kotak Securities

MARKET STRATEGY

JANUARY 2026

- CY25: Year in Review
- External Challenges
- CY26: Positioned for Growth
- Supportive Domestic Economic Environment
- Valuation and Outlook

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MARKET OUTLOOK FOR JANUARY 2026

CY25: Year in Review

Indian economy grew at a healthy pace in CY25 and remained the world's fastest growing among major economies. With GDP valued at US$4.18 trillion, India has surpassed Japan to become the world's fourth-largest economy. India's real GDP grew 8.2% in Q2FY26, up from 7.8% Q1FY26 and 7.4% in Q4FY25. Despite the strong show on the domestic front, CY25 proved to be a relatively muted year for Indian equity markets, delivering modest returns overall. That said, performance varied significantly across market capitalizations, sectors, and individual stocks. The Nifty 50 index gained 10.5% during the year and scaled new highs. However, the rally lacked breadth, with mid-cap and small-cap indices and stocks remaining under pressure. At the sectoral level, CY25 saw healthy gains in Auto, Banking, and Metals, while IT and Real Estate underperformed significantly. On the global front, Indian equity markets underperformed most major global indices. While domestic fundamentals remained broadly healthy, the underperformance reflected relatively elevated valuations, earnings downgrades, subdued FII interest amid more attractive opportunities in other markets, lack of meaningful exposure to the AI theme, which emerged as a key driver for several global markets in H2CY25, and heightened global uncertainties. Although FIIs were net sellers across most Asian markets in CY25, India witnessed disproportionately higher outflows. FII net selling in cash market in CY25 was ~US$17-18 bn. This selling, however, was largely absorbed by domestic institutional investors, supported by retail participation. In CY25, DIIs made record equity investments of ~US$83 bn, surpassing the already high base of CY24.

In December 2025, Nifty 50 and Sensex 30 indices remained range-bound and closed the month with negative returns. The midcap and smallcap indices unperformed the larger peers. Despite positive macro data like soft November inflation print, narrowing of November trade deficit and repo rate cut by the RBI, the overall market breadth remained subdued as FII outflows persisted. On the sector front, BSE Metal, BSE Oil & Gas, BSE Auto, BSE IT, BSE Energy and BSE Telecom posted gains, whereas most other sectoral indices witnessed correction in December. Global equity markets were broadly strong in December 2025, as they responded to a combination of factors, including monetary policy actions by major central banks, inflation data from developed and key emerging economies, AI-related narratives and news flow, as well as movements in currencies and commodity markets.

We expect CY26 to be a better year for Indian equities, driven by expected strong recovery in market earnings, an improvement in domestic consumption demand, and a more favorable macro environment. In the near term, the economy faces challenges from global headwinds and a widening trade deficit, largely stemming from higher US tariffs. Over the medium to long term, however, India remains well positioned to capitalize on macroeconomic stability, a favorable demographic profile, sustained infrastructure investment, accelerating technology adoption, and supportive government policies, all of which are likely to underpin durable and sustainable growth.

Divergent Central Bank Policies in a Volatile Global Environment

Over the past 12 months, the global environment has undergone significant shifts, driven primarily by a series of new tariff measures introduced by the US and the subsequent responses from other countries. Geopolitical conflicts have further amplified global uncertainty and market volatility. In response, global central banks are assessing evolving conditions and adopting varied policy approaches to cushion their economies from the challenges posed by higher tariffs. As a result, monetary policy stances have diverged across regions, and elevated uncertainty could lead to increased volatility in interest rates. In Q3CY25, the U.S. economy showed strong growth, Europe expanded modestly, and Japan slipped into contraction. Inflation trends also diverged: U.S. inflation declined, raising hopes for easier monetary policy; Euro Area inflation stayed close to target, indicating stability; and Japan's inflation remained persistently high despite weak growth. Overall, the data highlight uneven global growth and increasingly divergent monetary policy trajectories among major economies.

The U.S. Federal Reserve (US Fed) and the Bank of England (BoE) made cautious rate cuts in December amid still persistent inflation, signaling a slow and data-dependent easing cycle. The US Fed delivered a 25 bps rate cut to 3.50-3.75% in December, widely expected by markets and characterized as a “hawkish cut” due to persistent inflation risks. The dot plot signals a very gradual easing path, with only one cut each in CY26 and CY27, reinforcing the message that policy will remain restrictive for some time. The BoE cut rates by 25 bps to 3.75% in December; inflation is falling but still above target, while growth remains weak. In December, the European Central Bank decided to keep its key interest rates unchanged, consistent with expectations and it revised up growth and inflation forecasts, signaling confidence in economic resilience. In contrast, the Bank of Japan (BoJ) has raised rates, marking a gradual exit from monetary easing. In the December 2025 policy meeting, the BoJ raised rates by 25 bps to 0.75%, the highest level since 1995. Together, these decisions underscore a fragmented global monetary landscape shaped by differing inflation dynamics and growth conditions. Global GDP growth is expected to remain soft in CY26 due to weak household sentiment, fragile investment outlook amid geopolitical and trade uncertainty, and limited policy support. Any slowdown in US AI spending could trigger market corrections, hurting wealth and consumption. Asset price inflation has created an illusion of wealth despite subdued income growth, while ageing populations and declining productivity continue to weigh on developed economies. Sluggish job markets and constrained fiscal and monetary stimulus further limit growth prospects.

Benign Inflation, Strong Growth: RBI Nearing the End of Its Easing Cycle

November CPI inflation in India edged up to 0.71% but remained well below the RBI’s lower tolerance limit, largely due to food price deflation. Although food prices rose modestly on a monthly basis and high-frequency data suggest some firming in December, overall inflation pressures remain benign. Core inflation softened slightly, and excluding gold and silver, both headline and core inflation stayed under control. Overall, inflation dynamics continue to favor a supportive monetary policy stance, with only early signs of food-led normalization ahead. Inflation is expected to rise to 1.5% in December and further to 3.5-4% by March 2026 due to adverse base effects, before normalizing in the 4-5% range through CY26, assuming no food shocks and stable gold prices. Real GDP growth in H2FY26 is projected to remain strong above 7%, aided by a low deflator despite weak nominal growth.

In the December meeting, the RBI MPC unanimously cut the repo rate by 25 bps to 5.25%, maintaining a neutral stance. The RBI policy communique has been dovish and remains hopeful of inflation staying low. Inflation forecasts were revised down for FY26 (from 2.6% earlier to 2%, our estimate is 2.1%), reflecting confidence that underlying price pressures are low despite temporary risks from bullion prices. Growth projections were upgraded (from 6.8% earlier to 7.3%, our estimate is 7.8%), highlighting strong domestic momentum, though external uncertainties remain a concern. After cumulative easing of 125 bps, the RBI is expected to deliver one more 25 bps cut before entering a prolonged pause in FY27 as inflation gradually rises toward the 4.5-5% range. Our outlook hinges on growth-inflation dynamics shaped by trade uncertainty, monsoon risks, global growth and monetary policy divergence, and movements in the commodity price cycle.

Exports Bounce, Imports Slide in November: CAD and INR Outlook Remain Event-Driven

India’s goods trade deficit narrowed sharply to US$24.5 bn in November, driven by a strong rebound in exports and a contraction in imports, especially non-oil led by bullion imports. Goods exports rose nearly 20% yoy on a low base, with strength across sectors and key markets, including the US, China, UK, Germany and Brazil. Imports declined modestly, led by a steep fall in gold and silver purchases. The services trade surplus remained stable, though potential headwinds from US policy remain. Overall, the November trade data reflect a temporary but meaningful improvement in India’s external balance, supported by favorable base effects and import compression. Our FY26 current account deficit is revised slightly higher to 1.4% of GDP, largely due to weaker GDP growth in dollar terms stemming from INR depreciation. While a delay in the trade deal beyond end-FY26 would be a concern, potential ancillary announcements may offer some support. Supportive credit measures, export diversification through FTAs, and a weaker INR are likely to alleviate part of the pressure on India’s export performance. In CY25, India made significant progress on trade liberalization, signing or advancing key FTAs including the India-UK Comprehensive Economic and Trade Agreement (CETA) and the India-New Zealand FTA, while the India-EFTA Trade and Economic Partnership Agreement (TEPA) came into force. Despite stable macro fundamentals, the INR has depreciated ~5% in CY25, driven by US trade deal uncertainties, FII selling and adverse BOP flows. Overall, the INR outlook remains event-dependent, with trade developments acting as the key driver.

CY26 Outlook: India Positioned for Growth

We expect a stable macroeconomic environment to provide a positive backdrop for the Indian market. GDP growth is likely to remain healthy, supported by a pickup in consumption driven by government fiscal stimulus and accommodative monetary policy. This season's monsoon rainfall has been ~8% above the long-term average, with basin-wise reservoir levels remaining in surplus. Above-normal rainfall bodes well for the agriculture sector, food prices, and rural demand, which should support disposable incomes and overall sentiment. Industrial activity and manufacturing are set to benefit from government initiatives such as the Production Linked Incentive (PLI) schemes, which continue to attract investment and boost domestic value addition. Based on the H1FY26 data, our estimate for FY26 real GDP growth stands at 7.8%. We foresee real GDP growth easing to 6.5% in FY27, as a higher deflator offset gains from stronger nominal GDP growth, while favorable fiscal and monetary settings help sustain overall momentum. Overall, India's macroeconomic outlook remains positive, underpinned by domestic demand, structural reforms, and policy support.

In CY25, several multinational companies announced large AI-related investments in India, underscoring the country's growing importance in the global AI ecosystem. Microsoft led the push with US$17.5 bn commitments (over 4 years) to expand cloud and AI infrastructure, expand data centers, and scale up AI skilling initiatives. Google announced its largest investment in India to date, totaling US$15 bn over the next five years. This investment will be used to establish Google's first Artificial Intelligence (AI) hub in India, aimed at strengthening AI infrastructure, accelerating innovation, and supporting the broader digital and AI ecosystem in the country. Amazon has announced plans to invest more than US$35 bn across all its businesses in India through 2030, focusing on business expansion and three strategic pillars: AI-driven digitization, export growth, and job creation. Collectively, these announcements reflect strong confidence among global MNCs in India's digital growth potential and its role as a strategic hub for AI development, deployment and talent creation.

Valuation

We hold a favorable view of the Indian equity market as earnings outlook has strengthened amid decisive government action, and earlier concerns regarding high valuations and potential earnings downgrades have largely played out over the past 12–15 months. While we expect only a moderate earnings pickup in FY26E, we anticipate a strong recovery in Nifty-50 net profits in FY27E, supported by improving fundamentals and a relatively favorable macro backdrop. Notably, growth in FY27E net profits is expected to be broad-based across sectors. We expect net profits of the Nifty 50 Index to grow by 7.8% in FY26E, 18.2% in FY27E and 14.7% in FY28E. Nifty 50 index trades at a PE of 20.6x on FY27E and 18.0x FY28E earnings. Our December 2026, Nifty 50 target is 29,120, valued at 20x on FY28E EPS.

Key Risk

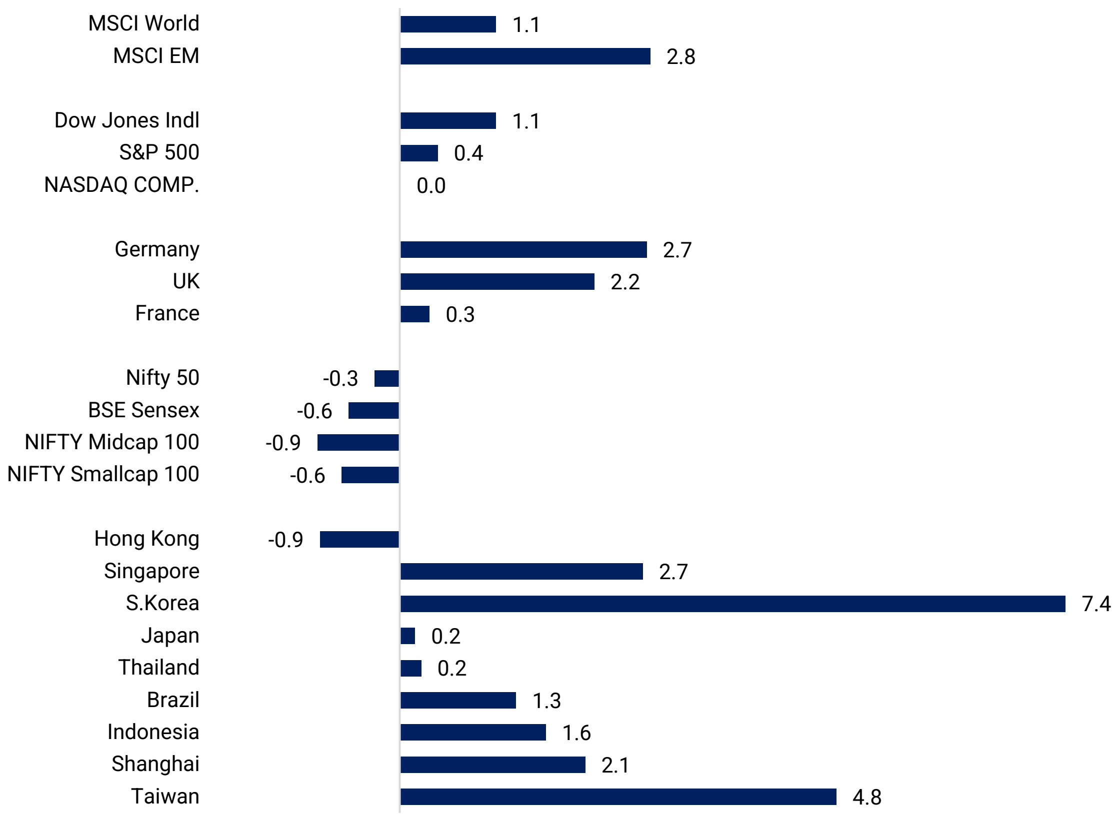
- Global growth slowdown
- High commodity prices could impact economy and earnings in some sectors
- Further escalation of geo-political tensions
- Uncertainty from unresolved India-US tariff agreement
- Sharp currency movements

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
Angel One	ADD	2344	2800	21,212	120	145	29.8	20.1	19.5	16.2	3.1	2.7	16.6	17.8
JSW Cement	BUY	119	135	16,190	7.6	10.2	118.0	33.5	15.6	11.7	2.2	1.9	15.2	17.2
Jubiliant Ingrevia	BUY	703	870	11,191	24.1	30.6	34.0	26.7	29.2	23.0	3.2	2.9	11.7	13.4
Mahindra & Mahindra	BUY	3709	4350	4,62,095	147.3	159.4	12.2	8.2	25.2	23.3	4.8	4.1	20.9	19.1
Thermax	BUY	3023	3575	35,806	72.3	91.8	28.9	26.9	41.8	32.9	5.7	5.0	14.3	16.1

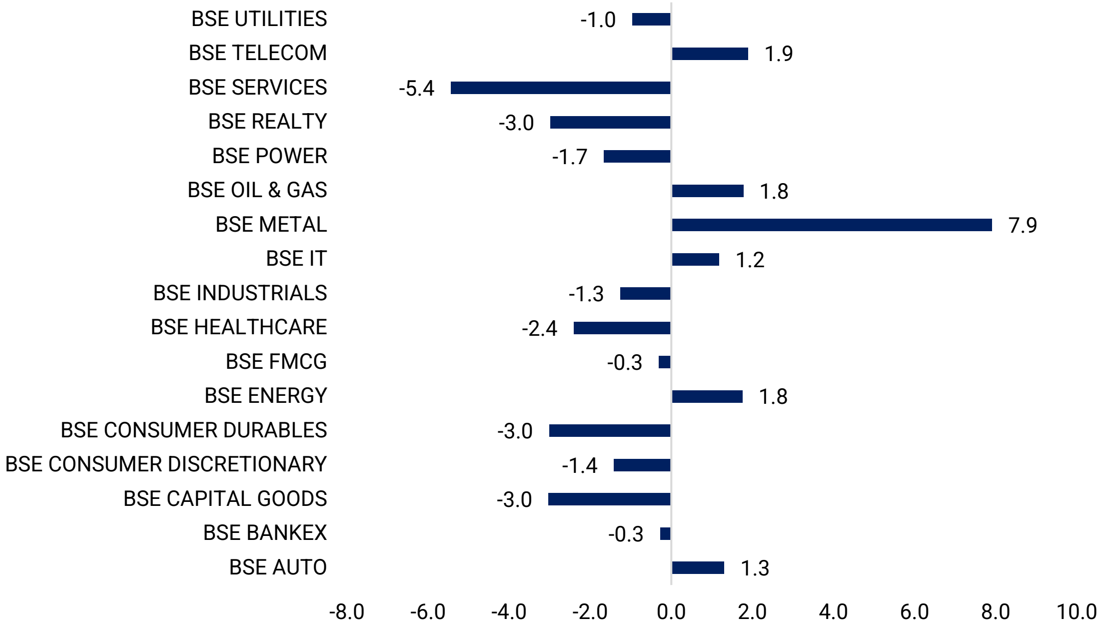
*Source: Kotak Institutional Equities Research; NSE; * The above valuation summary is based on prices as on 31 December 2025*

Exhibit 1: Global Indices Performance - for Month of December 2025



Source: Bloomberg

Exhibit 2: Sectoral Indices: % Chg in the month of December 2025



Source: Bloomberg

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

Date Time	Event
US	
2-Jan	S&P Global US Manufacturing PMI
6-Jan	S&P Global US Services PMI
6-Jan	S&P Global US Composite PMI
8-Jan	Initial Jobless Claims
9-Jan	Unemployment Rate
13-Jan	CPI MoM
14-Jan	Current Account Balance
14-Jan	Existing Home Sales
15-Jan	Initial Jobless Claims
16-Jan	Industrial Production MoM
22-Jan	Initial Jobless Claims
22-Jan	GDP Annualized QoQ
22-Jan	Core PCE Price Index QoQ
29-Jan	FOMC Rate Decision (Upper Bound)
29-Jan	Initial Jobless Claims
29-Jan	PCE Price Index MoM
Europe	
2-Jan	HCOB Eurozone Manufacturing PMI
6-Jan	HCOB Eurozone Services PMI
6-Jan	HCOB Eurozone Composite PMI
8-Jan	Unemployment Rate
9-Jan	Retail Sales
15-Jan	Industrial Production
15-Jan	Trade Balance
19-Jan	CPI
30-Jan	GDP

China	
5-Jan	China PMI Composite
5-Jan	China PMI Services
7-Jan	Foreign Reserves
14-Jan	Trade Balance
20-Jan	5-Year Loan Prime Rate
20-Jan	1-Year Loan Prime Rate
India	
2-Jan	HSBC India PMI Mfg
6-Jan	HSBC India PMI Composite
6-Jan	HSBC India PMI Services
12-Jan	CPI YoY
14-Jan	Wholesale Prices YoY
15-Jan	Unemployment Rate
15-Jan	Trade Balance
20-Jan	Eight Infrastructure Industries
28-Jan	Industrial Production YoY
30-Jan	Fiscal Deficit YTD INR
30-Jan	Bank Credit YoY

Source: Bloomberg

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Dated: 1 Jan 2026

Angel One (ANGELONE) - ADD

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.2344	**Rs.2800**

Rationale:

- Angel One's Q2 FY26 headline results were better than expected, with underlying operating growth of 5 qoq, reflecting 5% qoq growth in broking, net interest income and expenses.
- A price hike in the cash segment provides buffers to absorb recent expense growth and an offset for potentially muted order growth.
- Retain ADD with a Fair Value of Rs. 2,800 (Rs. 2,900 earlier).

Q2FY26 Earnings Update:

Positives:

- Angel's Q2 FY26 revenues were in line (-21%yoy; 6% qoq), supported higher net broking revenues and net interest income. Overall cost were up 3% yoy, but declined 11% qoq.
- Wealth has reached recurring AUM of Rs. 5,500 Crores and MF distribution AUM has reached Rs. 15,000 Crores AUM. Credit disbursements jumped to Rs. 460 Crores during the quarter, reaching cumulative disbursements of Rs 1,400 Crores since launch in Q4 FY24.
- Angel One has announced a price hike in the cash segment, which will add 4-5% to pre-tax profits.

Negatives:

- The Broking segment saw flat daily average orders. Further, the broking segment saw a decline in derivatives segment as a result of regulations.
- Business model exposed to index derivates are grappling with heightened uncertainty with respect to the potential impact of the next round of regulations.

Holding Period: 12 months

Dated: 1 Jan 2026

JSW Cement (JSWCEMEN) - BUY

Initiating Coverage

Current Market Price (CMP)	Target Price
Rs.119	**Rs.135**

Rationale:

- JSW Cement is India's largest manufacturer of GGBS, with ~84% market share in FY25, and ~40% of total external volumes.
- A niche high-growth product, GGBS is manufactured from slag and commonly used as a substitute for cementitious products in concrete mixes.
- Company has long-term contracts with group entity JSW Steel (JSTL), India's largest steel company, for slag procurement.
- Company is present in south, east and west regions with a capacity of 21.6 mtpa; we expect it to raise capacity to ~32/42 mtpa in phases to become a pan-India player.
- We forecast 12%/18% volume/EBITDA CAGR over FY24-28E.
- We initiate with a BUY rating and an FV of Rs135, implying 8.5x EV/EBITDA FY28E.

Positives:

- We expect GGBS demand to grow in mid-double digits over FY25-28E given cost advantages, low penetration and favorable characteristics.
- Limestone availability provides strong growth visibility.

Negatives:

- We expect FCF to be negative over next 3 years on the back of planned expansions.

(GGBS: Ground Granulated Blast Furnace Slag; EV: Enterprise Value; EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; CAGR: Compound Annual Growth Rate; FCF: Free Cash Flow; MTPA: Million Tons Per Annum; 1 million: 10 lakh)

Holding Period: 12 months

kotak Securities

Dated: 1 Jan 2026

Jubilant Ingrevia (JUBLINGR) - BUY

Initiating Coverage

Current Market Price (CMP)	Fair Value (FV)
Rs.703	**Rs.870**

Rationale:

- Making a concerted effort to move up the value chain by focusing on CDMO, fine chemicals and human nutrition.
- A transformational growth story operating in three segments: Specialty Chemicals, Nutrition & Health Solutions and Chemical Intermediates.
- The key growth enablers are its strengths in pyridine chemistry.
- Has established relationships with large customers and ability to invest for growth.
- We estimate 13% revenue and 23% EPS CAGRs over FY25–30E.
- We arrive at an SoTP-based December 2026 Fair Value of Rs870 and initiate with BUY.

Positives:

- Post-demerger and management revamp, JIL seeks to aggressively make up for lost time and move up the value chain.
- Pinnacle 345 targets a 3X jump in revenues and 4X in EBITDA within 5 years by FY30.
- Key growth drivers are CDMO growing 10X to Rs2000 cr, fine chemicals at 11% CAGR and human nutrition at 25% CAGR.
- The shift in revenue mix toward higher-margin businesses should drive margin expansion, with chemical intermediates near a cyclical trough.
- Project a 10X jump in CDMO revenues to Rs2100 cr by FY30.

Negatives:

- A prolonged downturn in the global chemical industry amid China oversupply and global trade war risks could impact demand.
- Execution slippages - technical challenges or marketing slipups could delay growth.

(CDMO – Contract Development and Manufacturing Organization; SoTP – Sum-of-the-Parts valuation; CAGR – Compound Annual Growth Rate; EPS – Earnings Per Share; EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization)

The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com).Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

kotak Securities

Dated: 1 Jan 2026

Mahindra & Mahindra (MM) - BUY

Company Update

Current Market Price (CMP)	Target Price
Rs.3709	**Rs.4350**

Rationale:

- We expect the company to retain a leadership position in all three segments, driven by strong execution.
- Tractor segment demand remains strong, driven by multiple tailwinds.
- SUV segment growth outperformance continues, driven by EVs.
- GST cuts to revive the LCV segment.
- Profitability will be supported by an improving mix and operating leverage benefits.
- We have increased our FY26-28E standalone EPS estimates by 2%, driven by higher volume assumptions.
- M&M remains our top pick in the sector and we revise our FV to Rs4,350.

Positives:

- Tractor segment saw double-digit growth after August, driven by strong monsoon.
- Tractor: We expect M&M to outpace the industry growth.
- SUV continues to see robust retail growth (Aug-Dec), outperforming industry growth.
- M&M has seen a double-digit growth in LCV segment in Q3FY26, led by GST boost.

Negatives:

- We believe the tractor industry growth to moderate to 2% yoy in FY27E.

(SUV: Sport Utility Vehicle; EV: Electric Vehicle; LCV: Light Commercial Vehicle; EPS: Earnings Per Share; GST: Goods and Service Tax)

Holding Period: 12 months

Dated: 1 Jan 2026

Thermax (TMX) - BUY

Company Update

Current Market Price (CMP)	Fair Value (FV)
Rs.3023	**Rs.3575**

Rationale:

- Thermax is benefitting from scale-up in existing businesses, geographical expansion and entry into new businesses.
- Margin improvement appears imminent due to reduction in share of troubled orders, rebound in chemical business and positive mix effects in the product segment.
- Appears attractively valued on trailing earnings, assuming normalized margin.
- The recent price correction provides an attractive entry.
- We upgrade the stock to BUY (from ADD) with an unchanged FV of Rs3,575.

Positives:

- Scale-up of existing businesses and entry into new growth markets bode well.
- A large order win in Q3 has boosted the case for year-end backlog up by 15% yoy, boosting growth visibility.
- Management has guided for a 20% yoy growth in ordering for FY26, aligned to H1FY26 run-rate.
- New growth markets include datacenters, entry into O&G in the Middle East and HRSG prospects for gas-to-power (Middle East).
- Irritants to margin in their final stages; margin-accretive mix effects on the anvil.
- Investments in solar captive should moderate over the next two years.

Negatives:

- 5% of backlog, weak on profitability.

(HRSG: Heat Recovery Steam Generator, O&G: Oil & Gas)

Holding Period: 12 months

PRIVATE CLIENT GROUP

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
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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