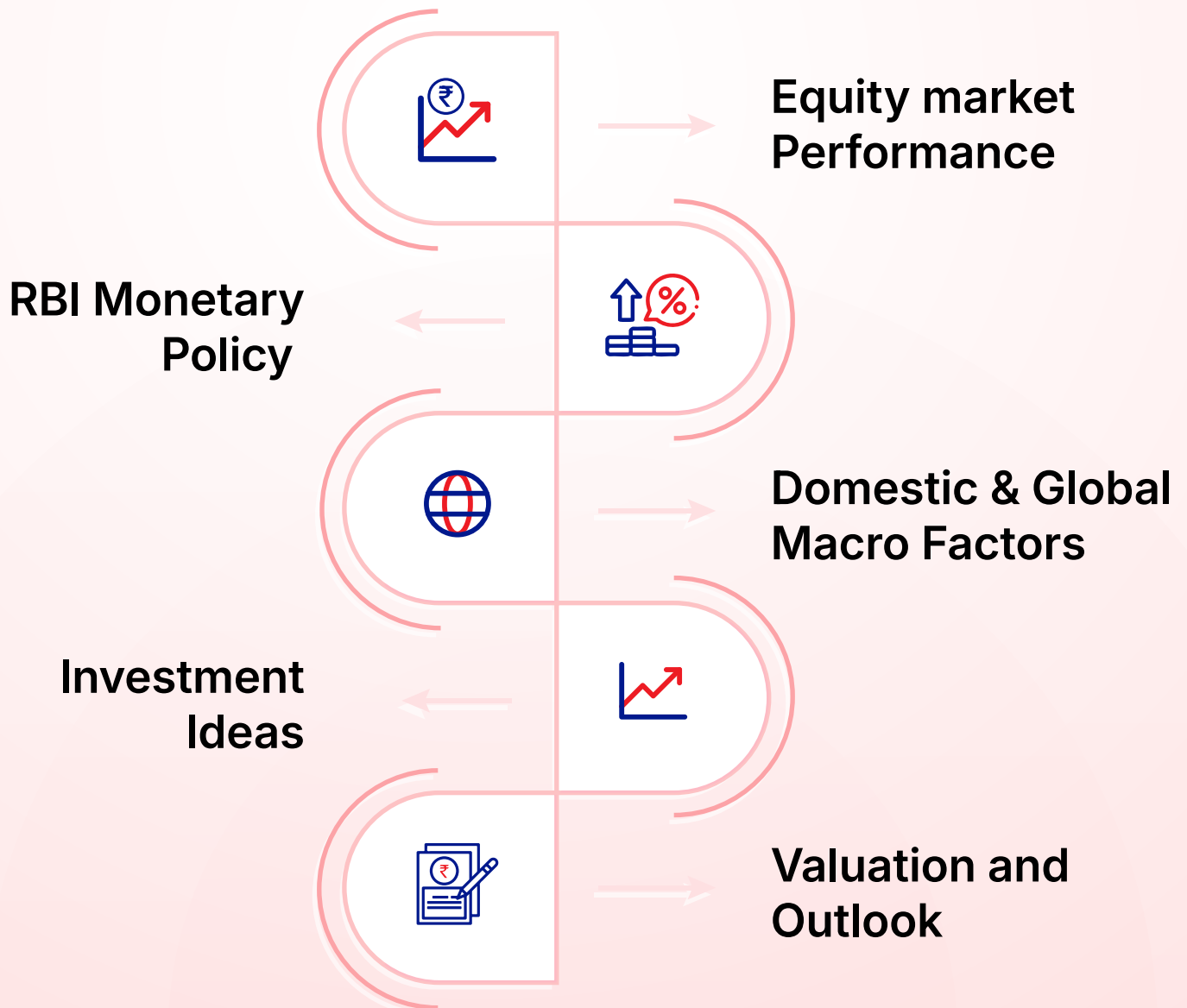


MARKET STRATEGY



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MARKET OUTLOOK FOR JULY 2025

Make hay while the Sun shines

India's Economy Stands Strong Despite Global Headwinds

In June'25, global equity markets saw a modest rebound as concerns around the Iran-Israel conflict abated, with Brent crude oil easing in the recent past. Notably, sentiments were further buoyed by news flows around progress in US trade negotiations and markets pricing in the likelihood of further extension of negotiation timelines. Indian equities were strong in the month, with the Nifty-50 Index up 3.1% in June 2025, Nifty midcap-100 rising 4.0% and Nifty small-cap-100 rising 6.7%. In June 2025, BSE Telecom Index rose (+6.1%), Healthcare (+3.9%), realty (+3.8%), IT (+3.3%), consumer durables (+3.2%), oil & gas (+3.1%), energy (+3.1%), metal (+3.0%), Utilities (+3.0%), Auto (+2.2%), Industrials (+1.9%), capital goods (+1.7%) and bank Index (+1.6%) ended in green. However, BSE FMCG (-0.3%) ended in red. Going ahead, the market will focus on quarterly earnings season and full year management guidance. We believe companies with high-quality businesses, sustainable business models, superior visibility of earnings growth, and strong management are likely to outperform.

RBI's focus on transmission

The RBI Monetary Policy Committee (MPC) reduced the repo rate by 50 bps to 5.5% while the stance was shifted back to "neutral" and announced that the CRR will be reduced by 100 bps to 3% in four tranches of 25 bps each between Sep'25 & Nov'25. Notably, the RBI besides indicating the push for growth, has also leaned on the need for quick transmission. They believed that the 50-bps cut would send a stronger signal for quicker transmission than staggered cuts. MPC noted that the declining commodity prices, benign food inflation & an above-normal monsoon bode well for inflation. We expect the transmission to lending/deposit rates to play out over a couple of quarters. We continue to see space for some easing, given our FY26 inflation estimate of 3.5% (RBI: 3.7%) & GDP growth of 6.2% (RBI: 6.5%).

FY2026 monsoon: sharp pick up continues

Till June 27, cumulative rainfall was 10% above long-term average while weekly rainfall was 31% above long-term average. On a cumulative basis, rainfall was above normal in north, and west, central and south India while below normal in east India. Out of the 36 sub-divisions, till date, 9 have received deficient rainfall, 12 have received normal rainfall, and 15 have received excess rainfall.

Sowing status: early monsoon leads to much higher acreage than last year

As of June 20, the total kharif acreage was 10.4% higher than the same period last year. Compared to same period last year, rice sowing was 58% higher at 13 lakh hectares. Pulses acreage at 9 lakh hectares was 42% while coarse cereal acreage was 22% higher at 18 lakh hectares higher than last year. Sugarcane acreage was 0.3% higher at 55 lakh hectares, and cotton acreage was 7.3% higher at 31 lakh hectares. Oilseeds acreage was 2% lower at 5 lakh hectares.

Inflation Outlook – FY26

Food Inflation Outlook: The RBI expects benign food inflation, supported by:

- High rabi output: Strong production of wheat and pulses ensures robust supply.
- Positive monsoon development: Early and potentially above-normal rainfall improves kharif crop prospects.

Risks Identified:

- Weather-related anomalies (e.g., droughts, floods).
- Global tariff tensions, which could influence international commodity prices.

Inflation Forecasts (CPI - Headline):

- RBI (Revised): 3.7% for FY26 (down from 4.0%).
- We are more optimistic with Inflation forecast at 3.5%.

Forex outlook

INR may remain under pressure from volatile capital flows, continued uncertainty from trade and tariff policies, an asynchronous global monetary policy cycle and periodic geopolitical escalations. However, we expect the uncertainty on the US exceptionalism theme to weigh on the US Dollar, providing support to the EMFX space. The two-way moves witnessed in the Indian Rupee in CY25 signal a clear shift in the RBI's FX management policy, creating room for wide-ranging moves. We, accordingly, expect USD-INR to trade in the range of 84.0-88.0 for the rest of the year and maintain our FY26E average at 86.1, keeping in mind the wide swings in USD-INR and the RBI's intervention as and when necessary to cap weakness

Cement: Seasonal lull setting in after a hot streak

In June'25, cement prices have started softening at the margin with the early onset of monsoon. Price hikes in April-May 2025, led by South, imply prices are +4%/2.7% qoq/yoy in Q1FY26E. We expect prices to remain under pressure in the coming months, given seasonal headwinds and strong capacity addition in H2FY26E. Higher prices and muted costs suggest sequential margin expansion in Q1FY26E. Our checks suggest demand growth to be restricted to ~7-8% in Q1FY26 on a favorable base. We remain cautious on the sector due to expensive valuations.

IT sector demand outlook and quarterly result focus

We believe that Q1FY26 will be a mixed one, with mid-tier IT services companies reporting strong growth, while large IT companies and Engineering Research and Developments (ERD) names will disappoint. We expect in-line EBIT. Deal wins will be strong, although not necessarily net new for the industry. Coforge, in our view, will lead the growth, followed by Persistent, Hexaware and Mphasis. TCS, Wipro and ERD names will likely face cuts in EPS after results. Infosys, Tech Mahindra, Hexaware, Coforge and Indegene are our key picks.

Outlook and Valuation

India maintains its position as one of the world's fastest-growing major economies, making it a compelling investment destination for global investors. While we remain confident in India's long-term growth opportunities, we advise investors to approach the market with a degree of cautious optimism. We are seeing ug of war between 1). stiff valuations, domestic growth concerns & global macroeconomic headwinds, and (2) the hopes of a recovery in the economy and earnings.

We believe the Indian economy stands to benefit from two key tailwinds: 1) Easing Interest Rates and 2) Muted Commodity Prices. Together, these factors can strengthen the economy's savings base and provide a more conducive environment for growth. The large-cap index may be supported by 1) continued optimism among investors about India's long-term growth prospects and 2) lower interest rates. We find valuations for the BFSI sector to be better than those of other sectors. Notably, midcaps continue to trade at a large premium to largecaps, despite recent de-rating. Further, smallcaps continue to trade at a large premium to largecaps. We believe most large-cap. consumption stocks are trading at expensive valuations.

We expect India's real GDP to grow by 6.5% in 2025 and 6.2% in 2026. Accordingly, we expect India's nominal GDP to grow by 9.8% in 2025 and 8.7% in 2026. We expect the net profits of the

Nifty-50 Index to grow 12.1% in FY26E (EPS of Rs1,125), and 15.4% in FY27E (EPS of Rs1,300). On these estimates, the Nifty 50 Index is trading at 22.8x/19.7x FY26E/FY27E earnings. In the near term the focus will on quarterly results and management guidance for the full year.

Key Risk

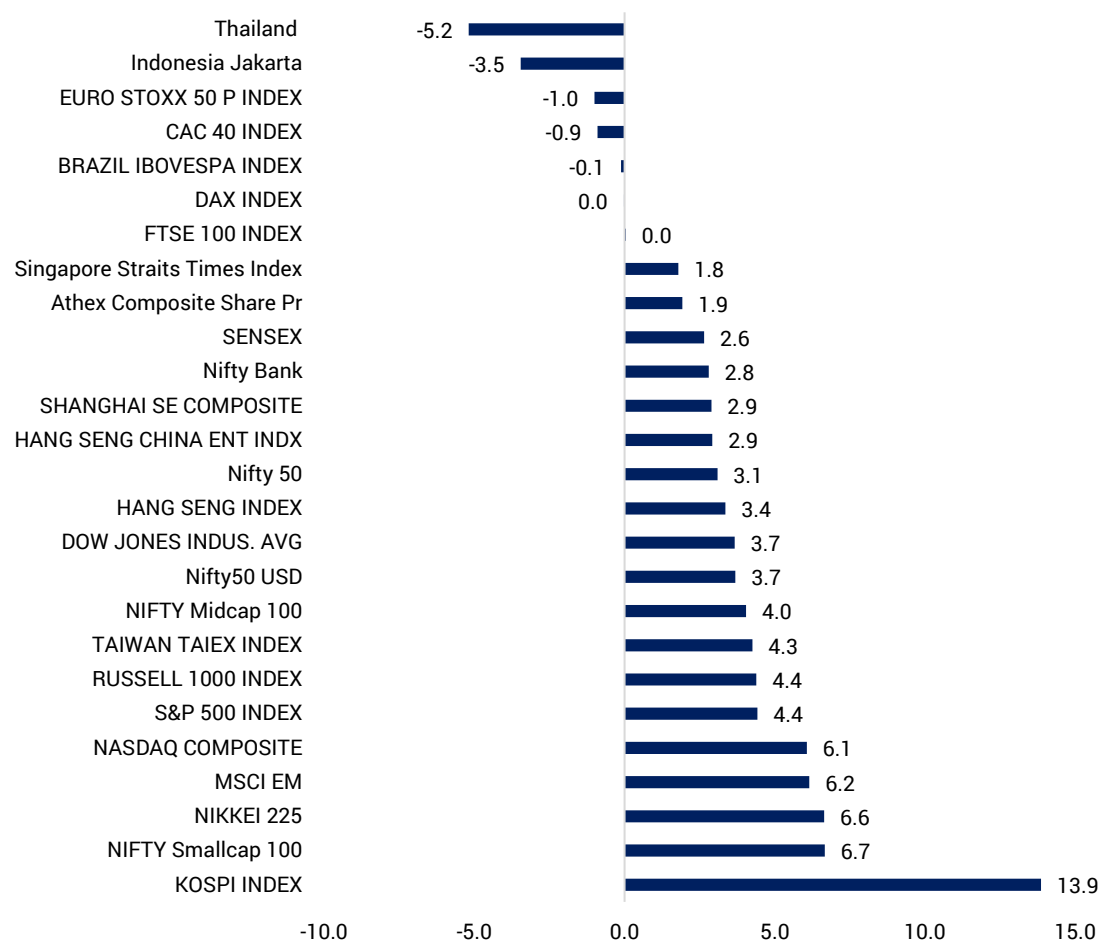
- Global growth slowdown or recession in key economies.
- Any meaningful escalation of geo-political tensions.
- High commodity prices could impact the economy and earnings in some sectors.

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs)*	Fair Value (Rs)	Mkt cap. (Rs cr)	EPS (Rs)		EPS growth (%)		P/E (x)		P/BV (x)		RoE (%)	
					FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
State Bank of India	BUY	805	975	7,18,789	67.4	83.1	-15.1	23.3	11.9	9.7	1.6	1.4	13.0	14.4
LIC	BUY	958	1,260	6,05,745	80.1	83.5	4.8	4.2	12.0	11.5	3.7	3.0	34.6	28.5
Eternal	BUY	262	280	2,52,704	1.4	2.8	148.0	92.1	181.7	94.6	7.5	7.0	4.2	7.7
Acutaas Chemicals	BUY	1,141	1,450	9,345	27.4	37.8	38.5	37.9	41.6	30.2	6.0	5.0	15.7	18.4
Hexaware Technologies	BUY	870	940	52,970	24.4	29.2	26.2	20.0	35.7	29.7	8.8	7.8	26.1	27.7

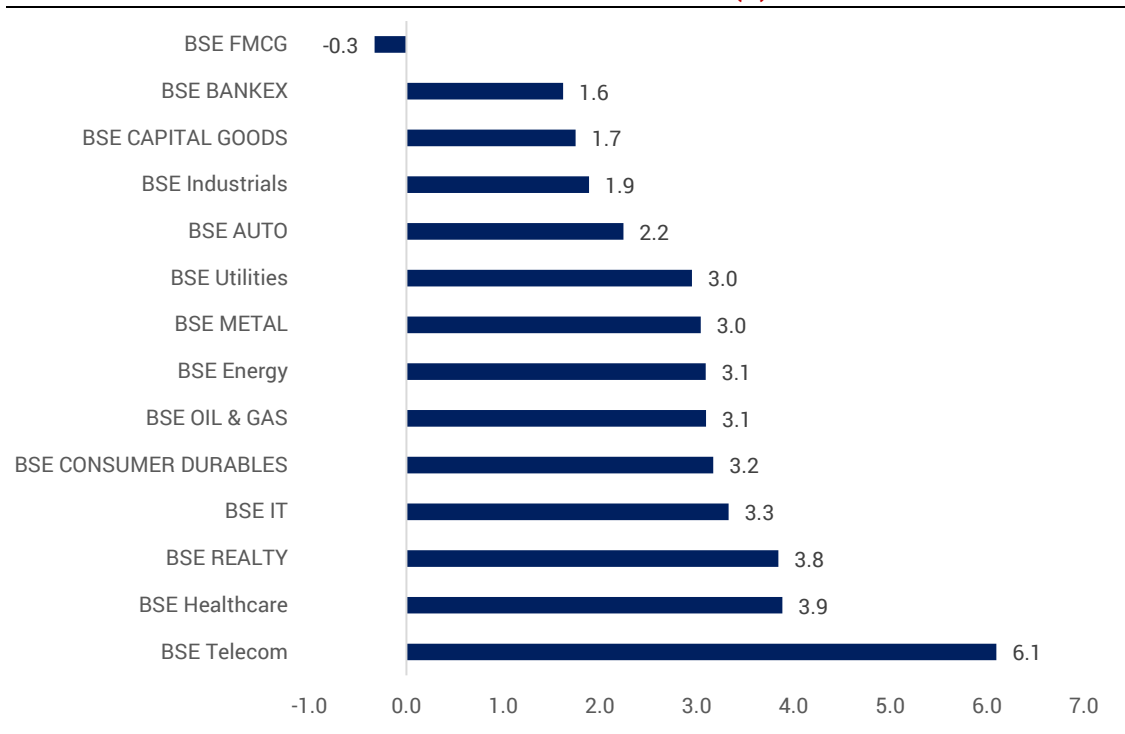
Source: Kotak Institutional Equities Research, * The above valuation summary is based on prices as on 30 June 2025

Exhibit 1: Global Indices Performance – For month of June 2025 (%)



Source: Bloomberg

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



Source: Bloomberg

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

Date Time	Event
India	
01-07-2025	HSBC India PMI Mfg
03-07-2025	HSBC India PMI Composite
03-07-2025	HSBC India PMI Services
04-07-2025	Foreign Exchange Reserves
14-07-2025	Wholesale Prices YoY
14-07-2025	CPI YoY
15-07-2025	Unemployment Rate
15-07-2025	Exports YoY
18-07-2025	Foreign Exchange Reserves
21-07-2025	Eight Infrastructure Industries
24-07-2025	HSBC India PMI Composite
24-07-2025	HSBC India PMI Mfg
24-07-2025	HSBC India PMI Services
25-07-2025	Foreign Exchange Reserves
28-07-2025	Industrial Production YoY
31-07-2025	Fiscal Deficit YTD INR
31-07-2025	Bank Credit YoY
US	
01-07-2025	S&P Global US Manufacturing PMI
01-07-2025	JOLTS Job Openings
03-07-2025	Trade Balance
03-07-2025	Unemployment Rate
03-07-2025	Initial Jobless Claims
03-07-2025	S&P Global US Services PMI
09-07-2025	FOMC Meeting Minutes
15-07-2025	CPI MoM

16-07-2025	Industrial Production MoM
17-07-2025	Retail Sales Advance MoM
23-07-2025	Existing Home Sales
24-07-2025	Initial Jobless Claims
24-07-2025	S&P Global US Manufacturing PMI
29-07-2025	JOLTS Job Openings
30-07-2025	Personal Consumption
30-07-2025	GDP Price Index
30-07-2025	Fed Interest on Reserve Balances Rate
31-07-2025	PCE Price Index YoY
31-07-2025	Initial Jobless Claims

Europe

01-07-2025	Retail Sales YoY
01-07-2025	CPI YoY
01-07-2025	Industrial Production MoM
02-07-2025	Unemployment Change
04-07-2025	Factory Orders MoM
07-07-2025	CPI MoM
07-07-2025	CPI YoY
09-07-2025	Trade Balance
11-07-2025	CPI MoM
11-07-2025	Current Account Balance
17-07-2025	Unemployment Rate
24-07-2025	PPI YoY
24-07-2025	HCOB Germany Manufacturing PMI
28-07-2025	Retail Sales MoM
30-07-2025	GDP QoQ
30-07-2025	Hourly Wages MoM
31-07-2025	CPI MoM
31-07-2025	Industrial Output YoY
31-07-2025	Unemployment Rate

Source - Bloomberg

Acutaas Chemicals (ACUTAAS) – BUY

Company Update

Current Market Price (CMP) Rs.1,141	Fair Value (FV) Rs.1,490
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Rationale:

- Acutaas Chemicals' announcement of a JV to manufacture semiconductor chemicals in Korea is an incremental positive for our estimates.
- It promises a faster ramp-up of this line of business than we previously expected.
- We raise FY28E EPS by 5% to Rs55 and June 2026E FV to Rs1,490 (from Rs1,450).
- We maintain BUY in anticipation of a strong 36% EPS CAGR over FY25-30E.
(EPS – Earnings Per Share; CAGR – Compound Annual Growth Rate; EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization)

Company Update:

Positives:

- Acutaas has announced a JV with a South Korean company named J & Materials.
- Korea JV (Indichem) could ramp up to Rs150 cr of EBITDA by FY30.
- Widens Acutaas' portfolio of products and clients in photoacid generators.
- We estimate that Acutaas' overall semiconductor chemicals business generates EBITDA of Rs210 cr in FY30 on revenues of 340 cr.
- Potential for a re-rating given very high return metrics in semiconductor chemicals.

Negatives:

- Semiconductor chemicals EBITDA margin declines from 72.4% in FY24 to 50% in FY25.

[Click here](#)

For detailed report dated 30th June 2025. Note: CMP & valuation may differ due to difference in dates.



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Eternal (ETERNAL) -BUY

Result Update

Current Market Price (CMP) Rs.262	Target Price Rs.280
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Rationale:

- Food delivery GOV growth came in at 16% yoy and was in line with estimates.
- Food delivery CM of 8.6% (versus 8.5% in Q3FY25) was in line with expectations.
- Blinkit's GOV grew solid 134%/8.5% yoy/qoq, higher than estimates with lower losses than expected.
- Near-term losses notwithstanding, Blinkit remains best positioned to capitalize on rising quick commerce penetration.
- Revised SoTP-based Fair Value of Rs280 (Rs270 earlier). Retain BUY.

(GOV -Gross Order Value, CM – Contribution Margin, SOTP - Sum of the Parts, CAGR - Compound Annual Growth Rate.)

Q4FY25 Earnings Update:

Positives:

- Blinkit: On track to expand to 2,000 dark stores by Dec 2025.
- Blinkit's CM was stable sequentially in Q4FY25.
- Consolidated adjusted revenue growth of 60% yoy driven by growth in Blinkit
- We model revenue CAGR of 45% over FY25-28E.

Negatives:

- Blinkit's profitability may remain subdued in the near term.

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Hexaware Technologies (HEXT) – BUY

Initiating coverage

Current Market Price (CMP)

Rs.870

Target Price

Rs.940

Rationale:

- Our positive view is based on a well-rounded & consistent performance with equal emphasis on revenue growth, margins & FCF generation.
- Strengthened multiple facets of business to emerge as a credible challenger.
- The business model has strengthened across all dimensions & is well equipped to outperform peers on growth consistently over the next few years.
- We initiate coverage on Hexaware with a BUY rating and a 12-month Fair Value of Rs940, based on 30x March 2027E EPS.

Initiating coverage:

Positives:

- Hexaware will deliver above average revenue growth, margin performance & FCF generation.
- Well-equipped in the age of gen AI, given early emphasis on automation and AI.

Negatives:

- Discontinuity in the top leadership, especially the CEO, can impede execution.
- The company faces the standard sector risks, such as gen AI disruption, insourcing, INR appreciation against the USD, etc.

EPS: Earning Per Share. M&A: Merger and Acquisition. AI: Artificial Intelligence. FCF: Free Cash Flow. CEO: Chief executive Officer.

[Click here](#)

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LIC (LICI) - BUY

Result Update

Current Market Price (CMP)

Rs. 958

Target Price

Rs. 1,260

Rationale:

- The shift in the par business and pressure on non-par margins will lead to sluggish medium-term VNB growth for LIC.
- On the other hand, a recent sharp bounce-back in equity markets will boost investment variance.
- We revise estimates and raise FV to Rs1,260 from Rs1,175. Maintain BUY.

Q4FY25 Earnings Update:

Positives:

- Value of new business (VNB) margins expanded to 17.6% in FY25 from 16.8% in FY24.
- Increasing share of non-par is providing a boost.
- Product mix is more diversified now, with par accounting for <50% of APE in FY25.
- Premium growth in bancassurance and alternate channels was strong at 58% in FY25.
- LIC reported 38% yoy growth in PAT to Rs19,000 cr in Q4FY25.

Negatives:

- LIC's APE declined 11% yoy in Q4FY25, following a 24% yoy decline in Q3FY25.
- Reported sharp declines in the 13th and 49th month persistency in FY25.

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State Bank of India (SBIN) - BUY

Company Update

Current Market Price (CMP)

Rs. 805

Target Price

Rs. 975

Rationale:

- SBI reported ~10% yoy earnings decline with 10% yoy operating profit growth.
- Reported stable NIM, comfortable loan growth & lower slippages.
- Unlike the conversations in Q3FY25 that centered around NIM, Q4FY25 exceeded expectations.
- Maintain BUY with an FV of Rs975 (unchanged). SBI remains a top idea.

Q4FY25 Earnings Update:

Positives:

- Revenue growth was at ~15% yoy with NII growth at 3% yoy.
- Loan growth was healthy at 12% yoy while deposits grew 10% yoy.
- Gross NPA declining ~25 bps qoq at 1.8% and net NPL flat qoq at 0.5%.
- Reported slippages for SBI remained stable at a low level.
- Net NPL is at a multi-decadal low; healthy PCR on NPLs.

Negatives:

- Management has revised its loan growth guidance lower to a range of 12-13% yoy over the near-to medium term from a range of 14-15% earlier.
- Growth in corporate loan book was relatively sluggish.

(NIM – Net Interest Margin, NII – Net Interest Income, NPL – Non Performing Loan, NPA – Non Performing Assets)

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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
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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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