THEMATIC MACRO RESEARCH · Q2 FY-26

Global Conflict Premium

& India's Macro Exposure

Prepared by Next Horizon Capital for Kotak Alternate Asset Managers Ltd

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C O N T E N T S

Table of Contents

00 **Disclaimer**
Purpose, data reliability, distribution and about team.

01 **Global Economy → Emerging Markets → India**
Macro funnel from global shocks into India's macro exposure.

02 **Conflict Transmission Channels & Macro Effects**
Four active conflicts, four macro variables, quantified.

03 **Investment Thesis & Stock Picks**
Sector scorecard mapping winners, laggards and index impact.

N O T I C E

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PART I

I

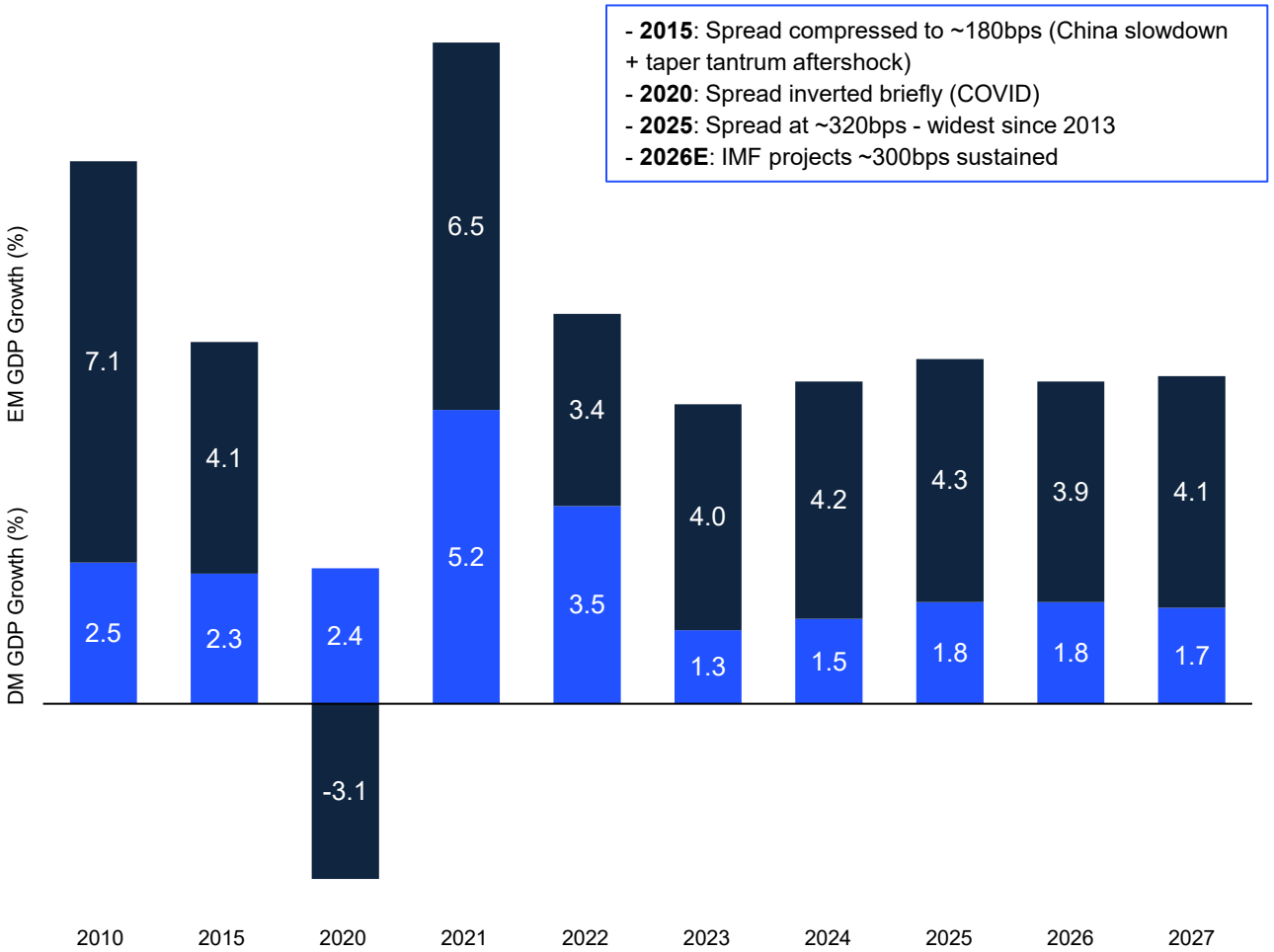
Global Economy to Emerging Markets to India

A three-step funnel: how global shocks filter through EM risk premia before landing on Indian macro.

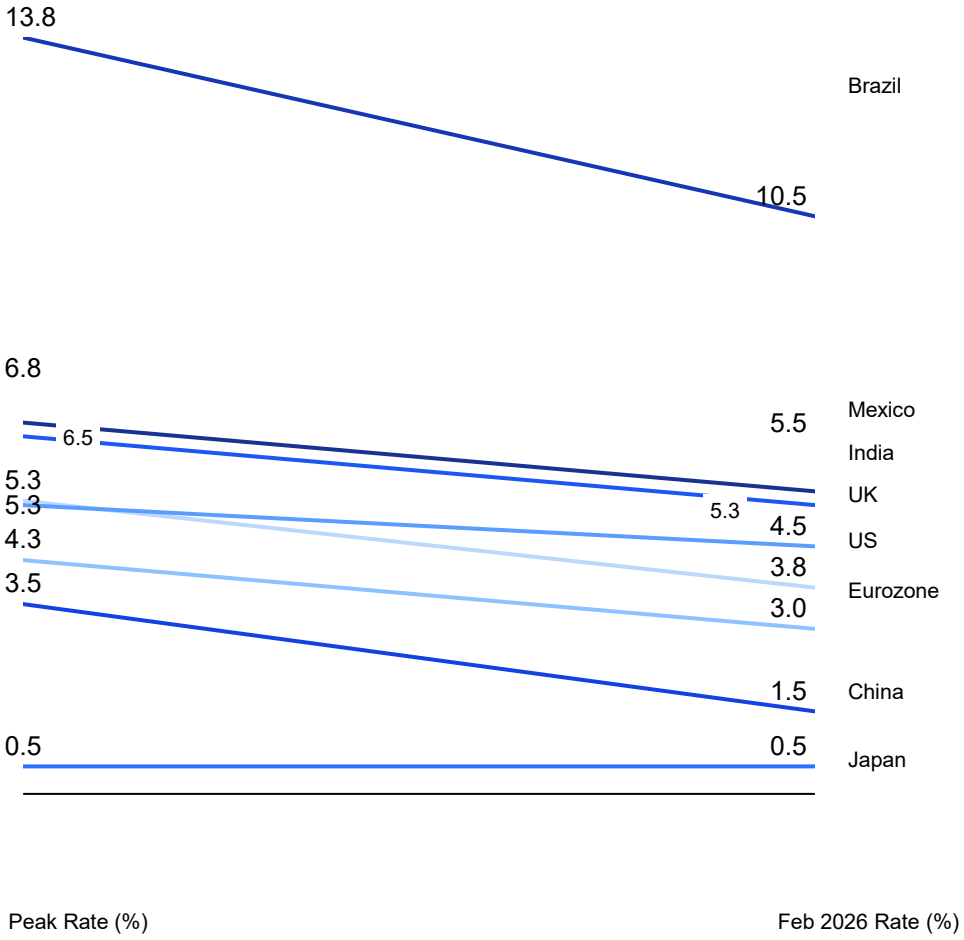


DM Growth Is Decelerating While EM Growth Premium Has Widened to 320bps - The Widest Since 2013

EM-DM Growth Spread Hit 320bps in 2025 - Capital Follows This Spread With a 2-Quarter Lag

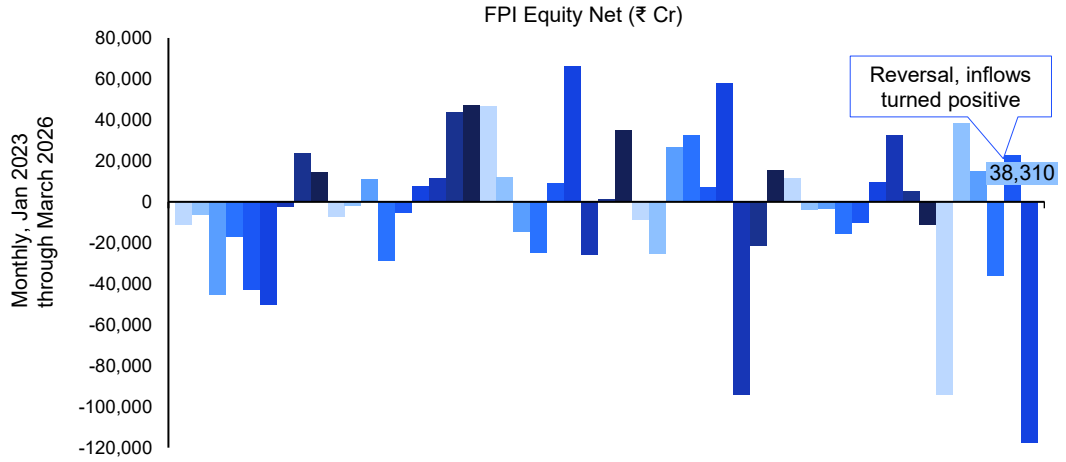


18 of 23 Major EM Central Banks Are Now Cutting - DM Rates Peaked 6-9 Months Ahead

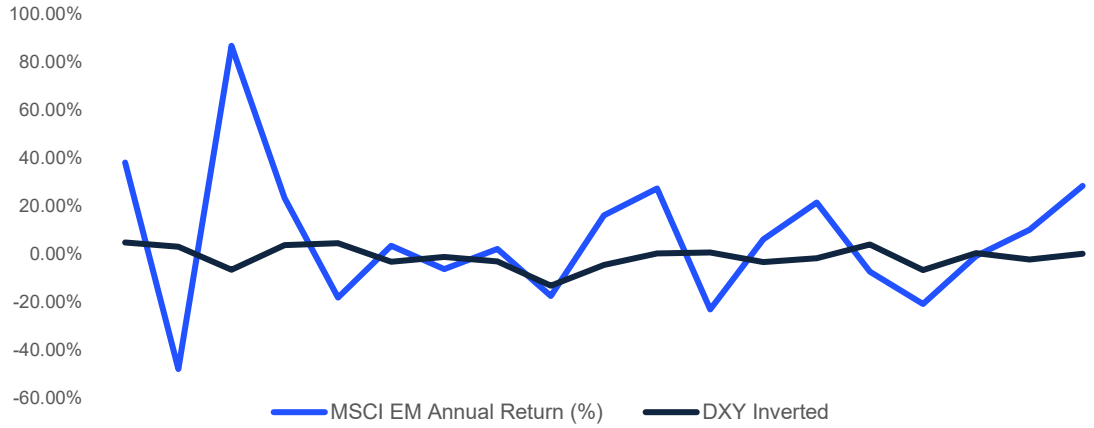


$47 Billion Flowed Into EM Equities in Q1 2026 - The Fastest Inflow Quarter Since Post-COVID Recovery

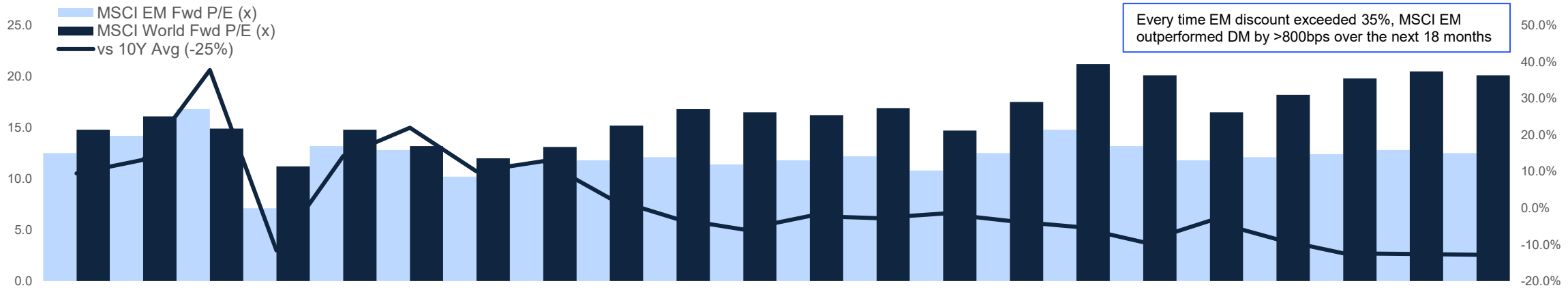
EM Equity Inflows Turned Positive in November 2025 After 14 Months of Outflows, Cumulative $47bn in 5 Months



Dollar Weakness Is the Single Best Predictor of EM Equity Performance

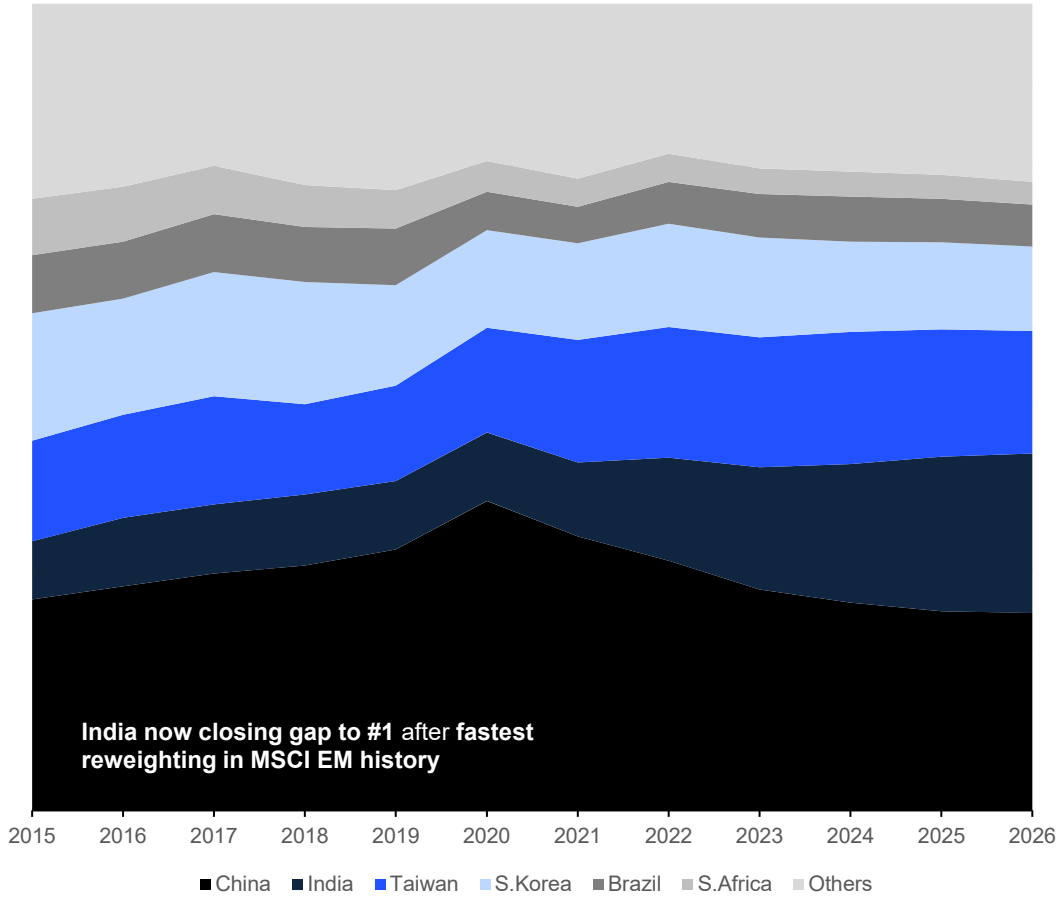


EM Trades at 38% Discount to DM on Forward P/E - Deepest Since 2004 Excluding COVID

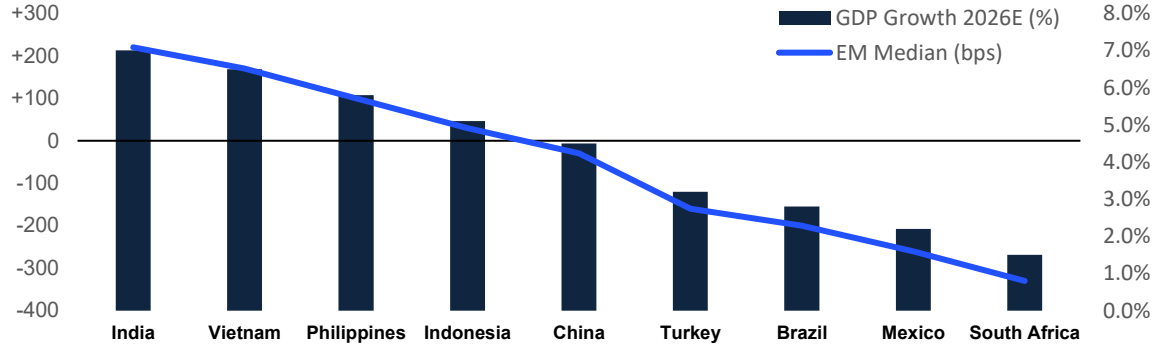


India's Share of MSCI EM Has Risen From 8% to 19.8% in 5 Years - The Fastest Re-Weighting in EM Index History

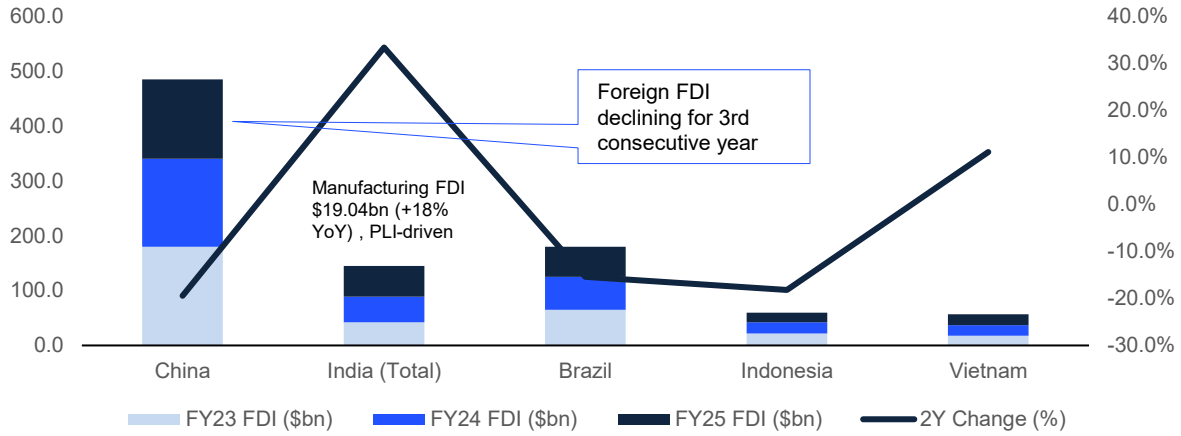
India Overtook Taiwan and Is Closing on China - MSCI EM Weight 19.8% vs China's 24.5%. India weight rose from 7.2% (2015) to 19.8% (2026)



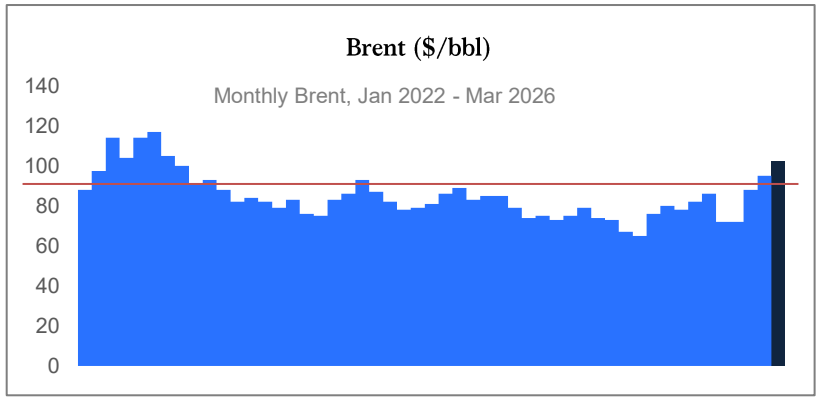
India Is the Fastest-Growing Major Economy at 7.0% - 200bps Above EM Median

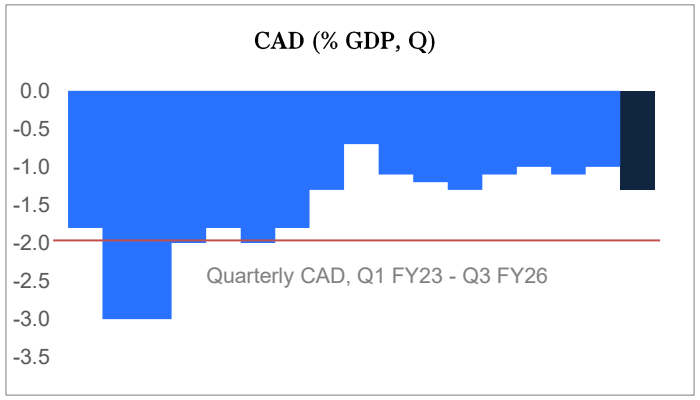


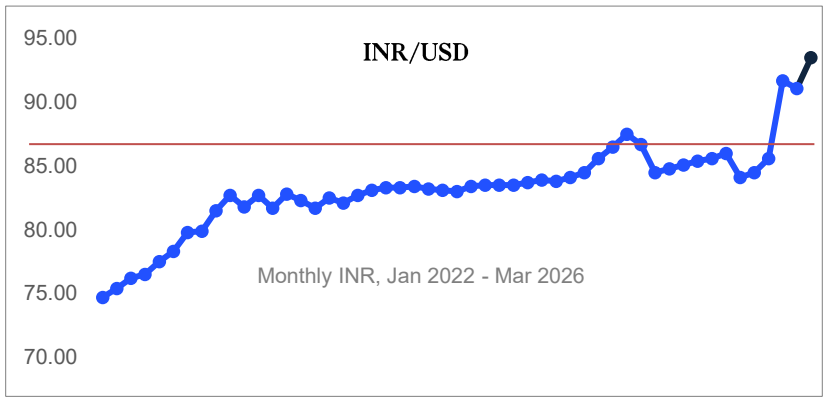
India's Manufacturing FDI Hit $19.04bn in FY25 (+18% YoY), 2nd Only to China Among EMs

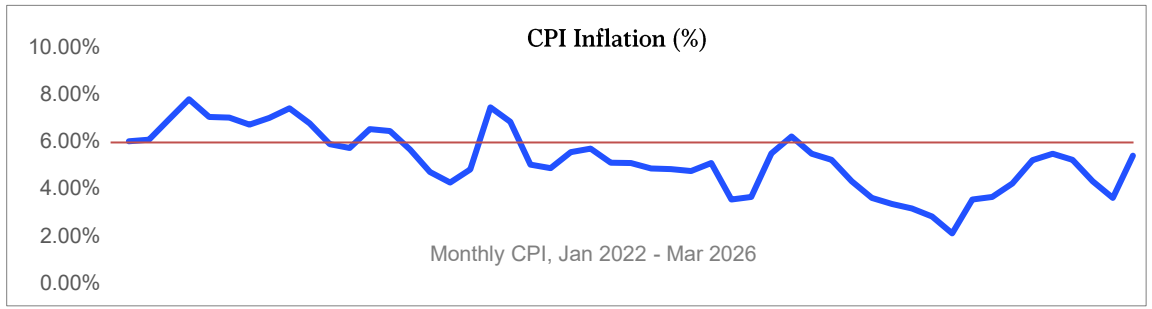


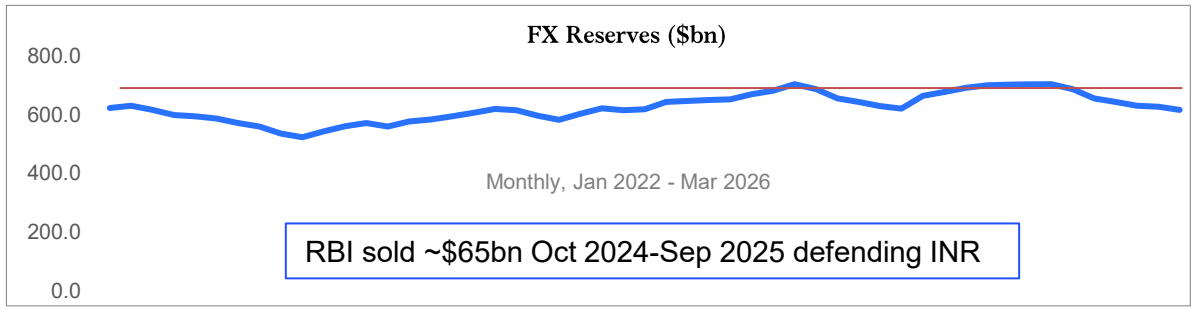
India Is Growing at 7% But Operating With ₹92/$ INR, 1.3% CAD, and 5.25% Repo - All Buffers Simultaneously Near Threshold

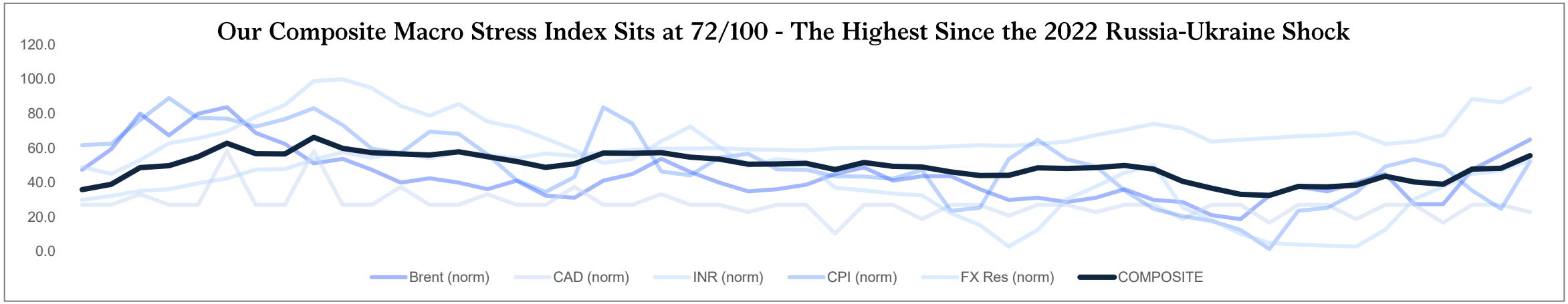






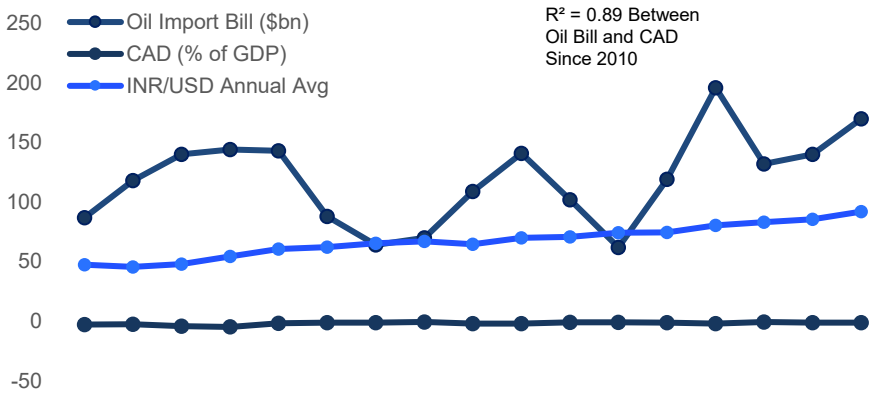




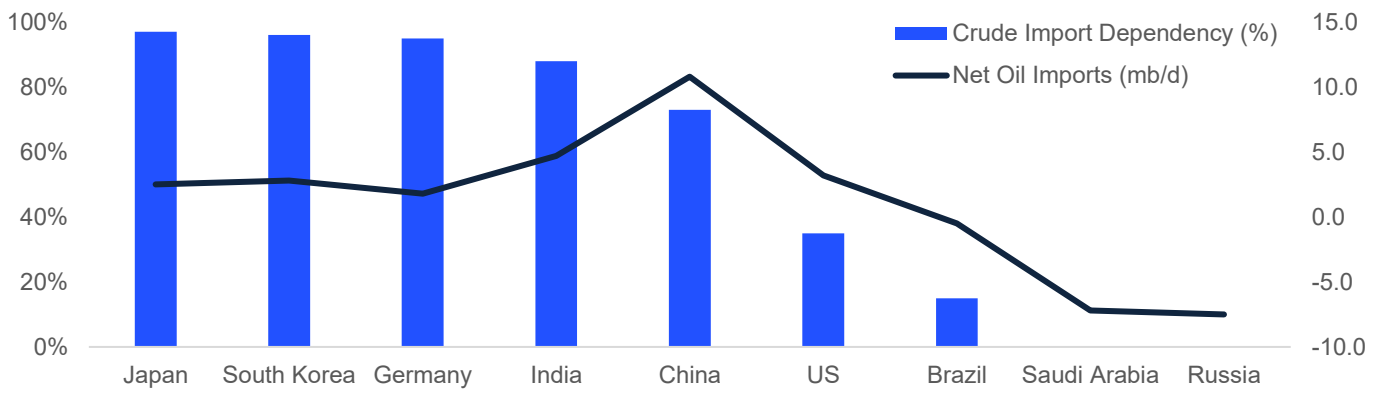


India Imports 88% of Its Crude - Every $10/Bbl Moves CAD by $13-14bn, CPI by 30-40bps, and GDP by -20bps Simultaneously

Oil Import Bill, CAD, and INR move in near-perfect tandem.



India imports 88% of crude (4.7mb/d) — world's 3rd largest importer. 45% of India's imports transit Strait of Hormuz. Net exporters benefit from price spikes.



The Cascading Impact of $10/Bbl: India's Macro Variables Move in a Predictable, Quantifiable Chain

Step	Transmission Channel	Quantified Impact	Mechanism
Step 1	**+$10/bbl** Brent Crude	INPUT SHOCK	Trigger variable
Step 2	**+$13-14bn** India crude import bill	**+$13-14bn** USD	Annual impact on merchandise trade balance
Step 3	**+0.30-0.33%** of GDP to CAD	**+0.30-0.33%** GDP	Current account deficit widens
Step 4	**2-4%** INR depreciation pressure	**-2 to -4%** INR/USD	Exchange rate transmission channel
Step 5	**+30-40bps** CPI inflation	**+30-40bps**	Fuel, food transport, manufacturing cost pass-through
Step 6	**-20bps** GDP growth impact	**-0.20%** GDP	Demand compression + supply-side cost shock
Step 7	RBI holds/pauses cutting if **CPI >5.5%**	Rate hold/hike risk	MPC reaction function — inflation ceiling constraint

PART II

II

Macro Effects & Transmission Channels

Four active conflicts transmit into four quantifiable Indian macro variables.

CONFLICT
Russia - Ukraine

CONFLICT
Iran - Israel

CONFLICT
US - Venezuela

CONFLICT
China Tensions

TRANSMISSION VARIABLES

- CAD
- CPI
- INR
- Fiscal Burden

Every Scenario in This Deck Uses These Seven Coefficients - Anchored to IMF, RBI, and ICRA Data

Brent crude averaged $103/bbl in March, touched $128 on April 2, and is now whipsawing between $90-97 as Hormuz reopening signals collide with ceasefire uncertainty. Every macro variable downstream keys off where this settles - and the range between $90 and $115 (EIA's Q2 peak forecast) implies two very different Indias.

The Oil Import Channel

India's Q3 FY26 CAD came in at $13.2bn (1.3% of GDP), already wider than a year ago. But the real stress hasn't shown up yet - Q3 was mostly pre-conflict. The April-onward import bill is where the damage lands. At $100+ Brent, every $10/bbl adds $13-14bn to the annual import bill. The Russian discount buffer - once worth $7-8bn annually at peak - has compressed sharply. Russian volumes have dropped to ~1.0-1.2 mbpd from ~1.7 mbpd under sanctions pressure, and the share has slipped below 25% of India's crude mix for the first time in two years. The irony: the Hormuz closure has made Russian barrels more critical, not less, since ~50% of India's crude transits through the Strait. A 30-day US waiver on Russian oil purchases has been issued, effectively acknowledging this dependency.

The Currency Defence

The INR has weakened to ~₹93/$ (touched ₹94.86 on March 27), and the RBI has been burning reserves to defend it. Forex reserves dropped $30.5bn in March alone - the sharpest monthly drawdown in recent memory - before recovering to $701bn by April 10. The import cover is still comfortable at ~11 months, but the RBI's net short dollar position is estimated at ~$100bn, which means the effective buffer is thinner than the headline suggests. The REER has fallen from its November 2024 peak of ~118 to ~104.7 by December 2025, and has almost certainly declined further since. Every 1% REER depreciation feeds +7bps into CPI over the next 3-4 quarters - a slow-burn secondary channel that most market participants underweight.

The Inflation Pass-Through

This is where the government has made an explicit policy choice: absorb the shock fiscally rather than let it pass through to consumers. Retail fuel prices remain frozen. The consequence is extraordinary OMC under-recoveries - ₹24/litre on petrol and ₹105/litre on diesel as of April 1, translating to daily losses of roughly ₹2,400 crore across IOCL, BPCL, and HPCL. Compare this to the March version of this framework, which cited ₹14-20/litre. The deterioration has been dramatic. The government has responded with excise duty cuts estimated at ₹1.55-1.75 lakh crore annualised - covering only 30-40% of losses. Headline CPI sits at a deceptively comfortable 3.4% (March 2026), but ICRA expects it to breach 4% in April as LPG, ATF, and alternate fuel prices begin reflecting the conflict. The RBI's own Q3 FY27 CPI projection is 5.2% - close to the discomfort zone. A separate risk sits in agriculture: fertiliser input costs (sulphur, ammonia, phosphoric acid) have spiked due to Hormuz disruptions and Qatari LNG shutdowns. The FY27 fertiliser subsidy budget of ₹1.71 lakh crore - lower than FY26's ₹1.86 lakh crore - looks unrealistic and will almost certainly need revision. Any pass-through to farm input costs hits food CPI with a 1-2 crop cycle lag.

The Fiscal Squeeze

The Union Budget pegged FY27 fiscal deficit at 4.3% of GDP. That number is now under serious pressure from two directions: excise revenue foregone (₹1.55-1.75L cr) and likely OMC recapitalisation or subsidy support needs. A realistic estimate puts the deficit risk at 4.6-4.8%, which crowds G-sec issuance, pushes yields, and competes with private capex for capital. The fiscal consolidation narrative that anchored India's sovereign rating trajectory is, at minimum, on pause.

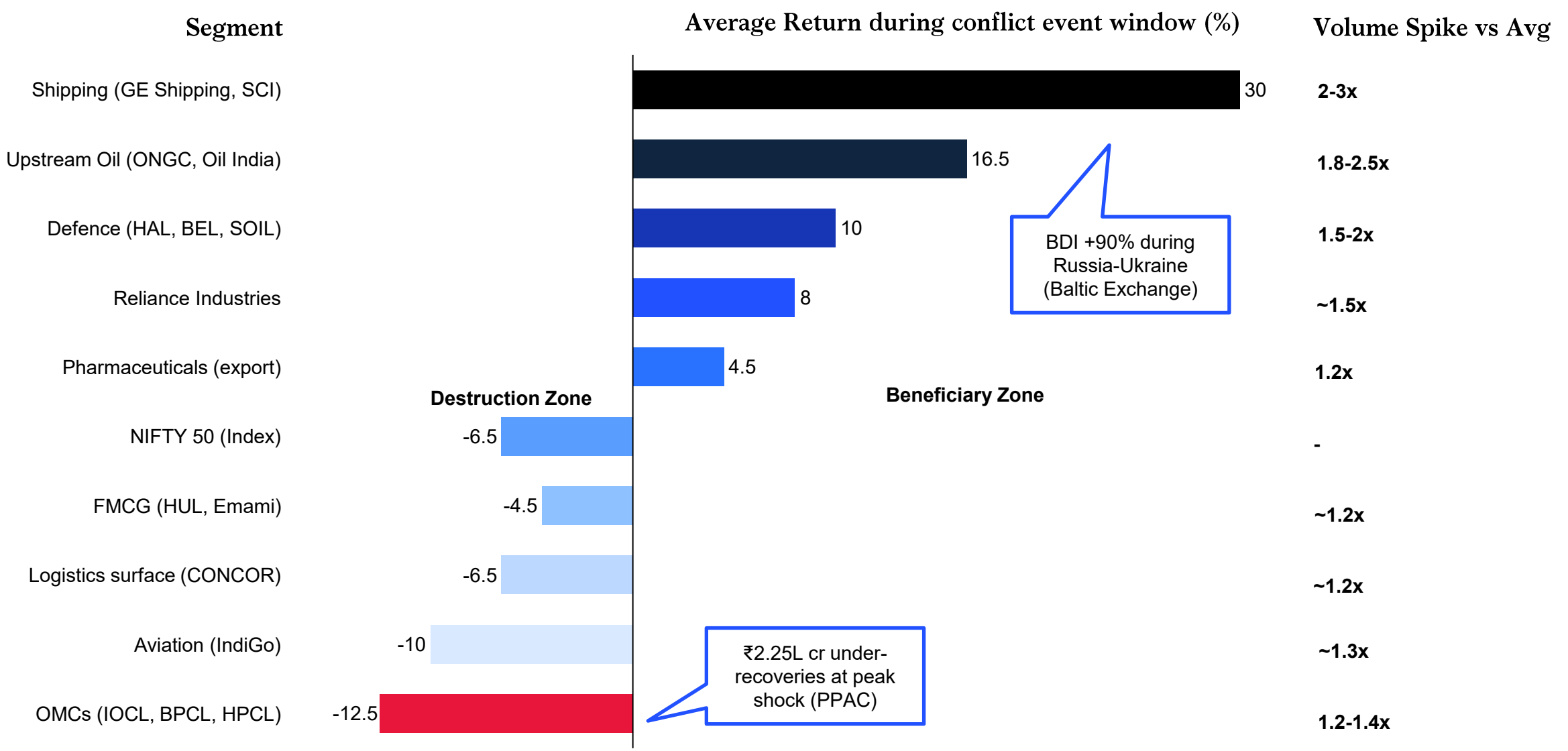
The RBI's Bind: The April MPC held repo at 5.25% - unanimously - after cutting 125bps through 2025. The neutral stance is central-bank code for "we don't know what happens next." The bind is structural: the inflation shock is supply-side (oil, freight, fertiliser), so rate hikes won't fix it, but rate cuts would weaken the INR further and amplify imported inflation. The RBI has projected FY27 CPI at 4.6% with risks tilted upward. If Brent sustains above $95, the mandate breach probability at 6% CPI rises materially by Q3 - at which point the easing cycle isn't just paused, it's dead. The transmission into rate-sensitive sectors (real estate, NBFCs, auto finance) would be immediate.

Four RBI Scenarios From the 5.25% Repo Starting Point - Conflict Severity Determines Path

India is operating in the high stress/tail risk boundary-Brent peaked $119-122, settled ~$97-98; INR record low ₹93.88; CAD expanding.

Scenario	Brent	India CPI	CAD / INR	RBI Response	GDP Growth
Base (Oil $75-85; Russia stable; partial Red Sea)	**$75-85**	**4.0-4.5%**	CAD ~1.3%; INR ~₹92/$	Continue easing; 25-50bps additional scope FY27	**6.8-7.0%**
Moderate Stress (Oil $85-95; moderate disruption)	**$85-95**	**4.5-5.5%**	CAD 1.6-1.9%; INR -2-3%	Extended hold at 5.25%; FX reserve intervention	**6.3-6.5%**
High Stress (Oil $95-110; Hormuz partial; Russia at risk)	**$95-110**	**5.5-6.5%**	CAD 2.0-2.5%; INR -4-6%	25-50bps hike; SPR coordination; aggressive FX intervention	**5.8-6.2%**
Tail Risk (Oil >$120; sustained Hormuz blockade)	**>$120**	**>7%**	CAD >2.5%; INR >-8%	Emergency action; rate hike + reserve drawdown; no modern India precedent	**<5.5%**

Conflict Channels Create Extreme Cross-Sectional Dispersion Within India's Market - Stock Selection Matters More Than Sector Beta



Four Active Conflicts, Six Macro Variables, Two Divergent Outcomes - India's Positioning Determines Which Dominates

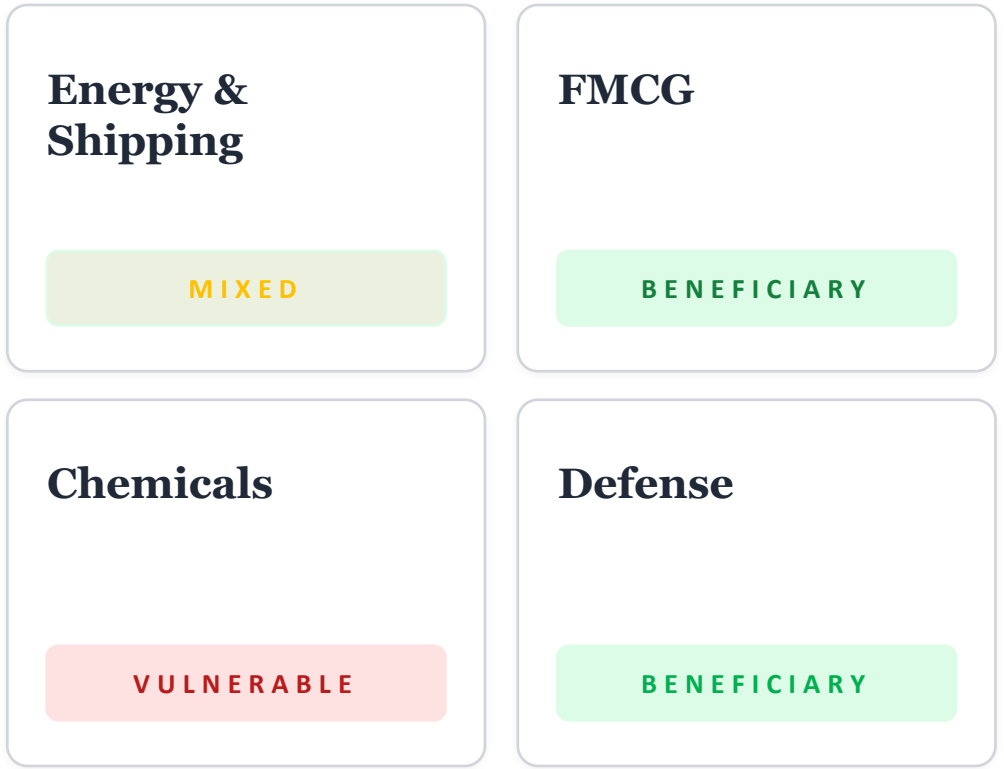
CONFLICT SOURCES	PRIMARY CHANNELS	INDIA MACRO VARIABLES	SECTORAL IMPACT	
Russia - Ukraine War	Crude Oil Price Surge *Brent +$10-$20*	CAD Widening *+$15-25B per $10 Brent*	Energy (OMCs · E&P)	MIXED
	Global LNG / Gas Transmission *EU gas feedstock spillover*	CPI Upside *Fuel + food +50-80 bps*	Shipping & Freight	BULL
Iran - Israel Escalation	Trade Route Disruption *Red Sea · Hormuz · BRI*	INR Depreciation *Oil elasticity + FPI exit*	Defence & Industrials	BULL
	Supply Chain Shock *Semiconductors · Fertilisers*	OMC Under-recovery *Fiscal subsidy burden ↑*	Chemicals & Fertilisers	MIXED
US - Venezuela Oil Sanctions	Capital Flow Reversal *USD strength · EM sell-off*	RBI Policy Response *Rate hike probability ↑*	Aviation & Consumer	BEAR
	Risk-Off & EM Contagion *EM risk premium repricing*	FPI Outflows *EM risk premium repricing*	IT & Financials	MIXED
China - Taiwan / US Tensions	Commodity Volatility *Metals · Edible oils · Wheat*	Forex Reserves Draw *Import cover risk ↑*	Nifty50 EPS -3% to -8%	INDEX

PART III

III

Investment Thesis & Stock Picks

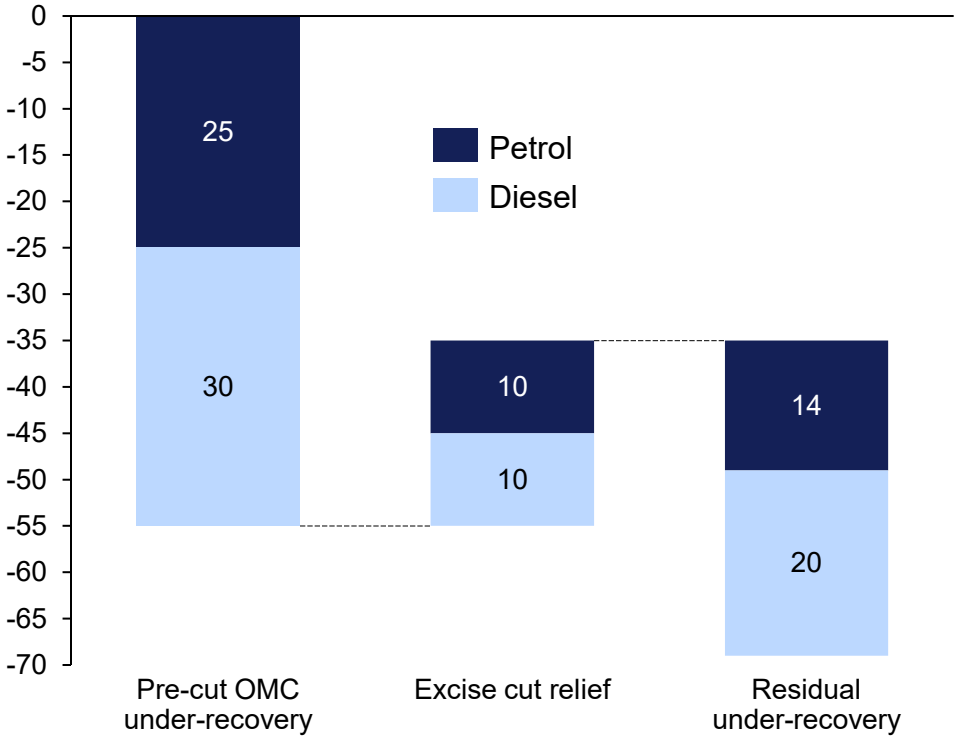
Sector-level scorecard: beneficiaries, vulnerable segments and index-level synthesis.



01 Energy - The Sector Is Bifurcated: Upstream Is a Structural Buy While OMCs Are Trapped in a Policy Binary That Creates One Opportunity

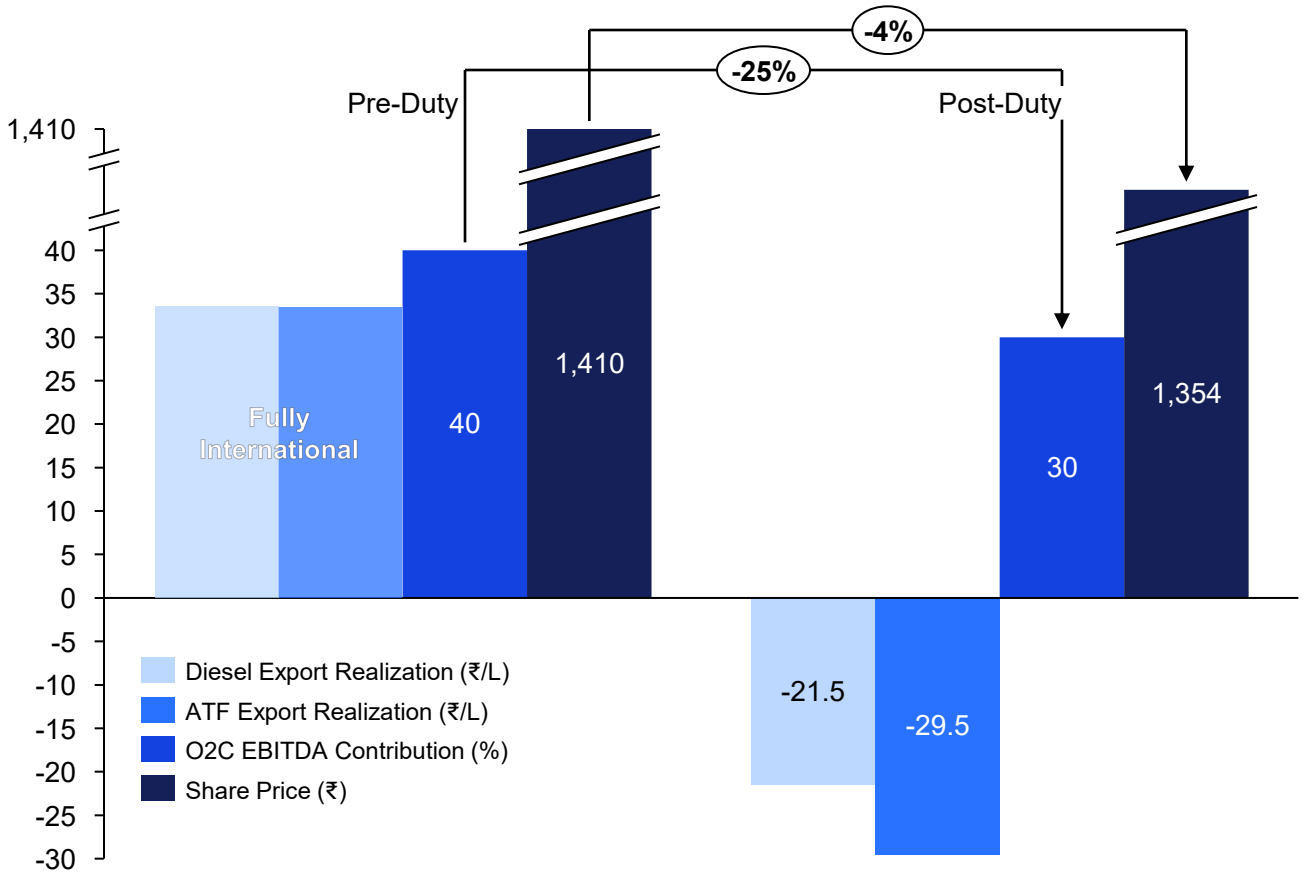
Three Policy Interventions in 72 Hours Redrew the Energy Investment Map - Excise Cut Saved OMCs, Export Duty Destroyed RIL, Iranian LPG Opened a New Supply Corridor

₹10/L Excise Cut Shifts ₹1.55-1.75L Cr From Government to OMC Balance Sheets - But Doesn't Eliminate Under-Recovery



Excise cut **offsets 30-40% of losses** at $102-106 Brent. Remaining ₹14-20/L gap = central risk variable for FY27 OMC earnings

India exported 14mn MT gasoline + 23.6mn MT gasoil Apr 2025-Jan 2026, mostly via RIL. Duty hits every barrel exported, ₹80,000 Cr Erased in One Session



Three Policy Interventions in 72 Hours Redrew the Energy Investment Map - Excise Cut Saved OMCs, Export Duty Destroyed RIL, Iranian LPG Opened a New Supply Corridor

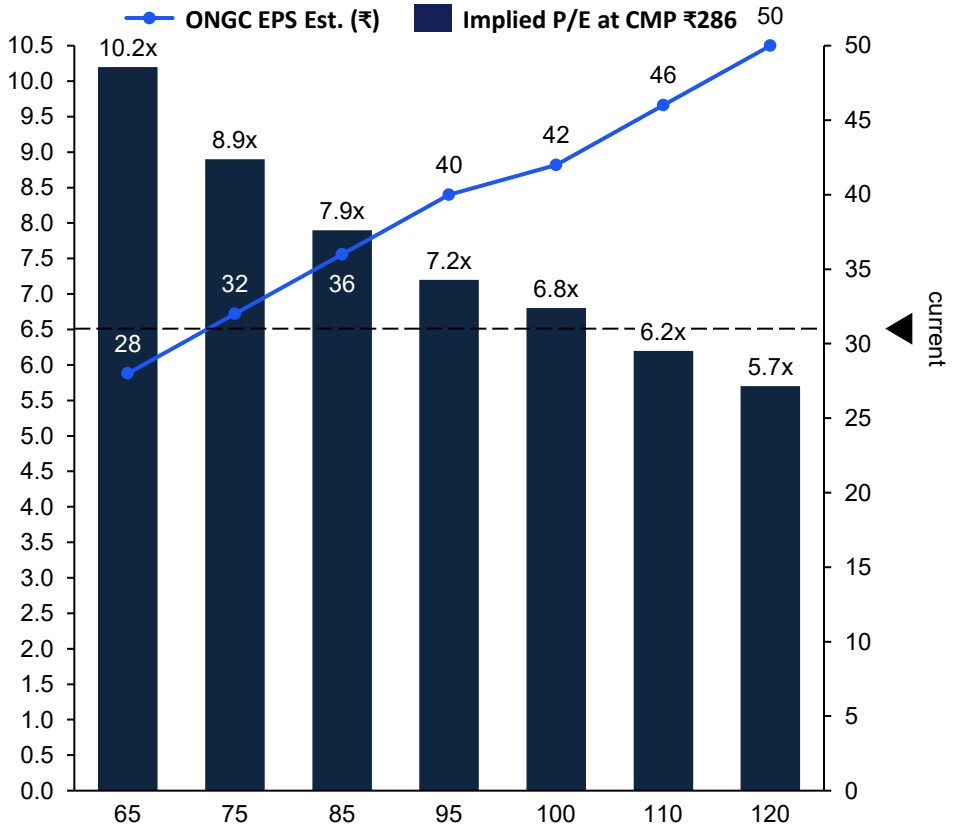
	Company	CMP (₹)	P/E (TTM)	Excise Cut	Export Duty	Iranian LPG	Net Stance
1	ONGC	286	9.95x	Neutral	Neutral	Neutral	STRONG BUY
2	BPCL	299	9.59x	Positive	Neutral	Positive	CONDITIONAL
3	IOCL	143	14.48x	Positive	Neutral	Strong +	HOLD
4	HPCL	361	11.39x	Positive	Neutral	Positive	HOLD
5	GAIL	154	8.14x	Neutral	Neutral	Negative	HOLD
6	RIL	1,350	21.96x	Neutral	Severe -	Neutral	AVOID

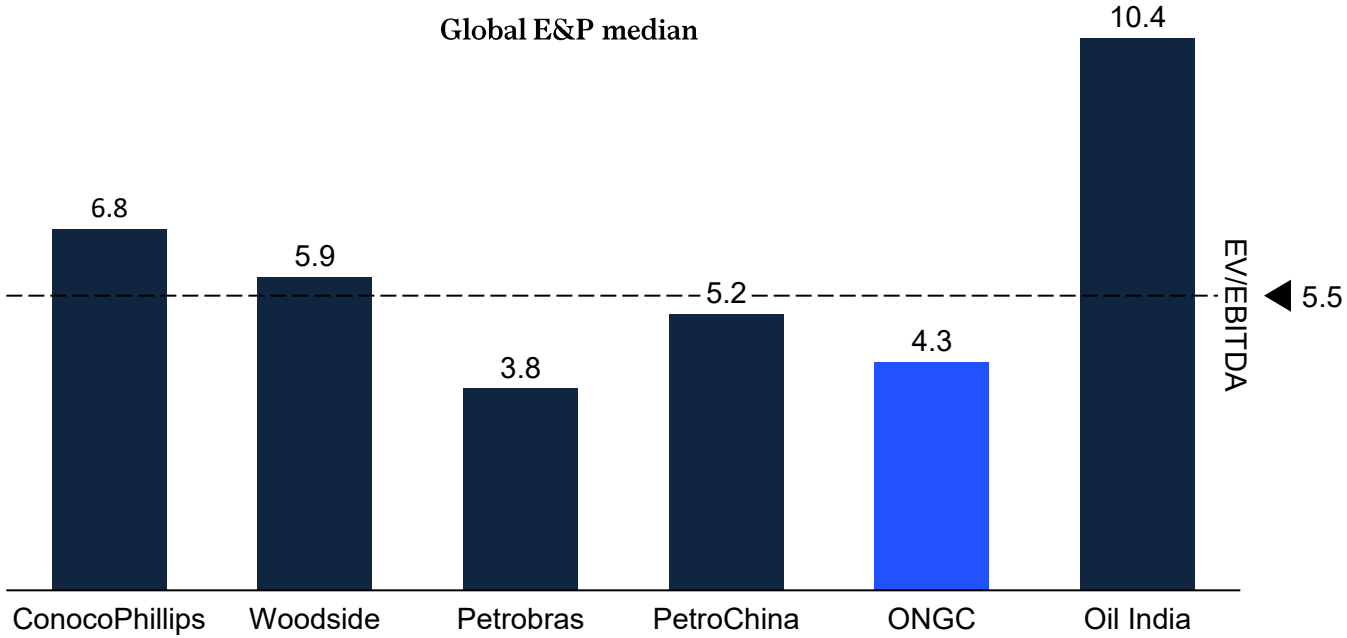
ONGC and BPCL are the only two energy names where the policy architecture is net positive or neutral. RIL is the only name where it is structurally negative

Upstream Producers Are the Cleanest Conflict Beneficiaries - ONGC and Oil India Have Direct Brent Beta With Windfall Tax Abolished and Production Stabilizing

Q3 FY26 crude realization was $61.63/bbl. Q4 FY26 prints at $100-106 - same production volume, ~60% higher realization. The earnings upgrade cycle hasn't started in consensus yet.

P/BV 1.05x (near book). Div yield 4.71%. Windfall tax abolished Dec 2024 - ONGC retains 100% of crude upside. ONGC Is the **Cheapest Large-Cap E&P Globally**. **P/BV 1.05x (near book). Div yield 4.71%. Windfall tax abolished Dec 2024 - ONGC retains 100% of crude upside**

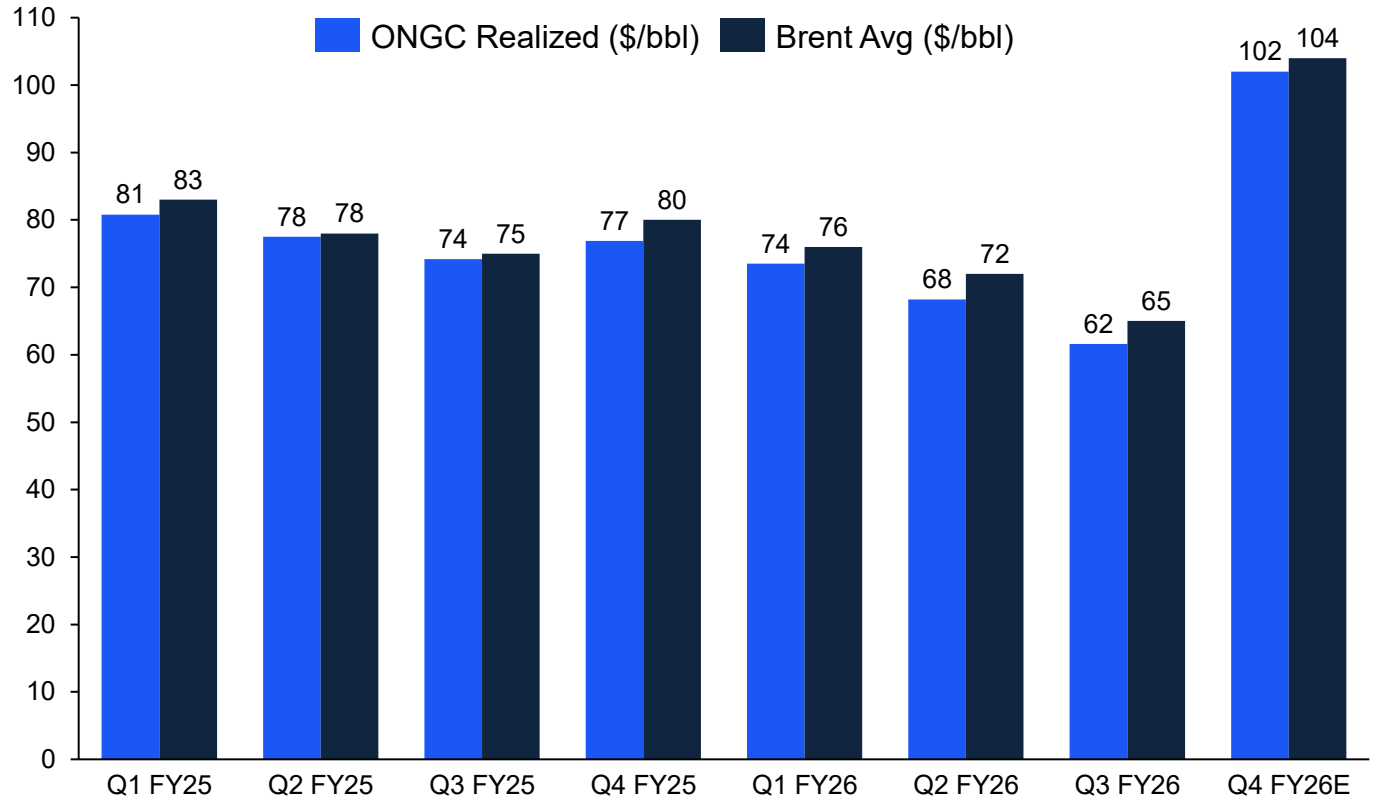




The gap between Q3 ($61.63) and Q4E ($98-106) is the largest sequential realization jump in ONGC's history. 9M FY26 consol PAT already ₹36,115 cr (+23% YoY) on LOWER crude - Q4 will be transformative

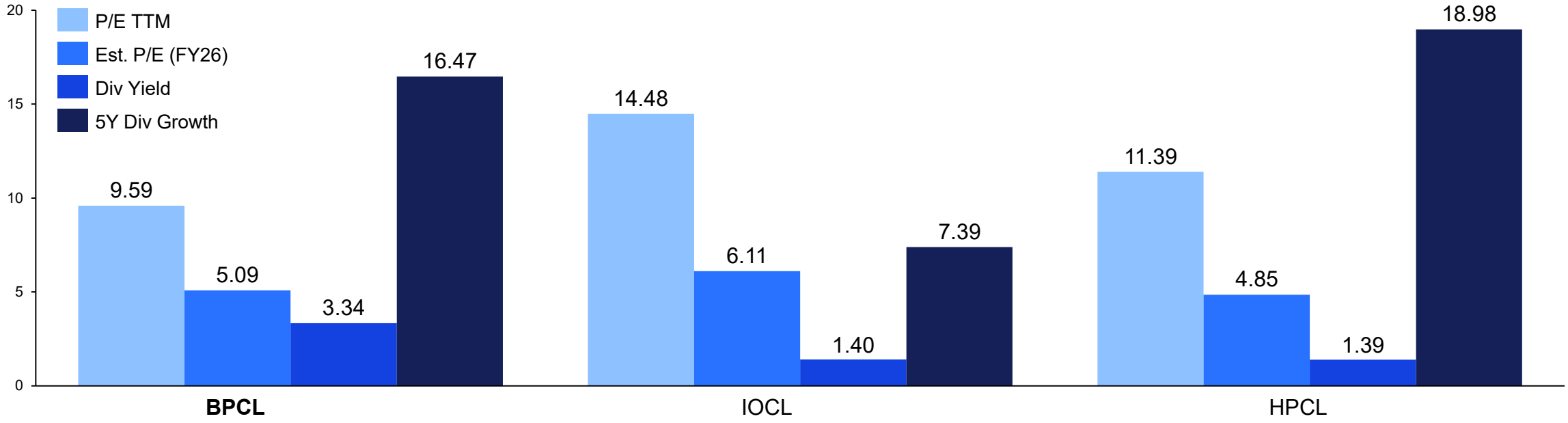
Upstream Producers Are the Cleanest Conflict Beneficiaries - ONGC and Oil India Have Direct Brent Beta With Windfall Tax Abolished and Production Stabilizing

Metric	ONGC	Context
PEG	**4.26**	High PEG misleading, denominator is pre-crisis growth
P/E (TTM)	**9.95x**	Below Sensex relative (0.45x)
Est. P/E	**8.88x**	Compressing further at $100 Brent
EPS TTM	**₹28.80**	Pre-Hormuz; Q4 will lift sharply
P/BV	**1.05x**	Near book value
Div Yield	**4.71%**	Above 10-yr G-Sec



STRONG BUY | CLSA TP ₹415 (+45%) | Bloomberg consensus implies 30%+ upside

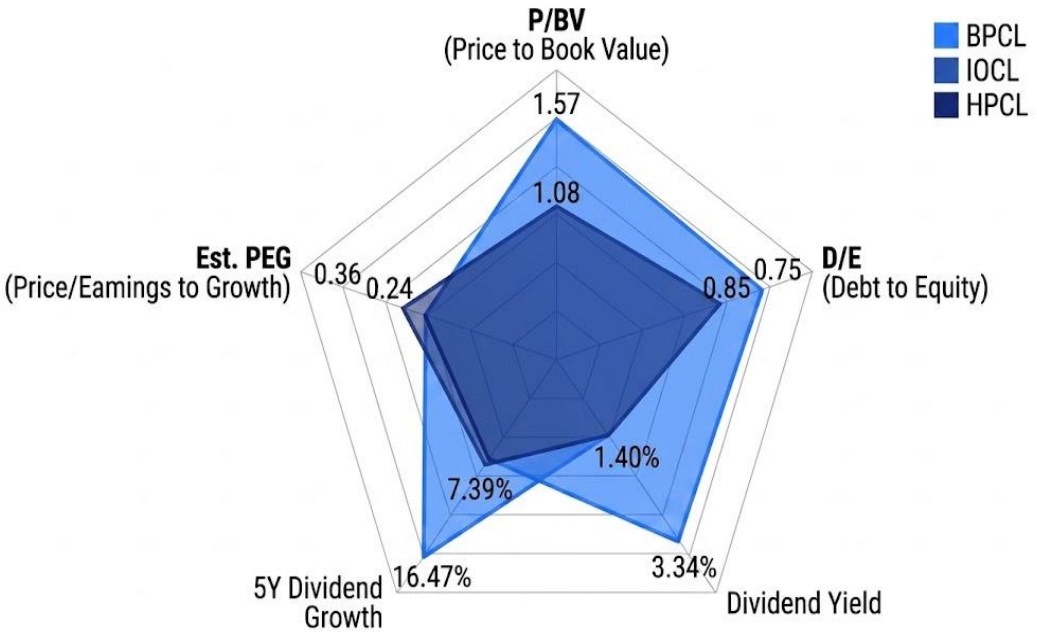
BPCL Is the Only OMC Worth Owning - Best-in-Class ROCE at 16.2%, Lowest P/E in 5 Years, and Excise Cut Partially Restores Margins While the Policy Binary Remains

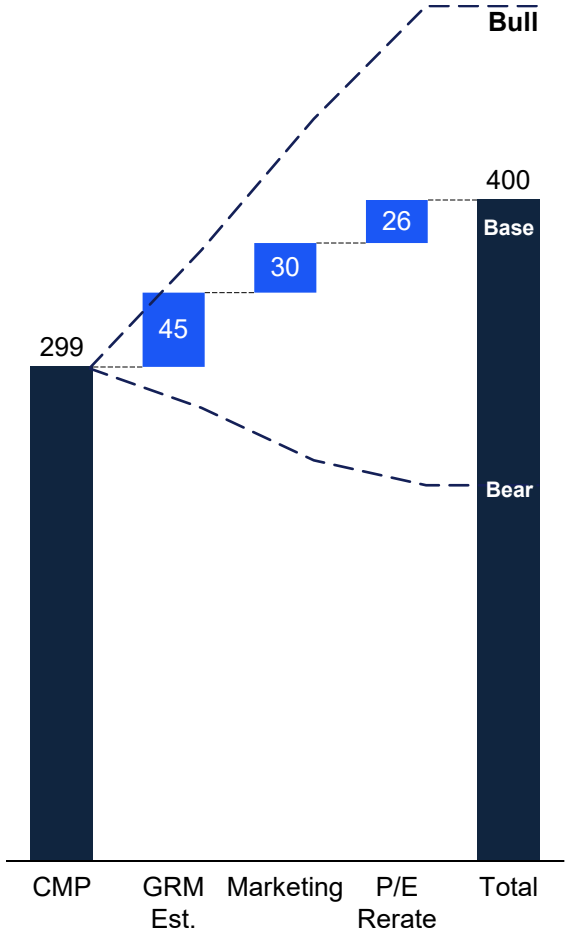


BPCL offers the best balance of value and safety among OMCs. HPCL has the lowest forward P/E (4.85x) but highest D/E ratio (1.11x), cheapness reflects risk, not value

	Stock	CMP	P/E TTM	Est. P/E	P/BV	Div Yield	PEG	Call
1	BPCL	₹299	9.59x	5.09x	1.57	3.34%	0.36	**Conditional Buy ₹380-420**
2	IOCL	₹143	14.48x	6.11x	1.08	1.40%	0.24	Hold- LPG exposure
3	HPCL	₹361	11.39x	4.85x	1.50	1.39%	0.30	Avoid- D/E 1.11x

BPCL Is the Only OMC Worth Owning - Best-in-Class ROCE at 16.2%, Lowest P/E in 5 Years, and Excise Cut Partially Restores Margins While the Policy Binary Remains





BPCL's ₹299 CMP Sits at the Fork of Three Dramatically Different Outcomes

Nayara Energy raised petrol by ₹5/L on March 26 - proving retail pass-through is physically possible. If state OMCs follow, Path B activates → ₹550-600 TP = +84-100% upside

IOCL looks cheap on PEG (0.24) but carries ₹24,318 cr LPG under-recovery and highest absolute revenue exposure to administered pricing. HPCL's D/E at 1.11x makes it the most vulnerable to sustained crude stress

GAIL Faces Five Consecutive Quarters of PAT Decline With Qatar LNG Directly Hit - RIL Is No Longer Defensive, Having Lost ₹80,000 Crore in a Single Day to the Export Duty

Both GAIL and RIL require position reduction or exit - GAIL from LNG disruption, RIL from structural policy change that did not exist pre-crisis.

Hormuz/Qatar exposure is material and worsening

Qatar LNG facilities hit by Iranian missiles → GAIL's long-term LNG portfolio of ~16.56 MMTPA (60 MMSCMD) includes Qatar supply transiting Hormuz → direct volume and margin hit. **Re-entry signal: Qatar LNG facility repair timeline**

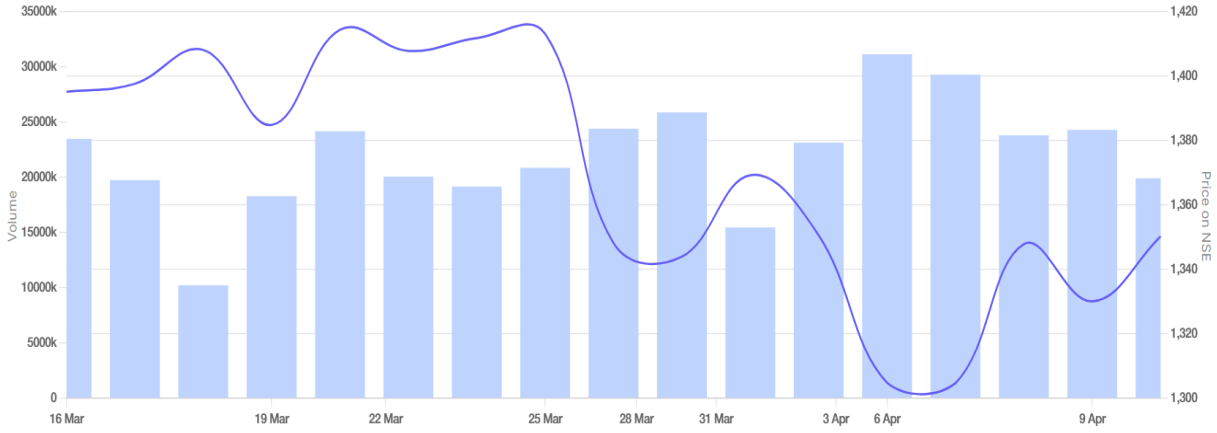
Our view: Hold at current levels - balance sheet provides cushion (D/E 0.26×, IC 22.5×), 5.1% yield offers floor. LNG volume disruption not priced at consensus (+38%). Morgan Stanley downgraded to Equal-weight (₹150) citing LNG disruption



Structural policy headwind did not exist pre-crisis:

Export duty ₹21.5/L diesel + ₹29.5/L ATF (Mar 27) directly reduces net realization on every barrel exported. Jamnagar 1.4mb/d (NCI 21.1) historically earned $3-5/bbl premium over Singapore GRM, now taxed at output. India exported 23.6mn MT gasoil in Apr 2025-Jan 2026, mostly via RIL. **Re-evaluate on export duty removal.**

Our view: Avoid near-term. At ~25× P/E (5-year median), stock is not cheap for a business facing structural policy headwind. Jio/Retail provide long-term support but cannot offset near-term squeeze.



GAIL Faces Five Consecutive Quarters of PAT Decline With Qatar LNG Directly Hit - RIL Is No Longer Defensive, Having Lost ₹80,000 Crore in a Single Day to the Export Duty

GAIL

Metric	Value	Context
P/E TTM	8.14x	Misleading - EPS declining
Est. P/E	11.38x	Forward P/E higher than TTM is a value trap
EPS TTM	₹18.93	
Est. EPS	₹13.54	
Div Yield	3.25%	Floor protection
Est. PEG	2.76	Expensive on growth-adjusted basis

RIL

Metric	Value	Context
P/E TTM	21.96x	At Sensex parity
Est. P/E	22.69x	Not compressing
EPS TTM	₹61.49	
Est. EPS	₹59.51	Declining
Div Yield	0.41%	Negligible income protection
Est. PEG	1.56	Fair-to-expensive

	Stock	P/E TTM	Est. P/E	Div Yield	Call
1	BPCL	9.59x	5.09x	3.34%	Conditional
2	ONGC	9.95x	8.88x	4.71%	Strong buy
3	HPCL	11.39x	4.85x	1.39%	Avoid
4	IOCL	14.48x	6.11x	1.40%	Hold

02 FMCG - Moderate Crude Beta, Significant Divergence Within the Sector, Two Clear Stock Calls

FMCG Is More Defensible Than the Market Prices - But Only For Companies With Vertical Integration and Pricing Architecture

Stock Price and Operating Margins vs. Brent Crude Price Correlation Matrix

FMCG has three crude transmission channels but the sector's pricing tools (grammage cuts, SKU laddering, mix shift) compress the effective margin impact - the key differentiator is which company has already built the supply chain buffer.

Direct Crude

- 20-25%RM
- +2-5% cost
- Pack adjustments

Packaging Cost

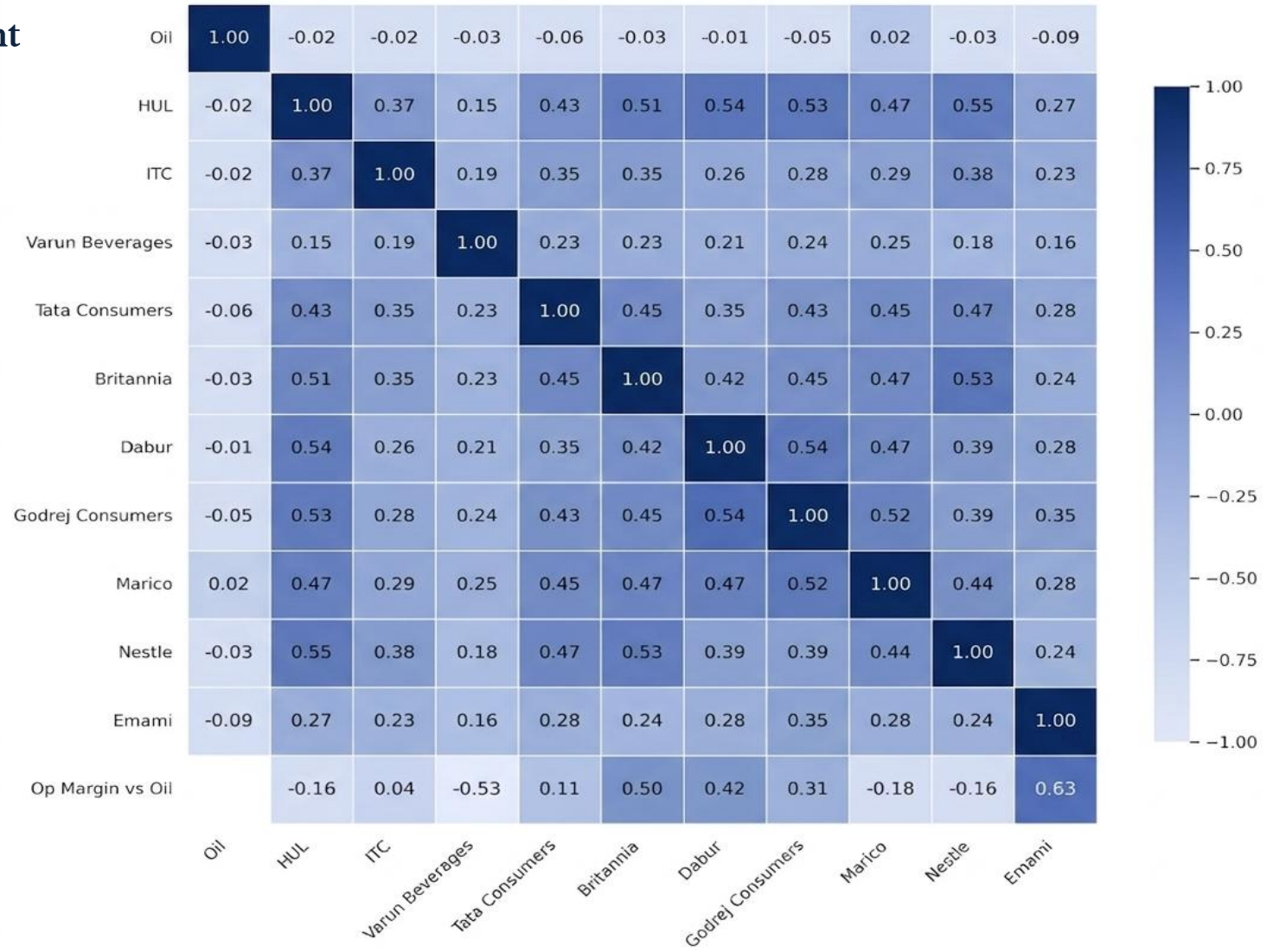
- Fully crude linked
- INR Sensitivity
- Mix premiumization

Rural Demand

- CPI driven slowdown
- High rural exposure
- Volume downgrade

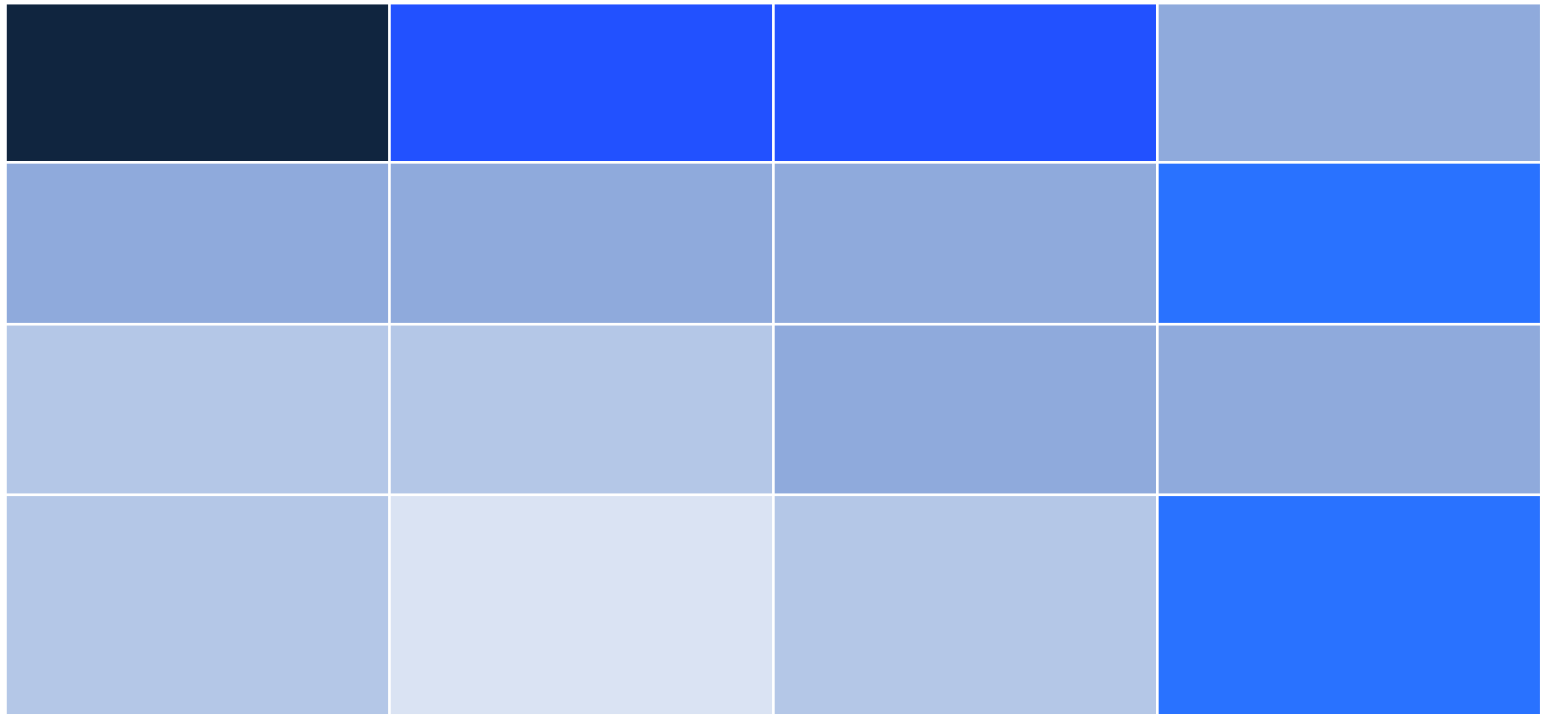
Outlier - Emami

- +ve correlation
- Margin Expansion
- Rural Tailwind



FMCG Is More Defensible Than the Market Prices - But Only For Companies With Vertical Integration and Pricing Architecture

Sub-segment	Crude Input	INR/Import	Rural Demand Risk	Pass-Through Ability	Net Bias
Home Care					Moderate negative
Personal Care					Mild negative
Foods / Staples					Relatively defensive
Naturals / Ayurvedic					Positive - rural wealth correlated



Source: HUL FY25 BRSR; Marico FY25 AR; Emami Q3 FY26 results; Kotak research compilation

HUL Is a Self-Hedging Fortress at a 5-Year Valuation Trough - The Market Prices the Headwind But Has Missed the Portfolio Purge

At 47.75x LTM P/E near its absolute 5-year floor, HUL offers a 6.0x upside/downside asymmetry with a structural moat that strengthens under the exact conflict conditions the market fears.

Business Architecture

- **Conflict driver:** Crude + INR → P&L sensitivity
- **COGS exposure**: LAB + packaging polymers → 15-20%
- **Macro transmission:** $10/bbl → CPI + margin + demand hit
- **De-risking:** Vishwatej + Lucro → backward integration
- **Conflict buffer":** stable gross to EBITDA gap vs peers
- **Mispricing:** Re-rating: Kwality exit → +80-120bps + BPC pivot

Financial Architecture

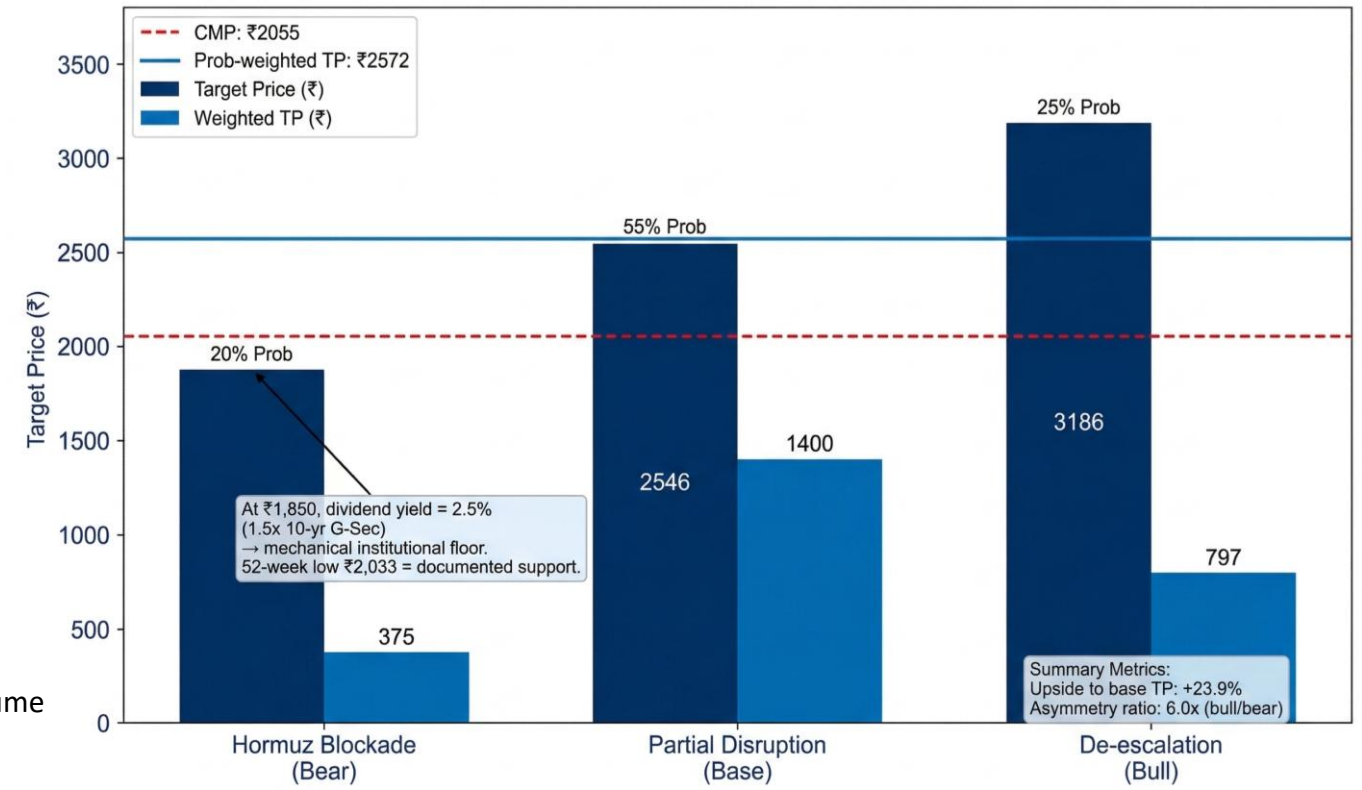
- **Valuation:** ₹2,139 CMP | ₹5.02T mcap | 46.1x P/E (cycle low)
- **Cash flow:** ₹106bn FCF | 2.01% yield | 1.12x authenticity
- **Working capital:** CCC -71 days → structurally negative
- **Yield floor:** ₹1,850 → 2.5% dividend → institutional support
- **Edge:** Unilever sourcing arbitrage → ~150bps cost advantage

Risk Framework

- **Type I:** Crude shock →>0.5% margin hit | Rural demand stall → -ve volume
- **Type II**: De-rating if growth disappoints vs 55x Multiple
- **Type III**: INR/Crude, China Dumping

HUL Bear Case Is Only 5% Downside - Bull Case Is 55%

The Asymmetry Is the Pitch



Source: Kotak research; HUL FY25 Annual Report; Bloomberg consensus FY27E estimates

Investment View: CONVICTION BUY | Target ₹2,572 (probability-weighted) | Base TP ₹2,546 | Composite Score 88/100

Emami Is the Only Indian FMCG Stock With a +63% Positive Correlation to Brent Crude - The Market Has Priced It as a Slow-Growth Value Trap

Emami's "Reverse-FMCG" sensitivity: operating margins expanding as oil prices rise, makes it a structural hedge within the FMCG allocation, currently available at a 40% discount to sector median P/E.

Financial Architecture

Inflation beneficiary → +63% crude correlation
Oil $61→$113 → EBITDA 22%→33% (~50% expansion)

Unit Economics

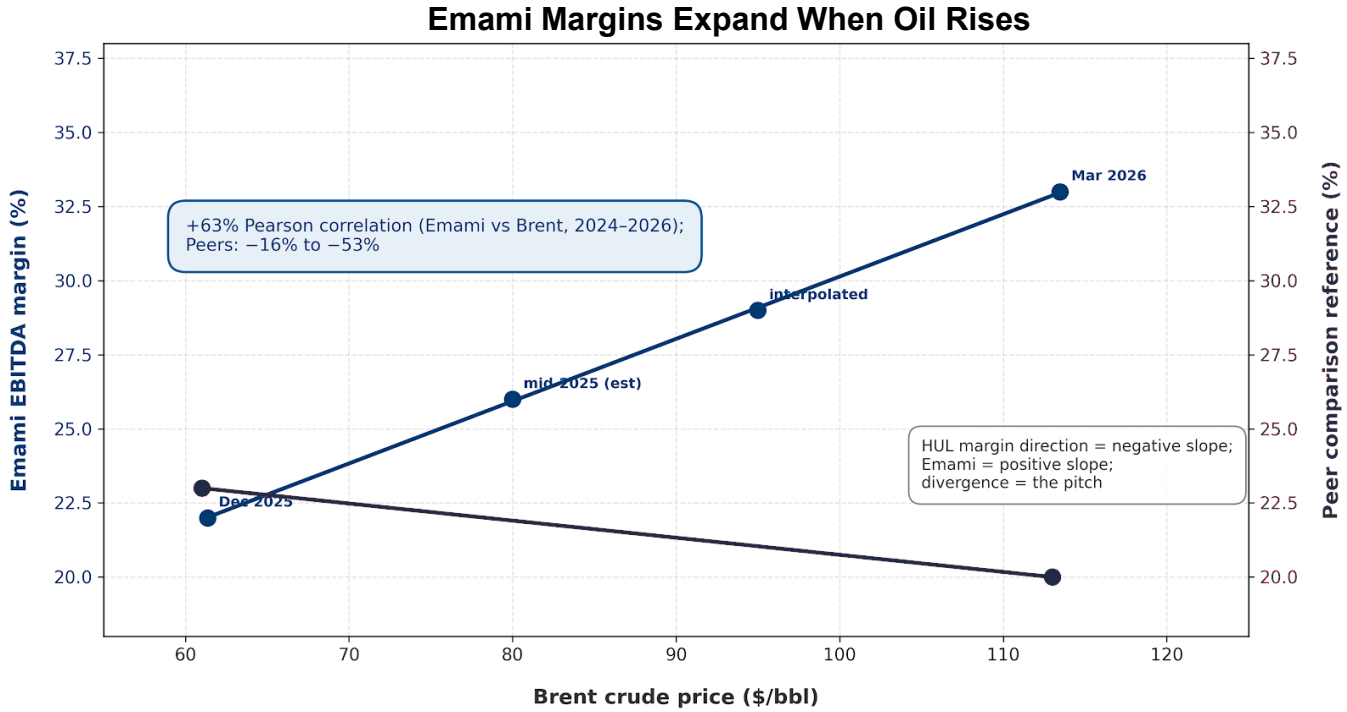
63% GM (vs 50%) | 31% ROE (margin-led)
1.12x turns | 90x interest cover

Financial Architecture

21.9x P/E → ~38% Discount | near 52W low
Axiom Ayurveda (AloFrut) → De-Seasonalization + Q1 tailwind

Composite Scorecard

Pillar	Weight	Score	Weighted
Thematic Exposure & Transmission	30%	26.4/30	7.9
Financial Quality & Earnings Architecture	35%	28.4/35	8.1
Competitive & Strategic Positioning	20%	16.8/20	3.4
Risk Asymmetry & Downside	15%	12.4/15	1.9
	100%	**84/100**	**21.3/30**



Source: Emami Q3 FY26 results; HUL Q3 FY26 results; Bloomberg crude data; Kotak research

Investment View: CONVICTION BUY | Target ₹615.39 (probability-weighted) | Composite Score 84/100 | 54.2% upside + 3.46% dividend yield

03

CHEMICAL - Specialty is Defensible at a Premium; Commodity faces a structural Shock, the Divergence is the most extreme

India's Chemical Sector Has Two Simultaneous Threats - Crude-Linked RM Cost Inflation AND Chinese Overcapacity Dumping - Only Companies With Pricing Power Survive Both

The chemical sector faces a dual squeeze - rising input costs from crude and freight, and margin compression from Chinese overcapacity deflation directed at India - only specialty platforms with technology moats can hold margins in this environment.

The Dual Squeeze

Threat 1 - Crude/Freight Cost Inflation:

- **Benzene, phenol, specialty solvents, monomers:** all crude-derived → A 10% Brent rise → 6-8% RM cost increase
- **Freight:** Red Sea disruption → Shanghai-Rotterdam $2,443/40ft (WCI Mar 26) → 25-35% logistics cost hike
- **INR weakness:** INR at 92/$ vs 83/$ = ~10% structural FX headwind on imported RM

Threat 2 - Chinese Overcapacity Deflation:

- **US tariffs:** (26% on China) shut Chinese goods out of US → redirection to India
- **DGTR Cases:** Solar cells (Mar 2026) and stainless-steel seamless tubes (File 6/13/2021)

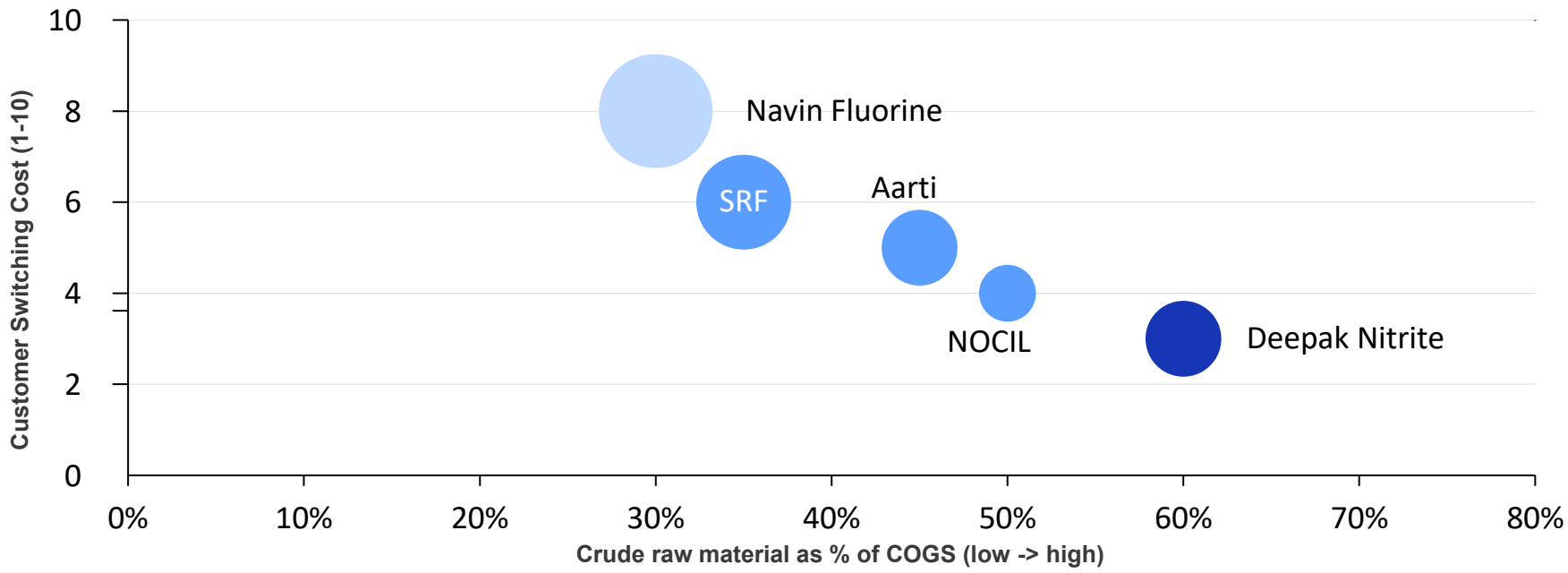
The Losing Profile (Deepak Nitrite):

Aromatic chemicals chain with benzene/phenol inputs - directly crude-linked; commodity-grade products competing on price against Chinese overcapacity

India's Chemical Sector Has Two Simultaneous Threats - Crude-Linked RM Cost Inflation AND Chinese Overcapacity Dumping - Only Companies With Pricing Power Survive Both

Specialty Chemistry With Regulatory Lock-In Is the Only Safe Position

"Navin Fluorine's regulatory moat insulates it from both crude cost inflation AND Chinese dumping - the only chemical company in this deck where the dual squeeze is not the primary risk"



The Winning Profile (Navin Fluorine):

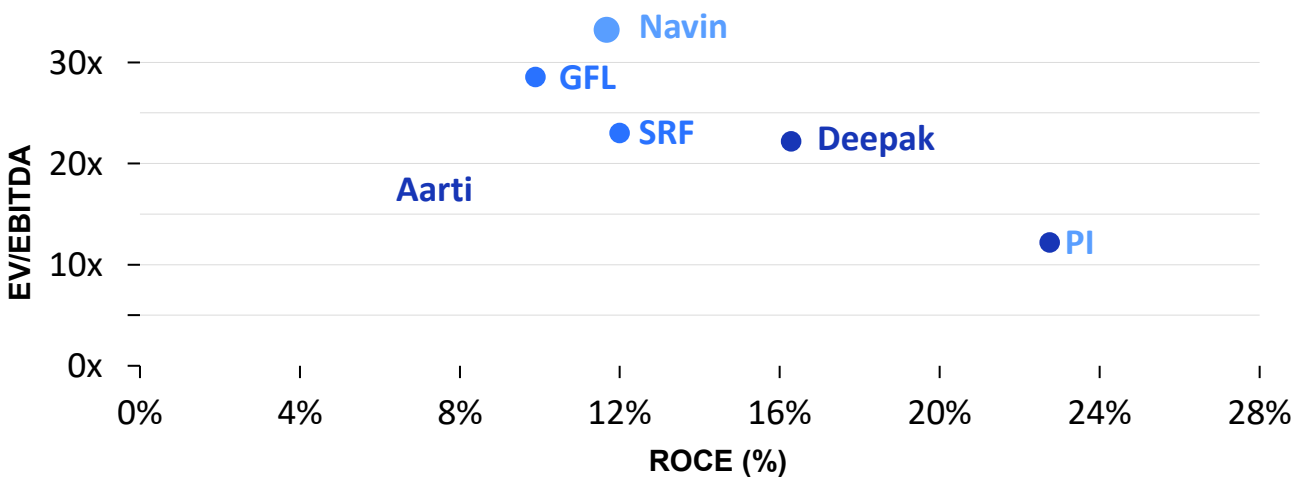
Proprietary fluorine chemistry with US/EU CDMO customers - regulatory filings (FDA, EMA) are supplier-specific → pricing power insulated from competition

Indian Chemical Companies Are Mispriced on a "Specialty" Narrative - Only Fluorine Platforms Offer True Pricing Power; Aromatics Remain Structurally Cyclical

Quality vs Cyclicality Divergence - Market Pricing vs Business Reality

Company	Type	Pricing Power	Crude Exposure	ROCE Trend	Valuation	Composite Score (/100)	Investment View
Navin Fluorine	Fluorine platform	Very High (CDMO + regulatory lock-in)	Low	Improving	Expensive (55x)	76	Premium Hold / Buy on Correction
PI Industries	CSM + Agro	High	Low–Moderate	Stable	Premium (31x)	84	High-quality, timing dependent
Gujarat Fluorochemicals	Fluorochemicals + Battery	Medium–High	Moderate	Declining	Expensive (53x)	62	Optionality, execution risk
SRF	Hybrid (fluoro + films)	Medium	High	Declining	Expensive (40x)	71	Cyclical, timing play
Deepak Nitrite	Aromatics	Low	Very High	Falling sharply	Premium (34x)	67	SHORT
Aarti Industries	Aromatics	Low	Very High	Collapsed	Premium (40x)	61	Avoid

Valuation Does Not Track Return on Capital Across Chemical Companies



- **ROCE dispersion is wide (6%-28%), but valuations remain clustered (17x-32x)**
- **High-ROCE businesses (PI) trade at similar or lower multiples than weaker peers (GFL, SRF, Aarti)**
- **Valuation reflects expected recovery rather than current capital efficiency**

Indian chemicals are not a single 'specialty' sector - structurally different business models are being priced similarly, creating systematic mispricing

Navin Fluorine Is India's Highest-Quality Chemical Platform - Execution Is Strong but Valuation Prices Near-Term Optimism; Buy on Correction

Business Architecture

- **Platform**: Fluorine chemicals - AHF, HPP (R32/R22), CDMO, advanced materials
- **CDMO lock-in**: FDA/EMA-linked → 2-5 year switching barriers
- **Chemours**: Immersion cooling → optionality
- **cGMP-4**: CDMO pharma facility → FY26 ramp
- **Strategic edge**: Integrated AHF chain

Financial Architecture

- **Revenue:** ~₹3,077 cr | EBITDA: ~₹718 cr | Margin: ~34%
- **Net profit:** ~₹546 cr | P/E: 57x | EV/EBITDA: 33.2x
- **HPP driver:** Elevated R32 pricing
- **Specialty:** Record H1 FY26 CDMO-led revenue

Risk Framework

- **Type I (Business)**: CDMO Concentration
- **Type II (Market)**: De-rating if growth disappoints vs 55x Multiple
- **Type III (Macro)**: INR/Crude, China Dumping

Composite Scorecard

Pillar	Weight	Score	Note
Thematic Exposure & Transmission	30%	—	Minimal conflict beta; insulated
Financial Quality & Earnings Architecture	35%	—	High quality; CDMO-grade margins
Competitive & Strategic Positioning	20%	—	Moat: strongest in Indian chemicals
Risk Asymmetry & Downside	15%	—	Valuation: asymmetry reduced at 55x
Total / Overall Score	**100%**	**73/100**	**Good business; pricing limits conviction**

Three Scenario Valuation

Metric	Bear Case	Base Case	Bull Case
EBITDA (₹ crore)	₹850–900	₹1,000–1,050	₹1,150–1,250
EBITDA Margin	27–29%	30–31%	32–33%
EV/EBITDA	24x	30x	34x
Implied EV (₹ crore)	₹20.4k–21.6k	₹30.0k–31.5k	₹39.1k–42.5k
Equity Value/Share (₹)	**₹3,900–4,300**	**₹5,700–6,200**	**₹7,300–8,100**
Mid Point	₹4,100	₹5,950	₹7,700
Expected Value		**₹5925**	

Investment View: PREMIUM HOLD / BUY ON CORRECTION -
Composite **73/100** "Buy on >15% correction from current levels with a 3-5-year horizon

Deepak Nitrite Is a Commodity Chemical Company Priced as a Specialty Compounder - Margin Compression, Rising Capital Intensity, and Valuation at 34x P/E Create the Short

Business Architecture

The market continues to value Deepak as a structural compounder. The key variant: Deepak is becoming more cyclical due to capex and segment mix.

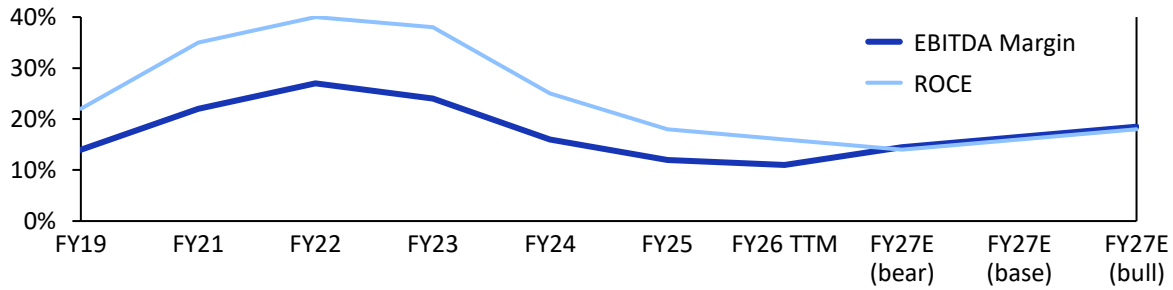
The aromatic chemicals chain (benzene, phenol) is directly crude-linked with no regulatory lock-in. Chinese overcapacity is dumping into Deepak's core product categories.

The company's ROCE decline from 40% → 16% is not cyclical - it is structural (capex absorption + pricing pressure).

Financial Architecture

- **Revenue TTM:** ~₹7,946 crore **| Net Profit TTM:** ~₹533 crore **| ROCE:** ~16.3% **| P/E:** ~38.6x **| EV/EBITDA:** ~22.2x
- **Historical peak EBITDA margin:** 24-29% **| Current EBITDA margin:** ~11-12%
- **Historical peak ROCE:** ~40% **| Current ROCE:** ~16% (declining)
- **Cash conversion cycle:** increased from ~56 days to ~82 days → inventory build + slower cash realization
- **Polycarbonate project capex:** ₹8,500 crore - raises capital employed significantly; first production 2027-28; ROI timeline uncertain
- **Net debt post-capex:** ~₹3,600 crore

Deepak Nitrite's ROCE Has Halved and Margins Have Collapsed - The Market Is Still Pricing a Compounder That No Longer Exists



Three Scenario Valuation

Metric	Bear Case (35%)	Base Case (45%)	Bull Case(20%)
Macro	Oil >$100; freight	Oil $85–95; stable	Oil <$80; demand recovery
EBITDA (₹ crore)	₹2,100–2,300	₹2,600–2,800	₹3,000–3,200
EV/EBITDA	16x	20x	24x
Implied EV (₹ crore)	₹33,600–36,800	₹52,000–56,000	₹72,000–76,800
Net Debt	₹3,600	₹3,600	₹3,600
Equity Value (₹ cr)	₹30,000–33,200	₹48,400–52,400	₹68,400–73,200
No. of Shares (cr)	~29.6	~29.6	~29.6
Equity Value/Share (₹)	**₹1,000–1,150**	**₹1,600–1,750**	**₹2,300–2,450**
Mid Point	₹1,075	₹1,675	₹2,375
Expected Value		**₹1,650**	

UNDERWEIGHT / SHORT | Target ₹1,605 probability-weighted (minimal upside) | Bear case ₹1,075 = -22% from CMP | Composite Score 67/100

04 Defense - The Cleanest Structural Buy in This Framework: Every Conflict Escalation Accelerates the Thesis, None Weakens It

India's Defence Indigenisation Is the One Conflict Channel With No Downside Scenario - Every Rupee Indigenised Substitutes an Import and Structurally Compresses CAD

The Macro Foundation:

- Defence production FY25: ₹1.5 lakh crore (MoD)
- Defence exports FY25: ₹23,622 crore (+34% YoY, MoD) - record high
- Defence capital budget: indigenisation share rose from 44% (FY19) to 75% (FY25) of capital procurement
- HAL + BEL order books: 3.5x to 4.5x trailing twelve-month revenues - 7-8 years revenue visibility
- PLI intersection: Defence indigenisation is the cleanest channel because it directly substitutes imports with no offsetting import-penetration risk

Three Conflict Channels That All Feed Defence:

Geopolitical fragmentation:

US-China decoupling forces India to diversify away from Western suppliers; MoD accelerates indigenisation mandate → HAL order book grows regardless of diplomatic posture

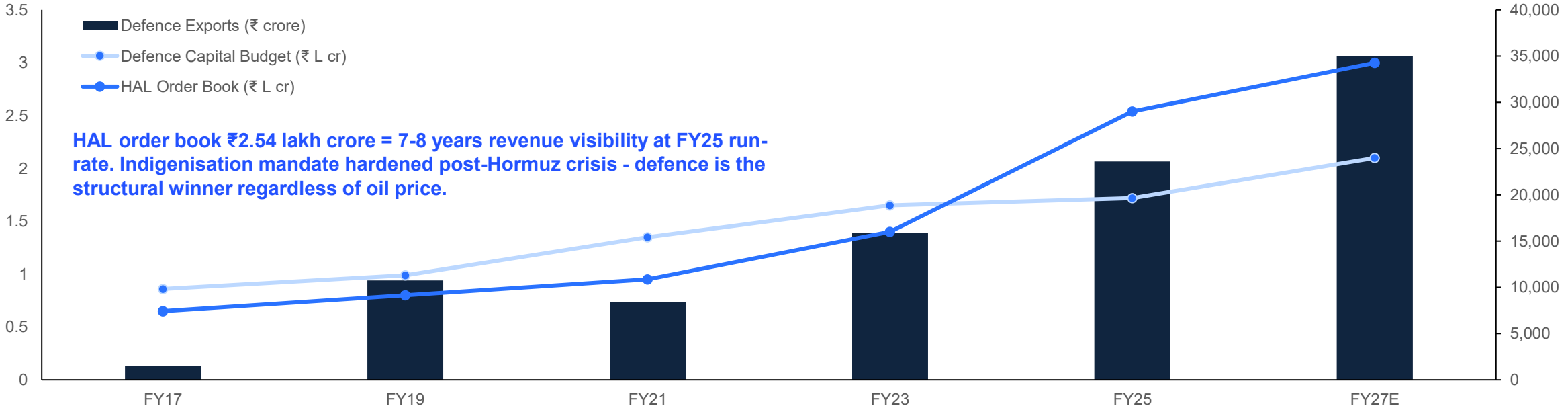
Supply chain weaponization:

GE F414 engine delays (for LCA Mk1A) = direct P&L miss for HAL near-term BUT simultaneously forces MoD to ruthlessly prioritize local sourcing → HAL and DRDO ecosystem permanently secures long-term pipeline

Export Opportunity:

India's record ₹23,622 crore defence exports are growing as Ukraine conflict + global rearmament drives demand for Indian ammunition, platforms, and systems. Solar Industries is the primary beneficiary via its Nagpur explosives base.

India Defence Capex Has Tripled in 10 Years - HAL and BEL Order Books Are at All-Time Highs



HAL's ₹2.54 Lakh Crore Order Book Provides 7-8 Years Revenue Visibility - Near-Term Execution Miss From GE Engine Delays Is a Buying Opportunity, Not a Structural Defect

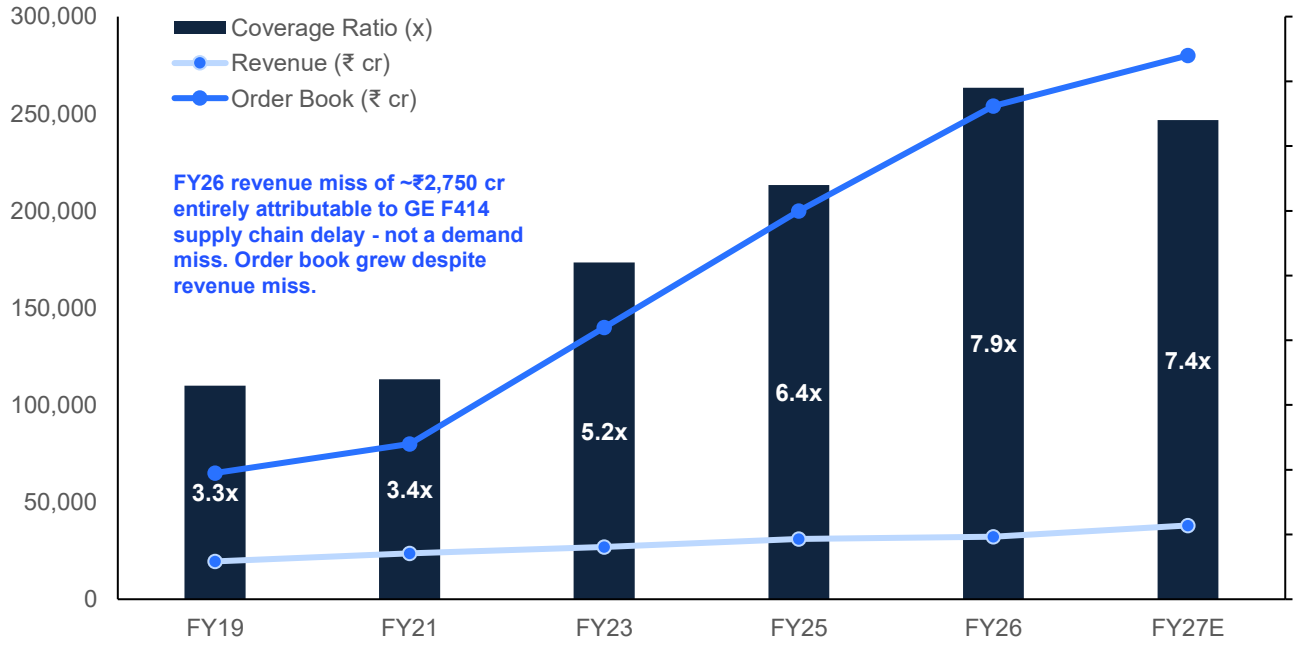
Core Logic Chain:

Conflict Channel (Geopolitical Fragmentation / Supply Chain Weaponization) → Macro Variable (Disrupted global supply chains for critical aerospace components) → Sector Mechanic (Forced indigenisation; MoD aggregates decades of demand into immediate mega-contracts) → Company P&L (Temporary near-term revenue deferment offset by unprecedented order book guaranteeing 7-8 years revenue visibility) → Valuation (Structural rerating driven by long-term monopoly cash flows overriding near-term execution misses)

Financial Architecture:

- Revenue FY26: ₹32,250 crore (+4% YoY) - slightly missed guidance (₹35,000 crore target) due to GE F414 engine delays
- Order book: ₹2.54 lakh crore (announced; includes LCA Mk1A × 83, LCA Mk2, ALH Dhruv, LCH, HTjet trainer, Tejas variants)
- Revenue visibility: 7-8 years at current run-rate - best-in-class in Indian capital goods sector
- EBITDA margins: ~20-23% (stable; defence contracts have fixed-price escalation clauses)
- ROCE: >25% - high for a government-linked capital goods company
- Monopoly status: India's sole military aviation prime contractor and apex integrator; no private sector competitor can replicate this in under 15 years

HAL Order Book Grows Faster Than Revenue - Coverage Ratio Now 7-8x, Creating Multi-Year Visibility



HAL's ₹2.54 Lakh Crore Order Book Provides 7-8 Years Revenue Visibility - Near-Term Execution Miss From GE Engine Delays Is a Buying Opportunity, Not a Structural Defect

Three-Scenario Valuation:

Scenario	Macro	GE Engine Status	Revenue FY27E	EBITDA Margin	EPS FY27E	Target P/E	Target Price	Probability
Bear	Supply chains worsen; GE delays extend	Delayed further	₹34,000 cr	20%	₹65	30x	₹1,950	15%
Base	Normalizing supply chains; LCA Mk1A deliveries begin	On revised schedule	₹38,000 cr	22%	₹85	38x	₹3,230	60%
Bull	Global rearmament accelerates; export orders	Ahead of schedule	₹45,000 cr	23%	₹105	42x	₹4,410	25%
Probability-weighted TP							**₹3,281**	**100%**

CMP reference ~₹4,300

Composite Scorecard:

Pillar	Weight	Score	Weighted
Thematic Exposure & Transmission	30%	27/30	8.1
Financial Quality & Earnings Architecture	35%	29/35	8.3
Competitive & Strategic Positioning	20%	19/20	3.8
Risk Asymmetry & Downside	15%	13/15	2.0
Total	**100%**	**88/100**	**22.2/30**

Rating **CONVICTION BUY**

Final Recommendation: BUY ON CORRECTION | TP ₹3,230 base | Composite Score 88/100 | Defence monopoly at a near-term execution discount

Solar Industries Is Compounding Defence Exports at 28% CAGR With ROCE >30% - The Explosives-to-Ammunition Transformation Has No Listed Peer in India

Business Mix:

- Commercial explosives (legacy base): mining, infrastructure, quarrying - India's largest
- Defence and aerospace (transformational): ammunition, warheads, rockets - growing rapidly
- Revenue mix transformation: FY21 ~95% commercial / 5% defence → FY28E projected ~58% commercial / 42% defence
- EBITDA margins: expanding with defence mix shift (proprietary products command premium margin vs commodity explosives)
- ROCE: sustained >30% - rare for a capital-intensive manufacturer

Defence Export Thesis:

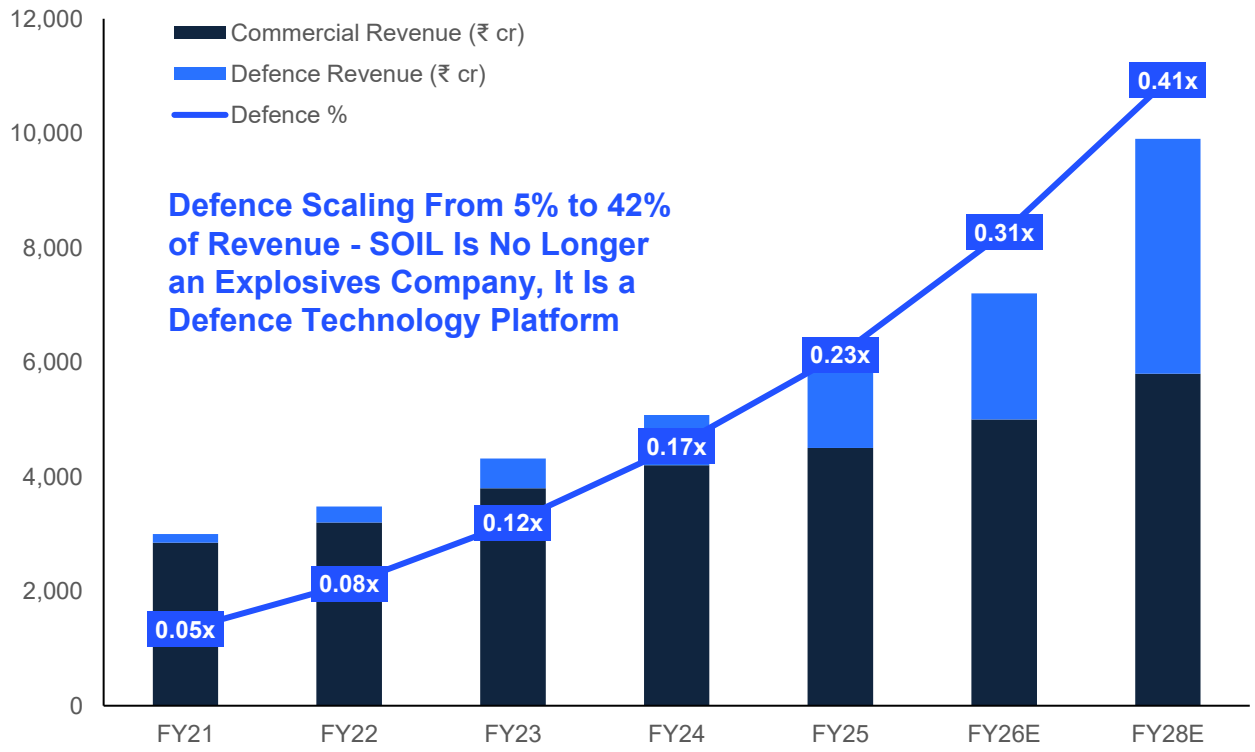
- India's defence exports ₹23,622 crore (+34% YoY, MoD FY25) - Solar Industries is a primary contributor
- Nagpur manufacturing base: strategic location, DGFT-licensed, export-cleared
- Current defence/aerospace order book: ₹21,200 crore (backlog); includes ~₹11,000 crore international defence component
- Capex plan: ₹22 billion for capacity expansion - funded from internal accruals given ROCE profile
- Global expansion: overseas operations South-East Asia, Africa, Middle East

Composite Scorecard:

Pillar	Weight	Estimated Score	Weighted
Thematic Exposure & Transmission	30%	28/30	8.4
Financial Quality & Earnings Architecture	35%	30/35	8.6
Competitive & Strategic Positioning	20%	19/20	3.8
Risk Asymmetry & Downside	15%	12/15	1.8
Total	**100%**	**89/100**	**22.6/30**

SOIL is a proprietary defence and aerospace technology firm dressed up as an explosives manufacturer - the market values it as the latter at 55x P/E; the defence export trajectory justifies this premium and potentially more.

Revenue Mix Transition



Three-Scenario Valuation:

Scenario	View	EPS FY28E	Target P/E	Target Price	Probability
Bear	Mining slowdown + defence ramp delays	₹245	35x	₹8,575	20%
Base	Defence scales per guidance; commercial steady	₹305	50x	₹15,250	55%
Bull	Defence exports accelerate; new international orders	₹370	55x	₹20,350	25%
Probability-weighted TP				**₹15,555**	**100%**

Risks: Type I: Major industrial accident at any manufacturing plant - explosive materials carry inherent catastrophic risk; regulatory shutdown would be immediate. Type II: Sharp slowdown in domestic mining/infrastructure - commercial explosives cash-cow currently funds defence R&D.

Final Recommendation: BUY | Base TP ₹15,250 | Probability-weighted TP ₹15,555 | 25% upside from CMP | Composite Score 89/100

PORTFOLIO CONSTRUCTION: Seven Conviction Calls Across Six Sectors - Position Size Reflects Conflict Probability, Not Just Company Quality

The portfolio is structured to benefit from the High Stress scenario being the base case - maximum weight in upstream energy and defense, conditional weight in select FMCG and logistics, zero weight in OMCs (except BPCL at reduced size) and commodity chemicals.

Rank	Stock	Sector	Rating	Target Price	CMP (approx)	Upside
1	ONGC	Energy Upstream	STRONG BUY	₹415 (CLSA)	₹271	+53%
2	HAL	Defense	CONVICTION BUY	₹3,230 (base)	~₹4,300	Buy on correction
3	Emami	FMCG	CONVICTION BUY	₹615 (prob-wtd)	₹399	+54%
4	Solar Industries	Defense	BUY	₹15,250 (base)	~₹12,430	+23%
5	HUL	FMCG	CONVICTION BUY	₹2,572 (prob-wtd)	₹2,055	+25%
6	BPCL	Energy OMC	CONDITIONAL BUY	₹380-420 (base)	₹285	+33-47%
7	Oil India	Energy Upstream	BUY	₹508-517 (consensus)	₹465	+9-11%
8	Navin Fluorine	Chemicals	HOLD / BUY ON CORRECTION	₹5,950 (base)	~₹6,000	0% current
SHORT	Deepak Nitrite	Chemicals	UNDERWEIGHT / SHORT	₹1,075 (bear)	₹1,378	-22% bear
AVOID	HPCL, IOCL, RIL	Energy	AVOID	-	-	-