CareEdge
Ratings • Advisory • Research • Risk Solutions

CareEdge Snapshot

November 2022

A monthly Update on developments at CareEdge.

CareEdge launches FORESIGHTS

RATINGS

Ranjan Sharma Takes Charge as Senior Director – Criteria & Quality Control

CareEdge is pleased to announce the elevation of Ranjan Sharma as Senior Director – Criteria & Quality Control – effective October 17, 2022. A seasoned credit rating professional with over 18 years of experience, Ranjan has been with the organisation for nearly 16 years and led several teams in rating operations. As a member of the Rating Committee and Quality Control Teams, he has played a key role in several important initiatives involving rating operations over the years.

Ranjan holds a PGDBM in Finance from K.J. Somaiya Institute of Management Studies and Research, Mumbai.

Nehal Shah, Head, Compliance Legal Secretarial at CareEdge Ratings, was invited as a guest speaker at Compliance 10/10, Symposium and Awards. The event was organised by Legasis Private Limited.

KNOWLEDGE
SHARING FORUMS

1 Pulkit Agarwal, Director, CareEdge, gave a presentation on the Textile Sector to State Bank Staff College, Hyderabad. This was attended by more than 30 members, including CGMs and DGMs from across the country. Priyanka Athale, Associate Director, organised this session.

2 A CareEdge team, comprising Priti Agarwal, Senior Director; Arindam Saha, Director; Richa Bagaria, Assistant Director; and Vikash Kumar Rai, Lead Analyst, made a presentation on the coal industry at State Bank of India, IFB, Kolkata. This interactive session was attended by 25 SBI officials, including credit managers and AGMs.

KNOWLEDGE
SHARING FORUMS

3

Anand Prakash Jha, Associate Director, was invited as a panellist at the International Management Institute's Marketing Summit for the annual management conclave, Converse'22. The topic of discussion was "Marketing in The New Age".

KNOWLEDGE
SHARING FORUMS

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A CareEdge team, comprising Manohar Annappanavar, Ujjwal Patel, Anup Purandare, Ruchi Shroff and Abhijeet Dhakane, gave a presentation on ‘Gems and Jewellery’ sector at IDBI Bank. The session covered key statistical trends and an overview of the Natural Diamonds, LGD and Gold Industry, followed by a Q&A session. This was attended by more than 25 key personnel from the corporate banking division.

CareEdge IN MEDIA

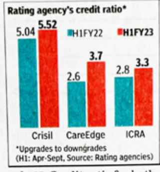
The Times of India – India INCs upgrades beats downgrades
The Economic Times– Upgrades raise a toast to India INCs health

India Inc's upgrades beat downgrades 3-5x

TIMES NEWS NETWORK

IMPROVING SCENARIO

Rating agency's credit ratio*



*Upgrades to downgrades
(H1: Apr-Sept, Source: Rating agencies)

- The improvement in ratings have come after corporates saw **strengthening domestic demand**
- There is higher realisations as well as continuation of **debt-light balance sheets** as capital expenditure remains low
- **Infra sector saw a lot of upgrades** as it's largely a domestic story and mostly delinked from global woes

Mumbai: India Inc continues to report an improvement in balance sheets on the back of the shedding of debt during the pandemic and an economic recovery led by domestic demand.

Three leading credit rating agencies on Monday reported a significant improvement in the creditworthiness of Indian coprorates. According to Crisil, the credit ratio (upgrades to downgrades) continues to be high at 5.5 times for the first half of FY23. The ratio was 5.04 in the second half of FY22. Nearly 80% of the corporates covered by Crisil had their ratings reaffirmed during the period.

CareEdge, meanwhile, said that it has clocked an all-time high credit ratio of 3.7 times for the same period. "The credit ratio is on an uptick from 2.6 times in the second half of the previous financial year to 3.7 times in H1FY23." In the first half of FY23, CareEdge Ratings upgraded ratings of 318 entities and downgraded only 85. Credit ratio for both — the investment grade and below-investment grade portfolio — was at the highest in the last decade at 3.9 times and 3.54 times.

"Around 35% of all upgrades were from the infrastructure sector (including large realty players). Infrastructure sector is in a unique position of largely being a domestic story and generally decoupled from the global headwinds. Here, upgrades were driven by improved operating cash flows, completion of crucial project milestones and equity infusion," said Crisil Ratings MD Gurpreet Chhatwal. He added that over the last few years, the share of government as a counter party has gone up.

CareEdge Ratings executive director & chief rating officer Sachin Gupta said, "These numbers are reassuring and indicate that despite a turbulent global environment, amid slowing growth in China and fear of recession in the US & the EU, the Indian economy is relatively better placed."

ICRA said the upgrade ratio was highest for real estate (15%). "We forecast India's GDP to grow by 7.2% in FY23 as against 8.7% in FY22 and -6.6% in FY21," said ICRA chief rating officer K Ravichandran.

DECOUPLED FROM GLOBAL TROUBLES? H1 nets a record number of rating upgrades for local cos even as recession looms

Upgrades Raise a Toast to India Inc's Health

Saikat.Das1@timesgroup.com

Mumbai: Local companies secured a record number of rating upgrades for the first half of the fiscal in comparison with downgrades, lending further credibility to the assessment that India remains largely decoupled from a troubled global economy due to its undiminished domestic consumption demand.

India's credit ratio, the gauge for overall creditworthiness that compares upgrades to downgrades, stood an all-time high at 3.74 between April and September this financial year, showed data from CareEdge Ratings. In the preceding six months, it was 2.64.

"Amid concerns of a global recession, the Indian economy is relatively better placed with business activities regaining momentum," said Sachin Gupta, chief rating officer, CARE Ratings. "The consumption and demand story is stirring confidence among many local companies that are unlikely to face global headwinds. The credit ratio is likely to remain strong in the coming quarters."

While the creditworthiness outlook has improved in India, the West faces the likelihood of downgrades through the protracted battle against inflation and geopolitical risks that have combined to tip several countries into recession.

Executives at rating agencies say Indian firms have not shown any signs of stress from rising domestic interest rates

"The infrastructure sector accounted for a significant share of upgrades, driven by improved cash flows, achievement of project milestones and equity infusion," said Subodh Rai, president and chief ratings officer, Crisil Ratings. "In the consumer-facing discretionary sectors such as domestic textiles, auto ancillaries and large domestic realtors, steadfast domestic demand has been driving upgrades. The trend will continue to support a positive credit quality outlook for this fiscal."

Between May and September, the Reserve Bank of India (RBI) raised the benchmark repo rate by 190 basis points to 5.90%, prompting lenders to follow up the action quickly with successive rate hikes. A basis point is 0.01 percentage point.

"Indian companies have not shown any sign of distress due to rising interest rates," said K Ravichandran, chief rating officer at ICRA Ratings. "Rising demand in sectors such as real estate, non-conventional energy and steel, coupled with significant deleveraging, is offsetting the effect of higher funding costs."

CARE upgraded 318 companies while downgrading just about one-fourth of that tally during this period. The trend broadly would be similar for all other domestic rating companies.

Defaults were also at one of their lowest levels of 0.8% of the co-operative reviewed ratings in the first half of FY23 versus 1.4% in the corresponding period a year ago, according to India Ratings. It upgraded the ratings of 159 issuers while downgrading only 40 during the period.

Improving credit profiles coupled with availability of liquidity has added to companies' advantage. Issuers have now better access to working capital funds. "Credit profiles have adequate headroom to navigate the current challenges," said Arvind Rao, head-credit policy group at India Ratings.

Bank credit expanded 16.2% year-on-year to ₹125.5 lakh crore as on September 9 this year. The pace of loan growth has more than doubled from the same period a year ago.

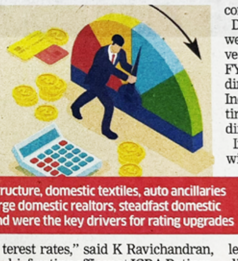
However, any ugly spike in inflation could well upset the apple cart, with price rises likely puncturing rural consumption demand and moderating corporate capex plans.

Sign of Strength

Ratio of upgrades to downgrades at **3.74 times** in H1FY23 | It was at **2.64 times** in H2FY22

BETWEEN APRIL AND SEPTEMBER

UPGRADES	DOWNGRADES	
318	85	by CARE Ratings
159	40	by India Ratings



Defaults were also at one of its lowest levels of 0.8% in H1FY23 vs 1.4% in H1FY22

Infrastructure, domestic textiles, auto ancillaries and large domestic realtors, steadfast domestic demand were the key drivers for rating upgrades

CareEdge IN MEDIA

CareEdge Chief Rating Officer Sachin Gupta wrote in the PowerLine magazine on how FY22 has been a mixed bag for the power sector.

FORUM ANNIVERSARY ISSUE

New Dynamics

Consultants' views

Power demand has been witnessing an increase in recent months on the back of a heatwave and expanding economic activity. Peak power demand also hit a new high. Meanwhile, there are concerns over inadequate coal availability at thermal power plants (TPPs) and the poor performance of discoms, which continue to weigh down the sector. Going forward, clean energy transition, technology upgradation, energy storage solutions and green hydrogen are expected to receive growing attention. *Power Line* presents the views of leading consultants on the state of the sector and its future outlook...

What is your assessment of the power sector's progress during the past year?

Sachin Gupta

Financial year 2021-22 has been a mixed bag for the power sector. While both the renewable and thermal power sectors reported relatively better numbers, the distribution segment saw below-average performance, bogged down by coal shortages.

Among the positives, energy demand during the year grew 8.2 per cent year on year, backed by a low base, but even in comparison to 2019-20 the growth has been at a healthy 6.9 per cent. At its peak, power demand hit new highs of 200 GW and 210 GW in July 2021 and June 2022 respectively, leading to better utilisation levels among thermal generators, which reported an improved plant load factor (PLF) of 58.87 per cent in financial year 2022 (PY: 54.57 per cent). With 15.5 GW of capacity added during 2021-22, the renewable energy sector led with new installations (PY: 7.7 GW) against the net capacity addition of 17.3 GW in 2021-22.

However, coal shortage continues to be a challenge for the sector. While it is a recurring phenomenon post monsoons (around September) every year, the severity was higher in 2021-22 as many plants had critical levels of stocks for a few days. The shortage was largely attributed to a sudden surge in power demand and exorbitant imported coal prices (which usually make up for any shortfall in domestic production).

As far as the power distribution segment is concerned, while aggregate technical and commercial losses (AT&C) have remained at 21 per cent over the past few years, issues around the increasing revenue gap continue. The widening gap was primarily due to a lack of cost-reflective tariffs and stagnant AT&C losses. The discom overdues problem, which was partially countered with the help of Atmanirbhar Bharat and the liquidity infusion package, has again resurfaced. It should be noted that despite repeated liquidity injections through various government schemes over the past decade, payments by some state discoms continue to be stretched.

Somesh Kumar

India is eyeing becoming a $5 trillion economy by 2025. It has recently overtaken the UK to become the fifth-largest economy in the world. To continue on this developmental track, a critical role is played by the power sector. India has twin goals – first, to ensure 24x7 adequate and reliable energy access, and second, to accelerate clean energy transition by reducing the country's reliance on fossil-based energy and shifting to cleaner and renewable energy sources. With such goals in perspective, multiple positive changes have been brought about in the past year such as:

- **Moving towards power surplus from power deficit:** India has transformed itself from a power-deficit to power-surplus country. From 2014 till November 2021, power generation capacity of 160.8 GW, consisting of 83,920 MW of fossil fuel based and 76,900 MW of non-fossil fuel based capacity, has been added, making India power surplus. Even in August 2022, the peak demand of 195.8 GW was met. It has been possible because of the adequate installed capacity to the tune of 404 GW as of July 2022. It has about 236 GW of fossil-fuel based (coal, lignite, gas and diesel) capacity whereas around 168 GW is non-fossil based (renewable en-

Sachin Gupta
Executive Director and Chief Rating Officer, CareEdge

Somesh Kumar
Partner and Leader, Power and Utilities, Ernst & Young LLP

Sabyasachi Majumdar
Senior Vice-President, ICRA Limited

Sambitosh Mohapatra
Partner Leader, ESG Platform/Energy Utilities and Resources, PwC

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ANNIVERSARY ISSUE FORUM

ergy, nuclear and hydro). The installed capacity is now close to double the peak demand and India is exporting power to Nepal, Bangladesh and Myanmar.

- **Moving towards 24x7 power supply:** All states and union territories have signed MoUs with the central government to ensure 24x7 power supply to all households, industrial and commercial consumers and adequate power supply to agricultural consumers. It has been supported by a robust national grid enabling seamless transfer of power from resource-centric regions to load-centric regions. It has led to an increase in power availability in rural areas by up to 21:09 hours and by 23:41 hours in urban areas.
- **Placing competition at the heart of power transactions:** It has been done by strengthening the power exchanges. Even new products such as the real-time market, green term-ahead market, etc., have been launched.
- **Focus on clean energy transition:** India has set a long-term target of reaching net zero by 2070. Recently, the cabinet has approved the updated Nationally Determined Contribution (NDC) committed to the United Nations Framework Convention on Climate Change. It also aims to reduce the emission intensity of its gross domestic product by 45 per cent by 2030. The updated NDC also represents the framework for India's transition to cleaner energy for the period 2021-30. It is being fostered with tax concessions and incentives such as the production-linked incentive (PLI) scheme for the promotion of manufacturing and adoption of renewable energy, creating a platform for India to become a self-reliant and export-oriented nation.

"The quantum of renewable capacity addition, reduction in the intermittency of renewable power supply and augmentation of storage methods will be important for India to achieve its long-term commitments to green energy." Sachin Gupta

Sabyasachi Majumdar

Electricity demand in India remains buoyant in the current fiscal due to recovery of economic activity and the severe heatwave in the northern and central parts of the country in the first quarter. The demand increased by 18.5 per cent in the first quarter of 2022-23 over the corresponding period in the previous year. This demand is likely to witness a year-on-year growth of 6.5-7 per cent at the end of this financial year. This follows a healthy demand growth of 8.2 per cent in 2021-22, the highest annual percentage electricity demand growth in two consecutive years since 2011-12 and 2012-13. The recovery in electricity demand is expected to improve the all-India average thermal PLF level to 61-61.5 per cent in 2022-23, from 58.9 per cent in 2021-22.

Coal-based independent power producers benefited from a sharp increase in short-term tariffs in the first quarter of 2022-23 despite the adverse impact of high coal prices. A sustained improvement in electricity demand and, in turn, the thermal PLF level remains a critical factor in improving the outlook for thermal generation.

The outlook for the renewable energy sector is favourable, led by continued policy support from the Government of India, strong project pipeline and superior tariff competitiveness offered by wind and solar power projects, both in the utility and open access segments. The installed capacity in the renewable energy segment has doubled over the past 5.5 years, led by strong policy support and tariff competitiveness. Investment prospects are expected to remain strong over the next decade, with a target to reach 450 GW renewable energy capacity by 2029-30 from the current level of 114 GW.

The key challenges constraining growth are on the execution front, mainly associated with land and transmission infrastructure, distribution utility finances and tariff viability concerns, amidst elevated module prices and hardening interest rates. The prices of mono PERC (passive emitter and rare contact) modules have increased by over 40 per cent to 27-28 cent per watt in the past 18 months. This has been mainly driven by a sharp increase in the price of polysilicon and supply chain issues in China due to Covid-19. While supply chain challenges are showing signs of improvement, prices remain elevated amid continued higher prices for polysilicon. This, along with the imposition of customs duty from April 2022, has kept module prices relatively high in India. Notwithstanding the elevated module prices and hardening interest rates, solar bid tariff rates continue to be highly competitive at less than Rs 2.40 per unit, as seen from recent bids. While this is positive from the discoms' perspective, the ability of developers to make these projects viable remains to be seen.

The demand outlook for domestic solar original equipment manufacturers (OEMs) remains favourable, with strong policy support through the imposition of customs duty on imported cells and modules, notification of the PLI scheme and inclusion of only domestic manufacturers in the Approved List of Models and Manufacturers (ALMM). The policy push is expected to improve the cost competitiveness of domestic OEMs and lead to large capacity announcements by various OEMs and also the entry of new players. The ability of OEMs to achieve backward integration and build

"The sector is on the cusp of a transformation led by the 3Ds – decarbonisation, digitalisation and decentralisation." Somesh Kumar

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"Focus on improving operational efficiency, timely issuance of tariff orders with adequate tariff revisions and timely subsidy payouts are necessary to ensure the discoms' financial sustainability." Sabyasachi Majumdar

economies of scale would be important to remain competitive against overseas suppliers on a sustained basis. The share of domestic OEMs in solar power installations in the country is likely to witness a healthy growth, led by these policy initiatives over the next three to five years.

The thermal segment continues to face challenges owing to the lack of meaningful progress in signing of new long-term/medium-term power purchase agreements (PPAs), delays in payments from discoms, inadequacy of domestic coal availability and a sharp increase in the national coal prices in the recent past. Moreover, tighter environmental compliance requirements remain a key challenge for this segment.

Further, state-owned distribution utilities continue to be in a fragile financial health, due to the high level of AT&C losses, inadequate tariffs in relation to the cost of power supply, delays in subsidy support from the state governments and delays in receiving payments from state government bodies. Their overall debt burden, despite the implementation of the Ujwal Discom Assurance Yojana, is estimated to have increased to over Rs 6 trillion in 2021-22. Considering the highly subsidised power tariffs for agriculture and certain sections of residential consumers, the overall subsidy dependence is estimated to remain high at about Rs 1.5 trillion this year at an all-India level. As a result, discoms in key states continue to report losses, leading to delays in payments to power generating companies and impacting the quality of supply to consumers.

A major area of concern affecting discom finances is the significant delay in the process of tariff determination in many states. The tariff determination process for discoms for 2022-23 remains sluggish, with tariff petitions for 2022-23 being filed by 24 out of 29 states and tariff orders being issued only for 18 states. While the median tariff hike is higher in 2022-23 compared to the past two years, this is likely to remain inadequate, considering the expected increase in the power purchase cost for discoms in 2022-23 due to the rising dependency on costlier imported coal.

Sambitosh Mohapatra

Emerging from the setback of tepid demand and investments due to Covid-19, the past year provided multiple green shoots of sector revival and growth. A few key indicators of the power sector's progress over the past year have been captured below:

- **Demand spurt post Covid-19:** The peak power demand in 2021-22 went up to around 203 GW, increasing by 6.4 per cent over 2020-21, driven by the post-Covid recovery of industries, commercial and economic activities, as well as rising per capita consumption. Subsequently in July 2022, the demand surged further, hitting an all-time high of 215 GW. It shows positive signs of demand revival, growth and investments in the sector resulting in improved efficiency of TPPs – all-India PLF went up to 58.9 per cent in 2021-22 compared to 54.6 per cent in the previous year.
- **Dampening operational and financial efficiencies:** AT&C losses and the average cost of supply (ACS)-average revenue realised (ARR) gap of discoms dipped due to the impact of poor billing and collections during the initial phases of Covid-19. It has impacted payables to gencos, which have gone up to Rs 1,100 billion, creating risks of non-performing assets and slowing down investments.
- **Focus on carbon reduction targets, paving the energy transition pathway:** With the country surpassing 403 GW of installed capacity, renewable energy (including hydro) has touched 40 per cent of the energy mix. In 2021-22, 15 GW of the total 17 GW added during the year is from renewable energy sources.

In November 2021, during COP26, India put itself on a pedestal by pledging to achieve net zero carbon emission by 2070. The targets for 2030 include ensuring 500 GW of non-fossil-based installed capacity, 50 per cent of energy requirement coming from renewables, cutting down the net projected carbon emission by 1 billion tonnes and reducing carbon intensity by more than 45 per cent. A plan has also been put in place to phase out older TPPs after completion of the PPA tenure or beyond 25 years from the commercial operation date, with guidelines issued for enabling discoms for exiting PPAs from such plants.

The introduction of the Electricity (Promotion of Generation of Electricity from Must-Run Power Plant) Rules, 2021 ensures that renewable energy power plants do not suffer any curtailment or regulation on account of merit order despatch or other considerations. The waiver of interstate transmission system charges for transmission of electricity generated from solar, wind, hydro, pumped storage and battery energy storage system projects till June 2025 will also act as

"Consumers are being empowered with access to real-time consumption data through smart metering and mobile apps, becoming prosumers and playing a greater role in the energy transition journey." Sambitosh Mohapatra

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CareEdge IN MEDIA

The Hindu's 'In Focus' Podcast
CareEdge Chief Economist Rajani Sinha spoke on RBI's norms on hedging against exchange rate risks.

PODCAST

RBI's norms on hedging against exchange rate risks | In Focus podcast

K. Bharat Kumar

In Focus by The Hindu
RBI's norms on hedging against exchange rate risks | In Focus pod...

Megaphone

Rajani Sinha speaks to us on RBI's recent norms on banks having to hedge against foreign currency exchange rate risk, and what the trigger for the move is.

CareEdge Chief Economist Rajani Sinha discussed ways to tackle inflation on SANSAD TV.

CareEdge IN MEDIA

Divyesh Shah, Director, and Namrata Gupta, Assistant Director, wrote in the EPC World magazine on why CareEdge expects the office leasing segment to remain stable in the near term.

Real Estate

Commercial leasing: Back to office reality

Indian Economy

Driven by geo-political tensions and pandemic induced restrictions, India's Gross Domestic Product (GDP) grew at a sub-par rate of 8.70% in FY22 (FY refers to the period April 01 to March 31). However, it recorded growth of 13.50% in Q1FY23 (y-o-y), up from 4.10% in Q4FY22 (y-o-y). The high GDP growth in Q1FY23 can, in large part, be attributed to the favourable base. All three major sectors - agriculture, industry and services - witnessed a loss in momentum compared to the previous quarter. When compared with the pre-pandemic period of Q1FY20, GDP has recorded a modest growth of 3.8%.

Quarterly GDP Growth

% y-o-y	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
	-23.8	-6.6	0.7	2.5	20.1	8.4	5.4	4.1	13.5

Source: Ministry of Statistics and Programme Implementation (MOSPI), CareEdge

Although green shoots are visible on consumption and investment front, we need to be wary of the economic slowdown and its implications on the Indian economy in the coming quarters. CareEdge expects, normalization of monetary policy and weaker external demand weighing on economic activities. Hence, CareEdge has revised its GDP growth projection downwards to 6.80-7.00% for FY23 from earlier projection of 7.10%. The sovereign outlook though remains stable with a view that the impact of Russia-Ukraine conflict, rising inflation and deterioration in global economic health is improbable to derail India's ongoing recovery from the pandemic in 2022 and 2023. Strong economic fundamentals, higher capital buffers and adequate liquidity are factors which are expected to withhold the Indian economy.

Indian commercial real estate market

Pre-pandemic, the Indian office real estate segment demonstrated remarkable growth for three years. Covid-19 pandemic stalled the growth momentum which impacted the Indian office space market steeply. Post-pandemic, new completions and absorptions witnessed a recovery across 7 key geographies (Bengaluru, MMR, NCR, Chennai, Hyderabad, Pune, and Kolkata). CareEdge observed, though the developers offered some relief to occupiers by way of rent deferrals, camp discounts of 2-3 months, etc. thereby reducing their overall rental outflow burden, the rental rates remained stable. Large players with

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Article

Source: CareEdge

Demand-supply-vacancy trend

	CY2018 (A)	CY2019 (A)	CY2020 (A)	CY2021 (A)	CY2022 (E)
Vacancy (%)		14.00	17.20	19.10	21.00

Supply (msf) ▬ Gross absorption (msf) —●— Vacancy (%)

Source: Embassy REIT

strong liquidity, having diversified portfolio of assets and low leverage, were less impacted by the pandemic.

Hence, there have not been any major rating downgrades in the office space leasing segment in CareEdge Ratings' portfolio since the pandemic. It is also noted that leasing culture is taking up a new shape wherein with hybrid working model setting in, large business operators are inclined toward shaving office at a single prime location of the city with limited seating arrangements and closing down offices from various locations.

H1CY22 (CY refers to the period January 01 to December 31), reported strong comeback marked by highest quarterly leasing in Q2CY22. CareEdge has observed that back-to-office though in hybrid mode by the Information Technology (IT)/ Information Technology enabled Services (ITeS) and robust hiring has resulted into pent-up demand of office spaces in key cities. Net absorption in Q2CY22 was nearly 197% up y-o-y while new office completions was lower by 11% y-o-y. Bengaluru led the market witnessing highest number of new leasing activities in Q2CY22. The city also recorded highest major office transactions and is leading the pan-India absorption at 33% share in H1CY22 (Source: Embassy Real Estate Investment Trust (REIT)).

Rise in absorption coupled with lower new supplies in Q2CY22 has resulted into lower vacancies driven by key markets, Mumbai, Chennai, Kolkata and Pune.

www.epcworld.in 67

Real Estate

During H1CY22, IT/ITeS sector, E-commerce and banking, financial services, and insurance sector (BFSI) reported an increase in the leasing activities. Yet IT and ITeS continued to drive office space demand in the country followed by manufacturing/industrial sector. A shift in demand for office size was noted wherein small sized occupiers (<0.05 mn sqft) contributed higher towards absorptions. CareEdge notes that properties operational for more than 8-10 years may witness risk of vacancy and lower than micro market rentals given new supplies.

Flex workspaces: The pandemic opened roads for flex workspaces (workplaces to suit the objective of the occupiers). Of the key geographies, Bengaluru market is leading the culture with other major contributors like Hyderabad, Delhi/NCR, and Pune. Based on CareEdge's interaction with market players; given the demand, supply in H1CY22 has reached 75% of full year CY21 flex stock. The distribution of flex space is skewed towards new business districts (NBDs) followed by central business districts (CBDs) and peripheral. The pricing perspective, mobile workforce, access to new talent pools are the driving factors for tier 2 and tier 3 cities to be new home for flex operators.

Non-tech industries including BFSI, consulting and telecom, media and healthcare segments are likely to drive the demand of flex office space in near to medium term though may remain dominated by IT/ITes. CareEdge notes, that start-ups have been leading the flex space leasing activities. The operators have now realised that flex workspace is cost saving with limited capex, time saving with ready availability, short to medium term availability and well suited for smaller teams.

Investments in sector: The uncertainty caused due to the pandemic Covid 19 has shaken the confidence of the investors evidenced from Q-o-Q fall in foreign direct investment (FDI) equity inflows. Interestingly, domestic investors have presented a strong come back in the market accounting 38% share in total investments in H1CY22 and expansion by 13% to reach USD2.6 billion compared to same period previous year (Source: Industry news). Investors are now positively looking at the real estate segment of which office space has driven the investment inflows accounting 48% of the total inflows. This is followed by the organised retail sector contributing 19%.

Outlook: CareEdge believes, office leasing segment is likely to remain stable induced with many positive developments upcoming in the sector. New office completions and absorption metrics is expected to improve in near term with pandemic receding and business returning to normalcy. Rental rates though monitorable, are expected to remain stable given higher vacancies and corporates moving to tier 2 and 3 cities to decentralise. Further, despite the backdrop of ease in exit to investors, the investment in the sector is expected to rise. Market has demonstrated healthy take away to investors in real estate sector, particularly (REIT).

In terms of end user industry, though non-tech sectors are witnessing rise in various parameters, dominance of IT and ITeS is expected to continue in leasing activity over medium term due to massive business accruals post second wave of the pandemic, return of employees to their workplaces though in hybrid mode, social distancing norms resulting in de-densified office spaces, etc. are expected to influence the demand positively.

The sector was one of the fastest to recover from the impact of the pandemic and is projected to reach 1.2 billion sq ft valued at $ 165 billion across 7 key markets by 2030 (source: Industry news). However, inflation control measures by RBI may further rise the interest rates on debt resulting into dilution of profitability which cannot be neglected. Interest rates may remain monitorable over medium run.

CareEdge understands that large occupiers are expected to drive the leasing activity given their plans on expansions. The co-working space is expected to grow at 20-30% in terms of seat absorption as companies adopt the hybrid model of working. Grade-A properties with superior infrastructure are expected to exceed 700 million sq ft with Delhi / NCR having largest share of the pie, as occupiers focus on sustainable workplaces. Overall credit profile of organised developers/ institutional players is likely to remain stable for office spaces particularly large players owing to [illegible] Grade A assets. The visible rise in demand is likely to push the supplies over medium term.

DIVYESH SHAH
Director
CareEdge

NAMRATA GUPTA
Assistant Director
CareEdge

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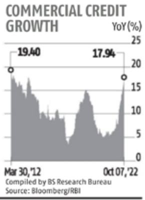
CareEdge IN MEDIA

MUMBAI | FRIDAY, 21 OCTOBER 2022 Business Standard

Credit growth rises to 10-year high of 18%

ABHIJIT LELE
Mumbai, 20 October



Compiled by BS Research Bureau
Source: Bloomberg/RBI

Bank credit rose 17.94 per cent year-on-year (YoY) to ₹128.6 trillion as of October 7 this year to reflect festival and second quarter (Q2) demand, according to data from the Reserve Bank of India (RBI), and at a 10-year high by another estimate.

According to data from Bloomberg, credit growth is the highest since June 2012, when it touched 18.32 per cent.

Bank deposits increased 9.62-per cent YoY to ₹172.72 trillion as of October 7. Sequentially, commercial banks raised ₹2.41 trillion in deposits in the fortnight ended October 7.

As for credit growth fortnightly, the outstanding loan book of scheduled commercial banks grew 1.82 per cent (₹2.31 trillion), from ₹126.29 trillion on September 23 this year. The YoY growth in credit was 16.4 per cent as of September 23, 2002.

Bankers said the demand from the retail segment increases during festivals. Also, credit taken by corporates is higher ahead of the end of Q2 of a financial year.

A part of this build-up may reverse in the early part of the third quarter. There is a shift in fund-raising activity — from debt to loans — as lending rates in the market have hardened due to tight liquidity conditions.

Rating agency CareEdge's analysis said last week that credit growth is likely to continue in the short term due to the festival season. After modest credit growth in recent years, the medium-term prospects look promising with diminished corporate stress and substantial buffer for provisions. However, inflation remains a key risk.

Logo

Hotels may hike corporate rates by 15% from January amid surge in demand

Most hotels are already commanding 15-20 per cent higher rates compared to 2019 for the non-contracted rooms

Shally Seth Mohile | Mumbai October 25, 2022 Last Updated at 06:05 IST

The resumption of work-from-office, and MICE and corporate travel making a strong comeback has jacked up average daily rates (ADRs) at most firms. (Representative image)

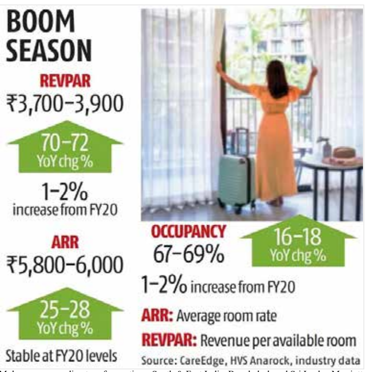
Amid a strong pan-Indian demand across segments, hotel chains in India are looking to re-negotiate contracts with corporate firms. The new rates — expected to go up at least by 15 per cent from now — will take effect from January 2023.

Renegotiating contracts is an annual exercise and hotels typically increase rates by 5-7 per cent when signing a contract for a new year, but the pandemic forced them to defer such a revision for two consecutive years.

Resumption of work from office, meetings, incentives, conferences, exhibitions (MICE), and corporate travel making a strong comeback have jacked up average daily rates (ADRs) at most firms. Most hotels are already commanding 15-20 per cent higher rates compared to 2019 for the non-contracted rooms. This is bolstering hospitality firms, prompting them to quote a higher price to corporate houses when the contracts are renewed, say hotel executives.

"International chains are looking to hike rates by 20-40 per cent for request for proposal (RFP) businesses. The idea is to mitigate losses in the last two years, with no increase in rates," said Sangeeta Mohan, director, asset management at SAMHI Hotels. SAMHI is the hotel owner and asset manager for various brands of Marriott International, IHG and Hyatt across 12 cities in India.

"Across the industry, be it Marriott or Hyatt, the diktat from the corporate office is to increase rates at least by 15 per cent," said Mohan, adding that corporates were open to it and this indicates that there is acceptance in the market.



Sachin Mylavarapu, area director of operations, South & East India, Bangladesh and Sri Lanka, Marriott International, said the quantum of increase hotels get at the time of contract renewal will be guided by the volume of business. "There has been some correction in the last couple of years, but it is yet to reach the 2019 levels," he said, referring to the corporate rates.

In a recent interview to *Business Standard*, Mark Willis, CEO, India, Middle East, Africa and Turkey, at French hospitality major Accor, said, "I am encouraging the team here to push up the rates across the country as the demand is pretty strong."

Mumbai and Delhi are in the same league as New York, Hong Kong, London and Paris, still the rates they command are behind by at least 30-40 per cent. The rate in the luxury segment in the two Indian cities is $150-$180, while in London it is $400-450. That's a big difference. "This is something we are looking to change," he said.

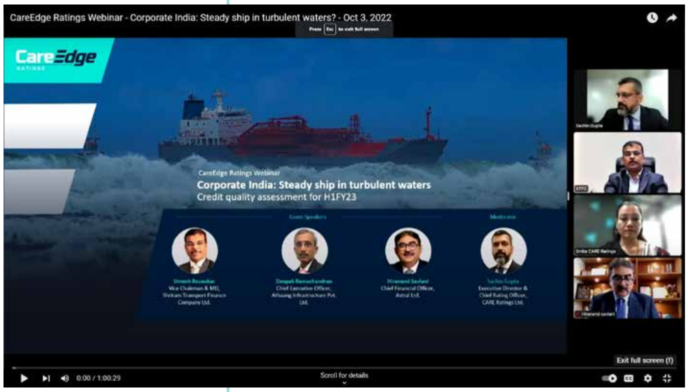
Increase in special negotiated rates for corporates also jack up the rates of rooms that are non-contracted and prices inch up for retails segment, too. This quantum of increase for the latter is higher, explained Mohan.

An email to Indian Hotel, ITC Hotel and Radisson on Friday, remained answered.

For FY23, CareEdge expects the pan-Indian average hotel occupancy to be at 67-69 per cent, which shall surpass the pre-Covid levels and the average room rate of Rs 5,800-6,000, thereby leading to margin expansion for the players, the credit rating firm said in a report last week.

Webinars

1 CareEdge hosted a webinar titled 'Corporate India: Steady ship in turbulent waters?' on October 3, 2022. The panel comprised eminent speakers -- Mr Umesh Revankar, Vice Chairman & MD, Shriram Transport Finance Company Limited, Mr Deepak Ramachandran, Chief Executive Officer, Athaang Infrastructure & Mr. Hiranand Savlani, Chief Financial Officer, Astral Ltd. The discussion was moderated by Sachin Gupta, Chief Rating Officer. Smita Rajpurkar, Director, also gave a presentation highlighting the CareEdge views and insights.



https://youtu.be/PfZVbzDvRZg

2 CareEdge Ratings successfully hosted a webinar titled 'Indian Airports - Smooth Runway Post Pandemic' on Wednesday, October 19, 2022. The panel comprised eminent speakers -- Mr Sundeep Malik Head, Portfolio Development, Zurich Airport International & Mr GRK Babu CFO, Airport Sector, GMR Airports Holding Limited. The discussion was moderated by Rajashree Murkute, Senior Director. Maulesh Desai, Director, presented CareEdge's view on the sector.

https://youtu.be/Z0g65EQUehk

HR Initiatives

Diwali Celebrations at CareEdge

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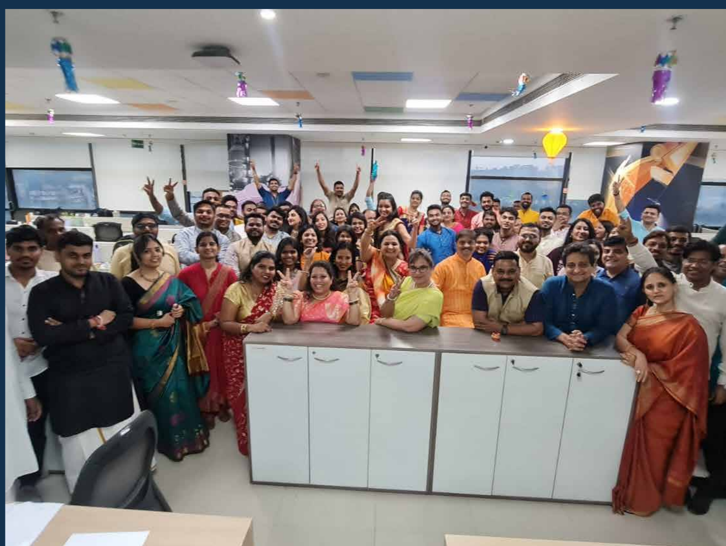

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