

# Strategy

India

May 31, 2024

## Rightfully optimistic, mistakenly euphoric

The Indian market continues to be a mix of optimism and euphoria with (1) parts of the market rightfully reflecting the strength of the Indian economy and its long-term growth prospects and (2) other parts reflecting extreme euphoria linked to baseless narratives with absolutely no linkage to fundamentals. 4QFY24 results did little to change (1) trends in sectors or (2) views on the market.

### Getting the election issue out of the way first

Our market view and recommended portfolio construction is based on (1) the BJP/NDA forming the next government with a comfortable majority and (2) no major change in the government's economic policies with continued thrust on economic development, growth and liberalization. Election results are due on June 4 and exit polls will be available from the evening of June 1.

### Valuations continue to be full-to-rich-to-euphoric

The Indian market's valuations based on the usual indices do not look extreme versus history or bond yields but have little relevance. The market continues to be a three-part market with (1) sectors such as financials trading at reasonable valuations, (2) sectors such as consumer, IT services and pharmaceuticals trading at full-to-rich valuations and (3) sectors such as automobiles, capital goods and PSUs trading at euphoric valuations.

### 4QFY24 results showed some reversal of trends of previous quarters

Consumption demand continued to be weak although a few companies did highlight incipient signs of recovery in demand from low-income and rural households. Investment demand continued to be robust although order booking was surprisingly weak for several companies. Outsourcing was a mixed bag with IT services showing further weakness in demand given continued delay in discretionary spending by customers and pharmaceuticals showing continued strong demand from overseas markets.

### 4QFY24 results did not disappoint or enthrall

4QFY24 net profits of the Nifty-50 Index grew 8.6%, 4.3% above our estimates while EBITDA of the Nifty-50 Index grew 5.9%, 1.5% below our estimates. However, the modest beat at the net income level was led by (1) stronger-than-expected performance of banks and (2) accounting change in the case of COAL, which offset (3) weaker-than-expected performance in most other sectors. 4QFY24 net profits of KIE-Universe increased 8.4%, 2% above expectations. FY2024 net profits of the Nifty-50 Index grew 20%, but only 13% adjusted for COAL, BPCL and HPCL (part of ONGC). The former benefited from accounting change while the latter two benefited from high marketing margins versus large negative margins in FY2023 on retail automobile fuels.

### 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)          | 22.7 | 20.6  | 18.0  |
| <b>Macro data</b>      |      |       |       |
| Real GDP (%)           | 7.6  | 6.6   | 6.5   |
| Avg CPI inflation (%)  | 5.4  | 4.4   | 4.2   |

Source: CEIC, Kotak Institutional Equities estimates

### Quick Numbers

4QFY24 net profits of the Nifty-50 Index grew 8.6%, 4.3% above our estimates

4QFY24 net profits of KIE-Universe increased 8.4%, 2% above expectations

We expect net profits of the Nifty-50 Index to grow 10% in FY2025 and 14% in FY2026

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Sanjeev Prasad  
 sanjeev.prasad@kotak.com  
 +91-22-4336-0830

Anindya Bhowmik  
 anindya.bhowmik@kotak.com  
 +91-22-4336-0897

Sunita Baldawa  
 sunita.baldawa@kotak.com  
 +91-22-4336-0896

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## 1

## Overview: High hopes and higher hype

We find the valuations of most parts of the Indian market to be quite expensive with the extent of overvaluation increasing in inverse order of (1) market capitalization, (2) quality and (3) risk. Investors are perhaps emboldened by (1) solid long-term growth prospects of India and (2) spectacular developments over the next few weeks, once the new government (likely the same BJP/NDA government) presents its economic agenda for the next five years.

### Market before the elections; no major surprise presumably

We assume that the ongoing national elections will not throw up any major surprise (positive or negative) for the market with (1) the BJP/NDA forming the next government with a comfortable majority in the lower house of the parliament and (2) BJP/NDA government continuing with the economic policies of its previous two terms with continued thrust on economic development, growth and liberalization. We note that the BJP/NDA has 287/337 seats in the lower house of the parliament, which has 543 seats. The election results are due on June 4 and exit polls will be available from the evening of June 1, the last day of elections.

We examine the market's likely reactions to three outcomes for the national elections below.

- ▶ **BJP at 325+/- seats and NDA at 375+/- seats.** The market is likely to view this outcome quite favorably and will have high expectations of (1) acceleration in economic reforms in general with continued thrust on economic liberalization (ease of doing business), (2) major policy changes in areas such as labor and land and sectors such as agriculture, electricity, among others, (3) administrative reforms (bureaucracy, judiciary) and (4) privatization of PSUs.
- ▶ **BJP at 300+/- seats and NDA at 350+/- seats.** The market may be slightly disappointed by the outcome but we do not see any major changes to the government's economic and social policies. The market is likely to recover from its initial disappointment after a few weeks with the focus gradually shifting to the strong fundamentals of the Indian economy and its attractive long-term growth prospects.
- ▶ **BJP at 250+/- seats and NDA at 300+/- seats.** The market could be significantly disappointed with this outcome and we would not rule out a meaningful correction in many of the 'narrative' stocks in the investment sector (capital goods, defense, electricity, EMS, railways, renewables) and PSUs. However, we expect the major indices to likely hold up reasonably well (a moderate correction, at worst), as the market will likely understand eventually that not much will change for several sectors such as banks, consumers, IT services, pharmaceuticals, etc. These sectors have a high weight in the usual market (Nifty-50, MSCI India) indices.

We would note that the market seems to be discounting the first scenario with most stocks trading at full-to-rich multiples and many 'narrative' stocks and PSUs trading at unfathomable multiples. As can be seen in Exhibits 1-3, (1) all the major indices are trading at all-time highs; that is not a problem *per se* despite (2) most of the indices (and underlying stocks) having gone up rather sharply in the past 12-15 months and many stocks are trading at outlandish multiples.

**India has outperformed most global markets in the past 1-3 years but underperformed in the past 1-3 months**

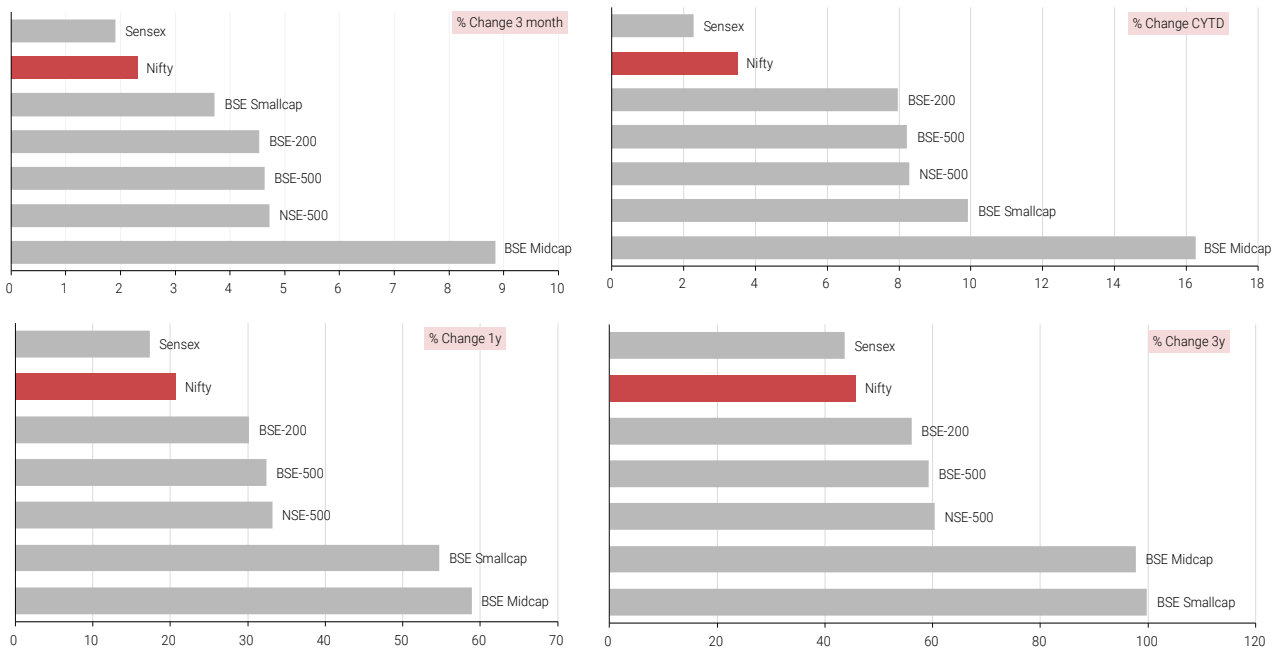
**Exhibit 1: Performance (not annualized) of emerging and developed markets over periods of time (%)**

|                          | % change in local currency |          |           |          |           |           |           |            | % change in USD |          |           |          |           |             |           |            |
|--------------------------|----------------------------|----------|-----------|----------|-----------|-----------|-----------|------------|-----------------|----------|-----------|----------|-----------|-------------|-----------|------------|
|                          | 1-mo                       | 3-mo     | 6-mo      | CYTD     | 1-yr      | 3-yr      | 5-yr      | 10-yr      | 1-mo            | 3-mo     | 6-mo      | CYTD     | 1-yr      | 3-yr        | 5-yr      | 10-yr      |
| <b>Developed markets</b> |                            |          |           |          |           |           |           |            |                 |          |           |          |           |             |           |            |
| Australia                | (0)                        | (1)      | 8         | 0        | 8         | 6         | 19        | 39         | 1               | 1        | 8         | (3)      | 10        | (9)         | 14        | (1)        |
| France                   | (1)                        | 0        | 9         | 5        | 12        | 23        | 53        | 76         | (1)             | 0        | 8         | 3        | 14        | 9           | 48        | 39         |
| Germany                  | 2                          | 4        | 14        | 10       | 18        | 19        | 57        | 86         | 3               | 5        | 13        | 8        | 20        | 5           | 53        | 47         |
| Hong Kong                | 3                          | 10       | 7         | 7        | (0)       | (37)      | (32)      | (21)       | 3               | 11       | 7         | 7        | 0         | (38)        | (32)      | (22)       |
| Japan                    | 0                          | (3)      | 14        | 14       | 23        | 31        | 85        | 160        | 1               | (7)      | 7         | 2        | 10        | (9)         | 28        | 69         |
| Singapore                | 1                          | 6        | 8         | 3        | 5         | 5         | 7         | 1          | 2               | 5        | 7         | 0        | 6         | 2           | 8         | (6)        |
| UK                       | 1                          | 8        | 10        | 6        | 10        | 17        | 15        | 20         | 2               | 8        | 11        | 6        | 13        | 5           | 15        | (9)        |
| US (Dow Jones)           | 0                          | (1)      | 7         | 2        | 17        | 11        | 55        | 130        | 0               | (1)      | 7         | 2        | 17        | 11          | 55        | 130        |
| US (Nasdaq)              | 6                          | 5        | 19        | 13       | 31        | 23        | 127       | 299        | 6               | 5        | 19        | 13       | 31        | 23          | 127       | 299        |
| US (S&P500)              | 3                          | 3        | 15        | 10       | 26        | 25        | 91        | 174        | 3               | 3        | 15        | 10       | 26        | 25          | 91        | 174        |
| <b>MSCI World</b>        |                            |          |           |          |           |           |           |            | <b>2</b>        | <b>3</b> | <b>13</b> | <b>8</b> | <b>22</b> | <b>15</b>   | <b>68</b> | <b>100</b> |
| <b>Emerging markets</b>  |                            |          |           |          |           |           |           |            |                 |          |           |          |           |             |           |            |
| Brazil                   | (4)                        | (5)      | (4)       | (9)      | 13        | (2)       | 26        | 139        | (5)             | (9)      | (9)       | (15)     | 11        | (2)         | (5)       | 3          |
| MSCI China               | 4                          | 12       | 6         | 9        | 4         | (44)      | (18)      | 1          | 4               | 12       | 6         | 9        | 4         | (44)        | (18)      | (0)        |
| <b>India</b>             | <b>(1)</b>                 | <b>2</b> | <b>12</b> | <b>3</b> | <b>21</b> | <b>46</b> | <b>89</b> | <b>211</b> | <b>(1)</b>      | <b>2</b> | <b>12</b> | <b>3</b> | <b>20</b> | <b>27</b>   | <b>58</b> | <b>121</b> |
| Indonesia                | (2)                        | (4)      | (1)       | (3)      | 6         | 20        | 13        | 44         | (2)             | (7)      | (5)       | (8)      | (2)       | 6           | (0)       | 3          |
| Korea                    | (2)                        | (0)      | 4         | (1)      | 2         | (17)      | 29        | 32         | (2)             | (3)      | (2)       | (7)      | (1)       | (33)        | 12        | (2)        |
| Malaysia                 | 1                          | 3        | 10        | 10       | 16        | 1         | (3)       | (14)       | 3               | 4        | 9         | 8        | 13        | (12)        | (14)      | (41)       |
| Mexico                   | (5)                        | (0)      | 2         | (4)      | 5         | 10        | 29        | 33         | (4)             | 0        | 5         | (4)      | 10        | 30          | 50        | 1          |
| Philippines              | (6)                        | (8)      | 2         | (1)      | (2)       | (5)       | (20)      | (4)        | (7)             | (12)     | (3)       | (7)      | (5)       | (22)        | (29)      | (28)       |
| Russia                   | (1)                        | 3        | 4         | 7        | 10        | (28)      | (10)      | (10)       | (1)             | 3        | 4         | 7        | 10        | (28)        | (10)      | (10)       |
| Taiwan                   | 4                          | 13       | 23        | 19       | 29        | 27        | 104       | 135        | 5               | 10       | 18        | 12       | 22        | 8           | 98        | 118        |
| Thailand                 | (1)                        | (1)      | (2)       | (5)      | (12)      | (15)      | (17)      | (5)        | (0)             | (4)      | (6)       | (11)     | (17)      | (27)        | (28)      | (15)       |
| <b>MSCI EM</b>           |                            |          |           |          |           |           |           |            | <b>2</b>        | <b>5</b> | <b>9</b>  | <b>5</b> | <b>12</b> | <b>(21)</b> | <b>7</b>  | <b>4</b>   |

Source: Bloomberg, Kotak Institutional Equities

**Mid-and small-cap. indices have outperformed the Nifty-50 Index by a significant margin in the past 12-36 months**

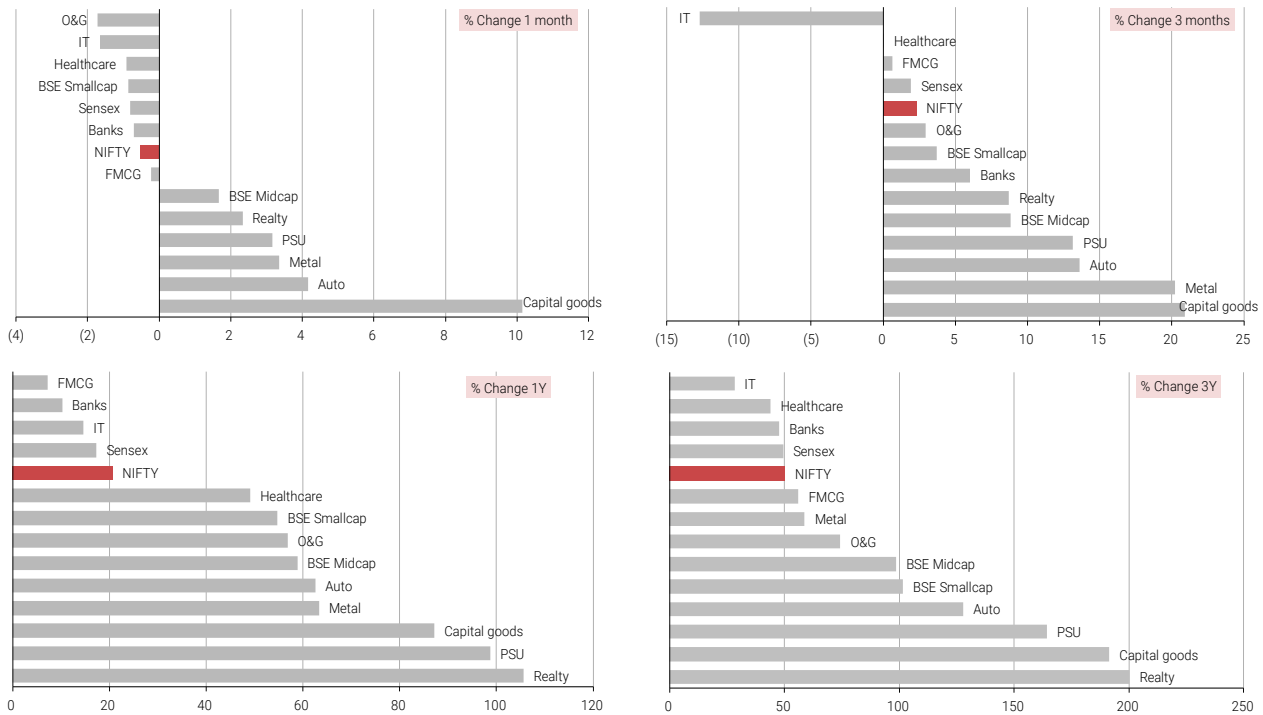
**Exhibit 2: Performance of major Indian indices (%)**



Source: Bloomberg, Kotak Institutional Equities

**Banks, consumers and IT services have delivered low returns over the past year**

**Exhibit 3: Performance of various sectors (%)**



Source: Bloomberg, Kotak Institutional Equities

It is obvious that no portfolio would be successful in dealing with all the probable election outcomes (many more with decreasing probability compared to the three scenarios discussed above). However, we believe our recommended model portfolio (see Page 63) should navigate the latter two scenarios reasonably well. Anyway, we build our portfolio on bottom-up basis with the sole focus on the reward-risk balance for each stock in the portfolio rather than on any macroeconomic event.

The market is likely expecting reforms in four broad areas—(1) bureaucracy, judiciary and police (governance), (2) electricity sector deregulation, (3) labor and land (factors of production) and (4) PSUs, including privatization of PSUs. However, we would note that the scope of reforms is somewhat limited since the government has already implemented meaningful reforms over the past 10 years (see Exhibit 4). The other pending reforms are either (1) dependent on state governments as those subjects fall under the purview of states under India’s federal structure of governance (see Exhibit 5 for division of subjects between the central and state governments as also concurrent subjects) or (2) difficult to implement; the government had to repeal three farm laws passed by it in 2020 after widespread protests from farmers and judicial reforms are stuck in a constitutional stalemate.

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

**Exhibit 4: 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   | 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 CRPBK 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

**While the center can decide on many issues, states can legislate on some critical issues**

**Exhibit 5: Excerpts of items on the various Lists—where the power to legislate rests**

| List I—Union List   | List II—State List  | List III—Concurrent List   |
|---|---|--|
| Airways; aircraft and air navigation  | Agriculture   | Acquisition and requisitioning of property   |
| Any other matter not enumerated in List II or List III including any tax not mentioned in either of those Lists                           | Capitation taxes  | Bankruptcy and insolvency  |
| Atomic energy and mineral resources necessary for its production  | Communications, that is to say, roads, etc.   | Contracts, including partnership, agency, contracts of carriage, and other special forms of contracts, but not including contracts relating to agricultural land     |
| Banking   | Land revenue  | Criminal law   |
| Central Bureau of Intelligence and Investigation  | Land, that is to say, rights in or over land  | Criminal procedure   |
| Corporation tax   | Constitution and powers of municipal corporations, mining settlement authorities and other local authorities  | Education, including technical education, medical education and universities   |
| Currency, coinage and legal tender; foreign exchange  | Police  | Electricity  |
| Defense of India  | Public health and sanitation; hospitals and dispensaries  | Factories  |
| Duties in respect of succession to property other than agricultural land  | Public order  | Legal, medical and other professions   |
| Duties of customs including export duties   | Rates of stamp duty in respect of documents   | Newspapers, books and printing presses   |
| Duties of excise on tobacco and other goods manufactured or produced in India except alcohol and opium                                    | Regulation of mines and mineral development subject to the provisions of List I with respect to regulation and development under the control of the Union | Price control  |
| Estate duty in respect of property other than agricultural land   | Taxes on agricultural income  | Social security and social insurance; employment and unemployment  |
| Foreign affairs   | Taxes on lands and buildings  | Trade unions; industrial and labor disputes  |
| Highways declared by or under law made by Parliament to be national highways  | Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development   | Transfer of property other than agricultural land; registration of deeds and documents   |
| Industries, the control of which by the Union is declared by Parliament by law to be expedient in the public interest                     | Taxes on professions, trades, callings and employments  | Vital statistics including registration of births and deaths   |
| Insurance   | Taxes on the sale or purchase of goods other than newspapers  | Welfare of labor including conditions of work, provident funds, employers' liability, workmen's compensation, invalidity and old age pensions and maternity benefits |
| Inter-State trade and commerce  | Tolls   |  |
| Ports declared by or under law made by Parliament or existing law to be major ports   | Trade and commerce within the state   |  |
| Posts and telegraphs; telephones, wireless, broadcasting and other similar forms of communication   | Water   |  |
| Public debt of the Union  |   |  |
| Railways  |   |  |
| Regulation and development of oilfields and mineral oil resources; petroleum and petroleum products                                       |   |  |
| Regulation of labor and safety in mines and oilfields   |   |  |
| Regulation of mines and mineral development   |   |  |
| Reserve Bank of India   |   |  |
| Shipping and navigation on inland waterways   |   |  |
| Stock exchanges and futures markets   |   |  |
| Taxes on income other than agricultural income  |   |  |
| Taxes on services   |   |  |
| Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies |   |  |
| Taxes other than stamp duties on transactions in stock exchanges and futures markets  |   |  |
| Trade and commerce with foreign countries; import and export across customs frontiers; definition of customs frontiers                    |   |  |

Source: Excerpts from the Constitution of India

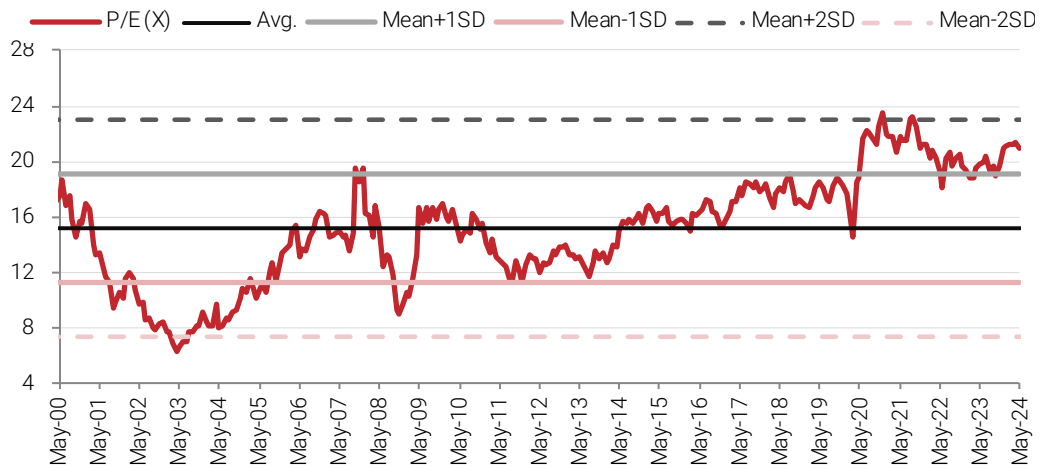
**Market beyond the elections**

We find most sectors and stocks overvalued relative to the fair value of the stocks based on (1) appropriate multiples for their business models and (2) potential risks to business models from potential ‘disruption’. However, the extent of overvaluation varies depending on market capitalization, quality and risk and in fact, increases in inverse order of the market capitalization, quality and risk. In general, large-cap. stocks are less overvalued compared to mid-cap. and small-cap. stocks, high-quality stocks are less overvalued versus low-quality stocks and low-risk stocks are less overvalued compared to high-risk or ‘narrative’ stocks.

Exhibits 6-9 show the valuations of the Nifty-50 Index, Nifty Midcap 100 Index and Nifty Smallcap 100 Index. However, we are reluctant to use top-down index valuations to draw conclusions about valuations. As an example, we note that the valuation of Nifty-50 Index is distorted by (1) high share of low P/E sectors such as banks, diversified financials and oil, gas & consumable fuels in the profits of the Nifty-50 Index and (2) high share of low P/E stocks such as BPCL and HPCL (through ONGC) in the incremental profits of the Nifty-50 Index.

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

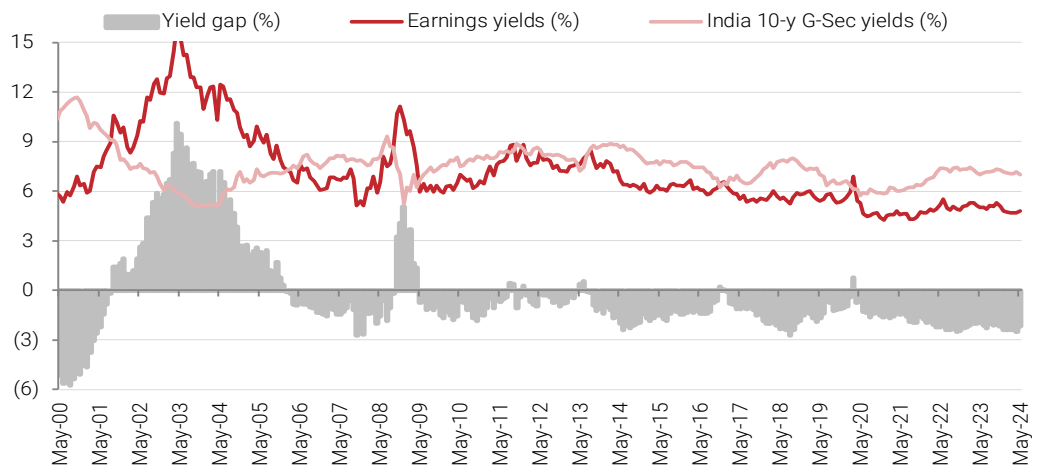
**Exhibit 6: 12-m rolling forward PE of Nifty-50 Index, March fiscal year-ends, 2001-25 (X)**



Source: Companies, Kotak Institutional Equities estimates

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

**Exhibit 7: Nifty earnings yield (1-year forward estimated earnings) and bond yield, March fiscal year-ends, 2001-25 (%)**

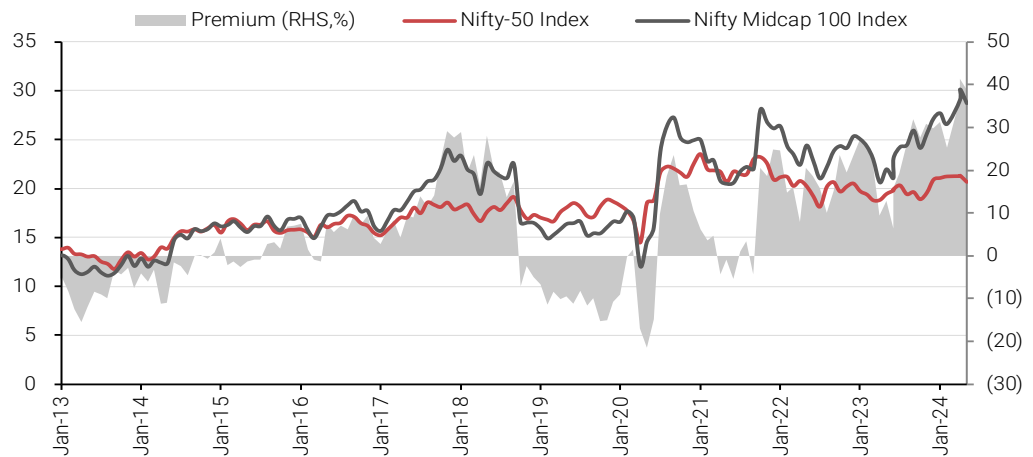


Source: CEIC, Kotak Institutional Equities estimates



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

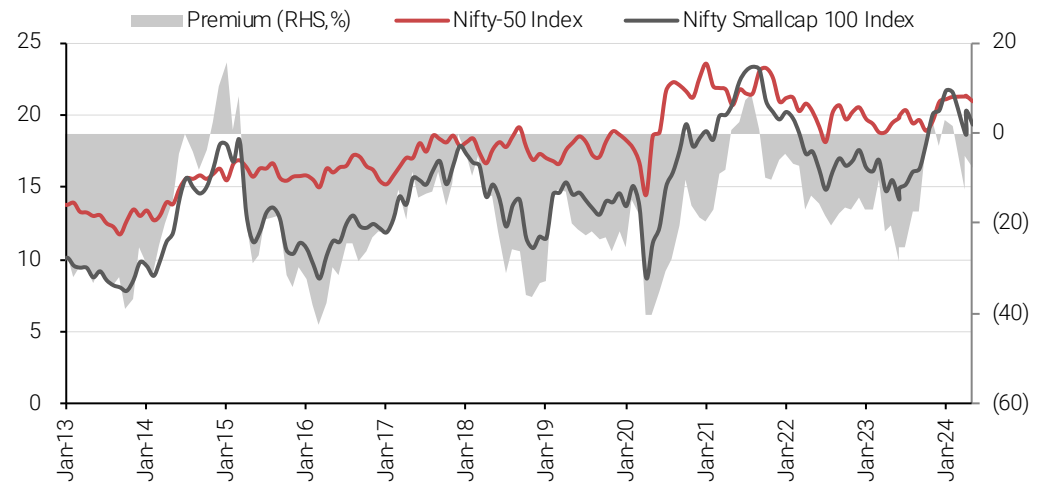
**Exhibit 8: 1-year forward P/E multiple of Nifty-50 Index and NSE Midcap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

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

**Exhibit 9: 1-year forward P/E multiple of Nifty-50 Index and NSE Smallcap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

Exhibits 10-15 present the current and historical 12-month forward P/E or P/B for various buckets of stocks (consumption, investment, outsourcing and financials). As can be seen, valuations are higher than pre-pandemic levels for most sectors and stocks despite (1) higher global cost of equity based on higher policy rates and bond yields (see Exhibits 16-17); it is unlikely that nominal interest rates will go to nil even though they will likely decline from current peak levels or real interest rates become negative for a sustained period of time, which was the case in the post-GFC, pre-pandemic period and (2) greater risks to business models from increased disruption risks across sectors (see Exhibit 18 for a simplistic assessment of emerging disruption risks, classified under certain broad categories of disruption).

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

**Exhibit 10: 12-m forward P/E multiple of large-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-24E**

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

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 11: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-24E**

| Company                   | Sector                      | 12-m forward P/E multiple (X) |        |        |        |        |        |        |        |        |        |        |        |        | Current |        |
|---------------------------|-----------------------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
|                           |                             | 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 |
| Balkrishna Industries     | Automobiles & Components    | 6                             | 8      | 7      | 9      | 11     | 11     | 17     | 21     | 20     | 15     | 26     | 24     | 24     | 27      | 33     |
| Exide Industries          | Automobiles & Components    | 17                            | 19     | 17     | 19     | 21     | 18     | 24     | 22     | 20     | 12     | 17     | 13     | 14     | 20      | 31     |
| Schaeffler India          | Automobiles & Components    | 11                            | 14     | 12     | 17     | 31     | 27     | 31     | 29     | 30     | 25     | 35     | 37     | 42     | 41      | 73     |
| SKF                       | Automobiles & Components    | 15                            | 15     | 14     | 19     | 28     | 26     | 28     | 26     | 27     | 18     | 30     | 35     | 32     | 33      | 45     |
| Timken                    | Automobiles & Components    | NA                            | NA     | NA     | NA     | 40     | 24     | 31     | 34     | 29     | 23     | 39     | 44     | 41     | 49      | 67     |
| Indigo Paints             | Commodity Chemicals         | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 93     | 47     | 32     | 33      | 35     |
| Kansai Nerolac            | Commodity Chemicals         | 20                            | 19     | 26     | 24     | 31     | 36     | 38     | 43     | 41     | 32     | 47     | 37     | 30     | 27      | 30     |
| Crompton Greaves Consumer | Consumer Durables & Apparel | NA                            | NA     | NA     | NA     | NA     | NA     | 39     | 36     | 31     | 24     | 40     | 33     | 29     | 29      | 41     |
| 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      | 55     |
| 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      | 69     |
| Aster DM Healthcare       | Health Care Services        | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 22     | 10     | 16     | 16     | 17     | 31      | 36     |
| Dr Lal Pathlabs           | Health Care Services        | NA                            | NA     | NA     | NA     | NA     | 53     | 39     | 35     | 36     | 38     | 67     | 57     | 44     | 45      | 50     |
| 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      | 52     |
| 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      | 40     |
| 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      | 46     |
| Jubilant Foodworks        | Hotels & Restaurants        | 36                            | 48     | 41     | 40     | 54     | 52     | 54     | 58     | 48     | 45     | 75     | 58     | 51     | 69      | 87     |
| 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      | 86     |
| Westlife Foodworld        | Hotels & Restaurants        | NA                            | NA     | NA     | 119    | 264    | 139    | 120    | 107    | 69     | 49     | 113    | 94     | 67     | 91      | 113    |

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 12: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-24E**

| Company               | Sector                      | 12-m forward P/E multiple (X) |        |        |        |        |        |        |        |        |        |        |        |        |        | Current |
|-----------------------|-----------------------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
|                       |                             | 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 |         |
| ABB                   | Capital Goods               | 41                            | 48     | 32     | 60     | 67     | 60     | 51     | 43     | 53     | 42     | 64     | 69     | 73     | 87     | 96      |
| Bharat Electronics    | Capital Goods               | 14                            | 12     | 10     | 11     | 22     | 20     | 21     | 18     | 13     | 10     | 15     | 19     | 21     | 35     | 46      |
| BHEL                  | Capital Goods               | 15                            | 10     | 8      | 16     | 21     | 27     | 26     | 20     | 17     | 7      | 28     | 28     | 28     | 78     | 75      |
| Carborundum Universal | Capital Goods               | 13                            | 13     | 13     | 17     | 21     | 18     | 23     | 24     | 25     | 13     | 30     | 32     | 37     | 42     | 51      |
| Cochin Shipyard       | Capital Goods               | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | 16     | 11     | 5      | NA     | 6      | 14     | 37     | 78      |
| Cummins India         | Capital Goods               | 18                            | 21     | 18     | 25     | 29     | 26     | 28     | 23     | 24     | 13     | 35     | 32     | 36     | 50     | 57      |
| Dixon Technologies    | Electronic Manufacturing Se | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | 37     | 27     | 25     | 64     | 63     | 40     | 70     | 79      |
| 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     | 22      |
| KEC International     | Capital Goods               | 8                             | 8      | 7      | 9      | 13     | 12     | 15     | 19     | 13     | 7      | 15     | 13     | 18     | 23     | 25      |
| L&T                   | Capital Goods               | 21                            | 16     | 15     | 22     | 28     | 21     | 23     | 23     | 19     | 11     | 19     | 21     | 22     | 31     | 30      |
| Siemens               | Capital Goods               | 28                            | 28     | 29     | 53     | 75     | 50     | 50     | 37     | 37     | 30     | 52     | 52     | 59     | 76     | 85      |
| Thermax               | Capital Goods               | 16                            | 15     | 18     | 24     | 33     | 28     | 36     | 35     | 27     | 23     | 43     | 48     | 43     | 65     | 82      |

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 13: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-24E**

| Company                 | Sector              | 12-m forward P/E multiple (X) |        |        |        |        |        |        |        |        |        |        |        |        |        | Current |
|-------------------------|---------------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
|                         |                     | 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 |         |
| Cyient                  | IT Services         | 10                            | 8      | 8      | 11     | 14     | 12     | 12     | 17     | 14     | 5      | 16     | 18     | 16     | 25     | 22      |
| 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     | 51      |
| LTI Mindtree            | IT Services         | NA                            | NA     | NA     | NA     | NA     | NA     | 12     | 18     | 17     | 15     | 32     | 38     | 27     | 27     | 28      |
| L&T Technology Services | IT Services         | NA                            | NA     | NA     | NA     | NA     | NA     | 16     | 23     | 21     | 14     | 31     | 46     | 28     | 38     | 34      |
| 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     | 39      |
| Tata Elxsi              | IT Services         | NA                            | NA     | 10     | 21     | 30     | 28     | 22     | 23     | 18     | 14     | 39     | 88     | 44     | 51     | 49      |
| 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     | 25      |
| 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     | 54      |
| Dr Reddy's Laboratories | Pharmaceuticals     | 19                            | 18     | 17     | 18     | 23     | 20     | 21     | 19     | 21     | 21     | 24     | 21     | 18     | 19     | 18      |
| Lupin                   | Pharmaceuticals     | 18                            | 20     | 20     | 20     | 31     | 20     | 20     | 19     | 21     | 21     | 27     | 22     | 24     | 32     | 29      |
| Mankind Pharma          | Pharmaceuticals     | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 41     | 36      |
| Sun Pharmaceuticals     | Pharmaceuticals     | 22                            | 23     | 23     | 20     | 29     | 24     | 21     | 25     | 23     | 17     | 23     | 26     | 24     | 35     | 31      |
| 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     | 35      |

Source: Companies, FactSet, Kotak Institutional Equities

**Tier-1 banks are fairly valued in general and expensive in a few cases; tier-2 and tier-3 banks and NBFCs are trading at attractive valuations**

**Exhibit 14: 12 m forward P/B multiple of banks in KIE universe, March fiscal year-ends, 2011-24E**

| 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    | 2.8     |
| 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    | 2.0     |
| Bandhan Bank               | Banks  | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | 5.2    | 4.9    | 1.7    | 2.7    | 2.6    | 1.4    | 1.2    | 1.2     |
| 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    | 1.1     |
| 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    | 1.2     |
| 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    | 0.8     |
| Equitas Small Finance Bank | Banks  | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 1.8    | 1.4    | 1.5    | 1.6    | 1.6     |
| 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    | 1.2     |
| 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    | 2.8     |
| 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    | 1.6     |
| 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    | 1.3     |
| 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    | 1.2     |
| 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    | 1.8     |
| Ujivan Small Finance Bank  | Banks  | NA                            | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 1.4    | 1.6    | 0.9    | 1.0    | 1.4    | 1.4     |
| 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    | 1.1     |

Source: Companies, FactSet, Kotak Institutional Equities

**NBFCs are trading at attractive valuations**

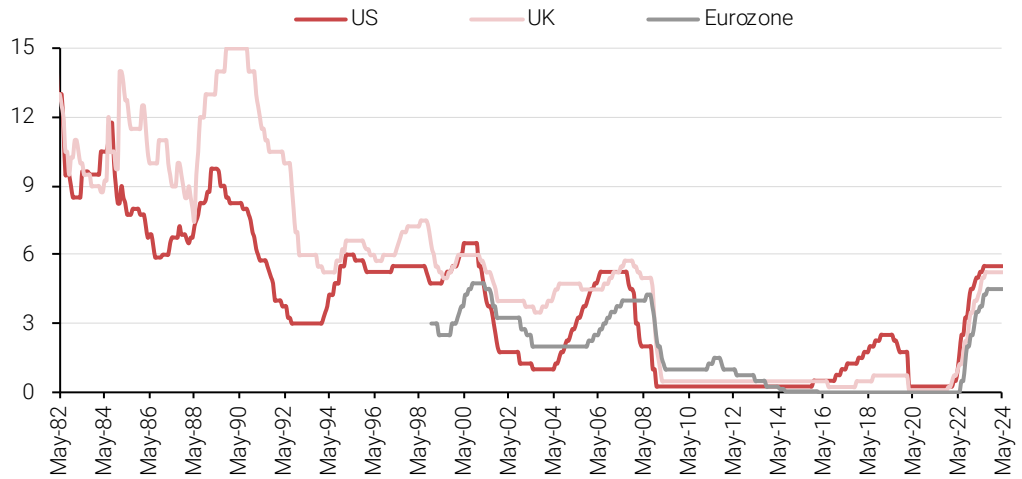
**Exhibit 15: 12 m forward P/B multiple of financial stocks in KIE universe, March fiscal year-ends, 2011-24E**

| 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    | 2.8     |
| 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    | 4.4     |
| 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    | 1.5     |
| 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    | 1.0     |
| 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    | 2.4     |
| 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    | 1.6     |
| <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     | 19      |
| Computer Age Management Services     | Diversified Financials | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 37.4   | 34     | 29     | 35     | 39      |
| 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     | 58      |
| HDFC AMC                             | Diversified Financials | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 34.0   | 30.9   | 40.6   | 29     | 23     | 38     | 36      |
| 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     | 54      |
| Kfin Technologies                    | Diversified Financials | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 25     | 36     | 38      |
| Nippon AMC                           | Diversified Financials | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 24.7   | 24.3   | 24.1   | 33.8   | 26     | 17     | 27     | 32      |
| 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

**Sharp increase in interest rates by DM central banks to control inflation**

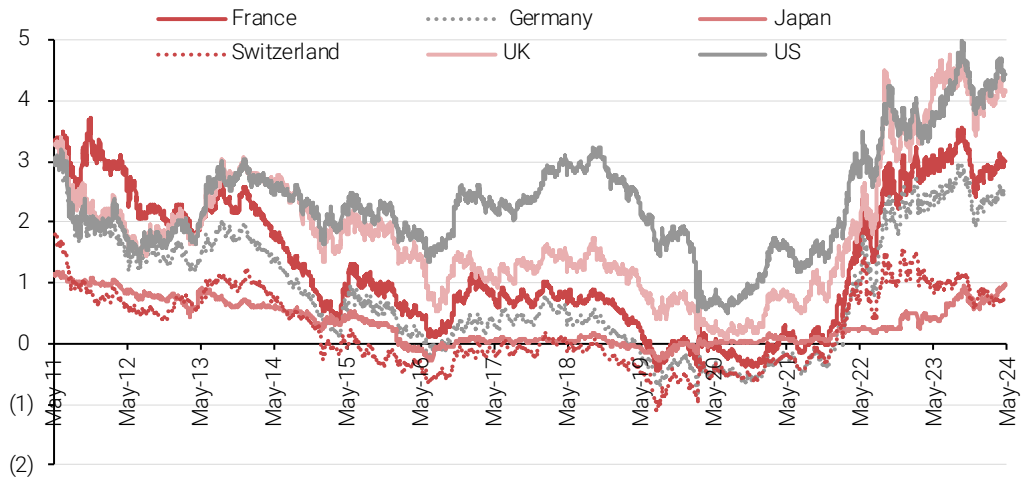
**Exhibit 16: Policy rates of Eurozone, UK and US, calendar year-ends, 1981-2024 (%)**



Source: Bloomberg, Kotak Institutional Equities

**Global bond yields are at elevated levels**

**Exhibit 17: Trend in 10-year benchmark yields across major DMs (%)**



Source: Bloomberg, Kotak Institutional Equities

**The threat of disruption has accelerated across sectors in the past few years**

**Exhibit 18: Key disruption themes for Indian consumer sectors**

| Disruption  |   |  |   |
|---|---|--|---|
| Environment   | Formalization   | Standardization  | Technological disruption  |
| Clean air and higher share of renewables in India's energy mix                                      | Shift from unorganized to organized will gather pace  | Products will be more generic/standardized   | Technological advancement will lead to disruption of business models along with increasing productivity |
| Key beneficiaries: Automobiles (EV), clean energy companies,, pollution control equipment suppliers | Key beneficiaries: Consumer companies in sectors with high share of unorganized sector, private banks, large real-estate developers and organized retailers |  | Key beneficiaries: Adaptive businesses, automobiles (EV), private banks, clean energy companies         |
| Key losers: Automobiles (ICEV), coal, oil (E&P and R&M)   | Key losers: Building component companies  | Key losers: Semi-branded commodities such as building components and consumer appliances | Key losers: Automobiles (ICEV), coal, oil, semi-branded businesses                                      |

Source: Kotak Institutional Equities estimates

We prefer to use valuations of stocks linked to the nature of the business model of companies and potential changes to the business models to get a better handle on the 'appropriate' multiples of stocks. We do not use historical multiples for valuation purposes, as the future context for sectors and stocks is likely to be different versus the past context. In our view, the historical multiples may have been valid for a certain context. Our more bottom-up valuation approach to multiples may explain the discrepancy between our seemingly 'conservative' multiples to value stocks versus the Street's more 'aggressive' approach, which ignores the basics of business models of companies and valuation principles at times.

Exhibits 19-20 show (1) growth in net profits of the Nifty-50 Index and by sectors, (2) contribution and incremental contribution to overall net profits of the Nifty-50 Index by sectors and (3) adjusted earnings growth (excluding BPCL and HPCL's contribution through ONGC) of the Nifty-50 Index. The latter is important as FY2024 net profits of the Nifty-50 Index grew 20% on a reported basis but only 14% on an adjusted basis (excluding BPCL and HPCL) and we expect FY2025E net profits of the Nifty-50 Index to grow 10% on a reported basis but 13% on an adjusted basis (excluding BPCL and HPCL). It is almost impossible to forecast the net profits of the downstream oil companies in light of high volatility in marketing margins of retail automobile fuels due to (1) volatility in crude oil prices and (2) price controls on retail price of automobile fuels.

**We expect earnings of the Nifty-50 Index to grow 10% in FY2025 and 14% in FY2026; ex-oil, gas & consumable fuels growth more relevant**

**Exhibit 19: Valuation summary of Nifty-50 sectors (full-float basis), March fiscal year-ends, 2024-26E (based on current constituents)**

|                                   | Mcap.<br>(US\$ bn) | Adj. mcap.<br>(US\$ bn) | Earnings growth (%) |             |             | P/E (X)     |             |             | EV/EBITDA (X) |             |             | P/B (X)    |            |            | Div. yield (%) |            |            | RoE (%)     |             |             |
|-----------------------------------|--------------------|-------------------------|---------------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|------------|------------|------------|----------------|------------|------------|-------------|-------------|-------------|
|                                   |                    |                         | 2024                | 2025E       | 2026E       | 2024        | 2025E       | 2026E       | 2024          | 2025E       | 2026E       | 2024       | 2025E      | 2026E      | 2024           | 2025E      | 2026E      | 2024        | 2025E       | 2026E       |
| Automobiles & Components          | 185                | 99                      | 113.5               | 13.0        | 9.7         | 25.9        | 22.9        | 20.9        | 13.5          | 12.1        | 10.8        | 5.5        | 4.7        | 4.1        | 1.0            | 1.4        | 1.5        | 21.3        | 20.6        | 19.6        |
| Banks                             | 418                | 350                     | 15.6                | 4.7         | 14.4        | 16.2        | 15.5        | 13.5        | -             | -           | -           | 2.3        | 2.2        | 2.0        | 1.0            | 1.3        | 1.3        | 14.3        | 14.5        | 14.7        |
| Capital Goods                     | 104                | 62                      | 25.0                | 31.5        | 29.4        | 54.0        | 41.1        | 31.7        | 27.6          | 22.8        | 19.0        | 6.2        | 5.4        | 4.5        | 0.4            | 0.4        | 0.5        | 11.6        | 13.1        | 14.2        |
| Commodity Chemicals               | 33                 | 16                      | 28.9                | (1.1)       | 4.1         | 51.7        | 52.3        | 50.2        | 36.1          | 36.1        | 34.6        | 14.8       | 12.9       | 11.4       | 0.9            | 0.9        | 1.0        | 28.6        | 24.6        | 22.7        |
| Construction Materials            | 53                 | 24                      | 10.5                | 20.0        | 13.3        | 33.4        | 27.8        | 24.5        | 13.9          | 12.9        | 11.6        | 3.0        | 2.7        | 2.5        | 0.4            | 0.5        | 0.4        | 8.9         | 9.9         | 10.3        |
| Consumer Staples                  | 185                | 96                      | 12.8                | 4.8         | 10.8        | 40.5        | 38.6        | 34.8        | 30.0          | 28.0        | 25.0        | 10.5       | 9.8        | 9.3        | 2.1            | 2.1        | 2.4        | 26.0        | 25.5        | 26.8        |
| Diversified Financials            | 89                 | 40                      | 24.6                | 27.4        | 16.3        | 24.8        | 19.5        | 16.8        | -             | -           | -           | 4.2        | 3.5        | 2.9        | 0.4            | 0.5        | 0.6        | 16.8        | 18.0        | 17.6        |
| Electric Utilities                | 76                 | 37                      | 12.3                | 7.0         | 8.6         | 17.4        | 16.3        | 15.0        | 10.8          | 9.9         | 8.9         | 2.5        | 2.3        | 2.1        | 2.9            | 2.8        | 3.0        | 14.4        | 14.3        | 14.3        |
| Health Care Services              | 10                 | 7                       | 10.5                | 79.0        | 27.1        | 91.6        | 51.2        | 40.3        | 35.5          | 26.6        | 20.5        | 11.9       | 9.8        | 8.1        | 0.1            | 0.2        | 0.3        | 12.9        | 19.2        | 20.1        |
| IT Services                       | 334                | 145                     | 3.0                 | 10.2        | 12.3        | 26.5        | 24.1        | 21.5        | 17.3          | 15.8        | 14.1        | 7.5        | 6.9        | 6.3        | 2.1            | 2.9        | 3.3        | 28.4        | 28.7        | 29.5        |
| Insurance                         | 31                 | 14                      | 12.4                | 14.7        | 13.3        | 74.1        | 64.6        | 57.0        | -             | -           | -           | 8.8        | 8.1        | 7.4        | 0.2            | 0.3        | 0.4        | 11.8        | 12.5        | 13.0        |
| Metals & Mining                   | 69                 | 39                      | (11.9)              | 85.9        | 29.3        | 26.4        | 14.2        | 11.0        | 10.1          | 7.5         | 6.3         | 2.1        | 1.9        | 1.6        | 1.2            | 1.4        | 1.6        | 7.9         | 13.2        | 14.9        |
| Oil, Gas & Consumable Fuels       | 324                | 149                     | 28.8                | (5.3)       | 8.9         | 14.5        | 15.3        | 14.1        | 8.6           | 8.5         | 7.5         | 2.1        | 1.9        | 1.7        | 1.7            | 1.5        | 1.5        | 14.4        | 12.4        | 12.2        |
| Pharmaceuticals                   | 82                 | 44                      | 19.7                | 12.2        | 14.0        | 32.0        | 28.5        | 25.0        | 22.2          | 19.0        | 16.5        | 5.2        | 4.5        | 4.0        | 0.5            | 0.5        | 0.5        | 16.2        | 15.9        | 15.8        |
| Retailing                         | 35                 | 16                      | 6.8                 | 19.7        | 21.0        | 83.1        | 69.4        | 57.3        | 55.8          | 46.8        | 39.0        | 30.9       | 23.5       | 18.2       | 0.3            | 0.4        | 0.5        | 37.2        | 33.9        | 31.7        |
| Telecommunication Services        | 99                 | 45                      | 25.4                | 102.1       | 41.6        | 72.6        | 35.9        | 25.4        | 12.2          | 10.0        | 8.2         | 10.0       | 7.3        | 6.1        | 0.6            | 0.7        | 0.9        | 13.8        | 20.5        | 24.2        |
| Transportation                    | 36                 | 12                      | 8.1                 | 18.2        | 24.2        | 33.2        | 28.1        | 22.6        | 21.3          | 17.9        | 15.2        | 5.6        | 4.8        | 4.0        | 0.2            | 0.3        | 0.5        | 17.0        | 17.0        | 17.9        |
| <b>Nifty-50 Index</b>             | <b>2,163</b>       | <b>1,194</b>            | <b>20.0</b>         | <b>9.7</b>  | <b>14.1</b> | <b>23.2</b> | <b>21.2</b> | <b>18.6</b> | <b>13.9</b>   | <b>12.7</b> | <b>11.1</b> | <b>3.7</b> | <b>3.4</b> | <b>3.0</b> | <b>1.3</b>     | <b>1.5</b> | <b>1.6</b> | <b>15.8</b> | <b>15.8</b> | <b>16.1</b> |
| <b>Nifty-50 Index (ex-energy)</b> | <b>1,839</b>       | <b>1,046</b>            | <b>17.5</b>         | <b>14.5</b> | <b>15.5</b> | <b>26.0</b> | <b>22.7</b> | <b>19.7</b> | <b>16.6</b>   | <b>14.5</b> | <b>12.7</b> | <b>4.2</b> | <b>3.9</b> | <b>3.4</b> | <b>1.2</b>     | <b>1.5</b> | <b>1.7</b> | <b>16.3</b> | <b>17.1</b> | <b>17.5</b> |
| <b>Nifty-50 Index (ex-banks)</b>  | <b>1,745</b>       | <b>844</b>              | <b>21.8</b>         | <b>11.6</b> | <b>14.1</b> | <b>25.9</b> | <b>23.2</b> | <b>20.4</b> | <b>13.9</b>   | <b>12.7</b> | <b>11.1</b> | <b>4.3</b> | <b>3.8</b> | <b>3.4</b> | <b>1.4</b>     | <b>1.5</b> | <b>1.7</b> | <b>16.4</b> | <b>16.4</b> | <b>16.7</b> |

Notes:

- (a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.
- (b) We use merged entity numbers for HDFC Bank from FY2024 onwards.

Source: Kotak Institutional Equities estimates

**Banks, IT services, metals & mining and telecommunication services to provide bulk of the incremental profits for FY2025 of the Nifty-50 Index**

**Exhibit 20: Break-up of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2020-26E (based on current constituents)**

|   | Net profits (Rs bn) |              |              |              |              |              | Contribution (%) |            |            |            |            | Incremental profits |              |            |            |            |              |            |
|---|---------------------|--------------|--------------|--------------|--------------|--------------|------------------|------------|------------|------------|------------|---------------------|--------------|------------|------------|------------|--------------|------------|
|   | 2020                | 2021         | 2022         | 2023         | 2024         | 2025E        | 2026E            | 2022       | 2023       | 2024       | 2025E      | 2026E               | 2024         |            | 2025E      |            | 2026E        |            |
|   |                     |              |              |              |              |              |                  |            |            |            |            |                     | (Rs bn)      | (%)        | (Rs bn)    | (%)        | (Rs bn)      | (%)        |
| Automobiles & Components                                  | 110                 | 150          | 70           | 279          | 595          | 672          | 737              | 1          | 4          | 8          | 8          | 8                   | 316          | 24         | 78         | 10         | 65           | 5          |
| Tata Motors   | (75)                | (14)         | (107)        | 7            | 200          | 253          | 281              | (2)        | 0          | 3          | 3          | 3                   | 192          | 15         | 53         | 7          | 29           | 2          |
| Banks   | 811                 | 992          | 1,354        | 1,860        | 2,149        | 2,251        | 2,575            | 24         | 29         | 28         | 26         | 27                  | 290          | 22         | 101        | 13         | 324          | 27         |
| Axis Bank   | 16                  | 66           | 130          | 212          | 250          | 261          | 295              | 2          | 3          | 3          | 3          | 3                   | 38           | 3          | 11         | 1          | 34           | 3          |
| HDFC Bank   | 441                 | 431          | 507          | 603          | 608          | 690          | 812              | 9          | 9          | 8          | 8          | 8                   | 5            | 0          | 82         | 11         | 121          | 10         |
| ICICI Bank  | 79                  | 162          | 233          | 319          | 409          | 416          | 459              | 4          | 5          | 5          | 5          | 5                   | 90           | 7          | 7          | 1          | 43           | 4          |
| State Bank of India                                       | 145                 | 204          | 317          | 502          | 611          | 595          | 684              | 5          | 8          | 8          | 7          | 7                   | 108          | 8          | (16)       | (2)        | 89           | 7          |
| Capital Goods   | 99                  | 77           | 93           | 128          | 160          | 210          | 272              | 2          | 2          | 2          | 2          | 3                   | 32           | 2          | 50         | 7          | 62           | 5          |
| Commodity Chemicals                                       | 26                  | 31           | 31           | 42           | 54           | 53           | 55               | 1          | 1          | 1          | 1          | 1                   | 12           | 1          | (1)        | (0)        | 2            | 0          |
| Construction Materials                                    | 115                 | 100          | 128          | 120          | 132          | 159          | 180              | 2          | 2          | 2          | 2          | 2                   | 13           | 1          | 26         | 4          | 21           | 2          |
| Consumer Staples  | 251                 | 258          | 286          | 338          | 381          | 399          | 442              | 5          | 5          | 5          | 5          | 5                   | 43           | 3          | 18         | 2          | 43           | 4          |
| Diversified Financials                                    | 111                 | 114          | 143          | 239          | 298          | 379          | 441              | 2          | 4          | 4          | 4          | 5                   | 59           | 5          | 82         | 11         | 62           | 5          |
| Electric Utilities  | 225                 | 290          | 301          | 324          | 364          | 390          | 423              | 5          | 5          | 5          | 5          | 4                   | 40           | 3          | 26         | 3          | 34           | 3          |
| Health Care Services                                      | 3                   | 1            | 8            | 8            | 9            | 16           | 21               | -          | -          | -          | -          | -                   | 1            | 0          | 7          | 1          | 4            | 0          |
| IT Services   | 759                 | 840          | 957          | 1,019        | 1,050        | 1,156        | 1,298            | 17         | 16         | 14         | 14         | 13                  | 31           | 2          | 107        | 14         | 142          | 12         |
| Insurance   | 27                  | 28           | 27           | 31           | 35           | 40           | 45               | 0          | -          | -          | -          | -                   | 4            | 0          | 5          | 1          | 5            | 0          |
| Metals & Mining   | 129                 | 222          | 774          | 248          | 219          | 407          | 526              | 13         | 4          | 3          | 5          | 5                   | (29)         | (2)        | 188        | 25         | 119          | 10         |
| Tata Steel  | 65                  | 85           | 426          | 86           | 34           | 127          | 189              | 7.4        | 1.3        | 0.4        | 1.5        | 1.9                 | (53)         | (4)        | 93         | 12.3       | 63           | 5          |
| Oil, Gas & Consumable Fuels                               | 745                 | 859          | 1,317        | 1,443        | 1,859        | 1,760        | 1,916            | 23         | 22         | 24         | 21         | 20                  | 416          | 32         | (99)       | (13)       | 156          | 13         |
| BPCL  | 21                  | 141          | 88           | 30           | 280          | 100          | 118              | 2          | 0          | 4          | 1          | 1                   | 250          | 19         | (180)      | (24)       | 19           | 2          |
| Coal India  | 167                 | 127          | 174          | 281          | 374          | 282          | 303              | 3          | 4          | 5          | 3          | 3                   | 92           | 7          | (92)       | (12)       | 21           | 2          |
| ONGC  | 162                 | 156          | 476          | 465          | 509          | 532          | 556              | 8          | 7          | 7          | 6          | 6                   | 44           | 3          | 24         | 3          | 23           | 2          |
| Reliance Industries                                       | 396                 | 435          | 579          | 667          | 696          | 845          | 939              | 10         | 10         | 9          | 10         | 10                  | 29           | 2          | 149        | 20         | 94           | 8          |
| Pharmaceuticals   | 91                  | 129          | 164          | 178          | 214          | 240          | 273              | 3          | 3          | 3          | 3          | 3                   | 35           | 3          | 26         | 3          | 34           | 3          |
| Retailing   | 15                  | 10           | 23           | 33           | 35           | 42           | 51               | -          | 1          | 0          | 0          | 1                   | 2            | 0          | 7          | 1          | 9            | 1          |
| Telecommunication Services                                | (36)                | (29)         | 26           | 90           | 113          | 228          | 324              | 0          | 1          | 1          | 3          | 3                   | 23           | 2          | 115        | 15         | 95           | 8          |
| Transportation  | 55                  | 43           | 56           | 83           | 90           | 106          | 132              | 1          | 1          | 1          | 1          | 1                   | 7            | 1          | 16         | 2          | 26           | 2          |
| <b>Nifty-50 Index</b>                                     | <b>3,535</b>        | <b>4,117</b> | <b>5,760</b> | <b>6,462</b> | <b>7,755</b> | <b>8,508</b> | <b>9,712</b>     | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b>          | <b>1,293</b> | <b>100</b> | <b>753</b> | <b>100</b> | <b>1,203</b> | <b>100</b> |
| <b>Nifty-50 change (%)</b>                                | <b>1.5</b>          | <b>16.5</b>  | <b>39.9</b>  | <b>12.2</b>  | <b>20.0</b>  | <b>9.7</b>   | <b>14.1</b>      |            |            |            |            |                     |              |            |            |            |              |            |
| <b>Nifty-50 Index ex-BPCL, HPCL &amp; Coal</b>            | <b>3,341</b>        | <b>3,787</b> | <b>5,463</b> | <b>6,200</b> | <b>7,021</b> | <b>8,093</b> | <b>9,250</b>     |            |            |            |            |                     |              |            |            |            |              |            |
| <b>Nifty-50 Index ex-BPCL, HPCL &amp; Coal change (%)</b> | <b>(1.1)</b>        | <b>13.3</b>  | <b>44.3</b>  | <b>13.5</b>  | <b>13.2</b>  | <b>15.3</b>  | <b>14.3</b>      |            |            |            |            |                     |              |            |            |            |              |            |
| <b>Nifty-50 EPS (FF)</b>                                  | <b>453</b>          | <b>535</b>   | <b>730</b>   | <b>813</b>   | <b>989</b>   | <b>1,092</b> | <b>1,248</b>     |            |            |            |            |                     |              |            |            |            |              |            |

Notes:

- (a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.
- (b) We exclude ONGC's ownership of HPCL for ex-HPCL computation.

Source: Bloomberg, Kotak Institutional Equities estimates

We note three other factors post the elections that may be relevant for the market—(1) the economic agenda of the new government, (2) the nature of the FY2025 union budget and composition of revenues and expenditure, which will give a better sense about the government's near-term economic agenda and (3) any change in the taxation structure, including for capital gains on equity. The latter would be an important variable for the market, as the current high gap between capital gains on debt and equity has probably resulted in domestic investors taking a more favorable view of equities (irrespective of valuations) relative to debt (fixed income) over the past 1-2 years. We note that that income on debt is taxed at the marginal tax rate of the taxpayer. The government had previously stated its intention to simplify India's direct tax structure through a Direct Tax Code (DTC). One of the key objectives of the DTC is to rationalize capital gains tax, which varies widely across asset classes in terms of (1) duration (for determining whether short-term or long-term capital gains tax rate will be applicable), (2) magnitude and (3) methodology. Exhibit 21 shows the capital gains tax rate on various asset classes.



### Equities attract significantly lower capital gains tax compared to other asset classes

Exhibit 21: Capital gains tax for various asset classes in India, May 2024 (%)

| Asset  | Holding period<br>(months) | Tax rates (%) |           |
|--|----------------------------|---------------|-----------|
|  |                            | Short-term    | Long-term |
| Equity shares/preference shares (listed)     | 12                         | 15            | 10        |
| Equity shares/preference shares (unlisted)   | 24                         | Marginal      | 10        |
| Immovable property                           | 24                         | Marginal      | 20        |
| Listed securities (bonds, derivatives, etc.) | 12                         | Marginal      | 20        |
| Units of UTI                                 | 12                         | Marginal      | 20        |
| Units of equity-oriented mutual funds        | 12                         | 15            | 10        |
| Units of debt-oriented mutual funds          | 36                         | Marginal      | 20        |
| Bank deposit                                 | NA                         | Marginal      | Marginal  |
| Gold   | 24                         | Marginal      | 20        |

Notes:

(a) Indexation benefit is available for immovable property.

Source: Ministry of Finance, Kotak Institutional Equities

### Some break in the pattern perhaps

In our view, the key debate for investors over the next few months would be whether the market sees (1) a repetition of the past pattern in terms of large magnitude of market returns and wide dispersion in performance of various sectors over the past 1-2 years or (2) a break from the past with more moderate market returns and convergence in performance of sectors. A few sectors (investment-related, PSUs) and several mid-cap. and small-cap. stocks have done exceedingly well in the past 12-15 months (see Exhibits 22-24) led by genuine positive developments in certain investment-related sectors but also, general euphoria in the market.

**Several top large-cap. stocks have given modest returns over the past 2-3 years**

**Exhibit 22: 1Y, 2Y and 3Y performance of stocks in Nifty-50 Index (sorted on market cap. basis)**

| Company                 | Sector                      | Market cap.<br>(US\$ bn) | Performance (%) |           |           |
|-------------------------|-----------------------------|--------------------------|-----------------|-----------|-----------|
|                         |                             |                          | 1Y              | 2Y        | 3Y        |
| Reliance Industries     | Oil, Gas & Consumable Fuels | 231                      | 27              | 19        | 45        |
| TCS                     | IT Services                 | 162                      | 14              | 11        | 18        |
| HDFC Bank               | Banks                       | 138                      | (6)             | 9         | (0)       |
| ICICI Bank              | Banks                       | 94                       | 17              | 48        | 68        |
| Hindustan Unilever      | Consumer Staples            | 66                       | (12)            | (0)       | 0         |
| Infosys                 | IT Services                 | 71                       | 8               | (5)       | 2         |
| ITC                     | Consumer Staples            | 64                       | (5)             | 57        | 96        |
| Bharti Airtel           | Telecommunication Services  | 99                       | 62              | 97        | 162       |
| State Bank of India     | Banks                       | 88                       | 42              | 76        | 95        |
| Bajaj Finance           | Diversified Financials      | 49                       | (5)             | 9         | 18        |
| L&T                     | Capital Goods               | 60                       | 65              | 120       | 148       |
| Kotak Mahindra Bank     | Banks                       | 40                       | (16)            | (8)       | (7)       |
| HCL Technologies        | IT Services                 | 43                       | 16              | 28        | 41        |
| Maruti Suzuki           | Automobiles & Components    | 47                       | 34              | 58        | 78        |
| Axis Bank               | Banks                       | 43                       | 28              | 70        | 56        |
| Asian Paints            | Commodity Chemicals         | 33                       | (10)            | 1         | (3)       |
| Titan Company           | Retailing                   | 35                       | 16              | 48        | 105       |
| Sun Pharmaceuticals     | Pharmaceuticals             | 42                       | 50              | 70        | 118       |
| Adani Enterprises       | Capital Goods               | 44                       | 28              | 47        | 143       |
| Bajaj Finserv           | Diversified Financials      | 29                       | 5               | 18        | 29        |
| Tata Motors             | Automobiles & Components    | 42                       | 76              | 108       | 190       |
| Ultratech Cement        | Construction Materials      | 34                       | 25              | 62        | 47        |
| Nestle India            | Consumer Staples            | 28                       | 11              | 36        | 36        |
| ONGC                    | Oil, Gas & Consumable Fuels | 40                       | 72              | 76        | 135       |
| NTPC                    | Electric Utilities          | 42                       | 107             | 131       | 226       |
| Wipro                   | IT Services                 | 27                       | 8               | (9)       | (19)      |
| Mahindra & Mahindra     | Automobiles & Components    | 37                       | 89              | 141       | 209       |
| Coal India              | Oil, Gas & Consumable Fuels | 36                       | 100             | 150       | 226       |
| Power Grid              | Electric Utilities          | 34                       | 75              | 76        | 142       |
| JSW Steel               | Metals & Mining             | 26                       | 27              | 60        | 24        |
| Adani Ports and SEZ     | Transportation              | 36                       | 87              | 87        | 80        |
| Bajaj Auto              | Automobiles & Components    | 30                       | 96              | 132       | 114       |
| LTIMindtree             | IT Services                 | 17                       | (5)             | 12        | 21        |
| Tata Steel              | Metals & Mining             | 25                       | 55              | 55        | 46        |
| HDFC Life Insurance     | Insurance                   | 14                       | (7)             | (8)       | (17)      |
| SBI Life Insurance      | Insurance                   | 17                       | 12              | 18        | 41        |
| Grasim Industries       | Construction Materials      | 19                       | 37              | 65        | 60        |
| IndusInd Bank           | Banks                       | 14                       | 12              | 55        | 43        |
| Britannia Industries    | Consumer Staples            | 15                       | 12              | 43        | 51        |
| Hindalco Industries     | Metals & Mining             | 19                       | 71              | 65        | 76        |
| Tech Mahindra           | IT Services                 | 13                       | 11              | 5         | 21        |
| Cipla                   | Pharmaceuticals             | 14                       | 54              | 48        | 55        |
| Eicher Motors           | Automobiles & Components    | 16                       | 29              | 71        | 77        |
| Dr Reddy's Laboratories | Pharmaceuticals             | 12                       | 31              | 34        | 11        |
| Divis Laboratories      | Pharmaceuticals             | 14                       | 28              | 23        | 5         |
| Tata Consumer Products  | Consumer Staples            | 12                       | 34              | 40        | 61        |
| BPCL                    | Oil, Gas & Consumable Fuels | 16                       | 72              | 92        | 33        |
| Apollo Hospitals        | Health Care Services        | 10                       | 25              | 45        | 82        |
| Hero Motocorp           | Automobiles & Components    | 12                       | 86              | 85        | 71        |
| Shriram Finance         | Diversified Financials      | 10                       | 65              | 96        | 61        |
| <b>Nifty-50 Index</b>   |                             | <b>2,163</b>             | <b>21</b>       | <b>36</b> | <b>44</b> |

Source: Bloomberg, Kotak Institutional Equities

Steep increase in stock prices of several mid-cap. stocks

Exhibit 23: 6M, 12M and CYTD 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>1</b>        | <b>6.4</b> | <b>20</b> | <b>53</b> | <b>11</b> |                          |                        |                 |      |      |      |      |  |
| 1 BSE                          | Financials             | (8)             | 8          | 3         | 371       | 15        | 51 L&T Finance Holdings  | Financials             | (8)             | (8)  | 3    | 47   | (7)  |  |
| 2 Suzlon Energy                | Industrials            | 9               | 0          | 11        | 326       | 19        | 52 KPIT Technologies     | Information Technology | (2)             | -6-  | (2)  | 45   | (3)  |  |
| 3 Mazagon Dock                 | Industrials            | 40              | 58         | 64        | 312       | 44        | 53 Max Healthcare        | Health Care            | (7)             | (2)  | 22   | 45   | 13   |  |
| 4 SJVN                         | Utilities              | (1)             | 10         | 57        | 273       | 47        | 54 Indian Hotels Co      | Consumer Discretionary | (3)             | (5)  | 32   | 45   | 27   |  |
| 5 Kalyan Jewellers             | Consumer Discretionary | (7)             | (3)        | 18        | 265       | 9         | 55 Aditya Birla Fashion  | Consumer Discretionary | 11              | 30   | 26   | 43   | 31   |  |
| 6 BHEL                         | Industrials            | 3               | 28         | 71        | 254       | 50        | 56 Yes Bank              | Financials             | (14)            | (8)  | 17   | 42   | 5    |  |
| 7 Rail Vikas                   | Industrials            | 34              | 57         | 133       | 231       | 111       | 57 Patanjali Foods       | Consumer Staples       | (6)             | (7)  | 2    | 40   | (9)  |  |
| 8 Prestige Estates             | Real Estate            | 12              | 33         | 54        | 226       | 31        | 58 Balkrishna Industries | Consumer Discretionary | 28              | 39   | 21   | 40   | 21   |  |
| 9 Bharat Dynamics              | Industrials            | 57              | 71         | 166       | 195       | 81        | 59 Persistent System     | Information Technology | 4               | (18) | 10   | 39   | (5)  |  |
| 10 Torrent Power               | Utilities              | (4)             | 34         | 49        | 154       | 54        | 60 ACC                   | Materials              | (1)             | (5)  | 33   | 39   | 13   |  |
| 11 Dixon Technologies          | Consumer Discretionary | 12              | 39         | 69        | 153       | 42        | 61 Tata Communications   | Communication Services | 2               | (8)  | 3    | 38   | (0)  |  |
| 12 Macrotech Developers        | Real Estate            | 7               | 13         | 50        | 151       | 29        | 62 APL Apollo Tubes      | Materials              | (2)             | (1)  | (9)  | 38   | (0)  |  |
| 13 Oil India                   | Energy                 | 1               | 15         | 106       | 145       | 69        | 63 Petronet LNG          | Energy                 | (5)             | 7    | 45   | 36   | 32   |  |
| 14 JSW Energy                  | Utilities              | (3)             | 20         | 49        | 133       | 49        | 64 Max Financial         | Financials             | (8)             | (5)  | (9)  | 32   | (3)  |  |
| 15 NMDC                        | Materials              | (2)             | 10         | 37        | 133       | 19        | 65 Poonawalla Fin        | Financials             | (9)             | (4)  | 10   | 32   | 3    |  |
| 16 NHPC                        | Utilities              | 5               | 15         | 86        | 131       | 56        | 66 Aditya Birla Cap      | Financials             | (4)             | 21   | 32   | 29   | 33   |  |
| 17 Bank of Maharashtra         | Financials             | (4)             | 13         | 53        | 128       | 49        | 67 Laurus Labs           | Health Care            | (5)             | 6    | 13   | 29   | (0)  |  |
| 18 FACT                        | Materials              | (4)             | (5)        | (4)       | 127       | (15)      | 68 Dr Lal Pathlabs       | Health Care            | 11              | 12   | (3)  | 29   | 2    |  |
| 19 Indus Towers                | Communication Services | (3)             | 36         | 86        | 119       | 73        | 69 Tube Investments      | Consumer Discretionary | (1)             | 6    | 10   | 29   | 4    |  |
| 20 Union Bank (I)              | Financials             | (1)             | 4          | 41        | 117       | 28        | 70 MRF                   | Consumer Discretionary | (6)             | (14) | 12   | 29   | (3)  |  |
| 21 Indian Bank                 | Financials             | 6               | 10         | 46        | 114       | 38        | 71 FSN E-Commerce        | Consumer Discretionary | (9)             | 3    | (8)  | 29   | (7)  |  |
| 22 HPCL                        | Energy                 | 8               | 5          | 54        | 108       | 34        | 72 Biocon                | Health Care            | 4               | 12   | 30   | 29   | 25   |  |
| 23 Oracle                      | Information Technology | (2)             | (3)        | 85        | 107       | 76        | 73 Federal Bank          | Financials             | (1)             | 7    | 9    | 28   | 3    |  |
| 24 Vodafone Idea               | Communication Services | 11              | 7          | 12        | 106       | (9)       | 74 Apollo Tyres          | Consumer Discretionary | (9)             | (10) | 9    | 21   | 3    |  |
| 25 Cummins India               | Industrials            | 10              | 31         | 88        | 105       | 83        | 75 Sona BLW              | Consumer Discretionary | 2               | (7)  | 14   | 20   | (1)  |  |
| 26 Gland Pharma                | Health Care            | 8               | 5          | 4         | 104       | (4)       | 76 L&T Technology        | Industrials            | (2)             | (14) | (5)  | 17   | (13) |  |
| 27 Bharat Forge                | Consumer Discretionary | 22              | 35         | 39        | 99        | 26        | 77 Astral                | Industrials            | (1)             | 2    | 8    | 17   | 10   |  |
| 28 PB Fintech                  | Financials             | (6)             | 2          | 43        | 98        | 50        | 78 Mphasis               | Information Technology | (0)             | (12) | (2)  | 17   | (16) |  |
| 29 GMR Airports Infrastructure | Industrials            | (5)             | (4)        | 36        | 98        | 1         | 79 Coforge               | Information Technology | (2)             | (24) | (13) | 14   | (20) |  |
| 30 Lupin                       | Health Care            | (4)             | (3)        | 23        | 97        | 19        | 80 IDFC First Bank       | Financials             | (6)             | (4)  | (9)  | 8    | (13) |  |
| 31 Godrej Properties           | Real Estate            | 3               | 13         | 45        | 96        | 35        | 81 Tata Chemicals        | Materials              | (3)             | 11   | 8    | 8    | (5)  |  |
| 32 Oberoi Realty               | Real Estate            | 22              | 35         | 29        | 94        | 25        | 82 Delhivery             | Industrials            | (13)            | (17) | 0    | 7    | 1    |  |
| 33 Supreme Industries          | Materials              | 9               | 33         | 24        | 93        | 21        | 83 Gujarat Gas           | Utilities              | (1)             | (4)  | 25   | 7    | 17   |  |
| 34 Polycab India               | Industrials            | 18              | 41         | 27        | 93        | 22        | 84 Deepak Nitrite        | Materials              | (10)            | (1)  | (1)  | 5    | (12) |  |
| 35 HDFC AMC                    | Financials             | (4)             | (0)        | 26        | 92        | 17        | 85 Jubilant Food.        | Consumer Discretionary | 9               | 8    | (10) | 3    | (11) |  |
| 36 SAIL                        | Materials              | (4)             | 30         | 71        | 90        | 28        | 86 Piramal Enterprises   | Financials             | (13)            | (13) | (14) | 3    | (14) |  |
| 37 Aurobindo Pharma            | Health Care            | 4               | 17         | 15        | 84        | 11        | 87 PI Industries         | Materials              | (3)             | (3)  | (6)  | 2    | 1    |  |
| 38 Escorts Kubota              | Industrials            | 15              | 35         | 22        | 83        | 29        | 88 Page Industries       | Consumer Discretionary | 9               | 11   | 2    | (2)  | (1)  |  |
| 39 Ipcalab                     | Health Care            | (7)             | 5          | 10        | 82        | 12        | 89 Tata Elxsi            | Information Technology | 2               | (8)  | (13) | (3)  | (18) |  |
| 40 Bank of India               | Financials             | (17)            | (3)        | 23        | 71        | 14        | 90 Indraprastha Gas      | Utilities              | (3)             | 7    | 17   | (5)  | 9    |  |
| 41 CG Power                    | Industrials            | 17              | 46         | 44        | 68        | 42        | 91 Syngene International | Health Care            | (2)             | (4)  | (10) | (5)  | (4)  |  |
| 42 LIC Housing Finance         | Financials             | (6)             | (2)        | 29        | 67        | 18        | 92 MMFSL                 | Financials             | 1               | (7)  | (4)  | (8)  | (5)  |  |
| 43 Voltas                      | Industrials            | (8)             | 22         | 63        | 64        | 38        | 93 Dalmia Bharat         | Materials              | -4-             | (13) | (20) | (17) | (22) |  |
| 44 Fortis Healthcare           | Health Care            | 4               | 11         | 18        | 62        | 8         | 94 AU Small Finance      | Financials             | 1               | 12   | (14) | (18) | (19) |  |
| 45 Container Corp.             | Industrials            | 4               | 9          | 37        | 59        | 24        | 95 Zee Entertainment     | Communication Services | 4               | (5)  | (40) | (22) | (45) |  |
| 46 Mankind Pharma              | Health Care            | (11)            | (2)        | 10        | 54        | 6         | 96 UPL                   | Materials              | (0)             | 8    | (11) | (27) | (14) |  |
| 47 IDBI Bank                   | Financials             | (7)             | (3)        | 34        | 53        | 24        | 97 Bandhan Bank          | Financials             | (1)             | (5)  | (18) | (30) | (23) |  |
| 48 Ashok Leyland               | Industrials            | 14              | 29         | 20        | 51        | 21        | 98 JSW Infrastructure    | Industrials            | 12              | 9    | 33   | NA   | 35   |  |
| 49 Sun TV Network              | Communication Services | 2               | 9          | (1)       | 50        | (6)       | 99 Tata Technologies     | Information Technology | (2)             | (3)  | NA   | NA   | (11) |  |
| 50 Alkem Lab                   | Health Care            | 2               | (4)        | 5         | 47        | (5)       | 100 Mankind Pharma       | Health Care            | (11)            | (2)  | 10   | NA   | 6    |  |

Source: Bloomberg, Kotak Institutional Equities

**Steep increase in stock prices of several small-cap. stocks**

**Exhibit 24: 6M, 12M and CYTD performance of stocks in Nifty Smallcap 100 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 Smallcap 100 Index</b> |                        | <b>(2)</b>      | <b>4.0</b> | <b>17</b> | <b>65</b> | <b>10</b> |                                 |                        |                 |      |      |      |      |  |
| 1 Cochin Shipyard               | Industrials            | 50              | 124        | 225       | 691       | 189       | 51 Amber Enterprises            | Consumer Discretionary | -9-             | (5)  | 15   | 64   | 12   |  |
| 2 HUDCO                         | Financials             | 17              | 37         | 205       | 359       | 108       | 52 J B Chemicals                | Health Care            | (9)             | 11-  | 20   | 64   | 7    |  |
| 3 Titagarh Rail System          | Industrials            | 28              | 45         | 40        | 286       | 30        | 53 CAMS Services                | Industrials            | 8-              | 13   | 24   | 62   | 31   |  |
| 4 IRCON International           | Industrials            | 8               | 18         | 63        | 238       | 58        | 54 HFCL                         | Communication Services | 1               | (5)  | 52   | 60   | 21   |  |
| 5 NBCC                          | Industrials            | (2)             | 2          | 80        | 222       | 68        | 55 Welspun Living               | Consumer Discretionary | -8-             | (10) | (12) | 58   | (4)  |  |
| 6 Hindustan Copper              | Materials              | (8)             | 32         | 105       | 220       | 30        | 56 Intellect Design             | Information Technology | (18)            | (20) | 21   | 56   | 6    |  |
| 7 MRPL                          | Energy                 | (17)            | (9)        | 71        | 210       | 56        | 57 Triveni Turbine              | Industrials            | 11              | 19   | 38   | 55   | 40   |  |
| 8 ITI                           | Information Technology | (1)             | 2          | 13        | 189       | (0)       | 58 PNB Housing                  | Financials             | (6)             | 7-   | (4)  | 54   | (5)  |  |
| 9 Apar Industries               | Industrials            | (1)             | 25         | 40        | 188       | 29        | 59 GE Shipping                  | Energy                 | (6)             | 2    | 18   | 51   | 5    |  |
| 10 Tata Investment Corp         | Financials             | (3)             | (12)       | 52        | 187       | 50        | 60 Manappuram Finance           | Financials             | (16)            | (5)  | 2    | 51   | (2)  |  |
| 11 IOB                          | Financials             | (1)             | 4          | 72        | 180       | 56        | 61 RBL Bank                     | Financials             | (7)             | (7)  | 3    | 49   | (13) |  |
| 12 Swan Energy                  | Consumer Discretionary | (2)             | (19)       | 43        | 165       | 18        | 62 Firstsour.Solu.              | Industrials            | (11)            | (9)  | 6    | 47   | 2    |  |
| 13 Himadri Speciality Chemical  | Materials              | (12)            | (10)       | 21        | 162       | 7         | 63 NMDC Steel                   | Materials              | (8)             | (4)  | 34   | 46   | 15   |  |
| 14 Century Textiles             | Materials              | 5               | 48         | 65        | 162       | 71        | 64 Crompton Greaves Consumer    | Consumer Discretionary | 23              | 34   | 37   | 42   | 26   |  |
| 15 JBM Auto                     | Consumer Discretionary | 7               | (6)        | 64        | 158       | 39        | 65 Chambal Fertilisers          | Materials              | (6)             | 14   | 25   | 42   | 7    |  |
| 16 Multi Commodity Exchange     | Financials             | (12)            | (4)        | 13        | 149       | 13        | 66 KEC International            | Industrials            | 1               | 4    | 31   | 41   | 28   |  |
| 17 NCC                          | Industrials            | 18              | 16         | 72        | 149       | 71        | 67 Raymond                      | Consumer Discretionary | 4               | 19   | 45   | 39   | 27   |  |
| 18 Nippon Life India AMC        | Financials             | 3               | 18         | 45        | 147       | 36        | 68 Cyient                       | Information Technology | (4)             | (14) | (10) | 35   | (24) |  |
| 19 Olectra Greentech            | Industrials            | 2               | (11)       | 47        | 146       | 31        | 69 Narayana Hrudayalaya         | Health Care            | (9)             | (13) | (5)  | 35   | (3)  |  |
| 20 NLC India                    | Utilities              | (10)            | (2)        | 28        | 141       | (14)      | 70 Radico Khaitan               | Consumer Staples       | (10)            | 1    | 5    | 35   | (5)  |  |
| 21 Exide Industries             | Consumer Discretionary | 5               | 55         | 75        | 140       | 57        | 71 Ujjivan Small Finance Bank   | Financials             | (9)             | (8)  | (14) | 34   | (14) |  |
| 22 Central Bank                 | Financials             | (6)             | 1          | 44        | 137       | 27        | 72 Five-Star Business Finance   | Financials             | (6)             | 1    | (5)  | 30   | (3)  |  |
| 23 GMDC                         | Energy                 | (9)             | (1)        | (7)       | 135       | (6)       | 73 Praj Industries              | Industrials            | (8)             | 0    | (22) | 30   | (10) |  |
| 24 IRB Infra                    | Industrials            | (4)             | 4          | 76        | 132       | 57        | 74 CEAT                         | Consumer Discretionary | (8)             | (17) | 12   | 23   | (3)  |  |
| 25 J&K Bank                     | Financials             | (8)             | (12)       | 15        | 128       | 2         | 75 Affle India                  | Communication Services | 3               | 3    | 4    | 22   | (11) |  |
| 26 National Aluminium           | Materials              | 2               | 22         | 106       | 125       | 44        | 76 Mahanagar Gas                | Utilities              | (11)            | (13) | 24   | 22   | 7    |  |
| 27 UCO Bank                     | Financials             | (2)             | (1)        | 48        | 114       | 41        | 77 Tanla Platforms              | Information Technology | 2               | (5)  | 1    | 22   | (15) |  |
| 28 CDSL                         | Financials             | (2)             | 8          | 9         | 111       | 13        | 78 Tata Tele                    | Communication Services | (10)            | (15) | (22) | 20   | (19) |  |
| 29 Shyam Metalics & Energy      | Materials              | (1)             | (5)        | 32        | 107       | (1)       | 79 Aarti Industries             | Materials              | (18)            | -7-  | 10   | 19   | (6)  |  |
| 30 CESC                         | Utilities              | (3)             | 13         | 47        | 106       | 8         | 80 CIE Automotive               | Consumer Discretionary | 10              | 22-  | 13   | 17   | 15   |  |
| 31 Blue Star                    | Industrials            | 0               | 18         | 50        | 106       | 58        | 81 IDFC                         | Financials             | (6)             | (2)  | (4)  | 15   | (10) |  |
| 32 Alok Industries              | Consumer Discretionary | (6)             | (11)       | 31        | 102       | 20        | 82 Trident                      | Consumer Discretionary | (6)             | (13) | 2    | 14   | 2    |  |
| 33 Jyothy Labs                  | Consumer Staples       | (5)             | (11)       | (5)       | 98        | (14)      | 83 City Union Bank              | Financials             | (11)            | 5    | (3)  | 14   | (4)  |  |
| 34 Amara Raja Energy & Mobility | Industrials            | 8               | 42         | 68        | 96        | 46        | 84 Redington                    | Information Technology | (10)            | (5)  | 23   | 13   | 12   |  |
| 35 Global Health                | Health Care            | (20)            | (15)       | 21        | 95        | 21        | 85 AAVAS Financiers             | Financials             | (4)             | 8    | 9    | 12   | 2    |  |
| 36 Glenmark Pharma.             | Health Care            | 9               | 25         | 48        | 94        | 35        | 86 CreditAccess Gramin          | Financials             | (13)            | (10) | (22) | 10   | (17) |  |
| 37 Angel One                    | Financials             | (11)            | (11)       | (19)      | 91        | (29)      | 87 GNFC                         | Materials              | (10)            | (0)  | (7)  | 8    | (15) |  |
| 38 Rites                        | Industrials            | 2               | (10)       | 49        | 87        | 39        | 88 Equitas Small Finance Bank   | Financials             | (3)             | (6)  | 0    | 7    | (11) |  |
| 39 Finolex Cables               | Industrials            | 39              | 59         | 51        | 85        | 37        | 89 Sonata Software              | Information Technology | (25)            | (36) | (24) | 7    | (30) |  |
| 40 Karur Vysya Bank             | Financials             | (4)             | 7          | 27        | 85        | 16        | 90 Can Fin Homes                | Financials             | (6)             | (7)  | (8)  | 4    | (7)  |  |
| 41 Birlasoft                    | Information Technology | (6)             | (21)       | (3)       | 81        | (15)      | 91 Indian Energy Exchange       | Financials             | (1)             | 9    | 7    | 0    | (8)  |  |
| 42 Piramal Pharma               | Health Care            | 1               | 10         | 15        | 78        | 5         | 92 IIFL Finance                 | Financials             | 0               | (29) | (31) | (4)  | (30) |  |
| 43 Graphite India               | Industrials            | (16)            | (5)        | 13        | 77        | 3         | 93 GSPL                         | Utilities              | (2)             | (22) | 0    | (5)  | (6)  |  |
| 44 Ramkrishna Forgings          | Materials              | (11)            | (14)       | (16)      | 75        | (8)       | 94 Shree Renuka Sugar           | Consumer Staples       | (10)            | (13) | (19) | (7)  | (14) |  |
| 45 Data Pattern                 | Industrials            | (4)             | 14         | 41        | 71        | 53        | 95 PVR Inox                     | Communication Services | (4)             | (4)  | (24) | (7)  | (21) |  |
| 46 BLS International            | Industrials            | (11)            | (15)       | 18        | 71        | (2)       | 96 Indiamart                    | Industrials            | (8)             | (8)  | (6)  | (11) | (10) |  |
| 47 Tejas Networks               | Information Technology | (1)             | 52         | 42        | 70        | 30        | 97 Happiest Minds               | Information Technology | (3)             | (7)  | (6)  | (12) | (12) |  |
| 48 Zensar Technologies          | Information Technology | 2               | 14         | 16        | 69        | 2         | 98 Navin Fluorine International | Materials              | (5)             | 7    | (13) | (31) | (16) |  |
| 49 Castrol India                | Materials              | (11)            | (10)       | 36        | 65        | 4         | 99 Honasa Consumer              | Consumer Staples       | (2)             | 2    | 1    | NA   | (4)  |  |
| 50 Natco Pharma                 | Health Care            | 0               | 3          | 29        | 65        | 26        | 100 RR Kabel                    | Industrials            | 4               | 20   | 6    | NA   | 10   |  |

Source: Bloomberg, Kotak Institutional Equities

We examine the key issues for investors from a portfolio perspective against (1) the backdrop of expensive valuations across most sectors and stocks, (2) macroeconomic outlook and (3) potential government policies and priorities.

- ▶ **Banks and NBFCs may make a comeback with possible RoE-linked returns.** Banks and NBFCs may see more interest from investors given (1) their reasonable valuations, especially of the large-cap. private banks, after a period of meaningful underperformance (see Exhibit 25 for performance of the major private and PSU banks over the past one, three and five years on absolute basis and relative to the Nifty-50 Index), (2) likely stabilization in NIMs over the next 1-2 quarters after a period of sharp decline in NIMs, (3) limited issues in credit growth and/or credit quality; we are not seeing any weakness in credit scores of sub-prime or near-prime borrowers (see Exhibit 26) and the RBI has been

quick to contain any potential increase in NPLs in personal unsecured loans and (4) the RBI's tougher monitoring of loans by banks to NBFCs and by NBFCs to final borrowers.

**Private banks have largely underperformed the market**

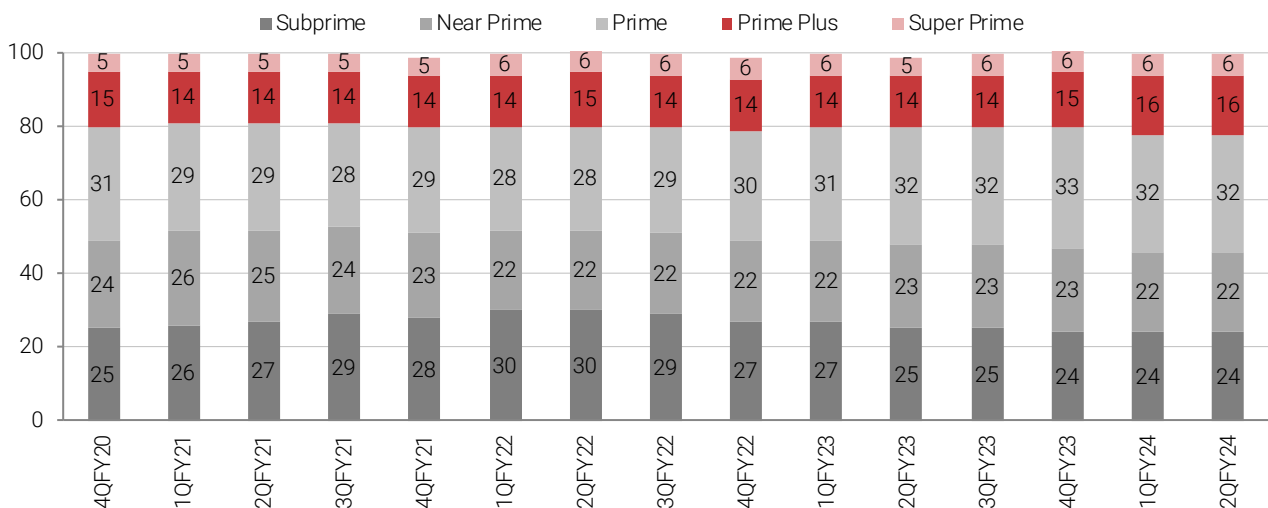
Exhibit 25: Performance of private and PSU banks, May 2024 (%)

|                      | Absolute (%) |      |      | Relative to Nifty-50 Index (%) |      |       |
|----------------------|--------------|------|------|--------------------------------|------|-------|
|                      | 1-yr         | 3-yr | 5-yr | 1-yr                           | 3-yr | 5-yr  |
| <b>Private banks</b> |              |      |      |                                |      |       |
| Axis Bank            | 25           | 58   | 45   | 4                              | 13   | (43)  |
| Bandhan Bank         | (30)         | (38) | (69) | (51)                           | (84) | (157) |
| City Union Bank      | 14           | (18) | (33) | (6)                            | (64) | (121) |
| DCB Bank             | 9            | 22   | (46) | (12)                           | (24) | (134) |
| Federal Bank         | 28           | 80   | 48   | 7                              | 34   | (40)  |
| HDFC Bank            | (7)          | 1    | 24   | (28)                           | (45) | (64)  |
| ICICI Bank           | 17           | 73   | 161  | (3)                            | 27   | 73    |
| IndusInd Bank        | 12           | 42   | (9)  | (9)                            | (4)  | (97)  |
| Karur Vysya Bank     | 84           | 238  | 146  | 64                             | 192  | 58    |
| YES Bank             | 42           | 69   | (85) | 21                             | 23   | (174) |
| <b>PSU banks</b>     |              |      |      |                                |      |       |
| Bank of Baroda       | 43           | 213  | 95   | 22                             | 168  | 6     |
| Canara Bank          | 87           | 255  | 111  | 66                             | 210  | 23    |
| Punjab National Bank | 148          | 202  | 56   | 127                            | 156  | (32)  |
| State Bank of India  | 39           | 96   | 134  | 19                             | 50   | 45    |
| Union Bank           | 118          | 347  | 96   | 97                             | 301  | 8     |

Source: Bloomberg, Kotak Institutional Equities

**The distribution of customer (borrower) segments does not point to any signs of stress**

Exhibit 26: Borrower distribution by risk tier, 4QFY20-2QFY24 (% of borrowers)



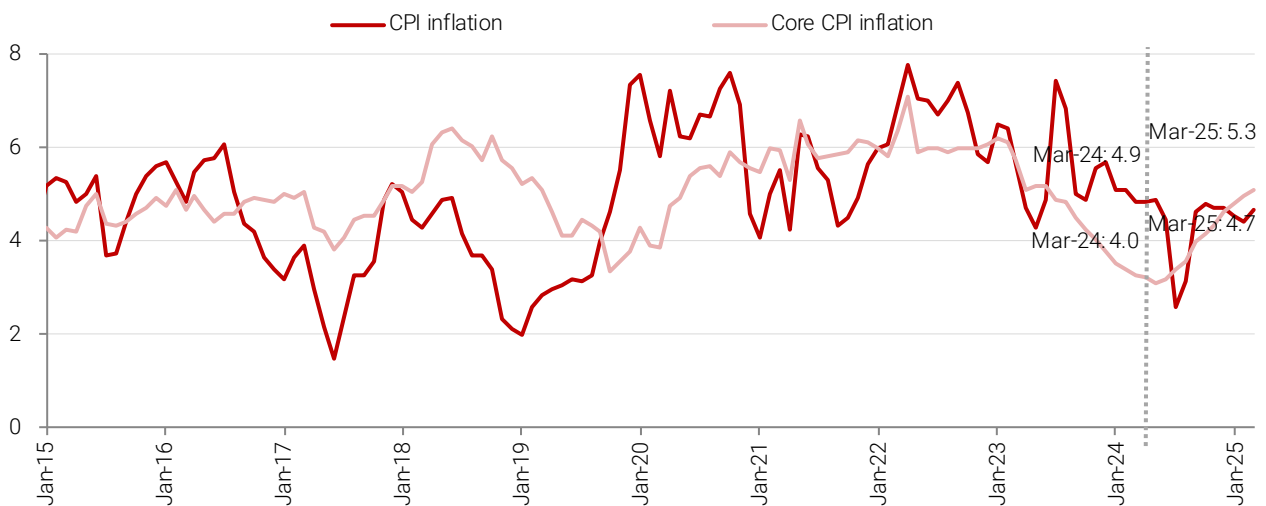
Source: TransUnion CIBIL, Kotak Institutional Equities

Most banks and NBFCs could see more steady RoE-linked returns over the next 12 months after a period of meaningful change in multiples—derating for certain private banks and rerating for most public banks. We do not see much for further derating in multiples of the private banks from current levels or further rerating in multiples of PSU banks from current levels.

We are not overly perturbed about a possible reduction in policy and interest rates over the next few quarters, which could result in further compression in NIMs of banks and NBFCs. We see limited potential for rate cuts (25-50 bps) by the end of FY2025 noting (1) moderately high inflation through FY2025; we expect average CPI inflation of 4.4% for FY2025 and end-FY2025 CPI inflation around 4.7% (see Exhibits 27-28), which is above the RBI’s target of 4% (mid-point of target inflation band) but in line with the RBI’s expectations and (2) inherent upside risks to inflation from volatile food prices, especially of perishable items such as fruits and vegetables. We note that food inflation has been quite volatile for the past several years (see Exhibit 29) and would likely remain so in an era of climate change and global warming.

**We expect FY2025 average headline inflation at 4.4%; core inflation to average 4%**

Exhibit 27: Headline and core CPI inflation (%)



Source: CEIC, Kotak Institutional Equities estimates

**RBI expects average inflation estimate projected at 4.5% for FY2025**

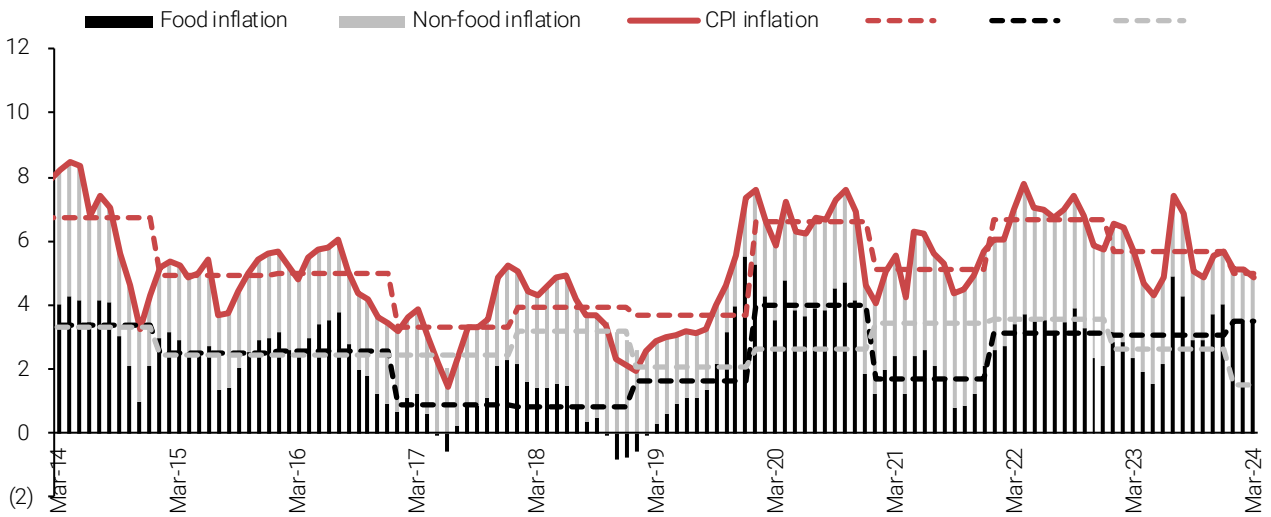
Exhibit 28: RBI’s estimates for real GDP growth and CPI inflation across various policies, March fiscal year-ends (%)

|               | CPI inflation (%) |            |            |            |            |            |            | Kotak      |
|---------------|-------------------|------------|------------|------------|------------|------------|------------|------------|
|               | Apr policy        | Jun policy | Aug policy | Oct policy | Dec policy | Feb policy | Apr policy |            |
| 1QFY24        | 5.1               | 4.6        |            |            |            |            |            |            |
| 2QFY24        | 5.4               | 5.2        | 6.2        | 6.4        |            |            |            |            |
| 3QFY24        | 5.4               | 5.4        | 5.7        | 5.6        | 5.6        |            |            |            |
| 4QFY24        | 5.2               | 5.2        | 5.2        | 5.2        | 5.2        | 5.0        |            | 5.0        |
| <b>FY2024</b> | <b>5.2</b>        | <b>5.1</b> | <b>5.4</b> | <b>5.4</b> | <b>5.4</b> | <b>5.4</b> |            | <b>5.4</b> |
| 1QFY25        |                   |            | 5.2        | 5.2        | 5.2        | 5.0        | 4.9        | 5.0        |
| 2QFY25        |                   |            |            |            | 4.0        | 4.0        | 3.8        | 3.6        |
| 3QFY25        |                   |            |            |            | 4.7        | 4.6        | 4.6        | 4.9        |
| 4QFY25        |                   |            |            |            |            | 4.7        | 4.5        | 4.7        |
| <b>FY2025</b> |                   |            |            |            |            | <b>4.5</b> | <b>4.5</b> | <b>4.5</b> |

Source: RBI, Kotak Economics Research estimates

**Volatile food inflation poses upside risk to CPI inflation**

Exhibit 29: Contribution of food inflation and non-food inflation to CPI inflation, March fiscal year-ends, 2014-24 (%)



Source: CEIC, Kotak Institutional Equities

- **Consumption stocks (staples) may see some interest.** Consumer staples stocks may see some respite from a long period of underperformance (see Exhibit 30 for performance for the major staples and discretionary stocks over the past one, three and five years on absolute basis and relative to the Nifty-50 Index) linked to gradual recovery in volumes. However, the valuations of consumer stocks are on the higher side still relative to the mediocre growth in their volumes.

**Consumer staples have seen large underperformance**

**Exhibit 30: Performance of consumer staples and consumer discretionary stocks, May 2024 (%)**

| Company                         | Sector                      | Absolute (%) |      |      | Relative to Nifty-50 Index (%) |      |       |
|---------------------------------|-----------------------------|--------------|------|------|--------------------------------|------|-------|
|                                 |                             | 1-yr         | 3-yr | 5-yr | 1-yr                           | 3-yr | 5-yr  |
| Bajaj Auto                      | Automobiles & Components    | 95           | 114  | 205  | 75                             | 68   | 116   |
| Eicher Motors                   | Automobiles & Components    | 29           | 80   | 138  | 8                              | 34   | 50    |
| Hero Motocorp                   | Automobiles & Components    | 86           | 72   | 89   | 65                             | 26   | 1     |
| Mahindra & Mahindra             | Automobiles & Components    | 88           | 195  | 277  | 67                             | 149  | 189   |
| Maruti Suzuki                   | Automobiles & Components    | 34           | 80   | 83   | 13                             | 35   | (5)   |
| TVS Motor                       | Automobiles & Components    | 74           | 260  | 364  | 53                             | 214  | 276   |
| Asian Paints                    | Commodity Chemicals         | (8)          | (2)  | 110  | (29)                           | (47) | 22    |
| Berger Paints                   | Commodity Chemicals         | (11)         | (28) | 92   | (32)                           | (74) | 3     |
| Indigo Paints                   | Commodity Chemicals         | (7)          | (46) | NA   | (28)                           | (91) | NA    |
| Kansai Nerolac                  | Commodity Chemicals         | (5)          | (29) | (9)  | (26)                           | (75) | (97)  |
| Aditya Birla Fashion and Retail | Consumer Durables & Apparel | 43           | 53   | 36   | 23                             | 7    | (52)  |
| Campus Activewear               | Consumer Durables & Apparel | (15)         | NA   | NA   | (36)                           | NA   | NA    |
| Crompton Greaves Consumer       | Consumer Durables & Apparel | 43           | (0)  | 66   | 22                             | (46) | (22)  |
| Havells India                   | Consumer Durables & Apparel | 44           | 82   | 158  | 24                             | 37   | 70    |
| Page Industries                 | Consumer Durables & Apparel | (2)          | 21   | 96   | (23)                           | (25) | 8     |
| Polycab                         | Consumer Durables & Apparel | 93           | 301  | 985  | 72                             | 255  | 897   |
| TCNS Clothing Co.               | Consumer Durables & Apparel | 18           | (11) | (37) | (2)                            | (56) | (125) |
| Vedant Fashions                 | Consumer Durables & Apparel | (23)         | NA   | NA   | (43)                           | NA   | NA    |
| Voltas                          | Consumer Durables & Apparel | 64           | 35   | 136  | 44                             | (11) | 48    |
| Whirlpool                       | Consumer Durables & Apparel | 2            | (32) | 1    | (18)                           | (78) | (88)  |
| Britannia Industries            | Consumer Staples            | 14           | 52   | 80   | (7)                            | 6    | (8)   |
| Colgate-Palmolive (India)       | Consumer Staples            | 67           | 54   | 128  | 46                             | 9    | 40    |
| Dabur India                     | Consumer Staples            | —            | 4    | 39   | (20)                           | (42) | (49)  |
| Godrej Consumer Products        | Consumer Staples            | 22           | 51   | 94   | 1                              | 5    | 6     |
| Hindustan Unilever              | Consumer Staples            | (11)         | 1    | 32   | (32)                           | (44) | (56)  |
| ITC                             | Consumer Staples            | (6)          | 99   | 47   | (26)                           | 53   | (41)  |
| Jyothy Labs                     | Consumer Staples            | 98           | 161  | 141  | 77                             | 115  | 53    |
| Marico                          | Consumer Staples            | 11           | 28   | 65   | (10)                           | (18) | (23)  |
| Nestle India                    | Consumer Staples            | 11           | 37   | 112  | (9)                            | (8)  | 24    |
| Tata Consumer Products          | Consumer Staples            | 35           | 63   | 351  | 14                             | 17   | 262   |
| United Breweries                | Consumer Staples            | 28           | 45   | 37   | 7                              | (1)  | (52)  |
| United Spirits                  | Consumer Staples            | 35           | 92   | 117  | 14                             | 46   | 29    |
| Varun Beverages                 | Consumer Staples            | 75           | 543  | 955  | 54                             | 497  | 866   |

Source: Bloomberg, Kotak Institutional Equities

We expect better affordability for low-income households due to a combination of (1) modest changes in prices of key household items (price reductions are also possible) due to sharp decline in input raw material costs or stable raw material prices after a long period of rampant price increases over FY2022-24; we note that profitability of companies has expanded to very high levels versus historical levels and (2) moderate income increases for low-income households after a period of low growth in income.

Exhibit 31 shows the sharp increase in prices of several common household consumer staples and discretionary items while Exhibit 32 highlights the sharp correction in most raw material prices (agriculture or oil commodities) over the past 12 months. Exhibits 33-35 show high unemployment rate in India and poor quality of a large portion of new jobs, which has curtailed income growth for low-income households.



**Sharp increase in prices across categories over FY2019-23; prices have softened in certain categories in recent months**

**Exhibit 31: Prices of various discretionary and staples product in India, March fiscal year ends, 2019-24 (Rs)**

| Product                                    | Category          | Mar-19  | Mar-20  | Mar-21  | Mar-22  | Mar-23  | Mar-24  | CAGR (%)      |
|--|-------------------|---------|---------|---------|---------|---------|---------|---------------|
|  |                   |         |         |         |         |         |         | Mar-24/Mar-19 |
| <b>Discretionary</b>                       |                   |         |         |         |         |         |         |               |
| Cadbury Dairy Milk Silk 60gm               | Chocolate bars    | 117     | 117     | 117     | 117     | 125     | 142     | 4.0           |
| Clinic Plus Anti Dandruff 80ml             | Shampoo           | 56      | 56      | 56      | 65      | 65      | 65      | 2.9           |
| Dove Soap Moisture Cream 3*100G            | Soap              | 172     | 155     | 160     | 245     | 280     | 256     | 8.3           |
| Fair & Lovely Skin Cream Multi Vitamin 50g | Skin cream        | 98      | 102     | 102     | 110     | 122     | 125     | 5.0           |
| Garnier- Power White, Double Action 100ml  | Facewash          | 180     | 180     | 190     | 190     | 225     | 259     | 7.5           |
| Hero Deluxe (entry segment)-Delhi prices   | Motorcycle        | 47,450  | 56,025  | 59,900  | 65,890  | 67,138  | 69,790  | 8.0           |
| Hero Super Splendor-Mumbai prices          | Motorcycle        | 60,750  | 67,300  | 70,800  | 74,200  | 78,769  | 81,992  | 6.2           |
| Honda Activa- Delhi prices                 | Scooter           | 54,322  | 57,043  | 68,422  | 70,600  | 74,478  | 76,233  | 7.0           |
| Horlicks Standard Jar 100gm                | Health drink      | 47      | 48      | 48      | 50      | 58      | 59      | 4.6           |
| Maggi Masala 70gm                          | Noodles           | 17      | 17      | 17      | 17      | 20      | 20      | 3.1           |
| McAloo Tikki Burger                        | Burger            | 39      | 45      | 49      | 55      | 58      | 70      | 12.4          |
| Maruti Swift                               | Car               | 514,000 | 519,000 | 549,000 | 585,000 | 591,900 | 591,900 | 2.9           |
| Ponds Drm Flower / Triple Vitamin 100ml    | Body lotion       | 87      | 87      | 80      | 90      | 99      | 110     | 4.8           |
| Real fruit power Orange 100 ml             | Fruit juice       | 10      | 11      | 11      | 12      | 12      | 13      | 5.6           |
| Royal Enfield Classic 350 - Delhi prices   | Motorcycle        | 150,500 | 155,000 | 167,325 | 186,567 | 198,971 | 198,971 | 5.7           |
| <b>Staples</b>                             |                   |         |         |         |         |         |         |               |
| Aashirvaad Atta Whole Wheat 5kg            | Wheat             | 235     | 245     | 245     | 250     | 286     | 294     | 4.6           |
| Amul Butter 500gm                          | Butter            | 45      | 47      | 47      | 49      | 55      | 57      | 4.8           |
| Amul Taaza 1L                              | Milk              | 60      | 64      | 64      | 66      | 72      | 74      | 4.3           |
| Britannia Vita Marie Gold 150g             | Biscuit           | 13      | 13      | 13      | 15      | 20      | 20      | 8.4           |
| Britannia Cookies Good Day Cashew 100g     | Biscuit           | 20      | 20      | 20      | 20      | 25      | 20      | -             |
| Colgate Toothpaste CDC 150g                | Toothpaste        | 65      | 65      | 68      | 75      | 88      | 92      | 7.2           |
| Goodknight (GK) Mat Silver Power 30P       | Home insecticides | 60      | 60      | 65      | 60      | 60      | 60      | -             |
| Lifebuoy Total 125gm                       | Soap              | 24      | 16      | 19.2    | 28      | 28.8    | 32      | 5.9           |
| Parachute coconut oil 100ml                | Hair oil          | 39      | 39      | 39      | 38      | 36      | 37      | (1.0)         |
| Nescafe Classic Box 200gm                  | Coffee            | 230     | 238     | 245     | 280     | 300     | 330     | 7.5           |
| Red Label Tea Natural Care BX 500g         | Tea               | 260     | 260     | 305     | 325     | 335     | 300     | 2.9           |
| Rin Advance 1Kg                            | Detergent powder  | 75      | 77      | 73      | 90      | 103     | 107     | 7.4           |
| Saffola Gold - 1L                          | Edible oil        | 159     | 139     | 170     | 210     | 199     | 180     | 2.5           |
| Surf Excel Bar 95 gm                       | Detergent bar     | 10.0    | 10.5    | 10.5    | 11.9    | 12.5    | 12.5    | 4.6           |
| Vim Drop Dishwash Green Lime 500ml         | Detergent bar     | 22      | 24      | 24      | 23      | 25      | 25      | 2.6           |

Notes:

(a) Prices are adjusted for change in grammage, wherever applicable.

Source: Kotak Institutional Equities

**Deflationary trend in RM prices on a qoq as well as yoy basis in most cases**

**Exhibit 32: Trend in RM prices, April 2024**

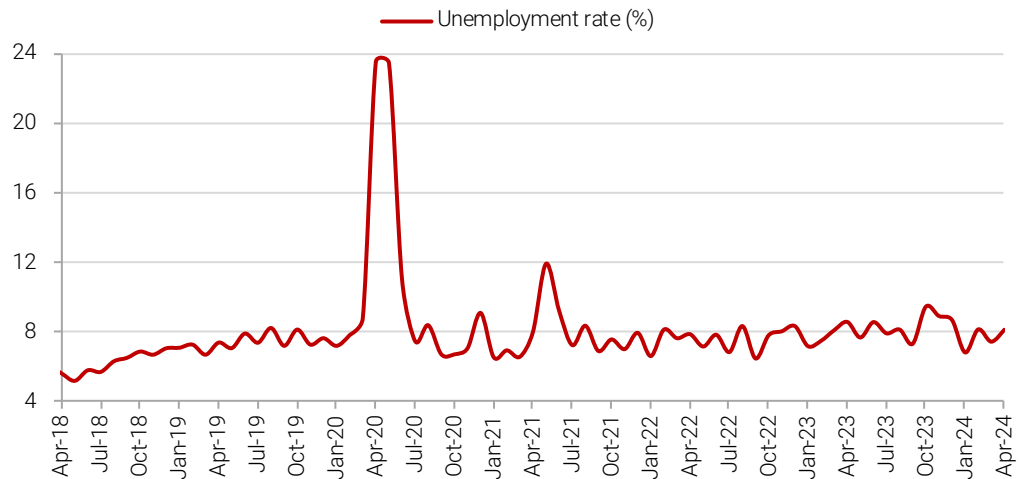
| No.                                       | Commodity                   | Unit           | Current | % chg. - local currency |      |      |      | % chg. - currency Adj. |      |      |      | Companies impacted                             |
|---|-----------------------------|----------------|---------|-------------------------|------|------|------|------------------------|------|------|------|--|
|   |                             |                |         | MoM                     | 3M   | 6M   | YoY  | MoM                    | 3M   | 6M   | YoY  |  |
| <b>Agri Commodities</b>                   |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 1   | Tea - India Avg.            | Rs/Kg          | 153     | 32                      | 14   | (11) | (12) | 32                     | 14   | (11) | (12) | HUL, TataCons                                  |
| 2   | Tea - World Avg.            | USD/MT         | 2,690   | -                       | 1    | (3)  | (9)  | -                      | 1    | (3)  | (8)  | HUL, TataCons                                  |
| 3   | Tea - Mombassa/Kenya        | USD/Kg         | 3       | -                       | 1    | 3    | (5)  | -                      | 1    | 3    | (4)  | HUL, TataCons                                  |
| 4   | Coffee Arabica - Intl.      | US cents/Pound | 213     | -                       | 3    | 14   | (9)  | -                      | 3    | 14   | (8)  | HUL, Nestle, TataCons                          |
| 5   | Coffee Robusta - Intl.      | US cents/Pound | 180     | -                       | 12   | 40   | 43   | -                      | 12   | 39   | 45   | HUL, Nestle, TataCons                          |
| 6   | Sugar - domestic            | Rs/Quintal     | 4,368   | 3                       | 1    | (1)  | 6    | 3                      | 1    | (1)  | 6    | HUL, Nestle, ITC, Dabur, Britannia             |
| 7   | Wheat                       | Rs/Quintal     | 3,293   | (6)                     | (5)  | (7)  | 1    | (6)                    | (5)  | (7)  | 1    | ITC, Nestle, Britannia                         |
| 8   | Barley                      | Rs/Quintal     | 1,964   | (2)                     | (6)  | (6)  | (10) | (2)                    | (6)  | (6)  | (10) | UBBL   |
| 9   | Maize (corn)                | USD/MT         | 189     | -                       | (5)  | (18) | (35) | 0                      | (5)  | (18) | (34) | Colgate, HUL, Dabur (Sorbitol)                 |
| 10  | Liquid Milk - domestic      | Rs/Ltr         | 50      | 16                      | 11   | -    | (7)  | 16                     | 11   | -    | (7)  | Nestle, Jubilant Foodworks, Britannia          |
| 11  | Milk Powder - domestic      | Rs/Kg          | 262     | 2                       | (11) | (17) | (24) | 2                      | (11) | (17) | (24) | Nestle, Britannia                              |
| 12  | Cocoa Bean                  | USD/MT         | 5,170   | -                       | 26   | 53   | 93   | 0                      | 26   | 53   | 95   | Nestle   |
| <b>Oil Commodities</b>                    |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 13  | Crude Oil - Brent           | USD/Barrel     | 90      | 5                       | 12   | (1)  | 6    | 5                      | 12   | (1)  | 7    | HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite |
| 14  | Palm oil                    | Rs/MT          | 91,865  | 1                       | 17   | 18   | 4    | 1                      | 17   | 18   | 4    | HUL, GCPL, Jyothy Labs                         |
| 15  | PFAD                        | USD/MT         | 796     | 1                       | 11   | 6    | 2    | 1                      | 11   | 6    | 3    | HUL, GCPL, Jyothy Labs                         |
| 16  | Light liquid paraffin (LLP) | Rs/Ltr         | 84      | -                       | -    | -    | 6    | -                      | -    | -    | 6    | Marico, Dabur, Bajaj Corp                      |
| 17  | Copra                       | Rs/Quintal     | 10,187  | 5                       | (1)  | 12   | 19   | 5                      | (1)  | 12   | 19   | Marico, Dabur                                  |
| 18  | Coconut oil                 | Rs/Quintal     | 14,792  | 5                       | 9    | 15   | 15   | 5                      | 9    | 15   | 15   | Marico, Dabur                                  |
| 19  | Rice Bran oil               | Rs/10Kg        | 790     | 5                       | 5    | 5    | (3)  | 5                      | 5    | 5    | (3)  | Marico   |
| 20  | Kardi oil/ Safflower oil    | Rs/MT          | 2,193   | -                       | -    | -    | -    | -                      | -    | -    | -    | Marico   |
| 21  | Sunflower oil               | Rs/MT          | 88,225  | (2)                     | 3    | 7    | (6)  | (2)                    | 3    | 7    | (6)  | Marico   |
| 22  | Groundnut oil               | Rs/MT          | 148,625 | (0)                     | (4)  | (7)  | (12) | (0)                    | (4)  | (7)  | (12) | Marico   |
| 23  | Linseed oil                 | Rs/MT          | 94,150  | (3)                     | 2    | 4    | (3)  | (3)                    | 2    | 4    | (3)  | Marico, Dabur, Bajaj Corp, Asian Paints        |
| 24  | Castor oil                  | Rs/MT          | 120,000 | (2)                     | (1)  | (3)  | (5)  | (2)                    | (1)  | (3)  | (5)  | Marico, Dabur, Bajaj Corp, Asian Paints        |
| 25  | Mentha oil                  | Rs/Kg          | 1,025   | (1)                     | 1    | 1    | (16) | (1)                    | 1    | 1    | (16) | Emami, Colgate, HUL, Dabur                     |
| <b>Chemicals/Paints/Other Commodities</b> |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 26  | Caustic soda                | Rs/ 50Kg       | 2,150   | 2                       | 8    | 10   | (18) | 2                      | 8    | 10   | (18) | HUL, GCPL, Jyothy Labs                         |
| 27  | Soda ash                    | Rs/ 50Kg       | 1,725   | -                       | (7)  | (9)  | (23) | -                      | (7)  | (9)  | (23) | HUL, GCPL, Jyothy Labs                         |
| 28  | HDPE - domestic             | Rs/Kg          | 118     | -                       | -    | -    | (10) | -                      | -    | -    | (10) | All companies                                  |
| 29  | PAN                         | Rs/Kg          | 98      | (2)                     | 2    | (7)  | (20) | (2)                    | 2    | (7)  | (20) | Asian Paints                                   |
| 30  | PENTA                       | Rs/Kg          | 115     | -                       | -    | -    | -    | -                      | -    | -    | -    | Asian Paints                                   |
| 31  | Tio2 Anatase                | Rs/Kg          | 175     | -                       | -    | -    | (2)  | -                      | -    | -    | (2)  | Asian Paints                                   |
| 32  | Tio2 Rutile                 | Rs/Kg          | 272     | (1)                     | (1)  | (1)  | (9)  | (1)                    | (1)  | (1)  | (9)  | Asian Paints                                   |
| 33  | Tio2 Dupont                 | Rs/Kg          | 338     | (0)                     | (4)  | (7)  | (14) | (0)                    | (4)  | (7)  | (14) | Asian Paints                                   |
| 34  | Turpentine oil              | Rs/Ltr         | 116     | -                       | 1    | 5    | 1    | -                      | 1    | 5    | 1    | Asian Paints                                   |
| 35  | Formaldehyde                | Rs/Kg          | 25      | -                       | 4    | -    | (17) | -                      | 4    | -    | (17) | Asian Paints                                   |
| 36  | Acrylic acid                | Rs/Kg          | 89      | (5)                     | -    | (4)  | (19) | (5)                    | -    | (4)  | (19) | Asian Paints                                   |
| 37  | Vinyl Acetate - Domestic    | Rs/Kg          | 97      | 1                       | 13   | 19   | 6    | 1                      | 13   | 19   | 6    | Asian Paints                                   |
| 38  | Vinyl Acetate - China       | US\$/MT        | 1,006   | 1                       | 22   | 8    | (11) | 1                      | 22   | 8    | (10) | Pidilite, Asian Paints                         |
| 39  | Styrene - domestic          | Rs/Kg          | 114     | 2                       | 8    | 3    | 17   | 2                      | 8    | 3    | 17   | Asian Paints                                   |
| 40  | Gold                        | Rs/10gm        | 71,482  | 9                       | 15   | 21   | 19   | 9                      | 15   | 21   | 19   | Titan, Jewellery companies                     |
| 41  | Diamond price index         | USD/Carrat     | 124     | (2)                     | (2)  | (2)  | (-)  | (2)                    | (2)  | (2)  | 1    | Titan, Jewellery companies                     |

Inflationary = +3%  
Deflationary = -3%

Source: Bloomberg, CMIE, Kotak Institutional Equities

**Unemployment rate has increased in recent months**

Exhibit 33: Unemployment rate in India, March fiscal year-ends, 2018-25 (%)



Source: CMIE, Kotak Institutional Equities

**Shift in employment from services to agriculture during the pandemic has not reverted yet**

Exhibit 34: Percentage distribution of workers in usual status (ps+ss) by broad industry division, June year-ends, 2018-23

|                              | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Change (bps)<br>2019-23 |
|------------------------------|------|------|------|------|------|------|-------------------------|
| Agriculture                  | 44.1 | 42.5 | 45.6 | 46.5 | 45.5 | 45.8 | 330                     |
| Mining                       | 0.4  | 0.4  | 0.3  | 0.3  | 0.3  | 0.3  | (10)                    |
| Manufacturing                | 12.1 | 12.1 | 11.2 | 10.9 | 11.6 | 11.4 | (70)                    |
| Electricity and water supply | 0.6  | 0.6  | 0.6  | 0.6  | 0.6  | 0.5  | (10)                    |
| Construction                 | 11.7 | 12.1 | 11.6 | 12.1 | 12.4 | 13   | 90                      |
| Trade, hotel and restaurant  | 12   | 12.6 | 13.2 | 12.2 | 12.1 | 12.1 | (50)                    |
| Transport                    | 5.9  | 5.9  | 5.6  | 5.4  | 5.6  | 5.4  | (50)                    |
| Other services               | 13.2 | 13.8 | 11.9 | 12   | 11.9 | 11.4 | (240)                   |

Source: PLFS, Kotak Institutional Equities

**Steady increase in share of self-employed (helper in household enterprise) seen post Covid**

Exhibit 35: Distribution of workers in usual status by broad segments in India, June year-ends, 2018-23 (%)

|  | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Change (bps)<br>2018-23 |
|--|------|------|------|------|------|------|-------------------------|
| Casual labor                                   | 24.9 | 24.1 | 23.6 | 23.3 | 22.7 | 21.8 | (310)                   |
| Regular wage/salaried                          | 22.8 | 23.8 | 22.9 | 21.1 | 21.5 | 20.9 | (190)                   |
| Self-employed (own account worker)             | 38.6 | 38.8 | 37.6 | 38.2 | 38.3 | 39.0 | 40                      |
| Self-employed (helper in household enterprise) | 13.6 | 13.3 | 15.9 | 17.3 | 17.5 | 18.3 | 470                     |

Source: PLFS, Kotak Institutional Equities

► **Investment stocks could face headwinds without continued strong order inflows, earnings beats.** Investment stocks may see more modest performance or even outright correction in the case of disappointments versus the high expectations that support the rich multiples of the investment stocks. Many of the investment stocks are trading at extremely rich (even absurd, in some cases) valuations after their very strong performance over the past 3-4 years (see Exhibit 36 for the performance of major capital goods, defense, EMS, etc. stocks over the past one, three and five years on absolute basis and relative to the Nifty-50 Index).

## Investment stocks have delivered superlative returns over the past 1-5 years

Exhibit 36: Performance of capital goods stocks, May 2024 (%)

| Company               | Sector                            | Absolute (%) |      |       | Relative to Nifty-50 Index (%) |      |       |
|-----------------------|-----------------------------------|--------------|------|-------|--------------------------------|------|-------|
|                       |                                   | 1-yr         | 3-yr | 5-yr  | 1-yr                           | 3-yr | 5-yr  |
| ABB                   | Capital Goods                     | 105          | 419  | 482   | 84                             | 374  | 394   |
| Bharat Electronics    | Capital Goods                     | 161          | 502  | 669   | 141                            | 456  | 581   |
| BHEL                  | Capital Goods                     | 254          | 304  | 306   | 234                            | 259  | 218   |
| Carborundum Universal | Capital Goods                     | 39           | 166  | 325   | 18                             | 120  | 237   |
| CG Power & Industrial | Capital Goods                     | 68           | 639  | 1,684 | 47                             | 594  | 1,596 |
| Cochin Shipyard       | Capital Goods                     | 691          | 931  | 937   | 670                            | 886  | 849   |
| Cummins India         | Capital Goods                     | 105          | 355  | 371   | 84                             | 309  | 283   |
| G R Infraprojects     | Capital Goods                     | 33           | NA   | NA    | 13                             | NA   | NA    |
| IRB Infrastructure    | Capital Goods                     | 132          | 513  | 408   | 111                            | 468  | 320   |
| Kalpataru Projects    | Capital Goods                     | 128          | 181  | 128   | 108                            | 135  | 39    |
| KEC International     | Capital Goods                     | 41           | 83   | 137   | 21                             | 37   | 49    |
| L&T                   | Capital Goods                     | 65           | 146  | 133   | 44                             | 100  | 45    |
| Siemens               | Capital Goods                     | 96           | 243  | 438   | 76                             | 197  | 349   |
| Thermax               | Capital Goods                     | 133          | 273  | 442   | 112                            | 228  | 354   |
| Amber Enterprises     | Electronic Manufacturing Services | 65           | 28   | 314   | 44                             | (18) | 226   |
| Avalon Technologies   | Electronic Manufacturing Services | 18           | NA   | NA    | (3)                            | NA   | NA    |
| Cyient DLM            | Electronic Manufacturing Services | NA           | NA   | NA    | NA                             | NA   | NA    |
| Dixon Technologies    | Electronic Manufacturing Services | 153          | 133  | 1,785 | 132                            | 87   | 1,697 |
| Kaynes Technology     | Electronic Manufacturing Services | 141          | NA   | NA    | 120                            | NA   | NA    |
| Syrma SGS Technology  | Electronic Manufacturing Services | 21           | NA   | NA    | —                              | NA   | NA    |

Source: Bloomberg, Kotak Institutional Equities

In our view, the performance of the stocks will largely depend on order inflows from the private sector given likely slowdown in order inflows from the government sector. The central government's budgeted allocations for capital expenditure and for budgeted overall capital expenditure of several key sectors such as railways and roads for FY2025BE shows a modest growth after 2-3 years of sharp increase in capital expenditure (see Exhibits 37-38 for India's fiscal math and capital expenditure of key sectors for FY2025BE). It is possible that the government may allocate more funds for capital expenditure in the final FY2025 union budget (due 1-2 months after general elections). We note that (1) the government has around Rs700 bn of additional funding capacity available (parked under Department of Economic Affairs in the interim February 2024 union budget) and (2) the RBI has transferred Rs2.1 tn to the government recently versus the government's budget estimate of Rs800 bn for FY2025. Thus, the government has plentiful flexibility to (1) increase capital expenditure significantly compared to the interim budget target and/or (2) reduce the GFD target for FY2025.

**Government budgets FY2025 GFD/GDP at 5.1%**

**Exhibit 37: Major central government budgetary items, March fiscal year-ends, 2019-25BE (Rs bn)**

|   | 2019           | 2020           | 2021           | 2022           | 2023           | 2024RE         | 2025BE         | 2025E          | 2021/2020    | 2022/2021   | 2023/2022   | 2024RE/2023 | 2025BE/2024RE | 2025E/2024RE |  |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|-------------|-------------|-------------|---------------|--------------|--|
| <b>Receipts</b>                             |                |                |                |                |                |                |                |                |              |             |             |             |               |              |  |
| <b>1. Revenue receipts (2d + 3)</b>         | <b>15,529</b>  | <b>16,841</b>  | <b>16,339</b>  | <b>21,699</b>  | <b>23,832</b>  | <b>26,997</b>  | <b>30,013</b>  | <b>31,317</b>  | <b>(3)</b>   | <b>33</b>   | <b>10</b>   | <b>13</b>   | <b>11</b>     | <b>16</b>    |  |
| <b>2. Gross tax revenues (a + b)</b>        | <b>20,805</b>  | <b>20,101</b>  | <b>20,271</b>  | <b>27,093</b>  | <b>30,542</b>  | <b>34,372</b>  | <b>38,308</b>  | <b>38,308</b>  | <b>1</b>     | <b>34</b>   | <b>13</b>   | <b>13</b>   | <b>11</b>     | <b>11</b>    |  |
| 2.a. Direct taxes                           | 11,431         | 10,554         | 9,523          | 14,158         | 16,723         | 19,578         | 22,130         | 22,130         | (10)         | 49          | 18          | 17          | 13            | 13           |  |
| 2.a.1. Corporation tax                      | 6,636          | 5,569          | 4,577          | 7,120          | 8,258          | 9,227          | 10,428         | 10,428         | (18)         | 56          | 16          | 12          | 13            | 13           |  |
| 2.a.2. Income tax (incl. other taxes)       | 4,796          | 4,985          | 4,946          | 7,038          | 8,464          | 10,352         | 11,701         | 11,701         | (1)          | 42          | 20          | 22          | 13            | 13           |  |
| 2.b. Indirect taxes                         | 9,373          | 9,547          | 10,748         | 12,935         | 13,819         | 14,794         | 16,178         | 16,178         | 13           | 20          | 7           | 7           | 9             | 9            |  |
| 2.b.1. Goods and Services Tax               | 5,816          | 5,988          | 5,488          | 6,981          | 8,491          | 9,566          | 10,677         | 10,677         | (8)          | 27          | 22          | 13          | 12            | 12           |  |
| 2.b.1.1. CGST                               | 4,575          | 4,941          | 4,563          | 5,912          | 7,185          | 8,116          | 9,177          | 9,177          | (8)          | 30          | 22          | 13          | 13            | 13           |  |
| 2.b.1.2. IGST                               | 289            | 91             | 73             | 21             | 47             | -              | -              | -              | (21)         | (71)        | 124         |             |               |              |  |
| 2.b.1.3. Compensation cess                  | 951            | 956            | 852            | 1,048          | 1,259          | 1,450          | 1,500          | 1,500          | (11)         | 23          | 20          | 15          | 3             | 3            |  |
| 2.b.2. Customs duty                         | 1,178          | 1,093          | 1,348          | 1,997          | 2,134          | 2,187          | 2,313          | 2,313          | 23           | 48          | 7           | 2           | 6             | 6            |  |
| 2.b.2.1. Basic duties                       | 1,048          | 906            | 1,065          | 1,460          | 1,676          | 1,670          | 1,820          | 1,820          | 18           | 37          | 15          | (0)         | 9             | 9            |  |
| 2.b.2.2. Others                             | 130            | 187            | 282            | 537            | 457            | 517            | 493            | 493            | 51           | 90          | (15)        | 13          | (5)           | (5)          |  |
| 2.b.3. Excise duty                          | 2,310          | 2,406          | 3,897          | 3,946          | 3,190          | 3,036          | 3,188          | 3,188          | 62           | 1           | (19)        | (5)         | 5             | 5            |  |
| 2.b.4. Service tax                          | 69             | 60             | 16             | 10             | 4              | 5              | 1              | 1              | (73)         | (37)        | (57)        | 16          | (80)          | (80)         |  |
| 2.c Transfers to states, UTs, etc.          | 7,633          | 6,532          | 6,008          | 9,045          | 9,564          | 11,133         | 12,292         | 12,292         | (8)          | 51          | 6           | 16          | 10            | 10           |  |
| <b>2.d Net tax revenues (2 - 2.c)</b>       | <b>13,172</b>  | <b>13,569</b>  | <b>14,263</b>  | <b>18,048</b>  | <b>20,978</b>  | <b>23,239</b>  | <b>26,016</b>  | <b>26,016</b>  | <b>5</b>     | <b>27</b>   | <b>16</b>   | <b>11</b>   | <b>12</b>     | <b>12</b>    |  |
| <b>3. Non-tax revenues</b>                  | <b>2,357</b>   | <b>3,272</b>   | <b>2,076</b>   | <b>3,651</b>   | <b>2,854</b>   | <b>3,758</b>   | <b>3,997</b>   | <b>5,301</b>   | <b>(37)</b>  | <b>76</b>   | <b>(22)</b> | <b>32</b>   | <b>6</b>      | <b>41</b>    |  |
| 3.a RBI's transfer of surplus               | 680            | 1,476          | 600            | 991            | 303            | 874            | 800            | 2,104          | (59)         | 65          | (69)        | 188         | (8)           | 141          |  |
| 3.b. Telecommunications                     | 408            | 698            | 455            | 858            | 648            | 935            | 1,203          | 1,203          | (35)         | 89          | (24)        | 44          | 29            | 29           |  |
| 3.c. Others                                 | 1,269          | 1,097          | 1,021          | 1,802          | 1,903          | 1,949          | 1,994          | 1,994          | (7)          | 76          | 6           | 2           | 2             | 2            |  |
| <b>4. Non-debt capital receipts (a + b)</b> | <b>1,128</b>   | <b>686</b>     | <b>576</b>     | <b>394</b>     | <b>722</b>     | <b>560</b>     | <b>790</b>     | <b>790</b>     | <b>(16)</b>  | <b>(32)</b> | <b>83</b>   | <b>(22)</b> | <b>41</b>     | <b>41</b>    |  |
| 4.a Recovery of loans                       | 181            | 183            | 197            | 247            | 262            | 260            | 290            | 290            | 8            | 25          | 6           | (1)         | 12            | 12           |  |
| <b>4.b Other receipts (disinvestments)</b>  | <b>947</b>     | <b>503</b>     | <b>379</b>     | <b>146</b>     | <b>460</b>     | <b>300</b>     | <b>500</b>     | <b>500</b>     | <b>(25)</b>  | <b>(61)</b> | <b>214</b>  | <b>(35)</b> | <b>67</b>     | <b>67</b>    |  |
| <b>5. Total receipts (1 + 4)</b>            | <b>16,657</b>  | <b>17,527</b>  | <b>16,915</b>  | <b>22,093</b>  | <b>24,554</b>  | <b>27,557</b>  | <b>30,803</b>  | <b>32,107</b>  | <b>(3)</b>   | <b>31</b>   | <b>11</b>   | <b>12</b>   | <b>12</b>     | <b>17</b>    |  |
| <b>Expenditure</b>                          |                |                |                |                |                |                |                |                |              |             |             |             |               |              |  |
| <b>6. Revenue expenditure</b>               | <b>20,074</b>  | <b>23,506</b>  | <b>30,835</b>  | <b>32,009</b>  | <b>34,531</b>  | <b>35,402</b>  | <b>36,547</b>  | <b>36,547</b>  | <b>31</b>    | <b>4</b>    | <b>8</b>    | <b>3</b>    | <b>3</b>      | <b>3</b>     |  |
| 6.a. Interest payments                      | 5,826          | 6,121          | 6,799          | 8,055          | 9,285          | 10,554         | 11,904         | 11,904         | 11           | 18          | 15          | 14          | 13            | 13           |  |
| 6.b. Subsidies                              | 1,968          | 2,283          | 7,077          | 4,461          | 5,310          | 4,135          | 3,812          | 3,812          | 210          | (37)        | 19          | (22)        | (8)           | (8)          |  |
| 6.b.1. Food                                 | 1,013          | 1,087          | 5,413          | 2,890          | 2,728          | 2,123          | 2,053          | 2,053          | 398          | (47)        | (6)         | (22)        | (3)           | (3)          |  |
| 6.b.2. Fertilizer                           | 706            | 811            | 1,279          | 1,538          | 2,513          | 1,889          | 1,640          | 1,640          | 58           | 20          | 63          | (25)        | (13)          | (13)         |  |
| 6.b.3. Oil                                  | 248            | 385            | 385            | 34             | 68             | 122            | 119            | 119            | (0)          | (91)        | 99          | 80          | (3)           | (3)          |  |
| 6.c. Pay, allowances and pensions           | 4,957          | 5,366          | 6,711          | 5,899          | 6,564          | 6,876          | 7,111          | 7,111          | 25           | (12)        | 11          | 5           | 3             | 3            |  |
| 6.c.1.a. Pay and allowances                 | 3,291          | 3,526          | 4,626          | 3,910          | 4,148          | 4,495          | 4,714          | 4,714          | 31           | (15)        | 6           | 8           | 5             | 5            |  |
| 6.c.1.b. Pensions                           | 1,666          | 1,840          | 2,085          | 1,989          | 2,416          | 2,380          | 2,396          | 2,396          | 13           | (5)         | 21          | (1)         | 1             | 1            |  |
| 6.d. Agriculture and farmers' welfare       | 461            | 942            | 1,083          | 1,145          | 999            | 1,167          | 1,174          | 1,174          | 15           | 6           | (13)        | 17          | 1             | 1            |  |
| 6.e. Education                              | 781            | 873            | 840            | 803            | 972            | 1,297          | 1,206          | 1,206          | (4)          | (4)         | 21          | 33          | (7)           | (7)          |  |
| 6.f. Health and family welfare              | 506            | 607            | 740            | 787            | 703            | 749            | 833            | 833            | 22           | 6           | (11)        | 7           | 11            | 11           |  |
| 6.g. Rural development                      | 1,118          | 1,221          | 1,964          | 1,604          | 1,768          | 1,711          | 1,776          | 1,776          | 61           | (18)        | 10          | (3)         | 4             | 4            |  |
| 6.h. Others                                 | 4,457          | 6,092          | 5,622          | 9,255          | 8,931          | 8,914          | 8,731          | 8,731          | (8)          | 65          | (3)         | (0)         | (2)           | (2)          |  |
| <b>7. Capital expenditure</b>               | <b>3,077</b>   | <b>3,357</b>   | <b>4,263</b>   | <b>5,929</b>   | <b>7,400</b>   | <b>9,342</b>   | <b>11,111</b>  | <b>11,991</b>  | <b>27</b>    | <b>39</b>   | <b>25</b>   | <b>26</b>   | <b>19</b>     | <b>28</b>    |  |
| 7.a. Defence                                | 998            | 1,160          | 1,399          | 1,448          | 1,509          | 1,678          | 1,822          | 1,822          | 21           | 3           | 4           | 11          | 9             | 9            |  |
| 7.b. Railways                               | 528            | 678            | 1,093          | 1,173          | 1,593          | 2,400          | 2,520          | 2,873          | 61           | 7           | 36          | 51          | 5             | 20           |  |
| 7.c. Roads and highways                     | 676            | 684            | 892            | 1,133          | 2,060          | 2,645          | 2,722          | 3,049          | 30           | 27          | 82          | 28          | 3             | 15           |  |
| 7.d. Loans for capex to states              | -              | -              | 118            | 142            | 812            | 1,056          | 1,300          | 1,500          |              | 20          | 472         | 30          | 23            | 42           |  |
| 7.e. Housing and urban affairs              | 158            | 193            | 103            | 259            | 269            | 265            | 286            | 286            | (47)         | 151         | 4           | (1)         | 8             | 8            |  |
| 7.f. Others                                 | 717            | 642            | 657            | 1,774          | 1,158          | 1,299          | 2,460          | 2,460          | 2            | 170         | (35)        | 12          | 89            | 89           |  |
| <b>8. Total expenditure (6 + 7)</b>         | <b>23,151</b>  | <b>26,863</b>  | <b>35,098</b>  | <b>37,938</b>  | <b>41,932</b>  | <b>44,745</b>  | <b>47,658</b>  | <b>48,537</b>  | <b>31</b>    | <b>8</b>    | <b>11</b>   | <b>7</b>    | <b>7</b>      | <b>8</b>     |  |
| <b>Deficit</b>                              |                |                |                |                |                |                |                |                |              |             |             |             |               |              |  |
| Primary deficit (PD)                        | 668            | 3,216          | 11,384         | 7,790          | 8,092          | 6,633          | 4,951          | 4,526          | 254          | (32)        | 4           | (18)        | (25)          | (32)         |  |
| Revenue deficit (RD)                        | 4,545          | 6,665          | 14,496         | 10,310         | 10,699         | 8,405          | 6,534          | 5,230          | 117          | (29)        | 4           | (21)        | (22)          | (38)         |  |
| <b>Gross fiscal deficit (GFD)</b>           | <b>6,494</b>   | <b>9,337</b>   | <b>18,183</b>  | <b>15,845</b>  | <b>17,378</b>  | <b>17,188</b>  | <b>16,855</b>  | <b>16,430</b>  | <b>95</b>    | <b>(13)</b> | <b>10</b>   | <b>(1)</b>  | <b>(2)</b>    | <b>(4)</b>   |  |
| Gross market borrowing (dated securities)   | 5,715          | 7,041          | 12,601         | 9,684          | 14,210         | 15,430         | 14,130         | 14,130         | 79           | (23)        | 47          | 9           | (8)           | (8)          |  |
| Net market borrowing (dated securities)     | 4,233          | 4,681          | 10,329         | 7,041          | 11,083         | 11,805         | 11,752         | 11,752         | 121          | (32)        | 57          | 7           | (0)           | (0)          |  |
| Net market borrowing (adjusted for buyback) | 4,233          | 4,681          | 10,365         | 7,325          | 11,517         | 11,318         |                |                | 121          | #REF!       | #REF!       |             |               | (100)        |  |
| Short-term borrowing (T-bills)              | 69             | 1,560          | 2,032          | 774            | 661            | 483            | 500            | 400            |              |             |             |             |               |              |  |
| <b>Nominal GDP</b>                          | <b>188,997</b> | <b>201,036</b> | <b>198,541</b> | <b>235,974</b> | <b>269,496</b> | <b>293,897</b> | <b>327,718</b> | <b>326,139</b> | <b>(1.2)</b> | <b>18.9</b> | <b>14.2</b> | <b>9.1</b>  | <b>11.5</b>   | <b>11.0</b>  |  |
| <b>PD/GDP (%)</b>                           | <b>0.4</b>     | <b>1.6</b>     | <b>5.7</b>     | <b>3.3</b>     | <b>3.0</b>     | <b>2.3</b>     | <b>1.5</b>     | <b>1.4</b>     |              |             |             |             |               |              |  |
| <b>RD/GDP (%)</b>                           | <b>2.4</b>     | <b>3.3</b>     | <b>7.3</b>     | <b>4.4</b>     | <b>4.0</b>     | <b>2.9</b>     | <b>2.0</b>     | <b>1.6</b>     |              |             |             |             |               |              |  |
| <b>GFD/GDP (%)</b>                          | <b>3.4</b>     | <b>4.6</b>     | <b>9.2</b>     | <b>6.7</b>     | <b>6.4</b>     | <b>5.8</b>     | <b>5.1</b>     | <b>5.0</b>     |              |             |             |             |               |              |  |

Notes:

(a) 'Gross tax revenues' means revenues post refunds and 'net tax revenues' means gross tax revenues minus devolution to states.

(b) RBI's transfer of surplus for FY2024BE and FY2024E are our estimate.

(c) Pay and allowances include pay and allowances from Ministry of Railways.

Source: Ministry of Finance, Kotak Institutional Equities estimates

**Decent increase in central government outlay over FY2024-25BE**

**Exhibit 38: Revenue and capital expenditure through budget and IEBR (internal and extra budgetary resources), March fiscal year-ends, 2024-25BE (Rs bn)**

|                               | 2024RE        |              |              |            |               | 2025BE        |               |              |            |               | Capex growth |
|-------------------------------|---------------|--------------|--------------|------------|---------------|---------------|---------------|--------------|------------|---------------|--------------|
|                               | Revenue       | Capital      | IEBR         | Bonds      | Total capex   | Revenue       | Capital       | IEBR         | Bonds      | Total capex   | yoy (%)      |
| Atomic Energy                 | 118           | 150          | 92           | 59         | 242           | 111           | 139           | 108          | 75         | 246           | 2            |
| Defense                       | 4,561         | 1,678        | –            | –          | 1,678         | 4,393         | 1,822         | –            | –          | 1,822         | 9            |
| Economic Affairs              | 127           | 56           | –            | –          | 56            | 95            | 741           | –            | –          | 741           | 1,229        |
| Food and Public Distribution  | 2,217         | 2            | 230          | –          | 232           | 2,130         | –             | 326          | –          | 327           | 41           |
| Housing and Urban Development | 427           | 265          | 168          | 50         | 433           | 489           | 286           | 160          | 60         | 446           | 3            |
| New and Renewable Energy      | 78            | –            | 214          | 64         | 214           | 128           | –             | 265          | 182        | 265           | 24           |
| Petroleum and Natural Gas     | 147           | –            | 1,123        | 72         | 1,123         | 143           | 154           | 1,185        | 103        | 1,339         | 19           |
| Power                         | 175           | 1            | 591          | 152        | 592           | 200           | 5             | 673          | 178        | 678           | 14           |
| Railways                      | 33            | 2,400        | 200          | –          | 2,600         | 34            | 2,520         | 130          | –          | 2,650         | 2            |
| Road Transport and Highways   | 118           | 2,645        | –            | –          | 2,645         | 58            | 2,722         | –            | –          | 2,722         | 3            |
| Telecommunications            | 283           | 701          | 153          | 67         | 854           | 274           | 845           | 96           | 80         | 941           | 10           |
| Others                        | 27,118        | 1,604        | 492          | 17         | 2,095         | 28,492        | 1,877         | 487          | 17         | 2,364         | 13           |
| <b>All ministries</b>         | <b>35,402</b> | <b>9,502</b> | <b>3,262</b> | <b>482</b> | <b>12,764</b> | <b>36,547</b> | <b>11,111</b> | <b>3,430</b> | <b>695</b> | <b>14,541</b> | <b>14</b>    |

Notes:

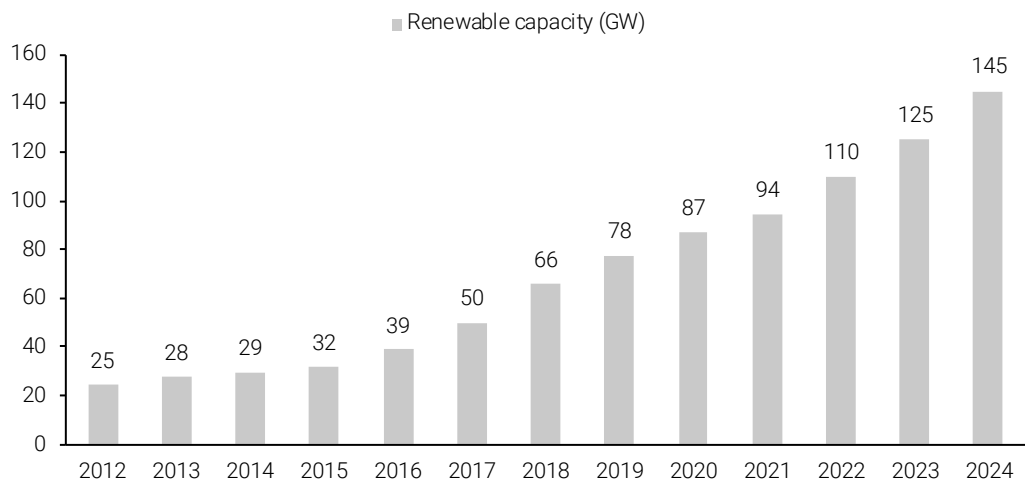
- (a) Bonds imply bonds and debentures issued as part of the IEBR.
- (b) Data for IEBR are based on revised estimates for each year.

Source: Union Budget documents, Kotak Institutional Equities

We are seeing incipient signs of a pick-up in private sector capex, especially in new areas of (1) renewable energy (solar electricity generation, solar PV modules and automobile and grid batteries) and (2) electronics. We have seen continued strong participation by the private sector in solar electricity generation capacity (see Exhibits 39-40 for renewable capacity addition over the past few years and the large number of private players in the solar electricity generation sector) and a flurry of announcements by the private sector in automobile batteries and semi-conductor chip plants (see Exhibits 41-42).

**India has seen sharp increase in renewable capacity in the past few years**

**Exhibit 39: Outstanding renewable capacity in India, March fiscal year-ends, 2012-24 (GW)**



Source: CEA, Kotak Institutional Equities

**Huge interest in the renewable generation space from private sector companies**

**Exhibit 40: Major renewable generation companies in India and their commissioned capacity, March fiscal year-end, 2024 (GW)**

| Company        | Promoter/ Investors  | Commissioned capacity (GW) |
|----------------|--|----------------------------|
| Adani Green    | Adani Group  | 10.9                       |
| Renew Power    | ADIA, CPPIB, Goldman Sachs   | 8.6                        |
| Greenko        | ADIA, GIC, Orix Group  | 5.7                        |
| Tata Power     | Tata Group   | 5.0                        |
| Sembcorp India | Temasek  | 4.2                        |
| Avaada Energy  | Airtel, Brookfield Renewable Partners, Global Power Synergy, KFW DEG | 4.0                        |
| NTPC           | PSU  | 3.6                        |
| Azure Power    | CDPQ, Ontario Municipal Employees Retirement System                  | 3.0                        |
| JSW Energy     | JSW Group  | 2.4                        |
| ACME           | APG Asset Management, Piramal Finance, REC (debt financing)          | 1.8                        |
| Ayana          | EverSource Capital, NIIF, British International Investment, Hindalco | 1.3                        |
| Juniper        | AT Capital Group, Vitol  | 0.8                        |
| O2 Power       | EQT, Temasek Holdings  | 0.5                        |
| SJVN           | PSU  | 0.3                        |
| NHPC           | PSU, Foundation Capital  | 0.1                        |

Source: SECI, SERC, Media articles, Kotak Institutional Equities

**Strong interest in the last round of PLI for advanced chemistry cells**

**Exhibit 41: Bidders in latest round of advanced chemistry cell PLI scheme**

| Company   |
|---|
| ACME Cleantech Solutions Private Ltd              |
| Amara Raja Advanced Cell Technologies Private Ltd |
| Anvi Power Industries Private Ltd                 |
| JSW Neo Energy                                    |
| Lucas TVS   |
| Reliance Industries                               |
| Waaree Energies                                   |

Source: Ministry of Heavy Industries, Kotak Institutional Equities

**A few companies have announced plans to invest in semi-conductors in India**

**Exhibit 42: Proposed investments in semi-conductor space in India**

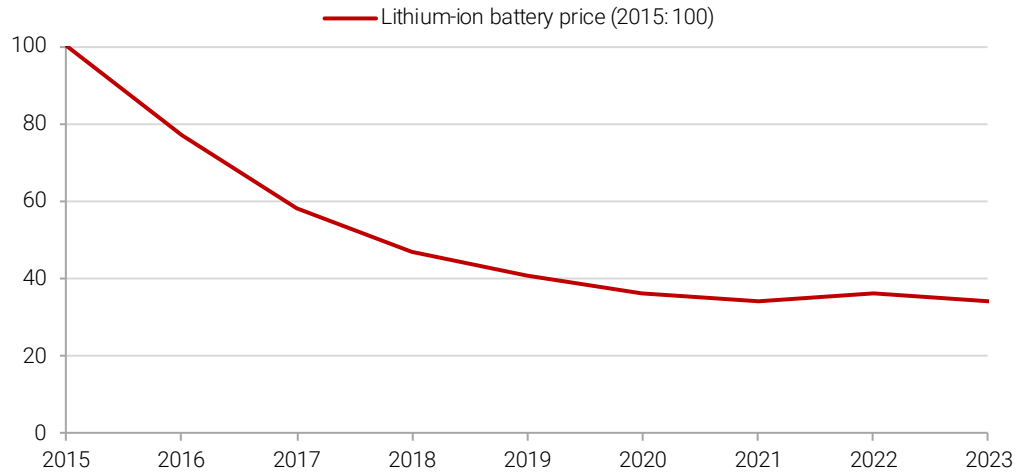
| Company         | Capacity    | Plan  |
|-----------------|-------------|---|
| Micron          | NA          | US\$2.75 bn investment planned to establish a semiconductor ATMP unit     |
| TEPL-PSMC       | 50,000 wfsm | US\$11 bn investment planned in Dholera to establish a semi-conductor fab |
| TSAT            | 48 mn/day   | US\$326 mn investment planned to establish a semiconductor ATMP unit      |
| CGPower-Renesas | 15 mn/day   | US\$91 mn investment planned to establish a semiconductor ATMP unit       |

Source: Companies, Media articles, Kotak Institutional Equities

In fact, the private sector appears to be unfazed by the global glut in automobile batteries and solar PV modules, which has resulted in a sharp decline in global prices (see Exhibits 43-44). Exhibit 45 shows the large planned manufacturing capacity of solar PV modules in India and we expect most of the projects to move ahead, as they are covered by the government’s PLI scheme and will likely have attractive project economics (see Exhibit 46).

**Steady decline in lithium-ion battery prices in recent years**

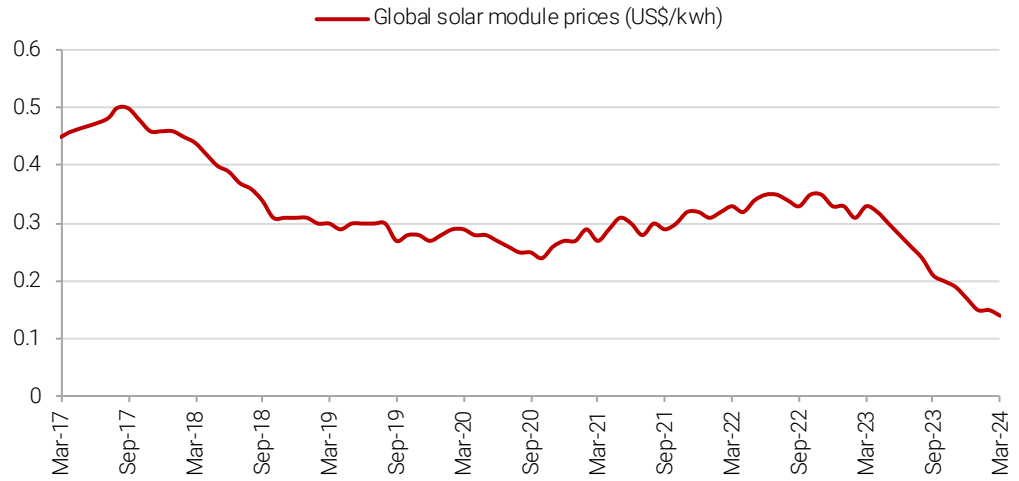
**Exhibit 43: Lithium-ion battery price, calendar year-ends, 2015-23 (2015:100)**



Source: IEA, Kotak Institutional Equities

**Sharp decline in global solar module prices in the past few months**

**Exhibit 44: Global solar module prices, calendar year-ends, 2017-24 (US\$/kwh)**



Source: Bloomberg, Kotak Institutional Equities



### Large planned capacity for solar PV modules

Exhibit 45: Solar module manufacturers qualifying for PLI

| Company                    | Integration level      | Plan capacity (GW) | Eligible capacity (GW) | PLI amount (Rs bn) |
|----------------------------|------------------------|--------------------|------------------------|--------------------|
| <b>Tranche-I</b>           |                        |                    |                        |                    |
| Shirdi Sai Electricals     | Polysilicon to modules | 4.0                | 2.0                    | 18.8               |
| Reliance New Energy Solar  | Polysilicon to modules | 4.0                | 2.0                    | 19.2               |
| Adani Infrastructure       | Polysilicon to modules | 0.7                | 0.4                    | 6.6                |
| <b>Tranche-II</b>          |                        |                    |                        |                    |
| Indosol Solar Private      | Polysilicon to modules | 6.0                | 3.0                    | 33.0               |
| Reliance New Solar Energy  | Polysilicon to modules | 6.0                | 3.0                    | 31.0               |
| FS India Solar Ventures    | Polysilicon to modules | 3.4                | 1.7                    | 11.8               |
| Waaree Energies            | Wafers to modules      | 6.0                | 3.0                    | 19.2               |
| Avaada Ventures            | Wafers to modules      | 3.0                | 1.5                    | 9.6                |
| ReNew Solar (Shakti Four)  | Wafers to modules      | 4.8                | 2.4                    | 15.4               |
| JSW Renewable Technologies | Wafers to modules      | 1.0                | 0.5                    | 3.2                |
| Grew Energy                | Wafers to modules      | 2.0                | 1.0                    | 5.7                |
| Vikram Solar               | Cell and modules       | 2.4                | 1.2                    | 5.3                |
| AMPIN Solar One            | Cell and modules       | 1.0                | 0.5                    | 1.4                |
| TP Solar                   | Cell and modules       | 4.0                | 2.0                    | 3.8                |

Source: MNRE, Kotak Institutional Equities

### Companies require government support to generate decent returns currently

Exhibit 46: Hypothetical scenario for an integrated solar PV module manufacturer

|                                | Without incentives | With incentives @Rs3 | With incentives @Rs3 and BCD |
|--------------------------------|--------------------|----------------------|------------------------------|
| Capacity (GW)                  | 10                 | 10                   | 10                           |
| Price (Rs/watt)                | 19                 | 19                   | 20                           |
| Incentives (Rs/watt)           | —                  | 3.0                  | 3.0                          |
| Revenues (Rs bn)               | 191                | 221                  | 230                          |
| Operating costs (Rs bn)        | 157                | 157                  | 157                          |
| Investment required (Rs bn/GW) | 28                 | 28                   | 28                           |
| Investment required (Rs bn)    | 280                | 280                  | 280                          |
| Depreciation (Rs bn)           | 17                 | 17                   | 17                           |
| Debt funding (%)               | 60                 | 60                   | 60                           |
| Interest (Rs bn; @10%)         | 17                 | 17                   | 17                           |
| PBT (Rs bn)                    | 1                  | 31                   | 40                           |
| Tax rate (@15%)                | 0                  | 5                    | 6                            |
| PAT (Rs bn)                    | 0.6                | 26.1                 | 34.3                         |
| <b>RoE (%)</b>                 | <b>0.5</b>         | <b>18.7</b>          | <b>24.5</b>                  |

Notes:

- (a) We assume domestic prices at a slight premium to landed cost of imports.
- (b) BCD = basic customs duty.
- (c) We assume producers would not be able to take full benefit of BCDs due to high price-sensitivity among end-consumers. We assume 5% higher price versus global levels.

Source: Bloomberg, Kotak Institutional Equities estimates

However, we would caution that the investment by private sector may not achieve the same level of growth seen in the 2004-12 capex cycle (see Exhibits 47-48). The private sector was keen to invest aggressively in several capex-intensive sectors such as electricity generation (thermal), metals & mining, oil & gas, roads and telecom at that time, as the private sector (1) could finally invest in these sectors due to deregulation of the sectors and (2) had high expectations of high returns in these sectors. However, project returns were quite abysmal for a variety of reasons and several conglomerates and companies faced severe financial difficulties and bankruptcies and the banking sector saw an explosion in NPLs in corporate loans.

**Strong GDP growth over FY2004-11 was on the back of consistently strong investment growth over the same period**

**Exhibit 47: Growth in components of GDP (constant price), March fiscal year-ends, 2003-23 (%)**

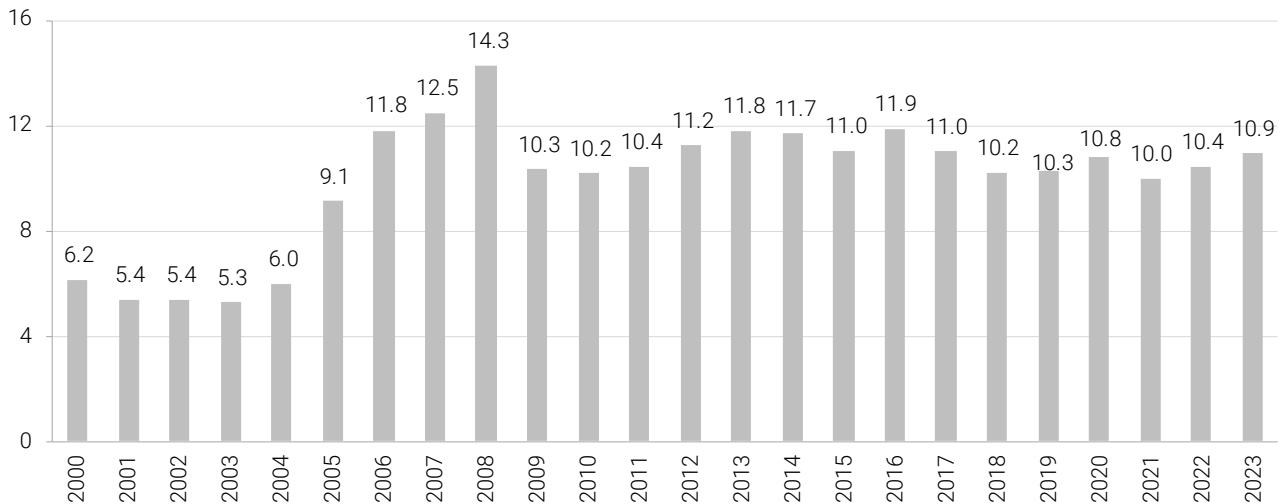
|  | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021         | 2022       | 2023       |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|------------|------------|
| Private final consumption expenditure    | 2.9        | 5.9        | 5.2        | 7.5        | 4.9        | 7.3        | 4.5        | 5.0        | 6.7        | 7.4        | 5.5        | 7.3        | 6.4        | 7.9        | 8.1        | 6.2        | 7.1        | 5.2        | (5.3)        | 11.7       | 6.8        |
| Government final consumption expenditure | (0.2)      | 2.8        | 4.0        | 8.8        | 4.1        | 9.4        | 11.4       | 14.2       | 5.2        | 6.5        | 0.6        | 0.6        | 7.6        | 7.5        | 6.1        | 11.9       | 6.7        | 3.9        | (0.8)        | 0.0        | 9.0        |
| Gross fixed capital formation            | (0.4)      | 10.6       | 24.0       | 16.4       | 13.9       | 16.3       | 3.2        | 7.7        | 11.0       | 12.1       | 4.9        | 1.6        | 2.6        | 6.5        | 8.5        | 7.8        | 11.2       | 1.1        | (7.1)        | 17.5       | 6.6        |
| Change in stocks                         | (676)      | 8          | 270        | 27         | 32         | 31         | (51)       | 68         | 45         | (43)       | (3)        | (36)       | 112        | (13)       | (49)       | 68         | 27         | (59)       | (76)         | 525        | 15         |
| Valuables                                | (4)        | 67         | 57         | (2)        | 14         | 3          | 27         | 58         | 32         | 7          | 3          | (43)       | 26         | (1)        | (19)       | 40         | (10)       | (14)       | 30           | 33         | (19)       |
| Exports                                  | 21.1       | 9.6        | 27.2       | 26.1       | 20.4       | 5.9        | 14.8       | (4.8)      | 19.5       | 15.5       | 6.8        | 7.8        | 1.8        | (5.6)      | 5.0        | 4.6        | 11.9       | (3.4)      | (7.0)        | 29.6       | 13.4       |
| Less: Imports                            | 12.0       | 13.9       | 22.2       | 32.3       | 21.5       | 10.0       | 22.4       | (1.9)      | 15.8       | 20.4       | 6.0        | (8.1)      | 0.9        | (5.9)      | 4.4        | 17.4       | 8.8        | (0.8)      | (12.6)       | 22.1       | 10.6       |
| <b>Real GDP growth</b>                   | <b>3.8</b> | <b>7.9</b> | <b>7.9</b> | <b>7.9</b> | <b>8.1</b> | <b>7.7</b> | <b>3.1</b> | <b>7.9</b> | <b>8.5</b> | <b>5.2</b> | <b>5.5</b> | <b>6.4</b> | <b>7.4</b> | <b>8.0</b> | <b>8.3</b> | <b>6.8</b> | <b>6.5</b> | <b>3.9</b> | <b>(5.8)</b> | <b>9.7</b> | <b>7.0</b> |

Notes:  
 (a) Data from 2006 onwards is based on new GDP series.

Source: CSO, Kotak Institutional Equities

**Private sector GFCF has remained muted over past few years**

**Exhibit 48: Private sector gross fixed capital formation as a % of GDP, March fiscal year-ends, 2000-23 (%)**



Source: RBI, Kotak Institutional Equities

We do not see meaningful investment by the private sector in the abovementioned sectors beyond electricity generation (solar) currently. The private sector (1) has no plans for greenfield metals & mining projects, (2) is unlikely to invest in greenfield (or even brownfield) oil & gas projects and (3) has largely completed 5G-related investment in the telecom sector.

- ▶ **Outsourcing stocks could see some switch in performance.** The IT services and pharmaceuticals (US generics) sectors may see a different pattern of performance compared to (1) very muted returns for the large-cap. IT services sector for the past 2-3 years (see Exhibit 49 for the performance of major IT services sector stocks over the past one, three and five years on absolute basis and relative to the Nifty-50 Index) and (2) reasonably strong performance of the pharmaceuticals sector over the past 2-3 years (see Exhibit 50 for the performance of major pharmaceuticals stocks over the past one, three and five years on absolute basis and relative to the Nifty-50 Index).

**IT services stocks have delivered muted returns in the past one year**

Exhibit 49: Performance of IT services stocks, May 2024 (%)

|                         | Absolute (%) |      |       | Relative to Nifty-50 Index (%) |      |       |
|-------------------------|--------------|------|-------|--------------------------------|------|-------|
|                         | 1-yr         | 3-yr | 5-yr  | 1-yr                           | 3-yr | 5-yr  |
| Cyient                  | 35           | 112  | 214   | 15                             | 66   | 126   |
| HCL Technologies        | 17           | 41   | 147   | (3)                            | (4)  | 59    |
| Infosys                 | 8            | 2    | 95    | (13)                           | (44) | 6     |
| KPIT Technologies       | 45           | 506  | 1,412 | 25                             | 460  | 1,323 |
| L&T Technology Services | 17           | 68   | 160   | (3)                            | 22   | 72    |
| LTIMindtree             | (4)          | 22   | 163   | (25)                           | (24) | 75    |
| Mphasis                 | 17           | 19   | 131   | (4)                            | (26) | 43    |
| Persistent Systems      | 39           | 183  | 1,117 | 18                             | 138  | 1,029 |
| RateGain                | 85           | NA   | NA    | 65                             | NA   | NA    |
| Tata Elxsi              | (3)          | 98   | 713   | (24)                           | 53   | 625   |
| TCS                     | 13           | 19   | 74    | (8)                            | (27) | (14)  |
| Tech Mahindra           | 13           | 21   | 69    | (7)                            | (24) | (19)  |
| Wipro                   | 9            | (19) | 52    | (12)                           | (65) | (37)  |

Source: Bloomberg, Kotak Institutional Equities

**Pharmaceuticals stocks have delivered relatively strong returns over the past one year**

Exhibit 50: Performance of pharmaceuticals stocks, May 2024 (%)

|                         | Absolute (%) |      |      | Relative to Nifty-50 Index (%) |      |      |
|-------------------------|--------------|------|------|--------------------------------|------|------|
|                         | 1-yr         | 3-yr | 5-yr | 1-yr                           | 3-yr | 5-yr |
| Aurobindo Pharma        | 85           | 18   | 76   | 64                             | (28) | (13) |
| Biocon                  | 29           | (19) | 15   | 8                              | (64) | (74) |
| Cipla                   | 53           | 57   | 162  | 32                             | 12   | 73   |
| Divis Laboratories      | 28           | 7    | 179  | 7                              | (38) | 91   |
| Dr Reddy's Laboratories | 30           | 13   | 122  | 10                             | (32) | 34   |
| Gland Pharma            | 104          | (43) | NA   | 83                             | (88) | NA   |
| Glenmark Life Sciences  | 53           | NA   | NA   | 32                             | NA   | NA   |
| Laurus Labs             | 29           | (18) | 491  | 9                              | (63) | 403  |
| Lupin                   | 97           | 31   | 112  | 76                             | (15) | 24   |
| Mankind Pharma          | 55           | NA   | NA   | 34                             | NA   | NA   |
| Sun Pharmaceuticals     | 52           | 118  | 254  | 31                             | 72   | 165  |
| Torrent Pharmaceuticals | 55           | 96   | 240  | 34                             | 50   | 152  |

Source: Bloomberg, Kotak Institutional Equities

The large-cap. IT services stocks could see renewed interest if (1) they were to see some reversal in the trend of muted revenue growth for the past 4-5 quarters (see Exhibit 51) and (2) the US Fed and other major central banks were to start cutting interest rates. The sector's valuations still seem to be on the higher side in the context of the moderate growth in earnings, which could cap their returns though. We believe mid-cap. IT services stocks are set for further derating over time—(1) their rich valuations factor in very strong revenue growth, which may disappoint versus the Street's high expectations and (2) AI-related uncertainty and possible negative implications for their revenues will increase further over the next few years.

**IT services companies have reported weak revenue growth for the past 4-5 quarters**

**Exhibit 51: Sequential and yoy growth in c/c revenues of IT companies, March fiscal year-ends, 2021-24**

|                                     | 4QFY21 | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Qoq % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| HCL Tech                            | 2.5    | 0.7    | 3.5    | 7.6    | 1.1    | 2.7    | 3.8    | 5.0    | (1.2)  | (1.3)  | 1.0    | 6.0    | 0.3    |
| Infosys                             | 2.0    | 4.8    | 6.3    | 7.0    | 1.2    | 5.5    | 4.0    | 2.4    | (3.2)  | 1.0    | 2.3    | (1.0)  | (2.2)  |
| TCS                                 | 4.2    | 2.4    | 4.0    | 4.0    | 3.2    | 3.5    | 4.0    | 2.2    | 0.6    | —      | 0.1    | 1.0    | 1.1    |
| Tech Mahindra                       | 0.7    | 3.9    | 7.2    | 4.7    | 5.4    | 3.5    | 2.9    | 0.2    | 0.3    | (4.2)  | (2.4)  | 1.1    | (0.8)  |
| Wipro                               | 3.0    | 12.0   | 8.1    | 3.0    | 3.1    | 2.1    | 4.1    | 0.6    | (0.6)  | (2.8)  | (2.0)  | (1.7)  | (0.3)  |
| <b>Qoq % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| L&T Infotech                        | 4.4    | 4.8    | 8.9    | 9.2    | 3.6    | 2.9    | 4.6    | NA     | NA     | NA     | NA     | NA     | NA     |
| Mindtree                            | 4.8    | 7.6    | 13.4   | 5.2    | 5.2    | 5.5    | 7.2    | NA     | NA     | NA     | NA     | NA     | NA     |
| LTI Mindtree                        |        |        |        |        |        |        |        | 1.9    | 0.7    | 0.1    | 1.7    | 0.7    | (1.3)  |
| Mphasis                             | 2.0    | 5.9    | 6.6    | 7.8    | 4.3    | 2.0    | 1.8    | (2.5)  | (4.5)  | (3.5)  | —      | 1.0    | 2.1    |
| NIIT Tech                           | 5.1    | 7.0    | 7.5    | 5.3    | 5.0    | 4.7    | 6.2    | 3.7    | 4.7    | 2.7    | 2.3    | 1.8    | NA     |
| <b>Yoy % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| HCL Tech                            | 2.6    | 11.7   | 10.5   | 15.0   | 13.3   | 15.6   | 15.8   | 13.1   | 10.5   | 7.1    | 3.4    | 4.3    | 6.0    |
| Infosys                             | 9.6    | 16.9   | 19.4   | 21.5   | 20.6   | 21.2   | 18.8   | 13.7   | 8.8    | 4.2    | 2.5    | (1.0)  | —      |
| TCS                                 | 5.9    | 16.4   | 15.5   | 15.4   | 14.3   | 15.5   | 15.4   | 13.5   | 10.7   | 7.0    | 2.8    | 1.7    | 2.2    |
| Tech Mahindra                       | (1.3)  | 10.1   | 15.5   | 17.5   | 22.6   | 21.2   | 16.8   | 12.7   | 6.3    | (0.9)  | (5.9)  | (5.4)  | (6.4)  |
| Wipro                               | 0.5    | 21.3   | 28.8   | 28.5   | 28.5   | 17.2   | 12.9   | 10.4   | 6.5    | 1.1    | (4.8)  | (6.9)  | (6.6)  |
| <b>Yoy % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| L&T Infotech                        | 7.1    | 17.8   | 25.5   | 30.1   | 29.0   | 26.6   | 21.6   | NA     | NA     | NA     | NA     | NA     | NA     |
| LTI Mindtree                        |        |        |        |        |        |        |        | 16.3   | 13.5   | 8.2    | 4.4    | 3.1    | 1.2    |
| Mphasis                             | 4.9    | 16.3   | 17.2   | 24.2   | 26.8   | 22.1   | 15.6   | 5.7    | 3.1    | (8.4)  | (11.0) | 6.8    | (0.4)  |

Source: Companies, Kotak Institutional Equities

The US generic pharmaceuticals companies could perhaps see more muted performance given their rich multiples and limited scope for positive surprises versus Street expectations. The multiples of most stocks have expanded significantly over the past 1-2 years helped by (1) strong recovery in gross and EBITDA margins and profits of companies led by easing of pricing pressures and correction in raw material prices over the past few quarters, (2) outperformance in revenues of new limited-opportunity products in general (see Exhibit 52 for quarterly revenues of key products of the major US generic companies) and (3) healthy pipeline of products.

**Strong growth of specific products drove recent growth in US revenues of pharma companies**

Exhibit 52: US revenues of key products of major pharmaceuticals companies, March fiscal year-ends, 2023-24 (US\$ mn)

|                            | 4QFY23     | 1QFY24     | 2QFY24     | 3QFY24     | 4QFY24     |
|----------------------------|------------|------------|------------|------------|------------|
| <b>ARBP</b>                |            |            |            |            |            |
| Revlimid                   | NA         | NA         | NA         | 28         | 27         |
| Restasis                   | 1          | 5          | 5          | 5          | 5          |
| Welchol                    | 4          | 4          | 4          | 4          | 4          |
| <b>Top 3 products</b>      | <b>5</b>   | <b>9</b>   | <b>9</b>   | <b>37</b>  | <b>36</b>  |
| <b>Overall US generics</b> | <b>370</b> | <b>402</b> | <b>409</b> | <b>451</b> | <b>432</b> |
| <b>CIPLA</b>               |            |            |            |            |            |
| Albuterol                  | 26         | 25         | 105        | 105        | 105        |
| Revlimid                   | 26         | 32         | 30         | 25         | 30         |
| Lanreotide 505(b)(2)       | 8          | 19         | 19         | 19         | 19         |
| <b>Top 3 products</b>      | <b>60</b>  | <b>75</b>  | <b>154</b> | <b>149</b> | <b>154</b> |
| <b>Overall US generics</b> | <b>204</b> | <b>222</b> | <b>229</b> | <b>230</b> | <b>226</b> |
| <b>DRRD</b>                |            |            |            |            |            |
| Revlimid                   | 60         | 110        | 95         | 105        | 115        |
| Vascepa                    | 7          | 8          | 8          | 8          | 8          |
| CiproDex                   | 9          | 9          | 9          | 9          | 9          |
| <b>Top 3 products</b>      | <b>76</b>  | <b>128</b> | <b>113</b> | <b>123</b> | <b>133</b> |
| <b>Overall US generics</b> | <b>312</b> | <b>389</b> | <b>384</b> | <b>401</b> | <b>392</b> |
| <b>LPC</b>                 |            |            |            |            |            |
| Spiriva                    | NA         | NA         | 19         | 25         | 31         |
| Brovana (including AG)     | 6          | 10         | 10         | 10         | 10         |
| Albuterol                  | 22         | 19         | 19         | 19         | 19         |
| <b>Top 3 products</b>      | <b>28</b>  | <b>28</b>  | <b>47</b>  | <b>53</b>  | <b>59</b>  |
| <b>Overall US generics</b> | <b>58</b>  | <b>73</b>  | <b>89</b>  | <b>99</b>  | <b>104</b> |
| <b>SUNP</b>                |            |            |            |            |            |
| Revlimid                   | 15         | 34         | NA         | NA         | 44         |
| Doxil                      | 9          | 6          | 6          | 6          | 6          |
| Lupron depot               | 7          | 7          | 7          | 7          | 7          |
| <b>Top 3 products</b>      | <b>31</b>  | <b>47</b>  | <b>13</b>  | <b>13</b>  | <b>57</b>  |
| <b>Overall US generics</b> | <b>220</b> | <b>276</b> | <b>228</b> | <b>244</b> | <b>232</b> |

Source: Companies, Kotak Institutional Equities

- **Narrative stocks—all depends on faith in narratives.** In our view, ‘narrative’ stocks are precariously positioned with their frothy market capitalizations and valuations supported by a combination of (1) optimistic assumptions and (2) ‘rich’ multiples based on incorrect valuation methodologies. They have outperformed the market by a huge margin over the past 12 months (see Exhibit 53). These ‘narrative’ stocks are largely in the investment (capital goods, defense, electricity, EMS, railways and renewables) and PSU sectors.

**"Narrative" stocks have delivered superlative returns in the past 1-5 years**

Exhibit 53: Performance of narrative stocks, May 2024 (sorted on 1-yr performance) (%)

| Company              | Sector                      | Absolute (%) |       |       | Relative to Nifty-50 Index (%) |       |       |
|----------------------|-----------------------------|--------------|-------|-------|--------------------------------|-------|-------|
|                      |                             | 1-yr         | 3-yr  | 5-yr  | 1-yr                           | 3-yr  | 5-yr  |
| Cochin Shipyard      | Defense                     | 691          | 931   | 937   | 670                            | 886   | 849   |
| HUDCO                | Financials                  | 359          | 452   | 501   | 338                            | 406   | 413   |
| Suzlon Energy        | Renewables                  | 327          | 770   | 762   | 307                            | 724   | 673   |
| Mazagon Dock         | Defense                     | 312          | 1,451 | NA    | 291                            | 1,405 | NA    |
| Titagarh Rail System | Railways                    | 288          | 2,435 | 1,745 | 268                            | 2,389 | 1,656 |
| SJVN                 | Electric utilities          | 273          | 395   | 423   | 252                            | 349   | 335   |
| BHEL                 | Electric equipments         | 254          | 304   | 306   | 234                            | 259   | 218   |
| IRCON International  | Industrials                 | 236          | 458   | 551   | 216                            | 412   | 462   |
| Rail Vikas           | Railways                    | 231          | 1,225 | 1,253 | 211                            | 1,179 | 1,164 |
| NBCC                 | Industrials                 | 223          | 181   | 116   | 202                            | 136   | 28    |
| Hindustan Copper     | Materials                   | 219          | 104   | 680   | 198                            | 58    | 592   |
| MRPL                 | Oil, gas & consumable fuels | 210          | 314   | 232   | 189                            | 269   | 143   |
| Bharat Dynamics      | Defense                     | 195          | 766   | 862   | 174                            | 720   | 774   |
| Dixon Technologies   | EMS                         | 153          | 133   | 1,785 | 132                            | 87    | 1,697 |
| NLC India            | Oil, gas & consumable fuels | 141          | 262   | 238   | 121                            | 217   | 149   |
| JSW Energy           | Electric utilities          | 133          | 424   | 741   | 113                            | 379   | 653   |
| NMDC                 | Mining                      | 133          | 94    | 238   | 112                            | 48    | 150   |
| NHPC                 | Electric utilities          | 131          | 289   | 307   | 110                            | 244   | 218   |
| FACT                 | Materials                   | 127          | 448   | 1,442 | 106                            | 403   | 1,354 |
| HPCL                 | Oil, gas & consumable fuels | 108          | 91    | 68    | 88                             | 45    | (20)  |
| CG Power             | Capital goods               | 68           | 639   | 1,684 | 47                             | 594   | 1,596 |

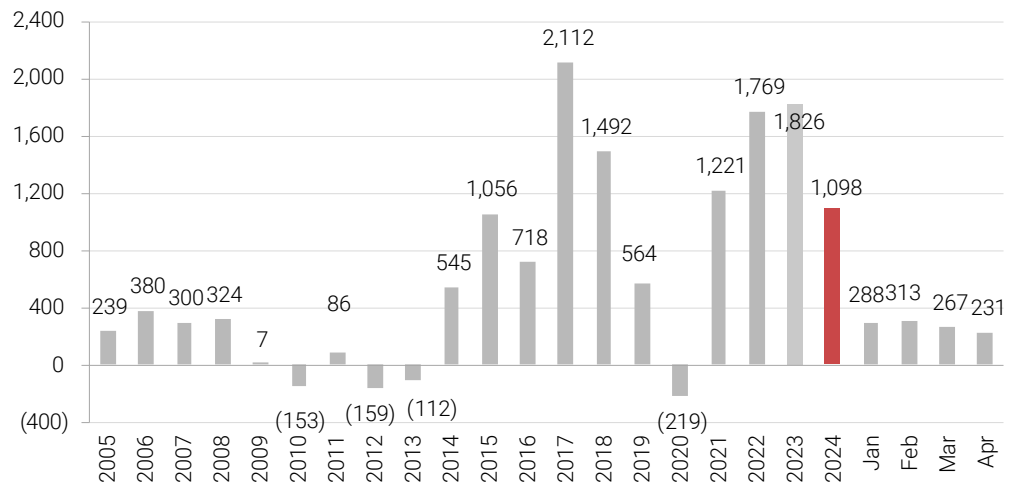
Source: Bloomberg, Kotak Institutional Equities

The stocks could see massive correction (as much as 50-75% in many cases) if and when the market was to take a more realistic view of the prospects of such companies. However, the current 'euphoric' state of affairs could continue for a while, resulting in continued large disconnect between their market prices and fundamental fair values. It is pointless trying to figure out the factors that could result in a more fundamental view of the stocks among market participants. Most of the stocks are so egregiously overvalued and on such absurd 'logic' that it is impossible to even try and figure out the faith behind the exuberance behind the stocks.

We note the dogmatic faith in such stocks reflects high return expectations from such stocks, which in turn reflects large returns in the market and mid- and small-cap. stocks seen over the past 1-3 years. The unwavering faith has translated into strong inflows into domestic equity mutual funds (see Exhibits 54-56), which has further propagated the 'virtuous' cycle of flows and returns.

**Equity MFs have seen Rs1.1 tn of inflows in 4MCY24**

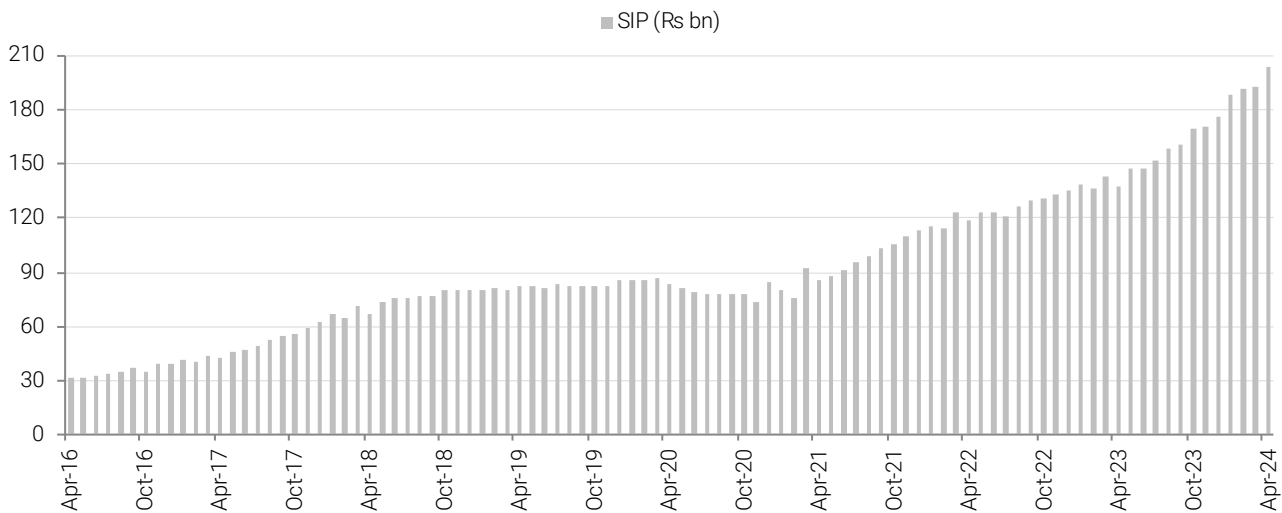
**Exhibit 54: Net MF flows (Equity + ELSS+70% balanced), calendar year-ends, 2005-23 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**SIP flows at Rs777 bn in 4MCY24**

**Exhibit 55: SIP contribution, calendar year-ends, 2016-24 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**Strong flows in mid-cap. and small-cap. funds in April 2024 after a hiatus in March 2024**

**Exhibit 56: 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. fund | (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

In our view, the performance of the stocks will largely depend on (1) the performance of the BJP/NDA in the just-concluded national elections and (2) the policy announcements by the BJP/NDA over the next few weeks and months. We assume the BJP/NDA will form the next government, as discussed before in the same section. The 'narrative' stocks could continue to do well if the BJP/NDA was to achieve around 375 seats in the lower house of the parliament and was to make exciting announcements over the next few months. On the other hand, they could come off sharply if the BJP/NDA were to reach lower than 300/350 seats in the lower house of the parliament.

**Earnings: Decent growth adjusted for the downstream PSU oil companies**

We expect net profits of the Nifty-50 Index to grow 10% in FY2025 and 14% in FY2026 following on a strong 20% growth in FY2024 (see Exhibit 57). We note that FY2024 net profits were lifted by (1) strong profits of the downstream oil PSUs (BPCL and HPCL; the latter is not in the index but its net profits are consolidated with ONGC's) due to very strong marketing margins on automotive retail fuels in 2HFY24 and (2) 33% growth in net profits of COAL due to a change in its accounting policy for treatment of overburden removal (OBR).

**We expect earnings of the Nifty-50 Index to grow 10% in FY2025 and 14% in FY2026**

Exhibit 57: Valuation summary of Nifty-50 sectors (full-float basis), March fiscal year-ends, 2024-26E (based on current constituents)

|                                   | Mcap.<br>(US\$ bn) | Adj. mcap.<br>(US\$ bn) | Earnings growth (%) |             |             | P/E (X)     |             |             | EV/EBITDA (X) |             |             | P/B (X)    |            |            | Div. yield (%) |            |            | RoE (%)     |             |             |
|-----------------------------------|--------------------|-------------------------|---------------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|------------|------------|------------|----------------|------------|------------|-------------|-------------|-------------|
|                                   |                    |                         | 2024                | 2025E       | 2026E       | 2024        | 2025E       | 2026E       | 2024          | 2025E       | 2026E       | 2024       | 2025E      | 2026E      | 2024           | 2025E      | 2026E      | 2024        | 2025E       | 2026E       |
| Automobiles & Components          | 185                | 99                      | 113.5               | 13.0        | 9.7         | 25.9        | 22.9        | 20.9        | 13.5          | 12.1        | 10.8        | 5.5        | 4.7        | 4.1        | 1.0            | 1.4        | 1.5        | 21.3        | 20.6        | 19.6        |
| Banks                             | 418                | 350                     | 15.6                | 4.7         | 14.4        | 16.2        | 15.5        | 13.5        | -             | -           | -           | 2.3        | 2.2        | 2.0        | 1.0            | 1.3        | 1.3        | 14.3        | 14.5        | 14.7        |
| Capital Goods                     | 104                | 62                      | 25.0                | 31.5        | 29.4        | 54.0        | 41.1        | 31.7        | 27.6          | 22.8        | 19.0        | 6.2        | 5.4        | 4.5        | 0.4            | 0.4        | 0.5        | 11.6        | 13.1        | 14.2        |
| Commodity Chemicals               | 33                 | 16                      | 28.9                | (1.1)       | 4.1         | 51.7        | 52.3        | 50.2        | 36.1          | 36.1        | 34.6        | 14.8       | 12.9       | 11.4       | 0.9            | 0.9        | 1.0        | 28.6        | 24.6        | 22.7        |
| Construction Materials            | 53                 | 24                      | 10.5                | 20.0        | 13.3        | 33.4        | 27.8        | 24.5        | 13.9          | 12.9        | 11.6        | 3.0        | 2.7        | 2.5        | 0.4            | 0.5        | 0.4        | 8.9         | 9.9         | 10.3        |
| Consumer Staples                  | 185                | 96                      | 12.8                | 4.8         | 10.8        | 40.5        | 38.6        | 34.8        | 30.0          | 28.0        | 25.0        | 10.5       | 9.8        | 9.3        | 2.1            | 2.1        | 2.4        | 26.0        | 25.5        | 26.8        |
| Diversified Financials            | 89                 | 40                      | 24.6                | 27.4        | 16.3        | 24.8        | 19.5        | 16.8        | -             | -           | -           | 4.2        | 3.5        | 2.9        | 0.4            | 0.5        | 0.6        | 16.8        | 18.0        | 17.6        |
| Electric Utilities                | 76                 | 37                      | 12.3                | 7.0         | 8.6         | 17.4        | 16.3        | 15.0        | 10.8          | 9.9         | 8.9         | 2.5        | 2.3        | 2.1        | 2.9            | 2.8        | 3.0        | 14.4        | 14.3        | 14.3        |
| Health Care Services              | 10                 | 7                       | 10.5                | 79.0        | 27.1        | 91.6        | 51.2        | 40.3        | 35.5          | 26.6        | 20.5        | 11.9       | 9.8        | 8.1        | 0.1            | 0.2        | 0.3        | 12.9        | 19.2        | 20.1        |
| IT Services                       | 334                | 145                     | 3.0                 | 10.2        | 12.3        | 26.5        | 24.1        | 21.5        | 17.3          | 15.8        | 14.1        | 7.5        | 6.9        | 6.3        | 2.1            | 2.9        | 3.3        | 28.4        | 28.7        | 29.5        |
| Insurance                         | 31                 | 14                      | 12.4                | 14.7        | 13.3        | 74.1        | 64.6        | 57.0        | -             | -           | -           | 8.8        | 8.1        | 7.4        | 0.2            | 0.3        | 0.4        | 11.8        | 12.5        | 13.0        |
| Metals & Mining                   | 69                 | 39                      | (11.9)              | 85.9        | 29.3        | 26.4        | 14.2        | 11.0        | 10.1          | 7.5         | 6.3         | 2.1        | 1.9        | 1.6        | 1.2            | 1.4        | 1.6        | 7.9         | 13.2        | 14.9        |
| Oil, Gas & Consumable Fuels       | 324                | 149                     | 28.8                | (5.3)       | 8.9         | 14.5        | 15.3        | 14.1        | 8.6           | 8.5         | 7.5         | 2.1        | 1.9        | 1.7        | 1.7            | 1.5        | 1.5        | 14.4        | 12.4        | 12.2        |
| Pharmaceuticals                   | 82                 | 44                      | 19.7                | 12.2        | 14.0        | 32.0        | 28.5        | 25.0        | 22.2          | 19.0        | 16.5        | 5.2        | 4.5        | 4.0        | 0.5            | 0.5        | 0.5        | 16.2        | 15.9        | 15.8        |
| Retailing                         | 35                 | 16                      | 6.8                 | 19.7        | 21.0        | 83.1        | 69.4        | 57.3        | 55.8          | 46.8        | 39.0        | 30.9       | 23.5       | 18.2       | 0.3            | 0.4        | 0.5        | 37.2        | 33.9        | 31.7        |
| Telecommunication Services        | 99                 | 45                      | 25.4                | 102.1       | 41.6        | 72.6        | 35.9        | 25.4        | 12.2          | 10.0        | 8.2         | 10.0       | 7.3        | 6.1        | 0.6            | 0.7        | 0.9        | 13.8        | 20.5        | 24.2        |
| Transportation                    | 36                 | 12                      | 8.1                 | 18.2        | 24.2        | 33.2        | 28.1        | 22.6        | 21.3          | 17.9        | 15.2        | 5.6        | 4.8        | 4.0        | 0.2            | 0.3        | 0.5        | 17.0        | 17.0        | 17.9        |
| <b>Nifty-50 Index</b>             | <b>2,163</b>       | <b>1,194</b>            | <b>20.0</b>         | <b>9.7</b>  | <b>14.1</b> | <b>23.2</b> | <b>21.2</b> | <b>18.6</b> | <b>13.9</b>   | <b>12.7</b> | <b>11.1</b> | <b>3.7</b> | <b>3.4</b> | <b>3.0</b> | <b>1.3</b>     | <b>1.5</b> | <b>1.6</b> | <b>15.8</b> | <b>15.8</b> | <b>16.1</b> |
| <b>Nifty-50 Index (ex-energy)</b> | <b>1,839</b>       | <b>1,046</b>            | <b>17.5</b>         | <b>14.5</b> | <b>15.5</b> | <b>26.0</b> | <b>22.7</b> | <b>19.7</b> | <b>16.6</b>   | <b>14.5</b> | <b>12.7</b> | <b>4.2</b> | <b>3.9</b> | <b>3.4</b> | <b>1.2</b>     | <b>1.5</b> | <b>1.7</b> | <b>16.3</b> | <b>17.1</b> | <b>17.5</b> |
| <b>Nifty-50 Index (ex-banks)</b>  | <b>1,745</b>       | <b>844</b>              | <b>21.8</b>         | <b>11.6</b> | <b>14.1</b> | <b>25.9</b> | <b>23.2</b> | <b>20.4</b> | <b>13.9</b>   | <b>12.7</b> | <b>11.1</b> | <b>4.3</b> | <b>3.8</b> | <b>3.4</b> | <b>1.4</b>     | <b>1.5</b> | <b>1.7</b> | <b>16.4</b> | <b>16.4</b> | <b>16.7</b> |

Notes:

(a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.

Source: Bloomberg, Kotak Institutional Equities estimates

At the same time, FY2025 net profits may be depressed by lower net profits of BPCL and HPCL due to likely weak marketing margins in 1QFY25. We assume that the new government will allow sufficient freedom to the oil marketing companies to change prices, in line with global prices of crude oil and products. We assume 'normal' marketing margins on automotive fuels in FY2025. In our view, it may be better to look at the net profits of the Nifty-50 Index without those of the abovementioned companies (see Exhibit 58).

**OMCs alone contributed 29% of the incremental profits of FY2024 while they will drag down the net profits in FY2025**

Exhibit 58: Net profits of Nifty-50 Index, March fiscal year-ends, 2023-25E

| Company                              | Net profits (Rs bn) |              |              | Incremental profit |           |                  |             |
|--------------------------------------|---------------------|--------------|--------------|--------------------|-----------|------------------|-------------|
|                                      | 2023                | 2024         | 2025E        | 2024<br>(Rs bn)    | (%)       | 2025E<br>(Rs bn) | (%)         |
| BPCL (Rs bn)                         | 30                  | 280          | 100          | 250                | 19        | (180)            | (24)        |
| ONGC's share of HPCL profits (Rs bn) | (49)                | 81           | 33           | 130                | 10        | (47)             | (6)         |
| <b>Total</b>                         | <b>(19)</b>         | <b>361</b>   | <b>133</b>   | <b>380</b>         | <b>29</b> | <b>(228)</b>     | <b>(30)</b> |
| <b>Nifty-50 (Rs bn)</b>              | <b>6,462</b>        | <b>7,755</b> | <b>8,508</b> | <b>1,293</b>       |           | <b>753</b>       |             |

Source: Kotak Institutional Equities estimates



Exhibit 59 gives the breakdown of net profits and incremental net profits of the Nifty-50 Index by sectors. As can be seen, the oil, gas & consumable fuels sector will act as a drag on the overall profits of the Nifty-50 Index. In particular, BPCL and COAL will see a large decline in their profits. We expect lower profits in the case of (1) BPCL (and HPCL), as we assume their marketing margins to moderate to 'normal' levels in FY2025 from very high levels of FY2024 and (2) COAL given very large one-off income in FY2024 due to a change in accounting treatment for OBR provision. However, the metals & mining sector will likely act as a tailwind to the profits of the index due to our assumption of higher metal prices and profitability in FY2025 versus FY2024.

**Banks, diversified financials, IT services and metals & mining to provide bulk of the incremental profits for FY2025 of the Nifty-50 Index**

Exhibit 59: Break-up of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2022-26E (based on current constituents)

|   | Net profits (Rs bn) |              |              |              |              | Contribution (%) |            |            |            |            | Incremental profits |            |            |            |              |            |
|---|---------------------|--------------|--------------|--------------|--------------|------------------|------------|------------|------------|------------|---------------------|------------|------------|------------|--------------|------------|
|   | 2022                | 2023         | 2024         | 2025E        | 2026E        | 2022             | 2023       | 2024       | 2025E      | 2026E      | 2024                |            | 2025E      |            | 2026E        |            |
|   |                     |              |              |              |              |                  |            |            |            |            | (Rs bn)             | (%)        | (Rs bn)    | (%)        | (Rs bn)      | (%)        |
| Automobiles & Components                                  | 70                  | 279          | 595          | 672          | 737          | 1                | 4          | 8          | 8          | 8          | 316                 | 24         | 78         | 10         | 65           | 5          |
| Tata Motors   | (107)               | 7            | 200          | 253          | 281          | (2)              | 0          | 3          | 3          | 3          | 192                 | 15         | 53         | 7          | 29           | 2          |
| Banks   | 1,354               | 1,860        | 2,149        | 2,251        | 2,575        | 24               | 29         | 28         | 26         | 27         | 290                 | 22         | 101        | 13         | 324          | 27         |
| Axis Bank   | 130                 | 212          | 250          | 261          | 295          | 2                | 3          | 3          | 3          | 3          | 38                  | 3          | 11         | 1          | 34           | 3          |
| HDFC Bank   | 507                 | 603          | 608          | 690          | 812          | 9                | 9          | 8          | 8          | 8          | 5                   | -          | 82         | 11         | 121          | 10         |
| ICICI Bank  | 233                 | 319          | 409          | 416          | 459          | 4                | 5          | 5          | 5          | 5          | 90                  | 7          | 7          | 1          | 43           | 4          |
| State Bank of India                                       | 317                 | 502          | 611          | 595          | 684          | 5                | 8          | 8          | 7          | 7          | 108                 | 8          | (16)       | (2)        | 89           | 7          |
| Capital Goods   | 93                  | 128          | 160          | 210          | 272          | 2                | 2          | 2          | 2          | 3          | 32                  | 2          | 50         | 7          | 62           | 5          |
| Commodity Chemicals                                       | 31                  | 42           | 54           | 53           | 55           | 1                | 1          | 1          | 1          | 1          | 12                  | 1          | (1)        | (0)        | 2            | -          |
| Construction Materials                                    | 128                 | 120          | 132          | 159          | 180          | 2                | 2          | 2          | 2          | 2          | 13                  | 1          | 26         | 4          | 21           | 2          |
| Consumer Staples  | 286                 | 338          | 381          | 399          | 442          | 5                | 5          | 5          | 5          | 5          | 43                  | 3          | 18         | 2          | 43           | 4          |
| Diversified Financials                                    | 143                 | 239          | 298          | 379          | 441          | 2                | 4          | 4          | 4          | 5          | 59                  | 5          | 82         | 11         | 62           | 5          |
| Electric Utilities  | 301                 | 324          | 364          | 390          | 423          | 5                | 5          | 5          | 5          | 4          | 40                  | 3          | 26         | 3          | 34           | 3          |
| Health Care Services                                      | 8                   | 8            | 9            | 16           | 21           | -                | -          | -          | -          | -          | 1                   | 0          | 7          | 1          | 4            | -          |
| IT Services   | 957                 | 1,019        | 1,050        | 1,156        | 1,298        | 17               | 16         | 14         | 14         | 13         | 31                  | 2          | 107        | 14         | 142          | 12         |
| Insurance   | 27                  | 31           | 35           | 40           | 45           | 0                | -          | -          | -          | -          | 4                   | 0          | 5          | 1          | 5            | -          |
| Metals & Mining   | 774                 | 248          | 219          | 407          | 526          | 13               | 4          | 3          | 5          | 5          | (29)                | (2)        | 188        | 25         | 119          | 10         |
| Tata Steel  | 426                 | 86           | 34           | 127          | 189          | 7.4              | 1.3        | 0.4        | 1.5        | 1.9        | (53)                | (4)        | 93         | 12.3       | 63           | 5          |
| Oil, Gas & Consumable Fuels                               | 1,317               | 1,443        | 1,859        | 1,760        | 1,916        | 23               | 22         | 24         | 21         | 20         | 416                 | 32         | (99)       | (13)       | 156          | 13         |
| BPCL  | 88                  | 30           | 280          | 100          | 118          | 2                | -          | 4          | 1          | 1          | 250                 | 19         | (180)      | (24)       | 19           | 2          |
| Coal India  | 174                 | 281          | 374          | 282          | 303          | 3                | 4          | 5          | 3          | 3          | 92                  | 7          | (92)       | (12)       | 21           | 2          |
| ONGC  | 476                 | 465          | 509          | 532          | 556          | 8                | 7          | 7          | 6          | 6          | 44                  | 3          | 24         | 3          | 23           | 2          |
| Reliance Industries                                       | 579                 | 667          | 696          | 845          | 939          | 10               | 10         | 9          | 10         | 10         | 29                  | 2          | 149        | 20         | 94           | 8          |
| Pharmaceuticals   | 164                 | 178          | 214          | 240          | 273          | 3                | 3          | 3          | 3          | 3          | 35                  | 3          | 26         | 3          | 34           | 3          |
| Retailing   | 23                  | 33           | 35           | 42           | 51           | -                | 1          | -          | -          | 1          | 2                   | -          | 7          | 1          | 9            | 1          |
| Telecommunication Services                                | 26                  | 90           | 113          | 228          | 324          | -                | 1          | 1          | 3          | 3          | 23                  | 2          | 115        | 15         | 95           | 8          |
| Transportation  | 56                  | 83           | 90           | 106          | 132          | 1                | 1          | 1          | 1          | 1          | 7                   | 1          | 16         | 2          | 26           | 2          |
| <b>Nifty-50 Index</b>                                     | <b>5,760</b>        | <b>6,462</b> | <b>7,755</b> | <b>8,508</b> | <b>9,712</b> | <b>100</b>       | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>1,293</b>        | <b>100</b> | <b>753</b> | <b>100</b> | <b>1,203</b> | <b>100</b> |
| <b>Nifty-50 change (%)</b>                                | <b>39.9</b>         | <b>12.2</b>  | <b>20.0</b>  | <b>9.7</b>   | <b>14.1</b>  |                  |            |            |            |            |                     |            |            |            |              |            |
| <b>Nifty-50 Index ex-BPCL, HPCL &amp; Coal</b>            | <b>5,463</b>        | <b>6,200</b> | <b>7,021</b> | <b>8,093</b> | <b>9,250</b> |                  |            |            |            |            |                     |            |            |            |              |            |
| <b>Nifty-50 Index ex-BPCL, HPCL &amp; Coal change (%)</b> | <b>44.3</b>         | <b>13.5</b>  | <b>13.2</b>  | <b>15.3</b>  | <b>14.3</b>  |                  |            |            |            |            |                     |            |            |            |              |            |
| <b>Nifty-50 EPS (FF)</b>                                  | <b>730</b>          | <b>813</b>   | <b>989</b>   | <b>1,092</b> | <b>1,248</b> |                  |            |            |            |            |                     |            |            |            |              |            |

Notes:

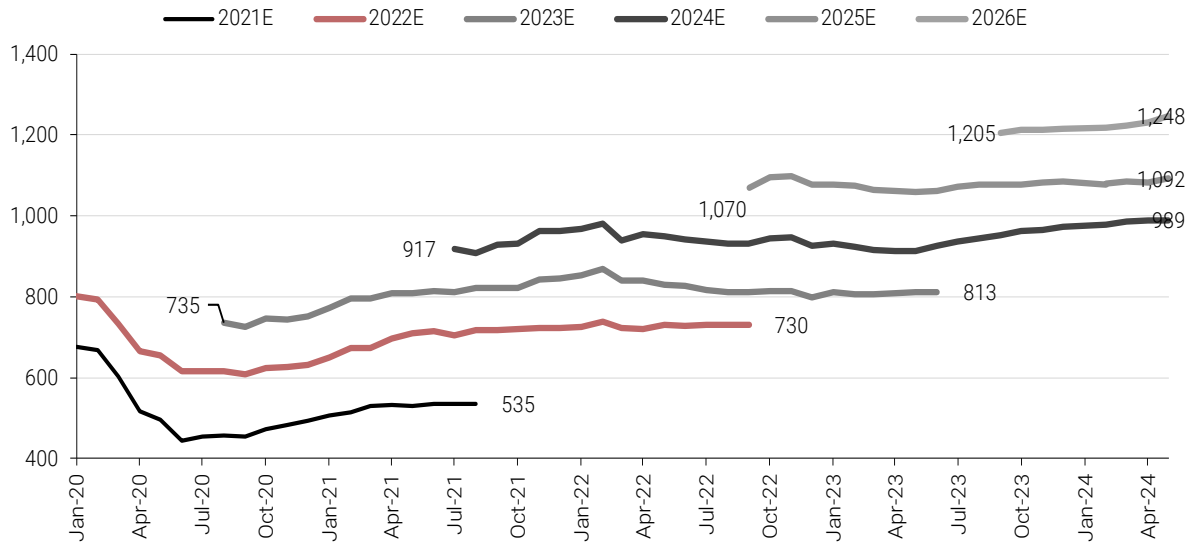
- (a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.
- (b) We exclude ONGC's ownership of HPCL for ex-HPCL computation.

Source: Bloomberg, Kotak Institutional Equities estimates

We note that 4QFY24 results season did not result in any meaningful change in our overall earnings estimates for the Nifty-50 Index. Exhibit 60 shows the changes in our earnings estimates over the past few months.

## Our EPS estimates have remained stable in the past few months

Exhibit 60: Nifty-50 Index EPS estimates trend, March fiscal year-ends, 2021E-26E (Rs)



Source: Kotak Institutional Equities estimates

We discuss our earnings projections by sectors and the key drivers of earnings through FY2025 below. We also examine the key upside and downside risks to earnings for the major sectors and stocks.

- ▶ **Automobiles and components.** We expect net profits of the automobiles & components stocks in the Nifty-50 Index to grow at a moderate 13% in FY2025 after a massive increase of 114% in FY2024. The moderate growth in FY2025 net profits reflects our assumptions of stable profitability and modest growth in volumes. However, we would not rule out downside risks to our FY2025 net income estimates from lower-than-expected profitability, especially in the 2W OEM segment. We expect competitive intensity to increase in the 2W sector, as EV producers will likely ramp up volumes in the mass category and new entrants will attempt to establish their presence in the premium category thereby altering the competitive dynamics of the 2W sector. The steep increase in FY2024 net profits reflects (1) large jump in profitability on lower RM prices and moderate increase in volumes for almost all the automobile OEMs and (2) solid turnaround in TTMT's JLR operations led by higher profitability.
- **Volumes.** We model a modest increase in volumes in FY2025 in the CV, PV and tractor segments but expect a strong increase in volumes in the 2W category. CV, PV and tractor will likely see another weak year for different reasons. In the case of CVs, demand will likely be subdued in 1HFY25 due to (1) postponement of demand given the general elections in 1QFY25 and budget in July 2025 and (2) mediocre demand conditions in general. In the case of PVs, affordability continues to be an issue given sharp increase in product prices over the past three years. In the case of tractors, a mediocre crop season in FY2024 and concerns around FY2025 outlook on prices and volumes may hinder demand for tractors in 1HFY25 despite expectations of a normal monsoon in 2024.

Exhibit 61 gives our volume assumptions for the major companies and categories over FY2018-25E. Exhibits 62-63 show our volume projections by segment over the next few years. As can be seen from the exhibits, we expect 2W volumes to recover to pre-pandemic levels by FY2026. PV volumes crossed pre-pandemic volumes in FY2023, entirely driven by the SUV segment.

**We expect modest growth in automobile volumes over FY2025-26E**

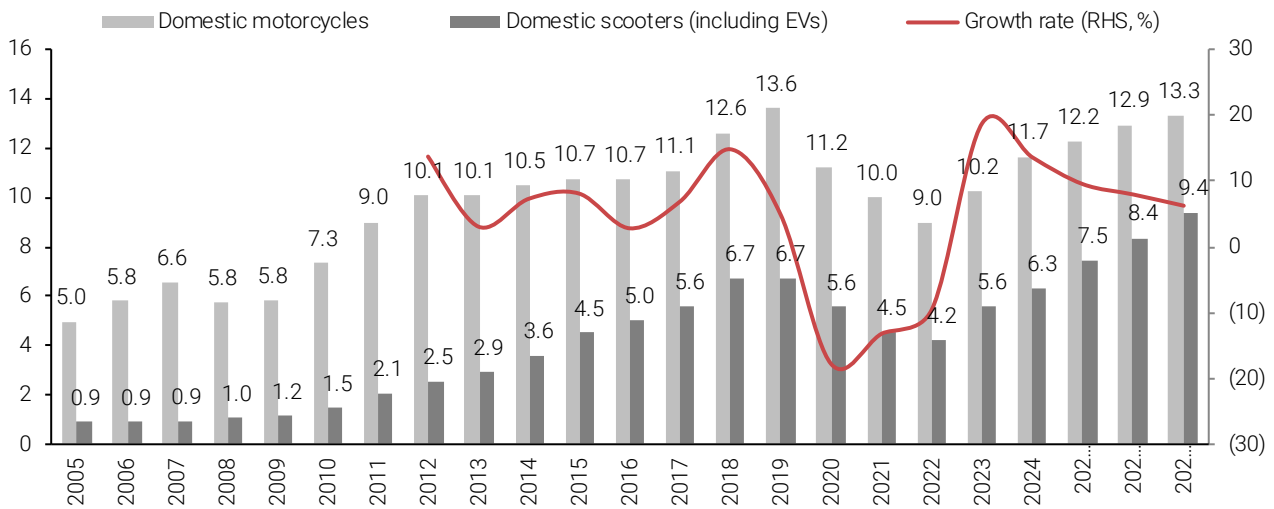
**Exhibit 61: Domestic PV sales and 2W sales, March fiscal year-ends, 2018-26E**

|                                       | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | 2024      | 2025E     | 2026E     |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Domestic sales volumes (units)</b> |           |           |           |           |           |           |           |           |           |
| Ashok Leyland                         | 158,597   | 185,065   | 116,320   | 92,714    | 117,312   | 180,916   | 182,830   | 192,373   | 206,642   |
| <b>Bajaj Auto</b>                     |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | 1,974,577 | 2,541,320 | 2,078,348 | 1,809,375 | 1,641,084 | 1,805,883 | 2,237,193 | 2,488,793 | 2,687,435 |
| Three wheelers                        | 369,637   | 399,453   | 365,759   | 109,292   | 160,723   | 300,734   | 464,138   | 474,839   | 501,331   |
| <b>Eicher Motors</b>                  |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | 801,229   | 801,899   | 658,286   | 573,728   | 521,236   | 734,840   | 834,795   | 871,569   | 913,708   |
| Commercial vehicles                   | 56,931    | 62,987    | 44,153    | 36,243    | 48,651    | 74,690    | 81,839    | 86,291    | 91,753    |
| Hero Motocorp (motorcycles)           | 6,499,051 | 6,893,602 | 5,828,782 | 5,156,401 | 4,337,634 | 4,797,347 | 5,020,079 | 5,413,302 | 5,750,754 |
| Maruti Suzuki                         | 1,779,574 | 1,862,539 | 1,563,297 | 1,457,861 | 1,652,653 | 1,966,164 | 2,135,323 | 2,214,942 | 2,371,675 |
| M&M (passenger vehicles)              | 248,838   | 254,351   | 186,942   | 157,216   | 225,895   | 359,253   | 459,877   | 557,855   | 603,391   |
| <b>Tata Motors</b>                    |           |           |           |           |           |           |           |           |           |
| Commercial vehicles                   | 399,335   | 468,692   | 310,855   | 242,490   | 322,182   | 393,317   | 378,060   | 393,766   | 421,709   |
| Passenger vehicles                    | 187,321   | 210,143   | 131,197   | 222,025   | 370,372   | 538,640   | 570,955   | 605,441   | 654,885   |
| <b>TVS Motors</b>                     |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | 2,875,766 | 3,134,477 | 2,410,642 | 2,164,226 | 2,047,564 | 2,597,936 | 3,157,288 | 3,479,980 | 3,753,445 |
| Three wheelers                        | 16,429    | 16,715    | 11,934    | 8,266     | 8,823     | 16,075    | 20,791    | 23,286    | 29,107    |

Source: SIAM, Kotak Institutional Equities estimates

**We expect domestic 2W industry to grow around 9.5% and 8% in FY2025 and FY2026**

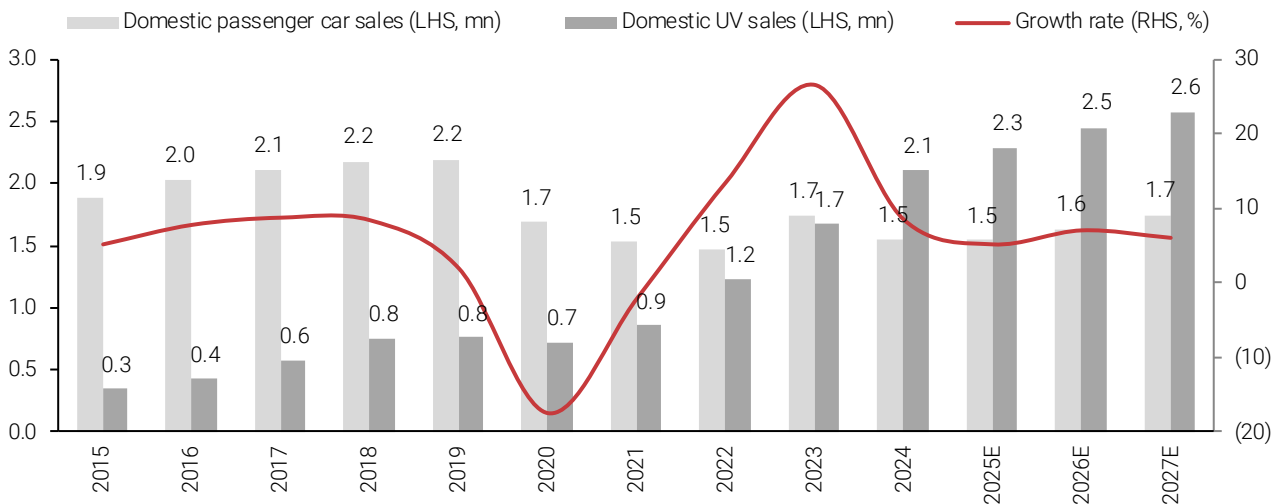
**Exhibit 62: Domestic motorcycle industry volumes and growth rate, March fiscal year-ends, 2005-27E**



Source: SIAM, Kotak Institutional Equities estimates

**We expect domestic car industry to grow by 5% in FY2025 and 7% in FY2026**

**Exhibit 63: Domestic car industry volumes and growth rate, March fiscal year-ends, 2015-27E**



Source: SIAM, Kotak Institutional Equities estimates

- Margins and profitability.** We assume stable margins and profitability for the automobile OEMs and component companies in FY2025 despite super-normal profitability in FY2024 for the OEMs. Our margin assumptions may be at risk if (1) one or more players were to become more aggressive to increase its/their market share; we are already seeing this in the case of automotive tires, where MRF has not taken any price increase for CV tires despite other players raising prices recently and (2) metal prices were to sustain at high levels after rising sharply in recent weeks.

FY2024 saw a massive increase in profitability, as companies raised or retained prices despite a sharp decline in raw material prices in FY2024. The ability of the companies to raise or retain prices despite deflation in RM prices reflects low competition in most categories, especially in parts of the 2W market. As can be seen in Exhibit 64, the profitability of 2W companies has expanded sharply in FY2024 and RoACE/CRoCI are at eye-popping levels. It remains to be seen whether such abnormal profitability and returns can persist over the next few years, as the market would like to believe.

**Indian 2W companies have made extraordinary returns historically**

**Exhibit 64: Key financial and return metrics of Indian 2-W OEMs, March fiscal year-ends, 2018-27E**

|                              | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | 2024      | 2025E     | 2026E     | 2027E     |
|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Bajaj Auto</b>            |           |           |           |           |           |           |           |           |           |           |
| Volumes (units)              | 4,006,791 | 5,019,503 | 4,615,212 | 3,972,914 | 4,308,433 | 3,927,857 | 4,337,541 | 4,771,407 | 5,258,572 | 5,663,206 |
| EBITDA margin (%)            | 19.2      | 17.1      | 17.0      | 17.8      | 15.9      | 18.0      | 19.7      | 19.4      | 19.3      | 19.6      |
| EBITDA per vehicle (Rs/unit) | 12,073    | 10,345    | 11,042    | 12,405    | 12,205    | 16,674    | 20,341    | 20,155    | 19,852    | 20,566    |
| RoAE (%)                     | 22        | 22        | 24        | 20        | 19        | 21        | 29        | 31        | 31        | 32        |
| RoACE (%)                    | 75        | 84        | 84        | 77        | 64        | 62        | 85        | 99        | 93        | 89        |
| CRoCI (%)                    | 100       | 83        | 93        | 73        | 76        | 96        | 160       | 111       | 108       | 106       |
| <b>Eicher Motors</b>         |           |           |           |           |           |           |           |           |           |           |
| Volumes (units)              | 820,492   | 822,724   | 697,582   | 612,350   | 602,268   | 834,895   | 912,732   | 968,991   | 1,025,742 | 1,096,233 |
| EBITDA margin (%)            | 31.9      | 30.1      | 24.3      | 20.7      | 20.9      | 24.1      | 27.2      | 27.6      | 27.9      | 28.1      |
| EBITDA per vehicle (Rs/unit) | 34,775    | 35,787    | 31,592    | 29,175    | 35,093    | 40,646    | 47,990    | 49,942    | 51,526    | 52,873    |
| RoAE (%)                     | 43        | 32        | 24        | 14        | 15        | 22        | 26        | 23        | 22        | 21        |
| RoACE (%)                    | 572       | 152       | 100       | 54        | 58        | 113       | 65        | 73        | 74        | 87        |
| CRoCI (%)                    | 234       | 112       | 61        | 40        | 40        | 59        | 44        | 46        | 45        | 47        |
| <b>Hero MotoCorp</b>         |           |           |           |           |           |           |           |           |           |           |
| Volumes (units)              | 7,587,193 | 7,820,745 | 6,409,719 | 5,786,374 | 4,944,148 | 5,328,546 | 5,621,455 | 6,091,267 | 6,478,241 | 6,873,577 |
| EBITDA margin (%)            | 16.4      | 14.7      | 13.7      | 13.0      | 11.5      | 11.8      | 14.0      | 14.5      | 14.3      | 14.4      |
| EBITDA per vehicle (Rs/unit) | 6,966     | 6,304     | 6,175     | 6,946     | 6,814     | 7,481     | 9,349     | 9,966     | 10,040    | 10,383    |
| RoAE (%)                     | 32        | 26        | 26        | 20        | 16        | 17        | 22        | 24        | 24        | 25        |
| RoACE (%)                    | 64        | 54        | 49        | 44        | 50        | 37        | 49        | 68        | 75        | 78        |
| CRoCI (%)                    | 38        | 28        | 24        | 25        | 20        | 22        | 29        | 30        | 31        | 32        |
| <b>TVS Motors</b>            |           |           |           |           |           |           |           |           |           |           |
| Volumes (units)              | 3,466,410 | 3,912,702 | 3,263,302 | 3,051,861 | 3,309,578 | 3,682,068 | 4,190,994 | 4,661,576 | 5,059,309 | 5,449,871 |
| EBITDA margin (%)            | 7.7       | 7.9       | 8.2       | 8.5       | 9.4       | 10.1      | 11.1      | 11.5      | 11.6      | 11.7      |
| EBITDA per vehicle (Rs/unit) | 3,390     | 3,663     | 4,124     | 4,681     | 5,927     | 7,264     | 8,385     | 8,738     | 8,960     | 9,253     |
| RoAE (%)                     | 25        | 22        | 18        | 16        | 20        | 27        | 30        | 31        | 32        | 29        |
| RoACE (%)                    | 18        | 18        | 14        | 14        | 20        | 25        | 27        | 28        | 29        | 30        |
| CRoCI (%)                    | 23        | 24        | 23        | 32        | 40        | 45        | 53        | 54        | 54        | 54        |

Source: Companies, Kotak Institutional Equities estimates

Exhibit 65 shows the gross and EBITDA margin of the major automobile OEM and component companies under our coverage over FY2016-26E.

**FY2024 GM and EM saw a massive increase on the back of higher realizations and lower RM prices**

**Exhibit 65: Gross margin and EBITDA margin of auto companies, March fiscal year-ends, 2017-26E (%)**

|                        | Gross margin (%) |      |      |      |      |      |      |      |       |       | EBITDA margin (%) |      |      |      |      |      |      |      |       |       |
|------------------------|------------------|------|------|------|------|------|------|------|-------|-------|-------------------|------|------|------|------|------|------|------|-------|-------|
|                        | 2017             | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2017              | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E |
| Apollo Tyres           | 47.7             | 43.4 | 42.2 | 44.5 | 46.0 | 40.9 | 40.4 | 46.2 | 44.1  | 43.3  | 14.0              | 11.1 | 11.2 | 11.9 | 16.1 | 12.3 | 13.5 | 17.5 | 16.0  | 15.7  |
| Ashok Leyland          | 30.6             | 30.1 | 28.8 | 29.2 | 25.5 | 22.7 | 22.9 | 27.3 | 26.5  | 25.3  | 10.9              | 11.2 | 10.8 | 6.7  | 3.5  | 4.6  | 8.1  | 12.0 | 11.7  | 10.7  |
| Bajaj Auto             | 31.0             | 29.5 | 26.9 | 28.3 | 28.1 | 25.4 | 27.2 | 27.7 | 27.2  | 26.7  | 20.3              | 19.2 | 17.1 | 17.0 | 17.8 | 15.9 | 18.0 | 19.7 | 19.4  | 19.3  |
| Balkrishna Industries  | 58.3             | 54.1 | 53.9 | 56.6 | 59.9 | 55.3 | 51.0 | 52.5 | 53.5  | 53.3  | 32.0              | 28.9 | 26.8 | 28.5 | 31.8 | 26.2 | 20.2 | 25.1 | 25.3  | 26.1  |
| Bharat Forge           | 46.9             | 46.1 | 44.0 | 41.4 | 42.9 | 45.4 | 39.6 | 40.2 | 41.1  | 42.7  | 19.6              | 20.6 | 20.3 | 13.8 | 13.6 | 19.3 | 13.7 | 16.3 | 17.9  | 19.5  |
| CEAT                   | 41.0             | 39.4 | 40.1 | 42.2 | 43.9 | 35.6 | 34.7 | 42.0 | 40.6  | 40.0  | 11.4              | 9.8  | 9.2  | 10.7 | 12.9 | 7.6  | 8.6  | 13.8 | 12.4  | 12.1  |
| CIE Automotive         | 59.7             | 56.2 | 54.8 | 51.8 | 53.7 | 52.2 | 45.4 | 47.1 | 47.2  | 47.2  | 10.0              | 12.7 | 13.1 | 12.4 | 8.3  | 12.1 | 13.4 | 15.3 | 15.5  | 16.1  |
| Eicher Motors          | 47.3             | 48.2 | 48.4 | 45.4 | 41.4 | 42.2 | 43.1 | 45.7 | 46.2  | 46.2  | 30.9              | 31.3 | 29.6 | 23.8 | 20.4 | 21.1 | 23.8 | 26.2 | 26.7  | 26.8  |
| Endurance Technologies | 42.3             | 42.4 | 42.1 | 46.0 | 45.5 | 41.4 | 39.5 | 40.9 | 40.8  | 40.5  | 13.6              | 14.6 | 15.0 | 16.3 | 15.9 | 12.8 | 11.8 | 13.0 | 13.3  | 13.7  |
| Escorts                | 31.8             | 32.6 | 31.6 | 33.7 | 33.7 | 31.0 | 27.3 | 31.2 | 31.3  | 31.3  | 7.9               | 11.2 | 11.8 | 11.7 | 16.3 | 13.3 | 9.4  | 13.3 | 13.5  | 13.7  |
| Exide Industries       | 37.8             | 34.6 | 34.2 | 36.4 | 34.5 | 30.7 | 30.1 | 30.9 | 32.4  | 25.0  | 14.3              | 13.5 | 13.3 | 13.8 | 13.5 | 11.3 | 10.7 | 11.7 | 12.8  | 13.3  |
| Hero Motocorp          | 32.1             | 31.1 | 29.5 | 30.4 | 28.3 | 27.6 | 28.4 | 31.1 | 31.5  | 30.8  | 16.3              | 16.4 | 14.7 | 13.7 | 13.0 | 11.5 | 11.8 | 14.0 | 14.5  | 14.3  |
| Mahindra & Mahindra    | 32.3             | 33.5 | 31.9 | 33.4 | 32.4 | 26.3 | 24.0 | 25.1 | 25.0  | 25.0  | 13.1              | 14.8 | 14.2 | 14.2 | 15.6 | 12.3 | 12.3 | 13.1 | 13.3  | 13.6  |
| Maruti Suzuki          | 31.3             | 31.1 | 30.8 | 29.7 | 27.7 | 25.2 | 26.6 | 28.6 | 28.7  | 28.6  | 15.2              | 15.1 | 12.8 | 9.7  | 7.6  | 6.5  | 9.4  | 11.6 | 11.7  | 12.0  |
| MRF                    | 44.1             | 39.1 | 39.6 | 40.8 | 42.3 | 34.9 | 32.9 | 40.1 | 38.4  | 37.9  | 19.6              | 15.3 | 14.4 | 14.6 | 18.2 | 10.6 | 10.4 | 16.9 | 14.8  | 14.6  |
| Samvardhana Motherson  | -                | -    | -    | -    | 43.2 | 42.2 | 42.5 | 44.9 | 43.7  | 43.4  | -                 | -    | -    | -    | 7.6  | 7.0  | 8.0  | 9.4  | 9.6   | 10.0  |
| Schaeffler India       | 39.6             | 39.4 | 37.0 | 36.9 | 38.0 | 37.7 | 38.1 | 37.9 | 38.0  | 38.3  | 16.5              | 17.3 | 16.2 | 14.5 | 14.3 | 17.5 | 18.8 | 18.2 | 18.1  | 18.7  |
| SKF                    | 38.2             | 41.6 | 41.5 | 37.0 | 41.5 | 38.8 | 40.4 | 39.2 | 41.0  | 40.7  | 12.8              | 15.8 | 16.0 | 12.3 | 15.7 | 15.2 | 17.4 | 15.7 | 17.8  | 18.1  |
| Sona BLW Precision     | -                | 61.4 | 59.5 | 57.9 | 58.8 | 55.6 | 54.4 | 56.9 | 55.8  | 55.1  | -                 | 28.2 | 28.9 | 26.7 | 28.2 | 26.2 | 26.0 | 28.8 | 28.9  | 28.8  |
| Tata Motors            | 38.5             | 36.3 | 35.0 | 36.0 | 36.6 | 35.0 | 34.5 | 37.7 | 38.3  | 36.5  | 12.4              | 10.4 | 8.5  | 7.6  | 12.2 | 8.9  | 9.2  | 13.6 | 14.5  | 14.8  |
| Timken                 | 40.9             | 41.0 | 44.2 | 46.8 | 44.3 | 45.8 | 40.9 | 41.0 | 41.7  | 41.3  | 15.0              | 13.2 | 17.3 | 22.4 | 17.9 | 23.2 | 20.0 | 19.7 | 21.6  | 22.0  |
| TVS Motor              | 27.0             | 26.6 | 24.0 | 26.1 | 24.0 | 24.0 | 24.2 | 26.3 | 26.4  | 26.3  | 7.1               | 7.7  | 7.9  | 8.2  | 8.5  | 9.4  | 10.1 | 11.1 | 11.5  | 11.6  |
| Uno Minda              | 37.5             | 38.2 | 38.7 | 38.8 | 38.5 | 36.6 | 35.7 | 35.4 | 34.9  | 34.3  | 11.0              | 11.9 | 12.3 | 10.8 | 11.4 | 10.7 | 11.1 | 11.3 | 11.5  | 11.7  |
| Varroc Engineering     | 35.1             | 37.9 | 37.1 | 37.2 | 33.5 | 34.1 | 35.7 | 37.3 | 36.9  | 37.0  | 6.3               | 8.6  | 8.8  | 7.4  | 3.5  | 6.1  | 8.3  | 10.2 | 10.4  | 10.8  |

Source: Companies, Kotak Institutional Equities estimates

- **Banks and diversified financials (NBFCs).** We model a modest 17% (5% for banks) and a moderate 7% (14% for banks) growth in the net profits of the banks and diversified financials in FY2025 and FY2026 reflecting our view of (1) moderate growth in credit, (2) modest decline in NIMs in FY2025 and (3) modest increase in credit costs (still at very low levels though compared to historical levels).

We note that modest growth in net profits of banks for FY2025 reflects our assumption of (1) further moderation in NIMs of banks to normal levels from high levels of FY2023-1HFY24 and (2) modest increase in credit costs although we are not seeing any signs of stress in loans. It is possible that the earnings of banks may surprise on the upside, if credit conditions were to continue to be stable.

- **Credit growth.** We expect mid-teens growth in credit in FY2025-26, linked to growth in nominal GDP (10-11%). We do not see any major (1) macroeconomic issues given India’s decent macroeconomic position with likely stable-to-lower interest rates through FY2025 or (2) credit issues that can derail credit growth. We do see some challenges in the personal unsecured loan category but recent measures taken by the RBI could help curb some of the excesses in the segment.
- **Credit quality and LLP.** We expect provisions for banks under our coverage to increase modestly in FY2025-26 from low levels of FY2024. However, provisions will still be significantly lower versus high levels of FY2018-21 when banks had to make high provisions for NPLs in their corporate loan books. We note that our provision estimates do not incorporate the proposed ECL framework of the RBI, as the RBI is yet to release the final guidelines.

We expect pre-provision operating profits (PPOP) to be quite varied with (1) the PSU banks showing very modest growth in PPOP or even a decline in a few cases due to our assumption of compression in NIMs, which would offset moderate growth in credit; SBI will likely be an exception with stable NIMs and strong growth in PPOP, (2) the large private banks showing modest growth in PPOP due to compression in NIMs, partly offset by moderately strong credit growth and (3) the small finance banks showing strong growth in PPOP with strong credit growth, largely offset by moderate decline in NIMs. LLPs will remain on the lower side relative to PPOP.

Exhibit 66 shows the total income and PPOP for banks under our coverage for FY2017-26E and Exhibit 67 shows LLP and LLP/PPOP for the same banks over the same period. As can be seen, LLP/PPOP declined sharply in FY2022-23 from high levels of (1) FY2020-21 due to provisions

related to NPLs in MSME and retail loans arising from the Covid-19 pandemic and (2) FY2018-19 due to provisions related to large NPLs in corporate loans. Also, most banks have fairly high coverage (see Exhibit 68) as they created sufficient provisions over FY2019-21 to account for high slippages over FY2018-21.

**Steady income growth to drive PPOP growth in FY2025-26E**

**Exhibit 66: Total income and PPOP of banks under coverage, March fiscal year-ends, 2017-26E**

|                            | Total income (Rs bn) |              |              |              |              |              |              |              |              |               | PPOP (Rs bn) |              |              |              |              |              |              |              |              |              |
|----------------------------|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                            | 2017                 | 2018         | 2019         | 2020         | 2021         | 2022         | 2023         | 2024         | 2025E        | 2026E         | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         | 2023         | 2024         | 2025E        | 2026E        |
| <b>Public banks</b>        |                      |              |              |              |              |              |              |              |              |               |              |              |              |              |              |              |              |              |              |              |
| Bank of Baroda             | 203                  | 222          | 248          | 378          | 417          | 441          | 514          | 592          | 602          | 664           | 109          | 112          | 133          | 179          | 203          | 218          | 252          | 310          | 294          | 325          |
| Canara Bank                | 174                  | 191          | 211          | 209          | 393          | 429          | 502          | 555          | 565          | 611           | 88           | 77           | 102          | 96           | 196          | 221          | 249          | 285          | 275          | 295          |
| Punjab National Bank       | 239                  | 238          | 245          | 267          | 433          | 410          | 466          | 535          | 576          | 634           | 141          | 83           | 114          | 151          | 224          | 204          | 224          | 263          | 269          | 306          |
| State Bank of India        | 973                  | 1,195        | 1,251        | 1,433        | 1,542        | 1,613        | 1,815        | 2,116        | 2,221        | 2,475         | 505          | 514          | 562          | 676          | 685          | 644          | 822          | 873          | 968          | 1,154        |
| Union Bank                 | 139                  | 143          | 147          | 167          | 364          | 403          | 474          | 527          | 528          | 559           | 68           | 61           | 79           | 88           | 192          | 217          | 236          | 286          | 278          | 292          |
| <b>Old private banks</b>   |                      |              |              |              |              |              |              |              |              |               |              |              |              |              |              |              |              |              |              |              |
| City Union Bank            | 17                   | 20           | 21           | 24           | 25           | 27           | 30           | 29           | 32           | 37            | 9            | 11           | 12           | 14           | 15           | 16           | 18           | 15           | 17           | 20           |
| Federal Bank               | 41                   | 47           | 55           | 66           | 75           | 81           | 96           | 114          | 125          | 144           | 19           | 21           | 26           | 31           | 38           | 38           | 48           | 52           | 59           | 69           |
| Karur Vysya Bank           | 29                   | 32           | 33           | 35           | 34           | 35           | 45           | 55           | 56           | 64            | 15           | 17           | 16           | 17           | 13           | 16           | 24           | 28           | 28           | 32           |
| <b>New private banks</b>   |                      |              |              |              |              |              |              |              |              |               |              |              |              |              |              |              |              |              |              |              |
| Axis Bank                  | 298                  | 296          | 348          | 407          | 415          | 484          | 594          | 723          | 783          | 888           | 176          | 156          | 190          | 234          | 231          | 247          | 198          | 371          | 409          | 469          |
| Bandhan Bank               | 28                   | 37           | 56           | 79           | 97           | 115          | 117          | 125          | 146          | 167           | 18           | 24           | 37           | 54           | 69           | 80           | 71           | 66           | 75           | 84           |
| DCB Bank                   | 10                   | 13           | 15           | 17           | 17           | 18           | 21           | 24           | 27           | 33            | 4            | 5            | 6            | 8            | 9            | 8            | 8            | 9            | 10           | 14           |
| HDFC Bank                  | 454                  | 553          | 659          | 794          | 901          | 1,015        | 1,181        | 1,578        | 1,797        | 2,100         | 257          | 326          | 397          | 487          | 574          | 641          | 704          | 944          | 1,057        | 1,266        |
| ICICI Bank                 | 412                  | 404          | 415          | 497          | 580          | 660          | 820          | 973          | 1,045        | 1,175         | 265          | 247          | 234          | 281          | 364          | 393          | 491          | 581          | 620          | 695          |
| IndusInd Bank              | 102                  | 122          | 145          | 190          | 201          | 224          | 258          | 300          | 340          | 379           | 54           | 65           | 79           | 103          | 111          | 125          | 140          | 157          | 176          | 190          |
| Yes Bank                   | 100                  | 130          | 144          | 187          | 108          | 98           | 118          | 132          | 155          | 184           | 58           | 75           | 75           | 55           | 34           | 21           | 8            | 34           | 47           | 66           |
| <b>Small finance banks</b> |                      |              |              |              |              |              |              |              |              |               |              |              |              |              |              |              |              |              |              |              |
| AU Small Finance Bank      | 16                   | 13           | 18           | 26           | 38           | 42           | 55           | 69           | 107          | 133           | 12           | 6            | 7            | 12           | 22           | 18           | 20           | 24           | 40           | 52           |
| Equitas Small Finance Bank | 8                    | 11           | 14           | 18           | 22           | 26           | 32           | 39           | 47           | 58            | 3            | 2            | 4            | 6            | 9            | 9            | 11           | 13           | 17           | 21           |
| Ujivan Small Finance Bank  | 1                    | 10           | 13           | 20           | 20           | 21           | 33           | 42           | 49           | 59            | 0            | 3            | 3            | 6            | 8            | 6            | 15           | 19           | 21           | 25           |
| <b>Total</b>               | <b>3,245</b>         | <b>3,677</b> | <b>4,039</b> | <b>4,813</b> | <b>5,683</b> | <b>6,140</b> | <b>7,170</b> | <b>8,526</b> | <b>9,203</b> | <b>10,362</b> | <b>1,802</b> | <b>1,806</b> | <b>2,079</b> | <b>2,499</b> | <b>2,996</b> | <b>3,122</b> | <b>3,538</b> | <b>4,332</b> | <b>4,661</b> | <b>5,376</b> |

Source: Companies, Kotak Institutional Equities estimates

**We expect LLP/PPOP to stay at low levels for banks under coverage in FY2025-26E**

**Exhibit 67: LLP and LLP/PPOP of banks under coverage, March fiscal year-ends, 2017-26E**

|                            | LLP (Rs bn)  |              |              |              |              |              |            |            |            |              | LLP/PPOP (%) |           |           |           |           |           |           |           |           |           |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|--------------|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                            | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         | 2023       | 2024       | 2025E      | 2026E        | 2017         | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | 2024      | 2025E     | 2026E     |
| <b>Public banks</b>        |              |              |              |              |              |              |            |            |            |              |              |           |           |           |           |           |           |           |           |           |
| Bank of Baroda             | 85           | 138          | 122          | 195          | 146          | 120          | 49         | 58         | 73         | 93           | 77           | 123       | 91        | 109       | 72        | 55        | 19        | 19        | 25        | 29        |
| Canara Bank                | 71           | 142          | 126          | 114          | 159          | 131          | 107        | 92         | 79         | 77           | 81           | 186       | 123       | 118       | 81        | 59        | 43        | 32        | 29        | 26        |
| Punjab National Bank       | 121          | 278          | 267          | 144          | 189          | 161          | 172        | 123        | 75         | 96           | 86           | 337       | 235       | 95        | 84        | 79        | 77        | 47        | 28        | 31        |
| State Bank of India        | 347          | 671          | 545          | 419          | 310          | 188          | 148        | 82         | 196        | 262          | 69           | 130       | 97        | 62        | 45        | 29        | 18        | 9         | 20        | 23        |
| Union Bank                 | 66           | 125          | 112          | 123          | 153          | 134          | 114        | 71         | 69         | 83           | 97           | 206       | 142       | 140       | 80        | 62        | 48        | 25        | 25        | 28        |
| <b>Old private banks</b>   |              |              |              |              |              |              |            |            |            |              |              |           |           |           |           |           |           |           |           |           |
| City Union Bank            | 3            | 3            | 3            | 8            | 8            | 6            | 6          | 3          | 3          | 4            | 27           | 27        | 24        | 57        | 52        | 38        | 35        | 19        | 17        | 19        |
| Federal Bank               | 6            | 8            | 7            | 11           | 16           | 12           | 8          | 2          | 8          | 13           | 31           | 37        | 28        | 35        | 43        | 33        | 16        | 4         | 13        | 18        |
| Karur Vysya Bank           | 6            | 12           | 13           | 14           | 7            | 7            | 9          | 7          | 6          | 7            | 42           | 71        | 79        | 82        | 57        | 44        | 39        | 23        | 21        | 22        |
| <b>New private banks</b>   |              |              |              |              |              |              |            |            |            |              |              |           |           |           |           |           |           |           |           |           |
| Axis Bank                  | 118          | 162          | 110          | 180          | 139          | 67           | 30         | 37         | 57         | 72           | 67           | 104       | 58        | 77        | 60        | 27        | 15        | 10        | 14        | 15        |
| Bandhan Bank               | 1            | 3            | 8            | 14           | 38           | 79           | 42         | 37         | 24         | 27           | 4            | 14        | 20        | 26        | 56        | 98        | 59        | 56        | 32        | 32        |
| DCB Bank                   | 1            | 1            | 1            | 3            | 4            | 4            | 2          | 1          | 2          | 4            | 26           | 26        | 21        | 34        | 49        | 51        | 20        | 16        | 22        | 27        |
| HDFC Bank                  | 36           | 55           | 70           | 114          | 123          | 151          | 122        | 235        | 132        | 179          | 14           | 17        | 18        | 23        | 21        | 24        | 17        | 25        | 12        | 14        |
| ICICI Bank                 | 143          | 145          | 171          | 120          | 158          | 83           | 56         | 36         | 76         | 96           | 54           | 59        | 73        | 43        | 43        | 21        | 11        | 6         | 12        | 14        |
| IndusInd Bank              | 11           | 11           | 29           | 42           | 73           | 63           | 42         | 38         | 41         | 43           | 19           | 16        | 37        | 41        | 66        | 51        | 30        | 24        | 23        | 23        |
| Yes Bank                   | 7            | 12           | 48           | 259          | 78           | 7            | (2)        | 23         | 10         | 8            | 13           | 17        | 65        | 475       | 232       | 33        | (22)      | 69        | 21        | 13        |
| <b>Small finance banks</b> |              |              |              |              |              |              |            |            |            |              |              |           |           |           |           |           |           |           |           |           |
| AU Small Finance Bank      | 1            | 1            | 1            | 3            | 7            | 2            | 2          | 4          | 10         | 13           | 8            | 22        | 20        | 24        | 31        | 14        | 12        | 18        | 24        | 25        |
| Equitas Small Finance Bank | 1            | 2            | 1            | 2            | 4            | 5            | 4          | 3          | 4          | 6            | 36           | 78        | 23        | 41        | 42        | 57        | 32        | 20        | 25        | 27        |
| Ujivan Small Finance Bank  | -            | 3            | -            | 2            | 8            | 11           | -          | 2          | 4          | 6            | 83           | 97        | 13        | 27        | 99        | 189       | 1         | 11        | 20        | 26        |
| <b>Total</b>               | <b>1,023</b> | <b>1,774</b> | <b>1,635</b> | <b>1,765</b> | <b>1,620</b> | <b>1,231</b> | <b>911</b> | <b>855</b> | <b>868</b> | <b>1,088</b> | <b>57</b>    | <b>98</b> | <b>79</b> | <b>71</b> | <b>54</b> | <b>39</b> | <b>26</b> | <b>20</b> | <b>19</b> | <b>20</b> |

Source: Companies, Kotak Institutional Equities estimates

**We do not see any major change in LLPs and PCR for banks under coverage in FY2025-26E**

**Exhibit 68: LLP as a percentage of average loans and provision coverage ratio (excluding write-offs), March fiscal year-ends, 2019-26E (%)**

|                            | LLP (%) |      |      |      |       |      |       |       | PCR (%) |      |      |      |      |      |       |       |
|----------------------------|---------|------|------|------|-------|------|-------|-------|---------|------|------|------|------|------|-------|-------|
|                            | 2019    | 2020 | 2021 | 2022 | 2023  | 2024 | 2025E | 2026E | 2019    | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E |
| <b>Public banks</b>        |         |      |      |      |       |      |       |       |         |      |      |      |      |      |       |       |
| Bank of Baroda             | 2.7     | 3.4  | 2.1  | 1.6  | 0.6   | 0.6  | 0.7   | 0.8   | 68      | 69   | 67   | 75   | 77   | 77   | 78    | 72    |
| Canara Bank                | 3.1     | 2.7  | 3.0  | 2.0  | 1.4   | 1.0  | 0.8   | 0.7   | 41      | 51   | 59   | 66   | 69   | 71   | 71    | 72    |
| Punjab National Bank       | 6.0     | 3.1  | 3.3  | 2.3  | 2.2   | 1.4  | 0.7   | 0.8   | 62      | 63   | 63   | 62   | 71   | 88   | 88    | 79    |
| State Bank of India        | 2.6     | 1.9  | 1.3  | 0.7  | 0.5   | 0.2  | 0.5   | 0.6   | 62      | 65   | 71   | 75   | 76   | 76   | 78    | 78    |
| Union Bank                 | 3.8     | 4.0  | 3.4  | 2.1  | 1.6   | 0.9  | 0.8   | 0.8   | 58      | 65   | 70   | 69   | 79   | 79   | 80    | 78    |
| <b>Old private banks</b>   |         |      |      |      |       |      |       |       |         |      |      |      |      |      |       |       |
| City Union Bank            | 1.0     | 2.3  | 2.2  | 1.6  | 1.5   | 0.6  | 0.6   | 0.7   | 39      | 45   | 43   | 38   | 47   | 52   | 50    | 57    |
| Federal Bank               | 0.7     | 0.9  | 1.3  | 0.9  | 0.5   | 0.1  | 0.4   | 0.5   | 50      | 54   | 66   | 66   | 71   | 72   | 59    | 60    |
| Karur Vysya Bank           | 2.8     | 2.9  | 1.5  | 1.4  | 1.6   | 1.0  | 0.8   | 0.8   | 46      | 57   | 58   | 63   | 68   | 71   | 66    | 68    |
| <b>New private banks</b>   |         |      |      |      |       |      |       |       |         |      |      |      |      |      |       |       |
| Axis Bank                  | 2.4     | 3.4  | 2.3  | 1.0  | 0.4   | 0.4  | 0.5   | 0.6   | 62      | 69   | 72   | 75   | 81   | 79   | 68    | 65    |
| Bandhan Bank               | 2.2     | 2.6  | 5.1  | 9.0  | 4.2   | 3.3  | 1.8   | 1.8   | 72      | 61   | 50   | 75   | 77   | 72   | 67    | 68    |
| DCB Bank                   | 0.6     | 1.1  | 1.7  | 1.5  | 0.5   | 0.4  | 0.5   | 0.7   | 65      | 54   | 45   | 56   | 68   | 66   | 56    | 53    |
| HDFC Bank                  | 1.0     | 1.3  | 1.2  | 1.2  | 0.8   | 1.2  | 0.5   | 0.6   | 71      | 72   | 70   | 73   | 76   | 74   | 74    | 75    |
| ICICI Bank                 | 3.1     | 1.9  | 2.3  | 1.0  | 0.6   | 0.3  | 0.6   | 0.6   | 71      | 76   | 78   | 79   | 83   | 80   | 68    | 64    |
| IndusInd Bank              | 1.8     | 2.1  | 3.5  | 2.8  | 1.6   | 1.2  | 1.1   | 1.0   | 43      | 63   | 75   | 72   | 68   | 70   | 69    | 65    |
| Yes Bank                   | 2.2     | 12.5 | 4.6  | 0.4  | (0.1) | 1.1  | 0.4   | 0.3   | 43      | 74   | 66   | 71   | 62   | 67   | 65    | 69    |
| <b>Small finance banks</b> |         |      |      |      |       |      |       |       |         |      |      |      |      |      |       |       |
| Au Small Finance Bank      | 0.8     | 1.1  | 2.2  | 0.6  | 0.5   | 0.7  | 1.0   | 1.0   | 37      | 53   | 50   | 71   | 71   | 68   | 72    | 75    |
| Equitas Small Finance Bank | 1.0     | 1.9  | 2.4  | 2.7  | 1.6   | 1.0  | 1.2   | 1.3   | 37      | 45   | 59   | 43   | 57   | 56   | 62    | 66    |
| Ujjivan Small Finance Bank | 0.5     | 1.4  | 5.6  | 7.3  | 0.1   | 0.9  | 1.4   | 1.7   | 72      | 80   | 60   | 92   | 140  | 88   | 80    | 77    |

Source: Companies, Kotak Institutional Equities estimates

- **NIM.** We expect NIMs to moderate further in FY2025 from high levels of FY2023-1HFY24 (see Exhibit 69 for NIMs and RoEs) as borrowing rates catch up with lending rates. Banking system liquidity continues to be moderately tight (see Exhibit 70), as the RBI continues to have a reasonably hawkish view on inflation given its intention to bring down inflation to around 4% on a structural basis. NIMs were high in FY2023 reflecting timing mismatch between increase in lending rates and borrowing costs of banks; lending rates had increased in line with the increase in the RBI’s policy rates but deposit rates had lagged lending rates.

**We expect moderate decline in NIMs and RoEs in FY2025E**

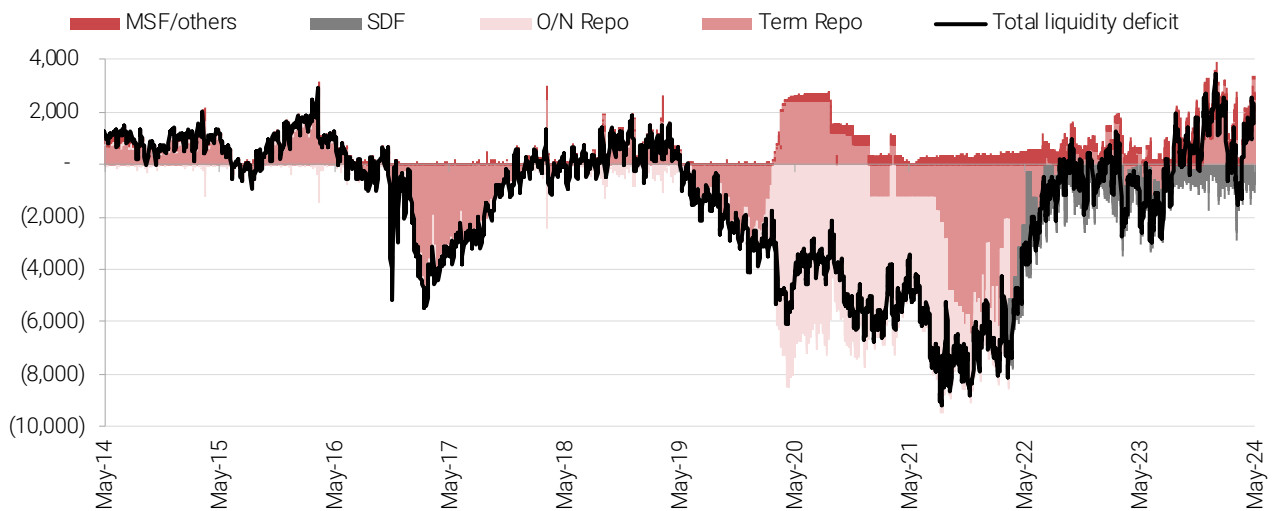
**Exhibit 69: NIM and RoE of banks and NBFCs, March fiscal year-ends, 2019-26E (%)**

|                               | NIM (%) |      |      |      |      |      |       |       | RoE (%) |      |      |      |      |      |       |       |
|-------------------------------|---------|------|------|------|------|------|-------|-------|---------|------|------|------|------|------|-------|-------|
|                               | 2019    | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2019    | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E |
| <b>Banks</b>                  |         |      |      |      |      |      |       |       |         |      |      |      |      |      |       |       |
| AU Small Finance Bank         | 5.4     | 5.3  | 5.2  | 5.5  | 5.7  | 5.3  | 6.2   | 5.6   | 14      | 18   | 22   | 16   | 15   | 13   | 16    | 16    |
| Axis Bank                     | 3.2     | 3.2  | 3.4  | 3.3  | 3.7  | 3.8  | 3.5   | 3.4   | 7       | 2    | 7    | 12   | 18   | 18   | 16    | 16    |
| Bandhan Bank                  | 9.1     | 8.7  | 7.5  | 7.1  | 6.7  | 6.6  | 6.7   | 6.6   | 19      | 23   | 14   | 1    | 12   | 11   | 17    | 16    |
| Bank of Baroda                | 2.6     | 3.0  | 2.7  | 2.8  | 3.2  | 3.1  | 2.9   | 2.9   | 1       | 1    | 1    | 9    | 15   | 17   | 14    | 13    |
| Canara Bank                   | 2.4     | 2.0  | 2.3  | 2.4  | 2.6  | 2.7  | 2.4   | 2.4   | 1       | (6)  | 5    | 9    | 15   | 18   | 16    | 16    |
| City Union Bank               | 3.9     | 3.7  | 3.7  | 3.5  | 3.5  | 3.2  | 3.3   | 3.3   | 15      | 9    | 11   | 12   | 13   | 13   | 12    | 12    |
| DCB Bank                      | 3.6     | 3.6  | 3.5  | 3.4  | 3.8  | 3.5  | 3.4   | 3.4   | 12      | 11   | 10   | 7    | 11   | 11   | 11    | 12    |
| Equitas Small Finance Bank    | 8.2     | 8.8  | 8.4  | 8.2  | 8.5  | 8.0  | 7.4   | 7.1   | 10      | 10   | 13   | 7    | 12   | 14   | 15    | 16    |
| Federal Bank                  | 3.0     | 2.9  | 3.1  | 3.0  | 3.3  | 3.1  | 3.0   | 3.0   | 10      | 11   | 10   | 11   | 15   | 15   | 12    | 12    |
| HDFC Bank                     | 4.4     | 4.2  | 4.1  | 3.9  | 4.1  | 3.8  | 3.5   | 3.6   | 16      | 16   | 17   | 17   | 17   | 17   | 15    | 16    |
| ICICI Bank                    | 3.3     | 3.6  | 3.6  | 3.9  | 4.4  | 4.6  | 4.1   | 4.0   | 3       | 8    | 12   | 15   | 17   | 19   | 16    | 16    |
| IndusInd Bank                 | 3.8     | 4.4  | 4.5  | 4.2  | 4.4  | 4.4  | 4.5   | 4.4   | 14      | 15   | 8    | 10   | 14   | 15   | 15    | 14    |
| Karur Vysya Bank              | 3.6     | 3.5  | 3.4  | 3.6  | 4.1  | 4.1  | 3.8   | 3.7   | 3       | 4    | 5    | 9    | 14   | 17   | 15    | 16    |
| Punjab National Bank          | 2.4     | 2.3  | 3.1  | 2.4  | 2.7  | 2.8  | 2.8   | 2.9   | (25)    | 1    | 3    | 4    | 3    | 8    | 12    | 12    |
| State Bank of India           | 2.7     | 2.8  | 2.9  | 2.8  | 3.0  | 3.0  | 3.0   | 2.9   | 0       | 6    | 8    | 12   | 17   | 17   | 15    | 15    |
| Ujjivan Small Finance Bank    | 10.0    | 10.6 | 9.3  | 8.4  | 9.8  | 9.5  | 8.9   | 8.4   | 11      | 14   | 0    | (15) | 33   | 27   | 21    | 19    |
| Union Bank                    | 2.2     | 2.3  | 2.5  | 2.6  | 2.8  | 2.9  | 2.8   | 2.7   | (13)    | (11) | 5    | 8    | 11   | 16   | 15    | 14    |
| YES Bank                      | 3.0     | 2.3  | 3.2  | 2.5  | 2.7  | 2.5  | 2.7   | 2.9   | 7       | (68) | (13) | 3    | 2    | 3    | 6     | 9     |
| <b>NBFCs</b>                  |         |      |      |      |      |      |       |       |         |      |      |      |      |      |       |       |
| Aavas Financiers              | 7.5     | 7.0  | 6.5  | 7.0  | 6.8  | 6.2  | 6.0   | 6.1   | 12      | 13   | 13   | 14   | 14   | 14   | 14    | 15    |
| Aptus Value Housing Finance   | 10.6    | 11.1 | 11.5 | 12.6 | 13.1 | 12.1 | 11.7  | 11.4  | 17      | 18   | 14   | 15   | 16   | 17   | 18    | 18    |
| Bajaj Finance                 | 9.8     | 10.3 | 9.3  | 10.0 | 10.3 | 10.2 | 9.8   | 9.8   | 22      | 20   | 13   | 17   | 24   | 22   | 21    | 22    |
| Bajaj Finserv                 | -       | -    | -    | -    | -    | -    | -     | -     | 15      | 12   | 13   | 12   | 15   | 17   | 17    | 17    |
| Cholamandalam                 | 6.0     | 5.9  | 6.9  | 6.9  | 6.6  | 6.3  | 6.4   | 6.4   | 21      | 15   | 17   | 20   | 21   | 20   | 19    | 19    |
| HDFC                          | 3.6     | 5.6  | 3.5  | 3.5  | 3.5  | 3.4  | 3.3   | 3.3   | 14      | 21   | 12   | 12   | 13   | 12   | 12    | 13    |
| Home First Finance            | 6.1     | 6.2  | 6.3  | 7.7  | 8.0  | 7.4  | 6.9   | 6.8   | 11      | 11   | 9    | 13   | 13   | 16   | 16    | 18    |
| L&T Finance Holdings          | 5.4     | 6.1  | 6.1  | 7.0  | 8.6  | 8.9  | 9.3   | 9.5   | 18      | 15   | 5    | 5    | 7    | 10   | 12    | 13    |
| LIC Housing Finance           | 2.4     | 2.4  | 2.4  | 2.4  | 2.4  | 3.1  | 2.8   | 2.7   | 17      | 14   | 14   | 10   | 11   | 16   | 14    | 13    |
| Mahindra & Mahindra Financial | 8.1     | 7.8  | 8.3  | 8.6  | 8.3  | 7.2  | 7.2   | 7.3   | 15      | 8    | 3    | 7    | 12   | 10   | 13    | 14    |
| Muthoot Finance               | 14.3    | 15.2 | 14.1 | 12.9 | 11.0 | 11.0 | 11.1  | 11.2  | 22      | 28   | 28   | 24   | 18   | 18   | 18    | 19    |
| Shriram Finance               | 7.8     | 7.5  | 7.1  | 7.3  | 10.4 | 9.3  | 9.3   | 9.3   | 17      | 15   | 13   | 11   | 17   | 16   | 16    | 17    |

Source: Companies, Kotak Institutional Equities estimates

**Banking system liquidity continues to be moderately tight**

**Exhibit 70: Liquidity injection through various channels, March fiscal year-ends, 2014-24 (Rs bn)**



Source: CEIC, RBI, Kotak Institutional Equities



Bank deposit rates have been largely stable for the past two years after a period of sharp increases in 2HFY23 (see Exhibit 71 for term deposit rates of SBI). We expect deposit rates to be stable over the next few quarters, in line with our view of broadly stable policy rates. However, CDs rates have declined from the high levels of 4QFY24 (see Exhibit 72 for one-year CD rate).

**SBI hiked the term deposit rate in the <12 months category in May 2024**

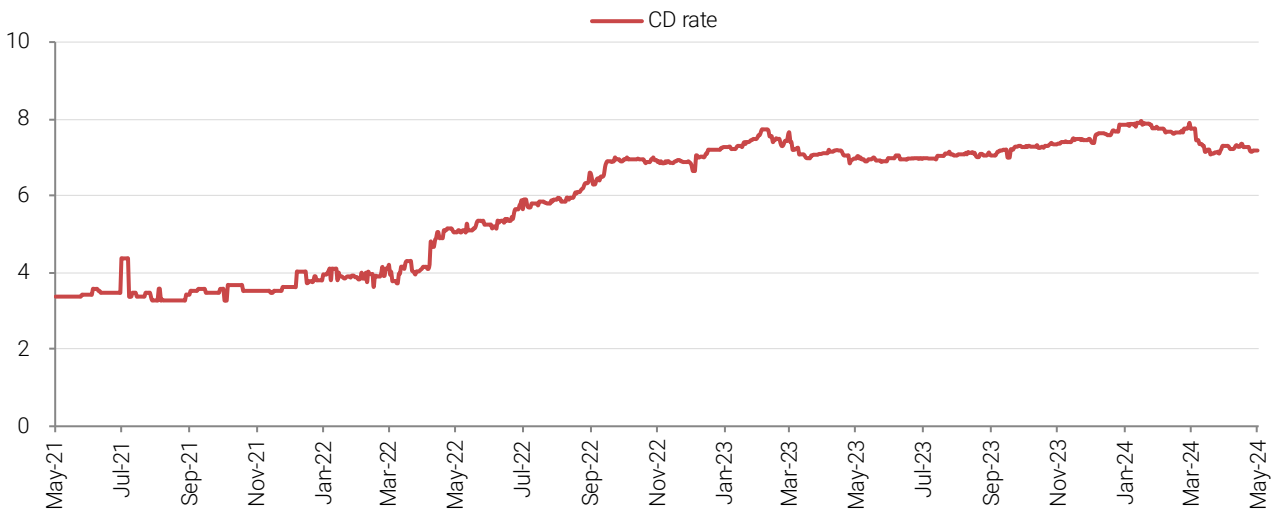
Exhibit 71: Deposit rates movement for SBI (%)

|                 | Dec-19 | Mar-20 | Mar-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 7-14 days       | 4.50   | 2.90   | 3.00   | 2.90   | 2.90   | 2.90   | 2.90   | 3.00   | 3.00   | 3.00   | 3.00   | 3.50   | 3.50   | 3.00   | 3.00   | 3.00   | 3.00   |
| 15-30 days      | 4.50   | 2.90   | 3.00   | 2.90   | 2.90   | 2.90   | 2.90   | 3.00   | 3.00   | 3.00   | 3.00   | 3.50   | 3.50   | 3.00   | 3.00   | 3.00   | 3.00   |
| 31-45 days      | 4.50   | 2.90   | 3.00   | 2.90   | 2.90   | 2.90   | 2.90   | 3.00   | 3.00   | 3.00   | 3.00   | 3.50   | 3.50   | 3.00   | 3.00   | 3.00   | 3.00   |
| 46-90 days      | 5.50   | 3.90   | 4.50   | 3.90   | 3.90   | 3.90   | 3.90   | 4.50   | 4.50   | 4.50   | 4.50   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 5.50   |
| 91-120 days     | 5.50   | 3.90   | 4.50   | 3.90   | 3.90   | 3.90   | 3.90   | 4.50   | 4.50   | 4.50   | 4.50   | 4.75   | 4.75   | 4.50   | 4.50   | 4.50   | 5.50   |
| 120-180 days    | 5.50   | 3.90   | 4.50   | 3.90   | 3.90   | 3.90   | 3.90   | 4.50   | 4.50   | 4.50   | 4.50   | 4.75   | 4.75   | 4.50   | 4.50   | 4.50   | 5.50   |
| 181-210 days    | 5.80   | 5.00   | 5.40   | 4.40   | 4.40   | 4.40   | 4.55   | 4.55   | 4.55   | 5.25   | 5.25   | 5.75   | 5.75   | 5.75   | 5.75   | 5.75   | 6.00   |
| 211 days-1 year | 5.80   | 5.00   | 4.40   | 4.40   | 4.40   | 4.60   | 4.60   | 4.60   | 4.60   | 5.75   | 5.75   | 6.00   | 6.00   | 6.00   | 6.00   | 6.00   | 6.25   |
| 1 year-2 year   | 6.25   | 5.00   | 6.10   | 5.00   | 5.10   | 5.30   | 5.45   | 6.75   | 6.80   | 6.80   | 6.80   | 6.80   | 6.80   | 6.80   | 6.80   | 6.80   | 6.80   |
| 2 year-3 year   | 6.25   | 5.10   | 6.25   | 5.10   | 5.20   | 5.35   | 5.50   | 6.75   | 7.00   | 7.00   | 7.00   | 7.00   | 7.00   | 7.00   | 7.00   | 7.00   | 7.00   |
| 3 years-5 years | 6.25   | 5.00   | 5.30   | 5.30   | 5.30   | 5.45   | 5.45   | 5.45   | 5.45   | 6.50   | 6.50   | 6.75   | 6.75   | 6.75   | 6.75   | 6.75   | 6.75   |
| 5 years-8 years | 6.25   | 5.00   | 5.40   | 5.40   | 5.40   | 5.50   | 5.50   | 5.50   | 5.50   | 6.50   | 6.50   | 6.50   | 6.50   | 6.50   | 6.50   | 6.50   | 6.50   |

Source: Company, Kotak Institutional Equities

**CD rates have declined from the high levels of 4QFY24**

Exhibit 72: 1-year Certificate of Deposit rates in India (%)



Source: Bloomberg, Kotak Institutional Equities

NBFCs' borrowing costs have been stable in the past 2-3 quarters (see Exhibit 73) after rising sharply in FY2023, as banks raised lending rates in line with the increase in overall interest rates. We note that NBFCs derive a significant portion of their borrowings from banks. Corporate bond yields (see Exhibit 74 for bond yields) continue to be stable.

**Increase in cost of borrowing of NBFCs in the past few quarters**

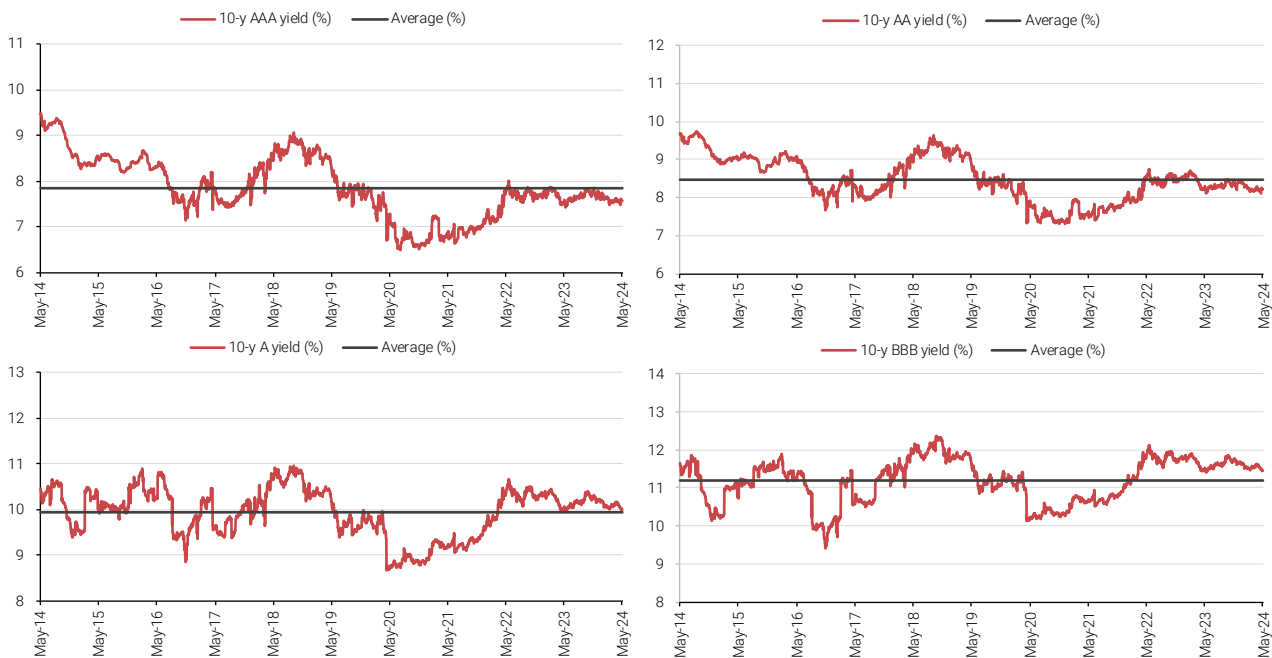
Exhibit 73: Cost of borrowing of NBFCs, March fiscal year-ends, 2022-24 (%)

|                             | Cost of borrowing (%) |        |        |        |        |        |        |        |        |
|-----------------------------|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                             | 4QFY22                | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| <b>Affordable housing</b>   |                       |        |        |        |        |        |        |        |        |
| Aavas Financiers            | 6.5                   | 6.6    | 6.7    | 6.8    | 6.9    | 7.3    | 7.5    | 7.7    | 7.4    |
| Aptus                       | 8.1                   | 7.7    | 8.0    | 8.3    | 8.3    | 8.5    | 9.1    | 8.8    | 8.8    |
| Home First                  | 6.6                   | 6.7    | 7.2    | 7.2    | 7.8    | 8.2    | 8.1    | 8.1    | 8.4    |
| <b>Other NBFCs and HFCs</b> |                       |        |        |        |        |        |        |        |        |
| Bajaj Finance               | 6.4                   | 6.3    | 6.7    | 7.0    | 6.9    | 7.3    | 7.4    | 7.5    | 7.5    |
| Cholamandalam               | 6.3                   | 6.3    | 7.0    | 7.3    | 7.4    | 7.8    | 7.8    | 8.0    | 8.0    |
| Five Star                   | 9.7                   | 10.2   | 9.7    | 8.9    | 8.3    | 9.0    | 9.3    | 9.7    | 9.1    |
| L&T Finance Holdings        | 6.6                   | 6.8    | 6.9    | 7.0    | 6.8    | 6.9    | 7.0    | 7.1    | 7.0    |
| LIC Housing Finance         | 6.5                   | 6.5    | 6.8    | 7.2    | 7.2    | 7.4    | 7.6    | 7.6    | 7.5    |
| Mahindra Finance            | 6.6                   | 6.5    | 6.7    | 7.2    | 7.3    | 7.5    | 7.6    | 7.8    | 7.7    |
| SBFC                        | 8.0                   | 8.3    | 8.0    | 8.9    | 8.8    | 9.3    | 9.4    | 9.3    | 9.2    |
| Shriram Finance             | 8.6                   | 7.9    | 8.3    | 8.0    | 8.3    | 8.7    | 8.9    | 8.7    | 8.8    |

Source: Companies, Kotak Institutional Equities

**Corporate bond yields continue to be stable**

Exhibit 74: Corporate bond yields, March fiscal year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

- **Construction materials.** We expect 20% and 13% growth in the net profits of the construction materials (cement) companies in the Nifty-50 Index for FY2025 and FY2026, led by (1) our assumption of moderate increase in profitability in FY2025-26 after a sharp increase in profitability in FY2024 (see Exhibit 75) from depressed levels of FY2023 and (2) decent volume growth led by likely robust residential real estate volumes and continued strong investment in infrastructure (despite moderation in government capex budgets for the railway and road budgets in FY2025BE). The sharp jump in profitability in FY2024 reflects (1) modest increase in cement prices in FY2024 and (2) sharp decline in power & fuel costs from 3QFY23.

**We model further increases in profitability of cement companies over FY2025E-26E**

**Exhibit 75: Profitability (EBITDA/ton) of cement companies, March fiscal year-ends, 2019-27E (Rs/ton)**

|                  | Profitability (Rs/ton) |       |       |       |       |       |       |       |       | Growth (% yoy) |      |      |      |      |      |       |       |       |
|------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|------|------|------|------|------|-------|-------|-------|
|                  | 2019                   | 2020  | 2021  | 2022  | 2023  | 2024  | 2025E | 2026E | 2027E | 2019           | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2027E |
| ACC              | 718                    | 834   | 972   | 1,038 | 499   | 830   | 942   | 1,037 | 1,093 | (1)            | 16   | 17   | 7    | (52) | 66   | 13    | 10    | 5     |
| Ambuja Cements   | 782                    | 897   | 1,170 | 1,213 | 852   | 980   | 1,149 | 1,223 | 1,266 | (7)            | 15   | 30   | 4    | (30) | 15   | 17    | 6     | 3     |
| J K Cement       | 841                    | 1,241 | 1,396 | 1,089 | 835   | 1,083 | 1,110 | 1,155 | 1,200 | 3              | 48   | 12   | (22) | (23) | 30   | 2     | 4     | 4     |
| Orient Cement    | 487                    | 660   | 1,090 | 1,079 | 633   | 732   | 757   | 778   | 798   | 29             | 36   | 65   | (1)  | (41) | 16   | 3     | 3     | 3     |
| Shree Cement     | 1,026                  | 1,474 | 1,473 | 1,315 | 925   | 1,229 | 1,253 | 1,282 | 1,303 | (5)            | 44   | (0)  | (11) | (30) | 33   | 2     | 2     | 2     |
| Ultratech Cement | 869                    | 1,153 | 1,370 | 1,272 | 1,011 | 1,101 | 1,241 | 1,295 | 1,349 | 3              | 33   | 19   | (7)  | (20) | 9    | 13    | 4     | 4     |

Source: Companies, Kotak Institutional Equities estimates

However, we would not rule out downside risks from weaker-than-expected pricing and production discipline among players given aggressive expansion and market share ambitions of several players. We expect supply-demand balance to likely stay unfavorable through FY2026 (see Exhibit 76). We note that cement companies' earnings have very high sensitivity to profitability assumptions. Exhibit 77 shows the FY2025-26E EPS of the cement companies under our coverage at various levels of profitability (Rs100/ton higher and lower versus our base-case profitability estimates). Cement stocks trade at high multiples (see Exhibit 78) despite large risks to the Street's earnings estimates.

**Capacity utilization in the cement industry to increase steadily over FY2024-26**

**Exhibit 76: Cement demand supply balance, March fiscal year-ends, 2019-26E**

|  | 2019      | 2020       | 2021       | 2022      | 2023      | 2024      | 2025E     | 2026E     |
|--|-----------|------------|------------|-----------|-----------|-----------|-----------|-----------|
| <b>All-India</b>                             |           |            |            |           |           |           |           |           |
| Closing installed capacity (mtpa)            | 483       | 501        | 527        | 546       | 574       | 616       | 653       | 681       |
| <b>Incremental installed capacity (mtpa)</b> | <b>16</b> | <b>17</b>  | <b>26</b>  | <b>19</b> | <b>28</b> | <b>43</b> | <b>37</b> | <b>27</b> |
| Effective capacity (mtpa)                    | 483       | 501        | 527        | 546       | 574       | 616       | 653       | 681       |
| <b>Incremental effective capacity (mtpa)</b> | <b>16</b> | <b>17</b>  | <b>26</b>  | <b>19</b> | <b>28</b> | <b>43</b> | <b>37</b> | <b>27</b> |
| Capacity growth (%)                          | 3.4       | 3.6        | 5.2        | 3.6       | 5.2       | 7.5       | 6.0       | 4.2       |
| Cement consumption (mn tons)                 | 333       | 330        | 326        | 355       | 386       | 419       | 440       | 471       |
| <b>Incremental consumption (mn tons)</b>     | <b>39</b> | <b>(3)</b> | <b>(3)</b> | <b>28</b> | <b>31</b> | <b>33</b> | <b>21</b> | <b>31</b> |
| Consumption growth (%)                       | 13.4      | (0.8)      | (1.0)      | 8.6       | 8.7       | 8.6       | 5.1       | 7.1       |
| Cement production (mn tons)                  | 337       | 334        | 331        | 359       | 390       | 423       | 444       | 475       |
| <b>Incremental production (mn tons)</b>      | <b>39</b> | <b>(3)</b> | <b>(3)</b> | <b>28</b> | <b>31</b> | <b>33</b> | <b>21</b> | <b>31</b> |
| Growth (%)                                   | 13.3      | (0.8)      | (1)        | 8.5       | 8.6       | 8.5       | 5.0       | 7.0       |
| <b>Capacity utilization (%)</b>              | <b>70</b> | <b>67</b>  | <b>63</b>  | <b>66</b> | <b>68</b> | <b>69</b> | <b>68</b> | <b>70</b> |

Source: CMA, Kotak Institutional Equities estimates

**Earnings of cement companies are highly sensitive to cement profitability assumptions**

Exhibit 77: EPS sensitivity of cement companies for change in EBITDA/ton, March fiscal year-ends, 2025E-26E

|                                     | (EBITDA: -Rs100/ton) |             | Base Case   |             | (EBITDA: +Rs100/ton) |             |
|-------------------------------------|----------------------|-------------|-------------|-------------|----------------------|-------------|
|                                     | 2025E                | 2026E       | 2025E       | 2026E       | 2025E                | 2026E       |
| <b>ACC</b>                          |                      |             |             |             |                      |             |
| Volumes (mn tons)                   | 38                   | 40          | 38          | 40          | 38                   | 40          |
| EBITDA/ton (Rs)                     | 842                  | 937         | 942         | 1,037       | 1,042                | 1,137       |
| EBITDA (Rs bn)                      | 32                   | 37          | 36          | 41          | 40                   | 45          |
| PAT (Rs bn)                         | 19                   | 23          | 22          | 26          | 25                   | 29          |
| <b>EPS (Rs)</b>                     | <b>101</b>           | <b>121</b>  | <b>117</b>  | <b>137</b>  | <b>132</b>           | <b>153</b>  |
| <b>Ambuja (Standalone)</b>          |                      |             |             |             |                      |             |
| Volumes (mn tons)                   | 38                   | 42          | 38          | 42          | 38                   | 42          |
| EBITDA/ton (Rs)                     | 1,049                | 1,123       | 1,149       | 1,223       | 1,249                | 1,323       |
| EBITDA (Rs bn)                      | 40                   | 47          | 43          | 51          | 47                   | 55          |
| PAT (Rs bn)                         | 29                   | 36          | 32          | 39          | 35                   | 43          |
| <b>EPS (Rs)</b>                     | <b>11.8</b>          | <b>14.7</b> | <b>13.0</b> | <b>16.0</b> | <b>14.1</b>          | <b>17.3</b> |
| <b>Shree Cement</b>                 |                      |             |             |             |                      |             |
| Volumes (mn tons)                   | 39                   | 43          | 39          | 43          | 39                   | 43          |
| EBITDA/ton (Rs)                     | 1,153                | 1,182       | 1,253       | 1,282       | 1,353                | 1,382       |
| EBITDA (Rs bn)                      | 45                   | 51          | 49          | 55          | 53                   | 59          |
| PAT (Rs bn)                         | 23                   | 27          | 26          | 30          | 29                   | 33          |
| <b>EPS (Rs)</b>                     | <b>646</b>           | <b>735</b>  | <b>727</b>  | <b>824</b>  | <b>808</b>           | <b>913</b>  |
| <b>Ultratech (India operations)</b> |                      |             |             |             |                      |             |
| Volumes (mn tons)                   | 127                  | 138         | 127         | 138         | 127                  | 138         |
| EBITDA/ton (Rs)                     | 1,141                | 1,195       | 1,241       | 1,295       | 1,341                | 1,395       |
| EBITDA (Rs bn)                      | 144                  | 165         | 157         | 178         | 170                  | 192         |
| PAT (Rs bn)                         | 83                   | 94          | 92          | 104         | 101                  | 114         |
| <b>EPS (Rs)</b>                     | <b>286</b>           | <b>324</b>  | <b>319</b>  | <b>360</b>  | <b>352</b>           | <b>396</b>  |

Source: Companies, Kotak Institutional Equities estimates

**Cement stocks trade at high multiples despite our assumption of high profitability in FY2025-26E**

Exhibit 78: Valuation summary of cement stocks under KIE coverage, March fiscal year-ends, 2024-26E

| Company             | EPS (Rs) |       |       | EPS growth (%) |       |       | P/E (X) |       |       | EV/EBITDA (X) |       |       | P/B (X) |       |       |
|---------------------|----------|-------|-------|----------------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                     | 2024     | 2025E | 2026E | 2024           | 2025E | 2026E | 2024    | 2025E | 2026E | 2024          | 2025E | 2026E | 2024    | 2025E | 2026E |
| ACC                 | 112      | 117   | 137   | 101            | 4     | 18    | 22      | 21    | 18    | 13.8          | 11.4  | 9.6   | 2.9     | 2.6   | 2.3   |
| Ambuja Cements      | 15       | 19    | 21    | 8              | 27    | 12    | 42      | 33    | 29    | 22.0          | 15.3  | 12.9  | 3.4     | 2.8   | 2.6   |
| Dalmia Bharat       | 44       | 56    | 73    | 31             | 27    | 31    | 40      | 32    | 24    | 12.7          | 11.7  | 9.7   | 2.0     | 1.9   | 1.8   |
| J K Cement          | 103      | 122   | 144   | 88             | 19    | 18    | 38      | 32    | 27    | 16.7          | 14.9  | 13.0  | 5.6     | 4.9   | 4.2   |
| Nuvoco Vistas Corp. | 4        | 8     | 13    | (65)           | 91    | 63    | 75      | 39    | 24    | 9.3           | 8.2   | 7.4   | 1.2     | 1.2   | 1.1   |
| Orient Cement       | 9        | 10    | 12    | 42             | 22    | 12    | 25      | 20    | 18    | 9.7           | 8.6   | 7.5   | 2.5     | 2.3   | 2.1   |
| Shree Cement        | 684      | 727   | 824   | 86             | 6     | 13    | 37      | 34    | 30    | 19.8          | 17.8  | 15.8  | 4.4     | 4.0   | 3.6   |
| The Ramco Cements   | 15       | 21    | 28    | 14             | 37    | 33    | 49      | 36    | 27    | 14.3          | 12.8  | 11.4  | 2.4     | 2.3   | 2.1   |
| Ultratech Cement    | 244      | 318   | 359   | 39             | 30    | 13    | 40      | 31    | 28    | 22.2          | 18.0  | 15.9  | 4.7     | 4.3   | 3.9   |

Source: Companies, Kotak Institutional Equities estimates

- ▶ **Consumer products.** We expect moderately strong growth in net profits of the consumer discretionary stocks in FY2025-26 led by (1) moderate growth in volumes, which will offset (2) moderation in gross and EBITDA margins from the high levels of FY2024. We would note both profitability and volume changes could vary a lot across companies depending on the category of product. For example, adhesives could see strong volume growth and stable profitability while paints could see moderate volume growth and moderate decline in profitability given different market (competition) dynamics despite similar industry (residential real estate) dynamics. We expect modest growth in the net profits of consumer staples stocks led by (1) moderate growth in volumes led by our expectation of moderate

recovery in volumes from low levels of FY2023-24, which will likely offset (2) a modest decline in profitability from high levels of FY2024.

- **Volumes and revenues.** Exhibit 79 gives our revenues and revenue growth assumption for various consumer product companies under our coverage for FY2017-26E. For consumer staples companies, we expect mid-to-high-single digit revenue growth in FY2025 led by (1) moderate growth in volumes due to both recovery in demand and increase in grammage, which would partly offset (2) flat-to-moderately lower prices.

**We expect mid-to-high-single digit revenue growth for most consumer companies in FY2025**

Exhibit 79: Revenue and growth of consumer product companies under coverage, March fiscal year-ends, 2017-26E (%)

|                           | Revenues (Rs bn) |      |      |      |      |      |      |      |       |       | Growth yoy (%) |      |      |      |      |      |      |      |       |       |
|---------------------------|------------------|------|------|------|------|------|------|------|-------|-------|----------------|------|------|------|------|------|------|------|-------|-------|
|                           | 2017             | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2017           | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E |
| Asian Paints              | 151              | 170  | 193  | 202  | 217  | 291  | 345  | 355  | 376   | 413   | 6              | 13   | 14   | 4    | 7    | 34   | 19   | 3    | 6     | 10    |
| Berger Paints             | 46               | 52   | 61   | 64   | 68   | 88   | 106  | 112  | 119   | 130   | 8              | 13   | 17   | 5    | 7    | 29   | 21   | 6    | 6     | 9     |
| Britannia Industries      | 91               | 99   | 111  | 116  | 131  | 141  | 163  | 168  | 183   | 201   | 8              | 9    | 12   | 5    | 13   | 8    | 15   | 3    | 9     | 10    |
| Colgate-Palmolive (India) | 40               | 42   | 45   | 45   | 48   | 51   | 52   | 57   | 61    | 66    | 3              | 5    | 7    | 1    | 7    | 5    | 2    | 9    | 8     | 8     |
| Dabur India               | 77               | 77   | 85   | 87   | 96   | 109  | 115  | 124  | 135   | 148   | (2)            | 1    | 10   | 2    | 10   | 14   | 6    | 8    | 9     | 10    |
| Godrej Consumer Products  | 93               | 98   | 103  | 99   | 110  | 123  | 133  | 141  | 151   | 167   | 10             | 6    | 5    | (4)  | 11   | 11   | 8    | 6    | 7     | 11    |
| Hindustan Unilever        | 319              | 345  | 382  | 388  | 460  | 512  | 591  | 605  | 640   | 696   | 3              | 8    | 11   | 1    | 19   | 11   | 16   | 2    | 6     | 9     |
| ITC                       | 401              | 406  | 450  | 456  | 455  | 563  | 660  | 663  | 727   | 794   | 10             | 1    | 11   | 1    | (0)  | 24   | 17   | 0    | 10    | 9     |
| Jubilant Foodworks        | 26               | 30   | 36   | 39   | 33   | 43   | 51   | 53   | 59    | 69    | 6              | 17   | 18   | 10   | (16) | 31   | 18   | 5    | 11    | 16    |
| Jyothy Laboratories       | 17               | 17   | 18   | 17   | 19   | 22   | 25   | 28   | 30    | 33    | 6              | (1)  | 8    | (6)  | 12   | 15   | 13   | 11   | 10    | 10    |
| Kansai Nerolac            | 40               | 46   | 52   | 49   | 47   | 59   | 71   | 74   | 80    | 87    | 7              | 15   | 13   | (4)  | (5)  | 26   | 20   | 5    | 8     | 9     |
| Marico                    | 59               | 63   | 73   | 73   | 80   | 95   | 98   | 97   | 106   | 116   | (2)            | 7    | 16   | (0)  | 10   | 18   | 3    | (1)  | 10    | 10    |
| Nestle India              | 91               | 100  | 112  | 123  | 133  | 147  | 168  | 243  | 213   | 238   | 12             | 10   | 13   | 10   | 8    | 10   | 14   | 45   | (12)  | 12    |
| Page Industries           | 21               | 26   | 29   | 29   | 28   | 39   | 48   | 48   | 53    | 60    | 19             | 20   | 12   | 3    | (4)  | 37   | 23   | (0)  | 10    | 13    |
| Pidilite Industries       | 56               | 61   | 71   | 73   | 73   | 99   | 118  | 124  | 136   | 151   | 5              | 8    | 16   | 3    | (0)  | 36   | 19   | 5    | 10    | 11    |
| Titan Company             | 133              | 161  | 198  | 211  | 216  | 288  | 406  | 511  | 559   | 654   | 18             | 22   | 23   | 6    | 3    | 33   | 41   | 26   | 9     | 17    |
| United Breweries          | 47               | 56   | 65   | 65   | 42   | 58   | 75   | 81   | 90    | 100   | (2)            | 19   | 15   | 1    | (35) | 38   | 28   | 8    | 11    | 11    |
| United Spirits            | 85               | 82   | 90   | 91   | 79   | 94   | 104  | 107  | 119   | 131   | 4              | (4)  | 10   | 1    | (13) | 19   | 10   | 3    | 11    | 10    |
| Varun Beverages           | 39               | 40   | 51   | 71   | 65   | 88   | 132  | 160  | 212   | 261   | 14             | 4    | 28   | 40   | (10) | 37   | 49   | 22   | 32    | 23    |

Source: Companies, Kotak Institutional Equities estimates

We assume a gradual recovery in volumes noting slower-than-expected recovery in rural India and continued high competition from regional players. We note that volume growth continues to be quite anemic for consumer companies even two years after the end of the Covid-19 pandemic. This would suggest that the demand challenges (lower affordability due to modest growth in household income and sharp increase in product prices) for low-income and rural households is structural and will take time to overcome. Data on rural employment and NREGA enrollment point to persistent weakness in rural employment.

- **Margins.** Exhibit 80 shows our gross and EBITDA margin assumptions for various consumer product companies under our coverage for FY2017-26E. We expect some moderation in gross and EBITDA margins from elevated levels of FY2024, as companies may have to (1) pass on the decline in RM prices to consumers due to increased competition from unorganized sector players in several categories and/or (2) increase grammage at the same price points as a way to counter increased competition.

**Consumer companies' gross and EBITDA margins to be broadly stable over FY2025-26E after a sharp jump in FY2024**

**Exhibit 80: Gross and EBITDA margins of consumer companies, March fiscal year-ends, 2017-26E (%)**

|                           | Gross margin (%) |      |      |      |      |      |      |      |       |       | EBITDA margin (%) |      |      |      |      |      |      |      |       |       |
|---------------------------|------------------|------|------|------|------|------|------|------|-------|-------|-------------------|------|------|------|------|------|------|------|-------|-------|
|                           | 2017             | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2017              | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E |
| Asian Paints              | 44.7             | 42.9 | 41.4 | 43.7 | 44.3 | 37.1 | 38.7 | 43.4 | 42.3  | 41.2  | 19.8              | 19.6 | 18.2 | 20.6 | 22.4 | 16.5 | 18.2 | 21.4 | 20.0  | 19.0  |
| Berger Paints             | 43.1             | 41.7 | 39.0 | 41.5 | 43.3 | 38.0 | 36.3 | 40.7 | 39.8  | 38.9  | 15.8              | 15.6 | 14.5 | 16.7 | 17.4 | 15.2 | 14.1 | 16.6 | 15.6  | 14.8  |
| Britannia Industries      | 38.3             | 38.4 | 40.6 | 40.3 | 41.9 | 38.0 | 41.2 | 43.4 | 44.1  | 44.3  | 14.1              | 15.1 | 15.7 | 15.9 | 19.1 | 15.6 | 17.4 | 18.9 | 19.3  | 19.5  |
| Colgate-Palmolive (India) | 62.9             | 64.4 | 65.1 | 65.2 | 68.0 | 67.3 | 65.7 | 69.7 | 69.9  | 70.2  | 23.7              | 26.6 | 27.7 | 26.6 | 31.2 | 30.7 | 29.6 | 33.5 | 33.9  | 34.4  |
| Dabur India               | 50.1             | 50.4 | 49.5 | 49.9 | 50.1 | 48.2 | 45.6 | 48.0 | 48.3  | 48.3  | 19.6              | 20.9 | 20.4 | 20.6 | 21.1 | 20.7 | 18.8 | 19.4 | 20.0  | 20.1  |
| Godrej Consumer Products  | 55.4             | 56.6 | 55.8 | 57.0 | 55.3 | 50.5 | 49.7 | 55.2 | 56.5  | 56.9  | 20.5              | 21.0 | 20.5 | 21.6 | 21.7 | 19.5 | 18.3 | 20.9 | 23.1  | 23.7  |
| Hindustan Unilever        | 50.8             | 53.0 | 53.0 | 54.1 | 52.9 | 50.9 | 47.3 | 51.5 | 52.4  | 52.8  | 19.0              | 21.1 | 22.6 | 24.8 | 24.6 | 24.4 | 23.0 | 23.5 | 23.7  | 24.2  |
| ITC                       | 60.1             | 61.1 | 61.5 | 62.2 | 56.1 | 53.4 | 56.3 | 58.8 | 59.0  | 59.2  | 36.4              | 38.3 | 38.5 | 39.2 | 34.1 | 33.6 | 36.3 | 37.4 | 36.9  | 37.3  |
| Jubilant Foodworks        | 75.6             | 74.6 | 75.1 | 75.0 | 78.1 | 77.5 | 75.9 | 76.4 | 76.4  | 76.5  | 9.3               | 14.6 | 16.8 | 22.3 | 23.3 | 25.5 | 22.7 | 20.5 | 20.9  | 22.1  |
| Jyothy Laboratories       | 46.9             | 47.7 | 46.5 | 47.4 | 47.1 | 41.6 | 42.3 | 49.1 | 49.3  | 49.0  | 15.3              | 15.4 | 15.5 | 14.7 | 16.5 | 11.3 | 12.7 | 17.4 | 17.1  | 17.1  |
| Kansai Nerolac            | 41.4             | 39.5 | 36.2 | 38.1 | 37.9 | 30.0 | 30.0 | 35.7 | 34.7  | 33.9  | 18.3              | 17.2 | 14.3 | 15.8 | 17.8 | 10.5 | 11.2 | 14.2 | 13.4  | 12.9  |
| Marico                    | 52.2             | 47.0 | 45.2 | 48.8 | 46.9 | 42.9 | 45.2 | 50.8 | 50.8  | 50.9  | 19.6              | 18.0 | 17.5 | 20.1 | 19.8 | 17.7 | 18.5 | 21.0 | 21.0  | 21.2  |
| Nestle India              | 57.2             | 56.5 | 59.1 | 57.5 | 57.3 | 56.7 | 53.8 | 55.9 | 56.5  | 56.9  | 21.7              | 21.7 | 23.7 | 22.9 | 23.7 | 23.6 | 21.7 | 23.6 | 23.8  | 24.2  |
| Page Industries           | 59.5             | 57.4 | 58.0 | 55.5 | 55.4 | 56.0 | 55.8 | 54.5 | 55.7  | 56.5  | 19.4              | 21.2 | 21.7 | 18.1 | 18.6 | 20.2 | 18.3 | 19.0 | 19.6  | 20.5  |
| Pidlite Industries        | 53.0             | 52.5 | 49.3 | 53.4 | 53.7 | 45.1 | 42.7 | 51.6 | 51.9  | 52.0  | 22.4              | 22.1 | 19.3 | 21.6 | 23.0 | 18.6 | 16.8 | 21.9 | 23.1  | 23.7  |
| Tata Consumer Products    | 47.5             | 45.7 | 44.7 | 43.9 | 40.5 | 43.0 | 41.9 | 43.7 | 43.9  | 44.1  | 11.7              | 12.3 | 10.8 | 13.4 | 13.3 | 13.8 | 13.5 | 15.0 | 16.3  | 17.0  |
| Titan Company             | 28.3             | 27.5 | 27.2 | 28.0 | 24.2 | 24.9 | 25.2 | 22.8 | 24.0  | 24.2  | 8.7               | 10.2 | 10.8 | 11.7 | 8.0  | 11.6 | 12.0 | 10.4 | 11.3  | 11.5  |
| United Breweries          | 53.9             | 53.2 | 53.6 | 51.6 | 52.2 | 49.9 | 43.1 | 42.7 | 45.5  | 48.5  | 13.6              | 16.1 | 17.6 | 13.5 | 9.0  | 11.9 | 8.2  | 8.6  | 11.9  | 15.5  |
| United Spirits            | 42.9             | 47.5 | 48.8 | 44.8 | 43.4 | 43.9 | 41.5 | 43.2 | 44.0  | 44.0  | 11.4              | 12.5 | 14.3 | 16.6 | 12.5 | 16.0 | 13.7 | 15.9 | 17.1  | 17.3  |
| Varun Beverages           | 55.0             | 54.8 | 56.0 | 54.8 | 57.1 | 54.3 | 52.5 | 53.8 | 54.2  | 54.5  | 20.6              | 20.9 | 19.7 | 20.3 | 18.6 | 18.8 | 21.2 | 22.5 | 23.2  | 23.5  |

Source: Companies, Kotak Institutional Equities estimates

We note that both gross and EBITDA margins expanded sharply in FY2024, as (1) companies held prices after sharp increases in product prices over FY2022-23 to offset the steep increase in RM costs in FY2022-1HFY23 even as (2) RM prices have collapsed from 2HFY23. We note that several agriculture commodity (edible oils and palm oil) prices have corrected sharply in past 12 months, which has led to a sharply recovery in margins for companies such as GCPL, HUVR from 2HFY23. However, prices have been broadly stable in the past few months.

We assume a moderation in the gross and EBITDA margins of the commodity chemicals (paints) companies in FY2025-26E from high levels of FY2024 to factor in the entry of Grasim in the paints industry. Grasim’s pricing strategy will become clear over the next few quarters. We expect Grasim to focus more on distribution and less on pricing as its entry strategy into the paints sector. It is creating a separate channel (other than cement and putty) to probably differentiate the premium nature of its paints brand from commodity-like products such as cement and putty.

- ▶ **IT services.** We expect FY2025E net profits of the IT services companies in the Nifty-50 Index to grow 10% given a weak demand environment (see Exhibit 81) although FY2025 will likely be better than FY2024. FY2024 net profits grew an anemic 3% yoy while revenues grew 5% yoy. We base our slightly optimistic view on (1) the large TCv of orders and strong order wins in the past few quarters for most IT companies and (2) moderate recovery in discretionary spending from 2HFY25. However, it remains to be seen if the much-awaited recovery in discretionary spending will indeed occur in FY2025, as (1) customers have been wary of increasing IT budgets and (2) the US may see a slowdown over the next 2-3 quarters, based on recent consumption, employment and housing data.

**We expect FY2025E net profits of the companies in the Nifty-50 Index to grow 10% on a low base of FY2024**

**Exhibit 81: Net profits of IT services companies in Nifty-50 Index, March fiscal year-ends, 2015-26E**

| Company                   | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       | 2022       | 2023         | 2024         | 2025E        | 2026E        |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| <b>Net income (Rs bn)</b> |            |            |            |            |            |            |            |            |              |              |              |              |
| LTIMindtree               | 13         | 14         | 14         | 17         | 23         | 22         | 30         | 39         | 44           | 46           | 50           | 59           |
| HCL Technologies          | 72         | 56         | 85         | 88         | 101        | 111        | 130        | 135        | 148          | 157          | 168          | 187          |
| Infosys                   | 123        | 135        | 144        | 146        | 157        | 166        | 194        | 221        | 241          | 243          | 260          | 295          |
| TCS                       | 196        | 242        | 263        | 258        | 315        | 323        | 334        | 383        | 421          | 466          | 515          | 569          |
| Tech Mahindra             | 26         | 31         | 28         | 38         | 43         | 40         | 45         | 56         | 51           | 28           | 41           | 55           |
| Wipro                     | 87         | 89         | 85         | 80         | 90         | 97         | 108        | 122        | 113          | 110          | 123          | 133          |
| <b>Total</b>              | <b>518</b> | <b>567</b> | <b>618</b> | <b>627</b> | <b>729</b> | <b>759</b> | <b>840</b> | <b>957</b> | <b>1,019</b> | <b>1,050</b> | <b>1,156</b> | <b>1,298</b> |
| <b>Yoy growth (%)</b>     |            |            |            |            |            |            |            |            |              |              |              |              |
| LTIMindtree               | 13         | 11         | (3)        | 21         | 35         | (5)        | 42         | 30         | 12           | 4            | 8            | 19           |
| HCL Technologies          | 14         | (23)       | 52         | 4          | 15         | 10         | 17         | 4          | 10           | 6            | 7            | 11           |
| Infosys                   | 13         | 9          | 6          | 2          | 8          | 6          | 17         | 14         | 9            | 1            | 7            | 14           |
| TCS                       | 3          | 23         | 9          | (2)        | 22         | 3          | 3          | 15         | 10           | 11           | 10           | 11           |
| Tech Mahindra             | (3)        | 20         | (10)       | 35         | 13         | (6)        | 11         | 24         | (9)          | (44)         | 45           | 33           |
| Wipro                     | 11         | 3          | (5)        | (6)        | 12         | 8          | 11         | 13         | (7)          | (3)          | 12           | 8            |
| <b>Total</b>              | <b>8</b>   | <b>10</b>  | <b>9</b>   | <b>1</b>   | <b>16</b>  | <b>4</b>   | <b>11</b>  | <b>14</b>  | <b>7</b>     | <b>3</b>     | <b>10</b>    | <b>12</b>    |

Source: Companies, Kotak Institutional Equities estimates

Exhibits 82-83 give the key volume and profitability assumptions for the major IT stocks under our coverage. IT services companies will likely continue with their sharp focus on profitability through (1) rationalization of workforce and (2) tight control on SG&A expenses, as they wait for signals of increase in spending from their customers. We note the sharp divergence in growth between companies—broad-based IT companies will continue to face headwinds given a general slowdown across sectors while ERD companies will continue to see decent tailwinds from continued aggressive spending by the global automobile majors over the next two years.

**We expect modest growth in revenues and modest improvement in EBIT margins for Tier-1 IT companies over FY2025-26E**

**Exhibit 82: Key assumptions for Tier-I Indian IT companies, March fiscal year-ends, 2021-26E**

|                                  | 2021    | 2022    | 2023    | 2024    | 2025E   | 2026E   |                                  | 2021    | 2022    | 2023    | 2024    | 2025E   | 2026E   |
|----------------------------------|---------|---------|---------|---------|---------|---------|----------------------------------|---------|---------|---------|---------|---------|---------|
| <b>HCL Tech</b>                  |         |         |         |         |         |         | <b>Infosys</b>                   |         |         |         |         |         |         |
| Revenues (US\$ mn)               | 10,175  | 11,481  | 12,586  | 13,270  | 13,917  | 15,125  | Revenues (US\$ mn)               | 13,562  | 16,310  | 18,212  | 18,562  | 19,309  | 21,037  |
| US\$ revenue growth yoy (%)      | 2.4     | 12.8    | 9.6     | 5.4     | 4.9     | 8.7     | US\$ revenue growth yoy (%)      | 6.1     | 20.3    | 11.7    | 1.9     | 4.0     | 8.9     |
| Volume growth yoy (%)            | 5.9     | 21.3    | 18.1    | 3.0     | 5.5     | 4.3     | Volume growth yoy (%)            | 8.9     | 22.1    | 14.7    | 0.1     | 2.6     | 8.2     |
| Pricing change (%)               |         |         |         |         |         |         | Pricing change (%)               |         |         |         |         |         |         |
| Onsite                           | (1.2)   | 0.7     | 0.5     | 0.7     | (0.8)   | 5.2     | Onsite                           | 0.6     | 1.3     | (3.2)   | 2.1     | 1.4     | 0.8     |
| Offshore                         | 3.1     | (7.5)   | (10.6)  | 4.2     | 0.3     | 4.7     | Offshore                         | (0.0)   | 1.1     | (3.6)   | 1.4     | 1.5     | 0.8     |
| Blended                          | (3.3)   | (7.0)   | (7.2)   | 2.4     | (0.6)   | 4.2     | Blended                          | (2.6)   | (1.5)   | (2.6)   | 1.8     | 1.3     | 0.8     |
| Directs costs (as % of revenues) | 64.0    | 61.4    | 64.2    | 65.8    | 66.1    | 65.5    | Directs costs (as % of revenues) | 61.9    | 64.6    | 66.9    | 66.9    | 66.0    | 65.5    |
| SG&A expenses (as % of revenues) | 13.3    | 12.3    | 12.3    | 12.7    | 11.8    | 12.7    | SG&A expenses (as % of revenues) | 10.4    | 9.6     | 9.2     | 9.4     | 9.7     | 9.9     |
| EBIT margin (%)                  | 21.5    | 18.9    | 18.2    | 18.2    | 18.5    | 18.7    | EBIT margin (%)                  | 24.5    | 23.0    | 21.1    | 20.7    | 21.3    | 21.9    |
| Net income (Rs mn)               | 129,636 | 134,792 | 148,316 | 157,070 | 168,017 | 187,206 | Net income (Rs mn)               | 193,510 | 221,110 | 240,950 | 242,640 | 259,607 | 295,384 |
| Re/US\$ rate (average)           | 74.1    | 74.6    | 80.6    | 82.8    | 83.1    | 84.3    | Re/US\$ rate (average)           | 74.1    | 74.6    | 80.6    | 82.8    | 83.1    | 84.3    |
| <b>LTIMindtree</b>               |         |         |         |         |         |         | <b>TCS</b>                       |         |         |         |         |         |         |
| Revenues (US\$ mn)               | 2,747   | 3,502   | 4,106   | 4,287   | 4,475   | 4,969   | Revenues (US\$ mn)               | 22,174  | 25,707  | 27,927  | 29,080  | 31,168  | 33,117  |
| US\$ revenue growth yoy (%)      | 5.1     | 27.5    | 17.2    | 4.4     | 4.4     | 11.0    | US\$ revenue growth yoy (%)      | 0.6     | 15.9    | 8.6     | 4.1     | 7.2     | 6.3     |
| Volume growth yoy (%)            | 10.2    | 23.1    | 20.4    | 3.1     | 4.0     | 10.7    | Volume growth yoy (%)            | 2.6     | 18.2    | 13.2    | 1.9     | 4.4     | 7.8     |
| Pricing change (%)               |         |         |         |         |         |         | Pricing change (%)               |         |         |         |         |         |         |
| Onsite                           | 2.0     | 5.7     | 0.4     | 2.1     | 0.5     | 1.0     | Onsite                           | 1.1     | 2.3     | (0.9)   | 2.0     | 1.3     | 1.0     |
| Offshore                         | 0.2     | 6.4     | (0.1)   | 1.6     | 0.3     | 1.0     | Offshore                         | 1.2     | 0.0     | (3.7)   | 1.7     | 1.3     | 1.0     |
| Blended                          | (4.6)   | 3.5     | (2.6)   | 1.3     | 0.3     | 0.3     | Blended                          | (1.3)   | (1.3)   | (3.5)   | 1.4     | 0.9     | 1.0     |
| Directs costs (as % of revenues) | 71.7    | 70.6    | 71.5    | 71.2    | 71.3    | 71.2    | Directs costs (as % of revenues) | 59.2    | 59.8    | 60.4    | 59.6    | 59.3    | 58.3    |
| SG&A expenses (as % of revenues) | 6.7     | 9.6     | 10.1    | 10.8    | 10.8    | 10.3    | SG&A expenses (as % of revenues) | 15.0    | 15.0    | 15.5    | 15.8    | 15.5    | 15.6    |
| EBIT margin (%)                  | 18.8    | 19.5    | 16.5    | 15.7    | 16.1    | 17.0    | EBIT margin (%)                  | 25.9    | 25.3    | 24.1    | 24.6    | 25.2    | 26.0    |
| Net income (Rs mn)               | 30,465  | 39,498  | 44,078  | 45,821  | 49,674  | 59,296  | Net income (Rs mn)               | 333,880 | 383,270 | 421,470 | 466,132 | 514,756 | 569,087 |
| Re/US\$ rate (average)           | 74.0    | 74.8    | 80.8    | 82.8    | 83.1    | 84.3    | Re/US\$ rate (average)           | 74.0    | 74.6    | 80.7    | 82.8    | 83.1    | 84.3    |
| <b>Tech Mahindra</b>             |         |         |         |         |         |         | <b>Wipro</b>                     |         |         |         |         |         |         |
| Revenues (US\$ mn)               | 5,111   | 5,999   | 6,607   | 6,277   | 6,269   | 6,689   | Revenues (US\$ mn)               | 8,137   | 10,356  | 11,160  | 10,805  | 10,793  | 11,294  |
| US\$ revenue growth yoy (%)      | (1.4)   | 17.4    | 10.1    | (5.0)   | (0.1)   | 6.7     | US\$ revenue growth yoy (%)      | (1.4)   | 27.3    | 7.8     | (3.2)   | (0.1)   | 4.6     |
| Volume growth yoy (%)            | (0.7)   | 13.6    | 12.7    | (5.6)   | 1.3     | 5.1     | Volume growth yoy (%)            | 5.1     | 31.2    | 13.9    | (1.1)   | 1.3     | 4.7     |
| Pricing change (%)               |         |         |         |         |         |         | Pricing change (%)               |         |         |         |         |         |         |
| Onsite                           | 0.2     | 5.2     | (1.7)   | 2.5     | 1.4     | 2.0     | Onsite                           | (2.0)   | 2.6     | (1.1)   | 1.0     | 0.5     | 0.5     |
| Offshore                         | 3.9     | 7.9     | (0.2)   | 5.1     | 2.4     | 1.6     | Offshore                         | (1.0)   | 2.0     | (2.5)   | 1.0     | 0.5     | 0.5     |
| Blended                          | (0.6)   | 3.3     | (2.3)   | 0.6     | (1.4)   | 1.6     | Blended                          | (3.4)   | (2.0)   | (4.5)   | (1.8)   | (1.5)   | (0.6)   |
| Directs costs (as % of revenues) | 68.3    | 69.4    | 71.5    | 75.2    | 71.5    | 70.1    | Directs costs (as % of revenues) | 64.3    | 66.8    | 68.1    | 67.1    | 67.0    | 67.1    |
| SG&A expenses (as % of revenues) | 13.6    | 12.7    | 13.4    | 15.2    | 15.2    | 14.5    | SG&A expenses (as % of revenues) | 10.9    | 11.7    | 12.5    | 13.2    | 13.2    | 13.0    |
| EBIT margin (%)                  | 14.2    | 14.6    | 11.4    | 6.1     | 9.8     | 12.3    | IT services EBIT margin (%)      | 20.3    | 17.5    | 15.7    | 15.9    | 16.6    | 16.7    |
| Net income (Rs mn)               | 44,789  | 55,661  | 50,683  | 28,160  | 40,917  | 54,609  | Net income (Rs mn)               | 107,947 | 122,192 | 113,500 | 110,450 | 123,228 | 132,539 |
| Re/US\$ rate (average)           | 74.1    | 74.4    | 80.7    | 82.8    | 83.1    | 84.3    | Re/US\$ rate (average)           | 74.5    | 75.5    | 80.4    | 82.7    | 83.1    | 84.3    |

Source: Companies, Kotak Institutional Equities estimates



**We expect strong growth in revenues and modest improvement in EBIT margins for Tier-2 IT companies over FY2025-26E**

**Exhibit 83: Key assumptions for Tier-2 Indian IT companies, March fiscal year-ends, 2021-26E**

|                                  | 2021   | 2022   | 2023   | 2024   | 2025E  | 2026E  |                                  | 2021   | 2022  | 2023  | 2024   | 2025E  | 2026E  |
|----------------------------------|--------|--------|--------|--------|--------|--------|----------------------------------|--------|-------|-------|--------|--------|--------|
| <b>Mphasis</b>                   |        |        |        |        |        |        | <b>Persistent</b>                |        |       |       |        |        |        |
| Revenues (US\$ mn)               | 1,309  | 1,590  | 1,717  | 1,610  | 1,719  | 1,928  | Revenues (US\$ mn)               | 566    | 766   | 1,036 | 1,186  | 1,370  | 1,596  |
| US\$ revenue growth yoy (%)      | 5.6    | 21.5   | 8.0    | (6.3)  | 6.8    | 12.2   | US\$ revenue growth yoy (%)      | 12.8   | 35.2  | 35.3  | 14.5   | 15.5   | 16.5   |
| Volume growth yoy (%)            | 6.3    | 17.6   | 7.7    | (6.4)  | 8.2    | 10.9   | Volume growth yoy (%)            | 24.3   | 45.0  | 37.0  | 16.6   | 14.9   | 18.6   |
| Pricing change (%)               |        |        |        |        |        |        | Pricing change (%)               |        |       |       |        |        |        |
| Onsite                           | (0.2)  | 5.0    | 6.0    | 5.4    | —      | 1.0    | Onsite                           | (0.7)  | (2.4) | (2.0) | (1.0)  | 0.4    | 0.4    |
| Offshore                         | (0.8)  | 0.9    | 3.8    | 3.0    | —      | 1.0    | Offshore                         | (4.1)  | 1.0   | 3.3   | (0.0)  | 0.4    | 0.4    |
| Blended                          | (0.7)  | 3.3    | 0.3    | 0.1    | (1.3)  | 1.2    | Blended                          | (9.2)  | (6.7) | (1.2) | (1.8)  | 0.6    | (1.8)  |
| Directs costs (as % of revenues) | 69.7   | 70.8   | 71.1   | 69.9   | 69.4   | 69.1   | Directs costs (as % of revenues) | 66.0   | 66.4  | 66.2  | 66.4   | 66.8   | 66.4   |
| SG&A expenses (as % of revenues) | 11.8   | 11.5   | 11.2   | 11.9   | 12.3   | 12.6   | SG&A expenses (as % of revenues) | 17.7   | 16.9  | 15.6  | 16.0   | 15.9   | 15.5   |
| EBIT margin (%)                  | 16.1   | 15.3   | 15.3   | 15.1   | 15.2   | 15.6   | EBIT margin (%)                  | 12.1   | 13.9  | 14.9  | 14.4   | 14.5   | 15.4   |
| Net income (Rs mn)               | 12,167 | 14,309 | 16,379 | 15,549 | 16,926 | 19,535 | Net income (Rs mn)               | 4,507  | 6,904 | 9,211 | 10,935 | 12,973 | 16,416 |
| Re/US\$ rate (average)           | 74.3   | 75.2   | 80.4   | 82.5   | 83.1   | 84.3   | Re/US\$ rate (average)           | 74.0   | 74.6  | 80.6  | 82.8   | 83.1   | 84.3   |
| <b>LTTs</b>                      |        |        |        |        |        |        | <b>Cyient (DET)</b>              |        |       |       |        |        |        |
| Revenues (US\$ mn)               | 737    | 880    | 990    | 1,164  | 1,257  | 1,410  | Revenues (US\$ mn)               | 461    | 504   | 632   | 714    | 751    | 827    |
| US\$ revenue growth yoy (%)      | (6.3)  | 19.5   | 12.4   | 17.6   | 8.0    | 12.2   | US\$ revenue growth yoy (%)      | (16.3) | 9.2   | 25.6  | 12.9   | 5.2    | 10.1   |
| Volume growth yoy (%)            | —      | —      | —      | —      | —      | 4.8    | Volume growth yoy (%)            | (11.8) | 8.4   | 21.7  | 7.7    | 8.2    | 12.8   |
| Pricing change (%)               |        |        |        |        |        |        | Pricing change (%)               |        |       |       |        |        |        |
| Onsite                           | —      | —      | —      | —      | —      | 9.7    | Onsite                           | 5.0    | 4.3   | 8.5   | 1.1    | 0.3    | (0.0)  |
| Offshore                         | —      | —      | —      | —      | —      | (4.5)  | Offshore                         | (7.6)  | 5.0   | (2.4) | (0.2)  | 0.3    | —      |
| Blended                          | —      | —      | —      | —      | —      | 4.4    | Blended                          | (5.0)  | 0.7   | 3.2   | 4.9    | (2.8)  | (2.4)  |
| Directs costs (as % of revenues) | 61.6   | 55.6   | 57.0   | 51.1   | 51.4   | 52.3   | Directs costs (as % of revenues) | 61.7   | 59.0  | 58.1  | 57.4   | 57.8   | 56.9   |
| SG&A expenses (as % of revenues) | 20.0   | 22.9   | 21.7   | 29.0   | 29.7   | 28.6   | SG&A expenses (as % of revenues) | 20.8   | 19.7  | 23.9  | 22.3   | 21.8   | 22.5   |
| EBIT margin (%)                  | 14.5   | 18.3   | 18.5   | 17.1   | 16.0   | 16.4   | EBIT margin (%)                  | 11.0   | 15.3  | 13.7  | 16.1   | 16.1   | 16.4   |
| Net income (Rs mn)               | 6,632  | 9,570  | 11,698 | 13,036 | 13,627 | 15,688 | Net income (Rs mn)               | 3,640  | 5,220 | 5,146 | 6,830  | 8,785  | 10,091 |
| Re/US\$ rate (average)           | 74.0   | 74.6   | 81.0   | 82.9   | 83.1   | 84.3   | Re/US\$ rate (average)           | 74.3   | 74.5  | 80.6  | 82.8   | 83.1   | 84.3   |
| <b>KPIT</b>                      |        |        |        |        |        |        | <b>Tata Elxsi</b>                |        |       |       |        |        |        |
| Revenues (US\$ mn)               | 275    | 328    | 418    | 587    | 716    | 847    | Revenues (US\$ mn)               | 247    | 331   | 390   | 429    | 469    | 546    |
| US\$ revenue growth yoy (%)      | (9.6)  | 19.5   | 27.4   | 40.4   | 22.0   | 18.2   | US\$ revenue growth yoy (%)      | 8.9    | 34.3  | 17.8  | 10.0   | 9.3    | 16.4   |
| Volume growth yoy (%)            | (7.4)  | 19.3   | 25.7   | 24.9   | 20.3   | 18.8   | Volume growth yoy (%)            | 12.8   | 32.2  | 23.8  | 14.0   | 9.2    | 16.1   |
| Pricing change (%)               |        |        |        |        |        |        | Pricing change (%)               |        |       |       |        |        |        |
| Onsite                           | 2.3    | 6.2    | (0.9)  | 2.7    | 1.5    | —      | Onsite                           | (2.1)  | 17.5  | (5.4) | (7.7)  | (0.1)  | 0.8    |
| Offshore                         | (2.8)  | (1.3)  | (0.8)  | 10.8   | 1.9    | —      | Offshore                         | 3.5    | 6.8   | (4.8) | (3.6)  | (0.8)  | 0.8    |
| Blended                          | (2.3)  | 0.1    | 1.4    | 12.4   | 1.4    | (0.5)  | Blended                          | (3.4)  | 1.6   | (4.9) | (3.5)  | 0.1    | 0.2    |
| Directs costs (as % of revenues) | 65.9   | 66.2   | 64.9   | 65.0   | 64.2   | 62.8   | Directs costs (as % of revenues) | 56.1   | 52.1  | 50.8  | 53.8   | 54.1   | 52.7   |
| SG&A expenses (as % of revenues) | 19.1   | 15.8   | 16.2   | 14.7   | 15.1   | 15.0   | SG&A expenses (as % of revenues) | 15.3   | 16.9  | 18.6  | 16.7   | 16.1   | 17.2   |
| EBIT margin (%)                  | 8.4    | 13.1   | 14.5   | 16.3   | 17.2   | 19.1   | EBIT margin (%)                  | 26.2   | 28.8  | 28.0  | 26.7   | 26.8   | 27.3   |
| Net income (Rs mn)               | 1,404  | 2,742  | 3,796  | 5,945  | 7,448  | 10,048 | Net income (Rs mn)               | 3,681  | 5,497 | 7,563 | 7,924  | 8,576  | 10,316 |
| Re/US\$ rate (average)           | 74.1   | 74.1   | 80.4   | 83.0   | 83.1   | 84.3   | Re/US\$ rate (average)           | 74.0   | 74.6  | 80.6  | 82.8   | 83.1   | 84.3   |

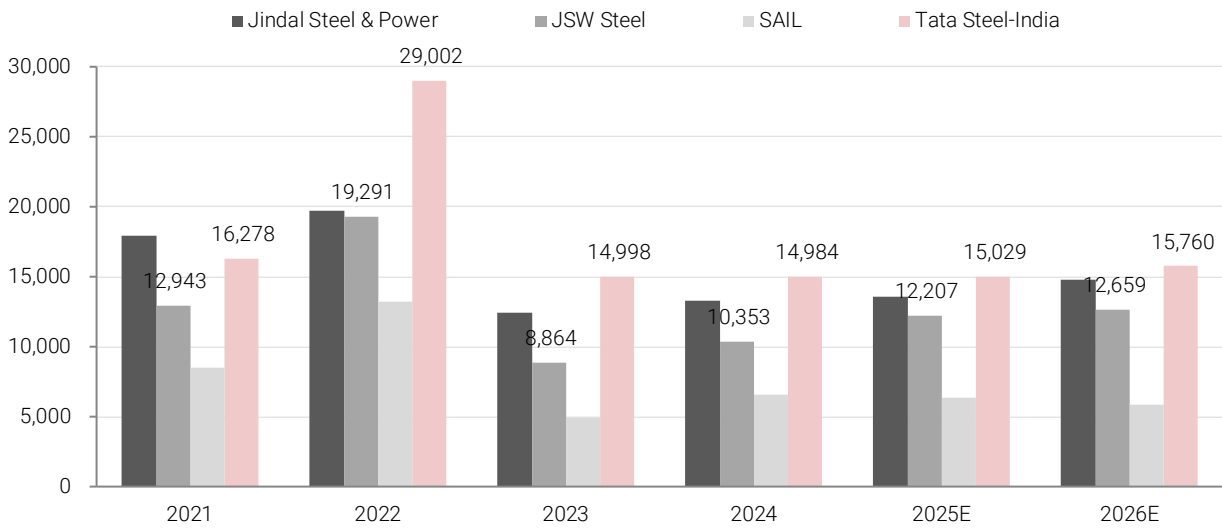
Notes:  
 (a) Cyient net Income includes contribution from Cyient DLM, other financial metrics for DET segment.

Source: Companies, Kotak Institutional Equities estimates

- **Metals & mining.** We expect net profits of the metals & mining stocks in the Nifty-50 Index to grow a strong 86% in FY2025 based on our assumption of (1) higher profitability on the back of higher global prices and (2) higher volumes of the steel companies under coverage. Exhibit 84 gives our EBITDA/ton assumptions for the steel stocks under our coverage. FY2024 net profits declined 12% due to (1) modest increase in profitability of the steel companies from depressed levels of FY2023 and (2) moderate increase in volumes of the steel companies.

**We model stable profitability for steel companies**

**Exhibit 84: EBITDA/ton of steel companies under coverage, March fiscal year-ends, 2021-26E (Rs/ton)**



Source: Companies, Kotak Institutional Equities estimates

The metals & mining sector will account for a large 25% of the incremental profits of the Nifty-50 Index in FY2025. The Nifty-50 Index has two steel stocks and one aluminum stock, which increases the volatility of the overall net profits of the Nifty-50 Index. Exhibit 85 gives our price and profitability assumptions and Exhibit 86 our volume assumptions for the metal stocks under our coverage.

**We model higher non-ferrous metal prices in FY2025-26E**

**Exhibit 85: Price assumptions for metal companies, March fiscal year-ends, 2019-26E (US\$/ton)**

|                            | Price assumptions |       |       |       |       |       |       |       | Historical prices |             |
|----------------------------|-------------------|-------|-------|-------|-------|-------|-------|-------|-------------------|-------------|
|                            | 2019              | 2020  | 2021  | 2022  | 2023  | 2024  | 2025E | 2026E | Spot              | 5-year avg. |
| <b>Non-ferrous</b>         |                   |       |       |       |       |       |       |       |                   |             |
| <b>Hindalco Industries</b> |                   |       |       |       |       |       |       |       |                   |             |
| Aluminum (LME)             | 2,050             | 1,750 | 1,807 | 2,777 | 2,475 | 2,208 | 2,500 | 2,600 | 2,617             | 2,203       |
| <b>Hindustan Zinc</b>      |                   |       |       |       |       |       |       |       |                   |             |
| Lead (LME)                 | 2,121             | 1,952 | 1,868 | 2,280 | 2,104 | 2,122 | 2,106 | 2,100 | 2,251             | 2,065       |
| Zinc (LME)                 | 2,743             | 2,402 | 2,422 | 3,260 | 3,416 | 2,483 | 2,700 | 2,625 | 3,000             | 2,797       |
| <b>Nalco</b>               |                   |       |       |       |       |       |       |       |                   |             |
| Aluminum (LME)             | 2,050             | 1,750 | 1,807 | 2,777 | 2,475 | 2,208 | 2,500 | 2,600 | 2,617             | 2,203       |
| <b>Vedanta</b>             |                   |       |       |       |       |       |       |       |                   |             |
| Aluminum (LME)             | 2,050             | 1,760 | 1,807 | 2,777 | 2,475 | 2,208 | 2,500 | 2,600 | 2,617             | 2,205       |
| Lead (LME)                 | 2,121             | 1,952 | 1,868 | 2,280 | 2,104 | 2,122 | 2,106 | 2,100 | 2,251             | 2,065       |
| Zinc (LME)                 | 2,743             | 2,402 | 2,422 | 3,260 | 3,416 | 2,483 | 2,700 | 2,625 | 3,000             | 2,797       |
| <b>Ferrous</b>             |                   |       |       |       |       |       |       |       |                   |             |
| <b>JSW Steel</b>           |                   |       |       |       |       |       |       |       |                   |             |
| HRC price (domestic)       | 647               | 589   | 545   | 900   | 711   | 605   | 575   | 575   | 654               | 670         |
| <b>NMDC</b>                |                   |       |       |       |       |       |       |       |                   |             |
| Iron ore fines (Rs/ton)    | 2,860             | 2,652 | 3,231 | 5,277 | 3,462 | 3,852 | 3,565 | 3,558 | 4,683             | 3,696       |
| Iron ore lumps (Rs/ton)    | 3,238             | 2,900 | 3,679 | 5,853 | 4,329 | 4,385 | 4,100 | 4,092 | 5,384             | 4,240       |
| <b>Tata Steel</b>          |                   |       |       |       |       |       |       |       |                   |             |
| HRC price (domestic)       | 545               | 495   | 545   | 900   | 711   | 605   | 575   | 575   | 654               | 651         |
| <b>SAIL</b>                |                   |       |       |       |       |       |       |       |                   |             |
| HRC price (domestic)       | 545               | 495   | 545   | 900   | 711   | 605   | 575   | 575   | 654               | 651         |

Source: Bloomberg, Company, Kotak Institutional Equities estimates

**Non-ferrous volumes to be broadly flat, ferrous volumes to jump over FY2024-26E****Exhibit 86: Volume assumptions of metal companies, March fiscal year-ends, 2019-26E ('000 tons)**

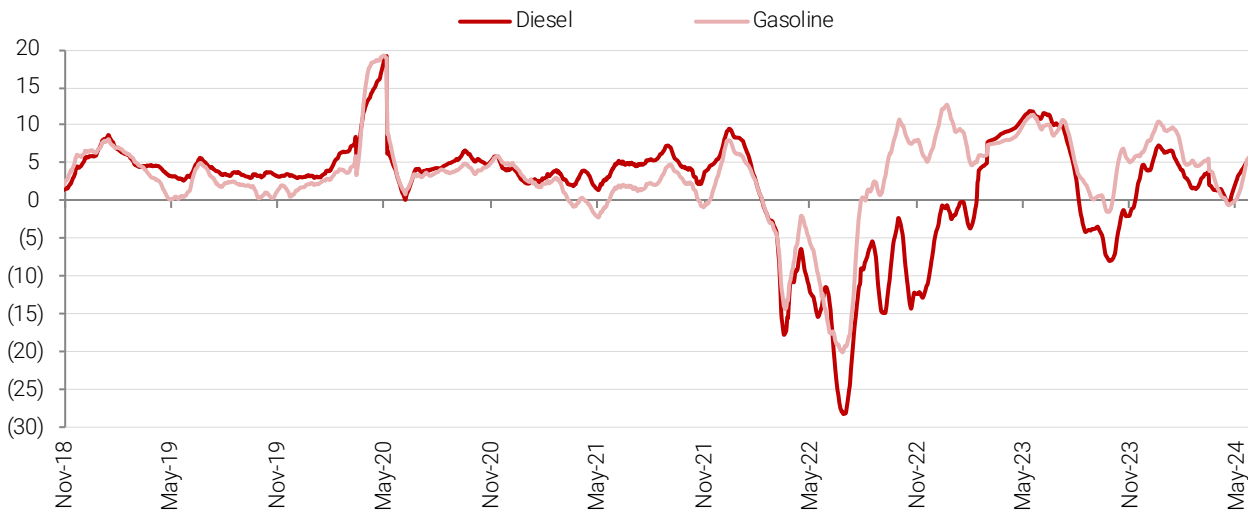
|   | Volume assumptions |       |       |       |       |       |        |        |
|---|--------------------|-------|-------|-------|-------|-------|--------|--------|
|   | 2019               | 2020  | 2021  | 2022  | 2023  | 2024  | 2025E  | 2026E  |
| <b>Non-ferrous</b>                      |                    |       |       |       |       |       |        |        |
| <b>Hindalco Industries</b>              |                    |       |       |       |       |       |        |        |
| Aluminum ('000 tons)                    | 1,274              | 1,290 | 1,250 | 1,302 | 1,350 | 1,371 | 1,371  | 1,371  |
| Copper ('000 tons)                      | 359                | 335   | 313   | 405   | 439   | 506   | 500    | 500    |
| <b>Hindustan Zinc</b>                   |                    |       |       |       |       |       |        |        |
| Lead ('000 tons)                        | 198                | 180   | 216   | 192   | 211   | 216   | 221    | 232    |
| Zinc ('000 tons)                        | 707                | 680   | 724   | 777   | 821   | 817   | 859    | 894    |
| <b>Nalco</b>                            |                    |       |       |       |       |       |        |        |
| Aluminum ('000 tons)                    | 440                | 377   | 452   | 457   | 464   | 460   | 460    | 460    |
| <b>Vedanta</b>                          |                    |       |       |       |       |       |        |        |
| Aluminum ('000 tons)                    | 1,977              | 1,922 | 1,982 | 2,269 | 2,285 | 2,403 | 2,430  | 2,580  |
| Copper ('000 tons)                      | 265                | 265   | 265   | 265   | 265   | 265   | 265    | 265    |
| Lead ('000 tons)                        | 198                | 180   | 216   | 192   | 211   | 216   | 221    | 232    |
| Zinc ('000 tons)                        | 851                | 884   | 899   | 972   | 1,095 | 1,026 | 1,098  | 1,188  |
| Iron ore sales ('000 dmt)               | 3,800              | 6,600 | 6,300 | 6,800 | 5,700 | 6,200 | 10,500 | 11,335 |
| Oil—gross ('000 boe/d)                  | 189                | 173   | 162   | 161   | 143   | 137   | 121    | 116    |
| <b>Ferrous</b>                          |                    |       |       |       |       |       |        |        |
| <b>Jindal Steel and Power</b>           |                    |       |       |       |       |       |        |        |
| Finished steel sales (mn tons)          | 5.1                | 6.1   | 7.3   | 7.6   | 7.7   | 7.7   | 9.0    | 11.0   |
| <b>JSW Steel</b>                        |                    |       |       |       |       |       |        |        |
| Finished steel sales (mn tons)          | 15.8               | 15.1  | 14.9  | 16.5  | 19.7  | 21.2  | 23.0   | 26.4   |
| <b>NMDC</b>                             |                    |       |       |       |       |       |        |        |
| Iron ore sales (mn dmt)                 | 32.4               | 31.5  | 33.3  | 40.7  | 38.2  | 44.5  | 47.0   | 49.0   |
| <b>Tata Steel</b>                       |                    |       |       |       |       |       |        |        |
| Steel deliveries (Standalone) (mn tons) | 16.3               | 16.5  | 16.7  | 17.6  | 18.5  | 19.9  | 21.3   | 23.3   |
| Steel deliveries (Europe) (mn tons)     | 9.6                | 9.3   | 8.8   | 9.1   | 8.2   | 7.9   | 8.1    | 8.1    |
| <b>SAIL</b>                             |                    |       |       |       |       |       |        |        |
| Finished steel sales (mn tons)          | 14.1               | 14.2  | 14.9  | 16.2  | 16.2  | 17.0  | 18.0   | 18.5   |

Source: Company data, Kotak Institutional Equities estimates

- ▶ **Oil, gas and consumable fuels.** We expect net profits of the oil, gas and consumable fuels in the Nifty-50 Index to decline 5% in FY2025 led by (1) lower profits of BPCL and HPCL (51% consolidated with ONGC) on account of our assumption of lower marketing margins on automobile fuels compared to very high margins in FY2024 and weaker refining margins and (2) lower profits in the case of COAL due to high base in FY2024 (boosted by accounting change, as discussed earlier in the same section). However, ONGC and RIL will likely report higher profits—(1) ONGC due to higher gas prices at US\$6.7/mn BTU in FY2025 versus US\$6.5/mn BTU in FY2024 and higher gas and oil volumes and (2) RIL due to higher profits from its retailing and telecom segments; we model RJIO's wireless ARPU at Rs197 for FY2025 versus Rs174 in FY2024.
- **Downstream oil companies.** It is quite challenging to estimate the earnings of the downstream oil PSU companies given large uncertainty around the retail marketing margins and EBITDA of the marketing segment of the OMCs due to (1) their limited ability to change retail prices of diesel and gasoline; OMCs have changed retail prices only once in March 2024 since May 2022 and (2) large volatility in crude oil prices. We assume that the OMCs will have greater pricing freedom to change oil prices once the national elections get over in early June 2024. However, continued price 'controls' could make the profits of OMCs very susceptible to volatility in global crude oil prices. Marketing margins have been quite volatile over the past two years, yoyoing between very high positive and very high negative margins (see Exhibit 87).

**Marketing margins have increased in recent weeks**

Exhibit 87: Marketing margins on diesel and gasoline, calendar year-ends, 2019-24 (Rs/liter)



Source: PPAC, Kotak Institutional Equities estimates

We model 'normal' marketing margins on automobile fuels at Rs3/liter in FY2025 and Rs3.5/liter in FY2026 versus Rs4.5-5.4/liter in FY2024 for the OMCs. We note that our assumptions are well above historical levels (see Exhibit 88) despite being lower than FY2024 levels. Needless to add, we have little confidence in our assumptions given the government's continued control on retail prices of diesel and gasoline and high volatility in crude oil prices. FY2023 marketing margins stood at (-)Rs4-5/liter. Exhibit 89 shows the large sensitivity of the profits of the downstream oil companies to marketing margins of automobile fuels.

**We assume refining and marketing margins of OMCs to be higher than historic levels over FY2025-26E; however, we have low confidence in the same**

Exhibit 88: Refining and marketing margins of downstream oil companies, March fiscal year-ends, 2017-26E

|      | Refining margins (US\$/bbl) |      |      |      |      | Marketing margins (Rs/liter) |      |      |       |       |      |      |      |      |      |      |       |      |       |       |
|------|-----------------------------|------|------|------|------|------------------------------|------|------|-------|-------|------|------|------|------|------|------|-------|------|-------|-------|
|      | 2017                        | 2018 | 2019 | 2020 | 2021 | 2022                         | 2023 | 2024 | 2025E | 2026E | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023  | 2024 | 2025E | 2026E |
| BPCL | 5.3                         | 6.9  | 4.6  | 2.5  | 4.1  | 4.5                          | 16.0 | 14.1 | 9.0   | 9.0   | 1.8  | 1.8  | 2.8  | 2.7  | 5.0  | 3.0  | (4.2) | 5.5  | 3.0   | 3.5   |
| HPCL | 6.2                         | 7.4  | 5.0  | 1.0  | 3.9  | 3.1                          | 7.2  | 9.1  | 9.0   | 9.0   | 1.8  | 1.7  | 2.7  | 2.6  | 5.0  | 2.9  | (4.1) | 5.2  | 3.0   | 3.5   |
| IOCL | 7.8                         | 8.5  | 5.4  | 0.1  | 5.6  | 5.6                          | 16.5 | 12.1 | 9.0   | 9.0   | 1.8  | 1.7  | 2.7  | 2.7  | 5.0  | 3.1  | (4.7) | 5.4  | 3.0   | 3.5   |

Source: Companies, Kotak Institutional Equities estimates

**Downstream companies' earnings have high sensitivity to automobile marketing margin assumptions**

Exhibit 89: Sensitivity of EPS of downstream oil companies to automobile marketing margins, March fiscal year-ends, 2025E-26E (Rs)

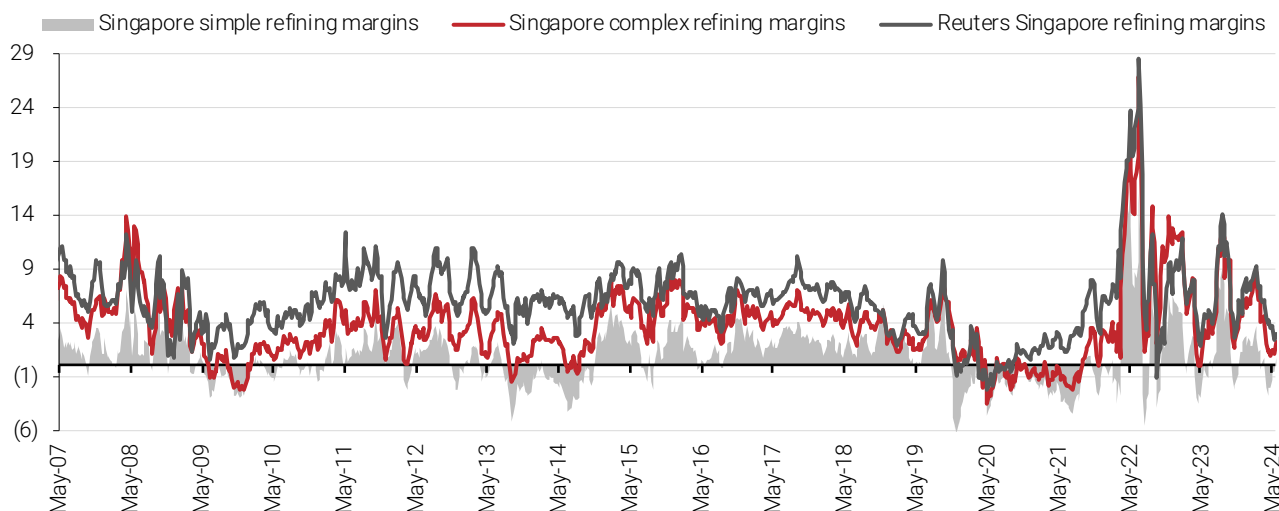
|   | 2025E     |           |           | 2026E     |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
|   | BPCL      | HPCL      | IOCL      | BPCL      | HPCL      | IOCL      |
| <b>Sensitivity to marketing margin</b>    |           |           |           |           |           |           |
| Marketing margin on auto fuels (Rs/liter) | 3.0       | 3.0       | 3.0       | 3.5       | 3.5       | 3.5       |
| <b>Current EPS estimates</b>              | <b>47</b> | <b>43</b> | <b>14</b> | <b>56</b> | <b>52</b> | <b>15</b> |
| Marketing margin lower by Rs0.5/liter     | 39        | 33        | 12        | 48        | 42        | 14        |
| Change (%)                                | (16)      | (24)      | (13)      | (14)      | (20)      | (12)      |
| Marketing margin higher by Rs0.5/liter    | 55        | 53        | 16        | 64        | 63        | 17        |
| Change (%)                                | 16        | 24        | 13        | 14        | 20        | 12        |

Source: Kotak Institutional Equities estimates

We expect weaker refining margins in FY2025-26 compared to FY2023-24 levels. We note that the PSU OMCs have been reporting surprisingly high refining margins for the past several quarters. Their margins have been well above regional levels, which is in sharp contrast to historical trends. Global refining margins (see Exhibit 90) have declined sharply over the past few weeks. Exhibit 91 shows the large sensitivity of the profits of the downstream oil companies to refining margins.

**Refining margins have declined sharply in the past few months**

Exhibit 90: Singapore refining margins (US\$/bbl)



Source: Argus, Kotak Institutional Equities estimates

**Downstream companies' earnings have high sensitivity to refining margin assumptions**

Exhibit 91: Sensitivity of EPS of downstream oil companies to refining margins, March fiscal year-ends, 2025E-26E (Rs)

|                                       | 2025E     |           |           | 2026E     |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                       | BPCL      | HPCL      | IOCL      | BPCL      | HPCL      | IOCL      |
| <b>Sensitivity to refining margin</b> |           |           |           |           |           |           |
| Refining margins (US\$/bbl)           | 9.0       | 9.0       | 9.0       | 9.0       | 9.0       | 9.0       |
| <b>Current EPS estimates</b>          | <b>47</b> | <b>43</b> | <b>14</b> | <b>56</b> | <b>52</b> | <b>15</b> |
| Refining margin lower by US\$1/bbl    | 38        | 35        | 12        | 47        | 44        | 13        |
| Change (%)                            | (18)      | (18)      | (17)      | (16)      | (16)      | (16)      |
| Refining margin higher by US\$1/bbl   | 55        | 51        | 17        | 64        | 60        | 18        |
| Change (%)                            | 18        | 18        | 17        | 16        | 16        | 16        |

Source: Kotak Institutional Equities estimates

- Upstream oil & gas companies.** It is paradoxically easy to estimate the earnings of the upstream oil companies despite the inherent volatility in crude oil and natural gas prices given well-defined pricing mechanisms for domestic crude oil and natural gas. The government has more or less capped the net realized price of crude oil for the upstream companies at a certain level through a variable excise duty, which it revises every fortnight. It has also linked the price of natural gas to global crude oil prices through a formula with floor and ceiling. As of now, gas prices are at the ceiling level for FY2025.

We assume OIL and ONGC will make (1) about US\$52-53/bbl on a net basis (net of cess, royalty and windfall tax) for crude oil based on their net realization post the imposition of excise duty and (2) US\$6.7/mn BTU for natural gas in FY2025 and US\$6.9/mn BTU in FY2026 versus US\$6.5/mn BTU, the ceiling price for FY2024. Exhibit 92 gives the sensitivity of net profits of ONGC (only ONGC is in the Nifty-50 Index) to crude oil price, natural gas price and exchange rate.

**ONGC's earnings have sensitivity to crude price and gas price assumptions**

Exhibit 92: Sensitivity of EPS of ONGC to key variables to oil and gas prices, March fiscal year-ends, 2025E-26E (Rs)

|                                      | 2025E        |           |            | 2026E      |           |              |
|--------------------------------------|--------------|-----------|------------|------------|-----------|--------------|
|                                      | Downside     | Base case | Upside     | Downside   | Base case | Upside       |
| <b>Exchange rate</b>                 |              |           |            |            |           |              |
| Exchange rate (Rs/US\$)              | 82.5         | 83.5      | 84.5       | 83.0       | 84.0      | 85.0         |
| Net profits (Rs mn)                  | 524,307      | 532,405   | 540,502    | 596,667    | 555,724   | 514,782      |
| Earnings per share (Rs)              | 41.7         | 42.3      | 43.0       | 47.4       | 44.2      | 40.9         |
| <b>% upside/(downside)</b>           | <b>(1.5)</b> |           | <b>1.5</b> | <b>7.4</b> |           | <b>(7.4)</b> |
| <b>Average net crude realization</b> |              |           |            |            |           |              |
| Net crude realization (US\$/bbl)     | 51.0         | 52.0      | 53.0       | 52.0       | 53.0      | 54.0         |
| Net profits (Rs mn)                  | 525,827      | 532,405   | 538,983    | 597,875    | 555,724   | 513,574      |
| Earnings per share (Rs)              | 41.8         | 42.3      | 42.8       | 47.5       | 44.2      | 40.8         |
| <b>% upside/(downside)</b>           | <b>(1.2)</b> |           | <b>1.2</b> | <b>7.6</b> |           | <b>(7.6)</b> |
| <b>Natural gas prices</b>            |              |           |            |            |           |              |
| Natural gas price (US\$/mn BTU)      | 6.2          | 6.7       | 7.2        | 6.5        | 7.0       | 7.5          |
| Net profits (Rs mn)                  | 518,969      | 532,405   | 545,841    | 590,427    | 555,724   | 521,022      |
| Earnings per share (Rs)              | 41.3         | 42.3      | 43.4       | 46.9       | 44.2      | 41.4         |
| <b>% upside/(downside)</b>           | <b>(2.5)</b> |           | <b>2.5</b> | <b>6.2</b> |           | <b>(6.2)</b> |

Source: Kotak Institutional Equities estimates

- **Pharmaceuticals.** We expect net profits of the pharmaceuticals companies in the Nifty-50 Index to grow 12% in FY2025 and 14% in FY2026 due to (1) continued strong performance of SUNP's specialty products and the US generic business of CIPLA, which would drive their overall revenues and profits, (2) strong growth in domestic pharmaceutical revenues of all the major companies and (3) stable gross and EBITDA margins after a recovery in FY2024 on easing US generic pricing conditions and lower RM prices, which will offset (4) stable revenues for the US generic business of DRRD; the revenues of its blockbuster product (gRevlimid) probably peaked in FY2024.

We expect US generic revenues to grow more moderately over FY2025-26E (see Exhibit 93) after a strong performance in FY2024. We expect gross and EBITDA margins to be stable over FY2025-26E after a sharp jump in FY2024 (see Exhibit 94 for gross and EBITDA margins of the pharmaceutical companies under our coverage for FY2017-26E).

**We model moderate recovery in US generic revenues of pharmaceutical companies over FY2025-26E**

Exhibit 93: US revenues for pharmaceuticals companies, March fiscal year-ends, 2018-26E

|             | US revenues (US\$ mn) |       |       |       |       |       |       |       |       |  | Yoy growth (%) |      |      |      |      |      |       |       |       |
|-------------|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|--|----------------|------|------|------|------|------|-------|-------|-------|
|             | 2018                  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025E | 2026E |  | 2018           | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
| Aurobindo   | 1,156                 | 1,299 | 1,622 | 1,666 | 1,495 | 1,453 | 1,694 | 1,759 | 1,798 |  | 13             | 12   | 25   | 3    | (10) | (3)  | 17    | 4     | 2     |
| Cipla       | 401                   | 497   | 547   | 556   | 594   | 733   | 906   | 970   | 1,071 |  | 2              | 24   | 10   | 2    | 7    | 23   | 24    | 7     | 10    |
| Dr Reddy's  | 926                   | 863   | 908   | 952   | 1,004 | 1,268 | 1,566 | 1,684 | 1,658 |  | (3)            | (7)  | 5    | 5    | 5    | 26   | 24    | 8     | (2)   |
| Lupin       | 898                   | 805   | 820   | 720   | 739   | 632   | 815   | 906   | 959   |  | (26)           | (10) | 2    | (12) | 3    | (15) | 29    | 11    | 6     |
| Sun Pharma  | 1,354                 | 1,526 | 1,487 | 1,360 | 1,527 | 1,684 | 1,854 | 2,071 | 2,261 |  | (34)           | 13   | (3)  | (9)  | 12   | 10   | 10    | 12    | 9     |
| Taro        | 545                   | 541   | 499   | 374   | 426   | 453   | 509   | 540   | 573   |  | (31)           | (1)  | (8)  | (25) | 14   | 6    | 12    | 6     | 6     |
| Ex-Taro Sun | 809                   | 985   | 988   | 986   | 1,101 | 1,231 | 1,345 | 1,531 | 1,688 |  | (36)           | 22   | 0    | (0)  | 12   | 12   | 9     | 14    | 10    |
| Torrent     | 164                   | 229   | 215   | 170   | 143   | 145   | 133   | 161   | 198   |  | (18)           | 39   | (6)  | (21) | (16) | 1    | (8)   | 21    | 23    |

Source: Companies, Kotak Institutional Equities estimates

**We expect gross and EBITDA margins to be stable over FY2025-26E after a decent jump in FY2024**

**Exhibit 94: Gross and EBITDA margins of pharmaceuticals companies, March fiscal year-ends, 2017-26E (%)**

|                         | Gross margin (%) |      |      |      |      |      |      |      |       |       | EBITDA margin (%) |      |      |      |      |      |      |       |       |       |
|-------------------------|------------------|------|------|------|------|------|------|------|-------|-------|-------------------|------|------|------|------|------|------|-------|-------|-------|
|                         | 2017             | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2017              | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
| Aurobindo Pharma        | 57.4             | 59.1 | 55.5 | 57.9 | 60.0 | 56.8 | 54.6 | 56.5 | 58.2  | 58.2  | 22.8              | 23.0 | 20.2 | 21.1 | 21.5 | 18.7 | 15.1 | 20.1  | 21.5  | 22.0  |
| Biocon                  | 58.9             | 55.8 | 61.3 | 63.9 | 65.1 | 65.0 | 67.2 | 66.0 | 68.2  | 67.7  | 25.0              | 20.1 | 25.3 | 25.2 | 23.2 | 23.4 | 22.5 | 20.5  | 22.7  | 24.2  |
| Cipla                   | 63.7             | 64.3 | 64.6 | 65.1 | 61.6 | 61.0 | 63.7 | 65.8 | 65.9  | 65.7  | 16.9              | 18.6 | 18.9 | 18.7 | 22.2 | 20.9 | 22.1 | 24.4  | 24.5  | 24.8  |
| Divis Laboratories      | 61.4             | 59.6 | 62.3 | 60.9 | 66.7 | 66.9 | 60.7 | 60.1 | 62.1  | 62.2  | 35.6              | 32.6 | 37.9 | 33.8 | 41.0 | 43.2 | 30.4 | 28.1  | 32.2  | 33.9  |
| Dr Reddy's Laboratories | 55.6             | 53.7 | 54.2 | 53.8 | 54.3 | 65.5 | 69.0 | 70.7 | 69.8  | 68.7  | 17.2              | 16.1 | 20.4 | 23.4 | 23.6 | 21.8 | 25.9 | 28.3  | 28.1  | 26.4  |
| Gland Pharma            | 65.8             | 59.3 | 58.1 | 58.1 | 56.9 | 52.1 | 53.5 | 61.6 | 61.1  | 60.4  | 41.9              | 33.0 | 34.6 | 36.3 | 37.6 | 34.3 | 28.3 | 23.5  | 24.8  | 25.1  |
| Glenmark Life Sciences  |                  | 53.7 | 55.4 | 55.1 | 52.0 | 50.9 | 53.1 | 56.1 | 54.6  | 55.0  |                   | 27.6 | 30.6 | 30.7 | 31.4 | 29.0 | 29.7 | 29.5  | 29.9  | 30.5  |
| Laurus Labs             | 48.4             | 48.6 | 46.1 | 50.1 | 55.2 | 55.6 | 54.1 | 51.7 | 53.4  | 54.5  | 21.1              | 20.0 | 15.5 | 19.9 | 32.2 | 28.8 | 26.4 | 15.4  | 19.7  | 22.3  |
| Lupin                   | 71.4             | 66.6 | 65.0 | 64.7 | 64.6 | 60.5 | 59.3 | 66.8 | 66.9  | 67.0  | 25.7              | 19.9 | 17.2 | 15.3 | 16.9 | 13.2 | 10.8 | 19.0  | 20.1  | 20.7  |
| Sun Pharmaceuticals     | 74.3             | 72.0 | 72.9 | 71.9 | 74.1 | 73.2 | 75.7 | 78.0 | 78.3  | 78.5  | 31.9              | 21.2 | 22.0 | 21.2 | 25.3 | 26.5 | 26.8 | 26.8  | 27.7  | 29.5  |
| Torrent Pharmaceuticals | 69.4             | 72.1 | 71.1 | 72.7 | 73.2 | 71.0 | 71.6 | 75.0 | 74.6  | 74.8  | 23.5              | 22.5 | 25.9 | 27.3 | 31.0 | 27.9 | 29.5 | 31.4  | 32.3  | 33.2  |

Source: Companies, Kotak Institutional Equities estimates

The strong growth in FY2024 net profits at 20% reflects (1) peak revenues in the case of certain US generic products and (2) sharp improvement in both gross and EBITDA margins, aided by (a) higher share of high-margin new launch products in overall revenues and (b) lower RM prices.

**Model portfolios: A few changes**

Exhibit 95 is our recommended large-cap. model portfolio. We add Torrent Pharmaceuticals (150 bps) to the portfolio and reduce weight on MM (120 bps to 140 bps) and Interglobe Aviation (30 bps to 170 bps). TRP trades at 45X FY2025E EPS and is trading near our fair value of Rs2,575 but we see strong EPS momentum over the next few years (26% CAGR over FY2024-27E; among the best in the pharmaceuticals sector) led by (1) strong revenue growth in the domestic business with a 11.7% CAGR over FY2024-27E, (2) likely lower loss/breakeven in the US business and (3) lower tax rate of 25% by FY2027 versus 30% in FY2024. We note that TRP (1) derives the bulk of its gross profits and EBITDA from the domestic business, which deserves a higher multiple than the US generic business and (2) has a very high FCF-to-PAT ratio. MM stock is up 88% over the past 12 months and is trading around our 12-month fair value of Rs2,550.

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

**Exhibit 95: KIE large-cap. model portfolio**

| Company                                 | Price (Rs)<br>30-May-24 | KIE weight<br>(%) |
|---|-------------------------|-------------------|
| <b>Automobiles &amp; Components</b>     |                         |                   |
| Mahindra & Mahindra                     | 2,494                   | 1.4               |
| <b>Automobiles &amp; Components 1.4</b> |                         |                   |
| <b>Banks</b>                            |                         |                   |
| Axis Bank                               | 1,172                   | 7.2               |
| HDFC Bank                               | 1,515                   | 9.2               |
| ICICI Bank                              | 1,114                   | 10.1              |
| IndusInd Bank                           | 1,447                   | 1.9               |
| SBI Cards and Payment Services          | 693                     | 1.4               |
| State Bank of India                     | 826                     | 7.6               |
| <b>Banks 37.5</b>                       |                         |                   |
| <b>Capital Goods</b>                    |                         |                   |
| L&T                                     | 3,635                   | 3.4               |
| <b>Capital Goods 3.4</b>                |                         |                   |
| <b>Consumer Staples</b>                 |                         |                   |
| Britannia Industries                    | 5,208                   | 1.4               |
| Dabur India                             | 551                     | 1.4               |
| Godrej Consumer Products                | 1,276                   | 1.6               |
| Hindustan Unilever                      | 2,355                   | 3.1               |
| United Spirits                          | 1,171                   | 1.5               |
| <b>Consumer Staples 9.0</b>             |                         |                   |
| <b>Diversified Financials</b>           |                         |                   |
| Shriram Finance                         | 2,303                   | 1.6               |
| <b>Diversified Financials 1.6</b>       |                         |                   |
| <b>Health Care Services</b>             |                         |                   |
| Apollo Hospitals                        | 5,766                   | 1.3               |
| <b>Health Care Services 1.3</b>         |                         |                   |
| <b>Insurance</b>                        |                         |                   |
| ICICI Prudential Life                   | 549                     | 1.3               |
| SBI Life Insurance                      | 1,380                   | 2.1               |
| <b>Insurance 3.4</b>                    |                         |                   |

| Company                                     | Price (Rs)<br>30-May-24 | KIE weight<br>(%) |
|---|-------------------------|-------------------|
| <b>Internet Software &amp; Services</b>     |                         |                   |
| Zomato                                      | 181                     | 1.5               |
| <b>Internet Software &amp; Services 1.5</b> |                         |                   |
| <b>IT Services</b>                          |                         |                   |
| HCL Technologies                            | 1,332                   | 2.1               |
| Infosys                                     | 1,427                   | 5.2               |
| TCS   | 3,736                   | 1.8               |
| <b>IT Services 9.2</b>                      |                         |                   |
| <b>Oil, Gas &amp; Consumable Fuels</b>      |                         |                   |
| Reliance Industries                         | 2,850                   | 9.5               |
| <b>Oil, Gas &amp; Consumable Fuels 9.5</b>  |                         |                   |
| <b>Pharmaceuticals</b>                      |                         |                   |
| Cipla                                       | 1,470                   | 2.1               |
| Mankind Pharma                              | 2,097                   | 1.4               |
| Sun Pharmaceuticals                         | 1,459                   | 1.8               |
| Torrent Pharmaceuticals                     | 2,658                   | 1.5               |
| <b>Pharmaceuticals 6.8</b>                  |                         |                   |
| <b>Real Estate</b>                          |                         |                   |
| DLF   | 802                     | 1.5               |
| Embassy Office Parks REIT                   | 347                     | 1.4               |
| Macrotech Developers                        | 1,319                   | 2.1               |
| <b>Real Estate 5.0</b>                      |                         |                   |
| <b>Specialty Chemicals</b>                  |                         |                   |
| Pidlite Industries                          | 2,999                   | 1.6               |
| <b>Specialty Chemicals 1.6</b>              |                         |                   |
| <b>Telecommunication Services</b>           |                         |                   |
| Bharti Airtel                               | 1,377                   | 4.0               |
| <b>Telecommunication Services 4.0</b>       |                         |                   |
| <b>Transportation</b>                       |                         |                   |
| Adani Ports and SEZ                         | 1,384                   | 1.8               |
| Delhivery                                   | 394                     | 1.3               |
| Interglobe Aviation                         | 4,162                   | 1.7               |
| <b>Transportation 4.8</b>                   |                         |                   |
| <b>BSE-30 73,886 100</b>                    |                         |                   |

Notes:

(a) The model portfolio is not advise or recommendation or a suggestion for buying or selling securities as shown. It is only an indicative portfolio to show how a portfolio can be built. Please consult an expert to build your portfolio.

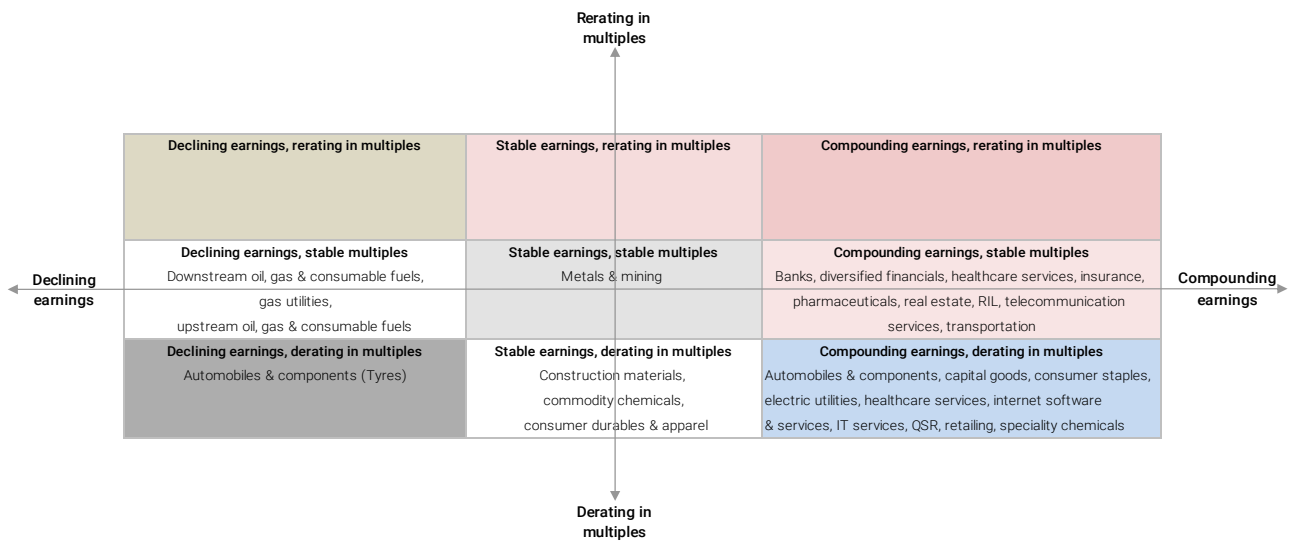
Source: Kotak Institutional Equities estimates

We do not find meaningful value in most sectors and stocks in India based on our 3X3 matrix approach, which categorizes sectors and stocks on two scales of (1) potential rerating, derating or stability in multiples and (2) compounding, decline or stability in earnings. Exhibit 96 is our attempt to categorize the market into various earnings and multiples buckets. At the current juncture, we cannot place any sector in the “compounding earnings, rerating in multiples” category while place BFSI, pharmaceuticals, telecommunications and transportation in the “compounding earnings, stable multiples” category. In our view, the majority of the sectors related to consumption, investment and outsourcing will fall in the “compounding earnings, derating multiples” category.



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

**Exhibit 96: Categorization of sectors into various buckets based on expected earnings/book trajectory and multiples rerating/derating**



Source: Kotak Institutional Equities estimates

# 2

## 4QFY24 results analysis: Somehow ahead of our expectations

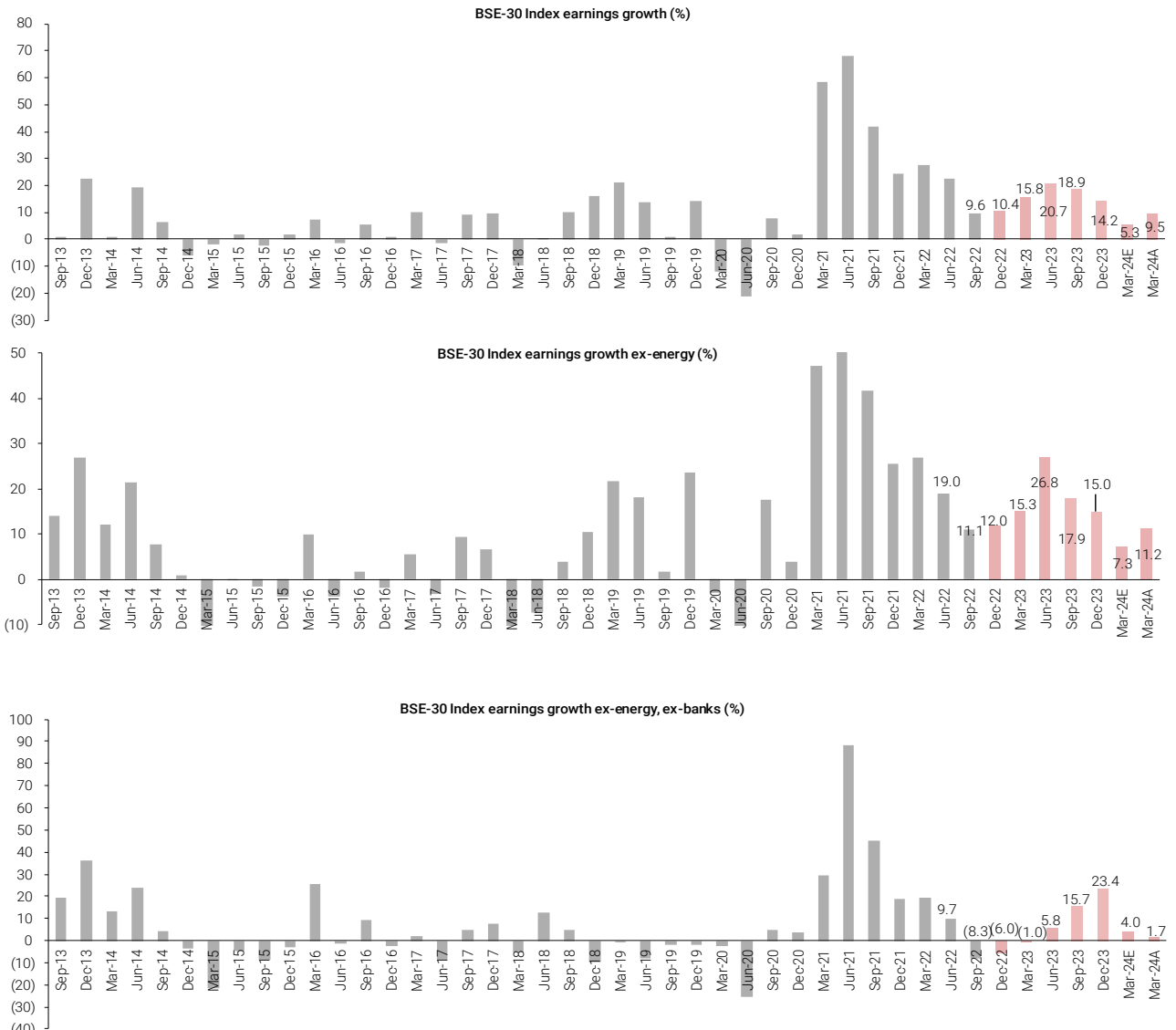
4QFY24 net income of the Nifty-50 Index increased 8.6% yoy, 4.3% ahead of our expectations. The modest beat at the net income level was led by (1) stronger-than-expected performance of banks especially SBI and (2) accounting change in the case of COAL, which offset (3) weaker-than-expected performance in most other sectors. Excluding the banking sector, net income was largely in line with our expectations. EBITDA increased 5.9% yoy compared to our expectations of 7.5% yoy increase. Net profits of the KIE universe increased 8.4% yoy compared to our expectations of 6.3% yoy increase. Automobiles & components, banks, diversified financial sectors reported better-than-expected net income.

### 4QFY24 results: Ahead of our expectations

► **Net profits ahead of our expectations for Nifty-50 Index.** Exhibit 97 presents the quarterly trend in earnings growth of the BSE-30 Index. Adjusted net profits of the BSE-30 Index increased 9.5% yoy, compared with our expectations of 5.3%. Adjusted net profits of the Nifty-50 Index increased 8.6% yoy versus our expectations of 4.1%. Excluding banking, net income was largely in line with our expectations.

### 4QFY24 adjusted net profits of the BSE-30 Index increased 9.5% yoy compared to our expectations of 5.3% yoy increase

Exhibit 97: Adjusted net income growth of BSE-30 Index (%)



Source: Kotak Institutional Equities estimates

Exhibit 98 compares 4QFY24 adjusted net profits of the BSE-30 stocks with 4QFY23, 3QFY24 and 4QFY24E adjusted net profits while Exhibit 99 compares 4QFY24 adjusted net profits of the Nifty-50 Index with 4QFY23, 3QFY24 and 4QFY24E adjusted net profits.

**4QFY24 results of the BSE-30 Index were ahead of our expectations**

Exhibit 98: Comparison of 4QFY24 net income of BSE-30 stocks, actual versus expected

| Company  | Sector                      | Adjusted net income (Rs bn) |              |              |              | Change (%)<br>A versus E | Growth (%)  |             |
|--|-----------------------------|-----------------------------|--------------|--------------|--------------|--------------------------|-------------|-------------|
|  |                             | Mar-23                      | Dec-23       | Mar-24A      | Mar-24E      |                          | yoy         | qoq         |
| Mahindra & Mahindra  | Automobiles & Components    | 19.4                        | 24.5         | 20.4         | 18.1         | 13                       | 5           | (17)        |
| Maruti Suzuki  | Automobiles & Components    | 26.2                        | 31.3         | 38.8         | 40.7         | (5)                      | 48          | 24          |
| Tata Motors  | Automobiles & Components    | 53.5                        | 56.2         | 68.0         | 82.9         | (18)                     | 27          | 21          |
| Axis Bank  | Banks                       | 62.2                        | 60.7         | 71.3         | 61.2         | 17                       | 15          | 17          |
| HDFC Bank  | Banks                       | 120.5                       | 163.7        | 165.1        | 200.2        | (18)                     | 37          | 1           |
| ICICI Bank   | Banks                       | 91.2                        | 102.7        | 107.1        | 95.4         | 12                       | 17          | 4           |
| IndusInd Bank  | Banks                       | 20.4                        | 23.0         | 23.5         | 20.1         | 17                       | 15          | 2           |
| Kotak Mahindra Bank  | Banks                       | 45.7                        | 42.6         | 53.4         | 53.4         | (0)                      | 17          | 25          |
| State Bank of India  | Banks                       | 166.9                       | 91.6         | 207.0        | 131.6        | 57                       | 24          | 126         |
| Bajaj Finserv  | Diversified Financials      | 17.7                        | 21.6         | 21.2         | 21.2         | (0)                      | 20          | (2)         |
| Bajaj Finance  | Diversified Financials      | 31.6                        | 36.4         | 38.2         | 37.4         | 2                        | 21          | 5           |
| L&T  | Capital Goods               | 39.9                        | 29.5         | 43.0         | 44.1         | (3)                      | 8           | 46          |
| Asian Paints   | Commodity Chemicals         | 12.7                        | 14.5         | 12.6         | 13.1         | (4)                      | (1)         | (13)        |
| UltraTech Cement   | Construction Materials      | 16.5                        | 17.1         | 23.2         | 21.2         | 10                       | 41          | 36          |
| Hindustan Unilever   | Consumer Staples            | 24.7                        | 25.4         | 24.2         | 24.0         | 1                        | (2)         | (5)         |
| ITC  | Consumer Staples            | 50.1                        | 55.8         | 50.2         | 50.5         | (1)                      | 0           | (10)        |
| Nestle India   | Consumer Staples            | 7.5                         | 7.8          | 9.1          | 9.0          | 2                        | 22          | 17          |
| NTPC   | Electric Utilities          | 56.7                        | 45.7         | 47.2         | 51.5         | (8)                      | (17)        | 3           |
| Power Grid   | Electric Utilities          | 43.7                        | 40.7         | 41.0         | 45.5         | (10)                     | (6)         | 1           |
| HCL Technologies   | IT Services                 | 39.6                        | 43.5         | 39.9         | 40.7         | (2)                      | 1           | (8)         |
| Infosys  | IT Services                 | 61.3                        | 61.1         | 60.0         | 60.1         | (0)                      | (2)         | (2)         |
| TCS  | IT Services                 | 113.9                       | 117.4        | 124.6        | 121.6        | 2                        | 9           | 6           |
| Tech Mahindra  | IT Services                 | 13.3                        | 5.1          | 9.7          | 6.6          | 48                       | (27)        | 90          |
| Wipro  | IT Services                 | 30.7                        | 26.9         | 28.3         | 28.9         | (2)                      | (8)         | 5           |
| JSW Steel  | Metals & Mining             | 36.6                        | 24.2         | 13.0         | 17.0         | (24)                     | (65)        | (46)        |
| Tata Steel   | Metals & Mining             | 16.9                        | 8.5          | 12.1         | 12.7         | (5)                      | (29)        | 42          |
| Reliance Industries  | Oil, Gas & Consumable Fuels | 193.0                       | 172.7        | 189.5        | 178.5        | 6                        | (2)         | 10          |
| Sun Pharmaceuticals  | Pharmaceuticals             | 21.6                        | 25.9         | 27.6         | 20.5         | 35                       | 28          | 6           |
| Titan Company  | Retailing                   | 7.3                         | 10.4         | 7.9          | 8.0          | (1)                      | 7           | (24)        |
| Bharti Airtel  | Telecommunication Services  | 25.9                        | 24.9         | 29.5         | 30.1         | (2)                      | 14          | 18          |
| <b>BSE-30 Index</b>  |                             | <b>1,467</b>                | <b>1,411</b> | <b>1,607</b> | <b>1,546</b> | <b>3.9</b>               | <b>9.5</b>  | <b>13.8</b> |
| <b>BSE-30 Index (ex-oil, gas &amp; consumable fuels)</b>           |                             | <b>1,274</b>                | <b>1,239</b> | <b>1,417</b> | <b>1,367</b> | <b>3.7</b>               | <b>11.2</b> | <b>14.4</b> |
| <b>BSE-30 Index (ex-banks/FI)</b>                                  |                             | <b>911</b>                  | <b>869</b>   | <b>920</b>   | <b>925</b>   | <b>(0.6)</b>             | <b>1.0</b>  | <b>5.9</b>  |
| <b>BSE-30 Index (ex-banks/FI, oil, gas &amp; consumable fuels)</b> |                             | <b>718</b>                  | <b>696</b>   | <b>730</b>   | <b>747</b>   | <b>(2.2)</b>             | <b>1.7</b>  | <b>4.9</b>  |

Source: Companies, Kotak Institutional Equities estimates

**4QFY24 results of the Nifty-50 Index were modestly ahead of our estimates**

**Exhibit 99: Comparison of 4QFY24 net income of Nifty-50 stocks, actual versus expected**

| Company  | Sector                      | Adjusted net income (Rs bn) |              |              |              | Change (%)   | Growth (%)  |             |
|--|-----------------------------|-----------------------------|--------------|--------------|--------------|--------------|-------------|-------------|
|  |                             | Mar-23                      | Dec-23       | Mar-24A      | Mar-24E      | A versus E   | yoy         | qoq         |
| Bajaj Auto   | Automobiles & Components    | 14.3                        | 20.4         | 19.4         | 18.9         | 3            | 35          | (5)         |
| Eicher Motors  | Automobiles & Components    | 9.1                         | 10.0         | 10.7         | 11.3         | (6)          | 18          | 7           |
| Hero Motocorp  | Automobiles & Components    | 8.6                         | 10.7         | 10.2         | 10.9         | (7)          | 18          | (5)         |
| Mahindra & Mahindra  | Automobiles & Components    | 19.4                        | 24.5         | 20.4         | 18.1         | 13           | 5           | (17)        |
| Maruti Suzuki  | Automobiles & Components    | 26.2                        | 31.3         | 38.8         | 40.7         | (5)          | 48          | 24          |
| Tata Motors  | Automobiles & Components    | 53.5                        | 56.2         | 68.0         | 82.9         | (18)         | 27          | 21          |
| Axis Bank  | Banks                       | 62.2                        | 60.7         | 71.3         | 61.2         | 17           | 15          | 17          |
| HDFC Bank  | Banks                       | 120.5                       | 163.7        | 165.1        | 200.2        | (18)         | 37          | 1           |
| ICICI Bank   | Banks                       | 91.2                        | 102.7        | 107.1        | 95.4         | 12           | 17          | 4           |
| IndusInd Bank  | Banks                       | 20.4                        | 23.0         | 23.5         | 20.1         | 17           | 15          | 2           |
| Kotak Mahindra Bank  | Banks                       | 45.7                        | 42.6         | 53.4         | 53.4         | (0)          | 17          | 25          |
| State Bank of India  | Banks                       | 166.9                       | 91.6         | 207.0        | 131.6        | 57           | 24          | 126         |
| Bajaj Finserv  | Diversified Financials      | 17.7                        | 21.6         | 21.2         | 21.2         | (0)          | 20          | (2)         |
| Bajaj Finance  | Diversified Financials      | 31.6                        | 36.4         | 38.2         | 37.4         | 2            | 21          | 5           |
| Shriram Finance  | Diversified Financials      | 13.1                        | 18.2         | 19.5         | 18.4         | 6            | 49          | 7           |
| HDFC Life Insurance  | Insurance                   | 15.1                        | 8.0          | 12.4         | 12.9         | (4)          | (18)        | 54          |
| SBI Life Insurance   | Insurance                   | 14.3                        | 14.9         | 15.1         | 15.3         | (1)          | 5           | 1           |
| Adani Enterprises  | Capital Goods               | 9.5                         | 18.9         | 6.5          | 6.5          | (0)          | (32)        | (66)        |
| L&T  | Capital Goods               | 39.9                        | 29.5         | 43.0         | 44.1         | (3)          | 8           | 46          |
| Asian Paints   | Commodity Chemicals         | 12.7                        | 14.5         | 12.6         | 13.1         | (4)          | (1)         | (13)        |
| Grasim Industries  | Construction Materials      | 0.9                         | 2.4          | 2.7          | 1.5          | 80           | 194         | 16          |
| UltraTech Cement   | Construction Materials      | 16.5                        | 17.1         | 23.2         | 21.2         | 10           | 41          | 36          |
| Britannia Industries   | Consumer Staples            | 5.6                         | 5.6          | 5.4          | 5.3          | 1            | (4)         | (4)         |
| Hindustan Unilever   | Consumer Staples            | 24.7                        | 25.4         | 24.2         | 24.0         | 1            | (2)         | (5)         |
| ITC  | Consumer Staples            | 50.1                        | 55.8         | 50.2         | 50.5         | (1)          | 0           | (10)        |
| Nestle India   | Consumer Staples            | 7.5                         | 7.8          | 9.1          | 9.0          | 2            | 22          | 17          |
| Tata Consumer Products   | Consumer Staples            | 2.7                         | 3.7          | 4.3          | 3.2          | 35           | 57          | 17          |
| NTPC   | Electric Utilities          | 56.7                        | 45.7         | 47.2         | 51.5         | (8)          | (17)        | 3           |
| Power Grid   | Electric Utilities          | 43.7                        | 40.7         | 41.0         | 45.5         | (10)         | (6)         | 1           |
| Apollo Hospitals   | Health Care Services        | 1.4                         | 2.5          | 2.5          | 2.4          | 4            | 76          | 3           |
| HCL Technologies   | IT Services                 | 39.6                        | 43.5         | 39.9         | 40.7         | (2)          | 1           | (8)         |
| Infosys  | IT Services                 | 61.3                        | 61.1         | 60.0         | 60.1         | (0)          | (2)         | (2)         |
| LTIMindtree  | IT Services                 | 11.1                        | 11.7         | 11.0         | 11.5         | (5)          | (1)         | (6)         |
| TCS  | IT Services                 | 113.9                       | 117.4        | 124.6        | 121.6        | 2            | 9           | 6           |
| Tech Mahindra  | IT Services                 | 13.3                        | 5.1          | 9.7          | 6.6          | 48           | (27)        | 90          |
| Wipro  | IT Services                 | 30.7                        | 26.9         | 28.3         | 28.9         | (2)          | (8)         | 5           |
| Hindalco Industries  | Metals & Mining             | 24.1                        | 23.3         | 31.8         | 29.8         | 7            | 32          | 36          |
| JSW Steel  | Metals & Mining             | 36.6                        | 24.2         | 13.0         | 17.0         | (24)         | (65)        | (46)        |
| Tata Steel   | Metals & Mining             | 16.9                        | 8.5          | 12.1         | 12.7         | (5)          | (29)        | 42          |
| BPCL   | Oil, Gas & Consumable Fuels | 75.6                        | 34.0         | 55.7         | 58.2         | (4)          | (26)        | 64          |
| Coal India   | Oil, Gas & Consumable Fuels | 55.3                        | 90.9         | 86.4         | 75.7         | 14           | 56          | (5)         |
| ONGC   | Oil, Gas & Consumable Fuels | 118.6                       | 98.9         | 98.7         | 82.5         | 20           | (17)        | (0)         |
| Reliance Industries  | Oil, Gas & Consumable Fuels | 193.0                       | 172.7        | 189.5        | 178.5        | 6            | (2)         | 10          |
| Cipla  | Pharmaceuticals             | 5.3                         | 12.5         | 9.4          | 9.1          | 3            | 79          | (25)        |
| Divis Laboratories   | Pharmaceuticals             | 3.2                         | 3.6          | 5.4          | 4.9          | 10           | 68          | 50          |
| Dr Reddy's Laboratories  | Pharmaceuticals             | 10.1                        | 13.9         | 12.9         | 14.9         | (13)         | 27          | (7)         |
| Sun Pharmaceuticals  | Pharmaceuticals             | 21.6                        | 25.9         | 27.6         | 20.5         | 35           | 28          | 6           |
| Titan Company  | Retailing                   | 7.3                         | 10.4         | 7.9          | 8.0          | (1)          | 7           | (24)        |
| Bharti Airtel  | Telecommunication Services  | 25.9                        | 24.9         | 29.5         | 30.1         | (2)          | 14          | 18          |
| Adani Ports and SEZ  | Transportation              | 22.7                        | 24.9         | 23.7         | 26.4         | (10)         | 4           | (5)         |
| <b>Nifty-50 Index</b>  |                             | <b>1,888</b>                | <b>1,840</b> | <b>2,050</b> | <b>1,965</b> | <b>4.3</b>   | <b>8.6</b>  | <b>11.4</b> |
| <b>Nifty-50 Index (ex-oil, gas &amp; consumable fuels)</b>           |                             | <b>1,446</b>                | <b>1,444</b> | <b>1,620</b> | <b>1,570</b> | <b>3.2</b>   | <b>12.1</b> | <b>12.2</b> |
| <b>Nifty-50 Index (ex-banks/FI)</b>                                  |                             | <b>1,289</b>                | <b>1,257</b> | <b>1,316</b> | <b>1,298</b> | <b>1.4</b>   | <b>2.1</b>  | <b>4.8</b>  |
| <b>Nifty-50 Index (ex-banks/FI, oil, gas &amp; consumable fuels)</b> |                             | <b>847</b>                  | <b>860</b>   | <b>886</b>   | <b>903</b>   | <b>(1.9)</b> | <b>4.6</b>  | <b>3.0</b>  |

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

Among Nifty-50 stocks, companies that significantly outperformed our estimates are (1) Axis Bank (higher-than-expected non-interest [treasury] income), (2) Coal India (strong earnings performance aided by reversal of OBR provision, an accounting change), (3) IndusInd Bank (better-than-expected operating profit), (4) M&M (beat at the EBITDA level and lower tax rate), (5) SBI (better-than-expected operating profit), (6) Tech Mahindra (higher other income) and (7) Ultratech Cement (lower costs).

On the other hand, companies that underperformed our estimates at the net income level are (1) Adani Ports (weaker logistics growth and profitability), (2) Dr. Reddy's (lower gRevlimid sales, muted growth across markets and higher R&D spend), (3) Eicher Motors (lower-than-expected ASPs and higher-than-expected employee expenses), (4) HDFC Bank, (5) Hero Motocorp (higher employee and other expenses) and (6) Tata Motors (weak domestic CV business performance).

- **EBITDA below our expectations for Nifty-50 Index.** Adjusted EBITDA of the BSE-30 Index increased 5.5% yoy compared to our expectations of 7.7%. Exhibit 100 compares 4QFY24 EBITDA of the BSE-30 Index with 4QFY23, 3QFY24 and 4QFY24E EBITDA. Of the 22 non-finance companies in the BSE-30 Index, four companies beat our estimates by more than 5% and six companies missed our EBITDA estimates by more than 5%.

**4QFY24 EBITDA of the BSE-30 Index was below our estimates**

Exhibit 100: Comparison of 4QFY24 EBITDA of BSE-30 stocks, actual versus expected

| Company  | Sector                      | Adjusted EBITDA (Rs bn) |              |              |              | Change (%)<br>A versus E | Growth (%) |            |
|--|-----------------------------|-------------------------|--------------|--------------|--------------|--------------------------|------------|------------|
|  |                             | Mar-23                  | Dec-23       | Mar-24A      | Mar-24E      |                          | yoy        | qoq        |
| Mahindra & Mahindra                                      | Automobiles & Components    | 28.0                    | 32.4         | 32.4         | 28.8         | 13                       | 16         | 0          |
| Maruti Suzuki  | Automobiles & Components    | 33.5                    | 39.1         | 46.9         | 51.6         | (9)                      | 40         | 20         |
| Tata Motors  | Automobiles & Components    | 128.1                   | 153.3        | 169.9        | 185.5        | (8)                      | 33         | 11         |
| L&T  | Capital Goods               | 68.3                    | 57.6         | 72.3         | 80.4         | (10)                     | 6          | 26         |
| Asian Paints   | Commodity Chemicals         | 18.7                    | 20.6         | 16.9         | 18.9         | (10)                     | (10)       | (18)       |
| UltraTech Cement   | Construction Materials      | 32.3                    | 31.5         | 40.2         | 37.1         | 8                        | 24         | 28         |
| Hindustan Unilever                                       | Consumer Staples            | 34.7                    | 35.4         | 34.4         | 34.2         | 1                        | (1)        | (3)        |
| ITC  | Consumer Staples            | 62.1                    | 60.2         | 61.6         | 62.0         | (1)                      | (1)        | 2          |
| Nestle India   | Consumer Staples            | 11.1                    | 11.1         | 13.4         | 13.2         | 2                        | 21         | 20         |
| NTPC   | Electric Utilities          | 111.1                   | 99.4         | 113.3        | 116.2        | (2)                      | 2          | 14         |
| Power Grid   | Electric Utilities          | 108.8                   | 103.2        | 99.2         | 114.9        | (14)                     | (9)        | (4)        |
| HCL Technologies   | IT Services                 | 58.3                    | 67.6         | 61.0         | 62.9         | (3)                      | 5          | (10)       |
| Infosys  | IT Services                 | 90.0                    | 91.4         | 87.8         | 90.9         | (3)                      | (2)        | (4)        |
| TCS  | IT Services                 | 157.7                   | 163.9        | 171.6        | 167.8        | 2                        | 9          | 5          |
| Tech Mahindra  | IT Services                 | 20.2                    | 11.5         | 14.1         | 14.0         | 0                        | (30)       | 23         |
| Wipro  | IT Services                 | 46.1                    | 44.8         | 44.7         | 42.5         | 5                        | (3)        | (0)        |
| JSW Steel  | Metals & Mining             | 79.4                    | 71.8         | 61.2         | 63.3         | (3)                      | (23)       | (15)       |
| Tata Steel   | Metals & Mining             | 72.2                    | 62.6         | 66.0         | 63.3         | 4                        | (9)        | 5          |
| Reliance Industries                                      | Oil, Gas & Consumable Fuels | 384.4                   | 406.6        | 425.2        | 423.3        | 0                        | 11         | 5          |
| Sun Pharmaceuticals                                      | Pharmaceuticals             | 28.3                    | 33.5         | 30.9         | 29.2         | 6                        | 9          | (8)        |
| Titan Company  | Retailing                   | 10.4                    | 14.6         | 11.1         | 12.1         | (8)                      | 6          | (24)       |
| Bharti Airtel  | Telecommunication Services  | 187.0                   | 198.1        | 193.6        | 195.7        | (1)                      | 4          | (2)        |
| <b>BSE-30 Index</b>                                      |                             | <b>1,771</b>            | <b>1,810</b> | <b>1,868</b> | <b>1,908</b> | <b>(2.1)</b>             | <b>5.5</b> | <b>3.2</b> |
| <b>BSE-30 Index (ex-oil, gas &amp; consumable fuels)</b> |                             | <b>1,386</b>            | <b>1,404</b> | <b>1,443</b> | <b>1,484</b> | <b>(2.8)</b>             | <b>4.1</b> | <b>2.8</b> |

Source: Companies, Kotak Institutional Equities estimates

Adjusted EBITDA of the Nifty-50 Index increased 5.9% yoy compared to our expectations of 7.5%. The large beat at COAL due to an accounting change offset meaningful miss in several cases. Exhibit 101 compares 4QFY24 EBITDA of the Nifty-50 Index with 4QFY23, 3QFY24 and 4QFY24E EBITDA. Of the 39 non-finance companies in the Nifty-50 Index, eight companies beat our estimates by more than 5%, while eight missed our EBITDA estimates by more than 5%.

**4QFY24 EBITDA of the Nifty-50 Index was marginally below our estimates**

**Exhibit 101: Comparison of 4QFY24 EBITDA of Nifty-50 stocks, actual versus expected**

| Company  | Sector                      | Adjusted EBITDA (Rs bn) |              |              |              | Change (%)<br>A versus E | Growth (%) |            |
|--|-----------------------------|-------------------------|--------------|--------------|--------------|--------------------------|------------|------------|
|  |                             | Mar-23                  | Dec-23       | Mar-24A      | Mar-24E      |                          | yoy        | qoq        |
| Bajaj Auto   | Automobiles & Components    | 17.2                    | 24.3         | 23.1         | 22.4         | 3                        | 34         | (5)        |
| Eicher Motors  | Automobiles & Components    | 9.3                     | 10.9         | 11.3         | 11.7         | (4)                      | 21         | 4          |
| Hero Motocorp  | Automobiles & Components    | 10.8                    | 13.6         | 13.6         | 14.0         | (3)                      | 25         | (0)        |
| Mahindra & Mahindra  | Automobiles & Components    | 28.0                    | 32.4         | 32.4         | 28.8         | 13                       | 16         | 0          |
| Maruti Suzuki  | Automobiles & Components    | 33.5                    | 39.1         | 46.9         | 51.6         | (9)                      | 40         | 20         |
| Tata Motors  | Automobiles & Components    | 128.1                   | 153.3        | 169.9        | 185.5        | (8)                      | 33         | 11         |
| Adani Enterprises  | Capital Goods               | 32.2                    | 32.3         | 25.7         | 25.7         | 0                        | (20)       | (20)       |
| L&T  | Capital Goods               | 68.3                    | 57.6         | 72.3         | 80.4         | (10)                     | 6          | 26         |
| Asian Paints   | Commodity Chemicals         | 18.7                    | 20.6         | 16.9         | 18.9         | (10)                     | (10)       | (18)       |
| Grasim Industries  | Construction Materials      | 4.3                     | 5.2          | 5.3          | 4.7          | 11                       | 24         | 1          |
| UltraTech Cement   | Construction Materials      | 32.3                    | 31.5         | 40.2         | 37.1         | 8                        | 24         | 28         |
| Britannia Industries                                       | Consumer Staples            | 8.0                     | 8.2          | 7.9          | 7.7          | 3                        | (2)        | (4)        |
| Hindustan Unilever   | Consumer Staples            | 34.7                    | 35.4         | 34.4         | 34.2         | 1                        | (1)        | (3)        |
| ITC  | Consumer Staples            | 62.1                    | 60.2         | 61.6         | 62.0         | (1)                      | (1)        | 2          |
| Nestle India   | Consumer Staples            | 11.1                    | 11.1         | 13.4         | 13.2         | 2                        | 21         | 20         |
| Tata Consumer Products                                     | Consumer Staples            | 5.1                     | 5.7          | 6.3          | 5.7          | 10                       | 23         | 10         |
| NTPC   | Electric Utilities          | 111.1                   | 99.4         | 113.3        | 116.2        | (2)                      | 2          | 14         |
| Power Grid   | Electric Utilities          | 108.8                   | 103.2        | 99.2         | 114.9        | (14)                     | (9)        | (4)        |
| Apollo Hospitals   | Health Care Services        | 4.9                     | 6.1          | 6.4          | 6.2          | 4                        | 31         | 4          |
| HCL Technologies   | IT Services                 | 58.3                    | 67.6         | 61.0         | 62.9         | (3)                      | 5          | (10)       |
| Infosys  | IT Services                 | 90.0                    | 91.4         | 87.8         | 90.9         | (3)                      | (2)        | (4)        |
| LTIMindtree  | IT Services                 | 16.0                    | 15.8         | 15.4         | 15.5         | (1)                      | (4)        | (3)        |
| TCS  | IT Services                 | 157.7                   | 163.9        | 171.6        | 167.8        | 2                        | 9          | 5          |
| Tech Mahindra  | IT Services                 | 20.2                    | 11.5         | 14.1         | 14.0         | 0                        | (30)       | 23         |
| Wipro  | IT Services                 | 46.1                    | 44.8         | 44.7         | 42.5         | 5                        | (3)        | (0)        |
| Hindalco Industries  | Metals & Mining             | 54.2                    | 60.5         | 68.4         | 69.8         | (2)                      | 26         | 13         |
| JSW Steel  | Metals & Mining             | 79.4                    | 71.8         | 61.2         | 63.3         | (3)                      | (23)       | (15)       |
| Tata Steel   | Metals & Mining             | 72.2                    | 62.6         | 66.0         | 63.3         | 4                        | (9)        | 5          |
| BPCL   | Oil, Gas & Consumable Fuels | 111.5                   | 62.3         | 92.1         | 95.3         | (3)                      | (17)       | 48         |
| Coal India   | Oil, Gas & Consumable Fuels | 39.1                    | 82.3         | 81.9         | 67.3         | 22                       | 110        | (0)        |
| ONGC   | Oil, Gas & Consumable Fuels | 192.1                   | 171.6        | 174.1        | 177.2        | (2)                      | (9)        | 1          |
| Reliance Industries  | Oil, Gas & Consumable Fuels | 384.4                   | 406.6        | 425.2        | 423.3        | 0                        | 11         | 5          |
| Cipla  | Pharmaceuticals             | 11.7                    | 17.5         | 13.2         | 13.7         | (4)                      | 12         | (25)       |
| Divis Laboratories   | Pharmaceuticals             | 4.9                     | 4.9          | 7.3          | 6.59         | 11                       | 50         | 49         |
| Dr Reddy's Laboratories                                    | Pharmaceuticals             | 15.9                    | 20.3         | 18.1         | 21.7         | (17)                     | 14         | (11)       |
| Sun Pharmaceuticals  | Pharmaceuticals             | 28.3                    | 33.5         | 30.9         | 29.2         | 6                        | 9          | (8)        |
| Titan Company  | Retailing                   | 10.4                    | 14.6         | 11.1         | 12.1         | (8)                      | 6          | (24)       |
| Bharti Airtel  | Telecommunication Services  | 187.0                   | 198.1        | 193.6        | 195.7        | (1)                      | 4          | (2)        |
| Adani Ports and SEZ  | Transportation              | 32.7                    | 41.9         | 40.4         | 43.2         | (6)                      | 24         | (3)        |
| <b>Nifty-50 Index</b>                                      |                             | <b>2,341</b>            | <b>2,394</b> | <b>2,478</b> | <b>2,516</b> | <b>(1.5)</b>             | <b>5.9</b> | <b>3.5</b> |
| <b>Nifty-50 Index (ex-oil, gas &amp; consumable fuels)</b> |                             | <b>1,614</b>            | <b>1,671</b> | <b>1,705</b> | <b>1,753</b> | <b>(2.7)</b>             | <b>5.7</b> | <b>2.0</b> |

Source: Companies, Kotak Institutional Equities estimates

Among the companies that reported better-than-expected EBITDA were (1) Coal India (change in accounting policy for OBR provisions), (2) Divi's Laboratories (stronger-than-expected sales and gross margins), (3) M&M (higher-than-expected ASPs and gross margins) and (4) Ultratech Cement (lower costs partially offset by lower realizations).

However, several companies in the Nifty-50 Index underperformed at the EBITDA level. The notable underperformers were (1) Asian Paints (sharp increase in employee and other expenses), (2) DRRD (lower gRevlimid sales, muted growth across markets and higher R&D spends), (3) L&T (miss in core E&C EBITDA), (4) Maruti Suzuki (weaker-than-expected gross margins), (5) Tata Consumer Products (higher A&P), (6) Tata Motors (weak domestic CV business performance) and (7) Titan (higher-than-expected other expenses).

- **Reported net income of the Nifty-50 Index increased 23% yoy and 16% qoq.** Exhibit 102 shows the reported net income of the Nifty-50 Index for 4QFY23, 3QFY24 and 4QFY24. Several companies had extraordinary items in 4QFY24.

**Reported net income of the Nifty-50 Index increased 23% yoy and 16% qoq**

**Exhibit 102: Comparison of 4QFY24 reported net income of Nifty-50 stocks**

| Company                 | Sector                      | Reported net income (Rs bn) |              |              | Growth (%)  |             |
|-------------------------|-----------------------------|-----------------------------|--------------|--------------|-------------|-------------|
|                         |                             | Mar-23                      | Dec-23       | Mar-24       | yoy         | qoq         |
| Bajaj Auto              | Automobiles & Components    | 14.3                        | 20.4         | 19.4         | 35          | (5)         |
| Eicher Motors           | Automobiles & Components    | 9.1                         | 10.0         | 10.7         | 18          | 7           |
| Hero Motocorp           | Automobiles & Components    | 8.6                         | 10.7         | 10.2         | 18          | (5)         |
| Mahindra & Mahindra     | Automobiles & Components    | 15.5                        | 24.5         | 20.4         | 32          | (17)        |
| Maruti Suzuki           | Automobiles & Components    | 26.2                        | 31.3         | 38.8         | 48          | 24          |
| Tata Motors             | Automobiles & Components    | 54.1                        | 70.3         | 174.1        | 222         | 148         |
| Axis Bank               | Banks                       | 62.2                        | 60.7         | 71.3         | 15          | 17          |
| HDFC Bank               | Banks                       | 120.5                       | 163.7        | 165.1        | 37          | 1           |
| ICICI Bank              | Banks                       | 91.2                        | 102.7        | 107.1        | 17          | 4           |
| IndusInd Bank           | Banks                       | 20.4                        | 23.0         | 23.5         | 15          | 2           |
| State Bank of India     | Banks                       | 166.9                       | 91.6         | 207.0        | 24          | 126         |
| Kotak Mahindra Bank     | Banks                       | 45.7                        | 42.6         | 53.4         | 17          | 25          |
| Bajaj Finserv           | Diversified Financials      | 17.7                        | 21.6         | 21.2         | 20          | (2)         |
| Bajaj Finance           | Diversified Financials      | 31.6                        | 36.4         | 38.2         | 21          | 5           |
| Shriram Finance         | Diversified Financials      | 13.1                        | 18.2         | 19.5         | 49          | 7           |
| HDFC Life Insurance     | Insurance                   | 15.1                        | 8.0          | 12.4         | (18)        | 54          |
| SBI Life Insurance      | Insurance                   | 14.3                        | 14.9         | 15.1         | 5           | 1           |
| Adani Enterprises       | Capital Goods               | 7.2                         | 18.9         | 4.5          | (38)        | (76)        |
| L&T                     | Capital Goods               | 39.9                        | 29.5         | 44.0         | 10          | 49          |
| Asian Paints            | Commodity Chemicals         | 12.4                        | 14.5         | 12.6         | 1           | (13)        |
| Grasim Industries       | Construction Materials      | 0.9                         | 2.4          | (4.4)        | (572)       | (287)       |
| UltraTech Cement        | Construction Materials      | 16.5                        | 17.1         | 22.5         | 36          | 32          |
| Britannia Industries    | Consumer Staples            | 5.6                         | 5.6          | 5.4          | (4)         | (3)         |
| Hindustan Unilever      | Consumer Staples            | 25.5                        | 25.2         | 24.0         | (6)         | (5)         |
| ITC                     | Consumer Staples            | 50.9                        | 55.7         | 50.2         | (1)         | (10)        |
| Nestle India            | Consumer Staples            | 7.4                         | 6.6          | 9.3          | 27          | 42          |
| Tata Consumer Products  | Consumer Staples            | 2.7                         | 2.8          | 2.2          | (19)        | (22)        |
| NTPC                    | Electric Utilities          | 56.7                        | 45.7         | 55.6         | (2)         | 22          |
| Power Grid              | Electric Utilities          | 43.2                        | 40.3         | 41.7         | (4)         | 3           |
| Apollo Hospitals        | Health Care Services        | 1.4                         | 2.5          | 2.5          | 76          | 3           |
| HCL Technologies        | IT Services                 | 39.6                        | 43.5         | 39.9         | 1           | (8)         |
| Infosys                 | IT Services                 | 61.3                        | 61.1         | 79.7         | 30          | 31          |
| LTIMindtree             | IT Services                 | 11.1                        | 11.7         | 11.0         | (1)         | (6)         |
| TCS                     | IT Services                 | 113.9                       | 110.6        | 124.6        | 9           | 13          |
| Tech Mahindra           | IT Services                 | 11.2                        | 5.1          | 6.6          | (41)        | 30          |
| Wipro                   | IT Services                 | 30.7                        | 26.9         | 28.3         | (8)         | 5           |
| Hindalco Industries     | Metals & Mining             | 24.1                        | 23.3         | 31.7         | 32          | 36          |
| JSW Steel               | Metals & Mining             | 38.2                        | 24.2         | 13.0         | (66)        | (46)        |
| Tata Steel              | Metals & Mining             | 17.0                        | 5.1          | 6.1          | (64)        | 19          |
| BPCL                    | Oil, Gas & Consumable Fuels | 64.8                        | 34.0         | 42.2         | (35)        | 24          |
| Coal India              | Oil, Gas & Consumable Fuels | 55.3                        | 90.9         | 86.4         | 56          | (5)         |
| ONGC                    | Oil, Gas & Consumable Fuels | (2.5)                       | 98.9         | 98.7         | NM          | (0)         |
| Reliance Industries     | Oil, Gas & Consumable Fuels | 193.0                       | 172.7        | 189.5        | (2)         | 10          |
| Cipla                   | Pharmaceuticals             | 5.3                         | 12.5         | 9.4          | 79          | (25)        |
| Divis Laboratories      | Pharmaceuticals             | 3.2                         | 3.6          | 5.4          | 68          | 50          |
| Dr Reddy's Laboratories | Pharmaceuticals             | 9.6                         | 13.8         | 13.1         | 36          | (5)         |
| Sun Pharmaceuticals     | Pharmaceuticals             | 19.8                        | 25.2         | 26.5         | 34          | 5           |
| Titan Company           | Retailing                   | 7.3                         | 10.4         | 7.9          | 7           | (24)        |
| Bharti Airtel           | Telecommunication Services  | 30.1                        | 24.4         | 20.7         | (31)        | (15)        |
| Adani Ports and SEZ     | Transportation              | 11.5                        | 23.1         | 20.2         | 76          | (12)        |
| <b>Nifty-50 Index</b>   |                             | <b>1,741</b>                | <b>1,838</b> | <b>2,138</b> | <b>22.8</b> | <b>16.3</b> |

Source: Companies, Kotak Institutional Equities

- Bharti Airtel reported exceptional charges on account of currency devaluation in its group subsidiaries.
- BPCL reported a Rs18 bn exceptional expense related to impairment at its upstream subsidiary (BPRL).
- Infosys reported a one-off benefit of Rs19 bn from tax reversal.
- TCPL reported a one-off tax benefit of Rs2.1 bn.
- Tata Motors recognized large deferred tax assets to the extent of GBP1 bn in JLR.
- Tata Steel reported Rs5.8 bn provision for impairment and provision for costs related to surrender of Sukinda Chromite Block in standalone financials.

Exhibit 103 compares reported net income of the Nifty-50 Index with adjusted net income. We remove extraordinary items, such as prior-period items, while computing adjusted net income (adjusted for tax impact) but do not remove additional branding costs, employee costs or foreign currency-related gains or losses. These represent normal costs of doing business.



**Several companies reported one-off items in 4QFY24**

**Exhibit 103: Adjusted and reported net income of the Nifty-50 stocks, 4QFY24 (Rs mn)**

| Company                 | Sector                      | Net income |          |            |
|-------------------------|-----------------------------|------------|----------|------------|
|                         |                             | Adjusted   | Reported | Difference |
| Bajaj Auto              | Automobiles & Components    | 19,360     | 19,360   | –          |
| Eicher Motors           | Automobiles & Components    | 10,705     | 10,705   | –          |
| Hero Motocorp           | Automobiles & Components    | 10,161     | 10,161   | –          |
| Mahindra & Mahindra     | Automobiles & Components    | 20,382     | 20,382   | –          |
| Maruti Suzuki           | Automobiles & Components    | 38,778     | 38,778   | –          |
| Tata Motors             | Automobiles & Components    | 68,016     | 174,072  | 106,056    |
| Axis Bank               | Banks                       | 71,297     | 71,297   | –          |
| HDFC Bank               | Banks                       | 165,119    | 165,119  | –          |
| ICICI Bank              | Banks                       | 107,075    | 107,075  | –          |
| IndusInd Bank           | Banks                       | 23,468     | 23,468   | –          |
| State Bank of India     | Banks                       | 206,984    | 206,984  | –          |
| Kotak Mahindra Bank     | Banks                       | 53,372     | 53,372   | –          |
| Bajaj Finserv           | Diversified Financials      | 21,185     | 21,185   | –          |
| Bajaj Finance           | Diversified Financials      | 38,246     | 38,246   | –          |
| Shriram Finance         | Diversified Financials      | 19,458     | 19,458   | –          |
| HDFC Life Insurance     | Insurance                   | 12,366     | 12,366   | –          |
| SBI Life Insurance      | Insurance                   | 15,091     | 15,091   | –          |
| Adani Enterprises       | Capital Goods               | 6,509      | 4,506    | (2,003)    |
| L&T                     | Capital Goods               | 43,025     | 43,961   | 936        |
| Asian Paints            | Commodity Chemicals         | 12,567     | 12,567   | –          |
| Grasim Industries       | Construction Materials      | 2,747      | (4,409)  | (7,156)    |
| UltraTech Cement        | Construction Materials      | 23,220     | 22,500   | (720)      |
| Britannia Industries    | Consumer Staples            | 5,383      | 5,383    | -          |
| Hindustan Unilever      | Consumer Staples            | 24,230     | 23,960   | (270)      |
| ITC                     | Consumer Staples            | 50,223     | 50,202   | (21)       |
| Nestle India            | Consumer Staples            | 9,138      | 9,342    | 204        |
| Tata Consumer Products  | Consumer Staples            | 4,324      | 2,166    | (2,158)    |
| NTPC                    | Electric Utilities          | 47,219     | 55,564   | 8,346      |
| Power Grid              | Electric Utilities          | 41,046     | 41,663   | 617        |
| Apollo Hospitals        | Health Care Services        | 2,538      | 2,538    | –          |
| HCL Technologies        | IT Services                 | 39,857     | 39,857   | –          |
| Infosys                 | IT Services                 | 59,980     | 79,690   | 19,710     |
| LTIMindtree             | IT Services                 | 10,999     | 10,999   | –          |
| TCS                     | IT Services                 | 124,622    | 124,622  | -          |
| Tech Mahindra           | IT Services                 | 9,697      | 6,610    | (3,087)    |
| Wipro                   | IT Services                 | 28,345     | 28,345   | –          |
| Hindalco Industries     | Metals & Mining             | 31,750     | 31,740   | (10)       |
| JSW Steel               | Metals & Mining             | 12,990     | 12,990   | –          |
| Tata Steel              | Metals & Mining             | 12,060     | 6,115    | (5,945)    |
| BPCL                    | Oil, Gas & Consumable Fuels | 55,700     | 42,242   | (13,459)   |
| Coal India              | Oil, Gas & Consumable Fuels | 86,405     | 86,405   | –          |
| ONGC                    | Oil, Gas & Consumable Fuels | 98,694     | 98,694   | –          |
| Reliance Industries     | Oil, Gas & Consumable Fuels | 189,510    | 189,510  | –          |
| Cipla                   | Pharmaceuticals             | 9,390      | 9,390    | –          |
| Divis Laboratories      | Pharmaceuticals             | 5,380      | 5,380    | –          |
| Dr Reddy's Laboratories | Pharmaceuticals             | 12,925     | 13,098   | 173        |
| Sun Pharmaceuticals     | Pharmaceuticals             | 27,562     | 26,546   | (1,016)    |
| Titan Company           | Retailing                   | 7,860      | 7,860    | –          |
| Bharti Airtel           | Telecommunication Services  | 29,518     | 20,716   | (8,802)    |
| Adani Ports and SEZ     | Transportation              | 23,654     | 20,246   | (3,408)    |

Source: Companies, Kotak Institutional Equities estimates

**KIE coverage universe: Net profits increased 8.4% yoy**

4QFY24 net profits of the KIE coverage universe increased 8.4% yoy, ahead of our expectations of 6.3% yoy increase. Excluding oil marketing companies (OMCs), net profits increased 12.3% yoy compared to our expectations of 8.5% yoy increase. We note that the OMCs accounted for 34% of the yoy decline in net income of our coverage universe—Rs76 bn yoy decline in net income of OMCs out of Rs222 bn yoy increase in net income of KIE coverage universe. In our coverage universe, 92 stocks beat our earnings forecast by more than 5%, 82 reported adjusted net income within -5% and +5% range of our estimates and 85 missed our estimates by more than 5%.

Exhibit 104 compares 4QFY24 net profits of KIE coverage sectors with 4QFY23, 3QFY24 and 4QFY24E net profits. 4QFY24 net income of automobiles & components, banks and diversified financial sectors increased on a yoy basis. Metals & mining and oil, gas & consumable fuels sectors reported a yoy decline in net income.

**Adjusted net income of KIE universe increased 8% yoy and 10% qoq**

Exhibit 104: Comprehensive sector-wise PAT analysis of 4QFY24 earnings season (Rs bn)

|                                      | Adjusted PAT (Rs bn) |              |              |              | Change (%)<br>A/E | Growth (%)  |             |
|--------------------------------------|----------------------|--------------|--------------|--------------|-------------------|-------------|-------------|
|                                      | Mar-23               | Dec-23       | Mar-24A      | Mar-24E      |                   | yoy         | qoq         |
| Automobiles & Components             | 179                  | 210          | 234          | 245          | (4)               | 31          | 12          |
| Banks                                | 668                  | 668          | 817          | 777          | 5                 | 22          | 22          |
| Building Products                    | 2                    | 1            | 2            | 2            | (16)              | (12)        | 60          |
| Capital Goods                        | 90                   | 82           | 109          | 97           | 12                | 21          | 34          |
| Commercial & Professional Services   | 1                    | 1            | 1            | 1            | (19)              | (30)        | 20          |
| Commodity Chemicals                  | 23                   | 21           | 18           | 19           | (2)               | (21)        | (14)        |
| Construction Materials               | 43                   | 44           | 54           | 49           | 10                | 24          | 22          |
| Consumer Durables & Apparel          | 11                   | 11           | 14           | 12           | 19                | 22          | 27          |
| Consumer Staples                     | 111                  | 123          | 120          | 118          | 2                 | 8           | (3)         |
| Diversified Financials               | 122                  | 143          | 149          | 145          | 3                 | 22          | 4           |
| Electric Utilities                   | 120                  | 105          | 109          | 116          | (7)               | (9)         | 3           |
| Fertilizers & Agricultural Chemicals | 9                    | (10)         | 3            | 1            | 320               | (70)        | 128         |
| Gas Utilities                        | 21                   | 47           | 39           | 49           | (20)              | 87          | (16)        |
| Health Care Services                 | 10                   | 12           | 12           | 13           | (13)              | 13          | (4)         |
| Hotels & Restaurants                 | 5.8                  | 6.3          | 5.5          | 7.0          | (22)              | (5)         | (13)        |
| Internet Software & Services         | 2                    | 5            | 6            | 7            | (3)               | 236         | 21          |
| Insurance                            | 29                   | 23           | 27           | 28           | (2)               | (7)         | 20          |
| IT Services                          | 287                  | 283          | 292          | 288          | 1                 | 2           | 3           |
| Media                                | 1                    | 6            | 3            | 4            | (16)              | 258         | (41)        |
| Metals & Mining                      | 168                  | 141          | 125          | 143          | (13)              | (26)        | (11)        |
| Oil, Gas & Consumable Fuels          | 593                  | 498          | 527          | 520          | 1                 | (11)        | 6           |
| Pharmaceuticals                      | 61                   | 82           | 87           | 80           | 8                 | 41          | 5           |
| Real Estate                          | 32                   | 26           | 41           | 31           | 32                | 28          | 59          |
| Retailing                            | 14                   | 22           | 22           | 16           | 35                | 58          | (1)         |
| Specialty Chemicals                  | 21                   | 20           | 20           | 21           | (4)               | (7)         | (2)         |
| Telecommunication Services           | (21)                 | (35)         | (26)         | (29)         | 11                | (26)        | 25          |
| Transportation                       | 29                   | 60           | 47           | 41           | 14                | 64          | (21)        |
| <b>KIE universe</b>                  | <b>2,635</b>         | <b>2,597</b> | <b>2,857</b> | <b>2,800</b> | <b>2.0</b>        | <b>8.4</b>  | <b>10.0</b> |
| <b>KIE universe (ex-OMCs)</b>        | <b>2,426</b>         | <b>2,477</b> | <b>2,724</b> | <b>2,633</b> | <b>3.5</b>        | <b>12.3</b> | <b>10.0</b> |

Source: Kotak Institutional Equities estimates

Net profit of the automobiles & component sector increased 31% yoy. Most automobile companies saw a sharp improvement in profitability on both yoy and qoq basis in 4QFY24. The performance of the banking sector was led by strong credit growth, stable NIMs and low provisions. The construction materials sector reported yoy increase in net income led by strong volume growth, steep increase in realization and lower power & fuel costs. 4QFY24 was another weak quarter for IT companies, with a number of companies reporting flat-to-declining revenues on a qoq basis. Weakness in North America impacted most large-cap IT services companies. 4QFY24 net income of oil, gas & consumables fuels sector declined 11% yoy, led by a decline in the net profits of the oil marketing companies (OMCs). Net income of OMCs declined 36% yoy. All three OMCs have reported qoq declines in reported GRM in

4QFY24. Net profits of the pharmaceuticals sector increased 41% yoy in 4QFY24, led by strong US performance.

Exhibit 105 shows sectors that exceeded or fell short of our expectations on sales, EBITDA and net profits. Fertilizers & agricultural chemicals, retailing and real estate sectors beat our estimates at the revenue level while gas utilities, healthcare services and hotels & restaurants missed our revenue expectations. Fertilizers & agricultural chemicals, real estate and transportation sectors beat EBITDA estimates but commodity chemicals, gas utilities and healthcare services sectors disappointed. Finally, fertilizers & agricultural chemicals, retailing and real estate sectors beat our expectations at the net income level while gas utilities, hotels & restaurants and media sectors disappointed.

**Consumer durables & apparel, retailing and real estate sectors beat at net income level**

**Exhibit 105: Performance of sectors versus expectations (KIE universe) in 4QFY24 (Rs bn)**

|   | Companies | Net sales (Rs bn) |          | Change |
|---|-----------|-------------------|----------|--------|
|   | (#)       | Actual            | Expected | (%)    |
| <b>Revenues: Sectors posting positive surprises</b> |           |                   |          |        |
| Real Estate   | 14        | 180               | 154      | 17     |
| Fertilizers & Agricultural Chemicals                | 4         | 174               | 155      | 12     |
| Retailing   | 4         | 278               | 267      | 4      |
| Media   | 3         | 44                | 42       | 4      |
| Transportation                                      | 9         | 345               | 333      | 3      |
| <b>Revenues: Sectors posting negative surprises</b> |           |                   |          |        |
| Health Care Services                                | 9         | 116               | 144      | (19)   |
| Commercial & Professional Services                  | 2         | 56                | 58       | (4)    |
| Hotels & Restaurants                                | 9         | 70                | 72       | (3)    |
| Building Products                                   | 1         | 16                | 17       | (3)    |
| Gas Utilities                                       | 5         | 518               | 533      | (3)    |

|   | Companies | EBITDA (Rs bn) |          | Change |
|---|-----------|----------------|----------|--------|
|   | (#)       | Actual         | Expected | (%)    |
| <b>EBITDA: Sectors posting positive surprises</b> |           |                |          |        |
| Fertilizers & Agricultural Chemicals              | 4         | 21             | 14       | 45     |
| Real Estate                                       | 14        | 66             | 59       | 12     |
| Transportation                                    | 9         | 101            | 96       | 5      |
| Construction Materials                            | 10        | 98             | 93       | 5      |
| Consumer Durables & Apparel                       | 12        | 27             | 27       | 2      |
| <b>EBITDA: Sectors posting negative surprises</b> |           |                |          |        |
| Health Care Services                              | 9         | 22             | 27       | (15)   |
| Building Products                                 | 1         | 3              | 3        | (14)   |
| Gas Utilities                                     | 5         | 60             | 68       | (12)   |
| Commodity Chemicals                               | 5         | 27             | 31       | (10)   |
| Hotels & Restaurants                              | 9         | 18             | 19       | (9)    |

|  | Companies | PAT (Rs bn) |          | Change |
|--|-----------|-------------|----------|--------|
|  | (#)       | Actual      | Expected | (%)    |
| <b>PAT: Sectors posting positive surprises</b> |           |             |          |        |
| Fertilizers & Agricultural Chemicals           | 4         | 3           | 1        | 320    |
| Retailing                                      | 4         | 22          | 16       | 35     |
| Real Estate                                    | 14        | 41          | 31       | 32     |
| Consumer Durables & Apparel                    | 12        | 14          | 12       | 19     |
| Transportation                                 | 9         | 47          | 41       | 14     |
| <b>PAT: Sectors posting negative surprises</b> |           |             |          |        |
| Hotels & Restaurants                           | 9         | 6           | 7        | (22)   |
| Gas Utilities                                  | 5         | 39          | 49       | (20)   |
| Commercial & Professional Services             | 2         | 1           | 1        | (19)   |
| Building Products                              | 1         | 2           | 2        | (16)   |
| Media  | 3         | 3           | 4        | (16)   |

Source: Kotak Institutional Equities estimates

Exhibit 106 shows the movement in EBITDA margins across sectors over the past few quarters. As can be seen, many sectors saw sharp compression in EBITDA margins in 4QFY24 on a yoy basis although margins were generally better on a qoq basis. We do not focus on EBITDA margins for certain sectors (construction materials, oil, gas & consumable fuels and metals & mining) and focus on absolute profitability (Rs/ton or US\$/ton). Nonetheless, the exercise is useful to understand specific issues dogging some sectors.

**4QFY24 EBITDA margin expanded moderately on a yoy basis**

Exhibit 106: Comparison of EBITDA margin for KIE universe stocks (%)

|                                      | Mar-23      | Jun-23      | Sep-23      | Dec-23A     | Mar-24A     | Mar-24E     |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Automobiles & Components             | 12.4        | 13.0        | 13.4        | 13.7        | 14.1        | 14.5        |
| Building Products                    | 20.5        | 15.7        | 16.1        | 15.0        | 17.9        | 20.1        |
| Capital Goods                        | 12.1        | 10.2        | 11.0        | 11.6        | 11.9        | 12.3        |
| Commercial & Professional Services   | 3.4         | 3.2         | 3.3         | 3.4         | 3.3         | 3.3         |
| Commodity Chemicals                  | 19.5        | 21.8        | 19.1        | 18.9        | 16.4        | 18.1        |
| Construction Materials               | 15.1        | 16.2        | 15.3        | 18.5        | 17.6        | 17.2        |
| Consumer Durables & Apparel          | 10.9        | 10.6        | 10.2        | 11.2        | 11.0        | 11.0        |
| Consumer Staples                     | 24.5        | 25.6        | 25.2        | 24.9        | 25.1        | 25.0        |
| Electric Utilities                   | 36.0        | 36.4        | 35.5        | 34.4        | 34.2        | 37.5        |
| Fertilizers & Agricultural Chemicals | 14.6        | 14.3        | 12.9        | 3.2         | 12.0        | 9.3         |
| Gas Utilities                        | 4.6         | 10.4        | 12.5        | 12.1        | 11.6        | 12.8        |
| Health Care Services                 | 18.9        | 18.7        | 20.4        | 19.4        | 19.3        | 18.4        |
| Hotels & Restaurants                 | 25.9        | 23.1        | 22.2        | 27.0        | 25.3        | 27.0        |
| Internet Software & Services         | 3.9         | 7.4         | 7.2         | 8.8         | 9.4         | 10.2        |
| IT Services                          | 22.7        | 21.7        | 22.2        | 22.7        | 22.7        | 22.6        |
| Media                                | 14.8        | 21.3        | 23.7        | 20.2        | 14.9        | 16.4        |
| Metals & Mining                      | 15.9        | 14.3        | 13.8        | 16.6        | 15.5        | 15.7        |
| Oil, Gas & Consumable Fuels          | 13.2        | 16.4        | 16.1        | 12.7        | 12.8        | 13.5        |
| Pharmaceuticals                      | 22.5        | 24.5        | 24.6        | 24.7        | 24.3        | 24.3        |
| Real Estate                          | 30.0        | 31.3        | 37.4        | 38.6        | 36.5        | 38.2        |
| Retailing                            | 9.5         | 10.3        | 10.7        | 11.1        | 9.7         | 10.1        |
| Specialty Chemicals                  | 20.8        | 20.0        | 20.6        | 20.7        | 19.3        | 20.2        |
| Telecommunication Services           | 47.4        | 47.3        | 47.5        | 47.1        | 46.7        | 47.0        |
| Transportation                       | 25.3        | 33.7        | 26.3        | 31.6        | 29.3        | 28.9        |
| <b>KIE universe</b>                  | <b>16.7</b> | <b>18.1</b> | <b>18.0</b> | <b>17.2</b> | <b>17.0</b> | <b>17.5</b> |

Source: Kotak Institutional Equities estimates

# 3

## 4QFY24 results takeaways: Modest trends except in profitability

4QFY24 results season saw (1) continued weakness in household consumption, especially in staples and parts of discretionary segments but (2) decent strength in investment demand. Banks and diversified financials reported strong credit growth but lower margins. Consumption sectors (barring 2Ws) saw weak volume growth, while margins remained elevated. Capital goods companies witnessed moderation in order inflows as well as execution. IT companies managed the weak demand environment with cost focus.

### Lenders witnessed decent growth and stable margins; consumption weakness at peaking profitability

► **Banks witnessed decent credit growth; NIM compression in a few cases.** Bank credit saw strong growth in 4QFY24, led by (1) ongoing economic recovery and (2) strong retail credit demand across asset categories. Outstanding credit of banks as of March 31, 2024 grew 20% yoy (15% on *pro forma* basis excluding HDFCB-HDFC merger from July 2023) led by a strong 31% yoy (16.4% on *pro forma* basis) in retail loans (32% of total loans). All the major retail categories witnessed strong growth even as the 41% growth yoy in the case of mortgage loans was inflated by HDFCB-HDFC merger. Exhibit 107 gives credit growth by sectors and Exhibit 108 shows credit growth for the industry on a *pro forma* basis.

### Strong credit growth led by retail loans; credit growth is quite strong even adjusting for the merger of HDFC with HDFCB

Exhibit 107: Deployment of gross bank credit in major sectors (Rs bn)

|                     | Mar-23         | Apr-23         | May-23         | Jun-23         | Jul-23         | Aug-23         | Sep-23         | Oct-23         | Nov-23         | Dec-23         | Jan-24         | Feb-24         | Mar-24         | Proportion (%) | Growth qoq (%) | yoy (%)   |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------|
| Food credit         | 199            | 213            | 363            | 279            | 208            | 194            | 189            | 198            | 403            | 431            | 456            | 405            | 231            | —              | (46)           | 16        |
| Agriculture         | 16,872         | 17,255         | 17,193         | 17,970         | 17,868         | 17,961         | 18,232         | 19,132         | 19,312         | 19,945         | 20,125         | 20,356         | 20,747         | 13             | 4              | 23        |
| <b>Industry</b>     | <b>33,367</b>  | <b>33,699</b>  | <b>33,550</b>  | <b>34,241</b>  | <b>33,651</b>  | <b>34,079</b>  | <b>34,709</b>  | <b>35,723</b>  | <b>36,009</b>  | <b>36,648</b>  | <b>36,541</b>  | <b>36,691</b>  | <b>36,831</b>  | <b>22</b>      | <b>0.5</b>     | <b>10</b> |
| Textiles            | 2,278          | 2,324          | 2,311          | 2,376          | 2,320          | 2,373          | 2,400          | 2,492          | 2,519          | 2,561          | 2,588          | 2,616          | 2,577          | 2              | 1              | 13        |
| Chemical / Products | 2,165          | 2,145          | 2,183          | 2,201          | 2,097          | 2,133          | 2,207          | 2,324          | 2,381          | 2,481          | 2,441          | 2,473          | 2,500          | 2              | 1              | 15        |
| Iron and Steel      | 2,289          | 2,265          | 2,243          | 2,356          | 2,358          | 2,362          | 2,458          | 2,538          | 2,580          | 2,726          | 2,720          | 2,731          | 2,727          | 2              | 0              | 19        |
| Engineering         | 1,753          | 1,770          | 1,774          | 1,851          | 1,830          | 1,826          | 1,859          | 1,961          | 1,939          | 1,946          | 1,988          | 2,007          | 2,011          | 1              | 3              | 15        |
| Gems & Jewellery    | 777            | 779            | 772            | 802            | 847            | 929            | 904            | 983            | 923            | 914            | 849            | 842            | 864            | 1              | (6)            | 11        |
| Food processing     | 1,829          | 1,796          | 1,819          | 1,872          | 1,769          | 1,755          | 1,733          | 1,773          | 1,804          | 1,960          | 2,004          | 1,989          | 2,100          | 1              | 7              | 15        |
| Construction        | 1,229          | 1,211          | 1,238          | 1,303          | 1,249          | 1,264          | 1,263          | 1,326          | 1,314          | 1,353          | 1,374          | 1,373          | 1,364          | 1              | 1              | 11        |
| Infrastructure      | 11,862         | 12,185         | 12,227         | 12,325         | 12,326         | 12,399         | 12,500         | 12,671         | 12,804         | 12,894         | 12,775         | 12,804         | 12,803         | 8              | (1)            | 8         |
| - Power             | 6,047          | 6,127          | 6,172          | 6,246          | 6,163          | 6,143          | 6,194          | 6,220          | 6,323          | 6,456          | 6,388          | 6,502          | 6,454          | 4              | (0)            | 7         |
| - Telecom           | 1,113          | 1,288          | 1,282          | 1,244          | 1,313          | 1,348          | 1,355          | 1,414          | 1,458          | 1,435          | 1,401          | 1,312          | 1,387          | 1              | (3)            | 25        |
| - Roads             | 2,848          | 2,924          | 2,897          | 2,938          | 2,951          | 2,998          | 3,027          | 3,068          | 3,060          | 3,058          | 3,060          | 3,067          | 3,033          | 2              | (1)            | 7         |
| - Others            | 1,854          | 1,847          | 1,876          | 1,897          | 1,898          | 1,910          | 1,925          | 1,970          | 1,963          | 1,944          | 1,926          | 1,923          | 1,929          | 1              | (7)            | 4         |
| Others              | 9,186          | 9,224          | 8,984          | 9,155          | 8,856          | 9,038          | 9,384          | 9,655          | 9,745          | 9,812          | 9,802          | 9,857          | 9,886          | 6              | 1              | 8         |
| Trade               | 8,199          | 8,350          | 8,378          | 8,603          | 8,431          | 8,359          | 8,665          | 9,255          | 9,108          | 9,399          | 9,550          | 10,095         | 10,240         | 6              | 9              | 25        |
| <b>Retail loans</b> | <b>40,852</b>  | <b>41,196</b>  | <b>41,378</b>  | <b>42,610</b>  | <b>47,318</b>  | <b>47,701</b>  | <b>48,268</b>  | <b>49,993</b>  | <b>50,565</b>  | <b>51,754</b>  | <b>52,179</b>  | <b>52,678</b>  | <b>53,361</b>  | <b>32</b>      | <b>3</b>       | <b>31</b> |
| Housing             | 19,364         | 19,499         | 19,564         | 20,000         | 24,282         | 24,563         | 24,767         | 25,647         | 25,941         | 26,403         | 26,603         | 26,828         | 27,227         | 17             | 3              | 41        |
| Vehicle loans       | 5,028          | 5,089          | 5,090          | 5,234          | 5,294          | 5,340          | 5,422          | 5,532          | 5,648          | 5,833          | 5,773          | 5,821          | 5,893          | 4              | 1              | 17        |
| Credit cards        | 1,943          | 2,003          | 2,011          | 2,094          | 2,136          | 2,179          | 2,172          | 2,407          | 2,447          | 2,519          | 2,585          | 2,581          | 2,570          | 2              | 2              | 32        |
| Education loans     | 968            | 974            | 978            | 1,018          | 1,032          | 1,065          | 1,097          | 1,107          | 1,119          | 1,150          | 1,171          | 1,187          | 1,194          | 1              | 4              | 23        |
| Others              | 13,548         | 13,631         | 13,735         | 14,264         | 14,574         | 14,555         | 14,810         | 15,302         | 15,411         | 15,850         | 16,047         | 16,260         | 16,477         | 10             | 4              | 22        |
| Other categories    | 37,263         | 37,864         | 38,076         | 40,214         | 40,555         | 40,908         | 41,450         | 39,957         | 40,808         | 41,436         | 41,595         | 41,849         | 42,936         | 26             | 4              | 15        |
| Transporters        | 1,762          | 1,804          | 1,805          | 1,881          | 1,874          | 1,889          | 1,919          | 2,152          | 2,189          | 2,243          | 2,279          | 2,283          | 2,303          | 1              | 3              | 31        |
| Professional/others | 1,347          | 1,359          | 1,361          | 1,453          | 1,422          | 1,433          | 1,473          | 1,541          | 1,559          | 1,575          | 1,625          | 1,628          | 1,684          | 1              | 7              | 25        |
| Real Estate loans   | 3,146          | 3,219          | 3,211          | 3,324          | 4,073          | 4,088          | 4,102          | 4,241          | 4,287          | 4,362          | 4,384          | 4,423          | 4,481          | 3              | 3              | 42        |
| <b>NBFCs</b>        | <b>13,311</b>  | <b>13,454</b>  | <b>13,396</b>  | <b>14,241</b>  | <b>13,772</b>  | <b>13,834</b>  | <b>14,200</b>  | <b>14,762</b>  | <b>14,938</b>  | <b>15,208</b>  | <b>15,033</b>  | <b>15,149</b>  | <b>15,481</b>  | <b>9</b>       | <b>2</b>       | <b>16</b> |
| Others              | 17,697         | 18,028         | 18,302         | 19,315         | 19,414         | 19,663         | 19,756         | 17,259         | 17,835         | 18,048         | 18,273         | 18,365         | 18,987         | 12             | 5              | 7         |
| <b>Total</b>        | <b>136,752</b> | <b>138,577</b> | <b>138,939</b> | <b>143,917</b> | <b>148,032</b> | <b>149,201</b> | <b>151,513</b> | <b>154,258</b> | <b>156,206</b> | <b>159,613</b> | <b>160,447</b> | <b>162,074</b> | <b>164,347</b> |                | <b>3.0</b>     | <b>20</b> |

Source: RBI, Kotak Institutional Equities

### Strong credit growth even on a *pro forma* basis (merger of HDFC with HDFCB)

Exhibit 108: Banking sector loan growth adjusted for HDFC's merger with HDFCB (%)

|                                     | Mar-23         | Mar-24         | Growth yoy (%) |
|-------------------------------------|----------------|----------------|----------------|
| Banking sector loan book (Rs bn)    | 136,752        | 164,347        | 20             |
| HDFC loan book (Rs bn)              | 6,205          |                |                |
| <b>Aggregate (Rs bn)</b>            | <b>142,957</b> | <b>164,347</b> | <b>15</b>      |
| Banking sector retail loans (Rs bn) | 40,852         | 53,361         | 31             |
| HDFC retail loan book (Rs bn)       | 4,995          |                |                |
| <b>Total retail loans (Rs bn)</b>   | <b>45,847</b>  | <b>53,361</b>  | <b>16</b>      |

Source: Company, RBI, Kotak Institutional Equities

Meanwhile, industry loans witnessed gradual improvement, reporting 10.4% yoy (0.5% qoq) growth. Chemicals, food processing, iron and steel and telecom were the major sectors driving industrial credit growth. We note that bank credit to NBFCs witnessed moderation in 4QFY24, which may have been partly driven by RBI increasing the risk-weights for lending to NBFCs in November 2023.

All banks, public or private, reported strong credit growth. Exhibit 109 shows yoy credit growth for banks under our coverage as well as total credit growth for the past few quarters. Meanwhile, NIMs were broadly stable for most banks, reversing the trend of moderate compression in NIM seen in the past few quarters. Among the major banks, ICICIB and IIB witnessed 10 bps qoq compression in NIMs (see Exhibit 110). Costs of funds were broadly stable for most banks in 4QFY24 after rapid increase in the past few quarters (see Exhibits 111-112). Thus, most banks reported decent-to-strong RoEs in 4QFY24.

**Strong credit growth across banks on a yoy basis**

Exhibit 109: Yoy growth in loans for banks in KIE universe, 4QFY22-4QFY24 (%)

|                            | 4QFY22    | 1QFY23    | 2QFY23    | 3QFY23    | 4QFY23    | 1QFY24    | 2QFY24    | 3QFY24    | 4QFY24    |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Public banks</b>        |           |           |           |           |           |           |           |           |           |
| Bank of Baroda             | 9         | 12        | 16        | 15        | 15        | 20        | 19        | 15        | 13        |
| Canara Bank                | 10        | 21        | 27        | 23        | 23        | 13        | 12        | 12        | 11        |
| Punjab National Bank       | 8         | 12        | 15        | 16        | 12        | 16        | 15        | 14        | 14        |
| State Bank of India        | 12        | 16        | 21        | 19        | 17        | 15        | 13        | 15        | 16        |
| Union Bank                 | 1         | 4.9       | 15        | 23        | 15        | 14        | 10        | 14        | 14        |
| <b>Old private banks</b>   |           |           |           |           |           |           |           |           |           |
| City Union Bank            | 11        | 12        | 16        | 15        | 8         | 4         | 2         | 0         | 6         |
| Federal Bank               | 10        | 17        | 20        | 19        | 20        | 21        | 20        | 18        | 20        |
| Karur Vysya Bank           | 9         | 14        | 15        | 13        | 11        | 12        | 14        | 16        | 16        |
| <b>New private banks</b>   |           |           |           |           |           |           |           |           |           |
| Axis Bank                  | 13        | 14        | 18        | 15        | 19        | 22        | 23        | 22        | 14        |
| Bandhan Bank               | 15        | 22        | 21        | 15        | 11        | 8         | 13        | 20        | 16        |
| DCB Bank                   | 12        | 17        | 17        | 19        | 18        | 19        | 19        | 18        | 19        |
| HDFC Bank                  | 21        | 22        | 23        | 20        | 17        | 16        | 58        | 62        | 55        |
| ICICI Bank                 | 17        | 21        | 23        | 20        | 19        | 18        | 18        | 18        | 16        |
| IndusInd Bank              | 12        | 18        | 18        | 19        | 21        | 22        | 21        | 20        | 18        |
| Yes Bank                   | 8         | 14        | 11        | 10        | 12        | 7         | 9         | 12        | 12        |
| <b>Small finance banks</b> |           |           |           |           |           |           |           |           |           |
| AU Small Finance Bank      | 33        | 43        | 44        | 38        | 27        | 29        | 24        | 20        | 25        |
| Equitas Small Finance Bank | 15        | 22        | 22        | 27        | 33        | 34        | 32        | 25        | 20        |
| Ujjivan Small Finance Bank | 12        | 24        | 28        | 27        | 31        | 34        | 40        | 31        | 24        |
| <b>Total</b>               | <b>12</b> | <b>16</b> | <b>20</b> | <b>19</b> | <b>17</b> | <b>16</b> | <b>22</b> | <b>22</b> | <b>21</b> |
| <b>Total (ex-HDFCB)</b>    | <b>11</b> | <b>15</b> | <b>19</b> | <b>18</b> | <b>17</b> | <b>16</b> | <b>15</b> | <b>16</b> | <b>15</b> |
| <b>Public sector</b>       | <b>9</b>  | <b>14</b> | <b>19</b> | <b>19</b> | <b>17</b> | <b>16</b> | <b>14</b> | <b>14</b> | <b>14</b> |
| <b>Private sector</b>      | <b>17</b> | <b>19</b> | <b>21</b> | <b>18</b> | <b>18</b> | <b>18</b> | <b>33</b> | <b>35</b> | <b>30</b> |

Notes:

(a) 2QFY24 and 3QFY24 numbers of HDFCB is for the merged entity.

Source: Companies, Kotak Institutional Equities

**NIMs were broadly stable in 4QFY24 after a few quarters of decline**

Exhibit 110: Net interest margin for banks in KIE universe, 4QFY22-4QFY24 (%)

|                            | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Public banks</b>        |        |        |        |        |        |        |        |        |        |
| Bank of Baroda             | 3.1    | 3.1    | 3.4    | 3.5    | 3.5    | 3.3    | 3.2    | 3.2    | 3.3    |
| Canara Bank                | 2.8    | 2.6    | 2.8    | 3.1    | 3.0    | 3.0    | 2.9    | 3.0    | 3.0    |
| Punjab National Bank       | 2.7    | 2.7    | 2.9    | 3.1    | 3.1    | 3.0    | 3.1    | 3.1    | 3.1    |
| State Bank of India        | 3.0    | 2.9    | 3.2    | 3.3    | 3.4    | 3.2    | 3.2    | 3.1    | 3.1    |
| Union Bank                 | 2.8    | 3.0    | 3.2    | 3.2    | 3.0    | 3.2    | 3.2    | 3.1    | 3.1    |
| <b>Old private banks</b>   |        |        |        |        |        |        |        |        |        |
| City Union Bank            | 3.5    | 3.5    | 3.7    | 3.5    | 3.2    | 3.3    | 3.4    | 3.2    | 3.3    |
| Federal Bank               | 3.1    | 3.1    | 3.3    | 3.5    | 3.2    | 3.1    | 3.1    | 3.1    | 3.1    |
| Karur Vysya Bank           | 3.5    | 3.5    | 3.8    | 3.9    | 3.9    | 3.8    | 3.7    | 3.9    | 3.8    |
| <b>New private banks</b>   |        |        |        |        |        |        |        |        |        |
| Axis Bank                  | 3.3    | 3.5    | 3.8    | 4.1    | 3.9    | 3.9    | 4.0    | 3.9    | 3.8    |
| Bandhan Bank               | 7.7    | 7.3    | 6.4    | 6.1    | 6.9    | 6.7    | 6.6    | 6.7    | 7.1    |
| DCB Bank                   | 3.7    | 3.5    | 3.6    | 3.7    | 3.8    | 3.5    | 3.4    | 3.2    | 3.3    |
| HDFC Bank                  | 3.9    | 3.9    | 4.1    | 4.3    | 4.2    | 4.1    | 3.9    | 3.5    | 3.5    |
| ICICI Bank                 | 3.9    | 4.0    | 4.3    | 4.7    | 4.8    | 4.8    | 4.6    | 4.5    | 4.4    |
| IndusInd Bank              | 4.0    | 4.1    | 4.1    | 4.1    | 4.1    | 4.2    | 4.3    | 4.4    | 4.3    |
| Yes Bank                   | 3.1    | 3.1    | 3.2    | 3.1    | 3.1    | 2.9    | 2.8    | 2.8    | 2.8    |
| <b>Small finance banks</b> |        |        |        |        |        |        |        |        |        |
| AU Small Finance Bank      | 6.0    | 5.7    | 6.0    | 6.0    | 5.8    | 5.6    | 5.5    | 5.5    | 5.2    |
| Equitas Small Finance Bank | 8.9    | 9.0    | 9.2    | 9.1    | 9.1    | 8.8    | 8.5    | 8.4    | 8.1    |
| Ujjivan Small Finance Bank | 10.2   | 10.5   | 10.8   | 10.1   | 9.6    | 9.6    | 9.3    | 9.1    | 9.0    |

Source: Companies, Kotak Institutional Equities estimates

**CASA ratio was stable on a qoq basis but declined on a yoy basis**

Exhibit 111: Deposit growth and CASA ratio of banks, March fiscal year-ends, 2023-24 (%)

|                            | Deposit growth (%) |        |        |        |        | CASA ratio (%) |        |        |        |        |
|----------------------------|--------------------|--------|--------|--------|--------|----------------|--------|--------|--------|--------|
|                            | 4QFY23             | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY23         | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| <b>Public banks</b>        |                    |        |        |        |        |                |        |        |        |        |
| Bank of Baroda             | 15                 | 16     | 15     | 8      | 10     | 42             | 40     | 40     | 41     | 41     |
| Canara Bank                | 9                  | 7      | 9      | 9      | 11     | 33             | 33     | 32     | 32     | 32     |
| Punjab National Bank       | 12                 | 14     | 10     | 9      | 7      | 43             | 42     | 42     | 42     | 41     |
| State Bank of India        | 9                  | 12     | 12     | 13     | 11     | 44             | 43     | 42     | 41     | 41     |
| Union Bank                 | 8                  | 14     | 9      | 10     | 9      | 35             | 34     | 34     | 34     | 34     |
| <b>Old private banks</b>   |                    |        |        |        |        |                |        |        |        |        |
| City Union Bank            | 10                 | 6      | 6      | 5      | 6      | 30             | 31     | 30     | 29     | 31     |
| Federal Bank               | 17                 | 21     | 23     | 19     | 18     | 33             | 32     | 31     | 31     | 29     |
| Karur Vysya Bank           | 12                 | 13     | 13     | 13     | 16     | 33             | 33     | 32     | 32     | 30     |
| <b>New private banks</b>   |                    |        |        |        |        |                |        |        |        |        |
| Axis Bank                  | 15                 | 17     | 18     | 18     | 13     | 47             | 46     | 44     | 42     | 43     |
| Bandhan Bank               | 12                 | 17     | 13     | 15     | 25     | 39             | 36     | 39     | 36     | 37     |
| DCB Bank                   | 19                 | 23     | 23     | 19     | 20     | 28             | 26     | 25     | 26     | 26     |
| HDFC Bank                  | 21                 | 19     | 30     | 28     | 26     | 44             | 42     | 38     | 38     | 38     |
| ICICI Bank                 | 11                 | 18     | 19     | 19     | 20     | 46             | 43     | 41     | 40     | 42     |
| IndusInd Bank              | 15                 | 15     | 14     | 13     | 14     | 40             | 40     | 39     | 38     | 38     |
| Yes Bank                   | 10                 | 14     | 17     | 13     | 22     | 31             | 29     | 29     | 30     | 31     |
| <b>Small finance banks</b> |                    |        |        |        |        |                |        |        |        |        |
| AU Small Finance Bank      | 32                 | 27     | 30     | 31     | 26     | 38             | 35     | 34     | 33     | 33     |
| Equitas Small Finance Bank | 34                 | 36     | 42     | 38     | 42     | 42             | 39     | 34     | 33     | 32     |
| Ujjivan Small Finance Bank | 40                 | 45     | 43     | 28     | 23     | 26             | 25     | 24     | 25     | 26     |

Source: Companies, Kotak Institutional Equities.

**Costs of deposits were stable in 4QFY24 after several quarters of steady increases**

**Exhibit 112: Cost of funds for banks, March fiscal year-ends (%)**

|                            | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 3QFY24 | 3QFY24 | 4QFY24 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Public banks</b>        |        |        |        |        |        |        |        |        |        |
| Bank of Baroda (calc.)     | 3.4    | 3.5    | 3.8    | 4.2    | 4.5    | 4.7    | 5.1    | 5.1    | 5.1    |
| Canara Bank                | 3.6    | 3.6    | 3.8    | 3.9    | 4.0    | 4.8    | 4.9    | 4.9    | 5.0    |
| PNB (calc.)                | 3.8    | 3.8    | 3.9    | 4.2    | 4.4    | 4.7    | 4.8    | 4.9    | 5.1    |
| SBI (calc.)                | 3.6    | 3.7    | 3.9    | 4.1    | 4.3    | 4.6    | 4.9    | 5.1    | 5.1    |
| Union Bank (calc.)         | 4.0    | 4.0    | 4.2    | 4.4    | 4.8    | 5.0    | 5.3    | 5.4    | 5.5    |
| <b>Old private banks</b>   |        |        |        |        |        |        |        |        |        |
| City Union Bank            | 3.7    | 3.7    | 3.8    | 4.0    | 4.3    | 4.6    | 4.6    | 4.8    | 4.8    |
| Federal Bank (calc.)       | 4.1    | 4.1    | 4.4    | 4.6    | 5.0    | 5.2    | 5.5    | 5.7    | 5.7    |
| Karur Vysya Bank           | 4.1    | 4.1    | 4.1    | 4.3    | 4.6    | 5.0    | 5.2    | 5.3    | 5.4    |
| <b>New private banks</b>   |        |        |        |        |        |        |        |        |        |
| Axis Bank                  | 3.8    | 3.9    | 4.1    | 4.3    | 4.8    | 5.0    | 5.2    | 5.4    | 5.4    |
| Bandhan                    | 5.1    | 5.3    | 5.5    | 5.8    | 5.8    | 6.4    | 6.5    | 6.6    | 6.9    |
| DCB                        | 6.0    | 6.0    | 6.0    | 6.1    | 6.4    | 6.7    | 6.9    | 7.0    | 7.1    |
| HDFC Bank (calc.)          | 3.4    | 3.6    | 3.8    | 4.1    | 4.3    | 4.7    | 6.4    | 5.8    | 5.7    |
| ICICI Bank                 | 3.7    | 3.7    | 3.8    | 4.0    | 4.3    | 4.6    | 4.8    | 5.0    | 5.0    |
| IndusInd Bank              | 4.1    | 4.1    | 4.4    | 4.7    | 4.9    | 5.3    | 5.4    | 5.5    | 5.6    |
| Yes Bank                   | 5.1    | 5.1    | 5.3    | 5.7    | 5.9    | 6.2    | 6.4    | 6.3    | 6.3    |
| <b>Small finance banks</b> |        |        |        |        |        |        |        |        |        |
| AU Small Finance Bank      | 5.7    | 5.7    | 5.8    | 6.0    | 6.3    | 6.6    | 6.7    | 6.9    | 7.0    |
| Equitas Small Finance Bank | 6.5    | 6.5    | 6.7    | 6.6    | 6.6    | 6.8    | 7.3    | 7.6    | 7.3    |
| Ujjivan Small Finance Bank | 6.1    | 5.9    | 6.1    | 6.6    | 6.9    | 7.2    | 7.4    | 7.5    | 7.2    |

Source: Companies, Kotak Institutional Equities

All the major banks under our coverage reported low and stable GNPLs and NNPLs in 4QFY24. NPLs stood at multi-quarter lows aided by solid financial condition of borrowers and high collections for lenders (see Exhibit 113). Gross slippages have been under control for most large banks.

**NPLs and slippages at low levels following the trend of recent quarters**

**Exhibit 113: Trend in gross NPLs, net NPLs and slippages, March fiscal year-ends, 2023-24 (%)**

|                            | Gross NPLs (%) |            |            |            | Net NPLs (%) |            |            |            | Slippages (%) |            |        |        |        |        |        |
|----------------------------|----------------|------------|------------|------------|--------------|------------|------------|------------|---------------|------------|--------|--------|--------|--------|--------|
|                            | 4QFY23         | 1QFY24     | 2QFY24     | 3QFY24     | 4QFY24       | 4QFY23     | 1QFY24     | 2QFY24     | 3QFY24        | 4QFY24     | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| <b>Public banks</b>        |                |            |            |            |              |            |            |            |               |            |        |        |        |        |        |
| Bank of Baroda             | 3.8            | 3.5        | 3.3        | 3.1        | 2.9          | 0.9        | 0.8        | 0.8        | 0.7           | 0.7        | 1.2    | 1.1    | 1.9    | 1.0    | 1.2    |
| Canara Bank                | 5.4            | 5.2        | 4.8        | 4.4        | 4.2          | 1.7        | 1.6        | 1.4        | 1.3           | 1.3        | 1.4    | 1.6    | 1.3    | 1.4    | 1.4    |
| Punjab National Bank       | 8.7            | 7.7        | 7.0        | 6.2        | 5.7          | 2.7        | 2.0        | 1.5        | 1.0           | 0.7        | 2.0    | 1.2    | 0.8    | 0.8    | 1.0    |
| State Bank of India        | 2.8            | 2.8        | 2.6        | 2.4        | 2.2          | 0.7        | 0.7        | 0.6        | 0.6           | 0.6        | 0.5    | 1.0    | 0.5    | 0.6    | 0.5    |
| Union Bank                 | 7.5            | 7.3        | 6.4        | 4.8        | 4.8          | 1.7        | 1.6        | 1.3        | 1.1           | 1.0        | 1.4    | 1.6    | 1.3    | 1.3    | 1.5    |
| <b>Old private banks</b>   |                |            |            |            |              |            |            |            |               |            |        |        |        |        |        |
| City Union Bank            | 4.4            | 4.9        | 4.7        | 4.5        | 4.0          | 2.4        | 2.5        | 2.3        | 2.2           | 2.0        | 3.3    | 3.5    | 2.1    | 1.7    | 2.0    |
| Federal Bank               | 2.4            | 2.4        | 2.3        | 2.3        | 2.1          | 0.7        | 0.7        | 0.6        | 0.6           | 0.6        | 1.0    | 1.1    | 0.8    | 1.0    | 0.7    |
| Karur Vysya Bank           | 2.3            | 2.0        | 1.7        | 1.6        | 1.4          | 0.7        | 0.6        | 0.5        | 0.4           | 0.4        | 1.4    | 0.9    | 0.9    | 1.1    | 1.1    |
| <b>New private banks</b>   |                |            |            |            |              |            |            |            |               |            |        |        |        |        |        |
| Axis Bank                  | 2.0            | 2.0        | 1.7        | 1.6        | 1.4          | 0.4        | 0.4        | 0.4        | 0.4           | 0.3        | 1.8    | 1.9    | 1.5    | 1.6    | 1.4    |
| Bandhan Bank               | 4.9            | 6.8        | 7.3        | 7.0        | 3.8          | 1.2        | 2.2        | 2.3        | 2.2           | 1.1        | 4.6    | 7.1    | 5.1    | 5.2    | 3.5    |
| DCB Bank                   | 3.2            | 3.3        | 3.4        | 3.4        | 3.2          | 1.0        | 1.2        | 1.3        | 1.2           | 1.1        | 3.3    | 4.0    | 4.5    | 4.6    | 3.3    |
| HDFC Bank                  | 1.1            | 1.2        | 1.3        | 1.3        | 1.2          | 0.3        | 0.3        | 0.4        | 0.3           | 0.3        | 1.3    | 1.4    | 5.0    | 1.2    | 1.2    |
| ICICI Bank                 | 2.8            | 2.8        | 2.5        | 2.3        | 2.2          | 0.5        | 0.5        | 0.4        | 0.4           | 0.4        | 1.8    | 2.1    | 1.8    | 2.1    | 1.8    |
| IndusInd Bank              | 2.0            | 1.9        | 1.9        | 1.9        | 1.9          | 0.6        | 0.6        | 0.6        | 0.6           | 0.6        | 2.4    | 1.9    | 1.9    | 2.2    | 1.7    |
| Yes Bank                   | 2.2            | 2.0        | 2.0        | 2.0        | 1.7          | 0.8        | 1.0        | 0.9        | 0.9           | 0.6        | 2.5    | 2.8    | 2.4    | 2.4    | 2.5    |
| <b>Small finance banks</b> |                |            |            |            |              |            |            |            |               |            |        |        |        |        |        |
| AU Small Finance Bank      | 1.7            | 1.8        | 1.9        | 2.0        | 1.7          | 0.4        | 0.6        | 0.6        | 0.7           | 0.6        | 1.4    | 2.2    | 2.2    | 2.5    | 1.8    |
| Equitas Small Finance Bank | 2.8            | 2.8        | 2.3        | 2.5        | 2.6          | 1.2        | 1.2        | 1.0        | 1.1           | 1.2        | 3.1    | 3.1    | 3.5    | 4.0    | 4.3    |
| Ujjivan Small Finance Bank | 2.9            | 2.6        | 2.4        | 2.2        | 2.2          | 0.0        | 0.1        | 0.1        | 0.2           | 0.3        | 0.3    | 1.7    | 1.8    | 2.0    | 1.9    |
| <b>Total</b>               | <b>3.2</b>     | <b>3.1</b> | <b>2.8</b> | <b>3.0</b> | <b>2.5</b>   | <b>0.9</b> | <b>0.9</b> | <b>0.7</b> | <b>0.7</b>    | <b>0.6</b> |        |        |        |        |        |
| <b>Public banks</b>        | <b>5.1</b>     | <b>4.6</b> | <b>4.4</b> | <b>4.0</b> | <b>3.6</b>   | <b>1.2</b> | <b>1.1</b> | <b>0.9</b> | <b>0.8</b>    | <b>0.7</b> |        |        |        |        |        |
| <b>Private banks</b>       | <b>2.3</b>     | <b>2.0</b> | <b>2.0</b> | <b>1.9</b> | <b>1.8</b>   | <b>0.5</b> | <b>0.5</b> | <b>0.5</b> | <b>0.5</b>    | <b>0.4</b> |        |        |        |        |        |

Source: Companies, Kotak Institutional Equities

Banks reported modest growth in PPOP on a yoy basis except for SBI, which reported a 17% yoy growth in PPOP. Provisions remained under control resulting in low provisions-to-PPOP ratio in 4QFY24



although HDFCB reported a 220% qoq increase in provisions (additional provisions in the form of floating provisions of Rs109 bn, taking the outstanding floating provision to Rs124 bn). BANDHAN was an exception, as the bank took a large write-off related to the CGFMU book. Exhibit 114 shows the provisions, pre-provision operating profits (PPOP) and the ratio of the two for the past five quarters for banks under our coverage.

**PPOP saw decent growth on a yoy basis and provisions were broadly under control**

**Exhibit 114: Provisions and pre-provision operating profits (PPOP) for banks in KIE coverage universe, 4QFY23-4QFY24**

|                            | Pre-provision operating profits (Rs bn) |        |        |        |        | Provisions (Rs bn) |        |        |        |        | Provisions/PPOP (%) |        |        |        |        |
|----------------------------|---|--------|--------|--------|--------|--------------------|--------|--------|--------|--------|---------------------|--------|--------|--------|--------|
|                            | 4QFY23                                  | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY23             | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY23              | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| <b>Public banks</b>        |   |        |        |        |        |                    |        |        |        |        |                     |        |        |        |        |
| Bank of Baroda             | 81                                      | 78     | 80     | 70     | 81     | 14                 | 19     | 22     | 7      | 13     | 18                  | 25     | 27     | 9      | 16     |
| Canara Bank                | 73                                      | 76     | 76     | 68     | 74     | 31                 | 27     | 26     | 19     | 25     | 43                  | 36     | 34     | 28     | 34     |
| Punjab National Bank       | 59                                      | 60     | 62     | 63     | 64     | 38                 | 40     | 34     | 27     | 16     | 65                  | 66     | 55     | 43     | 25     |
| State Bank of India        | 246                                     | 253    | 194    | 132    | 287    | 33                 | 25     | 1      | 7      | 16     | 13                  | 10     | 1      | 5      | 6      |
| Union Bank                 | 68                                      | 72     | 72     | 73     | 65     | 29                 | 20     | 18     | 17     | 13     | 43                  | 28     | 24     | 24     | 19     |
| <b>Old private banks</b>   |   |        |        |        |        |                    |        |        |        |        |                     |        |        |        |        |
| City Union Bank            | 4                                       | 4      | 4      | 4      | 4      | 2                  | 2      | 1      | 0      | 1      | 38                  | 37     | 14     | 13     | 14     |
| Federal Bank               | 13                                      | 13     | 13     | 14     | 11     | 1                  | 2      | 0      | 1      | (1)    | 9                   | 12     | 3      | 6      | (9)    |
| Karur Vysya Bank           | 7                                       | 6      | 6      | 7      | 9      | 3                  | 2      | 1      | 1      | 3      | 40                  | 25     | 20     | 22     | 34     |
| <b>New private banks</b>   |   |        |        |        |        |                    |        |        |        |        |                     |        |        |        |        |
| Axis Bank                  | 89                                      | 88     | 86     | 91     | 105    | 5                  | 10     | 8      | 10     | 12     | 6                   | 12     | 9      | 11     | 11     |
| Bandhan Bank               | 18                                      | 16     | 16     | 17     | 18     | 7                  | 6      | 6      | 7      | 18     | 41                  | 39     | 40     | 41     | 97     |
| DCB Bank                   | 2                                       | 2      | 2      | 2      | 2      | 1                  | 0      | 0      | 0      | 0      | 22                  | 18     | 19     | 19     | 10     |
| HDFC Bank                  | 186                                     | 188    | 227    | 236    | 293    | 27                 | 29     | 29     | 42     | 135    | 14                  | 15     | 13     | 18     | 46     |
| ICICI Bank                 | 138                                     | 141    | 142    | 147    | 150    | 16                 | 13     | 6      | 10     | 7      | 12                  | 9      | 4      | 7      | 5      |
| IndusInd Bank              | 38                                      | 38     | 39     | 40     | 40     | 10                 | 10     | 10     | 9      | 9      | 27                  | 26     | 25     | 23     | 22     |
| <b>Small finance banks</b> |   |        |        |        |        |                    |        |        |        |        |                     |        |        |        |        |
| AU Small Finance Bank      | 6                                       | 5      | 6      | 7      | 6      | 0                  | 0      | 1      | 2      | 1      | 7                   | 6      | 18     | 24     | 23     |
| Equitas Small Finance Bank | 4                                       | 3      | 3      | 4      | 4      | 1                  | 1      | 1      | 1      | 1      | 33                  | 19     | 19     | 23     | 28     |
| Ujjivan Small Finance Bank | 4                                       | 5      | 5      | 5      | 4      | (0)                | 0      | 0      | 1      | 1      | (0)                 | 6      | 10     | 14     | 19     |

Source: Companies, Kotak Institutional Equities

Most NBFCs under our coverage reported decent results in 4QFY24, with companies reporting strong credit growth but a decline in NIMs on a yoy basis. A sharp increase in borrowing cost resulted in contraction of margins for most NBFCs on a yoy basis. However, both cost of borrowing and NIMs were fairly stable on a qoq basis. Companies continued with the strong lending momentum in a benign lending and credit environment. Of note, (1) BAF reported 35% yoy AUM growth driving 29% yoy NII growth, (2) CIBC reported 40% yoy AUM growth, driving 36% yoy NII growth and (3) MMFS reported 25% yoy loan growth but 9% yoy NII growth. Exhibit 115 shows the yields, cost of borrowing, spread and NIMs for the NBFC stocks under our coverage.

**NBFCs continue to face pressure on NIMs**

**Exhibit 115: Yields, costs of borrowings, spread and NIMs for the NBFC stocks under our coverage, 4QFY22-4QFY24 (%)**

|                             | Yields |        |        |        |        |        |        |        |        |        | Cost of borrowing |        |        |        |        |        |        |        |  |  |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--|--|
|                             | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY22 | 1QFY23            | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |  |  |
| Aavas Financiers            | 13.8   | 13.4   | 13.3   | 13.8   | 13.9   | 14.2   | 14.2   | 13.8   | 13.5   | 6.5    | 6.6               | 6.7    | 6.8    | 6.9    | 7.3    | 7.5    | 7.7    | 7.4    |  |  |
| Aptus Value Housing Finance | 17.4   | 17.4   | 18.0   | 18.1   | 17.8   | 17.1   | 17.6   | 17.3   | 17.1   | 8.1    | 7.7               | 8.0    | 8.3    | 8.3    | 8.5    | 9.1    | 8.8    | 8.8    |  |  |
| Bajaj Finance               | 15.6   | 15.8   | 16.1   | 16.5   | 16.5   | 16.7   | 16.8   | 16.7   | 16.5   | 6.4    | 6.3               | 6.7    | 7.0    | 6.9    | 7.3    | 7.4    | 7.5    | 7.5    |  |  |
| Cholamandalam               | 13.6   | 13.6   | 13.6   | 14.0   | 14.1   | 14.1   | 14.3   | 14.4   | 14.3   | 6.3    | 6.3               | 7.0    | 7.3    | 7.4    | 7.8    | 7.8    | 8.0    | 8.0    |  |  |
| Home First Finance          | 13.3   | 13.5   | 13.8   | 13.9   | 14.3   | 14.7   | 14.6   | 14.4   | 14.3   | 6.6    | 6.7               | 7.2    | 7.2    | 7.8    | 8.2    | 8.1    | 8.1    | 8.4    |  |  |
| L&T Finance Holdings        | 13.0   | 12.9   | 13.5   | 14.3   | 14.8   | 15.1   | 15.5   | 15.5   | 15.5   | 6.6    | 6.8               | 6.9    | 7.0    | 6.8    | 6.9    | 7.0    | 7.1    | 7.0    |  |  |
| LIC Housing Finance         | 8.4    | 8.3    | 7.8    | 8.8    | 9.4    | 9.7    | 9.7    | 9.7    | 9.7    | 6.5    | 6.5               | 6.8    | 7.2    | 7.2    | 7.4    | 7.6    | 7.6    | 7.5    |  |  |
| Mahindra Finance            | 14.8   | 14.7   | 14.2   | 14.8   | 14.7   | 14.3   | 14.0   | 14.1   | 14.2   | 6.6    | 6.5               | 6.7    | 7.2    | 7.3    | 7.5    | 7.6    | 7.8    | 7.7    |  |  |
| Muthoot Finance             | 20.7   | 20.7   | 18.7   | 17.3   | 17.4   | 18.2   | 18.5   | 18.1   | 17.7   | 8.1    | 7.9               | 7.6    | 7.9    | 7.8    | 8.0    | 8.0    | 8.4    | 8.7    |  |  |
| Shriram Finance             | 16.6   | 16.5   | 16.9   | 16.5   | 16.4   | 16.2   | 16.6   | 16.5   | 16.5   | 8.6    | 7.9               | 8.3    | 8.0    | 8.3    | 8.7    | 8.9    | 8.7    | 8.8    |  |  |

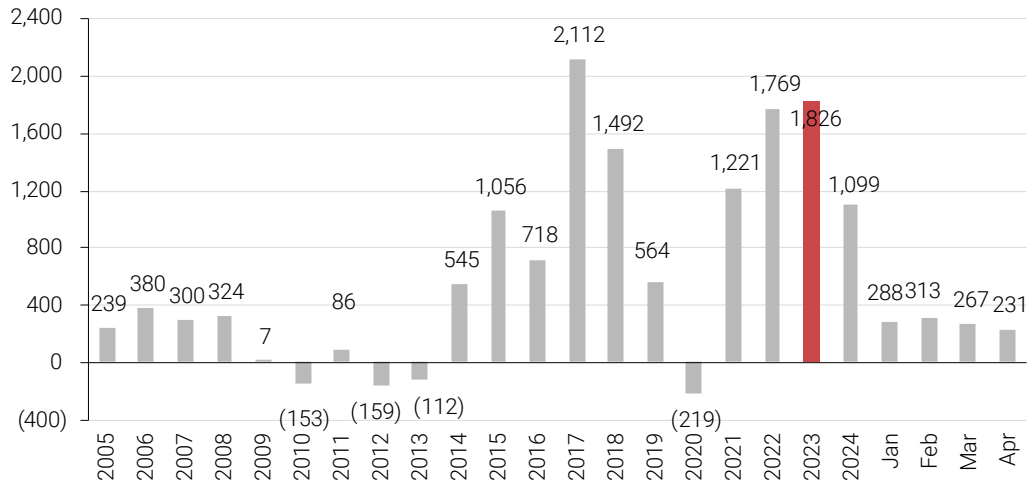
|                             | Spreads |        |        |        |        |        |        |        |        |        | NIM    |        |        |        |        |        |        |        |  |  |
|-----------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
|                             | 4QFY22  | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |  |  |
| Aavas Financiers            | 7.3     | 6.8    | 6.6    | 7.0    | 7.0    | 6.9    | 6.7    | 6.1    | 6.1    | 8.2    | 7.7    | 7.6    | 8.0    | 8.0    | 7.8    | 7.4    | 7.0    | 7.0    |  |  |
| Aptus Value Housing Finance | 9.3     | 9.8    | 10.0   | 9.8    | 9.5    | 8.6    | 8.5    | 8.4    | 8.3    | 13.5   | 13.4   | 13.3   | 13.1   | 13.1   | 12.2   | 12.4   | 12.2   | 12.0   |  |  |
| Bajaj Finance               | 9.1     | 9.5    | 9.4    | 9.5    | 9.6    | 9.4    | 9.3    | 9.1    | 9.0    | 10.1   | 10.5   | 10.5   | 10.5   | 10.5   | 10.4   | 10.3   | 10.2   | 10.0   |  |  |
| Cholamandalam               | 7.2     | 7.2    | 6.6    | 6.6    | 6.6    | 6.3    | 6.5    | 6.4    | 6.2    | 7.6    | 7.7    | 7.2    | 7.1    | 7.1    | 6.8    | 6.8    | 6.8    | 6.8    |  |  |
| Home First Finance          | 6.7     | 6.8    | 6.6    | 6.7    | 6.5    | 6.5    | 6.5    | 6.3    | 5.9    | 8.2    | 8.3    | 8.1    | 8.1    | 8.0    | 8.0    | 7.8    | 7.4    | 7.0    |  |  |
| L&T Finance Holdings        | NA      | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 6.6    | 6.5    | 7.0    | 7.6    | 7.9    | 8.2    | 8.8    | 9.1    | 9.1    |  |  |
| LIC Housing Finance         | 1.9     | 1.8    | 1.0    | 1.6    | 2.2    | 2.3    | 2.1    | 2.1    | 2.2    | 2.6    | 2.5    | 1.8    | 2.4    | 2.9    | 3.2    | 3.0    | 3.0    | 3.2    |  |  |
| Mahindra Finance            | 8.2     | 8.2    | 7.5    | 7.6    | 7.4    | 6.8    | 6.4    | 6.4    | 6.5    | 9.0    | 9.1    | 8.2    | 8.2    | 8.0    | 7.5    | 7.0    | 7.1    | 7.3    |  |  |
| Muthoot Finance             | 12.6    | 12.7   | 11.1   | 9.4    | 9.5    | 10.2   | 10.5   | 9.7    | 9.0    | 13.5   | 13.7   | 12.2   | 10.7   | 11.0   | 11.9   | 12.3   | 11.6   | 10.9   |  |  |
| Shriram Finance             | 8.0     | 8.6    | 8.6    | 8.6    | 8.0    | 7.5    | 7.8    | 7.9    | 7.8    | 8.9    | 9.3    | 9.2    | 9.5    | 9.4    | 9.0    | 9.5    | 9.6    | 9.4    |  |  |

Source: Companies, Kotak Institutional Equities

Most AMCs under coverage reported strong revenue growth, driven by (1) continued robust inflows into equity mutual funds (see Exhibit 116) and (2) steady profitability. We note that most AMCs maintained their market share on a sequential basis (see Exhibit 117). The larger AMCs and RTA companies in our coverage universe reported strong growth in revenues and profits, partly aided by a weak base in a few cases (see Exhibit 118).

**Equity inflows into domestic mutual funds continue to be robust**

**Exhibit 116: Net MF flows (Equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**Most AMCs have maintained their market share in FY2024**

**Exhibit 117: Actively-managed equity oriented market share (MAAUM basis), March fiscal year-ends, 2017-24 (%)**

|                               | 2017        | 2018        | 2019        | 2020        | 2021        | 2022        | 2023        | 2024        |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Aditya Birla Sun Life         | 8.7         | 9.2         | 8.8         | 7.7         | 7.2         | 6.4         | 5.5         | 4.8         |
| Axis AMC                      | 3.3         | 3.6         | 4.6         | 6.8         | 8.0         | 8.4         | 7.1         | 5.6         |
| Bandhan AMC                   | 2.2         | 2.1         | 2.2         | 2.6         | 2.0         | 1.6         | 1.5         | 1.6         |
| DSP Mutual Fund               | 4.4         | 4.4         | 3.9         | 3.9         | 4.1         | 3.8         | 3.4         | 3.1         |
| Franklin Templeton            | 7.5         | 5.6         | 5.2         | 4.3         | 3.7         | 2.8         | 2.6         | 2.5         |
| HDFC AMC                      | 15.8        | 16.2        | 15.6        | 14.4        | 13.0        | 11.4        | 12.2        | 12.9        |
| ICICI Prudential AMC          | 15.2        | 15.0        | 14.3        | 13.5        | 12.5        | 12.4        | 13.0        | 13.2        |
| Kotak AMC                     | 3.7         | 4.7         | 5.1         | 6.4         | 6.7         | 7.0         | 7.0         | 7.2         |
| Mirae AMC                     | 1.2         | 1.5         | 2.2         | 3.5         | 4.7         | 4.9         | 4.9         | 4.4         |
| Nippon Life India AMC         | 9.7         | 9.2         | 8.9         | 7.4         | 6.9         | 6.3         | 6.4         | 6.8         |
| SBI AMC                       | 8.0         | 7.9         | 8.9         | 9.7         | 10.2        | 12.0        | 12.6        | 12.8        |
| Tata AMC                      | 2.1         | 1.7         | 2.3         | 2.3         | 2.5         | 2.9         | 2.8         | 2.8         |
| UTI AMC                       | 6.3         | 4.8         | 4.7         | 4.4         | 4.8         | 4.8         | 4.5         | 3.9         |
| <b>Total of above players</b> | <b>88.2</b> | <b>86.1</b> | <b>86.5</b> | <b>86.9</b> | <b>86.3</b> | <b>84.7</b> | <b>83.5</b> | <b>81.6</b> |
| <b>Top-10 players</b>         | <b>82.7</b> | <b>80.7</b> | <b>79.9</b> | <b>78.5</b> | <b>78.0</b> | <b>77.4</b> | <b>76.6</b> | <b>74.7</b> |

Source: AMFI, Kotak Institutional Equities

**Strong revenue growth on a yoy basis, aided by weak base**

Exhibit 118: Yoy growth in revenues and core PBT, 4QFY22-4QFY24 (%)

|                        | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue growth</b>  |        |        |        |        |        |        |        |        |        |
| ABSL AMC               | 3      | 0      | (6)    | (6)    | (8)    | 2      | 8      | 9      | 23     |
| CAMS                   | 22     | 18     | 6      | 2      | 2      | 10     | 13     | 19     | 25     |
| HDFC AMC               | 3      | 3      | 0      | 2      | 5      | 10     | 18     | 20     | 29     |
| IIFL Wealth            | 59     | 32     | 22     | 10     | (7)    | 8      | 12     | 6      | 46     |
| KFIN                   |        |        |        | 12     | 1      | 8      | 16     | 16     | 25     |
| Nippon AMC             | 12     | 5      | 1      | 5      | 3      | 12     | 20     | 20     | 34     |
| UTI AMC                | 25     | 10     | 4      | 1      | (9)    | (2)    | 0      | 2      | 18     |
| <b>Core PBT growth</b> |        |        |        |        |        |        |        |        |        |
| ABSL AMC               | 4      | (3)    | (11)   | (15)   | (25)   | (5)    | 0      | 6      | 30     |
| CAMS                   | 23     | 2      | (3)    | (8)    | (4)    | 11     | 15     | 20     | 36     |
| HDFC AMC               | 1      | 0      | (3)    | (2)    | 3      | 10     | 17     | 21     | 30     |
| IIFL Wealth            | 61     | 53     | 38     | 45     | 12     | (5)    | 7      | (11)   | 27     |
| Kfin                   |        |        |        | 79     | 12     | 16     | 28     | 25     | 31     |
| Nippon AMC             | 27     | 6      | 2      | 1      | 3      | 12     | 20     | 18     | 37     |
| UTI AMC                | 5      | 19     | (7)    | (10)   | (24)   | (18)   | (7)    | (8)    | 47     |

Source: Companies, Kotak Institutional Equities

- **Moderation in both order inflows and revenues for capital goods companies but steep increase in margins.** 4QFY24 domestic revenues of capital goods companies showed moderate yoy growth (see Exhibit 119), with only ABB and the defense companies reporting strong revenue growth. Also, order inflows were pulled by strong order inflows at BHEL while a few companies reported a sharp decline in order inflows (see Exhibit 120). We assume domestic ordering was affected by pre-election slowdown in ordering activity across industries with the exception of the thermal electricity generation sector.

**Domestic revenues of capital goods companies showed modest growth in 4QFY24 again**

Exhibit 119: Domestic revenues of industrial companies under KIE coverage, 4QFY22-4QFY24

|                 | Domestic revenues (Rs bn) |            |            |            |            |            |            |            |            | Yoy growth (%) |           |          |            |          |
|-----------------|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|----------------|-----------|----------|------------|----------|
|                 | 4QFY22                    | 1QFY23     | 2QFY23     | 3QFY23     | 4QFY23     | 1QFY24     | 2QFY24     | 3QFY24     | 4QFY24     | 4QFY23         | 1QFY24    | 2QFY24   | 3QFY24     | 4QFY24   |
| ABB             | 17                        | 18         | 19         | 21         | 21         | 22         | 25         | 25         | 28         | 24             | 22        | 34       | 17         | 31       |
| BEL             | 62                        | 31         | 39         | 40         | 63         | 35         | 39         | 47         | 86         | 2              | 13        | 2        | 17         | 35       |
| BHEL            | 71                        | 41         | 46         | 46         | 74         | 45         | 46         | 48         | 74         | 4              | 8         | 0        | 4          | 0        |
| Cochin Shipyard | 12                        | 4          | 6          | 6          | 5          | 4          | 9          | 10         | 12         | (52)           | 1         | 40       | 62         | 112      |
| Cummins         | 11                        | 12         | 14         | 16         | 14         | 17         | 14         | 22         | 20         | 30             | 43        | (2)      | 35         | 41       |
| Larsen & Toubro | 354                       | 226        | 274        | 292        | 362        | 287        | 291        | 251        | 369        | 2              | 27        | 6        | (14)       | 2        |
| Siemens         | 34                        | 36         | 42         | 34         | 41         | 40         | 42         | 39         | 47         | 23             | 12        | —        | 12         | 13       |
| Thermax         | 16                        | 12         | 16         | 16         | 19         | 19         | 17         | 19         | 22         | 22             | 61        | 9        | 18         | 11       |
| <b>Total</b>    | <b>576</b>                | <b>380</b> | <b>455</b> | <b>473</b> | <b>600</b> | <b>470</b> | <b>483</b> | <b>460</b> | <b>655</b> | <b>4</b>       | <b>23</b> | <b>6</b> | <b>(3)</b> | <b>9</b> |

Source: Companies, Kotak Institutional Equities

**Order inflows of capital goods companies were a mixed bag in 4QFY24**

**Exhibit 120: Order inflows of key industrials and construction companies, 4QFY22-4QFY24**

|                 | Order inflows (Rs bn) |            |            |            |            |            |            |            |              |           | Yoy growth (%) |            |             |           |        |
|-----------------|-----------------------|------------|------------|------------|------------|------------|------------|------------|--------------|-----------|----------------|------------|-------------|-----------|--------|
|                 | 4QFY22                | 1QFY23     | 2QFY23     | 3QFY23     | 4QFY23     | 1QFY24     | 2QFY24     | 3QFY24     | 4QFY24       | 4QFY24    | 4QFY23         | 1QFY24     | 2QFY24      | 3QFY24    | 4QFY24 |
| ABB             | 23                    | 28         | 26         | 23         | 31         | 30         | 30         | 30         | 36           | 36        | 36             | 10         | 16          | 29        | 15     |
| BEL             | 73                    | 9          | 14         | 15         | 170        | 82         | 74         | 110        | 83           | 132       | 836            | 424        | 660         | (51)      |        |
| BHEL            | 43                    | 25         | 145        | 8          | 57         | 156        | 178        | 26         | 419          | 33        | 524            | 23         | 221         | 634       |        |
| Larsen & Toubro | 417                   | 240        | 346        | 454        | 401        | 379        | 233        | 250        | 469          | (4)       | 58             | (33)       | (45)        | 17        |        |
| Siemens         | 53                    | 50         | 50         | 54         | 58         | 53         | 50         | 60         | 52           | 8         | 6              | -          | 10          | (10)      |        |
| Thermax         | 34                    | 23         | 20         | 22         | 23         | 26         | 15         | 20         | 23           | (34)      | 11             | (27)       | (8)         | 2         |        |
| Voltas          | 5                     | 9          | 6          | 22         | 14         | 7          | 11         | 5          | 9            | 202       | (21)           | 89         | (77)        | (31)      |        |
| <b>Total</b>    | <b>648</b>            | <b>384</b> | <b>607</b> | <b>598</b> | <b>753</b> | <b>733</b> | <b>591</b> | <b>501</b> | <b>1,090</b> | <b>16</b> | <b>91</b>      | <b>(3)</b> | <b>(16)</b> | <b>45</b> |        |

Notes:

(a) We use domestic order inflows for L&T; for others, we use total order inflows.

Source: Companies, Kotak Institutional Equities

However, several capital goods companies reported very strong net profits due to a sharp expansion in their gross and EBITDA margins. The sharp yoy expansion may reflect (1) operating leverage given sharp increase in revenues in a few cases (ABB), (2) decline in RM prices and (3) higher share of higher-margin services business (ABB, SIEM). Exhibit 121 shows gross and EBITDA margins for the capital goods companies in our coverage.

**Capital goods companies have seen sharp improvement in margins in recent quarters**

**Exhibit 121: Gross and EBITDA margin of capital goods companies under our coverage, 4QFY22-4QFY24 (%)**

|                       | Gross margin (%) |        |        |        |        |        |        |        |        |        | EBITDA margin (%) |        |        |        |        |        |        |        |        |  |
|-----------------------|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--|
|                       | 4QFY22           | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY24 | 4QFY22            | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |  |
| ABB                   | 34.0             | 36.2   | 34.8   | 36.1   | 36.3   | 36.5   | 36.7   | 37.5   | 40.2   | 9.5    | 9.7               | 10.0   | 15.0   | 11.8   | 13.9   | 15.8   | 15.1   | 18.3   |        |  |
| Bharat Electronics    | 41.8             | 41.9   | 43.3   | 41.5   | 48.2   | 43.7   | 49.0   | 48.8   | 48.5   | 24.8   | 16.5              | 21.7   | 20.7   | 28.3   | 19.0   | 25.3   | 25.8   | 26.7   |        |  |
| BHEL                  | 26.4             | 30.1   | 29.1   | 30.1   | 31.1   | 29.1   | 27.6   | 26.8   | 33.2   | 14.3   | (3.6)             | (4.7)  | 2.7    | 12.0   | (7.3)  | (7.6)  | (1.1)  | 8.8    |        |  |
| Carborundum Universal | 65.9             | 63.5   | 64.5   | 62.9   | 61.9   | 61.1   | 64.7   | 64.1   | 64.5   | 12.8   | 11.2              | 14.5   | 14.4   | 15.9   | 14.1   | 14.6   | 16.7   | 17.4   |        |  |
| CG Power & Industrial | 27.8             | 28.6   | 31.4   | 31.6   | 30.2   | 30.2   | 31.6   | 30.9   | 31.3   | 11.2   | 11.5              | 15.1   | 15.5   | 14.5   | 14.2   | 15.4   | 13.2   | 13.0   |        |  |
| Cochin Shipyard       | 37.0             | 35.4   | 39.4   | 47.6   | 12.5   | 49.8   | 36.0   | 45.4   | 40.9   | 24.7   | 7.7               | 20.4   | 24.4   | (11.5) | 18.5   | 20.4   | 30.5   | 17.9   |        |  |
| Cummins India         | 32.0             | 31.1   | 31.8   | 33.8   | 32.7   | 32.5   | 36.7   | 37.0   | 35.5   | 13.8   | 12.7              | 14.9   | 18.9   | 16.9   | 15.4   | 17.8   | 21.2   | 18.4   |        |  |
| G R Infraprojects     | 25.9             | 28.2   | 26.2   | 25.0   | 24.1   | 24.1   | 24.3   | 24.4   | 27.2   | 17.8   | 19.6              | 14.6   | 14.6   | 14.5   | 14.6   | 12.3   | 12.6   | 17.7   |        |  |
| IRB Infrastructure    | 56.1             | 63.7   | 63.3   | 60.5   | 56.3   | 57.5   | 58.3   | 54.4   | 52.5   | 44.8   | 55.1              | 49.5   | 49.2   | 46.8   | 47.6   | 45.5   | 44.2   | 43.2   |        |  |
| Kalpataru Projects    | 22.0             | 25.1   | 22.9   | 25.6   | 20.2   | 22.9   | 21.2   | 21.8   | 23.5   | 8.5    | 8.4               | 8.4    | 9.3    | 7.1    | 8.7    | 8.0    | 8.3    | 7.8    |        |  |
| KEC International     | 20.7             | 25.8   | 21.7   | 19.6   | 19.3   | 24.7   | 23.2   | 20.7   | 19.5   | 5.9    | 5.1               | 4.4    | 4.6    | 5.1    | 5.8    | 6.1    | 6.1    | 6.3    |        |  |
| L&T                   | 34.2             | 45.6   | 40.9   | 40.1   | 34.9   | 38.8   | 39.1   | 36.1   | 33.5   | 12.3   | 11.0              | 11.5   | 10.9   | 11.7   | 10.2   | 11.0   | 10.4   | 10.8   |        |  |
| Siemens               | 32.3             | 32.2   | 32.9   | 33.5   | 31.5   | 32.6   | 29.4   | 32.1   | 32.5   | 12.3   | 9.7               | 11.1   | 14.9   | 12.8   | 11.6   | 12.1   | 12.4   | 15.3   |        |  |
| Thermax               | 37.8             | 41.3   | 40.6   | 44.1   | 44.8   | 44.3   | 44.4   | 44.6   | 43.1   | 6.8    | 5.8               | 6.8    | 7.9    | 8.7    | 6.8    | 8.9    | 8.1    | 9.9    |        |  |

Source: Companies, Kotak Institutional Equities

► **Tepid volume growth for consumer companies, while margins continue to improve.** Consumer companies saw weak volume growth in 4QFY24, continuing the trend of weak growth of the past several quarters. Consumer staples companies continued to witness weak demand while demand was decent in a few discretionary categories in 4QFY24. Automobile volumes saw strong growth in 2Ws and 4Ws, while CVs were weak. Meanwhile, margins remained elevated suggesting that companies are comfortable with sacrificing volumes for higher margins. The weak volume growth of the listed consumer companies may also partly reflect market share loss to regional players who have been quick to pass on the benefits of lower RM prices to consumers.

- **Automobiles and automobile components.** Automobile volumes witnessed mixed trends. 2Ws and 4Ws reported strong double-digit yoy volume growth but CV saw a decline in volumes. Exhibit 122 shows the quarterly volumes of various automobile segments. We note that most 2W categories saw strong yoy growth, with the mass-market categories growing faster than the premium segment (see Exhibit 123). Meanwhile, the SUV category saw strong growth (29% yoy), led by strong growth in the micro-SUV segment, even as hatchback and sedan volumes continued to shrink (see Exhibit 124).

**Strong recovery in 2W and 4W volumes on a yoy basis but CVs continue to lag**

**Exhibit 122: Domestic volumes of select companies in auto sector, 4QFY20-4QFY24**

|                                       | 4QFY20    | 4QFY21    | 4QFY22    | 1QFY23    | 2QFY23    | 3QFY23    | 4QFY23    | 1QFY24    | 2QFY24    | 3QFY24    | 4QFY24    |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Domestic sales volumes (units)</b> |           |           |           |           |           |           |           |           |           |           |           |
| Ashok Leyland                         | 23,196    | 40,896    | 44,545    | 37,124    | 42,515    | 44,626    | 56,999    | 38,835    | 47,047    | 44,167    | 52,735    |
| <b>Bajaj Auto</b>                     |           |           |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | 403,084   | 487,731   | 339,100   | 314,418   | 621,134   | 455,341   | 414,993   | 542,931   | 505,320   | 655,453   | 547,007   |
| Three wheelers                        | 75,088    | 46,373    | 49,995    | 38,317    | 73,052    | 88,891    | 99,749    | 98,482    | 131,920   | 122,662   | 110,349   |
| <b>Eicher Motors</b>                  |           |           |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | 155,110   | 189,659   | 160,338   | 157,633   | 183,067   | 202,109   | 192,031   | 207,171   | 209,717   | 213,385   | 204,522   |
| Commercial vehicles                   | 10,155    | 13,330    | 17,557    | 15,383    | 15,882    | 16,709    | 24,630    | 17,855    | 18,256    | 19,253    | 23,972    |
| Hero Motocorp                         | 1,284,950 | 1,496,478 | 1,105,886 | 1,328,166 | 1,389,114 | 1,204,243 | 1,234,270 | 1,317,250 | 1,363,940 | 1,413,894 | 1,325,286 |
| Maruti Suzuki                         | 349,786   | 429,966   | 396,733   | 369,154   | 425,396   | 384,742   | 427,578   | 414,055   | 459,052   | 406,983   | 479,791   |
| M&M (passenger vehicles)              | 34,208    | 52,725    | 75,230    | 76,310    | 92,413    | 91,135    | 99,395    | 100,172   | 114,742   | 118,863   | 126,100   |
| <b>Tata Motors</b>                    |           |           |           |           |           |           |           |           |           |           |           |
| Commercial vehicles                   | 61,401    | 98,114    | 109,189   | 93,888    | 92,245    | 90,699    | 110,526   | 79,535    | 96,003    | 89,387    | 101,309   |
| Passenger vehicles                    | 32,940    | 160,471   | 123,889   | 131,940   | 143,845   | 132,302   | 136,304   | 143,082   | 141,045   | 140,223   | 158,565   |
| TVS Motors                            | 426,796   | 602,516   | 543,475   | 565,105   | 725,145   | 629,033   | 678,653   | 721,470   | 792,351   | 846,962   | 796,267   |
| <b>Yoy change (%)</b>                 |           |           |           |           |           |           |           |           |           |           |           |
| Ashok Leyland                         | (59)      | 76        | 9         | 124       | 68        | 44        | 28        | 5         | 11        | (1)       | (7)       |
| <b>Bajaj Auto</b>                     |           |           |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | (34)      | 21        | (30)      | (8)       | 27        | (3)       | 22        | 73        | (19)      | 44        | 32        |
| Three wheelers                        | (27)      | (38)      | 8         | 163       | 66        | 71        | 100       | 157       | 81        | 38        | 11        |
| <b>Eicher Motors</b>                  |           |           |           |           |           |           |           |           |           |           |           |
| Two wheelers                          | (18)      | 22        | (15)      | 51        | 73        | 34        | 20        | 31        | 15        | 6         | 7         |
| Commercial vehicles                   | (43)      | 31        | 32        | 287       | 26        | 26        | 40        | 16        | 15        | 15        | (3)       |
| Hero Motocorp                         | (25)      | 16        | (26)      | 41        | 2         | (2)       | 12        | (1)       | (2)       | 17        | 7         |
| Maruti Suzuki                         | (18)      | 23        | (8)       | 26        | 42        | 13        | 8         | 12        | 8         | 6         | 12        |
| M&M (passenger vehicles)              | (56)      | 54        | 43        | 77        | 84        | 59        | 32        | 31        | 24        | 30        | 27        |
| <b>Tata Motors</b>                    |           |           |           |           |           |           |           |           |           |           |           |
| Commercial vehicles                   | (50)      | 60        | 11        | 119       | 19        | 1         | 1         | (15)      | 4         | (1)       | (8)       |
| Passenger vehicles                    | (44)      | 387       | (23)      | 103       | 70        | 33        | 10        | 8         | (2)       | 6         | 16        |
| TVS Motors                            | (40)      | 41        | (10)      | 71        | 21        | 8         | 25        | 28        | 9         | 35        | 17        |

Source: SIAM, Kotak Institutional Equities

**Strong yoy growth in all categories of motorcycles**

**Exhibit 123: Motorcycle volumes by categories in India, March fiscal year-ends, 2022-24 (#)**

|                               | 4QFY22    | 1QFY23    | 2QFY23    | 3QFY23    | 4QFY23    | 1QFY24    | 2QFY24    | 3QFY24    | 4QFY24    |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Motorcycle volumes mix</b> |           |           |           |           |           |           |           |           |           |
| Industry motorcycles volumes  | 2,188,292 | 2,405,228 | 3,001,488 | 2,532,781 | 2,291,004 | 2,737,348 | 2,913,779 | 3,092,035 | 2,910,075 |
| Yoy growth (%)                | (22)      | 38        | 15        | 4         | 5         | 14        | (3)       | 22        | 27        |
| <b>&lt;125 cc</b>             |           |           |           |           |           |           |           |           |           |
| Motorcycles volumes           | 1,711,573 | 1,967,786 | 2,309,426 | 1,915,462 | 1,729,675 | 2,107,203 | 2,218,242 | 2,348,578 | 2,171,671 |
| Motorcycles mix (%)           | 78.2      | 81.8      | 76.9      | 75.6      | 75.5      | 77.0      | 76.1      | 76.0      | 74.6      |
| Yoy growth (%)                | (20)      | 45        | 6         | (0)       | 1         | 7         | (4)       | 23        | 26        |
| <b>125-250 cc</b>             |           |           |           |           |           |           |           |           |           |
| Motorcycles volumes           | 300,980   | 266,202   | 489,768   | 400,347   | 357,634   | 404,272   | 454,265   | 498,149   | 499,327   |
| Motorcycles mix (%)           | 13.8      | 11.1      | 16.3      | 15.8      | 15.6      | 14.8      | 15.6      | 16.1      | 17.2      |
| Yoy growth (%)                | (36)      | 1         | 57        | 12        | 19        | 52        | (7)       | 24        | 40        |
| <b>&gt;250 cc</b>             |           |           |           |           |           |           |           |           |           |
| Motorcycles volumes           | 175,739   | 171,240   | 202,294   | 216,972   | 203,695   | 225,873   | 241,272   | 245,308   | 239,077   |
| Motorcycles mix (%)           | 8.0       | 7.1       | 6.7       | 8.6       | 8.9       | 8.3       | 8.3       | 7.9       | 8.2       |
| Yoy growth (%)                | (15)      | 49        | 70        | 29        | 16        | 32        | 19        | 13        | 17        |

Source: SIAM, Kotak Institutional Equities

**SUV segment, led by Micro SUVs, drove PV volume growth in 4QFY24**

**Exhibit 124: Segment-wise domestic PV volumes, March fiscal year-ends, 2022-24 (#)**

|  | 4QFY22         | 1QFY23         | 2QFY23           | 3QFY23         | 4QFY23           | 1QFY24         | 2QFY24           | 3QFY24           | 4QFY24           | Growth Yoy (%) |
|--|----------------|----------------|------------------|----------------|------------------|----------------|------------------|------------------|------------------|----------------|
| <b>Segment-wise domestic volumes (units)</b> |                |                |                  |                |                  |                |                  |                  |                  |                |
| Hatchback segment                            | 326,520        | 312,186        | 360,405          | 313,420        | 346,093          | 318,216        | 298,444          | 252,944          | 296,725          | (14)           |
| Sedan  | 110,775        | 99,257         | 100,559          | 106,465        | 101,394          | 95,517         | 98,060           | 91,238           | 97,824           | (4)            |
| Micro SUV (< 4m)                             | 46,769         | 45,473         | 55,612           | 50,891         | 48,813           | 74,400         | 110,469          | 108,292          | 131,036          | 168            |
| Compact SUV (< 4m)                           | 148,048        | 147,826        | 174,448          | 145,263        | 166,744          | 154,736        | 145,956          | 151,413          | 161,904          | (3)            |
| Mid SUV (> 4m)                               | 90,738         | 87,479         | 93,730           | 113,755        | 129,963          | 117,455        | 148,242          | 144,792          | 150,542          | 16             |
| Large SUV                                    | 83,145         | 83,085         | 98,183           | 93,795         | 99,810           | 106,594        | 120,049          | 120,179          | 133,388          | 34             |
| Premium SUV                                  | 6,191          | 6,681          | 9,729            | 6,447          | 11,705           | 10,223         | 9,986            | 8,290            | 10,906           | (7)            |
| SUV segment                                  | 374,891        | 370,544        | 431,702          | 410,151        | 457,035          | 463,408        | 534,702          | 532,966          | 587,776          | 29             |
| MUVs   | 108,215        | 128,264        | 125,907          | 104,367        | 113,099          | 118,400        | 142,434          | 130,389          | 149,856          | 32             |
| <b>Total</b>                                 | <b>920,401</b> | <b>910,251</b> | <b>1,018,573</b> | <b>934,403</b> | <b>1,017,621</b> | <b>995,541</b> | <b>1,073,640</b> | <b>1,007,537</b> | <b>1,132,181</b> | <b>11</b>      |
| <b>segment-wise domestic volumes mix (%)</b> |                |                |                  |                |                  |                |                  |                  |                  |                |
| Hatchback segment                            | 35             | 34             | 35               | 34             | 34               | 32             | 28               | 25               | 26               |                |
| Sedan segment                                | 12             | 11             | 10               | 11             | 10               | 10             | 9                | 9                | 9                |                |
| Micro SUV (< 4m)                             | 5              | 5              | 5                | 5              | 5                | 7              | 10               | 11               | 12               |                |
| Compact SUV (< 4m)                           | 16             | 16             | 17               | 16             | 16               | 16             | 14               | 15               | 14               |                |
| Mid SUV (> 4m)                               | 10             | 10             | 9                | 12             | 13               | 12             | 14               | 14               | 13               |                |
| Large SUV                                    | 9              | 9              | 10               | 10             | 10               | 11             | 11               | 12               | 12               |                |
| Premium SUV                                  | 1              | 1              | 1                | 1              | 1                | 1              | 1                | 1                | 1                |                |
| SUV segment                                  | 41             | 41             | 42               | 44             | 45               | 47             | 50               | 53               | 52               |                |
| MUVs   | 12             | 14             | 12               | 11             | 11               | 12             | 13               | 13               | 13               |                |
| <b>Total</b>                                 | <b>100</b>     | <b>100</b>     | <b>100</b>       | <b>100</b>     | <b>100</b>       | <b>100</b>     | <b>100</b>       | <b>100</b>       | <b>100</b>       |                |

Source: SIAM, Kotak Institutional Equities

Also, most automobile companies witnessed stable margins sequentially in 4QFY24. However, companies saw meaningful improvement in gross margins on a yoy basis, as they have benefitted from product price increases and RM cost declines (starting 2HFY23). The steep increase in gross margins and volumes for 2Ws and 4Ws resulted in very strong yoy improvement in EBITDA margins for most companies (see Exhibit 125).

**Steep yoy increase in EBITDA margins, led by higher product prices and lower raw material costs**

**Exhibit 125: Gross and EBITDA margin of auto companies under our coverage, 4QFY22-4QFY24 (%)**

|                              | Gross margin (%) |        |        |        |        |        |        |        | EBITDA margin (%) |        |        |        |        |        |        |        |        |        |
|------------------------------|------------------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                              | 4QFY22           | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24            | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| Amara Raja Energy & Mobility | 27.9             | 26.6   | 27.5   | 33.4   | 33.5   | 28.9   | 31.6   | 32.1   | 32.6              | 10.1   | 10.0   | 11.2   | 15.0   | 15.4   | 12.8   | 13.8   | 14.2   | 15.4   |
| Apollo Tyres                 | 39.8             | 39.7   | 40.9   | 39.7   | 43.4   | 45.0   | 45.7   | 46.6   | 47.2              | 11.2   | 11.6   | 11.9   | 14.2   | 16.0   | 16.8   | 18.5   | 18.3   | 16.4   |
| Ashok Leyland                | 21.8             | 20.7   | 22.0   | 23.7   | 24.5   | 26.3   | 26.5   | 27.8   | 28.2              | 8.9    | 4.4    | 6.5    | 8.8    | 11.5   | 10.0   | 11.2   | 12.0   | 14.1   |
| Bajaj Auto                   | 28.1             | 27.8   | 26.6   | 29.4   | 30.2   | 28.1   | 29.0   | 28.9   | 29.7              | 17.1   | 16.2   | 17.2   | 19.1   | 19.3   | 19.0   | 19.8   | 20.1   | 20.1   |
| Balkrishna Industries        | 54.7             | 53.4   | 51.2   | 48.6   | 50.0   | 51.7   | 51.9   | 52.0   | 53.3              | 23.7   | 20.0   | 20.1   | 19.1   | 21.4   | 23.0   | 24.4   | 25.3   | 25.9   |
| Bharat Forge                 | 43.3             | 41.3   | 44.4   | 44.1   | 43.5   | 44.3   | 43.3   | 41.9   | 41.4              | 15.5   | 15.0   | 14.0   | 14.0   | 12.1   | 15.4   | 16.5   | 18.0   | 15.4   |
| CEAT                         | 33.5             | 31.7   | 32.5   | 34.5   | 40.1   | 41.1   | 43.3   | 41.3   | 42.3              | 7.2    | 5.9    | 7.0    | 8.7    | 12.8   | 13.2   | 14.9   | 14.1   | 13.1   |
| Eicher Motors                | 43.7             | 44.0   | 42.4   | 41.8   | 44.3   | 44.1   | 46.0   | 46.0   | 46.5              | 23.7   | 24.5   | 23.3   | 23.0   | 24.5   | 25.6   | 26.4   | 26.1   | 26.5   |
| Endurance Technologies       | 39.6             | 39.6   | 37.7   | 40.1   | 40.7   | 40.9   | 39.8   | 39.9   | 43.0              | 12.4   | 11.3   | 11.5   | 11.4   | 12.8   | 13.1   | 12.5   | 11.7   | 14.5   |
| Escorts Kubota               | 29.6             | 27.8   | 27.6   | 25.5   | 28.5   | 30.2   | 32.3   | 30.6   | 31.9              | 13.1   | 10.0   | 8.1    | 8.4    | 10.8   | 14.0   | 12.9   | 13.5   | 12.8   |
| Exide Industries             | 28.0             | 27.9   | 30.5   | 32.2   | 29.8   | 28.3   | 31.1   | 31.5   | 33.0              | 10.2   | 9.9    | 11.1   | 11.8   | 10.4   | 10.6   | 11.8   | 11.5   | 12.9   |
| Hero Motocorp                | 30.7             | 27.2   | 28.0   | 30.6   | 32.0   | 30.6   | 31.4   | 32.7   | 33.6              | 11.2   | 11.2   | 11.4   | 11.5   | 13.0   | 13.8   | 14.1   | 14.0   | 14.3   |
| Mahindra & Mahindra          | 23.6             | 23.4   | 23.5   | 24.0   | 23.3   | 24.7   | 24.4   | 24.6   | 26.5              | 11.4   | 11.9   | 12.0   | 13.0   | 12.5   | 13.4   | 12.6   | 12.8   | 12.9   |
| Maruti Suzuki                | 26.5             | 25.4   | 26.9   | 27.3   | 26.7   | 27.2   | 29.4   | 29.1   | 28.6              | 9.1    | 7.2    | 9.3    | 9.8    | 10.5   | 9.2    | 12.9   | 11.7   | 12.3   |
| MRF                          | 32.1             | 31.5   | 29.7   | 32.1   | 37.0   | 38.8   | 40.8   | 40.1   | 38.9              | 10.1   | 8.5    | 8.2    | 9.9    | 14.7   | 17.6   | 18.5   | 17.2   | 14.2   |
| Samvardhana Motherson        | 41.6             | 41.2   | 41.3   | 43.0   | 43.4   | 43.5   | 43.2   | 44.8   | 47.4              | 7.0    | 6.1    | 7.7    | 7.8    | 8.3    | 8.6    | 8.0    | 9.0    | 10.8   |
| Schaeffler India             | 39.2             | 37.1   | 37.0   | 39.0   | 38.8   | 38.6   | 37.1   | 37.2   | 37.9              | 19.7   | 18.4   | 18.2   | 19.2   | 18.6   | 18.7   | 18.4   | 17.3   | 17.6   |
| SKF                          | 37.5             | 39.2   | 42.3   | 41.5   | 38.7   | 39.8   | 34.0   | 41.7   | 41.2              | 15.3   | 17.4   | 19.9   | 17.1   | 15.3   | 17.6   | 10.8   | 15.8   | 17.7   |
| Sona BLW Precision           | 55.1             | 54.5   | 53.0   | 55.8   | 54.3   | 56.9   | 55.1   | 59.1   | 56.4              | 24.6   | 24.2   | 25.2   | 27.2   | 27.1   | 27.8   | 28.2   | 29.3   | 28.0   |
| Tata Motors                  | 34.7             | 33.0   | 33.9   | 35.1   | 35.6   | 37.6   | 36.4   | 38.3   | 38.5              | 11.1   | 4.4    | 7.8    | 10.9   | 12.1   | 13.3   | 13.1   | 13.9   | 14.2   |
| Timken                       | 47.7             | 45.8   | 39.8   | 39.5   | 42.0   | 41.2   | 41.6   | 40.5   | 40.7              | 26.9   | 24.5   | 19.0   | 17.0   | 20.3   | 18.9   | 19.9   | 16.7   | 22.1   |
| TVS Motor                    | 23.8             | 23.9   | 23.8   | 24.5   | 24.6   | 25.4   | 26.0   | 26.3   | 27.2              | 10.1   | 10.0   | 10.2   | 10.1   | 10.3   | 10.6   | 11.0   | 11.2   | 11.3   |
| Uno Minda                    | 35.9             | 35.2   | 35.1   | 36.8   | 35.6   | 35.8   | 34.4   | 35.0   | 36.5              | 11.4   | 10.4   | 11.1   | 11.6   | 11.1   | 10.7   | 11.1   | 10.8   | 12.5   |
| Varroc Engineering           | 32.1             | 35.5   | 35.0   | 34.5   | 35.0   | 36.8   | 36.7   | 36.3   | 39.3              | 6.5    | 7.3    | 8.9    | 7.5    | 7.4    | 10.1   | 10.3   | 9.3    | 11.2   |

Source: Companies, Kotak Institutional Equities

We note that profitability (EBITDA/vehicle) of 2Ws companies is significantly higher than pre-pandemic levels and their returns are at very high levels (see Exhibit 126). In our view, the excessive focus of the incumbent 2W companies on high profitability and returns may make it easier for the

(1) challenger EV 2W companies to gain market share from the incumbents in the medium term and (2) new entrants in the premium motorcycle category (250-750 cc) to challenge the monopoly of EIM in the premium segment.

**Sharp increase in profitability of incumbents 2W companies**

Exhibit 126: Key financial and return metrics of Indian 2W OEMs, March fiscal year-ends, 2018-26E

|                                     | 2018          | 2019          | 2020          | 2021          | 2022          | 2023          | 2024E         | 2025E         | 2026E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Bajaj Auto</b>                   |               |               |               |               |               |               |               |               |               |
| Volumes (units)                     | 4,006,791     | 5,019,503     | 4,615,212     | 3,972,914     | 4,308,433     | 3,927,857     | 4,337,541     | 4,771,407     | 5,258,572     |
| EBITDA (Rs mn)                      | 48,374        | 51,925        | 50,962        | 49,285        | 52,586        | 65,491        | 88,228        | 96,166        | 104,391       |
| <b>EBITDA per vehicle (Rs/unit)</b> | <b>12,073</b> | <b>10,345</b> | <b>11,042</b> | <b>12,405</b> | <b>12,205</b> | <b>16,674</b> | <b>20,341</b> | <b>20,155</b> | <b>19,852</b> |
| RoAE (%)                            | 22            | 22            | 24            | 20            | 19            | 21            | 29            | 31            | 31            |
| RoACE (%)                           | 75            | 84            | 84            | 77            | 64            | 62            | 85            | 99            | 93            |
| <b>CRoCI (%)</b>                    | <b>100</b>    | <b>83</b>     | <b>93</b>     | <b>73</b>     | <b>76</b>     | <b>96</b>     | <b>160</b>    | <b>111</b>    | <b>108</b>    |
| <b>Eicher Motors</b>                |               |               |               |               |               |               |               |               |               |
| Volumes (units)                     | 820,492       | 822,724       | 697,582       | 612,350       | 602,268       | 834,895       | 912,732       | 968,991       | 1,025,742     |
| EBITDA (Rs mn)                      | 28,532        | 29,443        | 22,038        | 17,865        | 21,136        | 33,935        | 43,802        | 48,393        | 52,852        |
| <b>EBITDA per vehicle (Rs/unit)</b> | <b>34,775</b> | <b>35,787</b> | <b>31,592</b> | <b>29,175</b> | <b>35,093</b> | <b>40,646</b> | <b>47,990</b> | <b>49,942</b> | <b>51,526</b> |
| RoAE (%)                            | 43            | 32            | 24            | 14            | 15            | 22            | 26            | 23            | 22            |
| RoACE (%)                           | 572           | 152           | 100           | 54            | 58            | 113           | 65            | 73            | 74            |
| <b>CRoCI (%)</b>                    | <b>234</b>    | <b>112</b>    | <b>61</b>     | <b>40</b>     | <b>40</b>     | <b>59</b>     | <b>44</b>     | <b>46</b>     | <b>45</b>     |
| <b>Hero MotoCorp</b>                |               |               |               |               |               |               |               |               |               |
| Volumes (units)                     | 7,587,193     | 7,820,745     | 6,409,719     | 5,786,374     | 4,944,148     | 5,328,546     | 5,621,455     | 6,091,267     | 6,478,241     |
| EBITDA (Rs mn)                      | 52,849        | 49,301        | 39,580        | 40,192        | 33,688        | 39,862        | 52,557        | 60,705        | 65,042        |
| <b>EBITDA per vehicle (Rs/unit)</b> | <b>6,966</b>  | <b>6,304</b>  | <b>6,175</b>  | <b>6,946</b>  | <b>6,814</b>  | <b>7,481</b>  | <b>9,349</b>  | <b>9,966</b>  | <b>10,040</b> |
| RoAE (%)                            | 32            | 26            | 26            | 20            | 16            | 17            | 22            | 24            | 24            |
| RoACE (%)                           | 64            | 54            | 49            | 44            | 50            | 37            | 49            | 68            | 75            |
| <b>CRoCI (%)</b>                    | <b>38</b>     | <b>28</b>     | <b>24</b>     | <b>25</b>     | <b>20</b>     | <b>22</b>     | <b>29</b>     | <b>30</b>     | <b>31</b>     |
| <b>TVS Motors</b>                   |               |               |               |               |               |               |               |               |               |
| Volumes (units)                     | 3,466,410     | 3,912,702     | 3,263,302     | 3,051,861     | 3,309,578     | 3,682,068     | 4,190,994     | 4,661,576     | 5,059,309     |
| EBITDA (Rs mn)                      | 11,750        | 14,333        | 13,459        | 14,286        | 19,617        | 26,747        | 35,141        | 40,732        | 45,330        |
| <b>EBITDA per vehicle (Rs/unit)</b> | <b>3,390</b>  | <b>3,663</b>  | <b>4,124</b>  | <b>4,681</b>  | <b>5,927</b>  | <b>7,264</b>  | <b>8,385</b>  | <b>8,738</b>  | <b>8,960</b>  |
| RoAE (%)                            | 25            | 22            | 18            | 16            | 20            | 27            | 30            | 31            | 32            |
| RoACE (%)                           | 18            | 18            | 14            | 14            | 20            | 25            | 27            | 28            | 29            |
| <b>CRoCI (%)</b>                    | <b>23</b>     | <b>24</b>     | <b>23</b>     | <b>32</b>     | <b>40</b>     | <b>45</b>     | <b>53</b>     | <b>54</b>     | <b>54</b>     |

Source: Companies, Kotak Institutional Equities estimates

- Consumer staples, consumer discretionary.** 4QFY24 demand was quite weak once again, with low single-digit volume growth reported by multi-category staples companies. The low reported growth of the listed companies may also reflect their loss of market share to organized retailers and unorganized or regional players. Nonetheless, we note that demand recovery has been quite long-drawn in the rural economy. Barring a few companies in the discretionary segments such as paints (where volume growth is hard to appreciate anyway), volume growth remains quite muted with (1) HUVR delivering 2% growth, (2) DABUR seeing a modest 4.2% growth and (3) MRCO reporting a tepid 3% growth. Among staples, BRIT (5%), UBBL (11%) and VBL (7%) were notable exceptions.

Exhibit 127 shows the trends in volume growth of the major consumer staples and discretionary companies under our coverage over the past several quarters. We note that revenue growth was ahead of volume growth for most of the consumer staples companies (see Exhibit 128), which suggest continued focus on price/improving mix-led growth. However, revenue growth was below volume growth in a few cases (BRIT, HUVR and MRCO) in 4QFY24, which suggest a shift in their strategy to higher grammage or even price reductions to fend off competition from regional players. A few companies suggested early signs of recovery in rural markets.

**Patchy volume growth for staples**

**Exhibit 127: Volume growth of consumer companies, 4QFY22-4QFY24 (%)**

|                                      | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Staples</b>                       |        |        |        |        |        |        |        |        |        |
| Britannia Industries - Domestic      | 4.0    | (2.0)  | 5.0    | 4.0    | 3.0    | —      | 0      | 6      | 5      |
| Colgate - Overall                    | (4)    | (3)    | (2)    | (3)    | (1)    | 6      | (1)    | 2      | 2      |
| Dabur - Domestic                     | 3      | 5      | 1      | (3)    | —      | 3      | 3      | 4      | 4      |
| HUL (FMCG business)                  | —      | 6      | 4      | 5      | 4      | 3      | 2      | 2      | 2      |
| Marico - Domestic                    | 1      | (6)    | 3      | 4      | 5      | 3      | 3      | 2      | 3      |
| Marico - Parachute                   | (1)    | (2)    | (3)    | 2      | 9      | (2)    | 1      | 3      | 2      |
| Marico - Saffola                     | —      | (27)   | 7      | 12     | (6)    | 11     | 2      | (5)    | 5      |
| United Breweries                     | 7      | 121    | 23     | 4      | 3      | (12)   | 7      | 8      | 11     |
| United Spirits                       | 5      | 17     | 8      | (25)   | (27)   | (29)   | (27)   | (1)    | 4      |
| Varun Beverages                      | 19     | 97     | 24     | 18     | 24     | 5      | 16     | 18     | 7      |
| <b>Discretionary</b>                 |        |        |        |        |        |        |        |        |        |
| Asian Paints (decoratives)           | 8      | 37     | 10     | —      | 16     | 10     | 6      | 12     | 10     |
| Berger (decoratives)                 | (5)    | 30     | 1      | —      | 14     | 13     | 11     | 9      | 14     |
| ITC - Cigarettes                     | 9      | 25     | 21     | 15     | 12     | 8      | 5      | (2)    | 2      |
| Kansai Nerolac                       | (8)    | 19     | —      | (8)    | 13     | 6      | (1)    | 10     | 10     |
| Pidlite - Domestic consumer business | (4)    | 49     | 2      | 1      | 7      | 12     | 8      | 11     | 15     |
| Westlife Foodworld                   | 23     | 97     | 40     | 20     | 14     | 7      | 1      | (9)    | (5)    |

Source: Companies, Kotak Institutional Equities

**Moderate topline growth led by price-mix improvement rather than volume growth**

**Exhibit 128: Revenue growth of consumer staples companies under KIE coverage, March fiscal year-ends, 2022-24 (%)**

|                           | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Britannia Industries      | 13.4   | 8.7    | 21.4   | 17.4   | 13.3   | 8.4    | 1.2    | 1.4    | 1.1    |
| Colgate-Palmolive (India) | 1.4    | 2.6    | 2.6    | 0.9    | 3.8    | 10.6   | 6.0    | 8.1    | 10.3   |
| Dabur India               | 7.7    | 8.1    | 6.0    | 3.4    | 6.4    | 10.9   | 7.3    | 7.0    | 5.1    |
| Godrej Consumer Products  | 6.8    | 8.0    | 7.2    | 9.0    | 9.8    | 10.4   | 6.2    | 1.7    | 5.8    |
| Hindustan Unilever        | 11.0   | 19.8   | 15.9   | 16.3   | 10.6   | 6.1    | 3.6    | (0.3)  | (0.2)  |
| ITC                       | 16.8   | 41.5   | 26.7   | 2.3    | 5.6    | (8.5)  | 2.6    | 1.6    | 2.8    |
| Jyothy Labs               | 10.4   | 13.7   | 12.6   | 13.7   | 12.8   | 15.1   | 11.1   | 10.6   | 7.0    |
| Marico                    | 7.4    | 1.3    | 3.2    | 2.6    | 3.7    | (3.2)  | (0.8)  | (1.9)  | 1.7    |
| Nestle India              | 10.2   | 16.1   | 18.2   | 13.8   | 21.3   | 15.4   | 9.7    | 8.1    | 9.0    |
| Sula Vineyards            |        |        |        | 11.7   | 6.4    | 17.6   | 11.4   | 6.5    | 8.2    |
| Tata Consumer Products    | 4.5    | 10.6   | 10.9   | 8.3    | 14.0   | 12.5   | 11.0   | 9.5    | 8.5    |
| United Breweries          | 10.6   | 117.9  | 17.8   | 1.9    | 3.4    | (6.7)  | 12.4   | 13.1   | 20.8   |
| United Spirits            | 9.5    | 34.3   | 17.7   | (3.6)  | 2.4    | 0.1    | (0.5)  | 7.5    | 7.0    |
| Varun Beverages           | 26.2   | 102.3  | 32.5   | 27.7   | 37.7   | 13.3   | 21.8   | 20.5   | 10.9   |

Source: Companies, Kotak Institutional Equities

Consumer companies' margins may have peaked as (1) a few companies such as jewelry, paints saw pressure on their EBITDA margins from increased competition (jewelry) or threat of increased competition (paints); see Exhibit 129 and (2) other broad-based consumer staples companies invested in A&P or increased grammage to increase market share and fight competition. We note RM price have also increased over the past 3-6 months (see Exhibit 130), especially of oil commodities, resulting in margin pressure in some pockets. Meanwhile, A&P expenditure was at elevated levels, suggesting an increase in competitive intensity (see Exhibit 131).



**Most consumer companies witnessed strong yoy increase in margins in 3QFY24**

**Exhibit 129: Gross and EBITDA margin of consumer companies under our coverage, 4QFY22-4QFY24 (%)**

|                           | Gross margin (%) |        |        |        |        |        |        |        | EBITDA margin (%) |        |        |        |        |        |        |        |        |        |
|---------------------------|------------------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                           | 4QFY22           | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24            | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| Asian Paints              | 38.7             | 37.7   | 35.7   | 38.6   | 42.6   | 42.9   | 43.4   | 43.6   | 43.7              | 18.3   | 18.1   | 14.5   | 18.7   | 21.3   | 23.1   | 20.2   | 22.6   | 19.4   |
| Avenue Supermarts         | 14.3             | 15.8   | 14.5   | 14.8   | 14.0   | 15.2   | 14.7   | 14.9   | 14.5              | 8.6    | 10.3   | 8.6    | 8.3    | 7.3    | 8.7    | 8.0    | 8.3    | 7.4    |
| Berger Paints             | 38.9             | 35.7   | 35.3   | 34.7   | 39.8   | 39.8   | 41.1   | 41.1   | 40.7              | 15.8   | 14.7   | 13.6   | 13.0   | 15.1   | 18.4   | 17.1   | 16.7   | 13.9   |
| Britannia Industries      | 38.0             | 36.9   | 38.9   | 43.7   | 44.9   | 41.9   | 42.9   | 43.9   | 44.9              | 15.5   | 13.5   | 16.3   | 19.5   | 19.9   | 17.2   | 19.7   | 19.3   | 19.4   |
| Colgate-Palmolive (India) | 66.8             | 66.3   | 63.8   | 65.9   | 66.9   | 68.4   | 68.8   | 72.2   | 69.3              | 33.0   | 27.2   | 29.4   | 28.0   | 33.5   | 31.6   | 32.8   | 33.6   | 35.7   |
| Dabur India               | 47.4             | 45.9   | 45.4   | 45.5   | 45.8   | 46.6   | 48.3   | 48.6   | 48.6              | 18.0   | 19.3   | 20.1   | 20.0   | 15.3   | 19.3   | 20.6   | 20.5   | 16.6   |
| Godrej Consumer Products  | 49.5             | 46.6   | 47.9   | 51.1   | 52.9   | 53.7   | 54.9   | 55.9   | 56.1              | 16.0   | 16.7   | 16.0   | 20.2   | 20.0   | 18.6   | 19.5   | 23.0   | 22.3   |
| Hindustan Unilever        | 49.5             | 47.4   | 45.8   | 47.5   | 48.7   | 49.9   | 52.7   | 51.5   | 51.9              | 24.1   | 22.8   | 22.9   | 23.2   | 23.3   | 23.2   | 24.2   | 23.3   | 23.1   |
| ITC                       | 53.1             | 51.0   | 57.0   | 58.9   | 58.6   | 54.1   | 57.3   | 58.4   | 59.9              | 33.6   | 32.7   | 36.4   | 38.4   | 37.9   | 34.7   | 36.5   | 36.5   | 37.2   |
| Jubilant Foodworks        | 76.9             | 76.7   | 76.2   | 75.5   | 75.3   | 76.0   | 76.4   | 76.7   | 76.6              | 25.0   | 24.6   | 24.3   | 22.0   | 20.1   | 21.1   | 20.9   | 20.9   | 19.1   |
| Jyothy Labs               | 41.4             | 39.9   | 40.5   | 43.1   | 45.7   | 47.9   | 49.2   | 49.8   | 49.5              | 10.5   | 10.0   | 12.2   | 13.8   | 14.8   | 17.1   | 18.5   | 17.5   | 16.4   |
| Kansai Nerolac            | 27.7             | 29.9   | 28.6   | 30.2   | 31.6   | 35.3   | 35.7   | 36.2   | 34.8              | 7.2    | 13.1   | 10.9   | 11.0   | 9.5    | 16.1   | 14.6   | 13.2   | 10.8   |
| Marico                    | 44.5             | 45.0   | 43.6   | 44.9   | 47.4   | 50.0   | 50.5   | 51.3   | 51.6              | 16.0   | 20.6   | 17.3   | 18.5   | 17.5   | 23.2   | 20.1   | 21.2   | 19.4   |
| Nestle India              | 55.1             | 54.0   | 52.8   | 54.9   | 53.8   | 54.8   | 56.5   | 58.6   | 56.8              | 22.8   | 21.0   | 22.1   | 22.9   | 23.0   | 22.7   | 24.4   | 24.2   | 25.4   |
| Page Industries           | 59.4             | 59.1   | 55.8   | 52.4   | 56.6   | 52.9   | 55.7   | 53.1   | 56.0              | 24.0   | 22.2   | 19.0   | 15.8   | 13.9   | 19.5   | 20.8   | 18.7   | 22.0   |
| Pidlite Industries        | 43.5             | 42.9   | 41.0   | 41.8   | 46.8   | 49.0   | 51.3   | 52.9   | 53.0              | 16.0   | 17.1   | 16.6   | 16.5   | 17.1   | 21.6   | 22.1   | 23.7   | 21.1   |
| Tata Consumer Products    | 44.6             | 44.0   | 41.7   | 41.5   | 41.8   | 42.2   | 42.5   | 43.8   | 46.1              | 14.0   | 13.7   | 12.9   | 13.1   | 14.1   | 14.6   | 14.4   | 15.0   | 16.0   |
| Titan Company             | 24.4             | 24.4   | 26.5   | 23.0   | 22.9   | 21.0   | 22.4   | 21.7   | 21.2              | 10.7   | 13.0   | 14.1   | 12.2   | 10.8   | 9.9    | 11.6   | 11.2   | 9.9    |
| United Breweries          | 48.7             | 44.3   | 46.7   | 41.8   | 38.6   | 40.6   | 44.5   | 44.0   | 45.0              | 15.3   | 10.9   | 13.0   | 4.8    | 3.0    | 9.8    | 9.8    | 8.0    | 11.8   |
| United Spirits            | 41.7             | 40.9   | 39.5   | 40.6   | 42.6   | 43.0   | 43.4   | 43.4   | 43.3              | 17.5   | 12.6   | 15.5   | 13.2   | 10.7   | 17.1   | 16.4   | 16.4   | 13.6   |
| Varun Beverages           | 51.5             | 50.5   | 53.7   | 56.3   | 52.4   | 52.5   | 55.3   | 56.6   | 53.0              | 18.8   | 25.2   | 22.0   | 13.9   | 20.5   | 26.9   | 22.8   | 15.7   | 21.0   |

Source: Companies, Kotak Institutional Equities

**Deflationary trend in RM prices on a qoq as well as yoy basis in most cases**

**Exhibit 130: Trend in RM prices, April 2024**

| No.                                       | Commodity                   | Unit           | Current | % chg. - local currency |      |      |      | % chg. - currency Adj. |      |      |      | Companies impacted                             |
|---|-----------------------------|----------------|---------|-------------------------|------|------|------|------------------------|------|------|------|--|
|   |                             |                |         | MoM                     | 3M   | 6M   | YoY  | MoM                    | 3M   | 6M   | YoY  |  |
| <b>Agri Commodities</b>                   |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 1   | Tea - India Avg.            | Rs/Kg          | 153     | 32                      | 14   | (11) | (12) | 32                     | 14   | (11) | (12) | HUL, TataCons                                  |
| 2   | Tea - World Avg.            | USD/MT         | 2,690   | -                       | 1    | (3)  | (9)  | -                      | 1    | (3)  | (8)  | HUL, TataCons                                  |
| 3   | Tea - Mombassa/Kenya        | USD/Kg         | 3       | -                       | 1    | 3    | (5)  | -                      | 1    | 3    | (4)  | HUL, TataCons                                  |
| 4   | Coffee Arabica - Intl.      | US cents/Pound | 213     | -                       | 3    | 14   | (9)  | -                      | 3    | 14   | (8)  | HUL, Nestle, TataCons                          |
| 5   | Coffee Robusta - Intl.      | US cents/Pound | 180     | -                       | 12   | 40   | 43   | -                      | 12   | 39   | 45   | HUL, Nestle, TataCons                          |
| 6   | Sugar - domestic            | Rs/Quintal     | 4,368   | 3                       | 1    | (1)  | 6    | 3                      | 1    | (1)  | 6    | HUL, Nestle, ITC, Dabur, Britannia             |
| 7   | Wheat                       | Rs/Quintal     | 3,293   | (6)                     | (5)  | (7)  | 1    | (6)                    | (5)  | (7)  | 1    | ITC, Nestle, Britannia                         |
| 8   | Barley                      | Rs/Quintal     | 1,964   | (2)                     | (6)  | (6)  | (10) | (2)                    | (6)  | (6)  | (10) | UBBL   |
| 9   | Maize (corn)                | USD/MT         | 189     | -                       | (5)  | (18) | (35) | 0                      | (5)  | (18) | (34) | Colgate, HUL, Dabur (Sorbitol)                 |
| 10  | Liquid Milk - domestic      | Rs/Ltr         | 50      | 16                      | 11   | -    | (7)  | 16                     | 11   | -    | (7)  | Nestle, Jubilant Foodworks, Britannia          |
| 11  | Milk Powder - domestic      | Rs/Kg          | 262     | 2                       | (11) | (17) | (24) | 2                      | (11) | (17) | (24) | Nestle, Britannia                              |
| 12  | Cocoa Bean                  | USD/MT         | 5,170   | -                       | 26   | 53   | 93   | 0                      | 26   | 53   | 95   | Nestle   |
| <b>Oil Commodities</b>                    |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 13  | Crude Oil - Brent           | USD/Barrel     | 90      | 5                       | 12   | (1)  | 6    | 5                      | 12   | (1)  | 7    | HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite |
| 14  | Palm oil                    | Rs/MT          | 91,865  | 1                       | 17   | 18   | 4    | 1                      | 17   | 18   | 4    | HUL, GCPL, Jyothy Labs                         |
| 15  | PFAD                        | USD/MT         | 796     | 1                       | 11   | 6    | 2    | 1                      | 11   | 6    | 3    | HUL, GCPL, Jyothy Labs                         |
| 16  | Light liquid paraffin (LLP) | Rs/Ltr         | 84      | -                       | -    | -    | 6    | -                      | -    | -    | 6    | Marico, Dabur, Bajaj Corp                      |
| 17  | Copra                       | Rs/Quintal     | 10,187  | 5                       | (1)  | 12   | 19   | 5                      | (1)  | 12   | 19   | Marico, Dabur                                  |
| 18  | Coconut oil                 | Rs/Quintal     | 14,792  | 5                       | 9    | 15   | 15   | 5                      | 9    | 15   | 15   | Marico, Dabur                                  |
| 19  | Rice Bran oil               | Rs/10Kg        | 790     | 5                       | 5    | 5    | (3)  | 5                      | 5    | 5    | (3)  | Marico   |
| 20  | Kardi oil/ Safflower oil    | Rs/MT          | 2,193   | -                       | -    | -    | -    | -                      | -    | -    | -    | Marico   |
| 21  | Sunflower oil               | Rs/MT          | 88,225  | (2)                     | 3    | 7    | (6)  | (2)                    | 3    | 7    | (6)  | Marico   |
| 22  | Groundnut oil               | Rs/MT          | 148,625 | (0)                     | (4)  | (7)  | (12) | (0)                    | (4)  | (7)  | (12) | Marico   |
| 23  | Linseed oil                 | Rs/MT          | 94,150  | (3)                     | 2    | 4    | (3)  | (3)                    | 2    | 4    | (3)  | Marico, Dabur, Bajaj Corp, Asian Paints        |
| 24  | Castor oil                  | Rs/MT          | 120,000 | (2)                     | (1)  | (3)  | (5)  | (2)                    | (1)  | (3)  | (5)  | Marico, Dabur, Bajaj Corp, Asian Paints        |
| 25  | Mentha oil                  | Rs/Kg          | 1,025   | (1)                     | 1    | 1    | (16) | (1)                    | 1    | 1    | (16) | Emami, Colgate, HUL, Dabur                     |
| <b>Chemicals/Paints/Other Commodities</b> |                             |                |         |                         |      |      |      |                        |      |      |      |  |
| 26  | Caustic soda                | Rs/ 50Kg       | 2,150   | 2                       | 8    | 10   | (18) | 2                      | 8    | 10   | (18) | HUL, GCPL, Jyothy Labs                         |
| 27  | Soda ash                    | Rs/ 50Kg       | 1,725   | -                       | (7)  | (9)  | (23) | -                      | (7)  | (9)  | (23) | HUL, GCPL, Jyothy Labs                         |
| 28  | HDPE - domestic             | Rs/Kg          | 118     | -                       | -    | -    | (10) | -                      | -    | -    | (10) | All companies                                  |
| 29  | PAN                         | Rs/Kg          | 98      | (2)                     | 2    | (7)  | (20) | (2)                    | 2    | (7)  | (20) | Asian Paints                                   |
| 30  | PENTA                       | Rs/Kg          | 115     | -                       | -    | -    | -    | -                      | -    | -    | -    | Asian Paints                                   |
| 31  | Tio2 Anatase                | Rs/Kg          | 175     | -                       | -    | -    | (2)  | -                      | -    | -    | (2)  | Asian Paints                                   |
| 32  | Tio2 Rutile                 | Rs/Kg          | 272     | (1)                     | (1)  | (1)  | (9)  | (1)                    | (1)  | (1)  | (9)  | Asian Paints                                   |
| 33  | Tio2 Dupont                 | Rs/Kg          | 338     | (0)                     | (4)  | (7)  | (14) | (0)                    | (4)  | (7)  | (14) | Asian Paints                                   |
| 34  | Turpentine oil              | Rs/Ltr         | 116     | -                       | 1    | 5    | 1    | -                      | 1    | 5    | 1    | Asian Paints                                   |
| 35  | Formaldehyde                | Rs/Kg          | 25      | -                       | 4    | -    | (17) | -                      | 4    | -    | (17) | Asian Paints                                   |
| 36  | Acrylic acid                | Rs/Kg          | 89      | (5)                     | -    | (4)  | (19) | (5)                    | -    | (4)  | (19) | Asian Paints                                   |
| 37  | Vinyl Acetate - Domestic    | Rs/Kg          | 97      | 1                       | 13   | 19   | 6    | 1                      | 13   | 19   | 6    | Asian Paints                                   |
| 38  | Vinyl Acetate - China       | US\$/MT        | 1,006   | 1                       | 22   | 8    | (11) | 1                      | 22   | 8    | (10) | Pidilite, Asian Paints                         |
| 39  | Styrene - domestic          | Rs/Kg          | 114     | 2                       | 8    | 3    | 17   | 2                      | 8    | 3    | 17   | Asian Paints                                   |
| 40  | Gold                        | Rs/10gm        | 71,482  | 9                       | 15   | 21   | 19   | 9                      | 15   | 21   | 19   | Titan, Jewellery companies                     |
| 41  | Diamond price index         | USD/Carrat     | 124     | (2)                     | (2)  | (2)  | (-)  | (2)                    | (2)  | (2)  | 1    | Titan, Jewellery companies                     |

Inflationary = +3%  
Deflationary = -3%

Source: Bloomberg, CMIE, Kotak Institutional Equities

**Consumer companies have increased A&P expenditure in recent quarters**

**Exhibit 131: Quarterly expenditure in A&SP by consumer companies, March fiscal year-ends, 2022-24**

|                              | 4QFY22        | 1QFY23        | 2QFY23        | 3QFY23        | 4QFY23        | 1QFY24        | 2QFY24        | 3QFY24        | 4QFY24        |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>A&amp;SP (Rs mn)</b>      |               |               |               |               |               |               |               |               |               |
| Colgate                      | 1,519         | 1,630         | 1,582         | 1,699         | 1,429         | 1,813         | 2,060         | 2,043         | 1,689         |
| Dabur                        | 1,503         | 1,572         | 1,518         | 1,796         | 1,516         | 2,043         | 2,165         | 2,445         | 1,837         |
| GCPL                         | 1,851         | 2,014         | 2,839         | 2,758         | 2,245         | 3,204         | 3,659         | 3,433         | 3,063         |
| HUL                          | 12,900        | 13,280        | 10,410        | 12,000        | 12,900        | 14,810        | 17,200        | 15,930        | 15,860        |
| Jyothy Labs                  | 376           | 450           | 415           | 418           | 459           | 504           | 574           | 607           | 598           |
| Marico                       | 2,040         | 1,990         | 2,130         | 2,200         | 2,100         | 2,120         | 2,680         | 2,460         | 2,260         |
| Tata Consumer                | 2,256         | 2,116         | 2,169         | 2,284         | 2,063         | 2,370         | 2,603         | 2,684         | 2,531         |
| Titan                        | 1,560         | 1,710         | 1,730         | 2,030         | 1,920         | 2,070         | 2,050         | 2,360         | 1,810         |
| United Spirits               | 1,683         | 1,403         | 1,584         | 2,768         | 3,444         | 1,468         | 2,403         | 3,277         | 3,260         |
| <b>Total</b>                 | <b>25,686</b> | <b>25,972</b> | <b>24,377</b> | <b>27,954</b> | <b>28,076</b> | <b>30,402</b> | <b>35,394</b> | <b>35,238</b> | <b>32,907</b> |
| <b>A&amp;SP (% of sales)</b> |               |               |               |               |               |               |               |               |               |
| Colgate                      | 11.3          | 13.6          | 11.4          | 13.2          | 10.6          | 13.7          | 14.0          | 14.6          | 11.3          |
| Dabur                        | 6.0           | 5.6           | 5.1           | 5.9           | 5.7           | 6.5           | 6.8           | 7.5           | 6.5           |
| GCPL                         | 6.3           | 6.4           | 8.4           | 7.7           | 7.0           | 9.3           | 10.2          | 9.4           | 9.0           |
| HUL                          | 9.6           | 9.3           | 7.1           | 7.9           | 8.7           | 9.8           | 11.3          | 10.5          | 10.7          |
| Jyothy Labs                  | 6.6           | 7.5           | 6.3           | 6.8           | 7.5           | 7.3           | 7.8           | 9.0           | 9.1           |
| Marico                       | 9.4           | 7.8           | 8.5           | 8.9           | 9.4           | 8.6           | 10.8          | 10.2          | 9.9           |
| Tata Consumer                | 7.1           | 6.4           | 6.4           | 6.6           | 5.7           | 6.3           | 7.0           | 7.1           | 6.4           |
| Titan                        | 2.1           | 1.9           | 2.0           | 1.9           | 2.0           | 1.9           | 1.8           | 1.8           | 1.6           |
| United Spirits               | 6.9           | 6.5           | 5.5           | 10.0          | 13.8          | 6.8           | 8.4           | 11.0          | 12.2          |
| <b>Total</b>                 | <b>7.2</b>    | <b>6.6</b>    | <b>6.0</b>    | <b>6.4</b>    | <b>6.9</b>    | <b>7.0</b>    | <b>7.9</b>    | <b>7.6</b>    | <b>7.6</b>    |

Notes:

(a) HUL and GSK-CH merged from 1QFY21.

Source: Companies, Kotak Institutional Equities

- **Construction materials.** Cement companies under our coverage reported a strong 14% yoy growth in volumes in 4QFY24 (see Exhibit 132), reflecting continued momentum in both housing and infrastructure demand. Companies benefitted from the strong demand environment as well as from easing energy costs, which resulted in a steep increase in profitability in 4QFY24 for most cement companies. Exhibit 133 shows realizations and profitability of the cement stocks under our coverage for the past few quarters.

**Strong volume growth for cement companies on a yoy basis in 4QFY24**

Exhibit 132: Volume trends for cement companies under KIE coverage, 4QFY22-4QFY24

|                                | 4QFY22       | 1QFY23      | 2QFY23      | 3QFY23      | 4QFY23      | 1QFY24      | 2QFY24      | 3QFY24      | 4QFY24      |
|--------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Volumes (mn tons)</b>       |              |             |             |             |             |             |             |             |             |
| ACC                            | 7.8          | 7.6         | 6.9         | 7.7         | 8.5         | 9.4         | 8.1         | 8.9         | 10.4        |
| Ambuja Cements                 | 7.5          | 7.4         | 6.7         | 7.7         | 8.1         | 9.1         | 7.6         | 8.2         | 9.5         |
| Dalmia Bharat                  | 6.6          | 6.2         | 5.8         | 6.3         | 7.4         | 7.0         | 6.2         | 6.8         | 8.8         |
| JK Cement                      | 3.9          | 3.6         | 3.6         | 3.9         | 4.0         | 4.5         | 4.3         | 4.6         | 5.1         |
| Nuvoco Vistas                  | 5.5          | 4.7         | 4.4         | 4.5         | 5.2         | 5.0         | 4.5         | 4.0         | 5.3         |
| Orient Cement                  | 1.6          | 1.4         | 1.2         | 1.4         | 1.7         | 1.6         | 1.4         | 1.4         | 1.7         |
| Shree Cement                   | 8.0          | 7.5         | 7.5         | 8.0         | 8.8         | 8.9         | 8.2         | 8.9         | 9.5         |
| The Ramco Cement               | 3.2          | 3.3         | 3.3         | 3.6         | 4.7         | 4.3         | 4.6         | 4.0         | 5.5         |
| UltraTech Cement               | 26.3         | 24.1        | 22.1        | 24.7        | 30.5        | 29.0        | 25.7        | 26.1        | 33.9        |
| <b>Total</b>                   | <b>70.4</b>  | <b>65.8</b> | <b>61.6</b> | <b>67.8</b> | <b>78.9</b> | <b>78.8</b> | <b>70.6</b> | <b>72.9</b> | <b>89.7</b> |
| <b>Yoy volume growth (%)</b>   |              |             |             |             |             |             |             |             |             |
| ACC                            | (2)          | 11          | 5           | 3           | 9           | 24          | 17          | 16          | 22          |
| Ambuja Cements                 | 5            | 15          | 8           | 10          | 8           | 23          | 13          | 6           | 17          |
| Dalmia Bharat                  | 3            | 27          | 14          | 11          | 12          | 13          | 7           | 8           | 19          |
| JK Cement                      | –            | 18          | 10          | 19          | 2           | 27          | 19          | 17          | 28          |
| Nuvoco Vistas                  | (2)          | 9           | 16          | 6           | (5)         | 7           | 1           | (11)        | 2           |
| Orient Cement                  | (12)         | 1           | (3)         | 17          | 6           | 15          | 15          | (3)         | 1           |
| Shree Cement                   | (3)          | 10          | 19          | 22          | 10          | 19          | 9           | 11          | 8           |
| The Ramco Cement               | (1)          | 55          | 22          | 19          | 47          | 30          | 39          | 12          | 17          |
| UltraTech Cement               | (1)          | 17          | 8           | 15          | 16          | 20          | 16          | 6           | 11          |
| <b>Total volume growth (%)</b> | <b>(0.7)</b> | <b>16.7</b> | <b>10.6</b> | <b>13.1</b> | <b>12.0</b> | <b>19.9</b> | <b>14.7</b> | <b>7.5</b>  | <b>13.7</b> |

Source: Companies, Kotak Institutional Equities

**Yoy improvement in profitability, driven by steady realizations and easing power & fuel costs**

Exhibit 133: Realizations, power & fuel costs and EBITDA for cement companies, 4QFY22-4QFY24 (Rs/ton)

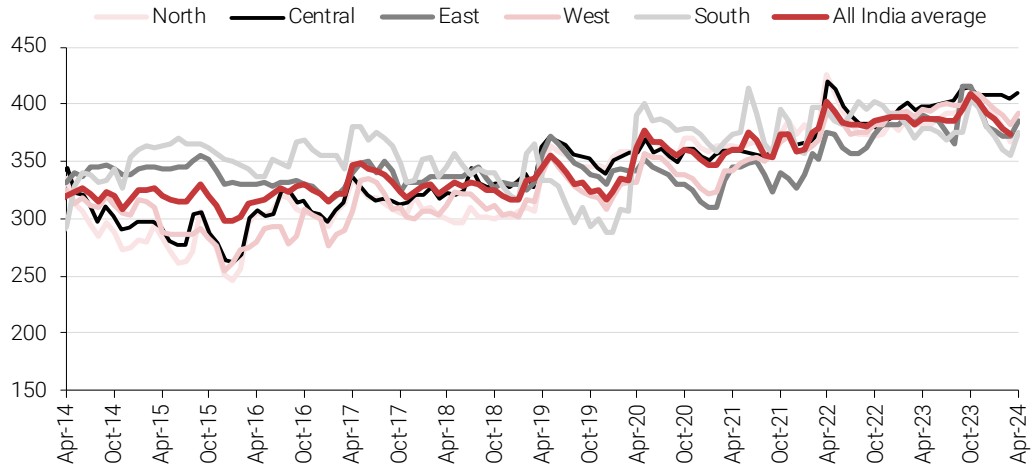
|                            | 4QFY22       | 1QFY23       | 2QFY23     | 3QFY23       | 4QFY23       | 1QFY24       | 2QFY24       | 3QFY24       | 4QFY24       |
|----------------------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>ACC</b>                 |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,675        | 5,911        | 5,821      | 5,892        | 5,636        | 5,533        | 5,475        | 5,526        | 5,190        |
| Fuel & power cost (Rs/ton) | 1,333        | 1,734        | 1,922      | 1,466        | 1,108        | 1,196        | 1,093        | 1,139        | 935          |
| <b>EBITDA (Rs/ton)</b>     | <b>812</b>   | <b>563</b>   | <b>23</b>  | <b>491</b>   | <b>549</b>   | <b>818</b>   | <b>677</b>   | <b>1,015</b> | <b>805</b>   |
| <b>Ambuja</b>              |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,241        | 5,404        | 5,446      | 5,362        | 5,255        | 5,197        | 5,223        | 5,414        | 5,032        |
| Fuel & power cost (Rs/ton) | 1,376        | 1,786        | 2,099      | 1,573        | 1,277        | 1,287        | 1,270        | 1,047        | 934          |
| <b>EBITDA (Rs/ton)</b>     | <b>1,055</b> | <b>926</b>   | <b>452</b> | <b>813</b>   | <b>973</b>   | <b>1,042</b> | <b>1,018</b> | <b>1,038</b> | <b>1,023</b> |
| <b>Dalmia Bharat</b>       |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,121        | 5,326        | 5,122      | 5,325        | 5,286        | 5,177        | 5,108        | 5,294        | 4,894        |
| Fuel & power cost (Rs/ton) | 1,323        | 1,535        | 1,538      | 1,530        | 1,177        | 1,289        | 1,132        | 1,068        | 898          |
| <b>EBITDA (Rs/ton)</b>     | <b>1,033</b> | <b>950</b>   | <b>650</b> | <b>1,024</b> | <b>955</b>   | <b>871</b>   | <b>955</b>   | <b>1,140</b> | <b>743</b>   |
| <b>JK Cement</b>           |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,773        | 6,084        | 5,878      | 5,821        | 5,842        | 5,820        | 5,918        | 6,086        | 5,772        |
| Fuel & power cost (Rs/ton) | 1,254        | 1,364        | 1,510      | 1,646        | 1,649        | 1,468        | 1,370        | 1,345        | 1,153        |
| <b>EBITDA (Rs/ton)</b>     | <b>974</b>   | <b>1,124</b> | <b>814</b> | <b>669</b>   | <b>797</b>   | <b>893</b>   | <b>1,028</b> | <b>1,330</b> | <b>1,075</b> |
| <b>Shree Cement</b>        |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,105        | 5,602        | 5,071      | 5,065        | 5,419        | 5,604        | 5,591        | 5,513        | 5,353        |
| Fuel & power cost (Rs/ton) | 1,336        | 1,923        | 1,646      | 1,622        | 1,781        | 1,708        | 1,670        | 1,393        | 1,520        |
| <b>EBITDA (Rs/ton)</b>     | <b>1,134</b> | <b>1,092</b> | <b>701</b> | <b>881</b>   | <b>1,011</b> | <b>1,046</b> | <b>1,061</b> | <b>1,388</b> | <b>1,393</b> |
| <b>UltraTech</b>           |              |              |            |              |              |              |              |              |              |
| Realization (Rs/ton)       | 5,752        | 6,095        | 6,076      | 6,078        | 5,938        | 5,940        | 6,030        | 6,191        | 5,841        |
| Fuel & power cost (Rs/ton) | 1,451        | 1,602        | 1,854      | 1,888        | 1,675        | 1,631        | 1,639        | 1,536        | 1,375        |
| <b>EBITDA (Rs/ton)</b>     | <b>1,147</b> | <b>1,247</b> | <b>816</b> | <b>910</b>   | <b>1,059</b> | <b>1,034</b> | <b>954</b>   | <b>1,208</b> | <b>1,185</b> |

Source: Companies, Kotak Institutional Equities

We assume a sharp increase in profitability on lower power & fuel costs and stable cement realizations. Our profitability assumptions may be at risk if cement prices were to come off in line with the decline in costs. We note that cement prices have seen modest recovery over the past two months (see Exhibit 134) and at similar levels on a yoy basis.

**Cement prices have seen some recovery in the past two months**

Exhibit 134: Regional cement prices, March fiscal year-ends, 2015-25 (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

- ▶ **Weak revenue growth for IT services companies; weaker deal wins.** IT companies reported weak qoq revenue growth in 4QFY24, with a number of companies reporting flat-to-declining revenues on a qoq basis. Weakness in North America impacted most large-cap IT services companies. INFO reported 2.2% c/c decline in revenues on a qoq basis, due to weak demand environment in BFSI (-7.1% qoq). TCS reported 1.1% qoq growth on c/c basis, driven by regional markets and manufacturing.

Exhibit 135 shows the quarterly c/c revenue growth of the IT companies under our coverage. The weak revenue growth for the sector highlights demand headwinds for the sector and cuts in discretionary spending by customers across industry segments. However, deal wins witnessed modest growth (see Exhibit 136).

**IT services companies reported weak revenue growth**

Exhibit 135: Sequential and yoy growth in c/c revenues of IT companies, March fiscal year-ends, 2021-24

|                                     | 4QFY21 | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Qoq % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| HCL Tech                            | 2.5    | 0.7    | 3.5    | 7.6    | 1.1    | 2.7    | 3.8    | 5.0    | (1.2)  | (1.3)  | 1.0    | 6.0    | 0.3    |
| Infosys                             | 2.0    | 4.8    | 6.3    | 7.0    | 1.2    | 5.5    | 4.0    | 2.4    | (3.2)  | 1.0    | 2.3    | (1.0)  | (2.2)  |
| TCS                                 | 4.2    | 2.4    | 4.0    | 4.0    | 3.2    | 3.5    | 4.0    | 2.2    | 0.6    | —      | 0.1    | 1.0    | 1.1    |
| Tech Mahindra                       | 0.7    | 3.9    | 7.2    | 4.7    | 5.4    | 3.5    | 2.9    | 0.2    | 0.3    | (4.2)  | (2.4)  | 1.1    | (0.8)  |
| Wipro                               | 3.0    | 12.0   | 8.1    | 3.0    | 3.1    | 2.1    | 4.1    | 0.6    | (0.6)  | (2.8)  | (2.0)  | (1.7)  | (0.3)  |
| <b>Qoq % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| L&T Infotech                        | 4.4    | 4.8    | 8.9    | 9.2    | 3.6    | 2.9    | 4.6    | NA     | NA     | NA     | NA     | NA     | NA     |
| Mindtree                            | 4.8    | 7.6    | 13.4   | 5.2    | 5.2    | 5.5    | 7.2    | NA     | NA     | NA     | NA     | NA     | NA     |
| LTI Mindtree                        |        |        |        |        |        |        |        | 1.9    | 0.7    | 0.1    | 1.7    | 0.7    | (1.3)  |
| Mphasis                             | 2.0    | 5.9    | 6.6    | 7.8    | 4.3    | 2.0    | 1.8    | (2.5)  | (4.5)  | (3.5)  | —      | 1.0    | 2.1    |
| NIIT Tech                           | 5.1    | 7.0    | 7.5    | 5.3    | 5.0    | 4.7    | 6.2    | 3.7    | 4.7    | 2.7    | 2.3    | 1.8    | NA     |
| <b>Yoy % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| HCL Tech                            | 2.6    | 11.7   | 10.5   | 15.0   | 13.3   | 15.6   | 15.8   | 13.1   | 10.5   | 7.1    | 3.4    | 4.3    | 6.0    |
| Infosys                             | 9.6    | 16.9   | 19.4   | 21.5   | 20.6   | 21.2   | 18.8   | 13.7   | 8.8    | 4.2    | 2.5    | (1.0)  | —      |
| TCS                                 | 5.9    | 16.4   | 15.5   | 15.4   | 14.3   | 15.5   | 15.4   | 13.5   | 10.7   | 7.0    | 2.8    | 1.7    | 2.2    |
| Tech Mahindra                       | (1.3)  | 10.1   | 15.5   | 17.5   | 22.6   | 21.2   | 16.8   | 12.7   | 6.3    | (0.9)  | (5.9)  | (5.4)  | (6.4)  |
| Wipro                               | 0.5    | 21.3   | 28.8   | 28.5   | 28.5   | 17.2   | 12.9   | 10.4   | 6.5    | 1.1    | (4.8)  | (6.9)  | (6.6)  |
| <b>Yoy % change in c/c revenues</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| L&T Infotech                        | 7.1    | 17.8   | 25.5   | 30.1   | 29.0   | 26.6   | 21.6   | NA     | NA     | NA     | NA     | NA     | NA     |
| LTI Mindtree                        |        |        |        |        |        |        |        | 16.3   | 13.5   | 8.2    | 4.4    | 3.1    | 1.2    |
| Mphasis                             | 4.9    | 16.3   | 17.2   | 24.2   | 26.8   | 22.1   | 15.6   | 5.7    | 3.1    | (8.4)  | (11.0) | 6.8    | (0.4)  |

Source: Companies, Kotak Institutional Equities

**Deal wins have been strong in recent quarters**

**Exhibit 136: TCV of deal wins for companies under coverage, March fiscal year ends, 2022-24 (US\$ mn)**

|  | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>TCV of deal wins (US\$ mn)</b>          |        |        |        |        |        |        |        |        |        |        |        |        |
| HCLT (a)                                   | 1,664  | 2,250  | 2,135  | 2,260  | 2,054  | 2,384  | 2,347  | 2,074  | 1,565  | 3,969  | 1,927  | 2,290  |
| Infosys (b)                                | 2,570  | 2,152  | 2,530  | 2,257  | 1,600  | 2,744  | 3,300  | 2,076  | 2,300  | 7,684  | 3,241  | 4,454  |
| Mphasis (c)                                | 505    | 241    | 335    | 347    | 302    | 302    | 401    | 309    | 707    | 255    | 241    | 177    |
| TCS (a)                                    | 8,100  | 7,600  | 7,600  | 11,300 | 8,200  | 8,100  | 7,800  | 10,000 | 10,200 | 11,200 | 8,100  | 13,200 |
| TechM (d)                                  | 815    | 750    | 704    | 1,011  | 802    | 716    | 795    | 592    | 359    | 640    | 381    | 500    |
| Wipro (e)                                  | 715    | 580    | 600    | 405    | 1,123  | 713    | 978    | 1,083  | 1,198  | 1,300  | 909    | 1,191  |
| <b>TCV on TTM basis (US\$ mn)</b>          |        |        |        |        |        |        |        |        |        |        |        |        |
| Infosys                                    | 14,956 | 13,963 | 9,363  | 9,509  | 8,539  | 9,131  | 9,901  | 9,720  | 10,420 | 15,360 | 15,301 | 17,679 |
| Mphasis                                    | 1,357  | 1,238  | 1,326  | 1,428  | 1,225  | 1,286  | 1,352  | 1,314  | 1,719  | 1,672  | 1,512  | 1,380  |
| TCS  | 32,700 | 31,700 | 32,500 | 34,600 | 34,700 | 35,200 | 35,400 | 34,100 | 36,100 | 39,200 | 39,500 | 42,700 |
| TechM                                      | 2,734  | 3,063  | 3,312  | 3,280  | 3,267  | 3,233  | 3,324  | 2,905  | 2,462  | 2,386  | 1,972  | 1,880  |
| <b>Growth in TCV on TTM basis (yoy, %)</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| Infosys                                    | 86     | 67     | (32)   | (33)   | (43)   | (35)   | 6      | 2      | 22     | 68     | 55     | 82     |
| Mphasis                                    | 65     | 23     | 24     | 29     | (10)   | 4      | 2      | (8)    | 40     | 30     | 12     | 5      |
| TCS  | 16     | 4      | 4      | 10     | 6      | 11     | 9      | (1)    | 4      | 11     | 12     | 25     |
| TechM                                      | (22)   | 25     | 99     | 48     | 19     | 6      | -      | (11)   | (25)   | (26)   | (41)   | (35)   |

Notes:

- (a) TCV of all deals signed.
- (b) TCV of all deals signed in excess of US\$50 mn.
- (c) TCV of new deal wins in excess of US\$15 mn.
- (d) TCV of new business signed in excess of US\$5 mn.
- (e) TCV of all deals signed in excess of US\$30 mn.

Source: Companies, Kotak Institutional Equities

IT services companies saw further decline in employee expense-to-sales ratio in 4QFY24 with the prints comparable to 4QFY23. Exhibit 137 shows total employee expense as a proportion of total revenues. Meanwhile, attrition rates were under control for the sector in 4QFY24 (see Exhibit 138).

**Further decline in employee cost-to-sales ratio in 4QFY24**

**Exhibit 137: Employee costs (including sub-contracting) as a proportion of sales of IT companies, March fiscal year-ends, 2022-24 (%)**

|                  | 4QFY22      | 1QFY23      | 2QFY23      | 3QFY23      | 4QFY23      | 1QFY24      | 2QFY24      | 3QFY24      | 4QFY24      |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| HCL Technologies | 70.0        | 70.6        | 69.6        | 67.5        | 69.3        | 70.9        | 70.3        | 68.9        | 70.4        |
| Infosys          | 62.7        | 62.4        | 63.3        | 61.6        | 62.6        | 63.0        | 61.2        | 61.1        | 61.6        |
| TCS              | 65.5        | 67.5        | 65.8        | 65.2        | 65.5        | 66.9        | 66.0        | 63.9        | 62.2        |
| Tech Mahindra    | 65.6        | 67.8        | 67.9        | 65.7        | 66.5        | 68.5        | 69.1        | 68.1        | 69.9        |
| Wipro            | 71.4        | 73.1        | 74.4        | 71.4        | 72.1        | 73.2        | 73.7        | 72.2        | 72.7        |
| <b>Total</b>     | <b>66.5</b> | <b>67.6</b> | <b>67.3</b> | <b>65.7</b> | <b>66.5</b> | <b>67.7</b> | <b>66.9</b> | <b>65.6</b> | <b>65.5</b> |

Source: Companies, Kotak Institutional Equities

**Attrition rates witnessed further moderation on a qoq basis**

**Exhibit 138: TTM voluntary attrition rates for IT services companies, March fiscal year-ends, 2019-24 (%)**

|                         | Dec-19 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cognizant               | 16     | 35     | 31     | 36     | 35     | 26     | 17     | 20     | 16     | 14     | 13     |
| HCL Tech                | 17     | 20     | 22     | 24     | 24     | 22     | 20     | 16     | 14     | 13     | 12     |
| Infosys                 | 18     | 26     | 28     | 28     | 27     | 24     | 21     | 17     | 15     | 13     | 13     |
| L&T Technology Services | 14     | 18     | 20     | 23     | 24     | 23     | 22     | 19     | 17     | 16     | 15     |
| LTIMindtree             | 17     | 22     | 24     | 24     | 24     | 22     | 20     | 18     | 15     | 14     | 14     |
| TCS                     | 12     | 15     | 17     | 20     | 22     | 21     | 20     | 18     | 15     | 13     | 13     |
| Tech Mahindra           | 20     | 24     | 24     | 25     | 24     | 20     | 17     | 13     | 11     | 10     | 10     |
| Wipro                   | 16     | 23     | 24     | 23     | 23     | 21     | 19     | 17     | 16     | 14     | 14     |

Notes:

- (a) Data for Cognizant is annualized, based on quarterly voluntary data.
- (b) Wipro Technologies only, quarterly annualized attrition, excludes involuntary attrition.
- (c) TCS includes both voluntary and involuntary attrition data.

Source: Companies, Kotak Institutional Equities

- ▶ **Strong sales growth for pharmaceuticals companies.** The larger pharmaceutical companies under our coverage reported a strong performance on a yoy basis in 4QFY24. Revenues of the major companies under coverage increased 12% yoy (-2.3% qoq), driven by a strong 18% yoy growth (-2% qoq growth) in US sales (see Exhibit 139). However, domestic revenues of the pharmaceutical companies grew a modest 5.6% yoy (-7.2% qoq) in 4QFY24 (see Exhibit 140). Importantly, most companies witnessed stability in the pricing environment in the US in 4QFY24, which supported higher gross and EBITDA margins on a yoy basis. Exhibit 141 shows gross and EBITDA margin for pharmaceuticals companies under our coverage.

**Decent-to-strong revenue growth for most pharmaceutical companies in 4QFY24**

**Exhibit 139: Trend of quarterly sales of Indian pharmaceuticals across geographies, 4QFY22-4QFY24**

|                                | Sales (Rs mn) |         |         |         |         |         |         |         |         | Yoy growth (%) |        |        |        |        |
|--------------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|--------|--------|--------|--------|
|                                | 4QFY22        | 1QFY23  | 2QFY23  | 3QFY23  | 4QFY23  | 1QFY24  | 2QFY24  | 3QFY24  | 4QFY24  | 4QFY23         | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| <b>Aurobindo</b>               |               |         |         |         |         |         |         |         |         |                |        |        |        |        |
| Total sales                    | 57,953        | 61,768  | 56,737  | 63,880  | 63,787  | 68,007  | 71,507  | 72,712  | 74,919  | 10             | 10     | 26     | 14     | 17     |
| ARV                            | 2,359         | 3,796   | 1,643   | 2,512   | 1,588   | 2,010   | 2,500   | 1,794   | 2,380   | (33)           | (47)   | 52     | (29)   | 50     |
| Europe                         | 15,407        | 15,481  | 15,162  | 17,012  | 16,598  | 18,370  | 17,690  | 17,284  | 18,320  | 8              | 19     | 17     | 2      | 10     |
| RoW                            | 3,913         | 3,850   | 3,867   | 4,423   | 5,392   | 4,336   | 5,830   | 6,060   | 8,550   | 38             | 13     | 51     | 37     | 59     |
| US                             | 27,281        | 29,711  | 26,376  | 30,012  | 30,450  | 33,040  | 33,850  | 37,560  | 35,880  | 12             | 11     | 28     | 25     | 18     |
| Others                         | 8,993         | 8,930   | 9,689   | 9,921   | 9,759   | 10,251  | 11,637  | 10,014  | 9,789   | 9              | 15     | 20     | 1      | 0      |
| <b>Cipla</b>                   |               |         |         |         |         |         |         |         |         |                |        |        |        |        |
| Total sales                    | 52,603        | 53,752  | 58,285  | 58,101  | 57,393  | 63,289  | 66,782  | 66,038  | 61,632  | 9              | 18     | 15     | 14     | 7      |
| Europe                         | 2,696         | 2,671   | 2,682   | 2,669   | 3,259   | 2,911   | 2,950   | 2,936   | 3,361   | 21             | 9      | 10     | 10     | 3      |
| India                          | 21,830        | 24,827  | 25,629  | 25,633  | 22,593  | 27,723  | 28,170  | 28,590  | 24,170  | 3              | 12     | 10     | 12     | 7      |
| RoW                            | 4,624         | 4,531   | 4,947   | 4,953   | 4,579   | 4,881   | 4,390   | 4,524   | 4,909   | (1)            | 8      | (11)   | (9)    | 7      |
| South Africa                   | 6,853         | 5,677   | 5,978   | 5,502   | 6,191   | 5,137   | 6,200   | 6,030   | 6,900   | (10)           | (10)   | 4      | 10     | 11     |
| US                             | 12,090        | 11,987  | 14,318  | 16,004  | 16,772  | 18,218  | 18,870  | 19,160  | 18,753  | 39             | 52     | 32     | 20     | 12     |
| Others                         | 4,510         | 4,060   | 4,731   | 3,340   | 3,999   | 4,419   | 6,202   | 4,798   | 3,539   | (11)           | 9      | 31     | 44     | (11)   |
| <b>Dr Reddy's Laboratories</b> |               |         |         |         |         |         |         |         |         |                |        |        |        |        |
| Total sales                    | 54,367        | 52,154  | 63,057  | 67,700  | 62,968  | 67,384  | 68,802  | 72,148  | 70,830  | 16             | 29     | 9      | 7      | 12     |
| CIS                            | 2,300         | 1,900   | 2,200   | 2,200   | 2,300   | 2,000   | 2,200   | 2,300   | 2,200   | -              | 5      | -      | 5      | (4)    |
| Europe                         | 4,444         | 4,141   | 4,199   | 4,303   | 4,960   | 5,071   | 5,286   | 4,970   | 5,208   | 12             | 22     | 26     | 16     | 5      |
| India                          | 9,689         | 13,339  | 11,500  | 11,274  | 12,834  | 11,482  | 11,860  | 11,800  | 11,265  | 32             | (14)   | 3      | 5      | (12)   |
| RoW                            | 2,813         | 3,929   | 4,146   | 3,997   | 3,642   | 3,952   | 4,163   | 4,633   | 4,892   | 29             | 1      | 0      | 16     | 34     |
| Russia                         | 6,900         | 3,200   | 5,900   | 6,900   | 5,200   | 5,600   | 5,800   | 5,900   | 5,000   | (25)           | 75     | (2)    | (14)   | (4)    |
| US                             | 19,971        | 17,815  | 28,001  | 30,567  | 25,321  | 31,978  | 31,700  | 33,492  | 32,626  | 27             | 80     | 13     | 10     | 29     |
| Others                         | 8,250         | 7,830   | 7,111   | 8,459   | 8,711   | 7,301   | 7,793   | 9,053   | 9,639   | 6              | (7)    | 10     | 7      | 11     |
| <b>Lupin</b>                   |               |         |         |         |         |         |         |         |         |                |        |        |        |        |
| Total sales                    | 38,645        | 36,040  | 40,912  | 42,446  | 43,303  | 47,421  | 49,392  | 50,799  | 48,951  | 12             | 32     | 21     | 20     | 13     |
| Europe                         | 2,241         | 2,122   | 2,082   | 2,222   | 2,396   | 2,474   | 3,010   | 3,267   | 3,071   | 7              | 17     | 45     | 47     | 28     |
| India                          | 13,511        | 14,920  | 15,841  | 15,213  | 14,786  | 16,384  | 16,915  | 17,251  | 16,015  | 9              | 10     | 7      | 13     | 8      |
| US                             | 14,162        | 10,104  | 13,295  | 15,271  | 15,503  | 15,905  | 18,666  | 18,885  | 19,006  | 9              | 57     | 40     | 24     | 23     |
| Others                         | 8,731         | 8,893   | 9,694   | 9,740   | 10,618  | 12,659  | 10,802  | 11,396  | 10,859  | 22             | 42     | 11     | 17     | 2      |
| <b>Sun Pharma</b>              |               |         |         |         |         |         |         |         |         |                |        |        |        |        |
| Total sales                    | 93,861        | 106,440 | 108,092 | 111,001 | 107,256 | 117,852 | 120,031 | 121,569 | 118,133 | 14             | 11     | 11     | 10     | 10     |
| EM                             | 15,475        | 18,911  | 20,704  | 21,158  | 18,204  | 21,452  | 23,449  | 20,946  | 20,348  | 18             | 13     | 13     | (1)    | 12     |
| India                          | 30,956        | 33,871  | 34,600  | 33,919  | 33,641  | 35,604  | 38,425  | 37,785  | 37,078  | 9              | 5      | 11     | 11     | 10     |
| RoW                            | 13,407        | 14,678  | 14,441  | 15,563  | 15,744  | 16,041  | 17,000  | 17,797  | 16,290  | 17             | 9      | 18     | 14     | 3      |
| US                             | 29,246        | 32,437  | 32,913  | 34,660  | 35,343  | 38,709  | 35,504  | 39,736  | 39,544  | 21             | 19     | 8      | 15     | 12     |
| Others                         | 4,777         | 6,543   | 5,434   | 5,703   | 4,324   | 6,046   | 5,653   | 5,305   | 4,873   | (9)            | (8)    | 4      | (7)    | 13     |

Source: Companies, Kotak Institutional Equities

**Moderate growth in yoy domestic pharmaceuticals sales**

**Exhibit 140: Domestic sales and growth of pharmaceuticals companies, 4QFY22-4QFY24**

|                         | Domestic sales (Rs mn) |        |        |        |        |        |        |        |        | Yoy growth (%) |        |        |        |        |
|-------------------------|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|--------|
|                         | 4QFY22                 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY23         | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| Cipla                   | 21,830                 | 24,827 | 25,629 | 25,633 | 22,593 | 27,723 | 28,170 | 28,590 | 24,170 | 3              | 12     | 10     | 12     | 7      |
| Dr Reddy's Laboratories | 9,689                  | 13,339 | 11,500 | 11,274 | 12,834 | 11,482 | 11,860 | 11,800 | 11,265 | 32             | (14)   | 3      | 5      | (12)   |
| Lupin                   | 13,511                 | 14,920 | 15,841 | 15,213 | 14,786 | 16,384 | 16,915 | 17,251 | 16,015 | 9              | 10     | 7      | 13     | 8      |
| Sun Pharma              | 30,956                 | 33,871 | 34,600 | 33,919 | 33,641 | 35,604 | 38,425 | 37,785 | 37,078 | 9              | 5      | 11     | 11     | 10     |
| Torrent Pharmaceuticals | 10,340                 | 12,450 | 12,240 | 12,590 | 12,570 | 14,260 | 14,440 | 14,150 | 13,810 | 22             | 15     | 18     | 12     | 10     |

Source: Companies, Kotak Institutional Equities



**Most pharma companies witnessed moderate yoy increase in margins in 4QFY24**

**Exhibit 141: Gross and EBITDA margin of pharma companies under our coverage, 4QFY22-4QFY24 (%)**

|                         | Gross margin (%) |        |        |        |        |        |        |        |        | EBITDA margin (%) |        |        |        |        |        |        |        |        |
|-------------------------|------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                         | 4QFY22           | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 4QFY22            | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 |
| Aurobindo Pharma        | 56.5             | 53.7   | 55.3   | 54.6   | 54.7   | 54.0   | 55.2   | 57.1   | 59.6   | 16.8              | 15.5   | 14.6   | 14.9   | 15.5   | 16.9   | 19.4   | 21.8   | 22.3   |
| Biocon                  | 134.4            | 132.8  | 132.4  | 133.3  | 132.6  | 135.3  | 132.6  | 134.2  | 133.9  | 24.6              | 18.7   | 20.3   | 21.9   | 26.4   | 20.9   | 21.4   | 16.0   | 23.4   |
| Blue Jet Healthcare     | —                | 52.7   | 52.0   | 55.0   | 53.8   | 55.9   | 56.8   | 57.5   | 53.3   | —                 | 26.5   | 30.9   | 30.6   | 32.4   | 32.8   | 34.5   | 32.7   | 28.8   |
| Cipla                   | 59.2             | 62.3   | 62.9   | 65.5   | 64.0   | 64.7   | 65.4   | 66.4   | 66.7   | 14.3              | 21.3   | 22.3   | 24.2   | 20.5   | 23.6   | 26.0   | 26.5   | 21.4   |
| Concord Biotech         | —                | 78.4   | 78.0   | 79.5   | 79.2   | 79.3   | 79.8   | 80.4   | 72.1   | —                 | 35.7   | 23.9   | 46.4   | 47.3   | 37.0   | 45.4   | 44.0   | 42.1   |
| Divis Laboratories      | 66.7             | 64.0   | 63.6   | 56.7   | 57.6   | 61.3   | 57.6   | 60.7   | 60.8   | 43.9              | 37.6   | 33.5   | 23.9   | 25.0   | 28.3   | 25.1   | 26.4   | 31.7   |
| Dr Reddy's Laboratories | 52.9             | 49.9   | 59.1   | 59.2   | 57.2   | 58.7   | 58.7   | 58.5   | 58.6   | 21.5              | 17.7   | 30.0   | 30.4   | 25.1   | 30.3   | 28.9   | 28.0   | 25.5   |
| Gland Pharma            | 50.6             | 56.3   | 50.3   | 54.5   | 53.5   | 62.5   | 62.0   | 61.2   | 61.0   | 31.6              | 31.5   | 28.4   | 30.9   | 21.5   | 24.3   | 23.6   | 23.1   | 23.3   |
| Glenmark Life Sciences  | 50.4             | 53.3   | 52.9   | 51.0   | 54.9   | 57.1   | 54.1   | 57.7   | 55.5   | 27.7              | 30.0   | 28.2   | 26.9   | 33.2   | 33.4   | 28.1   | 30.1   | 26.4   |
| Laurus Labs             | 52.0             | 57.6   | 55.1   | 53.4   | 49.7   | 50.6   | 52.5   | 54.4   | 49.8   | 27.8              | 29.5   | 28.5   | 26.1   | 20.7   | 14.1   | 15.3   | 15.2   | 16.8   |
| Lupin                   | 58.0             | 57.0   | 58.7   | 60.5   | 60.5   | 65.9   | 66.2   | 66.8   | 68.3   | 6.9               | 6.2    | 10.9   | 12.3   | 13.0   | 17.8   | 18.2   | 20.0   | 20.1   |
| Mankind Pharma          | —                | 65.4   | 66.8   | 67.6   | 67.2   | 68.2   | 69.5   | 68.3   | 69.8   | —                 | 20.9   | 24.4   | 20.9   | 20.3   | 25.4   | 25.2   | 23.3   | 24.2   |
| Sun Pharmaceuticals     | 73.1             | 73.1   | 75.3   | 75.1   | 79.4   | 76.9   | 77.1   | 77.9   | 80.1   | 23.1              | 25.4   | 29.2   | 26.7   | 25.9   | 27.9   | 26.4   | 27.1   | 25.8   |
| Torrent Pharmaceuticals | 70.4             | 71.9   | 72.0   | 70.7   | 71.7   | 74.9   | 75.2   | 74.5   | 75.3   | 25.4              | 30.3   | 29.6   | 29.1   | 29.2   | 30.5   | 31.0   | 31.8   | 32.2   |

Source: Companies, Kotak Institutional Equities

Among the major pharmaceutical companies under our coverage, (1) ARBP reported 17% yoy (+3% qoq) growth in overall revenues, (2) CIPLA reported 7.4% yoy growth in overall revenues (-6.7% qoq) driven by weakness in India OTC sales and gRevlimid sales, (3) DRRD's overall sales increased 12.5% yoy (-1.8% qoq), led by lower gRevlimid sales and price erosion in a few other molecules, (4) LPC's overall sales increased 13% yoy (-3.6% qoq), due to lower gPrezista sales and low seasonal sales and (5) SUNP's overall sales increased 10% yoy led by higher specialty sales, growth in Taro and stability in base business.

- **Strong sales reported by various real estate players.** In the case of residential real estate, most companies under coverage reported (1) very strong yoy growth in sales volume with the exception of DLFU and SOBHA; DLFU does not report sales volumes but we infer the same from the steep decline in sales value but (2) moderate growth in sales value, pulled down by a sharp drop in DLFU's sales. Exhibits 142-143 show the trend of quarterly sales of the real estate companies under our coverage.

**Robust volume growth for real estate companies in 4QFY24**

**Exhibit 142: Sales volume of residential real estate of companies under coverage, March fiscal year-ends, 2022-24 (mn sq. ft)**

|                       | Residential sales volume (mn sq. ft) |            |            |             |             |            |             |             |             |
|-----------------------|--------------------------------------|------------|------------|-------------|-------------|------------|-------------|-------------|-------------|
|                       | 4QFY22                               | 1QFY23     | 2QFY23     | 3QFY23      | 4QFY23      | 1QFY24     | 2QFY24      | 3QFY24      | 4QFY24      |
| Brigade Enterprises   | 1.5                                  | 1.1        | 1.2        | 1.5         | 2.3         | 1.5        | 1.7         | 1.7         | 2.6         |
| Godrej Properties     | 4.2                                  | 2.8        | 2.7        | 4.4         | 5.3         | 2.3        | 5.2         | 4.3         | 8.2         |
| Macrotech Developers  | 3.0                                  | 2.2        | 2.1        | 2.5         | 2.5         | 2.8        | 2.6         | 2.6         | 3.3         |
| Oberoi Realty         | 0.5                                  | 0.4        | 0.4        | 0.4         | 0.3         | 0.2        | 0.4         | 0.4         | 0.5         |
| Sobha                 | 1.3                                  | 1.4        | 1.3        | 1.5         | 1.5         | 1.4        | 1.7         | 1.7         | 1.3         |
| Sunteck Realty        | 0.6                                  | 0.4        | 0.3        | 0.4         | 0.5         | 0.4        | 0.4         | 0.4         | 0.5         |
| <b>Total</b>          | <b>11.2</b>                          | <b>8.3</b> | <b>8.0</b> | <b>10.6</b> | <b>12.3</b> | <b>8.5</b> | <b>11.9</b> | <b>11.1</b> | <b>16.4</b> |
| <b>Yoy growth (%)</b> |                                      |            |            |             |             |            |             |             |             |
| Brigade Enterprises   | (7)                                  | 50         | (11)       | 34          | 55          | 28         | 43          | 13          | 12          |
| Godrej Properties     | 1                                    | 267        | (24)       | 99          | 24          | (20)       | 90          | (2)         | 56          |
| Macrotech Developers  | 67                                   | 214        | 17         | 4           | (17)        | 27         | 24          | 4           | 32          |
| Oberoi Realty         | (51)                                 | 335        | (17)       | (65)        | (50)        | (40)       | (5)         | 11          | 73          |
| Sobha                 | —                                    | 52         | (1)        | 12          | 10          | 3          | 26          | 12          | (9)         |
| Sunteck Realty        | 102                                  | 82         | (6)        | 24          | (19)        | (3)        | 27          | 18          | 10          |
| <b>Total</b>          | <b>9</b>                             | <b>143</b> | <b>(9)</b> | <b>27</b>   | <b>10</b>   | <b>3</b>   | <b>48</b>   | <b>5</b>    | <b>33</b>   |

Notes:

(a) DLF does not provide quarterly sales volumes.

Source: Companies, Kotak Institutional Equities

**Robust sales growth for most real estate companies; lack of new launches hurt DLF in 4QFY24**

**Exhibit 143: Sales value of residential real estate of companies under coverage, March fiscal year-ends, 2022-24**

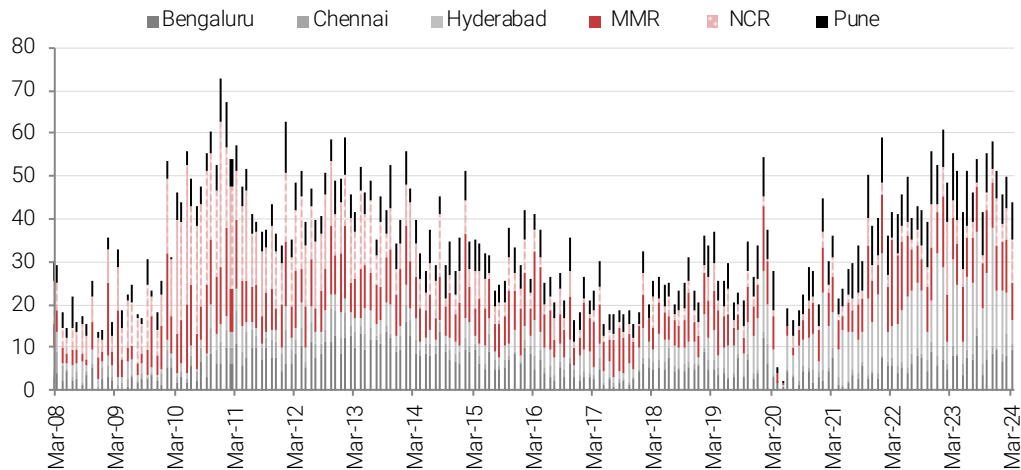
|                       | Residential sales value (Rs bn) |            |            |            |            |            |            |            |            |
|-----------------------|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                       | 4QFY22                          | 1QFY23     | 2QFY23     | 3QFY23     | 4QFY23     | 1QFY24     | 2QFY24     | 3QFY24     | 4QFY24     |
| Brigade Enterprises   | 10                              | 7          | 8          | 9          | 15         | 10         | 12         | 15         | 21         |
| DLF                   | 27                              | 20         | 21         | 25         | 85         | 20         | 22         | 90         | 15         |
| Godrej Properties     | 32                              | 25         | 24         | 33         | 41         | 23         | 50         | 57         | 95         |
| Macrotech Developers  | 35                              | 28         | 31         | 30         | 30         | 34         | 35         | 34         | 42         |
| Oberoi Realty         | 9                               | 8          | 12         | 6          | 7          | 5          | 10         | 8          | 18         |
| Sobha                 | 11                              | 11         | 12         | 14         | 15         | 11         | 13         | 17         | 13         |
| Sunteck Realty        | 5                               | 3          | 3          | 4          | 5          | 4          | 4          | 5          | 7          |
| <b>Total</b>          | <b>129</b>                      | <b>103</b> | <b>110</b> | <b>122</b> | <b>197</b> | <b>106</b> | <b>147</b> | <b>226</b> | <b>211</b> |
| <b>Yoy growth (%)</b> |                                 |            |            |            |            |            |            |            |            |
| Brigade Enterprises   | —                               | 58         | (6)        | 38         | 47         | 33         | 62         | 57         | 47         |
| DLF                   | 158                             | 101        | 36         | 24         | 210        | —          | 9          | 262        | (83)       |
| Godrej Properties     | 22                              | 403        | (6)        | 116        | 26         | (10)       | 108        | 76         | 135        |
| Macrotech Developers  | 37                              | 194        | 57         | 16         | (12)       | 19         | 12         | 12         | 40         |
| Oberoi Realty         | (53)                            | 347        | 39         | (68)       | (27)       | (37)       | (17)       | 25         | 161        |
| Sobha                 | 4                               | 68         | 13         | 36         | 32         | (1)        | 10         | 21         | (13)       |
| Sunteck Realty        | 36                              | 89         | 24         | 12         | 7          | 16         | 17         | 15         | 26         |
| <b>Total</b>          | <b>22</b>                       | <b>161</b> | <b>22</b>  | <b>20</b>  | <b>52</b>  | <b>3</b>   | <b>33</b>  | <b>86</b>  | <b>7</b>   |

Source: Companies, Kotak Institutional Equities

The strong yoy sales growth in value terms reflect the strong demand environment, enabling most companies to increase realizations sharply on a yoy basis. We note that the six major metro cities have seen strong new launches in the past few months (during the festive period). Nevertheless, the strong demand environment has helped keep inventory at low levels over the past few months. Exhibits 144-146 give details of launches, sales volumes and inventory in the major metropolitan markets in India.

**New launches have been steady**

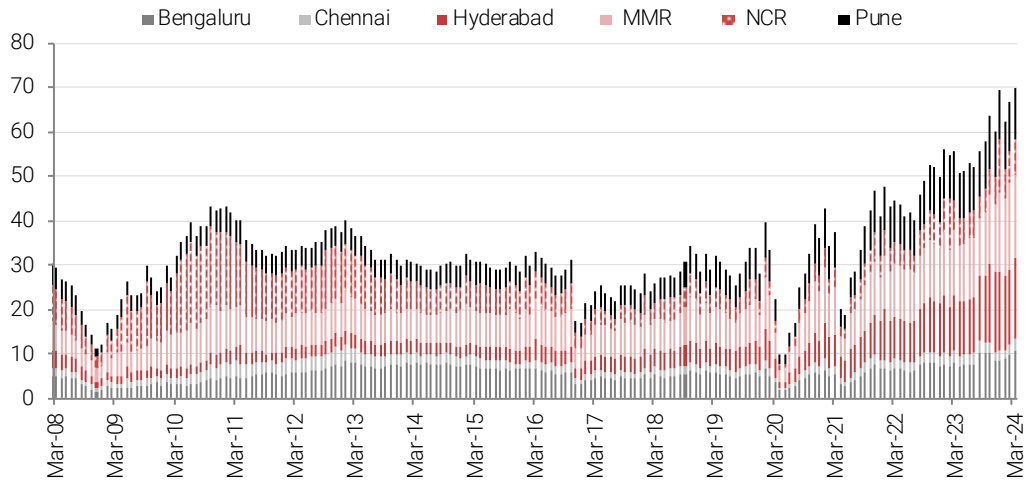
**Exhibit 144: New launches trend, residential, March fiscal year-ends, 2008-24 (mn sq. ft)**



Source: Prop Equity, Kotak Institutional Equities

**Sales volumes have continued to rise**

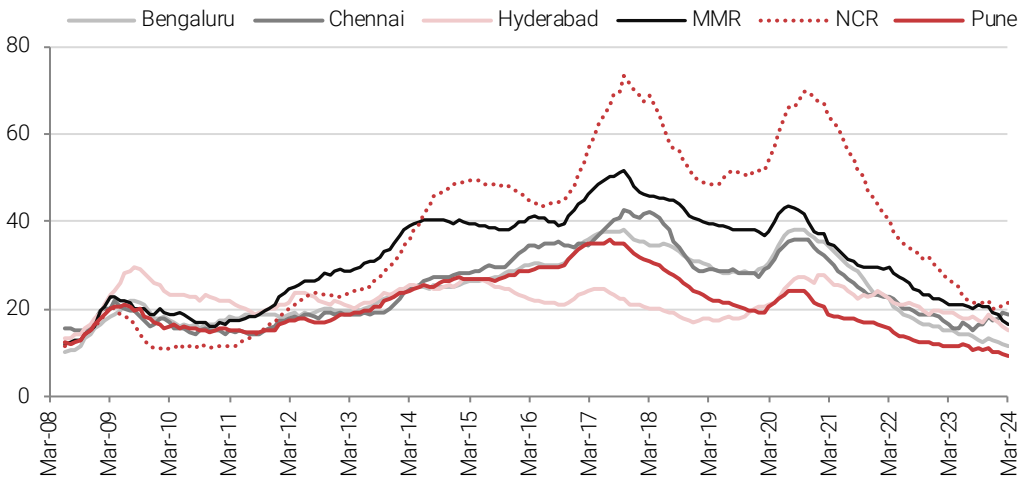
**Exhibit 145: Absorption trend, residential, March fiscal year-ends, 2008-24 (mn sq. ft)**



Source: Prop Equity, Kotak Institutional Equities

**Inventory has declined further, as demand remains robust**

**Exhibit 146: 12-month rolling inventory, residential, March fiscal year-ends, 2009-24 (months)**



Source: Prop Equity, Kotak Institutional Equities

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

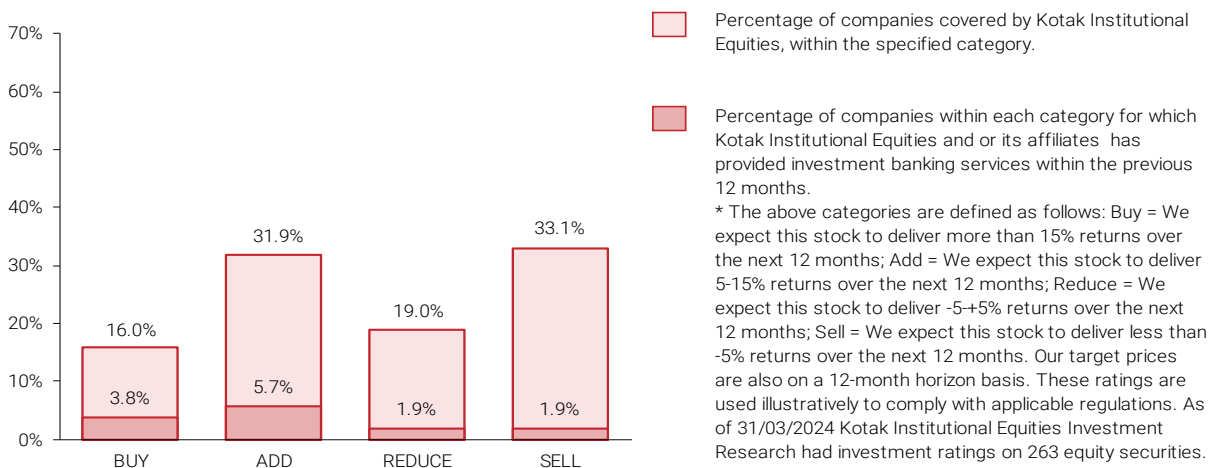
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## Corporate Office

Kotak Securities Ltd.  
27 BKC, Plot No. C-27, "G Block" Bandra Kurla  
Complex, Bandra (E) Mumbai 400 051, India  
Tel: +91-22-43360000

## Overseas Affiliates

Kotak Mahindra (UK) Ltd  
8th Floor, Portoken House  
155-157 Minorities, London EC3N 1LS  
Tel: +44-20-7977-6900

Kotak Mahindra Inc  
PENN 1,1 Pennsylvania Plaza,  
Suite 1720, New York, NY 10119, USA  
Tel: +1-212-600-8858

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com) / [www.kotaksecurities.com](http://www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137/(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com)

| Details of                | Contact Person    | Address   | Contact No.  | Email ID   |
|---------------------------|-------------------|---|--------------|--|
| Customer Care/ Complaints | Mr. Ritesh Shah   | Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097 | 18002099393  | <a href="mailto:ks.escalation@kotak.com">ks.escalation@kotak.com</a>   |
| Head of Customer Care     | Mr. Tabrez Anwar  |   | 022-42858208 | <a href="mailto:ks.servicehead@kotak.com">ks.servicehead@kotak.com</a> |
| Compliance Officer        | Mr. Hiren Thakkar |   | 022-42858484 | <a href="mailto:ks.compliance@kotak.com">ks.compliance@kotak.com</a>   |
| CEO                       | Mr. Shripal Shah  |   | 022-42858301 | <a href="mailto:ceo.ks@kotak.com">ceo.ks@kotak.com</a>                 |

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