

ECB repayment turns costly for India Inc as ₹ weakens

Nearly \$50-billion loans due for repayment in FY17 and FY18, making Corporate India vulnerable to currency volatility

KRISHNA KANT
Mumbai, 25 December

If the decline in demand due to demonetisation wasn't enough of a problem, Corporate India faces another challenge: the repayment of external commercial borrowings (ECBs). According to data from the finance ministry, \$29 billion worth of ECBs are due for repayment in FY17. Besides, another \$19.6 billion worth of ECBs are due for repayment in FY18.

In all, \$207 billion worth of foreign debt were up for repayment at the end of March 2016. A bulk of this is accounted for by non-resident deposits (\$90.4 billion) and short-term debt (\$83.4 billion), including investments, by foreign institutional investors (FIIs) in sovereign debt and commercial paper.

The depreciation in the rupee after demonetisation and Donald Trump's victory in the US have raised the ECB bill in rupee terms, while companies' repayment ability is set to decline in the second half of FY17 due to slowdown in demand and revenue. The rupee is down 1.8 per cent since November 8, the day Trump won the US Presidential election and the Narendra Modi-led government in India announced demonetisation of ₹500 and ₹1,000 notes.

Trump's victory, coupled with the likelihood of an interest rate hike in the US, resulted in capital outflow from emerging markets, and India has been no exception. In all, foreign investors

have withdrawn nearly \$11 billion from Indian equity and bond markets in the past three months, putting downward pressure on the rupee.

Analysts say Corporate India's financial

difficulty has been magnified by the demand slowdown triggered by the cash crunch. "If not for the volatility induced by recent events such as currency demonetisation, Trump's victory and rate hike in

the US, foreign currency debt was hardly an issue for corporates, given the benign capital inflows in India," says Dhananjay Sinha, head of institutional equity at Emkay Global Financial Services. Turn to Page 4 ▶

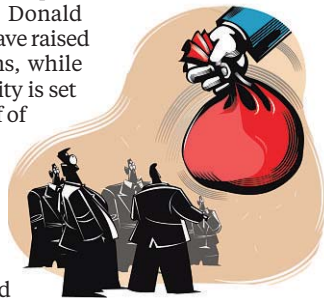
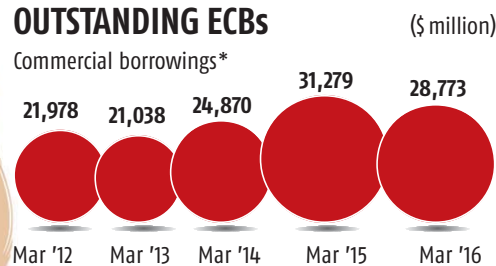


ILLUSTRATION: AJAY MOHANTY



*Commercial borrowings inclusive of trade credit, FII investment in corporate debt instruments
Compiled by BS Research Bureau

