



Monthly Research Compendium

March 2024





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The 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

ICRA's Sectoral Outlook: as of February 2024

Climate series: Green spots in Budget

Ferrous - Coal gasification: Government's capital incentive for coal/ lignite gasification projects could be a tipping point for attracting fresh investments

Cross sectoral trends and outlook: PLI - Manufacturing in a few sectors displays positive trends; however, only 25% of expected capex deployed as yet

Economy: Investment Tracker - Momentum in investment activity lost steam in Q3 FY2024; outlook appears favourable for FY2025

Economy: Agri GVA growth projected to rise to 3.4% in FY2025 from ~1.0% in FY2024, assuming a normal monsoon

Fertilisers: New guidelines unlikely to have any adverse impact on the profitability of P&K players

NBFC: NBFCs riding on pre-owned vehicle assets to drive up profitability

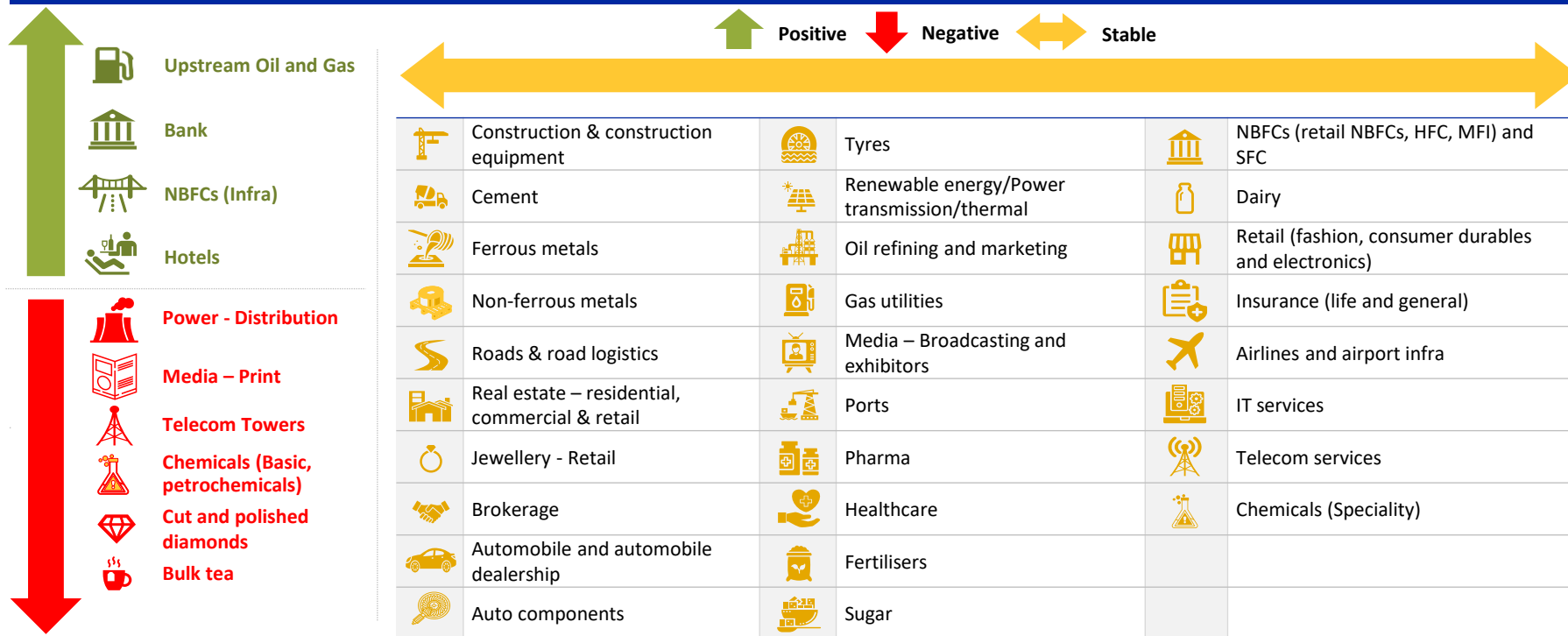
Power: Power transmission sector to witness Rs.3.0 trillion investments by 2030 driven by integration of renewables

Renewable Energy: New rooftop solar scheme to create a 20-25 GW opportunity for Indian solar OEMs and system integrators

Structured finance: Personal loan securitisation sees strong growth in recent years; RBI guidelines may, however, dampen momentum in the near term

Structured finance: Growing traction in SDIs provides new fund-raising avenue for non-financial sector entities

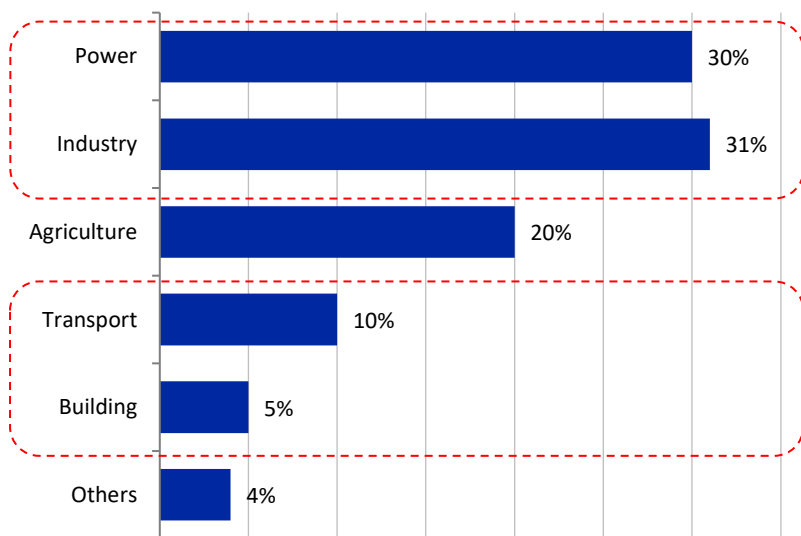
Outlook for FY2024



Source: ICRA Research

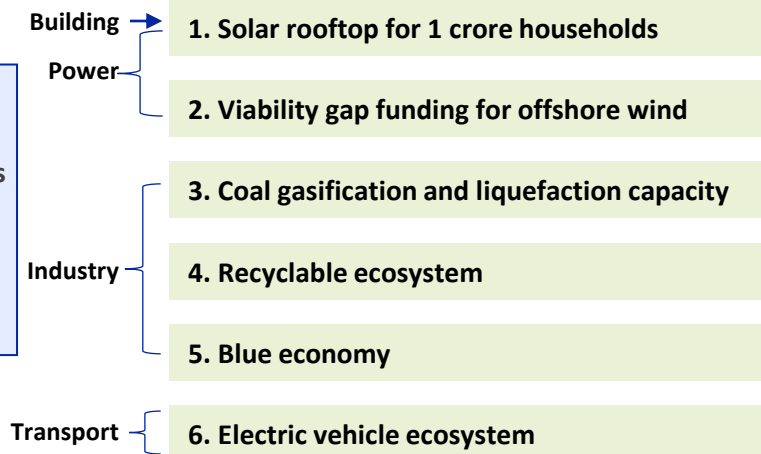
- The Union Budget FY2024 had included 'Green Growth' as one of the seven priorities for the next 25 years (Amrit Kaal) to reduce carbon emission by adopting green energy going forward.
- The Interim Union Budget FY2025 followed the path laid down in the Union Budget FY2024 with announcements supporting the green ecosystem.

Exhibit: India's carbon emission



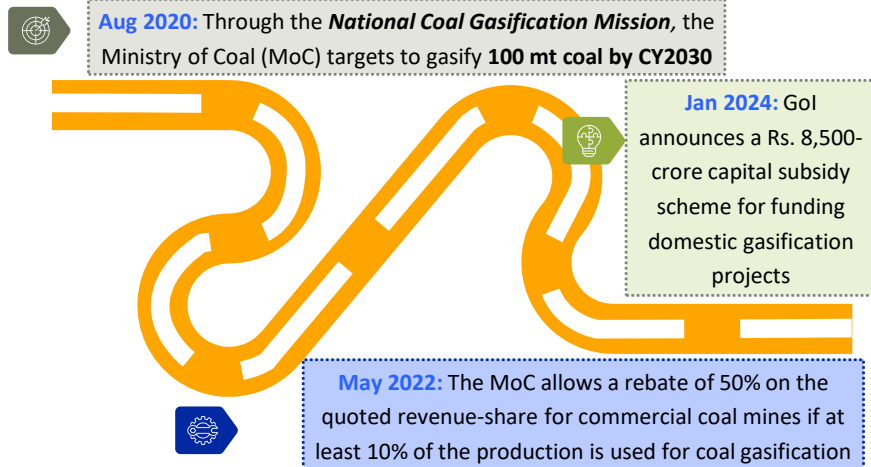
Interim Union Budget FY2025 announcements support green ecosystem in most polluting sectors

Major green announcements in Budget 2024



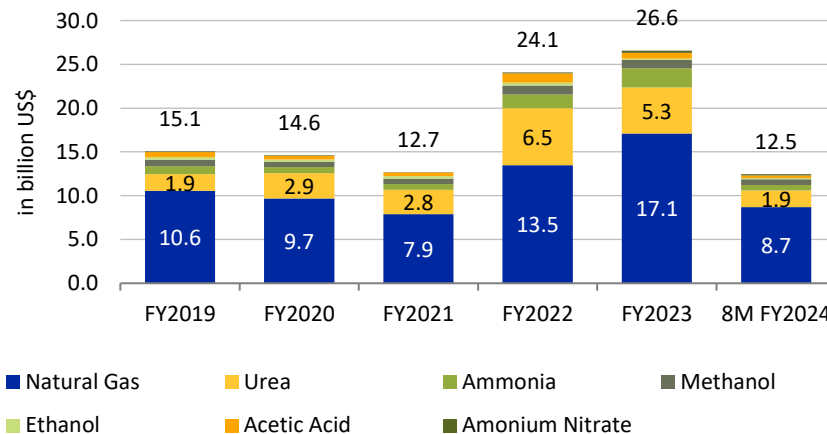
Ferrous - Coal gasification: Government's capital incentive for coal/ lignite gasification projects could be a tipping point for attracting fresh investments

Key incentives announced by GoI for promoting coal gasification



Source: ICRA Research

Trend in India's imports of natural gas and key downstream products in chemical/ petrochemicals/ fertilizer industries



Source: Ministry of Commerce, ICRA Research

- The National Coal Gasification Mission (NCGM) carries an investment potential of over Rs. 4 lakh crore.
- Due to the scarcity in domestic natural gas, investments in coal gasification projects carry the potential to substitute a chunk of India's imports of natural gas, urea, ammonia, and methanol.
- The technology's adoption has been slow thus far, with only two industrial-scale operating sites in the country.
- The latest capital incentive could catalyse attracting fresh investments.

Cross sectoral trends and outlook: PLI - Manufacturing in a few sectors displays positive trends; however, only 25% of expected capex deployed as yet

Exhibit: Sectors with PLI outlay

Sector	Budgeted PLI Outlay (Rs trn)	Budgeted Capex (Rs trn)	Production started/expected		Progress on capex, sales/production/exports			Incentives disbursed for FY2023	Probable disbursement till November 2023 for FY2024
			FY2024 and before	FY2025 and beyond	Capex incurred (Rs trn)	Incremental sales/production (Rs trn)	Exports		
Phone /Electronics	0.41	More than Rs 4 trillion	Yes		More than Rs 1 trillion incurred till November 2023	More than Rs 9 trillion till November 2023	Exports have surpassed Rs 3 trillion till November 2023	Rs 29 bn for FY2023. Incentives not disbursed for high capex sectors like semiconductors , ACC Batteries, Steel and Solar PV modules	Rs 15.41 bn for 8 sectors
IT Hardware	0.14		Yes						
Pharma	0.22		Yes						
Telecom & Networking	0.12		Yes						
Food Products	0.11		Yes						
AC/LED	0.06		Yes						
Medical Devices	0.03		Yes						
Drones	0.00		Yes						
Semiconductor/ Display Ecosystem	0.76			Yes	(~25% of the total estimated capex for 14 sectors)	(~30-35% of the incremental sales/production)			
Auto	0.57		Yes						
Solar PV Modules	0.24			Yes					
ACC Battery	0.18			Yes					
Textile	0.11		Yes						
Steel	0.06		Yes						
Total	3.00								

Disbursement of PLI incentives in textile and white goods expected for FY2024 in addition to eight sectors, which claimed incentives already for FY2024

Major sectors like semiconductor , ACC batteries with high capex yet to start manufacturing

Economy: Investment Tracker - Momentum in investment activity lost steam in Q3 FY2024; outlook appears favourable for FY2025

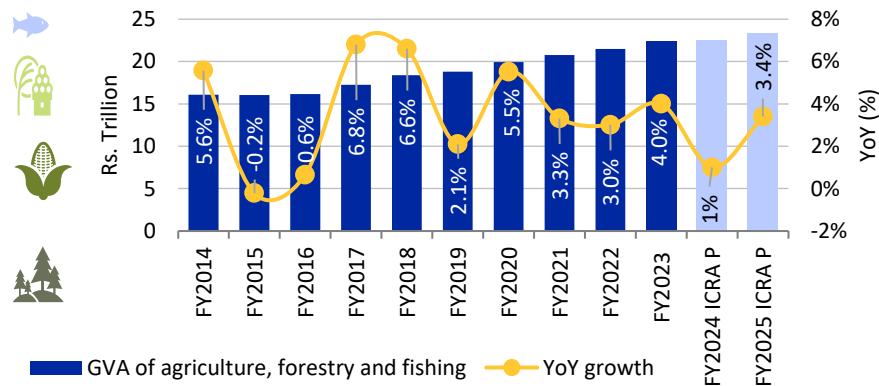
Exhibit: Heatmap of investment-related high frequency indicators

YoY (%)	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Infra & construction goods^ output	7.2	13.4	13.0	13.3	12.6	15.7	8.9	11.3	1.5	NA
Cement production	-0.2	12.4	15.9	9.9	6.9	19.7	4.7	17.4	-4.0	1.3
Finished steel consumption	15.0	8.4	8.6	16.7	15.8	16.0	18.6	13.6	15.6	6.4
Capital goods^ output	10.0	4.4	8.1	2.9	5.1	13.1	8.4	21.3	-1.1	NA
Total CV registrations	20.4	12.3	18.5	11.7	12.3	17.0	12.4	19.8	2.7	5.6
SCB: Infrastructure credit~	1.4	1.7	1.8	1.7	1.5	2.2	2.9	1.0	2.1	5.8
Centre's capex	35.8	-0.6	217.4	62.8	14.9	29.9	29.0	-14.9	1.6	105.4
States' capex & net lending*	22.0	140.0	94.9	54.9	20.2	25.7	81.6	57.7	-7.8	-47.7
States' stamp duty collections*	18.0	17.2	18.1	6.8	7.7	28.0	18.2	26.6	1.6	9.4
Engineering goods imports (\$ terms)	12.7	11.6	19.7	3.7	13.7	23.3	-8.0	0.9	1.6	-18.9
Engineering goods exports (\$ terms)	-8.0	-7.5	-4.9	-11.1	-6.6	7.8	7.4	7.1	-2.4	10.4
YoY growth; sequential pickup	YoY growth; sequential dip		YoY growth; no sequential change			YoY contraction; sequential pickup			YoY contraction; sequential dip	

- For FY2025, the investment outlook appears to be promising, with a double-digit growth in budgetary allocations for GoI's capex and interest-free capex loan to states. Besides, elevated capacity utilisation levels, sizeable order books for infra companies, and cleaner balance sheets of corporates lend a favourable climate for a pick-up in corporate capex, although there may be some transient caution in the run-up to the General Elections. Nevertheless, the resilience of domestic demand remains key to determine the pace of capacity additions.

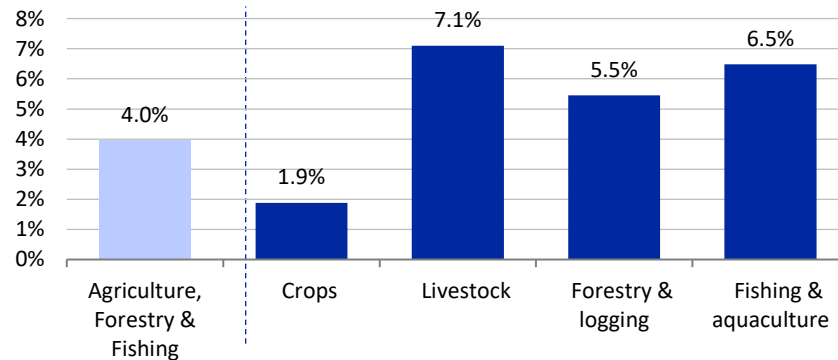
Economy: Agri GVA growth projected to rise to 3.4% in FY2025 from ~1.0% in FY2024, assuming a normal monsoon

EXHIBIT: Annual GVA of agriculture, forestry and fishing at 2011-12 prices



P: Projected; Source: NSO; ICRA Research

EXHIBIT: CAGR of agriculture and allied activities during FY2018-22

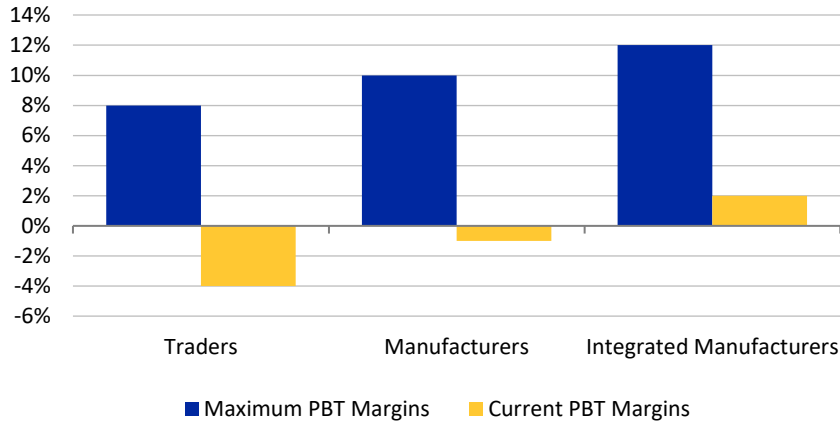


Source: NSO; ICRA Research

- The IMD's [Feb 2024 forecast report](#) revealed that the prevailing strong El Nino conditions are likely to weaken steadily and turn to ENSO neutral conditions by the end of the spring season i.e. Apr/May 2024; if this materialises, it would aid in a timely onset of the monsoon season, and in turn would augur well for reservoirs and prospects for kharif sowing.
- Notably, the GVA of livestock (+7.1%) and fishing (+6.5%) had seen a higher CAGR than that of crops (+1.9%) during FY2018-22, which would support the overall agri GVA performance in this fiscal, despite bleak prospects for the crops segment amid weak estimates for kharif crop output and mixed trends of rabi sowing. Overall, **ICRA estimates the agri-GVA growth to moderate sharply to ~1.0% in FY2024 from 4.0% in FY2023.**
- A normal and well-distributed monsoon would be crucial in 2024, and growth outcomes for the rural economy for FY2025 would be sensitive to the same. Assuming a normal monsoon in our base case scenario, the GVA growth of agriculture, forestry and fishing is estimated at ~3.4% in FY2025.

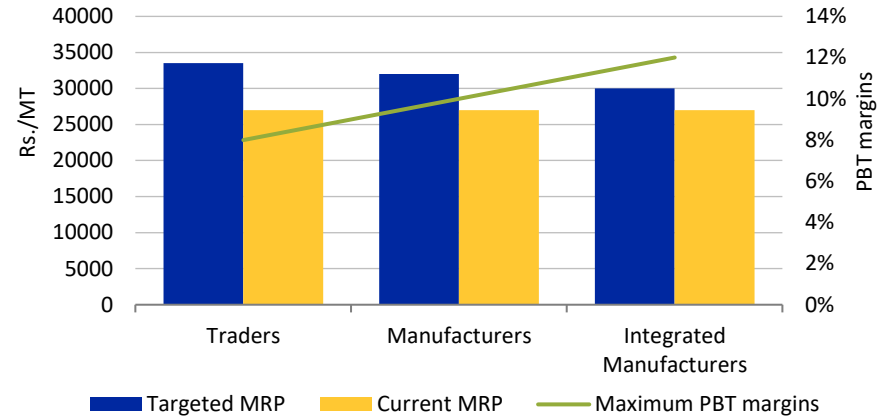
Fertilisers: New guidelines unlikely to have any adverse impact on the profitability of P&K players

Exhibit: PBT margins at current prices



Source: DoF, Bloomberg, ICRA Research

Exhibit: Targeted MRP at allowable PBT margins



Source: DoF, Bloomberg, ICRA Research

- The Government of India's recent guidelines to regulate maximum retail price (MRP) for phosphatic and potassic (P&K) fertilisers, specifying a reasonableness for the profit margins for traders (8%), manufacturers (10%), and integrated manufacturers (12%) is not expected to have a materially negative impact on the industry.
- Historical data indicates that companies have rarely achieved such margins. Thus, the policy serves more as a safeguard against excessive profits rather than a constraint on industry profitability.

NBFC: NBFCs riding on pre-owned vehicle assets to drive up profitability

New CV sales units remained muted for a prolonged period; volumes have remained below FY2019 levels. Along with competition from banks, this is pushing used CV financing growth of NBFCs

Exhibit: New and Used CV/CE Share in NBFC AUM

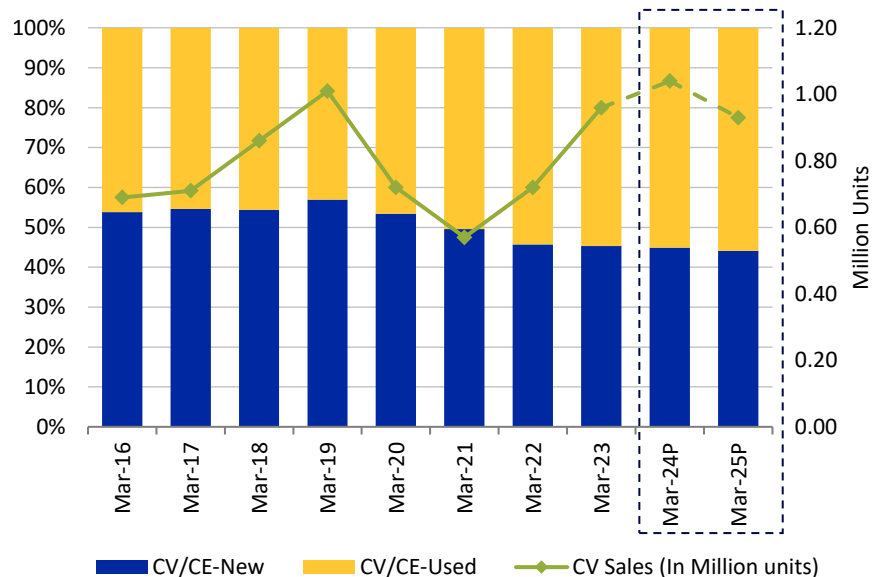
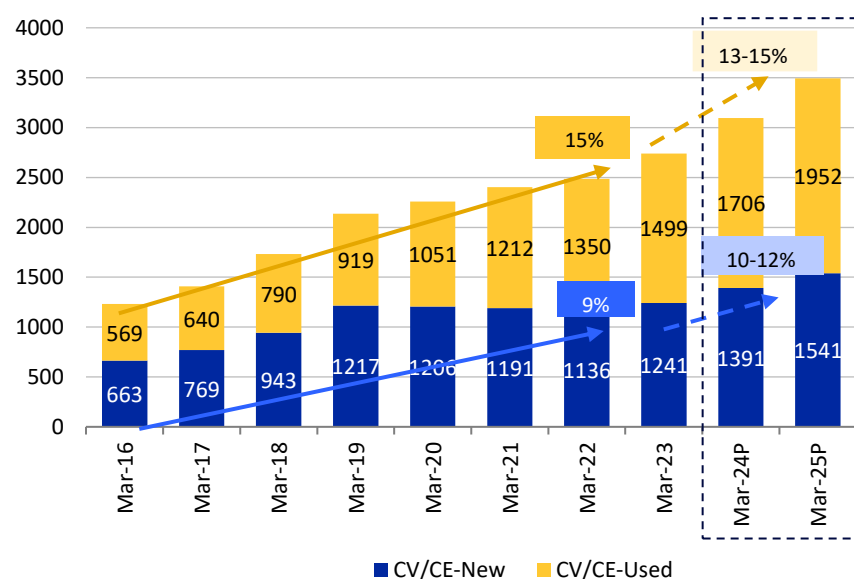


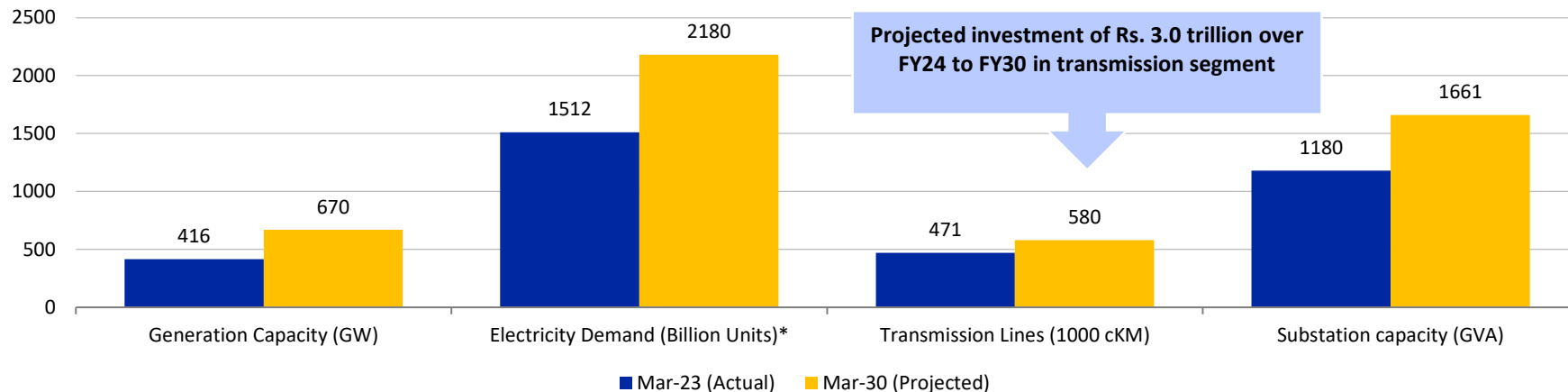
Exhibit: NBFC AUM Trend in New and Used CV/CE



Source: ICRA Research; Amount in Rs. billion P-Projected Note: Construction Equipment (CE) constituted ~ 11% of the NBFC CV/CE AUM in March 2023

Power: Power transmission sector to witness Rs.3.0 trillion investments by 2030 driven by integration of renewables

Exhibit: Projected generation capacity, demand and transmission capacity by March 2030



- ICRA expects the capital investments in the power transmission segment to remain large at Rs. 3.0 trillion over the period from FY2024 to FY2030. This would be mainly towards setting up evacuation infrastructure for upcoming RE projects and to improve network reliability amid growing demand. The expansion of intra-state infrastructure would be required to meet the growing demand and to improve the network reliability.
- Further, the expansion of inter-state transmission capacity is required for transfer of surplus capacity from one region to another. While the Power Grid Corporation of India Limited and state transmission utilities are likely to remain as the major players in the power transmission segment, the share of the private sector is expected to witness a healthy growth over the coming decade.

Renewable Energy: New rooftop solar scheme to create a 20-25 GW opportunity for Indian solar OEMs and system integrators



**20-25
GW**

Demand opportunity for domestic solar module manufacturers over next two to three years



**>1 lakh
crore**

Large capital investment to benefit solar system integrators across the country



**Rs.
15,000**

Rooftop units to generate 250-300 units per month for residential consumers leading to savings of ~Rs. 15,000 per year



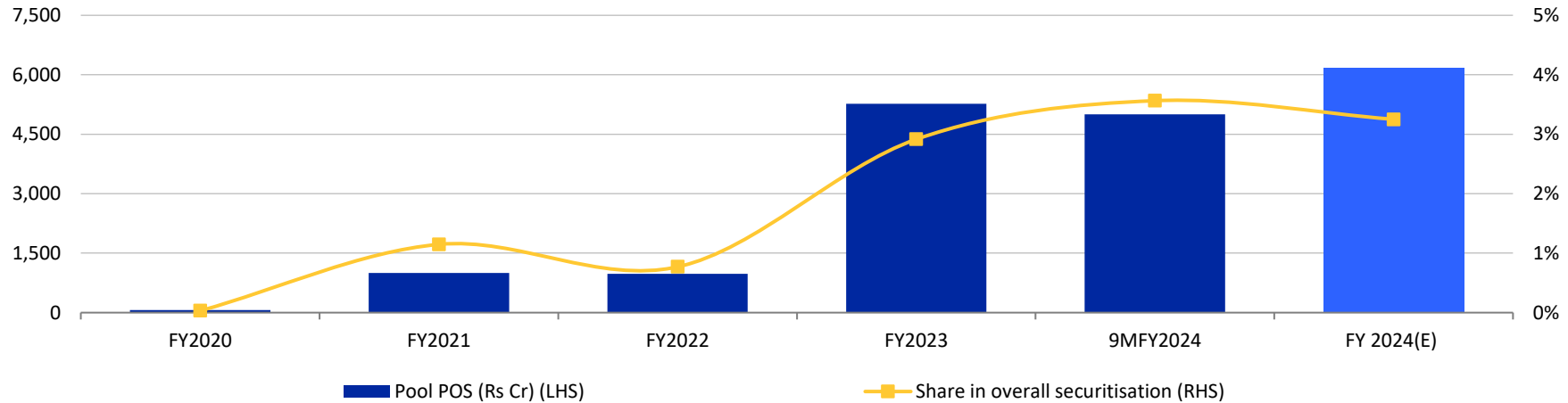
**500
GW**

Scheme would contribute to reducing carbon emissions and achieving the 500-GW capacity target by 2030

- Households in the urban areas have a typical sanctioned load of 3-5 kW, while the same in rural areas would be slightly lower. Considering the available rooftop space in these households and their load profile, most consumers are expected to install rooftop solar capacity of 2-3 kW. Given that the projects receiving subsidy support are required to use modules from domestic manufacturers, this is expected to lead a demand opportunity of 20-25 GW for domestic solar model manufacturers and system integrators. Also, this would lead to significant savings to residential consumers and reduce carbon emissions. Timely implementation of the scheme by the empaneled agencies along with timely release of capital subsidy by the GoI remains important.

Structured finance: Personal loan securitisation sees strong growth in recent years; RBI guidelines may, however, dampen momentum in the near term

Exhibit: PL annual securitisation volumes (PTC+DA)

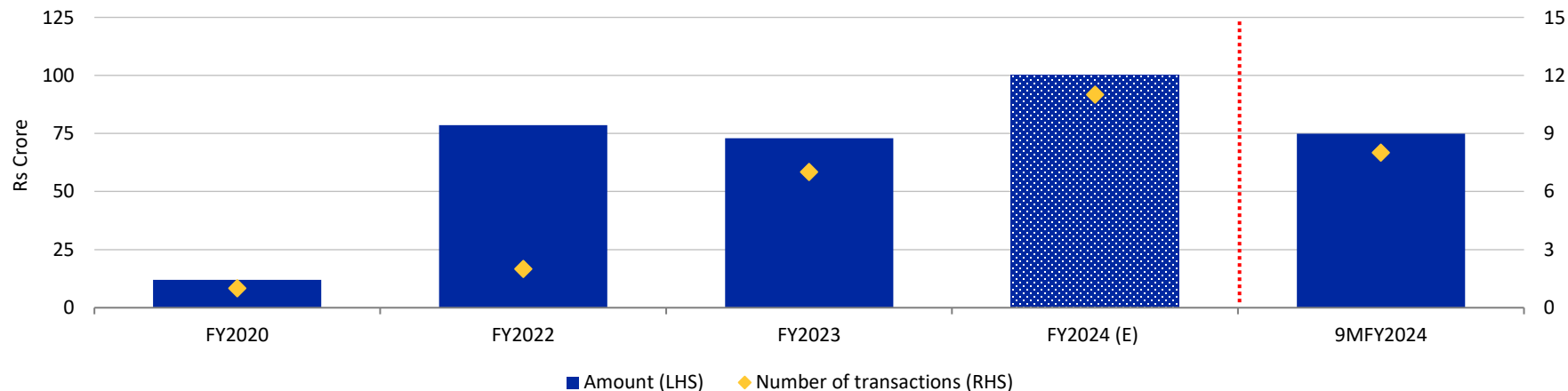


- From having a negligible presence in FY2020, personal loans (PL)* formed ~3% share of the overall securitisation volumes in FY2023 as well as 9M FY2024. The growth in PL securitisation has been in line with the credit growth seen in this space in the country as better data availability has improved the underwriting models of NBFCs and the high yields in this product look attractive.
- The RBI, in its circular in November 2023, increased the risk weights for bank exposure to certain segments – basically consumers, personal credit and the NBFCs. Originators and investors are thus expected to adopt a more cautious approach towards this asset class for the near term.
- ICRA-rated personal loan pools have showcased healthy collection efficiencies and low-to-moderate delinquencies.

Source: ICRA Research, *Personal Loans (PL) refers to both personal and consumer loans throughout the document

Structured finance: Growing traction in SDIs provides new fund-raising avenue for non-financial sector entities

Exhibit: Annual trend in SDI volumes and issuances



- Though the SDI guidelines were first issued by SEBI in 2008, the transactions undertaken through this route have witnessed traction only in the last couple of years. Lower issuances in the past were due to factors such as low investor base (banks, which are traditional investors in Indian securitisation, cannot invest) and lack of awareness among retail investors.
- ICRA estimates that 18 transactions have been executed with a value of ~Rs. 240 crore since FY2020. Retail investor participation, including HNIs, in SDI issuances has been increasing.
- ICRA expects the SDI volumes to continue to gradually increase with more originators and wider investor participation.



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