



Monthly Research Compendium

August 2023





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Research Compendium is a compilation of some of ICRA's key research reports released in the previous month.

The ICRA Research compendium offers a summary of some of the most thought-provoking research reports published during the month



Each slide communicates key excerpts from the respective reports through charts and tables

Follow the link in the caption of each slide to access the detailed report on ICRA's website

Banking: Recoveries from written-off loans will keep contributing significantly to public sector banks' profitability

Cross sectoral trends & outlook: PLI disbursements kick off in FY2023; major capex expected in next two-three years

Dairy: Gross margins for dairy companies to improve sequentially in FY2024

Economy: GST collections need to exceed Rs. 1.65 trillion/month in July-March FY2024 for full-year CGST target to be met

Financial markets & banking: Corporate bond issuances expected to remain strong, surpassing previous year record levels

Hospitals: Industry in the pink of health

NBFC: Well-placed for strong performance in FY2024 as well

NBFC: Paradigm shift towards unsecured loan segment, a key driver of overall NBFC growth

Roads: GST applicability for BOT HAM projects to impact debt coverage metrics in the later part of the debt tenure

State finances: State capital spending increased by an impressive 19% in FY2023 amidst step-up in capex loan

Banking: Recoveries from written-off loans will keep contributing significantly to public sector banks' profitability

Exhibit: Recoveries from write-offs as % of operating profit

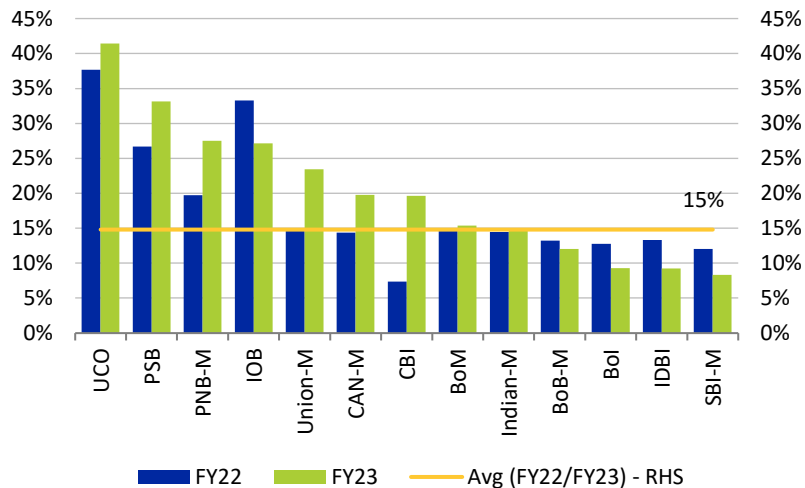
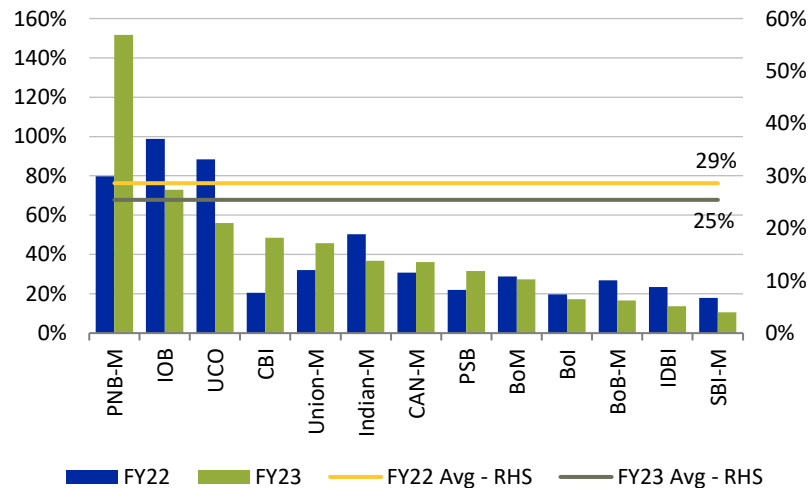


Exhibit: Recoveries from write-offs as % of profit before tax



- The contribution of recoveries from written-off loan accounts could remain significant for public sector banks, given their sizeable written-off pool of loans of Rs. 7.5 trillion as of March 2023.
- These recoveries contributed 15-18% to the operating profits of PSBs during the last four years and accounted for 0.2% of their assets and 3.8% of their net worth.

Cross sectoral trends & outlook: PLI disbursements kick off in FY2023; major capex expected in next two-three years

Exhibit: Capex deployment by sectors which started production by FY2023

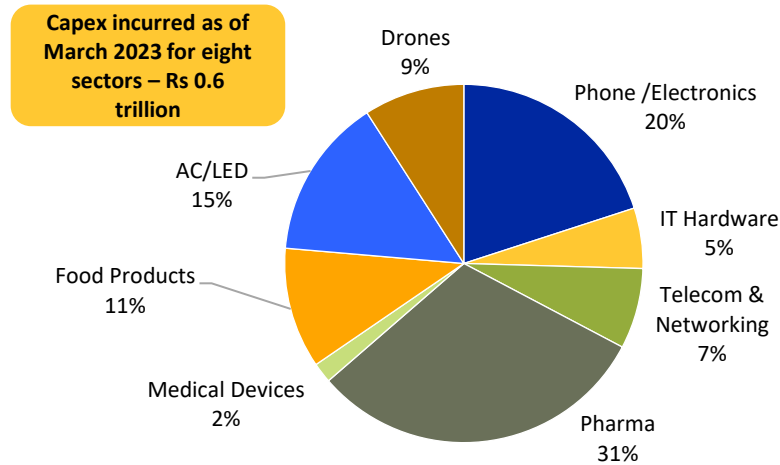
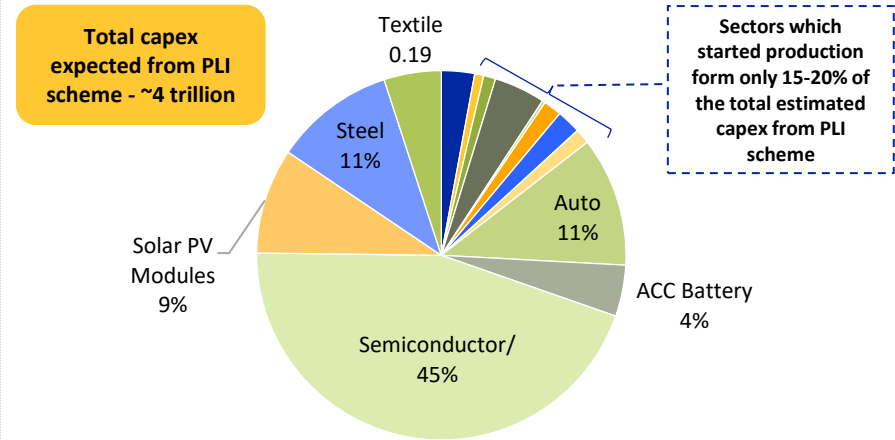


Exhibit: Expected capex deployment by all PLI sectors

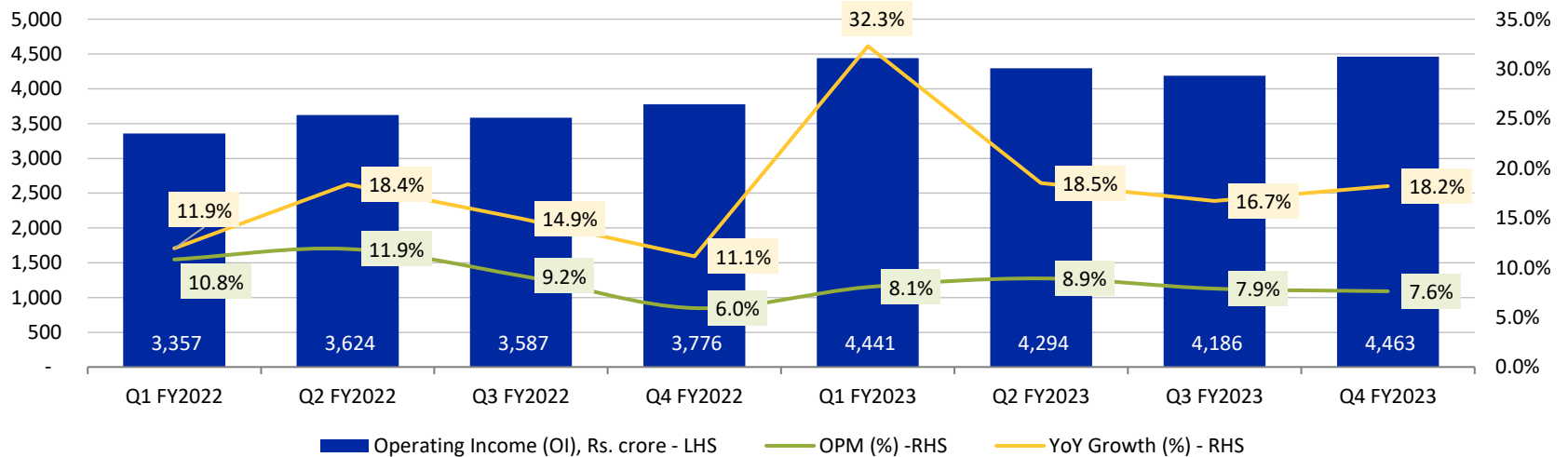


- The Government recently started disbursements under the PLI scheme for FY2023 for eight of the 14 sectors.
- Major sectors with huge capex deployment of more than Rs. 3 trillion like semiconductors, steel, ACC batteries, etc., will begin to see capex deployment and manufacturing from FY2024.

Dairy: Gross margins for dairy companies to improve sequentially in FY2024

Dairy Outlook - Stable

Exhibit: Quarterly performance of ICRA sample set of dairy companies



- Raw milk procurement prices are expected to witness correction due to improvement in milk availability with the onset of the flush season in H2 FY2024. Consequently, industry profit margins are expected to start improving sequentially.

Economy: GST collections need to exceed Rs. 1.65 trillion/month in July-March FY2024 for full-year CGST target to be met

Exhibit: Expected CGST collections in FY2024 based on three scenarios

Figures are in Rs. trillion	Scenario – I (adverse)	Scenario- II (ICRA base case)	Scenario- III (optimistic)
GST/month in July-March FY2024	1.60	1.65	1.70
GST revenues in FY2024 (A) = Q1 actuals + estimated for remaining months	19.5	19.9	20.4
GST: YoY Growth over FY2023 (%)	+7.7%	+10.2%	+12.7%
GST (A) – GSTCC (FY2024 BE: Rs. 1.45 trillion)	18.0	18.5	18.9
Total CGST; PIB* = CGST + IGST settlement to CGST	8.10	8.31	8.51
Total CGST (as per CGA~)	7.86	8.06	8.25
CGST; CGA: Growth over FY2023 Prov. (budgeted growth: +12.9%)	+9.4%	+12.1%	+14.8%
Deviation in CGST; CGA over FY2024 BE of Rs. 8.12 trillion	-0.26	-0.06	0.14

- **Scenario – I:** If GST revenue/month averages at Rs. 1.60 trillion during July-March FY2024, amid a continued moderation in commodity prices and a sustained contraction in merchandise imports, CGST collections may be on the lower side, and could end up undershooting the BE levels by Rs. 260 billion.
- **Scenario – II (ICRA base case):** Based on actual GST collections in Q1 FY2024 and the assumption of monthly average at Rs. 1.65 trillion in the remaining months of this fiscal, overall GST collections are estimated at Rs. 19.9 trillion in FY2024. This implies a 10.2% growth over the collections in FY2023, slightly higher than ICRA’s forecast for nominal GDP growth of 9-10%. Besides, such revenues would be marginally lower by Rs. 60 billion than the BE of Rs. 8.12 trillion. Consequently, GST collections should average above Rs. 1.65 trillion/month in remaining nine months of this fiscal to meet the CGST revenue target for FY2024.
- **Scenario – III:** If GST collections end up averaging at a higher Rs. 1.70 trillion/month in July-March FY2024, CGST collections may overshoot the FY2024 BE by Rs. 140 billion, in contrast to the slight shortfall estimated under ICRA’s base case.

*We have taken estimated share of CGST in GST excluding GSTCC collections at 45% based on trends seen in FY2020-23; ~On an average, CGST revenues released by the CGA typically tends to be 97% of the aggregate CGST + IGST settlement to CGST figure provided in the PIB release by the Ministry of Finance; GSTCC: GST compensation cess;
Source: FinMin; Union Budget; ICRA Research

Financial markets & banking: Corporate bond issuances expected to remain strong, surpassing previous year record levels

EXHIBIT: Monthly Corporate Debt Issuances (INR denominated only)

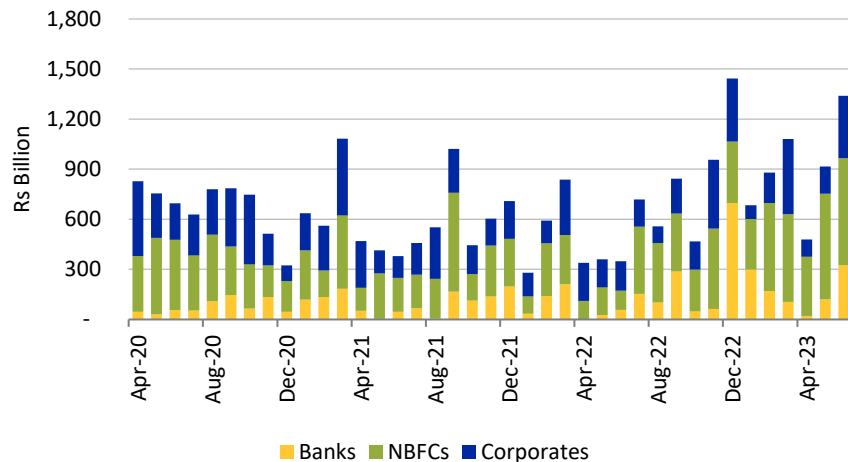


EXHIBIT: YoY Growth# in Non-Food Bank Credit Bonds and Commercial Paper

	Non-Food Bank Credit O/s	Corporate Bonds O/s	Commercial Paper O/s	Non-Food Bank Credit O/s + Bonds O/s + Commercial Paper O/s
Jun-21	5.90%	9.20%	-3.90%	6.40%
Sep-21	6.80%	8.70%	2.40%	7.10%
Dec-21	9.30%	4.30%	-4.10%	7.70%
Mar-22	9.70%	11.20%	-3.30%	9.80%
Jun-22	15.00%	9.1%	-1.00%	13.00%
Sep-22	15.70%	8.9%	8.1%	14.00%
Dec-22	15.30%	11.6%	2.7%	14.10%
Mar-23	15.37%	4.6%	0.4%	12.4%
Jun-23	16.36%	8.6%E	16.3%	14.5%
Mar-24E (EE)	11.0-11.7%	6.0-7.1E	13.1-15.9%E	9.9-10.7%E
Mar-24E (RE)	12.1%-13.2%	7.3-8.5%	13.1-15.9%E	11.0-12.1%E

- Corporate bond issuances remained buoyant in Q1 FY2024 (Rs.2.7 trillion, vis-à-vis Rs.2.6 trillion in Q4 FY2023, Rs.1.0 trillion in Q1 FY2023), partly led by large issuances by HDFC Limited, prior to its merger with HDFC Bank in July.
- This follows from the all-time high bond issuances of Rs.8.7 trillion in FY2023.
- We expect bond issuances to remain strong for the remainder of FY2024, supported by competitive cost vis-à-vis bank funding as well as better investor appetite as long-term yields are likely to have peaked out. Accordingly, overall issuances are expected to cross the previous year's peak, rising to Rs.9.0-9.5 trillion in FY2024.

Source: RBI; SEBI, Bloomberg, ICRA Research
Compared to the same month-end of the previous year, E-Expected .EE-Earlier Estimates, RE-Revised Estimates

Exhibit: Annual trend in revenues and OPM

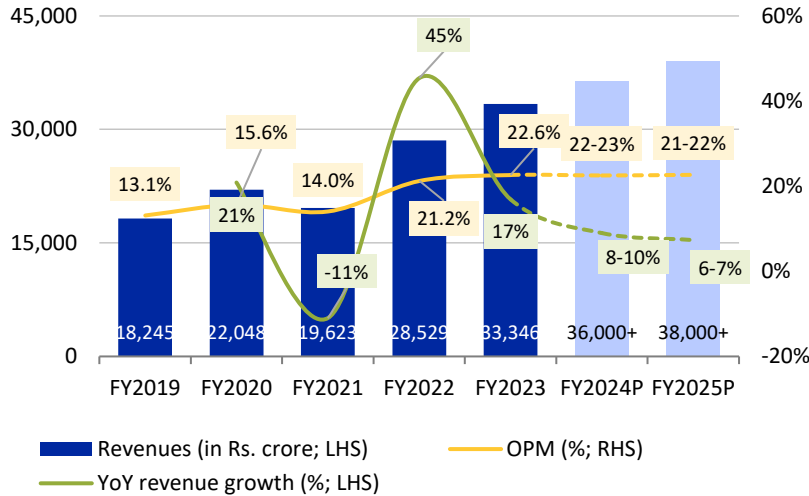
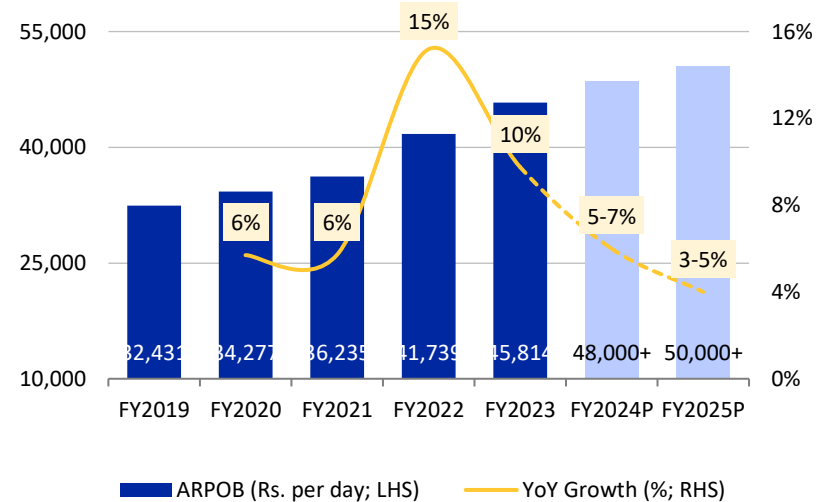
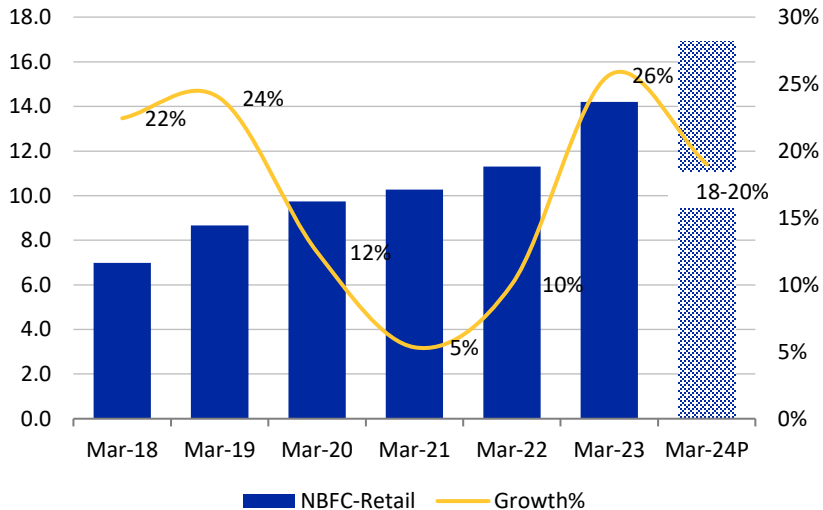


Exhibit: Annual trend in ARPOB (Rs.)



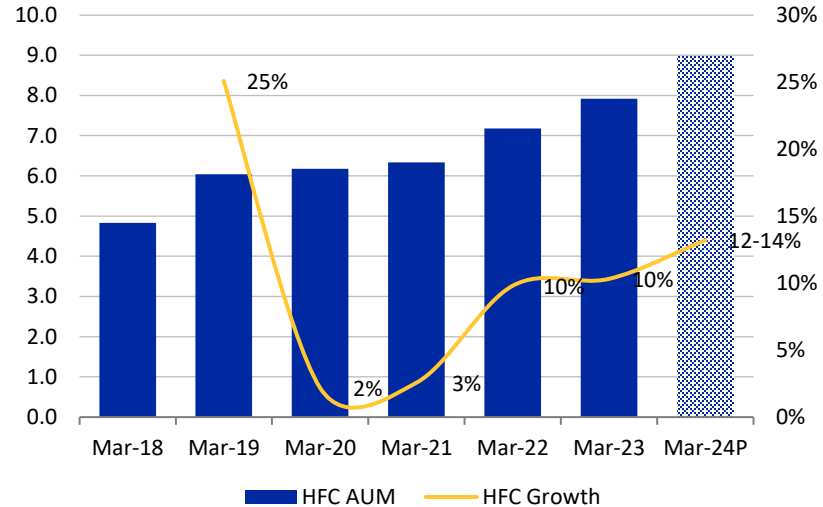
- Occupancy expected to remain strong supporting YoY growth of 8-10% in revenues in FY2024, despite moderate ARPOB growth.
- Many hospital players are scouting for inorganic opportunities to expand their network. Further, private equity investments have also increased in the recent past.

Exhibit: NBFC AUM Trends (YoY) and Outlook



- Unsecured lending segments would lead growth while vehicle and LAP/SME shall exhibit healthy expansion in FY2024.

Exhibit: HFC AUM Trends (YoY) and Outlook (excl. HDFC)

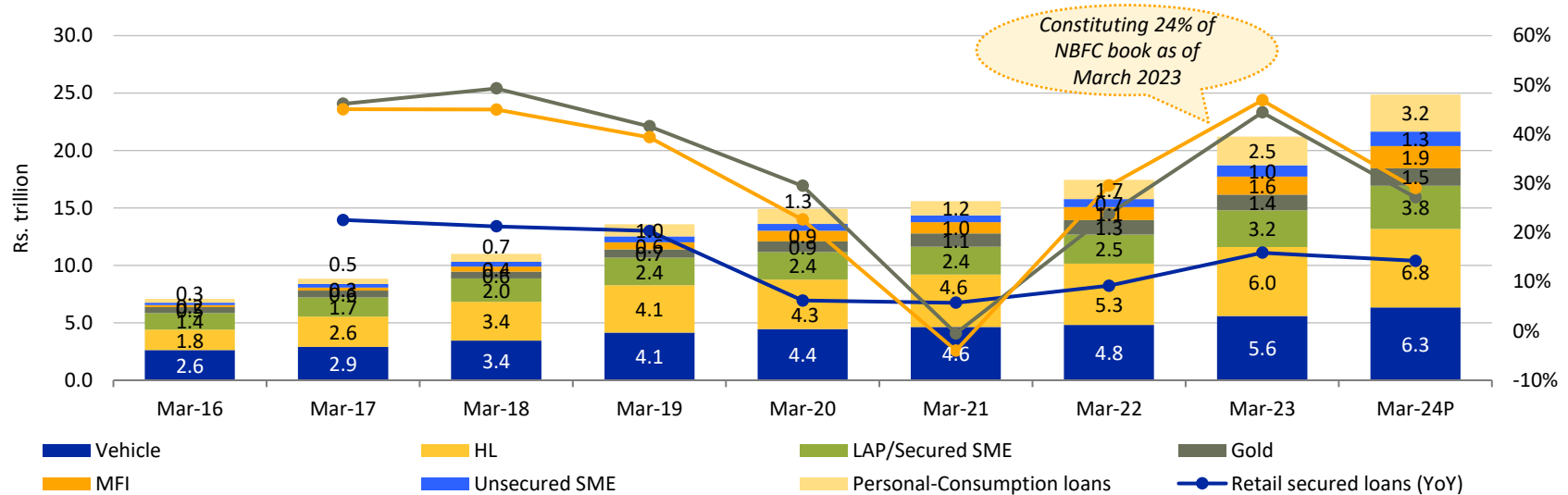


- LAP and construction finance shall witness healthy revival on a low base, while home loans shall continue to register steady growth.

NBFC: Paradigm shift towards unsecured loan segment, a key driver of overall NBFC growth

NBFC Outlook (excluding infra) - Stable

Exhibit: NBFC retail loan book

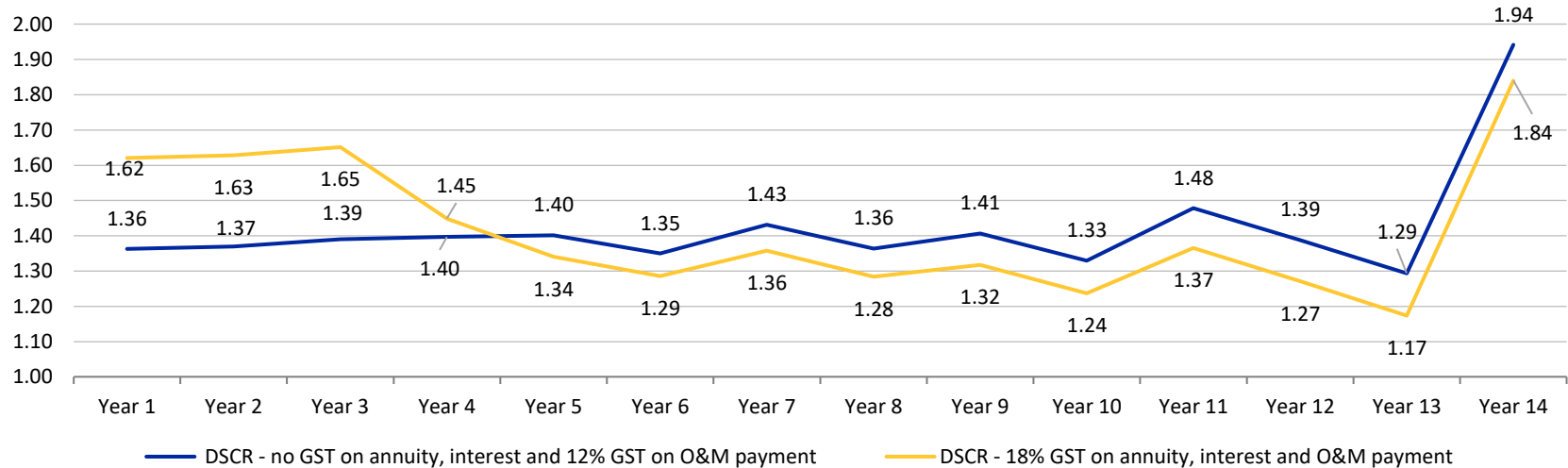


- Unsecured loans grew at a robust pace in most of the previous periods, barring the pandemic period; while the base was low in the past, it currently accounts for a dominant share in the overall book

Source: ICRA Research; * NBFCs and HFCs ; MFI- microfinance loans, HL-home loans ; LAP-loan against property

Roads: GST applicability for BOT HAM projects to impact debt coverage metrics in the later part of the debt tenure

Exhibit: DSCR profile of the concessionaire with change in rate and applicability of GST



- Debt coverage metrics of HAM concessionaires likely to weaken in the later part of the debt tenure due to applicability of GST on annuity payments.
- Lenders may consider using the surplus GST reimbursement from the NHAI during the initial years towards prepayment of loans to mitigate the risk of lower cash flows in the later part of the debt tenure.

State finances: State capital spending increased by an impressive 19% in FY2023 amidst step-up in capex loan

Exhibit: Trends in capital outlay and net lending of 24 states

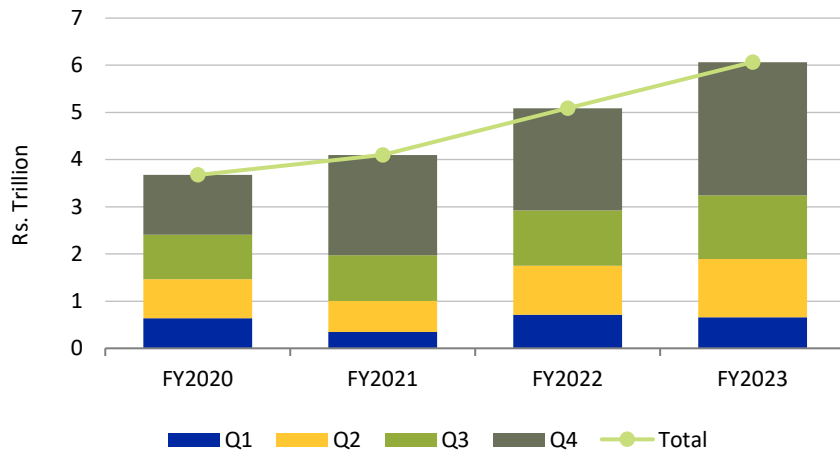


Exhibit: Month-wise progressive approved and released interest-free capex scheme amount (Rs. Billion)

	Approved	Released
April-June	0	-
July	315	-
August	26	-
September	170	-
October	92	284
November	114	83
December	54	45
January	74	41
February	12	27
March	94	333

- ICRA has studied the provisional actuals (PA) for FY2023 for 24 states (excluding Bihar, Goa, Manipur and Tripura). The FY2023 PA indicates sharply narrower revenue and fiscal deficits compared to the FY2023 revised estimates (RE). On a YoY basis, the combined capex of the 24 states increased by a robust 19% in FY2023 PA, or by Rs. 1.0 trillion, led by Uttar Pradesh and Maharashtra. This increase in capital spending benefitted from the step-up under the Government of India's (GoI's) interest-free capex loan to an estimated Rs. 812 billion in FY2023 from a modest Rs. 125 billion in FY2022.

Note: * State-wise interest-free loan capex transfers for FY2023 are not yet available in the public domain, therefore, since a large portion of such loans was based on the inter-se of the states, we have assumed that ~98% of the total disbursal during FY2023 for our sample states.

Source: CAG; State budgets; Ministry of Finance, India; Lok Sabha; ICRA Research



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