

Strategy

June 11, 2024

Fight, flee or join a stampede?

The unexpected market reaction (sanguine) to an unexpected result in the 2024 national elections (BJP falling short of majority) highlights the unusual nature of the Indian market. Non-institutional investors remain extremely confident about making high returns from the Indian market, irrespective of prices and valuations. Institutional investors can choose to fight, flee or join.

Shrug off the shock

The market's sanguine reaction to the shock outcome of the 2024 general elections demonstrates the unusual nature of the Indian market. The market has held up unusually well, despite a 'bad' election outcome versus pre-election expectations. New narratives (consumption) have emerged, while old ones (investment) have strengthened. Most parts of the market (large-cap., mid-cap., small-cap.) and sectors are back to pre-election levels, while several more sectors and stocks have scaled new highs (see Exhibits 1-3).

Unshaken faith in high market returns of domestic non-institutional investors

The sanguine reaction of domestic non-institutional investors reflects their unshaken faith about high returns from the equity market. Their high return expectation reflects confidence about high returns in the future too, which has been cemented by strong returns across caps, sectors and stocks over the past 1-3 years (see Exhibit 4). We would note that continued large inflows into the market from non-retail investors simply reflect their expectations of high expected returns from the market, which are based on past returns (see Exhibits 5-8). FPIs have been quiet for a while from a flow perspective (see Exhibit 9).

When fundamentals, valuations hardly matter

In our view, the extreme euphoria among non-institutional investors has resulted in (1) steep increase in stock prices of mid-cap. and small-cap. stocks over the past 15 months (see Exhibits 10-11), including several relatively low-quality and unknown stocks and (2) distended valuations across sectors (see Exhibits 12-17). In this context, narratives have taken firm root, while numbers and valuations have withered—there is very little debate about (1) unrealistic assumptions on profitability and volumes being priced in valuations of stocks and (2) incorrect valuation methodologies being used to justify narratives.

Hobson's choices for investors

Fundamental investors may continue to struggle with the poor options ahead of them—(1) stay invested or invest in a market, with increasingly tenuous links to fundamentals or (2) exit the market in the hope of a more rational market, if and when it emerges. It is difficult to fight, gauge or preempt the 'mob' mentality prevalent in the market. However, arguments of domestic institutional investors about investment compulsions seem convenient—(1) limited opportunity for domestic investors to invest in; money does not move across asset classes or stocks (excluding foreign flows) or (2) better tax-adjusted returns in equities versus other asset classes; this does not hold at all price points, obviously.

Key estimates summary

	2024	2025E	2026E
Nifty estimates			
Earnings growth (%)	20.5	9.3	14.1
Nifty EPS (Rs)	993	1,092	1,248
Nifty P/E (X)	23.4	21.3	18.6
Macro data			
Real GDP (%)	8.2	6.9	6.5
Avg CPI inflation (%)	5.4	4.4	4.2

Source: Company data, Kotak Institutional Equities estimates

Quick Numbers

Nifty-50 Index is up 3.2%, Nifty 100 Midcap 100 Index is up 3% and Nifty Smallcap Index is up 4.7% since May 31, 2024 (before exit polls)

Nifty-50 Index is up 5.5%, Nifty 100 Midcap 100 Index is up 7% and Nifty Smallcap Index is up 8% over the past 1 month

Nifty-50 Index stock is trading at 21.3X FY2025E 'EPS' and 18.6X FY2026E 'EPS'

[Full sector coverage on KINSITE](#)

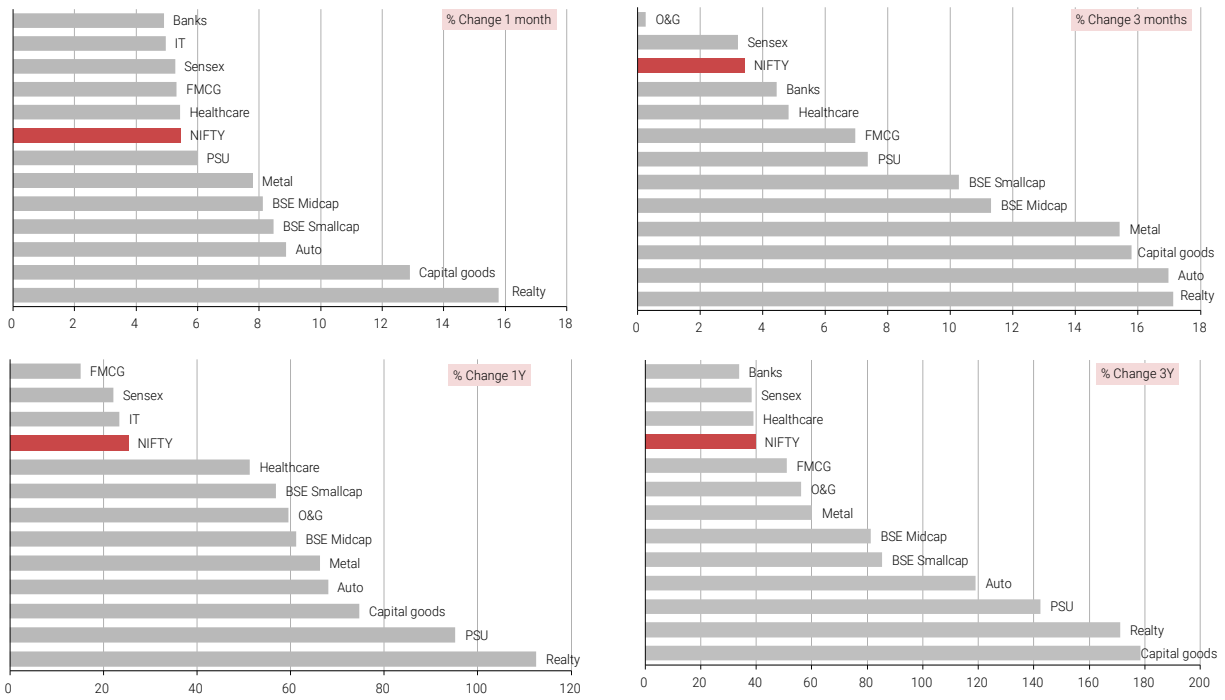
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The market and all stocks have performed well in the past one month, despite the election 'setback'

Exhibit 1: Performance of various sectors (%)



Source: Bloomberg, Kotak Institutional Equities

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

Exhibit 2: Performance of stocks in Nifty Midcap Index (sorted on 12-m basis)

Company Name	GICS sector	Performance (%)					Company Name	GICS sector	Performance (%)						
		1M	3M	6M	12M	YTD			1M	3M	6M	12M	YTD		
Nifty Midcap 100 Index		7	9	20	56	15									
1 BSE	Financials	0	19	10	380	20	51 Indian Hotels Co	Consumer Discretionary	7	(1)	34	52	33		
2 Kalyan Jewellers	Consumer Discretionary	(0)	(0)	26	269	16	52 Ashok Leyland	Industrials	17	35	32	52	27		
3 SJVN	Utilities	6	8	49	262	46	53 Alkem Lab	Health Care	(2)	(2)	5	47	(3)		
4 Prestige Estates	Real Estate	21	56	55	243	56	54 Mankind Pharma	Health Care	(3)	1	11	46	10		
5 Suzlon Energy	Industrials	19	17	22	239	24	55 Patanjali Foods	Consumer Staples	8	(3)	(8)	44	(6)		
6 BHEL	Industrials	4	10	61	232	47	56 Yes Bank	Financials	6	0	20	44	11		
7 Mazagon Dock	Industrials	42	50	52	202	37	57 Balkrishna Industries	Consumer Discretionary	31	43	25	44	27		
8 Rail Vikas	Industrials	43	57	118	199	106	58 Max Healthcare	Health Care	0	8	20	42	18		
9 FACT	Materials	22	13	6	151	(0)	59 Dr Lal Pathlabs	Health Care	19	28	6	42	8		
10 Dixon Technologies	Consumer Discretionary	20	41	69	148	54	60 Biocon	Health Care	12	21	42	41	36		
11 Bharat Dynamics	Industrials	52	58	114	146	66	61 Petronet LNG	Energy	1	7	44	41	36		
12 Macrotech Developers	Real Estate	31	26	61	146	44	62 Max Financial	Financials	(2)	(2)	(8)	39	(0)		
13 JSW Energy	Utilities	10	22	39	141	54	63 ACC	Materials	8	(4)	19	38	15		
14 Oracle	Information Technology	11	1	103	137	100	64 Tube Investments	Consumer Discretionary	(3)	12	10	38	11		
15 Oil India	Energy	(2)	(4)	90	137	63	65 Aditya Birla Cap	Financials	8	28	43	34	40		
16 NMDC	Materials	(0)	7	39	137	21	66 APL Apollo Tubes	Materials	6	3	2	33	6		
17 Bank of Maharashtra	Financials	4	7	43	133	47	67 Federal Bank	Financials	3	5	7	32	6		
18 NHPC	Utilities	8	13	61	129	58	68 Laurus Labs	Health Care	1	5	16	30	3		
19 Torrent Power	Utilities	15	34	58	125	64	69 KPIT Technologies	Information Technology	1	(1)	0	30	(2)		
20 Indus Towers	Communication Services	5	36	83	121	75	70 Mphasis	Information Technology	7	(4)	(1)	29	(13)		
21 Vodafone Idea	Communication Services	24	11	23	117	(1)	71 MRF	Consumer Discretionary	(0)	(12)	8	29	(2)		
22 Supreme Industries	Materials	14	54	33	113	32	72 Tata Communications	Communication Services	7	(8)	10	26	5		
23 PB Fintech	Financials	8	17	58	110	63	73 L&T Technology	Industrials	10	(9)	(3)	26	(9)		
24 GMR Airports Infrastructure	Industrials	9	3	26	105	8	74 Poonawalla Fin	Financials	(8)	(1)	2	23	(2)		
25 Union Bank (I)	Financials	4	(6)	26	105	24	75 Sona BLW	Consumer Discretionary	12	(4)	15	23	2		
26 Lupin	Health Care	2	(2)	32	103	24	76 Gujarat Gas	Utilities	11	3	34	23	28		
27 HPCL	Energy	4	3	38	99	31	77 FSN E-Commerce	Consumer Discretionary	(1)	8	(1)	22	(3)		
28 Godrej Properties	Real Estate	6	15	47	99	41	78 Apollo Tyres	Consumer Discretionary	1	(6)	6	20	7		
29 Cummins India	Industrials	4	27	82	99	80	79 Coforge	Information Technology	17	(17)	(10)	18	(17)		
30 Gland Pharma	Health Care	10	7	6	97	(2)	80 Deepak Nitrite	Materials	(8)	4	4	14	(7)		
31 Oberoi Realty	Real Estate	29	38	31	97	32	81 Delhivery	Industrials	(14)	(15)	1	12	0		
32 HDFC AMC	Financials	4	1	27	96	18	82 Tata Chemicals	Materials	3	(17)	9	10	(2)		
33 Bharat Forge	Consumer Discretionary	13	34	34	94	28	83 Jubilant Food.	Consumer Discretionary	13	15	(7)	9	(7)		
34 Polycab India	Industrials	10	39	25	92	24	84 Astral	Industrials	0	3	12	9	13		
35 Escorts Kubota	Industrials	14	42	29	90	36	85 IDFC First Bank	Financials	1	(4)	(12)	8	(13)		
36 Voltas	Industrials	13	35	71	88	49	86 Piramal Enterprises	Financials	(3)	(8)	(11)	5	(12)		
37 Aurobindo Pharma	Health Care	11	18	23	87	15	87 Indraprastha Gas	Utilities	5	9	17	2	12		
38 Indian Bank	Financials	3	(2)	24	87	26	88 Page Industries	Consumer Discretionary	12	8	4	1	0		
39 LIC Housing Finance	Financials	8	6	27	85	26	89 PI Industries	Materials	2	0	(5)	1	4		
40 SAIL	Materials	(4)	8	54	82	22	90 MMFSL	Financials	13	(1)	4	0	3		
41 CG Power	Industrials	13	43	44	72	44	91 Syngene International	Health Care	7	3	(2)	(2)	1		
42 Bank of India	Financials	(11)	(15)	8	70	10	92 Tata Elxsi	Information Technology	0	(7)	(15)	(9)	(18)		
43 Sun TV Network	Communication Services	8	17	8	64	2	93 Dalmia Bharat	Materials	9	(4)	(20)	(11)	(18)		
44 IDBI Bank	Financials	4	2	32	63	29	94 AU Small Finance	Financials	5	17	(10)	(12)	(15)		
45 Aditya Birla Fashion	Consumer Discretionary	26	44	38	63	45	95 Zee Entertainment	Communication Services	25	2	(41)	(15)	(40)		
46 Fortis Healthcare	Health Care	4	16	21	62	10	96 UPL	Materials	10	14	(6)	(19)	(6)		
47 Ipca Lab	Health Care	(10)	(1)	5	62	6	97 Bandhan Bank	Financials	6	2	(16)	(23)	(18)		
48 L&T Finance Holdings	Financials	7	2	8	57	0	98 JSW Infrastructure	Industrials	16	13	24	NA	36		
49 Container Corp.	Industrials	5	9	25	57	23	99 Tata Technologies	Information Technology	5	(6)	(11)	NA	(10)		
50 Persistent System	Information Technology	11	(11)	16	54	1	100 Mankind Pharma	Health Care	(3)	1	11	NA	10		

Source: Bloomberg, Kotak Institutional Equities

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

Exhibit 3: Performance of stocks in Nifty Smallcap Index (sorted on 12-m basis)

Company Name	GICS sector	Performance (%)				
		1M	3M	6M	12M	YTD
Nifty Smallcap 100 Index		8	11	21	67	15
1 Cochin Shipyard	Industrials	54	118	199	602	180
2 HUDCO	Financials	25	32	195	350	112
3 NBCC	Industrials	8	12	81	244	75
4 Titagarh Rail System	Industrials	22	49	34	218	29
5 MRPL	Energy	(2)	(12)	61	218	54
6 IRCON International	Industrials	10	13	57	202	47
7 Hindustan Copper	Materials	(10)	20	81	199	23
8 Himadri Speciality Chemical	Materials	4	8	21	178	16
9 Tata Investment Corp	Financials	(5)	(34)	53	176	51
10 NCC	Industrials	37	29	90	176	99
11 Apar Industries	Industrials	8	35	55	171	36
12 IOB	Financials	8	1	57	170	54
13 ITI	Information Technology	6	5	0	168	(3)
14 Century Textiles	Materials	4	37	60	162	71
15 Swan Energy	Consumer Discretionary	17	(10)	33	157	21
16 Exide Industries	Consumer Discretionary	16	60	81	156	65
17 IRB Infra	Industrials	12	14	76	151	69
18 Nippon Life India AMC	Financials	5	22	38	145	34
19 Central Bank	Financials	6	(0)	37	138	28
20 Multi Commodity Exchange	Financials	(5)	1	15	135	14
21 GMDC	Energy	(2)	(3)	(8)	134	(6)
22 NLC India	Utilities	6	5	26	130	(9)
23 Amara Raja Energy & Mobility	Industrials	31	61	86	124	72
24 Jyothy Labs	Consumer Staples	(2)	6	(0)	124	(5)
25 JBK Auto	Consumer Discretionary	9	8	60	122	40
26 Blue Star	Industrials	13	21	59	119	69
27 National Aluminium	Materials	5	12	88	118	39
28 J&K Bank	Financials	(6)	(13)	7	117	(1)
29 Olectra Greentech	Industrials	9	(8)	42	116	30
30 UCO Bank	Financials	7	(2)	42	109	42
31 Birlasoft	Information Technology	17	(12)	3	107	(6)
32 CESC	Utilities	4	17	22	106	11
33 CDSL	Financials	3	13	11	101	13
34 Global Health	Health Care	(14)	(3)	30	100	26
35 Shyam Metalics & Energy	Materials	7	(2)	22	97	(0)
36 Karur Vysya Bank	Financials	13	21	39	96	27
37 Finolex Cables	Industrials	52	72	51	95	46
38 Glenmark Pharma.	Health Care	18	26	52	90	41
39 Alok Industries	Consumer Discretionary	2	(13)	14	89	24
40 Piramal Pharma	Health Care	4	24	24	83	13
41 Amber Enterprises	Consumer Discretionary	0	4	23	83	22
42 Tejas Networks	Information Technology	15	68	54	80	48
43 Ramkrishna Forgings	Materials	1	(3)	(5)	79	(3)
44 Castrol India	Materials	6	(4)	44	79	12
45 BLS International	Industrials	1	(7)	14	79	1
46 Angel One	Financials	6	(4)	(11)	76	(25)
47 Natco Pharma	Health Care	13	8	41	76	35
48 Rites	Industrials	2	(11)	38	74	31
49 J B Chemicals	Health Care	4	18	29	74	16
50 Intellect Design	Information Technology	15	(8)	34	74	20
51 Zensar Technologies	Information Technology	14	16	29	73	13
52 GE Shipping	Energy	20	18	33	66	22
53 CAMS Services	Industrials	7	19	26	60	30
54 Raymond	Consumer Discretionary	19	45	49	56	48
55 Chambal Fertilisers	Materials	8	14	24	55	14
56 Firstsour.Solu.	Industrials	7	0	13	53	7
57 Manappuram Finance	Financials	2	3	8	51	3
58 Praj Industries	Industrials	14	20	10	51	7
59 KEC International	Industrials	12	15	29	51	37
60 Graphite India	Industrials	1	(11)	12	51	3
61 Data Pattern	Industrials	(5)	(1)	33	50	43
62 Crompton Greaves Consumer	Consumer Discretionary	25	42	38	50	32
63 Welspun Living	Consumer Discretionary	(1)	(5)	(9)	45	(4)
64 RBL Bank	Financials	4	(1)	(5)	45	(9)
65 Radico Khaitan	Consumer Staples	4	9	9	44	3
66 PNB Housing	Financials	3	9	(2)	43	(2)
67 Narayana Hrudayalaya	Health Care	3	11	11	41	9
68 HFCL	Communication Services	5	(4)	44	40	17
69 Mahanagar Gas	Utilities	9	7	22	38	18
70 Five-Star Business Finance	Financials	11	22	10	37	11
71 Cyient	Information Technology	10	(5)	(3)	36	(18)
72 Ujivan Small Finance Bank	Financials	(6)	(3)	(16)	36	(12)
73 NMDC Steel	Materials	(2)	(3)	27	35	16
74 Indian Energy Exchange	Financials	14	12	8	35	(2)
75 Triveni Turbine	Industrials	0	15	34	34	31
76 Aarti Industries	Materials	(1)	(0)	17	31	2
77 CEAT	Consumer Discretionary	13	(9)	9	30	4
78 AAVAS Financiers	Financials	8	23	16	28	13
79 CreditAccess Gramin	Financials	6	8	(12)	22	(6)
80 Affle India	Communication Services	12	10	7	19	(8)
81 City Union Bank	Financials	(1)	8	(5)	19	(1)
82 GNFC	Materials	3	6	(7)	18	(11)
83 Redington	Information Technology	5	6	29	17	23
84 Equitas Small Finance Bank	Financials	4	0	2	15	(8)
85 Sonata Software	Information Technology	13	(26)	(17)	13	(21)
86 IDFC	Financials	2	(1)	(6)	13	(10)
87 CIE Automotive	Consumer Discretionary	18	27	17	12	20
88 Trident	Consumer Discretionary	(3)	(9)	1	11	2
89 Tanla Platforms	Information Technology	6	(4)	(0)	9	(16)
90 Can Fin Homes	Financials	5	(2)	(2)	4	(1)
91 IIFL Finance	Financials	23	20	(20)	3	(16)
92 GSPL	Utilities	1	(19)	(1)	0	(3)
93 Happiest Minds	Information Technology	12	9	3	0	1
94 PVR Inox	Communication Services	5	(5)	(23)	(5)	(19)
95 Shree Renuka Sugar	Consumer Staples	1	(6)	(5)	(6)	(10)
96 Tata Tele	Communication Services	(2)	(17)	(20)	(6)	(19)
97 Indiamart	Industrials	(4)	(2)	(4)	(8)	(6)
98 Navin Fluorine International	Materials	6	12	(10)	(23)	(11)
99 Honasa Consumer	Consumer Staples	7	17	15	NA	4
100 RR Kabel	Industrials	3	23	2	NA	11

Source: Bloomberg, Kotak Institutional Equities

Most 'narrative' stocks delivered massive outperformance relative to the market in the past one month, despite the election 'setback'

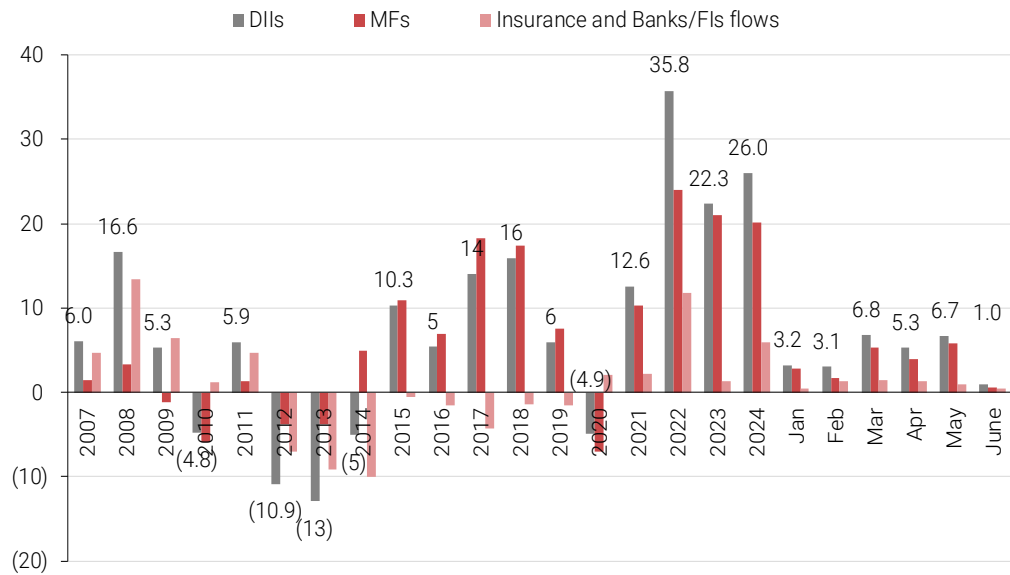
Exhibit 4: Performance of 'narrative stocks', June 2024 (%)

Company	Sector	Absolute (%)					Relative to Nifty-50 Index (%)				
		1m	3m	1y	3y	5y	1m	3m	1y	3y	5y
Bharat Dynamics	Defense	52	58	146	679	894	47	54	121	631	799
BHEL	Electric equipments	4	10	232	275	317	(2)	6	206	227	222
CG Power	Capital goods	13	43	72	708	1,924	7	39	47	661	1,829
Cochin Shipyard	Defense	54	118	602	849	870	48	114	576	801	775
Dixon Technologies	EMS	20	41	148	141	2,052	14	37	122	93	1,957
FACT	Materials	22	13	151	528	1,782	16	9	126	480	1,687
Hindustan Copper	Materials	(10)	20	199	110	707	(15)	16	173	62	612
HPCL	Oil, gas & consumable fuels	4	3	99	75	71	(1)	(2)	74	27	(24)
HUDCO	Financials	25	32	350	408	558	19	28	324	360	462
IRCON International	Industrials	10	13	202	419	535	5	8	177	372	440
JSW Energy	Electric utilities	10	22	141	318	794	5	18	116	270	699
Mazagon Dock	Defense	42	50	202	1,042	NA	37	46	177	994	NA
MRPL	Oil, gas & consumable fuels	(2)	(12)	218	300	246	(8)	(16)	193	253	150
NBCC	Industrials	8	12	244	193	144	3	8	219	145	49
NHPC	Electric utilities	8	13	129	277	312	2	9	104	229	217
NLC India	Oil, gas & consumable fuels	6	5	130	257	253	0	1	105	209	158
NMDC	Mining	(0)	7	137	98	241	(6)	3	112	50	146
Rail Vikas	Railways	43	57	199	1,089	1,298	38	53	173	1,041	1,203
SJVN	Electric utilities	6	8	262	347	426	0	4	237	299	331
Suzlon Energy	Renewables	19	17	239	607	1,010	13	13	213	560	915
Titagarh Rail System	Railways	22	49	218	2,276	1,937	17	45	193	2,228	1,842

Source: Bloomberg, Kotak Institutional Equities

DII inflows at US\$26 bn in CYTD24

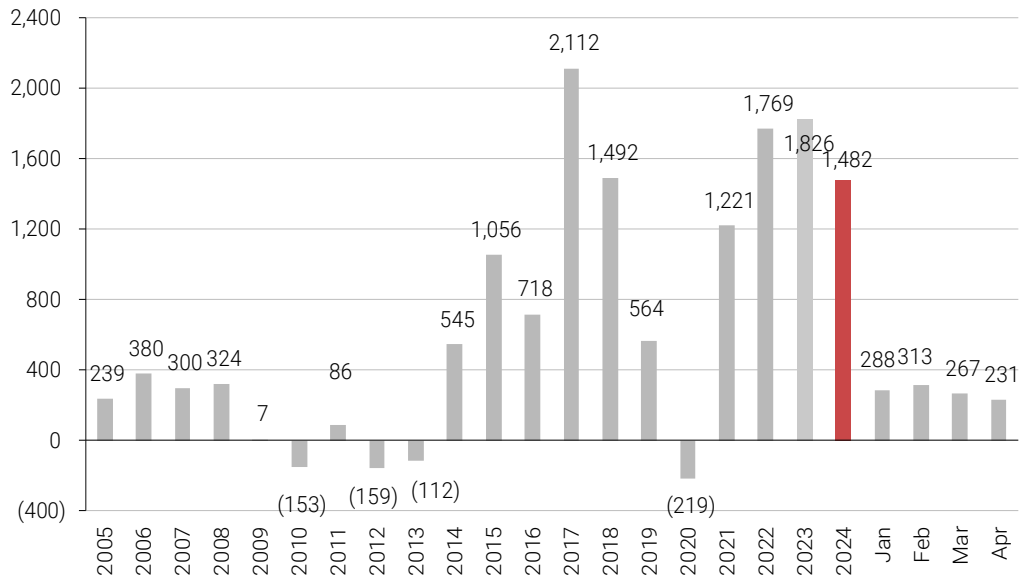
Exhibit 5: Equity flows by domestic institutions, Calendar year-ends, 2007-24 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

Equity inflows were strong in CYTD24

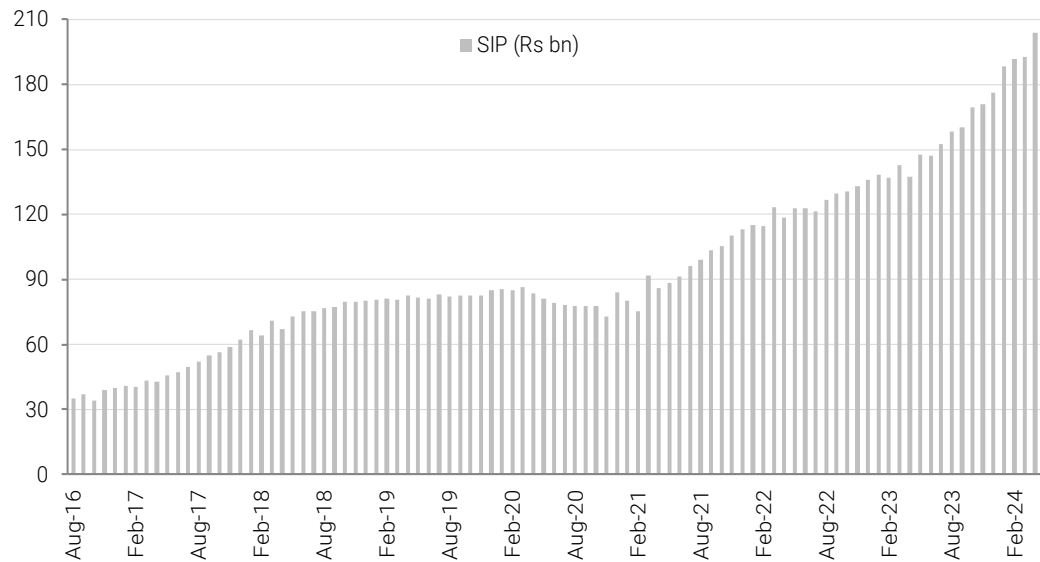
Exhibit 6: Net MF flows (equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)



Source: Bloomberg, Kotak Institutional Equities

SIP flows continue to rise

Exhibit 7: SIP flows, March fiscal year-ends, 2017-24 (Rs bn)



Source: AMFI, Kotak Institutional Equities

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

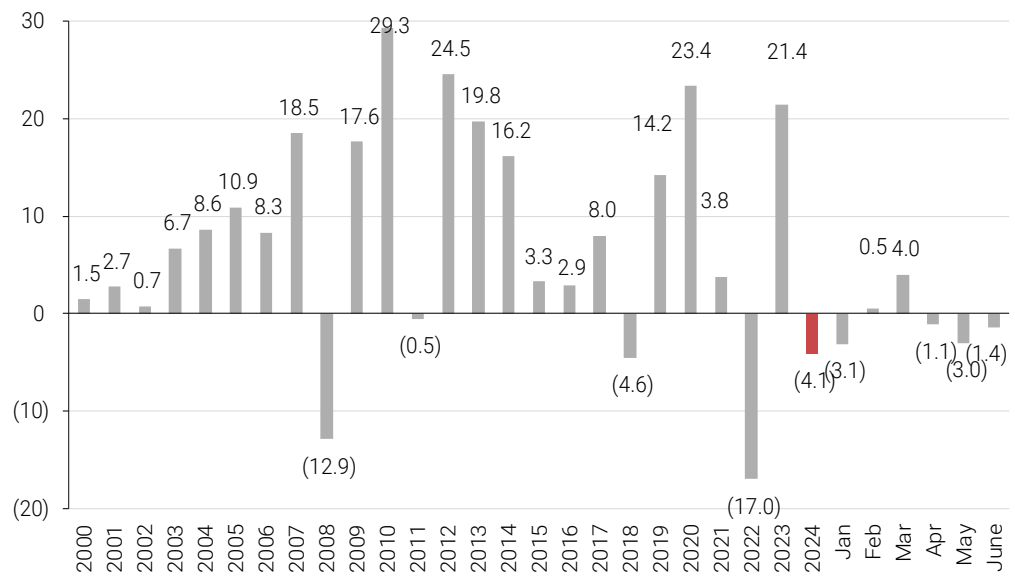
Exhibit 8: Net inflows to various categories of domestic mutual funds in India, calendar year-end, 2020-24 (Rs bn)

	2020	2021	2022	2023	Jan-24	Feb-24	Mar-24	Apr-24	May-24	CYTD24
Flexi cap. fund	-	179	220	116	24	26	27	22	32	131
Large cap. fund	(24)	29	137	(30)	13	9	21	4	7	54
Large & mid Cap. fund	18	87	200	189	23	32	32	26	24	137
Mid cap. fund	5	106	205	229	21	18	10	18	26	93
Small cap. fund	14	38	198	410	33	29	(1)	22	27	110
Sectoral/thematic funds	83	255	209	308	48	113	79	52	192	484
Value/contra/focused	(3)	60	184	92	16	13	18	17	11	75
Dividend yield/ELSS/multi cap.	(3)	213	258	300	40	28	39	29	28	165
Total	91	967	1,610	1,616	218	269	226	189	347	1,249

Source: AMFI, Kotak Institutional Equities

FPI equity outflows at US\$4 bn in CYTD24

Exhibit 9: Net FPI flows, calendar year-ends, 2000-24 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

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

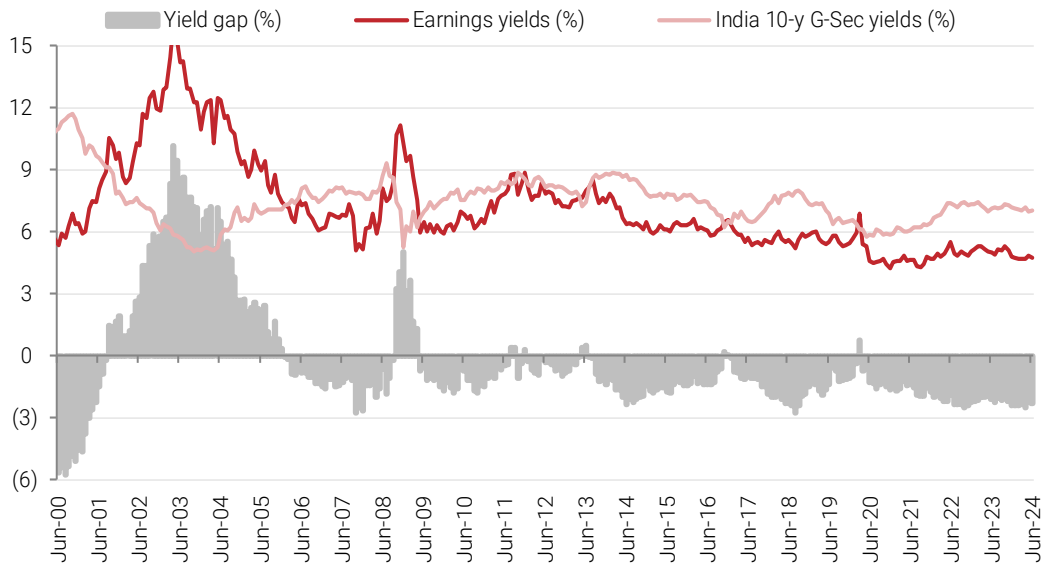
Exhibit 10: 12-m rolling forward P/E of Nifty-50 Index, March fiscal year-ends, 2001-25 (X)



Source: Kotak Institutional Equities estimates

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

Exhibit 11: Nifty earnings yield (1-year forward estimated earnings) and bond yield, March fiscal year-ends, 2001-25 (%)



Source: CEIC, Kotak Institutional Equities estimates

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

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

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Bajaj Auto	Automobiles & Components	14	14	14	16	15	16	18	17	17	12	19	18	17	30	30
Eicher Motors	Automobiles & Components	15	14	16	24	38	33	33	29	21	17	29	25	23	25	28
Hero Motocorp	Automobiles & Components	14	15	14	16	16	17	17	18	13	10	16	14	13	20	24
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	25
TVS Motor	Automobiles & Components	11	7	7	15	22	23	28	30	23	19	32	24	27	40	42
Asian Paints	Commodity Chemicals	23	27	33	36	38	38	45	44	51	48	64	65	54	48	52
Berger Paints	Commodity Chemicals	17	17	25	27	36	35	45	44	49	58	81	61	49	52	45
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	34
Havells India	Consumer Durables & Apparel	13	16	16	20	31	32	42	36	46	32	56	49	49	59	67
Polycab	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	NA	NA	NA	13	22	31	30	39	47
Britannia Industries	Consumer Staples	21	28	24	23	39	33	39	49	53	41	45	41	47	49	53
Colgate-Palmolive (India)	Consumer Staples	24	30	28	32	40	32	40	38	40	37	41	38	36	52	53
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	58
Hindustan Unilever	Consumer Staples	26	29	28	33	40	39	41	47	50	56	58	47	52	46	53
Marico	Consumer Staples	24	26	27	25	35	37	41	42	39	31	40	43	40	39	50
Nestle India	Consumer Staples	35	37	34	35	44	41	47	50	51	63	65	62	63	72	68
Tata Consumer Products	Consumer Staples	14	18	17	18	19	16	18	26	23	31	50	53	46	61	64
Varun Beverages	Consumer Staples	NA	NA	NA	NA	NA	NA	32	36	42	28	36	39	45	67	68
United Spirits	Consumer Staples	22	16	37	59	90	57	53	58	43	33	41	53	48	57	63
Avenue Supermarts	Retailing	NA	NA	NA	NA	NA	NA	54	77	73	78	90	100	71	86	87
Titan Company	Retailing	30	28	25	28	33	31	41	56	54	44	68	75	57	74	69

Source: Companies, FactSet, Kotak Institutional Equities

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

Exhibit 13: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Balkrishna Industries	Automobiles & Components	6	8	7	9	11	11	17	21	20	15	26	24	24	27	34
Exide Industries	Automobiles & Components	17	19	17	19	21	18	24	22	20	12	17	13	14	20	33
Schaeffler India	Automobiles & Components	11	14	12	17	31	27	31	29	30	25	35	37	42	41	67
SKF	Automobiles & Components	15	15	14	19	28	26	28	26	27	18	30	35	32	33	45
Timken	Automobiles & Components	NA	NA	NA	NA	40	24	31	34	29	23	39	44	41	49	69
Indigo Paints	Commodity Chemicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	93	47	32	33	36
Kansai Nerolac	Commodity Chemicals	20	19	26	24	31	36	38	43	41	32	47	37	30	27	31
Crompton Greaves Consumer	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	39	36	31	24	40	33	29	29	43
Page Industries	Consumer Durables & Apparel	24	26	26	36	58	46	48	59	54	40	64	72	53	51	61
Voltas	Consumer Durables & Apparel	14	13	9	20	24	23	28	31	32	23	44	51	41	49	59
Whirlpool	Consumer Durables & Apparel	NA	15	14	21	34	28	41	43	38	35	46	42	44	45	54
United Breweries	Consumer Staples	47	54	58	68	63	51	51	51	52	35	51	55	56	64	79
Aster DM Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	22	10	16	16	17	31	44
Dr Lal Pathlabs	Health Care Services	NA	NA	NA	NA	NA	53	39	35	36	38	67	57	44	45	53
Max Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35	34	34	51	49
Metropolis Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	33	50	41	34	49	54
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	43
Devyani International	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	89	53	86	122
Indian Hotels	Hotels & Restaurants	26	23	39	48	66	67	47	51	54	28	100	70	40	51	48
Jubilant Foodworks	Hotels & Restaurants	36	48	41	40	54	52	54	58	48	45	75	58	51	69	87
Lemon Tree Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	64	33	NA	173	39	36	39
Sapphire Foods	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	106	54	88	93
Westlife Foodworld	Hotels & Restaurants	NA	NA	NA	119	264	139	120	107	69	49	113	94	67	91	114

Source: Companies, FactSet, Kotak Institutional Equities

Most investment stocks are trading at expensive valuations

Exhibit 14: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
ABB	Capital Goods	41	48	32	60	67	60	51	43	53	42	64	69	73	87	92
Bharat Electronics	Capital Goods	14	12	10	11	22	20	21	18	13	10	15	19	21	35	44
BHEL	Capital Goods	15	10	8	16	21	27	26	20	17	7	28	28	28	78	68
Carborundum Universal	Capital Goods	13	13	13	17	21	18	23	24	25	13	30	32	37	42	51
Cochin Shipyard	Capital Goods	NA	NA	NA	NA	NA	NA	NA	16	11	5	NA	6	14	37	69
Cummins India	Capital Goods	18	21	18	25	29	26	28	23	24	13	35	32	36	50	53
IRB Infrastructure	Capital Goods	13	12	7	7	13	12	11	8	6	4	8	26	17	32	40
Kalpataru Projects	Capital Goods	9	8	6	7	15	15	16	19	16	5	10	10	12	20	24
KEC International	Capital Goods	8	8	7	9	13	12	15	19	13	7	15	13	18	23	26
L&T	Capital Goods	21	16	15	22	28	21	23	23	19	11	19	21	22	31	29
Siemens	Capital Goods	28	28	29	53	75	50	50	37	37	30	52	52	59	76	83
Thermax	Capital Goods	16	15	18	24	33	28	36	35	27	23	43	48	43	65	76
Dixon Technologies	Electronic Manufacturing Se	NA	NA	NA	NA	NA	NA	NA	37	27	25	64	63	40	70	83

Source: Companies, FactSet, Kotak Institutional Equities

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

Exhibit 15: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-25E

Company	Sector	12-m forward P/E multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
Cyient	IT Services	10	8	8	11	14	12	12	17	14	5	16	18	16	25	24
HCL Technologies	IT Services	16	13	14	15	18	13	14	14	14	10	18	21	18	24	22
Infosys	IT Services	22	17	16	15	19	18	15	16	18	15	26	30	21	23	23
KPIT Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	20	48	52	53	51
LTIMindtree	IT Services	NA	NA	NA	NA	NA	NA	12	18	17	15	32	38	27	27	28
L&T Technology Services	IT Services	NA	NA	NA	NA	NA	NA	16	23	21	14	31	46	28	38	36
Mphasis	IT Services	10	11	10	11	11	13	14	17	15	10	23	36	18	25	26
Persistent Systems	IT Services	11	8	10	13	17	18	13	14	12	11	27	42	29	43	41
Tata Elxsi	IT Services	NA	NA	10	21	30	28	22	23	18	14	39	88	44	51	49
TCS	IT Services	23	18	20	19	20	18	17	19	22	20	30	31	24	28	27
Tech Mahindra	IT Services	11	10	11	13	15	13	12	16	14	11	16	21	16	23	26
Wipro	IT Services	18	15	14	15	16	14	14	15	15	11	20	24	15	21	20
Aurobindo Pharma	Pharmaceuticals	9	7	7	12	18	17	14	12	15	8	15	12	12	17	18
Cipla	Pharmaceuticals	21	18	18	19	30	20	24	20	22	18	24	25	20	27	26
Divis Laboratories	Pharmaceuticals	20	17	17	19	23	20	16	25	28	31	39	40	36	44	55
Dr Reddy's Laboratories	Pharmaceuticals	19	18	17	18	23	20	21	19	21	21	24	21	18	19	18
Lupin	Pharmaceuticals	18	20	20	20	31	20	20	19	21	21	27	22	24	32	29
Mankind Pharma	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	41	37
Sun Pharmaceuticals	Pharmaceuticals	22	23	23	20	29	24	21	25	23	17	23	26	24	35	32
Torrent Pharmaceuticals	Pharmaceuticals	14	13	12	15	22	17	21	22	30	29	30	32	33	43	45
SRF	Specialty Chemicals	3	3	5	7	14	14	15	16	18	16	24	38	29	37	37

Source: Companies, FactSet, Kotak Institutional Equities

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

Exhibit 16: 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

Company	Sector	12-m forward P/B multiple (X)														
		Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
AU Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	7.0	4.6	3.0	5.9	4.6	3.1	2.6	2.9
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	2.1
Bandhan Bank	Banks	NA	NA	NA	NA	NA	NA	NA	5.2	4.9	1.7	2.7	2.6	1.4	1.2	1.3
Bank of Baroda	Banks	1.7	1.1	0.8	0.9	0.9	1.0	1.2	0.9	0.9	0.4	0.5	0.7	0.8	1.1	1.1
Canara Bank	Banks	1.3	0.9	0.7	0.5	0.6	0.5	0.9	0.9	1.3	0.2	0.6	0.6	0.7	1.2	1.2
City Union Bank	Banks	1.5	1.4	1.4	1.3	2.0	1.7	2.3	2.6	2.8	1.6	1.9	1.4	1.2	1.1	1.2
DCB Bank	Banks	1.3	1.3	1.0	1.2	1.9	1.2	2.2	1.8	2.0	0.8	0.9	0.6	0.7	0.7	0.8
Equitas Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	1.4	1.5	1.6	1.6
Federal Bank	Banks	1.3	1.2	1.2	1.1	1.3	0.9	1.7	1.4	1.4	0.5	NA	NA	NA	1.1	1.2
HDFC Bank	Banks	3.8	3.5	3.5	3.5	3.6	3.2	3.8	3.8	3.8	2.5	3.6	3.0	2.8	2.2	2.4
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	2.8
Indusind Bank	Banks	2.8	2.8	2.5	2.6	3.8	2.9	3.7	4.0	3.4	0.6	1.6	1.4	1.3	1.7	1.6
Karur Vysya Bank	Banks	1.7	1.3	1.4	1.1	1.5	1.1	1.4	1.3	1.0	0.3	0.7	0.5	0.9	1.3	1.5
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	1.2
State Bank of India	Banks	1.9	1.7	1.4	1.3	1.6	1.2	1.5	1.2	1.4	0.8	1.3	1.5	1.3	1.7	1.8
Ujjivan Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.4	1.6	0.9	1.0	1.4	1.4
Union Bank	Banks	1.4	0.9	0.8	0.5	0.6	0.6	0.7	0.5	0.6	0.3	0.5	0.4	0.6	1.1	1.1

Source: Companies, FactSet, Kotak Institutional Equities

NBFCs are trading at attractive valuations

Exhibit 17: 12-m forward multiple of financial stocks in KIE universe, March fiscal year ends, 2011-25E

Company	Sector	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Current
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	3.1
Aptus Value Housing Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.2	3.1	3.6	3.6
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	4.6
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	3.1
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	1.6
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	1.1
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	1.7
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	1.7
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	21
Computer Age Management Services	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	37.4	34	29	35	39
CRISIL	Diversified Financials	19.8	27.4	22.3	30.6	40.9	37.3	33.3	36.2	25.4	21.8	33.6	45	40	50	58
HDFC AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	34.0	30.9	40.6	29	23	38	36
ICRA	Diversified Financials	16.1	18.0	15.8	24.1	41.1	39.2	44.9	33.7	22.4	19.9	35.5	32	27	31	43
Kfin Technologies	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	36	39
Nippon AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	24.7	24.3	24.1	33.8	26	17	27	31
UTI AMC	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18.9	20	14	15	18

Source: Companies, FactSet, Kotak Institutional Equities

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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.

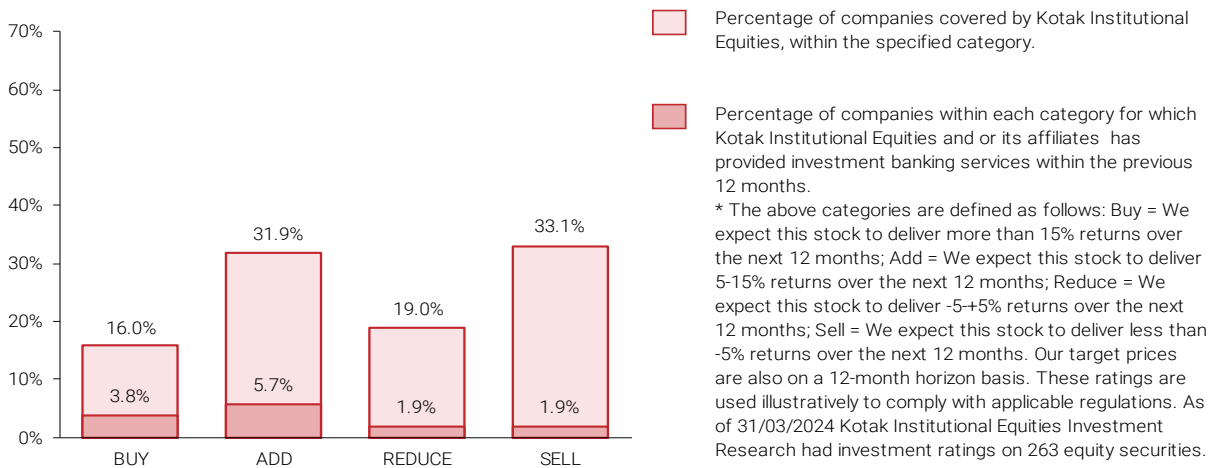
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