

Monthly Research Compendium

DECEMBER 2022





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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



Airline: Industry continues to face earnings pressure given macro headwinds and intense competition



Airport infrastructure : Festive season push drives 10% sequential growth in air passenger traffic in Oct 2022; overall traffic at 93% of pre-Covid levels



Automobiles: Commercial vehicles - Replacement demand emerging as a key driver for CV sales



Automobiles: Passenger vehicles - OEMs rev up capacity expansion plans



Banking: Healthy growth in transaction volumes to drive profitability of payments banks



Climate series: COP27 - Agreement on funding for developing nations is a welcome move; execution remains the key



Cross Sectoral Strategy: PLI - Capex deployment expected to surge from FY24



Economy: India's GDP growth set to halve to 6.5% YoY in Q2 FY2023; external slowdown poses downside risks to H2 FY2023 GDP growth



Fertilisers: NBS rates revised amid softening of input prices





Housing finance: Rising interest rates unlikely to have severe impact on asset quality




Jewellery retail: Domestic jewellery industry retains its sheen in Q2 FY2023; industry demand expected to grow by ~12% YoY in FY2023

Summary - II

 **Media:** Film Exhibitors - The buzz is back in show-biz; Multiplexes look to surpass pre-pandemic revenues in FY2023

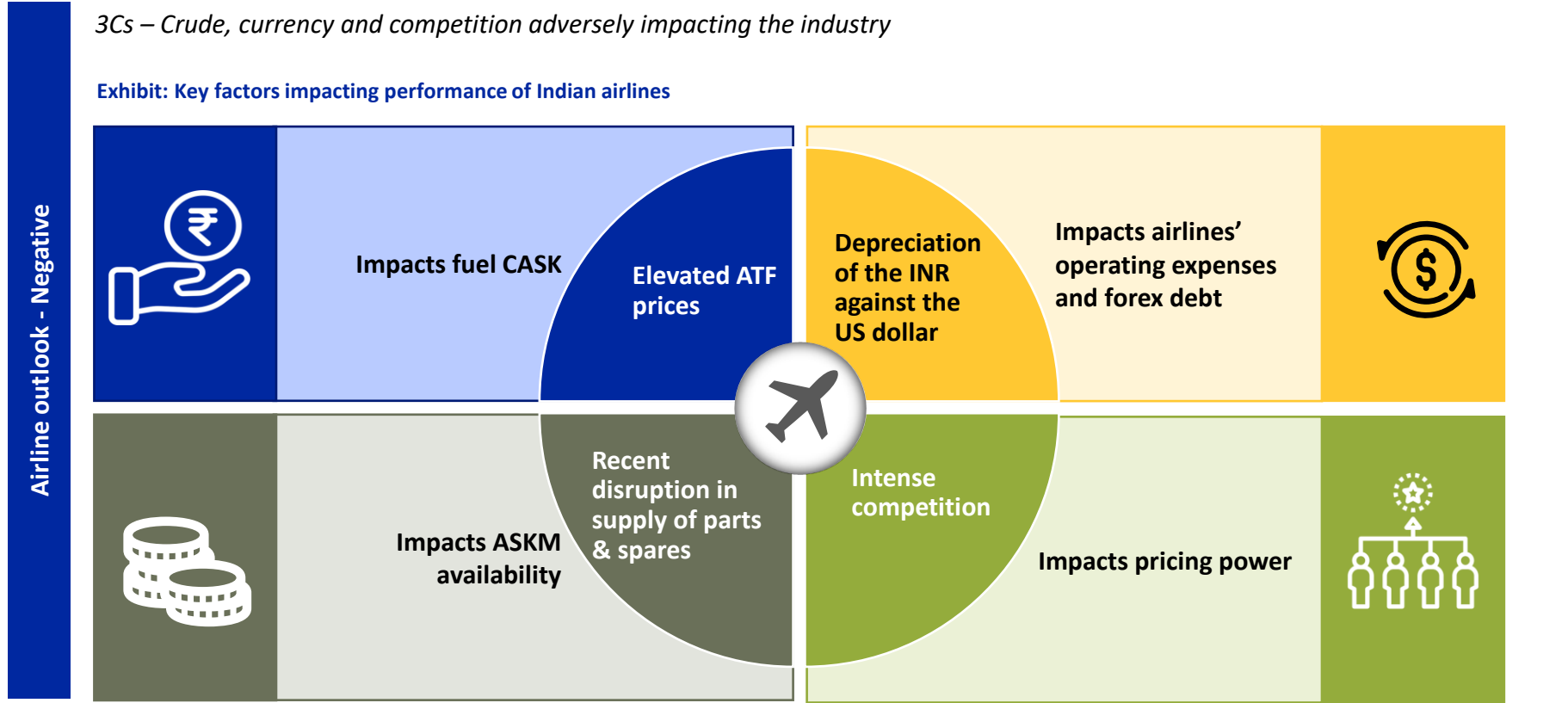
 **Power:** Sustained demand growth to improve visibility on PPAs for thermal IPPs; discoms clearing dues under the LPS scheme a near term positive for IPPs

 **Steel:** The roll-back of export duties will increase steel industry's operating flexibility, and support better capacity utilisation rates going forward

Airline: Industry continues to face earnings pressure given macro headwinds and intense competition

3Cs – Crude, currency and competition adversely impacting the industry

Exhibit: Key factors impacting performance of Indian airlines



Source: ICRA Research

Airport infrastructure: Festive season push drives 10% sequential growth in air passenger traffic in Oct 2022; overall traffic at 93% of pre-Covid levels

Exhibit: Total passenger traffic (in million)

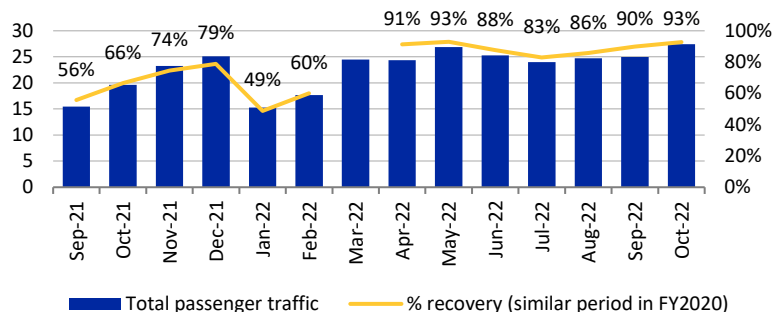


Exhibit: Domestic passenger traffic (in million)

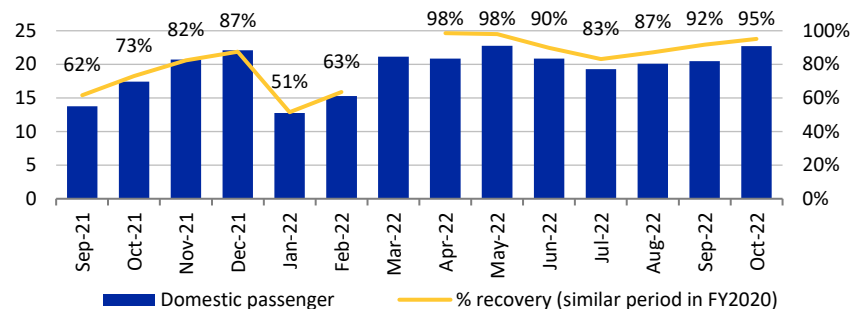
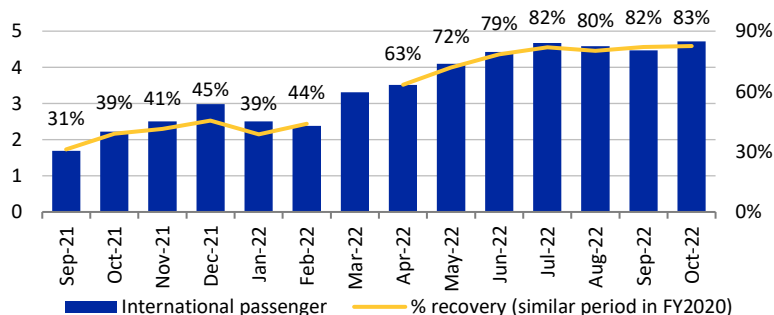


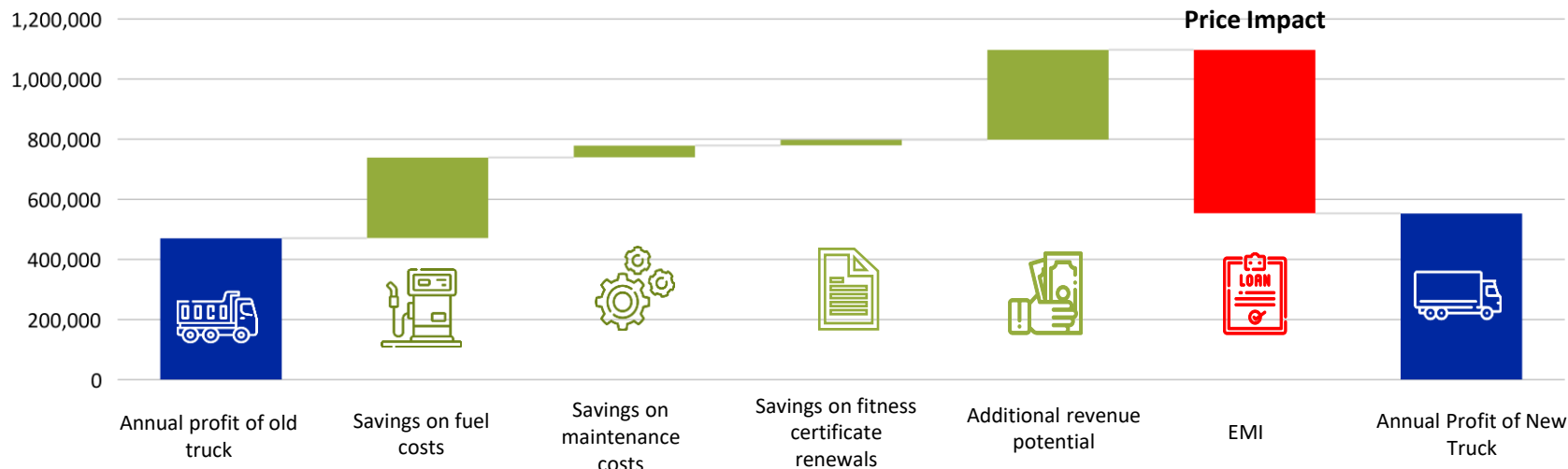
Exhibit: International passenger traffic (in million)



The recovery in domestic passenger traffic was strong since April 2022 supported by the easing of travel restrictions, resilient passenger demand, reopening of offices, increase in business and leisure travel.

Automobiles: Commercial vehicles - Replacement demand emerging as a key driver for CV sales

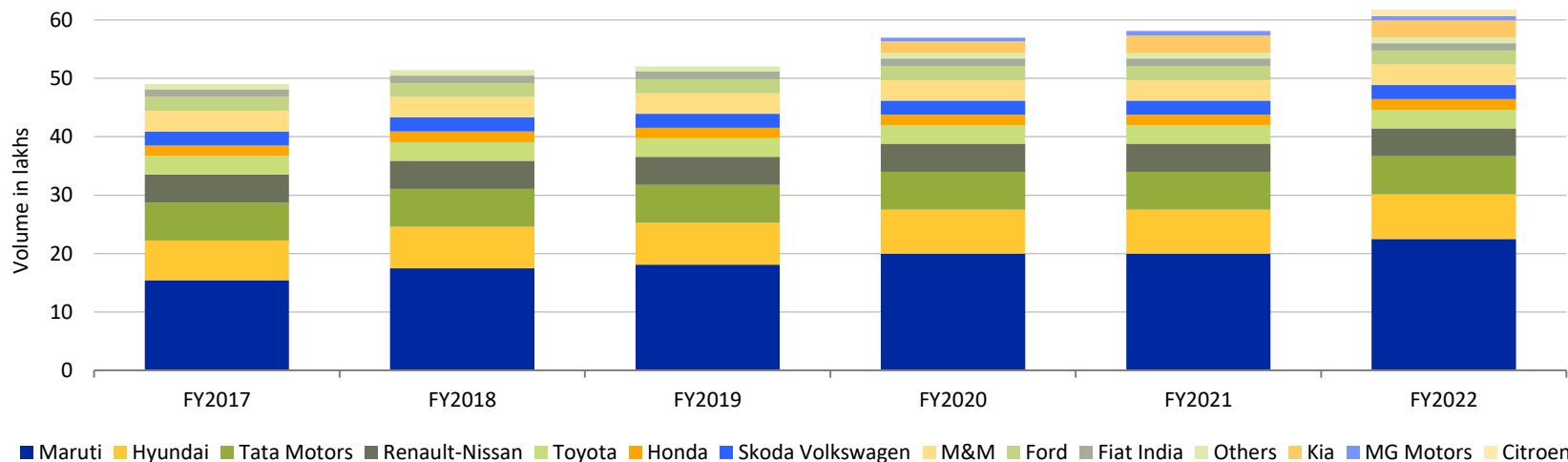
Exhibit: Viability comparison between an old and a new truck (8-9T) (In Rs.)



Although a new truck entails a higher purchase price, the savings in operational costs and the higher revenue potential due to increased load carrying capacity would result in higher profits as per ICRA estimates

Automobiles: Passenger vehicles - OEMs rev up capacity expansion plans

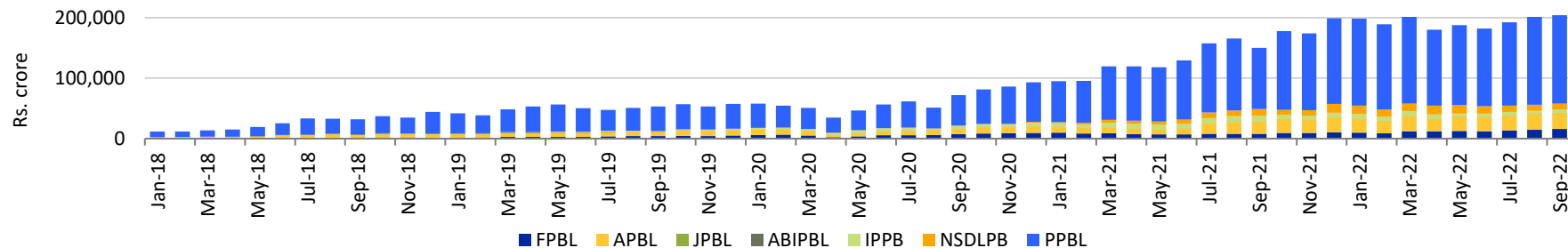
Exhibit: Trend in capacity expansion over the years



Amidst the uncertainty caused by the pandemic and the semiconductor crisis, the OEMs continued to invest in capacity augmentation, aided by their strong financial risk profiles. Currently, with a view to building up capacity to cater to the ongoing robust demand and expectation of healthy volume growth going forward, the OEMs are now ramping up their capacity expansion plans.

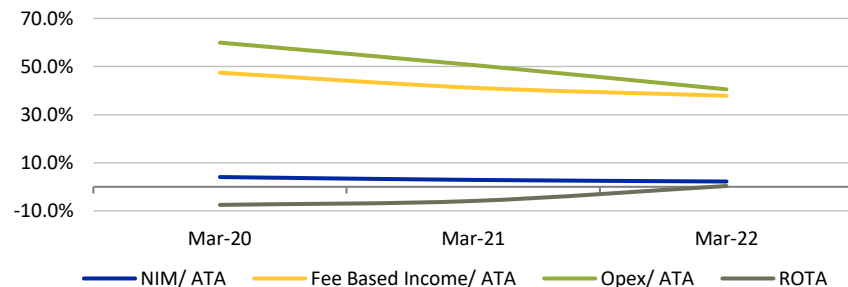
Banking: Healthy growth in transaction volumes to drive profitability of payments banks

Exhibit: Monthly trend in transaction volumes (NEFT + RTGS + mobile transfers) of PBs



Fino Payments Bank Limited (FPBL), Airtel Payments Bank Limited (APBL), Jio Payments Bank Limited (JPBL), Aditya Birla Idea Payments Bank Limited (ABPBL), India Post Payments Bank Limited (IPPB), NSDL Payments Bank Limited (NSDLPB), PayTM Payments Bank Limited (PPBL)
 Net Interest Margin (NIM), ATA: Average total assets

Exhibit: Trend in consolidated KFI

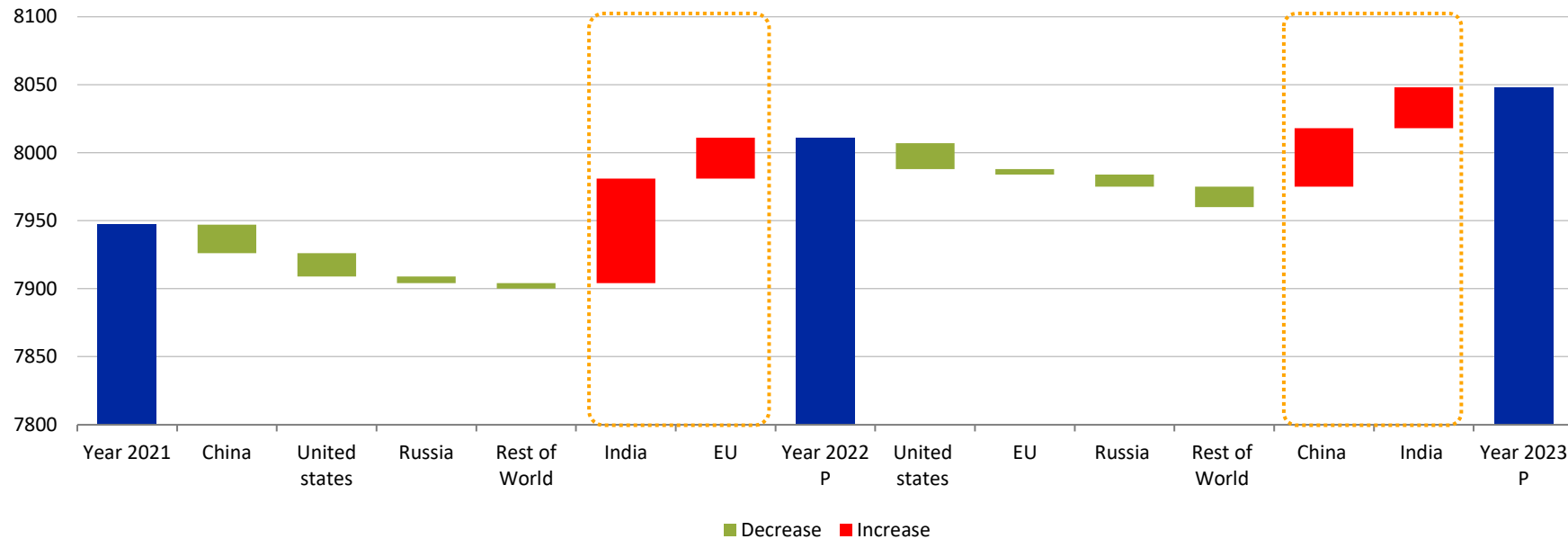


The industry (excluding data for IPPB) turned profitable in FY2022 and the profitability is expected to improve further, aided by the increase in transaction volumes

Source: RBI publications, ICRA Research; NEFT: National electronic funds transfer; RTGS: Real-time gross settlement, ICRA Research, respective PBs' websites; Total debt does not include deposits; Excluding IPPB as data for FY2022 is not available

Climate series: COP27 - Agreement on funding for developing nations is a welcome move; execution remains the key

Exhibit: Coal consumption in MT



Agreement to provide “loss and damage” funding for vulnerable countries is a step in the right direction. However, successful implementation needs close monitoring amid rising global coal consumption

Cross Sectoral Strategy: PLI - Capex deployment expected to surge from FY24

Capex for current PLI scheme and sectors will be concentrated between FY24 to FY26, however change in outlay or addition of sectors may change the same










	FY23	FY24	FY25	FY26
Expected capex (Rs trillion)	0.2-0.4	0.9-1.1	1.2-1.4	1.5-1.7
% of the total capex	5-10%	20-25%	30-35%	35-40%

Bulk of the capex which the companies have to put will be concentrated between FY24 to FY26 as most of the major sectors start manufacturing activities from FY24 onwards

The Government may enhance the PLI outlay or may add further sectors to maintain the manufacturing capex post FY26. Sectors like semiconductor, ACC batteries or new sectors like green hydrogen, electrolyser may get the benefit

In FY23, several schemes took off. Production to start in FY24 when large investments begin to come in.

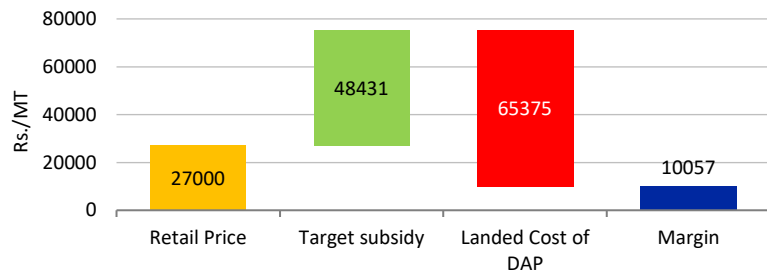
Economy: India's GDP growth set to halve to 6.5% YoY in Q2 FY2023; external slowdown poses downside risks to H2 FY2023 GDP growth

ICRA's Macroeconomic Projections		FY2022	FY2023
	GDP Growth (in real terms)	8.7%	7.2%
	GVA Growth (in real terms)	8.1%	7.0%
	CPI Inflation (average)	5.5%	6.6%
	WPI Inflation (average)	13.0%	9.7%
	Current Account Balance	Deficit of US\$38.7 billion; 1.2% of GDP	Deficit of US\$105-110 billion; 3.2% of GDP
	Govt's Fiscal Deficit	Fiscal deficit at Rs. 15.87 trillion (6.7% of GDP) as per prov. estimates, below RE of Rs. 15.91 trillion (6.9% of GDP)	Fiscal deficit to overshoot the budgeted Rs. 16.6 trillion by Rs. 1.0 trillion or less, but print at 6.4% of GDP, in line with the BE
	G-sec Yields	10-year G-sec yield to trade between 7.2-7.6% in the rest of CY2022, amidst the expectation of another repo hike in Dec 2022	
	Repo Rate	Rate hike to continue in the Dec 2022 policy, with CPI inflation remaining above MPC's 6% tolerance level in Oct 2022; however, quantum of hike to ease to 35 bps, lower than the 50 bps seen in the last three reviews	
	INR	USD/INR pair to trade between 80.5-83.0/US\$ till end-March 2023	

The demand for contact-intensive services is likely to remain upbeat in the near term with the onset of wedding and holiday seasons. Sustenance of demand for goods post the festive season remains unclear. ICRA maintains GDP growth forecast at 7.2% in FY2023, with downside risks arising from a deepening external slowdown

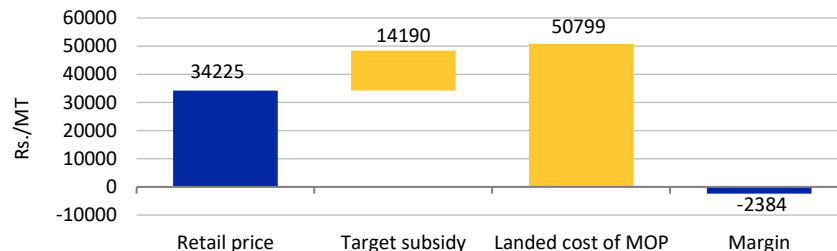
Fertilisers: NBS rates revised amid softening of input prices

Exhibit: Current level of subsidy and retail price to keep DAP margins healthy



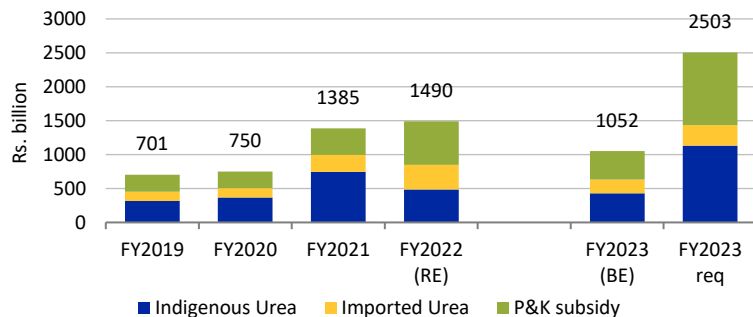
Source: DoF, ICRA Research 1\$= Rs. 82; DAP= \$760

Exhibit: Retail price of MOP and current level of subsidy to be inadequate to cover the input cost



Source DoF, ICRA Research 1\$= Rs. 82; MOP= \$590 (Last imported price for India)

Exhibit: Subsidy requirement to rise to around Rs. 2.5 lakh crore

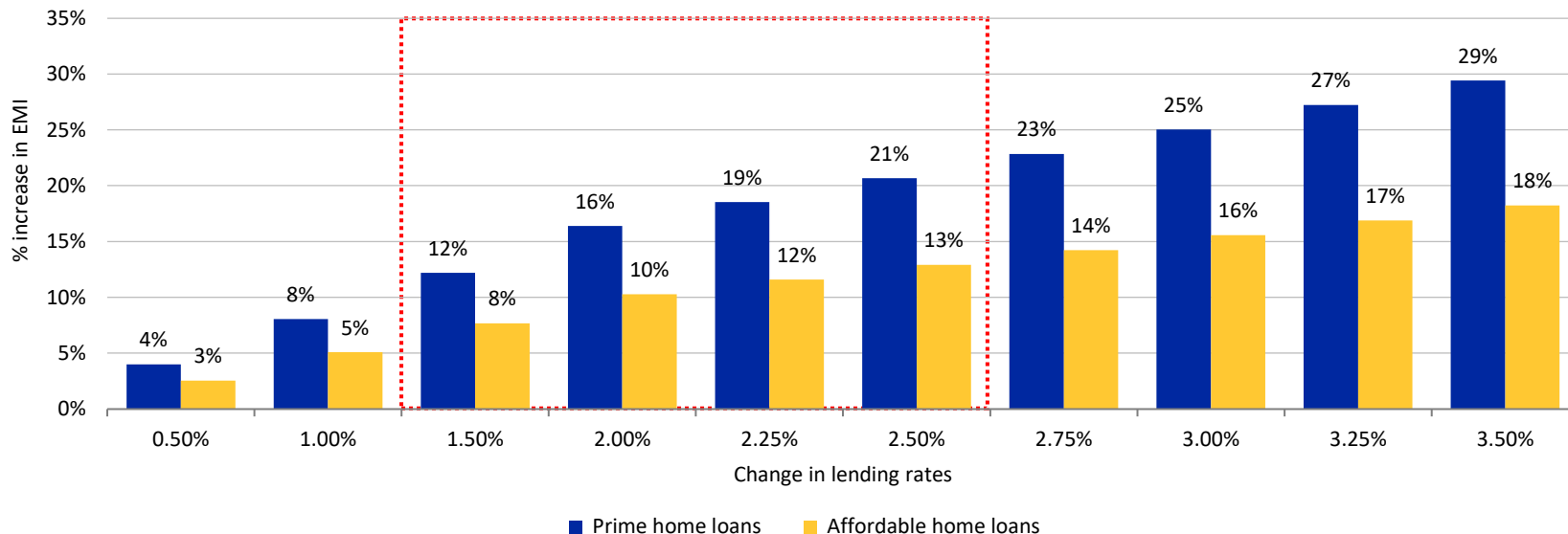


Source: DoF, ICRA Research

- Subsidy and retail price to keep DAP margins healthy and MOP margins negative
- Subsidy allocation may face shortfall amid elevated raw material and gas prices

Housing finance: Rising interest rates unlikely to have severe impact on asset quality

Exhibit: Expected increase in EMI with tenure remaining constant



Impact expected to be lower in case of affordable housing segment vis-à-vis prime home loan segment since those loans are already at high rates.

Overall, impact not likely to be severe across segments

Source: ICRA Research; Prime home loans: Ticket size – Rs. 45 lakh, Original RoI – 6.5%; Original tenure – 20 years
Affordable home loans: Ticket size – Rs. 10 lakh, Original RoI – 14%, Original tenure – 15 years

Jewellery retail: Domestic Jewellery industry retains its sheen in Q2 FY2023; industry demand expected to grow by ~12% YoY in FY2023

EXHIBIT: Trend in quarterly demand growth

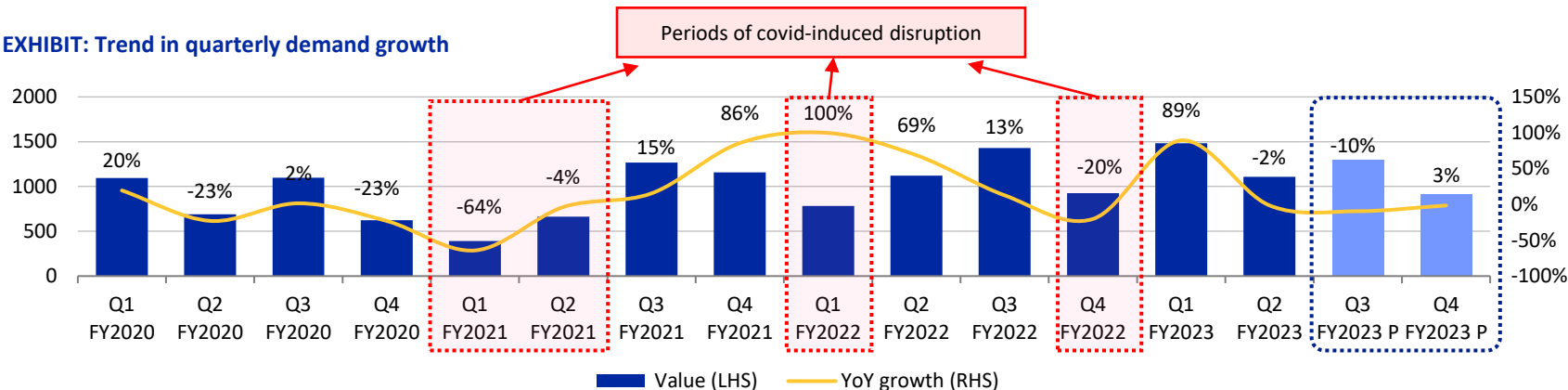
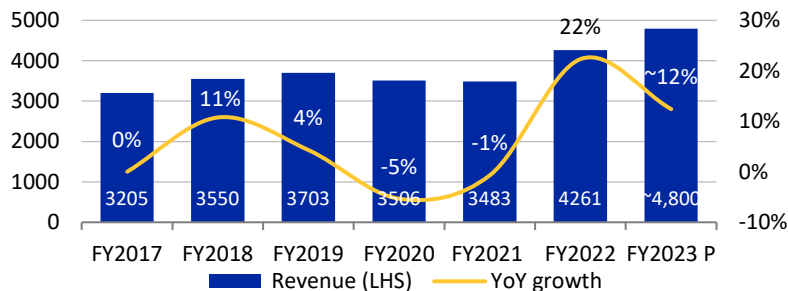


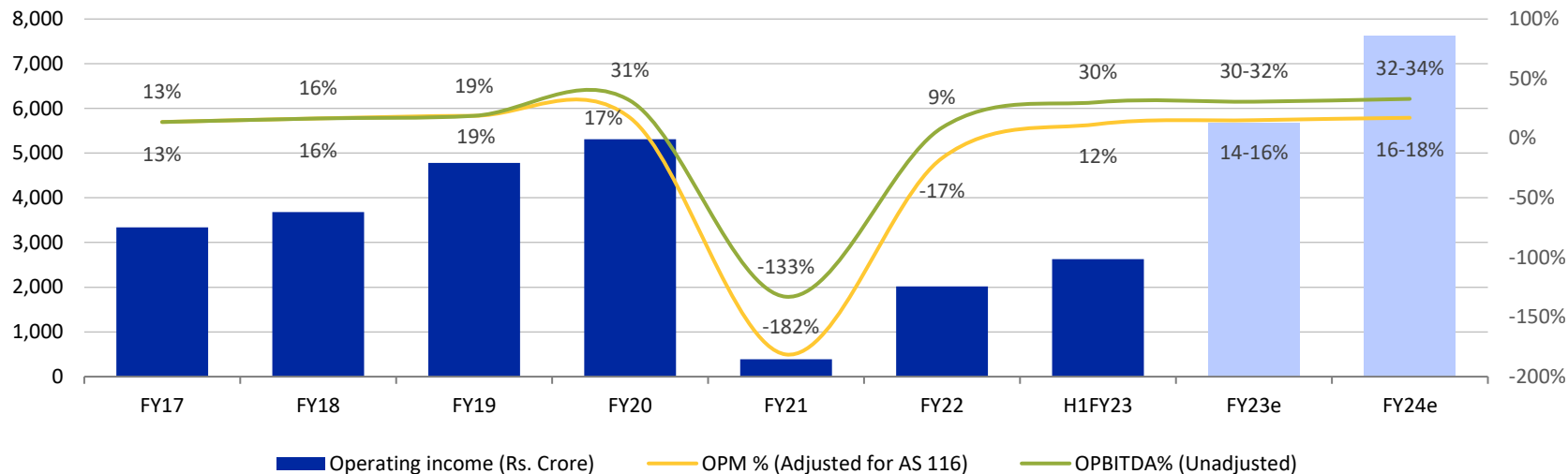
EXHIBIT: Trend in gold prices in India (INR per troy ounce)



- ICRA expects its sample of 14 major gold jewellery retailers in India to record robust revenue growth of ~20% YoY in FY2023, against the expected industry growth of ~12%
- Substantial correction in gold prices in Q2 FY2023 increased its attractiveness, which contributed to lower-than-expected industry decline during the quarter

Media: Film Exhibitors - The buzz is back in show-biz; multiplexes look to surpass pre-pandemic revenues in FY2023

Exhibit: Industry revenue and profit margins growth trend (Actual and ICRA estimated)



Industry consolidation is expected to significantly increase the bargaining power of multiplexes vis-à-vis content producers, mall owners, advertisers and consumers, augmenting their pricing power in tickets, F&B and advertising rates. Thus, the credit profile of multiplexes is expected to strengthen compared to single-screen owners over the medium term.

Power: Sustained demand growth to improve visibility on PPAs for thermal IPPs; discoms clearing dues under the LPS scheme a near term positive for IPPs

Exhibit: All-India thermal PLF trends

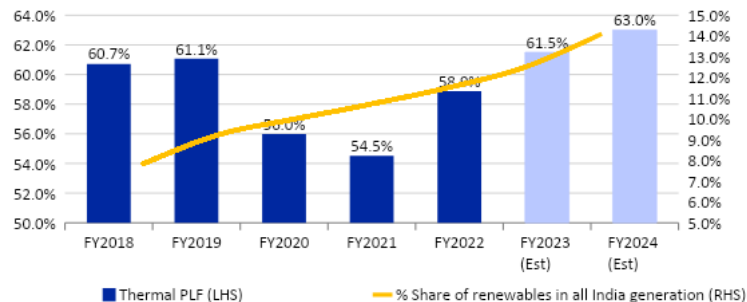
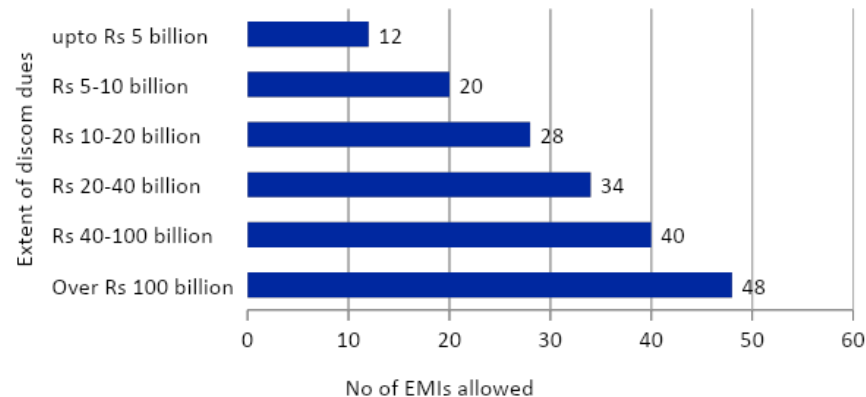


Exhibit: Liquidation of discom dues through equated monthly instalments



- A sustained demand growth is likely to improve the visibility on signing of new PPAs for the thermal IPPs as seen from the recent medium-term PPA tender for 4.5 GW issued by PFC Consulting Ltd.
- Late Payment Surcharge (LPS) this is a near term positive for gencos, a sustainable improvement in payments can only be achieved by improving the financial profile of the discoms.

Steel: The roll-back of export duties will increase steel industry's operating flexibility, and support better capacity utilisation rates going forward

Exhibit: Trend in monthly finished steel exports

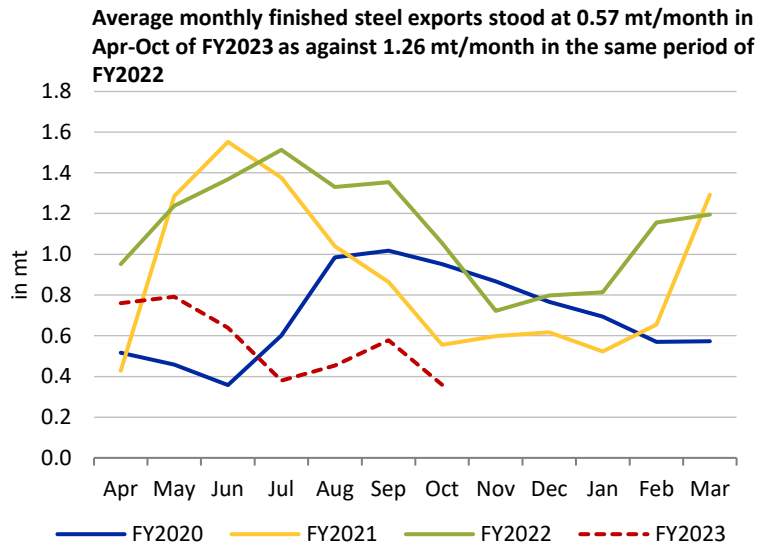
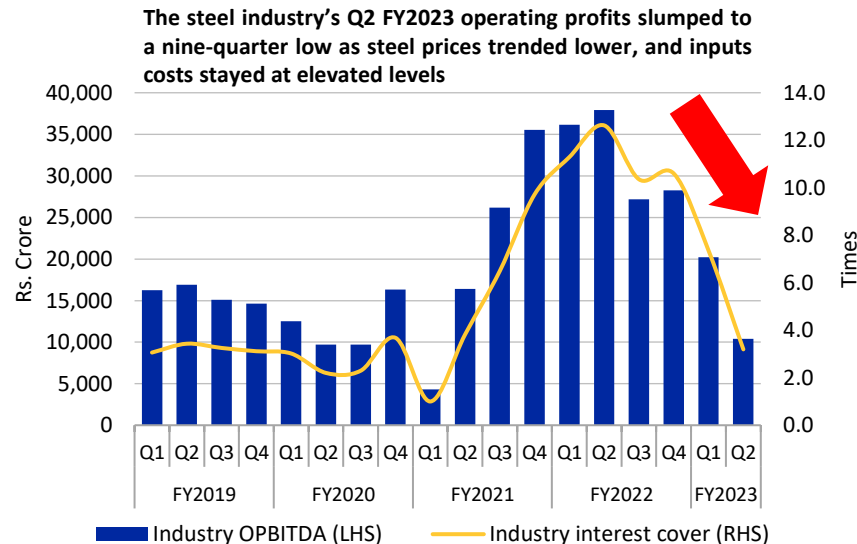


Exhibit: Trend in operating profits and interest cover of the domestic steel industry*



With exports becoming unviable and elevated raw material and energy costs nibbling at margins, the operating profits of the domestic steel industry slumped to a nine-quarter low in Q2 FY2023. However, with the roll-back of export duties, India's steel exports to key overseas markets is expected to witness a pick-up, unless global steel demand weakens materially.



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