kotak Securities

NOVEMBER 2024

MARKET STRATEGY

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MARKET OUTLOOK FOR NOVEMBER 2024

Oct 2024: Global equity markets sees correction; Indian markets underperform

Globally, most of the major equity indices ended the month in the negative amid geo-political developments and Q2FY25 result season. In the US, all the three major indices posted negative return in October 2024, with Dow Jones declining by 1.3%. Some markets that saw positive rally includes benchmark indices of Japan, Taiwan, Thailand and Indonesia. The Indian equity markets saw sharp correction and significantly underperformed the global peers. Apart from global correction, weak Q2FY25 result season and sustained FPI selling during the entire month further added downward pressure on the domestic market. Q2FY25 results and management commentary dominated stock specific action during the month.

While September 2024 saw Sensex-30 and Nifty-50 scaling new highs, October 2024 witnessed Sensex-30 and Nity-50 index sharply declining by 6.2% and 5.8%, respectively. The decline in the NSE Midcap index, at 6.7% was ahead of the larger peers. The NSE Smallcap index was down by 3%, outperforming the large and midcap indices, aided by some pullback in the last week of October 2024. Overall market breadth was negative in October 2024 and all the major sectoral indices posted negative returns. Amongst key sectoral indices, 15 indices saw a monthly decline of more than 5%, of which 12 indices corrected between 8-14%. BSE Consumer Durable, BSE Consumer Discretionary, BSE Auto, BSE Oil & Gas and BSE Energy indices declined in excess of 10%. Relative outperformers includes BSE Healthcare, BSE Bankex and BSE IT, where the monthly decline was restricted to below 5%.

IMF expects stable global growth

In their October 2024 World Economic Outlook report, the IMF highlighted that they expect the global growth at 3.2% in 2024 and 2025. While the overall global growth outlook remains similar (compared with April 2024 World Economic Outlook), there are some changes to country specific growth outlook. The IMF projects the growth in US at 2.8% in 2024 and the same to slow down to 2.2% in 2025 “as fiscal policy is gradually tightened and a cooling labor market slows consumption”. According to the "advance" estimate, the US real gross domestic product (GDP) increased at an annual rate of 2.8% in the Q3CY24, that primarily reflected rise in consumer spending, exports, and federal government spending.

In the Euro Area, the IMF expects growth to be modest at 0.8% in 2024 and is projected to rise to 1.2% in 2025, “supported by stronger domestic demand”. In the third quarter of 2024, the seasonally adjusted GDP increased by 0.4% in the euro area and by 0.3% in the EU, compared with the previous quarter. On an annual basis, seasonally adjusted GDP rose by 0.9% in both the euro area and the European Union in the third quarter of 2024.

IMP expects China’s economy to grow by 4.8% in 2024 and by 4.5% in 2025. As compared with its April 2024 report, the IMF has revised the growth forecast for 2024 and 2025 by 20 bps and 40 bps, respectively. The IMF noted that the recent policy measures may provide upside risk to China’s near-term growth. China’s real GDP growth for Q3CY24 was at 4.6% yoy (4.7% in Q2FY24), faring marginally better than expectations. Weak consumption and property sector continue to weigh down on growth prospects.

IMF expects India’ GDP growth at 7% in 2024 and 6.5% in 2025. While India remains the fastest growing among the major economies, there are data points showing some signs of near-term moderation in growth. Some key metrics showing softness includes manufacturing PMI (gradual decline over past few months), services PMI (decline in September to 10-month low), subdued passenger vehicle sales growth and moderation in GST collection in September 2024. Our revised GDP growth estimates stands at 6.7% for FY25 (from 6.9% earlier) and 6.5% for FY26 (from 6.7% earlier).

Central Banks Monetary Easing Continues

The IMF expects the global headline inflation to decline to 5.8% in 2024 and further to 4.3% in 2025 (from 6.7 % in 2023). With inflation now broadly under control, globally Central Banks continue to lower interest rates. In October 2024, Central Banks resorted to interest rate cut to support economic activities. The European Central Bank (ECB) reduced policy rates by 25 bps. Euro zone inflation was at 1.74% yoy in September 2024, first time below its 2% target after June 2021 while growth continues to weaken. However, preliminary data showed that Euro zone inflation rose to 2% in October 2024.

In October 2024, China cut its benchmark lending rates, the one year and five year loan prime rate by 25 bps each to 3.1% and 3.6% respectively. The rate cuts are the latest among the several measures taken by Chinese authorities to tide over the slowdown of economic activity. Last month, China's Finance Minister announced it will issue special bonds over next three months to support the economy. The Bank of Japan (BoJ) decided to keep its short-term interest rates target unchanged at 0.25% in its October 2024 monetary policy review. The Bank of Canada cut their policy rates by 50 bps to 3.75% as inflation is back within the target range and the bank is now focused to support growth.

The US CPI inflation for September decelerated to 2.4% yoy (August: 2.5% yoy) but the core CPI inflation increased to 3.3% yoy (August: 3.2% yoy). Recently released, US PCE (personal consumption expenditure) inflation for September came in at 0.2% mom (2.1% yoy), in line with expectations and the Core PCE inflation for September was at 0.3% mom (2.7% yoy). The Minutes of the FOMC meeting held in September indicated a divided house on the quantum of rate cut with some participants supporting a 25 bps cut as it would be in line with a gradual path of policy normalization. Almost all participants agreed that the upside risks to inflation had diminished, and most remarked that the downside risks to employment had increased. Robust US economic data continues to trim expectations of aggressive Fed rate cuts in the near term.

India's Inflation spikes in September 2024

September CPI inflation rose to 5.49% (3.6% in August), with increase in both food prices and core inflation. Core inflation moved to a nine-month high of 3.6% (3.3% in August). There was a broad-based increase across food categories. We maintain our FY25 average inflation estimate at 4.5%, with marginal upside risks. Robust kharif harvest, high reservoir levels and expected robust rabi sowing should help inflation to moderate from Q4FY25. The near-term inflation is expected to remain close to 5%, and that will likely keep RBI cautious. The MPC minutes of October 2024 meeting highlighted that risks were balanced on both growth and inflation. Most members noted that growth outlook in H2FY25 remained resilient. We expect the RBI to start easing in H1CY25, but that would be contingent on performance of key economy growth indicators. The RBI MPC will meet in December 2024, and its rate decision and commentary needs to be assessed.

India's Macro Factors

GST: Gross GST collection in September 2024 came in at Rs1.63 lakh cr, with growth moderating to 6.5% yoy. However, gross GST collection in October 2024 increased by 8.9% yoy to Rs1.87 lakh cr. October 2024 saw the second highest GST collection.

IIP: IIP in August 2024 contracted by 0.1% (4.7% in July 2024) driven by a decline in mining and electricity production, while manufacturing growth was moderate. In terms of the use based classification, all categories registered positive growth, except for primary goods and consumer non-durables. This was the first time that IIP contracted after October 2022. Infrastructure output (weight of 40.3% in IIP) growth in September 2024 came in at 2.0% (-1.6% in August).

Trade Deficit: Goods trade deficit in September 2024 declined over August 2024 due to a decline in non-oil imports, led by normalization of gold imports. Concerns regarding the overall external balance will remain around volatile commodity prices and the geopolitical tensions. Oil prices, though volatile, has been in a comfortable range. However, the renewed geo-political escalation presents upward risk to oil prices. We retain FY25 CAD/GDP estimate at 1.2%.

Fiscal Deficit: Center's fiscal deficit remained in check in H1FY25 at 29% of FY25BE. Total expenditure in H1FY25 at 44% of FY25BE was marginally lower than H1FY24. Revenue expenditure growth continued to be in line with budgeted growth rate. With lower deficit, possibility of lower borrowings is also increasing toward end-FY25.

Q2FY25 result performance

Q2FY25 results declared so far reflects early trends of weak consumption demand, modest recovery in IT services demand and manageable asset quality and profitability for banks. Consumer companies have reported subdued volume numbers, with commentary suggesting a challenging demand environment. Some of the consumer-facing stocks have seen a correction in stock prices amid Q2FY25 earnings miss and muted management guidance for the ongoing festive season. For the IT services sector, results demonstrated a steady uptick in growth and steady sequential EBIT margin, but TCV of deal wins was weak across most companies. Mid-tier IT services companies showcased resilience in growth whereas large companies' performance was steady. Before the start of the Q2FY25 result season, our expectation was 5.3% yoy and 2.7% qoq net profit growth for the BSE-30 Index and 3.7% yoy and 2.5% qoq net profit growth for the Nifty-50 Index.

Outlook and Valuation

Over the past few years, we have seen strong performance of the Indian equities supported by relatively stable macro factors, healthy earnings growth and robust domestic flows. However, October 2024 saw market correcting amid geo-political developments, weak Q2FY25 performance, growth moderation in certain domestic macro's and FPI selling. Positive near term economic outlook for the US, Chinese monetary policy easing, and expectations of large fiscal stimulus in China possibly led to capital outflows from the emerging market countries. In October 2024, FPI's record monthly selling in Indian equity market of close to Rs1 lakh cr has mostly been absorbed by strong buying from the Domestic Institutional Investors (DII). Q2FY25 results has been on the weaker side. There has been sharp response to weak results and/or weak management commentary, something not that prevalent in previous quarters, suggesting a gradual reversion to fundamentals and valuations. We expect 5% and 17% growth in net profits of the Nifty-50 Index in FY25 and FY26, respectively (earlier 8% and 16% growth in FY25 and FY26). In November 2024, the equity market will continue to track Q2FY25 results, actions and commentaries of key Central Banks, macro data, crude price movement, geopolitical developments and the outcome of elections. India's inflation spiked in September and is expected to be close to 5% in the near term and that could weigh on the outcome of the next MPC meeting. Good monsoon, increased reservoir levels and hike in MSPs for key crops bodes well for the upcoming rabi season and that is expected to support rural growth in H2FY25. Over the medium to long-term, healthy economic growth, above-expected monsoon supporting recovery in rural growth and expected easing of monetary policy in H1FY25 will likely keep Indian markets attractive. Despite the recent correction, the broader market valuation still looks expensive. The correction in the market could be used to add quality companies with reasonable valuation from a long-term investment view. We expect the EPS of the Nifty- 50 Index at Rs1,035 for FY25E and Rs1,212 for FY26E. On these estimates, the Nifty 50 Index is trading at a PE of 23.5x/20.1x FY25E/FY26E earnings.

Key Risk

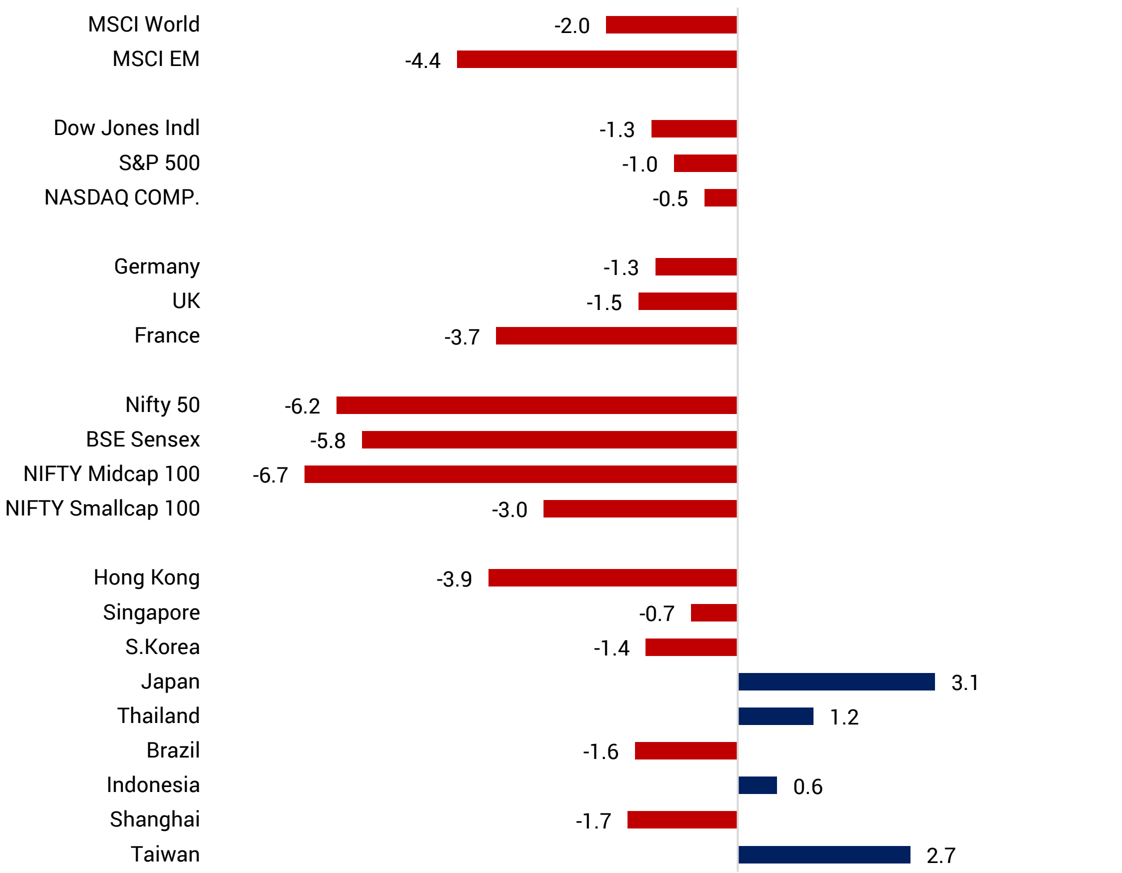
- Global growth slowdown or recession in key economies
- Inflation and its impact monetary policy actions from Central Banks
- High commodity prices could impact economy and earnings in some sectors
- Further escalation of geo-political tensions

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 (%)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
ICICI Bank	BUY	1292	1450	910,863	61.9	65.3	6.3	5.6	20.9	19.8	3.4	3.0	17.0	15.7
LTI Mindtree	ADD	5711	6750	169,146	163.2	202.7	5.3	24.2	35.0	28.2	7.5	6.5	22.7	24.8
MacroTech Developers	ADD	1206	1340	120,190	26.1	41.2	56.7	58.2	46.3	29.3	6.0	5.0	13.8	18.5
Mahindra & Mahindra	BUY	2729	3150	339,303	98.9	107.1	7.6	8.3	27.6	25.5	5.1	4.4	20.0	18.4
Shriram Finance	BUY	3139	3700	118,025	281.3	285.0	48.9	1.3	11.2	11.0	2.1	1.8	16.4	17.3

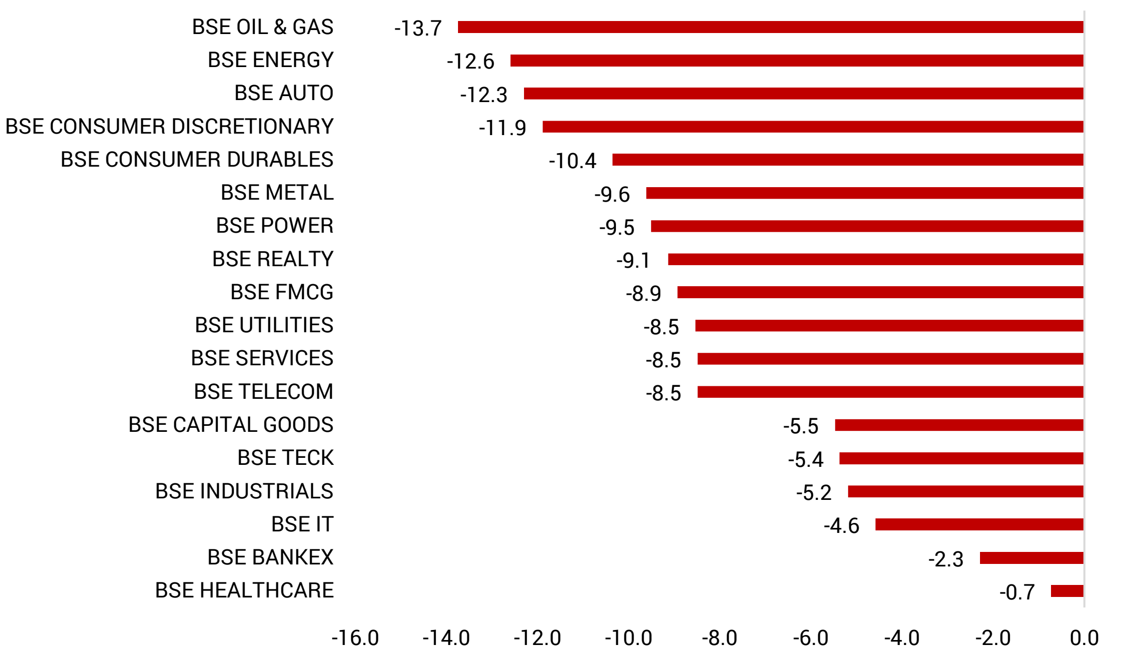
*Source: Kotak Institutional Equities Research, * The above valuation summary is based on prices as on 31st Oct 2024*

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



Source: Bloomberg

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



Source: Bloomberg

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Exhibit 3: Key Economic Calendar for India, US, China and Europe for November 2024

Date	Event
US	
1-Nov-24	Unemployment Rate
1-Nov-24	S&P Global US Manufacturing PMI
5-Nov-24	Trade Balance
6-Nov-24	S&P Global US Services PMI
6-Nov-24	S&P Global US Composite PMI
7-Nov-24	Initial Jobless Claims
8-Nov-24	FOMC Rate Decision (Upper Bound)
13-Nov-24	CPI MoM
14-Nov-24	Initial Jobless Claims
15-Nov-24	Industrial Production MoM
21-Nov-24	Initial Jobless Claims
27-Nov-24	FOMC Meeting Minutes
27-Nov-24	GDP Annualized QoQ
27-Nov-24	Initial Jobless Claims
27-Nov-24	PCE Price Index MoM
Europe	
4-Nov-24	HCOB Eurozone Manufacturing PMI
6-Nov-24	HCOB Eurozone Services PMI
6-Nov-24	HCOB Eurozone Composite PMI
7-Nov-24	Retail Sales
13-Nov-24	Industrial Production
14-Nov-24	GDP
19-Nov-24	CPI
25-Nov-24	ECB 1 Year CPI Expectations
25-Nov-24	ECB 3 Year CPI Expectations
India	
4-Nov-24	HSBC India PMI Mfg
6-Nov-24	HSBC India PMI Composite
6-Nov-24	HSBC India PMI Services
12-Nov-24	CPI YoY
12-Nov-24	Industrial Production YoY
14-Nov-24	Wholesale Prices YoY
15-Nov-24	Trade Balance
29-Nov-24	Fiscal Deficit YTD INR
29-Nov-24	Eight Infrastructure Industries
29-Nov-24	GDP YoY
China	
1-Nov-24	Caixin China PMI Mfg
5-Nov-24	Caixin China PMI Composite
5-Nov-24	Caixin China PMI Services
7-Nov-24	Trade Balance
9-Nov-24	CPI YoY
15-Nov-24	New Home Prices MoM
15-Nov-24	Industrial Production YoY
20-Nov-24	5-Year Loan Prime Rate
20-Nov-24	1-Year Loan Prime Rate

Source - Bloomberg

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Dated: 31 Oct 2024

ICICI Bank (ICICIBC) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs. 1,292	**Rs. 1,450**

Rationale:

- Bank reported ~15% yoy earnings growth led by 18% yoy operating profit growth.
- Loans and deposit growth was solid at ~15%.
- Stable returns, an attractive liability franchise and steady growth should help ICICI Bank sustain its premium valuation.
- Maintain BUY rating with FV at Rs1,450 (Rs1,400 earlier).
- ICICI Bank is one of our top picks.

Q2FY25 Earnings Update:

Positives:

- Industry-leading performance on growth, NIM, fee income, credit costs and asset quality ratios.
- GNPL ratio declined ~20 bps qoq to ~2.0%, while net NPL ratio was flat qoq at ~0.5%.
- Overall Credit Deposit ratio stood at ~85% (down ~50 bps qoq).

Negatives:

- Net Interest Margin (reported) declined by ~10 bps qoq to ~4.3%
- CASA ratio for the bank declined by ~30 bps qoq to 41%.

Click here For detailed report dated 27th Oct 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 31 Oct 2024

LTIMindtree (LTIM) – ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.5,711	Rs.6,750

Rationale:

- Q2FY25: In-line revenues and beat on profitability.
- Seasonal headwinds to impact near-term growth but pipeline holds promise.
- Pickup in discretionary spends would support medium-term margin aspirations.
- We roll forward and value LTIM at 29x Dec'26E EPS (28x earlier), leading to increase in fair value to Rs6,750 (Rs6,200 earlier).

Q2FY25 Earnings update:

Positives:

- EBIT margin increased by 50 bps to 15.5% (KIE 15.2%).
- Sequential EBIT margin improvement was aided by absence of visa costs during Q2.
- Reported net profit was up 7.7% yoy.
- Revenue growth was healthy across vertical and geos.

Negatives:

- LTIM reported c/c revenue growth of 2.3% qoq (KIE 2.6%).
- Top 5 (1.3% qoq), top 10 (0.8% qoq) & top 20 (1.9% qoq) clients underperformed on growth.

(TCV: Total Contract Value, EBIT: Earnings before Interest and Tax, C/C: Constant Currency.)

Click Here For detailed report dated 17th Oct 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 31 Oct 2024

Macrotech Developers (Lodha) – ADD

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.1,206	Rs.1,340

Rationale:

- Well-rounded performance; cash collections to pick up.
- Operating cash flow improved, H1FY25 OCF is tracking behind FY25 guidance.
- Management expects milestone-linked collections to pick up in H2FY25.
- Lodha has a launch pipeline of Rs10000 cr for H2FY25.
- Maintain ADD with a revised FV of Rs1,340/share (from Rs1,450/share).

Q2FY25 Earnings update:

Positives:

- Strong pre-sales performance, aided by new launches.
- Incrementally, premiumization of Palava, aided by better infrastructure, will likely drive value.
- Lodha continues to deliver healthy and sustainable growth across MMR and Pune.
- Management reiterated its guidance of 20% pre-sales CAGR with RoE of 20%.
- Palava land has become a regular source of cash now.

Negatives:

- Strong business development led to an increase in net debt.

(RoE: Return on Equity, MMR: Mumbai; CAGR – Compounded Annual Growth Rate)

Click here For detailed report dated 29 Oct 2024. Note: CMP & valuation may differ due to difference in dates.

Dated: 31 Oct 2024

Mahindra & Mahindra (MM) - BUY

Company Update

Current Market Price (CMP)	Target Price
Rs.2729	**Rs.3150**

Rationale:

- Tractor industry poised for recovery during H2FY25E.
- Well-positioned despite slowdown in domestic passenger vehicle segment.
- Co. continuing to execute well in all three segments; improvement in return ratios.
- We expect M&M to outperform across all the segments driven by newer launches.
- We are upgrading the stock to BUY (from ADD) post recent correction.
- Stock is trading at attractive valuation; M&M remains our top pick.

Company update:

Positives:

- Tractor: The company has gained 130 bps yoy market share in H1FY25.
- M&M retail PV volumes grew 15% yoy in H1FY25 vs flat growth in overall PV industry volumes.
- M&M LCV market share improved by 180 bps on a yoy basis in H1FY25.

Negatives

- Domestic LCV segment volumes declined by 6% on a yoy basis in H1FY25.
- We have cut our FY25-26 EPS estimates by 1-4%.

(EPS: Earnings Per Share; PV: Passenger Vehicle; LCV: Light Commercial Vehicle)

Click here

For detailed report dated 31st Oct 2024. Note: CMP & valuation may differ due to difference in dates.

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Dated: 31 Oct 2024

Shriram Finance (SHFL) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs. 3,139	**Rs. 3,700**

Rationale:

- SHFL, amid asset-quality noise in the rest of the sector, continued to deliver a steady performance.
- The investment thesis of an overall growth trajectory of ~20%, stable NIMs, asset-quality performance and high-teen RoE remains.
- In light of pockets of risk in the sector, high growth in MSME, followed by tractors, remains monitorable.
- Retain BUY; FV: Rs3,700 (no change).

Q2FY25 Earnings Update:

Positives:

- Co. reported PAT of Rs 2,070 cr in Q2FY25, up 18% yoy.
- NII was up 19% yoy, driven by strong 20% yoy AUM growth.
- Core NIM expanded 13 bps qoq to 10.7%.
- Gross stage-3 was down 10 bps qoq to 5.3% and gross stage-2 ratio was down 10 bps to 6.6%.

Negatives:

- Weak CV sales and used CV markets continue to keep low growth in vehicles.
- Cost-to-AAUM ratio was at 3.0%, driven by higher fee expenses (up 41% yoy).

Click here For detailed report dated 26th Oct 2024. Note: CMP & valuation may differ due to difference in dates.

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.
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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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