



Post Budget Analysis & Market Outlook

7th July 2019

Union Budget: Summary

Good for Bond market but lacks stimulus for Equity market

- Assumption: *Nominal GDP growth assumption of 12% - on the higher side*
- Fiscal Deficit: *Reduced to 3.3% of GDP. Moderate risk of it going up*
- Emphasis: *Private Investment & Social schemes (rural focussed)*
- Stimulus: *Housing is the only segment to get some kind of stimulus*
- Finances: *Revenue growth of 9.5% looks optically low on FY19RE.*
- Taxation: *Corp tax of 25% (up to Rs.400 Turnover) – Less impact on listed cos.*
- Banking: *Recapitalisation of Rs.700 bn - good for PSU banks. Lifeline for NBFCs*
- Capital Mkt: *Overall negative (inc. of public shareholding + tax on buybacks)*
- Flows: *FPI flows in bond market & NRI flows in equity market could improve*

Budget 2019-20: Summary of Finances

Central Government Finances (Summary)

(Rs bn)	FY17	FY18	FY19	FY20	% chg	% chg
	Actual	Actual	RE	BE	FY19	FY20
Gross Tax Revenue	17,158	19,190	22,482	24,612	17.2	9.5
Direct taxes	8,539	10,074	12,053	13,419	19.7	11.3
Indirect taxes	8,620	9,117	10,428	11,192	14.4	7.3
(Transfers to states, Uts)	-6,145	-6,765	-7,638	-8,116	12.9	6.3
Tax Revenue (Net to Centre)	11,014	12,425	14,844	16,496	19.5	11.1
Non-Tax Revenue	2,728	1,927	2,453	3,132	27.3	27.7
Recoveries of Loans	176	156	132	148	-15.9	12.5
Other Receipts (Incl. Divestments)	477	1,000	800	1,050	-20.0	31.3
Total Receipts	14,396	15,509	18,228	20,826	17.5	14.3
Total Expenditure	19,752	21,420	24,572	27,863	14.7	13.4
Fiscal Deficit	5,356	5,911	6,344	7,038	7.3	10.9
as % of GDP	-3.5	-3.5	-3.4	-3.3		
Nominal GDP	153,624	170,950	188,407	211,006	10.2	12.0
GDP Growth Rate (%)		11.3	10.2	12.0		

Source: Annual Budget 2019-20

Budget 2019-20: Break-up of Revenue

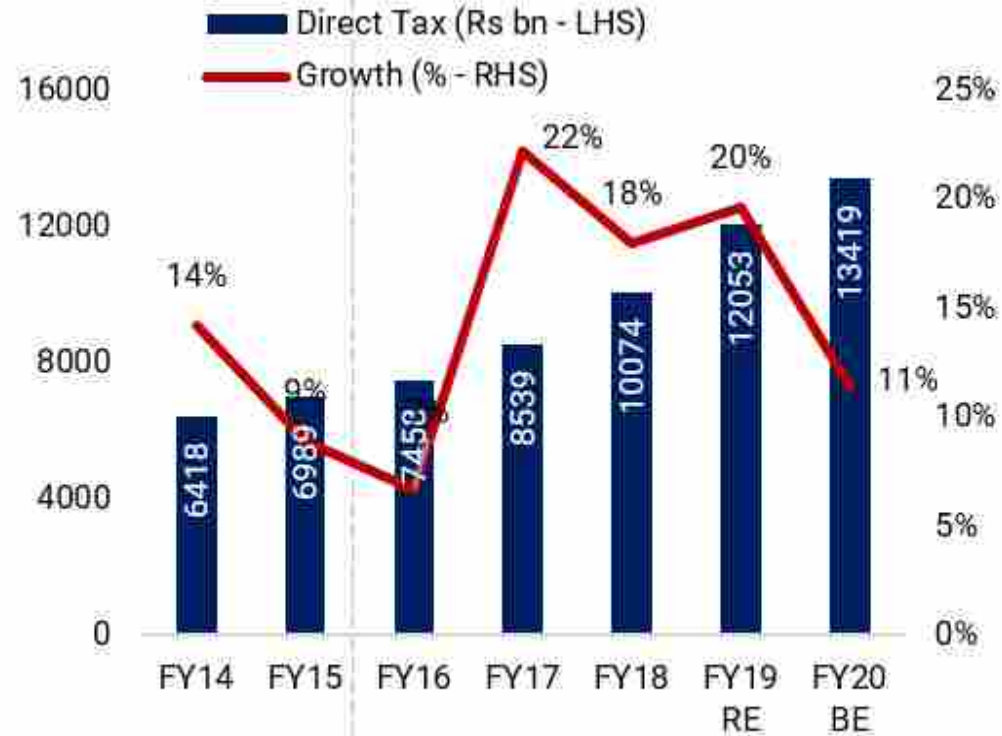
Break-up of Revenues

<u>(Rs bn)</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>% chg</u>	<u>% chg</u>
	<u>Actual</u>	<u>Actual</u>	<u>RE</u>	<u>BE</u>	<u>FY19</u>	<u>FY20</u>
Direct taxes	8,539	10,074	12,053	13,419	19.7	11.3
Corporation tax	4,849	5,712	6,710	7,660	17.5	14.2
Income tax	3,646	4,308	5,290	5,690	22.8	7.6
Other taxes	43	54	53	69	-0.8	30.1
Indirect taxes	8,620	9,117	10,428	11,192	14.4	7.3
Central GST		4,426	6,439	6,633	45.5	3.0
Customs duty	2,254	1,290	1,300	1,559	0.8	19.9
Excise duty	3,821	2,588	2,596	3,000	0.3	15.6
Service tax	2,545	812	93	NA	-88.6	NA

Source: Annual Budget 2019-20

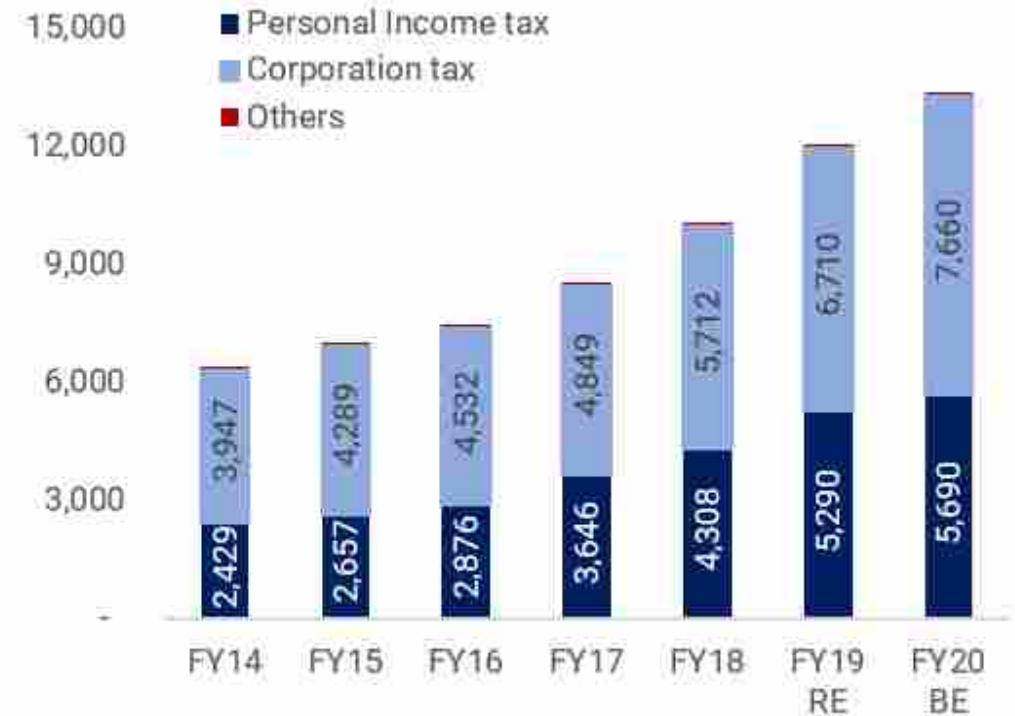
Budget 2019-20: Direct Taxes

Direct Taxes



Source: Annual Budget 2019-20

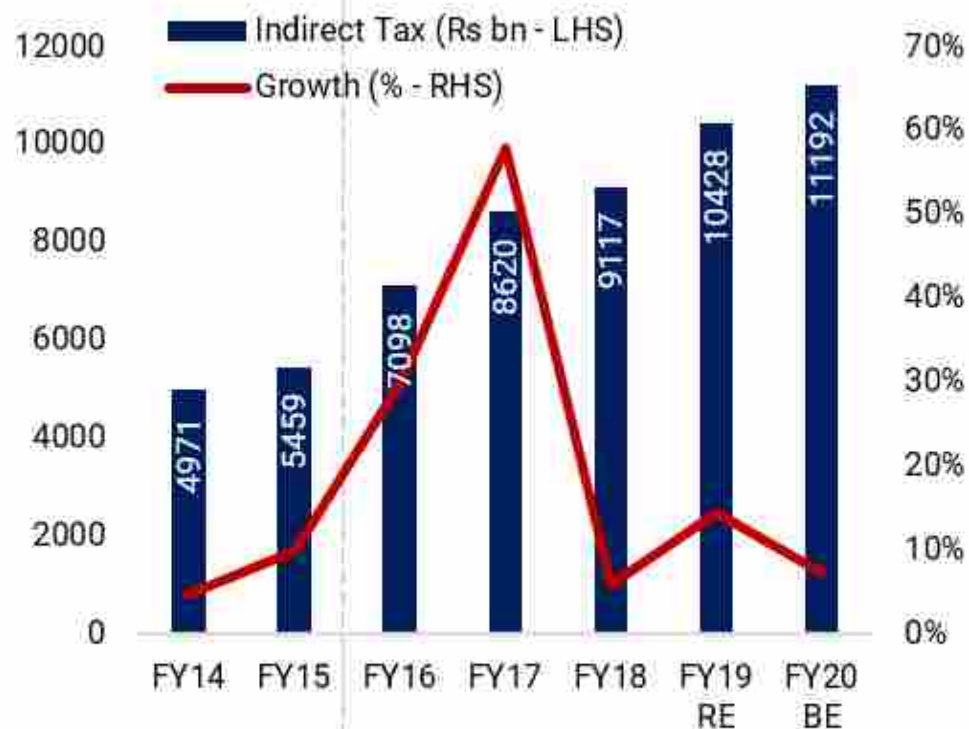
Direct Taxes Breakup (Rs bn)



Source: Annual Budget 2019-20

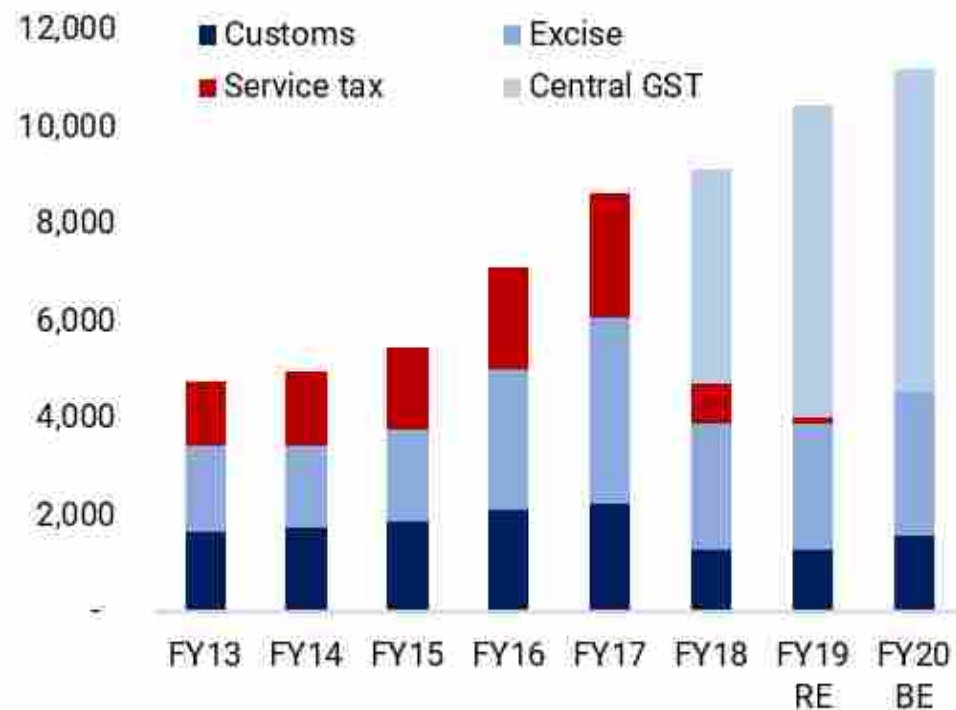
Budget 2019-20: Indirect Taxes

Indirect Taxes



Source: Annual Budget 2019-20

Indirect tax breakup (Rs bn)



Source: Annual Budget 2019-20

Budget 2019-20: Break-up of Expenses

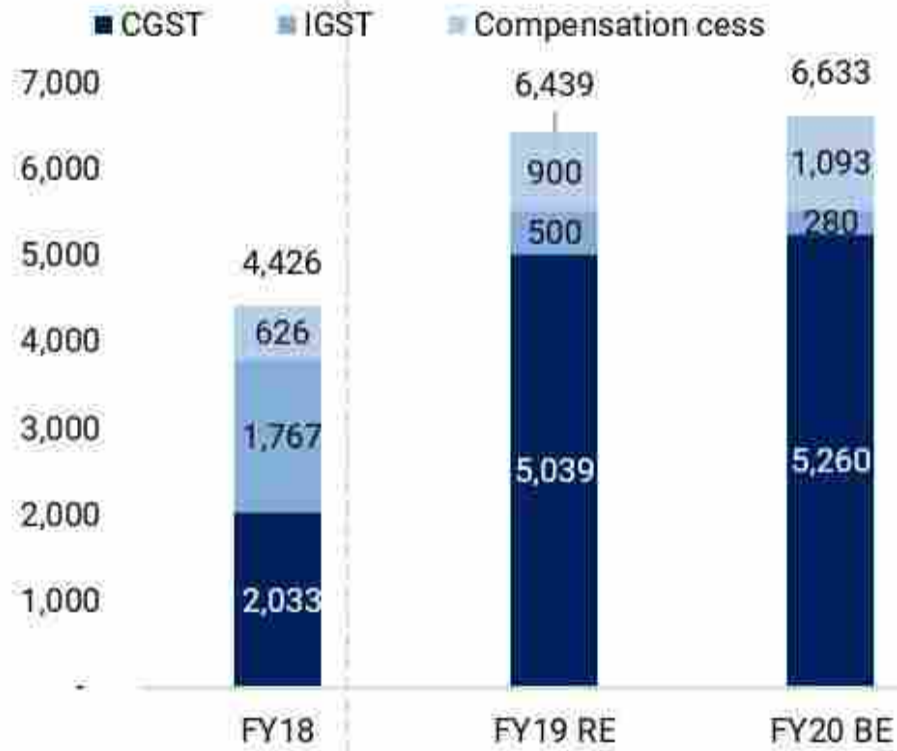
Break-up of Expenses

(Rs bn)	FY17 Actual	FY18 Actual	FY19 RE	FY20 BE	% chg FY19	% chg FY20
Total Expenditure	19,752	21,420	24,572	27,863	14.7	13.4
Revenue Expenditure	16,906	18,788	21,406	24,478	13.9	14.4
Interest Payments	4,807	5,290	5,876	6,607	11.1	12.4
Subsidies	2,040	1,912	2,662	3,017	39.2	13.3
Food Subsidy	1,102	1,003	1,713	1,842	70.8	7.5
Fertilizers Subsidy	663	664	701	800	5.5	14.2
Petroleum Subsidy	275	245	248	375	1.5	50.9
Pay, allowances & Pensions	3,996	4,464	4,936	5,258	10.6	6.5
Agriculture & farmers welfare	369	374	678	1,305	81.3	92.6
Education	720	800	809	927	1.1	14.7
Health & Family Welfare	364	483	518	609	7.3	17.5
Rural development	951	1,086	1,124	1,175	3.5	4.6
Others	3,658	4,381	4,803	5,579	9.6	16.2
Capital Expenditure	2,846	2,631	3,166	3,386	20.3	6.9
Defence	915	954	985	1,082	3.2	9.9
Railways	452	434	531	658	22.2	24.0
Roads and Highways	412	508	686	721	35.1	5.2
Housing and urban affairs	165	153	170	195	10.8	14.6
Others	902	582	795	729	36.6	-8.3

Source: Annual Budget 2019-20

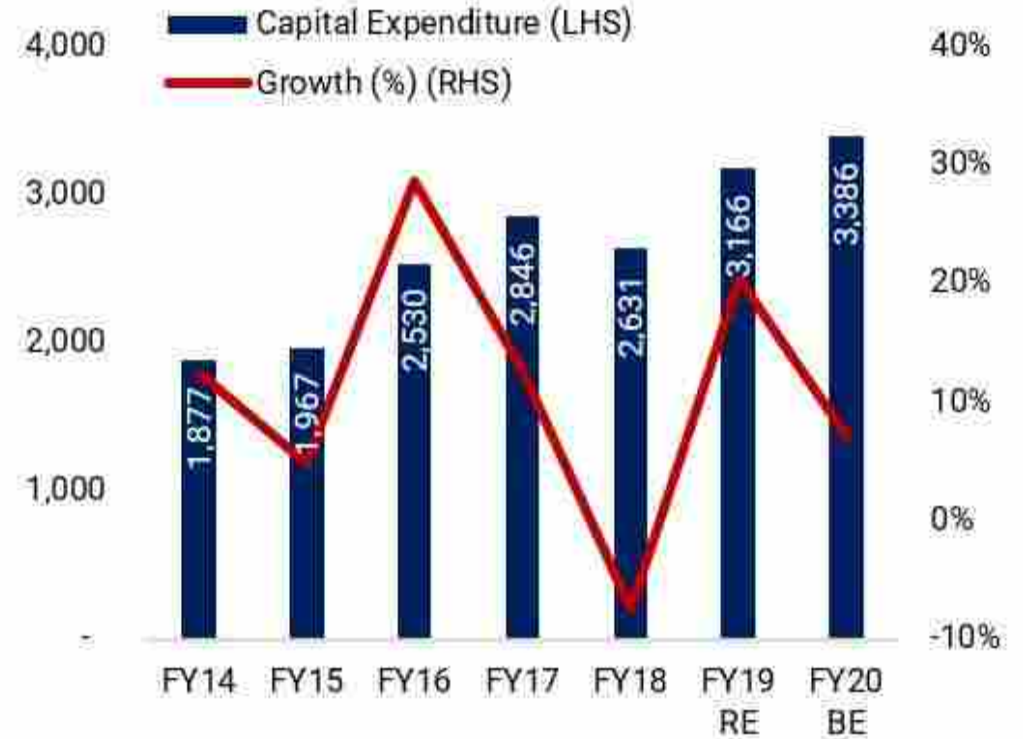
Budget 2019-20: GST and Capital Expenditure

GST Breakup (Rs bn)



Source: Annual Budget 2019-20

Capital Expenditure (Rs bn)

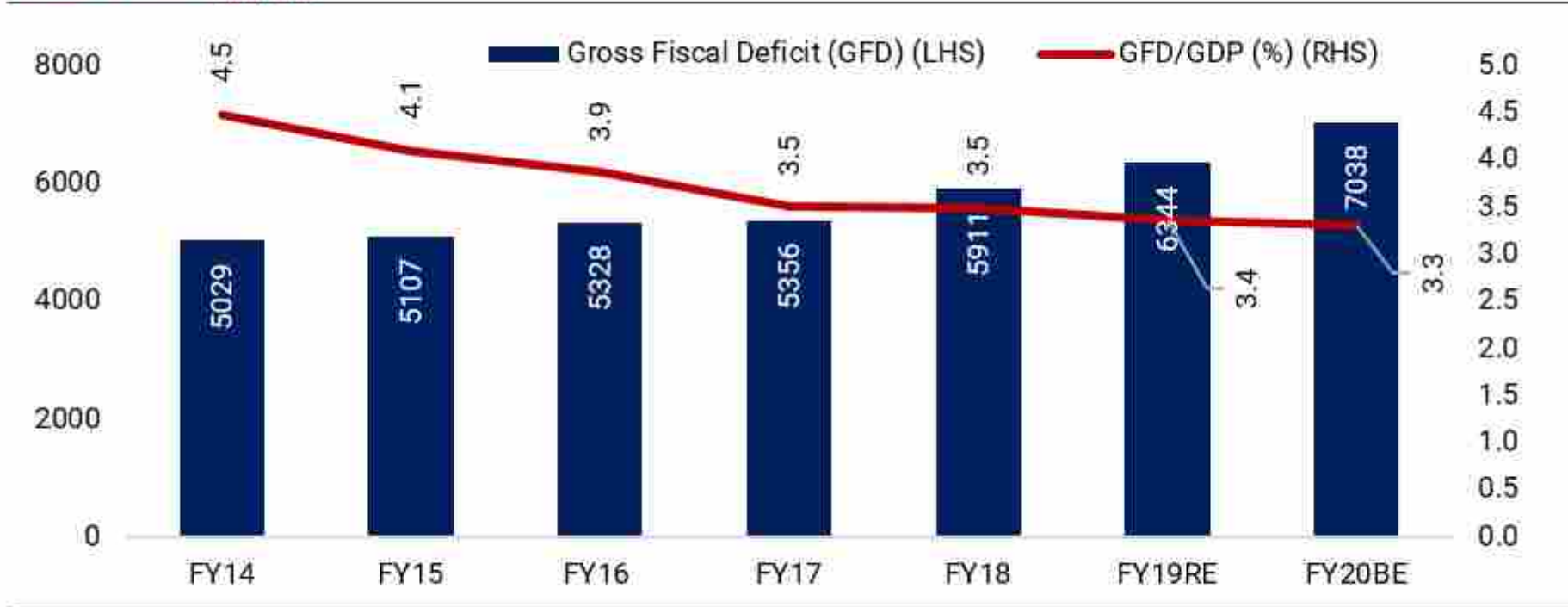


Source: Annual Budget 2019-20

Source: Kotak Securities

Budget 2019-20: Fiscal Deficit

Fiscal Deficit (Rs bn)



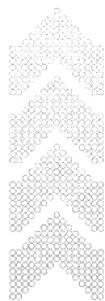
Source: Annual Budget 2019-20

Budget 2019-20: Sector Impact

Sector Impact

Sector	Proposal	Impact
Automobiles & components	1) Proposal to reduce GST on electric vehicles (EV) from 12% to 5%. 2) Interest rate subsidy on electric vehicles up to Rs0.15 mn to buyer of an EV. 3) Exemption from customs duty on parts for exclusive use in electric vehicles.	Positive. Reduction in cost of EV. Currently EV revenues are small part of few OEMs. So not likely to have meaningful impact in near term.
Banks and Fin Services	1) Recapitalisation of public sector banks by Rs70 bn through recapitalization bonds. 2) Regulatory amendments to increase RBI's control over NBFCs and HFCs. 3) Partial credit guarantee by government up to 10% for six months on high-rated loan pool of NBFCs sold to PSU banks	Positive for public sector banks. This will provide comfort to debt markets participants and other stakeholders. Will improve financial flexibility of NBFCs to some extent
Construction Materials	The government aims to construct 19.5 mn rural houses under the PMAY	Positive. The target appears ambitious, nonetheless, focus on rural housing should continue to support cement demand growth.
Consumer Durables	Increase in customs duty on Indoor and outdoor unit of split –system air conditioner to 20% from 10% earlier	This is negative as most of the AC companies import fully built indoor unit currently but positive for Contract Manufacturers as production can shift to India.
Consumer Staples	Basic custom duty of 7.5% on palm stearin and other oils (having 20% or more free fatty acid), Palm Fatty Acid Distillate (PFAD) and other industrial monocarboxylic fatty acids used in manufacture of soaps	Negative. It will result in some increase in production cost of soaps.

Source: Kotak Institutional Equities, Kotak Securities - Private Client Group



Budget 2019-20: Sector Impact

Sector Impact		
Sector	Proposal	Impact
Jewellery	Increase in custom duty on gold and silver to 12.5% from 10%.	Negative. Increase in duty may encourage smuggling. Further, increase in gold price could impact demand in the short term.
Electric utilities	Income tax exemptions for investments in PV manufacturing.	Positive. Likely to further bring down cost of development of PV panels, which will bring down renewable tariffs.
Oil, gas & consumable fuels	1) The government's proposal to include holding of the government controlled entities in its calculation of requisite promoter stake of 51% provides it significantly higher headroom for divestments in energy PSUs going forward. 2) Increase in excise duties on auto fuels.	Negative. Technical overhang on the stocks. Reduction in headroom on auto fuel margins for OMCs.
Infrastructure	Increase in central road and infrastructure cess by Rs1 per liter of diesel and petrol.	Positive. Cess accounts for 15% of the funding for NHAI and would support increase in related spending on roads construction.
Industrials	Proposal to reduce the cap on promoter shareholding in listed companies to 65% from 75%.	Neutral. Promoters of select MNCs owning 75% shareholding have to consider whether to delist the entities or to lower their shareholding.
Defence Companies	Capital outlay on defence hiked by 10%	Positive.
Media	Basic custom duty on newsprint increased to 10% from nil	Negative. Thus, introduction of custom duty could have some inflationary impact on domestic newsprint price (newsprint is 33% of print business revenue).
Metals and Mining	Increase in custom duty on silver to 12.5% from 10%.	Positive.

Source: Kotak Institutional Equities, Kotak Securities - Private Client Group



Budget 2019-20: Sector Impact

Sector Impact

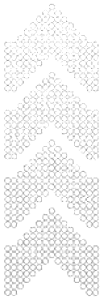
Sector	Proposal	Impact
Pharmaceuticals	Ayushman Bharat budget remains unchanged at Rs64 bn. No proposals for pharmaceuticals	Neutral. With Ayushman Bharat budget remaining unchanged, procedure prices are unlikely to see an upward revision
Real Estate	Increased deduction on income tax on interest payment on home loan from Rs 0.2mn to Rs0.35 mn for houses with value up to Rs4.5 mn	Positive. Lower interest cost. Positive for players in affordable housing
IT services	Imposition of tax at the rate of 20% on buyback of shares listed on recognized stock exchanges	Negative. All Tier 1 IT companies have payout ratios of 50-100%. They partly used buyback as more tax efficient form of payout. The change will increase tax liability on payout and make it difficult for companies to have structured buyback program
Telecommunication Services	Total receipts from communication services pegged at Rs505 bn, 29% yoy higher than Rs392 bn in FY2019. The increase reflects commencement of payment for spectrum auctioned in October 2016	Neutral. The government has not factored receipts from fresh spectrum auctions in the budget (despite giving some indications of the same)
Logistics	Creation of infrastructure at ports	Positive. Improvement in Trade and Commerce.
Miscellaneous	Increase in import duty on PVC from 7.5% to 10%. Reduction in import duty on EDC from 2% to nil	Positive. Positive for PVC pipe manufacturers.

Source: Kotak Institutional Equities, Kotak Securities - Private Client Group



Post Election: 7 Key Focus Areas to Boost Economy

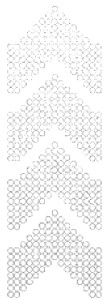
- **Infrastructure:** Rs.100 Trillion investment by 2024.
 - Roads, gas grids, metros, railways, ports, regional airports, coastal development,
- **Rural focus:** Doubling farmers income by 2022.
 - Govt. to spend Rs.25 Trillion in agri-sector to improve productivity. More than 50% rural population a/c for 18% of GDP.
- **Housing for every family by 2022:** Pushing for affordable housing. Encourage FDI through REITS.
- **Attract FDI in Manufacturing** to make India a global manufacturing hub.
 - Improve land & labour laws; Improve ease of doing business
- **BFSI reforms:** Fasten IBC resolution process, solve liquidity situation of NBFCs.
 - Increase financialization and convert savings into investments.
- **Privatisation** and Strategic divestment of PSUs. Reduce no. of PSU banks.
- **Simplify GST** system to enhance tax collection. Rationalise 6 rate structures.



Equities: Key Variables influencing Equity markets

Variables affecting Equities

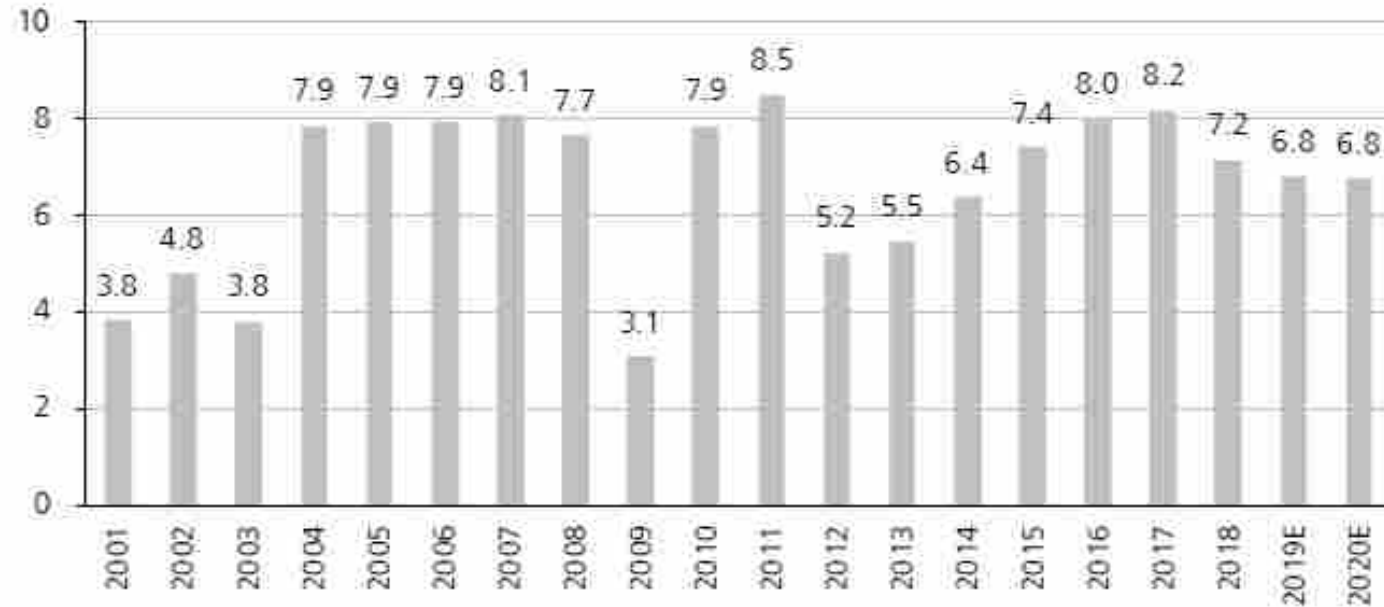
- Global Growth: *Trade war & global threat of slow down*
- Local Macros: *Have slowed down since start of FY20*
- Politics: *Strong mandate to push forward reforms*
- Crude Prices: *Above USD70/bbl harmful*
- Bond Yields: *Globally soft. Indian 10-Yr G-Sec to range between 6.75 & 7.25%*
- Flows: *Start of CY19 is positive. Future flows could also remain firm*
- Earnings: *To improve in FY20 on lower base (i.e.24% for Nifty-50)*
- Valuations: *Rich, leaving little room for re-rating in large caps*



Local Macro: GDP growth to slow down in FY20

- Expect FY20 GDP growth to be 6.8% / GVA growth expected to be at 6.6%
- Need structural measures to correct the slowdown

YoY growth in India's real GDP, March fiscal year-ends, 2001-2020E (%)



Notes:

(a) Data prior to FY2006 is based on old series.

Source: CEIC, Kotak Institutional Equities estimates

Source: Kotak Institutional Equities

Local Macros: Pockets of Slow down - Mfg to Consumption

High frequency data is signaling deepening slowdown

YoY (%)	Sep-19	Oct-19	Nov-19	Dec-19	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Cement Production	11.8	18.4	8.8	11.6	11	8	15.7	0.8	na
Air traffic	19	13.3	11	12.9	8.9	5.6	0.1	-4.4	3.3
CV sales	24.1	24.8	5.7	-7.8	2.2	-0.4	0.3	-6	-10
Passenger car	-5.6	1.6	-3.4	-0.4	-1.9	-1.1	-3	-17	-20.5

Source: Kotak Institutional Equities

India's quarterly real GVA growth, March fiscal year-ends (%)

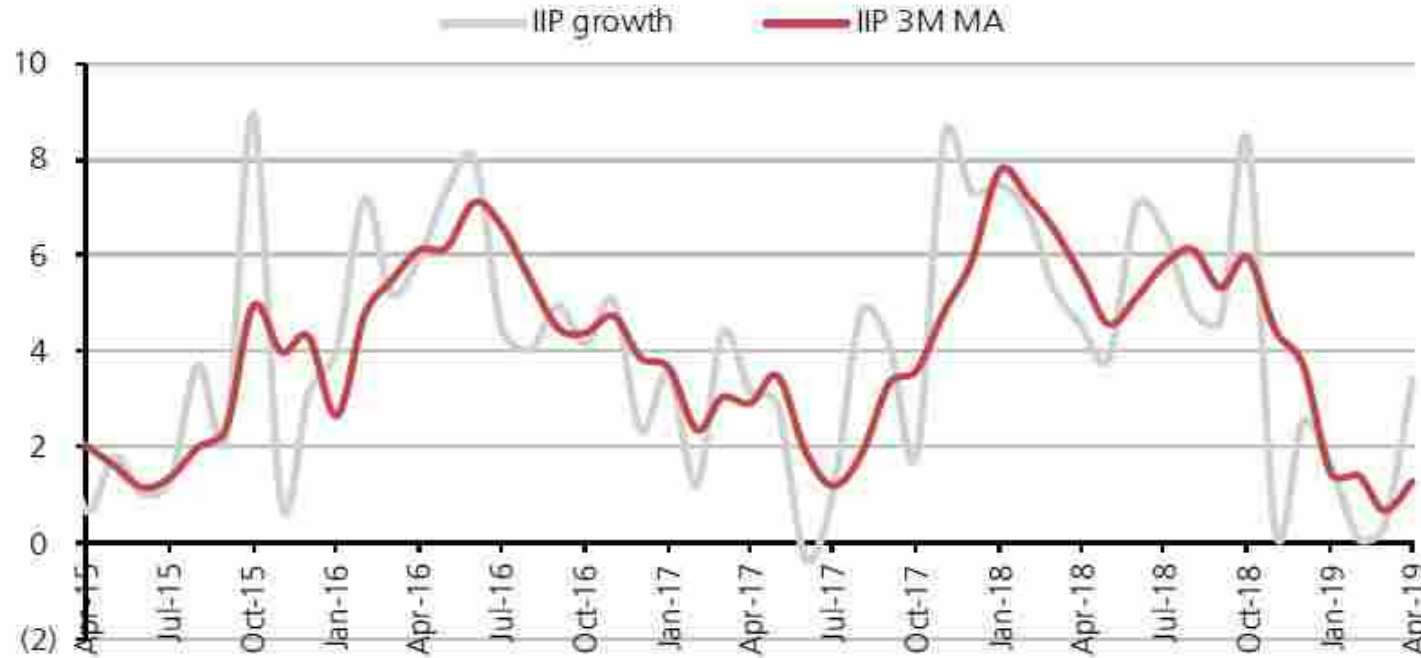
Sector	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Agriculture and allied	6.5	5.1	4.9	2.8	-0.1
Industry	8.1	9.8	6.7	7	4.2
Mining	3.8	0.4	-2.2	1.8	4.2
Manufacturing	9.5	12.1	6.9	6.4	3.1
Electricity	9.2	6.7	8.7	8.3	4.3
Construction	6.4	9.6	8.5	9.7	7.1
Services	8.2	7.1	7.3	7.2	8.4
Trade, hotel, transport, communication	6.4	7.8	6.9	6.9	6
Financial, real estate, professional services	5.5	6.5	7	7.2	9.5
Public admin, defence, and others	15.5	7.5	8.6	7.5	10.7
Real GVA (basic prices)	7.9	7.7	6.9	6.3	5.7

Source: Kotak Institutional Equities

Source: Kotak Institutional Equities

Local Macro: 3 MMA IIP growth (yoy basis) is quite low

YoY growth and 3-month YoY growth moving average in India's IIP (%)



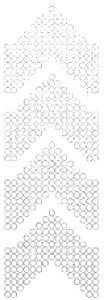
Source: CEIC, Kotak Institutional Equities

Source: Kotak Institutional Equities

FY19 Average IIP growth at 3.6%.

Apr'19 IIP growth came in at 3.4%

Given lower GDP growth forecast there is limited impetus to growth.



Local Macro: Expect WPI Inflation to avg ~3.6% in FY20

Exhibit 3: CPI inflation likely to remain around the RBI's comfort level of 4% in FY2020
Headline and core CPI inflation (%)



Source: CEIC, Kotak Economics Research estimates

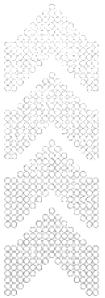
Source: Kotak Institutional Equities

May CPI Inflation at 3.05%

Expect average CPI inflation to be ~3.6% in FY20E.

RBI Comfort zone for CPI is ~4%.

Expect RBI to cut rates by 25 bps in August 2019.



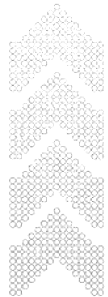
Bond Yields: Sharp fall across the globe

Regional Bond Yields

(%)	10 Yr Yld	52W High	52W Low
Americas			
United States	2.01	3.24	1.98
Canada	1.47	2.59	1.42
Brazil (USD)	4.63	6.30	4.56
Mexico (USD)	3.60	4.93	3.58
EMEA			
United Kingdom	0.82	1.73	0.79
France	0.00	0.90	-0.01
Germany	-0.32	0.57	-0.33
Italy	2.13	3.68	2.10
Spain	0.39	1.72	0.37
Asia/Pacific			
Japan	-0.16	0.15	-0.18
Australia	1.31	2.77	1.28
New Zealand	1.55	2.86	1.49
South Korea	1.59	-	-
China	3.23	3.67	3.05
India	6.88	8.18	6.79

Source: Bloomberg

Source: Kotak Securities



Flows: FIIs inflows of ~Rs.75,000 cr in CY19 YTD

Net investments by FIIs, DIIs and MFs in the cash market (US\$ mn)

	FIIs-cash	FII-debt	DIIs	MFs
CY2000	1,469	NA	NA	(147)
CY2001	2,741	NA	NA	(1,063)
CY2002	738	NA	NA	(619)
CY2003	6,702	1,008	NA	110
CY2004	8,627	692	NA	(257)
CY2005	10,901	(1,236)	NA	3,034
CY2006	8,338	883	NA	3,379
CY2007	18,518	2,425	6,039	1,390
CY2008	(12,918)	2,705	16,639	3,253
CY2009	17,639	1,160	5,325	(1,154)
CY2010	29,321	10,050	(4,754)	(5,939)
CY2011	(512)	8,546	5,943	1,295
CY2012	24,548	6,862	(10,854)	(3,805)
CY2013	19,986	(8,031)	(12,942)	(3,780)
CY2014	16,162	26,252	(5,090)	3,901
CY2015	3,274	7,560	10,315	10,872
CY2016	2,903	(6,459)	5,425	6,976
CY2017	8,014	22,970	14,043	18,322
CY2018	(4,557)	(6,745)	15,896	17,365
CY2019	10,803	1,583	(1,054)	1,192
Jan	(75)	(367)	304	1,013
Feb	2,153	(1,301)	(86)	302
Mar	6,149	2,937	(2,011)	(1,066)
Apr	1,541	(1,570)	(601)	(656)
May	1,423	537	753	735
Jun	149	1,193	523	896
Jul	(536)	154	63	(32)

Notes:

(a) DIIs - Domestic Institutional Investors (Includes Bank, DFIs, Insurance, New Pension Scheme and MF)

Source: Bloomberg, Kotak Institutional Equities

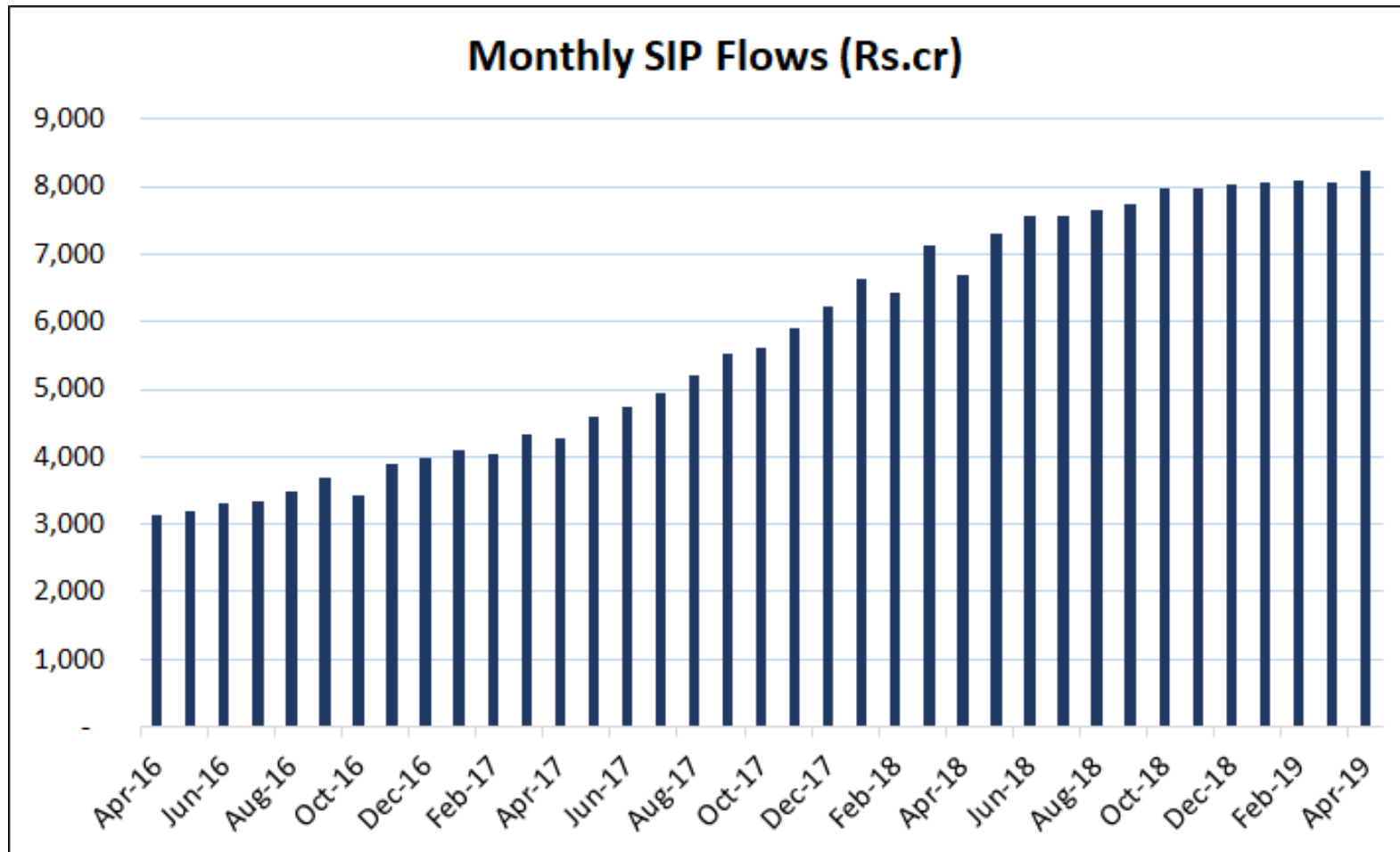
FPI flows in the cash markets for the various countries (US\$ mn)

Year	India	Indonesia	Philippines	S.Korea	Taiwan	Thailand
2000	1,469	96	(122)	11,506	7,094	(857)
2001	2,741	435	87	6,799	9,742	(143)
2002	738	873	(50)	(2,068)	1,127	282
2003	6,702	1,168	(80)	12,446	16,585	(632)
2004	8,627	2,126	277	10,168	7,666	104
2005	10,901	(1,732)	354	(3,547)	23,971	2,949
2006	8,338	1,942	721	(12,642)	17,240	2,068
2007	18,518	3,600	1,357	(29,270)	2,205	1,548
2008	(12,918)	1,753	(1,138)	(36,641)	(15,484)	(4,792)
2009	17,639	1,384	424	24,682	15,680	1,136
2010	29,321	2,396	1,225	19,823	9,593	2,689
2011	(512)	2,956	1,331	(8,542)	(9,066)	(164)
2012	24,548	1,712	2,558	15,084	4,913	2,503
2013	19,986	(1,806)	678	4,875	9,188	(6,210)
2014	16,162	3,766	1,256	5,684	13,190	(1,091)
2015	3,274	(1,580)	(1,194)	(3,626)	3,345	(4,372)
2016	2,903	1,259	83	10,480	10,956	2,240
2017	8,014	(2,960)	1,095	8,267	6,114	(796)
2018	(4,557)	(3,656)	(1,080)	(5,676)	(12,182)	(8,913)
2019	10,803	4,926	401	4,599	3,291	1,600
Jan	(75)	964	356	3,658	1,818	214
Feb	2,153	(237)	178	615	2,471	(106)
Mar	6,149	118	88	262	24	(516)
Apr	1,541	3,740	194	2,252	1,676	107
May	1,423	(514)	(270)	(2,548)	(3,726)	114
Jun	149	776	(139)	287	1,091	1,505
Jul	(536)	80	(6)	73	(63)	282

Source: Bloomberg, Kotak Institutional Equities

* Till week ended 5th Jul'19; Source: Kotak Securities

Flows: SIP inflows remain healthy (>Rs.8000 cr/month)



MF Industry collected Rs.92,693 cr through SIPs in FY19

As per AMFI data there were 2.62 cr SIP accounts at the end of FY19

MF Industry added ~9.13 lac SIP accounts every month in FY19

Average ticket size of per SIP account was Rs.3070 in FY19.

Source: AMFI, Bloomberg, Kotak Securities

Earnings: Nifty Earnings growth (i.e. 24% in FY20E & 16% in FY21E)

Valuation summary of Nifty-50 sectors, March fiscal year-ends, 2019-21E (based on current constituents)

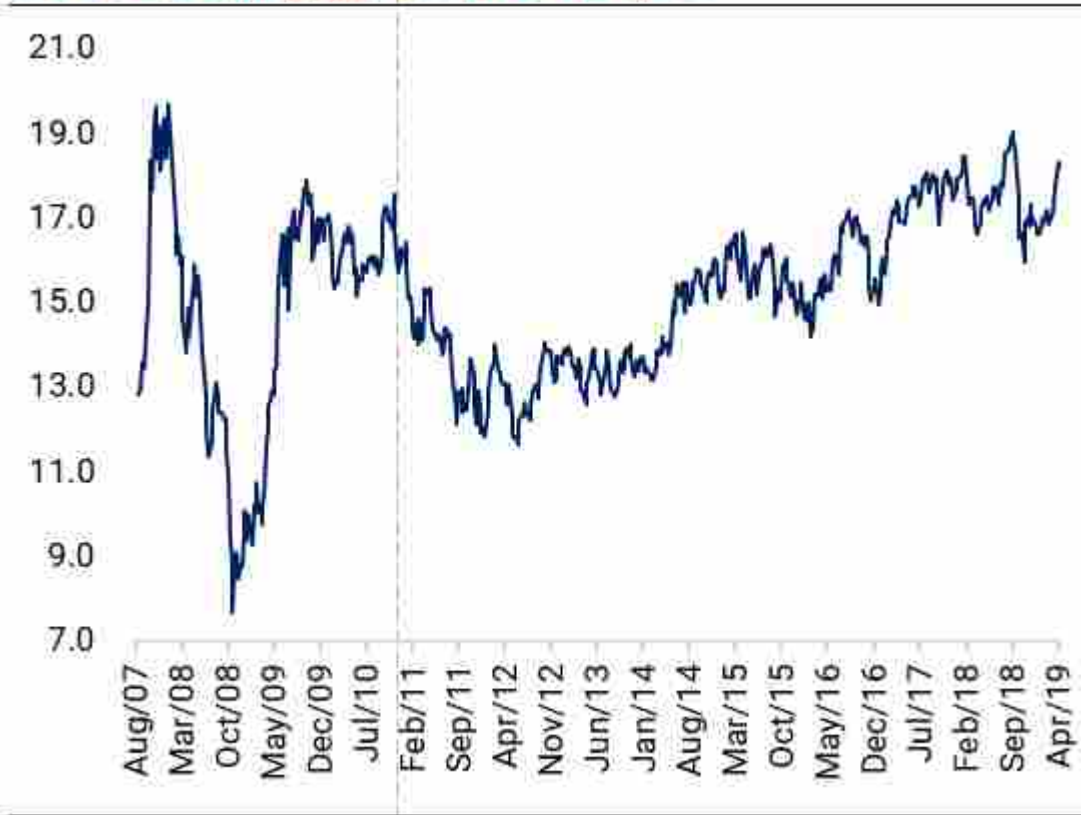
	Mcap. (US\$ bn)	Adj. mcap. (US\$ bn)	EPS growth (%)			Free-float PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)			RoE (%)		
			2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
Automobiles & Components	78	42	(24)	39	19	25	17.1	14.4	9.3	7.5	6.4	3.0	2.7	2.4	1.2	1.2	1.3	11.9	14.8	15.5
Banks	260	192	32	141	31	41	19.2	14.9	—	—	—	2.8	2.5	2.1	0.3	0.6	0.7	6.6	13.7	15.3
Capital Goods	30	26	19	11	9	24	21.7	19.9	20	18	16	3.7	3.4	3.0	1.2	1.6	1.7	15.5	15.5	15.3
Commodity Chemicals	19	9	10	20	20	61	50.8	42.2	37	31	25	13.8	12.4	11.1	0.8	1.0	1.2	22.7	24.4	26.3
Construction Materials	27	12	28	23	19	22	18.5	16.0	11.5	10.0	8.8	2.1	2.0	1.8	0.4	0.4	0.4	8.1	9.2	9.9
Consumer Staples	114	58	15	12	13	36	32.5	28.9	28	24	21	11.5	10.6	9.7	1.5	1.7	2.0	28.1	28.9	30.0
Diversified Financials	103	72	5	20	21	33	28.5	24.2	—	—	—	5.3	4.7	4.1	0.8	0.9	1.1	15.3	16.2	17.2
Electric Utilities	32	14	9	15	13	11	9.6	8.5	8.4	7.6	6.8	1.3	1.2	1.1	2.8	3.3	3.7	12.0	12.7	13.1
Fertilizers & Agricultural Chemicals	7	5	(13)	52	15	27	17.9	15.6	16.9	10.4	8.8	3.5	3.2	2.8	0.8	1.3	1.8	13.0	17.7	17.8
Gas Utilities	11	4	40	14	6	12	10.4	9.8	7.6	6.6	6.2	1.7	1.6	1.5	3.3	3.4	3.7	14.7	15.3	14.8
IT Services	206	89	16	9	10	20	18.5	16.8	15	13.1	11.8	5.3	5.1	4.6	1.9	2.8	3.0	25.6	26.8	26.5
Media	5	3	15	15	12	21	18.2	16.2	12	11	9	4.0	3.5	3.1	1.2	1.5	1.9	19.2	19.5	19.3
Metals & Mining	32	17	11	(12)	11	7	8.0	7.2	5.2	5.4	5.2	1.0	0.9	0.9	4.2	4.4	4.4	13.8	11.4	11.7
Oil, Gas & Consumable Fuels	198	84	20	4	7	15	13.9	12.6	7.1	6.7	6.0	1.7	1.6	1.5	2.7	2.8	2.8	13.8	13.2	13.1
Pharmaceuticals	27	15	27	26	23	25	19.7	16.1	13	10.4	8.2	2.7	2.4	2.1	0.7	1.0	1.2	10.9	12.2	13.3
Retailing	15	7	32	28	22	73	56.6	46.3	50	39	31	17.8	14.7	12.2	0.4	0.5	0.6	24.5	26.0	26.3
Telecommunication Services	28	10	NM	NM	127	NM	NM	134.6	9.9	9.0	7.6	2.5	2.8	3.0	2.7	2.2	2.3	(2.0)	(2.9)	0.8
Transportation	12	5	16	7	27	19	17.8	14.0	14	12.2	10.8	3.5	3.0	2.5	0.3	0.4	0.4	18.3	16.8	17.9
Nifty-50 Index	1,206	664	12.3	24	16.5	24	18.9	16.0	10.3	9.3	8.3	2.9	2.7	2.4	1.5	1.8	1.9	13.0	14.7	15.4
Nifty-50 Index (ex-energy)	1,008	473	9.2	33	19.4	27	19.9	16.7	11.9	10.7	9.5	3.4	3.1	2.7	1.3	1.6	1.8	12.7	15.3	16.3

Source: Bloomberg, Kotak Institutional Equities estimates

Source: Kotak Institutional Equities

Valuation: At 19.2x FY20E Nifty looks unattractive in historical context

One Year Rolling Fw PE chart of Nifty-50



Source: Bloomberg

Source: Kotak Securities

Nifty is trading at 19.2x FY20E (assuming 24% earnings growth) & at 16.3x FY21E (assuming 16% earnings growth).

Valuations on high side considering historic levels.

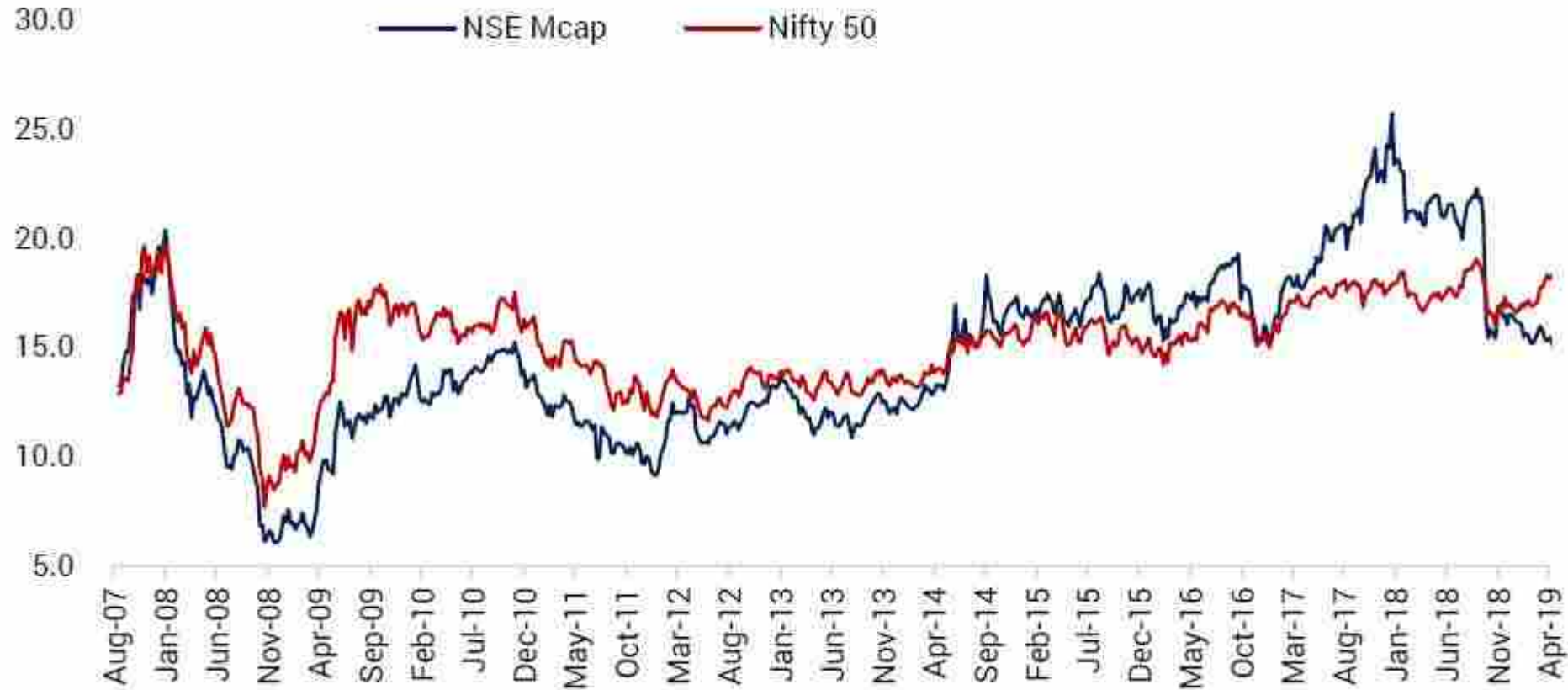
If we remove earnings from BFSI then FY20E growth comes down to 11-12%.

Valuations of Consumption stocks super-expensive whereas commodity & PSU very inexpensive.

1 Yr Fw PE chart: Nifty Vs Mid Cap

The Mid Cap Index trades at Fw PE of 14.3x Vs 18.2x of Nifty-50

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



Source: Bloomberg

Source: Bloomberg, Kotak Securities

Valuations: Mid Cap Index trades at 21% discount to Nifty-50 on Fw PE



Source: Bloomberg, Kotak Securities

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- 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
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FUNDAMENTAL RESEARCH TEAM

Rusmik Oza

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

Sanjeev Zarbade

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

Teena Virmani

Construction, Cement, Buildg Mat
teena.virmani@kotak.com
+91 22 6218 6432

Arun Agarwal

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

Ruchir Khare

Cap. Goods & Cons. Durables
ruchir.khare@kotak.com
+91 22 6218 6431

Sumit Pokharna

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

Amit Agarwal

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

Jatin Damania

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

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

Deval Shah

Research Associate
deval.shah@kotak.com
+91 22 6218 6425

K. Kathirvelu

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

TECHNICAL RESEARCH TEAM

Shrikant Chouhan

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

Amol Athawale

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

Faisal Shaikh, FRM, CFTE

faisalf.shaikh@kotak.com
+91 22 62185499

Siddhesh Jain

siddhesh.jain@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM

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

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