

**RESEARCH****BOB ECONOMICS RESEARCH | HOUSEHOLD FINANCIAL SAVINGS**

MF/BD - The new age shift?

**CEMENT | Q1FY25 REVIEW**

Demand weakness impacts show; cost savings hold margins

**SUMMARY****INDIA ECONOMICS: HOUSEHOLD FINANCIAL SAVINGS**

Recently, two important instruments of household financial savings have garnered quite a bit of attention. There have been debates that increase in AUM (assets under management) of MFs (mutual funds) are happening at the cost of BD (Bank deposits), with conjectures that lucrative returns, promise of higher earnings of companies and a stable growth environment have turned the compass from a traditional savings set-up to a market-oriented investment tendency. This study looks at different aspects of the issue. Prima facie, a shift in savings pattern is noticeable, especially post Covid when there has been a spurt in financial savings of households. The elasticity of BD to MF has also reflected the changing behavioral pattern of households.

[Click here for the full report.](#)**CEMENT: Q1FY25 REVIEW**

- Volumes listless due to state elections, extreme heat conditions, and heavy rainfall in the eastern region. Realisations fell ~5% YoY
- Softer fuel (pet coke) cost helped maintain EBITDA margins YoY on average for our cement coverage in Q1 at 15.7%
- Post results, we maintain BUY for UTCEM, but downgrade DALBHARA to HOLD on full valuations and TRCL to SELL on a weak show

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## HOUSEHOLD FINANCIAL SAVINGS

20 August 2024

### MF/BD - The new age shift?

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However, statistical exercises to show a causal relationship do not lead to concrete results. A time series analysis between MF and BD has been conducted using Granger causality test and Cointegration regression, which shows neither MF Granger causes BD nor the other way round. The variables are not cointegrated as well, under different iterations. A plausible explanation could be that the cycles of MF outweighing BD are transient, and a very recent phenomenon. Besides both the variables have been growing albeit at differential rates.

#### Background:

There has been growing debate around changing structure of households' financial savings. From traditional Bank deposits (BD), the shift has been towards the capital market, with an inclination of increased allocation towards mutual funds (MFs). Growing risk appetite amid stable domestic growth environment and booming stock markets has resulted in this rebalancing of portfolio. Apart from this, growing financialization of savings, higher relative return and liquidity could be a plausible explanation for the shift.

The ratio of Assets under Management (AUM) of MFs to GDP has risen to 18.1 (Figure 1), which is the highest point seen in the entire series. Notably, the sharp increase in ratio was seen particularly post Covid period which coincided with buildup in precautionary savings of households (share of gross financial savings to gross savings of household shot up to 68.1% in FY21 from 58.9% in FY19). In case of banks deposits to GDP, ratio was 69% in FY24, down from 76.1% in FY21 (Figure 2). The take-off phase of rechanneling of instruments from deposits to MFs was glaringly visible in FY22.




**CEMENT**

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**Volume growth steady but prices weaken:** Volumes for our cement universe grew a listless 5% YoY on average in Q1FY25 on account of the impact of general elections, heat wave in North and Central India and heavy rain in East. UTCЕМ (capacity industry leader) clocked 7% YoY volume growth despite its high base, while SRCМ was the top gainer at 8%, followed by Dalmia and JKCE at 5%/6%. Aggregate realisations fell ~5%/2% (YoY/QoQ) as cement demand was weak with cement prices falling further over Q1 average prices.

**Cost savings guard margins:** Our cement universe clocked flat average EBITDA margin of 15.7% in Q1FY25 but fell sharply QoQ (~18%). SRCМ topped the pack at 19%, JKCE and DALBHARA were each at ~18% (also the steepest jump YoY), and UTCЕМ at ~17%. JKLC, ACC and ORCMNT saw below-average margins of ~13%. Aggregate EBITDA/t fell by ~5%/16% YoY/QoQ to Rs 841 (Rs 884/Rs 996).

**Fuel & logistics costs dipped:** Fuel cost for our coverage declined by ~21% YoY on average led by softer pet coke prices. Logistics costs moderated by ~4% as lead distance savings and prudent travel costs saved the day. Effectively, operating expenses for our coverage fell ~4% YoY to Rs 4,536/t (flat QoQ).

**Demand slowed in Q2FY25 YTD:** We note that cement demand is slower YoY as monsoon activity has picked up sharply (weak in FY24). This has kept construction activity below par. We remain optimistic on demand pickup H2 aided by the government's infrastructure push, normal monsoons and improving rural mood. However, supply will keep pace with demand due to capacity additions.

**UTCЕМ our top pick:** In our Q1 result notes, we maintained UTCЕМ's BUY rating (TP Rs 12,974) as we believe it is best placed to cater to expected demand growth with its large capacity, operational efficiencies, pan-India presence and balance sheet health. We had downgraded DALBHARA to HOLD (TP Rs 2,062) from BUY and TRCL to SELL (earlier HOLD, with TP Rs 737) due to weak show. We retain our HOLD ratings for JKCE (Rs 4,431), STRCEМ (Rs 205) and SRCМ (Rs 25,403). Our SELL ratings on JKLC (Rs 687) and ORCMNT (Rs 177) are also maintained.



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