ICRA

Monthly Research Compendium

FEBRUARY 2025

Monthly Research Compendium

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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

Summary

ICRA's sectoral outlook as of January 2025

Climate series: High dependence on agriculture and livestock and presence of small landholders necessitate Government support for sustainable agriculture

Commercial real estate – Delhi NCR: Occupancy levels are expected to improve by ~500 bps by March 2026 over March 2023

Commercial real estate - Hyderabad: Unlimited floor space index (FSI) resulted in supply overhang; vacancies on multi-year high for Hyderabad office market

Commercial real estate – MMR: Net absorption to outpace supply for fourth consecutive year in FY2026 for MMR office market

Construction equipment: Transition to CEV-V emission norms, coupled with new safety standards to drive a 12-15% cost surge

Economy: Union Budget 2025-26

State finances: Actual borrowings in Q4 FY2025 could modestly trail the indicated level, led by expected undershooting in capex

Structured finance: Surge in securitisation volumes continues in Q3 FY2025 as banks keep on participating as originators

Structured finance: Rating transition study for the period FY2015-FY2024: Minimal defaults seen in ICRA-rated PTCs

ICRA's sectoral outlook as of January 2025

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Positive
Hotels

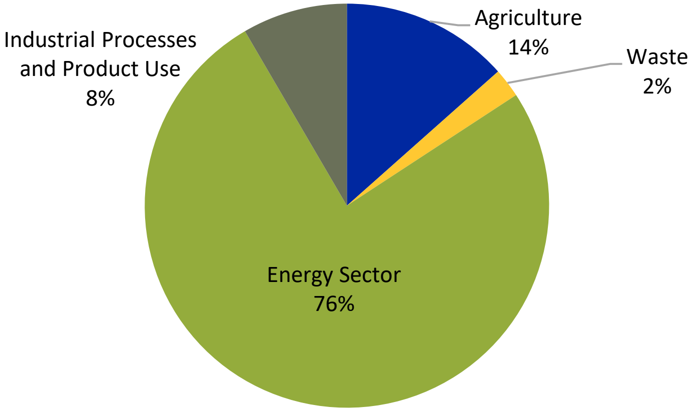
Negative
Power – distribution
Media – print
Telecom towers
Chemicals (basic, petrochemicals)
Cut & polished diamonds
NBFC (MFI)

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

- One outlook downgrade (MFI in December 2024) and one upgrade (tea in December 2024) in 10 months of FY2025.

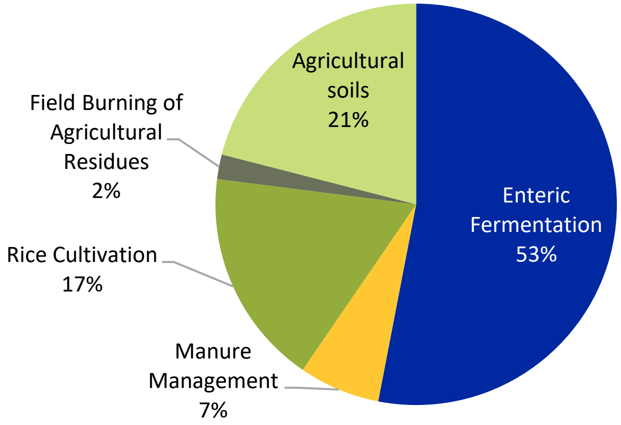
Climate series: High dependence on agriculture and livestock; presence of small landholders necessitate Government support for sustainable agriculture

Exhibit: GHG emissions sector-wise in India - 2019



Source: Niti Aayog, ICRA Research

Exhibit: GHG emissions in agriculture sub-sectors in India - 2019

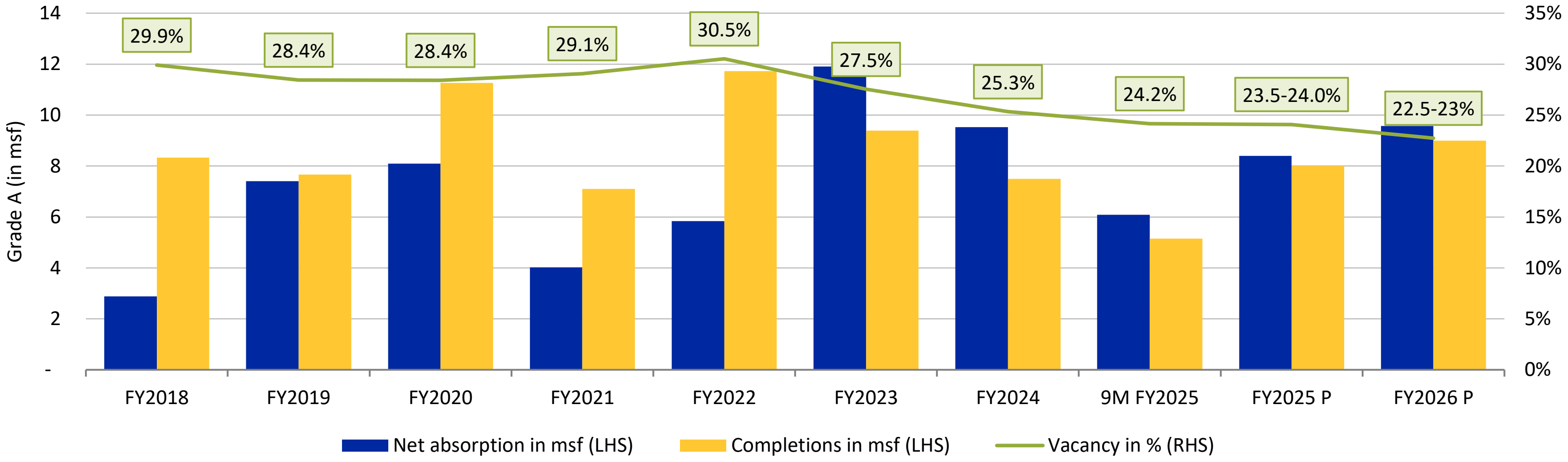


Source: Niti Aayog, ICRA Research

- India is among the largest GHG emitters in the agricultural sector, primarily due to crop and livestock activities.
- The heavy reliance on agriculture and livestock underscores the need for adopting sustainable practices.
- Given the small landholding size of most Indian farmers, robust support from the GoI is essential to implement sustainable agriculture at the grassroots level.

Commercial real estate – Delhi NCR: Occupancy levels are expected to improve by ~500 bps by March 2026 over March 2023

Exhibit: Trends in net absorption, incremental supply and vacancy for Delhi NCR



- The vacancy levels are the highest in Delhi NCR across the top six cities. These are largely driven by low occupancy of only around 50% in the PBD of Gurugram. However, occupancy in the last 10 quarters has been improving, supported by good traction from diverse sector tenants. ICRA expects the healthy absorption trends to continue in the near to medium term, moderating the vacancy levels to 22.5-23.0% by March 2026 from 24.2% as of December 2024.

Source: Propequity, ICRA Research

Commercial real estate - Hyderabad: Unlimited floor space index (FSI) resulted in supply overhang; vacancies on multi-year high for Hyderabad office market

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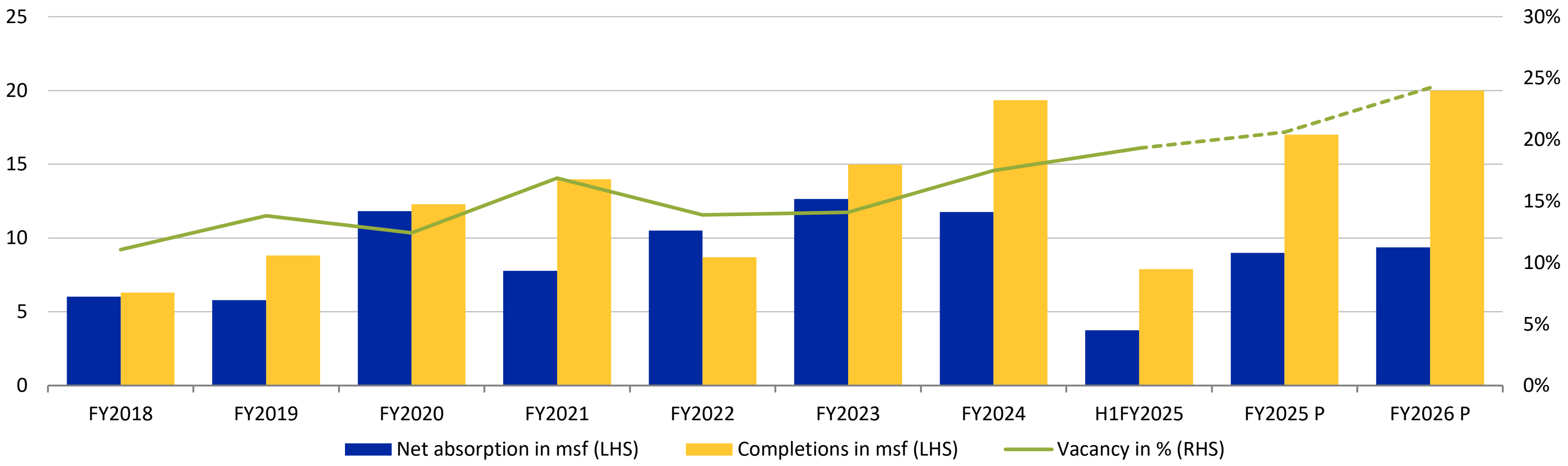
Exhibit 4: Trends in incremental supply, absorption and vacancy for Hyderabad



- Hyderabad market witnessed supply of ~19 msf in FY2024, highest in its history. This is also the largest yearly addition in India across locations. Further, the high upcoming supply of 17 msf in FY2025 is likely to push vacancy levels further up to 20.5-21% as of March 2025 and 24.0-24.5% as of March 2026 compared to 17.5% in March 2024. The unlimited floor space index (FSI) has allowed developers to build more, boosting office supply and vacancy levels.

Source: Propequity, ICRA Research; P - Projected

Commercial real estate – Mumbai Metropolitan Region (MMR): Net absorption to outpace supply for fourth consecutive year in FY2026 for MMR office market

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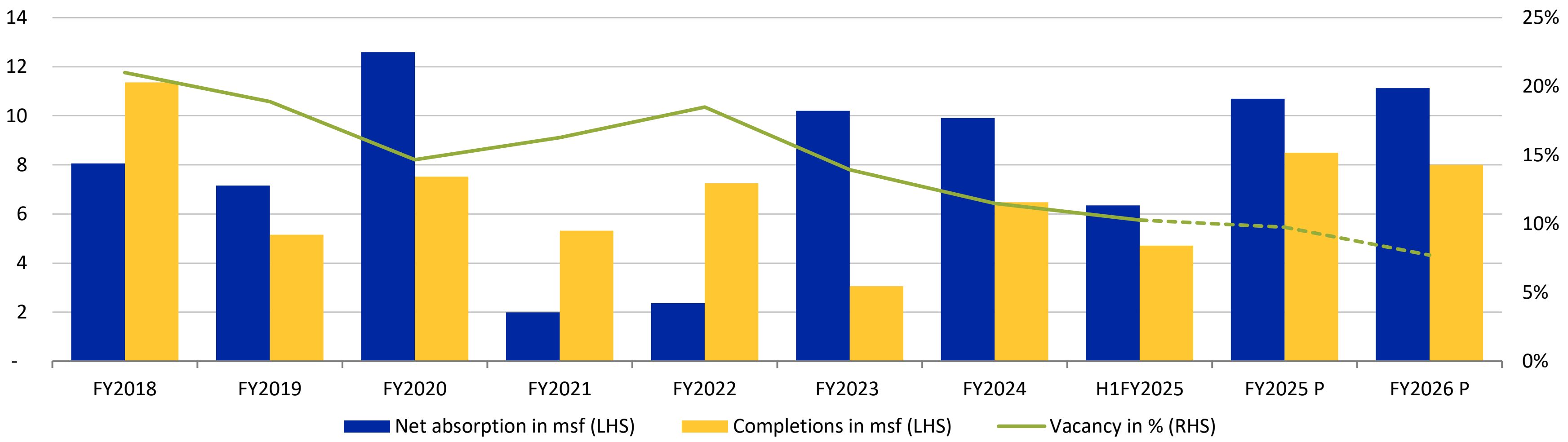
Exhibit: Trends in incremental supply, absorption and vacancy for MMR

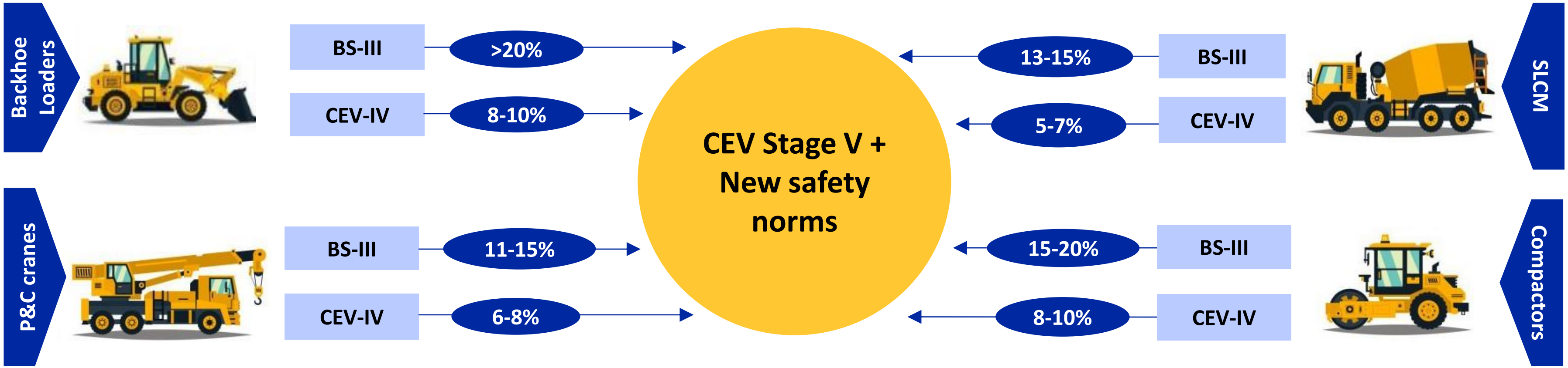


- MMR, being the financial hub of India, continues to be one of the most preferred destinations for front office operations of major companies as reflected by the lower vacancy levels despite having the highest average rental rates across the top six cities. MMR is expected to witness a supply of 8-8.5 msf each in FY2025 and FY2026.
- ICRA projects occupancy levels to improve to 92.0-92.5% by March 2026 from ~90% as of September 2024 backed by healthy net absorption.

Source: Propequity, ICRA Research; P - Projected

Construction equipment: Transition to CEV-V emission norms, coupled with new safety standards to drive a 12-15% cost surge

Exhibit 6: Estimated cost increase across key CEV equipment



- Implementation of CEV-V emission regulations, coupled with enhanced safety standards, could increase CEV prices by over 12-15% over the medium term.
- Manifold benefits foreseen in terms of export potential, improved vehicle safety and operator comfort.

Source: ICRA Research; SLCM = Self loading concreting mixers

Economy: Union Budget 2025-26

Sector	Impact	Sector	Impact
AGRICULTURE	↔	HOSPITALITY	↑
AUTOMOTIVE – COMMERCIAL VEHICLES	↑	INFRASTRUCTURE/CONSTRUCTION	↑
AUTOMOTIVE – TWO-WHEELERS/ PASSENGER VEHICLES	↑	METALS & MINING	↑
AVIATION	↑	OIL AND GAS	↓
BFSI - BANKS/NBFCs/INSURANCE/CAPITAL MARKET	↔	PHARMACEUTICAL AND HEALTHCARE	↑
CAPITAL GOODS	↑	POWER & RENEWABLES	↑
CEMENT	↑	REAL ESTATE	↑
EDUCATION	↑	ROADS	↔
ELECTRONICS AND CONSUMER DURABLES	↑	SHIPPING	↑
FERTILISERS	↔	TEXTILES	↑
FOOD PROCESSING	↑		

↑ Positive ↔ Neutral ↓ Negative

State finances: Actual borrowings in Q4 FY2025 could modestly trail the indicated level, led by expected undershooting in capex

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Exhibit: Trends in progressive approvals and releases under capex loans

Amount in Rs. Billion		Q1	Q2	Q3	Q4	Total
FY2023	Approval	0	511	260	180	951
	Releases	-	-	411	401	813
FY2024	Approval	633	306	72	265	1,276
	Releases	268	268	80	481	1.096
FY2025	Approval	338	168	NA		NA
	Releases	149	152	205*		506*

*Note: * Data available till Nov 24, 2024 for releases*

Source: Ministry of Finance, India; Lok Sabha; Press Information Bureau (PIB) release; ICRA Research

- The Government of India (GoI) has disbursed Rs. 9.0 trillion as tax devolution to the state governments during April-December FY2025. Excluding this amount from the budgeted Rs. 12.5 trillion for FY2025, implies that Rs. 3.5 trillion needs to be devolved to the states during Q4 FY2025. This is ~9% lower than the Rs. 3.8 trillion transferred to the states during Q4 FY2024. Based on the trends in the gross tax revenues of the GoI during April-November FY2025, we expect only a modest upside in tax devolution for FY2025.
- ICRA expects the undershooting in capex to lead to recalibration of the borrowing requirements for Q4 FY2025, relative to the planned issuances.

Structured finance: Surge in securitisation volumes continues in Q3 FY2025 as banks keep on participating as originators

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Exhibit: Securitisation market volume (PTC & DA)

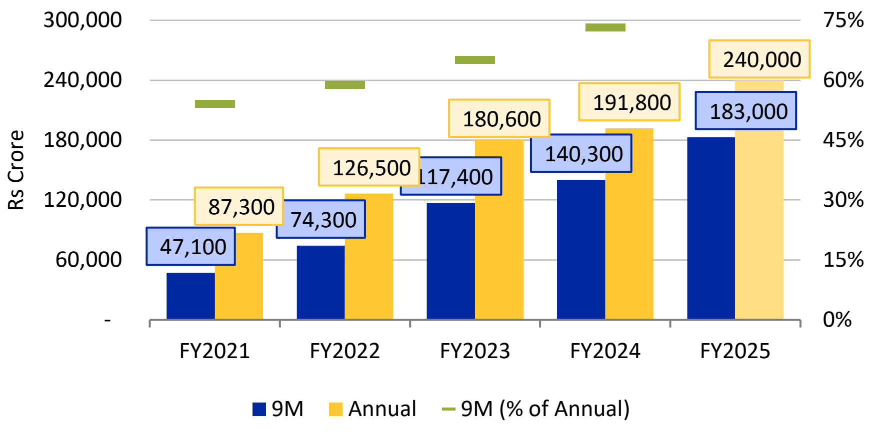
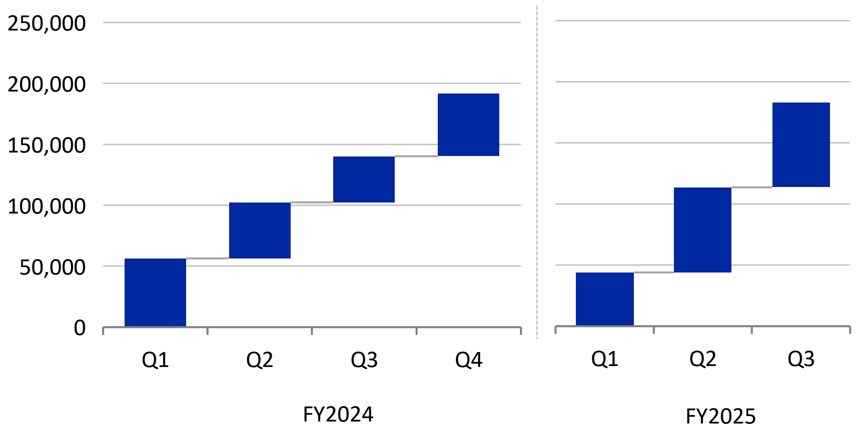


Exhibit: Quarterly volumes trend for past 7 quarters



Source: ICRA Research, Industry; E: Estimated

- Overall securitisation volumes, originated mainly by financial institutions, stood at ~Rs. 1.83 lakh crore in 9M FY2025.
- Large ticket transactions by private sector banks in Q3 FY2025 led to a considerable YoY expansion of ~82% in total securitisation volumes.
- The sustenance of volume growth in the coming quarters, however, remains to be seen, given that appetite for large-size transactions, as seen in Q2 and Q3, may be limited. ICRA estimates securitisation volumes to reach ~Rs. 2.4 trillion in FY2025 compared to ~Rs 1.9 trillion in FY2024.

Structured finance: Rating transition study for the period FY2015-FY2024: Minimal defaults seen in ICRA-rated PTCs

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Exhibit: Cumulative default rate (CDR) (adjusted for withdrawals)

	Average of past 5 years				Average of past 10 years			
	As on March 31, 2023		As on March 31, 2024		As on March 31, 2023		As on March 31, 2024	
	CDR-1	CDR-3	CDR-1	CDR-3	CDR-1	CDR-3	CDR-1	CDR-3
AAA	0.4%	1.6%	0.4%	0.9%	0.2%	1.1%	0.2%	1.1%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.1%	0.2%	0.0%	0.1%	0.2%	0.9%	0.2%	0.8%
BBB	1.1%	2.0%	0.7%	1.1%	0.9%	2.1%	0.9%	2.0%
BB	13.0%	14.3%	2.1%	2.5%	5.7%	6.8%	5.5%	6.6%
B	48.9%	48.9%	49.0%	49.0%	19.9%	19.9%	19.6%	19.6%
C	50.0%	0.0%	35.2%	0.0%	28.0%	0.0%	28.0%	0.0%

- The defaults seen in the AAA-category pertain only to transactions originated by a single HFC, which underwent significant stress during this period. There were multiple intervening rating downgrades by ICRA as the credit quality weakened, with the rating eventually downgraded to the default category as payouts on the PTCs were missed by a few days due to operational and legal reasons. The investors, however, did not incur any losses and the ratings were subsequently upgraded to AAA level.
- The propensity of defaults is higher in non-investment grade rating categories, signifying the relatively higher credit risks in these instruments.
- The exhibits otherwise indicate that the default rates across all investment grade rating categories are on the lower side.

Source: ICRA Research; transactions where ratings have been withdrawn, have also been included for computing the CDR

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Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head – Research and Outreach	aditin@icraindia.com	0124 - 4545 385
Madhura Nejjur	Assistant Vice-President	madhura.nejjur@icraindia.com	022 - 6114 3417

Business Development/Media Contact Details

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

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Thank You!