

SBI RESEARCH

India INC has a reasonably strong investment as well as ECB pipeline...Share of private investment in total investment announcements at 70%...Private Investment to GDP in FY24 would be highest since FY16...Separately, ECB outstanding of India is at \$190.4 bn with private companies hedging at 74% of corpus...Surprising to see gross misrepresentation of ECB figures reported in media are at \$273bn...

Issue # 28, FY25 22-January-2025

- ❑ During the first 9MFY25, investment of more than Rs 32 lakh crore have been announced by India Inc., ~39% higher than the corresponding period last year (9MFY24) of Rs 23 lakh crore while the share of private participation in the investment announcements has risen to ~70%
- ❑ Gross block of Indian Inc. (represented by around 4500 listed entities) increased to Rs 106.50 lakh crore as of March'2024, from Rs 73.94 lakh crore in March 2020, with addition of more than Rs 8 lakh crore of gross block annually in last five years. Further, a robust capital work in progress pipeline of Rs 13.63 lakh crore (March'24) suggests strong incremental thrust in coming years
- ❑ While the investment from govt touched 4.1% of GDP in FY23, the highest since FY12, **Private corporation investment as percentage of GDP touched 11.9% -- the highest since FY16...FY24 data to be released on end-Feb is likely to show private investment closer to 12.5% of GDP in FY24 itself.**
- ❑ External Commercial Borrowings, consisting of Commercial Bank Loans and Bonds, among others are one of the preferred routes to raise finances from overseas non-resident entities
 - Basis latest RBI data, ECBs raised by India Inc. stood at \$ 190.4 Bn (Sep'24), marginally rising from previous quarters (June/March'24)....The share of Non-Rupee and non-FDI components of ECBs stood at ~\$ 155 Bn (since they are considered non-convertible/non-volatile from hedging perspectives)
 - Private Companies accounted for ~63% of such outstanding (\$97.58 Bn) while Public Sector companies had the remaining ~37% share (\$55.5 Bn)... **Private companies (including others) hedging at ~74% of total hedged corpus**
 - In FY25 (up to Nov'24), \$ 33.8 bn ECB registration is being reported...Around half of the registration, in FY24, are for import of capital goods, modernization, local capital expenditure new projects etc. **ECB/FCCB registration as a part of GDP declined from 1.9% in FY20 to 1.2% in FY24.**
 - The overall cost of ECBs registered during the current financial year so far (April- November 2024) declined by 12 bps to 6.6 per cent y-o-y. A decline in SOFR bodes well for ECBs though the volatility in INR remains counter productive....

Questioning the India story, in particular questioning the exchange rate mechanism, capital raising and foreign borrowings have recently found a distinctive space in public media.....this could attract market players to pounce on the currency, prompting a self-fulfilling prophecy in a false narrative-volatility spiral

Interestingly, there has been a series of articles including one by former ex-CEA and other co-authors in public domain in recent months. In the most recent article, In the Business Standard article dt. January 16th.The authors argued that ***“Indeed, the cost reduction was so pronounced that ECBs took off despite dollar interest rates having risen substantially. By early 2025, the stock of ECB debt had grown to \$273 billion, an increase of one-third in just two years.”***

However, the figure grossly miscalculate the ECB liabilities of Corporate India....

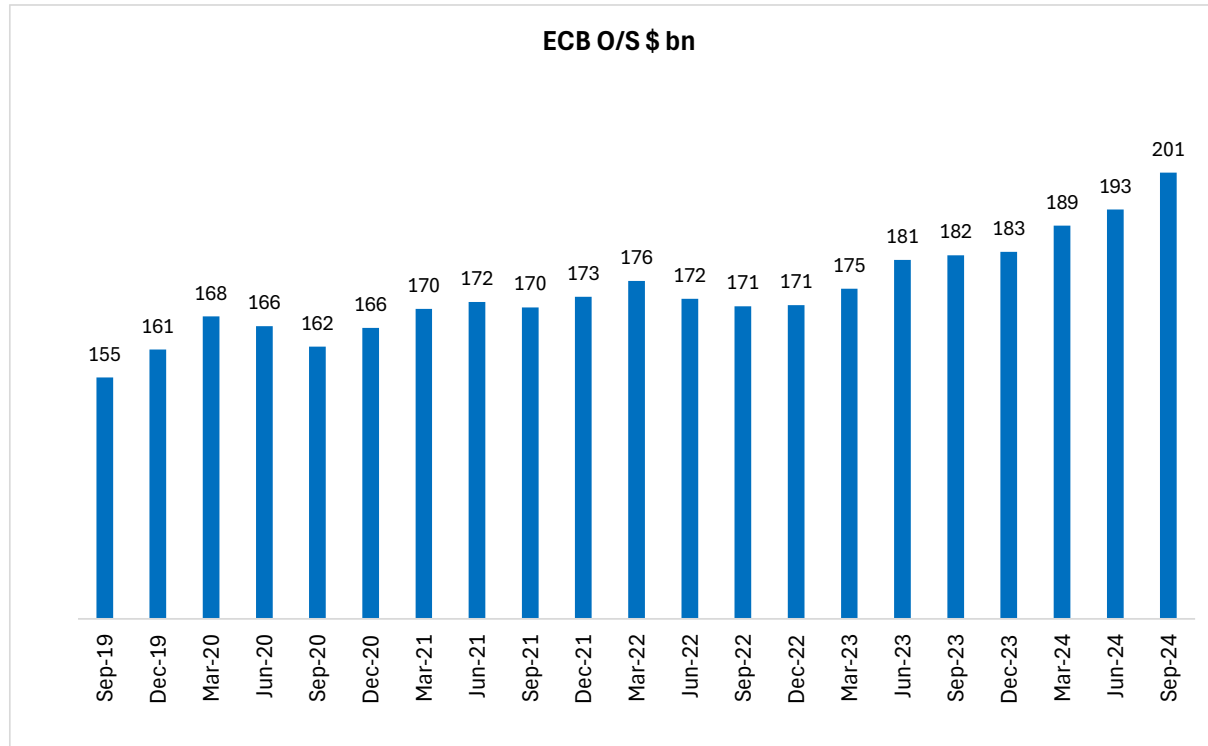
India Inc.'s outstanding ECB raised stood at \$190.4 Bn (RBI Sep 2024) and /or \$273 bn (Sep'24) as per the author's data. Clearly, the RBI and Government of India numbers can't be so significantly different. Let us for conservatism, take \$273 bn that the authors have used to make a meaningful comparison and derive the RBI number at \$190.4 bn. This figure of \$273 bn on careful reading from GOI External Debt data, however consists of \$72.057 bn that purely pertains to FPIs- Debt investments in long term Corporate and Government Securities (G-Sec) which, we humbly believe, should not be included in Indian companies' (PSUs / Private) balance sheet Fx obligations, defeating the very purpose behind ECBs that effectively lower the WACC (Weighted Average Cost of Capital) apart from diversifying financial mix and pitch the borrowing entities to a better standing before marquee investors overseas. Excluding these \$72.057 bn as the RBI also does the outstanding External Debt reduces to \$201bn as on Sep'24 / RBI \$190 bn.... nearly identical...The RBI also nets out some more data.... But its a meagre \$16 bn increase over 30 months....Clearly, the devil lies in details....

A little faith in RBI, and Country's macros, should go a long way to stabilize the rupee / investment outlook as evident through utilization pattern of ECBs being raised of late: **Import of capital goods, modernization, local capital expenditure new projects etc. forming close to half of fresh borrowings.** Investment announcements in 9MFY25 are ~39% higher than corresponding period last year (9MFY24)

External Commercial Borrowings Framework....The Guidelines

EXTERNAL COMMERCIAL BORROWINGS FRAMEWORK		
Parameters	FCY denominated ECB	INR denominated ECB
Currency of borrowing	Any freely convertible Foreign Currency	Indian Rupee (INR)
Forms of ECB	Loans including bank loans; floating/ fixed rate notes/ bonds/debentures (other than fully and compulsorily convertible instruments); Trade credits beyond 3 years; FCCBs; FCEBs and Financial Lease.	Loans including bank loans; floating/ fixed rate notes/bonds/ debentures/ preference shares (other than fully and compulsorily convertible instruments); Trade credits beyond 3 years; and Financial Lease. Also, plain vanilla Rupee denominated bonds issued overseas, which can be either placed privately or listed on exchanges as per host country regulations.
Eligible borrowers	All entities eligible to receive FDI. Further, the following entities are also eligible to raise ECB: i. Port Trusts; ii. Units in SEZ; iii. SIDBI; and iv. EXIM Bank of India	a) All entities eligible to raise FCY ECB; and b) Registered entities engaged in micro-finance activities, viz., registered Not for Profit companies, registered societies/trusts/ cooperatives and Non-Government Organisations
Minimum Average Maturity Period (MAMP)	MAMP for ECB will be 3 years. Call and put options, if any, shall not be exercisable prior to completion of minimum average maturity. However, for the specific categories mentioned below, the MAMP will be as prescribed therein ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year - 1 Year ECB raised from foreign equity holder for working capital purposes, general corporate purposes or for repayment of Rupee loans - 5 year ECB raised for (i) working capital purposes or general corporate purposes (ii) on-lending by NBFCs for working capital purposes or general corporate purposes - 10 years ECB raised for (i) repayment of Rupee loans availed domestically for capital expenditure (ii) on-lending by NBFCs for the same purpose - 7 years ECB raised for (i) repayment of Rupee loans availed domestically for purposes other than capital expenditure (ii) on-lending by NBFCs for the same purpose - 10 years	
All-in-cost ceiling per annum	Benchmark Rate plus 550 bps spread: For existing ECBs linked to LIBOR whose benchmarks are changed to ARR. Benchmark rate plus 500 bps spread: For new ECBs.	Benchmark rate plus 450 bps spread.
Hedging provision	The entities raising ECB are required to follow the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure. Infrastructure space companies shall have a Board approved risk management policy. Further, such companies are required to mandatorily hedge 70 per cent of their ECB exposure in case the average maturity of the ECB is less than 5 years. The following operational aspects with respect to hedging should be ensured: Coverage: The ECB borrower will be required to cover the principal as well as the coupon through financial hedges. The financial hedge for all exposures on account of ECB should start from the time of each such exposure (i.e. the day the liability is created in the books of the borrower). Tenor and rollover: A minimum tenor of one year for the financial hedge would be required with periodic rollover, duly ensuring that the exposure on account of ECB is not unhedged at any point during the currency of the ECB. Natural Hedge: Natural hedge, in lieu of financial hedge, will be considered only to the extent of offsetting projected cash flows / revenues in matching currency, net of all other projected outflows. For this purpose, an ECB may be considered naturally hedged if the offsetting exposure has the maturity/cash flow within the same accounting year. Any other arrangements/structures, where revenues are indexed to foreign currency will not be considered as a natural hedge	Overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products with AD Category I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back to back basis.
Limit and leverage	Under the aforesaid framework, all eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under the automatic route.	

- As per latest data released by the RBI, ECBs raised by India Inc. stood at \$ 190.4 Bn (Sep'24), marginally rising from previous quarters (June/March'24)
- The share of Non-Rupee and non-FDI components of ECBs stood at ~\$ 155 Bn (since they are considered non-convertible/non-volatile from hedging perspectives)
- Private Companies accounted for ~63% of such outstanding (\$97.58 Bn) while Public Sector companies had the remaining ~37% share (\$55.5 Bn)... However, **Private companies (including others) had better share in hedging at ~74% of total hedged corpus** (as against their share of ~63% in total Non-Rupee-Non-FDI ECB outstanding) and takes their total hedging ratio to ~68%



ECB calculated from Government of India External Debt data subtracting FPI investment in long-term corporate and government securities as is the custom.

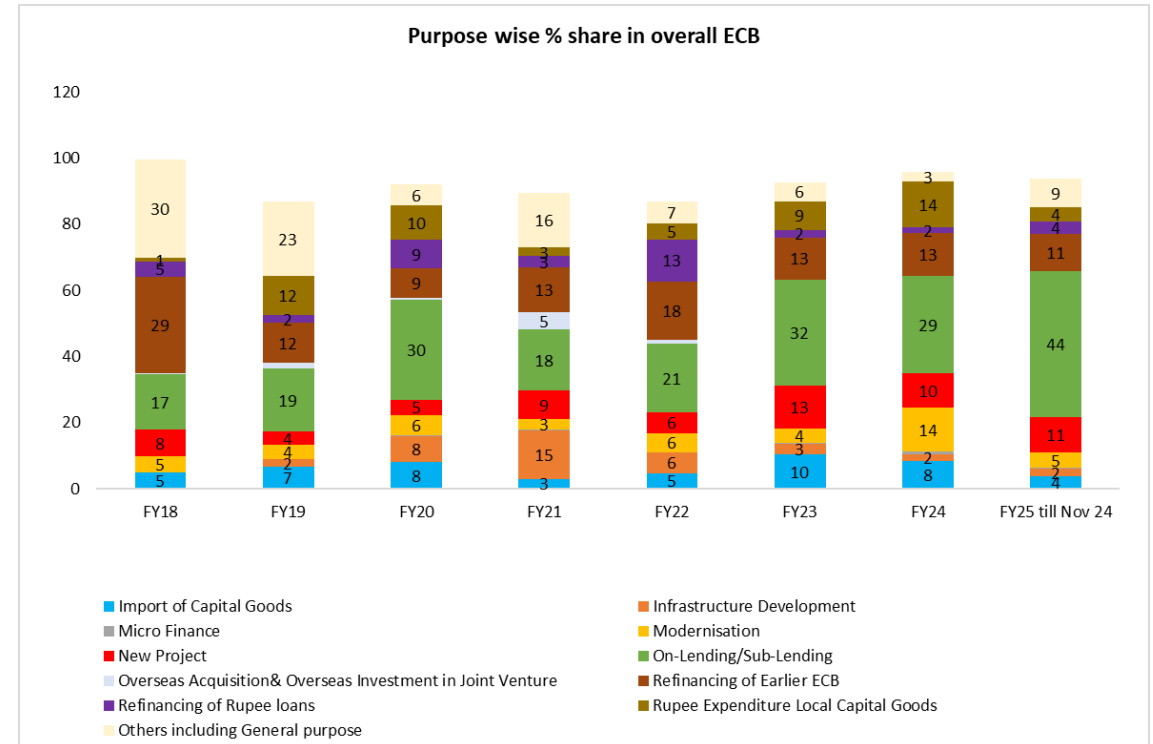
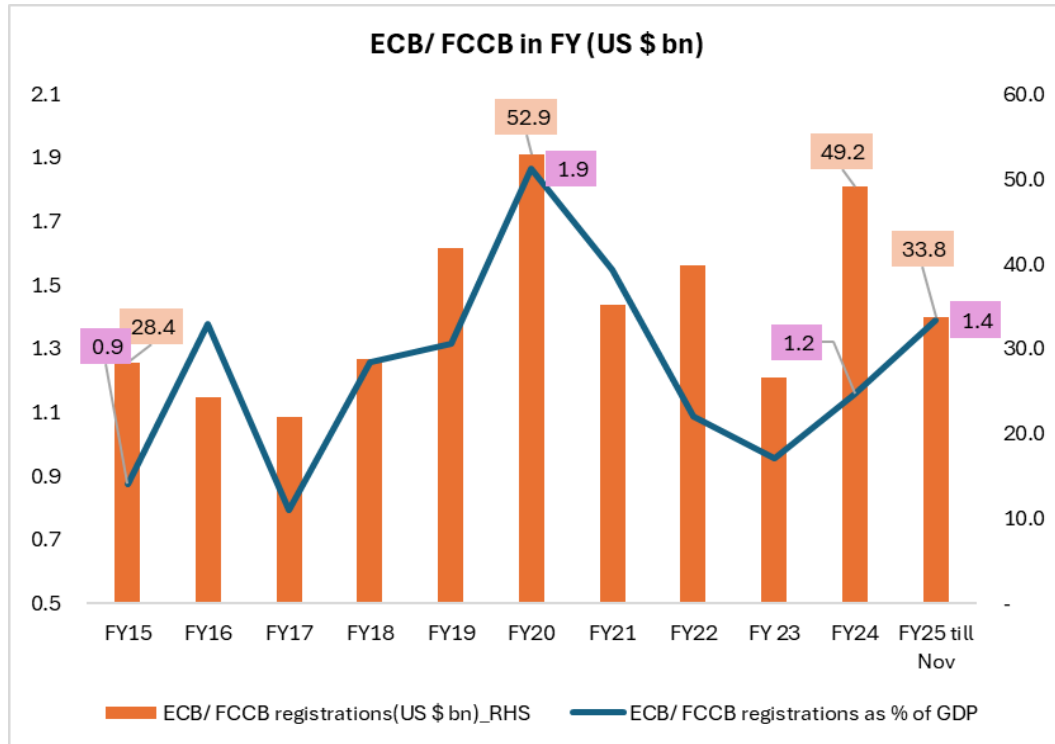
Around two-thirds of ECBs remain hedged...thus gyrations in rupee value has purely to do with Dollar Index..

- Around two-thirds of ECBs remain hedged as of Sep-24 (as compared to ~55% hedged two years back)
- Among the unhedged part, some portion is guaranteed by the Government of India and a portion of the unhedged ECBs retains natural hedges where the borrower's earnings are in foreign currency (~1.5% as of Sep-24)

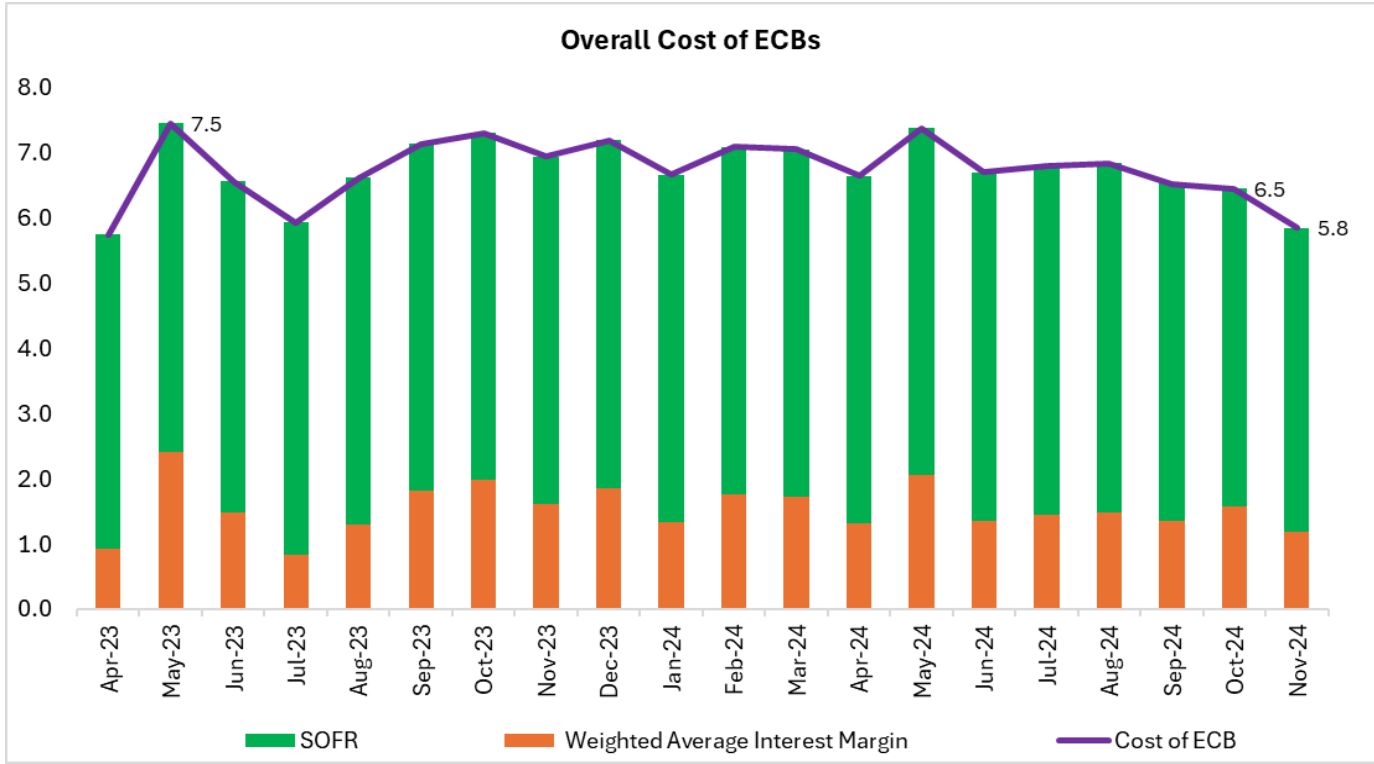
Hedging Status of ECB Loans -Sep-22 vis-à-vis Sep-24 (US\$ bn)		
Description	Sep-22	Sep-24
A. ECB – Total outstanding	173.5	190.4
B. ECB – INR denominated	15.1	15.3
C. ECB – FDI Companies' borrowings from foreign parent	28.4	32.5
<i>of which</i> , (a) INR denominated	10.8	12.4
(b) FCY denominated	17.6	20.1
D. ECB – Non-Rupee and non-FDI [= A-B-C(b)]	140.7	154.9
E. Hedged non-Rupee non-FDI ECBs (i.e., D above)	61.6	89.5
F. ECB – unhedged {D-E}	78.9	65.5
G. Percentage share of unhedged ECB {(F)/(A)*100}	45.5	34.4
Source: RBI; SBI Research		

ECB registration though improved in FY24, still below pre pandemic level..

- ❑ ECB registration increased in FY24 to \$ 49.2 bn as compared to \$ 26.6 bn in FY23. However, the same was \$ 52.9 bn in FY20 (to benefit from rock bottom interest rates)
- ❑ In FY25 (up to Nov'24), \$ 33.8 bn ECB registration is being reported
- ❑ Around half of the registration, in FY24, are for Import of capital goods, modernization, local capital expenditure new projects etc.
- ❑ ECB/FCCB registration as a part of GDP declined from 1.9% in FY20 to 1.2% in FY24.



- ❑ The overall cost of new ECBs raised during November 2024 declined by 71 bps (m-o-m) to 5.8 per cent due to decrease in both global benchmark rates such as Secured Overnight Financing Rate (SOFR) as well as weighted average interest margin (WAIM)
- ❑ The overall cost of ECBs registered during the current financial year so far (April- November 2024) declined by 12 bps to 6.6 per cent y-o-y.



Source: RBI; SBI Research

Domestic Investment Announcements and Private Corporate Investment

Domestic Investment Announcements – Crossed Rs 37 lakh crore in last two years

- New investment announcements which were around Rs 10 lakh crore during 2020/21, improved to more than Rs 37 lakh crore in last two years (FY23/FY24), supported by both Government as well as private participation
- In 9MFY25, investment of more than Rs 32 lakh crore announced as compared to Rs 23 lakh crore previous year
- The share of private participation in the investment announcements also improved during last two years from around 50% in FY21 to around 68% in FY22 and FY23, which is more than 70% in 9MFY25

New Investment Announcements Sectorwise (major sector) 9MFY25		
Sectors	Number of Projects	Amount Rs Crore
Manufacturing	1,493	5,97,921
Basic Metals	190	1,67,700
Electronics	89	1,01,288
Automobiles & Ancillaries	117	88,899
Cement & Asbestos	42	46,120
Electrical Machinery	81	43,744
Inorganic Chemicals	182	27,609
Food Products	106	19,448
Miscellaneous Manufacturing	53	17,177
Drugs & Pharmaceuticals	110	14,873
Plastic & Plastic Products	107	13,039
Non Electrical Machinery	75	12,579
Organic Chemicals	95	12,499
Alcohols & Derivatives	69	10,937
Textiles	35	8,572
Others	142	13,437
Oil & Gas	62	35,623
Mining	72	56,628
Power	1,172	13,58,783
Renewable	666	9,61,247
Non-Renewable	63	3,10,752
Transmission & Distribution	443	86,784
Building Infrastructure	4,268	7,37,658
Residential Buildings	2,352	5,05,528
Commercial Complexes	493	59,394
Healthcare	301	34,399
Industrial & Software Parks	129	33,317
Educational & Govt Buildings	465	33,252
Tourism & Recreation	182	23,743
Logistics & Warehouses	193	19,147
Data Centers	21	15,286
Hospitality	132	13,592
Transport Infrastructure	1,372	3,32,173
Road Infrastructure	1,172	2,15,884
Shipping Infrastructure	36	59,179
Rail Infrastructure	130	51,269
Aviation and Telecom Infrastructure	34	5,841
Water & Irrigation	769	83,158
All Sectors	9,208	32,01,944

New Investment Announcements					
Year	Amount Rs lakh crore			Share (%)	
	Govt.	Private	Total	Govt.	Private
FY17	10.17	4.08	14.25	71.36	28.64
FY18	8.23	3.92	12.16	67.72	32.28
FY19	10.24	7.01	17.25	59.37	40.63
FY20	5.57	5.28	10.85	51.34	48.66
FY21	5.28	5.43	10.71	49.30	50.70
FY22	6.26	13.75	20.01	31.28	68.72
FY23	11.61	25.45	37.06	31.33	68.67
FY24	15.61	23.00	38.61	40.43	59.57
FY24 (9M)	10.14	13.09	23.23	43.65	56.35
FY25 (9M)	9.70	22.31	32.01	30.30	69.70

Source: Projects Today; SBI Research

Strong addition in Gross Block by Indian Inc.

- Apart from new investment announcement, another important data point is addition in gross block. Gross block of Indian Inc., represented by around 4500 listed entities, increased from Rs 73.94 lakh crore as of March 2020 to Rs 106.50 lakh crore as of March'2024.
- What is pertinent to mention is on an average Indian Inc have added more than Rs 8 lakh crore of gross block yearly in last five years
- In addition, robust capital work in progress of Rs 13.63 lakh crore, as of March'2024, suggest robust addition in coming years too

Fixed Assets (Rs lakh crore)					
Description	2020	2021	2022	2023	2024
Gross Block	73.94	79.62	87.08	96.80	106.50
Addition in gross block	9.13	5.68	7.46	9.72	9.70
Net Block	51.15	52.86	56.78	61.88	67.19
Capital Work in Progress	8.05	8.60	9.30	12.33	13.63
Source: SBI Research; CIne; around 4500 listed entities					

Gross Capital Formation at current prices (% GDP)-Institutions

- Government Investment touched 4.1% of GDP in FY23, the highest since FY12
- Private Corporate investment as percentage of GDP touched 11.9% -- the highest since FY16
- FY24 data to be released on Feb 28, 2025, is likely to show Private Corporate Investment closer to 12.5% of GDP in FY24 itself

Gross Capital Formation at current prices (% GDP)-Institutions								
Year	GCF	Consolidated Public sector	of which, Public Sector	General Government	Consolidated Private Sector	of which Household Sector	Private Corporations	valuables and adjustment factor from flow of funds
	A (B+C+D)	B (B1+B2)	B1	B2	C (C1+C2)	C1	C2	D
2011-12	39.0	7.5	4.0	3.5	29.2	15.9	13.3	2.3
2012-13	38.7	7.2	3.8	3.4	28.4	14.7	13.6	3.1
2013-14	33.8	7.1	3.5	3.5	25.5	12.6	12.9	1.2
2014-15	33.5	7.1	3.6	3.5	25.5	12.1	13.4	0.9
2015-16	32.1	7.6	3.9	3.6	23.1	9.6	13.5	1.5
2016-17	32.0	7.2	3.4	3.8	21.9	10.4	11.6	2.9
2017-18	33.9	6.8	3.2	3.6	22.7	11.4	11.3	4.3
2018-19	33.8	7.3	3.7	3.6	23.9	12.2	11.6	2.7
2019-20	30.4	6.9	3.3	3.6	22.2	11.2	11.0	1.2
2020-21	28.2	6.7	2.9	3.9	20.8	10.8	10.0	0.7
2021-22	32.4	6.5	2.8	3.8	23.9	12.6	11.4	1.9
2022-23	32.2	7.0	2.9	4.1	24.8	12.9	11.9	0.4

Source: SBI Research,CSO, FY24 is estimated as sum of Gross Fixed Capital Formation, Changes in Stock and valuables from GDP PE released on 30.05.2024

Financial savings of Households rose to 5.3% of GDP in FY24 from 5.0% in FY23

- Net Financial savings of Households rose to 5.3% of GDP in FY24 from 5.0% in FY23
- Saving in Physical assets increased to 13.5% in FY24 from 12.9% in FY23.

Financial Savings of the Household Sector break up													
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
% of GDP													
House hold sector Financial savings(A+B+C-D)	23.6	22.5	20.3	19.6	18.0	18.1	19.3	20.3	19.1	22.7	20.1	18.4	19.1
A. Gross financial saving	10.7	10.7	10.6	10.1	10.9	10.5	12.0	12.0	11.6	15.4	11.1	10.9	11.6
<i>of which:</i>													
Currency	1.2	1.1	0.9	1.1	1.5	-2.2	2.8	1.5	1.4	1.9	1.1	0.9	0.4
Deposits	6.2	6.1	5.9	4.9	4.7	6.4	3.1	4.3	4.4	6.3	3.5	4.1	4.7
Shares and Debentures	0.2	0.2	0.2	0.2	0.2	1.1	1.0	0.9	0.5	0.5	1.0	0.8	1.0
Claims on Government	-0.3	-0.1	0.2	0.0	0.5	0.8	0.9	1.1	1.3	1.3	1.0	0.7	1.0
Insurance Funds	2.2	1.8	1.8	2.4	1.9	2.3	2.0	2.1	1.7	2.9	2.1	2.0	2.0
Provident and Pension funds	1.1	1.6	1.6	1.5	2.1	2.1	2.2	2.1	2.3	2.5	2.3	2.3	2.4
B.Saving in physical assets	15.9	14.7	12.6	12.1	9.6	10.4	11.4	12.2	11.2	10.8	12.6	12.9	13.5
C. saving in form of gold & silver ornaments	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.3
D. Financial Liabilities	3.3	3.3	3.2	3.0	2.8	3.0	4.4	4.1	3.9	3.7	3.8	5.9	6.4
Loans from Banks	3.0	3.0	2.6	2.1	1.8	2.2	2.8	3.1	2.4	3.2	3.0	4.6	6.4
other financial institutions	0.2	0.1	0.6	0.9	0.9	0.8	1.5	1.0	1.4	0.7	0.8	1.3	0.0
Net Financial Saving (A-D)	7.4	7.4	7.4	7.1	8.1	7.4	7.6	7.9	7.7	11.7	7.3	5.0	5.3

Source: RBI, SBI Research, FY 24 Savings in physical assets and gold ornaments are SBI Estimate



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