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Monthly Research Compendium

May 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

Summary

ICRA's Sectoral Outlook as of April 2024

Cross sectoral trends & outlook: Widening of conflict in Middle East could have macroeconomic implications; Iranian trade not significant for India

Economy: Import savings from discounted Russian crude estimated at $7.9 billion in 11M FY2024; falling discounts to enlarge oil imports, CAD in FY2025

Economy: IMD expects above-normal monsoon in 2024; adequate dispersion of monthly rainfall remains key to support kharif output

NBFC: Capital impact expected with clarification on default loss guarantee in digital lending; draft guidelines emphasise greater transparency

Real estate: Small and Medium REIT regulations could create monetisation opportunity of Rs. 68,000-71,000 crore for small office spaces

Renewable Energy: Superior tariff competitiveness and focus on sustainability drive capacity addition in C&I segment

Small Finance Banks: Glide path for small finance banks to shed the 'small finance' tag

State Finances: Gross SGS issuance projected at Rs. 10.5-11.0 trillion in FY2025

Structured Finance: Securitisation volumes for FY2024 reach pre-pandemic levels

ICRA's Sectoral Outlook as of April 2024

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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).

Cross sectoral trends & outlook: Widening of conflict in Middle East could have macroeconomic implications; Iranian trade not significant for India

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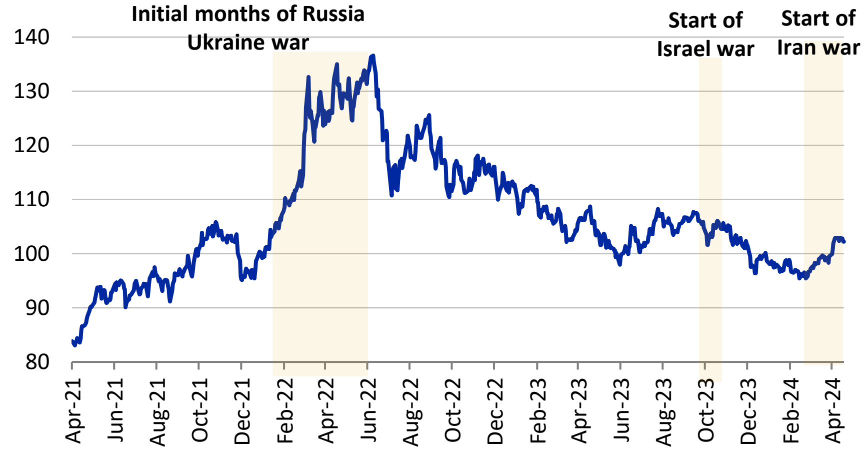
Exhibit: Bloomberg commodity Index (BCOM)



Source: Bloomberg, ICRA Research

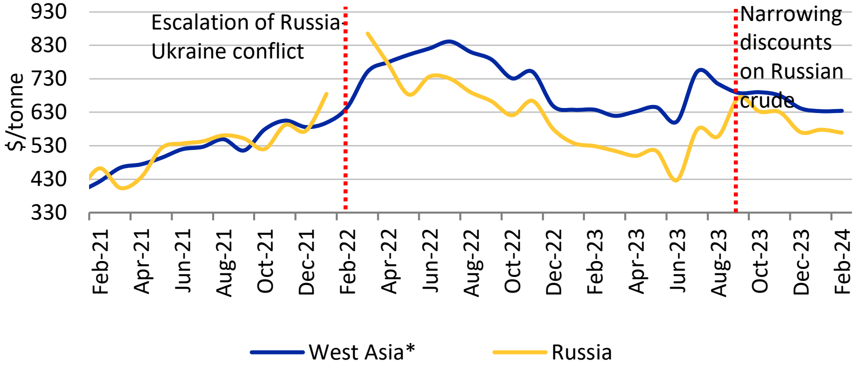
Exhibit: International price of Indian crude oil basket

Source: Petroleum planning and analysis cell, ICRA Research

- The impact of the tensions between Israel and Iran on commodity prices (other than crude oil) has been limited so far. This is in contrast to the situation in the first four to five months after the start of the Russia-Ukraine war, when commodity and crude oil prices had risen by ~35%, driven by supply chain disruptions triggered by the war.
- If the Israel-Iran tensions escalate and potentially involve OPEC nations, it may affect global sentiments and commodity prices. This, in turn, may impact various countries, including India.

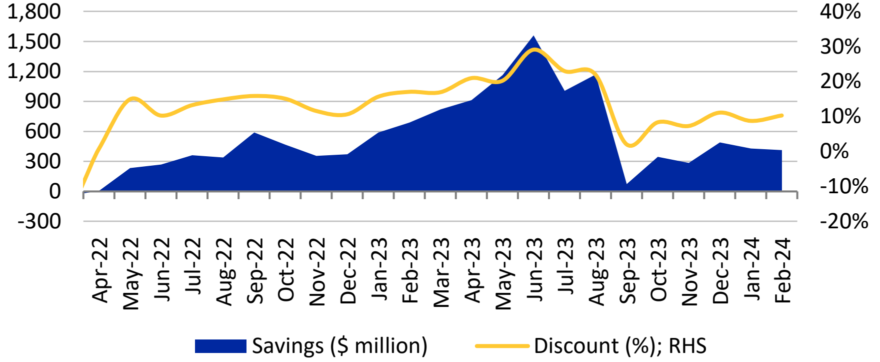
Economy: Import savings from discounted Russian crude estimated at $7.9 billion in 11M FY2024; falling discounts to enlarge oil imports, CAD in FY2025

Exhibit: Monthly imputed prices of India's crude petroleum imports from West Asia and Russia



West Asian countries used for our analysis: Saudi Arabia, the UAE and Kuwait; Source: CMIE; ICRA Research

Exhibit: Estimated savings from Russian discounted crude



Note: Discounts are computed as the percentage change in the imputed price of crude oil imported from Russia compared to that from West Asian countries; Source: CMIE; ICRA Research

- As per ICRA's calculations, the monthly average imputed price of crude petroleum imports from Russia was ~13% lower than that from West Asia during FY2023. **This is estimated to have led to savings amounting to $5.1 billion in India's oil import bill in FY2023 (0.15% of GDP), representing 3.1% of India's crude petroleum imports during that fiscal.**
- During the first five months of FY2024, the monthly average discount is estimated to have increased to ~23%. It narrowed sharply thereafter to ~8% during Sep-Feb FY2024. Consequently, ICRA estimates that the savings from discounted Russian crude reduced to $2.0 billion during Sep-Feb FY2024 from $5.8 billion in Apr-Aug FY2024. **Overall, the savings stood at $7.9 billion (0.22% of ICRA's estimated nominal GDP for FY2024) in 11M FY2024, equivalent to 6.2% of India's crude petroleum imports during this period, thereby auguring well for India's CAD in that fiscal.**

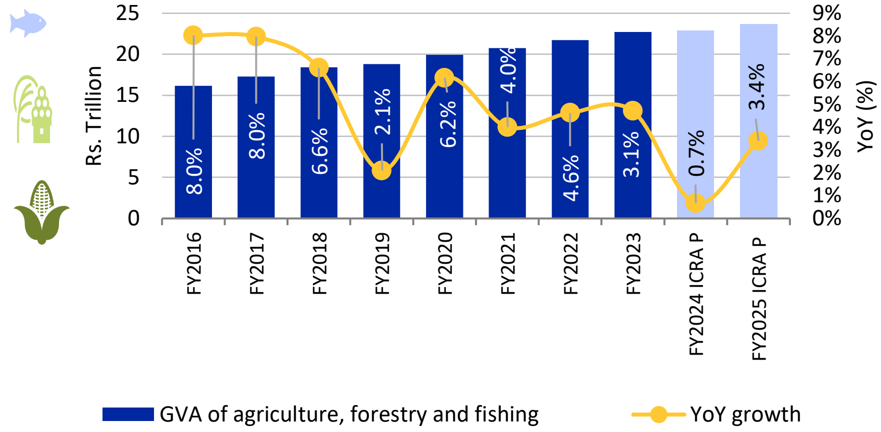
Economy: IMD expects above-normal monsoon in 2024; adequate dispersion of monthly rainfall remains key to support kharif output

Exhibit: YoY trends in kharif and rabi production as per Second Advance Estimates (SAE) for 2023-24 vs. Final Estimate for 2022-23

	Kharif Production			Rabi Production		
Million tonne	**Final Estimate 2022-23**	**2nd AE 2023-24**	**YoY (%)**	**Final Estimate 2022-23**	**2nd AE 2023-24**	**YoY (%)**
Wheat		NA		110.6	112.0	1.3%
Rice	110.5	111.5	0.9%	15.0	12.4	-17.6%
Coarse Cereals	37.6	35.6	-5.2%	15.9	14.5	-9.2%
Pulses	7.6	7.1	-6.6%	16.4	16.3	-0.2%
Oilseeds	26.2	22.8	-12.7%	14.2	13.8	-2.8%
Cotton*	33.7	32.3	-4.0%		NA	
Sugarcane	490.5	446.4	-9.0%		NA	

**Million bales of 170 kg each; Source: Ministry of Agriculture and Farmers Welfare, ICRA Research*

Exhibit: Annual GVA of agriculture, forestry and fishing at 2011-12 prices



Source: NSO; ICRA Research

- IMD predicts above-normal monsoon for 2024, with rainfall at 106% of LPA +/- 5%.
- As ~75% of overall sowing is completed by July, adequate rainfall is required for the initial monsoon months, notwithstanding the timing of the development of La Nina conditions.
- ICRA expects GVA growth of agriculture, forestry and fishing to improve to 3.4% in FY2025 from the predicted growth of 0.7% for FY2024.

NBFC: Capital impact expected with clarification on default loss guarantee in digital lending; draft guidelines emphasise greater transparency

Proposed changes to improve transparency for end-borrowers; long-term positive impact on the industry

All available loan offers to be shown to the borrower

This could turn out to be favourable for lenders with a strong brand presence/ recall vis-a-vis other lenders, for cases where the loan terms are not different

The digital view to provide details, enabling the borrower to make a fair comparison between various offers

Consistent approach to be followed by LSP to ascertain willingness

LSP to display unbiased content and not directly/indirectly promote or push a product of a particular RE

Real estate: Small and medium REIT regulations could create monetisation opportunity of Rs. 68,000-71,000 crore for small office spaces

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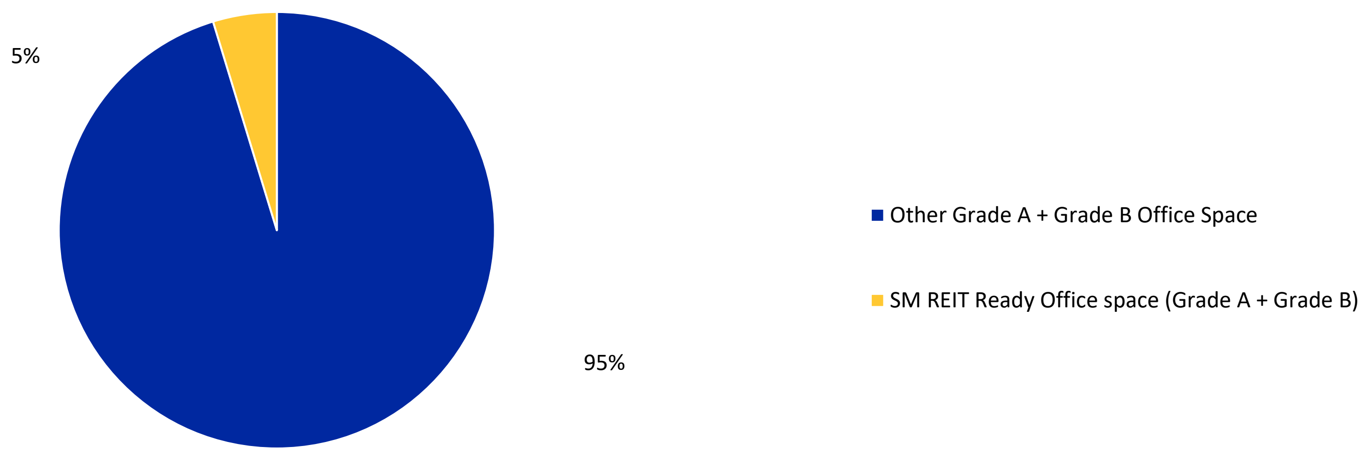
Exhibit: 3% of India's Grade A and 20% of Grade B office space is SM REIT-ready (December 2023)



Source: Propequity, ICRA Research; ***To arrive at SM REIT-ready office spaces, ICRA has included Grade A office space with less than 2 lakh sft and total Grade B office spaces across top seven cities with a minimum occupancy of 80% as on December 31, 2023. ICRA has used a cap rate of 8-8.5% to arrive at the monetisation opportunity for SM REIT-ready office spaces.***

- As of December 2023, the total Grade A office supply stood at 980 msf and the Grade B office was ~115 msf across the top seven cities. ICRA estimates SM REIT-ready office at ~52-53 msf (3% of Grade A supply and 20% of Grade B supply) of the total office supply, indicating a healthy potential for SM REIT listings in the commercial office space.
- At a cap rate of 8-8.5%, SM REIT-ready office space provides a monetisation opportunity of Rs. 67,000 – 71,000 crore across the top seven cities.

Renewable Energy: Superior tariff competitiveness and focus on sustainability drive capacity addition in C&I segment

GoI's policy focus on RE with net zero energy target by 2070

High grid tariffs for C&I customers

Highly competitive tariffs offered by solar and wind power projects

Increased focus by C&I on ESG / sustainability initiatives

All these factors are driving the demand for renewable power from C&I customers, leading to a significant increase in RE capacity in the C&I segment

Source: Ministry of Power

Small Finance Banks: Glide path for small finance banks to shed the 'small finance' tag

Benefits of transition to Universal Banks

Lower capital requirement

Universal banks have a lower capital requirement and will aid in improving shareholder returns

Higher exposure limits

Higher single-borrower and group exposure limits will aid in taking higher exposures and improve competitive positioning

Removal of 'Small Finance' tag

Removal of 'small finance' tag can lower risk perception and thereby facilitate the improvement and diversification of deposit franchise

Lower PSL requirement

Lower PSL requirements will increase headroom to earn fee income/ income from the sale of PSL certificates and assets

Portfolio diversification

Removing the 50% exposure requirement up to Rs. 25 lakh ticket size and lowering the PSL requirement will facilitate product diversification

Competitive positioning

Can offer more varied products, leading to augmentation of fee income profiles

Source: ICRA Research

State Finances: Gross SGS issuance projected at Rs. 10.5-11.0 trillion in FY2025

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Exhibit: Net and gross SGS issuance estimate in FY2025 and YoY growth

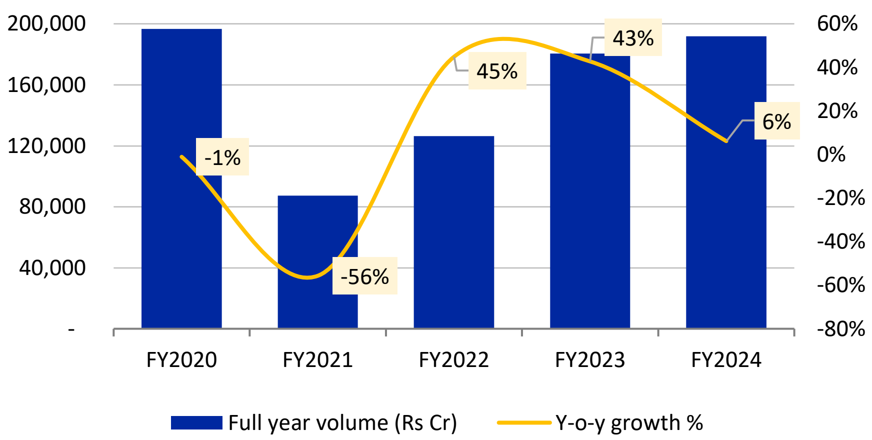
Amount in Rs. trillion	FY2024	FY2025		YoY Growth	
		Scenario I	Scenario II	Scenario I	Scenario II
Net Borrowing	7.2	7.3	7.8	1.5%	8.3%
Redemption	2.9	3.2	3.2	10.3%	10.3%
Gross Borrowing	10.1	10.5	11.0	4.0%	8.8%

- Based on ICRA's estimate of FY2025 GDP, the forecasted aggregate net borrowing limit of the state governments is Rs. 9.7 trillion for FY2025. If 75% of this limit is utilised by the states for funding their deficits through SGSs (Scenario I), the net issuance would be Rs. 7.3 trillion in FY2025, reflecting a modest 1.5% increase on a YoY basis (Rs. 7.2 trillion in FY2024). ICRA estimates the SGS redemptions to rise to Rs. 3.2 trillion in FY2025 from Rs. 2.9 trillion in FY2024. This implies that the gross SGS issuance would reach Rs. 10.5 trillion, which is a 4.0% increase from FY2024 (Rs. 10.1 trillion).
- Alternatively, if 80% of the estimated aggregate net borrowing limit (Rs. 9.7 trillion) is utilised by the states for funding their deficits through SGSs (Scenario II), the net issuance would increase by 8.3% on a YoY basis to Rs. 7.8 trillion in FY2025 from Rs. 7.2 trillion in FY2024. This implies that the gross SGS issuance would rise by 8.8% to Rs. 11.0 trillion from Rs. 10.1 trillion in the same period.

Source: RBI, ICRA Research

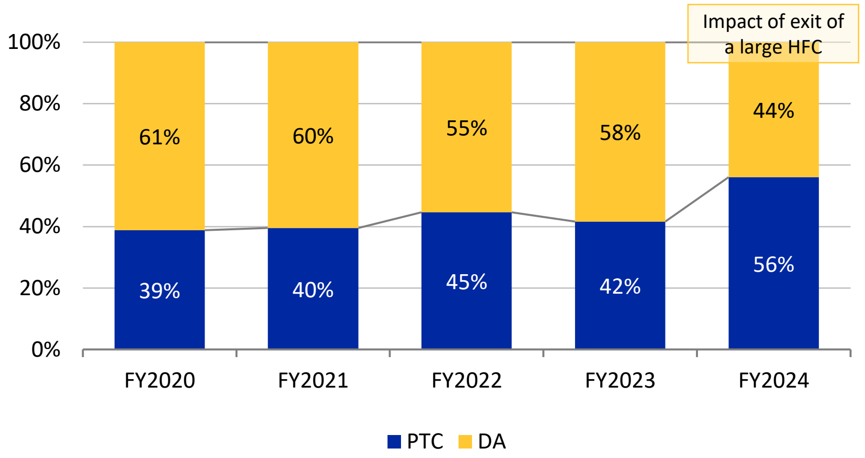
Structured Finance: Securitisation volumes for FY2024 reach pre-pandemic levels

Exhibit: Securitisation market volume (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Spilt between PTC & DA



Source: ICRA Research, Industry

- The overall securitisation volumes, originated mainly by financial institutions, stood at ~Rs. 1.92 lakh crore in FY2024, a seemingly modest growth of ~6% over FY2023.
- However, if we exclude one large housing finance company, which was the largest originator, the volumes increased by ~25% YoY.

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Thank You!