

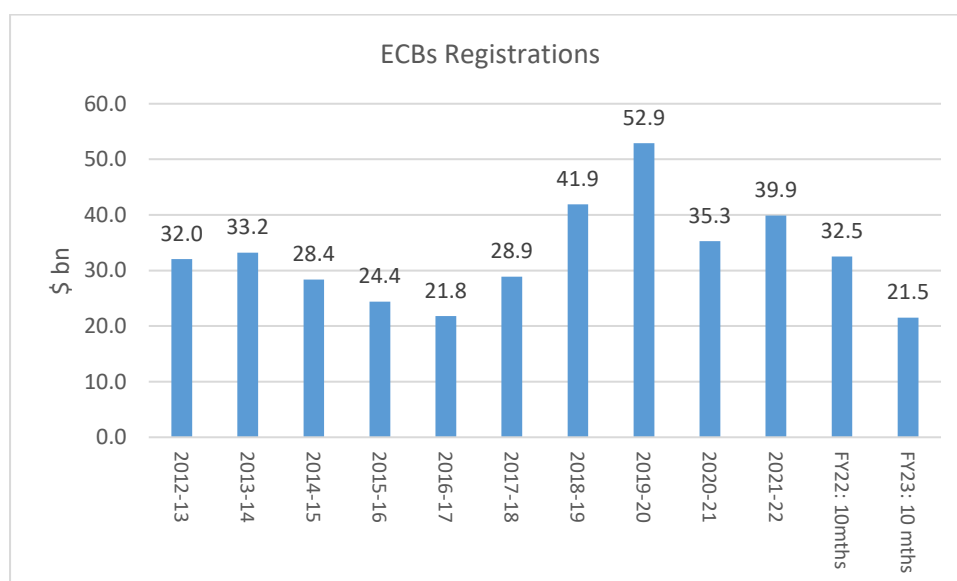
The ECB market

ECBs have been a very useful source of funding for Indian corporates. Given that global interest rates tend to be lower than those prevailing in India, there is a distinct advantage for companies. There is of course the currency risk which is involved when such a decision is taken as often hedging the debt service component can make it less attractive. There has however been an increase in such loans and the purpose here is to examine some aspects of these borrowings reckoned so far this year against the background of how these inflows have increased over time.

ECB registrations

The graph below provides information on ECBs registrations reckoned over the last 10 years to show how they have gained in importance. The pattern is one where there was a decline during 2012-17 after which it increased to peak at \$ 52.9 bn in 2019-20. However, subsequently there was a decline and in the first 10 months of the current financial year was just \$ 21.5 bn compared with \$ 32.5 bn during the same period of FY22.

Three factors have contributed to this tendency in FY23. First, global interest rates have increased with the Fed raising rates several times to 4.50-4.75%. Second, the rupee has been volatile with a decline of around 7.5% till February end. Third, the pace of investment has also slowed down leading to lower demand for funds by industry. This can also be seen in terms of slowdown in growth in credit.



Source: RBI

The major takeaway is that it is possible for the economy to raise over \$ 50 bn from this market if conditions are favourable. Given that India gets around \$ 80-85 bn as FDI, this amount is quite significant in terms of managing the balance of payments. In this period the share of ECBs in total external debt has been more or less stable though has increased from 33% to 36%.

In the first 10 months of the year total registrations were \$ 21.5 bn against \$ 32.5 bn last year. There has been a downward movement since 2020-21 after peaking in 2019-20. As interest rates were low,

one of the reasons could be the slowdown in the economy which went with relatively lower levels of investment. The weighted average maturity during FY23 has varied from 4.6 to 7.2 years.

What has been the purpose of such borrowings?

The table below gives the purpose of raising ECBs. Interestingly a third of the total is being raised for on-lending purposes while nearly 14% is for new projects and another 11.5% for capital goods. Almost 13.7% is being used for refinancing loans (both rupee and ECB) while 10.3% is for local sourcing of capital goods. Quite clearly almost half of the ECBs are being used for financial purposes (refinance and on-lending) and are not directly linked with physical goods. Around 25% is for direct investment purposes.

Purpose	Amount (\$ bn)	Share in total (%)
On-Lending or Sub-Lending	7.14	33.2
New Project	3.00	13.9
Import of Capital Goods	2.48	11.5
Local Sourcing Capital Goods (Re Expenses)	2.21	10.3
Refinancing of Earlier ECB	2.54	11.8
Working Capital	1.86	8.6
Modernisation	0.79	3.7
Infrastructure Development	0.45	2.1
Refinancing of Rupee loans	0.42	1.9
Others	0.65	3.0
Total	21.53	100

Source: RBI

Where are ECBs sourced from?

The table below gives an idea from where the ECBs are being procured. As can be seen almost 62% of the total approvals are loans from commercial banks which can be both branches of Indian banks overseas as well as foreign banks. The capital market is not favored much with the share being just 6.2%. The credit rating of the economy would play a role here and given that it is BBB (-), would mean higher borrowing costs for companies. Foreign collaborations including equity investors had a share of 19.4%.

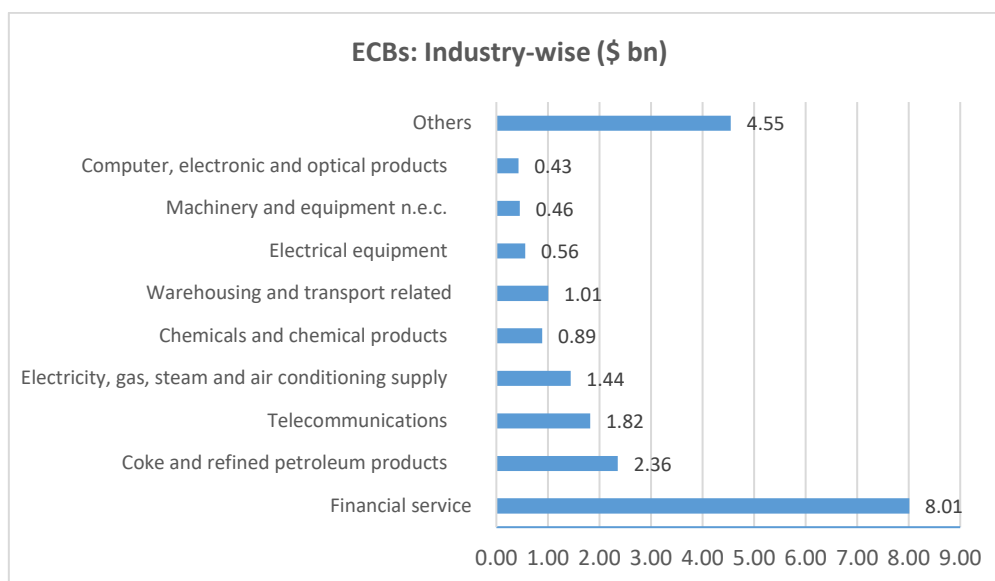
Lender category	Amount (\$ bn)	Share (%)
Other Commercial Bank	8.91	41.4
Indian Commercial Bank branch abroad	4.50	20.9
Foreign Collaborator / Foreign Equity Holder	4.17	19.4
International Capital Market	1.35	6.2
Others (Specify)	2.60	12.1
Total	21.53	100.0

Source: RBI

Which industries have been borrowing through this route?

The chart below gives an illustration of the leading sectors that reckon ECB borrowings. The financial services segment led with share of nearly 37% followed by coke and refinery products with 11%. Hence

two sectors accounted for almost half of total ECBs. Telecom had share of 8.5% and electricity, gas, 6.7%. Interestingly all the leading sectors are those in the infrastructure space where the cost of borrowing tends to be lower than when procured from domestic sources.



There were around 730 companies which had filed registrations under the different channels to the RBI. The top 10 companies accounted for 47.5% of the total registrations of \$ 21.53 bn. These include EXIM Bank (\$ 1.80 bn) followed by Reliance Industries and Reliance Jio (\$ 1.50 bn each), HDFC Limited (\$ 1.10 bn), Renew Surya Roshni (\$ 0.99 bn), REC (\$ 0.85 bn), PFC (\$ 0.84 bn), IOCL (\$ 0.60 bn), FS India Solar Ventures (\$ 0.55 bn) and Tata Sons (\$ 0.50 bn).

Concluding remarks

As India moves towards attaining the goal of achieving the \$ 5 trillion economy, there would be need for the investment rate to increase. For this to materialize companies would have to look at various alternative modes of financing. The ECB route looks attractive and would be explored more by corporates in the coming years. As we come to the end of the present interest rate cycle, the movement would now be downwards, probably from 2024 onwards. This would make such funding relatively cheaper though the currency risk would have to also be buffered in. As these registrations have crossed the \$ 50 bn, there is scope to progressively increase the quantum towards the \$ 70-75 mark to keep pace with the rising demand for funds.

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