

India's debt growth accelerates in 4QFY22

Corporate debt grows at an 11-quarter high

- India's non-financial sector (NFS) debt grew at a 13-quarter high of 12.7% YoY in 4QFY22/1QCY22 (quarter-ending Mar'22), v/s 11.9% YoY in 3QFY22. Outstanding NFS debt touched USD5.3t (or INR401t) in 4QFY22. Further, NFS debt stood at 169.4% of GDP in FY22, down from its peak of 179.6% in 4QFY21 but higher than 157.9% in 4QFY20.
- In real terms, however, total debt rose 6% YoY in 4QFY22, similar to the growth seen in the previous few quarters. The growth rate was also lower than the average growth of 8% between FY16 and FY19.
- Within NFS debt, non-government non-financial (NGNF) debt grew at three-year high of 11.4% YoY in the quarter, while general government (GG) debt (Center + states) posted the slowest growth in two years at 14.1% YoY in 4QFY22. Within the NGNF sector, (non-financial) corporate debt is estimated to have increased at an 11-quarter high of 8.7% YoY in the quarter, although household (HH) debt continued to rise strongly at 15% in 4QFY22.
- An analysis of NGNF debt by sources/lenders suggests that while the pick-up was broad-based, bank lending and bond issuances grew significantly faster than the previous quarter and the corresponding quarter a year ago. NBFC loan book, however, continued to post slow growth in 4QFY22 and commercial papers declined for the 9th time in the three years.
- A comparison of India's NFS debt vis-à-vis a few other major economies confirms that while debt-to-GDP had peaked out in all nations in 4QCY20/1QCY21 (except Japan), the debt ratio at the end of 4QFY22/1QCY22 remained much higher than the pre-COVID level (CY19-end). The incremental rise in India, however, is the least compared to others.

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Only about 55% of the rise in NFS debt in 4QFY22 (vis-à-vis 4QFY21) was attributable to the government, lower than two-thirds in the past few quarters

India's NFS debt grew 12.7% YoY, eased to 169.4% of GDP in 4QFY22: Our estimates suggest that India's NFS debt stood at USD5.3t (or INR401t) in 4QFY22, up from USD5.1t/USD4.8t in 3QFY22/4QFY21, respectively (*Exhibit 1*). Only about 55% of the rise in NFS debt in 4QFY22 (vis-à-vis 4QFY21) was attributable to the government sector, lower than two-thirds in the past few quarters. Within the NGNF sector, while HH debt continued to grow strongly at 15% YoY, corporate debt growth also picked up to 8.7% YoY in 4QFY22, the highest in 11 quarters. India's NFS debt rose 12.7% YoY in 4QFY22, at the highest pace seen in the past 13 quarters (*Exhibit 2*). In real terms, however, total debt rose 6% YoY in 4QFY22, similar to the growth seen in the previous few quarters. The growth rate was also lower than the average growth of 8% between FY16 and FY19.

As against 12.7% growth in NFS debt, India's nominal GDP grew 19.5% in FY22. Accordingly, India's NFS debt eased to 169.4% of GDP in 4QFY22, down from its peak of 179.6% in 4QFY21 and 157.9% in 4QFY20 (*Exhibit 3*). The decline in debt-to-GDP ratio (vis-à-vis 4QFY21) was also broad based.

Exhibit 1: India's domestic NFS debt estimates

	USD t				As a percentage of GDP ¹			YoY (%)	
	FY19	FY20	FY21	FY22	4QFY21	3QFY22	4QFY22	3QFY22	4QFY22
Households* (HH)	0.9	0.9	1.0	1.1	38.0	35.2	36.5	16.4	15.0
Non-financial corporate ² (NFC*)	1.4	1.3	1.4	1.5	51.9	46.7	47.2	1.9	8.7
Central government	1.2	1.3	1.6	1.8	58.7	56.3	56.3	10.5	10.2
State governments ³	0.7	0.7	0.8	0.9	31.0	29.2	29.4	13.8	13.2
Non-financial sector (NFS)	4.2	4.2	4.8	5.3	179.6	167.3	169.4	11.9	12.7
Non-government non-financial (NGNF)	2.3	2.2	2.4	2.6	89.9	81.9	83.8	7.6	11.4

Source: Reserve Bank of India (RBI), Ministry of Finance (MoF), Comptroller and Auditor General (CAG), Bloomberg, company reports, MOFSL

¹ Annualized nominal GDP = Sum of the last four quarters to smoothen the sharp changes in nominal GDP on a quarterly basis

² Estimates included in this report are based on our calculations. Bank for International Settlements (BIS) also provides India's HH and NFC debt estimates, which are different from our estimates (available up to 2QFY22). *Please see Appendix at the end of the report for methodology.

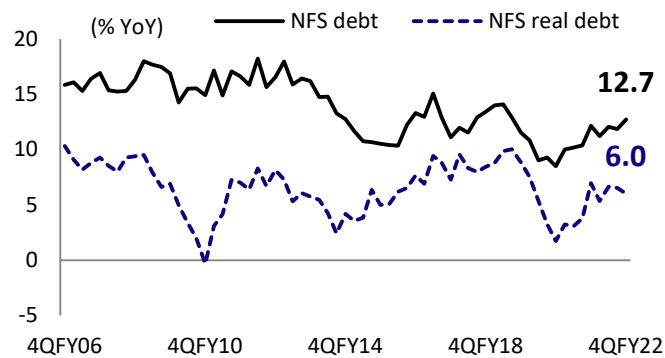
³ Debt of state governments (based on fiscal deficit of 19 states) in 4QFY22 is [our estimates](#)

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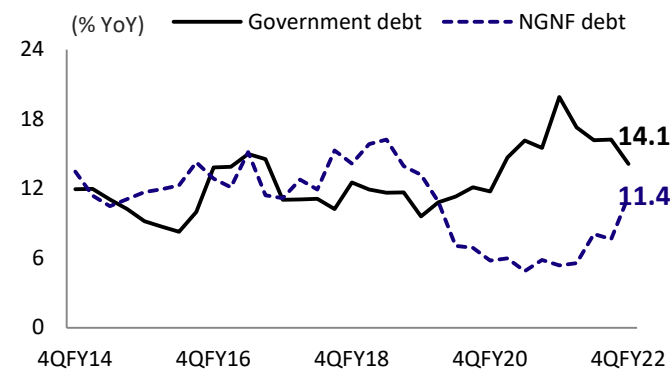
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Exhibit 2: Nominal/real NFS debt grew 12.7%/6% YoY...

Deflated by CPI since FY13 (CPI-IW for prior years)
Please see Appendix at the end of the report for methodology

GG debt grew 14.1% YoY in 4QFY22, marking the slowest growth in the past eight quarters

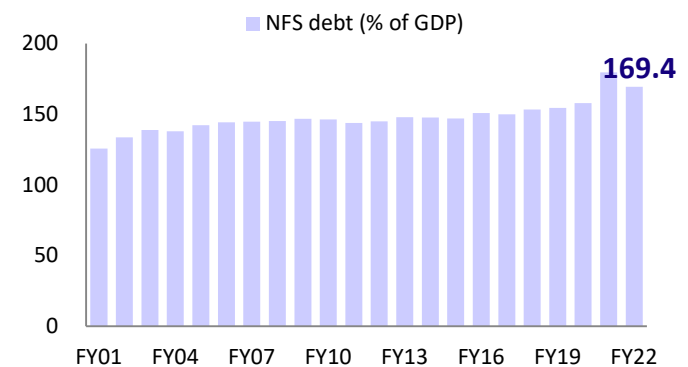
Government debt growth weakest in two years in 3QFY22...: NFS includes three major domestic economic sectors – HH, NFCs (private and state-owned) and GG (Center + States). Government borrowing has been the key driver of higher NFS debt growth in India over the past few quarters. However, non-government debt also rose strongly in 4QFY22. GG debt grew 14.1% YoY in 4QFY22, marking the slowest growth in the past eight quarters (*Exhibit 4*). It was 85.7% of GDP in 4QFY22, similar to that in 3Q but lower than the 15-year peak of 89.7% in 4QFY21. Center and state government debt increased 10.2% and 13.2% YoY, respectively, in 4QFY22. Both were stable at 56.3% and 29.4% of GDP in 4QFY22 vis-à-vis a 15-year peak of 58.7% and 31% in 4QFY21, respectively.

Exhibit 4: Government debt grew decently but at the slowest pace in eight quarters in 4QFY22

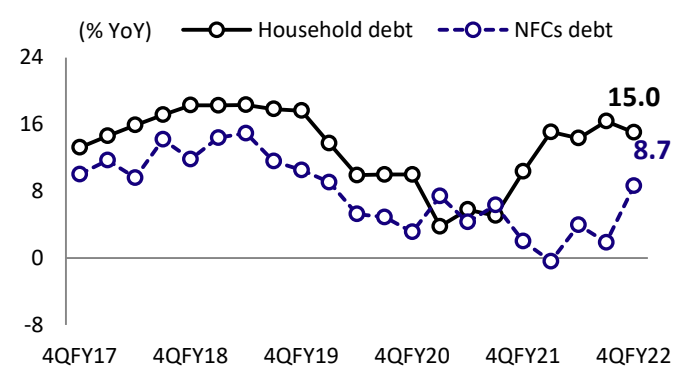
HH debt continued to grow strongly at 15% YoY and NFC debt posted its 11-quarter highest growth of 8.7% YoY in 4QFY22

...while NGNF debt growth accelerated: In contrast, NGNF debt rose 11.4% YoY in 4QFY22, marking its highest growth in three years and first-double-digit growth in 11 quarters. Within the NGNF sector, HH debt continued to grow strongly at 15% YoY and NFC debt posted its 11-quarter highest growth of 8.7% YoY in 4QFY22 (*Exhibit 5*). NGNF debt fell to 83.8% of GDP in 4QFY22, compared with its peak of 90.4% in 3QFY21 and 84.1% in 4QFY20.

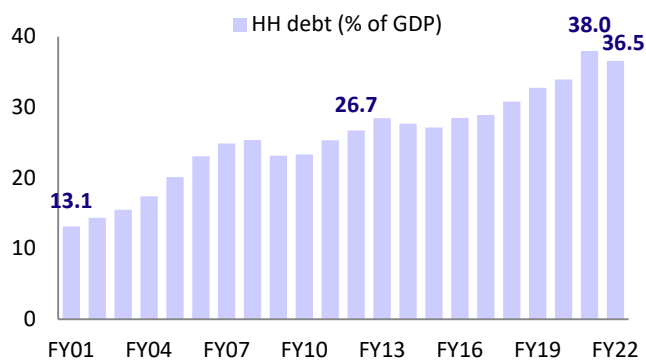
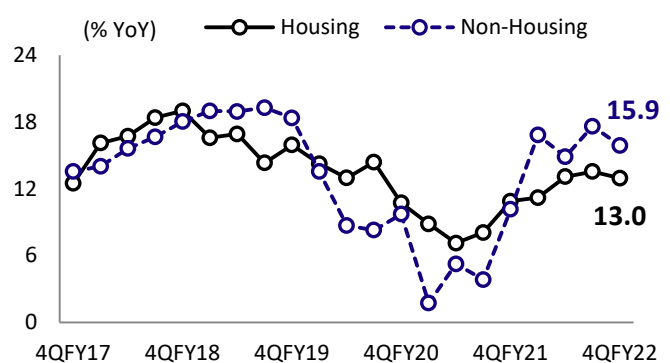
As nominal GDP normalizes, debt-to-GDP ratio has contracted across the board. HH debt dropped to 36.5% of GDP in 4QFY22 vis-à-vis its peak of 38% in 4QFY21 (please note that according to the RBI's recently released and latest available [data](#), HH debt was 40% of GDP in 4QFY21). NFC debt, as per our estimates, stood at almost a decade-low level of 47.2% of GDP in 4QFY22, lower than its peak of 54.6% in 1QFY21.

Exhibit 3: ...and total debt fell to 169.4% of GDP in 4QFY22

Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Exhibit 5: Corporate debt growth accelerated in 4Q, while HH debt continued to grow strongly

Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Exhibit 6: HH debt-to-GDP growth declined to 36.5% of GDP in 4QFY22...**Exhibit 7: ...and non-housing debt continued to grow faster than housing debt for the fourth consecutive quarter**

Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Importantly, within HH debt, non-housing debt grew much faster than housing debt for the fourth straight quarter (*Exhibit 7*). Non-housing debt surged 15.9% YoY, while housing debt grew 13% YoY (the highest in two years) in 4QFY22. Accordingly, non-housing debt accounted for 71.5% of HH total debt, the highest share since 4QFY19.

Sources of borrowings for the NGNF sector

There are six major official sources from where a company or an individual can borrow in the country – Scheduled commercial banks (SCBs), Non-Banking finance companies (NBFCs), housing finance companies (HFCs), corporate bonds (CBs), commercial paper and foreign borrowings (also known as ECBs). An individual can borrow from the first three sources, while NFCs can raise borrowings through any of the six sources. To estimate the true extent of India's debt, we have adjusted the intra-financial sector lending (SCBs to NBFC/HFCs etc.). Please refer to *Appendix 1 and 2* at the end of the report for details.

Bank lending to the NGNF sector rose 10.8% YoY in 4QFY22, the first double-digit growth in almost three years

An analysis of NGNF debt by sources/lenders suggests that while the pick-up was broad-based, bank lending and bond issuances grew significantly faster than the previous quarter and the corresponding quarter a year ago (*Exhibit 8*). Bank lending to the NGNF sector (after adjusting for intra-financial sector loans) rose 10.8% YoY in 4QFY22, the first double-digit growth in almost three years. Banks' NGNF lending growth had been in the range of 6% to 8% YoY during the past ten quarters beginning 2QFY20 (before COVID-19). Similarly, bond issuances by NFCs surged 20.5% YoY in 4QFY22, marking the highest growth in more than four years. At the same time, ECBs also grew at a 14-quarter highest pace of 16.3% YoY in the quarter.

The combined loan book of NBFCs and HFCs grew just 7% YoY in 4QFY22

Conversely, loan book of NBFCs continued to grow slowly – at 5.6% YoY in 4QFY22, closer to the record low growth in the past decade or so. The loan book growth of HFCs, however, accelerated to an 11-quarter high of 9.8% YoY in 4QFY22. Consequently, the combined loan book of NBFCs and HFCs – which together accounted for ~22% of NGNF debt – grew just 7% YoY in 4QFY22. This implies that NGNF debt excluding NBFCs/HFCs grew at a 14-quarter highest pace of 12.6%.

Exhibit 8: Drivers of NFS debt growth in 3QFY22

	INR t				YoY (%)				
	FY19	FY20	FY21	FY22	4QFY21	1QFY21	2QFY22	3QFY22	4QFY22
Banks*	88.8	94.3	99.6	110.3	5.6	6.8	8.0	7.9	10.8
NBFCs	23.0	24.6	27.0	28.5	9.7	6.5	8.1	4.8	5.6
HFCs	11.9	12.2	12.9	14.2	6.2	5.8	6.7	9.0	9.8
Corporate bonds#	20.1	20.6	21.7	26.2	5.6	2.3	9.8	6.0	20.5
Commercial paper@	2.6	2.3	2.4	2.3	2.6	-6.1	9.3	-3.2	-3.5
ECBs^	13.2	14.9	14.4	16.7	-3.6	3.0	7.4	14.0	16.3
NGNF debt	159.7	168.9	178.0	198.2	5.4	5.6	8.1	7.6	11.4
Memo: NBFCs + HFCs	34.9	36.8	39.9	42.7	8.5	6.3	7.6	6.2	7.0
Total excl. NBFCs + HFCs	124.8	132.1	138.1	155.5	4.5	5.4	8.2	8.1	12.6
Non-bank lenders	70.9	74.6	78.4	87.9	5.1	4.1	8.2	7.3	12.1

*Excludes loans to the financial sector

#Excludes corporate bonds issued by SCBs, NBFCs, and Banks

@Excludes commercial paper issued by NBFCs

^Excluding FII investments in corporate bonds

Please see *Appendix* at the end for details

Source: RBI, Company reports, Bloomberg, CEIC, MOFSL

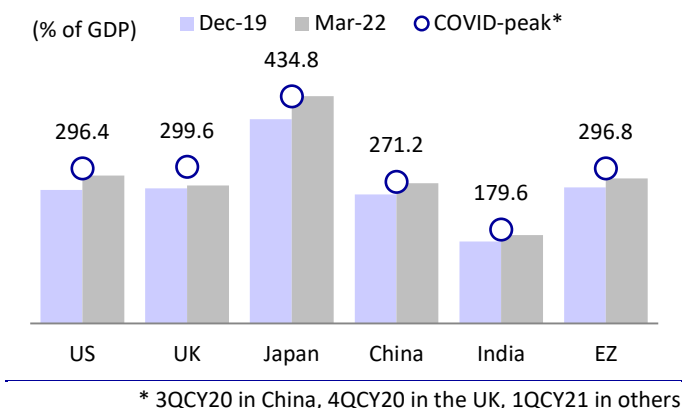
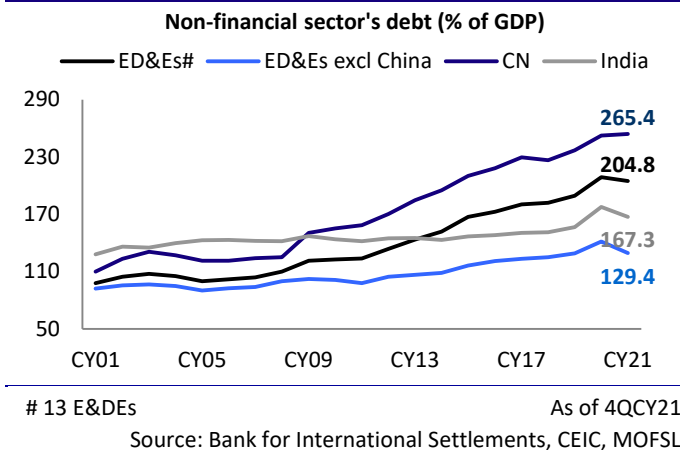
Comparison of India's debt vis-à-vis a few other major nations

A comparison of India's NFS debt vis-à-vis a few other major economies (the US, the UK, Japan, Eurozone (EZ) and China) confirms that while debt-to-GDP had peaked out in all nations in 4QCY20/1QCY21 (except Japan), the debt ratio in 4QFY22/1QCY22 remained much higher than the pre-COVID level (CY19-end).

India's NFS debt growth picked up in 1QCY22, led by an 11-quarter high growth in the corporate debt

At its peak, NFS debt was at 295-300% of GDP each in the US, the UK and EZ in 4QCY20/1QCY21; it was 430% of GDP in Japan and 271% in China. In contrast, India's debt-to-GDP ratio peaked at 179.6% of GDP in 1QCY21 and has eased to 169.4% in 1QCY22 (4QFY22). It suggests that the incremental rise in debt-to-GDP ratio in India is the least compared with other major economies (*Exhibit 9*). Nevertheless, a comparison of India's debt with other developing economies indicates that it is not low. Excluding India and China, E&DEs' leverage (based on 11 other developing economies) is only ~130% of GDP (*Exhibit 10*).

Overall, India's NFS debt growth picked up in 1QCY22, led by an 11-quarter high growth in the corporate debt. While the banks' loan book grew strongly and bond issuances were high, NBFCs' lending growth remained weak.

Exhibit 9: The debt-to-GDP ratio eased in major nations (except Japan) in 1QCY22**Exhibit 10: India's leverage ratio is low compared with other major nations, but not low v/s E&DEs ex China**

Appendix: Estimating total debt in the domestic NGNF sector

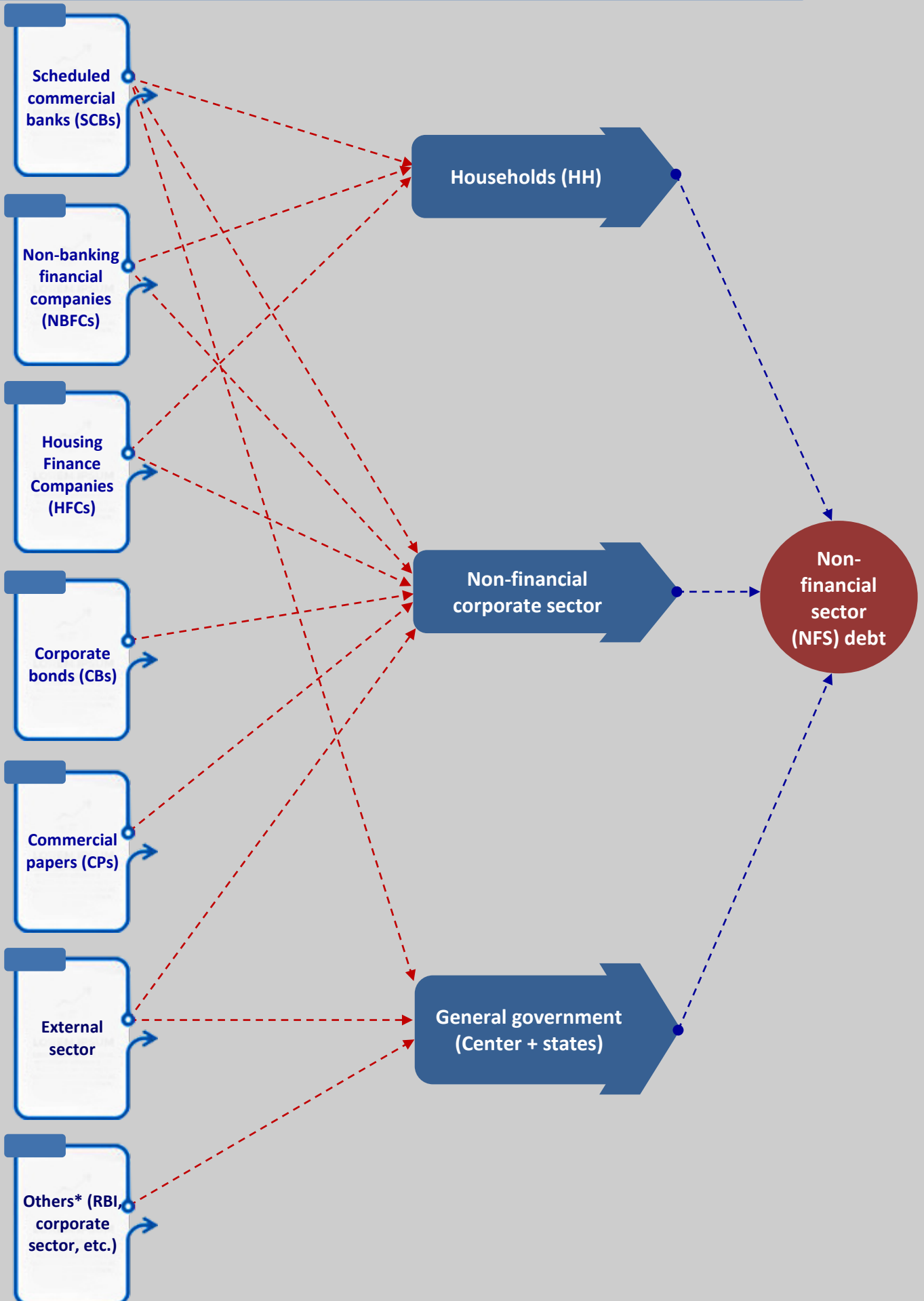
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to the HH and corporate sectors, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, the NGNF sector borrows through CPs, CBs, and ECBs. We gather data on the following six relevant parameters, making suitable adjustments to avoid double counting:

- SCBs' loans and advances, excluding their lending to the Financial sector
- Loan book data for NBFCs from the RBI's annual/bi-annual publications (titled: '*Report on Trend and Progress of Banking in India*', '*Financial Stability Report*') – available up to 1HFY22. For quarterly data, we have compiled the data of 18 NBFCs, accounting for about three-fifths of the entire industry (*list of NBFCs is provided in Exhibit 13*).
- The loan book for HFCs that is also available from the RBI's *Report on Trend and Progress of Banking in India and National Housing Bank Report*, which provides data up to FY21/1HFY22. For quarterly data, we have compiled the data of 10 HFCs, accounting for ~76% of the entire industry (*list of HFCs is provided in Exhibit 13*).
- Outstanding corporate bonds, adjusted for debentures, issued by NBFCs, HFCs, and Tier II capital of SCBs (assumed at 2% of Banks' loan books).
- Outstanding CPs, adjusted for NBFC/HFC issuances.
- Long- and short-term external debt (ECBs + INR debt) raised by the NGNF sector, adjusted for Foreign Institutional Investor (FII) exposure to corporate bonds.

Exhibit 11: List of 18 NBFCs and 10 HFCs used for quarterly analysis

NBFCs (~60% of the industry)	HFCs (~83% of the industry)
1. Bajaj Finance	1. HDFC
2. Cholamandalam Investment and Finance Co	2. HUDCO
3. IIFL Finance	3. LIC Housing
4. JM Financial	4. Indiabulls Housing
5. L&T Financial	5. Dewan Housing (acquired by Piramal in 2QFY22)
6. Mahindra & Mahindra Finance	6. Sundaram BNP Finance
7. Magma Finance	7. PNB Housing Finance
8. Manappuram Finance	8. Canara Home Finance
9. Muthoot Finance	9. Reliance Home Finance
10. Reliance Capital	10. Repco Home Finance
11. Shriram City Union	
12. Shriram Transport Finance	
13. Sundaram Finance	
14. Power Finance	
15. REC	
16. PTC India financial services Ltd.	
17. Piramal Finance	
18. Aditya Birla Capital	

The methodology used for estimating the total debt in the country



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