

Strategy

August 16, 2025

Circularity

The Indian market continues to be in the thrall of domestic retail investors and retail investors seem to be in thrall of the market. This 'circular' relationship has resulted in (1) large disconnect between rich valuations and modest fundamentals and (2) quixotic valuations in parts of the market. 1QFY26 was another middling quarter, continuing the trend of the past few.

Investors and markets—circular tango

The Indian market continues to be largely disconnected from fundamentals with (1) high valuations across sectors and companies being supported by the (2) price-agnostic purchases of retail investors. In our view, the market is buoyed by the strong sentiment among retail investors, who are, in turn, appear to be enthralled by the market, notwithstanding (1) rich valuations of the market, (2) earnings downgrades and (3) poor 12-month trailing returns.

Nothing fundamental about it

We find the valuations of the Indian market and for most sectors and stocks on the higher side, despite the lengthy period of time correction in the market. The high valuations in several sectors are hard to reconcile with (1) modest-to-moderate near-term growth in profits of certain domestic sectors (autos, consumer staples), (2) high near-term uncertainty on the profits of some of the export and global sectors (IT services), (3) large medium-term disruption risks to profitability and volumes in many sectors and (4) earnings downgrades in most sectors. We expect FY2026E and FY2027E net profits of the Nifty-50 Index to grow 9.6% and 17.5% versus 12.1% and 15.4% at the start of FY2026.

A good macro can help that much only

We are not seeing any signs of a meaningful acceleration in growth despite a healthy macroeconomic position that would result in earnings upgrades. We expect a moderate pickup in consumption demand driven by (1) income tax cuts in the FY2026 budget and potential GST cuts, (2) 100 bps rate cut by the RBI in 1H CY25, (3) lower inflation and (4) modest-to-moderate increase in household income. However, we expect a slowdown in investment demand due to (1) a slowdown in central government capex and (2) a likely pullback in household investment in residential real estate due to sharp increase in real estate prices. Exports will continue to languish in the current global setup of weak consumer and corporate sentiment in most of the major economies.

Another quarter went by on hope

1QFY26 net income of the Nifty-50 Index grew 7.5%, versus our expectation of 4% growth and net income of the KIE Coverage Universe grew 10%, versus our expectation of 9.9% increase. 1QFY26 EBITDA of the Nifty-50 Index increased 4.5% versus our expectation of 5.5% growth and EBITDA of the KIE Coverage Universe grew 9.1%, versus our expectation of 12% increase. We expect net income and EBITDA of the Nifty-50 Index to grow 9.6% and 13% in FY2026 versus 6.5% and 4.5% in FY2025.

Key estimates summary

	2025	2026E	2027E
Nifty estimates			
Earnings growth (%)	6.5	9.6	17.5
Nifty EPS (Rs)	1,014	1,096	1,300
Nifty P/E (X)	24.3	22.5	19.0
Macro data			
Real GDP (%)	6.5	6.2	6.5
Avg CPI inflation (%)	4.6	2.6	4.5

Source: CEIC, Kotak Institutional Equities estimates

Quick Numbers

1QFY26 net profits of the Nifty-50 Index grew 7.5%, 3.4% ahead of expectations; 1QFY26 EBITDA of the Nifty-50 Index grew 4.5%, 0.9% below expectation

We expect net profits of the Nifty-50 Index to grow 9.6% in FY2026E and 17.5% in FY2027E

Nifty-50 Index is trading at 22.5X FY2026E 'EPS' and 19X FY2027E 'EPS'

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Overview: Circularity

In our view, the large disconnect between fundamentals and market valuations reflects the strong sentiment among and price-agnostic investment approach of retail investors. Retail investors seem to be expecting high returns from the market and institutional investors seem to be hoping that retail investors will continue with their price-agnostic investment approach. Fundamentals and valuations have become sideshows to retail 'flows' (sentiment).

Circular logic

We attribute the disconnect between fundamentals and valuations to (1) the strong sentiment among retail investors and (2) the resultant price-agnostic ongoing investment by retail investors. In our view, the price-agnostic investment of retail investors has resulted in (1) several sectors and stocks trading at well above their fair values and (2) other market participants being overly influenced by the bullish investment among retail investors.

► **Retail investment driving market valuations.** In our view, the continued large purchases by retail investors of stocks through domestic equity mutual funds or through their direct purchases at all price points have resulted in (1) most sectors and large-cap. stocks trading at fair-to-full valuations and (2) a few sectors and several mid- and small-cap. stocks and 'narrative' stocks trading at frothy valuations.

We conjecture that the price-agnostic investment philosophy of retail investors reflects their strong conviction about (1) high returns in the market at all price points and (2) higher returns in mid- and small-cap. stocks at all price points. This confidence presumably reflects (1) the favorable historical investment experience over the past few years (post the Covid-19 pandemic) and (2) the sharp rallies in the market after event-driven corrections. Exhibits 1-3 show the performance of the Indian market by market caps and sectors over a period of time.

India has underperformed most global markets in the past three, six and 12 months

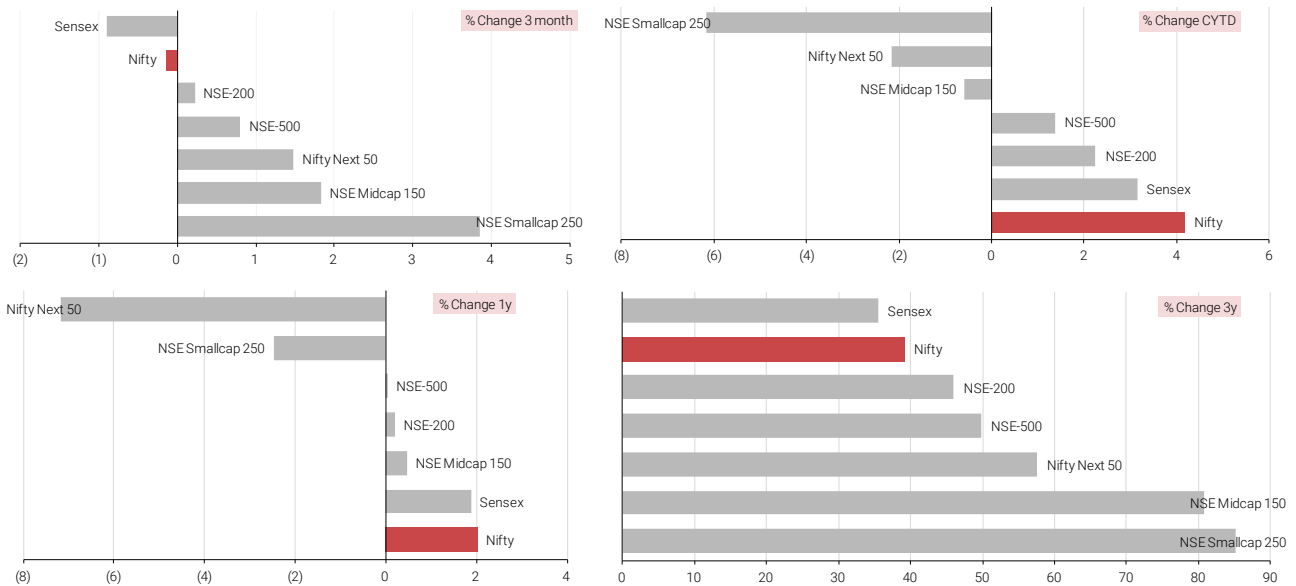
Exhibit 1: Performance (not annualized) of emerging and developed markets over period of time (%)

	% 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
Developed markets																
Australia	4	7	4	9	13	26	45	66	3	9	7	15	12	16	32	46
France	0	(0)	(4)	6	7	20	58	58	1	4	7	20	13	36	56	66
Germany	1	3	8	22	36	76	88	121	1	8	20	37	44	101	86	132
Hong Kong	5	8	13	27	49	26	1	6	6	7	12	26	48	26	0	5
Japan	8	12	9	7	17	49	83	108	9	12	13	15	17	36	33	76
Singapore	4	10	10	12	30	30	65	37	4	12	15	20	33	39	76	50
UK	2	7	5	12	11	22	50	40	3	9	13	22	17	37	56	21
US (Dow Jones)	1	7	1	6	12	33	61	157	1	7	1	6	12	33	61	157
US (Nasdaq)	5	13	8	12	26	66	97	330	5	13	8	12	26	66	97	330
US (S&P500)	3	10	6	10	19	51	92	209	3	10	6	10	19	51	92	209
MSCI World									3	9	7	13	19	47	75	140
Emerging markets																
Brazil	1	(1)	7	14	3	21	35	188	4	3	13	30	4	14	35	85
MSCI China	8	8	12	27	46	23	(14)	25	8	8	11	26	45	23	(15)	24
MSCI India	(2)	(0)	8	2	(1)	40	119	174	(4)	(2)	7	(0)	(5)	28	88	104
Indonesia	12	14	19	12	7	11	51	73	13	17	20	13	3	1	40	48
Korea	1	22	24	34	22	28	34	63	1	24	29	43	19	20	15	38
Malaysia	3	(0)	(1)	(4)	(2)	5	1	(1)	4	2	5	2	3	11	1	(4)
Mexico	4	1	8	18	9	20	50	34	4	5	18	32	10	28	77	18
Philippines	(4)	(4)	4	(4)	(6)	(6)	4	(15)	(4)	(6)	5	(2)	(6)	(8)	(12)	(31)
Taiwan	7	11	5	5	10	59	89	192	5	12	14	15	18	59	86	213
Thailand	11	4	(0)	(10)	(2)	(22)	(5)	(10)	11	8	4	(4)	6	(15)	(8)	(2)
MSCI EM									4	9	13	19	19	26	17	48

Source: Bloomberg, Kotak Institutional Equities

Indian markets were weak over the past three, six and 12 months

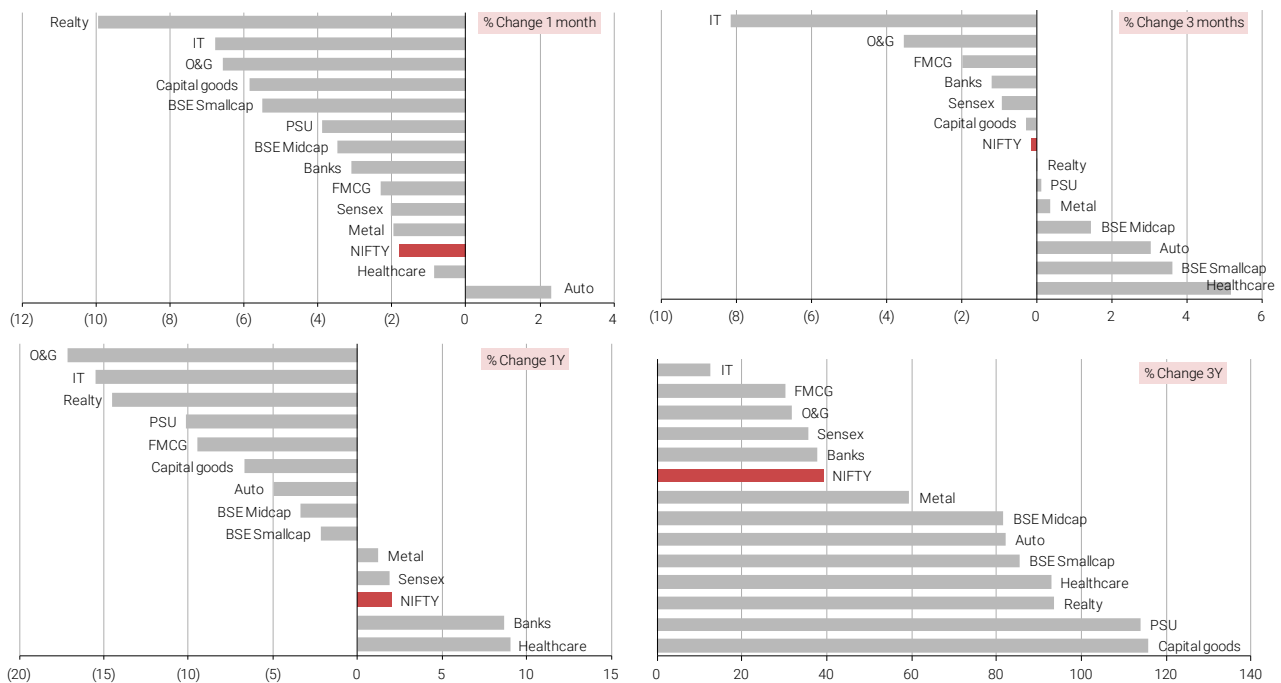
Exhibit 2: Performance of major Indian indices (%)



Source: Bloomberg, Kotak Institutional Equities

Most sectors were weak over the past one month and have delivered negative returns in the past 12 months

Exhibit 3: Performance of various sectors (%)

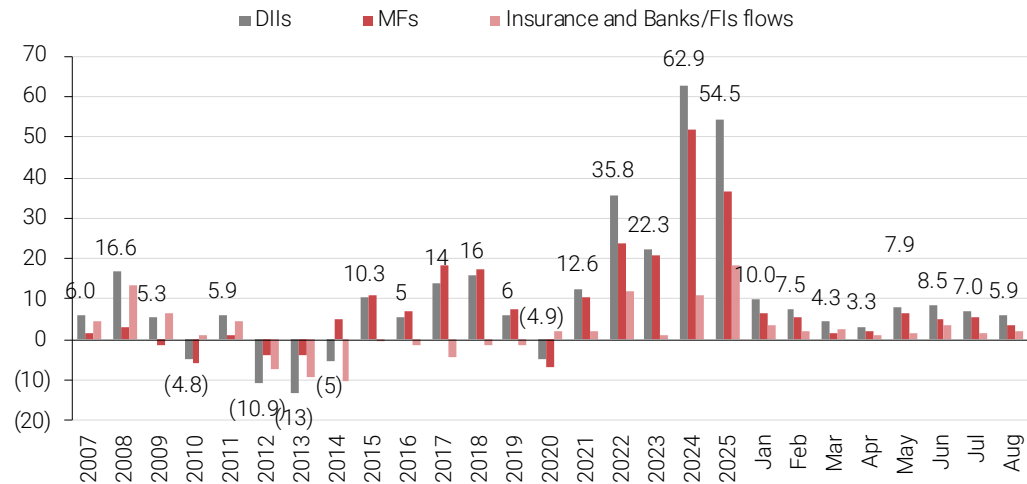


Source: Bloomberg, Kotak Institutional Equities

We would note that market returns have been unexciting for the past 12 months but retail investment sentiment has stayed strong. Retail investment sentiment appears to have steadied in the past few months after a wobble in February-April 2025 related to (1) the extreme volatility in the market and (2) the acute uncertainty on global and domestic growth around the announcement and subsequent suspension of reciprocal tariffs by the US administration on imports of goods into the US. Exhibits 4-6 give monthly data of retail inflows into domestic equity mutual funds and investment by DIIs in the secondary market.

DIIs inflows at US\$54 bn in CYTD25

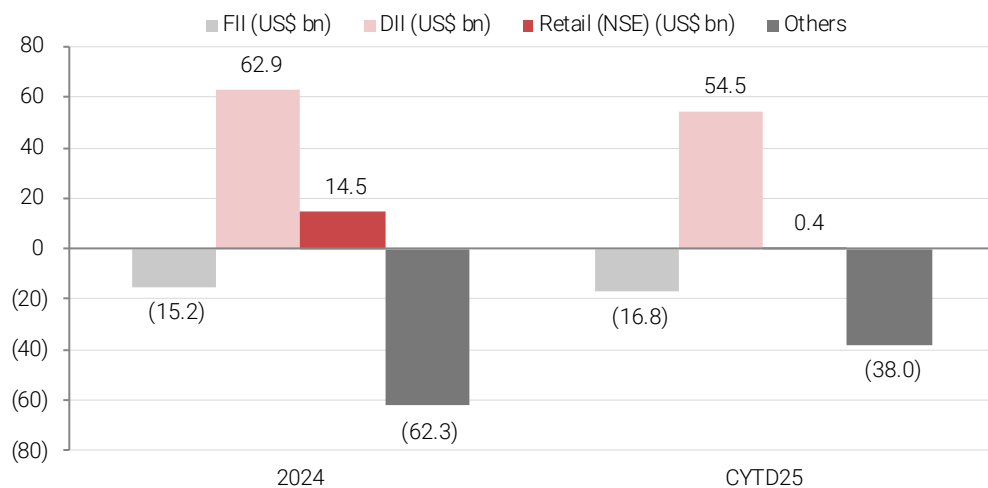
Exhibit 4: Equity flows by domestic institutions, calendar year-ends, 2007-25 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

FPIs have pulled out around US\$32 bn, while DIIs have invested around US\$117 bn over CY2024-25 to date

Exhibit 5: Flows in secondary markets in India for major participants, calendar year-end, 2025 (US\$ bn)



Notes:

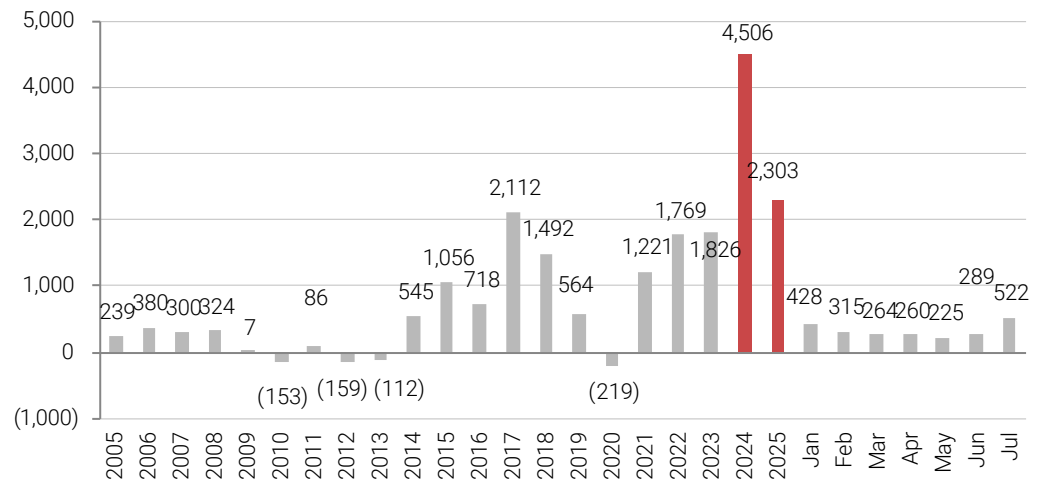
(a) Direct retail flows provisional data is available for NSE.

(b) Others include promoters, strategic investors, etc.

Source: Bloomberg, Kotak Institutional Equities

MFs have seen equity inflows of Rs2.3 tn so far in CY2025

Exhibit 6: Net MF flows (Equity + 70% hybrid), calendar year-ends, 2005-25 (Rs bn)

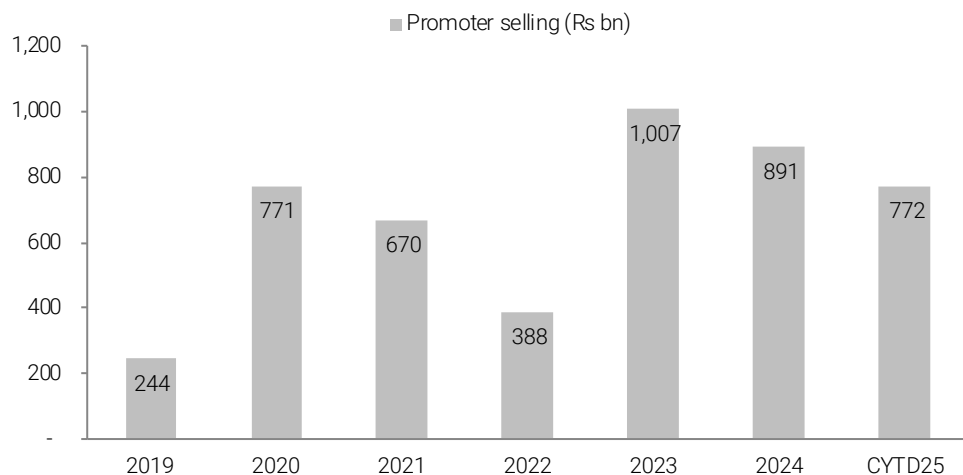


Source: AMFI, Kotak Institutional Equities

We note that retail investors have stayed bullish while FPIs have been more cautious on the market for the past several months. We base our view on the 'flows' of different sets of investors in Exhibit 5 over CY2024 and CYTD25. As can be seen, retail investors via DII have invested US\$117 bn since CY2024 while FPIs have pulled out US\$32 bn. The balance pertains to other investors that includes companies, FDI investors, promoters, among others. In particular, promoters have accelerated stake sales in the past few months (see Exhibit 7). We would clarify that the above assessment by sets of investors is a bit of a generalization, as different investors within the same broad bucket (DIIs, FPIs and others) may have different views on the market.

Promoters sold US\$9 bn of stake in CYTD25

Exhibit 7: Promoter selling through bulk/block deals in Nifty 500 Index stocks, calendar year-ends, 2019-25 (Rs bn)



Source: Prime database, Media reports, Kotak Institutional Equities

- **Market prices driving earnings estimates and 'fair' valuations, it would appear.** We wonder if market participants are being overly swayed by market sentiment and stock prices. We see signs of complacency among a section of investors who seem to be reasonably convinced about price-agnostic buying by retail households continuing for a long time and such price-agnostic investment supporting the elevated valuations of the Indian market.

A section of analyst community seems to be (1) using inexplicable multiples and valuations methodologies disconnected from the fundamentals of companies and sectors to compute fair values or target prices to perhaps align them with the most recent stock prices and (2) making aggressive assumptions on profitability and volumes etc. to perhaps keep up with stock prices. In other words, analysts seem to be taking cues from stock prices rather than forming independent views on fair values of stocks based on fundamental factors. We attribute the large earnings downgrades seen in certain sectors in the past two years (see Exhibits 8-9) to this phenomenon although company- and sector-specific factors may have also contributed to the large earnings downgrades.

The Street has cut its FY2026E EPS sharply of a number of Nifty-50 Index companies over the past seven months

Exhibit 8: Consensus EPS for Nifty-50 stocks, March fiscal year-end, 2026 (Rs)

Company	Sector	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Change (%) Aug-25/Dec-24
Bajaj Auto	Automobiles & Components	372	372	373	374	373	373	353	352	351	347	335	336	334	331	(10)
Eicher Motors	Automobiles & Components	185	184	184	184	181	182	183	184	185	184	181	180	183	183	1
Hero Motocorp	Automobiles & Components	269	262	262	260	260	260	259	254	252	250	249	249	249	247	(4)
Mahindra & Mahindra	Automobiles & Components	113	113	112	113	115	115	116	116	115	114	115	115	116	116	1
Maruti Suzuki	Automobiles & Components	545	545	545	524	522	522	525	526	526	501	500	500	496	493	(5)
Tata Motors	Automobiles & Components	79	80	80	78	72	71	68	67	66	62	60	55	55	54	(23)
Axis Bank	Banks	100	100	99	96	96	95	92	92	91	91	90	90	84	84	(12)
Jio Financial Services	Diversified Financials	NA	NA	NA	4	4	4	4	4	3	3	3	3	3	3	(34)
HDFC Bank	Banks	105	105	104	102	102	101	98	98	98	97	98	97	96	95	(6)
ICICI Bank	Banks	73	72	72	72	72	72	72	72	72	71	71	71	71	71	(1)
IndusInd Bank	Banks	150	149	149	132	129	128	111	108	103	99	63	59	47	47	(63)
Kotak Mahindra Bank	Banks	83	83	81	79	79	79	79	79	79	78	78	77	74	74	(6)
State Bank of India	Banks	83	82	82	81	83	83	83	80	79	80	78	78	78	77	(5)
Bharat Electronics	Capital Goods	7.6	7.6	7.6	7.7	7.7	7.7	7.6	7.7	7.7	7.6	8.1	8.1	8.1	8.1	6
L&T	Capital Goods	140	140	140	138	139	139	136	135	135	134	132	131	132	132	(5)
Asian Paints	Commodity Chemicals	57	57	57	55	51	51	51	48	48	48	45	45	45	45	(12)
Grasim Industries	Construction Materials	27	24	24	24	21	21	21	16	16	16	9	9	9	7	(59)
Ultratech Cement	Construction Materials	363	362	359	331	327	326	322	317	316	308	308	309	313	314	(4)
Hindustan Unilever	Consumer Staples	53	53	52	51	51	50	49	48	48	47	46	46	46	46	(9)
ITC	Consumer Staples	18	18	18	18	18	18	18	18	18	18	17	17	17	17	(3)
Nestle India	Consumer Staples	20	20	20	19	19	19	19	18	18	18	18	18	17	17	(10)
Tata Consumer Products	Consumer Staples	20	20	20	19	19	19	18	18	18	18	18	18	17	17	(12)
Bajaj Finance	Diversified Financials	35	35	35	34	34	34	34	34	34	34	34	34	33	33	(1)
Bajaj Finserv	Diversified Financials	80	80	80	85	87	87	75	75	74	68	68	68	62	60	(28)
Shriram Finance	Diversified Financials	54	54	55	55	55	55	53	53	53	52	52	51	50	50	(7)
NTPC	Electric Utilities	24	25	25	25	24	24	24	24	24	24	24	24	24	24	(2)
Power Grid	Electric Utilities	19	19	19	19	19	19	19	18	18	18	18	18	18	18	(5)
Apollo Hospitals	Health Care Services	138	136	135	134	135	136	136	134	134	134	128	128	128	128	(6)
HDFC Life Insurance	Insurance	10	10	10	11	11	11	10	10	10	10	10	10	10	10	(6)
SBI Life Insurance	Insurance	27	27	27	27	27	27	25	26	26	28	28	29	28	29	7
Eternal	Internet Software & Services	3	3	3	3	3	3	2	2	2	1	1	1	1	1	(57)
HCL Technologies	IT Services	69	69	69	70	70	70	70	70	69	67	67	67	64	64	(9)
Infosys	IT Services	72	72	72	72	72	72	72	72	71	68	68	68	69	69	(5)
TCS	IT Services	156	157	157	154	154	153	151	151	149	143	143	143	141	141	(8)
Tech Mahindra	IT Services	65	65	65	64	64	64	62	62	62	61	61	60	59	59	(7)
Wipro	IT Services	13	13	13	13	13	13	13	13	13	13	13	13	13	13	1
Hindalco Industries	Metals & Mining	66	65	66	65	65	65	65	67	67	67	67	67	68	67	4
JSW Steel	Metals & Mining	68	67	67	60	60	59	53	51	51	51	51	51	50	51	(16)
Tata Steel	Metals & Mining	14	13	13	13	12	12	10	10	10	10	10	10	10	10	(21)
Coal India	Oil, Gas & Consumable Fuels	63	65	65	62	62	62	60	60	59	59	59	59	57	56	(7)
ONGC	Oil, Gas & Consumable Fuels	40	44	43	44	40	40	40	39	39	38	32	32	32	32	(19)
Reliance Industries	Oil, Gas & Consumable Fuels	69	68	68	64	64	64	62	62	61	59	60	60	62	62	(4)
Cipla	Pharmaceuticals	65	65	65	64	64	64	63	63	63	63	62	62	61	61	(3)
Dr Reddy's Laboratories	Pharmaceuticals	71	70	70	70	70	70	70	70	70	69	68	67	64	64	(9)
Sun Pharmaceuticals	Pharmaceuticals	53	54	54	55	55	55	55	55	55	55	52	52	48	48	(12)
Titan Company	Retailing	59	58	57	57	56	55	55	55	55	54	53	53	53	53	(5)
Trent	Retailing	59	70	70	70	67	67	66	60	60	59	59	59	57	57	(14)
Bharti Airtel	Telecommunication Services	51	49	51	49	49	49	49	50	51	51	51	51	51	50	5
Adani Ports and SEZ	Transportation	60	61	62	57	57	57	56	56	56	55	57	57	58	59	1

Source: FactSet, Kotak Institutional Equities estimates

The Street has cut its FY2027E EPS sharply of a number of Nifty-50 Index companies over the past seven months

Exhibit 9: Consensus EPS for Nifty-50 stocks, March fiscal year-end, 2027 (Rs)

Company	Sector	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Change (%) Aug-25/Dec-24
Bajaj Auto	Automobiles & Components	413	415	417	427	427	426	399	399	398	393	384	382	380	374	(12)
Eicher Motors	Automobiles & Components	205	202	202	202	205	205	207	211	211	210	205	205	207	208	1
Hero Motocorp	Automobiles & Components	293	286	286	286	288	287	286	275	273	271	269	268	267	268	(7)
Mahindra & Mahindra	Automobiles & Components	121	121	121	124	129	128	130	130	130	130	129	129	130	130	2
Maruti Suzuki	Automobiles & Components	598	598	597	580	576	577	579	581	578	557	556	557	556	556	(4)
Tata Motors	Automobiles & Components	94	92	92	89	83	82	80	78	77	73	71	67	67	66	(19)
Axis Bank	Banks	115	115	116	112	111	110	105	105	105	104	104	104	101	100	(9)
Jio Financial Services	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	3.9	3.9	3.9	3.9	NA
HDFC Bank	Banks	125	125	125	119	119	118	112	112	113	113	113	113	111	111	(6)
ICICI Bank	Banks	82	82	82	82	82	82	82	82	81	81	81	81	81	81	(1)
IndusInd Bank	Banks	174	175	175	159	156	155	134	131	127	123	82	77	67	66	(57)
Kotak Mahindra Bank	Banks	96	96	96	91	91	91	90	91	91	90	90	90	89	88	(3)
State Bank of India	Banks	89	90	90	89	93	93	93	89	89	89	87	87	87	85	(8)
Bharat Electronics	Capital Goods	8.9	9.0	9.0	8.9	8.9	8.9	8.9	9.0	9.0	9.0	9.6	9.7	9.7	9.8	10
L&T	Capital Goods	159	159	159	162	165	165	162	162	162	161	159	159	159	159	(4)
Asian Paints	Commodity Chemicals	65	65	65	63	60	60	59	54	54	53	51	51	50	50	(17)
Grasim Industries	Construction Materials	23	32	32	33	30	30	29	26	26	26	17	17	17	16	(48)
Ultratech Cement	Construction Materials	429	425	423	401	397	394	402	398	399	398	398	395	399	401	2
Hindustan Unilever	Consumer Staples	57	57	57	56	56	56	54	53	53	51	51	51	51	51	(8)
ITC	Consumer Staples	20	20	20	20	20	20	20	20	19	19	19	19	19	19	(4)
Nestle India	Consumer Staples	23	23	23	21	21	21	21	21	21	20	20	20	19	19	(9)
Tata Consumer Products	Consumer Staples	23	23	23	23	23	23	21	21	21	22	22	22	21	21	(8)
Bajaj Finance	Diversified Financials	42	43	43	43	42	42	43	43	43	42	42	42	42	42	(2)
Bajaj Finserv	Diversified Financials	91	93	95	106	108	108	92	92	93	86	86	86	77	75	(30)
Shriram Finance	Diversified Financials	63	63	63	63	63	63	62	62	62	62	61	61	60	60	(4)
NTPC	Electric Utilities	26	26	26	27	26	26	26	25	26	25	26	26	26	26	(1)
Power Grid	Electric Utilities	19	20	20	20	20	20	20	19	19	19	19	19	19	19	(5)
Apollo Hospitals	Health Care Services	181	181	181	180	174	175	176	173	173	170	165	167	167	167	(5)
HDFC Life Insurance	Insurance	12	12	12	12	12	12	12	12	12	12	12	12	11	11	(9)
SBI Life Insurance	Insurance	33	33	33	32	32	32	30	30	30	33	33	33	33	33	5
Eternal	Internet Software & Services	4.0	4.3	4.3	4.3	4.3	4.3	3.7	3.6	3.6	3.3	2.8	2.8	2.8	2.8	(34)
HCL Technologies	IT Services	76	76	76	78	78	78	78	78	77	73	73	74	72	72	(8)
Infosys	IT Services	79	79	79	80	80	80	80	80	79	74	74	74	74	74	(7)
TCS	IT Services	173	173	173	173	173	172	169	168	167	157	157	156	152	152	(11)
Tech Mahindra	IT Services	80	80	79	80	79	79	80	80	79	76	76	76	75	75	(5)
Wipro	IT Services	14	14	14	14	14	14	14	14	14	13	13	13	13	13	(3)
Hindalco Industries	Metals & Mining	68	67	67	68	68	69	69	69	69	68	70	70	70	71	3
JSW Steel	Metals & Mining	74	73	73	73	73	73	66	65	65	65	67	67	63	65	(11)
Tata Steel	Metals & Mining	15	16	16	17	14	14	13	12	13	13	13	13	13	13	(10)
Coal India	Oil, Gas & Consumable Fuels	72	68	67	64	64	64	63	63	62	62	62	61	59	57	(11)
ONGC	Oil, Gas & Consumable Fuels	42	43	43	43	42	42	42	41	41	39	35	35	35	35	(16)
Reliance Industries	Oil, Gas & Consumable Fuels	77	76	76	72	72	72	71	71	70	68	68	68	69	69	(5)
Cipla	Pharmaceuticals	66	66	66	64	64	64	63	64	64	64	64	64	64	64	0
Dr Reddy's Laboratories	Pharmaceuticals	59	58	57	57	57	57	59	58	57	57	56	55	55	55	(4)
Sun Pharmaceuticals	Pharmaceuticals	58	59	60	62	62	62	63	62	62	62	60	60	56	56	(10)
Titan Company	Retailing	69	69	70	70	67	67	67	66	66	66	65	65	64	64	(5)
Trent	Retailing	79	90	93	93	90	90	88	80	79	77	77	77	74	74	(18)
Bharti Airtel	Telecommunication Services	65	64	66	65	65	65	65	67	68	68	70	71	71	71	9
Adani Ports and SEZ	Transportation	68	68	70	67	67	66	64	64	64	63	66	66	67	68	4

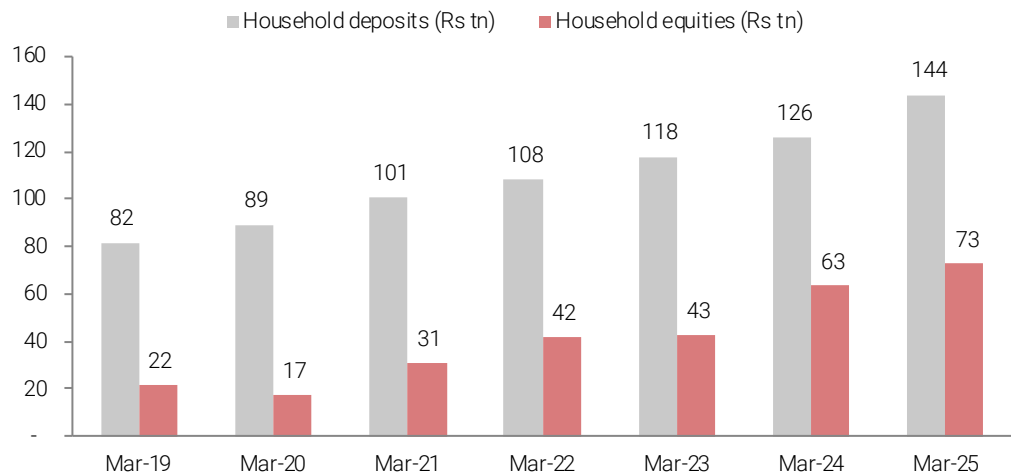
Source: FactSet, Kotak Institutional Equities estimates

A section of institutional investors seems to be deriving comfort about high market valuations from continued large inflows into domestic equity mutual funds from retail households in the future also. Their confidence stems from the prevalent view that (1) households have limited options to invest their savings and (2) households expect to make (or even should make) higher return on equities versus on other asset classes, especially bank deposits. We would clarify that (1) there is no guarantee of positive equity returns, let alone high equity returns, (2) equity return would depend on the level of the market; it is obvious that earnings yields will be lower at higher prices assuming earnings estimates don't change dramatically in a short period of time and return expectations (expected rate of return) should moderate at higher levels of the market and (3) there is limited merit in comparing debt and earnings yields without overlaying the different levels of risks in the two asset classes.

We would also note that the share of equities in household savings has increased meaningfully over the past five years (see Exhibits 10-11). As can be seen, retail shareholding has increased to 18.7% of the Indian market (BSE-200 basis) as of March 2025 versus 15.2% as of March 2021.

Steady increase in share of equities in household assets over FY2019-25

Exhibit 10: Value of household deposits versus household equity AUM, March fiscal year-ends, 2019-25 (Rs tn)



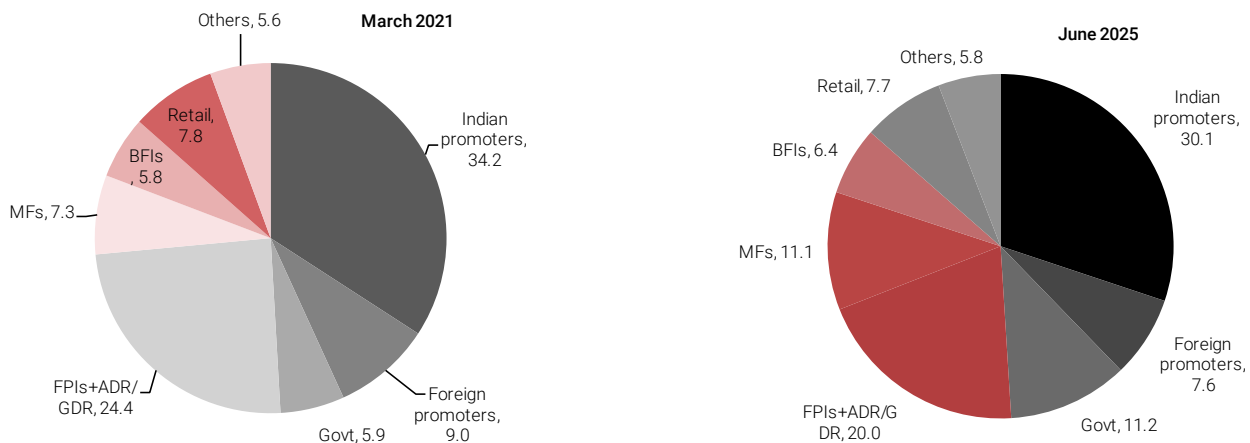
Notes:

(a) We have used aggregate value of retail, HNI and MF ownership of Nifty-500 for calculating household equity AUM.

Source: RBI, NSE, Prime Infobase, Kotak Institutional Equities

Retail shareholding (retail+MF) in the Indian market has increased from 15.2% in FY2021 to over 18.7% in June 2025

Exhibit 11: Shareholding pattern of BSE-200 Index for March 2021 and June 2025



Source: BSE, NSE, Prime Database, Kotak Institutional Equities

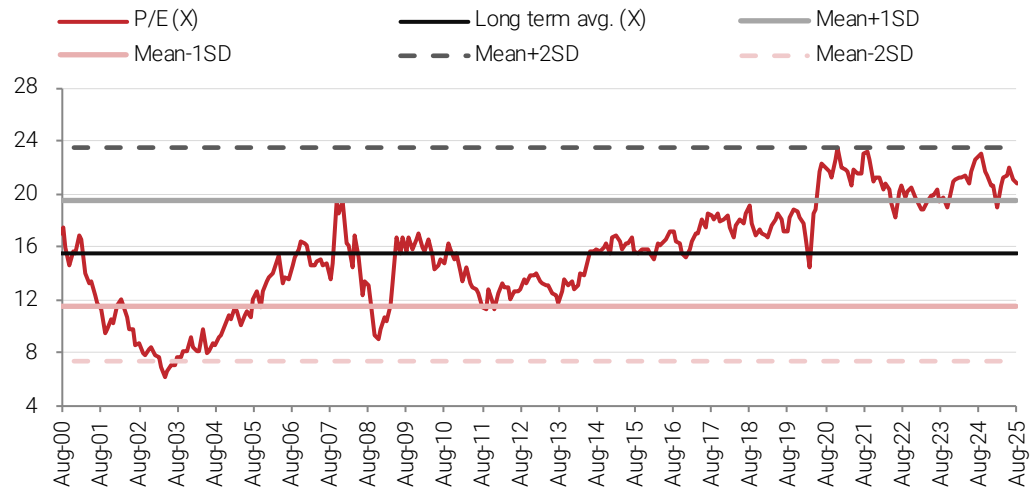
Continued disconnect between fundamentals and valuations

We note that the large disconnect between rich valuations of the market and the fundamentals of the Indian economy and sectors/stocks has persisted for a while. The market has seen a lengthy period of time correction despite high valuations and earnings disappointments, which highlights the tension between (1) realities of high valuations and earnings downgrades on the one side and (2) hopes of a recovery in economic growth and earnings on the back of a decent macro on the other.

- **Full valuations.** The Indian market appears to trade at fair valuations (see Exhibits 12-15) on paper. However, we note (1) downside risks to earnings in almost all sectors given domestic and global growth issues and (2) the mediocre quality of earnings growth with a large part of incremental net profits of FY2026 coming from sector-specific factors. We have seen meaningful downgrades to earnings in the past few months (see Exhibit 16 for changes to 'EPS' estimates of the Nifty-50 Index) but we are not sure if we are at the end of the earnings downgrades cycle. We expect FY2026 profit growth to be largely driven by (1) higher profitability in metals & mining from safeguard duties on steel, (2) higher profits in oil, gas & consumable fuels linked to formula-linked higher gas prices for upstream oil & gas companies and (3) higher profits in telecommunications on likely higher wireless tariffs rather than a broad-based recovery in demand.

Nifty-50 index trading at elevated multiples

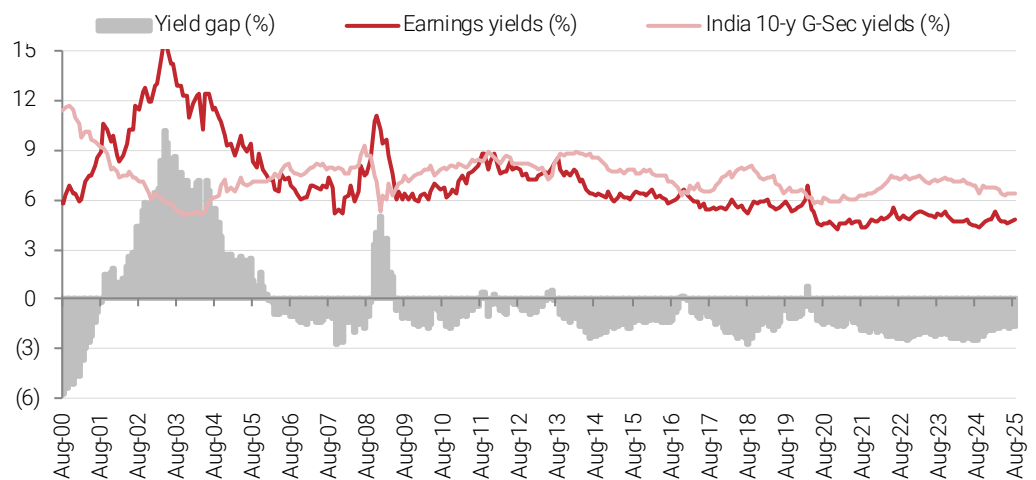
Exhibit 12: 12-m rolling forward PE of Nifty-50 Index, March fiscal year-ends, 2001-26 (X)



Source: Companies, Kotak Institutional Equities estimates

Yield gap (earnings yield less bond yield) has come off in recent months with the decline in bond yields

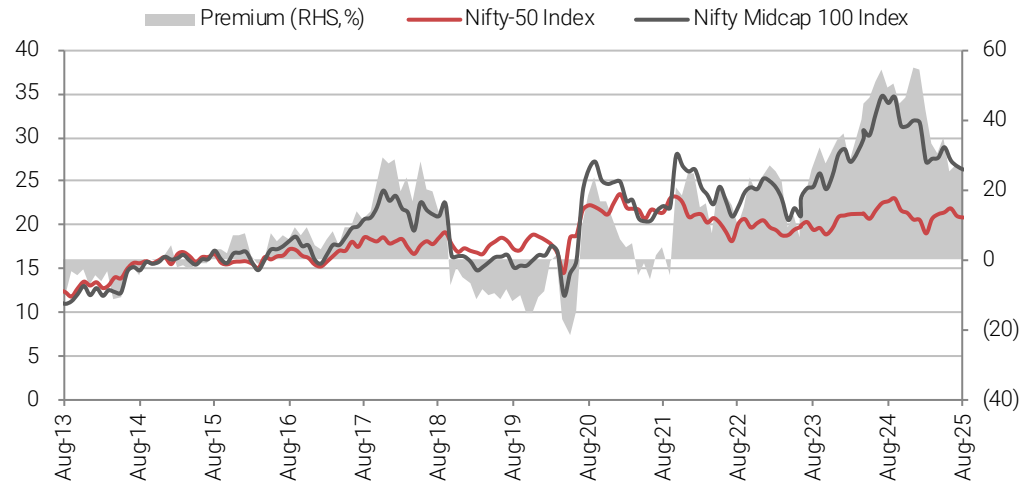
Exhibit 13: Nifty earnings yield (1-year forward estimated earnings) and bond yield, March fiscal year-ends, 2000-26 (%)



Source: CEIC, Kotak Institutional Equities estimates

Midcaps continue to trade at a large premium to largecaps, despite recent derating

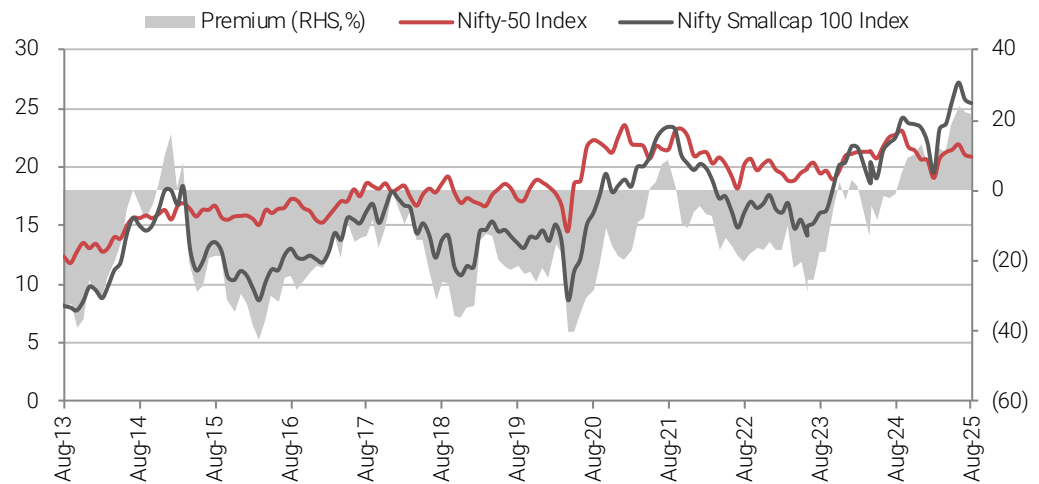
Exhibit 14: 1-year forward P/E multiple of Nifty-50 Index and Nifty Midcap 100 Index, March fiscal year-ends, 2013-26 (X)



Source: Bloomberg, Kotak Institutional Equities

Smallcaps continue to trade at a large premium to largecaps

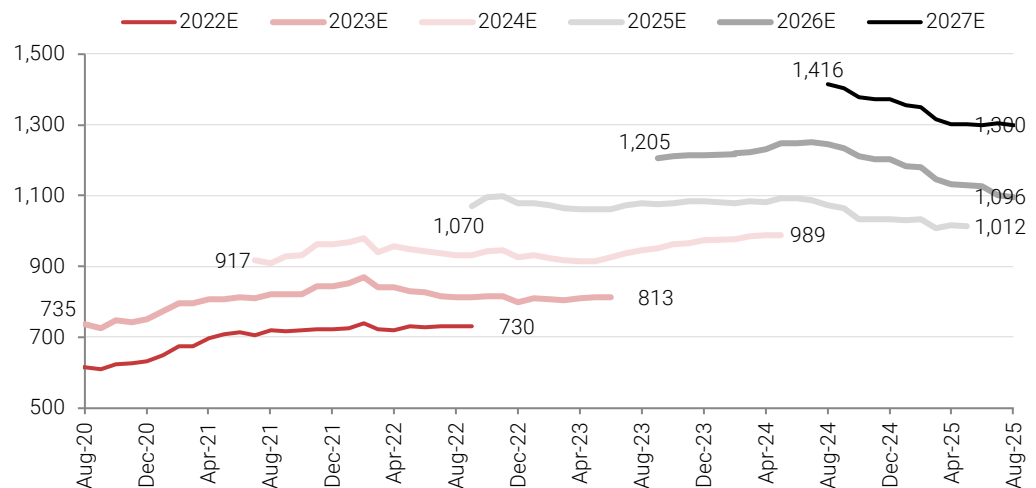
Exhibit 15: 1-year forward P/E multiple of Nifty-50 Index and Nifty Smallcap 100 Index, March fiscal year-ends, 2013-26 (X)



Source: Bloomberg, Kotak Institutional Equities

Steady cuts in FY2026E and FY2027E EPS over the past few months

Exhibit 16: Nifty-50 Index EPS estimates trend, March fiscal year-ends, 2022E-27E (Rs)



Source: Kotak Institutional Equities estimates

Most sectors and stocks trade at fair-to-full valuations (see Exhibits 17-22) in the context of (1) short-term growth and profitability challenges in several parts of the Indian market, especially consumption, parts of investment and outsourcing (IT services) and (2) medium-term growth and profitability issues in several sectors due to emerging and extant disruption risks.

As can be seen, multiples are meaningfully higher or similar to pre-pandemic levels despite (1) significantly elevated risks to global growth and inflation, (2) higher global interest and bond yields versus pre-pandemic levels, (3) domestic growth and profitability challenges for most sectors in the short term and (4) significantly higher medium-term disruption-related threats to sectors and stocks, arising from increased competition and other changes.

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

Exhibit 17: 12-m forward P/E multiple of large-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-26E

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	Mar-25	
Bajaj Auto	Automobiles & Components	14	14	14	16	15	16	18	17	17	12	19	18	17	30	22	24
Eicher Motors	Automobiles & Components	15	14	16	24	38	33	33	29	21	17	29	25	23	25	29	30
Hero Motocorp	Automobiles & Components	14	15	14	16	16	17	17	18	13	10	16	14	13	20	15	18
Mahindra & Mahindra	Automobiles & Components	14	14	14	15	19	18	20	19	15	9	20	18	16	21	23	27
Maruti Suzuki	Automobiles & Components	14	16	13	17	21	18	22	26	23	18	28	30	23	28	22	25
Samvardhana Motherson	Automobiles & Components	17	13	14	19	28	21	25	25	19	11	25	22	15	20	20	21
TVS Motor	Automobiles & Components	11	7	7	15	22	23	28	30	23	19	32	24	27	40	35	41
Asian Paints	Commodity Chemicals	23	27	33	36	38	38	45	44	51	48	64	65	54	48	49	54
Berger Paints	Commodity Chemicals	17	17	25	27	36	35	45	44	49	58	81	61	49	52	47	47
Ambuja Cements	Construction Materials	18	18	14	24	23	29	34	29	26	16	25	20	26	38	31	34
Shree Cement	Construction Materials	NA	NA	14	22	46	34	36	31	37	34	44	32	41	34	57	51
UltraTech Cement	Construction Materials	18	18	16	24	23	28	34	31	32	20	32	26	30	31	37	36
Havells India	Consumer Durables & Apparel	13	16	16	20	31	32	42	36	46	32	56	49	49	59	52	51
Polycab	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	NA	NA	NA	13	22	31	30	39	33	38
Britannia Industries	Consumer Staples	21	28	24	23	39	33	39	49	53	41	45	41	47	49	50	49
Colgate-Palmolive (India)	Consumer Staples	24	30	28	32	40	32	40	38	40	37	41	38	36	52	42	39
Dabur India	Consumer Staples	23	24	26	29	35	30	33	36	40	43	48	44	44	41	43	43
Godrej Consumer Products	Consumer Staples	20	22	30	31	31	35	37	43	38	29	39	36	45	52	49	49
Hindustan Unilever	Consumer Staples	26	29	28	33	40	39	41	47	50	56	58	47	52	46	47	52
Marico	Consumer Staples	24	26	27	25	35	37	41	42	39	31	40	43	40	39	46	48
Nestle India	Consumer Staples	35	37	34	35	44	41	47	50	51	63	65	62	63	72	62	61
Tata Consumer Products	Consumer Staples	14	18	17	18	19	16	18	26	23	31	50	53	46	61	56	57
Varun Beverages	Consumer Staples	NA	NA	NA	NA	NA	NA	32	36	42	28	36	39	45	67	52	49
United Spirits	Consumer Staples	22	16	37	59	90	57	53	58	43	33	41	53	48	57	58	51
Apollo Hospitals	Health Care Services	25	29	30	31	43	41	40	41	43	33	59	54	50	61	49	54
Avenue Supermarts	Retailing	NA	NA	NA	NA	NA	NA	54	77	73	78	90	100	71	86	75	82
Titan Company	Retailing	30	28	25	28	33	31	41	56	54	44	68	75	57	74	56	61
Trent	Retailing	NA	45	43	36	40	27	44	56	53	59	169	112	79	109	88	85
Pidilite Industries	Specialty Chemicals	21	22	27	26	42	34	37	43	54	49	64	74	62	69	60	61

Source: Companies, FactSet, Kotak Institutional Equities

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

Exhibit 18: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-26E

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	Mar-25	
Balkrishna Industries	Automobiles & Components	6	8	7	9	11	11	17	21	20	15	26	24	24	27	25	25
Exide Industries	Automobiles & Components	17	19	17	19	21	18	24	22	20	12	17	13	14	20	24	23
Schaeffler India	Automobiles & Components	11	14	12	17	31	27	31	29	30	25	35	37	42	41	45	47
SKF	Automobiles & Components	15	15	14	19	28	26	28	26	27	18	30	35	32	33	31	35
Timken	Automobiles & Components	NA	NA	NA	NA	40	24	31	34	29	23	39	44	41	49	42	42
Indigo Paints	Commodity Chemicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	93	47	32	33	28	33
Kansai Nerolac	Commodity Chemicals	20	19	26	24	31	36	38	43	41	32	47	37	30	27	26	26
Crompton Greaves Consumer	Consumer Durables & Apparel	NA	NA	NA	NA	NA	NA	39	36	31	24	40	33	29	29	33	32
Page Industries	Consumer Durables & Apparel	24	26	26	36	58	46	48	59	54	40	64	72	53	51	58	57
Voltas	Consumer Durables & Apparel	14	13	9	20	24	23	28	31	32	23	44	51	41	49	45	45
Whirlpool	Consumer Durables & Apparel	NA	15	14	21	34	28	41	43	38	35	46	42	44	45	29	30
United Breweries	Consumer Staples	47	54	58	68	63	51	51	51	52	35	51	55	56	64	67	70
Aster DM Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	22	10	16	16	17	31	54	59
Dr Lal Pathlabs	Health Care Services	NA	NA	NA	NA	NA	53	39	35	36	38	67	57	44	45	41	51
Max Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35	34	34	51	58	58
Metropolis Healthcare	Health Care Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	33	50	41	34	49	38	49
Narayana Hrudayalaya	Health Care Services	NA	NA	NA	NA	NA	136	47	44	37	34	39	39	26	31	38	36
Chalet Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	146	29	45	37	34
Devyani International	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	89	53	86	104	148
Indian Hotels	Hotels & Restaurants	26	23	39	48	66	67	47	51	54	28	100	70	40	51	53	49
Jubilant Foodworks	Hotels & Restaurants	36	48	41	40	54	52	54	58	48	45	75	58	51	69	102	91
Lemon Tree Hotels	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	64	33	NA	173	39	36	36	37
Sapphire Foods	Hotels & Restaurants	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	106	54	88	103	137
Westlife Foodworld	Hotels & Restaurants	NA	NA	NA	119	264	139	120	107	69	49	113	94	67	91	135	135

Source: Companies, FactSet, Kotak Institutional Equities

Most investment stocks are trading at expensive valuations

Exhibit 19: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-26E

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	Mar-25	
ABB	Capital Goods	41	48	32	60	67	60	51	43	53	42	64	69	73	87	56	54
Bharat Electronics	Capital Goods	14	12	10	11	22	20	21	18	13	10	15	19	21	35	39	44
BHEL	Capital Goods	15	10	8	16	21	27	26	20	17	7	28	28	28	78	34	34
Carborundum Universal	Capital Goods	13	13	13	17	21	18	23	24	25	13	30	32	37	42	37	36
Cochin Shipyard	Capital Goods	NA	NA	NA	NA	NA	NA	NA	16	11	5	NA	6	14	37	44	49
Cummins India	Capital Goods	18	21	18	25	29	26	28	23	24	13	35	32	36	50	39	44
IRB Infrastructure	Capital Goods	13	12	7	7	13	12	11	8	6	4	8	26	17	32	19	18
Kalpataru Projects	Capital Goods	9	8	6	7	15	15	16	19	16	5	10	10	12	20	17	20
KEC International	Capital Goods	8	8	7	9	13	12	15	19	13	7	15	13	18	23	20	18
L&T	Capital Goods	21	16	15	22	28	21	23	23	19	11	19	21	22	31	26	26
Siemens	Capital Goods	28	28	29	53	75	50	50	37	37	30	52	52	59	76	58	54
Thermax	Capital Goods	16	15	18	24	33	28	36	35	27	23	43	48	43	65	49	43
Amber Enterprises	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	31	19	19	51	43	29	48	62	51
Avalon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	36	50	49
Cyient DLM	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	49	32	28
Dixon Technologies	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	37	27	25	64	63	40	70	64	74
Keynes Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	75	73	72
Syrra SGS Technology	Electronic Manufacturing Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	42	36	46

Source: Companies, FactSet, Kotak Institutional Equities

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

Exhibit 20: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-26E

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	Mar-25	
Coforge	IT Services	6	7	7	9	9	10	9	15	16	13	29	32	22	30	39	35
Cyient	IT Services	10	8	8	11	14	12	12	17	14	5	16	18	16	25	17	18
HCL Technologies	IT Services	16	13	14	15	18	13	14	14	14	10	18	21	18	24	23	22
Infosys	IT Services	22	17	16	15	19	18	15	16	18	15	26	30	21	23	22	20
KPIT Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	20	48	52	53	39	37
LTIMindtree	IT Services	NA	NA	NA	NA	NA	NA	12	18	17	15	32	38	27	27	25	28
L&T Technology Services	IT Services	NA	NA	NA	NA	NA	NA	16	23	21	14	31	46	28	38	31	30
Mphasis	IT Services	10	11	10	11	11	13	14	17	15	10	23	36	18	25	25	26
Persistent Systems	IT Services	11	8	10	13	17	18	13	14	12	11	27	42	29	43	49	44
Tata Elxsi	IT Services	NA	NA	10	21	30	28	22	23	18	14	39	88	44	51	35	46
Tata Technologies	IT Services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	50	35	35
TCS	IT Services	23	18	20	19	20	18	17	19	22	20	30	31	24	28	24	21
Tech Mahindra	IT Services	11	10	11	13	15	13	12	16	14	11	16	21	16	23	23	23
Wipro	IT Services	18	15	14	15	16	14	14	15	15	11	20	24	15	21	20	19
Aurobindo Pharma	Pharmaceuticals	9	7	7	12	18	17	14	12	15	8	15	12	12	17	15	16
Cipla	Pharmaceuticals	21	18	18	19	30	20	24	20	22	18	24	25	20	27	23	25
Divis Laboratories	Pharmaceuticals	20	17	17	19	23	20	16	25	28	31	39	40	36	44	57	57
Dr Reddy's Laboratories	Pharmaceuticals	19	18	17	18	23	20	21	19	21	21	24	21	18	19	16	21
Emcure Pharmaceuticals	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	23	27
JB Chemicals & Pharma	Pharmaceuticals	NA	NA	NA	8	11	13	15	NA	13	13	22	24	28	36	31	31
Lupin	Pharmaceuticals	18	20	20	20	31	20	20	19	21	21	27	22	24	32	23	21
Mankind Pharma	Pharmaceuticals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	41	43	44
Sun Pharmaceuticals	Pharmaceuticals	22	23	23	20	29	24	21	25	23	17	23	26	24	35	31	32
Torrent Pharmaceuticals	Pharmaceuticals	14	13	12	15	22	17	21	22	30	29	30	32	33	43	43	46
SRF	Specialty Chemicals	3	3	5	7	14	14	15	16	18	16	24	38	29	37	48	39

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 21: 12 m forward P/B multiple of banks in KIE universe, March fiscal year ends, 2011-26E

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	Mar-25	
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	2.1	2.7
Axis Bank	Banks	2.6	1.8	1.7	1.6	2.6	1.8	2.1	1.9	2.7	1.1	1.9	1.9	1.8	1.9	1.7	1.6
Bandhan Bank	Banks	NA	NA	NA	NA	NA	NA	NA	5.2	4.9	1.7	2.7	2.6	1.4	1.2	0.9	1.0
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	0.9	0.8
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	0.8	0.9
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	1.5
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	0.6	0.6
Equitas Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	1.4	1.5	1.6	0.9	1.0
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	1.3	1.3
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	2.6	2.6
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	2.9
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	0.7	0.9
Karur Vysya Bank	Banks	1.7	1.3	1.4	1.1	1.5	1.1	1.4	1.3	1.0	0.3	0.7	0.5	0.9	1.3	1.3	1.4
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	0.8	0.9
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	1.5	1.5
Ujjivan Small Finance Bank	Banks	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.4	1.6	0.9	1.0	1.4	1.0	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	0.8	0.8

Source: Companies, FactSet, Kotak Institutional Equities

NBFCs are trading at fair valuations

Exhibit 22: 12 m forward P/B multiple of financial stocks in KIE universe, March fiscal year ends, 2011-26E

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	Mar-25	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	3.3	2.5
Aadhar Housing Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.5	2.7
Aptus Value Housing Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.2	3.1	3.6	3.0	3.4
Bajaj Finance	Diversified Financials	1.6	1.4	1.5	1.9	3.5	4.2	5.7	5.3	7.3	3.4	7.1	8.4	5.2	5.0	5.0	4.4
Cholamandalam	Diversified Financials	1.6	1.6	1.8	1.6	2.6	2.8	3.2	3.8	3.2	1.3	4.1	4.5	3.9	4.3	4.5	4.0
Home First Finance	Diversified Financials	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.7	3.9	3.2	3.3	3.0	2.9
L&T Finance	Diversified Financials	NA	1.6	2.1	1.8	1.4	1.5	2.6	2.8	2.0	0.6	1.2	0.9	0.9	1.6	1.4	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	0.8	0.8
Mahindra & Mahindra Financial	Diversified Financials	2.7	2.0	2.2	2.5	2.3	2.2	2.7	3.1	2.3	0.8	1.6	1.2	1.6	1.7	1.6	1.4
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	2.9	3.1
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	2.0	1.8
12-m forward P/E multiple (X)																	
360 One	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	NA	23	26	23	20	27	31	31
ABSL AMC	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	22	13	18	19	22
CAMS	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	37	34	29	35	36	37
CRISIL	Capital Markets	20	27	22	31	41	37	33	36	25	22	34	45	40	50	38	47
HDFC AMC	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	34	31	41	29	23	38	31	38
ICRA	Capital Markets	16	18	16	24	41	39	45	34	22	20	36	32	27	31	27	28
Kfin Technologies	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	25	36	44	47
Nippon AMC	Capital Markets	NA	NA	NA	NA	NA	NA	NA	25	24	24	34	26	17	27	25	33
UTI AMC	Capital Markets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	19	20	14	15	16	19

Source: Companies, FactSet, Kotak Institutional Equities

- **Decent fundamentals of the Indian economy.** We expect a modest slowdown in India's GDP growth in FY2026 (see Exhibit 23) with a modest recovery in consumption being offset by a likely slowdown in investment. We would note that (1) strong government and household capex over the past few years (FY2021-25) and (2) robust consumption among high-income households in the past two years have driven GDP growth while continued weak consumption demand among low- and middle-income households has been a drag on overall GDP growth.

We estimate FY2026 GDP growth at 6.2%

Exhibit 23: Real GVA and components growth, March fiscal-year ends, 2018-26E (%)

	2018	2019	2020	2021	2022	2023	2024	2025	2026E	FY2020-25 CAGR (%)
Real GVA	6.2	5.8	3.9	(4.1)	9.4	7.2	8.6	6.4	6.1	5.4
Agriculture and allied	6.6	2.1	6.2	4.0	4.6	6.3	2.7	4.6	4.5	4.4
Industry	5.9	5.3	(1.4)	(0.4)	12.2	2.5	10.8	5.9	5.5	6.1
Mining	(5.6)	(0.8)	(3.0)	(8.2)	6.3	3.4	3.2	2.7	2.8	1.3
Manufacturing	7.5	5.4	(3.0)	3.1	10.0	(1.7)	12.3	4.5	4.6	5.5
Electricity	10.6	7.9	2.3	(4.2)	10.3	10.8	8.6	5.9	5.4	6.1
Construction	5.2	6.5	1.6	(4.6)	19.9	9.1	10.4	9.4	7.8	8.5
Services	6.3	7.2	6.4	(8.4)	9.2	10.3	9.0	7.2	6.9	5.2
Trade, hotel, transport, communication	10.3	7.2	6.0	(19.9)	15.2	12.3	7.5	6.1	6.2	3.4
Financial, real estate, professional services	1.8	7.0	6.8	1.9	5.7	10.8	10.3	7.2	6.9	7.1
Public admin, defence, and others	8.3	7.5	6.6	(7.6)	7.5	6.7	8.8	8.9	8.0	4.7
Real GDP	6.8	6.5	3.9	(5.8)	9.7	7.6	9.2	6.5	6.2	5.3

Source: CEIC, Kotak Institutional Equities estimates

- **Domestic.** Exhibit 24 summarizes the key macroeconomic parameters of the Indian economy. We discuss some of the key macroeconomic parameters below.

India is witnessing slower growth and weak inflation, while fiscal deficit and CAD are under control

Exhibit 24: Summary of key macro metrics for India

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
Real economy												
Real GDP growth (% yoy)	8.0	8.3	6.8	6.5	3.9	(5.8)	9.7	7.6	9.2	6.5	6.2	6.5
Nominal GDP growth (% yoy)	10.5	11.8	11.0	10.6	6.4	(1.2)	18.9	14.0	12.0	9.8	8.9	10.0
CPI Inflation (% yoy, average)	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.6	2.6	4.5
Public Finance												
Consolidated Fiscal Deficit (% of GDP)	7.0	7.0	5.9	5.8	7.3	13.2	9.5	9.1	8.5	7.7	7.3	7.1
- Centre	3.9	3.5	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4	4.3
- States	3.1	3.5	2.4	2.4	2.6	4.1	2.8	2.7	2.9	2.9	2.9	2.8
Monetary Policy												
Repo Rate (% EOP)	6.8	6.3	6.0	6.3	4.4	4.0	4.0	6.5	6.5	6.3	5.3	5.3
Reverse Repo/SDF Rate (% EOP)	5.75	5.75	5.75	6.00	4.00	3.35	3.35	6.25	6.25	6.00	5.00	5.00
CRR (%)	4.0	4.0	4.0	4.0	3.0	3.5	4.0	4.5	4.5	4.0	3.0	3.0
SLR (%)	21.5	20.5	19.5	19.3	18.3	18.0	18.0	18.0	18.0	18.0	18.0	18.0
3-month T-bill (% EOP)	7.13	5.78	6.09	6.14	4.24	3.27	3.77	6.88	6.95	6.30	5.40	5.45
10-year G-Sec (% EOP)	7.47	6.68	7.40	7.35	6.14	6.17	6.84	7.31	7.05	6.40	6.15	6.25
External sector												
Current Account Balance (US\$ bn)	(22.2)	(14.4)	(48.7)	(57.3)	(24.7)	23.9	(38.8)	(67.1)	(26.1)	(27.4)	(39.7)	(54.4)
Current Account Balance (% of GDP)	(1.1)	(0.6)	(1.8)	(2.1)	(0.9)	0.9	(1.2)	(2.0)	(0.7)	(0.6)	(1.0)	(1.2)
- Goods trade deficit (US\$ bn)	(130)	(112)	(160)	(180)	(158)	(102)	(189)	(265)	(245)	(287)	(303)	(318)
- Goods trade deficit (% of GDP)	(6.2)	(4.9)	(6.0)	(6.7)	(5.6)	(3.8)	(6.0)	(7.9)	(6.9)	(7.3)	(7.2)	(7.1)
Balance of Payments (US\$ bn)	17.9	21.6	43.6	(3.3)	59.5	87.3	47.5	(9.1)	63.7	(5.0)	(7.6)	0.6
Crude Oil (USD/bbl, average)	47.5	49.0	57.6	70.0	60.9	44.8	80.0	95.4	82.9	78.9	70.0	70.0
INR/USD (average)	65.4	67.2	64.5	69.9	70.9	74.2	74.5	80.3	82.8	84.6	86.1	88.0

Source: CEIC, Bloomberg, RBI, Kotak Institutional Equities estimates

- **Decent growth outlook.** India's growth outlook remains mixed with (1) consumption trends showing a mixed picture with parts of the economy doing well with other parts continuing to struggle (see Exhibit 25), (2) investment likely to slow down over FY2026-27 and (3) exports likely to be weak in the current weak global macro environment and tariff-related uncertainties.

Growth showing signs of some weakness

Exhibit 25: Key growth indicators (% yoy)

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Manufacturing													
PMI manufacturing (sa)	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1
Industrial credit (ex HDFC)	10.2	9.8	9.1	8.0	8.1	7.2	8.0	7.1	7.8	6.6	4.8	5.5	
Petroleum products consumption (industrials)	21.7	(10.8)	(13.4)	7.2	16.0	(8.7)	(1.3)	(16.4)	(14.7)	(10.6)	(6.8)	(3.6)	(20.3)
IIP manufacturing	4.7	1.2	4.0	4.4	5.5	3.4	5.8	2.8	4.0	3.1	3.2	3.9	
Electricity demand	4.0	(3.7)	0.5	(0.4)	3.7	5.1	1.3	2.4	5.7	2.8	(4.8)	(2.3)	2.0
Steel production	10.0	3.9	1.6	4.1	4.0	3.3	7.6	7.5	8.6	5.1	8.3	11.1	
Construction													
Steel consumption	14.4	10.0	11.8	8.9	9.5	5.2	10.9	10.9	13.6	6.0	8.1	9.3	
IIP cement	5.1	(2.5)	7.6	3.1	13.1	4.6	14.6	10.8	12.2	6.3	9.7	9.2	
Core infrastructure	6.3	(1.5)	2.4	3.8	5.8	4.8	5.1	3.4	4.6	1.0	1.2	1.7	
Home loan (ex HDFC)	19.3	18.8	19.5	19.4	20.1	19.4	11.0	11.1	10.7	9.8	9.0	9.6	
Services													
PMI services (sa)	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	
Services credit (ex HDFC)	15.9	15.6	15.2	14.1	14.4	13.0	12.5	12.0	12.4	10.5	8.7	9.0	
Domestic air passenger traffic	7.3	5.7	6.4	8.1	11.9	8.2	11.3	11.0	8.8	8.4	1.9	3.0	
Airport cargo	18.1	12.5	18.0	14.5	9.7	8.0	7.0	(4.9)	3.8	11.5	5.0	0.2	
Consumption													
Total personal credit	13.9	13.9	13.4	12.9	13.3	12.0	11.8	11.7	11.6	11.9	11.1	12.1	
Average no. of daily GST e-way bills (mn)	3.4	3.4	3.6	3.8	3.4	3.6	3.8	4.0	4.0	4.0	4.0	4.0	4.3
GST collections	10.0	6.5	8.9	8.5	7.3	13.6	9.1	9.9	12.6	16.4	6.2	7.5	
Passenger vehicle sales	(2.5)	(1.8)	(1.4)	0.9	4.0	10.0	1.6	1.9	3.6	3.9	(0.8)	(7.4)	
Non-oil imports	7.9	22.6	8.2	(3.2)	19.7	5.8	19.9	(11.3)	9.4	16.3	10.0	(2.0)	
Fuel consumption (retail)	7.1	2.3	0.2	3.8	8.4	7.0	5.0	0.1	2.6	4.8	5.3	4.0	3.7
FASTag (INR bn)	55.8	56.1	56.2	61.1	60.7	66.4	66.1	66.0	68.0	68.0	70.9	67.9	66.7
Labor market													
Naukri job index	11.8	(3.4)	(3.8)	10.0	2.0	8.7	3.9	4.0	(1.5)	8.9	0.3	10.5	6.8
All India unemployment rate (%)	7.7	8.5	7.7	8.9	7.7	7.8	7.9	8.4	7.7	7.7	6.9	7.5	6.8
- Rural	7.2	8.4	7.0	8.9	7.4	7.4	7.7	8.8	7.2	7.5	6.1	7.5	6.4
- Urban	8.6	8.7	9.1	8.7	8.2	8.4	8.4	7.8	7.6	8.1	8.4	7.6	7.5
Rural													
Rural wages (men)	4.7	5.8	6.2	6.3	6.3	6.1	6.0	6.2	6.1	6.5	6.6		
Two wheeler sales	12.5	9.3	15.8	14.2	(1.1)	(8.8)	2.1	(9.0)	11.4	(16.7)	2.2	(3.4)	
Tractor sales	1.6	(5.8)	3.7	22.4	(1.3)	14.0	11.4	13.6	25.4	7.7	9.1	10.5	
Employment demanded under MNREGA (sa, mn)	23.4	25.5	25.6	25.9	26.4	27.5	27.5	26.4	22.0	24.5	23.3	21.8	18.9
Fertilizer sales	(2.0)	(10.7)	(9.5)	(10.8)	1.6	10.7	7.4	3.5	(39.8)	(48.3)	(20.1)	11.8	

Notes:

(a) Red hue denotes worsening conditions.

Source: CEIC, Kotak Economics Research

In the case of consumption, we see a few triggers (income tax cuts in the FY2026 budget, potential GST rate cuts on household goods, interest rate cuts by the RBI, lower food and overall inflation, potential diesel and gasoline retail price cuts) that may lead to a moderate recovery in consumption demand. However, we continue to be worried about the low pace and quantum of job creation in higher value-added sectors. Exhibits 26-30 show that a large portion of the new jobs being created in India are in (1) the agriculture sector, which accounts for a large proportion of new female rural workers and (2) the gig economy in urban India, which accounts for a disproportionate share of new male urban workers. The pace of hiring in the critical IT services has also slowed down (see Exhibit 31).

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

Exhibit 26: Unemployment rate in India, March fiscal year-ends, 2019-26 (%)



Source: CMIE, Kotak Institutional Equities

Agriculture sector account for a large share of stock and flow of jobs

Exhibit 27: 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)

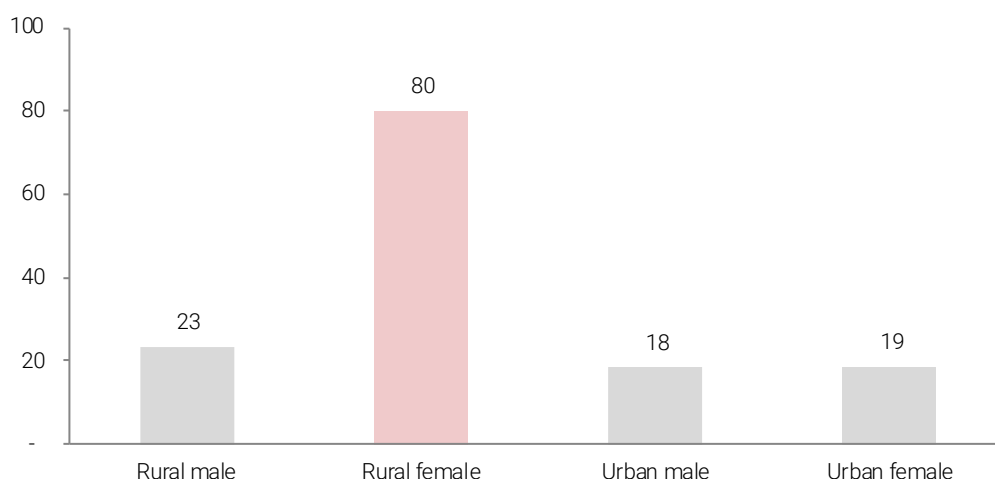
Exhibit 28: Distribution of workers in usual status by broad segments in India, June year-ends, 2018-24 (%)

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



Source: PLFS, MOHFW, Kotak Institutional Equities

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

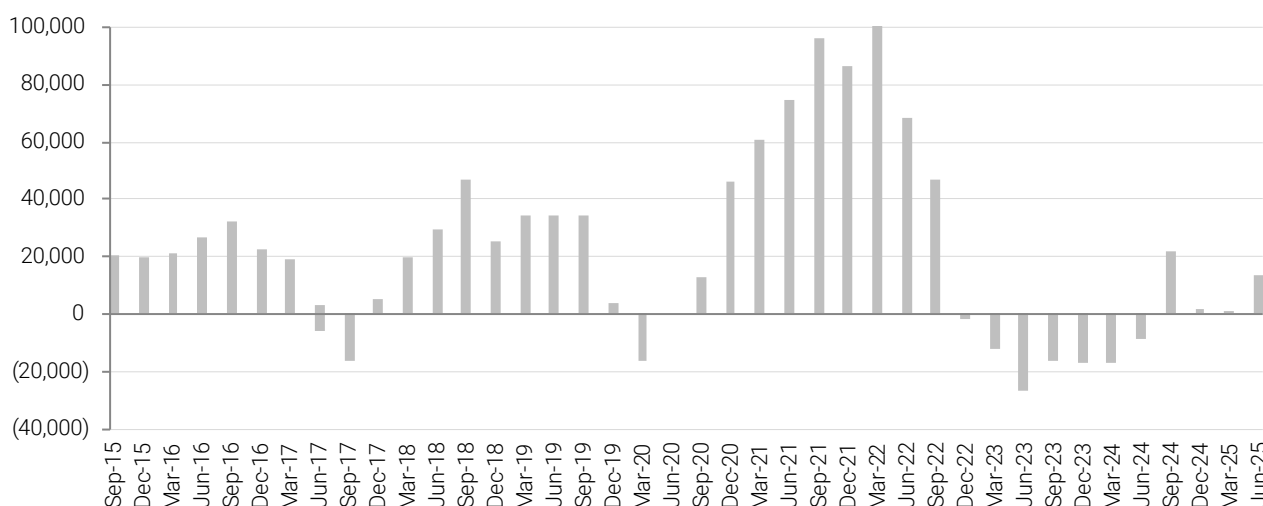
Exhibit 30: Percentage distribution of workers in usual status by broad industry division, June year-ends, 2018-24 (%)

	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

Weak job creation in the IT sector in recent quarters

Exhibit 31: Quarterly net headcount addition across prominent Indian IT companies, March fiscal year-ends, 2015-26 (#)



Source: Companies, Kotak Institutional Equities

In the case of investment, we see a moderate slowdown in investment demand due to (1) a likely moderation in central government capex, (2) a modest pickup in state capex despite a significant increase shown in state budgets for FY2026; we see large downward risks given the history of large slippages in the case of state capex, (3) a likely slowdown in residential real estate demand and (4) no meaningful pickup in private capex. As can be seen in Exhibit 32, government and household capex were the primary drivers of the investment cycle over FY2021-24 with growth in these two segments being well ahead of nominal GDP growth. We expect a slowdown in these two categories without a commensurate pickup in private capex.

Government and household capex were the major driver of GFCF over FY2019-24

Exhibit 32: Components of investments as proportion of GDP, March fiscal year-ends, 2012-24 (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Investment rate	39.0	38.7	33.8	33.5	32.1	32.0	33.9	33.8	30.4	28.2	32.4	32.6	31.4
Private corporations	13.3	13.6	12.9	13.4	13.5	11.6	11.3	11.6	11.0	10.0	11.4	12.3	11.2
- Nonfinancial	12.9	13.4	12.7	12.9	13.1	11.5	11.1	11.5	10.8	9.8	11.2	12.1	11.0
- Financial	0.4	0.3	0.2	0.4	0.4	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Public corporations	4.0	3.8	3.5	3.6	3.9	3.4	3.2	3.7	3.3	2.9	2.8	3.0	3.9
- Nonfinancial	3.9	3.7	3.4	3.5	3.9	3.3	3.1	3.6	3.3	2.8	2.7	3.0	3.9
- Financial	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
General government	3.5	3.4	3.5	3.5	3.6	3.8	3.6	3.6	3.6	3.9	3.8	3.6	4.0
Households	15.9	14.7	12.6	12.1	9.6	10.4	11.4	12.2	11.2	10.8	12.6	13.4	12.8

Notes:

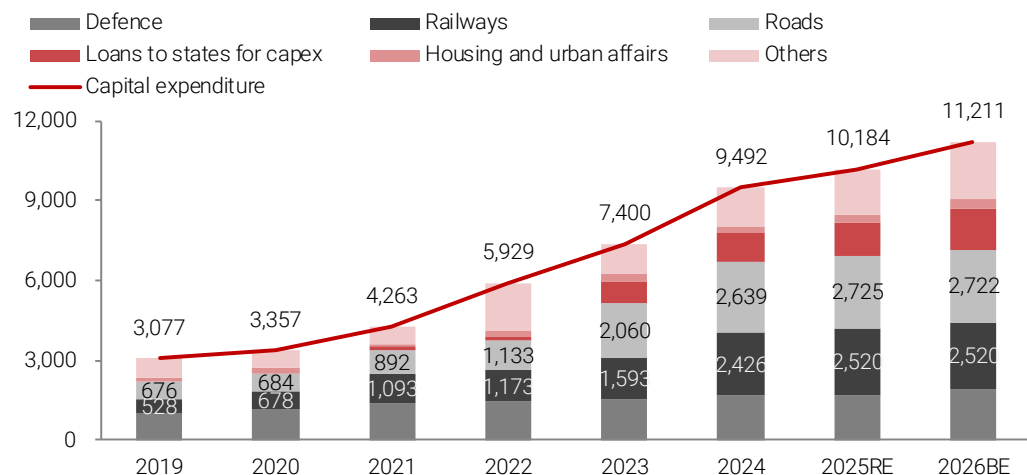
(a) Components do not add up to investment rate due to exclusion of valuables and changes in inventory.

Source: CEIC, Kotak Institutional Equities

We expect central government capex to moderate in FY2026 given (1) a slowdown in the core areas of railways and roads & highways (flat capex for railways and 5% decline in capex for roads & highways for FY2026BE compared to FY2025P) and (2) uncertainty in spending on certain non-traditional items. A large portion of the incremental capex of the central government will come from spending on non-traditional areas, which saw a large slippage in FY2025. See Exhibit 33 for breakdown of government capex by key segments over the past few years. We expect state government capex to face headwinds in the near and also in the medium term due to the (1) challenged fiscal position of most states (see Exhibit 34) and (2) increasing commitments to populist schemes.

Marked slowdown in central government capex in the past two years

Exhibit 33: Trend in central government budgetary capital expenditure, March fiscal year-ends, 2019-26BE (Rs bn)



Source: Union Budgets, Kotak Institutional Equities

Most states have large fiscal constraints

Exhibit 34: GFD/GSDP and debt/GSDP of major large states in India, March fiscal year-ends, 2020-26BE (%)

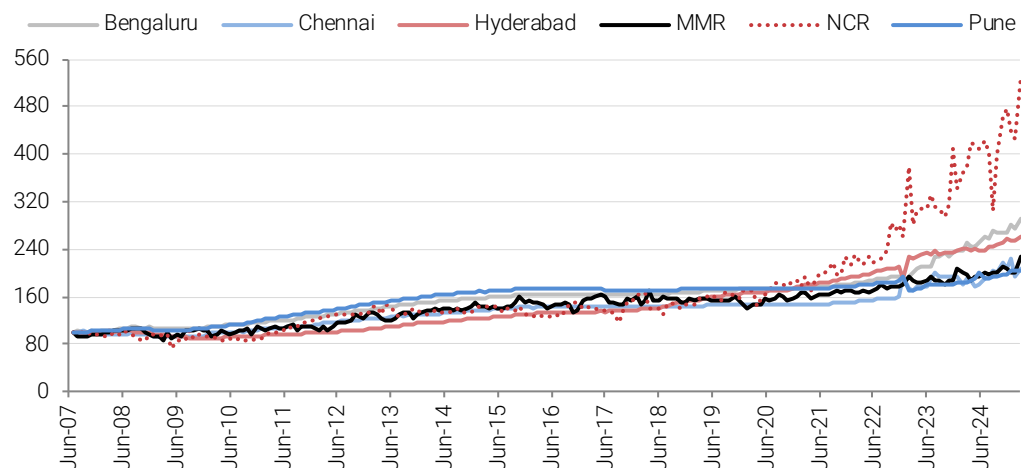
	GFD/GSDP (%)							Debt/GSDP (%)						Capex/GSDP (%)				
	2020	2021	2022	2023	2024	2025RE	2026BE	2020	2021	2022	2023	2024	2025BE	2023	2024	2025BE	2025RE	2026BE
Andhra Pradesh	4.3	5.6	2.2	4.0	4.4	4.6	4.4	33	36	34	33	34	35	0.7	1.7	2.1	1.6	2.6
Assam	4.3	3.3	4.4	5.9	3.7	NA	3.7	21	26	25	27	27	NA	3.4	3.8	4.1	4.9	4.0
Bihar	2.1	5.3	3.9	6.0	4.2	9.2	3.0	33	40	40	39	39	40	4.5	4.5	3.1	5.2	3.8
Chhattisgarh	5.2	4.5	1.5	1.0	4.6	4.1	3.0	25	28	26	24	24	23	2.9	2.7	3.3	3.2	4.2
Gujarat	1.5	2.5	1.2	0.8	1.0	1.9	2.0	20	23	20	19	18	19	1.7	2.4	2.8	2.8	3.4
Haryana	4.1	3.9	3.6	3.2	2.9	2.7	2.7	30	34	32	31	31	30	1.4	1.8	1.8	1.3	1.5
Himachal Pradesh	3.5	3.8	3.1	6.5	5.4	6.6	4.0	39	45	43	45	45	44	3.2	2.8	2.8	3.9	1.6
Jharkhand	2.6	5.0	0.7	1.1	1.4	2.3	2.0	30	37	30	28	27	27	4.4	5.4	6.1	4.7	4.7
Karnataka	2.4	4.1	3.3	2.1	2.6	2.9	2.9	21	26	25	25	25	25	2.7	2.2	2.0	2.0	2.3
Kerala	2.9	5.3	5.0	2.5	3.0	3.5	3.2	33	40	39	38	37	37	1.6	1.5	1.4	1.3	1.3
Madhya Pradesh	3.6	5.3	3.4	3.3	3.3	4.2	4.7	23	31	30	29	30	32	3.8	4.2	4.3	4.5	5.0
Maharashtra	2.0	2.7	2.0	1.9	2.8	2.9	2.8	18	21	19	18	18	18	1.8	2.0	2.2	2.1	1.7
Odisha	3.5	1.8	(3.0)	2.0	1.7	3.1	3.2	27	26	20	20	16	16	4.7	5.4	7.0	6.1	6.3
Punjab	3.1	4.2	4.4	5.0	4.4	4.5	3.8	43	48	45	47	47	47	1.2	0.7	1.0	1.1	1.2
Rajasthan	3.8	5.8	4.0	3.8	4.3	4.1	4.3	35	40	39	37	37	37	1.5	1.8	2.6	2.3	2.7
Tamil Nadu	3.5	5.3	3.9	3.4	3.3	3.3	3.0	27	32	32	32	31	31	2.0	1.8	2.0	1.9	1.9
Telangana	3.3	5.2	4.1	2.5	3.4	2.9	3.0	24	29	28	27	27	27	3.0	3.5	3.3	3.3	3.2
Uttar Pradesh	(0.7)	3.3	2.0	2.8	3.2	3.4	3.0	32	37	33	30	31	31	4.5	4.7	6.6	5.7	5.7
Uttarakhand	3.2	2.4	1.5	1.0	2.2	2.5	2.9	28	33	31	27	25	25	2.7	3.2	3.6	3.3	3.5
West Bengal	3.1	3.9	3.8	3.3	3.2	4.0	3.6	38	44	41	39	38	39	1.5	1.7	1.9	1.7	2.0

Source: State budgets, RBI, CEIC, Kotak Institutional Equities

We expect a moderate slowdown in high-end residential real estate demand due to (1) steep increase in prices over the past 1-2 years (see Exhibit 35), which would affect affordability of potential buyers and (2) likely lower confidence to spend on high-ticket items in IT sector-related households. We continue to be positive on the medium-term growth prospects of housing in India.

Residential prices have risen sharply in the past two years; a portion of the increase also reflects mix change

Exhibit 35: Residential price index, March fiscal year-ends, 2008-25 (base=100)

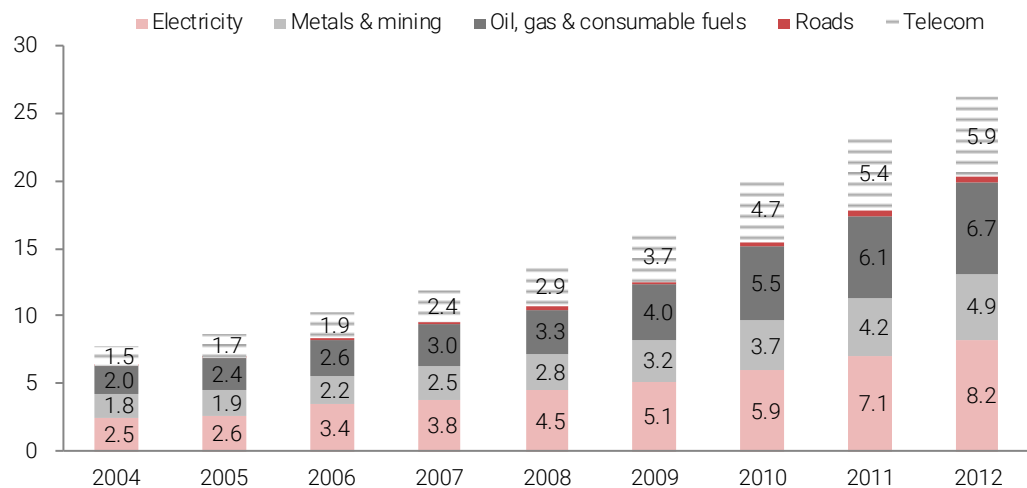


Source: Prop Equity, Kotak Institutional Equities

We do not expect a meaningful increase in private sector capex over the next 2-3 years given (1) limited areas within the capex-intensive core infrastructure sectors for the private sector to invest in and (2) a limited number of companies with the balance sheet and risk appetite to invest in large infrastructure projects. We expect the private sector to (1) restrict new capex to the electricity generation and ancillary sectors and metals & mining and (2) limit capex to maintenance capex in the oil, gas & consumable fuels and telecom sectors unlike the FY2004-12 investment cycle when the private sector invested aggressively in the core infrastructure sectors (see Exhibit 36).

Core industries drove gross fixed asset creation of corporate India over FY2004-12

Exhibit 36: Gross fixed assets of corporate India classified by key non-financial sectors, March fiscal year-ends, 2004-12 (Rs tn)



Source: CMIE, Kotak Institutional Equities

Also, we expect exports of both goods and services to be sluggish given (1) likely weak global growth, which we discuss later and (2) tariff uncertainties with the possibility of high-to-very high import tariffs on exports of Indian goods to the US. The US has (1) announced 25% reciprocal import tariffs on goods from India with a few exemptions and (2) threatened an additional 25% import tariff in case India was to continue to import oil from Russia. We note that India imports about 30% of its total crude oil imports from Russia but does not derive any significant benefit in the form of meaningful discounts on the same (see Exhibits 37-38).

Russia accounts for 30-40% share in India's crude imports

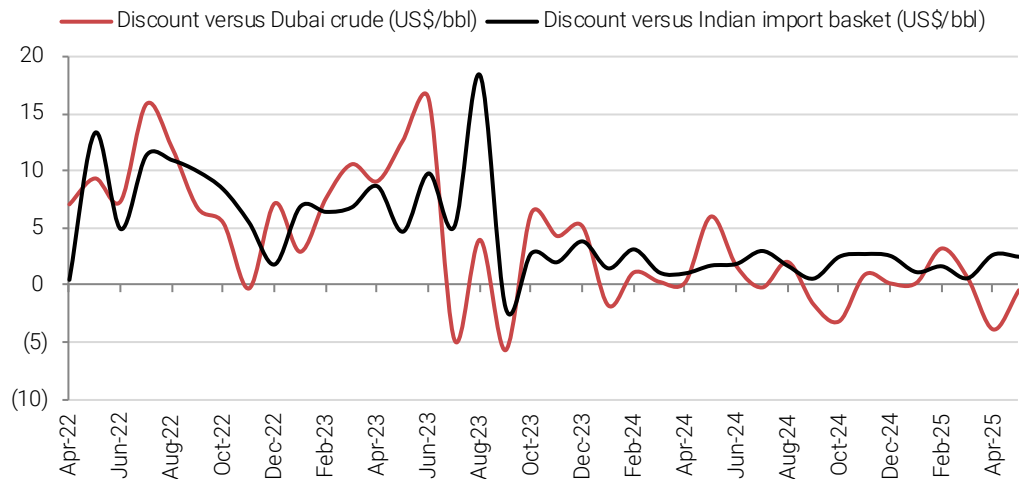
Exhibit 37: Share of Russian crude imports in Indian crude oil import basket, March fiscal year-end, 2021-26 (%)



Source: PPAC, Kotak Institutional Equities

Discount of Russian crude versus Dubai crude narrowed in recent months

Exhibit 38: Discount of Russian crude imports, March fiscal year-ends, 2023-26 (US\$/bbl)

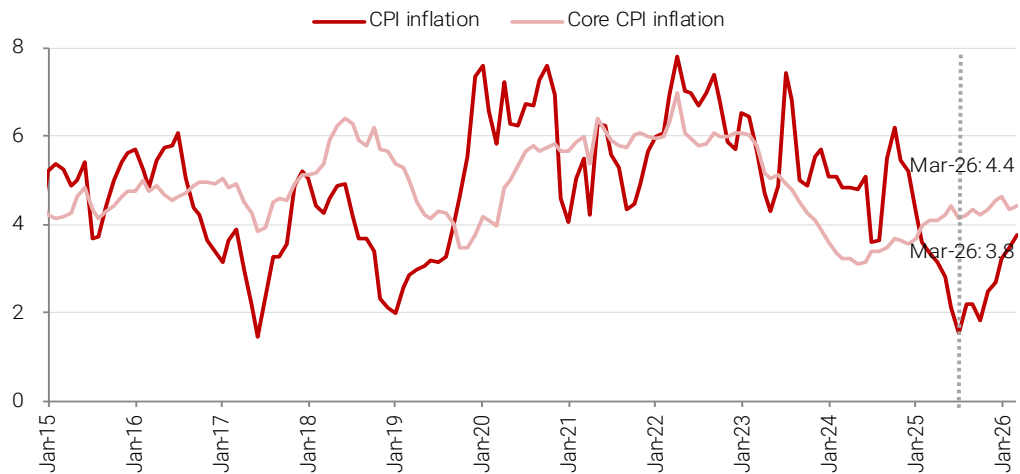


Source: PPAC, Kotak Institutional Equities

- **Low inflation and moderate interest rates.** We model CPI inflation to average 3.5% and core inflation to average 4.4% in FY2026 (see Exhibit 39) with increasing likelihood of a normal monsoons in 2025. The ongoing monsoon season has been quite decent in terms of spatial and temporal distribution both (see Exhibit 40). The RBI has cut policy rate by 100 bps in 1HCY25 to 5.5% (see Exhibit 41) given its (1) confidence about inflation staying at moderate levels through FY2026 (see Exhibit 42 for the RBI's forecast on inflation) and (2) intention to boost economic growth.

We expect FY2026E average CPI at 2.6%; core inflation to average 4.3%

Exhibit 39: Headline and core CPI inflation (%)



Source: CEIC, Kotak Institutional Equities estimates

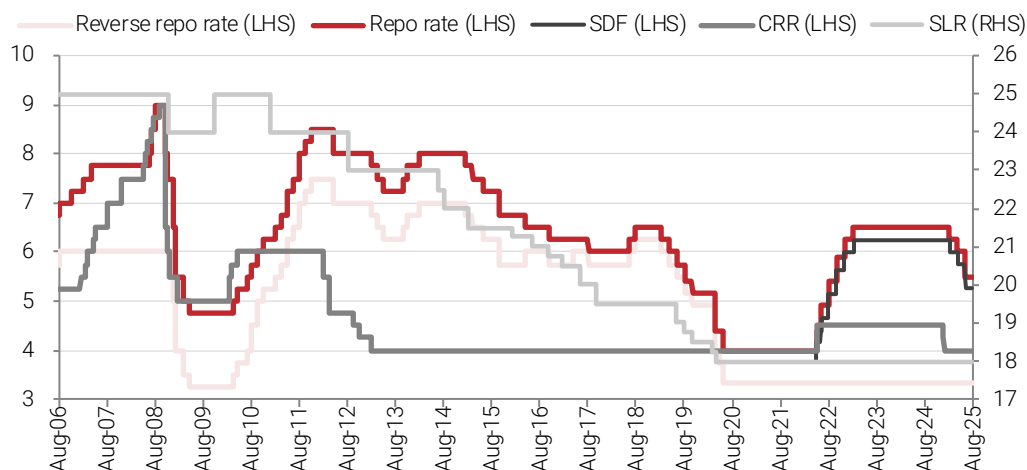
On a cumulative basis, most sub-divisions are in normal and excess zones
Exhibit 40: Cumulative rainfall surplus/deficiency in sub-divisions, 2024 and 2025 (%)

	26-Jul-24	2-Aug-24	9-Aug-24	25-Jul-25	1-Aug-25	8-Aug-25	Normal (mm)
India	3	4	7	5	6	2	
All-India normal rainfall (mm)	399	464	527	390	455	518	
Deficient (< -19% to -59%)							
Arunachal Pradesh	(12)	(20)	(15)	(49)	(45)	(41)	1,062
Assam & Meghalaya	1	(4)	(2)	(49)	(46)	(41)	1,131
Bihar	(31)	(34)	(24)	(44)	(39)	(26)	567
Sub-Himalayan West Bengal and Sikkim	37	29	31	(35)	(30)	(23)	1,150
Marathwada	32	28	18	(32)	(20)	(23)	352
Normal (-19% to +19%)							
Coastal Andhra Pradesh	50	44	42	(7)	(14)	(16)	311
Jammu & Kashmir and Ladakh	(34)	(34)	(34)	(3)	(4)	(14)	329
Kerala	(13)	(4)	(9)	(8)	(10)	(13)	1,444
Konkan and Goa	48	41	37	5	(0)	(9)	2,007
Telangana region	30	26	22	(4)	(8)	(9)	411
Lakshadweep	5	5	6	(24)	(22)	(8)	680
Rayalaseema	52	36	39	(20)	(30)	(6)	189
Vidarbha	32	38	28	6	8	(5)	577
Punjab	(43)	(38)	(43)	-	(1)	(4)	267
East Uttar Pradesh	(15)	(16)	(13)	(24)	(22)	(4)	444
Nagaland, Manipur, Mizoram and Tripura	(30)	(27)	(25)	(6)	(6)	(4)	794
Madhya Maharashtra	46	45	43	8	8	(3)	453
Odisha	(11)	(9)	(7)	17	10	(2)	657
South interior Karnataka	35	44	35	(2)	(4)	(0)	406
Chhattisgarh	1	10	16	11	11	0	665
Andaman & Nicobar Islands	14	5	6	17	7	0	906
Saurashtra and Kutch	62	47	32	41	20	7	340
Coastal Karnataka	29	37	33	20	15	8	2,217
Tamil Nadu and Pondicherry	62	52	71	(7)	(13)	8	138
Uttaranchal	(4)	(1)	(1)	2	(0)	9	704
Gujarat region	0	(1)	(0)	31	26	9	571
Himachal Pradesh	(38)	(28)	(26)	10	12	15	436
Haryana, Chandigarh and Delhi	(38)	(23)	(25)	18	26	15	250
Excess (> +19%)							
Gangetic West Bengal	(44)	(24)	(21)	16	23	25	678
North interior Karnataka	25	20	17	25	18	26	255
West Madhya Pradesh	4	18	18	34	52	30	507
West Uttar Pradesh	3	(1)	(4)	24	22	31	378
East Madhya Pradesh	(1)	4	16	66	58	38	599
Jharkhand	(46)	(31)	(14)	52	49	43	591
West Rajasthan	(3)	8	59	99	88	64	176
East Rajasthan	(0)	14	26	85	93	64	369

Source: IMD, Kotak Economics Research

RBI has cut repo rate by 100 bps in 1HCY25

Exhibit 41: RBI's repo, reverse repo rates and cash reserve ratio on LHS (%)



Source: RBI, Kotak Institutional Equities

RBI expects FY2026 inflation at 3.1% but expect inflation to pick up by 4QFY26

Exhibit 42: RBI's estimates for CPI inflation, March fiscal year-ends (%)

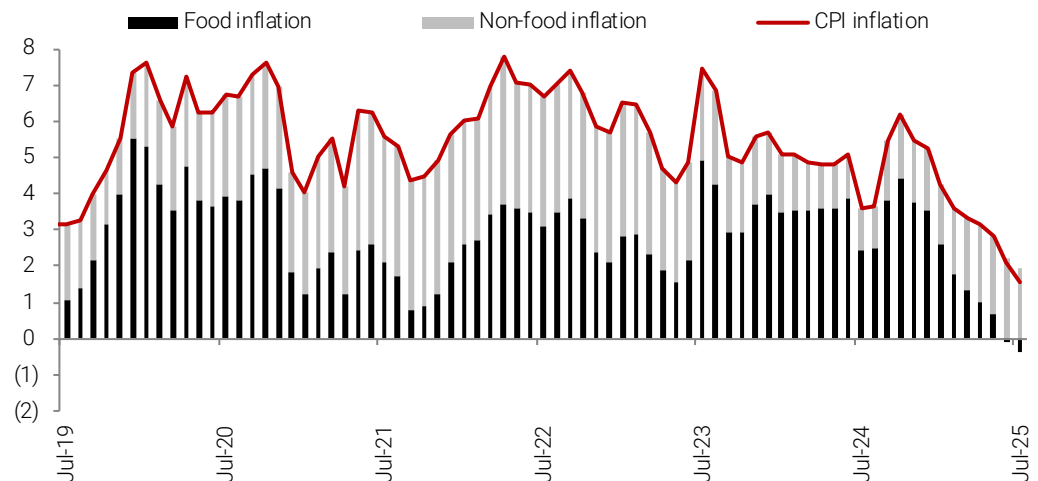
	CPI inflation estimate in RBI policy (%)				
	Feb-25	Apr-25	Jun-25	Aug-25	Kotak
1QFY26	4.5	3.6	2.9		
2QFY26	4.0	3.9	3.4	2.1	1.8
3QFY26	3.8	3.8	3.9	3.1	2.3
4QFY26	4.2	4.4	4.4	4.4	3.7
FY2026	4.2	4.0	3.7	3.1	2.6
1QFY27	4.5	3.6	2.9	4.9	4.8

Source: RBI, Kotak Institutional Equities estimates

However, the RBI may not have room to cut rates further, as (1) inflation may head back to around 4% by the end of FY2026; it forecasts headline inflation rising to 4.4% in 4QFY26 and (2) inflation has inherent upward risks in India from (a) volatile food prices and (b) potential risks of disruption to food production and supply from erratic weather conditions, arising from global warming and climate change. We note that the recent sharp decline in inflation has largely been led by a sharp decline in food and vegetable prices (see Exhibit 43-44).

Current low inflation due to deflation in food prices; volatile food inflation poses upside risk to CPI inflation

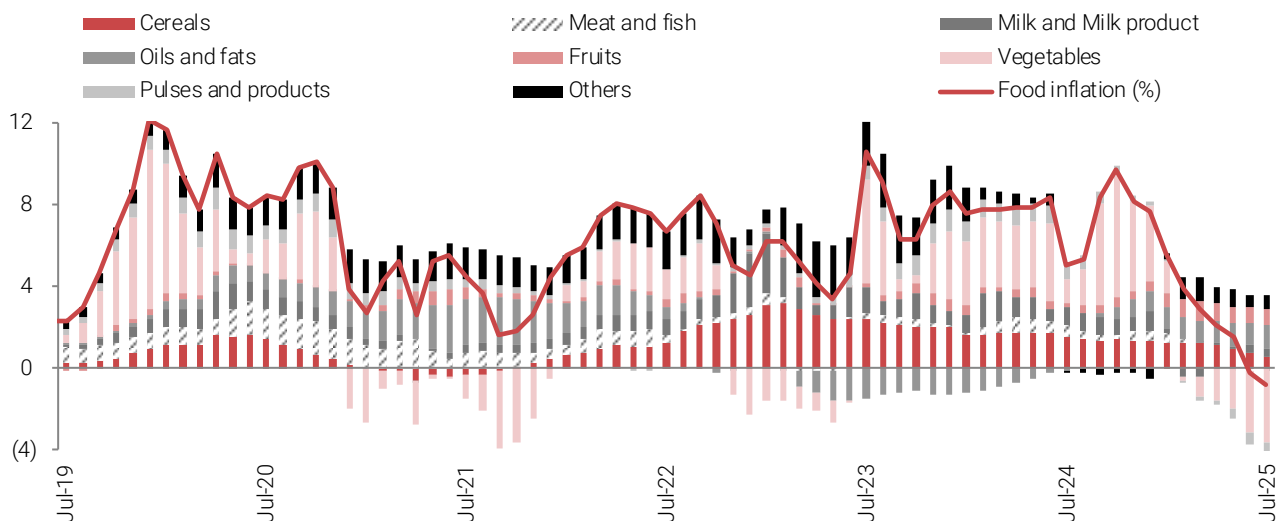
Exhibit 43: Contribution of food inflation and non-food inflation to CPI inflation, March fiscal year-ends, 2019-26 (%)



Source: CEIC, Kotak Institutional Equities

Volatile vegetable prices poses risks to food inflation projections

Exhibit 44: Major contributors of food inflation in CPI, March fiscal year-ends, 2019-26 (%)

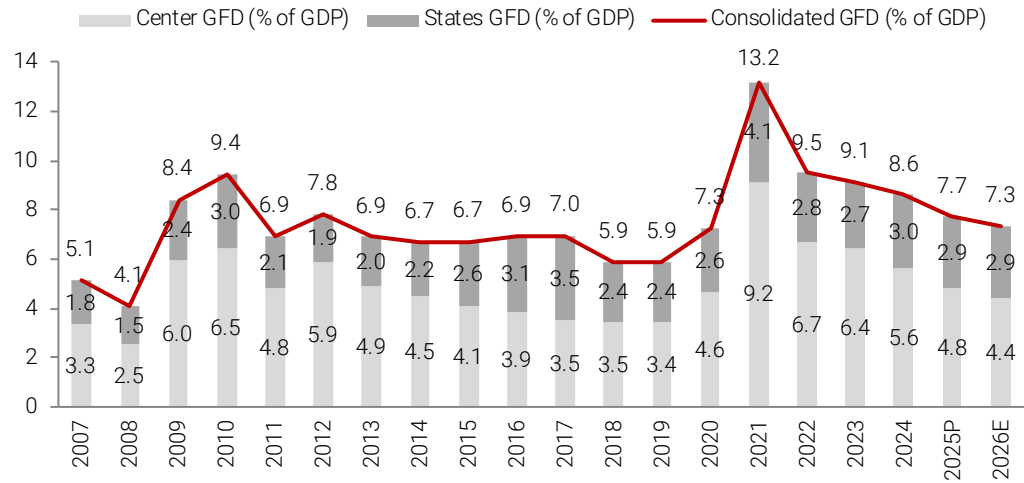


Source: CEIC, Kotak Institutional Equities

- **Decent fiscal position.** We expect India's consolidated fiscal deficit at 7.3% in FY2026, lower than the 7.7% in FY2025 and central fiscal deficit at 4.4%, lower than the 4.8% in FY2025 (see Exhibits 45-47). We note that the central government may have some buffer on fiscal deficit and borrowing given that (1) it may not be able to spend the budgeted Rs650 bn on innovation and AI initiatives; the capex allocation for these items shows a sharp jump versus expenditure of Rs127 bn in FY2025 and (2) it may have some scope to raise taxes on diesel and gasoline; current marketing margins on diesel and gasoline are quite high (see Exhibit 48).

We expect India's consolidated fiscal deficit to moderate from 7.7% in FY2025 to 7.3% in FY2026

Exhibit 45: Trend in center, states and consolidated GFD (% of GDP), March fiscal year-ends, 2007-26E



Source: RBI, Union budget, Kotak Institutional Equities estimates

We expect central fiscal deficit at 4.4% in FY2026

Exhibit 46: Major central government budgetary items, March fiscal year-ends, 2023-26E (Rs bn)

						Change (%)				
	2023	2024	2025P	2026BE	2026E	2023/ 2022	2024/ 2023	2025P/ 2024	2026BE/ 2025P	2026E/ 2025P
Receipts										
1. Revenue receipts (2d + 3)	23,832	27,290	30,364	34,204	34,220	10	15	11	13	13
2. Gross tax revenues (a + b)	30,542	34,655	37,952	42,702	41,687	13	13	10	13	10
2.a. Direct taxes	16,723	19,694	22,305	25,351	24,309	18	18	13	14	9
2.a.1. Corporation tax	8,258	9,111	9,868	10,820	10,608	16	10	8	10	8
2.a.2. Income tax (incl. other taxes)	8,464	10,584	12,437	14,531	13,701	20	25	18	17	10
2.b. Indirect taxes	13,819	14,961	15,596	17,351	17,378	7	8	4	11	11
2.b.1. Goods and Services Tax	8,491	9,572	10,265	11,780	11,624	22	13	7	15	13
2.b.1.1. CGST	7,185	8,206	9,090	10,109	9,953	22	14	11	11	10
2.b.1.2. IGST	47	(49)	(330)	—	—	124				
2.b.1.3. Compensation cess	1,259	1,414	1,505	1,671	1,671	20	12	6	11	11
2.b.2. Customs duty	2,134	2,331	2,329	2,400	2,254	7	9	(0)	3	(3)
2.b.2.1. Basic duties	1,676	1,775	1,493	1,585	1,463	15	6	(16)	6	(2)
2.b.2.2. Others	457	557	836	815	791	(15)	22	50	(3)	(5)
2.b.3. Excise duty	3,190	3,054	3,003	3,170	3,500	(19)	(4)	(2)	6	17
2.b.4. Service tax	4	4	(0)	1	1	(57)	(1)	(104)	(725)	(725)
2.c Transfers to states, UTs, etc.	9,564	11,383	12,963	14,328	13,879	6	19	14	11	7
2.d Net tax revenues (2 - 2.c)	20,978	23,273	24,989	28,374	27,808	16	11	7	14	11
3. Non-tax revenues	2,854	4,018	5,375	5,830	6,412	(22)	41	34	8	19
3.a. RBI's transfer of surplus	303	874	2,686	2,104	2,686	(69)	188	207	(22)	-
3.b. Telecommunications	648	907	1,234	824	824	(24)	40	36	(33)	(33)
3.c. Others	1,903	2,237	1,456	2,902	2,902	6	18	(35)	99	99
4. Non-debt capital receipts (a + b)	722	598	418	760	760	83	(17)	(30)	82	82
4.a Recovery of loans	262	266	246	290	290	6	2	(8)	18	18
4.b Other receipts (incl. disinvestments)	460	331	172	470	470	214	(28)	(48)	173	173
5. Total receipts (1 + 4)	24,554	27,888	30,782	34,964	34,980	11	14	10	14	14
Expenditure										
6. Revenue expenditure	34,531	34,943	36,035	39,443	39,443	8	1	3	9	9
6.a. Interest payments	9,285	10,639	11,163	12,763	12,763	15	15	5	14	14
6.b. Subsidies	5,310	4,123	3,880	3,834	3,834	19	(22)	(6)	(1)	(1)
6.b.1. Food	2,728	2,118	1,999	2,034	2,034	(6)	(22)	(6)	2	2
6.b.2. Fertilizer	2,513	1,883	1,737	1,679	1,679	63	(25)	(8)	(3)	(3)
6.b.3. Oil	68	122	145	121	121	99	80	18	(16)	(16)
6.c. Pay, allowances and pensions	6,564	6,857	7,598	7,825	7,825	11	4	11	3	3
6.c.1.a. Pay and allowances	4,148	4,474	4,847	5,059	5,059	6	8	8	4	4
6.c.1.b. Pensions	2,416	2,383	2,751	2,766	2,766	21	(1)	15	1	1
6.d. Agriculture and farmers' welfare	999	1,083	1,299	1,272	1,272	(13)	8	20	(2)	(2)
6.e. Education	972	1,232	1,107	1,286	1,286	21	27	(10)	16	16
6.f. Health and family welfare	703	783	856	923	923	(11)	11	9	8	8
6.g. Rural development	1,768	1,619	1,767	1,878	1,878	10	(8)	9	6	6
6.h. Others	8,931	8,606	8,364	9,661	9,661	(3)	(4)	(3)	16	16
7. Capital expenditure	7,400	9,492	10,520	11,211	11,211	25	28	11	7	7
7. a. Defence	1,509	1,646	1,706	1,924	1,924	4	9	4	13	13
7. b. Railways	1,593	2,426	2,519	2,520	2,520	36	52	4	0	0
7. c. Roads and highways	2,060	2,639	2,853	2,722	2,722	82	28	8	(5)	(5)
7. d. Loans for capex to states	812	1,096	1,513	1,500	1,500	472	35	38	(1)	(1)
7. e. Housing and urban affairs	269	264	316	376	376	4	(2)	20	19	19
7. f. Others	1,158	1,422	1,612	2,168	2,168	(35)	23	13	35	35
8. Total expenditure (6 + 7)	41,932	44,434	46,555	50,653	50,653	11	6	5	9	9
Deficit										
Primary deficit (PD)	8,092	5,908	4,609	2,926	2,911	4	(27)	(22)	(37)	(37)
Revenue deficit (RD)	10,699	7,652	5,671	5,238	5,223	4	(28)	(26)	(8)	(8)
Gross fiscal deficit (GFD)	17,378	16,546	15,773	15,689	15,674	10	(5)	(5)	(1)	(1)
Gross market borrowing (dated securities)	14,210	15,014	14,005	14,820	14,820	47	6	(7)	6	6
Net market borrowing (dated securities)	11,083	11,778	11,627	11,538	11,538	57	6	(1)	(1)	(1)
Short-term borrowing (T-bills/WMA)	1,148	532	(1,119)	0	0					
Nominal GDP	268,905	301,230	330,682	356,979	357,154	14.0	12.0	9.8	8.0	8.0
PD/GDP (%)	3.0	2.0	1.4	0.8	0.8					
RD/GDP (%)	4.0	2.5	1.7	1.5	1.5					
GFD/GDP (%)	6.5	5.5	4.8	4.4	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

Tax revenue growth has been tepid in 1QFY26

Exhibit 47: Monthly tax receipts of the Indian government, March fiscal year-ends (Rs bn)

Date	Jun-25	Jun-24	May-25	Chg. (%)		FYTD (Apr-Jun)		Chg. (%)
				yoy	mom	2026	2025	yoy
Gross tax revenues	3,538	3,712	2,438	(5)	45	8,690	8,308	4.6
Direct taxes	2,222	2,373	1,061	(6)	110	4,600	4,640	(1)
Corporation tax	1,278	1,295	235	(1)	444	1,727	1,748	(1)
Income tax	940	1,070	822	(12)	14	2,858	2,873	(1)
Other taxes	4	8	4	(46)	17	14	19	(26)
Indirect taxes	1,263	1,292	1,330	(2)	(5)	3,952	3,543	11.6
Customs duty	132	190	153	(31)	(14)	424	471	(10)
Excise duty	292	270	264	8	10	556	514	8
Service tax	0	0	(1)	(67)	(112)	(2)	(0)	300
GST	839	831	914	1	(8)	2,974	2,559	16
CGST	767	695	767	10	(0)	2,317	2,283	1
IGST	(61)	7	23	965	(362)	273	(102)	368
Compensation cess	133	129	123	3	8	383	378	1
Net tax revenues	1,895	2,306	1,612	(18)	18	5,403	5,496	(1.7)
Non-tax revenues	162	283	2,897	(43)	(94)	3,731	2,800	33
Non-debt capital receipts	28	24	28	15	1	280	45	520

Source: CEIC, Kotak Institutional Equities

Strong increase in government expenditure, suggesting frontloading and low base (June 2024 was election quarter)

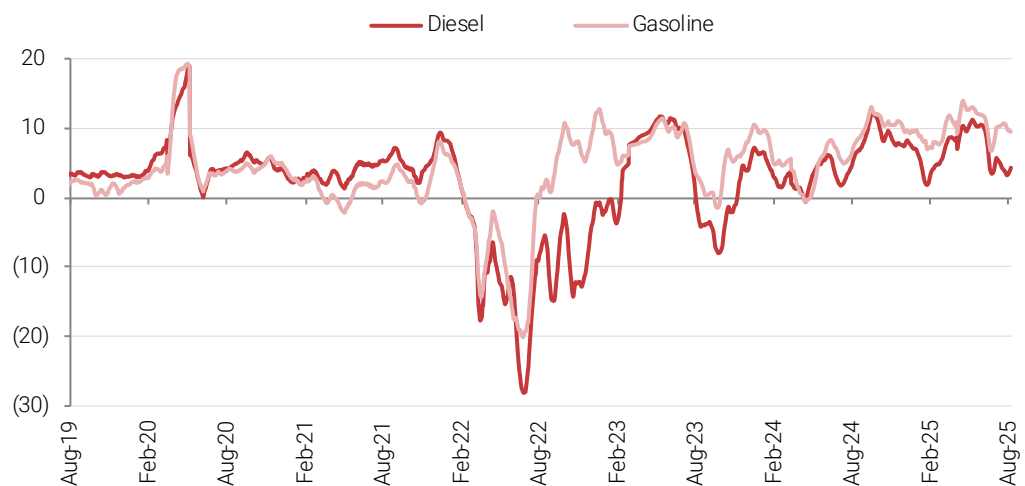
Exhibit 48: Monthly fiscal aggregates of the Indian government, March fiscal year-ends (Rs bn)

Date	Jun-25	Jun-24	May-25	Chg. (%)		FYTD (Apr-Jun)		Chg. (%)
				yoy	mom	2026	2025	yoy
Total receipts	2,084	2,614	4,537	(20)	(54)	9,414	8,342	13
Total expenditure	4,760	3,464	2,805	37	70	12,221	9,699	26
Revenue expenditure	4,222	3,090	2,189	37	93	9,470	7,889	20
Capital expenditure	538	374	616	44	(13)	2,751	1,811	52
Fiscal deficit	2,676	851	(1,732)	214	(255)	2,807	1,357	107
Revenue deficit	2,166	501	(2,320)	332	(193)	336	(408)	(182)
Primary deficit	293	(551)	(2,275)	(153)	(113)	(1,053)	(1,283)	(18)

Source: CEIC, Kotak Institutional Equities

Marketing margins of auto fuels are at elevated levels

Exhibit 49: Marketing margins on diesel and gasoline, calendar year-ends, 2019-25 (Rs/liter)



Source: PPAC, Kotak Institutional Equities estimates

- **Comfortable CAD/BoP.** We expect India's CAD/GDP at 1% in FY2026 (see Exhibit 50) versus 0.7% in FY2025 with (1) likely low crude oil prices (US\$70/bbl for FY2026 versus US\$78.2/bbl in FY2025 on Dated Brent basis) offsetting (2) likely lower exports in a highly uncertain global environment.

We expect CAD/GDP at 1% in FY2026E

Exhibit 50: India's balance of payments, March fiscal year-ends, 2019-26E (US\$ bn)

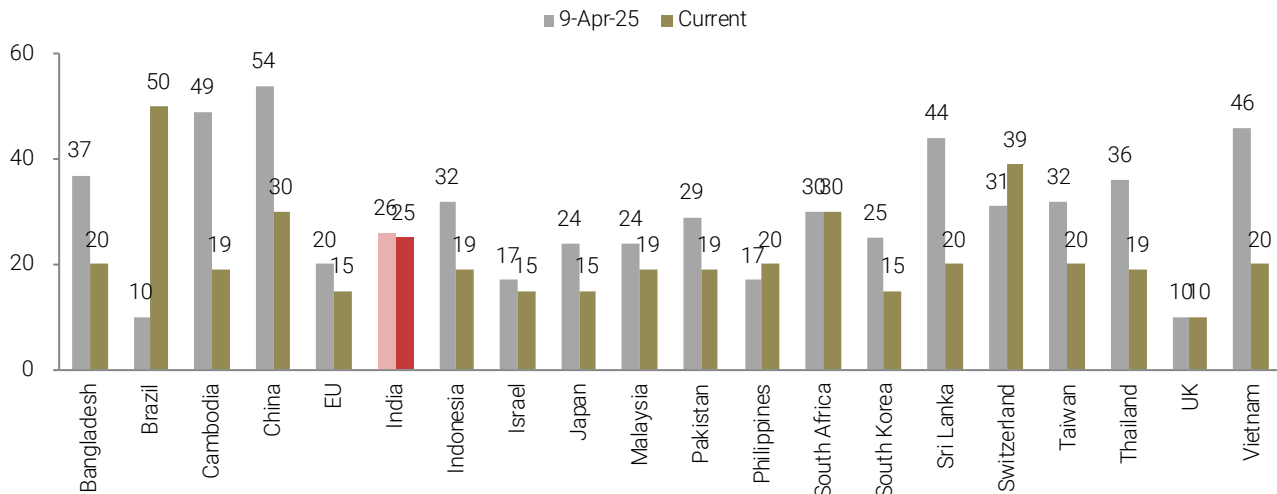
	2019	2020	2021	2022	2023	2024	2025	2026E		
								Oil@60	Oil@70	Oil@80
GDP	2,705	2,835	2,674	3,167	3,345	3,638	3,911	4,148	4,148	4,148
Current account balance	(57)	(25)	24	(39)	(67)	(26)	(23)	(23)	(41)	(58)
CAB/GDP (%)	(2.1)	(0.9)	0.9	(1.2)	(2.0)	(0.7)	(0.6)	(0.6)	(1.0)	(1.4)
Trade balance	(180)	(158)	(102)	(189)	(265)	(245)	(287)	(285)	(303)	(321)
Trade balance/GDP (%)	(6.7)	(5.6)	(3.8)	(6.0)	(7.9)	(6.7)	(7.3)	(6.9)	(7.3)	(7.7)
- Exports	337	320	296	429	456	441	442	438	443	449
- oil exports	47	41	26	67	97	84	63	56	61	67
- non-oil exports	291	279	270	362	359	357	378	382	382	382
- Imports	518	478	398	619	721	686	729	723	746	769
- oil imports	141	131	83	162	209	179	186	157	180	203
- non-oil imports	377	347	316	457	512	508	543	566	566	566
- gold imports	33	28	35	46	35	46	75	67	67	67
Invisibles (net)	123	133	126	151	198	219	264	262	262	262
- Services	82	85	89	108	143	163	189	190	190	190
- software	78	85	90	110	131	142	160	160	160	160
- non-software	4	0.3	(1)	(2)	12	21	29	31	31	31
- Transfers	70	75	73	80	101	106	123	125	125	125
- Income (net)	(29)	(27)	(36)	(37)	(46)	(50)	(48)	(53)	(53)	(53)
Capital account	54	83	64	86	59	89	17	33	33	33
Capital account/GDP (%)	2.0	2.9	2.4	2.7	1.8	2.3	0.4	0.8	0.8	0.8
Foreign investment	30	44	80	22	23	54	5	6	6	6
- FDI	31	43	44	39	28	10	1	6	6	6
- FPI	(1)	1	36	(17)	(5)	44	4	—	—	—
- Equities	3	(0)	39	(16)	(6)	25	(16)	10	10	10
- Debt	(4)	1	(0)	2	1	19	19	(10)	(10)	(10)
Banking capital	7	(5)	(21)	7	21	41	(10)	12	12	12
- NRI deposits	10	9	7	3	9	15	16	15	15	15
Short-term credit	2	(1)	(4)	20	7	(1)	7	5	5	5
ECBs	10	23	(0)	8	(4)	(0)	16	5	5	5
External assistance	3	4	11	5	6	7	6	5	5	5
Other capital account items	1	18	(2)	24	7	(12)	(7)	—	—	—
E&O	(0)	1	(0)	—	(1)	0	2	—	—	—
Overall balance	(3.3)	59.5	87.3	47.5	(9.1)	63.7	(5.0)	10.1	(7.6)	(25.3)
Memo items										
Average USD/INR	69.9	70.9	74.2	74.5	80.3	82.8	84.6	86.1	86.1	86.1
Average Brent (US\$/bbl)	70.0	60.9	44.8	80.0	95.4	82.9	78.2	60.0	70.0	80.0

Source: RBI, Kotak Institutional Equities estimates

- **Global.** We see a moderate slowdown in global GDP growth in CY2025 given (1) weak household sentiment in most of the major economies and (2) fragile investment outlook due to unstable geopolitical and trade conditions. As such, many of the larger developed economies face structural headwinds in the form of (1) ageing demographics and (2) declining productivity.
- **Weak global growth outlook.** We expect global GDP growth to stay muted even as (1) the global economy may have avoided the worst-case scenario of a sharp slowdown on the back of the high reciprocal tariffs announced by the US administration on April 2, 2025; the import tariffs implemented by the US on its various trading partners in recent weeks (see Exhibit 51) are more moderate versus the reciprocal tariffs announced on April 2, 2025 but they are still on the higher side and (2) the US may have avoided a sharp slowdown (or even a recession) from likely higher inflation arising from the high proposed reciprocal tariffs. Nonetheless, we expect US inflation to stay on the higher side and US growth to be weak.

The US has implemented high tariffs on imports from various countries

Exhibit 51: Reciprocal tariffs imposed by US on major countries (%)



Notes:

(a) US has imposed another 25% penalty on India, above 25% tariffs, effective from August 27, 2025.

Source: US government, Kotak Institutional Equities

We do not see sufficient triggers for a recovery in global growth given various challenges in the major economic blocs. (1) China has been grappling with deflation, weak household demand and declining real estate demand for an extended period of time although there are some signs of stability in various parts of the Chinese economy, (2) Europe has been facing persistent weak demand and high employment for a long time and (3) the US is seeing declining household confidence, weakening employment conditions and weak real estate demand. Exhibits 52-54 show the economic parameters of the various economic blocs.

Chinese economy has been weak for a while

Exhibit 52: Trend in key economic variables for China

Monthly indicators	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Economic activity														
Consumer confidence (X)	86.2	86.0	85.8	85.7	86.9	86.2	86.4	87.5	88.4	87.5	87.8			
Credit growth (yoy, %)	8.8	8.7	8.5	8.1	8.0	7.7	7.6	7.5	7.3	7.4	7.2	7.1	7.1	
Exports growth (yoy, %)	7.9	6.7	8.3	1.5	12.5	7.0	10.5	5.5	(2.3)	12.2	7.9	4.5	5.6	7.1
Fixed assets investment (yoy, %)	0.9	0.6	0.7	1.1	0.9	1.1	2.3	3.5	3.5	3.1	2.5	2.1	1.3	
Imports growth (yoy, %)	(2.7)	7.3	0.5	0.3	(2.3)	(3.9)	1.1	(16.3)	1.6	(4.5)	(0.3)	(3.1)	0.8	3.5
Money supply M2 growth (yoy, %)	6.2	6.3	6.3	6.8	7.5	7.5	7.3	7.0	7.0	7.0	8.0	7.9	8.3	
PMI manufacturing (X)	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	49.5
PMI non-manufacturing (X)	50.5	50.2	50.3	50.0	50.2	50.0	52.2	50.2	50.4	50.8	50.4	50.3	50.5	50.1
Retail sales growth (yoy, %)	2.0	2.7	2.1	3.2	4.8	3.0	3.7	—	—	4.9	4.1	5.4	3.8	
Total outstanding social financing (yoy, %)	8.8	8.3	8.1	7.8	7.7	7.4	7.2	7.2	7.2	7.2	7.1	7.0		
Inflation														
CPI (yoy, %)	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	(0.7)	(0.1)	(0.1)	(0.1)	0.1	0.0
Core CPI (yoy, %)	0.6	0.4	0.3	0.1	0.2	0.3	0.4	0.6	(0.1)	0.5	0.5	0.6	0.7	0.8
House price inflation (yoy, %)	(4.5)	(4.9)	(5.3)	(5.7)	(5.9)	(5.7)	(5.3)	(5.0)	(4.8)	(4.5)	(4.0)	(3.5)	(3.2)	
Real estate														
Real estate climate index (X)	92.1	92.2	92.3	92.4	92.5	92.6	92.8	93.4	93.8	94.0	93.9	93.7		
Residential floor space sold growth (yoy, %)	(22.2)	(21.2)	(20.4)	(19.2)	(17.7)	(16.0)	(14.1)	(3.7)	(3.7)	(2.4)	(2.7)	(3.2)	(4.4)	
Quarterly indicators														
Current account/GDP (%)	1.2	1.2	1.6	2.3	2.9									
Real GDP growth (yoy, %)	5.3	4.7	4.6	5.4	5.4									

Source: Bloomberg, CEIC, Kotak Institutional Equities

Eurozone economy has been weak for the past several months

Exhibit 53: Trend in key economic variables for Eurozone

Monthly indicators	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Economic activity														
Consumer confidence (X)	(13.8)	(12.9)	(13.3)	(12.8)	(12.3)	(13.6)	(14.3)	(14.1)	(13.7)	(14.5)	(16.6)	(15.1)	(15.3)	(14.7)
Business confidence (X)	(0.5)	(0.7)	(0.7)	(0.8)	(0.9)	(0.7)	(0.9)	(0.9)	(0.7)	(0.7)	(0.7)	(0.6)	(0.8)	(0.7)
Consumer Credit growth (yoy, %)	1.7	2.0	1.9	1.8	1.7	1.5	2.2	1.9	1.7	1.8	2.0	1.9	2.9	
Exports growth (yoy, %)	(5.9)	10.3	(1.3)	0.6	1.7	(1.3)	4.1	4.5	7.0	15.7	(1.6)	0.1		
Imports growth (yoy, %)	(7.5)	5.0	0.3	(0.2)	3.8	1.3	4.5	11.0	7.2	11.5	0.3	(2.0)		
Private sector credit growth (yoy, %)	0.1	0.0	0.4	0.5	0.6	0.6	1.2	1.6	1.7	1.7	1.8	1.7	1.5	
Industrial production (yoy, %)	(4.1)	(2.3)	(0.6)	(2.2)	(1.1)	(2.0)	(1.8)	(0.5)	1.2	3.6	0.2	3.7		
Money supply M2 growth (yoy, %)	1.4	1.2	1.9	1.9	2.3	3.1	2.5	2.9	3.0	2.9	3.3	3.6	2.6	
PMI non-manufacturing (X)	52.8	51.9	52.9	51.4	51.6	49.5	51.6	51.3	50.6	51.0	50.1	49.7	50.5	51.0
PMI manufacturing (X)	45.8	45.8	45.8	45.0	46.0	45.2	45.1	46.6	47.6	48.6	49.0	49.4	49.5	49.8
Retail sales growth (yoy, %)	(0.7)	0.3	2.7	3.3	2.3	1.8	2.2	1.9	1.9	2.1	2.7	1.9	3.1	
Passenger cars (yoy, %)	3.7	(0.2)	(19.5)	(6.6)	0.2	(2.9)	4.1	(2.9)	(3.3)	(1.0)	1.1	1.5	(7.5)	
Employment														
Unemployment rate (%)	6.4	6.4	6.3	6.3	6.2	6.2	6.2	6.2	6.2	6.4	6.2	6.2	6.2	
Inflation														
CPI (yoy, %)	2.5	2.6	2.2	1.7	2.0	2.2	2.4	2.5	2.3	2.2	2.2	1.9	2.0	2.0
Core CPI (yoy, %)	2.9	2.9	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.4	2.7	2.3	2.3	2.3
Real estate														
Construction output	(1.5)	(2.4)	(2.4)	(2.3)	(1.2)	0.2	0.4	0.1	0.2	(1.4)	4.7	2.9		
Quarterly indicators														
Current account/GDP (%)	2.9	2.2	2.6	2.8	2.9	2.6	3.2							
Real GDP growth (yoy, %)	0.0	0.1	0.5	0.6	0.9	1.2	1.5							
Wage growth (yoy, %)	5.3	3.4	5.1	4.7	4.5	3.7	3.4							

Source: Bloomberg, CEIC, Kotak Institutional Equities

The US economy has started to weaken in recent months

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

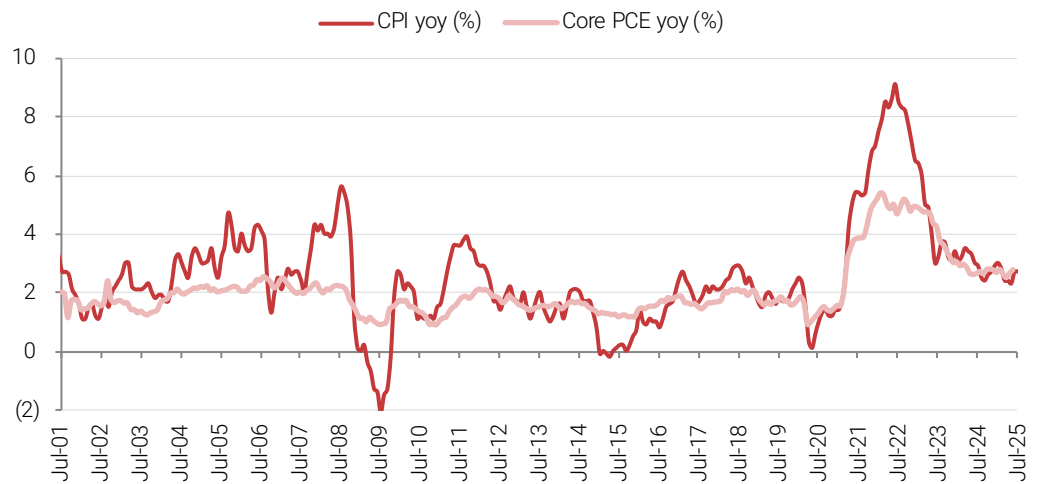
	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Economic activity														
Conference Board consumer confidence (X)	97.8	101.9	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	86	98.4	95.2	97.2
Industrial production (yoy, %)	0.9	(0.7)	0.0	(0.7)	(0.5)	(0.9)	0.5	1.8	1.5	1.3	1.4	0.6		
ISM manufacturing (X)	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7	48.5	49.0	48.0
ISM non-manufacturing (X)	49.2	51.4	51.6	54.5	55.8	52.5	54.0	52.8	53.5	50.8	51.6	49.9	50.8	50.1
Personal savings rate (% of disposable income)	4.8	4.3	4.2	3.8	4.0	3.9	3.5	4.1	4.4	4.3	5.0	4.5	4.5	
Retail sales excl. automobiles (sa, yoy, %)	1.7	2.8	2.0	2.2	2.5	3.1	3.5	3.6	4.1	3.4	2.7	3.0		
Employment														
Average private earnings (yoy, %)	3.9	3.6	4.0	3.9	4.0	4.0	3.9	4.1	4.0	3.8	3.8	3.9	3.7	3.9
Job openings (mn)	7.9	7.7	7.9	7.4	7.7	8.1	7.6	7.7	7.6	7.2	7.4	7.7	7.4	
Jobless claims ('000)	238	250	231	225	218	225	211	219	221	219	241	247	233	218
Non-farm payrolls ('000)	87	88	71	240	44	261	323	111	102	120	158	19	14	73
Participation rate (%)	62.6	62.7	62.7	62.7	62.6	62.5	62.5	62.6	62.4	62.5	62.6	62.4	62.3	62.2
Unemployment rate (%)	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2	4.1	4.2
Inflation														
Core PCE (yoy, %)	2.6	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.8	2.6	2.5	2.7	2.8	
CPI (yoy, %)	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.4	2.3	2.7	2.7
Core CPI (yoy, %)	3.3	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	3.1
Real estate														
Housing starts (SAAR, '000)	1,327	1,265	1,391	1,357	1,352	1,295	1,514	1,358	1,490	1,355	1,398	1,263	1,321	
Change in housing starts (yoy, %)	(7)	(13)	6	(1)	(1)	(14)	(0)	(2)	(4)	3	1	(4)	(0)	
New homes sold	671	710	693	717	621	675	718	662	642	659	722	623	627	
New home sales (NSA, yoy, %)	(0.4)	1.1	7.4	5.3	(8.8)	10.7	11.7	(2.8)	(2.4)	(4.8)	0.4	(6.3)	(6.6)	
Median price of new homes (US\$, '000)	414	429	406	421	426	398	423	430	415	404	4,411	427		
S&P house price index (yoy, %)	6.4	5.9	5.2	4.6	4.3	4.4	4.5	4.7	4.5	4.1	3.4	2.7		
Quarterly indicators														
CAD/GDP (%)	(3.3)	(3.6)	(3.8)	(4.6)										
GFD/GDP (%)	(5.6)	(6.3)	(6.9)	(7.0)	(6.3)									
Real GDP (SAAR, qoq, %)	3.0	3.1	2.4	(0.5)	3.0									

Source: Bloomberg, CEIC, Kotak Institutional Equities

- **Moderating inflation and bond yields.** US inflation has been steady in the past few months but is still above the 2% target of the US Fed (see Exhibit 55) but it may inch over the next few months as the high reciprocal tariffs come into effect over the next few months. However, inflation in other major advanced and emerging economies has moderated to comfortable levels (see Exhibits 56-57). The weak inflation prints reflect weak demand conditions though.

Inflation has stayed above 2% in recent months in the US

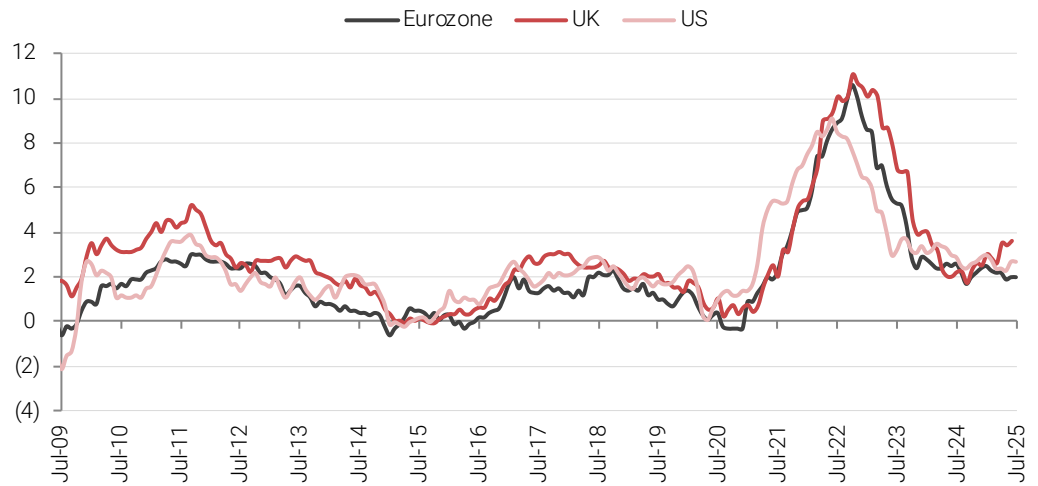
Exhibit 55: CPI and core PCE of US, calendar year-ends, 2001-25 (%)



Source: Bloomberg, Kotak Institutional Equities

Inflation has seen a modest uptick in UK and US in recent months

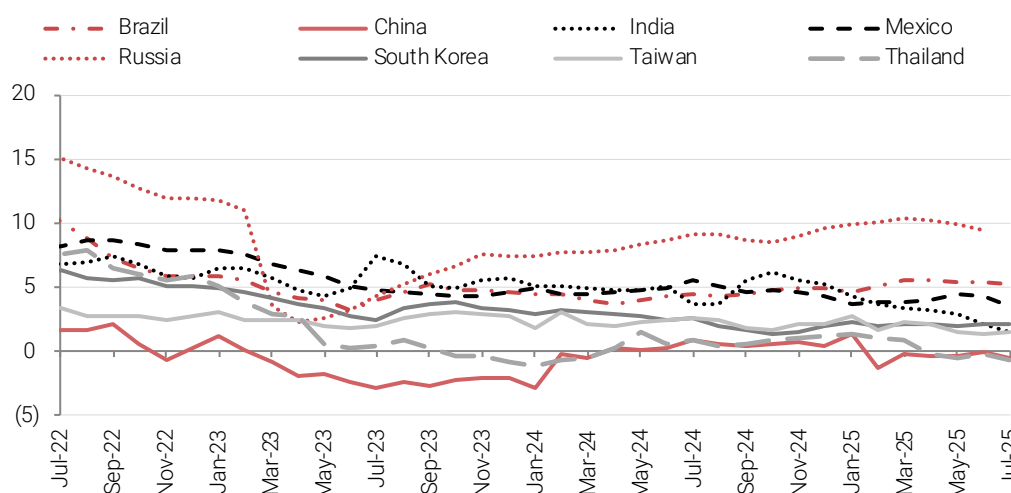
Exhibit 56: CPI inflation in major DMs, calendar year-ends, 2009-25 (%)



Source: Bloomberg, Kotak Institutional Equities

Inflation has been at comfortable levels in most EMs

Exhibit 57: CPI inflation across select EMs, December calendar year-ends (%)



Source: CEIC, Kotak Institutional Equities

The US bond market is now pricing in three rate cuts in the US federal funds rate of 25 bps each in 2H CY25 rate (see Exhibit 58) versus two rate cuts of 25 bps each in April-May 2025. US bond yields (see Exhibit 59) have moved down over the past few weeks, as inflation fears have receded and growth concerns emerged with weak employment data for the past few months. DM bond yields (see Exhibit 60) have also moderated from high levels although they are significantly higher than trough levels on (1) relaxation of fiscal debt limits in Germany and (2) increase in policy rates in Japan on the back of higher prices and wages in Japan.

Market expects Fed funds rate to decline gradually in CY2025

Exhibit 58: Implied probabilities of upper end of Fed funds rate, August 2025 (%)

	Federal funds rate (%)						
	2.75	3.00	3.25	3.50	3.75	4.00	4.25
17-Sep-25						4.2	95.8
29-Oct-25					2.8	64.9	32.3
10-Dec-25				2.3	53.3	38.4	6.0
28-Jan-26			1.1	27.1	46.0	22.6	3.1
18-Mar-26		0.6	15.4	37.5	33.1	11.9	1.4
29-Apr-26	0.2	4.6	21.4	36.4	27.4	9.1	1.0
17-Jun-26	2.6	13.7	29.5	31.5	17.5	4.7	0.5
29-Jul-26	5.8	18.2	30.1	27.5	13.8	3.5	0.3
16-Sep-26	10.2	22.4	29.2	22.6	10.1	2.4	0.2
28-Oct-26	12.2	23.6	28.1	20.6	8.8	2.0	0.2
9-Dec-26	11.9	23.1	27.9	20.9	9.3	2.3	0.3

Source: CME, Kotak Institutional Equities

US bond yields have been quite volatile but have stayed at high levels

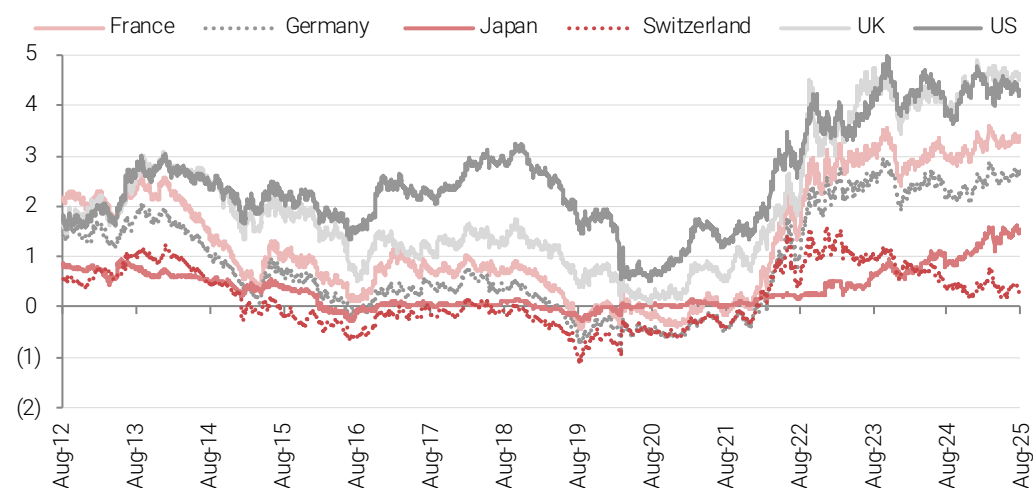
Exhibit 59: Trend in 10-year US bond yield (%)



Source: Bloomberg, Kotak Institutional Equities

Global bond yields have been volatile, following the movements in US yields

Exhibit 60: Trend in 10-year benchmark yields across major DMs (%)

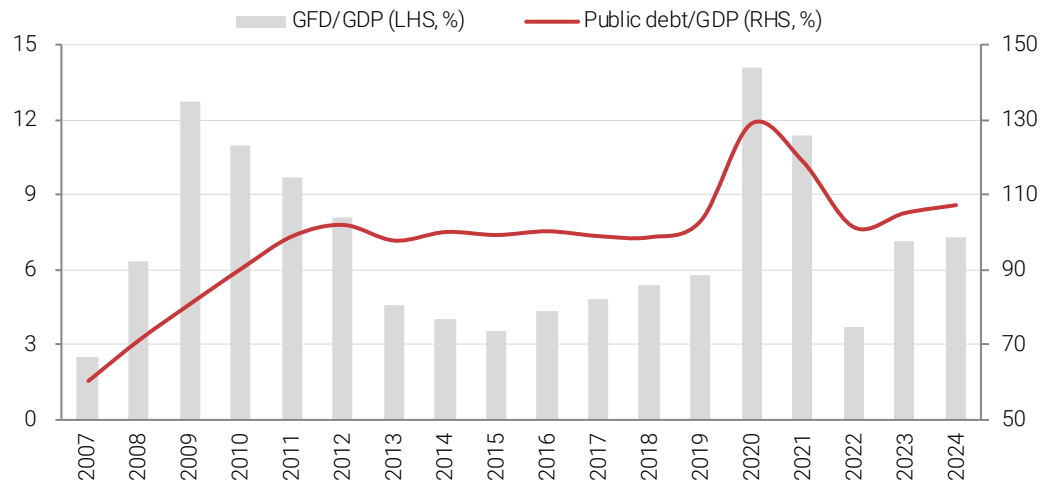


Source: Bloomberg, Kotak Institutional Equities

However, the likely increase in the US's fiscal deficit and public debt (see Exhibit 61) may keep long-dated US bond yields on the higher side. The One Big Beautiful Bill (budget reconciliation law) signed into law on July 4, 2025 would (1) make the tax cuts of the Tax Cuts and Jobs Act of 2017 permanent and (2) increase spending on defense and immigration enforcement. This could result in a further increase in the US's fiscal deficit and public debt despite higher customs revenues from higher import tariffs on imports. The Congressional Budget Office has estimated that the bill could add US\$3.4 tn to US public debt over the next decade.

The US has been running very high fiscal deficits, leading to increase in public debt

Exhibit 61: Public debt/GDP, CAD/GDP and GFD/GDP of US, calendar year-ends, 2007-24 (%)



Source: BIS, IMF, Kotak Institutional Equities

Earnings: Modest growth but with downside risks

We expect net profits of the Nifty-50 Index to grow 9.6% in FY2026 and 17.5% in FY2027 following on a modest 6.5% growth in FY2025 (see Exhibit 62). Our FY2026E earnings estimates for Nifty-50 Index has seen moderate cuts of 2.5% since the beginning of the 1QFY26 earnings season. We do not rule out further downgrades given (1) persistent weakness in consumption, (2) slowdown in investment, especially government and household spending and (3) headwinds to exports.

We expect net income of the Nifty-50 Index to grow 9.6% in FY2026E and 17.5% in FY2027E

Exhibit 62: Valuation summary of Nifty-50 sectors (full-float basis), March fiscal year-ends, 2025-27E (based on current constituents)

	Mcap. (US\$ bn)	Adj. mcap. (US\$ bn)	Earnings growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			Div. yield (%)			RoE (%)		
			2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E
Automobiles & Components	176	94	11.5	2.6	15.9	23.0	22.4	19.3	12.6	12.5	10.7	4.5	4.0	3.5	1.3	1.5	1.7	19.5	17.7	18.1
Banks	468	400	10.5	(4.4)	24.1	17.3	18.0	14.5	—	—	—	2.6	2.3	2.0	1.0	1.2	1.3	14.9	12.6	14.0
Capital Goods	120	72	33.6	11.7	23.8	38.9	34.9	28.2	25.7	23.5	20.2	5.6	4.9	4.3	0.6	0.7	0.9	14.5	14.1	15.2
Commodity Chemicals	28	13	(26.2)	4.6	14.1	60.2	57.5	50.4	39.9	38.0	34.4	12.5	11.5	10.7	1.0	1.1	1.3	20.8	20.1	21.2
Construction Materials	63	28	(23.8)	52.7	22.9	54.6	35.8	29.1	17.8	13.7	12.2	3.3	3.1	2.8	0.5	0.6	0.6	6.0	8.6	9.7
Consumer Staples	161	85	(5.2)	5.3	10.4	41.4	39.4	35.6	30.1	28.3	25.5	10.0	9.8	9.4	2.4	2.2	2.5	24.1	24.9	26.5
Diversified Financials	133	60	17.9	23.4	23.4	31.5	25.6	20.7	—	—	—	3.1	2.9	2.6	0.5	0.5	0.6	10.0	11.3	12.4
Electric Utilities	68	33	7.3	3.6	7.6	15.3	14.8	13.7	10.2	9.4	9.2	2.1	1.9	1.8	2.7	2.7	2.6	13.8	13.1	12.9
Health Care Services	13	9	61.1	33.7	24.3	77.8	58.2	46.8	38.0	31.0	25.4	13.7	11.4	9.4	0.2	0.3	0.3	17.6	19.7	20.2
IT Services	284	130	8.9	4.3	9.7	22.8	21.8	19.9	14.9	14.3	13.0	6.7	6.3	5.9	3.4	3.6	4.0	29.4	28.9	29.9
Insurance	40	19	21.9	16.3	16.3	83.9	72.2	62.0	—	—	—	11.3	10.3	9.2	0.2	0.3	0.3	13.5	14.2	14.9
Internet Software & Services	35	25	50.1	81.8	143.6	583.0	320.7	131.7	447.3	205.1	83.7	10.1	9.6	8.8	—	—	—	1.7	3.0	6.7
Metals & Mining	69	37	5.7	84.6	17.3	26.2	14.2	12.1	10.0	7.4	6.6	2.1	1.8	1.6	1.0	1.3	1.5	7.9	13.0	13.5
Oil, Gas & Consumable Fuels	273	126	(10.4)	19.0	12.9	16.9	14.2	12.6	9.4	7.8	6.7	1.9	1.7	1.5	1.6	1.6	1.7	11.0	11.8	12.0
Pharmaceuticals	71	39	16.0	(4.5)	8.8	27.5	28.8	26.5	19.1	18.6	17.0	4.6	4.1	3.6	0.8	0.7	0.8	16.5	14.1	13.6
Retailing	57	30	20.3	26.1	18.3	94.6	75.1	63.4	56.4	46.2	38.9	29.3	22.2	17.3	0.2	0.2	0.3	31.0	29.6	27.3
Telecommunication Services	128	60	80.1	46.1	36.6	55.2	37.8	27.7	13.5	10.5	8.7	9.9	8.5	7.1	0.8	1.0	1.3	17.9	22.6	25.8
Transportation	32	11	26.1	19.1	12.0	24.8	20.8	18.6	16.8	14.4	12.3	4.5	3.8	3.2	0.5	0.7	0.8	18.2	18.3	17.5
Nifty-50 Index	2,221	1,273	6.5	9.6	17.5	24.5	22.3	19.0	14.4	12.6	11.1	3.6	3.2	2.9	1.4	1.5	1.7	14.6	14.4	15.2
Nifty-50 Index (ex-energy)	1,948	1,147	11.1	7.6	18.7	26.1	24.2	20.4	16.5	14.6	12.9	4.1	3.7	3.3	1.4	1.5	1.7	15.7	15.2	16.1
Nifty-50 Index (ex-banks)	1,754	873	4.9	15.6	15.2	27.5	23.8	20.7	14.4	12.6	11.1	4.0	3.6	3.2	1.5	1.6	1.8	14.4	15.1	15.7

Notes:

(a) We use consensus numbers for Adani Enterprises, Jio Financial Services and Kotak Mahindra Bank.

Source: Kotak Institutional Equities estimates

Exhibit 63 gives the breakdown of net profits and incremental net profits of the Nifty-50 Index by sectors while Exhibit 64 gives the breakdown of net profits and incremental net profits of our coverage universe (295 stocks) by sectors. The sector-wise trends for the broader KIE coverage are very similar to the sector-wise trends for the Nifty-50 Index. We note that the quality of earnings is quite weak in FY2026 with commodities (18% of Nifty-50 Index market cap.) contributing 68% of the incremental profit for Nifty-50 Index.

Diversified financials, metals & mining, oil, gas & consumable fuels and telecommunication services to provide bulk of the incremental profits for FY2026 of the Nifty-50 Index

Exhibit 63: Break-up of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2021-27E (based on current constituents)

	Net profits (Rs bn)							Contribution (%)					Incremental profits					
	2021	2022	2023	2024	2025	2026E	2027E	2023	2024	2025	2026E	2027E	2025		2026E		2027E	
	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles & Components	150	70	279	600	669	686	795	4	8	8	8	8	69	14	18	2	109	7
Tata Motors	(14)	(107)	7	206	225	184	248	—	3	3	2	2	19	4	(41)	(5)	63	4
Banks	992	1,354	1,860	2,148	2,373	2,269	2,817	29	29	30	26	27	225	46	(104)	(14)	548	36
Axis Bank	66	130	212	249	264	239	300	3	3	3	3	3	15	3	(24)	(3)	61	4
HDFC Bank	431	507	603	608	673	736	907	9	8	8	8	9	65	13	62	8	171	11
ICICI Bank	162	233	319	409	479	480	536	5	5	6	6	5	70	14	1	—	56	4
State Bank of India	204	317	502	611	709	597	752	8	8	9	7	7	98	20	(112)	(15)	155	10
Capital Goods	99	117	158	202	270	301	373	2	3	3	3	4	68	14	32	4	72	5
Commodity Chemicals	31	31	42	55	40	42	48	1	1	1	—	—	(14)	(3)	2	—	6	—
Construction Materials	100	128	120	132	101	154	189	2	2	1	2	2	(32)	(6)	53	7	35	2
Consumer Staples	240	271	318	360	341	359	396	5	5	4	4	4	(19)	(4)	18	2	37	2
Diversified Financials	115	145	239	314	370	457	563	4	4	5	5	5	56	12	87	11	107	7
Electric Utilities	290	301	324	364	391	405	436	5	5	5	5	4	26	5	14	2	31	2
Health Care Services	1	9	8	9	14	19	24	—	—	—	—	—	5	1	5	1	5	—
Internet Software & Services	(8)	(12)	(10)	4	5	10	23	(0)	—	—	—	—	2	—	4	1	14	1
IT Services	810	917	975	1,004	1,094	1,141	1,252	15	13	14	13	12	90	18	47	6	111	7
Insurance	28	27	31	35	42	49	57	—	—	1	1	1	8	2	7	1	8	1
Metals & Mining	222	774	248	219	231	427	501	4	3	3	5	5	12	3	196	26	74	5
Tata Steel	85	426	86	34	24	144	168	1	—	—	2	2	(10)	(2)	120	16	24	2
Oil, Gas & Consumable Fuels	718	1,229	1,413	1,578	1,414	1,682	1,899	22	21	18	19	19	(165)	(34)	269	35	216	14
Coal India	127	174	281	374	353	373	370	4	5	4	4	4	(21)	(4)	20	3	(3)	(0)
ONGC	156	476	465	509	364	528	567	7	7	5	6	6	(144)	(30)	164	21	39	3
Reliance Industries	435	579	667	696	696	781	961	10	9	9	9	9	—	—	84	11	180	12
Pharmaceuticals	110	135	160	196	227	217	236	3	3	3	2	2	31	6	(10)	(1)	19	1
Retailing	8	23	37	44	53	67	79	1	1	1	1	1	9	2	14	2	12	1
Telecommunication Services	(29)	26	90	113	204	297	406	1	2	3	3	4	91	19	94	12	109	7
Transportation	43	56	83	90	113	135	151	1	1	1	2	1	24	5	22	3	16	1
Nifty-50 Index	3,919	5,601	6,375	7,466	7,952	8,717	10,246	100	100	100	100	100	486	100	765	100	1,529	100
Nifty-50 change (%)	10.4	42.9	13.8	17.1	6.5	9.6	17.5											
Nifty-50 Index ex-HPCL & COAL change (%)	3,786	5,365	6,059	7,011	7,559	8,283	9,835											
Nifty-50 Index ex-HPCL & COAL change (%)	13.0	41.7	12.9	15.7	7.8	9.6	18.7											
Nifty-50 EPS (Free-float)	536	730	813	988	1,014	1,096	1,300											

Notes:

(a) We use consensus numbers for Adani Enterprises, Jio Financial Services and Kotak Mahindra Bank.

(b) We exclude ONGC's ownership of HPCL for ex-HPCL computation.

Source: Bloomberg, Kotak Institutional Equities estimates

Diversified financials, metals & mining, oil, gas & consumable fuels and telecommunication services sectors to drive incremental profits of KIE coverage universe in FY2026

Exhibit 64: Break-up of net profits of the KIE universe across sectors, March fiscal year-ends, 2022-27E

	Net profits (Rs bn)						Contribution (%)					Incremental profits					
												2025		2026E		2027E	
	2022	2023	2024	2025	2026E	2027E	2023	2024	2025	2026E	2027E	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles & Components	184	446	872	946	1,006	1,173	5	8	8	8	8	74	13	59	4	168	8
Banks	1,371	2,024	2,653	3,023	2,893	3,477	23	23	25	22	22	370	66	(130)	(9)	583	27
Capital Goods	175	221	285	319	393	501	3	3	3	3	3	34	6	74	5	107	5
Capital Markets	56	59	80	94	103	118	1	1	1	1	1	14	2	9	1	15	1
Commercial & Professional Services	4	5	3	1	4	5	—	—	—	—	—	(2)	(0)	3	—	1	—
Commodity Chemicals	80	56	86	64	70	79	1	1	1	1	1	(22)	(4)	6	—	9	—
Construction Materials	224	190	233	157	252	307	2	2	1	2	2	(75)	(14)	94	6	55	3
Consumer Durables & Apparel	44	48	49	64	74	93	1	—	1	1	1	15	3	10	1	19	1
Consumer Staples	369	428	489	481	514	574	5	4	4	4	4	(8)	(2)	34	2	60	3
Diversified Financials	291	434	537	638	773	922	5	5	5	6	6	101	18	135	9	149	7
Electric Utilities	381	423	465	497	563	638	5	4	4	4	4	32	6	66	4	75	3
Electronic Manufacturing Services	5	7	9	15	25	37	—	—	—	—	—	7	1	10	1	12	1
Fertilizers & Agricultural Chemicals	50	46	2	23	40	47	1	—	—	—	—	21	4	17	1	7	—
Gas Utilities	165	109	159	161	159	162	1	1	1	1	1	3	0	(2)	(0)	3	—
Health Care Services	33	42	47	58	72	93	—	—	—	1	1	11	2	14	1	21	1
Hotels & Restaurants	(4)	18	19	22	40	54	—	—	—	—	—	4	1	17	1	14	1
Insurance	71	418	482	575	615	658	5	4	5	5	4	93	17	41	3	43	2
Internet Software & Services	(52)	(44)	(7)	(8)	(2)	38	(1)	(0)	(0)	(0)	—	(2)	(0)	6	—	39	2
IT Services	1,021	1,099	1,141	1,240	1,303	1,443	13	10	10	10	9	99	18	63	4	140	6
Media	23	21	25	24	26	30	—	—	—	—	—	(1)	(0)	3	—	4	0
Metals & Mining	1,407	579	502	662	913	1,043	7	4	6	7	7	160	29	250	17	130	6
Oil, Gas & Consumable Fuels	1,660	1,504	2,477	1,809	2,187	2,323	17	22	15	16	15	(668)	(120)	378	26	136	6
Pharmaceuticals	281	272	339	398	426	494	3	3	3	3	3	59	11	28	2	68	3
Real Estate	65	96	117	169	194	267	1	1	1	1	2	52	9	25	2	73	3
Renewable Energy	1	4	11	28	50	69	—	—	—	—	—	17	3	22	2	19	1
Retailing	42	67	81	94	115	138	1	1	1	1	1	13	2	21	1	23	1
Specialty Chemicals	88	89	84	89	105	127	1	1	1	1	1	6	1	16	1	22	1
Telecommunication Services	(180)	(122)	(134)	0	135	267	(1)	(1)	—	1	2	134	24	134	9	132	6
Transportation	(0)	88	194	212	283	335	1	2	2	2	2	18	3	71	5	52	2
KIE universe	7,855	8,629	11,299	11,855	13,330	15,510	100	100	100	100	100	556	100	1,475	100	2,179	100
KIE universe change (%)	9.9	30.9	4.9	12.4	16.3												
KIE universe (ex-OMC & COAL)	7,253	8,374	10,021	11,127	12,454	14,743											
KIE universe change (ex-OMC & COAL) (%)	15.4	19.7	11.0	11.9	18.4												

Source: Kotak Institutional Equities estimate

We discuss our earnings projections by sectors and the key drivers of earnings through FY2027 below. We also examine the key upside and downside risks to earnings for the major sectors and stocks.

► **Automobiles and components.** We expect net profits of the automobiles & components stocks in the Nifty-50 Index to grow a modest 2.6% in FY2026 and a strong 16% in FY2027 after a decent increase of 11.5% in FY2025. The modest growth in FY2026E net profits reflects our assumptions of (1) muted volume growth in the 4W and PV segments and a moderate 6-7% growth in the 2W and tractors segment, (2) broadly stable profitability at high levels and (3) a modest decline in the net profits of TTMT. The strong growth in FY2027E reflects expectations of (1) a strong recovery in volumes due to stronger domestic demand for 4Ws, on likely implementation of the eighth pay commission recommendations by 2HFY27 and (2) stronger global demand for 4Ws (JLR and exports) after a likely turbulent FY2026 on account of an uncertain global trade and tariff situation in 1HFY26.

However, we would not rule out downside risks to our FY2026E and FY2027E net income estimates across the automobile segments from (1) weaker-than-expected volumes in general and for JLR, in particular, given challenging global demand conditions and (2) lower-than-expected profitability due to higher competitive intensity across all segments. This latter is particularly true for the 4W segment given likely low volume growth and meaningful capacity additions by the major players in FY2026.

■ **Volumes.** We model (1) a moderate increase in volumes in the 2W and 4W segments, (2) a modest increase in CV segment 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. 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, weak household income growth may limit the positive impacts of lower income tax rate announced in the FY2026 budget. We expect a moderate boost to entry-level PV (hatchback segment) sales although it is not visible as yet. In the case of tractors, (1) improved cash flows in the rural economy over the past 7-8 months from decent kharif (summer) and rabi (winter) crops in FY2025 and (2) normal monsoons in 2025 will likely support tractor demand.

Exhibit 65 gives our volume assumptions for the major companies and categories over FY2019-28E. Exhibits 66-67 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 FY2026-28E

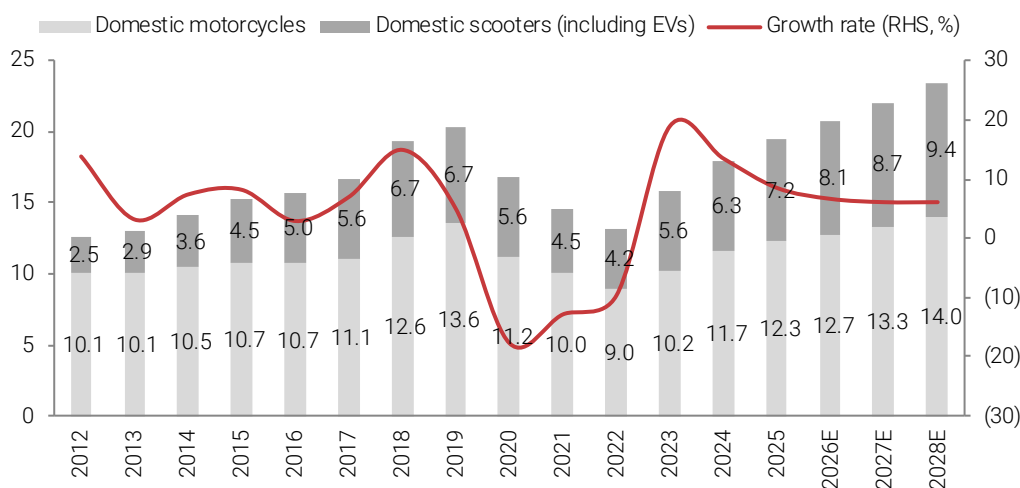
Exhibit 65: Domestic PV sales and 2W sales, March fiscal year-ends, 2021-28E

	2021	2022	2023	2024	2025	2026E	2027E	2028E	Yoy growth (%)		
Domestic sales volumes (units)									2026E	2027E	2028E
Ashok Leyland	92,714	117,312	180,916	182,700	179,842	187,281	195,958	205,134	4.1	4.6	4.7
Bajaj Auto											
Two wheelers	1,809,375	1,641,084	1,805,883	2,237,193	2,291,099	2,318,796	2,418,237	2,541,101	1.2	4.3	5.1
Three wheelers	109,292	160,723	300,734	464,138	479,506	496,012	515,892	536,150	3.4	4.0	3.9
Eicher Motors											
Two wheelers	573,728	521,236	734,840	834,795	902,757	987,617	1,052,901	1,122,562	9.4	6.6	6.6
Commercial vehicles	36,243	48,651	74,690	81,839	84,980	89,205	93,664	97,695	5.0	5.0	4.3
Hero Motocorp (motorcycles)	5,156,401	4,337,634	4,797,347	5,020,079	5,218,446	5,297,034	5,535,769	5,785,266	1.5	4.5	4.5
Hyundai	471,535	481,500	567,546	614,717	650,896	684,974	720,925	758,859	5.2	5.2	5.3
Maruti Suzuki	1,361,722	1,414,277	1,706,831	1,852,256	1,901,481	1,914,839	2,019,734	2,127,637	0.7	5.5	5.3
M&M (passenger vehicles)	157,216	225,895	359,253	459,877	551,487	620,343	665,491	710,573	12.5	7.3	6.8
Tata Motors											
Commercial vehicles	242,490	322,182	393,317	378,060	358,570	365,741	384,151	403,523	2.0	5.0	5.0
Passenger vehicles	222,025	370,372	538,640	570,955	553,585	565,834	595,296	626,867	2.2	5.2	5.3
TVS Motors											
Two wheelers	2,164,226	2,047,564	2,597,936	3,157,320	3,519,225	3,811,346	4,112,480	4,397,230	8.3	7.9	6.9
Three wheelers	8,266	8,823	16,075	20,791	28,923	41,938	50,326	60,391	45	20	20

Source: SIAM, Kotak Institutional Equities estimates

We expect domestic 2W industry to grow 6.6% in FY2026 and 6% in FY2027

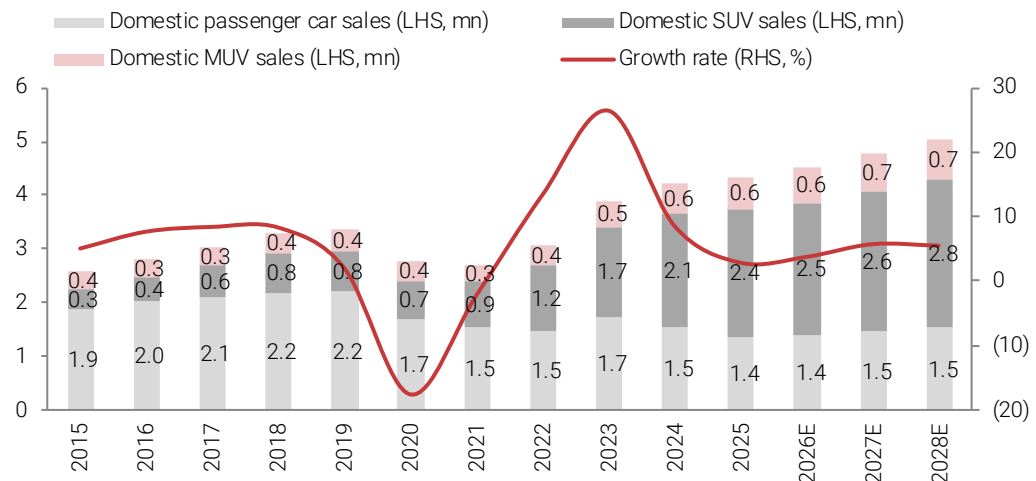
Exhibit 66: Domestic motorcycle industry volumes (mn) and growth rate (%), March fiscal year-ends, 2012-28E



Source: SIAM, Kotak Institutional Equities

We expect domestic car industry to grow around 4% in FY2026 after a marginal increase in FY2025

Exhibit 67: Domestic car industry volumes (mn) and growth rate (%), March fiscal year-ends, 2015-28E



Source: SIAM, Kotak Institutional Equities

We note that the cut in policy rates of 100 bps by the RBI in 1HCY25 may not result in a meaningful change in the demand trajectory for vehicles given the 2-2.5% impact on EMI from the reduction in interest rates by 100 bps. In any case, total cost of ownership matters and it remains to be seen if the government can implement measures in the form of lower automobile fuel prices and GST rates to support demand. We note that the government has some scope to cut (1) automobile retail fuel prices; marketing margins of the PSU downstream oil companies are quite high and (2) GST rate on 2Ws; GST rate of 28% on 2Ws is quite high in the context of the utilitarian nature of 2Ws.

- **Margins and profitability.** We assume stable margins and profitability for the automobile OEMs and component companies in FY2026 and modest improvement in FY2027 on operating leverage. Exhibit 68 shows the gross and EBITDA margin of the major automobile OEM and component companies under our coverage over FY2019-28E. We note that FY2024-25 profitability was quite high for the sector.

We expect profitability of auto companies to be broadly stable over FY2026-27, similar to the elevated levels of FY2025

Exhibit 68: Gross margin and EBITDA margin of auto companies, March fiscal year-ends, 2019-28E (%)

	Gross margin (%)										EBITDA margin (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Apollo Tyres	42.2	44.5	46.0	40.9	40.4	46.2	43.7	44.8	45.2	45.1	11.2	11.9	16.1	12.3	13.5	17.5	13.7	15.0	15.5	15.6
Ashok Leyland	28.8	29.2	25.5	22.7	22.9	27.3	28.7	28.8	29.3	29.4	10.8	6.7	3.5	4.6	8.1	12.0	12.7	12.7	12.9	12.9
Bajaj Auto	26.9	28.3	28.1	25.4	27.2	27.8	28.2	27.9	28.0	28.1	17.1	17.0	17.8	15.9	18.0	19.7	20.2	20.2	20.3	20.6
Balkrishna Industries	53.9	56.6	59.9	55.3	51.0	52.5	52.5	51.6	50.4	49.0	26.8	28.5	31.8	26.2	20.2	25.1	25.4	25.0	24.0	22.7
Bharat Forge	44.0	41.4	42.9	45.4	39.6	40.8	43.7	46.7	46.3	47.7	20.3	13.8	13.6	19.3	13.7	16.3	17.8	17.9	18.8	19.8
CEAT	40.1	42.2	43.9	35.6	34.7	42.0	37.7	38.5	38.3	38.1	9.2	10.7	12.9	7.6	8.6	13.8	11.2	12.5	12.6	12.6
CIE Automotive	54.8	51.8	53.7	52.2	45.4	47.1	47.9	48.3	48.7	48.9	13.1	12.4	8.3	12.1	13.4	15.3	15.1	14.7	15.1	15.3
Eicher Motors	48.4	45.4	41.4	42.2	43.1	45.7	45.4	44.5	44.3	44.1	29.6	23.8	20.4	21.1	23.8	26.2	25.0	24.3	24.3	24.4
Endurance Technologies	42.1	46.0	45.5	41.4	39.5	40.9	42.9	43.0	42.1	41.7	15.0	16.3	15.9	12.8	11.8	13.0	13.4	14.0	14.3	14.7
Escorts	31.6	33.7	33.7	31.0	27.3	29.0	29.2	29.8	30.0	30.0	11.8	11.7	16.3	13.3	9.4	11.6	11.6	12.2	12.7	13.2
Exide Industries	34.2	36.4	34.5	30.7	30.1	30.9	31.3	31.1	31.2	31.3	13.3	13.8	13.5	11.3	10.7	11.7	11.4	12.1	12.5	12.6
Hero Motocorp	29.5	30.4	28.3	27.6	28.4	31.0	32.5	31.6	31.5	31.2	14.7	13.7	13.0	11.5	11.8	14.0	14.4	14.3	14.4	14.5
Hyundai Motors	-	-	23.5	24.4	25.3	26.1	27.8	28.5	27.8	27.5	-	-	10.4	11.6	12.5	13.1	12.9	13.2	13.5	13.6
Mahindra & Mahindra	31.9	33.4	32.4	26.3	24.0	25.3	25.9	25.0	25.0	25.0	14.2	14.2	15.6	12.3	12.3	13.3	14.7	14.8	14.9	15.0
Maruti Suzuki	30.8	29.7	27.7	25.2	26.6	28.6	28.6	27.3	27.3	27.3	12.8	9.7	7.6	6.5	9.4	11.6	11.7	11.4	11.8	12.0
MRF	39.6	40.8	42.3	34.9	32.9	40.1	36.3	36.4	36.7	36.6	14.4	14.6	18.2	10.6	10.4	16.9	14.5	15.1	15.6	15.7
Samvardhana Motherson	-	-	43.2	42.2	42.5	44.9	46.3	46.2	46.2	46.5	-	-	7.6	7.0	8.0	9.4	9.3	8.9	9.2	9.3
Schaeffler India	37.0	36.9	38.0	37.7	38.1	37.9	37.4	38.8	38.3	38.4	16.2	14.5	14.3	17.5	18.8	18.2	17.6	18.5	18.6	18.8
SKF	41.5	37.0	41.5	38.8	40.4	39.2	38.7	39.3	40.0	40.2	16.0	12.3	15.7	15.2	17.4	15.7	15.1	15.5	16.6	17.1
Sona BLW Precision	59.5	57.9	58.8	55.6	54.1	56.9	56.5	54.9	53.5	54.3	28.9	26.7	28.2	26.2	25.4	28.3	27.4	23.9	24.3	24.3
Tata Motors	35.0	36.0	36.6	35.0	34.5	37.2	38.2	36.2	37.5	39.5	8.5	7.6	12.2	8.9	9.2	13.3	12.5	10.9	12.5	13.1
Timken	44.2	46.8	44.3	45.8	40.9	41.0	39.6	39.4	38.7	39.2	17.3	22.4	17.9	23.2	20.0	19.7	18.8	18.9	19.2	19.7
TVS Motor	24.0	26.1	24.0	24.0	24.2	26.3	28.9	28.9	29.3	29.4	7.9	8.2	8.5	9.4	10.1	11.1	12.3	12.8	13.5	13.7
Uno Minda	38.7	38.8	38.5	36.6	35.7	35.4	35.2	35.0	34.9	34.8	12.3	10.8	11.4	10.7	11.1	11.3	11.2	11.2	11.2	11.3
Varroc Engineering	37.1	37.2	33.5	34.1	35.7	37.3	36.1	36.8	37.0	37.0	8.8	7.4	3.5	6.1	8.3	10.2	9.7	9.8	10.3	10.5

Source: Companies, Kotak Institutional Equities estimates

We do not rule out risks to profitability from a few sources—(1) domestic prices of metals have been elevated in 1QFY26 (despite stable global prices) due to imposition of safeguard duties in the case of steel and (2) one or more players could become more aggressive to increase its/their market shares. For example, we are seeing more aggression from Honda in the <110 cc and 110-125 cc segment and in scooters. It has launched two new models in the 100 cc and 125 cc segments. The 110-125 cc segment has seen steady growth over the past few years (7.4% CAGR over FY2017-25).

The high and rising profitability and extremely high returns of the 2W companies (see Exhibit 69) would suggest that competition has been fairly benign in the 2W segment for the past few years. It would appear that the incumbent 2Ws companies are content to stay in their core segments and not compete for higher market shares. For example, BJAUT has high market share in 2W exports and 125-150 cc motorcycle segment, EIM in >250 cc segment, HMCL in the <110 cc motorcycle segment, Honda in the 110-125 cc motorcycle segment and scooters and TVSL in the 150-250 cc motorcycle segment and scooters. Exhibit 70 gives market share of the companies in various segments of motorcycles and scooters.

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

Exhibit 69: Key financial and return metrics of Indian 2-W OEMs, March fiscal year-ends, 2021-28E

	2021	2022	2023	2024	2025	2026E	2027E	2028E
Bajaj Auto								
Volumes (units)	3,972,914	4,308,433	3,927,857	4,337,541	4,633,886	4,943,023	5,232,600	5,559,599
EBITDA margin (%)	17.8	15.9	18.0	19.7	20.4	20.3	20.5	20.8
EBITDA per vehicle (Rs/unit)	12,405	12,205	16,674	20,341	21,793	22,626	23,360	24,360
PAT per vehicle (Rs/unit)	11,464	11,649	14,327	17,242	17,591	18,992	19,511	20,240
RoAE (%)	20	19	21	29	28	27	28	29
RoACE (%)	77	64	62	76	59	57	69	74
CRoCI (%)	73	76	96	165	119	112	118	119
Eicher Motors								
Volumes (units)	612,350	602,268	834,895	912,732	1,009,899	1,132,259	1,219,239	1,308,860
EBITDA margin (%)	20.7	20.9	24.1	27.2	25.8	25.2	25.3	25.4
EBITDA per vehicle (Rs/unit)	29,175	35,093	40,646	47,990	47,213	46,099	46,767	47,556
PAT per vehicle (Rs/unit)	21,715	26,337	31,412	41,079	42,373	41,377	41,723	42,231
FCF (Rs mn)	21,171	20,140	34,126	49,941	52,146	54,399	59,626	65,179
RoAE (%)	14	15	22	26	24	23	22	21
RoACE (%)	54	58	113	65	49	48	51	56
CRoCI (%)	40	40	59	46	37	36	36	37
Hero MotoCorp								
Volumes (units)	5,786,374	4,944,148	5,328,546	5,621,455	5,899,187	6,042,471	6,338,478	6,649,925
EBITDA margin (%)	13.0	11.5	11.8	14.0	14.4	14.3	14.4	14.5
EBITDA per vehicle (Rs/unit)	6,946	6,814	7,481	9,349	9,947	10,110	10,471	10,860
PAT per vehicle (Rs/unit)	5,123	5,002	5,462	7,273	7,815	7,994	8,277	8,585
RoAE (%)	20	16	17	22	24	23	23	24
RoACE (%)	44	50	37	49	71	72	71	75
CRoCI (%)	25	20	22	29	31	29	30	31
TVS Motors								
Volumes (units)	3,051,861	3,309,578	3,682,068	4,191,162	4,743,636	5,218,564	5,664,149	6,108,613
EBITDA margin (%)	8.5	9.4	10.1	11.1	12.3	12.8	13.5	13.7
EBITDA per vehicle (Rs/unit)	4,681	5,927	7,264	8,385	9,390	9,978	10,853	11,080
PAT per vehicle (Rs/unit)	2,005	2,700	4,049	4,970	5,714	6,142	6,780	6,986
RoAE (%)	16	20	27	30	31	29	27	25
RoACE (%)	14	20	25	27	31	30	30	29
CRoCI (%)	32	40	45	62	73	71	74	74

Source: Companies, Kotak Institutional Equities estimates

Two-wheeler companies are sticking to their core segments currently; may not be the case in future

Exhibit 70: Domestic motorcycle industry volume share, March fiscal year-ends, 2017-26 (%)

	Market share (%)									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	1QFY26
<110 cc motorcycles										
Bajaj Auto	12.9	12.8	17.1	16.9	13.6	15.5	11.5	10.1	8.9	7.2
Hero MotoCorp	74.6	74.5	72.4	72.5	76.3	74.6	79.6	77.7	78.7	83.5
Honda Motorcycle & Scooter India	7.3	7.5	5.0	5.0	4.5	3.9	2.9	1.4	2.2	0.9
TVS Motor Company	5.0	5.1	5.4	5.6	5.5	6.1	6.1	10.8	10.2	8.3
Others	0.2	—	—	—	—	—	—	—	—	—
Total - <100 cc motorcycles	100	100	100	100	100	100	100	100	100	100
110-125 cc motorcycles										
Bajaj Auto	6.9	5.3	2.7	8.2	19.5	20.8	23.8	27.1	22.2	24.2
Hero MotoCorp	39.9	40.0	38.8	49.5	39.8	25.7	20.9	17.0	19.3	12.8
Honda Motorcycle & Scooter India	41.1	45.0	50.8	40.0	40.8	50.0	45.0	40.9	45.4	50.3
TVS Motor Company	8.0	6.1	4.5	1.4	—	3.5	10.3	15.0	13.2	12.7
Others	4.2	3.6	3.2	0.9	—	—	—	—	—	—
Total - 100-125 cc motorcycles	100	100	100	100	100	100	100	100	100	100
125-150 cc motorcycles										
Bajaj Auto	58.2	46.6	52.0	54.0	64.1	59.8	51.8	53.7	37.6	42.7
Hero MotoCorp	7.7	6.4	2.6	1.1	3.6	—	—	—	2.4	—
Honda Motorcycle & Scooter India	12.5	22.2	20.2	24.1	—	—	0.3	10.8	39.1	23.6
India Yamaha Motor	21.6	24.7	25.2	20.8	32.3	40.2	47.8	35.4	20.8	33.8
Total - 125-150 cc motorcycles	100	100	100	100	100	100	100	100	100	100
150-250 cc motorcycles										
Bajaj Auto	36.0	35.2	31.2	32.9	23.1	19.8	24.0	26.9	25.8	26.9
Hero MotoCorp	—	—	0.8	3.5	6.1	7.7	6.3	5.3	3.3	3.3
Honda Motorcycle & Scooter India	16.8	15.7	14.5	7.9	27.1	17.7	19.1	18.5	11.4	9.0
India Yamaha Motor	0.5	3.2	3.4	8.6	10.6	14.5	17.6	17.4	18.9	18.5
TVS Motor Company	38.9	38.9	45.4	42.6	30.5	37.7	31.5	29.8	38.9	40.6
Others	7.8	7.0	4.8	4.3	2.6	2.6	1.6	2.1	1.7	1.7
Total - 150-250 cc motorcycles	100	100	100	100	100	100	100	100	100	100
>250 cc motorcycles										
Bajaj Auto	2.4	3.4	1.8	2.6	2.5	2.1	2.0	4.4	6.3	6.5
Hero MotoCorp	0.5	0.4	0.3	0.4	0.1	0.1	—	1.6	1.4	1.2
Honda Motorcycle & Scooter India	—	—	—	0.3	3.0	5.8	4.2	4.5	4.2	4.1
Royal Enfield	96.3	94.7	96.3	95.7	93.5	90.3	92.5	88.3	86.9	86.9
Others	0.7	1.4	1.6	1.0	0.9	1.7	1.2	1.2	1.3	1.3
Total - >250 cc motorcycles	100	100	100	100	100	100	100	100	100	100
Scooter mix										
Bajaj	—	—	—	—	—	—	0.7	2.2	4.0	3.8
Hero	14.1	13.1	10.7	7.2	9.9	7.5	6.9	6.9	5.7	5.4
Honda	56.9	56.9	54.9	56.6	52.0	48.5	46.6	43.3	41.5	38.6
TVS	14.7	16.4	18.5	18.3	20.5	21.2	24.0	24.9	26.5	28.7
Others	14.2	13.6	15.8	17.9	17.6	22.9	22.5	24.9	26.3	27.3
Total - Scooters	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Companies, Kotak Institutional Equities estimates

It remains to be seen if (1) such industry discipline will sustain once 2W industry volumes start to slow down or even decline after the next few years; 2W penetration is already quite high in India and (2) such abnormal profitability and returns can persist over the next few years given the ongoing change in industry dynamics (ICEV to EV), which could entail higher competition from EV 2W players.

- **Banks and diversified financials (NBFCs).** We model a 4.4% yoy decline in the net profits of banks and a strong 23% growth in the net profits of diversified financials (NBFCs) in FY2026. Our earnings outlook for banks and NBFCs are driven by (1) modest growth in credit for banks but strong growth in credit for NBFCs, (2) lower NIMs for banks but broadly stable NIMs for NBFCs and (3) a modest increase in credit costs for banks and moderate increase for NBFCs. However, we expect credit costs to stay at low levels for banks compared to historical levels.

- **Credit growth.** We expect modest growth in credit in FY2026-27, driven by moderation in nominal GDP (8-10%) growth with (1) moderate growth in retail credit aided by modest-to-moderate growth in 2Ws, 4Ws and consumer durables due to (a) income tax benefits in the FY2026 union budget in FY2026 and (2) higher pay for government and quasi-government employees in FY2027 due to likely implementation of the Eighth Pay Commission offsetting (b) continued weakness in industry credit. Credit demand has been soft for the past few months led by (1) weakness in industry credit (5% yoy growth as of June 2025), (2) moderation in retail credit and (3) challenges in MFI loan books of small finance banks (SFBs) and MFI-NBFCs.
- **Credit quality and LLP.** We expect loan-loss provisions (LLPs) for banks (other than SFBs) under our coverage to see a modest increase in FY2026-27E from low levels of FY2024-25, while we expect provisions for MFI-NBFCs and SFBs to decline from the high levels of FY2025 although provisions will likely stay high for MFI-NBFCs and SFBs in 1HFY26. They were hit particularly hard by the sharp increase in NPLs in 2HFY25. NBFCs with high exposure to MSMEs will see an increase in stress in FY2026 given an increase in slippages in 1QFY26, arising from cash flow challenges for a section of MSMEs.

Exhibit 71 shows the total income and PPOP for banks under our coverage for FY2019-28E and Exhibit 72 shows LLP and LLP/PPOP for the same banks over the same period. As can be seen, we expect a sharp increase in LLP/PPOP in FY2026 except for banks with high exposure to MFI loans, which saw a sharp increase in NPLs in 2HFY25. They seem to be past the peak slippage and NPL issue given a decline in delinquent loans (see Exhibit 73 for performance of various buckets of delinquent loans). We would note that most banks have fairly high coverage (see Exhibit 74). Exhibit 75 shows our estimates on gross stage-3 and gross stage-2 loans for major NBFCs under our coverage.

Steady income growth to drive PPOP growth for most banks in FY2026E-27E; PSU banks to pull down overall PPOP growth in FY2026

Exhibit 71: Total income and PPOP of banks under coverage, March fiscal year-ends, 2019-28E

	Total income (Rs bn)										PPOP (Rs bn)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Public banks																				
Bank of Baroda	248	378	417	441	514	592	623	616	690	787	133	179	203	218	252	310	324	282	323	382
Canara Bank	211	209	393	429	502	555	595	588	625	718	102	96	196	221	249	285	325	276	281	331
Punjab National Bank	245	267	433	410	466	535	591	615	659	744	114	151	224	204	224	263	268	264	275	321
State Bank of India	1,251	1,433	1,542	1,613	1,815	2,116	2,286	2,289	2,614	3,000	562	676	685	644	822	873	1,101	1,044	1,303	1,489
Union Bank	147	167	364	403	474	527	570	559	598	672	79	88	192	217	236	286	312	275	287	325
Old private banks																				
City Union Bank	21	24	25	27	30	29	32	36	41	47	12	14	15	16	18	15	17	18	20	24
Federal Bank	55	66	75	81	96	114	133	140	165	189	26	31	38	38	48	52	61	65	82	97
Karur Vysya Bank	33	35	34	35	45	55	61	62	71	81	16	17	13	16	24	27	32	30	35	41
New private banks																				
Axis Bank	348	407	415	484	594	723	796	820	911	1,019	190	234	231	247	198	371	421	430	488	560
Bandhan Bank	56	79	97	115	117	125	145	145	168	199	37	54	69	80	71	66	74	67	75	90
DCB Bank	15	17	17	18	21	24	29	33	39	48	6	8	9	8	8	9	10	13	16	23
HDFC Bank	659	794	901	1,015	1,181	1,578	1,683	1,960	2,210	2,534	397	487	574	641	704	944	1,002	1,230	1,395	1,614
ICICI Bank	415	497	580	660	820	973	1,097	1,177	1,334	1,498	234	281	364	393	491	581	673	700	799	899
IndusInd Bank	145	190	201	224	258	300	267	274	308	363	79	103	111	125	140	152	106	109	136	183
Yes Bank	144	187	108	98	118	132	148	165	189	224	75	55	34	21	8	39	59	62	74	97
Small finance banks																				
AU Small Finance Bank	18	26	38	42	55	69	105	121	150	186	7	12	22	18	20	24	46	52	63	82
Equitas Small Finance Bank	14	18	22	26	32	39	42	46	56	69	4	6	9	9	11	13	13	14	16	22
Ujjivan Small Finance Bank	13	20	20	21	33	42	45	48	58	69	3	6	8	6	15	19	17	16	21	26
Utkarsh Small Finance Bank	6	8	10	12	18	23	26	27	32	40	2	4	4	5	8	10	10	9	11	15
Total	4,039	4,813	5,683	6,140	7,188	8,548	9,274	9,720	10,918	12,488	2,079	2,499	2,996	3,122	3,546	4,339	4,872	4,955	5,700	6,621

Source: Companies, Kotak Institutional Equities estimates

We expect LLP/PPOP to stay at low levels for most large banks and decline from high levels of FY2025 for SFBs in FY2026-27E

Exhibit 72: LLP and LLP/PPOP of banks under coverage, March fiscal year-ends, 2019-28E

	LLP (Rs bn)										LLP/PPOP (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Public banks																				
Bank of Baroda	122	195	146	120	49	58	56	64	92	118	91	109	72	55	19	19	17	23	28	31
Canara Bank	126	114	159	131	107	88	99	64	61	82	123	118	81	63	43	31	30	23	22	25
Punjab National Bank	267	144	189	161	172	124	16	18	44	70	235	95	84	79	77	47	6	7	16	22
State Bank of India	545	419	310	188	148	82	147	241	291	325	97	62	45	29	18	9	13	23	22	22
Union Bank	112	123	153	134	114	71	74	55	66	86	142	140	80	62	48	25	24	20	23	26
Old private banks																				
City Union Bank	3	8	8	6	6	3	3	3	3	4	24	57	52	38	35	19	16	16	16	15
Federal Bank	7	11	16	12	8	2	8	14	15	17	28	35	43	33	16	4	13	21	19	18
Karur Vysya Bank	13	14	7	7	7	5	5	5	8	9	79	82	57	44	29	20	15	18	23	22
New private banks																				
Axis Bank	110	180	139	67	28	38	77	109	85	96	58	77	60	27	14	10	18	25	17	17
Bandhan Bank	8	14	38	79	42	37	38	31	24	28	20	26	56	98	59	55	51	47	33	31
DCB Bank	1	3	4	4	1	1	2	3	4	6	21	34	49	51	19	16	20	27	26	24
HDFC Bank	70	114	123	151	122	228	130	252	182	206	18	23	21	24	17	24	13	20	13	13
ICICI Bank	171	120	158	83	56	9	47	72	98	121	73	43	43	21	11	2	7	10	12	13
IndusInd Bank	29	42	73	63	42	32	70	59	44	48	37	41	66	51	30	21	66	54	32	26
Yes Bank	48	259	78	7	(2)	23	28	15	9	10	65	475	232	33	(22)	59	47	25	12	10
Small finance banks																				
AU Small Finance Bank	1	3	7	2	2	5	18	18	16	21	20	24	31	14	12	20	39	35	26	26
Equitas Small Finance Bank	1	2	4	5	4	3	11	11	5	6	23	41	42	57	32	20	85	80	30	30
Ujjivan Small Finance Bank	—	2	8	11	0	2	7	9	8	10	13	27	99	189	1	11	44	55	40	39
Utkarsh Small Finance Bank	1	1	3	4	3	3	10	12	5	7	26	16	33	72	34	33	97	134	46	47
Total	1,635	1,765	1,620	1,231	909	815	844	1,055	1,062	1,270	78	70	54	39	26	19	17	21	19	19

Source: Companies, Kotak Institutional Equities estimates

SMA levels have declined recently

Exhibit 73: Comparison of delinquent book in microfinance, March fiscal year-ends, 2024-26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
SMA 1+2 (% of loan book)									
Bandhan (GL+IL)	2.9	2.4	1.9	1.4	1.4	1.8	2.4	1.8	1.9
CreditAccess Grameen	0.3	0.3	0.5	0.5	0.7	1.6	2.5	2.2	1.6
Equitas SFB (microfinance)	1.5	1.5	1.6	1.8	2.3	3.8	4.2	5.9	NA
Fusion (GS-2)	0.8	1.2	0.8	1.2	3.5	4.7	4.2	3.1	2.4
IDFC First (microfinance)	—	—	—	1.3	1.7	2.5	4.6	5.1	2.6
IndusInd Bank (microfinance)	—	—	—	—	2.0	4.1	4.1	2.3	2.2
L&T Finance (microfinance)	—	0.2	0.3	0.4	0.5	0.9	1.2	1.4	1.2
Muthoot Microfin (overall)	—	0.6	—	1.1	1.9	3.1	4.0	3.8	4.0
Namra (%)	1.1	1.3	2.1	2.3	2.5	4.4	7.1	6.8	6.1
RBL Bank (microfinance)	—	1.2	1.9	1.6	2.0	4.9	5.6	4.7	3.1
Satin	—	0.4	0.6	0.7	1.0	1.7	1.8	0.9	1.3
Suryoday SFB (IF)	1.0	—	1.3	1.2	1.6	3.5	4.6	4.9	3.5
Ujjivan SFB (GL+IL)	—	—	—	—	1.0	1.5	1.9	2.0	1.7
Utkarsh SFB (microfinance)	1.2	1.5	1.6	1.6	2.4	5.0	6.9	3.8	3.2

Source: Companies, Kotak Institutional Equities

We expect a decline in LLPs for SFBs and stable PCR for most banks under coverage in FY2026E-27E

Exhibit 74: LLP as a percentage of average loans and provision coverage ratio (excluding write-offs), March fiscal year-ends, 2019-28E (%)

	LLP (%)										PCR (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Public banks																				
Bank of Baroda	2.7	3.4	2.1	1.6	0.6	0.6	0.5	0.5	0.7	0.8	68	69	67	75	77	77	75	75	72	74
Canara Bank	3.1	2.7	3.0	2.0	1.4	1.0	1.0	0.6	0.5	0.6	41	51	59	66	69	71	77	78	73	66
Punjab National Bank	6.0	3.1	3.3	2.3	2.2	1.4	0.2	0.2	0.4	0.5	62	63	63	62	71	88	90	82	77	69
State Bank of India	2.6	1.9	1.3	0.7	0.5	0.2	0.4	0.5	0.6	0.6	62	65	71	75	76	75	74	71	71	72
Union Bank	3.8	4.0	3.4	2.1	1.6	0.9	0.8	0.6	0.6	0.7	58	65	70	69	79	79	83	80	77	76
Old private banks																				
City Union Bank	1.0	2.3	2.2	1.6	1.5	0.7	0.5	0.5	0.5	0.5	39	45	43	38	47	52	60	60	58	57
Federal Bank	0.7	0.9	1.3	0.9	0.5	0.1	0.4	0.5	0.6	0.5	50	54	66	66	71	72	76	74	69	73
Karur Vysya Bank	2.8	2.9	1.5	1.4	1.2	0.8	0.6	0.6	0.8	0.8	46	57	58	63	68	71	74	68	67	73
New private banks																				
Axis Bank	2.4	3.4	2.2	0.9	0.4	0.4	0.8	1.0	0.7	0.7	62	69	72	75	81	79	75	66	66	69
Bandhan Bank	2.2	2.6	5.1	9.0	4.2	3.2	3.0	2.2	1.5	1.5	72	61	50	75	77	72	74	69	72	73
DCB Bank	0.6	1.1	1.7	1.5	0.5	0.4	0.4	0.6	0.7	0.7	65	54	45	56	68	66	63	59	60	60
HDFC Bank	1.0	1.3	1.2	1.2	0.8	1.1	0.5	0.9	0.6	0.6	71	72	70	73	76	74	68	76	76	80
ICICI Bank	3.1	1.9	2.3	1.0	0.6	0.1	0.4	0.5	0.6	0.7	71	76	78	79	83	80	79	68	63	62
IndusInd Bank	1.8	2.1	3.5	2.8	1.6	1.0	2.0	1.7	1.2	1.2	43	63	75	72	68	70	70	67	69	73
Yes Bank	2.2	12.5	4.6	0.4	(0.1)	1.1	1.2	0.6	0.3	0.3	43	74	66	71	62	73	80	76	78	79
Small finance banks																				
Au Small Finance Bank	0.8	1.1	2.2	0.6	0.5	0.7	2.0	1.5	1.1	1.2	37	53	50	71	71	64	66	74	76	80
Equitas Small Finance Bank	1.0	1.9	2.4	2.7	1.6	0.9	3.4	2.8	1.0	1.1	37	45	59	43	57	56	68	84	75	75
Ujjivan Small Finance Bank	0.5	1.4	5.6	7.6	0.1	0.9	2.6	2.5	2.0	2.0	72	80	60	92	99	88	85	73	68	65
Utkarsh Small Finance Bank	2.1	1.8	3.7	4.7	2.5	2.2	5.6	5.7	2.0	2.2	72	80	60	92	88	99	51	71	73	83

Source: Companies, Kotak Institutional Equities estimates

Modest increase in gross stage-3 loans for NBFCs in FY2026

Exhibit 75: Stressed loans for select non-banks, March fiscal year-ends, 2023-27E (%)

	Gross stage-3 (%)					Gross stage-2 (%)				
	2023	2024	2025	2026E	2027E	2023	2024	2025	2026E	2027E
Affordable housing										
Aadhar	1.2	1.1	1.1	1.2	1.2	4.1	3.6	4.0	4.0	4.0
Aavas	1.1	0.8	0.9	1.0	1.1	1.7	1.6	1.5	1.6	1.7
Aptus	1.2	1.1	1.2	1.5	1.4	4.7	4.3	4.7	5.0	6.0
Home First	1.6	1.7	1.7	1.7	1.7	1.1	1.1	1.3	1.3	1.3
India Shelter	1.1	1.0	1.0	1.1	1.3	2.1	2.2	2.7	3.0	3.5
Broader NBFCs and HFCs										
Bajaj Finance	0.8	1.0	1.0	1.0	1.0	—	—	—	—	—
Bajaj Housing Finance	0.2	0.3	0.3	0.3	0.3	0.6	0.4	0.3	0.3	0.3
Cholamandalam	3.0	2.5	2.8	3.0	2.9	3.7	2.2	2.5	2.8	2.7
Five Star	1.4	1.4	1.8	2.7	2.0	9.1	6.5	7.9	9.0	9.0
LIC Housing Finance	4.4	3.3	2.5	2.3	2.3	5.3	4.2	3.4	3.4	3.4
Mahindra Finance	5.9	4.7	5.2	5.1	5.0	4.5	3.7	4.0	4.0	4.0
SBFC	2.4	2.4	2.7	2.8	2.9	3.4	4.4	3.1	3.0	3.3
Shriram Finance	6.1	5.4	4.5	4.7	4.8	8.8	6.7	6.8	6.8	6.8

Notes:

- We have only captured restructured loans, which are not already clubbed in stage-2.
- Stressed loans: Gross stage-3 + Gross stage-2 + restructured loans (excluding those clubbed under Stage-2) + write-offs during the quarter.
- Write-offs are annualized.
- For Aptus, we have considered 30-90 dpd as Stage-2 and 90+ dpd as Stage-3.

Source: Company, Kotak Institutional Equities

- NIM.** We expect NIMs of banks to moderate further in FY2026-27 from the high levels of 2HFY23-1HFY24 (see Exhibits 76-77 for NIMs, RoAs and RoEs) due to (1) likely sharp 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), post the 100 bps cut in policy rates; see Exhibit 78 for breakup of loans by mix of lending rate benchmarks and (2) moderate decline in deposit rates. However, banking system liquidity may also stay benign (see Exhibit 79) given the shift in RBI's stance on liquidity and growth-inflation dynamics. We expect NIMs of NBFCs to remain broadly stable in FY2026-27E, with elevated competitive intensity resulting in near-complete pass-through of benefits of lower borrowing costs. The stable-to-moderating trend in NIMs will result in lower RoAs and RoEs in FY2026 with likely modest recovery in FY2027-28.

We model moderate-to-high decline in NIMs for banks and stable NIMs for NBFCs in FY2026E-27E

Exhibit 76: NIM of banks and NBFCs, March fiscal year-ends, 2019-28E (%)

	NIM (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Banks										
AU Small Finance Bank	5.4	5.3	5.2	5.5	5.7	5.3	5.8	5.2	5.3	5.5
Axis Bank	3.2	3.2	3.4	3.3	3.7	3.8	3.7	3.4	3.4	3.4
Bandhan Bank	9.1	8.7	7.5	7.1	6.7	6.6	6.6	6.1	6.0	6.1
Bank of Baroda	2.6	3.0	2.7	2.8	3.2	3.1	2.8	2.5	2.7	2.9
Canara Bank	2.4	2.0	2.3	2.4	2.6	2.7	2.4	2.1	2.1	2.4
City Union Bank	3.9	3.7	3.7	3.5	3.5	3.2	3.2	3.2	3.3	3.3
DCB Bank	3.6	3.6	3.5	3.4	3.8	3.5	3.1	3.0	3.1	3.2
Equitas Small Finance Bank	8.2	8.8	8.4	8.2	8.5	8.0	6.9	6.3	6.4	6.5
Federal Bank	3.0	2.9	3.1	3.0	3.3	3.1	3.1	2.8	3.0	3.0
HDFC Bank	4.4	4.2	4.1	3.9	4.1	3.8	3.5	3.5	3.7	3.7
ICICI Bank	3.3	3.6	3.6	3.9	4.4	4.6	4.3	4.0	4.1	4.0
IndusInd Bank	3.8	4.4	4.5	4.2	4.4	4.5	3.8	3.4	3.6	3.9
Karur Vysya Bank	3.6	3.5	3.4	3.6	4.1	4.1	3.9	3.5	3.5	3.5
Punjab National Bank	2.4	2.3	3.1	2.4	2.7	2.8	2.7	2.5	2.5	2.7
State Bank of India	2.7	2.8	2.9	2.8	3.0	3.0	2.8	2.6	2.7	2.8
Ujjivan Small Finance Bank	10.0	10.6	9.3	8.4	9.8	9.5	8.5	7.5	7.7	7.5
Utkarsh Small Finance Bank	10.0	9.6	8.1	8.1	9.3	9.1	8.1	6.8	6.8	6.9
Union Bank	2.2	2.3	2.5	2.6	2.8	2.9	2.7	2.4	2.5	2.7
YES Bank	3.0	2.3	3.2	2.5	2.7	2.5	2.6	2.6	2.8	3.0
NBFCs										
Aavas Financiers	7.5	7.0	6.5	7.0	6.8	6.0	5.9	6.1	6.2	6.2
Aptus Value Housing Finance	10.6	11.1	11.5	12.6	13.1	12.1	—	—	—	—
Bajaj Finance	9.8	10.3	9.3	10.0	10.3	10.2	9.7	9.6	9.6	9.5
Bajaj Finserv	—	—	—	—	—	—	—	—	—	—
Cholamandalam	6.0	5.9	6.9	6.9	6.6	6.3	6.4	6.4	6.4	6.3
Home First Finance	6.1	6.2	6.3	7.7	8.0	7.4	6.7	6.8	6.6	6.6
L&T Finance Holdings	5.4	6.1	6.1	7.0	8.6	8.9	8.8	8.5	8.5	8.5
LIC Housing Finance	2.4	2.4	2.4	2.4	2.4	3.1	2.8	2.7	2.7	2.8
Mahindra & Mahindra Financial	8.1	7.8	8.3	8.6	8.3	7.2	6.7	6.9	6.9	6.9
Muthoot Finance	14.3	15.2	14.1	12.9	11.0	11.2	11.3	11.5	10.4	10.5
Shriram Finance	7.8	7.5	7.1	7.3	10.4	9.3	9.0	9.0	9.1	9.1

Source: Companies, Kotak Institutional Equities estimates

We model RoAs/RoEs of major banks and NBFCs in our coverage to weaken in FY2026 and gradually recover over FY2027/28

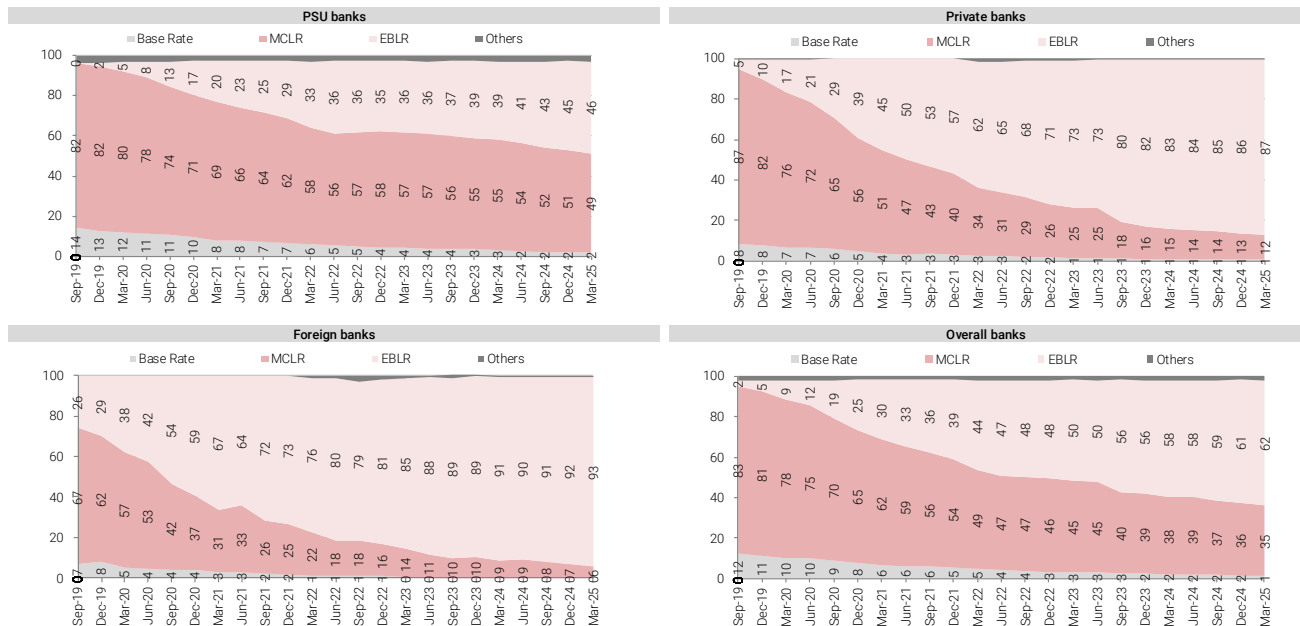
Exhibit 77: RoA and RoE of banks and NBFCs, March fiscal year-ends, 2019-28E (%)

	RoA (%)										RoE (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Banks																				
AU Small Finance Bank	1.5	1.8	2.5	2.0	1.7	1.5	1.5	1.5	1.6	1.8	14	18	22	16	15	13	13	14	17	18
Axis Bank	0.6	0.2	0.7	1.2	1.7	1.8	1.7	1.4	1.6	1.6	7	2	7	12	18	18	16	13	14	14
Bandhan Bank	3.6	3.8	2.0	0.1	1.4	1.3	1.5	1.3	1.6	1.7	19	23	14	1	12	11	12	10	13	15
Bank of Baroda	0.1	0.1	0.1	0.6	1.0	1.2	1.2	0.9	0.9	0.9	1	1	1	9	15	17	16	11	11	12
Canara Bank	0.1	(0.3)	0.3	0.5	0.8	1.0	1.1	0.9	0.9	0.9	1	(6)	5	9	15	18	18	15	14	14
City Union Bank	1.6	1.0	1.2	1.3	1.5	1.5	1.5	1.4	1.4	1.4	15	9	11	12	13	13	13	11	12	12
DCB Bank	1.0	0.9	0.8	0.7	1.0	0.9	0.9	0.8	0.9	1.1	12	11	10	7	11	11	11	11	13	17
Equitas Small Finance Bank	1.4	1.4	1.7	1.1	1.9	2.0	0.3	0.4	1.2	1.3	10	10	13	7	12	14	2	3	13	15
Federal Bank	0.8	0.9	0.8	0.9	1.3	1.3	1.2	1.0	1.2	1.3	10	11	10	11	15	15	13	11	13	14
HDFC Bank	1.8	1.9	1.9	1.9	1.9	2.0	1.8	1.8	2.0	2.0	16	16	17	17	17	17	14	14	15	16
ICICI Bank	0.4	0.8	1.4	1.8	2.1	2.4	2.4	2.1	2.1	2.1	3	8	12	15	17	19	18	15	15	15
IndusInd Bank	1.3	1.5	0.8	1.2	1.7	1.8	0.5	0.7	1.1	1.4	14	15	8	10	14	15	4	6	10	13
Karur Vysya Bank	0.3	0.3	0.5	0.9	1.3	1.6	1.7	1.4	1.4	1.5	3	4	5	9	9	10	18	15	14	15
Punjab National Bank	(1.3)	0.0	0.2	0.3	0.2	0.5	1.0	0.8	0.8	0.8	(25)	1	3	4	3	8	14	11	12	12
State Bank of India	0.0	0.4	0.5	0.7	1.0	1.0	1.1	0.8	1.0	1.0	0	6	8	12	17	17	17	13	14	14
Ujjivan Small Finance Bank	1.7	2.2	0.0	(1.9)	3.9	3.5	1.6	1.1	1.6	1.7	11	14	0	(15)	33	27	12	9	14	16
Utkarsh Small Finance Bank	2.1	2.4	1.0	0.5	2.4	2.3	0.1	(0.7)	1.2	1.3	19	21	9	4	23	20	1	(8)	15	17
Union Bank	(0.6)	(0.6)	0.4	0.5	0.7	1.0	1.2	1.1	1.0	1.0	(13)	(11)	5	8	11	16	17	14	12	12
YES Bank	0.5	(5.1)	(1.3)	0.4	0.2	0.3	0.6	0.8	1.0	1.2	7	(68)	(13)	3	2	3	5	7	9	11
NBFCs																				
Aavas Financiers	3.0	3.1	2.9	2.9	2.9	2.7	2.7	2.7	2.8	2.8	12	13	13	14	14	14	14	14	15	15
Aptus Value Housing Finance	5.9	6.9	6.5	7.3	7.8	7.6	7.4	7.0	6.7	6.4	17	18	14	15	16	17	19	19	19	20
Bajaj Finance	3.8	3.6	2.6	3.7	4.7	4.4	4.0	4.0	4.0	4.1	22	20	13	17	24	22	19	20	21	22
Bajaj Finserv	2.9	2.6	2.8	2.7	3.3	3.3	3.0	3.2	3.3	3.4	15	12	13	12	15	19	13	18	21	22
Cholamandalam	2.3	1.6	2.0	2.6	2.7	2.5	2.4	2.3	2.3	2.3	21	15	17	20	21	20	20	19	19	19
Home First Finance	2.2	2.3	2.1	3.3	3.3	3.2	3.0	3.1	3.0	3.0	11	11	9	13	13	16	16	18	18	19
L&T Finance Holdings	2.3	1.9	0.7	1.0	1.4	2.2	2.4	2.2	2.4	2.5	18	15	5	5	7	10	11	11	12	14
LIC Housing Finance	1.4	1.1	1.2	0.9	1.1	1.7	1.8	1.6	1.5	1.5	17	14	14	10	11	16	16	14	12	12
Mahindra & Mahindra Financial	2.5	1.2	0.4	1.2	2.2	1.6	1.8	1.8	1.8	1.8	15	8	3	7	12	10	12	12	12	13
Muthoot Finance	5.7	6.8	6.5	5.9	4.9	5.1	5.0	5.7	5.0	5.0	22	28	28	24	18	18	20	24	21	20
Shriram Finance	2.6	2.3	2.2	2.2	3.8	3.5	3.3	3.3	3.4	3.4	17	15	13	11	17	16	15	16	16	16

Source: Companies, Kotak Institutional Equities estimates

Share of EBLR in floating rate loan book is higher for private banks in comparison to public banks

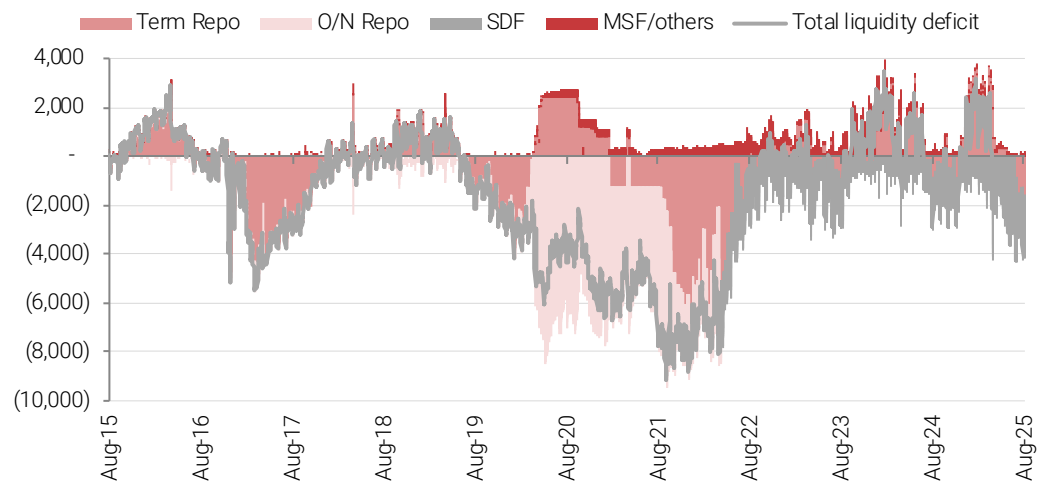
Exhibit 78: Share of outstanding floating rate Rupee loans of SCBs across interest rate benchmarks (%)



Source: RBI, Kotak Institutional Equities

Banking system liquidity in large surplus

Exhibit 79: Liquidity injection through various channels, March fiscal year-ends, 2016-26 (Rs bn)



Source: CEIC, RBI, Kotak Institutional Equities

Bank deposit rates have declined modestly in the past few months after being largely stable for the previous two years (see Exhibit 80 for term deposit rates of SBI). We expect deposit rates to gradually decline over the next 2-3 quarters, as banks attempt to align deposit rates with lower lending rates. We note that CD rates have declined sharply in 4MFY26 after being broadly stable in FY2025 (see Exhibit 81 for one-year CD rate).

SBI has recently cut deposit rates across all maturities

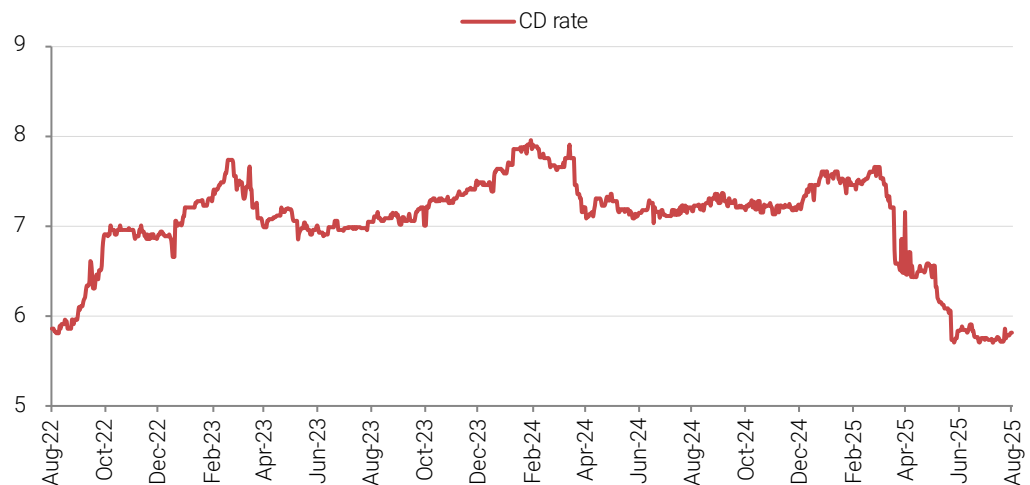
Exhibit 80: Deposit rates movement for SBI (%)

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Apr-25	May-25	Jun-25	Jul-25
7-14 days	3.50	2.90	2.90	3.00	3.50	3.50	3.50	3.30	3.05	3.05
15-30 days	3.50	2.90	2.90	3.00	3.50	3.50	3.50	3.30	3.05	3.05
31-45 days	3.50	2.90	2.90	3.00	3.50	3.50	3.50	3.30	3.05	3.05
46-90 days	4.50	3.90	3.90	4.50	4.75	5.50	5.50	5.30	5.05	4.90
91-120days	4.50	3.90	3.90	4.50	4.75	5.50	5.50	5.30	5.05	4.90
120-180 days	4.50	3.90	3.90	4.50	4.75	5.50	5.50	5.30	5.05	4.90
181-210 days	5.00	4.40	4.40	5.25	5.75	6.25	6.50	6.30	6.05	5.90
211 days-1 year	5.00	4.40	4.40	5.75	6.00	6.50	6.50	6.30	6.05	5.90
1 year-2 year	5.70	5.00	5.10	6.80	7.10	7.25	7.05	6.85	6.60	6.60
2 year-3 year	5.70	5.10	5.20	7.00	7.00	7.00	6.90	6.70	6.45	6.45
3 years-5 years	5.70	5.30	5.30	6.50	6.75	6.75	6.75	6.55	6.30	6.30
5 years-8 years	5.70	5.40	5.40	6.50	6.50	6.75	6.75	6.55	6.30	6.30

Source: Company, Kotak Institutional Equities

CDs rates have declined over the past few months

Exhibit 81: 1-year Certificate of Deposit rates in India (%)



Source: Bloomberg, Kotak Institutional Equities

NBFCs' borrowing costs have seen a gradual decline in the past 2-3 quarters (see Exhibit 82) and may decline further in the coming quarters, as banks reduce lending rates in line with the reduction in policy rates. However, the cost of borrowing of NBFCs was largely flat on a qoq basis in 1QFY26. Also, corporate bond yields (see Exhibit 83 for bond yields) have increased in the past few weeks, in line with the increase in government bond yields.

No major change in borrowing for NBFCs in 1QFY26

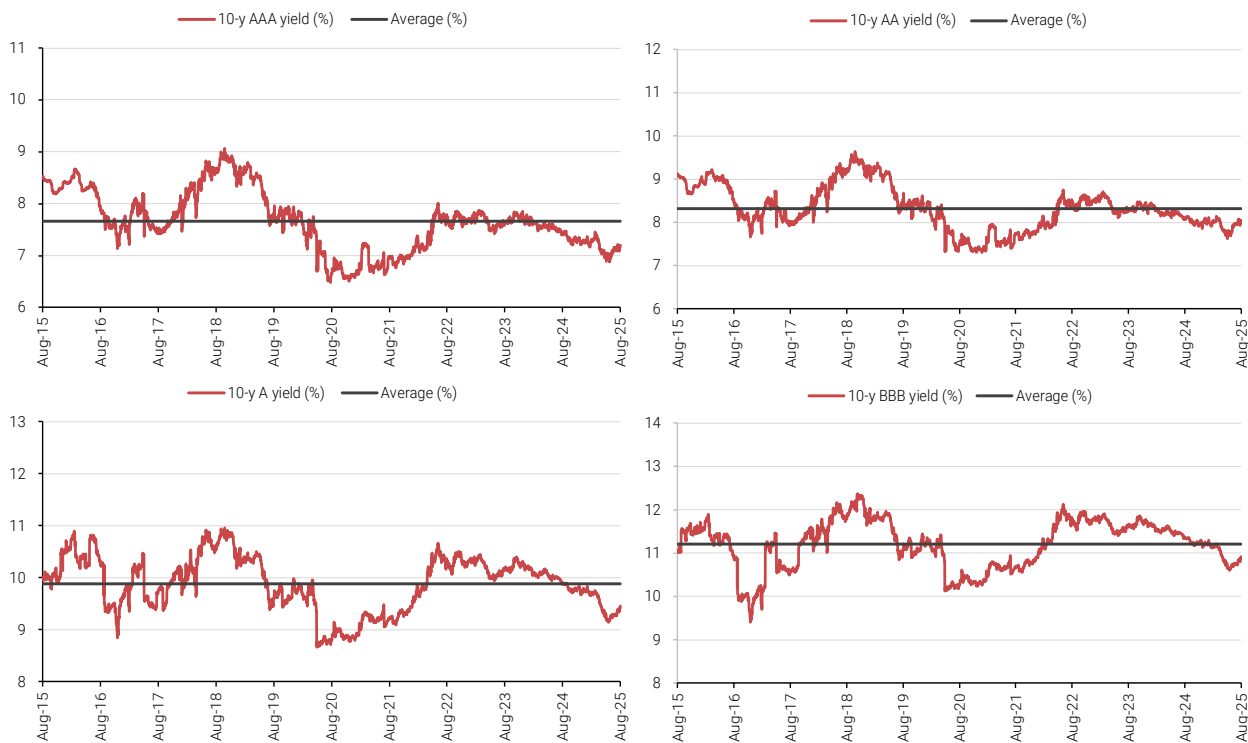
Exhibit 82: Cost of borrowing of NBFCs, March fiscal year-ends, 2024-26 (%)

	Cost of borrowing (%)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Affordable housing									
Aavas Financiers	7.3	7.5	7.7	7.4	7.5	8.0	8.0	7.8	7.7
Aptus	8.5	9.1	8.8	8.8	8.9	8.7	9.0	9.0	9.2
Home First	8.2	8.1	8.1	8.2	8.2	8.4	8.5	8.2	8.6
Other NBFCs and HFCs									
Bajaj Finance	7.3	7.4	7.5	7.5	7.6	7.8	7.8	7.5	7.5
Cholamandalam	7.8	7.8	8.0	8.0	7.9	7.9	8.1	7.9	7.7
Five Star	9.0	9.3	9.7	9.1	9.7	9.6	9.6	9.2	9.5
L&T Finance Holdings	6.9	7.0	7.1	7.0	6.9	7.1	7.3	7.2	7.0
LIC Housing Finance	7.4	7.6	7.6	7.5	7.5	7.6	7.6	7.4	7.5
Mahindra Finance	7.5	7.6	7.8	7.7	7.8	7.8	7.9	7.7	7.8
SBFC		9.4	9.3	9.2	9.4	9.5	9.2	9.4	9.1
Shriram Finance	8.7	8.9	8.7	8.8	8.7	8.7	8.8	9.1	9.1

Source: Companies, Kotak Institutional Equities

Corporate bond yields have increased in the past few weeks

Exhibit 83: Corporate bond yields, March fiscal year-ends, 2016-26 (%)



Source: Bloomberg, Kotak Institutional Equities

- **Construction materials.** We expect net profits of the construction materials (cement) companies in the Nifty-50 Index to grow a robust 53% in FY2026 based on our assumption of (1) a sharp recovery in profitability in FY2026 from very low levels in FY2025 (see Exhibit 84) and (2) strong volume growth led by continued robust residential real estate demand (construction of under-construction projects will support volumes even if new sales were to slow down), which may offset a slowdown in infrastructure demand. We note that the sector has seen decent increase in realization on a qoq basis in a seasonally strong quarter in 1QFY26, while fuel and power costs have moderated substantially from elevated levels of 9MFY25.

We model a sharp increase in profitability over FY2026 from FY2025 levels

Exhibit 84: Profitability (EBITDA/ton) of cement companies, March fiscal year-ends, 2021-28E (Rs/ton)

	Profitability (Rs/ton)								Growth (% yoy)							
	2021	2022	2023	2024	2025	2026E	2027E	2028E	2021	2022	2023	2024	2025	2026E	2027E	2028E
ACC	972	1,038	499	830	575	726	761	797	17	7	(52)	66	(31)	26	5	5
Ambuja Cements	1,066	1,121	741	1,081	789	982	1,112	1,202	23	5	(34)	46	(27)	24	13	8
Dalmia Bharat	1,338	1,085	906	916	819	1,051	1,117	1,192	22	(19)	(16)	1	(11)	28	6	7
J K Cement	1,396	1,089	835	1,088	877	1,108	1,148	1,255	12	(22)	(23)	30	(19)	26	4	9
Nuvoco Corp.	944	842	644	862	704	840	899	907	(3)	(11)	(23)	34	(18)	19	7	1
Shree Cement	1,473	1,315	925	1,233	1,078	1,283	1,346	1,404	(0)	(11)	(30)	33	(13)	19	5	4
The Ramco Cements	1,561	1,158	789	850	666	790	837	872	52	(26)	(32)	8	(22)	19	6	4
Ultratech Cement	1,370	1,272	1,011	1,101	962	1,202	1,246	1,318	19	(7)	(20)	9	(13)	25	4	6

Source: Companies, Kotak Institutional Equities estimates

However, we see downside risks to consensus and our FY2026-27E 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. We expect supply-demand balance to stay unfavorable through FY2028 (see Exhibit 85). We note that prices have moderated by 1.6% mom in July 2025, in a seasonally weak 2Q.

Capacity utilization in the cement industry to stay around 70% over FY2026-27E

Exhibit 85: Cement demand supply balance, March fiscal year-ends, 2019-28E

	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
All-India										
Closing installed capacity (mtpa)	483	499	525	545	573	624	654	705	745	790
Incremental installed capacity (mtpa)	16	15	26	20	28	52	30	52	39	46
Effective capacity (mtpa)	483	499	525	545	573	624	654	705	745	790
Incremental effective capacity (mtpa)	16	15	26	20	28	52	30	52	39	46
Capacity growth (%)	3.4	3.2	5.3	3.7	5.2	9.0	4.7	7.9	5.5	6.1
Cement consumption (mn tons)	333	330	326	355	386	421	447	483	517	554
Incremental consumption (mn tons)	39	(3)	(3)	28	31	35	26	36	34	37
Consumption growth (%)	13.4	(0.8)	(1.0)	8.6	8.7	9.1	6.3	8.1	7.1	7.1
Cement production (mn tons)	337	334	331	359	390	425	451	488	522	558
Incremental production (mn tons)	39	(3)	(3)	28	31	35	26	36	34	37
Growth (%)	13.3	(0.8)	(1)	8.5	8.6	9.0	6.2	8.0	7.0	7.0
Capacity utilization (%)	70	67	63	66	68	68	69	69	70	71

Source: CMA, Kotak Institutional Equities estimates

Exhibit 86 shows the FY2026-27E EPS of the cement companies under our coverage at various levels of profitability (Rs100/ton higher and lower versus our base-case profitability estimates). As can be seen, cement companies' earnings have very high sensitivity to profitability assumptions. The historical track record of the Street on earnings and large downgrades practically every year does not inspire a lot of confidence (see Exhibit 87 about changes to consensus estimates over time for the past 10 years for the major cement stocks) about consensus estimates being achieved. We would note that consensus estimates are well above our estimates and we are hardly conservative in our assumptions on profitability.

Earnings of cement companies are highly sensitive to cement profitability assumptions

Exhibit 86: EPS sensitivity of cement companies for change in EBITDA/ton, March fiscal year-ends, 2026E-28E

	(EBITDA: -Rs100/ton)			Base Case			(EBITDA: +Rs100/ton)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
ACC									
Volumes (mn tons)	43.5	44.8	46.1	43.5	44.8	46.1	43.5	44.8	46.1
EBITDA/ton (Rs)	626	661	697	726	761	797	826	861	897
EBITDA (Rs bn)	27.2	29.6	32.1	31.6	34.1	36.8	35.9	38.5	41.4
PAT (Rs bn)	14.4	16.2	18.8	17.6	19.5	22.2	20.9	22.9	25.7
EPS (Rs)	76	86	100	94	104	118	111	122	136
Ambuja (Standalone)									
Volumes (mn tons)	79.8	87.5	94.8	79.8	87.5	94.8	79.8	87.5	94.8
EBITDA/ton (Rs)	882	1,012	1,102	982	1,112	1,202	1,082	1,212	1,302
EBITDA (Rs bn)	70	89	105	78	97	114	86	106	123
PAT (Rs bn)	27	37	47	33	44	54	39	50	61
EPS (Rs)	11.0	15.2	19.1	13.4	17.8	22.0	15.8	20.5	24.9
Shree Cement									
Volumes (mn tons)	37.0	40.7	44.8	37.0	40.7	44.8	37.0	40.7	44.8
EBITDA/ton (Rs)	1,183	1,246	1,304	1,283	1,346	1,404	1,383	1,446	1,504
EBITDA (Rs bn)	43.8	50.7	58.4	47.5	54.8	62.9	51.2	58.9	67.4
PAT (Rs bn)	12.3	12.9	16.8	15.0	16.0	20.1	17.8	19.0	23.5
EPS (Rs)	340	358	464	417	443	557	493	527	650
Ultratech (Standalone)									
Volumes (mn tons)	143	157	173	143	157	173	143	157	173
EBITDA/ton (Rs)	1,102	1,146	1,218	1,202	1,246	1,318	1,302	1,346	1,418
EBITDA (Rs bn)	158	180	210	172	196	228	186	212	245
PAT (Rs bn)	69	81	101	79	93	113	90	105	126
EPS (Rs)	233	276	341	269	316	385	306	355	429

Source: Companies, Kotak Institutional Equities estimates

Earnings downgrades have been the norm for cement companies over FY2016-25

Exhibit 87: Actual versus 1-year prior consensus EBITDA estimates for cement companies, March fiscal year-ends, 2016-25 (Rs)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
ACC	(38)	(34)	(8)	(17)	(8)	(6)	(4)	(46)	(13)	(41)
Ambuja Cements	(48)	23	56	21	(9)	(0)	(4)	(9)	11	(5)
Dalmia Bharat	(16)	(7)	(18)	(33)	(22)	6	(25)	(32)	(31)	(42)
J K Cement	(43)	(9)	(18)	(27)	15	3	(21)	(37)	(5)	(27)
Nuvoco Vistas Corp.								(47)	(22)	(34)
Shree Cement	(54)	(15)	(33)	(37)	(10)	(14)	(28)	(44)	(15)	(35)
The Ramco Cements	(3)	(8)	(24)	(30)	(22)	(6)	(32)	(41)	(16)	(45)
UltraTech Cement	(26)	(16)	(2)	(9)	10	11	(4)	(25)	(6)	(22)

Source: Bloomberg, FactSet, Kotak Institutional Equities

We note that cement stocks trade at high multiples (see Exhibit 88) 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 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 FY2026E-27E

Exhibit 88: 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)		
	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E
ACC	54	94	104	(52)	75	11	33	19	17	12.3	9.1	8.1	1.8	1.7	1.5
Ambuja Cements	7	13	18	(53)	87	33	81	43	32	25.7	18.3	14.7	2.7	2.5	2.4
Dalmia Bharat	42	73	81	(4)	73	10	53	31	28	18.0	14.0	12.7	2.4	2.3	2.2
J K Cement	103	141	164	(0)	38	16	68	50	43	28.7	22.3	19.5	8.9	7.7	6.6
Nuvoco Vistas Corp.	1	9	12	(85)	1,336	36	740	52	38	14.4	12.4	10.3	1.8	1.7	1.7
Shree Cement	332	417	443	(52)	26	6	92	73	69	27.1	21.9	18.9	5.2	4.9	4.7
The Ramco Cements	3	17	26	(80)	437	55	344	64	41	24.1	18.1	15.5	3.4	3.1	2.9
Ultratech Cement	209	313	365	(15)	50	17	59	39	34	30.3	21.1	18.5	5.1	4.7	4.3

Source: Companies, Kotak Institutional Equities estimates

- **Consumer products.** We expect a gradual improvement in operating performances of consumer discretionary and staple categories in FY2026 after a very weak FY2025 led by (1) a moderate recovery in volumes from the low levels of FY2025 for staples, (2) decent-to-strong volume growth for discretionary items (consumer durables) due to income tax benefits announced in the FY2026 union budget; however, we are yet to see any pickup in demand with unseasonal rains in 1QFY26 hurting demand for certain consumer durables (ACs), (3) low retail inflation and (4) a likely increase in gross and EBITDA margins on the back of moderation in raw material (agriculture, crude oil) prices from high levels seen over the past several quarters. We expect net profits of the consumer staples companies in the Nifty-50 Index companies to increase 5.3% yoy in FY2026 and a stronger 10.4% yoy in FY2027 after a decline in net profits in FY2025.

However, we would note that our FY2026E estimates could be at risk from weaker-than-expected profitability, especially if one or more players were to take a more aggressive stance in order to increase their market share/(s). HUVR has stated its intention to prioritize volumes over profitability in the first 2-3 quarters of FY2026, which may (1) stall the plan of other companies to increase profitability through higher prices and (2) stymie market expectations of a strong recovery in profitability. We also note that a number of companies absorbed part of the RM increase in 1QFY26, given elevated competition and weak demand.

- **Volumes and revenues.** Exhibit 89 gives historical revenues and our revenue and revenue growth assumption for various consumer product companies under our coverage for FY2019-28E. For the consumer staples companies, we expect a moderate growth in revenues and a modest recovery in volumes in FY2026 due to (1) modest growth in incomes of low-income households in both rural and urban India, (2) broadly stable product prices; companies may not increase prices in sync with the increase in raw material prices seen in the past 6-12 months on expectations of likely moderation in agriculture input (cocoa, coffee, palm oil and other vegetable oils) prices.

We expect a recovery in revenue growth for most consumer companies in FY2026

Exhibit 89: Revenue and revenue growth of consumer product companies under coverage, March fiscal year-ends, 2019-28E (%)

	Revenues (Rs bn)										Growth yoy (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Asian Paints	193	202	217	291	345	355	339	350	377	411	14	4	7	34	19	3	(4)	3	8	9
Avenue Supermart	200	249	241	310	428	508	594	696	834	1,001	33	24	(3)	28	38	19	17	17	20	20
Berger Paints	61	64	68	88	106	112	115	123	132	143	17	5	7	29	21	6	3	6	8	8
Britannia Industries	111	116	131	141	163	168	179	195	214	234	12	5	13	8	15	3	7	9	10	9
Colgate-Palmolive (India)	45	45	48	51	52	57	60	61	66	71	7	1	7	5	2	9	6	2	7	7
Dabur India	85	87	96	109	115	124	126	135	147	161	10	2	10	14	6	8	1	7	9	9
Godrej Consumer Products	103	99	110	123	133	141	144	156	169	182	5	(4)	11	11	8	6	2	9	8	8
Hindustan Unilever	382	388	460	512	591	605	615	652	708	768	11	1	19	11	16	2	2	6	9	8
ITC	450	456	455	563	660	654	693	752	809	870	11	1	(0)	24	17	(1)	6	8	8	8
Jubilant Foodworks	36	39	33	43	51	53	61	71	80	90	18	10	(16)	31	18	5	14	16	13	12
Jyothy Laboratories	18	17	19	22	25	28	28	30	32	35	8	(6)	12	15	13	11	3	4	9	8
Kansai Nerolac	52	49	47	59	71	74	75	78	84	89	13	(4)	(5)	26	20	4	1	5	7	6
Marico	73	73	80	95	98	97	108	132	135	147	16	(0)	10	18	3	(1)	12	21	3	9
Nestle India	112	123	133	147	168	243	201	216	236	260	13	10	8	10	14	45	(17)	8	9	10
Page Industries	29	29	28	39	47	46	49	53	59	66	12	3	(4)	37	21	(3)	8	8	11	11
Pidlite Industries	71	73	73	99	118	124	131	145	160	176	16	3	(0)	36	19	5	6	10	10	10
Titan Company	198	211	216	288	406	511	605	692	778	891	23	6	3	33	41	26	18	14	12	15
United Breweries	65	65	42	58	75	81	89	101	112	124	15	1	(35)	38	28	8	10	13	11	11
United Spirits	90	91	79	94	104	107	116	125	136	148	10	1	(13)	19	10	3	8	8	8	9
Varun Beverages	51	71	65	88	132	160	200	222	253	283	28	40	(10)	37	49	22	25	11	14	12

Source: Companies, Kotak Institutional Equities estimates

We estimate most consumer staples companies to deliver 7-9% revenue growth, with CLGT (2% yoy) and MRCO (21% yoy, led by strong ramp-up in its food category) being the outliers. Meanwhile, the major discretionary companies are expected to deliver 10-15% revenue growth in FY2026, with paints likely to continue their weak performance at around 3-6% revenue growth.

- **Margins.** Exhibit 90 shows our gross and EBITDA margin assumptions for various consumer product companies under our coverage for FY2019-28E. We expect a modest improvement in gross and EBITDA margins from depressed levels of FY2025, as companies (1) raise prices gradually to pass on a part or the full extent of the sharp increase in RM prices seen in FY2025 and (2) retain a part of the decline in raw material prices. Nonetheless, 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 in 2HFY23-1HFY24.

We expect some improvement in gross and EBITDA margins from low levels of FY2025

Exhibit 90: Gross and EBITDA margins of consumer companies, March fiscal year-ends, 2019-28E (%)

	Gross margin (%)										EBITDA margin (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Asian Paints	41.4	43.7	44.3	37.1	38.7	43.4	42.4	42.6	42.9	43.0	18.2	20.6	22.4	16.5	18.2	21.4	17.7	17.9	18.2	18.5
Avenue Supermart	15.0	15.1	14.9	14.8	15.1	14.8	14.8	14.9	14.9	14.9	8.2	8.6	7.2	8.1	8.5	8.1	7.6	7.5	7.6	7.6
Berger Paints	39.0	41.5	43.3	38.0	36.3	40.7	41.4	41.6	42.1	42.6	14.5	16.7	17.4	15.2	14.1	16.6	16.1	15.6	16.1	16.8
Britannia Industries	40.6	40.3	41.9	38.0	41.2	43.4	40.9	41.6	41.6	41.8	15.7	15.9	19.1	15.6	17.4	18.9	17.8	18.0	18.2	18.6
Colgate-Palmolive (India)	65.1	65.2	68.0	67.3	65.7	69.7	69.9	69.9	70.0	70.1	27.7	26.6	31.2	30.7	29.6	33.5	32.4	32.4	32.7	32.9
Dabur India	49.5	49.9	50.1	48.2	45.6	48.0	48.0	47.5	47.9	48.0	20.4	20.6	21.1	20.7	18.8	19.4	18.4	18.9	19.1	19.5
Godrej Consumer Products	55.8	57.0	55.3	50.5	49.7	55.2	54.5	53.7	54.9	54.9	20.5	21.6	21.7	19.5	18.3	20.9	20.9	20.5	21.7	21.9
Hindustan Unilever	53.0	54.1	52.9	50.9	47.3	51.5	50.9	50.2	50.9	51.3	22.6	24.8	24.6	24.4	23.0	23.5	23.2	22.6	23.1	23.4
ITC	61.5	62.2	56.1	53.4	56.3	58.8	54.2	54.4	54.6	54.8	38.5	39.2	34.1	33.6	36.3	37.4	34.7	34.0	34.4	34.5
Jubilant Foodworks	75.1	75.0	78.1	77.5	75.9	76.4	75.4	74.9	75.4	75.6	16.8	22.3	23.3	25.5	22.7	20.5	19.3	20.0	21.0	21.5
Jyothy Laboratories	46.5	47.4	47.1	41.6	42.3	49.1	50.1	48.3	48.2	48.1	15.5	14.7	16.5	11.3	12.7	17.4	17.5	16.9	16.3	16.4
Kansai Nerolac	36.2	38.1	37.9	30.0	30.0	35.5	35.3	35.7	35.9	36.1	14.3	15.8	17.8	10.5	11.2	13.8	13.0	13.3	13.4	13.9
Marico	45.2	48.8	46.9	42.9	45.2	50.8	50.3	45.8	51.0	51.5	17.5	20.1	19.8	17.7	18.5	21.0	19.7	17.6	20.0	20.6
Nestle India	59.1	57.5	57.3	56.7	53.8	55.9	56.4	55.7	56.6	56.6	23.7	22.9	23.7	23.6	21.7	23.6	23.2	23.0	23.7	24.1
Page Industries	58.0	55.5	55.4	56.0	55.8	54.4	56.8	58.5	59.0	59.0	21.7	18.1	18.6	20.2	18.3	18.8	21.5	22.2	22.9	23.0
Pidlite Industries	49.3	53.4	53.7	45.1	42.7	51.6	54.4	54.6	54.5	54.4	19.3	21.6	23.0	18.6	16.8	21.9	22.9	23.5	23.6	23.8
Tata Consumer Products	44.7	43.9	40.5	43.0	41.9	43.7	42.8	43.0	44.0	44.4	10.8	13.4	13.3	13.8	13.5	15.0	14.1	14.5	15.7	16.3
Titan Company	27.2	28.0	24.2	24.9	25.2	22.8	22.4	23.5	23.7	23.6	10.8	11.7	8.0	11.6	12.0	10.4	10.3	10.9	11.1	11.2
United Breweries	53.6	51.6	52.2	49.9	43.1	42.7	43.1	43.9	45.4	45.9	17.6	13.5	9.0	11.9	8.2	8.6	9.4	10.3	12.2	13.2
United Spirits	48.8	44.8	43.4	43.9	41.5	43.4	44.7	44.9	45.8	46.1	14.3	16.6	12.5	16.0	13.7	16.0	17.8	17.9	18.7	19.1
Varun Beverages	56.0	54.8	57.1	54.3	52.5	53.8	55.5	55.1	54.4	54.4	19.7	20.3	18.6	18.8	21.2	22.5	23.5	23.7	23.3	23.3

Source: Companies, Kotak Institutional Equities estimates

We build a modest improvement in the gross and EBITDA margins of the commodity chemicals (paints) companies in FY2026-27E from low levels of FY2025. However, this is entirely contingent on more benign competition and raw material prices. We would note that (1) industry structure could weaken further post the completion of JSW Paints' acquisition of Akzo (fourth-largest player in the decorative paints category) and/or (2) competition could become more aggressive if APNT was to attempt to regain its market share from new entrants such as Grasim and extant players such as Berger who increased market share in FY2025 at the expense of APNT.

- **IT services.** Exhibits 91-93 give the key volume and profitability assumptions for the major IT stocks under our coverage. We note high divergence in growth across companies—(1) the broad-based companies will likely see flat yoy revenues or weak yoy revenue growth in FY2026 followed by a moderate recovery in revenues in FY2027 and the (2) narrow-focused ERD companies will see strong growth in both FY2026 and FY2027 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 FY2026E-27E

Exhibit 91: Key assumptions for Tier-1 Indian IT companies, March fiscal year-ends, 2023-28E

	2023	2024	2025	2026E	2027E	2028E
HCL Tech						
Revenues (US\$ mn)	12,586	13,270	13,840	14,654	15,539	16,569
US\$ revenue growth yoy (%)	9.6	5.4	4.3	5.9	6.0	6.6
Volume growth yoy (%)	18.1	3.0	5.0	3.8	7.5	7.0
Pricing change (%)						
Onsite	0.5	0.7	(0.8)	3.0	(0.5)	(0.3)
Offshore	(10.6)	4.2	0.2	2.5	(1.5)	(0.3)
Blended	(7.2)	2.4	(0.6)	2.0	(1.3)	(0.3)
Directs costs (as % of revenues)	65.2	65.6	66.5	67.3	67.5	67.5
SG&A expenses (as % of revenues)	12.5	12.4	11.7	12.0	11.8	11.9
EBIT margin (%)	18.2	18.2	18.3	17.3	17.6	17.6
Net income (Rs mn)	148,316	157,070	172,704	172,158	190,204	208,463
Re/US\$ rate (average)	80.6	82.8	84.6	86.1	88.0	90.0
	2023	2024	2025	2026E	2027E	2028E
Infosys						
Revenues (US\$ mn)	18,212	18,562	19,277	19,985	21,261	22,941
US\$ revenue growth yoy (%)	11.7	1.9	3.9	3.7	6.4	7.9
Volume growth yoy (%)	14.7	0.1	4.1	1.6	5.2	7.7
Pricing change (%)						
Onsite	(3.2)	2.1	(0.3)	1.4	0.5	0.5
Offshore	(3.6)	1.4	1.4	3.5	0.5	0.5
Blended	(2.6)	1.8	(0.3)	1.9	0.9	0.1
Directs costs (as % of revenues)	66.9	66.9	66.6	66.2	66.2	66.4
SG&A expenses (as % of revenues)	9.2	9.4	9.3	10.0	10.0	9.8
EBIT margin (%)	21.1	20.7	21.1	20.9	21.1	21.3
Net income (Rs mn)	240,950	242,640	262,930	276,940	303,886	335,392
Re/US\$ rate (average)	80.6	82.8	84.6	86.1	88.0	90.0
	2023	2024	2025	2026E	2027E	2028E
LTIMindtree						
Revenues (US\$ mn)	4,106	4,287	4,493	4,643	5,030	5,568
US\$ revenue growth yoy (%)	17.2	4.4	4.8	3.4	8.3	10.7
Volume growth yoy (%)	20.4	3.1	2.7	3.6	8.1	9.8
Pricing change (%)						
Onsite	0.4	2.1	1.4	(0.1)	1.0	0.5
Offshore	(0.1)	1.6	1.1	0.1	1.6	0.5
Blended	(2.6)	1.3	2.0	(0.2)	0.3	0.8
Directs costs (as % of revenues)	71.5	71.2	71.2	71.4	71.0	71.1
SG&A expenses (as % of revenues)	10.1	10.8	11.2	11.6	11.6	11.5
EBIT margin (%)	16.5	15.7	14.8	14.8	15.4	15.4
Net income (Rs mn)	44,078	45,821	46,020	50,372	57,850	64,891
Re/US\$ rate (average)	80.8	82.8	84.6	86.6	88.5	90.0
	2023	2024	2025	2026E	2027E	2028E
TCS						
Revenues (US\$ mn)	27,927	29,080	30,179	30,001	31,855	33,977
US\$ revenue growth yoy (%)	8.6	4.1	3.8	(0.6)	6.2	6.7
Volume growth yoy (%)	13.2	1.9	0.8	(1.0)	6.4	5.9
Pricing change (%)						
Onsite	(0.9)	2.0	(0.1)	2.9	0.8	0.8
Offshore	(3.7)	1.7	0.2	3.3	0.8	0.8
Blended	(3.5)	1.4	(0.0)	3.1	0.9	0.7
Directs costs (as % of revenues)	60.4	59.6	61.1	60.9	60.5	60.3
SG&A expenses (as % of revenues)	15.5	15.8	14.6	14.6	14.7	14.7
EBIT margin (%)	24.1	24.6	24.3	24.5	25.0	25.1
Net income (Rs mn)	421,470	466,132	485,530	508,242	549,122	599,867
Re/US\$ rate (average)	80.7	82.8	84.6	86.1	88.0	90.0
	2023	2024	2025	2026E	2027E	2028E
Tech Mahindra						
Revenues (US\$ mn)	6,607	6,277	6,264	6,377	6,832	7,335
US\$ revenue growth yoy (%)	10.1	(5.0)	(0.2)	1.8	7.1	7.4
Volume growth yoy (%)	12.7	(5.6)	1.0	1.1	7.1	6.0
Pricing change (%)						
Onsite	(1.7)	3.0	4.4	6.3	1.8	1.5
Offshore	(0.2)	4.7	5.1	3.3	1.5	1.0
Blended	(2.3)	0.6	(1.2)	0.7	0.1	1.3
Directs costs (as % of revenues)	71.5	75.2	71.9	69.6	66.8	66.7
SG&A expenses (as % of revenues)	13.4	15.2	14.9	14.7	15.0	15.0
EBIT margin (%)	11.4	6.1	9.7	12.4	15.0	15.2
Net income (Rs mn)	50,683	28,160	42,788	51,951	69,226	77,247
Re/US\$ rate (average)	80.7	82.8	84.6	86.0	88.0	90.0
	2023	2024	2025	2026E	2027E	2028E
Wipro						
Revenues (US\$ mn)	11,160	10,805	10,512	10,481	10,852	11,168
US\$ revenue growth yoy (%)	7.8	(3.2)	(2.7)	(0.3)	3.5	2.9
Volume growth yoy (%)	14.1	(0.8)	1.6	1.5	3.7	0.9
Pricing change (%)						
Onsite	(8.5)	(1.9)	(2.0)	1.7	—	1.3
Offshore	(0.5)	(2.1)	(3.8)	(2.6)	(0.0)	1.3
Blended	(4.7)	(2.2)	(4.5)	(1.3)	(0.4)	1.3
Directs costs (as % of revenues)	68.1	67.1	66.9	68.2	68.4	68.5
SG&A expenses (as % of revenues)	12.5	13.2	12.7	12.0	12.2	12.1
IT services EBIT margin (%)	15.7	15.9	17.1	16.9	16.7	16.7
Net income (Rs mn)	113,500	110,450	130,225	131,523	139,602	147,615
Re/US\$ rate (average)	80.4	82.7	84.5	86.0	88.0	90.0

Source: Companies, Kotak Institutional Equities estimates

We expect strong growth in revenues and modest improvement in EBIT margins for Tier-2 IT companies over FY2026E-27E

Exhibit 92: Key assumptions for Tier-2 Indian IT companies, March fiscal year-ends, 2023-28E

	2023	2024	2025	2026E	2027E	2028E		2023	2024	2025	2026E	2027E	2028E
Coforge							Hexaware						
Revenues (US\$ mn)	1,002	1,119	1,461	1,913	2,213	2,542	Revenues (US\$ mn)	1,165	1,256	1,429	1,545	1,715	1,948
US\$ revenue growth yoy (%)	15.6	11.7	30.6	30.9	15.7	14.8	US\$ revenue growth yoy (%)	71.9	58.4	13.7	8.1	11.1	13.6
Volume growth yoy (%)	14.4	9.6	25.5	22.4	16.0	14.0	Volume growth yoy (%)	49.1	26.9	15.4	9.0	11.6	13.5
Pricing change (%)							Pricing change (%)						
Onsite	2.4	0.4	6.2	5.2	0.9	1.0	Onsite	1.8	3.7	0.2	2.0	1.0	1.0
Offshore	2.3	2.9	7.6	1.3	(1.9)	(1.2)	Offshore	2.9	5.6	(2.3)	2.0	1.0	1.0
Blended	(3.4)	0.1	6.0	3.7	(1.1)	0.2	Blended	3.3	5.3	(1.4)	(0.8)	(0.5)	0.0
Directs costs (as % of revenues)	67.5	67.6	67.0	64.8	64.8	65.1	Directs costs (as % of revenues)	60.4	59.0	58.2	72.9	72.1	72.1
SG&A expenses (as % of revenues)	15.0	16.0	16.7	17.9	17.9	17.6	SG&A expenses (as % of revenues)	26.3	25.7	26.6	11.4	10.8	10.6
EBIT margin (%)	14.3	12.9	12.5	13.4	13.6	13.8	EBIT margin (%)	10.6	12.5	13.0	13.3	14.7	15.1
Net income (Rs mn)	7,977	8,289	9,608	14,350	18,814	22,401	Net income (Rs mn)	8,842	9,976	11,764	14,188	16,627	19,879
Re/US\$ rate (average)	80.0	82.1	83.4	85.6	88.0	90.0	Re/US\$ rate (average)	79.0	82.6	83.8	86.0	88.0	90.0

	2023	2024	2025	2026E	2027E	2028E		2023	2024	2025	2026E	2027E	2028E
Mphasis							Persistent						
Revenues (US\$ mn)	1,717	1,610	1,681	1,798	1,948	2,112	Revenues (US\$ mn)	1,036	1,186	1,409	1,645	1,883	2,177
US\$ revenue growth yoy (%)	8.0	(6.3)	4.4	7.0	8.3	8.4	US\$ revenue growth yoy (%)	35.3	14.5	18.8	16.7	14.5	15.6
Volume growth yoy (%)	7.7	(6.3)	(2.3)	5.5	8.4	8.1	Volume growth yoy (%)	37.0	16.6	15.4	18.9	14.0	16.6
Pricing change (%)							Pricing change (%)						
Onsite	6.0	2.2	7.7	0.7	0.3	0.3	Onsite	(2.0)	(1.0)	2.5	0.9	1.8	0.8
Offshore	3.8	3.7	(2.2)	0.7	0.3	0.3	Offshore	3.3	(0.0)	0.2	0.6	1.2	0.8
Blended	0.3	0.0	6.9	1.4	(0.1)	0.2	Blended	(1.2)	(1.8)	3.0	(1.8)	0.4	(0.8)
Directs costs (as % of revenues)	71.1	69.9	68.6	68.7	69.3	69.5	Directs costs (as % of revenues)	66.2	66.4	66.0	65.5	65.9	66.0
SG&A expenses (as % of revenues)	11.2	11.9	12.8	12.9	12.6	12.5	SG&A expenses (as % of revenues)	15.6	16.0	16.8	16.8	16.4	16.3
EBIT margin (%)	15.3	15.1	15.3	15.3	15.3	15.3	EBIT margin (%)	14.9	14.4	14.7	15.3	15.5	15.7
Net income (Rs mn)	16,379	15,549	16,991	18,737	20,940	23,473	Net income (Rs mn)	9,211	10,935	14,001	17,263	20,181	24,265
Re/US\$ rate (average)	80.4	82.5	84.7	86.0	88.0	90.0	Re/US\$ rate (average)	80.6	82.8	84.7	86.1	88.0	90.0

Source: Companies, Kotak Institutional Equities estimates

We expect strong growth in revenues and modest improvement in EBIT margins for Tier-2 IT companies over FY2026E-27E

Exhibit 93: Key assumptions for Tier-2 Indian IT companies, March fiscal year-ends, 2023-28E

	2023	2024	2025	2026E	2027E	2028E		2023	2024	2025	2026E	2027E	2028E
Cyient (DET)							KPIT						
Revenues (US\$ mn)	632	714	688	663	709	761	Revenues (US\$ mn)	418	587	691	745	844	965
US\$ revenue growth yoy (%)	25.6	12.9	(3.7)	(3.6)	7.0	7.3	US\$ revenue growth yoy (%)	27.4	40.4	17.7	7.8	13.2	14.4
Volume growth yoy (%)	21.7	7.7	(5.7)	(4.0)	8.2	7.3	Volume growth yoy (%)	25.7	25.8	13.7	8.5	14.5	14.7
Pricing change (%)							Pricing change (%)						
Onsite	8.5	1.1	2.7	1.8	0.0	(0.0)	Onsite	(0.9)	1.7	3.5	0.7	(0.4)	—
Offshore	(2.4)	(0.2)	2.8	(0.1)	(0.0)	0.0	Offshore	(0.8)	10.1	4.1	(0.3)	(0.4)	—
Blended	3.2	4.9	2.2	0.4	(1.1)	—	Blended	1.4	11.6	3.6	(0.7)	(1.1)	(0.2)
Directs costs (as % of revenues)	58.1	57.4	60.2	61.0	59.1	59.3	Directs costs (as % of revenues)	64.9	65.0	64.3	63.7	64.0	64.2
SG&A expenses (as % of revenues)	23.9	22.3	22.3	22.9	23.9	23.4	SG&A expenses (as % of revenues)	16.2	14.7	14.7	15.8	15.2	14.7
EBIT margin (%)	13.7	16.1	13.5	12.1	12.8	13.6	EBIT margin (%)	14.5	16.3	17.2	16.9	17.5	18.0
Net income (Rs mn)	5,146	6,830	6,157	6,470	7,554	8,745	Net income (Rs mn)	3,796	5,945	8,396	8,027	9,840	11,930
Re/US\$ rate (average)	80.6	82.8	84.6	86.1	88.0	90.0	Re/US\$ rate (average)	80.4	83.0	84.5	86.4	88.5	90.0
LTTS							Tata Elxsi						
Revenues (US\$ mn)	990	1,164	1,259	1,384	1,513	1,684	Revenues (US\$ mn)	390	429	441	431	484	548
US\$ revenue growth yoy (%)	12.4	17.6	8.2	10.0	9.3	11.3	US\$ revenue growth yoy (%)	17.8	10.0	2.7	(2.2)	12.2	13.2
Volume growth yoy (%)	12.6	9.8	4.4	5.6	8.7	11.6	Volume growth yoy (%)	23.8	13.6	(3.0)	(0.8)	12.5	13.5
Pricing change (%)							Pricing change (%)						
Onsite	(1.0)	2.3	4.4	3.3	2.4	1.1	Onsite	(6.3)	(6.8)	(0.6)	(1.5)	—	—
Offshore	(1.4)	11.8	2.0	3.2	(0.8)	(0.6)	Offshore	(4.5)	(3.6)	6.6	(2.3)	—	—
Blended	(0.1)	7.1	3.6	4.1	0.5	(0.3)	Blended	(4.9)	(3.2)	5.9	(1.4)	(0.2)	(0.2)
Directs costs (as % of revenues)	57.0	51.1	53.3	53.8	53.6	53.6	Directs costs (as % of revenues)	50.8	53.8	54.9	57.7	57.1	57.0
SG&A expenses (as % of revenues)	21.7	29.0	29.0	29.6	29.5	29.0	SG&A expenses (as % of revenues)	18.6	16.7	18.5	19.8	17.8	17.6
EBIT margin (%)	18.5	17.1	14.9	13.9	14.4	15.1	EBIT margin (%)	28.0	26.7	23.8	19.7	22.5	22.9
Net income (Rs mn)	11,698	13,036	12,668	13,091	15,323	18,268	Net income (Rs mn)	7,563	7,924	7,849	6,403	8,126	9,457
Re/US\$ rate (average)	81.0	82.9	84.8	86.1	88.0	90.0	Re/US\$ rate (average)	80.6	82.8	84.6	86.1	88.0	90.0
Tata Technologies													
Revenues (US\$ mn)	547	618	611	600	638	702							
US\$ revenue growth yoy (%)	15.5	13.0	(1.2)	(1.7)	6.3	10.0							
Volume growth yoy (%)		11.7	2.7	0.4	7.3	10.5							
Pricing change (%)													
Onsite		3.9	(1.0)	0.9	—	0.9							
Offshore		4.9	(2.7)	(0.8)	—	0.9							
Blended		(1.1)	(4.1)	(3.5)	(0.7)	0.8							
Directs costs (as % of revenues)	72.1	73.6	73.1	74.0	73.9	73.5							
SG&A expenses (as % of revenues)	9.3	8.0	8.8	8.6	8.6	8.5							
EBIT margin (%)	16.5	16.3	15.7	14.9	15.2	15.6							
Net income (Rs mn)	6,240	6,914	6,770	7,136	8,046	9,421							
Re/US\$ rate (average)	80.7	82.4	84.6	86.1	88.0	90.0							

Source: Companies, Kotak Institutional Equities estimates

We note that the demand environment remains quite uncertain, given (1) high uncertainty in the logistics, manufacturing and retail verticals from the fluid tariff situation in the US, even as the US administration has imposed high reciprocal taxes on most of its trade partners, (2) shift in spending on high-tech vertical to investing for “future” (AI-related capex and opex), while optimizing spending elsewhere through cuts in discretionary spending and (3) considerable uncertainty in the healthcare vertical due to (a) cost pressure for payers and (b) increasing pressure on big pharma from the US administration to reduce costs. BFSI appears to be the only vertical with somewhat stable operating conditions.

We expect FY2026E net profits of the IT services companies in the Nifty-50 Index to grow 4.3% due to an uncertain demand and investment environment in 1HFY26, which could result in companies postponing their decisions to 2HFY26 (see Exhibit 94). We expect FY2027E net profits of the IT services companies in the Nifty-50 Index to grow 9.7% on the back of gradual improvement in (1) revenues, (2) EBIT margins and (3) a weaker INR. However, we would caution that headwinds to margins persist in the form of increasing share of cost-takeout deals and intense competition, with margin levers such as utilization and subcontracting operating at peak levels. Exhibit 95 shows our expectation of margin trajectory for IT services companies under coverage.

We expect FY2026E net profits of the IT services companies in the Nifty-50 Index to grow 4%

Exhibit 94: Net profits of IT services companies in Nifty-50 Index, March fiscal year-ends, 2019-28E

	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Net income (Rs bn)										
HCL Technologies	101	111	130	135	148	157	173	172	190	208
Infosys	157	166	194	221	241	243	263	277	304	335
TCS	315	323	334	383	421	466	486	508	549	600
Tech Mahindra	43	40	45	56	51	28	43	52	69	77
Wipro	90	97	108	122	113	110	130	132	140	148
Total	706	737	810	917	975	1,004	1,094	1,141	1,252	1,369
Yoy growth (%)										
HCL Technologies	15	10	17	4	10	6	10	(0)	10	10
Infosys	8	6	17	14	9	1	8	5	10	10
TCS	22	3	3	15	10	11	4	5	8	9
Tech Mahindra	13	(6)	11	24	(9)	(44)	52	21	33	12
Wipro	12	8	11	13	(7)	(3)	19	1	6	6
Total	15.7	4.5	9.8	13.2	6.3	3.0	9.0	4.3	9.7	9.3

Source: Companies, Kotak Institutional Equities estimates

We expect some improvement in gross and EBITDA margins from low levels of FY2025

Exhibit 95: Gross and EBITDA margins of IT companies, March fiscal year-ends, 2019-28E (%)

	Gross margin (%)										EBITDA margin (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Coforge	40.6	37.5	35.5	37.7	40.1	40.1	39.9	41.2	40.9	40.1	17.6	17.3	16.7	17.1	17.0	16.0	16.3	17.3	17.4	17.3
Cyient	36.0	35.2	40.8	37.4	38.1	37.3	34.4	34.8	35.6	35.0	14.0	13.5	14.8	18.1	17.0	18.2	15.5	14.5	15.5	15.8
HCL Technologies	35.0	35.9	39.9	36.6	34.8	34.4	33.5	32.7	32.5	32.5	23.1	23.6	27.6	24.0	22.3	22.0	21.8	20.7	20.6	20.6
Hexaware Technologies	33.0	32.7	41.0	40.4	39.6	41.0	41.8	42.3	43.0	42.9	15.8	15.4	16.7	15.8	13.3	15.2	15.3	15.7	17.1	17.3
Indegene		42.5	44.6	39.1	36.5	36.2	36.1	36.6	36.4	36.6		22.3	23.9	17.2	17.2	19.5	19.4	19.8	19.7	20.1
Infosys	37.3	36.3	38.1	35.4	33.1	33.1	33.4	33.8	33.8	33.6	25.3	24.5	27.8	25.9	23.9	23.7	24.1	23.8	23.8	23.7
KPIT Technologies		33.3	34.1	33.8	35.1	35.0	35.7	36.3	36.2	35.8		13.7	15.0	18.0	18.9	20.3	21.0	21.1	21.0	21.1
L&T Technology Services	37.4	41.7	38.4	44.4	43.0	48.9	46.7	46.2	46.4	46.4	18.0	19.8	18.5	21.5	21.4	19.9	17.7	16.6	16.9	17.4
LTIMindtree	40.0	37.9	38.3	38.8	37.0	36.0	35.2	34.9	35.4	35.2	17.9	16.7	21.5	20.1	18.4	18.0	17.1	16.8	17.4	17.3
Mphasis	27.9	28.8	30.3	29.2	28.9	30.1	31.4	31.3	30.7	30.5	17.1	18.7	18.5	17.7	17.6	18.2	18.6	18.4	18.1	18.0
Persistent Systems	36.5	34.1	34.0	33.6	33.8	33.6	34.0	34.5	34.1	34.0	17.2	13.8	16.3	16.8	18.2	17.6	17.2	17.6	17.7	17.6
RateGain	80.2	76.2	79.5	76.0	75.1	75.3	73.9	70.5	70.5	70.9	8.3	7.2	2.5	8.3	15.0	19.8	21.6	17.8	18.5	19.1
Tata Elxsi	41.0	35.9	39.1	42.8	43.3	40.7	38.7	35.4	36.9	37.0	26.0	21.3	28.6	31.0	30.6	29.5	26.6	22.5	25.1	25.4
Tata Technologies	28.4	26.7	24.6	26.3	27.9	26.4	26.9	26.0	26.1	26.5	17.2	16.5	16.2	18.3	18.6	18.4	18.1	17.3	17.5	17.9
TCS	43.0	42.9	42.7	42.1	41.3	42.0	40.5	40.7	41.1	41.2	27.0	26.8	28.4	27.7	26.3	26.7	26.4	26.6	27.0	27.0
Tech Mahindra	32.8	29.5	31.7	30.6	28.5	24.8	28.1	30.4	33.2	33.3	18.2	15.5	18.1	18.0	15.1	9.5	13.2	15.7	18.2	18.3
Wipro	32.6	31.6	35.0	32.9	31.4	32.2	32.9	31.5	31.5	31.5	19.7	20.6	24.2	21.5	19.0	18.9	20.3	19.7	19.5	19.4

Source: Companies, Kotak Institutional Equities estimates

We note that a weak FY2026 (assuming that's the case) could be the third consecutive year of weak revenue growth for the IT services sector. Also, our FY2026-27E net profit assumptions could be at risk in case the INR was to appreciate versus the USD due to USD-specific issues. We assume INR-USD exchange rate at Rs86.1/US\$ for FY2026 and Rs88/US\$ for FY2027. However, there are other nuances that are equally relevant—(1) movement of INR versus other currencies such as EUR, GBP; the INR has depreciated meaningfully against these currencies, (2) the level of hedging by various companies and (3) geographical mix of revenues of companies.

- **Metals & mining.** We model the net profits of the metals & mining stocks to increase a sharp 85% in FY2026 led by (1) a strong rebound in domestic steel profitability on imposition of safeguard duties by the Indian government from April 2025 and (2) higher aluminum realization in the case of HNDL. However, our pricing and profitability assumptions may be at risk from (1) weaker-than-expected global GDP growth given weak consumption and investment in a highly uncertain global environment and (2) recent weakness in spot HRC prices (down 6% versus 1QFY26 average). Exhibit 96 gives our price and profitability assumptions and Exhibit 97 our volume assumptions for the metal stocks under our coverage. Exhibit 98 gives our EBITDA/ton assumptions for the steel stocks under our coverage.

We model higher non-ferrous metal prices in FY2026-27E

Exhibit 96: Price assumptions for metal companies, March fiscal year-ends, 2021-28E (US\$/ton)

	Price assumptions								Historical prices	
	2021	2022	2023	2024	2025	2026E	2027E	2028E	Spot	5-year avg.
Non-ferrous										
Hindalco Industries										
Aluminum (LME)	1,807	2,777	2,475	2,208	2,527	2,550	2,600	2,625	2,611	2,359
Hindustan Zinc										
Lead (LME)	1,868	2,280	2,104	2,122	2,045	2,035	2,054	2,100	1,946	2,084
Zinc (LME)	2,422	3,260	3,416	2,483	2,878	2,678	2,703	2,728	2,828	2,892
Nalco										
Aluminum (LME)	1,807	2,777	2,475	2,208	2,527	2,550	2,600	2,625	2,611	2,359
Vedanta										
Aluminum (LME)	1,807	2,777	2,475	2,208	2,527	2,550	2,600	2,625	2,611	2,359
Lead (LME)	1,868	2,280	2,104	2,122	2,045	2,035	2,054	2,100	1,946	2,084
Zinc (LME)	2,422	3,260	3,416	2,483	2,878	2,678	2,703	2,728	2,828	2,892
Ferrous										
JSW Steel										
HRC price (domestic)	545	900	711	605	527	500	525	525	572	658
NMDC										
Iron ore fines (Rs/ton)	3,231	5,277	3,462	3,852	4,262	3,691	3,576	3,609	4,382	4,017
Iron ore lumps (Rs/ton)	3,679	5,853	4,329	4,385	4,977	4,310	4,176	4,215	5,092	4,645
Tata Steel										
HRC price (domestic)	545	900	711	605	527	500	525	525	572	658
SAIL										
HRC price (domestic)	545	900	711	605	527	500	525	525	572	658

Source: Bloomberg, Company, Kotak Institutional Equities estimates

We model non-ferrous volumes to be broadly flat, ferrous volumes to increase sharply over FY2026-27E

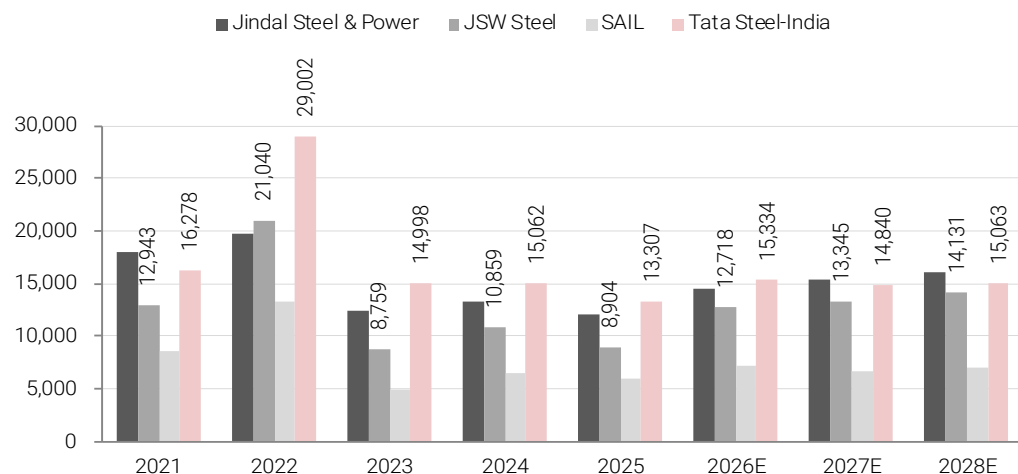
Exhibit 97: Volume assumptions of metal companies, March fiscal year-ends, 2021-28E ('000 tons)

	Volume assumptions							
	2021	2022	2023	2024	2025	2026E	2027E	2028E
Non-ferrous								
Hindalco Industries								
Aluminum ('000 tons)	1,250	1,302	1,350	1,371	1,352	1,352	1,352	1,383
Copper ('000 tons)	313	405	439	506	491	500	500	500
Hindustan Zinc								
Lead ('000 tons)	216	192	211	216	225	231	239	245
Zinc ('000 tons)	724	777	821	817	827	869	900	909
Nalco								
Aluminum ('000 tons)	452	457	464	470	461	460	460	460
Vedanta								
Aluminum ('000 tons)	1,982	2,269	2,285	2,370	2,422	2,538	2,738	2,929
Copper ('000 tons)	265	265	265	265	265	265	265	265
Lead ('000 tons)	216	192	211	216	225	231	239	245
Zinc ('000 tons)	899	972	1,095	1,026	1,006	1,105	1,181	1,215
Iron ore sales ('000 dmt)	6,300	6,800	5,700	6,200	5,400	8,300	8,575	8,652
Oil-gross ('000 boe/d)	162	161	143	128	103	100	95	91
Ferrous								
Jindal Steel and Power								
Finished steel sales (mn tons)	7.3	7.6	7.7	7.7	8.0	9.3	11.6	13.5
JSW Steel								
Finished steel sales (mn tons)	14.9	16.5	19.7	21.2	21.7	21.4	23.3	25.2
NMDC								
Iron ore sales (mn dmt)	33.3	40.7	38.2	44.5	44.4	47.0	49.0	51.0
Tata Steel								
Steel deliveries (Standalone) (mn tons)	16.7	17.6	18.9	19.9	20.9	22.4	24.4	24.9
Steel deliveries (Europe) (mn tons)	8.8	9.1	8.2	8.1	8.8	8.7	8.7	8.8
SAIL								
Finished steel sales (mn tons)	14.9	16.2	16.2	17.0	17.9	18.4	18.9	19.4

Source: Company data, Kotak Institutional Equities estimates

We model higher profitability over FY2026E-27E for steel companies

Exhibit 98: EBITDA/ton of steel companies under coverage, March fiscal year-ends, 2021-28E (Rs/ton)



Source: Companies, Kotak Institutional Equities estimates

FY2025 net profits of the metals & mining stocks in the Nifty-50 Index grew a modest 5.7%, despite the weak base of FY2024 (11.9% decline in net profits) led by (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, which was offset by (3) lower profitability for the steel companies.

The metals & mining sector will account for a large 26% of the incremental profits of the Nifty-50 Index in FY2026 after a (1) modest 3% in FY2025 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 grow 19% in FY2026 led by higher profits of (1) COAL due to modest increase in volumes and higher raw coal prices, (2) RIL on higher chemical and refining margins versus low levels of FY2025 and higher profits in the retailing (strong growth in revenues and marginal improvement in margins) and telecom segments (higher wireless ARPUs) and (3) ONGC on higher natural gas prices and weaker INR, which would offset lower crude oil prices. Our assumptions on strong profit growth for the sector may be at risk if (1) volumes and pricing were to remain weak for COAL, as seen during 1QFY26, and (2) refining margins for the downstream oil companies weaken in case the share of cheaper Russian crude in India's overall crude imports was to reduce, given pressure from the US administration.

We note that FY2025 net profits declined 10.4% reflecting (1) a decline in the profits of COAL; COAL's FY2024 net profits were boosted by change in accounting for OBR provision and (2) weak performance of ONGC due to a sharp increase in DD&A charges and 50% decline in net profits of 55%-owned subsidiary, HPCL.

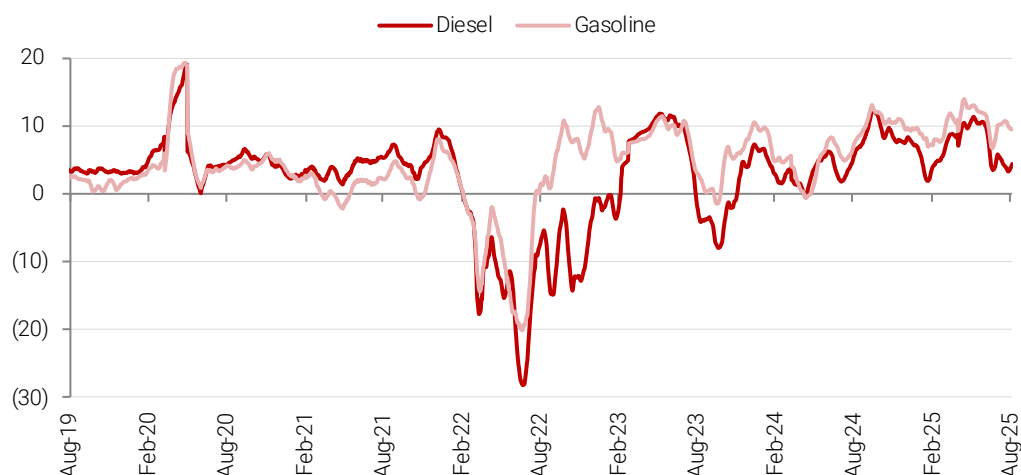
We note that the Nifty-50 Index does not have any PSU downstream oil company with the exit of BPCL from the index. However, HPCL's revenues and profits will reflect in the Nifty-50 Index through ONGC. ONGC owns 54.9% of HPCL. Thus, we include the downstream oil companies in our discussion below. The profits of the downstream oil companies can be very volatile given inherent volatility in refining margins and induced volatility in marketing margins given control on retail prices of automobile fuels. Thus, the inherent high volatility in HPCL's profits can have a bearing on overall Nifty-50 Index profits.

- **Downstream oil companies.** We model high marketing margins on automobile fuels at Rs6/liter in FY2026 versus Rs6.7-7/liter in FY2025 and normal marketing margins of Rs3-4/liter for the OMCs based on our benign assumptions of (1) unchanged automobile fuel prices through FY2026 and (2) benign crude oil prices (US\$70/bbl on Dated Brent basis).

We see upside risks to our earnings estimates in case the current high marketing margins on gasoline (see Exhibit 99) were to sustain through FY2026. However, we have low confidence in our assumptions and estimates and note downside risks to our and consensus earnings estimates in case the government was to rationalize (reduce) fuel prices. We assume 'normal' marketing margins of Rs3.5/liter in FY2027. Exhibit 100 shows the refining and marketing margins of the OMCs over FY2018-28E and Exhibit 101 shows the large sensitivity of the profits of the downstream oil companies to marketing margins of automobile fuels.

Marketing margins have been quite high in recent weeks

Exhibit 99: Marketing margins on diesel and gasoline, calendar year-ends, 2019-25 (Rs/liter)



Source: PPAC, Kotak Institutional Equities estimates

We assume normal marketing margins in FY2026 versus very high levels in FY2024-25 for the PSU OMCs

Exhibit 100: Refining and marketing margins of downstream oil companies, March fiscal year-ends, 2018-28E

	Refining margins (US\$/bbl)												Marketing margins (Rs/liter)											
	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E		
BPCL	6.9	4.6	2.5	4.1	9.1	20.3	14.1	6.8	6.5	7.0	7.0	1.8	2.8	2.7	5.0	3.0	(4.2)	5.5	6.7	6.1	3.5	3.5		
HPCL	7.4	5.0	1.0	3.9	7.0	12.1	9.1	5.7	6.5	7.0	7.0	1.7	2.7	2.6	5.0	2.9	3.0	5.2	6.7	6.1	3.5	3.5		
IOCL	8.5	5.4	0.1	5.6	11.3	25.5	12.1	4.8	7.0	7.0	7.0	1.7	2.7	2.7	5.0	3.1	(4.7)	5.5	7.0	5.0	3.5	3.5		

Source: Companies, Kotak Institutional Equities estimates

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

Exhibit 101: Sensitivity of EPS of downstream oil companies to automobile marketing margins, March fiscal year-ends, 2026E-28E (Rs)

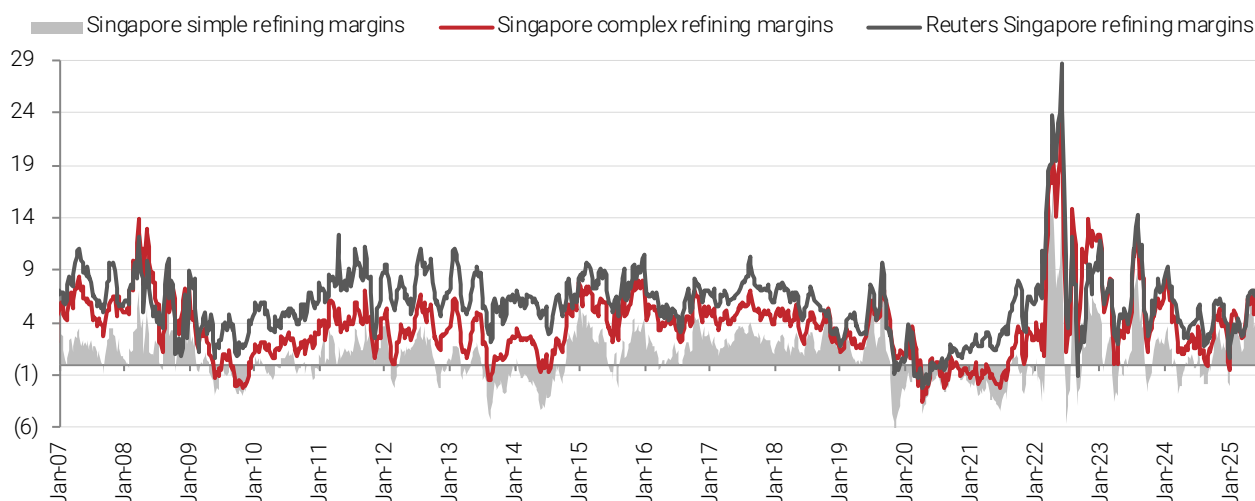
	2026E			2027E			2028E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
Sensitivity to marketing margin									
Marketing margin on auto fuels (Rs/liter)	6.1	6.1	5.0	3.5	3.5	3.5	3.5	3.5	3.5
Current EPS estimates	36	52	13	24	35	13	22	31	13
Marketing margin lower by Rs0.5/liter	32	45	11	20	28	11	18	24	11
Change (%)	(11)	(14)	(14)	(17)	(21)	(15)	(19)	(24)	(16)
Marketing margin higher by Rs0.5/liter	40	60	14	28	43	14	27	39	14
Change (%)	11	14	14	17	21	15	19	24	16

Source: Kotak Institutional Equities estimates

We expect a moderate recovery in refining margins in FY2026-27 compared to low FY2025 levels, which should benefit RIL (and ONGC through HPCL). Global refining margins (see Exhibit 102) have seen a recovery in recent months from the low levels of early 2025. Exhibit 103 shows the large sensitivity of the profits of the downstream oil companies to refining margins.

Refining margins have recovered from recent lows

Exhibit 102: Singapore refining margins (US\$/bbl)



Source: Argus, Kotak Institutional Equities estimates

Downstream companies' earnings have high sensitivity to refining margin assumptions

Exhibit 103: Sensitivity of EPS of downstream oil companies to refining margins, March fiscal year-ends, 2026E-28E (Rs)

	2026E			2027E			2028E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
Sensitivity to refining margin									
Refining margins (US\$/bbl)	6.5	6.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Current EPS estimates	36	52	13	24	35	13	22	31	13
Refining margin lower by US\$1/bbl	31	47	10	20	29	10	18	26	10
Change (%)	(12)	(11)	(20)	(19)	(16)	(20)	(21)	(19)	(21)
Refining margin higher by US\$1/bbl	40	58	15	29	41	15	27	37	15
Change (%)	12	11	20	19	16	20	21	19	21

Source: Kotak Institutional Equities estimates

- **Upstream oil & gas companies.** We assume ONGC will make (1) US\$50.9/bbl on a net basis (net of cess, royalty and windfall tax) for crude oil in FY2026 and US\$50.9/bbl in FY2027 versus US\$54.2/bbl in FY2025 and US\$54.4/bbl in FY2024 and (2) US\$7.2/mn BTU for natural gas in FY2026 and US\$7.6/mn BTU in FY2027 versus US\$6.7/mn BTU in FY2025 and US\$6.5/mn BTU in FY2024, the ceiling price for FY2024.

We note that ONGC's FY2026-27E net profits could be at risk from weaker-than-assumed global crude oil prices. Current crude prices are moderately lower versus our assumption of US\$70/bbl (Dated Brent basis) for FY2026 and FY2027. Exhibit 104 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 104: Sensitivity of EPS of ONGC to key variables to oil and gas prices, March fiscal year-ends, 2026E-28E (Rs)

	2026E			2027E			2028E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Exchange rate (Rs/US\$)	85.1	86.1	87.1	87.0	88.0	89.0	89.0	90.0	91.0
Net profits (Rs mn)	517,975	528,184	538,394	556,310	566,871	577,431	584,632	595,407	606,182
Earnings per share (Rs)	41.2	42.0	42.8	44.2	45.1	45.9	46.5	47.3	48.2
% upside/(downside)	(1.9)		1.9	(1.9)		1.9	(1.8)		1.8
Average net crude realization									
Net crude realization (US\$/bbl)	49.9	50.9	51.9	49.9	50.9	51.9	49.9	50.9	51.9
Net profits (Rs mn)	519,117	528,184	537,252	557,630	566,871	576,112	585,982	595,407	604,831
Earnings per share (Rs)	41.3	42.0	42.7	44.3	45.1	45.8	46.6	47.3	48.1
% upside/(downside)	(1.7)		1.7	(1.6)		1.6	(1.6)		1.6
Natural gas prices									
Natural gas price (US\$/mn BTU)	6.7	7.2	7.7	7.1	7.6	8.1	7.8	8.3	8.8
Net profits (Rs mn)	512,379	528,184	543,990	549,478	566,871	584,263	577,777	595,407	613,037
Earnings per share (Rs)	40.7	42.0	43.2	43.7	45.1	46.4	45.9	47.3	48.7
% upside/(downside)	(3.0)		3.0	(3.1)		3.1	(3.0)		3.0

Source: Kotak Institutional Equities estimates

- **Pharmaceuticals.** We expect the net profits of the pharmaceutical companies in the Nifty-50 Index to decline 4.5% in FY2026, pulled down by (1) a sharp decline in gRevlimid sales of both CIPLA and DRRD; gRevlimid sales likely peaked in FY2025 and are expected to decline by 75% over FY2025-27E 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 would clarify that our estimates do not factor in potential imposition of import tariffs by the US on pharmaceutical exports from India.

We expect US generic revenues to grow more moderately over FY2026-27E (see Exhibit 105) after a strong performance in FY2025 with continued (1) moderate growth in CIPLA with steady ramp-up in revenues from gAbraxane, gAdvair and inhalers offsetting the decline in gRevlimid sales and (2) strong growth in SUNP due to continued strong performance of SUNP's specialty portfolio. Ilumya revenues may be augmented by new launches such as Leqselvi and Unloxyt, being offset by (3) a sharp decline in DRRD's US generic revenues (sales from new products being insufficient to offset the sharp decline in gRevlimid sales).

We model moderate growth in US generic revenues of pharmaceutical companies over FY2026E-27E

Exhibit 105: US revenues for pharmaceuticals companies, March fiscal year-ends, 2019-28E

	US revenues (US\$ mn)										Yoy growth (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Aurobindo	1,299	1,622	1,666	1,495	1,453	1,694	1,752	1,712	2,003	2,166	12	25	3	(10)	(3)	17	3	(2)	17	8
Cipla	492	547	556	594	733	906	934	943	995	1,019	23	11	2	7	23	24	3	1	6	2
Dr Reddy's	863	908	952	1,004	1,268	1,566	1,727	1,496	1,391	1,364	(7)	5	5	5	26	24	10	(13)	(7)	(2)
Lupin	805	820	720	739	632	815	938	1,059	989	939	(10)	2	(12)	3	(15)	29	15	13	(7)	(5)
Sun Pharma	1,526	1,487	1,360	1,527	1,684	1,854	1,921	2,037	2,238	2,523	13	(3)	(9)	12	10	10	4	6	10	13
Taro	541	499	374	426	453	509	480	498	529	564	(1)	(8)	(25)	14	6	12	(6)	4	6	7
Ex-Taro Sun	985	988	986	1,101	1,231	1,345	1,441	1,539	1,710	1,959	22	0	(0)	12	12	9	7	7	11	15

Source: Companies, Kotak Institutional Equities estimates

We expect gross and EBITDA margins of almost all the pharmaceutical companies in the Nifty-50 Index to decline in FY2026-76 from high levels of FY2024-25 (see Exhibit 106 for gross and EBITDA margins of the pharmaceutical companies under our coverage for FY2019-28E).

We expect gross and EBITDA margins to decline for US generic companies, rise for domestic companies

Exhibit 106: Gross and EBITDA margins of pharmaceuticals companies, March fiscal year-ends, 2019-28E (%)

	Gross margin (%)										EBITDA margin (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Alivus Life Sciences	55.4	55.1	52.0	50.9	53.1	56.1	54.7	54.9	55.2	55.4	30.6	30.7	31.4	29.0	29.7	29.5	28.6	28.2	29.0	29.3
Aurobindo Pharma	55.5	57.9	60.0	56.8	54.6	56.5	58.9	58.4	56.7	57.0	20.2	21.1	21.5	18.7	15.1	20.1	20.8	20.7	20.1	20.5
Biocon	61.3	63.9	65.1	65.0	67.2	66.0	65.9	65.8	66.2	66.6	25.3	25.2	23.2	23.4	22.5	20.5	20.5	22.2	22.9	23.4
Cipla	64.6	65.1	61.6	61.0	63.7	65.5	67.6	66.5	65.7	65.8	18.9	18.7	22.2	20.9	22.1	23.8	25.9	24.3	22.9	23.3
Divis Laboratories	62.3	60.9	66.7	66.9	60.7	60.1	60.2	60.9	62.1	62.3	37.9	33.8	41.0	43.2	30.4	28.1	31.7	32.7	36.2	37.6
Dr Reddy's Laboratories	54.2	53.8	54.3	65.5	69.0	70.7	69.4	65.4	63.6	63.3	20.4	23.4	23.6	21.8	25.9	28.3	26.5	23.1	20.2	21.0
Gland Pharma	58.1	58.1	56.9	52.1	53.5	61.6	62.8	63.7	63.7	63.6	34.6	36.3	37.6	34.3	28.3	23.5	22.6	24.7	25.8	26.5
Laurus Labs	46.1	50.1	55.2	55.6	54.1	51.7	55.4	57.8	58.6	59.8	15.5	19.9	32.2	28.8	26.4	15.4	19.0	23.3	24.7	25.9
Lupin	65.0	64.7	64.6	60.5	59.3	66.8	69.9	70.5	69.9	69.4	17.2	15.3	16.9	13.2	10.8	19.0	23.2	24.4	22.9	23.2
Sun Pharmaceuticals	72.9	71.9	74.1	73.2	75.7	78.0	79.6	78.1	78.2	78.0	22.0	21.2	25.3	26.5	26.8	26.8	28.7	28.1	29.2	29.4

Source: Companies, Kotak Institutional Equities estimates

FY2025 net profits of the pharmaceutical companies in the Nifty-50 Index grew 16% due to (1) strong performance of SUNP's specialty products and DRRD's US generic portfolio (bolstered by peak gRevlimid sales), (2) strong growth in domestic pharmaceutical revenues of all the major companies and (3) modest increase in gross and EBITDA margins after a sharp recovery in FY2024 on easing US generic pricing conditions and lower RM prices.

Model portfolio: A few changes

We include HNDL with a weight of 150 bps and reduce 150 bps weight in the IT services sector. HNDL stock trades at 6.1X 1-year forward EBITDA. We expect global aluminum prices to remain strong given a favorable supply-demand balance (1.5 mtpa of new capacity versus 3.4 mtpa of incremental demand over CY2025-27E). We note near-term headwinds to Novelis's profitability from high import tariffs in the US but we have assumed a sharp moderation in Novelis's profitability in FY2026 (US\$441/ton) versus historical levels (US\$500/ton average over the past four years).

We have been quite cautious on the IT services sector through a limited position in our recommended portfolio and we see no reason to change our cautious stance given both near- and medium-term issues. We remove TCS (200 bps from the portfolio) and add part of its weight to INFO (590 bps from 540 bps earlier).

Exhibit 107 is our recommended model portfolio.

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

Exhibit 107: KIE large-cap. model portfolio

Company	Price (Rs) 14-Aug-25	KIE weight (%)
Automobiles & Components		
Mahindra & Mahindra	3,265	2.2
Automobiles & Components 2.2		
Banks		
Axis Bank	1,068	5.9
Canara Bank	109	1.6
HDFC Bank	1,991	9.7
ICICI Bank	1,427	9.8
IndusInd Bank	770	2.0
State Bank of India	827	6.8
Banks 36.0		
Capital Goods		
ABB	5,030	1.4
Cummins India	3,785	1.6
L&T	3,677	1.9
Capital Goods 4.9		
Diversified Financials		
Bajaj Finserv	1,925	1.6
Shriram Finance	616	1.9
Diversified Financials 3.5		
Health Care Services		
Apollo Hospitals	7,822	3.4
Dr Lal Pathlabs	3,348	1.9
Health Care Services 5.3		
Insurance		
HDFC Life Insurance	789	2.2
ICICI Prudential Life	627	2.1
Insurance 4.3		
Internet Software & Services		
Eternal	318	2.1
Internet Software & Services 2.1		

Company	Price (Rs) 14-Aug-25	KIE weight (%)
IT Services		
Infosys	1,448	5.9
Tech Mahindra	1,487	1.5
IT Services 7.4		
Metals & Mining		
Hindalco Industries	695	1.5
Metals & Mining 1.5		
Oil, Gas & Consumable Fuels		
Reliance Industries	1,374	8.7
Oil, Gas & Consumable Fuels 8.7		
Pharmaceuticals		
Cipla	1,564	2.5
Lupin	1,962	1.3
Mankind Pharma	2,473	1.5
Sun Pharmaceuticals	1,641	1.4
Torrent Pharmaceuticals	3,623	1.8
Pharmaceuticals 8.5		
Specialty Chemicals		
Pidilite Industries	3,085	1.9
Specialty Chemicals 1.9		
Real Estate		
Embassy Office Parks REIT	386	1.4
Lodha Developers	1,232	1.4
Real Estate 2.8		
Telecommunication Services		
Bharti Airtel	1,874	6.3
Telecommunication Services 6.3		
Transportation		
Adani Ports and SEZ	1,300	2.0
Interglobe Aviation	6,003	2.8
Transportation 4.8		
BSE-30 80,598 100		

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

2

1QFY26 earnings analysis: Ahead but muted

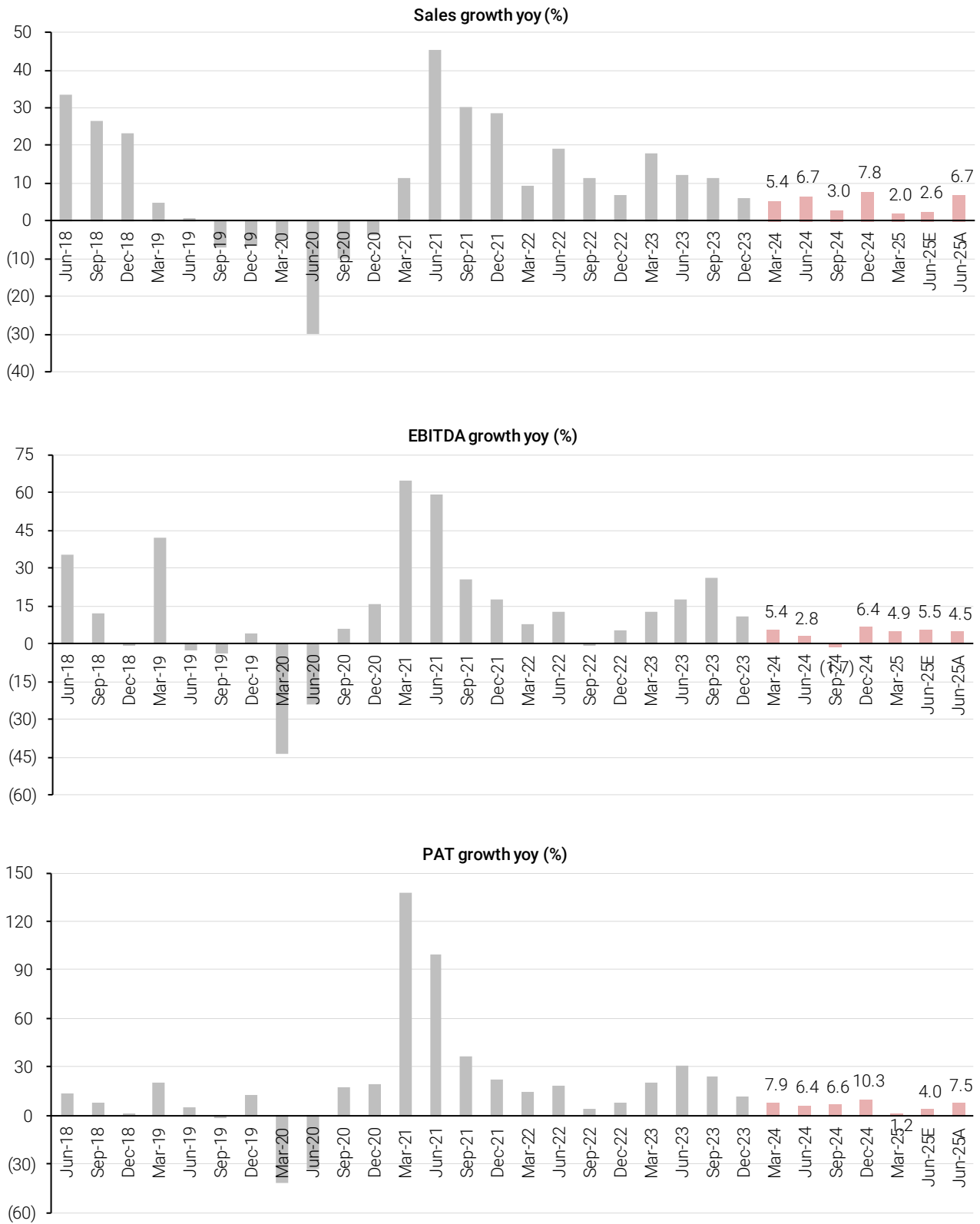
1QFY26 net income of the KIE coverage universe came ahead of estimates, with net income growing 10% yoy compared to our expectations of 9.9% yoy growth and of the Nifty-50 Index increased 7.5% yoy, ahead of our 4% expected increase. EBITDA of the KIE coverage universe and Nifty-50 Index increased 9.1% yoy and 4.5% yoy, below our expectations of 12% yoy and 5.5% yoy increase, which may better reflect underlying conditions.

1QFY26 results: Ahead but muted performance and outlook

- **Net profits ahead of our expectations for the Nifty-50 Index.** Exhibit 108 presents the quarterly trends in net profit growth of the Nifty-50 Index. Adjusted net profits of the Nifty-50 Index increased 7.5% yoy compared to our expectations of 4% yoy growth. Adjusted net profits of the BSE-30 Index increased 11.2% yoy, 4.6% above our expectations of 6.3% yoy growth. We note that SBI continued entirely to the positive surprise while Coal India dragged down the net income of the Nifty-50 Index. SBI reported a 33% beat in net income on higher-than-expected non-interest income and accounted for 72% of the absolute positive surprise in net income of Nifty-50 Index. Coal India reported 15% yoy decline in the net income due to a 3.8% yoy decline in volumes and flat realizations.

1QFY26 adjusted net profits of the Nifty-50 Index increased 7.5% yoy versus our expectations of 4% yoy increase

Exhibit 108: Yoy sales, EBITDA and PAT growth of Nifty-50 Index (%)



Source: Kotak Institutional Equities estimates

Exhibit 109 compares 1QFY26 adjusted net profits of the BSE-30 stocks with 1QFY25, 4QFY25 and 1QFY26E adjusted net profits while Exhibit 110 compares 1QFY26 adjusted net profits of the Nifty-50 Index with 1QFY25, 4QFY25 and 1QFY26E adjusted net profits.

Among Nifty-50 stocks, companies that significantly outperformed our estimates at the net income level are (1) Adani Ports (strong headline print), (2) Cipla (led by better-than-expected traction in the US being offset by weakness in domestic Rx), (3) Hero Motorcorp (higher-than-expected other income), (4) IndusInd Bank (beat at NII level), (5) JSW Steel (higher-than-expected realizations), (6) L&T (led by other income), (7) M&M (higher other income), (8) Maruti Suzuki (beat at EBITDA level on higher-than-expected ASPs and higher other income), (9) NTPC (high regulatory account deferral income), (10) SBI (higher-than-expected non-interest income on higher-than-assumed investment income at Rs63 bn versus Rs33 bn assumed by us), (11) Sun Pharma (healthy performance across markets, coupled with lower R&D) and (12) Tata Steel (higher realizations).

On the other hand, companies that underperformed our estimates are (1) Coal India (lower-than-expected auction realizations and weak volumes), (2) Eternal (lower-than-expected food delivery GOV), (3) HCL Technologies (EBIT miss and lower-than-expected other income), (4) Nestle (weaker-than-expected topline and higher-than-expected GM pressure), (5) Trent (lower-than-expected SSSG) and (6) Reliance Industries (miss in O2C and retail segments).

1QFY26 net profits of the BSE-30 Index were marginally ahead of our expectations

Exhibit 109: Comparison of 1QFY26 net income of BSE-30 stocks, actual versus expected

Company	Sector	Adjusted net income (Rs bn)				Change (%) A versus E	Growth (%)	
		Jun-24	Mar-25	Jun-25A	Jun-25E		yoy	qoq
Mahindra & Mahindra	Automobiles & Components	26.1	24.4	34.5	30.6	13	32	42
Maruti Suzuki	Automobiles & Components	36.5	37.1	37.1	30.9	20	2	—
Tata Motors	Automobiles & Components	53.4	87.3	36.1	31.2	16	(32)	(59)
Axis Bank	Banks	60.3	71.2	58.1	60.4	(4)	(4)	(18)
HDFC Bank	Banks	161.7	176.2	181.6	178.4	2	12	3
ICICI Bank	Banks	110.6	126.3	127.7	123.2	4	15	1
IndusInd Bank	Banks	21.5	(22.4)	6.8	5.3	28	(68)	131
Kotak Mahindra Bank	Banks	44.4	49.3	44.7	44.7	(0)	1	(9)
State Bank of India	Banks	170.4	186.4	191.6	143.8	33	12	3
Bajaj Finserv	Diversified Financials	21.4	24.2	27.9	27.9	(0)	30	15
Bajaj Finance	Diversified Financials	39.1	45.5	47.7	46.8	2	22	5
L&T	Capital Goods	27.9	50.2	36.2	33.7	7	30	(28)
Asian Paints	Commodity Chemicals	11.7	8.8	11.0	11.3	(2)	(6)	26
UltraTech Cement	Construction Materials	15.9	26.8	22.3	23.2	(4)	40	(17)
Hindustan Unilever	Consumer Staples	25.7	25.0	24.9	25.2	(1)	(3)	(0)
ITC	Consumer Staples	49.2	48.7	49.1	49.2	(0)	(0)	1
Nestle India	Consumer Staples	7.3	8.9	6.6	7.4	(11)	(10)	(26)
NTPC	Electric Utilities	45.1	57.8	47.7	44.4	8	6	(17)
Power Grid	Electric Utilities	36.9	41.7	36.8	38.3	(4)	(1)	(12)
HCL Technologies	IT Services	41.4	42.8	38.5	42.1	(9)	(7)	(10)
Infosys	IT Services	63.7	66.0	69.2	68.6	1	9	5
TCS	IT Services	120.4	122.2	127.6	123.5	3	6	4
Tech Mahindra	IT Services	8.5	11.9	11.4	11.9	(4)	34	(4)
Wipro	IT Services	30.0	35.7	33.3	33.1	1	11	(7)
JSW Steel	Metals & Mining	8.5	15.5	25.3	16.5	53	199	63
Tata Steel	Metals & Mining	13.2	16.9	22.1	17.7	25	68	31
Reliance Industries	Oil, Gas & Consumable Fuels	151.4	194.1	180.7	195.2	(7)	19	(7)
Sun Pharmaceuticals	Pharmaceuticals	28.4	25.1	31.0	28.2	10	9	23
Titan Company	Retailing	7.7	8.7	10.3	8.8	17	34	18
Bharti Airtel	Telecommunication Services	34.2	52.5	59.5	64.6	(8)	74	13
BSE-30 Index		1,473	1,665	1,637	1,566	4.6	11.2	(1.7)

Source: Companies, Kotak Institutional Equities estimates

1QFY26 net profits of the Nifty-50 Index were marginally ahead of our expectations
Exhibit 110: Comparison of 1QFY26 net income of Nifty-50 stocks, actual versus expected

Company	Sector	Adjusted net income (Rs bn)				Change (%)	Growth (%)	
		Jun-24	Mar-25	Jun-25A	Jun-25E	A versus E	yoy	qoq
Bajaj Auto	Automobiles & Components	19.9	20.5	21.0	20.2	4	5	2
Eicher Motors	Automobiles & Components	11.0	13.6	12.1	11.6	4	9	(12)
Hero Motocorp	Automobiles & Components	11.2	10.8	11.3	10.7	5	—	4
Mahindra & Mahindra	Automobiles & Components	26.1	24.4	34.5	30.6	13	32	42
Maruti Suzuki	Automobiles & Components	36.5	37.1	37.1	30.9	20	2	—
Tata Motors	Automobiles & Components	53.4	87.3	36.1	31.2	16	(32)	(59)
Axis Bank	Banks	60.3	71.2	58.1	60.4	(4)	(4)	(18)
HDFC Bank	Banks	161.7	176.2	181.6	178.4	2	12	3
ICICI Bank	Banks	110.6	126.3	127.7	123.2	4	15	1
IndusInd Bank	Banks	21.5	(22.4)	6.8	5.3	28	(68)	131
Kotak Mahindra Bank	Banks	44.4	49.3	44.7	44.7	(0)	1	(9)
State Bank of India	Banks	170.4	186.4	191.6	143.8	33	12	3
Bajaj Finserv	Diversified Financials	21.4	24.2	27.9	27.9	(0)	30	15
Bajaj Finance	Diversified Financials	39.1	45.5	47.7	46.8	2	22	5
Jio Financial Services	Diversified Financials	3.1	3.2	3.2	3.2	(0)	4	3
Shriram Finance	Diversified Financials	19.8	21.4	21.6	21.5	—	9	1
HDFC Life Insurance	Insurance	7.2	13.8	8.1	8.2	(1)	13	(41)
SBI Life Insurance	Insurance	9.8	16.6	11.0	10.6	4	13	(34)
Adani Enterprises	Capital Goods	14.6	9.2	7.3	7.3	(0)	(50)	(20)
Bharat Electronics	Capital Goods	7.8	21.2	9.6	9.9	(3)	23	(55)
L&T	Capital Goods	27.9	50.2	36.2	33.7	7	30	(28)
Asian Paints	Commodity Chemicals	11.7	8.8	11.0	11.3	(2)	(6)	26
Grasim Industries	Construction Materials	(0.5)	(1.7)	(1.2)	(3.1)	62	(127)	32
UltraTech Cement	Construction Materials	15.9	26.8	22.3	23.2	(4)	40	(17)
Hindustan Unilever	Consumer Staples	25.7	25.0	24.9	25.2	(1)	(3)	(0)
ITC	Consumer Staples	49.2	48.7	49.1	49.2	(0)	(0)	1
Nestle India	Consumer Staples	7.3	8.9	6.6	7.4	(11)	(10)	(26)
Tata Consumer Products	Consumer Staples	3.1	3.0	3.3	3.4	(2)	9	12
NTPC	Electric Utilities	45.1	57.8	47.7	44.4	8	6	(17)
Power Grid	Electric Utilities	36.9	41.7	36.8	38.3	(4)	(1)	(12)
Apollo Hospitals	Health Care Services	3.1	3.9	4.3	3.6	20	42	11
Eternal	Internet Software & Services	2.5	0.4	0.3	0.3	(19)	(90)	(36)
HCL Technologies	IT Services	41.4	42.8	38.5	42.1	(9)	(7)	(10)
Infosys	IT Services	63.7	66.0	69.2	68.6	1	9	5
TCS	IT Services	120.4	122.2	127.6	123.5	3	6	4
Tech Mahindra	IT Services	8.5	11.9	11.4	11.9	(4)	34	(4)
Wipro	IT Services	30.0	35.7	33.3	33.1	1	11	(7)
Hindalco Industries	Metals & Mining	34.0	52.8	40.0	36.9	8	18	(24)
JSW Steel	Metals & Mining	8.5	15.5	25.3	16.5	53	199	63
Tata Steel	Metals & Mining	13.2	16.9	22.1	17.7	25	68	31
Coal India	Oil, Gas & Consumable Fuels	109.4	95.9	87.3	103.0	(15)	(20)	(9)
ONGC	Oil, Gas & Consumable Fuels	89.4	64.5	80.2	77.3	4	(10)	24
Reliance Industries	Oil, Gas & Consumable Fuels	151.4	194.1	180.7	195.2	(7)	19	(7)
Cipla	Pharmaceuticals	11.8	12.2	13.0	12.0	9	10	6
Dr Reddy's Laboratories	Pharmaceuticals	13.9	16.7	14.1	14.8	(5)	1	(16)
Sun Pharmaceuticals	Pharmaceuticals	28.4	25.1	31.0	28.2	10	9	23
Titan Company	Retailing	7.7	8.7	10.3	8.8	17	34	18
Trent	Retailing	3.4	3.5	4.2	5.1	(17)	24	21
Bharti Airtel	Telecommunication Services	34.2	52.5	59.5	64.6	(8)	74	13
Adani Ports and SEZ	Transportation	32.2	29.2	32.2	31.0	4	(0)	10
Nifty-50 Index		1,879	2,075	2,020	1,953	3.4	7.5	(2.7)

Source: Companies, Kotak Institutional Equities estimates

- **EBITDA below our expectations for the Nifty-50 Index.** Adjusted EBITDA of the BSE-30 Index increased 6.5% yoy compared to our expectations of 7.8%. Exhibit 111 compares 1QFY26 EBITDA of the BSE-30 Index with 1QFY25, 4QFY25 and 1QFY26E EBITDA. Of the 22 non-finance companies in the BSE-30 Index, five companies beat our estimates by more than 5% and three companies missed our EBITDA estimates by more than 5%.

1QFY26 EBITDA of the BSE-30 Index was marginally below our estimates

Exhibit 111: Comparison of 1QFY26 EBITDA of BSE-30 stocks, actual versus expected

Company	Sector	Adjusted EBITDA (Rs bn)				Change (%)	Growth (%)	
		Jun-24	Mar-25	Jun-25A	Jun-25E	A versus E	yoy	qoq
Mahindra & Mahindra	Automobiles & Components	40.2	46.8	48.8	49.8	(2)	21	4
Maruti Suzuki	Automobiles & Components	45.0	42.6	40.0	37.1	8	(11)	(6)
Tata Motors	Automobiles & Components	155.1	166.3	97.2	90.1	8	(37)	(42)
L&T	Capital Goods	56.2	82.0	63.2	64.2	(2)	13	(23)
Asian Paints	Commodity Chemicals	16.9	14.4	16.2	17.2	(5)	(4)	13
UltraTech Cement	Construction Materials	29.6	46.1	42.0	43.9	(4)	42	(9)
Hindustan Unilever	Consumer Staples	36.1	34.7	35.6	35.7	(0)	(1)	3
ITC	Consumer Staples	63.0	59.9	62.6	62.3	1	(1)	5
Nestle India	Consumer Staples	11.0	13.9	11.0	11.9	(8)	(0)	(21)
NTPC	Electric Utilities	124.5	112.6	102.8	121.0	(15)	(17)	(9)
Power Grid	Electric Utilities	95.4	102.7	93.6	99.6	(6)	(2)	(9)
HCL Technologies	IT Services	58.0	64.6	60.4	61.2	(1)	4	(6)
Infosys	IT Services	94.4	98.7	99.4	100.4	(1)	5	1
TCS	IT Services	166.6	169.8	168.8	172.6	(2)	1	(1)
Tech Mahindra	IT Services	15.6	18.7	19.4	19.5	(1)	24	4
Wipro	IT Services	43.3	46.5	45.0	45.0	(0)	4	(3)
JSW Steel	Metals & Mining	55.1	63.8	79.2	70.6	12	44	24
Tata Steel	Metals & Mining	66.9	65.6	74.3	73.6	1	11	13
Reliance Industries	Oil, Gas & Consumable Fuels	387.7	438.3	429.1	447.4	(4)	11	(2)
Sun Pharmaceuticals	Pharmaceuticals	36.6	34.2	40.7	36.7	11	11	19
Titan Company	Retailing	12.1	14.4	16.3	14.1	16	35	13
Bharti Airtel	Telecommunication Services	197.1	270.1	278.4	273.8	2	41	3
BSE-30 Index		1,806	2,007	1,924	1,948	(1.2)	6.5	(4.1)

Source: Companies, Kotak Institutional Equities estimates

Adjusted EBITDA of the Nifty-50 Index increased 4.5% yoy compared to our expectations of 5.5%. Exhibit 112 compares 1QFY26 EBITDA of the Nifty-50 Index with 1QFY25, 4QFY25 and 1QFY26E EBITDA. Of the 38 non-finance companies in the Nifty-50 Index, nine companies beat our estimates by more than 5%, while seven missed our EBITDA estimates by more than 5%.

1QFY26 EBITDA of the Nifty-50 Index was marginally below our estimates

Exhibit 112: Comparison of 1QFY26 EBITDA of Nifty-50 stocks, actual versus expected

Company	Sector	Adjusted EBITDA (Rs bn)				Change (%) A versus E	Growth (%)	
		Jun-24	Mar-25	Jun-25A	Jun-25E		yoy	qoq
Bajaj Auto	Automobiles & Components	24.2	24.5	24.8	24.1	3	3	1
Eicher Motors	Automobiles & Components	11.7	12.6	12.0	12.0	—	3	(4)
Hero Motocorp	Automobiles & Components	14.6	14.2	13.8	13.9	(1)	(5)	(2)
Mahindra & Mahindra	Automobiles & Components	40.2	46.8	48.8	49.8	(2)	21	4
Maruti Suzuki	Automobiles & Components	45.0	42.6	40.0	37.1	8	(11)	(6)
Tata Motors	Automobiles & Components	155.1	166.3	97.2	90.1	8	(37)	(42)
Adani Enterprises	Capital Goods	37.0	37.1	33.1	33.1	—	(11)	(11)
Bharat Electronics	Capital Goods	9.5	28.2	12.4	12.7	(2)	31	(56)
L&T	Capital Goods	56.2	82.0	63.2	64.2	(2)	13	(23)
Asian Paints	Commodity Chemicals	16.9	14.4	16.2	17.2	(5)	(4)	13
Grasim Industries	Construction Materials	3.3	2.2	3.8	2.4	57	18	74
UltraTech Cement	Construction Materials	29.6	46.1	42.0	43.9	(4)	42	(9)
Hindustan Unilever	Consumer Staples	36.1	34.7	35.6	35.7	(0)	(1)	3
ITC	Consumer Staples	63.0	59.9	62.6	62.3	1	(1)	5
Nestle India	Consumer Staples	11.0	13.9	11.0	11.9	(8)	(0)	(21)
Tata Consumer Products	Consumer Staples	6.7	6.2	6.1	6.3	(3)	(9)	(2)
NTPC	Electric Utilities	124.5	112.6	102.8	121.0	(15)	(17)	(9)
Power Grid	Electric Utilities	95.4	102.7	93.6	99.6	(6)	(2)	(9)
Apollo Hospitals	Health Care Services	6.8	7.7	8.5	7.8	9	26	11
Eternal	Internet Software & Services	1.8	0.7	1.2	1.3	(12)	(35)	60
HCL Technologies	IT Services	58.0	64.6	60.4	61.2	(1)	4	(6)
Infosys	IT Services	94.4	98.7	99.4	100.4	(1)	5	1
TCS	IT Services	166.6	169.8	168.8	172.6	(2)	1	(1)
Tech Mahindra	IT Services	15.6	18.7	19.4	19.5	(1)	24	4
Wipro	IT Services	43.3	46.5	45.0	45.0	(0)	4	(3)
Hindalco Industries	Metals & Mining	75.9	96.1	80.8	79.9	1	6	(16)
JSW Steel	Metals & Mining	55.1	63.8	79.2	70.6	12	44	24
Tata Steel	Metals & Mining	66.9	65.6	74.3	73.6	1	11	13
Coal India	Oil, Gas & Consumable Fuels	110.4	81.2	85.6	109.0	(21)	(22)	5
ONGC	Oil, Gas & Consumable Fuels	186.2	190.1	186.6	168.9	10	—	(2)
Reliance Industries	Oil, Gas & Consumable Fuels	387.7	438.3	429.1	447.4	(4)	11	(2)
Cipla	Pharmaceuticals	17.2	15.4	17.8	17.2	4	4	16
Dr Reddy's Laboratories	Pharmaceuticals	21.3	20.7	21.7	21.1	3	2	5
Sun Pharmaceuticals	Pharmaceuticals	36.6	34.2	40.7	36.7	11	11	19
Titan Company	Retailing	12.1	14.4	16.3	14.1	16	35	13
Trent	Retailing	6.1	6.6	8.4	9.4	(10)	37	28
Bharti Airtel	Telecommunication Services	197.1	270.1	278.4	273.8	2	41	3
Adani Ports and SEZ	Transportation	48.5	50.1	55.0	51.1	7	13	10
Nifty-50 Index		2,387	2,600	2,496	2,518	(0.9)	4.5	(4.0)

Source: Companies, Kotak Institutional Equities estimates

Among the companies that reported better-than-expected EBITDA were (1) Adani Ports (strong headline print), (2) JSW Steel (better realizations in India operations and an improvement in the performance of subsidiaries), (3) Maruti Suzuki (higher-than-expected ASPs) and (4) Sun Pharma (healthy performance across markets, coupled with lower R&D).

However, a few companies in the Nifty-50 Index underperformed at the EBITDA level. The notable underperformers were (1) Coal India (lower-than-expected auction realizations and weak volumes), (2) Eternal (lower-than-expected food delivery GOV), (3) Nestle (weaker-than-expected topline and higher-than-expected GM pressure), (4) NTPC (this is not material from the perspective of net income though given the regulated nature of the business) and (5) Trent (lower-than-expected SSSG).

- **Other income increased 31% yoy; decent contribution.** Several companies reported higher-than-expected other income in 1QFY26. 1QFY26 other income of Nifty-50 Index came in 20% ahead of our expectations and increased 31% yoy (see Exhibit 113). We note that other income as a proportion of pre-tax profits for the Nifty-50 Index stood at 17.7% in 1QFY26 versus 17.6% in 4QFY25 and 14.6% in 1QFY25.

Several Nifty-50 companies reported higher-than-expected other income in 1QFY26

Exhibit 113: Comparison of 1QFY26 other income of Nifty-50 stocks, actual versus expected

Company	Sector	Other income (Rs bn)				Change (%) A versus E	Growth (%)	
		Jun-24	Mar-25	Jun-25A	Jun-25E		yoy	qoq
Bajaj Auto	Automobiles & Components	3.2	3.8	4.3	3.5	23	34	13
Eicher Motors	Automobiles & Components	2.8	3.8	4.5	3.8	16	58	17
Hero Motocorp	Automobiles & Components	2.3	2.2	3.0	2.2	38	31	36
Mahindra & Mahindra	Automobiles & Components	3.5	0.5	6.4	3.0	114	83	1,205
Maruti Suzuki	Automobiles & Components	9.8	14.5	18.2	13.0	40	87	26
Tata Motors	Automobiles & Components	15.8	15.1	15.2	15.0	1	(4)	1
Adani Enterprises	Capital Goods	5.9	6.4	4.8	4.8	—	(20)	(25)
Bharat Electronics	Capital Goods	2.0	1.9	1.6	1.9	(14)	(20)	(16)
L&T	Capital Goods	9.2	11.4	13.6	10.3	32	47	20
Asian Paints	Commodity Chemicals	1.6	1.0	1.9	1.1	77	23	93
Grasim Industries	Construction Materials	0.9	2.3	1.4	0.9	54	54	(37)
UltraTech Cement	Construction Materials	1.8	1.2	1.5	1.2	34	(15)	34
Hindustan Unilever	Consumer Staples	2.6	3.0	2.5	2.5	(3)	(4)	(17)
ITC	Consumer Staples	7.0	8.0	6.6	7.1	(7)	(6)	(17)
Nestle India	Consumer Staples	0.4	0.1	—	0.1	(60)	(90)	(52)
Tata Consumer Products	Consumer Staples	0.4	0.6	0.4	0.6	(29)	5	(27)
NTPC	Electric Utilities	0.3	39.7	26.8	4.3	523	NM	(33)
Power Grid	Electric Utilities	2.7	3.2	2.5	3.3	(25)	(9)	(21)
Apollo Hospitals	Health Care Services	0.4	0.6	0.4	0.6	(34)	8	(34)
Eternal	Internet Software & Services	2.4	3.7	3.5	3.8	(7)	50	(4)
HCL Technologies	IT Services	9.8	4.5	4.5	5.0	(9)	(54)	1
Infosys	IT Services	7.3	7.6	9.4	9.1	2	28	23
TCS	IT Services	7.9	8.0	14.7	8.9	65	86	83
Tech Mahindra	IT Services	1.4	1.7	2.2	1.5	41	51	26
Wipro	IT Services	4.2	8.1	6.8	5.9	16	62	(15)
Hindalco Industries	Metals & Mining	4.2	7.0	6.0	7.0	(14)	42	(14)
JSW Steel	Metals & Mining	1.6	2.3	3.5	2.3	52	113	52
Tata Steel	Metals & Mining	2.6	4.6	2.9	2.6	11	11	(37)
Coal India	Oil, Gas & Consumable Fuels	52.6	77.7	57.2	50.5	13	9	(26)
ONGC	Oil, Gas & Consumable Fuels	20.6	20.7	12.1	22.0	(45)	(41)	(42)
Reliance Industries	Oil, Gas & Consumable Fuels	39.8	49.1	62.0	50.1	24	56	26
Cipla	Pharmaceuticals	1.6	2.9	2.6	2.3	15	61	(11)
Dr Reddy's Laboratories	Pharmaceuticals	1.9	5.2	2.9	4.0	(27)	55	(44)
Sun Pharmaceuticals	Pharmaceuticals	4.8	9.0	6.9	6.2	11	44	(23)
Titan Company	Retailing	1.2	1.2	1.1	1.1	(5)	(9)	(9)
Trent	Retailing	0.5	1.0	0.4	0.7	(37)	(11)	(58)
Bharti Airtel	Telecommunication Services	1.9	1.5	2.5	0.7	243	32	63
Adani Ports and SEZ	Transportation	4.9	2.8	3.0	3.2	(8)	(40)	5
Nifty-50 Index		244	338	320	266	20.2	31.1	(5.3)

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

► **Reported net income of the Nifty-50 Index increased 12.1% yoy but declined 2.3% qoq.** Exhibit 114 shows the reported net income of the Nifty-50 Index for 1QFY25, 4QFY25 and 1QFY26. Many companies had extraordinary items in 1QFY26.

- Hindustan Unilever reported an exceptional gain of Rs2.42 bn (largely led by a re-estimation of tax provisions).
- Reliance Industries reported extraordinary income of Rs89.2 bn from the Asian Paints stake sale.
- Sun Pharma reported exceptional charge of Rs8 bn, which include (1) discontinuation of the development work of SCD-044 and (2) settlement and litigation charges related to the drug price fixing cases for Taro and SPIINC.
- Tata Steel reported several exceptional items, which included (1) employee separation compensation expenses of Rs1.04 bn (largely in India), (2) Rs387 mn provision for demand and claims and (3) Rs105 mn gains on current investments through FVTPL.

Only a handful of companies reported one-off items in 1QFY26
Exhibit 114: Adjusted and reported net income of the Nifty-50 stocks, 1QFY26 (Rs mn)

Company	Sector	Net income		
		Adjusted	Reported	Difference
Bajaj Auto	Automobiles & Components	20,960	20,960	—
Eicher Motors	Automobiles & Components	12,052	12,052	—
Hero Motocorp	Automobiles & Components	11,257	11,257	—
Mahindra & Mahindra	Automobiles & Components	34,498	34,498	—
Maruti Suzuki	Automobiles & Components	37,117	37,117	—
Tata Motors	Automobiles & Components	36,132	39,240	3,108
Axis Bank	Banks	58,061	58,061	—
HDFC Bank	Banks	181,552	181,552	—
ICICI Bank	Banks	127,682	127,682	—
IndusInd Bank	Banks	6,843	6,843	—
Kotak Mahindra Bank	Banks	44,722	44,722	—
State Bank of India	Banks	191,612	191,612	—
Bajaj Finserv	Diversified Financials	27,891	27,891	—
Bajaj Finance	Diversified Financials	47,653	47,653	—
Jio Financial Services	Diversified Financials	3,247	3,247	—
Shriram Finance	Diversified Financials	21,557	21,557	—
HDFC Life Insurance	Insurance	8,130	8,130	—
SBI Life Insurance	Insurance	10,990	10,990	—
Adani Enterprises	Capital Goods	7,344	7,344	—
Bharat Electronics	Capital Goods	9,607	10,024	417
L&T	Capital Goods	36,172	36,172	—
Asian Paints	Commodity Chemicals	10,998	10,998	—
Grasim Industries	Construction Materials	(1,182)	(1,182)	—
UltraTech Cement	Construction Materials	22,318	22,318	—
Hindustan Unilever	Consumer Staples	24,900	27,320	2,420
ITC	Consumer Staples	49,124	49,124	—
Nestle India	Consumer Staples	6,592	6,592	—
Tata Consumer Products	Consumer Staples	3,342	3,342	—
NTPC	Electric Utilities	47,747	47,747	—
Power Grid	Electric Utilities	36,750	36,306	(444)
Apollo Hospitals	Health Care Services	4,328	4,328	—
Eternal	Internet Software & Services	250	250	—
HCL Technologies	IT Services	38,525	38,525	—
Infosys	IT Services	69,210	69,210	—
TCS	IT Services	127,600	127,600	—
Tech Mahindra	IT Services	11,406	11,406	—
Wipro	IT Services	33,304	33,304	—
Hindalco Industries	Metals & Mining	40,020	40,020	—
JSW Steel	Metals & Mining	25,270	25,270	—
Tata Steel	Metals & Mining	22,098	20,777	(1,321)
Coal India	Oil, Gas & Consumable Fuels	87,342	87,342	—
ONGC	Oil, Gas & Consumable Fuels	80,242	80,242	—
Reliance Industries	Oil, Gas & Consumable Fuels	180,700	269,940	89,240
Cipla	Pharmaceuticals	12,976	12,976	—
Dr Reddy's Laboratories	Pharmaceuticals	14,099	14,099	—
Sun Pharmaceuticals	Pharmaceuticals	30,966	22,786	(8,180)
Titan Company	Retailing	10,300	10,300	—
Trent	Retailing	4,226	4,226	—
Bharti Airtel	Telecommunication Services	59,479	59,479	—
Adani Ports and SEZ	Transportation	32,168	31,493	(675)

Source: Companies, Kotak Institutional Equities estimates

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.

Reported net income of the Nifty-50 Index increased 12% yoy and declined 2.3% qoq

Exhibit 115: Comparison of 1QFY26 reported net income of Nifty-50 stocks

Company	Sector	Reported net income (Rs bn)			Growth (%)	
		Jun-24	Mar-25	Jun-25	yoy	qoq
Bajaj Auto	Automobiles & Components	19.9	20.5	21.0	5	2
Eicher Motors	Automobiles & Components	11.0	13.6	12.1	9	(12)
Hero Motocorp	Automobiles & Components	11.2	10.8	11.3	0	4
Mahindra & Mahindra	Automobiles & Components	26.1	24.4	34.5	32	42
Maruti Suzuki	Automobiles & Components	36.5	37.1	37.1	2	0
Tata Motors	Automobiles & Components	55.7	84.7	39.2	(30)	(54)
Axis Bank	Banks	60.3	71.2	58.1	(4)	(18)
HDFC Bank	Banks	161.7	176.2	181.6	12	3
ICICI Bank	Banks	110.6	126.3	127.7	15	1
IndusInd Bank	Banks	21.5	(22.4)	6.8	(68)	131
Kotak Mahindra Bank	Banks	44.4	49.3	44.7	1	(9)
State Bank of India	Banks	170.4	186.4	191.6	12	3
Bajaj Finserv	Diversified Financials	21.4	24.2	27.9	30	15
Bajaj Finance	Diversified Financials	39.1	45.5	47.7	22	5
Jio Financial Services	Diversified Financials	3.1	3.2	3.2	4	3
Shriram Finance	Diversified Financials	19.8	21.4	21.6	9	1
HDFC Life Insurance	Insurance	7.2	13.8	8.1	13	(41)
SBI Life Insurance	Insurance	9.8	16.6	11.0	13	(34)
Adani Enterprises	Capital Goods	14.5	38.4	7.3	(50)	(81)
Bharat Electronics	Capital Goods	7.9	20.0	10.0	27	(50)
L&T	Capital Goods	27.9	55.0	36.2	30	(34)
Asian Paints	Commodity Chemicals	11.7	6.9	11.0	(6)	59
Grasim Industries	Construction Materials	(0.5)	(2.9)	(1.2)	(127)	59
UltraTech Cement	Construction Materials	15.1	26.8	22.3	48	(17)
Hindustan Unilever	Consumer Staples	25.4	24.9	27.3	8	10
ITC	Consumer Staples	49.2	48.7	49.1	(0)	1
Nestle India	Consumer Staples	7.5	8.9	6.6	(12)	(26)
Tata Consumer Products	Consumer Staples	2.9	3.4	3.3	15	(3)
NTPC	Electric Utilities	45.1	57.8	47.7	6	(17)
Power Grid	Electric Utilities	37.2	41.4	36.3	(3)	(12)
Apollo Hospitals	Health Care Services	3.1	3.9	4.3	42	11
Eternal	Internet Software & Services	2.5	0.4	0.3	(90)	(36)
HCL Technologies	IT Services	41.4	42.8	38.5	(7)	(10)
Infosys	IT Services	63.7	70.3	69.2	9	(2)
TCS	IT Services	120.4	122.2	127.6	6	4
Tech Mahindra	IT Services	8.5	11.7	11.4	34	(2)
Wipro	IT Services	30.0	35.7	33.3	11	(7)
Hindalco Industries	Metals & Mining	30.7	52.8	40.0	30	(24)
JSW Steel	Metals & Mining	8.5	15.0	25.3	199	68
Tata Steel	Metals & Mining	9.6	13.0	20.8	117	60
Coal India	Oil, Gas & Consumable Fuels	109.4	95.9	87.3	(20)	(9)
ONGC	Oil, Gas & Consumable Fuels	89.4	64.5	80.2	(10)	24
Reliance Industries	Oil, Gas & Consumable Fuels	151.4	194.1	269.9	78	39
Cipla	Pharmaceuticals	11.8	12.2	13.0	10	6
Dr Reddy's Laboratories	Pharmaceuticals	13.9	15.9	14.1	1	(12)
Sun Pharmaceuticals	Pharmaceuticals	28.4	21.5	22.8	(20)	6
Titan Company	Retailing	7.7	8.7	10.3	34	18
Trent	Retailing	3.4	3.5	4.2	24	21
Bharti Airtel	Telecommunication Services	41.6	110.2	59.5	43	(46)
Adani Ports and SEZ	Transportation	29.5	28.6	31.5	7	10
Nifty-50 Index		1,878	2,155	2,105	12.1	(2.3)

Source: Companies, Kotak Institutional Equities

KIE coverage universe: Net profits increased 10% yoy; broadly in line with expectations

1QFY26 net profits of the KIE coverage universe increased 10% yoy, broadly in line with our expectations of 9.9% yoy increase in net profits. Construction materials, diversified financials, EMS, hotels & restaurants, metals & mining and telecommunication services reported a strong double-digit growth in net profits. However, the larger sectors such as banks, capital goods, IT services and real estate sectors reported single-digit yoy increase in net income whereas automobiles & components, commodity chemicals, consumer durables & apparels, consumer staples and transportation sectors showed a yoy decline in the income. In our coverage universe, 112 stocks beat our earnings forecast by more than 5%, 93 reported adjusted net income within -5% and +5% range of our estimates and 84 missed our estimates by more than 5%.

Exhibits 116-117 compare 1QFY26 EBITDA and net profits of KIE coverage sectors with 1QFY25, 4QFY25 and 1QFY26E. Despite decent headline numbers, 1QFY26 results indicate a continued weakness in consumption. Many companies disappointed versus modest expectations on EBITDA. 1QFY26 EBITDA of KIE universe increased 9.1% yoy, 2.6% below our expectations. 1QFY26 EBITDA of construction materials, healthcare services, metals & mining, pharmaceuticals, specialty chemicals, telecommunication services and transportation sectors showed a strong yoy increase in EBITDA. Automobiles & components, capital goods, commodity chemicals, consumer staples and IT services reported low growth or decline in EBITDA.

EBITDA of KIE universe increased 9.1% yoy but declined 2.9% qoq

Exhibit 116: Comprehensive sector-wise EBITDA analysis of 1QFY26 earnings season (Rs bn)

	EBITDA (Rs bn)				Change (%) A/E	Growth (%)	
	Jun-24	Mar-25	Jun-25A	Jun-25E		yoy	qoq
Automobiles & Components	433	457	377	369	2	(13)	(18)
Capital Goods	144	207	148	157	(5)	3	(28)
Commodity Chemicals	32	25	32	32	(1)	(0)	29
Construction Materials	80	113	110	112	(1)	39	(2)
Consumer Durables & Apparel	26	33	26	27	(3)	(1)	(20)
Consumer Staples	179	165	177	176	—	(1)	7
Electric Utilities	287	282	287	304	(6)	—	2
Electronic Manufacturing Services	6	11	10	9	10	71	(11)
Fertilizers & Agricultural Chemicals	17	35	22	16	31	25	(38)
Gas Utilities	76	53	57	58	(2)	(25)	8
Health Care Services	23	26	27	27	—	19	3
Hotels & Restaurants	14.7	20.5	18.7	16.9	10	27	(9)
Internet Software & Services	5	1	2	2	(19)	(59)	99
IT Services	430	456	449	457	(2)	5	(1)
Media	9	6	9	9	(7)	—	39
Metals & Mining	421	491	478	462	4	14	(3)
Oil, Gas & Consumable Fuels	874	1,002	1,021	1,130	(10)	17	2
Pharmaceuticals	138	156	156	153	2	14	—
Real Estate	50	64	55	58	(6)	9	(15)
Renewable Energy	9	15	15	15	4	70	7
Retailing	37	38	46	45	2	24	21
Specialty Chemicals	32	34	35	36	(4)	9	3
Telecommunication Services	246	322	332	327	2	35	3
Transportation	122	136	135	130	3	10	(1)
KIE universe	3,690	4,149	4,027	4,132	(2.6)	9.1	(2.9)
KIE universe (ex-OMCs)	3,526	3,877	3,728	3,749	(0.6)	5.7	(3.8)
KIE universe (ex-oil, gas & consumable fuels)	2,817	3,146	3,006	3,002	0.1	6.7	(4.5)

Source: Kotak Institutional Equities estimates

Adjusted net income of KIE universe increased 10% yoy and declined 4.5% qoq

Exhibit 117: Comprehensive sector-wise PAT analysis of 1QFY26 earnings season (Rs bn)

	Adjusted PAT (Rs bn)				Change (%)	Growth (%)	
	Jun-24	Mar-25	Jun-25A	Jun-25E	A/E	yoy	qoq
Automobiles & Components	230	272	218	206	6	(5)	(20)
Banks	766	820	794	754	5	4	(3)
Capital Markets	23	21	25	23	10	6	18
Capital Goods	75	119	76	79	(3)	2	(36)
Commercial & Professional Services	1	1	1	1	4	40	2
Commodity Chemicals	19	13	19	19	1	(2)	45
Construction Materials	34	52	48	48	(1)	43	(7)
Consumer Durables & Apparel	18	22	18	18	(2)	(3)	(20)
Consumer Staples	127	120	127	126	1	(0)	6
Diversified Financials	149	171	181	177	2	21	6
Electric Utilities	110	125	119	111	7	8	(5)
Electronic Manufacturing Services	3	5	5	4	9	67	(11)
Fertilizers & Agricultural Chemicals	1	14	5	2	193	345	(66)
Gas Utilities	50	35	37	36	—	(27)	4
Health Care Services	12	15	15	14	3	22	(1)
Hotels & Restaurants	3.8	7.7	6.2	4.6	36	62	(20)
Internet Software & Services	4	(0)	(1)	(1)	32	(119)	(526)
Insurance	40	82	47	44	6	16	(43)
IT Services	298	317	320	319	—	7	1
Media	6	5	6	7	(3)	13	23
Metals & Mining	157	204	201	177	13	27	(2)
Oil, Gas & Consumable Fuels	425	522	518	614	(16)	22	(1)
Pharmaceuticals	81	99	98	93	5	20	(2)
Real Estate	32	34	35	34	2	9	4
Renewable Energy	6	9	11	9	12	78	17
Retailing	22	21	27	27	(—)	20	25
Specialty Chemicals	20	21	22	23	(3)	9	3
Telecommunication Services	51	70	79	84	(6)	56	12
Transportation	66	67	61	60	2	(7)	(8)
KIE universe	2,831	3,263	3,115	3,112	0.1	10.0	(4.5)
KIE universe (ex-OMCs)	2,771	3,112	2,953	2,886	2.3	6.6	(5.1)
KIE universe (ex-oil, gas & consumable fuels)	2,406	2,741	2,597	2,498	4.0	7.9	(5.3)

Source: Kotak Institutional Equities estimates

Net profits of the automobiles & component sector declined 5% yoy. Most automobile companies saw a yoy decline in volumes but an increase in ASPs. Banking sector reported a mere 4% yoy growth in net income despite a sharp increase in non-interest income in the case of PSU banks. Overall credit growth and NIMs have moderated for the banking sector; however, asset quality trends remain broadly stable, with a few banks highlighting weak asset quality in the unsecured retail and MSME segments. Construction material sector reported strong quarter led by higher realizations and volumes. Consumer companies witnessed weak volume prints, with commentary suggesting a challenging demand environment. Weak demand led to underwhelming results across the IT services sector. IT services companies cited various factors for weak demand including (1) tariff impact, (2) delayed decision-making by clients and (3) weak discretionary spending in several verticals. 1QFY26 net income of oil, gas & consumables fuels sector increased 22% yoy. Downstream companies reported unexpectedly weak refining margins due to unfavorable change in crude mix and timing of imports (large inventory loss). Net profits of the pharmaceuticals sector increased 20% yoy in 1QFY26 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. Banks, EMS, hotels & restaurants and oil, gas & consumable fuels sectors beat our estimates at the revenue level while consumable durables, media and specialty chemical missed our revenue expectations. EMS, hotels & restaurants and fertilizers & agricultural chemicals sectors beat EBITDA estimates while media, oil, gas & consumable fuels and real estate disappointed. Finally EMS, metals & mining and renewable energy sectors beat our expectations at the net income level while capital goods, oil, gas & consumable fuels and telecommunication services sectors disappointed.

EMS, metals & mining and renewable energy sectors beat at net income level

Exhibit 118: Performance of sectors versus expectations (KIE universe) in 1QFY26 (Rs bn)

	Companies (#)	Net sales (Rs bn)		Change (%)
		Actual	Expected	
Revenues: Sectors posting positive surprises				
Banks	20	2,605	2,393	9
Hotels & Restaurants	10	83	77	8
Electronic Manufacturing Services	6	185	172	8
Oil, Gas & Consumable Fuels	7	7,288	6,876	6
Metals & Mining	10	2,557	2,440	5
Revenues: Sectors posting negative surprises				
Specialty Chemicals	14	162	172	(6)
Consumer Durables & Apparel	11	228	238	(4)
Media	3	46	48	(4)
Commercial & Professional Services	2	64	67	(4)
Commodity Chemicals	5	183	188	(3)

	Companies (#)	EBITDA (Rs bn)		Change (%)
		Actual	Expected	
EBITDA: Sectors posting positive surprises				
Fertilizers & Agricultural Chemicals	4	22	16	31
Electronic Manufacturing Services	6	10	9	10
Hotels & Restaurants	10	19	17	10
Renewable Energy	2	15	15	4
Metals & Mining	10	478	462	4
EBITDA: Sectors posting negative surprises				
Internet Software & Services	8	2	2	(19)
Oil, Gas & Consumable Fuels	7	1,021	1,130	(10)
Commercial & Professional Services	2	2	2	(10)
Media	3	9	9	(7)
Real Estate	14	55	58	(6)

	Companies (#)	PAT (Rs bn)		Change (%)
		Actual	Expected	
PAT: Sectors posting positive surprises				
Metals & Mining	10	201	177	13
Renewable Energy	2	11	9	12
Capital Markets	10	25	23	10
Electronic Manufacturing Services	6	5	4	9
Electric Utilities	7	119	111	7
PAT: Sectors posting negative surprises				
Oil, Gas & Consumable Fuels	7	518	614	(16)
Telecommunication Services	4	79	84	(6)
Capital Goods	16	76	79	(3)
Specialty Chemicals	14	22	23	(3)
Media	3	6	7	(3)

Source: Kotak Institutional Equities estimates

Exhibit 119 shows the movement in EBITDA margins across sectors over the past few quarters. As can be seen, many sectors saw sharp compression in EBITDA margins in 1QFY26 on a yoy basis although margins were generally better on a qoq basis. We do not focus on EBITDA margins for certain sectors (construction materials, oil, gas & consumable fuels and metals & mining) and focus on absolute profitability (Rs/ton or US\$/ton). Nonetheless, the exercise is useful to understand specific issues dogging some sectors.

1QFY26 EBITDA margin of KIE universe expanded 70 bps yoy

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

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25A	Jun-25E
Automobiles & Components	13.9	12.6	12.3	13.5	11.7	11.8
Capital Goods	12.0	12.7	12.0	13.2	11.6	11.4
Commercial & Professional Services	2.8	2.9	3.1	3.4	2.8	3.0
Commodity Chemicals	17.4	15.0	16.5	14.7	17.3	17.1
Construction Materials	14.6	11.4	12.9	17.6	17.8	18.3
Consumer Durables & Apparel	11.3	10.7	12.5	12.7	11.7	11.6
Consumer Staples	25.5	23.9	23.2	23.7	23.4	24.0
Electric Utilities	35.3	35.4	36.4	34.5	34.6	38.1
Electronic Manufacturing Services	5.2	4.9	5.3	6.6	5.4	5.2
Fertilizers & Agricultural Chemicals	12.6	11.9	15.0	18.2	14.7	11.6
Gas Utilities	14.4	12.1	9.4	9.9	10.8	10.9
Health Care Services	19.7	21.0	20.3	20.3	19.9	20.1
Hotels & Restaurants	22.5	22.3	28.1	28.2	23.9	23.6
Internet Software & Services	4.1	4.5	3.7	0.7	1.3	1.6
IT Services	22.1	22.5	22.6	22.3	21.9	22.2
Media	18.8	19.4	20.3	14.3	19.0	19.6
Metals & Mining	17.2	16.4	17.0	18.1	18.7	18.9
Oil, Gas & Consumable Fuels	12.0	11.3	13.0	13.3	14.0	16.4
Pharmaceuticals	24.1	24.8	25.8	24.5	24.8	24.2
Real Estate	37.3	35.2	37.0	34.8	33.9	37.0
Renewable Energy	18.0	17.7	23.9	25.8	24.7	23.4
Retailing	11.1	10.8	11.6	10.6	11.6	11.6
Specialty Chemicals	20.4	19.8	19.9	20.3	21.3	20.9
Telecommunication Services	46.4	47.6	49.4	50.8	50.7	50.8
Transportation	34.4	25.3	31.6	33.9	34.2	32.7
KIE universe	17.1	16.5	17.2	17.7	17.8	18.8

Source: Kotak Institutional Equities estimates

3

1QFY26 results takeaways: Prolonged weakness

1QFY26 saw continued weakness in consumer demand, while investment growth moderated. Lenders reported modest credit growth, lower NIMs and higher stress in select segments. Capital goods companies reported modest domestic revenue growth, while order inflows moderated from elevated levels. IT companies continued to experience demand headwinds, while domestic pharma companies reported healthy growth. Pan-Indian real estate companies reported strong growth in pre-sales across geographies.

Slowing credit growth and asset quality weakness in select pockets; subdued consumption trends

- **Banks witnessed further weakness in credit growth, moderation in NIMs and some stress in a few segments.** Bank credit saw modest growth in 1QFY26, with bank credit as of end-1QFY25 growing 9% yoy. Steady moderation in retail credit growth (+12% yoy) has been the primary contributor of softening bank credit growth; meanwhile, industry credit growth remained soft as well. We note that housing credit and vehicle credit growth has softened further at 10% yoy and 6% yoy, while unsecured credit growth such as credit cards have moderated from 30% yoy in 1QFY25 to 7% yoy in 1QFY26. 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)

	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Proportion (%)	Growth qoq (%)	yoy (%)
Food credit	339	282	244	199	187	513	561	562	474	365	321	706	644	—	76	90
Agriculture	21,596	21,560	21,606	21,673	22,053	22,235	22,390	22,535	22,643	22,871	23,096	22,988	23,060	12	1	7
Industry	37,282	37,221	37,562	38,016	37,743	38,131	38,544	38,746	38,754	39,371	38,955	38,816	39,328	21	(0)	5
Textiles	2,553	2,551	2,560	2,568	2,568	2,595	2,641	2,677	2,737	2,773	2,754	2,729	2,773	2	—	9
Chemical / Products	2,549	2,548	2,572	2,634	2,599	2,633	2,636	2,654	2,632	2,678	2,672	2,684	2,711	1	1	6
Iron and Steel	2,818	2,850	2,952	3,005	3,003	3,046	3,062	3,081	3,017	3,002	2,999	2,931	3,016	2	—	7
Engineering	2,035	2,046	2,156	2,182	2,193	2,240	2,271	2,291	2,324	2,401	2,400	2,400	2,488	1	4	22
Gems & Jewellery	840	829	862	912	924	870	878	864	830	857	909	870	888	—	4	6
Food processing	2,064	2,050	1,995	1,924	1,903	1,976	2,120	2,174	2,191	2,195	2,244	2,237	2,231	1	2	8
Construction	1,371	1,404	1,416	1,419	1,386	1,421	1,438	1,452	1,497	1,507	1,504	1,509	1,509	1	—	10
Infrastructure	13,239	13,011	13,062	12,999	12,986	13,126	13,144	13,092	13,027	13,228	13,114	13,042	13,168	7	(0)	(1)
- Power	6,466	6,369	6,386	6,416	6,461	6,520	6,562	6,647	6,609	6,830	6,878	6,837	6,954	4	2	8
- Telecom	1,325	1,296	1,323	1,240	1,215	1,227	1,246	1,241	1,164	1,189	1,083	1,013	1,043	1	(12)	(21)
- Roads	3,358	3,275	3,280	3,259	3,258	3,332	3,258	3,145	3,159	3,112	3,135	3,163	3,168	2	2	(6)
- Others	2,089	2,070	2,073	2,083	2,052	2,048	2,077	2,060	2,094	1,811	2,018	2,029	2,003	1	17	(4)
Others	9,813	9,932	9,986	10,374	10,179	10,225	10,355	10,461	10,498	10,730	10,358	10,414	10,545	6	(2)	7
Trade	10,595	10,410	10,526	10,725	10,795	10,816	11,112	11,310	11,579	11,868	11,639	11,674	11,741	6	(1)	11
Retail loans	54,861	55,298	55,555	55,967	56,475	57,349	57,949	58,315	58,789	59,523	59,809	60,620	61,503	33	3	12
Housing	27,986	28,101	28,332	28,455	28,718	29,087	29,317	29,510	29,788	30,105	30,089	30,374	30,671	17	2	10
Vehicle loans	6,038	6,186	6,108	6,172	6,164	6,056	6,133	6,152	6,198	6,228	6,297	6,378	6,523	4	5	8
Credit cards	2,730	2,756	2,766	2,718	2,814	2,890	2,911	2,921	2,870	2,844	2,872	2,907	2,926	2	3	7
Education loans	1,220	1,231	1,261	1,291	1,303	1,316	1,331	1,359	1,368	1,375	1,375	1,381	1,396	1	2	14
Others	16,887	17,024	17,088	17,331	17,475	18,000	18,256	18,374	18,565	18,972	19,176	19,581	19,987	11	5	18
Other categories	44,136	43,376	43,959	44,673	45,131	46,049	46,872	47,279	47,660	48,441	48,048	48,073	48,555	26	—	10
Transporters	2,422	2,372	2,435	2,450	2,464	2,498	2,530	2,539	2,576	2,584	2,601	2,634	2,566	1	(1)	6
Professional/others	1,721	1,634	1,737	1,777	1,863	1,849	1,896	1,909	1,928	1,960	1,944	1,965	1,964	1	—	14
Real Estate loans	4,833	4,845	4,948	4,973	5,077	5,149	5,209	5,235	5,262	5,328	5,495	5,499	5,555	3	4	15
NBFCs	15,555	15,289	15,222	15,290	15,367	15,753	16,218	16,187	16,123	16,361	16,106	15,626	15,965	9	(2)	3
Others	19,605	19,236	19,616	20,183	20,361	20,800	21,020	21,409	21,771	22,209	21,902	22,349	22,505	12	1	15
Total	168,808	168,148	169,452	171,254	172,382	175,092	177,429	178,748	179,900	182,439	181,868	182,876	184,831		1.3	9

Source: RBI, Kotak Institutional Equities

Most industrial sectors continue to witness muted credit demand, with engineering and construction being the major sectors driving industrial credit growth. At the same time, bank credit to NBFCs moderated further in 1QFY26 to 3% yoy. Real estate loans (+15% yoy) and trade loans (+11% yoy) are among the few pockets that are seeing strong bank lending in the non-retail segments.

Most banks, public or private, reported modest credit growth in 1QFY26. Exhibit 121 shows credit growth for banks under our coverage and total credit growth for the past few quarters. We note that credit growth of private banks continued to trend below PSBs' in 1QFY26, with AXSB and HDFCB reporting single-digit credit growth and IIB reporting a decline in loans. ICICI reported 12% yoy credit growth. HDFC Bank expressed its intent to ramp up credit growth in coming quarters, while ICICI is likely to grow in a calibrated manner.

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

Exhibit 121: Yoy growth in loans for banks in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda	20	19	15	13	9	12	12	13	13
Canara Bank	13	12	12	11	10	10	10	12	12
Punjab National Bank	16	15	14	14	14	15	17	15	11
State Bank of India	15	13	15	16	16	15	14	12	12
Union Bank	14	10	14	14	14	12	7	10	8
Old private banks									
City Union Bank	4	2	—	4	10	12	15	14	16
Federal Bank	21	20	18	20	20	19	16	12	9
Karur Vysya Bank	12	14	16	16	16	14	14	14	15
New private banks									
Axis Bank	22	23	22	14	14	11	9	8	8
Bandhan Bank	8	13	20	16	24	24	16	9	6
DCB Bank	19	19	18	19	19	19	23	25	21
HDFC Bank	16	58	62	55	52	7	3	5	7
ICICI Bank	18	18	18	16	16	15	14	13	12
IndusInd Bank	22	21	20	18	15	13	12	1	(4)
Yes Bank	7	9	12	12	15	12	13	8	5
Small finance banks									
AU Small Finance Bank	29	24	20	25	43	48	49	46	23
Equitas Small Finance Bank	34	32	25	20	16	18	21	17	9
Ujivan Small Finance Bank	34	40	31	26	22	20	16	17	20
Total	16	22	22	21	20	13	11	11	10
Total (ex-HDFCB)	16	15	16	15	14	14	13	12	11
Public sector	16	14	14	14	14	14	13	12	12
Private sector	18	33	35	30	29	12	9	8	8

Notes:

(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 (1) outpacing PSU banks and (2) delivering faster growth in deposits than in credit. 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 ICICIB outpacing other large banks on CASA growth (see Exhibits 123-124). We note that only a handful banks have been able to maintain a stable share of CASA in their deposit mix over the past few quarters. Most have seen a moderate-to-sharp decline in the share of CASA in overall deposits.

Steady improvement in deposit growth, especially for private banks

Exhibit 122: Yoy growth in deposits for banks in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda	16	15	8	11	9	9	13	10	10
Canara Bank	7	9	9	11	12	9	8	11	10
Punjab National Bank	14	10	9	7	9	11	16	14	13
State Bank of India	12	12	13	11	8	9	10	9	12
Union Bank	14	9	10	9	6	9	4	4	4
Old private banks									
City Union Bank	6	6	5	6	6	9	11	14	20
Federal Bank	21	23	19	18	20	16	11	12	8
Karur Vysya Bank	13	13	13	16	14	15	15	15	15
New private banks									
Axis Bank	17	18	18	13	13	14	14	10	9
Bandhan Bank	17	13	15	25	23	27	27	12	16
DCB Bank	23	23	19	20	20	20	20	22	20
HDFC Bank	19	30	28	26	24	15	15	14	16
ICICI Bank	18	19	19	20	15	16	16	14	13
IndusInd Bank	15	14	13	14	15	15	15	7	(0)
Yes Bank	14	17	13	22	21	18	15	7	4
Small finance banks									
AU Small Finance Bank	27	30	31	26	40	45	45	45	45
Equitas Small Finance Bank	36	42	38	42	35	29	26	19	18
Ujjivan Small Finance Bank	45	43	28	23	22	17	17	17	17

Notes:

(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: Yoy growth in CASA deposits for banks in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda	6	7	6	8	10	9	9	7	6
Canara Bank	3	3	6	7	5	6	3	7	5
Punjab National Bank	3	3	6	3	4	4	4	5	4
State Bank of India	6	5	5	4	3	4	5	6	8
Union Bank	7	4	6	4	4	2	(0)	4	1
Old private banks									
City Union Bank	3	(0)	5	9	2	8	5	6	11
Federal Bank	5	5	6	6	10	11	9	16	12
Karur Vysya Bank	4	3	5	6	4	6	4	4	6
New private banks									
Axis Bank	22	13	12	3	4	4	2	4	5
Bandhan Bank	(3)	7	14	18	14	9	5	(5)	(6)
DCB Bank	11	5	13	11	18	23	16	15	10
HDFC Bank	11	8	10	9	6	8	4	4	8
ICICI Bank	9	4	4	10	9	15	17	13	14
IndusInd Bank	6	6	4	8	6	5	1	(7)	(14)
Yes Bank	8	11	12	23	26	29	28	19	11
Small finance banks									
AU Small Finance Bank	14	4	13	9	32	38	30	24	16
Equitas Small Finance Bank	1	(0)	(2)	8	10	17	10	7	11
Ujjivan Small Finance Bank	27	28	24	24	27	26	15	15	13

Notes:

(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 in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda	40	40	41	41	41	40	39	40	39
Canara Bank	33	32	32	32	31	31	30	31	30
Punjab National Bank	42	42	42	41	40	39	38	38	37
State Bank of India	43	42	41	41	41	40	39	40	39
Union Bank	34	34	34	34	33	32	32	34	33
Old private banks									
City Union Bank	31	30	29	31	30	29	28	29	27
Federal Bank	32	31	31	29	29	30	30	30	30
Karur Vysya Bank	33	32	32	30	30	29	28	27	27
New private banks									
Axis Bank	46	44	42	43	42	41	39	41	40
Bandhan Bank	36	39	36	37	33	33	32	31	27
DCB Bank	26	25	26	26	25	26	25	25	23
HDFC Bank	42	38	38	38	36	35	34	35	34
ICICI Bank	43	41	40	42	41	41	40	42	41
IndusInd Bank	40	39	38	38	37	36	35	33	31
Yes Bank	29	29	30	31	31	32	33	34	33
Small finance banks									
AU Small Finance Bank	35	34	33	33	33	32	31	29	29
Equitas Small Finance Bank	39	34	33	32	31	31	29	29	29
Ujjivan Small Finance Bank	25	24	25	26	26	26	25	26	24

Source: Companies, Kotak Institutional Equities.

We note that a number of banks saw further decline in their NIMs in 1QFY26 continuing the trend of the past few quarters (see Exhibit 125), as decline in yields continued at a faster pace versus decline in borrowing costs. Exhibit 126 shows the trend in borrowing costs for banks under our coverage. We note that banks are likely to continue to see further headwinds to profitability over the next few quarters, given (1) banks are yet to pass on the entire cut in policy rates and (2) a competitive lending environment.

Most banks saw a modest decline in NIMs on a qoq basis

Exhibit 125: Net interest margin for banks in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda	3.1	3.0	3.0	3.1	3.0	3.0	2.8	2.7	2.7
Canara Bank	2.6	2.6	2.7	2.7	2.5	2.5	2.4	2.4	2.2
Punjab National Bank	2.7	2.8	2.9	2.8	2.8	2.7	2.7	2.5	2.4
State Bank of India	3.1	3.0	2.9	3.0	2.9	2.9	2.8	2.8	2.6
Union Bank	2.9	2.9	2.9	2.9	2.8	2.7	2.7	2.7	2.5
Old private banks									
City Union Bank	3.3	3.4	3.2	3.3	3.2	3.3	3.2	3.2	3.2
Federal Bank	3.1	3.1	3.1	3.1	3.1	3.0	3.0	2.9	2.8
Karur Vysya Bank	3.8	3.7	3.9	3.8	3.8	3.8	3.7	3.7	3.5
New private banks									
Axis Bank	3.9	4.0	3.9	3.8	3.8	3.8	3.8	3.7	3.6
Bandhan Bank	6.7	6.6	6.7	7.1	7.1	7.0	6.5	6.1	5.9
DCB Bank	3.5	3.4	3.2	3.3	3.1	3.1	3.1	3.0	3.0
HDFC Bank	4.1	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.4
ICICI Bank	4.8	4.6	4.5	4.4	4.4	4.3	4.3	4.3	4.3
IndusInd Bank	4.2	4.3	4.4	4.3	4.1	4.0	3.8	2.2	3.4
Yes Bank	2.9	2.8	2.8	2.8	2.8	2.8	2.7	2.8	2.9
Small finance banks									
AU Small Finance Bank	5.6	5.5	5.5	5.2	6.2	6.1	5.9	5.7	5.3
Equitas Small Finance Bank	8.8	8.5	8.4	8.1	7.9	7.5	7.4	7.3	6.2
Ujjivan Small Finance Bank	9.6	9.3	9.1	9.6	9.4	9.1	8.2	7.7	7.4
Utkarsh Small Finance Bank	9.1	9.4	9.9	10.0	9.7	9.0	7.5	6.2	6.2

Source: Companies, Kotak Institutional Equities estimates

Marginal decline in cost of funds in 1QFY26

Exhibit 126: Cost of funds for banks in KIE universe, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks									
Bank of Baroda (calc.)	4.7	5.1	5.1	5.1	5.1	5.2	5.2	5.0	5.0
Canara Bank	4.8	4.9	4.9	5.0	5.3	5.3	5.3	5.3	5.3
PNB (calc.)	4.7	4.8	4.9	5.1	5.0	5.2	5.2	5.2	5.2
SBI (calc.)	4.6	4.9	5.1	5.1	5.1	5.2	5.2	5.2	5.1
Union Bank (calc.)	5.0	5.3	5.4	5.5	5.4	5.6	5.6	5.6	5.5
Old private banks									
City Union Bank	4.6	4.6	4.8	4.8	4.8	4.8	4.9	5.0	5.0
Federal Bank (calc.)	5.2	5.5	5.7	5.7	5.8	5.8	6.0	5.7	5.7
Karur Vysya Bank	5.0	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.8
New private banks									
Axis Bank	5.0	5.2	5.4	5.4	5.4	5.5	5.5	5.5	5.4
Bandhan	6.4	6.5	6.6	6.9	7.0	7.0	7.1	7.2	7.0
DCB	6.7	6.9	7.0	7.1	7.2	7.2	7.2	7.3	7.2
HDFC Bank (calc.)	4.7	6.4	5.8	5.7	5.7	5.8	5.8	5.7	5.6
ICICI Bank	4.6	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0
IndusInd Bank	5.3	5.4	5.5	5.6	5.6	5.6	5.7	5.6	5.7
Yes Bank	6.2	6.4	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Small finance banks									
AU Small Finance Bank	6.6	6.7	6.9	7.0	7.0	7.0	7.1	7.1	7.1
Equitas Small Finance Bank	6.8	7.3	7.6	7.3	7.3	7.5	7.5	7.4	7.5
Ujjivan Small Finance Bank	7.2	7.4	7.5	7.2	7.5	7.5	7.6	7.6	7.6

Source: Companies, Kotak Institutional Equities

Most major banks under our coverage reported broadly stable GNPLs and NNPLs in 1QFY26 (see Exhibit 127). Gross slippages have been under control for most large banks. However, select banks, notably AXSB and large PSU banks, witnessed some weakening in asset quality, especially in the MSME and unsecured lending segments (see Exhibit 128) after several quarters of low slippages. AXSB suggested that technical changes in asset classification criteria led to an increase in slippages. On the other hand, MFI loan book saw improvement for a number of banks in 1QFY26 after three quarters (2QFY25-4QFY25) of high slippages.

NPLs and slippages at low levels in general; select banks witnessed increase in slippages in unsecured retail and MSME

Exhibit 127: Trend in gross NPLs, net NPLs and slippages, March fiscal year-ends, 2025-26 (%)

	Gross NPLs (%)					Net NPLs (%)					Slippages (%)				
	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks															
Bank of Baroda	2.9	2.5	2.4	2.3	2.3	0.7	0.6	0.6	0.6	0.6	1.1	1.2	1.0	1.1	1.2
Canara Bank	4.1	3.7	3.3	2.9	2.7	1.2	1.0	0.9	0.7	0.6	1.4	1.0	1.0	1.0	0.8
Punjab National Bank	5.0	4.5	4.1	4.0	3.8	0.6	0.5	0.4	0.4	0.4	0.8	0.9	0.7	1.1	0.7
State Bank of India	2.2	2.1	2.1	1.8	1.8	0.6	0.5	0.5	0.5	0.5	0.9	0.5	0.4	0.4	0.8
Union Bank	4.5	4.4	3.9	3.6	3.5	0.9	1.0	0.8	0.6	0.6	1.0	2.3	0.8	1.1	1.0
Old private banks															
City Union Bank	3.9	3.5	3.4	3.1	3.0	1.9	1.6	1.4	1.3	1.2	1.5	1.5	1.7	2.1	1.5
Federal Bank	2.1	2.1	2.0	1.8	1.9	0.6	0.6	0.5	0.4	0.5	0.8	0.8	0.9	0.9	1.1
Karur Vysya Bank	1.3	1.1	0.8	0.8	0.7	0.4	0.3	0.2	0.2	0.2	0.9	0.9	0.7	0.9	0.9
New private banks															
Axis Bank	1.5	1.4	1.5	1.3	1.6	0.3	0.3	0.4	0.3	0.5	2.0	1.8	2.1	1.8	3.1
Bandhan Bank	4.2	4.7	4.7	4.7	5.0	1.2	1.3	1.3	1.3	1.4	3.2	3.5	5.0	5.3	4.5
DCB Bank	3.3	3.3	3.1	3.0	3.0	1.2	1.2	1.2	1.1	1.2	3.6	3.7	3.6	3.1	4.6
HDFC Bank	1.3	1.4	1.4	1.3	1.4	0.4	0.4	0.5	0.4	0.5	1.3	1.3	1.4	1.2	1.4
ICICI Bank	2.2	2.0	2.0	1.7	1.7	0.4	0.4	0.4	0.4	0.4	2.0	1.7	1.9	1.6	1.9
IndusInd Bank	2.0	2.1	2.3	3.1	3.6	0.6	0.6	0.7	1.0	1.1	1.8	2.1	2.5	5.5	3.0
Yes Bank	1.7	1.6	1.6	1.6	1.6	0.5	0.5	0.5	0.3	0.3	2.1	2.3	2.3	2.0	2.4
Small finance banks															
AU Small Finance Bank	1.8	2.0	2.3	2.3	2.5	0.6	0.8	0.9	0.7	0.9	2.5	3.3	4.0	3.6	3.8
Equitas Small Finance Bank	2.7	3.0	3.0	2.9	2.9	0.8	0.8	1.0	1.0	1.0	4.5	5.8	6.5	5.9	7.0
Ujjivan Small Finance Bank	2.5	2.5	2.7	2.2	2.5	0.4	0.6	0.6	0.5	0.7	2.6	3.2	4.6	4.6	4.3
Utkarsh Small Finance Bank	2.8	3.9	6.2	9.4	11.4	0.3	0.9	2.5	4.8	5.0	4.3	8.3	15.9	16.2	9.2
Total	2.5	2.4	2.3	2.1	2.2	0.6	0.6	0.6	0.5	0.5					
Public banks	3.2	3.0	2.8	2.5	2.4	0.7	0.6	0.6	0.5	0.5					
Private banks	1.7	1.7	1.7	1.7	1.8	0.5	0.5	0.5	0.5	0.5					

Source: Companies, Kotak Institutional Equities

Most banks reported stable asset quality, with marginal increase in stress in unsecured retail and MSME portfolios

Exhibit 128: Discussion on asset quality by major lenders, 1QFY26

Banks	Comments on asset quality
Axis Bank	Major discussion focused on technical changes to asset classification criteria that impacted 1QFY26, with reported gross slippages of Rs82 bn (Rs27 bn technical impact). The bank indicated stabilization in retail unsecured segments with improving trends in credit cards and personal loans
Bandhan Bank	Moderate improvement with gross slippages declining to Rs15.5 bn in 1QFY26 from Rs17.5 bn in 4QFY25, primarily driven by an improvement in the EEB segment. The bank expects gradual recovery in the EEB segment over coming months with a positive bias in 2H FY26. However, retail and housing segments showed some stress
Bank of Baroda	Asset quality remained robust, with slippages at Rs35 bn versus normalized Rs28-29 bn, mainly due to one large international account and marginal increase in personal loans. MSME segment saw the majority of slippages. Collection efficiency is strong at 98.9%
Canara Bank	The bank showed improved asset quality, with slippage ratio improving to 0.80%, with segment-wise slippages of (1) Rs6.50 bn in agriculture, (2) Rs4 bn in retail and (3) Rs10 bn in MSME. Management expects to exceed guidance targets by September/December 2025
HDFC Bank	Asset quality remains benign across segments, with retail NPA (excluding agri) stable yoy at 82 basis points. Credit costs increased slightly from 29 to 41 bps but remain benign, with June quarters typically elevated due to agricultural seasonality. Management expects eventual normalization and sees no immediate stress on the horizon
ICICI Bank	Asset quality discussions focused on marginal increases in unsecured portfolio slippages over a low base. Management expects the unsecured portfolio to stabilize and gradually improve, with provisions at 10.4% of core operating profit
IndusInd Bank	The bank reported improved gross and net slippages at 0.74% and 0.61% respectively, with microfinance showing elevated but declining stress (Rs8.9 bn slippages), while vehicle finance (Rs7.4 bn), corporate (Rs2.5 bn), and other retail (Rs6.9 bn) showed stable trends. Management expects microfinance stress to normalize in 3-6 months
State Bank of India	SBI noted that there was no concern on asset quality in any of the segments. It stated that the marginal uptick in slippages in 1QFY26 was in line with seasonal trends. The bank also highlighted no major concern in the SME book, while noting that there has been a gradual improvement in the unsecured and MFI segments at the system level
Union Bank of India	Union Bank reported slippage ratio below 1% for 1QFY26, continuing with the downward trend. The MSME segment showed elevated slippages with NPA percentage increasing from 4.14% to 4.39%, while large corporate and retail segments saw declines. Management expects gross recoveries to continue outweighing slippages

Source: Companies, Kotak Institutional Equities

Banks reported a moderate growth in PPOP on a yoy basis, with all large private banks seeing modest yoy growth. Provisions remained under control resulting in low provisions-to-PPOP ratio in 1QFY26. HDFCB utilized its one-time gain from large investment income to create additional contingency provisions. Exhibit 129 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 a modest increase but provisions saw a moderate increase on a yoy basis

Exhibit 129: Provisions and pre-provision operating profits (PPOP) for banks in KIE coverage universe, 1QFY25-1QFY26

	Pre-provision operating profits (Rs bn)					Provisions (Rs bn)					Provisions/PPOP (%)				
	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Public banks															
Bank of Baroda	72	95	77	81	82	10	23	11	16	20	14	25	14	19	24
Canara Bank	76	77	78	83	86	23	23	24	18	24	30	29	31	22	27
Punjab National Bank	66	69	66	68	71	13	3	(3)	4	3	20	4	(4)	5	5
State Bank of India	264	293	236	313	244	34	45	9	64	52	13	15	4	21	21
Union Bank	78	81	75	77	69	28	17	16	15	17	35	21	21	20	24
Old private banks															
City Union Bank	4	4	4	4	5	0	1	1	1	1	10	16	17	18	16
Federal Bank	15	16	16	15	16	1	2	3	1	3	10	10	19	9	17
Karur Vysya Bank	7	8	8	8	8	1	2	1	2	1	18	22	18	19	15
New private banks															
Axis Bank	101	107	105	108	115	20	22	22	14	39	20	21	20	13	34
Bandhan Bank	19	19	20	16	17	5	6	14	13	11	27	33	68	80	69
DCB Bank	2	3	3	3	3	0	—	1	1	1	14	18	25	22	35
HDFC Bank	239	247	250	265	357	26	27	32	32	144	11	11	13	12	40
ICICI Bank	160	167	169	177	187	13	12	12	9	18	8	7	7	5	10
IndusInd Bank	39	36	36	(5)	27	10	18	17	24	17	27	51	48	NM	66
Small finance banks															
AU Small Finance Bank	10	11	12	13	13	3	4	5	6	5	30	33	42	49	41
Equitas Small Finance Bank	3	3	3	3	3	3	3	2	3	3	89	94	73	83	95
Ujjivan Small Finance Bank	5	5	4	4	4	1	2	2	3	2	22	33	62	74	62

Source: Companies, Kotak Institutional Equities

1QFY26 was a challenging quarter for a number of NBFCs under our coverage, with companies reporting lower credit growth and higher slippages, especially in the MSME segment. Of note, (1) BAF reported 25% yoy AUM growth driving 22% yoy NII growth, (2) CIBC reported 23% yoy AUM growth, driving 24% yoy NII growth, (3) MMFS reported 15% yoy loan growth driving 13% yoy NII growth and (4) SHFL reported 17% yoy increase in AUM but 10% yoy increase in NII (103 bps yoy compression in NIMs). Most NBFCs reported stable-to-declining NIMs on a yoy basis as yields, despite declining borrowing costs, suggesting higher pass-through of lower rates. Exhibit 130 shows the yields, cost of borrowing, spread and NIMs for the NBFC stocks under our coverage.

A number of NBFCs reported marginal compression in NIMs on a qoq basis

Exhibit 130: Yields, costs of borrowings, spread and NIMs for the NBFC stocks under our coverage, 1QFY24-1QFY26 (%)

	Yields										Cost of borrowing									
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26		
Aavas Financiers	13.9	14.2	14.2	13.8	13.5	13.4	13.6	13.7	13.5	7.3	7.5	7.7	7.4	7.5	8.0	8.0	7.8	7.7		
Aptus Value Housing Finance	17.8	17.1	17.6	17.3	17.1	17.1	17.3	17.4	17.2	8.5	9.1	8.8	8.8	8.9	8.7	9.0	9.0	9.2		
Bajaj Finance	16.5	16.7	16.8	16.7	16.5	16.4	16.5	16.3	16.1	7.3	7.4	7.5	7.5	7.6	7.8	7.8	7.5	7.5		
Cholamandalam	14.1	14.1	14.3	14.4	14.3	14.4	14.5	14.6	14.5	7.8	7.8	8.0	8.0	7.9	7.9	8.1	7.9	7.7		
Home First Finance	14.3	14.7	14.6	14.4	14.3	14.2	14.4	14.5	13.9	8.2	8.1	8.1	8.4	8.5	8.4	8.5	8.2	8.6		
L&T Finance Holdings	14.8	15.1	15.5	15.9	15.5	15.5	15.5	15.4	14.7	6.9	7.0	7.1	7.0	6.9	7.1	7.3	7.2	7.0		
LIC Housing Finance	9.4	9.7	9.7	9.6	9.7	9.4	9.4	9.4	9.4	7.4	7.6	7.6	7.5	7.5	7.6	7.6	7.4	7.3		
Mahindra Finance	14.7	14.3	14.0	14.1	14.2	13.8	13.7	13.9	13.7	7.5	7.6	7.8	7.7	7.8	7.8	7.9	7.7	7.8		
Muthoot Finance	17.4	18.2	18.5	18.1	17.7	17.8	18.3	18.3	18.6	8.0	8.0	8.4	8.7	8.6	8.4	8.7	9.0	8.7		
Shriram Finance	16.4	16.2	16.6	16.5	16.5	16.3	16.5	16.6	16.7	8.7	8.9	8.7	8.8	8.7	8.7	8.8	9.1	9.1		

	Spreads										NIM									
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26		
Aavas Financiers	6.7	6.7	6.5	6.4	6.0	5.4	5.5	6.0	5.8	7.8	7.4	7.0	7.0	6.8	6.7	6.8	6.8	6.8		
Aptus Value Housing Finance	9.3	8.0	8.8	8.4	8.2	8.4	8.3	8.4	8.0	12.2	12.4	12.2	12.0	11.7	11.8	11.7	11.5	11.3		
Bajaj Finance	9.2	9.3	9.2	9.2	8.9	8.6	8.7	8.8	8.6	10.4	10.3	10.2	10.0	9.8	9.7	9.7	9.7	9.6		
Cholamandalam	6.3	6.4	6.3	6.4	6.4	6.4	6.5	6.8	6.7	6.8	6.8	6.8	6.8	6.9	6.8	6.9	6.9	6.9		
Home First Finance	6.1	6.6	6.5	6.0	5.7	5.8	5.9	6.2	5.3	8.2	8.1	8.1	8.4	8.5	8.4	8.5	8.2	8.6		
L&T Finance Holdings	NA	NA	NA	NA	NA	NA	NA	NA	NA	8.2	8.8	9.1	9.1	9.3	9.0	8.7	8.0	8.2		
LIC Housing Finance	2.0	2.1	2.1	2.2	2.2	1.7	1.8	1.9	2.1	3.2	3.0	3.0	3.2	2.8	2.7	2.7	2.9	2.8		
Mahindra Finance	7.2	6.7	6.2	6.4	6.5	6.1	5.8	6.2	5.9	7.5	7.0	7.1	7.3	6.8	6.6	6.7	6.6	6.7		
Muthoot Finance	9.4	10.2	10.1	9.4	9.1	9.4	9.6	9.3	9.9	11.9	12.3	11.6	10.9	10.9	11.6	11.5	11.5	11.6		
Shriram Finance	7.6	7.4	8.0	7.8	7.8	7.6	7.7	7.5	7.6	9.0	9.5	9.6	9.4	9.2	9.3	9.0	8.6	8.2		

Source: Companies, Kotak Institutional Equities

Exhibits 131-132 show the trend in asset quality for major NBFCs under our coverage. We note that affordable housing financiers witnessed broadly stable asset quality, while many broad-based NBFCs witnessed an increase in Gross Stage-3 loans in 1QFY26, resulting in a sharp increase in credit costs. CIBC, FIVESTAR and MMFS saw the biggest deterioration in asset quality in 1QFY26. Our analysis of segment-wise asset quality of major NBFCs suggest that B2B, business finance, construction equipment, SME and vehicle finance segments witnessed sharp uptick in gross NPAs in 1QFY26 (see Exhibit 133).

A number of NBFCs have seen increase in gross stage-3 loans in 1QFY26

Exhibit 131: Stressed loans for select non-banks, March fiscal year-ends, 1QFY25-1QFY26

	Gross stage-3 (%)					Gross stage-2 (%)					Write-offs during the quarter (%)					Overall stressed loans (%)				
	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Affordable housing																				
Aadhar	1.3	1.3	1.4	1.1	1.4	3.7	3.7	3.8	4.0	3.7	0.2	0.1	0.0	0.1	0.1	5.2	5.2	5.3	5.1	5.1
Aavas	1.1	0.8	0.9	1.0		1.7	1.6	1.5	1.6		0.1	0.1	0.1	0.1		2.8	2.5	2.5	2.6	
Aptus	1.3	1.2	1.3	1.2	1.5	5.0	5.0	4.9	4.7	5.0	0.1	0.2	0.3	0.1	0.3	6.4	6.4	6.5	6.0	6.7
Home First	1.7	1.7	1.7	1.7	1.8	1.1	1.1	1.3	1.3	1.6	0.1	0.0	0.2	0.2	0.2	3.0	2.8	3.3	3.2	3.6
India Shelter	1.1	1.2	1.2	1.0		2.7	2.8	2.8	2.7		5.9	6.5	6.4	6.4		9.7	10.5	10.4	10.0	
Broader NBFCs and HFCs																				
Bajaj Finance	0.9	1.1	1.1	1.0	1.0	1.4	1.2	1.2	1.3	1.3	1.5	1.6	1.6	1.7	1.7	3.8	3.9	3.8	4.0	4.0
Bajaj Housing Finance	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.7	0.6	0.7	0.6	0.6
Cholamandalam	3.6	3.8	4.0	2.9	4.0	1.7	1.9	1.8	2.7	1.6	1.0	1.0	1.0	1.0	0.8	6.3	6.7	6.9	6.7	6.4
Five Star	1.4	1.5	1.6	1.8	2.5	6.7	7.0	7.5	7.9	8.8	0.3	0.4	0.7	0.6	(0.0)	8.4	8.9	9.8	10.3	11.3
LIC Housing Finance	3.3	3.1	2.8	2.5	2.6	4.1	3.9	4.0	3.4	3.6	1.0	0.4	0.6	0.2	0.1	8.4	7.3	7.5	6.2	6.5
Mahindra Finance	5.5	4.0	4.7	3.4	5.0	4.4	6.0	3.7	5.0	4.6	1.9	1.9	2.5	2.5	1.2	11.9	11.9	10.9	10.9	10.9
SBFC	2.6	2.7	2.7	2.7	2.8	3.7	3.2	2.8	3.1	3.8	0.1	0.2	0.2	0.1	0.2	6.5	6.1	5.7	6.0	6.7
Shriram Finance	5.4	5.3	5.4	4.6	4.5	6.7	6.6	6.7	6.9	7.3	0.2	0.2	0.2	1.2	0.2	12.3	12.1	12.3	12.7	12.0

Notes:

- We have only captured restructured loans, which are not already clubbed in stage-2.
- Stressed loans: Gross stage-3 + Gross stage-2 + restructured loans (excluding those clubbed under Stage-2) + write-offs during the quarter.
- Write-offs are annualized.
- For Apus, we have considered 30-90 dpd as Stage-2 and 90+ dpd as Stage-3.

Source: Company, Kotak Institutional Equities

Select NBFCs saw an increase in credit cost in 1QFY26

Exhibit 132: Credit cost, March fiscal year-ends, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Affordable housing									
Aadhar	0.7	0.0	0.2	(0.1)	0.3	0.2	0.3	0.1	0.4
Aavas Financiers	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.2	
Aptus	0.1	0.3	0.4	0.4	0.2	0.4	0.5	0.3	0.4
Home First	0.4	0.4	0.3	0.1	0.2	0.2	0.3	0.2	0.4
India Shelter	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.2	
Other NBFCs and HFCs									
Bajaj Finance	1.5	1.5	1.7	1.6	2.0	2.1	2.1	2.3	2.0
Bajaj Housing Finance	0.0	0.1	0.0	0.2	0.0	0.0	0.1	0.1	0.1
Cholamandalam	1.3	1.3	1.1	0.5	1.5	1.6	1.6	1.4	1.9
Five Star	0.8	0.5	0.5	0.8	0.7	0.8	0.8	0.9	1.6
LICHF	0.5	0.6	0.6	0.6	0.2	0.1	(0.1)	0.1	0.2
L&T Finance Holdings	2.4	2.6	2.6	2.4	2.4	2.6	2.5	2.5	2.2
Mahindra Finance	2.5	2.8	1.4	1.4	1.7	2.6	0.0	1.6	2.2
Muthoot Finance	0.5	0.1	0.1	0.5	1.1	0.9	0.9	0.5	NA
SBFC	0.8	0.8	0.8	0.8	0.8	1.0	1.0	1.0	1.1
Shriram Finance	1.9	2.3	2.4	2.3	2.1	2.1	2.1	2.4	1.9

Source: Companies, Kotak Institutional Equities estimates

B2B, construction equipment, SME and vehicle finance businesses have seen increase in stress in 1QFY26

Exhibit 133: Segmental GNPLs across large NBFCs, March fiscal year-ends, 1QFY24-1QFY26 (%)

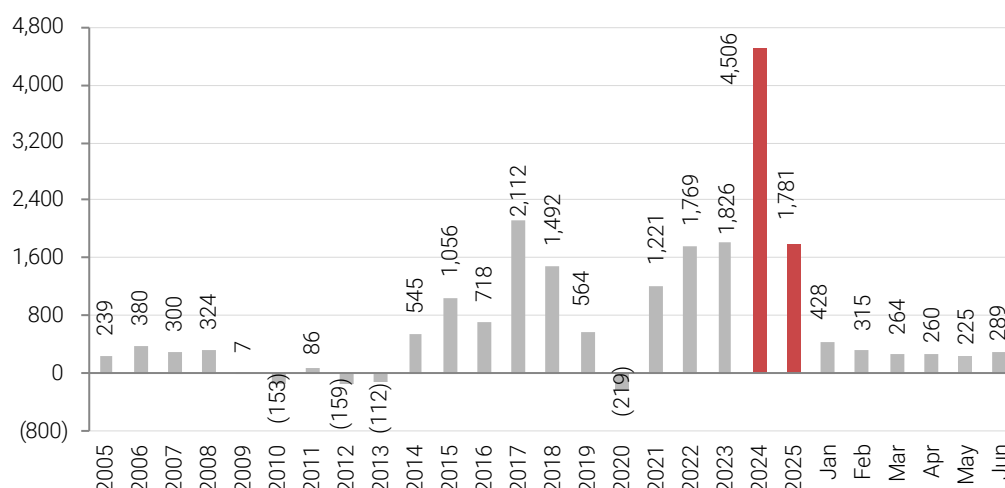
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Change (bps)	
										qoq	yoy
Bajaj Finance											
Commercial lending	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	(6)	(11)
Consumer B2B	1.8	1.7	1.7	1.7	1.8	2.2	2.4	2.3	2.6	24	78
Consumer B2C	0.9	1.2	1.3	1.0	1.0	1.4	1.5	1.2	1.2	6	23
Gold loan	-	-	-	0.6	0.6	0.5	0.4	0.3	0.3	(1)	(35)
Mortgage	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1	2
Rural B2B	0.4	0.6	0.7	0.5	0.4	0.8	0.9	0.6	0.6	4	25
Rural B2C	1.0	1.3	1.3	1.1	1.0	1.3	1.5	0.9	1.0	10	(4)
SME	1.2	1.3	1.3	1.3	1.3	1.6	1.6	1.4	1.6	20	28
Car loan	-	-	-	0.7	0.8	1.2	1.3	1.2	1.1	(13)	21
SME (ex-car loan)	-	-	-	1.4	1.4	1.7	1.7	1.4	1.7	28	31
Cholamandalam											
Business finance	1.3	1.4	1.2	1.0	1.2	1.4	1.6	1.8	2.2	36	99
Home loans	1.6	1.4	1.4	0.9	1.0	1.1	1.2	1.3	1.7	36	64
Vehicle finance	3.3	3.3	3.3	3.0	3.3	3.6	3.7	3.5	3.9	37	62
Shriram Finance											
Farm Equipment	9.6	10.2	9.7	8.8	8.9	8.9	8.7	7.9	7.6	(29)	(134)
Commercial vehicles	6.4	6.3	6.1	5.9	5.9	5.8	5.9	4.9	4.8	(4)	(101)
Construction equipment	7.1	7.1	6.6	6.3	6.2	6.3	6.6	5.6	5.9	30	(31)
Gold	2.6	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	-	12
MSME	5.9	5.4	5.2	5.0	4.9	4.6	4.8	4.1	4.1	4	(74)
Passenger vehicles	5.6	5.3	5.4	5.3	5.3	5.2	5.1	4.2	4.1	(8)	(114)
Personal loans	5.6	5.2	5.0	4.9	4.6	4.5	4.5	4.2	4.0	(18)	(56)
2W	4.0	3.3	3.3	3.2	3.1	3.1	3.2	3.1	3.2	7	6

Source: Company, Kotak Institutional Equities

Most AMC's under coverage reported strong revenue growth, driven by (1) continued robust inflows into equity mutual funds (see Exhibit 134) and (2) steady profitability. We note that most AMC's maintained their market share on a sequential basis (see Exhibit 135). 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 136).

Equity inflows into domestic mutual funds have moderated from elevated levels of 2024

Exhibit 134: Net MF flows (Equity + ELSS + 70% balanced), calendar year-ends, 2005-25 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Most AMCs have maintained their market share in 1QFY26

Exhibit 135: Actively-managed equity oriented market share (MAAUM basis), March fiscal year-ends, 2017-26 (%)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	1QFY26
Aditya Birla Sun Life	8.7	9.2	8.8	7.7	7.2	6.4	5.5	4.8	4.2	4.2
Axis AMC	3.3	3.6	4.6	6.8	8.0	8.4	7.1	5.6	4.9	4.7
Bandhan AMC	2.2	2.1	2.2	2.6	2.0	1.6	1.5	1.6	1.7	1.8
DSP Mutual Fund	4.4	4.4	3.9	3.9	4.1	3.8	3.4	3.1	3.1	3.1
Franklin Templeton	7.5	5.6	5.2	4.3	3.7	2.8	2.6	2.5	2.3	2.3
HDFC AMC	15.8	16.2	15.6	14.4	13.0	11.4	12.2	12.9	12.8	12.8
ICICI Prudential AMC	15.2	15.0	14.3	13.5	12.5	12.4	13.0	13.2	13.6	13.5
Kotak AMC	3.7	4.7	5.1	6.4	6.7	7.0	7.0	7.2	7.3	7.4
Mirae AMC	1.2	1.5	2.2	3.5	4.7	4.9	4.9	4.4	3.8	3.7
Nippon Life India AMC	9.7	9.2	8.9	7.4	6.9	6.3	6.4	6.8	6.9	7.1
SBI AMC	8.0	7.9	8.9	9.7	10.2	12.0	12.6	12.8	12.7	12.4
Tata AMC	2.1	1.7	2.3	2.3	2.5	2.9	2.8	2.8	2.8	2.7
UTI AMC	6.3	4.8	4.7	4.4	4.8	4.8	4.5	3.9	3.7	3.6
Total of above players	88.2	86.1	86.5	86.9	86.3	84.7	83.5	81.6	86.7	86.3
Top-10 players	82.7	80.7	79.9	78.5	78.0	77.4	76.6	74.7	77.0	77.0

Source: AMFI, Kotak Institutional Equities

Decent-to-strong revenue and core PAT growth on a yoy basis

Exhibit 136: Yoy growth in revenues and core PBT of AMCs and RTAs, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Revenue growth									
360 One	8	12	6	46	48	30	34	14	7
ABSL AMC	2	8	9	23	24	25	24	17	16
CAMS	10	13	19	25	27	33	26	15	7
HDFC AMC	10	18	20	29	35	38	32	30	25
Kfin Technologies	8	16	16	25	31	34	28	24	15
Nippon AMC	12	20	20	34	43	45	35	21	20
UTI AMC	(2)	0	2	18	19	28	29	13	13
Core PBT growth									
360 One	(5)	7	(11)	27	65	40	37	17	(7)
ABSL AMC	(5)	0	6	30	29	32	42	21	21
CAMS	11	15	20	36	43	45	40	9	1
HDFC AMC	10	17	21	30	40	48	51	36	30
Kfin Technologies	16	28	25	31	52	43	36	17	14
Nippon AMC	12	20	18	37	60	55	50	26	23
UTI AMC	(18)	(7)	(8)	47	41	60	75	28	9

Source: Companies, Kotak Institutional Equities

- **Weakening domestic revenue profile for capital goods companies, while margins were weak qoq.** Capital goods companies reported moderation in their domestic revenues (see Exhibit 137), with (1) ABB reporting 7% yoy revenue growth, (2) BHEL reporting a sharp decline in revenues and (3) L&T reporting 7% yoy growth. In the same vein, most capital goods companies under our coverage reported a modest growth in order inflows (see Exhibit 138). Among major companies, (1) ABB reported 12% yoy decline in order inflows, with (a) electrification reporting 4% yoy decline and (b) the other three segments reporting double-digit decline, (2) LT reported strong domestic order inflows, with almost the entire growth coming from a large Rs200 bn+ thermal BTG order from an IPP and (3) SIEM reported 14% increase in order inflows.

Capital goods companies reported weak revenue growth in 1QFY26

Exhibit 137: Domestic revenues of industrial companies under KIE coverage, 1QFY24-1QFY26 (Rs bn)

	Domestic revenues (Rs bn)									Yoy growth (%)				
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ABB	22	25	25	28	25	26	28	28	27	15	3	12	—	7
BEL	35	39	41	86	42	46	55	87	40	20	17	34	1	(4)
BHEL	87	249	180	77	83	49	71	87	53	(4)	(81)	(61)	14	(36)
Cochin Shipyard	4	9	10	12	8	11	11	17	10	79	16	10	42	29
Cummins	17	14	22	19	19	21	26	19	23	12	47	17	1	25
Larsen & Toubro	287	291	251	369	287	295	317	379	306	(0)	2	26	3	7
Siemens	40	42	39	47	43	48	32	38	49	5	15	(18)	(19)	15
Thermax	19	17	19	22	18	21	15	22	16	(9)	23	(17)	4	(9)
Total	512	686	585	658	523	516	554	677	525	2	(25)	(5)	3	—
Total (ex-Siemens)	472	645	547	612	481	468	522	640	475	2	(27)	(4)	5	(1)

Notes:

(a) Data on domestic revenues of Siemens from 3QFY25 onwards are ex-energy segment.

Source: Companies, Kotak Institutional Equities

Order inflows of capital goods companies were mixed in 1QFY26

Exhibit 138: Order inflows of key industrials and construction companies, 1QFY24-1QFY26 (Rs bn)

	Order inflows (Rs bn)									Yoy growth (%)				
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ABB	30	30	30	36	34	33	35	38	30	13	11	17	4	(12)
BEL	82	74	110	83	50	25	23	86	76	(39)	(66)	(79)	4	53
BHEL	156	178	26	419	95	320	63	446	134	(39)	80	145	7	42
Larsen & Toubro	379	233	250	469	383	299	545	269	458	1	28	118	(43)	20
Siemens	53	50	36	37	50	39	43	53	57	(5)	(22)	21	44	14
Thermax	26	15	20	23	26	16	20	21	27	(0)	9	1	(8)	7
Total	726	579	472	1,066	638	732	729	913	784	(12)	26	55	(14)	23

Notes:

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

(b) We use KIE estimates for 1QFY26 order inflows of VOLT.

Source: Companies, Kotak Institutional Equities

Most capital goods companies reported sequential moderation in margins in 1QFY26, driven by (1) high base in 4QFY25; the fourth quarter typically has the highest margins and (2) deteriorating mix across companies. Exhibit 139 shows gross and EBITDA margins for the capital goods companies in our coverage. We model profitability to decline from FY2024-25 peak levels due to increasing competitive intensity in high-margin businesses (see Exhibit 140).

A number of capital goods companies reported moderation in margins in 1QFY26

Exhibit 139: Gross and EBITDA margin of capital goods companies under our coverage, 1QFY24-1QFY26 (%)

	Gross margin (%)									EBITDA margin (%)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ABB	36.5	36.7	37.5	40.2	42.8	43.4	41.1	41.7	41.9	13.9	15.8	15.1	18.3	19.2	18.6	19.5	18.4	18.3
Bharat Electronics	43.7	49.0	48.8	48.5	45.4	53.5	48.3	48.1	53.2	19.0	25.3	25.8	26.7	22.3	30.4	28.9	30.8	27.9
BHEL	29.1	27.6	26.8	33.2	29.3	32.7	37.0	33.8	29.2	(7.3)	(7.6)	(1.1)	8.8	(3.1)	4.2	4.2	9.2	(9.8)
Carborundum Universal	61.1	64.7	64.1	64.5	64.8	63.9	61.9	62.8	63.1	14.1	14.6	16.7	17.4	16.2	15.9	14.1	12.0	9.9
CG Power & Industrial	30.2	31.6	30.9	31.3	31.2	29.6	30.0	29.8	30.2	14.2	15.4	13.2	13.0	14.7	12.2	13.2	12.6	13.2
Cochin Shipyard	49.8	36.0	45.4	40.9	47.0	33.5	37.2	39.7	46.4	18.5	20.4	30.5	17.9	25.7	17.9	22.6	15.3	23.9
Cummins India	32.5	36.7	37.0	35.5	37.8	35.8	34.8	37.2	37.0	15.4	17.8	21.2	18.4	20.3	19.3	19.4	21.2	21.4
G R Infraprojects	24.1	24.3	24.4	27.2	23.9	26.0	23.0	28.4	22.6	14.6	12.3	12.6	17.7	13.0	10.4	12.8	17.5	12.7
Kalpataru Projects	22.9	21.2	21.8	23.5	23.3	21.3	22.4	21.3	22.0	8.7	8.0	8.3	7.8	8.4	8.4	8.3	8.4	8.5
KEC International	24.7	23.2	20.7	19.5	23.8	22.8	22.8	21.5	22.8	5.8	6.1	6.1	6.3	6.0	6.3	7.0	7.8	7.0
L&T	38.8	39.1	36.1	33.5	38.0	35.9	35.1	34.0	36.8	10.2	11.0	10.4	10.8	10.2	10.3	9.7	11.0	9.9
Siemens	32.6	29.4	32.1	32.5	33.4	29.8	32.5	30.5	30.2	11.6	12.1	12.4	15.3	13.3	12.2	11.2	11.0	12.0
Thermax	44.3	44.4	44.6	43.1	43.8	44.8	44.2	43.4	50.7	6.8	8.9	8.1	9.9	6.5	10.6	7.5	9.7	10.5

Source: Companies, Kotak Institutional Equities

We assume profitability of most capital goods companies to decline from FY2025 peaks

Exhibit 140: 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	2025	2026E	2027E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
ABB	32.5	33.5	33.5	33.3	35.3	36.8	41.8	40.8	39.8	6.8	7.3	4.7	8.0	11.2	14.3	18.9	17.9	17.2
Bharat Electronics	51.4	45.3	44.5	42.1	44.6	47.8	48.7	48.3	47.5	23.9	21.2	22.8	21.7	23.0	24.9	28.8	28.8	28.5
BHEL	41.3	36.2	33.1	31.5	32.0	27.8	33.5	34.7	36.8	7.1	(1.1)	(18.1)	3.5	4.1	2.6	4.4	6.3	10.7
Carborundum Universal	64.5	65.9	65.9	65.2	63.2	63.9	63.3	63.7	63.9	16.3	15.3	17.7	16.1	14.0	15.7	14.5	12.9	15.1
CG Power & Industrial	35.0	34.9	33.4	28.8	30.4	31.0	30.1	29.9	29.7	4.5	1.4	3.6	11.5	14.2	14.0	13.2	13.9	14.3
Cochin Shipyard	49.3	36.9	44.8	36.4	34.2	40.1	37.6	36.5	35.0	19.3	20.7	25.5	19.8	11.2	22.7	18.2	19.9	19.2
Cummins India	36.1	34.7	36.2	33.1	32.5	35.6	36.2	36.2	36.4	15.3	11.4	13.4	14.4	16.0	19.7	20.0	20.5	21.0
G R Infraprojects	28.7	30.0	25.7	25.1	26.0	25.1	25.4	25.0	25.0	20.4	20.6	18.1	16.2	16.1	14.6	13.9	13.6	14.2
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	47.4	54.1	51.7
Kalpataru Projects	27.3	27.1	28.1	24.6	24.3	24.6	24.1	25.0	25.0	12.4	11.7	11.7	8.7	8.4	8.3	8.2	8.7	9.0
KEC International	26.2	29.6	26.7	23.9	21.2	21.7	22.6	24.0	24.0	10.5	10.3	8.7	6.6	4.8	6.1	6.9	8.4	8.9
L&T	29.6	33.1	26.7	86.6	36.4	34.0	33.1	33.0	33.0	11.6	11.2	11.5	11.6	11.3	10.6	10.3	10.4	10.6
Siemens	32.6	36.0	31.7	32.3	31.5	29.8	30.8	30.8	30.8	11.6	10.0	11.1	10.9	12.7	13.2	12.0	12.6	12.6
Thermax	44.1	46.2	47.0	43.1	42.8	44.0	44.0	44.0	44.0	7.7	7.1	7.4	6.9	7.4	8.6	8.7	9.5	10.5

Source: Companies, Kotak Institutional Equities

► **Weak volume growth for consumer companies and compression in margins.** Consumer companies saw continued weakness in volume growth and weak margins in 1QFY26, driven by (1) weak urban demand and (2) increased competition from regional players. Most discretionary categories also struggled in 1QFY26, with only a handful of categories reporting decent growth. Automobile volumes were weak across most segments and OEMs in 1QFY26.

- **Automobiles and automobile components.** Automobile volumes were weak in 1QFY26 across categories, with 2Ws, CVs and PVs reporting weak volume growth. Exhibit 141 shows the quarterly volumes of various automobile segments. Barring EIM, MM and TVSL, all OEMs reported a yoy decline in volumes.

Most auto OEMs reported weak domestic volume growth in 1QFY26

Exhibit 141: Domestic volumes of select companies in auto sector, 1QFY24-1QFY26

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Yoy change (%)									
Ashok Leyland	5	11	(1)	(7)	7	(10)	(4)	2	(1)
Bajaj Auto									
Two wheelers	73	(19)	44	32	7	26	(10)	(8)	(9)
Three wheelers	157	81	38	11	10	6	(3)	2	(2)
Eicher Motors									
Two wheelers	31	15	6	7	(1)	(2)	13	22	12
Commercial vehicles	16	15	15	(3)	0	3	(1)	10	9
Hero Motocorp	(1)	(2)	17	7	13	7	(2)	(4)	(12)
Hyundai Motor	(1)	(2)	9	9	1	(6)	(1)	(4)	(12)
Maruti Suzuki	12	8	6	12	1	(7)	6	1	(6)
M&M (passenger vehicles)	31	24	30	27	24	18	20	18	22
Tata Motors									
Commercial vehicles	(15)	4	(1)	(8)	4	(21)	(1)	(6)	(10)
Passenger vehicles	8	(2)	6	16	0	(5)	1	(5)	(10)
TVS Motors	28	9	35	17	15	15	8	9	10

Source: SIAM, Kotak Institutional Equities

We note that volume growth continues to be strong for premium vehicles. For example, premium 2Ws (>250 cc) continue to see strong growth, while mass-market segments are witnessing prolonged slowdown (see Exhibit 142). Similarly, the compact and mid-SUV categories continue to do well while entry-level categories (hatchback) continue to struggle (see Exhibit 143). This dichotomy highlights the nature of broader consumption in India with high-income households being in a position to spend and low-income households struggling with low income and affordability issues.

Entry level and mid-sized segments witnessed decline in demand in 1QFY26

Exhibit 142: Motorcycle volumes by categories in India, March fiscal year-ends, 2024-26 (#)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Motorcycle volumes mix									
Industry motorcycles volumes	2,737,348	2,913,779	3,092,035	2,910,075	3,197,922	3,209,965	3,034,750	2,809,668	2,903,449
Yoy growth (%)	14	(3)	22	27	17	10	(2)	(3)	(9)
<125 cc									
Motorcycles volumes	2,107,203	2,218,242	2,348,578	2,171,671	2,417,191	2,467,186	2,313,545	2,059,604	2,166,877
Motorcycles mix (%)	77.0	76.1	76.0	74.6	75.6	76.9	76.2	73.3	74.6
Yoy growth (%)	7	(4)	23	26	15	11	(1)	(5)	(10)
125-250 cc									
Motorcycles volumes	404,272	454,265	498,149	499,327	544,338	498,131	427,266	441,922	476,200
Motorcycles mix (%)	14.8	15.6	16.1	17.2	17.0	15.5	14.1	15.7	16.4
Yoy growth (%)	52	(7)	24	40	35	10	(14)	(11)	(13)
>250 cc									
Motorcycles volumes	225,873	241,272	245,308	239,077	236,393	244,648	293,939	308,142	260,372
Motorcycles mix (%)	8.3	8.3	7.9	8.2	7.4	7.6	9.7	11.0	9.0
Yoy growth (%)	32	19	13	17	5	1	20	29	10

Source: SIAM, Kotak Institutional Equities

SUVs continue to drive volume growth in 1QFY26; entry level volumes remain weak

Exhibit 143: Segment-wise domestic PV volumes, March fiscal year-ends, 2024-26 (#)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Growth Yoy (%)
Segment-wise domestic volumes (units)										
Hatchback segment	318,216	298,444	252,944	296,725	256,589	246,743	235,650	282,096	215,264	(16.1)
Sedan	95,517	98,060	91,238	97,824	88,206	75,629	83,589	95,943	89,597	1.6
Micro SUV (< 4m)	74,400	110,469	108,292	131,036	131,344	119,992	126,687	132,770	105,818	(19.4)
Compact SUV (< 4m)	154,736	145,956	151,413	161,904	157,432	174,790	173,351	191,440	164,287	4.4
Mid SUV (> 4m)	117,455	148,242	144,792	150,542	128,336	150,393	158,471	178,549	162,900	26.9
Large SUV	106,594	120,049	120,179	133,388	115,295	127,129	135,167	131,825	130,303	13.0
Premium SUV	10,223	9,986	9,127	11,875	8,906	8,349	9,970	10,385	9,423	5.8
SUV segment	463,408	534,702	533,803	588,745	541,313	580,653	603,646	644,969	572,731	5.8
MUVs	118,400	142,434	130,392	152,226	145,049	157,615	150,048	150,854	147,169	1.5
Total	995,541	1,073,640	1,012,589	1,135,520	1,031,157	1,060,640	1,072,933	1,173,862	1,024,761	(0.6)
segment-wise domestic volumes mix (%)										
Hatchback segment	32	28	25	26	25	23	22	24	21	
Sedan segment	10	9	9	9	9	7	8	8	9	
Micro SUV (< 4m)	7	10	11	12	13	11	12	11	10	
Compact SUV (< 4m)	16	14	15	14	15	16	16	16	16	
Mid SUV (> 4m)	12	14	14	13	12	14	15	15	16	
Large SUV	11	11	12	12	11	12	13	11	13	
Premium SUV	1	1	1	1	1	1	1	1	1	
SUV segment	47	50	53	52	52	55	56	55	56	
MUVs	12	13	13	13	14	15	14	13	14	
Total	100	100	100	100	100	100	100	100	100	

Source: SIAM, Kotak Institutional Equities

Most automobile companies reported continued weakness in margins in 1QFY26, led by adverse RM and forex headwinds, even as companies focused on cost control in areas such as A&SP. The moderation in gross margins and volumes for 2Ws and 4Ws resulted in weaker EBITDA margins for most companies, compounded by negative operating leverage (see Exhibit 144). Companies highlighted that urban demand environment was muted, with most companies including MSIL highlighting rural demand outpacing urban demand.

Most auto companies have reported weak margins in 1QFY26

Exhibit 144: Gross and EBITDA margin of auto companies under our coverage, 1QFY24-1QFY26 (%)

	Gross margin (%)									EBITDA margin (%)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Amara Raja Energy & Mobility	28.9	31.6	34.0	34.5	31.1	32.4	33.1	32.3	29.5	12.8	13.8	15.1	14.6	13.7	14.1	13.1	11.5	11.5
Apollo Tyres	45.0	45.7	46.6	47.2	45.5	44.8	41.5	43.4	44.5	16.8	18.5	18.3	16.4	14.4	13.6	13.7	13.0	13.4
Ashok Leyland	26.3	26.5	27.8	28.2	27.8	28.8	28.5	29.4	29.4	10.0	11.2	12.0	14.1	10.6	11.6	12.8	15.0	11.1
Bajaj Auto	28.1	29.0	28.9	29.7	30.0	28.7	28.7	30.1	29.6	19.0	19.8	20.1	20.1	20.2	20.2	20.2	20.2	19.7
Balkrishna Industries	51.7	51.9	52.0	53.3	53.1	52.6	52.4	51.2	51.5	23.0	24.4	25.3	25.9	26.0	25.1	24.9	24.8	23.8
Bharat Forge	44.3	43.3	41.9	41.4	41.8	40.8	40.1	39.6	38.8	15.4	16.5	18.0	15.4	18.0	17.5	18.0	17.7	17.2
CEAT	41.1	43.3	41.3	42.3	39.2	37.4	36.8	37.5	36.8	13.2	14.9	14.1	13.1	12.0	11.0	10.3	11.3	11.0
Eicher Motors	44.1	46.0	46.0	46.5	46.4	46.5	45.1	44.2	44.2	25.6	26.4	26.1	26.5	26.5	25.5	24.2	24.0	23.9
Endurance Technologies	40.9	39.8	39.9	43.0	42.5	42.2	42.9	43.9	43.6	13.1	12.5	11.7	14.5	13.2	13.1	13.0	14.3	14.0
Escorts Kubota	30.2	32.3	30.6	31.9	31.9	30.4	26.9	30.6	30.9	14.0	12.9	13.5	12.8	14.3	10.3	11.4	12.1	13.1
Exide Industries	28.3	31.1	31.5	33.0	30.7	31.5	32.0	31.2	30.8	10.6	11.8	11.5	12.9	11.5	11.3	11.7	11.2	12.2
Hero Motocorp	30.6	31.4	32.7	33.6	32.3	33.3	34.2	34.5	33.3	13.8	14.1	14.0	14.3	14.4	14.5	14.5	14.2	14.4
Hyundai Motor	24.2	25.1	26.6	28.5	28.1	27.4	26.8	28.7	29.3	12.0	13.1	12.9	14.3	13.5	12.8	11.3	14.1	13.3
Mahindra & Mahindra	24.7	24.4	24.6	26.8	26.3	25.8	25.6	25.9	23.9	13.4	12.6	12.8	13.1	14.9	14.3	14.6	14.9	14.3
Maruti Suzuki	27.2	29.4	29.1	28.6	29.8	28.1	28.4	28.1	27.8	9.2	12.9	11.7	12.3	12.7	11.9	11.6	10.5	10.4
MRF	38.8	40.8	40.1	38.9	37.3	36.5	33.1	36.1	34.3	17.6	18.5	17.2	14.2	16.1	14.4	11.6	15.0	13.7
Samvardhana Motherson	43.5	43.2	44.8	47.4	46.4	45.8	47.1	45.9	46.6	8.6	8.0	9.0	10.8	9.6	8.8	9.7	9.0	8.1
Schaeffler India	38.6	37.1	37.2	37.9	37.7	37.5	36.4	38.0	39.3	18.7	18.4	17.3	17.6	17.9	17.4	17.3	18.1	18.3
SKF	39.8	34.0	41.7	41.2	39.3	33.4	33.3	49.0	38.5	17.6	10.8	15.8	17.7	16.1	10.0	9.7	23.5	13.0
Sona BLW Precision	56.9	55.1	59.1	56.4	57.6	56.0	55.9	56.7	55.4	27.8	28.2	29.3	28.0	28.1	27.6	27.0	27.1	23.8
Tata Motors	37.6	36.4	38.3	38.5	39.0	38.7	38.4	37.9	35.9	13.3	13.1	13.9	14.2	14.4	11.5	11.0	13.9	9.3
Timken	41.2	41.6	40.5	40.7	39.4	39.3	39.2	40.4	38.9	18.9	19.9	16.7	22.1	18.0	17.7	15.9	22.3	17.6
TVS Motor	25.4	26.0	26.3	27.2	28.6	28.5	28.4	30.2	28.8	10.6	11.0	11.2	11.3	11.5	11.7	11.9	14.0	12.5
Uno Minda	35.8	34.4	35.0	36.5	35.6	35.1	34.5	35.6	36.8	10.7	11.1	10.8	12.5	10.7	11.4	10.9	11.6	12.1
Varroc Engineering	36.8	36.7	36.3	39.3	37.5	35.8	35.4	35.9	37.3	10.1	10.3	9.3	11.2	9.2	10.0	9.0	10.5	9.6

Source: Companies, Kotak Institutional Equities

- **Consumer staples, consumer discretionary.** 1QFY26 demand was weak for both discretionary and staples, with only a few companies reporting decent volume growth. Companies continue to struggle with weak volumes in the majority of consumer categories, with most staple companies reporting mid-single digit volume growth, while CLGT and DABUR reported yoy decline in volumes. Exhibit 145 shows the trends in volume growth of the major consumer staples and discretionary companies under our coverage over the past several quarters.

Weak volume growth for most consumer companies in 1QFY26

Exhibit 145: Volume growth of consumer companies, 1QFY24-1QFY26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Staples									
Britannia Industries - Domestic	—	—	6	6	8	8	6	3	2
Colgate - Overall	6	(1)	2	2	8	8	5	—	(4)
Dabur - Domestic	3	3	4	4	5	(10)	1	(6)	(1)
HUL (FMCG business)	3	2	2	2	4	3	—	2	4
Marico - Domestic	3	3	2	3	4	5	6	7	9
Marico - Parachute	(2)	1	3	2	2	4	3	(1)	(1)
Marico - Saffola	11	2	(5)	5	5	—	3	(1)	6
Nestle	2	2	1	6	1	(2)	2	2	3
TCPL - Food	6	6	5	4	10	1	1	6	6
TCPL - Tea	3	3	2	—	—	(3)	7	2	1
Discretionary									
Asian Paints (decoratives)	10	6	12	10	7	(1)	2	2	4
Berger (decoratives)	13	11	9	14	12	4	7	7	6
ITC - Cigarettes	8	5	(2)	2	3	3	6	5	7
Jubilant Foodworks (LFL)	(1)	(1)	(3)	0	3	3	13	12	12
Kansai Nerolac	6	(1)	10	10	4	4	1	1	—
Pidlite - Domestic consumer business	12	8	11	13	8	6	7	8	9
United Breweries	(12)	7	8	11	5	5	8	5	11
United Spirits	(29)	(27)	(1)	4	3	(4)	10	7	9
Varun Beverages	5	16	18	7	28	22	38	30	(7)
Westlife Foodworld	7	1	(9)	(5)	(7)	(7)	3	0.7	0.5

Source: Companies, Kotak Institutional Equities

We note that weak volume growth continues to weigh on the revenue growth of consumer companies, with most companies reporting modest single-digit yoy revenue growth (see Exhibit 146). A number of companies suggested that rural demand appears to have improved, while urban demand trends remain mixed. HUVR and ITC have reported green-shoot in urban demand, even as other companies reported challenges in urban India. Companies also highlighted elevated competitive intensity in certain regional markets. Exhibit 147 gives the commentary of the major consumer companies on demand trends and competitive intensity.

Most consumer companies reported weak value growth on a yoy basis

Exhibit 146: Revenue growth of consumer staples companies under KIE coverage, March fiscal year-ends, 2023-25 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Britannia Industries	8.4	1.2	1.4	1.1	6.0	5.3	7.9	8.9	8.8
Colgate-Palmolive (India)	10.6	6.0	8.1	9.6	13.1	10.1	4.7	(1.2)	(4.2)
Dabur India	10.9	7.3	7.0	5.1	7.0	(5.5)	3.1	0.6	1.7
Godrej Consumer Products	10.4	6.2	1.7	5.8	(3.4)	1.8	3.0	6.3	9.9
Hindustan Unilever	6.1	3.6	(0.3)	(0.2)	1.3	1.5	1.4	2.4	3.9
ITC	(8.5)	2.6	1.6	1.1	7.4	16.8	3.5	4.0	16.2
Jubilant Foodworks	5.6	4.5	2.9	6.3	9.9	9.1	18.9	19.2	18.2
Jyothy Labs	15.1	11.1	10.6	7.0	8.0	0.2	4.0	1.1	1.3
Marico	(3.2)	(0.8)	(1.9)	1.7	6.7	7.6	15.4	19.8	23.3
Nestle India	15.4	9.7	8.1	9.0	3.3	1.3	3.9	4.5	5.9
Sula Vineyards	17.6	11.4	6.5	8.2	11.5	(1.0)	(1.4)	2.6	(4.1)
Tata Consumer Products	12.5	11.0	9.5	8.5	16.3	12.9	16.8	17.3	9.8
United Breweries	(6.7)	12.4	13.1	20.8	8.8	12.0	0.0	(14.5)	15.7
United Spirits	0.1	(0.5)	7.5	6.9	8.3	(0.8)	14.8	10.5	8.4
Varun Beverages	13.3	21.8	20.5	10.9	28.3	24.1	38.3	28.9	(2.5)

Source: Companies, Kotak Institutional Equities

Most consumer companies noted subdued consumer demand and elevated competitive intensity

Exhibit 147: Key discussion points of major consumer companies around extant demand and outlook, 1QFY26

Company	Key comments on demand and outlook
Asian Paints	Urban areas showed green shoots of demand recovery while rural demand remained weak. Competitive intensity continued to remain high, Management expects single-digit growth in the near term with potential improvement in rural demand from normal monsoons. The company did not give any timeline on recovery
Colgate-Palmolive (India)	Subdued urban demand and elevated competitive intensity drove yoy decline in net sales. The company expects a gradual recovery in 2HFY26
Dabur	Rural markets outperformed urban for five consecutive quarters while urban showed sequential recovery. Management expects sequential demand recovery due to softening food inflation and favorable monsoon. Competitive intensity has increased with Colgate requiring higher promotional schemes, and a regional player gaining market share in Bihar and UP
Havells India	Cooling product sales declined due to an unexpectedly weak summer and subdued consumer demand. Rural demand (5-6% of revenues) outpaced urban. Management anticipates revenue and margin gains in 2HFY26, driven by a strong festive season
Hindustan Unilever	Rural regions had the most positive impact with demand growing ahead of urban demand, while growth uptick is coming from small cities. Urban growth is recovering but still below rural levels. Company noted that it has strengthened market share through acceleration in laundry, skin cleansing, hair, etc. Detergent bars face spread-out competition from global, local, and regional players, though liquids remain concentrated among few players
Jubilant Foodworks	JUBI expects a gradual improvement in consumer sentiment in the coming quarters. The company alluded to high extant competitive intensity making the elevated margins of the past unsustainable
Tata Consumer Products	Tea and salt saw double-digit growth in both value and volume. Growth businesses grew 7% (below target), impacted by unfavorable weather affecting RTD business. Company noted stable competitive intensity and suggested pricing alone may not yield market share. The outlook suggests growth acceleration from 2QFY26 onwards with NourishCo expected to exceed 30% growth and Capital Foods/Organic India returning to 30% growth levels
United Breweries	Premium volumes grew 46% with over 300 bps market share gains, though demand varied sharply across states, with Karnataka seeing 16-17% yoy decline and West Bengal reporting double-digit decline. Competitive intensity was mixed. The company projects 5-6% volume growth, with upside to 7-8% if conditions were to improve, while any change in excise policies of key states may act as headwinds
Varun Beverages	Demand was significantly impacted by unseasonal heavy rainfall. Rural demand was particularly affected as temporary outlets closed during rains. Company noted increase in competitive intensity. The company expects demand recovery to depend on weather conditions

Source: Companies, Kotak Institutional Equities

Consumer companies' margins remain under pressure in 1QFY26 on both qoq and yoy basis (see Exhibit 148). The prices of several major raw materials have seen a sharp increase in the past three months (see Exhibit 149), resulting in margin pressure in some pockets. Meanwhile, the prolonged weak demand environment has forced companies to keep their A&P spends under control (see Exhibit 150).

Gradual moderation in profitability of consumer companies

Exhibit 148: Gross and EBITDA margin of consumer companies under our coverage, 1QFY24-1QFY26 (%)

	Gross margin (%)									EBITDA margin (%)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Asian Paints	42.9	43.4	43.6	43.7	42.5	40.8	42.4	43.9	42.7	23.1	20.2	22.6	19.4	18.9	15.4	19.1	17.2	18.2
Avenue Supermarts	15.2	14.7	14.9	14.5	15.6	14.9	14.7	14.2	15.3	8.7	8.0	8.3	7.4	8.7	7.6	7.6	6.4	7.9
Berger Paints	39.8	41.1	41.1	40.7	39.9	41.7	41.6	42.7	41.4	18.4	17.1	16.7	13.9	16.9	15.6	15.9	15.8	16.5
Britannia Industries	41.9	42.9	43.9	44.9	43.4	42.6	38.7	40.1	41.3	17.2	19.7	19.3	19.4	17.7	16.8	18.4	18.2	18.0
Colgate-Palmolive (India)	68.4	68.8	72.2	69.3	70.6	68.5	69.9	70.6	68.9	31.6	32.8	33.6	35.7	34.0	30.7	31.1	34.1	31.6
Dabur India	46.6	48.3	48.6	48.6	47.8	49.3	48.1	46.7	47.0	19.3	20.6	20.5	16.6	19.6	18.2	20.3	15.1	19.6
Godrej Consumer Products	53.7	54.9	55.9	56.1	55.9	55.5	54.1	52.5	51.9	18.6	19.5	23.0	22.3	21.7	20.7	20.1	21.1	19.0
Hindustan Unilever	49.9	52.7	51.5	51.9	51.4	51.0	50.7	50.5	49.2	23.2	24.2	23.3	23.1	23.5	23.5	23.2	22.8	22.3
ITC	54.1	57.3	58.4	59.9	57.7	52.9	54.4	54.7	49.0	34.7	36.5	36.5	37.2	37.0	32.8	34.2	34.7	31.7
Jubilant Foodworks	76.0	76.4	76.7	76.6	76.1	76.1	75.1	74.5	74.1	21.1	20.9	20.9	19.1	19.3	19.4	19.4	19.3	19.0
Jyothy Labs	47.9	49.2	49.8	49.5	51.3	50.0	49.8	49.2	48.0	17.1	18.5	17.5	16.4	18.0	18.9	16.4	16.8	16.5
Kansai Nerolac	35.3	35.7	36.2	34.8	37.0	34.0	35.3	34.6	36.1	16.1	14.6	13.2	10.8	16.3	11.5	13.4	10.2	14.9
Marico	50.0	50.5	51.3	51.6	52.3	50.8	49.5	48.6	46.9	23.2	20.1	21.2	19.4	23.7	19.6	19.1	16.8	20.1
Nestle India	54.8	56.5	58.6	56.8	57.6	56.6	56.4	56.2	55.2	22.7	24.4	24.2	25.4	22.9	22.9	23.1	25.2	21.6
Page Industries	52.9	55.7	53.0	56.2	54.1	56.5	56.3	60.9	59.1	19.5	20.8	18.5	16.8	19.0	22.6	23.0	21.4	22.4
Pidilite Industries	49.0	51.3	52.9	53.4	53.8	54.4	54.3	55.0	54.1	21.6	22.1	23.7	19.9	23.9	23.8	23.7	20.1	25.1
Tata Consumer Products	42.2	42.5	43.8	46.1	44.9	43.6	41.1	41.9	40.1	14.6	14.4	15.0	16.0	15.3	14.9	12.7	13.5	12.7
Titan Company	21.0	22.4	21.7	21.2	20.9	21.6	20.8	21.7	21.3	9.9	11.6	11.2	9.9	10.0	10.8	11.0	10.7	11.2
United Breweries	40.6	44.5	44.0	41.7	43.0	43.8	44.2	42.1	42.5	9.8	9.8	8.0	6.7	11.5	10.7	9.4	8.0	10.8
United Spirits	43.0	43.4	43.4	43.3	44.5	45.2	44.7	44.5	44.0	17.1	16.4	16.4	13.6	19.5	17.8	17.1	17.1	16.3
Varun Beverages	52.5	55.3	56.6	56.3	54.7	55.5	56.1	54.6	54.5	26.9	22.8	15.7	22.9	27.7	24.0	15.7	22.7	28.5

Source: Companies, Kotak Institutional Equities

RM prices have increased sharply over the past three months

Exhibit 149: Monthly raw material trends for July 2025

No	Commodity	Unit	Current	% chg - local currency				% chg - currency Adj.				Companies impacted
				MoM	3M	6M	YoY	MoM	3M	6M	YoY	
Agri Commodities												
1	Tea - India Avg.	Rs/Kg	204	8	76	13	(7)	8	76	13	(7)	HUL
2	Tea - World Avg.	USD/MT	3,020	—	12	2	(6)	0	13	2	(4)	HUL
3	Tea - Mombassa/Kenya	USD/Kg	3	—	7	—	—	0	8	0	3	HUL
4	Coffee Arabica - Intl.	US cents/Pound	406	—	90	16	60	0	91	16	65	HUL, Nestle
5	Coffee Robusta - Intl.	US cents/Pound	258	—	43	0	16	0	44	0	20	HUL, Nestle
6	Sugar - domestic	Rs/Quintal	4,493	(2)	6	6	3	(2)	6	6	3	HUL, Nestle, ITC, Dabur, Britannia
7	Wheat	Rs/Quintal	3,875	—	10	(2)	15	—	10	(2)	15	ITC, Nestle, Britannia
8	Barley	Rs/Quintal	2,241	(4)	12	(7)	5	(4)	12	(7)	5	UBBL
9	Maize (corn)	USD/MT	192	—	1	—	—	0	1	0	3	Colgate, HUL, Dabur (Sorbitol)
10	Liquid Milk - domestic	Rs/Ltr	59	(3)	37	18	4	(3)	37	18	4	Nestle, Jubilant Foodworks, Britannia
11	Milk Powder - domestic	Rs/Kg	338	3	32	15	14	3	32	15	14	Nestle, Britannia
12	Rice	USD/MT	3,415	3	(5)	1	(8)	3	(5)	1	(8)	
Oil Commodities												
13	Crude Oil - Brent	USD/Barrel	71	11	(16)	(3)	(13)	11	(16)	(3)	(11)	HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite
14	Palm oil	Rs/MT	106,683	(9)	17	(19)	22	(9)	17	(19)	22	HUL, GCPL, Jyothy Labs
15	PFAD	USD/MT	884	(1)	12	(12)	7	(1)	12	(12)	10	HUL, GCPL, Jyothy Labs
17	Copra	Rs/Quintal	22,793	22	134	60	129	22	134	60	129	Marico, Dabur
18	Coconut oil	Rs/Quintal	34,642	18	145	65	137	18	145	65	137	Marico, Dabur
19	Rice Bran oil	Rs/10Kg	1,025	(2)	37	2	21	(2)	37	2	21	Marico
21	Sunflower oil	Rs/MT	125,528	(5)	40	(2)	36	(5)	40	(2)	36	Marico
22	Groundnut oil	Rs/MT	135,972	1	(9)	(6)	(7)	1	(9)	(6)	(7)	Marico
23	Linseed oil	Rs/MT	133,828	4	38	5	31	4	38	5	31	Marico, Dabur, Bajaj Corp, Asian Paints
24	Castor oil	Rs/MT	142,472	5	16	9	21	5	16	9	21	Marico, Dabur, Bajaj Corp, Asian Paints
25	Mentha oil	Rs/Kg	993	(2)	(4)	(2)	2	(2)	(4)	(2)	2	Emami, Colgate, HUL, Dabur
Chemicals/Paints/Other Commodities												
26	Caustic soda	Rs/ 50Kg	2,522	(1)	20	(0)	16	(1)	20	(0)	16	HUL, GCPL, Jyothy Labs
27	Soda ash	Rs/ 50Kg	1,645	(1)	(5)	(2)	(5)	(1)	(5)	(2)	(5)	HUL, GCPL, Jyothy Labs
31	Tio2 Anatase	Rs/Kg	200	0	14	(6)	14	0	14	(6)	14	Asian Paints
32	Tio2 Rutile	Rs/Kg	283	(2)	3	3	2	(2)	3	3	2	Asian Paints
34	Turpentine oil	Rs/Ltr	135	3	16	3	17	3	16	3	17	Asian Paints
35	Formaldehyde	Rs/Kg	29	(3)	16	(12)	(3)	(3)	16	(12)	(3)	Asian Paints
36	Acrylic acid	Rs/Kg	94	(1)	(24)	(1)	(21)	(1)	(24)	(1)	(21)	Asian Paints
37	Vinyl Acetate - Domestic	Rs/Kg	88	(0)	(8)	6	(21)	(0)	(8)	6	(21)	Asian Paints
38	Vinyl Acetate - China	US\$/MT	756	(4)	(9)	(3)	(4)	(4)	(9)	(3)	(2)	Pidilite, Asian Paints
39	Styrene - domestic	Rs/Kg	77	2	(19)	(12)	(20)	2	(19)	(12)	(20)	Asian Paints
40	Gold	Rs/10gm	97,155	3	49	27	36	3	49	27	36	Titan, Jewellery companies

Source: Bloomberg, CMIE, Kotak Institutional Equities

A&P spending remains under control for most consumer companies

Exhibit 150: Quarterly expenditure in A&SP by consumer companies, March fiscal year-ends, 2024-26

A&SP (Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Colgate-Palmolive (India)	1,813	2,060	2,043	1,689	1,991	2,427	2,001	1,833	1,884
Dabur India	2,043	2,165	2,445	1,837	2,359	2,256	2,267	1,764	2,020
Godrej Consumer Products	3,204	3,659	3,433	3,063	3,308	3,640	3,644	3,101	3,138
Hindustan Unilever	14,810	17,200	15,930	15,860	16,440	14,640	14,660	14,540	15,560
Marico	2,120	2,680	2,460	2,260	2,400	2,900	2,930	3,050	2,990
Titan	2,070	2,050	2,360	1,810	2,020	2,500	2,800	2,470	2,630
United Spirits	1,468	2,403	3,277	3,260	1,750	2,570	3,790	3,501	2,380
Total	28,033	32,792	32,555	30,376	30,884	30,933	32,092	30,258	30,602
A&SP (% of sales)									
Colgate-Palmolive (India)	13.7	14.0	14.6	11.3	13.3	15.0	13.7	12.3	13.1
Dabur India	6.5	6.8	7.5	6.5	7.0	7.5	6.8	6.2	5.9
Godrej Consumer Products	9.3	10.2	9.4	9.0	9.9	9.9	9.7	8.6	8.6
Hindustan Unilever	9.8	11.3	10.5	10.7	10.7	9.4	9.5	9.6	9.8
Marico	8.6	10.8	10.2	9.9	9.1	10.9	10.5	11.2	9.2
Titan	1.9	1.8	1.8	1.6	1.7	1.9	1.7	1.8	1.8
United Spirits	6.8	8.4	11.0	12.2	7.4	9.0	11.0	11.8	9.3
Total	7.1	7.9	7.6	7.7	7.5	7.3	6.9	7.2	6.8

Source: Companies, Kotak Institutional Equities

- **Construction materials.** Cement companies under our coverage reported a modest 3.3% yoy growth in volumes in 1QFY26 (see Exhibit 151) after several quarters of strong growth, reflecting some weakness in underlying demand. Realizations increased sharply in a seasonally strong quarter, while weakness in fuel & power costs led to sharp improvement in profitability for companies. Exhibit 152 shows realizations and profitability of the cement stocks under our coverage for the past few quarters.

Strong volume growth for cement companies

Exhibit 151: Volume trends for cement companies under KIE coverage, 1QFY24-1QFY26

Volumes (mn tons)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ACC	9.4	8.1	8.9	10.4	10.2	9.3	10.7	11.9	11.5
Ambuja Cements	9.1	7.6	8.2	9.5	9.3	8.7	10.1	11.6	10.5
Dalmia Bharat	7.0	6.2	6.8	8.8	7.4	6.7	6.7	8.6	7.0
JK Cement	4.5	4.3	4.6	5.1	4.7	4.2	4.7	5.8	5.4
Nuvoco Vistas	5.0	4.5	4.0	5.3	4.8	4.2	4.7	5.7	5.1
Shree Cement	8.9	8.2	8.9	9.5	9.6	7.6	8.8	9.8	9.0
The Ramco Cement	4.3	4.6	4.0	5.5	4.4	4.5	4.4	5.3	4.1
UltraTech Cement	29.0	25.7	26.1	33.9	32.5	26.4	28.8	37.2	33.1
Total	77.2	69.2	71.5	88.0	82.9	71.6	78.8	95.9	85.7
Yoy volume growth (%)									
ACC	24	17	16	22	9	15	20	14	13
Ambuja Cements	23	13	6	17	2	14	23	22	13
Dalmia Bharat	13	7	8	19	6	8	(2)	(3)	(5)
JK Cement	27	19	17	28	5	(3)	3	14	14
Nuvoco Vistas	7	1	(11)	2	(5)	(6)	17	8	6
Shree Cement	19	9	11	8	8	(7)	(1)	4	(6)
The Ramco Cement	30	39	12	17	2	(2)	9	(4)	(7)
UltraTech Cement	20	16	6	11	12	3	10	10	2
Total volume growth (%)	20.0	14.6	7.7	14.0	7.4	3.5	10.3	9.0	3.3

Source: Companies, Kotak Institutional Equities

Most cement companies reported a sharp sequential improvement in profitability

Exhibit 152: Realizations, power & fuel costs and EBITDA for cement companies, 1QFY24-1QFY26 (Rs/ton)

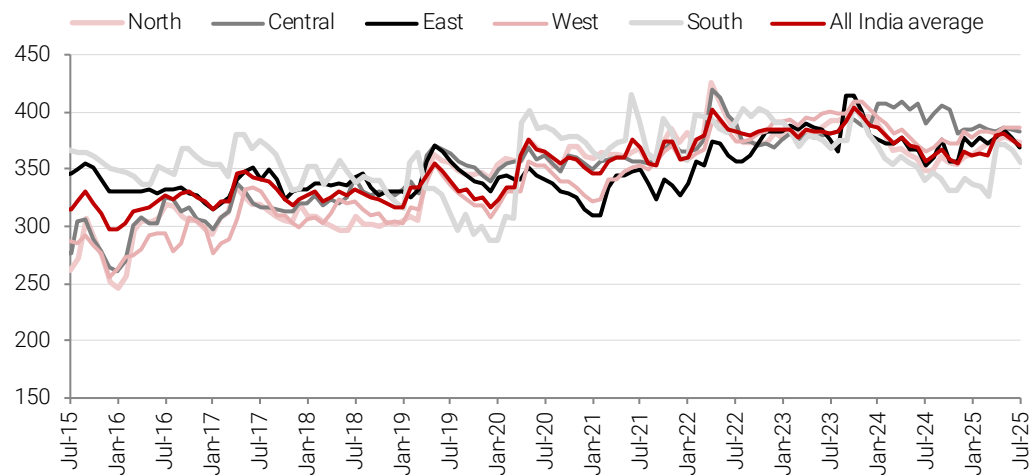
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ACC									
Realization (Rs/ton)	5,533	5,475	5,526	5,190	5,054	4,955	4,915	5,049	5,275
Fuel & power cost (Rs/ton)	1,196	1,093	1,139	935	970	830	786	720	737
EBITDA (Rs/ton)	818	677	1,015	805	664	462	442	673	672
Ambuja									
Realization (Rs/ton)	5,197	5,223	5,414	5,032	4,856	4,843	4,806	4,888	5,269
Fuel & power cost (Rs/ton)	1,287	1,270	1,047	934	974	923	858	814	954
EBITDA (Rs/ton)	1,042	1,018	1,038	1,023	695	782	407	885	848
Dalmia Bharat									
Realization (Rs/ton)	5,177	5,108	5,294	4,894	4,870	4,621	4,741	4,779	5,194
Fuel & power cost (Rs/ton)	1,289	1,132	1,068	898	1,018	1,058	997	903	1,036
EBITDA (Rs/ton)	871	955	1,140	743	900	650	744	926	1,261
JK Cement									
Realization (Rs/ton)	5,820	5,918	6,086	5,788	5,594	5,694	5,765	5,744	5,833
Fuel & power cost (Rs/ton)	1,468	1,370	1,345	1,157	1,136	1,092	1,094	906	1,042
EBITDA (Rs/ton)	893	1,028	1,330	1,078	1,014	649	1,040	1,265	1,248
Shree Cement									
Realization (Rs/ton)	5,604	5,591	5,513	5,353	5,015	4,904	4,830	5,325	5,528
Fuel & power cost (Rs/ton)	1,708	1,670	1,393	1,520	1,458	1,317	1,042	1,172	1,281
EBITDA (Rs/ton)	1,046	1,061	1,388	1,393	951	780	1,079	1,404	1,373
UltraTech									
Realization (Rs/ton)	5,940	6,030	6,191	5,841	5,674	5,641	5,668	5,686	5,939
Fuel & power cost (Rs/ton)	1,631	1,639	1,536	1,375	1,404	1,380	1,300	1,222	1,299
EBITDA (Rs/ton)	1,034	954	1,208	1,185	965	731	964	1,240	1,271

Source: Companies, Kotak Institutional Equities

We assume a sharp increase in profitability on lower power & fuel costs and stable cement realizations. Our profitability assumptions may be at risk if cement prices were to weaken over the coming quarters, as per seasonal trends (see Exhibit 153).

Cement prices have seen some moderation due to ongoing monsoons

Exhibit 153: Regional cement prices, March fiscal year-ends, 2015-25 (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

- **Continued weakness in IT services revenues, amid elevated business uncertainty.** Most large IT companies reported weak revenue growth in 1QFY26. Exhibit 154 shows the quarterly c/c revenue growth of the IT companies under our coverage. The decline was sharp in manufacturing and retail verticals, while revenues from the financial services vertical held up well. Meanwhile, deal wins moderated further for most companies in 1QFY26 (see Exhibit 155), with deal wins being driven by cost take-out. Mega deals have remained elusive for most companies, with only a handful of companies such as Coforge, CTSH and WPRO reporting mega deals.

IT services companies witnessed continued weakness in 1QFY26

Exhibit 154: Sequential and yoy growth in c/c revenues of IT companies, March fiscal year-ends, 2024-26

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Qoq % change in c/c revenues									
HCL Tech	(1.3)	1.0	6.0	0.3	(1.6)	1.6	3.8	(0.8)	(0.8)
Infosys	1.0	2.3	(1.0)	(2.2)	3.6	3.1	1.7	(3.5)	2.6
LTI Mindtree	0.1	1.7	0.7	(1.3)	2.6	2.3	1.8	(0.6)	0.8
Mphasis	(3.5)	—	1.0	2.1	(0.1)	2.4	0.2	2.9	1.0
TCS	—	0.1	1.0	1.1	2.2	0.9	—	(0.8)	(3.3)
Tech Mahindra	(4.2)	(2.4)	1.1	(0.8)	0.7	1.9	1.2	(1.5)	(1.4)
Wipro	(2.8)	(2.0)	(1.7)	(0.3)	(1.0)	0.6	0.1	(0.8)	(2.0)
Yoy % change in c/c revenues									
HCL Tech	7.1	3.4	4.3	6.0	5.6	5.9	4.1	2.9	3.7
Infosys	4.2	2.5	(1.0)	—	2.5	3.3	6.1	4.8	3.8
LTI Mindtree	8.2	4.4	3.1	1.2	3.7	4.4	5.6	6.3	4.4
Mphasis	(8.4)	(11.0)	6.8	(0.4)	3.1	3.1	5.1	5.4	6.5
TCS	7.0	2.8	1.7	2.2	4.4	5.5	4.5	2.5	(3.1)
Tech Mahindra	(0.9)	(5.9)	(5.4)	(6.4)	(1.2)	1.2	1.3	0.3	(1.0)
Wipro	1.1	(4.8)	(6.9)	(6.6)	(4.9)	(2.3)	(0.7)	(1.2)	(2.3)

Source: Companies, Kotak Institutional Equities

Deal wins have been weak in recent quarters for most IT services companies

Exhibit 155: TCV of deal wins for companies under coverage, March fiscal year ends, 2024-26 (US\$ mn)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
TCV of deal wins (US\$ mn)									
HCLT (a)	1,565	3,969	1,927	2,290	1,960	2,218	2,095	2,995	1,812
Infosys (b)	2,285	7,684	3,241	4,454	4,085	2,430	2,495	2,637	3,797
Mphasis (c)	707	255	241	177	319	207	351	390	760
TCS (a)	10,200	11,200	8,100	13,200	8,300	8,600	10,200	12,200	9,400
TechM (d)	359	640	381	500	534	603	745	798	809
Wipro (e)	1,198	1,300	909	1,191	1,154	1,489	961	1,763	2,666
TCV on TTM basis (US\$ mn)									
Infosys	10,405	15,345	15,286	17,664	19,464	14,210	13,464	11,647	11,359
Mphasis	1,719	1,672	1,512	1,380	992	944	1,054	1,267	1,708
TCS	36,100	39,200	39,500	42,700	40,800	38,200	40,300	39,300	40,400
TechM	2,462	2,386	1,972	1,880	2,055	2,018	2,382	2,680	2,955
Growth in TCV on TTM basis (yoy, %)									
Infosys	21	66	53	80	87	(7)	(12)	(34)	(42)
Mphasis	40	30	12	5	(42)	(44)	(30)	(8)	72
TCS	4	11	12	25	13	(3)	2	(8)	(1)
TechM	(25)	(26)	(41)	(35)	(17)	(15)	21	43	44

Notes:

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

Source: Companies, Kotak Institutional Equities

IT services companies also witnessed headwinds to their profitability (see Exhibit 156). Companies witnessed an increase in employee costs as a proportion of sales in 1QFY26, after reporting steady moderation over FY2024-25 (see Exhibit 157). Meanwhile, attrition rates were broadly under control for the sector in 1QFY26, similar to the trends seen in recent quarters (see Exhibit 158).

Most IT services companies saw a modest decline in profitability on a qoq basis and a sharp decline on a yoy basis

Exhibit 156: EBIT margins of IT services companies under KIE coverage, March fiscal year-ends, 2024-26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Coforge	11.5	11.9	13.8	14.4	13.6	11.7	11.8	13.2	13.1
Cyient	14.7	14.6	14.3	14.4	11.9	12.5	11.0	12.3	9.5
HCL Technologies	17.0	18.5	19.8	17.6	17.1	18.6	19.5	17.9	16.3
Hexaware Technologies	NA	NA	NA	13.0	12.3	13.3	13.1	14.2	10.1
Indegene	NA	NA	19.5	17.9	16.1	15.5	17.7	16.8	17.6
Infosys	20.8	21.2	20.5	20.1	21.1	21.1	21.3	21.0	20.8
KPIT Technologies	15.9	16.0	16.6	16.7	17.3	17.0	17.2	17.3	17.0
L&T Technology Services	17.2	17.1	17.2	16.9	15.6	15.1	15.9	13.2	13.3
LTIMindtree	16.7	16.0	15.4	14.7	15.0	15.5	13.8	13.8	14.3
Mphasis	15.4	15.5	14.9	14.9	15.0	15.4	15.3	15.3	15.3
Persistent Systems	14.9	13.7	14.5	14.5	14.0	14.0	14.9	15.6	15.5
RateGain	12.3	15.3	16.5	17.5	15.5	18.6	19.1	20.0	13.2
Tata Elxsi	27.1	27.1	26.8	25.8	26.4	25.1	23.5	20.1	18.2
Tata Technologies	18.0	14.8	16.2	16.2	15.9	15.9	15.5	15.7	13.6
TCS	23.2	24.3	25.0	26.0	24.7	24.1	24.5	24.2	24.5
Tech Mahindra	6.8	4.7	5.4	7.4	8.5	9.6	10.2	10.5	11.1
Wipro	15.1	14.8	14.8	15.9	16.4	16.7	17.4	17.4	16.1

Source: Companies, Kotak Institutional Equities

Employee cost-to-sales ratio increased on a qoq as well as yoy basis in 1QFY26

Exhibit 157: Employee costs (including sub-contracting) as a proportion of sales of IT companies, March fiscal year-ends, 2024-26 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
HCL Technologies	70.9	70.3	68.9	70.4	71.1	70.2	68.4	70.1	71.6
Infosys	63.0	61.2	61.1	61.6	61.3	60.4	59.2	61.8	62.3
TCS	66.9	66.0	63.9	62.2	62.4	61.7	60.8	61.5	64.6
Tech Mahindra	68.5	69.1	68.1	69.9	68.0	67.8	66.9	65.1	66.0
Wipro	73.2	73.7	72.2	72.7	71.7	71.8	71.3	70.5	72.4
Total	67.7	66.9	65.6	65.5	65.3	64.6	63.6	64.6	66.4

Source: Companies, Kotak Institutional Equities

Attrition rates are broadly under control for most IT services companies

Exhibit 158: TTM voluntary attrition rates for IT services companies, March fiscal year-ends, 2020-26 (%)

	Mar-20	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
HCL Tech	16	20	16	14	13	12	13	13	13	13	13
Infosys	17	21	17	15	13	13	13	13	14	14	14
LTIMindtree	17	20	18	15	14	14	14	12	14	14	14
TCS	12	20	18	15	13	13	12	12	13	13	14
Tech Mahindra	19	17	13	11	10	10	10	11	11	12	13
Wipro	15	19	17	16	14	14	14	15	15	15	15

Source: Companies, Kotak Institutional Equities

- **Strong domestic sales growth for pharmaceuticals companies.** The larger pharmaceutical companies under our coverage reported a decent performance on a yoy basis in 1QFY26. Domestic revenues saw strong growth but exports markets witnessed weak growth. Revenues of the major companies under our coverage increased 10% yoy (+7.6% qoq) (see Exhibit 159), driven by a strong 14% yoy (+12.1% qoq) growth in domestic sales (see Exhibit 160). We note that companies continued to enjoy strong profitability in 1QFY26 (see Exhibit 161). SUNP was a sharp increase in margins for SUNP led by lower R&D expenses in 1QFY26. However, we expect R&D costs to revert to normal levels over coming quarters for SUNP.

Decent revenue growth for most pharmaceutical companies in 1QFY26

Exhibit 159: Trend of quarterly sales of Indian pharmaceuticals across geographies, 1QFY24-1QFY26

	Sales (Rs mn)									Yoy growth (%)					
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Aurobindo															
Total sales	68,007	71,507	72,712	74,919	74,577	76,462	78,931	83,811	77,918	17	10	7	9	12	4
ARV	2,010	2,500	1,794	2,380	2,290	1,930	3,070	3,082	3,549	50	14	(23)	71	29	55
Europe	18,370	17,690	17,284	18,320	19,820	21,050	21,213	21,473	23,377	10	8	19	23	17	18
RoW	4,336	5,830	6,060	8,550	6,480	7,410	7,980	7,295	7,008	59	49	27	32	(15)	8
US	33,040	33,850	37,560	35,880	35,550	35,300	36,712	40,721	34,878	18	8	4	(2)	13	(2)
Others	10,251	11,637	10,014	9,789	10,437	10,772	9,956	11,240	9,106	0	2	(7)	(1)	15	(13)
Cipla															
Total sales	62,533	66,211	65,339	61,632	66,939	70,510	70,730	67,297	69,575	7	7	6	8	9	4
Europe	2,911	2,950	2,936	3,361	3,186	3,313	3,142	3,242	3,473	3	9	12	7	(4)	9
India	27,723	28,170	28,590	24,170	28,983	29,480	31,460	26,220	30,700	7	5	5	10	8	6
RoW	1,362	1,470	1,080	1,890	983	1,600	1,260	1,820	1,020	41	(28)	9	17	(4)	4
South Africa	7,480	9,930	8,150	8,470	7,660	10,680	9,750	10,190	8,710	37	2	8	20	20	14
US	18,218	18,870	19,160	18,753	20,874	19,860	19,060	19,190	19,330	12	15	5	(1)	2	(7)
Others	4,839	4,821	5,422	4,988	5,253	5,577	6,058	6,635	6,342	(31)	9	16	12	33	21
Dr Reddy's Laboratories															
Total sales	67,579	69,026	72,368	71,138	76,961	80,382	83,812	85,284	85,721	13	14	16	16	20	11
CIS	2,000	2,200	2,300	2,200	1,900	2,100	2,400	2,450	2,000	(4)	(5)	(5)	4	11	5
Europe	5,071	5,286	4,970	5,208	5,265	5,770	12,096	12,750	12,744	5	4	9	143	145	142
India	11,482	11,860	11,800	11,265	13,252	13,971	13,464	13,047	14,711	(12)	15	18	14	16	11
RoW	3,952	4,163	4,633	4,892	4,478	5,554	4,938	4,981	4,982	34	13	33	7	2	11
Russia	5,600	5,800	5,900	5,000	5,500	6,900	7,020	6,550	7,060	(4)	(2)	19	19	31	28
US	31,978	31,700	33,492	32,626	38,462	37,281	33,834	35,586	34,123	29	20	18	1	9	(11)
Others	7,496	8,017	9,273	9,947	8,104	8,806	10,060	9,920	10,101	12	8	10	8	(0)	25
Lupin															
Total sales	47,421	49,392	50,799	48,951	55,143	54,970	56,186	55,622	61,638	13	16	11	11	14	12
Europe	2,474	3,010	3,267	3,071	3,302	3,749	4,136	4,578	4,253	28	33	25	27	49	29
India	16,384	16,915	17,251	16,015	19,259	20,096	19,305	17,113	20,894	8	18	19	12	7	8
US	15,905	18,666	18,885	19,006	20,408	19,711	21,213	22,618	25,496	23	28	6	12	19	25
Others	12,659	10,802	11,396	10,859	12,174	11,414	11,532	11,313	10,995	2	(4)	6	1	4	(10)
Sun Pharma															
Total sales	117,852	120,031	121,569	118,133	125,245	132,642	134,369	128,156	137,861	10	6	11	11	8	10
EM	21,452	23,449	20,946	20,348	23,695	24,519	23,384	22,561	25,531	12	10	5	12	11	8
India	35,604	38,425	37,785	37,078	41,445	42,652	43,004	42,130	47,211	10	16	11	14	14	14
RoW	16,041	17,000	17,797	16,290	15,814	16,633	21,840	17,340	18,736	3	(1)	(2)	23	6	18
US	38,709	35,504	39,736	39,544	38,894	43,274	40,030	40,204	40,452	12	0	22	1	2	4
Others	6,046	5,653	5,305	4,873	5,397	5,564	6,112	5,921	5,930	13	(11)	(2)	15	22	10

Source: Companies, Kotak Institutional Equities

Strong growth in yoy domestic pharmaceutical sales

Exhibit 160: Domestic sales and growth of pharmaceuticals companies, 1QFY24-1QFY26

	Domestic sales (Rs mn)									Yoy growth (%)					
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	
Cipla	27,723	28,170	28,590	24,170	28,983	29,480	31,460	26,220	30,700	5	5	10	8	6	
Dr Reddy's Laboratories	11,482	11,860	11,800	11,265	13,252	13,971	13,464	13,047	14,711	15	18	14	16	11	
Lupin	16,384	16,915	17,251	16,015	19,259	20,096	19,305	17,113	20,894	18	19	12	7	8	
Mankind Pharma	24,185	25,292	24,003	21,746	26,342	27,958	27,734	25,440	31,012	9	11	16	17	18	
Sun Pharma	35,604	38,425	37,785	37,078	41,445	42,652	43,004	42,130	47,211	16	11	14	14	14	
Torrent Pharmaceuticals	14,260	14,440	14,150	13,810	16,350	16,320	15,810	15,450	18,110	15	13	12	12	11	

Source: Companies, Kotak Institutional Equities

Many pharma companies reported a strong yoy increase in gross and EBITDA margins in 1QFY26

Exhibit 161: Gross and EBITDA margin of pharma companies under our coverage, 1QFY24-1QFY26 (%)

	Gross margin (%)									EBITDA margin (%)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Alivus Life Sciences	57.1	54.1	57.7	55.5	51.1	55.6	55.6	56.5	54.9	33.4	28.1	30.1	26.4	27.1	26.5	29.7	30.5	28.7
Aurobindo Pharma	54.0	55.2	57.1	59.6	59.4	58.8	58.4	59.1	58.8	16.9	19.4	21.8	22.3	21.4	20.1	20.4	21.4	20.4
Blue Jet Healthcare	55.9	56.8	57.5	53.3	54.7	57.0	54.6	54.9	48.4	32.8	34.5	32.7	28.8	27.2	33.4	39.0	41.1	34.1
Cipla	64.7	65.4	66.0	66.7	67.2	67.6	68.0	67.5	68.8	23.6	26.0	25.7	21.4	25.6	26.7	28.1	22.8	25.6
Concord Biotech	79.3	79.8	80.4	72.1	77.6	75.4	78.5	70.1	77.9	37.0	45.4	44.0	42.1	37.7	44.1	40.1	44.3	37.6
Divis Laboratories	61.3	57.6	60.7	60.8	59.7	58.6	60.2	62.1	60.3	28.3	25.1	26.4	31.7	29.4	30.6	32.0	34.3	33.1
Dr Reddy's Laboratories	58.7	58.7	69.9	70.6	71.7	70.6	69.2	66.6	67.2	30.3	28.9	28.1	25.5	27.7	27.0	27.1	24.3	25.4
Emcure Pharmaceuticals	63.6	62.9	62.7	62.1	62.4	60.6	60.1	57.8	61.8	19.0	19.8	18.4	17.6	18.5	19.0	18.1	19.0	19.0
Gland Pharma	62.5	62.0	61.2	61.0	59.7	59.1	66.6	65.8	65.4	24.3	23.6	23.1	23.3	18.9	21.1	26.0	24.4	25.5
Laurus Labs	50.6	52.5	54.4	49.8	55.1	55.2	56.9	54.5	59.4	14.1	15.3	15.2	16.8	14.3	14.6	20.2	24.4	24.3
Lupin	65.9	66.2	66.8	68.3	68.8	70.2	70.2	70.2	71.7	17.8	18.2	20.0	20.1	22.2	23.6	23.5	23.3	27.6
Mankind Pharma	68.2	69.5	68.3	69.8	71.9	71.6	71.0	71.6	70.5	25.4	25.2	23.3	24.2	23.6	27.6	25.7	22.2	23.7
Sun Pharmaceuticals	76.9	77.1	77.9	80.1	78.9	79.7	80.0	79.6	79.7	27.9	26.4	27.1	25.8	28.9	28.7	30.7	26.4	29.4
Torrent Pharmaceuticals	74.9	75.2	74.5	75.3	75.7	76.5	76.0	75.3	75.6	30.5	31.0	31.8	32.2	31.6	32.5	32.5	32.6	32.5

Source: Companies, Kotak Institutional Equities

Among the major pharmaceutical companies under our coverage, (1) ARBP reported 4% yoy (-7% qoq) growth in overall revenues, (2) CIPLA reported 4% and 3% yoy and qoq growth in overall revenues with moderate growth in domestic revenues (+6% yoy) being offset by a decline (-7% yoy) in US sales due to continued pricing pressure in gRevlimid, (3) DRRD's overall sales increased 11% yoy (+0.5% qoq), weighed down by weak US sales (11% yoy and 4% qoq decline in US sales), (4) LPC's overall sales increased 12% yoy (+11% qoq) and (5) SUNP's overall sales increased 10% yoy (+8%), led by strong domestic sales yoy (+14% due to strong volume growth and new launches), which offset a paltry 4% yoy growth in US sales.

- **Demand trends were strong for a number of pan-India players.** Most companies under coverage reported strong growth in residential real estate on both volume and value basis in 1QFY26. Exhibits 162-163 show the trend of quarterly sales of the real estate companies under our coverage. The strong growth in pre-sales for real estate companies was driven by strong sales of (1) DLFU, (2) PEPL (driven by new launches in Bengaluru and NCR) and (3) SOBHA (new launch in Noida). A number of developers are becoming pan-India players, as they expand their footprints in other geographies.

Strong sales volumes for real estate companies in 1QFY26

Exhibit 162: Sales volume of residential real estate of companies under coverage, March fiscal year-ends, 2024-26 (mn sq. ft)

	Residential sales volumes (mn sq. ft)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Brigade Enterprises	1.5	1.7	1.7	2.6	1.1	1.6	2.1	2.0	0.9
Godrej Properties	2.3	5.2	4.3	8.2	9.0	5.2	4.1	7.5	6.2
Macrotech Developers	2.8	2.6	2.6	3.3	2.4	2.4	3.0	3.4	3.4
Oberoi Realty	0.2	0.4	0.4	0.5	0.2	0.3	0.7	0.1	0.4
Prestige Estate Projects	3.8	6.8	5.5	4.1	2.9	3.0	2.2	4.5	9.6
Sobha	1.4	1.7	1.7	1.3	1.3	0.9	1.0	1.6	1.4
Sunteck Realty	0.4	0.4	0.4	0.5	0.4	0.5	0.3	0.4	0.3
Total	12.3	18.7	16.6	20.5	17.3	13.8	13.4	19.5	22.1
Yoy growth (%)									
Brigade Enterprises	28	43	13	12	(23)	(5)	29	(22)	(20)
Godrej Properties	(20)	90	(2)	56	300	(1)	(6)	(8)	(31)
Macrotech Developers	27	24	4	32	(14)	(8)	15	4	42
Oberoi Realty	(40)	(5)	11	73	(17)	(20)	65	(69)	75
Prestige Estate Projects	6	48	90	2	(24)	(56)	(60)	10	229
Sobha	3	26	12	(9)	(4)	(45)	(39)	16	7
Sunteck Realty	(3)	27	18	10	(0)	24	(32)	(30)	(19)
Total	3	48	23	26	41	(26)	(19)	(5)	28

Source: Companies, Kotak Institutional Equities estimates

Decent sales growth in value terms for most real estate companies in 1QFY26

Exhibit 163: Sales value of residential real estate of companies under coverage, March fiscal year-ends, 2024-26

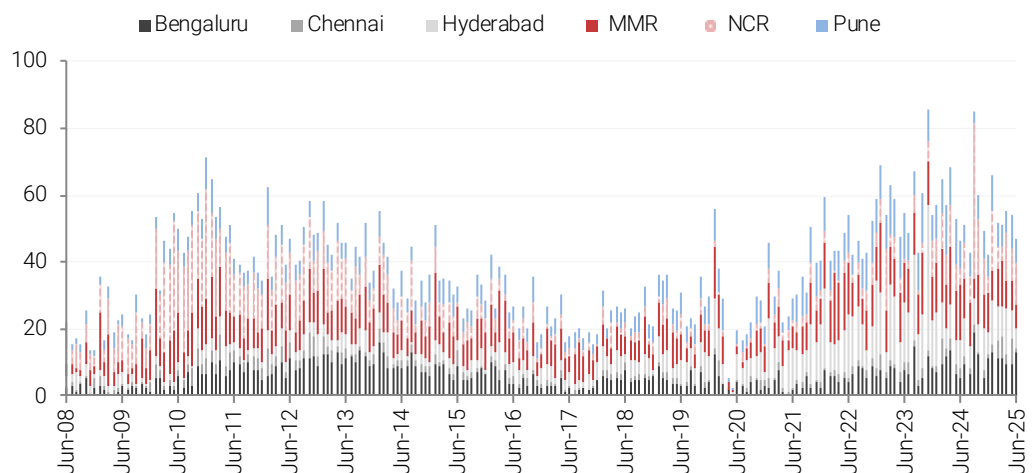
	Residential sales value (Rs bn)								
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Brigade Enterprises	10	12	15	21	11	17	24	25	11
DLF	20	22	90	15	64	7	121	20	114
Godrej Properties	23	50	57	95	86	52	55	102	71
Macrotech Developers	34	35	34	42	40	43	45	48	45
Oberoi Realty	5	10	8	18	11	14	19	9	16
Prestige Estate Projects	39	71	53	47	30	40	30	70	121
Sobha	11	13	17	13	13	12	14	18	21
Sunteck Realty	4	4	5	7	5	5	6	9	7
Total	145	218	279	258	260	191	314	300	406
Yoy growth (%)									
Brigade Enterprises	33	62	57	47	7	39	65	14	5
DLF	—	9	262	(83)	214	(69)	34	39	78
Godrej Properties	(10)	108	76	135	284	3	(5)	7	(18)
Macrotech Developers	19	12	12	40	20	22	32	14	10
Oberoi Realty	(37)	(17)	25	161	124	49	144	(52)	54
Prestige Estate Projects	30	102	111	21	(23)	(43)	(43)	48	300
Sobha	(1)	10	21	(13)	13	(7)	(20)	45	63
Sunteck Realty	16	17	15	26	30	33	39	28	31
Total	9	50	90	9	79	(12)	12	16	56

Source: Companies, Kotak Institutional Equities estimates

However, we note that the six major metro cities have seen a moderation in new launches in the past few months, while sales volumes have weakened in aggregate. As a result, inventory levels have increased in recent months. However, inventory is still quite low compared to historical averages. Exhibits 164-166 give details of launches, sales volumes and inventory in the major metropolitan markets in India. The weakness in system-level data is at sharp contrast to the continued strong momentum, reported by listed tier-1 developers.

New launches have moderated in recent months

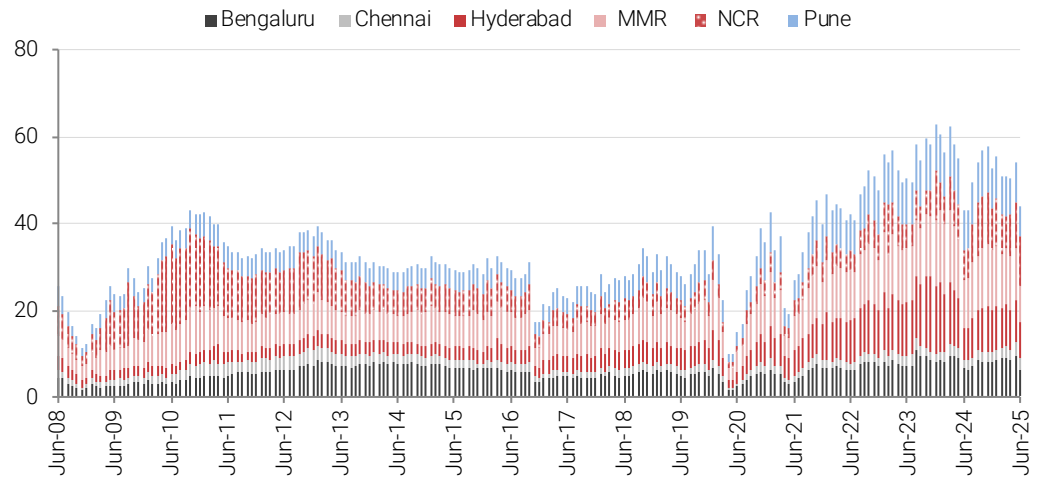
Exhibit 164: New launches trend, residential, March fiscal year-ends, 2009-26 (mn sq. ft)



Source: Prop Equity, Kotak Institutional Equities

Sales volume was decent in 1QFY26 but saw some moderation

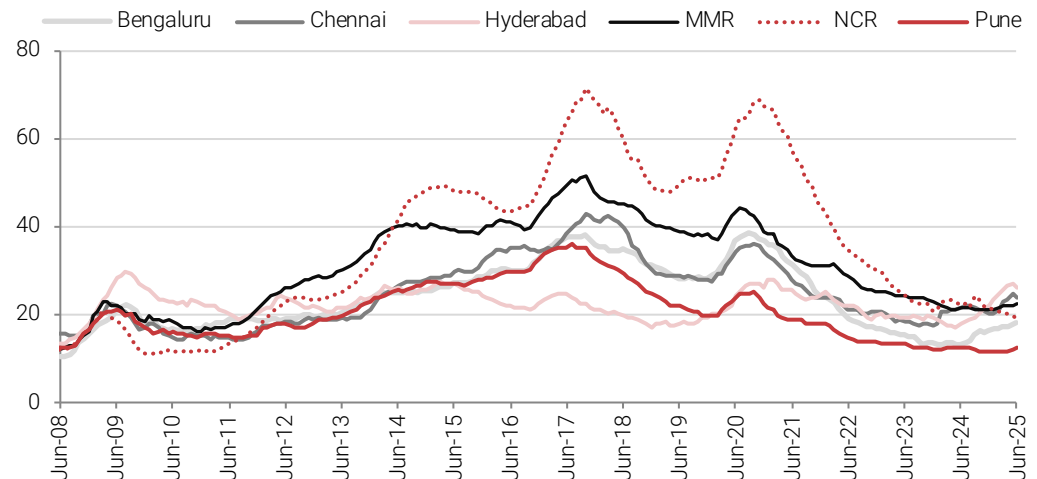
Exhibit 165: Absorption trend, residential, March fiscal year-ends, 2009-26 (mn sq. ft)



Source: Prop Equity, Kotak Institutional Equities

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

Exhibit 166: 12-month rolling inventory, residential, March fiscal year-ends, 2009-26 (months)



Source: Prop Equity, Kotak Institutional Equities

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

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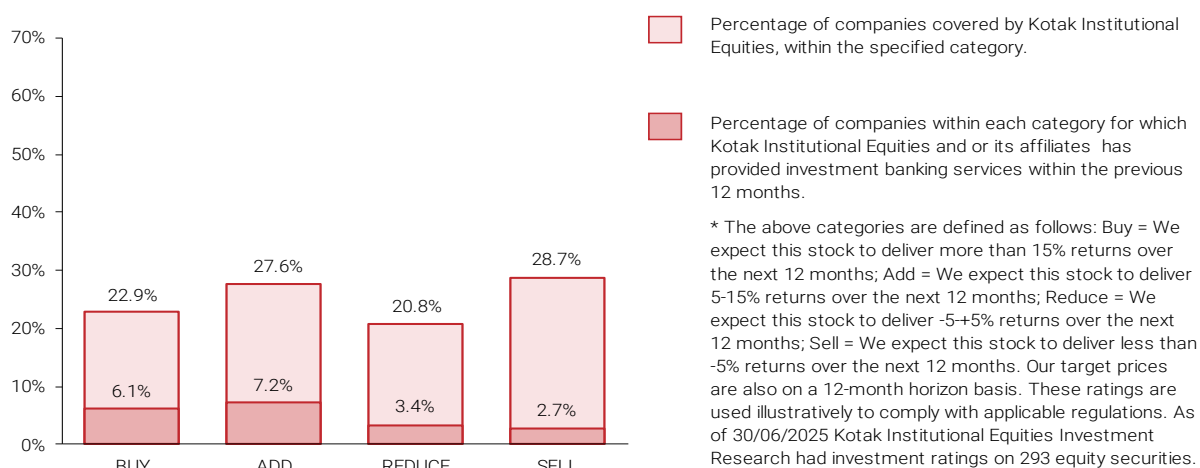
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