

MARKET STRATEGY



Elections



Inflation



Monsoon



Interest Rates



GDP Growth



Q4FY24
Corporate
Earnings



Valuation



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MARKET OUTLOOK FOR MAY 2024

Equity markets ended April 2024 on a flat or weak note

Equity Markets globally were either flat or marginally lower during the month of April 2024 with geo-political tensions and elevated global inflation. Caution persisted globally as the situation in the Middle East remains fragile. Further, the potential delay of a US rate cut due to higher-than-expected inflation, robust retail sales, and elevated oil prices invoked subdued sentiments. This was evident through notable upticks in the dollar index, US bond yields and gold prices. Mix Q4FY24 numbers till date and FPIs outflows for India in the month of April 2024 could extend the consolidation. Expectation of “above normal” monsoon season with 106% of the long period average provides some comfort. For April 2024, the Indian stock market witnessed a mixed performance across various sectors, with some facing notable challenges while others showed resilience amid adversity. While we maintain our call for a 50 bps rate cut starting in Q3FY25, we note increasing risks of further delays to the RBI’s rate cuts from (1) rising crude oil prices, (2) a further push-back to the timing of the US Fed’s rate easing cycle and (3) volatile food inflation. The current valuations of the companies need to be seen in the context of (1) higher global interest rates (both nominal and real) and similar domestic interest rates compared to the pre-pandemic period, (2) high profitability assumptions across sectors over FY25-26E and (3) ongoing negative changes to the operating environment and business models of companies. Against this backdrop, we believe that investors should look to boost the resilience of equity portfolios by focusing on a combination of high-quality names, strong dividend payers and regional diversification.

Global Challenges

US GDP increased at a 1.6% (vs. expectation of 2.4%) annualized pace in Q1CY24, when adjusted for seasonality and inflation. While, US inflation rose 2.7% in the 12 months through March, above the Fed’s target of 2%. If growth continues to slowly decelerate, but inflation strongly takes off again in the wrong direction, the expectation of a Fed interest rate cut in 2024 will be low. However, the economy in the Eurozone is gaining momentum. In April, the flash Purchasing Managers’ Index rose unexpectedly sharply to 51.4 points, its highest level for eleven months, pointing to growing economic output. In Germany, the service sector was particularly strong at 53.3 points, but the manufacturing sector also improved with an increase of 1.8 points to its highest level in the last three months. In Asia, the stronger-than-expected 5.3% growth in China’s economy for Q1CY24 comes as a positive surprise for analysts and policymakers. This growth figure surpasses the 4.6% expansion that was anticipated and indicates resilience in the face of challenges such as the ongoing property crisis. A series of other indicators, including the purchasing managers’ index (PMI), foreign trade, and fixed-asset investment, all pointed to a recovery gaining momentum in the world’s second-largest economy. So for now developed economies are giving mix signals on growth and inflation front.

Mixed domestic macro factors

While high frequency indicators remain firm, adverse base effects and continued consumption weakness is expected to weigh on GDP growth in future. Indian economy grew 8.4% in Q3FY24, remaining the fastest-growing major economy in the world. However, there are uncertainties linked with (1) Escalation in geopolitical risk (between Iran and Israel, continued Russia Ukraine war and smaller conflicts elsewhere); (2) Continued ‘high’ inflation with inflation staying well above central banks’ targets (high inflation expectations and high bond yields and interest rate) and (3) Structural headwinds in China. We expect our real GDP growth rate of 6.6% in FY25E and 6.5% in FY26E, factoring in (1) the Center’s continued capex thrust (albeit

at a slower pace) along with states' capex, (2) delay in timing of global growth slowdown and (3) continued tepid consumption growth. Over the medium term, we expect GDP growth at 6.5%, as drivers remain broadly in line with current trends.

GST revenue for March 2024 was second highest collection ever at Rs 1.78 lakh crore (+11.5% yoy) driven by significant rise in GST collection from domestic transactions at 17.6%. Also, February IIP rose 5.7% in February as against 3.8% in January led by manufacturing activity. March headline inflation, as expected, moderated to 4.9%, while core inflation moderated marginally to 3.3%. We continue to expect only a gradual moderation in headline inflation. In the near term, we see upside risks to our Q1FY25 estimate from adverse weather and increasing commodity prices. We maintain our (1) FY25 average headline inflation estimate at 4.5% and (2) call for a 50 bps repo rate cut starting in Q3FY25. FY24 goods trade deficit narrowed from FY23, while the services surplus was higher. We maintain our FY24-25 CAD and GDP estimates at 0.8 and 1.1%, respectively, with the Q4FY24E current account expected to register a marginal surplus of 0.4% of GDP. However, in FY25, we remain wary of risks from geopolitical tensions, causing an upside to commodity prices.

India is expected to have an "above normal" monsoon season with 106% of the long period average, as per India Meteorological Department. Expected La Nina, positive IOD and below normal snow cover over northern hemisphere would be favourable for rainfall during southwest monsoon season. This can potentially boost farm output and income and lift rural economy.

Q4FY24 Numbers expectation

We expect the (1) automobiles & components (higher volume, increase in ASPs, richer product mix and RM tailwinds), (2) banks (lower provisions), (3) diversified financials (continued business momentum, strong collections), (4) gas utilities (higher volumes, realization in case of GAIL) and (5) pharmaceuticals (continued US strength and traction across most markets) sectors to report a yoy increase in the net income. We expect a yoy decline in the net income of (1) metals & mining (lower realization and higher raw material prices) and (2) oil, gas & consumable fuels (higher refining margins in Q4FY23).

General Elections 2024- Low scope for election-led positive surprises

We would caution against using any 'conclusions' from previous pre- and post-election market and stock price movements to draw inferences for pre and post-market movements over the next few months. The BJP-led NDA government seems all set to win the forthcoming general elections. We do not expect much to change unless the election outcome deviates meaningfully from polls and market expectations.

FII/FPI and SIP flows

Foreign institutional investors (FIIs) have turned negative on India for the month of April with a net outflow of Rs 8671 crores for April 2024 (as per NSDL) against an inflow of more than Rs 35000 crores in March 2024. However, SIP flows have remained strong with monthly collection reaching an all-time of Rs 19000 crores for the month of January, February and March 2024. (Versus Rs 14000 cr yoy). Inflows from FIIs may improve for EM like India led by stable government policies, robust macro fundamentals, stable inflation and sustainable growth rates. On the other hand, global economies have been witnessing challenges of slower growth, elevated inflation and fears of recession. Even China in recent months experienced economic slowdown. Reasonable macro-economic outlook, undiminished expectations of recovery in profitability and volumes and strong medium-term narrative about India could take the SIP inflows to Rs 25,000 crores/month by FY26.

Valuation and Outlook

We find most sectors and stocks quite overvalued. The level of overvaluation increases in inverse order of (1) market cap., (2) quality and (3) risk. The market seems happy to overpay for weak business models in a few cases and unsustainably high profitability in others, which highlights high levels of exuberance (only greed) and low concerns about potential risks (no fear).

The large 'disconnect' between price and value may sustain, notwithstanding the rich valuations across sectors and stocks, if (1) the BJP was to win the forthcoming national elections in May, as is widely expected and (2) the market was to continue to ignore potential medium-term disruption risks. Also, (1) India's reasonable macroeconomic situation (strong GDP growth, manageable BoP, fiscal and inflation); expectation of normal monsoons may push consumption and rural recovery and (2) a sluggish global outlook (lower inflation and interest rates) should provide some tailwind for the market.

Post-decent 19.8% earnings growth in FY24, we expect net profits of the Nifty-50 Index to grow by 9.4% (EPS of 1079) in FY25 and by 12.9% (EPS of 1226) in FY26. At 22569, Nifty trades at 20.0 x FY25E and at 18.4x FY26E. FY25 will likely see more broad-based growth across sectors. However, the OMCs will likely drag down overall profits, as we expect their profits to normalize in FY25. We find most sectors and stocks quite overvalued with the degree of overvaluation ranging from (1) low for most large-cap consumer, IT services and pharmaceuticals to (2) medium in the investment space to (3) high in the case of several low-quality companies.

India's healthy economic and earnings recovery coupled by capital expenditure cycle, (including PLI scheme) is expected to keep Indian markets attractive over the medium to long term. With upcoming monsoon season, a good monsoon could boost sales for companies in the sectors of staples, consumer durables, automobiles, agro-chemical, fertilizers, and banks/NBFCs. As the broader market valuations is rich, investors could use market correction as an opportunity to add quality stocks (Strong business model and Corporate Governance) from long term investment perspective.

Key Risk

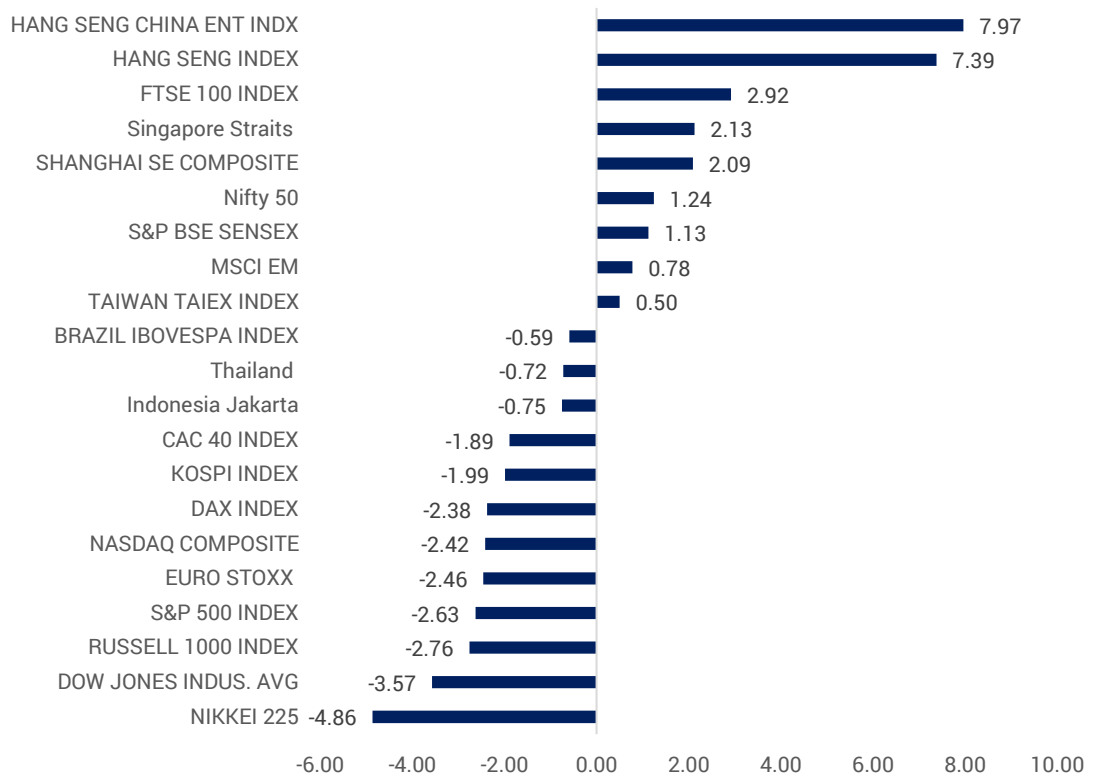
- Global growth slowdown or recession in key economies
- Sustained high levels of inflation and monetary policy actions from Central Banks
- High commodity prices could impact economy and earnings in some sectors

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs)*	Fair Value (Rs)	Mkt cap. (Rs bn)	EPS (Rs)		P/E (x)		P/B (x)		RoE (%)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Cyient	BUY	1,810	2,275	200.7	79.3	91.0	22.8	19.9	4.1	3.7	18.2	18.8
Glenmark LifeSciences	BUY	828	900	101.5	43.6	50.1	19.0	16.5	3.9	3.4	21.7	22.4
Gravitas India	BUY	977	1,200	67.5	43.9	52.3	22.3	18.7	6.4	4.9	32.8	29.9
Hindustan Unilever	ADD	2,234	2,625	5248.5	46.5	51.8	48.0	43.1	10.0	9.6	21.2	22.9
ICICI Bank	BUY	1,150	1,300	8080.9	59.2	65.3	19.4	17.6	2.9	2.6	16.3	15.8
Indian Hotels	ADD	578	640	822.1	14.2	17.8	40.7	32.5	7.2	6.1	19.6	20.7
Mahindra Holidays#	ADD	422	475	85.2	9.7	12.3	43.5	34.3	7.6	6.3	18.8	19.6
Neogen Chemicals	BUY	1,541	1,840	40.7	23.9	48.5	64.5	31.8	4.9	4.3	8.0	14.7
Shriram Finance	BUY	2,545	3,000	956.4	231.6	277.8	11.0	9.2	1.7	1.5	16.6	17.3

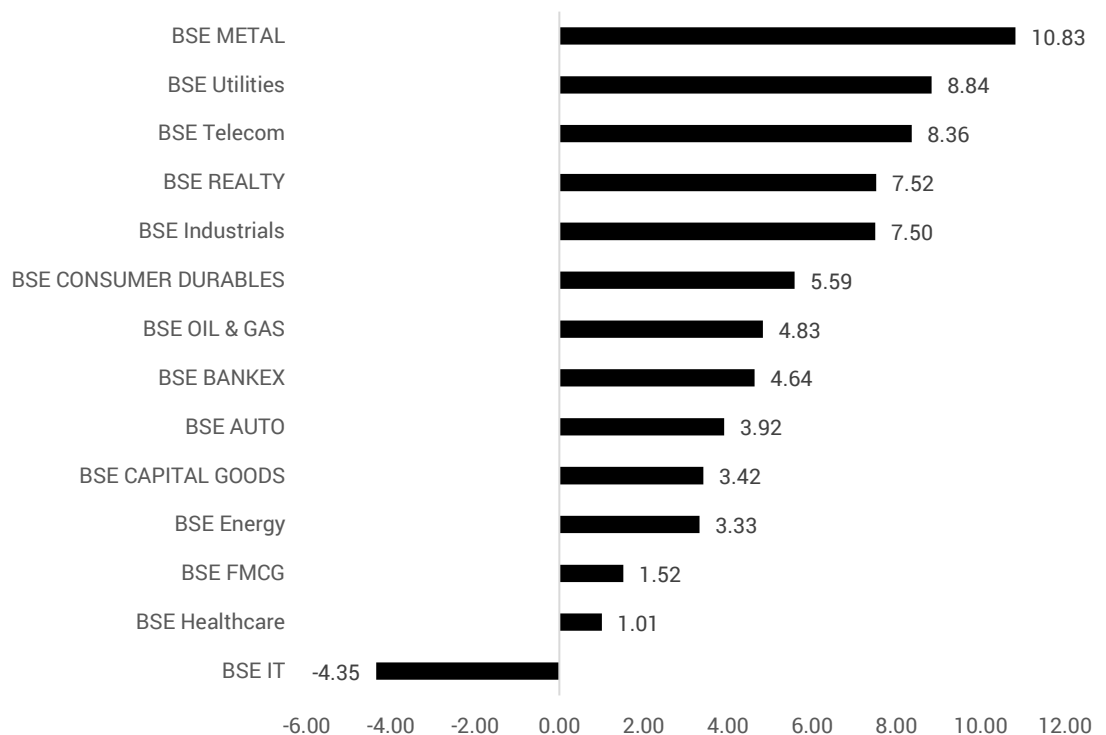
Source: Kotak Institutional Equities Research, # Kotak Securities – Private Client Group, *The above valuation summary is based on prices as on 30th April 2024

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



Source: Bloomberg

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



Source: Bloomberg

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

Date	Country	Event	For the month of
1st May,2024	US	S&P Global US Manufacturing PMI	Apr-24
1st May,2024	US	FOMC Rate Decision	May-24
2nd May, 2024	US	Trade Balance	Mar-24
2nd May, 2024	US	Nonfarm Productivity	Q1CY24
2nd May, 2024	US	Factory Orders	Mar-24
2nd May, 2024	US	Initial Jobless Claims	Apr-24
2nd May, 2024	Euro	S&P Global Czech Republic Mfg PMI	Apr-24
2nd May, 2024	Euro	Repurchase Rate	May-24
2nd May, 2024	Japan	Consumer Confidence Index	Apr-24
3rd May,2024	US	Unemployment Rate	Apr-24
3rd May, 2024	US	S&P Global US Services PMI	May-24
8th May,2024	US	Consumer Credit	Mar-24
10th May,2024	India	Industrial Production YoY	Mar-24
13th May,2024	India	CPI YoY	Apr-24
13th May,2024	India	Trade Balance	Apr-24
13th May,2024	US	NY Fed 1-Yr Inflation Expectations	Apr-24
14th May, 2024	India	Wholesale Prices YoY	Apr-24
15th May,2024	US	CPI YoY/MoM	Apr-24
22nd May,2024	US	FOMC Meeting Minutes	May-24
28th May,2024	US	House Price Purchase Index QoQ	Q1
30th May 2024	US	GDP Annualized QoQ	Q1
30th May 2024	US	Retail Inventories MoM	Apr-24
31st May, 2024	India	Fiscal Deficit YTD INR Crore	Apr-24
31st May, 2024	India	Eight Infrastructure Industries	Apr-24
31st May, 2024	India	GDP Annual Estimate YoY	2024P

Source - Bloomberg

Cyient (CYL) – BUY

Result Update

Current Market Price (CMP)

Rs.1,810

Target Price

Rs.2,275

Rationale:

- Weak growth outlook and steady profitability.
- Miss on revenues, margins better.
- Weak demand translates to disappointment on FY25E revenue growth outlook.
- Mgt has done reasonably well to diversify revenue mix, improve profitability sustainably & enhance capabilities.
- Our Fair value for Cyient is Rs2,275, implying 24x Jun'26E EPS for DET segment and recommend BUY.
- Valuations are reasonable for DET segment.

Q4FY24 Earnings update:

Positives:

- EBIT margin was flat qoq at 16% and higher than our estimate of 15.6%.
- Net profit for DET segment up 16.6% yoy.
- Consolidated group net profit up 14.6% yoy.
- EBIT margin guidance stands at 16%, consistent with our expectation.

Negatives:

- Cyient DET revenues were below expectations and declined 0.5% c/c qoq.

CC: Constant Currency. EBIT: Earnings before Interest and Tax. DET: Digital, Engineering & Technology.

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



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Glenmark Life Sciences (GLS) - BUY

Result Update

Current Market Price (CMP) Rs. 828	Fair Value (FV) Rs. 900
----------------------------------------------	-----------------------------------

Rationale:

- Supply disruptions overshadow steadfast progress.
- A muted Q4FY24 even as underlying demand stays intact.
- GLSs' underlying demand remains healthy across generic APIs and CDMO.
- GLS is well poised to grow at a healthy pace over the medium term.
- We value GLS at 18X FY26E P/E, which captures GLS' healthy growth profile.
- We reinstate coverage on GLS with a BUY rating and FV of Rs900.

Q4FY24 Result Update:

Positives:

- GLS continues to witness 10-11% yoy volume growth in its existing portfolio.
- In FY25E, GLS expects to grow its overall sales by low-to-mid teens.
- With the acquisition by Nirma, GLS expects higher availability of capital for investments.
- GLS aims to increase its capacity by ~2X over FY24-26E.
- Due to elevated demand, investing in brownfield capacity at Ankleshwar & Dahej.

Negative:

- FY25E gross margins to be impacted by 100-150 bps due to loss of PLI income.

(API-Active Pharmaceutical Ingredient, CDMO-Contract Development & Manufacturing Organization, EPS – Earnings per Share; PE – Price to Earnings; PLI – Production Link Income)

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Gravita India (GRAV) - BUY

Company Update

Current Market Price (CMP)

Rs.977

Target Price

Rs.1200

Rationale:

- We hosted investors for GRAV's plant and head office visit at Jaipur, India.
- Management is focused on its on-going expansions, focused in India, that would nearly double recycling capacity over FY23-26E.
- Company sees significant growth opportunity in Lead and Plastic division in medium term led by policy tailwinds.
- We forecast 20%/22% revenue/PAT CAGRs over FY23-26E.
- We expect earnings per share (EPS) to grow by 24.4% in FY25E & 19.2% in FY26E.
- Stock is currently trading at valuation of 18.7x P/E FY26E EPS.
- Maintain BUY with unchanged Fair Value of Rs1200.

Company Update:

Positives:

- Phagi Plant – Currently has recycling capacity of ~54,000 tpa across verticals.
- GRAV has planned a capex of ~Rs640 cr over FY24-26E to increase its recycling capacity by 86% (from FY23) to ~435 ktpa.

Negatives:

- Volatility in unhedged commodities.

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Hindustan Unilever (HUVR) - ADD

Result Update

Current Market Price (CMP)

Rs.2234

Target Price

Rs.2625

Rationale:

- Underlying Volume growth (UVG) of 1% was in line with our estimates.
- Weakness in growth was attributable to weak rural demand.
- We expect earnings to grow by 7.8% in FY25E & grow by 11.4% in FY26E.
- Stock is currently trading at valuation of 43.1x P/E FY26E EPS.
- We value HUVR using Discounted Cash Flow (DCF) methodology.

Q4FY24 Earnings Update:

Positives:

- Revenues were flat yoy at Rs14857 cr (in line).
- UVG of 2% yoy (KIE: 2%) versus UVG of +2% in 3Q/2Q.
- EBITDA (operating) margins contracted 20 bps yoy/qoq to 23.1% (KIE: 22.9%).
- Profit after tax (PAT) declined 1.9% yoy to Rs2423 cr (KIE: Rs2398.5 cr).
- Growth likely to be back-ended and margins to be range-bound in FY25E.

Negatives:

- Gross Margin (GM) at 51.9% (KIE: 52%) was +315/35 bps qoq/yoy.

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ICICI Bank (ICICIBC) - BUY

Result Update

Current Market Price (CMP)

Rs.1150

Target Price

Rs.1300

Rationale:

- Bank reported ~17% yoy earnings growth led by ~10% yoy operating profit growth and lower provisions.
- NIM (Net Interest Margin) held up well sequentially at 4.4%.
- Deposit growth was impressive at 20% yoy while Credit deposit ratio stands comfortable at ~85%.
- Asset quality continues to hold up well.
- The levers to deliver best-in-class return and growth ratios are intact.
- Maintain BUY with FV at 1,300 (Rs1,220 earlier).

Result update:

Positives:

- Loan growth was healthy and broad-based; minor tweaks to origination in unsecured retail.
- Deposit growth stood at 20% yoy – better than the loan growth print of 16% yoy.
- CASA ratio for the bank improved ~250 bps qoq to ~42%.
- GNPL ratio declined ~10 bps qoq to 2.3%, while NNPL ratio was broadly flat qoq at 0.5%

Negatives:

- NIM is likely to see only a marginal contraction from here.

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Indian Hotels (IH) - ADD

Result Update

Current Market Price (CMP)

Rs.578

Target Price

Rs.640

Rationale:

- IHCL closed FY24 with 20% yoy growth in consolidated EBITDA.
- Modest quarter; strong growth profile.
- Portfolio of 24,136 keys to be supplemented by 12,953 incremental keys.
- IHCL is the largest play on India's hospitality sector, with its wide presence across mid-to-premium segments as well as in business and leisure locations.
- We expect earnings per share to grow by 60.6% in FY25E and by 25.6% in FY26E.
- Maintain ADD rating with a revised fair value of Rs640/share.

Q4FY24 Earnings update:

Positives:

- Standalone occupancy (domestic) up 440 bps yoy /230 bps qoq to 79.1% in Q4FY24.
- IHCL has a net cash balance of ~Rs1,200 cr as of March 2024.
- Taj Sats and Ginger portfolio saw meaningful improvement in comparison to Q4FY23.

Negatives:

- Standalone earnings lagged our estimate owing to lower non-room revenues.
- ARR declined sequentially, partly owing to inclusion of new Ginger hotels.

(EBITDA - Earnings Before Interest, Tax, Depreciation and Amortization; ARR – Average Room Rate)

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Mahindra Holidays & Resorts (India) Ltd (MHRIL) – ADD

Result Update

Current Market Price (CMP)

Rs. 422

Fair Value (FV)

Rs. 475

Rationale:

- Mixed Q4FY24 results; member addition better than estimates; resort income and EBITDA margins missed our estimates.
- Aggressive inventory addition plan; Aims to double room inventory to ~10,000 by FY30.
- Met FY24 guidance of ~20,000 net new member additions.
- Any major surprise in performance of HCR (subsidiary co.) may lead to further re-rating.
- Maintain ADD with revised SoTP (Sum of the parts) based FV of Rs475 (from Rs465).

(EBITDA: Earnings before interest, tax depreciation & amortization, PAT: Profit Aft. tax, CAGR: Compound Annual Growth rate)

Q4FY24 Earnings Update:

👍 Positives:

- Added 5734 (+12.5% yoy) new members (net) in the quarter and took the cumulative membership base to 2.98 lakhs (+5.7% yoy).
- We expect revenue/adj. PAT to grow at a CAGR of 12.4%/22.6% in FY24-26E.
- HCR reported robust results despite adverse macroeconomic situation in Europe.

👎 Negatives:

- EBITDA margin declined 190bps to 17.9% on higher rent and other expenses.

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Neogen Chemicals (NEOGEN) – BUY

Company Update

Current Market Price (CMP)

Rs.1,504

Fair Value (FV)

Rs.1,840

Rationale:

- A fast-growing specialty chemical company, gearing up for a multifold scale-up.
- The first mover and credible entrant in India's promising EV battery chemicals space.
- We estimate 34%/40% revenue/EPS CAGRs for Neogen over FY23-29E.
- Commencement of battery chemical revenues.
- Supported by healthy growth in base business of bromine/lithium derivatives.
- DCF-based March 2025 FV stands at Rs1,840. Initiate with BUY.

(EV-Electric vehicles; EPS-Earnings Per Share; DCF-Discounted Cash Flow; CAGR-Compound annual growth rate)

Company Update:

Positives:

- Initiate with BUY—a credible growth story with substantial potential.
- Highly qualified, experienced and well-regarded promoters.
- Track record of rapid growth enabled by innovation and enterprise.
- Partnerships with the likes of Mitsubishi and global customers.

Negatives:

- Balance sheet leverage has been an area of concern.
- Any delay in project commissioning or ramp-up are key risks.

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Shriram Finance (SHFL) - BUY

Result Update

Current Market Price (CMP)

Rs.2545

Target Price

Rs.3000

Rationale:

- SHFL's operating performance was strong, with high growth, albeit some expected margin pressure.
- Asset-quality parameters appear very comfortable.
- Credit cost was moderate at 2.3% in Q4FY24.
- With most investments in growth done, overall operating expense ratios may moderate.
- We expect earnings CAGR of 20% over FY25-27E.
- Retain BUY; FV Rs3,000.

Result update:

👍 Positives:

- Co. reported PAT of Rs1,945.8 crores in Q4FY24, up 49% yoy and 6% above our estimates.
- NII (Net Interest Income) growth was strong at 22% yoy.
- Gross stage-3 loan ratio was down 5.5% from 5.7% in Q3FY24 and 6.2% in Q4FY23.
- NIM (Net Interest Margin) will likely remain stable at 9.3% in FY25E.
- Operating expense growth was lower than top line growth at 11%.

👎 Negatives:

- The slowdown in vehicle sales, coupled with stable prices hereon, will put pressure on the vehicle business.

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For detailed report dated 27th April. Note: CMP & valuation may differ due to difference in dates.



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RATING SCALE (PRIVATE CLIENT GROUP)

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
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