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Monthly Research Compendium

AUGUST 2022

GROUP ICRA VALUES





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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



Automobile - Electric vehicles: Haryana rolls out EV policy; focuses on encouraging EV ecosystem development



Automobile - Electric vehicles: GST rate cut on Li-ion batteries – yet another spark for Indian EV sector



Airport infrastructure : International passenger traffic continues to be strong in June 2022



Cross sectoral strategy: Rupee depreciation – A Bird's-eye View



Economy – Investment tracker : Capacity utilisation to report seasonal dip in Q1 FY2023, exacerbated by uneven demand for goods amid geo-political headwinds



Economy – External debt: Forex cover of external debt likely dipped below 95% at end-June 2022



Fashion retail: Industry out of the woods; outlook revised to Stable as business conditions improve



Hospitals: Introduction of GST on non-ICU hospital beds to be credit-neutral for hospital sector



NBFC & HFC: Managing funding in a tightened credit environment is key for near-term growth



Petrochemicals & Polymers: Single-use plastic ban to have limited impact on resin manufacturers



Ship-breaking industry: Sharp Rupee depreciation and softening in steel scrap prices to hit margins and viability in the near term



Structured finance: Rising securitisation volumes for microfinance asset class signal return of investor confidence; rising share of upgrades in rated pools



Structured finance : Healthy pick-up in credit demand for NBFCs and HFCs leads to strong securitisation volumes in Q1 FY2023



Tiles: Rising production cost to weigh on operating profitability of domestic tile players; expected to moderate further by 100-150 bps in FY2023

Automobile - Electric vehicles: Haryana rolls out EV policy; focuses on encouraging EV ecosystem development

EXHIBIT: Automobile OEM & component manufacturing base in Haryana

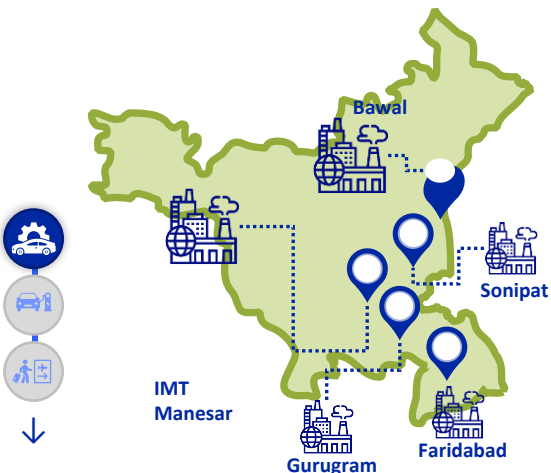
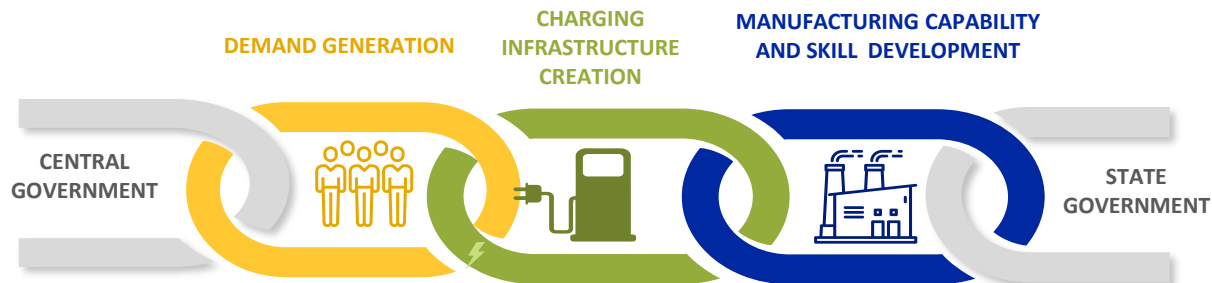


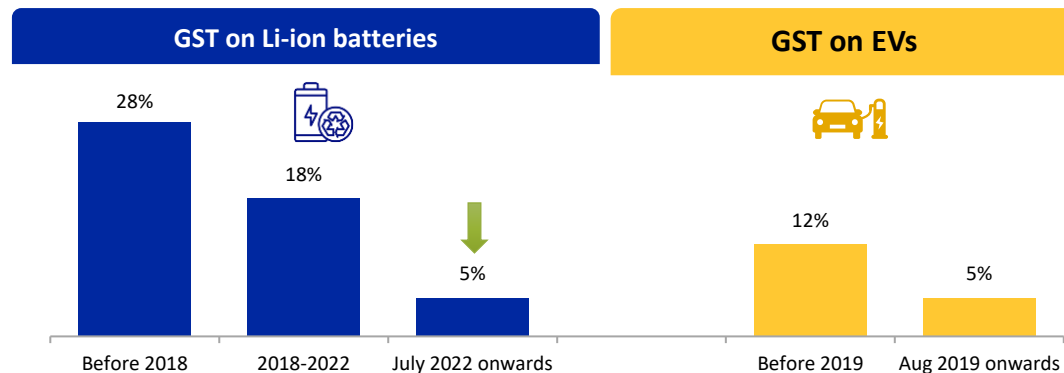
EXHIBIT: Type of incentives under EV policies



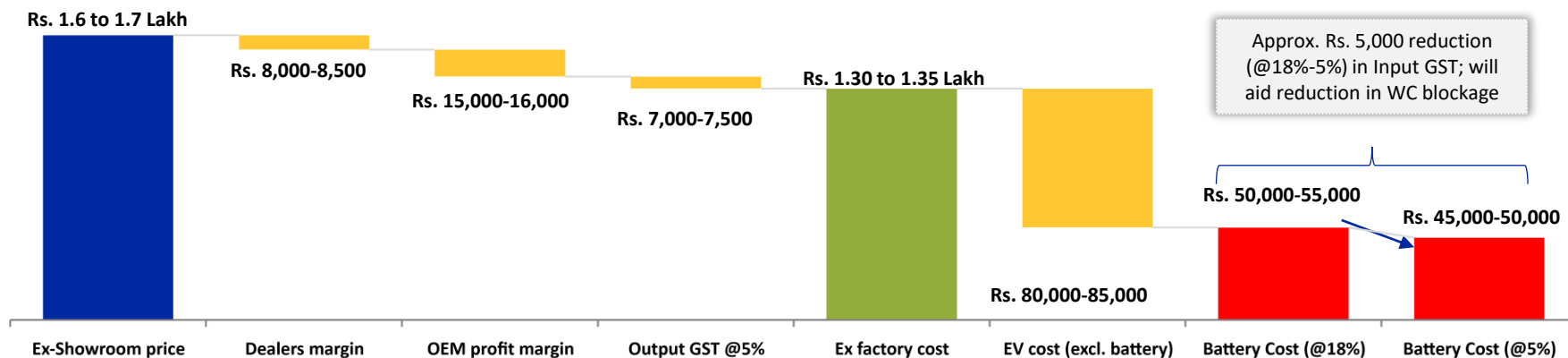
Haryana contributes ~30-35% of vehicle production in India

The country's leading passenger vehicle and two-wheeler manufacturers have a significant presence in the state

Automobile - Electric vehicles: GST rate cut on Li-ion batteries – yet another spark for Indian EV sector



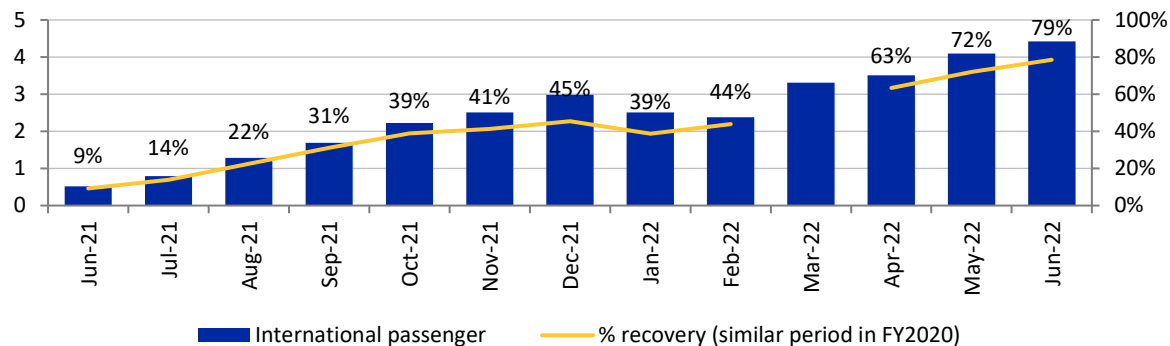
The primary input – batteries - and the output are taxed on a par, which would enhance the OEMs' financial flexibility and aid in further EV penetration



Source: Ministry of Finance press release, ICRA Research

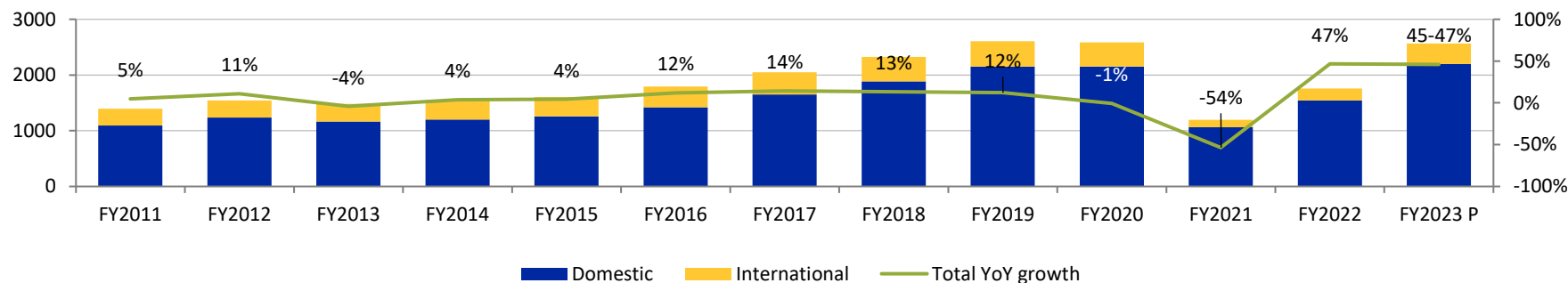
Airport Infrastructure: International passenger traffic continues to be strong in June 2022

Exhibit: International passenger traffic (in million)



Pre-Covid levels for domestic passenger traffic in FY2023.
International traffic seen to touch pre-Covid levels by FY2024

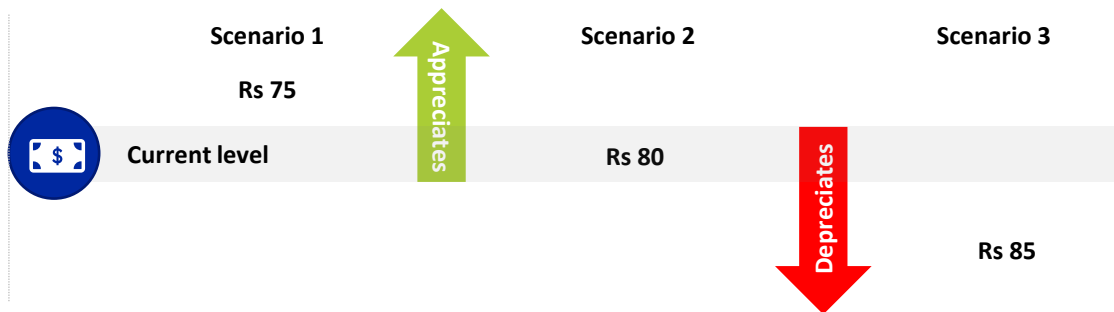
Exhibit: Yearly trends in total aircraft traffic (in '000)



Source: AAI, MoCA, ICRA Research; *Mar-22 recovery is not given due to closure of airports operations partly during Mar-20

Cross-sectoral strategy: Rupee depreciation – A Bird's-eye View

ICRA has analysed the impact of the upward/downward movement of INR with 3 scenarios for the vulnerable sectors



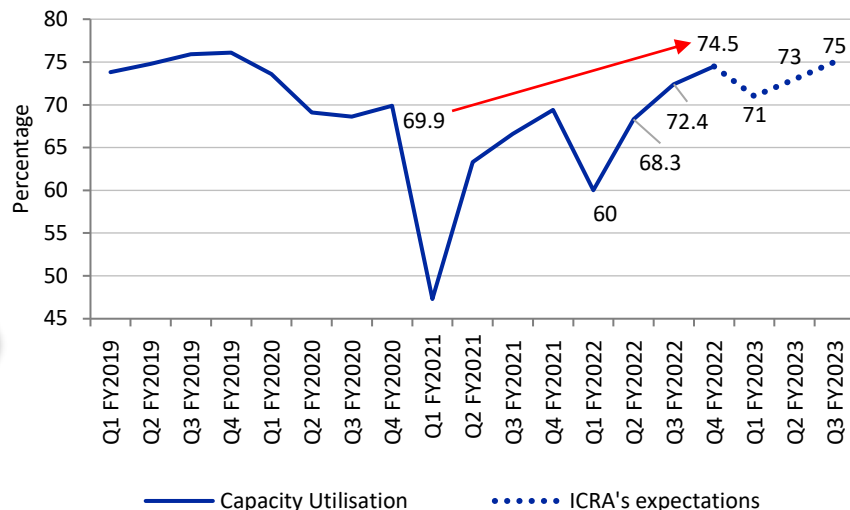
↑	City gas distribution (CGD)
↑	Metals – Ferrous and non-ferrous
↑	IT services
↑	Oil and gas
↑	Refining and marketing

↔	Textiles
↔	Pharma
↔	Fertilisers
↓	Airlines
↓	Chemicals
↓	Power

As global currencies tumble against the USD, the INR stands out on its outperformance. Robust FDI inflows, coupled with RBI's counter measures, seem to be the primary contributors of this outperformance

Economy – Investment tracker: Capacity utilisation to report seasonal dip in Q1 FY2023, exacerbated by uneven demand for goods amid geo-political headwinds

EXHIBIT: Trends in capacity utilisation (CU)



Note : Dotted line represents ICRA's expectations; Source: RBI; ICRA Research

The recent moderation in commodity prices since mid-June 2022 augurs well for corporate margins and is likely to boost business sentiments and support investment demand in the near term

EXHIBIT: Heatmap of investment-related high frequency indicators

YoY (%)	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Infra & construction goods^ output	6.6	3.1	2.0	5.9	8.6	6.7	4.0	18.2	NA
Cement production	14.6	-3.6	14.2	14.1	4.2	9.0	7.4	26.3	
Finished steel consumption	-6.5	0.2	-7.2	0.1	-9.1	5.0	1.2	19.6	12.8
Capital goods^ output	-1.6	-2.6	-3.0	1.8	1.3	2.0	13.3	54.0	NA
Total CV registrations	11.1	6.6	6.0	14.5	2.5	11.7	50.7	277.4	83.7
SCB: Infrastructure credit	8.9	8.5	10.9	12.0	11.9	6.4	10.2	10.5	
Centre's capex	-24.1	-53.5	74.0	-5.8	0.8	429.9	67.5	77.8	
States' capex*	32.3	20.6	25.7	-8.9	-6.9	8.7	-16.3	-6.8	NA
States' stamp duty collections*	45.4	36.1	-0.8	7.4	15.0	21.1	50.7	250.6	
Engineering goods imports	33.6	28.2	23.7	18.0	11.0	5.0	12.4	19.0	
Engineering goods exports	52.3	38.4	46.6	26.6	35.6	17.8	21.3	12.6	3.0

YoY growth; sequential pick-up	YoY growth; sequential dip	YoY growth; no sequential change	YoY contraction; sequential pick-up	YoY contraction; sequential dip
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Economy – External debt: Forex cover of external debt likely dipped below 95% at end-June 2022

EXHIBIT: Quarterly trends in external debt

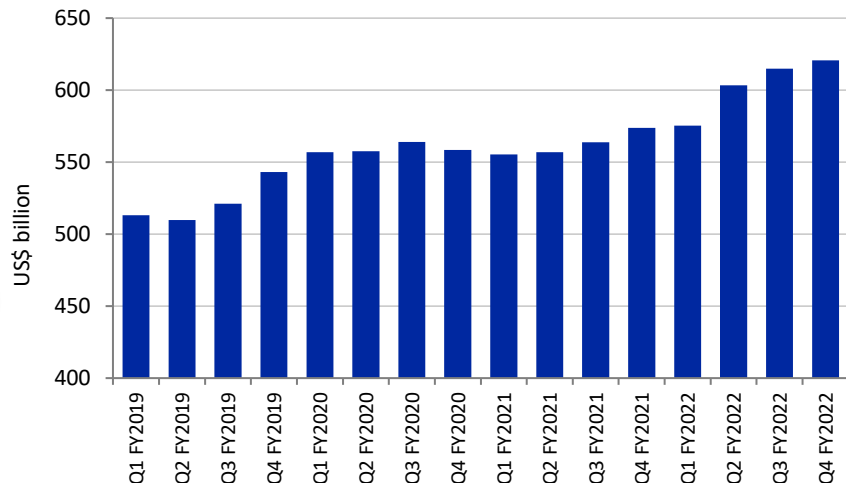
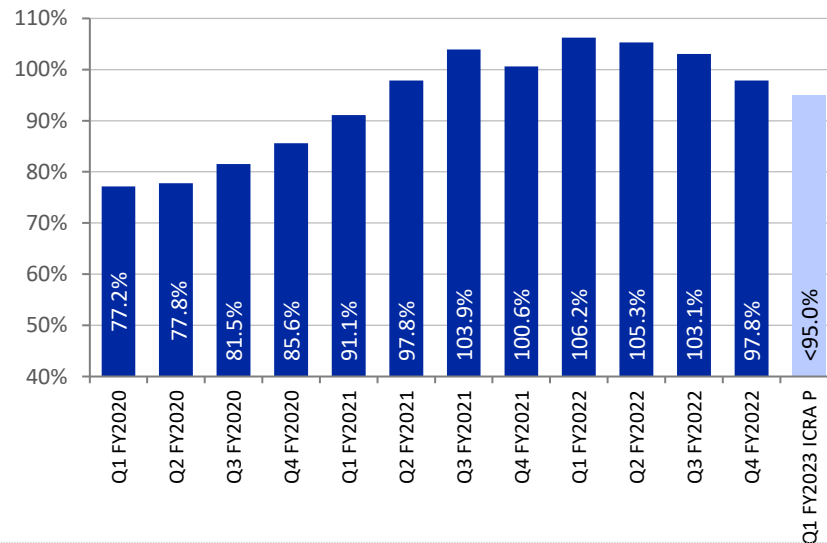
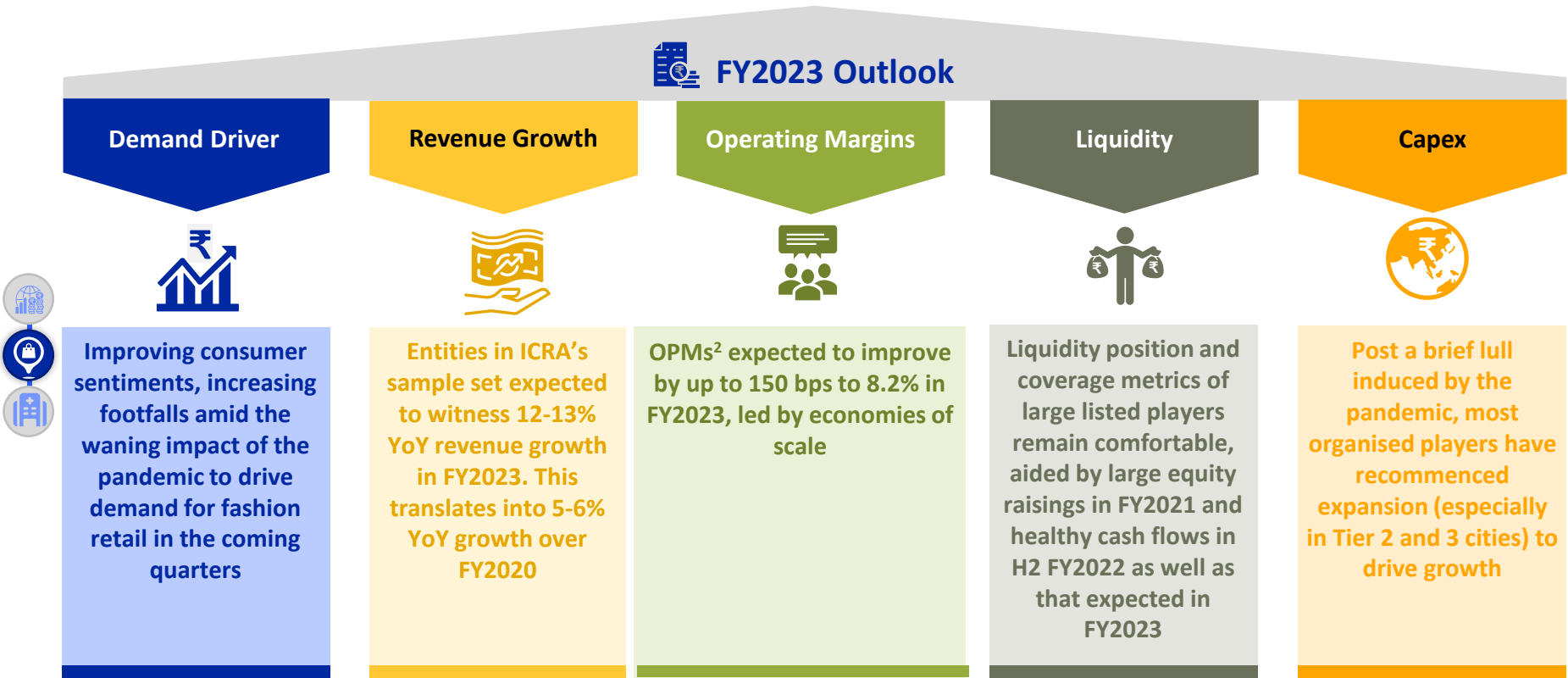


EXHIBIT: Forex reserves as % of external debt (%)



Given the moderation of USD 14.0 billion in reserve assets and the expectation of moderate ECB inflows in the remainder of Q1 FY2023 amid a rising interest rate environment, the coverage of external debt provided by forex reserves is likely to have further dipped below 95% in Q1 FY2023

Fashion retail: Industry out of the woods; outlook revised to Stable as business conditions improve



Source: ICRA Research, Note: 2-As per I-GAAP

Hospitals: Introduction of GST on non-ICU hospital beds to be credit-neutral for hospital sector

Exhibit: Expected impact calculation

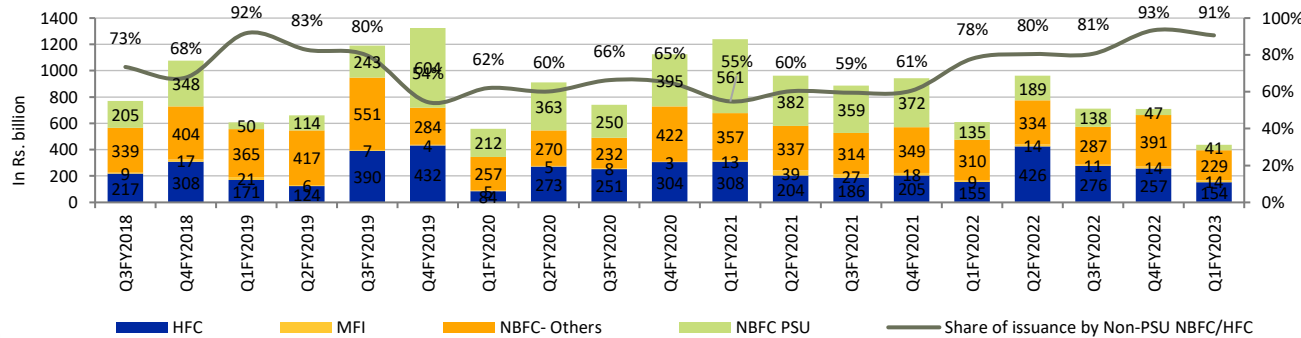
Particulars	Amount in Rs.
Average revenue per occupied bed day (ARPOB)	44,000 - 46,000
Occupancy %	55.0% - 57.0%
Average revenue per bed day	80,000 - 81,000
Bed charges (assumed at 10% of total revenues)	8,000 - 8,100
Average length of stay (ALOS in number of days)	3.2 - 3.4
Average billing value per patient towards bed charges	25,600 - 27,500
GST on bed charges (5% of bed charges)	1,280 - 1,400
% GST impact on total bill	Less than 2.0%



In case of patients covered under insurance, the impact is expected to be minimal as part of the cost is borne by the insurance company

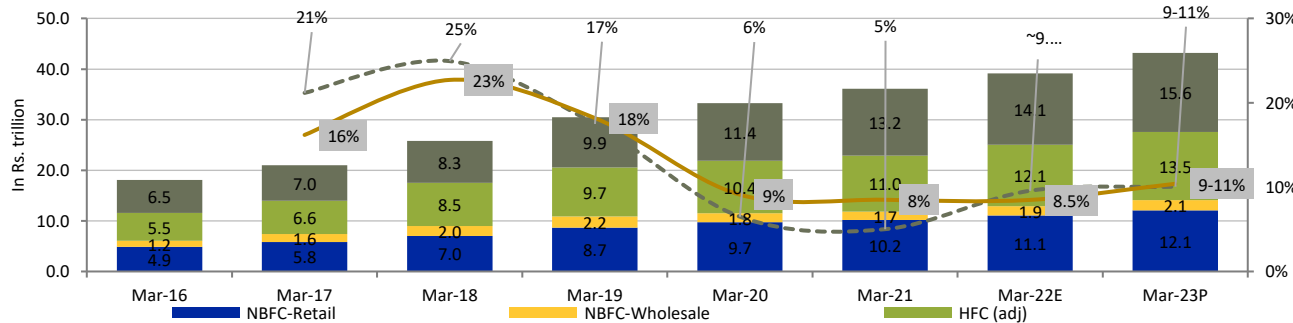
NBFC & HFC: Managing funding in a tightened credit environment is key for near-term growth

Exhibit: NBFC-HFC NCD issuance trend (quarterly) - NCD issuances hit a low in Q1 FY2023



The hike in the repo rates and elevated inflation prints have affected investor appetite

Exhibit: AUM growth trends and expectation



HFCs grew as expected. NBFCs grew higher-than-envisaged, which can be attributed to a low base and the uptick in credit by large and parent-backed NBFCs, which increased their supply chain, capital market and other corporate exposures

Source: AIMIN, RBI, ICRA Research, Adj - Excluding DHFL and Gruh till Mar-21; Mar-22 data includes the acquired DHFL book in HFCs E-Estimated; P-Projected

Petrochemicals & Polymers: Single-use plastic ban to have limited impact on resin manufacturers



Banned item	Affected type of plastic
Plastic Sticks / straws	Polypropylene
Cutlery items	Polystyrene, polypropylene
Packaging / wrapping Films	PVDC, PVC, and polyethylene
PVC banner <100microns	PVC
Bag <75 microns	HDPE, LDPE, LLDPE
Polystyrene for decoration	Polystyrene

As per the items banned, demand for the above listed types of plastics would be affected. However, it should be noted that these plastics have a wide use and hence any impact should be limited in the short run

Type of plastic	Single-use item
HDPE	Milk bottles, shampoo bottles, ice-cream containers
LDPE	Food packaging films, bags, trays
PET	Bottles for water and cold-drinks, biscuit trays
Polystyrene	Cutlery, plates, cups
PP	Microwave dishes, potato chip bags, bottle caps
EPS	Insulated food packaging, packaging fragile items

Above listed items are SUP but some of these don't appear under the purview of the current ban.

Resin manufacturers are large players with a diversified market. They would switch production to permissible grades and largely remain unaffected. Any impact on sales can be made up by growth in other segments

Ship-breaking industry: Sharp Rupee depreciation and softening in steel scrap prices to hit margins and viability in the near term

Exhibit: Monthly import price and import volume trends

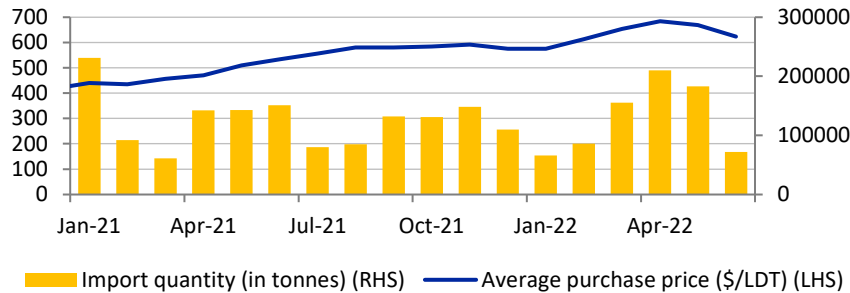


Exhibit: Steel scrap, procurement price, spread trends (Rs. Per MT)

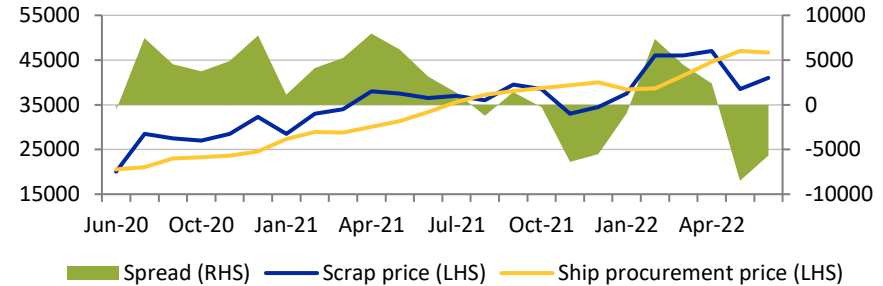
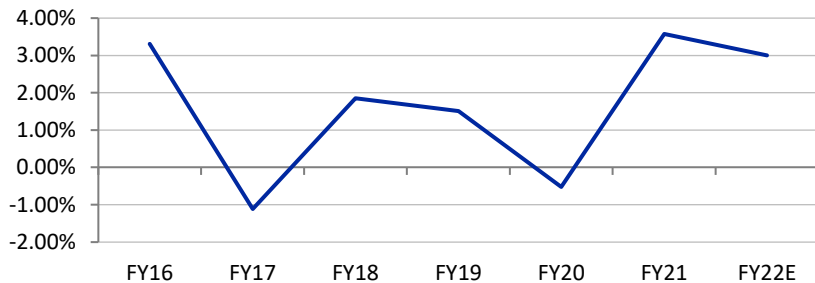


Exhibit: Operating margin trend



Imports reduced due to skepticism of ship-breakers amid highly volatile conditions, led by increased vessel procurement cost.

The operating profit margin in this business is low as the value addition is less and there is stiff competition from various players in the domestic industry as well as from competing countries.

Structured Finance: Rising securitisation volumes for microfinance asset class signal return of investor confidence; rising share of upgrades in rated pools

Exhibit: Micro loan volume and share in overall securitisation market since FY2017

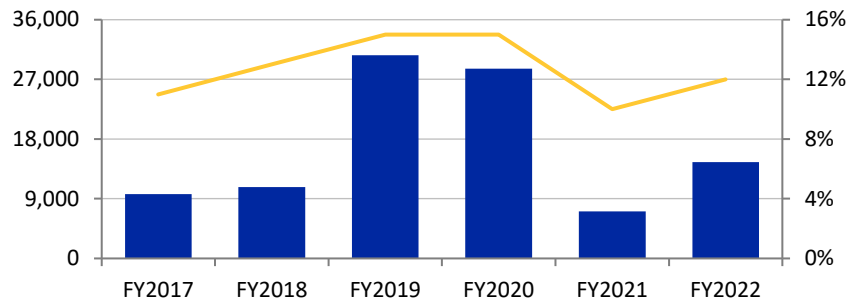


Exhibit: Quarterly trend of micro loan volume and share for FY2022 + Q1FY2023

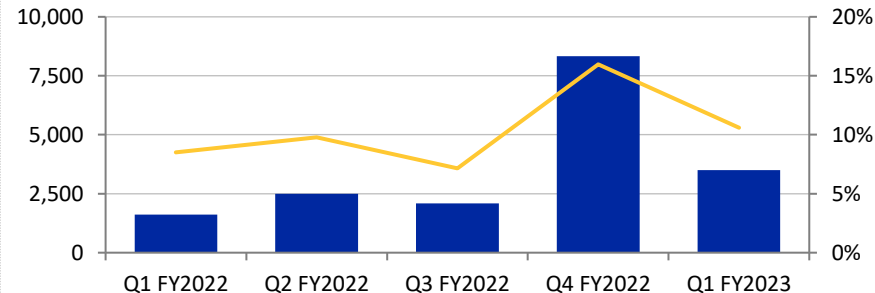
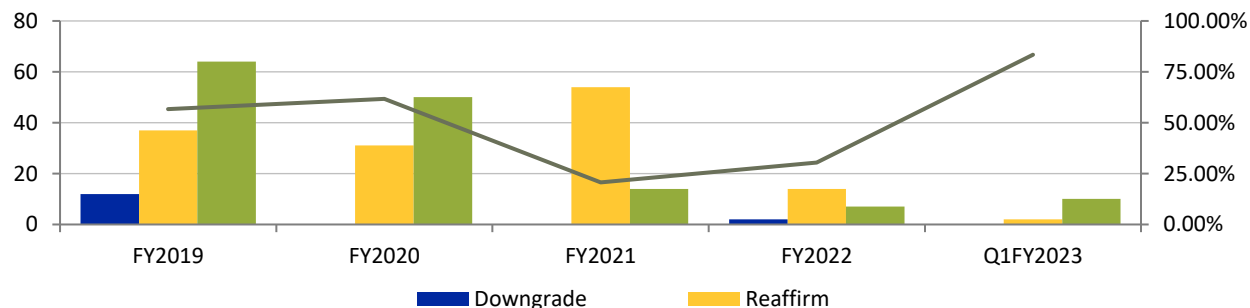


Exhibit: Annual rating transaction in micro loan pools



Rising share of upgrades as improving collections and market outlook give comfort

Structured finance: Healthy pick-up in credit demand for NBFCs and HFCs leads to strong securitisation volumes in Q1 FY2023

Exhibit: Securitisation market volume (PTC + DA)

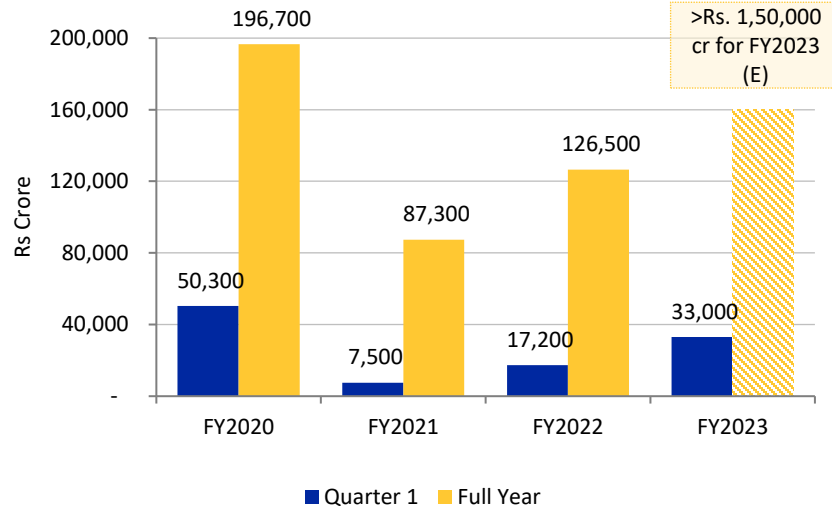
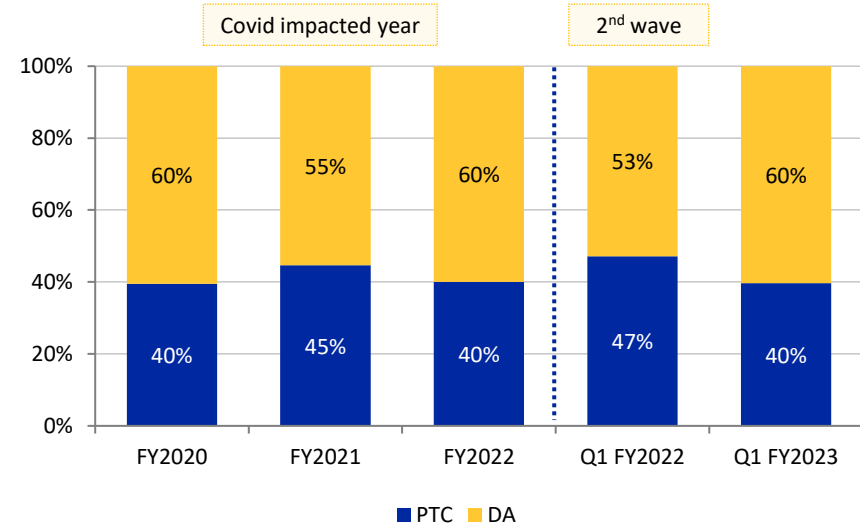


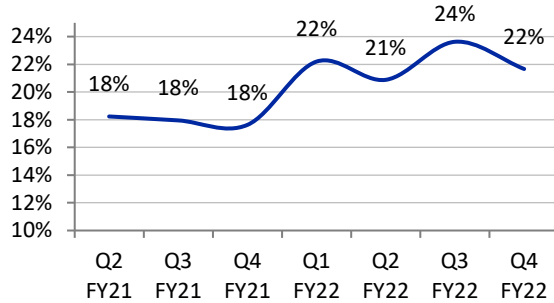
Exhibit: Split between PTC & DA



The share of DA and PTC, in line with the past trends, indicates normalisation of the overall macroeconomic perception. During periods of uncertainty, preference towards PTCs increases as PTC structures have credit enhancements which safeguard investors from higher losses

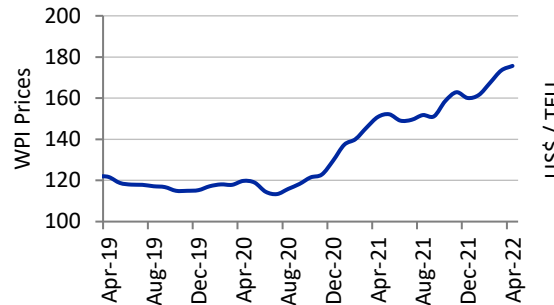
Tiles: Rising production cost to weigh on operating profitability of domestic tile players; expected to moderate further by 100-150 bps in FY2023

Exhibit: Power and fuel consumption (as a % of total manufacturing cost)



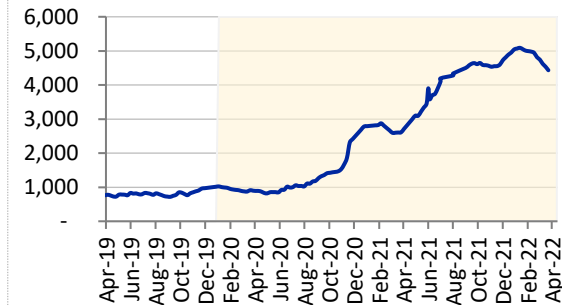
Source: ICRA Research; Quarterly results of Kajaria Ceramics, Somany Ceramics, Asian Granito India, Orient Bell and Murudeshwar Ceramics

Exhibit: Trend in Kraft paper wholesale price index (WPI) prices

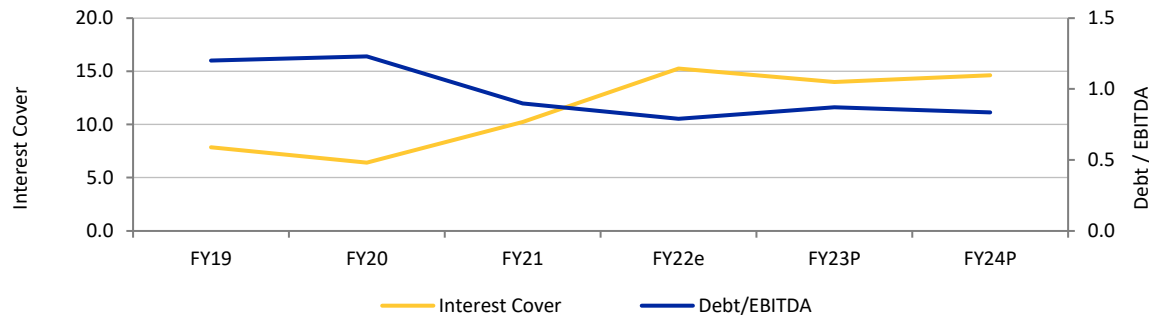


Source: ICRA Research; CMIE, Prices with Base Year 2011-12

Exhibit: Shanghai containerised freight index



Source: ICRA Research



Source: Source: Aggregate financials for a sample of four listed tile players in India (Kajaria Ceramics Limited, Somany Ceramics Limited, Orient Bell Limited and Murudeshwar Ceramics Limited); ICRA Research; P – Projected

The finance cost is expected to increase due to higher interest cost and working capital borrowings to fund inventory build-up for exporting entities



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