

Overseas borrowings in Q1 FY21 tumble to 11-quarter low of \$3.51 bn

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Borrowings have fallen off the cliff because companies don't have any investment plans due to future uncertainties

Overseas borrowings of India Inc plunged to an 11-quarter low to \$3.51 billion during the first quarter of the current fiscal as the pandemic-led lockdown brought both economic and lending activities to a virtual standstill for nearly two months. The overseas borrowings of Indian corporates for the same quarter last year stood at \$12.04 billion, while borrowings during Q4 FY20 touched a peak of \$18.97 billion.

"With the lockdown that took place, everything has come to a halt. Companies don't have any investment plans since there are a lot of uncertainties about the future. That's the main reason why overall borrowings have come down," said Madan Sabnavis, Chief Economist at CARE Ratings.

Amid heightened risk aversion in the domestic debt market, coupled with a low interest rate regime abroad, external commercial borrowings (ECBs) have been one of the preferred routes of fund raising for Indian companies in the last few years.

Besides, a slew of rationalisation measures taken by the RBI allowing more sectors to tap overseas markets also fuelled this growth. Consequently, India Inc's ECBs touched a historic high of \$51.71 billion in FY20.

"Last year, borrowing was higher because the Indian debt market had virtually dried up, largely after the IL&FS issue," Rajat Bahl, Chief Ratings Officer at Brickwork Ratings, said, adding, "The move towards ECBs was necessitated by the fact that borrowers need money, but banks could not replace the entire debt market, and so, the replacement came from overseas issuances."

"This year, risk aversion to emerging markets has increased. Especially in the case of India, wherein the GDP growth rate is falling very drastically and the hope for a V-shaped recovery is also diminishing, risk aversion is very high since especially February-March," Bahl added.

Despite RBI slashing the reverse repo rate to disincentive banks from parking their excess funds with them, banks preferred to park their excess funds with the central bank at a low interest rate rather than risk lending it. According to the RBI's latest July report, banks parked nearly 8-lakh crore under reverse repo on a daily average basis in the month of May, against an average of 2.4-lakh crore during the March quarter.

With fresh lending coming to a standstill, non-banking finance companies (NBFCs) — one of the major borrowers of offshore loans — have also reduced their borrowing substantially. NBFC borrowings, for the purpose of on-lending, dropped 72 per cent to \$1.6 billion in Q1FY21 from \$5.8 billion in the year-ago quarter.

"NBFCs are one of the biggest borrowers of ECBs. But with the NBFC business facing some setback due to the moratorium, they don't want to lend more money," CARE Ratings' Sabnavis said, adding, "To the extent they wanted money, it came from banks through RBI's TLTRO."

RBI has conducted two tranches of the targeted long-term repo operations (TLTRO) to help corporates, cash-strapped NBFCs and microfinance institutions to raise money through issuance of bonds.

"Even the TLTRO is not fully subscribed since there were no borrowers in the market," Sabnavis said, adding, "In case of infrastructure players, they are not sure about the future outlook and hence, did not borrow any overseas loans."

On a year-on-year basis, ECBs for import of capital goods fell to \$198 million (\$705 million) in Q1FY21 while borrowings for 'modernisation' purpose fell sharply to \$146 million (\$1,269 million). ECBs towards infrastructure development also fell to \$76 million (\$500 million) during this period.