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OUTLOOK FY2025

# OUTLOOK FY2025

#ICRAOutlookFY2025

April 02, 2024

# Agenda

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# MACRO OUTLOOK

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## Macro Outlook

| GDP | INFLATION | REPO RATE | FISCAL DEFICIT | EXTERNAL ACCOUNT |
|---|---|---|---|---|
| Real Growth<br>FY2024: +7.6%<br>FY2025: +6.5%<br><br>Real GVA Growth<br>FY2024: +6.9%<br>FY2025: +6.2% | CPI Inflation<br>FY2024: +5.3%<br>FY2025: +4.6%<br><br>WPI Inflation<br>FY2024: -0.7%<br>FY2025: +2% to +4% | Earliest rate cut foreseen in Oct 2024, amidst shallow rate cut cycle limited to 50 bps at best | Fiscal Deficit/GDP<br>FY2024: 5.9%<br>FY2025: 5.2%<br><br>10-year G-sec yield: 6.8-7.1% in H1 FY2025 | Current Account/GDP<br>FY2024: -1.0%<br>FY2025: -1.2%<br><br>INR: 82.5-83.5/$ in near term |

*Source: ICRA Research*

# Transient factors to dampen economic activity in immediate term; back-ended pick-up foreseen in H2 FY2025

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Owing to the uneven and sub-par monsoons and the decline in crop output in FY2024, the ongoing weakness in rural demand is likely to spill over into the first half of FY2025, until there is some visibility around the farm cash flows from rabi procurement and outcomes for the next kharif crop.

Urban consumption is projected to remain upbeat, albeit uneven in FY2025, with the high-income households and new entrants into formal labour markets driving demand. The recent tightening of norms for personal loans and credit cards by the RBI could adversely impact credit growth for these segments, which may weigh on discretionary consumption.

In addition to the slowdown in budgeted growth, the onset of the General Elections in early-FY2025 would impact the momentum of the GoI's capex during this period. Thereafter, with the monsoon setting in from June, project execution and construction activities are likely to slow down, suggesting that capex may display a back-ended pick-up in FY2025.

The tepidness in India's merchandise exports is expected to continue in H1 FY2025, followed by some improvement in H2, supported by a likely pick-up in global demand after the rate cut cycle begins in the major economies in mid-CY2024. Services exports may outpace merchandise exports growth in FY2025.

*Source: ICRA Research*

# MACRO OUTLOOK

# Outlook for FY2025

### GDP

India's GDP/GVA growth is expected to moderate to 6.5%/6.2% in FY2025, amid subdued growth outcomes in H1 FY2025 on the back of continued weakness in rural demand, slowdown in Government capex during the election period, tepid external demand and diminishing benefits owing to the deflation in commodity prices. However, the pace of expansion in economic activity is expected to pick up in H2 FY2025.

### Inflation

The average CPI inflation is forecasted to ease to 4.6% in FY2025 from the 5.3% estimated for FY2024, largely in line with the Monetary Policy Committee's (MPC) projections. The cooling is expected to be led by a softening in the food inflation based on the assumption of a normal and well-distributed monsoon, with any deviations on that account posing upside risks to our CPI inflation projections.

### Repo Rate

The upward revision in GDP growth estimates for FY2024, along with the MPC's expectations around the growth and inflation outlook for FY2025, reinforce our view of a likely shallow rate cut cycle. ICRA foresees a rate cut cycle limited to 50 bps at best, commencing in the October 2024 policy meeting, with a stance change in the preceding review, after some visibility on the monsoon turnout and greater clarity on the US Fed's actions.

### Fiscal Deficit

While the Government of India's (GoI's) budgeted fiscal deficit of Rs. 16.9 trillion for FY2025 is unlikely to be overshot with a possible shortfall in non-tax revenues likely to be offset by a cut in capex, the target of 5.1% of GDP may be exceeded mildly on account of a lower nominal GDP number. The dip in GoI's market borrowings coupled with bond index inclusion, will dampen G-sec yields in the near term.

### External Account

Although India's current account deficit (CAD) is expected to widen to $44-46 billion in FY2025 from the $33-35 billion projected in FY2024, it is expected to remain manageable at 1.2% of GDP. This, along with the capital inflows on account of the inclusion of Indian G-secs in global bond indices augur favorably for the USD/INR pair, which is expected to remain rangebound between 82.5-83.5 in H1 FY2025.

# GDP and GVA expansion is expected to ease to 6.5% and 6.2% in FY2025, respectively, amid anticipated slowdown in growth in the first half of the fiscal

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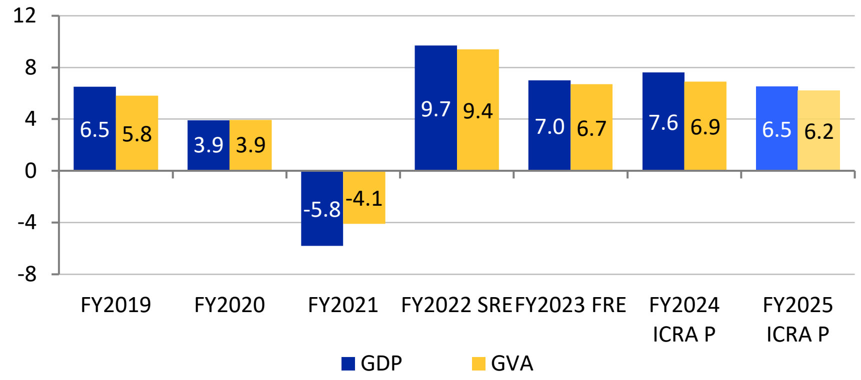
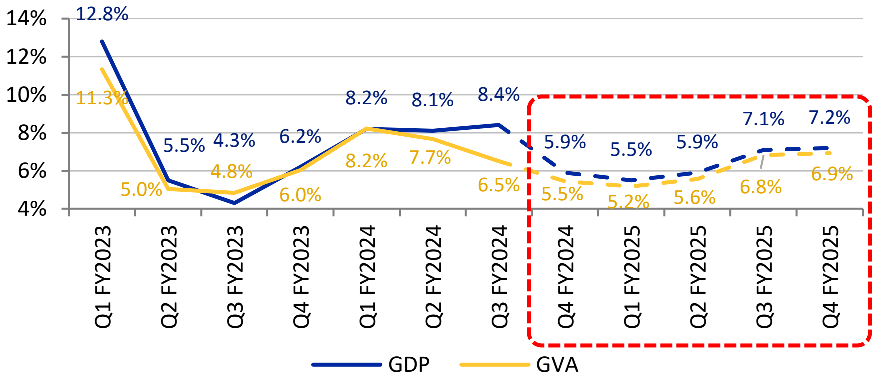
**EXHIBIT: Annual GDP and GVA growth (YoY; %) at constant 2011-12 prices**




*FRE/SRE: First/Second Revised Estimates; P: Projected; Source: NSO; ICRA Research*

**EXHIBIT: Quarterly GDP and GVA growth (YoY; %) at constant 2011-12 prices**

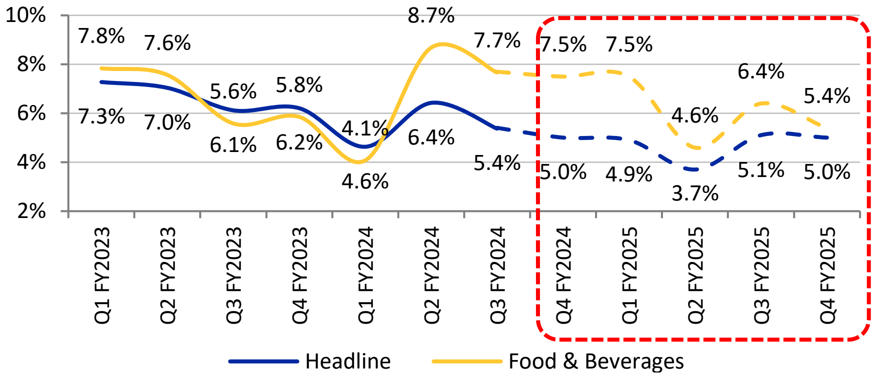



*Dotted lines represent ICRA's projections; Source: NSO; CEIC; ICRA Research*

- While India's GDP growth is expected to moderate to 6.5% in FY2025 from 7.6% estimated for FY2024, the GVA growth is forecasted to dip to 6.2% from 6.9%, respectively, largely driven by subdued growth outcomes in the first half of the fiscal.
- We expect YoY growth in the GDP to ease to 5.5-5.9% during H1 FY2025, on account of the spillover of the ongoing weakness in rural sentiments and consumption owing to the sub-par and uneven monsoon and decline in crop output in FY2024, a likely tempering in the pace of the GoI's capex in early-FY2025 amid the onset of the General Elections, a continued tepidness in India's exports amid a subdued near-term outlook for external demand, and the dissipation of the benefit on account of the deflation in global commodity prices in Q1 FY2025.
- Thereafter, the pace of expansion in GDP is expected to pick up to 7.1-7.2% in H2 FY2025, boosted by the GoI's capital expenditure, pick-up in construction activity post the monsoon period, as well as the seasonal uptrend in economic activity seen during the festive period.

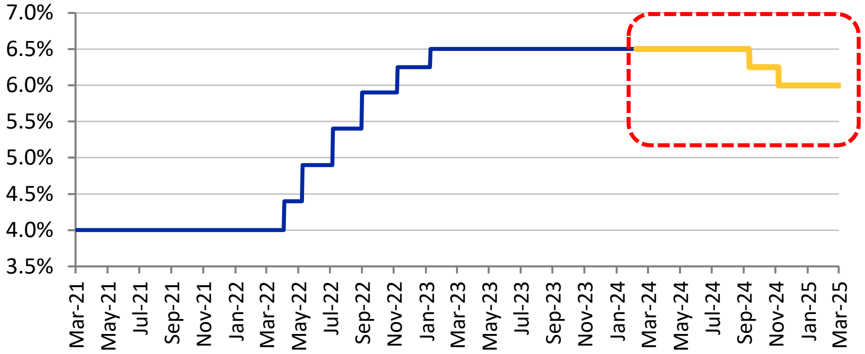
# Average CPI inflation expected to ease to 4.6% in FY2025 from 5.3% in FY2024; rate cut cycle to be limited to 50 bps at best, beginning from Q3 FY2025

**EXHIBIT: Quarterly trends in CPI Inflation (YoY; %)**




*Source: NSO; CEIC; ICRA Research*

**EXHIBIT: Movement in the policy repo rate**

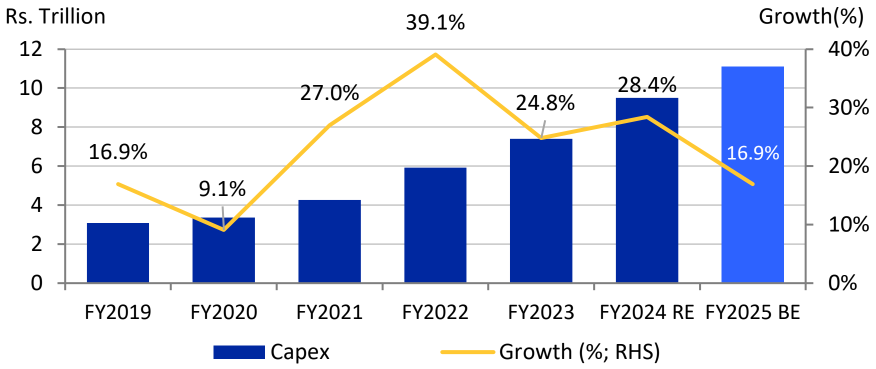



*Yellow line represents ICRA's projections, Source: RBI, DBIE; ICRA Research*

- ICRA expects the average CPI inflation to ease to 4.6% in FY2025 from 5.3% in FY2024, largely in line with the MPC's projections, amid a softening in food inflation based on the assumption of a normal and well-distributed monsoon. Additionally, the core-CPI (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) inflation is projected to remain contained at sub-4.0% in the near term, auguring well for the headline print.
- The upward revision in the FY2024 growth estimates, along with the MPC's expectations that the CPI inflation will ease in FY2025, while remaining above the 4% target, reinforce our view that the rate cut cycle is likely to be shallow, limited to 50 bps, commencing in the October 2024 policy meeting, with a stance change in the preceding review, after there is some visibility on the monsoon turnout and greater clarity on the US Federal Reserve's rate actions.
- The cut in policy rates, along with a favourable demand-supply scenario for G-secs owing to the dip in the GoI's market borrowings and the bond index inclusion, is likely to lead to some cooling in G-sec yields as well as borrowing costs for corporates.

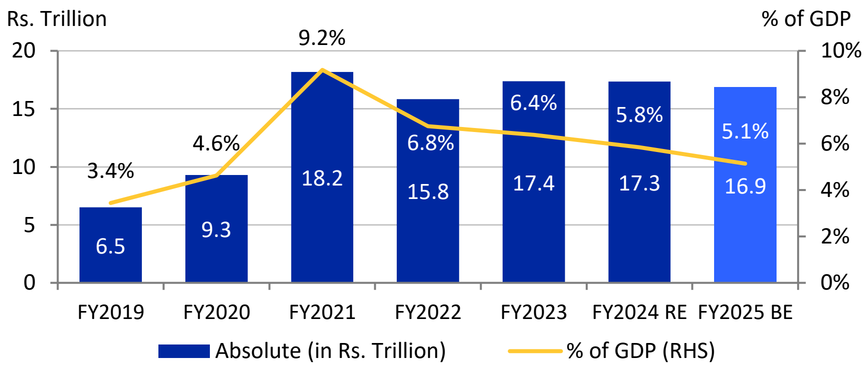
# GoI's FY2025 fiscal deficit likely to be met in absolute terms; dip in market borrowings to augur well for G-sec yields

### EXHIBIT: GoI's Gross Capital Expenditure




*Actuals for FY2019-23; BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

### EXHIBIT: GoI's Fiscal Deficit (Absolute and % of GDP)

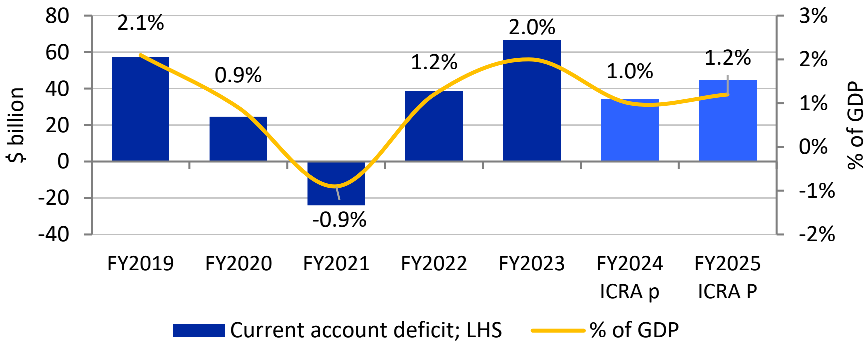



*Actuals for FY2019-23; BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- The Interim Union Budget for 2024-25 pegged the GoI's fiscal deficit at 5.1% of GDP for the next fiscal, midway through the RE of 5.8% for FY2024 and the target of sub-4.5% for FY2026. The fiscal math is underpinned by realistic growth assumptions for taxes and a muted increase in revenue expenditure. However, ICRA is apprehensive about the budgeted figure for non-tax revenues, although a shortfall on this account could be offset by lower capex.
- Based on ICRA's nominal GDP forecasts for FY2024 and FY2025, the fiscal deficit is estimated at 5.9% and 5.2% of GDP, respectively, in these years.
- The sharp 15.5% YoY fall in the GoI's gross supply in H1 FY2025, along with the bond index inclusion starting end-June 2024, is expected to augur well for G-sec yields. ICRA expects the 10-year G-sec yield to trade between 6.8%-7.1% during H1 FY2025.
- While the GoI's commitment to cut the fiscal deficit to sub-4.5% is commendable, with the on-budget capex amounting to 3.4% of GDP, further fiscal consolidation beyond FY2025 would progressively become more challenging.

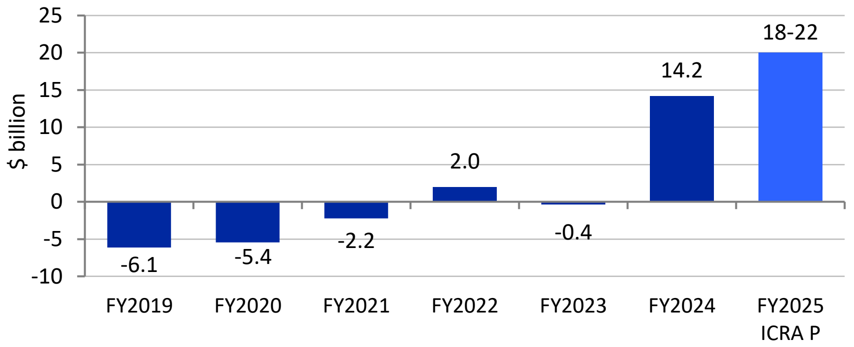
# CAD to widen to 1.2% of GDP in FY2025, while remaining at comfortable levels; USD-INR pair to trade between 82.5-83.5/$ in H1 FY2025

**EXHIBIT: Trends in Current Account Deficit ($ billion and % of GDP)**




**P: Projected; Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP Proj. has been used for FY2024 and FY2025; Source: RBI; CEIC; ICRA Research*

**EXHIBIT: Trends in FII-debt flows (including VRR)**




*VRR: Voluntary retention route; Source: NSDL; ICRA Research*

- ICRA expects the CAD to rise to $44-46 billion in FY2025 from the $33-35 billion estimated in FY2024, owing to a wider merchandise trade deficit amid a sharper rise in merchandise imports compared to such exports based on the premise of a stronger growth in domestic demand vis-à-vis external demand. Nevertheless, as a proportion of GDP, it is expected to remain manageable at 1.2% in FY2025 (1.0% in FY2024).
- While the USD/INR pair will be influenced by trends in the DXY and any untoward depreciation in EM currencies in the event of an escalation in geopolitical conflicts, the extent of volatility in the pair is likely to be contained. ICRA expects the INR to trade between 82.5-83.5/$ in H1 FY2025.
- The inclusion of Indian G-secs in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Index suite and the Bloomberg Emerging Market Local Currency Government Bond Index (EMCL-GBI) from end-June 2024 and end-January 2025, respectively, is expected to hasten FII-debt inflows into India, which is likely to augur favourably for the USD/INR pair.

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# SECTORAL OUTLOOK

# ICRA's Sectoral Outlook as on March 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 |

- 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 during FY2024).

# FY2024 witnessed eight downward revisions in outlooks

## Month-on-month outlook for past one year

| Sector | Apr 2023 | May 2023 | Jun 2023 | July 2023 | Aug 2023 | Sept 2023 | Oct 2023 | Nov 2023 | Dec 2023 | Jan 2024 | Feb 2024 | Mar 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Telecom Towers | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative |
| Basic chemicals | Stable | Stable | Stable | Stable | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative |
| Petrochemicals | Stable | Stable | Stable | Stable | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative |
| Cut and polished diamonds | Stable | Stable | Stable | Stable | Negative | Negative | Negative | Negative | Negative | Negative | Negative | Negative |
| Bulk Tea | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Negative | Negative | Negative | Negative | Negative |
| Banks | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Stable |
| NBFC (Infra) | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Stable |
| Oil & Gas | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Positive | Stable |

| | Mar 2023 | | Mar 2024 |
|---|---|---|---|
| Positive | 4 sectors (Oil & Gas, Hotels, Banks, NBFC Infra) | ↑ | 1 sectors (Hotels) |
| Negative | 2 sectors (Media - Print, Power -Distribution) | ↓ | 7 sectors (Bulk tea, Media - print, Power - Distribution, Telecom Towers, cut and polished diamonds, basic chemicals, petrochemicals) |

*Source: ICRA Research*

# Sectors in upper or lower threshold limits are vulnerable

**Positive**

Hotels

Sectors near the threshold limit

Negative impact can push the positive outlook sector to stable outlook

Positive impact can push the stable outlook sector to positive outlook

Oil & Gas

Hospitals

**Stable**

Approx 30 sectors including real estate, healthcare, automobiles, power etc have stable outlook

Sectors near the threshold limit

Negative impact can push the stable outlook sector to negative outlook

Ferrous metals

Positive impact can push the negative outlook sector to stable outlook

Telecom towers

**Negative**

Petrochemicals

Bulk tea

Print media

Power distribution

Cut and polished diamonds

Sectors in upper and lower threshold of the outlook are vulnerable for outlook change

**Sector placement basis the outlook threshold**

*Source: ICRA Research*

# Demand growth driving the positive outlook; however, expansion remains a monitorable

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**Positive Outlook**

**Hotels**

| Drivers | Challenges | Govt Support |
|---|---|---|
| ▪ Sustenance of domestic leisure travel, demand from meetings, incentives, conferences, and exhibitions (MICE) including weddings, and business travel to drive demand in FY2025<br>▪ Renovation, refurbishment and upgradation in several hotels resulting in superior product and higher ARRs*<br>▪ Improvement in infrastructure and air connectivity, favourable demographics, and anticipated growth in large-scale MICE events with the opening of multiple new convention centres in the last few years to drive demand over the medium term<br>▪ Supply, which is expected to grow at a CAGR of 4.5-5% over the medium term, would lag demand supporting an upcycle.<br>▪ Larger players would also benefit from revenues/share of profits generated from hotel expansions through management contracts and operating leases.<br>▪ Sustenance of a large part of the cost-rationalisation measures undertaken during Covid period, along with operating leverage benefits, to continue to result in higher margins compared to pre-Covid levels. | ▪ General Elections in Q1 FY2025 could result in temporary lull in business travel during that period<br>▪ Foreign Tourist Arrivals (FTA) are yet to recover to pre-Covid levels; FTA improvement would depend on the global macro-economic environment<br>▪ Exogenous shocks, if any, could result in demand disruption<br>▪ Improvement in return on capital employed (RoCE) would depend on expansion strategy and could be constrained by high capital cost of new properties owing to increased land and construction cost, in case of asset-heavy expansion. | **No major support** |

*Source: ICRA Research   Note: *ARR – Average Room Rate*

# Government support to negative outlook sectors would help domestic manufacturers

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**Negative Outlook**

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| **Basic chemicals** | ▪ Robust domestic demand<br>▪ Healthy economic growth | ▪ Weak global demand<br>▪ Volatiltiy in prices | **Government has imposed anti dumping duty and mandatory BIS certification* for imports of certain chemicals to safeguard domestic manufacturers** |
| **Petro chemicals** | ▪ Healthy economic growth<br>▪ High spend on infrastructure and real estate | ▪ Volatility in prices<br>▪ Regulatory actions such as ban on single-use plastic | **Government has imposed mandatory BIS certification for imports of certain chemicals to safeguard domestic manufacturers** |
| **Telecom towers** | ▪ Increase in usage and deployment of 5G are likely to result in demand for towers<br>▪ Improvement in the capitalisation of end customers will result in increased capex spends on network deployment | ▪ Further consolidation in the end-user industry<br>▪ Competition from alternative technologies like satellite communications | **PLI* by Government in equipment space; no PLI for towers** |
| **Power distribution** | ▪ Strong recovery in electricity demand to support the revenue growth for the distribution utilities<br>▪ Timely implementation of ongoing capex schemes key to improve the operating efficiencies.<br>▪ Government support expected to remain strong for the capex schemes | ▪ Delays in pass-through of the increase in cost structure through higher tariffs arising from delay in issuance of tariff orders and/or lack of adequate tariff revisions<br>▪ Inefficiencies in billing and collection remain a key challenge.<br>▪ Large pending receivables from state government and Government departments | **Revamped reforms-based & results-linked scheme under way for power distribution segment with outlay of Rs. 3.0 trillion including grant of Rs. 0.97 trillion** |

*Source: ICRA Research  Note: * BIS - BIS certification is issued by the Bureau of Indian Standards (BIS) in India, PLI – Production linked incentives*

# Government support in negative outlook sectors will help maintain margins in export/import dependent sectors

| Outlook | Sector | Drivers | Challenges | Govt Support |
|---|---|---|---|---|
| Negative Outlook | Cut and polished diamonds | ▪ Following the demand recovery due to American festivities, the polished prices are expected to recover in early H2 FY2025, improving the rough-polished price differential. | ▪ Macro-economic headwinds in key markets, i.e., the US and China, likely to result in moderate growth momentum.<br>▪ G7 sanctions on Russian origin diamonds could limit any meaningful correction in rough prices, despite the ongoing demand slowdown. | **No major support. Gems and jewellery council has requested the Government support - such as reduction in import duty of roughs / benefit of purchase deferment by miners.** |
| Negative Outlook | Bulk tea | ▪ The long-term domestic demand outlook for tea remains favourable. India's per capita consumption of tea, estimated to be around 800 gm, is lower than almost all other major tea consumers globally, providing scope for an increase in domestic demand over the long term.<br>▪ Reintroduction of the 'English' auction system in North India from November 2023 is likely to lead to better price discovery. | ▪ Wage rate hike in Assam and West Bengal would continue to keep the margins under pressure for North India-based bulk tea players.<br>▪ Orthodox tea realisation continues to be subdued on the back of lackluster export demand | **Orthodox tea production subsidy by Government** |
| Negative Outlook | Print media | ▪ General economic buoyancy and recovery in corporate spends in sectors such as real-estate auto and FMCG; steady business from traditional advertisers - Education, Jewellery, among others | ▪ Persistent competition from digital media impacting ad rates<br>▪ Impact on profitability due to unforeseen increase in newsprint costs led by inter alia deterioration in geo-policitical events, logistic issues (Red sea crisis), forex volatility and others | **No major support** |

*Source: ICRA Research*

# Banks and NBFCs: Profitability expected to improve; regulatory developments pose risks

**Stable Outlook**

| Segment | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Banks | ▪ Controlled net additions to NPAs<br>▪ Growth in loan book<br>▪ Slippages remain largely granular with corporate asset quality likely to hold up | ▪ Macro-economic challenges related to cost inflation, elevated interest rates, exchange rate volatility<br>▪ Gradual seasoning of the recently originated portfolio could lead to increase in slippages<br>▪ Transition to ECL provisioning could entail one-time transitioning provisions for certain banks | No major support |
| NBFCs (infra) | ▪ Strong growth prospects amid Government's resolve to focus on infrastructure sector<br>▪ The pick-up in activity in the infrastructure sector to coincide with the recovery in the balance sheet strength of NBFC-IFCs<br>▪ Improvement in asset quality indicators | ▪ Availability of long-term funding, matching the underlying asset tenures imperative for ALM management<br>▪ Maintaining capital buffers in view of expected growth<br>▪ High competition and pressure on margins | |
| NBFCs (combined retail NBFCs, HFC, MFI) | ▪ Credit demand across majority of asset classes to remain strong.<br>▪ Asset quality to remain at healthy levels; although, a modest deterioration in NBFC overdues is anticipated.<br>▪ Healthy profitability, notwithstanding some margin and credit cost pressures.<br>▪ Adequate capitalisation profile. | ▪ Access to commensurate funding at competitive rates<br>▪ Unfavorable regulatory developments.<br>▪ Competitive pressures to remain elevated, especially from banks. | |
| Small Finance Banks | ▪ Buoyant demand and steady expansion by SFBs across geographies<br>▪ Increasing product offerings<br>▪ Benign credit costs on the back of improving asset quality | ▪ Unfavorable regulatory developments<br>▪ Margin pressure amid rising cost of funds<br>▪ Slowdown in deposit traction and build-up of a stable current account savings account (CASA) franchise | |

*Source: ICRA Research*

# Automobiles: Healthy demand growth across automotive segments; rising cost of ownership, uneven 2023 monsoon a concern

Stable Outlook

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Passenger vehicles | ▪ Improved production levels/inventory for new model launches<br>▪ Steady replacement demand, supported by stricter implementation of regulatory norms and higher ageing<br>▪ Financing availability remains adequate | ▪ Material increase in cost of ownership over recent past may moderate demand<br>▪ High inventory holding for select models<br>▪ Semiconductor/electronic parts shortage remains a monitorable | ▪ **Government scheme for Faster Adoption & Manufacturing of Electric Vehicles (FAME),**<br>▪ **Production Linked Incentive (PLI) scheme for automobiles, battery, semiconductor**<br>▪ **Demand aggregation by Convergence Energy Services Limited (CESL)** |
| Two wheeler | ▪ Pent-up replacement demand; softening in commodity prices to limit material price hikes<br>▪ Improving 2W penetration, a large and growing middle-class populace, improving financing penetration, under-developed public transport system | ▪ Sustenance of recent improvement in rural demand remains monitorable, in the backdrop of an uneven monsoon precipitation<br>▪ Inflationary pressures may weigh on demand growth | |
| Tractor | ▪ Continued procurement by the Centre and various ongoing initiatives to improve rural economy and infrastructure remain a positive<br>▪ Delinquency levels remain at moderate levels; financing availability to remain adequate<br>▪ Haulage demand to remain supported by healthy budgetary allocation to infrastructure | ▪ Weak monsoon precipitation on account of El Nino phenomenon, adversely impact sentiments/cash flows<br>▪ Reservoir storage levels trail historical decadal average and remain a concern for the ongoing crop cycle | |
| Commercial vehicles | ▪ Improvement in macroeconomic environment and healthy traction in the underlying industries such as mining, infrastructure and construction<br>▪ Mandatory scrappage policy for the Government vehicles resulting in replacement demand<br>▪ Adequate financing options and funding availability | ▪ Rising fuel prices and regulatory requirements have increased cost of ownership<br>▪ Perceived pause in the infrastructure activities amidst the model code of conduct ahead of the General Elections 2024<br>▪ Delayed /uneven monsoon may have an adverse effect on the rural demand | |

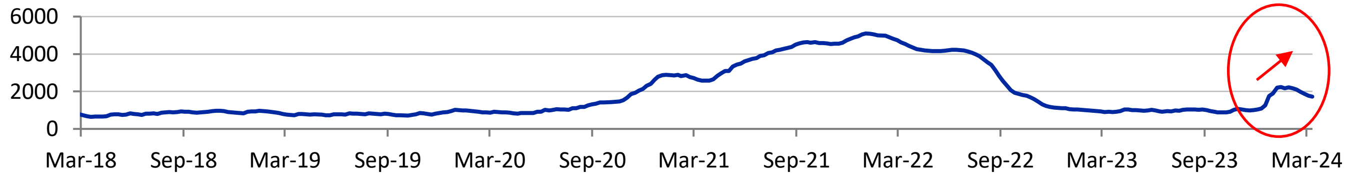
*Source: ICRA Research*

# Tyres and Auto Components: Replacement /new demand continues to be strong; export demand impacted due to Red Sea crisis

Stable Outlook

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Tyres | ▪ Rising mobility and demand for new vehicles, especially in the consumer segments<br>▪ Stable replacement demand<br>▪ Softening input costs | ▪ Subdued global demand impacting exports; increased freight costs owing to Red Sea crisis<br>▪ High base effect and a brief pause in infrastructure activities amidst the model code of conduct to impact CV demand<br>▪ Deficit rainfall impacting rural cash flows | **No major support** |
| Auto components | ▪ Higher content per vehicle stemming from premiumisation of vehicles, opportunities from the electric vehicle segment, regulatory changes<br>▪ Higher localisation<br>▪ Vendor diversification and increased outsourcing by global OEMs<br>▪ Structural demand drivers remaining intact for domestic OEM segment<br>▪ Replacement demand stemming from increasing vehicle parc, branded parts and higher rural/semi urban penetration | ▪ Weak export outlook in key markets<br>▪ Freight rate increase because of Red Sea Crisis for exporters<br>▪ Sharp depreciation of INR against USD in FY2023 has increased costs for net importers especially as electronics, EV and other advanced components largely get imported | **PLI scheme for auto components** |

**Exhibit: Shanghai Shipping Exchange Shanghai (Export) Containerized Freight Index**




**Because of the Red Sea conflict, global container shipping companies are avoiding the Suez Canal route resulting in escalation in freight cost.**

*Source: Bloomberg, ICRA Research*

# Infrastructure: Government infra push to drive demand for related sectors; challenges on competition, input cost prevail

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**Stable Outlook**

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Roads | ▪ Strong domestic consumption and infrastructure activity to drive domestic freight<br>▪ Buoyant leisure/tourist travel to support passenger car traffic | ▪ Potential shift in traffic to alternate modes of travel (like DFC, or Regional Rapid Transport System (RRTS)) or alternative routes (greenfield expressways under Bharatmala) on the existing network | **Pradhan Mantri Gram Sadak Yojana, Bharatmala scheme** |
| Construction and mining equipments | ▪ Continued Government impetus on infrastructure development<br>▪ Increasing size and complexity of projects necessitating higher mechenisation<br>▪ Pre-buying before the change in emission norm in Q4 FY2025 | ▪ Disruption in project award activity, with Model Code of Conduct in place ahead of General Elections in Q1<br>▪ Adverse movement in commodity prices, if any<br>▪ Near-term impact on import/exports due to Red Sea crisis (via freight rates/container availability) | **No major support** |
| Construction | ▪ Continued Government thrust on infrastructure activity (16.93% YoY increase to Rs. 11.11 lakh crore in GoI's capital expenditure in FY2025 BE over Rs. 9.5 lakh crore in FY2024 RE)<br>▪ Order book provides healthy revenue visibility | ▪ High competitive intensity continues to exert pressure on profitability<br>▪ Expiry of relaxations under Atmanirbhar Bharat scheme are expected to increase working capital requirements for industry participants<br>▪ Change in priorities (if any) owing to change in political landscape, especially for state government-funded projects | **No major support** |
| Cement | ▪ Healthy demand prospects from affordable housing, urban housing and infrastructure sectors | ▪ Elevated input costs, majorly coal, pet coke and diesel<br>▪ Lumpy additions in few geographies to exert pressure on prices in near term | **No major support** |

*Source: ICRA Research*

# Metals & Real Estate: strong consumption trends to drive demand; exposed to volatile input prices, global headwinds

| | | Drivers | Challenges | Govt Support |
|---|---|---|---|---|
| Stable Outlook | Ferrous metals | ▪ The Government's capex drive is supporting domestic demand recovery, post Covid<br>▪ Aggressive deleveraging is making the industry more resilient to withstand cyclical downturns<br>▪ Large domestic iron ore reserves are giving domestic mills access to ore at competitive costs | ▪ Sub-par economic growth in major steel consuming hubs<br>▪ Rise in steel imports from key destinations like China and Vietnam<br>▪ Elevated volatility in coking coal prices | **Nominal allocation under PLI scheme for some steel products** |
| | Non ferrous | ▪ Healthy domestic demand outlook owing to significant improvement in consumption from end-user industries | ▪ The industry is exposed to the volatile non-ferrous metal prices<br>▪ Large committed expansion plans would keep the industry leverage high | **No major support** |
| | Commercial real estate | ▪ Demand from GCC, domestic occupiers and steady increase in physical occupancy<br>▪ Cost competitive destination and recent regulatory changes for SEZs | ▪ Global headwinds impacting leasing from IT/ITes segment<br>▪ High upcoming supply | **No major support** |
| | Retail malls | ▪ Strong consumption trends<br>▪ Increase in spend per footfall driven by premiumisation | ▪ Continued threat from e-commerce | |
| | Residential real estate | ▪ Favorable demographics and healthy albeit moderating affordability to result in sustained end-user demand<br>▪ Low inventory overhang to support launches. | ▪ Debt-funded land acquisitions to result in increase in leverage<br>▪ Macro-economic events affecting the financing environment | **Pradhan Mantri Awas Yojana scheme and home loan benefits** |

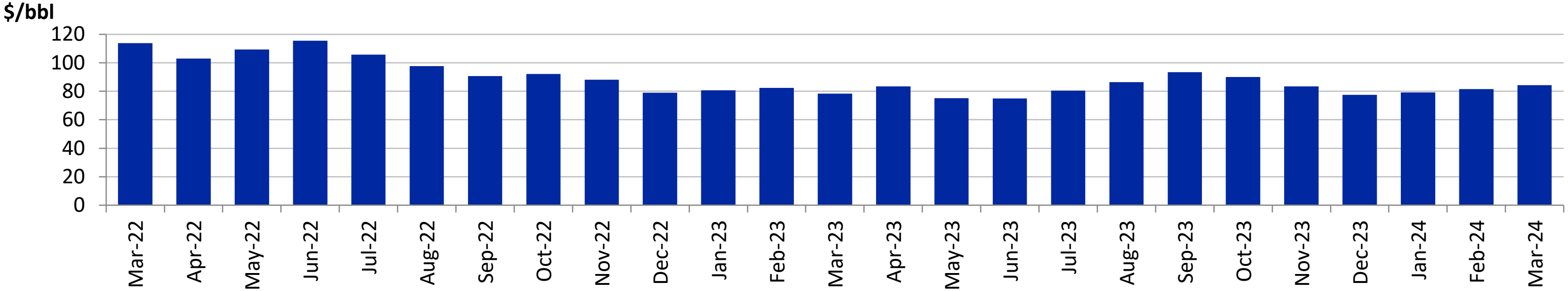
*Source: ICRA Research*

# Upstream & Downstream Oil: Increased air travel pushing demand; volume recovery a concern

**Stable Outlook**

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Refining and marketing | ▪ Healthy economic growth<br>▪ Stable exports of POL<br>▪ Increasing mobility and air travel | ▪ Volatile prices may impact the volume recovery<br>▪ Extended monsoons | **No major support** |
| Upstream oil and gas | ▪ Consistently remunerative crude oil prices<br>▪ Increase in production volumes as capex remains lucrative at the existing prices<br>▪ Increasing mobility and air travel to give a push to demand for petroleum products | ▪ The special additional excise duty (SAED) caps the realisation for domestic crude oil manufacturers<br>▪ The domestic production levels are likely to remain largely steady amid a natural decline in mature fields | **No major support** |

### Exhibit: Trends in prices of Indian basket of crude oil




*Source: PPAC, ICRA Research Note: Data for chart March 2024 is available till March 26, 2024*

# Energy and Utilities: Increased economic activity driving demand; high capex, geo-political uncertainty worrisome

Stable Outlook

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Power (Thermal, Renewable Energy, transmission) | ▪ Strong policy support<br>▪ Growing project pipeline in the RE segment<br>▪ Superior tariff competitiveness<br>▪ Presence of strong intermediate procurers like SECI<br>▪ Sustainability initiatives by large C&I customers | ▪ Execution risks related to land and transmission infra<br>▪ Capital cost pressure<br>▪ Uncertainty over Approved list of Models and Manufacturers (ALMM) for sourcing solar PV modules<br>▪ Weak finances of state distribution utilities | **PLI of Rs 240 Billion for Solar PV module manufacturing. Viability gap funding scheme for offshore wind and battery storage projects** |
| Ports | ▪ Sustained economic growth<br>▪ Requirement of imported thermal and coking coal in the near term<br>▪ Traction in container cargo volumes | ▪ Slowdown in global economic growth and Exim trade<br>▪ Operations impacted by congestion/disruption in ocean trade due to geo-political or other factors<br>▪ Any restrictions on specific cargo segments, as witnessed earlier for iron ore | **Updation in Major Ports Authority Act 2021 and new tariff policies for major ports - to provide greater control to Major Ports in decision making and to allow tariff flexibility.**<br>**Proposed Indian Ports Bill 2022, policies like Sagarmala, Maritime Vision 2030 and National Logistics Policy** |
| Telecom services | ▪ Increase in usage and upgradation by subscribers to 4G/5G from lower generation technologies, along with 5G services monetisation<br>▪ Tariff hikes implemented by the telecom operators | ▪ 5G-related capex will keep the capex intensity elevated in the near term<br>▪ Elevated debt levels and moderate coverage indicators | **No major support** |

*Source: ICRA Research*

# Fertilisers & Sugar: Dependance on monsoon makes Government support in subsidies, policies critical

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**Stable Outlook**

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| **Fertilisers** | ▪ Moderation in international raw material and finished fertiliser prices<br>▪ Adequate allocation of subsidy and its timely release | ▪ Any adverse agro-climatic conditions impacting volumes<br>▪ Delays in subsidy payments, leading to an increase in short-term debt and thus increase in interest costs<br>▪ Inadequate Nutrient Based Subsidy (NBS), resulting in muted profitability in the non-urea segment | **Subsidy provision of Rs 1.64 trillion in Budget FY2025** |
| **Sugar** | ▪ Diversion of sucrose towards ethanol is supported by remunerative prices (even though some moderation in blending target will be seen in ESY2024 due to diversion capping), interest subvention loan for distillery capacity expansion and a favourable policy framework.<br>▪ Domestic prices have firmed up amid expectations of balanced global supply conditions in near term. | ▪ Supply limitations on account of ethanol capacities, timely launch and availability of E-20 vehicles, as well as the dispensation network by Oil Marketing Companies (OMCs) can inhibit or delay timelines for EBP20**. However, the OMCs, sugar and auto industries are undertaking necessary capex.<br>▪ Impact of government regulations as was recently seen, wherein the Ministry had issued an order on capping the diversion towards ethanol production at 1.7 million MT for SY2024, mainly due to expectation of lower sugar production in SY2024 and SY2025. | **Government controlled cane prices, minimum support price for sugar, domestic releases and Exports policy under Government control, regulated prices of ethanol with increase in prices also influenced by cane price changes, Interest subvention scheme for ethanol.** |

**Exhibit: Production and yield of rabi crops in 2nd AE for 2023-24**

| | Rabi Production | | | Rabi Yield |
|---|---|---|---|---|
| In million tonne | Final Estimate 2022-23 (A) | 2nd AE 2023-24 (B) | Growth (%; B/A) | Growth in 2023-24 over 2022-23 (%) |
| Wheat | 110.6 | 112.0 | 1.3% | 0.1% |
| Rice | 15.0 | 12.4 | -17.6% | -7.1% |
| Coarse Cereals | 15.9 | 14.5 | -9.2% | -7.0% |
| Pulses | 16.4 | 16.3 | -0.2% | 1.1% |
| Oilseeds | 14.2 | 13.8 | -2.8% | 2.8% |

**Exhibit: Production and yield of kharif crops in 2nd AE for 2023-24**

| | Kharif Production | | | Kharif Yield |
|---|---|---|---|---|
| In million tonne | Final Estimate 2022-23 (A) | 2nd AE 2023-24 (B) | Growth (%; B/A) | Growth in 2023-24 over 2022-23 (%) |
| Rice | 110.5 | 111.5 | 0.9% | -1.4% |
| Coarse Cereals | 37.6 | 35.6 | -5.2% | -4.4% |
| Pulses | 7.6 | 7.1 | -6.6% | -0.3% |
| Oilseeds | 26.2 | 22.8 | -12.7% | -10.7% |
| Cotton* | 33.7 | 32.3 | -4.0% | -0.5% |
| Sugarcane | 490.5 | 446.4 | -9.0% | -5.2% |

**ICRA believes that the ongoing weakness in rural sentiments and consumption on account of the uneven monsoon and lower crop output in FY2024 is likely to spill over into the first half of FY2025. A normal and well distributed monsoon will be key for FY2025 agri output.**

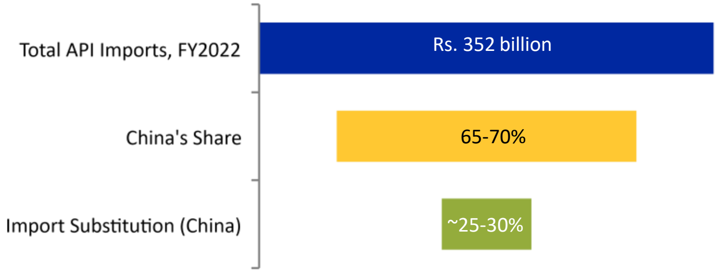
*Source: ICRA Research, Ministry of Agriculture and Farmers' Welfare*
*Note: *Million bales of 170 kg each; ** EBP20 – Ethanol Blending Target of 20%, SY – Sugar Year (October – September)*

# Healthcare: Demand remains unaffected for healthcare; however, regulatory measures, costs may limit margins

**Stable Outlook**

| | Drivers | Challenges | Govt Support |
|---|---|---|---|
| **Pharma** | ▪ Inelastic demand for pharmaceutical products<br>▪ Companies focusing on specialty/complex generics in the US market<br>▪ Easing of pricing pressure in some key regulated markets | ▪ Intensifying regulatory risks<br>▪ While raw material prices have largely stabilised, ongoing tensions in the Red Sea may impact raw material availability and logistics cost to some extent<br>▪ Vulnerable to fluctuations in foreign exchange rates | **PLI for pharma and medical device manufacturers to reduce import dependency. Allocation of Rs 907 trillion for FY2025 by Health Ministry.** |
| **Healthcare** | ▪ Structural demand-supply gap<br>▪ Medical tourism<br>▪ Ageing population, a sharp increase in non-communicable or lifestyle diseases<br>▪ Rising income, increasing healthcare awareness and higher penetration of medical insurance | ▪ Additional regulatory measures related to price caps or tax implications<br>▪ High debt-funded capex or acquisitions, resulting in deterioration of credit metrics<br>▪ Relatively high inflationary pressure or a delay in ramp-up of new centre operations; deficit in availability of healthcare personnel | |

**Exhibit: API Imports - India**




**Government has launched PLI scheme for KSMs/DIs and APIs* – for which currently China has 65-70% share. Imports from China are expected to reduce by around 25-30% coupled with self-reliance on critical APIs/ KSMs/ DIs in around five years - by FY2028 - FY2029.**

**Projects approved under PLI**

**26 projects**

**Projects commissioned under PLI**

**14 projects**

**PLI scheme for medical devices - as per the Ministry of Commerce & Industry, production of 37 products (under 14 projects) has been commissioned and domestic manufacturing of high-end medical devices has started, which include linear accelerator, MRI scan, CT-Scan, mammogram, C-Arm, MRI coils, high end X-ray tubes, etc.**

*Source: Department of Pharmaceuticals, ICRA Research*
*Note- * Key Starting Materials (KSMs)/drug intermediates (DIs) and Active Pharmaceutical Ingredients (APIs)*

# Aviation, Insurance, IT services: Witnessing growth post pandemic, however, challenges prevail

ICRA

Stable Outlook

| Sector | Drivers | Challenges | Govt Support |
|---|---|---|---|
| Airlines | ▪ Favourable demand from the leisure segment<br>▪ Rising corporate travel with the business environment back to normalcy<br>▪ Fast-paced recovery in international passenger traffic supported by pent-up demand | ▪ Increasing air fares, given the high Aviation Turbine Fuel (ATF) prices (over pre-Covid levels)<br>▪ Grounding of aircraft impacting capacity, thereby necessitating spot lease at higher costs<br>▪ Congestion in airports impacting service levels, coupled with regulator temporarily limiting flight operations at such airports | **Udaan scheme (Viability Gap Funding) + Regional Connectivity Scheme (RCS) grants (Airport infra)** |
| Airport infrastructure | ▪ Sustained growth in business and leisure travel in the domestic market, coupled with a continued uptick in international travel<br>▪ Increase in air connectivity to tier II cities/ key tourist destinations | ▪ Slowdown in the global economy could have a bearing on international tourism and business traffic | |
| Life insurance | ▪ Increase in awareness of life insurance products, leading to higher growth in term insurance.<br>▪ Increase in credit offtake and increased insurance attachment to loans<br>▪ Increasing insurance density and insurance penetration metrics. | ▪ Taxation on life policies with annual premium of more than Rs. 5 lakh<br>▪ Higher surrender value on non linked savings to impact the persistency and profitability | **Tax benefits and exemptions (however, reduced during the last Budget) + capital infusion for Public Sector Undertaking (PSU) General Insurance (GI)** |
| General insurance | ▪ Increasing awareness of health insurance after the pandemic<br>▪ Premium growth supported by increase in pricing due to inflation | ▪ Increasing incidences of catastrophe events<br>▪ Weak capital position of PSU insurers<br>▪ Increasing competition to lead to pricing pressures | |
| IT Services | ▪ Strong order book and deal pipeline for most IT companies<br>▪ Stabilisation of attrition levels to support operating profit margin | ▪ Macro-economic headwinds in key markets, i.e., the US and Europe, likely to result in moderate growth momentum<br>▪ Adverse currency movement or any regulatory changes in key markets | **No Major Support** |

*Source: ICRA Research*

# Key Government Policies in FY2025

**Government's focus on infrastructure, climate goals, domestic manufacturing, improving international trade is visible through various schemes and policies. Following are some of the major Government policies:**

### Production-Linked Incentives (PLI)

In FY2022, Government announced the PLI scheme in 14 sectors to boost manufacturing, increase exports, reduce imports, attract investments and technology, to make Indian manufacturers globally competitive. Sectors where manufacturing has started, have witnessed positive results in imports and exports, while some others are yet to see the benefits.

### National Logistics Policy (NLP)

Launched in FY2023, NLP complements PM Gati Shakti and the policy aims to:

- Reduce logistics costs from current 13-14% of GDP to single-digit levels.
- Improve logistics performance index ranking and be among the top-25 countries by the end of this decade.
- Create data-driven decision support mechanism for an efficient logistics ecosystem.

### National Green Hydrogen Mission

To achieve the climate goals and to benefit from growing global demand for Green Hydrogen, Government has announced the National Green Hydrogen Mission in FY2022. The objective is to become a leading producer and exporter of green hydrogen.

The approved outlay for the mission is of Rs. 197 billion.

### National Infrastructure Pipeline (NIP)

The National Infrastructure Pipeline (NIP) was launched in 2019, with an intention to attract investment in projects with a project cost of more than Rs. 1 billion, with a target investment of Rs. 111 trillion. The latter has since increased by 40-45% to reach Rs. 160 trillion as on FY2024, with a substantial increase in the number of projects.

*Source: ICRA Research*

# PLI: Bulk of the capex will be incurred from FY2025

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PLI

- Out of the 14 sectors under the PLI outlay:
  - Capex deployed / manufacturing started and PLI incentives claimed by 8 sectors till November 2024 for FY2024.
  - Capex deployed / manufacturing started in additional 2 sectors (textile and white goods), which may claim PLI incentives for FY2024. Steel and solar PV modules sectors have started deploying capex from FY2024, however, may claim incentives from FY2025 onwards
  - Two major sectors (semiconductor, ACC batteries) are in plant-commissioning phase and may start commercial production in FY2025

**Exhibit: Expected capex from PLI scheme**

| | FY2023 | FY2024 | FY2025 and beyond |
|---|---|---|---|
| Expected capex (Rs trillion) | 0.5-0.6 | 0.3-0.4 | 2.9-3.0 |
| % of the total capex | 10-15% | 5-10% | 75-85% |

**Bulk of the capex, which the companies have to incur shall be from FY2025, as most of the major sectors start manufacturing activities from that year onwards**

- Government interventions such as a relaxation of the performance threshold might be needed in cases where lower traction is witnessed or the pick-up is not as expected or where PLI disbursements are low.

*Source: ICRA Research*

# NLP aims to reduce logistics cost and increase competitiveness of domestic goods in exports market

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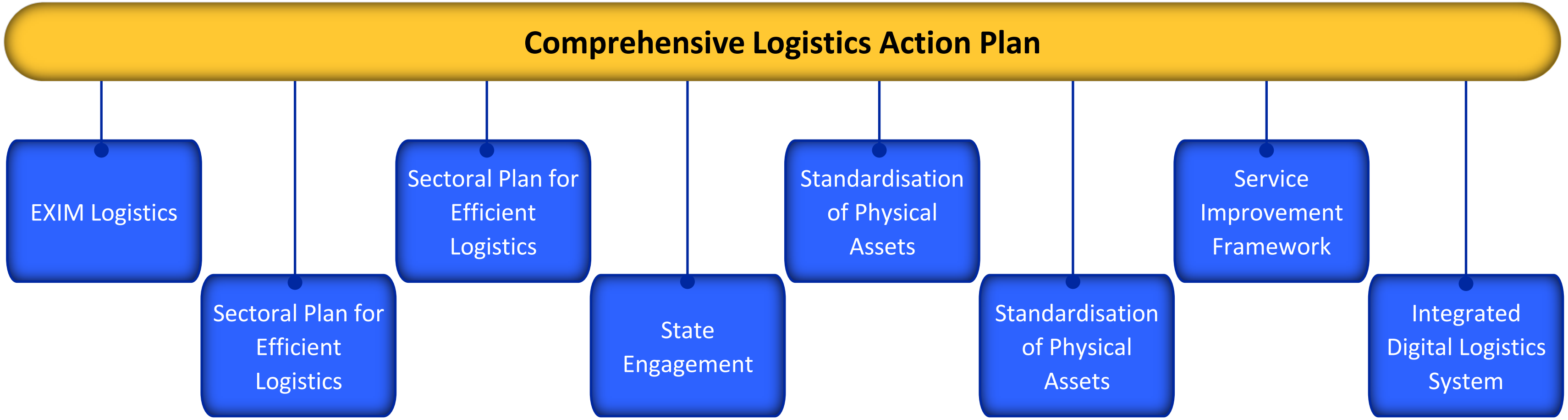
NLP

**Exhibit: Comprehensive Logistics Action Plan (CLAP)**




- The NLP is aimed at integrating and optimising various elements of the logistics value chain to ensure seamless, multi-modal growth of an efficient logistics sector in the country.
- This initiative will help spur significant technological and process innovation in the sector. Further, it will help in increased competitiveness of domestic goods in the export markets.

*Source: Ministry of Commerce and Industry, Government of India, ICRA Research*

# Inclusive initiatives by Government to build green hydrogen ecosystem

**National Green Hydrogen Mission**

**GoI is taking various measures to facilitate the transition from fossil fuel / fossil fuel-based feedstocks to green hydrogen / green ammonia**

- Approval of outlay of Rs 197 billion for National Green Hydrogen Mission
- Inter-state transmission system (ISTS) charges waiver and concession
- GoI considering PLI for electrolyser manufacturing
- Plans to reduce import duties for electrolyser till the time manufacturing picks up domestically
- GoI taking into consideration the hydrogen purchase obligation (HPO) and passing on the renewable energy purchase obligation (RPO) benefits to green hydrogen manufacturers
- Subsidies to pilot projects and research and development (R&D)
- Easy access, storage of RE, easy clearance of approvals

*Source: Ministry of Commerce and Industry, Government of India, ICRA Research*

# NIP: About 90% of projects are either completed or under implementation from the initial investment target

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NIP

*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 |
|---|---|---|---|
| Number of projects | More than 6,835 | More than 2,665 | More than 9,500 |
| Estimated investment | Rs. 111 trillion | Rs. 49 trillion | Rs. 160 trillion |

**NIP was launched with 6,835 projects, of which:**

- **~25% is completed**
- **~65% is under implementation**
- **~10% is still under conceptualisation**

**Since its launch, around 2,665 projects have been added to NIP during FY2020-FY2024.**

**Most of these projects are expected to be under conceptualisation currently.**

- 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. These are at their conceptualisation stage at present (as of March 2024).

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# THANK YOU

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