



# Monthly Research Compendium

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June 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 May 2024

**Broking:** Exchanges up the ante; vie for dominance in derivatives segment

**Climate Series:** Technology transition in power and industry critical; policy intervention can support entities' voluntary climate efforts

**Critical Minerals – Part 1:** India's efforts to step up domestic production of critical minerals remain crucial for its energy security

**Critical Minerals – Part 2:** India's Hunt for Battery Minerals

**Critical Minerals – Part 3:** The post-Covid era saw protectionist measures in the critical mineral value chain, risking India's mineral security







**Economy:** IMD's above-normal monsoon forecast augurs well for boosting agri-GVA growth, recovery in rural demand in FY2025
































**NBFC Infra:** Draft guidelines aim to strengthen balance sheets; near-term profitability to be impacted

**Roads:** NHAI's targeted asset monetisation could fetch up to Rs. 60,000 crore in FY2025

**State Finances:** States' capital spending maintained a robust 20% YoY expansion in FY2024 PA

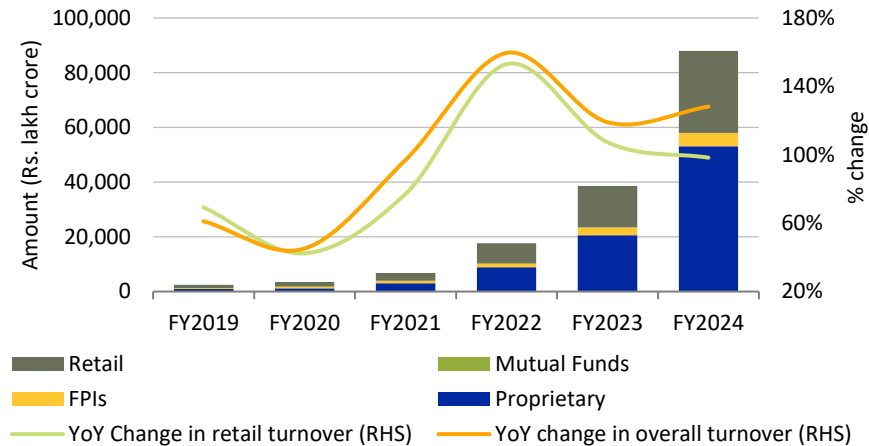
 <b>Positive</b>	
	Hotels

 <b>Negative</b>	
	Power – Distribution
	Media – Print
	Telecom Towers
	Chemicals (Basic, Petrochemicals)
	Cut and polished diamonds
	Bulk tea

 <b>Stable</b>					
	Construction & construction equipment		Tyres		Media – Broadcasting and exhibitors
	Cement		Renewable energy/Power transmission/thermal		Dairy
	Ferrous metals		Upstream Oil and Gas		Retail (fashion, consumer durables and electronics)
	Non-ferrous metals		Oil refining and marketing		Insurance (life and general)
	Roads & road logistics		Gas utilities		Airlines and airport infra
	Real estate – residential, commercial & retail		Ports		IT services
	Jewellery - Retail		Pharma		Telecom services
	Brokerage		Healthcare		Chemicals (Speciality)
	Automobile and automobile dealership		Fertilisers		Bank
	Auto components		Sugar		NBFCs (Infra, retail NBFCs, HFC, MFI) and SFC

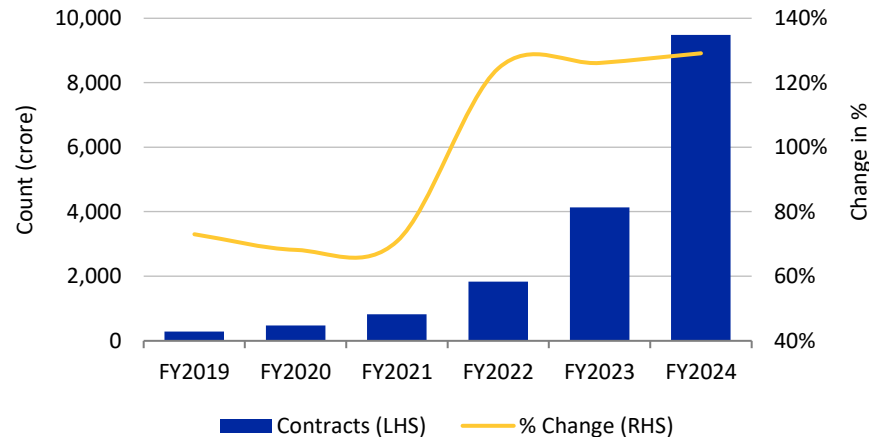
- Hotels continued with a positive outlook in FY2024; negative outlooks were assigned to five sectors in FY2024, in addition to Media – Print and Power – distribution (whose negative outlooks were retained in FY2024). No changes in outlook in two months of FY2025

**Exhibit: Investor category-wise trend in notional F&O volumes**



Source: SEBI, ICRA Research

**Exhibit: Trend in option contracts traded in NSE**



Source: SEBI, ICRA Research

- With the rise in retail participation in the F&O segment, its trading volumes increased relentlessly since the Covid-19 pandemic. The notional trading volumes in derivatives increased at a staggering CAGR of 106% during FY2019–FY2024.
- With rising popularity of options, the premium turnover of options traded on the NSE increased at a staggering CAGR of 78% during FY2019 – FY2024 to ~Rs. 152 lakh crore.

# Climate series: Technology transition in power and industry critical; policy intervention can support entities' voluntary climate efforts

**What are transition risks?** These risks are associated with the pace and extent at which an organisation manages and adapts to the internal and external change to reduce GHG emissions and transition to RE.

## Types of transition risks

### Policy and regulatory risks

- Policy actions around climate change continue to evolve. Their objectives generally fall into two categories—policy actions that attempt to constrain actions that contribute to climate change or policy actions that seek to promote adaptation to climate change.
- The associated risks and financial impact of policy changes depend on the nature and timing of the latter.

Though the GoI has not implemented any mandatory policies for climate change, it has supported the promotion of clean energy in carbon emitting sectors.

### Technological risks

- Technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system can have a significant impact on organisations.

Entities face major technological risk while taking voluntary steps towards green technology.

### Market risk

- One of the major sources of market risk is through shifts in supply and demand for certain commodities, products, and services as climate-related risks and opportunities are increasingly considered.

### Reputation risk

- Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organisation's contribution to or detraction from the transition to a lower-carbon economy.

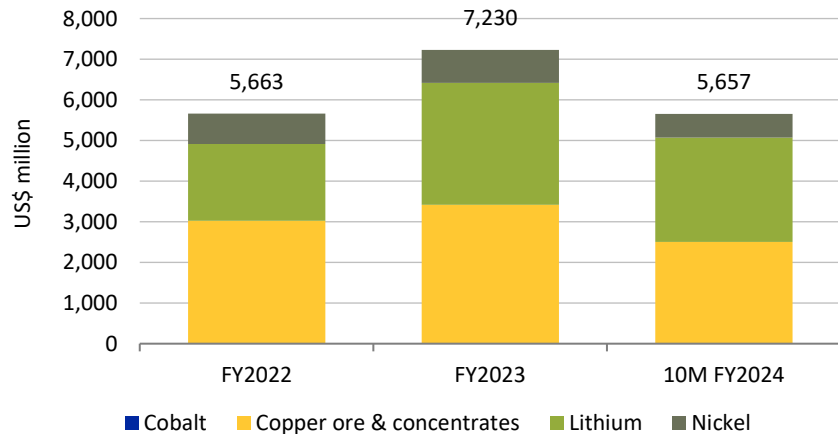
The rest of the risks come later in the green transition process.

### Legal risk

- As the value of loss and damage from climate change grows, litigation risk is also likely to increase.
- Reasons for such litigation include the failure of organisations to mitigate impacts of climate change, failure to adapt to climate change, and the insufficiency of disclosure around material financial risks.

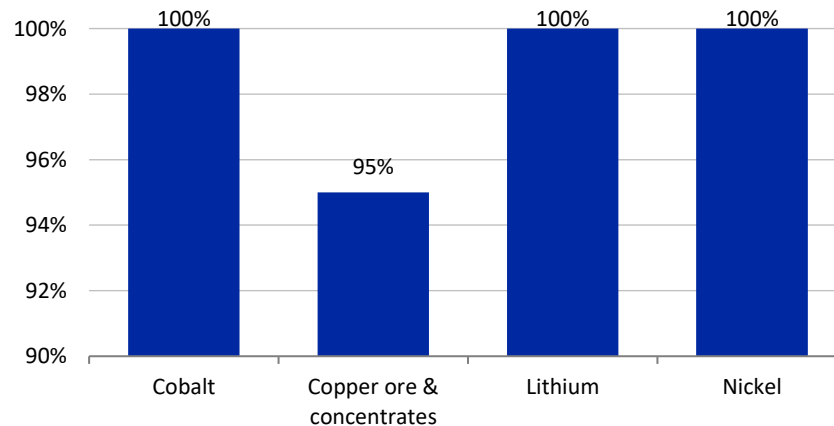
# Critical Minerals – Part 1: India’s efforts to step up domestic production of critical minerals remain crucial for its energy security

Exhibit: Trend in imports of key critical minerals by India



Source: Ministry of Commerce, ICRA Research

Exhibit: India’s import dependence for key critical minerals

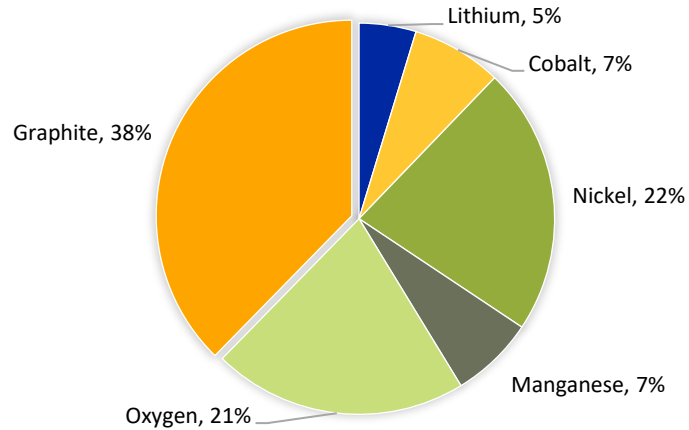


Source: Ministry of Mines, ICRA Research

- Mineral intensity of green energy is significantly higher than conventional energy systems. Thus, transformation of energy systems to increasing mineral intensity from increasing energy density is an irreversible process for meeting net zero commitments.
- This is expected to result in a surge in demand for critical minerals required in such green technologies. Consequently, global energy policy’s priority has been gradually shifting from fuel/energy security to mineral security.

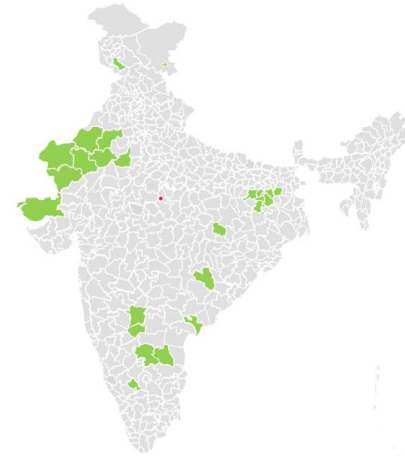
\*~75-80% of India’s list of critical minerals are believed to be found naturally with copper ores

**Exhibit: Break-up of critical minerals (by weight) in an NCA 622 lithium-ion battery**



Source: IEA, ICRA Research

**Exhibit: Details of India's efforts in lithium exploration**



**Exploration activities in J&K, Rajasthan, Gujarat, Karnataka, Andhra, Bihar, Jharkhand, and Chhattisgarh are India's bet for the hunt for white gold**

Source: Industry Reports/Publications, ICRA Research

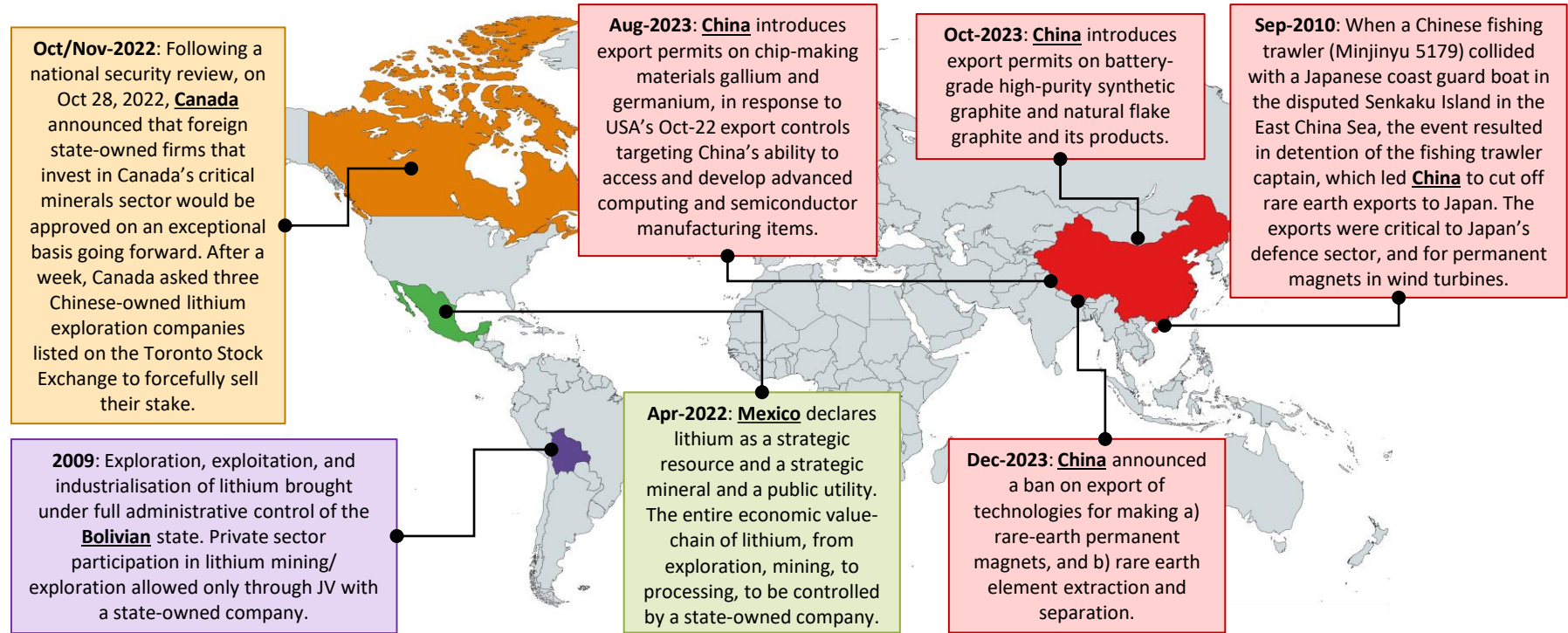
- Following the lithium discoveries in Jammu & Kashmir and Chhattisgarh, the Government of India (GoI) has fast-tracked lithium exploration activities in other states as well, most notably in Rajasthan, Gujarat, Karnataka, Andhra Pradesh, Bihar, and Jharkhand. Public sector undertakings like NMDC have applied for prospecting and mining operations at the Amareshwara lithium block in Raichur, Karnataka. However, given the inferior grade of explored domestic ores, advancement in mineral beneficiation/processing technology remains critical for commercialisation of domestic mines

\*Dr. Yoshino won the Noble Prize in Chemistry in 2019 for this invention



# Critical Minerals – Part 3: The post-Covid era saw protectionist measures in the critical mineral value chain, risking India’s mineral security

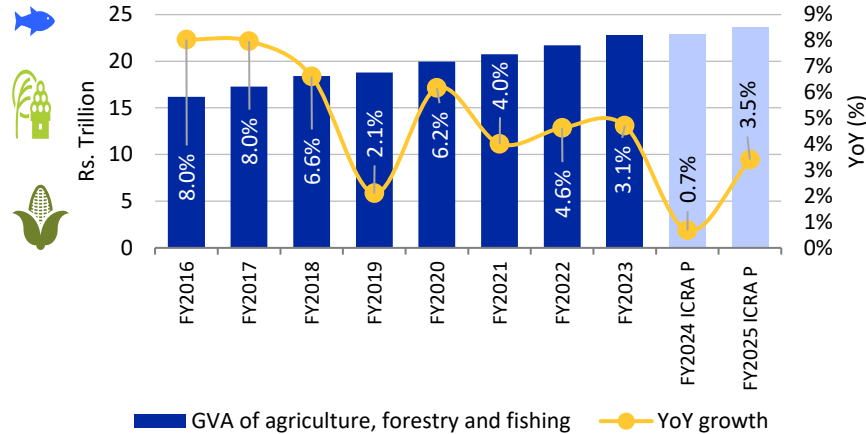
Notable protectionist measures by key players, risking mineral security for countries with scarce critical mineral resources



Source: Industry Reports, ICRA Research

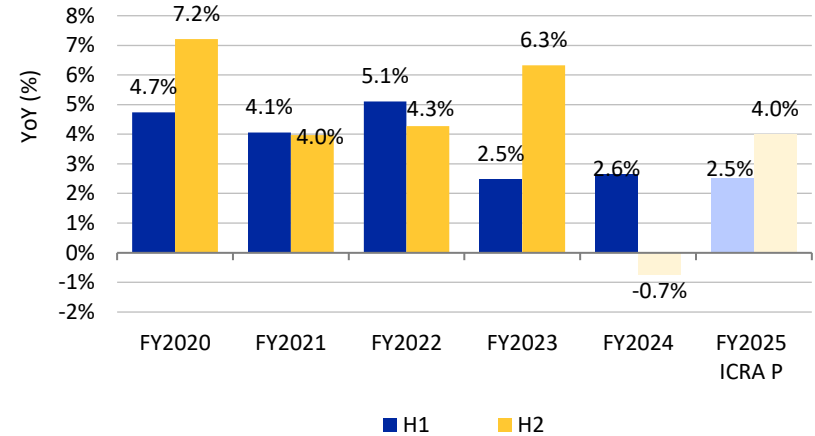
# Economy: IMD's above-normal monsoon forecast augurs well for boosting agri-GVA growth, recovery in rural demand in FY2025

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



Source: NSO; ICRA Research

EXHIBIT: H1 and H2 trends in GVA growth of agriculture, forestry and fishing



H2 FY2024 reflects implicit growth for Q4 and actual estimate for Q3; Source: NSO; ICRA Research

- IMD's second LRF indicated above-normal monsoon rainfall at 106%+/-4% of LPA in Jun-Sep 2024, in line with 1st LRF. Forecast of above-normal rainfall in South and Central India is likely to replenish reservoir levels.
- ICRA expects agri-GVA growth to print at ~3.5% in FY2025; growth in H1 is estimated at 2.5%, followed by an uptick to ~4% in H2, owing to a low base.

# NBFC Infra: Draft guidelines aim to strengthen balance sheets; near-term profitability to be impacted



Legacy issues faced by lenders have largely been addressed; however, retrospective application of guidelines would lead to higher provisioning requirement on the existing book as well.

1

2

Lenders would need to build in adequate buffers while underwriting project finance loans as subsequent changes would construe increased riskiness in the loan book



Lenders with exposures to relatively lower gestation projects, such as solar and wind, would be less impacted than in sectors such as roads.

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Tier I capital for lenders could be impacted by 100-250 bps due to lower profitability. However, lenders might pass on some of the cost to borrowers to mitigate the impact, subject to project viability permitting such actions.



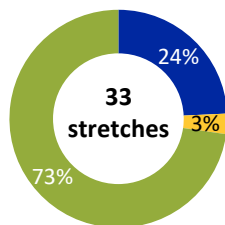
Going forward, credit flow to project loans could get hampered as lenders will have to allocate higher capital for such loans.

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# Roads: NHA1's targeted asset monetisation could fetch up to Rs. 60,000 crore in FY2025

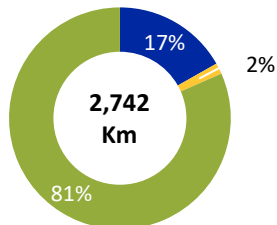
Exhibit 5: Composition of assets identified for Monetisation

## In terms of No. of stretches



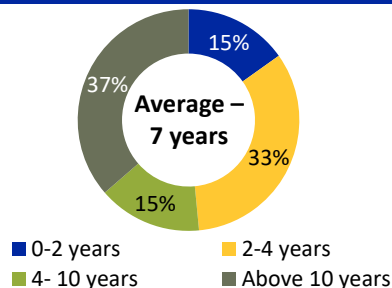
■ HAM ■ Annuity ■ Others

## In terms of Project length



■ HAM ■ Annuity ■ Others

## In terms of toll collection record\*



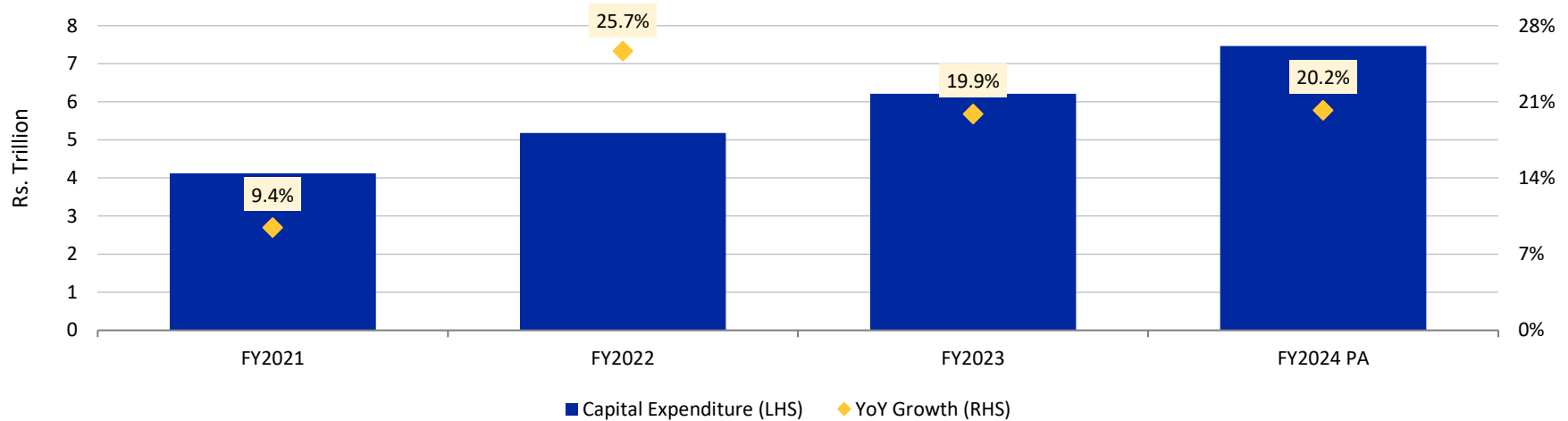
■ 0-2 years ■ 2-4 years  
■ 4-10 years ■ Above 10 years

Source: ICRA Research; NHA1; \*toll collection record determined basis fee notification on TIS-NHA1 portal; Others represent assets originally built under EPC mode or under BOT/annuity mode where concession period stands elapsed

- Out of the 33 assets, eight were built under the HAM model and one under the annuity model. Though these stretches will likely be bundled according to the vicinity of the stretches (as seen in NHA1's past deals), the presence of stretches covered under HAM/annuity model shall influence the price.
- Of these 33 assets, the stretches with less than two years of tolling track record have contributed ~11% to annual toll collections to NHA1 in FY2024.
- The NHA1 has indicated that it will target to offer three TOT bundles at a regular frequency (quarterly or so). This would include bundles of – a) large (more than Rs. 6,000 crore each in valuation potential); b) medium (about 3,000-4,000 crore) and c) smaller bundles (Rs. 1,000-3,000 crore). The intent is to provide opportunities to different types of investors.
- As per ICRA Research, the median valuation multiple for the NHA1's past TOT bundles weighted for proposed mix stood at 0.53 times. For InvIT transactions, which had a mix of HAMs, annuity and other projects, the corresponding valuation multiple has been 0.61 times.
- Going by past records and assuming 20 years of concession period and the weighted average valuation multiples for TOT and InvIT, the identified 33 assets may garner between Rs. 53,000 – 60,000 crore for the NHA1, depending upon the route chosen to monetise.
- Given the median debt-equity mix of 2.6:1 for the TOT projects in the recent past, the NHA1's asset monetisation of these 33 assets could create Rs. 38,000-43,000 crore funding opportunities for banking system/capital markets.

# State Finances: States' capital spending maintained a robust 20% YoY expansion in FY2024 PA

Exhibit: Trends in capital expenditure of 23 states during FY2021-24 PA



- An analysis of the FY2024 provisional actuals of 23 states reveals a rise in their combined fiscal deficit to Rs. 8.4 trillion (~3.0% of GDP) from Rs. 7.2 trillion in FY2023 (2.8% of GDP), led by a continued 20% expansion in their capital spending. While the combined revenue receipts and expenditure of the 23 state governments grew by a relatively modest 7.4% and 7.1%, respectively, in FY2024 PA, their combined revenue deficit moderated relative to the year-ago level.
- Interestingly, the capital spending pattern in FY2024 was less back-ended, with 39% of total spending incurred in H1 FY2025 compared to 26-35% in the recent years. The robust increase, as well as the lower back-ending, appears to have benefited from the early disbursements of funds by the Government of India (GoI) to the states under the special assistance for capital expenditure (capex loan scheme).

Source: CAG; State Budgets; ICRA Research



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# Analytical Contact Details

Name	Designation	Email	Contact Number
<b>Aditi Nayar</b>	Chief Economist, Head – Research and Outreach	<a href="mailto:aditin@icraindia.com">aditin@icraindia.com</a>	0124 - 4545 385
<b>Madhura Nejjur</b>	Assistant Vice-President	<a href="mailto:madhura.nejjur@icraindia.com">madhura.nejjur@icraindia.com</a>	022 - 6114 3417





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# Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	<a href="mailto:vinita.baid@icraindia.com">vinita.baid@icraindia.com</a>	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860







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