Market Commentary June 2024

Broad Market Indices - Returns (%)	1M	3M	1 Yr	3 Yr	5 Yr
Nifty 50	6.77	8.13	26.66	16.54	16.68
Nifty Next 50	5.99	18.13	64.57	23.96	22.28
Nifty 500	7.05	11.79	38.67	19.99	19.78
Nifty Midcap 150	7.98	17.39	56.44	27.95	27.93
Nifty Smallcap 250	9.56	19.51	63.37	27.56	28.41
Nifty Microcap 250	11.58	21.57	76.10	35.74	37.04
Nifty Total Market	7.20	12.10	39.70	20.43	20.18

- Post the first 2 days of the month of June, when the Lok Sabha Election Results came out, the frontline indices kept on touching new highs on almost all days of the month.
- The action however was in the Smallcap 250 & Microcap 250, where these indices moved up 9.56% & 11.58% respectively against Nifty 50 which moved up 6.77% during the month

Sectoral Indices - Returns (%)	1M	3M	1 Yr	3 Yr	5 Yr
Nifty Auto	7.81	17.88	67.93	34.82	27.54
Nifty Bank	6.95	11.78	18.01	15.53	11.61
Nifty Financial Services	7.91	12.30	17.89	13.52	12.37
Nifty FMCG	5.69	6.14	10.69	18.34	15.93
Nifty IT	11.72	4.58	24.93	9.65	20.25
Nifty Media	6.52	11.00	14.69	4.19	0.35
Nifty Metal	0.95	18.88	58.68	25.31	28.97
Nifty Pharma	4.98	3.90	44.44	12.16	20.56
Nifty Private Bank	7.78	11.22	14.66	13.31	9.21
Nifty PSU Bank	-0.13	5.88	80.51	44.84	19.07
Nifty Realty	8.38	22.69	113.22	48.03	31.69
Nifty Consumer Durables	9.33	18.83	42.18	19.20	18.96
Nifty Oil & Gas	5.15	6.85	63.46	23.54	21.63
Nifty Healthcare Index	6.64	4.30	41.68	13.46	22.79

All sectors did well during the month except PSU Banks (-0.13%) & Metals (0.95%).

IT (+11.75%) Consumer Durables (+9.33%) & Realty (+8.38%) led the rally with strong outperformance.

The 5 Year CAGR return for Realty looks the best and this is one sector which seems to be coming out of its pre covid decadal slowdown.

Key estimates summary

	2024	2025E	2026E
Nifty estimates			
Earnings growth (%)	20.0	9.9	14.1
Nifty EPS (Rs)	989	1,093	1,249
Nifty P/E (X)	23.8	21.6	18.9
Macro data			
Real GDP (%)	8.2	6.9	6.5
Avg CPI inflation (%)	5.4	4.4	4.2

Source: Company data, Kotak Institutional Equities estimates

Market momentum seems to be in line with earnings growth.

Valuations at a broad level do not seem to be stretched, although one can say they are a little above fair value.

While some section of the market may be discounting 2026E earnings and therefore justifying the same, the strong tailwinds of domestic liquidity may see markets starting to discount & justify 2027E soon.

What is on the minds of market players at the moment

- Valuations are stretched & also frothy in a lot of segments, especially in the mid & small cap space
- Should one book profits now ?
- What about deploying fresh cash ?
- Will there be a correction and if at all, will it be deep enough ?
- What can cause a correction ?

SEBI had introduced a number of measures in March 2024, to curb excessive speculation in Indian equities

Exhibit 11: Key measures announced by SEBI to curb speculation in equities, calendar year-end, 2024

Measure
Warned AMFI of froth in mid-and-small cap. stocks and nudging it to moderate flows
Asked mutual funds to periodically undertake stress tests, to determine the liquidity of MF portfolio
Directed brokers to gradually raise upfront margin collection from clients to 100%
Introduced additional surveillance mechanism and graded surveillance mechanism
Reduced timeline for listing of IPO from T+6 to T+3

Source: SEBI, Media articles, Kotak Institutional Equities

- In June, SEBI constituted a working group chaired by G Padmanabhan, former executive director of the Reserve Bank of India, to suggest measures to enhance investor protection and risk management in the derivatives segment.
- This comes, after a study revealed that retail participation in the F&O segment rose multi-fold in the post Covid-19 era.
- The study also highlighted that nearly 90 per cent of the F&O trades incur net losses. The average loss of retail traders in F&O amounted to Rs 1.1 lakh in the fiscal year ended March 2022.
- The Sebi appointed panel is scheduled to meet on July 15 to take broad suggestions from various market participants.
- The proposed changes could lead to an overhaul of the current offerings and framework.
- While there is already a buzz around what could be the possible changes – 5X increase in F&O margins, increasing settlement days for equity derivatives from T+1 to T+5 etc., the actual changes if any & impact on the markets will be known in coming days as and when they are implemented.
- **We view this as a positive step towards the right direction & will benefit serious investors in the long term**.

Any negativity arising out of this is likely to be discounted by the markets quickly and volatility due to any event related to this is likely to be very short term.

India VIX is comfortably placed at 14.43 as of now

One strong theme which is playing out is Real Estate & Ancillary sectors related to Real Estate. However, the buoyancy that one has seen in this segment in the last 3 years has been in the premium segment in line with the overall premiumisation theme which is playing out across most sectors in the country.

Real Estate – Pan – India Overview

Q1 2024 : Total Absorption out-weights new supply by 38%

Key Market Indicators- Tier 1 Cities

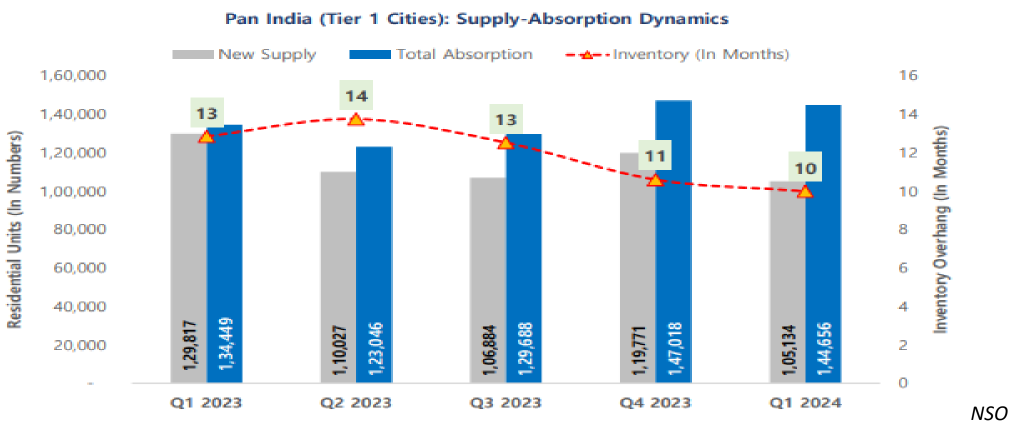
Indicators	Q1 2023	Q4 2023	Q1 2024	Q-o-Q	Y-o-Y
New Supply	1,29,817	1,19,771	1,05,134	-12%	-19%
Total Absorption	1,34,449	1,47,018	1,44,656	-2%	8%
Unsold Stock	5,75,405	5,18,868	4,81,566	-7%	-16%

Q-o-Q : Q1 2024 (January - March 2024) Vs Q4 2023 (October - December 2023);
Y-o-Y : Q1 2024 (January - March 2024) Vs Q1 2023 (January - March 2023)

Source : PropEquity Research Report

In Tier-1 cities, there is a decline in new supply in Q1 2024 by 19% compared to the same period last year. The total absorption has surpassed new supply by a significant 38%, resulting in a decline of unsold stock by 16% in Q1 2024 as compared to the same time last year, i.e., Q1 2023.

Top Tier-I cities Real Estate Dynamics



NSO

Source : PropEquity Research Report

The total absorption across Tier-1 cities had seen an 8% Y-o-Y rise when compared to the same period last year. The inventory overhang had been reduced to 10 months when compared to last quarter, and hence the pricing is also on a constant uptrend owing to limited inventory and high demand.

A Kotak Institutional Equities Report highlights 4 key areas which leads to big market corrections

1. Macroeconomic challenges (inflation spike, BoP crisis); the most obvious ones are the Asian currency crisis in 1995-96 and taper tantrum in EMs in 2013,
2. Leverage issues with banks, companies, government, households; the most obvious ones are the US household mortgage crisis of 2007-08 and the Euro crisis of 2010-11,
3. Political or social instability; recurring bouts in many EMs
4. Natural or man-made disasters such as pandemic, war, etc.; the Covid-19 pandemic was the latest one.

While the last is impossible to forecast the first three situations are favourable for India at the moment. The biggest risk is unknown but potential risks for the markets could stem from any of the following

- Major change in govt policies or priorities
- Increased supply of stocks in capital market through govt stake sale of PSU or any other large ticket IPO ex: Reliance Retail
- Earnings disappointment

Going forward money managers who have better insights of business models and sustainable growth along with a penchant to identify businesses which are at an inflexion point of growth & scalability, are likely to generate alpha over benchmark. We believe portfolios returns going forward, will be a function of this aspect rather than one who is riding a broad-based market rally.

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