Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	53,134	-0.2	-8.8
Nifty-50	15,811	-0.2	-8.9
Nifty-M 100	26,698	-0.3	-12.3
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,831	0.2	-19.6
Nasdaq	11,322	1.7	-27.6
FTSE 100	7,025	-2.9	-4.9
DAX	12,401	-2.9	-21.9
Hang Seng	7,642	-0.1	-7.2
Nikkei 225	26,423	1.0	-8.2
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	110	-9.6	41.7
Gold ($/OZ)	1,765	-2.4	-3.5
Cu (US$/MT)	7,658	-4.3	-21.4
Almn (US$/MT)	2,373	-3.2	-15.4
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	79.4	0.5	6.8
USD/EUR	1.0	-1.5	-9.7
USD/JPY	135.9	0.2	18.0
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.4	0.01	0.9
10 Yrs AAA Corp	7.7	0.02	0.7
Flows (USD b)	**5-Jul**	**MTD**	**CY21**
FIIs	0.16	-0.38	-29.10
DIIs	-0.03	0.35	27.12
Volumes (INRb)	**5-Jul**	**MTD***	**YTD***
Cash	439	448	636
F&O	92,546	69,433	1,00,075

Note: *Average

Today's top research theme

Bulls & Bears: Pain continues; steepest MoM decline since Mar'20

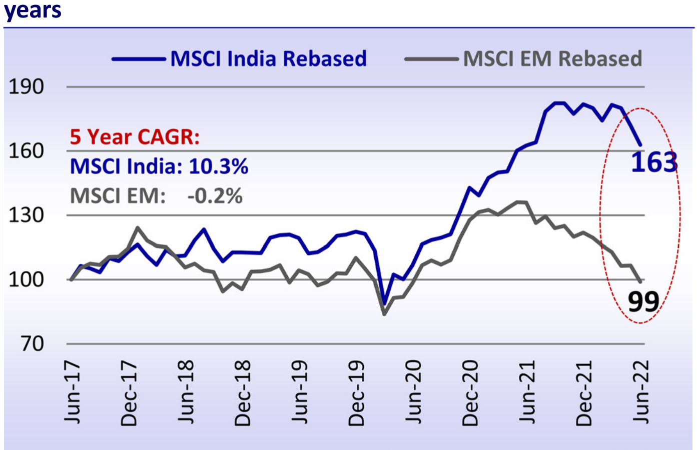
- Market slumps for the third consecutive month: The Nifty slid 4.8% MoM in Jun'22 after a 3% fall in May'22. The market closed in the red for the third consecutive month and notched the steepest MoM decline since Mar'20.
- Major economies end lower in Jun'22: Barring China (+7% MoM), Jun'22 saw key global markets such as Korea (-13%), Taiwan (-12%), Brazil (-12%), the US (-8%), MSCI EM (-7%), the UK (-6%), India (-5%), Indonesia (-3%), Japan (-3%), and Russia (-3%) end lower in local currency terms.
- FII outflows v/s DII inflows: FIIs recorded outflows for the ninth consecutive month, with outflows of USD6.3b in Jun'22 – the highest since Mar'20. Domestic inflows remained robust at USD6b in Jun'22. In CY22 till date, inflows stood at USD26.7b.
- Volatility and sharp see-saw moves to continue: The adverse macro backdrop, with heightened worries on rising interest rates, elevated crude oil prices, and liquidity tightening, has kept the market volatile and jittery. After the correction, the Nifty trades at 18.4x FY23E, below its 10-year average P/E of 19.5x. We find more value in largecaps than midcaps, given the relative valuation equation.

Research covered

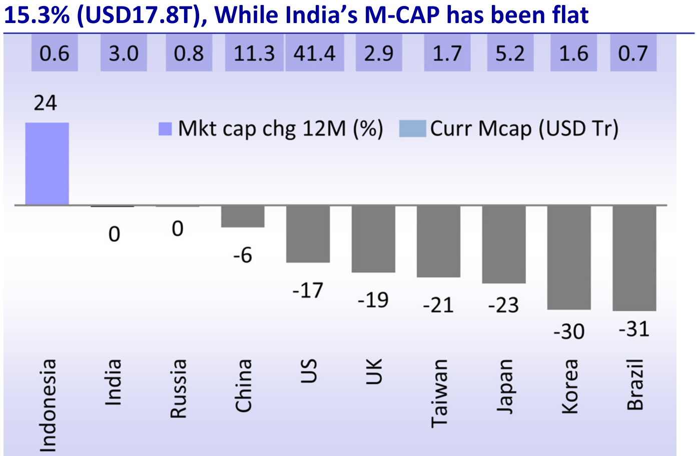
Cos/Sector	Key Highlights
Bulls & Bears	Pain continues; steepest MoM decline since Mar'20
EcoScope	Economic activity robust in May'22
Bajaj Finance	Robust loan growth with healthy addition to customer franchise
Marico	India business witnesses mid-single digit volume decline on high base
RBL Bank	Muted quarter with deposits and advances being flat QoQ
Financials	Microfinance: Improving landscape for the sector
Infrastructure	Activity subdued in 1QFY23
Healthcare	IPM grows by 16.6% YoY in Jun'22, back on the growth track

Chart of the Day: MSCI EM index flat over the last five years, while the MSCI India index outperforms by 64%

MSCI India outperforms MSCI EM by 64% over the last five years



M-CAP change in the last 12 months (%) – Global M-CAP fell 15.3% (USD17.8T), While India's M-CAP has been flat



Research Team (Gautam.Duggad@MotilalOswal.com)

Kindly click on textbox for the detailed news link

1

Auto retail sales see strong double-digit increase

Retail sales of automobiles increased in strong double-digits last month, indicating revival in demand across sectors which were hit by the pandemic the past two years. According to data available with vehicle retailers body Federation of Automobile Dealers Association (FADA) as many as 1,550,855 vehicles...

2

India expands biofuel tax benefit for ethanol and vegoils

India has expanded the excise duty exemption for biofuels to encourage the blending of higher proportions of ethanol and components of vegetable oil with gasoline and diesel, a government order said. India has expanded the excise duty exemption for biofuels to encourage the blending of higher proportions of ethanol and components of vegetable oil with gasoline and diesel, a government order said. The tax exemption will be applicable to an ethanol portion of 12%-15% blended with gasoline, up from 10% previously. For diesel, the exemption will apply to a 20% portion of alkyl esters of long chain fatty acids obtained from vegetable oils, the order said...

3

India's services activity rises to 59.2 in June, highest in 11 years

Services activity in June expanded at the fastest pace in over 11 years. This comes amid new demand orders and upturn in economic activity, following withdrawal of pandemic restrictions, a private survey showed. Data released by S&P Global on Tuesday showed that Purchasing Managers'...

4

Unemployment rate rises to 7.8% in June with loss of 13 mn jobs: CMIE

The country's unemployment rate has shot up at 7.80 per cent in June with the loss of 13 million jobs, mainly in the agriculture sector, according to the data released by economic think-tank Centre for Monitoring Indian Economy (CMIE). The massive fall in number of jobs last month was triggered by higher unemployment rate...

5

Hotel industry sees growth as daily room rates, occupancies over 2019 level

As tourism has started in full swing in the nation, Indian hotels are on a growth path as Mumbai continue to be the market leader, a new report said. Mumbai hotels recorded an occupancy rate of 80 per cent in May 2022, which was followed by Pune and Bengaluru, consulting firm HVS Anarock said in its 'Hotels & Hospitality Overview' report. In May, the average daily rate of hotels ranged at Rs 5,750-5,950, which was 6-8 per cent higher than the corresponding month in 2019, the report said....

6

Marico's India business volume declines in mid-single-digits in Q1

The India business of Marico, the consumer goods company, declined in mid-single digits by volume in the April-June quarter when sales of its Saffola cooking oil brand dropped sharply. The company's Parachute coconut oil also recorded a marginal volume decline in the quarter...

7

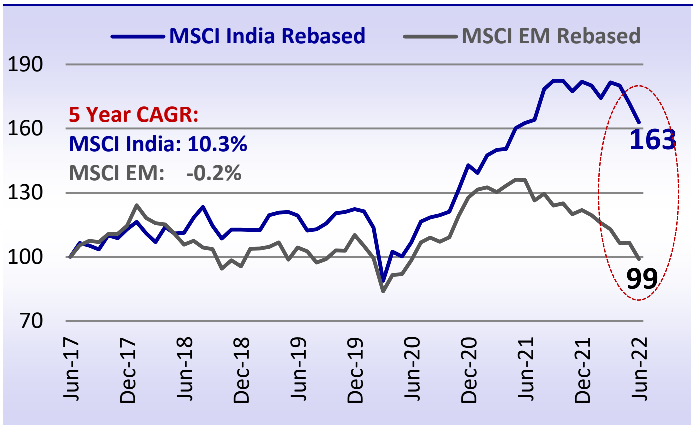
NTPC mines 61% more coal at 42.20 lakh metric tonnes in April-June

State-owned power giant NTPC on Tuesday said that its coal output grew by 61 per cent to Rs 42.40 lakh metric tonnes in April-June quarter from 26.40 lakh metric tonnes (MT) in the same period a year ago. "The three operational coal mines -- Pakri-Barwadih (Jharkhand),...

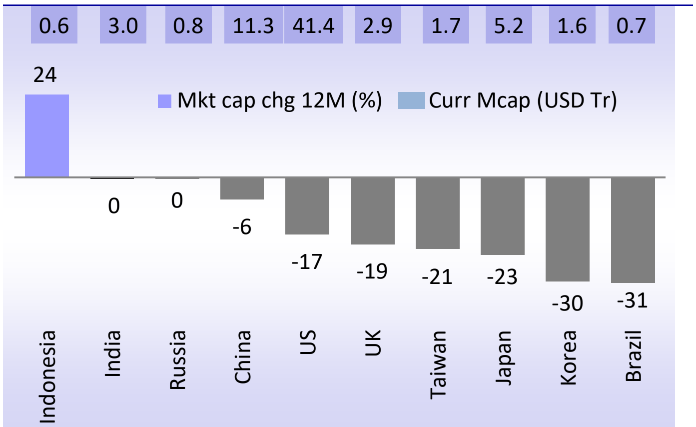
Strategy: Pain continues; steepest MoM decline since Mar'20

- **Market slumps for the third consecutive month:** The Nifty slid 4.8% MoM in Jun'22 after a 3% fall in May'22. The market closed in the red for the third consecutive month and notched the steepest MoM decline since Mar'20.
- **Major economies end lower in Jun'22:** Barring China (+7% MoM), Jun'22 saw key global markets such as Korea (-13%), Taiwan (-12%), Brazil (-12%), the US (-8%), MSCI EM (-7%), the UK (-6%), India (-5%), Indonesia (-3%), Japan (-3%), and Russia (-3%) end lower in local currency terms. Over the last 12 months, MSCI India (flat) has outperformed MSCI EM (-27%). Over the last 10 years, it has outperformed MSCI EM by 163%. In P/E terms, MSCI India is trading at an 104% premium to MSCI EM, above its historical average of 61%.
- **FII outflows v/s DII inflows:** FIIs recorded outflows for the ninth consecutive month, with outflows of USD6.3b in Jun'22 - the highest since Mar'20. Domestic inflows remained robust at USD6b in Jun'22. In CY22 till date, inflows stood at USD26.7b.
- **Corporate profit-to-GDP ratio is at a decade high in CY22:** Notwithstanding the COVID-induced gloom and weak economic recovery, corporate profit has bounced back from the lows. Corporate profit-to-GDP ratio rebounded to a 10-year high of 4.3% (long-period average of 3.7%) in CY22 as profit grew at a faster pace (up 48% YoY) (refer detailed report).
- **Volatility and sharp see-saw moves to continue:** The adverse macro backdrop, with heightened worries on rising interest rates, elevated crude oil prices, and liquidity tightening, has kept the market volatile and jittery. After the correction, the Nifty trades at 18.4x FY23E, below its 10-year average P/E of 19.5x. We find more value in largecaps than midcaps, given the relative valuation equation.
- **Top ideas | Largecaps:** Reliance Industries, Infosys, ICICI Bank, State Bank of India, Bharti Airtel, ITC, Titan Company, UltraTech Cement, Mahindra & Mahindra, Hindalco, and Apollo Hospitals.
  Midcaps/smallcaps: Cholamandalam Investment and Finance, Macrotech Developers, Gland Pharma, Star Health, Jubilant FoodWorks, L&T Technology Services, Motherson Wiring, Angel One, Sapphire Foods, VRL Logistics, and Lemon Tree Hotel.

MSCI India outperforms MSCI EM by 64% over the last five years



M-CAP change in the last 12 months (%) – Global M-CAP fell 15.3% (USD17.8T), While India's M-CAP has been flat



Economic activity robust in May'22

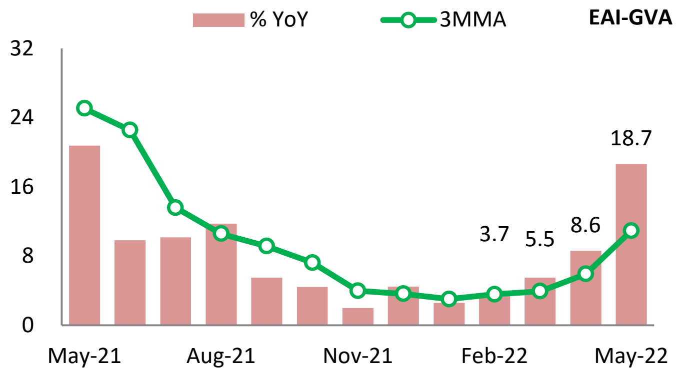
1QFY23 real GDP growth expected at ~9.5% YoY

- **Preliminary estimates indicate Economic Activity Index for India's real GVA (EAI-GVA) posted a 12-month high growth of 18.7% YoY in May'22 v/s 8.6% YoY in Apr'22. This marked improvement was driven by strong growth in the farm and non-farm sectors during the month. Additionally, even EAI-GDP clocked a strong 14.6% YoY growth in May'22 propelled by faster growth in both consumption and investment.**
- **EAI-GVA details suggest that the farm sector grew 9% YoY in May'22 (v/s 7.5% YoY in Apr'22). Besides, even the non-farm sector grew at a 12-month high of 20.5% YoY, fueled by faster growth in both services and industrial activities.**
- **Total consumption increased faster at 18.6% YoY in May'22, driven by high growth in all indicators including fiscal spending. Therefore, even after excluding fiscal spending, private consumption jumped at a 13-month high of 17% YoY in May'22 (v/s 6.9% YoY in Apr'22). Investments too surged 35.8% YoY in May'22, at a 13-month high.**
- **A monthly analysis of select indicators for Jun'22 denotes slight moderation from May'22 but growth has still been strong even in Jun'22. Indicators such as PMI manufacturing, toll collections, FXR, currency in circulation and Google (retail and recreation) mobility, among others have all remained healthy in Jun'22.**
- **Overall, our in-house estimates suggest that the economic activity growth was much better in May'22 and it is likely that it has remained strong even in Jun'22. Therefore, we believe that the real GDP/GVA growth could be ~9.5% YoY each in 1QFY23. However, they will be lower than market consensus of 14.0%/13.5% YoY, respectively.**

Preliminary estimates indicate India's EAI-GVA posted a 12-month high growth of 18.7% YoY in May'22 v/s 8.6% YoY in Apr'22.

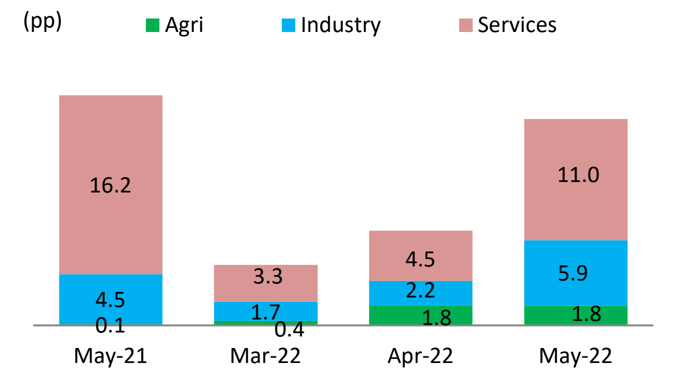
- **EAI-GVA grew at a 12-month high of 18.7% YoY in May'22…:** Preliminary estimates indicate India's EAI-GVA posted a 12-month high growth of 18.7% YoY in May'22 v/s 8.6% YoY in Apr'22. This marked improvement was driven by strong growth in the farm and non-farm sectors during the month. Growth in non-farm sector was led by both industrial and services sectors in May'22 *(Exhibits 1, 2)*.
- **…and EAI-GDP grew at a 13-month high of 14.6% YoY:** EAI-GDP too grew at a 13-month high of 14.6% YoY in May'22 compared with 9.5% YoY a month ago. The high growth was led by sharp uptick in both consumption and investment during the month *(Exhibits 3, 4)*.

India's EAI-GVA grew 18.7% YoY in May'22…



Please refer to our earlier report for details

…due to faster farm and non-farm sector growth



Source: Various national sources, CEIC, MOFSL

Bajaj Finance

BSE SENSEX	S&P CNX
53,134	15,811

Bloomberg	BAF IN
Equity Shares (m)	602
M.Cap.(INRb)/(USDb)	3428 / 43.2
52-Week Range (INR)	8044 / 5236
1, 6, 12 Rel. Per (%)	-1/-14/-7
12M Avg Val (INR M)	9384
Free float (%)	44.1

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Net Income	218.9	264.5	318.0
PPP	143.1	170.9	208.0
PAT	70.3	98.9	128.1
EPS (INR)	116.5	164.0	212.3
EPS Gr. (%)	58.6	40.7	29.5
BV/Sh. (INR)	725	865	1,045
Ratios			
NIM (%)	10.4	10.1	9.9
C/I ratio (%)	34.6	35.4	34.6
RoA (%)	3.7	4.2	4.4
RoE (%)	17.5	20.6	22.2
Payout (%)	17.2	14.3	15.4
Valuations			
P/E (x)	48.6	34.5	26.7
P/BV (x)	7.8	6.5	5.4
Div. Yield (%)	0.4	0.4	0.6

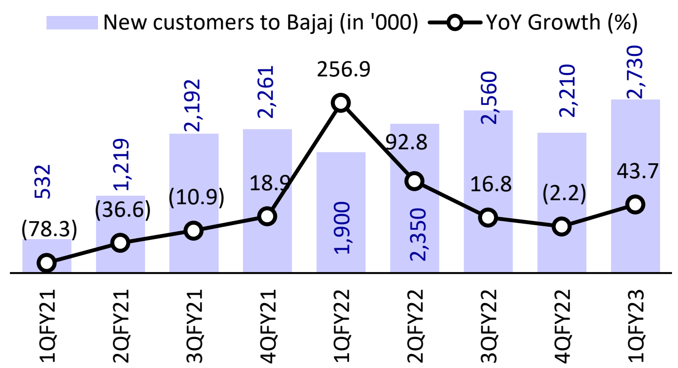
CMP:INR5,662

Robust loan growth with healthy addition to customer franchise

New loans booked perhaps slightly below expectations because of absence of IPO financing

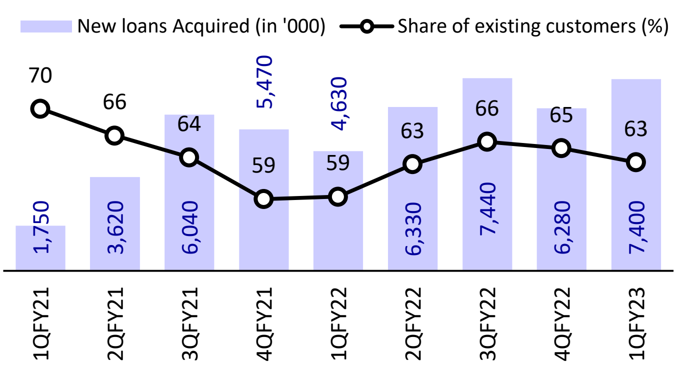
- BAF acquired 2.7m new customers, the highest ever quarterly increase in its customer franchise. Total customer franchise stood at 60.3m (up 19% YoY). New customer acquisition run-rate was healthy (up 2.7m) in 1QFY23.
- New loans booked rose ~61% YoY at 7.4m on account of the low base due to the second COVID wave. New loans booked stood at 7.4m, ~2% higher than that in 1QFY20, which was the last normal quarter of the fiscal unaffected by the COVID-19 pandemic.
- Reported core AUM stood at INR2.04t, up ~31% YoY and 6% QoQ. In 1QFY23, core AUM (total AUM adjusted for short-tenor IPO financing) grew by INR119b.
- Consolidated core AUM growth of 31% YoY suggests that disbursements were strong across product segments (including Auto Finance). Core AUM grew by ~6% QoQ.
- CRAR fell ~100bp QoQ to 26.2% (suggesting utilization of capital, led by strong growth).
- Deposit book stood at INR341b, up 22% YoY and 9% QoQ. The robust deposit growth of 9% QoQ was positive, suggesting BAF prioritized deposit growth in 1QFY23, when deposit growth seemed like it was slowing down in 2HFY22.
- Consolidated liquidity surplus stood at INR115.5b (v/s INR101b in 4QFY22). Surplus liquidity rose to 5.7% of core AUM (v/s 5.3% of core AUM in 4QFY22). BAF could have perhaps built upon the liquidity buffer in anticipation of a further rise in borrowing costs in subsequent months.

Robust new customer acquisitions



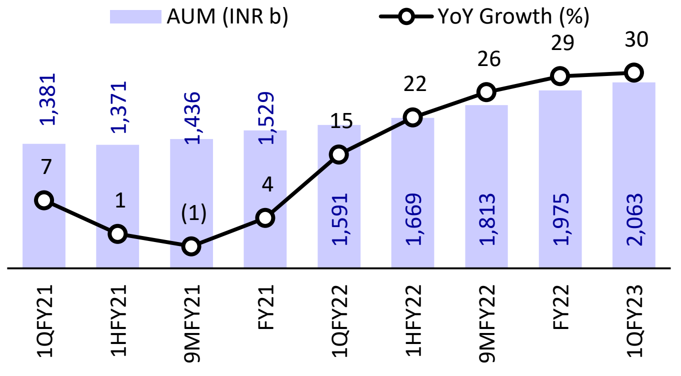
Source: MOFSL, Company

Share of existing customers suggests that BAF is gaining a greater share of the customer wallet



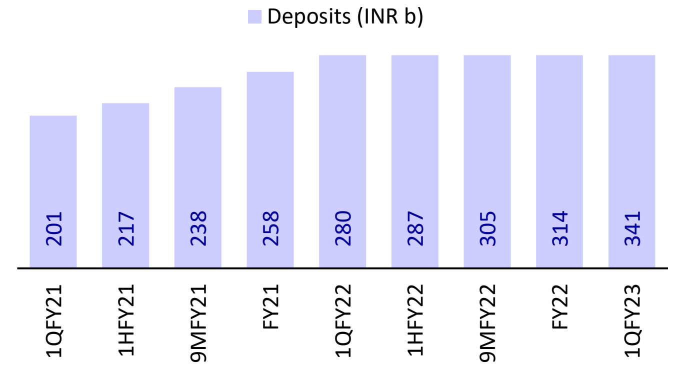
Source: MOFSL, Company

AUM rose 6% QoQ and 31% YoY, implying strong disbursements. Adjusted for IPO financing, AUM was up INR119b in 1QFY23



Source: MOFSL, Company

Deposit book stood at INR341b, up 22% YoY and 9% QoQ



Source: MOFSL, Company

Marico

BSE SENSEX	S&P CNX
53.,134	15,811

marico

Stock Info

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	637 / 8
52-Week Range (INR)	606 / 456
1, 6, 12 Rel. Per (%)	1/10/-8
12M Avg Val (INR M)	1094
Free float (%)	40.5

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	95.1	103.2	116.6
Sales Gr. (%)	18.2	8.5	13.0
EBITDA	16.8	20.2	23.7
Margin (%)	17.7	19.5	20.3
Adj. PAT	12.3	14.5	17.1
Adj. EPS (INR)	9.5	11.2	13.3
EPS Gr. (%)	5.5	18.1	18.3
BV/Sh.(INR)	26.0	29.0	30.3
Ratios			
RoE (%)	37.2	40.8	44.8
RoCE (%)	34.0	37.2	40.6
Payout (%)	97.4	91.4	90.5
Valuations			
P/E (x)	51.5	43.6	36.9
P/BV (x)	18.8	16.9	16.2
EV/EBITDA (x)	36.9	30.6	26.1
Div. Yield (%)	1.9	2.1	2.5

CMP: INR493 TP: INR600 (+22%) Buy

India business witnesses mid-single digit volume decline on high base

Highlights from MRCO's 1QFY23 pre-quarterly update

Macro view: Sector continues to experience muted demand

- Consumption trends have remained subdued as the rising retail inflation has exerted pressure on the share of wallet for the FMCG sector.
- Consumers have evaluated consumption in non-essential categories and downtraded or moved to smaller packs for essential categories.
- Premium discretionary categories have been better off due to lower base and lower consumption dip in the higher income consumer bracket.
- Weak consumption sentiment has continued in rural India.

1QFY23 performance: Consolidated revenue grows in low-single digit

- **Consolidated revenue** growth has been marginally higher YoY during the quarter.
- **India**: Business volume has declined in mid-single digit, however, excluding Saffola Oils volume has increased marginally.

International business: High-teen growth on constant currency basis

- In 1QFY23, MRCO's international business has delivered constant-currency growth in high double-digits despite a strong base.
- All markets have continued to exhibit strength and sustained profitable growth.

Costs and margins: Operating margin likely to expand YoY

- As the company consumed high-cost inventory, gross margin is expected to remain near the same level QoQ and expand on YoY basis.
- A&D spends have grown in low teens YoY. Management expects operating margin to expand and MRCO to post a reasonable operating profit growth on YoY basis.
- Effective tax rate will be 250-300bp higher compared with last year due to expiration of fiscal benefits in one of the manufacturing units.

Segments

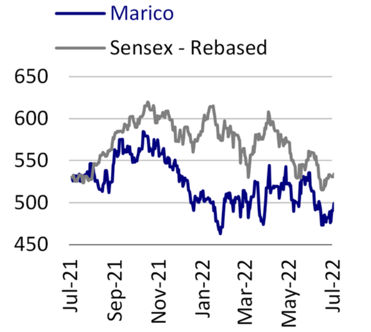
- **Parachute Coconut Oil** volumes have been marginally lower YoY. Due to deflation in Copra prices, it passed on the value benefits to consumers.
- **VAHO** has grown in low-single digits in value terms.
- **Saffola Oils** volume has declined in double digits due to high in-house consumption in base quarter and downtrading from premium to mass edible oils in current quarter. The management has decided to put a threshold margin over volume growth.
- **Foods segment** has experienced a weak quarter due to sharp decline in immunity-led categories such as honey and high in-home consumption of Oats in the base quarter.
- **Premium Personal Care** has recorded a robust growth across portfolios and the **Digital First** brands remain on track to meet the internal targets.

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	59.5	59.5	59.6
DII	8.8	8.7	10.2
FII	25.2	25.7	24.1
Others	6.5	6.2	6.0

FII Includes depository receipts

Stock performance (one-year)



Valuations appear inexpensive given strong earnings potential and healthy ROE

- After achieving only ~6% sales CAGR over FY15–20, MRCO's sales momentum is better now than in the past, with double-digit sales CAGR expected over FY20–24. This is likely to sustain beyond FY24 as well, propelled by: a) the ongoing topline growth momentum in each of MRCO's core segments, b) significantly higher growth rates as well as targets in the Foods portfolio, and c) the INR4.5–5b targeted from its 'digital first' range of products.
- The much-needed diversification could lead to higher multiples than in the past. Valuations at 43.6x/36.9x FY23E/FY24E EPS appear inexpensive given the potential of strong earnings growth (v/s earlier) and a healthy ROE of over 30%. We maintain our **BUY** rating on the stock with a TP of INR600.

RBL Bank

BSE SENSEX	S&P CNX
53,134	15,811

Bloomberg	RBK IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	48.8 / 0.6
52-Week Range (INR)	226 / 74
1, 6, 12 Rel. Per (%)	-18/-27/-62
12M Avg Val (INR M)	2369
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	40.3	44.6	50.9
OP	27.5	31.9	39.2
NP	-0.7	10.2	15.5
NIM (%)	4.1	4.3	4.4
EPS (INR)	-1.2	17.1	26.0
BV/Sh. (INR)	NM	NM	52.0
ABV/Sh. (INR)	210.5	224.6	245.7
Ratios			
RoE (%)	201.0	213.1	233.6
RoA (%)	-0.6	7.9	11.1
Valuations			
P/E(X)	-0.1	0.9	1.2
P/BV (X)	NM	5.1	3.3
P/ABV (X)	0.4	0.4	0.4

CMP: INR81

Muted quarter with deposits and advances being flat QoQ

Wholesale advances grew sequentially, while retail portfolio declined

RBL Bank (RBK) has released its quarterly update underscoring its 1QFY23 business numbers. Here are the key highlights:

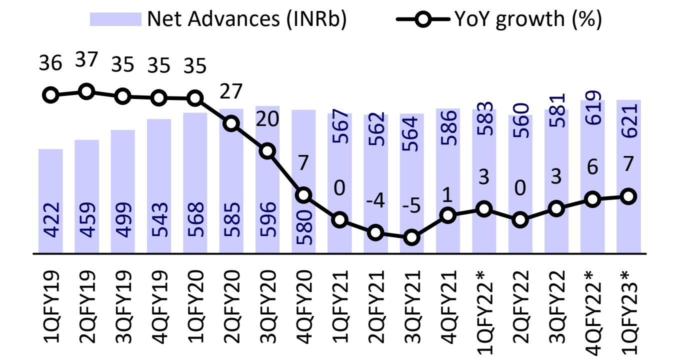
- **RBK reported a 6.5% YoY increase in gross advances to INR621b. However, advances were flat QoQ. While wholesale advances grew 4% QoQ, retail advances declined 3% sequentially. As a result, the mix of retail-to-wholesale moderated partially to 51:49 (v/s 52:48 in 4QFY22).**
- **The deposit base increased 6.4% YoY to INR792b (flat QoQ). CASA reported healthy growth of 13.8% YoY (2.3% QoQ); TD rose marginally at 2.6% YoY (down 0.9% QoQ). Thus, the CASA ratio improved 70bp QoQ to 36.0%. Overall, retail deposits (as per LCR) grew 2% QoQ, ahead of total deposits. Management plans to continue with its strategy of improving the share of retail deposits in the total liabilities.**
- **Asset quality metrics continue to see improvement in 1QFY23, in line with the improving trend witnessed in the last few quarters.**
- **LCR for the bank stood at 149% (v/s 138% in 4QFY22).**
- **Valuation and view: In 1QFY23, RBL Bank posted sequentially flat loans and deposits. Wholesale book grew while retail book declined. Deposit franchise is improving steadily led by moderate growth in retail deposits.**

Business trends as of 1QFY23

INRb	1QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)
Gross Advances	583	619	621	6.5%	0.2%
Total Deposits	745	790	792	6.4%	0.3%
-CASA	251	279	285	13.8%	2.3%
-Term Deposits	494	511	507	2.6%	(0.9)%
Retail LCR Deposits	295	307	314	6.3%	2.1%
CASA ratio (%)	33.7%	35.3%	36.0%	230bp	70bp
Liquidity Coverage Ratio (%)	134%	138%	149%	1500bp	1100bp

Source: MOFSL, Company

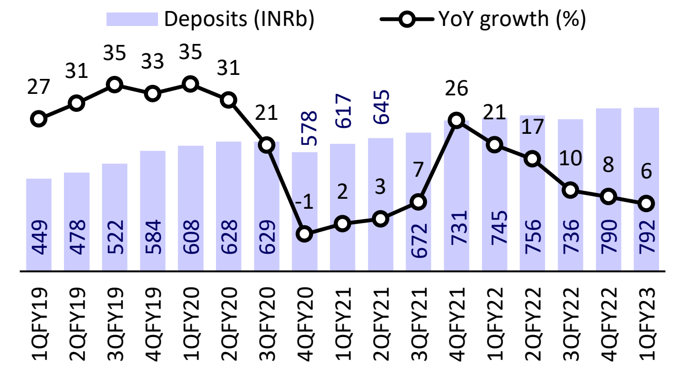
Gross advances flat QoQ (+6.5% YoY)



* indicates Gross Advances

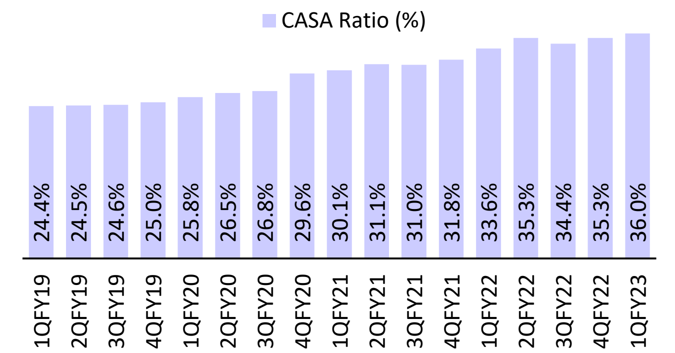
Source: MOFSL, Company

Deposits flat QoQ (+ 6.4% YoY)



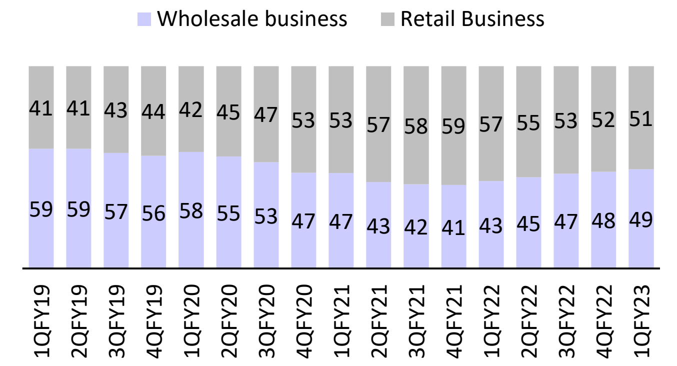
Source: MOFSL, Company; Net Advances projected for 2QFY21

CASA ratio improves 70bp QoQ to 36.0%



Source: MOFSL, Company

Retail:Wholesale mix stands at 51:49



Source: MOFSL, Company

Financials

Microfinance: Improving landscape for the sector

Growth trajectory to witness a strong revival

CRISIL Ratings hosted a webinar to discuss the improving landscape for the Microfinance sector and the outlook ahead. The discussion revolved around a range of topics, including: a) historical challenges faced and the bounce back of the sector, b) recent RBI regulations, c) improving asset quality, and d) increasing use of technology and data analytics. Here are the key takeaways:

The Microfinance sector has witnessed multiple shocks in the past, but has always emerged stronger

- The Microfinance landscape has started to stabilize after going through several challenges over the past few years, with the pandemic being the most recent one. Some of the recent headwinds were the Andhra Pradesh crisis, floods in specific pockets, demonetization, and the COVID-19 pandemic. The pandemic was the most challenging one as it significantly affected the income-earning and cash flow generation ability of the borrower, and thus impacted asset quality.
- Adequate capitalization and sufficient provision buffer have helped NBFC MFIs to tide over the crisis. The uninterrupted funding by Banks and government (through several schemes) has also helped players during the current crisis.
- Low leverage levels, with adjusted gearing at 4.5x in the last two financial years, minimized debt obligations with little pressure on repayments
- Over the last few months, the sector has seen improved collections, led by a momentum in the underlying economy. Growth has picked up in 4QFY22, aided by a robust momentum in disbursement. According to CRISIL, NBFC MFIs are on the threshold of strong growth and an earnings revival.

Expanded addressable market, courtesy of recent RBI regulations

- RBI introduced a new regulatory framework for the MFI sector after almost a decade. There are two clear benefits of this: a) pricing flexibility will support profitability, and b) expansion in the addressable market will lead to a sustainable growth in the long term.
- The former allows for adoption of risk-based pricing and therefore lends the ability to better price customers and distinguish between good and bad ones. It helps the institutions to better navigate the increase in the cost of funds.
- The latter will lead to a higher addressable market as Microfinance players are now allowed to lend to households with income up to INR0.3m p.a. in urban as well as rural areas.
- Due to these changes, the opportunity size for the sector has widened and will result in a sustained growth over the medium term.
- CRISIL expects a growth of 25-30% for NBFC MFIs in FY23.

Emerging signs of a turnaround in asset quality

- The COVID-19 pandemic was one of the worst crises faced by the sector as it significantly impacted the income-earning and cash flow generation capability of the borrowers, and thus adversely impacted asset quality.

- Over the last few months, the sector has seen a smart bounce in the form of improved collections, led by a momentum in the underlying economy.
- Collection efficiency has started to improve and is now back to pre-COVID levels.
- Though collections have picked up, there is still a reasonable amount of assets in the restructured book, which needs to be monitored closely. Collection efficiency on the restructure book currently remains low at 60%-65%.
- CRISIL expects 30+/90+ DPD for NBFC MFIs to reduce to a range of 3.5-5.0%/2.0-3.0% by the end of FY23.
- The MFI segment remains susceptible to credit cost as the borrower segment is vulnerable – any adverse event can affect cash flows and collections.
- Hence, NBFC MFIs need to strengthen its risk management process to better prepare themselves for possible future shocks.

Other highlights

- Several NBFC MFIs have raised lending rates by 150-200bp over the last few months.
- Credit cost for the industry was never beyond 2% for the industry in the last decade. The idea of additional provisioning on a counter-cyclical basis is a good strategy going forward.
- With a huge amount of data, there is immense scope for an extensive use of data analytics to better understand and predict customer behavior.
- Due to this, costs may rise in the near term. However, all these investments will provide much better returns over time and enhance our overall financial performance.
- The overlap of lending institutions has increased with many products and options for the borrower. This will help in better awareness and lead to a better credit culture.
- States that export labor have done poorly in terms of a recovery as a small portion of the people has moved back to urban areas, and thus income levels remain affected. For instance, West Bengal.
- States that depend on agricultural income are not as adversely impacted as others.
- States, which suffered during demonization like Rajasthan and UP, have matured and done relatively well during the current crisis.
- MFI credit cost should return to 1% over the long term as credit discipline will improve with rising awareness.
- Only one-third of addressable households have access to credit, and therefore there is no challenge in growth for the sector.
- The additional impact of a rise in interest rates will be marginal on borrowers and will not affect growth and asset quality.

Infrastructure

Activity subdued in 1QFY23

Project awarding muted so far in FY23; asset monetization focus for NHAI

- **Project awarding by agencies such as NHAI has been muted so far in FY23 with projects of 169km only being awarded to date. NHAI, which ended FY22 with awards of 6,306 km, is looking to award ~6,500km of projects in FY23. Road construction by NHAI on FY23 YTD basis stands at 777km.**
- **Toll collections, however, have been very strong with FASTag-based toll collections clocking an all-time high daily run-rate of INR1.4b in Jun'22.**
- **Asset monetization is the key focus area for NHAI to raise funds outside of budgetary resources. Toll Operate transfer (ToT) bundle – seven was awarded in Mar'22 and NHAI has prepared a pipeline to monetize 1,750km of assets in FY23. This is critical to support the pace of Road project awarding.**
- **Key projects like Dedicated Freight Corridor are expected to be completed by mid-2024, according to the revised timeline of Dedicated Freight Corridor Corporation of India (DFCCIL).**

NHAI awards a mere 169km of projects to date in FY23; targets to award 6,500km in FY23

NHAI ended FY22 with a very strong project awarding of nearly 6,306km, which was much above expectations. FY23 so far has been muted with only 169km of projects being awarded. While 1Q is typically a seasonally weak period for project awarding, it would still require significant catch up in the remaining part of the year. NHAI is targeting to award 6,500km of projects in FY23. In terms of construction, NHAI is looking to construct 5,000km of projects in FY23 and has so far completed 777km.

FASTag toll collections continue the upswing

After robust collections in Apr'22 (6.4% MoM growth on daily average basis), the momentum has again picked up in Jun'22. FASTag toll collection stood at INR1.43b per day in Jun'22 (~+2% MoM on daily average basis). Improving traffic movement and FASTag implementation are leading to strong toll collections. Improved toll collections are critical for faster monetization of Road assets by the Road Ministry and would also help companies that are looking to monetize their existing toll assets.

Asset monetization – the prime focus of the Ministry of Road Transport

The Ministry of Road Transport has identified a list of projects aggregating to 1,750km to be monetized during FY23. This would be through the ToT and InVIT routes. The last ToT, which was awarded by NHAI, was in Mar'22 that generated INR63b. Asset monetization remains a key focus for the Ministry to raise resources outside of the budgetary allocations.

High input costs to impact margins of contractors adversely

The prices of steel and cement have been on the rise, which are impacting margins for most of the contractors adversely. While the prices are coming down now, the impact is likely to stay until 1HFY23. While most contracts have a pass-through clause built in, such high increases in costs have implications on the margins.

Diversified players with strong order book and balance sheet well placed

Players with: a) presence in two or more segments, b) decent order book in hand and c) strong balance sheets are better placed to capitalize on the opportunity. **Our top pick in this space is KNR Construction.**

Healthcare

Performance of top companies in Jun'22 (YoY)

Company	MAT gr. (%)	Jun'22 (%)
IPM	6.6	16.6
Mankind	21.0	41.0
Ipca	23.3	32.7
Intas	15.2	27.8
GSK Pharma.	9.9	21.9
Sun Pharma.	1.3	21.7
Torrent	15.5	21.7
Alkem	4.3	21.2
Zydus	2.6	20.9
Cipla	0.4	16.5
Emcure	3.9	16.1
Macleods	13.5	15.6
Abbott	4.6	14.9
Aristo	9.4	13.7
Glenmark	-21.0	13.4
Micro	8.0	10.6
Dr. Reddy's	8.3	8.5
USV	5.6	7.3
Lupin	2.3	5.7
Pfizer	-2.3	5.2
Sanofi	0.1	4.7

IPM grows by 16.6% YoY in Jun'22, back on the growth track

- IPM exhibited a growth of 16.6% YoY in Jun'22 v/s a 3.3% YoY decline in May'22. The growth in Jun'21 was 14.3%.
- Gynecology/Dermatology/Pain/Gastrointestinal were major drivers of IPM growth, up 33.2%/23.9%/23.1%/21.4% YoY.
- Growth was dragged lower by a 6.1% YoY decline in vaccines.

For the quarter-ending Jun'22, volumes/new products decline YoY, dragging IPM growth

- For the quarter-ending Jun'22, IPM grew 2.1% YoY.
- Prices grew 5.4%, while volumes/new products declined by 2.5%/0.8% YoY.

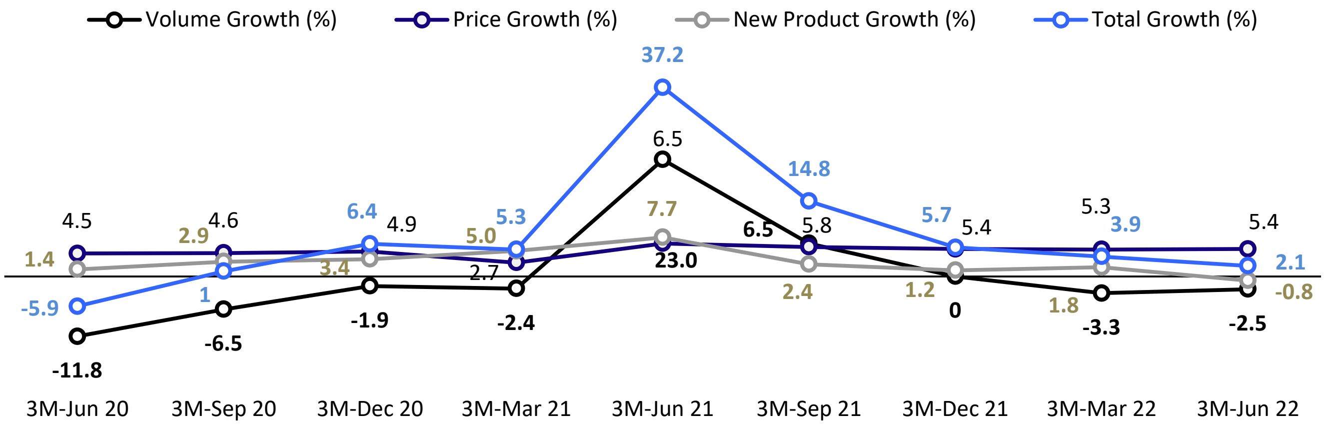
On a MAT basis, Respiratory, Pain/Analgesics, Gynecology, and Gastrointestinal drive YoY growth for the 12-month ending Jun'22

- On a MAT basis, industry growth came in at 6.6% YoY.
- Respiratory/Pain/Gynecology grew 17.5%/16%/14.4% YoY.
- Vaccines/Anti-Infectives sales declined by 19.8%/2.8% YoY, impacting overall growth.
- Respiratory posted a YoY decline in Apr'22 and May'22, but the same has picked up with a 16.4% growth in Jun'22.

Mankind, Ipca, and Intas are the top performers in Jun'22

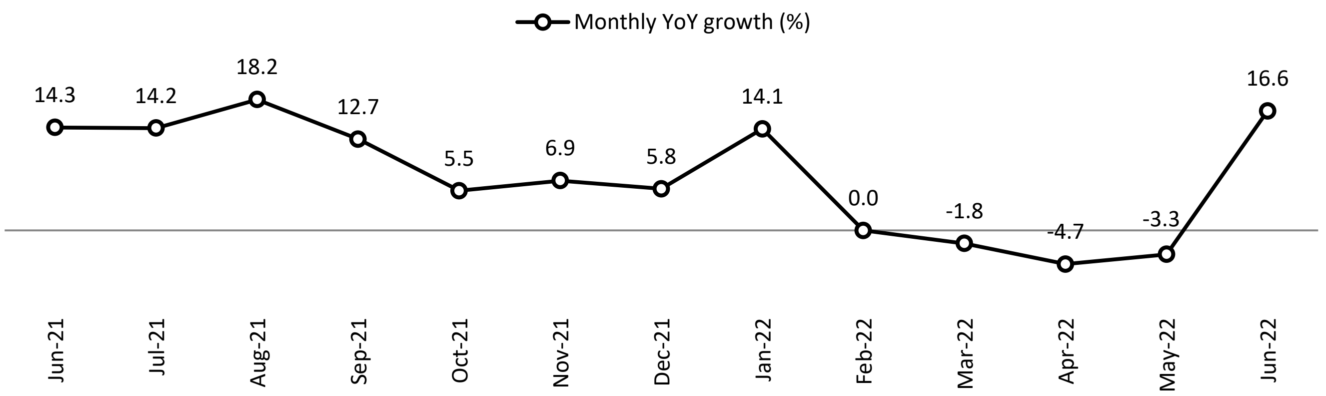
- Among the top 20 corporates, Mankind Pharma (+41% YoY), Ipca Laboratories (+32.7% YoY), Intas Pharmaceuticals (+27.8% YoY), GlaxoSmithKline Pharmaceuticals (+21.9% YoY), Sun Pharmaceutical Industries (+21.7% YoY), and Torrent Pharmaceuticals (+21.7% YoY) grew notably higher than IPM growth.

Growth in the quarter-ending Jun'22 dragged volume increases and growth in new products



Source: AIOCD, MOFSL

IPM back on the growth track after declining for three-months



Source: AIOCD, MOFSL

Brigade Enterprises: Looking at 8 msf of residential and 2 msf of commercial launches in FY23; Pavitra Shankar, ED

- Looking at 20-25% increase in sales based on new launches
- There are supply chain constraints currently, not getting materials fast enough
- Looking at 8 msf of residential and 2 msf of commercial launches in FY23
- Demand for products from Brigade has risen hence have ability to increase prices
- Have raised prices by 5-8% in last financial year; will be raising prices further in this financial year
- Products in Chennai and Hyderabad are priced higher than Bengaluru
- Brigade Citadel project has done well

Read More

M&M Financial Services: Expect to double balance sheet in next 3 years; Ramesh Iyer, VC & MD

- With borrowing cost going up, we are passing on the rise to customers
- Product mix is taking care of net interest margin
- Can maintain NIM at 7.5%
- Expect to double balance sheet in next 3 years
- H1 does show an increase in NPAs in rural areas
- Increase in vehicle prices should aid disbursals growth

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