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Fortnightly review

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BUILDING MATERIALS | Q4FY25 PREVIEW

Another dull quarter on lacklustre demand

SUMMARY

INDIA ECONOMICS: BONDS WRAP

India's 10Y yield is again heading southward at a sharp pace. In this context, we chart out what has influenced its trajectory in FY25 and what are the factors that would contribute to the direction of yields going forward. We expect downward bias in yields to persist supported by risk off sentiments amidst heightened tariff turmoil. Apart from this, favourable interest rate spread with the US will attract capital flows especially in the debt segment. RBI's measures will ensure that liquidity will be supportive of an orderly evolution of the yield curve. We expect India's 10Y yield to trade between 6.25-6.55% in FY26.

Click here **for the full report.**

INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodities Index (BoB ECI) continued its deceleration in Mar'25, edging down by 1.4%, on YoY basis. The major downward correction was visible in the case of vegetables and pulses. Other than this, even retail prices of miscellaneous items such as salt, milk and tea are also softening. The same momentum is maintained in Apr'25, albeit at a softer pace. The current juncture thus opens more room for RBI for monetary easing. We expect CPI to be ~3.6% in Mar'25, with this our full year estimate stands at 4.6%.

Click here **for the full report.**

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BUILDING MATERIALS: Q4FY25 PREVIEW

- Our building materials universe's revenue is likely to grow at a muted pace for the ninth consecutive quarter
- Our BM universe's EBITDAM will likely contract by 252bps YoY to 12.1% in Q4FY25 due to intense competition in a weak demand environment
- Operating profit across BM segments is likely to contract on a YoY basis in Q4FY25 on weak demand and margin pressure

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BONDS WRAP

07 April 2025

Fortnightly review

Dipanwita Mazumdar
Economist

India's 10Y yield is again heading southward at a sharp pace. In this context, we chart out what has influenced its trajectory in FY25 and what are the factors that would contribute to the direction of yields going forward. We expect downward bias in yields to persist supported by risk off sentiments amidst heightened tariff turmoil. Apart from this, favourable interest rate spread with the US will attract capital flows especially in the debt segment. RBI's measures will ensure that liquidity will be supportive of an orderly evolution of the yield curve. We expect India's 10Y yield to trade between 6.25-6.55% in FY26.

How India's 10Y yield have moved in FY25: The trajectory of India's 10Y yield in FY25 has been interesting. It almost saw a precipitous fall. The start of FY25 was marked by some bit of stickiness in yield as in Apr'25 US 10Y yield has risen by 48bps itself on account of stickier inflation data and tight labour market conditions. The same was reflective in India's 10Y yield, which remained elevated during the same period. However, post that supportive US 10Y yield with Fed stepping on to the rate cut cycle much earlier than RBI has favoured domestic yield. This coupled with India's inclusion to global bond indices (official date of inclusion: 28 Jun) and a prudent fiscal framework all kept yields rangebound. The liquidity conductions also remained conducive except for the latter part of the year. However, the impact of it on yields was largely capped supported by RBI's increased demand for securities through OMOs. A lot of factors impacted the movement of India's 10Y yield in FY25, which is illustrated below:

Direction of global yields: In line with major emerging markets (EMs), India's 10Y yield witnessed sharp fall. Fig 2 reflects that risk-off sentiment (election year) amidst anticipation of the direction of Fed policy rate has led to higher demand for sovereign asset class. For India, higher flows through the FAR route also corroborated with fall in yield (explained in later section). However, for major advanced economies, rates broadly remained sticky. In UK, higher borrowing kept yields elevated. For Germany, much of the increase is attributable towards the latter part of the fiscal on account of parliament's approval for higher borrowing to fund defence spending. In Asia, Japan stood out as an anomaly supported by a recourse to rate hike, as part of policy normalization ending the regime of ultra-low rates. Thus, its yield in turn reflected the stickiness.

Movement of India's 10Y yield and FPI-Debt flows: FPI debt flows have gathered momentum since post announcement of India's inclusion to JP Morgan Global Bond Index. Further India's buoyant growth story leveraged sentiments of foreign investors at a time when still some degree of uncertainty prevailed over outlook of global economy.

PRICE PICTURE

07 April 2025

Inflation: Not much of a worry

Dipanwita Mazumdar
Economist

BoB Essential Commodities Index (BoB ECI) continued its deceleration in Mar'25, edging down by 1.4%, on YoY basis. The major downward correction was visible in the case of vegetables and pulses. Other than this, even retail prices of miscellaneous items such as salt, milk and tea are also softening. The same momentum is maintained in Apr'25, albeit at a softer pace. The current juncture thus opens more room for RBI for monetary easing. We expect CPI to be ~3.6% in Mar'25, with this our full year estimate stands at 4.6%.

Thus, we believe some undershooting of inflation (RBI's target of 4.8% in FY25) will give more headroom to RBI to give growth the required impetus in terms of lower borrowing cost and conducive liquidity conditions. For Inflation, however, some caution is required on evolution of food prices amidst above normal temperature in major parts of the country.

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 continued to show moderation even in Mar'25. On YoY basis, it inched down to 1.4% in Mar'25 compared to 2.4% in Feb'25. This is the lowest number recorded since Jun'23. 9 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for Tomato (-33.5% fall in retail prices recorded in Mar'25, on YoY basis). Major categories of pulses also noticed significant deflation with Tur/Arhar dal at -10.3% followed by Masoor at -5.4% in Mar'25.

The price of other categories of pulses fell in the range of -3 to -4%. Among cereals, the retail price of rice fell at a sharp pace compared to last month by -3.4% in Mar'25. For miscellaneous items such as salt pack and tea loose, deflation is reigning in Mar'25. What has been a cause of concern is the elevated retail price of edible oils led by Sunflower oil (29% in Mar'25), Mustard oil (25%) and Soya Oil (19.3%). The Food and Agriculture Organisation (FAO) report has pointed out that the increase is primarily on account of some increase in international prices of components of edible oil. This is led by firm demand from major countries such as Brazil and US.

On the supply side, dry conditions in Argentina have impacted international soybean prices. Thus, some pass through is seen in domestic prices for these components of edible oil. Notably, the stickiness in edible oil prices has continued for 6months in a row now and needs to be carefully monitored in the near term.

BUILDING MATERIALS | Q4FY25 Preview | 07 April 2025

Another dull quarter on lacklustre demand

- **Our building materials universe's revenue is likely to grow at a muted pace for the ninth consecutive quarter**
- **Our BM universe's EBITDAM will likely contract by 252bps YoY to 12.1% in Q4FY25 due to intense competition in a weak demand environment**
- **Operating profit across BM segments is likely to contract on a YoY basis in Q4FY25 on weak demand and margin pressure**

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Building materials (BM): We expect our BM universe's revenue to grow at a muted pace (+4.5% YoY in Q4FY25) for the ninth consecutive quarter due to a slowdown in real estate activity. Our BM universe's EBITDA margin is projected to contract by 252bps YoY to 12.1% in Q4FY25 due to increased competitive intensity in a weak demand environment. Operating profit across segments is likely to contract on a YoY basis in Q4FY25 on margin pressure amidst weak demand environment.

Plastic pipes: Our pipe universe volume is projected to grow at 7.8% YoY in Q4FY25 due to weak demand and high base (+28.1% YoY in Q4FY24). However, we expect our pipe universe's EBITDA to decline by 16.8% YoY in Q4FY25 due to margin pressure (-301bps YoY to 12.3%) on account of SI's continued aggressive pricing strategy in a weak demand environment and MTM inventory loss (on further decline in PVC resin prices by 7% in Mar'25 over Dec'24). SI is likely to post superior volume growth (+10% YoY) for the 13th straight quarter, but it would be well below its volume growth guidance of 30.5%-33.7% YoY for Q4FY25.

Bathware: We believe our bathware universe EBITDA is likely to decline by 16.0% YoY in Q4FY25 due to lower revenue (-1.4% YoY), higher discounts offered to dealers in a weak demand environment, and negative operating leverage.

Tiles: We forecast our tiles universe volume to grow at 6.0% YoY in Q4FY25, but EBITDA to contract by 5.2% YoY in Q4FY25 due to margin pressure (-97bps YoY to 11.7%) on account of intense competition from Morbi players and higher gas prices.

Wood panels: Our wood panels universe EBITDA will likely contract on a YoY basis for the 11th consecutive quarter (-3.6% YoY in Q4FY25) due to margin pressure on account of unfavourable supply-demand fundamentals in MDF & particleboard, and rising timber prices.

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