

# Strategy

June 05, 2024

## Elections 2024: NDA wins, just about

The BJP-led NDA coalition won the 2024 national elections narrowly, with 292 out of 543 seats in the Lok Sabha. The market may have concerns about political stability, but we assume that the BJP/NDA government will form the next government and continue with its economic agenda. We see further reset in expectations and valuations in the 'narrative' parts of the market.

### NDA won 292 seats, with BJP winning 240 seats in the 543-member Lok Sabha

NDA won 292 seats in the 2024 general elections (versus 353 in 2019), led by the BJP winning 240 seats (versus 303 in 2019)—see Exhibit 1. The NDA's performance has been significantly weaker than estimates of the exit polls and that of 2019 (see Exhibits 2-3). The weaker-than-expected show of the BJP versus 2019 and versus exit polls reflects weaker-than-expected performance in its strongholds of North and West India, even as it made gains in East and South India and in a few concurrent state elections (see Exhibits 4-6).

### Government's economic agenda may not change much

We expect the 'new' government to continue with its investment-led economic agenda, but it may tweak its priorities to support consumption and employment. We will get a better sense of the same over the next few weeks and in the FY2025 final budget. The government may continue with its focus on (1) affordable healthcare and housing, (2) energy transition, (3) infrastructure development and (4) manufacturing (see Exhibits 7-8). The government has already executed the bulk of the required reforms for incentivizing private investments (see Exhibit 9) and execution will be more material.

### Risk-reward unfavorable for 'narrative' stocks, even after correction

We expect a reset in the market's hitherto cavalier investment stance toward 'narrative' stocks. We have struggled with the implied growth and profitability assumptions embedded in the market cap. of several 'narrative' stocks (capital goods, electric utilities and PSUs). We find the risk-reward unfavorable for these companies, notwithstanding the sharp decline in stock prices on election day. Most of these 'narrative' stocks have risen sharply over the past 12-15 months (see Exhibits 10-13). They (1) offer a large downside to their fundamental fair values and (2) trade at rich-to-bubble valuations (see Exhibits 14-15). Our reverse-valuation exercises show unrealistic volume and profitability assumptions in most cases. We will revisit them in the next few days.

### Back to fundamentals perhaps for the market?

The 2024 election results may finally compel investors (institutional and non-institutional) to focus more on numbers and less on narratives. We would watch for any change in the stance of retail investors, who have been the major force behind the market in terms of flows (see Exhibits 16-20). We prefer sectors with high visibility of compounding in earnings/book available at 'reasonable' valuations (see Exhibit 21) and avoid 'narrative' stocks. We would note that valuations are still on the higher side for most sectors (see Exhibits 21-31).

### Key estimates summary

	2024	2025E	2026E
<b>Nifty estimates</b>			
Earnings growth (%)	20.0	9.7	14.1
Nifty EPS (Rs)	989	1,092	1,248
Nifty P/E (X)	22.1	20.0	17.5
<b>Macro data</b>			
Real GDP (%)	8.2	6.9	6.5
Avg CPI inflation (%)	5.4	4.4	4.2

Source: Company data, Kotak Institutional Equities estimates

### Quick Numbers

BJP/NDA won 240/292 seats in the 2024 national elections versus 303/353 seats in the 2019 national elections out of 543 seats in the lower house of the parliament

INC won 99 seats in the 2024 national elections versus 52 in 2019 national elections; INDIA bloc won 234 seats in the 2024 national elections

Nifty-50 Index stock is trading at 20X FY2025E 'EPS' and 17.5X FY2026E 'EPS'

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### Changes to recommended model portfolio—no change for now

We leave our recommended large-cap. portfolio unchanged for now (see Exhibit 32). Our portfolio is very heavily skewed toward high-quality stocks in (1) banks, diversified financials and insurance, (2) consumer staples and discretionary and (3) pharmaceuticals and healthcare services. We had gradually eliminated capital goods stocks and PSU banks over the past few months, noting their unfavorable reward-risk balance after the sharp rally over the past 12-15 months.

### BJP-led NDA had a narrow victory in the 2024 elections

Exhibit 1: Current number of seats in Lok Sabha by states

Name of state	Members	BJP	INC
Andhra Pradesh	25	3	0
Arunachal Pradesh	2	2	0
Assam	14	9	3
Bihar	40	12	3
Chhattisgarh	11	10	1
Goa	2	1	1
Gujarat	26	25	1
Haryana	10	5	5
Himachal Pradesh	4	4	0
Jammu and Kashmir	6	2	0
Jharkhand	14	8	2
Karnataka	28	17	9
Kerala	20	1	14
Madhya Pradesh	29	29	0
Maharashtra	48	9	13
Manipur	2	0	2
Meghalaya	2	0	1
Mizoram	1	0	0
Nagaland	1	0	1
Odisha	21	20	1
Punjab	13	0	7
Rajasthan	25	14	8
Sikkim	1	0	0
Tamil Nadu	39	0	9
Telangana	17	8	8
Tripura	2	2	0
Uttar Pradesh	80	33	6
Uttarakhand	5	5	0
West Bengal	42	12	1
<b>Name of UT</b>			
Andaman and Nicobar Islands	1	1	0
Chandigarh	1	0	1
Dadra and Nagar Haveli	1	1	0
Daman and Diu	1	0	0
Lakshadweep	1	0	1
NCT of Delhi	7	7	0
Puducherry	1	0	1
<b>Total</b>	<b>543</b>	<b>240</b>	<b>99</b>
<b>South + Odisha + WB (b)</b>	<b>175</b>	<b>53</b>	<b>34</b>
<b>Rest of India (a) - (b)</b>	<b>368</b>	<b>187</b>	<b>65</b>
<b>South + East - Bihar - Jharkhand (c)</b>	<b>209</b>	<b>74</b>	<b>42</b>
<b>Rest of India (a) - (c)</b>	<b>334</b>	<b>166</b>	<b>57</b>
<b>Chhattisgarh, Gujarat, MP, Raj. and UP</b>	<b>171</b>	<b>111</b>	<b>16</b>

Notes:

(a) We have taken seats as of 1:00 AM, June 5, 2024.

Source: Election Commission, Kotak Institutional Equities

**BJP-led NDA significantly underperformed exit poll predictions**

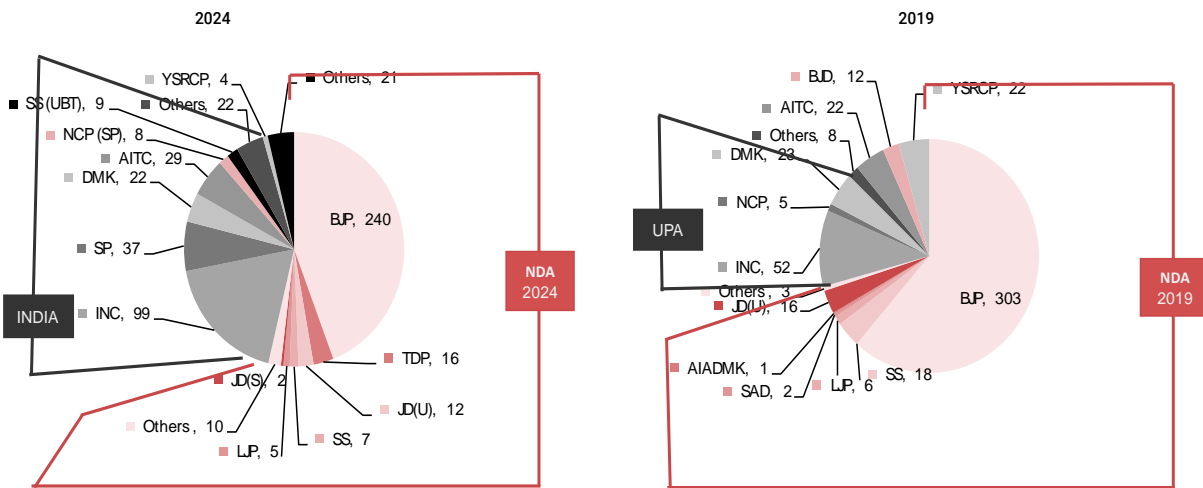
**Exhibit 2: Expected seat count in 2024 Lok Sabha elections of major alliances (#)**

	NDA	INDIA	Others
ABP-Cvoter	353-383	152-182	04-12
Dainik Bhaskar	281-350	145-201	48-62
India Today-Axis My India	361-401	131-166	8-20
IndiaTV-CNX	371-401	109-139	28-38
India News- D Dynamics	371	125	30
Jan Ki Baat	377	151	10-20
News Nation	342-378	153-169	21-23
News 24-Today's Chanakya	400	107	36
Republic Bharat-P Marq	359	154	30
Republic TV-Matrize	353-368	118-133	43-48
<b>Average</b>	<b>369</b>	<b>144</b>	<b>29</b>

Source: Media reports, Kotak Institutional Equities

**BJP won 240 seats in 2024 versus 303 seats in 2019**

**Exhibit 3: Composition of Lok Sabha in 2019 and 2024**



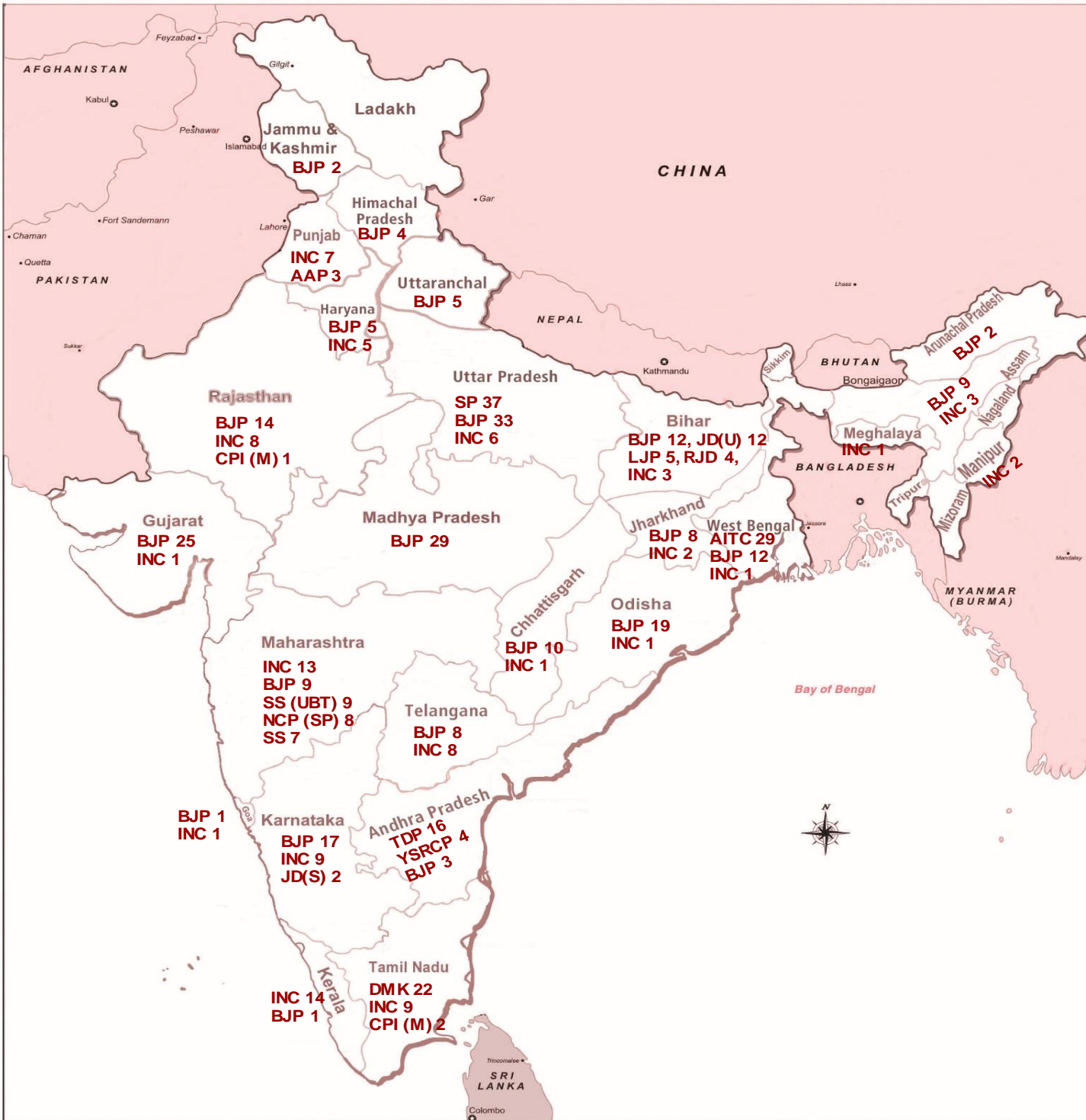
Notes:

(1) NDA refers to the National Democratic Alliance led by the BJP; INDIA refers to the Indian National Developmental Inclusive Alliance led by the INC.

Source: Lok Sabha, Kotak Institutional Equities

**BJP has 240 seats in the current Lok Sabha**

Exhibit 4: Current structure of the Lok Sabha



Source: Election Commission, Kotak Institutional Equities

**NDA saw sharp decline in its seats in Karnataka, Maharashtra, Rajasthan and Uttar Pradesh**

**Exhibit 5: Current number of seats in Lok Sabha by states**

Name of state	Members	NDA								INDIA											
		BJP	TDP	JD(U)	SS	LJP	JD(S)	Others	INC	SP	DMK	SS (UBT)	AITC	RJD	NCP (SP)	AAP	CPI (M)	Others	YSRCP	Other	
<b>Total</b>	<b>543</b>	<b>240</b>	<b>16</b>	<b>12</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>10</b>	<b>99</b>	<b>37</b>	<b>22</b>	<b>9</b>	<b>29</b>	<b>4</b>	<b>8</b>	<b>3</b>	<b>4</b>	<b>11</b>	<b>4</b>	<b>21</b>	
<b>States</b>																					
Andhra Pradesh	25	3	16					2												4	
Arunachal Pradesh	2	2																			
Assam	14	9					2	3													
Bihar	40	12		12		5		1	3				4						2	1	
Chhattisgarh	11	10							1												
Goa	2	1							1												
Gujarat	26	25							1												
Haryana	10	5							5												
Himachal Pradesh	4	4																			
Jammu and Kashmir	5	2																2		1	
Jharkhand	14	8					1	2											3		
Karnataka	28	17					2														
Kerala	20	1							14								1	4			
Madhya Pradesh	29	29																			
Maharashtra	48	9			7			1	13			9			8					1	
Manipur	2								2												
Meghalaya	2								1											1	
Mizoram	1																			1	
Nagaland	1								1												
Odisha	21	20							1												
Punjab	13								7							3				3	
Rajasthan	25	14							8									1		2	
Sikkim	1																			1	
Tamil Nadu	39								9		22								2	6	
Telangana	17	8							8											1	
Tripura	2	2																			
Uttar Pradesh	80	33						3	6	37										1	
Uttarakhand	5	5																			
West Bengal	42	12							1				29								
<b>Union Territory</b>																					
Andaman and Nicobar Islanc	1	1																			
Chandigarh	1								1												
Dadra and Nagar Haveli	1	1																			
Daman and Diu	1																			1	
Ladakh	1																			1	
Lakshadweep	1								1												
NCT of Delhi	7	7																			
Puduchery	1								1												

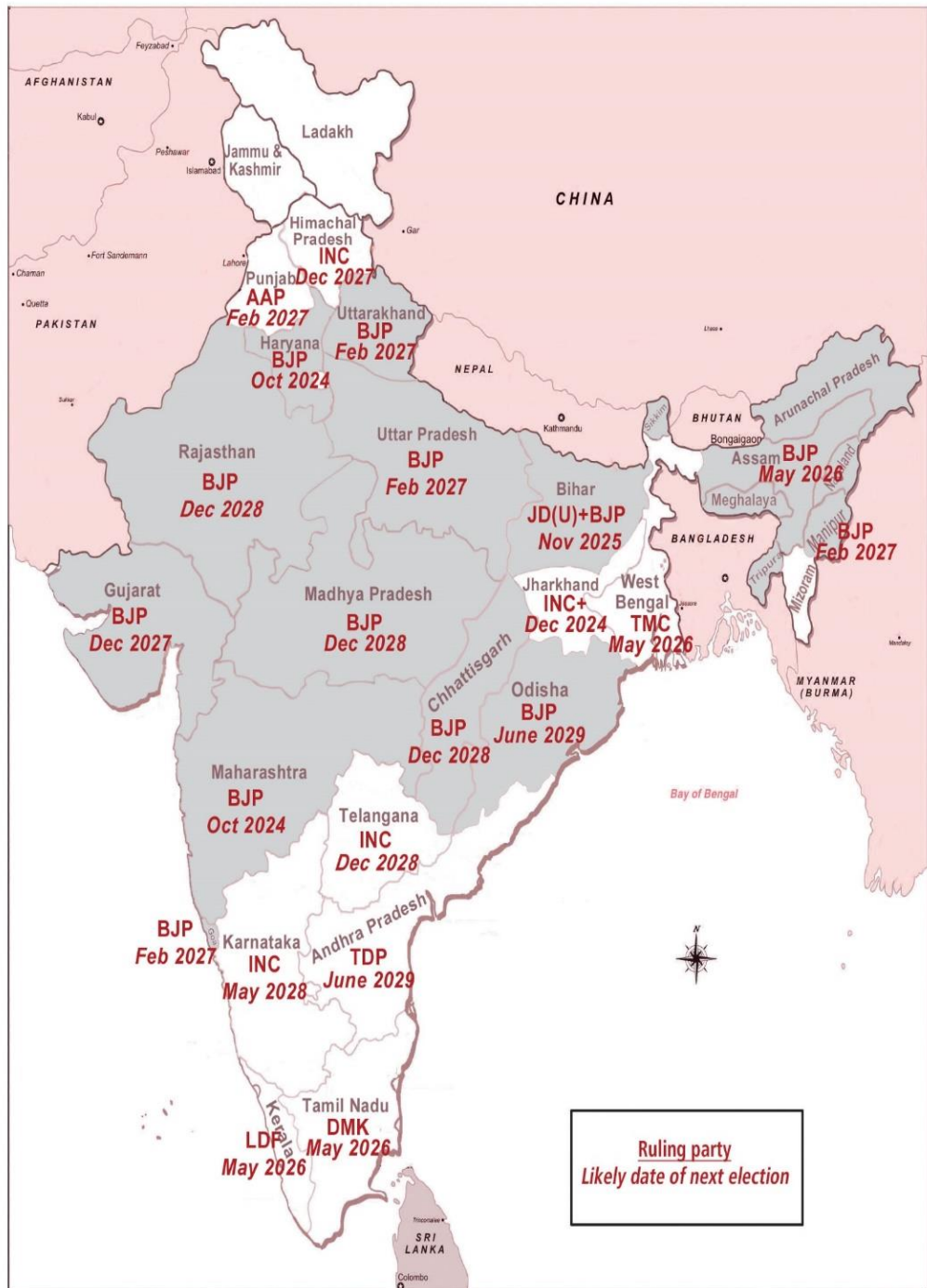
Notes:

(a) We have considered only pre-poll alliances for our calculations. SKM has announced itself to be part of NDA after elections.

Source: Election Commission, Kotak Institutional Equities

**BJP won Odisha, while its ally TDP won Andhra Pradesh in the recent assembly elections**

**Exhibit 6: Map of India, with likely date of the next assembly elections**



Source: Election Commission, Kotak Institutional Equities



**The NDA government may broadly stick to its pre-poll manifesto and stated agenda**

**Exhibit 8: Likely key economic agenda of the NDA government over the next five years**

Focus area	Details
Clean cooking fuel	Expand LPG connections to poor households under Ujjwala Yojana
Ease of living in cities	(1) Promote affordable housing, (2) encourage new satellite townships, (3) expand piped natural gas, (4) develop sustainable cities, (5) create digital urban land records system
Establishing global centers for high-value services	Strengthen efforts to make India a global hub for high-value services
Facilitate increase in women participation in labor force	Improve infrastructure development near industrial and commercial centres to facilitate higher women participation
Farmers	(1) Continue to support farmers through PMKISAN, (2) increase MSP from time to time, (3) new clusters for vegetable production and storage, (4) expand irrigation capacity, (5) expand grain storage capacity, (6) expand dairy co-operatives, (7) incentivize natural farming and crop diversification
Free ration for the poor	To provide free ration to 800 mn citizens under PM Garib Kalyan Yojana
Good governance	(1) Fight corruption using technology, (2) bring uniform civil code, (3) fiscal autonomy of Panchayats, (4) formulating national litigation policy, (5) improve delivery of public services, (6) one nation, one election, (7) modernize police forces, (8) expedite resolution of old cases, (9) creation of ecosystem for alternate dispute resolution
Health	(1) Strengthen network of AIIMS, (2) increase seats in medical colleges, (3) expand affordable medicine program, (4) strengthen and upgrade secondary healthcare networks
Infrastructure	(1) Add 5,000 km of railways tracks annually, (2) expand coverage of new-age trains, (3) expand metro network, (4) expand PM gram Sadak Yojana for rural roads, (5) develop and modernize airports, (6) enhance capacity of inland waterways, (7) digitization of land records, (8) expand Bharatnet, (9) ensure energy independence by 2047, (10) expand nuclear, renewable, battery storage etc.
Improving quality of living	Focus on modern rail network, enhance rail & metro connectivity, develop comprehensive EV charging stations, construct new airports, advance telecom infrastructure with affordable 5G technology
Manufacturing	(1) Make India a global manufacturing hub in automobiles, aviation, electronics, defense, railways, shipbuilding, textiles, lab-grown diamonds, etc., (2) develop robust industrial corridors under the principles of GatiShakti, (3) establish India as pharmacy of the world, (4) develop rare earth and strategic minerals industry
MSME	(1) Leverage digital India infrastructure to provide easy working capital to MSME, (2) strengthen PM Vishwakarma Yojana to provide financial assistance and support, (3) simplification of compliance, (4) launch affordable insurance
PM Awas Yojana	Expand the program to provide quality housing to more poor households
Promoting entrepreneurship	Increase Mudra loan limit to Rs2 mn
Prosperous Bharat	(1) Committed to ensure low inflation, high growth and fiscal prudence, (2) develop India as a trusted partner in global value chains, (3) revamp commercial regulations to suit economic needs, (4) increase exports
Self-sufficiency in key agri products	Targeting self-sufficiency in pulses, edible oils and vegetables
Strengthen RERA	Improve transparency in the real estate sector; enabling automatic approvals, targeting cost reduction in construction and registration, in partnership with states
Supporting startups	(1) Expand startup eco-system, (2) expand funding, (3) encouraging startups in government procurement
Sustainability	(1) Increase non-fossil fuel capacity, (2) revitalizing river network, (3) improve air quality, (4) expand green credit
Zero electricity bill	Expand/strengthen PM Surya Ghar Muft Bijli Yojana

Source: BJP Manifesto, media articles, Kotak Institutional Equities



Several reforms have achieved critical mass, but others are still a work-in-progress

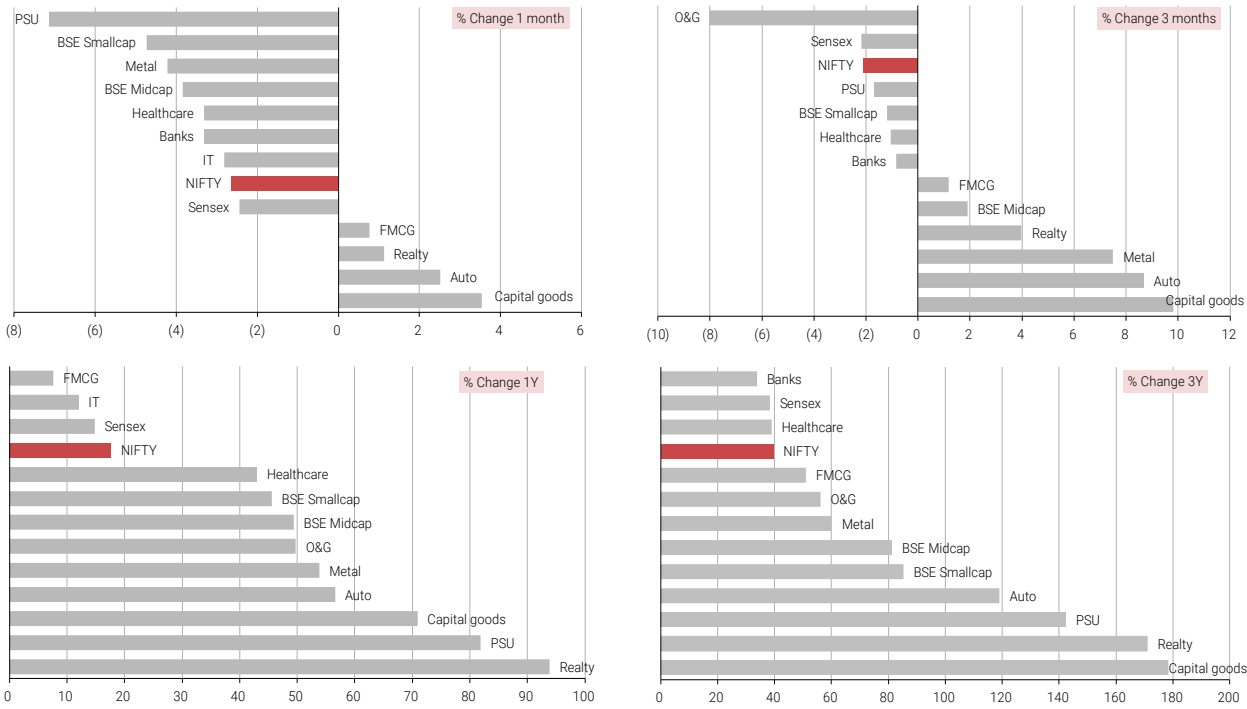
Exhibit 9: Potential reforms and schedule

	Action	Schedule	Remarks
<b>(A) Fiscal</b>			
1	Auto fuel subsidies; LPG subsidy curtailment; kerosene and LPG monthly price increases	Work-in-progress	Government has reinstated price controls on retail prices of diesel and gasoline. Subsidies on LPG and kerosene have continued
2	Direct benefit transfer (DBT) schemes	Meaningful progress	The government implemented direct cash transfer subsidy for LPG from January 1, 2015 and for kerosene from April 1, 2016. Food and fertilizer subsidies go directly to FCI and companies
3	Divestment program, privatization and improved management of PSUs	Work-in-progress	The government consolidated 27 PSU banks into 12 PSU banks over FY2017-19 to improve their market position. It also reduced its stake in several CPSEs by selling to ETFs as well as through mergers (such as HPCL being acquired by ONGC). It has announced privatization of BPCL, Concor and SCI but not privatized any government company as yet. The New Public Sector Enterprise Policy of February 2021 has categorized several sectors as strategic with the intent to retain one or more PSUs in strategic sectors
4	Electricity subsidies, tariff increases	Work-in-progress	This is outside the central government's domain as power distribution is a state subject. However, several states have increased power tariffs over the past 3-4 years. Further power tariff increases will reduce the subsidies of states' and India's consolidated fiscal deficit. This will also address potential increase in NPLs in the Indian banking system
	GST implementation	Complete	GST implemented on July 1, 2017. GST will likely result in higher tax-to-GDP ratio in the long term and reduce India's consolidated fiscal deficit
<b>(B) Investment</b>			
1	Approvals	Work-in-progress	Online application for forest and environment approvals started by the central government in July 2014; several other state governments have implemented similar systems. This is an executive area and thus, implementation is more important; center and states working on single window clearing mechanism (most states on-board)
2	Auction of coal and other mineral ore blocks; private sector commercial mining allowed in the case of coal	Largely complete	The amendment to Coal Mines Act and Mines and Minerals (Development and Regulation) Act have enabled the central and state governments to allocate coal and other mineral ore blocks through transparent auctions
3	Electricity distribution	Work-in-progress	State-owned power distribution companies have started offering letter of credit to generation companies for power purchases from August 2019. Government has introduced the Electricity (Amendment) Bill, 2020 to (1) ensure better enforceability of PPAs, (2) implement DBT of subsidies, (3) have a renewable energy policy, (4) faster adoption of changes in tariffs, etc.
4	Incentives for manufacturing	Meaningful progress	The government has announced Rs2.6 tn worth of incentives over five years to promote domestic manufacturing under Production Linked Incentive scheme (PLI)
5	Labor reforms	Largely complete	Central government has passed four labor codes to simplify earlier labor laws, easing compliance burden on firms and allow them flexibility on hiring and retrenchment of workers. Some states have suspended certain provisions till FY2023 to encourage setting up of new firms
6	Land reforms	Work-in-progress	Government let the Land Acquisition Ordinance lapse in August 2015 due to political opposition to its proposed amendments to the LARR Act, 2013.
7	Market pricing of energy (oil & gas)	Work-in-progress	The government has (1) withdrawn pricing freedom on automobile fuels (retail diesel and gasoline) for the oil marketing companies, (2) imposed additional tax on crude oil, which limits pricing freedom for upstream oil & gas companies and (3) linked natural prices to crude oil prices with ceiling and floor, which limits pricing freedom for upstream oil & gas companies
8	Taxation	Meaningful progress	The government has implemented simpler taxation systems for both direct and indirect taxes. In the case of direct taxes, it reduced the corporate tax rate to 22% (effective from FY2020) from 30% subject to companies not availing any exemptions. In the case of indirect taxes, GST will result in a simpler and transparent system
<b>(C) Banking sector</b>			
1	Financial inclusion	Largely complete	The government's 'Jan Dhan Yojna' was started in August 2014 with a target of financial inclusion for all. Over 400 mn new bank accounts have been opened under this scheme. The new accounts are already being used for saving and payments. The accounts can be used for DBT-related cash transfers
2	Restructuring of PSU banks	Largely complete	The government has completed the merger of (1) BOB, DBNK and VJBK, (2) CBK and SNDB, (3) PNB, OBC and UNTDB, (4) UNBK, ANDB and CRPDK and (5) INBK and ALBK. It has infused significant capital in the PSU banks, resulting in five PSU banks exiting the PCA framework of the RBI
3	NPL situation	Largely complete	The parliament passed the insolvency and bankruptcy code (IBC) bill on May 11, 2016. Most large cases admitted to National Company Law Tribunal (NCLT) courts under IBC have seen satisfactory outcomes within reasonable time limits
4	Reduction in SLR over a period of time	Largely complete	SLR has been reduced and maintained at 18% from 25% in late-2000s; SLR used as part of LCR per Basel III guidelines
<b>(D) Governance</b>			
1	Reducing bureaucracy	Work-in-progress	The government has focused on empowering bureaucracy and streamlining decision-making
2	Corruption/black money	Meaningful progress	The Undisclosed Foreign Income and Asset (Imposition of Tax) Act, 2015 implemented from September 2015. Government progressively reducing disclosure limit on high-value transactions. Indian government cancelled high-denomination notes from circulation from November 9, 2016 and replaced them with new ones
3	Judiciary reforms	No progress	New system for appointment of judges to the Supreme Court and High Courts; bill passed in the parliament but the new system has been rejected by the Supreme Court
4	Creation of new regulators, sector super-regulators	No progress	All regulators related to communication, energy and finance should come under a sector super-regulator

Source: Kotak Institutional Equities estimates

**Capital goods, autos, metals and PSUs had outperformed the market in the past 1-3 months, as also in the past 12 months**

Exhibit 10: Performance of various sectors (%)



Source: Bloomberg, Kotak Institutional Equities

**Steep increase in stock prices of several mid-cap. stocks in capital markets, investment and PSUs in the past one year**

**Exhibit 11: Performance of stocks in Nifty Midcap Index (sorted on 12M basis)**

Company Name	GICS sector	Performance (%)					Company Name	GICS sector	Performance (%)						
		1M	3M	6M	12M	YTD			1M	3M	6M	12M	YTD		
<b>Nifty Midcap 100 Index</b>		<b>(4)</b>	<b>(0)</b>	<b>12</b>	<b>45</b>	<b>6</b>									
1 BSE	Financials	(10)	10	2	347	15	51 IDBI Bank	Financials	(12)	(10)	24	41	16		
2 Suzlon Energy	Industrials	15	11	18	332	24	52 Alkem Lab	Health Care	(4)	(8)	2	40	(9)		
3 SJVN	Utilities	(9)	1	42	245	35	53 Indian Hotels Co	Consumer Discretionary	(7)	(10)	22	34	21		
4 Kalyan Jewellers	Consumer Discretionary	(7)	(7)	13	236	7	54 Yes Bank	Financials	(12)	(12)	12	33	2		
5 Mazagon Dock	Industrials	13	27	33	220	17	55 Dr Lal Pathlabs	Health Care	14	16	(2)	31	3		
6 Prestige Estates	Real Estate	4	28	37	208	28	56 Aditya Birla Fashion	Consumer Discretionary	4	15	14	31	19		
7 Rail Vikas	Industrials	24	45	104	198	94	57 Tube Investments	Consumer Discretionary	(1)	3	13	31	6		
8 BHEL	Industrials	(19)	(7)	42	196	27	58 Max Financial	Financials	(10)	(10)	(12)	29	(5)		
9 Bharat Dynamics	Industrials	47	57	133	156	68	59 Petronet LNG	Energy	(11)	(5)	35	29	25		
10 Torrent Power	Utilities	(6)	22	45	148	50	60 Persistent System	Information Technology	(0)	(21)	4	29	(9)		
11 Oil India	Energy	(6)	(5)	81	138	60	61 Balkrishna Industries	Consumer Discretionary	19	29	13	27	13		
12 Macrotech Developers	Real Estate	8	10	43	134	27	62 MRF	Consumer Discretionary	(5)	(17)	9	26	(6)		
13 NHPC	Utilities	(2)	9	70	125	51	63 Apollo Tubes	Materials	(10)	(7)	(11)	26	(7)		
14 Dixon Technologies	Consumer Discretionary	5	24	47	123	35	64 ACC	Materials	(10)	(15)	13	26	3		
15 JSW Energy	Utilities	(14)	7	30	121	35	65 KPIT Technologies	Information Technology	(10)	(11)	(8)	24	(9)		
16 NMDC	Materials	(12)	(1)	29	118	13	66 Federal Bank	Financials	(7)	1	0	23	(1)		
17 PB Fintech	Financials	(4)	12	48	109	56	67 Tata Communications	Communication Services	(3)	(16)	0	22	(6)		
18 FACT	Materials	(10)	(11)	(15)	108	(21)	68 Poonawalla Fin	Financials	(13)	(8)	1	22	(3)		
19 Oracle	Information Technology	(6)	(6)	80	102	73	69 Biocoon	Health Care	(5)	4	21	21	17		
20 Bank of Maharashtra	Financials	(7)	4	38	101	40	70 Patanjali Foods	Consumer Staples	(14)	(22)	(14)	20	(21)		
21 Gland Pharma	Health Care	6	5	(1)	94	(7)	71 Aditya Birla Cap	Financials	(11)	8	19	19	24		
22 Indus Towers	Communication Services	(12)	15	65	92	55	72 Sona BLW	Consumer Discretionary	4	(6)	13	19	(2)		
23 Lupin	Health Care	(5)	(6)	24	92	18	73 Laurus Labs	Health Care	(10)	(3)	7	17	(6)		
24 HPCL	Energy	(7)	(6)	31	91	24	74 FSN E-Commerce	Consumer Discretionary	(10)	(1)	(10)	16	(10)		
25 Union Bank (I)	Financials	(9)	(7)	22	91	17	75 Apollo Tyres	Consumer Discretionary	(10)	(16)	0	15	(1)		
26 Supreme Industries	Materials	7	31	12	88	16	76 Mphasis	Information Technology	(1)	(13)	(4)	13	(17)		
27 Indian Bank	Financials	(3)	(0)	28	86	25	77 Gujarat Gas	Utilities	(0)	(10)	21	12	16		
28 GMR Airports Infrastructure	Industrials	(11)	(12)	23	85	(5)	78 L&T Technology	Industrials	(3)	(16)	(7)	12	(16)		
29 Cummins India	Industrials	(5)	17	66	85	65	79 Coforge	Information Technology	11	(23)	(12)	8	(21)		
30 Vodafone Idea	Communication Services	-	(7)	0	85	(18)	80 Astral	Industrials	(3)	(4)	1	8	5		
31 Bharat Forge	Consumer Discretionary	15	22	25	83	17	81 PI Industries	Materials	-	(1)	(7)	3	2		
32 Godrej Properties	Real Estate	1	4	36	82	29	82 Tata Chemicals	Materials	(9)	(1)	2	3	(10)		
33 Oberoi Realty	Real Estate	19	26	21	82	21	83 Delhivery	Industrials	(21)	(21)	(10)	3	(7)		
34 Polycab India	Industrials	11	35	21	82	18	84 Deepak Nitrite	Materials	(12)	(2)	(3)	3	(14)		
35 Aurobindo Pharma	Health Care	4	10	15	81	10	85 Jubilant Food.	Consumer Discretionary	8	7	(11)	1	(12)		
36 HDFC AMC	Financials	(12)	(10)	17	76	8	86 IDFC First Bank	Financials	(10)	(12)	(17)	(0)	(18)		
37 Escorts Kubota	Industrials	9	30	18	74	27	87 Indraprastha Gas	Utilities	(3)	(1)	10	(4)	6		
38 Voltas	Industrials	(9)	22	62	66	39	88 Piramal Enterprises	Financials	(22)	(22)	(20)	(4)	(19)		
39 CG Power	Industrials	14	34	33	65	38	89 Page Industries	Consumer Discretionary	6	4	(2)	(5)	(5)		
40 Ipca Lab	Health Care	(15)	(5)	(0)	60	2	90 Syngene International	Health Care	(3)	(5)	(11)	(8)	(6)		
41 SAIL	Materials	(21)	(6)	42	59	8	91 Tata Elxsi	Information Technology	(5)	(13)	(20)	(13)	(23)		
42 Fortis Healthcare	Health Care	(3)	14	13	59	5	92 MMFSL	Financials	(3)	(10)	(7)	(13)	(6)		
43 Bank of India	Financials	(22)	(17)	7	56	3	93 AU Small Finance	Financials	(3)	8	(17)	(19)	(20)		
44 LIC Housing Finance	Financials	(12)	(12)	14	52	8	94 Dalmia Bharat	Materials	(6)	(16)	(27)	(21)	(25)		
45 Sun TV Network	Communication Services	6	8	2	52	(3)	95 UPL	Materials	0	5	(14)	(27)	(16)		
46 Max Healthcare	Health Care	(4)	4	13	47	14	96 Zee Entertainment	Communication Services	(3)	(10)	(46)	(28)	(49)		
47 Mankind Pharma	Health Care	(9)	(3)	9	43	6	97 Bandhan Bank	Financials	(6-)	(11)	(24)	(33)	(27)		
48 Container Corp.	Industrials	(10)	(4)	18	42	10	98 JSW Infrastructure	Industrials	3	2	22	NA	28		
49 Ashok Leyland	Industrials	3	21	19	42	14	99 Tata Technologies	Information Technology	(7)	(6)	NA	NA	(14)		
50 L&T Finance Holdings	Financials	(11)	(14)	(3)	41	(10)	100 Mankind Pharma	Health Care	(9)	(3)	9	NA	6		

Source: Bloomberg, Kotak Institutional Equities

Steep increase in stock prices of several small-cap. stocks in capital markets, investment and PSUs

Exhibit 12: Performance of stocks in Nifty Smallcap Index (sorted on 12M basis)

Company Name	GICS sector	Performance (%)				
		1M	3M	6M	12M	YTD
<b>Nifty Smallcap 100 Index</b>		(7)	(2)	9	52	4
1 Cochin Shipyard	Industrials	37	106	205	623	168
2 HUDCO	Financials	5	17	161	274	82
3 Titagarh Rail System	Industrials	12	28	21	217	15
4 NBCC	Industrials	(2)	2	73	210	66
5 MRPL	Energy	(21)	(13)	59	208	49
6 IRCON International	Industrials	(5)	5	35	194	38
7 Apar Industries	Industrials	(5)	21	36	179	25
8 Tata Investment Corp	Financials	(6)	(27)	48	173	43
9 Hindustan Copper	Materials	(23)	5	68	162	9
10 ITI	Information Technology	(8)	(6)	0	160	(10)
11 Himadri Speciality Chemical	Materials	(14)	(9)	19	155	5
12 IOB	Financials	(6)	(2)	51	145	43
13 JBM Auto	Consumer Discretionary	(1)	(7)	54	142	32
14 Century Textiles	Materials	(3)	30	43	140	55
15 IRB Infra	Industrials	(6)	5	73	128	58
16 Swan Energy	Consumer Discretionary	(4)	(22)	36	125	11
17 Blue Star	Industrials	11	22	61	122	69
18 Nippon Life India AMC	Financials	(9)	6	24	121	22
19 NLC India	Utilities	(14)	(10)	12	120	(19)
20 Multi Commodity Exchange	Financials	(20)	(13)	4	120	1
21 Central Bank	Financials	(7)	(4)	25	119	21
22 Exide Industries	Consumer Discretionary	(3)	39	55	115	43
23 Olectra Greentech	Industrials	(5)	(17)	34	111	20
24 NCC	Industrials	9	7	57	108	60
25 GMDC	Energy	(22)	(12)	(19)	108	(14)
26 UCO Bank	Financials	(3)	(4)	35	95	35
27 National Aluminium	Materials	(14)	(5)	64	89	20
28 CESC	Utilities	(14)	1	21	89	(1)
29 Jyothy Labs	Consumer Staples	(7)	(9)	(11)	88	(18)
30 Shyam Metals & Energy	Materials	(10)	(17)	17	87	(12)
31 Global Health	Health Care	(24)	(15)	10	85	12
32 J&K Bank	Financials	(22)	(24)	(6)	85	(12)
33 CDSL	Financials	(5)	4	2	84	8
34 Glenmark Pharma.	Health Care	7	22	45	83	31
35 Piramal Pharma	Health Care	(4)	11	15	81	4
36 Alok Industries	Consumer Discretionary	(9)	(13)	22	78	15
37 Amara Raja Energy & Mobility	Industrials	(4)	28	41	76	33
38 Birlasoft	Information Technology	(6)	(24)	(6)	72	(17)
39 Angel One	Financials	(17)	(22)	(24)	72	(35)
40 Finolex Cables	Industrials	30	43	34	72	28
41 Ramkrishna Forgings	Materials	(15)	(16)	(20)	68	(13)
42 Rites	Industrials	(10)	(18)	30	67	24
43 Karur Vysya Bank	Financials	(13)	(5)	14	65	5
44 J B Chemicals	Health Care	(8)	11	19	65	7
45 Amber Enterprises	Consumer Discretionary	(11)	(5)	14	62	13
46 BLS International	Industrials	(16)	(19)	4	58	(8)
47 Castrol India	Materials	(8)	(15)	27	57	1
48 Natco Pharma	Health Care	(6)	(2)	22	55	20
49 Data Pattern	Industrials	(10)	(10)	25	54	41
50 Tejas Networks	Information Technology	(3)	39	27	51	21
51 CAMS Services	Industrials	0	9	14	50	25
52 Intellect Design	Information Technology	(16)	(21)	17	48	5
53 GE Shipping	Energy	(5)	(1)	11	45	1
54 Zensar Technologies	Information Technology	(9)	3	8	43	(6)
55 Manappuram Finance	Financials	(19)	(13)	(4)	42	(7)
56 Graphite India	Industrials	(20)	(17)	(0)	40	(5)
57 Triveni Turbine	Industrials	(6)	10	25	39	28
58 Firstsour.Solu.	Industrials	(13)	(12)	3	39	(2)
59 Crompton Greaves Consumer	Consumer Discretionary	16	26	28	38	21
60 Raymond	Consumer Discretionary	(4)	19	36	36	24
61 Five-Star Business Finance	Financials	(4)	8	(0)	35	1
62 Praj Industries	Industrials	(5)	2	19	35	(7)
63 Welspun Living	Consumer Discretionary	(14)	(17)	(18)	33	(11)
64 RBL Bank	Financials	(15)	(18)	(8)	33	(20)
65 KEC International	Industrials	(7)	(5)	14	32	18
66 Radico Khaitan	Consumer Staples	(11)	0	(5)	31	(5)
67 HFCL	Communication Services	(17)	(25)	23	29	(1)
68 PNB Housing	Financials	(16)	(7)	(16)	26	(14)
69 Chambal Fertilisers	Materials	(13)	(1)	8	25	(6)
70 Ujjivan Small Finance Bank	Financials	(17)	(14)	(20)	25	(20)
71 Narayana Hrudayalaya	Health Care	(7)	(11)	(4)	25	(3)
72 NMDC Steel	Materials	(17)	(10)	24	24	7
73 CEAT	Consumer Discretionary	(8)	(19)	7	22	(3)
74 Mahanagar Gas	Utilities	(12)	(18)	15	22	5
75 Cyient	Information Technology	(5)	(16)	(22)	17	(26)
76 Aarti Industries	Materials	(19)	(10)	6	17	(8)
77 Affle India	Communication Services	(2)	(3)	(4)	13	(17)
78 CIE Automotive	Consumer Discretionary	6	15	6	12	11
79 Tanla Platforms	Information Technology	(4)	(11)	(7)	11	(21)
80 City Union Bank	Financials	(16)	(3)	(10)	10	(9)
81 AAVAS Financiers	Financials	(4)	7	6	9	(0)
82 Trident	Consumer Discretionary	(11)	(16)	(4)	9	(3)
83 IDFC	Financials	(10)	(9)	(11)	8	(15)
84 Redington	Information Technology	(10)	(5)	22	7	12
85 Tata Tele	Communication Services	(15)	(21)	(27)	6	(25)
86 GNFC	Materials	(10)	(3)	(13)	5	(18)
87 Equitas Small Finance Bank	Financials	(4)	(10)	(3)	4	(14)
88 CreditAccess Gramin	Financials	(14)	(12)	(26)	3	(21)
89 Sonata Software	Information Technology	(25)	(39)	(29)	2	(33)
90 Can Fin Homes	Financials	(9)	(12)	(15)	(4)	(10)
91 Indian Energy Exchange	Financials	(8)	(5)	0	(5)	(14)
92 GSPL	Utilities	(4)	(23)	(1)	(6)	(7)
93 Shree Renuka Sugar	Consumer Staples	(12)	(18)	(24)	(7)	(18)
94 PVR Inox	Communication Services	(4)	(8)	(27)	(9)	(23)
95 IIFL Finance	Financials	(5)	(34)	(38)	(16)	(34)
96 Indiamart	Industrials	(15)	(10)	(9)	(17)	(13)
97 Happiest Minds	Information Technology	(5)	(9)	(9)	(18)	(15)
98 Navin Fluorine International	Materials	(11)	(0)	(18)	(34)	(21)
99 Honasa Consumer	Consumer Staples	(1)	3	8	NA	(6)
100 RR Kabel	Industrials	(6)	9	(4)	NA	1

Source: Bloomberg, Kotak Institutional Equities

**Most 'narrative' stocks have delivered massive outperformance relative to the market in the past 1-3 months, despite the sharp correction on election day**

**Exhibit 13: Performance of 'narrative' stocks, June 2024 (%)**

Company	Sector	Absolute (%)					Relative to Nifty-50 Index (%)				
		1m	3m	1y	3y	5y	1m	3m	1y	3y	5y
Bharat Dynamics	Defense	47	57	156	687	846	49	59	138	647	764
BHEL	Electric equipments	(19)	(7)	196	234	248	(17)	(4)	179	194	166
CG Power	Capital goods	14	34	65	642	1,666	17	36	47	602	1,584
Cochin Shipyard	Defense	37	106	623	849	806	40	108	605	809	724
Dixon Technologies	EMS	5	24	123	106	1,729	7	26	105	67	1,646
FACT	Materials	(10)	(11)	108	423	1,414	(8)	(9)	90	383	1,332
Hindustan Copper	Materials	(23)	5	162	88	575	(20)	7	145	48	493
HPCL	Oil, gas & consumable fuels	(7)	(6)	91	66	56	(5)	(3)	74	26	(26)
HUDCO	Financials	5	17	274	350	430	7	20	257	310	348
IRCON International	Industrials	(5)	5	194	403	474	(2)	8	176	363	392
JSW Energy	Electric utilities	(14)	7	121	310	654	(11)	9	103	270	572
Mazagon Dock	Defense	13	27	220	1,071	NA	16	30	202	1,031	NA
MRPL	Oil, gas & consumable fuels	(21)	(13)	208	289	216	(18)	(11)	190	249	134
NBCC	Industrials	(2)	2	210	180	115	0	5	192	141	33
NHPC	Electric utilities	(2)	9	125	273	290	1	12	108	234	208
NLC India	Oil, gas & consumable fuels	(14)	(10)	120	220	210	(12)	(8)	103	180	128
NMDC	Mining	(12)	(1)	118	71	220	(9)	1	100	32	138
Rail Vikas	Railways	24	45	198	1,047	1,171	26	47	180	1,007	1,089
SJVN	Electric utilities	(9)	1	245	341	385	(6)	3	227	301	303
Suzlon Energy	Renewables	15	11	332	604	850	18	13	314	564	768
Titagarh Rail System	Railways	12	28	217	2,049	1,644	15	30	199	2,010	1,562

Source: Bloomberg, Kotak Institutional Equities

**Large downside to 'narrative' stocks on a fundamental basis, despite the sharp correction on election day**

**Exhibit 14: Performance of narrative stocks under KIE coverage, March fiscal year-ends, 2024-26E**

Company	Price (Rs)	Fair Value	Upside	Mkt cap.		Performance (%)			Relative performance (%)		
	4-Jun-24	(Rs)	(%)	(Rs bn)	(US\$ bn)	1m	3m	6m	1m	3m	6m
<b>Capital goods</b>											
ABB	7,667	6,000	(22)	1,625	19.4	14	36	66	17	38	60
Bharat Electronics	256	170	(33)	1,868	22.4	9	22	66	12	24	61
BHEL	247	75	(70)	859	10.3	(19)	(7)	42	(17)	(4)	36
CG Power & Industrial	627	365	(42)	958	11.5	14	34	33	17	36	28
Cochin Shipyard	1,812	740	(59)	477	5.7	37	106	205	40	108	199
Siemens	6,372	4,900	(23)	2,269	27.2	7	36	67	10	38	62
Thermax	5,277	4,350	(18)	629	7.5	11	43	95	13	45	89
<b>Construction Materials</b>											
ACC	2,282	2,300	1	429	5.1	(10)	(15)	13	(7)	(13)	7
Ambuja Cements	557	445	(20)	1,371	16.4	(11)	(10)	17	(8)	(7)	12
Shree Cement	24,883	19,000	(24)	898	10.7	(3)	(3)	(10)	(1)	(1)	(16)
UltraTech Cement	9,918	7,200	(27)	2,863	34.3	1	(1)	6	4	2	1
<b>Electric Utilities</b>											
JSW Energy	553	275	(50)	967	11.6	(14)	7	30	(11)	9	25
NHPC	97	64	(34)	978	11.7	(2)	9	70	1	12	64
NTPC	331	275	(17)	3,212	38.4	(9)	(6)	21	(7)	(4)	15
Power Grid	296	245	(17)	2,753	32.9	(5)	0	39	(2)	3	33
Tata Power	400	265	(34)	1,277	15.3	(12)	2	42	(9)	4	36
<b>Electronic Manufacturing Services</b>											
Cyient DLM	610	570	(7)	48	0.6	(11)	(23)	(7)	(8)	(21)	(13)
Dixon Technologies	8,851	6,000	(32)	530	6.3	5	24	47	7	26	42
<b>Gas Utilities</b>											
GAIL (India)	190	150	(21)	1,251	15.0	(7)	(0)	34	(4)	2	28
Petronet LNG	278	230	(17)	417	5.0	(11)	(5)	35	(9)	(2)	30
<b>Oil, Gas &amp; Consumable Fuels</b>											
BPCL	580	510	(12)	1,259	15.1	(8)	(9)	26	(5)	(7)	20
HPCL	495	285	(42)	702	8.4	(7)	(6)	31	(5)	(3)	26
IOCL	155	105	(32)	2,182	26.1	(10)	(12)	33	(7)	(10)	28
Oil India	595	500	(16)	645	7.7	(6)	(5)	81	(3)	(3)	75
<b>Transportation</b>											
Container Corp.	949	740	(22)	578	6.9	(10)	(4)	18	(8)	(1)	13
GMR Airports	77	69	(10)	462	5.5	(11)	(12)	23	(8)	(9)	17
JSW Infrastructure	266	205	(23)	559	6.7	3	2	22	6	4	17

Source: Companies, Kotak Institutional Equities estimates

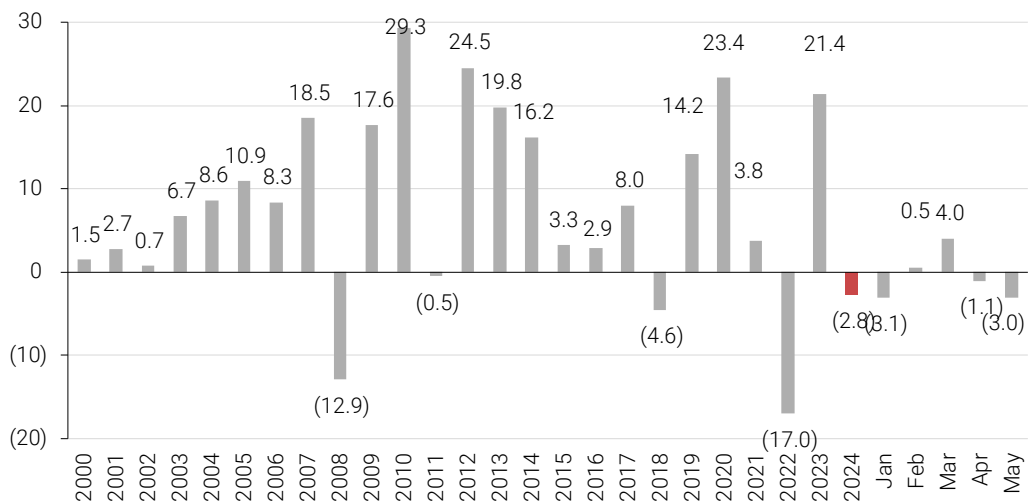
**Many 'narrative' stocks are over-valued relative to the fundamental value of businesses; their valuations bake in optimistic profitability and volume assumptions**

**Exhibit 15: Valuation summary of 'narrative' and high-valuation stocks under KIE coverage, March fiscal year-ends, 2024-26E**

Company	Price (Rs)	Fair Value	Upside	Mkt cap.		EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)		
	4-Jun-24	(Rs)	(%)	(Rs bn)	(US\$ bn)	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
<b>Capital goods</b>																				
ABB	7,667	6,000	(22)	1,625	19.4	59	87	99	130	89	78	27	21	17	106	71	61	23	27	24
Bharat Electronics	256	170	(33)	1,868	22.4	5	6	7	47	42	36	11	10	8	35	30	26	26	25	26
BHEL	247	75	(70)	859	10.3	1	(2)	1	330	NM	306	3	4	3	144	####	70	1	NM	1
CG Power & Industrial	627	365	(42)	958	11.5	6	7	8	113	91	76	32	22	16	85	67	58	28	24	21
Cochin Shipyard	1,812	740	(59)	477	5.7	30	28	30	61	64	61	10	9	8	50	51	44	17	14	14
Siemens	6,372	4,900	(23)	2,269	27.2	79	90	107	81	71	60	15	13	11	66	55	47	20	20	20
Thermax	5,277	4,350	(18)	629	7.5	51	71	84	104	74	63	13	12	10	79	58	46	14	17	17
<b>Construction Materials</b>																				
ACC	2,282	2,300	1	429	5.1	112	117	137	20	20	17	2.6	2.4	2.1	12	10	9	14	13	13
Ambuja Cements	557	445	(20)	1,371	16.4	15	19	21	38	30	26	3.0	2.5	2.4	20	13	11	9	10	9
Shree Cement	24,883	19,000	(24)	898	10.7	684	727	824	36	34	30	4.4	4.0	3.6	20	18	16	13	12	12
UltraTech Cement	9,918	7,200	(27)	2,863	34.3	244	318	359	41	31	28	4.8	4.3	3.9	22	18	16	12	14	15
<b>Electric Utilities</b>																				
JSW Energy	553	275	(50)	967	11.6	10	15	20	53	36	28	4.4	3.4	3.1	22	16	14	9	11	12
NHPC	97	64	(34)	978	11.7	4	4	6	27	23	17	2.5	2.4	2.2	26	22	11	10	10	13
NTPC	331	275	(17)	3,212	38.4	21	23	25	16	15	13	2.0	1.8	1.7	11	10	8	13	13	13
Power Grid	296	245	(17)	2,753	32.9	17	18	19	18	17	15	3.2	2.9	2.7	10	9	9	18	18	18
Tata Power	400	265	(34)	1,277	15.3	11	12	15	37	34	27	3.9	3.5	3.1	15	14	13	11	11	12
<b>Electronic Manufacturing Services</b>																				
Cyient DLM	610	570	(7)	48	0.6	8	16	20	79	39	31	5.3	4.7	4.1	40	27	20	7	12	13
Dixon Technologies	8,851	6,000	(32)	530	6.3	63	117	150	141	76	59	31	22	16	76	42	33	25	34	31
<b>Gas Utilities</b>																				
GAIL (India)	190	150	(21)	1,251	15.0	13	14	14	14	14	14	1.9	1.8	1.7	11	10	10	15	14	13
Petronet LNG	278	230	(17)	417	5.0	22	25	24	13	11	11	2.5	2.1	1.9	8	7	8	21	21	17
<b>Oil, Gas &amp; Consumable Fuels</b>																				
BPCL	580	510	(12)	1,259	15.1	132	47	56	4	12	10	1.7	1.5	1.4	3	7	6	44	13	14
HPCL	495	285	(42)	702	8.4	104	43	52	5	12	9	1.7	1.5	1.4	5	10	9	43	14	15
IOCL	155	105	(32)	2,182	26.1	28	14	15	6	11	10	1.2	1.2	1.1	4	6	6	25	11	11
Oil India	595	500	(16)	645	7.7	69	64	68	9	9	9	1.5	1.3	1.2	8	7	7	19	15	14
<b>Transportation</b>																				
Container Corp.	949	740	(22)	578	6.9	20	24	29	47	39	33	4.9	4.6	4.3	28	24	20	11	12	14
GMR Airports	77	69	(10)	462	5.5	(1)	(1)	1	NM	NM	66	130	(108)	172	26	19	12	NM	2,132	NM
JSW Infrastructure	266	205	(23)	559	6.7	6	7	9	47	38	31	7.0	6.2	5.3	29	26	23	20	17	19

Source: Companies, Kotak Institutional Equities estimates

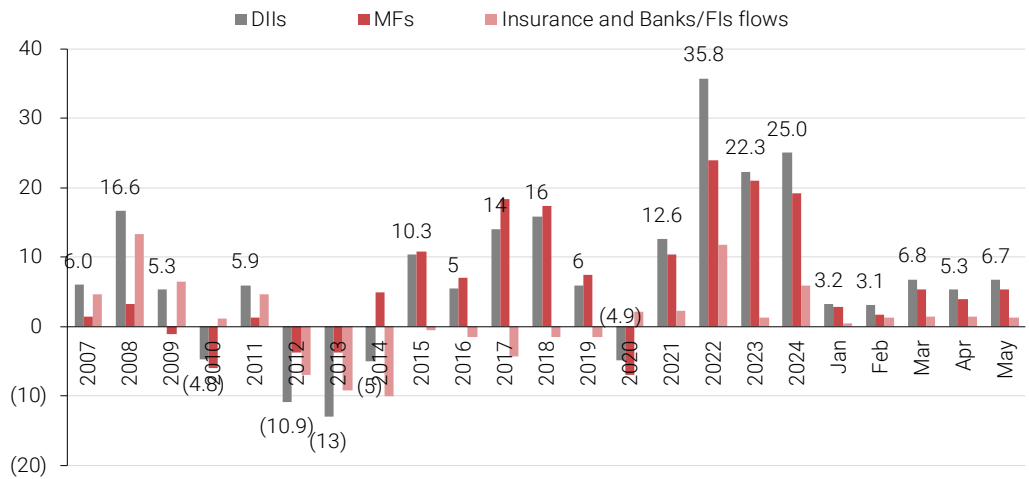
**Exhibit 16: Net FPI flows, calendar year-ends, 2000-24 (US\$ bn)**



Source: Bloomberg, Kotak Institutional Equities

**DII's inflows at US\$25 bn in CYTD24**

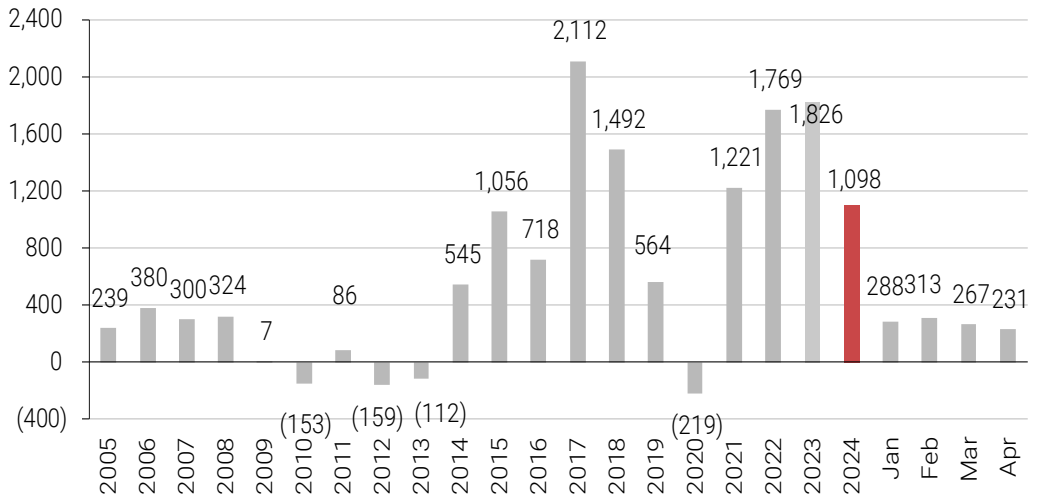
**Exhibit 17: Equity flows by domestic institutions, calendar year-ends, 2007-24 (US\$ bn)**



Source: Bloomberg, Kotak Institutional Equities

**Equity inflows were strong in CYTD24**

**Exhibit 18: Net MF flows (equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)**

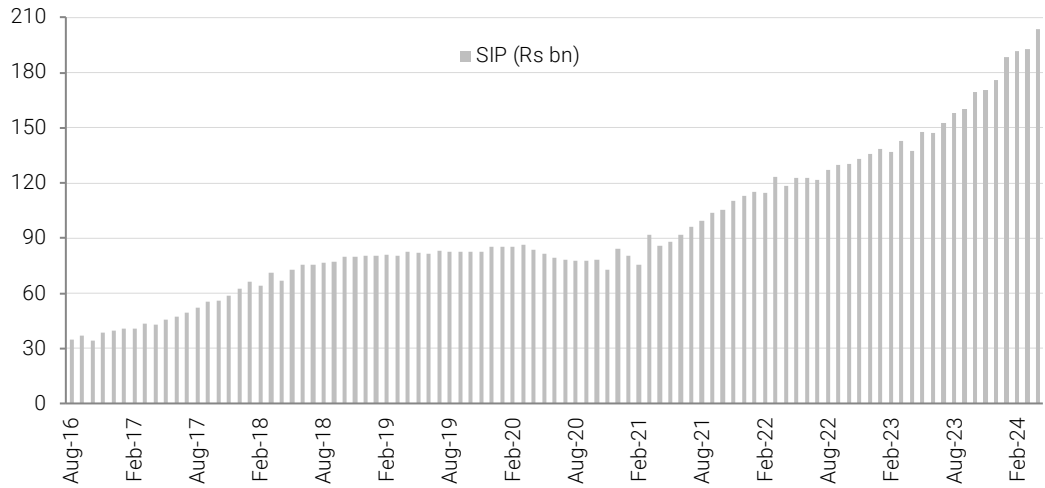


Source: AMFI, Kotak Institutional Equities



**SIP flows continue to rise**

**Exhibit 19: SIP flows, March fiscal year-ends, 2017-24 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**Retail investors are pouring money into mid- and small-cap. funds in India**

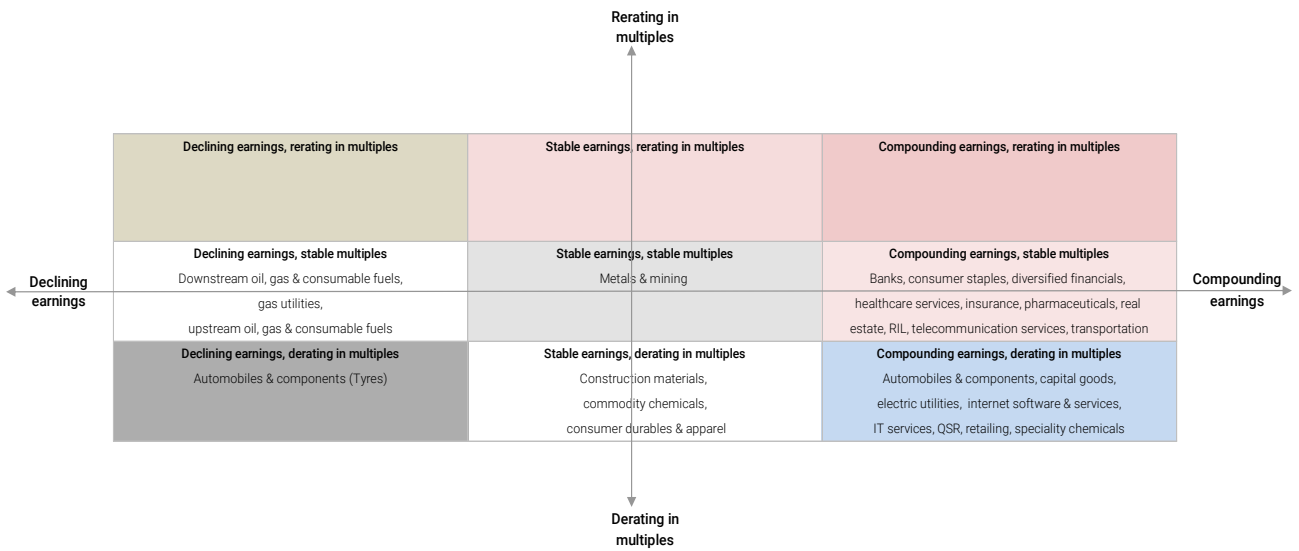
**Exhibit 20: Net inflows to various categories of domestic mutual funds in India, calendar year-ends, 2020-24 (Rs bn)**

	2020	2021	2022	2023	Jan-24	Feb-24	Mar-24	Apr-24	CYTD24
Flexi cap. fund	-	179	220	116	24	26	27	22	100
Large cap. fund	(24)	29	137	(30)	13	9	21	4	47
Large & mid Cap. fund	18	87	200	189	23	32	32	26	113
Mid cap. fund	5	106	205	229	21	18	10	18	67
Small cap. fund	14	38	198	410	33	29	(1)	22	83
Sectoral/thematic funds	83	255	209	308	48	113	79	52	292
Value/contra/focused	(3)	60	184	92	16	13	18	17	64
Dividend yield/ELSS/multi cap. 1	(3)	213	258	300	40	28	39	29	137
<b>Total</b>	<b>91</b>	<b>967</b>	<b>1,610</b>	<b>1,616</b>	<b>218</b>	<b>269</b>	<b>226</b>	<b>189</b>	<b>902</b>

Source: AMFI, Kotak Institutional Equities

**Many sectors fall in the category of "compounding in earnings, derating in multiples"**

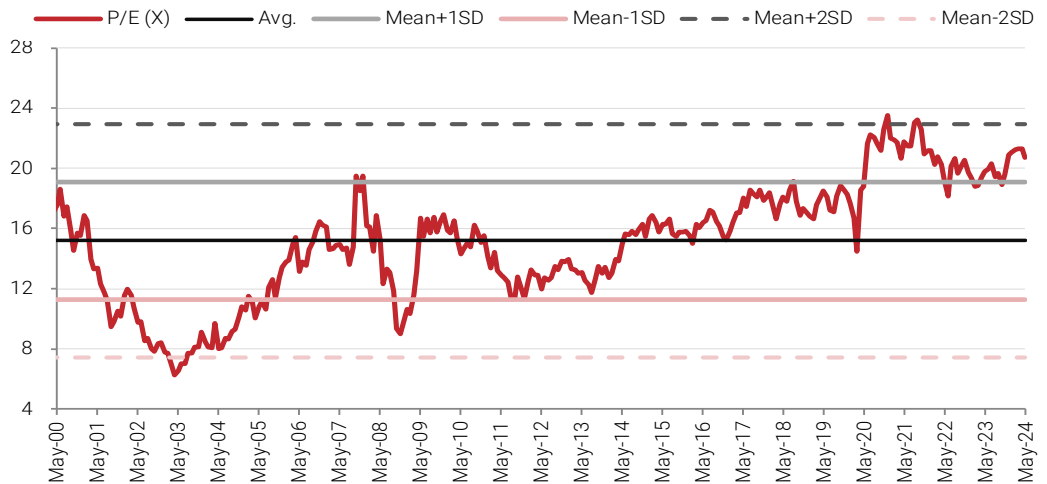
Exhibit 21: Categorization of sectors into various buckets based on expected earnings/book trajectory and multiples rerating/derating



Source: Kotak Institutional Equities estimates

**Nifty-50 Index is trading at full valuations; recent history more relevant though**

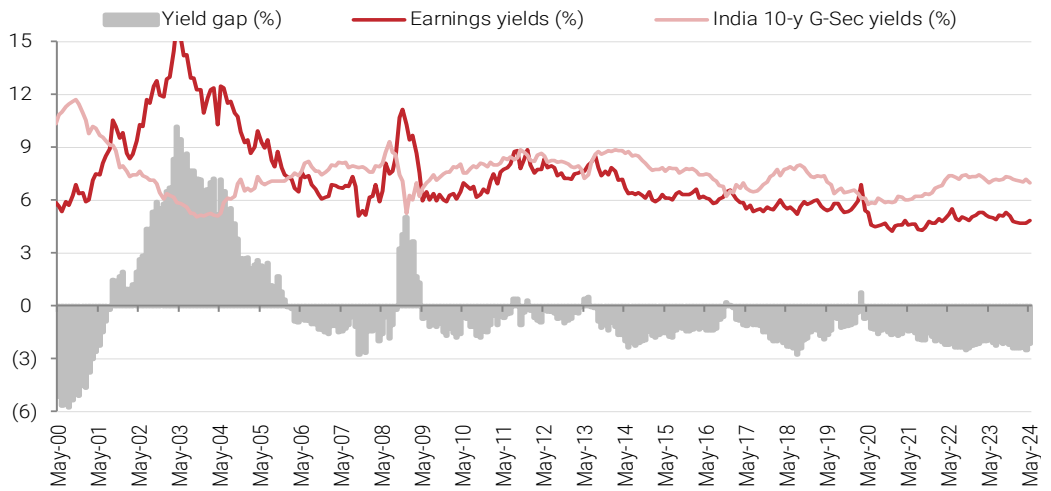
Exhibit 22: 12-m rolling forward P/E of Nifty-50 Index, March fiscal year-ends, 2001-25 (X)



Source: Companies, Kotak Institutional Equities estimates

**Yield gap (earnings yield less bond yield) is on the higher side**

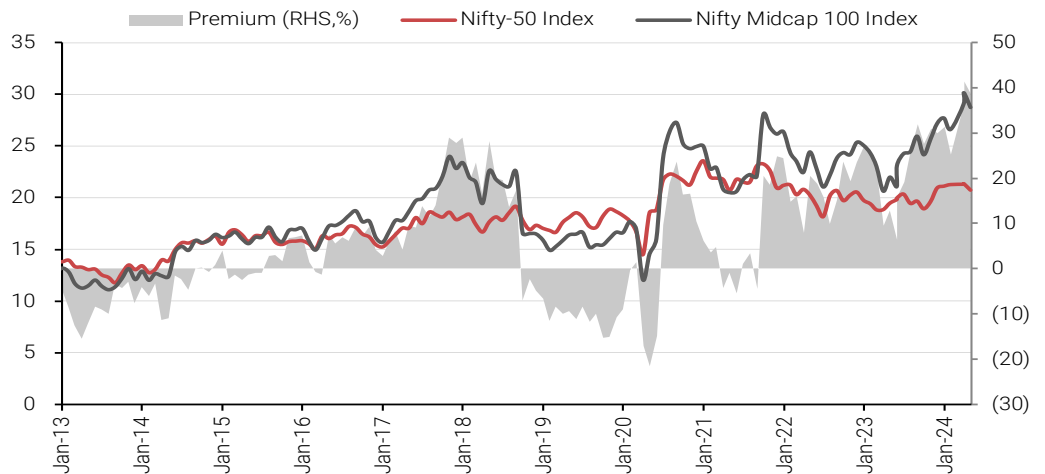
**Exhibit 23: Nifty earnings yield (1-year forward estimated earnings) and bond yield, March fiscal year-ends, 2001-25 (%)**



Source: CEIC, Kotak Institutional Equities estimates

**Nifty Midcap 100 Index at 40% premium to the Nifty-50 Index**

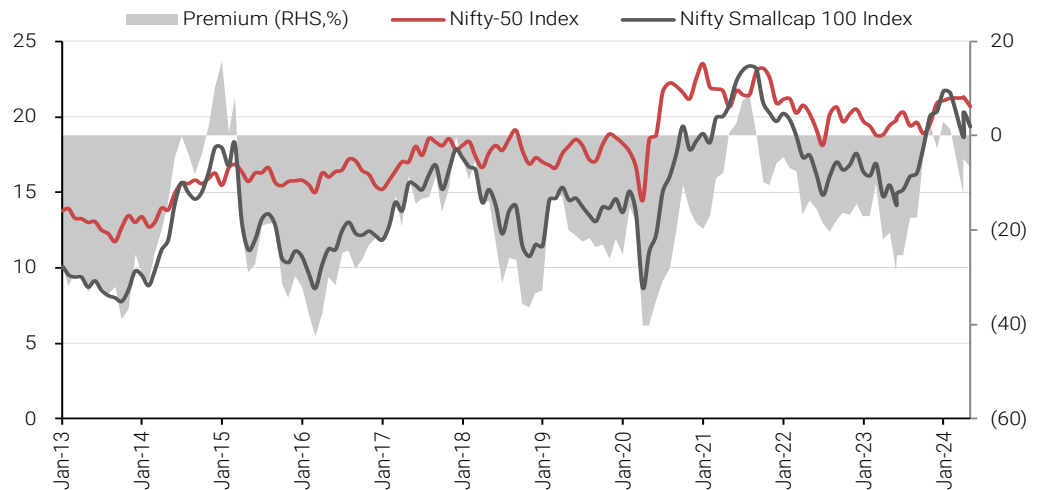
**Exhibit 24: One-year forward P/E multiple of Nifty-50 Index and NSE Midcap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

**Nifty Smallcap 100 Index at a modest discount to the Nifty-50 Index**

**Exhibit 25: One-year forward P/E multiple of Nifty-50 Index and NSE Smallcap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

**Most large-cap. consumption stocks are trading at expensive valuations**

**Exhibit 26: 12-m forward P/E multiple of large-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Bajaj Auto	Automobiles & Components	14	14	14	16	15	16	18	17	17	12	19	18	17	30	28
Eicher Motors	Automobiles & Components	15	14	16	24	38	33	33	29	21	17	29	25	23	25	27
Hero Motocorp	Automobiles & Components	14	15	14	16	16	17	17	18	13	10	16	14	13	20	22
Maruti Suzuki	Automobiles & Components	14	16	13	17	21	18	22	26	23	18	28	30	23	28	25
Samvardhana Motherson	Automobiles & Components	17	13	14	19	28	21	25	25	19	11	25	22	15	20	22
TVS Motor	Automobiles & Components	11	7	7	15	22	23	28	30	23	19	32	24	27	40	38
Asian Paints	Commodity Chemicals	23	27	33	36	38	38	45	44	51	48	64	65	54	48	51
Berger Paints	Commodity Chemicals	17	17	25	27	36	35	45	44	49	58	81	61	49	52	42
Ambuja Cements	Construction Materials	18	18	14	24	23	29	34	29	26	16	25	20	26	38	34
Shree Cement	Construction Materials	NA	NA	14	22	46	34	36	31	37	34	44	32	41	34	32
UltraTech Cement	Construction Materials	18	18	16	24	23	28	34	31	32	20	32	26	30	31	32
Havells India	Consumer Durables & Apparel	13	16	16	20	31	32	42	36	46	32	56	49	49	59	64
Polycab	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	NA	NA	NA	13	22	31	30	39	45
Britannia Industries	Consumer Staples	21	28	24	23	39	33	39	49	53	41	45	41	47	49	52
Colgate-Palmolive (India)	Consumer Staples	24	30	28	32	40	32	40	38	40	37	41	38	36	52	51
Dabur India	Consumer Staples	23	24	26	29	35	30	33	36	40	43	48	44	44	41	47
Godrej Consumer Products	Consumer Staples	20	22	30	31	31	35	37	43	38	29	39	36	45	52	55
Hindustan Unilever	Consumer Staples	26	29	28	33	40	39	41	47	50	56	58	47	52	46	52
Marico	Consumer Staples	24	26	27	25	35	37	41	42	39	31	40	43	40	39	47
Nestle India	Consumer Staples	35	37	34	35	44	41	47	50	51	63	65	62	63	72	65
Tata Consumer Products	Consumer Staples	14	18	17	18	19	16	18	26	23	31	50	53	46	61	62
Varun Beverages	Consumer Staples	NA	NA	NA	NA	NA	NA	32	36	42	28	36	39	45	67	62
United Spirits	Consumer Staples	22	16	37	59	90	57	53	58	43	33	41	53	48	57	57
Avenue Supermarts	Retailing	NA	NA	NA	NA	NA	NA	54	77	73	78	90	100	71	86	83
Titan Company	Retailing	30	28	25	28	33	31	41	56	54	44	68	75	57	74	66

Source: Companies, Factset, Kotak Institutional Equities

**Most mid-cap. consumption stocks are trading at expensive valuations**

**Exhibit 27: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Balkrishna Industries	Automobiles & Components	6	8	7	9	11	11	17	21	20	15	26	24	24	27	31
Exide Industries	Automobiles & Components	17	19	17	19	21	18	24	22	20	12	17	13	14	20	28
Schaeffler India	Automobiles & Components	11	14	12	17	31	27	31	29	30	25	35	37	42	41	69
SKF	Automobiles & Components	15	15	14	19	28	26	28	26	27	18	30	35	32	33	43
Timken	Automobiles & Components	NA	NA	NA	NA	40	24	31	34	29	23	39	44	41	49	66
Indigo Paints	Commodity Chemicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	93	47	32	33	34
Kansai Nerolac	Commodity Chemicals	20	19	26	24	31	36	38	43	41	32	47	37	30	27	29
Crompton Greaves Consumer	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	39	36	31	24	40	33	29	29	39
Page Industries	Consumer Durables & Apparel	24	26	26	36	58	46	48	59	54	40	64	72	53	51	58
Voltas	Consumer Durables & Apparel	14	13	9	20	24	23	28	31	32	23	44	51	41	49	54
Whirlpool	Consumer Durables & Apparel	NA	15	14	21	34	28	41	43	38	35	46	42	44	45	47
United Breweries	Consumer Staples	47	54	58	68	63	51	51	51	52	35	51	55	56	64	72
Aster DM Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	22	10	16	16	17	31	40
Dr Lal Pathlabs	Health Care Services	NA	NA	NA	NA	NA	53	39	35	36	38	67	57	44	45	51
Max Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35	34	34	51	47
Metropolis Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	33	50	41	34	49	51
Narayana Hrudayalaya	Health Care Services	NA	NA	NA	NA	NA	136	47	44	37	34	39	39	26	31	29
Chalet Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	146	29	45	39
Devyani International	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	89	53	86	103
Indian Hotels	Hotels & Restaurants	26	23	39	48	66	67	47	51	54	28	100	70	40	51	44
Jubilant Foodworks	Hotels & Restaurants	36	48	41	40	54	52	54	58	48	45	75	58	51	69	85
Lemon Tree Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	64	33	NA	173	39	36	37
Sapphire Foods	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	106	54	88	87
Westlife Foodworld	Hotels & Restaurants	NA	NA	NA	119	264	139	120	107	69	49	113	94	67	91	109

Source: Companies, Factset, Kotak Institutional Equities

**Most investment stocks are trading at expensive valuations**

**Exhibit 28: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
ABB	Capital Goods	41	48	32	60	67	60	51	43	53	42	64	69	73	87	88
Bharat Electronics	Capital Goods	14	12	10	11	22	20	21	18	13	10	15	19	21	35	40
BHEL	Capital Goods	15	10	8	16	21	27	26	20	17	7	28	28	28	78	60
Carborundum Universal	Capital Goods	13	13	13	17	21	18	23	24	25	13	30	32	37	42	48
Cochin Shipyard	Capital Goods	NA	NA	NA	NA	NA	NA	NA	16	11	5	NA	6	14	37	66
Cummins India	Capital Goods	18	21	18	25	29	26	28	23	24	13	35	32	36	50	48
Dixon Technologies	Electronic Manufacturing Se	NA	NA	NA	NA	NA	NA	NA	37	27	25	64	63	40	70	74
IRB Infrastructure	Capital Goods	13	12	7	7	13	12	11	8	6	4	8	26	17	32	38
Kalpataru Projects	Capital Goods	9	8	6	7	15	15	16	19	16	5	10	10	12	20	20
KEC International	Capital Goods	8	8	7	9	13	12	15	19	13	7	15	13	18	23	23
L&T	Capital Goods	21	16	15	22	28	21	23	23	19	11	19	21	22	31	28
Siemens	Capital Goods	28	28	29	53	75	50	50	37	37	30	52	52	59	76	77
Thermax	Capital Goods	16	15	18	24	33	28	36	35	27	23	43	48	43	65	78

Source: Companies, Factset, Kotak Institutional Equities

**Most outsourcing stocks are trading at higher multiples, compared with their pre-Covid levels**

**Exhibit 29: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Cyient	IT Services	10	8	8	11	14	12	12	17	14	5	16	18	16	25	21
HCL Technologies	IT Services	16	13	14	15	18	13	14	14	14	10	18	21	18	24	21
Infosys	IT Services	22	17	16	15	19	18	15	16	18	15	26	30	21	23	22
KPIT Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	20	48	52	53	48
LTIMindtree	IT Services	NA	NA	NA	NA	NA	NA	12	18	17	15	32	38	27	27	27
L&T Technology Services	IT Services	NA	NA	NA	NA	NA	NA	16	23	21	14	31	46	28	38	33
Mphasis	IT Services	10	11	10	11	11	13	14	17	15	10	23	36	18	25	25
Persistent Systems	IT Services	11	8	10	13	17	18	13	14	12	11	27	42	29	43	37
Tata Elxsi	IT Services	NA	NA	10	21	30	28	22	23	18	14	39	88	44	51	46
TCS	IT Services	23	18	20	19	20	18	17	19	22	20	30	31	24	28	26
Tech Mahindra	IT Services	11	10	11	13	15	13	12	16	14	11	16	21	16	23	24
Wipro	IT Services	18	15	14	15	16	14	14	15	15	11	20	24	15	21	19
Aurobindo Pharma	Pharmaceuticals	9	7	7	12	18	17	14	12	15	8	15	12	12	17	18
Cipla	Pharmaceuticals	21	18	18	19	30	20	24	20	22	18	24	25	20	27	25
Divis Laboratories	Pharmaceuticals	20	17	17	19	23	20	16	25	28	31	39	40	36	44	52
Dr Reddy's Laboratories	Pharmaceuticals	19	18	17	18	23	20	21	19	21	21	24	21	18	19	17
Lupin	Pharmaceuticals	18	20	20	20	31	20	20	19	21	21	27	22	24	32	28
Mankind Pharma	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	41	35
Sun Pharmaceuticals	Pharmaceuticals	22	23	23	20	29	24	21	25	23	17	23	26	24	35	30
Torrent Pharmaceuticals	Pharmaceuticals	14	13	12	15	22	17	21	22	30	29	30	32	33	43	43
SRF	Specialty Chemicals	3	3	5	7	14	14	15	16	18	16	24	38	29	37	34

Source: Companies, Factset, Kotak Institutional Equities

**Tier-1 banks are fairly valued in general**

**Exhibit 30: 12-m forward P/B multiple of banks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	12-m forward P/B multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
AU Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	7.0	4.6	3.0	5.9	4.6	3.1	2.6	2.7
Axis Bank	Banks	2.6	1.8	1.7	1.6	2.6	1.8	2.1	1.9	2.7	1.1	1.9	1.9	1.8	1.9	1.9
Bandhan Bank	Banks	NA	NA	NA	NA	NA	NA	NA	5.2	4.9	1.7	2.7	2.6	1.4	1.2	1.1
Bank of Baroda	Banks	1.7	1.1	0.8	0.9	0.9	1.0	1.2	0.9	0.9	0.4	0.5	0.7	0.8	1.1	1.0
Canara Bank	Banks	1.3	0.9	0.7	0.5	0.6	0.5	0.9	0.9	1.3	0.2	0.6	0.6	0.7	1.2	1.1
City Union Bank	Banks	1.5	1.4	1.4	1.3	2.0	1.7	2.3	2.6	2.8	1.6	1.9	1.4	1.2	1.1	1.1
DCB Bank	Banks	1.3	1.3	1.0	1.2	1.9	1.2	2.2	1.8	2.0	0.8	0.9	0.6	0.7	0.7	0.7
Equitas Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	1.4	1.5	1.6	1.5
Federal Bank	Banks	1.3	1.2	1.2	1.1	1.3	0.9	1.7	1.4	1.4	0.5	NA	NA	NA	1.1	1.1
HDFC Bank	Banks	3.8	3.5	3.5	3.5	3.6	3.2	3.8	3.8	3.8	2.5	3.6	3.0	2.8	2.2	2.3
ICICI Bank	Banks	2.2	1.6	1.7	1.8	2.1	1.5	1.8	1.7	2.3	1.7	2.5	2.7	2.7	2.9	2.7
Indusind Bank	Banks	2.8	2.8	2.5	2.6	3.8	2.9	3.7	4.0	3.4	0.6	1.6	1.4	1.3	1.7	1.5
Karur Vysya Bank	Banks	1.7	1.3	1.4	1.1	1.5	1.1	1.4	1.3	1.0	0.3	0.7	0.5	0.9	1.3	1.2
Punjab National Bank	Banks	1.6	1.1	0.7	0.8	0.7	0.6	1.0	0.6	1.0	0.4	0.5	0.4	0.6	1.3	1.1
State Bank of India	Banks	1.9	1.7	1.4	1.3	1.6	1.2	1.5	1.2	1.4	0.8	1.3	1.5	1.3	1.7	1.7
Ujjivan Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.4	1.6	0.9	1.0	1.4	1.3
Union Bank	Banks	1.4	0.9	0.8	0.5	0.6	0.6	0.7	0.5	0.6	0.3	0.5	0.4	0.6	1.1	1.0

Source: Companies, Factset, Kotak Institutional Equities

**NBFCs are trading at attractive valuations**

**Exhibit 31: 12-m forward P/B multiple of financial stocks in KIE universe, March fiscal year-ends, 2011-25E**

Company	Sector	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
<b>12-m forward P/B multiple (X)</b>																
Aavas Financiers	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	4.7	3.9	7.0	6.4	3.4	2.4	2.7
Aptus Value Housing Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.2	3.1	3.6	3.4
Bajaj Finance	Diversified Financials	1.6	1.4	1.5	1.9	3.5	4.2	5.7	5.3	7.3	3.4	7.1	8.4	5.2	5.0	4.2
Cholamandalam	Diversified Financials	1.6	1.6	1.8	1.6	2.6	2.8	3.2	3.8	3.2	1.3	4.1	4.5	3.9	4.3	4.3
Home First Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.7	3.9	3.2	3.3	2.9
L&T Finance Holdings	Diversified Financials	NA	1.6	2.1	1.8	1.4	1.5	2.6	2.8	2.0	0.6	1.2	0.9	0.9	1.6	1.4
LIC Housing Finance	Diversified Financials	2.2	2.1	1.5	1.4	2.3	2.3	2.5	1.9	1.6	0.6	1.0	0.8	0.7	1.0	0.9
Mahindra & Mahindra Financial	Diversified Financials	2.7	2.0	2.2	2.5	2.3	2.2	2.7	3.1	2.3	0.8	1.6	1.2	1.6	1.7	1.6
Muthoot Finance	Diversified Financials	NA	1.1	1.3	1.4	1.5	1.2	2.1	1.9	2.4	1.7	2.7	2.5	1.6	2.1	2.3
Shriram Finance	Diversified Financials	3.0	1.9	1.8	1.8	2.4	2.0	2.0	2.3	1.7	0.7	1.6	1.1	1.0	1.6	1.5
<b>12-m forward P/E multiple (X)</b>																
ABSL AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22	13	18	18
Computer Age Management Services	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	37.4	34	29	35	38
CRISIL	Diversified Financials	19.8	27.4	22.3	30.6	40.9	37.3	33.3	36.2	25.4	21.8	33.6	45	40	50	57
HDFC AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	34.0	30.9	40.6	29	23	38	33
ICRA	Diversified Financials	16.1	18.0	15.8	24.1	41.1	39.2	44.9	33.7	22.4	19.9	35.5	32	27	31	43
Kfin Technologies	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	36	36
Nippon AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	24.7	24.3	24.1	33.8	26	17	27	29
UTI AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18.9	20	14	15	17

Source: Companies, Factset, Kotak Institutional Equities

**We prefer stocks with compounding in earnings/book and lower risks of derating in multiples**

**Exhibit 32: KIE large-cap. model portfolio**

Company	Price (Rs)	KIE weight	Company	Price (Rs)	KIE weight
	4-Jun-24	(%)		4-Jun-24	(%)
<b>Automobiles &amp; Components</b>			<b>Internet Software &amp; Services</b>		
Mahindra & Mahindra	2,573	1.5	Zomato	172	1.5
<b>Automobiles &amp; Components 1.5</b>			<b>Internet Software &amp; Services 1.5</b>		
<b>Banks</b>			<b>IT Services</b>		
Axis Bank	1,131	7.1	HCL Technologies	1,304	2.1
HDFC Bank	1,483	9.3	Infosys	1,394	5.2
ICICI Bank	1,071	9.9	TCS	3,715	1.9
IndusInd Bank	1,392	1.9	<b>IT Services 9.3</b>		
SBI Cards and Payment Services	677	1.4	<b>Oil, Gas &amp; Consumable Fuels</b>		
State Bank of India	775	7.3	Reliance Industries	2,795	9.5
<b>Banks 36.9</b>			<b>Oil, Gas &amp; Consumable Fuels 9.5</b>		
<b>Capital Goods</b>			<b>Pharmaceuticals</b>		
L&T	3,403	3.2	Cipla	1,463	2.2
<b>Capital Goods 3.2</b>			Mankind Pharma	2,096	1.4
<b>Consumer Staples</b>			Sun Pharmaceuticals	1,430	1.8
Britannia Industries	5,325	1.5	Torrent Pharmaceuticals	2,700	1.6
Dabur India	578	1.5	<b>Pharmaceuticals 6.9</b>		
Godrej Consumer Products	1,348	1.7	<b>Real Estate</b>		
Hindustan Unilever	2,496	3.4	DLF	763	1.5
United Spirits	1,204	1.6	Embassy Office Parks REIT	351	1.4
<b>Consumer Staples 9.6</b>			Macrotech Developers	1,304	2.1
<b>Diversified Financials</b>			<b>Real Estate 5.1</b>		
Shriram Finance	2,261	1.6	<b>Specialty Chemicals</b>		
<b>Diversified Financials 1.6</b>			Pidlite Industries	3,062	1.7
<b>Health Care Services</b>			<b>Specialty Chemicals 1.7</b>		
Apollo Hospitals	5,846	1.4	<b>Telecommunication Services</b>		
<b>Health Care Services 1.4</b>			Bharti Airtel	1,300	3.9
<b>Insurance</b>			<b>Telecommunication Services 3.9</b>		
ICICI Prudential Life	543	1.4	<b>Transportation</b>		
SBI Life Insurance	1,339	2.1	Adani Ports and SEZ	1,249	1.7
<b>Insurance 3.4</b>			Delhivery	360	1.2
			Interglobe Aviation	4,073	1.6
			<b>Transportation 4.5</b>		
			<b>BSE-30</b>	<b>72,079</b>	<b>100</b>

Source: Kotak Institutional Equities estimates

“Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Anindya Bhowmik, Sunita Baldawa.”

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**BUY.** We expect this stock to deliver more than 15% returns over the next 12 months.

**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5+5% returns over the next 12 months.

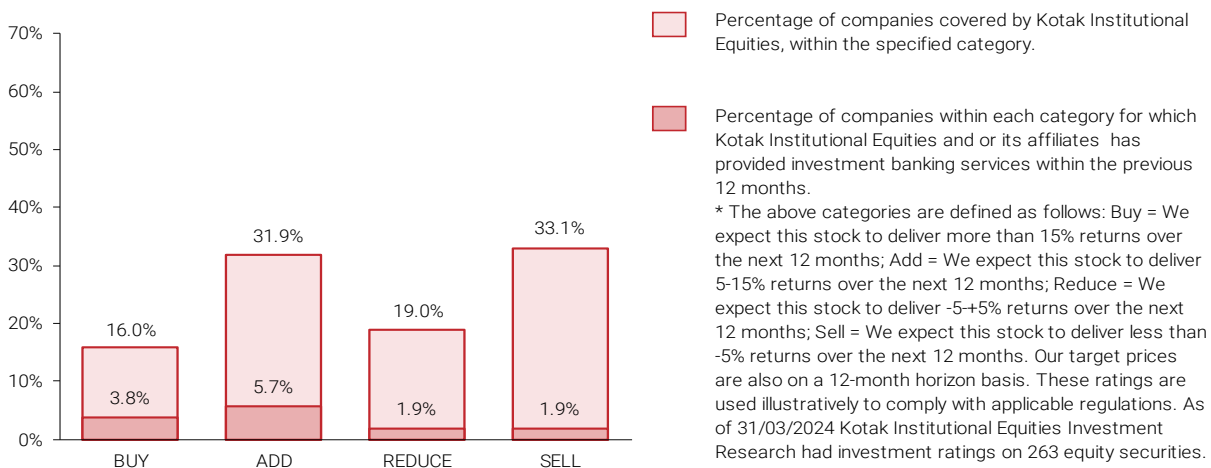
**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of March 31, 2024

### Coverage view

The coverage view represents each analyst’s overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

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