

# MARKET STRATEGY



Equity Market  
Performance



Domestic  
Macro



Global Central  
Banks



Investment  
Ideas



Valuation

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## MARKET OUTLOOK FOR JULY 2024

### Domestic equity market performed strongly in June 2024

The Nifty-50 Index gained 6.6% in the Month of June and reached a new high in the month. Meanwhile, the Nifty Midcap Index gained 7.8% and the Nifty Smallcap Index gained 9.7% in the same period. Markets remained optimistic about strong government support for the economy, especially for the manufacturing sector, in the upcoming Union Budget. Sector-wise, all prominent sectors ended in green especially IT (+11.6%), Bank (+6.9%), Pharma (+5.0%), Infra (+5.4%), Realty (+8.4%), Energy (+3.8%), FMCG (+4.9%) and Auto (+7.6%).

### RBI Policy: Wait-and-watch approach; maintain our call of a shallow rate cut cycle

The minutes of the June MPC meeting restated the commitment to align headline inflation to the 4% target on a durable basis, while noting the increased headroom from resilient growth. We note that while the domestic macroeconomic outlook will continue to be the primary driver for the onset of monetary policy decisions (as also highlighted by Dr Goyal and Dr Ranjan), we expect the MPC to be in a wait-and-watch mode, as it evaluates (1) the global asynchronous monetary policy cycle and (2) the monsoon outturn (spatial and temporal distribution). We continue to expect a shallow rate cut cycle (75-100 bps) from the December policy, with the stance changing likely either in the October policy or along with the rate action.

### Inflation remains steady in May

Headline CPI inflation at 4.75% and core inflation at 3% were marginally lower than April levels. Inflation continues to pan out as we had expected—only a gradual moderation toward the RBI's 4% target. We maintain our FY2025 average inflation estimate at around 4.4%. We continue to expect a shallow rate cut cycle, starting in December, with the stance changing to neutral either in October policy or along with rate action.

### FY2025 monsoon: a weak start to monsoon

Till June 28, cumulative rainfall was 14.5% below long-term average while weekly rainfall was 8.3% above long-term average. On a cumulative basis, rainfall was above-normal in southern India while deficient in rest of India. Out of the 36 sub-divisions, till date, four have received scanty rainfall, 14 have received deficient rainfall, 11 have received normal rainfall, and seven have received excess rainfall.

### Trade deficit widens to a seven-month high

Goods trade deficit in May widened to US\$23.8 bn, led by a sharp increase in oil trade deficit. Services trade surplus continued to moderate in line with the recent trend. We maintain our FY25 CAD/GDP estimate at 1.1% (widening from 0.8% in FY24E), given firmer domestic growth relative to global growth. We retain our call for USD-INR in the 83.25-83.75 range in the near term.

### India's Industrial production grows by 5% in April 2024

IIP growth in April was at 5% (March: 5.4%). According to the sectoral classification, manufacturing activity increased 3.9% (March: 5.8%), mining increased 6.7% (1.3%) and electricity production increased 10.2% (8.6%). According to the use-based classification, all categories registered positive growth, except for consumer non-durables.

### India's external balance remains strong

The current account was US\$5.7 bn in surplus in Q4FY24 (0.6% of GDP), with a narrowing of goods trade deficit, supported by strong services surplus and remittances. The capital account balance remained strong in Q4FY24, though FDI flows continued to weaken. We maintain our FY25E CAD/GDP at 1.1% (0.7% in FY24). We pencil in USD-INR to average around 83.4 in FY25E.

## Global Central Banks Policy:

- The Federal Reserve kept its policy rate unchanged and scaled back its forecast to one rate cut from three rate cuts in CY24. The statement removed the quantum of reduction in balance sheet size while maintaining the balance sheet reduction direction. Inflation (PCE) projections were revised higher by 20 bps to 2.6% for CY24 and by 10 bps to 2.3% for CY25. Similarly, core inflation was revised higher by 20 bps to 2.8% for CY24 and by 10 bps to 2.3% for CY25.
- The Bank of Japan kept policy rates unchanged at 0-0.1% while signaling an intent for a rate hike in July. The bank kept its bond buying pace unchanged too but highlighted that it would lay out its bond tapering plans in the July meeting.

## Outlook and Valuation

We expect the 'new' government to (1) continue with its economic agenda of development, growth and liberalization and (2) focus on investment-led growth, with the recent large transfer of the RBI surplus enabling it to increase capex versus the interim budget. We believe that the government will continue its focus on key areas such as (1) affordable healthcare and housing, (2) energy transition, (3) infrastructure development (defense, railways and roads) and (4) manufacturing. In the past, the government has already executed the bulk of the required reforms for incentivizing private investments.

We expect Nifty-50 index EPS of Rs1,093 in FY25E and Rs1,249 in FY26E. On these estimates, the Nifty-50 index is trading at a PE of 22.0x/19.2x FY25E/FY26E earnings. Currently, we believe most investment stocks are trading at expensive valuations. However, the strategy should be to keep investing on every dip with a medium to long term view and preferable sectors are BFSI, Realty and Pharmaceuticals.

## Key Risk

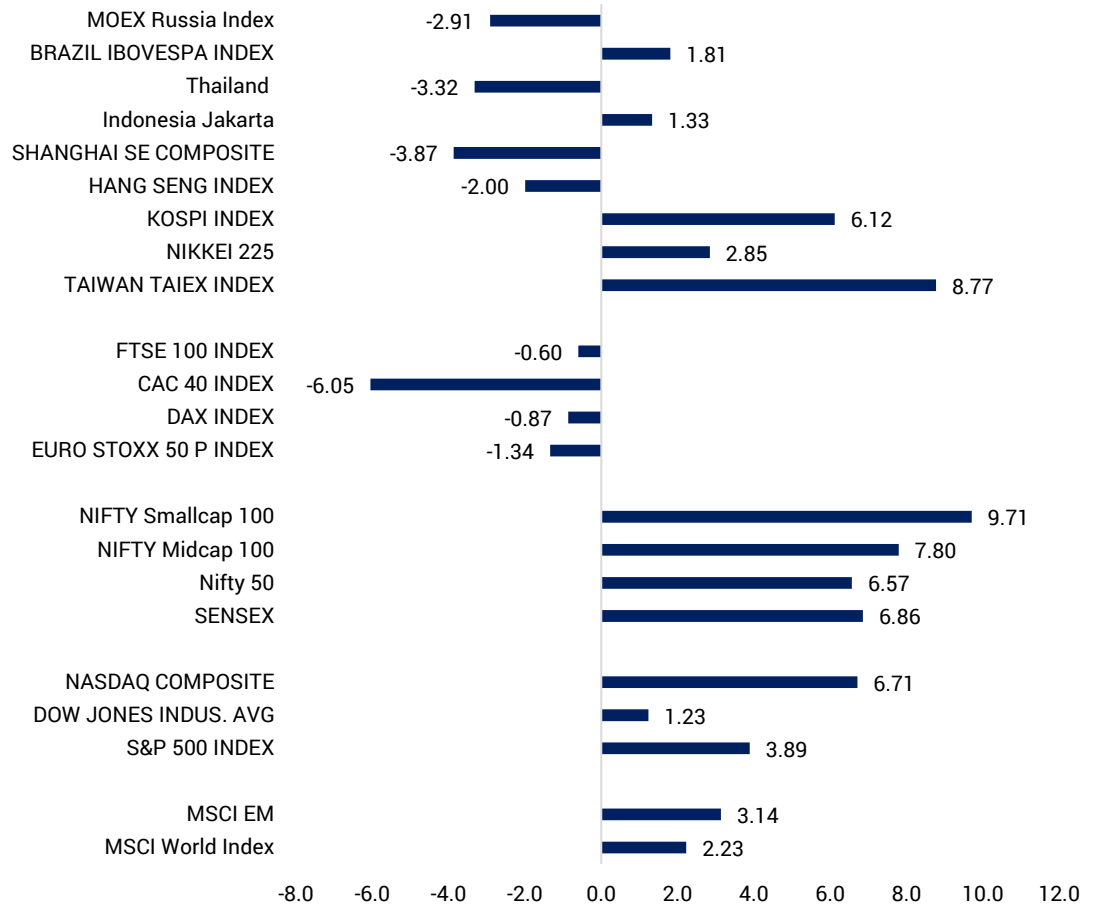
- Global growth slowdown or recession in key economies
- Sharp increase in crude prices
- Geopolitical risk
- Weaker than expected monsoon

## TOP INVESTMENT IDEAS

| Company                | Rating | Price (Rs)* | Fair Value (Rs) | Mkt cap. (Rs cr) | EPS      |          | EPS growth (%) |       | P/E (x) |       | P/BV (x) |       | RoE (%) |       |       |       |
|------------------------|--------|-------------|-----------------|------------------|----------|----------|----------------|-------|---------|-------|----------|-------|---------|-------|-------|-------|
|                        |        |             |                 |                  | EPS (Rs) | EPS (Rs) | FY25E          | FY26E | FY25E   | FY26E | FY25E    | FY26E | FY25E   | FY26E | FY25E | FY26E |
|                        |        |             |                 |                  | FY25E    | FY26E    | FY25E          | FY26E | FY25E   | FY26E | FY25E    | FY26E | FY25E   | FY26E | FY25E | FY26E |
| Five Star Business Fin | ADD    | 793         | 875             | 23,199           | 35.4     | 43.7     | 23.4           | 23.4  | 22.4    | 18.2  | 3.7      | 3.1   | 18.1    | 18.5  |       |       |
| Godrej Agrovet         | BUY    | 675         | 740             | 12,983           | 26.0     | 32.6     | 39.0           | 25.5  | 26.0    | 20.7  | 4.0      | 3.6   | 16.3    | 18.4  |       |       |
| InterGlobe Aviation    | BUY    | 4,228       | 5,700           | 163,202          | 253.4    | 254.0    | 18.7           | 0.2   | 16.7    | 16.6  | 13.8     | 4.7   | 141.7   | 58.7  |       |       |
| TCS                    | ADD    | 3,904       | 4,300           | 1,412,556        | 142.3    | 157.3    | 9.7            | 10.6  | 27.4    | 24.8  | 13.7     | 12.4  | 52.7    | 52.4  |       |       |
| VIP                    | BUY    | 486         | 635             | 6,905            | 10.9     | 17.6     | 445.0          | 61.5  | 44.6    | 27.6  | 7.1      | 6.1   | 16.8    | 24.1  |       |       |

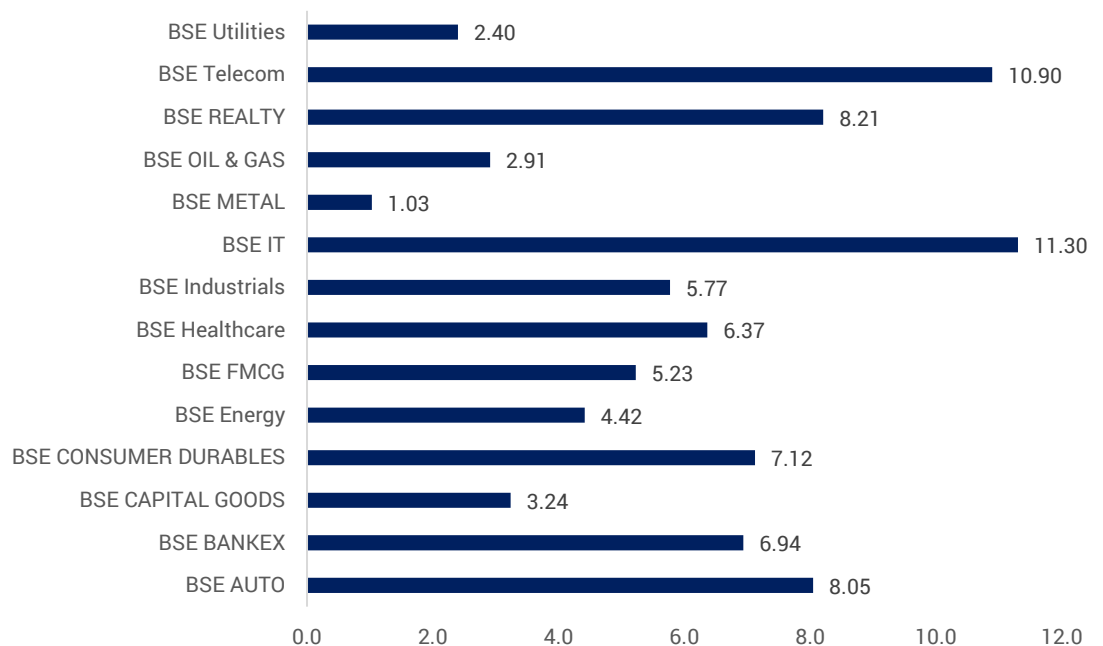
Source: Kotak Institutional Equities Research, # Kotak Securities – Private Client Group, \* The above valuation summary is based on closing prices of 28 June 2024

**Exhibit 1: World Indices Performance – For month of June 2024 (%)**



Source: Bloomberg

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



Source: Bloomberg

### Exhibit 3: India's Key Economic Calendar

| Date      | Event                           |
|-----------|---------------------------------|
| 1-Jul-24  | HSBC India PMI Mfg              |
| 3-Jul-24  | HSBC India PMI Composite        |
| 3-Jul-24  | HSBC India PMI Services         |
| 5-Jul-24  | Foreign Exchange Reserves       |
| 12-Jul-24 | CPI YoY                         |
| 12-Jul-24 | Industrial Production YoY       |
| 12-Jul-24 | Foreign Exchange Reserves       |
| 15-Jul-24 | Wholesale Prices YoY            |
| 15-Jul-24 | Imports YoY                     |
| 15-Jul-24 | Trade Balance                   |
| 15-Jul-24 | Exports YoY                     |
| 19-Jul-24 | Foreign Exchange Reserves       |
| 24-Jul-24 | HSBC India PMI Mfg              |
| 24-Jul-24 | HSBC India PMI Composite        |
| 24-Jul-24 | HSBC India PMI Services         |
| 26-Jul-24 | Foreign Exchange Reserves       |
| 31-Jul-24 | Fiscal Deficit YTD INR Crore    |
| 31-Jul-24 | Eight Infrastructure Industries |

Source - Bloomberg

### Exhibit 4: US Key Economic Calendar

| Date      | Event                                 |
|-----------|---------------------------------------|
| 1-Jul-24  | S&P Global US Manufacturing PMI       |
| 3-Jul-24  | Trade Balance                         |
| 3-Jul-24  | Initial Jobless Claims                |
| 3-Jul-24  | S&P Global US Services PMI            |
| 3-Jul-24  | S&P Global US Composite PMI           |
| 3-Jul-24  | FOMC Meeting Minutes                  |
| 5-Jul-24  | Unemployment Rate                     |
| 5-Jul-24  | Underemployment Rate                  |
| 11-Jul-24 | CPI MoM                               |
| 11-Jul-24 | CPI YoY                               |
| 11-Jul-24 | Initial Jobless Claims                |
| 17-Jul-24 | Housing Starts MoM                    |
| 17-Jul-24 | Industrial Production MoM             |
| 24-Jul-24 | S&P Global US Manufacturing PMI       |
| 24-Jul-24 | S&P Global US Services PMI            |
| 24-Jul-24 | S&P Global US Composite PMI           |
| 25-Jul-24 | GDP Annualized QoQ                    |
| 25-Jul-24 | GDP Price Index                       |
| 25-Jul-24 | Core PCE Price Index QoQ              |
| 26-Jul-24 | PCE Price Index MoM                   |
| 26-Jul-24 | PCE Price Index YoY                   |
| 26-Jul-24 | Core PCE Price Index MoM              |
| 26-Jul-24 | Core PCE Price Index YoY              |
| 31-Jul-24 | Employment Cost Index                 |
| 31-Jul-24 | FOMC Rate Decision (Upper Bound)      |
| 31-Jul-24 | FOMC Rate Decision (Lower Bound)      |
| 31-Jul-24 | Fed Interest on Reserve Balances Rate |

Source - Bloomberg

## Exhibit 5: Eurozone Key Economic Calendar

| Date      | Event                                  |
|-----------|--|
| 1-Jul-24  | HCOB Eurozone Manufacturing PMI        |
| 1-Jul-24  | CPI EU Harmonized MoM                  |
| 1-Jul-24  | CPI EU Harmonized YoY                  |
| 2-Jul-24  | CPI Core YoY                           |
| 2-Jul-24  | Unemployment Rate                      |
| 2-Jul-24  | Monetary Policy Council Rate Meeting   |
| 3-Jul-24  | HCOB Eurozone Services PMI             |
| 3-Jul-24  | HCOB Eurozone Composite PMI            |
| 5-Jul-24  | Retail Sales YoY                       |
| 5-Jul-24  | Industrial Production YoY              |
| 5-Jul-24  | Industrial Production MoM              |
| 19-Jul-24 | ECB Survey of Professional Forecasters |

Source - Bloomberg

## Five Star Business Finance (FIVESTAR)-ADD

### Result Update

Current Market Price (CMP)

**Rs.793**

Target Price

**Rs.875**

### Rationale:

- Co. will likely deliver 30% loan growth in FY25E as compared with 39% in FY24.
- We build in lower NIM (Net Interest Margin) and higher credit costs, which reflect a risk in sub-prime markets.
- Asset quality performance has been robust, encouraging management to continue business momentum.
- We expect stock performance to catch up with its operational performance once the Street's anxieties on a tighter regulatory stance reduce.
- Retain ADD with an unchanged FV of Rs875.

### Result update:

#### **Positives:**

- Five Star reported Q4FY24 PAT of Rs240 cr, up 40% yoy and 4% above estimates.
- NII (Net Interest Income) was up 33% yoy, driven by 39% AUM growth.
- Co's gross stage-2 and gross stage-3 ratios improved to 6.5% and 1.3%, respectively.
- Stressed loans were down 20 bps qoq, driven by improvement in early buckets
- Investment in franchise to drive growth.

#### **Negatives:**

- NIM to compress over the medium term.

[Click here](#)

For detailed report dated 02<sup>th</sup> May 2024. Note: CMP & valuation may differ due to difference in dates.



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## Godrej Agrovet (GAVL) - BUY

### Company Update

Current Market Price (CMP)

**Rs. 675**

Fair Value (FV)

**Rs. 740**

### Rationale:

- Meetings with multiple business heads bolster confidence in turnaround & growth story.
- Transformation is visible across business segments.
- Earnings growth could be attractive, valuations are still undemanding.
- Raise FY25-27E EPS by 8-13% amid expectations of a sustainable turnaround.
- Upgrade to BUY, with a revised June 2025 SOTP-based Fair Value of Rs740.

(SoTP: Sum of the parts, EPS: Earnings per share)

### Company Update:

#### **Positives:**

- Mgmt undertook measures to cut costs & turn around underperforming businesses.
- GAVL has inducted numerous senior management professionals in recent years.
- Focus on value-added and specialty segments across almost all segments.
- Continued improvement in the dairy, poultry & standalone crop protection businesses.

#### **Negatives:**

- Investor interest in GAVL has faded in the past few years amid sluggish earnings growth.

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For detailed report dated 21st Jun 2024. Note: CMP & valuation may differ due to difference in dates



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## InterGlobe Aviation (INDIGO) - BUY

### Company Update

Current Market Price (CMP)

**Rs.4228**

Target Price

**Rs.5700**

### Rationale:

- Probability of Indigo breaching margin peaks increasing.
- CAPA suggests a modest 12% growth in aggregate fleet versus our expectations.
- CAPA suggests another year of large losses for challengers in FY25.
- Benefits of cost deflation would likely get retained in the medium term.
- We expect earnings per share of Rs253.4 in FY25E and Rs254 in FY26E.
- We increase our FV to Rs5,700 (from Rs5,100) while retaining valuation methodology.

### Company update:

#### **Positives:**

- Indigo is likely to report healthy profits versus rest of the sector being in red.
- ATF price declined by 7% mom in June to Rs95.
- We increase our PAT estimates by 11-13% for FY26-27.
- We see growing probability of Indigo make new highs on spreads, a key upside risk to our FV.

#### **Negatives:**

- Stiff supply increase is a risk to pricing for airlines.

(CAPA: Centre for Asia Pacific Aviation; FV: Fair Value; ATF: Aviation Turbine Fuel; PAT: Profit After Tax; FV: Fair Value)

[Click here](#)

For detailed report dated 6th June 2024. Note: CMP & valuation may differ due to difference in dates.



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## TCS (TCS) – ADD

### Company Update

|   |                                 |
|---|---------------------------------|
| Current Market Price (CMP)<br><b>Rs.3,904</b> | Target Price<br><b>Rs.4,300</b> |
|---|---------------------------------|

### Rationale:

- TCS is well-balanced on growth and margins.
- Sharp increase in revenue of Diligenta subsidiary.
- Scope available for pyramid improvement from lows of FY24.
- Additional sites added to the BSNL deal.
- Well-positioned for industry-leading growth and margin expansion.
- We retain ADD at fair value of Rs4,300, valuing at 26x Jun 2026E earnings.

### Company update:

#### 👍 Positives:

- We expect healthy growth in CY24, driven by the expanded deal with Aviva, which involves incremental scope to service 30 lakh policies.
- BSNL deal ramp up in H2FY24 & would be a significant growth driver in FY25E.
- TCS BaNCS had a strong year, with 29 new wins and a record 38 go-lives.

#### 👎 Negatives:

- YoY decline in new wins for Ignio.

AR: Annual Report.

[Click here](#)

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## VIP Industries (VIP) - BUY

### Result Update

Current Market Price (CMP)

**Rs. 486**

Fair Value (FV)

**Rs. 635**

### Rationale:

- VIP Industries reported a weak operational performance.
- We expect VIP to push for E-com, digital marketing & Modern Trade channels.
- We expect earnings to grow by 448.8% in FY25E & grow by 61.6% in FY26E.
- Stock is currently trading at valuation of 27.6x P/E FY26E EPS.
- Recommend BUY with a decreased Fair Value of Rs 635 (from Rs 690) at 36x FY26E.

### Q4FY24 Result update:

#### **Positives:**

- Sales was reported at Rs 516.3 cr (+14.6% yoy) with volume growth of 14%.
- Management laid down an 18-month road map to re-gain lost glory & market share.
- Company launched new backpack collection & was received very well.
- ECOM business fundamentals show results with 71% yoy growth.

#### **Negatives:**

- EBIDTA (operating) margins was severely impacted at 1.5%.
- There was weakness in demand, top management changes & increasing competition.

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- 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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