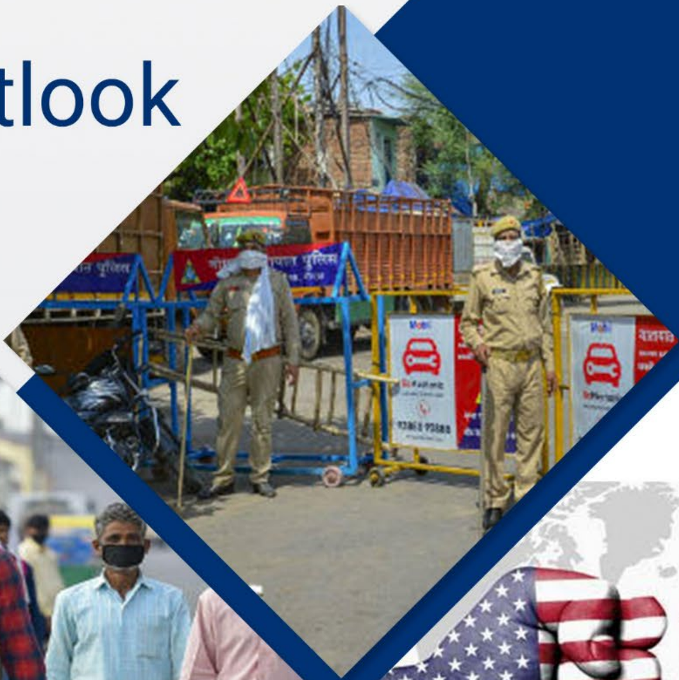
kotak Securities

June 2020
Market Outlook




- Market Outlook
- Investment Ideas

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6218 6424

MARKET OUTLOOK FOR JUNE 2020

Global market sentiment improved in May but Nifty underperformed

The month of May saw global markets further stabilizing after the sell-off in March as fresh cases of Covid-19 continued to decline in the US and European region. The Dow Jones has rallied during the month as the US is now moving towards reopening of the economy. Other factors like massive stimulus by other major economies coupled with intermittent positive news on Vaccine development has also kept the market buoyant.

The Indian equities has underperformed the MSCI emerging markets in May; as infections have continued to rise leading to extension of lockdown. Moreover, the much anticipated stimulus package (focused more on supply-side than on demand revival) received a lukewarm response from the market. Another key factor behind the underperformance is the banking sector which has the highest weight in the Nifty, given the lockdowns, there is no clarity on extent of eventual NPLs and credit costs for banks.

Covid-19 and Stimulus package

On the Covid-19 front, the outbreak has continued to grow and India is now one of the top ten countries with active cases. However, on the positive side, the mortality rate in India is low and growth rate in active cases has been stable, except in some areas. Even recovery rates are showing an improving trend. As the lockdown IV nears completion, the government has been opening up restrictions (Air travel), albeit cautiously. We now expect gradual 'resumption' of business activity over the next few weeks, with 'lockdown' extension becoming more district- and area-specific over time.

We have revised down our FY21E real GDP growth forecast to (-)5.8% from (-)2% factoring in a lower stimulus. We note that both consumption and investment demand was weak going into the pandemic. Even as lockdowns are removed, consumption of high-ticket items will likely see low demand (due to job losses, salary cuts, precautionary savings, etc.) along with anemic investment growth (possibly contraction) given (1) weak real estate demand by households, and (2) sharp reduction in capex plans by government and private sector.

In the short term consumption demand will likely hold up better in rural and semi-urban India than in urban India. Investment demand will weaken further given the inability and unwillingness of companies, governments and households to invest in capital intensive assets. Focus of companies and households would be to conserve cash while the government will face severe fiscal challenges. Demand for low-ticket discretionary items may revive faster than demand for large-ticket items.

Equity Outlook

In the ongoing earnings season, several managements of prominent companies across sectors have refrained from giving growth guidance for the current fiscal, a clear reflection of the level of uncertainty prevailing over the economic outlook. In our view, for the market to bottom out and rally thereof, we need to see 1) plateauing of daily Covid-19 cases especially in key economic zones of Mumbai and NCR and 2) movement towards lifting of lockdown. Success on corona vaccine can be a key trigger for the markets but we don't know as to when we will have a vaccine with high efficacy and effective on patients globally. On the other hand, risk to market emanates from 1) spiraling of cases in rural areas which are now susceptible to the infection from returning migrant labourers, 2) second wave of infections and 3) geopolitical tensions between US and China, and India and China. Notwithstanding the near to medium term volatility, the long term valuations look attractive on PE as well as Market cap to GDP basis.

Valuation

Indian markets have been following developed markets in the last three months. Hence it becomes imperative to follow the global market valuations to get a handle on India's valuation and outlook. Based on Bloomberg consensus estimates, the MSCI World Index is likely to report earnings de-growth of 6% in CY20E and go back to healthy growth of 28% in CY21E. Most probably we could see further earnings downgrade after Jun'20 quarterly results. In the last fifteen years, the MSCI World Index has peaked twice at 17x on a 1 Yr Fw basis (i.e. in 2015 & 2018). As against this, the MSCI World Index is trading at 22x CY20E and 17x CY21E. This shows that the Index is trading closer to its previous peak valuations even on CY21E. (for Fw PE charts of MSCI and other indices kindly refer to page no 18)

Similar to the MSCI World Index the S&P 500 Index in the US is trading at 24.3x CY20E and 18.9x CY21E (based on Bloomberg consensus estimates). The previous peak Fw PE of S&P 500 has ranged between 17-18x. This means the Fw PE of S&P 500 based on CY21E is still higher than the previous peaks. The Euro Stoxx 600 Index represents 600 mid, large & small companies across 17 countries of the European region. Based on Bloomberg consensus estimates, the Euro Stoxx 600 Index is trading at 19.7x CY20E and 14.8x CY21E. The Index's previous peaks has ranged between 15.6x-16.6x on Fw basis.

In India we are still in the midst of the Q4-FY20 result season. Based on results that have come till date we are now expecting FY20, FY21 & FY22 earnings of Nifty-50 grow by 2%, 1% & 32%, respectively. The refined picture of future earnings could be visible in Jul-Aug'20 period when Q1-FY21 results come out. Indian market looks fully valued on FY21E but reasonable to cheap on FY22E. Investors looking to make money in less than one year will need to time the market whereas for long term investors it is ideal to accumulate stocks on every decline. The intermittent falls in the market due to volatility and earnings downgrade could offer good opportunity to accumulate high quality large cap stocks in the next few months.

The valuation gap between large caps and mid caps has narrowed which makes a case to be with large caps at this juncture. On trailing basis, both the Nifty-50 and NSE Mid Cap 100 Index are trading at 19x. On Fw basis the NSE Mid Cap 100 Index PE trades at just 7% discount to the Nifty-50. The theme of big getting bigger will further play out in future post the lockdown. Bigger companies could be in a position to grab higher market share in their respective sectors. We can expect activity in mid & small caps to pick up with a lag effect, may be in the second phase of next bull phase.

TOP INVESTMENT IDEAS

Company	Rating	Price (Rs) 29 May 20	Fair Value (Rs)	Upside/ Downside (%)	Mkt cap. (Rs bn)	EPS (Rs)		EPS growth (%)		P/E (x)		P/B (x)		RoE (%)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
M&M	BUY	436	625	43.3	542	32	41	-33.0	-1.0	13.6	10.6	1.2	1.1	9.0	10.7
GAIL	BUY	92	150	63.0	416	9.8	11.4	-14.5	16.7	9.4	8.1	0.8	0.8	9.4	10.4
Hindalco	BUY	139	225	61.9	312	10.3	19.8	-51.6	92.0	13.5	7.0	0.5	0.5	3.6	6.7
L&T	BUY	932	1220	30.9	1308	42	75	-36.0	77.0	22.2	12.4	1.9	1.6	9.0	13.9
PNC Infratech*	BUY	106	175	65.1	27	14.9	18.1	10.6	21.5	7.1	5.9	0.9	0.8	14.0	14.8
Dr Lal Pathlabs	SELL	1531	1180	-22.9	127	26.1	37.7	-3.5	44.5	58.7	40.6	10.8	9.1	19.6	24.0
Indraprastha Gas	SELL	472	380	-19.5	330	17.4	20.7	4.2	18.5	27.1	22.8	5.7	4.9	23.0	23.0
Avenue Supermart	SELL	2267	1480	-34.7	1467	22	39	5.8	74.1	103.0	58.1	11.7	9.8	12.2	18.2

*Source: Kotak Institutional Equities. For details refer to KIE India Daily report dated 29th May 2020; Note: Earnings season has started and KIE would be changing their earnings estimates, price targets and ratings of above companies as and when their results are out in near future. * Kotak Private Client Group Research.*

INTERNATIONAL EVENTS

Global economic revival contingent on success of Vaccine

On 18 May, US biotech firm Moderna revealed the first data from a human trial: its COVID-19 vaccine triggered an immune response in people, and protected mice from lung infections with the coronavirus SARS-CoV-2. In its press release, the company reported that 45 study participants who received one or two doses of the vaccine developed a strong immune response to the virus.

While this is definitely a positive development, however, for a workable vaccine, Moderna would have to demonstrate three things: first, that the vaccine causes no significant adverse side effects in the healthy people dosed; second, that the vaccine can prevent disease in other mammals, such as mice and monkeys; and, third, that the vaccine induces neutralizing antibodies in trial participants' blood, which is tested by adding inoculated blood to a petri dish and seeing if the virus is prevented from infecting and killing cells in a tissue culture.

The Moderna vaccine was the first candidate to enter a phase I human trial in March. It will soon begin a phase II trial involving 600 participants. It hopes to begin a phase III efficacy trial in July, to test whether the vaccine can prevent disease in high-risk groups, such as health-care workers and people with underlying medical problems.

Around 143 vaccines were in development globally as on 22nd May as per Milken Institute, with at least eight in human trials.

Satus of Vaccines under development that are at clinical trial stage

Developer	Anticipated next steps during Clinical trials
BioNTech / Fosun Pharma / Pfizer and others	Phase 1/2 started April 2020; first data expected end of June or July 2020
Moderna/NIAID/Lonza and others	Phase 1 ongoing; Phase 2 to start May 2020; Phase 3 to start early summer 2020;
CanSino Biologics and others	Phase 2 started April 2020
Jenner Institute the Serum Institute , AstraZeneca and others	Phase 1/2 began April 2020, data expected in May 2020;
Beijing Institute of Biological Products/ Sinopharm and others	Phase 1 started in May 2020
Wuhan Institute of Biological Products/ Sinopharm and others	Phase 1 started in May 2020
Sinovac and others	Phase 1/2 started April 2020
Inovio Pharmaceuticals/Beijing Advaccine Biotechnology and others	Phase 1 initial data expected June 2020; Phase 2/3 trials start July/August 2020

Source: Milken Institute

US China trade tensions

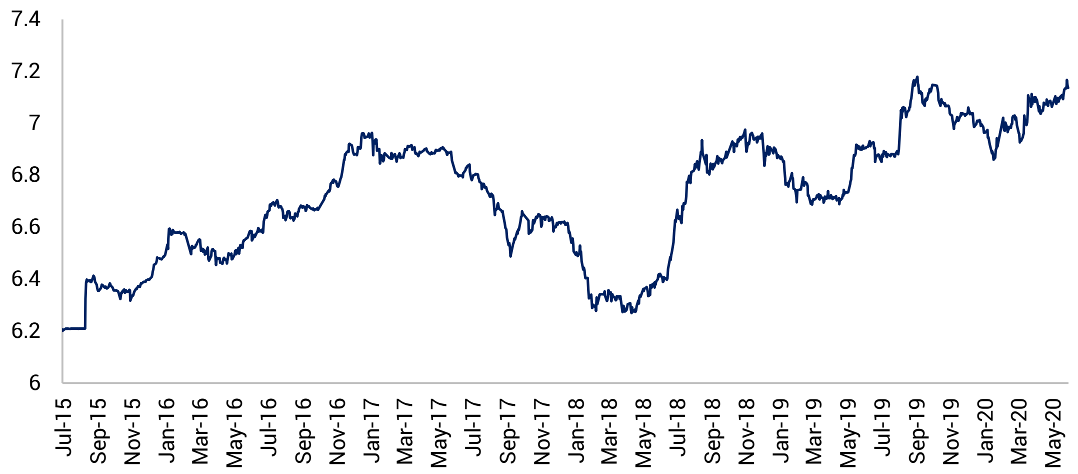
The rising tensions between Washington and Beijing could become a more persistent headwind for the US markets, as the issue of China becomes a larger focus in the U.S. presidential election. Couple of these developments are worrisome – 1) China announced new security measures for Hong Kong 2) took the unusual step of withholding its 2020 GDP forecast 3) the U.S. also announced the sale of $180 million torpedoes to Taiwan, further aggravating the relationship with Beijing, which views Taiwan as part of greater China 4) the US passed a bill by unanimous consent that could result in the delisting of Chinese companies. It would require companies to certify that they are not owned or controlled by a foreign government and 5) the US said it would add 33 Chinese firms and institutions to an economic blacklist because of ties to weapons of mass destruction and China's military.

Yuan weakens against the USD

China's yuan weakened against the dollar in May to fall to the weakest level in more than seven months, pressured by fresh tensions in the U.S.-China ties. The yuan's weakness also came as Beijing dropped its annual growth target for the first time since the government began publishing such goals in 1990.

In another development, China became the first major economy to conduct a real-world test of a national digital currency. This move, over time, could have greater global impact than anything Beijing does in Hong Kong or even to Taiwan. In general, digital currencies weaken the power of U.S. sanctions and the ability of U.S. officials to track illicit financial flows.

USD-YUAN chart



Source: Bloomberg

Weakening outlook for global economy

The United Nations has forecast that the COVID-19 pandemic will shrink the world economy by 3.2% this year, the sharpest contraction since the Great Depression in the 1930s. In January, before COVID-19 became a pandemic, the U.N. had forecast a modest acceleration in growth of 2.5% in 2020. For 2021, the UN has forecast that the global economy will rebound with 3.4% growth though it said prospects next year are clouded by uncertainty. But in the worst-case scenario, it said the global economy could contract by a further 0.5% in 2021, if a new wave of infections and lockdowns continues in the third quarter of 2020.

The JPMorgan Global Manufacturing PMI, compiled by IHS Markit from its business surveys in over 30 countries, slumped from 47.3 (reading above 50 indicates expansion) in March to 39.7 in April, its lowest since the height of the global financial crisis in March 2009. The PMI has signalled three successive months of deteriorating health of worldwide manufacturing, with April seeing a marked intensification of the decline amid the escalating COVID-19 pandemic.

Global manufacturing PMI has fallen sharply in April due to global lockdown

Source: HIS Markit, JP Morgan

Eurozone - Franco-German proposal for recovery fund

Germany and France proposed that the European Commission to borrow 500 billion euros ($550 billion) on behalf of the whole EU. The Franco-German proposal represents a material step forward towards harnessing joint fiscal capacity to provide sustained fiscal stimulus to support the economic recovery. The money from the recovery fund would be disbursed in the form of grants rather than loans, and repayments would be made from the EU budget over a roughly 20-year period.

Across the world, while some countries like South Korea and China have been able to achieve success in curbing the spread of the Virus, consumer spending in these countries remain weak. That means global policy makers -- who have already announced trillions of dollars of fiscal and monetary support -- will need to keep the stimulus flowing to avoid yet more company failures and job losses. Federal Reserve Chairman Jerome Powell has warned that a full recovery will need to wait until the scientists deliver on Vaccines.

Central bank measures

The Fed pledged in its recent policy meeting to use its full range of tools to support the US economy. It believes that the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. To support flow of credit to households and businesses, the Fed will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities. The Fed however expanded the scope and eligibility for the Main Street Lending Program, lowering the minimum loan size for certain loans and expanding the pool of businesses eligible to borrow.

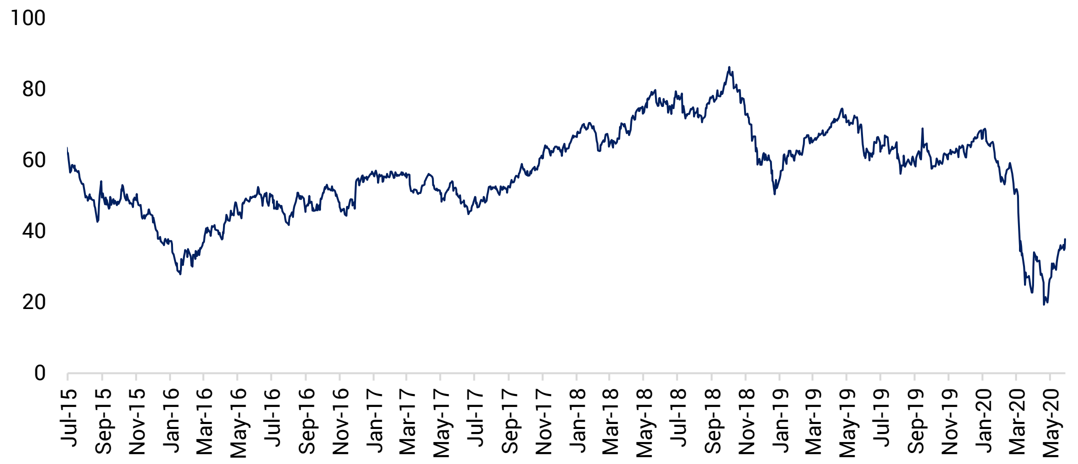
The Bank of Japan in its latest policy meeting decided to keep the policy rate unchanged at (-)0.1% and pledged to guide the 10-year government bond yield at around 0%.

The ECB minutes suggest that the officials are ready to step up bond purchases in the next meeting if they consider such a move necessary to combat the economic fallout from the pandemic. The ECB had earlier unveiled a EUR750 bn bond-buying program in the face of plunging economic growth. The expansion of the program would help Eurozone governments finance the battle against the virus, keeping the borrowing costs of the governments under check.

Crude Oil prices may cool off after rebound in May.

Oil prices have climbed nearly uninterrupted since late April on the back of movement towards lifting of lockdowns, supply cuts and resurgence in China's oil demand which has climbed back to about 13 million barrels per day (mb/d); about 90 percent of pre-pandemic levels. However, the optimism around Crude oil may be in for headwinds; especially in the light of China not releasing its 2020 GDP growth forecast, an indication of the serious challenges faced by the country. Rising turmoil on the Hong Kong and Taiwan front combined with threats of sanctions by the US against China will also weigh on the crude prices. From an Indian standpoint, lower crude prices will be supportive in reducing inflation which has risen in recent months and also help in reducing the current account deficit and fiscal deficit.

Brent Crude USD/barrel



Source: Bloomberg

DOMESTIC ECONOMY

Government announced the stimulus package

The much anticipated stimulus package from the government focused mostly on the supply side with a broad view of empowering the businesses rather than handing out fiscal benefits (cash payout/tax concessions). The package, with Rs 13 tn of fiscal benefits and Rs 8 tn of RBI's measures, has a near term fiscal expenditure of around Rs 2 tn (around 1% of GDP). However, the success of the package rests on pace of implementation, with dividends being in the future.

The stimulus measures were led primarily by credit enhancements measures, liquidity support and medium term reforms but possibly fell short on direct fiscal benefits as demand boosters. Our understanding is that the government may be skeptical of the pandemic's duration and hence may hold back on some firepower. While demand boosters have negligible impact during a lockdown, as the economy reopens, these would be the first steps to boost consumer confidence. To that extent, without any demand side measures (and unlikely in the near term), we see consumption and investment growth remaining depressed for longer.

Key structural reform measures

Area	Reform measure
Coal	Introduction of commercial mining through revenue sharing basis instead of fixed pricing, to ensure competition.
Minerals	Introduce a seamless composite exploration-cum-mining-cum-production regime.
Defence	Raised the FDI limit for defence production to 74% from 49%
Power distribution	Privatise power departments and utilities in Union territories2

Source: Kotak Institutional Equities Reports

Key Stimulus measures

Segment	Stimulus cum relief measure
NBFCs	Announced a special liquidity scheme of up to Rs 300 bn for NBFCs/HFCs/MFIs
Power distribution	Announced a Rs900 bn liquidity injection for power distribution companies, where revenues have plummeted
Collateral free loans to MSME	Small and medium enterprises will be offered collateral-free automatic loans of up to Rs3 tn up to 20% of entire outstanding credit
Fund of funds	Set up a fund of funds with a corpus of Rs100 bn. To provide equity funding for MSMEs with growth potential and viability

Source: Kotak Institutional EquitiesReports

Another rate cut likely

In its meeting, the Monetary Planning Committee (MPC) reduced repo rate by 40 bps to 4% and consequently, reverse repo rate was reduced to 3.35%. The MPC retained its accommodative stance and in order to mitigate the impact of Covid-19, would continue till growth revives, while ensuring that inflation remains within the target. The RBI also extended the moratorium on term loans and interest on working capital loans by three months, improving the cash flow of companies.

The MPC in its statement pointed out that the "macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated", accentuated by weakness in demand and supply-side disruptions. While refraining from providing any GDP growth estimate, the MPC acknowledged that FY21 GDP growth is likely to be negative, with some improvement in growth impulses likely in 2HFY21. We estimate FY21E real GDP growth at (-)5.8% and nominal GDP growth at (-)2.8%.

Given our growth estimate of close to (-)6%, we expect the MPC to further cut the repo rate by, at least, 25-35 bps as it continues to instill market confidence. However, rate cuts have diminishing marginal utility. Therefore, we believe that the RBI should increasingly focus on sector-specific liquidity measures, which reduces the credit risk as well as safeguards the financial sector.

Sharp drop in exports and imports in April 2020. INR to remain under pressure.

April exports witnessed a sharp contraction of (-)60.3% yoy to US$10.36 bn (March: US$21.4 bn). On the other hand, imports contracted by (-)58.6% yoy to US$17.1 bn (March: US$31.2 bn), led by a sharp fall in oil prices amid excess supply and dwindling demand. With oil prices likely to remain depressed in the near term (we assume FY21E average of US$35/bbl), we continue to expect FY21E CAD/GDP at 0%. However, capital account in the near term will be impacted by adverse capital outflows, which will be offset by a much lower CAD. We expect FY21E overall balance of payments (BOP) to remain comfortable at US$23.8 bn. The INR could remain under pressure in the near term given the severe global risk aversion and concerns on global and domestic growth outlook. Fears of a rating downgrade in case of major fiscal slippages will also weigh on the INR. However, robust external balances along with global liquidity glut should support INR in the medium term. We expect USD-INR to trade in the range of 74-77.50 in the near term.

Spread of Covid-19 remains the key to lifting of lockdown and resumption of economic activities

Recent data suggest that spread of Covid-19 has broadly remained under control as 10-day CDGR remained at 5.4% over the week ended 24th May. Growth rate of active cases too remained broadly stable. However, there has been an increase in the number of positive cases, with 4.2% of the samples tested positive nationally versus 3.9% a week before. Maharashtra continued to see high infection rates, while Delhi, Gujarat and Madhya Pradesh were stable, albeit at high levels.

The overall recovery rate bumped up further with recovered cases/confirmed cases at 42% as of May 24, 2020 versus 38% of May 17, 2020. Active cases have broadly remained under control in most states, suggesting that most states are still adequately equipped to handle the influx of new cases. states have decent-to-high recovery rates, except for Bihar, Karnataka, Maharashtra and West Bengal (among states reporting more than 1,000 cases). Fatality rate too has remained under control, relatively low compared to other major Covid-19 affected countries.

Stable growth rates of confirmed cases, rising recovery rates and concentrated nature of extant and new cases despite relaxation lockdown norms across most parts of the country are encouraging factors but the curve of infections has not flattened as yet. Taking note of this, India announced phased lifting of the nationwide lockdown by allowing malls, restaurants and places of worship to open from June 8. Containment zones will remain under lockdown till June 30.

Snapshot of status of Covid 19 in India

Parameter (for the week ended 24th May)	Status	Remark
Growth rate of all India Covid-19 cases	Stable	10 day CDGR of 5.4%
Growth rate of active cases	Declined	10 day CDGR of 4.2%
Recovery rate	Improving	Recovery cases to Confirmed cases at 42%
Number of confirmed cases versus number of tests	Moderate increase	Cases to Tests ratio at 4.2%
States that have shown decline in cumulative cases	AP and Punjab	
Fatality Rate	Downtrend	Deaths to Cases ratio at 2.9%
Share of top 25 districts in overall cases	Stable	70%
Growth rate of Covid-19 cases in 20 top districts in the past week	Stable	10 day CDGR of 6.2%

Source: Covid19India and Source: Kotak Institutional Equities Reports

Clashes on Indo China border is a cause of concern

The armies of India and China are currently on a high-alert at two locations along the Line of Actual Control -- the 3,488 kilometer (2,167 mile) unmarked boundary between India and China. Additional troops have been rushed to the border by both sides, the officials said. They are facing each other at the Galwan River, which was one of the early triggers of the 1962 India-China war, and at the disputed Pangong Tso - a glacial lake at 14,000 feet in the Tibetan plateau, portions of which are claimed by both. If the situation on the Indo-China border flares up into a full-fledged war, then it could be a fresh negative for the economy and especially for the markets. In all probability, the FIIs sales could accelerate thereby putting further pressure on market sentiment.

Economic recovery will be slow

Real GDP growth, expectedly, moderated to 3.1% in 4QFY20 from a downward revised print of 4.1% in 3QFY20. FY20 GDP growth slowed to 4.2% against 6.1% in FY19. Private consumption growth moderated to 5.3% due to NBFC-led liquidity crunch, weak rural demand, and Covid-related uncertainty towards end-4QFY20. Investment growth continued to contract at (-)2.8%. Given the impact of Covid-19 and without any major demand stimulus, weakness in economic activity will persist. The agriculture sector and government spending will be crucial for supporting economic activity in FY21E.

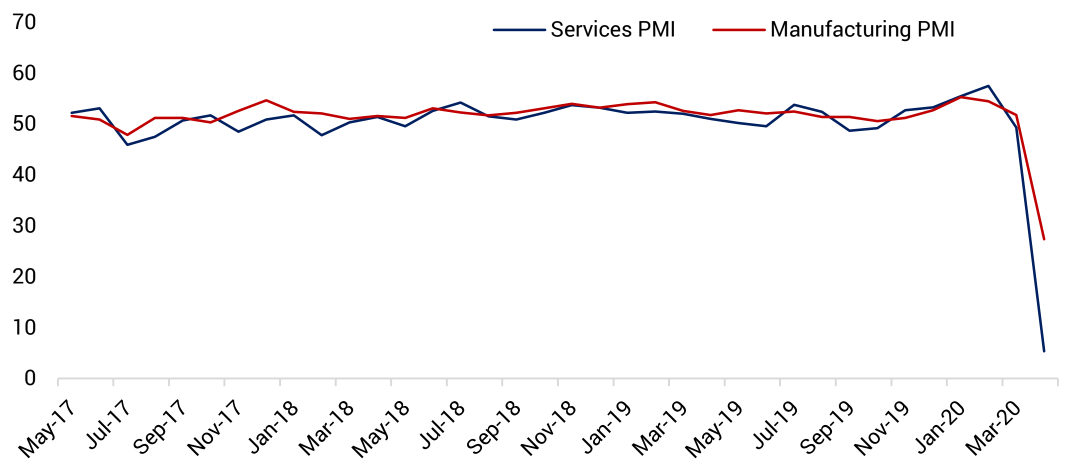
We have revised down our FY21E real GDP growth forecast to (-)5.8% from (-)2% factoring in a lower stimulus. This indicates the extent of downside risks to growth. We note that both consumption and investment demand was weak going into the pandemic. Even as lockdowns are removed, consumption of high-ticket items will likely see low demand (due to job losses, salary cuts, precautionary savings, etc.) along with anemic investment growth (possibly contraction) given (1) weak real estate demand by households, and (2) sharp reduction in capex plans by government and private sector.

GDP growth estimate of (-) 5.8% in FY21E

(%)	FY19	FY20	FY21E
Real GVA	6	3.9	-5.8
Agriculture and allied	2.4	4	2.8
Industry	4	0.9	-14.5
Services	7.7	5.5	-3.3
Real GDP	6.1	4.2	-5.8

Source: CEIC, Kotak Economics Research Estimates

IHS Markit India Services and Manufacturing PMI



Source: HIS market and Bloomberg

Migrant labor: Infrastructure execution could be affected due to scarcity of labour, delaying economic recovery

Migrant labor (inter and intra-state) comprises around 34% of total non-farm labor with inter-state migrants being 9% of labor in red zones. The migrant corridors are mainly between (1) Outward: Uttar Pradesh, Bihar, Rajasthan, West Bengal, and Madhya Pradesh, and (2) Inward: Maharashtra, Delhi, Gujarat, Haryana and Karnataka. As migrant labor travel back to their home states, wages could increase in the inward states. The government expects the migrant workers to return to work after the Kharif sowing season is over which is by the mid of July. This indicates that even after the lifting of the lockdown, the resumption in economic activities will be gradual.

Inter-state migrant labor forms a sizeable portion of non-farm labor force

State	Total inter-state migrants out of total non-farm labour
Maharashtra	11.9
NCR	35.1
Gujarat	9.0
Haryana	16.0
Karnataka	5.5

Source: CEIC, Kotak Economics Research Estimates

Probability skewed towards normal monsoon

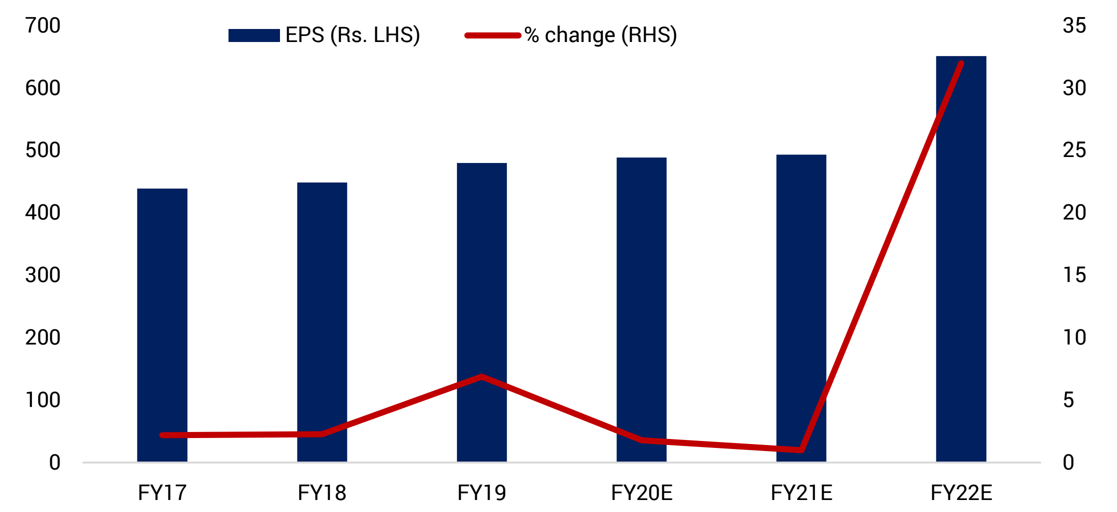
The Indian Meteorological Department (IMD) forecasts the southwest monsoon at 100% of Long Period Average (LPA) with a model error of (+/-) 5%. With the exception of last year, quantitatively, the IMD has generally overestimated the monsoon outcome over the past few years. The first estimate for southwest monsoon in FY20 was at 96% of LPA. By end of the season (June-September), monsoon was around 110% of LPA. Probability of a normal monsoon are skewed on the upside, the IMD has ascribed 9% probability of excess rainfall, 21% probability of above-normal monsoon, 41% probability of normal monsoon, 20% probability of below-normal monsoon, and 9% probability of deficient monsoon in FY21. We note that this is the first stage forecast and that the second stage forecast will be released in the first week of June. The release will also have separate forecasts for the monthly (July and August) rainfall over the country as a whole and seasonal (June-September) rainfall over the four broad geographical regions of India.

The IMD's forecast of normal rainfall will also provide comfort to the MPC in terms of inflation and explore various options to tackle the widening negative output gap.

Earnings Outlook is dented in FY21E due to Covid-19 but expecting rebound in FY22E

KIE expects FY21E and FY22E net profits of the Nifty-50 Index to grow 1% and 32% respectively. We do not rule out possibility of earnings downgrade post the Q1FY21 earnings season. The slowdown in FY21E Nifty earnings growth is estimated to be driven by Automobiles, Capital Goods, Diversified Financials and Metals and Mining. Banks, Pharma and Commodity Chemicals are expected to report healthy earnings growth for FY21E. However, the earnings growth in Banks remains uncertain on account of slow re-opening of the economy and its impact on NPAs and extension of moratorium on payment of loans. In FY22E, we expect strong broad-based rebound in earnings majorly of Auto, Capital Goods, Cement and Metals and Mining companies.

Trend in Nifty EPS



Source: Source: Kotak Institutional Equities estimates

Forecast earnings growth for Sectors in Nifty

	EPS Growth (%)		
Sectors	**FY20E**	**FY21E**	**FY22E**
Automobiles	-20	-44	167
Banks	73	47	20
Capital Goods	8	-36	77
Commodity Chemicals	29	18	18
Construction materials	33	-9	51
Consumer Staples	14	7	17
Diversified Financials	62	-31	41
Electric Utilities	8	15	9
Fertilizers	23	30	18
Gas Utilities	-18	-14	17
IT Services	4	-7	12
Media	9	-27	24
Metals and Mining	-67	-49	341
Oil and Gas	-20	-13	33
Pharma	20	8	25
Retailing	-4	-4	68
Telecom	NM	NM	82
Transportation	20	-21	21
Nifty Index	**2**	**1**	**32**

Source: Source: Kotak Institutional Equities estimates

FIIs have been net buyers in May

FIIs were major sellers in the month of March (USD 8.4 bn) but are expected to turn net buyers in May. On the other hand, domestic mutual funds were net buyers in March but have been sellers in April and May. Systematic Investment Plans (SIP) flows have emerged as a strong counter-weight against FII outflows. For the first time, the MF industry saw SIP equity inflows of nearly Rs 1.0 trn in FY20. Strong SIP flows is a positive for the markets as it helps in providing support to the markets in times of FII selling. However, SIP returns from several funds have been negative even for 5 year period, which is not a positive sign.

Monthly SIP flows Rs bn

(Rs bn)	FY21	FY20	FY19	FY18	FY17
Total during FY	170.1	1000.8	927.0	671.9	439.2
March		86.4	80.6	71.2	43.4
February		85.1	80.9	64.3	40.5
January		85.3	80.6	66.4	41.0
December		85.2	80.2	62.2	39.7
November		82.7	79.9	58.9	38.8
October		82.5	79.9	56.2	34.3
September		82.6	77.3	55.2	37.0
August		82.3	76.6	52.1	35.0
July		83.2	75.5	49.5	33.3
Jun		81.2	75.5	47.4	33.1
May	83.7	81.8	73.0	45.8	31.9
April	86.4	82.4	66.9	42.7	31.2

Source: AMFI

KEY SECTORAL OUTLOOK

Automobiles

We expect the CV industry to remain under pressure over the next two-three quarters due to multiple headwinds on demand as well as supply side. The demand scenario will remain subdued as (1) around 85% of transporters are small fleet operators, many of whom may not be able to sustain their financial obligations and may go out of business, (2) truck prices will increase 8-15% on account of BS-VI transition, which is steep given the current economic scenario and (3) demand for used vehicles may go up, which may keep new CV sales in check. Remain cautious on the near-term outlook for the CV industry; however, we remain optimistic of the long-term growth prospects for the industry.

We expect the domestic tractor segment to recover the fastest among other segments (PVs, two-wheelers and CVs) once the pandemic situation stabilizes in India driven by (1) record rabi output due to a good monsoon, (2) improvement in prospects of kharif output due to adequate water reservoir levels and (3) increase in MSPs of rabi crops, which augurs well for farm income.

Due to the uncertainty revolving around the pandemic, Maruti Suzuki did not give any volume guidance for the car industry for FY 21E. The company attributed multiple reasons for the steep fall in volumes in FY20 – (1) price increase due to regulatory changes (safety norms for entry-level cars and BS-VI transition due to change in emission norms), (2) increase in road taxes in various states.

Banks and diversified financials (NBFCs).

In the banking and NBFC sector, risk of NPAs remains the primary factor. In our view, the market is unlikely to get a lot of confidence about the eventual level of Non Performing Loans (NPLs) and credit costs in India's banking system for the next 2-3 quarters given (1) slow recovery in the economy due to the ongoing Covid-19 outbreak and related challenges of gradual opening of the economy due to intended (government-mandated measures) and unintended factors (unavailability of migrant workers), (2) moratorium on repayment of loans, which has been extended to August 31, 2020 and may camouflage the financial health of borrowers and (3) possible leveraging of borrowers by banks and NBFCs under the government credit guarantee scheme or otherwise in an attempt to keep extant outstanding loans as standard loans. Given these concerns, the valuations of banks and NBFCs have collapsed over the past three months.

Construction materials

Industry volumes in May 2020 may decline by 20-30% yoy. There is high uncertainty with respect to demand in the coming months due to exodus of migrant labor post resumption of travel services. However, owing to higher realisations and weak commodity prices, we see higher profitability for cement stocks under our coverage for FY20-22E, despite weak demand conditions.

IT services

Growth in IT services business was moderating even before the Covid-19 impact due to weak spending across a few verticals in CY2019. Further, hopes of mega deal closures was dashed to some extent by the Covid crisis. We now expect mid-single-digit revenue decline across our coverage universe on an organic basis. EBIT margin will likely decline by ~50-150 bps. IT companies have impressed despite many challenges and will continue to do so in the future. After the sharp bounce-back from lows, absolute upsides are modest. HCLT and Tech Mahindra remain our top picks.

Capital Goods

The current economic lockdown has come at a time when the capex cycle had been already weak. Given this, we believe that the focus of the corporates in the near term would be to shore up cash reserves rather than go in for capacity expansion plan. Needless to say, as survival takes precedence over growth, Capital Goods sector will be majorly impacted and recovery will be back ended only towards the end of FY21E. Given this, we would be cautious on the Capital Goods sector. Our view may change if there is a quicker escape for the economy from the Covid-19 inflicted slowdown and economic sentiments improve to the point that corporates start looking forward to investing in capacity expansions.

Outlook for orders from the Indian geography remains mixed. While the state governments/entities and central PSEs account would likely see a swift normalization to pre-Covid levels of spending. Other central government entities (NHAI, railways and defense) may take longer to normalize to past levels. Private-sector spending may not reach pre-Covid levels in the medium term.

Telecom

The Bharti Airtel management said that the current tariffs are still at low levels. They have guided for ARPUs to move to Rs 200 in the short term and Rs300 in the medium term. Besides tariff hikes, ARPU increase will also be driven by increase in share of 4G subscribers (better mix). believes that the capex intensity is likely to go down going forward. Since they are seeing a strong increase in data demand, they will continue to invest in networks.

Metals and Mining

Spot prices of metals suggest downside risks to our base case FY21E earnings across coverage. We see (1) higher net debt across most companies with negative Free Cash Flow (except Hindalco and Jindal Steel and Power), (2) uncomfortable leverage (TATA Steel and JSW) – liquidity comfortable, (3) book value reduction for most in FY21E, a crucial matrix in a bear market. We see a painful U-shaped recovery in metal prices in FY21E. Hindalco and Jindal Steel and Power offer the most attractive risk-reward from a one-year perspective.

Consumer Products

The HUL management indicated that the Covid outbreak exacerbated an already challenging demand environment. FMCG market volume and value growth decelerated further. The management indicated that rural demand was weaker than urban prior to Covid outbreak. Demand recovery in rural hinges on the current harvest and Covid situation in rural India. If Covid doesn’t spread in rural India, it would augur well for rural demand.

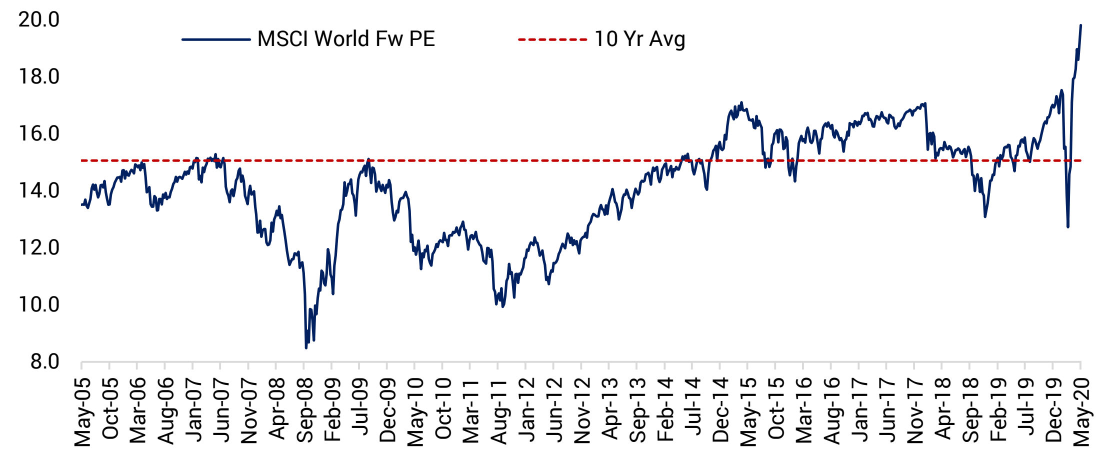
Pharmaceuticals

The Indian pharmaceuticals industry has deep linkages to China, given its reliance on China for critical elements of a drug’s supply chain, starting from basic chemicals, key starting materials (KSM), intermediates and even APIs. Based on our channel checks, we understand that most companies have stocks lasting until the end of 1QFY21. Thus, most companies can manage supply disruptions from China until end of June.

kotak Securities
PRIVATE CLIENT GROUP

Based on Bloomberg consensus estimates the Fw PE of MSCI World Index has shot up to 20x. Even on CY21E the Fw PE works to 17x which is close to previous peaks and way above the 10 Yr average of 15x.

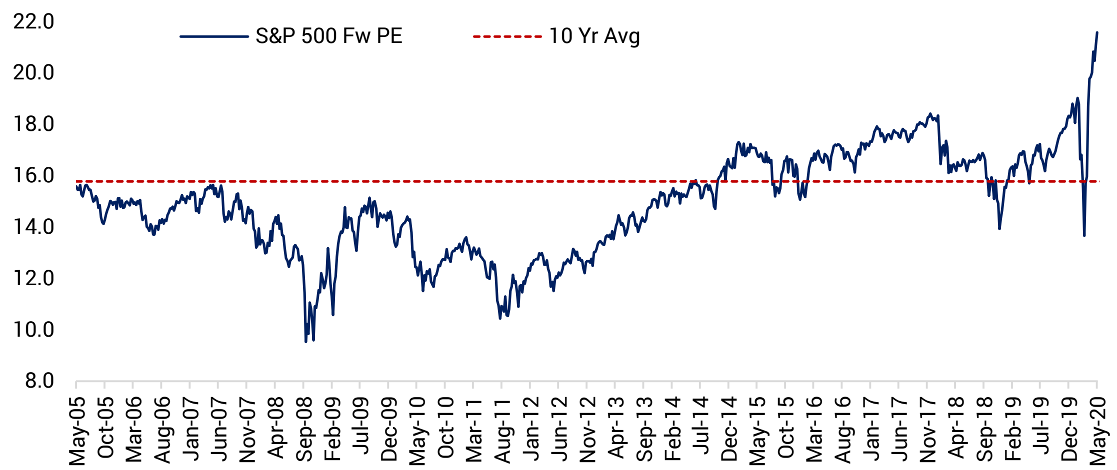
MSCI World Index: Fw PE chart



Source: Bloomberg & Kotak Securities – Private Client Group

Based on Bloomberg consensus estimates the S&P 500 Idnex is trading at 21.6x on 1 Yr Fw basis. At 19x CY21E, it still higher than its previous peak of 18x and 320 bps higher than 10 year average of 15.8x.

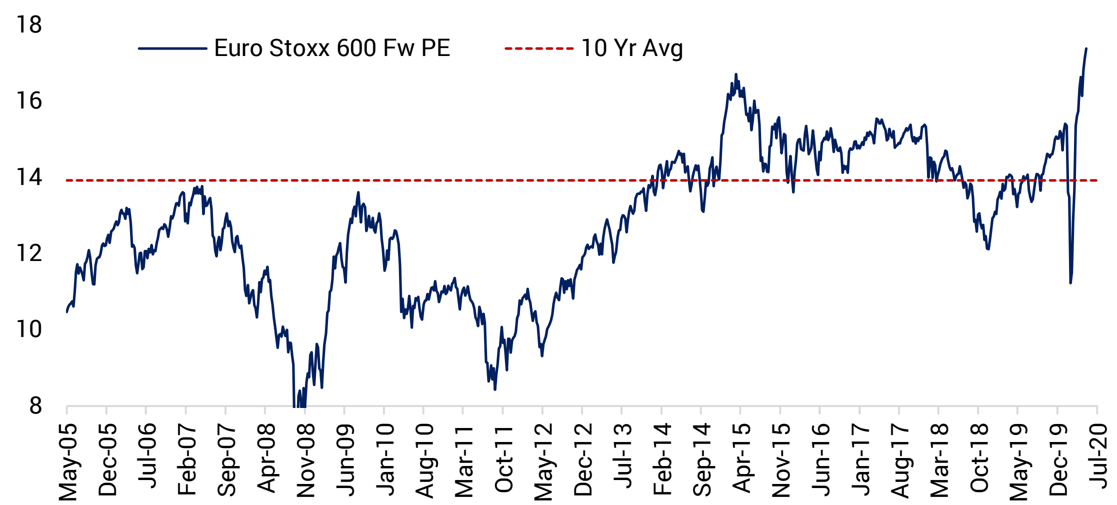
S&P 500 Index: Fw PE chart



Source: Bloomberg & Kotak Securities – Private Client Group

The Euro Stoxx 600 Index, based on Bloomberg estimates trades at 17.4x on 1 Yr Fw basis. On CY21E it trades at 15x, which slightly below its previous peak range of 15.6-16.6x. The 10 year average of Fw PE works to 13.9x.

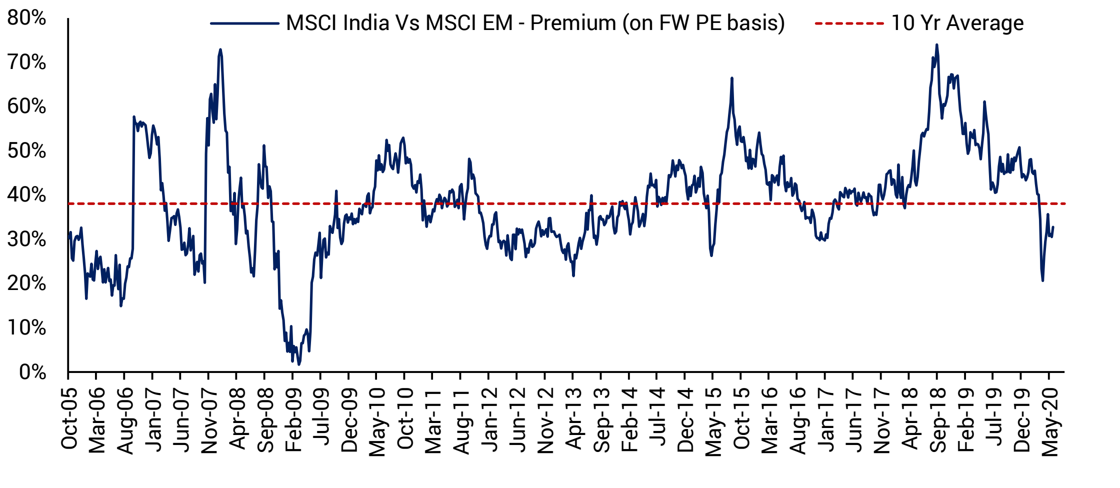
Euro Stoxx 600 Index: Fw PE chart



Source: Bloomberg & Kotak Securities – Private Client Group

India has underperformed other emerging markets since mid Mar'20. At 33% premium the Fw PE of MSCI India over MSCI EM has gone below its 10 year average of 38%.

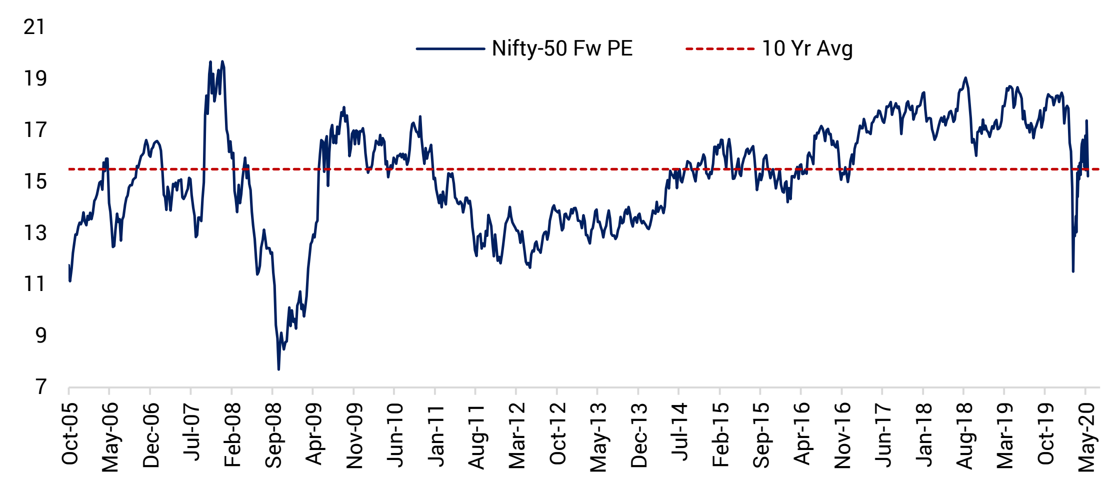
MSCI India Premium Over MSCI EM (on 1 Yr Fw PE basis)



Source: Bloomberg & Kotak Securities – Private Client Group

Based on Bloomberg estimates the Nifty-50 still trades at reasonable 17.4x on 1 Yr Fw basis. We feel the consensus numbers are still on the higher side and need to come down sharply in the coming months. On KIE estimates the 1 Yr Fw PE works to 18.3x.

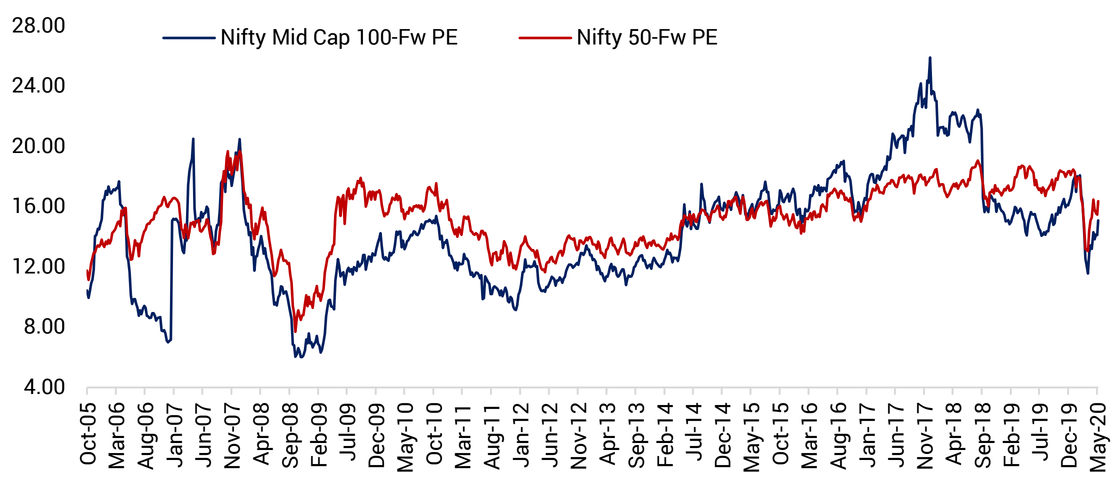
Nifty-50 Index: Fw PE chart



Source: Bloomberg & Kotak Securities – Private Client Group

The gap between the valuations of Nifty-50 and Nifty Mid Cap 100 Index has narrowed. On trailing basis both are trading at same valuations whereas on Fw basis the Mid Cap 100 Index is just 7% below the Nifty-50.

One Yr Fw PE chart: Nifty-50 Vs Mid Cap 100 Index



Source: Bloomberg & Kotak Securities – Private Client Group

Mahindra & Mahindra Ltd

CMP: Rs.436 **Fair Value: Rs.625** **Reco: BUY** **Mkt Cap: Rs.542 bn**

- KIE expects the domestic tractor segment to recover the fastest among other segments (PVs, two-wheelers and CVs) once the pandemic situation stabilizes in India driven by (1) record rabi output due to a good monsoon, (2) improvement in prospects of kharif output due to adequate water reservoir levels and (3) increase in MSPs of rabi crops, which augurs well for farm income.
- KIE expects overall tractor volumes to grow at 3% CAGR over FY2019-22E. This will result in the revenue mix of the tractor segment in M&M+MVML to improve from 32% in FY2019 to 36% in FY2022E, resulting in the share of tractor EBIT segment in overall revenues to improve from 53% in FY2019 to 68% in FY2022E.
- Recently, the Board took a decision to not infuse any fresh equity into Ssangyong (will only consider one-time special infusion of US$32 mn) and has urged Ssangyong to find alternate sources of funding. KIE believes such steps could lead to value unlocking in the long term.
- KIE expects the near term to remain challenging for the company given Covid-19-led uncertainties; however, KIE expects tractor demand to recover once the situation stabilizes on record rabi crop output.
- KIE has assigned 13X multiple to the core business of M&M+MVML – (1) 17X multiple to the tractor segment given its long-term growth prospects and strong leadership position of the company in this segment and (2) 7X multiple to the automotive segment given multiple headwinds. The value of the stake in publicly listed subsidiaries (assuming 20% holding company discount) is around Rs200. KIE maintains BUY with a revised fair value of Rs625.

Note: The above is brief note on the company, based on the research report and update available (dated: 16th April 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

GAIL INDIA LTD

CMP: Rs.92 **Fair Value: Rs.150** **Reco: BUY** **Mkt Cap: Rs.416 bn**

- GAIL has indicated that it has already placed ~90% of the US LNG volumes for CY20 as well through adequately priced or hedged contracts. The company has managed the risk well over the past seven quarters post commencement of the US LNG supplies despite volatility in crude/spot LNG prices.
- KIE's bear-case scenario for the US LNG portfolio indicates that the gas marketing segment may break-even for a year or two, until fertilizer plants ramp up off-take.
- KIE's reverse valuation exercise suggests that GAIL is pricing in a scenario of significant gas marketing losses of over Rs20 bn in perpetuity, ignoring near-term nature of risk and GAIL's ability to manage it.
- KIE has ascribed lower EV/EBITDA multiple of 5-6x for GAIL's gas transmission & commodity segments and assumed 30% holding company discount to MTM value of investments to arrive at an implied negative value of Rs. 122 bn for gas marketing segment - at a reasonable 6x EV/EBITDA multiple, it builds in a large EBITDA loss of ~Rs. 20 bn in perpetuity.
- KIE has cut EPS estimates to Rs.11.5 (-6%) in FY20, Rs.9.8 (-29%) in FY21 and Rs.11.4 (-23%) in FY22. KIE finds the concerns overdone and reiterates BUY on GAIL with a FV of Rs. 150. KIE sees GAIL as the top pick among energy PSUs given its structural growth prospects and play on oil price recovery.

Note: The above is brief note on the company, based on the research report and update available (dated: 3rd April 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

Hindalco Industries Ltd

CMP: Rs.139 **Fair Value: Rs.225** **Reco: BUY** **Mkt Cap: Rs.312 bn**

- Beverage can shipments, two-third volume of Novelis, remain intact despite Covid-19 as reassured by major global packaging companies. As beverage can demand is stable in April 2020 with demand being strong in the US, stagnant in Europe and slightly weak in Asia.
- Investors are concerned regarding Novelis' (70% of HNDL EBITDA) exposure to North America and Europe, the worst-hit geographies by Covid-19. KIE notes that Covid-19 has a major impact only on the auto segment (20% of FY2020E volume mix) of Novelis where-as the beverage can segment (65% of FY2020E volume mix) re-mains largely unaffected.
- Covid-19-led lockdowns in the US and Europe have impacted the auto finishing lines of Novelis along with auto OEMs. For FY2021E, KIE factors a 50% yoy drop in auto volumes with a gradual demand recovery from 2HFY21E. Further, KIE sees near-term headwinds from lower scrap spreads as UBC (used beverage can) discounts have reduced to 31 ¢/lb in April 2020 from +40¢/lb in 3QFY20 due to lower LME prices and limited collection of UBC amid lockdowns.
- HNDL's FY2021E earnings would be hit due to aluminum exposure at India business and loss in auto volumes at Novelis.
- With Aleris, HNDL's net debt/EBITDA increases to 4.4X in FY2021E. However, with interest coverage of 2.5X, liquidity of +US$3 bn and negligible repayments in FY2021-22E, KIE sees the leverage man-ageable. KIE notes that HNDL would generate FCF even in FY2021E with yield of 7%. The stock has corrected to 0.5X P/B (ex-goodwill) FY2022E versus historic mean of 1.1X and close to 2008/2015 trough of 0.4X. KIE finds risk-reward attractive at 4X EV/EBITDA FY2022E versus historic mean of 6.5X and maintain BUY.

Note: The above is brief note on the company, based on the research report and update available (dated: 27th April 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

LARSEN & TOUBRO LTD

CMP: Rs.932 **Fair Value: Rs.1220** **Reco: BUY** **Mkt Cap: Rs.1308 bn**

- L&T's ability to increase overseas exposure beyond the Middle-East, (2) reasonable pre-Covid levels of financial strength of its key domestic public sector customers and (3) initial signs of weakening competition would support business recovery in FY2022E.
- L&T has taken big strides over the past decade to establish a US$4-4.5 bn overseas EPC business and break into the top-25 firms (as per ENR 2019 rankings). It has grown the overseas business at a double-digit decadal CAGR in a stagnant market at profitable terms.
- Domestic ordering is a sum of four key customer sets. Of these, the state governments/entities and central PSEs account for majority of L&T business and would likely see a swift normalization to pre-Covid levels of spending. Other central government entities (NHAI, railways and defense) may take longer to normalize to past levels. Private-sector spending (~10% of overall backlog, largely services orders) may not reach pre-Covid levels in the medium term.
- Our assessment of L&T's order backlog suggests a 25% exposure to red zone districts in India, which will meaningfully impact 1QFY21 financials and defer full recovery into FY2022. These projects are split between single-location projects (buildings and factories, power generation, airports) and linear projects (roads, power T&D).
- Over the past few years, L&T has followed the strategy of passing benefits of operating leverage, maintaining healthy high-teens post-tax RoIC and making peers compete at stiff pricing levels may consider bidding at higher levels in times of limited bidding interest. In such a context, KIE note increasing share of single-bid government contracts getting finalized in FYTD21.
- KIE has lowered its fair value by ~4% to Rs1,220, a cut driven by a similar cut in core E&C earnings (cut in order inflows). L&T's strong order backlog and benign valuations on trailing earnings provide comfort. CMP is pricing in trailing core E&C earnings at 13X multiple, valuing listed subsidiaries at CMP and ascribe a higher 30% holding company discount. Such multiple implies a 7.5-10% PAT CAGR at a 13-14% range of WACC.

Note: The above is brief note on the company, based on the research report and update available (dated: 14th May 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

PNC INFRATECH LTD

CMP: Rs.106 **Fair Value: Rs.175** **Reco: BUY** **Mkt Cap: Rs.27 bn**

- PNC Infratech (PNC) had reported strong revenue and PAT YoY growth of 84% and 108%, respectively in 9MFY20 on a high base of FY19. The growth in financials was driven by robust order backlog and most of its large projects moved at faster pace.
- PNC has announced inflows of Rs 51.8 bn of NHAI Hybrid Annuity Model (HAM) road projects in Q4FY20 which strengthens order book to ~Rs 150 bn. We believe order inflows in Q4FY20 as reasonable in the current environment when many bids have been postponed due to outbreak of COVID-19.
- PNC has a strong balance sheet at standalone level which can meet equity commitment in old and new HAM projects. (Page1, 5th para, Date 23rd April 2020) It had a net cash balance of Rs 900 mn on the standalone balance sheet at the end of Q3FY20.
- The company has continuously been investing in building its equipment base to execute its projects. In 9MFY20, it incurred Rs 710 mn of capex and had an assets base of Rs 10.87 bn. As per the company, it can execute work of Rs 80-90 bn per annum on this asset base.
- The company in its Q3FY20 earnings concall had guided for standalone revenue growth of 60% for FY20E and 20% for FY21E based on robust order book, strong execution in 9MFY20 and order pipeline.
- Though the company has resumed construction activities (to the extent possible) with effect from 20th April 2020, we believe that the outbreak of COVID-19 has increased risks related to delay in completion of projects, increase in working capital, higher cost, etc which may impact near to medium term earnings of the company. We believe that the recent correction in stock price factors in most of the concerns.
- PNC has been amongst our top picks in the construction space due to strong balance sheet, execution track record and robust order book. (Page1, 8th para, 7th line, date 23rd April 2020) We maintain BUY on the stock with revised sum of the parts based target price of Rs 175. Key risk to our estimates and recommendation are any further negative impact of COVID-19 on construction of highways, slowdown in road capex, delay in approvals of projects, etc.

Note: The above is brief note on the company, based on the research report and update available (dated: 23rd April 2020) on our website at:

https:// https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental.

DR LAL PATHLABS

CMP: Rs.1531 **Fair Value: Rs.1180** **Reco: SELL** **Mkt Cap: Rs.127 bn**

- Weak quarter, difficult year ahead; Material miss on margins led by higher-than-expected impact from Covid-19; Near-term outlook challenging; increase in healthcare awareness to aid long-term growth; Rich valuations ignore growth risk, SELL.
- DLPL's 4QFY20 revenues of Rs3 bn were flat yoy and missed KIE estimates by 2.7%, with patient volumes growth at 2% yoy. EBITDA margin (adjusted for Ind-AS) collapsed 680 bps qoq (-480 bps vs KIE) to 15.8% led by negative operating leverage, as 50-55% of costs are fixed in nature. Lower depreciation was offset by slightly higher tax rate with PAT (Rs 326 mn) missing KIE estimates by 25%.
- KIE expects sharp 70-80% decline in non-Covid revenues during the lockdown period and expect volumes to gradually normalize starting 2QFY21E as private OPDs resume their business along with release of some pent-up demand from elective procedures-led diagnostics.
- Over the long term, KIE expects large players including DLPL to also benefit from an increase in healthcare awareness and/or mandatory health check-ups post Covid. However, with Delhi-NCR growth slowing down, utilization of cash for inorganic activities in non-core regions remains crucial for building a pan-India presence.
- KIE cuts FY21/22E EPS estimates by 30% and 12% on account of the lockdown and increase in cost of collection post Covid. KIE's DCF-based FV is revised to Rs1,180 as it rolls forward to FY22E and increase long-term growth assumptions. Expensive valuations drives KIE to maintain SELL.

Note: The above is brief note on the company, based on the research report and update available (dated: 18th May 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

INDRAPRASTHA GAS

CMP: Rs.472 **Fair Value: Rs.380** **Reco: SELL** **Mkt Cap: Rs.330 bn**

- KIE finds the risk-reward unfavorable for IGL stock post the recent sharp run-up.
- KIE's reverse DCF valuation exercise suggests that IGL stock is pricing in a robust 10% CAGR in volumes over the next decade along with steady 5% CAGR increase in unit margins to Rs10/scm by the terminal year, implies that the market has ignored risks from (1) regulatory intervention, (2) deregulation of domestic gas price and (3) adoption of EVs in public transport for Delhi.
- CNG demand may get an interim boost from a section of population shifting to personal vehicles from public or shared transport to reduce the chances of infection. However, CNG demand may also be negatively impacted by (1) adoption of work-from-home practices by companies, (2) reduction in non-essential travel by people in general, (3) reduced purchasing power as well as businesses and in turn, possible higher shift to 2-wheelers than 4-wheelers and (4) reduction in CNG demand from shared transport.
- IGL's valuation premium over MGL and PLNG has expanded substantially in the past few months.
- KIE EPS estimates are Rs17.4 in FY21 and Rs.20.7 in FY22, factoring in (1) lower CNG and I&C volume off-take due to the ongoing lockdown, (2) lack of addition to CNG and PNG customer base during lockdown, (3) modestly higher unit margins amid lower domestic gas price, etc. KIE's fair value is Rs380, as it retains long-term volume/margin assumptions and roll-forward DCF model. IGL is trading at 26X forward EPS and 22X FY22E EPS.

Note: The above is brief note on the company, based on the research report and update available (dated: 18th May 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

AVENUE SUPERMARTS LTD

CMP: Rs.2267 Fair Value: Rs.1480 Reco: SELL Mkt Cap: Rs.1467 bn

- Dmart's 4QFY20 results were impacted by higher-than-expected revenue loss on account of Covid-related shutdowns in March 2020. Revenue growth of 23% yoy and net profit growth of 41% yoy were below estimates. Loss of sales of higher-margin products (apparel and other general merchandise) resulted in a 118 bps yoy reduction in gross margin. Store addition of 18 exceeded expectations.
- The management quantified some impact of Covid on revenues. April 2020 revenues were down 45% yoy while first fortnight of May 2020 saw 17% growth mom. Margin erosion is to be expected on account of nil/marginal general merchandise sales as well as higher cost of store sanitization.
- Further revenue ramp-up is contingent on availability of employees, pace of unwinding of lockdowns and local permissions as well as resumption of store visits by customers.
- Dmart also mentioned that even as the company had ramped up sales from alternate channels such as Dmart Ready and Dmart on Wheels, these were temporary measures and the core focus remains on ramping up revenues at the store level.
- Covid-related shutdowns of brick-and-mortar stores have resulted in 2-3X increase in order run-rates for grocery e-tailers such as BigBasket and Grofers. Jiomart has also commenced online deliveries pan-India with very competitive prices offered. While Dmart's core customers are typically late adopters of online shopping, the need for social distancing may sway some of them away from offline stores.
- KIE revises down FY21E EPS by 8% on account of lower GMs, but expects normal operations FY22E onwards. Minor tweaks result in a new fair value of Rs1,480.

Note: The above is brief note on the company, based on the research report and update available (dated: 25th May 2020) on our website at:

https://www.kotaksecurities.com/research_report/recommendation/indiadaily.html

RATING SCALE (KOTAK SECURITIES – PRIVATE CLIENT GROUP) / KOTAK INSTITUTIONAL EQUITIES

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Rusmik Oza
Head of Research
rusmik.oza@kotak.com
+91 22 6218 6441

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal, CFA
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Priyesh Babariya
Research Associate
priyesh.babariya@kotak.com
+91 22 6218 6433

Sanjeev Zarbade
Cap. Goods & Cons. Durables
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Jatin Damania
Metals & Mining, Midcap
jatin.damania@kotak.com
+91 22 6218 6440

Purvi Shah
Pharmaceuticals
purvi.shah@kotak.com
+91 22 6218 6432

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Krishna Nain
M&A, Corporate actions
krishna.nain@kotak.com
+91 22 6218 7907

TECHNICAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Siddhesh Jain
Research Associate
siddhesh.jain@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6625 9810

Disclosure/Disclaimer (Private Client Group)

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

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

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

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

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on www.kotak.com

1. "Note that the research analysts contributing to the research report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account

Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc. (Member FINRA/SIPC) and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc. (Member FINRA/SIPC) at 369 Lexington Avenue 28th Floor NY NY 10017 USA (Tel:+1 212-600-8850).

Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Accordingly, any brokerage and investment services including the products and services described are not available to or intended for Canadian persons or US persons."

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

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

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

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

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

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report:: IGL - Yes

Nature of financial interest is holding of equity shares or derivatives of the subject company.

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

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

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

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

"A graph of daily closing prices of securities is available at https://www.nseindia.com/ChartApp/install/charts/mainpage.jsp and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com/www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137 (Member ID: NSE-08081; BSE-673; MSE-1024; MCX-56285; NCDEX-1262), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com.

In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1**: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1860 266 9191
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach Managing Director / CEO (Mr. Jaideep Hansraj) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.