

India's debt grew moderately in 1QFY24

Corporate debt increased slowly, while Household debt growth reached a 22-quarter high

- India's non-financial sector (NFS) debt grew 12.1% YoY in 1QFY24/2QCY23 (quarter-ending Jun'23), same as in the previous quarter, but weaker than 13.2% YoY in 1QFY23. Outstanding NFS debt touched USD5.6t (or INR459.5t) in 1QFY24, equivalent to 165.5% of GDP, compared to 164.7% of GDP each in 4QFY23 and 1QFY23. In real terms, however, total debt (using GDP deflator) grew 11.9% YoY in 1QFY24, the highest in the past 17 quarters.
- Within NFS debt, non-government non-financial (NGNF) debt also grew 10.3% YoY in 1QFY24, while government debt jumped 13.9% YoY over the quarter. Within the NGNF sector, household (HH) debt spiked 18.6% YoY in 1QFY24 – marking the highest growth in 22 quarters – driven by a decade-high growth of ~20% YoY in the non-mortgage debt segment. Corporate debt, on the other hand, rose by just 3.9% YoY during the quarter, almost as weak as 2.7% YoY growth in 4QFY23, but slower than 10.8% YoY growth in 1QFY23. This weakness in corporate debt is in line with the dip in corporate investments that we had highlighted in our [earlier report](#).
- An analysis of NGNF debt by sources/lenders suggests that NBFCs posted a strong lending growth of 18.8% YoY in 1QFY24, the highest in 18 quarters and compared to 16% YoY in 4QFY23, while HFCs' outstanding loans are estimated to have grown at four-year high of 8.1% YoY in 1QFY24. Scheduled commercial banks (SCBs) and corporate bond issuances also grew decently; however, external/foreign borrowings were up just 1.8% YoY as interest rates have surged abroad.

India's NFS debt stood at USD5.6t (or INR459.5t) in 1QFY24 vs. USD5.5t/USD5.2t in 4QFY23/1QFY23

India's NFS debt grew 12.1% YoY; stood at 165.5% of GDP in 1QFY24: Our estimates suggest that India's NFS debt stood at USD5.6t (or INR459.5t) in 1QFY24 (quarter-ending Jun'23), vs. USD5.5t/USD5.2t in 4QFY23/1QFY23 (*Exhibit 1*). Although NFS debt growth remained unchanged at 12.1% YoY in 1QFY24, NGNF debt grew slightly faster by 10.3% YoY (vs. 9.4% YoY in 4QFY23), though government debt grew 13.9% YoY during the quarter (vs. 14.8% YoY). In 1QFY24, for the second consecutive quarter, the NGNF sector's contribution to NFS debt growth was lower than that of the government in 4QFY23.

Compared to 12.1% nominal growth, NFS debt in real terms (using GDP deflator) grew 11.9% YoY in 4QFY23, the highest in the past 17 quarters as GDP deflator (which is predominantly derived from the wholesale price index, WPI) was almost negligible in 1QFY24 (*Exhibit 2*). Further, since India's annualized nominal GDP grew 11.6% in 1QFY24, India's NFS debt inched up to 165.5% of GDP, compared to 164.7% of GDP each in 4QFY23 and 1QFY23 (*Exhibit 3*).

Exhibit 1: India's domestic NFS debt estimates

	USD t				As a percentage of GDP ¹			YoY (%)	
	FY20	FY21	FY22	FY23	1QFY23	4QFY23	1QFY24	4QFY23	1QFY24
Households* (HH)	0.9	1.0	1.1	1.2	34.7	36.6	36.9	18.4	18.6
Non-financial corporate ² (NFC*)	1.3	1.4	1.5	1.4	45.7	42.8	42.6	2.7	3.9
General government	2.0	2.4	2.7	2.8	84.3	85.4	86.0	14.8	13.9
Central government	1.3	1.6	1.8	1.9	56.7	57.5	58.3	16.1	14.8
State governments ³	0.7	0.8	0.9	0.9	27.6	27.9	27.7	12.0	11.9
Non-financial sector (NFS)	4.2	4.9	5.3	5.5	164.7	164.8	165.5	12.1	12.1
Non-government non-financial (NGNF)	2.2	2.5	2.6	2.6	80.4	79.4	79.5	9.4	10.3

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 also provides India's HH and NFC debt estimates, which are available up to 4QFY23/1QCY23 and different from our estimates. *Please see Appendix at the end of the report for methodology.

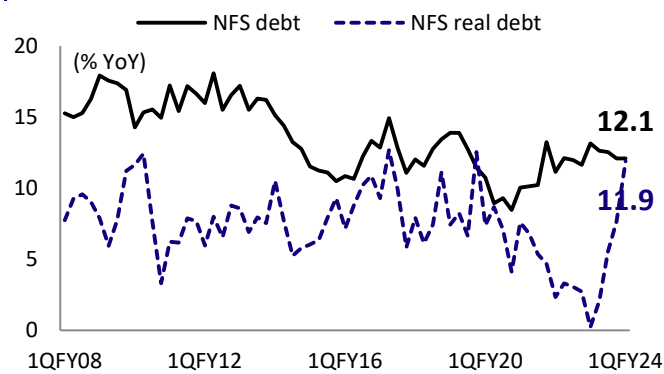
³ Debt estimates of state governments (based on fiscal deficit of 27 states) are prepared by us

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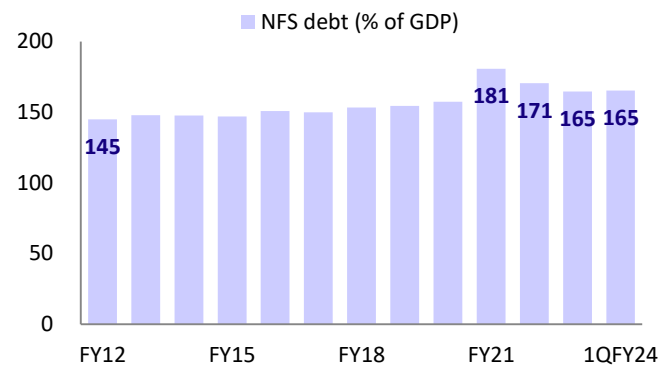
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Exhibit 2: Nominal/real NFS debt grew 12.1%/11.9% YoY...

Deflated by GDP deflator

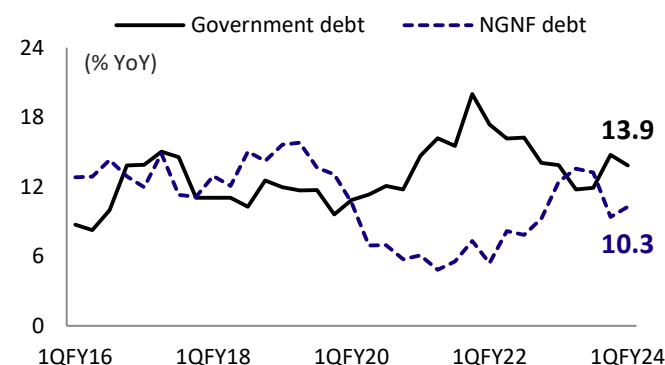
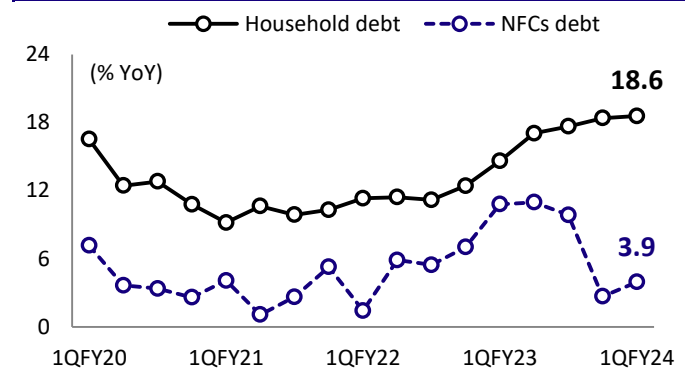
Please see Appendix at the end of the report for methodology

Exhibit 3: ...while debt-to-GDP ratio was 165.5% in 1QFY24

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

GG debt stood at 86% of GDP in 1QFY24, up from 84.3% in 1QFY23 and 85.4% of GDP in 4QFY23

Government debt growth the weakest in three years in 2QFY23...: NFS includes three major domestic economic sectors – HH, non-financial companies (NFCs, private and state-owned), and general government (GG, Center + States). During the previous two quarters (2Q/3QFY23), NGNF debt grew faster than government debt; thus, contributing more to the NFS debt growth. This, however, reversed in 4QFY23 and 1QFY24. GG debt rose 13.9% YoY in 1QFY24, slower than 14.8% YoY growth seen in 4QFY23 (*Exhibit 4*). Our estimates also suggest that GG debt stood at 86% of GDP in 1QFY24, up from 84.3% in 1QFY23 and 85.4% of GDP in 4QFY23. Center and state governments' debt jumped 14.8% and 11.9% YoY, respectively, in 1QFY24. Accordingly, while the center's debt moved up to 58.3% of GDP in 1QFY23 (only second since FY07 to 58.6% of GDP seen in 4QFY21), it eased to 27.7% of GDP for states in 1QFY24 vis-à-vis 27.9% of GDP in 4QFY23.

Exhibit 4: NGNF debt grew slower than government debt for second quarter in 1QFY24**Exhibit 5: HH debt grew at a 22-quarter high, but corporate debt growth was weak in 1QFY24**

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

NGNF debt growth picked up to 10.3% YoY in 1QFY24, compared to 9.4% growth in 4QFY23

...while NGNF debt growth accelerated: In contrast, NGNF debt growth picked up to 10.3% YoY in 1QFY24, compared to 9.4% growth in 4QFY23. As a percentage of GDP, NGNF debt stood at 79.5% in 1QFY24, lower than 80.4% in 1QFY23, but same as 79.4% in 4QFY23. For almost a decade, between FY12 and FY21, NGNF debt (as percentage of GDP) was higher than the government debt in India, which reversed since FY22. Now the government debt is higher than NGNF debt in India, just like in the pre-FY12 period.

Within the NGNF sector, HH debt spiked at 18.6% YoY in 1QFY24, marking the highest growth in 22 quarters. In contrast, corporate debt grew by only 3.9% YoY during the quarter, nearly as weak as 2.7% YoY growth in 4QFY23 and slower than the 10.8% YoY growth in 1QFY23 (*Exhibit 5*). This weakness in corporate debt is in line with the dip in corporate investments that we had highlighted in our [earlier report](#).

Since HH debt grew faster than nominal GDP, it surged to 36.9% of GDP in 1QFY24 vs. 35.9% of GDP in FY22, but lower than its peak of 37.8% in FY21 (*Exhibit 6*). NFC debt, according to our estimates, stood at a 15-year low of 42.6% of GDP in 1QFY24, compared to 45.7% of GDP in 1QFY23.

Exhibit 6: HH debt-to-GDP growth stood at 36.9% of GDP in 1QFY24...

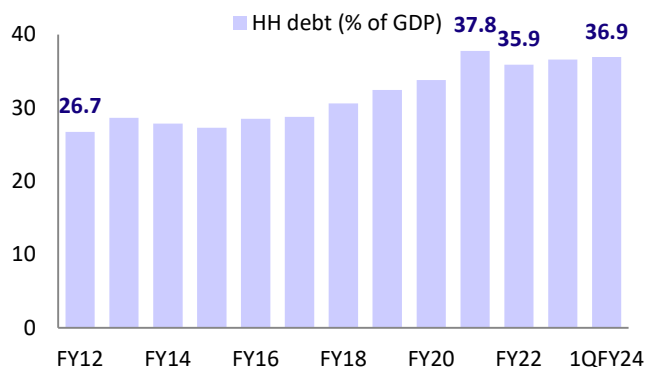
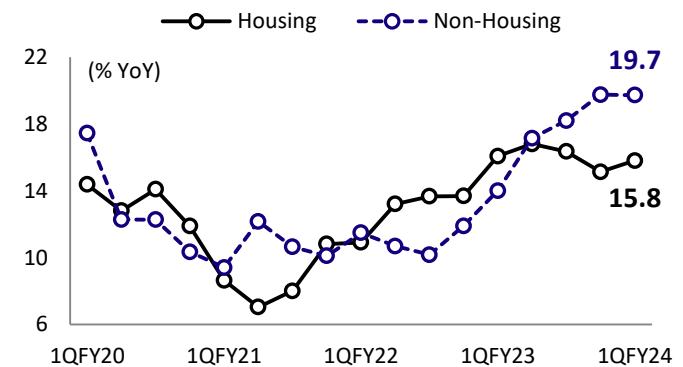


Exhibit 7: ...and non-housing debt surged faster than housing debt



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

Non-housing debt increased at a decade-high rate of 19.7% YoY, while housing debt grew 15.8% YoY in 1QFY24

Importantly, within HH debt, non-housing debt continued to grow much faster than housing debt (*Exhibit 7*). Non-housing debt increased at a decade-high rate of 19.7% YoY, while housing debt grew 15.8% YoY in 1QFY24. Accordingly, non-housing debt accounted for 71% of HH total debt. As highlighted in our [recent report](#), while housing debt is very low in India compared with other economies, the non-mortgage HH debt is the same as in Australia and Japan, and higher than the world's several other major nations.

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 papers, and foreign borrowings (also known as ECBs). An individual can borrow from the first three sources, while NFCs can raise borrowings through any of these 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 *Appendices 1 and 2* at the end of the report for further details.

Bank lending to the NGNF sector rose 10.2% YoY in 1QFY24, same as in 4QFY23, but slower than 13.2% YoY growth in 1QFY23

An analysis of NGNF debt by sources/lenders suggests that the bank lending to the NGNF sector (after adjusting for intra-financial sector loans) rose 10.2% YoY in 1QFY24, which was the same as ~10% YoY in 4QFY23, but slower than 13.2% YoY growth in 1QFY23. Interestingly, the share of banks in India's NGNF debt was 56.9% in 1QFY24, unchanged from 4Q/1QFY23. Corporate bond issuances (after adjusting

for the financial sector), grew 7.5% YoY last quarter, better than 3.7% growth in 4QFY23, but much slower than double-digit growth in the previous six quarters.

NBFCs loan book, on the other hand, grew 18.8% YoY in 1QFY24, marking its highest growth in 18 quarters

NBFCs loan book, on the other hand, grew 18.8% YoY in 1QFY24, marking its highest growth in 18 quarters, since the IL&FS defaulted in late 2018. With such strong growth, its share in NGNF debt jumped to 15.5% in 1QFY24, the highest on record.

HFCs loan book also grew at a 16-quarter high of 8.1% YoY in 1QFY24. However, this growth was still less than half the NBFCs loan growth. The combined loan book of NBFCs and HFCs – about 22% of NGNF debt – grew 15.4% YoY in 1QFY24. This implies that NGNF debt, excluding NBFCs/HFCs, rose 8.9% in 1QFY24.

Exhibit 8: Drivers of NGNF debt growth in 1QFY24

	INR t				YoY (%)				
	FY20	FY21	FY22	FY23	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Banks*	94.4	99.8	109.8	120.6	13.2	15.5	14.9	9.9	10.2
NBFCs	24.6	27.0	29.1	33.7	9.2	10.3	10.7	16.0	18.8
HFCs	12.2	12.9	13.4	14.0	3.1	0.7	2.6	4.3	8.1
Corporate bonds#	20.2	21.6	25.7	26.7	15.2	13.7	14.9	3.7	7.5
Commercial paper@	2.3	2.4	2.3	2.1	-1.4	11.1	0.0	-8.0	17.0
ECBs^	14.9	17.2	17.4	19.1	19.6	18.0	15.0	9.8	1.8
NGNF debt	168.6	181.0	197.7	216.3	12.4	13.6	13.2	9.4	10.3
Memo: NBFCs + HFCs	36.8	40.0	42.5	47.7	7.1	7.1	8.1	12.3	15.4
Total excl. NBFCs + HFCs	131.8	141.0	155.2	168.5	13.9	15.4	14.7	8.6	8.9
Non-bank lenders	74.2	81.2	87.9	95.6	11.5	11.2	11.1	8.8	10.4

*Excludes loans to the financial sector

@Excludes commercial paper issued by NBFCs

Please see *Appendix* at the end for details

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

^Excluding FII investments in corporate bonds

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

Overall, our estimates suggest that corporate debt growth continues to remain sluggish, while household and government debt experienced faster growth in India in 1QFY24. These trends broadly align with those observed in the previous quarter and also correspond with the investment growth observed by these economic participants.

It is also important to note that within household debt, non-housing loans grew faster than housing loans for the fourth successive quarter in 1QFY24.

Appendix: Estimating total debt in the domestic NGNF sector

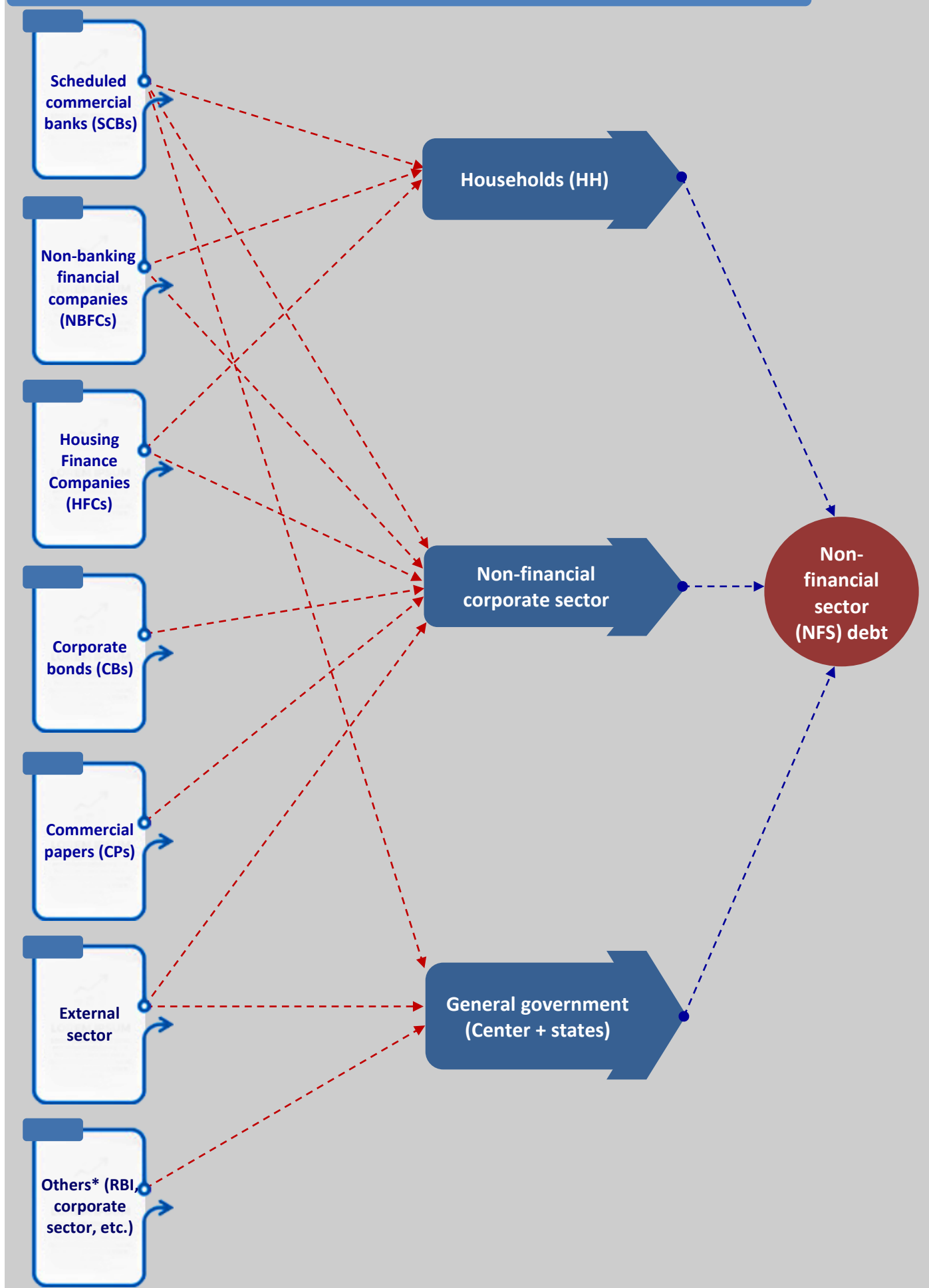
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to the HH and corporate sectors, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, 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 1HFY23. For quarterly data, we have compiled the data of 17 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 FY22. For quarterly data, we have compiled the data of nine HFCs, accounting for ~80% 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 9: List of 17 NBFCs and 9 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. Sundaram BNP Finance
6. Mahindra & Mahindra Finance	6. PNB Housing Finance
7. Magma Finance	7. Canara Home Finance
8. Manappuram Finance	8. Reliance Home Finance
9. Muthoot Finance	9. Repco Home Finance
10. Reliance Capital	
11. Shriram Finance	
12. Sundaram Finance	
13. Power Finance	
14. REC	
15. PTC India financial services Ltd.	
16. Piramal Finance	
17. Aditya Birla Capital	

The methodology used for estimating the total debt in the country



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