

India Inc's overseas borrowings at 5-year low of \$26 b in FY23

Narayanan V

Chennai

Overseas fundraising of India Inc fell to a five-year low in FY23 owing rising global interest rates coupled with strong growth in bank credit and bond issuances in the domestic market.

As per RBI data, Indian corporates collectively raised \$25.98 billion through external borrowings (ECBs) in the previous fiscal, 32 per cent lower than in FY22. Prior to this, the lowest overseas borrowings in recent years was in 2016-17 when domestic corporates raised \$17.39 billion in ECBs.

RISING INTEREST RATE

Madan Sabnavis, Chief Economist at Bank of Baroda, attributes the drop in ECBs

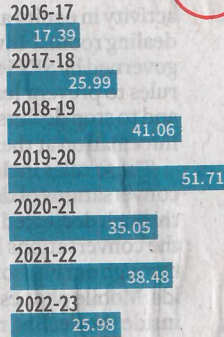
to rising global interest rates, which have made overseas borrowing pricier than domestic bank loans. "Interest rates have moved up at a higher rate in the west than in India. The repo rate is up by 250 bps while the US Fed rate is up by 450 bps. This has made borrowing costs higher," he added.

Sabnavis also said volatility of the rupee, which tended to depreciate by 7-8 per cent, also increased the risk of overseas borrowing.

In the last few years, ECBs emerged as an important source of fundraising for domestic borrowers as surplus liquidity and low interest rates made them more attractive. From \$26 billion in FY18, India Inc's external borrowings touched a historic high of \$52 billion in FY20. It then slumped to \$35 billion in FY21 as the Covid-19 pandemic-led un-

India Inc's ECBs

Amount raised (in \$ billion)



Source: RBI

certainties forced corporates to postpone fundraising and expansion plans. In FY22, India Inc's overseas borrowing stood at \$38.48 billion.

In his recent interaction with *businessline*, Indranil Pan, Chief Economist at

YES Bank, had said there would be limited appetite for ECBs due to high interest rates in the rest of the world.

Another major reason for the drop in ECB volume is the strong growth in bank credit to non-banking financial companies (NBFCs). As per RBI data, bank credit to NBFCs grew by 30 per cent year-on-year to ₹13.31-lakh crore as of March 2023 (₹10.22-lakh crore as of March 2022). NBFCs typically account for 35-40 per cent of India Inc's external fundraising.

Besides, Indian corporates, especially financial institutions, raised record funds through bond issuances in the domestic market. In its latest report, Prime Database said over 800 corporates and institutions mobilised a record ₹8.3-lakh crore through

private placement of corporate bonds in FY23, amid pricier overseas borrowings and higher interest rates at home.

The highest mobilisation in the previous fiscal was by the all-India financial institutions/ banks category at ₹4.17-lakh crore, as compared to ₹2.68-lakh crore in 2021-22.

INVESTMENT ACTIVITY

Bank of Baroda's Sabnavis added that basic investment activity has been low-key in FY23, and hence demand for long-term funds through ECBs has fallen.

A recent report by CARE Edge said that while new investment proposals jumped to ₹29.4-lakh crore in FY23 (from ₹22.4-lakh crore in FY22), actual project completion dipped to ₹5.5-lakh crore in FY23 from ₹6.3-lakh crore in FY22.