kotak Securities

MARKET OUTLOOK 2024

Dear Valued Investor,

India’s growth story continues to be incredible across all major sectors of our economy. The World Bank’s flagship half-yearly report [1] on the Indian economy states that we have maintained the momentum of being one of the fastest-growing major economies in FY22/23 at 7.2%, with our growth rate slated as the second highest among G20 countries and almost twice the average for emerging market economies. Being the frontrunner in the global economic race, underpinned by the vision of becoming a $25 trillion economy in the next 25 years [2], the nation and its people are putting in significant efforts that are yielding positive results.

Driven by robust domestic demand, growing public infrastructure investment and a strengthened financial sector, the World Bank and the IMF forecast India’s GDP growth for FY23/24 to be at 6.3%[3]. Incorporating the latest GDP print and a better global growth profile, we revise our FY24E real GDP growth to 6.8% (6.2% earlier) while maintaining our FY25E real GDP growth at 6.3%.

The good news is that global growth, though fragile, has not moved into recession despite the geopolitical crisis led by the Russia-Ukraine war earlier in the year, followed by the Israel-Hamas War, peak global inflation, rising crude prices, peak US 10-year yield and consumption slowdown.

In CY23, Nifty surpassed the 20000 mark for the first time, and BSE Sensex exceeded the 67900 mark, with both Indexes gaining around 13%. The Nifty Midcap Index and Smallcap Index outperformed and gained significantly. Sectors that have done well in CY23 include Real Estate, PSU Banks, CPSE, Auto, Pharma, S&P Industrials and FMCG. Investments in SIP are an additional factor that has strengthened India's economy. In FY23, the average monthly SIP inflow was around Rs 13000 crores, further validating the investor’s faith.

The 2024 commodity outlook anticipates a moderation in US economic momentum and inflation, boosting gold's appeal as a safe haven amid global uncertainties. Silver may experience increased industrial demand driven by the growing need for green energy and its essential role in photovoltaic cells. The potential for a Federal Reserve pivot and 2024 rate cuts could act as a buffer against a global economic slowdown. In the realm of crude oil, pricing dynamics pivot on the unfolding demand scenarios in the United States and China, making these factors pivotal in shaping the market landscape for the upcoming year.

On a happy note, the Indian Rupee became one of the most stable currencies globally. This remarkable stability happened because of the assertive and effective interventions by the central bank, robust economic growth and comparatively lower inflation. RBI’s strategy to prevent the Rupee from appreciating excessively against its counterparts ensured domestic economic strength and international trade resilience.

While presenting the market outlook, we have to consider the 1-year forward outlook of EPS, and based on that, our base case target is 21834, which is 18 times FY26 estimated EPS of Rs1213. We are of the view that equity and other asset classes, such as debt, real estate, or gold, may provide investment opportunities during the calendar year 2024, which would give a decent return in the coming 2 to 3 years. We can consider CY24 as the year of investment across various asset classes.

We expect a great closure to FY24 with moderate growth and macroeconomic stability. I urge all of you to continue believing in India’s growth story and keep investing. With immense pride, I present the Market Outlook for 2024, where our experts have shared their projections and views on the stock market, commodities, and currencies. I wish you and your family a very Happy New Year!

Cheers,

Jaideep Hansraj

MD & CEO, Kotak Securities

Sources:

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2. https://economictimes.indiatimes.com/news/india/india-on-25-trillion-economy-path-tata-sons-chairman/articleshow/97809039.cms
3. https://www.worldbank.org/en/news/press-release/2023/10/03/india-s-growth-to-remain-resilient-despite-global-challenges / https://www.reuters.com/world/india/imf-raises-indias-fy24-gdp-growth-forecast-63-report-2023-10-10/#:~:text=%22Growth%20in%20India%20is%20projected,June%2C%22%20the%20IMF%20said.

Contents

EQUITY OUTLOOK

INDIAN MARKETS IN CY23

Indian Markets created history in CY23 with the Nifty surpassing 20000 on 11th September 2023 for the first time and BSE Sensex surpassing 67900, with both Indexes gaining around 13% in CY23YTD. The Nifty Midcap Index and Smallcap Index outperformed and gained around 39% and 48% respectively, during the same time. The up move in Indian markets was exceptional considering the Russia-Ukraine war, Israel-Hamas War, peak global inflation, rising crude prices, peak US 10 year yield and consumption slowdown. The up move was driven by all class of investors. While the FPIs set forth their conviction in Indian capital market by infusing ₹1.14 lakh cr in equities YTD, the retail category (via SIPs) was not behind and invested ₹16928 cr in October 2023 and ₹107240 cr in 7MFY24. CY23 belonged to Nifty real Estate (+63.4%), Nifty PSU Banks (+17.8%), Nifty CPSE (+50.2%), Nifty Auto (+37.8%), Nifty Pharma (+26.7%), S&P Industrials (+53%) and Nifty FMCG (+19.3%).

Challenges to developed economies

In US, the yield on 10-year government bonds in the US, the benchmark for asset prices across the globe, rose to hit 5.02%, its highest level since July 2007. However, the yield dropped to 4.35% on 28th November 2023 after Federal Reserve Governor Christopher Waller flagged the possibility of lowering the Fed policy rate in the months ahead if inflation continues to fall. While the gross domestic product (GDP) of the US expanded at an annualized rate of 4.9% in the third quarter of CY23 as the US Bureau of Economic Analysis' (BEA). The sharp increase came due to contributions from consumer spending, increased inventories, exports, residential investment and government spending. Powell has acknowledged that if the economy were to keep growing robustly, the Fed might have to raise rates further. Its benchmark short-term rate is now about 5.4%, a 22-year high. While the U.S. has proven resilient to the various challenges, most economists expect growth to slow considerably in the coming months with investors still pricing in no chance of an interest rate hike in coming months. The European Central Bank has held interest rates, bringing an end to its unprecedented streak of 10 consecutive increases in borrowing costs amid rising concerns over Eurozone growth.

In the Eurozone, concerns over inflation are coming up against mounting worries about the weakness of the economy. GDP in the euro area shrank by 0.1% in Q3CY23 qoq. It marks the first contraction since 2020. The figure also came in line with market expectations, and followed 0.2% qoq growth in Q3. Activity is expected to remain weak for rest of CY23 as per the President of the European Central Bank (ECB) Christine Lagard.

In Asia, China's Q3CY23 economic growth came in at 4.9% yoy stronger than expected, boosting hopes that it will meet or even exceed China's GDP target for about 5% for CY23. Sluggish property market, weak consumer spending and slow external trade remains a drag on the economy. Accordingly, The Chinese government took a rare and unexpected decision in October to issue 1 trillion yuan ($141 billion) of additional sovereign bonds in Q4CY23 to finance infrastructure spending, widening the budget deficit to a record high of 3.8%.

Mixed domestic macro factors

The high frequency indicators have remained resilient for India tracking the Q1FY24 and Q2FY24 real GDP growth. Real GDP growth at 7.8% in Q2FY24 (7.8% in Q1FY24) was much better than expected led by strong investment growth (while consumption growth remained muted). Gross value added (GVA) growth was boosted by industrial sector growth. Over the next few quarters robust corporate profitability trend will continue to keep growth numbers buoyant even as consumption could remain under pressure. Any moderation in global demand will weigh on exports. Incorporating the latest GDP print and a better global growth profile, we revise our FY24E real GDP growth to 6.8% (6.2% earlier) while maintaining our FY25E real GDP growth at 6.3%.

GST collections for October (collected in November) were 15.1% yoy higher at ₹1.68 lakh crore (September: ₹1.72 lakh crore), while October factory activity (IIP) registered a growth of 11.70% (from 6.20% in September) due to robust activities in the manufacturing and mining sectors. October CPI inflation spike at 5.55%, lower than expected 5.90%. Core CPI inflation continued on its downtrend as well. While upside risks to inflation remain from protracted geopolitical conflicts and a tight oil market (though currently weighed down by lackluster demand), we estimate FY24 CPI inflation average at 5.40% and for FY25 at 4.70%. We maintain our view of a prolonged pause by the RBI and expect system liquidity to remain tight in the near term.

Mixed Macros

India's macroeconomic position looks lukewarm—neither too exciting nor too worrisome. Economic growth looks good on a yoy basis but is still feeble on a long-term basis. Inflation is on the higher side of the RBI's target band and the RBI will likely continue with its hawkish stance for the next few months. The fiscal position is challenged but not alarming. CAD/BoP look comfortable but that is as long as global crude oil prices stay below US$90/bbl.

We expect decent growth on a yoy basis in FY24 and FY25 but note that growth is still quite anemic compared to pre-pandemic levels. In particular, consumption demand has been quite muted. We attribute weak consumption demand to (1) weak labor market conditions and (2) high inflation across discretionary and staples products too. A combination of low growth in income/wages for large sections of the population and high inflation in basic staples and discretionary items has severely dented affordability for a large section of households.

REAL GVA AND COMPONENTS GROWTH, MARCH FISCAL-YEAR ENDS, 2017-25E (%)

	2019	2020	2021	2022	2023	2024E	2025E	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E	4QFY24E
Real GVA	**5.8**	**3.9**	**(4.2)**	**8.8**	**7.0**	**6.7**	**6.1**	**11.9**	**5.4**	**4.7**	**6.5**	**7.8**	**7.4**	**6.4**	**5.4**
Agriculture and allied	**2.1**	**6.2**	**4.1**	**3.5**	**4.0**	**1.5**	**4.3**	**2.4**	**2.5**	**4.7**	**5.5**	**3.5**	**1.2**	**0.7**	**1.1**
Industry	**5.3**	**(1.4)**	**(0.9)**	**11.6**	**4.4**	**9.9**	**7.1**	**9.4**	**(0.5)**	**2.3**	**6.3**	**5.5**	**13.2**	**12.6**	**8.7**
Mining	(0.8)	(3.0)	(8.6)	7.1	4.6	7.8	6.8	9.5	(0.1)	4.1	4.3	5.8	10.0	7.9	7.8
Manufacturing	5.4	(3.0)	2.9	11.1	1.3	10.4	6.7	6.1	(3.8)	(1.4)	4.5	4.7	13.9	13.8	9.4
Electricity	7.9	2.3	(4.3)	9.9	9.0	8.0	7.7	14.9	6.0	8.2	6.9	2.9	10.1	10.3	9.2
Construction	6.5	1.6	(5.7)	14.8	10.0	10.0	7.8	16.0	5.7	8.3	10.4	7.9	13.3	12.1	7.6
Services	**7.2**	**6.4**	**(8.2)**	**8.8**	**9.5**	**6.4**	**6.1**	**16.3**	**9.4**	**6.1**	**6.9**	**10.3**	**5.8**	**5.0**	**4.6**
Trade, hotel, transport, communication	7.2	6.0	(19.7)	13.8	14.0	4.8	5.7	25.7	15.6	9.6	9.1	9.2	4.3	3.4	3.2
Financial, real estate, professional services	7.0	6.8	2.1	4.7	7.1	7.4	6.6	8.5	7.1	5.7	7.1	12.2	6.0	5.3	5.4
Public admin, defence, and others	7.5	6.6	(7.6)	9.7	7.2	7.0	5.6	21.3	5.6	2.0	3.1	7.9	7.6	7.0	5.6
Real GDP	**6.5**	**3.9**	**(5.8)**	**9.1**	**7.2**	**6.8**	**6.3**	**13.1**	**6.2**	**4.5**	**6.1**	**7.8**	**7.6**	**6.6**	**5.6**

Source: CEIC, Kotak Institutional Equities estimates

We are entering an eventful period

We see several factors in the next few months that will set the course of global and Indian markets in H1CY24. (1) The duration and magnitude of peak interest rates in the US and other developed economies will determine the strength of the global economy and investment sentiment in markets in 2024. (2) A likely revival in consumption in India may coincide with disruption becoming more visible in a few consumption sectors (autos, paints). (3) India will be leading to general elections and more state elections in mid-2024 (post five state elections in November 2023).

We prefer mega-caps, noting their reasonable valuations and greater immunity in the event of any negative developments in the next few months. We note that the Indian stock market has 'three' distinct markets within it, each with its own dynamics and embedded expectations. (1) The mega-caps are in a bear market, with many largecap stocks delivering modest positive negative or moderate negative returns in the past 2-3 years. (2) The largecap and high-quality midcaps are in a bull market, with the weak operating performance in the short term and likely deterioration in fundamentals in the medium term being largely ignored by the market. (3) Several low-quality midcaps and smallcaps in general are in a bubble market, with the market attaching unrealistic narratives to many stocks.

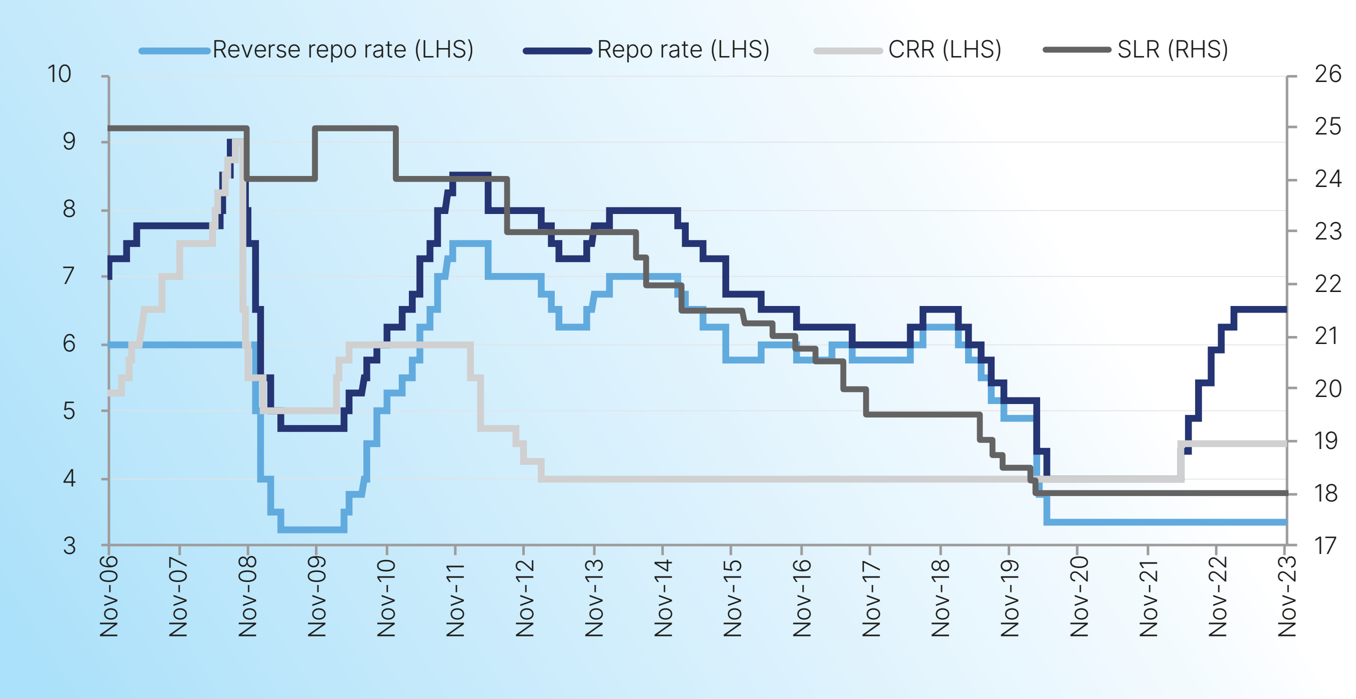
High inflation but stable interest rates

We see a period of moderate and stable interest rates in the Indian economy, which will likely support economic activity. Interest rates in India have merely returned to their pre-pandemic levels despite sharp increases in policy rates by the RBI over the past 1.75 years. India's policy rates are at pre-pandemic levels unlike in the Developed Markets where policy rates are much higher than pre-pandemic levels.

We do not expect the RBI to change its monetary stance in the near future (through H1FY25) as it is determined to bring down inflation to around 4% (middle of its inflation target band of 2-6%) over the medium term. This may be difficult to achieve over the next 12-18 months, which would entail the RBI continuing with its current hawkish monetary policy stance.

We expect headline CPI inflation to stay above 4.5% through Q1FY25, above the mid-point of the RBI's target band of 2-6% (4% +/-2%). We model average CPI inflation of 5.4% in FY24, in line with the RBI's estimates. We would also highlight upside risks to domestic inflation from (1) higher-than-expected domestic food prices and (2) higher-than-assumed global fuel prices.

INDIA'S POLICY RATES HAVE RETURNED TO PRE-PANDEMIC LEVELS



Source: RBI, Kotak Institutional Equities

RBI'S ESTIMATES FOR CPI INFLATION ACROSS PAST FEW POLICIES

CPI inflation (%)

	Dec policy	Feb Policy	Apr policy	Jun policy	Aug policy	Oct policy	Kotak
1QFY23							
2QFY23							
3QFY23	6.6						
4QFY23	5.9	5.7					
FY2023	**6.7**	**6.5**					
1QFY24	5.0	5.0	5.1	4.6			
2QFY24	5.4	5.4	5.4	5.2	6.2	6.4	6.4
3QFY24		5.4	5.4	5.4	5.7	5.6	5.2
4QFY24		5.6	5.2	5.2	5.2	5.2	4.9
FY2024		**5.3**	**5.2**	**5.1**	**5.4**	**5.4**	**5.3**
1QFY25					5.2	5.2	5.3
FY2025							**4.7**

Source: RBI, Kotak Institutional Equities

External trade- Comfortable CAD and BoP position but risks exist

We expect a comfortable CAD/BoP position in FY24 and FY25 given (1) moderate oil prices; we assume US$85/bbl for FY24 and US$90/bbl for FY25, above FYTD24 average of US$84/bbl, all on Dated Brent basis and (2) pickup in non-software exports, which may offset the ongoing slowdown in software exports.

We continue to expect external sector risks owing to (1) protracted geopolitical conflicts causing uncertainty in energy prices and (2) global rates likely to stay high for longer. With the global growth expected to slow down in H2FY24E, while domestic growth remains relatively robust, non-oil imports are likely to remain firm relative to non-oil exports. We continue to expect headwinds to increase in H2FY24E and maintain our FY24 CAD/GDP estimate at 1.5%. Furthermore, we continue to expect USD-INR in the range of 82.75- 83.5 over the near term.

INDIA'S TRADE DATA (MARCH FISCAL YEAR-ENDS, US$BN)

	2019	2020	2021	2022	2023	2024E	2025E
Current account balance	**(57.3)**	**(24.7)**	**23.9**	**(38.8)**	**(67.1)**	**(54.0)**	**(72.4)**
GDP	2,705	2,835	2,671	3,150	3,388	3,594	3,988
CAB/GDP (%)	**(2.1)**	**(0.9)**	**0.9**	**(1.2)**	**(2.0)**	**(1.5)**	**(1.8)**
Trade balance	(180)	(158)	(102)	(189)	(265)	(252)	(277)
Trade balance/GDP (%)	**(6.7)**	**(5.6)**	**(3.8)**	**(6.0)**	**(7.8)**	**(7.0)**	**(6.9)**
- Exports	337	320	296	429	456	418	451
- oil exports	47	41	26	67	97	82	98
- non-oil exports	291	279	270	362	359	335	352
- Imports	518	478	398	619	721	670	728
- oil imports	141	131	83	162	209	183	207
- non-oil imports	377	347	316	457	512	487	521
- gold imports	33	28	35	46	35	40	40

Source: RBI, Kotak Economics Research estimates

Q2FY24 results analysis: Modestly ahead of our expectations

Q2FY24 net income of the Nifty-50 Index increased 25.6% yoy compared to our expectations of 22.7% growth. EBITDA increased 22.6% yoy; 1.8% ahead of our expectations entirely due to BPCL. Net profits of the KIE universe increased 42% yoy compared to our expectations of 36% yoy increase. Excluding oil marketing companies (OMCs), net income grew 26% yoy. OMCs reported higher adventitious gains and lower under-recoveries on retail automotive fuels in Q2FY24. Most of the other sectors reported a decent increase in yoy net income led by improvement in profitability, which offset muted volume growth.

Adjusted net profits of the BSE-30 Index increased 22.3% yoy, compared to our expectations of 19.1%. Adjusted net profits of the Nifty-50 Index increased 25.6% yoy versus our expectations of 22.7%. The divergence between the growth in the profits of the BSE- 30 Index and Nifty-50 Index reflects strong yoy growth in net income of BPCL on higher adventitious gains and lower under-recoveries on retail sales of diesel and gasoline in Q2FY24. BPCL is in the Nifty- 50 Index but not in the BSE-30 Index. It reported a net income of ₹8500 cr in Q2FY24 versus a net loss of ₹300 cr in Q2FY23.

SIP Flows remain strong

The inflows into Indian Markets through SIP have been growing above ₹15000 cr mark since July 2023. Average for the last 7 months of FY24 is around ₹15300 cr. In FY23, average monthly inflow was at around ₹13000 cr. The total inflow has reached to ₹107000 cr in the first seven months of FY24. This came following an inflow of over ₹1.56 lakh cr in FY23.

Strong SIP flows also underpins investor's faith in the Indian Economy. Such flows also support the markets in case of outflows by FPI/FII.

SIP CONTRIBUTION IN Rs. CRORES

	FY24	FY23	FY22	FY21	FY20	FY19
Total	107,240	1,55,972	1,24,566	96,080	1,00,084	92,693
March		14,276	12,328	9,182	8,641	8,055
February		13,686	11,438	7,528	8,513	8,095
January		13,856	11,517	8,023	8,532	8,064
December		13,573	11,305	8,418	8,518	8,022
November		13,306	11,005	7,302	8,273	7,985
October	16,928	13,041	10,519	7,800	8,246	7,985
September	16,042	12,976	10,351	7,788	8,263	7,727
August	15,814	12,693	9,923	7,792	8,231	7,658
July	15,245	12,140	9,609	7,831	8,324	7,554
Jun	14,734	12,276	9,156	7,917	8,122	7,554
May	14,749	12,286	8,819	8,123	8,183	7,304
April	13,728	11,863	8,596	8,376	8,238	6,690

Source: AMFI

FII flows

Recent data for November 2023 showed that foreign investors turned positive and emerged as net buyers as investors are expecting a moderation in the pace of rate hikes, consumption boost in China and strong growth in India.

India witnessed strong FII inflows along with other emerging markets from April 23. It peaked out in July 23 with inflows of ₹46600 cr in Equity. However, they turned negative in September 2023 and October 2023 with rich valuations and upcoming state and general elections over next 6-8 month creating political uncertainty. Going forward odds are evenly balanced as headwinds emanating from firm US interest rates, El Nino impact on crops and inflation, volatile crude and geopolitical uncertainty still abound.

We assume moderate FDI flows linked to decline in gross FDI inflows from overseas entities and sharp increase in gross FDI outflows from overseas entities (essentially, exits from PE and VC funds). However, FPI flows have been quite strong FYTD24 despite outflows in the past two months, which may provide some buffer against lower FDI inflows to India's overall BoP position. Also, FY25 will see FPI debt inflows of around US$25 bn following the inclusion of certain sovereign bonds in certain Emerging Markets (EM) bond indices.

FOREIGN INVESTMENTS IN INDIA IN US$ BN

	2019	2020	2021	2022	2023	2024E	2025E
Foreign investment	30	44	80	22	23	41	54
- FDI	31	43	44	39	28	21	24
- FPI	(1)	1	36	(17)	(5)	20	30
- Equities	3	0	36	(18)	(6)	15	5
- Debt	(4)	1	(0)	2	1	5	25

Source: RBI, Kotak Economics Research estimates

Valuation and Nifty Target

The recent sharp correction in stock prices may reflect (1) growing recognition of short-term (higher-for-longer interest rates, weak domestic consumption) and medium-term (disruption across sectors) challenges or (2) a 'natural' correction in the market from 'high' levels. In our view, large-cap stocks offer better reward-risk balance given more reasonable valuations versus lofty valuations of most mid- and small-cap stocks.

Investment stocks have delivered strong returns over the past 6-12 months on expectations of strong recovery in the domestic capex cycle. Strong government capex in 6MFY24 has supported this narrative. However, we note two risks with this narrative—(1) possible front-loading of government capex in FY24 and (2) financing of capital expenditure by large fiscal deficits, which may not be sustainable given high fiscal deficit. Private corporate capex appears to be sluggish given (1) weakening GFCF/GDP, despite strong government and household capex and (2) tepid recovery in sanctioning of long-term loans for projects.

We expect EPS of the Nifty-50 Index at ₹964 in FY24E, ₹1080 in FY25E and ₹1213 in FY26E. At 20528, Nifty trades at 21.3x FY24E, 19.0x FY25E and 16.9x FY26E. We find the valuations of the Nifty-50 Index to be more reasonable at 16.9x FY26E EPS in the context of moderate earnings growth and muted performance over the past two years. However, we find decent value in a few large-cap stocks and the BFSI sector only in light of rich valuations of most stocks in the consumption, investment and outsourcing sectors. As the broader market valuations are rich, opportunities arising from market correction can be used to add quality stocks (with attractive valuation) from long-term investment perspective.

VALUATION SUMMARY OF NIFTY 50 SECTORS

	Mcap. (US$ bn)	Adj. mcap. (US$ bn)	EPS growth (%)			Free-float PER (X)		
			2024E	2025E	2026E	2024E	2025E	2026E
Automobiles & Components	133	71	106.2	3.5	7.1	18.8	18.2	17.0
Banks	373	326	10.5	8.7	13.0	16.0	14.6	12.9
Capital Goods	82	54	36.4	25.6	17.0	35.7	29.3	24.7
Commodity Chemicals	36	17	35.2	2.6	2.8	53.4	52.1	50.7
Construction Materials	46	21	34.7	18.2	11.1	22.3	19.1	17.3
Consumer Staples	188	99	9.5	12.4	10.9	38.1	33.9	30.7
Diversified Financials	86	35	40.9	26.1	21.0	28.7	22.7	18.7
Electric Utilities	53	26	12.0	9.2	5.9	12.1	11.0	10.4
Fertilizers & Agricultural Chemicals	5	3	(40.2)	46.0	30.7	20.5	14.0	10.7
Health Care Services	9	7	11.8	61.0	31.5	83.8	52.0	39.6
IT Services	326	146	3.8	14.3	11.8	25.4	21.9	19.4
Insurance	33	16	14.6	11.2	11.2	77.6	69.5	62.4
Metals & Mining	55	30	16.1	44.9	28.1	17.0	11.4	8.9
Oil, Gas & Consumable Fuels	258	122	13.1	1.9	3.1	14.6	14.1	13.6
Pharmaceuticals	69	38	16.7	15.7	9.1	26.8	23.5	21.9
Retailing	36	17	11.1	21.0	22.3	81.4	67.3	55.0
Telecommunication Services	67	31	69.9	47.4	25.2	36.3	24.6	19.7
Transportation	21	8	4.2	18.6	15.6	20.3	17.1	14.8
Nifty-50 Index	**1,874**	**1,067**	**17.1**	**11.6**	**11.4**	**20.5**	**18.3**	**16.3**
Nifty-50 Index (ex-energy)	**1,615**	**945**	**18.2**	**14.3**	**13.5**	**21.6**	**19.0**	**16.7**
Nifty-50 Index (ex-banks)	**1,500**	**741**	**19.7**	**12.7**	**10.8**	**23.3**	**20.5**	**18.4**

Source: Bloomberg, Kotak Institutional Equities estimates

Nifty Target CY2024

NIFTY base case target at 21834 by CY24 end: We expect EPS of the Nifty-50 Index at ₹964 in FY24E, ₹1080 in FY25E and ₹1213 in FY26E. At 20528, Nifty trades at 21.3x FY24E, 19.0x FY25E and 16.9x FY26E.

Base case: we value NIFTY at 5% discount (at 18.0x) to last 10-year average PE of 19.0x on FY26 EPS of ₹1213 and arrive at December 2024 Nifty target of 21834.

Bull Case: we value Nifty at 5% premium (at 20x) to 10-year average PE of 19.0x on FY26 EPS of ₹1213 and assign a target of December Nifty target of 24260.

Bear Case – we value NIFTY at 16x (~15% discount to 10-year average PE of 19.0x) on FY26 EPS of ₹1213 and arrive at a target of 19408.

SCENARIOS FOR NIFTY TARGET

Case	Base	Bull	Bear
FY26 Nifty EPS	1213	1213	1213
Multiple accorded	18	20	16
Nifty Target for Dec 2024	21834	24260	19408

Source: Kotak Institutional Equities estimates and KS PCG research

NIFTY EARNINGS ESTIMATES

Nifty	20528	20528	20528
PE	21.3	19	16.9
EPS	964	1080	1213

Source: Kotak Institutional Equities estimates as on 4th December 2023

COMMODITY OUTLOOK

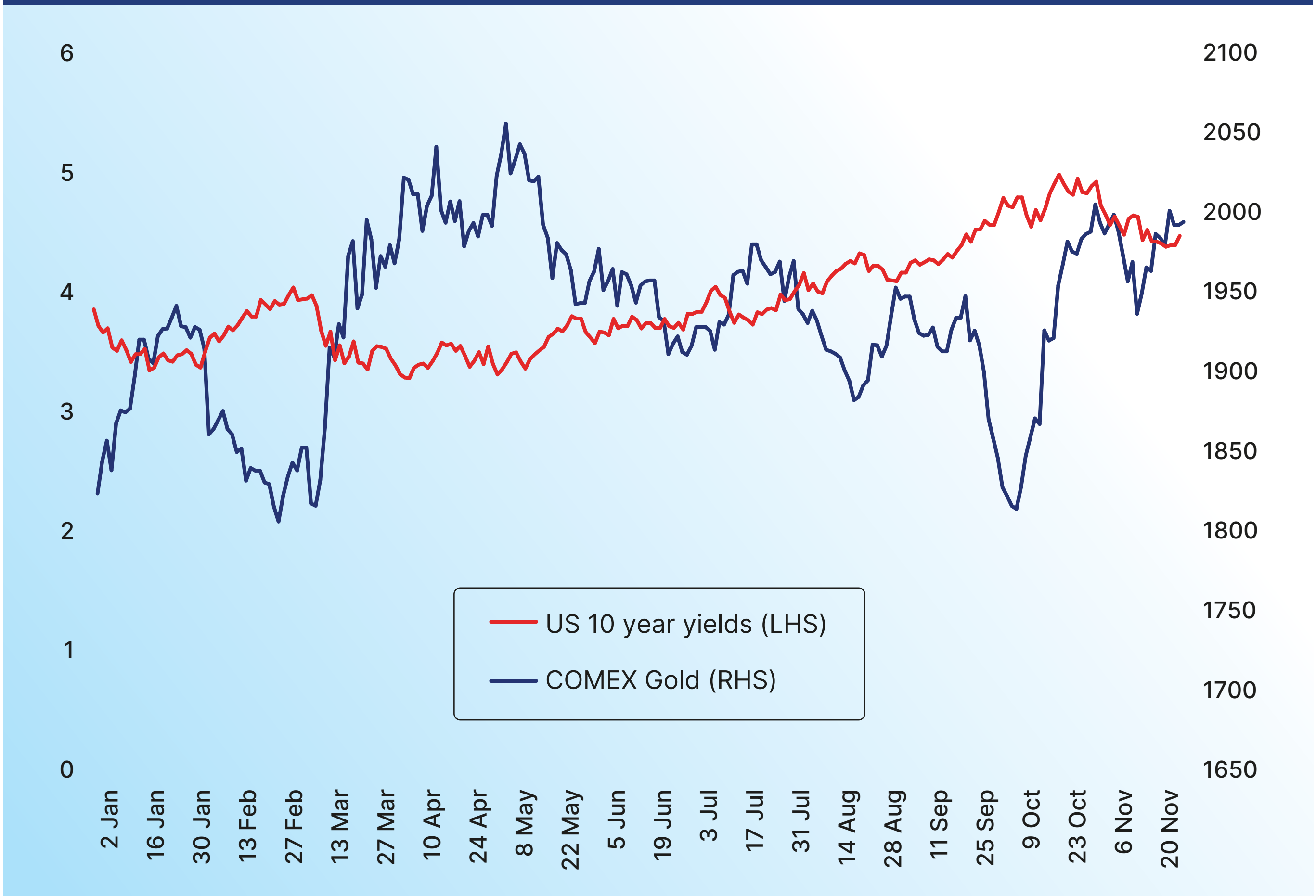
Gold

"Gold's Journey in 2023 and the Path Forward Amidst Central Bank Dynamics and Economic Indicators"

COMEX Gold prices are on the verge of concluding a tumultuous year with a gain exceeding 10%, while MCX Gold prices have yielded an impressive return of nearly 12% year-to-date, partly attributed to the depreciation of the domestic currency. Despite challenges posed by surging bond yields and a robust US dollar, gold prices showcased resilience throughout the year, notably in the face of the Federal Reserve's decision to raise interest rates to a 22-year high.

The gold market's steadfastness can be attributed to robust central bank buying and a consistent demand for bars and coins, countering the impact of economic uncertainties. Despite the Federal Reserve's proactive stance, gold prices defied expectations and remained strong. Record-high domestic prices and an erratic monsoon dampened Indian jewellery consumption, while a downturn in the Chinese economy surprisingly led to an increase in jewellery demand from the largest consumer nation.

TREND IN COMEX GOLD AND TREASURY YIELDS



Source- Bloomberg; KS Commodity Research

In May 2023, MCX Gold prices reached an unprecedented high of ₹61,845 per 10 grams, and COMEX gold futures surged to $2,085.4 per troy ounce, falling just $4 short of the all-time high recorded during the COVID-19 pandemic. This surge was fuelled by the US banking turmoil and a debt ceiling crisis, triggering heightened demand for safe-haven assets.

Subsequently, from May to September, gold prices experienced a gradual decline. This period coincided with a restoration of confidence in the banking sector, a resolution on raising the US debt limit, and expectations of higher interest rates. Despite these factors, officials, including Fed Chair Jerome Powell, refrained from declaring victory over inflation, acknowledging the potential for price pressures to rebound unexpectedly.

In a noteworthy turn of events, gold prices began to ascend again in October, signalling potential indications of a Federal Reserve pivot in 2024. This resurgence suggests a complex interplay of economic factors that continue to influence the precious metal's trajectory.

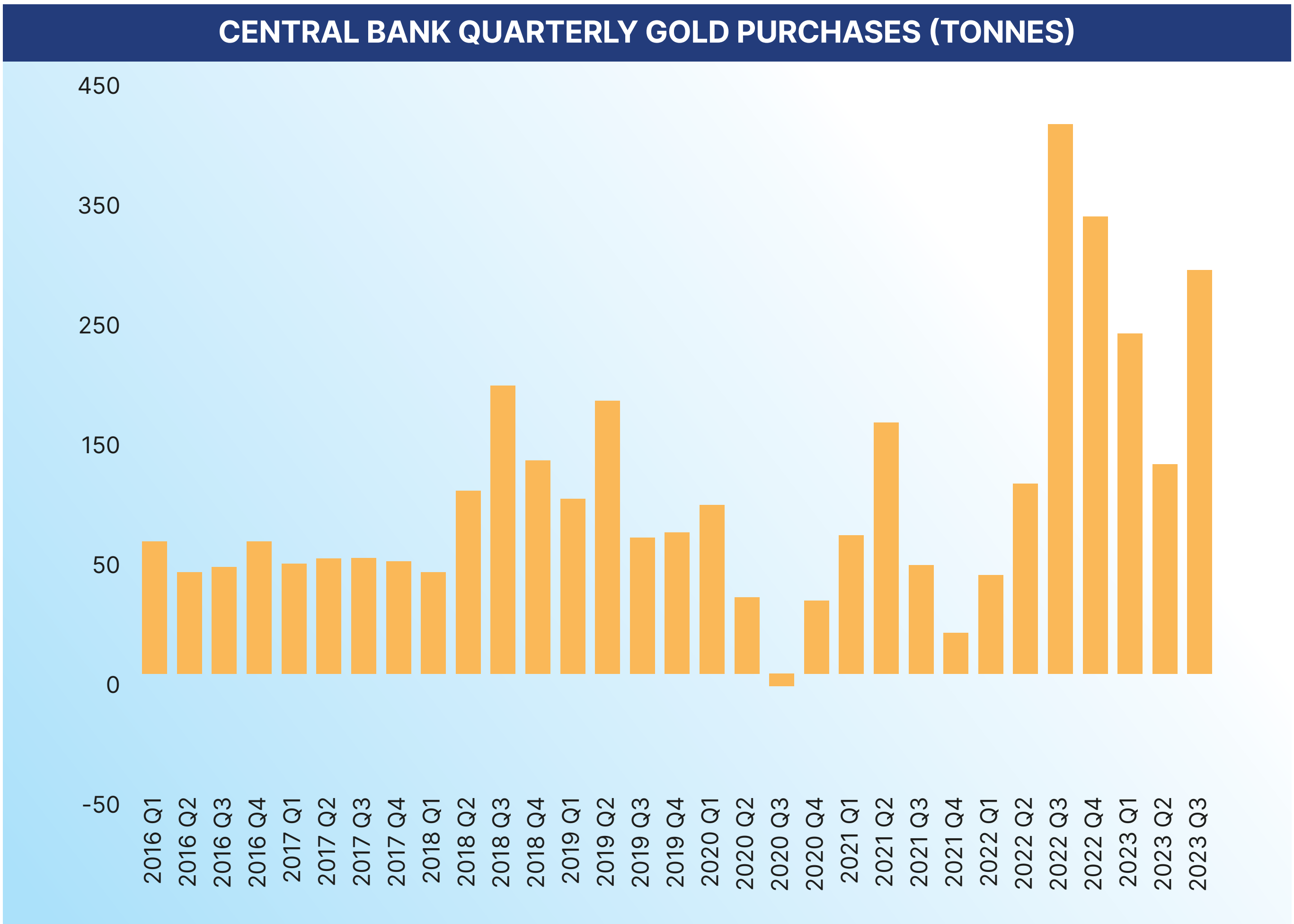
The World Gold Council's quarterly report for Q3 2023 revealed a year-on-year decline of 6% in gold demand, while quarter-on-quarter, there was an upswing in demand driven by a substantial increase in central bank purchases and a rise in jewelry manufacturing, despite a downturn in investment activity.

In year-on-year terms, jewelry consumption experienced a slight softening, down by 2% to 516 tonnes in Q3 2023, a trend influenced by the persistent strength of gold prices. However, jewelry fabrication demonstrated marginal resilience, attributable in part to inventory build-up. The overall year-to-date jewelry consumption remained relatively stable, a characteristic attributed to the impact of elevated prices.

Q3 saw investment demand totalling 157 tonnes, marking a 56% increase year-on-year. Despite this growth, the demand was weaker compared to the five-year average of 315 tonnes. Notably, global gold exchange-traded funds (ETFs) experienced a more modest outflow of 139 tonnes in Q3, a significant improvement from the outflow recorded in Q3'22 (-244 tonnes). The continuous outflows from ETFs over the past six quarters can be predominantly attributed to higher real rates in the US amid a hawkish Federal Reserve, diminishing the appeal of non-yielding bullion assets.

Central bank buying, amounting to 337 tonnes, constituted the third most robust quarter on record, albeit falling short of the exceptional 459 tonnes recorded in Q3'22. Cumulatively, central bank purchases for the first three quarters. of 2023 totalled around 800 tonnes, primarily propelled by China, Poland, and Singapore. This surpassed the pace set in 2022, a year that witnessed a record central bank demand of 1135.7 tonnes.

China's central bank, the People's Bank of China (PBoC), played a pivotal role in this trend. During Q3, the PBoC augmented its gold reserves by 78 tonnes, securing its position as the largest global buyer. Since the inception of the year, the PBoC has expanded its gold holdings by 181 tonnes, reaching a total of 2,192 tonnes, equivalent to 4% of its total reserves.



Source- WGC; KS Commodity Research

Central bank buying has emerged as a significant driver of demand for physical gold in recent quarters, underscoring its enduring impact on the precious metal's market dynamics.

The overarching theme for 2024 is expected to be the moderation of economic momentum in the United States and a decline in inflationary pressures. This shift provides the Federal Reserve with the flexibility to implement rate cuts in 2024, especially as the economy undergoes a slowdown.

The labour market, often regarded as one of the most delayed economic indicators and the final aspect to transform in an economic cycle, has been exhibiting signs of a notable slowdown. The most recent job data for October revealed that non-farm payrolls increased by 150,000, a figure below the pre-pandemic average of 180,000. Additionally, there were significant downward revisions for preceding months. The unemployment rate saw a slight uptick to 3.9% from 3.8% in September (compared to 3.4% at the beginning of 2023), and wage growth decelerated to 0.2% month-on-month and 4.1% year-on-year.

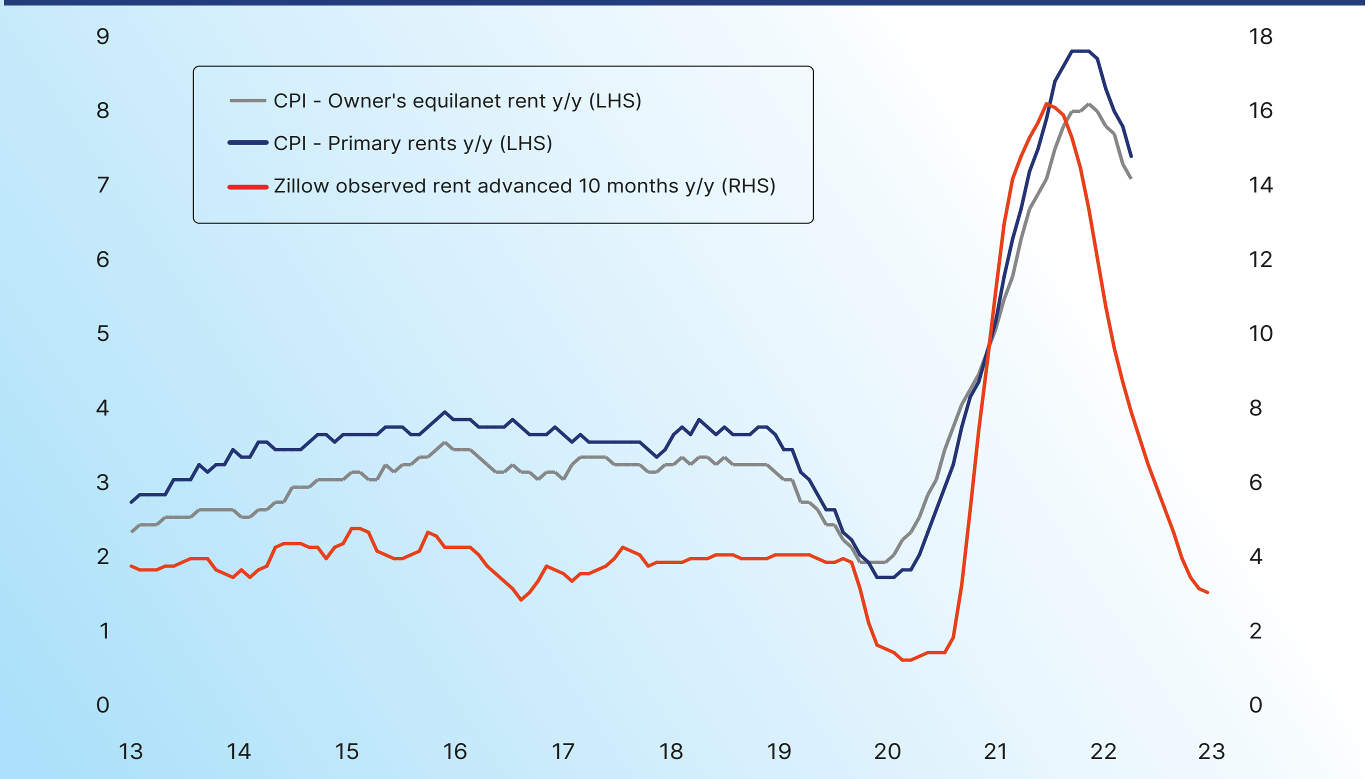
Worryingly, both initial jobless claims and continuing claims are on the rise, indicating a pronounced softening in the US labor market. These trends align with recent warnings from the Federal Reserve regarding an economic deceleration. In such a scenario, the potential for rate cuts in 2024 becomes a crucial tool for the Fed to navigate and stimulate economic activity amid the evolving conditions.

Following its peak at 9.1% in July 2022, US consumer inflation has maintained a consistent downward trajectory, with occasional pauses in its decline, particularly during the summer months when robust consumer spending provided some temporary stabilization. In October, the headline inflation rate further decelerated to 3.2% from 3.7% in both September and August. Notably, this decline was influenced by a decrease in the costs of used cars and trucks, as well as a reduction in energy prices. Prices for food, shelter, and new vehicles increased at a more subdued pace, while those for apparel, medical care commodities, and transportation services saw faster rises.

The core Consumer Price Index (CPI) experienced a slight dip to an over two-year low of 4% in October, down from 4.1% in the prior month. Of significance, the shelter index, which constitutes over 70% of the total increase, slowed to 6.7% from 7.2% in the preceding month, presenting an encouraging trend. The anticipated deceleration in primary rents and owner's equivalent rents is expected to be a substantial force driving disinflation in early 2024.

An informative chart depicting the relationship between Zillow rents and the CPI housing components (accounting for more than 30% of the US headline CPI) indicates a potential shift. If this relationship persists and the CPI housing components show a significant slowdown in the coming year, there is a possibility that both headline and core CPI could move towards the Federal Reserve's target. This observation underscores the potential impact of housing-related factors on the broader inflationary landscape.

US HOME PRICES VS SHELTER INFLATION



Source- Bloomberg; KS Commodity Research

Commencing in March 2022, the Federal Reserve embarked on an assertive path of interest rate hikes, totalling 525 basis points over the span of 21 months, as part of its efforts to curb inflation and align it with the central bank's 2% target. Despite this sustained tightening, the Fed opted to maintain rates at their 22-year high for a second consecutive time in November. This decision was influenced by discernible indications of moderating inflation and a slowdown in economic growth, prompting the central bank to adopt a cautious "wait and watch" stance.

The ascent in treasury yields since the beginning of the year has also tempered the urgency to implement further interest rate hikes. In his recent remarks, Federal Reserve Chair Jerome Powell suggested that the US central bank might have concluded its most aggressive tightening cycle in four decades. Powell hinted at the rationale behind this shift, noting that prior rate hikes were exerting downward pressure on economic activity and inflation, and the comprehensive impact of these tightening measures was yet to be fully realized. This stance aligns with the evolving economic landscape and a nuanced understanding of the repercussions of the Federal Reserve's monetary policy decisions.

Throughout the year, the Federal Reserve Chair and officials have consistently maintained a hawkish rhetoric. Their intention was clear: they aimed to prevent investors from using any perceived signal to backtrack on the market's expectation of "higher for longer" policy interest rates. The Fed took great care not to provide any indications that their policy had reached its peak, as such signals might lead traders to drive market rates lower in anticipation of future rate cuts, potentially reigniting inflation pressures.

In the backdrop of this monetary policy landscape, MCX Gold has delivered returns exceeding 10% in 2023. With mounting possibilities of Fed rate cuts in 2024, the outlook for gold appears even more promising. The expectation is that inflation will ease in the coming months, supported by tighter credit conditions, a slowdown in rents, and decreasing prices for gasoline and used cars. A potential Fed pivot could stimulate flows into Exchange-Traded Funds (ETFs), which have thus far been a negative factor for demand growth. While interest rates may remain elevated for some time, the likelihood of further hikes appears diminished, given indications of a job market slowdown, tightening credit conditions, and elevated yields.

Market sentiments are pricing in a full 25 basis points rate cut as early as June 2024, which is anticipated to serve as a significant trigger for gold prices in the upcoming year. Retail jewelry purchases may encounter challenges due to higher domestic prices in India and China. On the other hand, if the current momentum persists, central bank demand could surpass last year's record. The hesitation of ETF investors and speculative buyers to actively participate thus far presents a growing opportunity for price strength in the fourth quarter. The prevailing geopolitical environment, slowing global growth, and economic uncertainties further enhance the appeal of gold as a safe-haven asset.

Silver

"Silver Prices in 2023 and Prospects for 2024 Amid Chinese Economic Challenges"

COMEX Silver prices exhibited volatility throughout 2023 and are set to conclude the year with a marginal increase. The initial two months saw a decline, but a robust recovery took place in March and April amidst the turmoil in the US banking sector, amplifying the metal's safe-haven appeal. MCX Silver prices reached an unprecedented high of ₹78,292 per kg in the aftermath of this crisis. However, a downturn occurred in May, triggered by weak post-COVID recovery indicators in China.

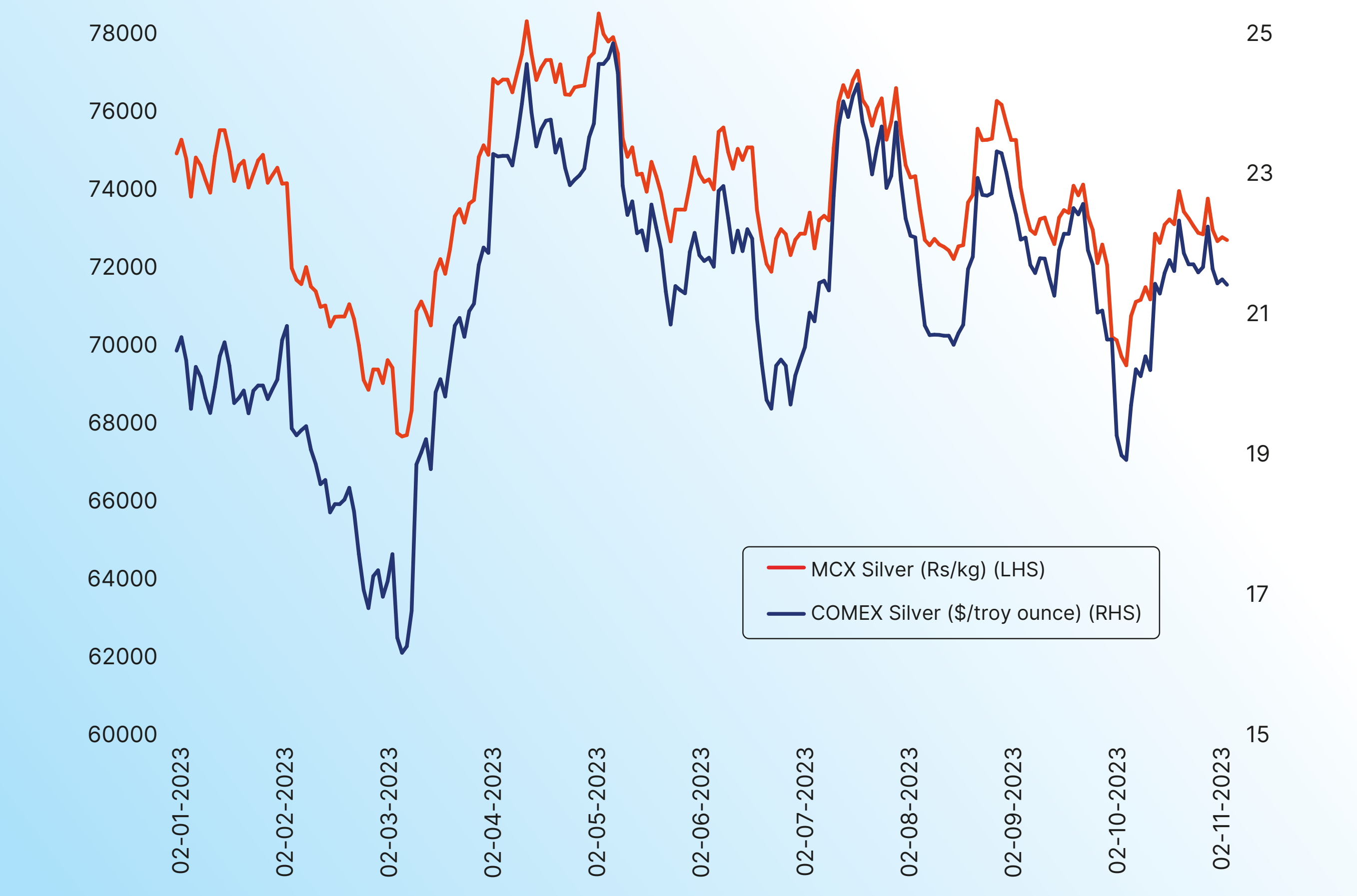
In January 2023, Beijing declared a complete reopening, marking the end of three years of lockdowns. Investors anticipated a significant surge in demand from the world's second-largest economy. Concurrently, central banks globally continued to raise interest rates in response to heightened inflationary pressures.

The Chinese property market has been rattled by diminishing consumer confidence in real estate companies, particularly as property giants Evergrande and Country Garden grapple with debt challenges. Subsequently, China has introduced a sequence of policy measures aimed at revitalizing a stumbling economy following a swift decline in its post-pandemic recovery. To support homebuyers, China's central bank and financial regulator issued notices easing certain borrowing rules, such as reducing the mortgage rate for first-home buyers and adjusting the down payment ratio in select cities. Additional measures have been implemented to fortify the struggling property market. Following a dip to a seven-month low of $20.85 per troy ounce in October, Silver prices began to climb amid expectations of a potential Fed pivot in the coming year.

The dual role of silver as both an industrial metal and a precious metal continues to cast a shadow on its prices throughout various economic cycles. With over 50% of the demand for silver originating from the industrial sector, its value has faced persistent challenges throughout the year. The softness in industrial metals in 2023 can be attributed to declining demand prospects and the repercussions of elevated interest rates. Given China's status as the world's largest consumer of metals, the economic downturn in the country, particularly in its role as a major producer of solar panels driving silver demand, is a cause for concern. The renewed economic challenges in China prompt questions about the resilience of its demand for silver and other commodities.

The abrupt shift in Chinese policy since 2021, particularly the crackdown on the property sector, has left property developers in the country scrambling for funds, exacerbating financial risks within the world's second-largest economy. China's efforts to curtail excessive borrowing by property developers are translating into loan losses at banks and disruptions in credit markets, amplifying the financial distress of cash-strapped builders and raising the risk of broader economic repercussions. The post-pandemic economic recovery in China has been slower than anticipated, partly attributable to the prolonged slump in the property market. Recent economic indicators from China, spanning inflation, trade numbers, home prices, and fixed asset investment, collectively signal a slowdown, lackluster consumer spending, weak sentiments, and a call for increased policy support from Beijing. While the economy surpassed expectations in the July to September period, momentum has gradually waned since then.

TREND IN MCX AND COMEX SILVER

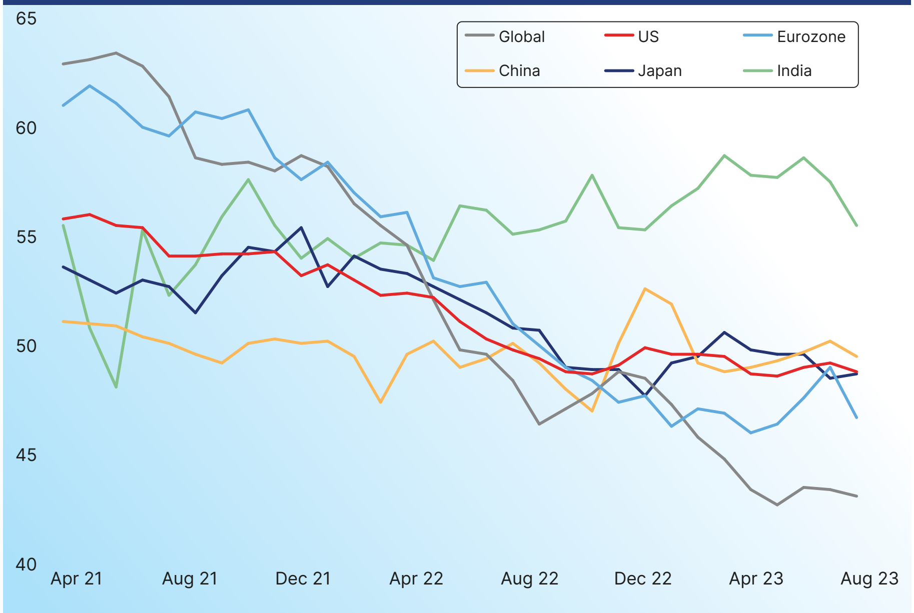


Source- Bloomberg; KS Commodity Research

Global manufacturing activity continues to languish, despite recent signs of improvement, with many nations experiencing contraction. The combination of aggressive interest rate hikes, unprecedented in decades, and economic weakness in China is exacting a toll on the worldwide economy. In October, the S&P Global's gauge of global manufacturing activity dipped to 48.8, matching the lowest level recorded since June 2020. The Purchasing Managers' Index (PMI) for the euro zone also revealed a further contraction in manufacturing activity during October.

Contrary to the broader economic challenges, the Silver Institute anticipates an 8% growth in Silver Industrial demand, reaching a record high of 632 million ounces in 2023. This remarkable performance is attributed to investments in photovoltaics, power grids, 5G networks, the expansion of consumer electronics, and increased vehicle production. However, the overall demand for silver is projected to decrease by 10%, reaching 1.14 billion ounces in 2023. Despite gains in industrial applications, losses in other key segments, notably a 22% decline in silver jewelry demand and a 47% fall in silverware demand, are expected this year. These losses, particularly in India, where demand is forecasted to normalize after a surge in 2022, contribute to the overall decline. Excluding India, global jewelry demand is expected to see a slight increase in 2023, while silverware is anticipated to experience a comparatively smaller 12% decrease, according to the Institute's forecasts.

GLOBAL MANUFACTURING PMIs



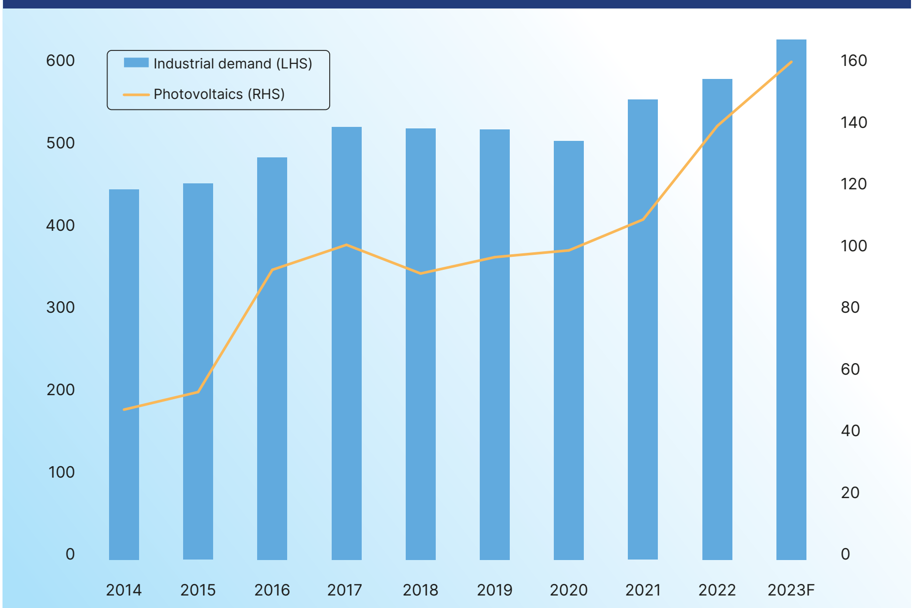
Source- Bloomberg; KS Commodity Research

Anticipated for 2023, physical investments in silver are projected to decline significantly by 21%, reaching a three-year low of 263 million ounces. In India, the imposition of record-high local prices has dissuaded new investor purchases and prompted profit-taking, resulting in a substantial 46% decline. Germany experienced a notable impact on investor sentiment due to a value-added tax (VAT) hike on certain silver coins at the beginning of 2023. Exchange-Traded Products (ETPs) are forecasted to observe net outflows for the second consecutive year, influenced by ongoing monetary tightening and its subsequent impact on yields, particularly in real terms.

Despite weaker demand and a slight decrease in total supply, the global silver market is poised to encounter another substantial physical deficit in 2023. Projections indicate a deficit of 140 million ounces, marking the third consecutive year of an annual deficit. While this represents a 45% reduction from the all-time high observed in 2022, it remains elevated compared to historical standards.

The growing demand for green energy and silver's essential role in photovoltaic cells suggest that industrial demand may continue to rise in the upcoming year. The prospects of a potential Federal Reserve pivot and rate cuts in 2024 could provide a buffer against any global economic slowdown. The Federal Reserve aims for a soft landing and is cautious about risking it through additional rate hikes. As China stands as the world's largest consumer of metal, the ongoing economic slowdown in the country may persist as a headwind for silver prices, unless recent support measures successfully stimulate the economy. The trajectories of the Chinese economic recovery and Federal Reserve policies will play pivotal roles in influencing silver prices in 2024, with expectations leaning towards a sideways to positive trend.

SILVER INDUSTRIAL DEMAND (MLN OUNCE)



Source- Bloomberg; KS Commodity Research

Crude Oil

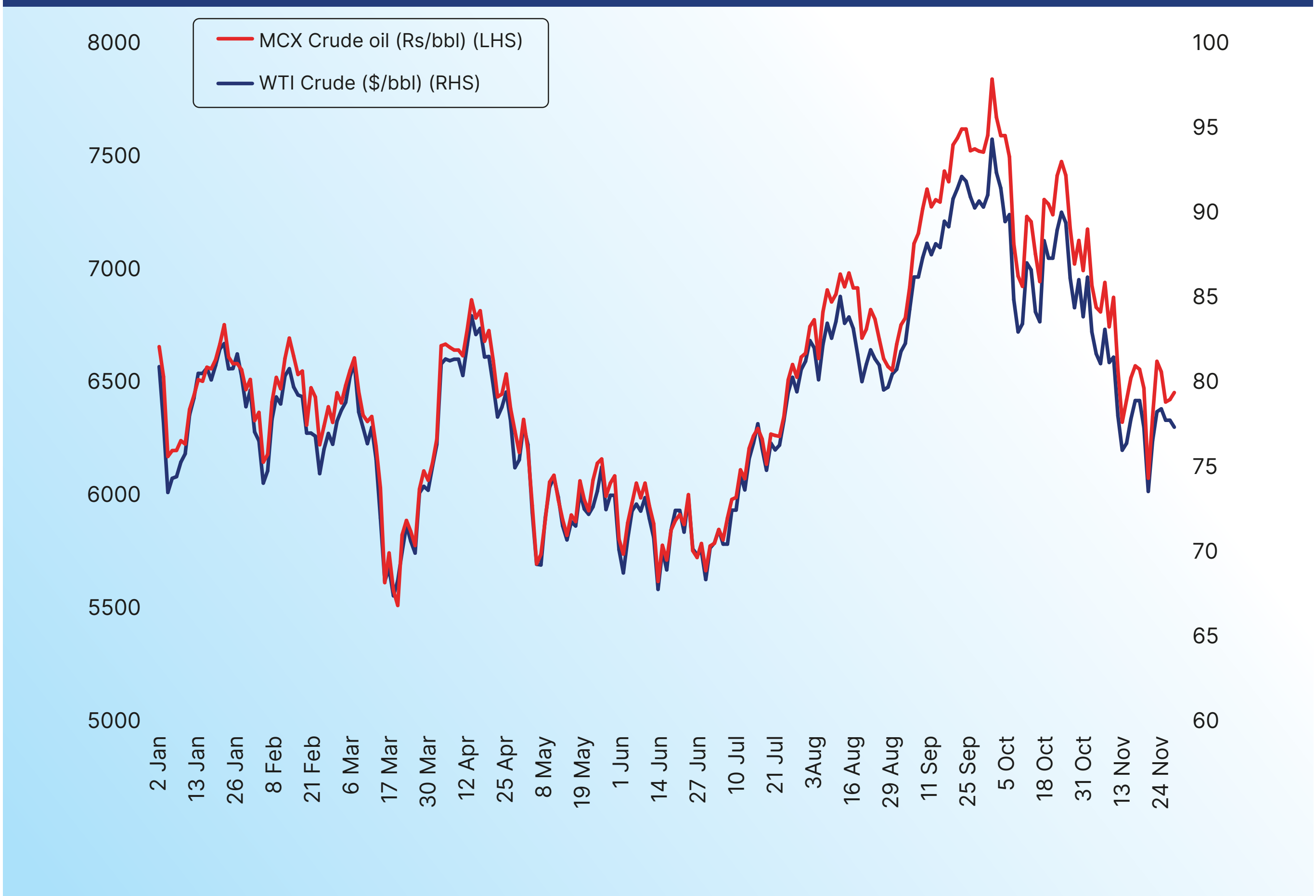
"Oil Market Odyssey: Navigating the Swings of WTI Crude Prices in 2023"

In 2023, the journey of WTI Crude Oil prices resembled a roller coaster, characterized by a decline in the initial five months, a subsequent rise for the next four months, and a final decline in Q4. Following a peak at $130.5 per barrel in March 2022, oil prices plummeted by over 40%, influenced by robust Russian flows, a slowdown in Western countries, and a lackluster economic recovery in China. Despite Beijing's efforts to completely reopen in early 2023, intended to be a significant driver for oil prices, the recovery fell short of expectations. In May 2023, oil prices hit a 17-month low of $63.64 per barrel due to concerns of contagion from the failure of a US regional bank, coupled with troubles at Silicon Valley Bank and Credit Suisse Group AG triggering a massive sell-off in crude oil futures.

However, prices have been increasing since late June due to OPEC+ output cuts tightening the physical oil markets. In April, OPEC+ surprised markets by announcing voluntary production cuts of around 1.657 mbpd until the end of 2023. In June, Saudi Arabia added a surprise 1 mbpd production cut, and Moscow pledged to reduce oil exports by 500,000 bpd (later adjusted to 300,000 bpd) until year-end. Persistent support measures from Beijing, aimed at boosting the economy post-COVID recovery, also contributed to positive sentiments. Oil prices experienced a rise in October following an Hamas attack on Israel, threatening Middle East tensions. However, prices declined in Q4 2023 due to the absence of supply disruptions from the war, increased non-OPEC supply, deteriorating demand prospects, and a seasonal lull in demand.

Supply concerns diminished, leading oil markets to shift into contango in November, as OPEC+ supply cuts were outweighed by rising output elsewhere. US crude production reached a record high of 13.05 mbpd in August, surpassing the previous peak set in November 2019 at 13 mbpd. The role of US crude in global oil markets grew as OPEC+ leaders, Saudi Arabia and Russia, extended production cuts. Additionally, the US suspended some sanctions on Venezuelan oil and other commodities in response to an electoral roadmap agreement between the government of President Nicolas Maduro and the opposition. Analysts estimate that this shift may enable the US to increase output by about 200k bpd, a roughly 25% jump.

TREND IN MCX AND WTI CRUDE OIL

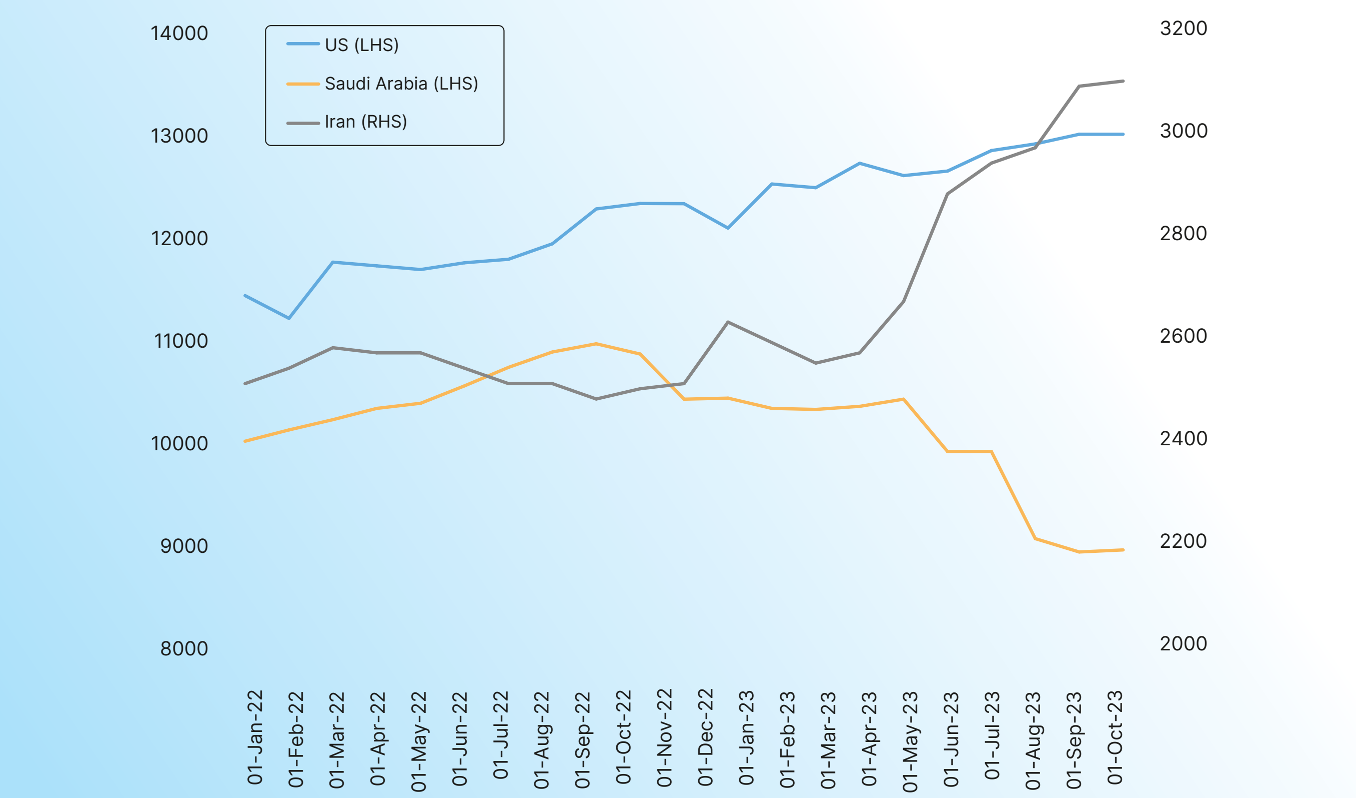


Source- Bloomberg; KS Commodity Research

Although OPEC output is 1.8 mbpd lower than September 2022 levels, as per the latest OPEC monthly report, it has steadily risen over the past three months through October. This increase has been driven by higher production from Nigeria, Angola, Iran, and Iraq. Iran's oil output has reached the highest level since 2018, the year when Washington reimposed sanctions on Iran. In October, Russia's seaborne exports exceeded the pledged levels by around 200,000 bpd, and Brazilian Petrobras reported a 9.6% year-on-year increase in crude production during Q3, reaching 2.32 mbpd. Despite earlier expectations for supply disruptions due to conflicts in the Middle East, the war remained contained, and rising supplies, coupled with the absence of outages, kept oil prices in check.

According to the International Energy Agency (IEA), world oil demand is projected to increase by 2.4 mbpd to a record annual average of 102 mbpd this year, with Chinese consumption accounting for about 75% of the growth. However, the IEA anticipates world oil markets tipping back into a supply surplus in the first half of 2024, reflecting a dramatic 60% slowdown in the pace of demand growth. The forecast suggests an increase of only 930,000 barrels a day in consumption next year, as the

CRUDE OIL OUTPUT ('000 BBL)



Source- Bloomberg; KS Commodity Research

post-pandemic rebound exhausts and energy use becomes more efficient. In contrast, the producer group OPEC envisions demand rising by 2.25 million bpd in the coming year.

Global markets are grappling with heightened concerns over an impending economic slowdown in 2024. October's Chinese economic data underscored the challenges in stimulating demand, marked by persistent deflationary trends, weakened factory activity, and declining home prices. Although Chinese crude oil imports surged by 13.5% in October, the contraction in total exports of goods and services outpaced expectations, intensifying worries about diminishing global demand.

PetroChina forecasts that the nation's gasoline demand will reach its peak by 2025, while Sinopec suggests that gasoline demand might have already crested amid the surge in renewable energy and the transformation toward electric vehicles. The exceptional economic growth momentum witnessed in the United States over recent quarters could face a slowdown as higher interest rates and tightening credit conditions begin to constrain activity, even as markets anticipate a soft landing in the coming year. Europe is already experiencing a slowdown, with the bloc's factory activity contracting since July 2022.

In response to the economic challenges, OPEC+ may extend ongoing output cuts well into 2024 and possibly implement a more substantial reduction, aiming to establish a price floor and potentially initiating the unwinding of cuts from Q3 2024. Bloomberg economics suggests that the $80 per barrel threshold may not be sufficient for Riyadh to cover expenditures on futuristic cities and high-profile sports initiatives. Anticipated slowdowns in supply growth from other regions in the upcoming year may prompt OPEC+ to make efforts to maintain the $80 per barrel floor. However, the decisive factors influencing prices will be how the demand scenarios unfold in the United States and China.

Zinc

"Zinc Prices Respond to Supply and Demand Dynamics in 2023"

Zinc is poised for its second consecutive yearly decline in 2023, with a year-to-date decrease of over 14%. This decline is attributed to eased supply tightness concerns in Europe, coupled with lingering demand uncertainties amidst a sluggish increase in home prices and softer-than-expected economic data from China.

In January 2023, LME Zinc surged above $3512/tonne, rebounding from a significant 16% drop in 2022. Optimism surrounded the market as hopes were high that China's measures to stimulate economic activity would benefit real estate and automotive sectors, key drivers of steel products. However, this optimism was short-lived, and Zinc faced a continuous four-month decline, resulting in a cumulative slump of 34% from February to May 2023. Disappointment in China's cautious growth outlook and the absence of substantial stimulus in the NPC meeting contributed to the market downturn. By the end of May, LME Zinc hit $2215/tonne, the lowest since July 2020, as macroeconomic uncertainties, coupled with sluggish progress in the Chinese steel industry, weighed on this essential metal.

Following Chinese authorities' commitment to supporting the real estate sector, zinc prices surged to $2584.5/tonne in early August. However, the optimism was short-lived as disappointing Chinese data releases and a sharp increase in LME stocks to over 100,000 tonnes, a level not seen since April 2022, led to a decline in zinc prices to $2265.5/tonne in mid-August. The market, however, witnessed a recovery as draws at LME warehouses accelerated in September, causing stocks to retreat below 100,000 tonnes in the first week of October. This momentum propelled zinc to a five-month high of $2675/tonne.

Over the next four weeks, prices fluctuated in the range of $2400 - $2600/tonne before experiencing another upswing to reach a six-week high of $2667.5/tonne in mid-November. This resurgence was fueled by improved demand prospects following China's injection of the most cash into the financial system since December 2016 to alleviate a liquidity crunch. The significant decline in LME stocks and the increase in cancelled warrants played a pivotal role in the zinc rally from $2400/tonne in the first session of November to surpass $2660/tonne.

Another significant factor contributing to market dynamics was the apprehension surrounding supply disruptions at Trafigura Group's Nyrstar and a fire incident at the Russian mine project Ozerny. Nyrstar's announcement of the "temporary pausing

PRICE MOVE IN ZINC IN 2023 (YTD)

Source- Bloomberg; KS Commodity Research

of production" at the Gordonsville and Cumberland mines on Nov. 30, accompanied by employee layoffs due to declining zinc prices and increased production costs, added to market uncertainties. Simultaneously, Ozerny, which had recently initiated ore production, with processing operations set to escalate in the first quarter of the next year, is anticipated to yield approximately 345,000 metric tonnes per year of contained zinc. This makes it the most substantial addition to zinc mine supply in 2024. Despite the Russian news agency Interfax reporting the extinguishing of the fire at a workshop at Ozernoye, concerns persisted regarding the project's production schedule.

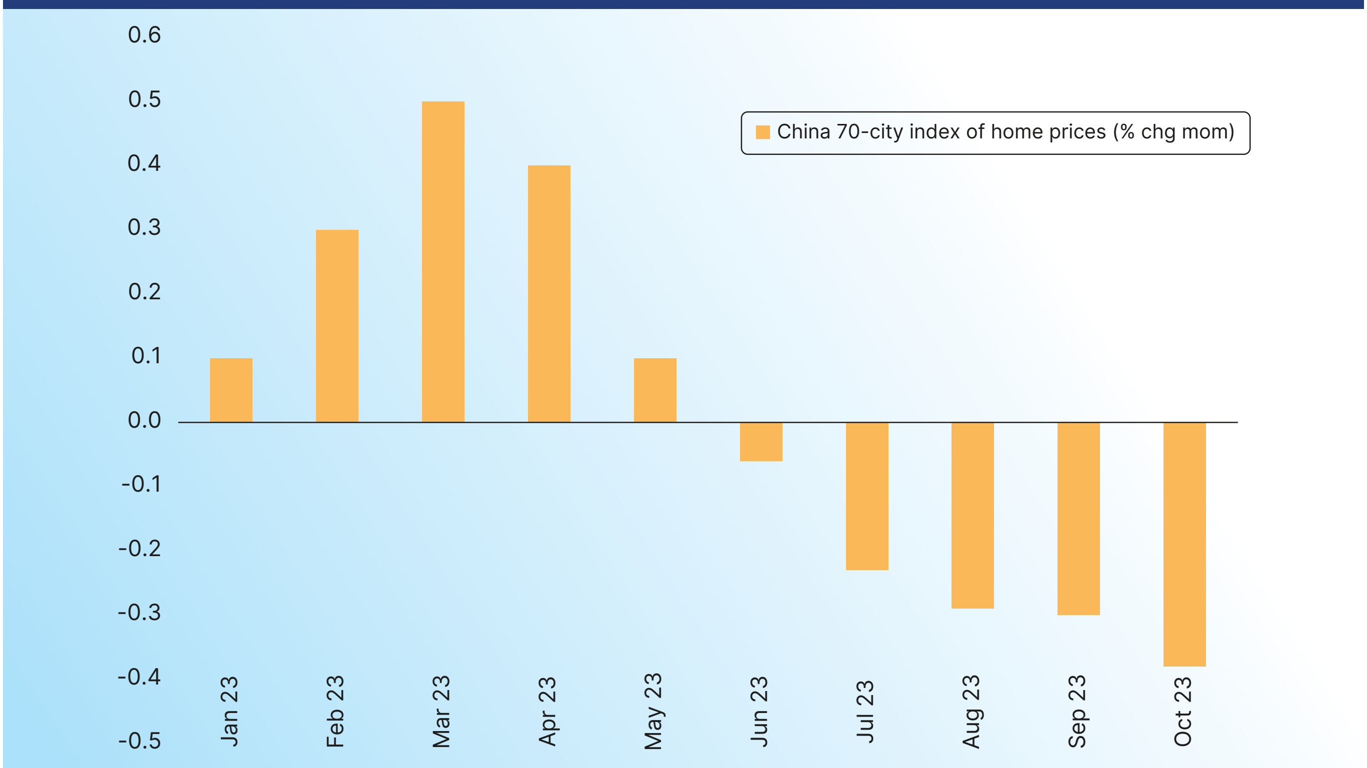
Additionally, Glencore witnessed a 4% decrease in zinc output, reaching 672,100 tonnes in January-September 2023. This decline aligns with the 2022 disposals of South American zinc operations and the closure of Matagami. However, the drop was offset by stronger production from Kazzinc (Zhairem) and Antamina, as per its Third Quarter 2023 Production Report. Despite these fluctuations, Glencore maintained its base forecast for zinc production this year at 950,000 tonnes, consistent with the mid-point of its forecast range. This follows its production of 938,500 tonnes in 2022, which marked a 16% decrease from 2021.

Meanwhile, China's refined zinc output for the first ten months of the year displayed a significant 10.65% year-on-year increase, reaching approximately 5.45 million metric tons. Refined zinc imports also saw a substantial surge year-on-year in the first ten months of 2023, with monthly increases recorded in 8 out of 10 months. In October 2023, China's imports of refined zinc spiked by a staggering 47 times to 48,534 tonnes compared to just 1007 tonnes in October 2022, although imports experienced a 9% month-on-month decline. Cumulatively, from January to October 2023, refined zinc imports totalled 305,942 tonnes, marking a remarkable year-on-year surge of 412% from 59,648 tonnes in the same period in 2023. This shift comes as the country transitioned to a net exporter in 2022 for the first time since 2007.

Steel remains the primary demand driver for zinc, and concerns about China's property sector, constituting around 40% of the country's steel demand, pose a significant challenge to the optimistic outlook for zinc. The China Iron and Steel Industry Association anticipates a decline in steel production in the fourth quarter to align with a seasonal drop in demand. This reduction is attributed to government-mandated cuts to control emissions and the customary pollution restrictions during the winter heating season.

The strains in the Chinese property markets persist as major developers, including Country Garden Holdings Co, China's largest private property developer, potentially faced its inaugural public dollar bond default by reportedly failing to fulfill a USD 15.4 million coupon repayment. Simultaneously, Evergrande Group encountered the possibility of asset liquidation in

CHINA'S HOME PRICES DROPPED IN LAST FIVE MONTHS



Source- Bloomberg; KS Commodity Research

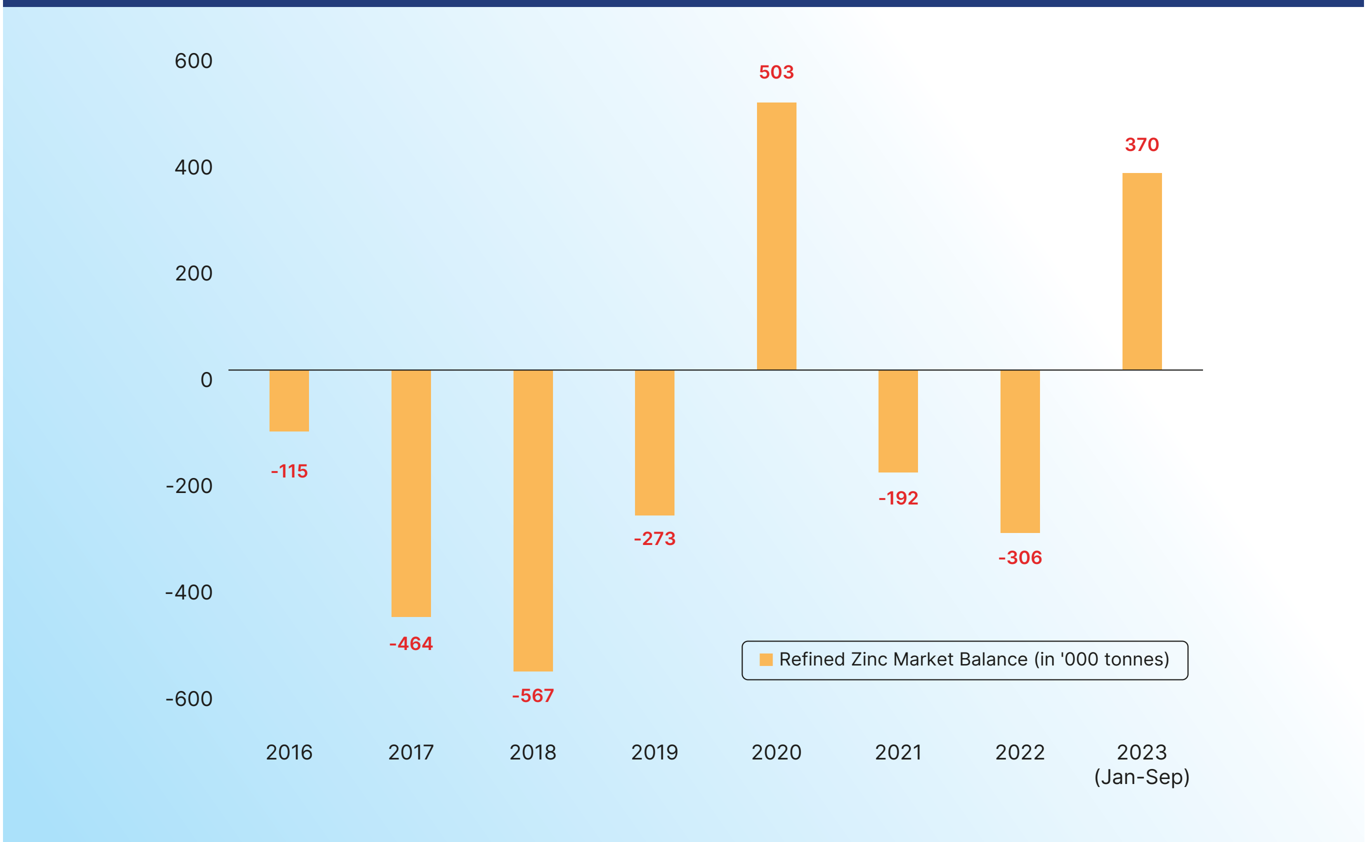
October. In the face of these challenges, China's home sales witnessed a decline for the fourth consecutive month in October, emphasizing the immediate need for the implementation of fresh measures to counteract the economic slowdown.

Based on Reuters calculations using National Bureau of Statistics (NBS) data, new home prices experienced a 0.3% month-on-month drop in October, following a 0.2% dip in September. Among 70 cities, 56 reported declines in monthly prices, marking the highest number of cities experiencing a decrease since October 2020, up from 54 in September.

Corresponding with the volatility in LME Zinc prices, speculative positions have undergone fluctuations, with LME Zinc net longs dipping to seven-month lows in early June. However, they rebounded significantly to a seven-month high of 49,597 in September. Although net longs currently stand at 37,050 contracts, speculators have predominantly increased net long positions since June, driven by expectations of stimulus measures from China specifically targeted at the property sector. In addition to liquidity infusion and maintaining prime rates to support stimulus spending, Chinese policymakers are finalizing a draft list of 50 developers eligible for financial support. There are also considerations to allow banks to provide unsecured short-term loans to qualified developers, marking a significant policy shift.

Zinc prices are likely to undergo a period of consolidation amidst increased inventories and anticipations of a larger surplus in the following year. However, the prospect of an economic recovery in China may act as a stabilizing factor. Presently, LME inventories have reached their highest point since September 2021, with on-warrant or available stocks constituting 85% of total stocks, a notable increase from the 60% recorded in October.

REFINED ZINC MARKET BALANCE SWITCHED TO SURPLUS IN 2023



Source- Bloomberg; KS Commodity Research

Copper

"Charting Copper's Course: Managing Rising Production Against a Backdrop of Uncertain Demand"

Copper prices faced a second consecutive year of decline in 2023, grappling with concerns of contagion in the US financial system and disappointment over the absence of significant stimulus announcements from China. The market sentiment remained cautious throughout the year, with uncertainty lingering about the efficacy of Chinese stimulus measures and the monetary policy outlook from the Federal Reserve.

The London Metal Exchange (LME) Copper, along with other base metals, kicked off the year optimistically, reaching a seven-month high of $9550.5/tonne in January. This surge was fuelled by hopes of a demand recovery in China as COVID restrictions eased late the previous year. However, the optimism was short-lived, overshadowed by a lack of visible improvements in consumption and the emergence of banking crises.

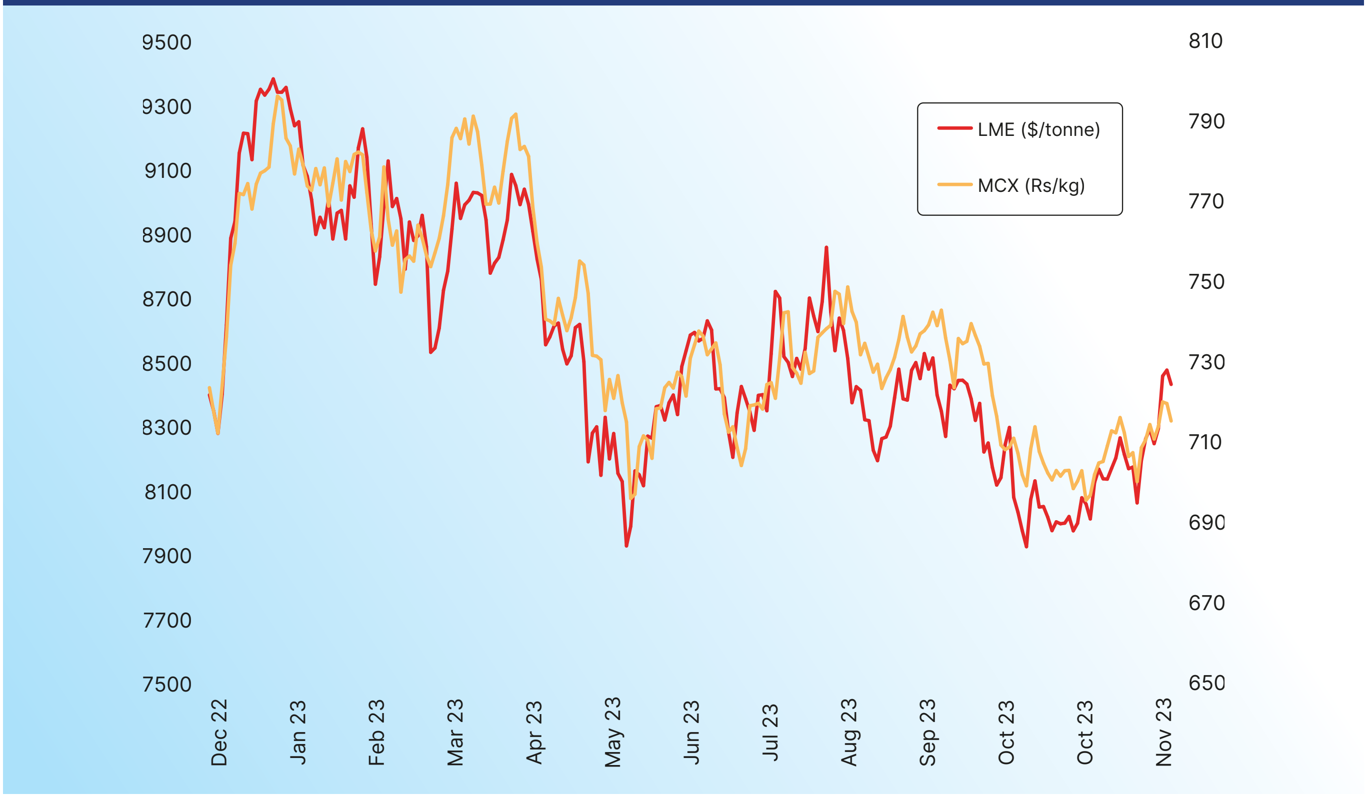
Efforts by US regulators to address systemic risks linked to the Silicon Valley Bank (SVB) and Signature Bank crises in March failed to pacify investor concerns. Subsequent troubles at Credit Suisse and First Republic prompted urgent interventions by US and European regulators to contain the escalating financial crisis.

As reported by The New York Times, the three failed banks—First Republic, Silicon Valley Bank, and Signature Bank—held a staggering $532 billion in total assets. In comparison, the 25 banks with FDIC insurance that failed in 2008, including the once-industry giant Washington Mutual, had $526 billion in combined assets at the time of their collapses when adjusted for inflation. This underscores the severe impact of the rapid increase in interest rates on the US banking sector.

Adding to the challenges, China disappointed financial markets by setting a modest 5% growth target for 2023 and refrained from implementing substantial stimulus measures focused on sectors like real estate and infrastructure. Premier Li Keqiang, in his final report to the Communist Party-controlled parliament at the annual National People's Congress, announced the 5% GDP goal, falling short of market expectations and suggesting authorities may not be inclined to deploy a massive boost to revitalize the economy. Additionally, a sharp rebound in the dollar in late May, fuelled by concerns over a lack of progress in talks to increase the US debt limit, pushed copper prices 8% lower in the second quarter of 2023.

Despite some attempts by China to bolster its equity, currency, and property markets in the third quarter, losses in copper prices persisted. The People's Bank of China (PBoC) reduced the interest rate on 401 billion yuan ($55.25 billion) worth of one-year medium-term lending facility (MLF) loans from 2.65% to 2.50% in mid-August, marking the second such move in

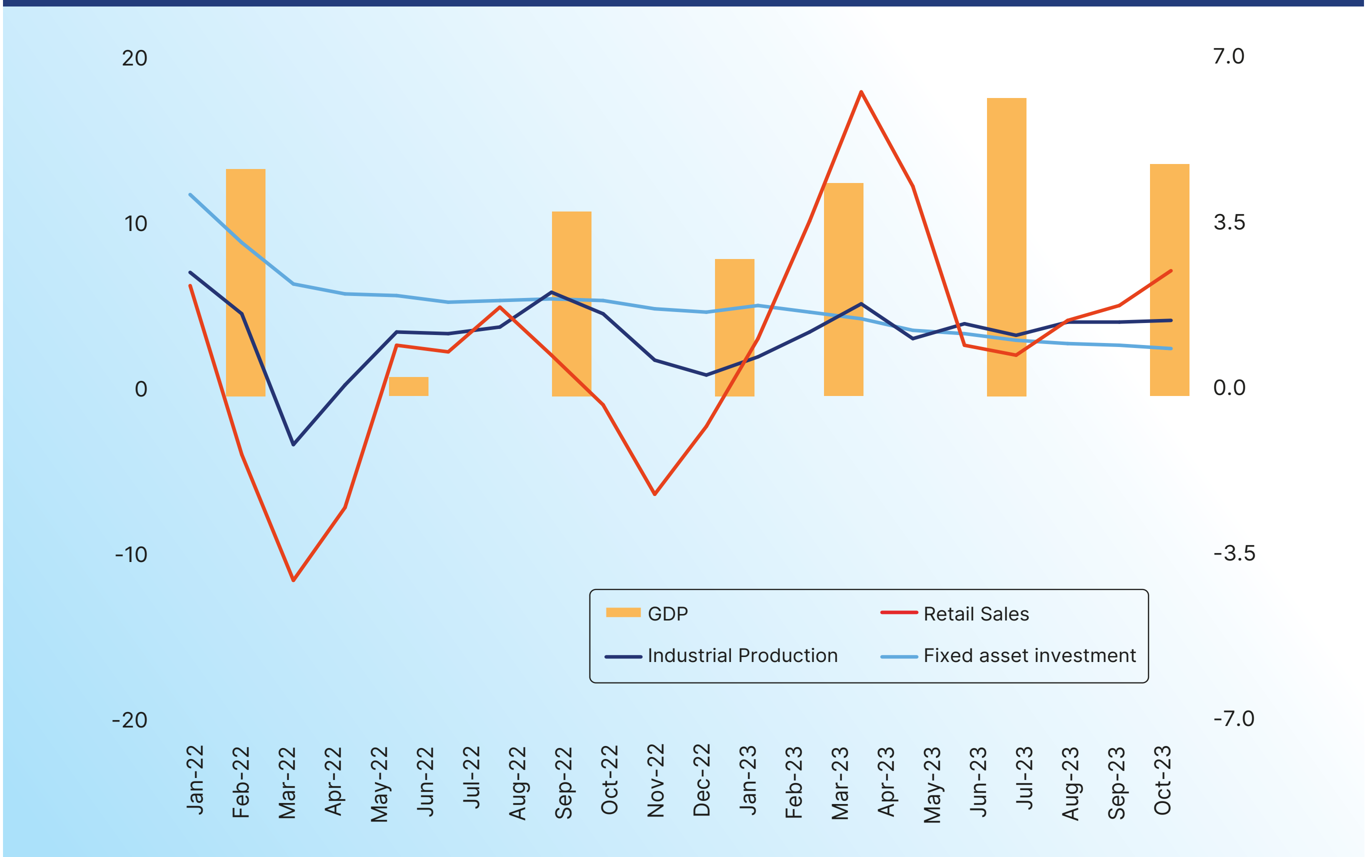
PRICE MOVE IN COPPER IN 2023 (YTD)



Source: Bloomberg; KS Commodity Research three months after a 10 bps cut in June. Furthermore, PBoC announced a cut in the reserve requirement ratio (RRR) for foreign-exchange deposits from 6% to 4%, effective from September 15. This was the first ratio cut since September 2022 and was estimated to release US$16 billion into the market.

Chinese economic data continues to present a mixed outlook for recovery. According to the National Bureau of Statistics, Gross Domestic Product (GDP) grew by 4.9% in July-September compared to the previous year, surpassing expectations for a 4.4% increase but slowing down from the 6.3% expansion in the second quarter. This indicates that the government's full-year 2023 growth target of approximately 5.0% is likely to be achieved. China's industrial profits also exhibited a notable recovery with double-digit growth in both August and September. The year-on-year increase of 17.2% in August and 11.9% in September contributed to narrowing the decline in industrial profits to 9% in the first nine months, compared to a 16.8% drop in the first half of 2023. A positive trend was similarly observed in the latest retail sales and industrial output figures, surpassing expectations with growth rates of 7.6% and 4.6% respectively in October. On the flip side, fixed asset investment expanded by 2.9%, and investment in real estate development fell by 9.3% year-on-year in the first 10 months of the year, both missing estimates.

MIXED CHINESE DATA DENTS RECOVERY HOPES



Source: Bloomberg; KS Commodity Research

China's copper imports for the first ten months amounted to 4.49 million tonnes, marking a 7% decline from the 4.81 million tonnes recorded during the same period last year. In October 2023, unwrought copper and copper product imports into China, including anode, refined, alloy, and semi-finished copper products, reached 500,168 tonnes—a 23% increase compared to the 404,414 tonnes reported in October 2022. This surge was driven by diminishing domestic stocks and robust demand. Favourable developments in copper supply fundamentals were observed in the world's leading producers, Chile and Peru, which jointly contribute around 40% to global supply. According to the National Institute of Statistics (INE), Chile, the largest copper producer globally, mined 457,393 tonnes of copper in September 2023, a 4.1% rise from the 439,277 tonnes produced in September 2022. In the first nine months of 2023, copper production totalled 4.32 million tonnes, reflecting a 1.6% decrease from the 4.397 million tonnes recorded the previous year but indicating a significant narrowing from the 4% drop in January-June 2023.

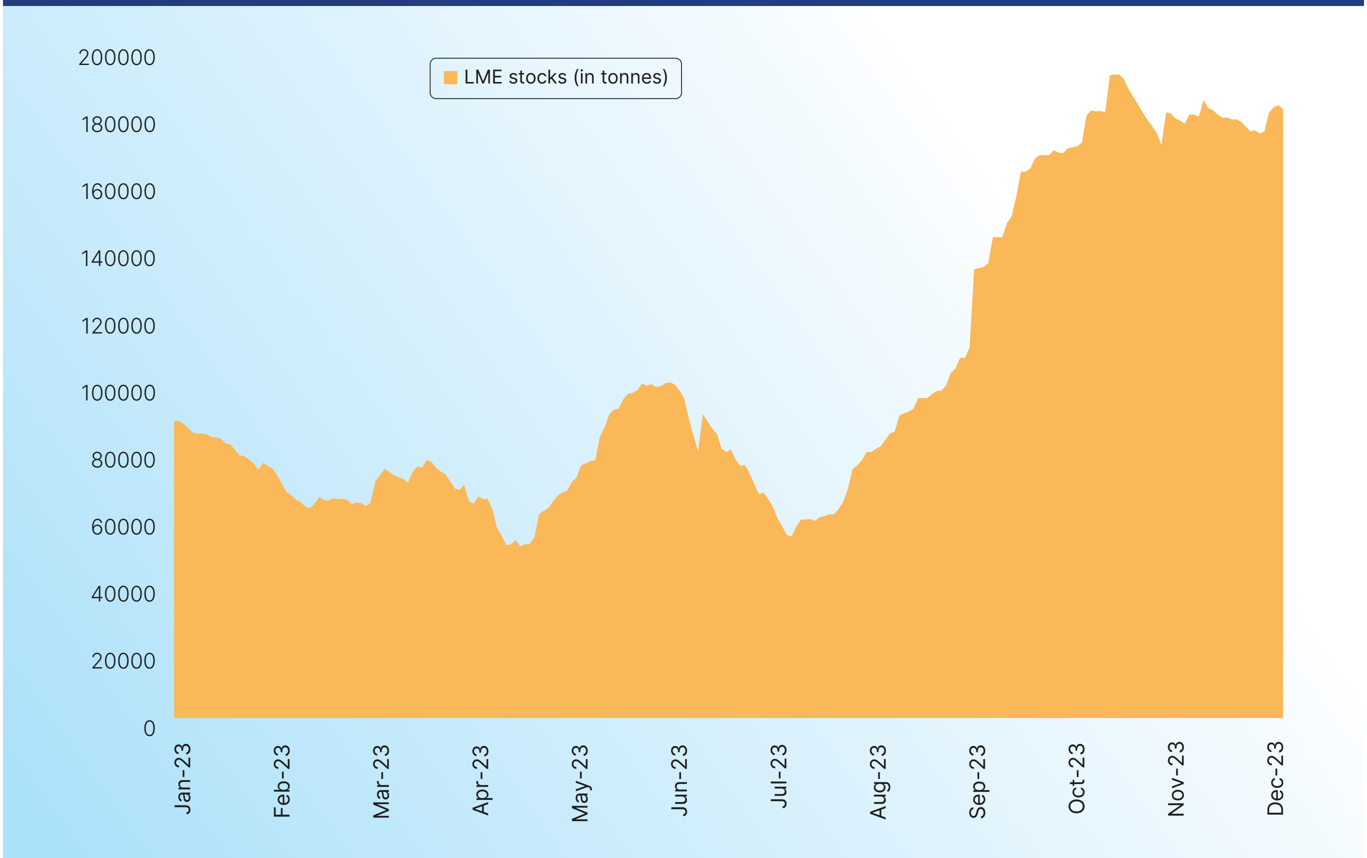
Peru, the world's second-largest copper producer, experienced a 2% growth in mined copper output in September, a deceleration from the 7.5% expansion observed in August, as reported by the National Institute of Statistics and Informatics of Peru. Nonetheless, copper production in Peru reached 2,005,957 tonnes in January-September 2023, signifying a 16.0% increase compared to the production of 1,728,967 tonnes in the same period in 2022. Chinese copper output witnessed an 11.38% year-on-year increase, reaching 9.48 million tonnes, while imports declined by 6.7% in January-October 2023 compared to the previous year, attributed to robust domestic production. Preliminary data from the International Copper Study Group (ICSG) indicated a narrowing of the global refined copper surplus to approximately 17,000 tonnes in January-September 2023, down from 99,000 tonnes in the first eight months.

Interest from funds in copper appears to be wavering amidst lingering concerns about demand from China. COMEX data reveals that money managers have predominantly exhibited a negative bias toward COMEX Copper since September, indicating a shift from the positive sentiment observed in the preceding four months. Over the last ten weeks, CFTC COMEX Copper has consistently shown net shorts. Currently, net shorts stand at 11,576 contracts, nearly half of the five-month high recorded at 21,553 contracts in mid-October. On the LME, fund managers transitioned to the short side of copper from late September. Net shorts positioning by investment funds fluctuated between 3,000 contracts and approximately 15,100 contracts over the last two months. In October, net shorts surged to 15,116 contracts, the highest level since March 2020 during the peak of the COVID pandemic. However, sentiment improved in the second half of November, with investment funds' positioning shifting to 2,532 longs.

Maximo Pacheco, Chairman of Codelco, the world's largest copper producer, emphasized that China will remain a "very strategic market" for the state-owned Chilean company. However, he acknowledged that sales volumes of cathode or refined copper are facing pressure due to China's own double-digit percentage growth in copper output.

In summary, the outlook for copper fundamentals appears less favorable, evident in the tripling of LME Copper inventories from below 60,000 tonnes in July to the current level of 180,000 tonnes. Additionally, the discount between the LME Cash and 3M forward has widened to over $100/tonne, reaching the highest level since the 1990s. Despite these challenges, there is optimism stemming from better-than-expected demand in the renewable industry and anticipated stimulus measures in China, coupled with expectations of a pivot by the Federal Reserve, which may serve as significant support for copper prices in 2024.

LME COPPER STOCKS ON THE RISE SINCE JULY



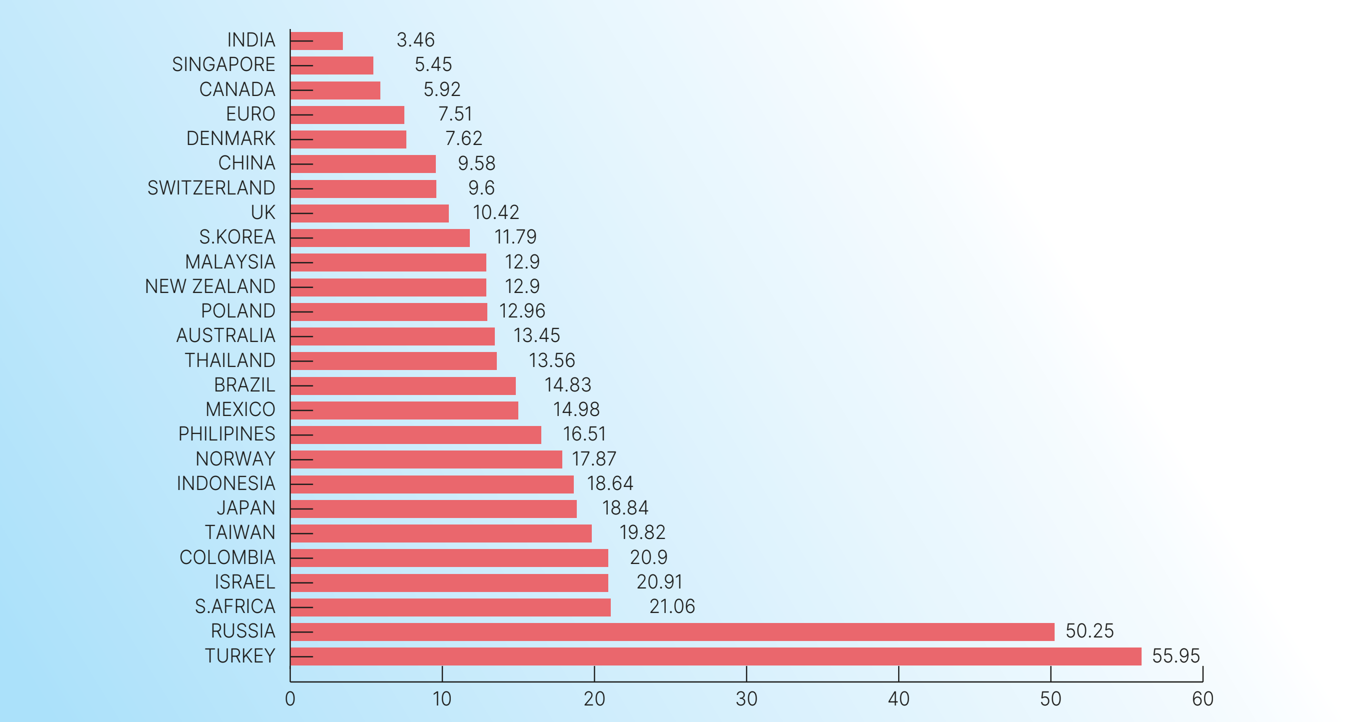
Source: Bloomberg, KS Commodity Research

CURRENCY OUTLOOK

USDINR: Volatility ahead in 2024...

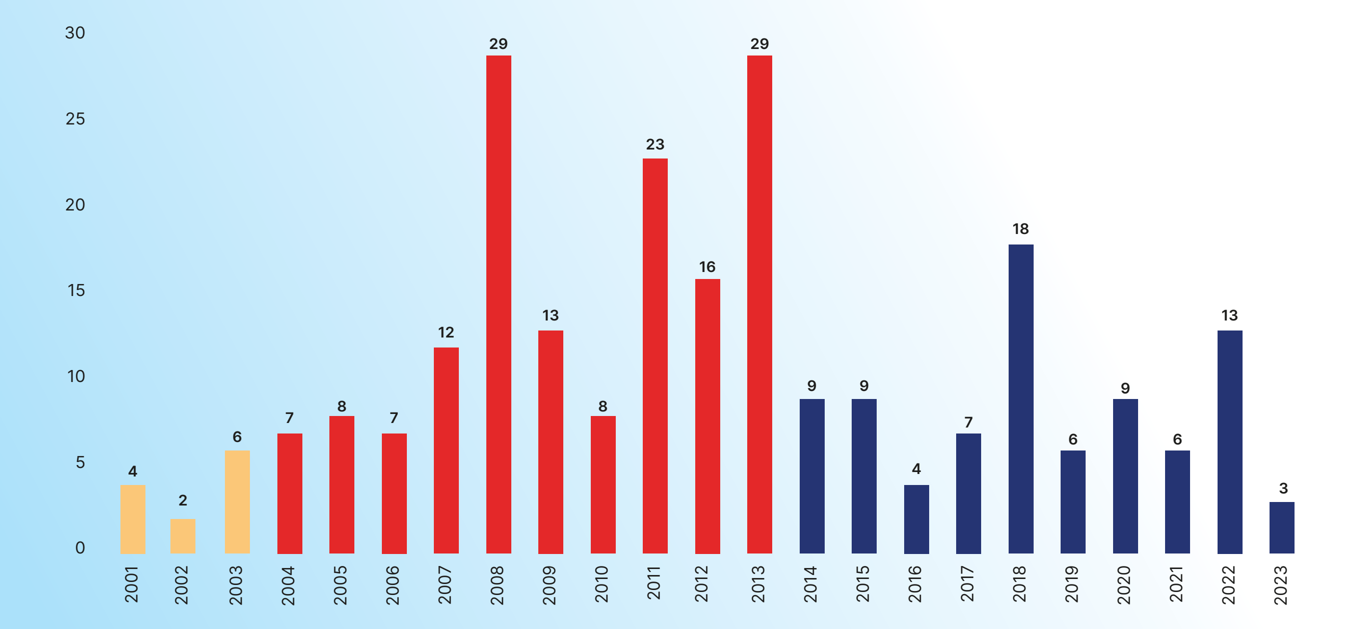
In 2023, following a year of heightened volatility, the USDINR market saw an unexpected shift towards ultra-low volatility, making the Indian Rupee one of the most stable currencies globally. This remarkable stability was attributed to the assertive and effective interventions by the central bank, which successfully curbed fluctuations and instilled confidence among traders. The contrast with the preceding year emphasised the cyclical nature of financial markets, underscoring the pivotal role central banks play in maintaining stability and influencing currency dynamics. This period of subdued activity prompted market participants to recalibrate their strategies in response to the evolving landscape shaped by regulatory measures and global economic forces.

YTD MONTH VOLATILITY %



Source: Kotak Securities & Bloomberg

USD INR ANNUAL HIGH-LOW VOLATILITY (%) OF SPOT

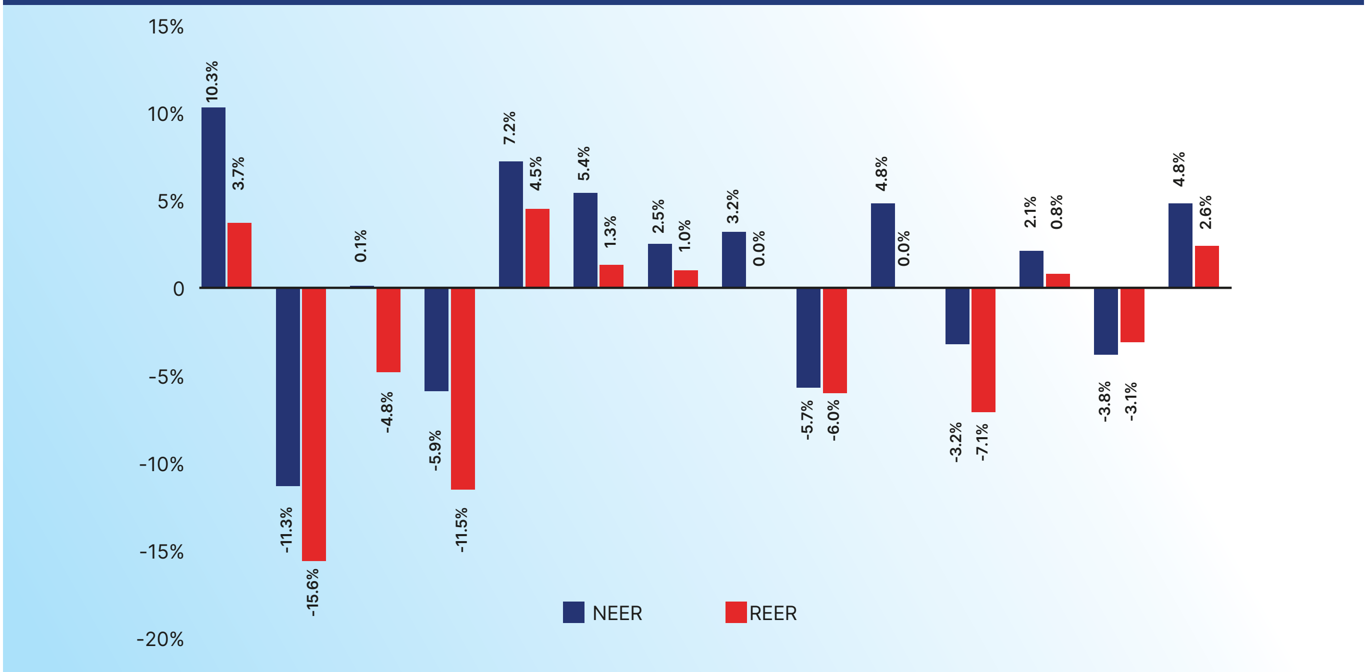


Source: Kotak Securities & Bloomberg

According to data from the Bank of International Settlements regarding both the real effective exchange rate and the nominal effective exchange rate, the Rupee has exhibited an appreciation ranging from 1% to 3%. This signifies that, when measured against a basket of 64 currencies, the Rupee has strengthened by 1%, and when adjusted for inflation, the gain extends to 3%.

The commendable performance of the Rupee on both fronts can be attributed to robust economic growth and comparatively lower inflation. However, it's noteworthy that the Reserve Bank of India's effective market interventions strategically prevented the Rupee from appreciating excessively against its counterparts. This cautious approach aimed to maintain trade competitiveness, ensuring that the Rupee's strength did not compromise the nation's export edge. The delicate balance achieved reflects a comprehensive economic strategy, where currency value is managed to foster both domestic economic strength and international trade resilience.

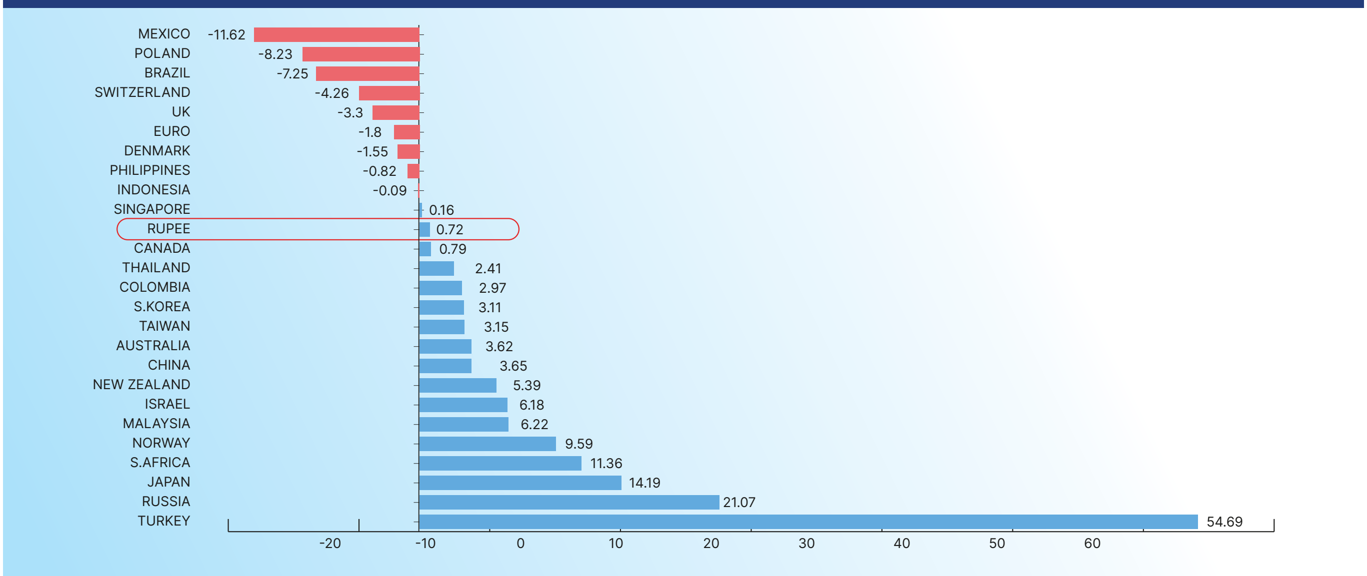
HOW HAS RUPEE DONE AGAINST A BROAD BASKET OF CURRENCIES (BIS)



Source: Kotak Securities & BIS

Even if we consider the top 26 currencies in the globe, Rupee emerges as an outperformer.

HOW USD($) PERFORMED AGAINST KEY CURRENCIES YEAR TILL DATE (2023)(%)



Source: Kotak Securities & BIS

Over the years, the Reserve Bank of India (RBI) has emerged as a significant participant in the forex market. In our assessment, their focus revolves around managing relative volatility and gains to avert any substantial adverse impact on the economy. This objective is accomplished through regular interventions across spot, forward, futures, and non-deliverable forward (NDF) markets. Our compiled data illustrates the escalating trend in RBI's gross intervention over time. Through assertive daily interventions, including those not reflected in futures and NDF segments, the RBI effectively maintains the stability of the Rupee. Incorporating the figures from interventions in futures and NDF markets would further underscore the extensive scale of the central bank's market involvement.

RBI INTERVENTION IN SPOT AND FORWARD MARKET - USD MILLION

Year	Gross Purchase	Gross Sales	Gross Intervention	Net Intervention	Net Forward Purchase
2013	51,492	47,301	98,793	4,191	19,120
2014	98,711	74,015	1,72,726	24,696	-25,754
2015	84,103	47,527	1,31,630	36,576	-4,866
2016	77,940	68,588	1,46,528	9,352	-1,401
2017	46,027	18,049	64,076	27,978	28,513
2018	41,988	57,866	99,854	-15,878	-26,673
2019	59,548	19,281	78,829	40,267	-551
2020	1,26,726	38,991	1,65,717	87,735	37,917
2021	1,59,009	1,25,660	2,84,669	33,349	9,314
2022	1,79,674	2,25,911	4,05,585	-46,237	-38,138
2023 ***	81,321	63,014	1,44,335	18,307	-6,326

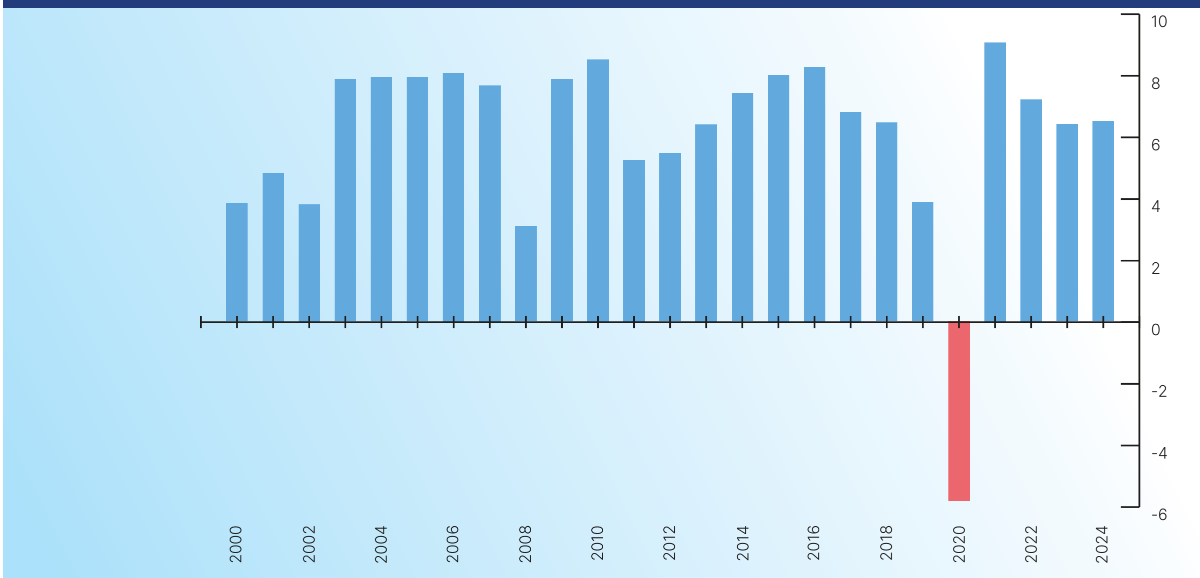
*** Upto September

Source: Bloomberg & Steno Research, Marco Bond, EPB Research

If 2022 unfolded as a narrative marked by unbridled inflation, disruptions to global supply chains induced by conflict, and the substantial threats posed to global growth, with major central banks responding aggressively through interest rate hikes, then 2023 emerged as a chapter characterised by the pinnacle of global interest rates as inflation reached its zenith while the outlook for growth improved.

Remarkably, the Indian economy exhibited resilience, maintaining a relatively stable inflation outlook. In stark contrast to numerous Western and Asian economies grappling with the dual challenges of sluggish growth and soaring inflation, India remained unburdened by this predicament. This unique position has, in turn, enabled the Rupee to sustain stability against a backdrop where many currencies experienced fluctuations.

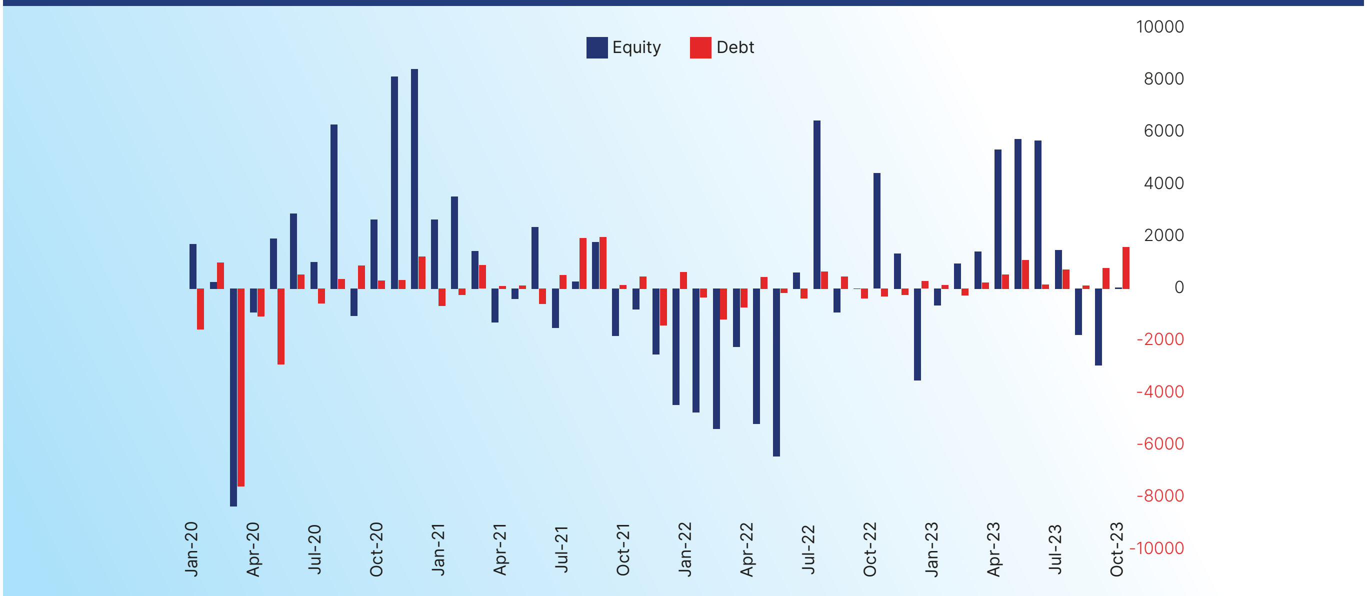
INDIA'S ANNUAL GDP GROWTH RATE



Source: Kotak Securities & World Bank

Foreign Portfolio Investment (FPI) flows have consistently been on the rise in the debt segment, even as the equity segment experiences subdued inflows. The incorporation of Indian debt into the JP Morgan global bond index has significantly attracted active investments into the market. Projections suggest that between June 2024 and April 2025, a substantial influx of $25-35 billion is anticipated in Indian debt due to this inclusion. Should the global interest rate cycle decisively trend downward in the coming year, these inflows could potentially surge even higher, as both active and passive funds flow into the long end of the bond market. This scenario holds promising prospects for the Rupee.

FPI FLOWS - $ MILLION



Source: TickerPlant

In the upcoming year, we anticipate an increase in volatility as India approaches national elections, coinciding with the United States, also being in an election year. The potential for heightened volatility in financial markets looms if the U.S. experiences a significant slowdown in economic growth coupled with a downturn in the interest rate cycle. Additionally, vigilance is required concerning global geopolitical hotspots spanning West Asia, East Asia and the Indian subcontinent. Any major confrontation in these regions has the potential to amplify volatility in the Rupee market.

USDINR SPOT CHART

Source: TickerPlant

Traders should take note of the historical trend where low volatility phases are typically succeeded by heightened market activity. If this historical pattern repeats itself, 2024 may bring increased volatility for participants in the USDINR market. Envisaging a broad range between 82.00 and 86.00 on the spot, traders can prepare for a more dynamic and potentially lucrative trading environment in the coming year.

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MARKET OUTLOOK 2024

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