

FORESIGHTS

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SOVEREIGN RATINGS: A FRESH PERSPECTIVE

CareEdge has entered the domain of sovereign and global scale ratings through its subsidiary, CareEdge Global IFSC Ltd (CareEdge Global). We have initiated our coverage with 39 countries, including both developed and emerging economies from the Asia Pacific, Americas, Europe, and Africa. Transparency and objectivity are the guiding principles of our methodology. What sets our approach apart is its tailored focus on factors that we believe are crucial yet often undervalued in traditional methodologies.

Corporate India: Cautiously optimistic amid global uncertainties
Credit quality assessment for H1 FY25



Anchored in Change: Alang-Gujarat's Ship Recycling Industry Poised for Major Growth in CY25, Eyes 10% CAGR by CY28



Hotels Demand to Continue to Outstrip Supply, RevPAR to Grow at 8-9% in FY25



NOTE FROM **SACHIN GUPTA**

Chief Rating Officer & Executive Director



In a significant milestone for India's financial sector, CareEdge Ratings has launched its first international rating agency, CareEdge Global Ratings. This development is momentous for several reasons, not the least of which is that it positions India on the global stage of credit ratings, challenging the dominance of the United States-based "Big Three" agencies: Standard & Poor's, Moody's, and Fitch.

CareEdge Global aims to offer a unique perspective—one that focuses on emerging economies. This is a much-needed shift in the world of credit ratings, as it balances the scales that have historically tipped toward a Western perspective. The rise of emerging economies like India, Brazil, and South Africa has created the need for more inclusive and diverse financial narratives, and CareEdge Global has taken up the challenge.

Addressing the Gaps in Sovereign and Corporate Credit Ratings

The launch of this agency comes at a crucial time when corporations, particularly in emerging markets, are increasingly looking to raise debt capital externally. Many of these corporations have found that traditional global credit rating agencies fail to fully understand the unique dynamics of emerging markets. Factors like local demand, political landscapes, and regional economies often differ substantially from those in developed markets, yet most rating methodologies are not tailored to account for such distinctions.

CareEdge Global brings a much-needed emerging-market lens to sovereign and corporate credit ratings. By recognizing the

particular challenges and opportunities of emerging economies, it aims to provide a more holistic and accurate picture of credit risk for international investors.

India's Domestic Credit Performance and the Outlook

Simultaneously, CareEdge Ratings released its half-yearly Credit Ratio report for Indian corporations, revealing a moderation in credit quality. The credit ratio, which reflects the balance of upgrades to downgrades in corporate credit ratings, has declined to 1.62 from 1.9. This moderation is not solely due to domestic factors but largely driven by external elements such as geopolitical tensions, a slowing Chinese economy, and ongoing supply chain disruptions.

While sectors like infrastructure, banking, and financial services continue to perform robustly, smaller and mid-sized firms, particularly in industries reliant on external trade like textiles and chemicals, have been adversely affected. For the outlook to remain favorable, buoyant domestic demand will be critical, especially as India enters its festive season. Rural demand, driven by a good monsoon, along with easing food inflation, will be important indicators to watch.

Navigating a Complex Global Environment

The global economy is currently grappling with uncertainties ranging from high inflation to volatile commodity prices. Domestically, India's central bank, the Reserve Bank of India (RBI), has opted to maintain interest rates at current levels but has shifted its stance to "neutral." This signals the potential for rate cuts in the near future, possibly by as much as 50 basis points over the next two quarters.

This shift comes at a time when bond issuances are increasing, as banks moderate their credit growth. With slower deposit growth, banks are under pressure, and this has led to more corporations turning to bond markets for capital. The inclusion of Indian government securities (G-Secs) in multiple emerging market debt indices is expected to draw greater international interest, further boosting bond issuances. This diversification of funding sources could ease some of the pressure off the banking system and provide corporations with an alternative route to secure financing.



NOTE FROM RAJANI SINHA

Chief Economist

CareEdge created history, by becoming the first Indian company, to foray into sovereign ratings through its subsidiary CareEdge Global IFSC Ltd (CGIL). We have initiated our coverage with 39 countries, including developed and emerging economies from Asia Pacific, Americas, Europe and Africa.

We are making our foray at a time when there is a concerning trend of increasing global debt, particularly in the wake of the pandemic. Global public debt as a percentage of GDP is estimated to rise from 84% in 2019 to 94% in 2024 and further increase to 99% by 2029, as per IMF. This trend is observed in both advanced and emerging economies, though the latter face higher interest burdens and borrowing costs due to increased credit risks. There have been instances of increasing defaults and sovereign debt crisis following the pandemic and that brings to fore the need for deeper understanding of the debt dynamics.

Our methodology is based on five pillars of Economic Structure and Resilience, Fiscal Strength, External Position and Linkages, Monetary and Financial Stability, and Institutions and Quality of Governance. We have assigned relatively higher weightage of 50% combined to Economic and Fiscal pillar and 50% combined to the remaining three pillars. Under these pillars we have considered the parameters/ indicators that has a bearing directly/ indirectly on country's ability to repay its debt.

While we maintain consistency in our approach across all economies, we are deeply aware of the unique challenges and opportunities presented by the emerging economies. It is worth noting that emerging economies' share in global debt is projected to increase from 26% in 2019 to 35% by 2029. This shift underscores the growing need for a deeper understanding of emerging economies' dynamics.

Our focus is on transparency of the methodology. That would also explain our higher weightage to the Economic and Fiscal pillar, that are relatively more quantitative in nature. Having said that we do have an overlay of qualitative assessment for some of the parameters as relevant for the economy being assessed.



The differentiation in the methodology is also reflected in selection of some parameters that we feel are crucial, but often not given due importance in traditional methodologies. For instance, we have placed emphasis on capital investment as a primary factor, recognizing its critical role in a country's future growth potential. Similarly, we have considered the extent of domestic funding of government debt as a key indicator, acknowledging its implications for debt servicing risks. These are just a few examples of how we have incorporated parameter-level elements to capture sovereign risk more accurately.

Just to give a glimpse, we have assigned the following Long term foreign currency ratings, Germany AAA, US AA+, Japan AA-, UK AA-, China A, India BBB+. We have covered the ratings of all 39 countries and brief rationale for some of them later in this publication. I hope you find our work insightful.



SOVEREIGN RATINGS: A FRESH PERSPECTIVE

CareEdge has entered the domain of sovereign and global scale ratings through its subsidiary, CareEdge Global IFSC Ltd (CGIL). Our methodology is based on five pillars: Economic Structure and Resilience, Fiscal Strength, External Position and Linkages, Monetary and Financial Stability, and Institutions and Quality of Governance. We have created a unique approach by focussing on transparency, giving higher weightage to more objective and data driven parameters. Another differentiator is our consistency, applying the same thresholds across all economies. Additionally, we consider parameters that we believe are critical for sovereign assessment yet often undervalued in traditional methodologies. We have initiated our coverage with 39 countries, including both developed and emerging

economies from the Asia Pacific, Americas, Europe, and Africa (refer table below). Key findings from our sovereign risks' assessment are outlined below:

- Most of the developed economies are in the high safety categories (AAA to A) with exceptions being Italy and Greece.
- Monetary framework and robust institutional framework are key strengths for developed economies.
- With restricted access to capital markets, the external debt of emerging economies is lower than that of developed countries.
- Developed economies benefit from either having reserve currencies or actively traded currencies, while emerging economies rely on maintaining healthy forex reserve levels.
- Fiscal pillar is a weakness for most developed and emerging economies. A few developed economies have high government debt, but they benefit from low interest payment burden.

CareEdge Global Ratings Long term foreign currency rating (Unsolicited) Ratings	Sovereigns
AAA	Germany, Netherlands, Singapore, Sweden
AA+	Australia, Canada, US
AA	-
AA-	France, Japan, S. Korea, UAE, UK
A+	Portugal
A	China, Spain
A-	Chile, Malaysia, Thailand
BBB+	Botswana, India, Philippines
BBB	Indonesia, Italy, Mauritius
BBB-	Mexico, Morocco, Peru
BB+	Brazil, Columbia, Greece, Vietnam
BB	South Africa
BB-	-
B+	Turkey
B	Nigeria
B-	Ecuador, Egypt
CCC+	Bangladesh
CCC	Argentina
CCC-/CC/C	-
D	Ethiopia

Given below is the snapshot of the key country ratings and rationale overview. For further details please read the full report at www.careedgeglobal.com

Germany Assigned Long Term Foreign Currency Rating of CareEdge AAA (Unsolicited)

Germany's robust profile is characterised by its large, wealthy economy, solid institutions, strong external position, and history of fiscal prudence. Germany is Europe's largest economy with Nominal GDP of USD 4.4 trillion and gathers strength from being a large global export and manufacturing powerhouse. Despite these strengths supply chain disruptions, skilled labour shortages, higher input costs, weakening global demand has impacted Germany's growth. German economy contracted in 2023 and is forecasted to grow by 0.2% y-o-y in 2024, slower than the projected advanced economies average of 1.4% y-o-y.

Germany has displayed a strong history of fiscal prudence with lower General Government Debt to GDP ratio at 63.6% in 2023 compared to advanced economies average of 112%. In November 2023, ruling was passed by Germany's highest court against the transfer of unused EUR 60 billion in the Covid-19 pandemic related fund to climate fund. This has created a gap in the budget which could lead to more than required cuts in spending, dragging the growth further.

On the external side, Germany benefits from having a reserve currency. German sovereign bonds are considered as benchmark safe assets in Eurozone. Germany has a strong external position with current account surplus averaging at 7% of GDP for past 5 years (2019-23) and a large positive net international investment position (NIIP) at 70% of GDP in 2023. The current account surplus is expected to average around 6.6% for next 5 years implying strong export competitiveness.

Continued worsening of economic growth should be closely monitored. Germany being the leader in Europe, remains more exposed to the geo-political risks in the region. Despite these negatives, we believe Germany to continue to benefit from low borrowing costs and moderate debt levels. The economy is also supported by large external buffers.

United States of America Assigned Long Term Foreign Currency Rating of CareEdge AA+ (Unsolicited)

The credit profile of the United States is supported by its rich resources, innovative, diverse, and competitive economy, and resilience to economic fluctuations. Strong

institutions, healthy governance, and exceptional funding capabilities, supported by the U.S. dollar's status as a global reserve currency and robust treasury market, underpin its creditworthiness. It is a large economy with high GDP per capita of USD 66,762 (PPP basis at constant prices). Post-pandemic, GDP has grown by an average of 2.2% annually (2022-2023). The U.S. economy grew at an annual rate of 3.0% in the Q2 2024, mainly driven by higher consumer spending.

However, the primary challenge is its weak fiscal position. Rising government spending and the risk of worsening debt affordability need close monitoring. The general government fiscal deficit reached 7.9% of GDP in 2023, with government debt at 122.2% of GDP. Debt affordability (interest/revenue ratio) in 2023 was approximately 16.7%. With interest rates likely to remain higher for longer, debt affordability is expected to deteriorate further. The lack of political consensus on medium-term fiscal policy has led to repeated tussles over the federal debt limit. These political impasses and last-minute solutions to resolve them have exacerbated the unpredictability of the fiscal trajectory.

As of 2023, external debt levels are notably high, at around 95% of GDP. This is compounded by low domestic savings and persistent current account deficits, which stood at approximately 3% of GDP in 2023. The U.S. dollar is the world's foremost reserve currency, with 60% of global foreign exchange reserves held in this currency. This dominant status, along with the currency's central role in the international financial system, grants U.S. significant flexibility in managing its external financial accounts. The U.S. benefits from a highly developed financial system, offering unique advantages in terms of liquidity and diversity of capital sources.

Political polarization and a decline in policy effectiveness could negatively impact creditworthiness. The upcoming U.S. elections may influence fiscal policies and regulatory changes, making them a key factor to monitor. Geopolitical tensions, changing global trade dynamics, rising protectionist tendencies, and shifts in supply chains present challenges to the health of the U.S. economy.

China Assigned Long Term Foreign Currency Rating of CareEdge A (Unsolicited)

China's credit profile benefits from its large economic size, strong external position, and high domestic savings. It is the world's second-largest economy (~USD 18 trillion as of 2023) and has consistently maintained current account surpluses thanks to its status as

global manufacturing hub. China also has low external debt (~14% of GDP in 2023) and substantial forex reserves (~USD 3.3 trillion as of September 2024), which contribute to its positive net international investment position (~17% of GDP in 2023).

However, these strengths are partly offset by China's slowing growth prospects. China's average GDP growth declined to 5% between 2019-2023, down from 7% between 2014-2018. Looking ahead, growth is projected to slow further, averaging ~4% between 2024-2028. The ongoing property sector slowdown poses a significant headwind to growth, alongside structural issues such as excess capacity in certain sectors due to overinvestment and an ageing population.

China's official general government debt is estimated at ~56% of GDP (2023). However, there are significant off-budget borrowings, primarily by local governments, which pose contingent liability risks to the sovereign. According to the IMF, China's general government debt, including off-budget borrowings, amounts to ~117% of GDP (2023). Notably, the risk of crystallisation of contingent liabilities has increased considerably as the property sector slowdown has impacted finances of local governments, which critically rely on land sales and land-related taxes for revenues. Further, general government debt levels are projected to rise amidst an economic slowdown and ageing population. High private debt levels (~195% of GDP in 2022) also weigh on China's credit profile. While forbearance measures have kept overall non-performing loan ratios of banks low amidst the property sector slowdown, underlying asset quality risks have increased, particularly among smaller banks.

Institutionally, China performs well in government effectiveness; however, it underperforms in areas such as voice and accountability and regulatory quality. China's lack of data transparency also hampers accurate assessment of its economic health.

Looking ahead, the increasing risk of crystallisation of contingent liabilities and government measures to support economic growth will be key factors to monitor. While rising geopolitical tensions do not pose a significant near-to medium-term threat to China's position as a global manufacturing hub—given its deep integration into global supply chains and advancement up the value chain—they will still be important to monitor.

India Assigned Long Term Foreign Currency Rating of CareEdge BBB+ (Unsolicited)*

India's credit assessment gains from its large (Nominal GDP at USD 3.6 trillion in 2023) and diverse economic structure, as well as its healthy growth performance. Economic growth has remained healthy, rising by 8.2% in FY24, and is projected to remain around 6.5-7% over the next five years. The government's increasing capex and infrastructure focus is a positive for the long-term economic growth potential. The Centre's capex as a percentage of GDP is budgeted to improve to 3.4% in FY25, compared to an average of 1.7% seen during FY15-19. The sharp advancement in digital infrastructure is also a strong positive for the economy. Additionally, upbeat services exports, high foreign exchange reserves, and low levels of external debt at 18.7% of GDP as of FY24, contribute to a favourable external position. However, India's low per capita income at USD 7,638 (constant PPP terms) in 2023 remains a concern.

Another concern is the high general government debt and weak debt affordability. India's general government debt remained high at 83.4% of GDP in FY24. India fares poorly in terms of debt affordability with the combined interest payments of Centre and State governments averaging at 25.7% of revenue receipts during the last five years, notably higher than the peers. However, the positive aspect is that with continued fiscal consolidation and sustained high growth, the general government debt is likely to go down going forward. The General government debt to GDP is projected to moderate to 78% of GDP by FY30 and further to 73.5% by FY35. The other supporting factor is that a large part of this government debt is financed domestically (with ~96% financed domestically).

India has demonstrated strong reform commitment in recent years with the implementation of several initiatives such as Digital India, the Production Linked Incentive scheme, PM Gati Shakti etc. The government's focus on improving the economy's competitiveness, boosting foreign trade, and promoting capex-led growth are positives. Additionally, the demographic dividend presents a crucial opportunity to harness India's growth potential.

* with issuer participation, including interaction with relevant ministries of the Government of India





CORPORATE INDIA: CAUTIOUSLY OPTIMISTIC AMID GLOBAL UNCERTAINTIES

CREDIT QUALITY ASSESSMENT FOR H1 FY25

The global economic landscape remains hazy, with growth projected at 3.2% in 2024 and 3.3% in 2025, trailing behind the historical average of 3.7%. China's slowdown is also worrisome, with growth expected to taper off to 4.5% in 2025. Other major economies are also grappling with their own hurdles, as the Euro Area and Japan face tepid growth prospects.

Additionally, geopolitical tensions, including the Russia-Ukraine conflict, the Red Sea crisis, and the Israel-Palestine conflict, loom large, having their impact on the global supply chains. Amidst these challenges, there are glimmers of hope. The US economy is poised to sustain its momentum, with a projected growth of 2.6% in 2024. Furthermore, major central banks, with the exception of Japan, have announced rate cuts, offering some

relief even though interest rates remain elevated.

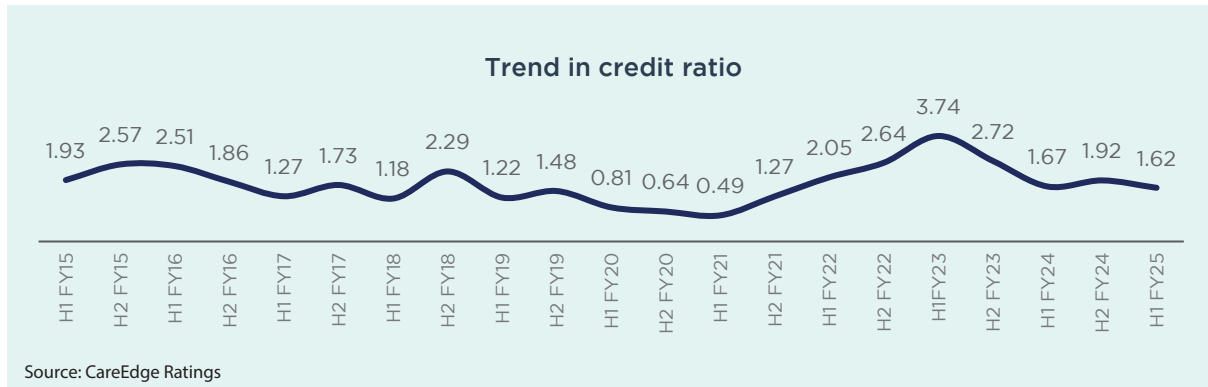
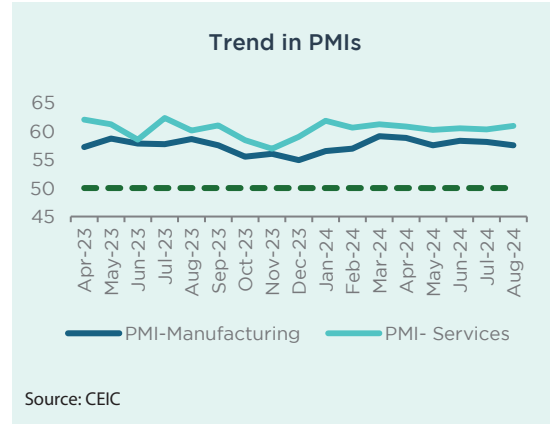
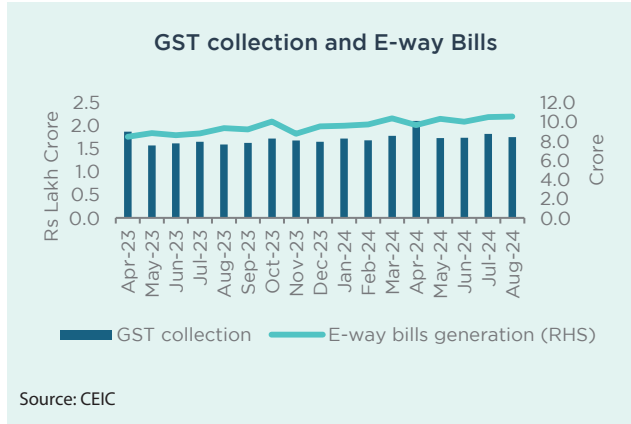
On the home front, the economy is exhibiting resilience with a projected GDP growth of 7% for fiscal 2025. High-frequency indicators such as robust GST collections, E-way bill statistics, and a favorable Purchasing Managers' Index (PMI) further highlight this buoyancy.

In this backdrop, CareEdge Ratings' recently released credit ratio for the period spanning April 2024 to September 2024 highlighted the strong performance of domestic focused industries while highlighting the difficulties faced by industries reliant on foreign market demand. CareEdge Ratings' Credit Ratio, which measures the ratio of upgrades to downgrades, moderated to 1.62 times in H1FY25 from 1.92 times in H2FY24. Despite the moderate dip in H1, the credit ratio remained close to the 10-year average of 1.59. Overall, there were 215 upgrades and 133 downgrades across sectors in the first half, with export-oriented sectors like Textiles and Chemicals experiencing higher downgrades.

The credit ratio of the Investment Grade (IG) entities remained steady at 1.90 in H1FY25, while the credit ratio of the Below Investment Grade (BIG) portfolio, plunged

down from 1.95 in H2FY24 to 1.12 in H1FY25. The moderation in the overall credit ratio can be mainly attributed to the muted performance of the mid & small corporates, especially in export-oriented sectors.

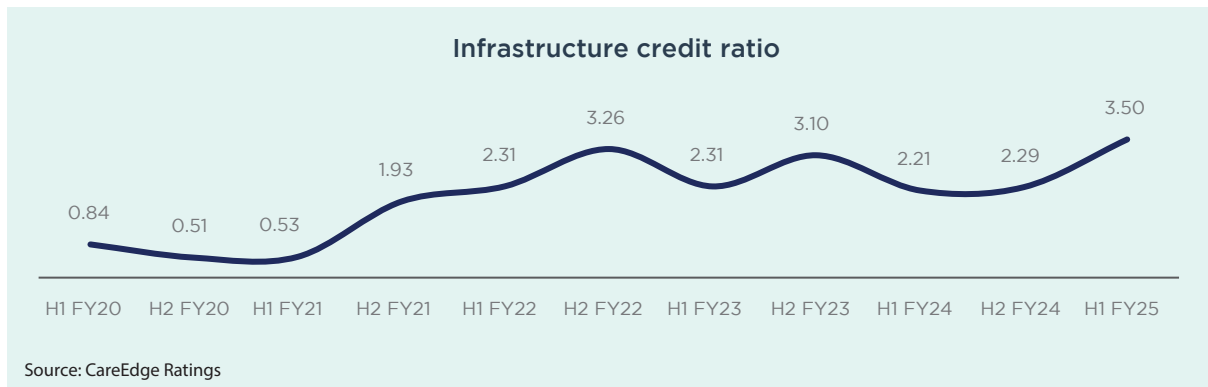
significant uptick in private capital expenditure. Looking ahead, the upcoming festive season, with its potential for increased rural demand and consumer spending, could enhance the credit profile in the second half of FY25.



Sachin Gupta, Executive Director and Chief Rating Officer at CareEdge Ratings, commented on the current economic landscape, stating, “In the first half of FY25, Indian corporates have navigated global uncertainties with cautious optimism. Sectors focused on the domestic market have shown resilience, buoyed by steady domestic demand and robust government infrastructure spending. However, we have yet to see a

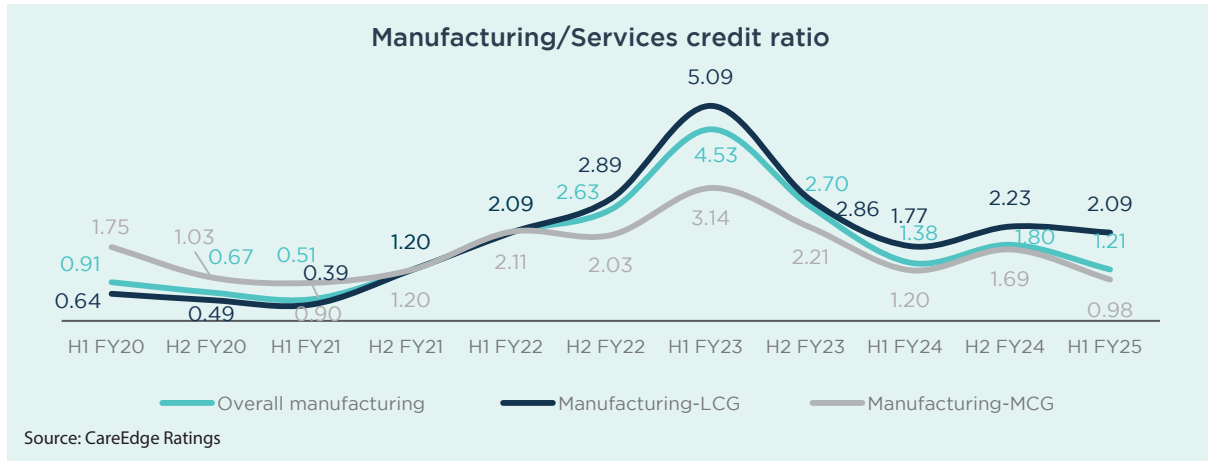
Despite these positive signs, global challenges persist. Weak export demand, the economic slowdown in China, elevated freight costs—particularly due to the Red Sea crisis—and ongoing geopolitical risks continue to pose downside risks.”

The credit ratio of the infrastructure sector experienced an uptick in H1FY25 at 3.50, driven by a significant number of upgrades in the power and construction sectors.



Rajashree Murkute, Senior Director at CareEdge Ratings (Infrastructure Ratings), highlighted, “The key drivers for these upgrades included the commissioning of projects, particularly in the road Hybrid Annuity Model (HAM) segment and solar power generation space. Timely payments from most state distribution utilities have resulted in faster-than-expected de-leveraging for power producers. Additionally, the favourable resolution of key regulatory issues, along with

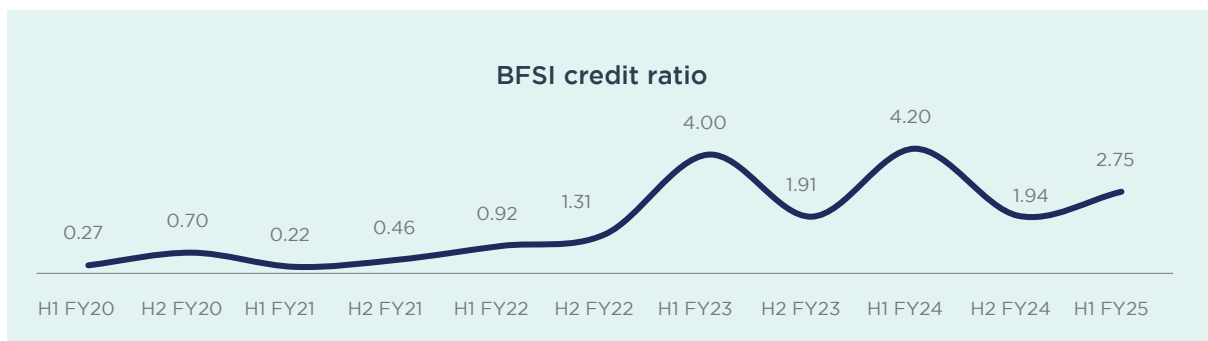
Pharmaceuticals, Iron & Steel and Auto & Auto components driving upgrades. **Ranjan Sharma, Senior Director, CareEdge Ratings (Corporate Ratings),** explained, “Approximately 80% of the total downgrades in the sector during H1FY25 were concentrated in the mid and small corporates segment, which has notably dragged down the overall credit ratio. Companies in this category have been grappling with pricing pressures, volatile input



the tie-up of power through medium-term Power Purchase Agreements (PPAs), has been crucial. Improved operational scale with good order flow and stable profit levels, bode well for mid-sized infra-EPC players while monetisation of operational HAM assets have aided the financial flexibility of large EPC developers. Yet sluggish execution pace besides weak order book position have surged the working capital intensity of few moderate EPC players thereby putting pressure on their credit profile.”

costs that they struggle to pass on, and excess channel inventory due to a substantial supply surge from China. Conversely, the Large Corporate Group (LCG) has shown greater resilience and experienced only a marginal dip in its credit ratio from 2.23 in H2FY24 to 2.09 in H1FY25.”

In summary, despite the challenges facing the global economy, CareEdge Ratings believes that Corporate India has demonstrated resilience, with the credit ratio expected to remain range-bound on the back of steadfast



CareEdge Ratings’ credit ratio for the Manufacturing and services sector has seen a downward revision, driven principally by Mid and Small Corporates Group (MCG), with its credit ratio declining from 1.69 to 0.98 in H1FY25. In contrast, the large players categorized by Large-Corporate Group (LCG) have remained buoyant, with sectors like Capital goods, Realty, Hospitality,

domestic economic dynamics and infrastructure push. Going ahead, sustenance of domestic demand, fallouts of the geopolitical tensions and slowdown in China, alongside quantum of easing in policy rates by major central banks remain key monitorables.

A woman wearing a colorful, patterned headscarf is looking directly at the camera. She is in a textile factory, with other workers and machinery visible in the background. The scene is brightly lit, and the focus is on the woman in the foreground.

INDIAN HOME TEXTILE INDUSTRY: WEAVING SUCCESS – EXPECTED TO GROW BY 8-10% IN FY25

The global home textile industry was valued at USD 122 billion in CY2023 and is projected to reach USD 134 billion by the end of 2024, representing 7-8% of the overall textile industry. This sector is expected to grow at a CAGR of 5-5.5% up to 2030. China has solidified its position as the leading exporter with approximately USD 23 billion in exports in 2023, followed by India with USD 5.7 billion and Turkey in the third place with USD 4.2 billion of exports. During the COVID-19 pandemic, India's exports surged to USD 7.1 billion due to sudden increase in demand from the US and Europe, driven by heightened hygiene concerns, enhanced stocking by retailers to guard against any supply disruptions due to the pandemic and the China+1 strategy.

On the import side, the USA stands out as a very significant player, accounting for about 30% of global home textile imports, with European countries like Germany, the UK, and France importing approximately 8%, 6%, and 5%, respectively. For USA, China remains the dominant supplier, providing around 35% of home textiles, while India holds the second spot with approximately 29%. Over the period of CY19 to CY23, India's exports have grown by 12.27%, while China has declined by 13.2%, indicating a shift from China to India. In the UK market, India faces more competition, with China leading at 23% of imports, followed by Pakistan at 20%, and India at 10%.

Indian Home Textile: Weaving Steady Growth

The Indian home textile industry, accounting for nearly 7-8% of the global market, ranks among the top suppliers to the US. With its quality offerings, Indian home textile companies have established themselves as prominent suppliers to both the US and UK markets. Carpets, rugs, and furnishing articles make up approximately 30-32% of total home textile exports, followed closely by bed linen and kitchen/table linen.

From FY16 to FY20, the home textile industry experienced steady export growth. However, during COVID-19 the sector truly thrived. While many industries struggled, home textiles saw unprecedented growth starting from FY21, wherein the sector achieved a 13% year-over-year (yoy) growth. The peak came in FY22, with a dramatic 26% yoy increase. This surge was driven by pandemic-induced demand and the China+1 strategy.

Following a peak in demand during the second and third quarters of FY22, the home textile industry faced significant challenges. The surge in demand from Western countries led to a sharp increase in raw material prices, especially cotton, and higher freight costs due to prolonged pandemic lockdowns.

Additionally, economic scenario in USA and UK, rising energy costs in the EU, exacerbated by the Russia-Ukraine conflict, reduced discretionary spending in these markets. These factors caused exports to plateau in Q3 FY22 and decline from Q4 FY22 onwards. Home textile exports consistently decreased each quarter, culminating in a 12% y-o-y decline in FY23. From a peak of ₹14,200 crore in Q2 FY22, exports fell to ₹11,200 crore by Q4 FY23. However, the story changed as exports picked up from Q1FY24 and continued its growth momentum showing an improving trend. The global market saw a significant boost, driven primarily by the US market, leading to notable recovery after several quarters of decline.

Raw Material Price Trends - Added to the Woes

Cotton, the primary material for bed linen, is crucial for the profitability of home textile companies. In June 2022, cotton prices soared to around ₹1,00,000 per candy (₹272 per kg) due to low-yield crops in several states. However, as the global economy slowed and demand weakened, it caused a sharp price correction in cotton prices starting in December 2022. Since then, cotton prices have stabilized between ₹160-₹164 per kg.

In addition to cotton prices, higher freight costs significantly impact profitability. Historically volatile, these costs surged following the

Russia-Ukraine war, with oil prices exceeding \$110 per barrel in May 2022. Having significantly fallen thereafter, the ongoing Red Sea crisis from the start of 2024 has again increased shipping costs for Indian exporters, as approximately 95% of vessels now re-route around the Cape of Good Hope, extending transit times by 14-20 days and increasing logistics cost by nearly 4-5 times.

Indian Home Textile Industry on Recovery Path

In FY22, the select set of home textile manufacturers saw significant growth, with total operating income (TOI) increasing by over 37% year-on-year. This growth was primarily driven by higher exports to the US and EU, along with increased price realizations for home textile products. Operating margins peaked at 17% in FY22. However, post-FY22, the industry faced a substantial decline in total sales due to reduced demand from Western economies, particularly as the US grappled with inflation and the UK with deflation.

This reduced demand, coupled with higher cost cotton inventory, elevated freight costs, and inventory write-offs, led to a 491-basis point decline in operating margins, bottoming out at 9% in Q2 FY23, exactly one year after their peak in Q2 FY22. Despite this downturn, the industry gradually started to show signs of recovery from Q3 FY23 onwards, driven by increased domestic demand and a gradual recovery in exports.

CareEdge Views

“The global home textile industry is set to grow at an annual rate of 5-5.5% by CY30, driven by higher disposable income, mushrooming real estate market, and a greater focus on hygiene post-COVID. There’s also a notable shift towards sustainable and eco-friendly products, which is expected to significantly influence the industry’s development. Indian home textile industry after experiencing difficulties in FY23, led by demand slowdown from key importing countries, increased raw material prices and high freight costs, has recovered sharply in FY24. Going forward the industry is anticipated to grow by 8-10% in FY25, bolstered by stable raw material prices and improved demand from key importing countries. Despite challenges such as elevated freight costs and geopolitical tensions, the industry is expected to maintain operating margins in the range of 14-15% in FY25,” said Arti Roy, Associate Director, CareEdge Ratings.





HOTELS DEMAND TO CONTINUE TO OUTSTRIP SUPPLY, REVPAR TO GROW AT 8-9% IN FY25

The growth registered by hoteliers over the past two years, along with a positive industry outlook supported by strong domestic tourism (especially leisure tourism), a gradual recovery in foreign tourist arrivals (FTAs), and a continuous rise in business travel driven by Meetings, Incentives, Conferences, and Exhibitions (MICE) events, is expected to drive an increase in room capacity additions over the medium term.

Over the past five years, India's travel and tourism sector has contributed approximately 5% to the country's total Gross Domestic Product (GDP), with still relatively low penetration. With the Indian government's emphasis on the sector, the travel and tourism industry is projected to grow by 8-9% annually, reaching a total value of USD 500-530 billion by FY34, according to the Ministry of Tourism. Rising urbanization in several Tier 2 and Tier 3 cities will further drive demand for hotels across different segments.

Considering these factors, the hospitality industry is expected to see robust room additions in the coming years. However, in the medium term,

supply growth is expected to lag behind demand growth, thereby supporting key operating metrics for hoteliers.

In FY21, capacity additions hit a multi-year low as the hospitality industry came to a near standstill due to the outbreak of COVID-19. This led to a significant decline in revenue and losses due to the decrease in both domestic and international travel. The poor financial condition of industry players, coupled with uncertainty surrounding the resumption of travel, delayed the completion of projects under implementation in FY21, and capex plans were largely halted. However, with operational and financial improvements occurring with each passing quarter since H2 FY22 and FY23, industry players have resumed work on previously stalled projects, delayed due to the pandemic.

India currently has approximately 166,000 branded hotel rooms/keys. The industry is expected to add a capacity of approximately 55,000 rooms in the next 5 years with supply registering a CAGR of 4.5-5.5% in the said period. Year 2022-2023 had reasonable supply growth, which mainly consisted of projects in advanced completion which were delayed or stalled due to Covid and FY24 players started with new projects and capacity additions was higher than earlier two fiscals but lower than pre-covid level of FY20.

The growth of chain-affiliated supply is occurring through conversions that are being signed and implemented over a shorter period. Few existing hotels may be transacted as hotels with possibly a change of positioning or brand, these could be the ones which were closed during pandemic.

With new supply additions, the occupancy levels in the industry are expected to hover between 67-69% in the next two financial years of 2025 and 2026 and ARR are expected to stay strong. Since growth in supply is lagging demand, which is expected to be in high single digit or early double digit, this will support RevPAR of players which is expected to grow by 8-9% in FY25 to Rs. 5,200-5,400 and thereafter 5-6% in FY26 on a high base for all India average.



Segment-mix tilting towards Upper Midscale and Midscale Economy segments

Presently, supply is more balanced across different segments, as compared to an earlier mix that was heavily weighted towards luxury and upper upscale hotels. Over the years the supply concentration in the luxury-upper upscale segment has reduced from 39% in FY15 to 32% in FY23 and is expected to reduce further to 26% by FY28 as majority new supply is coming in Upscale, Upper midscale and Midscale/Economy sections. This reduction in supply share is in spite of new rooms being added in all the segment; better balance has arisen due to material supply growth by rooms in upscale, upper midscale and midscale-economy segments.

Several global/Indian hotel operators have also launched sub-brands with the clear focus on quality within key destinations which not just helps them in swiftly building a pool of quality inventory with presence in across segment but also aids better allocation of their capital. While traditionally, hotel owning companies in India grew predominantly via greenfield developments. The industry dynamics witnessed a significant shift from investing to exploring the multiple asset light options such as management contracts, franchising or revenue sharing models. These models help in increasing the revenue and EBITDA margins

for major players without major capital expenditure. With creation of a robust demand base, the upcoming supply pipeline currently shows a clear correlation vis-à-vis the upcoming tourism and infrastructure developments that are taking place in Indian landscape.

Focus on Virgin markets in Tier 2 & 3 cities

Traditionally, the focus of the hospitality industry has been on Tier 1 markets due to the sizeable demand footprint and minimal seasonality in these locations which makes for a healthy occupancy rate. However, with the rising domestic tourism post covid era, new markets are emerging majorly in Tier 2 & Tier 3 destinations and major supply is being planned in these new locations and not alone the gateway cities of India.


In absolute terms, Bengaluru has the highest inventory of more than 18,600 rooms and New Delhi and Mumbai continues to be the second and third largest market in terms of absolute inventory. In recent years, several Indian destinations have emerged as significant growth frontiers either due to their popularity as leisure destinations or for faith tourism. Riding on the growing domestic tourism, the new supply is largely centred centered in Tier 2 & 3 with more than 70% of the proposed supply followed by Tier 1 on account of owners and operators exploring opportunities to capture unaccommodated demand in emerging and virgin markets.

CareEdge Views

“On the back of the surge in domestic consumption and underlying GDP growth, the players in the industry are witnessing strong capacity utilization. With sharp increase in capacity utilization combined with stable supply growth, hotels are seeing significant ability to yield the demand for branded hotels on an ongoing basis which shall support the strong ARR at current levels or drive some growth as well in the medium term. While material contribution from international travellers is yet to materialize, currently the domestic demand is the key driver. With the current travel momentum to continue and anticipated demand likely to outpace current supply over the medium term and FY25 is likely to witness higher RevPAR’s which shall aid in overall improvement of credit profile of the players in the industry,” said Ravleen Sethi, Director CareEdge Ratings.

CareEdge Ratings expects industry to report average RevPAR growth of 8-9% in FY25 to Rs. 5,200-5,400 on a high base of FY24 and followed by a 5-6% rise even in FY26.





ANCHORED IN CHANGE: ALANG-GUJARAT'S SHIP RECYCLING INDUSTRY POISED FOR MAJOR GROWTH IN CY25, EYES 10% CAGR BY CY28

India's ship-recycling industry is a crucial part of the global maritime sector. The top four countries including Bangladesh, India, Pakistan, and Turkey dominate the ship-recycling industry, dismantling over 90% of the global ship recycling volume. India and Bangladesh consistently led the industry, while contributions from other countries were variable and generally lower.

From CY17 to CY23, the ship-recycling industry saw a decline in the number of ships recycled, with significant activity in CY21. The number of ships dismantled in CY22 and CY23 declined to 443 ships and

444 ships, respectively with above 600 ships in previous years. In terms of volume (GT) in CY22 and CY23, globally 7.17 and 7.47 million GT were dismantled as compared to 12 to 23 million GT in preceding five CYs. India's share in the global recycling industry remained ~27% in the past, before increasing to ~33% in CY22 and CY23, reflecting a rise in its contribution amidst global declines. In terms of volume, in CY22 and CY23, India dismantled 2.26 and 2.47 million GT, respectively.

India's ship-recycling industry is influenced by several factors including global ship recycling trends, balance between addition of shipping capacity and ship-recycling activity, fluctuations in Baltic Dry Index (BDI) and trends in Bhavnagar heavy melting scrap prices. Understanding these elements is essential for predicting future direction of ship-recycling industry.

Shipping capacity addition and ship-recycling activity

Decline in global ship-recycling activities combined with stable addition in shipping capacity in recent years highlights growing number of obsolete vessels still in operation. As newer, more efficient vessels are introduced, older ships become increasingly unviable for operation. This trend creates a rising need for ship recycling, as operators seek to retire aging vessels that are no longer economically feasible to maintain. The reason for the increasing proportion of ageing vessels in operational fleet includes post-pandemic higher freight prices (indicated by BDI) and volatility in heavy melting scrap prices with downward trajectory in the past two years.



Also, per the data from the United Nations Conference on Trade and Development (UNCTAD), at the start of 2023, average age of global shipping fleet was 22.2 years (increased from 20.5 years in 2018) in terms of total ships. However, in terms of dead weight tonnage, average age remains at 12 years (increased from 10.1 years in 2018). Typical average lifespan of a ship is ~25 years, which indicates that a significant number of vessels of lower average weight are nearing the end of their operational lives, leading to a higher likelihood of these older ships being retired and recycled soon.

BDI serves as a crucial indicator of the global shipping market's health and directly impacts the ship-recycling industry. In 2021, BDI surged, peaking at \$4,820 in October, driven by severe supply chain disruptions and increased shipping demand. However, as pandemic-induced disruptions subsided, BDI declined. Supply chains normalised, and an influx of new vessels expanded market capacity, leading to decreased freight rates. Index has since shown a fluctuating pattern but

remains significantly lower than its October 2021 peak. For instance, after making a low below \$700 in February 2023 it again increased to around \$1,983 in July 2024, relatively higher to its 10 years average mainly due to red sea crisis. This indicates intermittent turbulences still exist due to geo-political reasons. Decline in BDI towards historical level could trigger increased retirement of ageing vessels boosting ship recycling activities.

Bhavnagar Heavy Melting Scrap Prices

Another critical factor is the trend in Bhavnagar heavy melting scrap prices, significantly impacting the economics of ship recycling. Prices for heavy melting scrap in Bhavnagar surged from ₹28,800 per tonne in August 2020 to a peak of ₹54,400 per tonne in April 2022, driven by supply chain disruptions and heightened demand for steel amid post-pandemic economic recovery efforts.

However, after peaking, scrap prices began to decline, settling at ₹39,900 per tonne in December 2023. Since January 2023, prices have stabilised between ₹36,000 per tonne and ₹44,000 per tonne. This recent stabilisation suggests that the market has adjusted to post-pandemic conditions, providing a more predictable cost structure for industries reliant on scrap metal. For ship-recyclers, stable scrap prices mitigate profitability risks and enable more reliable ship procurement planning.

CareEdge Views

Despite a decline in ship recycling industry, 45 CARE-rated entities remained resilient marked by modified credit ratio of 0.97x due to reaffirmation of most entities. Entities maintained stable turnover driven by increase in trading activities and selective purchase of ships, which offset the reduced scrap volumes. Entities are supported by favourable financial structure owing to low debt levels in lower ship recycling activities, low fixed overheads and contract-based employees in the operations.

“The Indian Ship Recycling industry is expected to witness similar recycling level in CY24 with an estimate of 2.3 to 2.6 million GT, thereafter a jump to over 3.8 to 4.2 million GT in CY25. The ship recycling industry in India is expected to grow at compound annual growth rate (CAGR) of ~10% in CY26-CY28. Cooling-off of BDI, stabilisation of heavy melting scrap prices, and increase in obsolete ships in operations, suggest more ships to enter the recycling market from CY25 onwards. Countries having better infrastructure and green recycling facilities are expected to attract a larger portion of ships in future,” says Sajni Shah, Assistant Director, CareEdge Ratings.



HEAT MAP AND PROJECTION TABLE

		Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
PMI-M	Unit	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5
PMI-S	Unit	61.0	58.4	56.9	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7
GST Collections	Rs lakh crore	1.6	1.7	1.7	1.6	1.7	1.7	1.8	2.1	1.7	1.7	1.8	1.7	1.7
E-Way Bill	Crore	9.2	10.0	8.8	9.5	9.6	9.7	10.4	9.7	10.3	10.0	10.5	10.5	10.9
Air Passenger Traffic	Crore	3.0	3.1	3.1	3.4	3.3	3.1	3.3	3.2	3.5	3.3	3.2	3.3	
PV Sales	Lakh	3.8	4.0	3.4	3.0	3.9	3.7	3.8	3.4	3.5	3.7	3.6	3.7	3.8
2-3-Wheeler Sales	Lakh	21.6	22.9	19.9	15.7	18.3	19.3	19.0	21.4	20.1	19.9	18.5	21.5	25.0
Tractor Sales	Lakh	1.1	1.3	0.8	0.5	0.6	0.5	0.7	0.8	0.9	1.1	0.7	0.6	1.1
IIP	y-o-y%	6.4	11.9	2.5	4.4	4.2	5.6	5.5	5.2	6.3	4.7	4.7	-0.1	
Core Sector	y-o-y%	9.5	12.7	7.9	5.1	4.2	7.1	6.3	6.9	6.9	5.1	6.1	-1.8	
Power Consumption	y-o-y%	10.3	20.9	6.1	1.6	6.1	8.4	9.1	10.5	15.3	8.9	8.2	-4.9	0.6
Petroleum Consumption	y-o-y%	7.9	4.8	-2.2	3.7	7.3	8.2	1.7	7.8	1.9	2.3	10.6	-2.3	-1.6
Outstanding Bank Credit - Total	y-o-y%	20.0	19.7	20.6	19.9	20.3	20.5	20.2	19.0	20.8	17.3	13.6	13.6	
Capital Goods Import	y-o-y%	-1.2	9.4	4.3	3.7	4.2	10.0	0.9	3.2	7.0	11.6	6.2	8.7	8.6
Merchandise Exports	y-o-y%	-2.8	5.9	-3.3	0.8	4.3	11.9	-0.5	2.0	13.3	2.4	-1.8	-9.3	0.5

Indicator	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 Forecast
Gross Domestic Product (y-o-y%)	6.8	6.5	3.9	-5.8	9.7	7.0	8.2	7.0
CPI Inflation (y-o-y%)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.8
Fiscal Deficit (As % of GDP)	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.9
Current Account Balance (As % of GDP)*	-1.8	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-1.3
Rupee (USD/INR) (Fiscal year-end)	65.0	69.2	75.4	73.5	75.8	82.2	83.4	82.8-83.3
10-Year G-Sec Yield (%) (Fiscal year-end)	7.3	7.5	6.1	6.3	6.8	7.3	7.1	6.5-6.6

* Note: (-) Deficit / (+) Surplus

About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.

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