FIRST LIGHT

25 November 2022

RESEARCH

BOB ECONOMICS RESEARCH | TRADE

Trends in India's trade and impact of global economy

BOB ECONOMICS RESEARCH | INTEREST COVER

Falling interest cover more due to declining profits

SUMMARY

INDIA ECONOMICS: TRADE

India's trade deficit in FYTD23 has surged to US$ 175bn as of Oct'22 compared with US$ 94bn in FYTD22, driven by faster pace of import growth (due to revival in domestic activity and higher commodity prices). Imports are higher at US$ 437bn in FYTD23 versus US$ 328bn last year. At the same time, exports have risen at a slower pace and have reached US$ 262bn in FYTD23 so far compared with US$ 234bn last year. Our analysis shows that negative impact of slowing global growth will outweigh the positive impact through a depreciating currency. We thus expect CAD to inch up to 3.5% of GDP in FY23, from 1.2% in FY22.

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INDIA ECONOMICS: INTEREST COVER

Interest rate cycle has taken a reversal if we compare H1 of FY23 to H1 of FY22. From an ultra- low rate of 4% in H1FY22, repo rate has been raised to 5.9% in H1FY23. In this context it is important to examine how the interest coverage ratio for the corporate sector has fared. This is an important indicator as it measures the debt servicing capacity of companies. Undoubtedly, in the current rising rate cycle, the interest coverage ratio (ICR) measured as ratio of Earning before Interest and Tax/Interest Payments, has come down. However, a decline in ratio should be viewed with caution as profits in general have also fallen this year for non-finance companies.

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Daily macro indicators

Indicator	22-Nov	23-Nov	Chg (%)
US 10Y yield (%)	3.76	3.69	(6bps)
India 10Y yield (%)	7.29	7.29	0bps
USD/INR	81.67	81.85	(0.2)
Brent Crude (US$/bbl)	88.4	85.4	(3.3)
Dow	34,098	34,194	0.3
Hang Seng	17,424	17,524	0.6
Sensex	61,419	61,511	0.1
India FII (US$ mn)	**21-Nov**	**22-Nov**	**Chg ($ mn)**
FII-D	(359.7)	20.0	379.7
FII-E	(149.3)	(29.0)	120.3

Source: Bank of Baroda Economics Research

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TRADE

24 November 2022

Trends in India's trade and impact of global economy

Sonal Badhan
Economist

India's trade deficit in FYTD23 has surged to US$ 175bn as of Oct'22 compared with US$ 94bn in FYTD22, driven by faster pace of import growth (due to revival in domestic activity and higher commodity prices). Imports are higher at US$ 437bn in FYTD23 versus US$ 328bn last year. At the same time, exports have risen at a slower pace and have reached US$ 262bn in FYTD23 so far compared with US$ 234bn last year. Our analysis shows that negative impact of slowing global growth will outweigh the positive impact through a depreciating currency. We thus expect CAD to inch up to 3.5% of GDP in FY23, from 1.2% in FY22.

Exports performance:

Latest data shows that India's exports in 7 months of FY23 (Apr-Oct) have risen to US$ 262bn (+11.8%) from US$ 234bn (+55.6%) last year and US$ 185bn in the pre-pandemic period (FYTD20). This growth has been led by higher exports of petroleum products (US$ 49.7bn versus US$ 33.9bn last years), followed by agri (US$ 22.9bn versus US$ 20.bn) and chemical (US$ 17.9 versus US$ 16.5bn) products. Exports of pharma and gems & jewellery also rose, albeit more moderately. Together these products contribute to 51% of total exports. On the other hand, exports of textiles and engineering goods, contributing to 31% of total exports, have fallen in FYTD23 so far to US$ 19.7bn and US$ 62.5bn respectively, from US$ 21.7bn and US$ 63.9bn last year.

Jump in oil exports is mainly on account of higher prices (US$ 103.2/bbl (+42%) versus US$ 72.9/bbl (+88%) last year). Dip in textile exports (-9.2% in FYTD23 from 59.2% in FYTD22) has also dragged its production down (-5.5% during Apr-Sep'22 versus +68.4% in Apr-Sep'21). On the other hand, increase in exports of chemical products (+8.7% in FYTD23 versus 35.6% in FYTD22), has contributed to 10.3% increase in production during Apr-Sep'22 compared with 13.9% increase seen in FYTD22.

Improvement in exports has also contributed to pick up in credit growth of industries, which has risen by 12.6% in FYTD22 (Apr-Sep'22) compared with 1.7% increase in FYTD22. Within this, credit to petroleum industry has gone up by 76% (20% last year) and credit to chemical sector has gone up by 23% (2%). Credit to textiles (4.9% versus 7.3%) and gems and jewellery (5.4% versus 14%) has weakened compared with last year. On the contrary, despite decline in engineering exports (-2.3% during Apr-Oct'22 versus 60% increase during Apr-Oct'21), credit to the sector has increased (14% versus 3%).

INTEREST COVERAGE

24 November 2022

Falling interest cover more due to declining profits

Dipanwita Mazumdar
Economist

Interest rate cycle has taken a reversal if we compare H1 of FY23 to H1 of FY22. From an ultra- low rate of 4% in H1FY22, repo rate has been raised to 5.9% in H1FY23. In this context it is important to examine how the interest coverage ratio for the corporate sector has fared. This is an important indicator as it measures the debt servicing capacity of companies. Undoubtedly, in the current rising rate cycle, the interest coverage ratio (ICR) measured as ratio of Earning before Interest and Tax/Interest Payments, has come down. However, a decline in ratio should be viewed with caution as profits in general have also fallen this year for non-finance companies.

We have examined which industries have been impacted the most in terms of rising interest payments and declining profit in terms of interest cover ratio. Further, classification with respect to turnover wise also reveals some interesting conclusions. Our sample includes 3053 companies (excluding banks and finance companies).

Some interesting results:

- With 190bps hike in repo rate and 96bps hike in WALR of SCBs on fresh rupee loans in H1FY23, ICR of companies has come down.
- It fell down to 4.60 in H1FY23 from 5.41 in H1FY22.
- Excl. IT and FMCG companies, the ratio is even lower at 3.72 in H1FY23.
- However, the fall in ICR can be attributed more due to fall in profits rather than rising interest payments for most sectors.
- What is worrisome is that the concentration of deteriorating ICR is for infra, power, telecom, iron and steel and construction material sectors which are all linked to the infrastructure space.

Interest payment increased in line with rising rate cycle:

- H1 of FY22 witnessed lowest repo rate of 4%. However, with rising inflation and tightening financial conditions globally, the rate cycle went for a complete reversal. With a 190bps repo rate hike materializing in H1FY23, interest cost of companies rose sharply. It rose by 13.9% in H1FY23 compared to 6.3% decline in H1FY22.
- Gross profit on the other hand fell by 1.1% in H1FY23 (on account of rising raw material cost) compared to 62.1% increase in H1FY22.
- A combination of the above led to decline in ICR of companies. It fell to 4.60 in H1FY23 from 5.41 in H1FY22 Notably, in H1FY23, weighted average lending rate of SCBs on fresh rupee loans have increased by 96bps to 8.59% in Sep-22 against 7.63% in Mar'22. In the same period of previous year WALR have fallen by 2bps. Credit offtake in the same period witnessed double digit growth of 16.4% in H1FY23 compared to 5.6% in H1FY22 and 5.1% in H1FY20.

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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