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Monthly Research Compendium

MAY 2023

Monthly Research Compendium

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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

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- **AHFC:** Resurgence in loan growth amid improvement in asset quality to drive profitability
- **Broking:** Working capital requirement to increase as SEBI prohibits intermediaries from furnishing bank guarantees by pledging clients' funds
- **Capital goods:** Sustained order inflow reflects continued expansion in domestic investment; international orders gain traction in select segments
- **Cotton spinning**: Improving demand, steady contribution levels to strengthen debt coverage indicators of spinners
- **Economy:** Pace of investment activity slowed in Q4 FY2023; outlook for FY2024 appears bright, although timely execution remains key
- **Economy:** South-west monsoon outlook 2023
- **NBFC Retail:** Healthy AUM growth expected in FY2024; prudence key for sustaining business and financial performance
- **Oil & Gas:** Change in domestic gas pricing formula balances the interest of consumers and producers
- **Upstream Oil & Gas:** Special additional excise duty expected to increase in the next revision owing to increase in crude oil prices

AHFC: Resurgence in loan growth amid improvement in asset quality to drive profitability

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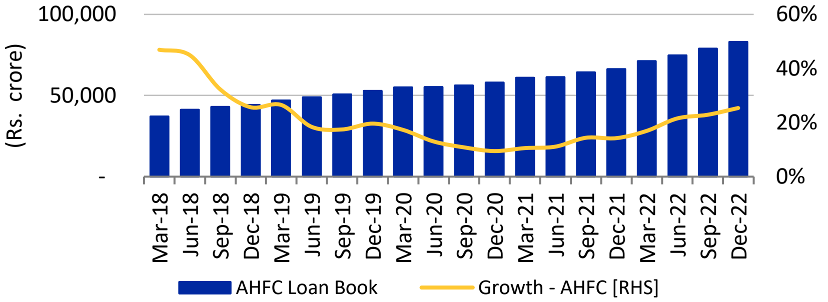
AHFC Outlook - Stable

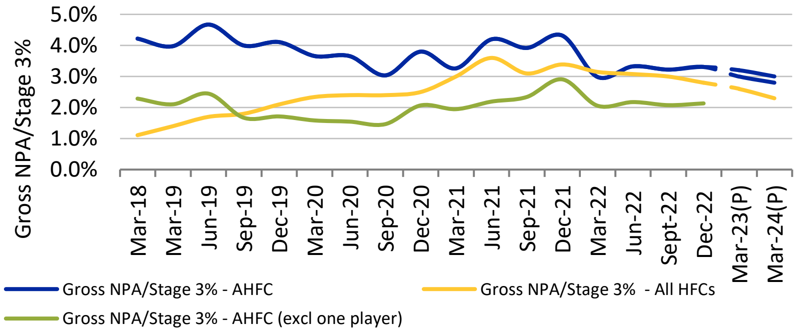
Exhibit: Trend in on-book portfolio of AHFCs



Source: ICRA Research; Note: Growth on YoY basis

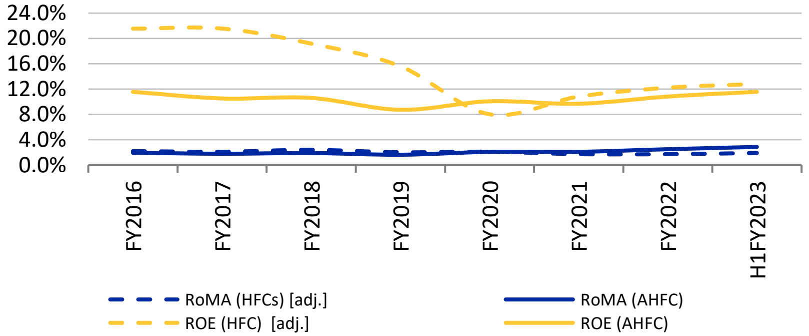
- **Disbursement volumes of affordable housing finance companies (AHFCs) remain strong, leading to highest growth in loan books during 9M FY2023 since FY2019**
- **Stable asset quality indicators; rollback rates expected to be lower**
- **Margins to be under pressure, going forward; controlled credit costs and improved operating efficiency to support overall profitability**

Exhibit: Trend in reported asset quality indicators



Source: Financials of various HFCs and ICRA Research

Exhibit: Trend in profitability indicators of AHFCs



Source: Financials of various HFCs/AHFCs and ICRA Research; Note: Adj. ratio for HFCs excludes PCHFL for Sep-22

Broking: Working capital requirement to increase as SEBI prohibits intermediaries from furnishing bank guarantees by pledging clients' funds

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Securities Broking Outlook - Stable

Impact on investors

Investor confidence is likely to improve with higher transparency in the use of clients' funds; investor funds will not be subjected to implicit leverage or other risks.

Following the implementation of the new framework, investors who had previously relied on additional cash collateral support from brokerage firms will now be required to provide more funds or cash collateral upfront for trading purposes. However, this is anticipated to reduce instances of overtrading and promote better financial discipline among investors.

Investors are likely to witness higher brokerage charges due to increasing working capital requirements and associated finance costs for brokers and CMs.

Impact on brokers/CMs

Brokers and CMs, who were using BGs created from clients' funds, would need to borrow funds or infuse additional own capital. This is likely to result in higher finance costs and hence profitability pressure. Conversely, market participants (like bank brokers), who traditionally did not depend on such arrangements, are likely to witness an improvement in their competitive position.

Brokers, who previously relied on implicit leverage to meet the cash collateral margin requirements of clients, may observe a decline in broking volumes. Particularly, smaller brokers with limited net worth and borrowing avenues will be impacted. This will necessitate upward revision in brokerage charges.

With the rising cost structure of the broking industry, the trend of consolidation in the industry is expected to continue with smaller broking players ceding market share to more established broking entities. While the implementation may impact the operations of a few market participants in the short term, the brokerage industry is likely to benefit from the enhanced transparency and reinforced investor confidence in the longer term.

Source: sebi.gov.in, ICRA Research

Capital goods: Sustained order inflow reflects continued expansion in domestic investment; international orders gain traction in select segments

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Exhibit A: Trend in order intake

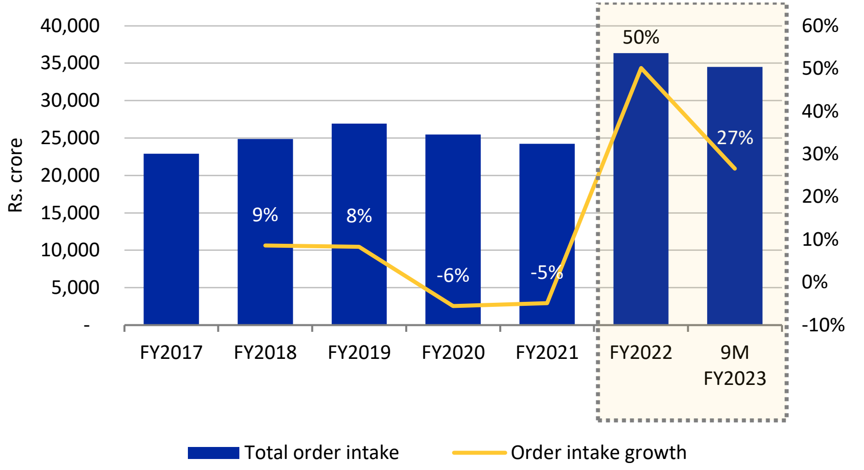
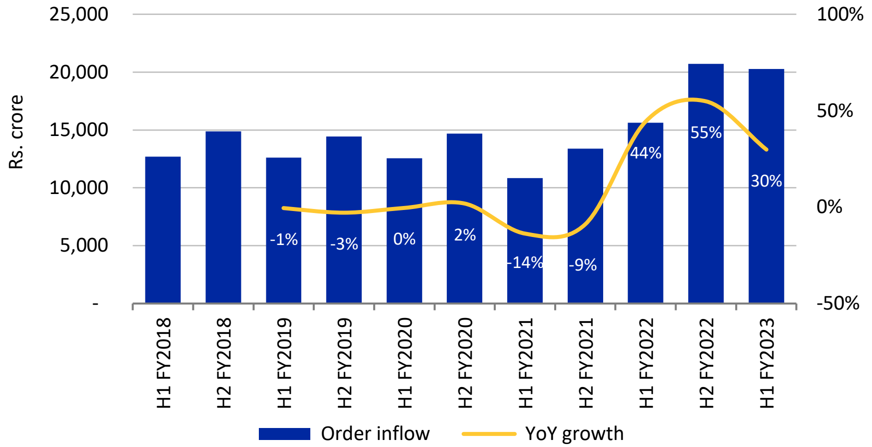


Exhibit B: Trend in half-yearly order intake



- **ICRA sample of capital good OEMs witnessed 27% growth in order intake in 9M FY2023 in YoY terms on an enlarged base, even as commodity inflation and global supply chain issues delayed some order finalisations in the first two quarters of the said fiscal**

- **As evident from Exhibit B, recovery was witnessed from H1 FY2022, especially from the domestic market, led initially by Government orders. The momentum picked appreciably in H2 FY2022 and continued in H1 FY2023 with order flows from international markets recovering with the resumption of travel.**

Source: ICRA Research; The sample of companies for Exhibit A and Exhibit B is different; data for ABB India Ltd. is on calendar year (January - December) basis, while for other companies, the data is on FY basis (April-March)

Cotton spinning: Improving demand, steady contribution levels to strengthen debt coverage indicators of spinners

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Cotton Spinning Outlook - Stable

Demand expected to improve amid shift in preference away from Chinese cotton and stabilisation of cotton and cotton yarn prices

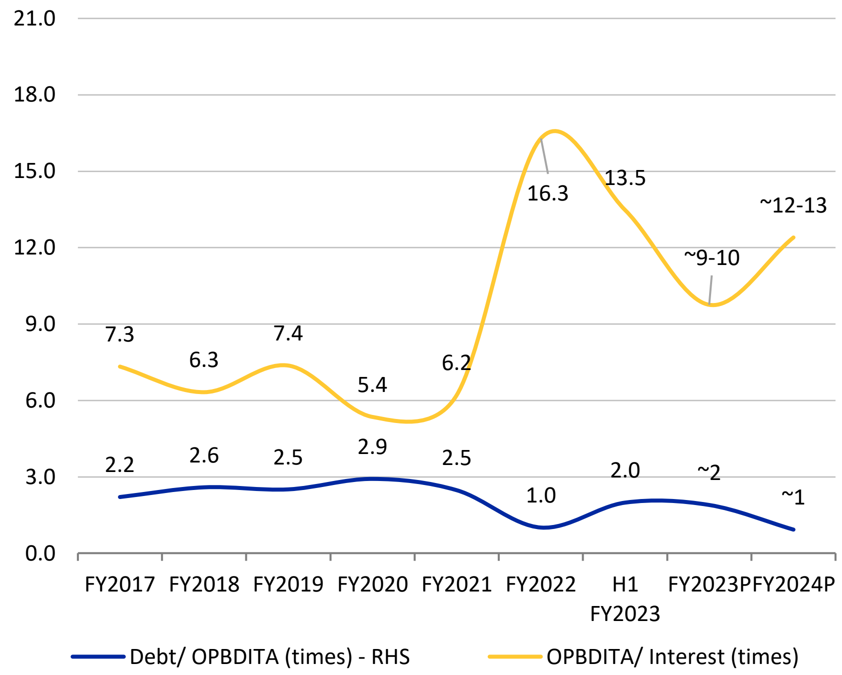
Notwithstanding the improvement in demand conditions, turnover is expected to moderate in FY2024 due to decline in realisations

Steady contribution levels amid declining raw material prices to improve operating margin in FY2024

Moderation in debt position to improve capitalisation metrics

Improvement in coverage indicators to be supported by lower debt levels and higher profits

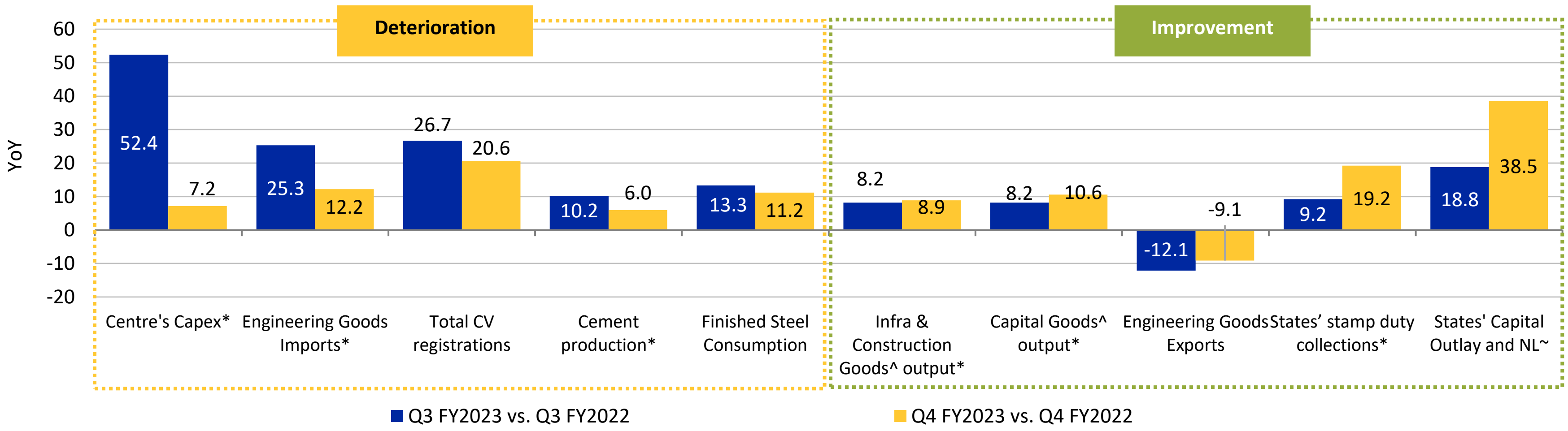
Exhibit: Projected leverage and coverage metrics for ICRA's sample



Source: Ace Equity, annual reports and published financial results, ICRA Research

Economy: Pace of investment activity slowed in Q4 FY2023; outlook for FY2024 appears bright, although timely execution remains key

Exhibit: YoY performance of investment related indicators



- **Growth in India's investment activity is likely to have slowed in Q4 FY2023; however, the outlook for FY2024 appears to be favourable, given the massive Central infrastructure projects scheduled for completion during the fiscal, steep capex targets set by the Centre and state governments and sustained buoyancy in housing demand.**
- **The push to complete projects, backed by the sharp increase in the Government of India's (GoI) budgeted capex, is likely to support investment demand and GDP growth during the fiscal, although timely execution remains key**

**Data for Q4 FY2023/FY2022 is for Jan-Feb 2023/2022 respectively, as Mar 2023 data is not available for all indicators; states' capital outlay and stamp duty collections data is for 25 states except Goa, Nagaland, Manipur and Meghalaya; ~NL: Net lending; ^As per IIP data; Source: NSO; JPC; MoRTH; RBI; CGA; Ministry of Commerce, GoI; CEIC; ICRA Research*

Economy: South-west monsoon outlook 2023

Exhibit: Vulnerability of monsoon during El Nino years, and consequent impact on kharif and rabi production

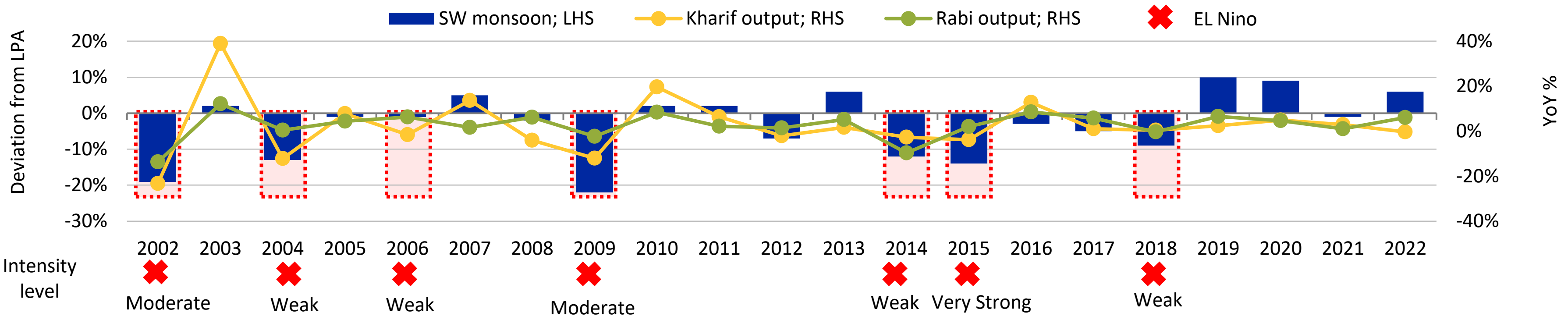
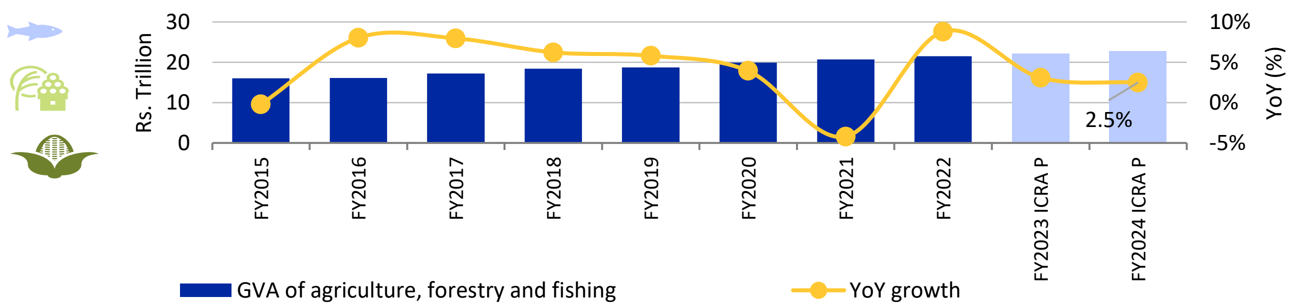


EXHIBIT: Annual GVA of agriculture, forestry and fishing at 2011-12 prices



- **ICRA pegs FY2024 agri GVA growth at 2.5% based on IMD's forecast of normal monsoon; El Nino occurrence poses downside risks to GVA and tractor volumes**

For FY2023, we have taken YoY growth rates of 2nd AE for crop output over the final estimates for FY2022; Source: IMD; CMIE; ICRA Research

NBFC Retail: Healthy AUM growth expected in FY2024; prudence key for sustaining business and financial performance

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NBFC Retail Outlook - Stable

Exhibit: NBFC-Retail growth trends (YoY) and outlook

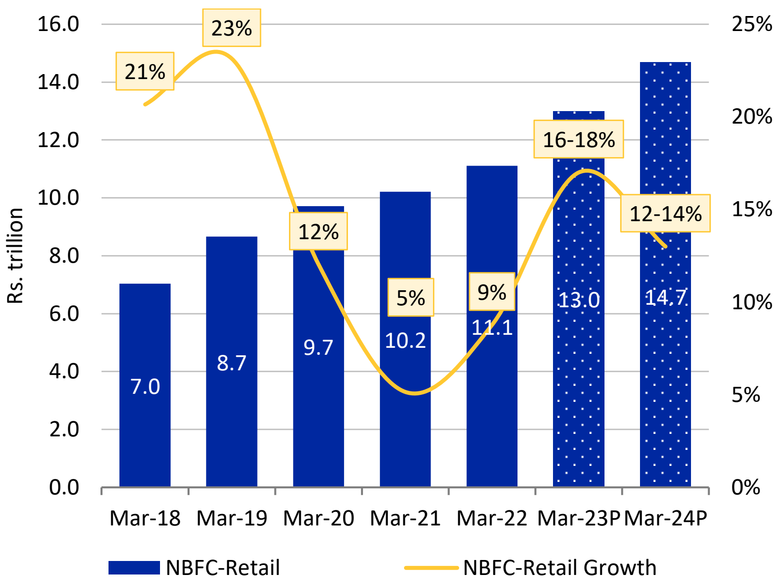
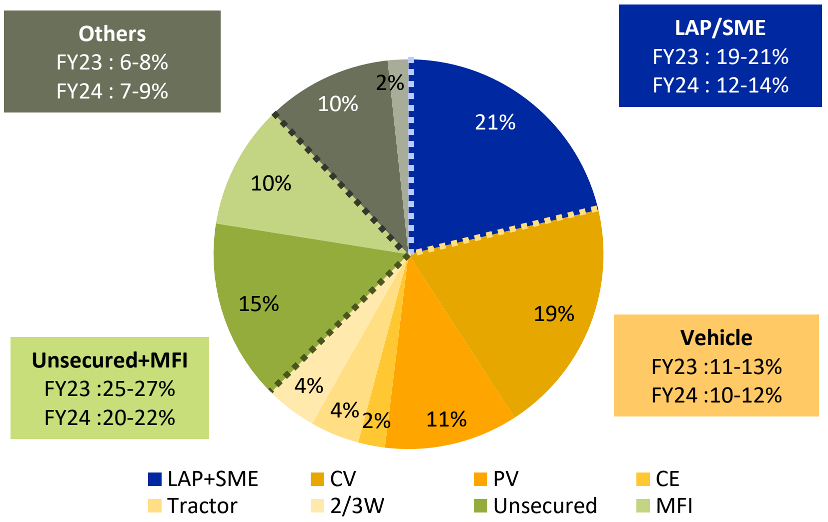


Exhibit: NBFC-Retail key asset segments – Sep-22



- **Growth in FY2024 would be driven by the unsecured segments – personal credit and microfinance, which accounted for 27% of the AUM in December 2022. Entities increasingly target these segments as competition from banks intensified in the traditional asset segments. Vehicle finance, constituting about 40% of the NBFC-Retail book, is expected to grow at a relatively slow pace and closer to the overall sectoral growth.**

Source: ICRA Research; Note: Ranges provided in the box are sectoral growth estimates and projections for FY2023 and FY2024
Note: LAP/SME – Loan against property, small business/SME loans CV – Commercial vehicle; PV – Passenger vehicle; CE – Construction equipment; MFI – Microfinance

Oil & Gas: Change in domestic gas pricing formula balances the interest of consumers and producers

Pricing – Short term	▪ Floor and ceiling will not be applicable for NELP and pre-NELP blocks where PSCs provide for Government's approval of prices. In addition, a 20% premium for production from a new well or well intervention in nominated fields will support incremental investments.
Pricing – Long term	▪ The APM price to be determined on a monthly basis a ~10% slope to the monthly average price of the Indian crude oil basket. The linkage of gas pricing hubs has been removed where prices remained low despite elevated crude oil prices, leading to prolonged periods of low and unremunerative domestic gas pricing, hurting the profitability of upstream producers.
Frequency	▪ A monthly reset against a half-yearly reset earlier would allow a more expedient transmission and better conformity of domestic gas prices with global energy prices.
Others	▪ Gas from a new well or a well intervention will be allocated separately from APM gas for a period of five years on a take-or-pay basis, as per the GoI's policy on commercialisation of natural gas. ▪ The new guidelines remained silent on the deregulation of natural gas pricing, as was recommended by the Kirit Parikh Committee.

- **The revision in the domestic gas pricing methodology resulted in a 20% reduction in gas prices, benefiting the consumers, namely the fertiliser industry, city gas distribution (CGD) consumers and the power sector. While the profitability of the upstream producers will moderate, the presence of floor and ceiling will provide healthy cash flows.**

Source: ICRA Research

Upstream Oil & Gas: Special additional excise duty expected to increase in the next revision owing to increase in crude oil prices

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Upstream Oil & Gas Outlook - Positive

Elevated crude oil prices leading to upstream companies earning healthy profits

July 01, 2022

Government imposes additional cess equivalent to $40/bbl (Rs. 23,250/MT) w.e.f. July 01, 2022

Multiple Revisions

Government reduced the cess as crude prices cooled off

April 04, 2023

The Government has cut the windfall tax to nil

Crude prices started to cool off owing to fall in demand post inflationary and recessionary pressures

On July 1, 2022, the GoI imposed a cess of Rs. 23,250 per tonne of crude, translating to ~$40 per barrel. This largely stems from elevated crude prices and the windfall gains made by the crude producers

While the cess has been reduced to zero, crude oil prices have jumped. Hence, the cess can increase in the next revision if the crude prices remain elevated

Since then, there have been multiple revisions in the cess. In the latest round of revisions, the Government cut the windfall tax to nil, leaving Government collections at around Rs. 20,600 crore for FY2023

Source: Industry, ICRA Research

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Thank You!