kotak neo

Market Strategy

August 2026

- Equity Markets in July 2026
- Revival of Middle East tensions
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MARKET OUTLOOK FOR AUGUST 2026

Indian equities defy global volatility in July 2026

The Indian equity market demonstrated consolidation and resilience in July 2026, amidst geopolitical swings in West Asia and sharp correction in AI and semi-conductor stocks. The benchmark Nifty 50 consolidated between the 23,800-24,400 levels, while the Sensex hovered between 76,000-78,000, showing positive monthly returns. Broader markets also ended the month in positive territory with the Nifty Midcap 100 and Nifty Smallcap 100 indices posting gains. Benchmark equity indices successfully absorbed the pressure from temporary spike in crude oil prices triggered by escalating US–Iran tensions, led by India's resilient macroeconomic fundamentals and steady corporate earnings growth. Domestic Institutional Investors (DIIs) continue to absorb foreign pressure as robust net buyers, while Foreign Institutional Investor (FII) selling intensity in the cash market has decelerated for the past four consecutive months, since peaking in March 2026. Sectoral performances saw divergence with IT, Realty, Consumer Durables and Auto witnessing sharp gains. The IT index gained ~15% in July 2026 amid broadly in-line Q1FY27 earnings outcome and attractive valuation. Real estate index moved up ~9% amid positive management commentary on growth outlook and lower valuation. Auto index moved 8% high amid continued strong volume growth momentum. On the other hand, Capital Goods index closed the month with decline over 5%.

Global equity markets witness sharp divergence and heightened volatility in July 2026

Global equity markets experienced intense volatility and deep structural divergence in July 2026. The month was primarily defined by semiconductor and AI related sell-off and the revival in the US–Iran geopolitical tensions. Global AI stocks saw a sharp drawdown, even as US tech giants re-affirmed/increased their capex guidance. Major US indices delivered a volatile, mixed monthly performance with Dow Jones Industrial Average managing a slim gain, whereas the Nasdaq Composite slid by over 3%, weighed down by profit-booking in AI and semiconductor stocks. European equity indices delivered positive performances in July 2026, weathering tech-sector volatility and escalating US–Iran geopolitical tensions. Corporate earnings reports and gains in defensive energy stocks cushioned them from severe market pullbacks. Asian equity indices delivered highly contrasting performance, with Hang Seng Index surging 13%, but China’s Shanghai Composite, Japan’s Nikkei 225 and South Korea's KOSPI posting sharp correction. KOSPI's steep July 2026 decline was triggered by a global semiconductor slowdown (amid concerns over Chinese competition) and mass retail margin liquidations.

Escalating Middle East conflict sparks energy shock, renewing global inflationary fears

The escalation of the US–Iran war ignited fresh volatility across global equity and energy markets in July 2026, breaking the earlier announced ceasefire. The conflict centered around the US–Iran tensions in West Asia, threatened critical energy choke points and raised fears of a wider regional war. Consequently, Brent and WTI crude oil futures posted strong monthly gains, with Brent prices even reaching the $100 per barrel mark during the month. This flare-up triggered a flight to safety across international markets. For India, the crude spike initially pressured the Indian Rupee and sparked domestic retail inflation concerns, causing temporary consolidation in the Nifty and Sensex. However, India showcased resilience as robust domestic institutional inflows and healthy corporate earnings helped Indian equities decouple from the broader global market volatility. India’s June trade deficit widened, driven by higher non-oil, non-gold imports. In our base case of crude oil prices at US$85/bbl, we continue to estimate FY27E CAD/GDP at 1.5%. India’s macroeconomic outlook appears manageable for now, but could deteriorate in the event of a prolonged conflict or could improve in the case of a de-escalation in the Iran-US war. We believe that economic and political compulsions will restrain both Iran and the US from indulging in a prolonged conflict. We maintain our constructive view on the India’s macro, notwithstanding the recent escalation in the West Asia war.

IMF forecasts steady 3% global growth for 2026 amid geopolitical challenges

The International Monetary Fund (IMF), in its July 2026 World Economic Outlook Update, has projected global economic growth to reach 3.0% in CY26E and 3.4% in CY27E. Headline inflation has been revised upward to 4.7% for CY26 due to persistent energy volatility, before an expected drop to 3.9% in CY27E. US real GDP increased at an annualized rate of 1.5% in Q2CY26, slowing down from the 2.1% growth recorded Q1CY26. For the US, the growth is projected to be at 2.3% in CY26E and 2.2% in CY27E. The US economy has remained relatively resilient, largely insulated by its net energy exporter status and technology-related private sector investment. Euro area GDP expanded by 0.4% in Q2CY26, versus flat growth in Q1CY26. Euro Area economic performance remains soft, and the growth is lowered by IMF to 0.9% in CY26E and 1.2% in CY27E. The contraction partly stems from higher energy prices and weakened consumer confidence.

The IMF projects India's economy to grow by 7.0% for CY26E (6.4% for FY27E), outpacing all other major economies including China (4.6% in CY26E). Unlike economies dependent heavily on external technology cycles, India's expansion is anchored by robust domestic demand, strong private consumption, and a highly resilient services sector. While India retains its growth leadership amongst major economies, elevated global crude oil prices and supply chain frictions from the Middle East conflict remain key risks to its inflation and fiscal targets. We estimate India's real GDP growth at 6.5% in FY27E and 7.0% in FY28E (nominal GDP growth of 12.9% in FY27E and 12% in FY28E).

Global monetary policy remains on hold as inflation pressures resurface

Global central banks paused rate cuts due to stalled disinflation driven by Middle East oil shocks and tariff friction. The FOMC kept the Federal Funds rate unchanged within the 3.5-3.75% range for the fifth consecutive time, with a 9-3 majority. Fed Chair Warsh emphasized that the Fed remained firmly committed to returning inflation to its 2% target. However, he refrained from offering any forward guidance. The European Central Bank kept policy rates unchanged in July 2026 after the 25 bps hike in June 2026. Further rate hikes remain a possibility, contingent on the severity of the West Asia crisis and the consequent rise in crude oil prices, which pose upside risks to the inflation trajectory. The Bank of England held its benchmark rate steady at 3.75%, adopting a less supportive monetary stance. Similarly, the Bank of Japan voted 8–1 to keep its short-term policy rate steady at 1.0% and warned that underlying inflation could soon exceed its 2% target. The collective actions of the world's major central banks underscore a coordinated shift toward a "wait-and-watch" monetary stance. This data-dependent pause signals that borrowing costs will remain higher for now until inflation is firmly under control.

India's retail inflation edges upward but stays within RBI's comfort band

India's retail inflation accelerated to 4.4% yoy in June 2026, rising from 3.9% in May due to higher food and fuel costs and was marginally above market expectations. Core inflation remained stable at 3.9% yoy, but petrol and diesel prices surged by 7.5% and 8.4% yoy, reflecting the complete pass-through of the retail fuel price hikes. The impact of the weak monsoon is becoming evident in the sharp rise in vegetable prices during June 2026. We expect FY27E CPI inflation at 5% in the base case (adverse: 5.7%), factoring in headwinds from El-Nino-led food price shocks and possible resurgence of crude prices. The supply-driven nature of current price shocks is expected to keep the RBI in a wait-and-watch mode. To determine its next policy move, the central bank will closely monitor few critical factors: the potential anchoring of inflation expectations, any reversals in retail fuel prices, the trajectory of food inflation, and the extent of input price pass-through into final goods. Given the low real rates, we continue to pencil in a 50 bps rate hike (possibly from December), unless there is an emerging disinflationary trend with CPI inflation averaging around 4.5%.

Monsoon picks up momentum in July amid continued risk from El Nino

Rainfall in India in June was 40% below long-term average, while in July it was 3.5% above long-term average. By July end, cumulative rainfall was 13% below long-term average. On a cumulative basis, rainfall was deficient in East, North-East and South India while rainfall was normal in Central and North-West India. Out of the 36 sub-divisions, 17 have received deficient rainfall, 16 have received normal rainfall and three have received excess rainfall, so far. As of July 24, the total kharif acreage was 4.7% lower than the same period last year. Basins and reservoirs levels were 7% below long- term average for week ending July 30. Lower reservoir levels can have an adverse impact on the rabi (winter) crop cycle. El Nino conditions have strengthened and neutral IOD conditions continue to prevail.

Q1FY27 earnings (till date) better than expectation

At the start of the Q1FY27 earnings season, our estimate was 4.8% yoy increase in net profits of the BSE-30 index and 9.8% yoy growth in net profits for Nifty-50 index. Q1FY27 net profits of the Nifty-50 Index grew 11% yoy, 3.5% above expectations and EBITDA of the Nifty-50 Index grew 8.5% yoy, 1.4% above expectations (based on results of 25 Nifty companies). We expect fairly robust growth in net profits of the Nifty-50 index and Kotak's coverage universe for FY27 due to low base in certain sectors, continued strong activity in others and higher yoy commodity prices. Healthy Q1FY27 financial results coupled with better-than-expected earnings across several sectors should provide greater comfort to the market's corporate earnings outlook. This robust performance is expected to reassure investors and stabilize earnings growth expectations, offsetting broader macroeconomic concerns such as weak monsoon and persistent global inflation pressures.

Outlook and Valuation

The Indian economy seems to be holding up rather well in the current uncertain macroeconomic environment, with most high-frequency indicators suggesting steady or improving growth outlook across sectors. In particular, the sharp increase in industry credit across sectors suggests a broad-based pick-up in private sector investment. We expect the momentum to continue as the private sector invests aggressively in value-added manufacturing in chemicals, electricity and electronics chains, encouraged by supportive government policies. Center's Q1FY27 fiscal accounts reflected healthy direct tax growth and robust capex spends. We expect the center's GFD/GDP to be at 4.3%, in line with FY27BE, with 20-30 bps of slippages in case of elevated energy and commodity prices for a prolonged period. The Comprehensive Economic and Trade Agreement (CETA) between India and United Kingdom came into force on 15th July 2026. With this, the Indian exporters will benefit from the elimination of UK tariffs across several key sectors. This along with other FTAs, transition India from a domestically focused market into a highly competitive, preferred global manufacturing and services hub. Over the long run, this collective trade strategy creates a compounding economic effect, driving sustained GDP expansion and deep integration into global supply chains. Nifty-50 index is trading at reasonable multiples after derating in certain sectors. We expect earnings of the Nifty-50 Index to grow 18% in FY27E and 14% in FY28E. The Nifty-50 Index is trading at 19.6x FY27E EPS and 17.1x FY28E EPS. Indian markets continue to see wide variance in valuations. Most banks are trading at reasonable valuations. We prefer stocks with compounding in earnings/book and lower risks of derating in multiples.

Key Risk

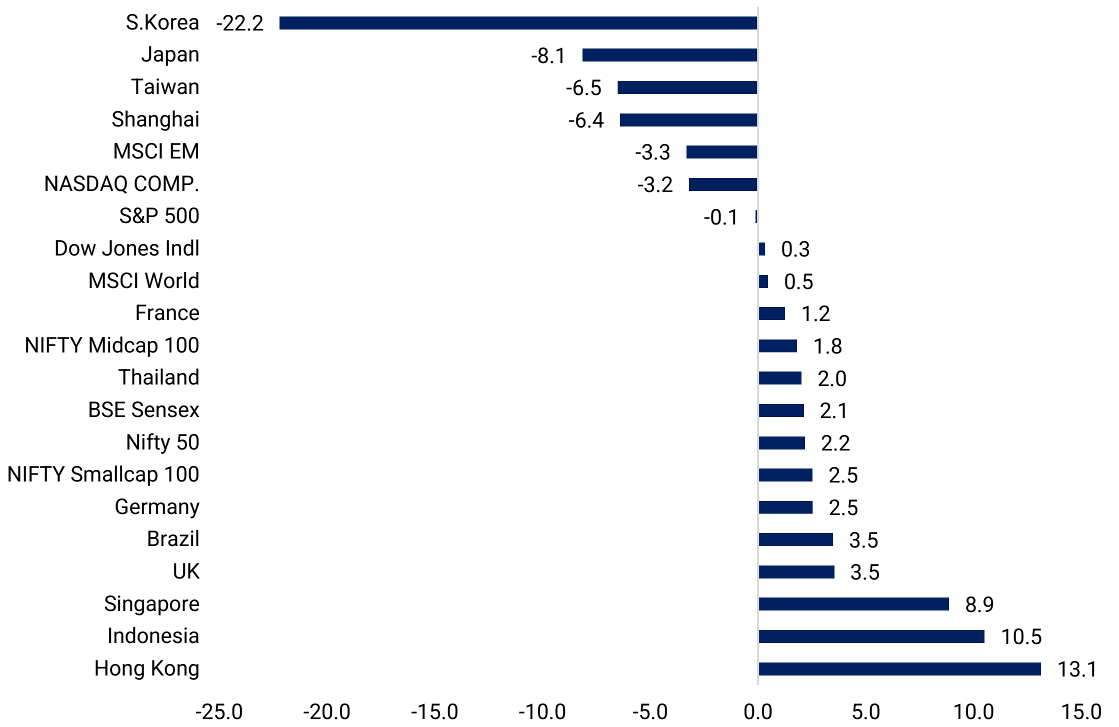
- Geopolitical tensions
- Weak monsoon
- Inflation
- AI led disruptions

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs)*	Fair Value (Rs)	Mkt cap. (Rs cr)	EPS (Rs) FY27E	EPS (Rs) FY28E	EPS growth (%) FY27E	EPS growth (%) FY28E	P/E (x) FY27E	P/E (x) FY28E	P/BV (x) FY27E	P/BV (x) FY28E	RoE (%) FY27E	RoE (%) FY28E
Amber Enterprises	BUY	7441	8710	26,188	118	211	47.0	79.1	63.3	35.3	4.6	4.0	8.2	12.1
HDFC AMC	ADD	2616	3000	1,12,256	78.0	91.4	16.4	17.2	33.5	28.6	11.4	10.6	35.0	38.2
Indus Towers	BUY	391	480	1,03,601	27.9	29.7	7.2	6.4	14.0	13.2	2.5	2.4	18.2	18.7
Larsen & Toubro	ADD	3939	4250	5,41,762	149.9	181.1	15.3	20.8	26.3	21.7	5.2	4.6	21.2	22.3
Ujjivan Small Finance Bank	BUY	72	85	13,971	6.1	6.9	70.4	13.8	11.9	10.4	1.8	1.5	15.9	15.5

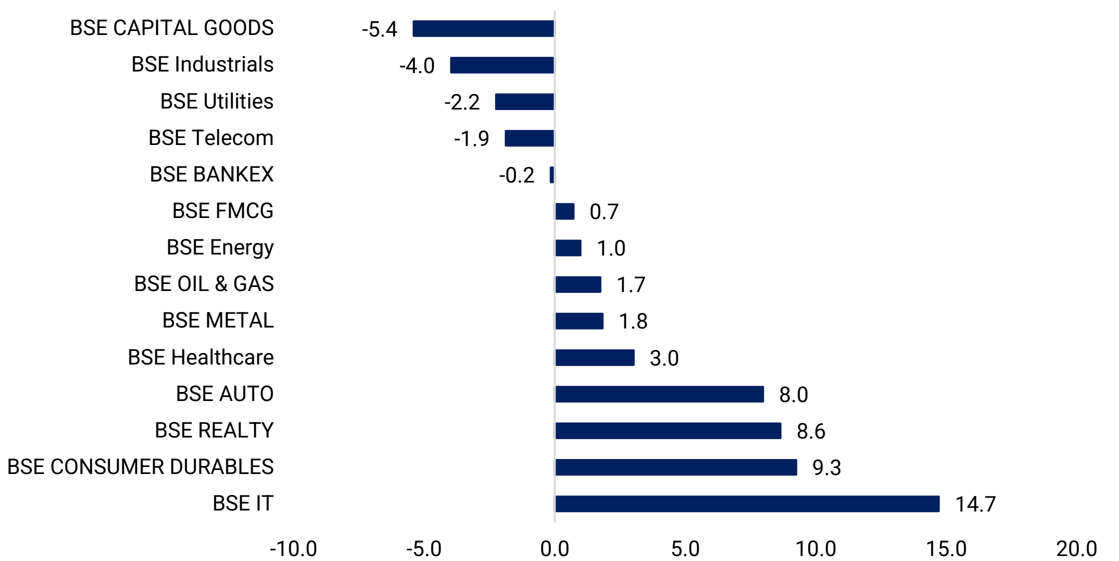
*Source: Kotak Institutional Equities Research, *The above valuation summary is based on prices as on 31st July 2026*

Exhibit 1: Global Indices Performance - for Month of July 2026



Source: Bloomberg

Exhibit 2: Sectoral Indices: % Change in the month of July 2026



Source: Bloomberg

Exhibit 3: US Key Economic Calendar

Date Time	Event
3-Aug	S&P Global US Manufacturing PMI
4-Aug	Trade Balance
5-Aug	S&P Global US Services PMI
5-Aug	S&P Global US Composite PMI
6-Aug	Initial Jobless Claims
7-Aug	Unemployment Rate
12-Aug	CPI
13-Aug	Initial Jobless Claims
18-Aug	Industrial Production MoM
19-Aug	FOMC Meeting Minutes
20-Aug	Initial Jobless Claims
26-Aug	PCE Price Index
26-Aug	GDP Annualized
27-Aug	Initial Jobless Claims

Source: Bloomberg

Exhibit 4: Eurozone Key Economic Calendar

Date Time	Event
3-Aug	S&P Global Eurozone Manufacturing PMI
5-Aug	S&P Global Eurozone Services PMI
5-Aug	S&P Global Eurozone Composite PMI
6-Aug	ECB Publishes Economic Bulletin
13-Aug	Industrial Production
14-Aug	GDP
14-Aug	Trade Balance
14-Aug	Employment
18-Aug	ZEW Survey Expectations
19-Aug	CPI
21-Aug	ECB 1 Year CPI Expectations
21-Aug	ECB 3 Year CPI Expectations

Source: Bloomberg

Exhibit 5: India Key Economic Calendar

Date Time	Event
03-Aug	HSBC India PMI Manufacturing
05-Aug	HSBC India PMI Composite
05-Aug	HSBC India PMI Services
12-Aug	CPI YoY
12-Aug - 15-Aug	Trade Balance
14-Aug	Wholesale Prices YoY
17-Aug	Unemployment Rate
20-Aug	Core Industries Output YoY
28-Aug	Industrial Production YoY
31-Aug	GDP YoY
31-Aug	Fiscal Deficit YTD INR

Source: Bloomberg

Dated: 31 July 2026

Amber Enterprises (AMBER) - BUY

Company Update

Current Market Price (CMP)	Fair Value (FV)
Rs.7,441	**Rs.8,710**

Rationale:

- Amber has entered into a manufacturing collaboration with OPPO India to manufacture mobile phones.
- Under this arrangement, Amber will manufacture phones for the OPPO, OnePlus and Realme brands in India.
- Amber will be undertaking manufacturing at Oppo’s existing manufacturing facility on sub-lease basis target to manufacture 0.8-09 cr /1.3-1.5 cr smartphones in FY28/FY29.
- Amber now boasts one of most diversified electronics portfolios spanning: consumer-facing segments, industrial products and backward integration into components.
- Scaling volumes in line with guidance and backward integration into components will be key long-term triggers.
- We revise our earnings by 8%/15% for FY2028/29 and FV to Rs8,710.

Positives:

- Amber's entry into mobile manufacturing further diversifies its revenues away from the seasonal RAC business.
- OPPO's brands (OPPO, Realme and OnePlus) collectively accounted for a 25.6% share in CY25 (~3.9 cr units).
- We expect revenues to see a CAGR of 45% over FY26-29E.

Negatives:

- Amber’s return ratios (RoE/RoCE) was in single-digit in FY26.

(CAGR: Compounded Annual Growth Rate; RoE: Return on Equity; RoCE: Return on Capital Employed)

Holding Period: 12 months

Dated: 31 July 2026

HDFC AMC (HDFC AMC) - ADD

Result Update Q1FY27

Current Market Price (CMP)	Fair Value (FV)
Rs.2,616	**Rs.3,000**

Rationale:

- HDFC AMC delivered 10% yoy growth in core earnings, led by 14% yoy revenue growth.
- Operating performance remains steady, with fund performance, yields and inflows largely stable.
- While we like HDFC's long-term track-record on fund performance and business profitability, we find incremental upside limited and closely tied to earnings compounding.
- We believe much of the near-term earnings and market-share outlook is already priced into the stock, As a result, we downgrade it by one notch to ADD with DCF-based FV to Rs3,000 (from Rs2,950), which implies ~33X March 2028E EPS.

Positives:

- Headline Profit After Tax increased 12% yoy, aided by mark-to-market gains in other income (up 13% yoy).
- Blended 1QFY26 revenue yields increased marginally to 47 bps from 45.3 bps qoq.
- The equity mix in the Asset Under Management improved 100 bps to 66%.
- HDFC's monthly systematic book is Rs 4,800 cr with SIP AUM of Rs 2.3 lakh cr.
- PMS/AIF AUM scaled up sharply to ~Rs 15,000 cr from Rs 6,000 cr yoy.
- Management highlighted that the alternates business operates at a premium to equity margins at 80-90 bps.

Negatives:

- HDFC AMC's active equity market share is at 12.7%, down 20 bps qoq.
- Market share in SIP inflows saw a slight decline in the quarter to 15.4% in Q1FY27.

Holding Period: 12 months

Dated: 31 July 2026

Indus Towers (INDUSTOW) - BUY

Q1FY27 Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.391	**Rs.480**

Rationale:

- Indus' Q1FY27 recurring EBITDA was in line with lower operating costs, mostly offset by negative energy spreads, given seasonal headwinds.
- Tower addition cadence decreased qoq on material constraints, while tenancy additions lagged due to higher single tenant rollouts.
- The company expects faster tower rollouts over the next 3-4 quarters, backed by order book visibility.
- The African foray is on track, with operations set to commence in H2FY27.
- Longer-term growth remains contingent on fundraising plans by Vi.
- Revise Fair Value to Rs480 (from Rs500), adjusting for recent dividend. Retain BUY.

Positives:

- Adjusted EBITDA (+5.7% yoy, +1.4% qoq) was largely in line with estimates.
- The average revenue per tenant (ARPT) was stable qoq at Rs41,082 (Rs 41,078 in Q4FY26, Rs. 41,132 in Q1FY26).
- Receivables/bad debt provision issue pertaining to Vi is largely behind.

Negatives:

- Net tower additions, at 3,097, in Q1FY27 declined qoq from 4,892 in Q4FY26 (2,468 in Q1FY26) on material constraints due to geopolitical issues.
- Tenancy additions declined to 4,236 (6,192 in Q4FY26).
- Energy spreads deteriorated on seasonal trends.

(EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization)

Holding Period: 12 months

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Dated: 31 July 2026

L&T (LT) - ADD

Q1FY27 Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.3939	Rs.4250

Rationale:

- L&T reported another quarter of double-digit ordering growth in spite of very weak ordering in the conventional energy segment.
- This is reflected in scale-up in offshore wind sustained growth momentum in domestic.
- The miss in core EBITDA was more than covered up by higher cash income.
- Management maintained FY27 order inflow growth guidance of 10-12%; Revenue growth guidance of 10-12% yoy was reiterated.
- We cut core business estimates by 1% and roll forward to Rs4,250 FV on unchanged 23x earnings multiple and lower FV of subsidiaries.

Positives:

- PAT growth was strong at 16% yoy on back of strong other income.
- PPM segment EBITDA margin guidance remains unchanged at 7.8% for FY27.
- Orders inflows in Q1FY27 were up 14% yoy, with order backlog reaching Rs7.8 lakh cr.
- L&T is managing the dynamic environment on execution and costing well.
- L&T highlighted the strong pace of tendering and bidding in the Middle East and expects to announce a material quantum of ordering in the energy segment in the near term.
- Order pipeline at Rs15 lakh cr lends credence to the 10-12% growth guidance for FY27.

Negatives:

- L&T’s core business reported a 3% yoy decline in EBITDA and a 9% miss in a quarter difficult to estimate revenue growth and margin.
- The miss was driven by a combination of weak execution-related overhang on margins and an uptick in ECL provision (linked to domestic infra projects).

(EBITDA: Earnings Before Interest, Tax, Depreciation & Amortization, PAT: Profit After Tax, PPM: Projects, Products & Manufacturing, ECL: Expected Credit Loss)

Holding Period: 12 months

Dated: 31 Jul 2026

Ujjivan Small Finance Bank (UJJIVANS) - BUY

Result Update Q1FY27

Current Market Price (CMP)	Fair Value (FV)
Rs.72	**Rs.85**

Rationale:

- Ujjivan SFB delivered a strong start to FY27, reporting 18% RoE and 28% yoy loan growth in Q1FY27.
- Asset quality improved further with a decline in slippages (1.7%) and credit cost (1.2%).
- Ujjivan has outperformed peers in the recent microfinance cycle by a wide margin.
- Hereon, a favorable credit quality environment will support strong growth and RoE given its high- yielding asset franchise, in spite of the planned shift toward secured assets.
- RoA guidance for FY27 has been revised to 1.8-2% from 1.6% earlier.
- Retain BUY with the Fair Value revised to Rs85 (Rs 75 earlier).

Positives:

- Overall loans grew 28% yoy. Loan growth picked up in the past few quarters and remains fairly broad-based across segments.
- Management has guided for loan growth of ~25% yoy in FY27.
- NIM (reported) for Ujjivan SFB was flat qoq at 8.5% in Q1FY27.
- Gross slippage ratio declined 70 bps qoq to 1.7%.
- Gross NPL (%) declined ~10 bps qoq to 2.2%. Net NPL (%) declined ~10 bps qoq to 0.3%.

Negatives:

- Liability profile for the bank has shown some mixed trends recently.
- Non-interest income grew modestly by 3% yoy.

(NIM: Net Interest Margin, NII: Net Interest Income, ROA: Return on assets, NPL: Non performing loans, ROE: Return on equity)

Holding Period: 12 months

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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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