

FIRST LIGHT

24 February 2025

RESEARCH

CEMENT | Q3FY25 REVIEW

Green shoots at the fag end; Q4FY25 expected to be brighter

FEDERAL BANK | TARGET: Rs 236 | +31% | BUY

Unfolding strategy, implementation remains the key

SUMMARY

CEMENT: Q3FY25 REVIEW

- Volume a mixed bag, driven by companies with head room capacity; realisation fell 8% YoY, companies with eastern India exposure hit hard
- Softer fuel cost continues to provide some respite – EBITDA margins at 15.1% vs 14.1% QoQ (19.1% 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

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FEDERAL BANK

- FB plans to grow advances 1.5x nominal GDP growth in the next three years
- NIM expansion through both liabilities (increasing CA share) and assets, increasing the share of high-yielding advances
- Fee enhancement through cross sell of products in the MSME, CA and mid-market segments; maintain BUY

[Click here](#) for the full report.

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CEMENT

Q3FY25 Review

21 February 2025

Green shoots at the fag end; Q4FY25 expected to be brighter

- **Volume a mixed bag, driven by companies with head room capacity; realisation fell 8% YoY, companies with eastern India exposure hit hard**
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Volume growth a mixed bag, realisations dented by 8% YoY (flat QoQ): Our coverage universe company volumes grew a healthy ~10% YoY/QoQ on average in Q3FY25, driven by companies with headroom capacity. Demand recovery was slower due to the festive season and only at the fag end of Q3. UTCEM's (capacity industry leader) volume grew ~11% YoY despite its high base, while DALBHARA/SRCM's volumes fell by ~1.5% on average. Aggregate realisations fell ~8%/flat (YoY/QoQ) as cement prices were listless due to higher supply in key regions.

Cost savings offer limited respite: Our cement universe EBITDA margins were flat QoQ at ~14% on average, weakening by 470bps YoY. SRCM led the pack with ~22%, JKCE and UTCEM ~18%/17%. JKLC, ACC and ACEM saw below-average margins of ~10%/9%/8.5% respectively. Aggregate EBITDA/t fell by ~35% YoY but improved ~14% QoQ to Rs 691 (Rs 1,056 in Q3FY24/Rs 604 Q2FY25).

Fuel & logistics costs continued to fall: Fuel costs for our coverage stocks fell by ~20% YoY (9% QoQ) on average led by softer pet coke prices. Logistics costs fell by ~2% YoY/flat QoQ as lead distance was rationalised to guard margins. Operating costs for our coverage universe fell ~2% YoY/QoQ on average to Rs 4,124/t.

Demand slowed in Q3FY25: Cement demand recovery was slower YoY due to slower capex spend, extended festive season and election in key states and was only towards the fag end of Q3. Heavy supply pressure in the eastern and southern India regions put pressure on prices. We stay optimistic on demand pickup in Q4, aided by the government's capex push, improving rural mood and better private demand, but supply pressure due to capacity additions will continue, in our view.

UTCEM is our top pick: We maintain UTCEM's BUY rating (TP Rs 13,137) 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 maintain SELL ratings on TRCL (Rs 722), JKLC (Rs 694) and DALBHARA (Rs 1,689) due to their continued weak showing. We retain our HOLD ratings for JKCE (Rs 4,511) and SRCM (Rs 25,755). Maintain BUY on STRCEM due to its niche market presence.



BUY

TP: Rs 236 | ▲ 31%

FEDERAL BANK

| Banking

| 24 February 2025

Unfolding strategy, implementation remains the key

- **FB plans to grow advances 1.5x nominal GDP growth in the next three years**
- **NIM expansion through both liabilities (increasing CA share) and assets, increasing the share of high-yielding advances**
- **Fee enhancement through cross sell of products in the MSME, CA and mid-market segments; maintain BUY**

Strategy 4.0: FB presented its three-year strategy 4.0 at its analyst meet held on 21 February 2025. These strategic initiatives include NIM improvement, expanding its product portfolio, fee enhancement, branch strategy for scalable growth, branch transformation, brand transformation, digital at the fore, human at the core, renewed digital distribution strategy, people & culture, cost optimisation, strengthening assurance functions, and journey towards becoming a universal bank.

NIMs expansion by increasing share of CA deposits and high-yielding loans: FB intends to focus on the liabilities side to expand NIMs by increasing its share of CA to 10% in FY28 (6% in FY25). It plans to improve the share of CA deposits by penetrating its existing customers and focus beyond Kerala to mobilise granular deposits which is likely to increase its CASA ratio to 36% in FY28 (30% in FY25). Also, it plans to reduce low-yielding advances (yields <9%) mix to 58% by FY28 (64% in FY25E). As a result, NIMs are likely to rise >3.52% (3.11% in Q3FY25).

Fee income enhancement: The bank plans to focus on the MSME segment, mid-market, and CA customers to cross sell products thus helping to generate fee income. It foresees other income to average assets increasing >1.4% compared to 1.1% (9MFY25) in the next three years.

Improvement in return ratios: FB plans to expand its RoA to >1.4% (1.2% as of 9MFY25) led by expansion in NIMs and fee income which is expected to be partially offset by rise in credit costs. RoA expansion is expected to percolate to its ROE improvement closer to ~15% (13.1% as of 9MFY25).

Maintain BUY: FB's new strategy aims to position it closer to top private sector banks and thus create a universal bank. This strategy includes changes in its assets and liabilities profile, which is expected to improve its NIMs, fee income and productivity, thereby aiding its return ratios. We expect these developments to take time to bear fruit and would be watchful in the ensuing years. We model advances growth CAGR of 14% over FY24-27E. We value FB at 1.6x Dec'26 ABV and maintain a BUY rating with TP of Rs 236.

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Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	FB IN/Rs 180
Market cap	US\$ 5.1bn
Free float	100%
3M ADV	US\$ 18.6mn
52wk high/low	Rs 217/Rs 140
Promoter/FPI/DII	0%/29%/45%

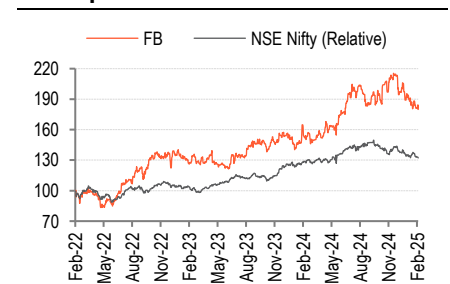
Source: NSE | Price as of 21 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	82,935	96,590	1,10,558
NII growth (%)	14.7	16.5	14.5
Adj. net profit (Rs mn)	37,206	41,063	48,461
EPS (Rs)	16.3	16.8	19.7
Consensus EPS (Rs)	16.3	17.4	20.1
P/E (x)	11.0	10.7	9.1
P/BV (x)	1.5	1.4	1.2
ROA (%)	1.3	1.2	1.3
ROE (%)	14.7	13.3	14.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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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