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Monthly Research Compendium

MARCH 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

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ICRA's sectoral outlook as of February 2025

Cross sectoral trends & outlook: PLI and DLI scheme - Capex deployment likely to reach ~45% by March 2025; but incentive disbursements remain low

Economy: Investment activity improved in Q3 FY2025; Government capex key to support GDP growth in FY2026 amid subdued outlook for private capex

Ferrous metals: Domestic steel faces fresh challenges while eyeing opportunities, following the likely redirection of global trade flows after US tariffs

Life insurance: Increase in sum assured, in bid to protect margins, drives up capital consumption

Non-ferrous metals: Trade tariff fallout - Global aluminium prices at risk; negative impact on margins of domestic primary aluminium entities

Refining & Marketing: US sanctions on Russian oil and steep depreciation of Rupee double whammy for downstream oil companies

State finances: State capex to expand by 4-8% in FY2025, below the ambitious 25% growth indicated in BE

ICRA's sectoral outlook as of February 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 11 months of FY2025.

Cross sectoral trends & outlook: PLI and DLI scheme - Capex deployment likely to reach ~45% by March 2025; but incentive disbursements remain low

EXHIBIT: Actual and expected capex from incentive scheme

	FY2023	FY2024	FY2025	FY2026 and beyond
Actual and expected capex (Rs. trillion)	~0.6	~0.7	~0.5	~2.2
% of the total capex	~15%	~20%	~10%	~55%

Bulk of the capex, which the companies have to incur, shall be from FY2026 onwards, as most of the major sectors start manufacturing activities from that year.

- ICRA expects ~Rs. 1.8 trillion capex to be incurred by March 2025, which is 40-45% of the total estimated capex under incentive schemes.
- About 16% of the incentive scheme outlay will be utilised by FY2026. The GoI has been adjusting allocations, refining schemes and inviting applications to maximise the outlay utilisation. To attract private investors, the GoI may also plan to introduce additional scheme rounds in sectors and incentive schemes for new sectors.

Source: ICRA Research, Economic Survey FY2024, Industry

Economy: Investment activity improved in Q3 FY2025; Government capex key to support GDP growth in FY2026 amid subdued outlook for private capex

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EXHIBIT: Heatmap of investment-related high frequency indicators

YoY (%)	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Infra & construction goods^ output	7.4	8.5	7.6	8.2	5.5	2.7	3.2	4.8	10.0	NA
Cement production	10.6	0.2	-0.6	1.8	5.1	-2.5	7.6	3.1	13.5	4.0
Finished steel consumption	11.2	11.5	11.9	21.1	13.8	10.3	10.9	8.8	8.8	3.3
Capital goods^ output	7.0	2.8	2.6	3.6	11.7	0.0	3.6	3.1	9.0	NA
M&HCV registrations (goods)	-14.1	-4.2	-3.8	-7.0	6.9	-10.9	-13.6	-6.1	-11.1	-8.3
SCB: Infrastructure credit~	6.6	4.9	7.2	5.5	3.8	3.7	2.1	1.6	1.6	1.0
Centre's capex	-4.6	26.5	-50.3	-66.2	107.8	-30.0	-2.4	-8.4	21.3	95.3
States' capex & net lending*	-10.8	-16.1	-7.8	-29.4	12.0	15.9	-7.0	4.7	4.6	24.5
States' stamp duty collections*	-0.5	16.8	15.7	10.6	26.1	12.1	-5.8	22.3	9.8	-8.6
Engineering goods imports ($ terms)	4.4	2.4	7.6	19.6	2.9	7.5	12.5	2.8	-0.9	NA
Engineering goods exports ($ terms)	10.6	-5.0	7.6	10.5	3.8	4.1	10.0	40.9	13.9	8.3

YoY growth; sequential pickup | YoY growth; sequential dip | YoY growth; no sequential change | YoY contraction; sequential pickup | YoY contraction; sequential dip

*NA: Not Available; ^As per IIP data; *Data on states' capex and stamp duty collections is for 23 states except Arunachal Pradesh, Bihar, Goa, Gujarat, and Manipur; ~Data for infrastructure credit includes the impact of HDFC and HDFC bank merger from July 2023 onwards; Source: NSO; Joint Plant Committee (JPC); Ministry of Road Transport and Highways (MoRTH); RBI; CGA; Ministry of Commerce, GoI; CMIE; CEIC; ICRA Research*

Ferrous metals: Domestic steel faces fresh challenges while eyeing opportunities, following the likely redirection of global trade flows after US tariffs

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01

- With around a quarter of USA's finished steel demand being met through imports, in ICRA's view, given this large domestic deficit, the process of import substitution can only happen gradually over several years. USA will, therefore, continue to import steel in the foreseeable future. In the near term, these restrictive measures are likely to have a material upward pressure on USA's domestic steel prices.

02

- These latest trade measures cut both ways for the domestic steel industry. First, deliveries of ~4 mtpa to the US from Asian suppliers like Japan and South Korea, which till now had preferential market access, could be partly bounced off to high-growth markets like India. Given the duty-free access on account of the FTAs with India, import pressures from South Korea and Japan could increase in FY2026.

03

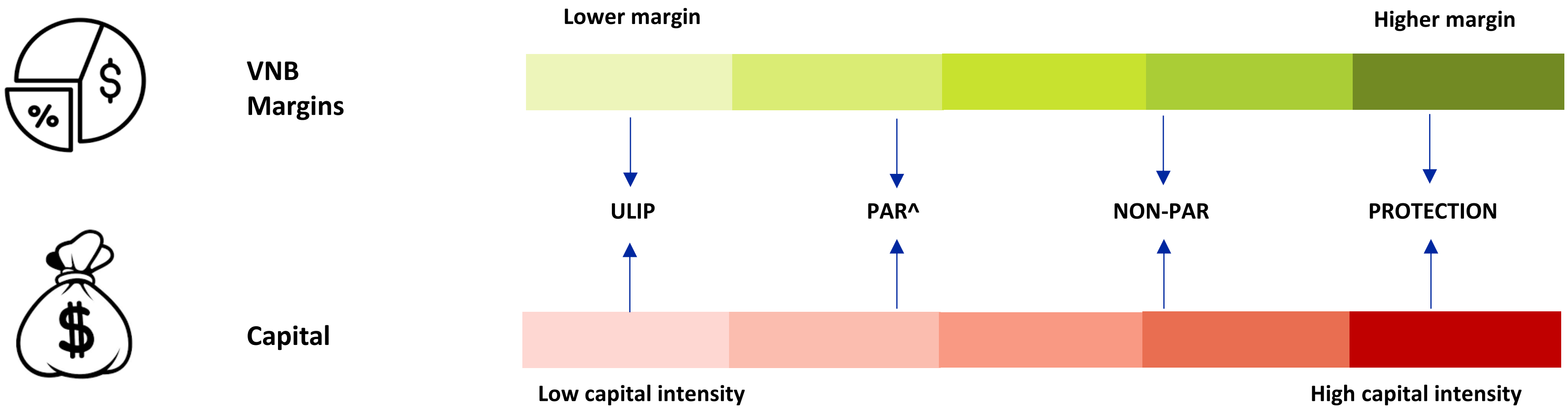
- While higher imports from Japan and South Korea remain a key downside risk, ICRA believes that there are possible upsides as well for the domestic industry. The closure of USA's preferential market access regime and a new level playing field can potentially lead to the displacement of high-cost suppliers like Canada, Brazil, the EU, and Mexico, with low-cost suppliers, especially from Asia.

04

- The most brutal impact of the latest announcement will be felt in the steel markets of the NAFTA countries of Canada/Mexico and Brazil. For Canada, ~55-60%, and for Mexico, ~25-30% of the country's annual steel production was being exported to the US. Similarly, for Brazil, ~10-15% of the country's annual steel production was being exported to the US.

Life insurance: Increase in sum assured, in bid to protect margins, drives up capital consumption

EXHIBIT: Products in terms of VNB margins and capital intensity



Source: ICRA Research ^Participating

- There has been a shift in product mix towards the low-margin ULIP segment, and it has further continued in 9M FY2025. Following this development, there has been a negative impact on the value of new business (VNB) margins of the insurers.
- The share of the protection segment remained low to protect the margins. However, the insurers have increased their sum assured beyond the minimum requirement of 10 times the premium for income-tax exemption under Section 10(10D) and rider attachments across the savings products, including ULIPs.
- The growth in sum assured has increased capital consumption and is likely to remain high, resulting in increased capital requirements.

Non-ferrous metals: Trade tariff fallout - Global aluminium prices at risk; negative impact on margins of domestic primary aluminium entities

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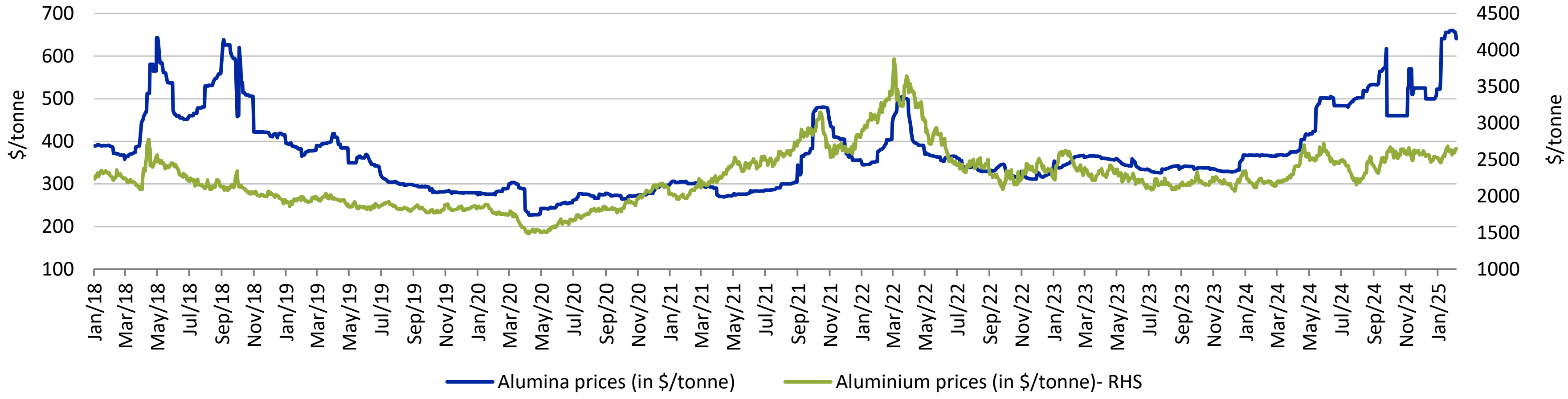
EXHIBIT: Alumina price movement compared to aluminium price (in $/tonne)



Source: ICRA Research

- The recent tariff announcement by the US is likely to risk demand in the country. With China also facing challenges in reviving its economy, this is expected to negatively impact the London Metal Exchange (LME) aluminium prices.
- Any sharp decline in aluminium prices would adversely impact the profitability of domestic primary aluminium manufacturers.

Refining & Marketing: US sanctions on Russian oil and steep depreciation of Rupee double whammy for downstream oil companies

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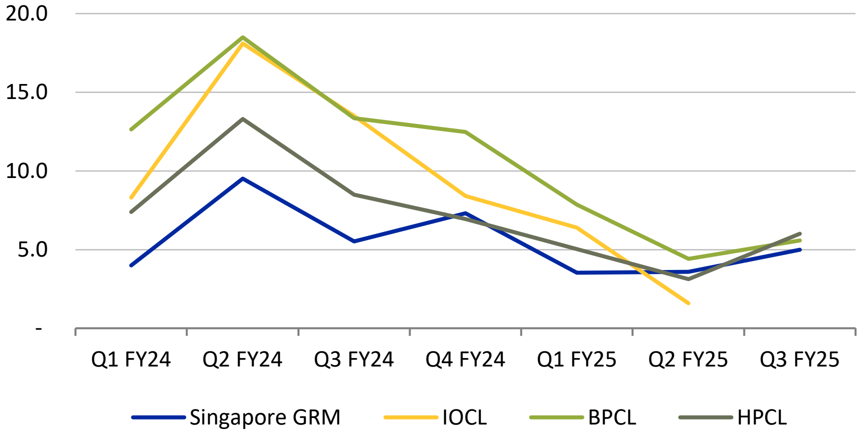
EXHIBIT : GRM trends ($/bbl)



Source: Singapore GRM, Refinitiv index - DUB-SIN-REF (TRDPRC_1), ICRA Research

EXHIBIT: Impact of rupee depreciation on marketing margins

Product	Impact of exchange rate (Rupee depreciating to 88 from 83.8 vis-à-vis USD)
Domestic LPG (Rs./cylinder)	37.8
Petrol (Rs./litre)	3.7
Diesel (Rs./litre)	3.7

Source: PPAC and ICRA Research

- On January 10, 2025, the US imposed the most severe sanctions on Russia’s oil industry till date, designating 183 vessels, insurance companies and energy officials.
- The sanctions could cause Russian crude supply disruptions of ~2.5 MT per month for India. India’s import bill is expected to increase by 8-9% (at constant crude prices) owing to the twin impact of market priced crude and depreciation of Rupee compared to USD, which would adversely impact the profitability of downstream oil companies.

State finances: State capex to expand by 4-8% in FY2025, below the ambitious 25% growth indicated in BE

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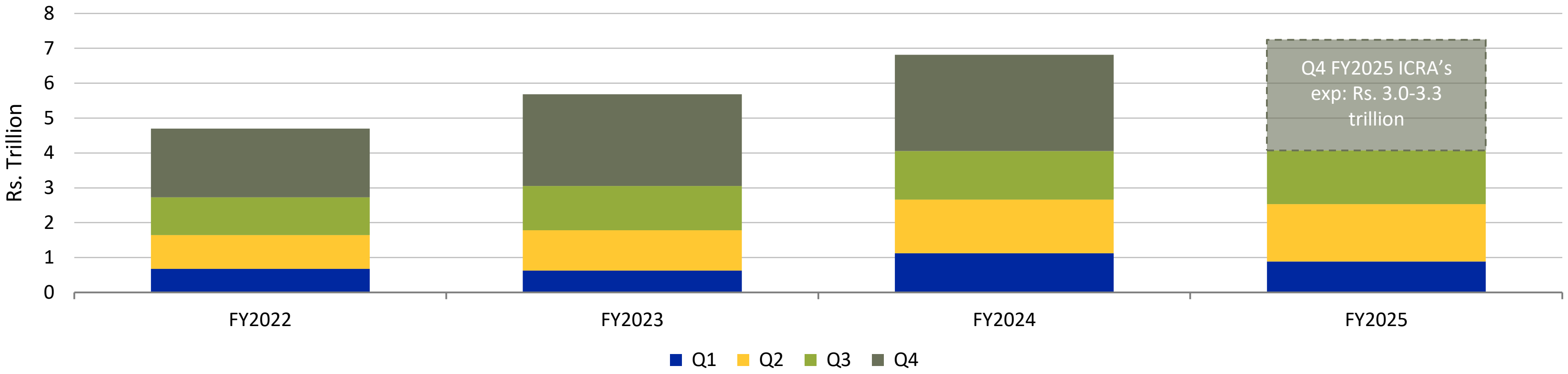
EXHIBIT: Trends in capital outlay of 18 states during FY2022-25



- Based on the trend of actual offtake of capex loans during February-March FY2023 and FY2024 of Rs. 360-430 billion, the actual releases under this scheme could exceed the FY2025 RE to an extent (Rs. 1.25 trillion).
- Assuming a 10-20% YoY growth in capital spending in Q4 FY2025, the combined capex of 18 states could be at Rs. 3.0-3.3 trillion. Factoring in the capital expenditure of Rs. 4.1 trillion incurred in 9M FY2025, and the estimated spending in Q4, ICRA projects combined capex of 18 states at Rs. 7.1-7.4 trillion in FY2025 (4-8% YoY growth). This would be 84-87% of the FY2025 BE, in line with the trends in the recent fiscals .
- Notwithstanding a higher than budgeted revenue deficit, a cut in capex relative to the budgeted levels would aid in restricting the fiscal deficit of the 18 states to 85-90% of the FY2025 BE.

Source: CAG; State Budgets; ICRA Research

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Thank You!