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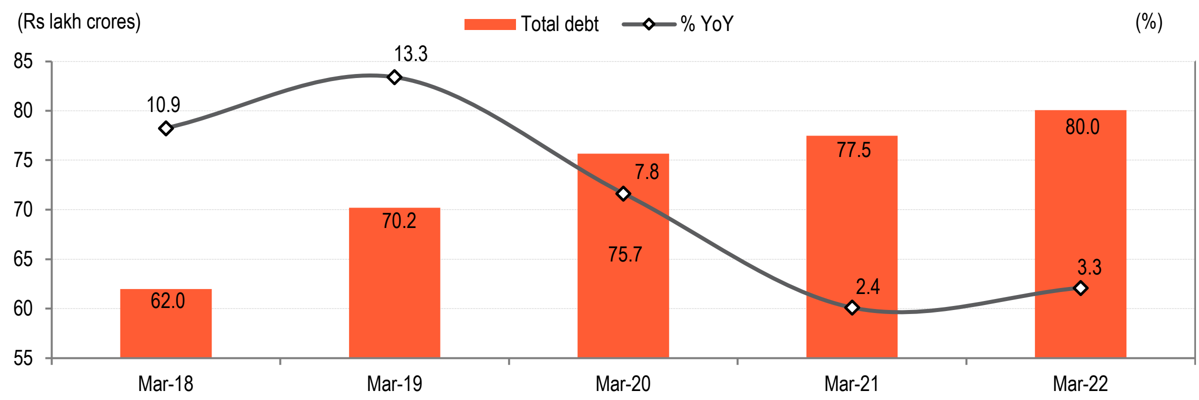
Corporate debt structure in India

During the peak of Covid-19 pandemic, a phenomenon which gained prominence amongst Indian corporates was deleveraging-or a decline in overall debt. Despite lower interest rates, disruptions related to output and demand affected not only production but also investment decisions by companies which led to a decline in overall debt. Companies either repaid their costly debt or used their own funds to finance investment. In this study, an attempt has been made to understand the movement in overall debt of India Inc. over the last five years i.e. FY18 to FY22 and analysis the trends thereof.

For this exercise, a sample of 6,742 companies (ex. banks) has been considered, which are spread across 34 broad sectors and is based on the audited annual reports of these companies. Following observations can be made:

- From Rs. 62 lakh crores in FY18, total debt of India Inc. increased to Rs. 75.7 lakh crores in FY20. The pace of increase has slowed down since. In fact, in terms of YoY growth, after increasing at an average pace of 10.6% between FY18 to FY20, the pace of growth has come off to just 2.9% in FY21 and FY22.
- In terms of incremental debt as well, while debt increased at an average pace of Rs. 6.6 lakh crores per year between FY18 to FY20, it increased by only Rs 4.4 lakh crores in the next two years.
- Overall, in the last 5 years, debt has grown at a CAGR of 7.4%.

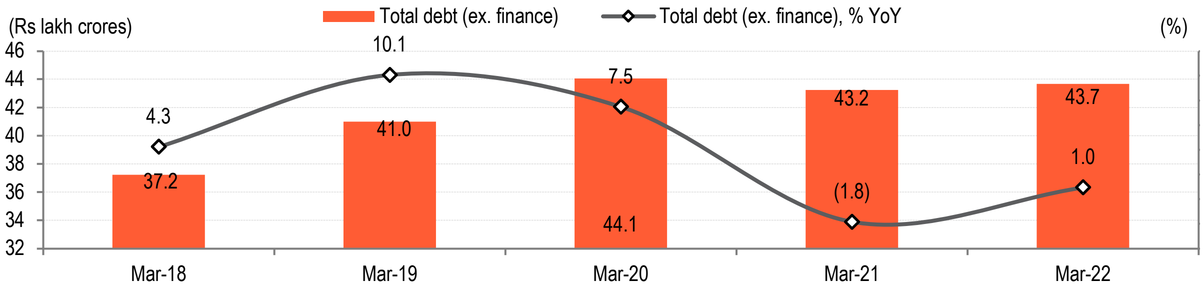
Figure 1: Movement in overall debt



Source: AceEquity, Bank of Baroda Research

It is to be noted that the finance sector is the dominant one and accounts for nearly 50% of total debt in FY22. Hence, we analyze the trend in overall debt after removing the finance sector. The sample size reduces to 6,223 companies. After rising by 10.1% in FY19, the growth in debt has slowed down successively in the subsequent years. In fact, debt actually declined by 1.8% in FY21, and registered a marginal increase of 1% in FY22. In terms of absolute levels, debt has remained stagnant at ~Rs 43-44lakh crores in the last 3 years. Interestingly, this also coincides with the period of a slowdown in fixed asset creation by these companies. We highlighted this issue in detail in one of our recent report which can be accessed from here.

Figure 2: Movement in debt (excluding finance)



Source: AceEquity, Bank of Baroda Research

<u>Sector wise growth in debt</u>

Next, we analyze the trend in sector wise growth in debt. Some interesting observations that can be made are:

- In terms of share, the highest concentration of debt is in the finance sector at 45.4% in FY22. This comprises non-banking finance corporations (NBFCs), housing finance corporations (HFCs) and term-lending institutions. Notably, NBFCs and HFCs together account for over 60% of debt in this sector. This is because many of the NBFCs and HFCs are not allowed to accept deposits from the public and hence rely on borrowings to lend. Interestingly, while the debt of the overall sample rose by a CAGR of 7.4% during this period, debt in this sector increased at a higher rate of 12.5% in the last 5 years.
- The next three sectors, i.e. power, telecom and crude oil accounted for 27.8% of the total debt in FY22. High capital expenditure requirement in these sectors is the primary reason for higher debt in these sectors.
- In the power sector, debt increased by 5% between FY18-FY22, which was lower than the overall growth in debt.
- Telecom sector accounted for 7% of total debt in FY22. Notably, the total debt in the sector has increased at a sharp pace of 12% on a 5 Year CAGR basis, much higher than overall industry growth. Expenditure related to 5G spectrum auctions is the primary driver for increased debt levels in this sector in recent times. Importantly, two major companies accounted for over 50% of the total debt in this sector.
- In case of crude oil, debt increased at a CAGR of 9% to Rs 4.7 lakh crores in FY22. Higher working capital needs and a squeeze in profit margins due to elevated oil prices, was one of the factors behind this.
- In the infrastructure sector, debt increased at a subdued pace of just 4.8% on a CAGR basis. Lockdown restrictions in FY21 and FY22, amongst other factors impacted this sector.
- Debt in the iron and steel declined 3.4% in the last 5 years. This sector had been deleveraging at an accelerated pace during the pandemic, as higher prices improved profitability. In fact, debt in the sector reduced by 11.8% in FY21 and further by 12.3% in FY22. However, the situation is expected to have reversed in FY23 with government’s capex push and increased demand from real estate sector necessitating the need for additional capacity.
- Growth in debt for real estate was at a much slower pace of 1.5% amidst a fall in demand.

- For the auto sector, debt increased at a pace of 5.2% on a CAGR basis in the last 5 years. It must be noted that this sector faced multiple challenges in the form of lower demand during the Covid-19 pandemic, semiconductor issues etc. which impacted profitability.
- Apart from these major sectors, several others noted debt growth lower than the industry growth. These include: chemicals, textiles, logistics etc. On the other hand, for sectors such as retailing, trading and consumer durables the increase in debt was at a faster rate than the industry level in the last 5 years.

Table 1: Sector wise distribution and growth in debt

Sector	No. of companies	Share in total debt in FY22	Debt in FY22, Rs. Crores	CAGR (FY18-FY22)
Finance	519	45.4	36,37,635	12.5
Power	195	15.0	11,96,813	5.0
Telecom	48	7.0	5,61,728	12.0
Crude Oil	35	5.9	4,69,100	9.0
Infrastructure	321	4.5	3,60,359	4.8
Iron & Steel	278	3.0	2,41,619	(3.4)
Realty	367	2.6	2,10,363	1.5
Automobile & Ancillaries	468	1.7	1,37,716	5.2
Chemicals	362	1.5	1,20,082	1.3
Logistics	138	1.4	1,14,015	5.9
Textile	439	1.3	1,05,697	(0.4)
Healthcare	360	1.0	82,566	(1.5)
Capital Goods	562	1.0	80,240	6.3
Construction Materials	157	1.0	76,902	(3.9)
Non - Ferrous Metals	75	1.0	76,268	(1.2)
Retailing	58	0.7	57,050	25.9
Agri	240	0.7	53,912	(0.5)
FMCG	369	0.7	53,480	2.1
Trading	422	0.7	53,302	8.6
Miscellaneous	264	0.6	48,462	3.1
IT	230	0.4	34,430	0.6
Diamond & Jewellery	58	0.4	31,617	4.7
Hospitality	114	0.4	30,655	1.2
Aviation	13	0.4	29,520	(12.4)
Plastic Products	186	0.3	21,156	1.0
Media & Entertainment	114	0.3	21,025	(2.8)
Paper	92	0.2	19,214	(1.0)
Mining	32	0.2	18,160	(4.7)
Gas Transmission	10	0.2	14,107	(9.2)
Diversified	19	0.2	13,201	(1.4)
Electricals	81	0.1	10,336	4.5
Consumer Durables	64	0.1	10,201	7.7
Inds. Gases & Fuels	21	0.1	8,207	(9.3)
Alcohol	31	0.1	4,837	(12.1)
Total	**6,742**		**80,03,974**	**7.4**

Source: Ace Equity, Bank of Baroda Research

Company wise concentration of debt:

An important point to note is that the overall debt of India Inc. is heavily concentrated within a few big conglomerates. Some interesting observations which can be made after looking at company wise profile of debt are:

- Top 100 borrowers accounted for 67.8% of total debt in FY22.
- The top 50 borrowers accounted for over 50% of the total debt in FY22.
- In fact, in FY22, the top 10 companies accounted for 32.2% of the total debt.
- For 67, out of the 100 companies, CAGR of growth in debt in the last 5 years was higher than the growth in overall debt i.e. 7.4%.

House wise concentration of debt:

In terms of ownership wise distribution of debt, major concentration of debt is seen for owner-led companies. These accounted for 51% of the total debt in FY22. The top 5 owner-led groups accounted for more than 16% of the overall debt in FY22. This increases to ~25% if another 5 owner groups are added to the list. It is also interesting to note that the CAGR growth in debt for these companies was at ~10%, which is higher than the industry average of 7.4%.

PSUs have the second largest concentration of debt in FY22 at about Rs. 26.6 lakh crores or 33% of total. In terms of CAGR growth, debt has risen at a pace of 10.9% which is higher than the growth in overall debt. MNCs accounted for a miniscule 2.2% of total debt in FY22, with a CAGR of 5.6%.

The rest of the debt is concentrated in private companies (companies which do not fall in any of the above categories). Their share stood at 13.5% of the total debt in FY22. However for these, the growth in debt was somber at just 4.4% for the period under consideration.

Debt-equity ratio:

Debt is an integral part of any business and hence should not necessarily be viewed as an aberration. Business needs require funding and hence debt is an acceptable as well as indispensable part of any business entity. Governments as well as companies rely on borrowings to fund their operations. However, the issue begets importance if the debt becomes unsustainable. There are a number of measure to assess this, however in this analysis we are limiting ourselves to the most commonly used metric which is the debt to equity ratio.

The debt-equity ratio is defined as total debt to net worth. It is imperative for this ratio to be less than 1. The table below gives the debt-equity ratio of various sectors over the last 5 years. For the purpose of this exercise, finance sector has not been included as these tend to have a higher debt-equity ratio due to the inherent nature of their business.

Table 2: Movement in debt-equity ratio sector-wise

Debt/Equity ratio	Mar'18	Mar'19	Mar'20	Mar'21	Mar'22
Agri	1.37	1.23	1.24	1.05	0.93
Alcohol	1.01	0.85	0.60	0.44	0.35
Automobile & Ancillaries	0.37	0.35	0.39	0.36	0.33
Capital Goods	0.47	0.50	0.63	0.51	0.47
Chemicals	0.83	0.87	0.84	0.55	0.55
Construction Materials	0.92	0.85	0.76	0.61	0.49
Consumer Durables	0.30	0.37	0.36	0.24	0.27
Crude Oil	0.54	0.57	0.93	0.68	0.60
Diamond & Jewellery	1.07	0.93	0.69	0.73	0.72
Diversified	0.27	0.19	0.26	0.21	0.20
Electricals	0.65	0.55	0.48	0.44	0.44
FMCG	0.44	0.40	0.33	0.32	0.29
Gas Transmission	2.67	4.73	2.60	1.65	1.23
Healthcare	0.40	0.36	0.32	0.25	0.21
Hospitality	1.96	2.05	2.17	3.74	2.97
Inds. Gases & Fuels	0.18	0.12	0.18	0.15	0.10
Infrastructure	1.61	1.85	2.05	2.02	1.70
Iron & Steel	1.69	1.46	1.36	0.93	0.60
IT	0.31	0.33	0.36	0.29	0.18
Logistics	1.06	1.08	1.24	1.10	1.04
Media & Entertainment	0.79	0.75	0.71	0.60	0.55
Mining	0.52	0.44	0.41	0.35	0.27
Miscellaneous	1.20	1.20	1.20	1.22	0.99
Non - Ferrous Metals	0.48	0.49	0.61	0.47	0.47
Paper	1.34	1.12	1.25	1.25	1.09
Plastic Products	0.50	0.48	0.52	0.44	0.39
Power	1.76	1.89	1.84	1.63	1.60
Realty	1.32	1.42	1.35	1.26	1.05
Retailing	1.27	0.99	0.86	0.84	1.42
Telecom	1.33	2.18	4.27	*	*
Textile	2.30	2.16	2.27	1.87	1.56
Trading	1.18	1.46	1.45	1.10	0.89
Total	**0.97**	**1.01**	**1.09**	**0.97**	**0.85**

Source: AceEquity, Bank of Baroda Research

Based on the above, the following points stand out:

- The overall debt-equity ratio increased to a high 1.09 in Mar’20, but has since improved to 0.85 in Mar’22.
- Debt-equity ratio for hospitality sector has remained consistently high and stood at 2.97 even in Mar’22.

- A total of 9 sectors has debt to equity ratio above 1 in FY22. These include: infrastructure, power, textiles, etc. However, for most of these sectors the debt-equity ratio has seen an improvement in the last few years, coinciding with a dip in debt.
- In 28 out of the 32 sectors, debt equity ratio has declined during the period Mar'18 to Mar'22.
- The sharpest improvement in debt-equity ratio was witnessed in gas and transmission and iron and steel sectors.

Table 4 summarizes the company wise debt-equity ratio for Mar'18 and Mar'22. Companies with a debt-equity ratio above 1 have declined from 1,543 in Mar'18 to 1,076 in Mar'22. Interestingly, 18.2% companies in the sample had a debt-equity ratio of above 2 in Mar'18. This reduced to 12.9% or 801 companies in Mar'22. Notably, the share of companies with debt-equity ratio of less than 1 has increased from 62.9% in Mar'18 to 73% in Mar'22.

Table 4: Movement in debt-equity ratio company wise

Debt-equity ratio	No. of companies in Mar'18	No. of companies in Mar'22
More than 2	1,135	801
less than or equal to 2 and more than 1.5	408	275
less than or equal to 1.5 and more than 1	763	607
less than or equal to 1	3,917	4,540
Total	**6,223**	**6,223**

Source: AceEquity, Bank of Baroda Research

Concluding remarks

The above analysis suggests that debt levels for India Inc. moderated between FY20 to FY22. However, the picture remains mixed across sector with debt levels in some sectors still remaining elevated. Companies have also been using their own resources to fund investment at time.

In the last year, we have seen a reversal in the trend of deleveraging that was taking place at an accelerated pace during the pandemic years. In FY23, overall debt of the corporate sector has grown, as companies responded to increased demand and overall improvement in economic conditions. To meet their growing needs for funds, India Inc. has started to tap into corporate bonds markets as well as banking system, thus reversing the trend seen in the last couple of years.

It is also noteworthy that the increase in debt coincided with a period of rising interest rates. Improved profitability as well as a favorable economic environment supported companies to invest in augmenting production capacities as well as raise funds for working capital requirements. A pause in the rate-hike cycle by the RBI also provides a favorable climate for companies to chalk out their long-term investment plans. This is important since, while credit growth has increased at a robust pace, much of it is has come from the retail segment, while credit offtake from the industry is still lagging. We expect this trend to reverse gradually in the coming months as private investment picks up. Debt levels may see further increase but as long as it is well leveraged as has been the case, the need for alarm looks limited.

Annexure 1: Sector wise debt in the last 5 years

Sector	Mar'18	Mar'19	Mar'20	Mar'21	Mar'22
Finance	24,75,154 ↑	29,21,930 ↑	31,60,602 ↑	34,22,012 ↑	36,37,635 ↑
Power	9,86,037 ↑	10,74,254 ↑	11,13,326 ↑	11,44,823 ↑	11,96,813 ↑
Telecom	3,47,103 ↑	4,68,035 ↑	4,10,378 ↓	5,04,970 ↑	5,61,728 ↑
Crude Oil	3,02,029 ↓	3,81,191 ↑	5,81,916 ↑	4,86,562 ↓	4,69,100 ↓
Infrastructure	3,16,524 ↑	3,34,345 ↑	3,70,281 ↑	3,76,755 ↑	3,60,359 ↓
Iron & Steel	2,87,792 ↑	2,87,635 ↓	3,12,378 ↑	2,75,488 ↓	2,41,619 ↓
Realty	2,18,696 ↑	2,27,331 ↑	2,24,801 ↓	2,19,852 ↓	2,10,363 ↓
Automobile & Ancillarie	1,05,355 ↓	1,12,911 ↑	1,23,531 ↑	1,25,814 ↑	1,37,716 ↑
Chemicals	1,10,799 ↓	1,27,396 ↑	1,33,026 ↑	1,01,780 ↓	1,20,082 ↑
Logistics	86,881 ↑	96,395 ↑	1,04,003 ↑	1,03,223 ↓	1,14,015 ↑
Textile	1,16,092 ↑	1,16,467 ↑	1,19,204 ↑	1,05,059 ↓	1,05,697 ↑
Healthcare	96,158 ↑	96,229 ↑	93,973 ↓	86,780 ↓	82,566 ↓
Capital Goods	61,715 ↑	69,175 ↑	85,051 ↑	78,519 ↓	80,240 ↑
Construction Materials	87,442 ↓	92,246 ↑	94,539 ↑	85,676 ↓	76,902 ↓
Non - Ferrous Metals	72,108 ↓	73,046 ↑	82,290 ↑	70,261 ↓	76,268 ↑
Retailing	18,790 ↑	25,725 ↑	24,980 ↓	29,937 ↑	57,050 ↑
Agri	52,503 ↓	51,865 ↓	53,468 ↑	53,534 ↑	53,912 ↑
FMCG	53,099 ↑	55,235 ↑	52,768 ↓	52,866 ↑	53,480 ↑
Trading	40,123 ↑	47,968 ↑	53,216 ↑	50,399 ↓	53,302 ↑
Miscellaneous	43,071 ↑	44,926 ↑	48,021 ↑	50,478 ↑	48,462 ↓
IT	38,310 ↑	44,930 ↑	51,869 ↑	44,058 ↓	34,430 ↓
Diamond & Jewellery	30,292 ↑	29,356 ↓	23,726 ↓	28,180 ↑	31,617 ↑
Hospitality	29,552 ↑	29,508 ↓	27,745 ↓	30,669 ↑	30,655 ↓
Aviation	63,505 ↑	66,235 ↑	68,483 ↑	77,780 ↑	29,520 ↓
Plastic Products	20,096 ↓	19,489 ↓	21,218 ↑	20,103 ↓	21,156 ↑
Media & Entertainmen	25,429 ↑	26,790 ↑	24,800 ↓	21,983 ↓	21,025 ↓
Paper	17,893 ↓	17,091 ↓	18,132 ↑	19,467 ↑	19,214 ↓
Mining	19,499 ↓	20,516 ↑	22,120 ↑	20,397 ↓	18,160 ↓
Gas Transmission	26,447 ↑	17,311 ↓	16,316 ↓	14,853 ↓	14,107 ↓
Diversified	15,931 ↑	10,797 ↓	13,263 ↑	11,791 ↓	13,201 ↑
Electricals	8,823 ↑	8,874 ↑	9,023 ↑	9,130 ↑	10,336 ↑
Consumer Durables	7,245 ↑	9,723 ↑	9,589 ↓	8,115 ↓	10,201 ↑
Inds. Gases & Fuels	9,570 ↓	7,227 ↓	10,914 ↑	10,237 ↓	8,207 ↓
Alcohol	8,216 ↓	7,966 ↓	6,855 ↓	5,206 ↓	4,837 ↓
Total	**61,98,280** ↑	**70,20,117** ↑	**75,65,803** ↑	**77,46,756** ↑	**80,03,974** ↑

Source: AceEquity, Bank of Baroda Research

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