

At \$3.68 b, India Inc's ECBs in Q1 plunge to 7-quarter low

Rising rates and monetary policy tightening make offshore funding less attractive

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Overseas fundraising of Indian corporates dropped to a seven-quarter low of \$3.68 billion in Q1 FY23 as monetary policy tightening by global central banks and rising interest rates made the offshore funding less attractive for domestic borrowers.

Over the quarters

In contrast, India Inc's offshore borrowing under the external commercial borrowings (ECBs) route stood at \$15.21 billion in the March quarter and at \$8.50 billion during the December 2021 quarter. Prior to this, the lowest overseas fundraising in a single quarter was recorded in Q1 FY21 when the Covid-19 pandemic and the consequent nationwide lockdowns brought all the economic activity to a standstill. India Inc raised \$3.51 billion



Before this, the lowest overseas fundraising in a single quarter was recorded in Q1 FY21

during that quarter. Over the last few years, resource mobilisation through ECBs have recorded a steady increase as corporates tapped overseas markets to benefit from the surplus liquidity and persistently low interest rates. From \$26 billion in FY18, ECBs of India Inc rose to \$41 billion in FY19 and touched a historic high of \$52 billion in FY20. With the pandemic blow and corporates cutting back on capex spending, the quantum of borrowing fell to \$35 billion before improving to \$38 billion in FY22.

With an aggressive monetary tightening by the US Federal Reserve, resource mobilisation through ECBs dropped to a low of \$361.6 million in April. The

monthly borrowings, however, picked up to \$1.52 billion in May and to \$1.81 billion in June.

Rising rates

Madan Sabnavis, Chief Economist at Bank of Baroda, feels the ECB levels will remain steady. "The reason is that interest rates have started increasing overseas and exchange risk is also a concern as hedging the same will erode the benefit of lower rates. Larger companies will prefer to borrow in India where MCLR's have not increased much. The SMEs will find ECBs cheaper but have less access given their low credit rating," Sabnavis added.

To rise further

In its recent report on rising interest rates and growth challenges, Brickwork Ratings said in spite of geopolitical disturbances, demand for ECBs is expected to rise on account of higher interest rate differentials. However, Sabnavis said, given the currency risk involved, the advantage (of interest rate differentials) will get diluted if companies have to hedge their borrowings.