

India

India Strategy

InCred Sector rating

Overweight	Neutral	Underweight
Aluminium	Automobile	Agribusiness
Cement	Auto Ancillary	Aviation
Capital Goods	Consumer staples	Building Materials
Consumer Electricals	Infrastructure	Chemicals
Electronic Manf services	Information Technology	Metals & Mining
Financial Services		Ports & Logistics
Oil and Gas		
Pharmaceuticals		

Earnings and index target cuts prevail

- Policy actions by Gol & RBI provide hope of a consumption-led economic recovery in FY26F, while global policies & currency movements pose risk.
- Bloomberg consensus EPS cut accelerated in recent weeks, with Nifty-200 taking a major brunt, as 3Q growth was capped at 8% for Nifty-50 EPS.
- India is witnessing major FII selling (Fig. 57) among peer nations and so we remain cautious, preferring large-caps and value investing vs. growth stocks.

Gol actions provide hope of recovery in economic activity

The high-frequency data points continue to indicate urban slowdown, with the recent one being a sharp yoy dip in new home sales in the Dec 2024 quarter. Union budget announcement of personal income-tax rate cut worth Rs1tr for FY26F provides hope of a revival in urban personal consumption. Easing inflation provides headroom to RBI to continue its repo rate cut momentum in FY26F & aid consumption revival.

Consensus EPS cut trend prevails- likely to bottom out ~1HFY26F

For the Dec 2024 quarter, Nifty-50 companies posted PAT growth of 7.5% yoy & 5% qoq, driven by a 7% yoy sales growth. The EBITDA growth, ex-BFSI sector, was 7.9% yoy, driven by retail, telecom, healthcare, oil & gas and capital goods sectors. The yoy EBITDA dip continued for cement, chemicals & metals. The downgrade in FY25F-26F Bloomberg EPS estimates in the recent results season, to the extent of 2-3%, continued, where the broader index, Nifty-200, took a major brunt. Only the consumer discretionary sector recorded EPS upgrade, while the rest witnessed a cut. The EPS cut may bottom out around the Sep 2025F quarter.

Real earnings yield improvement likely to support large-caps

The sustained correction from the mid-Sep 2024 peak eased Nifty-50 Index's valuation to below the 10-year mean level of 20x one-year forward P/E & inch towards -1SD. Interestingly, real earnings yield improved to the positive territory (Fig. 51), for the first time since the Covid-19 pandemic, thus limiting the downside. However, the acceleration of consensus EPS cuts of late raises credibility of early-teen growth projections for FY26F-27F. Value-based themes to prevail, where we prefer high dividend yield stocks (Fig. 62).

Index consolidation prevails; select stock upgrades coming through

With local and global macro challenges in the short term, we cut FY26F bull-case probability to 5% (from 10% earlier) and raise bear-case probability to 45% (from 40%). Building in Nifty-50 Bloomberg consensus EPS cut, we have reduced our blended Nifty-50 target marginally to 22,850, an upside of 2%, by the end of Mar 2026F. In a bear-case scenario, we maintain an 8% downside from current levels. We continue to prefer large-cap stocks, where we have introduced Adani Ports and Special Economic Zone, Bajaj Auto, Marico, and Shriram Finance into our high-conviction list, along with Ethos in the mid-cap space. Making use of improved valuations, we have upgraded stocks in the 5:1 ratio in recent weeks. Key risks: Wild currency movements driven by international policy actions & the outlook on monsoons.

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Figure 1: Nifty-50 quarterly beat/miss to Bloomberg consensus trend

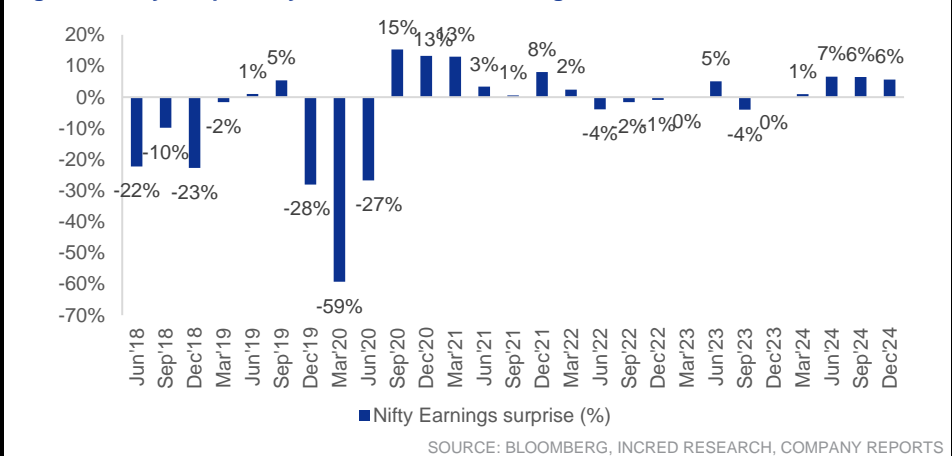


Figure 2: Our high-conviction stock ideas

Company	BLOOMBERG TICKER	Reco.	Market Capital	Market Capital	CMP	Target Price	Up/down	EPS		2-yr EPS CAGR (FY24A-FY26F)	P/E (x)		P/BV (x)		EV/EBITDA	Dividend Yield (%)	RoE %
								(Rsbn)	(US\$bn)		(Rs)	(Rs)	(%)	FY25F			
Adani Ports & Special Economic Zone	ADSEZ IN	ADD	2,314	27.7	1,112	1,500	35%	45.9	60.8	23.8%	23.5	18.3	3.9	3.3	15.2	0.6%	21.1
Bajaj Auto	BJAUT IN	ADD	2,323	27.8	8,630	10,590	23%	303.9	362.8	16.4%	28.4	23.8	8.7	7.7	21.1	2.3%	32.2
Bajaj Finance	BAF IN	ADD	5,018	60.1	8,399	9,750	16%	271.7	361.4	24.4%	30.9	23.2	5.7	4.8	5.7	0.6%	20.1
Bharat Forge	BHFC IN	ADD	498	6.0	1,081	1,407	30%	24.7	31.9	27.3%	47.9	33.8	4.3	3.8	17.6	1.0%	12.8
Cipla	CIPLA IN	ADD	1,152	13.8	1,480	1,640	11%	61.7	66.4	11.9%	24.0	22.3	3.8	3.3	15.5	0.4%	17.2
Clean Science and Technology	CLEAN IN	REDUCE	134	1.6	1,310	683	-48%	24.3	27.1	8.6%	54.0	48.4	9.5	8.0	34.8	0.0%	19.4
Container Corporation of India	CCRI IN	ADD	406	4.9	691	1,133	64%	22.1	28.0	16.8%	31.3	24.6	3.2	2.9	18.4	0.0%	10.8
Cyient DLM	CYIENTDL IN	ADD	32	0.4	424	818	93%	9.3	15.7	42.6%	51.5	27.0	3.4	3.0	23.7	0.0%	12.4
Deepak Fertilisers & Petrochemicals Corp.	DFPC IN	ADD	130	1.6	1,065	2,051	93%	80.2	92.6	59.9%	13.3	11.5	2.2	1.9	8.9	0.0%	17.5
Ethos	ETHOSLTD IN	ADD	61	0.7	2,582	3,400	32%	37.4	49.4	20.5%	68.9	52.3	6.5	5.8	31.1	0.0%	13.4
Globus Spirits	GBSL IN	ADD	24	0.3	865	1,584	83%	44.6	105.6	77.5%	19.4	8.2	2.3	1.8	10.1	0.2%	12.4
HDFC Bank	HDFCB IN	ADD	12,438	148.9	1,687	2,150	27%	88.7	104.0	14.0%	19.0	16.2	2.6	2.4	2.6	1.5%	14.5
Hero MotoCorp	HMCL IN	ADD	753	9.0	3,909	5,525	41%	236.9	270.2	17.7%	16.5	14.5	4.0	3.7	10.8	4.1%	25.2
InterGlobe Aviation	INDIGO IN	REDUCE	1,676	20.1	4,501	3,030	-33%	121.1	83.0	-30.7%	29.0	54.3	22.0	15.6	12.8	0.0%	100.0
Lupin	LPC IN	ADD	870	10.4	1,978	2,329	18%	73.2	87.3	56.1%	27.0	22.6	5.2	4.3	16.9	0.4%	21.1
Marico	MRCO IN	ADD	801	9.6	642	750	17%	12.0	13.5	14.2%	53.6	47.4	16.5	14.6	37.9	1.1%	34.9
Maruti Suzuki	MSIL IN	ADD	3,769	45.1	12,441	14,261	15%	482.4	543.3	13.5%	27.3	22.9	3.7	3.3	17.1	1.3%	16.0
Petronet LNG	PLNG IN	ADD	444	5.3	307	519	69%	28.8	40.5	36.6%	10.7	7.6	2.5	2.0	7.9	3.6%	24.1
Pidilite Industries	PIDI IN	ADD	1,383	16.6	2,822	3,470	23%	42.3	50.6	20.2%	66.7	55.7	14.8	12.8	44.5	0.6%	23.8
SBI Cards	SBICARD IN	REDUCE	779	9.3	850	550	-35%	20.1	25.0	-0.7%	42.3	34.0	5.9	5.1	5.9	0.4%	14.8
Skipper	SKIPPER IN	ADD	43	0.5	419	695	66%	15.5	19.2	57.1%	27.1	21.9	4.2	3.5	10.8	0.1%	16.7
Shriram Finance	SHFL IN	ADD	1,053	12.6	581	800	38%	214.7	263.0	17.2%	2.7	2.2	0.4	0.3	0.4	2.6%	15.2
State Bank of India	SBIN IN	ADD	6,276	75.1	730	1,000	37%	77.9	88.5	9.1%	9.4	8.2	1.5	1.3	1.5	2.7%	17.2
Tata Steel	TATA IN	REDUCE	1,661	19.9	138	82	-41%	5.4	5.4	-0.7%	25.4	25.5	1.5	1.5	9.1	1.4%	6.1
TCPL Packaging	TCPL IN	ADD	36	0.4	4,141	4,380	6%	139.3	160.2	19.9%	29.7	25.8	6.0	5.1	14.8	0.7%	22.0
Tata Consultancy Services	TCS IN	ADD	13,178	157.8	3,779	4,915	30%	141.8	158.0	10.9%	26.6	23.9	13.9	12.8	18.7	3.2%	54.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

NOTE: PRICES AS ON 21 FEB 2025

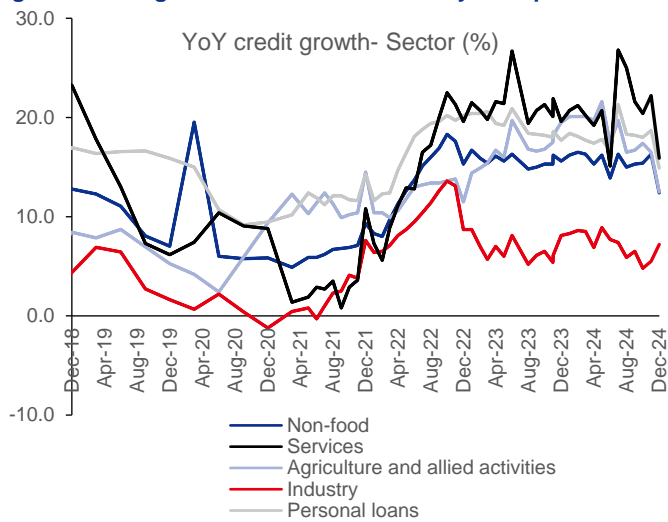
Earnings and index target cuts prevail

Policy action provides hope of FY26F economic recovery ►

The domestic economic activity slowdown indicated by high-frequency data seems to have captured the government's attention, which it tried to address by policy action in the early Feb Union budget. The urban consumption slowdown, as seen in the RBI consumer sentiment survey, car and home sales weakness, is planned to be addressed by the income-tax relief provided in FY26. The improvement in government capex in recent months provides hope, but flattish budget allocations made to many ministries in FY26 limits the upside.

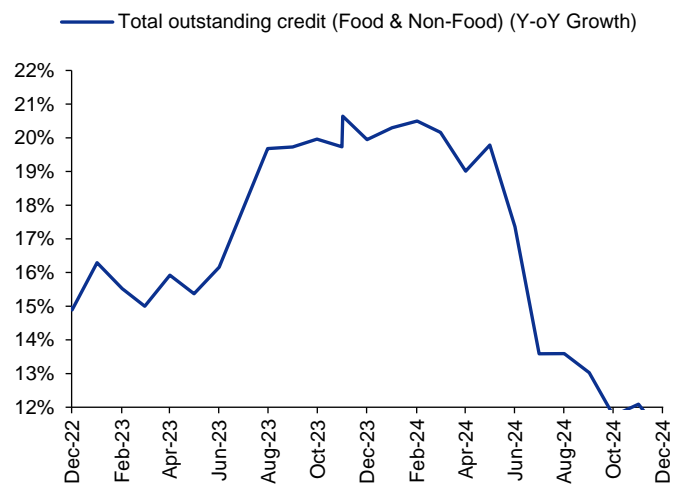
While the Government of India or GoI's policy actions seems to have improved both domestically and internationally in recent weeks, their translation into improved economic activity and GDP growth trend may take a few quarters. Considering the increased reliance on rural markets for growth in recent quarters, the monsoon rainfall outlook in Jun 2025F is a key thing to monitor.

Figure 3: Loan growth weakens from its May 2024 peak level



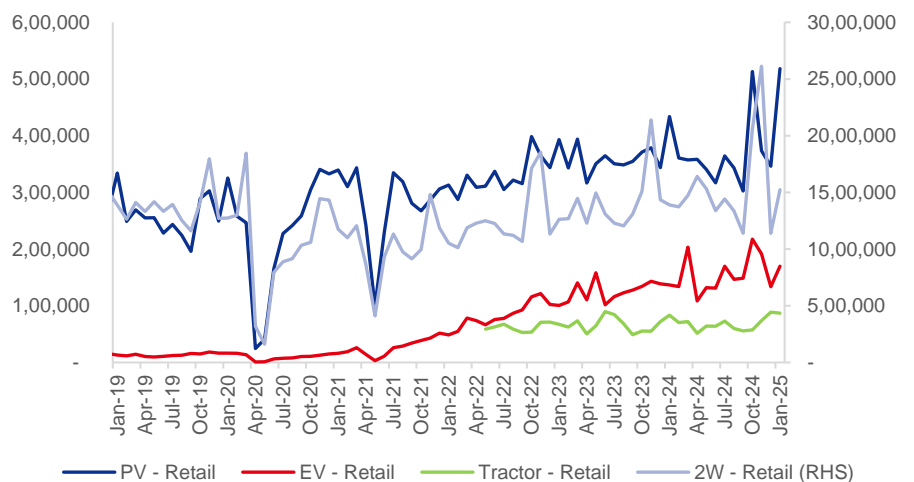
SOURCE: RBI, INCRED RESEARCH

Figure 4: Credit growth eases to early-teen levels

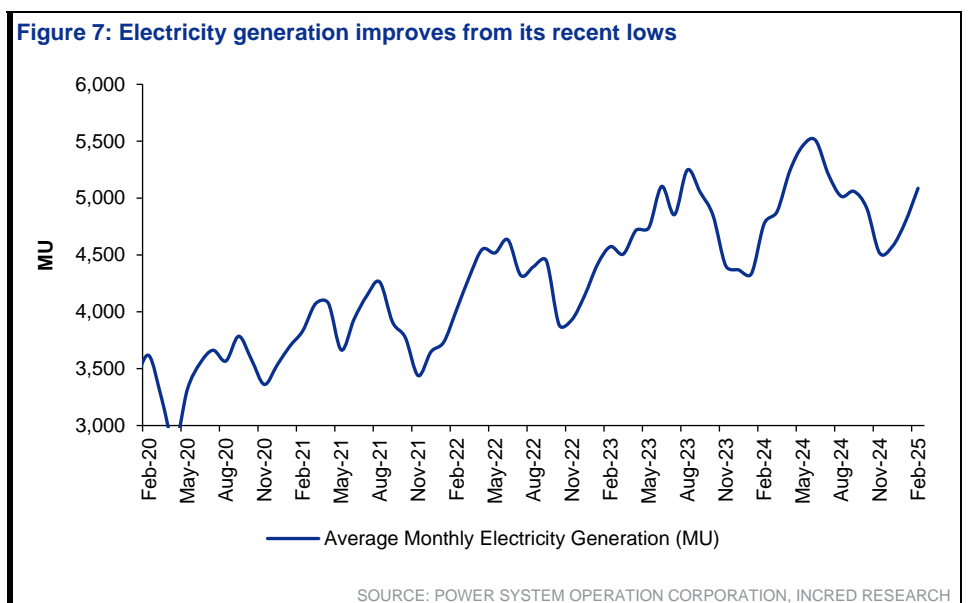
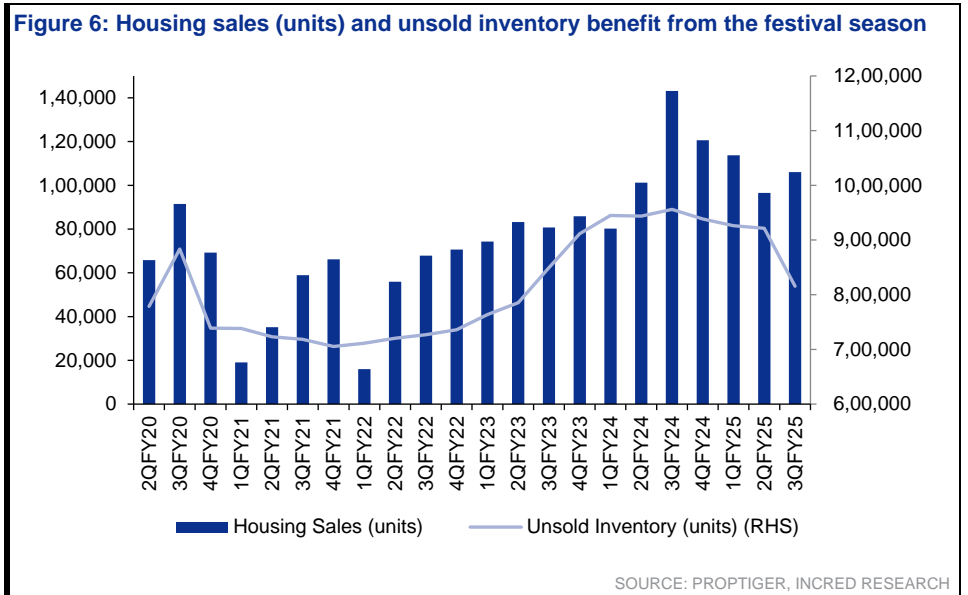


SOURCE: RBI, INCRED RESEARCH

Figure 5: Automobile sales registrations improve gradually



SOURCE: VAHAN.COM, INCRED RESEARCH, COMPANY REPORTS

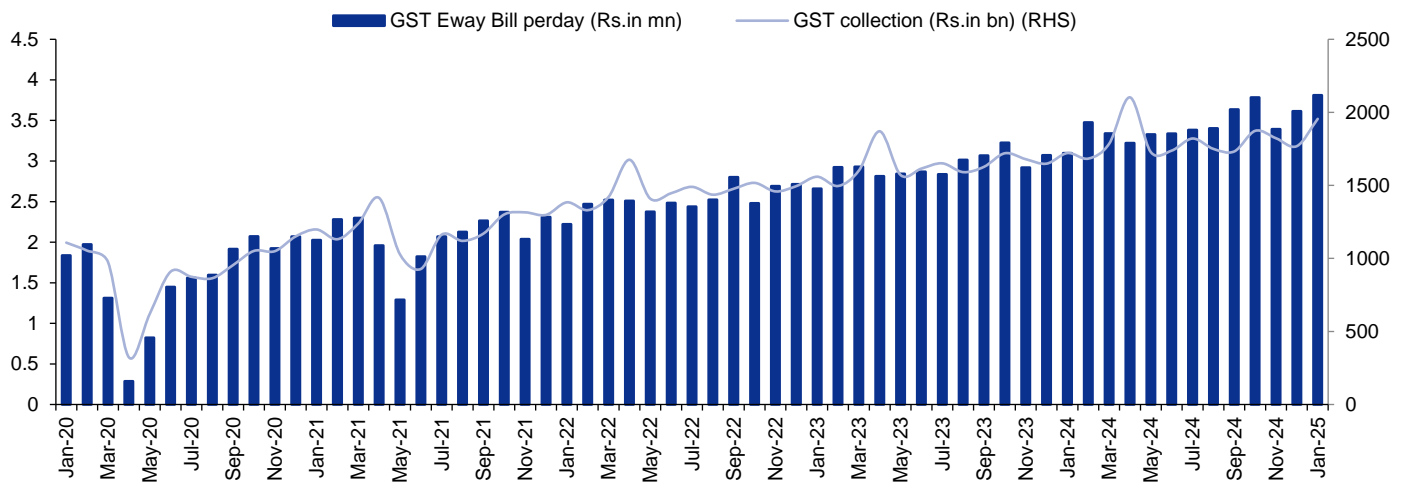


Housing sales in top-8 cities dipped by a sharp 26% yoy, while they improved qoq due to festive seasonality, as per Proptiger, an industry portal. High base effect and elevated property prices impacted the extent of slowdown in new home sales. Barring Delhi, rest of the top-8 cities recorded a yoy dip in new home sales, with the worst being Mumbai, Hyderabad, Ahmedabad and Pune.

India's direct tax collections in FY25F are likely to exceed the budget's revised estimate (RE) of Rs22.37tr by approximately Rs0.13tr. The higher-than-expected collections underscore strong revenue buoyancy, primarily driven by improved personal income-tax compliance and a steady expansion of the tax base.

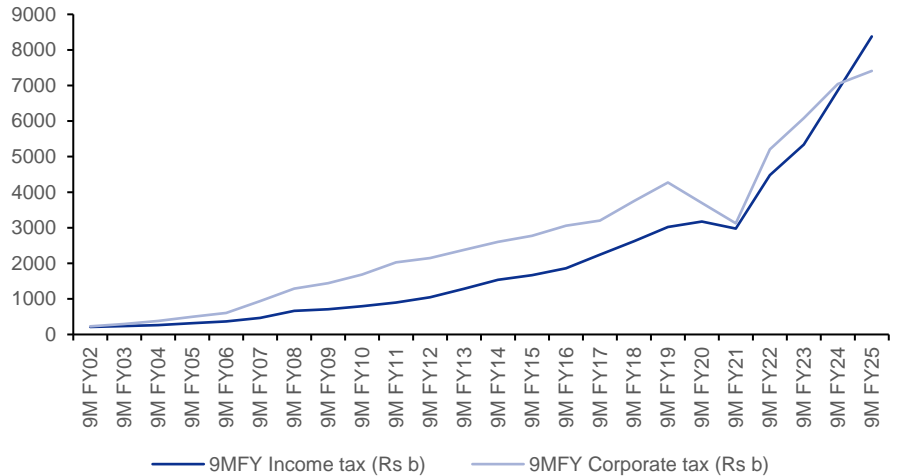
Capital expenditure recovered in Nov and Dec 2024, taking the yoy growth rate to 1.7% during Apr-Dec 2024. Among the top six ministries, which together account for around 95% of the budgeted capital expenditure in FY25F, road transport and highways, railways, finance, and housing and urban affairs registered an expansion on yoy basis while defence, and communications registered a dip.

Figure 8: GST collections and E-way bills continue to scale a new high



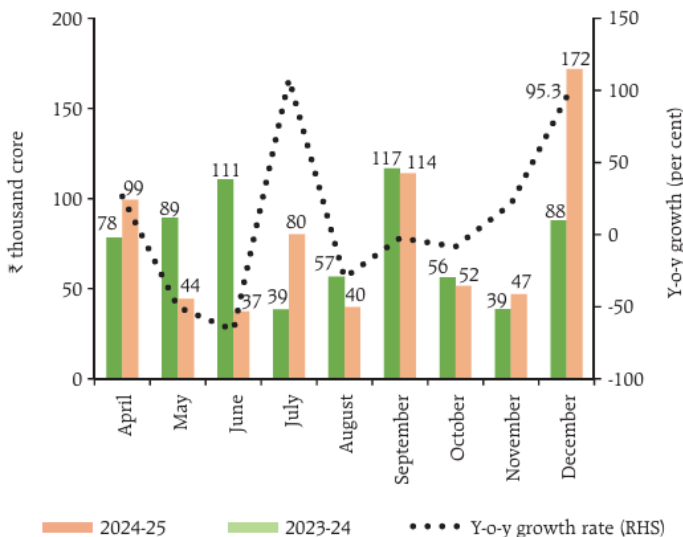
SOURCE: GOODS AND SERVICES TAX NETWORK (GSTN), INCRED RESEARCH

Figure 9: Tax collection buoyancy is very strong in the case of income-tax (Rs bn)



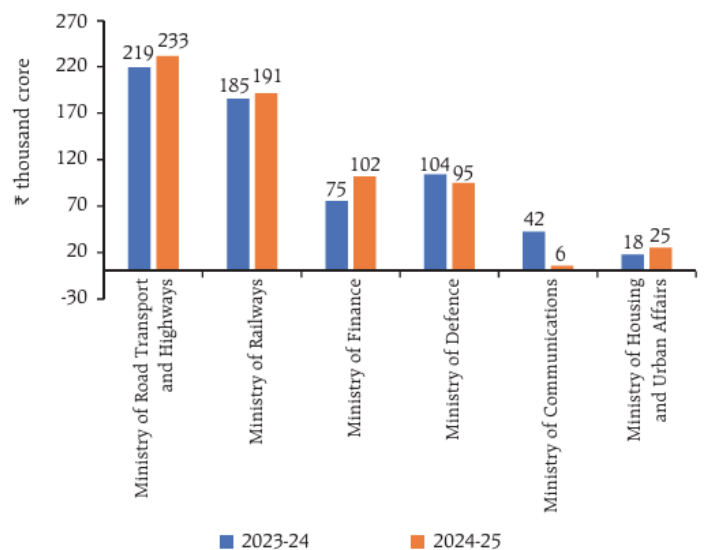
SOURCE: CENTRE FOR MONITORING INDIAN ECONOMY (CMIE), INCRED RESEARCH

Figure 10: Month-wise Gol capital expenditure



SOURCE: CEA, INCRED RESEARCH

Figure 11: Ministry-wise Gol capital expenditure



SOURCE: CEA, INCRED RESEARCH

Recovery in consumer sentiment in rural and urban salaried segments provides comfort ▶

Consumer sentiment in India saw an uptick in Jan 2025. The Index of Consumer Sentiments (ICS) increased by 1.1% for the month. Both urban and rural India experienced an improvement in the sentiment, with rural areas showing a stronger recovery. Rural India displayed increased optimism regarding the current economic conditions and in their outlook for the future. Urban sentiment saw a marginal improvement, primarily driven by future expectations, while their perception of the current economic conditions worsened.

The uptick in consumer sentiment seen in Jan 2025 is likely to sustain in the coming months as well. While urban salaried households cheer on the income-tax savings front, rural India will prepare for harvesting of rabi crops. Sentiment of farmers displayed confidence in the last three months and this, in our view, is likely to sustain.

Figure 12: The Consumer Sentiment Index improves (nos)

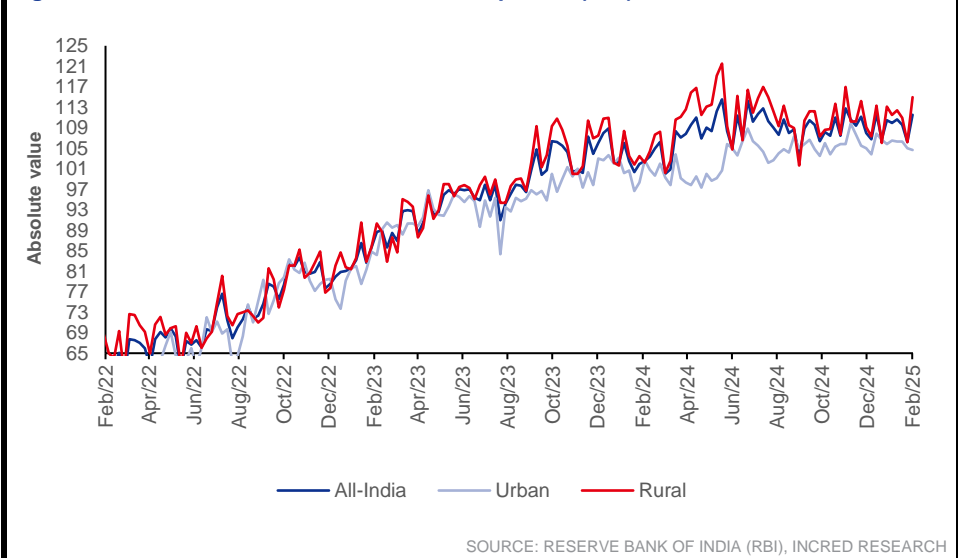


Figure 13: Consumer perception on essential spending eases from its peak

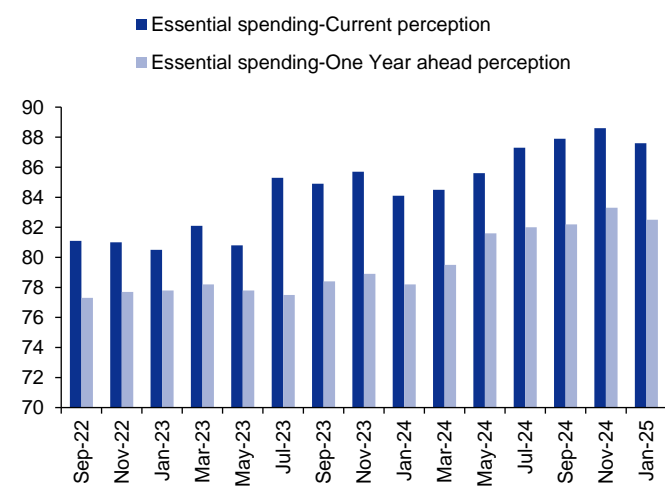


Figure 14: Consumer perception on non-essential spending

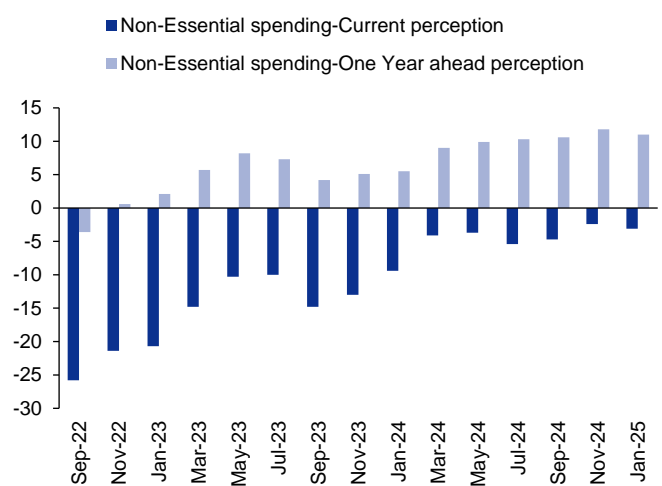
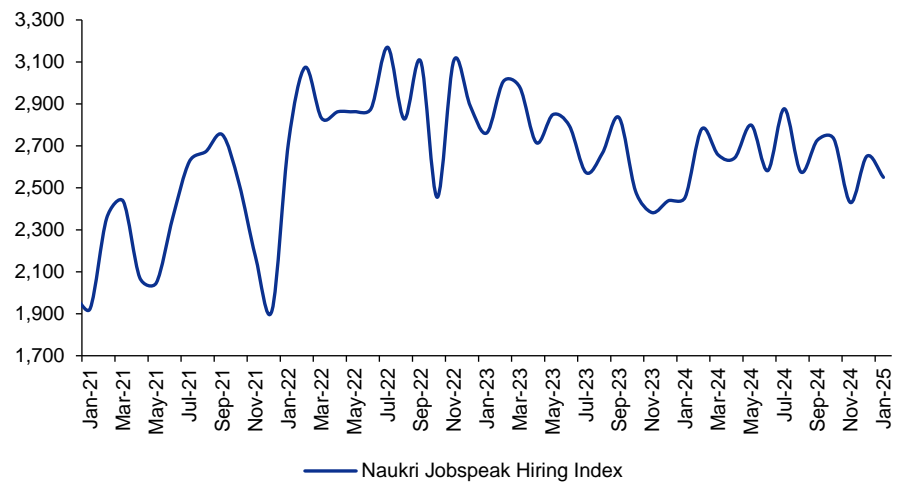


Figure 15: Naukri jobs data trend eases



SOURCE: INCRED RESEARCH, NAUKARI.COM

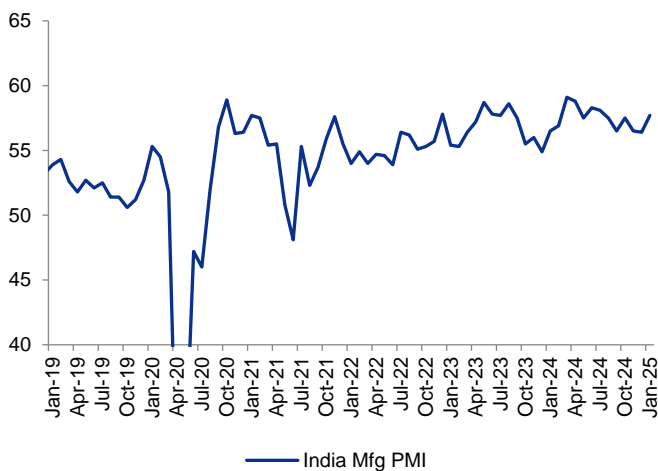
GDP growth recovery to be gradual ➤

In 2HFY25F, the Economic Survey expects rural demand to drive consumption while urban demand shows mixed signals. Investment activity is anticipated to rise, supported by public capex and improving business sentiment. The Economic Survey expects the domestic economy to remain robust aided by strong external account, calibrated fiscal consolidation and stable private consumption. It expects India's real GDP to grow in the range of 6.3-6.8% in FY26F.

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) expects the country's real gross domestic product or GDP to grow by 6.7% in FY26F. In the upcoming fiscal, the RBI anticipates a boost in household consumption, improvement in fixed investments, strong services exports but cautions against global headwinds and moderation in government spending.

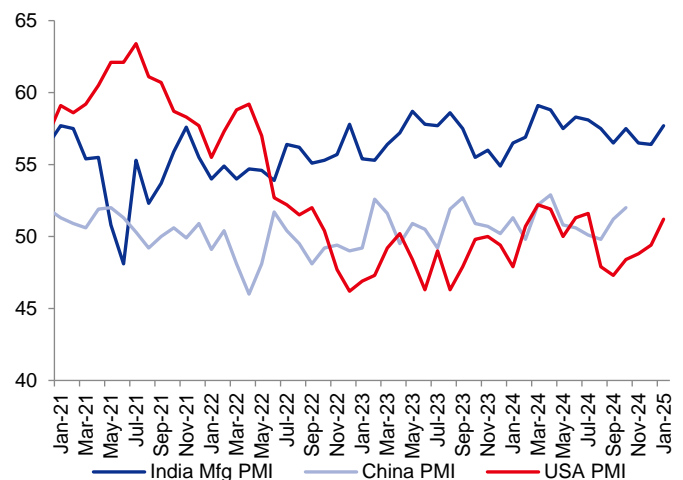
RBI's Survey of Professional Forecasters, conducted in Jan 2025, reduced its median GDP growth projection for FY25F. It was lowered by 50bp to 6.3% from the previous survey.

Figure 16: Index of Industrial Production growth improves marginally

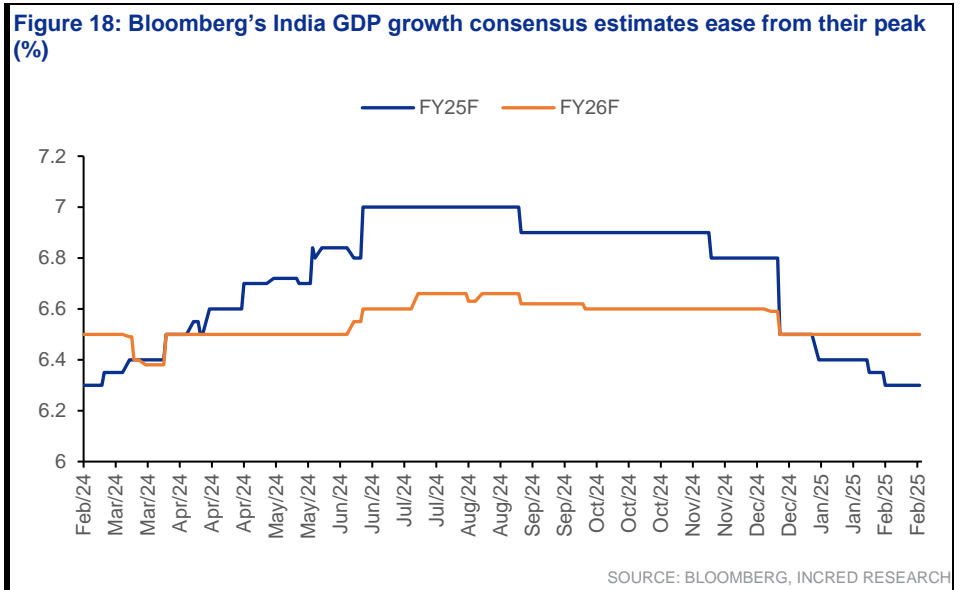


SOURCE: NATIONAL STATISTICS OFFICE (NSO), INDEX OF INDUSTRIAL PRODUCTION (IIP), INCRED RESEARCH,

Figure 17: India PMI trend is healthy



SOURCE: IHS MARKIT, PURCHASING MANAGERS' INDEX (PMI), INCRED RESEARCH



INR depreciation and rising trade deficit are areas of concern ➤

In Jan 2025, India's trade deficit widened to US\$22.9bn from US\$21.94bn a month earlier. The widening trade deficit was driven by higher import costs due to the falling Indian rupee or INR, while exports shrank amid weak global demand.

India's trade deficit stood at US\$16.5bn from a year ago and exports also shrank by 2.4% year-on-year to US\$36.43bn in Jan 2025. Meanwhile, India's value of imports spiked by 10% to US\$59.4bn during the said period.

India's current trade imbalance is fuelled by higher imports in sectors like electronics, machinery, and crude oil. A key structural challenge is India's weak manufacturing base. According to a World Bank database, India's share of manufacturing in its gross domestic product (GDP) was 13% in 2023—lower than even that of Bangladesh, Sri Lanka and Pakistan. The trade deficit affects the domestic currency too. A high deficit can lead to depreciation, as more rupees are required to buy foreign currency for imports. This relationship also affects the balance of payments.

The INR remained volatile in the first half of Feb 2025. It depreciated sharply to Rs87.12 per US dollar or USD on 3 Feb 2025 from Rs86.64 per USD on 31 Jan 2025. The INR has been depreciating at an increasing magnitude since Oct 2024, on a sequential basis. In Jan 2025, it weakened by 1.5% to Rs86.27 per USD. The INR has weakened continuously led by persistent outflows on account of selling by foreign portfolio investors (FPIs) and a strengthening greenback.

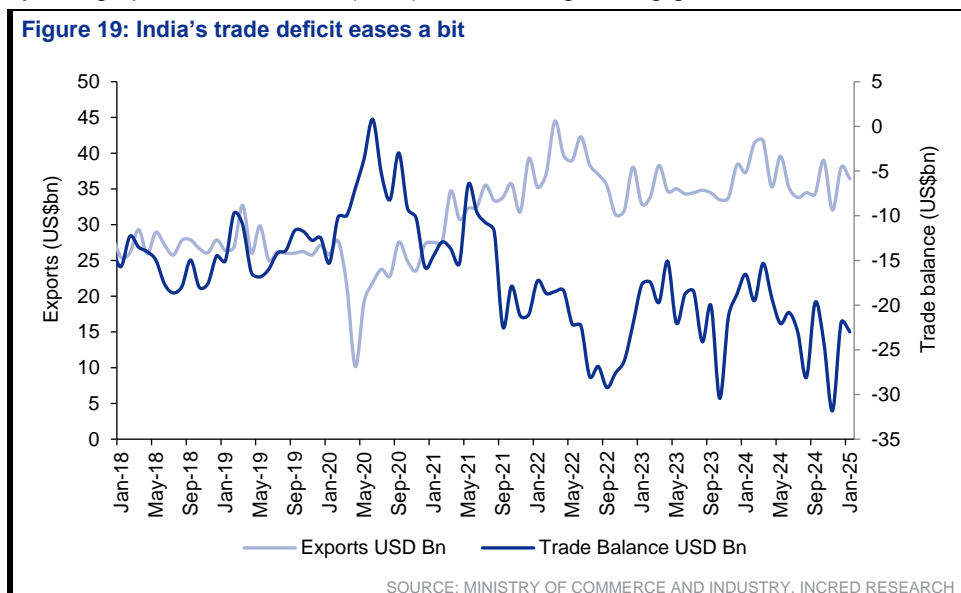
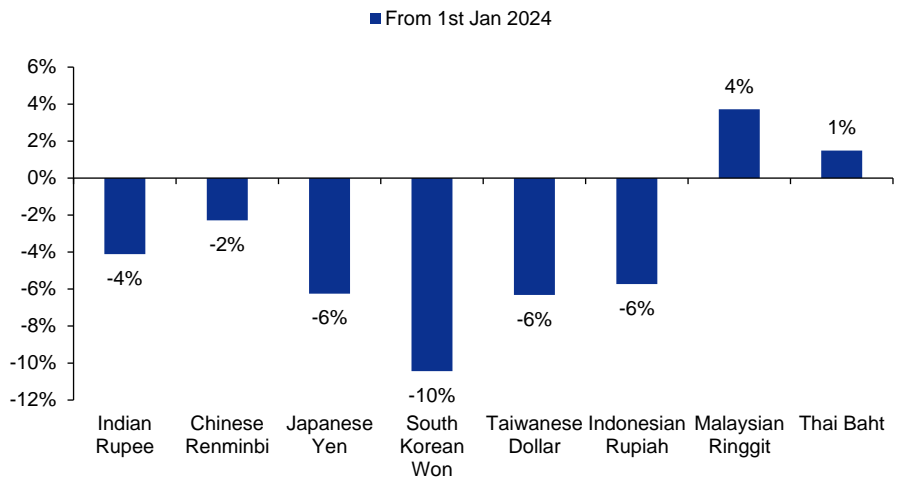
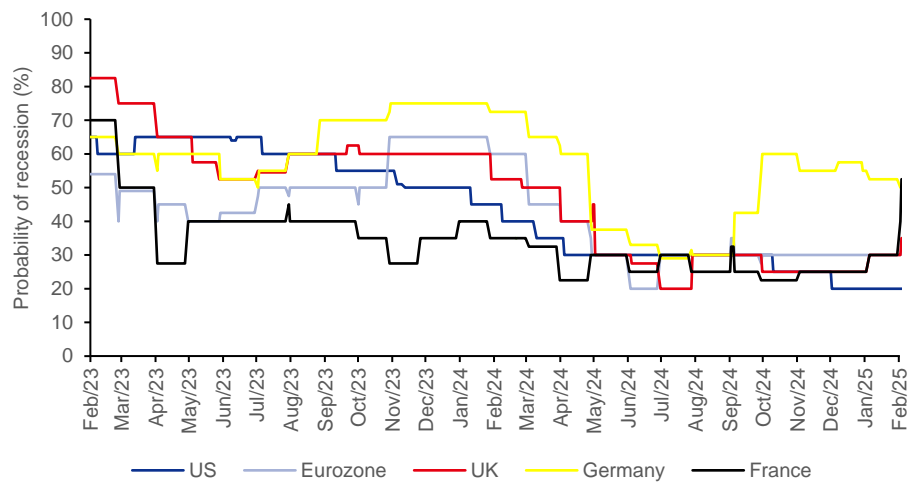


Figure 20: USD-INR's performance against Asian peers begins to weaken



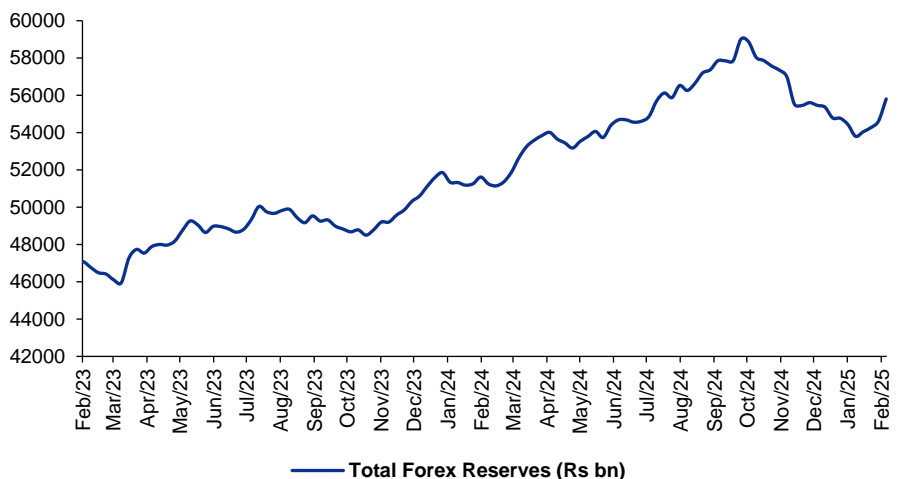
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 21: Recession probability in developed countries rises of late

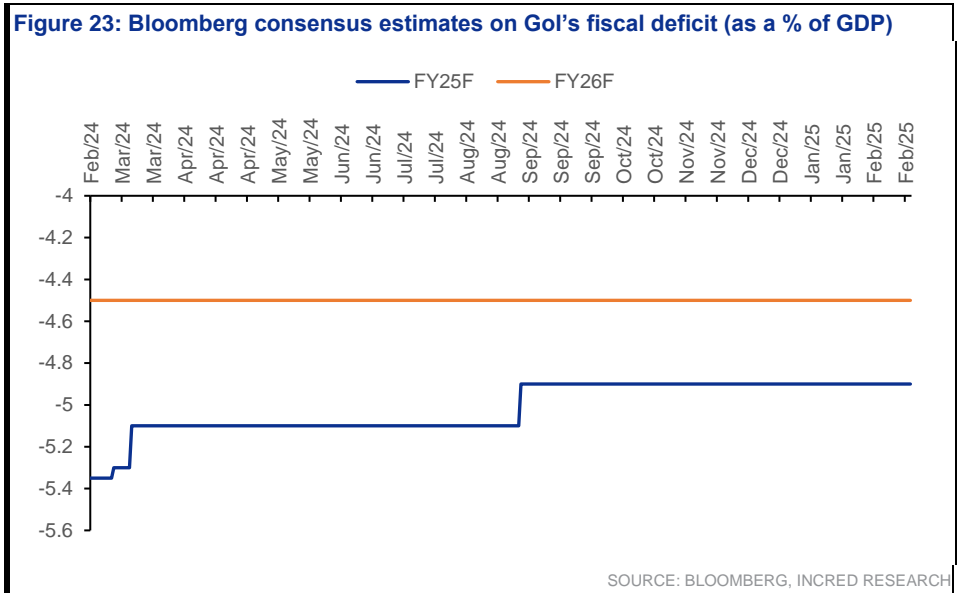


SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 22: India's forex reserves rise from their recent low



SOURCE: RBI, INCRED RESEARCH



Easing inflation provides headroom for repo rate cuts ►

Retail inflation, as measured by Consumer Price Index (CPI), fell to a five-month low of 4.3% in Jan 2025. A fall in food inflation by 200bp pulled down headline inflation. Inflation in sub-groups such as paan, tobacco & intoxicants and clothing & footwear eased marginally, and deflation in the fuel & light group deepened. Inflation in the housing and miscellaneous group rose by a tad. Inflation in rural areas fell more sharply than in urban areas, as food has a larger weight in the rural consumption basket compared to urban.

Core inflation, which excludes volatile segments of food and fuel, rose to 3.7% in Jan 2025 from 3.6% in Dec 2024. This was mainly on account of inflation in gold climbing up further to 26.4%, driven by a 2.5% increase in its prices. Despite the rise, core inflation continued to remain below the 4% mark.

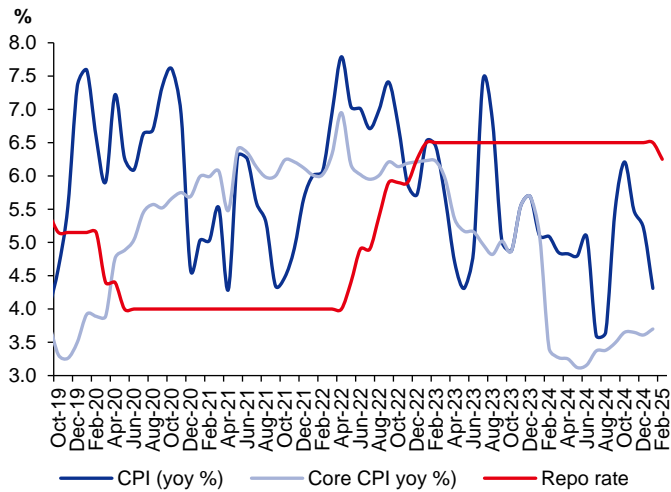
The price of Indian basket of crude oil rose by 9.4% to an average US\$80.2/bbl in Jan 2025. It had risen by 0.4% in Dec 2024. The 9.4% jump in price in the latest month was the highest price rise on a monthly basis since Mar 2022, when it rose by 21.9%, following the Russia-Ukraine war. Crude oil prices had stayed below the US\$80/bbl mark for the previous five months, while only to top it in Jan 2025. On a daily basis, crude oil prices were largely on an uptrend in the first half of the month, while it consistently fell in the second half.

After remaining in surplus from Jul to Nov 2024, system liquidity – as measured by the average net position under the liquidity adjustment facility (LAF) – turned into deficit during Dec 2024 and Jan 2025. The drainage of liquidity is mainly attributed to advance tax payments in Dec 2024, capital outflows, forex operations and a significant pick-up in currency in circulation in Jan this year.

The RBI projected inflation at 4.4% for the Mar 2025F quarter. With inflation down to 4.3% in Jan 2025, the projection appears realistic. The RBI cut policy repo rate by 25bp to 6.25% on 7 Feb 2025. With inflation likely to remain low, the probability of the central bank going in for another 25bp repo rate cut in its Apr 2025 meeting appears to be high.

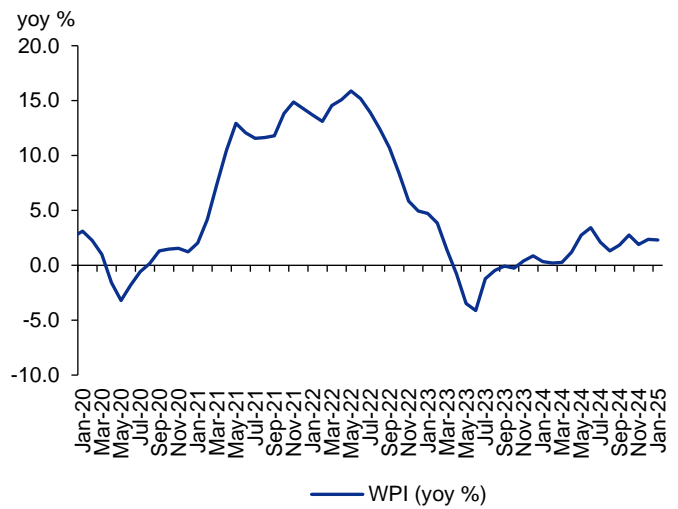
However, the transmission of rate cut to deposit rates is expected to be slower, which is likely to be after one or two quarters. As a result, the marginal cost of funds-based lending rate (MCLR) would take longer to ease. MCLR-linked loans are offered to large corporates and to services enterprises.

Figure 24: Core Consumer Price Index or CPI is on a gradual uptick



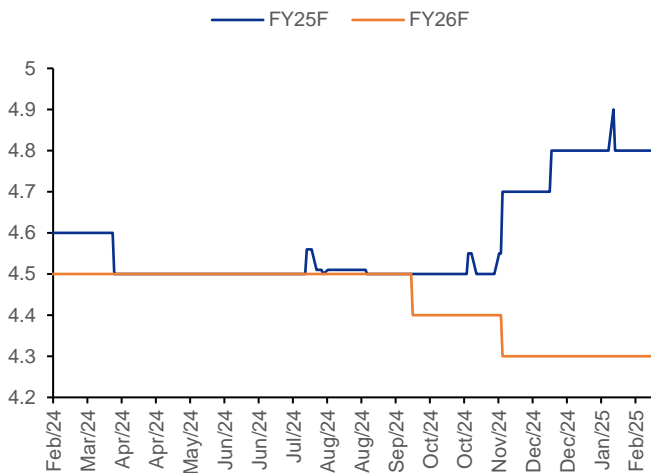
CONSUMER PRICE INDEX (CPI)
SOURCE: RBI, CENTRAL STATISTICS OFFICE, INCRED RESEARCH

Figure 25: Wholesale Price Index or WPI inflation remains stable



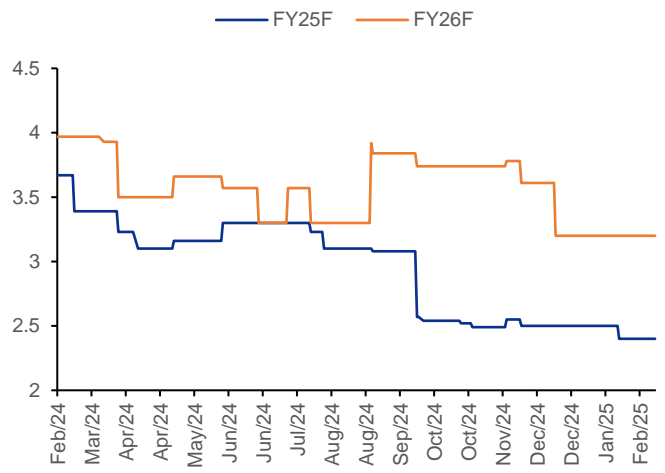
SOURCE: RBI, INCRED RESEARCH

Figure 26: Bloomberg CPI inflation consensus estimate trend



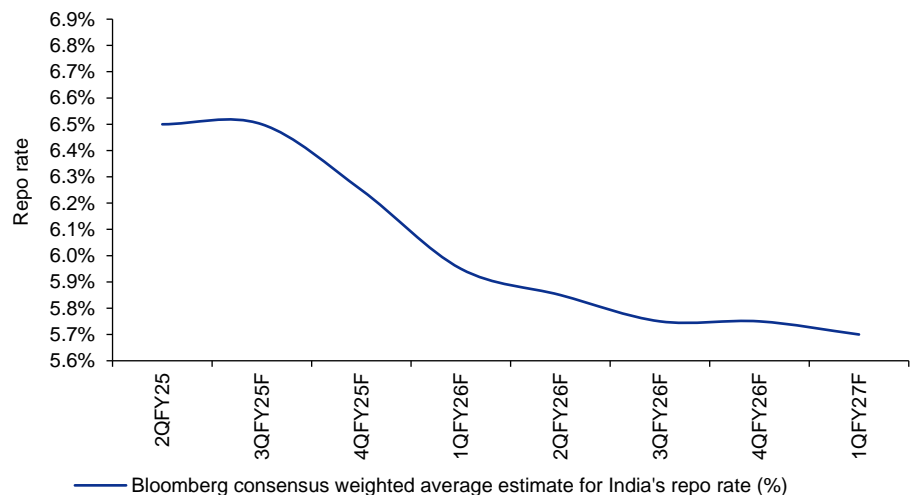
NOTE: CPI IS CONSUMER PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 27: Bloomberg consensus estimates on WPI inflation



NOTE: WPI IS WHOLESALE PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 28: Bloomberg consensus estimate expects repo rate cut of 75bp from its peak level in CY25F



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 29: Emerging markets' central banks have been ahead of India in policy rate cuts

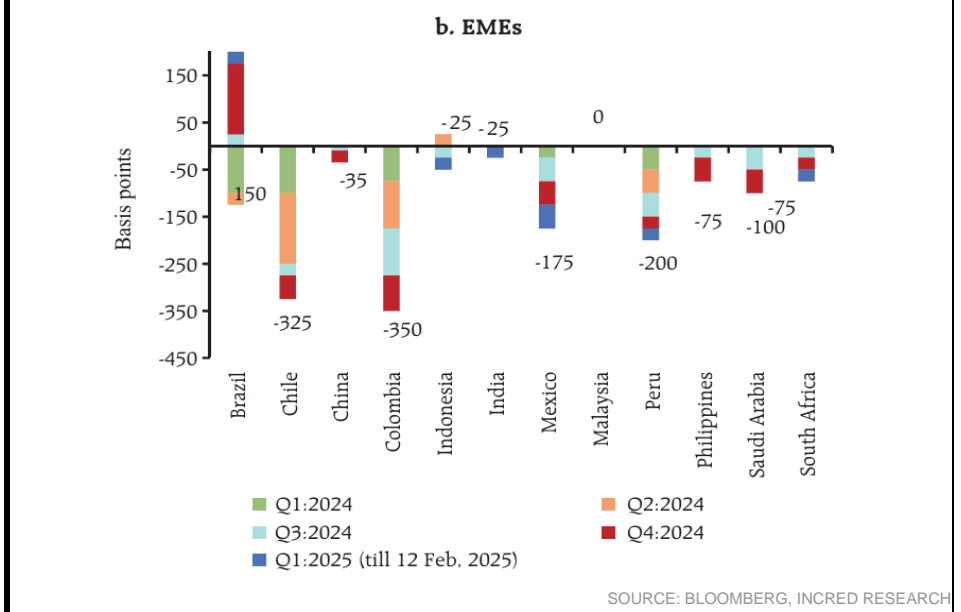


Figure 30: System liquidity improves in recent months

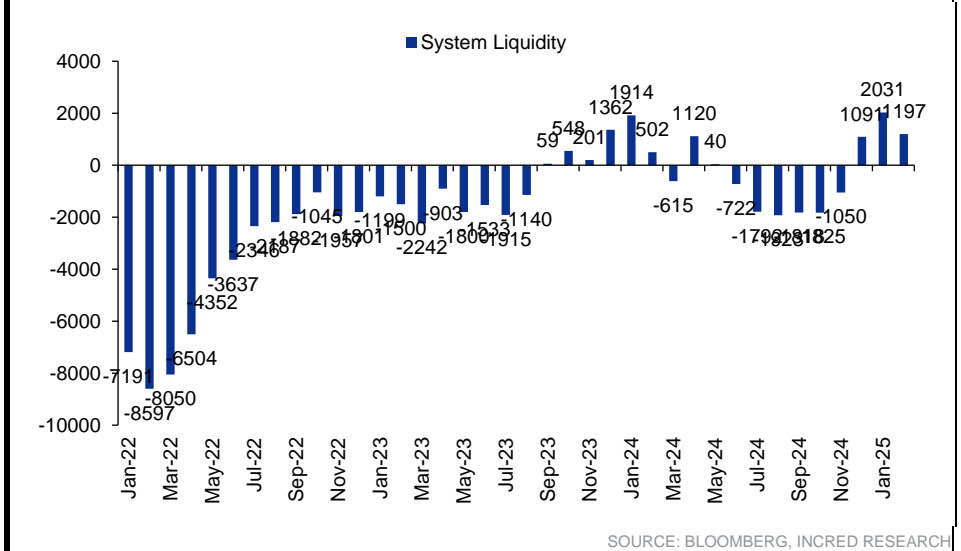


Figure 31: Weighted average lending rate of banks begins to ease from their peak (fresh INR loans)

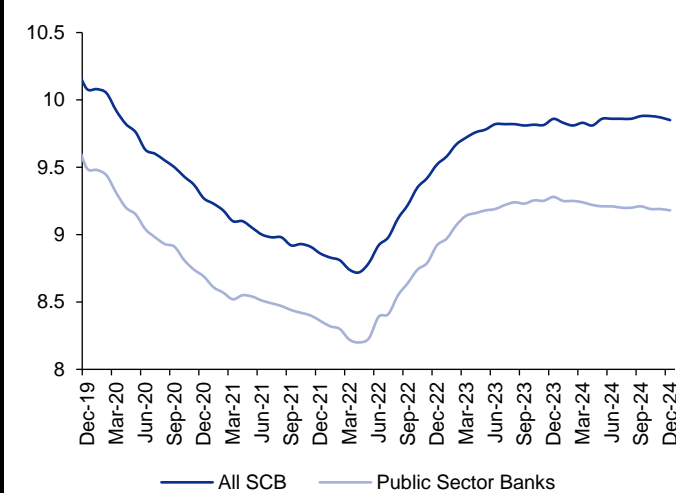
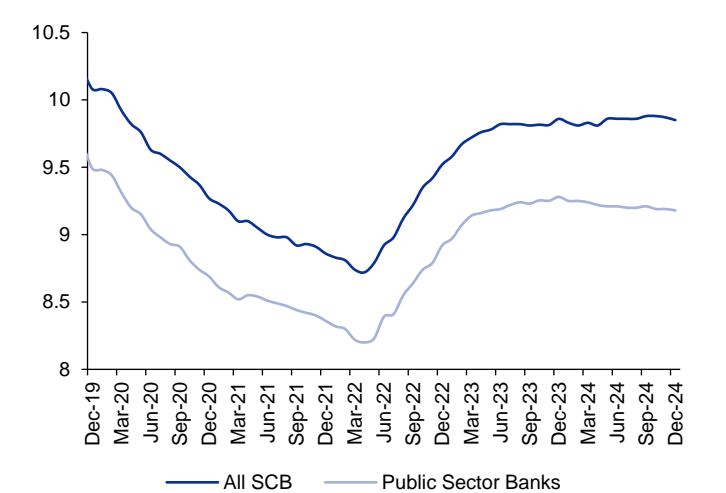


Figure 32: Weighted average lending rate of banks (outstanding rupee loans)



Investment themes

Considering the broad-based market correction making large-caps further attractive, we continue to introduce large-cap names in our high-conviction stocks list and also select mid-caps where the profit outlook has improved.

Our high-conviction stocks’ performance and recent changes

Recent performance (since the start of the series in Sep 2022):

- Big outperformers to Nifty: Skipper (ADD), Aditya Birla Sunlife AMC (ADD) and Bharat Forge (ADD).
- Underperformers to Nifty: Deepak Fertilisers and Petrochemicals Corporation (ADD), Hero MotoCorp (ADD) and Pidilite Industries (ADD).

Addition to the list:

Adani Ports and Special Economic Zone (ADD) – There is visibility on volume growth, and the stock trades at an attractive valuation after a 23% decline in its price in the last six months.

Bajaj Auto (ADD) – The company has consistently demonstrated EBITDA margin neutrality from electric vehicle or EV transition, despite EVs rising in its domestic product mix from 3% in 2QFY24 to almost 12% currently, which is impressive.

Ethos (ADD) – Management strategy shift to focus on super premium watches to drive its EBITDA margin and profitability.

Marico (ADD) – Among the first to make efforts to alleviate inter-channel conflicts due to aggressive scale-up of quick commerce and make steady progress towards its slated diversification agenda, with a strong focus on the foods segment.

Shriram Finance – Diversified AUM mix (rising non-vehicle loans) and improved underwriting/collection provide asset quality comfort.

Deletion from the list:

Aditya Birla Sunlife AMC (ADD) – We see the intense competition, along with a volatile capital market, weighing down on the movement of equity prices and systematic investment plan or SIP inflow.

Technical trend favourable ideas - Bajaj Finance (ADD) and Petronet LNG (ADD).

Figure 33: High-conviction stocks’ price performance since their introduction on 10 Sep 2022

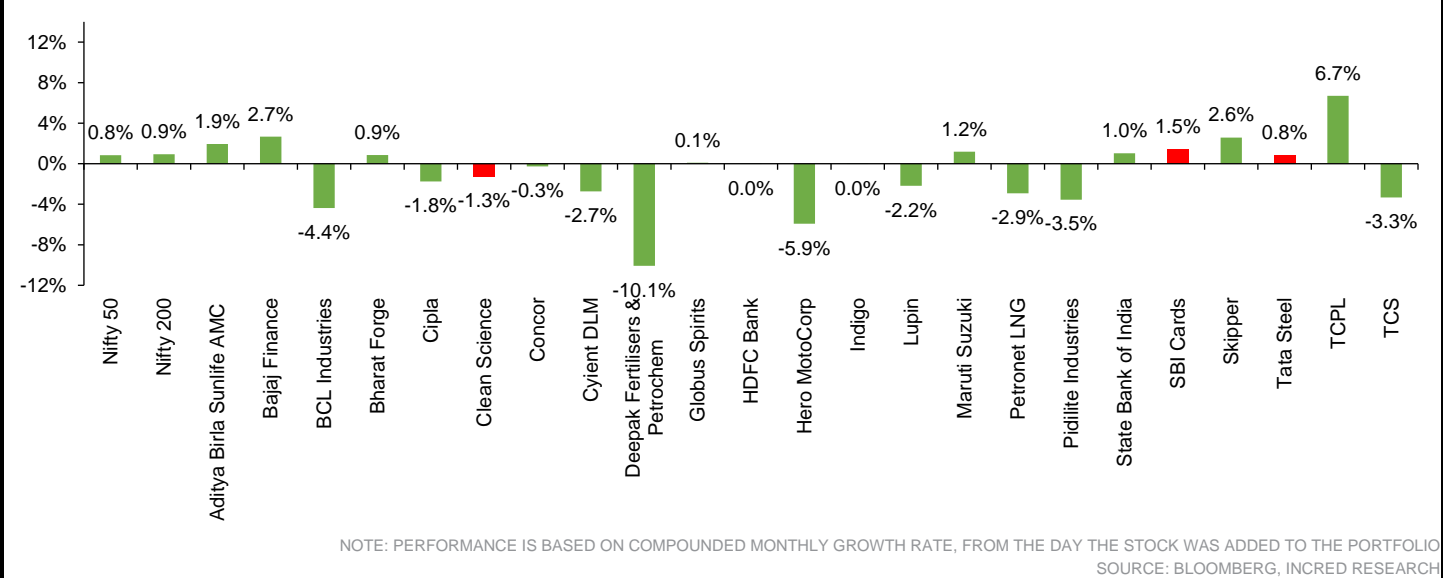
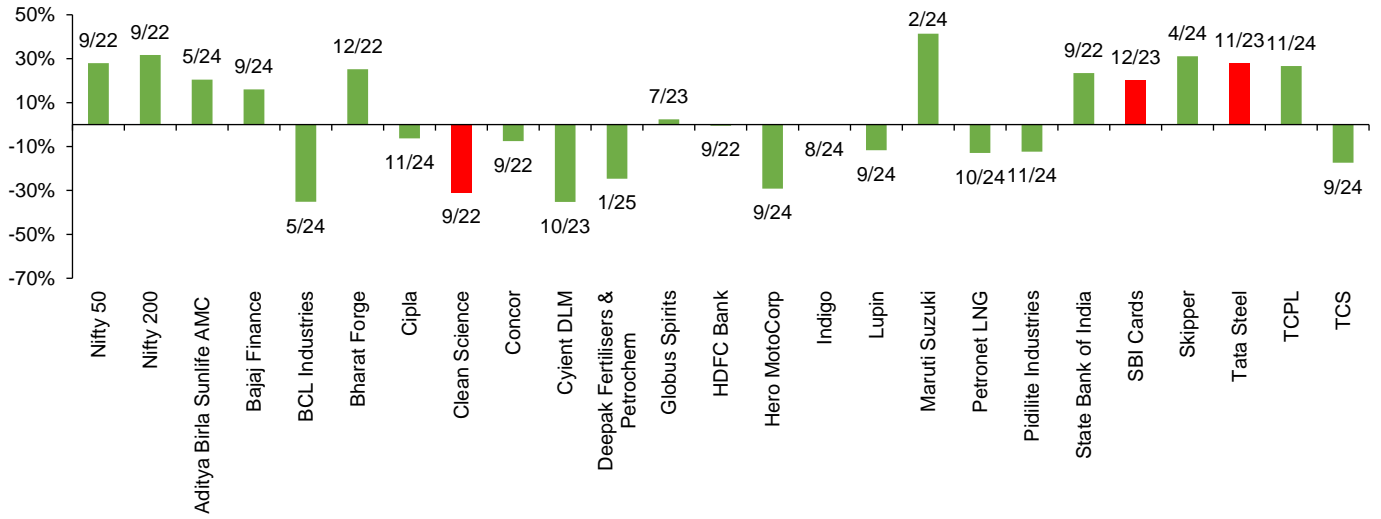
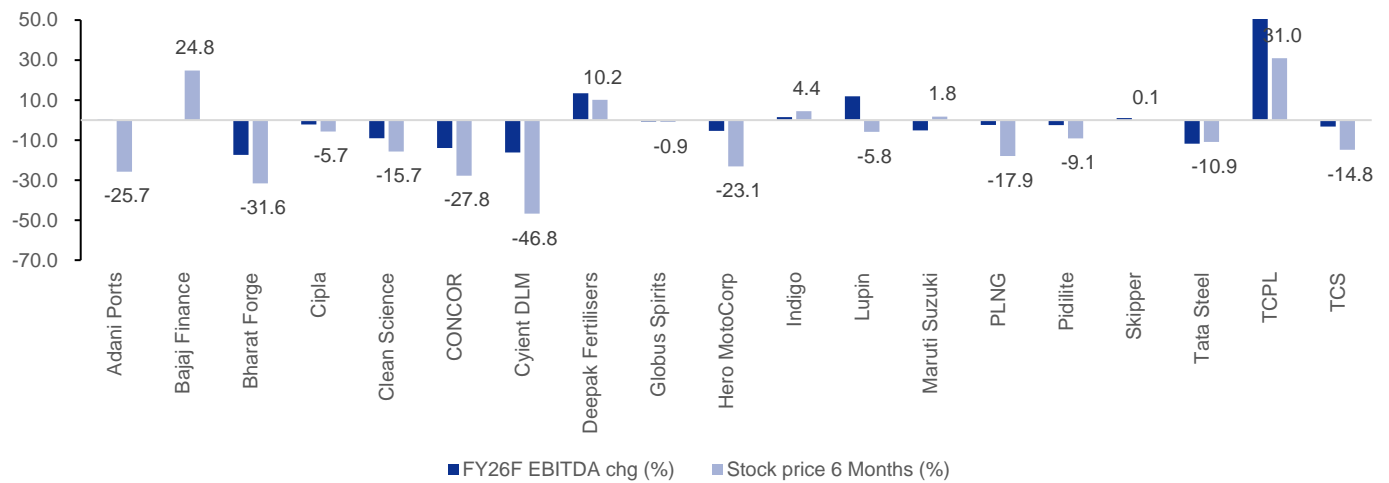


Figure 34: High-conviction stocks' price absolute performance since their introduction on 10 Sep 2022



NOTE: (INTRODUCTION MONTH MARKED ON THE BAR OF THE STOCK)
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 35: Last six months' EBITDA consensus change for FY26F vs. six months' stock price performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Consensus EPS downtick prevails

EPS stagnates qoq for Nifty-50 companies ➤

For the Dec 2024 quarter, Nifty-50 companies' reported PAT growth was 7.5% yoy and 5% qoq, driven by a 6.6% yoy sales growth. The EBITDA growth, ex-BFSI sector, was 7.9% yoy, driven by retail, telecom, healthcare, oil & gas and capital goods sectors. The EBITDA decline yoy continued for cement, chemical and metals sectors.

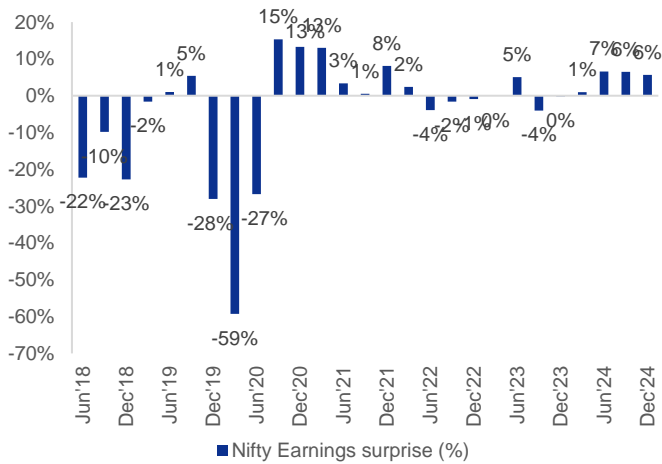
The proportion of companies extending beat on the EPS front improved qoq from the low of the Jun 2024 quarter, but still nearly 54% of Nifty-50 companies missed estimates.

The larger universe, NSE-200 group's performance was healthy at 10% yoy growth and 16% qoq in a seasonally strong festive period. EBITDA, ex-BFSI sector, posted a growth of 7.4% yoy, driven by sectors like consumer durables, telecom, retail, realty, hospitality, chemicals and capital goods. The sectors that were laggards, with an EBITDA dip yoy, were cement, construction materials and aviation.

The downgrade in FY25F-26F Bloomberg EPS estimates in the recent results season, to the extent of 2-3%, continued, where the broader index, Nifty-200, takes the major brunt. Only the consumer discretionary sector recorded an EPS upgrade while the rest witnessed a cut. Major EPS upgrades in the Nifty-200 universe were in Grasim, One97 Communications (PayTM), GMR Airports, Adani Energy, and two-wheeler makers.

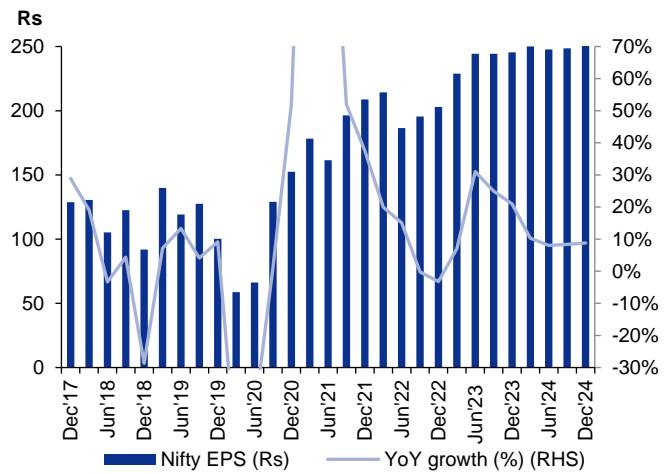
The FY25F-26F Bloomberg EPS CAGR for Nifty-50 companies is expected to be 13%, driven by the telecom, commodity, capital goods and FMCG sectors.

Figure 36: Nifty-50 companies' quarterly EPS beat/miss trend



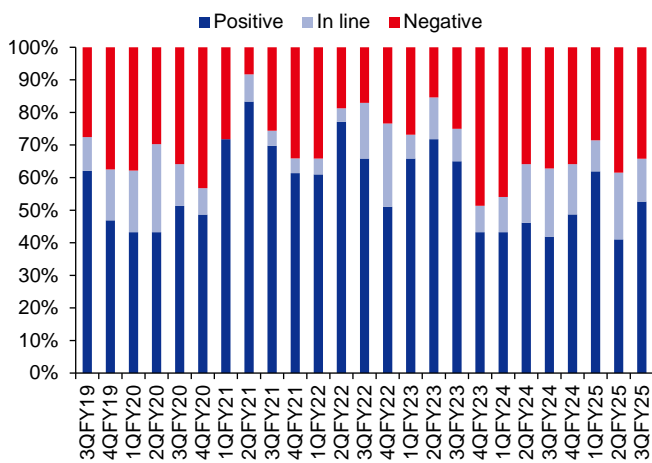
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 37: Nifty-50 companies reported stable EPS growth

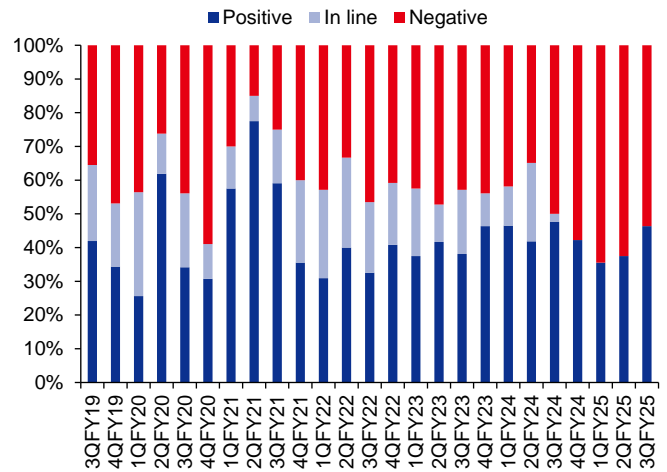


SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 38: Nifty-50 companies' revenue beat/miss proportion mix **Figure 39: Nifty-50 companies' EPS beat/miss proportion mix**

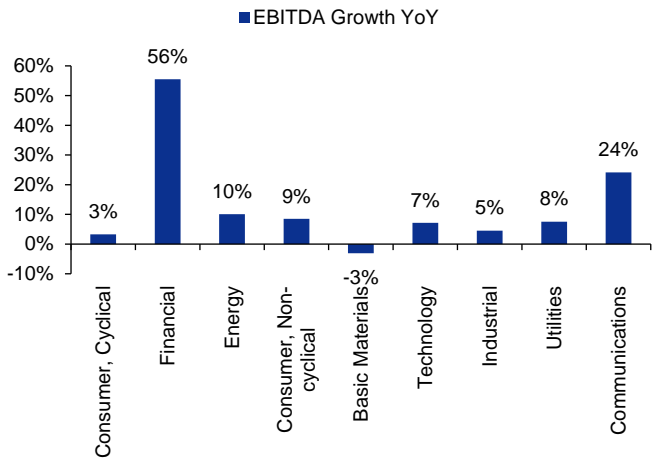


SOURCE: BLOOMBERG, INCRED RESEARCH



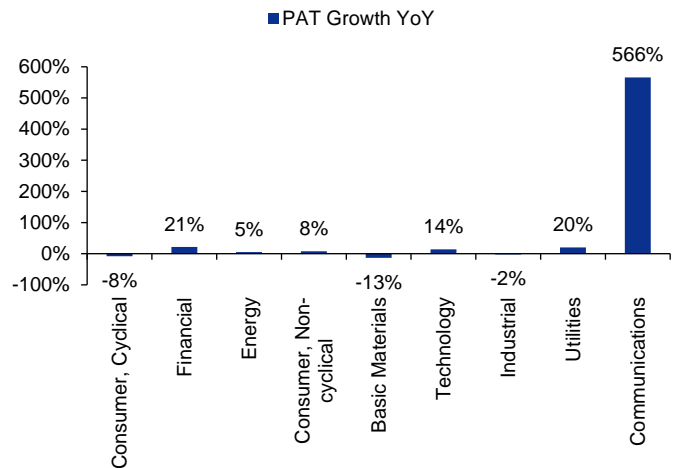
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 40: 2Q sector-wise EBITDA yoy growth in Nifty-50 companies



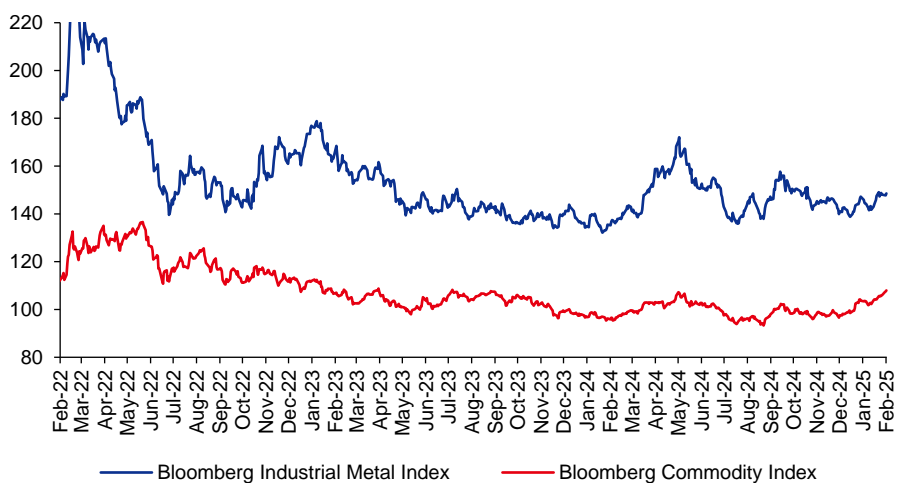
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 41: 2Q sector-wise PAT yoy growth in Nifty-50 companies



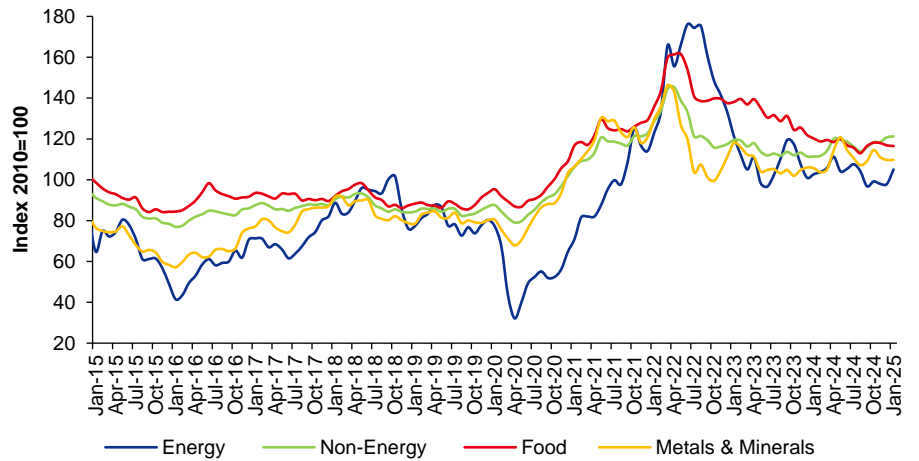
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 42: Bloomberg Industrial Metal Index is on uptick



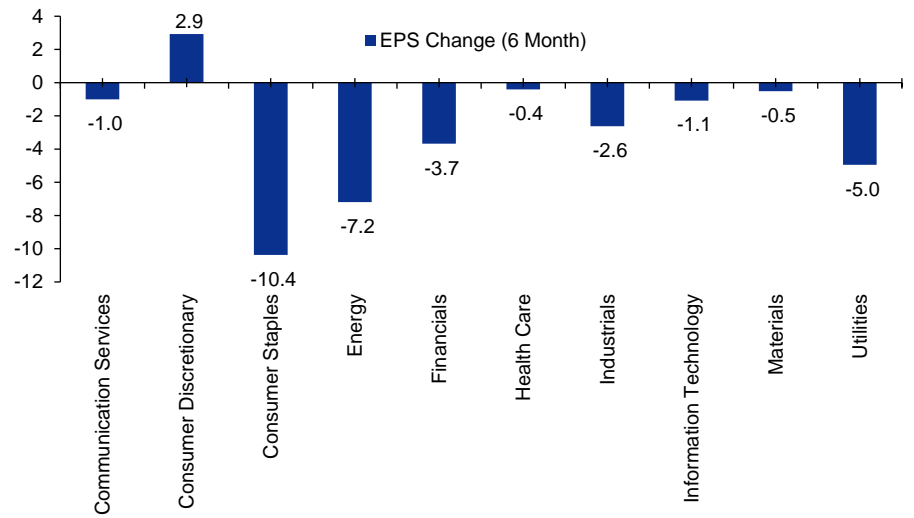
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 43: Global Commodity Index trend is stable, except for energy



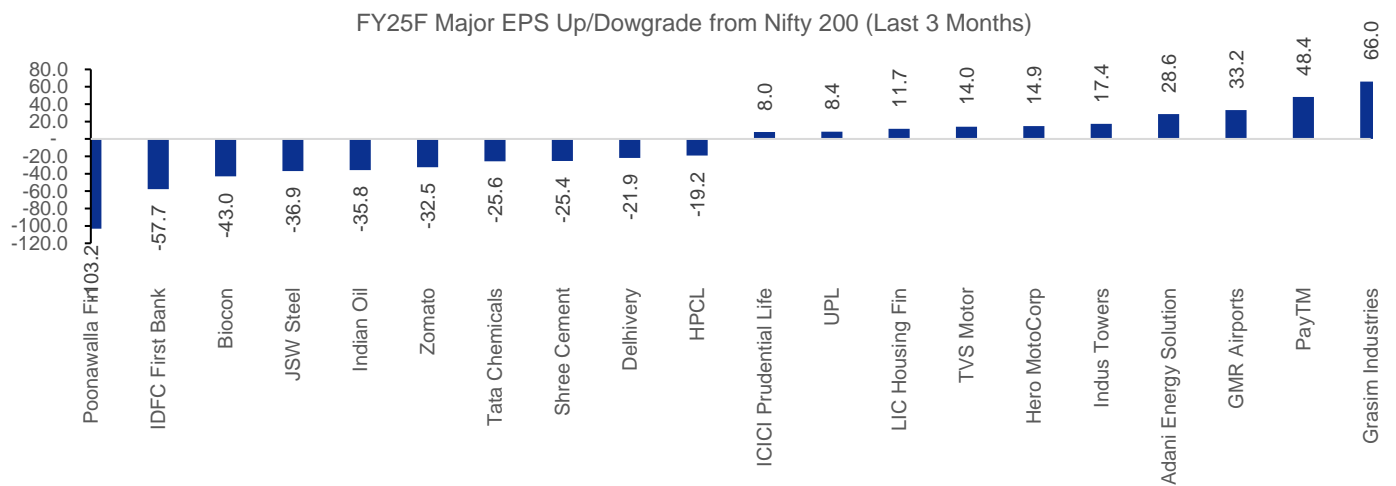
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 44: Sector-wise EPS changes in last six months in the case of Nifty-50 companies



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 45: Commodity stocks witnessed a sharp EPS cut recently



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 46: Earnings outlook vs. P/E valuation of Nifty-50 sectors

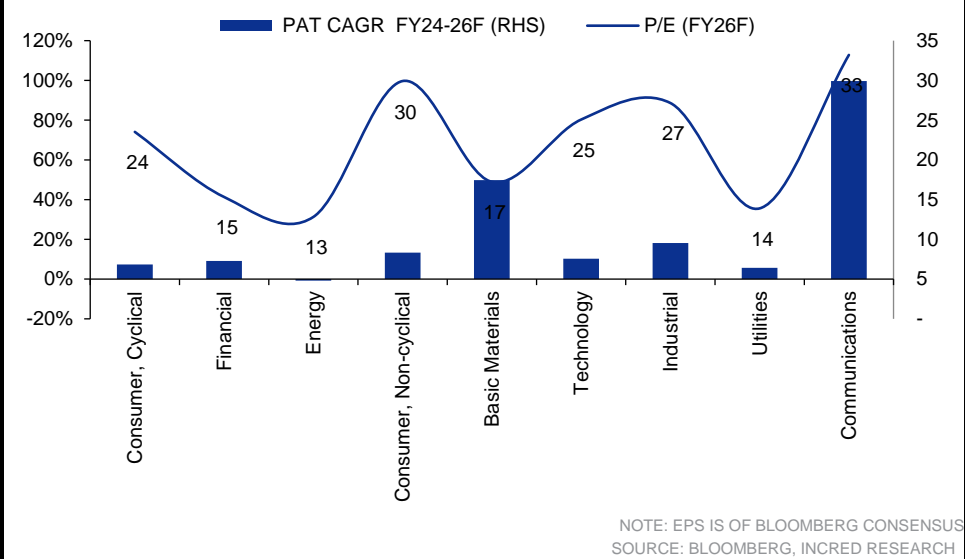


Figure 47: Bloomberg consensus EPS cut trend prevails for Nifty-50 and Nifty-200

Nifty-50 companies' EPS	Nifty-200 companies' EPS				
	FY25F	FY26F	FY25F	FY26F	
30 days	-0.86%	-1.66%	30 days	-2.71%	-2.08%
60 days	0.17%	-1.59%	60 days	-0.35%	-1.78%
120 days	-3.28%	-7.50%	120 days	-2.00%	-6.40%

NOTE: EPS IS OF BLOOMBERG CONSENSUS
SOURCE: BLOOMBERG, INCRED RESEARCH

Nifty valuation and outlook

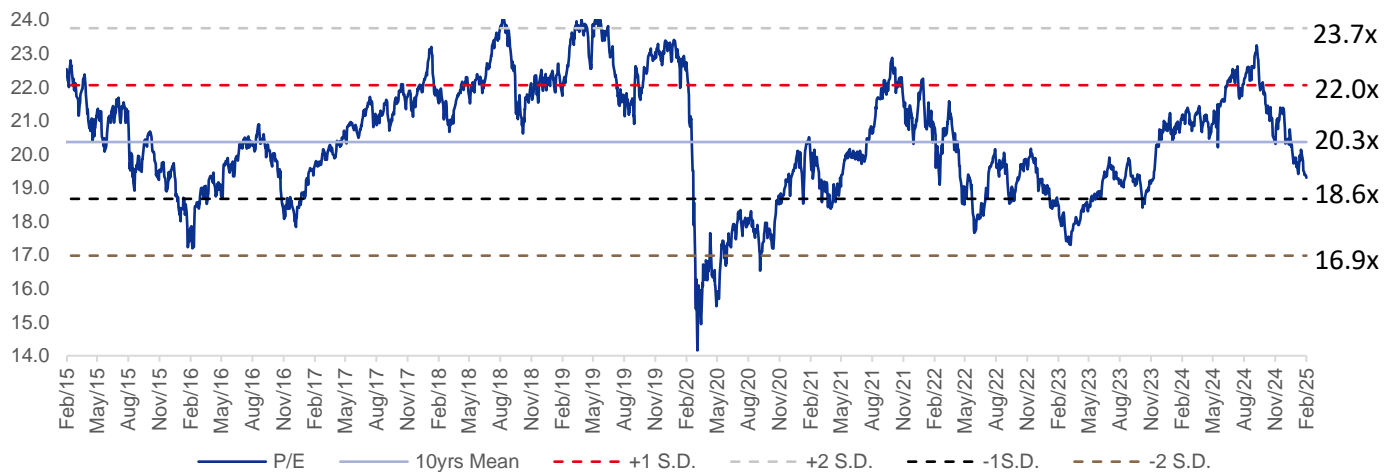
Index valuation eases, earning growth credibility missing ▶

The sustained correction from the mid-Sep 2024 peak has eased Nifty-50 Index's valuation to below the 10-year mean level of 20x one-year forward P/E and inch towards -1SD. Interestingly, real earnings yield improved to the positive territory, for first time since the Covid-19 pandemic, thereby limiting the downside. However, the acceleration of consensus EPS cut raises credibility on early-teen growth projections for FY26F-27F.

The high volatility in the index will continue due to global policy actions and India's rich valuation comparative to Asia (+1SD above the 10-year mean). India and South Korea have seen the worst sell-off by FIIs in recent quarters, among peer countries. Government policy action is improving gradually, both within India (income-tax rate cut and policy rate cut) and on the external front (to attract FDI), which may provide some comfort.

With local and global macroeconomic challenges in the short term, we have cut our bull-case probability to 5% (from 10% earlier) and raise bear-case probability to 45% (from 40%). With around 2% Nifty-50 Bloomberg consensus EPS cut witnessed in recent weeks, we have cut our blended Nifty-50 target marginally to 22,850, an upside of 2%, by the end of Mar 2026F. In a bear-case scenario, we maintain an 8% downside from current levels.

Figure 48: Nifty-50 companies' forward P/E valuation is below the 10-year mean level



SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 49: Nifty-50 companies' forward P/E valuation is close to the 15-year mean level



SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 50: Real earnings yield for Nifty-50 companies improves to the positive territory

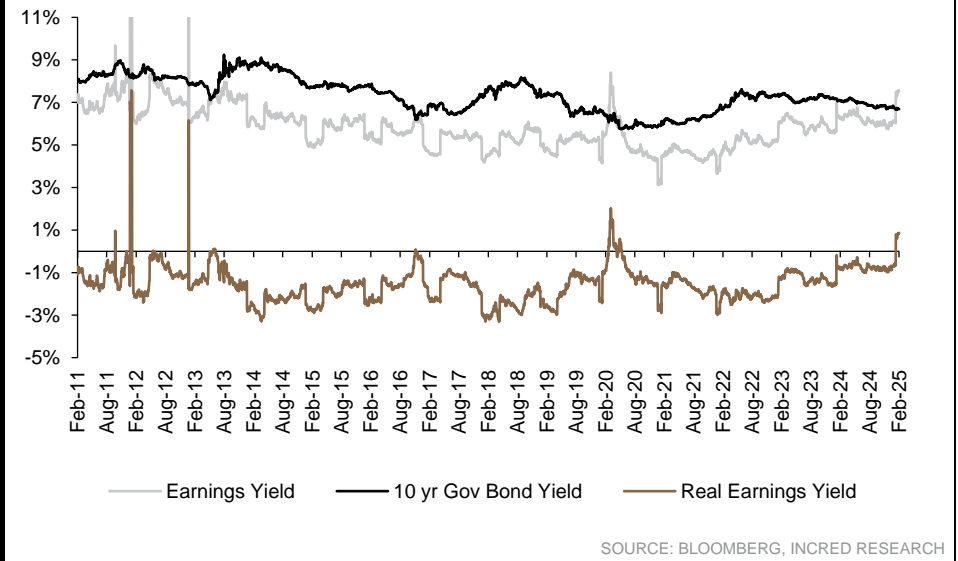


Figure 51: Nifty Index target and Bull-case, Base-case and Bear-case scenarios

	Bull Case	Base Case	Bear Case
Economic variables FY26F	GDP growth >7%, stable coalition government, Brent crude oil price <US\$90/bbl, inflation <4%, repo rate drops >100bp, above normal monsoon, INR-USD at Rs85	GDP growth >6.5%, Brent crude oil price <US\$100/bbl, inflation <5%, repo rate drops >50bp, normal monsoon, INR-USD rate at Rs86	GDP growth <6%, wobbly coalition government, Brent crude oil price >US\$100/bbl, inflation >6%, repo rate drops <25bp, poor distribution of rainfall, tariff barriers for exports, INR-USD rate at Rs89
Probability of event	5%	50%	45%
One-year forward EPS (Rs.)	1,306.1	1,306.1	1,306.1
Target P/E (x)	20.0	18.5	16.1
Target index	26,123	24,164	21,029
Nifty-50 now	22,790	22,790	22,790
Up/ downside	14.6%	6.0%	-7.7%
Blended Index target		22,850	

SOURCE: INCRED RESEARCH

Figure 52: Stock market volume eases sharply from its peak

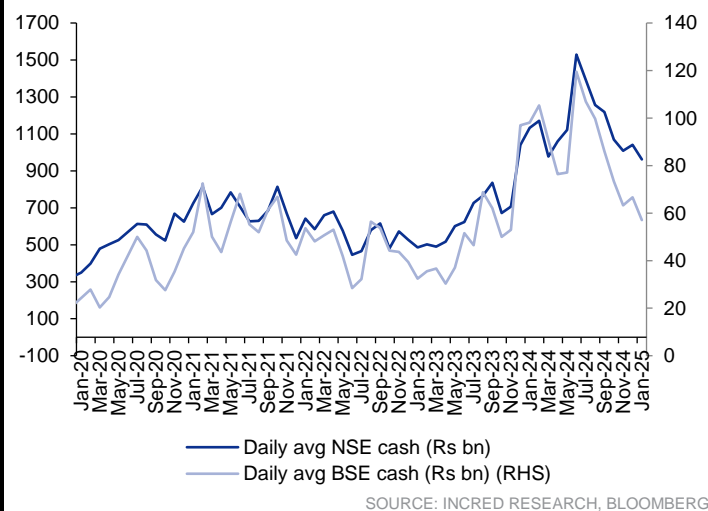


Figure 53: Domestic mutual funds' mobilization sustains

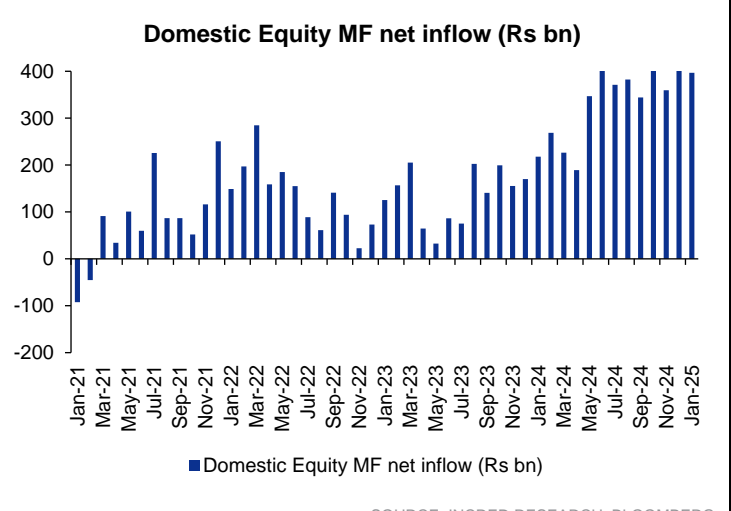
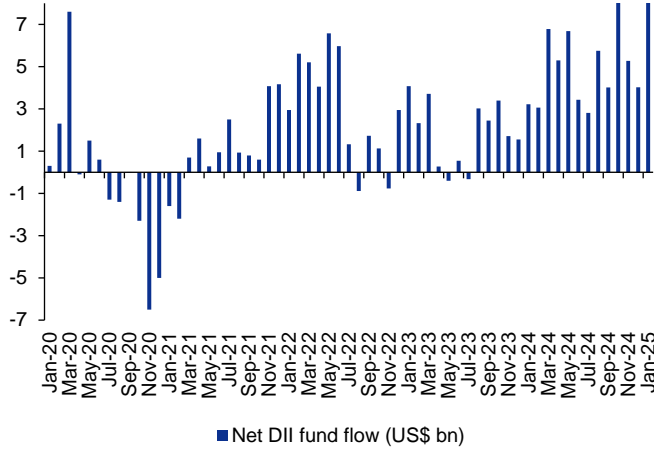
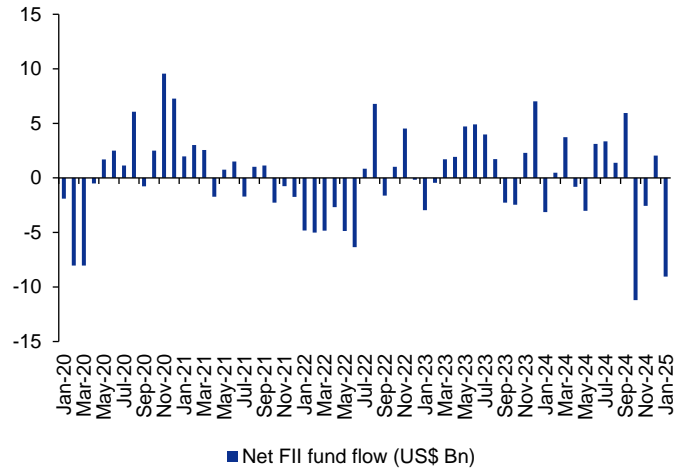


Figure 54: Domestic funds' investment continues to be strong



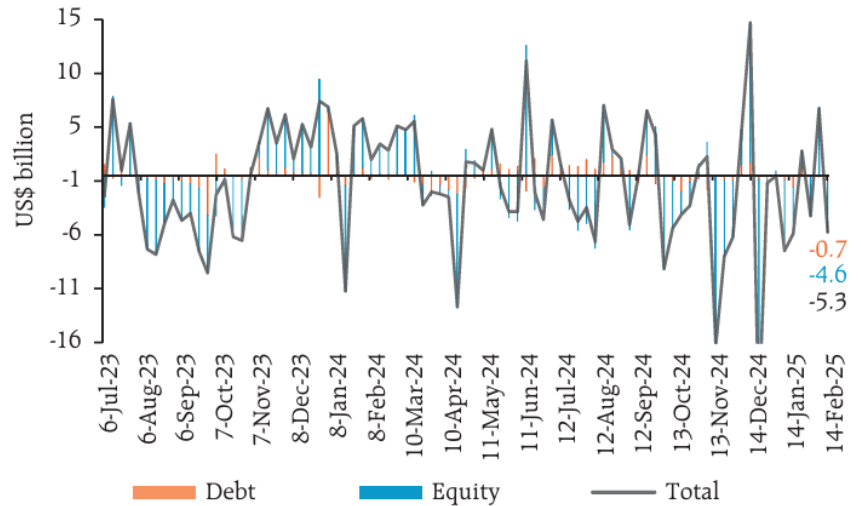
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 55: FII selling accelerates in CY25



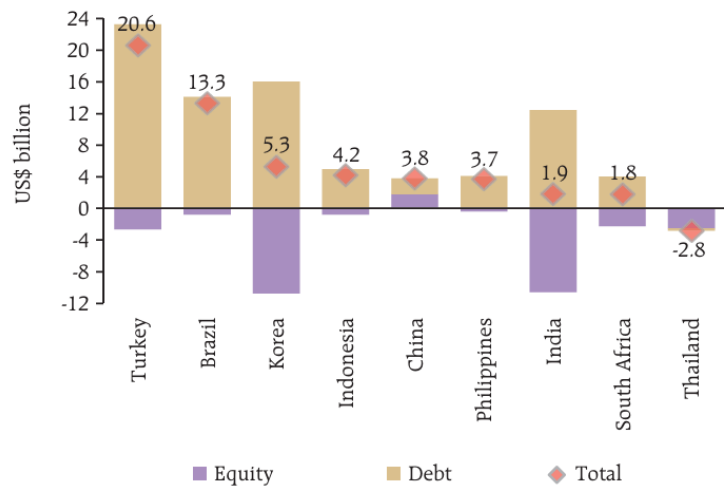
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 56: Portfolio flows to emerging markets weaken again



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 57: Net foreign portfolio investments for peer economies (Apr 2024-Jan 2025), India and South Korea witnessed big-time selling



SOURCE: NATIONAL SECURITIES DEPOSITORY LIMITED (NSDL); AND INSTITUTE OF INTERNATIONAL FINANCE, INCRED RESEARCH

Sector-wise ratings and stock ideas ➤

The Nifty-50 Index has been in a consolidation phase in the last three months (-2%), while a sharp correction in mid-caps/small-caps indices continued (6-11%). The major drag was in sectors like energy, realty, pharma, FMCG, media and public sector banks. The major beat came from financial and metals sectors.

Comparing Bloomberg consensus FY25F EPS change vs. sector returns for the last six months, we feel the valuation correction has been sharp in case of consumer discretionary, energy, industrials, materials and utilities sectors.

In this results season, making use of stock price correction, the number of stock upgrades are nearly six times higher than the downgrades. Key upgraded stocks are Amber Enterprises, Atul, Avalon Technologies, Bajaj Auto, Blue Dart Express, Cummins India, Gujarat Pipavav Port, KEI Industries, PNC Infratech, Samvardhana Motherson International or SAMIL, Thermax, Voltas and VRL Logistics. The stocks that witnessed downgrade are Cyient, and Epigral.

Considering the ongoing trade war and DeepSeek challenges, we have downgraded the IT sector's rating to Neutral from Overweight. We initiated coverage on Zomato, Swiggy, and NTPC with an ADD rating.

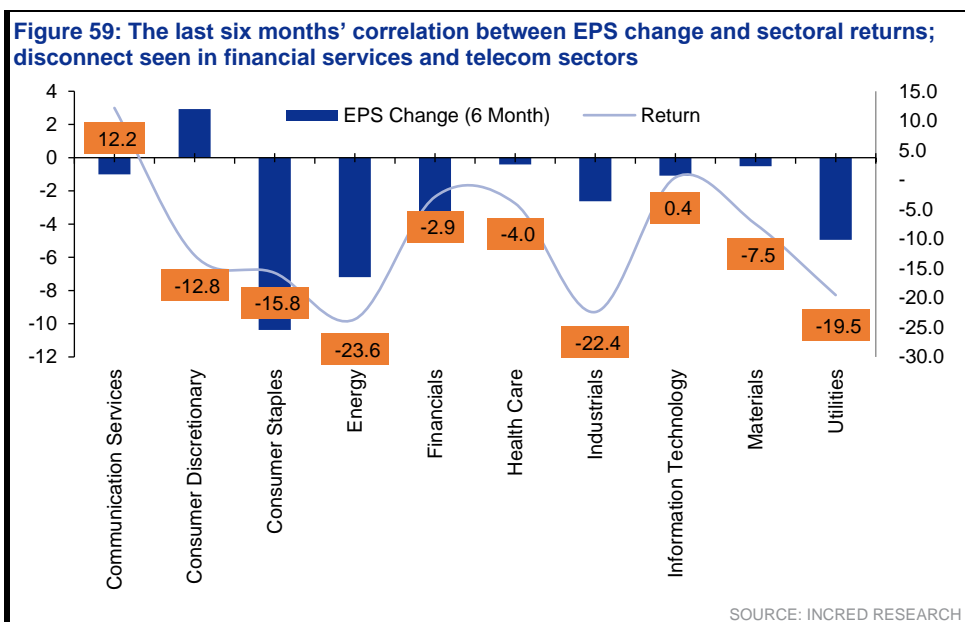
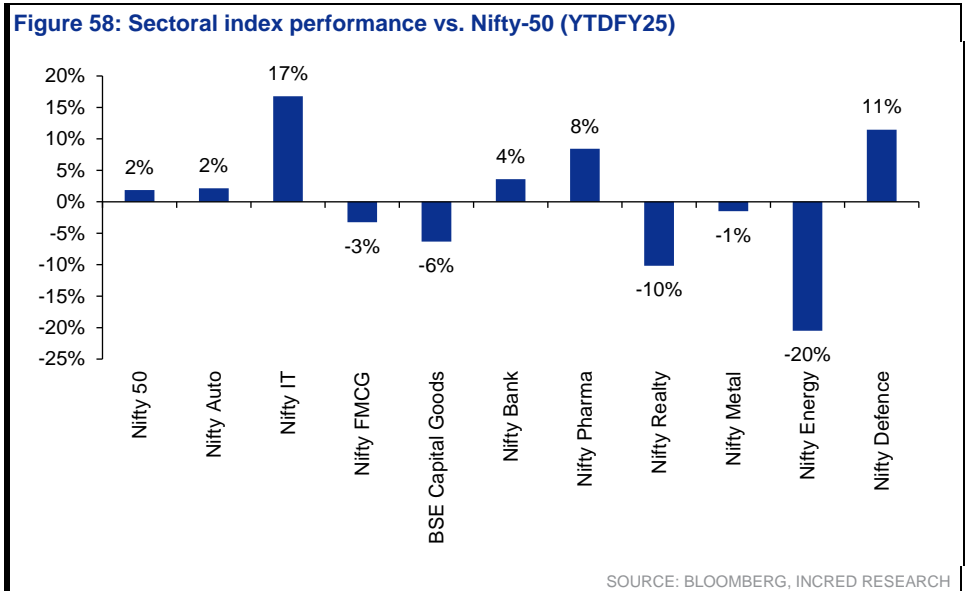
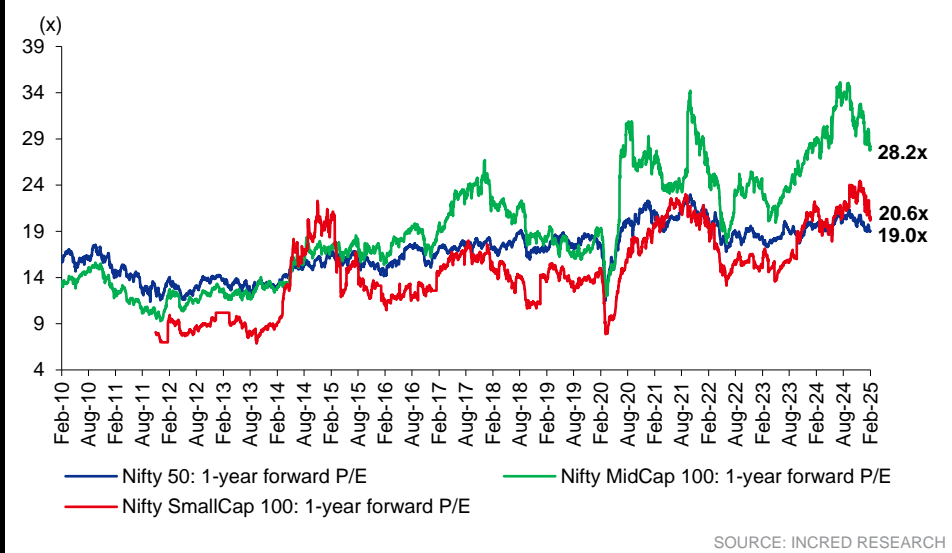


Figure 60: Our sector-wise ratings

Overweight	Neutral	Underweight
Aluminium	Automobile	Agribusiness
Cement	Auto Ancillary	Aviation
Capital Goods	Consumer staples	Building Materials
Consumer Electricals	Infrastructure	Chemicals
Electronic Manf services	Information Technology	Metals & Mining
Financial Services		Ports & Logistics
Oil and Gas		
Pharmaceuticals		

SOURCE: INCRED RESEARCH

Figure 61: Nifty mid-cap forward P/E valuation discomfort vs. other indices persists



SOURCE: INCRED RESEARCH

Figure 62: High dividend yield stocks for value investing outperformance

Company Name	Bloomberg Ticker	Recom.	CMP	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/ Dividend		Upside/ Downside (%)	RoE (%)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F		
Shriram Finance	SHFL IN	ADD	581	800	1,092	12.6	214.7	263.0	2.7	2.2	0.4	0.3	0.4	2.6	37.7	15.2
Wipro	WPRO IN	HOLD	313	466	3,280	37.9	22.7	25.1	13.8	12.5	2.1	2.1	7.6	5.8	48.9	15.8
Hero MotoCorp	HMCL IN	ADD	3,909	5,525	782	9.0	236.9	270.2	16.5	14.5	4.0	3.7	10.8	4.1	41.3	25.2
Oil & Natural Gas	ONGC IN	ADD	242	221	3,043	35.1	38.6	NA	6.3	NA	0.9	NA	2.8	4.1	(8.6)	15.0
GAIL India	GAIL IN	ADD	167	261	1,099	12.7	14.7	17.0	10.0	8.8	1.3	1.2	8.0	4.0	56.0	11.6
Petronet LNG	PLNG IN	ADD	307	519	460	5.3	28.8	40.5	10.7	7.6	2.5	2.0	7.9	3.6	69.1	24.1
HCL Technologies	HCLT IN	ADD	1,688	2,021	4,579	52.8	64.0	69.9	26.4	24.1	6.5	6.5	16.9	3.4	19.8	25.1
UTI AMC	UTIAM IN	ADD	972	1,350	124	1.4	66.4	85.1	14.6	11.4	2.5	2.3	2.5	3.6	38.9	18.2
Dr Reddy's Laboratories	DRRD IN	HOLD	1,171	1,300	977	11.3	67.4	64.4	17.4	18.2	3.2	3.0	11.0	3.4	11.0	19.2
Mahindra & Mahindra Fin.	MMFS IN	ADD	281	330	347	4.0	19.4	20.8	14.5	13.5	1.8	1.7	1.8	3.6	17.6	12.8

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG,

NOTE: PRICES AS ON 21 FEB 2025

Figure 63: Non-consensus stocks with a REDUCE rating in our coverage universe

Company Name	Bloomberg Ticker	Recom.	CMP	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA		Dividend Yield (%)	Upside/ Downside (%)	RoE (%)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F			
Apollo Tyres	APTY IN	REDUCE	418	353	266	3	21.8	24.3	19.9	17.2	1.8	1.7	7.4	1.4	-16%	9.6	
Astral Ltd.	ASTRA IN	REDUCE	1,400	1,344	376	4	20.5	24.0	68.2	58.4	10.3	9.0	38.0	-	-4%	16.2	
Avanti Feeds	BRCM IN	REDUCE	478	261	96	1	14.1	26.1	33.9	18.3	2.6	2.3	17.7	0.1	-45%	11.0	
Balrampur Chini Mills	BRCM IN	REDUCE	478	261	96	1	14.1	26.1	33.9	18.3	2.6	2.3	17.7	0.1	-45%	11.0	
Bharat Forge	BHFC IN	ADD	1,081	1,407	517	6	24.7	31.9	47.9	33.8	4.3	3.8	17.6	1.0	30%	12.8	
Clean Science & Tech.	CLEAN IN	REDUCE	1,310	683	139	2	24.3	27.1	54.0	48.4	9.5	8.0	34.8	-	-48%	19.4	
Coal India	COAL IN	REDUCE	368	209	2,267	26	27.4	24.9	13.4	14.8	2.8	2.6	7.0	3.4	-43%	22.5	
Divi's Laboratories	DIVI IN	ADD	5,978	6,560	1,587	18	79.4	102.0	75.3	58.6	10.7	9.3	53.8	-	10%	14.8	
FSN Ecommerce	NYKAA IN	REDUCE	166	103	473	5	0.2	0.2	705.8	725.1	35.6	33.9	107.2	-	-38%	5.2	
Gujarat Gas	GUJGA IN	ADD	401	642	276	3	21.9	34.9	18.3	11.5	3.1	2.6	10.6	1.5	60%	18.2	
InterGlobe Aviation	INDIGO IN	REDUCE	4,501	3,030	1,739	20	121.1	83.0	29.0	54.3	22.0	15.6	12.8	-	-33%	100.0	
JSW Steel	JSTL IN	REDUCE	981	470	2,399	28	25.9	25.9	31.8	26.7	3.8	3.4	14.0	0.7	-52%	12.5	
Kaveri Seed Co	KSCL IN	ADD	1,014	639	52	1	NA	NA	NA	NA	NA	NA	NA	NA	-37%	NA	
NCC	NJCC IN	REDUCE	193	150	121	1	15.1	16.1	12.8	12.0	1.5	1.4	9.5	0.4	-22%	17.1	
PG Electroplast	PGEL IN	REDUCE	827	760	234	3	9.1	12.0	91.2	68.9	16.9	13.6	52.0	-	-8%	20.4	
Tata Steel	TATA IN	REDUCE	138	82	1,723	20	5.4	5.4	25.4	25.5	1.5	1.5	9.1	1.4	-41%	6.1	
TVS Motor Co.	TVSL IN	REDUCE	2,419	1,901	1,149	13	52.3	55.1	45.8	43.9	14.5	11.4	27.6	0.4	-21%	31.7	

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG,

NOTE: PRICES AS ON 21 FEB 2025

Figure 64: Our key mid-cap and small-cap stock recommendations

Company Name	Bloomberg Ticker	Recomm.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/ EBITDA (x)	Dividend Yield (%)	Upside/ Downside (%)	RoE (%)
			Rs	Rs	(Rs bn)	(US\$ bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F		
Alkem Laboratories	ALKEM IN	ADD	4,720	6,150	564	7	187	215	25.2	21.9	4.7	4.0	20.6	0.7	30%	20.0
Amber Enterprises	AMBER IN	ADD	5,837	8,055	197	2	94	140	62.1	41.7	8.3	6.9	25.0	-	38%	14.3
Atul	ATLP IN	ADD	5,564	6,727	164	2	163	203	34.2	27.5	3.0	2.7	16.6	0.4	21%	9.1
Balkrishna Industries	BIL IN	ADD	2,722	3,517	526	6	86	100	31.7	27.2	5.2	4.5	20.3	0.7	29%	17.4
CG Consumer Electricals	CROMPTON IN	ADD	335	435	216	2	9	11	37.1	30.5	6.5	5.8	23.9	1.2	30%	24.3
Cyient	CYL IN	HOLD	1,453	1,773	161	2	53	74	27.4	19.5	3.6	3.3	13.6	2.4	22%	18.2
Cyient DLM	CYIENTDL IN	ADD	424	818	34	0	9	16	51.5	27.0	3.4	3.0	23.7	-	93%	12.4
FSN Ecommerce	NYKAA IN	REDUCE	166	103	473	5	0	0	705.8	725	35.6	33.9	107.2	-	-38%	5.2
Endurance Technologies	ENDU IN	ADD	1,881	2,498	264	3	59	80	32.0	23.5	4.7	4.1	16.8	0.7	33%	15.6
Ethos	ETHOSLTD IN	ADD	2,582	3,400	63	1	37	49	68.9	52.3	6.5	5.8	31.1	-	32%	13.4
Globus Spirits	GBSL IN	ADD	865	1,584	25	0	45	106	19.4	8.2	2.3	1.8	10.1	0.2	83%	12.4
Ipca Laboratories	IPCA IN	ADD	1,497	1,720	380	4	35	45	42.4	33.4	5.4	4.8	22.9	0.3	15%	13.4
Jyothy Labs	JYL IN	ADD	344	460	126	1	11	13	32.0	27.5	6.2	5.3	24.6	1.3	34%	20.5
Kalpataru Projects Intl.	KPIL IN	ADD	926	1,461	158	2	42	61	22.3	15.1	2.4	2.1	11.0	0.8	58%	11.2
KEI Industries	KEII IN	ADD	3,732	4,855	357	4	70	89	53.5	42.0	6.2	5.4	35.1	0.1	30%	20.0
Lloyds Metals & Energy	LLOYDSME IN	ADD	1,193	1,476	624	7	40	119	29.6	10.0	8.9	4.1	21.5	-	24%	42.6
Metropolis Healthcare	METROHL IN	ADD	1,678	2,250	86	1	33	41	51.2	41.1	6.3	5.6	24.6	0.2	34%	18.3
MTAR Technologies	MTARTECH IN	ADD	1,471	2,644	45	1	31	59	47.0	25.0	5.9	4.7	27.7	-	80%	13.3
Skipper	SKIPPER IN	ADD	419	695	44	1	15	19	27.1	21.9	4.2	3.5	10.8	0.1	66%	16.7
TCPL Packaging	TCPL IN	ADD	4,141	4,380	38	0	139	160	29.7	25.8	6.0	5.1	14.8	0.7	6%	22.0
UPL	UPLL IN	ADD	647	694	519	6	17	45	96.0	18.7	1.7	1.5	10.9	0.3	7%	5.9
Voltas	VOLT IN	ADD	1,279	1,845	423	5	27	34	47.8	38.1	6.5	5.7	35.2	0.4	44%	14.4
VRL Logistics	VRLL IN	ADD	482	650	42	0	18	19	27.1	24.8	4.0	3.6	9.4	1.2	35%	15.6
Zyodus Lifesciences	ZYDUSLIF IN	ADD	900	1,150	905	10	46	47	19.4	19.3	3.8	3.3	12.9	0.8	28%	21.5

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG,
NOTE: PRICES AS ON 21 FEB 2025

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.