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Industry Insight - September 2020

Rating Action Analysis for the Month of September 2020

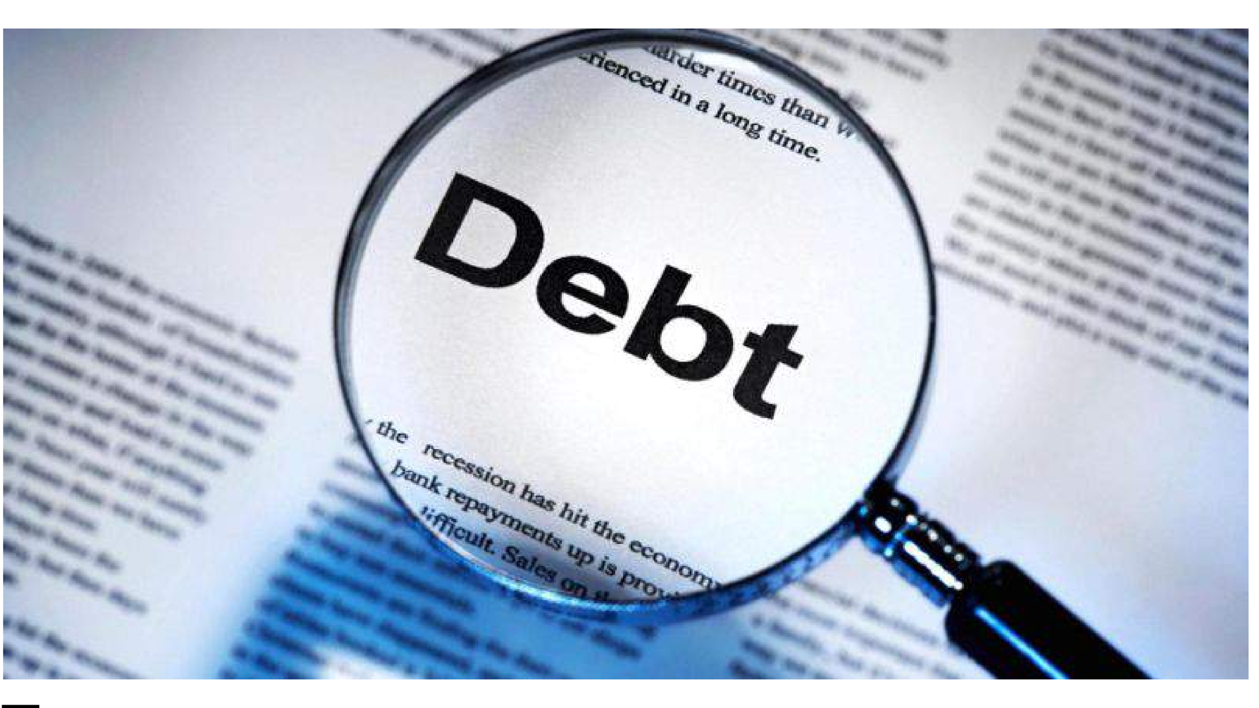
Industry Name	Upgraded	Downgraded	Retained	Unaccepted	Grand Total
Engineering - Construction	16	131	177	10	334
Trading	8	126	180	11	325
Consumer Food	8	136	162	6	312
Textile	12	99	131	14	256
Finance - NBFC	1	19	226	8	254
Construction - Real Estate	7	64	131	6	208
Steel & Iron Products	16	54	96	2	168
Engineering - Industrial Equipments	6	46	75	4	131
Agriculture	5	46	50	4	105
Educational Institutions	5	35	61	2	103
Logistics	5	42	52	3	102
Automobiles - Dealers & Distributors	5	31	46	2	84
Pharmaceuticals & Drugs	10	18	48	1	77
Ceramics/Marbles/Granite/Sanitaryware		28	44	4	76
Diamond & Jewellery	3	18	52	3	76
Other	122	577	1305	78	2082
Grand Total	229	1470	2836	158	4693

Management Speak

We all knew it would be bad, but how bad is far beyond prediction. India's contraction of 24% in the June quarter was the worst among its peers. All other emerging economies, barring China, contracted in the range of 5-19%. China grew 3%. The outbreak has hit the Indian economy just as it started to witness the start of a recovery from a growth slowdown originating in 2018. Covid has only accentuated this situation. The reason behind this economic contraction in different parts of the world had more to do with lockdown and restrictions in the economy than any underlying vulnerabilities. Subsequently, as these restrictions were lifted, there was a swift improvement in economic activity in these countries. The recovery in India could be slower compared to some of its peers because of a higher coronavirus infection rate and continued localized restrictions on mobility. This has more to do with domestic factors. The outlook still remains clouded as the pandemic continues to spread, raising the risk of further localized lockdowns. Going ahead, the pace of re-openings and the ability to flatten infection curves will determine India's economic recovery and its relative attractiveness among emerging markets.

Being proactive, providing right guidance and corrective steps will help to survive the difficult times and we have been committed to that.

Distressed debt market likely to dry up with RBI recast plan



The market for distressed assets may not revive for at least six months as bankers and investors grapple with the fallout of the plan.The distressed asset market, which witnessed deals estimated in the range of Rs 60,000-65,000 crore in FY20, is almost non-existent this year so far, said people involved in distressed asset sale. This fiscal year, there have been negligible sales.

The recent restructuring scheme may lead to assets not becoming NPAs," said Vishal Kampani – Managing Director, JM Financial Group that also runs an asset reconstruction company. "We'll have to watch this space over the next 12 months. There will be a slowdown. No one would want to become non-performing assets. One will work with the banks to restructure."S&P Global Ratings predicts that Indian banks' NPA-to-loan book ratio could spike by around 50% in the current fiscal year.

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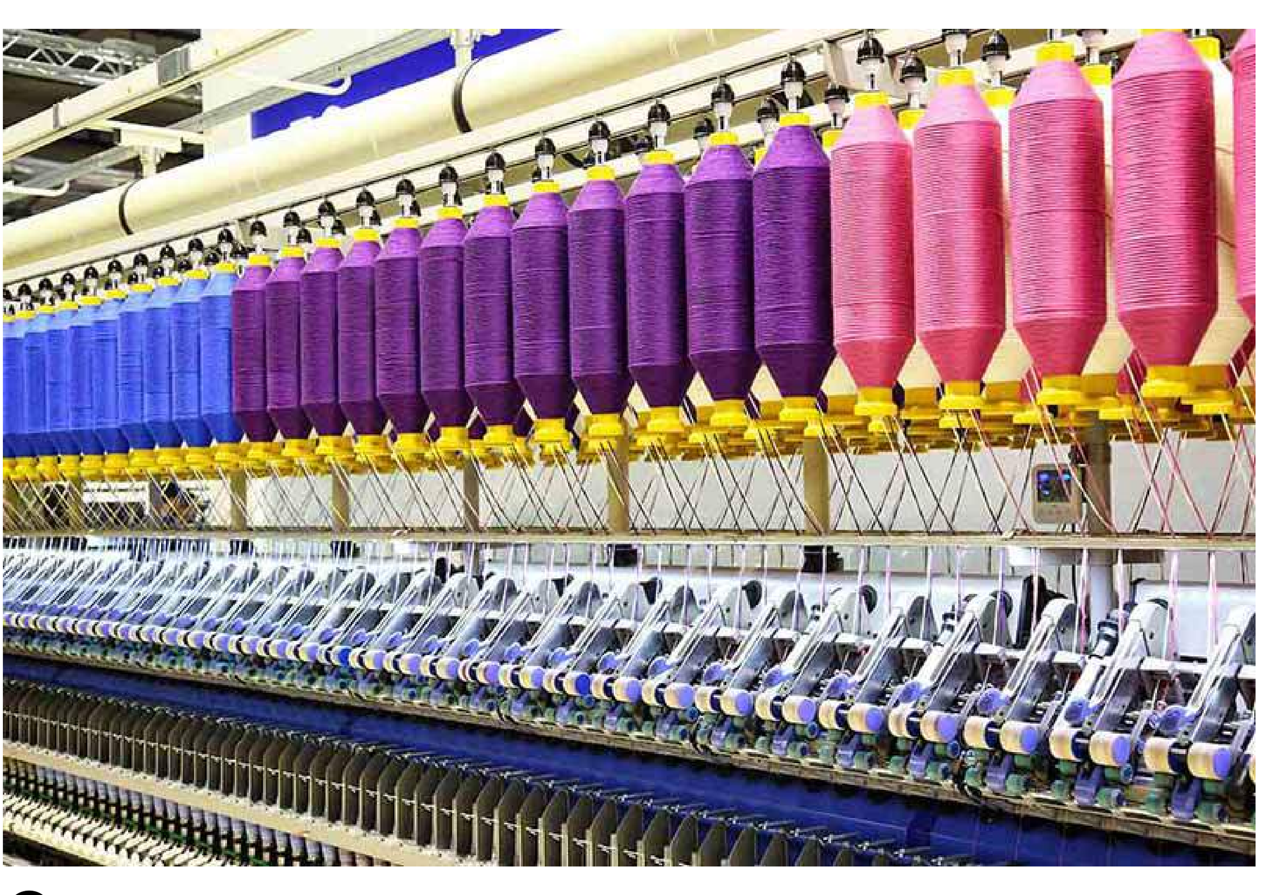
US restrictions on textile imports from China may benefit India: Icra



On September 14, the US imposed restrictions on the import of certain products originating from the Xinjiang Autonomous Region in China, citing concerns on illegal and inhumane forced labour in the region, rating agency Icra said in a report.Xinjiang is a major cotton-producing belt, which accounts for an estimated 80-85 per cent of China's cotton output.With China being the leading apparel exporter, accounting for more than 35 per cent of the global trade and more than three-fourths of China's cotton originating from the Xinjiang region, any extension of the ban to a wider base in China could trigger a material shift in global apparel trade in coming years," Icra Ratings Senior VP and Group Head Jayanta Roy said.

Several major apparel exporters from India have either already started receiving increased orders or are in active discussions with large international buyers, looking at increasing their sourcing from India. The shift, which was previously expected to take place gradually over the medium term, could be expedited in the light of this recent development, the report added.

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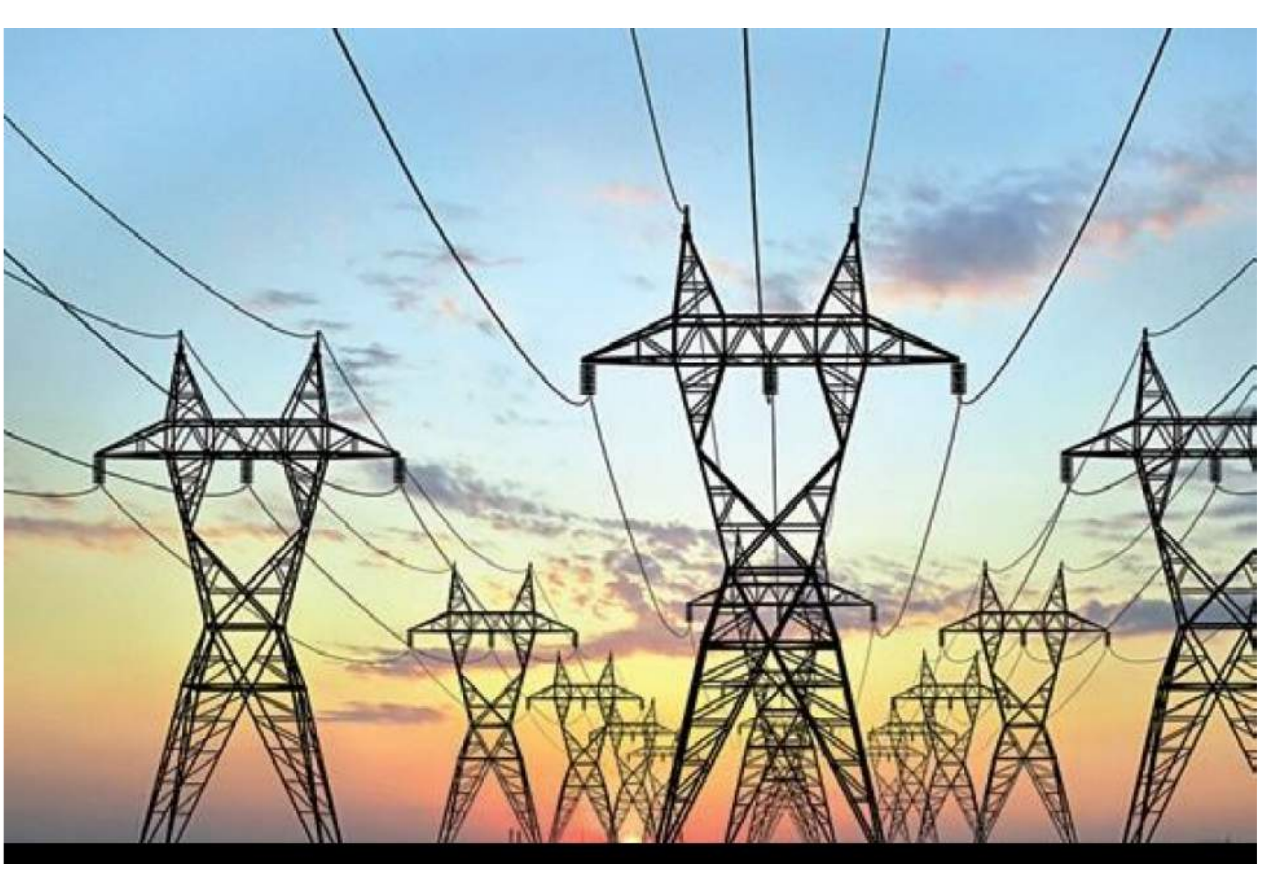
Over Rs 70K crore worth of loans sanctioned to discoms under liquidity package: Government



Finance Minister Nirmala Sitharaman in May this year had announced a Rs 90,000 crore liquidity infusion into cash-strapped discoms for clearing their outstanding dues till March 2020.

Now, the government is in the process of enhancing this package to Rs 1.2 lakh crore factoring in discoms outstanding dues till June this year. Some states had urged the central government to hike this liquidity package by factoring in outstanding dues of April and May as well.

"As against Rs 90,000 crore of liquidity infusion package announced by thegovernment, Rs 70,590 crore worth of loans have been sanctioned and Rs 24,742 crore has already been disbursed/released till September 16, 2020," said Power Minister R K Singh in a written reply in the Rajya Sabha.

The government is infusing liquidity in the power sector through Power Finance Corporation (PFC) and REC Ltd to enable the sector to maintain power supplies as cash flows had plummeted during lockdown imposed to contain the spread of COVID-19.

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Quick service restaurants staging a quicker recovery among organised eatery businesses

The quick service restaurants (QSR) are staging a relatively quicker recovery in the otherwise gloomy organised eatery businesses. Industry officials said large QSR operators like McDonald's, Domino's, KFC and Burger King have already recovered about 50-60% of their pre-pandemic business while rebound at casual dining restaurants are still creeping up weeks after the central government allowed them to serve liquor.

Thanks to spikes in home deliveries and in takeaways, India's QSR segment that accounts to about 5% of the overall Rs 4.23 lakh crore food services business, has regained about 60% of its pre-pandemic business.

In an analyst call earlier this month, Jubilant FoodWorks, which operates Domino's Pizza and Dunkin' Donuts, said it expects near-normalcy of operations by the end of FY21 and the restaurant chain is witnessing gradual improvement in operating hours as well as customer confidence.

However, for pubs and restaurants with bars, the rebound is still a far cry. This is not so good news for them as they were pinning great hopes on booze to start in their outlets.

"Without liquor we were only 10% of the pre-Covid times but with liquor now, we are running almost 30-40%," said AjitAjmani, whose company operates My Bar restaurants.

All QSRs are looking at reducing their spaces in the short term. They are trying to squeeze the space as much as possible to make it more efficient. People are taking their coffee and going out. Unlike in the pre-Covid days, when they would sit there," Renjhen of Anarock said.

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India to maintain sugar export subsidies for third year in a row: Report

India is set to maintain sugar export subsidies for a third year in a row in a bid to reduce surplus stocks and ensure domestic prices don't fall below a government benchmark, three sources involved in policy making told Reuters.The subsidies are designed to boost exports from the world's second biggest sugar producer though increased shipments could put further pressure on global prices, which have already fallen more than 10% so far this year.

"Sugar export incentives for 6 million tonnes could be announced before the end of this month," said a government official involved in policy making who declined to be named.

India approved an export subsidy of Rs 10,448 ($142.20) per tonne in the 2019/20 season which ends on Sept. 30 in a move that helped sugar mills export a record 5.5 million tonnes.India needs to export more than 5 million tonnes of sugar to ensure domestic prices don't fall below a benchmark price set by the government, as a crash in local prices would make it harder for mills to pay cane growers on time, the officials said.

Exporting sugar in the coming marketing year would be more challenging for India as top producer Brazil has been flooding the global market with its surplus sugar, Prakash Naiknavare, managing director of the National Federation of Cooperative Sugar Factories Ltd, said.

India, which is expected to start the new marketing year with carry forward stocks of 11.5 million tonnes, could produce 31 million tonnes of sugar next season, well above expected domestic demand of about 26 million tonnes, Naiknavare said.

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