

# Strategy

India

February 16, 2025

## Slow going and going slowly

We do not find much value in most parts of the market despite the recent sharp correction in the market. The Indian market may stay lackluster, weighed down by (1) rich valuations across sectors and stocks, (2) potential earnings downgrades and (3) higher-for-longer global interest rates. The 3QFY25 results season did little to change our cautious view of the market.

### Not much value as yet despite sharp correction in parts of the market

We do not find much value in most parts of the market despite the sharp correction in several sectors and stocks in the past few months. Most sectors and stocks are still trading at rich valuations, with the extent of overvaluation rising in inverse correlation to market capitalization, quality and risk.

### FPIs may not return in a hurry; DIIs are buying in a hurry

The battle between FPIs and DIIs will likely continue in the next few months, with (1) FPIs likely to continue with their cautious stance, given a challenging global investment environment for EMs and (2) DIIs likely to deploy aggressively, given (1) high cash positions with MFs and (2) possibly strong (though tapering) inflows from retail investors. However, a period of low trailing returns could dampen return expectations among retail investors and inflows into domestic mutual funds. The 12-month return of the NSE-50 Index, the Nifty Midcap 100 Index and the Nifty 100 Smallcap 100 Index has come down to 5%, 3% and (-)3% with negative returns of 5%, 12% and 15% in the past six months.

### Challenges emerging in both macro and micro

India's macroeconomic position has deteriorated somewhat in the past few months, with (1) a continued slowdown in consumption demand (especially of basic staple items), reflecting the income and inflation challenges for the low-income households, (2) a likely slowdown in government capex (one of the drivers of the economy until recently) and (3) increased pressure on the external position (low BoP surplus, a sharp decline in FX reserves and a weakening INR). 3QFY25 results and management commentary showed (1) a modest deterioration in the asset quality of banks, led by the MFI book of small finance banks and MFI-NBFCs, (2) continued weakness in consumption demand despite some recovery in rural demand, but (3) strong momentum in investment.

### 3QFY25 results weak in general; misses punished

3QFY25 net income of the Nifty-50 Index grew 8.8%, moderately ahead of our expectation of 7.8% growth, and 3QFY25 net income of the KIE coverage universe grew 8.2%, moderately below our expectation of a 9.2% increase. 3QFY25 EBITDA of the Nifty-50 Index increased 6.7% versus our expectation of 5.1% growth. The weak 3QFY25 operating results again highlighted some of our long-standing concerns around (1) the Street's optimistic profitability and volume assumptions and (2) disruption threats across sectors.

### Key estimates summary

	2025E	2026E	2027E
<b>Nifty estimates</b>			
Earnings growth (%)	4.4	14.9	14.2
Nifty EPS (Rs)	1,032	1,179	1,348
Nifty P/E (X)	22.2	19.5	17.0
<b>Macro data</b>			
Real GDP (%)	6.1	6.4	6.5
Avg CPI inflation (%)	4.8	4.2	4.1

Source: Kotak Institutional Equities estimates

### Quick Numbers

For the Nifty-50 Index, 3QFY25 net income grew 8.8%, slightly above our 7.8% estimate, while EBITDA grew 6.7%, moderately above our 5.1% estimate

We expect net profits of the Nifty-50 Index to grow 4.4% in FY2025E (8.8% without BPCL, COAL and HPCL through ONGC) and 15% in FY2026E (15%)

The Nifty-50 Index is trading at 19.5X FY2026E 'EPS' and 17X FY2027E 'EPS'

### Related Research

- Strategy: Reading the minds of wallets of
- Strategy: Narrative #1: Overheated coal turns
- Strategy: FPIs versus DIIs – 'fight' to the finish?

[Full sector coverage on KINSITE](#)

## Table of Contents

<b>Overview: Economy going slow, market going slowly .....</b>	<b>3</b>
No major trigger for the market after the recent sharp correction .....	3
Positive drivers .....	6
Negative drivers .....	21
Unknown factors .....	33
Model portfolios: A few changes .....	68
<b>3QFY25 results analysis: Helped by banks .....</b>	<b>70</b>
KIE coverage universe: Net profits increased 8.2% yoy .....	77
<b>3QFY25 results takeaways: No festive cheer .....</b>	<b>81</b>
Lenders witnessed slowing credit growth but stable asset quality; consumption remains subdued .....	81

# 1

## Overview: Economy going slow, market going slowly

We expect the Indian market to likely see a diverse performance across caps, sectors and stocks in the next few months. Large-cap. indices and stocks may be range-bound, while several mid-cap., small-cap. and 'narrative' stocks may see a sharper correction. The Indian market faces headwinds from (1) expensive valuations, (2) likely earnings downgrades, (3) higher-for-longer global interest rates and (4) likely low interest in EMs among global investors.

### No major trigger for the market after the recent sharp correction

We do not find much value in most parts of the market (across caps and sectors) despite the sharp correction in the market in the past few months (see Exhibits 1-3). Most stocks under our coverage still trade at rich valuations and offer a large potential downside to their fair values despite (1) the fair values being based on a 1-year forward basis (December 2026 or March 2027 EBITDA or EPS as the base); the fair values as of today would be even lower and (2) our reasonably aggressive assumptions on growth, profitability and valuation multiples. The fair values have meaningful downside risks too. Our assumptions would be more conservative versus the Street's in the consumption and investment sectors.

### India has underperformed most global markets in the past 12 months

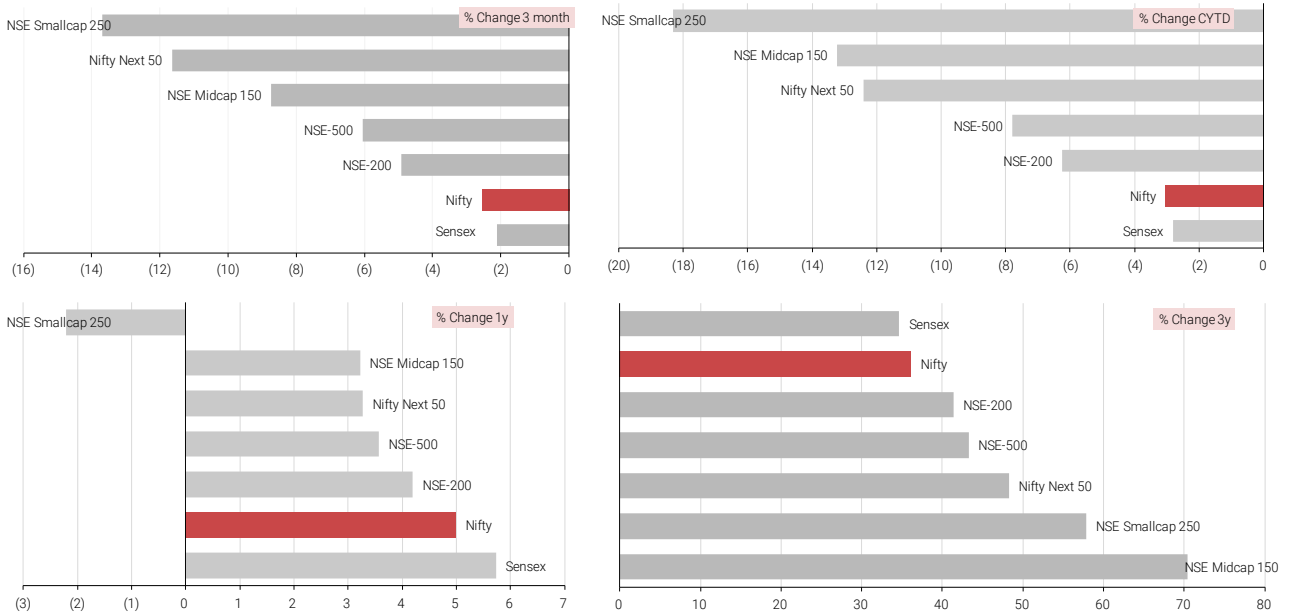
Exhibit 1: Performance (not annualized) of emerging and developed markets over period of time (%)

	% 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	4	4	9	5	12	18	20	46	7	2	4	7	9	5	13	19	
France	10	12	12	11	6	19	35	72	12	11	6	12	3	10	30	58	
Germany	11	17	26	13	32	49	64	105	13	16	20	14	28	38	58	88	
Hong Kong	18	16	32	13	42	(8)	(19)	(8)	18	16	32	13	43	(8)	(19)	(9)	
Japan	2	2	7	(2)	3	45	65	119	5	4	3	1	1	10	19	70	
Singapore	2	4	18	2	22	13	20	13	4	4	16	4	22	14	25	14	
UK	7	8	6	7	15	16	18	27	10	7	3	7	15	8	14	4	
US (Dow Jones)	5	2	12	5	15	29	52	148	5	2	12	5	15	29	52	148	
US (Nasdaq)	5	4	16	3	25	45	105	308	5	4	16	3	25	45	105	308	
US (S&P500)	5	3	12	4	22	39	81	192	5	3	12	4	22	39	81	192	
<b>MSCI World</b>									<b>6</b>	<b>4</b>	<b>11</b>	<b>5</b>	<b>18</b>	<b>29</b>	<b>60</b>	<b>122</b>	
<b>Emerging markets</b>																	
Brazil	5	(2)	(6)	4	(2)	10	9	147	10	(2)	(11)	11	(16)	(1)	(19)	21	
MSCI China	14	10	25	9	34	(15)	(19)	2	14	10	25	9	35	(15)	(19)	2	
<b>MSCI India</b>	<b>(2)</b>	<b>(4)</b>	<b>(8)</b>	<b>(5)</b>	<b>4</b>	<b>38</b>	<b>95</b>	<b>148</b>	<b>(2)</b>	<b>(6)</b>	<b>(11)</b>	<b>(6)</b>	<b>(0)</b>	<b>21</b>	<b>60</b>	<b>78</b>	
Indonesia	(5)	(8)	(11)	(6)	(9)	(1)	13	24	(4)	(10)	(14)	(6)	(12)	(13)	(4)	(3)	
Korea	4	7	(2)	8	(1)	(4)	15	32	5	4	(8)	10	(8)	(20)	(5)	1	
Malaysia	1	(1)	(1)	(3)	4	0	3	(12)	3	1	(2)	(2)	12	(5)	(4)	(29)	
Mexico	9	7	1	9	(5)	3	20	26	9	7	(7)	11	(21)	3	9	(9)	
Philippines	(4)	(8)	(10)	(7)	(12)	(18)	(17)	(22)	(2)	(6)	(11)	(7)	(15)	(27)	(27)	(40)	
Taiwan	2	2	5	1	24	29	96	143	2	1	4	1	19	10	80	133	
Thailand	(5)	(12)	(2)	(9)	(8)	(24)	(17)	(21)	(2)	(9)	2	(8)	(2)	(27)	(23)	(24)	
<b>MSCI EM</b>									<b>6</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>10</b>	<b>(9)</b>	<b>1</b>	<b>13</b>	

Source: Bloomberg, Kotak Institutional Equities

**Indian markets saw a sharp correction in the past few months**

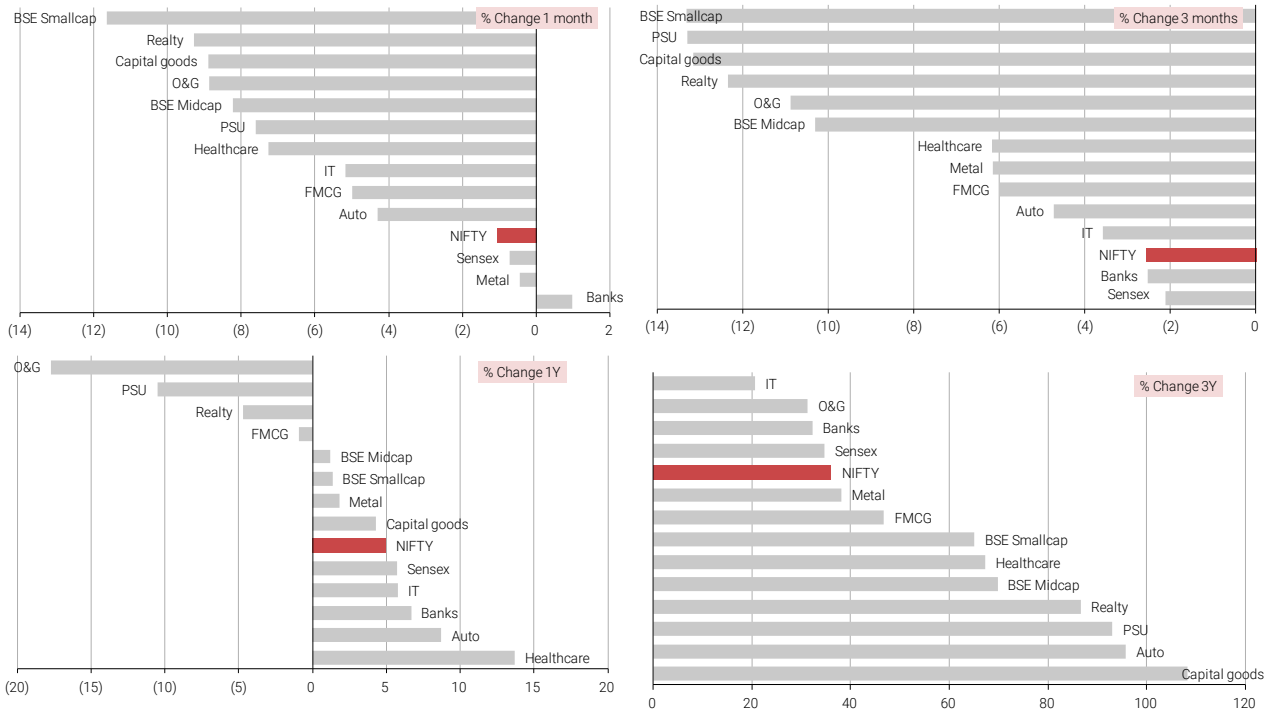
**Exhibit 2: Performance of major Indian indices (%)**



Source: Bloomberg, Kotak Institutional Equities

**Most sectors witnessed significant declines in the past 1-3 months**

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



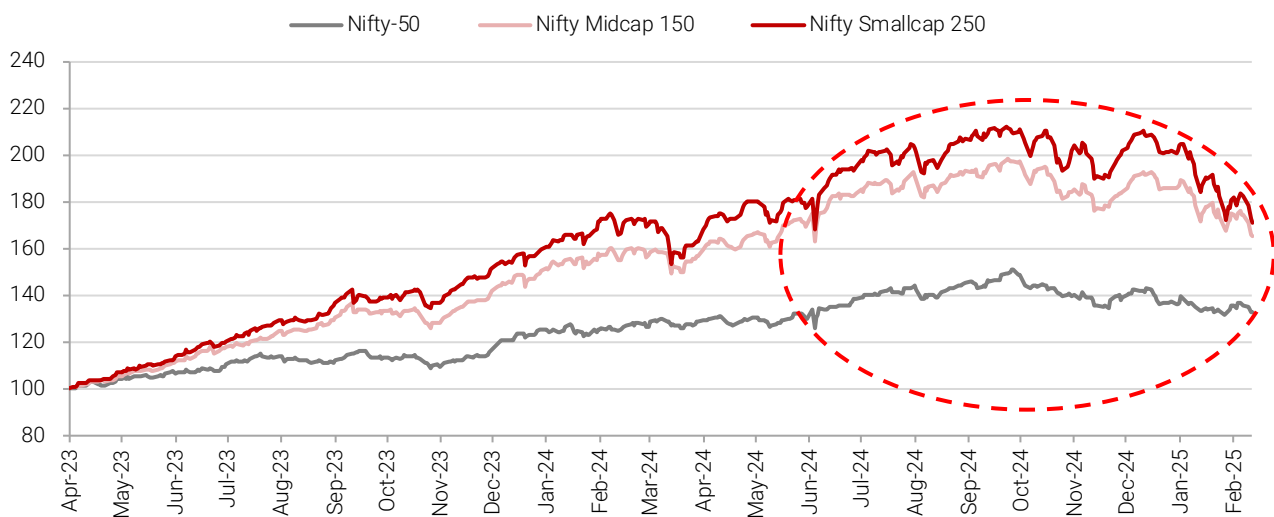
Source: Bloomberg, Kotak Institutional Equities

We expect the Street to tone down its (1) fair valuation multiples for stocks and (2) earnings assumptions of companies in light of the market correction. The analyst and investment community had started to use (1) random multiples, (2) exotic valuation methodologies and (3) aggressive price/profitability and volume assumptions to justify stock prices, given the irrational exuberance in the market in the past 18-24 months. In other words, we expect the “theory of reflexivity” that worked on the way up to also play on the way down. This will be particularly true for the mid-cap., small-cap. and ‘narrative’ stocks, where valuations had largely become a figment of the Street’s imagination.

We expect a likely directionless market (headline indices) for the next few months, as the market adjusts to the excesses of the past 1-2 years. The Indian market has been largely flat on a 12-month basis (see Exhibit 4), even as large-cap., mid-cap. and small-cap. indices, several sectors and stocks have declined meaningfully from the peak levels. Nonetheless, valuations are still fair-to-full-to-frothy for most parts of the market. The mid-cap., small-cap. and ‘narrative’ stocks will likely see further sharp correction.

### Key benchmark indices remained rangebound in the past few months

Exhibit 4: Performance of Nifty-50, Nifty Midcap 150 and Nifty Smallcap 250 indices (base=100)



Source: Bloomberg, Capitaline, Kotak Institutional Equities

The positive drivers of (1) a decent macro-economic position though some risks have emerged of late, especially on the external front and (2) reasonable earnings growth in FY2026 (we expect 4.4% and 15% growth in net profits of the Nifty-50 Index and our coverage universe for FY2026), albeit with some downside risks may not be enough to drive up the market meaningfully. However, they may be good enough both on an absolute and relative basis to sustain the interest of investors in the market.

The negative factors of (1) rich across-the-board valuations barring financials, (2) weak consumption demand due to structural employment challenges, (3) higher-for-longer global interest rates and (4) weak investment sentiment for EMs may provide headwinds to the market. We rule out a major re-rating of the market, given the very rich valuations for most parts of the consumption, investment and outsourcing segments of the market.

Lastly, the market will have to grapple with (1) an uncertain and unsettled global environment, as the new US administration announces and implements its economic policies in the next few months and (2) any potential change in the hitherto price-insensitive investment behavior of non-institutional investors who have been supremely optimistic about the market. They have been price-agnostic buyers at every price point of the market for the past 3-4 years despite the recent correction (including January 2025, which saw strong inflows into domestic mutual funds). The next few months could also see negative changes in the market’s views on certain ‘narrative’ themes, sectors and stocks. A few of these have got exposed in the past few months, and we expect more narratives to break down under the harsh glare of facts and figures.

We look at these factors in more detail below.

**Positive drivers**

We highlight (1) India’s decent macroeconomic position and (2) reasonable earnings outlook for FY2026 as positives that will likely sustain the interest of investors in the market. As such, we would rule out a major correction in the market (headline large-cap. indices), barring negative geopolitical or other catastrophes. However, we expect a further correction in the mid- and small-cap. indices and ‘narrative’ stocks, given a dangerous combination of rich valuations and weak fundamentals in many cases.

- ▶ **Decent macro-economic outlook with some old concerns emerging.** We see a reasonably solid outlook for the Indian economy in FY2026, with (1) strong GDP growth, (2) improvement in inflation and fiscal outlook and (3) reasonable BoP/CAD. Among the key highlights, we expect GDP to grow 6.4% in FY2026 and the RBI to cut policy rates by 25-50 bps through FY2026 (it already cut 25 bps cut on February 7).
  - **Growth.** We expect India’s GDP to grow around 6.5% in FY2026 (see Exhibit 5), aided by (1) a moderate pick-up in both consumption and private sector investment through FY2026 and (2) continued strong growth in parts of the construction (housing) and manufacturing sectors. However, consumption demand may face challenges through FY2026 from India’s persistent employment problems. We discuss this issue in detail later. In addition, government investment may act as a headwind, given (1) no growth in central government allocation to capex for certain core sectors in the FY2026 Union Budget and (2) likely low growth in state governments’ capex, given the rising allocation to social welfare schemes.

**We estimate FY2025 and FY2026 GDP growth at 6.1% and 6.4%**

Exhibit 5: Real GVA and components growth, March fiscal-year ends, 2018-26E (%)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	FY2020-25 CAGR (%)
<b>Real GVA</b>	3.9	(4.1)	9.4	6.7	7.2	6.4	7.2	6.1	6.3	4.9
<b>Agriculture and allied Industry</b>	6.2	4.0	4.6	4.7	1.4	3.8	1.4	3.4	3.4	3.6
Mining	(3.0)	(8.2)	6.3	1.9	7.1	2.9	7.1	4.4	5.5	2.1
Manufacturing	(3.0)	3.1	10.0	(2.2)	9.9	5.3	9.9	4.3	6.4	4.9
Electricity	2.3	(4.2)	10.3	9.4	7.5	6.8	7.5	5.4	6.3	5.6
Construction	1.6	(4.6)	19.9	9.4	9.9	8.6	9.9	8.7	8.1	8.4
<b>Services</b>	6.4	(8.4)	9.2	10.0	7.6	7.2	7.6	7.1	6.7	4.9
Trade, hotel, transport, communication	6.0	(19.9)	15.2	12.0	6.4	5.8	6.4	5.9	6.3	3.1
Financial, real estate, professional services	6.8	1.9	5.7	9.1	8.4	7.3	8.4	6.6	6.0	6.3
Public admin, defence, and others	6.6	(7.6)	7.5	8.9	7.8	9.1	7.8	9.6	8.5	5.1
<b>Real GDP</b>	6.8	6.5	3.9	(5.8)	9.7	7.0	8.2	6.1	6.4	4.9

Source: CEIC, Kotak Institutional Equities estimates

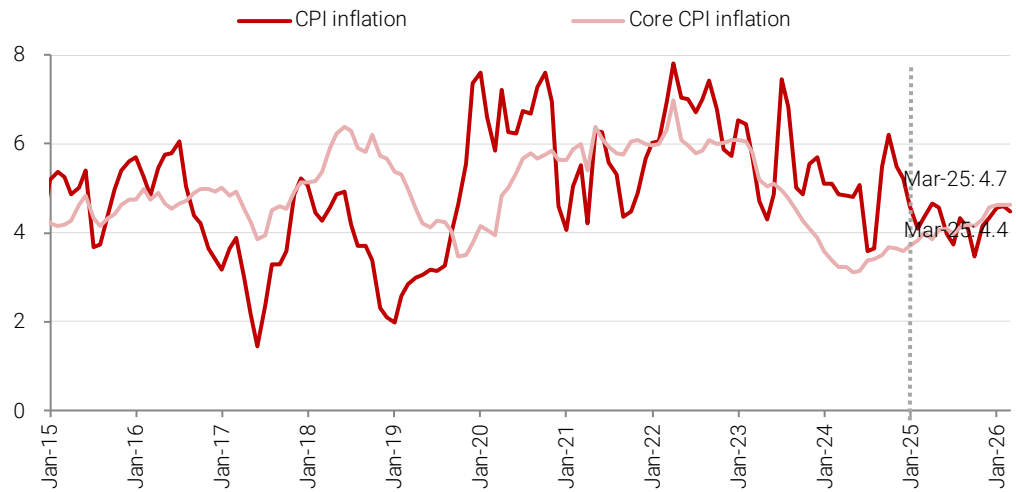
The FY2026 Budget did very little to change the composition and trajectory of India’s growth: (1) strong consumption and investment (residential real estate) demand among high-income households, (2) weak consumption demand among low-income households, (3) slowing government (both central and state) capex and (4) somnolent private sector investment.

The budget did provide Rs1 tn of benefits to tax-paying households, which may boost (1) consumption of discretionary goods and services and (2) savings. However, these benefits will accrue to India’s high-income households; most tax-paying households will rank among India’s high-income households. These households are relatively well-off and have seen solid growth in income and wealth in the past 3-4 years. They will not change their consumption and savings behaviour meaningfully. The budget did little to alleviate the challenges of rural and urban poor households. The allocations for the major social welfare schemes that provide benefits (income and subsidies) to the rural households were left largely unchanged,

- Inflation/interest rates.** We expect a more benign inflation outlook for FY2026 (see Exhibits 6-7), with average CPI inflation at 4.2% versus 4.8% in FY2025. We assume moderate domestic food inflation and steady global commodity prices (see Exhibit 8). We expect the RBI to cut policy rates by an additional 25-50 bps through FY2026, assuming CPI inflation was to broadly follow the RBI's (and our) expectations. The RBI cut policy rate by 25 bps in its February 7 policy meeting. It signaled a change in its stance to support growth, given its growing comfort (presumably) on India's inflation trajectory. The central bank projects domestic inflation will likely moderate to around 4% by 3QCY25, in line with its stated target of 4% and well below the current policy rate of 6.25%.

**We expect FY2026E average CPI at 4.2%; core inflation to average 4.3%**

**Exhibit 6: Headline and core CPI inflation (%)**



Source: CEIC, Kotak Institutional Equities estimates

**RBI projects CPI inflation estimate at 4.8% in FY2025, 4.2% in FY2026**

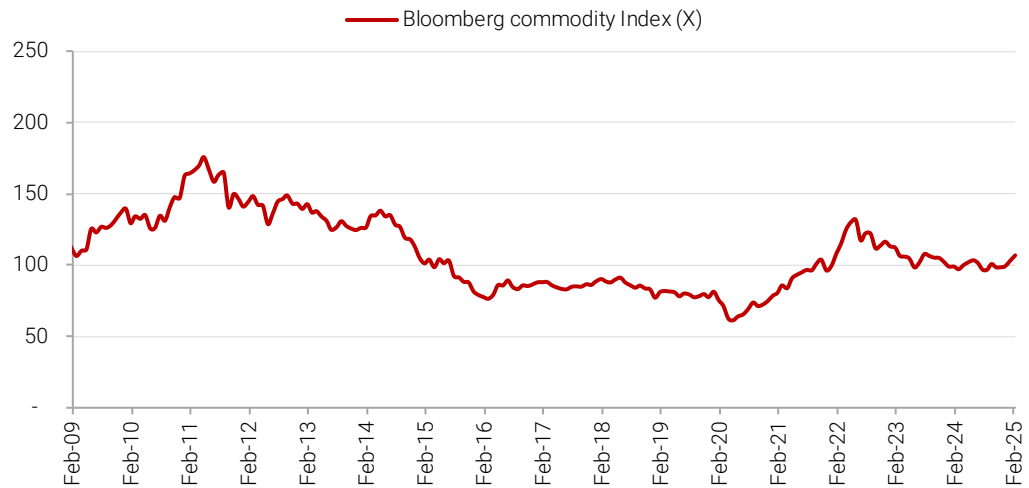
**Exhibit 7: RBI's estimates for real GDP growth and CPI inflation across various policies, March fiscal year-ends (%)**

	CPI inflation estimate in RBI policy (%)						Feb-25	Kotak
	Feb-24	Apr-24	Jun-24	Aug-24	Oct-24	Dec-24		
3QFY25	4.6	4.6	4.6	4.7	4.8	5.7	5.6	5.6
4QFY25	4.7	4.5	4.5	4.3	4.2	4.5	4.4	4.2
<b>FY2025</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>
1QFY26				4.4	4.3	4.6	4.5	4.3
2QFY26						4.0	4.0	4.0
3QFY26							3.8	3.9
4QFY26							4.2	4.5
<b>FY2026</b>							<b>4.2</b>	<b>4.2</b>

Source: RBI, Kotak Economics Research estimates

**Global commodity prices have been relatively benign**

**Exhibit 8: Trend in Bloomberg Commodity Index, calendar year-ends, 2008-25 (X)**



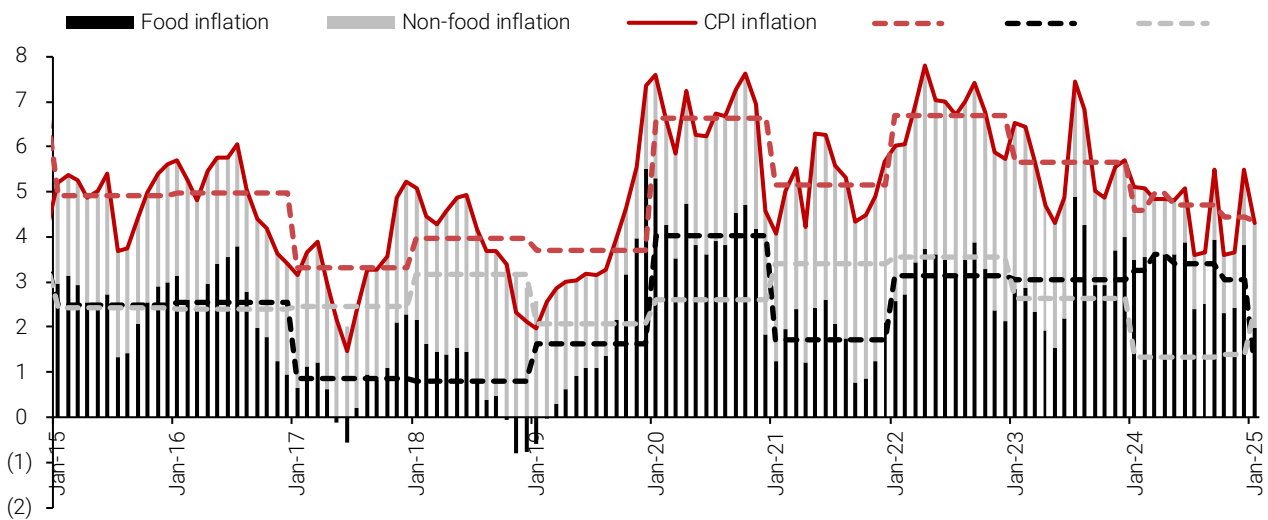
Source: Bloomberg, Kotak Institutional Equities

However, we note risks to our benign inflation and interest rate outlook from (1) domestic inflation surprising negatively, given the inherent volatility in food prices, (2) external constraints arising from a more conservative outlook of the US Fed on inflation and interest (policy) rates and (3) global (US) bond yields and inflation holding up at ‘higher for longer’ levels, given the likely trade (tariff) and taxation policies of the incoming US administration.

On the first point, we would note that inflation has been and may be volatile in India due to (1) high volatility in food (vegetable) prices due to seasonal factors (see Exhibit 9-10) and (2) growing risks of disruption to food production and supply from erratic weather conditions, arising from global warming and climate change. Food inflation has persisted at high levels in the past few months due to high inflation in vegetable (perishable and seasonal product) prices (see Exhibit 11), which has offset the modest inflation in cereal prices (see Exhibit 12). Vegetable prices have cooled off meaningfully in the past few weeks.

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

**Exhibit 9: Contribution of food inflation and non-food inflation to CPI inflation, March fiscal year-ends, 2015-25 (%)**

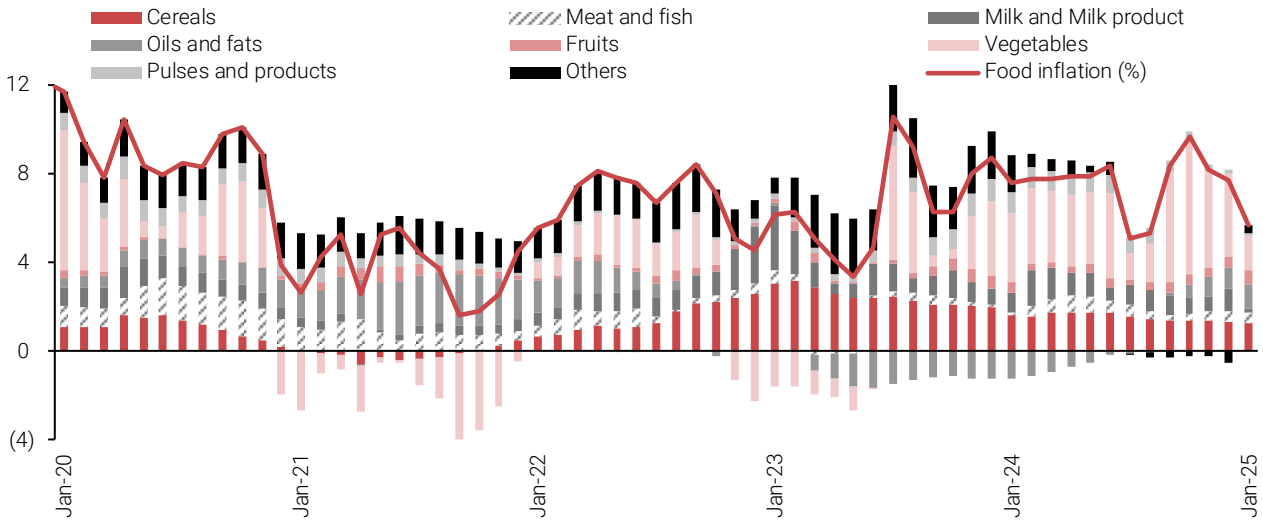


Source: CEIC, Kotak Institutional Equities



**Volatile vegetable prices offset weak cereal prices in FYTD25**

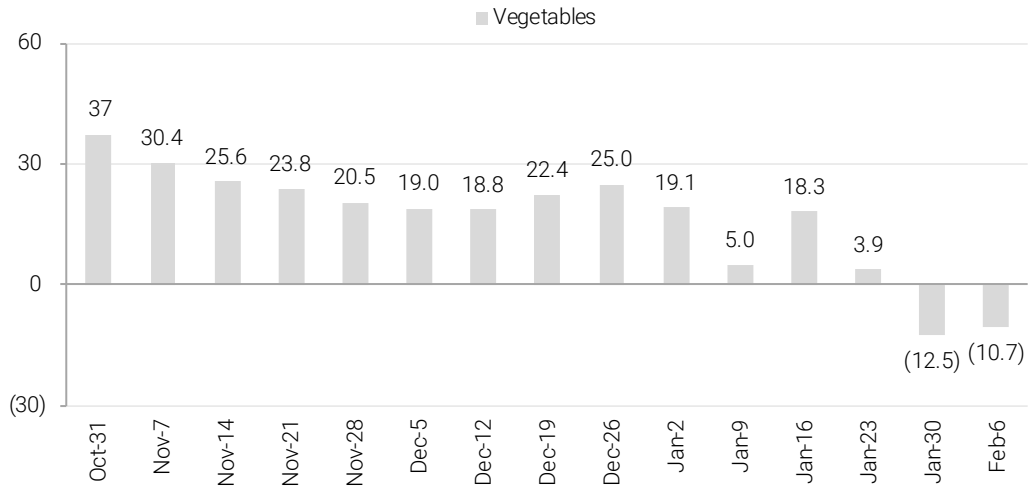
**Exhibit 10: Major contributors of food inflation in CPI, March fiscal year-ends, 2020-25 (%)**



Source: CEIC, Kotak Institutional Equities

**Vegetable prices have moderated in recent weeks**

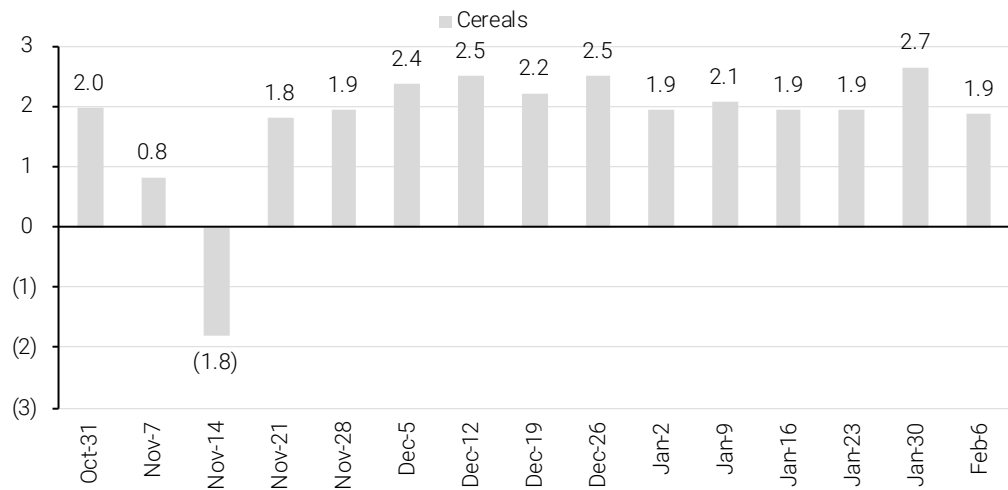
**Exhibit 11: Year-on-year change in average weekly vegetables (onion, potato and tomato) prices, week ending (%)**



Source: CEIC, Department of Consumer Affairs, Kotak Institutional Equities

**Cereals price inflation has been low in recent weeks**

**Exhibit 12: Year-on-year change in average weekly cereal prices, week ending (%)**

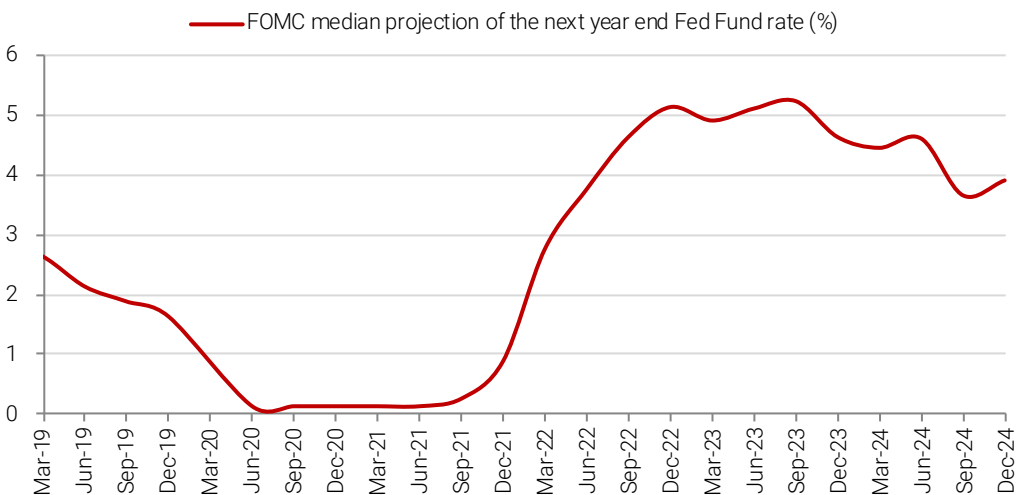


Source: CEIC, Department of Consumer Affairs, Kotak Institutional Equities

We note that the US Fed has changed its outlook on interest rates and now expects fewer rate cuts (see Exhibit 13) versus earlier on (1) the continued strength in the US economy and (2) concerns around inflation in the US staying well above its 2% target (see Exhibit 14). The US bond market has reconciled itself to fewer rate cuts by the US Fed (see Exhibit 15) on worries about both fiscal deficit and inflation staying at 'high' levels. US bond yields have hardened significantly in the past two months (see Exhibit 16).

**FOMC has increased its projections of future policy rates sharply in its past few meetings**

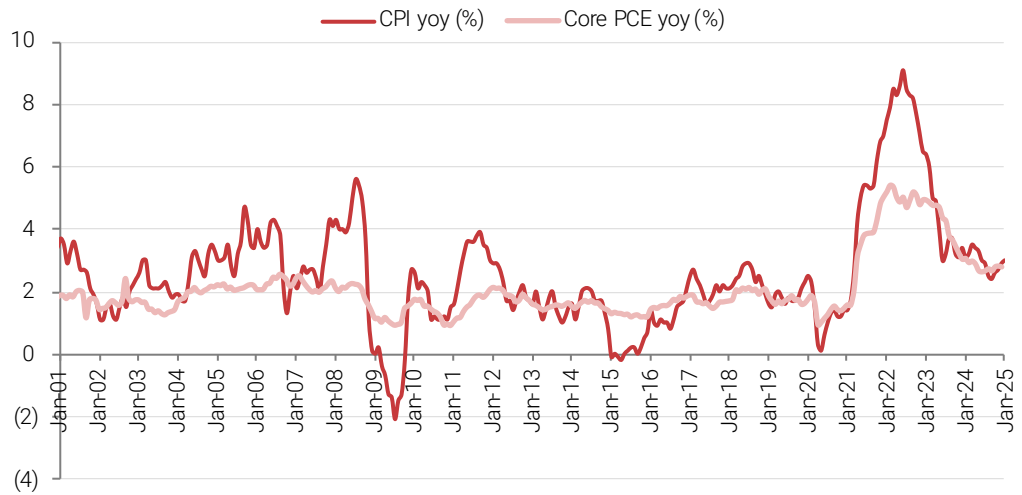
**Exhibit 13: Median FOMC projection of 1-year forward Fed Funds rate, calendar year-ends, 2019-24 (%)**



Source: Bloomberg, Kotak Institutional Equities

**Limited progress on US inflation in recent months**

**Exhibit 14: CPI and core PCE of US, calendar year-ends, 2001-25 (%)**



Source: Bloomberg, Kotak Institutional Equities

**Market expects Fed funds rate to decline gradually in CY2025**

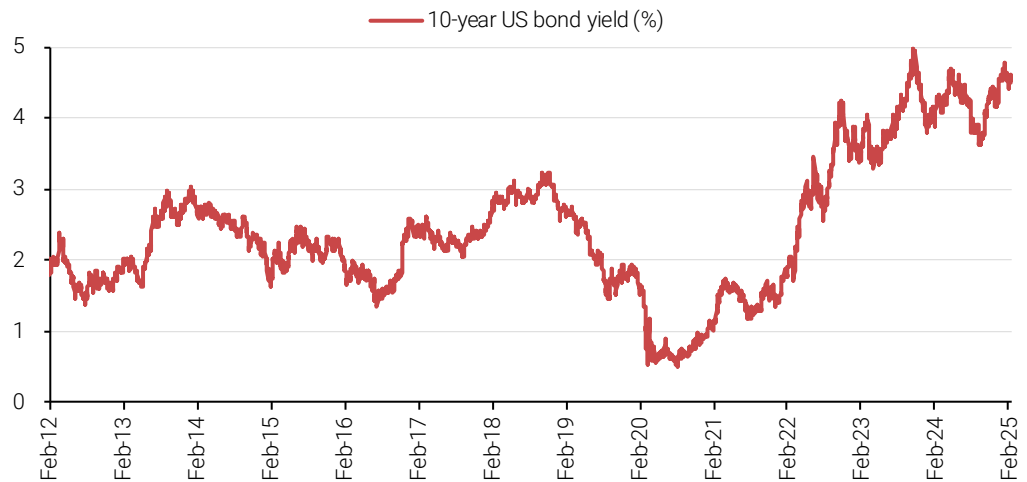
**Exhibit 15: Implied probabilities of upper end of Fed funds rate, February 2025 (%)**

	Federal funds rate (%)						
	3.00	3.25	3.50	3.75	4.00	4.25	4.50
19-Mar-25						2.5	97.5
7-May-25					0.4	16.2	83.5
18-Jun-25				0.1	4.9	35.7	59.3
30-Jul-25				1.0	10.7	40.1	48.2
17-Sep-25			0.3	4.0	19.8	42.6	33.3
29-Oct-25		0.1	1.0	6.7	23.7	41.0	27.6
10-Dec-25		0.3	2.3	10.6	27.7	37.9	21.2
28-Jan-26		0.4	3.0	12.1	28.6	36.4	19.4
18-Mar-26	0.1	0.7	4.0	13.9	29.4	34.6	17.3
29-Apr-26	0.1	0.9	4.4	14.6	29.6	33.9	16.5
17-Jun-26	0.2	1.2	5.3	15.9	30.0	32.3	15.1
29-Jul-26		1.3	5.6	16.3	30.1	31.8	14.6
16-Sep-26		1.1	4.6	13.9	26.9	31.4	18.6
28-Oct-26		1.0	4.3	13.0	25.8	31.0	19.7
9-Dec-26		5.9	15.4	26.7	28.9	17.0	3.9

Source: CME, Kotak Institutional Equities

**US bond yields have hardened sharply in recent months**

**Exhibit 16: Trend in 10-year US bond yield (%)**

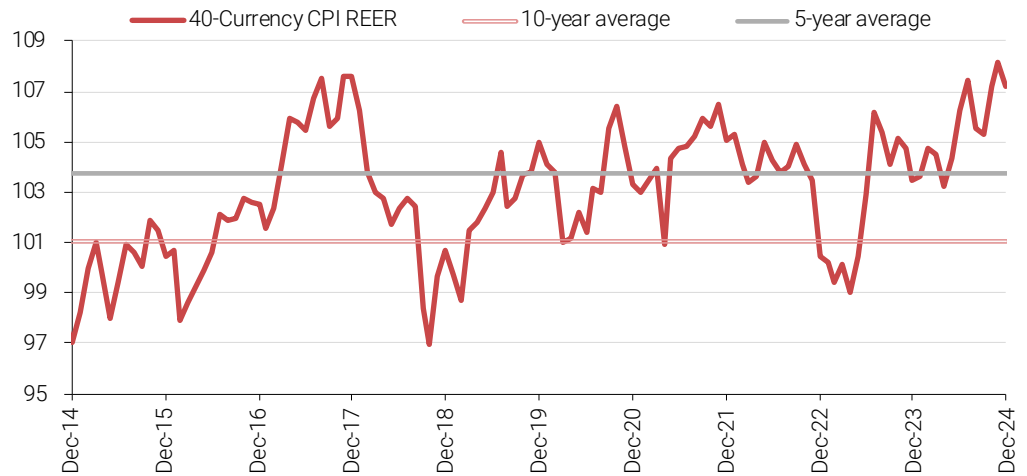


Source: Bloomberg, Kotak Institutional Equities

Finally, the RBI’s view on the currency will also have a bearing on rate cuts over the next few months. The INR has depreciated a sharp 2.3% in the past two months, although the 12-month performance is quite reasonable. However, the INR seems to be overvalued versus a basket of currencies (see Exhibit 17), and the gaps between nominal and real yields between India and the US are on the lower side relative to history (see Exhibits 18-19).

**INR appears to be overvalued compared to the 5-year average levels**

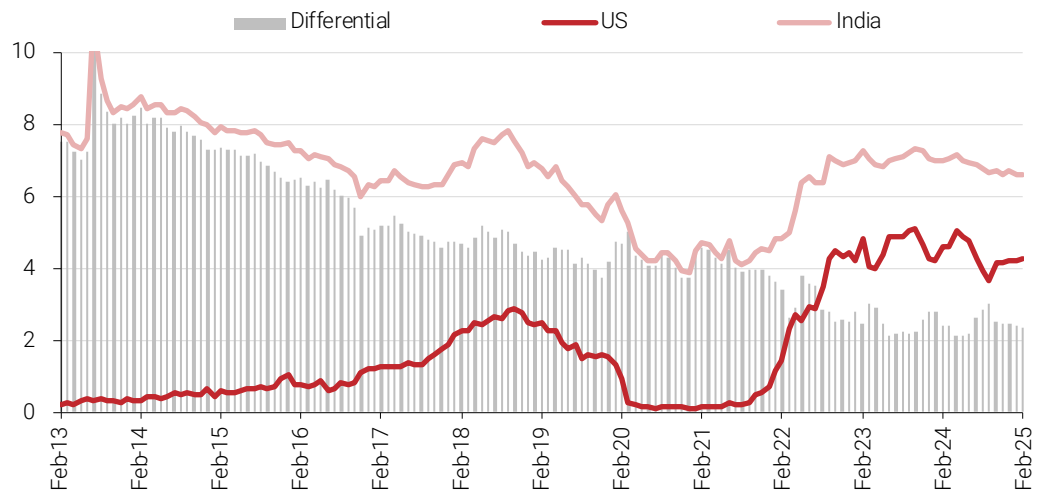
**Exhibit 17: Real effective exchange rate of Indian currency (X)**



Source: RBI, CEIC

**Nominal yield differential between India and US narrowed in the past few months**

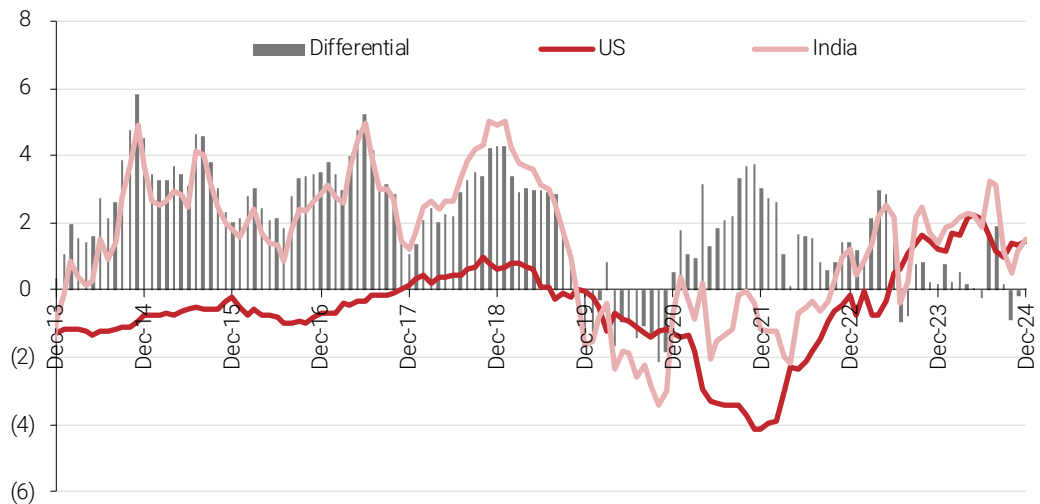
**Exhibit 18: Trend of 2-year G-sec yields of US and India (%)**



Source: Bloomberg, Kotak Institutional Equities

**Real interest rate differential between India and the US is very low currently**

**Exhibit 19: Trend of 2-year real yields (CPI adjusted) of government bonds of US and India (%)**



Source: Bloomberg

- **Fiscal deficit.** The central government has budgeted central FY2026 GFD/GDP at 4.4%, 40 bps lower than FY2025RE's 4.8%. India's central fiscal deficit has seen a meaningful improvement in the past two years. However, we would note that a significant portion of the improvement has come from a steep increase in transfers of surplus from the RBI. Exhibit 20 gives details of the government's estimates and our estimates of revenues, expenditure, fiscal deficit and borrowings for FY2026 and compares the same with the past few years' figures.

**Government pegs GFD/GDP at 4.4% in FY2026BE**

**Exhibit 20: Major central government budgetary items, March fiscal year-ends, 2019-26E (Rs bn)**

	2020	2021	2022	2023	2024	2025BE	2025RE	2026BE	Change (%)			
									2023/ 2022	2024/ 2023	2025RE/ 2024	2026BE/ 2025RE
<b>Receipts</b>												
<b>1. Revenue receipts (2d + 3)</b>	<b>16,841</b>	<b>16,339</b>	<b>21,699</b>	<b>23,832</b>	<b>27,290</b>	<b>31,292</b>	<b>30,880</b>	<b>34,204</b>	<b>10</b>	<b>15</b>	<b>13</b>	<b>11</b>
<b>2. Gross tax revenues (a + b)</b>	<b>20,101</b>	<b>20,271</b>	<b>27,093</b>	<b>30,542</b>	<b>34,655</b>	<b>38,402</b>	<b>38,535</b>	<b>42,702</b>	<b>13</b>	<b>13</b>	<b>11</b>	<b>11</b>
2.a. Direct taxes	10,554	9,523	14,158	16,723	19,694	22,214	22,515	25,351	18	18	14	13
2.a.1. Corporation tax	5,569	4,577	7,120	8,258	9,111	10,200	9,800	10,820	16	10	8	10
2.a.2. Income tax (incl. other taxes)	4,985	4,946	7,038	8,464	10,584	12,014	12,715	14,531	20	25	20	14
2.b. Indirect taxes	9,547	10,748	12,935	13,819	14,961	16,187	16,020	17,351	7	8	7	8
2.b.1. Goods and Services Tax	5,988	5,488	6,981	8,491	9,572	10,619	10,619	11,780	22	13	11	11
2.b.1.1. CGST	4,941	4,563	5,912	7,185	8,206	9,109	9,085	10,109	22	14	11	11
2.b.1.2. IGST	91	73	21	47	(49)	-	-	-	124			
2.b.1.3. Compensation cess	956	852	1,048	1,259	1,414	1,510	1,534	1,671	20	12	8	9
2.b.2. Customs duty	1,093	1,348	1,997	2,134	2,331	2,377	2,350	2,400	7	9	1	2
2.b.2.1. Basic duties	906	1,065	1,460	1,676	1,775	1,869	1,506	1,585	15	6	(15)	5
2.b.2.2. Others	187	282	537	457	557	508	844	815	(15)	22	52	(3)
2.b.3. Excise duty	2,406	3,897	3,946	3,190	3,054	3,190	3,050	3,170	(19)	(4)	(0)	4
2.b.4. Service tax	60	16	10	4	4	1	1	1	(57)	(1)	(76)	-
2.c Transfers to states, UTs, etc.	6,532	6,008	9,045	9,564	11,383	12,567	12,965	14,328	6	19	14	11
<b>2.d Net tax revenues (2 - 2.c)</b>	<b>13,569</b>	<b>14,263</b>	<b>18,048</b>	<b>20,978</b>	<b>23,273</b>	<b>25,835</b>	<b>25,570</b>	<b>28,374</b>	<b>16</b>	<b>11</b>	<b>10</b>	<b>11</b>
<b>3. Non-tax revenues</b>	<b>3,272</b>	<b>2,076</b>	<b>3,651</b>	<b>2,854</b>	<b>4,018</b>	<b>5,457</b>	<b>5,310</b>	<b>5,830</b>	<b>(22)</b>	<b>41</b>	<b>32</b>	<b>10</b>
3.a. RBI's transfer of surplus	1,476	600	991	303	874	2,104	2,104	2,104	(69)	188	141	-
3.b. Telecommunications	698	455	858	648	907	1,203	1,234	824	(24)	40	36	(33)
3.c. Others	1,097	1,021	1,802	1,903	2,237	2,150	1,972	2,902	6	18	(12)	47
<b>4. Non-debt capital receipts (a + b)</b>	<b>686</b>	<b>576</b>	<b>394</b>	<b>722</b>	<b>598</b>	<b>780</b>	<b>590</b>	<b>760</b>	<b>83</b>	<b>(17)</b>	<b>(1)</b>	<b>29</b>
4.a Recovery of loans	183	197	247	262	266	280	260	290	6	2	(2)	12
<b>4.b Other receipts (incl. disinvestments)</b>	<b>503</b>	<b>379</b>	<b>146</b>	<b>460</b>	<b>331</b>	<b>500</b>	<b>330</b>	<b>470</b>	<b>214</b>	<b>(28)</b>	<b>(0)</b>	<b>42</b>
<b>5. Total receipts (1 + 4)</b>	<b>17,527</b>	<b>16,915</b>	<b>22,093</b>	<b>24,554</b>	<b>27,888</b>	<b>32,072</b>	<b>31,470</b>	<b>34,964</b>	<b>11</b>	<b>14</b>	<b>13</b>	<b>11</b>
<b>Expenditure</b>												
<b>6. Revenue expenditure</b>	<b>23,506</b>	<b>30,835</b>	<b>32,009</b>	<b>34,531</b>	<b>34,943</b>	<b>37,094</b>	<b>36,981</b>	<b>39,443</b>	<b>8</b>	<b>1</b>	<b>6</b>	<b>7</b>
6.a. Interest payments	6,121	6,799	8,055	9,285	10,639	11,629	11,379	12,763	15	15	7	12
6.b. Subsidies	2,283	7,077	4,461	5,310	4,123	3,812	3,834	3,834	19	(22)	(7)	(0)
6.b.1. Food	1,087	5,413	2,890	2,728	2,118	2,053	1,974	2,034	(6)	(22)	(7)	3
6.b.2. Fertilizer	811	1,279	1,538	2,513	1,883	1,640	1,713	1,679	63	(25)	(9)	(2)
6.b.3. Oil	385	385	34	68	122	119	147	121	99	80	20	(18)
6.c. Pay, allowances and pensions	5,366	6,711	5,899	6,564	6,857	7,171	7,598	7,825	11	4	11	3
6.c.1.a. Pay and allowances	3,526	4,626	3,910	4,148	4,474	4,738	4,847	5,059	6	8	8	4
6.c.1.b. Pensions	1,840	2,085	1,989	2,416	2,383	2,433	2,751	2,766	21	(1)	15	1
6.d. Agriculture and farmers' welfare	942	1,083	1,145	999	1,083	1,224	1,311	1,272	(13)	8	21	(3)
6.e. Education	873	840	803	972	1,232	1,206	1,140	1,286	21	27	(7)	13
6.f. Health and family welfare	607	740	787	703	783	840	840	923	(11)	11	7	10
6.g. Rural development	1,221	1,964	1,604	1,768	1,619	1,776	1,739	1,878	10	(8)	7	8
6.h. Others	6,092	5,622	9,255	8,931	8,606	9,436	9,138	9,661	(3)	(4)	6	6
<b>7. Capital expenditure</b>	<b>3,357</b>	<b>4,263</b>	<b>5,929</b>	<b>7,400</b>	<b>9,492</b>	<b>11,111</b>	<b>10,184</b>	<b>11,211</b>	<b>25</b>	<b>28</b>	<b>7</b>	<b>10</b>
7.a. Defence	1,160	1,399	1,448	1,509	1,646	1,822	1,705	1,924	4	9	4	13
7.b. Railways	678	1,093	1,173	1,593	2,426	2,520	2,520	2,520	36	52	4	-
7.c. Roads and highways	684	892	1,133	2,060	2,639	2,722	2,725	2,722	82	28	3	(0)
7.d. Loans for capex to states	-	118	142	812	1,096	1,500	1,250	1,500	472	35	14	20
7.e. Housing and urban affairs	193	103	259	269	264	285	317	376	4	(2)	20	19
7.f. Others	642	657	1,774	1,158	1,422	2,261	1,668	2,168	(35)	23	17	30
<b>8. Total expenditure (6 + 7)</b>	<b>26,863</b>	<b>35,098</b>	<b>37,938</b>	<b>41,932</b>	<b>44,434</b>	<b>48,205</b>	<b>47,165</b>	<b>50,653</b>	<b>11</b>	<b>6</b>	<b>6</b>	<b>7</b>
<b>Deficit</b>												
Primary deficit (PD)	3,216	11,384	7,790	8,092	5,908	4,504	4,316	2,926	4	(27)	(27)	(32)
Revenue deficit (RD)	6,665	14,496	10,310	10,699	7,652	5,802	6,101	5,238	4	(28)	(20)	(14)
<b>Gross fiscal deficit (GFD)</b>	<b>9,337</b>	<b>18,183</b>	<b>15,845</b>	<b>17,378</b>	<b>16,546</b>	<b>16,133</b>	<b>15,695</b>	<b>15,689</b>	<b>10</b>	<b>(5)</b>	<b>(5)</b>	<b>(0)</b>
Gross market borrowing (dated securities)	7,041	12,601	9,684	14,210	15,014	14,010	14,005	14,820	47	6	(7)	6
Net market borrowing (dated securities)	4,681	10,329	7,041	11,083	11,778	11,632	11,627	11,538	57	6	(1)	(1)
Short-term borrowing (T-bills/WMA)	1,560	2,032	774	1,148	532	(500)	(1,200)	0				
<b>Nominal GDP</b>	<b>201,036</b>	<b>198,541</b>	<b>235,974</b>	<b>269,496</b>	<b>295,357</b>	<b>326,369</b>	<b>324,114</b>	<b>356,979</b>	<b>14.2</b>	<b>9.6</b>	<b>9.7</b>	<b>10.1</b>
PD/GDP (%)	1.6	5.7	3.3	3.0	2.0	1.4	1.3	0.8				
RD/GDP (%)	3.3	7.3	4.4	4.0	2.6	1.8	1.9	1.5				
GFD/GDP (%)	4.6	9.2	6.7	6.4	5.6	4.9	4.8	4.4				

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 FY2026BE are our estimate.

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

Source: Ministry of Finance, Kotak Institutional Equities estimates

The government has budgeted a moderate 10% growth in capital expenditure to Rs11.2 tn in FY2026BE, which is a disappointment in the context of limited growth drivers for the economy currently. In fact, it has kept its capex for railways and roads & highways flat in FY2026BE versus FY2025RE. We believe that the government may not be able to meet its budgeted capex target for FY2026BE, as it has budgeted aggressive spending on certain items (R&D and innovation funds), which it may not be able to spend fully. We fear a repeat of the situation in FY2025. Exhibits 21-22 gives details of capital expenditure by major ministries broken down into government allocation for the ministries and direct spending by PSUs under the respective ministries.

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

**Exhibit 21: Revenue and capital expenditure through budget and IEBR (internal and extra budgetary resources), March fiscal year-ends, 2025-26 (Rs bn)**

	2025RE					2026BE					Capex growth yoy (%)
	Revenue	Capital	IEBR	Bonds	Total capex	Revenue	Capital	IEBR	Bonds	Total capex	
Atomic Energy	120	125	126	88	251	121	120	131	99	251	0
Defense	4,706	1,705	—	—	1,705	4,888	1,924	—	—	1,924	13
Economic Affairs	452	127	—	—	127	24	466	—	—	466	266
Electronics and Information Technology	172	4	—	—	4	256	4	—	—	4	24
Food and Public Distribution	2,054	1	255	—	256	2,114	0	287	—	287	12
Housing and Urban Development	320	317	421	100	738	592	376	622	150	998	35
New and Renewable Energy	173	0	317	130	317	265	0	355	105	355	12
Petroleum and Natural Gas	170	3	1,289	189	1,292	127	66	1,324	124	1,390	8
Power	187	11	707	199	718	212	7	858	242	865	20
Railways	33	2,520	130	—	2,650	34	2,520	130	—	2,650	0
Road Transport and Highways	80	2,725	—	—	2,725	151	2,722	—	—	2,722	(0)
Science and Technology	25	—	—	—	—	34	200	—	—	200	NM
Telecommunications	494	750	7	—	757	292	518	8	—	525	(31)
Transfer to states	1,583	1,394	—	—	1,394	1,574	1,706	—	—	1,706	22
Others	26,412	503	573	36	1,076	28,758	581	601	36	1,182	10
<b>All ministries</b>	<b>36,981</b>	<b>10,184</b>	<b>3,824</b>	<b>742</b>	<b>14,009</b>	<b>39,443</b>	<b>11,211</b>	<b>4,316</b>	<b>756</b>	<b>15,527</b>	<b>11</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

**IEBR is the major funding source for capex of various ministries**

**Exhibit 22: Total plan outlay by public enterprises, March fiscal year-ends, 2020-26BE (Rs bn)**

	2020	2021	2022	2023	2024	2025BE	2025RE	2026BE	Growth (%)		Share (%) (2026BE)
									2024 versus 2023	2026BE versus 2025 RE	
<b>Ministry of Civil Aviation</b>		-		44	46	34	39	42	(15)	7	0
Airport Authority of India				44	46	34	39	42	(15)	7	0
Air India Ltd (NACIL)										NA	-
<b>Ministry of Coal</b>	149	175	197	234	294	195	220	228	(25)	3	2
Coal India Ltd	63	133	154	186	235	155	155	160	(34)	3	2
Neyveli Lignite Corp. Ltd	65	29	25	33	43	24	49	51	16	3	0
Singareni Collieries Co. Ltd	21	13	17	15	17	16	16	17	(6)	6	0
<b>Min. of Heavy Industries &amp; Public Enterprises</b>	6	3	4	4	4	3	3	3	(13)	5	0
Bharat Heavy Electricals Ltd	3	2	2	4	3	2	2	2	(20)	2	0
<b>Min. of Housing &amp; Urban Affairs</b>	566	190	290	400	464	674	703	958	52	36	4
Housing and Urban Development Corp.	219	92	84	153	231	422	417	618	81	48	2
<b>Ministry of Urban Development</b>	347	98	205	247	233	251	285	339	23	19	2
Bangalore Metro Rail Corp.											
Chennai Metro Rail Project											
Delhi Metro Rail Corp. (DMRC)	195	94	203	198	194	212	246	311	26	26	2
Kochi Metro											-
Jaipur Metro											-
National Capital Region Transport Corporation		-	-	46	35	35	36	25	3	(32)	0
Others	152	4	3	3	3	3	3	3	-	-	0
<b>Ministry of Mines</b>	14	14	19	22	25	24	24	24	(4)	-	0
National Aluminium Company Ltd	9	10	15	18	20	20	20	20	2	-	0
<b>Ministry of Petroleum &amp; Natural Gas</b>	1,072	1,119	1,073	1,193	1,373	1,194	1,293	1,383	(6)	7	14
<b>Ministry of Shipping</b>	29	27	32	41	52	62	98	88	88	(10)	0
<b>Ministry of Steel</b>	81	73	101	105	101	103	192	149	89	(22)	1
<b>Ministry of Communications &amp; IT</b>	78	87	73	420	580	928	739	346	27	(53)	6
Bharat Sanchar Nigam Ltd	29	31	23	266	573	834	725	343	27	(53)	5
Bharat Broadband Network Limited	45	51	45	-	-	-	-	-		NA	1
<b>Ministry of Power</b>	632	473	481	574	550	673	713	861	29	21	6
<b>Ministry of Road Transport &amp; Highways</b>	1,067	1,111	1,222	1,417	1,674	1,685	1,694	1,878	1	11	16
National Highway Authority of India (NHAI)	1,067	1,111	1,222	1,417	1,674	1,685	1,694	1,878	1	11	16
<b>Ministry of Railways</b>	1,480	2,346	1,907	2,040	2,622	2,650	2,650	2,650	1	-	29
Indian Railways	1,480	2,346	1,907	1,353	2,622	2,650	2,650	2,650	1	-	21
<b>Other ministries</b>	3,228	1,118	1,265	799	1,208	911	935	1,056	(23)	13	19
<b>Grand total</b>	8,517	6,832	6,848	7,292	8,993	9,137	9,304	9,666	3	4	100
<b>IEBR</b>	6,415	4,776	4,376	3,631	3,900	3,686	3,824	4,316	(2)	13	

Source: Union Budget documents, Kotak Institutional Equities

We note that FY2025RE capital expenditure was negatively impacted by (1) limited time to spend the budgeted amount given elections in 1QFY25 that affected the government’s ability to spend in 1HFY25 and (2) excessive budgeting in certain areas—(1) Rs1.5 tn of loans for capex to states versus Rs1.25 tn in FY2025RE and Rs1.13 tn in FY2024 and (2) Rs0.66 tn for economic affairs versus Rs127 bn in FY2025RE and Rs56 bn in FY2024.

The government has budgeted 7% growth in revenue expenditure to Rs39.4 tn. The modest growth reflects (1) a 3% growth in pay and allowances, (2) a 3% decline in the allocation of funds for agriculture and farmers’ welfare and (3) an 8% increase in rural development funds, which offsets (4) a 12% increase in interest payments. Exhibit 23 show the details of the government’s allocations to various social welfare schemes in the past few years. The government has left the amounts under the key schemes that provide income to rural poor households largely unchanged.



**Allocation in rural welfare schemes targeted toward rural housing, rural roads and irrigation**

**Exhibit 23: Major social welfare schemes in the interim budget, March fiscal year-ends, 2022-26BE (Rs bn) (sorted on descending order of FY2026BE)**

	2019	2020	2021	2022	2023	2024	2025RE	2026BE	2026BE/ 2025RE (%)
Food subsidy	1,011	1,085	5,411	2,887	2,728	2,118	1,974	2,034	3
Mahatma Gandhi National Rural Employment Guarantee Program (NREGS)	618	730	1,112	985	908	892	860	860	0
National Rural Drinking Water Mission	55	100	110	631	547	700	227	670	195
Income support scheme for farmers (PM-KISAN)	200	487	610	668	583	614	635	635	0
Pradhan Mantri Awas Yojana (PMAY) (Rural)	254	250	403	900	450	218	324	548	69
Interest subsidy for short term credit to farmers/Modified interest subvention sch	115	162	178	215	180	143	226	226	0
Saksham Anganwadi and POSHAN 2.0				184	199	218	201	220	9
Pradhan Mantri Gram Sadak Yojana (PMGSY)	154	140	137	140	188	154	145	190	31
National Rural Livelihood Mission	63	98	100	102	115	139	150	190	26
Crop insurance scheme	119	126	142	135	103	129	159	122	(23)
Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	81	82	79	113	56	61	66	83	25
Green revolution/ Rashtriya Krishi Vikas Yojana	118	99	97	67	52	57	60	85	42
Swachh Bharat Mission (Gramin)	129	82	49	31	49	65	72	72	0
Pradhan Mantri Swasthya Suraksha Yojana	22	33	27	93	75	14	17	22	27
DBT-LPG		296	237	2	2	15	5	15	200
<b>Total</b>	<b>2,940</b>	<b>3,770</b>	<b>8,691</b>	<b>7,153</b>	<b>6,235</b>	<b>5,536</b>	<b>5,121</b>	<b>5,972</b>	<b>17</b>
<b>Total (ex-food subsidy)</b>	<b>1,929</b>	<b>2,685</b>	<b>3,280</b>	<b>4,266</b>	<b>3,507</b>	<b>3,418</b>	<b>3,147</b>	<b>3,938</b>	<b>25</b>

Notes:

(a) Food subsidy and PMAY also cover urban poor households.

(b) Modified interest subvention scheme (MISS) for farmers has been introduced in lieu of interest subsidy scheme to farmers.

(c) Green revolution has been subsumed under Rashtriya Krishi Vikas Yojana.

Source: Union Budget documents, Kotak Institutional Equities

FY2025RE central fiscal deficit stood at 4.8%, in line with the FY2025BE target of 4.9%. The lower-than-expected central fiscal deficit reflects (1) lower-than-budgeted capital expenditure of Rs10.2 tn versus the budgeted Rs11.1 tn (8% lower than FY2025BE and 7% higher versus FY2024), (2) 11% growth in tax revenues, in line with the government’s target of 11%, which offset (3) lower-than-budgeted disinvestment revenues of Rs330 bn versus the government’s FY2024BE target of Rs500 bn.

- **CAD/BoP still reasonable but worsening.** We expect India’s CAD/BoP to rise to 1.5% in FY2026, with a BoP deficit of around US\$15 bn, see Exhibit 24 for details. However, India’s external position has deteriorated meaningfully in the past few months, with (1) a sharp decline in its FX reserves (see Exhibit 25) due to (1) large FPI outflows, (2) the RBI’s efforts to stem the depreciation in the INR (see Exhibit 26) and (3) no major improvement in its trade balance.

**We expect CAD/GDP at 1.5% in FY2026E**

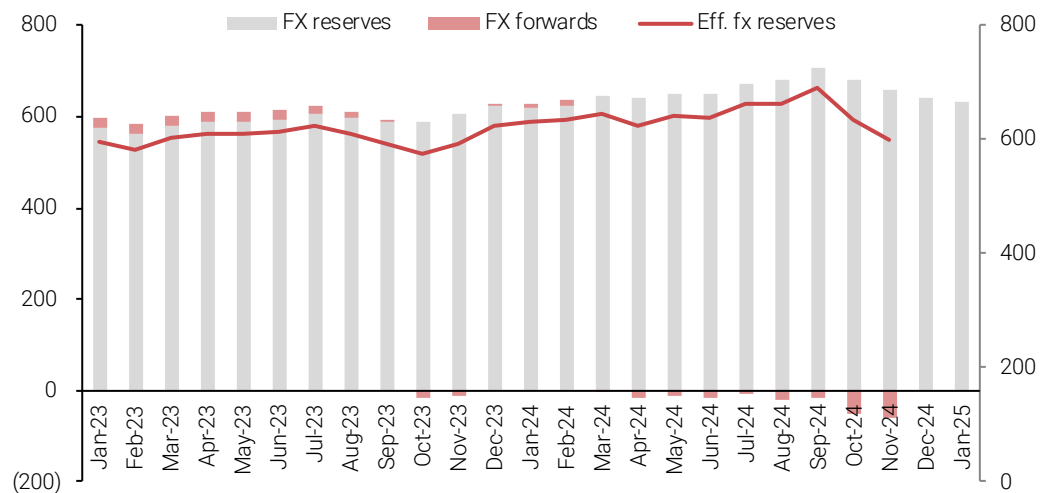
**Exhibit 24: India's balance of payments, March fiscal year-ends, 2019-26E (US\$ bn)**

	2019	2020	2021	2022	2023	2024	2025E	2026E
<b>Current account balance</b>	<b>(57.3)</b>	<b>(24.7)</b>	<b>23.9</b>	<b>(38.8)</b>	<b>(67.1)</b>	<b>(26.1)</b>	<b>(48.9)</b>	<b>(62.2)</b>
GDP	2,705	2,835	2,674	3,167	3,352	3,567	3,831	4,093
<b>CAB/GDP (%)</b>	<b>(2.1)</b>	<b>(0.9)</b>	<b>0.9</b>	<b>(1.2)</b>	<b>(2.0)</b>	<b>(0.7)</b>	<b>(1.3)</b>	<b>(1.5)</b>
Trade balance	(180)	(158)	(102)	(189)	(265)	(245)	(293)	(317)
<b>Trade balance/GDP (%)</b>	<b>(6.7)</b>	<b>(5.6)</b>	<b>(3.8)</b>	<b>(6.0)</b>	<b>(7.9)</b>	<b>(6.9)</b>	<b>(7.6)</b>	<b>(7.8)</b>
<b>- Exports</b>	<b>337</b>	<b>320</b>	<b>296</b>	<b>429</b>	<b>456</b>	<b>441</b>	<b>426</b>	<b>421</b>
- oil exports	47	41	26	67	97	84	62	63
- non-oil exports	291	279	270	362	359	357	365	358
<b>- Imports</b>	<b>518</b>	<b>478</b>	<b>398</b>	<b>619</b>	<b>721</b>	<b>686</b>	<b>720</b>	<b>738</b>
- oil imports	141	131	83	162	209	179	190	195
- non-oil imports	377	347	316	457	512	508	530	543
- gold imports	33	28	35	46	35	46	55	53
<b>Invisibles (net)</b>	<b>123</b>	<b>133</b>	<b>126</b>	<b>151</b>	<b>198</b>	<b>219</b>	<b>244</b>	<b>255</b>
- Services	82	85	89	108	143	163	180	185
- software	78	85	90	110	131	142	157	161
- non-software	4	0.3	(1)	(2)	12	21	23	24
- Transfers	70	75	73	80	101	106	112	116
- Income (net)	(29)	(27)	(36)	(37)	(46)	(50)	(48)	(46)
<b>Capital account</b>	<b>54</b>	<b>83</b>	<b>64</b>	<b>86</b>	<b>59</b>	<b>90</b>	<b>54</b>	<b>48</b>
Capital account/GDP (%)	2.0	2.9	2.4	2.7	1.8	2.5	1.4	1.2
Foreign investment	30	44	80	22	23	54	23	24
- FDI	31	43	44	39	28	10	8	12
- FPI	(1)	1	36	(17)	(5)	44	15	12
- Equities	3	(0)	39	(16)	(6)	25	3	5
- Debt	(4)	1	(0)	2	1	19	12	7
Banking capital	7	(5)	(21)	7	21	41	14	14
- NRI deposits	10	9	7	3	9	15	16	15
Short-term credit	2	(1)	(4)	20	7	(1)	6	4
ECBs	10	23	(0)	8	(4)	(0)	6	4
External assistance	3	4	11	5	6	7	5	2
Other capital account items	1	18	(2)	24	7	(12)	-	-
E&O	(0)	1	(0)	-	(1)	0	-	-
<b>Overall balance</b>	<b>(3.3)</b>	<b>59.5</b>	<b>87.3</b>	<b>47.5</b>	<b>(9.1)</b>	<b>63.7</b>	<b>5.1</b>	<b>(14.2)</b>
<b>Memo items</b>								
Average USD/INR	69.9	70.9	74.2	74.5	80.3	82.8	84.6	87.6
Average Brent (US\$/bbl)	70.0	60.9	44.8	80.0	95.4	82.9	80.0	80.0

Source: RBI, Kotak Economic Research estimates

**Sharp decline in RBI's forex reserves in recent months**

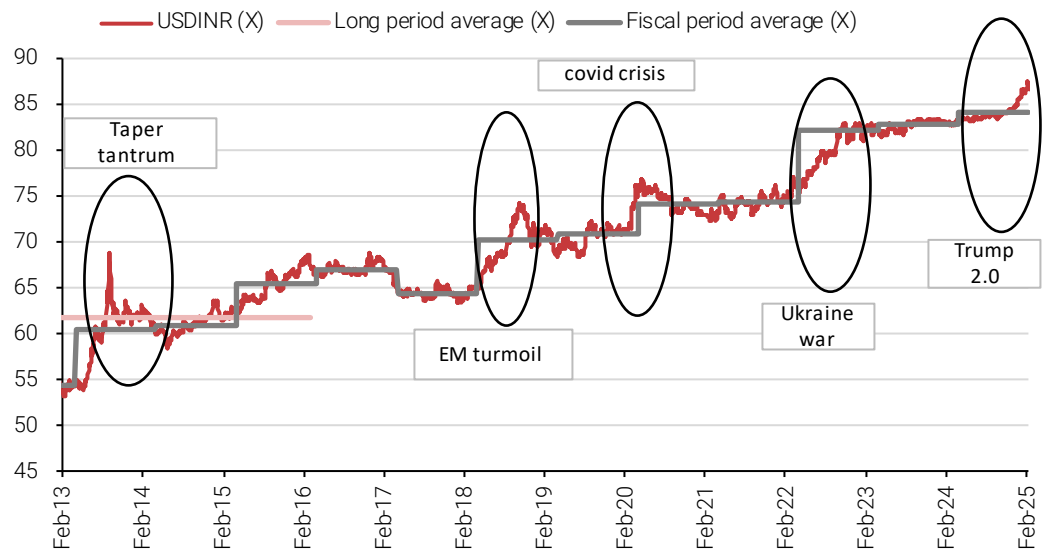
**Exhibit 25: Trend in overall and effective FX reserves (US\$ bn)**



Source: CEIC, Kotak Institutional Equities

**INR has depreciated 3.1% since September 2024**

**Exhibit 26: USDINR trend (X)**



Source: Bloomberg, Kotak Institutional Equities

We note that another few months of the current situation could make India’s external position a lot more vulnerable. India’s FX reserves are not very high in the context of (1) external debt of US\$668 bn as of March 2024 (see Exhibit 27), (2) the stock of FDI of US\$750-900 tn (based on FDI in listed companies and our estimate of FDI in unlisted companies) and (3) the stock of FPI of US\$832 bn as of December 31, 2024. However, we do not expect any sudden shift in external debt and FDI. Nonetheless, India’s external position can worsen with persistent FPI outflows. India’s challenge continues to be its large trade deficit and its inability to generate a current account surplus for an extended period of time (see Exhibit 28), which requires the CAD to be funded by capital inflows.

**India’s forex reserves are not very high in the context of external debt**

**Exhibit 27: India’s external debt by debtor categories, March fiscal year-ends, 2016-24 (US\$ bn)**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total external debt</b>	<b>485</b>	<b>471</b>	<b>529</b>	<b>543</b>	<b>558</b>	<b>574</b>	<b>619</b>	<b>622</b>	<b>668</b>
<b>Long term</b>	<b>402</b>	<b>383</b>	<b>427</b>	<b>435</b>	<b>452</b>	<b>473</b>	<b>497</b>	<b>496</b>	<b>541</b>
Multilateral	54	55	57	57	60	70	73	75	78
Bilateral	22	23	25	26	28	31	33	35	35
IMF	6	5	6	6	5	6	23	22	22
Trade credit	11	10	9	8	7	6	3	3	3
Commercial borrowing (CB)	181	172	202	207	220	217	226	221	250
Non-Resident Indian deposits (NRI)	127	117	126	130	131	142	139	139	152
Rupee debt	1	1	1	1	1	1	1	1	1
<b>Short term</b>	<b>84</b>	<b>88</b>	<b>102</b>	<b>108</b>	<b>107</b>	<b>101</b>	<b>122</b>	<b>126</b>	<b>127</b>
Short term: Trade related	80	86	100	102	101	97	117	124	123
Short term: FI: GSec & Others	3	2	2	6	5	4	4	2	4

Source: Ministry of Finance, CEIC, Kotak Institutional Equities

**India's inability to generate a current account surplus for an extended period has required the CAD to be funded by capital inflows**

Exhibit 28: India's balance of payments, March fiscal year-ends, 2015-24 (US\$ bn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Current account balance</b>	(27)	(22)	(14)	(49)	(57)	(25)	24	(39)	(67)	(26)
<b>Capital account flows</b>	89	41	36	91	54	83	64	86	59	90
- FDI	31	36	36	30	31	43	44	39	28	10
- FPI	42	(4)	8	22	(1)	1	36	(17)	(5)	44
- Equities	16	(3)	9	2	3	(0)	39	(16)	(6)	25
- Debt	26	(0)	(1)	21	(4)	1	(0)	2	1	19
Banking capital	12	11	(17)	16	7	(5)	(21)	7	21	41
Short-term credit	(0)	(2)	6	14	2	(1)	(4)	20	7	(1)
ECBs	2	(5)	(6)	(0)	10	23	(0)	8	(4)	(0)
Others	2	4	9	10	4	23	9	30	11	(4)
<b>Overall balance of payments (BoP)</b>	<b>61</b>	<b>18</b>	<b>22</b>	<b>44</b>	<b>(3)</b>	<b>59</b>	<b>87</b>	<b>48</b>	<b>(9)</b>	<b>64</b>
Average USD/INR	61.2	65.4	67.2	64.5	69.9	70.9	74.2	74.5	80.3	82.8

Source: RBI

In addition, (1) gross and net FDI inflows have declined in the past few years (see Exhibit 29 for details) and (2) non-software services export revenues have been volatile in the recent quarters, although professional & management consulting (PMC) exports increased in the September 2024 quarter after having stagnated in the March 2024 and June 2024 quarters (see Exhibit 30 for details).

**Sharp increase in gross outflows resulted in weakening of net FDI inflows**

Exhibit 29: Trend in FDI flows, March fiscal year-ends, 2019-25 (US\$ bn)

	2019	2020	2021	2022	2023	2024	1HFY25
Gross FDI inflow into India for overseas entities	62.0	74.4	82.0	84.8	71.4	71.3	43.5
<b>Gross FDI outflow out of India for overseas entities</b>	<b>(18.7)</b>	<b>(18.4)</b>	<b>(27.0)</b>	<b>(28.6)</b>	<b>(29.3)</b>	<b>(44.5)</b>	<b>(27.8)</b>
<b>Net FDI inflow for overseas entities (a)</b>	<b>43.3</b>	<b>56.0</b>	<b>54.9</b>	<b>56.2</b>	<b>42.0</b>	<b>26.8</b>	<b>15.7</b>
Gross FDI inflow into India for Indian entities	2.8	3.4	4.3	3.4	3.9	3.6	1.7
Gross FDI outflow from India for Indian entities	(15.4)	(16.4)	(15.3)	(21.0)	(17.9)	(20.3)	(13.0)
<b>Net FDI inflow for Indian entities (b)</b>	<b>(12.6)</b>	<b>(13.0)</b>	<b>(11.0)</b>	<b>(17.6)</b>	<b>(14.0)</b>	<b>(16.7)</b>	<b>(11.3)</b>
<b>Net FDI inflow/(outflow) (a) + (b)</b>	<b>30.7</b>	<b>43.0</b>	<b>44.0</b>	<b>38.6</b>	<b>28.0</b>	<b>10.1</b>	<b>4.4</b>

Source: RBI

**Net exports in professional & management consulting services increased in the September 2024 quarter**

Exhibit 30: Breakdown of net exports in non-software services and interest income (US\$ bn)

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
<b>Services</b>	<b>31.1</b>	<b>34.4</b>	<b>38.7</b>	<b>39.1</b>	<b>35.1</b>	<b>39.9</b>	<b>45.0</b>	<b>42.7</b>	<b>39.7</b>	<b>44.5</b>
- Software	31.1	33.0	33.9	34.5	34.2	35.6	36.4	36.4	37.3	39.4
- Non-software	(0.0)	1.5	4.8	4.6	0.9	4.4	8.6	6.3	2.4	5.1
- Transport	(1.9)	(1.8)	(0.7)	(0.1)	(0.3)	(0.2)	0.5	(0.1)	(0.1)	(0.4)
- Travel	(1.6)	(1.8)	1.2	0.7	(3.1)	(1.2)	2.4	1.9	(1.8)	(1.7)
- Construction	0.0	0.0	0.6	0.4	0.2	0.3	0.5	0.9	0.9	0.3
- Insurance and pension	0.4	0.2	(0.0)	0.4	0.2	0.0	(0.0)	0.3	0.3	0.1
- Financial	0.1	0.5	0.7	0.8	0.7	0.9	1.5	0.3	0.9	0.9
- IP charges	(1.9)	(1.9)	(3.1)	(2.4)	(3.3)	(2.9)	(4.2)	(3.0)	(4.1)	(3.4)
- Other business	3.4	5.2	6.1	5.9	6.6	7.8	8.6	6.2	6.4	9.6
R&D	1.6	1.6	1.6	1.8	1.6	1.6	1.7	1.5	1.5	1.6
Professional & management consulting	8.3	9.8	11.2	11.6	11.5	11.6	12.1	10.2	10.2	13.5
Technical, trade related, etc	(6.4)	(6.2)	(6.7)	(7.4)	(6.5)	(5.4)	(5.2)	(5.5)	(5.3)	(5.5)
- Others	1.4	1.0	0.0	(1.1)	(0.2)	(0.3)	(0.6)	(0.2)	(0.2)	(0.3)
<b>Net primary income</b>	<b>(8.9)</b>	<b>(11.8)</b>	<b>(12.7)</b>	<b>(12.6)</b>	<b>(10.2)</b>	<b>(11.6)</b>	<b>(13.1)</b>	<b>(14.8)</b>	<b>(11.1)</b>	<b>(9.5)</b>
- Direct investments	(6.9)	(7.8)	(9.7)	(8.5)	(7.6)	(10.0)	(11.6)	(11.4)	(9.6)	(10.3)
- Portfolio investments	(1.5)	(2.9)	(2.8)	(2.7)	(2.0)	(3.6)	(1.9)	(2.3)	(2.3)	(4.1)
- Other investments	0.8	0.7	1.7	0.5	1.0	0.8	1.2	1.1	1.3	1.0
- Others	(1.2)	(1.9)	(1.9)	(2.0)	(1.6)	1.1	(0.8)	(2.2)	(0.5)	3.8

Notes:

(a) Other investments include net interest on loans, credits, deposits, etc.

(a) Others include income on reserve assets, etc.

Source: CEIC, RBI, Kotak Institutional Equities

- ▶ **Decent earnings outlook but wobbles emerging.** We expect the net profits of the Nifty-50 Index to grow 15% (15% ex-BPCL, HPCL and COAL) in FY2026, following a modest 4.4% (8.8% ex-BPCL, HPCL and COAL) growth in FY2025. Similarly, we expect net profits of the KIE coverage universe to grow 17% in FY2026, on a low base of 3% in FY2025. However, we see meaningful downside risks to earnings in several sectors due to sector-specific issues, which we discuss later in the same section. We do a more detailed discussion on the earnings outlook for the market and for several major sectors later in the same section.

**Negative drivers**

We note (1) full-to-frothy valuations across most parts of the market despite the recent sharp correction and in the context of both short-term growth and medium-term disruption challenges, (2) continued weakness in consumption demand and (3) slowdown in government capex as negatives that may prevent a major re-rating of the market and, in fact, pose downside risks to the market. The former factor may result in a de-rating of multiples from the currently lofty levels while the latter may result in earnings downgrades, especially in the consumption-related sectors.

- ▶ **Rich valuations still.** We note that most stocks in the consumption, investment and outsourcing parts of the market are trading at well above their pre-pandemic levels; see Exhibits 31-36 for the current and historical 12-month forward P/E or P/B for various buckets of stocks (consumption, investment, outsourcing and financials) based on consensus estimates.

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

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

Company	Sector	12-m forward P/E multiple (X)														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	25
Eicher Motors	Automobiles & Components	15	14	16	24	38	33	33	29	21	17	29	25	23	25	26
Hero Motocorp	Automobiles & Components	14	15	14	16	16	17	17	18	13	10	16	14	13	20	15
Mahindra & Mahindra	Automobiles & Components	14	14	14	15	19	18	20	19	15	9	20	18	16	21	26
Maruti Suzuki	Automobiles & Components	14	16	13	17	21	18	22	26	23	18	28	30	23	28	24
Samvardhana Motherson	Automobiles & Components	17	13	14	19	28	21	25	25	19	11	25	22	15	20	18
TVS Motor	Automobiles & Components	11	7	7	15	22	23	28	30	23	19	32	24	27	40	36
Asian Paints	Commodity Chemicals	23	27	33	36	38	38	45	44	51	48	64	65	54	48	47
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	28
Shree Cement	Construction Materials	NA	NA	14	22	46	34	36	31	37	34	44	32	41	34	56
UltraTech Cement	Construction Materials	18	18	16	24	23	28	34	31	32	20	32	26	30	31	37
Havells India	Consumer Durables & Apparel	13	16	16	20	31	32	42	36	46	32	56	49	49	59	52
Polycab	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	NA	NA	NA	13	22	31	30	39	35
Britannia Industries	Consumer Staples	21	28	24	23	39	33	39	49	53	41	45	41	47	49	50
Colgate-Palmolive (India)	Consumer Staples	24	30	28	32	40	32	40	38	40	37	41	38	36	52	43
Dabur India	Consumer Staples	23	24	26	29	35	30	33	36	40	43	48	44	44	41	45
Godrej Consumer Products	Consumer Staples	20	22	30	31	31	35	37	43	38	29	39	36	45	52	45
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	45
Nestle India	Consumer Staples	35	37	34	35	44	41	47	50	51	63	65	62	63	72	60
Tata Consumer Products	Consumer Staples	14	18	17	18	19	16	18	26	23	31	50	53	46	61	59
Varun Beverages	Consumer Staples	NA	NA	NA	NA	NA	NA	32	36	42	28	36	39	45	67	47
United Spirits	Consumer Staples	22	16	37	59	90	57	53	58	43	33	41	53	48	57	57
Apollo Hospitals	Health Care Services	25	29	30	31	43	41	40	41	43	33	59	54	50	61	48
Avenue Supermarts	Retailing	NA	NA	NA	NA	NA	NA	54	77	73	78	90	100	71	86	69
Titan Company	Retailing	30	28	25	28	33	31	41	56	54	44	68	75	57	74	61
Trent	Retailing	NA	45	43	36	40	27	44	56	53	59	169	112	79	109	84
Pidlite Industries	Specialty Chemicals	21	22	27	26	42	34	37	43	54	49	64	74	62	69	59

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 32: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)**

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	26
Exide Industries	Automobiles & Components	17	19	17	19	21	18	24	22	20	12	17	13	14	20	23
Schaeffler India	Automobiles & Components	11	14	12	17	31	27	31	29	30	25	35	37	42	41	38
SKF	Automobiles & Components	15	15	14	19	28	26	28	26	27	18	30	35	32	33	29
Timken	Automobiles & Components	NA	NA	NA	NA	40	24	31	34	29	23	39	44	41	49	39
Indigo Paints	Commodity Chemicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	93	47	32	33	32
Kansai Nerolac	Commodity Chemicals	20	19	26	24	31	36	38	43	41	32	47	37	30	27	26
Crompton Greaves Consumer	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	39	36	31	24	40	33	29	29	31
Page Industries	Consumer Durables & Apparel	24	26	26	36	58	46	48	59	54	40	64	72	53	51	56
Voltas	Consumer Durables & Apparel	14	13	9	20	24	23	28	31	32	23	44	51	41	49	38
Whirlpool	Consumer Durables & Apparel	NA	15	14	21	34	28	41	43	38	35	46	42	44	45	30
United Breweries	Consumer Staples	47	54	58	68	63	51	51	51	52	35	51	55	56	64	67
Aster DM Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	22	10	16	16	17	31	48
Dr Lal Pathlabs	Health Care Services	NA	NA	NA	NA	NA	53	39	35	36	38	67	57	44	45	44
Max Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35	34	34	51	55
Metropolis Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	33	50	41	34	49	42
Narayana Hrudayalaya	Health Care Services	NA	NA	NA	NA	NA	136	47	44	37	34	39	39	26	31	32
Chalet Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	146	29	45	32
Devyani International	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	89	53	86	111
Indian Hotels	Hotels & Restaurants	26	23	39	48	66	67	47	51	54	28	100	70	40	51	49
Jubilant Foodworks	Hotels & Restaurants	36	48	41	40	54	52	54	58	48	45	75	58	51	69	99
Lemon Tree Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	64	33	NA	173	39	36	38
Sapphire Foods	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	106	54	88	103
Westlife Foodworld	Hotels & Restaurants	NA	NA	NA	119	264	139	120	107	69	49	113	94	67	91	150

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 33: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
ABB	Capital Goods	41	48	32	60	67	60	51	43	53	42	64	69	73	87	53
Bharat Electronics	Capital Goods	14	12	10	11	22	20	21	18	13	10	15	19	21	35	33
BHEL	Capital Goods	15	10	8	16	21	27	26	20	17	7	28	28	28	78	33
Carborundum Universal	Capital Goods	13	13	13	17	21	18	23	24	25	13	30	32	37	42	32
Cochin Shipyard	Capital Goods	NA	NA	NA	NA	NA	NA	NA	16	11	5	NA	6	14	37	31
Cummins India	Capital Goods	18	21	18	25	29	26	28	23	24	13	35	32	36	50	35
IRB Infrastructure	Capital Goods	13	12	7	7	13	12	11	8	6	4	8	26	17	32	21
Kalpataru Projects	Capital Goods	9	8	6	7	15	15	16	19	16	5	10	10	12	20	15
KEC International	Capital Goods	8	8	7	9	13	12	15	19	13	7	15	13	18	23	20
L&T	Capital Goods	21	16	15	22	28	21	23	23	19	11	19	21	22	31	25
Siemens	Capital Goods	28	28	29	53	75	50	50	37	37	30	52	52	59	76	54
Thermax	Capital Goods	16	15	18	24	33	28	36	35	27	23	43	48	43	65	43
Amber Enterprises	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	31	19	19	51	43	29	48	52
Avalon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	36	43
Cyient DLM	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	49	29
Dixon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	37	27	25	64	63	40	70	71
Kaynes Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	75	63
Syrra SGS Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	42	33

Source: Companies, FactSet, Kotak Institutional Equities

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

**Exhibit 34: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)**

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Coforge	IT Services	6	7	7	9	9	10	9	15	16	13	29	32	22	30	39
Cyient	IT Services	10	8	8	11	14	12	12	17	14	5	16	18	16	25	19
HCL Technologies	IT Services	16	13	14	15	18	13	14	14	14	10	18	21	18	24	25
Infosys	IT Services	22	17	16	15	19	18	15	16	18	15	26	30	21	23	26
KPIT Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	20	48	52	53	40
LTIMindtree	IT Services	NA	NA	NA	NA	NA	NA	12	18	17	15	32	38	27	27	30
L&T Technology Services	IT Services	NA	NA	NA	NA	NA	NA	16	23	21	14	31	46	28	38	35
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	50
Tata Elxsi	IT Services	NA	NA	10	21	30	28	22	23	18	14	39	88	44	51	42
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	27
Wipro	IT Services	18	15	14	15	16	14	14	15	15	11	20	24	15	21	24
Aurobindo Pharma	Pharmaceuticals	9	7	7	12	18	17	14	12	15	8	15	12	12	17	15
Cipla	Pharmaceuticals	21	18	18	19	30	20	24	20	22	18	24	25	20	27	23
Divis Laboratories	Pharmaceuticals	20	17	17	19	23	20	16	25	28	31	39	40	36	44	59
Dr Reddy's Laboratories	Pharmaceuticals	19	18	17	18	23	20	21	19	21	21	24	21	18	19	17
Lupin	Pharmaceuticals	18	20	20	20	31	20	20	19	21	21	27	22	24	32	23
Mankind Pharma	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	41	42
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	41
SRF	Specialty Chemicals	3	3	5	7	14	14	15	16	18	16	24	38	29	37	47

Source: Companies, FactSet, Kotak Institutional Equities

**Most banks are trading at reasonable valuations**

**Exhibit 35: 12-m forward P/B multiple of banks in KIE universe, March fiscal year ends, 2011-25E (based on consensus estimates)**

Company	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	NA	NA	NA	NA	NA	NA	NA	7.0	4.6	3.0	5.9	4.6	3.1	2.6	2.1
Axis Bank	2.6	1.8	1.7	1.6	2.6	1.8	2.1	1.9	2.7	1.1	1.9	1.9	1.8	1.9	1.5
Bandhan Bank	NA	NA	NA	NA	NA	NA	NA	5.2	4.9	1.7	2.7	2.6	1.4	1.2	0.8
Bank of Baroda	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	0.8
Canara Bank	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	0.8
City Union Bank	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	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	0.6
Equitas Small Finance Bank	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	1.4	1.5	1.6	1.1
Federal Bank	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	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	2.4
ICICI Bank	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	2.9
Indusind Bank	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	1.1
Karur Vysya Bank	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	1.4
Punjab National Bank	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	0.8
State Bank of India	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	1.4
Ujjivan Small Finance Bank	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.4	1.6	0.9	1.0	1.4	1.0
Union Bank	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	0.7

Source: Companies, FactSet, Kotak Institutional Equities

**NBFCs are trading at fair valuations**

**Exhibit 36: 12-m forward P/B multiple of financial stocks in KIE universe, March fiscal year ends, 2011-25E (based on consensus estimates)**

Company	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
Aavas Financiers	NA	NA	NA	NA	NA	NA	NA	NA	4.7	3.9	7.0	6.4	3.4	2.4	2.7
Aptus Value Housing Finance	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.2	3.1	3.6	3.1
Bajaj Finance	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	4.8
Cholamandalam	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	4.2
Home First Finance	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.7	3.9	3.2	3.3	2.9
LIC Housing Finance	2.2	2.1	1.5	1.4	2.3	2.3	2.5	1.9	1.6	0.6	1.0	0.8	0.7	1.0	0.8
Mahindra & Mahindra Financial	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	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	2.8
Shriram Finance	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	1.7
<b>12-m forward P/E multiple (X)</b>															
ABSL AMC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22	13	18	19
Computer Age Management Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	37.4	34	29	35	32
CRISIL	20	27	22	31	41	37	33	36	25	22	34	45	40	50	46
HDFC AMC	NA	NA	NA	NA	NA	NA	NA	NA	34	31	41	29	23	38	29
ICRA	16	18	16	24	41	39	45	34	22	20	36	32	27	31	29
Kfin Technologies	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	36	40
Nippon AMC	NA	NA	NA	NA	NA	NA	NA	25	24	24	34	26	17	27	23
UTI AMC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	19	20	14	15	14

Source: Companies, FactSet, Kotak Institutional Equities

This is despite that fact that (1) near-term volume growth rates are and medium-term growth rates will likely be meaningfully lower across sectors versus the much-higher growth rates of the pre-pandemic era, (2) profitability and returns will likely decline from current high levels due to emerging/extant disruption risks across sectors and (3) domestic bond yields are at similar levels versus pre-pandemic levels (see Exhibit 37), while global bond yields are meaningfully higher (see Exhibit 38) and will likely stay higher versus the pre-pandemic levels.



**Domestic bond yields are similar to pre-pandemic levels**

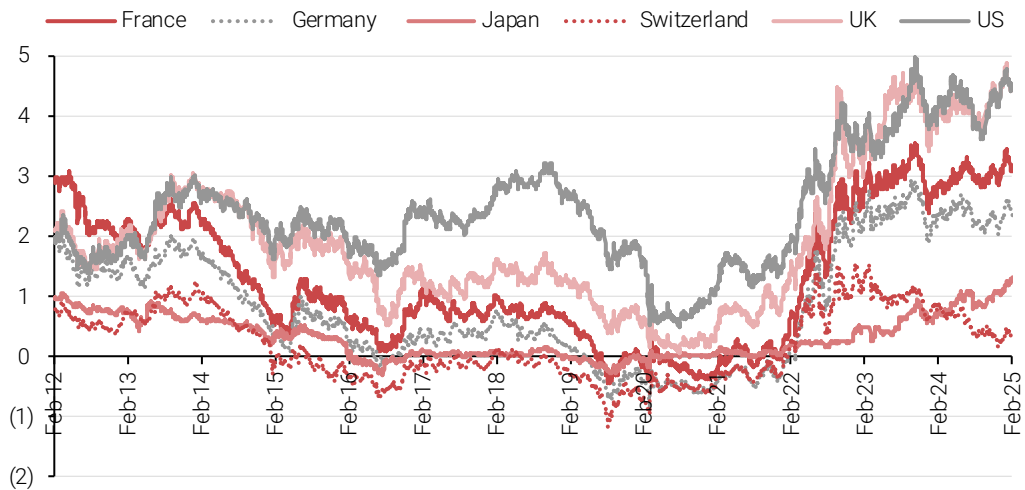
Exhibit 37: 10-year domestic G-Sec yield, Calendar year-ends, 2015-25 (%)



Source: Bloomberg, Kotak Institutional Equities

**Global bond yields are far above pre-pandemic levels**

Exhibit 38: Trend in 10-year benchmark yields across major DMs (%)



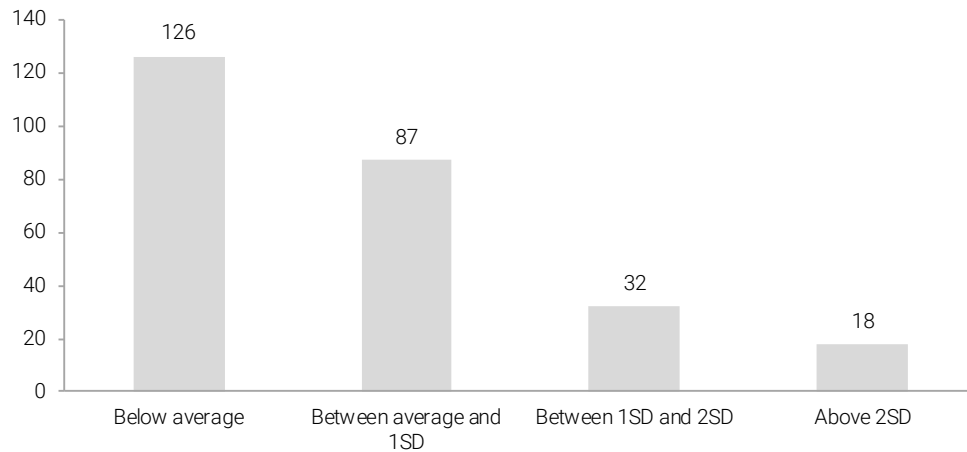
Source: Bloomberg, Kotak Institutional Equities

Markets have gradually reconciled to ‘higher-for-longer’ interest rates in the US, given (1) the US’s challenged fiscal position, (2) last-mile challenges to bringing down inflation to the stated target of 2% for the major DM central banks and (3) likely inflationary policies of the new administration in the US (lower taxes, higher tariffs among others).

Exhibit 39 gives the breakdown of the number of stocks under our coverage by the degree of variance with their historical averages (FY2014-current)—the number of stocks that are around long-term average multiples, the number of stocks that are 1 SD away, the number of stocks that are 2 SDs away and so on and so forth. As can be seen, as many as 18 stocks are trading at >2 SD away from their long-term averages. We would note that this exercise does not factor in the changed (usually negative) circumstances for sectors and stocks.

### About 19% of stocks in KIE coverage are currently trading at >1 SD versus their historical levels

Exhibit 39: No. of stocks in KIE coverage, their current multiples versus historical average and standard deviations, February 2025 (#)



Source: FactSet, Kotak Institutional Equities

We do not focus on the valuations of the standard benchmark (narrow or broad market) indices, since they serve a limited purpose. The Nifty-50 Index has severe limitations, given (1) the wide disparity in valuations across sectors and stocks, (2) the 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 (3) the high volatility in the net profits of certain low P/E stocks, such as BPCL and HPCL (through ONGC), which can result in a disproportionate share of the profits of such companies in the incremental profits of the Nifty-50 Index; this was the case in FY2023-24. The mid-cap. and small-cap. indices have severe data limitations, given limited or no coverage of several stocks with a high share of profits in the indices. This reduces the utility of the top-down index multiples.

We show the valuations of the Nifty-50 Index, Nifty Midcap 100 Index and Nifty Smallcap 100 Index in Exhibits 40-43 for the sake of completeness only and would discourage investors from drawing any conclusions from the same. Anyway, historical multiples (used by analysts and investors for purpose of benchmarking and deriving future multiples) fail to capture the changed and changing context across sectors. Bottom-up multiples based on a first-principle DCF valuation approach result in far lower multiples versus historical multiples in most cases, especially if one was to build in disruption risks judiciously.

**Nifty-50 index has seen a derating in recent months; bottom-up valuations more important**

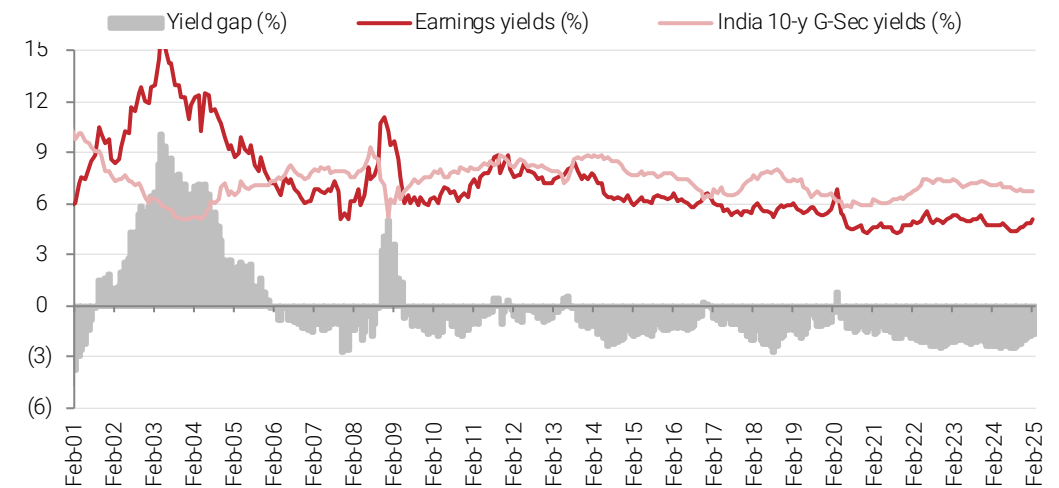
**Exhibit 40: 12-m rolling forward PE of Nifty-50 Index, March fiscal year-ends, 2001-25 (X)**



Source: Companies, Kotak Institutional Equities estimates

**Yield gap (earnings yield less bond yield) is more reasonable after the recent market correction**

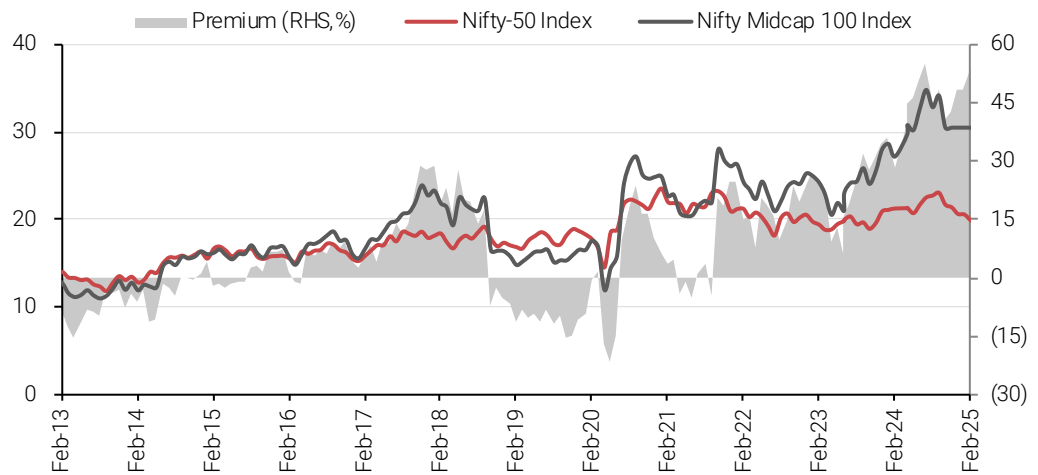
**Exhibit 41: Nifty earnings yield (1-year forward estimated earnings) and bond yield, March fiscal year-ends, 2001-25 (%)**



Source: CEIC, Kotak Institutional Equities estimates

**Nifty Midcap 100 Index at around 55% premium to the Nifty-50 Index**

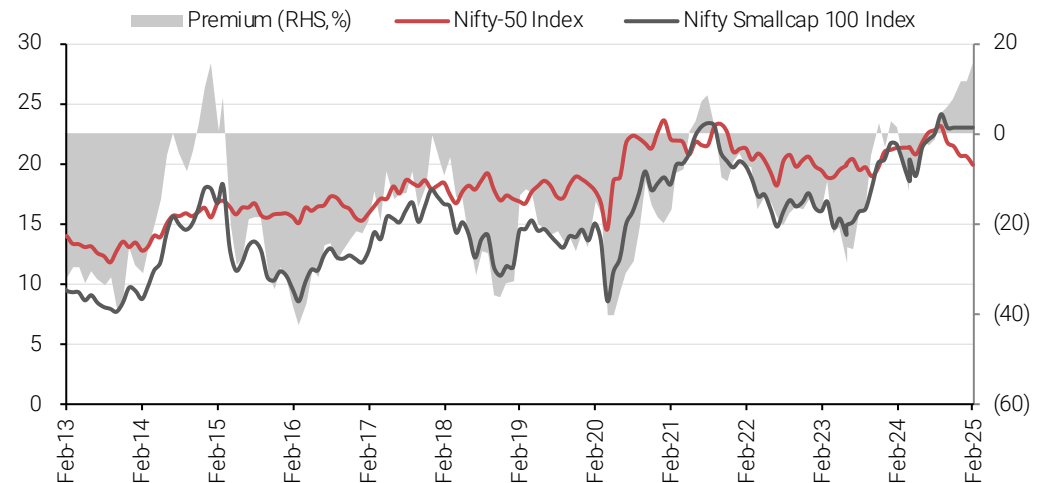
**Exhibit 42: 1-year forward P/E multiple of Nifty-50 Index and NSE Midcap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

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

**Exhibit 43: 1-year forward P/E multiple of Nifty-50 Index and NSE Small-cap 100 Index (X)**



Source: Bloomberg, Kotak Institutional Equities

► **Weakening consumption outlook.** We attribute the continued slowdown in staples demand and patchy performance in discretionary demand to both cyclical and structural factors. Our analysis of India’s employment situation suggests that India’s growth challenges may be more due to structural factors and less due to cyclical factors. The Street continues to believe that the current slowdown is cyclical, but we are increasingly leaning to the structural camp.

India’s employment situation is quite challenging, especially for low-income households. India is creating a large number of jobs on paper, but not sufficient numbers of quality jobs. In fact, our analysis of employment and labor based on the government’s periodic surveys suggests that a large portion of the incremental workforce is finding ‘jobs’ in agriculture and low-end services (gig economy), where incomes need not be very high.

On the positive side, India’s labor force participation rate (LFPR) has increased dramatically in the past few years, with overall LFPR increasing from 37% in 2018 to about 45% in 2024. The sharp increase in overall LFPR is led by a steep increase in female LFPR, which has increased from 18% in 2018 to 32% in 2024. Male LFPR has increased modestly from 56% in 2018 to 58% in 2024. On the negative side, women agriculture workers in rural India accounted for (1) 45% of all new men and women workers, (2) 65% of all new women workers in rural and urban India and (3) 80% of new women workers in rural India over 2018-24.

Exhibits 44-48 show the weak employment trends of 2021-24. We would refer readers to our December 23, 2024 report titled *The great Indian gender divide and dividend* for more details. The report also covers other challenges with respect to (1) quality of education of India’s working-age population, (2) ‘location’ of new workers (young population is largely in North and East India) and the location of manufacturing and services jobs (new jobs may be largely in South and West India) and (3) internal migration challenges for women given (1) cultural and social norms and (2) physical (safety and security) challenges.

**Unemployment rate has been elevated in recent months, as per data from CMIE; quality of employment more relevant**

Exhibit 44: Unemployment rate in India, March fiscal year-ends, 2019-25 (%)



Source: CMIE, Kotak Institutional Equities

**Agriculture sector accounts for a large share of stock and flow of jobs**

Exhibit 45: Percentage distribution of workers in usual status by broad industry division, June year-ends, 2018-24 (%)

	2018	2019	2020	2021	2022	2023	2024	Change (bps) 2019-24
Agriculture	44.1	42.5	45.6	46.5	45.5	45.8	46.1	360
Mining	0.4	0.4	0.3	0.3	0.3	0.3	0.2	(20)
Manufacturing	12.1	12.1	11.2	10.9	11.6	11.4	11.4	(70)
Electricity and water supply	0.6	0.6	0.6	0.6	0.6	0.5	0.5	(10)
Construction	11.7	12.1	11.6	12.1	12.4	13.0	12.0	(10)
Trade, hotel and restaurant	12	12.6	13.2	12.2	12.1	12.1	12.2	(40)
Transport	5.9	5.9	5.6	5.4	5.6	5.4	5.6	(30)
Other services	13.2	13.8	11.9	12	11.9	11.4	11.9	(190)

Source: PLFS, Kotak Institutional Equities

**A large portion of new jobs seem to be in low-income services (household enterprises)**

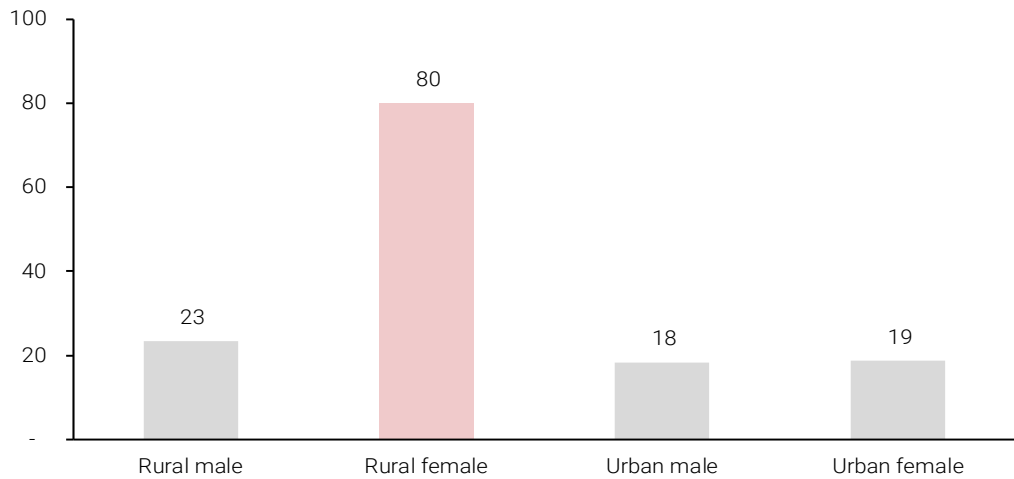
**Exhibit 46: Distribution of workers in usual status by broad segments in India, June year-ends, 2018-24 (%)**

	2018	2019	2020	2021	2022	2023	2024	Change (bps)
								2019-24
Casual labor	24.9	24.1	23.6	23.3	22.7	21.8	19.8	(430)
Regular wage/salaried	22.8	23.8	22.9	21.1	21.5	20.9	21.7	(210)
Self-employed (own account worker)	38.6	38.8	37.6	38.2	38.3	39.0	39.0	20
Self-employed (helper in household enterprise)	13.6	13.3	15.9	17.3	17.5	18.3	19.4	610

Source: PLFS, Kotak Institutional Equities

**Rural female workers accounted for 57% of new workers added over 2018-24**

**Exhibit 47: Estimated new rural and urban labor force added over 2018-24, June year-ends, 2018-24E (mn)**



Source: PLFS, MOHFW, Kotak Institutional Equities estimates

**Agriculture continues to be largest employer for female workers on both stock and flow basis**

**Exhibit 48: Percentage distribution of workers in usual status by broad industry division, June year-ends, 2018-24 (%)**

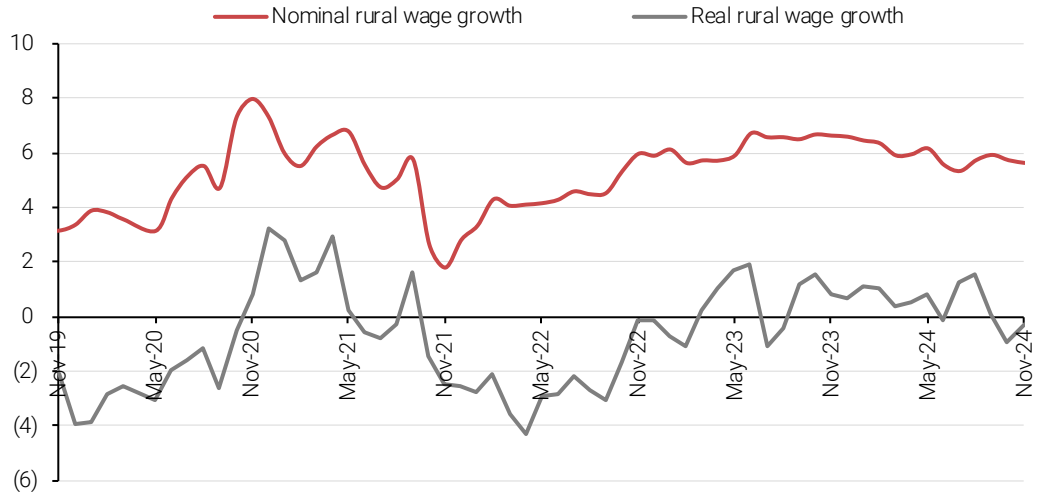
	Overall male							Overall female						
	2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
Agriculture	40.2	38.3	40.0	39.8	38.1	37.1	36.3	57.0	55.3	59.9	62.2	62.9	64.3	64.4
Mining	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Manufacturing	12.0	11.8	11.3	11.1	11.8	11.6	11.4	12.5	12.8	10.9	10.6	11.2	11.1	11.6
Electricity and water supply	0.7	0.7	0.8	0.8	0.7	0.7	0.7	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Construction	13.7	14.2	14.1	14.9	15.6	17.3	16.4	5.0	5.5	5.4	5.6	5.0	4.0	3.7
Trade, hotel and restaurant	13.7	14.5	15.3	14.8	14.7	14.8	15.5	6.3	6.7	8.0	6.1	5.9	6.2	6.1
Transport	7.4	7.5	7.4	7.3	7.5	7.4	8.1	1.1	1.0	1.0	1.0	1.2	1.2	1.1
Other services	11.7	12.4	10.9	11.0	11.2	10.7	11.3	17.8	18.2	14.4	14.4	13.6	13.0	13.0

Source: PLFS surveys, Kotak Institutional Equities

We note that the sharp spike in the prices of several raw materials in the past 6-12 months will further delay any expected recovery in household consumption, given (1) higher spending on food for non-farm households, which would reduce disposable income for non-food items and (2) higher product prices (as and when companies were to pass on the increase in raw material prices to consumers), which may further dent the affordability of low-income households. Accordingly, we expect a gradual recovery in demand from low-income households, helped by (1) a modest improvement in rural real wages as inflation settles lower; real wage growth has been weak for the past few months though; (see Exhibit 49) and (2) a moderate improvement in rural economy following a good summer (kharif) crop good on the back of decent monsoons (see Exhibit 50) and a likely decent winter (rabi) crop given the high reservoir levels (see Exhibit 51).

**Modest improvement in real rural wages in recent months**

**Exhibit 49: Growth in average nominal and real rural wages, calendar year-ends, 2019-24 (%)**



Source: CEIC, Kotak Institutional Equities

**India had a good monsoon in 2024**

**Exhibit 50: Cumulative rainfall surplus/deficiency in sub-divisions, 2023 and 2024 (%)**

	15-Sep-23	22-Sep-23	29-Sep-23	13-Sep-24	20-Sep-24	27-Sep-24	Normal (mm)
<b>India</b>	<b>(9)</b>	<b>(6)</b>	<b>(6)</b>	<b>8</b>	<b>6</b>	<b>7</b>	
<b>All-India normal rainfall (mm)</b>	<b>796</b>	<b>832</b>	<b>865</b>	<b>784</b>	<b>822</b>	<b>858</b>	
<b>Deficient (&lt; -19% to -59%)</b>							
Punjab	(13)	(4)	(5)	(25)	(26)	(29)	437
Arunachal Pradesh	(12)	(12)	(12)	(24)	(28)	(29)	1,653
Jammu & Kashmir and Ladakh	5	7	5	(23)	(24)	(26)	546
Bihar	(29)	(28)	(24)	(28)	(27)	(23)	976
<b>Normal (-19% to +19%)</b>							
Himachal Pradesh	21	23	19	(20)	(19)	(19)	731
Nagaland, Manipur, Mizoram and Tripura	(26)	(25)	(27)	(15)	(18)	(18)	1,281
Assam & Meghalaya	(18)	(17)	(19)	(12)	(16)	(16)	1,739
East Uttar Pradesh	(25)	(27)	(29)	(14)	(15)	(14)	790
Kerala	(40)	(38)	(36)	(9)	(12)	(13)	1,992
Odisha	(5)	(3)	(3)	(9)	(8)	(4)	1,135
Haryana, Chandigarh and Delhi	(3)	(0)	(1)	(5)	(1)	(3)	429
Jharkhand	(33)	(29)	(27)	(14)	(1)	(0)	1,008
Gangetic West Bengal	(24)	(23)	(24)	(18)	(2)	1	1,147
Andaman & Nicobar Islands	44	44	54	3	3	3	1,587
Sub-Himalayan West Bengal and Sikkim	2	2	7	4	2	4	1,859
North interior Karnataka	(7)	(12)	(10)	13	4	7	465
South interior Karnataka	(27)	(28)	(27)	25	11	8	661
Chhattisgarh	(11)	(9)	(7)	8	7	9	1,121
West Uttar Pradesh	5	4	3	5	11	9	669
Uttaranchal	6	6	4	7	9	10	1,157
East Madhya Pradesh	(6)	(4)	(5)	12	12	13	1,036
Vidarbha	(8)	(5)	(3)	18	14	18	929
Tamil Nadu and Pondicherry	(0)	7	9	40	26	19	314
West Madhya Pradesh	(13)	3	4	21	19	19	871
Rayalaseema	(21)	(23)	(13)	33	19	19	394
<b>Excess (&gt; +19%)</b>							
Marathwada	(20)	(21)	(13)	26	18	22	633
Coastal Karnataka	(18)	(16)	(13)	22	20	22	3,068
Gujarat region	(17)	(2)	(2)	28	25	26	920
Lakshadweep	(19)	(17)	(17)	35	31	28	1,013
Konkan and Goa	6	8	10	27	25	29	2,845
Telangana region	19	17	15	38	30	31	722
Coastal Andhra Pradesh	1	(2)	(4)	46	35	36	585
Madhya Maharashtra	(21)	(19)	(13)	43	36	39	734
East Rajasthan	(10)	(2)	(0)	52	49	46	624
Saurashtra and Kutch	39	51	48	76	70	69	533
West Rajasthan	31	43	42	78	75	71	282

Source: IMD, Kotak Economics Research

**Reservoir levels in surplus**

**Exhibit 51: Reservoir levels for 91 large reservoirs, billion cubic meters (BCM)**

	14-Sep-23	21-Sep-23	28-Sep-23	12-Sep-24	19-Sep-24	26-Sep-24
Current live storage (BCM)	118	126	130	154	157	157
Live capacity at FRL (BCM)	179	179	179	181	181	181
Corresponding storage last year	153	156	158	117	126	128
Corresponding storage last 10-year average	133	137	141	131	133	139
% storage as FRL capacity	66	71	73	85	87	87
Corresponding % last year	86	87	89	65	70	71
Corresponding % (last 10-year average)	75	77	79	72	74	77
Current year's storage as % of last year	77	81	82	131	125	123
Current year's storage as % of last 10-yr average	88	92	92	118	118	113
<b>Reservoir surplus/(deficiency) (%)</b>	<b>(11.6)</b>	<b>(7.7)</b>	<b>(7.7)</b>	<b>17.7</b>	<b>17.7</b>	<b>12.8</b>

Source: Central Water Commission, Kotak Economics Research



**Unknown factors**

We note an uncertain outlook regarding several domestic and global factors that may pose headwinds to the Indian market. Among global factors, the policies of the new US administration on immigration and trade & tariffs and counter-measures from other countries may lead to an extended period of uncertainty among investors. Among domestic factors, the behavior of non-institutional investors will be critical for the direction of the market in the short term. We discuss these issues in more detail below.

- ▶ **Global issues.** Global markets may face an extended period of uncertainty if the policies of the new US administration were to disrupt the extant global security and trade order. Investors may have to grapple with (1) potential policies of the US with respect to geopolitics, immigration and trade & tariff and (2) related policies (counter-measures) of countries that may be negatively impacted by the trade & tariff policies of the US government. As such, major economies other than the US are grappling with a prolonged slowdown (see Exhibits 52-54 for the key economic indicators of the three major economic blocks).

**Chinese economy has been weak in recent months**

Exhibit 52: Trend in key economic variables for China

Monthly indicators	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
<b>Economic activity</b>														
Consumer confidence (X)	87.6	88.9	89.1	89.4	88.2	86.4	86.2	86.0	85.8	85.7	86.9	86.2	86.4	
Credit growth (yoy, %)	10.6	10.4	10.1	9.6	9.6	9.3	8.8	8.7	8.5	8.1	8.0	7.7	7.6	
Exports growth (yoy, %)	(0.8)	5.3	2.9	(11.4)	(1.0)	6.7	7.9	6.7	8.3	1.5	12.5	7.0	10.5	
Fixed assets investment (yoy, %)	(12.1)	(5.1)	(5.1)	(6.7)	(2.8)	(0.4)	0.9	0.6	0.7	1.1	0.9	1.1	2.3	
Imports growth (yoy, %)	0.1	15.6	(8.4)	(2.8)	7.3	0.9	(2.7)	7.3	0.5	0.3	(2.3)	(3.9)	1.1	
Money supply M2 growth (yoy, %)	9.7	8.7	8.7	8.3	7.2	7.0	6.2	6.3	6.3	6.8	7.5	7.5	7.3	
<b>PMI manufacturing (X)</b>	<b>50.8</b>	<b>50.8</b>	<b>50.9</b>	<b>51.1</b>	<b>51.4</b>	<b>51.7</b>	<b>51.8</b>	<b>49.8</b>	<b>50.4</b>	<b>49.3</b>	<b>50.3</b>	<b>51.5</b>	<b>50.5</b>	<b>50.1</b>
<b>PMI non-manufacturing (X)</b>	<b>50.4</b>	<b>50.7</b>	<b>51.4</b>	<b>53.0</b>	<b>51.2</b>	<b>51.1</b>	<b>50.5</b>	<b>50.2</b>	<b>50.3</b>	<b>50.0</b>	<b>50.2</b>	<b>50.0</b>	<b>52.2</b>	<b>50.2</b>
Retail sales growth (yoy, %)	7.4	—	—	3.1	2.3	3.7	2.0	2.7	2.1	3.2	4.8	3.0	3.7	
<b>Total outstanding social financing (yoy, %)</b>	<b>10.4</b>	<b>10.1</b>	<b>9.7</b>	<b>9.2</b>	<b>9.1</b>	<b>8.9</b>	<b>8.8</b>	<b>8.3</b>	<b>8.1</b>	<b>7.8</b>	<b>7.7</b>	<b>7.4</b>	<b>7.2</b>	
<b>Inflation</b>														
<b>CPI (yoy,%)</b>	<b>(0.3)</b>	<b>(0.8)</b>	<b>0.7</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.5</b>
<b>Core CPI (yoy, %)</b>	<b>0.6</b>	<b>0.4</b>	<b>1.2</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>
House price inflation (yoy, %)	(0.4)	(0.7)	(1.4)	(2.2)	(3.1)	(3.9)	(4.5)	(4.9)	(5.3)	(5.7)	(5.9)	(5.7)	(5.3)	
<b>Real estate</b>														
Real estate climate index (X)	93.4	92.4	92.1	92.1	92.0	92.0	92.1	92.2	92.3	92.4	92.5	92.6	92.8	
<b>Residential floor space sold growth (yoy, %)</b>	<b>(17.3)</b>	<b>(28.6)</b>	<b>(28.6)</b>	<b>(27.8)</b>	<b>(25.7)</b>	<b>(24.4)</b>	<b>(22.2)</b>	<b>(21.2)</b>	<b>(20.4)</b>	<b>(19.2)</b>	<b>(17.7)</b>	<b>(16.0)</b>	<b>(14.1)</b>	
<b>Quarterly indicators</b>														
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24									
Current account/GDP (%)	1.8	1.5	1.2	1.2	1.6									
Real GDP growth (yoy, %)	4.9	5.2	5.3	4.7	4.6									

Source: Bloomberg, CEIC, Kotak Institutional Equities

**Eurozone economy has been weak for the past few months**

**Exhibit 53: Trend in key economic variables for Eurozone**

Monthly indicators	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
<b>Economic activity</b>														
Consumer confidence (X)	(15.0)	(16.1)	(15.4)	(14.8)	(14.7)	(14.3)	(13.9)	(13.0)	(13.4)	(13.0)	(12.5)	(13.8)	(14.5)	(14.2)
Business confidence (X)	(0.5)	(0.4)	(0.4)	(0.3)	(0.5)	(0.4)	(0.5)	(0.6)	(0.6)	(0.8)	(1.0)	(0.8)	(0.9)	(0.9)
Consumer Credit growth (yoy, %)	2.1	2.0	2.0	2.3	2.6	2.2	1.7	2.0	1.9	1.9	1.7	1.5	2.1	
Exports growth (yoy, %)	(8.4)	1.0	1.2	(8.7)	15.4	(0.6)	(5.8)	10.2	(1.3)	0.6	1.6	(1.2)		
Imports growth (yoy, %)	(20.0)	(18.9)	(8.8)	(12.0)	1.2	(5.6)	(7.5)	4.9	0.3	0.0	3.2	0.1		
Private sector credit growth (yoy, %)	(0.1)	(0.7)	(0.7)	(0.4)	(0.3)	(0.3)	0.0	(0.0)	0.2	0.5	0.6	0.6	1.2	
Industrial production (yoy, %)	(1.8)	(5.4)	(5.4)	(3.2)	(3.3)	(4.4)	(3.9)	(2.2)	(0.4)	(2.1)	(1.1)	(1.9)		
Money supply M2 growth (yoy, %)	(0.9)	(1.1)	(0.6)	0.0	0.0	0.6	1.4	1.2	1.9	1.9	2.3	3.1	2.5	
<b>PMI non-manufacturing (X)</b>	<b>48.8</b>	<b>48.4</b>	<b>50.2</b>	<b>51.5</b>	<b>53.3</b>	<b>53.2</b>	<b>52.8</b>	<b>51.9</b>	<b>52.9</b>	<b>51.4</b>	<b>51.6</b>	<b>49.5</b>	<b>51.6</b>	<b>51.3</b>
<b>PMI manufacturing (X)</b>	<b>44.4</b>	<b>46.6</b>	<b>46.5</b>	<b>46.1</b>	<b>45.7</b>	<b>47.3</b>	<b>45.8</b>	<b>45.8</b>	<b>45.8</b>	<b>45.0</b>	<b>46.0</b>	<b>45.2</b>	<b>45.1</b>	<b>46.6</b>
Retail sales growth (yoy, %)	(0.5)	(0.7)	(0.1)	0.7	0.9	0.5	(0.7)	0.3	2.5	3.2	2.1	1.6	1.9	
Passenger cars (yoy, %)	(4.2)	12.6	10.9	(4.2)	13.8	(3.1)	3.7	(0.2)	(19.5)	(7.6)	(0.3)	(3.4)	3.6	
<b>Employment</b>														
Unemployment rate (%)	6.5	6.5	6.5	6.5	6.4	6.5	6.4	6.4	6.3	6.3	6.3	6.2	6.3	
<b>Inflation</b>														
<b>CPI (yoy,%)</b>	<b>2.9</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>2.6</b>	<b>2.2</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>
<b>Core CPI (yoy, %)</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
<b>Real estate</b>														
Construction output	2.9	0.9	(1.6)	(0.3)	(1.3)	(2.5)	(1.4)	(2.1)	(2.2)	(1.9)	0.0	1.4		
<b>Quarterly indicators</b>														
	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar-24</b>	<b>Jun-24</b>	<b>Sep-24</b>	<b>Dec-24</b>							
Current account/GDP (%)	1.8	2.9	2.2	2.6	2.8	2.8								
Real GDP growth (yoy, %)	0.6	0.0	0.1	0.5	0.6	0.9	0.9							
Wage growth (yoy, %)	4.5	5.3	3.4	5.1	4.7	4.6								

Source: Bloomberg, Kotak Institutional Equities

**The US economy has been reasonably strong in recent months**

**Exhibit 54: Trend in key economic variables for the US economy**

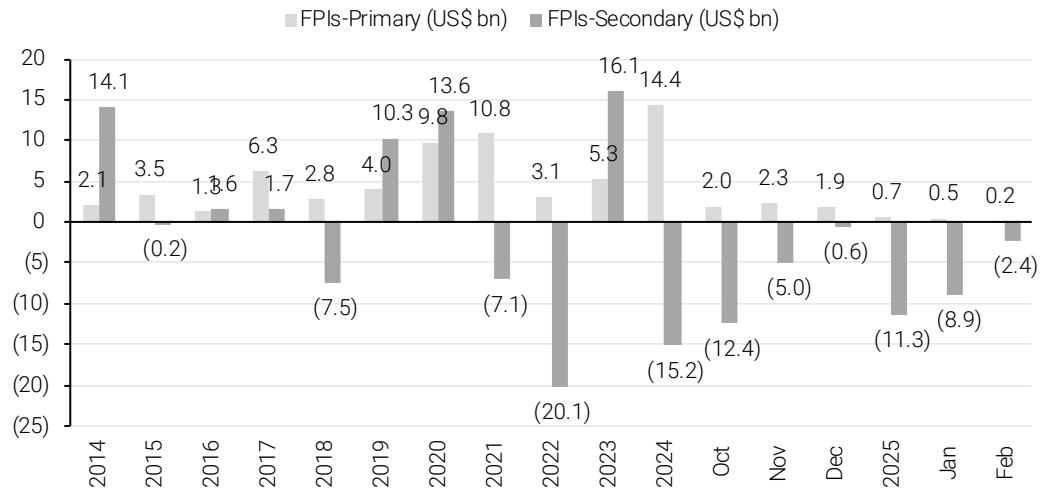
	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
<b>Economic activity</b>														
Conference Board consumer confidence (X)	108	110.9	104.8	104.7	97.5	101.3	97.8	101.9	105.6	99.2	109.6	112.8	109.5	104.1
Industrial production (yoy, %)	1.1	(1.2)	(0.1)	(0.3)	(0.8)	0.2	0.9	(0.7)	0.0	(0.7)	(0.5)	(0.9)	0.6	
<b>ISM manufacturing (X)</b>	<b>47.4</b>	<b>49.1</b>	<b>47.8</b>	<b>50.3</b>	<b>49.2</b>	<b>48.5</b>	<b>48.3</b>	<b>47.0</b>	<b>47.5</b>	<b>47.5</b>	<b>46.9</b>	<b>48.4</b>	<b>49.2</b>	<b>50.9</b>
ISM non-manufacturing (X)	50.6	53.4	52.6	51.4	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54.0	52.8
Personal savings rate (% of disposable income)	3.6	5.5	5.4	5.2	5.1	4.9	4.8	4.4	4.4	4.1	4.3	4.1	3.8	
Retail sales excl. automobiles (sa, yoy, %)	3.4	(0.3)	1.4	3.3	2.3	2.2	1.7	2.8	2.0	2.2	2.4	3.4	3.0	
<b>Employment</b>														
Average private earnings (yoy, %)	4.3	4.4	4.2	4.2	4.0	4.1	3.9	3.6	4.0	3.9	4.0	4.0	3.9	
Job openings (mn)	8.9	8.7	8.8	8.4	8.1	8.2	7.9	7.7	7.9	7.4	7.7	8.1	7.6	
Jobless claims ('000)	218	214	210	222	209	229	238	250	231	225	218	225	211	219
<b>Non-farm payrolls ('000)</b>	<b>290</b>	<b>119</b>	<b>222</b>	<b>246</b>	<b>118</b>	<b>193</b>	<b>87</b>	<b>88</b>	<b>71</b>	<b>240</b>	<b>44</b>	<b>261</b>	<b>307</b>	<b>143</b>
<b>Participation rate (%)</b>	<b>62.5</b>	<b>62.5</b>	<b>62.6</b>	<b>62.7</b>	<b>62.7</b>	<b>62.6</b>	<b>62.6</b>	<b>62.7</b>	<b>62.7</b>	<b>62.7</b>	<b>62.6</b>	<b>62.5</b>	<b>62.5</b>	<b>62.6</b>
<b>Unemployment rate (%)</b>	<b>3.7</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>	<b>4.2</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>
<b>Inflation</b>														
<b>Core PCE (yoy, %)</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	
<b>CPI (yoy,%)</b>	<b>3.4</b>	<b>3.1</b>	<b>3.2</b>	<b>3.5</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.9</b>	<b>3.0</b>
<b>Core CPI (yoy, %)</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.8</b>	<b>3.6</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>
<b>Real estate</b>														
Housing starts (SAAR, '000)	1,568	1,376	1,546	1,299	1,377	1,315	1,329	1,262	1,379	1,355	1,344	1,294	1,499	
Change in housing starts (yoy, %)	16	1	10	(3)	1	(17)	(6)	(14)	6	(1)	(2)	(14)	(4)	
New homes sold	654	664	643	683	736	672	672	707	691	726	615	674	698	
New home sales (NSA, yoy, %)	3.5	3.9	2.9	6.1	7.1	(9.3)	0.9	1.0	6.0	4.6	(8.6)	10.3	6.7	
Median price of new homes (US\$, '000)	418	430	421	436	415	414	414	429	406	418	425	403	427	
S&P house price index (yoy, %)	6.3	6.8	7.5	7.5	7.2	6.7	6.4	5.9	5.2	4.6	4.3	4.4		
<b>Quarterly indicators</b>														
	<b>Dec-23</b>	<b>Mar-24</b>	<b>Jun-24</b>	<b>Sep-24</b>	<b>Dec-24</b>									
CAD/GDP (%)	(2.8)	(3.2)	(3.3)	(3.6)										
GFD/GDP (%)	(6.5)	(5.9)	(5.6)	(6.3)	(6.9)									
Real GDP (SAAR, qoq, %)	3.2	1.6	3.0	3.1	2.3									

Source: Bloomberg, CEIC, Kotak Institutional Equities

Even without the destabilizing impact of a major upheaval in global geopolitics and trade, we do not expect a major change in the investment behavior of global investors in the next few months. Global markets will likely continue to view the US market favorably relative to EMs, which may be negative for EMs and India from the perspective of fresh FPI allocation and inflows to Ems, including India. As such, FPIs find valuations of the Indian market quite expensive, as can be seen by the large outflows in the secondary market (see Exhibit 55), which reflects a more 'accurate' view of FPI flows. In fact, the secondary market outflow data for CY2024 may be understated by around US\$12 bn of positive passive flows (inflows). Overall FPI flows (see Exhibit 56), which comprises FPI primary, FPI secondary active and FPI secondary passive flows, can be a bit misleading with respect to FPI activity.

**Large FPI outflows from secondary markets in the past few months**

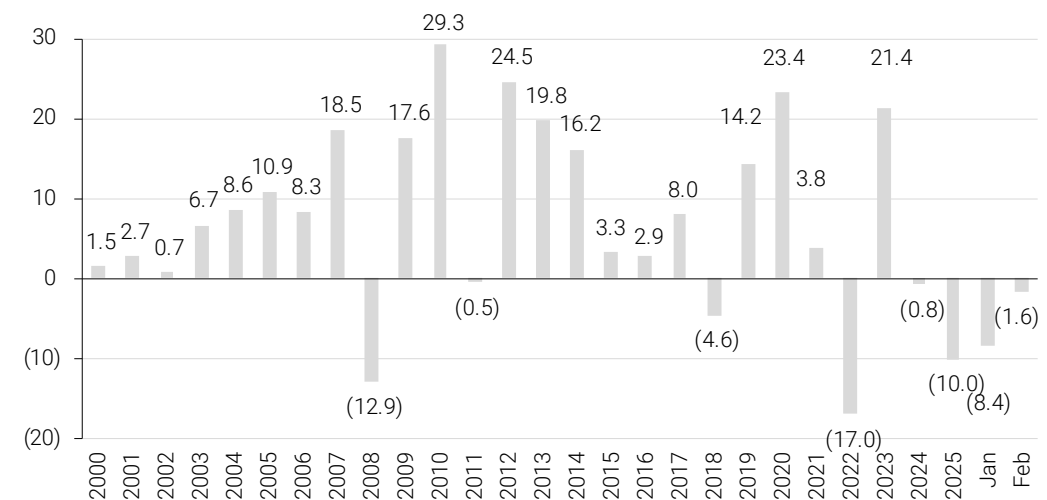
**Exhibit 55: FPIs flows into primary and secondary market, calendar year-ends, 2014-25 (US\$ bn)**



Source: Prime Database, Kotak Institutional Equities

**FPI equity outflows at US\$7.6 bn in CYTD25**

**Exhibit 56: Net FPI flows, Calendar year-ends, 2000-25 (US\$ bn)**

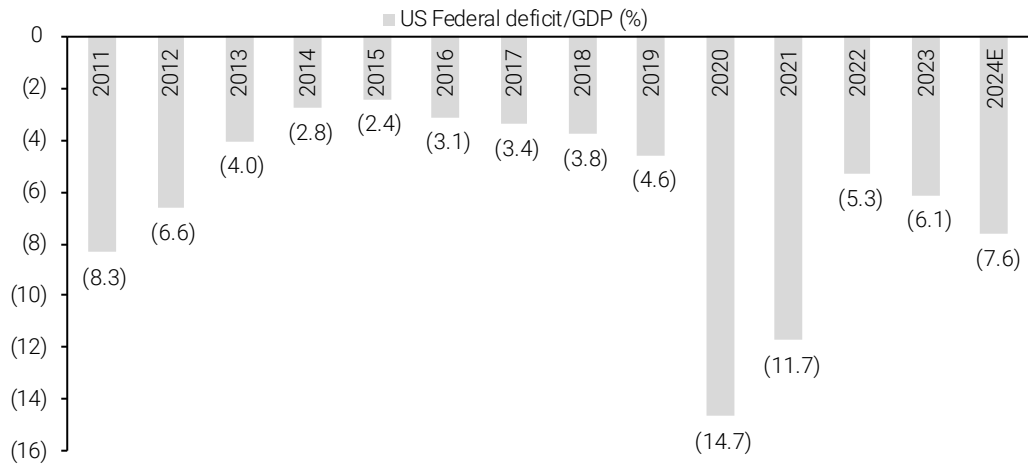


Source: Bloomberg, Kotak Institutional Equities

In our view, (1) the expected tax cuts in the US may lead to stronger US economic growth and earnings in the short term but also higher fiscal deficits in the medium term (already quite high, as can be seen in Exhibit 57), (2) the expected higher import tariffs on imports of goods into the US may affect global GDP growth and US inflation negatively and (3) the unexpected changes to the US foreign policy (NATO, Taiwan, Ukraine, etc.) may affect global investment sentiment and equity risk premium.

**US Federal deficit had expanded steadily in the past few years**

**Exhibit 57: US Federal surplus/deficit (-) as a proportion of GDP, calendar year-ends, 2011-24E (%)**

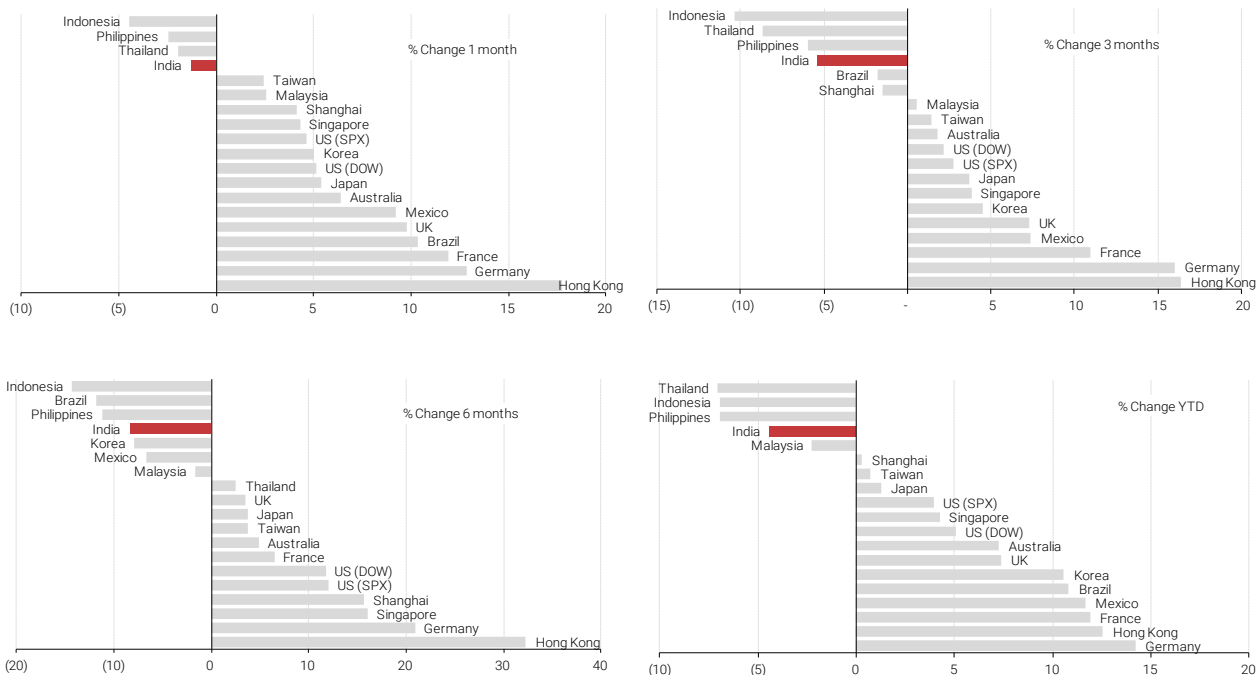


Source: FRED, IMF, Kotak Institutional Equities

The market would probably wait to see the policies of the new US administration. As of now, the market expects the US economy and market to benefit from the “America First” policies of the new US administration. This can be seen in the strong performance of the US stock market relative to other markets and currency in the past 2-3 months (see Exhibits 58-59 for the performance of global stock markets and DXY index over various periods of time).

**The US market has outperformed other markets in the last few months**

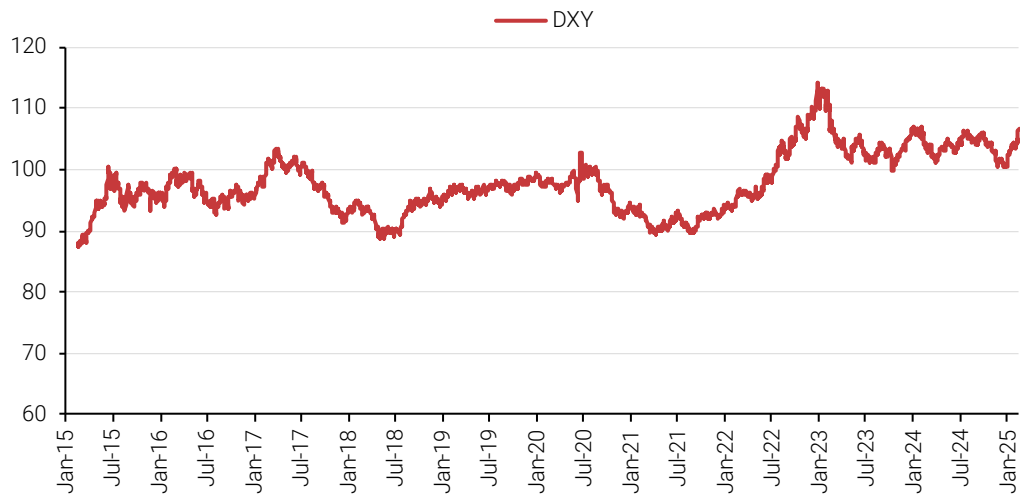
**Exhibit 58: Performance of Nifty-50 versus other regional indices (adjusted for currency changes)**



Source: Bloomberg, Kotak Institutional Equities

**US dollar has strengthened against major currencies in the past few weeks**

**Exhibit 59: Trend in dollar index, (X)**



Source: Bloomberg, Kotak Institutional Equities

Exhibit 60 gives our assessment of the possible implications of the “America First” policy across key areas for the Indian economy and market.

**Most of the "America First" policies of the upcoming administration will be negative for India, in their current form**

**Exhibit 60: Key areas, where US has high likelihood of pursuing an America First policy and likely implications on Indian markets**

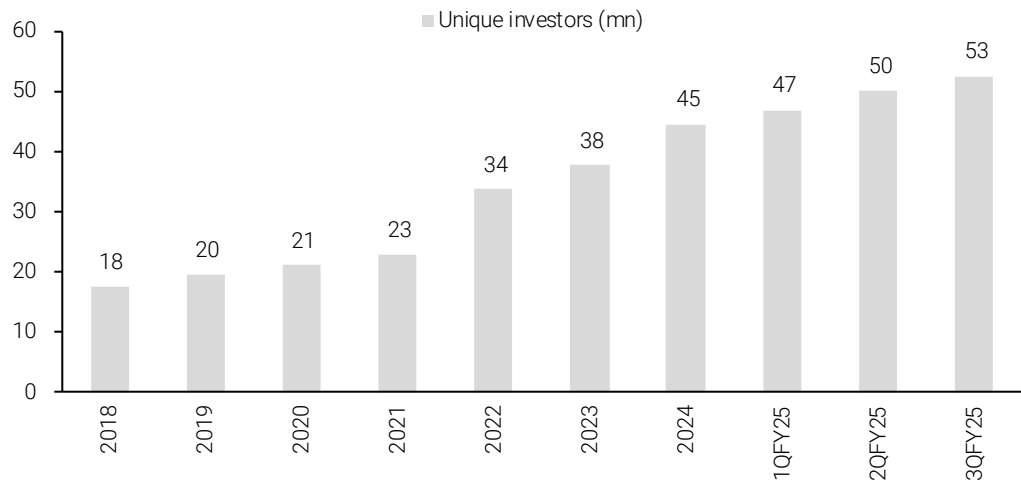
US policy	Scenario	
	America first	Status quo
Defense & geo-politics	High likelihood of isolationist policy, focusing on reducing US involvement in global conflicts. Likely increase in confrontation with China. May increase risk premium on non-US equities	Low likelihood of status quo. May necessitate higher defense allocation by India - certain long-duration defense manufacturing projects may be at risk, if Indian armed forces push for quick ramp-up of defense capabilities. Other countries in Asia and Europe (NATO) may have to increase defense spending
ESG	High likelihood of freezing climate-related regulations and roll-back of current policies; achievable through executive order. Negative for pro-environment technologies	Low likelihood of status quo; global financing of pro-ESG ventures in EMs, especially India, will be at risk
Healthcare	Moderate likelihood of overhaul of federal health agencies and ACA; may not have broad congressional support	Moderate likelihood of status quo; neutral for Indian pharma exporters
Immigration	High likelihood of stringent immigration policies for low-skill workers; no definite view for now on immigration of high-skill workers for specialty occupations. Medium impact on Indian IT exports	Narrow majority of the Republican Party in the House may make it difficult for passing stricter immigration laws for high-skill workers. Neutral for Indian IT exports, given current positioning
Tariffs	High likelihood of higher tariffs on US imports from trade-surplus countries. May force some relocation of supply-chains to US. Inflationary for US, while negative for global trade and consequently global investments	Low likelihood of status quo; mixed for Indian goods exporters to US. A few sectors may benefit at the margin, if there was to be a large differential on tariffs on imports from India versus China
Taxation	High likelihood of lower corporate as well as income taxes in US. Positives for US economy will depend on the ability to cut spending commensurately and pace of supply-side ramp up. Likely to increase fiscal deficit (already quite high) as well as inflation	Low likelihood of status quo. Increases risk of lower EM inflows and higher global cost of capital; negative for high PE companies, which do not have any incremental growth from US expansion
Technology & innovation	High likelihood on lower regulations to promote domestic competitiveness of US companies. Positive for US manufacturing and technology companies	No impact on Indian equities

Source: Kotak Institutional Equities

- **Domestic retail investors’ sentiment.** Any deterioration in retail investment sentiment may remove an important support for the Indian market. As argued previously, non-institutional investors have largely followed a price-agnostic approach to investment in the past 3-4 years, emboldened by their conviction about “high returns at all price points from the market” based on their investment experience over FY2021-24. This can be seen in large inflows into domestic equity mutual funds for the last few years (see Exhibits 61-63) irrespective of prices and valuations of stocks.

**More than 50% of current investors in domestic mutual funds have come in the past four years**

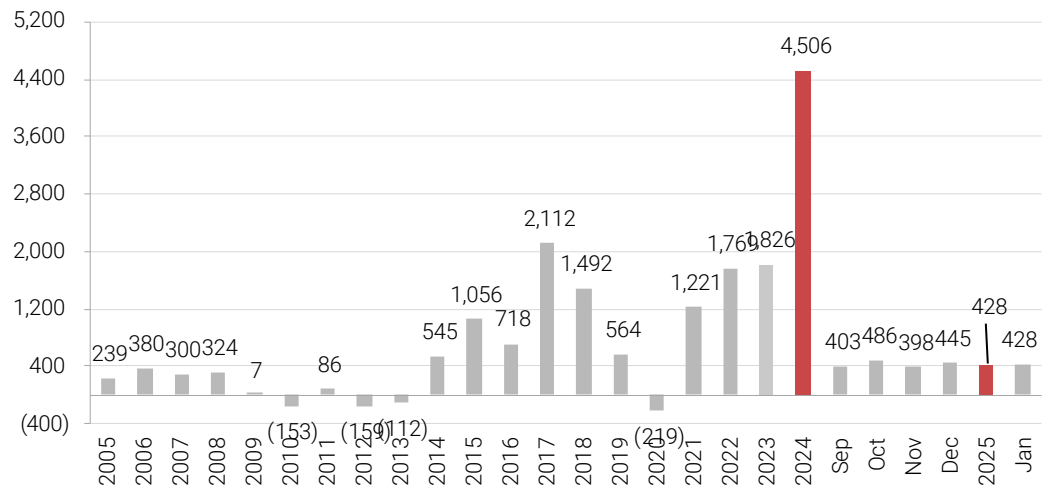
**Exhibit 61: Unique domestic mutual fund investors in India, March fiscal year-ends, 2018-25 (mn)**



Source: Industry, SEBI, NSE, AMFI, Kotak Institutional Equities

**Equity MFs have seen strong inflows in recent months**

**Exhibit 62: Net MF flows (Equity+ELSS+70% balanced), calendar year-ends, 2005-24 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**Retail investors have poured money into mid- and small-cap. in CY2023 and in thematic funds in CY2024**

**Exhibit 63: Net inflows to various categories of domestic mutual funds in India, calendar year-end, 2020-24 (Rs bn)**

	2020	2021	2022	2023	Oct-24	Nov-24	Dec-24	2024	Jan-25	2025
Flexi cap. fund	—	179	220	116	52	51	47	410	57	57
Large cap. fund	(24)	29	137	(30)	35	25	20	194	31	31
Large & mid Cap. fund	18	87	200	189	49	47	38	395	41	41
Mid cap. fund	5	106	205	229	47	49	51	343	51	51
Small cap. fund	14	38	198	410	38	41	47	342	57	57
Sectoral/thematic fund	83	255	209	308	123	77	153	1,557	90	90
Value/contra/focused	(3)	60	184	92	31	25	20	218	23	23
Dividend yield/ELSS/multi cap. fund	(3)	213	258	300	45	45	35	483	46	46
<b>Total</b>	<b>91</b>	<b>967</b>	<b>1,610</b>	<b>1,616</b>	<b>419</b>	<b>359</b>	<b>412</b>	<b>3,943</b>	<b>397</b>	<b>397</b>

Source: AMFI, Kotak Institutional Equities

It would be interesting to see if non-institutional investors remain as bullish as they have been in the past few years or panic based on low and negative near-term trailing returns. The 12-month trailing returns have moderated in the past few months, with negative returns in the past few months across major headline and broad indices. In addition, the indices mask a much deeper correction in most parts of the market (see Exhibits 64-66 for the performance of the stocks in Nifty-50 Index, Nifty 100 Mid-cap Index and Nifty 100 Small-cap Index).

**Decent correction in the stock prices of several large-cap. stocks in the past six months**

**Exhibit 64: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty-50 Index (sorted on a 12-m basis)**

	Company	GICS sector	Performance (%)				
			1M	3M	6M	12M	YTD
	<b>Nifty-50 Index</b>		<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>5</b>	<b>(3)</b>
1	Adani Enterprises	Capital Goods	(10)	(24)	(29)	(33)	(15)
2	IndusInd Bank	Banks	6	1	(23)	(31)	7
3	Tata Motors	Automobiles & Components	(12)	(12)	(36)	(26)	(8)
4	Asian Paints	Commodity Chemicals	(0)	(10)	(26)	(25)	(2)
5	Coal India	Oil, Gas & Consumable Fuels	(4)	(14)	(30)	(24)	(8)
6	BPCL	Oil, Gas & Consumable Fuels	(7)	(16)	(23)	(20)	(14)
7	Hero Motocorp	Automobiles & Components	(6)	(16)	(24)	(19)	(7)
8	Reliance Industries	Oil, Gas & Consumable Fuels	(2)	(4)	(17)	(18)	0
9	Adani Ports and SEZ	Transportation	(5)	(16)	(27)	(16)	(14)
10	ONGC	Oil, Gas & Consumable Fuels	(11)	(8)	(30)	(14)	(4)
11	Nestle India	Consumer Staples	(1)	1	(11)	(12)	1
12	Titan Company	Retailing	(3)	1	(6)	(10)	(1)
13	Axis Bank	Banks	(5)	(13)	(13)	(9)	(6)
14	Tata Consumer Products	Consumer Staples	6	11	(12)	(9)	12
15	NTPC	Electric Utilities	(3)	(19)	(24)	(8)	(10)
16	Apollo Hospitals	Health Care Services	(7)	(9)	(4)	(7)	(14)
17	Power Grid	Electric Utilities	(11)	(18)	(23)	(6)	(17)
18	Tata Steel	Metals & Mining	6	(3)	(8)	(5)	(3)
19	Dr Reddy's Laboratories	Pharmaceuticals	(11)	(2)	(12)	(4)	(14)
20	State Bank of India	Banks	(3)	(10)	(10)	(3)	(9)
21	Hindustan Unilever	Consumer Staples	(2)	(3)	(14)	(3)	(0)
22	TCS	IT Services	(6)	(4)	(7)	(3)	(2)
23	L&T	Capital Goods	(6)	(8)	(9)	(2)	(10)
24	Britannia Industries	Consumer Staples	2	0	(13)	(1)	4
25	SBI Life Insurance	Insurance	(2)	(6)	(13)	1	5
26	Cipla	Pharmaceuticals	1	(3)	(7)	2	(5)
27	HCL Technologies	IT Services	(5)	(8)	6	3	(10)
28	Bajaj Auto	Automobiles & Components	(1)	(10)	(13)	5	(3)
29	ITC	Consumer Staples	(6)	(7)	(12)	5	(10)
30	HDFC Life Insurance	Insurance	4	(10)	(9)	7	1
31	Kotak Mahindra Bank	Banks	12	14	12	12	9
32	Sun Pharmaceuticals	Pharmaceuticals	(4)	(4)	(2)	12	(10)
33	Infosys	IT Services	(4)	(0)	2	12	(1)
34	Shriram Finance	Diversified Financials	(1)	(4)	(7)	13	(7)
35	Maruti Suzuki	Automobiles & Components	8	15	4	15	17
36	Ultratech Cement	Construction Materials	7	5	2	15	(1)
37	Grasim Industries	Construction Materials	5	(4)	(4)	17	(1)
38	Bajaj Finserv	Diversified Financials	7	12	20	17	17
39	JSW Steel	Metals & Mining	6	3	8	19	7
40	Hindalco Industries	Metals & Mining	3	(3)	(2)	19	1
41	Wipro	IT Services	5	9	24	20	2
42	Eicher Motors	Automobiles & Components	(6)	(4)	(1)	21	(2)
43	HDFC Bank	Banks	3	0	5	22	(4)
44	ICICI Bank	Banks	2	0	8	23	(2)
45	Bajaj Finance	Diversified Financials	14	28	30	26	23
46	Tech Mahindra	IT Services	1	(2)	9	28	(3)
47	Trent	Retailing	(17)	(21)	(21)	31	(28)
48	Bharat Electronics	Capital Goods	(7)	(11)	(15)	38	(15)
49	Bharti Airtel	Telecommunication Services	7	11	17	54	8
50	Mahindra & Mahindra	Automobiles & Components	(4)	5	7	78	(2)

Source: Bloomberg, Kotak Institutional Equities

Large correction in the stock prices of several mid-cap. stocks in the past six months

Exhibit 65: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty Midcap Index (sorted on a 12-m 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>(7)</b>	<b>(8)</b>	<b>(12)</b>	<b>3</b>	<b>(13)</b>									
1 Vodafone Idea	Communication Services	(0)	12	(48)	(47)	3	51 Escorts Kubota	Industrials	(14)	(16)	(19)	5	(12)		
2 MRPL	Energy	(19)	(26)	(46)	(46)	(25)	52 JSW Infrastructure	Industrials	(22)	(21)	(26)	5	(28)		
3 Poonawalla Fincorp	Financials	(7)	(19)	(19)	(41)	(9)	53 Petronet LNG	Energy	(12)	(9)	(21)	5	(17)		
4 Delhivery	Industrials	(18)	(19)	(36)	(40)	(23)	54 Exide Industries	Consumer Discretionary	(6)	(14)	(26)	7	(14)		
5 Yes Bank	Financials	(1)	(8)	(26)	(38)	(9)	55 Cummins India	Industrials	(7)	(18)	(27)	7	(16)		
6 Tata Technologies	Information Technology	(8)	(24)	(26)	(34)	(18)	56 Mankind Pharma	Health Care	(10)	(8)	8	9	(17)		
7 Bandhan Bank	Financials	(8)	(19)	(29)	(32)	(15)	57 Max Financial	Financials	0	(14)	1	9	(5)		
8 Astral	Industrials	(11)	(23)	(28)	(32)	(19)	58 Torrent Power	Utilities	(10)	(21)	(26)	9	(17)		
9 IOB	Financials	(13)	(6)	(22)	(30)	(10)	59 FSN E-Commerce	Consumer Discretionary	2	(1)	(11)	10	3		
10 IRB Infrastructure	Industrials	(8)	(1)	(24)	(29)	(17)	60 Suzlon Energy	Industrials	(11)	(10)	(33)	11	(18)		
11 ACC	Materials	(4)	(14)	(18)	(28)	(9)	61 Prestige Estates	Real Estate	(14)	(21)	(31)	11	(28)		
12 Container Corp.	Industrials	(11)	(14)	(29)	(28)	(14)	62 Balkrishna Industries	Consumer Discretionary	(3)	(4)	(6)	12	(10)		
13 Bank of India	Financials	5	(5)	(13)	(27)	(3)	63 Voltas	Industrials	(26)	(29)	(22)	12	(32)		
14 Tube Investments	Consumer Discretionary	(22)	(25)	(34)	(26)	(28)	64 Aurobindo Pharma	Health Care	(4)	(9)	(26)	14	(15)		
15 MRF	Consumer Discretionary	(4)	(9)	(19)	(26)	(16)	65 Page Industries	Consumer Discretionary	(12)	(9)	1	14	(14)		
16 SJVN	Utilities	(5)	(14)	(37)	(26)	(14)	66 Max Healthcare	Health Care	(7)	(0)	15	14	(11)		
17 IDFC First Bank	Financials	(2)	(4)	(14)	(25)	(4)	67 Patanjali Foods	Consumer Staples	(1)	(2)	2	15	1		
18 GMR Airports Infrastructure	Industrials	(2)	(8)	(24)	(22)	(10)	68 Oracle	Information Technology	(17)	(24)	(16)	15	(30)		
19 NMDC	Materials	(2)	(15)	(12)	(21)	(6)	69 SRF	Materials	10	23	10	17	23		
20 L&T Finance Holdings	Financials	2	(0)	(15)	(20)	1	70 Oberoi Realty	Real Estate	(20)	(21)	(8)	19	(32)		
21 Bank of Maharashtra	Financials	(9)	(5)	(21)	(20)	(9)	71 Oil India	Energy	(15)	(17)	(40)	19	(8)		
22 Apollo Tyres	Consumer Discretionary	(9)	(13)	(15)	(20)	(22)	72 SBI Cards	Financials	17	26	25	19	29		
23 Sona BLW	Consumer Discretionary	(14)	(27)	(25)	(19)	(18)	73 Marico	Consumer Staples	(4)	7	(3)	20	(1)		
24 KPIT Technologies	Information Technology	1	(1)	(25)	(18)	(8)	74 Coforge	Information Technology	(9)	(3)	33	20	(19)		
25 NLC India	Utilities	(16)	(16)	(25)	(18)	(22)	75 Federal Bank	Financials	(6)	(8)	(11)	21	(10)		
26 Tata Elxsi	Information Technology	1	(3)	(10)	(17)	(9)	76 Phoenix Mills	Real Estate	(0)	12	(7)	22	(4)		
27 IDBI Bank	Financials	(7)	(6)	(22)	(17)	(6)	77 Lupin	Health Care	(9)	(2)	(5)	22	(16)		
28 Aditya Birla Capital	Financials	(12)	(19)	(25)	(16)	(14)	78 Ashok Leyland	Industrials	2	(2)	(13)	23	(3)		
29 LIC Housing Finance	Financials	(3)	(12)	(17)	(16)	(11)	79 Sundaram Finance	Financials	(1)	9	18	23	10		
30 Indraprastha Gas	Utilities	(10)	(8)	(31)	(15)	(11)	80 Polycab India	Industrials	(16)	(14)	(16)	24	(26)		
31 Godrej Properties	Real Estate	(15)	(24)	(32)	(15)	(29)	81 Solar Industries	Materials	(4)	(11)	(13)	26	(9)		
32 Tata Communications	Communication Services	(10)	(14)	(18)	(14)	(12)	82 CG Power	Industrials	(14)	(21)	(22)	26	(24)		
33 SAIL	Materials	(0)	(5)	(16)	(14)	(7)	83 Biocon	Health Care	(10)	4	7	29	(4)		
34 HPCL	Energy	(16)	(16)	(16)	(14)	(24)	84 Persistent System	Information Technology	(5)	(3)	17	29	(14)		
35 Tata Chemicals	Materials	(12)	(20)	(17)	(12)	(20)	85 UPL	Materials	14	23	19	34	23		
36 Alkem Lab	Health Care	(12)	(16)	(18)	(11)	(17)	86 Kalyan Jewellers	Consumer Discretionary	(18)	(25)	(14)	34	(36)		
37 AU Small Finance Bank	Financials	(7)	(7)	(11)	(9)	(4)	87 Hindustan Zinc	Materials	(4)	(16)	(27)	34	(6)		
38 PI Industries	Materials	(9)	(26)	(27)	(7)	(14)	88 Indian Hotels Co.	Consumer Discretionary	(9)	(4)	16	35	(19)		
39 HUDCO	Financials	(14)	(9)	(36)	(7)	(22)	89 Bharat Dynamics	Industrials	(4)	11	(16)	35	(2)		
40 APL Apollo Tubes	Materials	(11)	(11)	(9)	(6)	(17)	90 Jubilant Foodworks	Consumer Discretionary	(6)	10	5	40	(7)		
41 MMFSL	Financials	2	6	(6)	(6)	2	91 Rail Vikas Nigam	Industrials	(4)	(14)	(35)	45	(15)		
42 Colgate-Palmolive	Consumer Staples	(9)	(8)	(28)	(4)	(7)	92 Cochin Shipyard	Industrials	(13)	(6)	(44)	46	(20)		
43 Indian Bank	Financials	1	(5)	(8)	(3)	(4)	93 Indus Towers	Communication Services	(1)	6	(17)	55	(2)		
44 Bharat Forge	Consumer Discretionary	(9)	(19)	(31)	(2)	(17)	94 Muthoot Finance	Financials	6	27	24	63	6		
45 Supreme Industries	Materials	(14)	(17)	(27)	(1)	(20)	95 PB Fintech	Financials	(10)	(9)	(0)	67	(25)		
46 HDFC AMC	Financials	(3)	(12)	(9)	(1)	(11)	96 Mazagon Dock	Industrials	(3)	10	(13)	101	(3)		
47 IREDA	Financials	(18)	(11)	(29)	(0)	(22)	97 One 97	Financials	(11)	(6)	34	112	(29)		
48 Mphasis	Information Technology	(8)	(10)	(6)	(0)	(10)	98 BSE	Financials	(6)	13	100	118	(4)		
49 FACT	Materials	(16)	(8)	(18)	1	(23)	99 Dixon Technologies	Consumer Discretionary	(14)	(5)	18	121	(22)		
50 ABFRL	Consumer Discretionary	(8)	(14)	(20)	2	(12)	100 Bharti Hexacom	Communication Services	(2)	(4)	21	#N/A	(6)		

Source: Bloomberg, Kotak Institutional Equities



**Large correction in the stock prices of several small-cap. stocks in the past six months**

**Exhibit 66: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty Small-cap Index (sorted on a 12-m 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>(11)</b>	<b>(12)</b>	<b>(15)</b>	<b>(3)</b>	<b>(18)</b>								
1 Sterling & Wilson	Industrials	(37)	(47)	(60)	(55)	(43)	51 Narayana Hrudayalaya	Health Care	3	4	13	(6)	4	
2 Zee Entertainment	Communication Services	(22)	(16)	(28)	(52)	(20)	52 NBCC	Industrials	(2)	(9)	(29)	(6)	(12)	
3 CPCL	Energy	(17)	(17)	(50)	(47)	(23)	53 CESC	Utilities	(21)	(30)	(29)	(5)	(34)	
4 Tanla Platforms	Information Technology	(22)	(26)	(41)	(46)	(22)	54 GE Shipping	Energy	(3)	(19)	(34)	(4)	(6)	
5 Sonata Software	Information Technology	(29)	(25)	(30)	(46)	(30)	55 Manappuram Finance	Financials	(0)	14	(12)	(2)	(5)	
6 RITES	Industrials	(21)	(24)	(37)	(45)	(29)	56 The Ramco Cement	Materials	(4)	(6)	8	(2)	(13)	
7 IIFL Finance	Financials	(22)	(26)	(22)	(44)	(24)	57 Castrol India	Materials	8	3	(20)	(0)	(0)	
8 Olectra Greentech	Industrials	(18)	(17)	(29)	(42)	(19)	58 Natco Pharma	Health Care	(30)	(36)	(39)	(0)	(36)	
9 Birlasoft	Information Technology	(8)	(13)	(14)	(41)	(13)	59 PNB Housing	Financials	(6)	(12)	(5)	1	(10)	
10 JBM Auto	Consumer Discretionary	(24)	(18)	(37)	(41)	(22)	60 Action Construction	Industrials	(5)	(3)	(2)	2	(20)	
11 CreditAccess Gramin	Financials	1	9	(18)	(39)	9	61 BLS International	Industrials	(13)	(4)	3	4	(22)	
12 Swan Energy	Consumer Discretionary	(31)	(14)	(35)	(39)	(39)	62 Piramal Enterprises	Financials	(10)	(11)	5	5	(16)	
13 RBL Bank	Financials	2	1	(24)	(38)	(1)	63 Apar Industries	Industrials	(38)	(29)	(23)	5	(38)	
14 Aarti Industries	Materials	1	(5)	(31)	(38)	1	64 Brigade Enterprises	Real Estate	(6)	(7)	(9)	6	(18)	
15 NMDC Steel	Materials	(9)	(15)	(30)	(37)	(14)	65 Dr Lal Pathlabs	Health Care	(6)	(11)	(18)	7	(12)	
16 Trident	Consumer Discretionary	(11)	(13)	(25)	(35)	(17)	66 KEC International	Industrials	(21)	(26)	(8)	7	(38)	
17 GMDC	Energy	(8)	(18)	(24)	(34)	(16)	67 Shyam Metals & Energy	Materials	(2)	(10)	(0)	9	1	
18 UCO Bank	Financials	(13)	(5)	(21)	(33)	(11)	68 Tejas Networks	Information Technology	(26)	(38)	(35)	10	(34)	
19 Cyient	Information Technology	(17)	(21)	(18)	(33)	(23)	69 Amara Raja Energy & Mobility	Industrials	(10)	(24)	(38)	11	(21)	
20 Angel One	Financials	(7)	(18)	5	(33)	(25)	70 Indian Energy Exchange	Financials	(2)	1	(12)	14	(10)	
21 J&K Bank	Financials	1	(0)	(12)	(31)	(6)	71 Crompton Greaves Consumer	Consumer Discretionary	(7)	(11)	(23)	16	(16)	
22 IRCON International	Industrials	(16)	(18)	(40)	(29)	(27)	72 National Aluminium	Materials	(9)	(17)	10	17	(14)	
23 Tata Teleservices	Communication Services	(5)	(2)	(25)	(28)	(12)	73 AAVAS Financiers	Financials	3	2	1	18	1	
24 Central Bank	Financials	(13)	(8)	(16)	(27)	(10)	74 CAMS Services	Industrials	(20)	(26)	(19)	19	(33)	
25 PVR Inox	Communication Services	(6)	(30)	(29)	(26)	(22)	75 Radico Khaitan	Consumer Staples	(5)	(9)	24	19	(22)	
26 Jyothy Labs	Consumer Staples	(8)	(16)	(34)	(26)	(10)	76 Karur Vysya Bank	Financials	3	6	5	22	3	
27 Intellect Design	Information Technology	(22)	(2)	(25)	(24)	(26)	77 Aster DM Healthcare	Health Care	(17)	(4)	7	22	(19)	
28 Indiamart	Industrials	(7)	(8)	(21)	(22)	(6)	78 Redington	Information Technology	22	27	23	23	23	
29 Welspun Living	Consumer Discretionary	(20)	(21)	(32)	(21)	(25)	79 CDSL	Financials	(23)	(18)	(6)	27	(31)	
30 GSPL	Utilities	(18)	(19)	(11)	(20)	(22)	80 360 ONE	Financials	(20)	(14)	(12)	28	(28)	
31 Railtel	Communication Services	(19)	(18)	(34)	(19)	(24)	81 Navin Fluorine International	Materials	11	21	24	29	24	
32 IFCI	Financials	(19)	(23)	(37)	(18)	(28)	82 Raymond	Consumer Discretionary	(9)	(8)	(25)	30	(17)	
33 Hindustan Copper	Materials	(5)	(18)	(28)	(17)	(13)	83 Inox Wind	Industrials	11	(10)	(18)	31	(5)	
34 Mahanagar Gas	Utilities	(2)	(6)	(28)	(17)	(3)	84 Affle India	Communication Services	(5)	(5)	(11)	32	(16)	
35 Happiest Minds	Information Technology	(3)	(6)	(8)	(16)	(6)	85 Triveni Turbine	Industrials	(14)	(10)	(26)	35	(21)	
36 Titagarh Rail System	Industrials	(20)	(28)	(43)	(16)	(27)	86 Piramal Pharma	Health Care	(21)	(28)	1	36	(31)	
37 NCC	Industrials	(24)	(33)	(39)	(16)	(32)	87 Laurus Labs	Health Care	(4)	12	27	39	(9)	
38 Atul	Materials	(20)	(26)	(30)	(15)	(22)	88 Keynes Tech	Information Technology	(35)	(28)	(18)	41	(46)	
39 SignatureGlobal	Real Estate	2	(10)	(22)	(14)	(14)	89 Aditya Birla Real Estate	Real Estate	3	(20)	(2)	45	(18)	
40 Data Pattern	Industrials	(25)	(26)	(45)	(14)	(35)	90 Chambal Fertilisers	Materials	11	12	9	49	7	
41 HFCL	Communication Services	(13)	(32)	(35)	(14)	(24)	91 Amber Enterprises	Consumer Discretionary	(16)	(5)	42	51	(21)	
42 Ramkrishna Forgings	Materials	(33)	(32)	(32)	(13)	(29)	92 Zensar Technologies	Information Technology	12	18	12	60	10	
43 Kalpataru Projects	Industrials	(25)	(27)	(29)	(11)	(32)	93 MCX	Financials	(4)	(9)	24	62	(13)	
44 Jupiter Wagons	Industrials	(29)	(28)	(43)	(11)	(38)	94 Blue Star	Industrials	5	9	14	65	(8)	
45 BEML	Industrials	(21)	(27)	(24)	(9)	(32)	95 Glenmark Pharma	Health Care	(13)	(14)	(11)	66	(18)	
46 HBL Power System	Industrials	(8)	(7)	(21)	(9)	(19)	96 Garden Reach	Industrials	(6)	(4)	(31)	66	(16)	
47 ITI	Information Technology	(33)	(7)	(3)	(9)	(30)	97 Firstsource Solution	Industrials	(5)	4	21	77	(6)	
48 Finolex Cables	Industrials	(8)	(18)	(37)	(7)	(21)	98 Aegis Logistics	Energy	(12)	(11)	(4)	83	(13)	
49 Five-Star Business Finance	Financials	9	8	1	(7)	(10)	99 Aadhar Housing Finance	Financials	(5)	(12)	(0)	#N/A	N	
50 Bata India	Consumer Discretionary	(2)	1	(5)	(6)	(4)	100 Go Digit General	Financials	3	(10)	(15)	#N/A	N	

Source: Bloomberg, Kotak Institutional Equities

In our view, another few months of a range-bound market or a further meaningful correction in the market may force non-institutional investors to take a more cautious view of the market perhaps, and may result in reduced inflows into or even redemption from domestic equity mutual funds. We make three important observations regarding the returns of retail investors from the market. As per conventional wisdom, the trailing returns over a certain period of time (12-18 months typically) of retail investors largely determine their future investment behavior.

- **'New' investors have come in at high levels of the market.** A large number of 'new' investors (who invested in the market in FY2025 directly or indirectly through mutual funds) would be sitting on large losses. In addition, the 'new' investors would probably have a fairly low risk appetite as also low understanding of markets and stocks compared to more experienced investors.
- **'Old' investors have averaged up at higher and higher market levels.** As per our analysis, the returns of retail investors have meaningfully lagged the performance of indices, as a larger amount of retail money in the past 3-4 years has come 'into' the market at higher market levels, which would result in higher weighted-average acquisition cost of stocks. We note that CY2024 flows into equity mutual funds at Rs4 tn are higher than the cumulative figure of Rs3.2 tn for CY2022-23 and nearly equal to the cumulative figure of Rs4.2 tn for CY2021-23.

- **'New' retail investors have suffered large losses in 'narrative' stocks.** We note that retail investors have large and growing exposure to several 'narrative' stocks (see Exhibits 67-68). The valuations of such stocks seem to be entirely disconnected from their fundamentals (see Exhibit 69). In our view, a steeper correction in the such stocks could also dent retail investment sentiment. They have already corrected sharply in the past 2-3 quarters, when more retail investors have bought these stocks. In our view, a sharper correction in such stocks is a fairly plausible scenario, given the large disconnect between the price and value of the stocks. It would be too much to assume that the stocks will trade at such absurd valuations in perpetuity.

**Retail investors are the largest non-promoter group in many 'narrative' stocks**

Exhibit 67: FPIs, MFs and retail holding in 'narrative' stocks, March fiscal year-ends, 2023-25 (%)

Company	FPI (%)			MF (%)			Retail (%)		
	Mar-23	Mar-24	Dec-24	Mar-23	Mar-24	Dec-24	Mar-23	Mar-24	Dec-24
Bharat Dynamics	2.8	3.0	3.1	8.8	7.9	4.7	6.7	8.1	11.7
Bharat Electronics	16.4	17.6	17.3	20.1	18.1	16.2	6.1	7.5	9.5
BHEL	8.6	8.8	8.0	4.0	5.8	6.4	11.0	10.3	11.8
BPCL	12.6	16.8	14.7	9.6	9.1	11.5	8.3	5.9	6.7
CG Power & Industrial	15.4	15.2	4.5	4.1	6.5	7.1	14.2	13.1	4.8
Cochin Shipyard	6.3	5.2	2.9	2.3	2.1	3.7	13.8	16.2	20.0
Container Corp.	22.2	16.6	13.5	12.4	15.0	11.9	3.0	2.7	4.9
Cyient DLM	NA	12.2	7.8	NA	11.2	27.1	NA	7.2	10.7
Dixon Technologies	13.1	17.9	39.2	12.0	18.4	21.0	16.1	10.1	7.7
Fertilizers & Chemicals Travancore	—	0.1	0.1	0.0	0.0	0.0	0.9	0.8	0.8
GAIL (India)	16.3	14.1	15.9	8.4	10.2	10.0	4.9	5.5	5.6
Garden Reach Shipbuilders & Engineers	2.7	3.3	3.7	7.0	5.3	1.6	10.5	12.6	18.0
GMR Airports	28.4	26.8	24.2	1.2	3.1	0.5	5.3	6.5	0.8
Hindustan Aeronautics	9.1	12.4	12.3	8.8	6.8	4.6	4.3	5.4	6.9
Hindustan Copper	1.5	3.1	3.4	3.7	5.0	2.8	13.7	14.9	17.8
HPCL	14.4	13.8	14.4	13.1	15.0	17.0	7.6	7.4	7.0
IOCL	6.9	8.5	7.4	2.3	2.3	2.7	6.8	6.9	7.9
IREDA	NA	1.4	1.9	NA	0.5	0.3	NA	21.3	21.2
IRFC	1.2	1.1	1.0	1.4	0.2	0.2	8.9	11.0	10.8
ITI	0.1	0.1	0.1	0.0	0.0	0.0	1.9	1.9	1.8
JSW Energy	5.2	8.4	19.9	0.1	0.9	10.6	3.7	3.8	20.7
JSW Infrastructure	NA	2.3	12.7	NA	2.9	4.2	NA	4.9	4.1
KIOCL	-	0.0	-	-	-	-	0.7	0.8	0.8
Mazagon Dock	3.3	2.4	1.6	0.3	0.5	1.2	8.9	10.2	10.5
NBCC	3.4	4.3	4.2	3.5	3.0	3.3	21.5	21.7	22.9
NHPC	7.4	6.8	8.8	9.2	6.0	4.4	5.0	12.0	11.6
NLC India	0.7	2.4	2.9	4.4	9.4	10.1	7.2	6.2	5.3
NTPC	15.6	17.9	18.2	19.9	18.0	17.6	2.1	2.5	3.0
Oil India	11.4	9.5	9.4	3.8	8.3	8.1	5.1	5.4	5.9
Petronet LNG	34.8	26.2	2.9	3.0	10.5	3.3	9.2	10.3	5.0
Rail Vikas Nigam	1.5	2.3	5.1	0.1	0.1	0.2	12.4	17.3	14.9
SJVN	1.8	2.4	2.4	3.9	1.5	1.5	6.0	10.9	10.4
Tata Power	9.5	9.5	9.5	3.1	5.6	9.4	26.1	24.5	24.2

Source: Prime Infobase, Kotak Institutional Equities

**Most 'narrative' stocks saw sharp increases in retail shareholders over March-December 2024; the stocks have seen massive correction since September 2024**

**Exhibit 68: Number of retail shareholders in 'narrative' stocks, March fiscal year-ends, 2024-25 (#)**

Company	Retail shareholders (#)						Quarterly return (%)							
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Bharat Dynamics	188,439	197,196	238,059	482,889	573,514	576,964	13	(8)	66	2	82	(27)	(3)	1
Bharat Electronics	956,136	1,078,053	1,341,307	2,488,276	2,739,139	2,619,579	29	10	33	9	52	(7)	3	(12)
BHEL	1,200,124	1,236,785	1,468,014	1,845,668	1,958,498	2,044,764	25	49	48	28	22	(7)	(18)	(13)
BPCL	804,895	737,480	711,658	913,630	1,003,189	1,108,012	6	(5)	30	34	1	22	(21)	(13)
CG Power & Industrial	178,306	194,369	250,645	332,401	410,221	458,510	26	17	3	19	30	8	(4)	(21)
Cochin Shipyard	256,996	281,244	383,047	616,991	822,966	959,358	19	92	25	29	154	(21)	(12)	(16)
Container Corp.	121,377	113,428	129,409	183,245	290,603	306,344	14	8	20	3	18	(12)	(14)	(12)
Cyient DLM	46,037	57,325	55,483	74,935	90,170	101,363	NA	NA	(6)	7	4	(10)	0	(34)
Dixon Technologies	276,509	258,570	243,760	257,299	273,912	306,489	53	21	24	14	60	15	30	(18)
Fertilizers & Chemicals Travancore	53,515	60,127	57,284	91,197	108,552	107,334	111	24	50	(22)	57	(2)	2	(17)
GAIL (India)	929,903	994,698	1,197,596	1,485,043	1,516,921	1,568,016	(0)	18	30	12	21	9	(20)	(16)
Garden Reach Shipbuilders & Engineers	104,749	112,973	120,840	252,851	395,453	411,893	26	46	4	(12)	174	(18)	(6)	(13)
GMR Airports	450,655	530,321	678,228	848,772	835,883	849,601	8	36	35	1	18	(3)	(16)	(8)
Hindustan Aeronautics	470,879	594,833	687,269	1,080,604	1,234,764	1,237,335	39	2	45	19	58	(16)	(6)	(14)
Hindustan Copper	306,522	353,560	416,998	577,837	592,587	612,494	18	40	69	2	15	8	(28)	(9)
HPCL	356,372	334,837	388,315	524,711	504,918	490,948	16	(7)	56	19	5	33	(7)	(21)
IOCL	1,931,617	2,024,667	2,384,953	2,681,017	2,730,311	3,027,411	17	(0)	43	29	(1)	9	(24)	(12)
IREDA	NA	1,350,528	2,123,549	2,215,705	2,586,054	2,588,186	NA	NA	NA	32	40	23	(8)	(19)
IRFC	2,668,495	3,213,906	4,484,392	5,063,408	5,453,892	5,494,593	23	134	30	43	22	(9)	(6)	(16)
ITI	79,164	96,833	99,264	106,356	104,048	158,990	19	87	51	(17)	22	(17)	51	(26)
JSW Energy	280,737	318,984	349,816	394,952	429,862	469,933	13	60	(6)	29	39	(0)	(12)	(27)
JSW Infrastructure	198,020	290,574	363,072	378,136	412,812	425,472	NA	NA	NA	18	34	5	(8)	(26)
KIOCL	21,520	27,179	28,930	30,455	31,248	35,307	13	60	21	6	15	(12)	1	(27)
Mazagon Dock	300,201	335,822	375,568	464,224	656,801	672,277	88	76	4	(18)	130	(1)	(47)	(2)
NBCC	543,110	628,265	1,303,984	1,266,804	1,504,850	1,582,314	12	48	39	46	32	14	(22)	(7)
NHPC	927,845	1,003,067	3,294,132	3,585,049	3,845,660	4,002,470	14	15	22	39	12	(6)	(15)	(8)
NLC India	163,688	183,916	250,640	278,059	330,962	335,051	41	24	88	(10)	5	18	(11)	(19)
NTPC	1,037,391	1,128,414	1,358,460	1,714,086	3,468,801	4,250,881	8	30	27	8	13	17	(25)	(8)
Oil India	228,417	272,638	327,467	351,485	461,532	486,930	(3)	22	25	61	20	20	(26)	(3)
Petronet LNG	371,302	418,588	438,705	440,294	439,608	421,562	(3)	8	(7)	18	25	3	1	(13)
Rail Vikas Nigam	1,323,727	1,378,915	1,823,064	2,049,746	2,270,838	2,291,926	78	39	7	39	65	28	(20)	(12)
Siemens	153,994	147,839	143,493	169,210	181,309	196,334	13	(2)	10	34	43	(6)	(10)	(20)
SJVN	605,996	641,128	1,163,063	1,213,985	1,469,468	1,512,385	23	79	24	33	8	1	(21)	(14)
Tata Power	3,757,676	3,928,718	4,378,705	4,548,210	4,484,228	4,575,525	17	18	27	19	12	10	(19)	(11)

Source: Prime Infobase, Kotak Institutional Equities

**Several PSUs trade at extremely high market caps relative to their profits, net worth or assets**

**Exhibit 69: Market cap. of select non-financial PSU companies versus their fundamentals, March fiscal year-ends, 2025 (Rs bn)**

Company	Market cap. (Rs bn)	2024 (Rs bn)					
		Revenues	PBT	Other income	PAT	Net worth	Gross block
Bharat Dynamics	404	24	8	4	6	36	15
BHEL	673	239	2	6	3	249	73
Cochin Shipyard	325	38	11	3	8	50	14
Fertilizers & Chemicals Travancore	488	51	0	2	1	13	10
Garden Reach Shipbuilders & Engineers	155	36	5	3	4	14	7
Hindustan Aeronautics	2,350	304	102	19	76	290	159
Hindustan Copper	207	17	4	1	3	23	7
IRFC	1,591	266	64	0	64	492	1
IREDA	452	49	17	0	13	86	5
ITI	260	13	(6)	0	(6)	17	30
KIOCL	159	19	(1)	1	(1)	19	11
Mazagon Dock	874	95	24	11	19	56	14
NBCC	222	103	6	2	5	22	2
NHPC	736	96	50	18	36	387	338
NLC India	269	130	29	20	19	165	368
Rail Vikas Nigam	751	219	21	13	16	87	6
SJVN	353	26	12	4	9	141	151

Source: Companies, FactSet, Capitaline, Kotak Institutional Equities

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

We expect net profits of the Nifty-50 Index to grow 4.4% in FY2025 and 15% in FY2026, following a strong 20% growth in FY2024 (see Exhibit 70). The weak headline profit growth for FY2025 reflects lower net profits of BPCL and HPCL (through ONGC) due to (1) the likely weak refining margins in FY2025 (9MFY25 refining margins have been extremely weak), which would offset likely strong marketing margins on retail automobile fuels and (2) COAL given very large one-off income in FY2024 due to a change in the accounting treatment of the OBR (overburden removal) provision.

**We expect earnings of the Nifty-50 Index to grow 14.9% in FY2026 and 14.2% in FY2027**

**Exhibit 70: Valuation summary of Nifty-50 sectors (full-float basis), March fiscal year-ends, 2025-27E (based on current constituents)**

	Meap.	Adj. meap.	Earnings growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			Div. yield (%)			RoE (%)		
	(US\$ bn)	(US\$ bn)	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Automobiles & Components	168	90	11.8	11.8	14.7	21.9	19.6	17.1	12.0	11.0	9.6	4.5	3.9	3.4	1.5	1.7	2.0	20.6	20.0	20.0
Banks	416	356	5.2	6.9	16.3	16.0	14.9	12.8	-	-	-	2.3	2.1	1.8	1.2	1.3	1.4	14.6	13.9	14.4
Capital Goods	101	60	34.3	15.0	15.7	32.3	28.1	24.3	21.0	17.7	15.7	4.9	4.1	3.6	0.6	0.8	0.9	15.1	14.6	14.7
Commodity Chemicals	25	12	(23.6)	7.4	12.3	51.3	47.8	42.6	34.5	32.3	29.6	10.3	9.3	8.4	0.9	1.1	1.2	20.1	19.5	19.8
Construction Materials	56	26	(20.6)	42.4	27.5	46.6	32.7	25.7	17.8	14.0	12.0	3.0	2.8	2.6	0.5	0.6	0.8	6.5	8.6	10.1
Consumer Staples	172	91	(3.5)	9.4	10.7	40.5	37.1	33.5	29.3	26.6	24.0	9.6	9.2	8.8	2.1	2.3	2.6	23.7	24.8	26.3
Diversified Financials	105	47	25.1	18.6	23.3	24.6	20.7	16.8	-	-	-	4.6	3.9	3.3	0.4	0.5	0.6	18.8	18.8	19.5
Electric Utilities	61	30	3.7	10.8	8.0	14.1	12.7	11.7	9.3	8.3	7.8	1.9	1.7	1.6	3.2	3.6	3.7	13.3	13.6	13.6
Health Care Services	10	7	60.2	31.6	32.2	62.7	47.7	36.0	30.5	24.6	19.5	11.0	9.1	7.4	0.2	0.2	0.2	17.5	19.1	20.5
IT Services	360	165	9.3	10.8	12.8	28.5	25.7	22.8	18.9	17.1	15.2	8.3	7.8	7.3	2.7	3.0	3.4	29.3	30.3	32.0
Insurance	32	15	21.4	13.7	11.0	67.0	58.9	53.1	-	-	-	8.8	8.0	7.3	0.3	0.3	0.4	13.1	13.6	13.7
Metals & Mining	62	34	10.0	75.1	21.6	22.4	12.8	10.5	9.0	6.9	6.1	1.8	1.6	1.4	0.7	1.3	1.6	8.1	12.7	13.6
Oil, Gas & Consumable Fuels	261	120	(13.1)	17.9	7.9	14.0	11.9	11.0	8.2	6.6	5.9	1.6	1.5	1.3	1.8	1.9	2.0	11.5	12.3	12.0
Pharmaceuticals	72	39	14.3	6.5	5.2	28.0	26.3	25.0	19.0	17.3	16.4	4.6	4.0	3.6	0.7	0.7	0.8	16.4	15.3	14.3
Retailing	54	28	22.2	23.8	23.0	86.9	70.2	57.1	54.4	45.0	37.2	27.3	20.9	16.2	0.3	0.3	0.4	31.4	29.7	28.3
Telecommunication Services	118	56	102.5	38.3	29.1	44.9	32.5	25.2	12.6	10.0	8.2	10.4	7.9	6.8	0.8	1.3	1.6	23.2	24.4	27.2
Transportation	26	9	20.6	19.2	10.9	21.2	17.7	16.0	14.3	12.2	10.2	3.7	3.1	2.7	0.7	0.8	0.9	17.4	17.7	16.8
<b>Nifty-50 Index</b>	<b>2,101</b>	<b>1,184</b>	<b>4.4</b>	<b>14.9</b>	<b>14.2</b>	<b>22.6</b>	<b>19.6</b>	<b>17.2</b>	<b>13.7</b>	<b>11.6</b>	<b>10.3</b>	<b>3.4</b>	<b>3.1</b>	<b>2.7</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>15.2</b>	<b>15.6</b>	<b>16.0</b>
<b>Nifty-50 Index (ex-energy)</b>	<b>1,840</b>	<b>1,064</b>	<b>10.0</b>	<b>14.1</b>	<b>15.8</b>	<b>24.7</b>	<b>21.6</b>	<b>18.7</b>	<b>16.0</b>	<b>13.8</b>	<b>12.2</b>	<b>4.1</b>	<b>3.6</b>	<b>3.2</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>16.6</b>	<b>16.8</b>	<b>17.4</b>

Notes:

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

Source: Bloomberg, Kotak Institutional Equities estimates

We prefer to look at the net profits of the Nifty-50 Index without those of the abovementioned companies (see Exhibit 71). We would note that it has become extremely difficult to estimate the earnings of the oil marketing companies, given (1) the government control on retail automobile fuel and LPG prices and (2) the inherent volatility in crude oil prices, which can result in large volatility in the marketing margins and profits of the companies.

**OMCs will detract from Nifty-50 Index's net profits for FY2025E**

**Exhibit 71: Net profits of Nifty-50 Index, March fiscal year-ends, 2024-26E**

Company	Net profits (Rs bn)			Incremental profit			
	2024	2025E	2026E	2025E		2026E	
				(Rs bn)	(%)	(Rs bn)	(%)
BPCL (Rs bn)	280	113	109	(168)	(49)	(3)	(0)
ONGC's share of HPCL profits (Rs bn)	81	29	40	(52)	(15)	11	1
<b>Total</b>	<b>361</b>	<b>142</b>	<b>149</b>	<b>(219)</b>	<b>(64)</b>	<b>8</b>	<b>1</b>
<b>Nifty-50 (Rs bn)</b>	<b>7,742</b>	<b>8,085</b>	<b>9,288</b>	<b>343</b>		<b>1,203</b>	

Source: Kotak Institutional Equities estimates

Exhibit 72 gives a breakdown of net profits and incremental net profits of the Nifty-50 Index by sectors. As can be seen, we expect the oil, gas & consumable fuels sector to act as a drag on the overall profits of the Nifty-50 Index for FY2025 for the above-mentioned reasons. Exhibit 73 gives a breakdown of net profits and incremental net profits of our coverage universe by sectors. The sector-wise trends for the broader KIE coverage are very similar to the sector-wise trends for the Nifty-50 Index.

**Banks, diversified financials, IT services and metals & mining to provide bulk of the incremental profits for FY2026 of the Nifty-50 Index**

**Exhibit 72: Breakdown of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2023-27E (based on current constituents)**

	Net profits (Rs bn)					Contribution (%)					Incremental profits					
	2023	2024	2025E	2026E	2027E	2023	2024	2025E	2026E	2027E	2025E		2026E		2027E	
											(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles & Components	279	595	665	743	852	4	8	8	8	8	70	20	78	7	109	8
Tata Motors	7	200	213	244	303	0	3	3	3	3	14	4	30	3	59	4
Banks	1,860	2,148	2,260	2,417	2,810	29	28	28	26	26	112	33	157	13	394	30
Axis Bank	212	249	258	280	321	3	3	3	3	3	10	3	21	2	41	3
HDFC Bank	603	608	663	768	869	9	8	8	8	8	55	16	105	9	102	8
ICICI Bank	319	409	461	472	521	5	5	6	5	5	52	15	11	1	48	4
State Bank of India	502	611	628	625	780	8	8	8	7	7	18	5	(4)	(0)	155	12
Capital Goods	158	202	271	312	361	2	3	3	3	3	69	20	41	3	49	4
Commodity Chemicals	42	55	42	45	50	1	1	1	0	0	(13)	(4)	3	0	5	0
Construction Materials	120	132	105	150	191	2	2	1	2	2	(27)	(8)	45	4	41	3
Consumer Staples	338	381	368	402	445	5	5	5	4	4	(13)	(4)	34	3	43	3
Diversified Financials	239	298	373	442	545	4	4	5	5	5	75	22	69	6	103	8
Electric Utilities	324	364	377	418	452	5	5	5	5	4	13	4	41	3	34	3
Health Care Services	8	9	14	19	25	—	—	—	—	—	5	2	5	0	6	0
IT Services	975	1,004	1,097	1,216	1,372	15	13	14	13	13	94	27	119	10	156	12
Insurance	31	35	42	48	53	0	0	1	1	1	7	2	6	0	5	0
Metals & Mining	248	219	241	422	513	4	3	3	5	5	22	6	181	15	91	7
Tata Steel	86	34	34	135	176	1.3	0.4	0.4	1.5	1.7	0	0	101	8.4	40	3
Oil, Gas & Consumable Fuels	1,443	1,859	1,616	1,904	2,054	22	24	20	21	19	(243)	(71)	289	24	150	11
BPCL	30	280	113	109	108	0	4	1	1	1	(168)	(49)	(3)	(0)	(1)	(0)
Coal India	281	374	322	349	359	4	5	4	4	3	(51)	(15)	27	2	10	1
ONGC	465	509	497	609	630	7	7	6	7	6	(12)	(3)	112	9	22	2
Reliance Industries	667	696	684	837	957	10	9	8	9	9	(12)	(4)	153	13	120	9
Pharmaceuticals	160	196	224	238	250	2	3	3	3	2	28	8	14	1	12	1
Retailing	37	44	54	67	82	1	1	1	1	1	10	3	13	1	15	1
Telecommunication Services	90	113	229	317	409	1	1	3	3	4	116	34	88	7	92	7
Transportation	83	90	108	129	143	1	1	1	1	1	19	5	21	2	14	1
<b>Nifty-50 Index</b>	<b>6,434</b>	<b>7,742</b>	<b>8,085</b>	<b>9,288</b>	<b>10,608</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>343</b>	<b>100</b>	<b>1,203</b>	<b>100</b>	<b>1,320</b>	<b>100</b>
<b>Nifty-50 change (%)</b>	<b>12.6</b>	<b>20.3</b>	<b>4.4</b>	<b>14.9</b>	<b>14.2</b>											
<b>Nifty-50 Index ex-BPCL, HPCL &amp; COAL change</b>	<b>6,088</b>	<b>7,008</b>	<b>7,621</b>	<b>8,789</b>	<b>10,101</b>											
<b>Nifty-50 Index ex-BPCL, HPCL &amp; COAL change</b>	<b>12.9</b>	<b>15.1</b>	<b>8.8</b>	<b>15.3</b>	<b>14.9</b>											
<b>Nifty-50 EPS (FF)</b>	<b>730</b>	<b>813</b>	<b>1,032</b>	<b>1,179</b>	<b>1,348</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

**Banks, diversified financials, IT services and metals & mining sectors to drive incremental profits of KIE coverage universe in FY2026**

**Exhibit 73: Breakdown of net profits of the KIE universe across sectors, March fiscal year-ends, 2022-27E**

	Net profits (Rs bn)					Contribution (%)					Incremental profits						
	2022	2023	2024	2025E	2026E	2027E	2023	2024	2025E	2026E	2027E	2025E		2026E		2027E	
												(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles & Components	184	446	867	945	1,077	1,244	5	8	8	8	8	77	22	132	7	167	8
Banks	1,387	2,047	2,677	2,919	3,076	3,507	24	24	25	23	22	242	67	157	8	431	21
Capital Goods	175	221	284	325	409	506	3	3	3	3	3	40	11	84	4	97	5
Capital Markets	49	50	68	81	92	102	1	1	1	1	1	13	4	11	1	10	0
Commercial & Professional Services	4	5	3	4	4	5	0	0	0	0	0	1	0	1	0	1	0
Commodity Chemicals	57	80	86	66	72	80	1	1	1	1	1	(20)	(5)	6	0	8	0
Construction Materials	224	190	233	165	241	303	2	2	1	2	2	(67)	(19)	76	4	62	3
Consumer Durables & Apparel	44	48	49	62	77	96	1	0	1	1	1	14	4	15	1	19	1
Consumer Staples	369	428	489	487	544	606	5	4	4	4	4	(2)	(1)	57	3	63	3
Diversified Financials	275	412	513	637	755	914	5	5	5	6	6	124	35	118	6	159	8
Electric Utilities	385	423	472	490	589	654	5	4	4	4	4	17	5	100	5	64	3
Fertilizers & Agricultural Chemicals	50	46	2	27	40	55	1	0	0	0	0	25	7	13	1	15	1
Gas Utilities	165	113	166	169	157	160	1	1	1	1	1	3	1	(12)	(1)	3	0
Health Care Services	32	41	47	57	72	94	0	0	0	1	1	10	3	15	1	22	1
Hotels & Restaurants	(3)	19	20	23	37	52	0	0	0	0	0	3	1	14	1	14	1
Insurance	71	418	481	512	546	582	5	4	4	4	4	32	9	34	2	35	2
Internet Software & Services	(52)	(44)	(7)	(2)	17	55	(1)	(0)	(0)	0	0	5	1	19	1	38	2
IT Services	1,014	1,091	1,131	1,234	1,383	1,571	13	10	11	10	10	103	29	150	7	187	9
Media	23	21	25	23	28	32	0	0	0	0	0	(2)	(1)	5	0	4	0
Metals & Mining	1,407	579	502	644	898	1,036	7	4	6	7	7	142	40	253	13	138	7
Oil, Gas & Consumable Fuels	1,660	1,504	2,477	1,795	2,250	2,396	17	22	15	17	15	(681)	(190)	455	23	146	7
Pharmaceuticals	273	269	332	387	450	498	3	3	3	3	3	55	15	63	3	47	2
Real Estate	65	96	117	171	214	305	1	1	1	2	2	53	15	43	2	92	5
Retailing	40	64	73	86	105	129	1	1	1	1	1	12	3	19	1	24	1
Specialty Chemicals	87	88	83	89	109	134	1	1	1	1	1	7	2	20	1	24	1
Telecommunication Services	(180)	(122)	(135)	18	115	249	(1)	(1)	0	1	2	153	43	97	5	134	7
Transportation	(0)	88	194	194	261	294	1	2	2	2	2	0	0	67	3	33	2
<b>KIE universe</b>	<b>7,805</b>	<b>8,619</b>	<b>11,250</b>	<b>11,609</b>	<b>13,621</b>	<b>15,658</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>359</b>	<b>100</b>	<b>2,012</b>	<b>100</b>	<b>2,037</b>	<b>100</b>
<b>KIE universe change (%)</b>		<b>10</b>	<b>31</b>	<b>3</b>	<b>17</b>	<b>15</b>											
<b>KIE universe (ex-OMC &amp; COAL)</b>	<b>7,204</b>	<b>8,364</b>	<b>9,972</b>	<b>11,030</b>	<b>12,857</b>	<b>14,892</b>											
<b>KIE universe change (ex-OMC &amp; COAL) (%)</b>		<b>16</b>	<b>19</b>	<b>11</b>	<b>17</b>	<b>16</b>											

Source: Kotak Institutional Equities estimates

We note that FY2024 net profits of Nifty-50 Index were lifted by (1) the 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 the net profits of COAL due to a change in its accounting policy for treatment of overburden removal (OBR).

We discuss our earnings projections by sectors and the key drivers of earnings through FY2026 below. We also examine the key upside and downside risks to earnings for the major sectors and stocks.

► **Automobiles and components.** We expect the net profits of the automobiles and components stocks in the Nifty-50 Index to grow at a decent 12% in FY2025 and 12% in FY2026 after a massive increase of 113% in FY2024. The moderate growth in FY2025-26E net profits reflects our assumptions of stable profitability and modest growth in volumes. However, we would not rule out downside risks to our FY2026 net income estimates from lower-than-expected profitability across segments, as (1) profitability for almost all the OEMs is at unprecedented levels, (2) demand conditions (both domestic and global) continue to be muted and (3) competitive intensity will likely increase in all the segments. The steep increase in FY2024 net profits reflects (1) a steep increase in the 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 (1) a moderate increase in volumes in the 2W segment, (2) a modest increase in CV and PV volumes and (3) a moderate increase in volumes in the tractors segment in FY2026. In the case of 2Ws, volume growth will likely moderate in FY2026 from the high base of FY2025. We note that volumes have moderated in 2HFY25 due to base-effects after a very strong 1HFY25. In the case of CVs, we expect a modest improvement in FY2026 on the back of higher fleet utilization levels. In the case of PVs, the income tax changes in the FY2026 budget may provide a moderate boost to entry-level PV (hatchback segment) sales and support 6-7% industry growth over FY2025-27E after a flat FY2025. In the case of tractors, (1) improved cash flows in the rural economy in the past 3-4 months from a decent kharif (summer) crop and (2) a likely good rabi (winter) crop in 2025 on the back of high reservoir levels for may result in better agriculture output and rural income.

Exhibit 74 gives our volume assumptions for the major companies and categories over FY2019-27E. Exhibits 75-76 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 FY2025-27E**

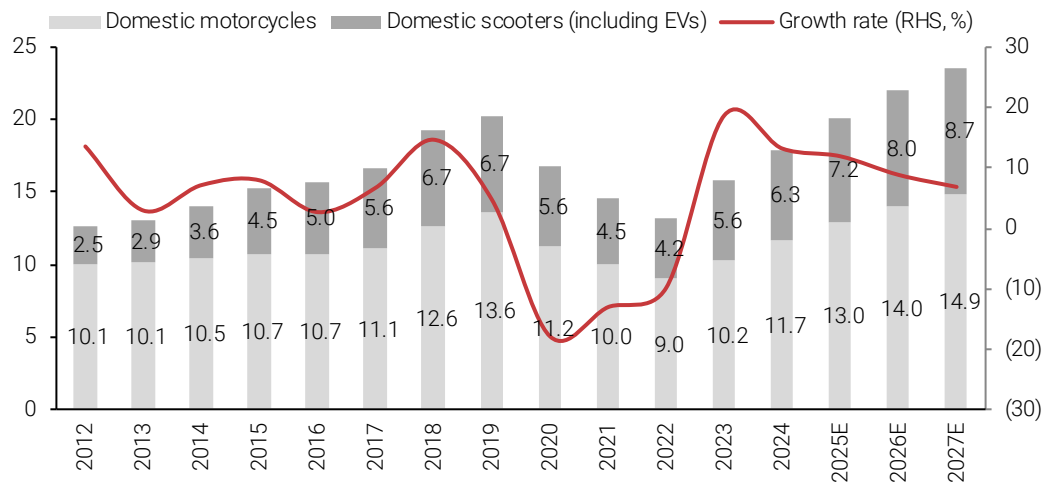
**Exhibit 74: Domestic PV sales and 2W sales, March fiscal year-ends, 2019-27E**

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Domestic sales volumes (units)</b>									
Ashok Leyland	185,065	116,320	92,714	117,312	180,916	182,830	181,136	190,460	202,752
<b>Bajaj Auto</b>									
Two wheelers	2,541,320	2,078,348	1,809,375	1,641,084	1,805,883	2,237,193	2,366,962	2,551,047	2,704,479
Three wheelers	399,453	365,759	109,292	160,723	300,734	464,138	478,071	501,225	524,286
<b>Eicher Motors</b>									
Two wheelers	801,899	658,286	573,728	521,236	734,840	834,795	885,562	944,745	999,182
Commercial vehicles	62,987	44,153	36,243	48,651	74,690	81,839	85,299	88,415	92,290
Hero Motocorp (motorcycles)	6,893,602	5,828,782	5,156,401	4,337,634	4,797,347	5,020,079	5,268,971	5,590,264	5,926,892
Maruti Suzuki	1,862,539	1,563,297	1,457,861	1,652,653	1,966,164	2,135,323	2,243,523	2,426,134	2,580,945
M&M (passenger vehicles)	254,351	186,942	157,216	225,895	359,253	459,877	547,809	603,967	648,013
<b>Tata Motors</b>									
Commercial vehicles	468,692	310,855	242,490	322,182	393,317	378,060	365,311	372,617	391,629
Passenger vehicles	210,143	131,197	222,025	370,372	538,640	570,955	549,648	588,777	623,701
<b>TVS Motors</b>									
Two wheelers	3,134,477	2,410,642	2,164,226	2,047,564	2,597,936	3,157,320	3,541,749	3,871,844	4,175,797
Three wheelers	16,715	11,934	8,266	8,823	16,075	20,791	27,028	33,785	42,232

Source: SIAM, Kotak Institutional Equities estimates

**We expect domestic 2W industry to grow 9% in FY2026 and 7% in FY2027**

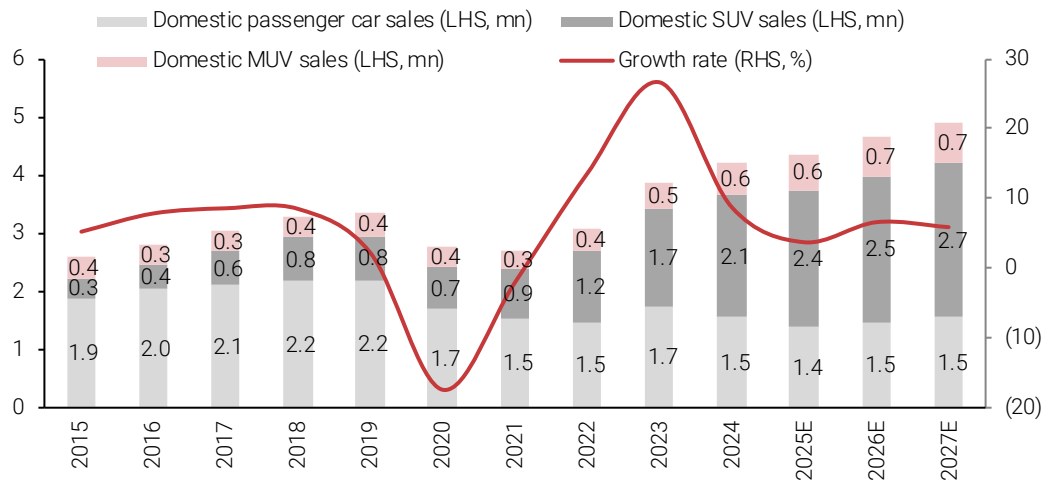
**Exhibit 75: Domestic motorcycle industry volumes (mn) and growth rate (%), March fiscal year-ends, 2012-27E**



Source: SIAM, Kotak Institutional Equities

**We expect the domestic car industry to grow 6% in FY2026 after a marginal increase in FY2025**

**Exhibit 76: Domestic car industry volumes (mn) and growth rate (%), March fiscal year-ends, 2015-27E**



Source: SIAM, Kotak Institutional Equities

- Margins and profitability.** We assume stable margins and profitability for the automobile OEMs and component companies in FY2026 despite profitability being at extremely high levels in FY2024-25, especially for the OEMs. We note that domestic prices of metals and plastics have increased in the past few weeks (despite stable global prices) due to the sharp depreciation in the INR versus the US dollar. In addition, our margin assumptions may be at risk if (1) one or more players were to become more aggressive to increase its/their market shares and (2) global metal and oil prices were to rebound.

OEMs and component companies saw a massive increase in their profitability in FY2024, 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 77, the profitability of 2W companies has expanded sharply in FY2024 and RoACE/CRoCI are at unnatural levels. We doubt such abnormal profitability and returns can persist in the next few years, given the ongoing dramatic change in industry dynamics. We note (1) a sharp collapse in battery prices and (2) entry of more players through the EV route in the next few months; both Honda and Yamaha will launch their EV 2Ws in 4QFY25.



**Indian 2W companies have made extraordinary returns historically; sustenance key to valuations**

**Exhibit 77: Key financial and return metrics of Indian 2W 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	4,774,814	5,211,431	5,568,923
EBITDA margin (%)	19.2	17.1	17.0	17.8	15.9	18.0	19.7	20.3	20.0	20.3
EBITDA per vehicle (Rs/unit)	12,073	10,345	11,042	12,405	12,205	16,674	20,341	22,059	21,669	22,666
PAT per vehicle (Rs/unit)	10,153	9,314	11,050	11,464	11,649	14,327	17,242	17,905	18,005	18,766
RoAE (%)	22	22	24	20	19	21	29	33	33	35
RoACE (%)	75	84	84	77	64	62	76	91	91	91
CRoCI (%)	100	83	93	73	76	96	165	144	140	143
<b>Eicher Motors</b>										
Volumes (units)	820,492	822,724	697,582	612,350	602,268	834,895	912,732	957,135	1,028,913	1,099,605
EBITDA margin (%)	31.9	30.1	24.3	20.7	20.9	24.1	27.2	27.0	26.6	26.7
EBITDA per vehicle (Rs/unit)	34,775	35,787	31,592	29,175	35,093	40,646	47,990	49,755	49,796	50,912
PAT per vehicle (Rs/unit)	20,877	24,970	27,292	21,715	26,337	31,412	41,079	43,340	42,050	42,866
FCF (Rs mn)	28,448	21,132	23,226	21,171	20,140	34,126	49,941	48,064	51,224	55,966
RoAE (%)	43	32	24	14	15	22	26	24	22	21
RoACE (%)	572	152	100	54	58	113	65	65	65	72
CRoCI (%)	234	112	61	40	40	59	46	44	43	43
<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	6,002,563	6,372,890	6,762,179
EBITDA margin (%)	16.4	14.7	13.7	13.0	11.5	11.8	14.0	14.3	14.1	14.1
EBITDA per vehicle (Rs/unit)	6,966	6,304	6,175	6,946	6,814	7,481	9,349	9,656	9,761	10,030
PAT per vehicle (Rs/unit)	4,873	4,328	4,960	5,123	5,002	5,452	7,256	7,520	7,558	7,732
RoAE (%)	32	26	26	20	16	17	22	24	23	24
RoACE (%)	64	54	49	44	50	37	49	67	67	71
CRoCI (%)	38	28	24	25	20	22	29	29	29	30
<b>TVS Motors</b>										
Volumes (units)	3,466,410	3,912,702	3,263,302	3,051,861	3,309,578	3,682,068	4,191,162	4,759,060	5,178,806	5,578,929
EBITDA margin (%)	7.7	7.9	8.2	8.5	9.4	10.1	11.1	11.6	12.1	12.5
EBITDA per vehicle (Rs/unit)	3,390	3,663	4,124	4,681	5,927	7,264	8,385	8,620	9,089	9,633
PAT per vehicle (Rs/unit)	1,911	1,713	1,892	2,005	2,700	4,049	4,970	5,221	5,515	6,009
RoAE (%)	25	22	18	16	20	27	30	32	33	31
RoACE (%)	18	18	14	14	20	25	27	28	28	29
CRoCI (%)	23	24	23	32	40	45	62	58	59	61

Source: Companies, Kotak Institutional Equities estimates

Exhibit 78 shows the gross and EBITDA margins of the major automobile OEM and component companies under our coverage over FY2019-27E.

**We expect a moderate improvement in gross and EBITDA margins in FY2025-27E**

**Exhibit 78: Gross and EBITDA margins of auto companies, March fiscal year-ends, 2019-27E (%)**

	Gross margin (%)							EBITDA margin (%)										
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Apollo Tyres	42.2	44.5	46.0	40.9	40.4	46.2	43.5	43.7	44.2	11.2	11.9	16.1	12.3	13.5	17.5	13.8	14.7	15.2
Ashok Leyland	28.8	29.2	25.5	22.7	22.9	27.3	28.7	28.7	29.0	10.8	6.7	3.5	4.6	8.1	12.0	12.6	12.6	12.7
Bajaj Auto	26.9	28.3	28.1	25.4	27.2	27.8	27.8	27.5	27.6	17.1	17.0	17.8	15.9	18.0	19.7	20.3	20.3	20.6
Balkrishna Industries	53.9	56.6	59.9	55.3	51.0	52.5	52.6	52.0	51.8	26.8	28.5	31.8	26.2	20.2	25.1	25.6	26.5	26.9
Bharat Forge	44.0	41.4	42.9	45.4	39.6	40.8	45.8	46.3	46.8	20.3	13.8	13.6	19.3	13.7	16.3	18.2	18.5	19.9
CEAT	40.1	42.2	43.9	35.6	34.7	42.0	37.8	38.3	38.5	9.2	10.7	12.9	7.6	8.6	13.8	11.1	12.1	12.3
CIE Automotive	54.8	51.8	53.7	52.2	45.4	47.1	48.1	48.0	47.9	13.1	12.4	8.3	12.1	13.4	15.3	15.4	15.7	15.8
Eicher Motors	48.4	45.4	41.4	42.2	43.1	45.7	45.7	45.9	45.8	29.6	23.8	20.4	21.1	23.8	26.2	25.4	25.7	25.9
Endurance Technologies	42.1	46.0	45.5	41.4	39.5	40.9	42.4	42.1	41.7	15.0	16.3	15.9	12.8	11.8	13.0	13.1	13.6	13.8
Escorts	31.6	33.7	33.7	31.0	27.3	29.0	28.5	29.0	29.0	11.8	11.7	16.3	13.3	9.4	11.6	11.3	12.2	12.8
Exide Industries	34.2	36.4	34.5	30.7	30.1	30.9	31.6	31.6	31.7	13.3	13.8	13.5	11.3	10.7	11.7	11.6	12.4	12.6
Hero Motocorp	29.5	30.4	28.3	27.6	28.4	31.0	32.4	31.8	31.4	14.7	13.7	13.0	11.5	11.8	14.0	14.4	14.5	14.5
Mahindra & Mahindra	31.9	33.4	32.4	26.3	24.0	25.3	25.8	25.4	25.3	14.2	14.2	15.6	12.3	12.3	13.3	14.6	14.7	14.9
Maruti Suzuki	30.8	29.7	27.7	25.2	26.6	28.6	28.7	27.9	27.7	12.8	9.7	7.6	6.5	9.4	11.6	12.1	12.0	12.2
MRF	39.6	40.8	42.3	34.9	32.9	40.1	36.2	36.9	37.1	14.4	14.6	18.2	10.6	10.4	16.9	14.1	15.0	15.1
Samvardhana Motherson	—	—	43.2	42.2	42.5	44.9	45.9	46.1	46.3	—	—	7.6	7.0	8.0	9.4	9.4	9.5	9.7
Schaeffler India	37.0	36.9	38.0	37.7	38.1	37.9	37.6	37.9	37.9	16.2	14.5	14.3	17.5	18.8	18.2	17.6	17.9	18.4
SKF	41.5	37.0	41.5	38.8	40.4	39.2	35.3	36.4	37.9	16.0	12.3	15.7	15.2	17.4	15.7	11.9	13.8	15.5
Sona BLW Precision	59.5	57.9	58.8	55.6	54.1	56.9	56.2	55.5	55.1	28.9	26.7	28.2	26.2	25.4	28.3	27.3	27.5	27.5
Tata Motors	35.0	36.0	36.6	35.0	34.5	37.7	39.0	38.7	36.7	8.5	7.6	12.2	8.9	9.2	13.6	13.0	13.1	13.8
Timken	44.2	46.8	44.3	45.8	40.9	41.0	39.6	40.5	40.2	17.3	22.4	17.9	23.2	20.0	19.7	18.5	20.0	20.7
TVS Motor	24.0	26.1	24.0	24.0	24.2	26.3	28.6	29.0	29.2	7.9	8.2	8.5	9.4	10.1	11.1	11.8	12.6	13.1
Uno Minda	38.7	38.8	38.5	36.6	35.7	35.4	35.2	34.5	34.3	12.3	10.8	11.4	10.7	11.1	11.3	11.3	11.5	11.6
Varroc Engineering	37.1	37.2	33.5	34.1	35.7	37.3	36.1	36.4	36.5	8.8	7.4	3.5	6.1	8.3	10.2	9.4	10.1	10.4

Source: Companies, Kotak Institutional Equities estimates

- **Banks and diversified financials (NBFCs).** We model a moderate 7.6% (5.2% for banks) and 8.6% (6.9% for banks) growth in the net profits of the banks and diversified financials in FY2025E and FY2026E, reflecting our view of (1) moderate growth in credit, (2) a modest decline in NIMs for banks but increase in NIMs of NBFCs and (3) a moderate increase in credit costs over FY2025-26; however, we expect credit costs to stay at very low levels compared to historical levels for the larger banks and NBFCs.

We note that the 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) moderate increase in credit costs, although we are not seeing any signs of stress in loans beyond the MFI and the personal unsecured loans segments currently.

- **Credit growth.** We expect low-double-digit growth in credit in FY2025-26, linked to decent growth in nominal GDP (10-11%), with (1) reasonably strong growth in retail credit, aided by likely increased demand for automobiles (4W) and consumer durables due to income tax benefits in the FY2026 Union Budget offsetting (2) continued weakness in industry credit. Credit demand has been soft for the past few months, led by (1) persistent weakness in industry credit (5% yoy growth as of December 2024), (2) a moderation in retail credit and (3) challenges in the MFI loan books of small finance banks (SFBs) and MFI-NBFCs.

However, we do not see any major (1) macroeconomic issues, given India’s decent macroeconomic position and reduction in interest rates through FY2026 or (2) credit issues that can derail credit growth meaningfully. We see meaningful challenges in the MFI and moderate challenges in the personal unsecured loan categories for the next few months, but the situation has started to stabilize with small finance banks and MFI-NBFCs (1) reducing loan availability to over-leveraged borrowers (>4 exposures across various lenders in the MFI category) over 2-3QFY24 and (2) increasing focus on collections.

- Credit quality and LLP.** We expect provisions for banks under our coverage to increase modestly in FY2025-26 from the low levels of FY2024. However, provisions will still be significantly lower than the high levels of FY2018-21, when banks had to make high provisions for NPLs in their corporate loan books. We note that the loan books of banks are quite diversified by type of (1) borrower (income and risk), (2) loan (secured, unsecured, mortgage, personal, vehicle, among others) and (3) geography, which reduces the risk of a big increase in credit costs. Our estimates for provisions do not incorporate the proposed ECL framework of the RBI, as the central bank is yet to release the final guidelines.

We expect a wide dispersion in the change in pre-provision operating profits (PPOP) in FY2025-26 versus FY2024, with (1) the PSU banks (with the exception of SBI) showing very modest growth in PPOP due to our assumption of lower NIMs and lower write-backs of bad loans versus high levels in FY2024, which would offset moderate growth in credit; (2) the large private banks showing moderate-to-strong growth in PPOP (with the exception of IIB), with moderately moderate credit growth being partly offset by a moderate decline in NIMs; and (3) the small finance banks showing flat-to-modest decline in PPOP in FY2025, with strong credit growth being largely offset by a meaningful decline in NIMs and moderate recovery in FY2026. LLPs will remain on the lower side relative to PPOP, except for the small finance banks that will see a sharp increase in LLPs related to the increase in NPLs in their MFI loan book.

Exhibit 79 shows the total income and PPOP for banks under our coverage for FY2019-27E and Exhibit 80 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. Further, most banks have fairly high coverage (see Exhibit 81).

**Steady income growth to drive PPOP growth in FY2025-27E**

Exhibit 79: Total income and PPOP of banks under coverage, March fiscal year-ends, 2019-27E

	Total income (Rs bn)									PPOP (Rs bn)								
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Public banks</b>																		
Bank of Baroda	248	378	417	441	514	592	602	638	705	133	179	203	218	252	310	300	305	338
Canara Bank	211	209	393	429	502	555	590	594	642	102	96	196	221	249	285	299	270	281
Punjab National Bank	245	267	433	410	466	535	584	607	666	114	151	224	204	224	263	264	269	309
State Bank of India	1,251	1,433	1,542	1,613	1,815	2,116	2,146	2,331	2,614	562	676	685	644	822	873	982	1,103	1,320
Union Bank	147	167	364	403	474	527	560	557	594	79	88	192	217	236	286	306	283	295
<b>Old private banks</b>																		
City Union Bank	21	24	25	27	30	29	32	36	42	12	14	15	16	18	15	17	19	22
Federal Bank	55	66	75	81	96	114	131	142	162	26	31	38	38	48	52	60	66	79
Karur Vysya Bank	33	35	34	35	45	55	60	66	73	16	17	13	16	24	27	31	34	37
<b>New private banks</b>																		
Axis Bank	348	407	415	484	594	723	790	844	951	190	234	231	247	198	371	418	452	524
Bandhan Bank	56	79	97	115	117	125	143	154	178	37	54	69	80	71	66	74	74	83
DCB Bank	15	17	17	18	21	24	28	33	40	6	8	9	8	8	9	10	13	18
HDFC Bank	659	794	901	1,015	1,181	1,578	1,673	1,938	2,227	397	487	574	641	704	944	980	1,155	1,343
ICICI Bank	415	497	580	660	820	973	1,085	1,190	1,328	234	281	364	393	491	581	661	714	792
IndusInd Bank	145	190	201	224	258	300	305	343	387	79	103	111	125	140	152	147	163	182
Yes Bank	144	187	108	98	118	132	148	169	202	75	55	34	21	8	39	56	58	81
<b>Small finance banks</b>																		
AU Small Finance Bank	18	26	38	42	55	69	105	127	159	7	12	22	18	20	24	46	56	69
Equitas Small Finance Bank	14	18	22	26	32	39	42	50	62	4	6	9	9	11	13	14	16	21
Ujjivan Small Finance Bank	13	20	20	21	33	42	45	50	59	3	6	8	6	15	19	18	19	23
Utkarsh Small Finance Bank	6	8	10	12	18	23	26	30	38	2	4	4	5	8	10	10	11	15
<b>Total</b>	<b>4,039</b>	<b>4,813</b>	<b>5,683</b>	<b>6,140</b>	<b>7,188</b>	<b>8,549</b>	<b>9,096</b>	<b>9,898</b>	<b>11,128</b>	<b>2,079</b>	<b>2,499</b>	<b>2,996</b>	<b>3,122</b>	<b>3,546</b>	<b>4,340</b>	<b>4,691</b>	<b>5,079</b>	<b>5,832</b>

Source: Companies, Kotak Institutional Equities estimates

**We expect LLP/PPOP to stay at low levels for banks under coverage over FY2025-27E**

**Exhibit 80: LLP and LLP/PPOP of banks under coverage, March fiscal year-ends, 2019-27E**

	LLP (Rs bn)							LLP/PPOP (%)										
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Public banks</b>																		
Bank of Baroda	122	195	146	120	49	58	56	76	113	91	109	72	55	19	19	19	25	33
Canara Bank	126	114	159	131	107	88	88	66	85	123	118	81	63	43	31	30	24	30
Punjab National Bank	267	144	189	161	172	124	20	46	78	235	95	84	79	77	47	8	17	25
State Bank of India	545	419	310	188	148	82	137	264	271	97	62	45	29	18	9	14	24	21
Union Bank	112	123	153	134	114	71	76	74	83	142	140	80	62	48	25	25	26	28
<b>Old private banks</b>																		
City Union Bank	3	8	8	6	6	3	2	3	4	24	57	52	38	35	19	14	15	17
Federal Bank	7	11	16	12	8	2	9	11	14	28	35	43	33	16	4	15	17	18
Karur Vysya Bank	13	14	7	7	7	5	6	8	8	79	82	57	44	29	20	20	22	22
<b>New private banks</b>																		
Axis Bank	110	180	139	67	30	37	76	74	91	58	77	60	27	15	10	18	16	17
Bandhan Bank	8	14	38	79	42	37	35	25	29	20	26	56	98	59	55	47	34	34
DCB Bank	1	3	4	4	1	1	2	4	4	21	34	49	51	19	16	20	29	25
HDFC Bank	70	114	123	151	122	228	101	135	180	18	23	21	24	17	24	10	12	13
ICICI Bank	171	120	158	83	56	9	58	96	111	73	43	43	21	11	2	9	13	14
IndusInd Bank	29	42	73	63	42	32	72	61	56	37	41	66	51	30	21	49	37	31
Yes Bank	48	259	78	7	(2)	23	26	8	9	65	475	232	33	(22)	59	47	14	11
<b>Small finance banks</b>																		
AU Small Finance Bank	1	3	7	2	2	5	17	20	19	20	24	31	14	12	22	37	35	28
Equitas Small Finance Bank	1	2	4	5	4	3	11	6	6	23	41	42	57	32	20	81	40	30
Ujjivan Small Finance Bank	—	2	8	11	0	2	8	9	8	13	27	99	189	1	11	44	51	33
Utkarsh Small Finance Bank	1	1	3	4	3	3	8	6	5	26	16	33	72	34	33	77	61	33
<b>Total</b>	<b>1,635</b>	<b>1,765</b>	<b>1,620</b>	<b>1,231</b>	<b>911</b>	<b>814</b>	<b>810</b>	<b>992</b>	<b>1,174</b>	<b>78</b>	<b>70</b>	<b>54</b>	<b>39</b>	<b>26</b>	<b>19</b>	<b>17</b>	<b>20</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 81: LLP as a percentage of average loans and provision coverage ratio (excluding write-offs), March fiscal year-ends, 2019-27E (%)**

	LLP (%)							PCR (%)										
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Public banks</b>																		
Bank of Baroda	2.7	3.4	2.1	1.6	0.6	0.6	0.5	0.6	0.8	68	69	67	75	77	77	75	74	72
Canara Bank	3.1	2.7	3.0	2.0	1.4	1.0	0.9	0.6	0.7	41	51	59	66	69	71	81	81	82
Punjab National Bank	6.0	3.1	3.3	2.3	2.2	1.4	0.2	0.4	0.6	62	63	63	62	71	88	85	76	68
State Bank of India	2.6	1.9	1.3	0.7	0.5	0.2	0.3	0.6	0.6	62	65	71	75	76	75	71	77	75
Union Bank	3.8	4.0	3.4	2.1	1.6	0.9	0.8	0.7	0.7	58	65	70	69	79	79	75	71	63
<b>Old private banks</b>																		
City Union Bank	1.0	2.3	2.2	1.6	1.5	0.7	0.5	0.5	0.6	39	45	43	38	47	52	59	61	66
Federal Bank	0.7	0.9	1.3	0.9	0.5	0.1	0.4	0.4	0.5	50	54	66	66	71	72	76	75	74
Karur Vysya Bank	2.8	2.9	1.5	1.4	1.2	0.8	0.8	0.9	0.8	46	57	58	63	68	71	77	80	72
<b>New private banks</b>																		
Axis Bank	2.4	3.4	2.3	1.0	0.4	0.4	0.7	0.7	0.7	62	69	72	75	81	79	76	72	69
Bandhan Bank	2.2	2.6	5.1	9.0	4.2	3.2	2.8	1.8	1.8	72	61	50	75	77	72	75	77	79
DCB Bank	0.6	1.1	1.7	1.5	0.5	0.4	0.5	0.7	0.7	65	54	45	56	68	66	67	64	62
HDFC Bank	1.0	1.3	1.2	1.2	0.8	1.1	0.4	0.5	0.6	71	72	70	73	76	74	66	69	70
ICICI Bank	3.1	1.9	2.3	1.0	0.6	0.1	0.5	0.6	0.7	71	76	78	79	83	69	76	75	71
IndusInd Bank	1.8	2.1	3.5	2.8	1.6	1.0	2.0	1.5	1.2	43	63	75	72	68	70	70	65	64
Yes Bank	2.2	12.5	4.6	0.4	(0.1)	1.1	1.1	0.3	0.3	43	74	66	71	62	73	78	78	78
<b>Small finance banks</b>																		
AU Small Finance Bank	0.8	1.1	2.2	0.6	0.5	0.8	1.9	1.6	1.3	37	53	50	71	71	64	64	73	77
Equitas Small Finance Bank	1.0	1.9	2.4	2.7	1.6	0.9	3.3	1.5	1.2	37	45	59	43	57	56	80	78	74
Ujjivan Small Finance Bank	0.5	1.4	5.6	7.6	0.1	0.9	2.8	3.0	2.0	72	80	60	92	140	88	95	96	89
Utkarsh Small Finance Bank	2.1	1.8	3.7	4.7	2.5	2.2	4.3	2.9	1.8	72	80	60	92	88	99	76	83	83

Source: Companies, Kotak Institutional Equities estimates

- NIM.** We expect NIMs to moderate further for the banks in FY2025-26 from the high levels of 2HFY23-1HFY24 (see Exhibit 82 for NIMs and RoEs) due to (1) an increase in deposit rates relative to lending rates in FY2025 on tight liquidity conditions and a shift in deposit mix to term deposits from CASA deposits and (2) likely decline in lending rates for banks in FY2026, especially for private banks with their higher exposure to loans linked to external benchmark lending rates (EBLR), due to our expected rate cuts by the RBI. However, banking system liquidity may also turn more benign from current deficit levels (see Exhibit 83), with the RBI likely to follow a more neutral policy given its increased focus on reviving growth. NIMs were high in FY2024, reflecting the timing mismatch between an 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 the lending rates.

**We expect moderate decline in NIMs and RoEs in FY2025E from high levels of 2HFY23-1HFY24, stable over FY2026-27E**

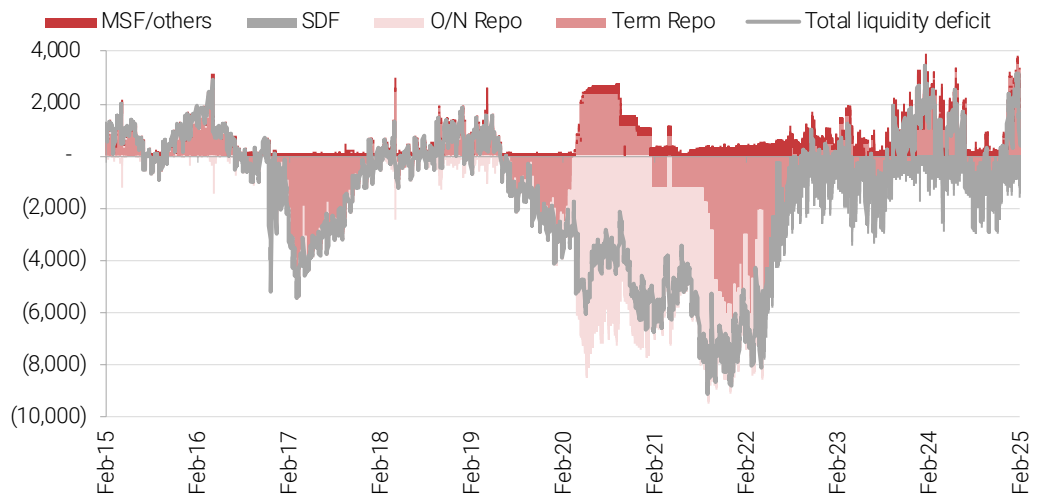
Exhibit 82: NIM and RoE of banks and NBFCs, March fiscal year-ends, 2019-27E (%)

	NIM (%)							RoE (%)										
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Banks</b>																		
AU Small Finance Bank	5.4	5.3	5.2	5.5	5.7	5.3	6.2	5.7	5.7	14	18	22	16	15	13	13	14	17
Axis Bank	3.2	3.2	3.4	3.3	3.7	3.8	3.7	3.5	3.5	7	2	7	12	18	18	16	15	15
Bandhan Bank	9.1	8.7	7.5	7.1	6.7	6.6	6.8	6.8	6.8	19	23	14	1	12	11	12	15	14
Bank of Baroda	2.6	3.0	2.7	2.8	3.2	3.1	2.9	2.8	2.8	1	1	1	9	15	17	15	13	12
Canara Bank	2.4	2.0	2.3	2.4	2.6	2.7	2.5	2.3	2.3	1	(6)	5	9	15	18	17	14	12
City Union Bank	3.9	3.7	3.7	3.5	3.5	3.2	3.2	3.3	3.4	15	9	11	12	13	13	13	12	13
DCB Bank	3.6	3.6	3.5	3.4	3.8	3.5	3.2	3.2	3.3	12	11	10	7	11	11	11	12	15
Equitas Small Finance Bank	8.2	8.8	8.4	8.2	8.5	8.0	6.8	6.4	6.4	10	10	13	7	12	14	3	11	15
Federal Bank	3.0	2.9	3.1	3.0	3.3	3.1	3.1	2.9	2.9	10	11	10	11	15	15	12	12	13
HDFC Bank	4.4	4.2	4.1	3.9	4.1	3.8	3.5	3.5	3.6	16	16	17	17	17	17	14	15	15
ICICI Bank	3.3	3.6	3.6	3.9	4.4	4.6	4.3	4.0	4.0	3	8	12	15	17	19	18	16	16
IndusInd Bank	3.8	4.4	4.5	4.2	4.4	4.5	4.2	4.2	4.2	14	15	8	10	14	15	9	11	12
Karur Vysya Bank	3.6	3.5	3.4	3.6	4.1	4.1	3.9	3.8	3.6	3	4	5	9	9	10	17	16	16
Punjab National Bank	2.4	2.3	3.1	2.4	2.7	2.8	2.7	2.5	2.5	(25)	1	3	4	3	8	14	11	11
State Bank of India	2.7	2.8	2.9	2.8	3.0	3.0	2.8	2.8	2.8	0	6	8	12	17	17	16	14	15
Ujjivan Small Finance Bank	10.0	10.6	9.3	8.4	9.8	9.5	8.9	8.3	8.2	11	14	0	(15)	33	27	13	11	16
Utkarsh Small Finance Bank	10.0	9.6	8.1	8.1	9.3	9.1	8.5	7.8	8.0	19	21	9	4	23	20	6	10	20
Union Bank	2.2	2.3	2.5	2.6	2.8	2.9	2.7	2.4	2.4	(13)	(11)	5	8	11	16	16	13	12
YES Bank	3.0	2.3	3.2	2.5	2.7	2.5	2.6	2.7	2.8	7	(68)	(13)	3	2	3	5	8	10
<b>NBFCs</b>																		
Aavas Financiers	7.5	7.0	6.5	7.0	6.8	6.0	5.7	5.8	5.9	12	13	13	14	14	14	14	15	16
Aptus Value Housing Finance	10.6	11.1	11.5	12.6	13.1	12.1	11.6	11.0	10.6	17	18	14	15	16	17	18	18	19
Bajaj Finance	9.8	10.3	9.3	10.0	10.3	10.2	9.7	9.7	9.6	22	20	13	17	24	22	20	20	21
Bajaj Finserv	-	-	-	-	-	-	-	-	-	15	12	13	12	15	19	24	25	26
Cholamandalam	6.0	5.9	6.9	6.9	6.6	6.3	6.5	6.7	6.5	21	15	17	20	21	20	19	19	19
Home First Finance	6.1	6.2	6.3	7.7	8.0	7.4	6.7	6.6	6.6	11	11	9	13	13	16	17	18	19
L&T Finance Holdings	5.4	6.1	6.1	7.0	8.6	8.9	8.9	8.7	8.6	18	15	5	5	7	10	11	12	13
LIC Housing Finance	2.4	2.4	2.4	2.4	2.4	3.1	2.7	2.9	2.9	17	14	14	10	11	16	16	14	13
Mahindra & Mahindra Financial	8.1	7.8	8.3	8.6	8.3	7.2	6.7	6.7	6.8	15	8	3	7	12	10	12	13	14
Muthoot Finance	14.3	15.2	14.1	12.9	11.0	11.2	11.9	11.4	11.4	22	28	28	24	18	18	20	21	20
Shriram Finance	7.8	7.5	7.1	7.3	10.4	9.3	9.1	9.2	9.2	17	15	13	11	17	16	16	16	17

Source: Companies, Kotak Institutional Equities estimates

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

**Exhibit 83: Liquidity injection through various channels, March fiscal year-ends, 2014-25 (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 84 for term deposit rates of SBI). We expect deposit rates to decline gradually the next 2-3 quarters linked to the timing of the RBI reducing policy rates. CD rates have increased in the past few weeks, after being broadly stable in 2HCY24 (see Exhibit 85 for one-year CD rate).

**SBI has kept rates largely stable in the past few months**

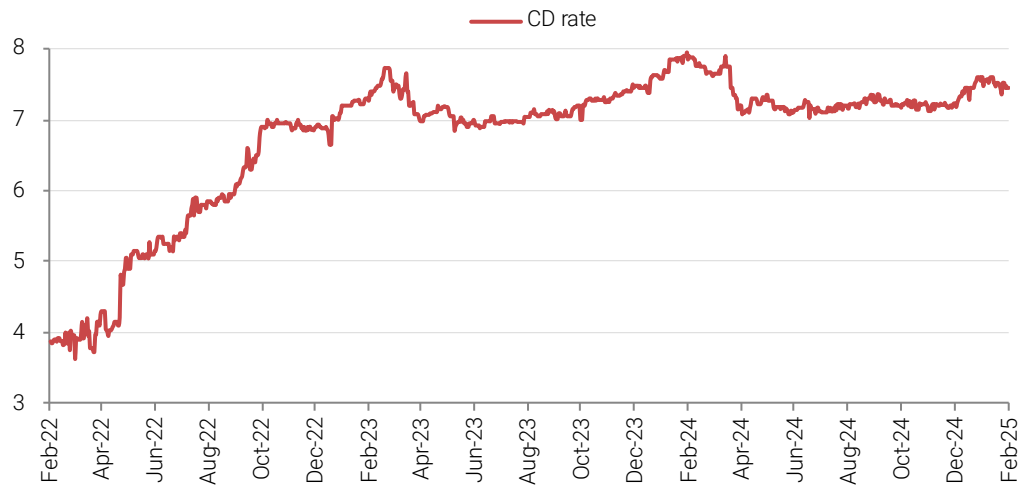
**Exhibit 84: Deposit rates movement for SBI (%)**

	Dec-19	Mar-20	Mar-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Jan-25
7-14 days	4.50	3.50	2.90	2.90	2.90	2.90	2.90	3.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
15-30 days	4.50	3.50	2.90	2.90	2.90	2.90	2.90	3.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
31-45 days	4.50	3.50	2.90	2.90	2.90	2.90	2.90	3.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
46 -90 days	5.50	4.50	3.90	3.90	3.90	3.90	3.90	4.50	4.50	4.75	4.75	5.50	5.50	5.50	5.50
91-120days	5.50	4.50	3.90	3.90	3.90	3.90	3.90	4.50	4.50	4.75	4.75	5.50	5.50	5.50	5.50
120-180 days	5.50	4.50	3.90	3.90	3.90	3.90	3.90	4.50	4.50	4.75	4.75	5.50	5.50	5.50	5.50
181-210 days	5.80	5.00	4.40	4.40	4.40	4.40	4.55	4.55	5.25	5.75	5.75	6.25	6.25	6.25	6.25
211 days -1 year	5.80	5.00	4.40	4.40	4.40	4.60	4.60	4.60	5.75	6.00	6.00	6.50	6.50	6.25	6.50
1 year-2 year	6.25	5.70	5.00	5.00	5.10	5.30	5.45	6.75	6.80	7.10	7.10	7.10	7.25	7.25	7.25
2 year-3 year	6.25	5.70	5.10	5.10	5.20	5.35	5.50	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00
3 years-5 years	6.25	5.70	5.30	5.30	5.30	5.45	5.45	5.45	6.50	6.75	6.75	6.75	6.75	6.75	6.75
5 years-8 years	6.25	5.70	5.40	5.40	5.40	5.50	5.50	5.50	6.50	6.50	6.50	6.50	6.50	6.75	6.75

Source: Company, Kotak Institutional Equities

**CDs rates have increased in the past few months**

**Exhibit 85: 1-year Certificate of Deposit rates in India (%)**



Source: Bloomberg, Kotak Institutional Equities

NBFCs’ borrowing costs have inched up a little bit in the past 1-2 quarters (see Exhibit 86), as banks have raised the lending rates to factor in the increased lending risks. We note that NBFCs derive a significant portion of their borrowings from banks. However, corporate bond yields (see Exhibit 87 for bond yields) have declined in the past few weeks, in line with the decline in government bond yields, which in turn, reflects India’s improved fiscal situation.

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

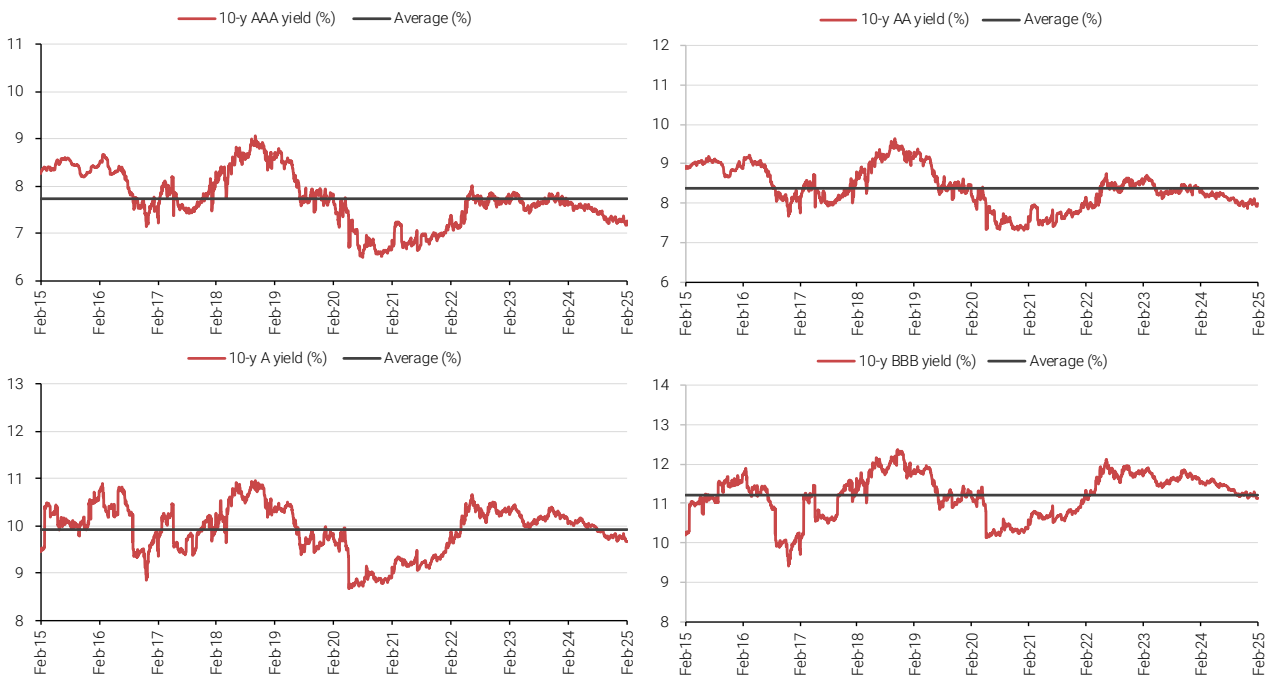
**Exhibit 86: Cost of borrowing of NBFCs, March fiscal year-ends, 2023-25 (%)**

	Cost of borrowing (%)										
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Affordable housing</b>											
Aavas Financiers	6.6	6.7	6.8	6.9	7.3	7.5	7.7	7.4	7.5	8.0	8.0
Aptus	7.7	8.0	8.3	8.3	8.5	9.1	8.8	8.8	8.9	8.7	9.0
Home First	6.7	7.2	7.2	7.8	8.2	8.1	8.1	8.2	8.2	8.4	8.5
<b>Other NBFCs and HFCs</b>											
Bajaj Finance	6.3	6.7	7.0	6.9	7.3	7.4	7.5	7.5	7.6	7.8	7.8
Cholamandalam	6.3	7.0	7.3	7.4	7.8	7.8	8.0	8.0	7.9	7.9	8.1
Five Star	10.2	9.7	8.9	8.3	9.0	9.3	9.7	9.1	9.7	9.6	9.6
L&T Finance Holdings	6.8	6.9	7.0	6.8	6.9	7.0	7.1	7.0	6.9	7.1	7.3
LIC Housing Finance	6.5	6.8	7.2	7.2	7.4	7.6	7.6	7.5	7.5	7.6	7.6
Mahindra Finance	6.5	6.7	7.2	7.3	7.5	7.6	7.8	7.7	7.8	7.8	7.9
SBFC						9.4	9.3	9.2	9.4	9.5	9.2
Shriram Finance	7.9	8.3	8.0	8.3	8.7	8.9	8.7	8.8	8.7	8.7	8.8

Source: Companies, Kotak Institutional Equities

**Corporate bond yields have declined in the past few weeks**

**Exhibit 87: Corporate bond yields, March fiscal year-ends, 2015-25 (%)**



Source: Bloomberg, Kotak Institutional Equities

- **Construction materials.** We expect net profits of the construction materials (cement) companies in the Nifty-50 Index to decline 21% in FY2025 on the back of lower profitability, which would offset a modest growth in volumes. However, we expect a sharp 42% increase in net profits in FY2026, led by (1) our assumption of a rebound in profitability in FY2026 from the low levels of FY2025 (see Exhibit 88) and (2) strong volume growth led by continued robust residential real estate demand, which may offset a slowdown in infrastructure demand. Cement profitability was quite high in FY2024, reflecting (1) a modest increase in cement prices and (2) a sharp decline in power and fuel costs.

**We model a sharp increase in profitability over FY2026-27E from FY2025 levels**

**Exhibit 88: Profitability (EBITDA/ton) of cement companies, March fiscal year-ends, 2021-27E (Rs/ton)**

	Profitability (Rs/ton)							Growth (% yoy)						
	2021	2022	2023	2024	2025E	2026E	2027E	2021	2022	2023	2024	2025E	2026E	2027E
ACC	972	1,038	499	830	559	746	793	17	7	(52)	66	(33)	34	6
Ambuja Cements	1,066	1,121	741	1,081	727	963	1,098	23	5	(34)	46	(33)	33	14
J K Cement	1,396	1,089	835	1,083	991	1,100	1,164	12	(22)	(23)	30	(9)	11	6
Shree Cement	1,473	1,315	925	1,229	1,012	1,123	1,221	(0)	(11)	(30)	33	(18)	11	9
Ultratech Cement	1,370	1,272	1,011	1,101	989	1,156	1,248	19	(7)	(20)	9	(10)	17	8

Source: Companies, Kotak Institutional Equities estimates

However, we see downside risks to our earnings estimates from weaker-than-expected prices and profitability, given (1) continued large supply-demand mismatch and (2) aggressive expansion and market share ambitions of several players; both ACEM and UTCM have been aggressive in acquiring cement capacities, which shows their aggressive focus on market share. We note that 9MFY25 EBITDA/ton is meaningfully lower versus our FY2025 and FY2026 assumptions. Cement prices have improved in the current quarter due to expected seasonal factors, which may have revived hopes about higher cement prices in FY2026.



We expect supply-demand balance to stay unfavorable through FY2027 (see Exhibit 89). We note that cement companies' earnings have very high sensitivity to profitability assumptions. Exhibit 90 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).

**Capacity utilization in the cement industry to stay below 70% over FY2025-27E**

**Exhibit 89: Cement demand supply balance, March fiscal year-ends, 2019-27E**

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>All-India</b>									
Closing installed capacity (mtpa)	483	499	525	545	573	624	646	701	744
<b>Incremental installed capacity (mtpa)</b>	<b>16</b>	<b>15</b>	<b>26</b>	<b>20</b>	<b>28</b>	<b>52</b>	<b>22</b>	<b>54</b>	<b>44</b>
Effective capacity (mtpa)	483	499	525	545	573	624	646	701	744
<b>Incremental effective capacity (mtpa)</b>	<b>16</b>	<b>15</b>	<b>26</b>	<b>20</b>	<b>28</b>	<b>52</b>	<b>22</b>	<b>54</b>	<b>44</b>
Capacity growth (%)	3.4	3.2	5.3	3.7	5.2	9.0	3.5	8.4	6.3
Cement consumption (mn tons)	333	330	326	355	386	421	442	478	516
<b>Incremental consumption (mn tons)</b>	<b>39</b>	<b>(3)</b>	<b>(3)</b>	<b>28</b>	<b>31</b>	<b>35</b>	<b>21</b>	<b>36</b>	<b>39</b>
Consumption growth (%)	13.4	(0.8)	(1.0)	8.6	8.7	9.1	5.1	8.1	8.1
Cement production (mn tons)	337	334	331	359	390	425	446	482	521
<b>Incremental production (mn tons)</b>	<b>39</b>	<b>(3)</b>	<b>(3)</b>	<b>28</b>	<b>31</b>	<b>35</b>	<b>21</b>	<b>36</b>	<b>39</b>
Growth (%)	13.3	(0.8)	(1)	8.5	8.6	9.0	5.0	8.0	8.0
<b>Capacity utilization (%)</b>	<b>70</b>	<b>67</b>	<b>63</b>	<b>66</b>	<b>68</b>	<b>68</b>	<b>69</b>	<b>69</b>	<b>70</b>

Source: CMA, Kotak Institutional Equities estimates

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

**Exhibit 90: EPS sensitivity of cement companies for change in EBITDA/ton, March fiscal year-ends, 2025-27E**

	(EBITDA: -Rs100/ton)			Base Case			(EBITDA: +Rs100/ton)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
<b>ACC</b>									
Volumes (mn tons)	41.7	43.4	45.1	41.7	43.4	45.1	41.7	43.4	45.1
EBITDA/ton (Rs)	459	646	693	559	746	793	659	846	893
EBITDA (Rs bn)	19.1	28.0	31.3	23.3	32.3	35.8	27.5	36.7	40.3
PAT (Rs bn)	10.0	16.0	18.5	13.1	19.2	21.8	16.2	22.5	25.2
<b>EPS (Rs)</b>	<b>53</b>	<b>85</b>	<b>98</b>	<b>70</b>	<b>102</b>	<b>116</b>	<b>86</b>	<b>120</b>	<b>134</b>
<b>Ambuja</b>									
Volumes (mn tons)	67.5	73.5	79.6	67.5	73.5	79.6	67.5	73.5	79.6
EBITDA/ton (Rs)	627	863	998	727	963	1,098	827	1,063	1,198
EBITDA (Rs bn)	42	63	80	49	71	87	56	78	95
PAT (Rs bn)	17	28	34	22	33	40	27	39	46
<b>EPS (Rs)</b>	<b>7.0</b>	<b>11.2</b>	<b>14.0</b>	<b>9.1</b>	<b>13.5</b>	<b>16.4</b>	<b>11.1</b>	<b>15.7</b>	<b>18.8</b>
<b>Shree Cement</b>									
Volumes (mn tons)	36.2	39.8	43.8	36.2	39.8	43.8	36.2	39.8	43.8
EBITDA/ton (Rs)	912	1,023	1,121	1,012	1,123	1,221	1,112	1,223	1,321
EBITDA (Rs bn)	33.0	40.8	49.1	36.6	44.7	53.5	40.3	48.7	57.9
PAT (Rs bn)	6.6	11.4	12.7	9.4	14.4	16.0	12.1	17.4	19.3
<b>EPS (Rs)</b>	<b>184</b>	<b>317</b>	<b>352</b>	<b>259</b>	<b>400</b>	<b>443</b>	<b>334</b>	<b>482</b>	<b>534</b>
<b>Ultratech (India Operations)</b>									
Volumes (mn tons)	123	141	153	123	141	153	123	141	153
EBITDA/ton (Rs)	889	1,056	1,148	989	1,156	1,248	1,089	1,256	1,348
EBITDA (Rs bn)	109	149	176	121	163	191	134	177	206
PAT (Rs bn)	44	64	83	53	75	95	62	85	106
<b>EPS (Rs)</b>	<b>169</b>	<b>246</b>	<b>313</b>	<b>205</b>	<b>286</b>	<b>356</b>	<b>240</b>	<b>326</b>	<b>399</b>

Source: Companies, Kotak Institutional Equities estimates

Cement stocks trade at high multiples (see Exhibit 91) despite large risks to the Street's earnings estimates. In our view, the multiples are completely incompatible with the business model of the cement companies (a business with a fixed asset turnover ratio of around 1X and moderate RoCE should deserve a much lower multiple on any sensible valuation framework).

**Cement stocks trade at high multiples despite our assumption of high profitability in FY2026-27E**

**Exhibit 91: Valuation summary of cement stocks under KIE coverage, March fiscal year-ends, 2025-27E**

Company	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
ACC	70	102	116	(38)	47	13	27	18	16	12.9	9.0	7.8	2.0	1.9	1.7
Ambuja Cements	9	13	16	(38)	48	22	54	36	30	22.1	15.6	12.4	2.2	2.1	2.0
Dalmia Bharat	38	50	69	(14)	32	39	47	36	26	14.0	11.7	10.1	2.0	1.9	1.8
J K Cement	90	118	150	(13)	31	28	52	40	31	20.9	17.1	14.3	6.1	5.3	4.6
Nuvoco Vistas Corp.	(2)	4	7	(154)	303	65	(141)	69	42	11.7	10.0	8.7	1.3	1.2	1.2
Shree Cement	259	400	443	(62)	54	11	110	71	64	27.0	22.2	18.5	4.9	4.6	4.3
The Ramco Cements	9	20	28	(38)	114	38	90	42	31	17.7	14.5	12.3	2.6	2.4	2.2
Ultratech Cement	203	285	357	(17)	40	25	55	40	32	27.4	20.2	17.1	4.8	4.4	4.0

Source: Companies, Kotak Institutional Equities estimates

► **Consumer products.** We expect a muted performance for consumer discretionary and staple categories in FY2025, led by (1) modest growth in volumes, which will offset (2) a modest decline in gross and EBITDA margins from the high levels of FY2024. However, we note both profitability and volume changes will likely vary a lot across companies, depending on the category of products. We have already seen a very wide divergence in volumes and profitability in various categories in 9MFY25 and 3QFY25, with beverages (VBL; 38% volume growth in 4QCY25) and paints (meaningful decline in paint volumes and revenues across companies in 2-3QFY25) being the two extreme cases.

We model a decent recovery in net profits in FY2026, led by (1) moderate growth in volumes from the low levels of 9MFY25, which will likely offset (2) a moderate decline in profitability. However, we would note that our FY2026 estimates could be at risk from weaker-than-expected profitability and volumes. As discussed in the same section earlier, both these issues] face structural headwinds, even as we expect cyclical headwinds to fade and discretionary consumption to see a boost in FY2026 from the income tax cuts announced in the FY2026 Union Budget.

■ **Volumes and revenues.** Exhibit 92 gives historical revenues and our revenue and revenue growth assumption for various consumer product companies under our coverage for FY2019-27E. For consumer staples companies, we expect low-to-mid-single digit revenue growth in FY2025, led by (1) modest growth in volumes due to a gradual recovery in demand and (2) flat-to-modestly higher product prices. 3QFY25 saw fairly muted volumes in general, although a few companies did see a recovery in growth (PIDI, UNSP).

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

**Exhibit 92: Revenue and revenue growth of consumer product companies under coverage, March fiscal year-ends, 2019-27E (%)**

	Revenues (Rs bn)						Growth yoy (%)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Asian Paints	193	202	217	291	345	355	342	369	405	14	4	7	34	19	3	(4)	8	10
Berger Paints	61	64	68	88	106	112	115	125	136	17	5	7	29	21	6	3	8	9
Britannia Industries	111	116	131	141	163	168	179	195	215	12	5	13	8	15	3	7	9	10
Colgate-Palmolive (India)	45	45	48	51	52	57	61	66	71	7	1	7	5	2	9	8	7	8
Dabur India	85	87	96	109	115	124	127	139	151	10	2	10	14	6	8	3	9	9
Godrej Consumer Products	103	99	110	123	133	141	143	155	168	5	(4)	11	11	8	6	1	8	9
Hindustan Unilever	382	388	460	512	591	605	616	663	717	11	1	19	11	16	2	2	8	8
ITC	450	456	455	563	660	654	697	734	797	11	1	(0)	24	17	(1)	7	5	9
Jubilant Foodworks	36	39	33	43	51	53	61	70	80	18	10	(16)	31	18	5	13	16	14
Jyothy Laboratories	18	17	19	22	25	28	29	31	34	8	(6)	12	15	13	11	4	9	9
Kansai Nerolac	52	49	47	59	71	74	75	80	86	13	(4)	(5)	26	20	4	1	7	8
Marico	73	73	80	95	98	97	107	117	128	16	(0)	10	18	3	(1)	11	9	9
Nestle India	112	123	133	147	168	243	201	221	243	13	10	8	10	14	45	(17)	10	10
Page Industries	29	29	28	39	47	46	51	56	65	12	3	(4)	37	21	(3)	10	12	15
Pidilite Industries	71	73	73	99	118	124	131	144	159	16	3	(0)	36	19	5	6	10	10
Titan Company	198	211	216	288	406	511	583	656	759	23	6	3	33	41	26	14	13	16
United Breweries	65	65	42	58	75	81	90	100	111	15	1	(35)	38	28	8	10	11	11
United Spirits	90	91	79	94	104	107	116	129	142	10	1	(13)	19	10	3	8	11	10
Varun Beverages	51	71	65	88	132	160	200	248	285	28	40	(10)	37	49	22	25	24	15

Source: Companies, Kotak Institutional Equities estimates

We expect a moderate growth in revenues and a modest recovery in volumes in FY2026 to (1) modest growth in incomes of low-income households in both rural and urban India and (2) likely further increase in product prices, given the sharp escalation in agriculture input (cocoa, coffee, copra, palm oil and other vegetable oils) prices in the past 6-12 months. We expect companies to raise product prices gradually to pass on the increase in RM prices in order to achieve their 'target' margins. RM prices have cooled off in a few cases (palm oil, tea) in the past 2-3 months, but not enough for companies to halt or reverse the increase in product prices.

- Margins.** Exhibit 93 shows our gross and EBITDA margin assumptions for various consumer product companies under our coverage for FY2019-27E. We expect an improvement in gross and EBITDA margins from depressed levels of FY2025, as companies (1) raise prices gradually to pass on the full extent of the sharp increase in RM prices seen in FY2025 and (2) moderate A&P spends and manage other expenditure, which was the case in 9MFY25. However, we expect FY2026-27E margins to be lower than FY2024 margins. We note that both gross and EBITDA margins had 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 collapsed from 2HFY23.

**We expect some moderation in gross and EBITDA margins from elevated levels of FY2024**

Exhibit 93: Gross and EBITDA margins of consumer companies, March fiscal year-ends, 2019-27E (%)

	Gross margin (%)						EBITDA margin (%)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Asian Paints	41.4	43.7	44.3	37.1	38.7	43.4	42.2	41.2	41.0	18.2	20.6	22.4	16.5	18.2	21.4	17.8	17.5	17.3
Berger Paints	39.0	41.5	43.3	38.0	36.3	40.7	41.2	40.3	39.8	14.5	16.7	17.4	15.2	14.1	16.6	15.9	15.0	14.7
Britannia Industries	40.6	40.3	41.9	38.0	41.2	43.4	41.0	42.2	42.5	15.7	15.9	19.1	15.6	17.4	18.9	17.2	17.5	18.0
Colgate-Palmolive (India)	65.1	65.2	68.0	67.3	65.7	69.7	69.6	69.6	69.7	27.7	26.6	31.2	30.7	29.6	33.5	32.5	32.5	32.8
Dabur India	49.5	49.9	50.1	48.2	45.6	48.0	48.3	48.2	48.4	20.4	20.6	21.1	20.7	18.8	19.4	18.9	19.3	19.7
Godrej Consumer Products	55.8	57.0	55.3	50.5	49.7	55.2	55.1	55.7	56.1	20.5	21.6	21.7	19.5	18.3	20.9	20.7	21.5	22.3
Hindustan Unilever	53.0	54.1	52.9	50.9	47.3	51.5	51.0	51.4	51.8	22.6	24.8	24.6	24.4	23.0	23.5	23.2	23.8	24.1
ITC	61.5	62.2	56.1	53.4	56.3	58.8	59.0	59.2	59.4	38.5	39.2	34.1	33.6	36.3	37.4	35.4	36.1	36.6
Jubilant Foodworks	75.1	75.0	78.1	77.5	75.9	76.4	76.3	76.4	76.6	16.8	22.3	23.3	25.5	22.7	20.5	19.2	20.3	21.3
Jyothy Laboratories	46.5	47.4	47.1	41.6	42.3	49.1	50.1	49.7	49.6	15.5	14.7	16.5	11.3	12.7	17.4	17.3	16.9	16.8
Kansai Nerolac	36.2	38.1	37.9	30.0	30.0	35.5	35.4	34.5	34.3	14.3	15.8	17.8	10.5	11.2	13.8	13.2	12.6	12.5
Marico	45.2	48.8	46.9	42.9	45.2	50.8	50.3	51.0	51.4	17.5	20.1	19.8	17.7	18.5	21.0	20.0	20.4	20.9
Nestle India	59.1	57.5	57.3	56.7	53.8	55.9	56.5	57.0	57.0	23.7	22.9	23.7	23.6	21.7	23.6	22.9	23.7	23.8
Page Industries	58.0	55.5	55.4	56.0	55.8	54.5	54.7	55.5	55.8	21.7	18.1	18.6	20.2	18.3	19.0	20.6	21.6	21.8
Pidlite Industries	49.3	53.4	53.7	45.1	42.7	51.6	54.1	53.4	53.4	19.3	21.6	23.0	18.6	16.8	21.9	23.0	23.5	23.8
Tata Consumer Products	44.7	43.9	40.5	43.0	41.9	43.7	42.6	43.1	43.8	10.8	13.4	13.3	13.8	13.5	15.0	14.2	14.8	15.6
Titan Company	27.2	28.0	24.2	24.9	25.2	22.8	23.1	23.2	23.0	10.8	11.7	8.0	11.6	12.0	10.4	10.3	10.6	10.5
United Breweries	53.6	51.6	52.2	49.9	43.1	42.7	44.3	46.3	47.2	17.6	13.5	9.0	11.9	8.2	8.6	10.4	13.0	14.5
United Spirits	48.8	44.8	43.4	43.9	41.5	43.4	44.6	45.0	45.3	14.3	16.6	12.5	16.0	13.7	16.0	17.2	18.0	18.5
Varun Beverages	56.0	54.8	57.1	54.3	52.5	53.8	55.5	55.1	54.9	19.7	20.3	18.6	18.8	21.2	22.5	23.5	22.7	22.5

Source: Companies, Kotak Institutional Equities estimates

We assume a meaningful decline in the gross and EBITDA margins of the commodity chemicals (paints) companies in FY2025-26E from high levels of FY2024 to factor in (1) the current weak demand conditions, (2) the entry of Grasim in the paint industry and (3) the sharp depreciation in the INR, which would result in higher domestic RM prices despite global prices of major raw materials being broadly stable in the past few months. We expect a moderate correction in margins in the case of other categories with a recovery from extremely low levels for the QSR companies.

- IT services.** Exhibits 94-95 give the key volume and profitability assumptions for the major IT stocks under our coverage. We note the divergence in growth across companies: (1) the broad-based companies will see low revenue growth in FY2025, followed by a moderate recovery in FY2026 and the (2) narrow-focused ERD companies will see strong growth in both FY2025-26, although the deep (and growing) challenges of the global automobile sector pose downside risks to our benign assumptions of growth in revenues and profitability.

**We expect a modest growth in revenues and a modest improvement in EBIT margins for Tier-1 IT companies over FY2026-27E**

**Exhibit 94: Key assumptions for Tier-I Indian IT companies, March fiscal year-ends, 2022-27E**

	2022	2023	2024	2025E	2026E	2027E		2022	2023	2024	2025E	2026E	2027E
<b>HCL Tech</b>							<b>Infosys</b>						
Revenues (US\$ mn)	11,481	12,586	13,270	13,847	14,649	15,868	Revenues (US\$ mn)	16,310	18,212	18,562	19,417	20,837	22,767
US\$ revenue growth yoy (%)	12.8	9.6	5.4	4.4	5.8	8.3	US\$ revenue growth yoy (%)	20.3	11.7	1.9	4.6	7.3	9.3
Volume growth yoy (%)	21.3	18.1	3.0	5.0	3.8	7.5	Volume growth yoy (%)	22.1	14.7	0.1	4.3	6.7	8.5
Pricing change (%)							Pricing change (%)						
Onsite	0.7	0.5	0.7	(0.8)	2.9	1.6	Onsite	1.3	(3.2)	2.1	0.2	0.4	0.5
Offshore	(7.5)	(10.6)	4.2	0.3	2.4	0.6	Offshore	1.1	(3.6)	1.4	1.4	0.7	0.5
Blended	(7.0)	(7.2)	2.4	(0.6)	1.9	0.8	Blended	(1.5)	(2.6)	1.8	0.2	0.5	0.7
Directs costs (as % of revenues)	61.4	64.2	65.8	66.1	65.8	65.8	Directs costs (as % of revenues)	64.6	66.9	66.9	66.6	66.5	66.1
SG&A expenses (as % of revenues)	12.3	12.3	12.7	11.8	12.3	12.3	SG&A expenses (as % of revenues)	9.6	9.2	9.4	9.4	9.5	9.6
EBIT margin (%)	18.9	18.2	18.2	18.4	18.8	19.0	EBIT margin (%)	23.0	21.1	20.7	21.1	21.4	21.9
Net income (Rs mn)	134,792	148,316	157,070	173,244	187,810	208,614	Net income (Rs mn)	221,110	240,950	242,640	263,851	297,726	336,427
Re/US\$ rate (average)	74.6	80.6	82.8	84.5	86.6	87.5	Re/US\$ rate (average)	74.6	80.6	82.8	84.6	87.6	89.5
<b>LTIMindtree</b>							<b>TCS</b>						
Revenues (US\$ mn)	3,502	4,106	4,287	4,521	4,973	5,515	Revenues (US\$ mn)	25,707	27,927	29,080	30,202	30,770	33,506
US\$ revenue growth yoy (%)	27.5	17.2	4.4	5.4	10.0	10.9	US\$ revenue growth yoy (%)	15.9	8.6	4.1	3.9	1.9	8.9
Volume growth yoy (%)	23.1	20.4	3.1	3.4	10.1	10.5	Volume growth yoy (%)	18.2	13.2	1.9	1.0	6.1	9.6
Pricing change (%)							Pricing change (%)						
Onsite	5.7	0.4	2.1	1.3	0.0	1.0	Onsite	2.3	(0.9)	2.0	(0.5)	(0.7)	–
Offshore	6.4	(0.1)	1.6	1.1	0.5	1.8	Offshore	0.0	(3.7)	1.7	(0.1)	(0.8)	–
Blended	3.5	(2.6)	1.3	1.9	(0.1)	0.3	Blended	(1.3)	(3.5)	1.4	(0.4)	(0.7)	(0.1)
Directs costs (as % of revenues)	70.6	71.5	71.2	71.0	70.7	70.6	Directs costs (as % of revenues)	59.8	60.4	59.6	60.9	59.5	59.2
SG&A expenses (as % of revenues)	9.6	10.1	10.8	11.3	11.3	11.3	SG&A expenses (as % of revenues)	15.0	15.5	15.8	14.5	15.0	14.8
EBIT margin (%)	19.5	16.5	15.7	15.0	15.5	16.1	EBIT margin (%)	25.3	24.1	24.6	24.5	25.5	26.0
Net income (Rs mn)	39,498	44,078	45,821	46,949	56,473	66,188	Net income (Rs mn)	383,270	421,470	466,132	489,335	531,853	596,643
Re/US\$ rate (average)	74.8	80.8	82.8	84.7	87.6	89.5	Re/US\$ rate (average)	74.6	80.7	82.8	84.5	86.6	87.5
<b>Tech Mahindra</b>							<b>Wipro</b>						
Revenues (US\$ mn)	5,999	6,607	6,277	6,274	6,618	7,256	Revenues (US\$ mn)	10,356	11,160	10,805	10,545	10,814	11,312
US\$ revenue growth yoy (%)	17.4	10.1	(5.0)	(0.0)	5.5	9.6	US\$ revenue growth yoy (%)	27.3	7.8	(3.2)	(2.4)	2.6	4.6
Volume growth yoy (%)	13.6	12.7	(5.6)	1.3	7.0	8.9	Volume growth yoy (%)	31.2	13.9	(1.1)	(1.8)	3.6	4.9
Pricing change (%)							Pricing change (%)						
Onsite	5.2	(1.7)	3.0	3.9	0.6	1.4	Onsite	2.6	(1.1)	0.8	2.2	(0.3)	1.0
Offshore	7.9	(0.2)	4.7	5.1	0.9	1.9	Offshore	2.0	(2.5)	(2.3)	(0.1)	0.6	1.0
Blended	3.3	(2.3)	0.6	(1.3)	(1.5)	0.6	Blended	(2.0)	(4.5)	(1.8)	(0.8)	(1.3)	(0.4)
Directs costs (as % of revenues)	69.4	71.5	75.2	72.0	69.8	67.5	Directs costs (as % of revenues)	66.8	68.1	67.1	66.8	66.5	66.4
SG&A expenses (as % of revenues)	12.7	13.4	15.2	14.9	14.7	14.6	SG&A expenses (as % of revenues)	11.7	12.5	13.2	12.7	13.0	13.1
EBIT margin (%)	14.6	11.4	6.1	9.6	12.5	15.0	IT services EBIT margin (%)	17.5	15.7	15.9	17.2	17.7	18.0
Net income (Rs mn)	55,661	50,683	28,160	40,722	56,090	75,618	Net income (Rs mn)	122,192	113,500	110,450	130,244	142,930	154,880
Re/US\$ rate (average)	74.1	74.4	80.7	82.8	84.7	87.6	Re/US\$ rate (average)	75.5	80.4	82.7	84.6	87.6	89.5

Source: Companies, Kotak Institutional Equities estimates

**We expect strong growth in revenues and modest improvement in EBIT margins for Tier-2 IT companies over FY2026-27E**

**Exhibit 95: Key assumptions for Tier-2 Indian IT companies, March fiscal year-ends, 2022-27E**

	2022	2023	2024	2025E	2026E	2027E		2022	2023	2024	2025E	2026E	2027E
<b>Mphasis</b>							<b>Persistent</b>						
Revenues (US\$ mn)	1,590	1,717	1,610	1,683	1,836	2,005	Revenues (US\$ mn)	766	1,036	1,186	1,408	1,667	1,921
US\$ revenue growth yoy (%)	21.5	8.0	(6.3)	4.6	9.1	9.2	US\$ revenue growth yoy (%)	35.2	35.3	14.5	18.7	18.4	15.2
Volume growth yoy (%)	17.6	7.7	(6.4)	1.7	6.6	11.9	Volume growth yoy (%)	45.0	37.0	16.6	15.1	20.2	15.5
Pricing change (%)							Pricing change (%)						
Onsite	5.0	6.0	5.4	–	1.0	–	Onsite	(2.4)	(2.0)	(1.0)	2.5	0.4	1.0
Offshore	0.9	3.8	3.0	–	1.0	–	Offshore	1.0	3.3	(0.0)	0.2	0.1	1.0
Blended	3.3	0.3	0.1	2.9	2.4	(2.4)	Blended	(6.7)	(1.2)	(1.8)	3.1	(1.5)	(0.2)
Directs costs (as % of revenues)	70.8	71.1	69.9	68.6	68.8	68.6	Directs costs (as % of revenues)	66.4	66.2	66.4	65.9	66.4	66.8
SG&A expenses (as % of revenues)	11.5	11.2	11.9	12.7	12.6	12.6	SG&A expenses (as % of revenues)	16.9	15.6	16.0	16.7	16.0	15.3
EBIT margin (%)	15.3	15.3	15.1	15.4	15.7	15.8	EBIT margin (%)	13.9	14.9	14.4	14.7	15.2	15.7
Net income (Rs mn)	14,309	16,379	15,549	17,005	19,439	22,224	Net income (Rs mn)	6,904	9,211	10,935	14,167	17,441	20,987
Re/US\$ rate (average)	75.2	80.4	82.5	84.6	87.6	89.5	Re/US\$ rate (average)	74.6	80.6	82.8	84.8	87.6	89.5
<b>LTTS</b>							<b>Cyient (DET)</b>						
Revenues (US\$ mn)	880	990	1,164	1,266	1,483	1,643	Revenues (US\$ mn)	504	632	714	691	721	772
US\$ revenue growth yoy (%)	19.5	12.4	17.6	8.8	17.1	10.8	US\$ revenue growth yoy (%)	9.2	25.6	12.9	(3.2)	4.3	7.1
Volume growth yoy (%)	17.1	12.6	9.8	4.7	13.1	10.6	Volume growth yoy (%)	8.4	21.7	7.7	(4.6)	4.2	7.9
Pricing change (%)							Pricing change (%)						
Onsite	6.2	(1.0)	2.3	4.2	5.7	1.0	Onsite	4.3	8.5	1.1	2.6	0.6	(0.0)
Offshore	3.4	(1.4)	11.8	3.5	2.9	(0.1)	Offshore	5.0	(2.4)	(0.2)	1.8	1.1	–
Blended	2.1	(0.1)	7.1	3.9	3.5	0.2	Blended	0.7	3.2	4.9	1.5	0.1	(0.8)
Directs costs (as % of revenues)	55.6	57.0	51.1	53.0	52.8	52.9	Directs costs (as % of revenues)	59.0	58.1	57.4	60.3	59.4	59.6
SG&A expenses (as % of revenues)	22.9	21.7	29.0	28.7	28.9	28.6	SG&A expenses (as % of revenues)	19.7	23.9	22.3	22.1	22.0	21.3
EBIT margin (%)	18.3	18.5	17.1	15.5	15.5	15.9	EBIT margin (%)	15.3	13.7	16.1	13.6	14.7	15.2
Net income (Rs mn)	9,570	11,698	13,036	12,944	15,470	17,953	Net income (Rs mn)	5,220	5,146	6,830	6,296	8,068	9,194
Re/US\$ rate (average)	74.6	81.0	82.9	84.7	86.5	87.5	Re/US\$ rate (average)	74.5	80.6	82.8	84.6	87.6	89.5
<b>KPIT</b>							<b>Tata Elxsi</b>						
Revenues (US\$ mn)	328	418	587	696	816	953	Revenues (US\$ mn)	331	390	429	447	489	558
US\$ revenue growth yoy (%)	19.5	27.4	40.4	18.5	17.4	16.7	US\$ revenue growth yoy (%)	34.3	17.8	10.0	4.2	9.5	14.0
Volume growth yoy (%)	19.3	25.7	25.8	14.5	15.0	17.3	Volume growth yoy (%)	32.2	23.8	13.6	(2.3)	9.5	13.9
Pricing change (%)							Pricing change (%)						
Onsite	6.2	(0.9)	1.7	3.5	2.6	–	Onsite	17.5	(6.3)	(6.8)	(1.8)	(0.6)	–
Offshore	(1.3)	(0.8)	10.1	3.9	1.0	–	Offshore	6.8	(4.5)	(3.6)	8.0	0.5	–
Blended	0.1	1.4	11.6	3.5	2.1	(0.5)	Blended	1.6	(4.9)	(3.2)	6.6	0.0	0.1
Directs costs (as % of revenues)	66.2	64.9	65.0	63.9	63.1	63.0	Directs costs (as % of revenues)	52.1	50.8	53.8	54.0	52.5	52.6
SG&A expenses (as % of revenues)	15.8	16.2	14.7	15.0	14.9	14.8	SG&A expenses (as % of revenues)	16.9	18.6	16.7	18.2	18.5	17.6
EBIT margin (%)	13.1	14.5	16.3	17.4	18.7	19.4	EBIT margin (%)	28.8	28.0	26.7	25.0	26.2	27.0
Net income (Rs mn)	2,742	3,796	5,945	8,302	9,585	11,953	Net income (Rs mn)	5,497	7,563	7,924	8,041	9,013	10,707
Re/US\$ rate (average)	74.1	80.4	83.0	84.6	87.6	89.5	Re/US\$ rate (average)	74.6	80.6	82.8	84.5	86.5	87.5

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

Source: Companies, Kotak Institutional Equities estimates

We expect FY2025E net profits of the IT services companies in the Nifty-50 Index to grow 9.3%, despite a weak demand environment (see Exhibit 96), given the weak base of 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) a moderate recovery in discretionary spending from 2HFY25.

**We expect FY2025E net profits of the IT services companies in the Nifty-50 Index to grow 9% despite a weak demand environment**

**Exhibit 96: Net profits of IT services companies in Nifty-50 Index, March fiscal year-ends, 2018-27E**

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Net income (Rs bn)</b>										
HCL Technologies	88	101	111	130	135	148	157	173	188	209
Infosys	146	157	166	194	221	241	243	264	298	336
TCS	258	315	323	334	383	421	466	489	532	597
Tech Mahindra	38	43	40	45	56	51	28	41	56	76
Wipro	80	90	97	108	122	113	110	130	143	155
<b>Total</b>	<b>610</b>	<b>706</b>	<b>737</b>	<b>810</b>	<b>917</b>	<b>975</b>	<b>1,004</b>	<b>1,097</b>	<b>1,216</b>	<b>1,372</b>
<b>Yoy growth (%)</b>										
HCL Technologies	4	15	10	17	4	10	6	10	8	11
Infosys	2	8	6	17	14	9	1	9	13	13
TCS	(2)	22	3	3	15	10	11	5	9	12
Tech Mahindra	35	13	(6)	11	24	(9)	(44)	45	38	35
Wipro	(6)	12	8	11	13	(7)	(3)	19	10	8
<b>Total</b>	<b>1</b>	<b>16</b>	<b>4</b>	<b>10</b>	<b>13</b>	<b>6</b>	<b>3</b>	<b>9</b>	<b>11</b>	<b>13</b>

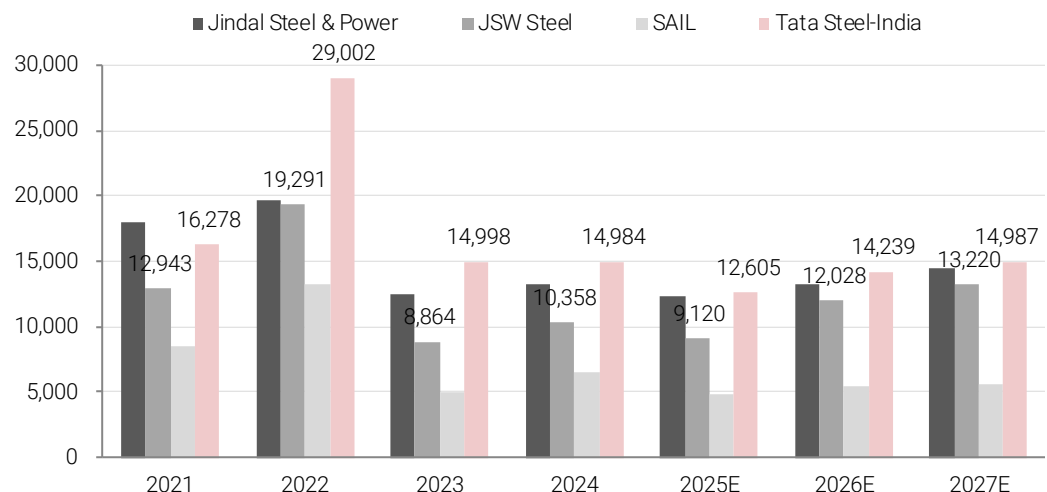
Source: Companies, Kotak Institutional Equities estimates

We model FY2026E net profits of the IT services grow 10.8%, on the back of (1) greater confidence among US-based companies about continued strong economic growth in the US, (2) recovery in discretionary spending on the back of likely higher profits of US-based companies, given a possible corporate tax cut in the US, (3) gradual cut in interest rates in the US that may sustain the profits of the BFSI sector (banks) in the US at high levels and (4) a weaker INR-USD exchange rate. We note that our assumptions of a weaker INR in the past few weeks have offset our modest cuts to c/c revenue assumptions for FY2026-27E.

► **Metals & mining.** We expect the net profits of the metals & mining stocks in the Nifty-50 Index to grow a moderate 10% in FY2025 from a weak base of FY2024 (11.9% decline in net profits), based on our assumption of (1) higher profitability for HNDL in the upstream business on the back of higher global aluminum prices and (2) higher volumes of the steel companies under cover our coverage, which will offset (3) lower profitability for the steel companies. Exhibit 97 gives our EBITDA/ton assumptions for the steel stocks under our coverage. FY2024 net profits declined 11.9% due to (1) the weak performance of TATA’s Europe operations despite a stable profitability of the India business, which offset (2) a moderate increase in volumes of the steel companies and higher profits of HNDL.

**We model higher profitability over FY2026-27E for steel companies**

**Exhibit 97: EBITDA/ton of steel companies under coverage, March fiscal year-ends, 2021-27E (Rs/ton)**



Source: Companies, Kotak Institutional Equities estimates

We model the net profits of the metals & mining stocks to increase a sharp 75% in FY2026, led by (1) our assumption of a strong recovery in domestic steel profitability, (2) higher aluminum realizations in the case of Hindalco and (3) weaker INR-USD assumptions. However, our pricing and profitability assumptions may be at risk from (1) weaker-than-expected global GDP growth, with continued sluggishness in the Chinese economy despite recent efforts of the Chinese government to revive the economy and (2) the recent sharp decline in global steel and zinc prices. Exhibit 98 gives our price and profitability assumptions and Exhibit 99 our volume assumptions for the metal stocks under our coverage.

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

Exhibit 98: Price assumptions for metal companies, March fiscal year-ends, 2019-27E (US\$/ton)

	Price assumptions								Historical prices		
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	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	2,575	2,650	2,648	2,203
<b>Hindustan Zinc</b>											
Lead (LME)	2,121	1,952	1,868	2,280	2,104	2,122	2,059	2,090	2,079	1,942	2,065
Zinc (LME)	2,743	2,402	2,422	3,260	3,416	2,483	2,900	2,750	2,700	2,772	2,797
<b>Nalco</b>											
Aluminum (LME)	2,050	1,750	1,807	2,777	2,475	2,208	2,500	2,575	2,650	2,648	2,203
<b>Vedanta</b>											
Aluminum (LME)	2,050	1,760	1,807	2,777	2,475	2,208	2,500	2,575	2,650	2,648	2,205
Lead (LME)	2,121	1,952	1,868	2,280	2,104	2,122	2,059	2,090	2,079	1,942	2,065
Zinc (LME)	2,743	2,402	2,422	3,260	3,416	2,483	2,900	2,750	2,700	2,772	2,797
<b>Ferrous</b>											
<b>JSW Steel</b>											
HRC price (domestic)	647	589	545	900	711	605	540	550	550	559	670
<b>NMDC</b>											
Iron ore fines (Rs/ton)	2,860	2,652	3,231	5,277	3,462	3,852	3,651	3,470	3,212	4,224	3,695
Iron ore lumps (Rs/ton)	3,238	2,900	3,679	5,853	4,329	4,385	4,199	3,991	3,694	5,008	4,229
<b>Tata Steel</b>											
HRC price (domestic)	545	495	545	900	711	605	540	550	550	559	651
<b>SAIL</b>											
HRC price (domestic)	545	495	545	900	711	605	540	550	550	559	651

Source: Bloomberg, Company, Kotak Institutional Equities estimates

**Non-ferrous volumes to be broadly flat, ferrous volumes to increase sharply over FY2025-26E**

Exhibit 99: Volume assumptions of metal companies, March fiscal year-ends, 2019-27E ('000 tons)

	Volume assumptions									
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
<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	1,398	
Copper ('000 tons)	359	335	313	405	439	506	500	500	500	
<b>Hindustan Zinc</b>										
Lead ('000 tons)	198	180	216	192	211	216	227	236	242	
Zinc ('000 tons)	707	680	724	777	821	817	865	883	908	
<b>Nalco</b>										
Aluminum ('000 tons)	440	377	452	457	464	470	460	460	460	
<b>Vedanta</b>										
Aluminum ('000 tons)	1,977	1,922	1,982	2,269	2,285	2,403	2,424	2,738	2,788	
Copper ('000 tons)	265	265	265	265	265	265	265	265	265	
Lead ('000 tons)	198	180	216	192	211	216	227	236	242	
Zinc ('000 tons)	851	884	899	972	1,095	1,026	1,104	1,127	1,177	
Iron ore sales ('000 dmt)	3,800	6,600	6,300	6,800	5,700	6,200	8,000	11,060	11,727	
Oil-gross ('000 boe/d)	189	173	162	161	143	128	124	128	122	
<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	8.0	9.5	11.5	
<b>JSW Steel</b>										
Finished steel sales (mn tons)	15.8	15.1	14.9	16.5	19.7	21.2	22.3	25.0	27.5	
<b>NMDC</b>										
Iron ore sales (mn dmt)	32.4	31.5	33.3	40.7	38.2	44.5	46.5	49.0	51.0	
<b>Tata Steel</b>										
Steel deliveries (Standalone) (mn tons)	16.3	16.5	16.7	17.6	18.9	19.9	21.0	23.5	24.3	
Steel deliveries (Europe) (mn tons)	9.6	9.3	8.8	9.1	8.2	8.1	8.3	8.2	8.2	
<b>SAIL</b>										
Finished steel sales (mn tons)	14.1	14.2	14.9	16.2	16.2	17.0	17.3	17.8	18.3	

Source: Company data, Kotak Institutional Equities estimates

The metals & mining sector will account for a large 15% of the incremental profits of the Nifty-50 Index in FY2026 after a (1) modest 6% in FY2025E and (2) a small drag of 2% in FY2024 to the incremental net profits of the Nifty-50 Index. 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.

- ▶ **Oil, gas and consumable fuels.** We expect net profits of the oil, gas and consumable fuels in the Nifty-50 Index to decline 13% in FY2025, led by lower profits of (1) BPCL and HPCL (54.9% consolidated with ONGC) on account of our assumption of weaker refining margins, (2) COAL due to the high base of FY2024 (boosted by an accounting change, as discussed earlier in the same section) and (3) RIL on weak chemical and refining margins, which will offset higher profits in its telecom segment.

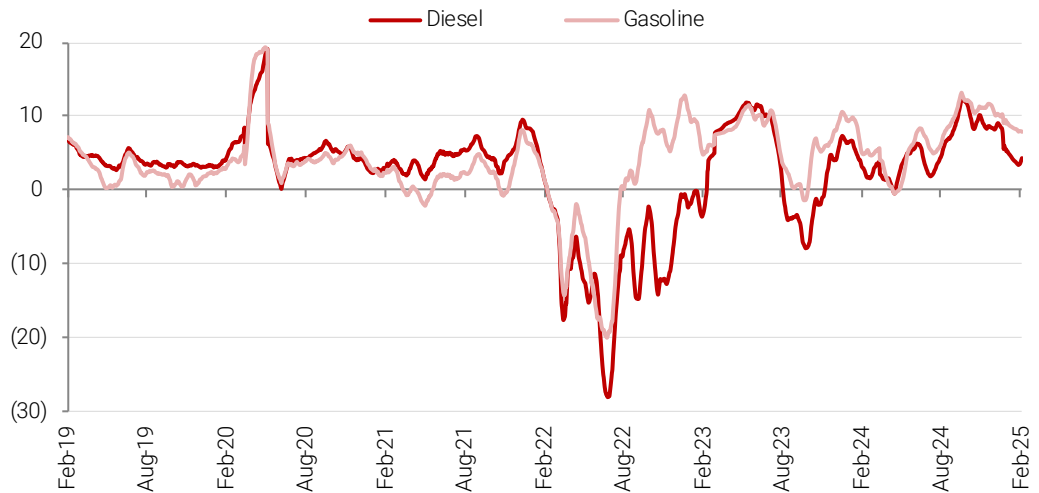
We expect ONGC's FY2025E net profits to be flat versus FY2024's due to (1) higher gas prices at US\$6.7/mn BTU in FY2025 versus US\$6.5/mn BTU in FY2024 and (2) a weaker INR being offset by (3) moderately lower net crude oil prices and (4) higher DD&A expenditure.



- Downstream oil companies.** We model high marketing margins on automobile fuels at Rs5-6.2/liter in FY2025 versus Rs4.5-5.4/liter in FY2024 for the OMCs, based on our benign assumptions of (1) unchanged automobile fuel prices through FY2025 and (2) stable crude oil prices (US\$80/bbl on Dated Brent basis). Needless to add, we have low confidence in our assumptions and estimates and note large downside risks to our and consensus earnings estimates in case the government was to rationalize (reduce) fuel prices. We note that current marketing margins are very high (see Exhibit 100). We assume 'normal' marketing margins of Rs3.5/liter in FY2026. Exhibit 101 shows the refining and marketing margins of the OMCs over FY2017-27E and Exhibit 102 shows the large sensitivity of the profits of the downstream oil companies to marketing margins of automobile fuels.

**Marketing margins have declined in recent weeks**

**Exhibit 100: Marketing margins on diesel and gasoline, Calendar year-ends, 2019-25 (Rs/liter)**



Source: PPAC, Kotak Institutional Equities estimates

**We assume high marketing margins in FY2025 and 'normal' marketing margins in FY2026 for the PSU OMCs**

**Exhibit 101: Refining and marketing margins of downstream oil companies, March fiscal year-ends, 2018-27E**

	Refining margins (US\$/bbl)										Marketing margins (Rs/liter)									
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
BPCL	6.9	4.6	2.5	4.1	9.1	20.3	14.1	5.7	8.0	8.0	1.8	2.8	2.7	5.0	3.0	(4.2)	5.5	6.2	3.5	3.5
HPCL	7.4	5.0	1.0	3.9	7.0	12.1	9.1	4.8	8.0	8.0	1.7	2.7	2.6	5.0	2.9	(4.1)	5.2	6.2	3.5	3.5
IOCL	8.5	5.4	0.1	5.6	11.3	19.5	12.1	5.0	8.0	8.0	1.7	2.7	2.7	5.0	3.1	(4.7)	5.5	5.0	3.5	3.5

Source: Companies, Kotak Institutional Equities estimates

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

**Exhibit 102: Sensitivity of EPS of downstream oil companies to automobile marketing margins, March fiscal year-ends, 2026-27E (Rs)**

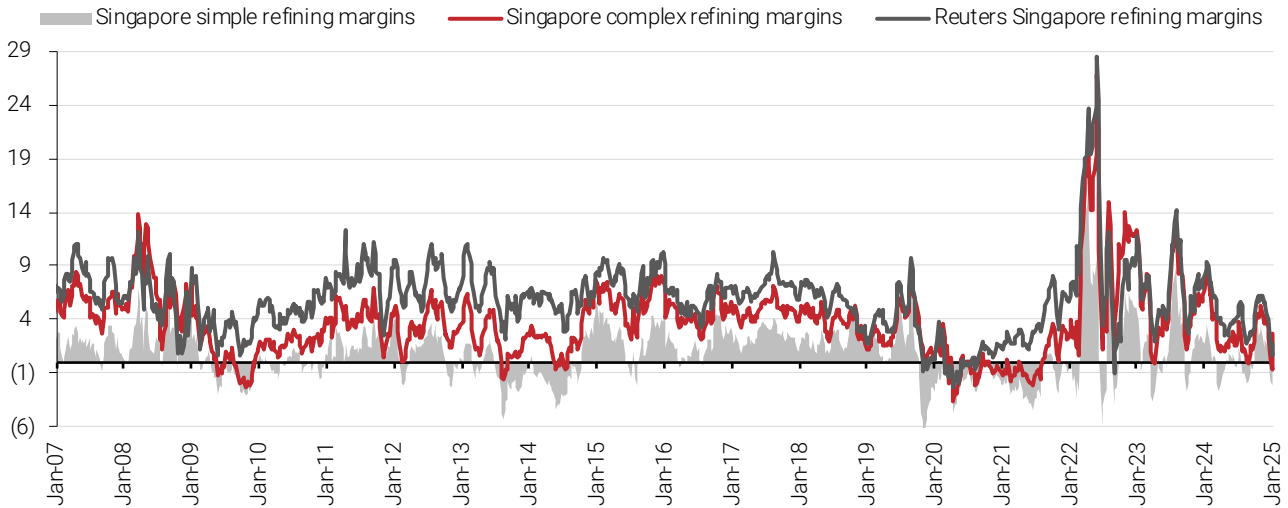
	2026E			2027E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
<b>Sensitivity to marketing margin</b>						
Marketing margin on auto fuels (Rs/liter)	3.5	3.5	3.5	3.5	3.5	3.5
<b>Current EPS estimates</b>	<b>26</b>	<b>34</b>	<b>14</b>	<b>25</b>	<b>34</b>	<b>13</b>
Marketing margin lower by Rs0.5/liter	22	27	12	21	27	11
Change (%)	(16)	(21)	(14)	(17)	(22)	(15)
Marketing margin higher by Rs0.5/liter	30	42	15	29	42	15
Change (%)	16	21	14	17	22	15

Source: Kotak Institutional Equities estimates

We expect weaker refining margins in FY2025-26 compared to the FY2023-24 levels. We note the large disparity between regional refining margins and reported refining margins of the PSU OMCs for the past few quarters. They had reported surprisingly high refining margins for the past several quarters, but reported extremely weak refining margins (much lower versus our estimates) in 2QFY25. Global refining margins (see Exhibit 103) have been very weak recently after an improvement in 3QFY25. Exhibit 104 shows the large sensitivity of the profits of the downstream oil companies to refining margins.

**Refining margins have declined modestly recently**

Exhibit 103: Singapore refining margins (US\$/bbl)



Source: Argus, Kotak Institutional Equities estimates

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

Exhibit 104: Sensitivity of EPS of downstream oil companies to refining margins, March fiscal year-ends, 2025-27E (Rs)

	2026E			2027E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
<b>Sensitivity to refining margin</b>						
Refining margins (US\$/bbl)	8.0	8.0	8.0	8.0	8.0	8.0
<b>Current EPS estimates</b>	<b>26</b>	<b>34</b>	<b>14</b>	<b>25</b>	<b>34</b>	<b>13</b>
Refining margin lower by US\$1/bbl	21	29	11	21	29	11
Change (%)	(18)	(17)	(18)	(18)	(17)	(20)
Refining margin higher by US\$1/bbl	30	40	16	30	40	16
Change (%)	18	17	18	18	17	20

Source: Kotak Institutional Equities estimates

- Upstream oil & gas companies.** We assume ONGC will make (1) US\$53.4/bbl on a net basis (net of cess, royalty and windfall tax) for crude oil in FY2025 and US\$56.6/bbl in FY2026 (no windfall tax) versus US\$54.1/bbl in FY2024; and (2) US\$6.7/mn BTU for natural gas in FY2025 and US\$7.3/mn BTU in FY2026 versus US\$6.5/mn BTU in FY2024, the ceiling price for FY2024. Exhibit 105 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 105: Sensitivity of EPS of ONGC to key variables to oil and gas prices, March fiscal year-ends, 2026-27E (Rs)**

	2026E			2027E		
	Downside	Base case	Upside	Downside	Base case	Upside
<b>Exchange rate</b>						
Exchange rate (Rs/US\$)	86.6	87.6	88.6	88.5	89.5	90.5
Net profits (Rs mn)	597,738	608,651	619,563	619,258	630,315	641,373
Earnings per share (Rs)	47.5	48.4	49.2	49.2	50.1	51.0
<b>% upside/(downside)</b>	<b>(1.8)</b>		<b>1.8</b>	<b>(1.8)</b>		<b>1.8</b>
<b>Average net crude realization</b>						
Net crude realization (US\$/bbl)	55.6	56.6	57.6	55.5	56.5	57.5
Net profits (Rs mn)	599,410	608,651	617,891	620,890	630,315	639,741
Earnings per share (Rs)	47.6	48.4	49.1	49.4	50.1	50.9
<b>% upside/(downside)</b>	<b>(1.5)</b>		<b>1.5</b>	<b>(1.5)</b>		<b>1.5</b>
<b>Natural gas prices</b>						
Natural gas price (US\$/mn BTU)	6.8	7.3	7.8	7.2	7.7	8.2
Net profits (Rs mn)	592,432	608,651	624,869	613,783	630,315	646,848
Earnings per share (Rs)	47.1	48.4	49.7	48.8	50.1	51.4
<b>% upside/(downside)</b>	<b>(2.7)</b>		<b>2.7</b>	<b>(2.6)</b>		<b>2.6</b>

Source: Kotak Institutional Equities estimates

- **Pharmaceuticals.** We expect net profits of the pharmaceutical companies in the Nifty-50 Index to grow a strong 14.3% in FY2025 due to (1) continued strong performance of SUNP's specialty products, (2) strong growth in domestic pharmaceutical revenues of all the major companies, (3) modest increase in gross and EBITDA margins after a recovery in FY2024 on easing US generic pricing conditions and lower RM prices. However, we expect the net profits of the pharmaceutical companies in the Nifty-50 Index to grow a modest 6.5% in FY2026, pulled down by (1) a sharp decline in gRevlimid sales at both CIPLA and DRRD; gRevlimid sales will likely peak in FY2025 and (2) lower EBITDA margin in the case of CIPLA and DRRD due to a lower share of high-margin gRevlimid in their product mix. We expect US generic revenues to grow more moderately over FY2025-26E (see Exhibit 106) after a strong performance in FY2024.

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

**Exhibit 106: US revenues for pharmaceuticals companies, March fiscal year-ends, 2019-27E**

	US revenues (US\$ mn)						Yoy growth (%)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Aurobindo	1,299	1,622	1,666	1,495	1,453	1,694	1,750	1,772	1,806	12	25	3	(10)	(3)	17	3	1	2
Cipla	497	547	556	594	733	906	944	973	992	24	10	2	7	23	24	4	3	2
Dr Reddy's	863	908	952	1,004	1,268	1,566	1,754	1,738	1,536	(7)	5	5	5	26	24	12	(1)	(12)
Lupin	805	820	720	739	632	815	912	1,055	976	(10)	2	(12)	3	(15)	29	12	16	(8)
Sun Pharma	1,526	1,487	1,360	1,527	1,684	1,854	2,006	2,194	2,317	13	(3)	(9)	12	10	10	8	9	6
Taro	541	499	374	426	453	509	483	528	545	(1)	(8)	(25)	14	6	12	(5)	9	3
Ex-Taro Sun	985	988	986	1,101	1,231	1,345	1,523	1,667	1,771	22	0	(0)	12	12	9	13	9	6
Torrent	229	215	170	143	145	133	143	166	191	39	(6)	(21)	(16)	1	(8)	8	16	15

Source: Companies, Kotak Institutional Equities estimates

We expect gross and EBITDA margins to improve further in FY2025-26E (with the exception of CIPLA and DRRD for FY2026E) after a sharp jump in FY2024 (see Exhibit 107 for gross and EBITDA margins of the pharmaceutical companies under our coverage for FY2019-27E).

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

**Exhibit 107: Gross and EBITDA margins of pharmaceuticals companies, March fiscal year-ends, 2019-27E (%)**

	Gross margin (%)						EBITDA margin (%)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Alivus Life Sciences	55.4	55.1	52.0	50.9	53.1	56.1	54.3	54.5	54.7	30.6	30.7	31.4	29.0	29.7	29.5	28.2	29.4	29.6
Aurobindo Pharma	55.5	57.9	60.0	56.8	54.6	56.5	58.9	58.8	58.4	20.2	21.1	21.5	18.7	15.1	20.1	21.1	21.1	20.7
Biocon	61.3	63.9	65.1	65.0	67.2	66.0	65.7	66.7	66.2	25.3	25.2	23.2	23.4	22.5	20.5	20.7	23.1	23.4
Cipla	64.6	65.1	61.6	61.0	63.7	65.5	67.2	66.9	66.0	18.9	18.7	22.2	20.9	22.1	23.8	25.6	25.0	23.1
Divis Laboratories	62.3	60.9	66.7	66.9	60.7	60.1	59.8	61.4	61.8	37.9	33.8	41.0	43.2	30.4	28.1	31.3	33.8	36.1
Dr Reddy's Laboratories	54.2	53.8	54.3	65.5	69.0	70.7	70.5	70.2	68.9	20.4	23.4	23.6	21.8	25.9	28.3	26.9	25.6	22.0
Gland Pharma	58.1	58.1	56.9	52.1	53.5	61.6	61.6	60.6	60.4	34.6	36.3	37.6	34.3	28.3	23.5	22.6	23.7	25.1
Laurus Labs	46.1	50.1	55.2	55.6	54.1	51.7	56.2	57.1	57.6	15.5	19.9	32.2	28.8	26.4	15.4	19.1	22.0	23.1
Lupin	65.0	64.7	64.6	60.5	59.3	66.8	69.7	69.5	69.3	17.2	15.3	16.9	13.2	10.8	19.0	23.0	23.8	22.1
Sun Pharmaceuticals	72.9	71.9	74.1	73.2	75.7	78.0	79.4	78.0	78.1	22.0	21.2	25.3	26.5	26.8	26.8	28.8	28.4	28.8
Torrent Pharmaceuticals	71.1	72.7	73.2	71.0	71.6	75.0	76.1	76.0	76.0	25.9	27.3	31.0	27.9	29.5	31.4	32.5	33.1	33.5

Source: Companies, Kotak Institutional Equities estimates

The strong 20% growth in FY2024 net profits reflects (1) strong revenues in the case of certain US generic products (gRevlimid in the case of DRRD) 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 108 is our recommended large-cap. model portfolio. We add 100 bps to APHS (300 bps now), 40 bps to Zomato (260 bps now) and remove UNSP (140 bps earlier) from the portfolio.

APHS stock has fallen 16% from peak levels (early January 2025) despite delivering strong 3QFY25 results and no major change to its earnings estimates. The stock trades at 24.6X FY2026E EBITDA (pre-Ind AS-116 basis), which is significantly lower than its peer group. UNSP stock is trading at 62X FY2026E EPS (about 55X FY2026E EPS adjusting for the value of IPL franchise). The stock has done well over the past 12 months (up 21%). Its valuations may look similar to other consumer staples/discretionary stocks but the business faces potential downside medium-term structural risks from (1) growing health concerns around alcohol consumption and (2) possibly negative impact of GLP-1 drugs on alcohol consumption. These events may play out in the medium term (2-3 years), but the market capitalization of the stock is also based on the cash flows of the company for the next few decades.

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

**Exhibit 108: KIE large-cap. model portfolio**

Company	Price (Rs) 14-Feb-25	KIE weight (%)
<b>Automobiles &amp; Components</b>		
Mahindra & Mahindra	2,943	3.3
<b>Automobiles &amp; Components 3.3</b>		
<b>Banks</b>		
Axis Bank	998	6.0
HDFC Bank	1,695	9.0
ICICI Bank	1,260	9.3
IndusInd Bank	1,024	2.9
State Bank of India	722	6.5
<b>Banks 33.7</b>		
<b>Capital Goods</b>		
Cummins India	2,735	1.3
L&T	3,238	2.9
<b>Capital Goods 4.2</b>		
<b>Consumer Staples</b>		
Dabur India	520	1.7
Godrej Consumer Products	1,059	1.7
<b>Consumer Staples 3.4</b>		
<b>Diversified Financials</b>		
Bajaj Finserv	1,841	1.7
Shriram Finance	539	1.8
<b>Diversified Financials 3.5</b>		
<b>Health Care Services</b>		
Apollo Hospitals	6,271	3.0
<b>Health Care Services 3.0</b>		
<b>Insurance</b>		
HDFC Life Insurance	626	1.9
ICICI Prudential Life	582	2.1
<b>Insurance 4.0</b>		
<b>Internet Software &amp; Services</b>		
Zomato	216	2.6
<b>Internet Software &amp; Services 2.6</b>		

Company	Price (Rs) 14-Feb-25	KIE weight (%)
<b>IT Services</b>		
HCL Technologies	1,711	1.5
Infosys	1,856	6.7
TCS	3,935	3.1
<b>IT Services 11.2</b>		
<b>Oil, Gas &amp; Consumable Fuels</b>		
Reliance Industries	1,217	7.0
<b>Oil, Gas &amp; Consumable Fuels 7.0</b>		
<b>Pharmaceuticals</b>		
Cipla	1,459	2.6
Lupin	1,970	1.5
Mankind Pharma	2,394	1.6
Sun Pharmaceuticals	1,701	2.0
Torrent Pharmaceuticals	3,014	1.7
<b>Pharmaceuticals 9.3</b>		
<b>Specialty Chemicals</b>		
Pidilite Industries	2,806	1.5
<b>Specialty Chemicals 1.5</b>		
<b>Real Estate</b>		
Embassy Office Parks REIT	359	1.4
Macrotech Developers	1,154	2.3
<b>Real Estate 3.7</b>		
<b>Telecommunication Services</b>		
Bharti Airtel	1,717	6.3
<b>Telecommunication Services 6.3</b>		
<b>Transportation</b>		
Adani Ports and SEZ	1,063	1.8
Interglobe Aviation	4,223	1.6
<b>Transportation 3.4</b>		
<b>BSE-30</b>	<b>75,939</b>	<b>100</b>

Notes:

(a) The model portfolio is not advice 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

# 2

## 3QFY25 results analysis: Helped by banks

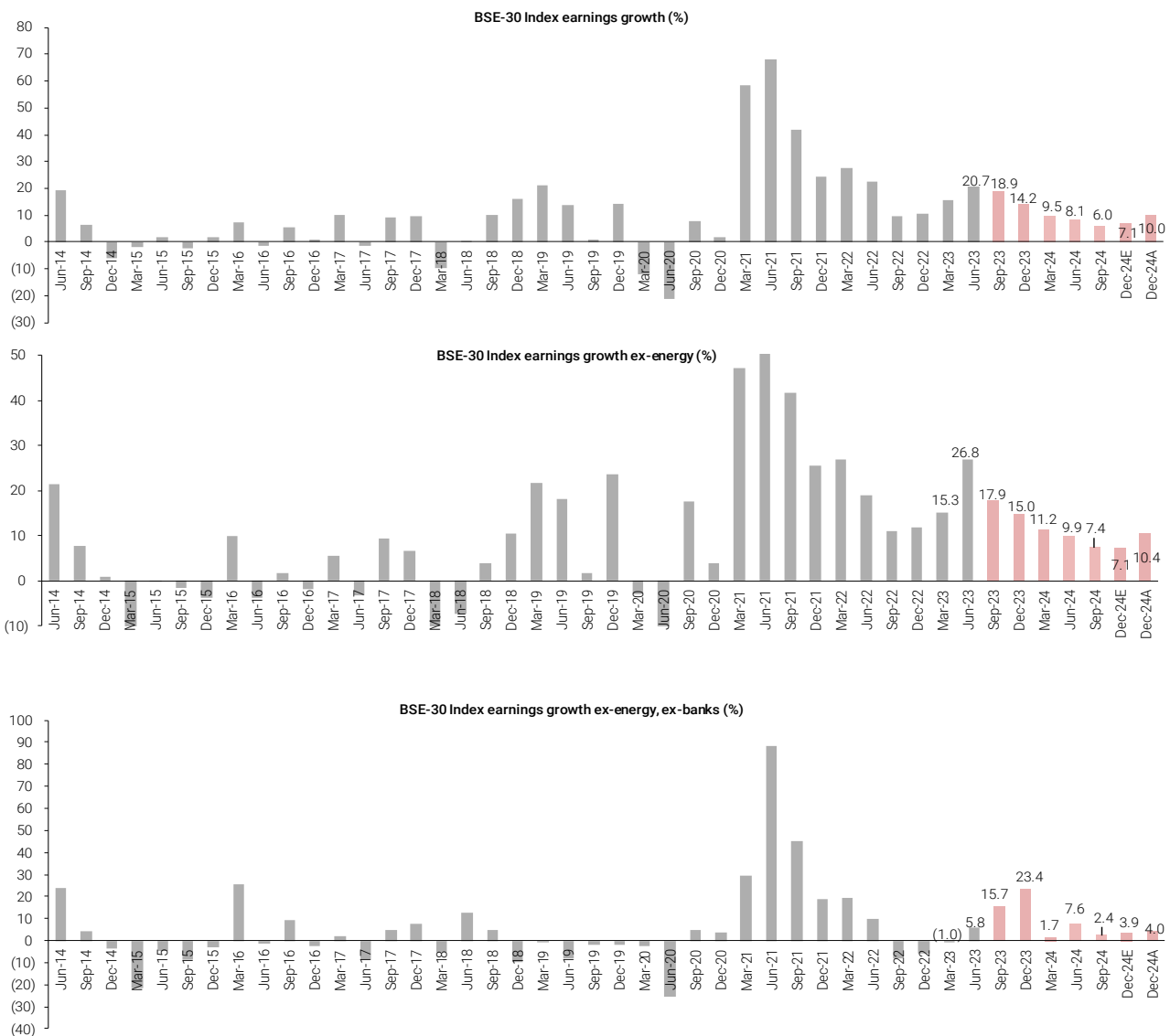
3QFY25 net income of the KIE coverage universe grew 8.2%, moderately below our expectation of a 9.2% yoy increase. However, the performance was quite varied across sectors, with banks compensating for misses in a few other large sectors. 3QFY25 net income of the Nifty-50 Index grew 8.8% versus our expectations of a 7.8% yoy increase. 3QFY25 EBITDA of the Nifty-50 Index increased 6.7% versus our expectation of 5.1% growth.

### 3QFY25 results: Weak results

► **Net profits marginally above our expectations for the Nifty-50 Index.** Exhibit 109 presents the quarterly trends in net profit growth of the BSE-30 Index. Adjusted net profits of the BSE-30 Index increased 10% yoy, 2.8% above our expectations of 7.1% yoy increase. Adjusted net profits of the Nifty-50 Index increased 8.8% yoy, 1% above our expectation of 7.8% yoy increase. We note that a large portion of the incremental growth in net profits of the Nifty-50 Index in 3QFY25 over 3QFY24 has come from two stocks—Bharti and SBI. Bharti had benefited from higher ARPUs, while SBI had higher provisions pertaining to the wage settlement and other provisions in 3QFY24.

### 3QFY25 adjusted net profits of the BSE-30 Index increased 10% yoy versus our expectations of 7.1% yoy increase

Exhibit 109: Adjusted net income growth of BSE-30 Index (%)



Source: Kotak Institutional Equities estimates

Exhibit 110 compares 3QFY25 adjusted net profits of the BSE-30 stocks with 3QFY24, 2QFY25 and 3QFY25E adjusted net profits, while Exhibit 111 compares 3QFY25 adjusted net profits of the Nifty-50 Index with 3QFY24, 2QFY25 and 3QFY25E adjusted net profits.

Among the Nifty-50 stocks, companies that significantly outperformed our estimates at the net income level are (1) Bharat Electronics (strong execution and better-than-expected margins), (2) Britannia Industries (lower-than-expected staff costs), (3) Cipla (lower-than-expected R&D and SG&A expenses), (4) Hero Motocorp (higher other income), (5) IndusInd Bank (lower-than-expected provisions), (6) SBI (lower-than-expected loan-loss provisions), (7) Sun Pharma (lower R&D spends) and (8) Ultratech Cement (higher volumes and margins).

On the other hand, companies that underperformed our estimates are (1) BPCL (the miss was driven by lower GRM), (2) Dr. Reddy's Laboratories (muted US sales and higher SG&A expenses, partially offset by lower R&D spends), (3) L&T (miss on core E&C revenues), (4) ONGC (higher-than-expected DD&A expenses), (5) Tata Steel (higher-than-expected taxation), (6) Tech Mahindra (forex loss) and (7) Trent (lower-than-expected SSSG).

**3QFY25 net profits of the BSE-30 Index were ahead of our expectations**

Exhibit 110: Comparison of 3QFY25 net income of BSE-30 stocks, actual versus expected

Company	Sector	Adjusted net income (Rs bn)				Change (%) A versus E	Growth (%)	
		Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Mahindra & Mahindra	Automobiles & Components	24.5	38.4	29.6	29.8	(1)	21	(23)
Maruti Suzuki	Automobiles & Components	31.3	39.1	35.3	36.1	(2)	13	(10)
Tata Motors	Automobiles & Components	56.2	30.0	54.3	53.4	2	(3)	81
Axis Bank	Banks	60.7	69.2	63.0	62.5	1	4	(9)
HDFC Bank	Banks	163.7	168.2	167.4	165.9	1	2	(1)
ICICI Bank	Banks	102.7	117.5	117.9	112.4	5	15	0
IndusInd Bank	Banks	23.0	13.3	14.0	5.1	175	(39)	6
Kotak Mahindra Bank	Banks	42.6	50.4	47.0	47.0	(0)	10	(7)
State Bank of India	Banks	91.6	183.3	168.9	145.3	16	84	(8)
Bajaj Finserv	Diversified Financials	21.6	20.9	22.3	22.3	(0)	3	7
Bajaj Finance	Diversified Financials	36.4	40.1	43.1	42.9	0	18	7
L&T	Capital Goods	29.5	34.0	33.6	36.9	(9)	14	(1)
Asian Paints	Commodity Chemicals	14.5	8.7	11.1	11.3	(2)	(23)	27
UltraTech Cement	Construction Materials	17.1	8.0	14.3	12.8	12	(16)	80
Hindustan Unilever	Consumer Staples	25.4	26.1	25.4	25.8	(2)	(0)	(3)
ITC	Consumer Staples	55.8	50.8	48.9	51.6	(5)	(12)	(4)
Nestle India	Consumer Staples	7.8	7.0	7.1	6.8	6	(9)	3
NTPC	Electric Utilities	45.7	46.4	47.1	45.9	3	3	1
Power Grid	Electric Utilities	40.7	39.0	38.7	39.3	(2)	(5)	(1)
HCL Technologies	IT Services	43.5	42.4	46.1	45.5	1	6	9
Infosys	IT Services	61.1	65.2	68.1	66.2	3	11	4
TCS	IT Services	117.4	119.1	123.8	122.4	1	5	4
Tech Mahindra	IT Services	5.1	12.5	9.8	11.3	(13)	93	(21)
Wipro	IT Services	26.9	32.1	33.5	31.2	7	24	5
JSW Steel	Metals & Mining	24.2	7.8	7.7	7.6	1	(68)	(1)
Tata Steel	Metals & Mining	8.5	3.7	(9.6)	(8.1)	(19)	(213)	(361)
Reliance Industries	Oil, Gas & Consumable Fuels	172.7	165.6	185.4	184.6	0	7	12
Sun Pharmaceuticals	Pharmaceuticals	25.9	30.4	32.2	27.5	17	24	6
Titan Company	Retailing	10.4	9.2	11.8	12.4	(5)	13	28
Bharti Airtel	Telecommunication Services	24.9	39.1	55.1	57.4	(4)	121	41
<b>BSE-30 Index</b>		<b>1,411</b>	<b>1,517</b>	<b>1,553</b>	<b>1,511</b>	<b>2.8</b>	<b>10.0</b>	<b>2.4</b>

Source: Companies, Kotak Institutional Equities estimates

**3QFY25 net profits of the Nifty-50 Index were marginally ahead of our estimates**

**Exhibit 111: Comparison of 3QFY25 net income of Nifty-50 stocks, actual versus expected**

Company	Sector	Adjusted net income (Rs bn)				Change (%) A versus E	Growth (%)	
		Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Bajaj Auto	Automobiles & Components	20.4	22.2	21.1	21.4	(1)	3	(5)
Eicher Motors	Automobiles & Components	10.0	11.0	11.7	12.1	(3)	18	6
Hero Motocorp	Automobiles & Components	10.7	12.0	12.0	11.0	9	12	(0)
Mahindra & Mahindra	Automobiles & Components	24.5	38.4	29.6	29.8	(1)	21	(23)
Maruti Suzuki	Automobiles & Components	31.3	39.1	35.3	36.1	(2)	13	(10)
Tata Motors	Automobiles & Components	56.2	30.0	54.3	53.4	2	(3)	81
Axis Bank	Banks	60.7	69.2	63.0	62.5	1	4	(9)
HDFC Bank	Banks	163.7	168.2	167.4	165.9	1	2	(1)
ICICI Bank	Banks	102.7	117.5	117.9	112.4	5	15	0
IndusInd Bank	Banks	23.0	13.3	14.0	5.1	175	(39)	6
Kotak Mahindra Bank	Banks	42.6	50.4	47.0	47.0	(0)	10	(7)
State Bank of India	Banks	91.6	183.3	168.9	145.3	16	84	(8)
Bajaj Finserv	Diversified Financials	21.6	20.9	22.3	22.3	(0)	3	7
Bajaj Finance	Diversified Financials	36.4	40.1	43.1	42.9	0	18	7
Shriram Finance	Diversified Financials	18.2	20.7	35.7	31.5	13	96	72
HDFC Life Insurance	Insurance	8.6	9.4	9.3	8.8	6	9	(1)
SBI Life Insurance	Insurance	16.8	14.4	18.8	17.8	6	12	30
Adani Enterprises	Capital Goods	18.9	17.5	0.6	0.6	0	(97)	(96)
Bharat Electronics	Capital Goods	8.5	10.8	13.0	9.3	40	53	20
L&T	Capital Goods	29.5	34.0	33.6	36.9	(9)	14	(1)
Asian Paints	Commodity Chemicals	14.5	8.7	11.1	11.3	(2)	(23)	27
Grasim Industries	Construction Materials	2.4	7.7	(1.7)	(0.9)	(84)	(171)	(122)
UltraTech Cement	Construction Materials	17.1	8.0	14.3	12.8	12	(16)	80
Britannia Industries	Consumer Staples	5.6	5.3	5.8	5.2	13	4	9
Hindustan Unilever	Consumer Staples	25.4	26.1	25.4	25.8	(2)	(0)	(3)
ITC	Consumer Staples	55.8	50.8	48.9	51.6	(5)	(12)	(4)
Nestle India	Consumer Staples	7.8	7.0	7.1	6.8	6	(9)	3
Tata Consumer Products	Consumer Staples	3.7	3.9	2.9	3.0	(6)	(23)	(27)
NTPC	Electric Utilities	45.7	46.4	47.1	45.9	3	3	1
Power Grid	Electric Utilities	40.7	39.0	38.7	39.3	(2)	(5)	(1)
Apollo Hospitals	Health Care Services	2.5	3.8	3.7	3.3	13	52	(2)
HCL Technologies	IT Services	43.5	42.4	46.1	45.5	1	6	9
Infosys	IT Services	61.1	65.2	68.1	66.2	3	11	4
TCS	IT Services	117.4	119.1	123.8	122.4	1	5	4
Tech Mahindra	IT Services	5.1	12.5	9.8	11.3	(13)	93	(21)
Wipro	IT Services	26.9	32.1	33.5	31.2	7	24	5
Hindalco Industries	Metals & Mining	23.3	44.2	39.7	39.1	2	70	(10)
JSW Steel	Metals & Mining	24.2	7.8	7.7	7.6	1	(68)	(1)
Tata Steel	Metals & Mining	8.5	3.7	(9.6)	(8.1)	(19)	(213)	(361)
BPCL	Oil, Gas & Consumable Fuels	34.0	24.0	46.5	52.9	(12)	37	94
Coal India	Oil, Gas & Consumable Fuels	90.9	62.7	84.9	89.8	(5)	(7)	35
ONGC	Oil, Gas & Consumable Fuels	98.9	119.8	82.4	106.4	(23)	(17)	(31)
Reliance Industries	Oil, Gas & Consumable Fuels	172.7	165.6	185.4	184.6	0	7	12
Cipla	Pharmaceuticals	11.8	13.0	15.7	12.1	29	33	21
Dr Reddy's Laboratories	Pharmaceuticals	13.9	13.5	14.1	15.4	(8)	2	5
Sun Pharmaceuticals	Pharmaceuticals	25.9	30.4	32.2	27.5	17	24	6
Titan Company	Retailing	10.4	9.2	11.8	12.4	(5)	13	28
Trent	Retailing	3.4	4.2	4.7	5.5	(15)	37	11
Bharti Airtel	Telecommunication Services	24.9	39.1	55.1	57.4	(4)	121	41
Adani Ports and SEZ	Transportation	24.9	24.4	26.6	25.7	3	7	9
<b>Nifty-50 Index</b>		<b>1,839</b>	<b>1,962</b>	<b>2,001</b>	<b>1,981</b>	<b>1.0</b>	<b>8.8</b>	<b>2.0</b>

Source: Companies, Kotak Institutional Equities estimates



- **EBITDA above our expectations for the Nifty-50 Index.** Adjusted EBITDA of the BSE-30 Index increased 4.7% yoy compared to our expectations of 3.3%. Exhibit 112 compares 3QFY25 EBITDA of the BSE-30 Index with 3QFY24, 2QFY25 and 3QFY25E EBITDA. Of the 22 non-finance companies in the BSE-30 Index, three companies topped our estimates by more than 5% and four companies missed our EBITDA estimates by more than 5%.

**3QFY25 EBITDA of the BSE-30 Index was ahead of our estimates**

Exhibit 112: Comparison of 3QFY25 EBITDA of BSE-30 stocks, actual versus expected

Company	Sector	Adjusted EBITDA (Rs bn)				Change (%) A versus E	Growth (%)	
		Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Mahindra & Mahindra	Automobiles & Components	32.4	39.5	44.7	45.1	(1)	38	13
Maruti Suzuki	Automobiles & Components	39.1	44.2	44.7	41.9	7	14	1
Tata Motors	Automobiles & Components	153.3	116.7	130.3	140.6	(7)	(15)	12
L&T	Capital Goods	57.6	63.6	62.5	66.4	(6)	9	(2)
Asian Paints	Commodity Chemicals	20.6	12.4	16.4	16.4	(0)	(20)	32
UltraTech Cement	Construction Materials	31.5	19.3	27.8	27.2	2	(12)	44
Hindustan Unilever	Consumer Staples	35.4	36.5	35.7	35.9	(1)	1	(2)
ITC	Consumer Staples	60.2	63.4	58.3	61.6	(5)	(3)	(8)
Nestle India	Consumer Staples	11.1	11.7	11.0	10.5	5	(1)	(6)
NTPC	Electric Utilities	99.4	96.7	119.6	101.9	17	20	24
Power Grid	Electric Utilities	103.2	99.5	95.8	102.4	(6)	(7)	(4)
HCL Technologies	IT Services	67.6	63.7	68.7	69.0	(0)	2	8
Infosys	IT Services	91.4	98.1	101.2	98.9	2	11	3
TCS	IT Services	163.9	167.3	170.3	168.8	1	4	2
Tech Mahindra	IT Services	11.5	17.5	18.1	18.0	0	58	3
Wipro	IT Services	44.8	45.4	45.8	44.7	2	2	1
JSW Steel	Metals & Mining	71.8	54.4	55.3	53.8	3	(23)	2
Tata Steel	Metals & Mining	62.6	56.9	44.9	46.4	(3)	(28)	(21)
Reliance Industries	Oil, Gas & Consumable Fuels	406.6	390.6	437.9	424.3	3	8	12
Sun Pharmaceuticals	Pharmaceuticals	33.5	38.1	41.9	36.2	16	25	10
Titan Company	Retailing	14.6	14.2	17.6	18.2	(3)	21	24
Bharti Airtel	Telecommunication Services	198.1	218.5	246.0	241.7	2	24	13
<b>BSE-30 Index</b>		<b>1,810</b>	<b>1,768</b>	<b>1,894</b>	<b>1,870</b>	<b>1.3</b>	<b>4.7</b>	<b>7.1</b>

Source: Companies, Kotak Institutional Equities estimates

Adjusted EBITDA of the Nifty-50 Index increased 6.7% yoy compared to our expectations of 5.1%. Exhibit 113 compares 3QFY25 EBITDA of the Nifty-50 Index with 3QFY24, 2QFY25 and 3QFY25E EBITDA. Of the 39 non-finance companies in the Nifty-50 Index, eight companies beat our estimates by more than 5%, while seven missed our EBITDA estimates by more than 5%.

Among the companies that reported better-than-expected EBITDA were (1) Adani Ports (sharp uptick in international volumes and SEZ income), (2) Bharat Electronics (higher-than-expected revenues), (3) Britannia (lower-than-expected staff costs), (4) Cipla (lower-than-expected R&D and SG&A expenses), (5) Coal India (reversal of an overburden provision and contained employee costs), (6) Maruti Suzuki (better-than-expected gross margins), (7) NTPC (-Rs3.6 bn versus Rs14.7 bn in 3QFY24 in regulatory deferral account due to exchange rate variations) and (8) Sun Pharma (lower-than-assumed R&D spends).

However, a few companies in the Nifty-50 Index underperformed at the EBITDA level. The notable underperformers were (1) BPCL (lower GRM), (2) L&T (miss on core E&C revenues), (3) Tata Motors (weak JLR and CV business performance) and (4) Trent (lower-than-expected SSSG).

**3QFY25 EBITDA of the Nifty-50 Index was ahead of our estimates**

**Exhibit 113: Comparison of 3QFY25 EBITDA of Nifty-50 stocks, actual versus expected**

Company	Sector	Adjusted EBITDA (Rs bn)				Change (%) A versus E	Growth (%)	
		Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Bajaj Auto	Automobiles & Components	24.3	26.5	25.8	25.7	0	6	(3)
Eicher Motors	Automobiles & Components	10.9	10.9	12.0	13.2	(9)	10	10
Hero Motocorp	Automobiles & Components	13.6	15.2	14.8	14.2	4	8	(3)
Mahindra & Mahindra	Automobiles & Components	32.4	39.5	44.7	45.1	(1)	38	13
Maruti Suzuki	Automobiles & Components	39.1	44.2	44.7	41.9	7	14	1
Tata Motors	Automobiles & Components	153.3	116.7	130.3	140.6	(7)	(15)	12
Adani Enterprises	Capital Goods	32.3	37.6	30.7	30.7	0	(5)	(18)
Bharat Electronics	Capital Goods	10.7	14.0	16.7	12.2	37	56	19
L&T	Capital Goods	57.6	63.6	62.5	66.4	(6)	9	(2)
Asian Paints	Commodity Chemicals	20.6	12.4	16.4	16.4	(0)	(20)	32
Grasim Industries	Construction Materials	5.2	3.3	2.7	3.4	(20)	(48)	(17)
UltraTech Cement	Construction Materials	31.5	19.3	27.8	27.2	2	(12)	44
Britannia Industries	Consumer Staples	8.2	7.8	8.4	7.6	11	3	8
Hindustan Unilever	Consumer Staples	35.4	36.5	35.7	35.9	(1)	1	(2)
ITC	Consumer Staples	60.2	63.4	58.3	61.6	(5)	(3)	(8)
Nestle India	Consumer Staples	11.1	11.7	11.0	10.5	5	(1)	(6)
Tata Consumer Products	Consumer Staples	5.7	6.3	5.6	5.6	0	(1)	(10)
NTPC	Electric Utilities	99.4	96.7	119.6	101.9	17	20	24
Power Grid	Electric Utilities	103.2	99.5	95.8	102.4	(6)	(7)	(4)
Apollo Hospitals	Health Care Services	6.1	8.2	7.6	7.4	3	24	(7)
HCL Technologies	IT Services	67.6	63.7	68.7	69.0	(0)	2	8
Infosys	IT Services	91.4	98.1	101.2	98.9	2	11	3
TCS	IT Services	163.9	167.3	170.3	168.8	1	4	2
Tech Mahindra	IT Services	11.5	17.5	18.1	18.0	0	58	3
Wipro	IT Services	44.8	45.4	45.8	44.7	2	2	1
Hindalco Industries	Metals & Mining	60.5	80.3	78.0	81.0	(4)	29	(3)
JSW Steel	Metals & Mining	71.8	54.4	55.3	53.8	3	(23)	2
Tata Steel	Metals & Mining	62.6	56.9	44.9	46.4	(3)	(28)	(21)
BPCL	Oil, Gas & Consumable Fuels	62.3	45.5	75.8	85.3	(11)	22	67
Coal India	Oil, Gas & Consumable Fuels	82.3	52.2	89.0	77.3	15	8	71
ONGC	Oil, Gas & Consumable Fuels	171.6	182.4	189.7	184.8	3	11	4
Reliance Industries	Oil, Gas & Consumable Fuels	406.6	390.6	437.9	424.3	3	8	12
Cipla	Pharmaceuticals	16.8	18.9	19.9	17.4	14	19	5
Dr Reddy's Laboratories	Pharmaceuticals	20.3	21.7	22.7	22.8	(0)	12	5
Sun Pharmaceuticals	Pharmaceuticals	33.5	38.1	41.9	36.2	16	25	10
Titan Company	Retailing	14.6	14.2	17.6	18.2	(3)	21	24
Trent	Retailing	6.2	6.4	8.4	8.8	(4)	34	31
Bharti Airtel	Telecommunication Services	198.1	218.5	246.0	241.7	2	24	13
Adani Ports and SEZ	Transportation	41.9	43.7	48.0	43.9	9	15	10
<b>Nifty-50 Index</b>		<b>2,389</b>	<b>2,349</b>	<b>2,550</b>	<b>2,511</b>	<b>1.6</b>	<b>6.7</b>	<b>8.6</b>

Source: Companies, Kotak Institutional Equities estimates

- ▶ **Reported net income of the Nifty-50 Index increased 14.7% yoy and 8.1% qoq.** Exhibit 114 shows the reported net income of the Nifty-50 Index for 3QFY24, 2QFY25 and 3QFY25. Many companies had extraordinary items in 3QFY25.
  - Bharti Airtel reported a net exceptional gain of Rs75.4 bn, consisting of (1) a gain of Rs143 bn arising from the business combination of Indus, (2) a gain of Rs1 bn on account of reversal of provision created for input tax credit on passive infrastructure services, (3) net foreign exchange gain of Rs11 bn due to currency appreciation in group subsidiaries, (4) regulatory levies of Rs63 bn on and (5) impairment of intangible assets of Rs17 bn.
  - Exception items in the case of Adani Ports included the settlement of voluntary retirement plan.
  - HUVR reported Rs5.7 bn of net gains on sale of Pureit and restructuring expenses of Rs700 mn.
  - ITC reported an exceptional income of Rs5.3 bn on account of a fair value gain on the acquisition of stakes in EIH and HLV from Russell Credit.
  - Sun Pharma reported Rs3.1 bn of exceptional charges, pertaining to the company agreeing for a settlement in the National Prescription Opiate litigation in the US District Court of Northern District of Ohio.

- Tata Steel reported (1) employee separation expenses of around Rs1.5 bn for 3QFY25 and (2) one-off gain on reversal of provision of Rs14.1 bn created for claims made in earlier periods and are no longer required.

**Reported net income of the Nifty-50 Index increased 14.7% yoy and 8.1% qoq**

**Exhibit 114: Comparison of 3QFY25 reported net income of Nifty-50 stocks**

Company	Sector	Reported net income (Rs bn)			Growth (%)	
		Dec-23	Sep-24	Dec-24	yoy	qoq
Bajaj Auto	Automobiles & Components	20.4	24.3	21.1	3	(13)
Eicher Motors	Automobiles & Components	10.0	11.0	11.7	18	6
Hero Motocorp	Automobiles & Components	10.7	12.0	12.0	12	(0)
Mahindra & Mahindra	Automobiles & Components	24.5	38.4	29.6	21	(23)
Maruti Suzuki	Automobiles & Components	31.3	30.7	35.3	13	15
Tata Motors	Automobiles & Components	70.3	33.4	54.5	(22)	63
Axis Bank	Banks	60.7	69.2	63.0	4	(9)
HDFC Bank	Banks	163.7	168.2	167.4	2	(1)
ICICI Bank	Banks	102.7	117.5	117.9	15	0
IndusInd Bank	Banks	23.0	13.3	14.0	(39)	6
Kotak Mahindra Bank	Banks	42.6	50.4	47.0	10	(7)
State Bank of India	Banks	91.6	183.3	168.9	84	(8)
Bajaj Finserv	Diversified Financials	21.6	20.9	22.3	3	7
Bajaj Finance	Diversified Financials	36.4	40.1	43.1	18	7
Shriram Finance	Diversified Financials	18.2	20.7	35.7	96	72
HDFC Life Insurance	Insurance	8.6	9.4	9.3	9	(1)
SBI Life Insurance	Insurance	16.8	14.4	18.8	12	30
Adani Enterprises	Capital Goods	18.9	17.4	0.6	(97)	(97)
Bharat Electronics	Capital Goods	8.6	10.7	13.1	52	22
L&T	Capital Goods	29.5	34.0	33.6	14	(1)
Asian Paints	Commodity Chemicals	14.5	6.9	11.1	(23)	60
Grasim Industries	Construction Materials	2.4	7.2	(1.7)	(171)	(123)
UltraTech Cement	Construction Materials	17.1	8.0	14.3	(16)	80
Britannia Industries	Consumer Staples	5.6	5.3	5.8	5	9
Hindustan Unilever	Consumer Staples	25.2	26.1	30.0	19	15
ITC	Consumer Staples	55.7	50.8	54.2	(3)	7
Nestle India	Consumer Staples	6.6	9.9	7.0	6	(29)
Tata Consumer Products	Consumer Staples	2.8	3.6	2.8	0	(23)
NTPC	Electric Utilities	45.7	46.4	47.1	3	1
Power Grid	Electric Utilities	40.3	37.9	38.6	(4)	2
Apollo Hospitals	Health Care Services	2.5	3.8	3.7	52	(2)
HCL Technologies	IT Services	43.5	42.4	46.1	6	9
Infosys	IT Services	61.1	65.2	68.1	11	4
TCS	IT Services	110.6	119.1	123.8	12	4
Tech Mahindra	IT Services	5.1	12.5	9.8	93	(21)
Wipro	IT Services	26.9	32.1	33.5	24	5
Hindalco Industries	Metals & Mining	23.3	39.1	37.4	60	(4)
JSW Steel	Metals & Mining	24.2	4.4	7.2	(70)	63
Tata Steel	Metals & Mining	5.1	8.3	3.3	(36)	(61)
BPCL	Oil, Gas & Consumable Fuels	34.0	24.0	46.5	37	94
Coal India	Oil, Gas & Consumable Fuels	90.9	62.7	84.9	(7)	35
ONGC	Oil, Gas & Consumable Fuels	98.9	119.8	82.4	(17)	(31)
Reliance Industries	Oil, Gas & Consumable Fuels	172.7	165.6	185.4	7	12
Cipla	Pharmaceuticals	11.8	13.0	15.7	33	21
Dr Reddy's Laboratories	Pharmaceuticals	13.8	12.6	14.1	2	13
Sun Pharmaceuticals	Pharmaceuticals	25.2	30.4	29.0	15	(4)
Titan Company	Retailing	10.4	7.1	9.9	(5)	40
Trent	Retailing	3.4	4.2	4.7	37	11
Bharti Airtel	Telecommunication Services	24.4	35.9	147.8	505	311
Adani Ports and SEZ	Transportation	23.1	23.8	24.7	7	4
<b>Nifty-50 Index</b>		<b>1,837</b>	<b>1,948</b>	<b>2,106</b>	<b>14.7</b>	<b>8.1</b>

Source: Companies, Kotak Institutional Equities

Exhibit 115 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.

**Many companies reported one-off items in 3QFY25**

**Exhibit 115: Adjusted and reported net income of the Nifty-50 stocks, 3QFY25 (Rs mn)**

Company	Sector	Net income		
		Adjusted	Reported	Difference
Bajaj Auto	Automobiles & Components	21,087	21,087	–
Eicher Motors	Automobiles & Components	11,705	11,705	–
Hero Motocorp	Automobiles & Components	12,028	12,028	–
Mahindra & Mahindra	Automobiles & Components	29,643	29,643	–
Maruti Suzuki	Automobiles & Components	35,250	35,250	–
Tata Motors	Automobiles & Components	54,349	54,510	161
Axis Bank	Banks	63,038	63,038	–
HDFC Bank	Banks	167,355	167,355	–
ICICI Bank	Banks	117,924	117,924	–
IndusInd Bank	Banks	14,013	14,013	–
Kotak Mahindra Bank	Banks	47,010	47,010	–
State Bank of India	Banks	168,914	168,914	–
Bajaj Finserv	Diversified Financials	22,310	22,310	–
Bajaj Finance	Diversified Financials	43,082	43,082	–
Shriram Finance	Diversified Financials	35,698	35,698	–
HDFC Life Insurance	Insurance	9,294	9,294	–
SBI Life Insurance	Insurance	18,800	18,800	–
Adani Enterprises	Capital Goods	615	578	(37)
Bharat Electronics	Capital Goods	13,013	13,116	103
L&T	Capital Goods	33,588	33,588	–
Asian Paints	Commodity Chemicals	11,105	11,105	–
Grasim Industries	Construction Materials	(1,687)	(1,687)	–
UltraTech Cement	Construction Materials	14,344	14,344	–
Britannia Industries	Consumer Staples	5,817	5,817	–
Hindustan Unilever	Consumer Staples	25,400	30,010	4,610
ITC	Consumer Staples	48,934	54,214	5,280
Nestle India	Consumer Staples	7,139	6,961	(178)
Tata Consumer Products	Consumer Staples	2,850	2,789	(62)
NTPC	Electric Utilities	47,114	47,114	–
Power Grid	Electric Utilities	38,667	38,616	(51)
Apollo Hospitals	Health Care Services	3,723	3,723	–
HCL Technologies	IT Services	46,108	46,108	–
Infosys	IT Services	68,060	68,060	–
TCS	IT Services	123,800	123,800	–
Tech Mahindra	IT Services	9,832	9,832	–
Wipro	IT Services	33,538	33,538	–
Hindalco Industries	Metals & Mining	39,720	37,350	(2,370)
JSW Steel	Metals & Mining	7,720	7,170	(550)
Tata Steel	Metals & Mining	(9,601)	3,266	12,867
BPCL	Oil, Gas & Consumable Fuels	46,492	46,492	–
Coal India	Oil, Gas & Consumable Fuels	84,912	84,912	–
ONGC	Oil, Gas & Consumable Fuels	82,399	82,399	–
Reliance Industries	Oil, Gas & Consumable Fuels	185,400	185,400	–
Cipla	Pharmaceuticals	15,705	15,705	–
Dr Reddy's Laboratories	Pharmaceuticals	14,133	14,137	4
Sun Pharmaceuticals	Pharmaceuticals	32,196	29,034	(3,162)
Titan Company	Retailing	11,798	9,900	(1,898)
Trent	Retailing	4,693	4,693	–
Bharti Airtel	Telecommunication Services	55,142	147,812	92,670
Adani Ports and SEZ	Transportation	26,597	24,654	(1,943)

Source: Companies, Kotak Institutional Equities estimates

**KIE coverage universe: Net profits increased 8.2% yoy**

3QFY25 net profits of the KIE coverage universe increased 8.2% yoy, 0.9% below our expectations of a 9.1% yoy increase in net profits. Banks, IT services, oil, gas & consumable fuels and telecommunication services sectors reported yoy increases in net income, whereas sectors such as construction materials, consumer staples and metals & mining reported yoy declines in net income. In our coverage universe, 86 stocks beat our earnings forecast by more than 5%, 89 reported adjusted net income within the -5% and +5% range of our estimates and 98 missed our estimates by more than 5%.

Exhibit 116 and 117 compares 3QFY25 EBITDA and net profits of KIE coverage sectors with 3QFY24, 2QFY25 and 3QFY25E. 3QFY25 results suggest a broad-based slowdown in the Indian economy. Companies have broadly disappointed versus modest expectations on net sales, EBITDA and net profits. 3QFY25 EBITDA of the KIE universe increased 5.8% yoy, 0.6% below our expectations. 3QFY25 EBITDA of capital goods, electric utilities, IT services, oil, gas & consumable fuels, pharmaceuticals and telecommunication services sectors showed a yoy improvement in EBITDA.

**EBITDA of KIE universe increased 5.8% yoy and 9.9% qoq**

Exhibit 116: Comprehensive sector-wise EBITDA analysis of 3QFY25 earnings season (Rs bn)

	EBITDA (Rs bn)				Change (%) A/E	Growth (%)	
	Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Automobiles & Components	401	379	397	413	(4)	(1)	5
Capital Goods	140	153	152	156	(3)	9	(1)
Commodity Chemicals	34	25	28	29	(3)	(16)	12
Construction Materials	97	55	69	75	(8)	(29)	25
Consumer Durables & Apparel	19	21	24	25	(5)	25	15
Consumer Staples	157	167	157	159	(1)	0	(6)
Electric Utilities	250	266	269	262	3	8	1
Electronic Manufacturing Services	4	8	8	8	(1)	88	4
Fertilizers & Agricultural Chemicals	4	19	22	22	0	407	16
Gas Utilities	65	63	49	58	(15)	(24)	(21)
Health Care Services	20	26	24	24	3	20	(4)
Hotels & Restaurants	18.4	16.1	22.8	20.6	11	24	41
Internet Software & Services	6	9	10	10	(2)	74	10
IT Services	427	447	455	449	1	7	2
Media	9	9	9	10	(13)	0	4
Metals & Mining	394	396	424	420	1	8	7
Oil, Gas & Consumable Fuels	923	760	946	964	(2)	2	24
Pharmaceuticals	136	154	163	157	4	20	6
Real Estate	52	56	64	65	(2)	23	13
Retailing	34	33	40	42	(4)	19	22
Specialty Chemicals	33	35	35	34	1	5	1
Telecommunication Services	289	312	344	342	1	19	10
Transportation	108	77	118	110	7	9	52
<b>KIE universe</b>	<b>3,624</b>	<b>3,488</b>	<b>3,833</b>	<b>3,857</b>	<b>(0.6)</b>	<b>5.8</b>	<b>9.9</b>
<b>KIE universe (ex-oil, gas &amp; consumable fuels)</b>	<b>2,701</b>	<b>2,728</b>	<b>2,887</b>	<b>2,893</b>	<b>(0.2)</b>	<b>6.9</b>	<b>5.8</b>

Source: Kotak Institutional Equities estimates

**Adjusted net income of KIE universe increased 8.2% yoy and 4.6% qoq**

**Exhibit 117: Comprehensive sector-wise PAT analysis of 3QFY25 earnings season (Rs bn)**

	Adjusted PAT (Rs bn)				Change (%) A/E	Growth (%)	
	Dec-23	Sep-24	Dec-24A	Dec-24E		yoy	qoq
Automobiles & Components	217	216	222	228	(3)	2	3
Banks	668	832	797	731	9	19	(4)
Capital Markets	18	21	21	21	2	18	(1)
Capital Goods	79	84	70	75	(6)	(11)	(17)
Commercial & Professional Services	1	1	1	1	20	92	40
Commodity Chemicals	21	15	16	18	(6)	(22)	10
Construction Materials	47	24	13	27	(53)	(73)	(47)
Consumer Durables & Apparel	12	14	16	17	(9)	27	9
Consumer Staples	123	121	115	117	(2)	(6)	(5)
Diversified Financials	131	142	170	163	5	30	19
Electric Utilities	105	115	101	108	(7)	(4)	(11)
Electronic Manufacturing Services	2	4	4	5	(19)	95	(6)
Fertilizers & Agricultural Chemicals	(10)	(1)	10	4	174	206	1,625
Gas Utilities	47	49	36	40	(11)	(24)	(27)
Health Care Services	11	14	14	13	6	20	(3)
Hotels & Restaurants	6.3	2.1	8.5	7.4	15	35	308
Internet Software & Services	5	4	6	8	(17)	21	50
Insurance	25	24	28	27	6	11	18
IT Services	286	310	314	310	1	10	1
Media	6	6	7	7	(7)	11	7
Metals & Mining	141	132	146	143	2	4	10
Oil, Gas & Consumable Fuels	498	387	464	528	(12)	(7)	20
Pharmaceuticals	84	97	103	98	5	22	6
Real Estate	26	50	38	37	3	48	(24)
Retailing	22	21	25	27	(10)	14	19
Specialty Chemicals	21	21	20	21	(3)	(2)	(5)
Telecommunication Services	(34)	(18)	9	15	(40)	126	150
Transportation	57	16	55	62	(11)	(3)	237
<b>KIE universe</b>	<b>2,615</b>	<b>2,706</b>	<b>2,830</b>	<b>2,856</b>	<b>(0.9)</b>	<b>8.2</b>	<b>4.6</b>
<b>KIE universe (ex-oil, gas &amp; consumable fuels)</b>	<b>2,117</b>	<b>2,319</b>	<b>2,366</b>	<b>2,328</b>	<b>1.6</b>	<b>11.8</b>	<b>2.0</b>

Source: Kotak Institutional Equities estimates

Net profits of the automobiles & component sector increased at a modest 2% yoy. Most automobile companies saw (1) a yoy decline in volumes and (2) a few reported a decline in margins due to RM headwinds. The banking sector reported strong results, led by a sharp yoy increase in the net income of SBI. SBI had reported higher provisions pertaining to wage settlement and other provisions in 3QFY24. The performance of the construction material sector was marred by weak realizations despite strong volume growth. Consumer companies reported weak volume prints, with commentary suggesting a challenging demand environment. The IT services sector signaled a gradual improvement in demand conditions and displayed an acceleration in growth, led by financial services and retail verticals. 3QFY25 net income of oil, gas & consumables fuels sector grew at a modest 2% yoy. Downstream companies reported weak refining margins and continued large LPG losses. Net profits of the pharmaceuticals sector increased 20% yoy in 3QFY25, with strong domestic formulation sales offsetting weak US generic sales.

Exhibit 118 shows sectors that exceeded or fell short of our expectations on sales, EBITDA and net profits in descending order of beats or misses. Hotels and restaurants, oil, gas & consumable fuels and transportation sectors beat our estimates at the revenue level, while capital goods, commodity chemicals and consumer durables & apparel missed our revenue expectations. Electric utilities, hotels and restaurants, pharmaceuticals and transportation sectors beat EBITDA estimates, but construction materials, consumer durables and apparel and gas utilities disappointed. Finally, banks, hotels and restaurants and healthcare services sectors beat our expectations at the net income level, while construction materials, oil, gas & consumable fuels and telecommunication services sectors disappointed.

**Construction materials, oil, gas & consumable fuels and telecommunication services sectors disappointed at net income level**

Exhibit 118: Performance of sectors versus expectations (KIE universe) in 3QFY25 (Rs bn)

	Companies	Net sales (Rs bn)		Change
	(#)	Actual	Expected	(%)
<b>Revenues: Sectors posting positive surprises</b>				
Hotels & Restaurants	9	85	80	6
Oil, Gas & Consumable Fuels	7	7,288	6,876	6
Transportation	8	392	376	4
Electronic Manufacturing Services	6	148	144	3
Health Care Services	9	122	119	3
<b>Revenues: Sectors posting negative surprises</b>				
Real Estate	14	172	178	(4)
Commodity Chemicals	5	173	177	(2)
Consumer Durables & Apparel	11	245	251	(2)
Commercial & Professional Services	2	63	64	(2)
Capital Goods	15	1,314	1,338	(2)

	Companies	EBITDA (Rs bn)		Change
	(#)	Actual	Expected	(%)
<b>EBITDA: Sectors posting positive surprises</b>				
Hotels & Restaurants	9	23	21	11
Transportation	8	118	110	7
Pharmaceuticals	16	163	157	4
Health Care Services	9	24	24	3
Electric Utilities	6	269	262	3
<b>EBITDA: Sectors posting negative surprises</b>				
Gas Utilities	5	49	58	(15)
Construction Materials	9	69	75	(8)
Consumer Durables & Apparel	11	24	25	(5)
Retailing	4	40	42	(4)
Automobiles & Components	27	397	413	(4)

	Companies	PAT (Rs bn)		Change
	(#)	Actual	Expected	(%)
<b>PAT: Sectors posting positive surprises</b>				
Fertilizers & Agricultural Chemicals	4	10	4	174
Commercial & Professional Services	2	1	1	20
Hotels & Restaurants	9	9	7	15
Banks	21	797	731	9
Health Care Services	9	14	13	6
<b>PAT: Sectors posting negative surprises</b>				
Construction Materials	9	13	27	(53)
Telecommunication Services	4	9	15	(40)
Electronic Manufacturing Services	6	4	5	(19)
Internet Software & Services	7	6	8	(17)
Oil, Gas & Consumable Fuels	7	464	528	(12)

Source: Kotak Institutional Equities estimates

Exhibit 119 shows the movement in EBITDA margins across sectors in the past few quarters. As can be seen, many sectors saw sharp compression in EBITDA margins in 3QFY25 yoy, although margins were generally better qoq. We do not focus on the 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 the specific issues dogging some sectors.

**3QFY25 EBITDA margin of most sectors contracted yoy**

**Exhibit 119: Comparison of EBITDA margin for KIE universe stocks (%)**

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24A	Dec-24E
Automobiles & Components	13.5	13.9	13.9	12.6	12.5	13.0
Capital Goods	12.2	12.2	12.0	12.8	12.0	11.8
Commercial & Professional Services	3.4	3.3	2.8	2.9	3.1	3.0
Commodity Chemicals	18.9	16.4	17.4	15.0	16.5	16.5
Construction Materials	18.9	17.9	14.9	11.4	13.0	14.3
Consumer Durables & Apparel	11.3	11.2	11.3	10.7	12.3	12.4
Consumer Staples	24.8	24.7	25.5	23.9	23.3	23.4
Electric Utilities	34.4	34.2	35.1	35.2	36.2	34.7
Electronic Manufacturing Services	5.3	6.4	5.2	4.9	5.3	5.5
Fertilizers & Agricultural Chemicals	3.2	12.0	12.6	11.9	15.0	14.8
Gas Utilities	12.1	11.6	14.4	12.1	9.4	11.0
Health Care Services	19.7	19.5	19.4	20.8	20.1	19.9
Hotels & Restaurants	27.0	25.3	22.5	22.3	27.0	25.9
Internet Software & Services	8.8	7.9	8.8	8.9	8.7	8.7
IT Services	22.6	22.7	22.2	22.6	22.7	22.6
Media	20.2	14.9	18.8	19.4	20.3	22.1
Metals & Mining	16.6	15.5	17.2	16.4	17.0	16.8
Oil, Gas & Consumable Fuels	12.7	12.8	12.0	11.3	13.0	14.0
Pharmaceuticals	24.5	24.1	25.1	25.5	26.4	25.3
Real Estate	38.6	36.3	37.3	35.2	37.0	36.5
Retailing	11.1	9.7	10.5	10.3	10.8	11.3
Specialty Chemicals	20.5	19.2	20.4	19.8	19.8	19.8
Telecommunication Services	47.1	46.6	46.4	47.6	49.4	49.7
Transportation	32.8	30.7	34.4	25.3	31.5	30.7
<b>KIE universe</b>	<b>17.2</b>	<b>17.0</b>	<b>17.2</b>	<b>16.5</b>	<b>17.2</b>	<b>17.7</b>

Source: Kotak Institutional Equities estimates



# 3

## 3QFY25 results takeaways: No festive cheer

The 3QFY25 results season saw continued weakness in consumption and decent performance in investment. Underlying demand remains weak, with rural demand seeing a gradual recovery, but urban demand weakening further. Lenders reported moderate credit growth, with broadly steady asset quality. Capital goods companies reported strong domestic revenue growth and robust order inflows. IT companies witnessed a gradual recovery, driven by cost-takeout deals.

### Lenders witnessed slowing credit growth but stable asset quality; consumption remains subdued

#### ► Banks, diversified financials and capital market companies.

- Credit and deposit growth of banks.** Bank credit saw modest growth in 3QFY25, with outstanding bank credit as of December 2024 growing 11% yoy. A steady moderation in retail credit growth (+12% yoy) has been the primary driver behind softening bank credit growth; meanwhile, industry credit growth remained soft as well. We note that housing credit growth and vehicle credit growth have softened further to 11% yoy and 5% yoy, respectively, while unsecured credit growth, such as credit cards, has moderated from 25%+ yoy growth rates in the previous quarters to 16% in 3QFY25. Exhibit 120 gives credit growth by sectors.

### Credit growth has softened in recent months, led by softening credit offtake in retail loans

Exhibit 120: Deployment of gross bank credit in major sectors (Rs bn)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Proportion (%)	Growth qoq (%)	yoy (%)
Food credit	431	456	405	231	181	403	339	282	244	199	187	513	561	—	182	30
Agriculture	19,945	20,125	20,356	20,713	21,140	21,390	21,596	21,560	21,606	21,673	22,053	22,235	22,390	13	3	12
<b>Industry</b>	<b>36,648</b>	<b>36,541</b>	<b>36,691</b>	<b>36,528</b>	<b>36,571</b>	<b>37,032</b>	<b>37,282</b>	<b>37,221</b>	<b>37,562</b>	<b>38,016</b>	<b>37,743</b>	<b>38,131</b>	<b>38,544</b>	<b>22</b>	<b>1.4</b>	<b>5</b>
Textiles	2,561	2,588	2,616	2,560	2,542	2,557	2,553	2,551	2,560	2,568	2,568	2,595	2,641	1	3	3
Chemical / Products	2,481	2,441	2,473	2,493	2,520	2,563	2,549	2,548	2,572	2,634	2,599	2,633	2,636	1	—	6
Iron and Steel	2,726	2,720	2,731	2,738	2,700	2,752	2,818	2,850	2,952	3,005	3,003	3,046	3,062	2	2	12
Engineering	1,946	1,988	2,007	1,966	1,972	1,990	2,035	2,046	2,156	2,182	2,193	2,240	2,271	1	4	17
Gems & Jewellery	914	849	842	849	836	828	840	829	862	912	924	870	878	—	(4)	(4)
Food processing	1,960	2,004	1,989	2,089	2,108	2,074	2,064	2,050	1,995	1,924	1,903	1,976	2,120	1	10	8
Construction	1,353	1,374	1,373	1,335	1,315	1,363	1,371	1,404	1,416	1,419	1,386	1,421	1,438	1	1	6
Infrastructure	12,894	12,775	12,804	13,041	13,224	13,377	13,239	13,011	13,062	12,999	12,986	13,126	13,144	7	1	2
- Power	6,456	6,388	6,502	6,440	6,474	6,581	6,466	6,369	6,386	6,416	6,461	6,520	6,562	4	2	2
- Telecom	1,435	1,401	1,312	1,382	1,374	1,344	1,325	1,296	1,323	1,240	1,215	1,227	1,246	1	—	(13)
- Roads	3,058	3,060	3,067	3,181	3,311	3,357	3,358	3,275	3,280	3,259	3,258	3,332	3,258	2	(0)	7
- Others	1,944	1,926	1,923	2,038	2,065	2,096	2,089	2,070	2,073	2,083	2,052	2,048	2,077	1	(0)	7
Others	9,812	9,802	9,857	9,456	9,356	9,528	9,813	9,932	9,986	10,374	10,179	10,225	10,355	6	(0)	6
Trade	9,399	9,550	10,095	10,258	10,232	10,548	10,595	10,410	10,526	10,725	10,795	10,816	11,112	6	4	18
<b>Retail loans</b>	<b>51,754</b>	<b>52,179</b>	<b>52,678</b>	<b>53,313</b>	<b>53,629</b>	<b>54,566</b>	<b>54,861</b>	<b>55,298</b>	<b>55,555</b>	<b>55,967</b>	<b>56,475</b>	<b>57,349</b>	<b>57,949</b>	<b>33</b>	<b>4</b>	<b>12</b>
Housing	26,403	26,603	26,828	27,187	27,441	27,866	27,986	28,101	28,332	28,455	28,718	29,087	29,317	17	3	11
Vehicle loans	5,833	5,773	5,821	5,893	5,940	6,023	6,038	6,186	6,108	6,172	6,164	6,056	6,133	3	(1)	5
Credit cards	2,519	2,585	2,581	2,570	2,596	2,680	2,730	2,756	2,766	2,718	2,814	2,890	2,911	2	7	16
Education loans	1,150	1,171	1,187	1,194	1,191	1,211	1,220	1,231	1,261	1,291	1,303	1,316	1,331	1	3	16
Others	15,850	16,047	16,260	16,469	16,459	16,787	16,887	17,024	17,088	17,331	17,475	18,000	18,256	10	5	15
Other categories	41,436	41,595	41,849	43,280	43,190	43,875	44,136	43,376	43,959	44,673	45,131	46,049	46,872	26	5	13
Transporters	2,243	2,279	2,283	2,302	2,350	2,431	2,422	2,372	2,435	2,450	2,464	2,498	2,530	1	3	13
Professional/others	1,575	1,625	1,628	1,672	1,747	1,799	1,721	1,634	1,737	1,777	1,863	1,849	1,896	1	7	20
Real Estate loans	4,362	4,384	4,423	4,690	4,463	4,791	4,833	4,845	4,948	4,973	5,077	5,149	5,209	3	5	19
<b>NBFCs</b>	<b>15,208</b>	<b>15,033</b>	<b>15,149</b>	<b>15,480</b>	<b>15,547</b>	<b>15,681</b>	<b>15,555</b>	<b>15,289</b>	<b>15,222</b>	<b>15,290</b>	<b>15,367</b>	<b>15,753</b>	<b>16,218</b>	<b>9</b>	<b>6</b>	<b>7</b>
Others	18,048	18,273	18,365	19,135	19,084	19,173	19,605	19,236	19,616	20,183	20,361	20,800	21,020	12	4	16
<b>Total</b>	<b>159,613</b>	<b>160,447</b>	<b>162,074</b>	<b>164,322</b>	<b>164,943</b>	<b>167,814</b>	<b>168,808</b>	<b>168,148</b>	<b>169,452</b>	<b>171,254</b>	<b>172,382</b>	<b>175,092</b>	<b>177,429</b>		<b>3.6</b>	<b>11</b>

Source: RBI, Kotak Institutional Equities

We note that most industrial sectors are witnessing muted credit demand, with engineering and iron and steel among the major sectors driving industrial credit growth. Bank credit to NBFCs moderated further in 3QFY25 and increased 7% yoy. Loans for trading (up 18% yoy) and real estate loans (up 19% yoy) are the only major pockets where bank lending remains strong.

Most banks, public or private, reported modest credit growth. Exhibit 121 shows credit growth for banks under our coverage and total credit growth for the past few quarters. We note that private banks continue to report weak credit growth, driven by a slowdown in HDFCB's loan book. The bank continues to prioritize the liability side of the balance sheet, leading to continued softness in lending. We note that other large private banks such as AXSB and ICICIBC have also seen a steady moderation in their loan growth, as banks appear to be (1) prioritizing margins over growth and (2) taking preemptive measures to avoid NPLs in 'weaker' areas in a shifting credit scenario. As such, loan growth across private and public banks have broadly converged in 3QFY25.

**Credit growth has moderated in recent quarters, especially for private banks**

Exhibit 121: Growth in loans for banks in KIE universe yoy, 3QFY23-3QFY25 (%)

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda	15	15	20	19	15	13	9	12	13
Canara Bank	23	23	13	12	12	11	10	10	10
Punjab National Bank	16	12	16	15	14	14	14	15	17
State Bank of India	19	17	15	13	15	16	16	15	14
Union Bank	23	15	14	10	14	14	14	12	7
<b>Old private banks</b>									
City Union Bank	15	8	4	2	0	4	10	12	15
Federal Bank	19	20	21	20	18	20	20	19	16
Karur Vysya Bank	13	11	12	14	16	16	16	14	14
<b>New private banks</b>									
Axis Bank	15	19	22	23	22	14	14	11	9
Bandhan Bank	15	11	8	13	20	16	24	24	16
DCB Bank	19	18	19	19	18	19	19	19	23
HDFC Bank	20	17	16	58	62	55	52	7	3
ICICI Bank	20	19	18	18	18	16	16	15	14
IndusInd Bank	19	21	22	21	20	18	15	13	12
Yes Bank	10	12	7	9	12	12	15	12	13
<b>Small finance banks</b>									
AU Small Finance Bank	38	27	29	24	20	25	43	48	49
Equitas Small Finance Bank	27	33	34	32	25	20	16	18	21
Ujjivan Small Finance Bank	27	31	34	40	31	26	22	20	16
<b>Total</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>22</b>	<b>22</b>	<b>21</b>	<b>20</b>	<b>13</b>	<b>11</b>
<b>Total (ex-HDFCB)</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>15</b>	<b>16</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>13</b>
<b>Public sector</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>13</b>
<b>Private sector</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>33</b>	<b>35</b>	<b>30</b>	<b>29</b>	<b>12</b>	<b>9</b>

Note:

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

Source: Companies, Kotak Institutional Equities

All banks, public or private, saw decent deposit growth, with private banks outpacing PSU banks on deposit growth. Exhibit 122 shows deposit growth for banks under our coverage and total deposit growth for the past few quarters. However, banks saw very modest growth in CASA deposits, with ICICIBC outpacing other large banks on CASA growth (see Exhibit 123). Most banks witnessed further sequential moderation in CASA (see Exhibit 124).

**Steady improvement in deposit growth, especially for private banks**

**Exhibit 122: Growth in deposits for banks in KIE universe yoy, 3QFY23-3QFY25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda	18	15	16	15	8	10	9	9	12
Canara Bank	12	9	7	9	9	11	12	9	8
Punjab National Bank	7	12	14	10	9	7	9	11	16
State Bank of India	10	9	12	12	13	11	8	9	10
Union Bank	14	8	14	9	10	9	9	9	4
<b>Old private banks</b>									
City Union Bank	7	10	6	6	5	6	6	9	11
Federal Bank	15	17	21	23	19	18	20	16	11
Karur Vysya Bank	14	12	13	13	13	16	14	15	15
<b>New private banks</b>									
Axis Bank	10	15	17	18	18	13	13	14	14
Bandhan Bank	21	12	17	13	15	25	23	27	27
DCB Bank	23	19	23	23	19	20	20	20	20
HDFC Bank	20	21	19	30	28	26	24	15	15
ICICI Bank	10	11	18	19	19	20	15	16	16
IndusInd Bank	14	15	15	14	13	14	15	15	15
Yes Bank	16	10	14	17	13	22	21	18	15
<b>Small finance banks</b>									
AU Small Finance Bank	38	32	27	30	31	26	40	45	45
Equitas Small Finance Bank	31	34	36	42	38	42	35	29	26
Ujjivan Small Finance Bank	49	40	45	43	28	23	22	17	17

Note:

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

Source: Companies, Kotak Institutional Equities

**Modest growth in CASA deposits for large banks**

**Exhibit 123: Growth in CASA deposits for banks in KIE universe yoy, 3QFY23-3QFY25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda	10	10	6	7	6	8	10	9	9
Canara Bank	5	1	3	3	6	7	5	6	3
Punjab National Bank	3	1	3	3	6	3	4	4	4
State Bank of India	6	6	6	5	5	4	3	4	5
Union Bank	8	4	7	4	6	4	4	2	(0)
<b>Old private banks</b>									
City Union Bank	13	1	3	(0)	5	9	2	8	5
Federal Bank	7	4	5	5	6	6	10	11	9
Karur Vysya Bank	7	5	4	3	5	6	4	6	4
<b>New private banks</b>									
Axis Bank	10	21	22	13	12	3	4	4	2
Bandhan Bank	(3)	6	(3)	7	14	18	14	9	5
DCB Bank	30	24	11	5	13	11	18	23	16
HDFC Bank	12	11	11	8	10	9	6	8	4
ICICI Bank	6	4	9	4	4	10	9	15	17
IndusInd Bank	14	7	6	6	4	8	6	5	1
Yes Bank	14	9	8	11	12	23	26	29	28
<b>Small finance banks</b>									
AU Small Finance Bank	35	36	14	4	13	9	32	38	30
Equitas Small Finance Bank	19	9	1	(0)	(2)	8	10	17	10
Ujjivan Small Finance Bank	47	35	27	28	24	24	27	26	15

Note:

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

Source: Companies, Kotak Institutional Equities

**Marginal qoq decline in CASA ratio for large banks**

Exhibit 124: CASA ratio of banks, March fiscal year-end, 2024-25 (%)

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda	42	42	40	40	41	41	41	40	40
Canara Bank	33	33	33	32	32	32	31	31	30
Punjab National Bank	44	43	42	42	42	41	40	39	38
State Bank of India	44	44	43	42	41	41	41	40	39
Union Bank	35	35	34	34	34	34	33	32	32
<b>Old private banks</b>									
City Union Bank	29	30	31	30	29	31	30	29	28
Federal Bank	34	33	32	31	31	29	29	30	30
Karur Vysya Bank	34	33	33	32	32	30	30	29	28
<b>New private banks</b>									
Axis Bank	45	47	46	44	42	43	42	41	39
Bandhan Bank	36	39	36	39	36	37	33	33	32
DCB Bank	28	28	26	25	26	26	25	26	25
HDFC Bank	44	44	42	38	38	38	36	35	34
ICICI Bank	45	46	43	41	40	42	41	41	40
IndusInd Bank	42	40	40	39	38	38	37	36	35
Yes Bank	30	31	29	29	30	31	31	32	33
<b>Small finance banks</b>									
AU Small Finance Bank	38	38	35	34	33	33	33	32	31
Equitas Small Finance Bank	46	42	39	34	33	32	31	31	29
Ujjivan Small Finance Bank	26	26	25	24	25	26	26	26	25

Source: Companies, Kotak Institutional Equities

- NIM of banks.** We note that most banks reported broadly stable margins (see Exhibit 125), with a handful of banks witnessing sequential compression in 3QFY25. Among the major banks, (1) BOB saw an 18 bps qoq decline (moderating yields), (2) IIB saw a 16 bps qoq decline (higher income de-recognition) and (3) SBIN saw a 13 bps qoq decline (moderating yields) in NIMs. Meanwhile, costs of funds were broadly stable qoq, but modestly higher yoy for most banks in 3QFY25 (see Exhibit 126).

**NIMs were broadly stable in 3QFY25 qoq**

**Exhibit 125: Net interest margin for banks in KIE universe, 3QFY23-3QFY25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda	3.3	3.4	3.1	3.0	3.0	3.1	3.0	3.0	2.8
Canara Bank	2.8	2.7	2.6	2.6	2.7	2.7	2.5	2.5	2.4
Punjab National Bank	2.8	2.8	2.7	2.8	2.9	2.8	2.8	2.7	2.7
State Bank of India	3.1	3.2	3.1	3.0	2.9	3.0	2.9	2.9	2.8
Union Bank	3.0	2.8	2.9	2.9	2.9	2.9	2.8	2.7	2.7
<b>Old private banks</b>									
City Union Bank	3.5	3.2	3.3	3.4	3.2	3.3	3.2	3.3	3.3
Federal Bank	3.5	3.2	3.1	3.1	3.1	3.1	3.1	3.0	3.0
Karur Vysya Bank	3.9	3.9	3.8	3.7	3.9	3.8	3.8	3.8	3.7
<b>New private banks</b>									
Axis Bank	4.1	3.9	3.9	4.0	3.9	3.8	3.8	3.8	3.8
Bandhan Bank	6.1	6.9	6.7	6.6	6.7	7.1	7.2	7.0	6.5
DCB Bank	3.7	3.8	3.5	3.4	3.2	3.3	3.1	3.1	3.1
HDFC Bank	4.3	4.2	4.1	3.5	3.5	3.5	3.5	3.5	3.5
ICICI Bank	4.7	4.8	4.8	4.6	4.5	4.4	4.4	4.3	4.3
IndusInd Bank	4.1	4.1	4.2	4.3	4.4	4.3	4.1	4.0	3.8
Yes Bank	3.1	3.1	2.9	2.8	2.8	2.8	2.8	2.8	2.7
<b>Small finance banks</b>									
AU Small Finance Bank	6.0	5.8	5.6	5.5	5.5	5.2	6.2	6.1	5.9
Equitas Small Finance Bank	9.1	9.1	8.8	8.5	8.4	8.1	7.9	7.5	7.4
Ujjivan Small Finance Bank	10.1	9.6	9.6	9.3	9.1	9.6	9.4	9.1	8.2
Utkarsh Small Finance Bank	9.5	9.1	9.1	9.4	9.9	10.0	9.7	9.0	8.5

Source: Companies, Kotak Institutional Equities estimates

**Cost of deposits were stable in 3QFY25 for most banks qoq**

**Exhibit 126: Cost of funds for banks, March fiscal year-ends (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>									
Bank of Baroda (calc.)	4.2	4.5	4.7	5.1	5.1	5.1	5.1	5.2	5.2
Canara Bank	3.9	4.0	4.8	4.9	4.9	5.0	5.3	5.3	5.3
PNB (calc.)	4.2	4.4	4.7	4.8	4.9	5.1	5.0	5.2	5.2
SBI (calc.)	4.1	4.3	4.6	4.9	5.1	5.1	5.1	5.2	5.2
Union Bank (calc.)	4.4	4.8	5.0	5.3	5.4	5.5	5.4	5.6	5.6
<b>Old private banks</b>									
City Union Bank	4.0	4.3	4.6	4.6	4.8	4.8	4.8	4.8	4.9
Federal Bank (calc.)	4.6	5.0	5.2	5.5	5.7	5.7	5.8	5.8	6.0
Karur Vysya Bank	4.3	4.6	5.0	5.2	5.3	5.4	5.5	5.6	5.7
<b>New private banks</b>									
Axis Bank	4.3	4.8	5.0	5.2	5.4	5.4	5.4	5.5	5.5
Bandhan	5.8	5.8	6.4	6.5	6.6	6.9	7.0	7.0	7.1
DCB	6.1	6.4	6.7	6.9	7.0	7.1	7.2	7.2	7.2
HDFC Bank (calc.)	4.1	4.3	4.7	6.4	5.8	5.7	5.7	5.8	5.8
ICICI Bank	4.0	4.3	4.6	4.8	5.0	5.0	5.0	5.0	5.0
IndusInd Bank	4.7	4.9	5.3	5.4	5.5	5.6	5.6	5.6	5.7
Yes Bank	5.7	5.9	6.2	6.4	6.3	6.3	6.3	6.3	6.3
<b>Small finance banks</b>									
AU Small Finance Bank	6.0	6.3	6.6	6.7	6.9	7.0	7.0	7.0	7.1
Equitas Small Finance Bank	6.6	6.6	6.8	7.3	7.6	7.3	7.3	7.5	7.5
Ujjivan Small Finance Bank	6.6	6.9	7.2	7.4	7.5	7.2	7.5	7.5	7.6

Source: Companies, Kotak Institutional Equities

- Asset quality of banks.** Most major banks under our coverage reported low and stable GNPLs and NNPLs in 3QFY25. NPLs stood at multi-quarter lows aided by solid financial condition of borrowers in the prime and higher segments and high collections for lenders in the secured loan categories (see Exhibit 127). Gross slippages have been under control for most large banks. However, MFI and personal unsecured segments continued to report signs of stress in 3QFY25. Other categories saw modest slippages.

**NPLs and slippages at low levels in general; qoq increase for banks with high share of MFI loans in overall loan book**

Exhibit 127: Trends in gross NPLs, net NPLs and slippages, March fiscal year-ends, 2024-25 (%)

	Gross NPLs (%)					Net NPLs (%)					Slippages (%)				
	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>															
Bank of Baroda	3.1	2.9	2.9	2.5	2.4	0.7	0.7	0.7	0.6	0.6	1.0	1.2	1.1	1.2	1.0
Canara Bank	4.4	4.2	4.1	3.7	3.3	1.3	1.3	1.2	1.0	0.9	1.4	1.4	1.4	1.0	1.0
Punjab National Bank	6.2	5.7	5.0	4.5	4.1	1.0	0.7	0.6	0.5	0.4	0.8	1.0	0.8	0.9	0.7
State Bank of India	2.4	2.2	2.2	2.1	2.1	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.9	0.5	0.4
Union Bank	4.8	4.8	4.5	4.4	3.9	1.1	1.0	0.9	1.0	0.8	1.3	1.5	1.0	2.3	0.8
<b>Old private banks</b>															
City Union Bank	4.5	4.0	3.9	3.5	3.4	2.2	2.0	1.9	1.6	1.4	1.7	2.0	1.5	1.5	1.7
Federal Bank	2.3	2.1	2.1	2.1	2.0	0.6	0.6	0.6	0.6	0.5	1.0	0.7	0.8	0.8	0.9
Karur Vysya Bank	1.6	1.4	1.3	1.1	0.8	0.4	0.4	0.4	0.3	0.2	1.1	1.1	0.9	0.9	0.7
<b>New private banks</b>															
Axis Bank	1.6	1.4	1.5	1.4	1.5	0.4	0.3	0.3	0.3	0.4	1.6	1.4	2.0	1.8	2.1
Bandhan Bank	7.0	3.8	4.2	4.7	4.7	2.2	1.1	1.2	1.3	1.3	5.2	3.5	3.2	3.5	5.0
DCB Bank	3.4	3.2	3.3	3.3	3.1	1.2	1.1	1.2	1.2	1.2	4.6	3.3	3.6	3.7	3.6
HDFC Bank	1.3	1.2	1.3	1.4	1.4	0.3	0.3	0.4	0.4	0.5	1.2	1.2	1.3	1.3	1.4
ICICI Bank	2.3	2.2	2.2	2.0	2.0	0.4	0.4	0.4	0.4	0.4	2.1	1.8	2.0	1.7	1.9
IndusInd Bank	1.9	1.9	2.0	2.1	2.3	0.6	0.6	0.6	0.6	0.7	2.2	1.7	1.8	2.1	2.5
Yes Bank	2.0	1.7	1.7	1.6	1.6	0.9	0.6	0.5	0.5	0.5	2.4	2.5	2.1	2.3	2.3
<b>Small finance banks</b>															
AU Small Finance Bank	2.0	1.7	1.8	2.0	2.3	0.7	0.6	0.6	0.8	0.9	2.5	1.8	2.5	3.3	4.0
Equitas Small Finance Bank	2.5	2.6	2.7	3.0	3.0	1.1	1.2	0.8	0.8	1.0	4.0	4.3	4.5	5.8	6.5
Ujjivan Small Finance Bank	2.2	2.2	2.5	2.5	2.7	0.2	0.3	0.4	0.6	0.6	2.0	1.9	2.6	3.2	4.6
Utkarsh Small Finance Bank	3.0	2.5	2.8	3.9	6.2	0.2	0.0	0.3	0.9	2.5	3.8	2.4	4.3	8.3	15.9
<b>Total</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>					
<b>Public banks</b>	<b>3.6</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>	<b>2.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>					
<b>Private banks</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>					

Source: Companies, Kotak Institutional Equities

Banks reported a modest growth in PPOP yoy, with all large private banks reporting strong yoy growth rates. Provisions remained under control, resulting in a low provisions-to-PPOP ratio in 3QFY25, with IIB being the notable exception, which saw doubling of provisions led by contingent provisions of 15 bps. Exhibit 128 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 increase yoy, while provisions largely stable**

**Exhibit 128: Provisions and pre-provision operating profits (PPOP) for banks in KIE coverage universe, 3QFY24-3QFY25**

	Pre-provision operating profits (Rs bn)					Provisions (Rs bn)						Provisions/PPOP (%)				
	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Public banks</b>																
Bank of Baroda	70	81	72	95	77	22	7	13	10	23	11	9	16	14	25	14
Canara Bank	68	74	76	77	78	26	19	25	23	23	24	28	34	30	29	31
Punjab National Bank	63	64	66	69	66	34	27	16	13	3	(3)	43	25	20	4	(4)
State Bank of India	132	287	264	293	199	1	7	16	34	45	9	5	6	13	15	5
Union Bank	73	65	78	81	75	18	17	13	28	17	16	24	19	35	21	21
<b>Old private banks</b>																
City Union Bank	4	4	4	4	4	1	—	—	—	1	1	13	9	10	16	17
Federal Bank	14	11	15	16	16	—	1	(1)	1	2	3	6	(9)	10	10	19
Karur Vysya Bank	7	9	7	8	8	1	1	3	1	2	1	22	34	18	22	18
<b>New private banks</b>																
Axis Bank	91	105	101	107	105	8	10	12	20	22	22	11	11	20	21	20
Bandhan Bank	17	18	19	19	20	6	7	18	5	6	14	41	97	27	33	68
DCB Bank	2	2	2	3	3	—	—	—	—	—	1	19	10	14	18	25
HDFC Bank	236	293	239	247	250	29	42	135	26	27	32	18	46	11	11	13
ICICI Bank	147	150	160	167	169	6	10	7	13	12	12	7	5	8	7	7
IndusInd Bank	40	40	39	36	36	10	9	9	10	18	17	23	22	27	51	48
<b>Small finance banks</b>																
AU Small Finance Bank	7	6	10	11	12	1	2	1	3	4	5	24	23	30	33	42
Equitas Small Finance Bank	4	4	3	3	3	1	1	1	3	3	2	23	28	89	94	73
Ujjivan Small Finance Bank	5	5	5	5	4	—	1	1	1	2	2	14	15	22	33	62

Source: Companies, Kotak Institutional Equities

- **NBFCs.** 3QFY25 was another decent quarter for most NBFCs under our coverage, with companies reporting strong credit and income growth. Of note, (1) BAF reported 28% yoy AUM growth, driving 23% yoy NII growth, (2) CIFC reported 30% yoy AUM growth, driving 33% yoy NII growth, (3) MMFS reported 18% yoy loan growth, but 13% yoy NII growth and (4) SHFL reported an 18% yoy increase in AUM, leading to 14% yoy increase in NII.

However, yields declined and cost of borrowing increased in a few cases sequentially, which resulted in further compression in NIMs qoq. Exhibit 129 shows the yields, cost of borrowing, spread and NIMs for the NBFC stocks under our coverage. Most of the NBFCs under our coverage continued to report stable asset quality qoq, even as some weakness emerged for certain lenders.

**Stable NIMs qoq for most NBFCs in 3QFY25**

**Exhibit 129: Yields, costs of borrowings, spread and NIMs for the NBFC stocks under our coverage, 3QFY23-3QFY25 (%)**

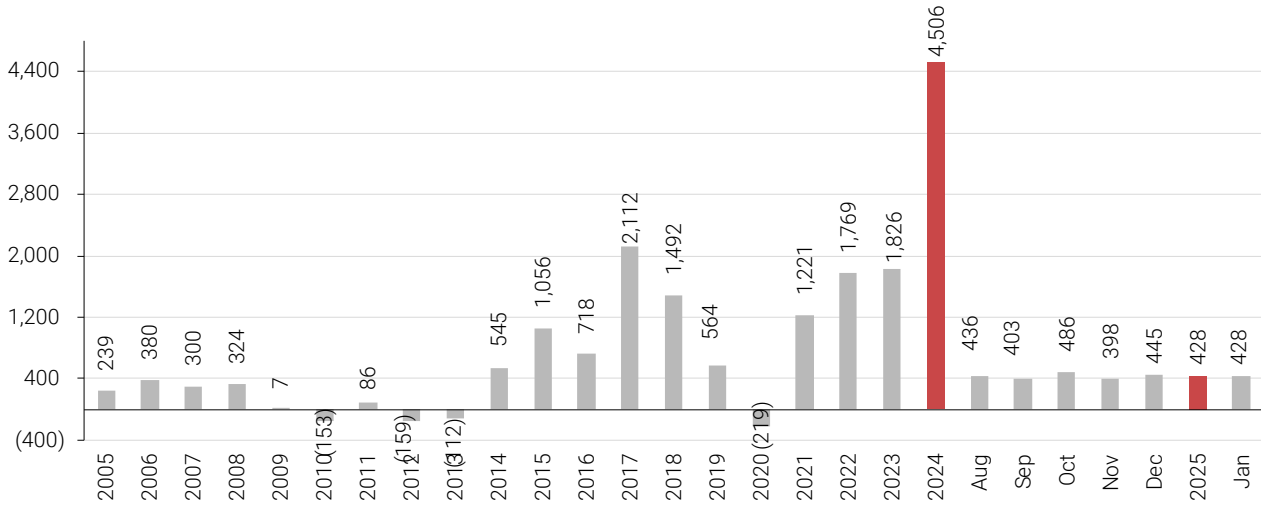
	Yields										Cost of borrowing									
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25		
Aavas Financiers	13.8	13.9	14.2	14.2	13.8	13.5	13.4	13.4	13.6	6.8	6.9	7.3	7.5	7.7	7.4	7.5	8.0	8.0		
Aptus Value Housing Finance	18.1	17.8	17.1	17.6	17.3	17.1	17.1	17.1	17.3	8.3	8.3	8.5	9.1	8.8	8.8	8.9	8.7	9.0		
Bajaj Finance	16.5	16.5	16.7	16.8	16.7	16.5	16.4	16.4	16.5	7.0	6.9	7.3	7.4	7.5	7.5	7.6	7.8	7.8		
Cholamandalam	14.0	14.1	14.1	14.3	14.4	14.3	14.4	14.4	14.5	7.3	7.4	7.8	7.8	8.0	8.0	7.9	7.9	8.1		
Home First Finance	13.9	14.3	14.7	14.6	14.4	14.3	14.2	14.2	14.4	7.2	7.8	8.2	8.1	8.1	8.4	8.5	8.4	8.5		
L&T Finance Holdings	14.3	14.8	15.1	15.5	15.5	15.5	15.5	15.5	15.5	7.0	6.8	6.9	7.0	7.1	7.0	6.9	7.1	7.3		
LIC Housing Finance	8.8	9.4	9.7	9.7	9.6	9.7	9.4	9.4	9.4	7.2	7.2	7.4	7.6	7.6	7.5	7.5	7.6	7.6		
Mahindra Finance	14.8	14.7	14.3	14.0	14.1	14.2	13.8	13.8	13.7	7.2	7.3	7.5	7.6	7.8	7.7	7.8	7.8	7.9		
Muthoot Finance	17.3	17.4	18.2	18.5	18.1	17.7	17.8	17.8	18.3	7.9	7.8	8.0	8.0	8.4	8.7	8.6	8.4	8.7		
Shriram Finance	16.5	16.4	16.2	16.6	16.5	16.5	16.3	16.3	16.5	8.0	8.3	8.7	8.9	8.7	8.8	8.7	8.7	8.8		
	Spreads										NIM									
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25		
Aavas Financiers	7.0	7.0	6.9	6.7	6.1	6.1	5.9	5.4	5.5	8.0	8.0	7.8	7.4	7.0	7.0	6.8	6.7	6.8		
Aptus Value Housing Finance	9.8	9.5	8.6	8.5	8.4	8.3	8.2	8.4	8.3	13.1	13.1	12.2	12.4	12.2	12.0	11.7	11.8	11.7		
Bajaj Finance	9.5	9.6	9.4	9.3	9.1	9.0	8.8	8.6	8.7	10.5	10.5	10.4	10.3	10.2	10.0	9.8	9.7	9.7		
Cholamandalam	6.6	6.6	6.3	6.5	6.4	6.2	6.5	6.4	6.5	7.1	7.1	6.8	6.8	6.8	6.8	6.9	6.8	6.9		
Home First Finance	6.7	6.5	6.5	6.5	6.3	5.9	5.6	5.8	5.9	8.1	8.0	8.0	7.8	7.4	7.0	6.9	6.9	6.7		
L&T Finance Holdings	NA	NA	NA	NA	NA	NA	NA	NA	NA	7.6	7.9	8.2	8.8	9.1	9.1	9.3	9.0	8.7		
LIC Housing Finance	1.6	2.2	2.3	2.1	2.0	2.2	1.9	1.7	1.8	2.4	2.9	3.2	3.0	3.0	3.2	2.8	2.7	2.7		
Mahindra Finance	7.6	7.4	6.8	6.4	6.4	6.5	6.1	6.1	5.8	8.2	8.0	7.5	7.0	7.1	7.3	6.8	6.6	6.7		
Muthoot Finance	9.4	9.5	10.2	10.5	9.7	9.0	9.2	9.4	9.6	10.7	11.0	11.9	12.3	11.6	10.9	10.9	11.6	11.5		
Shriram Finance	8.6	8.0	7.5	7.8	7.9	7.8	7.6	7.6	7.7	9.5	9.4	9.0	9.5	9.6	9.4	9.2	9.3	9.0		

Source: Companies, Kotak Institutional Equities

- Capital market companies.** Most AMC's under coverage reported strong revenue growth, driven by (1) continued robust inflows into equity mutual funds (see Exhibit 130) and (2) steady profitability. We note that most AMC's maintained their market share on a sequential basis (see Exhibit 131). The larger AMC's 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 132).

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

**Exhibit 130: Net MF flows (Equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)**



Source: AMFI, Kotak Institutional Equities

**Most AMC's have maintained their market share in 9MFY25**

**Exhibit 131: Actively-managed equity oriented market share (MAAUM basis), March fiscal year-ends, 2017-25 (%)**

	2017	2018	2019	2020	2021	2022	2023	2024	9MFY25
Aditya Birla Sun Life	8.7	9.2	8.8	7.7	7.2	6.4	5.5	4.8	4.3
Axis AMC	3.3	3.6	4.6	6.8	8.0	8.4	7.1	5.6	5.0
Bandhan AMC	2.2	2.1	2.2	2.6	2.0	1.6	1.5	1.6	1.7
DSP Mutual Fund	4.4	4.4	3.9	3.9	4.1	3.8	3.4	3.1	3.1
Franklin Templeton	7.5	5.6	5.2	4.3	3.7	2.8	2.6	2.5	2.4
HDFC AMC	15.8	16.2	15.6	14.4	13.0	11.4	12.2	12.9	12.9
ICICI Prudential AMC	15.2	15.0	14.3	13.5	12.5	12.4	13.0	13.2	13.0
Kotak AMC	3.7	4.7	5.1	6.4	6.7	7.0	7.0	7.2	7.3
Mirae AMC	1.2	1.5	2.2	3.5	4.7	4.9	4.9	4.4	3.9
Nippon Life India AMC	9.7	9.2	8.9	7.4	6.9	6.3	6.4	6.8	7.1
SBI AMC	8.0	7.9	8.9	9.7	10.2	12.0	12.6	12.8	12.5
Tata AMC	2.1	1.7	2.3	2.3	2.5	2.9	2.8	2.8	2.8
UTI AMC	6.3	4.8	4.7	4.4	4.8	4.8	4.5	3.9	3.7
<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>86.6</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>	<b>72.8</b>

Source: AMFI, Kotak Institutional Equities



**Strong revenue and PAT growth yoy**

Exhibit 132: Growth in revenues and core PBT of AMCs and RTAs yoy, 3QFY23-3QFY25 (%)

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Revenue growth</b>									
360 One	10	(7)	8	12	6	46	48	30	34
ABSL AMC	(6)	(8)	2	8	9	23	24	25	24
CAMS	2	2	10	13	19	25	27	33	26
HDFC AMC	2	5	10	18	20	29	35	38	32
Kfin Technologies	12	1	8	16	16	25	31	34	28
Nippon AMC	5	3	12	20	20	34	43	45	35
UTI AMC	1	(9)	(2)	0	2	18	19	28	29
<b>Core PBT growth</b>									
360 One	45	12	(5)	7	(11)	27	65	40	37
ABSL AMC	(15)	(25)	(5)	0	6	30	29	32	42
CAMS	(8)	(4)	11	15	20	36	43	45	40
HDFC AMC	(2)	3	10	17	21	30	40	48	51
Kfin Technologies	79	12	16	28	25	31	52	43	36
Nippon AMC	1	3	12	20	18	37	60	55	50
UTI AMC	(10)	(24)	(18)	(7)	(8)	47	41	60	75

Source: Companies, Kotak Institutional Equities

- **Strong growth in domestic revenues for capital goods companies, while margins appear to have peaked.** 3QFY25 domestic revenues of capital goods companies showed strong yoy growth (see Exhibit 133), with KKC reporting 17% yoy growth and L&T reporting 26% yoy growth in domestic revenues. Meanwhile, order inflows improved for most capital goods companies under our coverage (see Exhibit 134). We note that KKC continues to see strong ordering momentum in its power generation and industrials segments, while L&T witnessed lumpy large orders in (1) the thermal segment in the domestic market and (2) the renewable segment in international market.

**Capital goods companies reported decent revenue growth in 3QFY25**

Exhibit 133: Domestic revenues of industrial companies under KIE coverage, 3QFY23-3QFY25

	Domestic revenues (Rs bn)									Yoy growth (%)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
ABB	21	21	22	25	25	28	25	26	28	17	31	15	3	12
BEL	40	63	35	39	41	86	42	46	57	1	35	20	17	39
BHEL	78	78	49	50	53	80	53	64	71	(32)	2	10	28	32
Cochin Shipyard	6	5	4	9	10	12	8	11	11	62	112	79	16	10
Cummins	16	14	17	14	22	20	19	21	26	35	41	12	47	17
Larsen & Toubro	292	362	287	291	251	369	287	295	317	(14)	2	(0)	2	26
Siemens	34	41	40	42	39	47	43	48	29	12	13	5	15	(25)
Thermax	16	19	19	17	19	22	18	21	15	18	11	(9)	23	(17)
<b>Total</b>	<b>505</b>	<b>605</b>	<b>473</b>	<b>487</b>	<b>459</b>	<b>662</b>	<b>493</b>	<b>531</b>	<b>553</b>	<b>(9)</b>	<b>10</b>	<b>4</b>	<b>9</b>	<b>21</b>

Note:

(a) We use KIE estimates for 3QFY25 domestic revenues of ABB.

Source: Companies, Kotak Institutional Equities

**Order inflows of capital goods companies were quite strong in 3QFY25**

**Exhibit 134: Order inflows of key industrials and construction companies, 3QFY23-3QFY25**

	Order inflows (Rs bn)									Yoy growth (%)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
ABB	23	31	30	30	30	36	34	33	35	29	15	13	11	17
BEL	15	170	82	74	110	83	50	25	23	660	(51)	(39)	(66)	(79)
BHEL	8	57	156	178	26	419	95	320	63	221	634	(39)	80	145
Larsen & Toubro	454	401	379	233	250	469	383	299	545	(45)	17	1	28	118
Siemens	54	58	53	50	60	52	62	62	43	10	(10)	17	24	(28)
Thermax	22	23	26	15	20	23	26	16	20	(8)	2	(0)	9	1
Voltas	22	14	7	15	5	9	9	8	14	(77)	(31)	25	(43)	177
<b>Total</b>	<b>598</b>	<b>753</b>	<b>733</b>	<b>594</b>	<b>501</b>	<b>1,090</b>	<b>659</b>	<b>763</b>	<b>629</b>	<b>(16)</b>	<b>45</b>	<b>(10)</b>	<b>29</b>	<b>25</b>

Note:

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

(b) We use KIE estimates for 3QFY25 order inflows of ABB.

Source: Companies, Kotak Institutional Equities

However, several capital goods companies reported sequential moderation in margins in 3QFY25, partly driven by a deteriorating mix. Exhibit 135 shows gross and EBITDA margins for the capital goods companies in our coverage. We model most capital goods companies to see moderation in profitability over FY2025-26E from FY2024 peak levels, driven by increasing competitive intensity in high-margin businesses (see Exhibit 136).

**A number of capital goods companies reported moderation in margins**

**Exhibit 135: Gross and EBITDA margin of capital goods companies under our coverage, 3QFY23-3QFY25 (%)**

	Gross margin (%)									EBITDA margin (%)								
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
ABB	36.1	36.3	36.5	36.7	37.5	40.2	42.8	43.4	NA	15.0	11.8	13.9	15.8	15.1	18.3	19.2	18.6	NA
Bharat Electronics	41.5	48.2	43.7	49.0	48.8	48.5	45.4	53.5	48.3	20.7	28.3	19.0	25.3	25.8	26.7	22.3	30.4	28.9
BHEL	30.1	31.1	29.1	27.6	26.8	33.2	29.3	32.7	37.0	2.7	12.0	(7.3)	(7.6)	(1.1)	8.8	(3.1)	4.2	4.2
Carborundum Universal	62.9	61.9	61.1	64.7	64.1	64.5	64.8	63.9	61.9	14.4	15.9	14.1	14.6	16.7	17.4	16.2	15.9	14.1
CG Power & Industrial	31.6	30.2	30.2	31.6	30.9	31.3	31.2	29.6	30.0	15.5	14.5	14.2	15.4	13.2	13.0	14.7	12.2	13.2
Cochin Shipyard	47.6	12.5	49.8	36.0	45.4	40.9	47.0	33.5	37.2	24.4	(11.5)	18.5	20.4	30.5	17.9	25.7	17.9	22.6
Cummins India	33.8	32.7	32.5	36.7	37.0	35.5	37.8	35.8	35.3	18.9	16.9	15.4	17.8	21.2	18.4	20.3	19.3	18.9
G R Infraprojects	25.0	24.1	24.1	24.3	24.4	27.2	23.9	26.0	23.0	14.6	14.5	14.6	12.3	12.6	17.7	13.0	10.4	12.8
IRB Infrastructure	60.5	56.3	57.5	58.3	54.4	52.5	58.9	60.0	60.0	49.2	46.8	47.6	45.5	44.2	43.2	46.3	48.3	48.6
KEC International	19.6	19.3	24.7	23.2	20.7	19.5	23.8	22.8	22.8	4.6	5.1	5.8	6.1	6.1	6.3	6.0	6.3	7.0
L&T	40.1	34.9	38.8	39.1	36.1	33.5	38.0	35.9	35.1	10.9	11.7	10.2	11.0	10.4	10.8	10.2	10.3	9.7
Siemens	33.5	31.5	32.6	29.4	32.1	32.5	33.4	33.4	32.5	14.9	12.8	11.6	12.1	12.4	15.3	13.3	13.6	11.2
Thermax	44.1	44.8	44.3	44.4	44.6	43.1	43.8	44.8	44.5	7.9	8.7	6.8	8.9	8.1	9.9	6.5	10.6	8.6

Source: Companies, Kotak Institutional Equities

**We assume profitability peaking for most capital goods companies in FY2025E**

**Exhibit 136: Gross and EBITDA margin of capital goods companies under our coverage, March fiscal year-ends, 2019-27E (%)**

	Gross margin (%)									EBITDA margin (%)								
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
ABB	32.5	33.5	33.5	33.3	35.3	36.8	40.0	36.9	37.0	6.8	7.3	4.7	8.0	11.2	14.3	18.5	17.2	16.6
Bharat Electronics	51.4	45.3	44.5	42.1	44.6	47.8	48.7	47.2	47.0	23.9	21.2	22.8	21.7	23.0	24.9	27.5	27.3	27.3
BHEL	41.3	36.2	33.1	31.5	32.0	27.8	33.1	34.6	36.5	7.1	(1.1)	(18.1)	3.5	4.1	2.6	4.1	7.8	11.5
Carborundum Universal	64.5	65.9	65.9	65.2	63.2	63.9	64.4	64.9	65.4	16.3	15.3	17.7	16.1	14.0	15.7	16.2	17.2	17.8
CG Power & Industrial	35.0	34.9	33.4	28.8	30.4	31.0	30.2	30.0	29.8	4.5	1.4	3.6	11.5	14.2	14.0	13.5	13.7	13.4
Cochin Shipyard	49.3	36.9	44.8	36.4	34.2	40.1	37.6	35.0	35.0	19.3	20.7	25.5	19.8	11.2	22.7	21.6	18.9	19.2
Cummins India	36.1	34.7	36.2	33.1	32.5	35.6	35.6	34.5	34.7	15.3	11.4	13.4	14.4	16.0	19.7	19.3	18.8	19.4
G R Infraprojects	28.7	30.0	25.7	25.1	26.0	25.1	23.5	25.0	25.0	20.4	20.6	18.1	16.2	16.1	14.6	12.9	13.2	13.6
IRB Infrastructure	52.8	52.5	59.2	59.0	61.0	55.5	55.5	55.5	55.5	44.5	43.4	47.4	48.2	50.4	45.0	51.0	49.0	49.5
Kalpataru Projects	27.3	27.1	28.1	24.6	24.3	24.6	25.0	25.0	25.0	12.4	11.7	11.7	8.7	8.4	8.3	8.9	9.2	9.3
KEC International	26.2	29.6	26.7	23.9	21.2	21.7	22.4	22.7	22.7	10.5	10.3	8.7	6.6	4.8	6.1	7.0	8.3	8.7
L&T	29.6	33.1	26.7	86.6	36.4	34.0	33.0	33.0	33.0	11.6	11.2	11.5	11.6	11.3	10.6	10.3	10.6	10.8
Siemens	32.6	36.0	31.7	32.3	31.6	32.6	29.8	29.8	29.8	11.6	10.0	11.1	10.9	12.7	14.0	12.6	12.6	12.6
Thermax	44.1	46.2	47.0	43.1	42.8	44.0	46.0	46.0	46.0	7.7	7.1	7.4	6.9	7.4	8.6	8.8	10.1	10.5

Source: Companies, Kotak Institutional Equities

- ▶ **Weak volume growth and lower margins for consumer companies.** Consumer companies saw continued weakness in volume growth in 3QFY25, driven by (1) weakness in household balance sheets, especially in urban areas, (2) increased competition from regional players and (3) weak government spending. Most discretionary categories also struggled with demand in 3QFY25, despite the tailwinds of a festive season. Automobile volumes were weak across most segments and OEMs. Meanwhile, margins of many incumbents continued to be under pressure in 3QFY25.
- **Automobiles and automobile components.** Automobile volumes were weak in 3QFY25 across categories, with 2Ws, CVs and PVs reporting weak volume growth. Exhibit 137 shows the quarterly volumes of various automobile segments. We note that the premium segment was the key driver for 2W volumes in 3QFY25, while the mass-market segments witnessed a sharp slowdown (see Exhibit 138). Meanwhile, the micro-SUV and compact-SUV categories were the major driver for PV volumes, while other categories have somewhat struggled (see Exhibit 139).

**A number of auto OEMs witnessed yoy declines in volumes in 3QFY25**

**Exhibit 137: Domestic volumes of select companies in auto sector, 3QFY23-3QFY25**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Domestic sales volumes (units)</b>									
Ashok Leyland	44,626	56,999	38,835	47,047	44,167	52,735	29,284	42,327	42,253
<b>Bajaj Auto</b>									
Two wheelers	455,341	414,993	542,931	505,320	655,453	547,007	582,497	636,801	587,855
Three wheelers	88,891	99,749	98,482	131,920	122,662	110,349	108,045	139,882	119,241
<b>Eicher Motors</b>									
Two wheelers	202,109	192,031	207,171	209,717	213,385	204,522	204,686	206,157	242,013
Commercial vehicles	16,709	24,630	17,855	18,256	19,253	23,972	43,387	18,861	19,113
Hero Motocorp	1,204,243	1,234,270	1,317,250	1,363,940	1,413,894	1,325,286	1,484,162	1,456,504	1,390,262
Hyundai Motor	134,834	147,707	148,303	158,772	147,329	160,313	149,455	149,639	146,022
Maruti Suzuki	384,742	427,578	414,055	459,052	406,983	479,791	419,114	425,500	431,020
M&M (passenger vehicles)	91,135	99,395	100,172	114,742	118,863	126,100	124,248	135,962	142,150
<b>Tata Motors</b>									
Commercial vehicles	90,699	110,526	79,535	96,003	89,387	101,309	82,489	75,975	88,809
Passenger vehicles	132,302	136,304	143,082	141,045	140,223	158,565	143,232	133,884	141,875
TVS Motors	629,033	678,653	721,470	792,351	846,962	796,267	828,323	912,461	910,887
<b>Yoy change (%)</b>									
Ashok Leyland	44	28	5	11	(1)	(7)	(25)	(10)	(4)
<b>Bajaj Auto</b>									
Two wheelers	(3)	22	73	(19)	44	32	7	26	(10)
Three wheelers	71	100	157	81	38	11	10	6	(3)
<b>Eicher Motors</b>									
Two wheelers	34	20	31	15	6	7	(1)	(2)	13
Commercial vehicles	26	40	16	15	15	(3)	143	3	(1)
Hero Motocorp	(2)	12	(1)	(2)	17	7	13	7	(2)
Hyundai Motor	(2)	12	(1)	(2)	9	9	1	(6)	(1)
Maruti Suzuki	13	8	12	8	6	12	1	(7)	6
M&M (passenger vehicles)	59	32	31	24	30	27	24	18	20
<b>Tata Motors</b>									
Commercial vehicles	1	1	(15)	4	(1)	(8)	4	(21)	(1)
Passenger vehicles	33	10	8	(2)	6	16	0	(5)	1
TVS Motors	8	25	28	9	35	17	15	15	8

Source: SIAM, Kotak Institutional Equities

**Entry level and mid-sized segments witnessed moderating demand**

**Exhibit 138: Motorcycle volumes by categories in India, March fiscal year-ends, 2023-25 (#)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Motorcycle volumes mix</b>									
Industry motorcycles volumes	2,532,781	2,291,004	2,737,348	2,913,779	3,092,035	2,910,075	3,197,922	3,209,965	3,034,750
Yoy growth (%)	4	5	14	(3)	22	27	17	10	(2)
<b>&lt;125 cc</b>									
Motorcycles volumes	1,915,462	1,729,675	2,107,203	2,218,242	2,348,578	2,171,671	2,417,191	2,467,186	2,313,545
Motorcycles mix (%)	75.6	75.5	77.0	76.1	76.0	74.6	75.6	76.9	76.2
Yoy growth (%)	(0)	1	7	(4)	23	26	15	11	(1)
<b>125-250 cc</b>									
Motorcycles volumes	400,347	357,634	404,272	454,265	498,149	499,327	544,338	498,131	447,434
Motorcycles mix (%)	15.8	15.6	14.8	15.6	16.1	17.2	17.0	15.5	14.7
Yoy growth (%)	12	19	52	(7)	24	40	35	10	(10)
<b>&gt;250 cc</b>									
Motorcycles volumes	216,972	203,695	225,873	241,272	245,308	239,077	236,393	244,648	273,771
Motorcycles mix (%)	8.6	8.9	8.3	8.3	7.9	8.2	7.4	7.6	9.0
Yoy growth (%)	29	16	32	19	13	17	5	1	12

Source: SIAM, Kotak Institutional Equities

**Micro and compact SUVs driving volume growth in 3QFY25**

**Exhibit 139: Segment-wise domestic PV volumes, March fiscal year-ends, 2023-25 (#)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Growth Yoy (%)
<b>Segment-wise domestic volumes (units)</b>										
Hatchback segment	313,420	346,093	318,216	298,444	252,944	296,725	271,419	246,743	235,650	(6.8)
Sedan	106,465	101,394	95,517	98,060	91,238	97,824	94,123	75,629	83,589	(8.4)
Micro SUV (< 4m)	50,891	48,813	74,400	110,469	109,639	131,036	125,979	119,992	126,687	15.5
Compact SUV (< 4m)	145,263	166,744	154,736	145,956	151,004	161,904	162,797	174,790	173,351	14.8
Mid SUV (> 4m)	113,755	129,963	117,455	148,242	144,792	150,542	128,336	150,393	148,426	2.5
Large SUV	93,795	99,810	106,594	120,049	123,270	133,388	113,662	127,129	135,167	9.7
Premium SUV	6,447	11,705	10,223	9,986	9,312	11,856	8,023	8,349	9,970	7.1
<b>SUV segment</b>	<b>410,151</b>	<b>457,035</b>	<b>463,408</b>	<b>534,702</b>	<b>538,017</b>	<b>588,726</b>	<b>538,797</b>	<b>580,653</b>	<b>593,601</b>	<b>10.3</b>
MUVs	104,367	113,099	118,400	142,434	130,390	152,226	143,341	157,615	150,081	15.1
<b>Total</b>	<b>934,403</b>	<b>1,017,621</b>	<b>995,541</b>	<b>1,073,640</b>	<b>1,012,589</b>	<b>1,135,501</b>	<b>1,047,680</b>	<b>1,060,640</b>	<b>1,062,921</b>	<b>5.0</b>
<b>segment-wise domestic volumes mix (%)</b>										
Hatchback segment	34	34	32	28	25	26	26	23	22	
Sedan segment	11	10	10	9	9	9	9	7	8	
Micro SUV (< 4m)	5	5	7	10	11	12	12	11	12	
Compact SUV (< 4m)	16	16	16	14	15	14	16	16	16	
Mid SUV (> 4m)	12	13	12	14	14	13	12	14	14	
Large SUV	10	10	11	11	12	12	11	12	13	
Premium SUV	1	1	1	1	1	1	1	1	1	
SUV segment	44	45	47	50	53	52	51	55	56	
MUVs	11	11	12	13	13	13	14	15	14	
<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

Most automobile companies witnessed weak margins sequentially in 3QFY25, as companies had to increase discounts to combat the weak demand environment. The moderation in gross margins and volumes for 2Ws and 4Ws resulted in weaker yoy EBITDA margins for most companies (see Exhibit 140). Companies highlighted that the urban demand environment was muted, even as some signs of recovery was seen in rural demand.

**Most large auto companies have reported margin compression in 3QFY25**

**Exhibit 140: Gross and EBITDA margins of auto companies under our coverage, 3QFY23-3QFY25 (%)**

	Gross margin (%)									EBITDA margin (%)								
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Amara Raja Energy & Mobility	33.4	33.5	28.9	31.6	34.0	34.5	31.1	32.4	32.8	15.0	15.4	12.8	13.8	15.1	14.6	13.7	14.1	14.6
Apollo Tyres	39.7	43.4	45.0	45.7	46.6	47.2	45.5	44.8	41.5	14.2	16.0	16.8	18.5	18.3	16.4	14.4	13.6	13.7
Ashok Leyland	23.7	24.5	26.3	26.5	27.8	28.2	27.8	28.8	28.5	8.8	11.5	10.0	11.2	12.0	14.1	10.6	11.6	12.8
Bajaj Auto	29.4	30.2	28.1	29.0	28.9	29.7	30.0	28.7	28.7	19.1	19.3	19.0	19.8	20.1	20.1	20.2	20.2	20.2
Balkrishna Industries	48.6	50.0	51.7	51.9	52.0	53.3	53.1	52.6	52.4	19.1	21.4	23.0	24.4	25.3	25.9	26.0	25.1	24.9
Bharat Forge	44.1	43.5	44.3	43.3	41.9	41.4	41.8	40.8	40.1	14.0	12.1	15.4	16.5	18.0	15.4	18.0	17.5	18.0
CEAT	34.5	40.1	41.1	43.3	41.3	42.3	39.2	37.4	36.8	8.7	12.8	13.2	14.9	14.1	13.1	12.0	11.0	10.3
Eicher Motors	41.8	44.3	44.1	46.0	46.0	46.5	46.4	46.5	45.1	23.0	24.5	25.6	26.4	26.1	26.5	26.5	25.5	24.2
Endurance Technologies	40.1	40.7	40.9	39.8	39.9	43.0	42.5	42.2	42.9	11.4	12.8	13.1	12.5	11.7	14.5	13.2	13.1	13.0
Escorts Kubota	25.5	28.5	30.2	32.3	30.6	31.9	31.9	30.8	26.9	8.4	10.8	14.0	12.9	13.5	12.8	14.3	10.8	11.4
Exide Industries	32.2	29.8	28.3	31.1	31.5	33.0	30.7	31.5	32.0	11.8	10.4	10.6	11.8	11.5	12.9	11.5	11.3	11.7
Hero Motocorp	30.6	32.0	30.6	31.4	32.7	33.6	32.3	33.3	34.2	11.5	13.0	13.8	14.1	14.0	14.3	14.4	14.5	14.5
Hyundai Motor	NA	NA	24.2	25.1	26.6	28.5	28.1	27.4	26.8	NA	NA	12.0	13.1	12.9	14.3	13.5	12.8	11.3
Mahindra & Mahindra	24.0	23.3	24.7	24.4	24.6	26.8	26.3	25.8	25.6	13.0	12.5	13.4	12.6	12.8	13.1	14.9	14.3	14.6
Maruti Suzuki	27.3	26.7	27.2	29.4	29.1	28.6	29.8	28.1	28.4	9.8	10.5	9.2	12.9	11.7	12.3	12.7	11.9	11.6
MRF	32.1	37.0	38.8	40.8	40.1	38.9	37.3	36.5	33.1	9.9	14.7	17.6	18.5	17.2	14.2	16.1	14.4	11.6
Samvardhana Motherson	43.0	43.4	43.5	43.2	44.8	47.4	46.4	45.8	47.1	7.8	8.3	8.6	8.0	9.0	10.8	9.6	8.8	9.7
Schaeffler India	39.0	38.8	38.6	37.1	37.2	37.9	37.7	37.5	NA	19.2	18.6	18.7	18.4	17.3	17.6	17.9	17.4	NA
SKF	41.5	38.7	39.8	34.0	41.7	41.2	39.3	33.4	33.3	17.1	15.3	17.6	10.8	15.8	17.7	16.1	10.0	9.7
Sona BLW Precision	55.8	54.3	56.9	55.1	59.1	56.4	57.6	56.0	55.9	27.2	27.1	27.8	28.2	29.3	28.0	28.1	27.6	27.0
Tata Motors	35.1	35.6	37.6	36.4	38.3	38.5	39.0	38.7	38.9	10.9	12.1	13.3	13.1	13.9	14.2	14.4	11.5	11.5
Timken	39.5	42.0	41.2	41.6	40.5	40.7	39.4	39.3	39.2	17.0	20.3	18.9	19.9	16.7	22.1	18.0	17.7	15.9
TVS Motor	24.5	24.6	25.4	26.0	26.3	27.2	28.6	28.5	28.4	10.1	10.3	10.6	11.0	11.2	11.3	11.5	11.7	11.9
Uno Minda	36.8	35.6	35.8	34.4	35.0	36.5	35.6	35.1	34.5	11.6	11.1	10.7	11.1	10.8	12.5	10.7	11.4	10.9
Varroc Engineering	34.5	35.0	36.8	36.7	36.3	39.3	37.5	35.8	35.4	7.5	7.4	10.1	10.3	9.3	11.2	9.2	10.0	9.0

Source: Companies, Kotak Institutional Equities

- **Consumer staples, consumer discretionary.** 3QFY25 demand was patchy, with only a few consumer staples companies reporting some improvement in volume growth. Companies continued to struggle with weak volumes in the majority of consumer categories, with most staples companies reporting weak volume growth in 3QFY25, similar to the past few quarters, with (1) DABUR reporting 1% yoy growth, (2) HUL reporting flat volumes, (3) MRCO’s parachute and Saffola businesses reporting 3% yoy volume growth, (4) APNT reporting 2% volume growth and (5) WLDL reporting 3% yoy growth. A few companies, such as (1) BRIT (+6%), (2) PIDI (+10%) and (3) UNSP (+10%), reported strong yoy growth in volumes.

Exhibit 141 shows the trends in volume growth of the major consumer staples and discretionary companies under our coverage in the past several quarters. We note that weak volume growth continues to weigh on revenue growth of consumer companies, even as the prevailing weak demand environment has challenged companies’ ability to take price hikes in an inflationary environment for raw materials (see Exhibit 142). A number of companies suggested a gradual recovery underway in rural markets. However, the improvement may need to be seen in the context of a weak base and will need a few more quarters for confirmation.

**Weak volume growth for most consumer companies in 3QFY25**

**Exhibit 141: Volume growth of consumer companies, 3QFY23-3QFY25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Staples</b>									
Britannia Industries - Domestic	4	3.0	—	—	6	6	8	8	6
Colgate - Overall	(3)	(1)	6	(1)	2	2	8	8	5
Dabur - Domestic	(3)	—	3	3	4	4	5	(10)	1
HUL (FMCG business)	5	4	3	2	2	2	4	3	—
Marico - Domestic	4	5	3	3	2	3	4	5	6
Marico - Parachute	2	9	(2)	1	3	2	2	4	3
Marico - Saffola	12	(6)	11	2	(5)	5	5	—	3
TCPL - Food	4	8	6	6	5	4	10	1	1
TCPL - Tea	(5)	3	3	3	2	—	—	(3)	7
<b>Discretionary</b>									
Asian Paints (decoratives)	—	16	10	6	12	10	7	(1)	2
Berger (decoratives)	—	14	13	11	9	14	12	4	7
ITC - Cigarettes	15	12	8	5	(2)	2	3	3	6
Kansai Nerolac	(8)	13	6	(1)	10	10	4	4	1
Pidilite - Domestic consumer business	1	7	12	8	11	15	8	6	10
United Breweries	4	3	(12)	7	8	11	5	5	8
United Spirits	(25)	(27)	(29)	(27)	(1)	4	3	(4)	10
Varun Beverages	18	24	5	16	18	7	28	22	38
Westlife Foodworld	20	14	7	1	(9)	(5)	(7)	(7)	3

Source: Companies, Kotak Institutional Equities

**Weak revenue growth for most consumer companies under coverage**

**Exhibit 142: Revenue growth of consumer staples companies under KIE coverage, March fiscal year-ends, 2023-25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Britannia Industries	17.4	13.3	8.4	1.2	1.4	1.1	6.0	5.3	7.9
Colgate-Palmolive (India)	0.9	3.8	10.6	6.0	8.1	9.6	13.1	10.1	4.7
Dabur India	3.4	6.4	10.9	7.3	7.0	5.1	7.0	(5.5)	3.1
Godrej Consumer Products	9.0	9.8	10.4	6.2	1.7	5.8	(3.4)	1.8	3.0
Hindustan Unilever	16.3	10.6	6.1	3.6	(0.3)	(0.2)	1.3	1.5	1.4
ITC	2.3	5.6	(8.5)	2.6	1.6	1.1	7.4	16.8	3.5
Jyothy Labs	13.7	12.8	15.1	11.1	10.6	7.0	8.0	0.2	4.0
Marico	2.6	3.7	(3.2)	(0.8)	(1.9)	1.7	6.7	7.6	15.4
Nestle India	13.8	21.3	15.4	9.7	8.1	9.0	3.3	1.3	3.9
Sula Vineyards	11.7	6.4	17.6	11.4	6.5	8.2	11.5	(1.0)	(1.4)
Tata Consumer Products	8.3	14.0	12.5	11.0	9.5	8.5	16.3	12.9	16.8
United Breweries	1.9	3.4	(6.7)	12.4	13.1	20.8	8.8	12.0	0.0
United Spirits	(3.6)	2.4	0.1	(0.5)	7.5	6.9	8.3	(0.8)	14.8
Varun Beverages	27.7	37.7	13.3	21.8	20.5	10.9	28.3	24.1	38.3

Source: Companies, Kotak Institutional Equities

3QFY25 margins of most consumer companies declined yoy, but a few companies saw some improvement sequentially (see Exhibit 143). We note that RM prices have increased further in the past 3-6 months (see Exhibit 144), especially of oil-based commodities, resulting in margin pressure in some pockets. Meanwhile, a number of companies have rationalized their A&P spending to control costs amid a weak demand environment (see Exhibit 145).

**Elevated profitability for most consumer companies; moderation in margins in certain cases**

**Exhibit 143: Gross and EBITDA margins of consumer companies under our coverage, 3QFY23-3QFY25 (%)**

	Gross margin (%)								EBITDA margin (%)									
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Asian Paints	38.6	42.6	42.9	43.4	43.6	43.7	42.5	40.8	42.4	18.7	21.3	23.1	20.2	22.6	19.4	18.9	15.4	19.1
Avenue Supermarts	14.8	14.0	15.2	14.7	14.9	14.5	15.6	14.9	14.7	8.3	7.3	8.7	8.0	8.3	7.4	8.7	7.6	7.6
Berger Paints	34.7	39.8	39.8	41.1	41.1	40.7	39.9	41.7	41.6	13.0	15.1	18.4	17.1	16.7	13.9	16.9	15.6	15.9
Britannia Industries	43.7	44.9	41.9	42.9	43.9	44.9	43.4	42.6	38.7	19.5	19.9	17.2	19.7	19.3	19.4	17.7	16.8	18.4
Colgate-Palmolive (India)	65.9	66.9	68.4	68.8	72.2	69.3	70.6	68.5	69.9	28.0	33.5	31.6	32.8	33.6	35.7	34.0	30.7	31.1
Dabur India	45.5	45.8	46.6	48.3	48.6	48.6	47.8	49.3	48.1	20.0	15.3	19.3	20.6	20.5	16.6	19.6	18.2	20.3
Godrej Consumer Products	51.1	52.9	53.7	54.9	55.9	56.1	55.9	55.5	54.1	20.2	20.0	18.6	19.5	23.0	22.3	21.7	20.7	20.1
Hindustan Unilever	47.5	48.7	49.9	52.7	51.5	51.9	51.4	51.0	50.7	23.2	23.3	23.2	24.2	23.3	23.1	23.5	23.5	23.2
ITC	58.9	58.6	54.1	57.3	58.4	59.9	57.7	52.9	54.4	38.4	37.9	34.7	36.5	36.5	37.2	37.0	32.8	34.2
Jubilant Foodworks	75.5	75.3	76.0	76.4	76.7	76.6	76.1	76.1	76.2	22.0	20.1	21.1	20.9	20.9	19.1	19.3	19.4	20.2
Jyothy Labs	43.1	45.7	47.9	49.2	49.8	49.5	51.3	50.0	49.8	13.8	14.8	17.1	18.5	17.5	16.4	18.0	18.9	16.4
Kansai Nerolac	30.2	31.6	35.3	35.7	36.2	34.8	37.0	34.0	35.3	11.0	9.5	16.1	14.6	13.2	10.8	16.3	11.5	13.4
Marico	44.9	47.4	50.0	50.5	51.3	51.6	52.3	50.8	49.5	18.5	17.5	23.2	20.1	21.2	19.4	23.7	19.6	19.1
Nestle India	54.9	53.8	54.8	56.5	58.6	56.8	57.6	56.6	56.4	22.9	23.0	22.7	24.4	24.2	25.4	22.9	22.9	23.1
Page Industries	52.4	56.6	52.9	55.7	53.2	56.2	54.1	56.5	56.3	15.8	13.9	19.5	20.8	18.7	16.8	19.0	22.6	23.0
Pidlite Industries	41.8	46.8	49.0	51.3	52.9	53.4	53.8	54.4	54.3	16.5	17.1	21.6	22.1	23.7	19.9	23.9	23.8	23.7
Tata Consumer Products	41.5	41.8	42.2	42.5	43.8	46.1	44.9	43.6	41.1	13.1	14.1	14.6	14.4	15.0	16.0	15.3	14.9	12.7
Titan Company	23.0	22.9	21.0	22.4	21.7	21.2	20.9	21.6	20.8	12.2	10.8	9.9	11.6	11.2	9.9	10.0	10.8	11.0
United Breweries	41.8	38.6	40.6	44.5	44.0	41.7	43.0	43.8	44.2	4.8	3.0	9.8	9.8	8.0	6.7	11.5	10.7	9.4
United Spirits	40.6	42.6	43.0	43.4	43.4	43.3	44.5	45.2	44.7	13.2	10.7	17.1	16.4	16.4	13.6	19.5	17.8	17.1
Varun Beverages	56.3	52.4	52.5	55.3	56.6	56.3	54.7	55.5	56.1	13.9	20.5	26.9	22.8	15.7	22.9	27.7	24.0	15.7

Source: Companies, Kotak Institutional Equities



**Inflationary trend in RM prices qoq and yoy in most cases**

**Exhibit 144: Trend in RM prices, January 2025**

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	156	(26)	(33)	(29)	(1)	(26)	(33)	(29)	(1)	HUL
2	Tea - World Avg.	USD/MT	3,090	—	(6)	(4)	14	—	(5)	(3)	15	HUL
3	Tea - Mombassa/Kenya	USD/Kg	3	—	—	—	5	—	1	1	7	HUL
4	Coffee Arabica - Intl.	US cents/Pound	350	24	31	38	63	24	32	39	65	HUL, Nestle
5	Coffee Robusta - Intl.	US cents/Pound	257	7	10	16	75	7	11	17	77	HUL, Nestle
6	Sugar - domestic	Rs/Quintal	4,444	3	2	1	2	3	2	1	2	HUL, Nestle, ITC, Dabur, Britannia
7	Wheat	Rs/Quintal	3,941	(0)	2	17	9	(0)	2	17	9	ITC, Nestle, Britannia
8	Barley	Rs/Quintal	2,426	1	4	14	15	1	4	14	15	UBBL
9	Maize (corn)	USD/MT	192	—	—	—	(7)	—	1	1	(6)	Colgate, HUL, Dabur (Sorbitol)
10	Liquid Milk - domestic	Rs/Ltr	53	(5)	6	(7)	15	(5)	6	(7)	15	Nestle, Jubilant Foodworks, Britannia
11	Milk Powder - domestic	Rs/Kg	300	3	3	1	(1)	3	3	1	(1)	Nestle, Britannia
12	Cocoa Bean	USD/MT	9,057	—	—	—	131	—	1	1	134	Nestle
<b>Oil Commodities</b>												
13	Crude Oil - Brent	USD/Barrel	79	6	7	(4)	2	7	7	(3)	3	HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite
14	Palm oil	Rs/MT	127,078	(2)	16	45	64	(2)	16	45	64	HUL, GCPL, Jyothy Labs
15	PFAD	USD/MT	992	2	16	20	38	3	17	21	39	HUL, GCPL, Jyothy Labs
16	Light liquid paraffin (LLP)	Rs/Ltr	84	—	—	—	—	—	—	—	—	Marico, Dabur, Bajaj Corp
17	Copra	Rs/Quintal	15,210	10	31	53	56	10	31	53	56	Marico, Dabur
18	Coconut oil	Rs/Quintal	21,806	7	26	49	63	7	26	49	63	Marico, Dabur
19	Rice Bran oil	Rs/10Kg	970	(6)	(9)	14	29	(6)	(9)	14	29	Marico
20	Kardi oil/ Safflower oil	Rs/MT	2,193	—	—	—	—	—	—	—	—	Marico
21	Sunflower oil	Rs/MT	127,804	(5)	21	39	50	(5)	21	39	50	Marico
22	Groundnut oil	Rs/MT	140,826	(5)	(7)	(4)	(11)	(5)	(7)	(4)	(11)	Marico
23	Linseed oil	Rs/MT	125,500	(6)	10	23	39	(6)	10	23	39	Marico, Dabur, Bajaj Corp, Asian Paints
24	Castor oil	Rs/MT	132,000	(2)	2	12	8	(2)	2	12	8	Marico, Dabur, Bajaj Corp, Asian Paints
25	Mentha oil	Rs/Kg	1,024	3	1	5	1	3	1	5	1	Emami, Colgate, HUL, Dabur
<b>Chemicals/Paints/Other Commodities</b>												
26	Caustic soda	Rs/ 50Kg	2,523	6	13	16	32	6	13	16	32	HUL, GCPL, Jyothy Labs
27	Soda ash	Rs/ 50Kg	1,661	(5)	(3)	(4)	(10)	(5)	(3)	(4)	(10)	HUL, GCPL, Jyothy Labs
28	HDPE - domestic	Rs/Kg	118	—	—	—	—	—	—	—	—	All companies
29	PAN	Rs/Kg	95	(4)	(15)	(16)	(7)	(4)	(15)	(16)	(7)	Asian Paints
30	PENTA	Rs/Kg	115	—	—	—	—	—	—	—	—	Asian Paints
31	Tio2 Anatase	Rs/Kg	175	—	—	—	—	—	—	—	—	Asian Paints
32	Tio2 Rutile	Rs/Kg	275	—	(1)	(1)	1	—	(1)	(1)	1	Asian Paints
33	Tio2 Dupont	Rs/Kg	340	(1)	(2)	(1)	(4)	(1)	(2)	(1)	(4)	Asian Paints
34	Turpentine oil	Rs/Ltr	131	3	9	14	14	3	9	14	14	Asian Paints
35	Formaldehyde	Rs/Kg	35	13	17	17	40	13	17	17	40	Asian Paints
36	Acrylic acid	Rs/Kg	100	62	(26)	(17)	8	62	(26)	(17)	8	Asian Paints
37	Vinyl Acetate - Domestic	Rs/Kg	83	6	(15)	(26)	(2)	6	(15)	(26)	(2)	Asian Paints
38	Vinyl Acetate - China	US\$/MT	779	2	(1)	(23)	(19)	2	(1)	(22)	(18)	Pidilite, Asian Paints
39	Styrene - domestic	Rs/Kg	89	3	(1)	(7)	6	3	(1)	(7)	6	Asian Paints
40	Gold	Rs/10gm	78,635	3	8	10	26	3	8	10	26	Titan, Jewellery companies
41	Diamond price index	USD/Carrat	127	2	2	2	(0)	2	3	3	1	Titan, Jewellery companies

Inflationary = +3%  
Deflationary = -3%

Source: Bloomberg, CMIE, Kotak Institutional Equities

**Consumer companies reduced A&P spending in 3QFY25**

**Exhibit 145: Quarterly expenditure in A&P by consumer companies, March fiscal year-ends, 2023-25**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>A&amp;P (Rs mn)</b>									
Colgate-Palmolive (India)	1,699	1,429	1,813	2,060	2,043	1,689	1,991	2,427	2,001
Dabur India	1,796	1,516	2,043	2,165	2,445	1,837	2,359	2,256	2,267
Godrej Consumer Products	2,758	2,245	3,204	3,659	3,433	3,063	3,308	3,640	3,644
Hindustan Unilever	12,000	12,900	14,810	17,200	15,930	15,860	16,440	14,640	14,660
Marico	2,200	2,100	2,120	2,680	2,460	2,260	2,400	2,900	2,930
Titan	2,030	1,920	2,070	2,050	2,360	1,810	2,020	2,500	2,800
United Spirits	2,768	3,444	1,468	2,403	3,277	3,260	1,750	2,570	3,790
<b>Total</b>	<b>25,670</b>	<b>26,013</b>	<b>28,033</b>	<b>32,792</b>	<b>32,555</b>	<b>30,376</b>	<b>30,884</b>	<b>30,933</b>	<b>32,092</b>
<b>A&amp;P (% of sales)</b>									
Colgate-Palmolive (India)	13.2	10.6	13.7	14.0	14.6	11.3	13.3	15.0	13.7
Dabur India	5.9	5.7	6.5	6.8	7.5	6.5	7.0	7.5	6.8
Godrej Consumer Products	7.7	7.0	9.3	10.2	9.4	9.0	9.9	9.9	9.7
Hindustan Unilever	7.9	8.7	9.8	11.3	10.5	10.7	10.7	9.4	9.5
Marico	8.9	9.4	8.6	10.8	10.2	9.9	9.1	10.9	10.5
Titan	1.9	2.0	1.9	1.8	1.8	1.6	1.7	1.9	1.7
United Spirits	10.0	13.8	6.8	8.4	11.0	12.2	7.4	9.0	11.0
<b>Total</b>	<b>6.4</b>	<b>7.0</b>	<b>7.1</b>	<b>7.9</b>	<b>7.6</b>	<b>7.7</b>	<b>7.5</b>	<b>7.3</b>	<b>6.9</b>

Source: Companies, Kotak Institutional Equities

- Construction materials.** Cement companies under our coverage reported a decent 10% yoy growth in volumes in 3QFY25 (see Exhibit 146), reflecting an improvement in underlying demand. However, realizations remained soft yoy, despite a sequential improvement, resulting in weak margins yoy. Exhibit 147 shows realizations and profitability of the cement stocks under our coverage for the past few quarters.

**Strong volume growth for cement companies**

**Exhibit 146: Volume trends for cement companies under KIE coverage, 3QFY23-3QFY25**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Volumes (mn tons)</b>									
ACC	7.7	8.5	9.4	8.1	8.9	10.4	10.2	9.3	10.7
Ambuja Cements	7.7	8.1	9.1	7.6	8.2	9.5	9.3	8.7	10.1
Dalmia Bharat	6.3	7.4	7.0	6.2	6.8	8.8	7.4	6.7	6.7
JK Cement	3.9	4.0	4.5	4.3	4.6	5.1	4.7	4.2	4.7
Nuvoco Vistas	4.5	5.2	5.0	4.5	4.0	5.3	4.8	4.2	4.7
Shree Cement	8.0	8.8	8.9	8.2	8.9	9.5	9.6	7.6	8.8
The Ramco Cement	3.6	4.7	4.3	4.6	4.0	5.5	4.4	4.5	4.4
UltraTech Cement	24.7	30.5	29.0	25.7	26.1	33.9	30.9	26.4	28.8
<b>Total</b>	<b>66.4</b>	<b>77.2</b>	<b>77.2</b>	<b>69.2</b>	<b>71.5</b>	<b>88.0</b>	<b>81.3</b>	<b>71.6</b>	<b>78.8</b>
<b>Yoy volume growth (%)</b>									
ACC	3	9	24	17	16	22	9	15	20
Ambuja Cements	10	8	23	13	6	17	2	14	23
Dalmia Bharat	11	12	13	7	8	19	6	8	(2)
JK Cement	19	2	27	19	17	28	5	(3)	3
Nuvoco Vistas	6	(5)	7	1	(11)	2	(5)	(6)	17
Shree Cement	22	10	19	9	11	8	8	(7)	(1)
The Ramco Cement	19	47	30	39	12	17	2	(2)	9
UltraTech Cement	15	16	20	16	6	11	7	3	10
<b>Total volume growth (%)</b>	<b>13.0</b>	<b>12.2</b>	<b>20.0</b>	<b>14.6</b>	<b>7.7</b>	<b>14.0</b>	<b>5.3</b>	<b>3.5</b>	<b>10.3</b>

Source: Companies, Kotak Institutional Equities

**Strong sequential improvement but a sharp yoy decline in the profitability of cement companies**

**Exhibit 147: Realizations, power & fuel costs and EBITDA for cement companies, 3QFY23-3QFY25 (Rs/ton)**

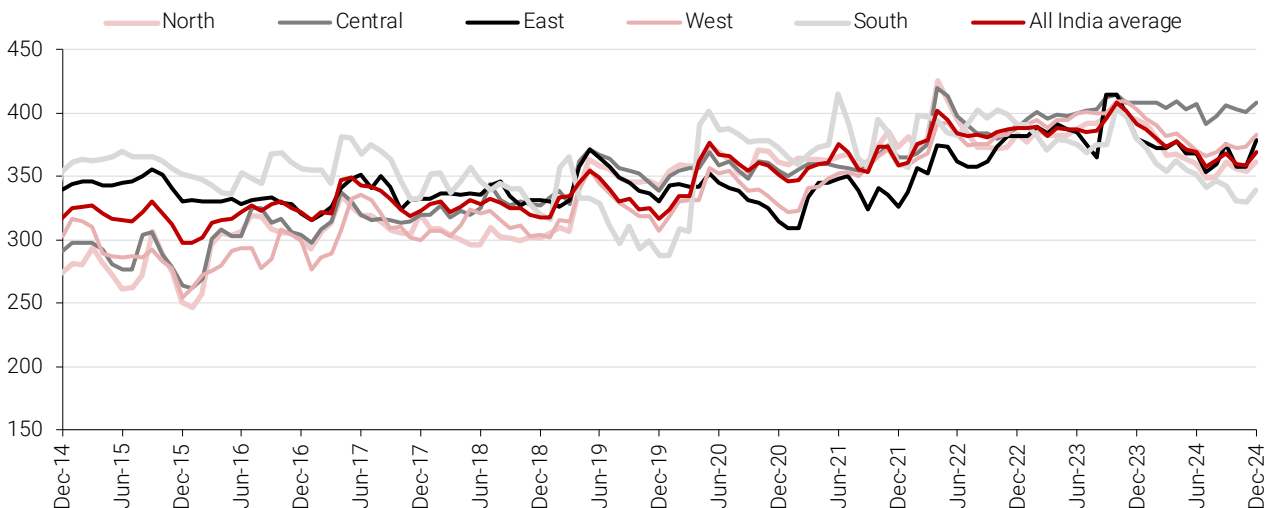
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>ACC</b>									
Realization (Rs/ton)	5,892	5,636	5,533	5,475	5,526	5,190	5,054	4,955	4,915
Fuel & power cost (Rs/ton)	1,466	1,108	1,196	1,093	1,139	935	970	830	786
<b>EBITDA (Rs/ton)</b>	<b>491</b>	<b>549</b>	<b>818</b>	<b>677</b>	<b>1,015</b>	<b>805</b>	<b>664</b>	<b>462</b>	<b>442</b>
<b>Ambuja</b>									
Realization (Rs/ton)	5,362	5,255	5,197	5,223	5,414	5,032	4,856	4,843	4,806
Fuel & power cost (Rs/ton)	1,573	1,277	1,287	1,270	1,047	934	974	923	858
<b>EBITDA (Rs/ton)</b>	<b>813</b>	<b>973</b>	<b>1,042</b>	<b>1,018</b>	<b>1,038</b>	<b>1,023</b>	<b>695</b>	<b>782</b>	<b>407</b>
<b>Dalmia Bharat</b>									
Realization (Rs/ton)	5,325	5,286	5,177	5,108	5,294	4,894	4,870	4,621	4,741
Fuel & power cost (Rs/ton)	1,530	1,177	1,289	1,132	1,068	898	1,018	1,058	997
<b>EBITDA (Rs/ton)</b>	<b>1,024</b>	<b>955</b>	<b>871</b>	<b>955</b>	<b>1,140</b>	<b>743</b>	<b>900</b>	<b>650</b>	<b>744</b>
<b>JK Cement</b>									
Realization (Rs/ton)	5,821	5,842	5,820	5,918	6,086	5,788	5,594	5,694	5,765
Fuel & power cost (Rs/ton)	1,646	1,649	1,468	1,370	1,345	1,157	1,136	1,092	1,094
<b>EBITDA (Rs/ton)</b>	<b>669</b>	<b>797</b>	<b>893</b>	<b>1,028</b>	<b>1,330</b>	<b>1,078</b>	<b>1,014</b>	<b>649</b>	<b>1,040</b>
<b>Shree Cement</b>									
Realization (Rs/ton)	5,065	5,419	5,604	5,591	5,513	5,353	5,015	4,904	4,830
Fuel & power cost (Rs/ton)	1,622	1,781	1,708	1,670	1,393	1,520	1,458	1,317	1,042
<b>EBITDA (Rs/ton)</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>951</b>	<b>780</b>	<b>1,079</b>
<b>UltraTech</b>									
Realization (Rs/ton)	6,078	5,938	5,940	6,030	6,191	5,841	5,674	5,641	5,668
Fuel & power cost (Rs/ton)	1,888	1,675	1,631	1,639	1,536	1,375	1,404	1,380	1,300
<b>EBITDA (Rs/ton)</b>	<b>910</b>	<b>1,059</b>	<b>1,034</b>	<b>954</b>	<b>1,208</b>	<b>1,185</b>	<b>965</b>	<b>731</b>	<b>964</b>

Source: Companies, Kotak Institutional Equities

We assume a sharp increase in the profitability on lower power and fuel costs and stable cement realizations. Our profitability assumptions may be at risk if cement prices were to remain weak, as has been the trend in the last one year (see Exhibit 148).

**Cement prices have been weak in recent quarters**

**Exhibit 148: Regional cement prices, March fiscal year-ends, 2015-25 (Rs per 50 kg bag)**



Source: CMA, Kotak Institutional Equities

► **Gradual recovery for some IT services companies; weakness in deal wins.** IT companies reported modest qoq revenue growth in 3QFY25, suggesting that a gradual recovery is probably underway. Large IT services companies saw some improvement in demand, with clients focused on cost take-outs. (1) INFO reported a 1.7% c/c increase in revenues qoq basis, driven by a ramp-up in some large deals, (2) HCLT reported 3.8% qoq growth on a c/c basis, driven by its products business and (3) TECHM reported 1.2% qoq growth, driven by the BFSI and healthcare verticals. Meanwhile, TCS reported flat qoq growth on a c/c basis, with growth driven by the India and MENA businesses.

Exhibit 149 shows the quarterly c/c revenue growth of the IT companies under our coverage. The patchy revenue growth for the sector highlights uncertain demand trends for the sector across industry segments, even as a number of companies remain hopeful of gradual increase in discretionary spending. However, deal wins moderated for most companies in 3QFY25 (see Exhibit 150)

**IT services companies saw a gradual qoq recovery in revenues in 3QFY25**

Exhibit 149: Sequential and yoy growth in c/c revenues of IT companies, March fiscal year-ends, 2023-25

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Qoq % change in c/c revenues</b>									
HCL Tech	5.0	(1.2)	(1.3)	1.0	6.0	0.3	(1.6)	1.6	3.8
Infosys	2.4	(3.2)	1.0	2.3	(1.0)	(2.2)	3.6	3.1	1.7
LTI Mindtree	1.9	0.7	0.1	1.7	0.7	(1.3)	2.6	2.3	1.8
Mphasis	(2.5)	(4.5)	(3.5)	—	1.0	2.1	(0.1)	2.4	0.2
TCS	2.2	0.6	—	0.1	1.0	1.1	2.2	0.9	—
Tech Mahindra	0.2	0.3	(4.2)	(2.4)	1.1	(0.8)	0.7	1.9	1.2
Wipro	0.6	(0.6)	(2.8)	(2.0)	(1.7)	(0.3)	(1.0)	0.6	0.1
<b>Yoy % change in c/c revenues</b>									
HCL Tech	13.1	10.5	7.1	3.4	4.3	6.0	5.6	5.9	4.1
Infosys	13.7	8.8	4.2	2.5	(1.0)	—	2.5	3.3	6.1
LTI Mindtree	16.3	13.5	8.2	4.4	3.1	1.2	3.7	4.4	5.6
Mphasis	5.7	3.1	(8.4)	(11.0)	6.8	(0.4)	3.1	3.1	5.1
TCS	13.5	10.7	7.0	2.8	1.7	2.2	4.4	5.5	4.5
Tech Mahindra	12.7	6.3	(0.9)	(5.9)	(5.4)	(6.4)	(1.2)	1.2	1.3
Wipro	10.4	6.5	1.1	(4.8)	(6.9)	(6.6)	(4.9)	(2.3)	(0.7)

Source: Companies, Kotak Institutional Equities

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

**Exhibit 150: TCV of deal wins for companies under coverage, March fiscal year ends, 2023-25 (US\$ mn)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>TCV of deal wins (US\$ mn)</b>									
HCLT (a)	2,347	2,074	1,565	3,969	1,927	2,290	1,960	2,218	2,095
Infosys (b)	3,300	2,076	2,285	7,684	3,241	4,454	4,085	2,430	2,495
Mphasis (c)	401	309	707	255	241	177	319	207	351
TCS (a)	7,800	10,000	10,200	11,200	8,100	13,200	8,300	8,600	10,200
TechM (d)	795	592	359	640	381	500	534	603	745
Wipro (e)	978	1,083	1,198	1,300	909	1,191	1,154	1,489	961
<b>TCV on TTM basis (US\$ mn)</b>									
Infosys	9,992	9,811	10,405	15,345	15,286	17,664	19,464	14,210	13,464
Mphasis	1,352	1,314	1,719	1,672	1,512	1,380	992	944	1,054
TCS	35,400	34,100	36,100	39,200	39,500	42,700	40,800	38,200	40,300
TechM	3,324	2,905	2,462	2,386	1,972	1,880	2,055	2,018	2,382
<b>Growth in TCV on TTM basis (yoy, %)</b>									
Infosys	7	3	21	66	53	80	87	(7)	(12)
Mphasis	2	(8)	40	30	12	5	(42)	(44)	(30)
TCS	9	(1)	4	11	12	25	13	(3)	2
TechM	—	(11)	(25)	(26)	(41)	(35)	(17)	(15)	21

Note:

- (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

Companies implemented strict control on employee costs in 3QFY25. Exhibit 151 shows total employee expense as a proportion of total revenues. Meanwhile, attrition rates were under control for the sector in 3QFY25 (see Exhibit 152). Attrition rates have come off significantly in the past year from much higher levels in the prior quarters.

**Employee cost-to-sales ratio down sharply yoy in 3QFY25**

**Exhibit 151: Employee costs (including sub-contracting) as a proportion of sales of IT companies, March fiscal year-ends, 2023-25 (%)**

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
HCL Technologies	67.5	69.3	70.9	70.3	68.9	70.4	71.1	70.2	68.4
Infosys	61.6	62.6	63.0	61.2	61.1	61.6	61.3	60.4	59.2
TCS	65.2	65.5	66.9	66.0	63.9	62.2	62.4	61.7	60.8
Tech Mahindra	65.7	66.5	68.5	69.1	68.1	69.9	68.0	67.8	66.9
Wipro	71.4	72.1	73.2	73.7	72.2	72.7	71.7	71.8	71.3
<b>Total</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>	<b>65.3</b>	<b>64.6</b>	<b>63.6</b>

Source: Companies, Kotak Institutional Equities

**Attrition rates are lower than pre-Covid levels for most IT services companies**

**Exhibit 152: TTM voluntary attrition rates for IT services companies, March fiscal year-ends, 2020-25 (%)**

	Dec-19	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
HCL Tech	17	22	20	16	14	13	12	13	13	13
Infosys	18	24	21	17	15	13	13	13	13	14
LTIMindtree	17	22	20	18	15	14	14	14	12	14
TCS	12	21	20	18	15	13	13	12	12	13
Tech Mahindra	20	20	17	13	11	10	10	10	11	11
Wipro	16	21	19	17	16	14	14	14	15	15

Source: Companies, Kotak Institutional Equities

- ▶ **Strong sales growth for pharmaceuticals companies.** The large pharmaceutical companies under our coverage reported a decent performance yoy in 3QFY25. Revenues of the major companies under coverage increased 10.8% yoy (up 2.2% qoq) (see Exhibit 153), driven by a strong 12.4% yoy (+1% qoq) growth in domestic sales (see Exhibit 154). Meanwhile, US sales were weak for most companies under coverage in 3QFY25, with weak gRevlimid sales impacting the performance of a number of companies. Nonetheless, companies continued to enjoy strong profitability in 3QFY25 (see Exhibit 155).

**Decent revenue growth for most pharmaceutical companies in 3QFY25**

**Exhibit 153: Trend of quarterly sales of Indian pharmaceuticals across geographies, 3QFY23-3QFY25**

	Sales (Rs mn)									Yoy growth (%)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Aurobindo</b>														
Total sales	63,880	63,787	68,007	71,507	72,712	74,919	74,577	76,462	78,931	14	17	10	7	9
ARV	2,512	1,588	2,010	2,500	1,794	2,380	2,290	1,930	3,070	(29)	50	14	(23)	71
Europe	17,012	16,598	18,370	17,690	17,284	18,320	19,820	21,050	21,213	2	10	8	19	23
RoW	4,423	5,392	4,336	5,830	6,060	8,550	6,480	7,410	7,980	37	59	49	27	32
US	30,012	30,450	33,040	33,850	37,560	35,880	35,550	35,300	36,712	25	18	8	4	(2)
Others	9,921	9,759	10,251	11,637	10,014	9,789	10,437	10,772	9,956	1	0	2	(7)	(1)
<b>Cipla</b>														
Total sales	58,101	57,393	62,533	66,211	65,339	61,632	66,939	70,510	70,730	12	7	7	6	8
Europe	2,669	3,259	2,911	2,950	2,936	3,361	3,186	3,313	3,142	10	3	9	12	7
India	25,633	22,593	27,723	28,170	28,590	24,170	28,983	29,480	31,460	12	7	5	5	10
RoW	1,466	1,341	1,362	1,470	1,080	1,890	983	1,600	1,260	(26)	41	(28)	9	17
South Africa	5,502	6,191	7,480	9,930	8,150	7,610	8,313	10,680	9,750	48	23	11	8	20
US	16,004	16,772	18,218	18,870	19,160	18,753	20,874	19,860	19,060	20	12	15	5	(1)
Others	6,827	7,237	4,839	4,821	5,422	5,848	4,601	5,577	6,058	(21)	(19)	(5)	16	12
<b>Dr Reddy's Laboratories</b>														
Total sales	67,898	63,152	67,579	69,026	72,368	71,138	76,961	80,382	83,812	7	13	14	16	16
CIS	2,200	2,300	2,000	2,200	2,300	2,200	1,900	2,100	2,400	5	(4)	(5)	(5)	4
Europe	4,303	4,960	5,071	5,286	4,970	5,208	5,265	5,770	12,096	16	5	4	9	143
India	11,274	12,834	11,482	11,860	11,800	11,265	13,252	13,971	13,464	5	(12)	15	18	14
RoW	3,997	3,642	3,952	4,163	4,633	4,892	4,478	5,554	4,938	16	34	13	33	7
Russia	6,900	5,200	5,600	5,800	5,900	5,000	5,500	6,900	7,020	(14)	(4)	(2)	19	19
US	30,567	25,321	31,978	31,700	33,492	32,626	38,462	37,281	33,834	10	29	20	18	1
Others	8,657	8,895	7,496	8,017	9,273	9,947	8,104	8,806	10,060	7	12	8	10	8
<b>Lupin</b>														
Total sales	42,446	43,303	47,421	49,392	50,799	48,951	55,143	54,970	56,186	20	13	16	11	11
Europe	2,222	2,396	2,474	3,010	3,267	3,071	3,302	3,752	4,136	47	28	33	25	27
India	15,213	14,786	16,384	16,915	17,251	16,015	19,259	20,096	19,305	13	8	18	19	12
US	15,271	15,503	15,905	18,666	18,885	19,006	20,408	19,711	21,213	24	23	28	6	12
Others	9,740	10,618	12,659	10,802	11,396	10,859	12,174	11,411	11,532	17	2	(4)	6	1
<b>Sun Pharma</b>														
Total sales	111,001	107,256	117,852	120,031	121,569	118,133	125,245	132,642	134,369	10	10	6	11	11
EM	21,158	18,204	21,452	23,449	20,946	20,348	23,695	24,519	23,384	(1)	12	10	5	12
India	33,919	33,641	35,604	38,425	37,785	37,078	41,445	42,652	43,004	11	10	16	11	14
RoW	15,563	15,744	16,041	17,000	17,797	16,290	15,814	16,633	21,840	14	3	(1)	(2)	23
US	34,660	35,343	38,709	35,504	39,736	39,544	38,894	43,274	40,030	15	12	0	22	1
Others	5,703	4,324	6,046	5,653	5,305	4,873	5,397	5,564	6,112	(7)	13	(11)	(2)	15

Source: Companies, Kotak Institutional Equities

**Decent growth in yoy domestic pharmaceuticals sales**

**Exhibit 154: Domestic sales and growth of pharmaceuticals companies, 3QFY23-3QFY25**

	Domestic sales (Rs mn)									Yoy growth (%)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Cipla	25,633	22,593	27,723	28,170	28,590	24,170	28,983	29,480	31,460	12	7	5	5	10
Dr Reddy's Laboratories	11,274	12,834	11,482	11,860	11,800	11,265	13,252	13,971	13,464	5	(12)	15	18	14
Lupin	15,213	14,786	16,384	16,915	17,251	16,015	19,259	20,096	19,305	13	8	18	19	12
Mankind Pharma	19,961	19,719	24,185	25,292	24,003	21,746	26,342	27,958	27,734	20	10	9	11	16
Sun Pharma	33,919	33,641	35,604	38,425	37,785	37,078	41,445	42,652	43,004	11	10	16	11	14
Torrent Pharmaceuticals	12,590	12,570	14,260	14,440	14,150	13,810	16,350	16,320	15,810	12	10	15	13	12

Source: Companies, Kotak Institutional Equities

**Many pharma companies reported a strong yoy increase in gross and EBITDA margins in 3QFY25**

**Exhibit 155: Gross and EBITDA margin of pharma companies under our coverage, 3QFY23-3QFY25 (%)**

	Gross margin (%)									EBITDA margin (%)								
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Alivus Life Sciences	51.0	54.9	57.1	54.1	57.7	55.5	51.1	55.6	55.6	26.9	33.2	33.4	28.1	30.1	26.4	27.1	26.5	29.7
Aurobindo Pharma	54.6	54.7	54.0	55.2	57.1	59.6	59.4	58.8	58.4	14.9	15.5	16.9	19.4	21.8	22.3	21.4	20.1	20.4
Blue Jet Healthcare	55.0	53.8	55.9	56.8	57.5	53.3	54.7	57.0	54.6	30.6	32.4	32.8	34.5	32.7	28.8	27.2	33.4	39.0
Cipla	65.5	64.0	64.7	65.4	66.0	66.7	67.2	67.6	68.0	24.2	20.5	23.6	26.0	25.7	21.4	25.6	26.7	28.1
Concord Biotech	79.5	79.2	79.3	79.8	80.4	72.1	77.6	75.4	75.1	46.4	47.3	37.0	45.4	44.0	42.1	37.7	44.1	42.5
Divis Laboratories	56.7	57.6	61.3	57.6	60.7	60.8	59.7	58.6	60.2	23.9	25.0	28.3	25.1	26.4	31.7	29.4	30.6	32.0
Dr Reddy's Laboratories	59.2	57.2	58.7	58.7	69.9	70.6	71.7	70.6	69.2	30.4	25.1	30.3	28.9	28.1	25.5	27.7	27.0	27.1
Emcure Pharmaceuticals	NA	NA	63.6	62.9	62.7	62.1	62.4	60.6	60.1	NA	NA	19.0	19.8	18.4	17.6	18.5	19.0	18.1
Gland Pharma	54.5	53.5	62.5	62.0	61.2	61.0	59.7	59.1	66.6	30.9	21.5	24.3	23.6	23.1	23.3	18.9	21.1	26.0
JB Chemicals & Pharma	62.3	63.9	65.4	66.2	67.6	65.2	66.2	66.2	67.1	22.0	21.5	25.9	27.6	26.4	23.0	27.9	27.0	26.4
Laurus Labs	53.4	49.7	50.6	52.5	54.4	49.8	55.1	55.2	56.9	26.1	20.7	14.1	15.3	15.2	16.8	14.3	14.6	20.2
Lupin	60.5	60.5	65.9	66.2	66.8	68.3	68.8	70.2	70.2	12.3	13.0	17.8	18.2	20.0	20.1	22.2	23.6	23.5
Mankind Pharma	67.6	67.2	68.2	69.5	68.3	69.8	71.9	71.6	71.0	20.9	20.3	25.4	25.2	23.3	24.2	23.6	27.6	25.7
Sun Pharmaceuticals	75.1	79.4	76.9	77.1	77.9	80.1	78.9	79.7	80.0	26.7	25.9	27.9	26.4	27.1	25.8	28.9	28.7	30.7
Torrent Pharmaceuticals	70.7	71.7	74.9	75.2	74.5	75.3	75.7	76.5	76.0	29.1	29.2	30.5	31.0	31.8	32.2	31.6	32.5	32.5

Source: Companies, Kotak Institutional Equities

Among the major pharmaceutical companies under our coverage, (1) ARBP reported 8.6% yoy (+3.2% qoq) growth in overall revenues, (2) CIPLA reported 8.3% yoy growth in overall revenues (+0.3% qoq) as Lanreotide disruptions impacted US sales, (3) DRRD's overall sales increased 16% yoy (+4.3% qoq), led by higher Europe sales (NRT acquisition), while its US sales declined 9.2% qoq, owing to weak gRevlimid sales, (4) LPC's overall sales increased +10.6% yoy (+2.2% qoq) and (5) SUNP's overall sales increased 11% yoy, led by strong domestic and RoW sales yoy (+10.5%), even as weak gRevlimid sales impacted the US business (-7.5% qoq).

- ▶ **Mixed sales reported by various real estate players.** In the case of residential real estate, most companies under coverage reported (1) large yoy declines in sales volume, but (2) decent yoy growth in sales values. Exhibits 156-157 show the trend of quarterly sales of the real estate companies under our coverage. We note that volumes at companies such as Prestige (PEPL) and Sobha were impacted by delays to project launches in 3QFY25, while larger players such as DLF and Macrotech reported strong growth, driven by new launches in their respective markets. We note that the recently-launched Dahlias project contributed Rs118 bn of the Rs121 bn total pre-sales of DLF in 3QFY25.

**Decline in sales volumes yoy for certain real estate companies in 3QFY25**

Exhibit 156: Sales volume of residential real estate of companies under coverage, March fiscal year-ends, 2023-25 (mn sq. ft)

	Residential sales volumes (mn sq. ft)								
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Brigade Enterprises	1.5	2.3	1.5	1.7	1.7	2.6	1.1	1.6	2.1
Godrej Properties	4.4	5.3	2.3	5.2	4.3	8.2	9.0	5.2	4.1
Macrotech Developers	2.5	2.5	2.8	2.6	2.6	3.3	2.4	2.4	3.0
Oberoi Realty	0.4	0.3	0.2	0.4	0.4	0.5	0.2	0.3	0.7
Prestige Estate Projects	2.9	4.0	3.8	6.8	5.5	4.1	2.9	3.0	2.2
Sobha	1.5	1.5	1.4	1.7	1.7	1.3	1.3	0.9	1.0
Sunteck Realty	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.5	0.3
<b>Total</b>	<b>13.5</b>	<b>16.3</b>	<b>12.3</b>	<b>18.7</b>	<b>16.6</b>	<b>20.5</b>	<b>17.3</b>	<b>13.8</b>	<b>13.4</b>
<b>Yoy growth (%)</b>									
Brigade Enterprises	34	55	28	43	13	12	(23)	(5)	29
Godrej Properties	99	24	(20)	90	(2)	56	300	(1)	(6)
Macrotech Developers	4	(17)	27	24	4	32	(14)	(8)	15
Oberoi Realty	(65)	(50)	(40)	(5)	11	73	(17)	(20)	65
Prestige Estate Projects	(48)	(18)	6	48	90	2	(24)	(56)	(60)
Sobha	12	10	3	26	12	(9)	(4)	(45)	(39)
Sunteck Realty	24	(19)	(3)	27	18	10	(0)	24	(32)
<b>Total</b>	<b>(3)</b>	<b>1</b>	<b>3</b>	<b>48</b>	<b>23</b>	<b>26</b>	<b>41</b>	<b>(26)</b>	<b>(19)</b>

Source: Companies, Kotak Institutional Equities estimates

**Strong sales growth for most real estate companies in 3QFY25**

Exhibit 157: Sales value of residential real estate of companies under coverage, March fiscal year-ends, 2023-25

	Residential sales value (Rs bn)								
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Brigade Enterprises	9	15	10	12	15	21	11	17	24
DLF	25	85	20	22	90	15	64	7	121
Godrej Properties	33	41	23	50	57	95	86	52	55
Macrotech Developers	30	30	34	35	34	42	40	43	45
Oberoi Realty	6	7	5	10	8	18	11	14	19
Prestige Estate Projects	25	39	39	71	53	47	30	40	30
Sobha	14	15	11	13	17	13	13	12	14
Sunteck Realty	4	5	4	4	5	7	5	5	6
<b>Total</b>	<b>147</b>	<b>236</b>	<b>145</b>	<b>218</b>	<b>279</b>	<b>258</b>	<b>260</b>	<b>191</b>	<b>314</b>
<b>Yoy growth (%)</b>									
Brigade Enterprises	38	47	33	62	57	47	7	39	65
DLF	24	210	—	9	262	(83)	214	(69)	34
Godrej Properties	116	26	(10)	108	76	135	284	3	(5)
Macrotech Developers	16	(12)	19	12	12	40	20	22	32
Oberoi Realty	(68)	(27)	(37)	(17)	25	161	124	49	144
Prestige Estate Projects	(41)	19	30	102	111	21	(23)	(43)	(43)
Sobha	36	32	(1)	10	21	(13)	13	(7)	(20)
Sunteck Realty	12	7	16	17	15	26	30	33	39
<b>Total</b>	<b>2</b>	<b>45</b>	<b>9</b>	<b>50</b>	<b>90</b>	<b>9</b>	<b>79</b>	<b>(12)</b>	<b>12</b>

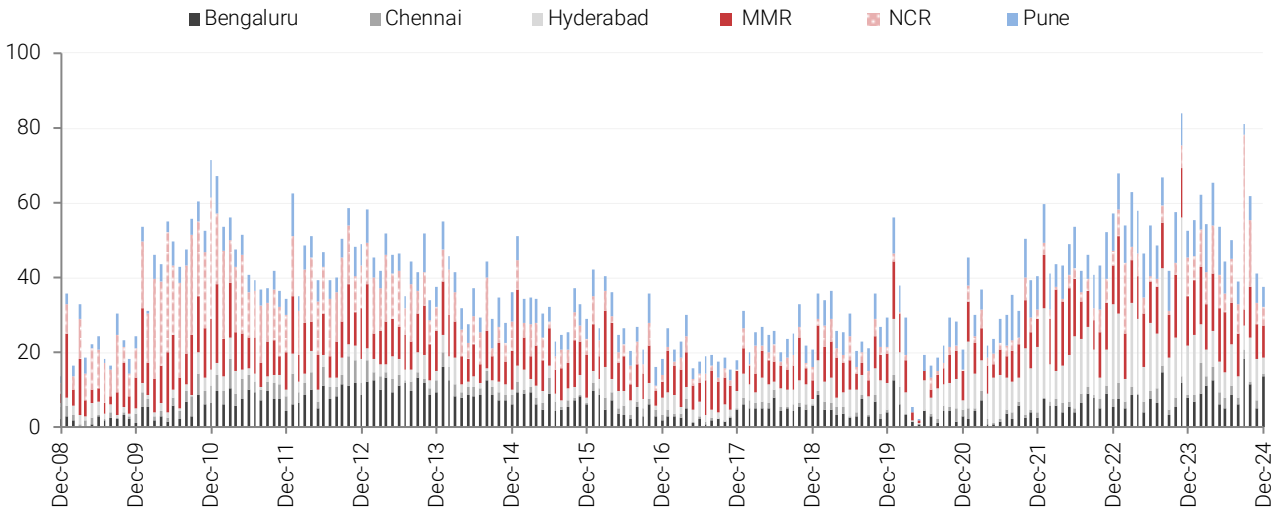
Source: Companies, Kotak Institutional Equities estimates



We note that the six major metro cities have seen a moderation in new launches in the past few months, even as sales have broadly held up, resulting in inventory remaining at low levels. Exhibits 158-160 give details of launches, sales volumes and inventory in the major metropolitan markets in India.

**New launches have moderated in recent months**

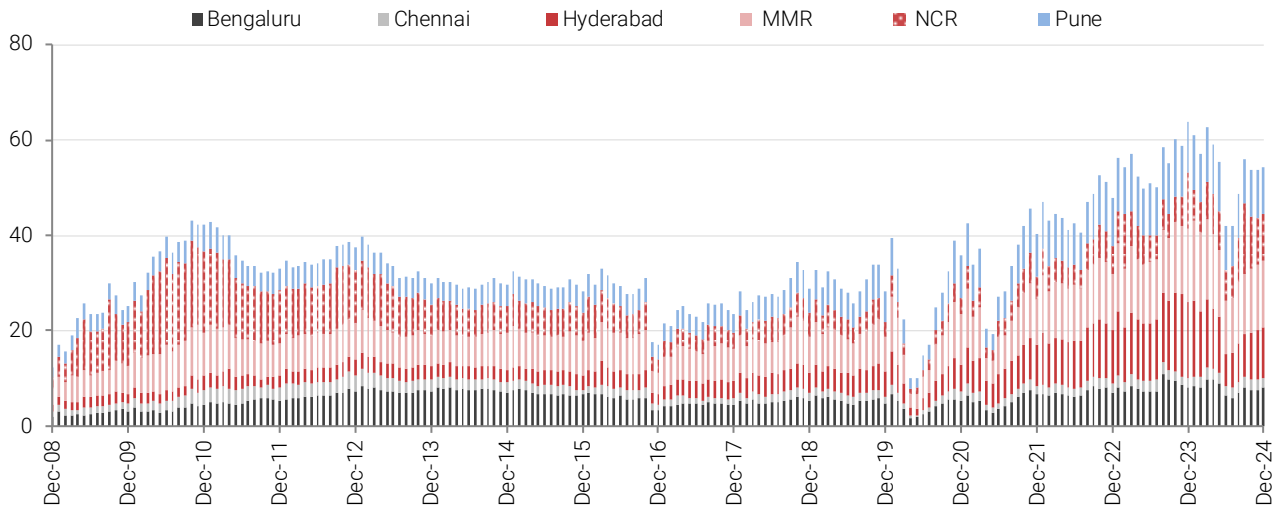
**Exhibit 158: New launches trend, residential, March fiscal year-ends, 2009-25 (mn sq. ft)**



Source: Prop Equity, Kotak Institutional Equities

**Sales volumes were steady in 3QFY25**

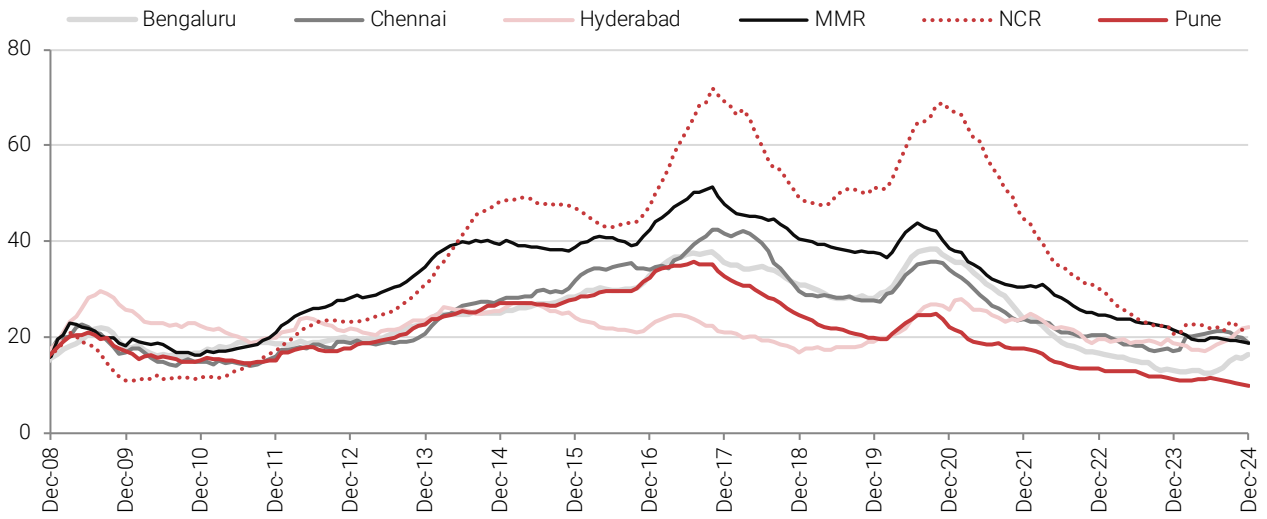
**Exhibit 159: Absorption trend, residential, March fiscal year-ends, 2009-25 (mn sq. ft)**



Source: Prop Equity, Kotak Institutional Equities

**Residential real estate inventory remains at low levels, despite a small increase in recent months**

**Exhibit 160: 12-month rolling inventory, residential, March fiscal year-ends, 2009-25 (months)**



Source: Prop Equity, Kotak Institutional Equities

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

## Ratings and other definitions/identifiers

### Definitions of ratings

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

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

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

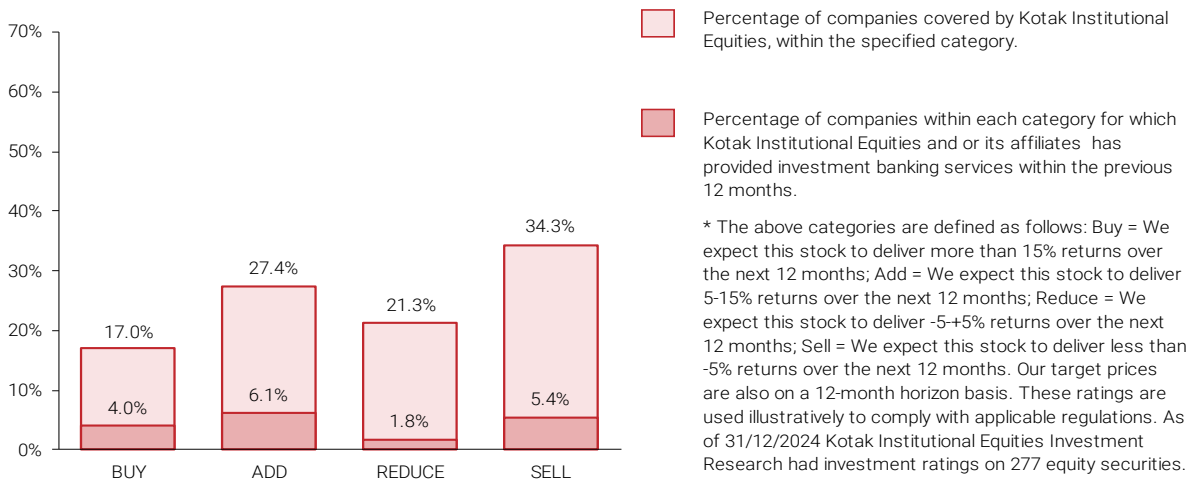
**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

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

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

### Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of December 31, 2024

### Coverage view

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

### Other ratings/identifiers

**NR = Not Rated.** The investment rating and fair value, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.

**NC = Not Covered.** Kotak Securities does not cover this company.

**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and fair value, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or fair value. The previous investment rating and fair value, if any, are no longer in effect for this stock and should not be relied upon.

**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

**NM = Not Meaningful.** The information is not meaningful and is therefore excluded.

## 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

Copyright 2025 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

The Kotak Institutional Equities research report is solely a product of Kotak Securities Limited and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to US rules regarding the preparation of research reports and/or the independence of research analysts.

- Note that the research analysts contributing to this report are residents outside the United States and are not associates, employees, registered or qualified as research analysts with FINRA or a US-regulated broker dealer; and
- Such research analysts may not be associated persons of Kotak Mahindra Inc. and therefore, may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.
- Kotak Mahindra Inc. does not accept or receive any compensation of any kind directly from US institutional investors for the dissemination of the Kotak Securities Limited research reports. However, Kotak Securities Limited has entered into an agreement with Kotak Mahindra Inc. which includes payment for sourcing new major US institutional investors and service existing clients based out of the US.
- In the United States, this research report is available solely for distribution to major US institutional investors, as defined in Rule 15a-6 under the Securities Exchange Act of 1934. This research report is distributed in the United States by Kotak Mahindra Inc., a US-registered broker and dealer and a member of FINRA. Kotak Mahindra Inc., a US-registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
- This Kotak Securities Limited research report is not intended for any other persons in the United States. All major US institutional investors or persons outside the United States, having received this Kotak Securities Limited research report shall neither distribute the original nor a copy to any other person in the United States. Any US recipient of the research who wishes to effect a transaction in any security covered by the report should do so with or through Kotak Mahindra Inc. Please contact a US-registered representative; Gijo Joseph, Kotak Mahindra Inc., PENN 1,1 Pennsylvania Plaza, Suite 1720, New York, NY 10119, Direct +1 212 600 8858, gijo.joseph@kotak.com.
- This document does not constitute an offer of, or an invitation by or on behalf of Kotak Securities Limited or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Kotak Securities Limited or its affiliates consider to be reliable. None of Kotak Securities Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis/report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis/report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which includes earnings from investment banking and other businesses. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions – including those involving futures, options, and other derivatives as well as non-investment-grade securities – give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, affectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited.

Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and portfolio management.

Kotak Securities Limited is also a Depository Participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority and having composite license acts as Corporate Agent of Kotak Mahindra Life Insurance Company Limited and Zurich Kotak General Insurance Company (India) Limited (Formerly known as Kotak Mahindra General Insurance Company Limited) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any stock exchange/SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. Details of Associates are available on website, i.e. [www.kotak.com](http://www.kotak.com) and <https://www.kotak.com/en/investor-relations/governance/subsidiaries.html>.

Research Analyst has served as an officer, director or employee of subject company(ies): No.

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) or acted as a market maker in the financial instruments of the subject company/company (ies) discussed herein in the past 12 months. YES. Visit our website for more details <https://kie.kotak.com>.

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the week immediately preceding the date of publication of Research Report: YES. Nature of Financial interest: Holding equity shares or derivatives of the subject company.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at <https://www.moneycontrol.com/india/stockpricequote/> and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

First Cut notes published on this site are for information purposes only. They represent early notations and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject.

There could be variance between the First Cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability of the First Cut Notes.

### Analyst Certification

The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Firm. Firm Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

For more information related to investments in the securities market, please visit the SEBI Investor Website <https://investor.sebi.gov.in/> and the SEBI Saa'rthi Mobile App.

Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com).

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: IN2000200137(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>

In absence of response/complaint not addressed to your satisfaction, you may lodge a complaint with SEBI at SEBI, NSE, BSE, Investor Service Center | NCDEX, MCX. Please quote your Service Ticket/Complaint Ref No. while raising your complaint at SEBI SCORES/Exchange portal at <https://scores.sebi.gov.in>. Kindly refer <https://www.kotaksecurities.com/contact-us/> and for online dispute Resolution platform - [Smart ODR](https://www.kotaksecurities.com/smart-odr)