



Monthly Research Compendium

September 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

Apparel & fabric: Meaningful recovery in apparel exports unlikely before H2 FY2024

Basic chemicals: Recessionary pressures, over-supply exert pressure on caustic soda realisations

Climate series: CCUS inevitable for climate goals; timely policy intervention to help attract global technology and funding

Commercial real estate – Hyderabad: All-time high supply to increase vacancy by ~500 bps in Hyderabad office market by end of FY2024

Commercial vehicles: Implementation of multiple proposed regulatory specifications can push up vehicle prices by 10-12%

Defence: Rs. 60,000 crore of opportunities for private players in the Indian defence segment over the next two years

Economy: Investment activity remained robust in Q1 FY2024; sustenance of healthy momentum in government capex key to support growth in FY2024

NBFC – Infra debt funds: Revised regulations to support growth and diversification of IDF-NBFCs

Non-ferrous metals – Aluminium: India's aluminium consumption to grow by 9% in FY2024, despite global headwinds

Refining & Marketing: Marketing margins turn negative for HSD in August 2023

Renewable Energy: Policy support and cost competitiveness key for adoption of offshore wind power in India

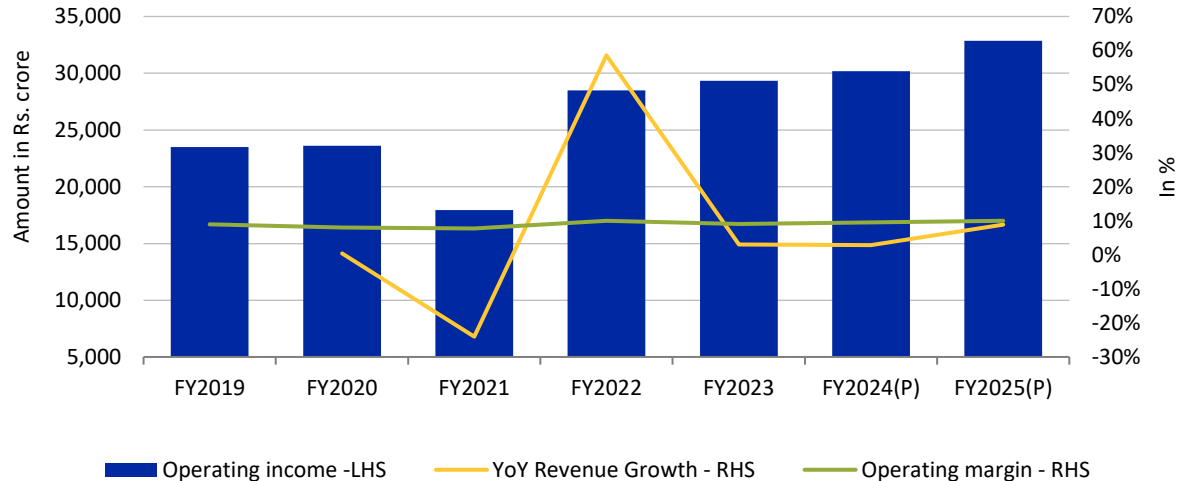
Rice exports: Rice exports to decline by 10% in FY2024 due to Government ban on non-basmati white rice; prices to remain elevated

Structured finance: Favourable macroeconomics and high credit growth led to elevated securitisation volumes in Q1 FY2024

Sugar: Relief offered by OMCs to partly absorb margin pressure caused by FCI's decision to halt rice supply

Apparel & fabric: Meaningful recovery in apparel exports unlikely before H2 FY2024

Exhibit: Projected revenues and profitability for ICRA's sample*



Nominal increase in turnover expected for FY2024



Larger players somewhat insulated on the back of consolidation in orders from retailers in US and EU region



Rationalisation expected in raw material costs over medium term leading to improvement in OPBDITA margins

- With UK's Generalised Scheme of Preferences (GSP) being replaced with the Developing Countries Trading Scheme (DCTS), exports to the UK are expected to face challenges due to a change in the duty structure.
- Expected rise in demand from H2 FY2024 is likely to normalise the performance of apparel companies in FY2024.

Source: Ace Equity, Annual Reports and Published Results, ICRA Research. Note: Based on ICRA's sample of 16 listed companies involved in apparel exports

Basic chemicals: Recessionary pressures, over-supply exert pressure on caustic soda realisations



FALL IN ENERGY PRICES

Since energy costs comprise around 60-70% of the total costs, decline in the same pulled the caustic soda realisations downwards



INCREASE IN PRODUCTION IN US & EUROPE

Earlier, some of the capacities in the US and Europe had to go offline as they were not cost competitive, owing to the elevated energy costs. With decline in costs, these capacities are back online with an increase in operating rates



EXCESS CAPACITIES IN INDIA

There have been sizeable capacity additions in India, further adding to the over-supply situation



DEMAND-SIDE PRESSURES

Demand has been impacted owing to the weak growth in some countries



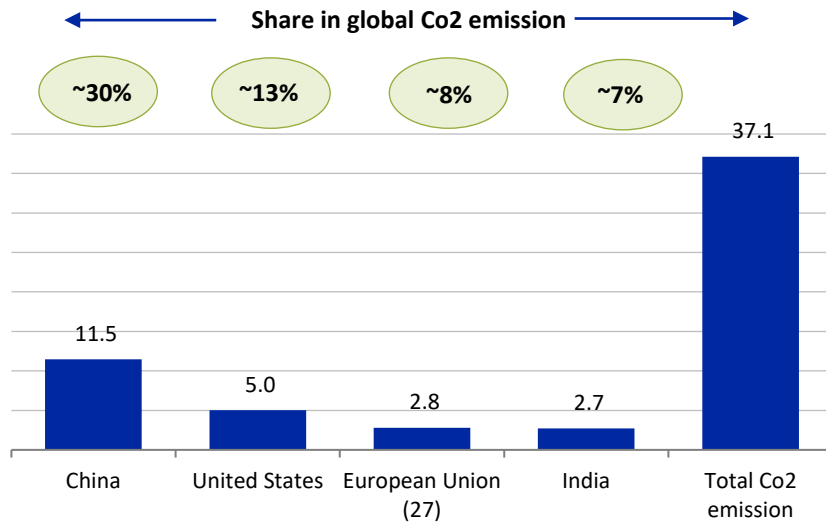
NEGATIVE CHLORINE REALISATIONS

Chlorine disposal is a big challenge for this industry, and it is fetching negative realisations as of now

Climate series: CCUS inevitable for climate goals; timely policy intervention to help attract global technology and funding

- India is the 4th largest carbon-emitting country in the world. The country needs to find alternative innovative ways to reduce carbon emissions with unavoidable fossil fuel dependence over the next few decades as its energy needs continue to grow.

Exhibit: Global Co2 emission for 2021 – key country (billion tonne)



Source: Our World in data, IEA, Industry, ICRA Research

Carbon sequestration

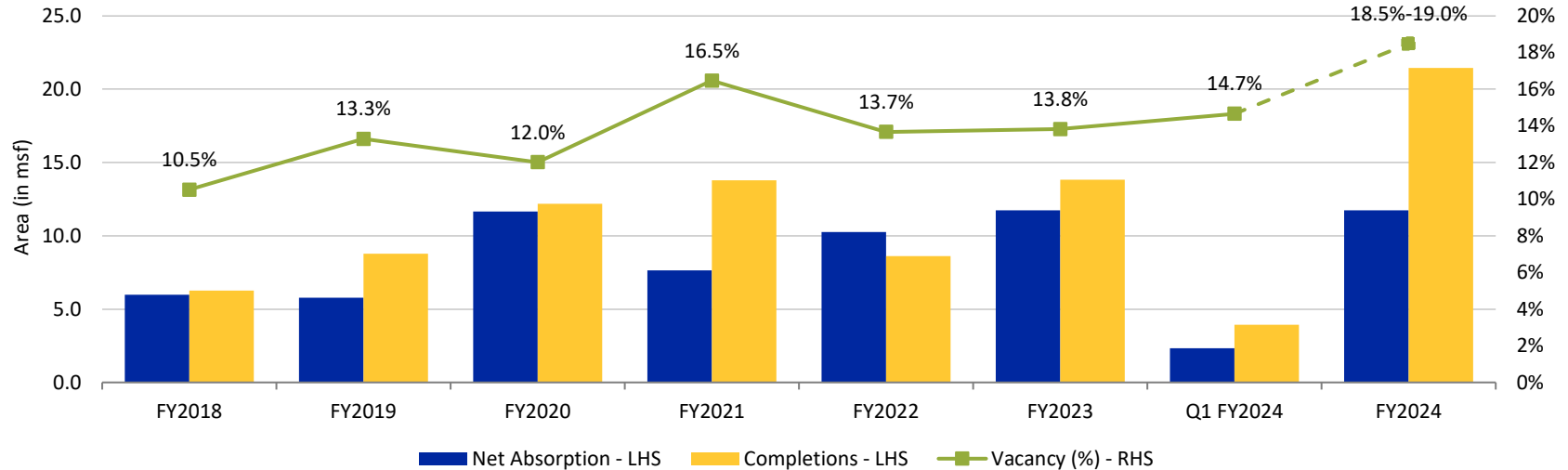
- To achieve the climate goals amid continued dependence on fossil fuels, India needs to explore more ways of carbon sequestration – a method of reducing the amount of carbon dioxide in the atmosphere with the goal of reducing global climate change.

What's CCUS?

- CCUS and afforestation are some of the ways of carbon sequestration. In this report, ICRA has covered CCUS in detail.
- The International Energy Agency (IEA) defines CCUS as a group of technologies for capturing Co2 from large and stationary Co2-emitting sources, such as fossil fuel-based power plants and other industries.
- CCUS also involves the transport of the captured Co2 (typically by pipeline and in certain situations through ships, rail or trucks as well) to sites, either for utilisation in different applications or injection into geological formations or depleted oil and gas fields for permanent storage and trapping of the Co2.

Commercial real estate – Hyderabad: All-time high supply to increase vacancy by ~500 bps in Hyderabad office market by end-FY2024

Exhibit: Trends in Incremental Supply, Absorption and Vacancy for Hyderabad

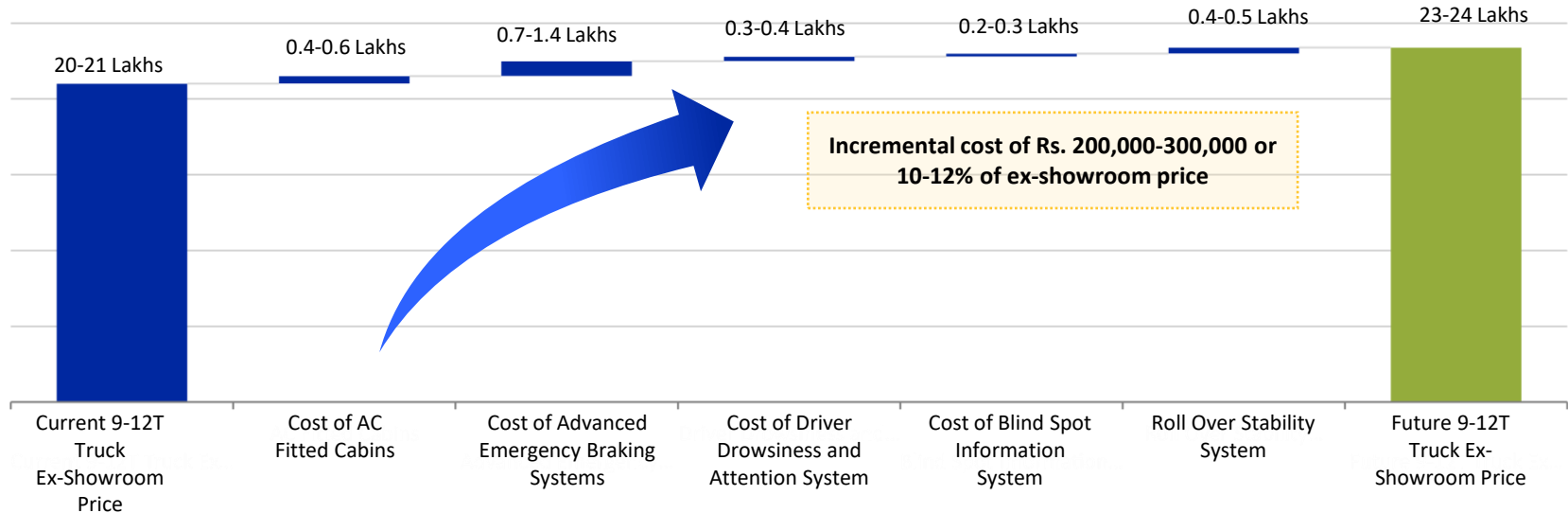


- Occupancy is expected to decline to around 81.0-81.5% for Grade A office space in Hyderabad by March 2024 from ~86.0% as of March 2023 due to all-time high supply addition in FY2024.
- Office supply increased at a CAGR of 13% during FY2017 – FY2024 (Proj) for the Hyderabad market compared to a CAGR of 7% for the top six cities.
- The unlimited FSI has allowed developers to build more, boosting office supply and vacancy levels.

Source: Propequity, ICRA Research, Note: Average supply and net absorption given in the above chart is for the past seven fiscals

Commercial vehicles: Implementation of multiple proposed regulatory specifications can push up vehicle prices by 10-12%

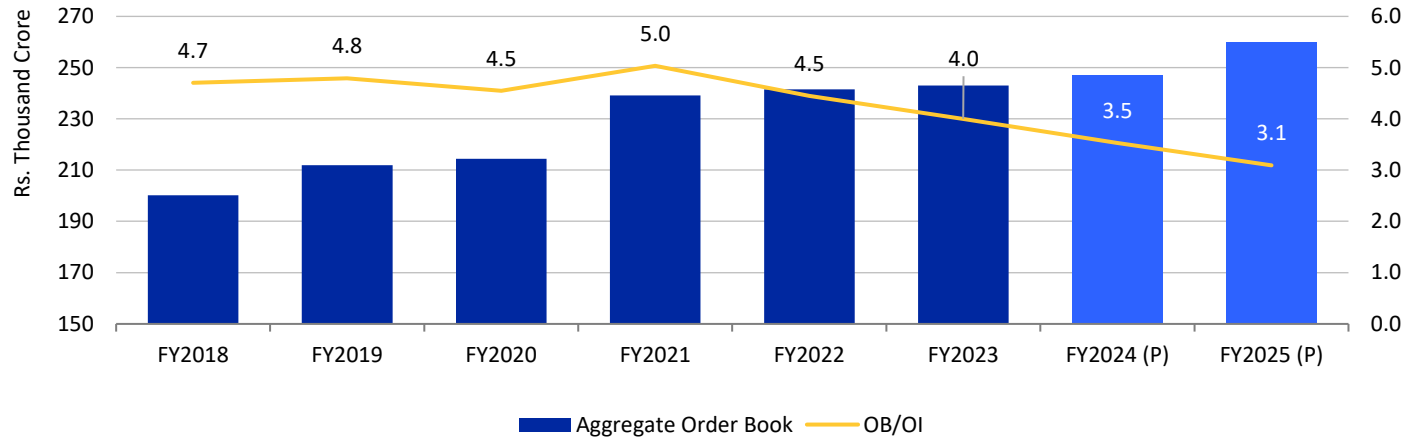
Exhibit: Cost increases from proposed regulatory changes (In a 9-12T truck)



- Implementation of multiple proposed regulatory changes can increase CV prices by 10-12% over the medium term; however, benefits manifold in terms of improved vehicle safety and driver comfort.

Defence: Rs. 60,000 crore of opportunities for private players in the Indian Defence segment over the next two years

Exhibit8: Order book of sample India’s Defence sector entities over the years



ICRA estimates opportunities worth Rs 2.75 lakh crore for the Indian domestic entities over the next two years; of which Rs. 60,000 crore will go to private players.

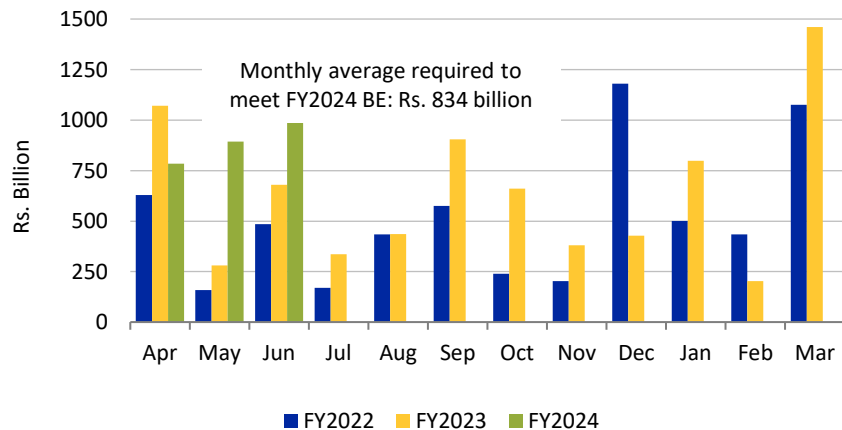
Source: ICRA Research

- The aggregate order book grew at a CAGR of 4.13% over the last five years ending March 2023. The Order Book/Operating Income (OB/OI) ratio, which peaked at 5 times in FY2021 declined to 4.0 times in FY2023 and is further estimated to moderate by FY2025.
- This trend, in ICRA’s assessment, is attributable to improved execution of orders, supported by numerous policy initiatives, coupled with speedier approvals facilitated by the Government.

Sample includes Hindustan Aeronautics Limited (HAL), Bharat Electronics Ltd, Mazagaon Dock Shipbuilders Ltd., Garden Reach Shipbuilders & Engineers, Goa Shipyard Ltd., Bharat Dynamics Ltd (BDL), Hindustan Shipyard Ltd., Astra Microwave Products Limited, MTAR Technologies Ltd., Data Patterns India Limited and Paras Defence and Space Technologies Limited – accounts for 58% of Industry’s turnover during FY2023

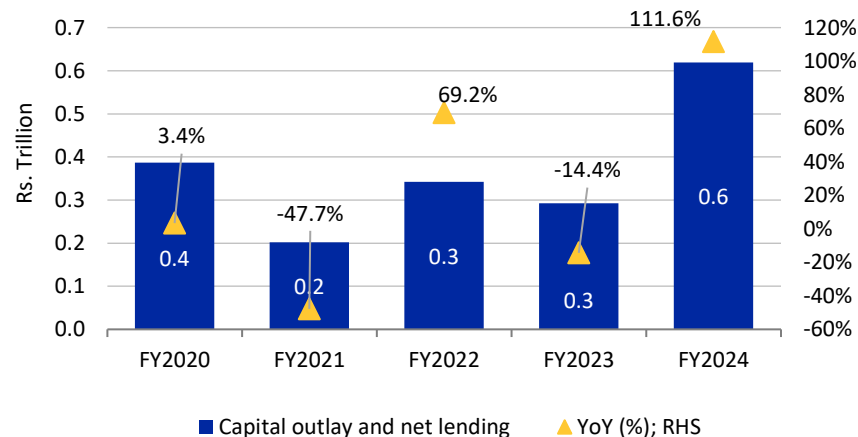
Economy: Investment activity remained robust in Q1 FY2024; sustenance of healthy momentum in Government capex key to support growth in FY2024

Exhibit: Centre's capital expenditure



Source: CGA, Gol; ICRA Research

Exhibit: Capital outlay, net lending of 21 states* during Apr-May FY2020-24



*The sample comprises of 21 states except Arunachal Pradesh, Assam, Karnataka, Manipur, Meghalaya, Nagaland, and Goa; Source: Comptroller and Auditor General of India; ICRA Research

- The YoY performance of six of the 11 investment-related indicators improved in Q1 FY2024, relative to Q4 FY2023. Even though the YoY growth in the other five indicators weakened in Q1 FY2024 relative to Q4 FY2023, four of them (barring capital goods) continued to show a double-digit expansion in the quarter.
- The GoI capex rose by 59% on a YoY basis in Q1 FY2024, while capital outlay and net lending of 21 states more than doubled in Apr-May 2023. Release of additional tax devolution and approval of capex loans is likely to nudge the states to accelerate capex.

NBFC – Infra debt funds: Revised regulations to support growth and diversification of IDF-NBFCs

Key Parameter	Change (Yes/No)	Earlier Regulation	Revised Regulation
Business profile	Yes	<p>IDF-NBFCs can invest in post-COD infrastructure projects, which have completed at least one year of satisfactory commercial operations that are:</p> <p>i. Public-private partnership (PPP) projects and are a party to a tripartite agreement with the concessionaire and the project authority for ensuring a compulsory buyout with termination payment</p> <p>ii. Non-PPP projects and PPP projects without a project authority in sectors where there is no project authority</p>	IDF-NBFCs can invest in post-COD infrastructure projects, which have completed at least one year of satisfactory commercial operations and finance TOT projects as a direct lender
Minimum NOF requirement	No	Minimum NOF requirement of Rs. 300 crore	Minimum NOF requirement of Rs. 300 crore

- Simultaneous opening of avenues for funding and capital-raising and expansion of eligible segments for financing will support loan book growth of IDF-NBFCs.
- Requirements with respect to tripartite made optional; portfolio vulnerability could increase to an extent.
- Critical for IDF-NBFCs to maintain stringent risk guardrails to ensure the good asset quality reported so far.

Non-ferrous metals – Aluminium: India’s aluminium consumption to grow by 9% in FY2024, despite global headwinds

Non-ferrous Outlook – Stable

Exhibit: Trend in domestic primary aluminium consumption (in mmt)

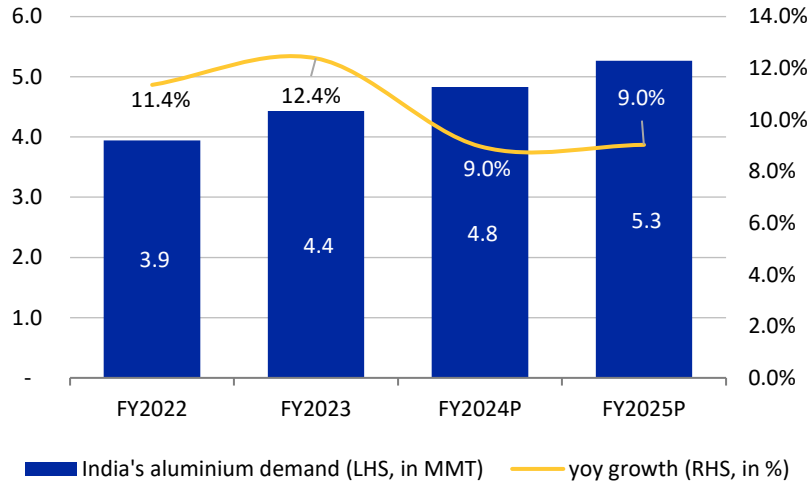
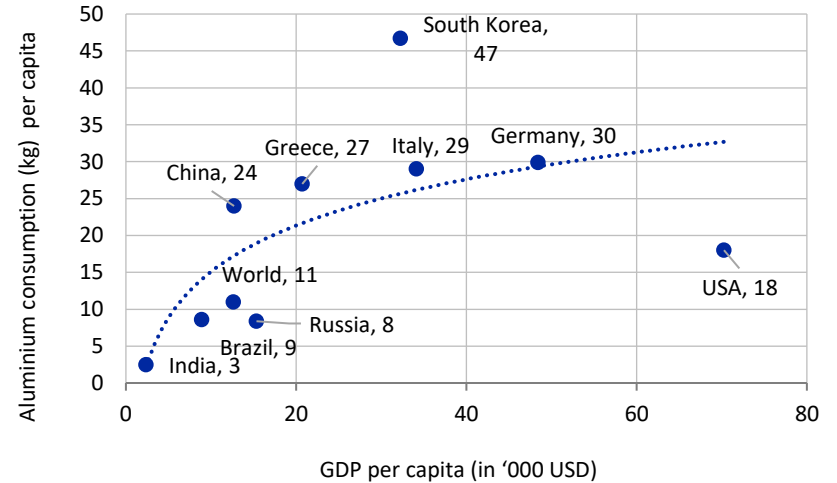
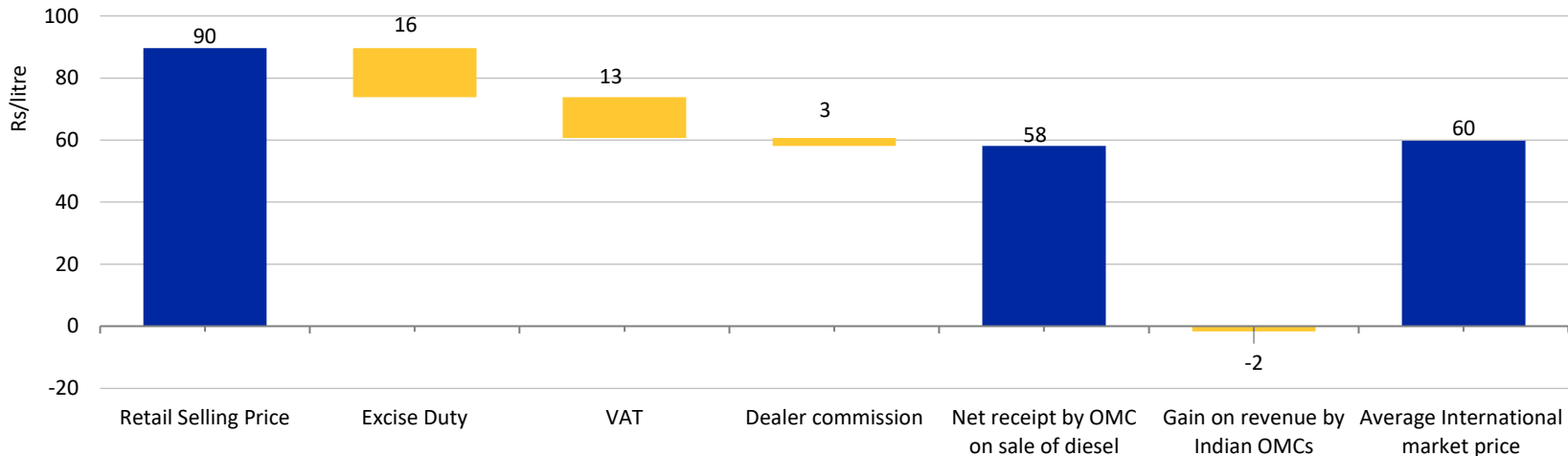


Exhibit: Aluminium consumption per capital versus GDP per capita



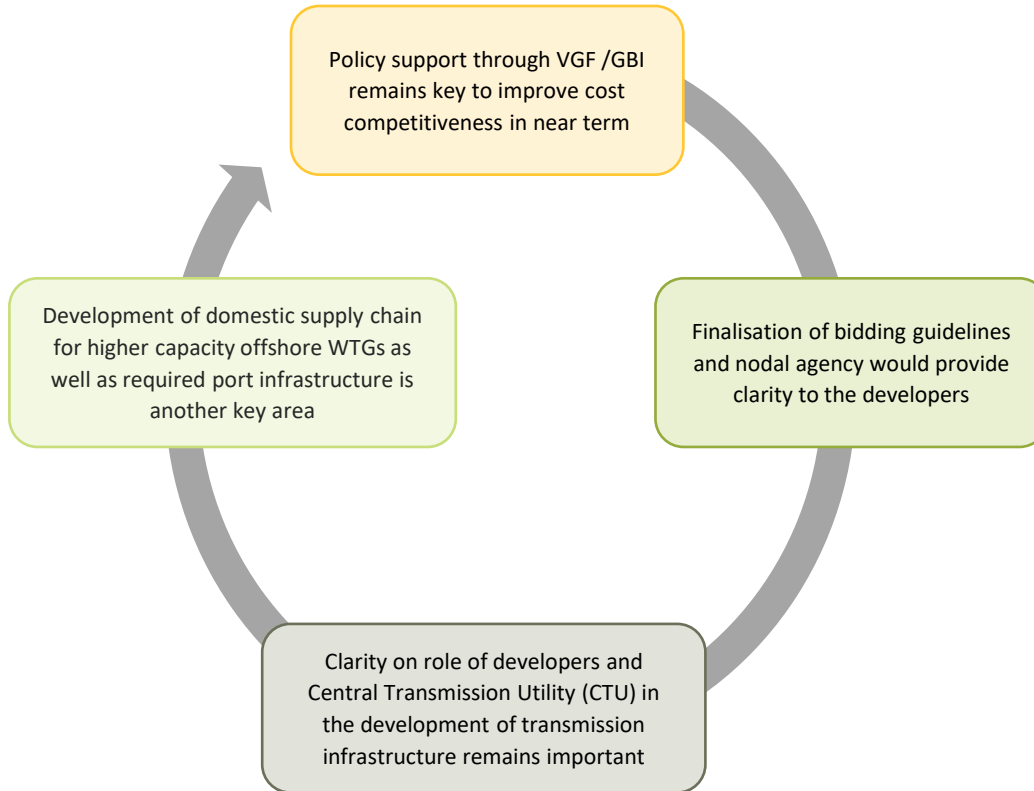
- Despite weak global sentiments, the domestic demand is expected to remain firm in the next 2-3 years, supported by strong demand from electrical, building and construction sectors and a recovery in consumer durables.
- The linkage of per capita consumption of aluminium with the Gross Domestic Product (GDP), will also support the domestic aluminium demand, given the expected real GDP growth of ~6% in FY2024.

Exhibit: Retail Selling Price of diesel in India Vs Average international prices



- Increased international gasoline/gasoil prices led to a decline in marketing margins for Indian OMCs.
- The OMCs' realisations were Rs. 2/litre lower for diesel vis-à-vis international prices in first half of August 2023, thereby turning marketing margins negative. The retail prices of MS and HSD have largely been frozen since May 2022.

Renewable Energy: Policy support and cost competitiveness key for adoption of offshore wind power in India



Given the gestation period of at least 4 years for offshore wind power projects, it is imperative for the Government to notify the policy support mechanism and tenders at the earliest, so that the first set of offshore wind projects can be commissioned by 2030

Rice exports: Rice exports to decline by 10% in FY2024 due to Government ban on non-basmati white rice; prices to remain elevated

Exhibit: Trend in quantity and growth of basmati and non-basmati rice exports

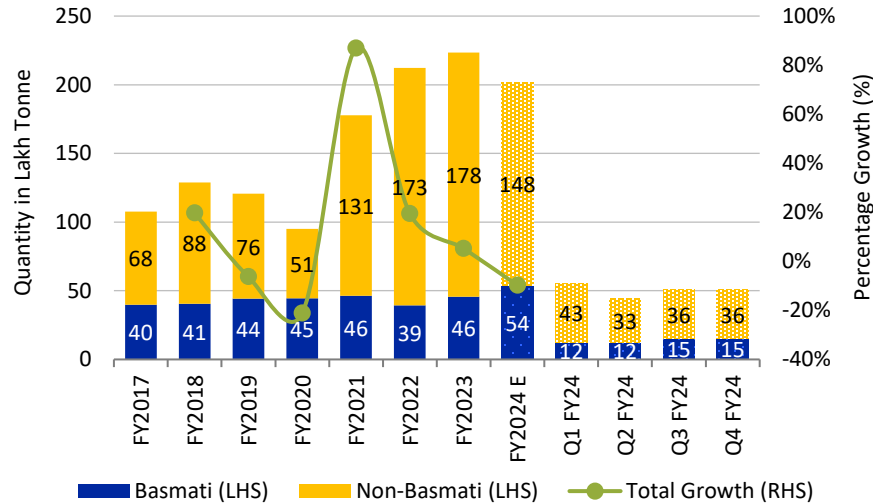
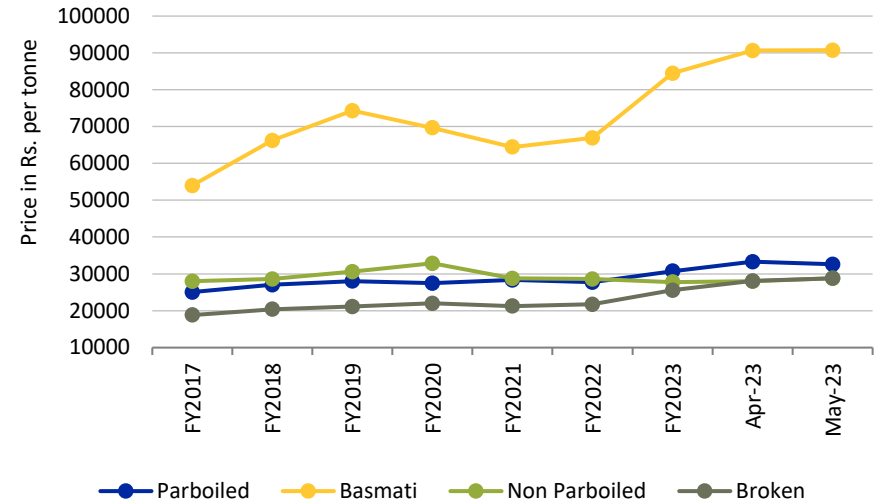


Exhibit: Indian export price trend

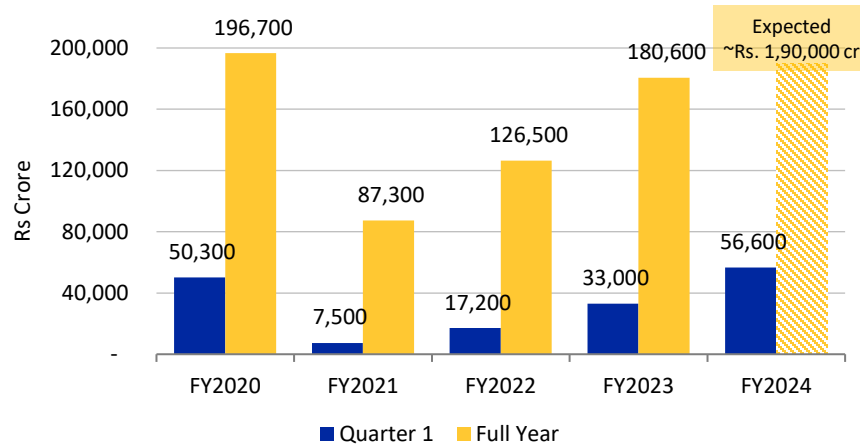


- A deficit in global rice production in FY2024 is likely to keep international rice prices high.
- The recent measures by the Government of India to limit non-parboiled rice exports would further push up international rice prices.
- ICRA expects total rice exports to decline by only around 10% in the current year.

Source: ICRA Research; Director General of Foreign Trade, Department of Commerce, Ministry of Commerce and Industry, Government of India

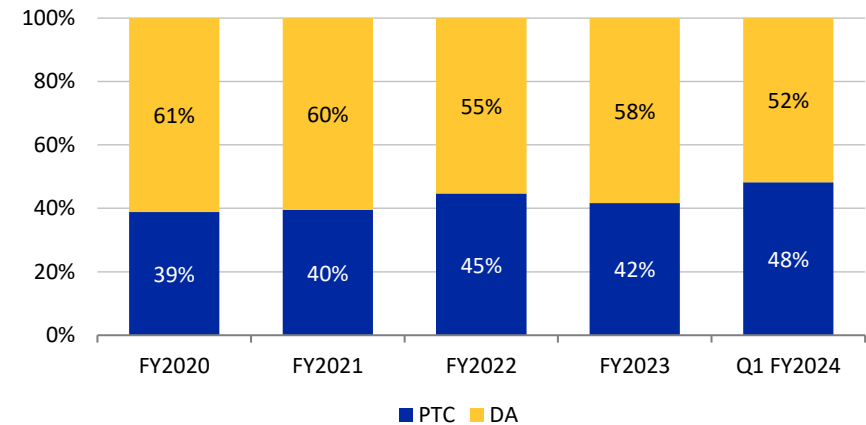
Structured finance: Favourable macroeconomics and high credit growth led to elevated securitisation volumes in Q1 FY2024

Exhibit: Securitisation market volume (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Split between PTC & DA



Source: ICRA Research, Industry

- The buoyancy in the securitisation market continued in the first quarter of the current fiscal. Growth was primarily reflective of encouraging macro-economic conditions and healthy credit demand throughout FY2023, which continued in Q1 FY2024 as well.
- The overall market is expected to grow this year to ~Rs. 1,90,000 crore, propelled by an increase in volumes from the existing originators as well as the emergence of new originators.

Sugar: Relief offered by OMCs to partly absorb margin pressure caused by FCI's decision to halt rice supply

Exhibit: Margin calculation per MT of feedstock used for ethanol production from grain-based distillery

Particulars	Feedstock		
	Rice from FCI	Broken Rice	Maize
Ethanol produced (in litres)	450	400	380
Ethanol realisation (Rs./litre)	58.50	64.00*	66.07*
Ethanol sales value (Rs.)	26,325	25,600	25,107
DDGS sales value (Rs.)	4,500	3,800	3,610
Cost/MT of feedstock	(20,000)	(24,000)	(22,000)
Conversion cost (Rs.)	(4,050)	(3,600)	(3,420)
Margin	6,775	1,800	3,297
%	22%	6%	11%

- As of August 13, 2023, 171.4 crore litres of grain-based ethanol has been contracted by distilleries. Of this, 72.5 crore litres have already been supplied to OMCs. The remaining 98.9 crore litres is crucial to meet the required blending target for ESY2023, with rice supply halted by the FCI since July 2023.
- The OMCs have recently provided a relief amount for ethanol produced from damaged food grain (DFG) and maize, of Rs. 4.75 and Rs. 6.01 per litre respectively, for the remaining period of ESY2023 ending October 31, 2023. Further, the OMCs announced additional incentive of Rs. 3.71 per litre for ethanol produced from DFG and maize as on August 22, 2023, to support the distilleries in maintaining production levels.



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