

Debt Dossier: India's debt growth stable in 3QFY24

Household debt estimated at a new high in the quarter

- India's non-financial sector (NFS) debt is estimated to have grown 12.6% YoY in 3QFY24 (quarter-ending Dec'23), not very different from the growth seen in recent quarters. Outstanding NFS debt touched USD5.85t (or INR486t) in 3QFY24, equivalent to 168.7% of GDP, compared to 169.0% of GDP in 2QFY24 and 163.9% of GDP in 3QFY23. In real terms, however, total debt (using GDP deflator) grew 10.8% YoY in 3QFY24, the slowest in three quarters.
- Within NFS debt, non-government non-financial (NGNF) debt also grew 10.8% YoY in 3QFY24 (same as in 2QFY24), while government debt jumped 14.3% YoY over the quarter (vs. 14.7% YoY growth in 2QFY24). Within the NGNF sector, household (HH) debt jumped 16.5% YoY in 3QFY24, driven by a faster growth in the non-housing¹ debt. Our estimates suggest that household debt² touched a new peak of 39.1% of GDP in 3QFY24, beating the previous peak of 38.6% of GDP in 4QFY21. Corporate debt³, however, rose by just 6.1% YoY during the quarter, easing to 15-year low of 42.7% of GDP.
- An analysis of NGNF debt by sources/lenders suggests that NBFCs posted a strong lending growth of 20%+ YoY for the third consecutive quarter in 3QFY24, while HFCs' outstanding loans⁴ are estimated to have contracted in 3QFY24. Scheduled commercial banks loans grew at the fastest pace in four quarters, while the growth in corporate bonds and external borrowings moderated. Commercial papers issuances by the non-financial sector contracted again in 3QFY24.
- Finally, although India's debt is growing at a rapid pace compared to other major economies and the aggregate of emerging markets worldwide, its debt-to-GDP ratio is still much lower than other economies.

India's NFS debt stood at USD5.85t (or INR486t) in 3QFY24 vs. USD5.7t/USD5.2t (INR475t/INR432t) in 2QFY24/3QFY23

India's NFS debt grew 12.6% YoY; stood at a six-quarter high of 168.7% of GDP in 3QFY24: Our estimates suggest that India's NFS debt stood at USD5.85t (or INR486t) in 3QFY24 vs. USD5.7t/USD5.2t (INR475t/INR432t) in 2QFY24/3QFY23 (*Exhibit 1*). NFS debt grew 12.6% YoY in 3QFY24, not very different from 12.8%/13.1% YoY in 2QFY24/3QFY23. The growth in NGNF debt remained unchanged at 10.8% YoY in 3QFY24 (much lower than 13.8% YoY in 3QFY23), and the government debt increased 14.3% YoY, slightly lower than the seven-quarter high growth of 14.7% YoY in 2QFY24. For the fourth consecutive quarter, the government debt grew faster than NGNF debt, contributing ~58% to the growth in NFS debt in 3QFY24.

Exhibit 1: India's domestic NFS debt estimates⁵

	USD t				As a percentage of GDP ⁶			YoY (%)	
	FY20	FY21	FY22	FY23	3QFY23	2QFY24	3QFY24	2QFY24	3QFY24
Households (HH)	0.9	1.0	1.1	1.2	36.7	38.4	39.1	17.5	16.5
Non-financial corporate (NFC)	1.3	1.4	1.5	1.4	44.0	43.3	42.7	5.5	6.1
General government	2.0	2.4	2.7	2.8	83.2	87.3	86.9	14.7	14.3
Central government	1.3	1.6	1.8	1.9	55.5	59.3	59.0	17.0	16.3
State governments⁷	0.7	0.8	0.9	0.9	27.6	28.0	27.9	10.1	10.3
Non-financial sector (NFS)	4.2	4.9	5.3	5.5	163.9	169.0	168.7	12.8	12.6
Non-government non-financial (NGNF)	2.2	2.5	2.6	2.6	80.7	81.7	81.8	10.8	10.8

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

¹ Housing and mortgage debt are used synonymously in this analysis

² The estimates of household debt in this study are slightly lower than the ones mentioned in our other research [report](#) (at 40% of GDP), since the latter includes household loans from other financial institutions (apart from SCBs, NBFCs and HFCs), as reported by the RBI (up to 4QFY23). The methodologies of the two estimates are different as the latter is more comprehensive.

³ Corporate debt is estimated as the residual, after deducting estimates of household debt from NGNF debt.

⁴ HDFC Ltd. is included under HFCs in this analysis. For housing debt, it is suggested to look at the aggregate, rather than SCBs or HFCs separately.

⁵ Our estimates in this report are based on internal calculations, for which the methodology is shared in the Appendix at the end of the report.

Bank for International Settlements (BIS) also provides India's debt estimates, which are available up to 2QFY24 and different from our estimates.

⁶ Annualized nominal GDP = Sum of the last four quarters to smoothen the sharp changes in nominal GDP on a quarterly basis

⁷ Debt estimates of state governments (based on fiscal deficit of 27 states) are prepared by us

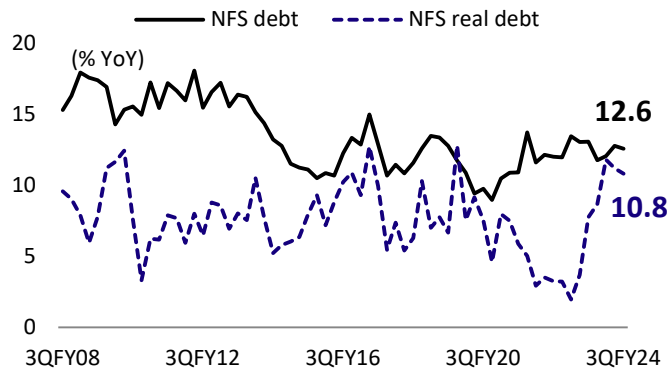
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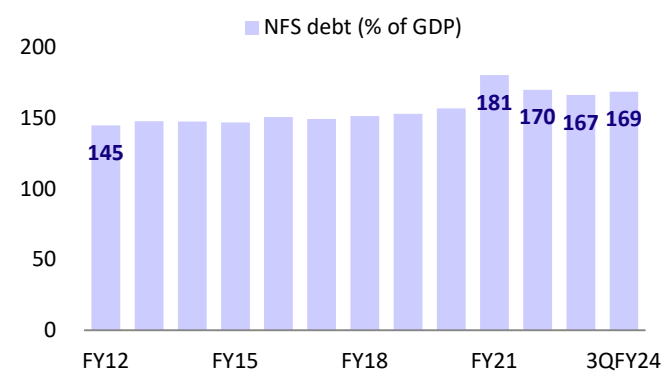
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Exhibit 2: Nominal/real NFS debt grew 12.6%/10.8% YoY...



NS debt deflated by GDP deflator
Please see Appendix at the end of the report for methodology

Exhibit 3: ...while debt-to-GDP ratio was 168.7% in 3QFY24



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

Compared to 12.8% nominal growth, NFS debt in real terms (using GDP deflator) grew 10.8% YoY in 3QFY24, which was the lowest in three quarters (*Exhibit 2*). Further, since India’s annualized nominal GDP grew only 9.3% each in the last two quarters, NFS debt stood at 168.7% of GDP, compared to 169.0%/163.9% of GDP in 2QFY24/3QFY23 (*Exhibit 3*).

GG debt stood at 86.9% of GDP in 3QFY24, lower than 87.3% of GDP in 2QFY24, but much higher than 83.2% a year ago

Government debt continued to grow strongly in 3QFY24...: NFS includes three major domestic economic sectors – Households (HH), non-financial companies (NFCs, private and state-owned), and general government (GG, Center + States). During the last four quarters (since 4QFY23), NGNF debt grew slower than government debt, thus, contributing less to the NFS debt growth. GG debt grew 14.3% YoY, slightly lower than the seven-quarter high growth of 14.7% YoY in 2QFY24, but faster than 10.8% YoY growth seen in NGNF debt (*Exhibit 4*). Our estimates also suggest that GG debt stood at 86.9% of GDP in 3QFY24, lower than 87.3% of GDP in 2QFY24, but much higher than 83.2% a year ago. The Center and state governments’ debt jumped 16.3% and 10.3% YoY, respectively, in 3QFY24. Accordingly, the center’s debt stood at 59% of GDP in 3QFY24, very close to 18-year high of 59.3% in the previous quarter (and up from 55.5% of GDP in 3QFY23). In contrast, states’ debt, at 27.9% of GDP, has been largely unchanged for the past seven quarters.

Exhibit 4: NGNF debt grew slower than government debt for the fourth straight quarter in 3QFY24

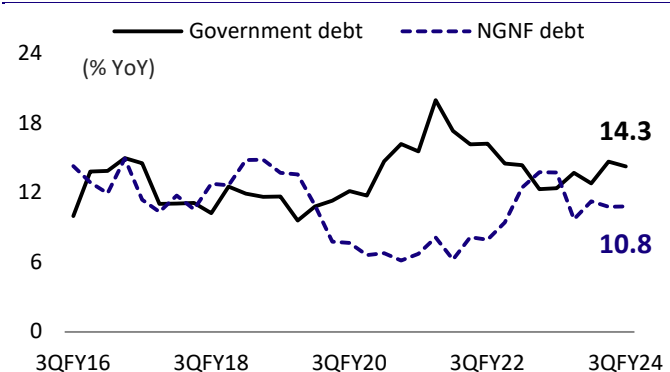
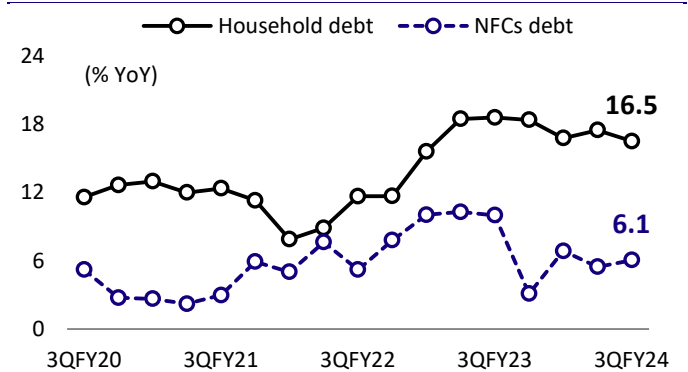


Exhibit 5: HH debt continued to grow much faster than corporate debt



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

NGNF debt growth was 10.8% YoY in 3QFY24, the same as in 2QFY24, but weaker than 13.8% growth in 3QFY23

...with household debt likely at all-time high: In contrast, NGNF debt growth was 10.8% YoY in 3QFY24, the same as in 2QFY24, but weaker than 13.8% growth in 3QFY23. As a percentage of GDP, NGNF debt is estimated at 81.8% in 3QFY24, the highest in seven quarters, but lower than its all-time peak of 91.1% in 4QFY21. For almost a decade, between FY12 and FY21, NGNF debt (as percentage of GDP) was higher than the government debt in India, which has 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 16.5% YoY in 3QFY24, marking the slowest pace in six quarters. In contrast, corporate debt grew by only 6.1% YoY during the quarter, nearly as weak as 5.5% YoY growth in 2QFY24 and slower than the 10% YoY growth in 3QFY23 (*Exhibit 5*). Household sector accounted for almost 70% of the growth in NGNF debt in 3QFY24.

HH debt spiked at 16.5% YoY in 3QFY24, marking the slowest pace in six quarters

Since HH debt grew faster than nominal GDP, it surged to 39.1% of GDP in 3QFY24, marking its new high and beating its previous peak of 38.6% of GDP in 4QFY21 (*Exhibit 6*). NFCs debt, according to our estimates, stood at a 15-year low of 42.7% of GDP in 3QFY24, compared to 44% of GDP in 3QFY23. Interestingly, household debt now accounts for about 48% of NGNF debt, compared to 40% in FY20.

Exhibit 6: HH debt-to-GDP increased to a new peak of 39.1% of GDP in 3QFY24...

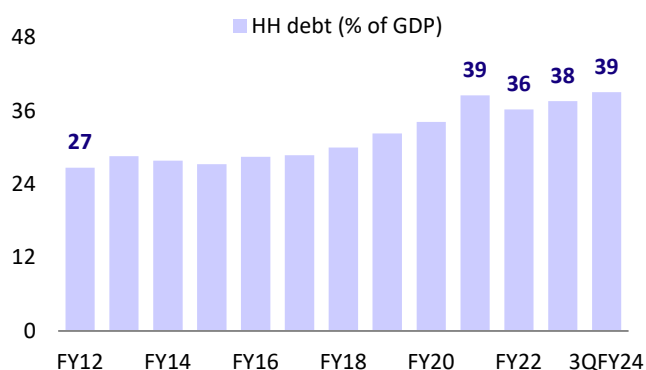
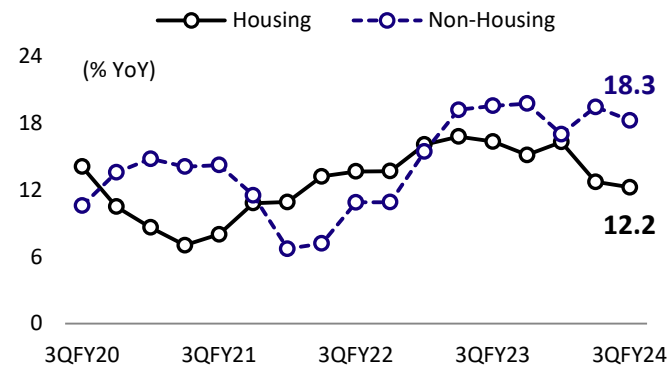


Exhibit 7: ...and non-housing debt surged faster than housing debt



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

Non-housing debt increased 18.3% YoY, while housing debt grew 12.2% YoY in 3QFY24

Importantly, within HH debt, non-housing debt continued to grow much faster than housing debt (*Exhibit 7*). Non-housing debt increased 18.3% YoY, while housing debt grew 12.2% YoY in 3QFY24. Accordingly, non-housing debt accounted for 72% 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 11.1% YoY in 3QFY24, the highest in four quarters, but slower than 14.9% YoY growth in 3QFY23

An analysis of NGNF debt by sources/lenders suggests that the bank lending (excluding HDFC Ltd.) to the NGNF sector (after adjusting for intra-financial sector loans) rose 11.1% YoY in 3QFY24, the highest in four quarters, but slower than 14.9% YoY growth in 3QFY23. This is in stark contrast to unadjusted banks' loan book, since a larger portion (as much as 12.4% now) is directed toward other financial companies. Corporate bond issuances (after adjusting for the financial sector) grew 7.6% YoY last quarter (weaker than 10%/13.4% growth in 2QFY24/3QFY23), ECBs recorded a growth of only ~4%, and CPs posted another contraction in 3QFY24.

NBFCs loan book, on the other hand, grew 23.5% YoY in 3QFY24, posting more than 20% YoY growth for the third straight quarter

NBFCs loan book, on the other hand, grew 23.5% YoY in 3QFY24, posting more than 20% YoY growth for the third straight quarter. With such strong growth, its share in NGNF debt jumped to 16.4% in 3QFY24, the highest on record, and 14.8% a year ago.

HFCs loan book (including HDFC Ltd.) contracted 2.0% YoY during the quarter, as HDFC Ltd. is running down its book, along with Indiabulls housing finance. The combined loan book of NBFCs and HFCs – about 23% of NGNF debt – grew 15.3% YoY in 3QFY24, the slowest pace in three quarters but much higher than 11.5% a year ago. This implies that NGNF debt, excluding NBFCs/HFCs, increased by just 9.6% in 3QFY24.

Exhibit 8: Drivers of NGNF debt growth

	INR t				YoY (%)				
	FY20	FY21	FY22	FY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Banks*	94.4	99.8	109.8	120.6	14.9	9.9	10.2	10.0	11.1
NBFCs	24.6	27.0	29.1	33.7	12.2	16.1	22.1	25.8	23.5
HFCs~	12.2	12.9	13.4	14.0	9.9	8.6	11.8	0.4	-2.0
Corporate bonds#	20.2	21.6	25.7	26.7	13.4	4.1	10.3	10.0	7.6
Commercial paper@	2.3	2.4	2.3	2.1	-2.3	-10.5	9.9	-11.9	-5.8
ECBs^	14.9	17.2	17.4	19.1	15.0	9.8	1.9	4.7	4.2
NGNF debt	168.6	181.0	197.7	216.3	13.8	9.7	11.3	10.8	10.8
Memo: NBFCs + HFCs	36.8	40.0	42.5	47.7	11.5	13.7	18.8	17.4	15.3
Total excl. NBFCs + HFCs	131.8	141.0	155.2	168.5	14.4	8.6	9.2	9.0	9.6
Non-bank lenders	74.2	81.2	87.9	95.6	12.3	9.5	12.6	11.8	10.4

*Excludes loans to the financial sector

~HDFC Ltd. included in HFCs, not Banks, for comparison purposes

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

@Excludes commercial paper issued by NBFCs

^Excluding FII investments in corporate bonds

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

Comparison of India's debt with other major nations

A comparison of India's NGNF debt with a few other major economies (the US, the UK, Japan, Eurozone (EZ) and China) confirms that while India's debt is growing at the fastest pace among these nations, its debt-to-GDP ratio remains significantly lower than world's other major and large economies.

India's NGNF debt grew 10.8% YoY in 3QFY24, compared to 8.4% growth in China, 2.0-2.5% growth in the US, the UK, and Japan and only 0.7% YoY growth in EZ (*Exhibit 9*). While India's debt has grown faster than in most rich nations (because of the size, base, and potential), it has outpaced the growth in China's debt during the past eight quarters as well. India's NGNF debt growth has mostly been in low double-digits since 4QFY22 (or 1QCY22), while China's NGNF debt has increased by 8-10% during these quarters.

India's debt-to-GDP ratio is lower than major nations, but not low compared to other E&DEs

Nevertheless, India's debt-to-GDP ratio is much lower than these economies. At its peak, NFS debt was at 290-310% of GDP each in the US, the UK, and EZ in 4QCY20/1QCY21; it was 430% of GDP in Japan and 181% in India. As of 3QFY24 (or end-CY23), debt-to-GDP ratio in all these economies was much lower than its peak (*Exhibit 10*). While it was 168.7% of GDP in India in 3QFY24, it remained above 200% of GDP in most rich economies (from 228% of GDP in the UK to 270% in the US) and more than 400% in Japan.

Due to the pandemic, China's debt-to-GDP ratio also jumped to 271.2% in 3QCY20 from 247% in late-CY19. Like in other nations, the ratio started falling in CY21 and stood at 262.8% at end-CY21. However, it started rising once again in CY22 and stood at its all-time peak of 287.8% in 4QCY23.

Exhibit 9: India's NGNF debt growing faster than world's other major economies...

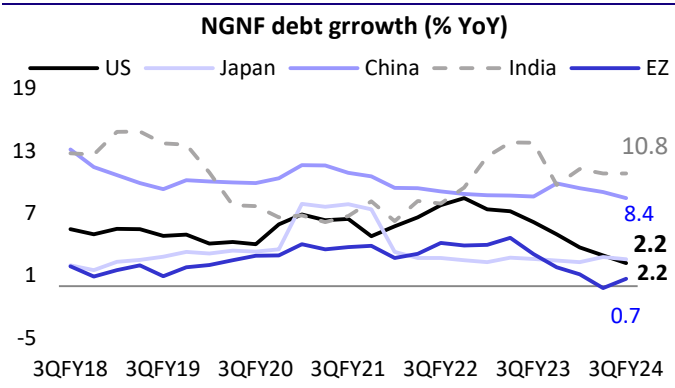
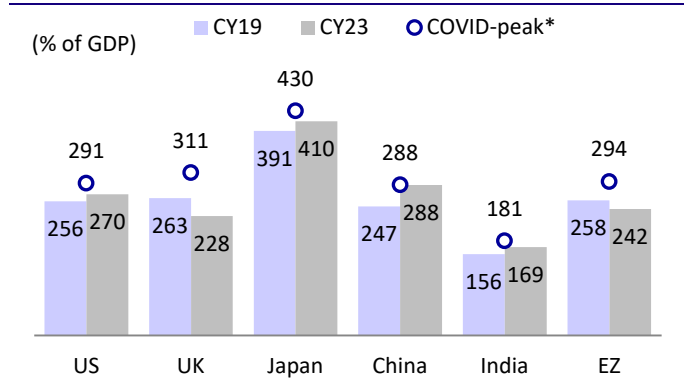


Exhibit 10: ...but is still much lower than other nations as % of GDP



* 3QFY21 in the UK/Japan, 4QFY21 in the US/India/EA
Source: Various national sources, 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 3QFY24. These trends have been observed in the recent few quarters and broadly align with the investment growth observed by these economic participants. Further, household debt is estimated to have reached a new peak, but non-housing loans grew faster than housing loans for the sixth successive quarter in 3QFY24.

Appendix: Estimating total debt in the domestic NGNF sector

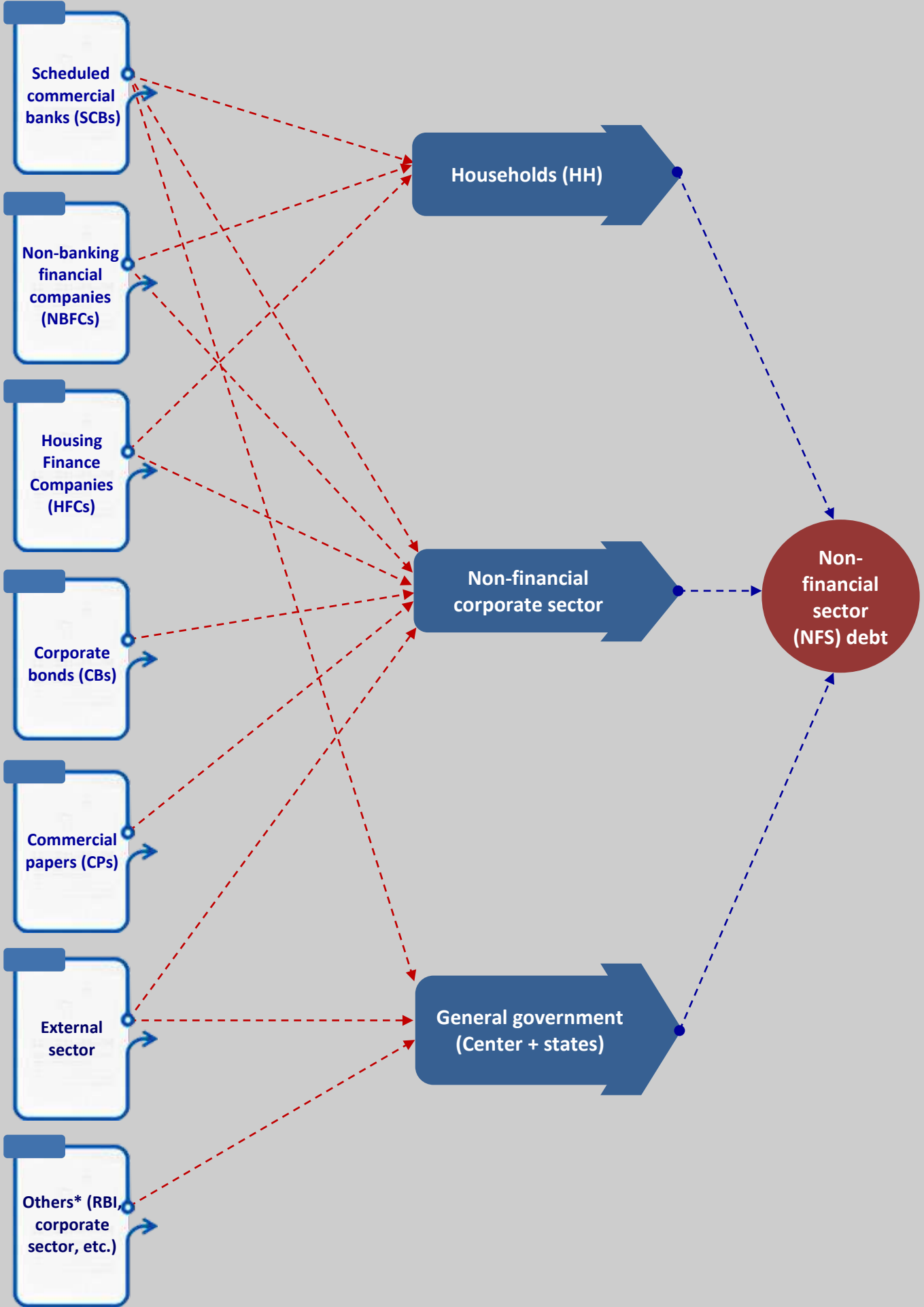
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to the HH and corporate sectors, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, 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. We have excluded HDFC Ltd from the SCBs' data for comparison purposes.
- 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 1HFY24. 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 9*).
- 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 FY23. For quarterly data, we have compiled the data of nine HFCs (including HDFC Ltd), 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 11: 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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