FIRST LIGHT

03 March 2025

RESEARCH

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GDP growth pegged at 6.5% for FY25

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Health of central government finances

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Sectoral credit growth in Jan'25

ULTRATECH CEMENT | TARGET: Rs 13,137 | +30% | BUY

Diversification Play; Sharp focus on Cement Stays, Retain BUY

BANKING | Q3FY25 REVIEW

Slowdown in credit; RBI's easing measures to benefit banks

SUMMARY

INDIA ECONOMICS: GDP Q3FY25

India's GDP growth softened to 6.2% in Q3FY25, following 9.5% growth in Q3FY24. Unfavorable base and lower sectoral growth in manufacturing and mining sector lowered growth rate. For full year, growth is estimated at 6.5% given robust growth in agriculture sector. Growth is expected to advance in Q4 further as has been evident form the high frequency indicators. This will be supported by strong boost to consumption spending along with revival in investment and more rate cuts by RBI, bodes well for the growth outlook. Uncertainty to global trade due to tariff war remains a key downside risk to this outlook.

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INDIA ECONOMICS: GOVERNMENT FINANCES

Centre's fiscal deficit has reached Rs 11.7 lakh crore as of Jan'25 (FYTD basis) which is 74.5% of the revised budget estimate, compared with 63.6% of the target achieved last year during the same period. As % of GDP (12MMA basis) it is currently running at 5.3% versus targeted 4.8%. The deficit ratio has remained higher than RE since Oct'24 as government aims to fulfil is expenditure targets, following a slow start at the beginning of the year due to general elections. In Jan'25 (FYTD basis), centre's expenditure growth improved notably, while receipt growth witnessed some easing compared with Dec'24. Amongst the receipts, corporate tax collections were the major drag, while income tax collections held ground and indirect tax collections improved (mainly customs and CGST).

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INDIA ECONOMICS: SECTORAL CREDIT

Growth in bank credit (non-food) moderated in Jan'25, dipping to 11.4% compared with 20.4% in Jan'24. However, on a sequential basis, there was a pickup in credit growth (11.1% in Dec'24). While credit growth to industry held steady at 8% in Jan'25 on a YoY basis, credit to all other sectors slowed down. Agriculture credit growth decelerated to 12.2% in Jan'25 compared with 20% in Jan'24. Within industry, credit growth to medium industry picked up sharply to 18.5% in Jan'25 compared with 10% growth in the same period last year. Credit growth to large industry was also marginally higher at 6.4% compared with 5.7% in Jan'24. However, there was a slowdown in credit growth to the micro and small industry to 9.5% versus 16% in Jan'24.

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ULTRATECH CEMENT

- UTCEM allocates Rs18bn (~2% of capital allocation) in the building material value chain by investing in wire and cable business
- Sharp focus on cement stays with target to achieve 209mnt domestic cement capacity by FY27 implying ~27% of the industry capacity
- EBITDA estimates retained for FY25E/FY26E/FY27E; expect new stream to contribute from FY28, Maintain BUY with unchanged TP of Rs13,137

Click here for the full report.

BANKING: Q3FY25 REVIEW

- Advances growth remains muted; likely to be supported by RBI's reduction in RWAs on banks' lending to NBFCs
- Asset quality deteriorated marginally with stress mainly in unsecured segments (MFI and credit cards) and remains monitorable
- NIMs moderation and rise in credit costs to impact profitability marginally. Top picks remain HDFCB, ICICIBC and SBIN

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GDP Q3FY25

28 February 2025

GDP growth pegged at 6.5% for FY25

Jahnavi Prabhakar
Economist

India's GDP growth softened to 6.2% in Q3FY25, following 9.5% growth in Q3FY24. Unfavorable base and lower sectoral growth in manufacturing and mining sector lowered growth rate. For full year, growth is estimated at 6.5% given robust growth in agriculture sector. Growth is expected to advance in Q4 further as has been evident form the high frequency indicators. This will be supported by strong boost to consumption spending along with revival in investment and more rate cuts by RBI, bodes well for the growth outlook. Uncertainty to global trade due to tariff war remains a key downside risk to this outlook.

Q3FY25 GDP slows

GDP growth in Q3FY25 moderates to 6.2% from 9.5% in Q3FY24 on a YoY basis. This was lower than our expectation of 6.6%. Slower pace of growth was partially on account of unfavourable base. Weakness was noted in investment in Q3 with GFCF growth registering a growth of 5.7% against 9.3% last year. Imports growth contracted by (-) 1.1% in Q3FY25 compared with a 11.3% growth in Q3FY24. On the other hand, despite the moderation, private consumption recorded stupendous growth of 6.9% in Q3FY25 from 5.7% in Q3FY24. Furthermore, growth in government spending expanded to 6-quarter high to 8.3% in Q3 against a growth of 2.3% last year. In a surprise move, exports registered a double digit growth of 10.4% for Q3 compared with a dismal growth of 3% noted in Q3FY24.

GVA moderates

GVA registered a growth 6.2% in Q3FY25 in line with our expectation compared with a growth of 8.0% in Q3FY24. Tepid growth was noted in manufacturing (3.5% from 14%), mining (1.4% against 4.7%) which was expected given only gradual improvement in corporate profits. Sluggish pace of growth was noted for power, gas and supplies as it decelerated to 5.1% in Q3 (10.1% in Q3FY24). Growth in construction sector eased down to 7% in Q3 compared with 10% growth in the same quarter of last year. Growth in trade, hotels (6.7% from 8%) and financial sector (7.2% from 8.4% in Q3FY24) also softened in Q3FY25. However, agriculture sector turned out to be bright spot registering a robust growth of 5.6% in Q3 compared with a growth of 1.5% in the same quarter last year supported by improvement in kharif output and higher rabi sowing than last year. Furthermore, in line with expectation, public admin registered a strong growth of 8.8% against a growth of 8.4% in Q3FY24.

GOVERNMENT FINANCES

28 February 2025

Health of central government finances

Sonal Badhan
Economist

Centre's fiscal deficit has reached Rs 11.7 lakh crore as of Jan'25 (FYTD basis) which is 74.5% of the revised budget estimate, compared with 63.6% of the target achieved last year during the same period. As % of GDP (12MMA basis) it is currently running at 5.3% versus targeted 4.8%. The deficit ratio has remained higher than RE since Oct'24 as government aims to fulfil is expenditure targets, following a slow start at the beginning of the year due to general elections. In Jan'25 (FYTD basis), centre's expenditure growth improved notably, while receipt growth witnessed some easing compared with Dec'24. Amongst the receipts, corporate tax collections were the major drag, while income tax collections held ground and indirect tax collections improved (mainly customs and CGST).

On the spending front, government has achieved 75.7% of its revised estimate, higher than 74.7% last year (as of Jan'24). Major ministries which have spent more than last year (as % of RE) include, ministries of railway, consumer affairs, rural development, defence, home affairs, education and health. We can expect the pace to moderate in the coming months as ministries have moved closer to their revised targets. As a result we continue to believe that centre will meet its fiscal deficit target of 4.8% in FY25.

Fiscal deficit ratio on track: Centre's fiscal deficit by Jan'25 has reached 74.5% of the revised estimate (RE) for FY25 and is at Rs 11.7 lakh crore versus estimated Rs 15.7 lakh crore. In terms of % of GDP, the 12MMA ratio is currently at 5.3% (Jan'25) compared with 4.9% as of Dec'24, due to higher expenditure growth. Despite increase in spending momentum, continued improvement in receipt growth, will help pave way for centre to meet is deficit target of 4.8% by Mar'25.

Broadly steady receipt growth: Centre's revenue receipts have currently (Apr'24-Jan'25) reached 76.8% of the budgeted target for FY25, slightly lower than 82.2% target achieved during the same period last year. Net tax revenue receipts have reached 74.4% of RE versus 80.9% last year. On YoY basis, gross tax revenue receipt growth has seen slight easing in Jan'25 (FYTD basis) as it moderated to 10.1% from 10.8% recorded as of Dec'24.

This is on account of slowdown in direct tax collections, while indirect tax collections improved. Within direct taxes, corporate tax collection growth declined by (-) 0.6% as of Jan'25 versus 2.7% increase as of Dec'24, while income tax collections remained healthy (22% versus 22.2%). Indirect tax receipt growth improved to 9.4% from 9% as of Dec'24, on account of pickup in customs (8.6% versus 7.6%) and CGST collections (22.2% increase as of Jan'25).

SECTORAL CREDIT

28 February 2025

Sectoral credit growth in Jan'25

Aditi Gupta
Economist

Growth in bank credit (non-food) moderated in Jan'25, dipping to 11.4% compared with 20.4% in Jan'24. However, on a sequential basis, there was a pickup in credit growth (11.1% in Dec'24). While credit growth to industry held steady at 8% in Jan'25 on a YoY basis, credit to all other sectors slowed down. Agriculture credit growth decelerated to 12.2% in Jan'25 compared with 20% in Jan'24. Within industry, credit growth to medium industry picked up sharply to 18.5% in Jan'25 compared with 10% growth in the same period last year. Credit growth to large industry was also marginally higher at 6.4% compared with 5.7% in Jan'24. However, there was a slowdown in credit growth to the micro and small industry to 9.5% versus 16% in Jan'24.

Table 1: Credit growth across sectors in FY25

Sector	Jan-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Non-Food Credit	20.4	19.1	19.8	17.4	13.7	13.6	13.0	11.5	10.6	11.1	11.4
Agriculture and Allied	20.0	19.8	21.6	17.4	18.1	17.7	16.4	15.5	15.3	12.5	12.2
Industry	8.0	7.4	9.4	8.1	10.2	9.7	8.9	7.9	8.0	7.2	8.0
-Micro and Small	16.0	15.5	15.5	11.0	13.3	13.4	13.4	10.0	10.1	9.8	9.5
--Medium	10.0	13.3	15.5	12.6	17.2	19.2	20.5	19.6	20.0	19.9	18.5
--Large	5.7	4.7	7.1	6.9	8.6	7.7	6.5	6.0	6.1	5.1	6.4
Services	24.2	22.0	23.2	17.4	14.5	13.9	13.7	12.7	13.0	11.7	12.5
Personal Loans	28.6	26.7	28.7	25.6	13.9	13.9	13.4	12.9	13.3	12.0	11.8

Source: CEIC, Bank of Baroda Research

Within industry sectors which saw a sharp contraction in credit growth in Jan'25 include, ports (-23.8%), telecommunications (-9.3%) and fertilisers (-8.0%). On the other hand, credit growth to sectors such as mining and quarrying, leather, petroleum and engineering goods has seen a pickup on a YoY basis.

Credit growth to services sector:

Credit growth in the services sector eased to 12.5% in Jan'25 from 24.2% in Jan'24. Except shipping and computer software, all sub-sectors noted a decline in credit growth vis-à-vis Jan'24. Credit growth to commercial real estate slowed down to 13.9% in Jan'25 versus 42.9% in Jan'24. Credit growth to NBFCs also continued to slow and dipped to 7.7% in Jan'25 versus 15.6% in the same period last year. With RBI restoring the risk weights on SCBs' exposure to NBFCs, this trend is likely to reverse.

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BUY
TP: Rs 13,137 | ⮝ 30%

ULTRATECH CEMENT | Cement | 01 March 2025

Diversification Play; Sharp focus on Cement Stays, Retain BUY

- **UTCEM allocates Rs18bn (~2% of capital allocation) in the building material value chain by investing in wire and cable business**
- **Sharp focus on cement stays with target to achieve 209mnt domestic cement capacity by FY27 implying ~27% of the industry capacity**
- **EBITDA estimates retained for FY25E/FY26E/FY27E; expect new stream to contribute from FY28, Maintain BUY with unchanged TP of Rs13,137**

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UTCEM allocates Rs18bn to enter wires and cable business: UTCEM has received board approval to invest Rs18bn in the wires and cable business through its building product division. The investment is in line with the UTCEM's strategy to strengthen its position as a comprehensive building solutions provider. The investment will be in the next 2 years. UTCEM will expand its presence in the construction value chain through the foray in the cables and wires segment.

Entry in the new business stream through green field expansion: UTCEM intends to enter the W & C business with investment in the green field project (plant) at Jhagadia, near Bharuch in Gujarat with a total capacity of 0.35/0.4mn kms. The key product categories will be Wires and various cable categories. The plant is expected to be operational by Q3FY27.

Expect to tap pan-India footprint; maintain industry margins: UTCEM plans to leverage the existing channel network to tap pan-India presence in the wire and cable network. The initial revenue focus will be 60:40 for the wire & cable segment. UTCEM indicated it will maintain the industry EBITDA margins (~10-11%) with a return ratio profile of upwards of 20% (~25%).

Cement focus continues to sharpen: UTCEM's current cement capacity (FY25-end) is expected to be 182.8mnt and it intends to expand its domestic reach to ~209mnt by FY27. The growth pace of the company is ahead of the industry growth in adding capacities and UTCEM will be ~27% of the total industry capacity in FY27.

Maintain earnings estimates, Retain BUY rating: We feel UTCEM's entry in the new business of W & C is to extend the building material value chain by offering one-stop solution. The initial investment of Rs18bn spread over next 2 years is a diversification of capital allocation but remains very small compared to its core cement exposure at ~2%. We retain our EBITDA estimates for FY25e/FY263/FY27e as the new business stream will meaningfully contribute only from FY28e. Hence, we continue to assign 17x EV/EBITDA valuation to arrive at an unchanged TP of Rs 13,137. Maintain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTCEM IN/Rs 10,129
Market cap	US$ 33.4bn
Free float	40%
3M ADV	US$ 45.3mn
52wk high/low	Rs 12,145/Rs 9,250
Promoter/FPI/DII	60%/15%/17%

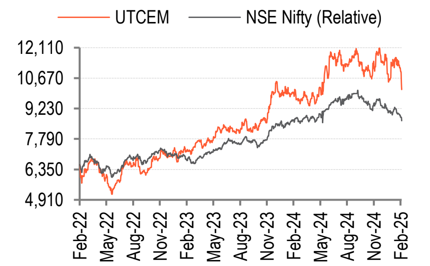
Source: NSE | Price as of 28 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	6,98,930	8,51,131
EBITDA (Rs mn)	1,35,678	1,28,720	1,82,604
Adj. net profit (Rs mn)	69,769	61,487	93,321
Adj. EPS (Rs)	241.7	213.0	323.3
Consensus EPS (Rs)	241.7	231.0	311.1
Adj. ROAE (%)	12.4	10.0	13.7
Adj. P/E (x)	41.9	47.5	31.3
EV/EBITDA (x)	21.3	22.4	15.6
Adj. EPS growth (%)	41.9	(11.9)	51.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BANKING | Q3FY25 Review | 28 February 2025

Slowdown in credit; RBI's easing measures to benefit banks

- **Advances growth remains muted; likely to be supported by RBI's reduction in RWAs on banks' lending to NBFCs**
- **Asset quality deteriorated marginally with stress mainly in unsecured segments (MFI and credit cards) and remains monitorable**
- **NIMs moderation and rise in credit costs to impact profitability marginally. Top picks remain HDFCB, ICICIBC and SBIN**

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Slowdown in credit offtake; expected to improve due to RBI's RWAs regulation on banks' exposure to NBFCs: The credit offtake for our coverage banks remained muted (+8.8% YoY; +2.1% QoQ) in Q3FY25. Amid tight liquidity conditions, deposit mobilisation remains challenging for banks with growth of 12.9% YoY and 1.6% QoQ. As a result, the LDR ratio for most banks increased marginally. We expect credit growth to benefit from the RBI's regulation to restore the risk-weighted assets (RWAs) on MFI loans (consumer credit) and bank's lending to NBFCs to 100% from 125% (revised in Nov'23), based on the NBFC's external credit rating. The increase in RWAs resulted in subdued system credit growth of bank's lending to NBFCs to Rs 16.2tn (+6.7% YoY) as of Dec'24 compared to 15% YoY growth as of Dec'23. We expect our coverage banks' CET-I ratios to improve by ~13-55bps with Bandhan Bank to benefit by ~1.4%. We believe the RBI regulation will ease banks' capital requirements for NBFC lending and thereby augment credit growth by ~Rs 4tn. Also, the RBI's 25bps rate cut to 6.25% in Feb'25 is likely to ease liquidity conditions and support the system credit growth.

Asset quality issues persist mainly in unsecured segments; particularly MFI portfolio: Asset quality deteriorated marginally as evidenced by the rise of slippages and credit costs in Q3FY25. Within our coverage, the asset quality of RBK and BANDHAN was impacted the most with higher slippage and credit costs. This was due to their higher exposure to the unsecured segments mainly in MFI and credit cards which are facing heightened asset quality stress, largely due to overleveraging by customers. We expect the delinquency to remain elevated for the next couple of quarters in the MFI portfolio led by MFIN regulations such as cap on three lenders from Apr'25, and certain state-related issues. Excluding the unsecured segments, the asset quality was largely stable in the corporate and SME advances.

NIMs moderation and rising credit cost to weigh on profitability: With the onset of RBI rate cuts and decline in low-cost CASA ratio across most banks, we expect NIMs to remain moderate in the near term. Further, the expected rise in credit costs in the unsecured space is likely to weigh on the profitability in the medium term, although the impact would vary based on their exposure to these segments.

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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