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Monthly Research Compendium

October 2024

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 September 2024

Banking: Infrastructure bond issuances by public sector banks to drive banks' bond issuances to an all-time high in FY2025

Ceramic tiles: Proposed anti-dumping duty by the US could derail Indian ceramic tiles exports

Climate series: Green Housing may increase cost by 4-12%; however, the energy savings are as high as 25-30%.

Construction: Interlinking river projects could provide Rs. 80,000 crore worth of opportunities for EPC players in next 4 years

Cross sectoral trends and outlook: India & Japan flows dominated by FDI and FPI; bilateral tie-ups important for economic and infrastructure growth

Cut and polished diamonds (CPD): Indian CPD exports to contract to decadal low in FY2025; sector outlook remains Negative

Economy: GST compensation cess would need to be re-purposed after March 2026

Retail - Fashion: Fashion retailers' OPM to remain range-bound at 13-14% in FY2025, despite a 14-15% revenue expansion

Summary

Sugar: Removal of cap on sugar diversion and allowance of FCI rice for ethanol to aid blending target for ESY2025

State finances: Several states may consider switching to UPS once operational details are available

Structured finance: Personal loan securitisation continues to thrive; analysis of past pool performance provides valuable insights

ICRA's sectoral outlook as of September 2024

Positive

- Hotels

Negative

- Power – Distribution
- Media – Print
- Telecom Towers
- Chemicals (Basic, Petrochemicals)
- Cut and polished diamonds
- Bulk tea

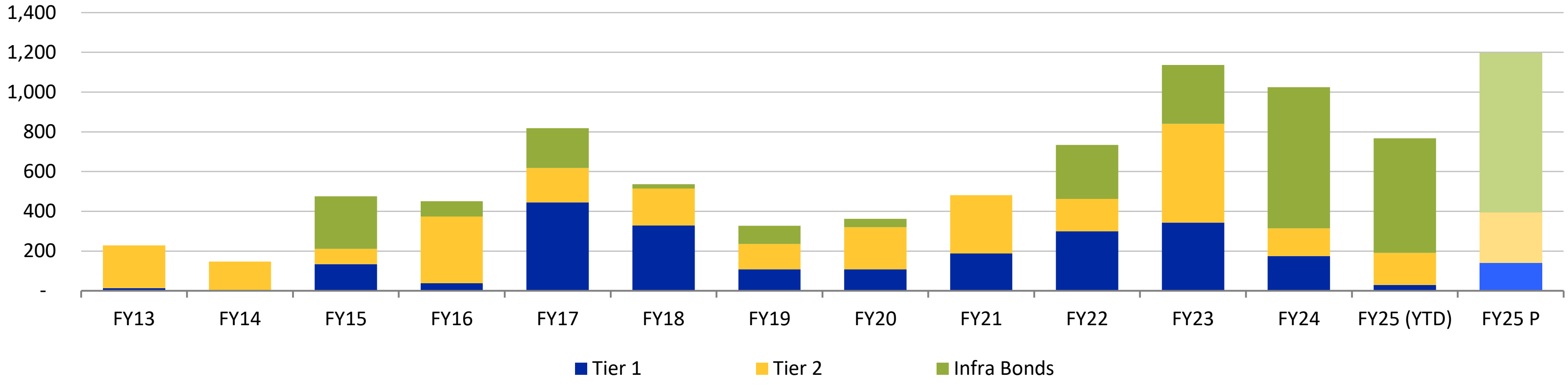
Stable

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

- No changes in outlook in H1 FY2025.

Banking: Infrastructure bond issuances by public sector banks to drive banks' bond issuances to an all-time high in FY2025

Exhibit 10: Expected trend in bond issuances by banks (Rs. billion)



Source: AIMIN, ICRA Research

- With deposit growth lagging credit growth, banks have increased fund raising via bonds; however, the share of borrowings in total resources remains below the pre-Covid levels.
- Banks' bonds issuance are expected to remain healthy at Rs. 1.2-1.3 trillion in FY2025, surpassing the earlier high of Rs. 1.1 trillion in FY2023, with infrastructure bonds by the PSBs commanding a lion's share.

Ceramic tiles: Proposed anti-dumping duty by US could derail Indian ceramic tiles exports

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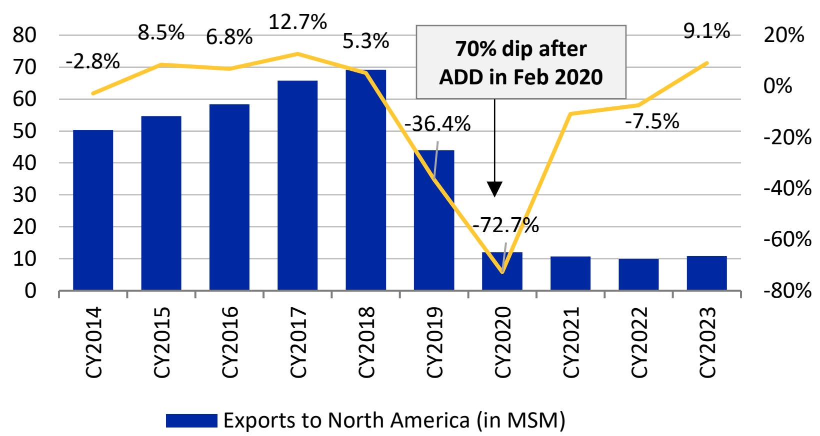
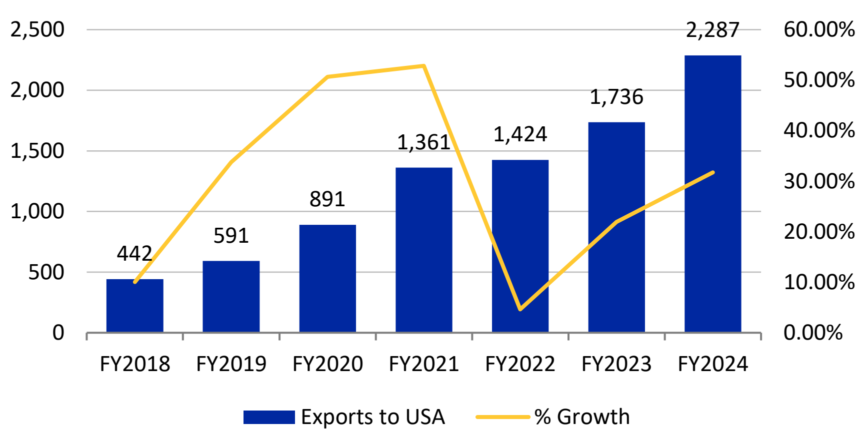
Exhibit 5: China's exports to North America



Source: Tile Council of North America; USA accounted for >~90% of Chinese exports to North America

Exhibit 6: India's exports to USA



Source: DGFT

- Headwinds in exports market and muted realisation will dampen growth momentum; domestic demand, which accounts for 64% of industry revenues, remains resilient.
- Fear of anti-dumping duty (ADD) by the US with retrospective effect has already slowed down exports in recent months. Levy of ADD could materially impact ceramic tiles exports, as USA alone accounted for ~9% of India's overall tile exports in FY2024.

Climate series: Green Housing may increase cost by 4-12%; however, the energy savings are as high as 25-30%.

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- According to a report by World Green Building Council, if cost strategies, programme management and environmental strategies are integrated into the development process right from the start, the cost can be controlled.
- Green Housing often has an initial cost premium of 4-12%, but the long-term savings can be as high as 25-30% on energy bills.

Cost and energy savings of Green Housing compared to the conventional building with reasons

Increase in construction cost — 4-12%

Sustainable Materials: Green Housing uses eco-friendly materials that may be more expensive than conventional materials, which are typically more durable and have a lower environmental impact but are priced at a premium.

Energy-efficient Technologies: Green Housing incorporates energy-efficient systems that increase initial construction costs.

Design and Planning: Architects and engineers may spend more time on designing Green Housing to optimise energy efficiency, natural light, and ventilation.

Certifications: Getting a green certification can add costs due to the rigorous standards and assessments required.

Energy savings — 25-30%

Energy Efficiency: Reduced energy consumption due to better insulation, efficient HVAC systems, and renewable energy sources like solar panels.

Water Efficiency: Green Housing often uses water-saving fixtures and systems (rainwater harvesting, greywater recycling), which reduce utility costs. A publication of Green Building Policy by the Government of Maharashtra indicates water saving in Green Housing is around 30-50%.

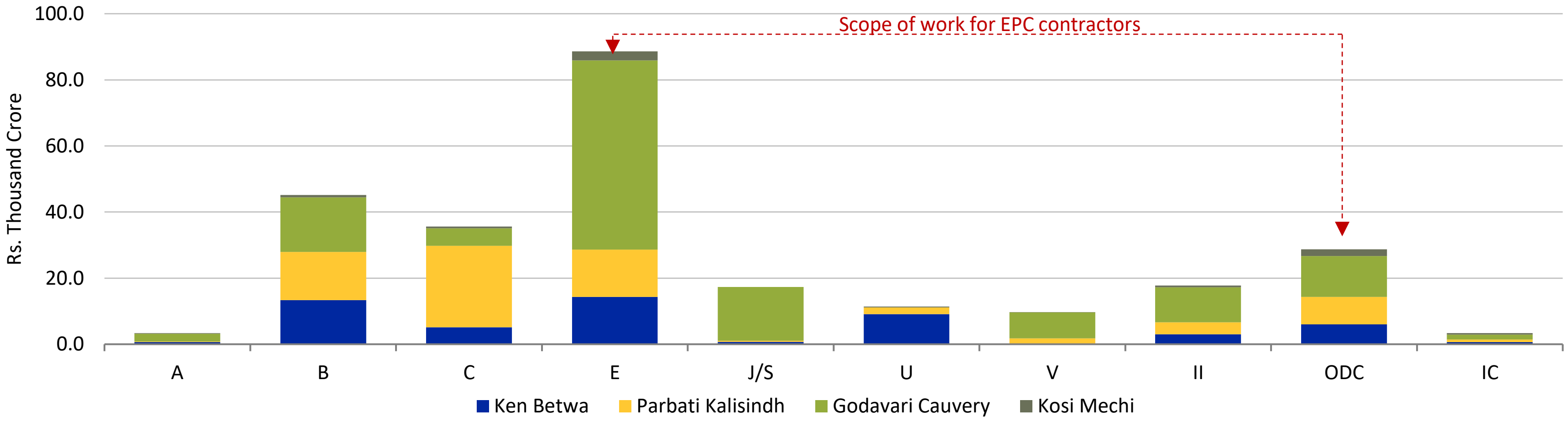
Maintenance: Sustainable materials and better design can lead to lower long-term maintenance costs.

Return on Investment (ROI): Green Housing, despite the higher upfront costs, offers a better ROI in the long term because of energy savings, water efficiency, and potential tax incentives or rebates.

Source: World Green Building Council, ICRA Research

Construction: Interlinking river projects could provide Rs. 80,000 crore worth of opportunities for EPC players in next 4 years

Exhibit 11: Detailed work-wise cost break-up

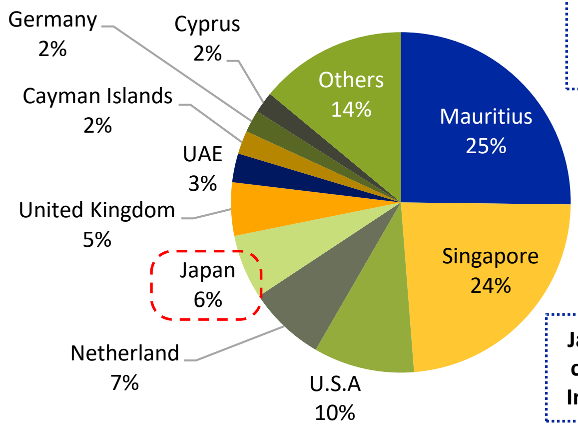


Source: NWDA, ICRA Research; A – Survey & investigation, B – Land acquisition, C – Civil work, E – Earthwork/Tunnel/Linings, J/S – Power & electricals, U – Distributaries, V – Field channels, II- Establishments, IC – Indirect charges, ODC – Other direct charges

- ICRA estimates ILR priority links to provide a potential opportunity of Rs. 2.0 lakh crore for the construction players over the next 10 years. Of this, ICRA expects total order awarding activity of Rs. 80,000 crore till FY2028, with Parbati Kalisindh accounting for 39% of these orders, followed by Ken Betwa (29%).
- ICRA notes that the order awarding for Ken Betwa has already started with Nagarjuna Construction Company Ltd. declared as the L1 bidder for Daudhan Dam works at Rs. 3,389 crore. With announcement of the financial support of Rs. 11,500 crore towards various flood control and irrigation projects in the FY2025 Union Budget, ICRA expects Kosi Mechi to start contributing to the order book in the next 12-15 months.

Cross sectoral trends and outlook: India & Japan inflows dominated by FDI and FPI; bilateral tie-ups important for economic and infrastructure growth

Exhibit: FDI equity inflow – from Apr 2000 to Jun 2024

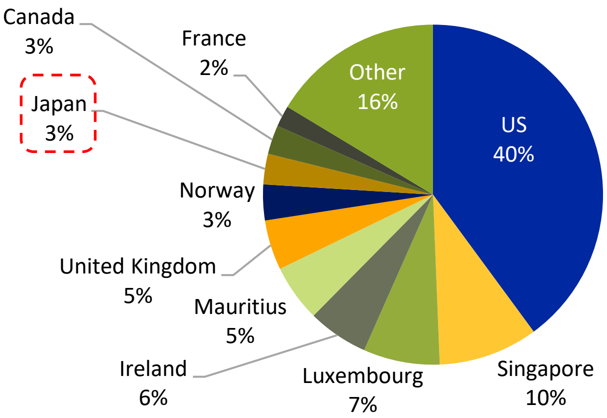


FDI equity inflow (Apr 2000 to Jun 2024) USD 695 bn

Japan is the fifth largest country contributing to India's FDI equity inflow

Source: Department of Industrial Policy and Promotion (DIPP), ICRA Research

Exhibit: FPI AUC as of August 2024



FPI AUC (as of Aug 2024) USD 971 bn

Japan is the eighth largest country contributing to India's FPI AUC

Source: National Securities Depository Limited (NSDL), ICRA Research

- Japan has a major share in FDI equity inflows and FPI AUC, for India, whereas merchandise trade flows are limited. Bilateral agreements benefit India with trade, infrastructure and funding.
- Prominent investment by Indian entities in IT and pharma sector; Japanese entities have significant presence in Indian automobile, electronics and entertainment sectors.

Cut and polished diamonds: Indian CPD exports to contract to decadal low in FY2025; sector outlook remains Negative

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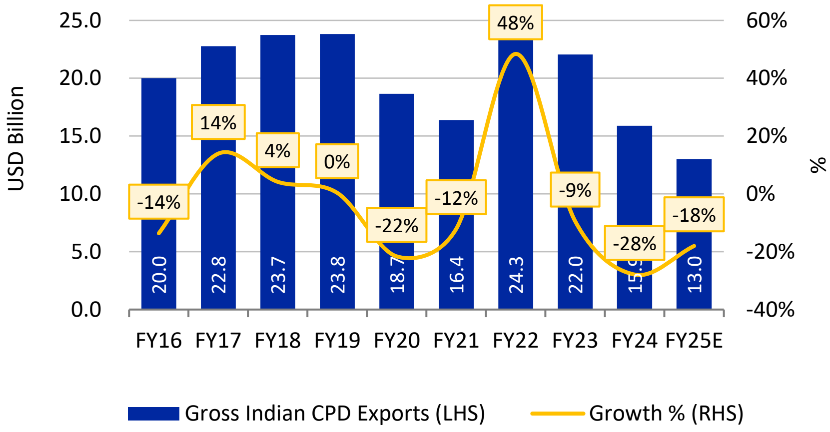
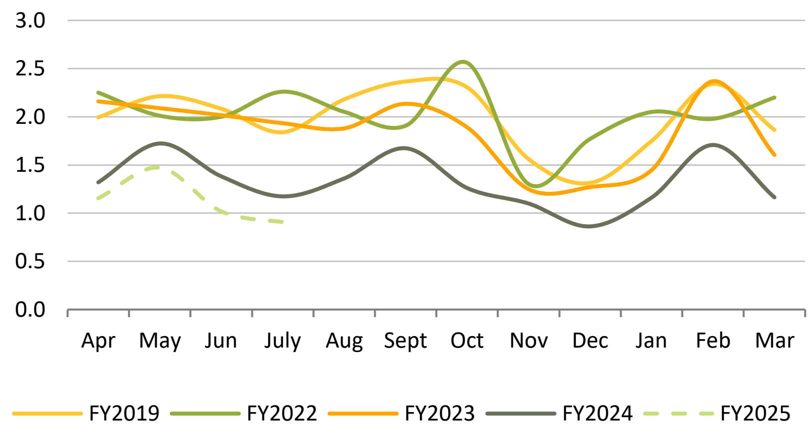
Exhibit: Trend in CPD exports from India ($ billion)



Source: GJEPC, ICRA Research

Exhibit: Monthly trends in CPD exports from India ($ billion)



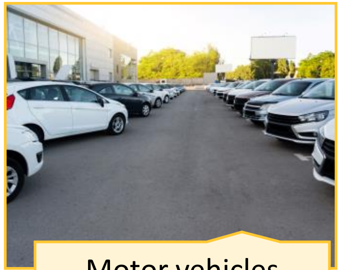
Source: GJEPC; ICRA Research

- The demand pressure continues in the current fiscal, with industry further witnessing a YoY decrease of ~19% in exports to $4.6 billion in 4M FY2025, led by 10% drop in volumes and 9% fall in average polished realisation.
- Overall, ICRA expects the cut and polished diamonds (CPD) exports from India to contract by 18-19%, arising from ~13-14% decline in volumes and ~5-6% fall in average polished realisation as players will look to offload their current high inventory holding. This will thus result in decadal low exports from India.

Economy: GST compensation cess would need to be re-purposed after March 2026

Exhibit: Some items on which GSTCC is levied

Pan masala, tobacco and cigarettes



Motor vehicles including SUVs

Aircrafts, yachts for personal use

Aerated waters, lemonade

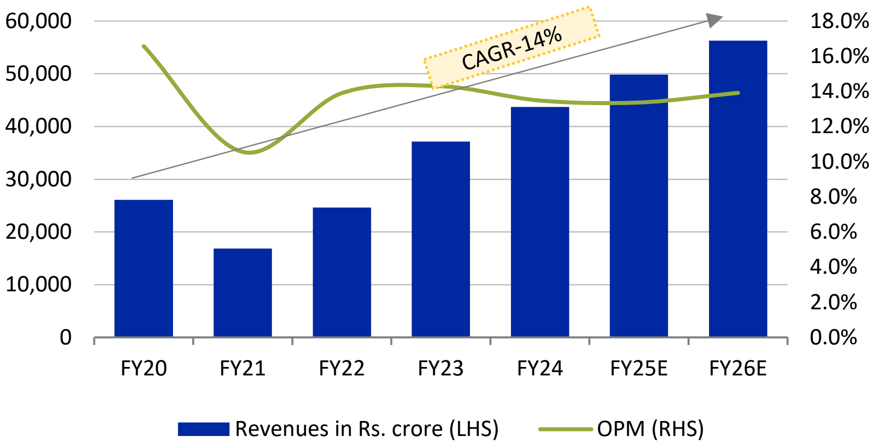
Coal and briquettes

Source: ICRA Research

- The levy of the goods and services tax (GST) compensation cess had been extended until March 2026. If it is to be levied beyond this date, the purpose for that would need to be identified, as a cess can be imposed only for a specific purpose. One potential option is to revamp it into a “green cess”, to channelise such collections to finance green infra projects and energy transition requirements, for achieving India’s climate goals. Additionally, the petroleum, oils, and lubricants (POL) products can be brought under the GST regime and the cess proceeds can be used for compensating the state governments for losses, if any, due to this transition.

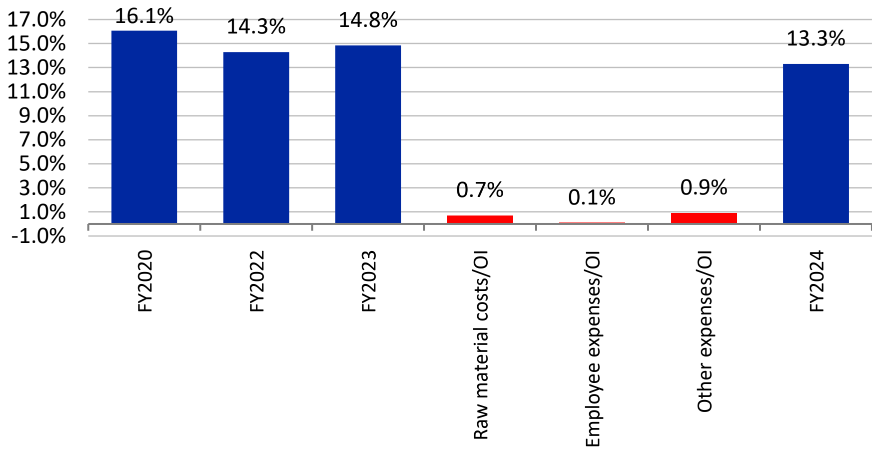
Retail - Fashion: Fashion retailers' OPM to remain range-bound at 13-14% in FY2025, despite a 14-15% revenue expansion

Exhibit: Trend in operating income and OPM (%)



Source: ICRA Research, Numbers are based on Ind AS; Note: Aggregate of 10 listed fashion industry players

Exhibit: OPM bridge



Source: ICRA Research; Note: Based on aggregate of 11 listed value and lifestyle fashion retailers

- The Indian fashion retail industry remains hopeful of demand recovery from Q3 FY2025 onwards, led by the festive season. While network expansion shall aid revenue growth of around 14-15% in FY2025 for entities in ICRA's sample set, the operating profit margin (OPM) shall remain range-bound at 13-14%, following the commensurate increase in advertisement spends to spur growth, as per our estimates.
- ICRA expects the OPM for FY2025 to be lower than the pre-pandemic levels by 310 bps.

Sugar: Removal of cap on sugar diversion and allowance of FCI rice for ethanol to aid blending target for ESY2025

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

Particulars	Feedstock		
	Rice from FCI	Broken Rice	Maize
Ethanol produced (in litres)	450	400	380
Ethanol realisation (Rs./litre)	58.50	64.00*	71.86*
Ethanol sales value (Rs.)	26,325	25,600	27,307
DDGS# sales value (Rs.)	4,500	3,800	3,610
Cost/MT of feedstock	(20,000)	(24,000)	(24,000)
Conversion cost (Rs.)	(4,050)	(3,600)	(3,420)
Margin	**6,775**	**1,800**	**3,497**
%	**22%**	**6%**	**11%**

*Source: ICRA Research, *price including relief amount, #Distillers Dried Grains with Soluble*

- Removing cap on sugar diversion along with allowing Food Corporation of India (FCI) rice to ethanol distilleries will lead to healthy increase in distillery volume, thereby supporting performance of integrated sugar mills in the second half of the year.
- The Indian Sugar Mill Association (ISMA) has requested for an increase in ethanol prices with the rise in FRP for SY2025, which will lead to higher conversion costs.

State Finances: Several states may consider switching to UPS once operational details are available

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From the fiscal point of view, the NPS remains the most prudent and sustainable pension system for the state/Union governments as it limits their liability to the contribution to the designated fund.

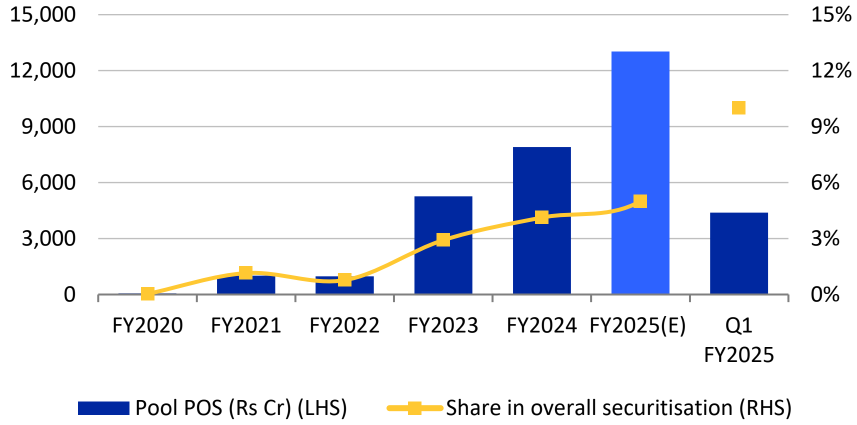
However, employees would prefer the assurance offered by the UPS. Several operational details are awaited, which would aid in calculating the cost to the state governments, of switching to the UPS. If we use the GoI's estimated cost per annum of 0.02% of GDP and double it, given the state governments' current pension, expenditure is twice as large as that of the Centre, entailing a mild outlay of 0.04% of GDP for the states.

Once the operational details are available and if the fiscal costs are as modest as estimated above, we expect several of the 18 states (excluding those six states that have either reverted or planning to revert to OPS*, AP and Maharashtra) currently following the NPS to consider switching to the UPS.

*Note: * Does not include Karnataka and Uttar Pradesh, who have implemented OPS for certain section of employees*
Source: ICRA Research

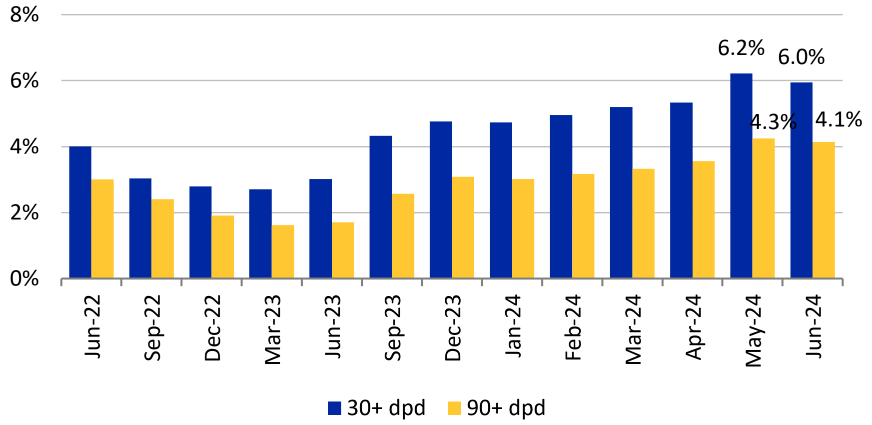
Structured Finance: Personal loan securitisation continues to thrive; analysis of past pool performance provides valuable insights

Exhibit: PL annual securitisation volumes (PTC+DA)



Source: ICRA Research

Exhibit: Delinquencies in ICRA-rated personal loan pools



Source: ICRA Research, dpd – days past due

- The volume of personal loans* securitisation has seen a growth of ~7 times over the past two years. Further, ICRA expects the securitisation volumes of PL to increase to ~Rs, 13,000 crore on the back of growing portfolio size of the lenders as well as entry of domestic private banks in the securitisation market.
- Foreign banks / investors have recently shown keen interest in this asset class due to higher yields, despite the presence of high credit enhancements.
- Delinquency trends in ICRA-rated pools are in line with expectations wherein perceived risky borrowers have reported weaker performance.

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Thank You!