

Economy

Overseas borrowing plunges in Q1

NARAYANAN V Chennai | Updated on August 16, 2021



Muted credit demand, absence of major expansion plans by corporates key reasons

After hitting a four-quarter high of \$15.52 billion in Q4 FY21, overseas fund-raising by India corporates nosedived to \$4.59 billion in the first quarter of the current fiscal amid muted credit demand and absence of major expansion plans by domestic corporates.

“There are two major reasons (for the drop in ECBs). First, the investments did not take off in the first quarter due to the second wave and lockdown. Second, the overall investment scenario in the country itself is still very dull, and it is getting reflected in the external borrowings also,” said Madan Sabnavis, Chief Economist at CARE Ratings. In the first quarter of the previous fiscal, India Inc’s external commercial borrowings (ECBs) plunged to a 11-quarter low of \$3.51 billion as the country went into a stringent nationwide lockdown, which brought the entire economic activity to a standstill.

 SUBSCRIBER EXCLUSIVE



Apple Music: How to hear the difference

Unlocking of economy

Overseas borrowings had since picked up momentum with the gradual unlocking of the economy as Indian corporates raised ECBs worth \$8.97 billion in the second quarter, \$7.04 billion in the third, and \$15.52 billion in the last quarter.

Total ECB fund-raising in FY21 stood at \$35 billion, lower than \$51 billion that domestic corporates raised in FY20. “Nobody is taking credit even in the domestic market. If you look at the corporate bond market, the issuance in the first four months in the current fiscal, it is much lower than what it was in the same period last year,” said Sabnavis, adding: “Since the entire investment environment itself is dull, there is no demand for credit either in the domestic or in the international market.”

CARE Ratings’ Debt Market Review for July 2021 also said: “Borrowings by corporates from the bond markets have been muted in the current financial year compared with a year ago.

“During April-July of FY22, ₹1.20-lakh crore has been raised via corporate bonds, which is 55 per cent less than the borrowing of ₹2.66-lakh crore in the same months of FY21.”

India Inc's external commercial borrowings



Source: RBI

RBI liquidity measures

The higher borrowing in FY21 was primarily on account of the RBI's special liquidity measures – LTRO and TLRO1 – which prompted fund-raising from the debt capital markets owing to the conditions associated

with these liquidity measures.

Even bank credit to corporate remains subdued. According to the Reserve Bank of India's statement on 'Sectoral Deployment of Bank Credit – June 2021', credit to agriculture and allied activities continued to perform well, registering an accelerated growth of 11.4 per cent in June compared to 2.4 per cent in June last year.

However, credit growth to industry contracted by 0.3 per cent in June 2021 from 2.2 per cent growth in June 2020.

Sabnavis said that ECBs are still cheaper than domestic borrowings since interest rates are in the near-zero levels globally. He, however, added that demand for external borrowings largely depends on when the investment cycle picks up.

Published on August 16, 2021

Follow us on **Telegram**, **Facebook**, **Twitter**, **Instagram**, **YouTube** and **Linkedin**. You can also download our **Android App** or **IOS App**.

Get more of your favourite news delivered to your inbox

SUBSCRIBE

overseas borrowing



COMMENTS