



Monthly Research Compendium

June 2023





Click to Provide Feedback

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

Automobiles - Commercial Vehicles: Scrappage policy to support volumes by boosting replacement demand

Automobiles – Electric 2 Wheeler (E2W): Subsidy structure amendments to steer E2W segment into slow lane

Airport Infrastructure: Airline passenger traffic expected to witness growth of 12-14% in FY2024

Bulk tea: Proposed wage hike in West Bengal to escalate margin pressure for tea estates in the state

Cross-sectoral trends and outlook: Sectors dependent on agriculture, rural income may face downside risk if El Nino materialises

Economy – South-west Monsoon: IMD's 2nd LRF indicates normal monsoon in 2023 season; pick-up in rainfall in July 2023 crucial for timely kharif sowing

Fertilisers: Despite NBS rate moderation, profitability of phosphatic fertiliser companies to remain healthy in H1 FY2024

IT Services: Intensifying macro-economic headwinds in key markets to moderate industry growth to mid- single digits in FY2024

NBFC-MFI: Industry set for profitability boost in FY2024, with growth remaining robust

Renewable Energy – Green Hydrogen: Subsidies by certain nations could adversely impact export competitiveness of Indian industry

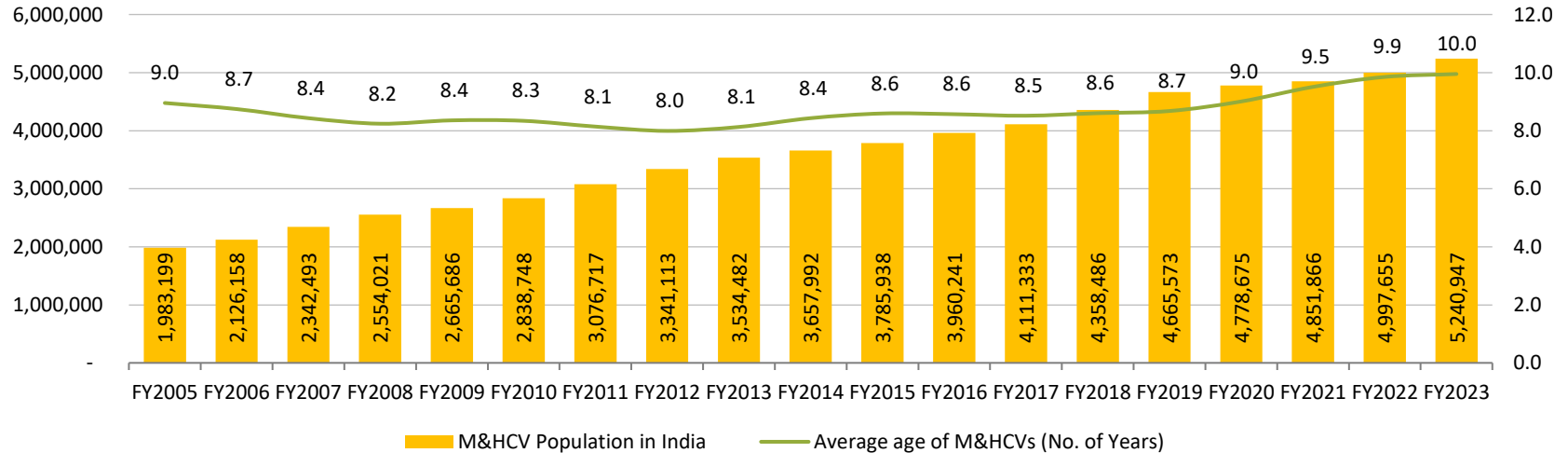
Securities Broking: Margin trading facility volume steady even as cash market turnover subsides

State Finances: Shift to old pension scheme by some states to modestly improve their cash flows but remains a fiscally regressive step

Telecom: Industry grappling with receivables issues; outlook revised to Negative from Stable

Automobiles - Commercial Vehicles: Scrappage policy to support volumes by boosting replacement demand

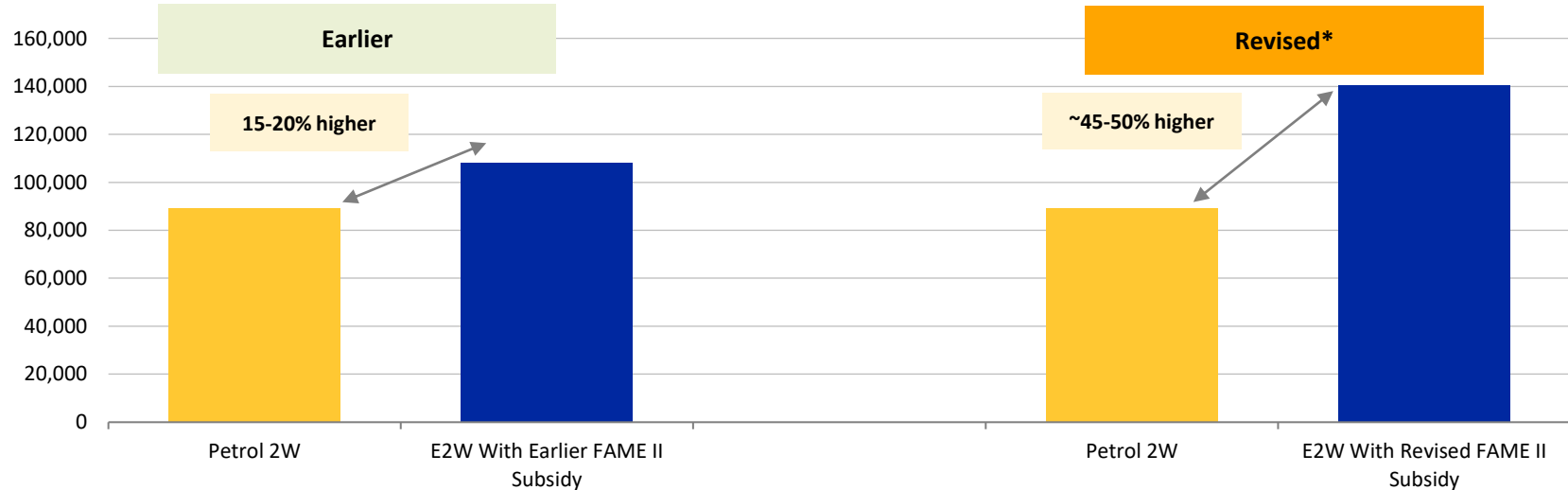
Exhibit: Trend in domestic M&HCV population and average age



- ICRA estimates the average age of M&HCVs at multi-decadal highs, implying an inefficient fleet, auguring well for replacement demand from scrappage of these vehicles.

Automobiles – Electric 2 Wheeler (E2W): Subsidy structure amendments to steer E2W segment into slow lane

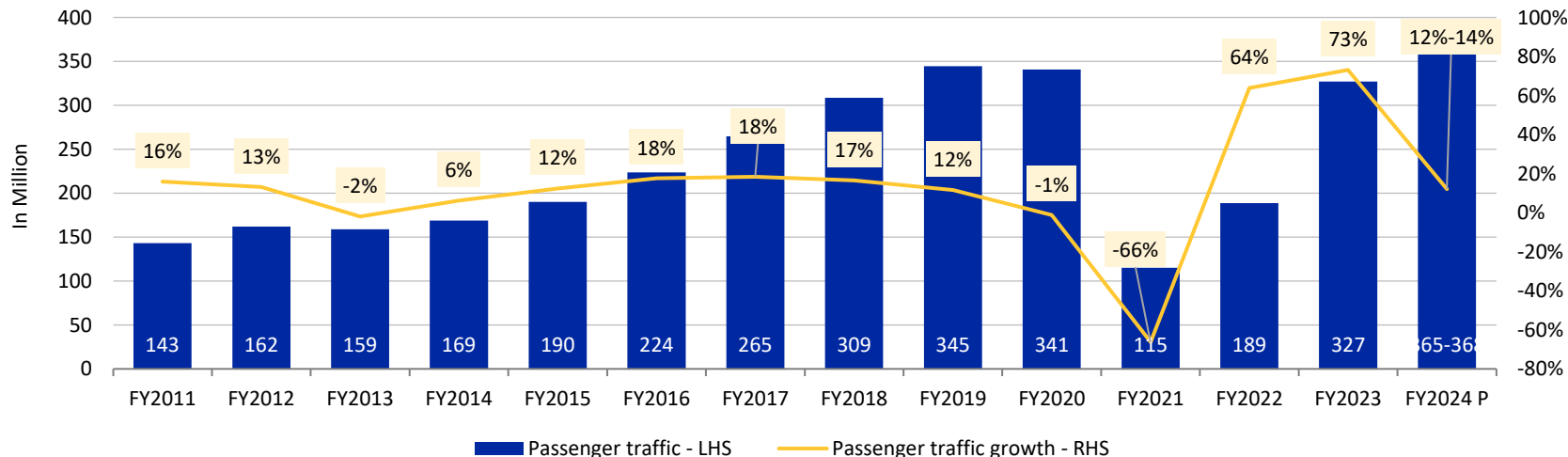
Exhibit: Impact of latest amendments on upfront price (Rs.)



- The latest amendment materially lowered the subsidy available per vehicle, with the cap on demand incentive lowered to 15% of ex-showroom price from the earlier level of 40%; the subsidy benefits available per Kwh were also lowered to Rs. 10,000/Kwh from Rs. 15,000/Kwh.
- Even as the price increases undertaken by E2W manufacturers to combat the subsidy reduction remain monitorable, the price differential of an E2W vis-a-vis an ICE vehicle is expected to increase materially.

Airport Infrastructure: Airline passenger traffic expected to witness growth of 12-14% in FY2024

Exhibit: Yearly trends in total passenger traffic* (in million)



- With strong rebound and healthy momentum in domestic passenger traffic and the uptick in international passenger traffic after the resumption of operations, the overall air passenger traffic registered a handsome YoY growth in FY2023.
- Further, overall passenger traffic is expected to witness a growth of 12-14% in FY2024 to reach 365-368 million, exceeding pre-Covid levels.

Bulk tea: Proposed wage hike in West Bengal to escalate margin pressure for tea estates in the state

Exhibit: Trend in NI auction prices (annual average) vis-à-vis wage cost (per kg of tea) in West Bengal and Assam valley

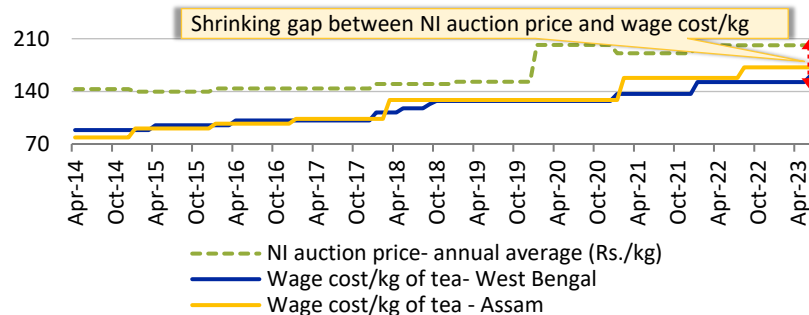


Exhibit: Average NI wage cost (per kg) as % of NI auction price

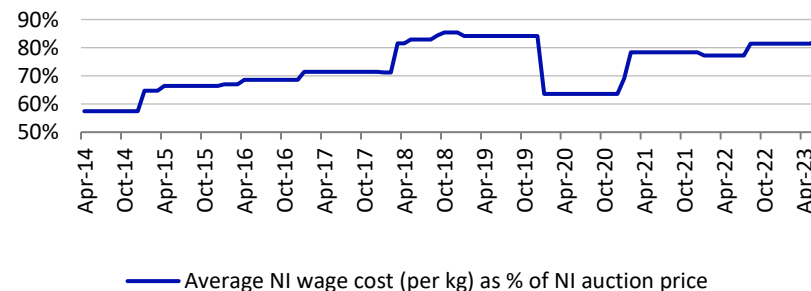
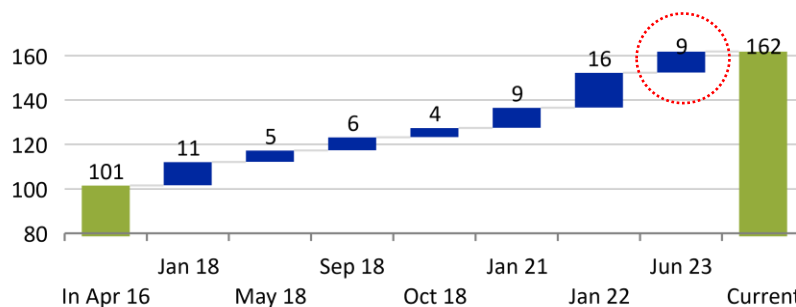
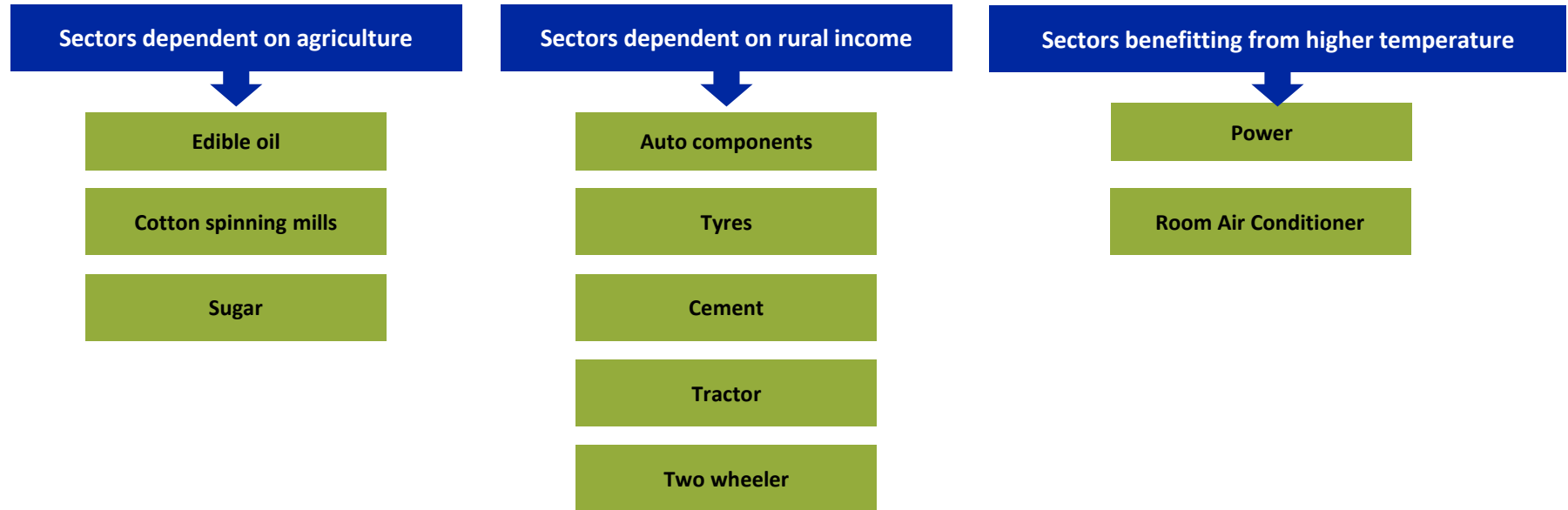


Exhibit: Wage cost increase trajectory in West Bengal (in Rs./kg of tea)



- The overall wage cost per kg of tea is estimated to increase by around Rs. 9/kg in view of the proposed wage hike. Nevertheless, the estimated wage cost per kg of tea in West Bengal still remains lower than Assam.
- The proposed wage rate hike, if implemented, and a flattish trend in tea prices would lead to further pressure on the operating margins of the tea players in West Bengal.

Cross-sectoral trends and outlook: Sectors dependent on agriculture, rural income may face downside risk if El Nino materialises



- ICRA Research analysed the impact of El Nino on some of the key sectors. The impact is assessed to be stronger on sectors dependent upon agricultural output and those that derive a significant portion of their demand from rural income.
- Some of the sectors like power, cooling-related consumer durables like RACs etc. may witness an increase in demand if El Nino conditions lead to higher-than-normal temperatures.

Economy – South-west Monsoon: IMD's 2nd LRF indicates normal monsoon in 2023 season; pick-up in rainfall in July 2023 crucial for timely kharif sowing

Exhibit: IMD's forecasts over homogenous zones of the country in 2023

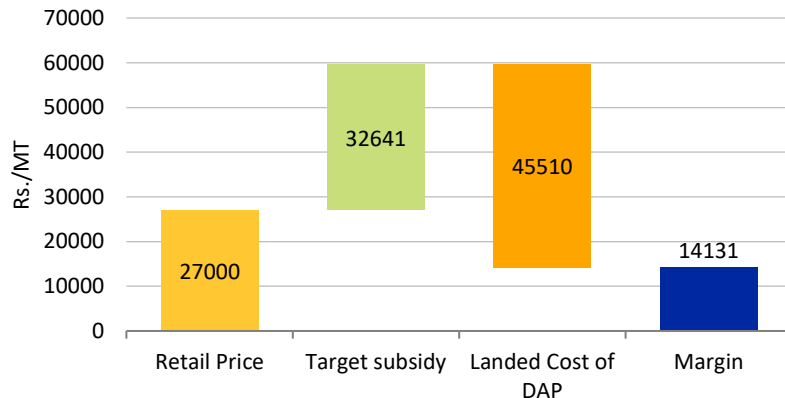
Rainfall Category	North-West India		Central India		South Peninsula		North-East India		Monsoon Core Zone (MCZ)*	
	Range (% of LPA)	Forecast Probability (%)	Range (% of LPA)	Forecast Probability (%)	Range (% of LPA)	Forecast Probability (%)	Range (% of LPA)	Forecast Probability (%)	Range (% of LPA)	Forecast Probability (%)
Below Normal	<92	50	<94	34	<94	28	<94	30	<94	34
Normal	92-108	30	94-106	37	94-106	42	94-106	38	94-106	36
Above Normal	>108	20	>106	29	>106	30	>106	32	>106	30

- The below normal projection of rainfall in June 2023 implies that the IMD implicitly expects rainfall to exceed 97% of LPA during July-September 2023, in spite of concerns related to development of El Nino conditions. Given that July is the most important month for sowing, rainfall in that month would be critical, notwithstanding the expectations of the sub-normal rainfall in June.
- The non-irrigated area in the country constitutes around 49% of the net sown area, which is essentially dependent upon monsoons; accordingly, a timely pick-up in rainfall in July 2023 is crucial to support the sowing of rain-fed crops such as rice, pulses, cotton, soyabean, etc., particularly in the Monsoon Core Zone, which comprises most of the rainfed agriculture areas in the country.

*MCZ comprises most of the rainfed agriculture areas in the country; Source: IMD; ICRA Research

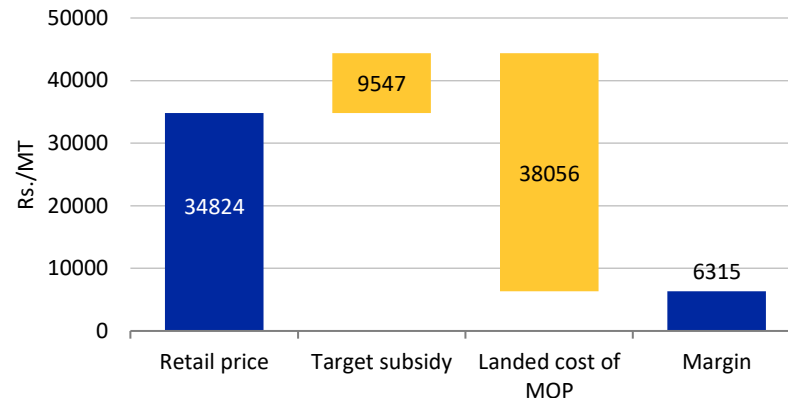
Fertilisers: Despite NBS rate moderation, profitability of phosphatic fertiliser companies to remain healthy in H1 FY2024

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



Source: DoF, Bloomberg, ICRA Research; 1\$= Rs. 82; DAP= \$535/ MT

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



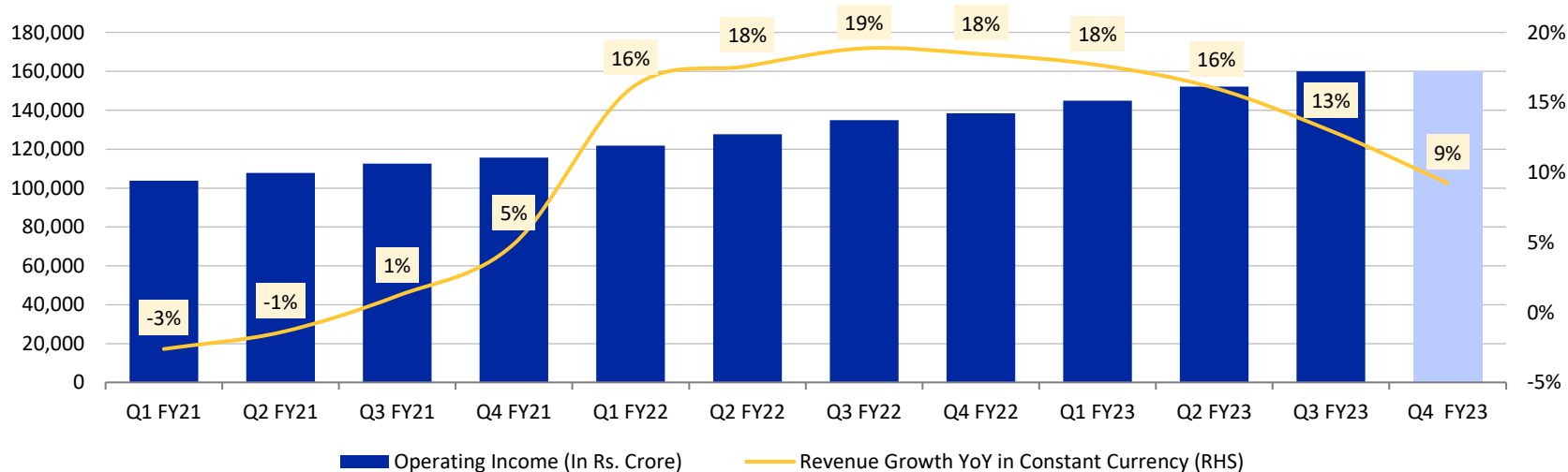
Source: DoF, ICRA Research; 1\$= Rs. 82; MOP= \$422/ MT

- With significant decline in key input prices, the profitability on P&K fertilisers improved, even as subsidy levels moderated.
- The current level of subsidy under the NBS scheme remains comfortable at the existing prices and at these levels, the phosphatic fertiliser players are expected to generate healthy profitability in H1 FY2024. However, the retrospective revision of NBS rates for Q4 FY2023 would result in inventory losses for the phosphatic fertiliser players.

Source: DoF, Bloomberg, ICRA Research

IT Services: Intensifying macro-economic headwinds in key markets to moderate industry growth to mid-single digits in FY2024

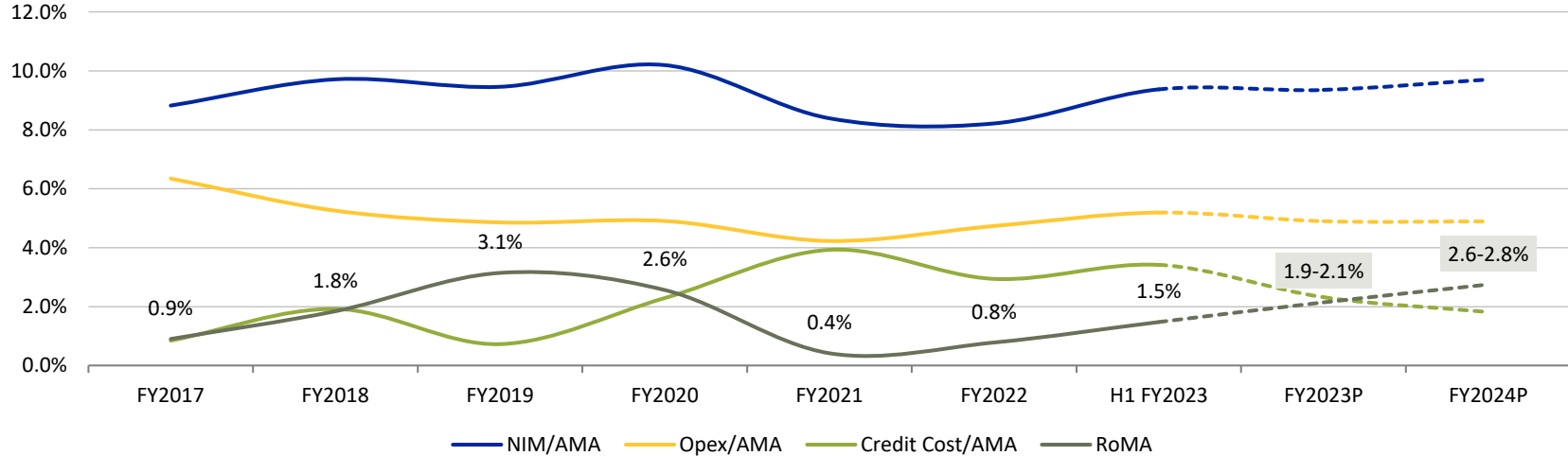
Exhibit: Exhibit: Quarterly Trend in Revenues and Year on Year Growth in Constant Currency Terms



- The revenue growth moderated in the last two quarters, primarily due to lower discretionary technological spends and delay in decision-making from the US and Europe (key markets), owing to the uncertain macroeconomic environment.
- The revenue growth is expected to remain subdued in mid-single digits over the next couple of quarters because of the persistent uncertainty in these markets.

NBFC-MFI: Industry set for profitability boost in FY2024, with growth remaining robust

Exhibit: Projected Trends in Profitability Metrics (ICRA sample*)



- With the revised regulatory framework in place, MFIs raised their lending rates in H1 FY2023. This, coupled with higher disbursements, helped the industry see an improvement in the NIMs in H1 FY2023.
- ICRA expects the profitability to improve further in H2 FY2023 and FY2024, driven by an increase in margins because of the growing share of the new portfolio which originated at higher lending rates with reduction in credit costs.

Source: Data from various MFIs, ICRA Research; *ICRA sample consists of 22-26 MFIs at different months, contributing 80-90% to the AUM of NBFC-MFIs at different dates

Renewable Energy – Green Hydrogen: Subsidies by certain nations could adversely impact export competitiveness of Indian industry



Announced in September 2022 to promote GH2 demand in Europe and to close the investment gaps for GH2 projects in Europe



Budgetary allocation of EUR 500-800 bn for 10 MMT domestic production and additional EUR 500 bn for 10 MMT imports by 2030



Production costs for GH2 in Europe are expected to reduce from ~EUR 6/kg at present to ~EUR 1.5/kg GH2 by 2030 with subsidy of ~EUR 4.5/kg GH2

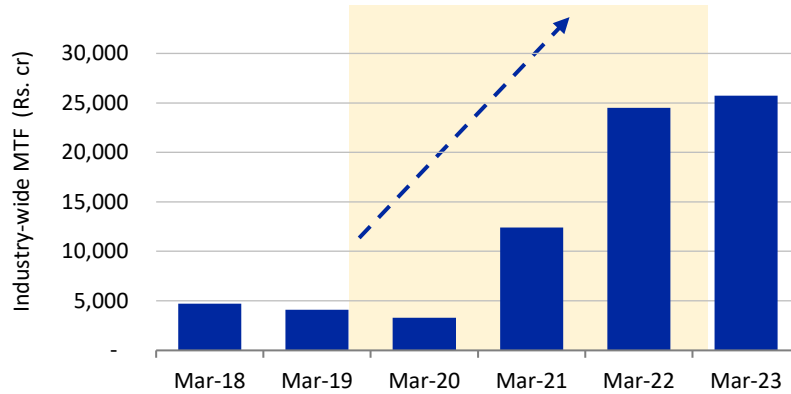


Promotes GH2 domestic demand in EU by providing subsidy in the form of fixed premium per kg of GH2 for 10 years

- The European Hydrogen Bank and the Inflation Reduction Act of the US provide trade distortive subsidies and could adversely impact the competitiveness of Indian GH2 industry.

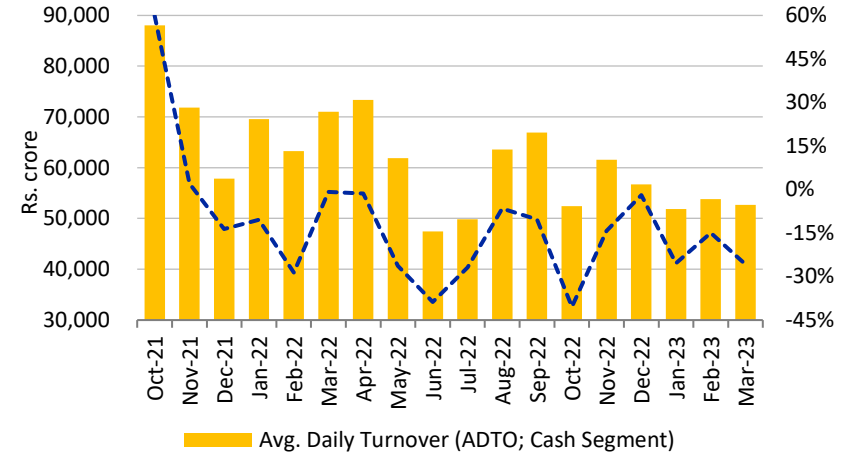
Securities Broking: Margin trading facility volume steady even as cash market turnover subsides

Exhibit: Trend in industry-wide aggregate MTF exposure



- Retail investor participation in capital markets increased with the prevalence of work-from-home, limited investment opportunities amidst declining interest rates, strong performance of the market.
- The industry witnessed a strong growth in the use of the MTF facility, which enables retail investors to take leveraged positions in the cash segment.

Exhibit: Recent trend in ADTO in equity market's cash segment



- Cash segment trading volumes have, however, subsided in recent quarters.
- It has been empirically observed that cash volumes have a correlation with secondary market movements, with cash volumes increasing during a bull run. Overall, the cash ADTO in Q4 FY2023 was 22% lower compared to Q4 FY2022.

State Finances: Shift to old pension scheme by some states to modestly improve their cash flows but remains a fiscally regressive step

In the FY2002 Union Budget, the GoI noted that pension liability is becoming “onerous” and set up a high-level committee

The GoI approved NPS in 2003 for Central Government employees

All states, except TN* and WB, joined NPS at different points during 2004-2016

Rajasthan

Chhattisgarh

Jharkhand

Punjab

Himachal Pradesh

Rajasthan implemented OPS from April 2022

Chhattisgarh notified the reversal to OPS in May 2022

Jharkhand implemented OPS in Sept 2022

Punjab cabinet notified shift to OPS in Nov 2022 and set up a committee in Jan 2023 for resolving issues related to the shift

Himachal Pradesh implemented OPS from April 2023

- In the short term, the cash flow position of the states reverting to OPS will benefit to the extent of the NPS contribution that will cease. However, the latter was limited to ~2-4% of their revenue expenditure during FY2019-FY2022, and, therefore, the cash flow benefit would be limited. Regardless, from a long-term fiscal health standpoint, the reversion to OPS from NPS is a regressive step, in ICRA’s view.

*Note: As per the CAG, TN and WB have not joined the NPS system. However, TN has its own contributory pension scheme for its employees.
Source: CAG; Union Budget; State Budgets, ICRA Research*

Telecom: Industry grappling with receivables issues; outlook revised to Negative from Stable

Telecom Outlook - Negative

Prolonged weakness in the credit profile of a few customers exerting pressure on liquidity profile



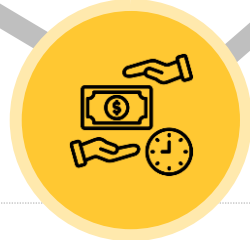
Elongation in receivables for tower companies leading to stretch in working capital cycle



Decline in profit generation of tower companies, elevated net debt position and thus pressure on return metrics



A few customers started delaying the payments to tower companies



Higher provisioning in the last few quarters towards delayed receivables





Click to Provide Feedback



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head – Research and Outreach	aditin@icraindia.com	0124 - 4545 385
Madhura Nejjur	Assistant Vice-President	madhura.nejjur@icraindia.com	022 - 6114 3417





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Thank You!