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MARKET STRATEGY

MARCH 2025

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MARKET OUTLOOK FOR MARCH 2025

Indian equities underperform amid trade war concerns

Indian equities continued to underperform global indices with Nifty closing in red for a fifth consecutive month in February'25, the first in about the last three decades. Subdued performance in Indian equities came in due to increasing trade war risks over the global economy, FPIs outflows and weak corporate earnings. FPIs sold over Rs3 lakh cr in the last five months and are likely to have a cautious stance given a challenging global investment environment for emerging markets. Domestic macros data in the month of Feb'25 were mixed with inline Q3FY25 GDP growth, inflation showing signs of easing and widened trade deficit. There are challenges over consumption demand, the slowdown in government capex, low balance of payment (BoP) in the past few months. Despite all these, India still remains the world's fastest-growing major economy. We see a reasonably solid economic outlook for FY26 with strong GDP growth, under controlled inflation and an improved fiscal outlook. Despite recent correction, Nifty is trading above the historical average forward PE. In our view, investors need to adopt a judicious approach to add select quality stocks on corrections for long term perspective.

Mixed Domestic macro data

- **GDP**: India's GDP grew at 6.2% in Q3FY25 and has shown significant improvement over Q2FY25 (of 5.6%). Q3FY25 GDP growth was led by government consumption growth at 8.3% and private consumption growth at 6.9%. In addition, the real GDP growth for FY23 and FY24 have also witnessed sharp upward revisions to 7.6% (earlier: 7.0%) and 9.2% (earlier: 8.2%), respectively. With the past two years' GDP being sharply revised upward, we have revised our FY25 GDP growth estimate upwards to 6.5%, aligning with the NSO's second advance estimates. We broadly keep our FY26 GDP growth forecast steady at 6.5%, acknowledging downside risks from global uncertainties while benefiting from supportive monetary and fiscal measures, as well as a moderating inflation trend.

- **Inflation:** January'25 CPI inflation eased to 4.3% YoY (down from 5.2% in December'24), falling below our estimate of 4.5%, primarily due to a moderation in food prices. Food inflation moderated to 6% yoy, led by a sharp decline in prices of vegetables, eggs, pulses, spices, and oils and fats. Core inflation (CPI excluding food, beverages and fuel) inched up to 3.7% yoy (December: 3.6%). We expect inflation to gradually align with the RBI's 4.0% target by Q2FY26. The inflation outlook for FY26 appears more favorable, with average CPI inflation projected at 4.2%, compared to 4.8% in FY25.

- **Trade deficits:** India's goods trade deficit widened to US$23 bn in January'25, up from US$21.9 bn in December'24. Exports declined 2.4% YoY to US$36.4 bn in January, marking a 4.2% sequential drop from US$38 bn in December. Meanwhile, imports grew 10.3% YoY to US$59.4 bn, remaining largely stable compared to the previous month (US$60 bn in December), driven by electronic goods, machinery, and gold.

- **IIP:** IIP growth saw moderation in December'24 to 3.2% (November: 5.2%) due to slowdown in the manufacturing sector. According to the sectoral classification, the electricity sector led growth at 6.2%, followed by manufacturing (3.0%) and mining (2.6%).

FPIs on selling spree

FPIs have continuously been on selling spree in India by being net sellers to the tune of over Rs3 lakh cr (in the equity cash segment) in the last 5 months. They were net sellers to the tune of Rs58,988 cr in Feb'25 (source: Moneycontrol) after a heavy sell-off in the month of January'25. FPIs are expected to maintain a cautious approach towards Indian markets amid a challenging global investment landscape for emerging markets. With the potential for tariff barriers under a new US administration, global investors are likely to favor the US market over emerging markets in terms of capital flows.

RBI policy – more rate cuts on card

The RBI reduced the policy rate by 25 bps in its February 7 meeting, signaling a shift in stance towards supporting growth, given its growing comfort (presumably) on India's inflation trajectory. The central bank projects domestic inflation to moderate to around 4% by Q3CY25, aligning with its stated target. The RBI MPC also highlighted concerns over slowing real GDP growth. The slowdown in the GDP growth rate coupled with easing inflation support the case for shallow rate cuts in future RBI policies. In our view, a shallow rate-cut cycle is based on the RBI's effort to balance growth and inflation while remaining cautious about external sector risks from (1) uncertainties surrounding Trump's trade policies and potential retaliatory tariffs, (2) a relatively hawkish stance from the Fed and (3) sustained capital outflows. We expect the RBI to reduce policy rates by an additional 25-50 bps through FY26, assuming CPI inflation continues trending toward the 4% target amid external sector uncertainties.

Looming trade war: Rising tariffs and global economic uncertainty

Global markets may face an extended period of uncertainty on potential change in US policies towards geopolitics, immigration and trade & tariffs under the Trump administration. On a positive note, efforts are being made by the new Trump administration towards ending Russia Ukraine war and, increasing tariff risks on the global economy adds uncertainty. The new US administration's stance on reciprocal trade tariffs for various imports could disrupt the existing global trade order. Trump has signaled potential tariffs on products such as automobiles, pharmaceuticals, and semiconductors, which may take effect as early as April 2025. Higher import duties on goods entering the US could have negative implications for global GDP growth and US inflation. The unexpected shift to the US foreign policy (NATO, Taiwan, Ukraine, etc.) may affect global investment sentiment. For now, markets anticipate that the US economy and financial markets will benefit from the administration's "America First" policies, as reflected in the outperformance of US stocks and the dollar over the past 2-3 months.

US Fed expects fewer rate cuts versus earlier

Amidst all these risks related to the tariff war, weak economic data from the US add worries. In recent data revealed by S&P Global, US business activity has slowed significantly, with growth decelerating to a 17-month low with services sector, in particular, experienced an unexpected contraction. There are also concerns over inflation post the new US administration imposed tariff on import of steel, aluminum and Chinese goods. There are conservative outlook of the US Fed on inflation and interest (policy) rates. US Fed has changed its outlook on interest rates and now expects fewer rate cuts versus earlier as there is continued strength in the US economy and concerns around inflation in the US staying well above its 2% target. However the recent personal consumption expenditures (PCE) price index, the Federal Reserve's preferred inflation measure, eased slightly in January. The core PCE excluding Food and energy rose inline with street estimates at 0.3% for the month and was at 2.6% annually.

Subdued Q3FY25 earnings performance

Adjusted net profits of the Nifty-50 Index rose 8.8% YoY, marginally exceeding our estimate of a 7.8% increase. Performance varied significantly across sectors, with banks offsetting underperformance in a few other large sectors. More broadly, BSE500 companies struggled with growth, reporting a 7% increase in revenue, EBITDA, and PAT. We note that Small-caps continued to underperform their larger counterparts across all growth metrics, with PAT declining 13% yoy. In terms of sectors, Banks, capital goods, capital markets, diversified financials, etc reported decent-to-strong sales growth on a yoy basis. In contrast, most consumer-facing sectors—including automobiles, commodity chemicals, construction materials, consumer durables & apparel, and consumer staples—experienced margin contraction. Meanwhile, internet, pharmaceuticals, and telecom sectors saw a notable improvement in margins. Weak Q3FY25 performance led to a downward revision of FY25/FY26E consensus earnings by 13%/10% for small-caps and 11%/9% for mid-caps, while large-cap earnings saw only minor cuts. In our view, weak Q3FY25 operating results again highlighted optimistic assumptions on volumes and profitability, along with sector-wide disruption risks.

Adopt selective and long term investment approach

The outlook for the Indian economy in FY26 remains fairly strong, supported by robust GDP growth, improving inflation and fiscal conditions, and a stable BoP/CAD. We expect a moderate pick-up in both consumption and private sector investment through FY26 along with sustained strong growth in segments of construction (such as housing) and manufacturing. However, consumption demand may continue to face challenges throughout the year. Concerns persist over investment, as the FY26 budget shows no growth in central government capex estimates for certain core sectors, while state government capex is likely to see limited growth due to increased allocations for social welfare schemes. We expect the net profits of the Nifty-50 Index to grow at 14.9% in FY26, following a modest 4.4% (8.8% ex-BPCL, HPCL and COAL) growth in FY25. However, we see downside risks to earnings in several sectors due to sector-specific issues.

The Indian market has underperformed most global markets in the past 12 months. Despite this, several stocks and sectors continue to trade at a premium to their historical average multiples. We believe that, most sectors and stocks are still trading at premium valuations, with the degree of overvaluation rising in inverse correlation to market capitalization, quality and risk. The Nifty-50 Index is trading at PE of 18.8x/16.4x on FY26E/FY27E EPS of Rs1079/Rs1349 per share, respectively. Under the current market condition, investors need to adopt a judicious and selective approach to add quality stocks on corrections for long term perspective.

Key Risk

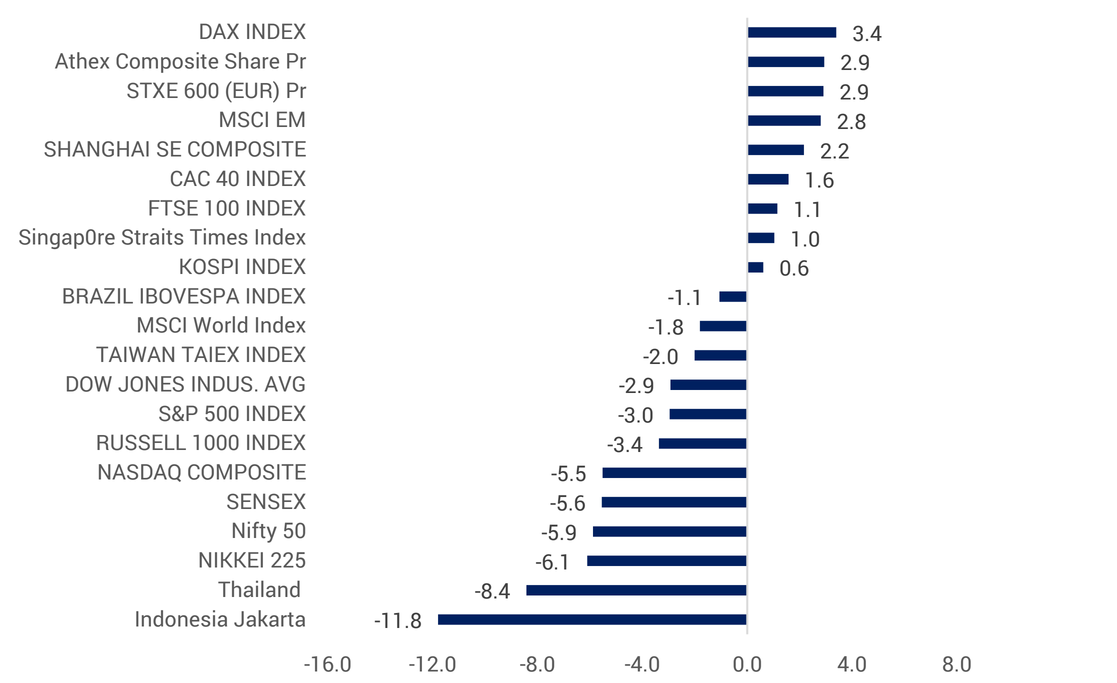
- Trade war led by imposition of import tariffs by the US.
- Delay in recovery of global economic growth.
- Geopolitical tensions and its impact on supply chain and inflation.

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
TCS	ADD	3,483	4,550	12,60,270	147.0	164.9	8.7	12.2	23.7	21.1	11.6	10.6	50.9	52.3
Axis Bank	BUY	1,016	1,500	314,445	90.7	104.0	7.0	14.7	11.2	9.8	1.6	1.4	15.1	15.3
ITC	ADD	395	500	494,243	17.3	18.9	7.0	9.0	22.8	20.9	6.3	6.0	27.0	28.8
Indian Hotels	ADD	716	860	101,932	16.7	21.0	23.6	25.8	42.8	34.0	7.7	6.4	19.4	20.6
Neogen Chemicals	ADD	1,669	2,090	4,403	27.2	62.1	52.3	128.7	61.5	26.9	5.1	4.4	8.6	17.6

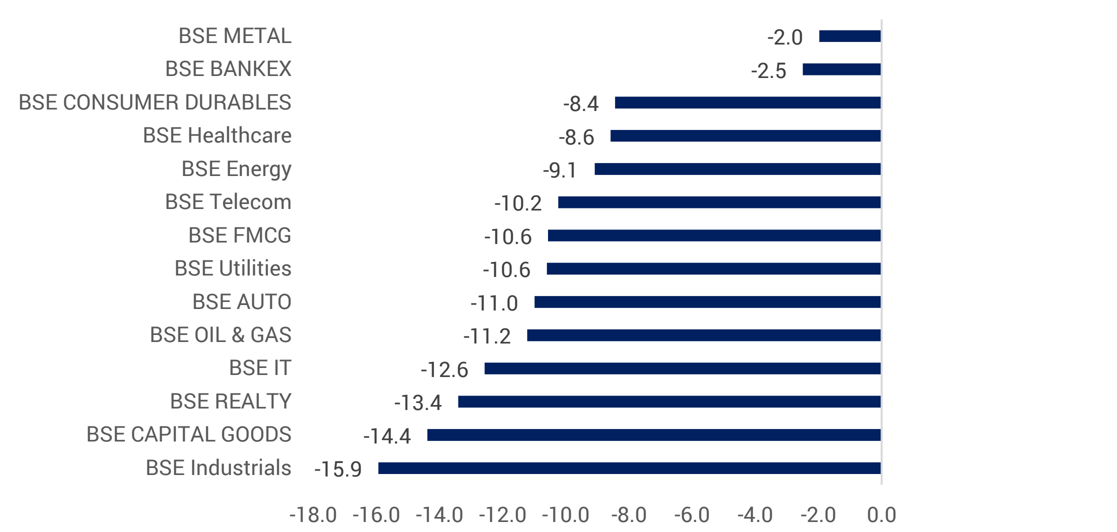
*Source: Kotak Institutional Equities Research, *The above valuation summary is based on prices as on 28th February 2025*

Exhibit 1: World Indices Performance – For month of February 2025 (%)



Source: Bloomberg

Exhibit 2: Sectoral Indices Performance in the month of February 2025 (%)



Source: Bloomberg

Exhibit 3: India's Key Economic Calendar

Date	Event
3-Mar	HSBC India PMI Mfg
5-Mar	HSBC India PMI Composite
5-Mar	HSBC India PMI Services
7-Mar	Foreign Exchange Reserves
12-Mar	Industrial Production YoY
12-Mar	CPI YoY
12-Mar	Trade Balance
14-Mar	Foreign Exchange Reserves
17-Mar	Wholesale Prices YoY
21-Mar	Foreign Exchange Reserves
21-Mar	BoP Current Account Balance
24-Mar	HSBC India PMI Mfg/Services/Composite
28-Mar	Fiscal Deficit YTD INR
28-Mar	Eight Infrastructure Industries
28-Mar	Foreign Exchange Reserves

Source - Bloomberg

Exhibit 4: US Key Economic Calendar

Date	Event
3-Mar	S&P Global US Manufacturing/Services/Composite PMI
3-Mar	ISM Manufacturing/Services
5-Mar	S&P Global US Services PMI
5-Mar	Factory Orders
6-Mar	Federal Reserve Releases Beige Book
6-Mar	Trade Balance
6-Mar	Initial Jobless Claims
7-Mar	Change in Nonfarm Payrolls
7-Mar	Unemployment Rate
10-Mar	NY Fed 1-Yr Inflation Expectations
12-Mar	CPI MoM/YoY
12-Mar	Federal Budget Balance
13-Mar	Initial Jobless Claims
17-Mar	Retail Sales Advance MoM
17-Mar	NAHB Housing Market Index
18-Mar	Housing Starts
19-Mar	FOMC Rate Decision
19-Mar	Fed Interest on Reserve Balances Rate
20-Mar	Current Account Balance
20-Mar	Initial Jobless Claims
24-Mar	S&P Global US Manufacturing/Services/Composite PMI
25-Mar	New Home Sales
27-Mar	GDP Annualized QoQ
27-Mar	Advance Goods Trade Balance
27-Mar	Personal Consumption
27-Mar	GDP Price Index
27-Mar	Core PCE Price Index QoQ
27-Mar	Initial Jobless Claims
27-Mar	Pending Home Sales MoM
28-Mar	PCE Price Index MoM/YoY

Source - Bloomberg

Exhibit 5: Eurozone Key Economic Calendar

Date	Event
3-Mar	HCOB Eurozone Manufacturing PMI
3-Mar	CPI Estimate YoY
3-Mar	CPI MoM
3-Mar	CPI Core YoY
4-Mar	Unemployment Rate
5-Mar	HCOB Eurozone Services/Composite PMI
5-Mar	PPI MoM/YoY
6-Mar	Retail Sales MoM/YoY
6-Mar	ECB Deposit Facility Rate
6-Mar	ECB Main Refinancing Rate
6-Mar	ECB Marginal Lending Facility
7-Mar	GDP SA YoY/QoQ
7-Mar	Govt Expend QoQ
7-Mar	Gross Fix Cap QoQ
7-Mar	Household Cons QoQ
7-Mar	Employment QoQ/YoY
13-Mar	Industrial Production WDA YoY
13-Mar	Industrial Production SA MoM
18-Mar	Trade Balance SA
18-Mar	Trade Balance NSA
19-Mar	CPI YoY
19-Mar	Labour Costs YoY
19-Mar	CPI MoM
19-Mar	CPI Core YoY
20-Mar	ECB Publishes Economic Bulletin
20-Mar	Construction Output MoM/YoY
21-Mar	ECB Current Account SA
21-Mar	Consumer Confidence
24-Mar	HCOB Eurozone Manufacturing/Services/Composite PMI
24-Mar	ECB 1/3 Year CPI Expectations
27-Mar	M3 Money Supply YoY
28-Mar	Consumer Confidence

Source - Bloomberg

Dated: 28 Feb 2025

TCS (TCS) – ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.3,483	**Rs.4,550**

Rationale:

- Strong deal wins is a good beginning. Deal TCV at $1,020 cr, impressed us.
- Q3FY25: Adjusted net profit stood up 4% qoq and 12% yoy.
- BSNL ramp-down in FY26E to impact revenue growth and aid margins.
- Strong execution & a well-honed full-service model enable TCS to be a strong contender in discretionary & cost take-out programs.
- Fair Value is Rs4,550, valuing the stock at 27x FY27E EPS.

Q3FY25 Earnings update:

Positives:

- Adjusted EBIT margin increased 40 bps to 24.5% (KIE: 24.4%).
- Emerging markets led growth with the India & MEA businesses growing 8.2% & 7.7%, respectively, in USD terms qoq.

Negatives:

- Nearly all verticals were flat or declined qoq.
- Attribute weak BFSI & Continental Europe to lower revenue from German bank.
- We expect the BSNL deal to ramp down sharply after Q4FY25.

EBIT: Earnings before Interest and Tax. EPS: Earning per share. BFSI: Banking, Financial Services and Insurance. MEA: Middle East & North Africa.

Click here For detailed report dated 9th Jan 2025. Note: CMP & valuation may differ due to difference in dates.

Dated: 28th February, 2025

Axis Bank (AXSB) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs. 1,016	**Rs. 1,500**

Rationale:

- Co. reported 4% yoy earnings growth on the back of ~15% operating profit growth.
- Loan and deposit growth has slowed (9% yoy).
- NIM has held up largely unchanged at 3.9%.
- The worry on higher slippages from unsecured loans appears to have been addressed this quarter.
- Maintain BUY with FV at Rs1,500 (unchanged).

Q3FY25 Earnings Update:

Positives:

- Revenue grew ~8% yoy with NII growth at ~10% yoy.
- Headline asset quality stable with negligible changes to gross and net NPL ratios qoq.
- Credit cost for quarter stood at ~85 bps of loans, a decline from ~90 bps in Q2FY25.

Negatives:

- Loan growth slowed to ~9% yoy.
- Recovery in loan growth led by healthy deposit mobilization probably remains challenge.
- Retail segment profitability has been sluggish recently.

(NIM - Net Interest Margin, NII – Net Interest Income)

Click here For detailed report dated 16th January 2025. Note: CMP & valuation may differ due to difference in dates.

Dated: 28th February 2025

ITC (ITC)-ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.395	Rs. 500

Rationale:

- ITC reported 8.6%/1.6%/2.1% yoy growth in revenues/EBITDA/PAT.
- We incorporate ITC Hotels' demerger & margin pressure & cut FY25-27E EPS.
- We expect earnings to grow by 7.0% in FY26E & grow by 9.0% in FY27E.
- Stock is currently trading at valuation of 20.9x P/E FY27E EPS.
- We value ITC using Sum of the Parts (SoTP) methodology.

Q3FY25 Earnings Update:

Positives:

- ITC's gross revenue (ex-agri business) grew 5.8% yoy.
- Cigarette volume growth is resilient in weak consumption environment.
- There are incipient signs of recovery in urban demand as well.
- Announced the acquisition of Prasuma, a leading player in frozen, ready food.

Negatives:

- Paperboard & packaging remained impacted by low-priced Chinese supplies.
- FMCG revenue growth moderated further to 4% yoy.

Click here For detailed report dated 7th Feb 2025. Note: CMP & valuation may differ due to difference in dates.

Dated: 28th Feb 2025

Indian Hotels (IH) - ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.716	**Rs.860**

Rationale:

- IHCL continued to deliver a strong performance in Q3FY25.
- Q3FY25: Strong ARR growth and consolidation of TajSATS aid earnings growth.
- Operational portfolio of 25,935 keys to be supplemented by 17,664 incremental keys.
- Management expects the healthy momentum to sustain in Q4FY25 and beyond.
- We expect earnings per share to grow by 33.5% in FY26E and by 25.8% in FY27E.
- We maintain ADD with a revised SoTP-based FV of Rs860/share (from Rs800/share).

Q3FY25 Earnings update:

Positives:

- Better-than-expected consolidated revenue of Rs2,533 cr (29% yoy, 39% qoq).
- EBITDA of Rs962 cr (31% yoy, 92% qoq), yielded healthy margins of 38%.
- Standalone ARR: 11% yoy growth to Rs20,440/day, 4% ahead of our estimate.
- IHCL had a net cash balance of Rs2,820 cr, as of December 2024.

Negatives:

- Chennai (4% yoy) saw weak ARR growth, while Goa (2% yoy) was impacted by renovation at the Taj Holiday Village.

(EBITDA - Earnings Before Interest, Tax, Depreciation and Amortization; ARR – Average Room Rate; SoTP: Sum of the Parts; FV: Fair Value)

Click here

For detailed report dated 19th Jan 2025. Note: CMP & valuation may differ due to difference in dates.

Dated: 28 Feb 2025

Neogen Chemicals (NEOGEN) – ADD

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.1,669	**Rs.2090**

Rationale:

- Reported an in-line quarter, with steady qoq results from the base business.
- Ramp-up of the battery chemicals business is running behind expected timelines.
- Our FY25-26E estimates undergo sharp cuts owing to the delay.
- But we retain FY27E estimates, expecting traction by then.
- The medium-term story remains promising amid numerous battery capacity plans.

(CSM-Custom Synthesis Manufacturing; EPS-Earnings Per Share; EBITDA- Earnings before Interest, Tax, Depreciation, and Amortisation)

Q3FY25 Result Update:

Positives:

- Revenues grew 4% qoq/22% yoy versus an easy year-ago base.
- BuLi Chemicals ramped up to optimal utilization, as it commenced exports.
- Management has reiterated FY26 revenue guidance of Rs950-1000 cr from base business.
- Management pointed at more than 5 giga factories expected in India by end-FY27.
- Continue to see good potential for battery chemicals business and CSM business.
- They have enterprising management, first-mover advantage & client relationships.

Negatives:

- Cut EPS estimates for FY25/26 to reflect delayed pick-up in battery chemicals revenues.
- EBITDA margins dipped 60 bps qoq, primarily due to higher other expenses.

Click here For detailed report dated 3rd Feb 2025. Note: CMP & valuation may differ due to difference in dates.

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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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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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