

**RESEARCH****BOB ECONOMICS RESEARCH | DEBT DYNAMICS**

Is corporate deleveraging behind us?

**SUMMARY****INDIA ECONOMICS: DEBT DYNAMICS**

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.

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**BOBCAPS Research**  
research@bobcaps.in



## DEBT DYNAMICS

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### Is corporate deleveraging behind us?

**Dipanwita Mazumdar**  
Economist

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%.

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.



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