

Strategy

July 29, 2024

Tepid act, thunderous applause

1QFY25 results are quite tepid, with (1) a 0.7% yoy increase in the net profits of the Nifty-50 Index companies, (2) weak volume growth and (3) moderate compression in margins. The market has cheered modest beats and dismissed large misses in earnings, which shows the 'incremental' nature of the prevalent investment approach. The sharp increase in prices in laggard sectors in the past few weeks renders stock-picking even more challenging.

0.7% yoy increase and 9.4% qoq decline in net profits of Nifty-50 companies

1QFY25 results seem unexciting, with (1) Nifty-50 Index companies (30 have reported so far) showing 0.7% yoy growth but 9.4% qoq decline in net profits and (2) KIE coverage companies (96 have reported so far, out of 272 stocks under coverage), showing 4% yoy growth but 6.9% qoq decline in net profits; see Exhibits 1-2. Even ignoring the high base of BPCL in 1QFY24 and of certain companies in 4QFY24 (year-end quarter), the results are quite mediocre. For now, we expect net profits of the Nifty-50 Index to increase 9.1% in FY2025 (14.6% without BPCL, COAL and HPCL through ONGC) and 14.8% in FY2026 (14.8%).

Different acts, same generous response

The market has cheered modest beats in the case of certain companies (IT services) and ignored large misses in earnings of other companies (APNT, JSTL, WIPRO). Exhibits 3-4 show the price movements of IT service stocks in the past month and earnings changes over the same period. Exhibits 5-6 show the same for stocks that missed numbers and saw earnings downgrades.

The 'incremental' versus the 'absolute'

The 'asymmetric' response of the market to 1QFY25 results (and the FY2025 union budget) shows the irrational exuberance in most parts of the market. This irrational exuberance results in (1) a huge focus on and asymmetric response to 'incremental' developments and (2) ignorance of 'absolute' valuations and of those same developments being priced in market caps or valuations. As such, (1) positive developments (purported or real) are handsomely rewarded through large market cap. gains, even if the news may already be factored in analysts' estimates and the same news were to recur a few times; capital goods, defense, electric utilities and railways are great examples and (2) negative developments are largely ignored (even real, except for banks). Valuations (and reverse valuations that give a good handle on the 'absolute') are largely irrelevant in such a market.

What ails the banks when everything else is great? 'Incremental' negatives

In our view, banks are fighting three 'incremental' negatives—(1) lower NIMs, (2) higher credit costs and (3) deposit 'challenges'. The fact that analysts have assumed (1) lower NIMs from very high levels and (2) higher credit costs from low levels of 2HFY23-1HFY24 in their models (see Exhibits 7-8) is irrelevant for the market. The focus is on incremental developments. The deposit issue is more nuanced. We note that the challenge of low growth in CASA deposits is being loosely and wrongly conflated with growth in overall deposits and credit.

Key estimates summary

	2024	2025E	2026E
Nifty estimates			
Earnings growth (%)	20.0	9.1	14.8
Nifty EPS (Rs)	989	1,086	1,248
Nifty P/E (X)	25.1	22.9	19.9
Macro data			
Real GDP (%)	8.2	6.9	6.5
Avg CPI inflation (%)	5.4	4.5	4.2

Source: CEIC, Kotak Institutional Equities estimates

Quick Numbers

1QFY25 net profits of the Nifty-50 Index increased 0.7% yoy (-9.4% qoq) and of the KIE coverage universe increased 4% yoy (down 6.9% qoq)

We expect FY2025E and FY2026E net profits of the Nifty-50 Index to increase 9.1% (14.6% excluding BPCL, COAL and HPCL) and 14.8% (14.8%)

The Nifty-50 Index is trading at 22.9X FY2025E 'EPS' and 19.9X FY2026E 'EPS'

Related Research

- Strategy: June 2024 quarter earnings preview
- Strategy: Do these numbers make any sense?
- Strategy: Busting a few common market

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Banks haven't done that badly and other misunderstandings

In our view, the narrative of 'low' growth in deposits and it being a 'constraint' for credit growth reflects the low understanding among large sections of the market about the functioning of (1) modern banks (new credit creates new deposits and not the other way round) and (2) monetary system of modern economies (components and sources of money). We note that deposit growth has been quite strong (see Exhibit 9 for growth in deposits of the overall system and Exhibit 10 for growth of deposits of banks that have reported in 1QFY25). CASA growth is a challenge and that simply reflects the low yields on such deposits versus term deposits. This poses challenges for NIMs of banks rather than credit growth for banks.

We would note that the large inflows into domestic equity mutual funds (see Exhibit 11) have no bearing whatsoever on the growth in bank deposits. The large purchase of shares by domestic mutual funds on behalf of their investors (domestic households) has been wrongly touted as a reason for 'weak' growth in bank deposits. This is not correct. In fact, money cannot and does not 'flow' across asset classes or between sectors or stocks, as is commonly believed (wrongly). A buyer and seller of a share exchange shares and deposits (assuming both are domestic entities; FPI net inflow is anyway positive in CYTD24 and is a source of money). A buyer's demat account will see a credit of shares and bank account will see a debit (decrease in deposits), while the seller's demat account will see a debit of shares and bank account will see a credit (corresponding increase in deposits). Another way to appreciate this simple fact is to remember that the number of outstanding shares of a company does not change unless there is some primary activity in the company (fresh issuance or buyback). Similarly, the number of outstanding bonds (corporate or sovereign) does not change unless there is a fresh issuance or redemption of bonds. The act of buying and concomitant selling in the secondary market does not change the number of bonds or shares or the amount of money in the economy (disregarding foreign inflows and outflows).

Lastly, we would clarify that many banks have delivered handsome returns in the past 1, 3 and 5 years (see Exhibit 12). This misunderstanding about large underperformance of the banking sector reflects the frustration of investors with respect to the performance of certain frontline banks and NBFCs, which were the historical favorites of investors. It is true that the bank index has underperformed market indices (the frontline banks and NBFCs have a large weight), but many banks have outperformed the market indices by a wide margin.

The reason for the under-performance of erstwhile favorites and of the sector as a whole may lie elsewhere. In our view, the banking sector has gone through a process of 'democratization' of multiples in the past 3-4 years, with (1) multiples of erstwhile 'corporate' private banks and PSU banks seeing a derating on improved performance of the banks with higher RoAs reflecting higher NIMs and lower credit costs and (2) multiples of erstwhile favorites seeing a derating for macro (reasonable credit cycle conditions; their superior underwriting skills is less of a differentiator currently) and micro (specific bank-related issues) reasons. The partial convergence in multiples also reflects (1) similar RoEs (around 13-16%) for most banks under coverage and (2) low focus on the different underwriting abilities of banks currently, given the relatively benign credit conditions.

Portfolio changes: More struggles

Exhibit 13 is our revised recommended large-cap. portfolio. We have not made too many changes in the past few months, noting the lack of new ideas to replace some of the richly-valued stocks in the portfolio. The problem has compounded with the recent strong performance of (1) insurance, one of the last pockets of value in the market and in our portfolio, and (2) consumer staples and IT services, beneficiaries of recent positive 'incremental' news. It is altogether another matter that the absolute valuations of these stocks already factor in a handsome recovery in revenues and volumes over the next few quarters and the pace of recovery is still somewhat anemic. Exhibits 14-19 show the valuations of various sectors and stocks over a period of time. As can be seen, multiples of most sectors and stocks are well above their pre-pandemic levels.

We increase weight on Bharti Airtel (by 50 bps to 450 bps) and IIB (80 bps to 250 bps) and eliminate SBI Cards (130 bps) from the portfolio. IIB stock has come off 6% in the past one months and trades at attractive valuations of 1.5X 1-year forward P/B. SBI Cards stock has been largely flat in the past 3-6 months and faces headwinds of elevated credit costs for a few more quarters. We were hopeful of (1) increased spending related to travel and tourism (same logic for our positive view on airlines and hotels stocks; in fact, its revenue growth has been quite decent) offsetting (2) near-term stress in receivables book. However, the credit issue seems more deep-seated versus our earlier expectations.

1QFY25 net profits of the Nifty-50 Index is flat yoy but down 9% qoq; yoy comparison is flattered by HDFCB-HDFC merger

Exhibit 1: Comparison of 1QFY25 net income of BSE-30 and Nifty-50 stocks, actual versus expected (Rs bn)

Company	Sector	Adjusted net income (Rs bn)				Change (%) A versus E	Growth (%)	
		Jun-23	Mar-24	Jun-24A	Jun-24E		yoy	qoq
Bajaj Auto	Automobiles & Components	16.6	19.4	19.9	19.0	5	19	3
Axis Bank	Banks	58.0	71.3	60.3	60.4	(0)	4	(15)
HDFC Bank	Banks	119.5	165.1	161.7	160.7	1	35	(2)
ICICI Bank	Banks	96.5	107.1	110.6	104.3	6	15	3
IndusInd Bank	Banks	21.2	23.5	21.5	22.7	(5)	1	(8)
Kotak Mahindra Bank	Banks	41.5	53.4	44.4	44.4	(0)	7	(17)
Bajaj Finance	Diversified Financials	34.4	38.2	39.1	40.6	(4)	14	2
Bajaj Finserv	Diversified Financials	19.4	21.2	21.4	21.4	(0)	10	1
Shriram Finance	Diversified Financials	16.8	19.5	19.9	20.5	(3)	19	2
HDFC Life Insurance	Insurance	6.1	12.3	7.2	7.0	3	18	(42)
SBI Life Insurance	Insurance	8.7	15.0	9.8	10.2	(4)	12	(35)
L&T	Capital Goods	24.9	43.0	27.9	29.1	(4)	12	(35)
Asian Paints	Commodity Chemicals	15.5	12.6	11.7	14.1	(17)	(25)	(7)
Ultratech Cement	Construction Materials	17.1	23.2	16.8	17.4	(4)	(2)	(28)
Britannia Industries	Consumer Staples	4.6	5.4	5.4	5.4	0	18	0
Hindustan Unilever	Consumer Staples	25.0	24.2	25.7	25.3	1	3	6
Nestle India	Consumer Staples	7.0	9.1	7.3	8.1	(9)	5	(20)
NTPC	Electric Utilities	40.7	47.2	45.1	50.8	(11)	11	(5)
Power Grid	Electric Utilities	36.0	41.0	36.9	39.9	(7)	3	(10)
HCL Technologies	IT Services	35.3	39.9	41.4	37.3	11	17	4
Infosys	IT Services	59.4	60.0	63.7	62.0	3	7	6
LTIMindtree	IT Services	11.5	11.0	11.4	11.7	(3)	(1)	3
TCS	IT Services	110.7	124.6	120.4	120.4	(0)	9	(3)
Tech Mahindra	IT Services	6.9	9.7	8.5	9.0	(5)	23	(12)
Wipro	IT Services	28.7	28.3	30.0	30.2	(1)	5	6
JSW Steel	Metals & Mining	23.4	13.0	8.5	13.2	(36)	(64)	(35)
BPCL	Oil, Gas & Consumable Fuels	105.5	55.7	30.1	26.0	16	(71)	(46)
Reliance Industries	Oil, Gas & Consumable Fuels	160.1	189.5	151.4	158.2	(4)	(5)	(20)
Cipla	Pharmaceuticals	10.0	9.4	11.8	10.6	11	18	25
Dr Reddy's Laboratories	Pharmaceuticals	14.1	12.9	13.9	13.1	6	(1)	8
BSE-30 Index		981	1,145	1,054	1,069	(1.4)	7.4	(7.9)
Nifty-50 Index		1,175	1,306	1,184	1,193	(0.8)	0.7	(9.4)

Source: Companies, Kotak Institutional Equities estimates

1QFY25 net profits of KIE universe grew 4% yoy and declined 7% qoq

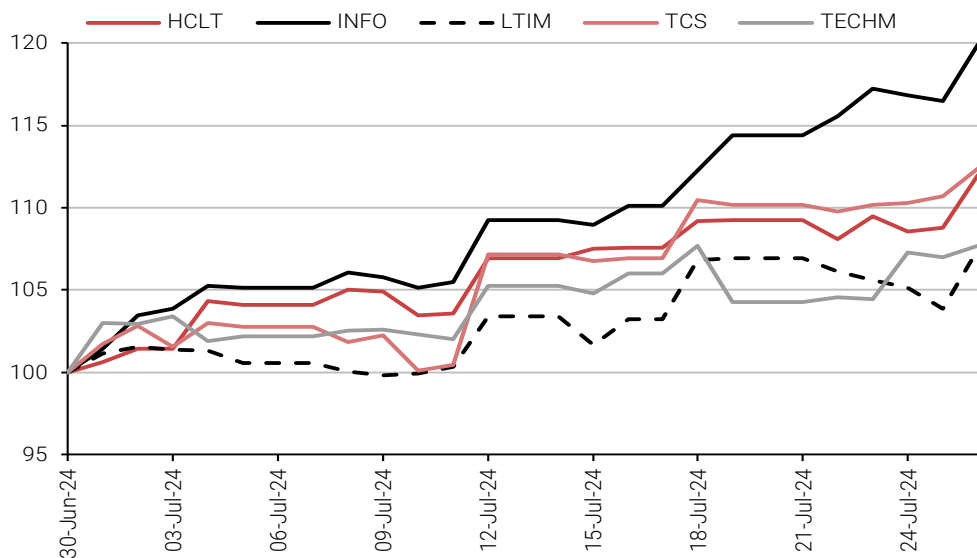
Exhibit 2: Company-wise adjusted PAT analysis of KIE universe companies

	Adjusted profits (Rs bn)				Change (%)		
	Jun-23	Mar-24	Jun-24A	Jun-24E	A/E	yoy	qoq
Automobiles & Components	30	36	33	32	1	11	(10)
Banks	456	558	555	543	2	22	(0)
Capital Goods	27	45	30	32	(4)	13	(33)
Commercial & Professional Services	1	1	1	1	(4)	(28)	19
Commodity Chemicals	16	13	12	14	(17)	(25)	(7)
Construction Materials	20	30	22	22	(1)	6	(28)
Consumer Durables & Apparel	7	10	8	9	(12)	18	(19)
Consumer Staples	37	39	39	39	(0)	6	(1)
Diversified Financials	98	112	115	115	0	17	3
Insurance	15	27	17	17	(1)	15	(38)
Electric Utilities	80	91	88	93	(5)	10	(3)
Fertilizers & Agricultural Chemicals	1	(0)	0	1	(25)	(24)	329
Gas Utilities	9	7	8	6	22	(14)	5
Hotels & Restaurants	2	4	2	3	(26)	(1)	(40)
Internet Software & Services	1	1	1	1	18	69	22
IT Services	271	294	294	291	1	9	0
Media	(0)	(1)	(1)	(1)	7	(210)	(52)
Metals & Mining	41	23	22	26	(18)	(47)	(5)
Oil, Gas & Consumable Fuels	266	245	182	184	(1)	(32)	(26)
Pharmaceuticals	29	29	32	31	3	7	10
Real Estate	11	20	14	12	19	30	(29)
Retailing	7	6	8	8	(1)	17	37
Telecommunication Services	4	4	2	2	9	(35)	(34)
Transportation	2	4	3	3	(11)	30	(21)
KIE universe	1,430	1,597	1,487	1,485	0.2	4.0	(6.9)

Source: Companies, Kotak Institutional Equities estimates

Modest earnings beat but sharp increase in the stock prices of certain IT stocks

Exhibit 3: Performance of IT services stocks (base=100)



Source: Bloomberg, Kotak Institutional Equities

Earnings downgrades in most of the IT stocks

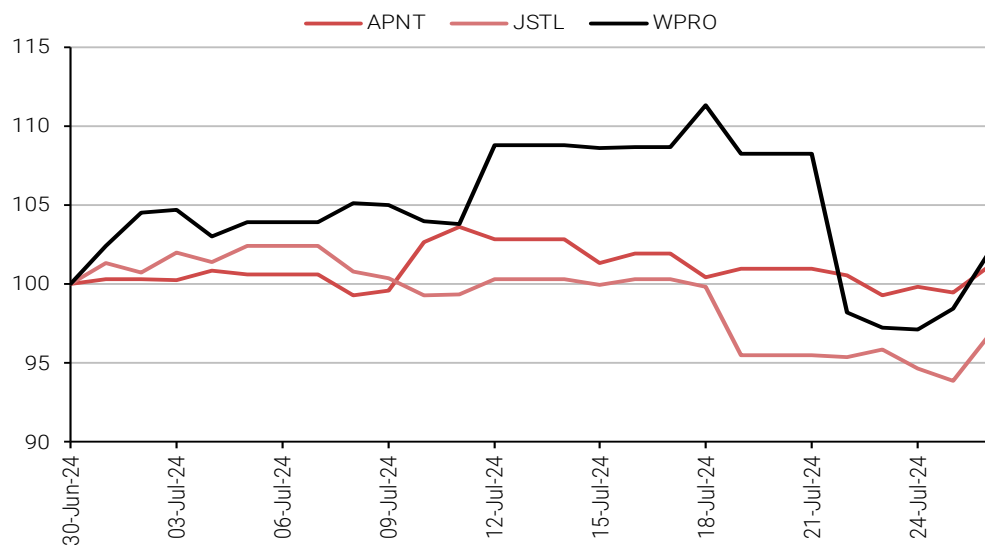
Exhibit 4: Earnings revision in IT stocks, March fiscal year-ends, 2025-26E

	2025E		Change	2026E		Change
	Pre-results	Current	(%)	Pre-results	Current	(%)
HCL Technologies	169	171	1.1	189	188	(0.2)
Infosys	263	266	1.2	294	300	2.1
LTIMindtree	51	50	(1.7)	60	59	(0.4)
TCS	514	513	(0.2)	570	569	(0.2)
Tech Mahindra	43	42	(2.4)	58	58	(0.9)

Source: Companies, Kotak Institutional Equities

No impact on certain stocks despite very weak results

Exhibit 5: Performance of select stocks (base=100)



Source: Bloomberg, Kotak Institutional Equities

Earnings downgrades due to weak 1QFY25 results in certain cases

Exhibit 6: Earnings revision in APNT, JSTL and WPRO, March fiscal year-ends, 2025-26E

	2025E		Change	2026E		Change
	Pre-results	Current	(%)	Pre-results	Current	(%)
Asian Paints	53	51	(4.9)	58	56	(4.3)
JSW Steel	139	117	(15.5)	174	161	(7.6)
Wipro	121	120	(0.8)	134	132	(1.1)

Source: Bloomberg, Kotak Institutional Equities

We model a moderate decline in NIMs of banks in FY2025-26E

Exhibit 7: NIM for banks in KIE universe, March fiscal year-ends, 2019-26E (%)

	2019	2020	2021	2022	2023	2024	2025E	2026E
Public banks								
Bank of Baroda	2.6	3.0	2.7	2.8	3.2	3.1	2.9	2.9
Canara Bank	2.4	2.0	1.7	2.4	2.6	2.7	2.4	2.4
Punjab National Bank	2.4	2.3	3.1	2.4	2.7	2.8	2.8	2.9
State Bank of India	2.7	2.8	2.9	2.8	3.0	3.0	3.0	2.9
Union Bank	2.2	2.3	2.5	2.6	2.8	2.9	2.8	2.7
Old private banks								
City Union Bank	3.9	3.7	3.7	3.5	3.5	3.2	3.2	3.3
Federal Bank	3.0	2.9	3.1	3.0	3.3	3.1	3.0	3.0
Karur Vysya Bank	3.6	3.5	3.4	3.6	4.1	4.1	3.8	3.7
New private banks								
Axis Bank	3.2	3.2	3.4	3.3	3.7	3.8	3.5	3.4
Bandhan Bank	9.1	8.7	7.5	7.1	6.7	6.6	6.9	6.8
DCB Bank	3.6	3.6	3.5	3.4	3.8	3.5	3.2	3.2
HDFC Bank	4.4	4.2	4.1	3.9	4.1	3.8	3.5	3.7
ICICI Bank	3.3	3.6	3.6	3.9	4.4	4.6	4.1	4.0
IndusInd Bank	3.8	4.4	4.4	4.2	4.4	4.4	4.4	4.3
Yes Bank	3.0	2.3	3.2	2.5	2.7	2.5	2.7	2.8
Small finance banks								
AU Small Finance Bank	5.4	5.3	5.2	5.5	5.7	5.3	6.5	5.9
Equitas Small Finance Bank	8.2	8.8	8.4	8.2	8.5	8.0	7.4	7.1
Ujjivan Small Finance Bank	10.0	10.6	9.3	8.4	9.8	9.5	8.9	8.4

Source: Companies, Kotak Institutional Equities estimates

We expect higher credit costs for banks in FY2025-26E

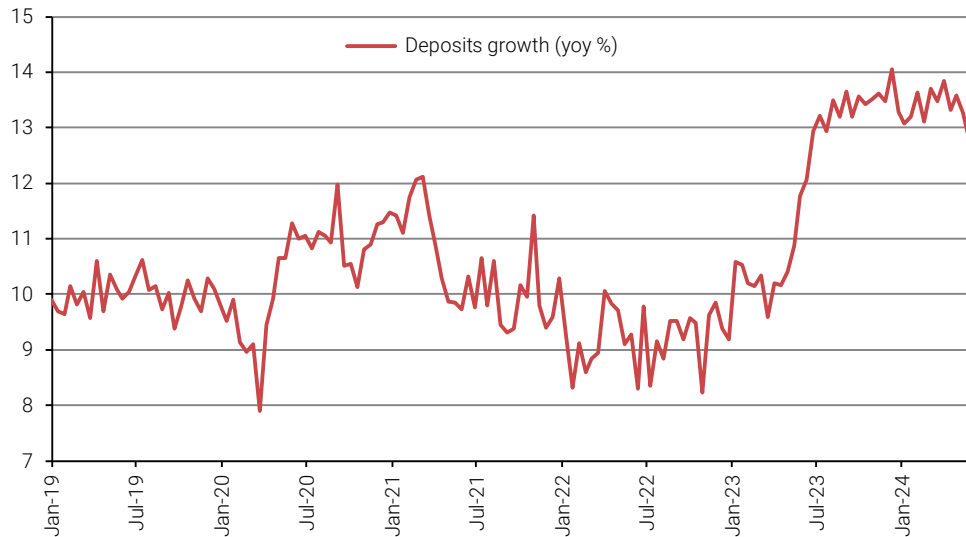
Exhibit 8: Credit cost for banks in KIE universe, March fiscal year-ends, 2019-26E (%)

	2019	2020	2021	2022	2023	2024	2025E	2026E
Public banks								
Bank of Baroda	2.9	3.6	2.2	1.8	0.8	0.6	0.7	0.8
Canara Bank	3.2	2.6	3.0	2.1	1.8	1.1	0.9	0.7
Punjab National Bank	6.4	3.0	3.4	2.3	2.3	1.3	0.8	0.9
State Bank of India	2.6	1.9	1.8	0.9	0.6	0.1	0.5	0.6
Union Bank	3.9	4.3	3.8	2.1	1.9	0.8	0.8	0.8
Old private banks								
City Union Bank	1.0	2.3	2.3	1.6	1.5	0.6	0.4	0.7
Federal Bank	0.8	1.0	1.3	0.9	0.5	0.1	0.4	0.5
Karur Vysya Bank	2.8	2.9	1.5	1.4	1.6	0.7	0.8	0.8
New private banks								
Axis Bank	2.4	3.4	2.3	1.0	0.4	0.4	0.7	0.7
Bandhan Bank	2.1	2.6	5.3	9.0	4.2	3.3	2.0	1.8
DCB Bank	0.6	1.1	1.7	1.5	0.5	0.4	0.5	0.7
HDFC Bank	1.0	1.3	1.5	1.2	0.8	1.2	0.5	0.6
ICICI Bank	3.6	2.3	2.4	1.1	0.7	0.3	0.6	0.7
IndusInd Bank	1.9	2.4	3.8	2.9	1.7	1.2	1.1	1.0
Yes Bank	2.6	15.9	5.7	0.9	1.2	0.9	0.2	0.1
Small finance banks								
AU Small Finance Bank	0.8	1.1	2.3	0.9	0.3	0.7	1.3	1.2
Equitas Small Finance Bank	1.1	1.9	2.5	2.7	1.8	1.1	1.3	1.4
Ujjivan Small Finance Bank	0.5	1.4	5.6	7.7	0.1	0.9	1.9	1.8

Source: Companies, Kotak Institutional Equities estimates

Deposit growth has remained strong in the past few months

Exhibit 9: Deposit growth of banking system, March fiscal year-ends, 2019-25 (%)



Source: RBI, Kotak Institutional Equities

Deposit growth has been quite strong

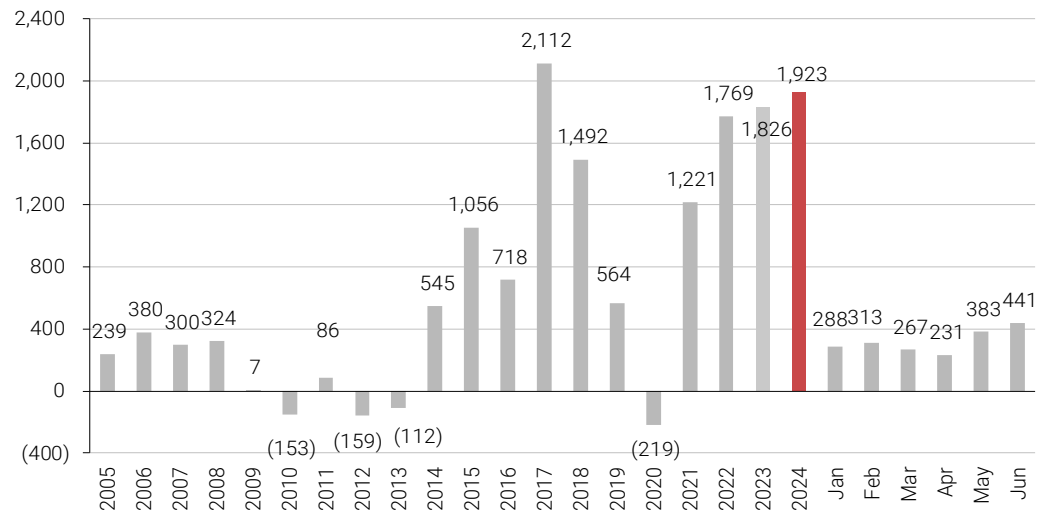
Exhibit 10: Deposit growth of banks, March fiscal year-end, 2023-24 (%)

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

Source: Companies, Kotak Institutional Equities

Strong equity inflows in May and June 2024

Exhibit 11: Net MF flows (Equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Many banks have delivered significant high returns over 1Y, 3Y and 5Y

Exhibit 12: 1Y, 3Y and 5Y performance of Indian banks

	Performance (%)		
	1Y	3Y	5Y
AU Small Finance Bank	(11)	10	97
Axis Bank	21	56	61
Bandhan Bank	(13)	(35)	(61)
Bank of Baroda	26	213	122
Canara Bank	69	288	137
City Union Bank	21	4	(18)
DCB Bank	(0)	22	(36)
Equitas Small Finance Bank	(10)	38	NA
Federal Bank	48	127	108
HDFC Bank	(4)	13	42
ICICI Bank	21	78	190
IDBI Bank	81	173	235
IDFC First Bank	(12)	45	76
IndusInd Bank	(2)	43	(1)
Karur Vysya Bank	75	349	239
Kotak Mahindra Bank	(4)	4	20
Punjab National Bank	90	205	76
RBL Bank	(1)	19	(48)
South Indian Bank	45	167	125
State Bank of India	40	104	152
UCO Bank	97	323	232
Ujjivan Small Finance Bank	1	48	NA
Union Bank	46	269	89
Utkarsh Small Finance Bank	(0)	NA	NA
YES Bank	47	88	(74)
Nifty Bank	11	47	75
Nifty	26	57	120

Source: Bloomberg, Kotak Institutional Equities

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

Exhibit 13: KIE large-cap. model portfolio

Company	Price (Rs) 26-Jul-24	KIE weight (%)
Automobiles & Components		
Mahindra & Mahindra	2,888	1.5
Automobiles & Components 1.5		
Banks		
Axis Bank	1,177	6.6
HDFC Bank	1,618	8.9
ICICI Bank	1,207	9.9
IndusInd Bank	1,404	2.5
State Bank of India	862	7.2
Banks 35.1		
Capital Goods		
L&T	3,680	3.1
Capital Goods 3.1		
Consumer Staples		
Britannia Industries	5,873	1.4
Dabur India	632	1.5
Godrej Consumer Products	1,468	1.7
Hindustan Unilever	2,711	3.2
United Spirits	1,415	1.6
Consumer Staples 9.4		
Diversified Financials		
Shriram Finance	2,925	1.8
Diversified Financials 1.8		
Health Care Services		
Apollo Hospitals	6,665	1.4
Health Care Services 1.4		
Insurance		
ICICI Prudential Life	725	1.6
SBI Life Insurance	1,751	2.4
Insurance 4.0		
Internet Software & Services		
Zomato	225	1.7
Internet Software & Services 1.7		

Company	Price (Rs) 26-Jul-24	KIE weight (%)
IT Services		
HCL Technologies	1,635	2.4
Infosys	1,879	6.3
TCS	4,388	2.0
IT Services 10.6		
Oil, Gas & Consumable Fuels		
Reliance Industries	3,018	9.1
Oil, Gas & Consumable Fuels 9.1		
Pharmaceuticals		
Cipla	1,575	2.1
Mankind Pharma	2,056	1.2
Sun Pharmaceuticals	1,714	1.9
Torrent Pharmaceuticals	3,195	1.6
Pharmaceuticals 6.8		
Real Estate		
DLF	830	1.4
Embassy Office Parks REIT	372	1.4
Macrotech Developers	1,403	2.0
Real Estate 4.8		
Specialty Chemicals		
Pidilite Industries	3,135	1.5
Specialty Chemicals 1.5		
Telecommunication Services		
Bharti Airtel	1,514	4.5
Telecommunication Services 4.5		
Transportation		
Adani Ports and SEZ	1,543	1.8
Delhivery	397	1.2
Interglobe Aviation	4,493	1.6
Transportation 4.6		
BSE-30	81,333	100

Notes:

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

Source: Kotak Institutional Equities estimates

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

Exhibit 14: 12M forward P/E multiple of large-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Bajaj Auto	Automobiles & Components	14	14	14	16	15	16	18	17	17	12	19	18	17	30	28
Eicher Motors	Automobiles & Components	15	14	16	24	38	33	33	29	21	17	29	25	23	25	30
Hero Motocorp	Automobiles & Components	14	15	14	16	16	17	17	18	13	10	16	14	13	20	22
Maruti Suzuki	Automobiles & Components	14	16	13	17	21	18	22	26	23	18	28	30	23	28	26
Samvardhana Motherson	Automobiles & Components	17	13	14	19	28	21	25	25	19	11	25	22	15	20	29
TVS Motor	Automobiles & Components	11	7	7	15	22	23	28	30	23	19	32	24	27	40	43
Asian Paints	Commodity Chemicals	23	27	33	36	38	38	45	44	51	48	64	65	54	48	55
Berger Paints	Commodity Chemicals	17	17	25	27	36	35	45	44	49	58	81	61	49	52	50
Ambuja Cements	Construction Materials	18	18	14	24	23	29	34	29	26	16	25	20	26	38	39
Shree Cement	Construction Materials	NA	NA	14	22	46	34	36	31	37	34	44	32	41	34	35
UltraTech Cement	Construction Materials	18	18	16	24	23	28	34	31	32	20	32	26	30	31	38
Havells India	Consumer Durables & Apparel	13	16	16	20	31	32	42	36	46	32	56	49	49	59	64
Polycab	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	NA	NA	NA	13	22	31	30	39	45
Britannia Industries	Consumer Staples	21	28	24	23	39	33	39	49	53	41	45	41	47	49	56
Colgate-Palmolive (India)	Consumer Staples	24	30	28	32	40	32	40	38	40	37	41	38	36	52	57
Dabur India	Consumer Staples	23	24	26	29	35	30	33	36	40	43	48	44	44	41	50
Godrej Consumer Products	Consumer Staples	20	22	30	31	31	35	37	43	38	29	39	36	45	52	59
Hindustan Unilever	Consumer Staples	26	29	28	33	40	39	41	47	50	56	58	47	52	46	55
Marico	Consumer Staples	24	26	27	25	35	37	41	42	39	31	40	43	40	39	51
Nestle India	Consumer Staples	35	37	34	35	44	41	47	50	51	63	65	62	63	72	66
Tata Consumer Products	Consumer Staples	14	18	17	18	19	16	18	26	23	31	50	53	46	61	68
Varun Beverages	Consumer Staples	NA	NA	NA	NA	NA	NA	32	36	42	28	36	39	45	67	72
United Spirits	Consumer Staples	22	16	37	59	90	57	53	58	43	33	41	53	48	57	64
Apollo Hospitals	Health Care Services	25	29	30	31	43	41	40	41	43	33	59	54	50	61	58
Avenue Supermarts	Retailing	NA	NA	NA	NA	NA	NA	54	77	73	78	90	100	71	86	91
Titan Company	Retailing	30	28	25	28	33	31	41	56	54	44	68	75	57	74	70
Trent	Retailing	NA	45	43	36	40	27	44	56	53	59	169	112	79	109	109
Pidilite Industries	Specialty Chemicals	21	22	27	26	42	34	37	43	54	49	64	74	62	69	70

Source: FactSet, Kotak Institutional Equities estimates

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

Exhibit 15: 12M forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Balkrishna Industries	Automobiles & Components	6	8	7	9	11	11	17	21	20	15	26	24	24	27	34
Exide Industries	Automobiles & Components	17	19	17	19	21	18	24	22	20	12	17	13	14	20	34
Schaeffler India	Automobiles & Components	11	14	12	17	31	27	31	29	30	25	35	37	42	41	56
SKF	Automobiles & Components	15	15	14	19	28	26	28	26	27	18	30	35	32	33	40
Timken	Automobiles & Components	NA	NA	NA	NA	40	24	31	34	29	23	39	44	41	49	65
Indigo Paints	Commodity Chemicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	93	47	32	33	38
Kansai Nerolac	Commodity Chemicals	20	19	26	24	31	36	38	43	41	32	47	37	30	27	30
Crompton Greaves Consumer	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	39	36	31	24	40	33	29	29	45
Page Industries	Consumer Durables & Apparel	24	26	26	36	58	46	48	59	54	40	64	72	53	51	64
Voltas	Consumer Durables & Apparel	14	13	9	20	24	23	28	31	32	23	44	51	41	49	57
Whirlpool	Consumer Durables & Apparel	NA	15	14	21	34	28	41	43	38	35	46	42	44	45	62
United Breweries	Consumer Staples	47	54	58	68	63	51	51	51	52	35	51	55	56	64	73
Aster DM Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	22	10	16	16	17	31	39
Dr Lal Pathlabs	Health Care Services	NA	NA	NA	NA	NA	53	39	35	36	38	67	57	44	45	58
Max Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35	34	34	51	56
Metropolis Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	33	50	41	34	49	56
Narayana Hrudayalaya	Health Care Services	NA	NA	NA	NA	NA	136	47	44	37	34	39	39	26	31	31
Chalet Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	146	29	45	42
Devyani International	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	89	53	86	117
Indian Hotels	Hotels & Restaurants	26	23	39	48	66	67	47	51	54	28	100	70	40	51	54
Jubilant Foodworks	Hotels & Restaurants	36	48	41	40	54	52	54	58	48	45	75	58	51	69	93
Lemon Tree Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	64	33	NA	173	39	36	39
Sapphire Foods	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	106	54	88	91
Westlife Foodworld	Hotels & Restaurants	NA	NA	NA	119	264	139	120	107	69	49	113	94	67	91	132

Source: FactSet, Kotak Institutional Equities

Most investment stocks are trading at expensive valuations

Exhibit 16: 12M forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														Current
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	
ABB	Capital Goods	41	48	32	60	67	60	51	43	53	42	64	69	73	87	86
Bharat Electronics	Capital Goods	14	12	10	11	22	20	21	18	13	10	15	19	21	35	47
BHEL	Capital Goods	15	10	8	16	21	27	26	20	17	7	28	28	28	78	65
Carborundum Universal	Capital Goods	13	13	13	17	21	18	23	24	25	13	30	32	37	42	54
Cochin Shipyard	Capital Goods	NA	NA	NA	NA	NA	NA	NA	16	11	5	NA	6	14	37	87
Cummins India	Capital Goods	18	21	18	25	29	26	28	23	24	13	35	32	36	50	54
IRB Infrastructure	Capital Goods	13	12	7	7	13	12	11	8	6	4	8	26	17	32	37
Kalpataru Projects	Capital Goods	9	8	6	7	15	15	16	19	16	5	10	10	12	20	25
KEC International	Capital Goods	8	8	7	9	13	12	15	19	13	7	15	13	18	23	27
L&T	Capital Goods	21	16	15	22	28	21	23	23	19	11	19	21	22	31	30
Siemens	Capital Goods	28	28	29	53	75	50	50	37	37	30	52	52	59	76	81
Thermax	Capital Goods	16	15	18	24	33	28	36	35	27	23	43	48	43	65	72
Amber Enterprises	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	31	19	19	51	43	29	48	50
Avalon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	36	44
Cyient DLM	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	49	48
Dixon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	37	27	25	64	63	40	70	88
Kaynes Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	75	82
Syrma SGS Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	42	44

Source: FactSet, Kotak Institutional Equities

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

Exhibit 17: 12M forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														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	
Coforge	IT Services	6	7	7	9	9	10	9	15	16	13	29	32	22	30	38
Cyient	IT Services	10	8	8	11	14	12	12	17	14	5	16	18	16	25	24
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	28
KPIT Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	20	48	52	53	58
LTIMindtree	IT Services	NA	NA	NA	NA	NA	NA	12	18	17	15	32	38	27	27	33
L&T Technology Services	IT Services	NA	NA	NA	NA	NA	NA	16	23	21	14	31	46	28	38	38
Mphasis	IT Services	10	11	10	11	11	13	14	17	15	10	23	36	18	25	32
Persistent Systems	IT Services	11	8	10	13	17	18	13	14	12	11	27	42	29	43	51
Tata Elxsi	IT Services	NA	NA	10	21	30	28	22	23	18	14	39	88	44	51	47
TCS	IT Services	23	18	20	19	20	18	17	19	22	20	30	31	24	28	30
Tech Mahindra	IT Services	11	10	11	13	15	13	12	16	14	11	16	21	16	23	29
Wipro	IT Services	18	15	14	15	16	14	14	15	15	11	20	24	15	21	22
Aurobindo Pharma	Pharmaceuticals	9	7	7	12	18	17	14	12	15	8	15	12	12	17	20
Cipla	Pharmaceuticals	21	18	18	19	30	20	24	20	22	18	24	25	20	27	26
Divis Laboratories	Pharmaceuticals	20	17	17	19	23	20	16	25	28	31	39	40	36	44	57
Dr Reddy's Laboratories	Pharmaceuticals	19	18	17	18	23	20	21	19	21	21	24	21	18	19	21
Lupin	Pharmaceuticals	18	20	20	20	31	20	20	19	21	21	27	22	24	32	32
Mankind Pharma	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	41	34
Sun Pharmaceuticals	Pharmaceuticals	22	23	23	20	29	24	21	25	23	17	23	26	24	35	36
Torrent Pharmaceuticals	Pharmaceuticals	14	13	12	15	22	17	21	22	30	29	30	32	33	43	48
SRF	Specialty Chemicals	3	3	5	7	14	14	15	16	18	16	24	38	29	37	39

Source: FactSet, Kotak Institutional Equities

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

Exhibit 18: 12M forward P/B multiple of banks in KIE universe, March fiscal year ends, 2011-25E

Company	Sector	12-m forward P/B 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
AU Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	7.0	4.6	3.0	5.9	4.6	3.1	2.6	2.8
Axis Bank	Banks	2.6	1.8	1.7	1.6	2.6	1.8	2.1	1.9	2.7	1.1	1.9	1.9	1.8	1.9	2.0
Bandhan Bank	Banks	NA	NA	NA	NA	NA	NA	NA	5.2	4.9	1.7	2.7	2.6	1.4	1.2	1.2
Bank of Baroda	Banks	1.7	1.1	0.8	0.9	0.9	1.0	1.2	0.9	0.9	0.4	0.5	0.7	0.8	1.1	1.0
Canara Bank	Banks	1.3	0.9	0.7	0.5	0.6	0.5	0.9	0.9	1.3	0.2	0.6	0.6	0.7	1.2	1.1
City Union Bank	Banks	1.5	1.4	1.4	1.3	2.0	1.7	2.3	2.6	2.8	1.6	1.9	1.4	1.2	1.1	1.3
DCB Bank	Banks	1.3	1.3	1.0	1.2	1.9	1.2	2.2	1.8	2.0	0.8	0.9	0.6	0.7	0.7	0.7
Equitas Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	1.4	1.5	1.6	1.4
Federal Bank	Banks	1.3	1.2	1.2	1.1	1.3	0.9	1.7	1.4	1.4	0.5	NA	NA	NA	1.1	1.4
HDFC Bank	Banks	3.8	3.5	3.5	3.5	3.6	3.2	3.8	3.8	3.8	2.5	3.6	3.0	2.8	2.2	2.4
ICICI Bank	Banks	2.2	1.6	1.7	1.8	2.1	1.5	1.8	1.7	2.3	1.7	2.5	2.7	2.7	2.9	3.0
Indusind Bank	Banks	2.8	2.8	2.5	2.6	3.8	2.9	3.7	4.0	3.4	0.6	1.6	1.4	1.3	1.7	1.5
Karur Vysya Bank	Banks	1.7	1.3	1.4	1.1	1.5	1.1	1.4	1.3	1.0	0.3	0.7	0.5	0.9	1.3	1.5
Punjab National Bank	Banks	1.6	1.1	0.7	0.8	0.7	0.6	1.0	0.6	1.0	0.4	0.5	0.4	0.6	1.3	1.1
State Bank of India	Banks	1.9	1.7	1.4	1.3	1.6	1.2	1.5	1.2	1.4	0.8	1.3	1.5	1.3	1.7	1.8
Ujivan Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.4	1.6	0.9	1.0	1.4	1.2
Union Bank	Banks	1.4	0.9	0.8	0.5	0.6	0.6	0.7	0.5	0.6	0.3	0.5	0.4	0.6	1.1	1.0

Source: FactSet, Kotak Institutional Equities

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

Exhibit 19: 12M forward P/B multiple of financial stocks in KIE universe, March fiscal year ends, 2011-25E

Company	Sector	12-m forward P/B 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
12-m forward P/B multiple (X)																
Aavas Financiers	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	4.7	3.9	7.0	6.4	3.4	2.4	3.0
Aptus Value Housing Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.2	3.1	3.6	3.5
Bajaj Finance	Diversified Financials	1.6	1.4	1.5	1.9	3.5	4.2	5.7	5.3	7.3	3.4	7.1	8.4	5.2	5.0	4.3
Cholamandalam	Diversified Financials	1.6	1.6	1.8	1.6	2.6	2.8	3.2	3.8	3.2	1.3	4.1	4.5	3.9	4.3	4.7
Home First Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.7	3.9	3.2	3.3	3.7
L&T Finance Holdings	Diversified Financials	NA	1.6	2.1	1.8	1.4	1.5	2.6	2.8	2.0	0.6	1.2	0.9	0.9	1.6	1.7
LIC Housing Finance	Diversified Financials	2.2	2.1	1.5	1.4	2.3	2.3	2.5	1.9	1.6	0.6	1.0	0.8	0.7	1.0	1.2
Mahindra & Mahindra Financial	Diversified Financials	2.7	2.0	2.2	2.5	2.3	2.2	2.7	3.1	2.3	0.8	1.6	1.2	1.6	1.7	1.8
Muthoot Finance	Diversified Financials	NA	1.1	1.3	1.4	1.5	1.2	2.1	1.9	2.4	1.7	2.7	2.5	1.6	2.1	2.4
Shriram Finance	Diversified Financials	3.0	1.9	1.8	1.8	2.4	2.0	2.0	2.3	1.7	0.7	1.6	1.1	1.0	1.6	1.9
12-m forward P/E multiple (X)																
ABSL AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22	13	18	22
Computer Age Management Ser	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	37.4	34	29	35	44
CRISIL	Diversified Financials	19.8	27.4	22.3	30.6	40.9	37.3	33.3	36.2	25.4	21.8	33.6	45	40	50	58
HDFC AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	34.0	30.9	40.6	29	23	38	36
ICRA	Diversified Financials	16.1	18.0	15.8	24.1	41.1	39.2	44.9	33.7	22.4	19.9	35.5	32	27	31	44
Kfin Technologies	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	36	41
Nippon AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	24.7	24.3	24.1	33.8	26	17	27	32
UTI AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18.9	20	14	15	17

Source: FactSet, Kotak Institutional Equities

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

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

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

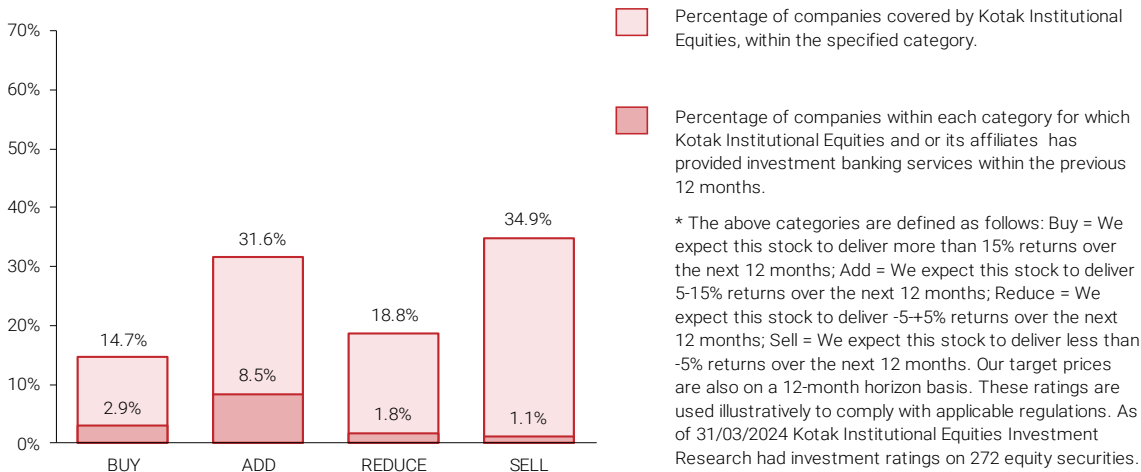
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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

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

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