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Healthy year, stable guidance for APE

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

After a brief respite, global trading system was once again hit with tariff driven uncertainty. At the start of the month, there were clear indications of a softer US tariff policy. US-UK trade deal was finalised, US and China agreed to start negotiations on a trade deal, and tariffs on EU were also paused for a 90-day period. Markets also cheered a US court ruling which quashed President Trump's Liberation Day tariffs as unconstitutional, which was subsequently appealed and reinstated. Reigniting fresh concerns on the tariff front, US President doubled the tariff on imports of aluminium and steel. Even as the world grapples with the continuously evolving US tariff policies, concerns have mounted over the debt burden in some countries.

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INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodities Index (BoB ECI) entered the deflation territory, the sharpest fall noticed since Jan'19. It declined by -0.6%, on YoY basis, in May'25. The major downward correction was visible in the case of vegetables and pulses, supported by better production. The outlook for inflation remains favourable largely led by food. The expectation of above normal monsoon also bode well. However, the spatial distribution of rainfall requires close monitoring. The excess rainfall has already been witnessed in major Onion and Potato producing States.

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BANKING: Q4FY25 REVIEW

- Advances growth remains muted; likely to be supported by retail and MSME segments
- AQ largely stable with MFI stress likely to peak out by H1FY26. Expect Pvt/PSU banks to report PAT CAGR of 17%/10% in FY25-FY27E
- Top picks: ICICIBC, HDFCB and SBIN in large caps, while FB and IDFCBK in midcaps

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CEMENT: Q4FY25 REVIEW

- Volume growth at 9% YoY, driven by companies with healthy operating efficiencies. Southern companies under stress as prices stay weak
- Cost saving offers respite – EBITDA margins improve only to 20.3% vs 19.0% YoY; operating cost fell by ~2% YoY/QoQ
- Post results, we maintain our BUY ratings on UTCEM and STRCEM, and SELL on DALBHARA, JKLC and TRCL, Downgrade SRCM to SELL

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INSURANCE: Q4FY25 REVIEW

- APE growth was moderate sequentially (up 4% YoY) for private life insurers, while LICI saw a decline in Q4FY25
- VNB margin expanded for most of the players including LICI, aided by changes at product level, riders' attachment and higher sum assured
- Going forward, stable APE guidance with VNB margin expansion. Our top picks are HDFC Life and LICI

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MONTHLY ECONOMIC BUFFET

05 June 2025

Economic Round-up: May 2025

Aditi Gupta
Economist

After a brief respite, global trading system was once again hit with tariff driven uncertainty. At the start of the month, there were clear indications of a softer US tariff policy. US-UK trade deal was finalised, US and China agreed to start negotiations on a trade deal, and tariffs on EU were also paused for a 90-day period. Markets also cheered a US court ruling which quashed President Trump's Liberation Day tariffs as unconstitutional, which was subsequently appealed and reinstated. Reigniting fresh concerns on the tariff front, US President doubled the tariff on imports of aluminium and steel. Even as the world grapples with the continuously evolving US tariff policies, concerns have mounted over the debt burden in some countries.

A rating downgrade in the US and a sharp sell-off in the Japanese long-term bond market, exacerbated these concerns. Global central banks are continuously navigating the changing tariff narrative, even though range-bound global commodity prices have provided some headroom for policy easing. In India, inflation is expected to ease further paving the way for RBI to cut rates further by 25bps in this meeting. The economy is expected to exhibit steady growth, underpinned by a favourable monsoon outlook and improvement in consumption and investment growth.

Global growth prospects: OECD downgraded its global growth estimate for 2025 to 2.9% from 3.1% estimated earlier and 3.3% in 2024. For 2026 as well, growth is now projected lower at 3% in 2026, lower by 10bps than its earlier estimates. Trade related uncertainty, increased protectionism, tighter financial conditions and worsening consumer and business confidence is likely to weigh on growth prospect. Inflation is also expected to moderate more slowly than expected. Major downward revisions were noted in growth in US, Canada, China and Mexico. India is expected to remain the fastest growing major economy with GDP growth of 6.3% in FY26 and 6.4% in FY27. Consumption and private investment growth is expected to pick up supported by tax incentives, rate cuts and government support. CPI inflation is expected to average around 4% in both FY25 and FY26.

Key macro data releases: GDP growth for Q4 FY25 surprised positively and rose by 7.4% from 6.4% in Q3FY25. For FY25, GDP growth rate of 6.5% was on expected lines. CPI inflation in India moderated further to 67-month low at 3.2% in Apr'25 versus 3.3% in Mar'25. The moderation in headline inflation was led by a broad-based deceleration in food prices. In particular, prices of vegetables and pulses noted the maximum decline. Core CPI remained largely sticky at 4.1%. Outlook on inflation is favourable supported by projection of a normal monsoon.

PRICE PICTURE

05 June 2025

Inflation might dip below 3%

Dipanwita Mazumdar
Economist

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Some sequential buildup in prices of Tomato and Potato has also been noticed in May'25. However, favourable base, upbeat arrivals of TOP (Tomato, Onion and Potato) and moderation in international gold prices will keep a lid on headline CPI. We expect to settle it at 2.7% in May'25. This is expected to give further policy space to RBI in the current cycle.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- BoB ECI entered deflation territory in May'25. On YoY basis, it declined by -0.6%, the first ever negative print in the series since Jan'19. 10 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). The retail price of Tomato has been in deflation territory for 5th month in a row, albeit at a softer pace. The prices of Potato and Onion have also declined at a sharp double-digit pace by -16.3% and -15% respectively in May'25. Among pulses as well, most of the sub-components are witnessing successive periods of deflation. For Masoor dal, the deflation in retail prices has been 10th month in a row. The retail price of Tur/Arhar has witnessed the maximum decline by -18.9% in May'25, on YoY basis. This is followed by Urad and Masoor dal. This is supported by better production and higher imports. In FY25, imports of pulses firmed up by 46.3%. Among cereals, the retail price of rice fell at a sharp pace by -4.5% in May'25. The retail price of Atta also moderated to 2.5%. For miscellaneous items such as gur, tea loose and salt pack there was broad based softening. For Edible oils, some stickiness is witnessed, led by an unfavourable base. For these items the sequential momentum gives better picture. Even milk prices inched up due to the increase in prices by companies over rising procurement cost.

BANKING | Q4FY25 Review | 05 June 2025

Credit growth stays muted; AQ stress seems to peak out

- **Advances growth remains muted; likely to be supported by retail and MSME segments**
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Credit offtake remains muted: Credit offtake for our coverage banks remained slow (+10.5% YoY; +3.2% QoQ) in Q4FY25, while system loan growth stayed muted at ~11% YoY on muted corporate credit growth, along with growth moderation in unsecured segment given the stress in MFI, PL and CC space. Deposit mobilisation remains challenging for banks with growth of 11.6% YoY and 4.8% QoQ. Deposit growth was also aided by higher CD issuance of Rs11.9trn (+37% YoY) in FY25. As a result, LDR ratio for most banks declined on a sequential basis. Moreover, RBI infused ~Rs. 8.2trn of liquidity through CRR cut by 50bps (Rs. 1.2trn), OMO (Rs. 4.8trn) and USD/INR Buy-Sell swap (Rs 2.2trn) since December'24. This has eased system liquidity conditions, but credit offtake is expected to stay moderate in the 11-12% YoY range in FY26, largely supported by the retail and MSME segments.

Asset quality stable with MFI stress likely to peak out: AQ was largely stable with GNPA ratio falling across most banks under coverage on a QoQ basis, barring IIB due to its misclassification of MFI slippages. The improvement came on the back of lower slippage and higher write-offs on a sequential basis across most of the banks. Within our coverage, AQ of BANDHAN was impacted the most with higher slippage and elevated credit costs, given its high exposure to MFI segment. Credit costs for PSU banks were lower at 0.6%-0.7% vs private banks (0.2%-3.9%) in our coverage. Slippage and credit costs for the sector are expected to moderate from H2 FY26. Further, the implementation of MFIN guardrails will likely reduce stress in MFI book, particularly in newer vintages. Excluding unsecured segments, AQ was largely stable in corporate advances.

NIMs pressure, elevated credit cost to weigh on profitability: NIMs declined sequentially across our coverage universe, except for large private banks that saw a marginal increase due to lower number of days adjustment. Profitability was supported by higher fee income, treasury profits, while some banks also witnessed reversal of excess provisions on govt-guaranteed SRs. We expect NIMs to remain under pressure and credit costs to be elevated till H1FY26 and improve gradually thereafter.

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CEMENT | Q4FY25 Review | 05 June 2025

Listless YoY show; weak realisations offset by cost savings

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- **Cost saving offers respite – EBITDA margins improve only to 20.3% vs 19.0% YoY; operating cost fell by ~2% YoY/QoQ**
- **Post results, we maintain our BUY ratings on UTCEM and STRCEM, and SELL on DALBHARA, JKLC and TRCL, Downgrade SRCM to SELL**

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Healthy volume growth, realisations weaken by ~2% YoY: Our coverage universe volumes grew at a healthy average ~9% YoY in Q4FY25, driven by well-managed companies. Weaker companies checked the volume to chase realisations impacting capacity utilisation. Demand recovery was healthy but a higher supply to meet the year-end targets, kept prices weak. UTCEM's volume grew ~10% YoY, despite its high base, while DALBHARA/TRCL's volumes fell by an average ~3.0%. Pricing pressure in high supply region (South) led to a ~2%/ YoY fall in realisations.

Cost-savings levers limited in future: Our cement universe EBITDA margins were listless YoY at 20.3% [on average], up 130bps YoY. STRCEM margins at 25%, JKCE and UTCEM at ~22.0%/21.8% beat the industry. ACC, JKLC and TRCL saw below-average margins of ~15%/14%/13% respectively. Aggregate EBITDA/t improved by ~2% YoY to Rs 926 vs Rs910 (Rs 651 Q3FY25).

Operating cost savings led by energy and logistic costs: Average fuel costs for our coverage universe fell by ~7%/4% YoY/QoQ, led by softer pet coke/coal prices. Logistics costs inched up by ~2% YoY as lead distance was higher to meet the year-end volume targets. Operating costs fell ~2% YoY/QoQ on an average to Rs 4,011/t.

Demand slowed in Q4FY25: Cement demand recovery was healthy YoY on a lower base, meeting year-end targets and relatively better infrastructure demand. However, heavy supply pressure in the eastern and southern India regions put pressure on prices. We stay optimistic about demand pickup in FY26, aided by the government's budget announcements, improving rural sentiment and affordability as well as steady real-estate demand. However, supply pressure will continue.

UTCEM is our top pick: We maintain UTCEM's BUY rating (TP Rs 13,919) as we believe it is best-placed to cater to the estimated demand growth with its higher capacity, better efficiencies and pan-India presence. We maintain SELL on TRCL (Rs 699), JKLC (Rs 728) and DALBHARA (Rs 1,742) due to their weak show. We retain HOLD on JKCE (Rs 5,208) and BUY on STRCEM (Rs 260), given its niche market presence. We downgrade SRCM (Rs 26,974) to SELL on steep valuations.

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INSURANCE | Q4FY25 Review | 05 June 2025

Healthy year, stable guidance for APE

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- **VNB margin expanded for most of the players including LICI, aided by changes at product level, riders' attachment and higher sum assured**
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APE growth front-ended: APE growth for all listed private players was in the (-3% YoY) – (+10% YoY) range in Q4FY25 and 9-18% YoY in FY25. Whereas LICI witnessed a decline of 11% YoY and 0.2% YoY respectively in Q4FY25 and FY25, thereby clocking the slowest APE growth. APE growth for most of the private players and LICI was front-ended, with higher growth in 1HFY25. This was primarily on account of a significant decline in ULIP sales in 2HFY25 vs 1HFY25. The management of most private insurers, too, echoed similar views regarding the lower APE growth and expect mid-teens growth in the APE. With respect to APE for LICI, management is witnessing early green shoots and is likely to pick up. Life insurers have employed a combination of measures such as deferrals, commission reductions, and adjustments to client benefits, to align with the new surrender value guidelines that came into effect in Oct'24.

VNB and margin: VNB grew 8% YoY and 9% YoY in Q4FY25 and FY25 respectively for all private listed players. Among listed private players, VNB growth was the highest at 12% YoY for HDFC Life while LICI fell 3% YoY in VNB in Q4FY25 and was up 5% YoY in FY25. Listed private players reported VNB margin expansion of 103bps YoY, aided by changes in the product, ridders attachment and higher sum assured in ULIPS and growth in the non-par products of companies. SBI Life and ICICI PRU reported strong VNB margin growth of 213bps YoY and 124bps YoY respectively in Q4FY25. For FY25, margin compression was at 111bps YoY for private players, reflecting a shift in the product mix and impact of new surrender guidelines. LICI witnessed VNB margin expansion of 154 bps YoY in Q4FY25 (expansion of 80bps YoY in FY25).

Going forward: After navigating several challenges in FY25, companies have broadly provided stable to moderate guidance for APE growth and margin expansion in FY26. We believe that the declining interest rate environment would be favourable for the non-par segment, hence expected to gain traction going forward. However, the higher share of ULIPs in the product mix continues to be a concern, while the outlook for protection remains positive.

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BUY – Expected return >+15%

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SELL – Expected return <-6%

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