

Market Strategy

— *September 2026* —



Equity Markets
in August 2026



Middle East
tensions



FPI / FII
flows



Domestic & Global
Macro Factors



Valuation &
Outlook



Investment
Ideas

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

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

MARKET OUTLOOK FOR SEPTEMBER 2026

Indian equities have been under pressure since September 2024, falling into correction zone (>10% fall from the peak) on sustained foreign investor outflows given a cyclical slowdown in economic growth and corporate earnings, stretched valuation premiums and an uncertain global environment. However, during August 2026, we saw Brent crude easing to \$90 (from July high of \$105), occasional buying from foreign Institutional Investors (FIIs), strong domestic flows and consolidation in global markets. Accordingly, Indian markets experienced range-bound consolidation, sector rotation and value buying with markets factoring in Q1 earnings results, macroeconomic signals like crude oil movements and international rate expectations. Sensex closed the month at 77,000 and Nifty at 24100, both almost flat MoM as well YoY. Both remain roughly 10% below their all-time high. Mid-caps and small-caps showed resilient breadth relative to front-line stocks, with both the indices touching 52 weeks high during the month. The MPC held the repo at 5.25% unanimously on August 5 – the fourth straight hold – kept the neutral stance, raised the FY27 GDP forecast to 6.7% and trimmed the CPI projection to 5%. From here, we believe that the elevated multiples across markets on robust earnings growth expectations leave little room for negative surprises from either higher oil prices and/or bond yields. Equity markets, with their single-minded focus on the AI-capex theme, may have either (1) reduced focus on negative macro issues or (2) assumed that the 'perennial' macro issues of high deficits and debts will not translate into actual negative developments.

Global outlook

In US, all the major benchmarks—including the S&P 500, Nasdaq, and Dow Jones—remain close to historic highs. However, trading activity has seen a broadening beyond pure mega-cap artificial intelligence (AI) leaders. The 2026 Jackson Hole Economic Policy Symposium (held August 27–29, 2026) centered on Federal Reserve Chair Kevin Warsh's first keynote address since taking office. His speech signaled a hawkish shift in tone and raised market expectations for tight monetary policy. Strong Q2 corporate earnings driven by Mega cap tech (Alphabet, Amazon, Microsoft)—buffered equities against rising rate pressures. US Treasury yields have experienced bouts of volatility. Long-dated yield pressure (with the 30-year Treasury spiking near 5.34% earlier in the month) prompted active debt management operations by the U.S. Treasury via bond buybacks. Currency markets remain dynamic, with central banks keeping close tabs on USD/JPY levels to curb excessive volatility through official facilities. European Markets are weighing on an improving Eurozone economic backdrop, highlighted by recent declines in inflation expectations and solid services against tight monetary conditions, with the ECB's benchmark interest rate standing at 2.40%. Chinese financial markets are displaying mixed momentum as investors balance local policy triggers against broader international earnings sentiment. Crude oil prices continue to build a premium into equity pricing due to ongoing tensions in the Middle East. Energy price volatility remains a key risk factor for global central bank inflation targets. Gold maintains structural strength, supported by steady central bank reserve additions and persistent geopolitical hedging.

Stalemate on the Iran-US conflict

The continued stalemate in the West Asia war and double blockade of the Strait of Hormuz (SOH) may create headwinds for economies and markets in case the issue was to stay unresolved for the next few weeks. Oil markets have probably started to worry about dwindling oil inventories after being fairly relaxed about the outcome of the war. We would note that high pre-war inventories and subsequent use of the inventories have kept oil prices in check despite a large supply-demand gap over the past six months. We note that another few weeks of negligible oil supply through the SOH will likely push up oil prices to worrisome levels. Oil prices have a large bearing on India's macro given the non-linear impact of oil prices on the major macroeconomic parameters. These unresolved macro issues that may provide headwinds to markets over the next few weeks with stubborn inflation in most DM and EM markets and the bond markets' growing concerns around deteriorating public finances of major economies.

Encouraging but choppy macroeconomic outlook

Economic activity has been quite resilient in recent months, and external sector outlook has become better due to the measures of the government and RBI to boost capital flows. Q1FY27 real GDP growth at 7.8% beat expectations, driven by strong growth in exports and investments, while private and government consumption growth remained tepid. India's macroeconomic situation has oscillated in recent months based on developments in the ongoing West Asia war. FY27 macroeconomic position will depend on (1) the duration and extent of the ongoing West Asia conflict and consequent global prices of crude oil and natural gas and (2) the outcome of the CY26 monsoon season. We expect FY27E and FY28E net profits of the Nifty-50 Index to grow 18% and 14% after a muted 8% in FY26. Our assumptions of the robust recovery in earnings in FY27 may appear at odds with India's choppy macroeconomic environment but the strong growth reflects (1) the idiosyncratic composition of the net profits of the market with a high share of profits of global commodities, global services and products and utilities and (2) the low base of FY26 in the case of several sectors. However, we would note the somewhat 'weak' quality of incremental profits with the sharp increase in profits of the 'commodity' sectors driving profits in FY27.

FII Flows & SIP flows

Foreign institutional investors (FIIs) have been net sellers in Indian Market since October 2024 selling equities worth Rs 3.3 lakh crores (primary + secondary). After prolonged selling through early 2026—driven by high relative valuations and elevated US bond yields, in July and August 2026, Foreign Institutional Investor (FII / FPI) activity exhibited a tactical pause and selective rebound within an otherwise heavy net-selling year. Valuations (MSCI India forward P/E) retreated closer to 10-year historical averages, prompting foreign funds to buy select midcaps and large-cap leader. Even the SIP flows have remained strong with monthly collection reaching an all-time of ~Rs 32000 crores each for the month of July & August 2026. (Versus Rs 28000 cr yoy) as per AMFI. Inflows from FIIs may improve for Emerging Markets like India led by stable government policies, robust macro fundamentals, stable inflation and sustainable growth rates. We observed flows from FPIs, DIIs and other investors taking several twists and turns in the past few weeks. This interplay between Foreign Portfolio Investor (FPI) flows and Systematic Investment Plan (SIP) contributions highlights a major shift in the structure of the Indian equity market. While FPIs historically dictated the market's direction, consistent domestic retail flows via SIPs have established an unprecedented liquidity cushion for Indian markets.

Outlook and Valuation post Decent Q1FY27

Q1FY27 net income of the Nifty-50 Index grew 17.7%, versus our expectation of 10.4% growth and net income of KIE Coverage Universe grew 10.5%, versus our expectation of 8% decline. Excluding OMCs, net income increased 24.7% versus our expectations of 14.8% growth. Q1FY27 EBITDA of the Nifty-50 Index increased 15.7%, versus our expectation of 12.2% growth and EBITDA of KIE Coverage Universe grew 0.4%, versus our expectation of 16.2% decline. Our take is that earnings season for India Inc. delivered a strong performance that exceeded baseline Street expectations. Driven by robust domestic demand, manufacturing acceleration, and operating leverage, corporate India recorded its strongest profit momentum in ten quarters.

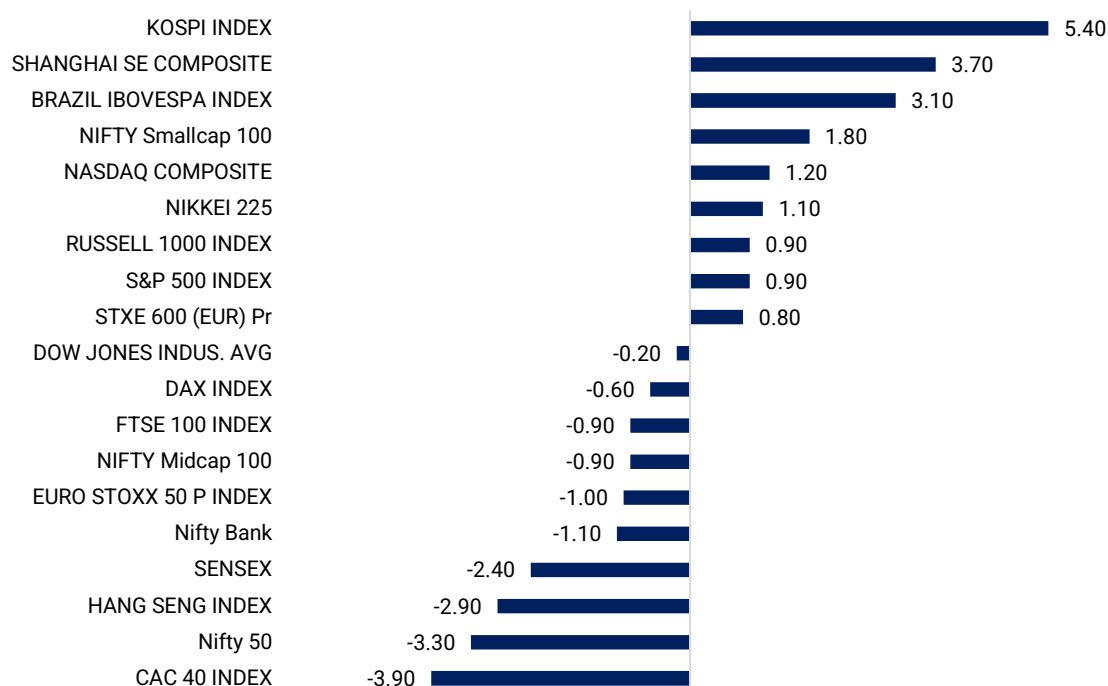
The Indian market's valuations appear comfortable on an aggregate basis, amid large derating in financials (banks) and IT services, while valuations of (1) consumption stocks are expensive and (2) investment stocks at extremely rich levels. The bottom-up picture is less comforting with limited investment opportunities. The large price and time correction in sectors such as banks and IT services has resulted in inexpensive valuations, although challenges persist in both. The strong performance of other sectors such as aerospace & defense and capital goods with strong industry tailwinds has resulted in expensive valuations. We estimate the 'EPS' of the Nifty-50 Index at Rs1,239 for FY27 and Rs 1417 for FY28 with the Nifty trading at 19.7x FY27E and 17.2x FY28.

TOP INVESTMENT IDEAS

Company	Rating	Price	Fair	Mkt	EPS (Rs)		P/E (x)		P/B (x)		RoE (%)	
		(Rs)*	Value	Cap.	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Axis Bank	BUY	1,300	1,600	4047.0	93.3	108.5	13.9	12.0	1.7	1.5	13.2	13.6
Crisil	ADD	4,822	5,000	353.0	129.6	150.7	37.2	32.0	10.2	9.2	29.6	31.0
Fractal	BUY	852	1,000	147.0	18.2	27.4	46.8	31.1	4.4	3.5	10.3	12.8
Galaxy Surfactants	ADD	2,250	2,800	80.0	119.5	120.0	18.8	18.8	2.9	2.6	13.7	12.3
Kalpataru Projects	BUY	1,401	1,710	239.0	84.2	104.7	16.6	13.4	2.5	2.1	16.1	17.1

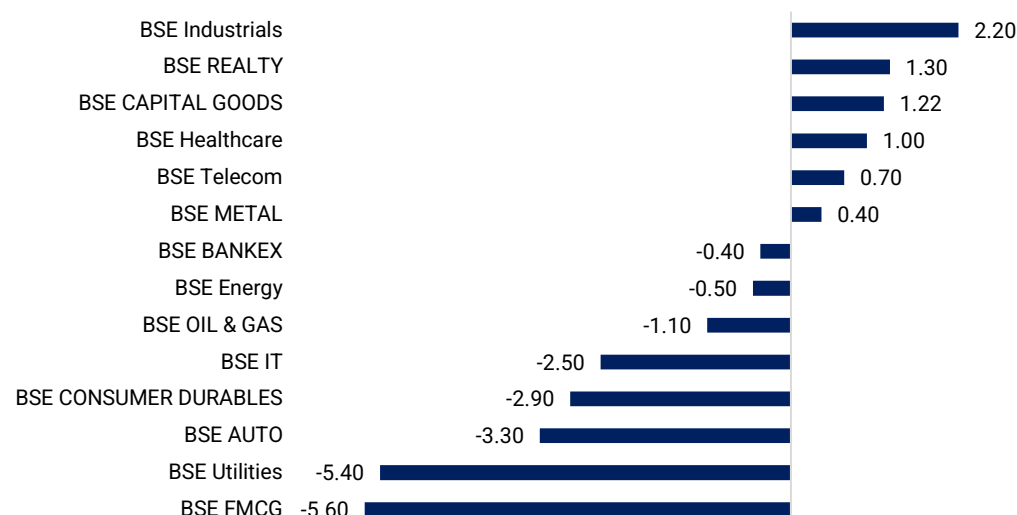
Source: Kotak Institutional Equities Research, Kotak Neo - PCG, *The above valuation summary is based on prices as on 31st August 2026

Exhibit 1: Global Indices Performance - for Month of August 2026



Source: Bloomberg

Exhibit 2: Sectoral Indices: % Change in the month of August 2026



Source: Bloomberg

Exhibit 3: India Key Economic Calendar

Date Time	Event
1-Sep-26	HSBC India PMI Mfg
3-Sep-26	HSBC India PMI Composite
3-Sep-26	HSBC India PMI Services
12-Sep-26	Current Account
14-Sep-26	Output PPI YoY
14-Sep-26	Wholesale Prices YoY
15-Sep-26	CPI YoY
15-Sep-26	Unemployment Rate
15-Sep-26	Exports YoY
15-Sep-26	Imports YoY
15-Sep-26	Trade Balance
21-Sep-26	Core Industries Output YoY
25-Sep-26	Foreign Exchange Reserves
28-Sep-26	Industrial Production YoY
30-Sep-26	Fiscal Deficit YTD INR
30-Sep-26	Bank Credit YoY

Source: Bloomberg

Exhibit 4: Eurozone Key Economic Calendar

Date Time	Event
1-Sep-26	Retail Sales YoY
1-Sep-26	GDP QoQ
1-Sep-26	Manufacturing PMI
1-Sep-26	CPI YoY
1-Sep-26	CPI MoM
1-Sep-26	S&P Global Eurozone Manufacturing PMI
1-Sep-26	Unemployment Rate
2-Sep-26	PPI MoM
2-Sep-26	PPI YoY
3-Sep-26	S&P Global Eurozone Composite PMI
3-Sep-26	Industrial Output YoY
4-Sep-26	Retail Sales YoY
4-Sep-26	Trade Balance
4-Sep-26	Unemployment Rate
7-Sep-26	Construction Output YoY
8-Sep-26	Trade Balance
29-Sep-26	House Price Index YoY
29-Sep-26	Trade Balance
29-Sep-26	Economic Tendency Survey
29-Sep-26	Consumer Confidence
30-Sep-26	Consumer Spending YoY
30-Sep-26	CPI YoY

Source: Bloomberg

Exhibit 5: US Key Economic Calendar

Date Time	Event
1-Sep-26	S&P Global US Manufacturing PMI
1-Sep-26	ISM Employment
2-Sep-26	Factory Orders
3-Sep-26	Trade Balance
3-Sep-26	Nonfarm Productivity
3-Sep-26	Initial Jobless Claims
3-Sep-26	Unit Labor Costs
3-Sep-26	S&P Global US Composite PMI
4-Sep-26	Unemployment Rate

4-Sep-26	Labor Force Participation Rate
8-Sep-26	NY Fed 1-Yr Inflation Expectations
9-Sep-26	Consumer Credit
10-Sep-26	Existing Home Sales
11-Sep-26	CPI YoY
11-Sep-26	Federal Budget Balance
16-Sep-26	FOMC Rate Decision (Upper Bound)
16-Sep-26	FOMC Rate Decision (Lower Bound)
16-Sep-26	Fed Reverse Repo Rate
21-Sep-26	Fed's Goolsbee Speaks at Event
24-Sep-26	Initial Jobless Claims
30-Sep-26	ADP Employment Change
30-Sep-26	Personal Income
30-Sep-26	Advance Goods Trade Balance
30-Sep-26	Personal Spending
30-Sep-26	GDP Annualized QoQ
30-Sep-26	Personal Consumption
30-Sep-26	GDP Price Index

Source: Bloomberg

Axis Bank (AXSB) - BUY

Company Update

Current Market Price (CMP) Rs.1300	Fair Value (FV) Rs.1600
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Rationale:

- We met with Mr Munish Sharda, ED, and Mr Vijay Mulbagal, Group Head- Wholesale Bank, to understand the retail and wholesale banking operations.
- Axis Bank sees a dual-engine growth story: retail banking is poised to close the growth gap and gain market share through stronger execution, improved asset quality and better profitability.
- While wholesale banking remains focused on capital-efficient, relationship-led growth, leveraging fee income, cross-selling opportunities and technology-led franchise expansion without stretching the balance sheet.
- Bank is positioned to deliver healthy earnings growth over FY27-28E, supported by operating leverage and lower credit costs, providing a cushion to downside risks.
- Maintain BUY with FV of Rs1,600 (unchanged).

 Positives:

- Axis Bank expects retail advances to first close the growth gap with the industry and eventually deliver market-share-accretive outperformance.
- Asset quality has improved materially following investments in credit models, monitoring and collections.
- Retail profitability to improve, led by recent technology investments, favorable loan mix, better pricing and lower credit costs.
- Strong client engagement, faster underwriting turnaround times and technology investments such as the Neo platform are helping Axis gain share in wholesale segment.

 Negatives:

- Wholesale deposit costs have not yet eased meaningfully, even though they typically ease in the first quarter.



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Holding Period: 12 months

CRISIL (CRISIL) - ADD

Company Update

Current Market Price (CMP) Rs.4822	Fair Value (FV) Rs.5000
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Rationale:

- We met with Amish Mehta (CEO) and Dinesh Venkatasubramanian (CFO). Key takeaways were:
- A favorable outlook for the non-ratings business, underpinned by robust demand in the benchmarking segment.
- Meaningful client diversification, which has significantly reduced reliance on sell-side revenues.
- While GenAI and GCCs remain key structural themes, competitive pressures have not intensified over the past year.
- Ratings business benefitted from improved pricing in bank loan ratings (industry feature) and could further gain from RBI initiatives aimed at strengthening discipline in the bank loan ratings market.
- We remain constructive and maintain our ADD rating, while revising FV to Rs5,000 (Rs4,800 earlier).

 Positives:

- The domestic ratings business remains well placed (we assume 18% revenue CAGR).
- Non-ratings business growth outlook has improved over the past 12 months. We believe our 9-10% revenue CAGR assumptions for non- ratings are conservative and could have upside risks.

 Negatives:

- Overhang of AI and competition (global capability center) remains but has not increased in the past 12 months.
- Past 12 months have been weak for bond issuances but revenue growth has held up close to 17% during the period.



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Holding Period: 12 months

Fractal Analytics (FRACTAL) - BUY

Initiating Coverage

Current Market Price (CMP) Rs.852	Fair Value (FV) Rs.1000
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Rationale:

- Fractal is a leading pureplay provider of enterprise data, analytics & AI (DAAI) services.
- Data, analytics & AI service market is expected to grow at a 16.7% CAGR over FY25-30E.
- We expect robust 16.6% US\$ revenue CAGR over FY26-29E, with growth accelerating in FY28E & FY29E as enterprise AI adoption scales rapidly.
- Operating leverage & lower absolute ESOP expense should drive 300 bps of EBITDA margin expansion.
- We expect a strong 36% adjusted PAT CAGR over FY26-29E.
- Fractal has strong long-term growth characteristics due to strong market tailwinds and sustained leadership position.
- We initiate coverage with a BUY rating.
- We value Fractal.ai at 30x NOPAT & the products business at 4x revenue to arrive at Fair Value of Rs1000.

 Positives:

- AI capabilities have accelerated in the last couple of years.
- Strengthening of the partnership ecosystem will aid growth.
- Strong client mining trend provides confidence in scaling up of relationships.
- Fractal is a Gold tier partner of Databricks, the second-highest tier of partnership.

 Negatives:

- Concentration, AI progress, intensifying competition and deflation.
- Fractal lags behind peers and mid-tier IT services firms in the number of Snowflake certifications.

(NOPAT: Net Operating Profit After Tax, ESOP: Employee Stock Option Plan. CAGR: Compound Annual Growth Rate, AI: Artificial Intelligence, EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization, PAT: Profit After Tax)



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Holding Period: 12 months

GALAXY SURFACTANTS (GALAXY) - ADD

Q1FY27 Result Update

Current Market Price (CMP) Rs. 2,250	Fair Value (FV) Rs.2,800
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Rationale:

- Q1FY27 revenue of Rs 1,782 crore (+39.4% YoY, +35.5% QoQ), 29% above estimates.
- EBITDA stood at Rs 249 crore, with EBITDA/MT at ~Rs 35k.
- EBITDA/MT was elevated by a combination of favourable mix, freight pass-through and commercial execution.
- Management retained its 6–8% FY27 volume growth guidance.
- We raise FY27E-FY28E EPS by 15–30% and revise the rating to ADD from BUY post the recent run-up in the stock price and challenging macro environment.
- We revise FV to Rs 2,800 (vs Rs 2,350 earlier), valuing at 23X FY28 P/E, by improving volume growth, higher sustainable EBITDA/MT & intact long-term growth drivers.

Positives:

- India volumes grew 11% YoY, marking a strong recovery after nearly two years of subdued growth.
- FY27 EBITDA/MT guidance raised to Rs 24,000–25,000 from Rs 19,000–21,000 earlier.
- Tri-K’s premium specialties continue to perform well, while Everborn has gained strong customer acceptance and started contributing meaningfully to revenues.
- Galaxy’s structural positioning remains intact, supported by specialty care expansion, premium product launches, geographic diversification and strategy 2030 initiatives.

Negatives:

- AMET volumes declined 4% YoY, primarily due to supply and logistics disruptions in Egypt amid the West Asia crisis.
- Raw-material volatility, geopolitical risks and the sustainability of the current favourable reformulation environment remain key monitorables.

(EBITDA: Earnings before Interest, tax, Depreciation and Amortization, PAT: Profit after tax, EPS: Earnings per share, AMET: Africa, Middle East, Turkey, MT: Metric Tonne, P/E – Price to Earnings Ratio)



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Holding Period: 12 months

Kalpataru Projects (KPIL) - BUY

Q1FY27 Result Update

Current Market Price (CMP) Rs.1401	Fair Value (FV) Rs.1710
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Rationale:

- Q1FY27 consol. PBT surged 45% yoy to ~Rs420cr, strong delivery, as resilient execution was aided by margin expansion, higher other income and lower interest costs.
- Order book scaled an all-time high of Rs66600cr (~2.5-year visibility).
- Management reaffirmed its FY27 guidance of 15%+ revenue growth, Rs30000cr+ order inflows and 75 bps+ PBT margin expansion.
- We revise our FY27-29 EPS estimates by 4-6% to reflect strong quarter & profitability.
- We retain BUY rating with an SoTP-based Fair Value of Rs1,710 (Rs1,560 earlier).

Positives:

- Consolidated like-for-like revenue grew 9% yoy to ~Rs6410cr despite state-election-led labor shortages and Middle East supply-chain constraints.
- Consolidated EBITDA rose 7% yoy to ~Rs560cr with margin up 30 bps to 8.8%.
- Pipeline remains robust across domestic/international T&D (including HVDC and GIS), B&F (data centers, industrial capex), Middle East oil & gas, and international water.
- YTD FY27 order inflows of ~Rs7670cr, plus L1 position in projects worth ~Rs7500cr with total near-term visibility of ~Rs15000cr.
- Management is continuously evaluating further backward integration across the value chain to support both growth and margin.

Negatives:

- Impact of Middles East tension on execution and profitability key monitorable.

(EBITDA: Earnings Before Interest, Tax, Depreciation & Amortization, EPS: Earnings Per Share, T&D: Transmission & Distribution, L1: Lowest Bidder, PBT: Profit Before Tax, SoTP: Sum of The Parts, YTD: Year to Date, HVDC: High Voltage Direct Current, B&F: Building & Factory, GIS: Gas-Insulated Switchgear)



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Holding Period: 12 months

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.
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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	Veer Trivedi BFSI veer.trivedi@kotak.com +91 22 6218 6432
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	Gaurav Bhandari Research Analyst bhandari.gaurav@kotak.com +91 22 6218 6440

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 62185458
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DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 66041701	Prasenjit Biswas, CMT, CFTE prasenjit.biswas@kotak.com +91 33 6638 8331	Karan Kulkarni karan.kulkarni@kotak.com +91 20 66203350
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