



Monthly Research Compendium

July 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 June 2024

Cement: Asbestos-based Roofing Sheet Market - PBIT margins slide by ~700 bps during FY2022-FY2024 due to steep increase in asbestos fibre prices

Chemicals: Basic - Demand headwinds and over-supply persists

Climate series: Existing climate funding avenues in India seem inadequate amid rising carbon emissions and steady economic growth

Economy: External debt to GDP ratio at 13-year low at end-March 2024; ample forex reserves provide cushion against rising external obligations

Non-ferrous: Sharp uptick in non-ferrous metals prices, benign input costs to boost operating margin by ~600 bps in FY2025

Port and port logistics: Healthy cargo volumes anticipated for FY2025; economic slowdown and geopolitical tensions may create turbulence

State finances: WMA and OD facilities were tapped more frequently in FY2024 relative to FY2023, led by Kerala and Punjab


Structured finance: Record number of cases approved by IBC in FY2024; increase in average duration of resolution process worrisome


Telecom: Next round of tariff hikes expected in FY2025; to provide a fillip to ARPU levels


↑ Positive


 Hotels


↓ Negative


 Power – Distribution

 Media – Print































 Telecom Towers

 Chemicals (Basic, Petrochemicals)

 Cut and polished diamonds

 Bulk tea

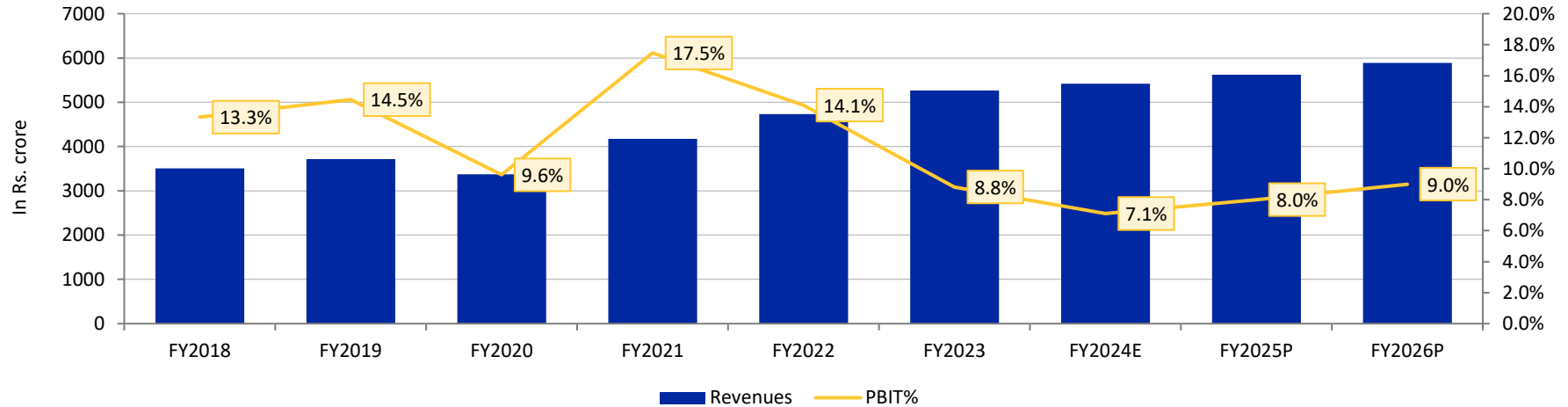
↔ Stable

 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 Q1 of FY2025

Cement: Asbestos-based roofing sheet market - PBIT margins slide by ~700 bps during FY2022-FY2024 due to steep increase in asbestos fibre prices

Exhibit: Trends in revenues and PBIT margins of ICRA's sample

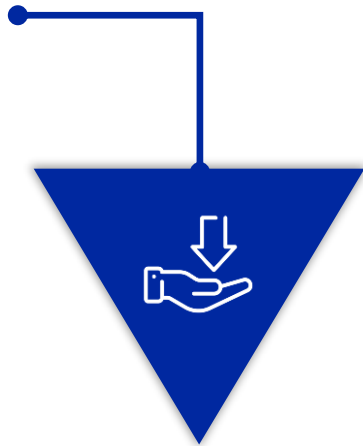


Source: ICRA Research

- The profit before interest and tax (PBIT) margins of the asbestos-based roofing players dropped significantly by 700 bps in the last two years to around 7% in FY2024 due to the steep increase in raw material prices on account of the Russia-Ukraine conflict and supply chain challenges.

Global Demand Pressures

Tepid global growth and inflationary trends in the West are leading to demand-side pressures; despite opening up of China, the demand has been weaker than anticipated. Though there is some pick-up of late in some segments due to the Chinese stimulus, a sustained demand pick-up remains to be seen



Over-supply situation

Sizeable capacity additions, especially in China, resulting in supply overhang



Strong Domestic Demand

While domestic demand remains strong, dumping by major manufacturing nations in India at low prices continues



Climate series: Existing climate funding avenues in India seem inadequate amid rising carbon emissions and steady economic growth

Climate finance

- Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation (action to limit the greenhouse gases in the atmosphere that cause climate change) and adaptation (process of adjusting to the effects of climate change) actions that will address climate change.
- Climate finance is important as significant financial resources are needed for reducing emissions, adapting to the adverse effects and reducing the impacts of climate change.

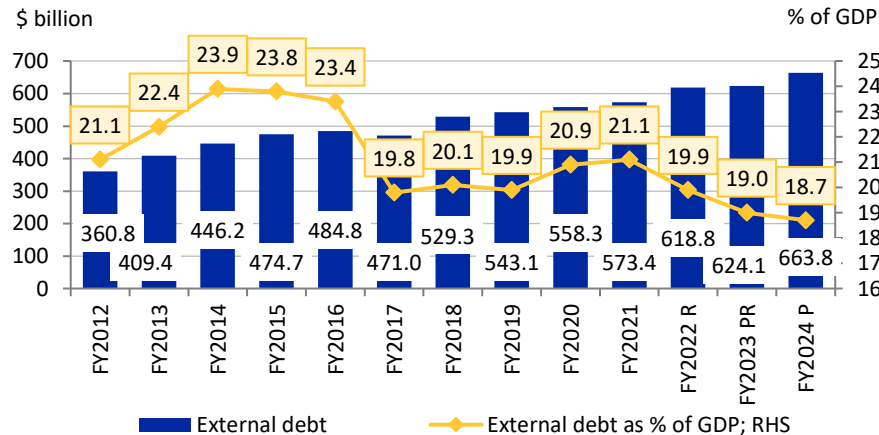
Major climate funds

Funds established at COP	Annual fund by developed countries	Developed economies will provide funding of \$100 billion annually to developing nations
	NCQG	NCQG is a new annual financial target that developed countries must meet after 2025 to provide climate finance to developing countries
	Least Developed Countries Fund (LDCF), Special Climate Change Fund (SCCF)	As per Global Environmental Facility (GEF) *, India does not have active projects under these funds
	GCF	GCF is the world's largest climate fund, mandated to support developing countries raise and realise their NDCs
Green Bonds	Sovereign Bonds	<ul style="list-style-type: none"> These are a kind of debt issued by a public or private institution. They undertake to use the funds for environmental purposes.
	Corporate Bonds	
Green Deposits	A Green Deposit is a fixed-term deposit for investors looking to support environmentally-friendly projects	
Other Debt and equity instruments	Financial Institutions (FI) provide loans for climate change activities for concessional or non-concessional interest rates. Equity players provide funding by investing in entities with climate change objectives.	

Source: United Nations Framework Convention on Climate Change (UNFCCC), GEF, World Bank, Industry, ICRA Research; Note: * GEF serves as an operating entity of the Financial Mechanism. The relationship between COP, the UNFCCC and the GEF Council was agreed in a memorandum of understanding (MOU)

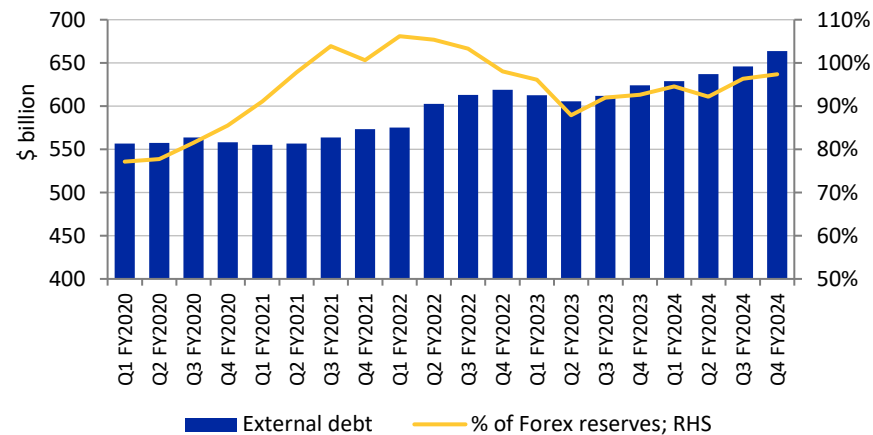
Economy: External debt-to-GDP ratio at 13-year low at end-March 2024; ample forex reserves provide cushion against rising external obligations

Exhibit: Trends in external debt and as % of GDP



R: Revised; PR: Partially Revised; P: Provisional; Source: Govt; RBI; ICRA Research

Exhibit: Quarterly trends in External Debt

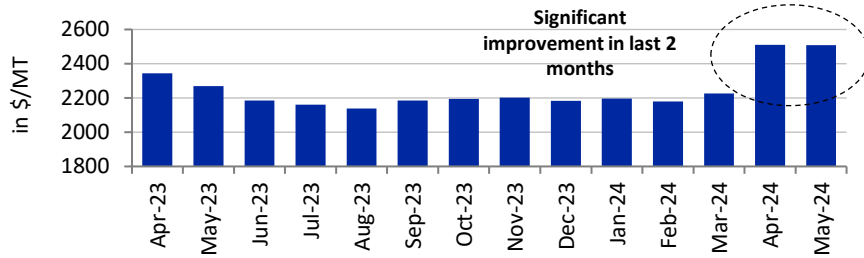


Source: RBI; ICRA Research

- External debt rose by \$39.7 billion YoY to \$663.8 billion at end-March 2024, but moderated to a 13-year low of 18.7% as a proportion of GDP.
- Coverage of external debt provided by forex reserves surged to eight-quarter high 97.4% at end-Mar 2024.
- While India's external obligations (CAD + short-term debt by residual maturity) are expected to climb in FY2025, these may edge lower as a proportion of forex reserves.

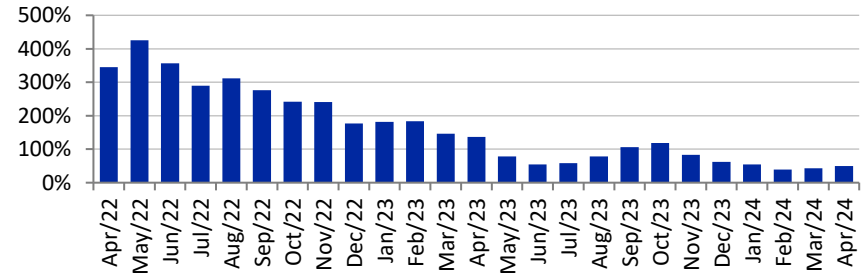
Non-ferrous: Sharp uptick in non-ferrous metals prices, benign input costs to boost operating margin by ~600 bps in FY2025

Exhibit: Aluminium realisation in LME – Spot prices (in \$/MT)



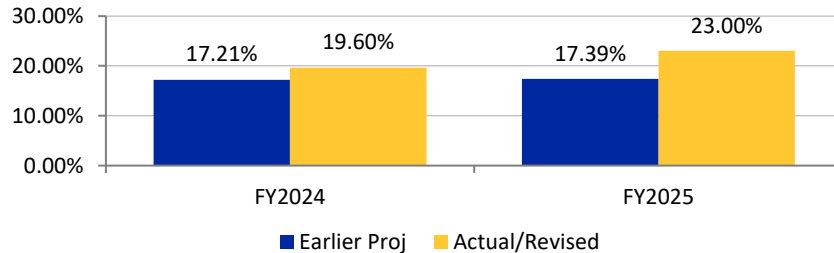
Source: ICRA Research

Exhibit: Trend in e-auction premium (in %) on coal in recent times



Source: ICRA Research; Ministry of Coal; Bloomberg

Exhibit: Operating margin expected to be better than earlier envisaged



Source: ICRA Research

- In FY2024, a decline in metal prices impacted the operating margins. In FY2025, considering improvement in realisation and easing of cost pressure to an extent, profitability is expected to improve to ~23% over 17-18% in FY2024.
- Improvement in earnings is likely to improve the industry's leverage as well as coverage metrics in FY2025.

Port and port logistics: Healthy cargo volumes anticipated for FY2025; economic slowdown and geopolitical tensions may create turbulence

Increased Distance & Operational Shifts

The Suez Canal significantly reduces both time and distance compared to rerouting around the Cape of Good Hope. A round trip between Europe and India would take ~10-15 days longer via the latter route.

Shipping Costs

Container shipments of consumer goods were most affected. Dry bulk, LNG, and LPG freight rates saw marginal impacts. The effects were more pronounced on routes through the Suez Canal, but impacts were also felt on longer routes such as from the United States West Coast to Asia.



Vessel Speed and Carbon Emissions

The industry had adopted reduced sailing speeds to cut fuel costs and emissions. Recent disruptions in the Red Sea and Panama Canal have led to rerouting through longer routes, necessitating increased speeds. This has led to higher fuel consumption and emissions due to the combined effects of increased sailing speeds and longer distances.

Insurance Premiums

War risk premiums have increased for vessels passing through the Red Sea and have now expanded to include the Indian Ocean, Gulf of Aden, and Southern Red Sea region. War risk premiums now range between 0.75% and 1% of the insured value of the vessel, up from around 0.5% before the crisis.

Inflationary Pressure

Continued crisis risks pose threats to global supply chains, leading to increased freight costs, delivery times, and inflation. The rise in freight rates is likely to eventually affect imported goods prices with a lag.

State finances: WMA and OD facilities were tapped more frequently in FY2024 relative to FY2023, led by Kerala and Punjab

Exhibit: YoY trends of Kerala and Punjab's revenue receipts and combined revenue receipts of 23 states during FY2023 and FY2024 PA

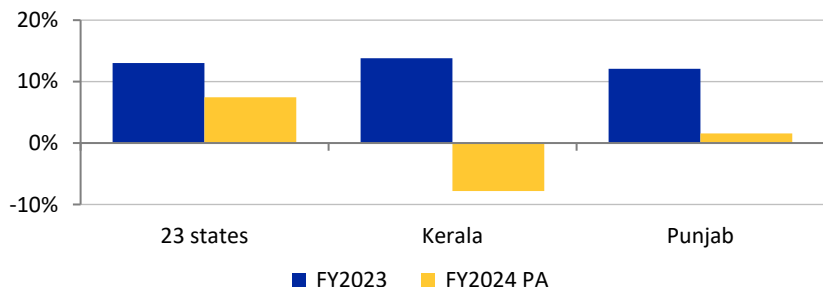


Exhibit: Number of days the states/UT were in OD during FY2021-24

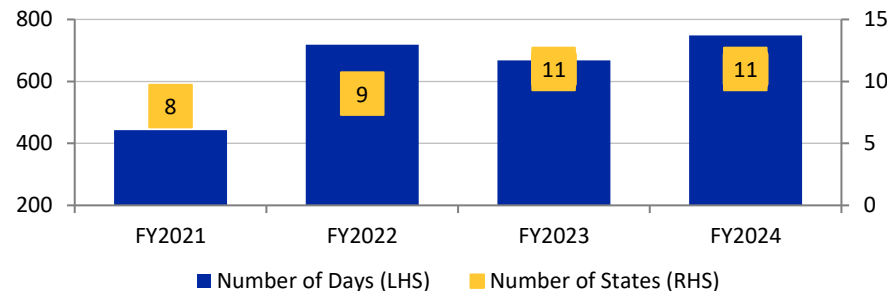
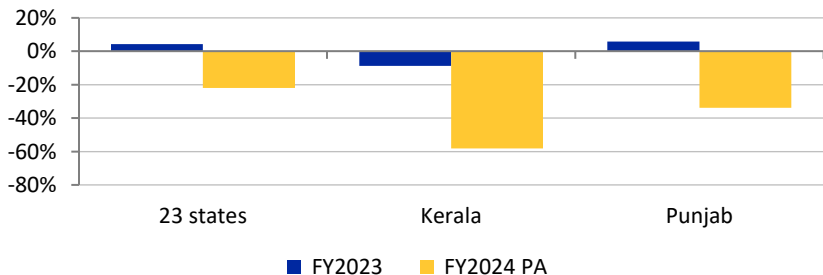


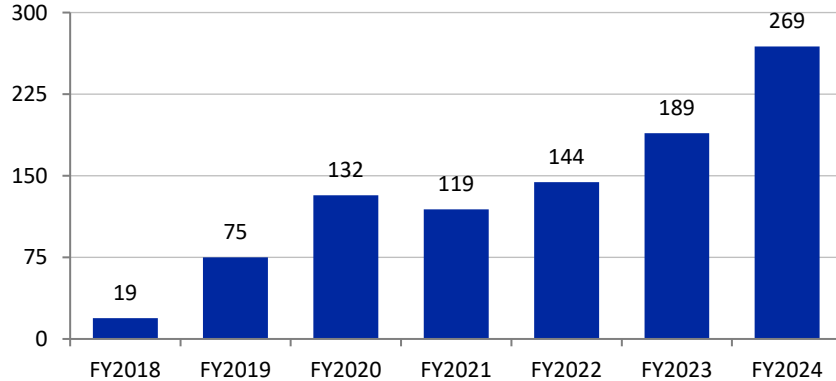
Exhibit: YoY trends of Kerala and Punjab's grants and combined grants of 23 states during FY2023 and FY2024 PA



- The Reserve Bank of India (RBI) provides financial accommodation to 27 state governments (except Sikkim) and two Union Territories (UTs) through special drawing facility (SDF), ways and means advances (WMA) and overdraft (OD) facility to address temporary mismatches in their receipts and payments.
- In FY2024, the frequency of tapping SDF, WMA and OD facilities surpassed the FY2021-23 levels. The increase in the number of days of SDF usage (by 741 days) in FY2024 relative to FY2023 was led by Kerala, Uttarakhand, Mizoram and Punjab. Additionally, the increase in the usage of the WMA facility by 311 days in FY2024 from FY2023 was mainly led by Kerala and Punjab.

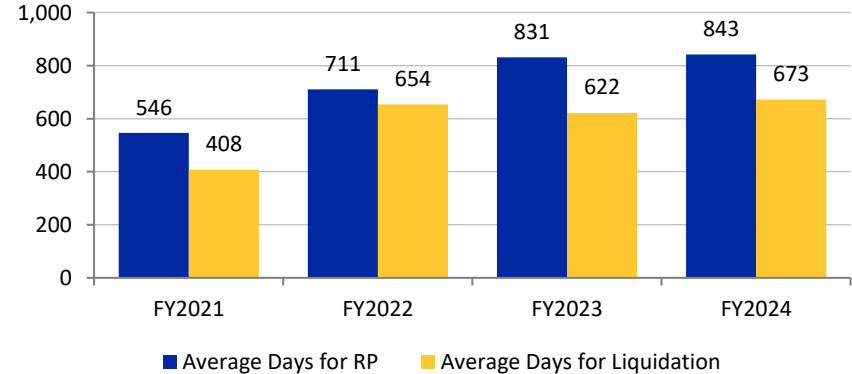
Structured finance: Record number of cases approved by IBC in FY2024; increase in average duration of resolution process worrisome

Exhibit: Number of resolution plans approved under IBC



Source: IBBI, ICRA Research

Exhibit: Average days for CIRP process

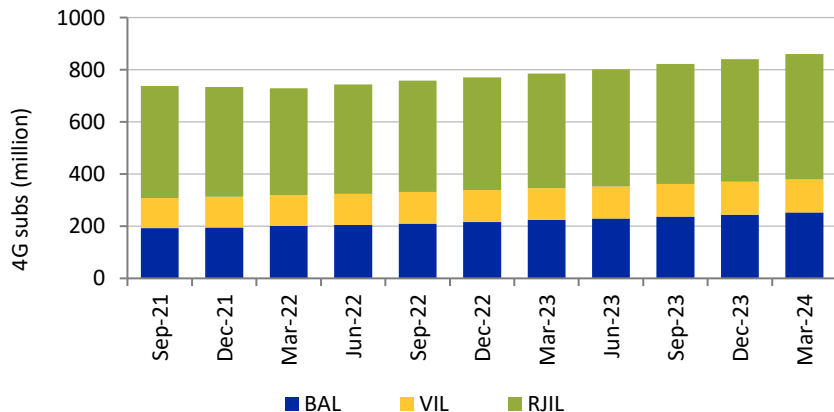


Source: IBBI, ICRA Research

- FY2024 saw a record number of resolution plans approved at 269 against 189 in FY2023 (~42% increase on a YoY basis). The notable increase can be attributed to a sharp rise in corporate debtors admitted under the IBC in FY2023 following the impact of the pandemic.
- The average days for both resolution plan and liquidation have been increasing; however, in FY2024 the increase in average days through resolution was marginal, which is a positive. ICRA believes creditors are approaching the NCLT to admit a defaulting corporate debtor with substantial delays, which has resulted in significant erosion of assets. Further, it has been observed that there is acute difficulty in closing the CIRP process in a time-bound manner, on account of litigations by the promoters or dissenting creditors as well as overburdened NCLT benches.

Telecom: Next round of tariff hikes expected in FY2025; to provide a fillip to ARPU levels

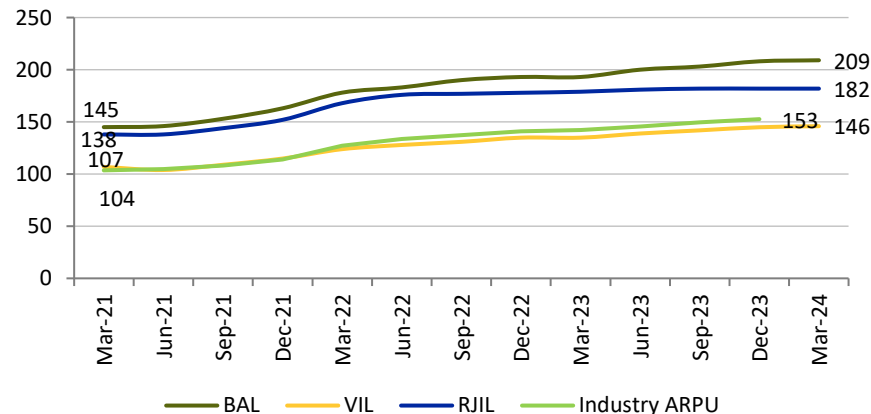
EXHIBIT : 4G subscriber base movement



Source: Quarterly results of telcos

- The 4G subscriber base of telcos has been consistently improving. This growth is attributed to network expansion by telcos, increasing demand for data and the availability of cheaper smartphones.
- The combined 4G subscriber base of the three telcos increased to 860.8 million as of March 2024.

EXHIBIT : ARPU movement for the telcos (Rs.)



Source: Quarterly results of telcos

- The ARPUs are on a rising trajectory initiated by tariff hikes, upgradation of subscribers to 4G from 2G and an uptick in data usage.
- The ARPU growth, however, has slowed down, as a sizeable subscriber proportion has already been upgraded to 4G. The next round of tariff hikes will provide traction for material ARPU growth, going forward.



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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





ICRA

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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