Red Sea crisis reflects on India Inc's Q3 show

AMRITHA PILLAY
Mumbai, 8 February

Indian companies are beginning to report early signs of the Israel-Hamas conflict's impact on business operations, limited to those with exposures to either commodity supplies or related foreign markets.

The rise in freight costs, delays in deliveries, and shrinkage in export market size, with resultant margin recovery delays, are some of the challenges faced, informed by industry executives. However, a handful are hopeful to gain from discounted commodity supplies.

Capital goods and engineering companies like Bharat Electronics (BEL), TD Power Systems, and KEC International have noted some operational strain owing to Red Sea woes.

In a call with analysts, top executives from BEL informed that the Israel-Hamas conflict has been affecting despatches, leading to a spillover of ₹400-500 crore in the 2023-24 October-December quarter, which landed in the first week of January.

Indian companies use the Red Sea route through the Suez Canal to trade with Europe, North America, North Africa, and part of West Asia. These regions accounted for 50 per cent of India's exports worth ₹18 trillion and 30 per cent of imports worth ₹17 trillion in 2022-23, according to CRISIL Ratings data.

Turn to Page 6

RIPPLE EFFECTS

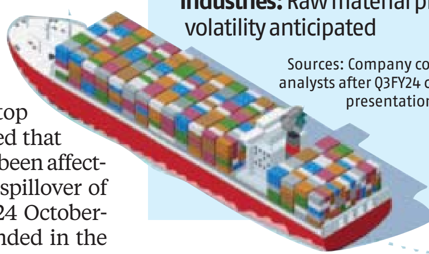
Bharat Electronics, TD Power Systems, and KEC International: Higher freight costs, longer delivery time, margin recovery delays

Gokaldas Exports: Higher insurance cost, delayed delivery, and capacity crunch for the industry

Kajaria Ceramics: Shrinkage in export market, likely diversion of products to the domestic market

Century Textiles, Supreme Industries: Raw material price rise, volatility anticipated

Sources: Company commentary to analysts after Q3FY24 call, company presentations, brokerage reports



PMO to review Red Sea impact on trade

Top officials at the Prime Minister's Office (PMO) are expected to review the developments related to the troubled Red Sea region and its impact on trade and logistics in the week, people aware of the matter said. **SHREYA NANDI** writes

5

seen banks going down in the past, and they might have their own fears due to uncertainty around the payments bank," said Ambareesh Baliga, an independent equity analyst.

Paytm Payments Bank board in the spotlight

"The independent directors should now ensure there are no further slip-ups in processes. Otherwise the customers will be left high and dry," said Amit Tandon, founder & managing director of proxy advisory firm Institutional Investor Advisory Services India.

Tandon added that the board should ensure the company's management provided enough and accurate information, and that was shared with the regulators responsibly. "Independent directors are responsible for strategy on one level, and for the governance framework and associated processes on another."

Red Sea crisis...

TD Power Systems noted that the rise in shipping costs and time is not dramatic; however, it is forcing the company to work on shorter delivery cycles to remain competitive, executives told analysts this month.

The combined effect has shifted margin recovery timelines for companies such as KEC International, which has about 40 per cent of its clients overseas. Analysts from Nuvama, in a note on the company, said the crisis has led to a spike in freight costs in the near term for KEC's international sales, delaying its earnings before interest, tax, depreciation, and amortisation margin recovery to 9–10 per cent to 2025-26.

Not limited to engineering exports, food and apparel exports are also facing the heat. Executives with Adani Wilmar informed analysts of issues around containers shipped to Europe, the US, and even Jeddah. Their rice exports to these geographies are facing slow movement, and freight cost increases.

Kajaria Ceramics has noted a slowdown in the volume of despatches to foreign markets. Company executives noted a container to the UK is costing $4,000 at present against $600 in December.

Gokaldas Exports said the issue has led to an increase in insurance costs, and alternative routes are resulting in delayed delivery and capacity crunch.

Others importing raw materials are either reporting higher costs or anticipating one.

Century Textiles and Industries noted there has been a rise in raw material costs, while Supreme Industries anticipates volatility in polymer prices if the conflict spreads widely, as it has disrupted normal business flow.

Some definite cost winners are gaining from these geopolitical concerns, those placed with favourable commodity exposures. Executives from Shree Cement hope to gain a fuel cost advantage, as South African coal struggles to reach European markets. "Like Russia, they have started offering South African coal at a discount to international prices to Indian consumers," company executives told analysts, adding these fuel cost gains should show in the ongoing quarter.

For oil-marketing companies in India, while the Red Sea conflict may pose challenges in selling finished products to European markets, some of these are hopeful of a neutral to positive impact.

"Right now, we are not impacted by the Red Sea issue. Until about April, we too are covered," said executives from Bharat Petroleum Corporation, a sentiment echoed by their counterparts at Hindustan Petroleum Corporation.

Analysts note that Indian refiners with capabilities to refine difficult crude, particularly Reliance Industries, also stand to gain from 'opportunity crude'. Opportunity crude refers to crude oil that is heavy-sour or low grade, but available at discounts.

More on business-standard.com