Credit Outlook- 2023

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Fixed Income Desk, Aditya Birla Sun Life AMC Ltd.

Presentation Flow

- Macro Credit View and Outlook
- Sectoral Views and Outlooks
  - Financial Services
  - Metals
  - Power
  - Roads
  - Telecom
  - Real Estate
  - Auto
- Legal Update on IBC Recoveries

Macro Credit

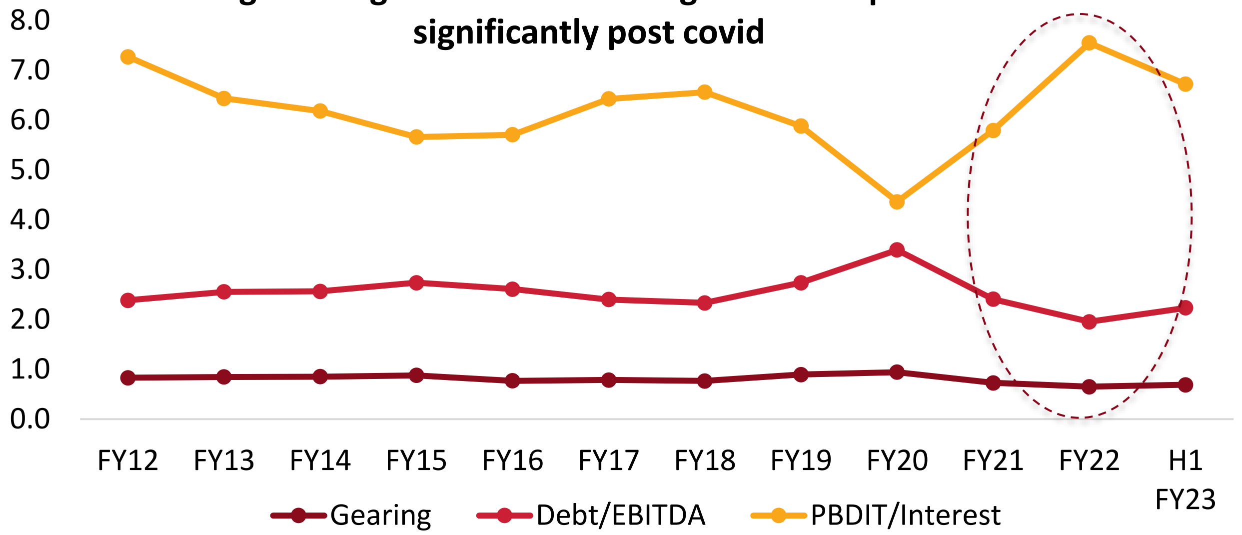
ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

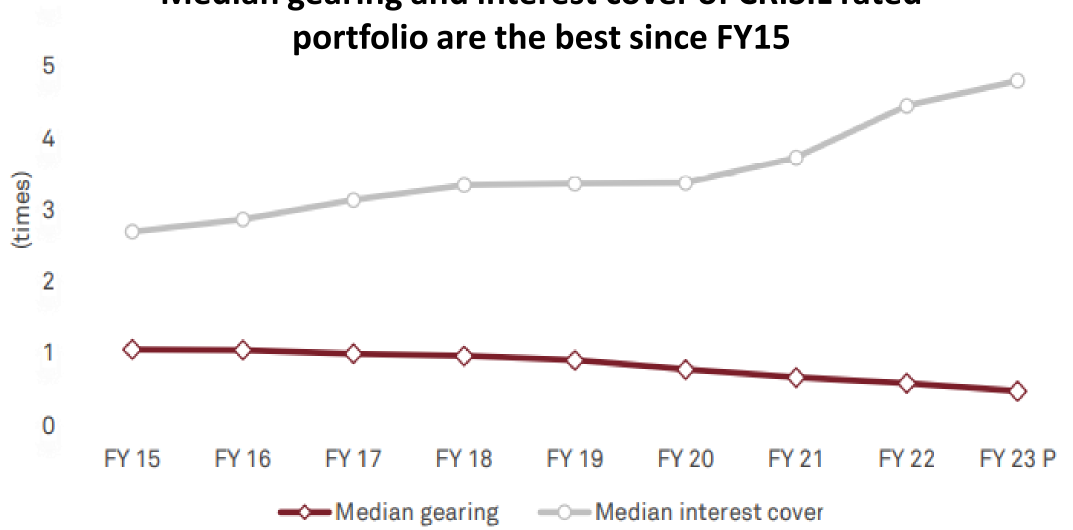
Corporate India in good health versus the last 10 years

ADITYA BIRLA CAPITAL

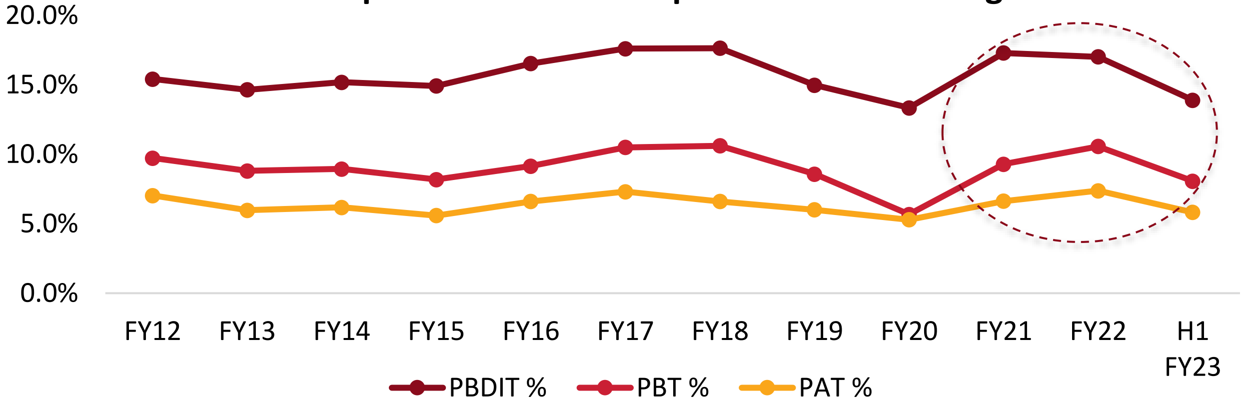
Avg. leverage and debt servicing metrics improved significantly post covid



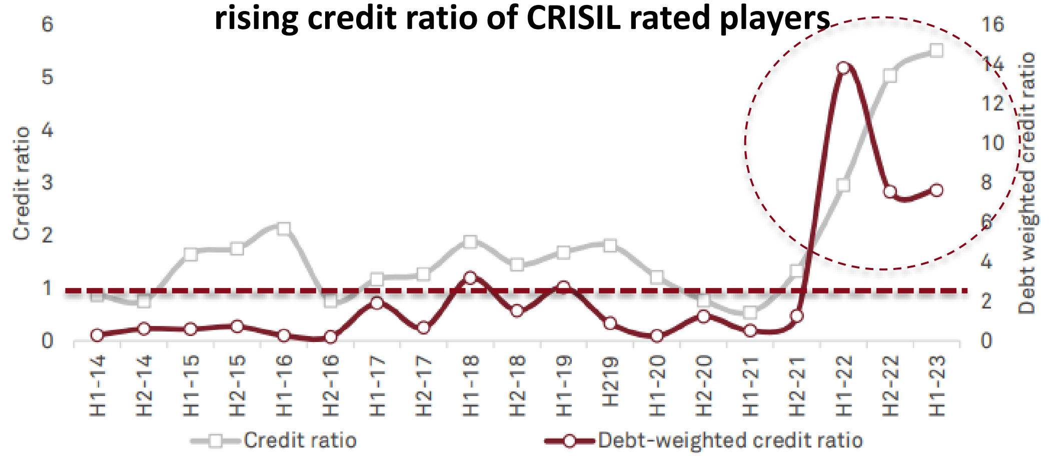
Median gearing and interest cover of CRISIL rated portfolio are the best since FY15



Slight moderation in H1 profits due to commodity inflation; to improve in H2 FY23 as prices started cooling off



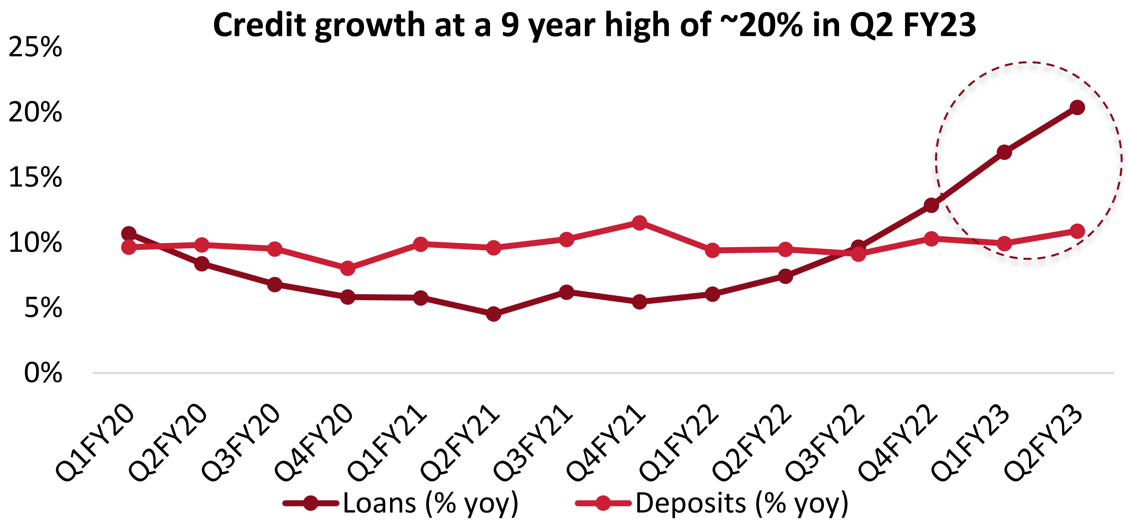
Secular corporate health improvement reflected in rising credit ratio of CRISIL rated players

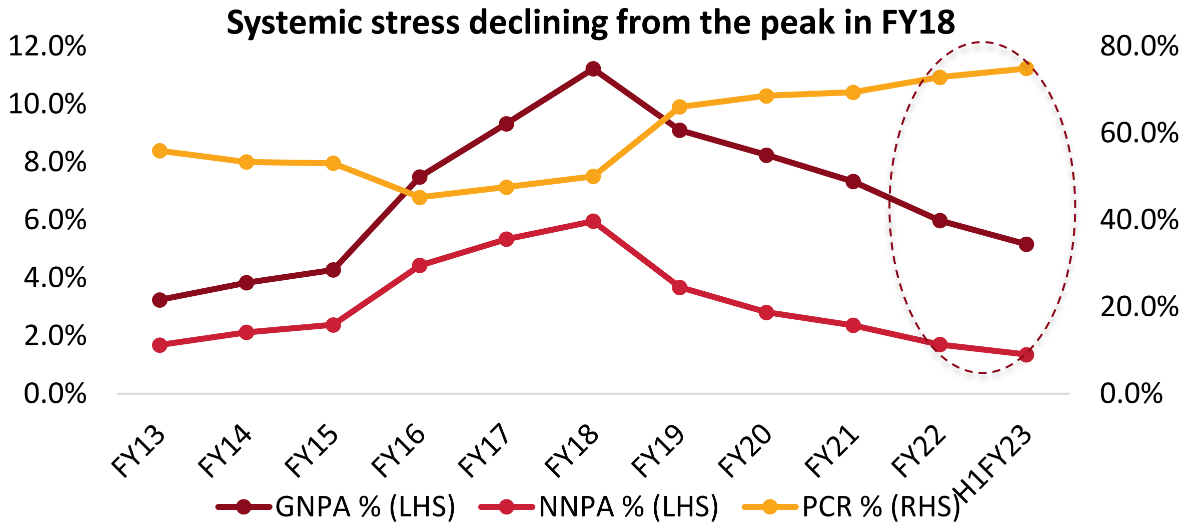


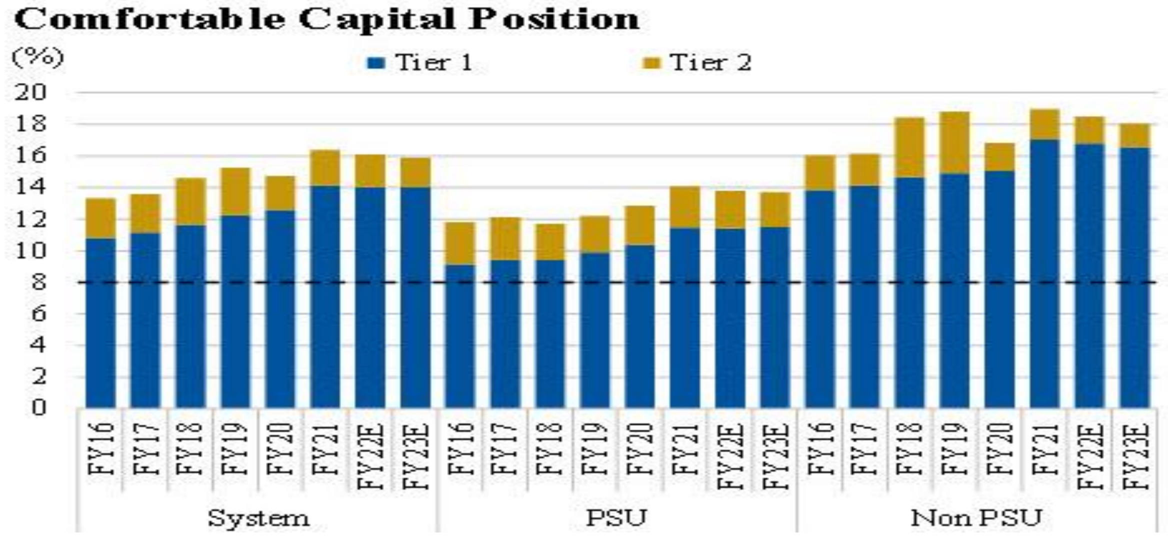
Source: Capitaline (BSE 500 excluding financials), CRISIL (Rated portfolio), ABSLAMC Research; Credit ratio= (No. of rating upgrades/No. of downgrades)

Banking credit growth at multi-year high; widening gap vs deposits

ADITYA BIRLA CAPITAL





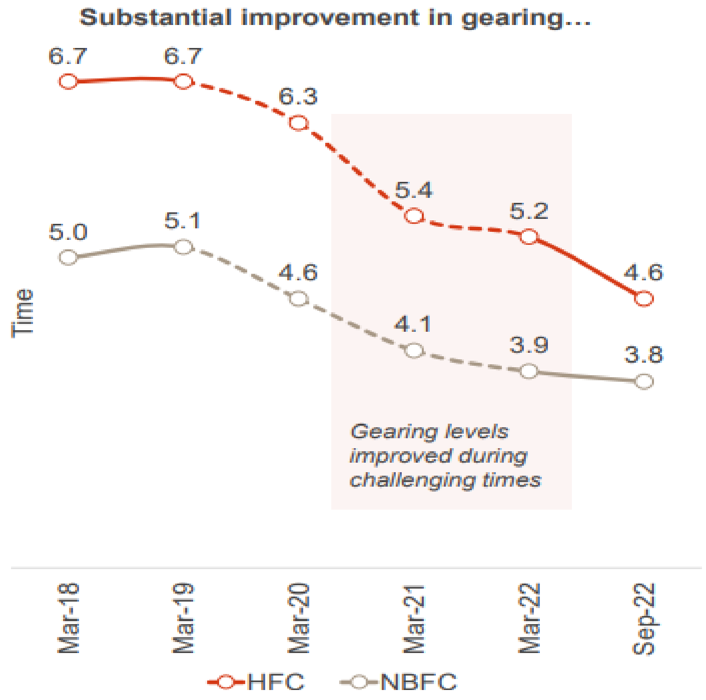


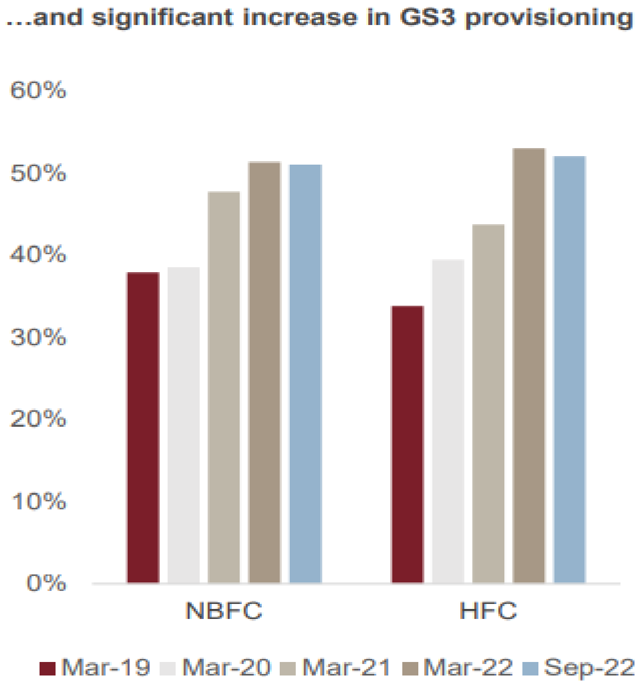
- Higher credit demand from housing and SME segments; some early signs of capex related wholesale demand in Q2 FY23
- **<u>Sector GNPA improved to 5.2% in Sep-22 from a peak of 11.2% in FY18</u>** over the last 10 years
- While policy rates have been hiked by 190 bps in H1 FY23, median increase in bank MCLR for large commercial banks was ~71 bps. However, the rise in 1-year term deposit rates was lower at ~43 bps cushioning the profitability
- **<u>Strong credit growth and tighter liquidity conditions in the near term to result in deposit rate hikes and eventually, higher cost of funds in H2 FY23</u>**

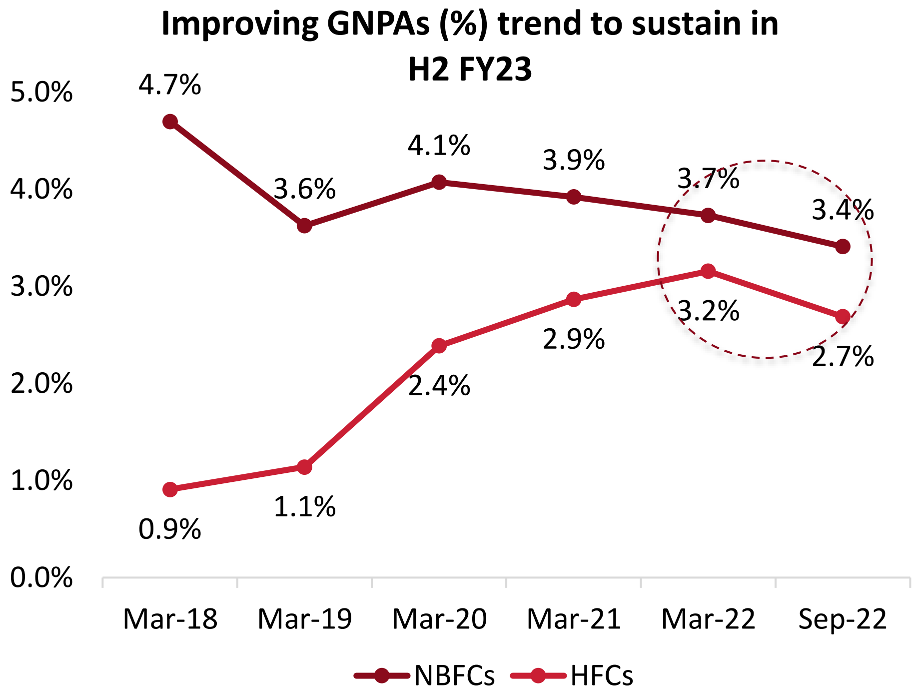
Source: RBI, Axis Capital Research, India Ratings, ICRA Research, ABSLAMC Research; PCR: Provision coverage ratio

Non-Banks balance sheets beefed up during covid; geared up for growth

ADITYA BIRLA CAPITAL





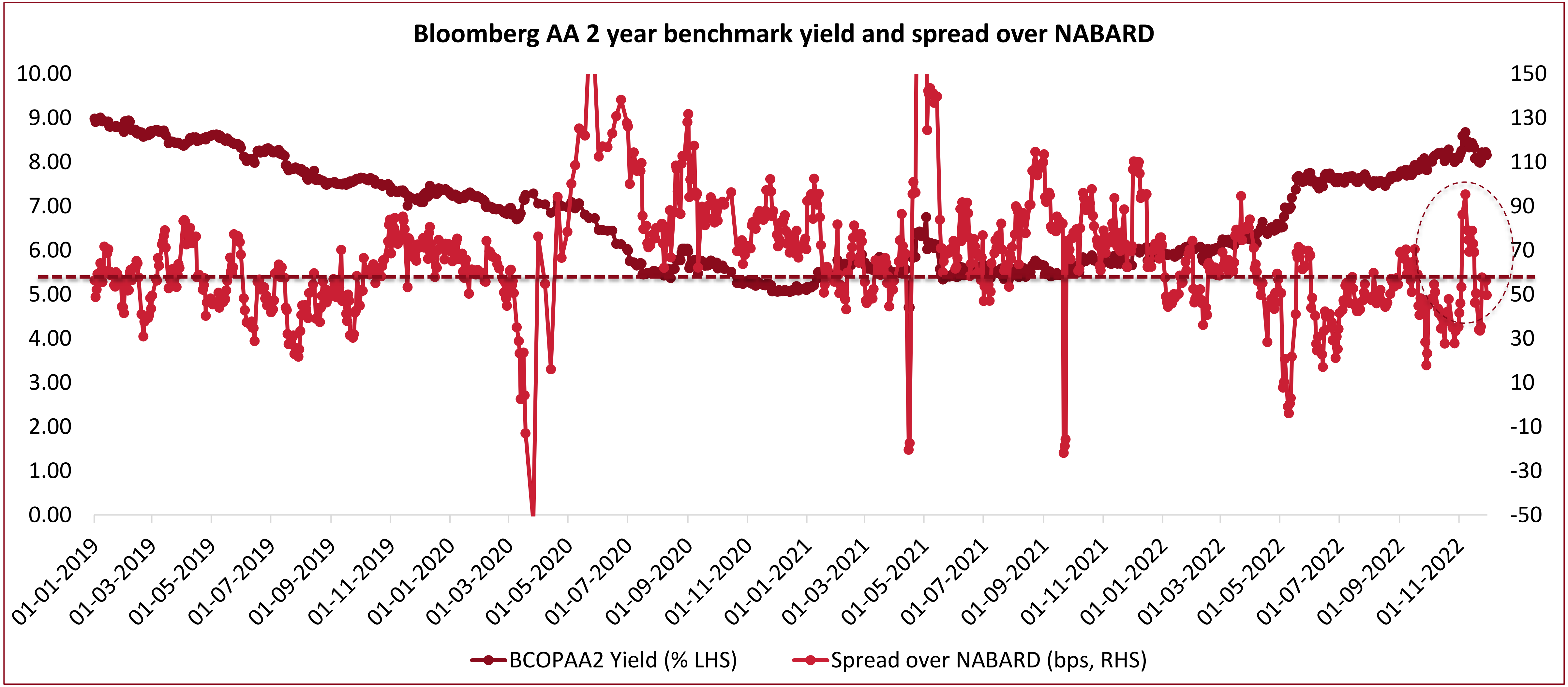


- **<u>Collections back to pre-covid levels across all segments; however, overdue recoveries are slow in some segments like MFI, MSME</u>**
- Sharp improvement in GNPAs over last 12m due to write-offs, minimal third wave impact, lower slippages in restructured book, and strengthening of collection systems given tighter IRAC norms (effective Oct 22)
- Higher focus on collecting from the (30-90) dpd bucket, vs the (60-90)/90+ bucket in the past, to help sustain asset quality improvement in H2 FY23
- **<u>Restructured book- good performance so far; however, remains a key monitorable for 2023, particularly for MSME segment, given the higher inflation and ballooning repayments in some loans</u>**

Source: CRISIL Ratings, ABSLAMC Research; GNPA data based on sample of 13 large NBFCs and 5 large HFCs accounting for 70-75% of industry assets; DPD: Days past due

Credit Spreads inching up from lows with pickup in credit growth

ADITYA BIRLA CAPITAL



Source: Bloomberg, ABSLAMC Research

Summary Macro Credit View (1/3)

ADITYA BIRLA CAPITAL

Corporate Health

- Corporate India remains in good health with balance sheet deleveraging and lower interest rates over the last two fiscals.
- Slight increase in leverage in H1 FY23 due to capex in select sectors (Telecom, Renewable) and higher WC requirements- however, the debt metrics remain comfortable overall.
- As expected, operating margins have moderated in H1 FY23 mainly due to dip in gross margins (higher input costs), likely to improve in H2 FY23 given some cool off in input costs
- Credit spreads have started inching up from historic lows given the liquidity tightening and pickup in credit growth.

Banking System

- Banking credit growth at a 9 year high of ~20% in Q2 FY23; strong credit growth and tighter liquidity to result in deposit rate hikes and eventually, higher cost of funds in H2 FY23
- Systemic stress continues to decline from the peak in FY18; capital position comfortable to fund growth

Non-banks and housing financiers

- Balance sheets significantly beefed up during covid through a mix of equity raising and higher provisioning; well-positioned for strong growth
- While disbursements have picked up across all asset classes, we expect unsecured/MFI, used vehicles and MSME segments to see highest growth
- Collections back to pre-covid levels, overdue recoveries slow in certain segments, good performance of restructured book thus far
- Strong growth and lower incremental slippages to keep asset quality stable over the next 12 months.
- NIMs for CV financiers, net profit margins for HFCs to be under pressure; MSME asset quality a key monitorable

Telecom

- Subscriber base has stabilized and with expected tariff hikes, the profitability should pickup in the next fiscal
- While investments in 5G will keep leverage high due to the deferred spectrum payment policy, liquidity should be comfortable for the top 2 companies

Summary Macro Credit View (2/3)

Metals

- Domestic steel demand to grow at ~6-7% during FY 23/FY 24 supported by government infra, construction capex (ahead of national elections) and auto demand. Rollback of export duties to facilitate only marginal export revival given global demand concerns (US, EU)
- Steel player margins to stabilize/ marginally improve in FY24 after 700-800 bps contraction to 22-24% in FY23. Leverage to remain comfortable given significant deleveraging done over the last two years
- Aluminum market to remain in marginal surplus, prices down 30% from peak in Mar 22 and should likely sustain at current levels in H1 FY23 and increase in H2 CY23 driven by increased demand
- Aluminum player margins to sharply fall to 22-23% in FY23 from a high of 36% in FY22 and then improve in FY24 with energy cost moderation
- Zinc market to remained balanced, prices and margins to remain rangebound; Copper demand to hold, however marginal surplus to keep prices low

Power

- With expected high demand growth and increased focus to avoid energy crisis (as faced by EU), outlook for thermal power gencos remains stable
- Thermal PLFs to sustain at 63-65% in FY23/FY24. Profitability margins of merchant players to remain under pressure due to higher coal prices.
- Strong policy thrust and ESG emphasis to support higher renewable capacity addition and generation. Solar and Hybrid (Battery+ RE) plants to account for majority of the large Rs. 20 lakh crore capex estimated till 2032.
- Unpredictability and PLF variability remain more prominent in wind vs solar projects. Central counterparties would be preferred over state.
- Strong global interest and benefits from having a large and diversified portfolio, to result in further renewable industry consolidation.
- State discoms continue to bleed due to weak operating efficiencies and lack of timely and adequate tariff revisions. While latest EMI scheme in Jul 22 led to some improvement, structural reforms including privatisation, delicensing, and smart metering are needed to improve discom health.
- Private discoms are a preferred asset class given the robust and regulatory business model providing return assurance.
- Large proposed capex of Rs. 2.4 lakh crore till FY30 for integration of renewable capacities to benefit transmission cos with strong balance sheets and EPC companies.
- Credit profiles of transmission cos to remain stable given stable cash flows and acceptable leverage and debt coverage metrics.

Summary Macro Credit View (3/3)

Roads and Infrastructure

- Road project awarding and construction progress have both been slow in YTD FY23. While EPC and HAM will remain the preferred modes to award projects, NHAI is also looking to resurrect interest in BOT (Toll) projects to reduce its debt burden. Monetization of assets to gather steam through INVIT and TOT routes.
- Toll revenues continue to show robust growth; transition to FASTag collections is almost complete (~97% as of Aug 22)
- Road developers have strong revenue visibility (~2.5x avg book to sales); profits to improve in H2 FY23 given cool off in commodity prices.
- Infrastructure sector seeing a renewed thrust with the government rolling out its monetization plan. We believe that the monetization of assets like roads via Invit /TOT routes, transmission assets via TOT and airport assets via PPP has already found some success and can be easily replicated. However, some tweaks may be required to existing concession agreements to ensure that contractual rights and conflict resolutions are well defined.

Real Estate

- Residential market seeing a revival after a long down cycle with strong momentum in both launches and sales leading to improvement in unsold inventory metrics. Rising importance of home ownership to keep demand strong and benefit large developers.
- Prices increased across all key markets as developers could pass on cost escalations given strong demand. We expect the sales momentum to slightly slow down given rise in interest rates and cement prices in the past few months
- Commercial RE absorption at a 3-year high backed by strong supply and healthy pre-commitments; may slow down next fiscal given macro economic headwinds.
- India is expected to remain the office market of choice for outsourcing / offshoring given its affordable RE rates and large talent pool. Grade A properties continue to see lower vacancies and command pricing premiums vs overall industry.

Automobiles

- 2022 festive sales were the best in the last four years indicating good demand recovery; only 2W and 3W recovery weaker vs pre-covid
- Strong PV demand led by utility vehicles, broad-based demand in CVs with FY24 likely to be the new cyclical peak, YTD Tractor sales better-than-expected and the best in the last 5 years
- Vehicle prices likely to go up in H2 CY23 as tighter regulations (BS VI stage 2 and 6 air bags) will push up costs for auto companies.

Summary: We continue to prefer cash flow generating companies and sectors with good promoters, performance track record, and a conservative capital structure and accordingly, will selectively invest in those sectors and companies that meet these criteria.

Financial Services

ADITYA BIRLA
CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Key segments outlook (1/2)

Housing Finance Companies (HFCs):

- Disbursements for HFCs remain strong aided by underlying demand and soft rates thus far
- However, **the recent rise in interest rates could result in some softening of the robust demand for housing loans, especially for HFCs**
- With HDFC merger, HFCs’ presence in housing finance market would shrink significantly as already two larger players moved out/ slowed down
- **HFCs’ profit margins are likely to remain under pressure, with most players moving out of higher margin builder finance business.**
- **Worst is behind us in terms of asset quality-** however, numbers have now settled at higher levels and may not go back to lows seen 5 years back

Micro Finance Institutions (MFIs):

- **Overall MFI outlook is improving with comfortable incremental collection efficiency (barring a few players)**
- Most players have either provided or written off delinquent portfolio and few others may complete the process by end of FY23
- Credit demand has picked up for the sector and **most players may see 25-30% growth next year**
- With removal of interest rate cap by RBI, good credit growth and expected lower credit cost, **profitability is likely to be robust going forward**
- **With the high expected growth, the key monitorable will be the leverage**; however, thus far, it is at a comfortable level

Source: ABSLAMC Research

Key segments outlook (2/2)

Commercial Vehicle (CV) Financiers:

- **Growth is back after a prolonged CV downcycle, and the worst is behind in terms of delinquencies**
- Disbursements are expected to be good for the segment and hence, the sector is likely to witness improvement going forward unless some external shock hits the sector
- **NIMs may see some pressure going forward** (given largely fixed rate assets vs floating rate liabilities)

Micro, Small and Medium Enterprise (MSME) Lenders:

- MSME segment has been the most vulnerable over the past few years and during both covid induced lockdowns
- However, the **MSME Government guarantee scheme has helped in easing cashflow positions** for these companies and hence, a large part of stress will not materialize immediately
- **This segment needs to be watched carefully as recovery therein may take more time**

Source: ABSLAMC Research

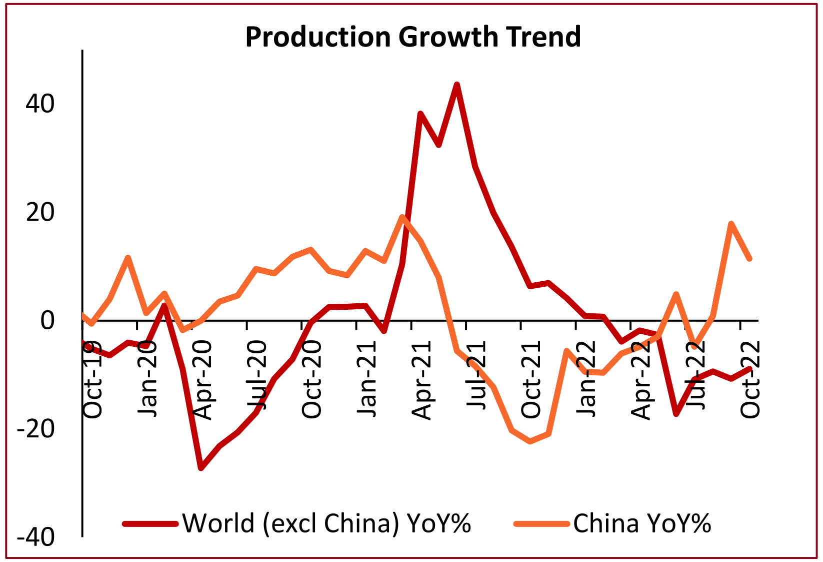
Metals

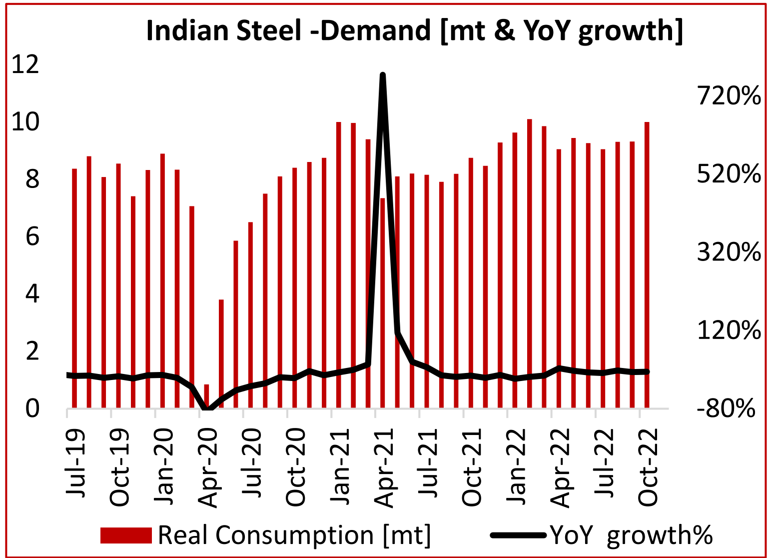
ADITYA BIRLA CAPITAL

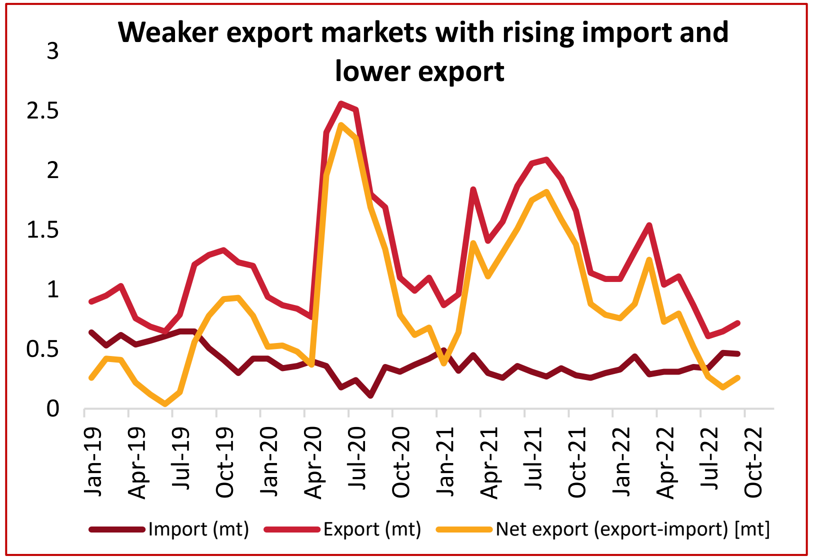
PROTECTING INVESTING FINANCING ADVISING

Ferrous: Resilient domestic demand amid global slowdown; Improved Chinese demand sentiments with ease of covid restrictions

ADITYA BIRLA CAPITAL







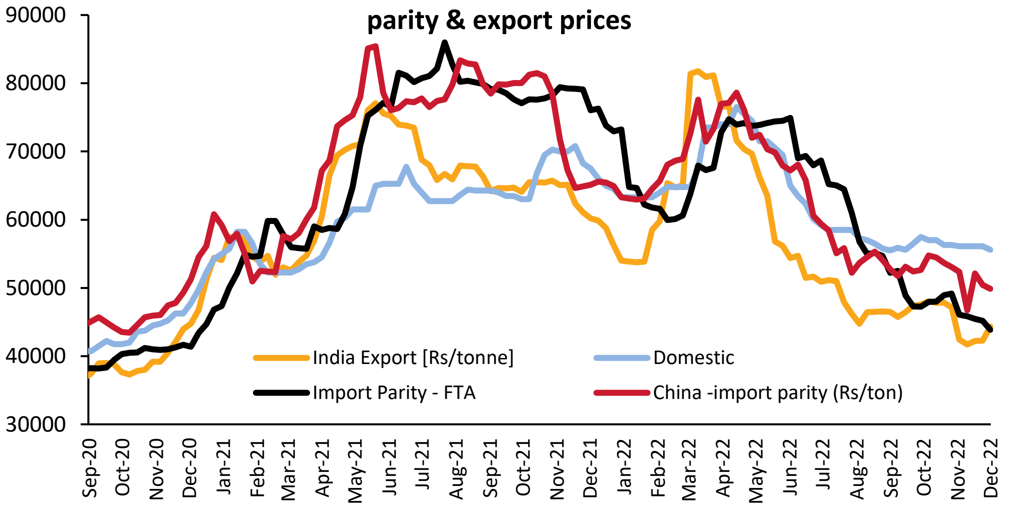
- With the relaxation of COVID measures by China, demand to improve over the medium term given potential pick up in infrastructure demand, less tight property policy and prevailing low inventory. Export overhang from China is expected to reduce in CY23.
- Global demand concerns in key importing geographies (US, EU) might allow for only a gradual demand recovery in rest of the world.
- Indian steel production and consumption growth remain robust at 9% and 15% respectively during April-Oct 22. Export market remained weak partially due to imposition of export duties, subdued global demand and destocking amid declining price environment in Indian market. System level inventory remained flattish at ~9mt.
- Indian government has announced a roll back of the export duties on steel and iron ore, which it had imposed in May 2022. We believe that these measures would facilitate export volume revival marginally from depressed levels given the global demand concerns
- Demand is expected to pick up pace with lower steel prices. **Overall demand is expected to grow at~6-7% during FY 23/FY 24 supported by government infrastructure, construction capex [ahead of national elections] and automotive demand**

Source: ABSLAMC Research, Kotak Securities, Phillips capital; mt: million tonnes

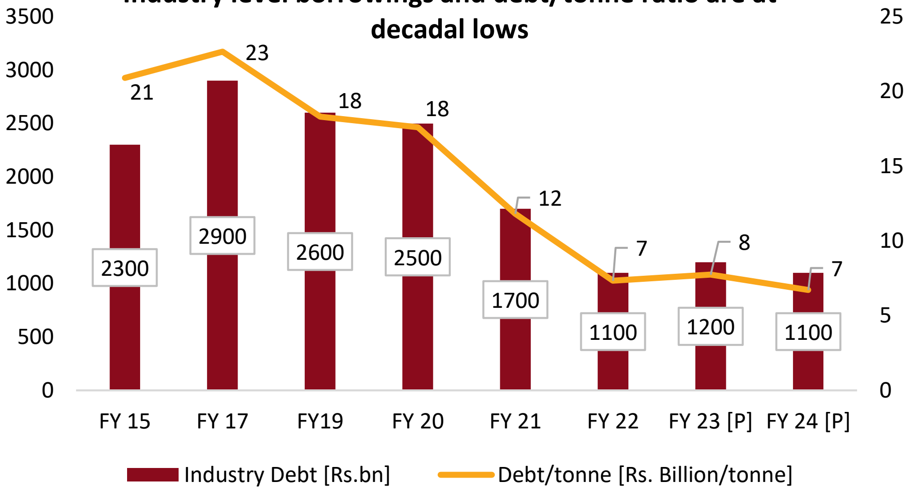
Ferrous- Prices to remain range bound in near term with upside potential; Strong balance sheets to support credit profile despite capex

ADITYA BIRLA CAPITAL

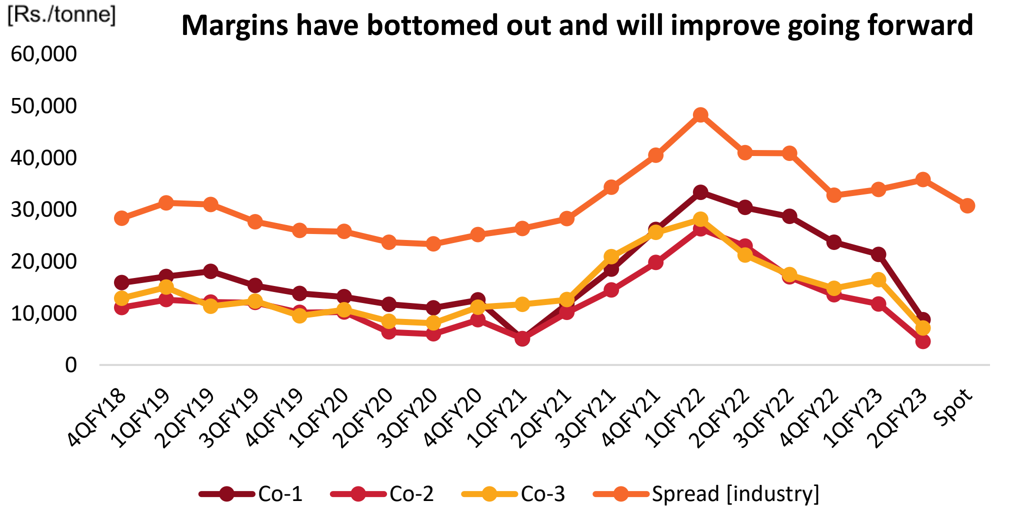
Prices to remain range bound despite current premium to import parity & export prices



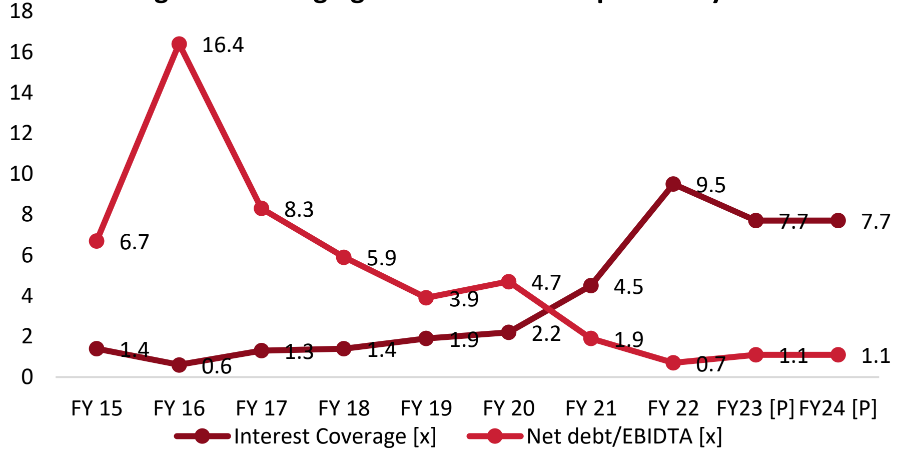
Industry level borrowings and debt/tonne ratio are at decadal lows



Margins have bottomed out and will improve going forward



Despite fall in EBIDTA, balance sheets to remain strong owing to deleveraging undertaken in the past two years

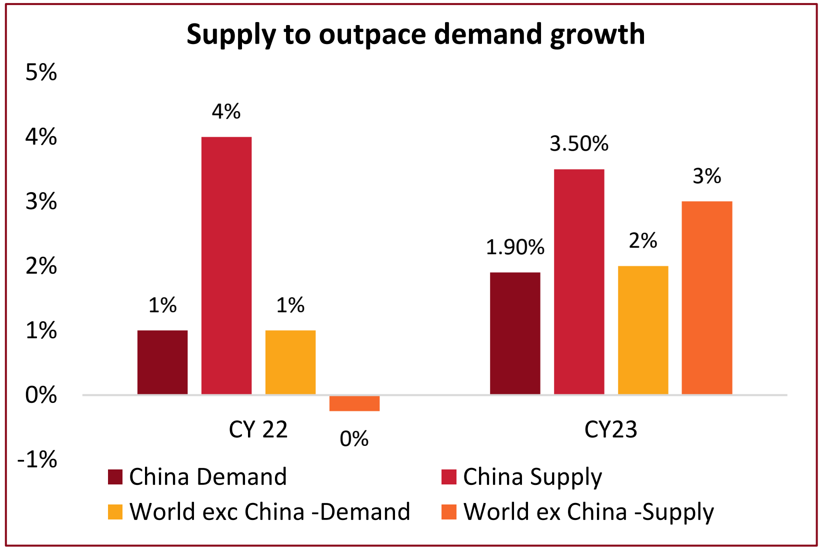


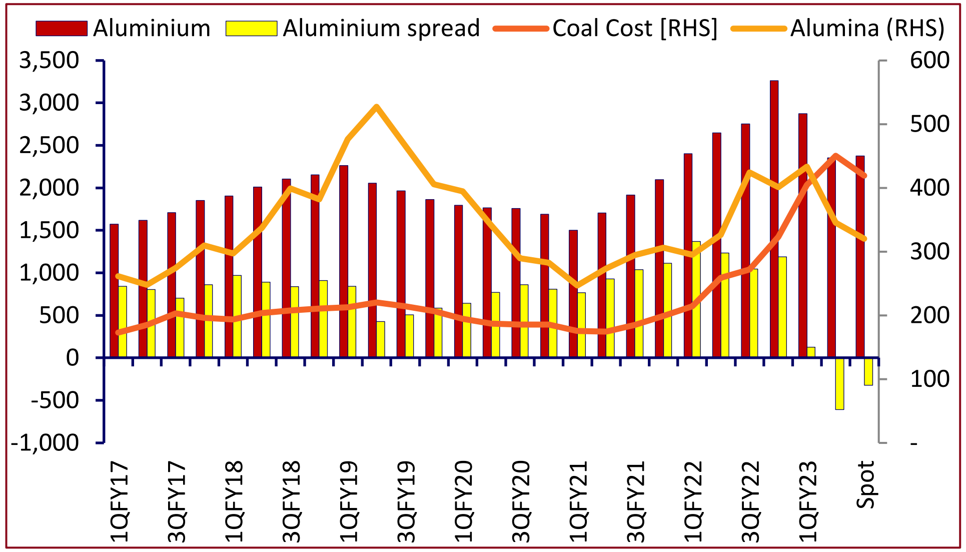
- While Domestic HRC prices continue to trade at unprecedented premiums of 9-17% vs import/export prices, we expect prices to remain range bound in near term due to 1) rising China steel export prices and 2) domestic demand outlook. Upside potential exists post Mar 2023
- <u>Operating profit (EBITDA) margin to stabilize/ improve in FY24 after sharp contraction by 700-800 bps in FY23 to 22-24%</u>
- Given the <u>significant deleveraging over the last 2 years, Indian steel players are comfortably placed</u> with Net Debt/EBITDA at a decadal low of ~1.1x (vs peak of ~16x in FY 2016)

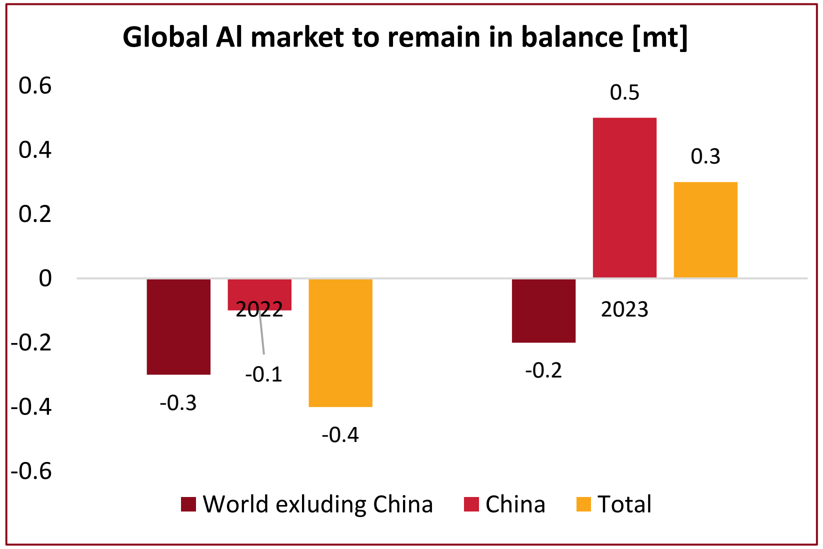
Source: CLSA, Kotak Securities, CRISIL Research, ABSLAMC Research; Co-1,2,3: Company 1,2 and 3; HRC: Hot-Rolled Coil

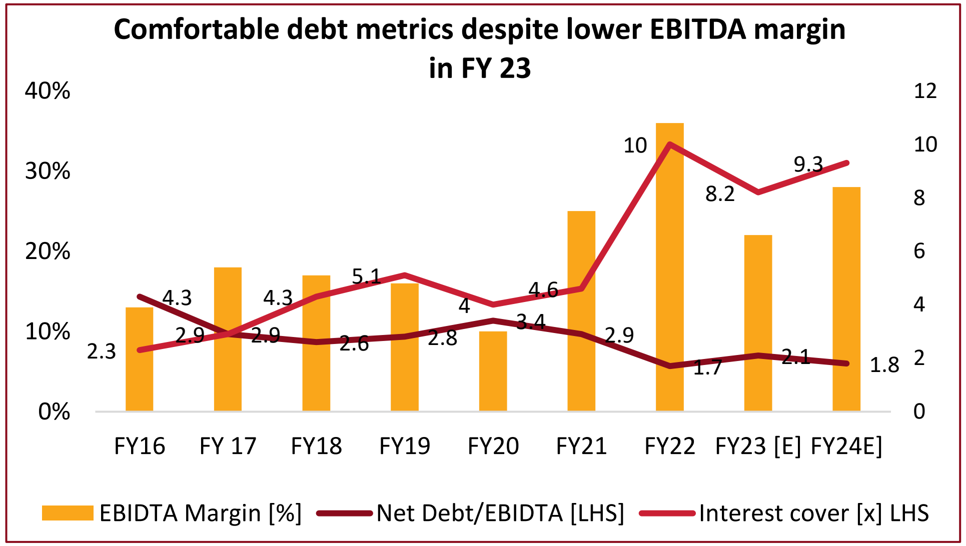
Non-Ferrous –Aluminium – Global market to remain in balance; Prices to remain benign with upside potential in H2 CY23

ADITYA BIRLA CAPITAL







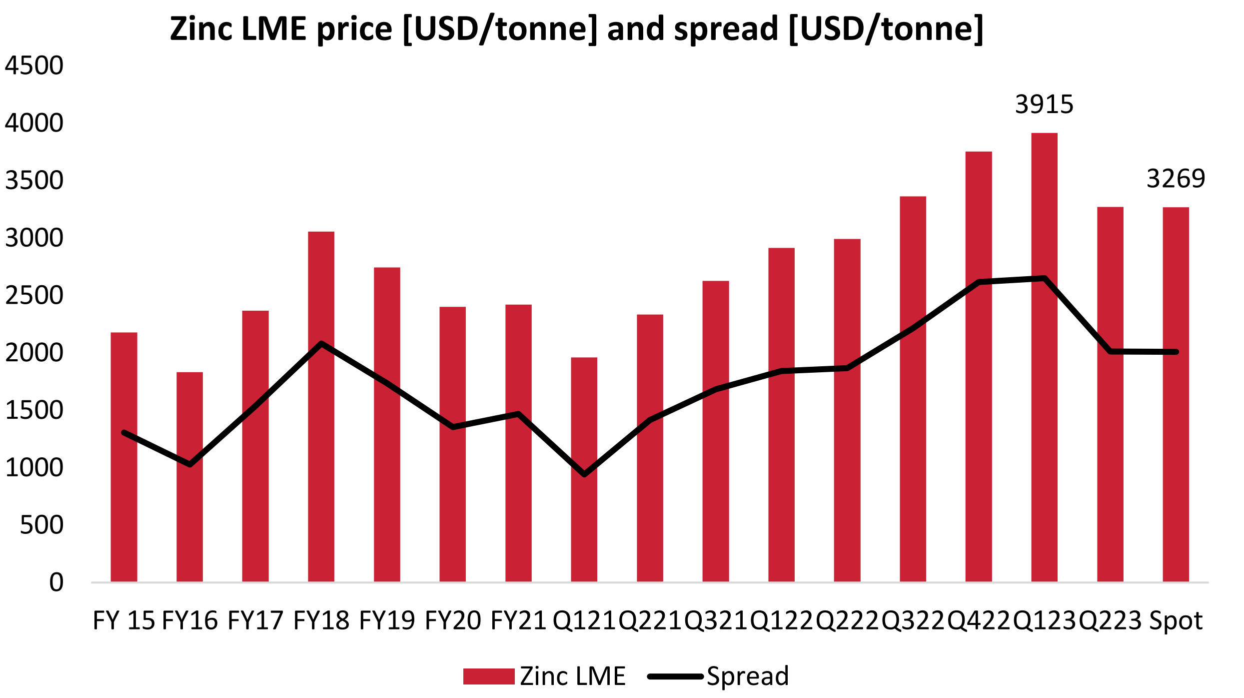


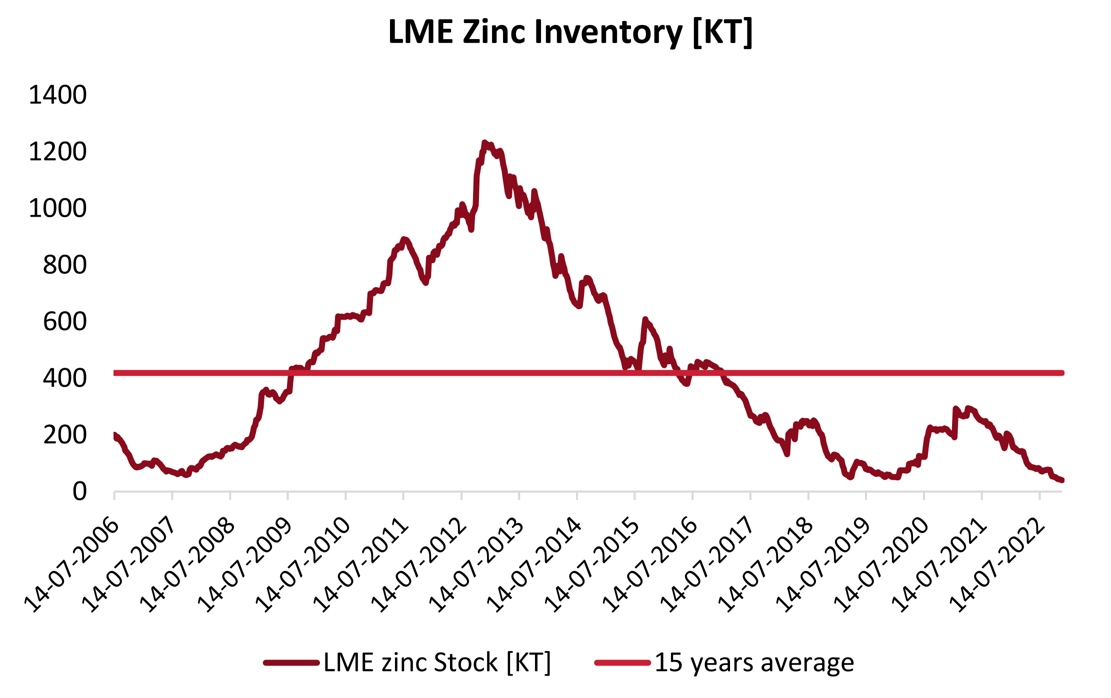
- Strict lockdowns in China and global recessionary fears impacted global demand, while global supply remained robust despite supply cut of ~1 mtpa in Europe driven by China.
- With re-opening of China, demand is expected to increase due to infrastructure acceleration, improving consumption sentiment and low inventory.
- **We expect balanced global aluminum market with marginal surplus of 0.3 mt in CY 23.**
- Domestic growth to be led by improved demand across all sectors (mainly electricals and power)
- Aluminum prices have fallen ~30% from its March 2022 peak to ~$2500/tonne and are expected to find support with improved demand sentiments. Prices are expected to increase in H2 CY23.
- **Lower realization and higher energy costs to slice EBITDA margin to ~22-23% in FY23 from a decadal high of 36% in FY22. EBITDA margin expected to increase in FY 24 with energy cost moderation.**

Source: Norsk Hydro, CLSA, CRISIL, ABSLAMC Research; mtpa: million tonnes per annum

Zinc –Global market to remain balanced; prices are expected to remain rangebound

ADITYA BIRLA CAPITAL



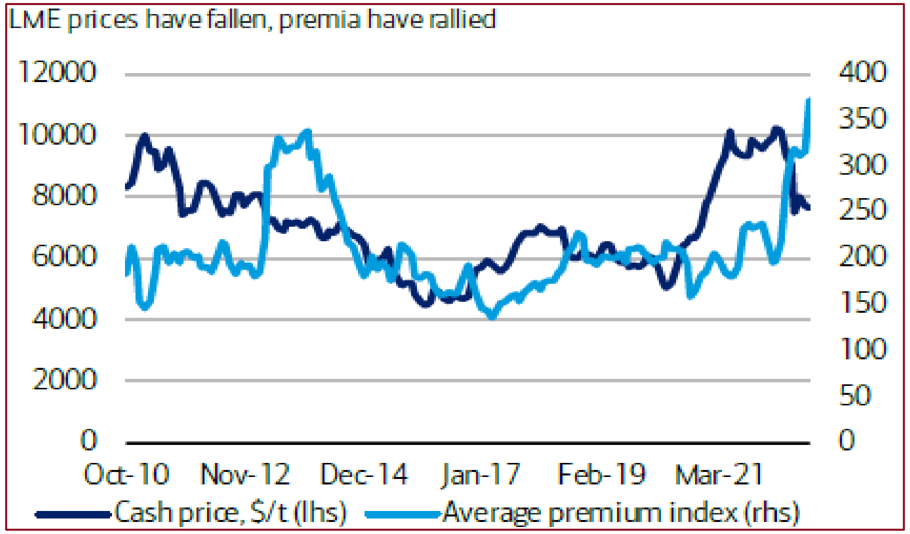


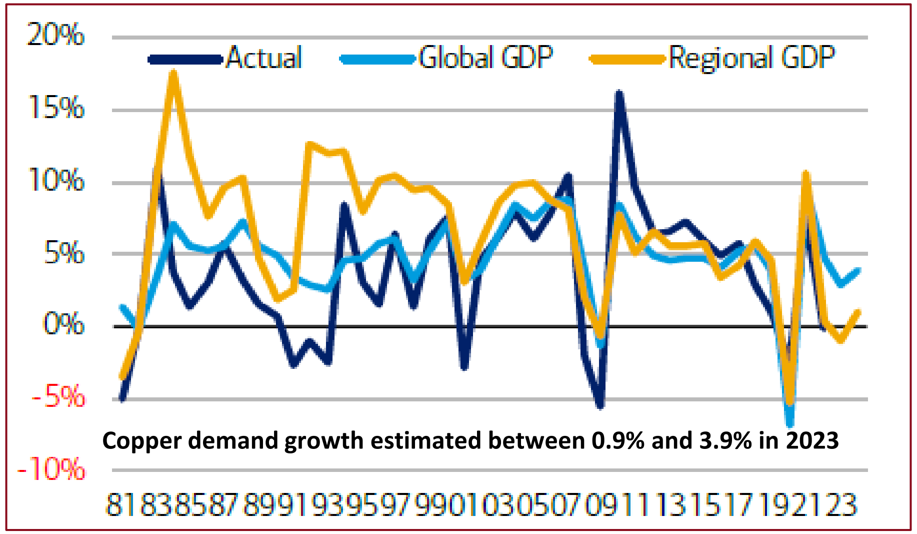
- Zinc prices have corrected by ~30% since Mar 22 led by weak global steel demand and recessionary fears.
- Zinc supply was impacted due to maintenance shut down taken by Europe due to looming energy crisis in Europe and inflationary pressures, which has resulted in lower inventory. At the end of Oct 22, LME stocks stood at 51 KT vs 140 KT in Apr 2022 and 15 years average at 419KT.
- **With softer demand and restricted supply, we expect the global zinc market to remain balanced against earlier expected deficit of ~300 kt.**
- We expect the Zinc LME prices to remain range bound in near term with potential upside in H2 CY23 (would depend on global steel demand revival). **With high energy/ coal prices, spread is expected to be lower in FY23 and marginally improve in FY24.**

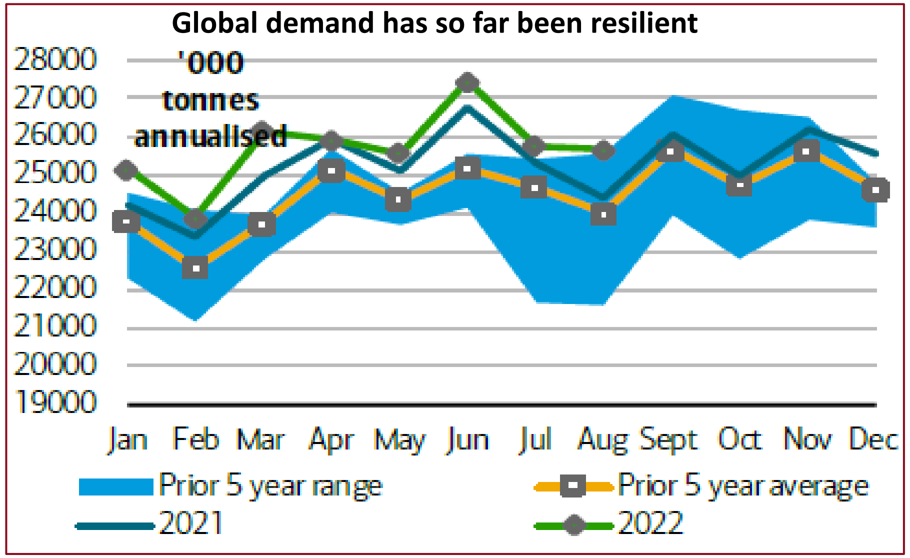
Source: Philip Capital, ABSLAMC Research; KT: Kilo Tonnes; Spread: Quarterly LME minus Cost of production (COP)

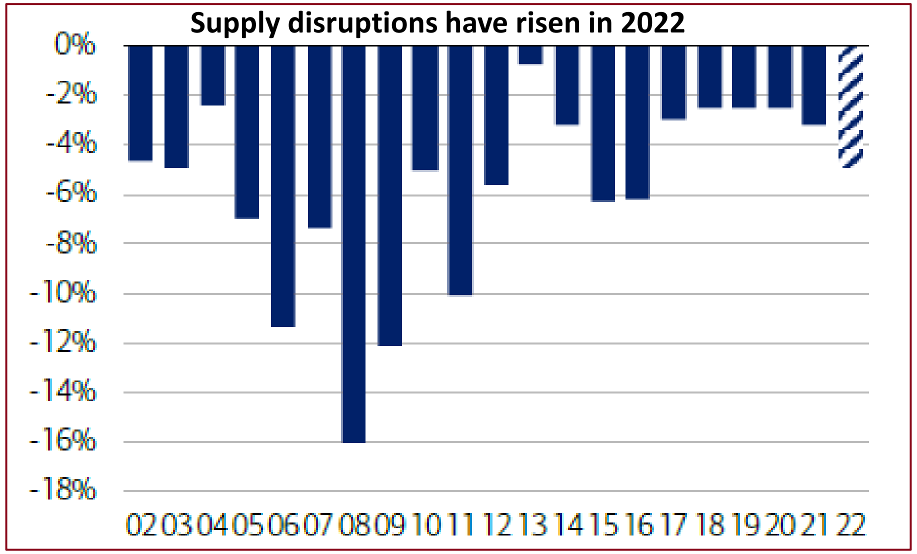
Copper –Demand to hold up while supply to remain disrupted

ADITYA BIRLA CAPITAL









- Exchange quoted copper prices have come under pressure, over tighter US monetary policy, the energy crisis in Europe and China's COVID lock downs/ weak housing market. Yet, physical markets have been tight with premia remaining high and inventories low.
- Supply is challenged and is expected to keep surpluses contained from earlier industry estimate of ~1MT to 300Kt for CY23, while demand to get a boost from renewables due to energy transition and EVs.
- As such, **we expect copper prices to stay low in 2023 although they would be marginally higher than the current levels.**

Source: BOFA; Physical premium is to be paid on top of the quoted LME price- This is also an indicator for the tightness of regional markets

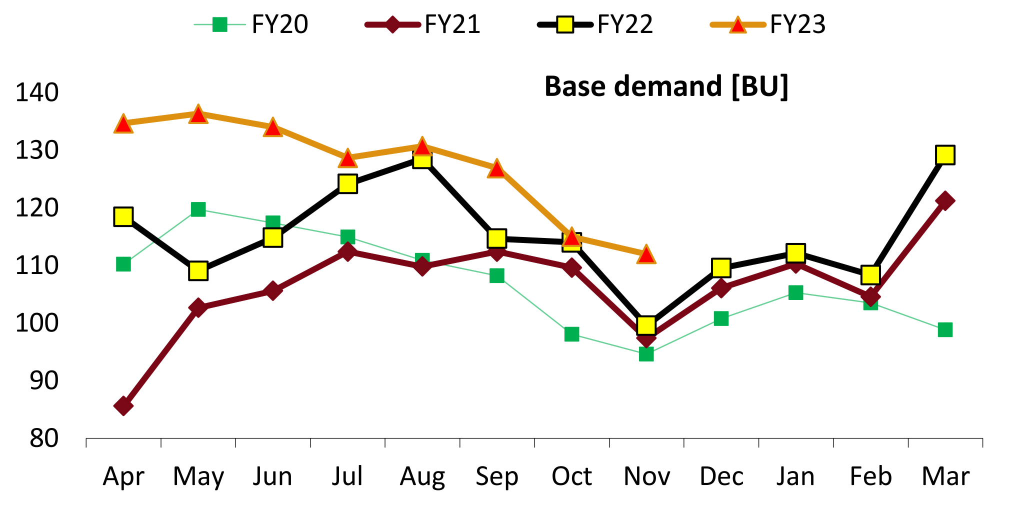
Power

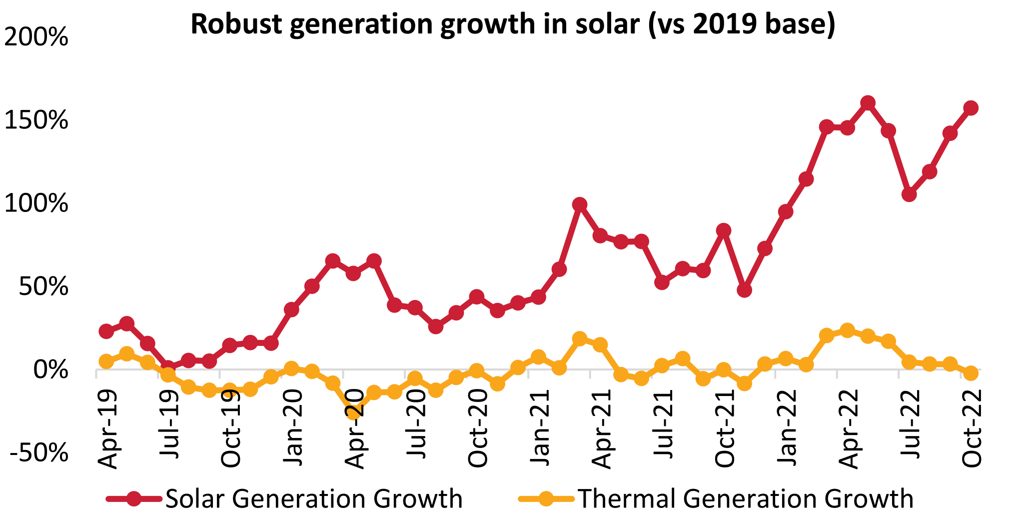
ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Power -Coal remains primary source of energy although Solar is the fastest growing energy source

ADITYA BIRLA CAPITAL



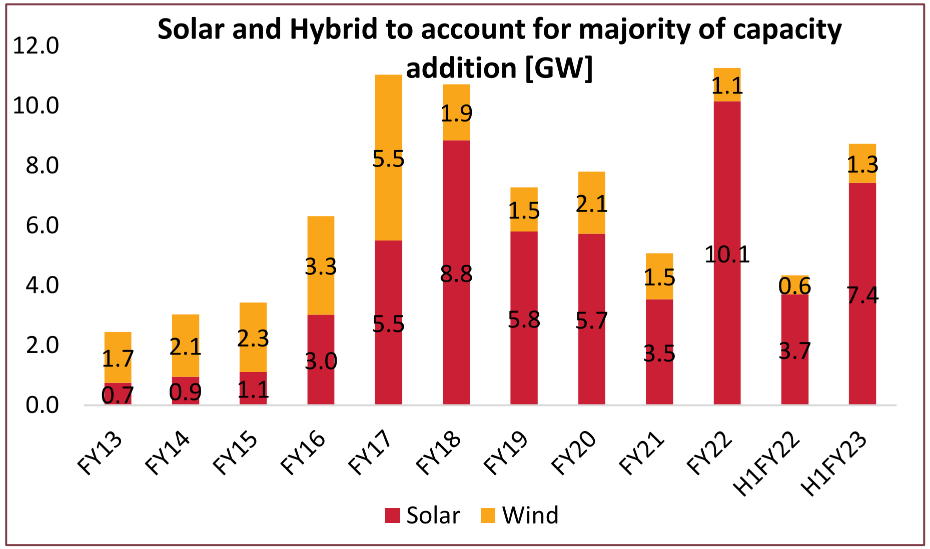


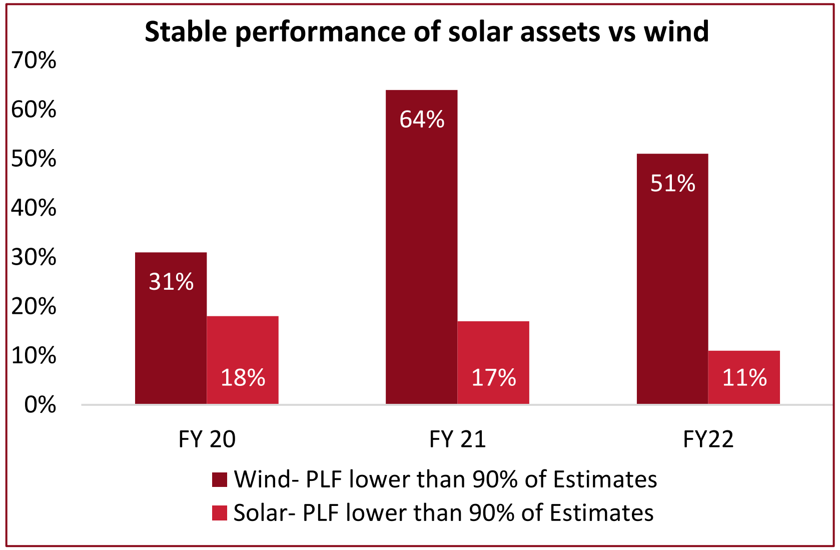
- **Power Demand**: Power demand remained high led by higher residential demand due to weather variability in Northern region, improved industrial & agriculture activities in Southern/Western region.
- **Power generation**: Coal-based grew at a strong 11% YoY for YTD till Nov 22 while renewable grew at a much higher 19% YoY growth. **Major growth from solar (42% up YoY) while wind generation was erratic (2% up YoY)** due to changing wind speeds/flows. Peak deficit was low at ~1% for this year till date.
- **Thermal plant load factor (PLF):** Overall thermal PLF strong at~63% till Oct 22 (vs 58% till Oct 21), however, PLF for imported coal-based plants was lower due to higher imported coal prices & depreciating rupee. **We expect overall thermal PLF to remain high at ~63-65% in FY23/FY 24.**
- **Coal prices:** Although **Indonesian coal prices started moderating, they are still ~200% higher than domestic coal available under e-auction**. Hence, we believe that the dependence on domestic coal will continue to remain high.
- **Merchant prices**: After **sharp spike in prices in April/May to ~Rs.10/Kwh, merchant prices cooled off to ~Rs.5/Kwh and are expected to remain rangebound hereon.**
- **Capex**: Energy transition and war is causing havoc on electricity grids across the world and resulted in restart of coal power plants in Europe. **We expect that India would continue to install thermal plants through public sector entities** to avoid black out over the medium term until large-scale storage for renewable at viable rates is set up to cater to the base power demand.

Source:, CLSA, CEA,DAM Capital, ICICI Securities, ABSLAMC Research; BU: Billion Units

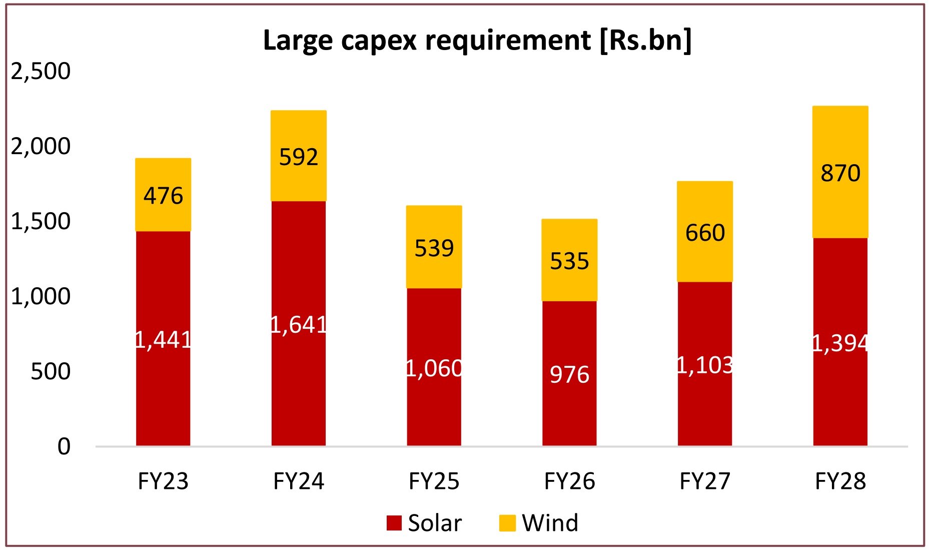
Renewable–Solar & Hybrid to drive capex; Good solar performance while wind has been erratic

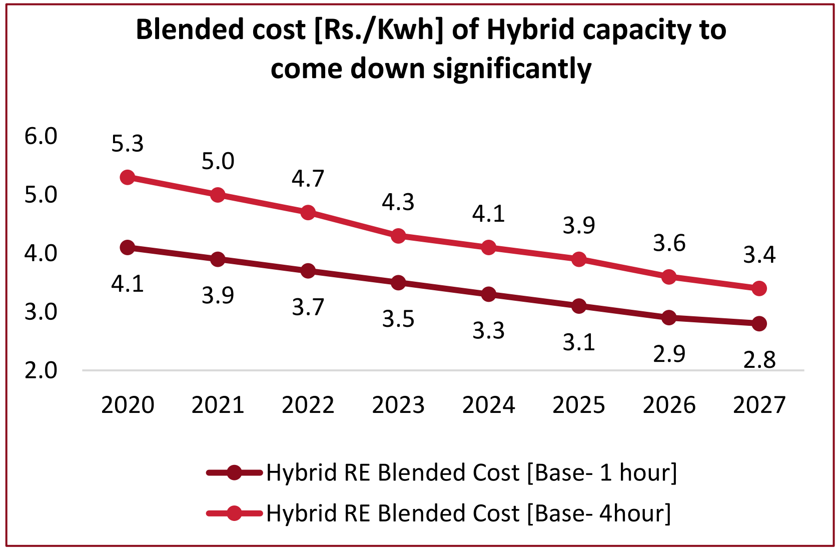
ADITYA BIRLA CAPITAL





- Renewable capacity **target set by India: 500 GW overall generation capacity and increase renewable [including hydro] share to 50% from ~20% by 2030**
- Steep targets, low construction period and competitive tariff advantage to aid in significant renewable capacity addition and generation.
- **~280 GW of solar and 94 GW of wind/ hybrid capacity to be installed at a total capex of ~Rs.20 trillion till FY 2032.**
- Cost of hybrid plants [battery +Renewable] expected to be at par with conventional power purchase cost (with reduction in battery cost to ~USD150-160/ Kwh) and support renewable capacity addition.
- **Solar assets performance is much more stable than wind assets** with a lower level of diversion against designed estimates.

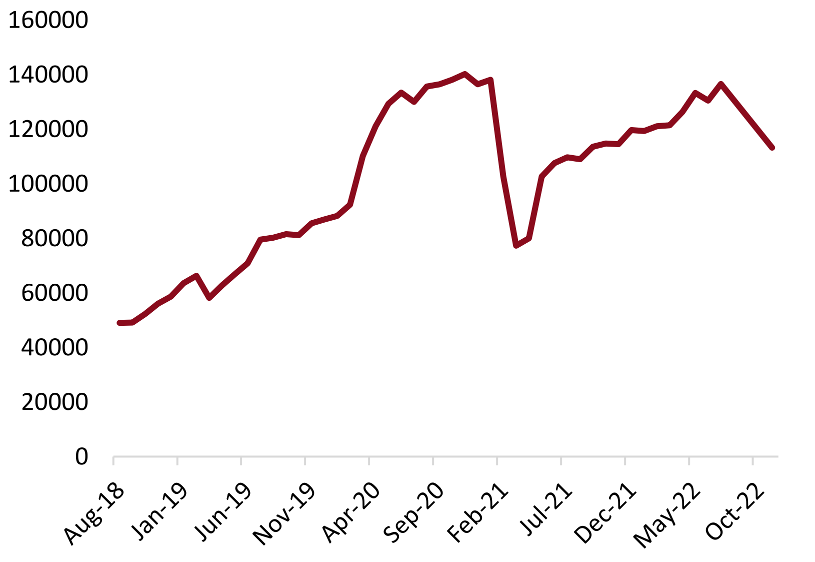




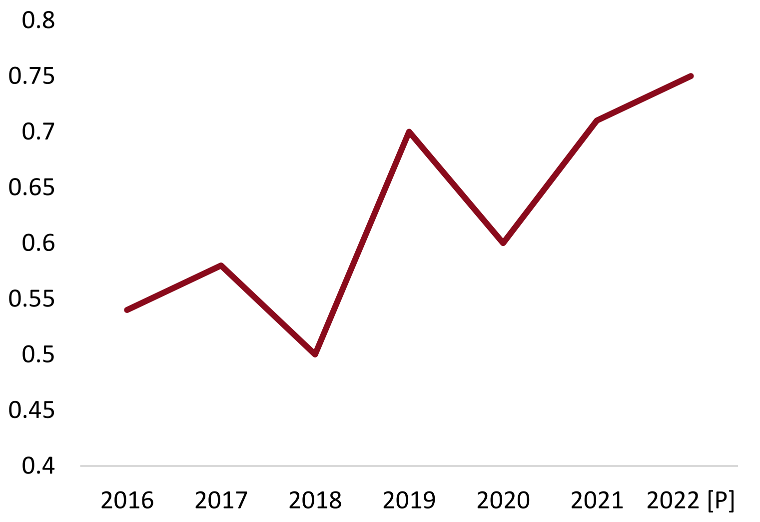
Source: CEA, CRISIL, ICICI Securities, CARE, ABSLAMC Research

Distribution– Receivables lately improved but still at alarming levels; private companies continue to perform better than state discoms

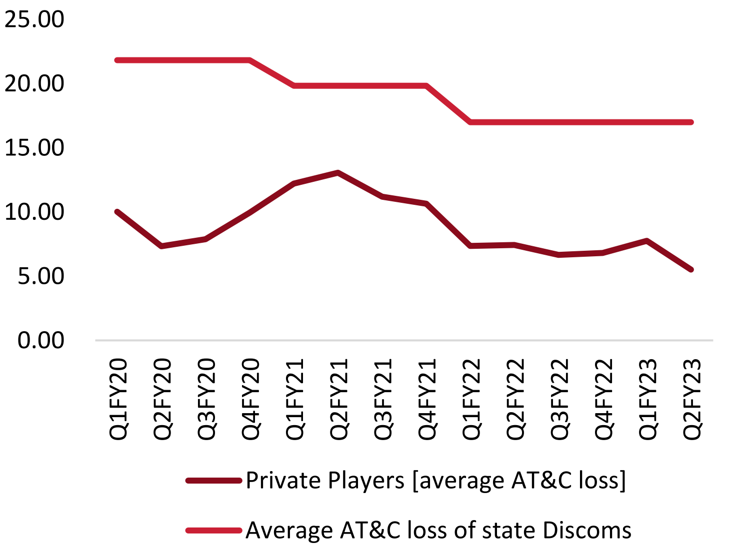
Discom receivables outstanding [Rs.cr]



Absence of cost reflective tariff [ACS-ARR gap] [Rs./kWh]



Private discoms perform better than state discoms

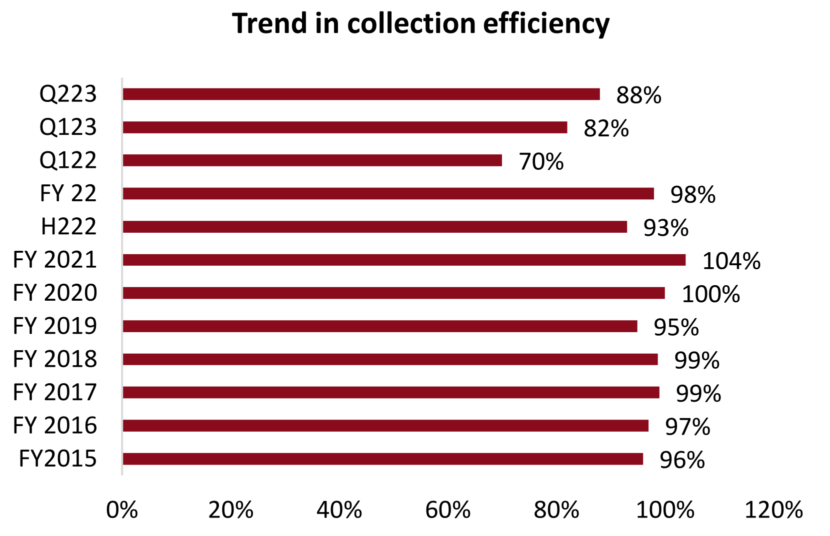


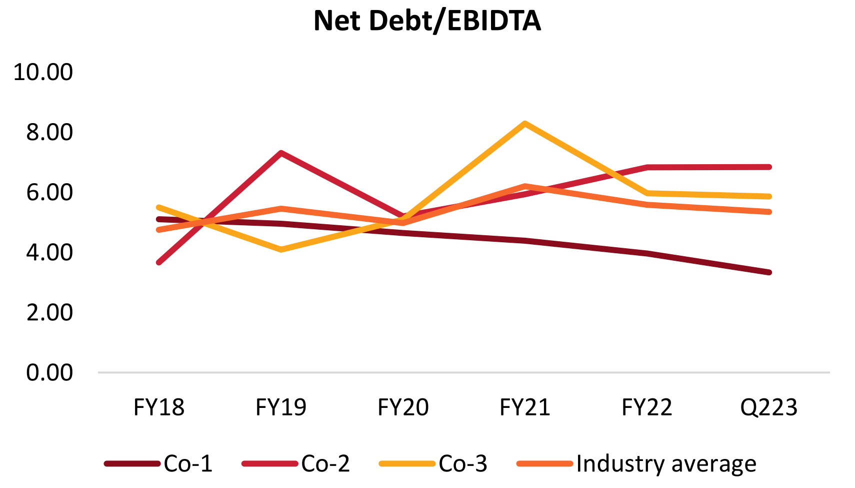
- **Post the implementation of EMI scheme in Jul 22** (wherein outstanding distribution companies (discoms) dues including late payment surcharge on cut off date are converted into 24-48 monthly EMIs), **outstanding receivables have come down by ~Rs. 27000 crore although the situation remains alarming with overdues at ~Rs.1.2 trillion.**
- Despite various reforms undertaken by Govt including the recent "Atamnirbhar Package", **performance of state discoms remains subdued** mainly due to weak operating efficiencies, absence of cost reflective tariff due to lack of timely and adequate tariff revision. The same resulted in increase in accumulated loss of ~Rs.5.5 trillion and borrowing at ~6 trillion. **Strong structural measures are needed to improve financial health of SEBs.**
- **Private distribution business model is robust**, and many success stories have been seen in India with **average AT&C losses at ~7% vs national average of 17%**

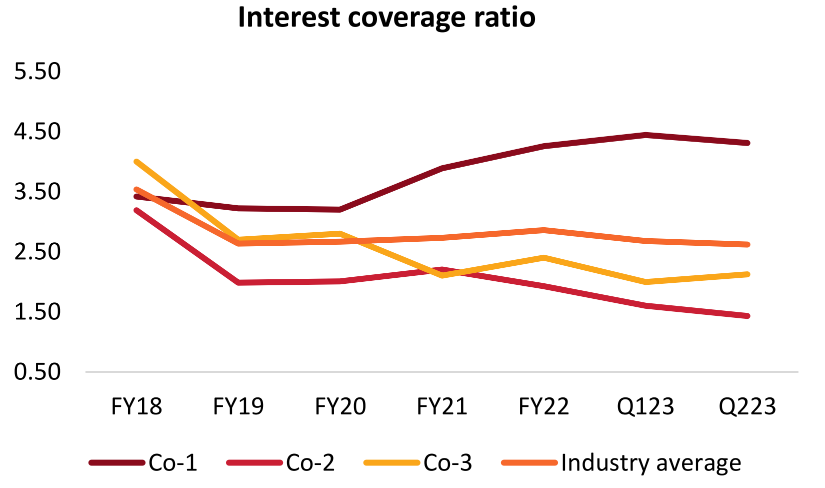
Source: Ministry of Power, Media sources, PRAAPTI Portal, ABSLAMC Research; ACS: Average cost of supply, ARR: Average Revenue Realized per unit

Transmission –Robust business models support credit profile; large transmission capex to support renewable

Existing Transmission capacity as on Oct 31,2022	
Transmission line (ckm)	463758
Sub-station capacity [MVA]	1145107
Addition proposed till FY 2030 by MoP	
Transmission lines [ckm]	50890
Substation capacity (MVA)	433575
Capex involved [Rs. Crore]	**240000**
Transmission system would be sufficient for integration of over 500 GW of RE capacity	







- With strong renewable growth, **Ministry of Power (MoP) has proposed to install additional transmission capacity for integration of over 500GW** of existing as well as new renewable capacity **that would require total capex of ~Rs. 2.4 trillion by FY 2030**
- Transmission developers with strong balance sheets and engineering companies to benefit from this large investment plan
- Collection efficiency remains healthy due to presence of central pooling mechanism with central transmission utility undertaking billing & collection.
- **Credit profile of transmission players remains comfortable with acceptable net debt/EBIDTA and comfortable interest coverage ratios**

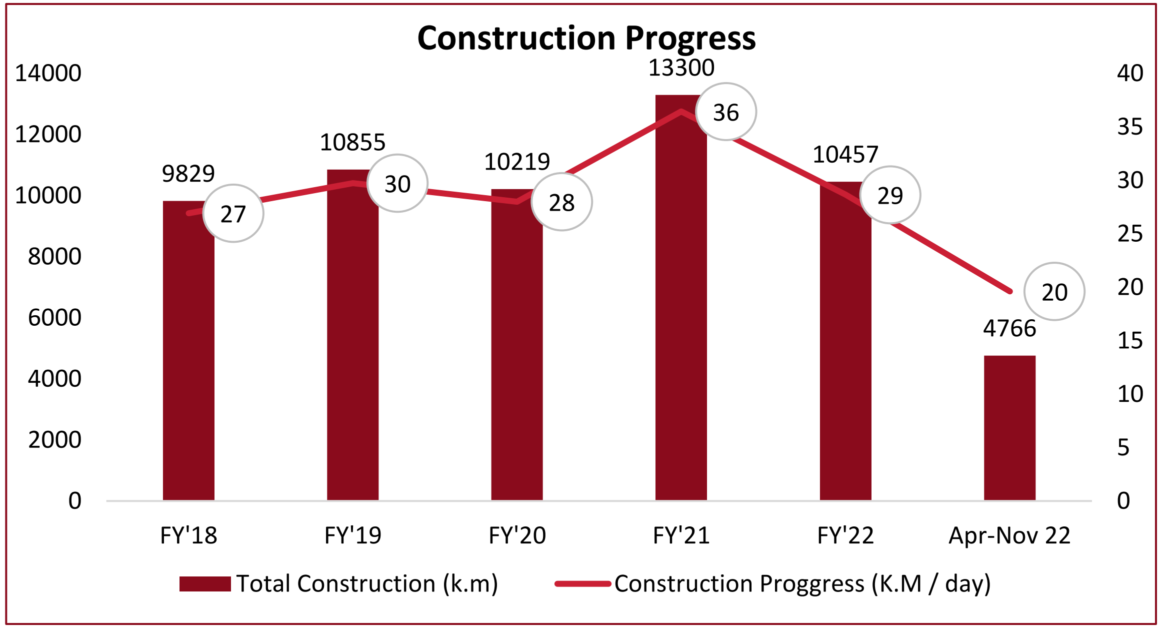
Source: MoP report (Nov 22], ABSLAMC Research; Co-1,2,3: Company 1,2 and 3

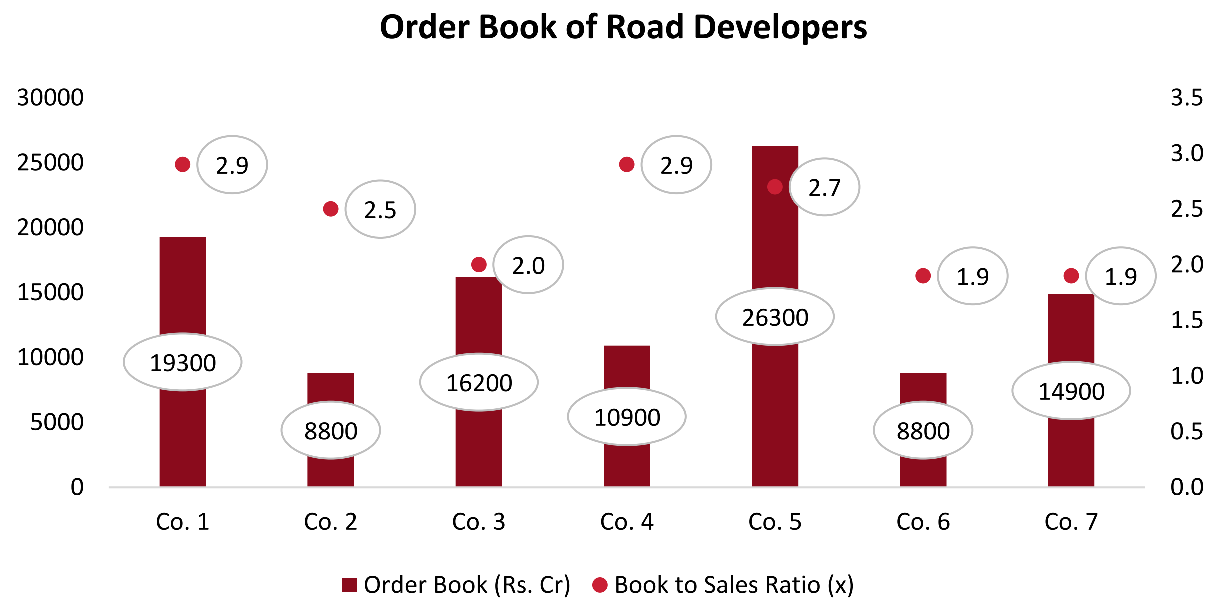
Roads

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Slowdown in project awarding and construction progress





- **Projects awarded during H1 FY23 was weaker YoY.** Lacklustre performance considering the current year awarding target of ~12000 km
- **Construction progress also lagging during current financial year due to longer-than-usual monsoon** in some parts of the country
- **Good improvement in toll collections-** Avg. Daily Toll Collection during H1 FY23 increased to Rs. 140 cr (vs Rs. 104 cr in FY22 and Rs. 62 cr in FY21)
- **Monetisation of assets to gather steam-** NHAI has floated an INVIT in FY23, and it has been offering projects on TOT basis too. The Ministry of Road Transport has identified a list of projects aggregating to 1,750 km to be monetized, through TOT and INVIT in FY23E and expects to raise ~ Rs. 2 lakh cr annually over the next few years.
- **Good revenue visibility, margins to pickup-** Average book to sales ratio of leading road contractors of ~2.5x gives comfortable revenue visibility. Operating margins expected to improve as steel and cement prices have come off. The positive impact is expected to be visible in H2 FY23.

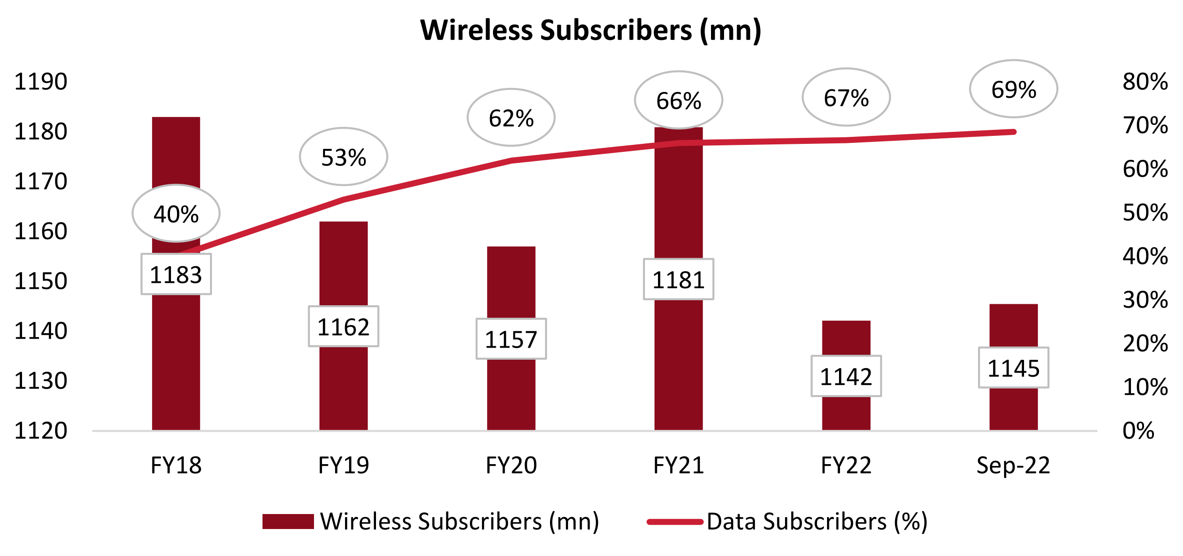
Source: News Articles, company results; Co 1 to 7: Company 1 to Company 7; TOT: Toll-Operate-Transfer, INVIT: Infrastructure Investment Trust

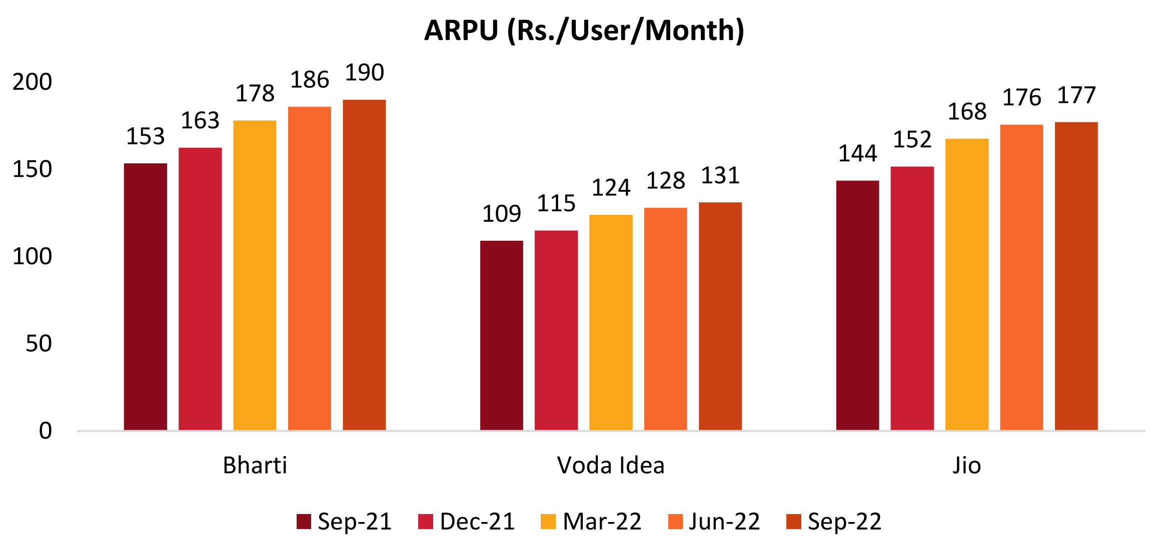
Telecom

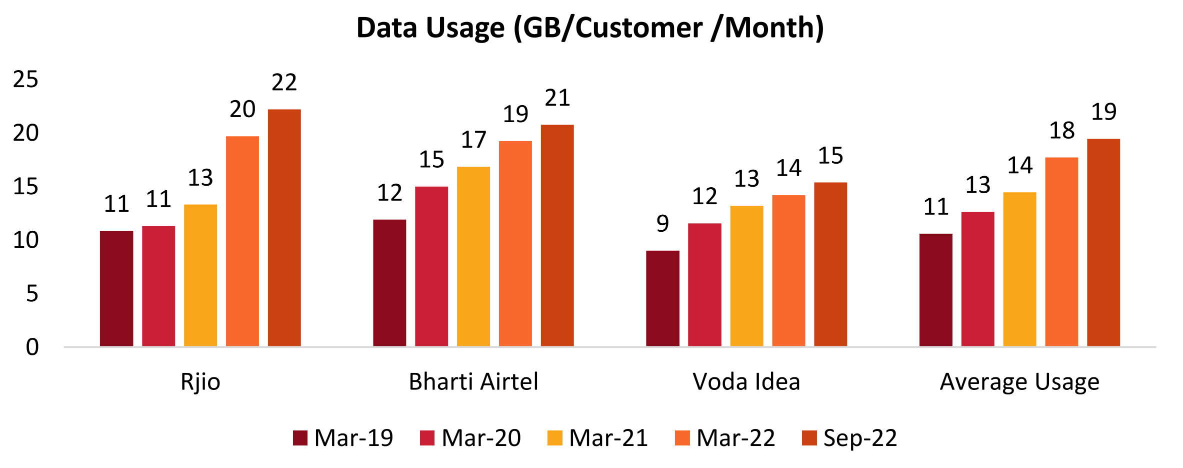
ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Continuing Consolidation in Telecom Mkt







- **<u>SIM consolidation led to fall in Subscriber base in FY22</u>**; marginal growth in H1 FY23 post this
- Bharti Airtel and Reliance Jio have been adding subscribers while Vodafone Idea has been losing market share continuously
- ARPU has been improving on the back of tariff hikes and subscriber additions (for Bharti & Rjio)
- **<u>Data Usage showing continuous improvement with the deepening penetration of 4G and will improve further with the emergence of 5G</u>**

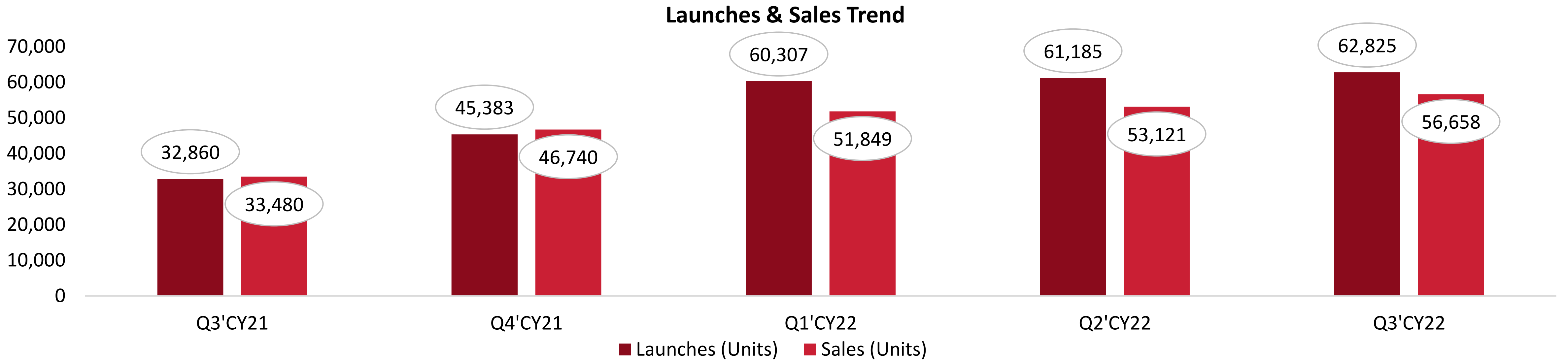
Source: TRAI & Company Results

Real Estate (RE)

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

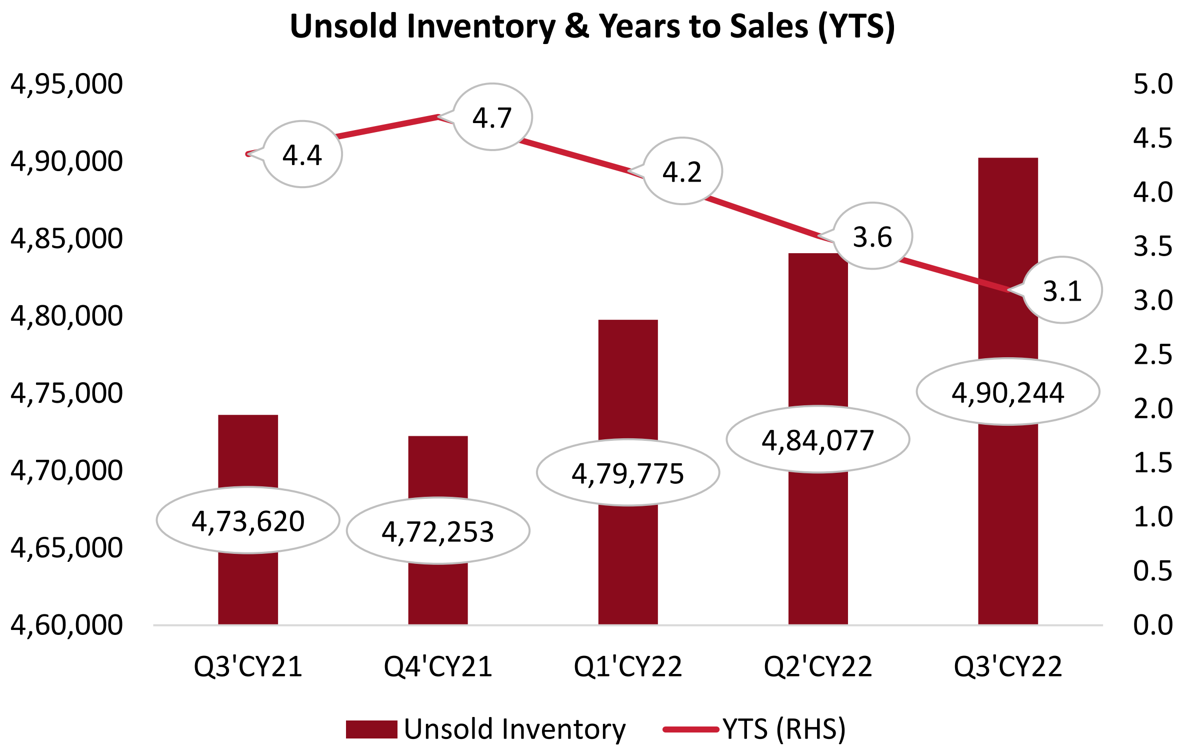
Residential RE – Strong momentum in both launches & sales

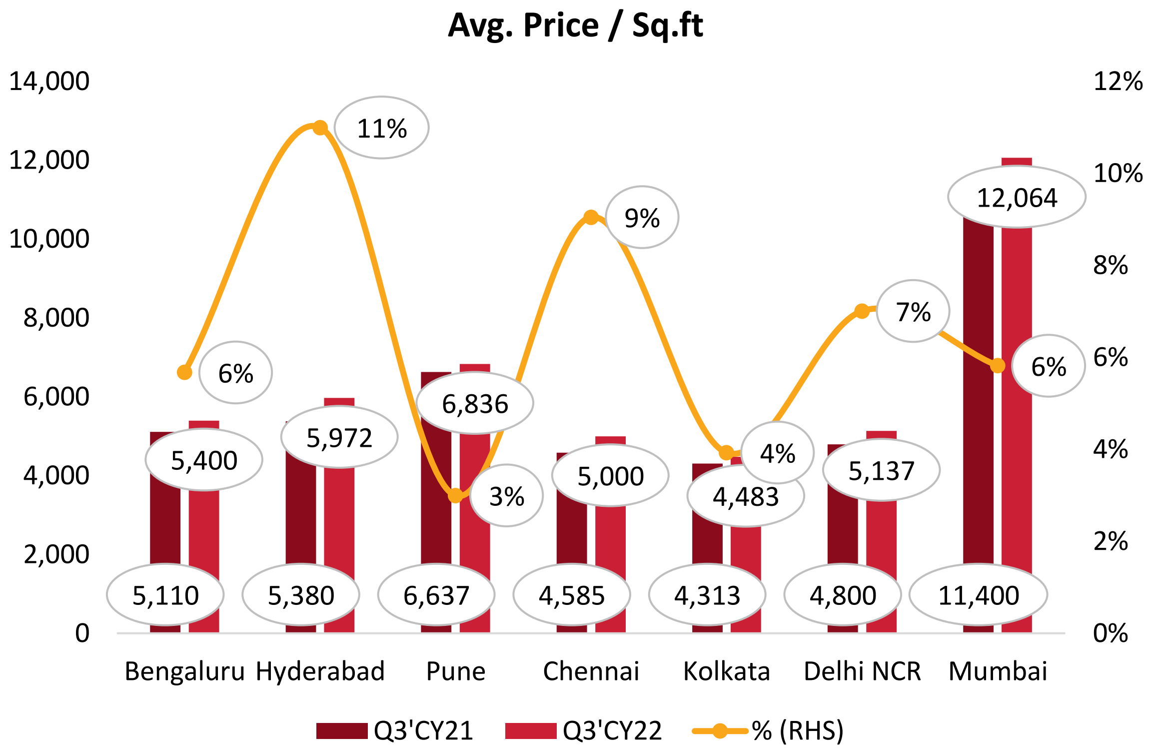


- **Launches: <u>Strong momentum reflected in latest numbers- Q3 CY22 launches up 3% QoQ and 91% YoY; 9m CY22 launches up 96% YoY</u>**
  - Launches in Bengaluru, Hyderabad, Pune and Mumbai were up by 155%, 50%, 121% & 180% YoY respectively during 9m CY22
  - Chennai and Delhi NCR registered negative growth at 18% and 3% respectively during 9m CY22.
- **Segments: <u>Majority (>50%) launches in the Rs.50 lakh-1 crore price bracket</u>**; only 11% of launches in the premium segment (>Rs. 1.5 crore)
- **Sales : <u>Strong momentum reflected in latest numbers- Q3 CY22 sales up 7% QoQ and 69% YoY; 9m CY22 sales up 98% YoY on low base</u>**
  - Sales positive in all key markets; Bengaluru, Hyderabad, Pune, Chennai, Kolkata, Delhi NCR and Mumbai sales were up by 137%, 46%, 96%, 34%, 213%, 102%, & 92% YoY respectively during 9m CY22
- **<u>Demand remained strong despite home loan interest rates going up by >150 basis points over the last 6 months (due to RBI repo hikes)</u>**

Source: JLL

Improving sales reducing Inventory Years to Sales



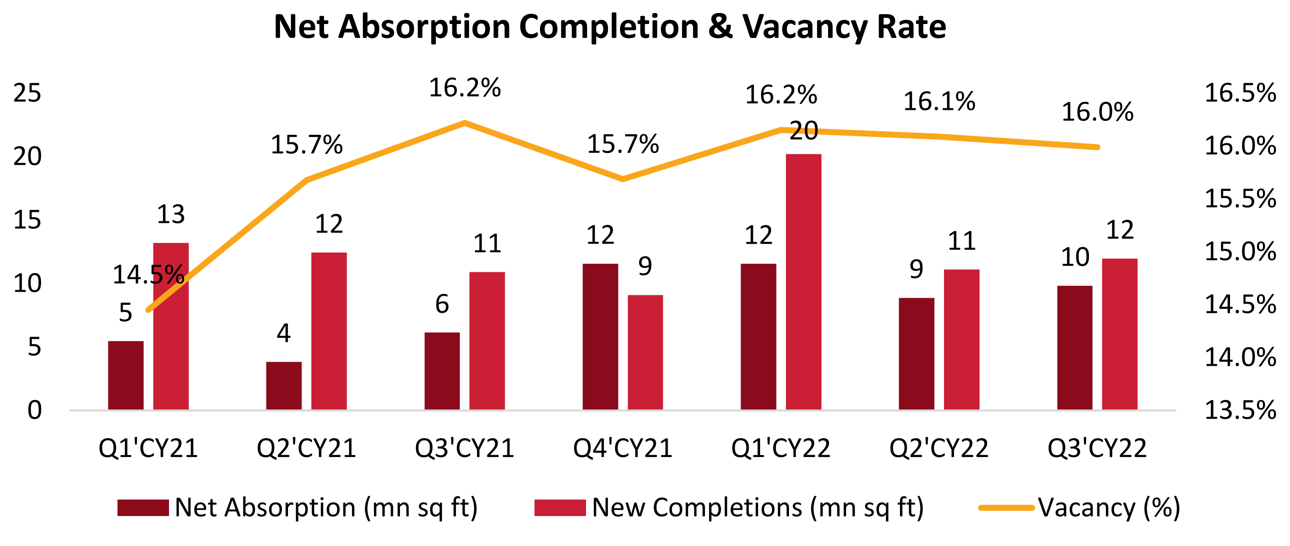


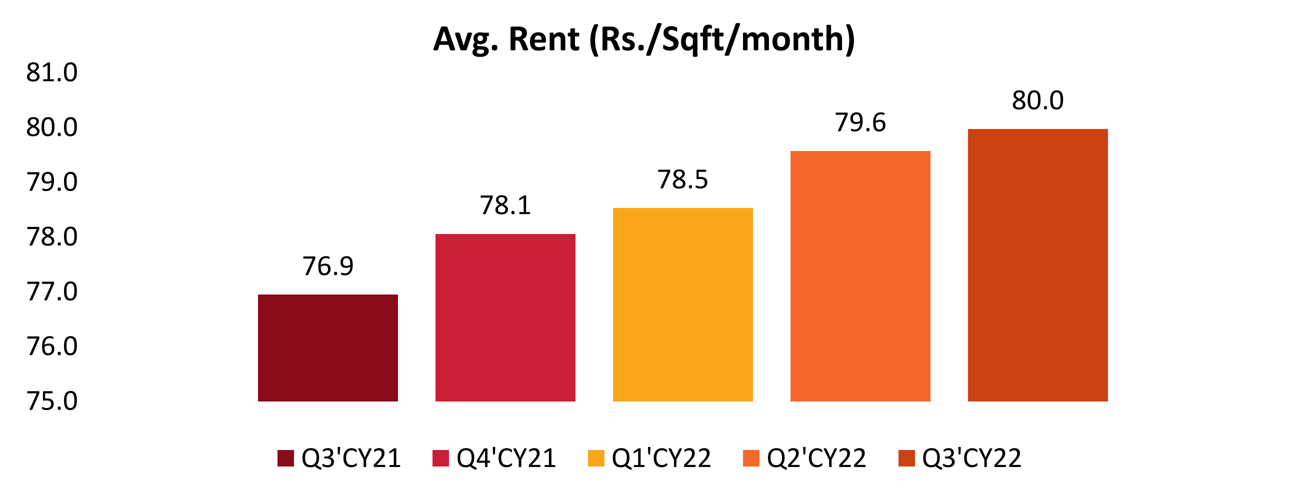
- **Unsold Inventory:** While marginally up 1.3% QoQ in absolute terms, **Years to Sales has improved over the last 12 months backed by strong sales**
  - Mumbai has the highest unsold inventory (26% share) followed by Bengaluru, Hyderabad and Delhi NCR (~ 17-18% each), Pune (9%), Chennai and Kolkata (5% each)
- **Avg Prices: Increased across all key macro markets by 3-11% YoY** as developers could pass on the cost escalations to customers given strong demand.

Source: JLL

Commercial RE –Stable vacancies as strong supply offset by healthy pre-commitments

ADITYA BIRLA CAPITAL





- **Net absorption in 9m CY22 at a three-year high of 30.3 mn sq ft (2x YoY),** backed by strong supply and healthy pre-commitments. Absorption rate improved to 70% in 9m CY22 from 42% YoY
- Average vacancy rate almost remained stable at ~16% over the last 6 quarters, with slower inventory addition and robust absorption
- Over the next 12m, space Requirement estimated at ~36-38 mn sq ft, while supply pipeline is ~50-55 mn sq ft indicating some rise in vacancies
- **Large institutional players to perform better given higher average pre-commitment levels (24% vs overall average of 11-12%)** and lower share of supply (30%)
- **Core office markets in the major cities also likely to continue having lower vacancies** vs the respective city averages.
- **Lease Rentals across all major cities remained stable** with very marginal growth in recent quarters (up 4% YoY in Q3 CY22)
- The return to the workplace is still at varying speeds across different occupier categories but is **directionally moving to a hybrid model** including working from the core office, a flexible office and home.
- **Sectors:**
  - IT/ITES share highest at 28%, Manufacturing/ Industrial at 15% during 9m CY22
  - BFSI showed highest growth in absorption at 131% during 9m CY22 to 3.62 mn sq ft; Manufacturing / Industrial sector also healthy at 82% to 4.49 mn sq ft

Source: JLL; mn.sq.ft: million square feet

DESH Bill – Will it be a Game Changer?

- Govt. has proposed to replace the SEZ Act with "The Development of Enterprises and Services Hub Bill, 2022 (DESH Bill)" that
  - expects to remove restrictions around only exports and doing away with maintaining a positive net foreign exchange
  - **allow different industry segments to set up offices and do away with industry specific zones**
  - expects to relax land continuity norms and allow partial de-notification of SEZ.
- Other key Incentives under consideration
  - Concessional corporate tax provision at 15%
  - Partial de-notification of SEZ before implementation of Bill
  - SEZs to be allowed to make domestic sales with duties to be paid on imported raw materials instead of final products
  - No net foreign exchange earnings as a criterion for evaluation of SEZ units
- Currently, about 65% of the total completed area of 3 listed REITs in India is categorised as SEZ. These **REITs have already started to de-notify their spaces from SEZ to attract companies.**
- **DESH Bill is expected to give fillip to occupancy as it can attract various sets of tenants given global IT/ITES is facing headwinds in growth**

Source: Various Media Reports

Automobile

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

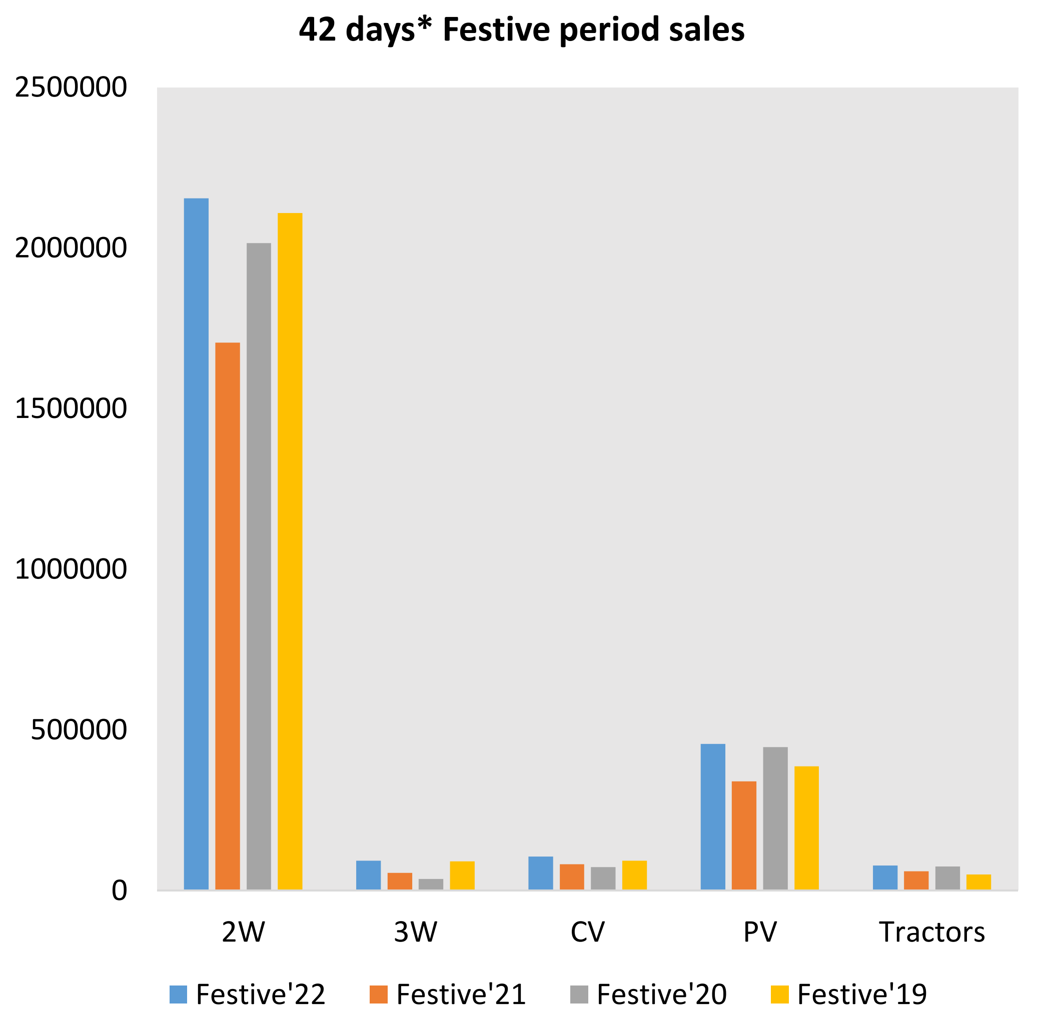
2W, 3W recovery weaker vs pre-covid; Festive'22 sales best in last 4 years

ADITYA BIRLA CAPITAL

Sales Volume	YTD [FY23/FY19]	YTD [FY23/FY20]	YTD [FY23/FY21]	YTD [FY23/FY22]
PV	√	√	√	√
2W	73%	87%	√	√
3W	62%	65%	√	√
Tractor	√	√	√	√
CV@	94%	√	√	√

YTD = Apr – Nov domestic volume; √ means >100%, @ = H1

Proj. Domestic Volume Growth	FY23 [P]	FY24 [P]
Passenger Vehicles	~22% – 24%	~8% – 10%
Two wheelers	~16% – 18%	~9% – 11%
Commercial Vehicles	~30% – 32%	~8% – 10%
Tractors	~2% – 5%	~0% – 3%



Source: FADA, SIAM, CRISIL Research, ABSLAMC Research; *42 days: F'22 (26th Sep '22 to 6th Nov'22), F'21 (7th Oct'21 to 17th Nov'21), F'20 (17th Oct '20 to 28th Nov'20), F'19 (29th Sep'19 to 9th Nov'19)

PV positive, 2W missing excitement, CV in momentum, Tractors nearing cyclical peak

- **PV:** Positive outlook and expect growth to sustain; **demand led by new model launches and Utility vehicles**; weak demand in small car segment; **chip shortage issue almost behind us**; OEMs trying to push sales of select models by offering discounts; **demand slowing down for CNG vehicles**

- **2W: Though good festive'22 sales, momentum not sustained**; excitement is missing; Volumes lower than pre-covid levels; demand is key concern; entry level segment unable to contain decline; premium segment doing better; exports subdued; EV adoption going up; **Growth in FY24 is expected to be driven by rural demand pickup before 2024 general elections aided by govt support for rural**

- **CV:** Demand growth is broad-based [across tonnages]; replacement cycle reviving; LCV has surpassed FY19 level [in H1], M&HCV still falling behind; momentum expected to continue; **FY24 expected to be the new CV cycle peak [higher than FY19 level]**; Govt's planned increase in infrastructure spending, booming e-commerce and recovery in economic activity will aid in improvement in fleet utilisation & freight rates, profitability of fleet operators

- **Tractors: Growth in FY23 has been better than expectation**; 8m-FY23 sales were highest in corresponding period in last 5 years [FY19 to FY23]; volume now closer to cyclical peak

- **Regulations: Tougher BS VI Stage 2 norms effective April 2023, will push up vehicle cost; 6 air bag norm effective Oct 2023 will push up entry level car prices**; The National Vehicle Scrappage Policy may contribute to demand from FY24 onwards.

Source: TMA, SIAM, CRISIL Research, FADA

Legal Update- IBC

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

IBC Recoveries

- Six years down the line, the effect of IBC on recoveries has been a mixed bag and it has been partially successful in its goal of changing the credit culture. However, as regards speedy resolution of distressed debt, IBC has been found to be lacking.
- As of 30th Sep 2022, close to 23000 applications (under IBC) and an amount of approximately INR 7.3 lakh crore has been resolved before admission and as per reports, **a large number of distressed entities and promoters have settled their dues or restructured their debt before the creditors could file application under IBC.**
- Further, the number of pending matters under IBC has also come down from 13,211 at the end of Dec 2021 to 12,871 at the end of Oct 2022.
- However, the large number of pending matters, slow and poor recoveries are particularly alarming and concerning. **The average time taken to resolve a case has risen from 230 days in FY18 to 679 days in first half of FY23. The recovery rate has also fallen from its peak of 40% in Q1FY20 to 30.18% at the end of Q2FY23. This indicates a haircut of appx. 70% for creditors.**
- The low recoveries are more or less a result of slow recovery which in turn is a primary result of extensive litigation (due to evolving jurisprudence), large number of cases and loopholes in IBC.
- As per reports, the Government has realized the need to overhaul the IBC by major amendments and has invited comments and suggestions from experts for fixing loopholes in IBC. A major amendment to IBC is in pipeline and might be introduced in the Budget session next year.
- **While IBC seemed to have brought a change in credit culture, unsettled jurisprudence (after appx. 6 years of its implementation) and declining recoveries makes one wonder if IBC will end up like SICA!**

Source: Economic Times, Business Standard, Money Control, IBBI, Care ratings; IBC: Insolvency and Bankruptcy Code, SICA: Sick Industrial Companies Act

Disclaimer

Aditya Birla Sun Life AMC Ltd ("ABSLAMC") /Aditya Birla Sun Life Mutual Fund is not guaranteeing/ offering/ communicating any indicative yield/returns on investments. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s).

The document is solely for the information and understanding of intended recipients only. If you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful. Wherever possible, all the figures and data given are dated, and the same may or may not be relevant at a future date. In the preparation of the material contained, ABSLAMC has used information that is publicly available including information developed in-house. Information gathered and material used in this document is believed to be from reliable sources. Further the opinions expressed and facts referred to in this document are subject to change without notice and ABSLAMC is under no obligation to update the same. While utmost care has been exercised, ABSLAMC or any of its officers, employees, personnel, directors make no representation or warranty, express or implied, as to the accuracy, completeness or reliability of the content and hereby disclaim any liability with regard to the same. Recipients of this material should exercise due care and read the scheme information document (including if necessary, obtaining the advice of tax/legal/accounting/financial/other professional(s) prior to taking of any decision, acting or omitting to act. Further, the recipient shall not copy/circulate/reproduce/quote contents of this document, in part or in whole, or in any other manner whatsoever without prior and explicit approval of ABSLAMC.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY

Thank You

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING