgrade DLF to BUY (from ADD), with an unchanged FV of Rs960.share).

Q2FY25 earnings update:

Positives:

- Reiterated its confidence for Rs17000cr of presales in FY25 (Rs7100cr in H1FY25), aided by Rs41000 cr of launches.
- Received a strong response for its super-luxury project launched in Q3FY25.
- DCCDL: Continues to deliver double-digit PAT grow.

Negatives:

- Absence of any new launches and low sustenance sales in Q2FY25.
(DCCDL: rental arm, FV: Fair Value)

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

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Godrej Agrovet (GAVL) - ADD

Company Update

Current Market Price (CMP)

Rs. 743

Fair Value (FV)

Rs. 820

Rationale:

- Key takeaways from our visit to GAVL's chemical R&D center in Navi Mumbai.
- CDMO business saw no impact on business from the departure of CEO Anurag Roy.
- Management remains confident of 40-50% growth in CDMO revenues in FY25 as well as the next two years.
- Expect FY27E CDMO EBITDA above Rs200 cr and see it as a key growth driver.

(EBITDA: Earnings Before Interest Tax Depreciation & Amortization; GTFL: Godrej Tyson Foods; CDMO: Contract Development and Manufacturing Organization)

Company Update:

Positives:

- Enhanced capabilities have already started to demonstrate an impact.
- Rs450 cr invested in capacity addition will suffice for the next three years.
- GAVL has thus far commercialized nine molecules in its CDMO business.
- R&D center has helped assemble a strong pipeline of new molecules.
- Company is winning additional orders for existing products, which will drive growth.

Negatives:

- Margins in CDMO have dipped amid the industry downturn & intensely competitive environment.

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Infosys (INFO) – BUY

Company Update

Current Market Price (CMP)

Rs.1880

Target Price

Rs.2,200

Rationale:

- We hosted Jayesh Sanghrajka, CFO & Ganesh Ramasubramanian, AVP Investor Relations for investor meetings recently.
- Macro uncertainty in demand is reducing.
- Double-digit growth in the pipeline of smaller deals indicates positive signs of recovery in discretionary spending.
- Infosys has impressed on execution & well placed to capitalize on any potential discretionary spending recovery.
- Our Fair Value of Rs2,200 is based on 27x Dec'26E EPS.

Company update:

Positives:

- BFSI demand has increased in the US & specially in cards, payments, capital markets & mortgages.
- Most verticals have started growing.
- Leading from the front on GenAI.

Negatives:

- Unbilled revenues increased to over ~30 days from ~15 days in the past.

GenAI: Generative Artificial Intelligence. EPS: Earning Per Share.

[Click here](#)

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Mahindra & Mahindra (MM) - BUY

Company Update

Current Market Price (CMP)

Rs.3007

Target Price

Rs.3400

Rationale:

- Company continues to execute well by maintaining its leadership position in all three segments and is well-prepared for the EV transition.
- M&M unveiled two new born-electric EVs in the SUV segment (BE 6E and XEV 9E).
- New EV launches priced competitively compared to ICE models in respective segment.
- We expect the earnings per share (EPS) to grow by 11.1% in FY26E and 9.7% in FY27E.
- Increase our FY26-27E standalone EPS by 1-2%; maintain BUY.

Company update:

Positives:

- We believe these launches will accelerate EV adoption in the PV segment and establish M&M as a key challenger brand.
- EV launches are designed to dominate EV market with superior technology/features.
- Company's EV models have superior vehicle dynamics compared to the majority of the global luxury EV models benchmarked by the company.

Negatives

- We believe the pricing of XEV 9E is attractive; however, there can be cannibalization to company's existing product portfolio.

(EV: Electric Vehicle; SUV: Sport Utility Vehicle; ICE: internal Combustion Engine)

[Click here](#)

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Shriram Finance (SHFL) - BUY

Company Update

Current Market Price (CMP)

Rs.2889

Target Price

Rs.3,650

Rationale:

- Shriram Finance's stock has corrected sharply over the past two months.
- Concerns of a slowdown in CVs, any risk of contagion from fallout elsewhere in the financial system (MFIs, personal loans) and the RBI's action on select NBFCs are investors' concerns.
- We argue that Co. is better placed than most peers given moderate growth expectations, low unsecured exposure and high Expected Credit Loss coverage (ECL).
- While we tweak down estimates, we still find the company heading toward 18% RoEs, unless the macro deteriorates sharply.
- Co. trades at undemanding valuations of 1.8X book and 10.4X earnings FY26E.
- Reiterate BUY with FV of Rs3,650.

Company update:

Positives:

- The recent Q2FY25 performance was strong.
- 16% disbursement growth led to 4% qoq and 20% yoy loan growth.
- Stable credit costs, with an improvement in asset quality parameters across segments.

Negatives:

- Some weakness in Commercial Vehicle.

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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.
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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Market Strategy

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