



# Monthly Research Compendium

April 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 March 2024

**Alcohol Beverages:** Operating profit margin to expand by 50-100 bps in FY2025 with steady demand and moderation in key input costs

**Consumer durable:** Room Air-Conditioner - Healthy demand to result in volume growth of 8-10% in FY2025

**Cross sectoral trends and outlook:** NIP deployment concentrated in transport, renewable energy, affordable housing and irrigation

**Cut and polished diamonds (CPD):** CPD exports to remain below pre-pandemic levels in FY2024 and FY2025; sector outlook remains Negative

**Economy:** Household financial savings unlikely to rise appreciably in FY2024 from 5.3% of GDP in FY2023, amid rapid increase in borrowings

**Fertiliser:** Profitability of most NPK fertilisers expected to improve with revision in NBS rates; DAP, however, continues to face margin pressures

**Hospitals:** ARPOB growth continues to drive industry revenues

**NBFC:** ICRA Survey - Issuer optimism for FY2025 could be dented by the recent regulatory developments

**NBFC - MFI:** Lending rates likely to moderate, however, earnings to remain healthy in FY2025

**NBFC – Digital lenders:** Digital lenders face the heat as funding conditions tighten

**Real estate - commercial:** Delhi NCR - Occupancy levels are expected to improve by ~500 bps by March 2025 over March 2022







**Real estate - commercial:** Chennai - Healthy pre-leasing at 43% of ~6.7 msf of upcoming supply in FY2025 to result in stable occupancy levels
































**Refining & marketing:** Reduction in fuel prices to impact marketing margins of the OMCs

**State finances:** Weighted average cost of SGS eased by 20 bps to 7.52% in FY2024, despite 33% surge in issuance

**Structure finance:** Small finance banks tap the securitisation route; volumes to cross Rs. 10,000 crore in FY2024

 <b>Positive</b>	
	Hotels

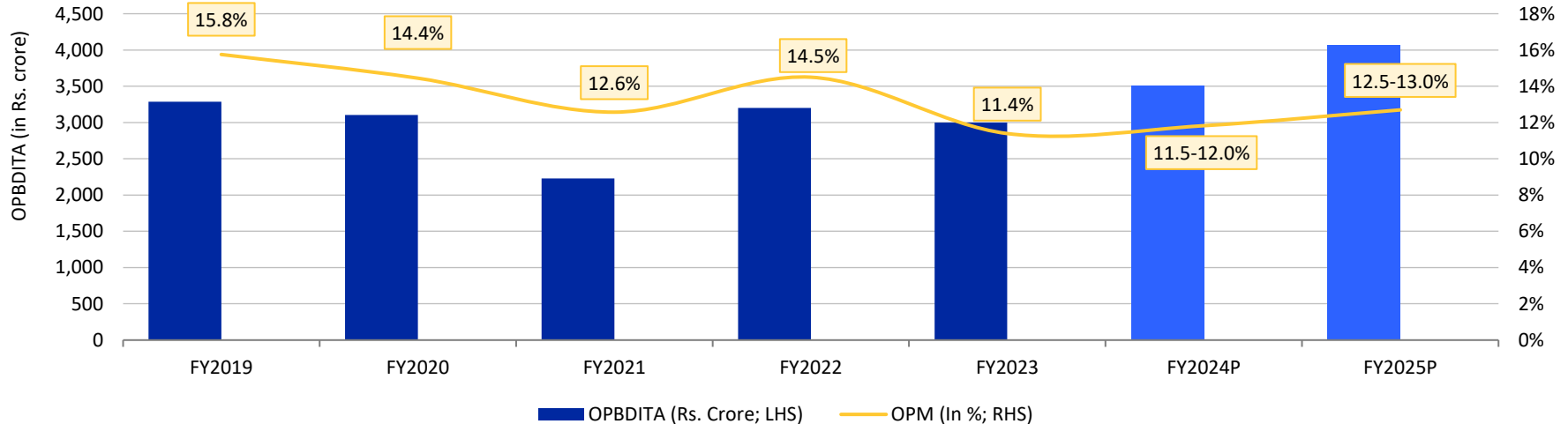
 <b>Negative</b>	
	Power – Distribution
	Media – Print
	Telecom Towers
	Chemicals (Basic, Petrochemicals)
	Cut and polished diamonds
	Bulk tea

 <b>Stable</b>					
	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; negative outlooks were assigned to five sectors in FY2024, in addition to Media – Print and Power – distribution (whose negative outlooks were retained in FY2024).

# Alcohol Beverages: Operating profit margin to expand by 50-100 bps in FY2025 with steady demand and moderation in key input costs

Exhibit: Trend in OPBDITA (in Rs. crore) and OPM for ICRA Sample Set Companies

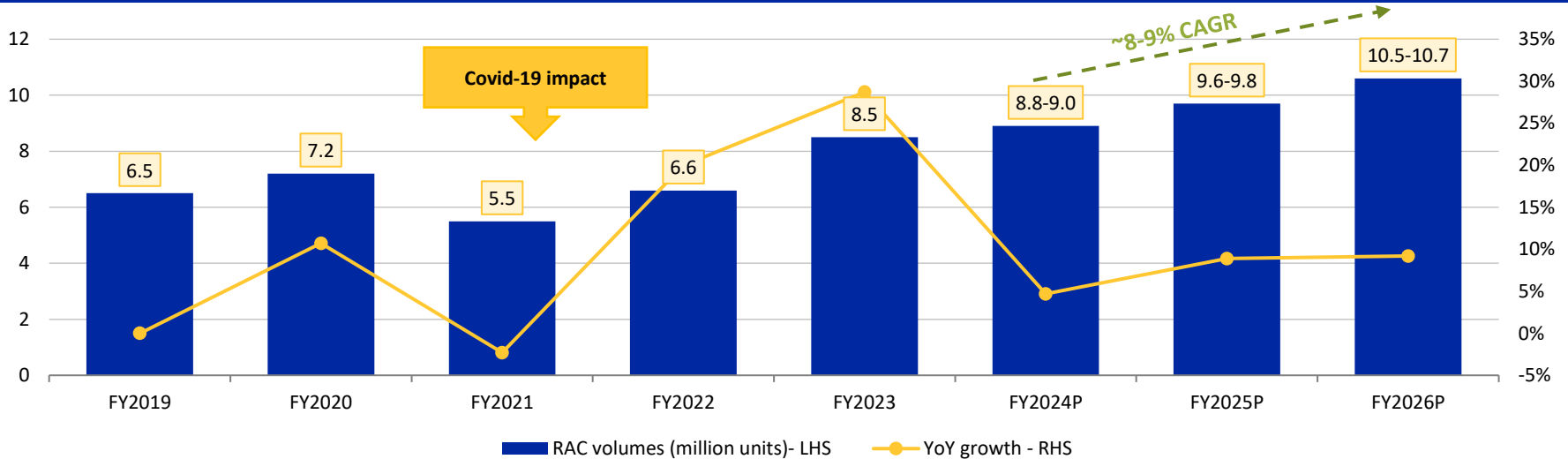


- Alcobev manufacturers have received price hikes across many states in the current fiscal, which, along with steady demand, is supporting profitability in FY2024, resulting in a 10-50 bps YoY improvement in OPM. A moderation in packing material costs is expected to negate the rise in grain prices, which, coupled with continued healthy demand, will result in a 50-100 bps improvement in OPM in FY2025.

Source: Company financials, ICRA Research, ICRA sample set of eight companies - Associated Alcohols & Breweries Limited, GM Breweries Limited, Mohan Meakin Limited, Radico Khaitan Limited, Som Distilleries & Breweries Limited, Tilaknagar Industries Limited, United Spirits Limited and United Breweries Limited

# Consumer durable: Room Air-Conditioner - Healthy demand to result in volume growth of 8-10% in FY2025

Exhibit: Domestic RAC volume trends (in million units)



- ICRA expects Indian RAC industry volumes to reach ~9.6-9.8 million in FY2025, implying a YoY growth of ~8-10%, post a moderate YoY rise of 4-6% in FY2024 to ~8.8-9.0 million. Summer of CY2024 to be crucial for growth revival.
- ICRA expects the industry to witness healthy indigenisation through the ongoing backward integration by most industry players, propelled by the GoI's PLI scheme.

Source: Company reports, Statista, ICRA Research; \*as per Indian Meteorological Department

# Cross-sectoral trends and outlook: NIP deployment concentrated in transport, renewable energy, affordable housing and irrigation

National Infrastructure Pipeline (NIP) was launched in 2019 with an investment of ~Rs. 111 trillion, which has since expanded to ~Rs. 160 trillion (as of March 2024)

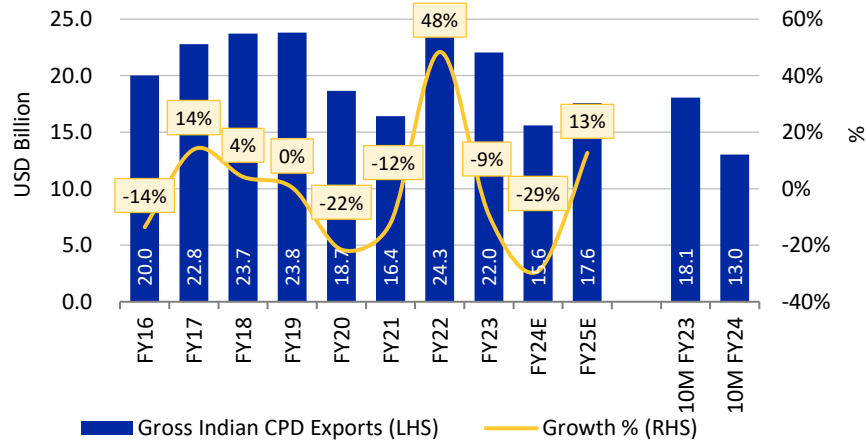
## Exhibit: NIP projects and investment coverage

Year 2019 – NIP launch		Added during FY2020-24		As on March 2024
<b>Number of projects</b>	<p>NIP was launched with 6,835 projects, of which:</p> <ul style="list-style-type: none"> <li>~25% is completed</li> <li>~65% is under implementation</li> <li>~10% is still under conceptualisation</li> </ul>	<b>Number of projects</b>	<p>Since its launch, around 2,665 projects have been added to NIP during FY2020-FY2024.</p> <p>Most of these projects are expected to be under conceptualisation-currently.</p>	<b>Number of projects</b>
More than 6,835		More than 2,665		More than 9,500
<b>Estimated investment</b>		<b>Estimated investment</b>		<b>Estimated investment</b>
Rs. 111 trillion		Rs. 49 trillion		Rs. 160 trillion

- According to the [summary report by the Ministry of Finance](#), 4,497 projects are currently under implementation while 1,824 have been completed as on date. The number of projects added after the launch, during FY2020-FY2024, stands at ~2,600 with an investment of Rs. 49 trillion. At present, the projects are at their conceptualisation stages (as of March 2024).

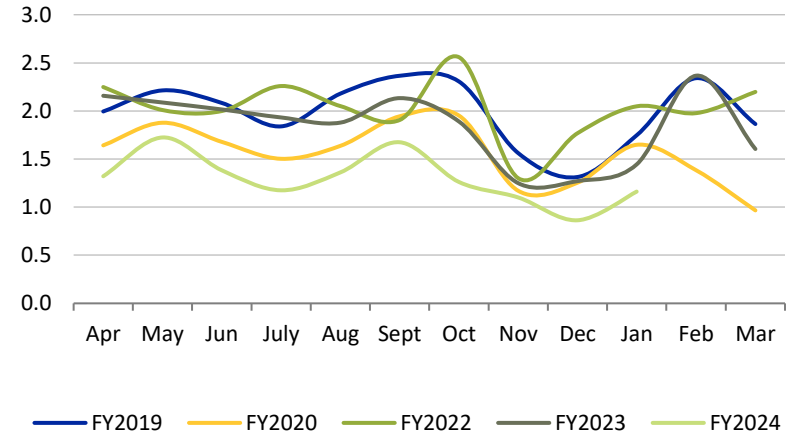
# Cut and polished diamonds (CPD): CPD exports to remain below pre-pandemic levels in FY2024 and FY2025; sector outlook remains Negative

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



Source: GJEPC, ICRA Research

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

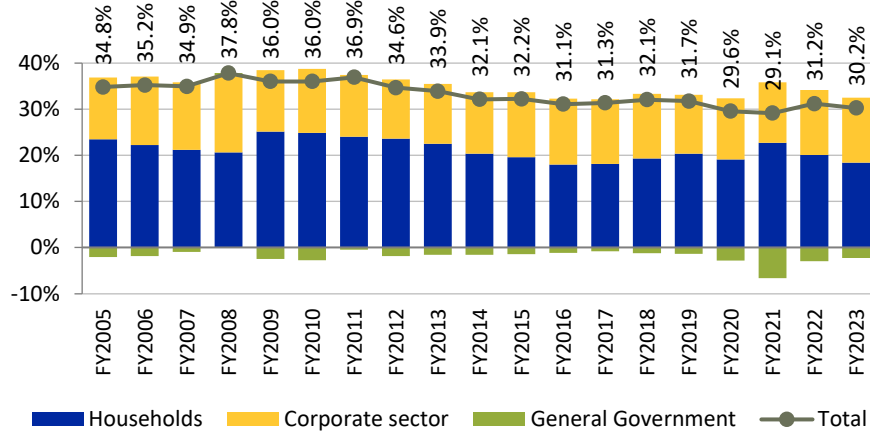


Source: Gems and Jewellery Export Promotion Council

- ICRA expects CPD export volumes and polished prices to grow by ~9-10% YoY, respectively, in FY2025, driven by improvement in demand conditions on the back of the upcoming festive/holiday season, largely in key consuming markets i.e., the US and China. While this would lead to a 13% increase in the value of exports in FY2025 to \$17.6 billion due to a lower base, it is unlikely to reach the pre-pandemic levels.
- While the controlled working capital cycle partly counterbalanced the impact of demand slowdown and weakening of margins, a continuation of the same in FY2025 would be critical from the credit perspective.

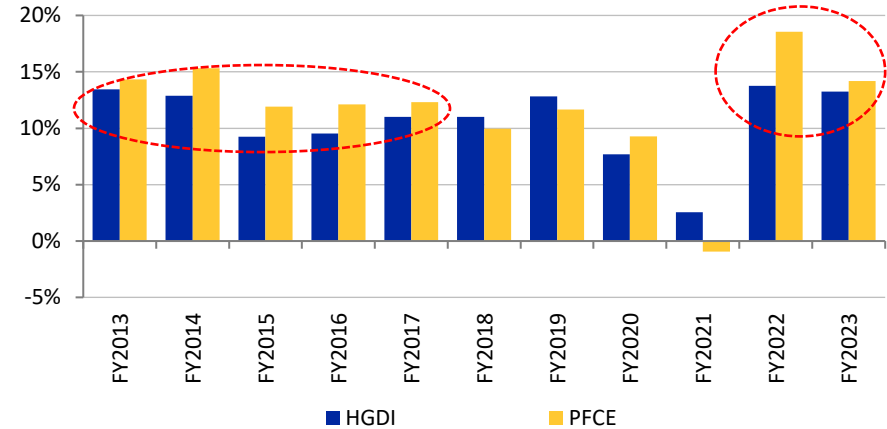
# Economy: Household financial savings unlikely to rise appreciably in FY2024 from 5.3% of GDP in FY2023, amid rapid increase in borrowings

Exhibit: Composition of gross savings (as % of GDP)



Source: NSO; CEIC; ICRA Research

Exhibit: YoY growth in household gross disposable income (HGDI) and private final consumption expenditure (PFCE) at current prices



GD of Households = GNDI – GDI of Govt. – Gross Savings of All Corporations; Households include non-profit institutions serving households; Source: NSO; ICRA Research

- The gross savings rate eased to 30.2% in FY2023 from 31.2% in FY2022, led by a sharp fall in the household (HH) savings rate
- HH net financial savings dipped to a 43-year low of 5.3% in FY2023 amid a surge in borrowings for consumption
- Given that HHs are net suppliers of savings, the sharp fall in HH net financial savings that was seen during FY2022-23 needs to reverse to support a sustained corporate capex cycle

# Fertiliser: Profitability of most NPK fertilisers expected to improve with revision in NBS rates; DAP continues to face margin pressures

## Exhibit: NBS rates

Rs./MT	FY20	FY21	May-21 to Sep-21	Oct-21 onwards*	H1 FY23	Q3 FY23	Q4 FY23	H1 FY24	H2 FY24	H1 FY25
<b>N</b>	18,901	18,789	18,789	18,789	91,960	98,020	99,270	76,490	47,020	47,020
<b>P</b>	15,216	14,888	45,323	45,323	72,740	66,930	49,940	41,030	20,820	28,720
<b>K</b>	11,124	10,116	10,116	10,116	25,310	23,650	25,700	15,910	2,380	2,380
<b>S</b>	3,562	2,374	2,374	2,374	6,940	6,120	2,840	2,800	1,890	1,890
<b>Product Subsidy</b>										
<b>DAP (18:46:0)</b>	10,402	10,231	24,231	32,991	50,103	48,431	40,841	32,641	22,541	21,675
<b>NPK 20:20:0:13</b>	7,286	7,044	15,154	17,154	33,842	33,786	30,211	23,868	13,814	15,394
<b>NPK 10:26:26</b>	8,739	8,380	16,293	18,293	34,690	33,353	29,593	22,453	10,734	12,788
<b>NPK 12:32:16</b>	8,917	8,637	18,377	20,377	38,362	36,964	32,005	24,854	12,686	15,214
<b>MOP</b>	6,674	6,070	6,070	6,070	15,186	14,190	15,420	9,547	1,428	1,428
<b>SSP</b>	2,887	2,766	7,513	7,513	7,513	7,513	7,513	7,513	3,540	4,804

- The Government of India (GoI) has approved the nutrient-based subsidy (NBS) rates for the upcoming kharif season of FY2025, translating into a subsidy allocation of Rs. 24,420 crore in H1 FY2025 for the P&K segment. There was an increase in the subsidy for phosphate (P), while subsidies for nitrogen (N), potash (K) and sulphur (S) remained unchanged. DAP is likely to continue to witness profitability pressures, while some improvement in the profitability of the NPK segment is expected. The GoI had made a budgetary allocation of Rs. 1.64 trillion towards fertiliser subsidy for FY2025, including Rs. 1.19 trillion for urea and Rs. 0.45 trillion for P&K fertilisers, which appears adequate at the current prices of raw material and finished fertilisers.

Source: DoF, ICRA Research; \*NBS rates were kept unchanged; although additional Rs. 438/50 kg bag of DAP and Rs. 2,000/MT for NPK fertilisers was provided by GoI; \*\* including Rs. 4,500/MT as special package

# Hospitals: ARPOB growth continues to drive industry revenues

Exhibit: Trend in payor mix for ICRA sample set companies

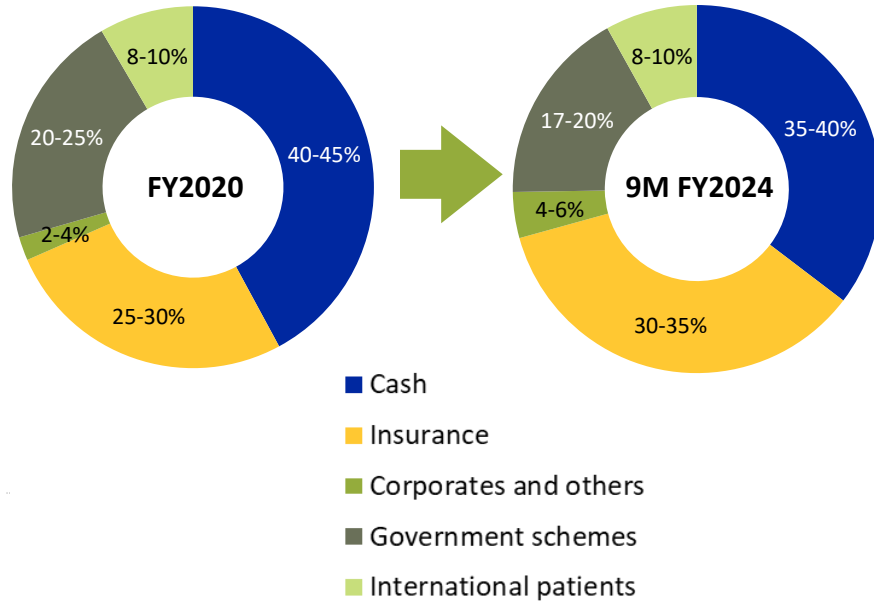


Exhibit: Comparison of ARPOB across payor categories

Payor	ARPOB
Cash	X
Insurance	5-20% lower than X
Government scheme	50-85% lower than X
International patients	30-50% higher than X

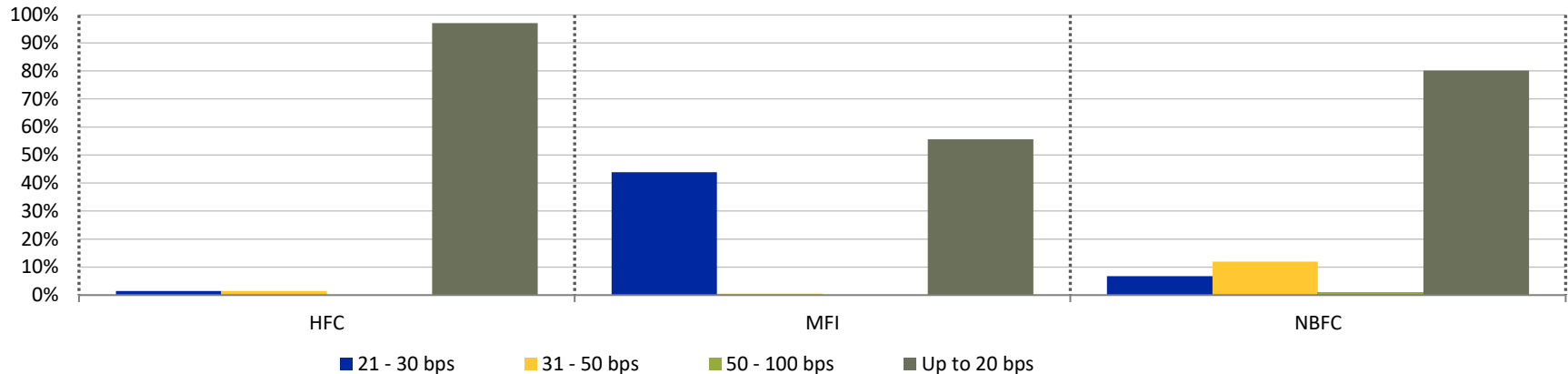
- ICRA expects YoY improvement in ARPOB of 8-10% in FY2024, with a moderation thereafter to 4-6% in FY2025.
- Growth in ARPOB supported by the better payor and case mix, price increases and continued strong international patient footfalls.

Source: Company data; ICRA Research; Average payor mix for ICRA's sample set, to the extent available

# NBFC: ICRA Survey - Issuer optimism for FY2025 could be dented by the recent regulatory developments

Over 85% of the issuers by AUM expect up to 20 bps increase in cost of borrowings

Exhibit : Expectation on increase in cost of borrowings (by AUM)



- Lenders continue to be optimistic on growth; 54% of the issuers (by AUM) project higher-than-20% AUM growth in FY2025.
- Lenders unanimously expect improvement in asset quality indicators.
- Despite the expected uptick in cost of funds, issuers expect profitability to remain largely stable in FY2025.

# NBFC - MFI: Lending rates likely to moderate, however, earnings to remain healthy in FY2025

Exhibit: Sensitivity analysis – Return on Managed Assets

		Yield on average loans					
		20.0%	21.0%	22.0%	23.0%	24.0%	25.0%
Credit cost / Average assets	0.5%	2.6%	3.4%	4.1%	4.9%	5.6%	6.4%
	1.0%	2.3%	3.0%	3.8%	4.5%	5.3%	6.0%
	1.5%	1.9%	2.6%	3.4%	4.1%	4.9%	5.6%
	2.0%	1.5%	2.3%	3.0%	3.8%	4.5%	5.3%
	2.5%	1.1%	1.9%	2.6%	3.4%	4.1%	4.9%
	3.0%	0.8%	1.5%	2.3%	3.0%	3.8%	4.5%
	3.5%	0.4%	1.1%	1.9%	2.6%	3.4%	4.1%
	4.0%	0.0%	0.8%	1.5%	2.3%	3.0%	3.8%

Exhibit: Sensitivity analysis – Return on Net Worth

		Yield on average loans					
		20.0%	21.0%	22.0%	23.0%	24.0%	25.0%
Credit cost / Average assets	0.5%	13.1%	16.9%	20.6%	24.4%	28.1%	31.9%
	1.0%	11.3%	15.0%	18.8%	22.5%	26.3%	30.0%
	1.5%	9.4%	13.1%	16.9%	20.6%	24.4%	28.1%
	2.0%	7.5%	11.3%	15.0%	18.8%	22.5%	26.3%
	2.5%	5.6%	9.4%	13.1%	16.9%	20.6%	24.4%
	3.0%	3.8%	7.5%	11.3%	15.0%	18.8%	22.5%
	3.5%	1.9%	5.6%	9.4%	13.1%	16.9%	20.6%
	4.0%	0.0%	3.8%	7.5%	11.3%	15.0%	18.8%

- With the revised regulatory framework in place from 2022, NBFC-MFIs raised their lending rates by 200-400 bps since then.
- The extent of increase in lending rates, however, has raised concerns, especially from the regulator. Subsequently, entities have started revising their lending rates downwards.
- Operating at leverage of 4.0-4.5 times with operating expenses at 5% of average managed assets, profitability is expected to remain healthy, even if NBFC-MFIs were to reduce their lending rates by 50-100 bps from the current levels.
- ICRA continues to maintain a Stable outlook on the sector with the expectation of healthy growth and profitability in FY2025.

# NBFC – Digital lenders: Digital lenders face the heat as funding conditions tighten

Exhibit: AUM growth

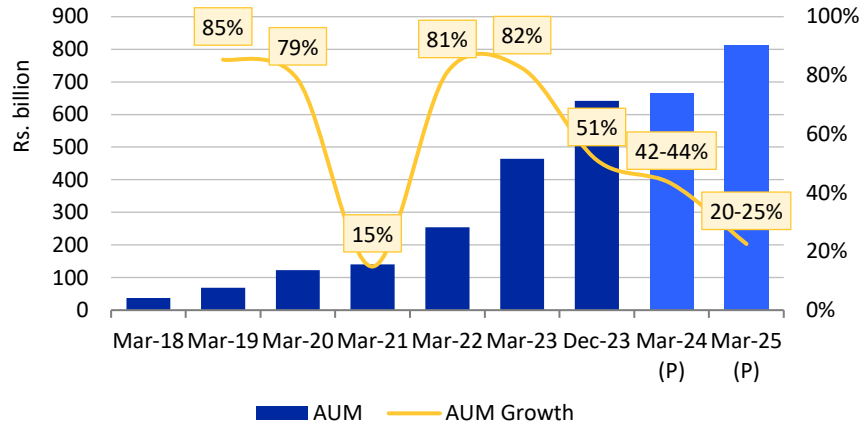
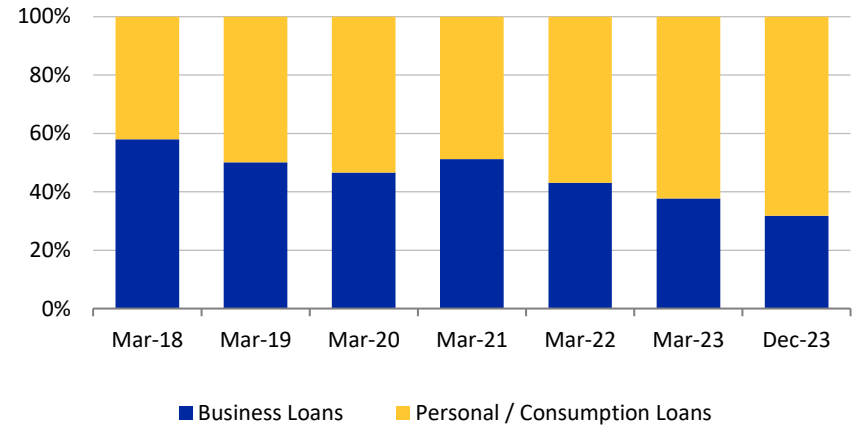


Exhibit: Segment-wise distribution of AUM

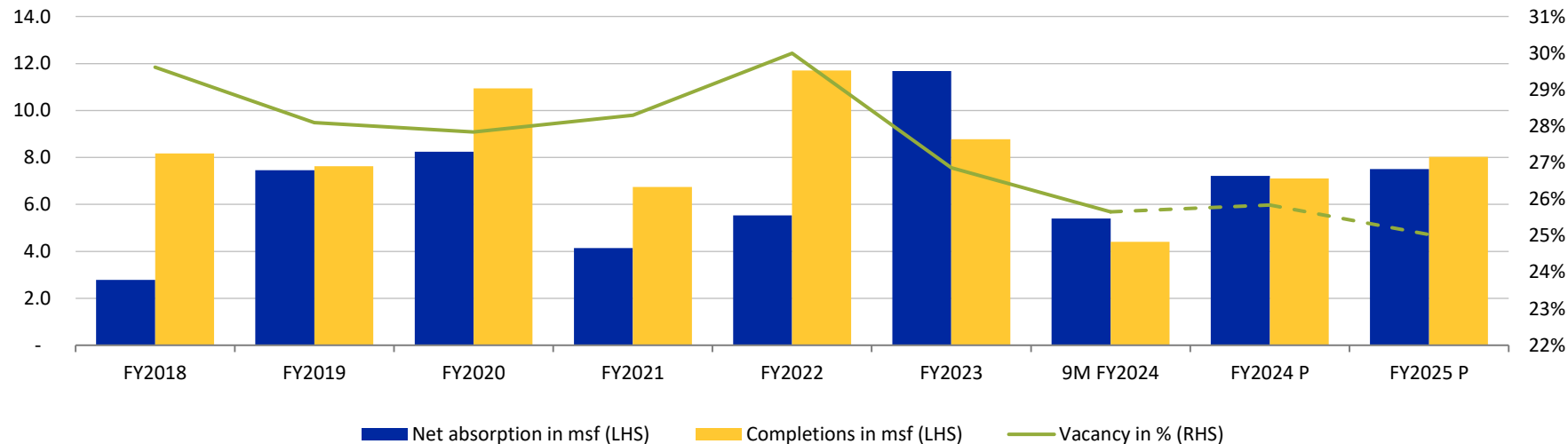


- Starting from a small base, digital lenders have witnessed exponential growth phases over the last few years. The Covid-19 pandemic was a dampener for this segment in FY2021. However, digital lenders were able to recover much faster than other segments, enabled by their inherently lower requirement for physical contact with customers, quick and technology-enabled processes, among other factors.
- Over the past five years, digital lenders have expanded their portfolio of consumer and business loans at a robust pace. However, the AUM growth in the consumer loans space was significantly higher at a CAGR of ~70% during this period compared to ~40% for the business loans. As a result, consumer loans accounted for more than two-thirds of the digital lending AUM as of December 2023.
- ICRA expects the AUM growth to slow down as tightening funding and capital conditions weigh in. As per ICRA's estimates, AUM growth in FY2024 is expected at ~42-44% YoY, which would slow down further to 20-25% YoY in FY2025.

Source: Based on sample set, ICRA Research; AUM pertains to the loans of the digital lending NBFCs and the loans originated through the same digital mode for the partner NBFCs/banks

# Real estate - commercial: Delhi NCR - Occupancy levels are expected to improve by ~500 bps by March 2025 over March 2022

Exhibit: Trends in net absorption, incremental supply and vacancy for Delhi NCR

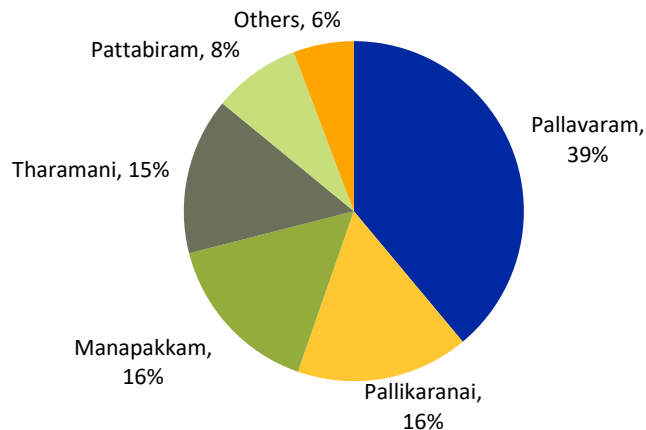


- The vacancy levels are the highest in Delhi NCR across the top six cities. The high vacancies are largely driven by low occupancy in the PBD of Gurugram where occupancies are only around 50%.
- However, occupancy in the last eight quarters has been improving, supported by healthy leasing from diverse sector tenants. The vacancy levels are expected to improve by ~500 bps by March 2025 compared to March 2022, which saw an all-time high.

Source: Propequity, ICRA Research

# Real estate - commercial: Chennai - Healthy pre-leasing at 43% of ~6.7 msf of upcoming supply in FY2025 to result in stable occupancy levels

Exhibit: Upcoming supply by micro-market in Chennai for FY2025



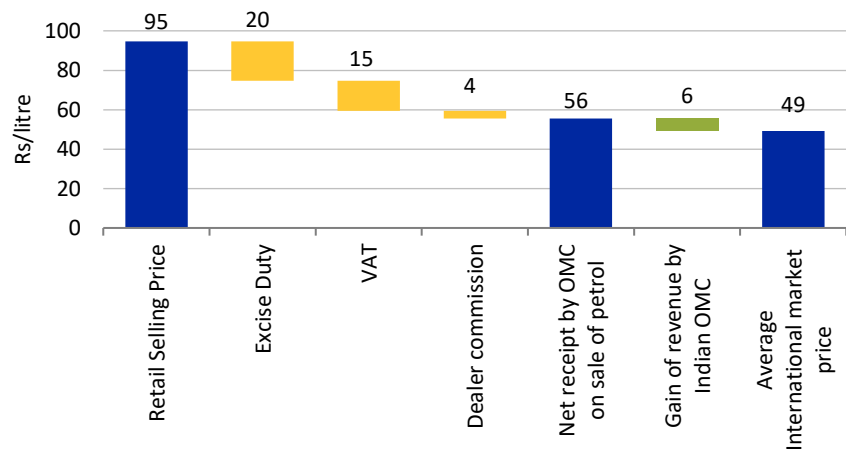
Source: Propequity, ICRA Research; Note: pre-leased data is as on December 31, 202

Top 10 projects expected to become operational in FY2025	Developers	Micro-market	Area in msf (Preleased in msf)
ITPC Phase 2 (Tower 2)	CapitaLand (Ascendas India)	Pallavaram	1.3 (0.0)
Commerzone (Commerzone (A))	K Raheja Corporation	Pallikaranai	1.1 (1.1)
Tidel Park II (Downtown Phase-I)	DLF Limited	Tharamani	1.0 (1.0)
Embassy Splendid TechZone (Block 1)	SNP Infrastructure	Pallavaram	0.61 (0.05)
TIDEL Pattabiram	TIDCO	Pattabiram	0.56 (0.00)
Innovation Campus (Tower 1)	Larsen & Toubro	Manapakkam	0.53 (0.53)
Innovation Campus (Tower 2)	Larsen & Toubro	Manapakkam	0.53 (0.53)
Embassy Splendid TechZone (Block 4 - Emerald)	SNP Infrastructure	Pallavaram	0.44 (0.17)
AGR commercial (Alliance Galleria Residences)	Alliance Group	Pallavaram	0.26 (0.00)
Olympia Pinnacle	Olympia Group (Khivraj Group)	Thoraipakkam	0.20 (0.20)

- Despite sizeable supply, the occupancy is estimated to sustain at 88.5-89% for Grade A office space in the Chennai market by March 2024 and March 2025, supported by expected healthy net absorption.
- Office supply is to increase at a CAGR of ~5% during FY2017–FY2025 (projected) for the Chennai market, which is lower than the estimated CAGR growth of ~7% for India's top six cities.

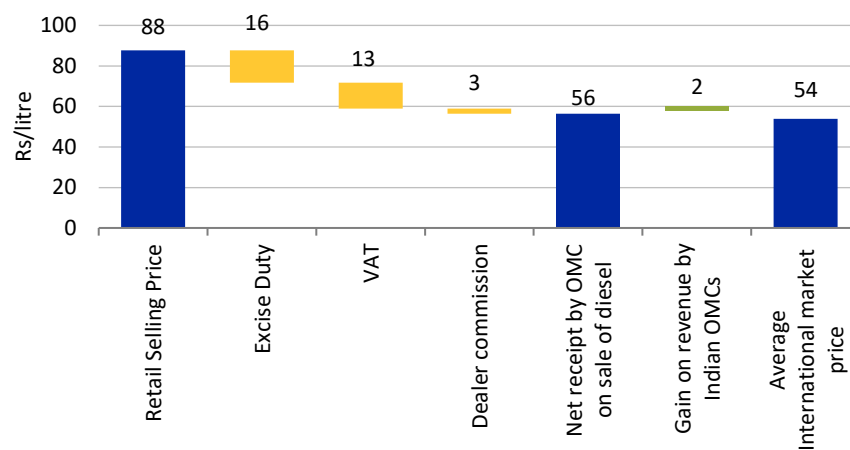
# Refining & marketing: Reduction in fuel prices to impact marketing margins of the OMCs

Exhibit: Retail selling price of petrol in India vs average international prices



Source: Bloomberg, PPAC, Retail selling price as on March 15, 2024, International prices based on Singapore 92 RON Spot Index and average till March 14, 2024

Exhibit: Retail selling price of diesel in India vs average international prices

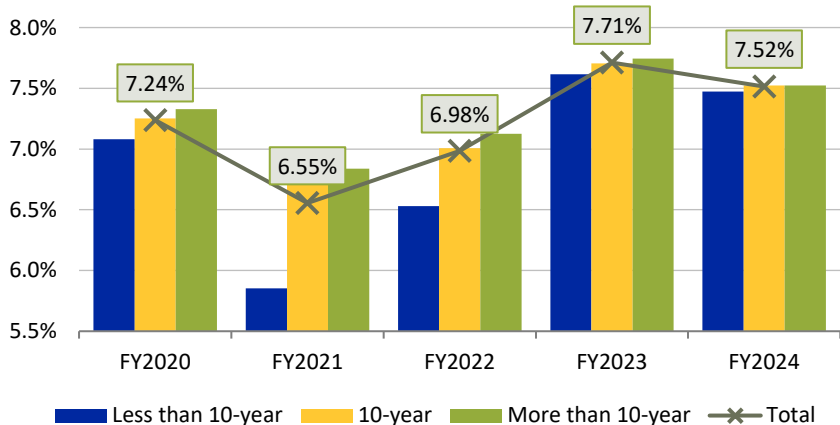


Source: Bloomberg, PPAC, Retail selling price as on March 15, 2024, International prices based on Singapore Gasoil 10ppm Spot and average till March 14, 2024

- ICRA estimates that net realisation of the OMCs exceeded the international product prices by ~Rs. 6/litre for petrol and ~Rs. 2/litre for diesel in March 2024, following the latest price revision.
- ICRA expects the decline in the retail selling prices to impact the marketing margins for the OMCs.
- The decline in revenues and operating profits on retail sales of auto fuels is estimated by ICRA at ~Rs. 330 billion in FY2025, considering the revised fuel prices.

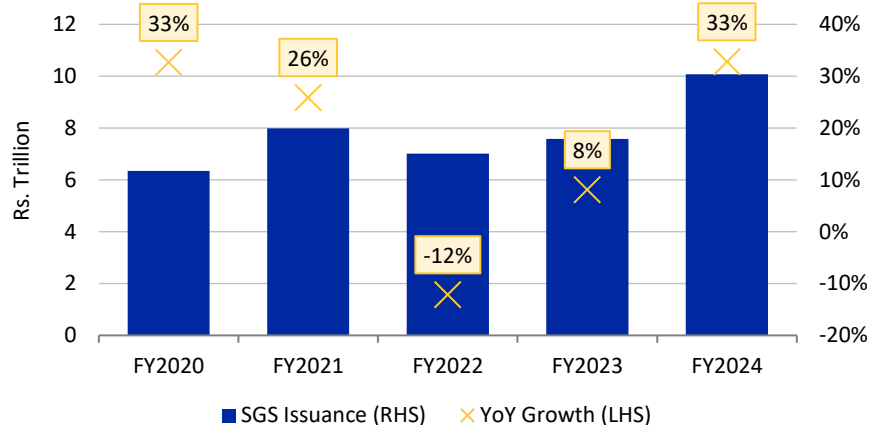
# State finances: Weighted average cost of SGS eased by 20 bps to 7.52% in FY2024, despite a 33% surge in issuance

Exhibit: Weighted average cut-off of SGS issuance



Source: RBI; ICRA Research

Exhibit: Trends in gross SGS issuance and YoY growth

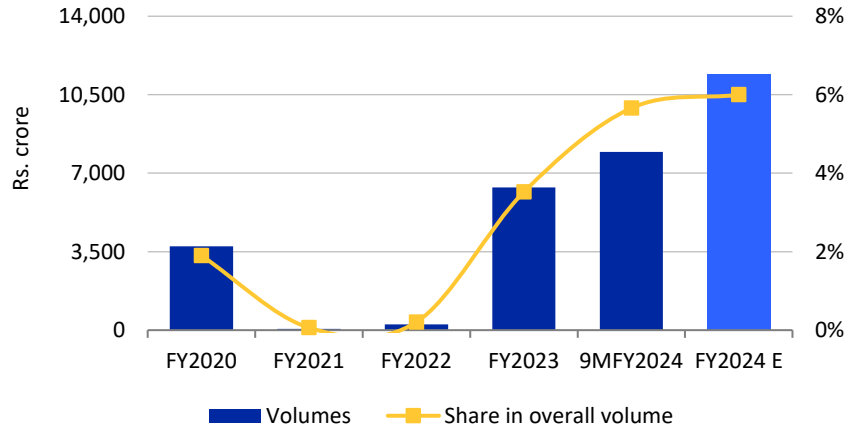


Source: RBI; ICRA Research

- 26 state governments and two Union Territories (UTs) issued gross State Government Securities (SGS) of Rs. 10.1 trillion in FY2024, ~33% higher than the Rs. 7.6 trillion issued in FY2023. Despite this, the weighted average cut-off (WAC) of the SGS dipped by 20 basis points (bps) to 7.52% in FY2024, from 7.71% in FY2023, led by a relatively sharper decline in rates for longer tenor papers.

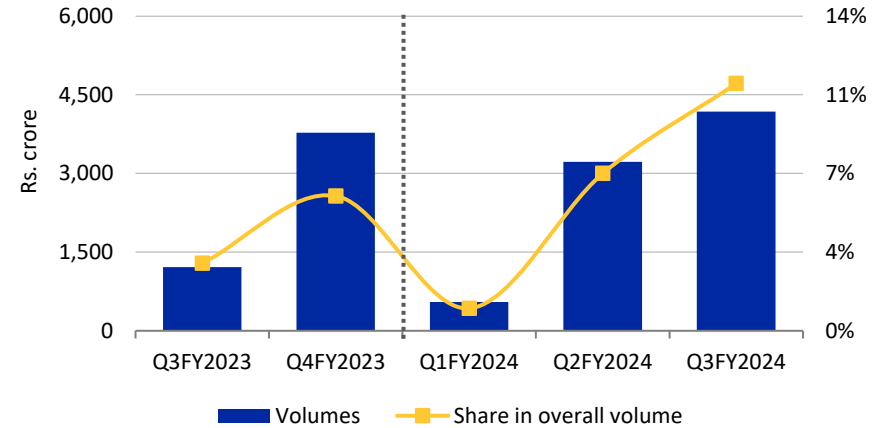
# Structure finance: Small finance banks tap the securitisation route; volumes to cross Rs. 10,000 crore in FY2024

**Exhibit: SFB originated volume and share in overall securitisation market**



Source: ICRA Research

**Exhibit: Trend of SFB originated volume and share for last five quarters**



Source: ICRA Research

- Small finance banks (SFB) have been tapping the securitisation market in recent times as a source of funding.
- ICRA expects the amount of funds raised through securitisation by SFBs to exceed Rs 10,000 crore in FY2024, as against Rs. 6,400 crore in FY2023, including both pass-through certificate (PTC) issuances as well as direct assignments (DA).



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