



Monthly Research Compendium

February 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 January 2024

Budget: Interim Budget FY2025 – fiscal performance of Government of India

Budget: Interim Budget FY2025 – sectoral impact

Cross-sectoral trends & outlook: The Suez Canal – India's maritime trade with Europe and USA in rough waters; delay and cost escalation likely

Ferrous metals: Iron ore pellet production to reach an all-time high in FY2024; profitability of merchant pellet players to remain supported by lucrative exports

HFC: Proposed regulatory changes unlikely to materially impact deposit-accepting HFCs

Power: Smart metering installations expected to witness a sharp increase over the next two years

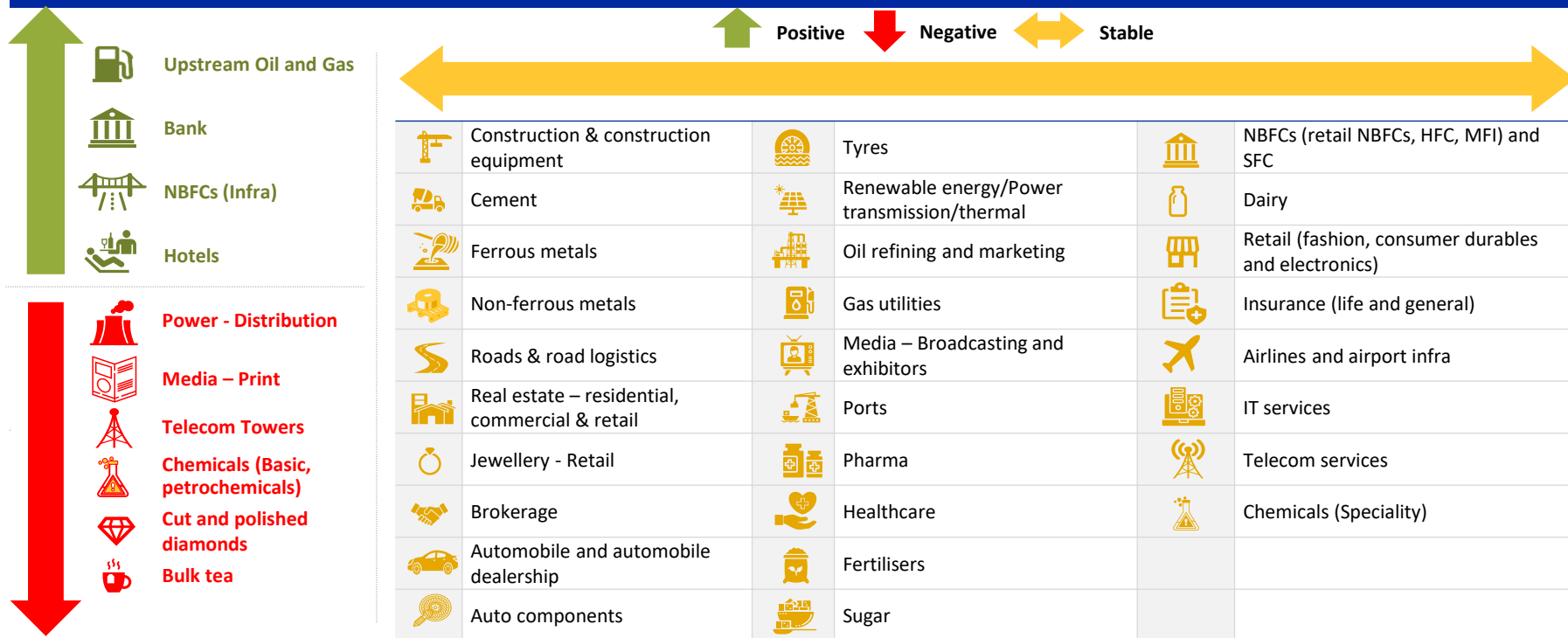
Real estate: Despite sizeable supply, occupancy is expected to sustain at ~88% for Grade A office space in Pune supported by healthy net absorption

Real estate: Sustained end-user demand to drive 12-14% growth in area sold in Pune in FY2024

Securities broking: Share of commercial paper funding in capital market exposures at all-time high

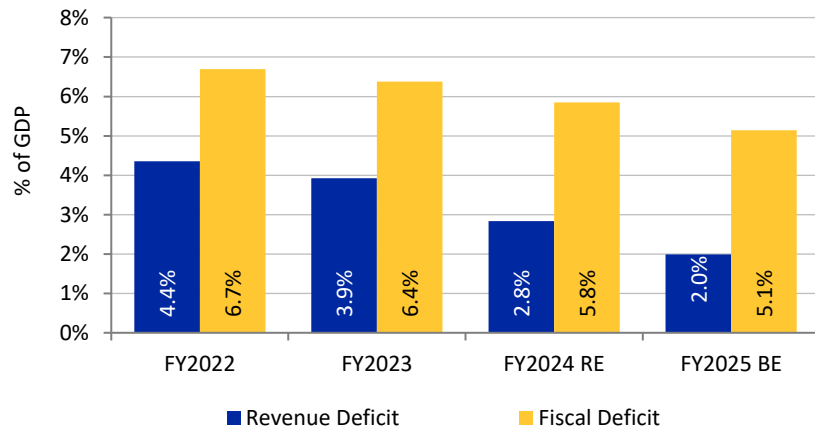
State Finances: Adoption of Working Group's guidelines by states could boost prudence in guarantee extension, improve monitoring

Outlook for FY2024



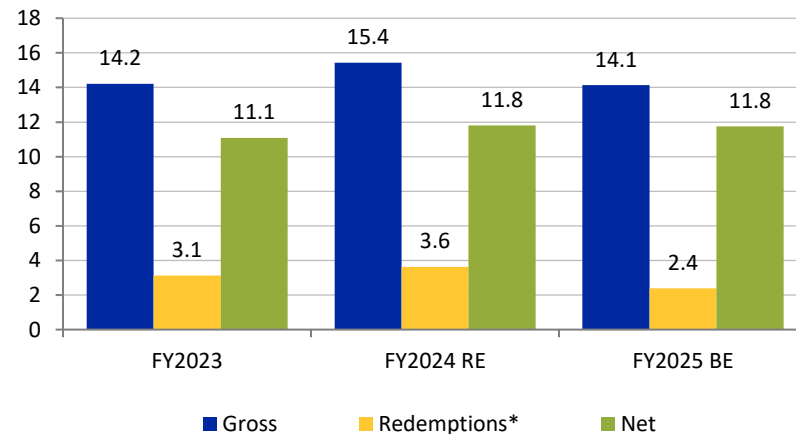
Source: ICRA Research

Exhibit: Gol's Revenue and Fiscal Deficit (as % of GDP)



RE: Revised Estimates; BE: Budget Estimates; Source: Union Budget, Gol; ICRA Research

Exhibit: Gol's Gross and Net Market Borrowings (Rs. Trillion)



*Redemptions for FY2024 RE and FY2025 BE are adjusted for recovery of Rs. 0.78 trillion and Rs. 1.2 trillion, respectively, from GST Compensation Fund; Source: Union Budget, Gol; ICRA Research

- The faster-than-anticipated fiscal consolidation and the dip in market borrowings, along with the bond index inclusion, will help to cool yields of Government of India securities (G-sec) in the near term. While the Gol's commitment to cut the fiscal deficit to sub-4.5% is commendable, with the on-budget capex amounting to 3.4% of the GDP, further fiscal consolidation beyond FY2025 would progressively become more challenging.

Budget: Interim Budget FY2025 – sectoral impact

Sector	Impact	Sector	Impact
AGRICULTURE	↑	HEALTHCARE	↔
AUTOMOTIVE – COMMERCIAL VEHICLES	↔	HOSPITALITY AND TOURISM	↑
AUTOMOTIVE – PV/2W	↔	INFRASTRUCTURE	↑
AVIATION	↑	OIL AND GAS	↔
BFSI	↔	PORTS, SHIPPING AND SHIPBUILDING	↔
CAPITAL GOODS	↑	POWER & RENEWABLES	↑
CEMENT	↑	ROADS & HIGHWAYS	↔
DAIRY	↑	STEEL	↑
FERTILISER	↔		

↑	Positive	↔	Neutral	↓	Negative
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Cross-sectoral trends & outlook: The Suez Canal – India's maritime trade with Europe and USA in rough waters; delay and cost escalation likely

Exhibit: Suez canal offers major time and costs savings over alternate routes

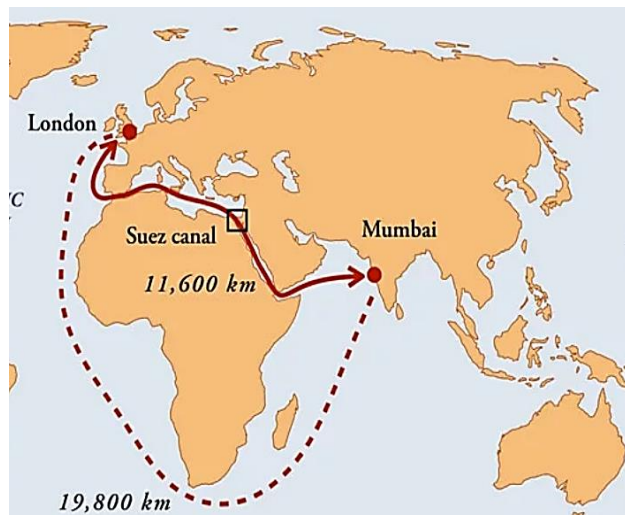
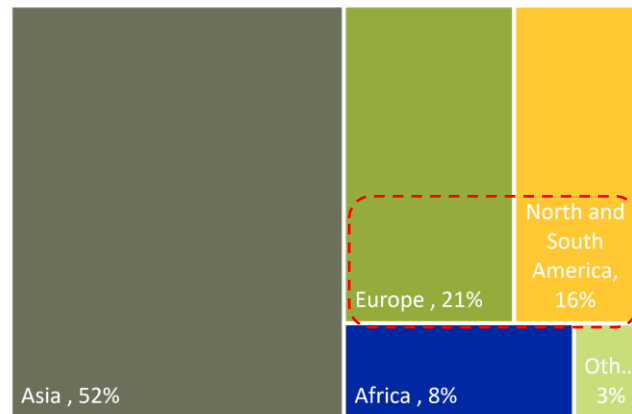


Exhibit: India's foreign trade region-wise (FY2023)



Suez Canal route for trade with European countries, North Africa and North and South America, consists of more than 35% of its total foreign trade

- India is surrounded by water on three sides, hence sea transport or maritime transport plays a major role in its international trade. According to the World Bank, the share of seaborne trade in India's total foreign trade is 95% by volume and 67% by value.
- The Canal has been in operation since 1896 and is the fastest route for shipping goods between Asia and Europe. It reduces travel distance between India's west coast and Europe by ~15 days vis-à-vis the Cape of Good Hope and results in significant savings on freight costs.

Ferrous metals: Iron ore pellet production to reach an all-time high in FY2024; profitability of merchant pellet players to remain supported by lucrative exports

Exhibit: Gross contribution comparison – Domestic vs exports

Particulars	Indicator	Unit	Odisha			
			Oct-23		Dec-23	
			Domestic	Exports	Domestic	Exports
Iron ore fines specific consumption	A	MT/MT of pellet	1.1	1.1	1.1	1.1
Iron ore fines price (NMDC 64% Fe)*	B	Rs./MT	4,444	4,444	4,660	4,660
Transportation from mine to plant	C	Rs./MT of ore	750	750	750	750
Consumption cost (of iron ore for pellets)	D= A*(B+C)	Rs./MT of pellet	5,713	5,713	5,951	5,951
Other consumables and power cost	E	Rs./MT of pellet	1,250	1,250	1,250	1,250
Total variable cost	F=D+E	Rs./MT of pellet	6,963	6,963	7,201	7,201
Realisation	G	Rs./MT	8,435@	9,405^	9,325@	10,573^
Freight costs (for exports)	H	Rs./MT	0	600	0	600
Gross contribution	I=G-H-F	Rs./MT	1,472	1,842	2,124	2,772

Source: Steelmint, ICRA Research; *includes royalty and other taxes; @Prices based on 64% Fe Exw-Barbil; ^Prices based on 64% Fe (USD INR rate of 83.3)

- Pellet production is likely to reach an all-time high in FY2024 supported by strong domestic demand and YoY pick-up in exports.
- Improved demand for pellets from China in the recent months and consequent increase in export prices are expected to support the profitability of Indian merchant pellet exporters going forward.

HFC: Proposed regulatory changes unlikely to materially impact deposit-accepting HFCs

RBI harmonises various limits of deposit-accepting HFCs with that of deposit-accepting NBFCs

Current Position

vs

Proposed Position

3 times of NoF

Deposit Ceiling

1.5 times of NoF

>=12 months but <=120 months

Deposit Tenure

>=12 months but <=60 months

>13% of public deposits

Liquid Assets

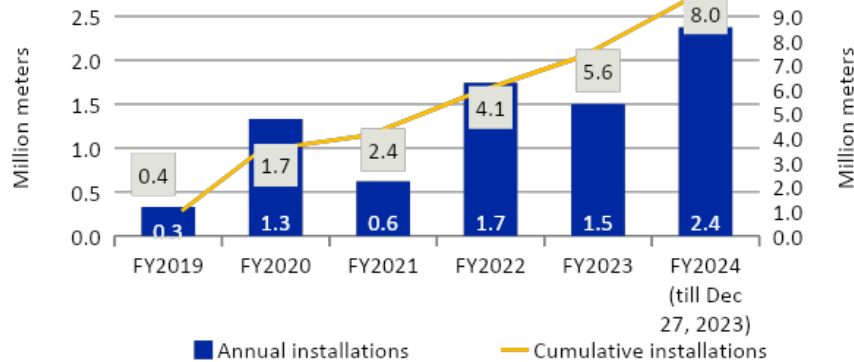
>15% of public deposits



No material impact envisaged on the deposit-accepting HFCs, given their adequate on-balance sheet liquidity and their deposits being within the prescribed ceiling (factoring in equity raise in YTD FY2024).

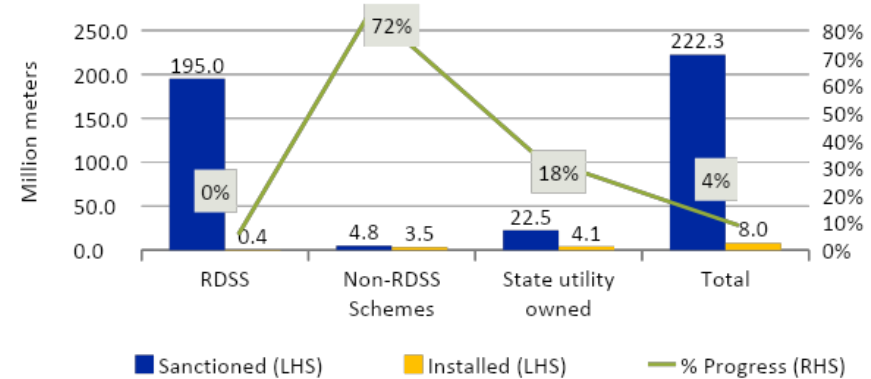
Power: Smart metering installations expected to witness a sharp increase over the next two years

Exhibit 7: Trends in annual and cumulative installations of smart meters



Source: ICRA Research, National Smart Grid Mission

Exhibit 8: Scheme-wise progress in smart meter installations

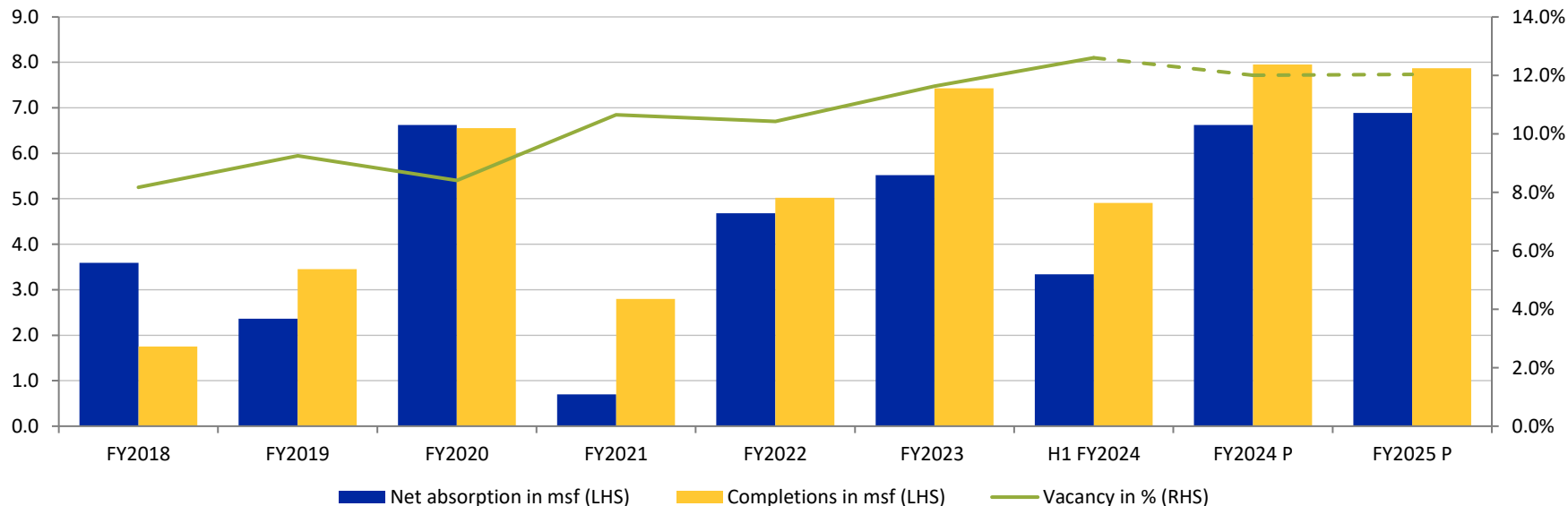


Source: ICRA Research, National Smart Grid Mission

- Adoption of the DBFOOT model would enable discoms to replace conventional meters with smart meters without any upfront capex.
- Demonstration of direct debit payment mechanism for advanced metering infrastructure service providers (AMISP) is expected to mitigate the counterparty credit risk associated with discoms to a large extent. Moreover, the tendering activity would remain high in the near to medium term considering the pending award of balance 123.6 million meters, providing order book visibility for AMISPs and meter manufacturers.

Real estate: Despite sizeable supply, occupancy is expected to sustain at ~88% for Grade A office space in Pune supported by healthy net absorption

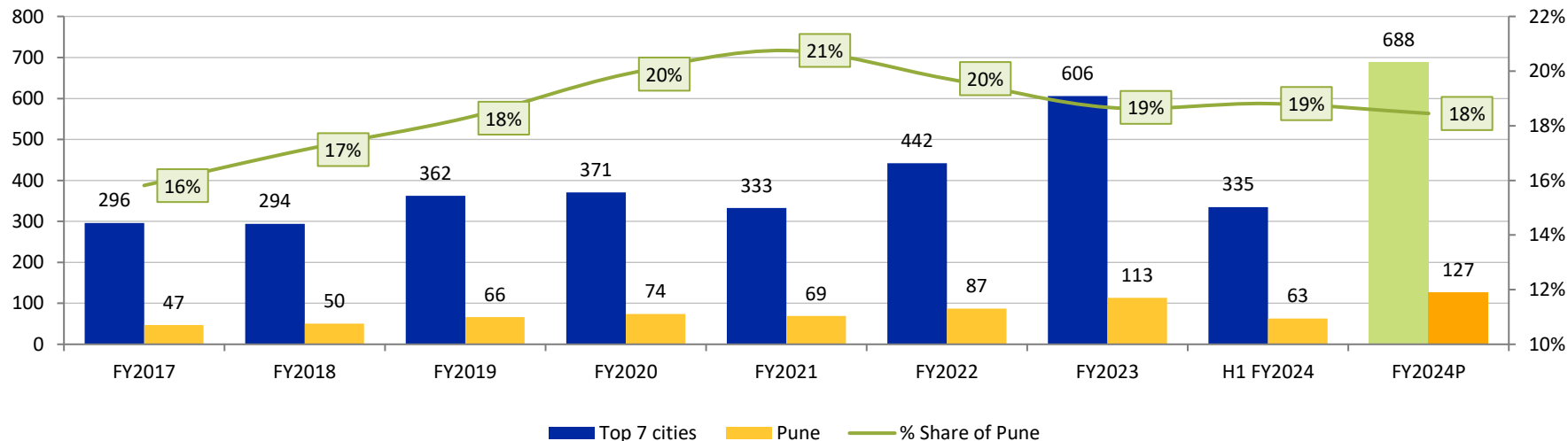
Exhibit 4: Trends in Incremental Supply, Absorption and Vacancy for Pune



Despite the sizeable upcoming supply in the Pune market, the vacancy levels are largely expected to be ~12% in FY2024 and FY2025, backed by healthy leasing demand. Also, they are likely to trail the aggregate levels of the top six cities of ~16%.

Real estate: Sustained end-user demand to drive 12-14% growth in area sold in Pune in FY2024

Exhibit: Trend in annual sales for top-seven cities and Pune (in msf)

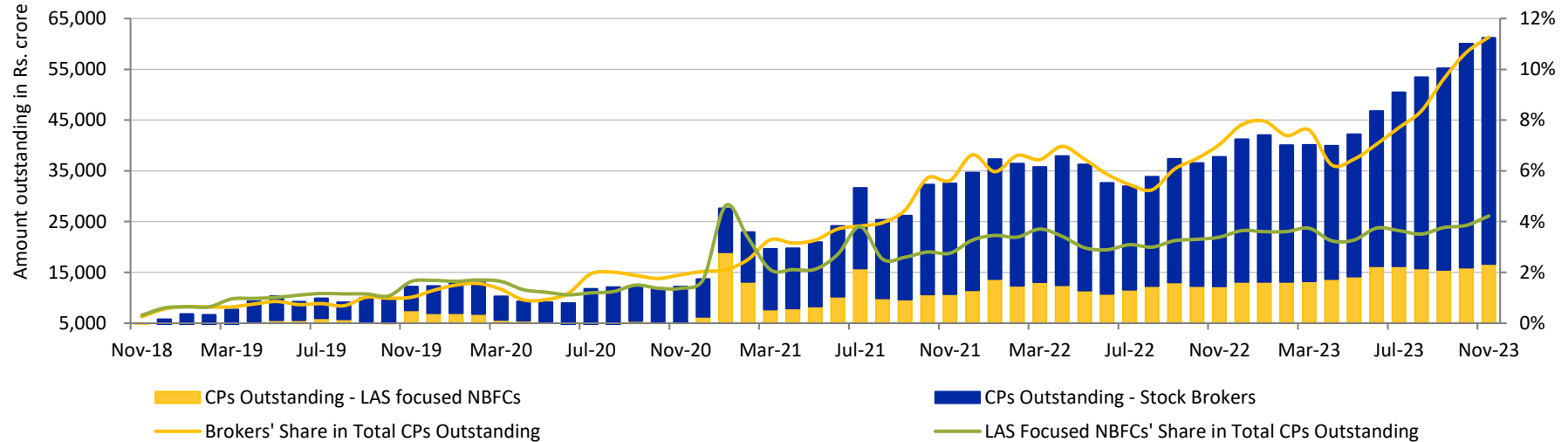


- Calibrated launches and healthy sales momentum contributed to notable reduction in the inventory overhang with an improvement in years-to-sell (YTS) at 0.8 years as of September 2023 from 1.8 years as of September 2020.
- Area sold in the Pune market is expected to expand by 12-14% in FY2024, supported by continued end-user demand.

Source: ICRA Research and Propequity; msf: million square feet; data excluding stalled projects

Securities broking: Share of commercial paper funding in capital market exposures at all-time high

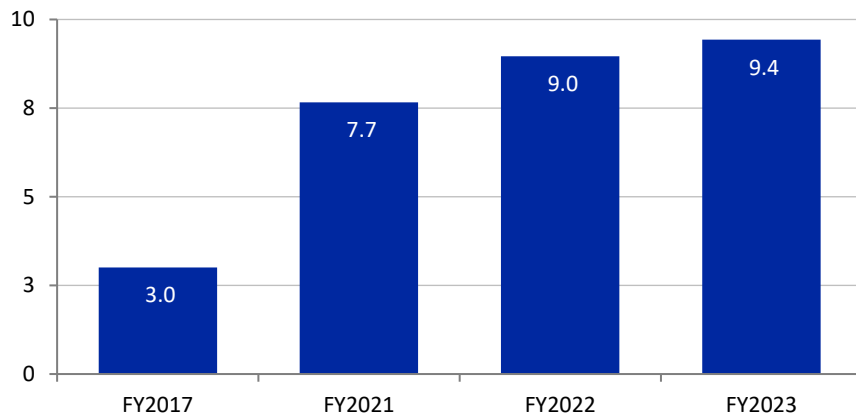
Exhibit: Trend in CP outstanding for ICRA's sample set of stockbrokers and LAS-focused NBFCs*



- Share of CP funding in capital market exposures reaches all-time high as money markets remain primary source of funding for brokers and LAS providers.
- While CP borrowings have been a major source for the industry, the trend has been more dominant with bank brokers. Supported by their competitiveness in raising money from market instruments, CPs account for ~90% of the borrowings of bank brokers.

State Finances: Adoption of Working Group's guidelines by states could boost prudence in guarantee extension, improve monitoring

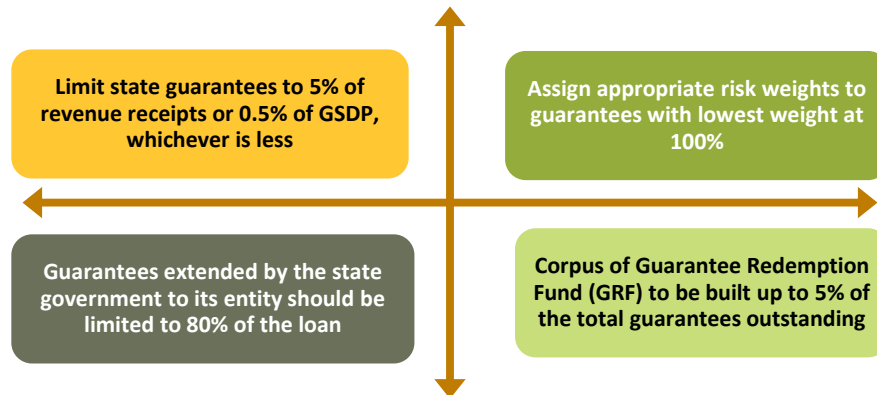
Exhibit: Combined guarantee stock of 17 states* (Rs. Trillion)



Source: Comptroller and Auditor General of India (CAG); Reserve Bank of India (RBI); ICRA Research

*Excludes north-east and hilly states and Goa

Exhibit: Key recommendations of RBI's WG



- The Working Group (WG) on State Government Guarantees set up by the RBI in 2022, recently released its report. The guidelines include tighter rules for ascertaining guarantee ceiling by a state government than is being currently implemented by most states as well as assigning risk weights to these, in addition to enhanced monitoring. The guidelines state that guarantees should not be extended for external commercial borrowings, the amount should be limited to 80% of the loan etc.
- Moreover, the guarantees should not be used for obtaining finance through state-owned entities, which substitutes budgetary resources of the state government.



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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
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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