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MARKET STRATEGY

SEP 2024

1. Monsoon
2. Economic growth
3. Interest rate
4. Earnings
5. Valuation

kotak Securities
PRIVATE CLIENT GROUP

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 5498

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

MARKET OUTLOOK FOR SEPTEMBER 2024

Market buoyant on optimism over expected rate cut

Equities across most of the major global markets closed in green in the month of August'24 buoyed by increased optimism of a soft landing for the US economy and expectations for the start of interest rate cuts in US and also in EU. Indian equity markets soared ~1% in the month of August 2024, however underperformed most of its global peers on looming concerns over valuation and FIIs outflows. Domestic macros data were mixed with moderation in June'24 GDP growth due to base effect while inflation showed signs of easing. We expect India's strong macroeconomic fundamentals to sustain over the next few years. India has outperformed most global markets in the last few years with large outperformance seen in mid-cap and small caps space. In our view, Indian market offers little value across several sectors and stocks. Hence, investors need to adopt judicious approach to add quality stocks on corrections for long term perspective.

Mixed Domestic macro data

- **IIP:** IIP growth in June was at 4.2% (May: 6.2%). As per the sectoral classification, manufacturing activity increased 2.6% (May: 5%), mining increased 10.3% (6.6%) and electricity production increased 8.6% (13.7%). The Core sector data for July was soft. Growth in India's eight core sector industries slowed to 6.1 per cent in July compared to 8.5 per cent in the same month last year.
- **Inflation:** The July CPI inflation fell to 3.5% from 5.1% in June on the back of a large favorable base effect despite a continued increase in vegetable prices. As the vegetable price spike reverses over next few months, we estimate the Q2FY25 inflation to average near 3.9%, (lower than RBI's estimate of 4.4%). The August RBI MPC meeting minutes continued to signal caution on inflationary risks.
- **Trade deficit:** Goods trade deficit in July remained elevated at US$23.5 bn, higher than US$21 bn in June due to lower exports. Exports in July fell 1.5% yoy to US$34 bn on account of decline in non-oil imports primarily due to decline in gems and jewelry. Imports in July increased 7.5% yoy to US$57.5 bn due to pickup in non-oil import.
- **GDP:** The GDP growth in Q1FY25 moderates to 6.7%, down from 7.8% in the last quarter due to unfavorable base and was slightly below our expectation of 7%. Growth was broad-based, with private consumption growth catching up with investment growth. Private consumption growth which lagged in the previous quarters has showed signs of revival by growing at 7.4%, highest in seven quarters. Government consumption expenditure remained weak at (-)0.2% amid election-led constrained spending. Real GVA growth came in at 6.8% in Q1FY25, higher than the 6.3% growth witnessed last quarter and was better than our estimates of 6.5% supported by broad-based growth in industry.

Strong monsoon drives sowing

On a cumulative basis, rainfall was 6.9% above long-term average (till 30th August 2024) and remained excess in central and southern India, normal in northern India, and deficient in east and north-east India. Out of the 36 sub-divisions, till date, seven have received deficient rainfall, 19 have received normal rainfall, 12 have received excess rainfall and 5 have received deficient rainfall. Strong monsoon led to reservoir levels in surplus (12% above long-term average), with the exception of indus basin, which bodes well for upcoming Rabi season. Monsoon had positive impact on sowing, with total kharif acreage was 1.9% higher than the same period last year (as on 27th August). Acreage for major crops like rice, oilseeds, pulses, coarse cereals and sugarcane are higher than last year, except cotton. Strong monsoon, surplus reservoir levels and higher sowing bodes well for rural economy.

Easing inflation signals rate cut in US and EU

The minutes of the FOMC meeting indicates that the members acknowledged the progress in disinflation as well as the rising unemployment rate. The minutes stated that if the data continued to come in on expected lines, it would likely to ease policy at the next meeting. The Fed Chair at the Jackson Hole conference indicated that the time has come for policy to adjust and the timing and pace of rate cuts will depend on 1) incoming data, 2) the evolving outlook, and 3) the balance of risks.

Markets viewed dovish statements from Fed as a signal for rate cut cycle starting from the September policy, but magnitude of rate cuts in CY24 remains uncertain. A lot would also depend on upcoming labour and inflation data. In a recent data released by US Commerce department, personal consumption expenditures price index (an important inflation indicator) rose 0.2%/2.5% on mom/yoy which is exactly in line with consensus estimates; hereby indicates re-establishment of price stability. Market assigns 79% probability of at least 100 bps rate cuts by Fed in CY24. We retain our view of 25bps rate cuts by the Fed in each of the three policies in CY24 (first one on 18th Sept 2024) with a close eye on labour market report.

The minutes of the ECB meeting indicated that all options are open for the September meeting (on 24th Sept). The persistence in services inflation remains key to the outlook. In recent data, Eurozone inflation fell to 3 year low of 2.2% in August'24, inline with consensus and lower than 2.6% in July'24. On the other hand, core inflation perk's up in Japan's capital for fourth straight month to 2.4% (vs expectation of 2.2%) and adds risk of further tightening of monetary policy by Bank of Japan (Last hike to 0.25% in July'24). In term of economic growth, Japan's GDP beat street expectations and grew 0.8% on qoq in June 2024 quarter (Vs 0.5% expectation). Recently, US Commerce Department upgraded June'24 quarter GDP growth rate to 3% (from previous estimates of 2.8%), fueled by strong consumer spending and business investment, and allayed fears of recession in the country.

Shallow RBI rate cut cycle on cards

RBI MPC remained hawkish given uncertainty on both domestic and global factors while looking for more durable signs of disinflation before a shift in policy. MPC noted that (1) rural demand is improving while urban demand remains steady, (2) high-frequency indicators indicate a robust outlook and (3) improving trade prospects could support external demand. However, headwinds remain from (1) geopolitical tensions, (2) volatility in global commodity prices and (3) geo-economic fragmentation. The MPC retained its FY25 real GDP growth estimate at 7.2% while reducing its Q1FY25 growth estimate by 20 bps to 7.1%. In our view, RBI's policy will be impacted by global factors given (1) global monetary policy cycle, (2) uncertain global demand conditions and (3) Forex volatility. We maintain our call of a shallow rate-cut cycle (75-100 bps) starting in December'24.

Q1FY25 broadly inline with estimates with hits and misses

Q1FY25 net income of the Nifty-50 Index grew 5.2% (3.1% adjusted for HDFC bank), moderately ahead of our expectation of 1.3% growth. The Q1FY25 EBITDA of the Nifty-50 Index grew 3.2% versus our expectation of 0.6% growth. The positive surprises came from BPCL, Coal India and ONGC. In context of broader market, Q1FY25 results of BSE-500 companies showed moderate revenue growth of 8% yoy on aggregate and 9% yoy ex-OMCs. Electric utilities, financials, healthcare, hotels & restaurants, retailing and real estate reported strong revenue growth. EBITDA of non-financial companies of this universe increased a modest 1% yoy (16% yoy ex-OMCs), while PAT increased 3% yoy (11% yoy ex-OMCs). Margins had seen 150 bps yoy and 120 bps qoq expansion, on an ex-BFSI and oil & gas basis resulting 16% yoy growth in EBITDA (ex-BFSI, Ex-OMCs). We note that consensus EPS estimates for BSE-500 stocks have seen sharper downgrades than upgrades for FY25E, with major downgrades belong to mid & small cap. Q1FY25 results and management commentary highlighted modest improvement in the laggard sectors like IT services and consumer staples.

Strong macroeconomic fundamentals to sustain

India's macroeconomic activity remains resilient in the near term with 1) firming up of rural demand (tailwinds from favorable monsoons and kharif sowing to driving rural demand), (2) post-election revival in government spending, (3) healthy (although slowing) global demand and 4) decent Q1FY25 earnings data. However, we remain cautious on the downside risks emanating from 1) fatigue in urban demand due to lag effect of rate hikes and moderation in wage growth and 2) uncertainty on the pace of global slowdown. In our view, stable product prices after a long inflationary phase and a modest increase in household incomes bodes well for low-income households. We expect India's current strong macroeconomic fundamentals to sustain over the next few years and continue to expect GDP to grow at 6.9% and 6.7 in FY25 and FY26 respectively. This is based on 1) continued strong investment demand (on government's infrastructure spending and household investment in residential real estate), (2) gradual recovery in private sector investment and (3) gradual recovery in private consumption especially among low-income households.

Indian market offers very little value across sectors

India has outperformed most global markets in the last few years with large outperformance seen in mid-cap and small caps primarily driven by strong domestic inflows and positive sentiments particularly among non-institutional investors. In our view, Indian market offers little value across several sectors and stocks and we find investment-related sectors and PSUs trading at frothy valuations. We expect net profits of the Nifty-50 Index to increase 8.5% (12.2%, excluding BPCL and HPCL through ONGC) in FY25 and 15.6% (15.3%, excluding BPCL and HPCL through ONGC in FY26). The Nifty-50 Index is trading at PE of 23.4x/20.3x on FY25E/FY26E EPS of Rs1077/Rs1246 per share, respectively. As the broader market is trading at premium valuation, investors need to adopt judicious and selective approach to add quality stocks on corrections for long term perspective.

Key Risk

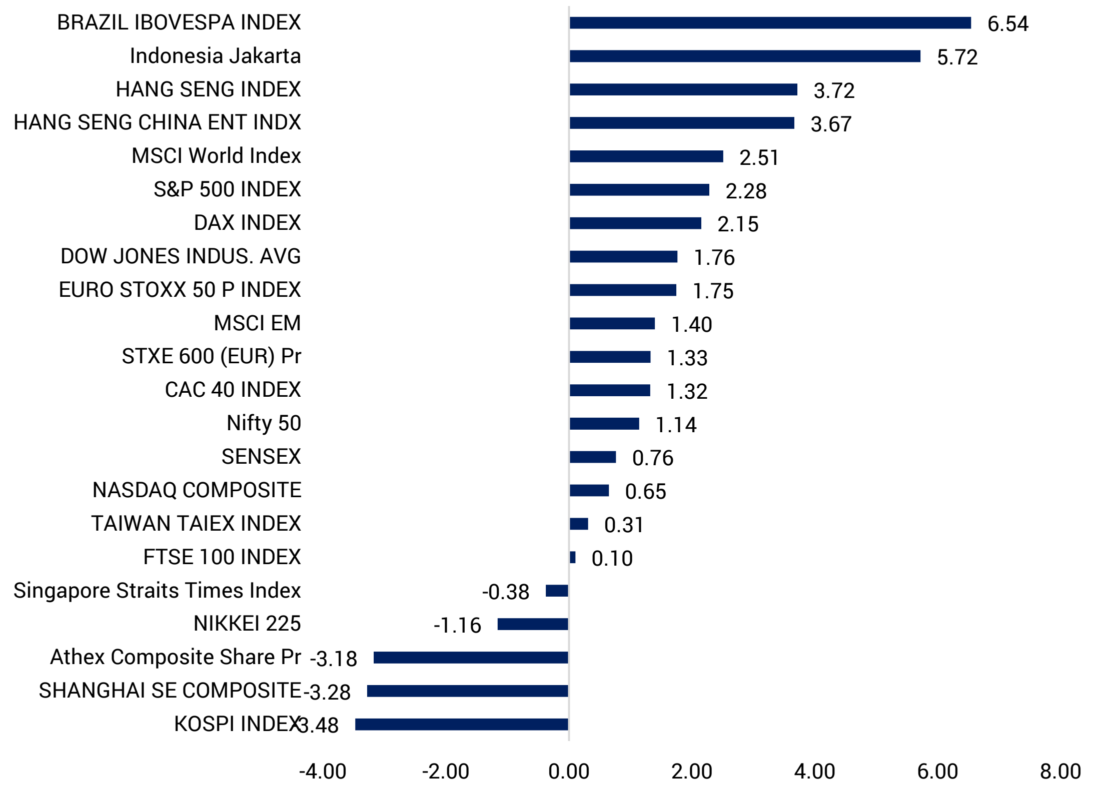
- Delay in recovery of global economic growth.
- Geopolitical tensions and its impact on supply chain and inflation.
- Any delay in rate cuts by major central banks.

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
Tata Motors	ADD	1,111	1,250	425,630	69.6	83.1	33.5	19.5	16.0	13.4	3.8	3.0	26.5	25.2
Sapphire Foods	BUY	1,668	1,800	10,638	6.4	12.0	-21.6	86.9	260.1	139.2	7.7	7.3	3.0	5.4
IndusInd Bank	BUY	1,425	1,800	111,003	125.8	135.1	9.4	7.4	11.3	10.6	1.6	1.4	14.6	13.9
Home First Finance	BUY	1,153	1,300	10,265	42.1	54.2	22.0	28.5	27.4	21.3	4.2	3.5	16.3	17.9
Mahindra Holidays#	ADD	408	500	8,194	9.6	12.1	7.1	26.5	42.5	33.7	7.2	5.9	18.6	19.4

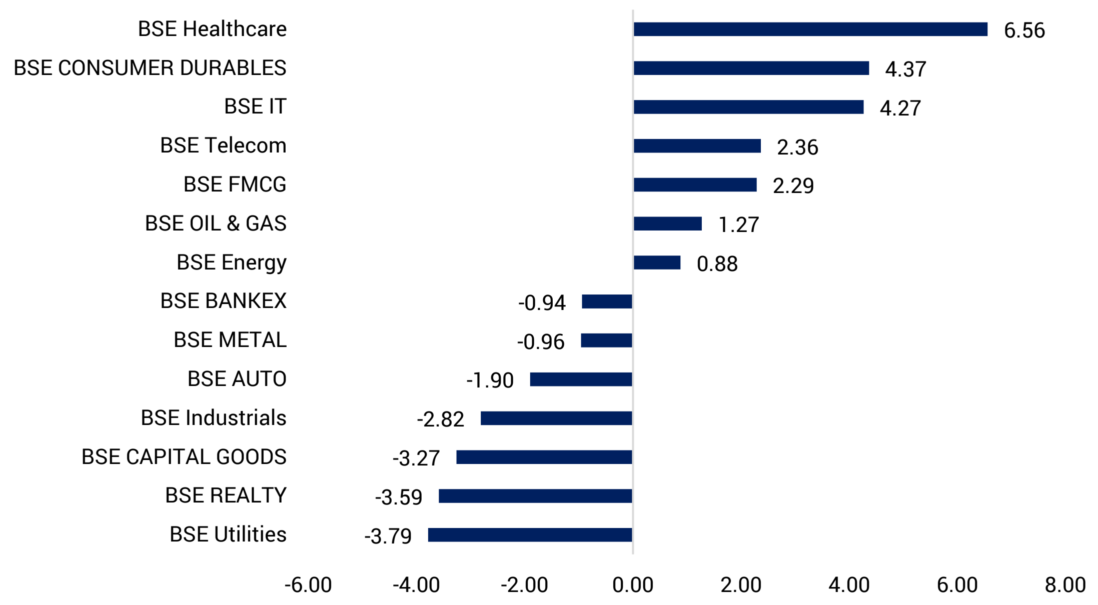
*Source: Kotak Institutional Equities Research, # Kotak Securities – Private Client Group, *The above valuation summary is based on prices as on 30th August 2024*

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



Source: Bloomberg

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



Source: Bloomberg

Exhibit 3: India's Key Economic Calendar

Date	Event
2-Sep	HSBC India PMI Mfg
4-Sep	HSBC India PMI Composite
4-Sep	HSBC India PMI Services
12-Sep	CPI YoY
12-Sep	Industrial Production YoY
12-Sep	Trade Balance
13-Sep	Foreign Exchange Reserves
16-Sep	Wholesale Prices YoY
23-Sep	HSBC India PMI Mfg
23-Sep	HSBC India PMI Composite
23-Sep	HSBC India PMI Services
23-Sep	BoP Current Account Balance
30-Sep	Fiscal Deficit YTD INR Crore
30-Sep	Eight Infrastructure Industries

Source - Bloomberg

Exhibit 4: US Key Economic Calendar

Date	Event
3-Sep	S&P Global US Manufacturing PMI
3-Sep	ISM Manufacturing
3-Sep	Trade Balance
3-Sep	Factory Orders
4-Sep	Federal Reserve Releases Beige Book
5-Sep	ADP Employment Change
5-Sep	Nonfarm Productivity
5-Sep	Initial Jobless Claims
5-Sep	S&P Global US Services PMI
5-Sep	S&P Global US Composite PMI
6-Sep	Change in Nonfarm Payrolls
6-Sep	Unemployment Rate
9-Sep	NY Fed 1-Yr Inflation Expectations
11-Sep	CPI Core Index SA
12-Sep	Initial Jobless Claims
17-Sep	Industrial Production MoM
18-Sep	FOMC Rate Decision (Upper Bound)
19-Sep	Initial Jobless Claims
23-Sep	S&P Global US Composite PMI
25-Sep	New Home Sales
26-Sep	GDP Annualized QoQ
26-Sep	Initial Jobless Claims
27-Sep	Personal Income
27-Sep	PCE Price Index MoM
30-Sep	Dallas Fed Manf. Activity

Source - Bloomberg

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Exhibit 5: Eurozone Key Economic Calendar

Date	Event
3-Sep	Monetary Policy Council Rate Meeting
4-Sep	HCOB Eurozone Composite PMI
4-Sep	HCOB Eurozone Services PMI
6-Sep	Manufacturing Production YoY
6-Sep	Wholesale Price Index YoY
10-Sep	Manufacturing Production YoY
11-Sep	Wholesale Price Index YoY
12-Sep	CPI Core YoY
12-Sep	PES Unemployment Rate
12-Sep	Unemployment Rate Quarterly
13-Sep	Current Account YTD
16-Sep	CPI Core YoY
16-Sep	General Government Debt
16-Sep	PPI Industrial MoM
16-Sep	PPI Industrial YoY
18-Sep	CPI Core YoY
18-Sep	Unemployment Rate Trend
19-Sep	Employment YoY
20-Sep	Business Confidence
20-Sep	Consumer Confidence Index
20-Sep	Manufacturing Confidence
20-Sep	Production Outlook Indicator
23-Sep	HCOB Eurozone Composite PMI
23-Sep	HCOB Eurozone Manufacturing PMI
23-Sep	HCOB Eurozone Services PMI
24-Sep	Business Confidence
24-Sep	Consumer & Business Confidence
24-Sep	Consumer Confidence Index
24-Sep	Central Bank Rate Decision
26-Sep	Consumer Confidence Index
26-Sep	ECB Publishes Economic Bulletin
26-Sep	Economic Sentiment
26-Sep	Manufacturing Confidence
27-Sep	Producer Confidence Index
27-Sep	Business Confidence
27-Sep	Consumer Spending MoM
27-Sep	Consumer Spending YoY
27-Sep	CPI Core YoY
27-Sep	GDP QoQ
27-Sep	GDP YoY
27-Sep	ECB 1 Year CPI Expectations
27-Sep	ECB 3 Year CPI Expectations
27-Sep	Economic Confidence
27-Sep	Services Confidence
27-Sep	Consumer Confidence Index
30-Sep	Base Interest Rate
30-Sep	Unemployment Rate Gross Rate
30-Sep	Gross External Debt

Source - Bloomberg

Dated: 30th August, 2024

Home First Finance (HOMEFIRS) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs. 1153	**Rs. 1300**

Rationale:

- Home First kept up with expectations of superior performance.
- Reported strong (35%) loan growth and stable asset quality performance.
- Positive trends were observed during Q1FY25 in internals.
- NIM compression, leading to lower NII growth, will anniversarize in H2.
- Retain BUY with FV of Rs1300 (Rs1250 earlier).

Q1FY25 Earnings Update:

Positives:

- Home First reported 27% earnings growth, with 18% growth in core PBT.
- Higher ticket size loans grew faster at 44-82% yoy in Q1FY25.
- Co. centralized underwriting model provides leeway to grow/expand in newer markets faster than peers.
- We expect Home First to add 20 branches per year, expanding its footprint.

Negatives:

- Reported spreads have compressed sharply over the previous four quarters.
- Stressed loans up 19 bps qoq.
- Home First has higher delinquency ratios compared with peers.

(NII – Net Interest Income, NIM – Net Interest Margin, AUM – Asset Under Management)

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

Dated: 30th August, 2024

IndusInd Bank (IIB) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs.1,425	**Rs.1,800**

Rationale:

- IIB reported flat earnings growth due to muted operating profit growth.
- NIM (Net Interest Margin) was flat qoq at 4.3%.
- Slippages were <2%, the near-term outlook on MFI and credit cards is yet to turn comfortable.
- Bank has indicated that it would be able to grow its loans faster than the industry.
- There is room for re-rating if operating leverage plays and is supported by asset quality.
- Maintain BUY (FV at Rs1,800, unchanged).

Result update:

Positives:

- Loans grew ~15% yoy with retail loans growing 18% yoy.
- Deposits grew ~15% yoy.
- Gross NPL and net NPL ratios were largely unchanged at ~2% and 0.6%, respectively.
- Slippages were lower at 1.8% of loans.
- Credit costs were 1.2%. RoA was 1.7% and RoE was ~13%.

Negatives:

- Co. has called out elevated slippages in the credit card and MFI portfolio in the near term.
- Fee income growth slowed to ~10% yoy.

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

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Dated: 30th August 2024

Mahindra Holidays & Resorts (India) Ltd (MHRIL) – ADD

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs. 408	**Rs. 500**

Rationale:

- Mixed Q1FY25 results; headlines numbers better than estimates; member additions was lower than estimates.
- Aggressive inventory addition plan; Aims to double room inventory to ~10,000 by FY30.
- Company is rationalizing its product, focusing more on higher AUR (realization).
- Any major surprise in performance of HCR (subsidiary co.) may lead to further re-rating.
- Maintain ADD with revised SoTP (Sum of the parts) based FV of Rs500 (from Rs475).

(EBITDA: Earnings before interest, tax depreciation & amortization, PAT: Profit Aft. tax, CAGR: Compound Annual Growth rate)

Q1FY25 Earnings Update:

Positives:

- Reported 7.1%/15%/19.3% yoy growth in standalone revenue/EBITDA/PAT, respectively, which was slightly better than estimates.
- We expect revenue/adj. PAT to grow at a CAGR of 11.3%/21.7% in FY24-26E.
- MHRIL has a net cash of Rs 1437cr on standalone to support its capex plans.

Negatives:

- HCR reported operating loss of Euro 29 lakh and net loss of Euro 36 lakh.

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

Dated: 30th August 2024

Sapphire Foods (SAPPHIRE) - BUY

Result Update

Current Market Price (CMP)	Target Price
Rs.1668	**Rs. 1800**

Rationale:

- Sapphire's Q1FY25 EBITDA was 6% ahead of our estimates.
- SF offers good growth (18% EBITDA CAGR FY24-27E) at reasonable valuations.
- We expect earnings to de-grow by 21.6% in FY25E & grow by 86.9% in FY26E.
- Stock is currently trading at valuation of 133.9x P/E FY26E EPS.
- We broadly maintain estimates, revise FV to Rs1,800 (from Rs1,675)

Q1FY25 Earnings Update:

Positives:

- Sapphire (SF) reported revenues of Rs718.3 cr (0.9% beat), up 9.8% yoy.
- EBITDA margin at 9.8% ((-)195/125 bps yoy/qoq) was 40 bps above estimate.
- The Sri Lanka business recovery is visible.
- KFC margin print was decent notwithstanding adverse operating leverage.

Negatives:

- Gross margins stood at 68.6% (KIE: 68.7%), up 10/(-)30 bps yoy/qoq.
- KFC's same store sale (SSS) print was weaker than our moderated estimates.

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

Dated: 30th Aug 2024

Tata Motors (TTMT) - ADD

Result Update

Current Market Price (CMP)	Target Price
Rs.1111	Rs.1250

Rationale:

- Q1FY25: CV and JLR businesses shine; PV segment disappoints.
- JLR reported EBIT margin ahead of our expectations despite lower volumes.
- Co. generated Rs1200cr FCF in Q1FY25; remain on track to become net cash by FY25E.
- Overall, we expect FY25-26E performance to remain healthy.
- We expect earnings per share to grow by 33.5% in FY25E & grow by 19.5% in FY26E.
- We retain ADD rating with a revised fair value of Rs1,250 (from Rs1,100).

Q1FY25 Earnings update:

Positives:

- JLR reported EBIT of GBP64.5 cr (+8% yoy, -11% qoq), 2% above our expectations.
- JLR EBIT margin improved to 8.9% (30 bps above our estimates; 8.6% in Q1FY24).
- JLR: company has order book of 104k units as of June 2024.
- Domestic CV business EBITDA (+44% yoy, -21% qoq) was 13% above our estimates.

Negatives:

- Domestic PV business EBITDA margin was 100 bps below our expectations.
- Company highlighted that domestic PV demand trends were muted in terms of retails.

(EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; CV: Commercial Vehicle; PV: Passenger Vehicle; EBIT: Earnings Before Interest and Tax; FCF: Free Cash Flow)

Click here For detailed report dated 1st Aug 2024. Note: CMP & valuation may differ due to difference in dates.

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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.
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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.

FUNDAMENTAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
Head of Research
shrikant.chouhan@kotak.com
+91 22 6218 5408

Arun Agarwal
Auto & Auto Ancillary, Building Material, Cement, Consumer Durable
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal, CFA
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Rini Mehta
Research Analyst
rini.mehta@kotak.com
+91 22 6218 6433

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

Pankaj Kumar
Construction, Capital Goods & Midcaps
pankajr.kumar@kotak.com
+91 22 6218 5498

Amarjeet Maurya
Internet Software & Services
amarjeet.maurya@kotak.com
+91 22 6218 6427

Shasvat Shah
Research Associate
shasvat.shah@kotak.com
+91 22 6218 6440

Veer Trivedi
BFSI
veer.trivedi@kotak.com
+91 22 6218 6432

TECHNICAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Sayed Haider
sayed.haider@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6615 6273

Karan Kulkarni
karan.kulkarni@kotak.com
+91 20 6608 3292

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