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Is corporate deleveraging behind us?

An issue which gained prominence in the past is deleveraging by India Inc. Is it still prevalent or has that cycle bottomed out? This note attempts to capture those aspects of debt. It looks at the debt of 2,544 non-financial companies whose information is available till date. Banks and Financial companies have been omitted in this analysis. What comes out is that growth in debt of the sample companies has shown some slowdown in the last five years compared with the preceding period. Interestingly, growth in fixed assets though somewhat lower in the FY20-FY25 phase was higher than that in debt indicating that companies may have been using their own funds to finance expansion.

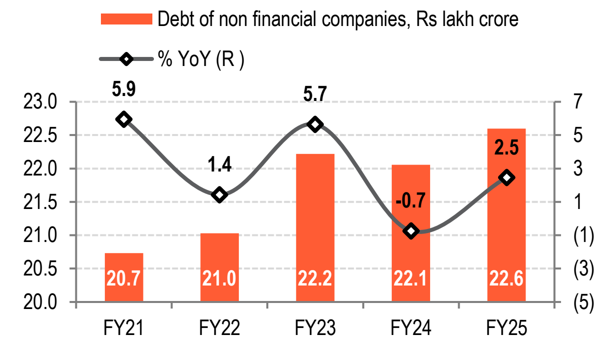
There has been not much change in the structure of debt with predominance of sectors such as power, crude oil, and telecom. The increase in debt is however aligned with growth in net sales. This is positive and opens opportunities for bank lending in a year of easing monetary policy cycle.

Debt trajectory

The outstanding debt of the sample companies has witnessed a lower growth in the quinquennium ending FY25 compared with the previous one. At the same time there has been a trend of steady growth in fixed assets of the sample companies implying that there has been investment taking place post Covid. Figures 1 and 2 provide information on both these aspects.

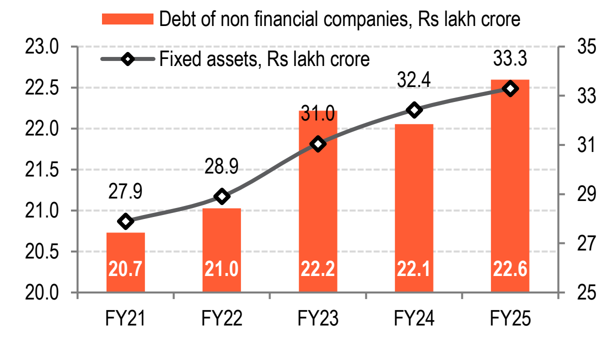
- From Rs. 20.7 lakh crores in FY21, debt of non-financial corporates increased to Rs. 22.6 lakh crores in FY25. The 5-year CAGR of debt is at 2.9% is lower compared to the previous quinquennium CAGR of 8.7% (FY15-20).
- In the last 5 years varying patterns in growth emerged. In FY21 and FY23, growth was 5.9% and 5.7% respectively while it was low in FY22 at 1.4%. In FY24, there was a decline of 0.7% which is a result of deleveraging where companies were also repaying their loans.
- The 5-year CAGR in GFA was 4.5% compared with 4.9% in the previous quinquennium as average capacity utilization came down from 72.9% to 70.6%.

Figure 1: Debt is seen inching up…



Source: AceEquity, Bank of Baroda Research

Figure 2: …Coinciding with period of increasing fixed asset creation of non-financial companies



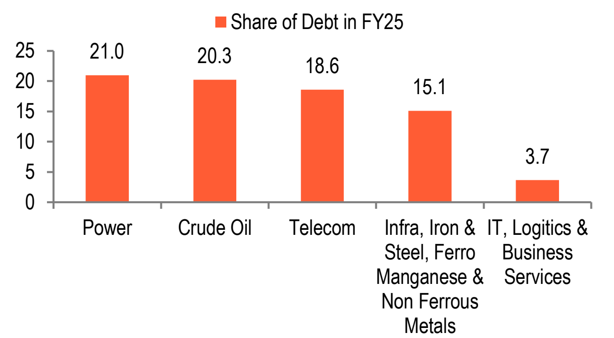
Source: AceEquity, Bank of Baroda Research

The interesting aspect here is that during the first period (FY15-20), growth in debt was 8.7% while that in fixed assets was 4.9%. During the second period (FY20-25), assets increased at a faster rate of 4.5% than debt of 2.9%, indicating that a part of the financing was from own resources of companies.

Sector wise picture:

In terms of sectors, power, crude oil and telecom primarily dominate the pie of overall debt with its share cumulatively at 59.8%. To understand the concentration issue deeper, we have used the Herfindahl-Hirschman Index (HHI) index which shows that for telecom the concentration of debt is higher and has been increasing. However, for Crude Oil and Power sectors, there has been moderation in HHI in FY25 compared to the HHI level for FY20. For infra-related sectors albeit some increase in the index, the level is low. If we compare different quinquennium, we can see for majority of the sectors whose share in overall debt is the highest, concentration has increased.

Figure 3: Sectors with predominant share in debt



Source: AceEquity, Bank of Baroda Research

Figure 4: …Concentration of debt using Herfindahl-Hirschman Index (HHI)

Sectors	HHI-FY15	HHI-FY20	HHI-FY25
Power	1930	2824	2438
Crude Oil	3027	3356	2986
Telecom	1849	2835	3059
Infra, Iron & Steel, Ferro Manganese & Non Ferrous Metals	661	826	989

Source: AceEquity, Bank of Baroda ResearchNote: Green shaded areas are where concentration have fallen, and red shaded areas are otherwise

Next, we analyze the trend in the sector-wise growth in debt. Some interesting observations that can be made are:

- The debt trajectory of the power sector has seen some momentum in the past two years, albeit at a softer pace. This is on account of increasing capacity and higher demand, attributable to usually longer summer and warmer winters.
- For infra and related sectors as well, there has been some movement in overall debt, attributable to robust order inflows.
- To get a broader picture we have seen the 5-year CAGR for these sectors.
    - Total debt has increased by 2.9% during this period.
    - 13 out of 25 sectors have witnessed higher CAGR than overall debt growth of 2.9% in the period of reference. Among important sectors, Telecom and Power has seen a higher CAGR. For telecom it is at a double-digit pace of 11.6%. However, some degree of moderation might be seen in the coming years as majority of the companies have reported an increase in the free cash flow profile as highlighted in their investor transcripts. Further, recent developments such as conversion of government dues to equity and waiving Bank Guarantee (BG) requirement for past spectrum auctions, would further help in consolidation of debt.

- For the Power sector, the 5-year CAGR (FY20-25) at 3.2% is slightly higher than the CAGR of overall debt at 2.9%. However, this is still lower than the previous quinquennium (FY15-20) where it was at 5.8%. For infra and related sectors , the 5-Year CAGR was at a modest pace of 0.8%. However, with government's focus on increased capital expenditure, especially on housing, it is expected to pick up.
- For Crude oil as well, consolidation is witnessed as the 5-year CAGR (FY20-25) has fallen by -1.4%. This may be on account of funding from revenue generation and somewhat moderation in capex cycle, as reflected in the financial results of majority of companies.
- Other sectors where the 5-year CAGR exceeded overall debt CAGR of 2.9% are Mining, Diamond and Jewellery, Industrial Gases and Fuels and Gas Transmission, amongst others. However, their share in overall debt is much smaller and hence not a cause of concern.

Table 1: Sector wise distribution and growth in debt

Sectors	Number of companies	Debt, Rs crore	CAGR-5 Years
Power	33	4,74,300	3.2
Crude Oil	20	4,57,694	-1.4
Telecom	24	4,20,110	11.6
Infra, Iron & Steel, Ferro Manganese & Non Ferrous Metals	217	3,41,263	0.8
IT, Logistics & Business Services	242	82,513	6.1
Textile	262	62,799	-3.6
Automobile & Ancillaries	155	58,098	-0.1
Healthcare and Hospitality	227	55,019	3.7
Realty	125	50,474	8.3
Construction Materials	79	49,817	2.6
Chemicals	188	48,984	-1.2
Misc	154	35,516	7.8
Retailing and Trading	257	29,489	9.7
Capital Goods	185	22,456	-3.3
FMCG	144	21,098	3.5
Inds. Gases & Fuels & Gas Transmission	16	14,072	18.0
Diamond & Jewellery	26	12,768	21.3
Media & Entertainment	72	6,550	-2.0
Mining	12	5,241	30.7
Electricals	35	3,775	0.0
Aviation	4	2,788	16.6
Alcohol	14	2,711	-2.1
Consumer Durables	27	1,925	-7.3
Miscellaneous	23	190	16.5
Ship Building	2	60	-0.3
Total	**2543**	**22,59,713**	**2.9**

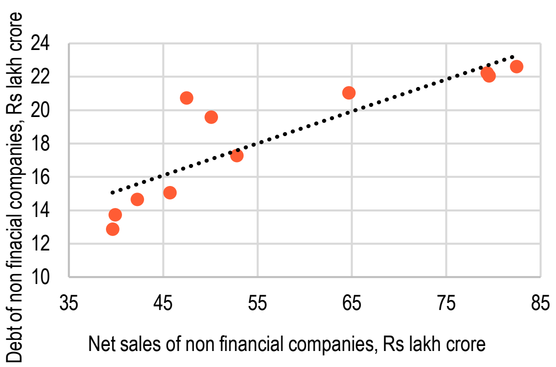
Source: Ace Equity, Bank of Baroda Research, Note: Highlighted sectors are the ones with maximum concentration in debt, Green highlighted sectors are ones whose CAGR in debt is higher than overall CAGR of 2.9%.

Debt, net sales and GVA of concerned sectors

The next pertinent question is whether this increase in debt is related to growth in turnover which can be GVA at the macro level and sales at the industry level. For GVA we have considered GVA excluding agriculture, Financial Services, Real Estate and Professional Services and Public Administration, Defence and Other Services. A limitation is that there may not be one to one correspondence between the NSO classification for GVA and net sales of the sample companies.

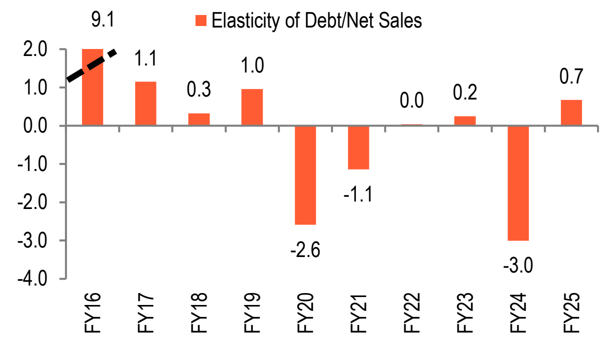
Fig 6. shows that the increase in debt coincides with an increase in net sales of the sample concerned. In the past 6 out of 10 Years, the growth in debt has been in line with growth in net sales. Normally it is expected that buoyant business conditions would be associated with higher investment and hence debt. The correlation coefficient between the two has also been higher at 0.8 in the past 10 Years. The elasticity of debt to net sales is directionally in line and has improved in FY25. Deviations were witnessed during the covid phase.

Figure 5: Debt and Net sales well aligned…



Source: Ace Equity, Bank of Baroda Research

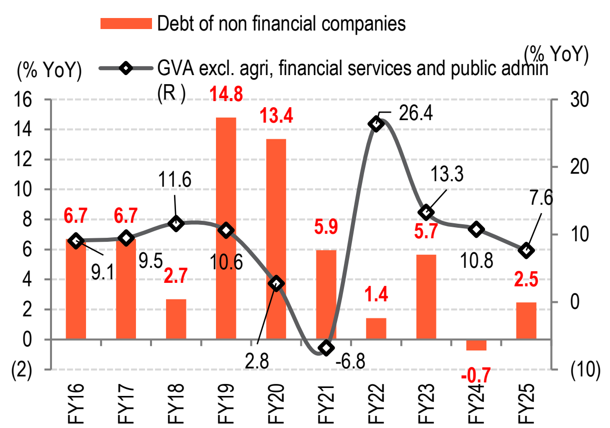
Figure 6: …Elasticity has also improved



Source: Ace Equity, Bank of Baroda Research

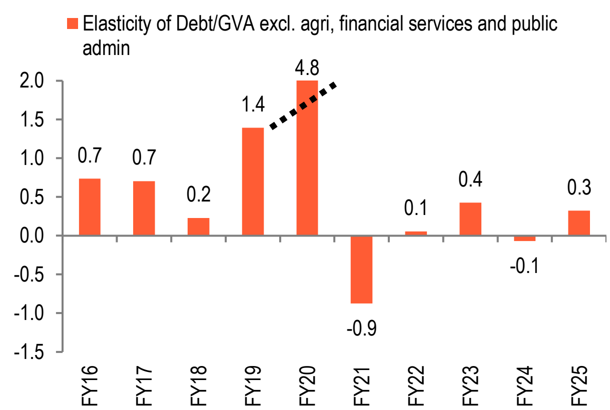
At the more macro level, Figures 7 and 8 depict growth in debt and adjusted GVA over this time period. There appeared to better alignment in growth rates prior to covid. Post FY20 GVA growth has tended to be much sharper than growth in debt thus weakening the link. This comes out from the rather weak elasticity numbers in the last five years. Hence the growth in debt of the corporate sector is closer aligned to growth in their net sales rather than adjusted GVA at the macro level.

Figure 7: Debt and GVA trajectory not well aligned…



Source: Ace Equity, Bank of Baroda Research

Figure 8: …However, elasticity improved slightly



Source: Ace Equity, Bank of Baroda Research

Elasticity of debt to net sales-Sector wise picture

The sector wise picture gives some interesting results:

- 7 out of 25 sectors shows an elasticity greater than 1 for FY25. Among them are major sectors such as Infra and iron and steel, amongst others, whose share in overall debt is higher. Notably, it has increased in the past few years with government's concerted efforts towards quality capital expenditure which has improved capacity utilization rates and investment.
- 13 out of 25 sectors have a positive elasticity. For Power as well, the elasticity is higher at 0.8 and has improved in the past few years.
- However, certain sectors, such as Telecom, auto, construction material, Crude oil, have negative elasticity. But in case of auto and construction material there was a sharp increase in fixed assets indicating thereby that there were internal resources used for funding such investment.

Table 2: Sector wise elasticities of debt to net sales

Sectors	FY21	FY22	FY23	FY24	FY25
Alcohol	2.3	-1.3	1.3	0.3	5.4
Miscellaneous	-0.9	-0.2	1.2	-0.3	4.9
Retailing and Trading	8.1	0.9	-0.2	-4.0	4.2
Infra, Iron & Steel, Ferro Manganese & Non Ferrous Metals	**-0.1**	**-0.3**	**0.9**	**0.8**	**3.5**
Mining	4.3	-0.2	-0.3	8.8	3.0
Misc	-0.8	0.1	-0.1	-2.5	2.0
Healthcare and Hospitality	7.4	-1.0	1.6	-0.1	1.3
Power	**6.1**	**0.3**	**-0.1**	**0.0**	**0.8**
IT, Logitics & Business Services	3.5	1.1	-0.2	0.8	0.5
Realty	-0.8	-0.1	0.1	3.8	0.3
Media & Entertainment	-0.1	-1.1	0.5	-0.3	0.3
Capital Goods	3.7	-0.1	-0.2	0.1	0.3
Diamond & Jewellery	1.1	1.3	0.7	7.1	0.1
Consumer Durables	1.7	1.9	-1.4	-4.3	0.0
Automobile & Ancillaries	-3.4	0.4	-0.1	-1.3	-0.4
Ship Building	1.8	4.2	-0.4	-0.1	-0.4
FMCG	-1.1	0.8	-0.3	9.6	-0.5
Telecom	5.0	0.5	0.9	-0.2	-0.6
Aviation	-3.1	0.6	-0.3	-0.5	-0.8
Chemicals	-11.7	0.7	-0.1	-0.9	-1.1
Electricals	-2.0	1.0	-0.6	2.9	-1.3
Crude Oil	0.8	0.0	0.5	1.8	-2.4
Textile	0.9	0.0	-4.8	-0.4	-2.5
Inds. Gases & Fuels & Gas Transmission	-0.7	-0.1	2.4	-1.4	-4.8
Construction Materials	-0.2	-0.6	0.3	0.1	-32.8
Total	**-1.1**	**0.0**	**0.2**	**-3.0**	**0.7**

Source: Ace Equity, Bank of Baroda Research, Note: Green shaded areas are highly elastic sectors whereas red shaded areas are inelastic sectors.

Concluding remarks

- Growth in debt in the five years ending FY25 was slower than that in the preceding five year period.

- Given that growth in fixed assets was higher during this period, it does appear that investment has been financed partly with internal resources.
- There has also been possibly a case of deleveraging with companies repaying costly debt from internal accruals.
- The sectoral picture shows that power, crude oil telecom, and infra related sectors have a major share in overall debt.
- The Herfindahl-Hirschman Index (HHI) index shows that for these large sectors which dominate the debt space concentration has increased over the past 10 year.
- To get a long run picture, the 5-year CAGR is used. Here we have seen that 13 out of 25 sectors have witnessed higher CAGR than overall debt growth of 2.9% in the period of reference. Among important sectors, Telecom, power and infra related sectors have gained momentum in debt. This is in line with improved order inflows that coincided with government's focus towards higher capital spending to kick start the investment cycle.
- The other angle explored here is the elasticity of debt to GVA of concerned sectors (GVA excluding agriculture, Financial Services, Real Estate and Professional Services and Public Administration. This relation gets weaker in the post FY20 phase.
- We then look deeper into the elasticity of debt to net sales. The elasticity for majority of sectors such as infra and iron and steel are high. In fact, 7 out of 25 sectors had an elasticity >1. The correlation coefficient between debt and net sales is also higher at 0.8 in the past 10 years.

Annexure 1: Sector wise debt (Rs crore) in the last 5 years

Sectors	Debt-FY20	Debt-FY21	Debt-FY22	Debt-FY23	Debt-FY24	Debt-FY25
Alcohol	3,013	2,430	1,808	1,916	1,947	2,711
Automobile & Ancillaries	58,502	68,569	75,747	72,732	59,708	58,098
Aviation	1,294	3,641	5,035	3,481	3,151	2,788
Capital Goods	26,608	22,601	21,800	21,120	21,389	22,456
Chemicals	52,093	37,221	46,284	45,412	50,689	48,984
Construction Materials	43,825	43,530	38,465	40,466	40,807	49,817
Consumer Durables	2,808	2,536	3,315	2,718	1,917	1,925
Crude Oil	4,92,001	4,41,897	4,32,059	4,89,472	4,41,333	4,57,694
Diamond & Jewellery	4,854	4,188	5,909	7,327	12,474	12,768
Electricals	3,780	4,506	5,828	5,285	5,078	3,775
FMCG	17,753	16,367	19,110	18,258	21,951	21,098
Media & Entertainment	7,252	7,514	6,354	6,969	6,609	6,550
Mining	1,373	2,767	2,347	2,496	3,710	5,241
Miscellaneous	89	115	106	156	153	190
Power	4,04,431	4,35,598	4,75,048	4,58,882	4,59,170	4,74,300
Realty	33,940	39,149	38,154	38,997	47,978	50,474
Ship Building	61	47	62	67	63	60
Telecom	2,43,066	3,83,930	4,05,761	4,50,329	4,45,104	4,20,110
Textile	75,322	67,355	68,030	66,614	68,316	62,799
Inds. Gases & Fuels & Gas Transmission	6,141	7,182	6,538	14,962	16,854	14,072
Infra, Iron & Steel, Ferro Manganese & Non Ferrous Metals	3,28,183	3,26,501	2,76,988	3,05,513	3,15,968	3,41,263
IT, Logitics & Business Services	61,440	66,370	80,526	77,021	79,687	82,513
Healthcare and Hospitality	45,985	47,531	42,662	48,434	47,839	55,019
Retailing and Trading	18,549	15,261	17,814	16,770	22,870	29,489
Misc	24,391	26,373	27,120	26,307	30,641	35,516
Grand Total	**19,56,756**	**20,73,179**	**21,02,872**	**22,21,702**	**22,05,405**	**22,59,713**

Source: AceEquity, Bank of Baroda Research

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