



Monthly Research Compendium

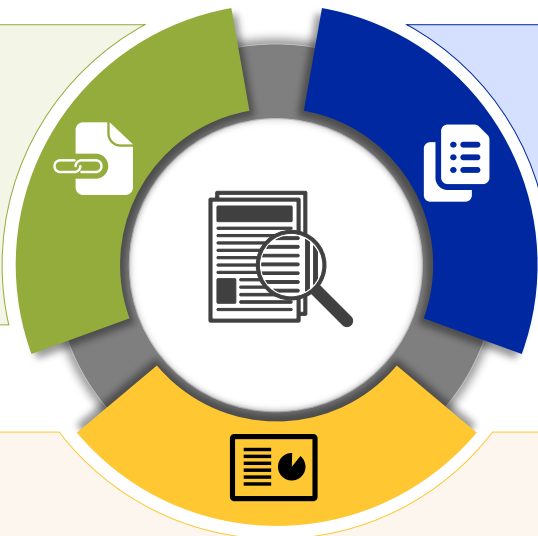
OCTOBER 2022














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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

-  **AHFC** : Resilient performance; growth outlook remains favourable
-  **Airline**: Domestic passenger traffic short by 10% compared to pre-Covid levels; international passenger traffic surpasses pre-Covid levels
-  **Asset reconstruction companies** : Amended regulatory framework positive from long-term perspective
-  **Commercial real estate** : Vacancy levels to inch up marginally; to remain range-bound at 16.0-17.0% in FY2023 despite sizeable supply addition
-  **Cross sectoral strategy** : Acceleration in PMAY investments to benefit multiple sectors
-  **Dairy** : Industry reels under input cost pressures; retail price hikes may continue
-  **Economy** : Tentative recovery in investment activity in Q2 FY2023; sustenance of demand post festive season to influence pace of private capex
-  **Economy** : Repo rate hike likely to be restricted to 25-35 bps in December 2022 Monetary Policy review
-  **Electric vehicle** : Electric bus adoption gradually picking up pace
-  **Fertiliser** : Nano urea offers huge potential; farmer acceptability the key







-  **Hotels** : Premium hotel inventory addition is expected to lag demand and grow at a CAGR of 3.5-4% over the next five years
-  **Insurance** : The NBP growth stabilizes after a slower Covid year. Net claims increase across the sector in FY2022 due to the pandemic
-  **NBFC** : RBI's NBFC-UL list largely in line with expectations
-  **Pharma** : Industry grappling with headwinds in the European market
-  **Structured finance** : Buoyancy in securitisation continues in Q2 FY2023 aided by favourable macro-economic scenario and healthy credit demand
-  **Textile** : Home textile players coping with slow demand, mounting costs

Exhibit: Trend in on-book portfolio of Affordable Housing Finance Companies (AHFCs)

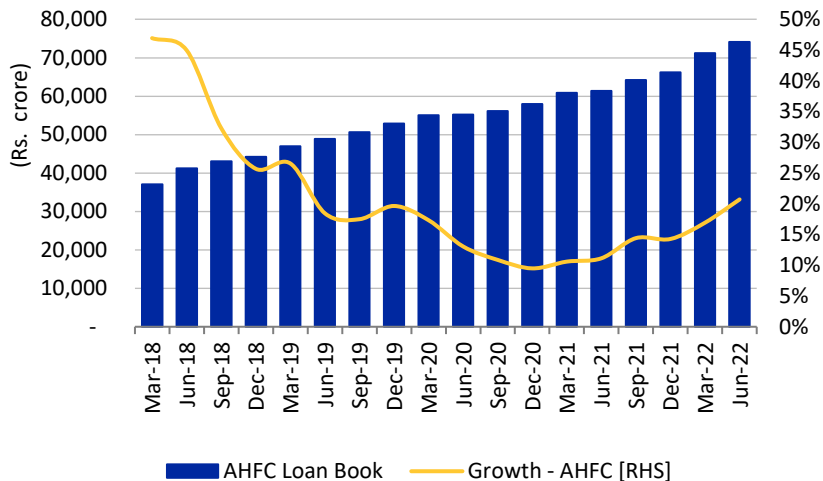
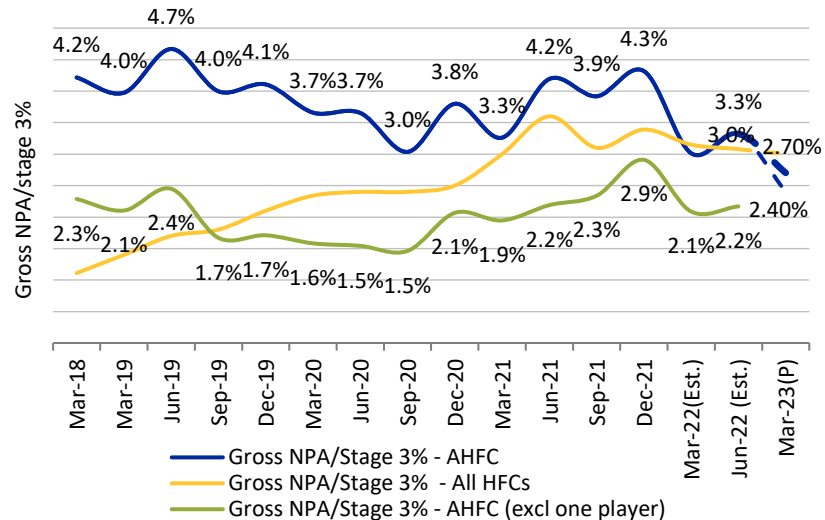


Exhibit: Trend in reported asset quality indicators



3/4th of the portfolio consists of housing loans, the underpenetrated market and Government thrust on 'housing for all', supporting the growth

The collection efficiency continued to improve, the reported asset quality indicators were significantly better and are expected to improve, assuming no more Covid-induced lockdowns/restrictions

Airlines: Domestic passenger traffic short by 10% compared to pre-Covid levels; international passenger traffic surpasses pre-Covid levels

PASSENGER TRAFFIC

Domestic passenger traffic – **~103 lakh**
Sequential growth of **~2%**
YoY growth of **~46%**
YoY decline (pre-Covid) of **~10%**
International passenger traffic **~25 lakh**
YoY growth (pre-Covid) of **~34%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~84%** against **~73%** in September 2021 & **~86%** in September 2019 (pre-Covid)

CAPACITY DEPLOYMENT

Domestic capacity deployment – total **~78,181** departures
Sequential decline of **~2%**
YoY growth of **~27%**
YoY decline (pre-Covid) of **~9%**

AVIATION TURBINE FUEL PRICES

Sequential decline of **4.5% in October 2022** vis-à-vis September 2022 and notable YoY increase of **~60%** vis-à-vis October 2021



Asset Reconstruction Companies: Amended regulatory framework positive from long-term perspective

Exhibit: Amendments focus on multiple aspects related to functioning of ARCs

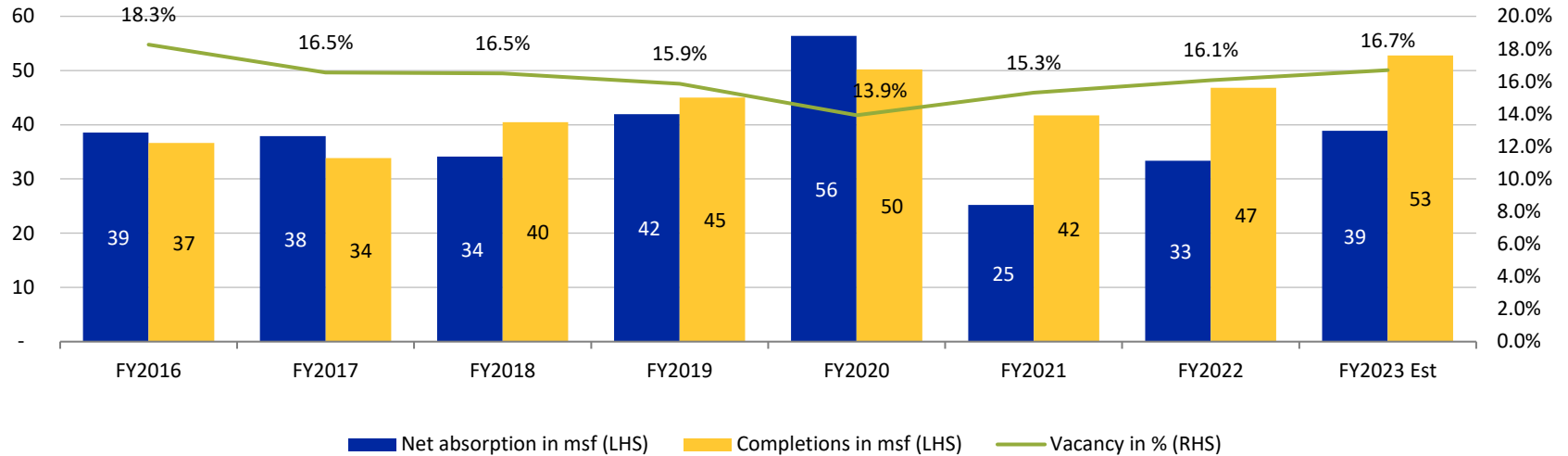
Minimum NOF Requirement	Investment in SRs Issued by ARCs	Deployment of Surplus Funds
Measures to Enhance Governance of ARCs	Policy on Management Fees	Enhanced Disclosures
Allowing ARCs to Act as RA under IBC	Engagement with Credit Rating Agencies and Rating of SRs	Settlement of Dues Payable by Borrowers under One-time Settlement

The management of stressed assets has attracted consistent attention from the Reserve Bank of India (RBI) and the Government, given its importance for the health of the banking system. In this regard, asset reconstruction companies (ARCs) remain an important channel for handling stressed assets. To enable more transparent and efficient functioning of the ARC sector, the RBI announced revised guidelines for ARCs on October 11, 2022

Commercial real estate: Vacancy levels to inch up marginally; to remain range-bound at 16.0-17.0% in FY2023 despite sizeable supply addition

Commercial real estate sector outlook - Stable

Exhibit : Annual trend in net absorption, new supply and vacancy – aggregate for top six cities



The net absorption is expected to increase owing to expected improvement in new leasing activity with resumption of back-to-office and robust growth of key occupier segments. However, the demand potential from the growth in hiring numbers will be offset to some extent by the implementation of hybrid working models.

Source: Propequity and ICRA Research; Aggregate trends for top six cities

Cross sectoral strategy: Acceleration in PMAY investments to benefit multiple sectors

Exhibit: Sectors linked to growth in housing units

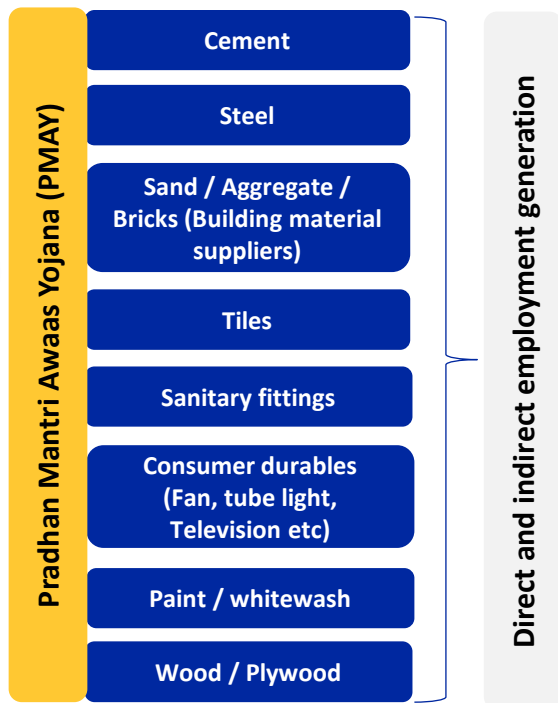
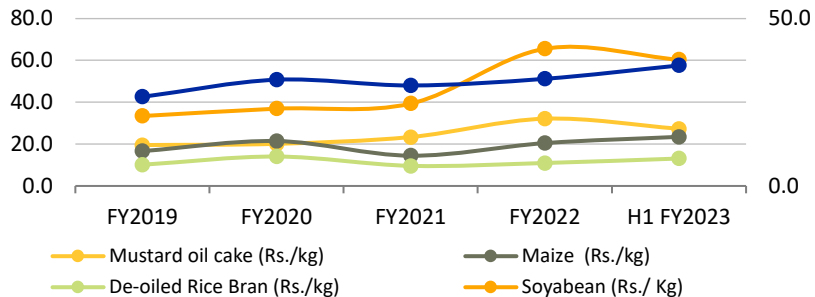


Exhibit: Sectors linked to growth in housing units

	Per unit (~300 sq ft)		Expected economic impact of PMAY scheme (Rs trn) for the balance units
	In units	Rs in Lakhs	
Bricks	15,000 pieces	~1.05	~1.04
Sand	20 Cubic meter	~0.31	~0.31
Cement	110 bags*	~0.44	~0.44
Aggregate	1 Cubic meter	~0.02	~0.01
Steel	855 kg	~0.90	~0.89
Paint	230 kg	~0.06	~0.06
Tiles	~80 pieces#	~0.04	~0.04
Tube / Fans	2 each	~0.02	~0.02
Wood	~100 sq ft	~0.06	~0.06
Total		~2.5 – 3.0 lakh	~2.5 – 3.0 trillion

Economic impact for the 10 years period of PMAY scheme is ~Rs 10-12 trillion, which is approximately 0.4%-0.6% of India's Nominal GDP.

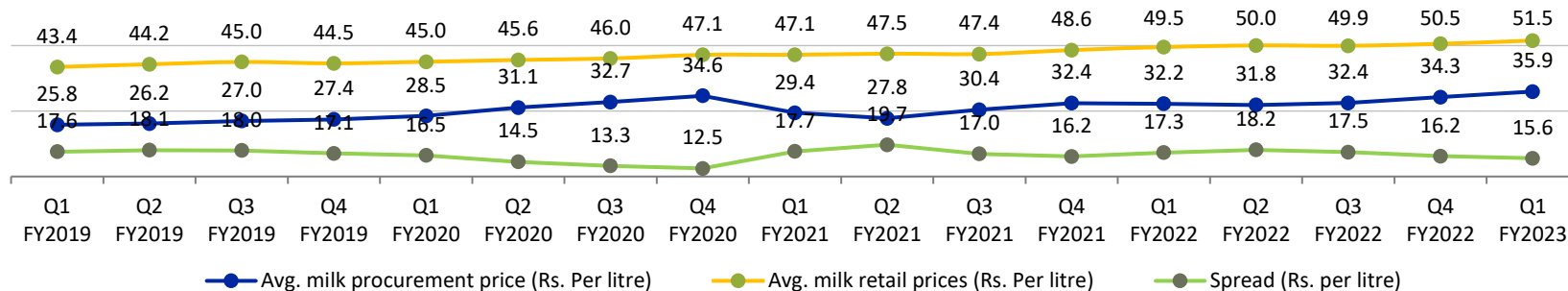
Exhibit : Key cattle feed concentrate ingredients and milk procurement prices



Cattle feed concentrate prices shot up owing to increased prices of maize, soyabean and mustard oil cake. While soyabean and mustard oil cake prices have softened in H1 FY2023, they continue to be high. Crop damage owing to erratic rains in Q2 FY2023 may keep fodder prices high.

Spread to witness squeeze for dairy players in FY2023

Exhibit : Exhibit 16: Milk procurement and average retail price trend



Source: Bloomberg, Department Of Consumer Affairs, ICRA research

Economy: Tentative recovery in investment activity in Q2 FY2023; sustenance of demand post festive season to influence pace of private capex

Projections FY23 (GDP – 7.2%, CPI Inflation – 6.5%)

Exhibit : Heatmap of investment-related high frequency indicators

YoY (%)	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Infra & construction goods^ output	5.9	8.6	6.7	4.0	18.4	9.3	3.8	1.7	NA
Cement production	14.1	4.2	9.0	7.4	26.2	19.7	0.5	1.8	NA
Finished steel consumption	0.5	-5.3	0.7	1.8	21.3	6.4	13.0	13.0	10.1
Capital goods^ output	1.8	1.3	2.4	12.0	53.3	29.1	5.7	5.0	NA
Total CV registrations	8.2	2.1	11.3	49.4	272.2	79.7	26.9	27.9	28.0
SCB: Infrastructure credit	12.0	11.9	9.1	10.2	9.5	9.5	11.1	11.0	NA
Centre's capex	-5.8	0.8	429.9	67.5	77.8	40.1	98.5	0.5	NA
States' capital outlay*	-8.5	-5.0	13.0	-24.2	-5.2	-6.5	26.8	52.3	NA
States' stamp duty collections*	6.6	15.4	22.0	46.8	246.3	50.7	11.6	14.9	NA
Engineering goods imports	20.1	14.5	10.0	18.5	33.0	26.0	41.7	43.6	38.5
Engineering goods exports	28.9	39.8	23.4	24.0	18.8	8.9	4.0	-9.2	-9.5
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip					

While finished steel consumption, states' capex and engineering goods imports recorded an improvement in Jul-Aug 2022. However, the sustainability of demand post the festive season will impact the CU in Q4 FY2023, influencing the pace of capacity expansion by the private sector in various sectors.

NA: Not Available; ^As per IIP data; *States' capex and stamp duty collections data is for 26 states except Assam and Goa; Source: NSO; Joint Plant Committee (JPC); Ministry of Road Transport and Highways (MoRTH); RBI; CGA; Ministry of Commerce, GoI; CEIC; ICRA Research

Economy: Repo rate hike likely to be restricted to 25-35 bps in December 2022

Monetary Policy review

Current policy Repo rate – 5.90%

Exhibit : Movement in Key Rates (%)

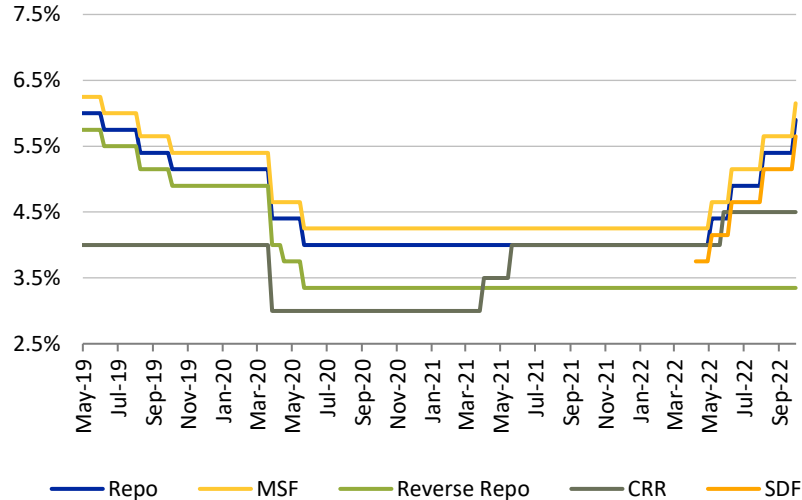
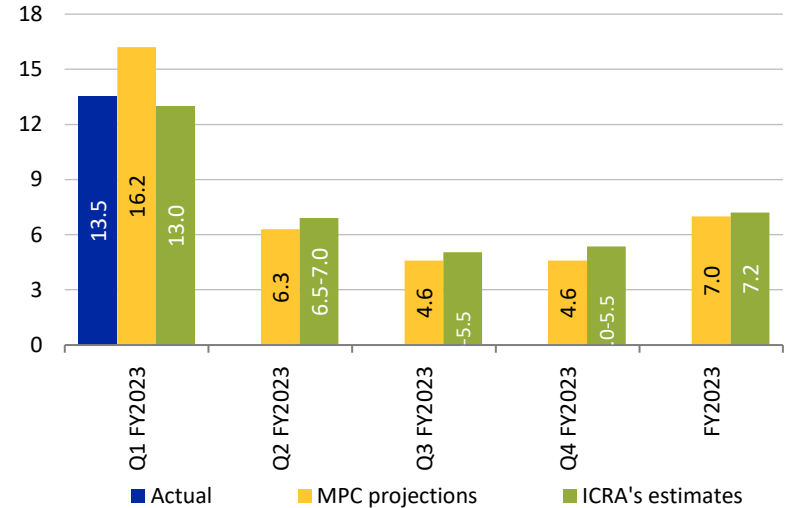


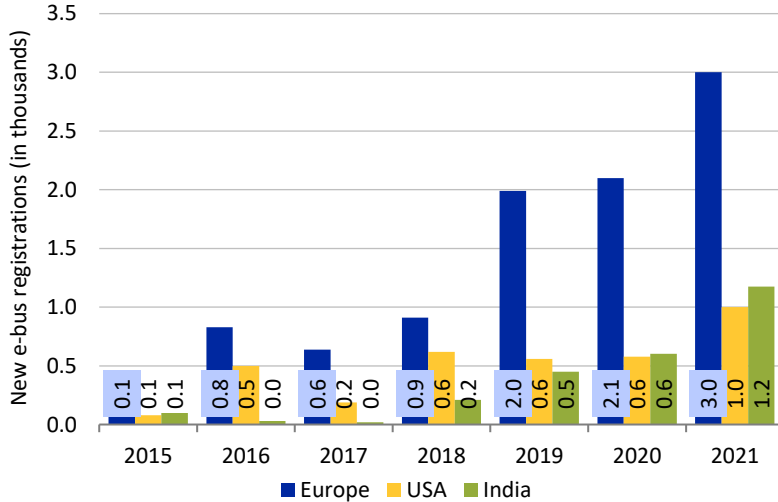
Exhibit : Real GDP growth (YoY %)



With a mixed tone of the MPC's Sep 2022 minutes, we expect the quantum of the rate hike in Dec 2022 to be limited to 25-35 basis points (bps). WACR and effective reverse repo rate have increased sharper than the total magnitude of repo rate hikes undertaken since May 2022.

Automobile sector outlook - Stable

Exhibit: Trend in fully electric bus sales in other key geographies



Penetration of e-buses in other markets, especially Europe, and even India, is picking up on the back of stricter climate goals.

Source: IEA, BNEF, VAAHAN, ICRA research

Exhibit: Expected trend in e-bus penetration in India

Growth to be primarily led by FAME II subsidies till FY2024, post which favourable operating economics and lower capital costs will propel sales.

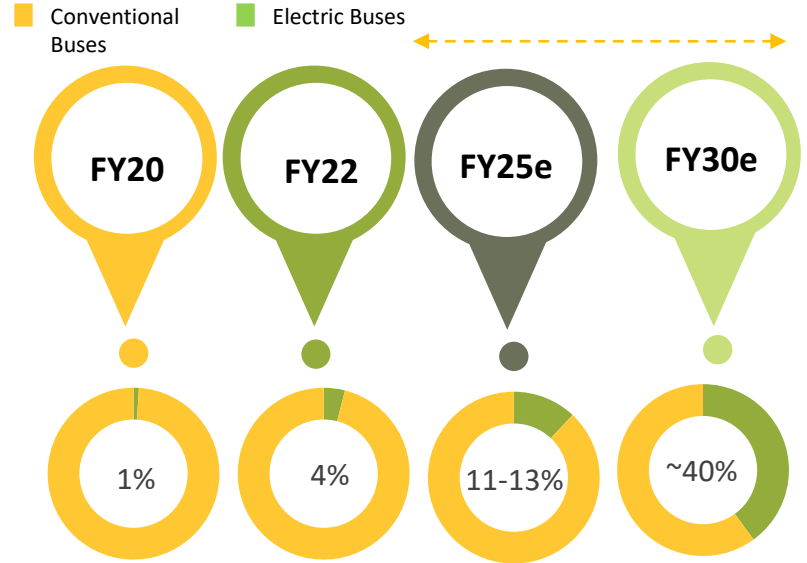




Exhibit: Nano urea capacity addition

Location	Production capacity (in million bottles per annum)	Commercial production date
Iffco Kalol	50	Aug-21*
Iffco Phulpur	60	Sep-22
Iffco Aonla	60	Apr-23
Iffco Bengaluru	60	Mar-24
RCF Trombay	50	Mar-24
NFL Nangal	50	Jul-24
Iffco Deoghar	60	Nov-24
Iffco Assam	50	Nov-25
Total	440	



Long-term benefits

Assuming farmer acceptability, and around 40% capacity utilisation for nano urea from FY2027, the subsidy savings could be close to Rs. 30,000 crore every year, along with reduction in imports and foreign currency savings.

Current production of country's conventional urea is around 260 lakh tonne and 90 lakh tonne urea is imported to meet domestic market demand. By 2025, India is likely to have a capacity to produce 44-crore nano urea bottles per annum, which will be equivalent to 190-200 lakh tonne of conventional urea.

Hotels: Premium hotel inventory addition is expected to lag demand and grow at a CAGR of 3.5-4% over the next five years

Hotel sector outlook - Stable

Exhibit : Inventory in the Domestic Premium Hotel Industry

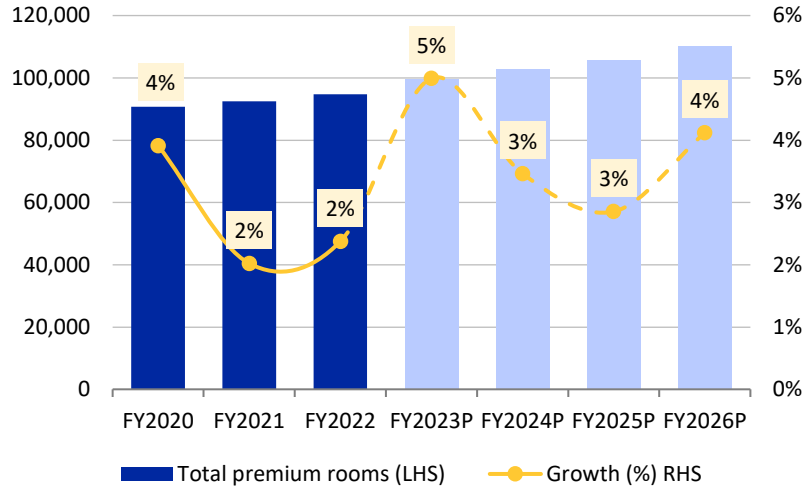
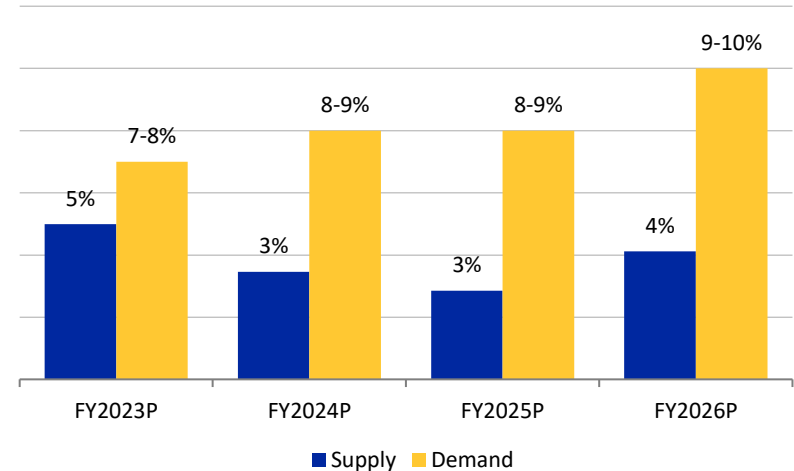


Exhibit : Demand-supply Gap Trend for the Indian Premium Hotel Industry



Incremental supply pipeline is relatively higher in FY2023 (primarily pertaining projects which had begun construction earlier and were shelved for 12-18 months during the Covid period) and FY2026 (those signings announced in the last few months). A significant part of the inventory pipeline is in the form of management contracts and operating leases.

Source: ICRA Research; data captures supply in 12 cities pan India (Mumbai, NCR, Chennai, Pune, Hyderabad, Bengaluru, Goa, Kolkata, Chandigarh, Jaipur, Ahmedabad and Vishakapatnam)

Insurance: The NBP growth stabilises after a slower Covid year; net claims increase across the sector in FY2022 due to the pandemic

EXHIBIT : Growth rate of private players

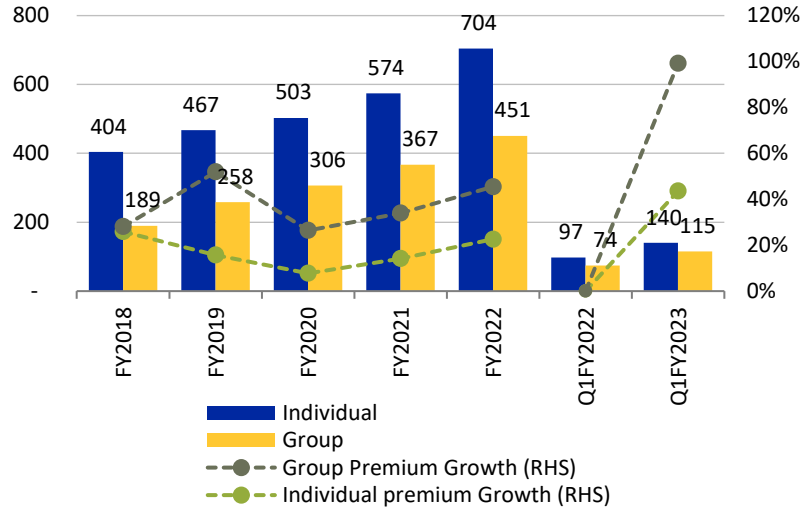
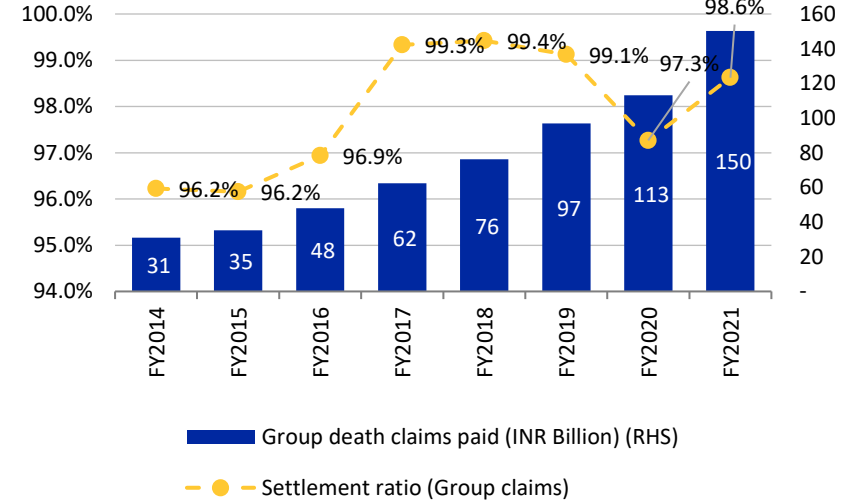


EXHIBIT : Group death claims paid

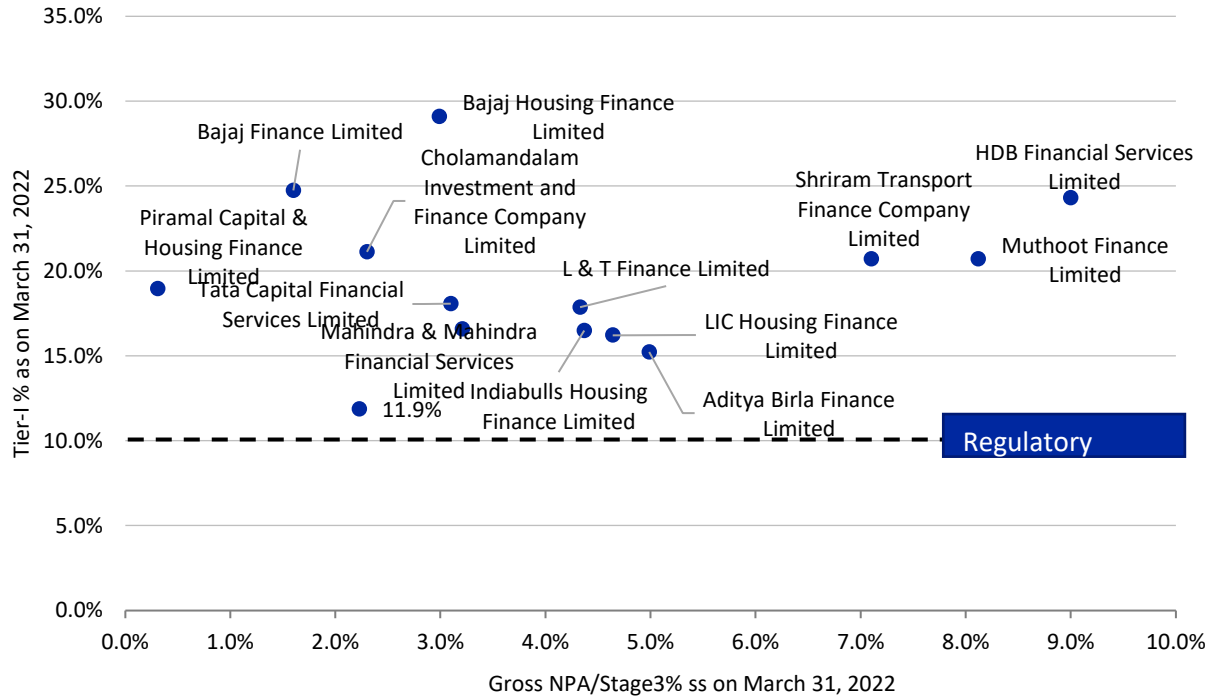


Low insurance density and penetration to aid growth in the coming years; focus of regulator on enabling growth for the sector is a positive

NBFC: RBI's NBFC-UL list largely in line with expectations

NBFC sector outlook - Stable

Exhibit: Positioning of NBFC-UL entities basis Tier-I capital % as on March 31, 2022



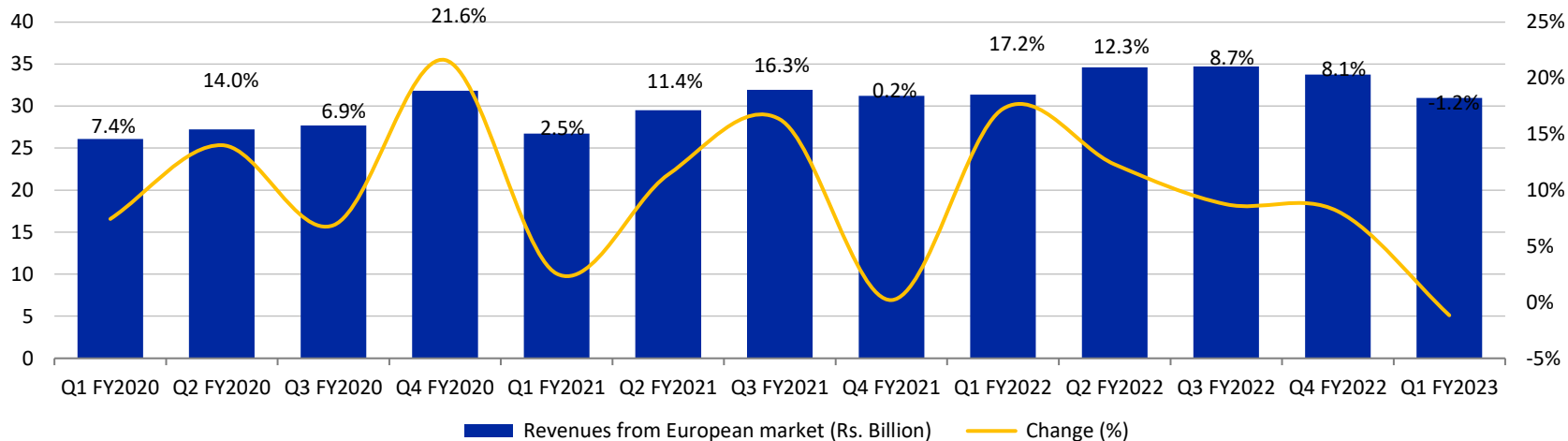
RBI's list of NBFCs in the NBFC-UL under SBR for NBFCs largely in line with expectations.

Significant impact on operations not expected as issuers are largely in compliance with enhanced requirements and/or have sufficient time to comply with the requirements.

Cost of compliance to increase

Source: ICRA Research and annual reports of these issuers

Exhibit: Quarterly trend in revenues from European markets for ICRA sample set

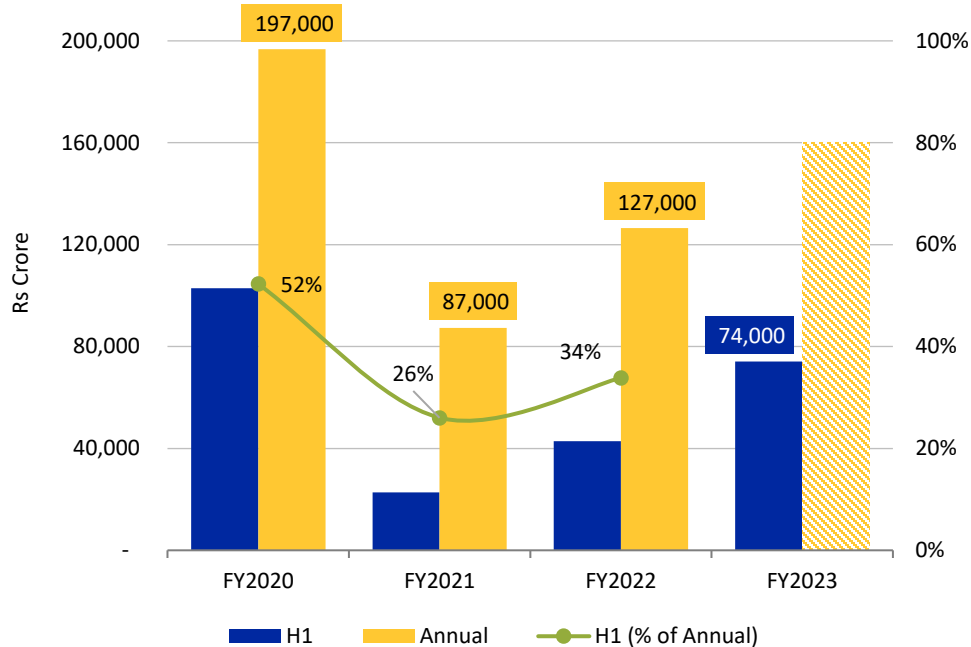


Going forward, market conditions in Europe are expected to remain challenging even as the same are expected to be mitigated selectively to a certain extent by expansion in product offerings, market share gains in existing products and entry into new geographies in Europe.

Structured Finance: Buoyancy in securitisation continues in Q2 FY2023 aided by favourable macro-economic scenario and healthy credit demand

Textile sector outlook - Stable

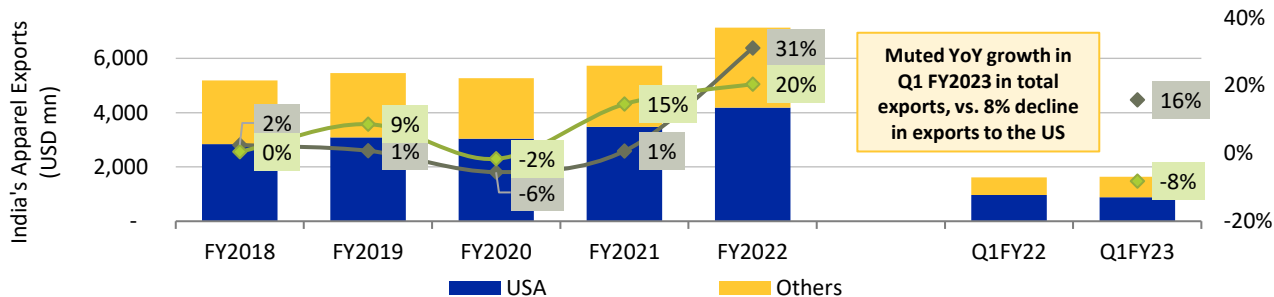
Exhibit: Securitisation market volume (PTC + DA)



Securitisation volumes expected to cross Rs. 1.5 lakh crore backed by favourable macro-economic scenario, stable collection efficiencies and growing fund requirements of lenders to support higher disbursements.

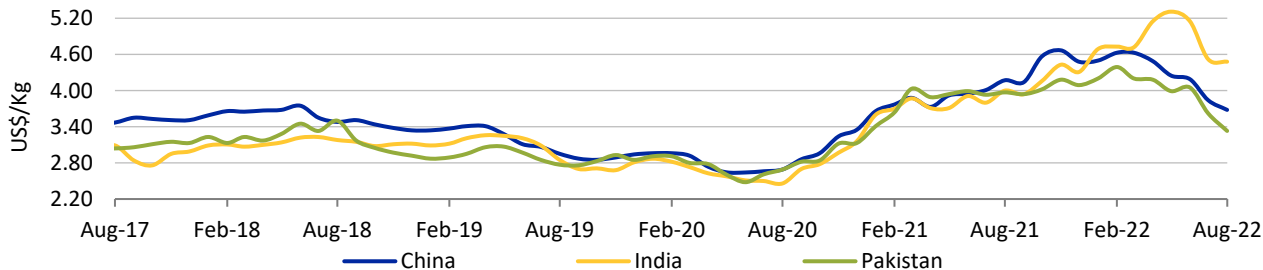
Securitisation volumes have also benefitted from the sharp increase in rates seen in capital market instruments such as debentures during H1 which has made the rates being offered for securitisation transactions favourable.

Exhibit: Trend in India's annual home textile exports – Region wise



High regional dependence on the US market and an ongoing slackening demand scenario in the US likely to impact Indian home textile exporters

Exhibit: Trend in domestic and international cotton yarn prices



While cotton yarn prices remained high through much of H1 FY2023, some moderation is likely in H2 FY2023 amid sustained demand slowdown and arrival of fresh cotton crop

Source: Department of Commerce, EmergingTextiles.com, ICRA Research



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