

India's debt growth stable in 2QFY24

Household debt estimated at a new high in the quarter

- India's non-financial sector (NFS) debt grew 13.1% YoY in 2QFY24 (quarter-ending Sep'23), the highest in five quarters. Outstanding NFS debt touched USD5.7t (or INR476t) in 2QFY24, equivalent to 167.8% of GDP, compared to 165.9% of GDP in 1QFY24 and 162.8% of GDP in 2QFY23. In real terms, however, total debt (using GDP deflator) grew 11.6% YoY in 2QFY24, similar to that in 1QFY24, which was the highest in the past 17 quarters.
- Within NFS debt, non-government non-financial (NGNF) debt also grew 11.5% YoY in 2QFY24, while government debt jumped 14.7% YoY over the quarter. Within the NGNF sector, household (HH) debt spiked 19.7% YoY in 2QFY24 – marking the highest growth in a decade – driven by a decade-high growth of 21.5% YoY in the non-mortgage debt segment. Our estimates suggest that household debt was 38.3% of GDP in 2QFY24, marking the new peak, beating 37.8% of GDP in 4QFY21. Corporate debt, however, rose by just 5.1% YoY during the quarter, similar to that in 1QFY24.
- An analysis of NGNF debt by sources/lenders suggests that NBFCs posted a strong lending growth of 25.8% YoY in 2QFY24, the highest in 21 quarters and compared to 22.1% YoY in 1QFY24, while HFCs' outstanding loans are estimated to have grown at 18-quarter high of 14.6% YoY in 2QFY24. Scheduled commercial banks (SCBs), corporate bond issuances, and external borrowings also grew decently though weaker than in the previous few quarters; however, commercial papers (CPs) issuances by the non-financial sector contracted in 2QFY24.

India's NFS debt stood at USD5.7t (or INR476t) in 2QFY24, vs. USD5.6t/USD5.2t (INR460t/INR421t) in 1QFY24/2QFY23

India's NFS debt grew 13.1% YoY; stood at a six-quarter high of 167.8% of GDP in 2QFY24: Our estimates suggest that India's NFS debt stood at USD5.7t (or INR476t) in 2QFY24, vs. USD5.6t/USD5.2t (INR460t/INR421t) in 1QFY24/2QFY23 (*Exhibit 1*). Although NFS debt grew by a five-quarter high of 13.1% YoY in 2QFY24, NGNF growth remained unchanged at 11.5% YoY (vs. 11.3% YoY in 1QFY24), despite the increase in government debt, which was at a seven-quarter high of 14.7% YoY during the quarter (vs. 12.8% YoY). In 2QFY24, for the third consecutive quarter, the NGNF sector's contribution to NFS debt growth was lower than that of the government, with the former accounting for ~43% of the rise in NFS debt.

Compared to 13.1% nominal growth, NFS debt in real terms (using GDP deflator) grew 11.6% YoY in 2QFY24, similar to that in 1QFY24, which was the highest in the past 17 quarters (*Exhibit 2*). Further, since India's annualized nominal GDP grew at a 10-quarter low of 9.7% in 2QFY24, India's NFS debt inched up to 167.8% of GDP, compared to 165.9%/162.8% of GDP in 1QFY24/2QFY23 (*Exhibit 3*).

Exhibit 1: India's domestic NFS debt estimates

	USD t				As a percentage of GDP ¹			YoY (%)	
	FY20	FY21	FY22	FY23	2QFY23	1QFY24	2QFY24	1QFY24	2QFY24
Households* (HH)	0.9	1.0	1.1	1.2	35.1	37.2	38.3	19.2	19.7
Non-financial corporate ² (NFC*)	1.3	1.4	1.5	1.4	44.8	43.1	42.9	5.3	5.1
General government	2.0	2.4	2.7	2.8	82.8	85.6	86.6	12.8	14.7
Central government	1.3	1.6	1.8	1.9	55.2	58.3	58.8	14.8	17.0
State governments ³	0.7	0.8	0.9	0.9	27.6	27.3	27.7	8.8	10.1
Non-financial sector (NFS)	4.2	4.9	5.3	5.5	162.8	165.9	167.8	12.1	13.1
Non-government non-financial (NGNF)	2.2	2.5	2.6	2.6	79.9	80.3	81.2	11.3	11.5

Source: Reserve Bank of India (RBI), Ministry of Finance (MoF), Comptroller and Auditor General (CAG), Bloomberg, Company reports, MOFSL

¹ Annualized nominal GDP = Sum of the last four quarters to smoothen the sharp changes in nominal GDP on a quarterly basis

² Estimates included in this report are based on our calculations. Bank for International Settlements also provides India's HH and NFC debt estimates, which are available up to 1QFY24 and different from our estimates. *Please see Appendix at the end of the report for methodology.

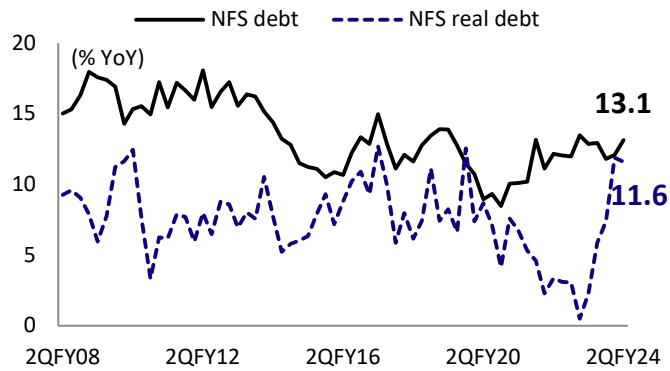
³ Debt estimates of state governments (based on fiscal deficit of 27 states) are prepared by us

Nikhil Gupta – Research Analyst (Nikhil.Gupta@MotilalOswal.com)

Tanisha Ladha – Research Analyst (Tanisha.ladha@MotilalOswal.com)

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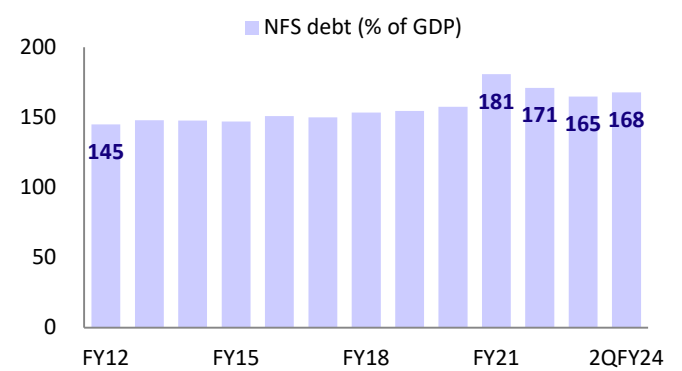
Exhibit 2: Nominal/real NFS debt grew 13.1%/11.6% YoY...



Deflated by GDP deflator

Please see Appendix at the end of the report for methodology

Exhibit 3: ...while debt-to-GDP ratio was 167.8% in 2QFY24



Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

GG debt stood at 86.6% of GDP in 2QFY24, the highest in eight quarters and up from 85.6%/82.8% in 1QFY24/2QFY23

Government debt up to six-quarter high in 2QFY24... NFS includes three major domestic economic sectors – Households (HH), non-financial companies (NFCs, private and state-owned), and general government (GG, Center + States). During the last three quarters (since 4QFY23), NGNF debt grew slower than government debt; thus, contributing less to the NFS debt growth. GG debt increased by a seven-quarter high of 14.7% YoY in 2QFY24, faster than 11.5% YoY growth seen in NGNF debt (*Exhibit 4*). Our estimates also suggest that GG debt stood at 86.6% of GDP in 2QFY24, the highest in eight quarters and up from 85.6%/82.8% in 1QFY24/2QFY23. The Center and state governments’ debt jumped 17% and 10.1% YoY, respectively, in 2QFY24. Accordingly, the center’s debt surged to a record 58.8% of GDP in 2QFY24, marking an 18-year high (up from 55.2% of GDP in 2QFY23). In contrast, the debt for states, at 27.7% of GDP in the same quarter, mirrored the level from a year ago and was lower than the recent peak of 31% of GDP in 4QFY21.

Exhibit 4: NGNF debt grew slower than government debt for second quarter in 2QFY24

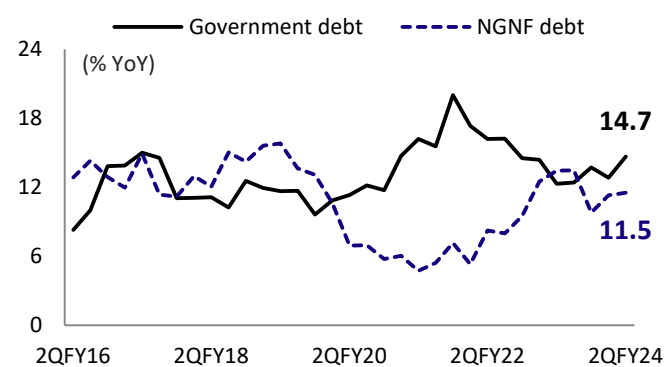
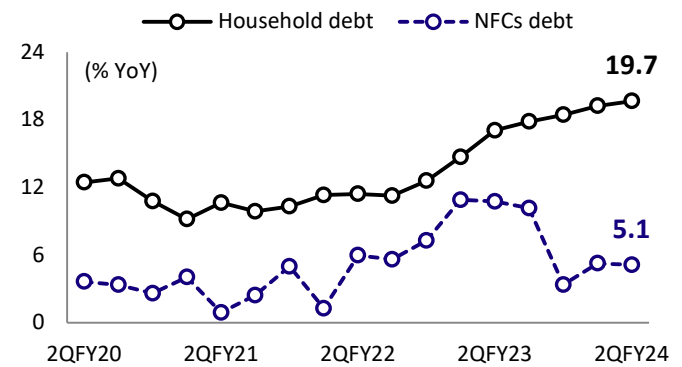


Exhibit 5: HH debt grew at a 22-quarter high, but corporate debt growth was weak in 1QFY24



Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

NGNF debt growth was 11.5% YoY in 2QFY24 vs. 11.3% in 1QFY24 and 13.4% growth in 2QFY23

...with household debt likely at all-time high: In contrast, NGNF debt growth was 11.5% YoY in 2QFY24 vs. 11.3% in 1QFY24 and 13.4% growth in 2QFY23. As a percentage of GDP, NGNF debt is estimated at 81.2% in 2QFY24, the highest in six quarters, but lower than its all-time peak of 91.2% in 4QFY23. For almost a decade, between FY12 and FY21, NGNF debt (as percentage of GDP) was higher than the government debt in India, which has reversed since FY22. Now the government debt is higher than NGNF debt in India, just like in the pre-FY12 period.

Within the NGNF sector, HH debt spiked at 19.7% YoY in 2QFY24, marking the highest growth in 42 quarters. In contrast, corporate debt grew by only 5.1% YoY during the quarter, nearly as weak as 5.37% YoY growth in 1QFY24 and slower than the 10.8% YoY growth in 2QFY23 (*Exhibit 5*).

Since HH debt grew faster than nominal GDP, it surged to 38.3% of GDP in 2QFY24, marking its new high and beating its previous peak of 37.8% of GDP in 4QFY21 (*Exhibit 6*). NFC debt, according to our estimates, stood at a 15-year low of 42.9% of GDP in 2QFY24, compared to 44.8% of GDP in 2QFY23. Interestingly, household debt now accounts for about 47% of NGNF debt, compared to 40% in FY20.

Exhibit 6: HH debt-to-GDP increased to a new peak of 38.3% of GDP in 2QFY24...

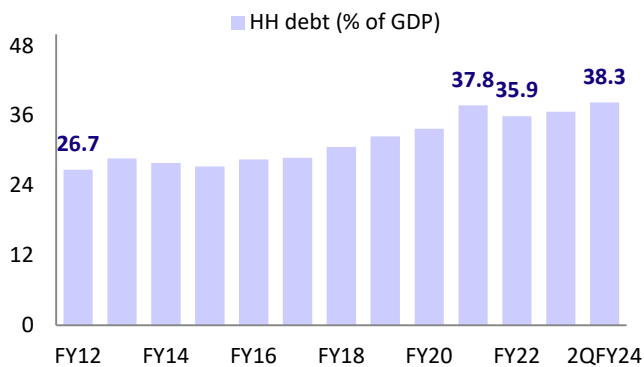
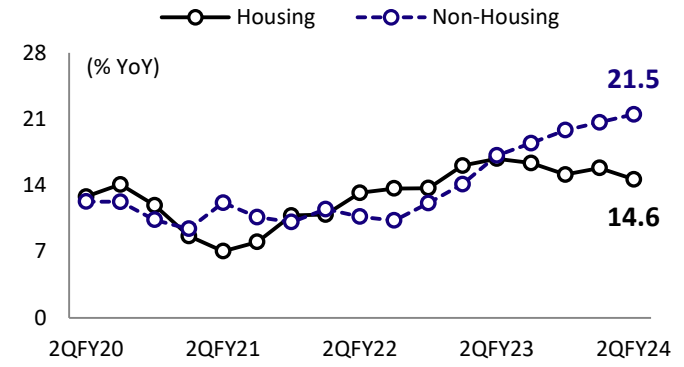


Exhibit 7: ...and non-housing debt surged faster than housing debt



Source: RBI, MoF, CAG, Bloomberg, Company reports, CEIC, MOFSL

Non-housing debt increased at a decade-high rate of 21.5% YoY, while housing debt grew 15.2% YoY in 2QFY24

Importantly, within HH debt, non-housing debt continued to grow much faster than housing debt (*Exhibit 7*). Non-housing debt increased at a decade-high rate of 21.5% YoY, while housing debt grew 15.2% YoY in 2QFY24. Accordingly, non-housing debt accounted for 72% of HH total debt. As highlighted in our [recent report](#), while housing debt is very low in India compared with other economies, the non-mortgage HH debt is the same as in Australia and Japan, and higher than the world’s several other major nations.

Sources of borrowings for the NGNF sector

There are six major official sources from where a company or an individual can borrow in the country – scheduled commercial banks (SCBs), non-banking finance companies (NBFCs), housing finance companies (HFCs), corporate bonds (CBs), commercial papers, and foreign borrowings (also known as ECBs). An individual can borrow from the first three sources, while NFCs can raise borrowings through any of these six sources. To estimate the true extent of India’s debt, we have adjusted the intra-financial sector lending (SCBs to NBFC/HFCs, etc.). Please refer to *Appendices 1 and 2* at the end of the report for further details.

Bank lending to the NGNF sector rose 10% YoY in 2QFY24, almost unchanged for the third consecutive quarter

An analysis of NGNF debt by sources/lenders suggests that the bank lending (excluding HDFC Ltd.) to the NGNF sector (after adjusting for intra-financial sector loans) rose 10% YoY in 2QFY24, almost unchanged for the third consecutive quarter, but slower than 15.5% YoY growth in 2QFY23. This is in stark contrast to unadjusted banks’ loan book, since a larger portion (as much as 12.3% now) is directed toward other financial sectors. Corporate bond issuances (after adjusting for the financial

sector) grew 8.6% YoY last quarter (weaker than 12.2% growth in 2QFY23), ECBs recorded a growth of only ~4%, and CPs posted another contraction in 2QFY24.

NBFCs loan book, on the other hand, grew 25.8% YoY in 2QFY24, marking its highest growth in 21 quarters

NBFCs loan book, on the other hand, grew 25.8% YoY in 2QFY24, marking its highest growth in 21 quarters. With such strong growth, its share in NGNF debt jumped to 16% in 1QFY24, the highest on record, and 14%-15% a year ago.

HFCs loan book (including HDFC Ltd.) also grew at an 18-quarter high of 14.6% YoY in 2QFY24. The combined loan book of NBFCs and HFCs – about 23% of NGNF debt – grew 22.2% YoY in 2QFY24, the highest in five years. This implies that NGNF debt, excluding NBFCs/HFCs, increased by just 8.7% in 2QFY24.

Exhibit 8: Drivers of NGNF debt growth

	INR t				YoY (%)				
	FY20	FY21	FY22	FY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Banks*	94.4	99.8	109.8	120.6	15.5	14.9	9.9	10.2	10.0
NBFCs	24.6	27.0	29.1	33.7	10.3	12.2	16.1	22.1	25.8
HFCs~	12.2	12.9	13.4	14.0	1.5	5.7	9.8	12.3	14.6
Corporate bonds#	20.2	21.6	25.7	26.7	12.2	13.4	4.1	10.4	8.6
Commercial paper@	2.3	2.4	2.3	2.1	10.5	-2.3	-10.5	10.0	-13.8
ECBs^	14.9	17.2	17.4	19.1	17.9	15.0	9.8	1.8	3.9
NGNF debt	168.6	181.0	197.7	216.3	13.4	13.5	9.8	11.3	11.5
Memo: NBFCs + HFCs	36.8	40.0	42.5	47.7	7.4	10.1	14.1	19.0	22.2
Total excl. NBFCs + HFCs	131.8	141.0	155.2	168.5	15.2	14.4	8.6	9.2	8.7
Non-bank lenders	74.2	81.2	87.9	95.6	10.9	11.7	9.7	12.7	13.5

*Excludes loans to the financial sector

~HDFC Ltd. included in HFCs, not Banks, for comparison purposes

#Excludes corporate bonds issued by SCBs, NBFCs, and Banks

@Excludes commercial paper issued by NBFCs

^Excluding FII investments in corporate bonds

Source: RBI, Company reports, Bloomberg, CEIC, MOFSL

Overall, our estimates suggest that corporate debt growth continues to remain sluggish, while household and government debt experienced faster growth in India in 2QFY24. These trends broadly align with those observed in the previous quarter and also correspond with the investment growth observed by these economic participants. Further, not only is household debt estimated at a new peak of 38.3% of GDP, but non-housing loans grew faster than housing loans for the fifth successive quarter in 2QFY24.

Appendix: Estimating total debt in the domestic NGNF sector

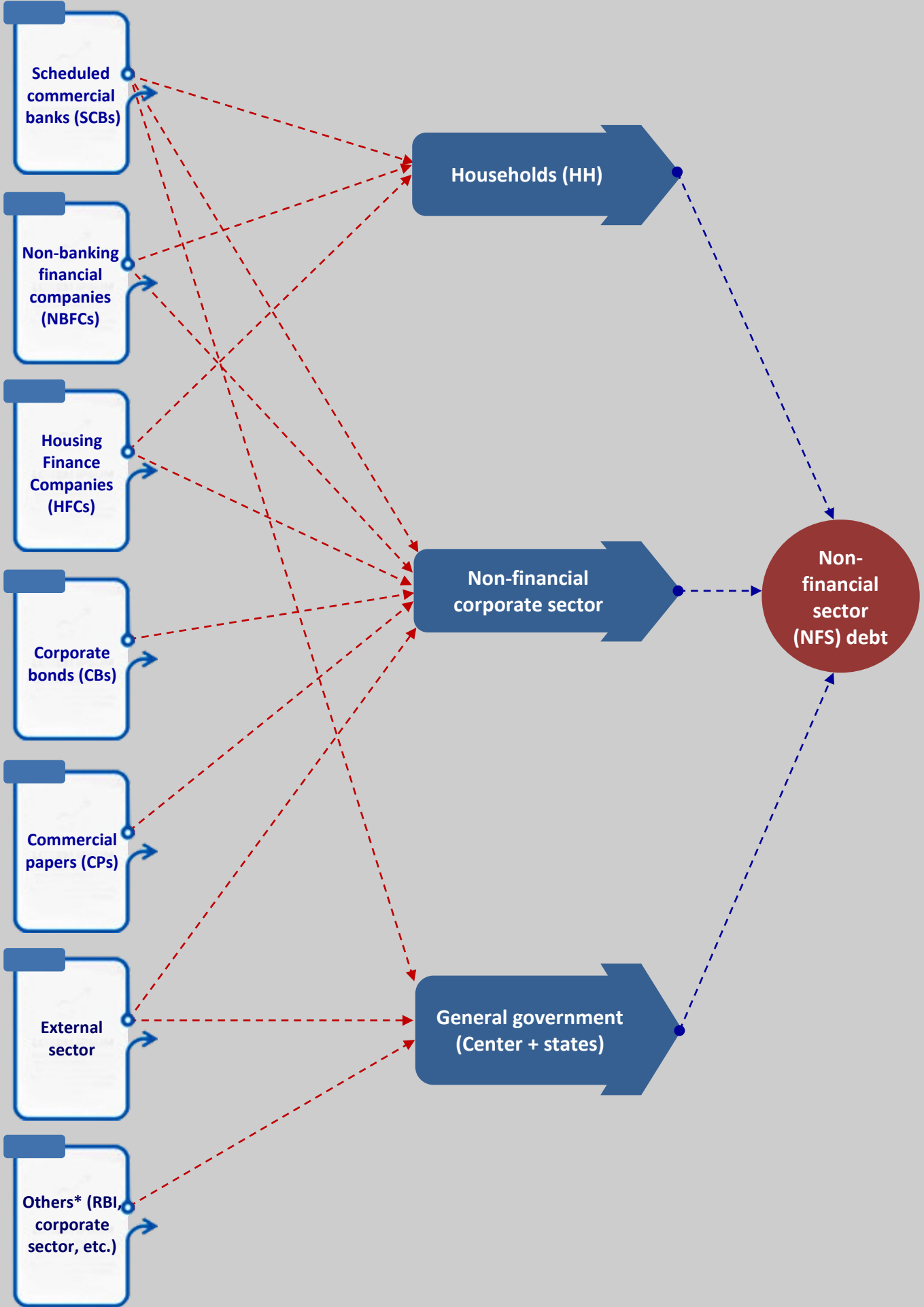
SCBs, NBFCs, and HFCs are the three major institutional sources of lending available to the HH and corporate sectors, which together constitute the NGNF sector. We use loans and advances data from these financial companies to estimate the total debt of the NGNF sector. Apart from these three sources, the NGNF sector borrows through CPs, CBs, and ECBs. We gather data on the following six relevant parameters, making suitable adjustments to avoid double counting:

- SCBs' loans and advances, excluding their lending to the financial sector. We have excluded HDFC Ltd from the SCBs' data for comparison purposes
- Loan book data for NBFCs from the RBI's annual/bi-annual publications (titled: 'Report on Trend and Progress of Banking in India', 'Financial Stability Report') – available up to 1HFY24. For quarterly data, we have compiled the data of 17 NBFCs, accounting for about three-fifths of the entire industry (*list of NBFCs is provided in Exhibit 9*).
- The loan book for HFCs that is also available from the RBI's *Report on Trend and Progress of Banking in India and National Housing Bank Report*, which provides data up to FY23. For quarterly data, we have compiled the data of nine HFCs (including HDFC Ltd), accounting for ~80% of the entire industry (*list of HFCs is provided in Exhibit 13*).
- Outstanding corporate bonds, adjusted for debentures, issued by NBFCs, HFCs, and Tier II capital of SCBs (assumed at 2% of Banks' loan books).
- Outstanding CPs, adjusted for NBFC/HFC issuances.
- Long- and short-term external debt (ECBs + INR debt) raised by the NGNF sector, adjusted for Foreign Institutional Investor (FII) exposure to corporate bonds.

Exhibit 9: List of 17 NBFCs and 9 HFCs used for quarterly analysis

NBFCs (~60% of the industry)	HFCs (~83% of the industry)
1. Bajaj Finance	1. HDFC
2. Cholamandalam Investment and Finance Co	2. HUDCO
3. IIFL Finance	3. LIC Housing
4. JM Financial	4. Indiabulls Housing
5. L&T Financial	5. Sundaram BNP Finance
6. Mahindra & Mahindra Finance	6. PNB Housing Finance
7. Magma Finance	7. Canara Home Finance
8. Manappuram Finance	8. Reliance Home Finance
9. Muthoot Finance	9. Repco Home Finance
10. Reliance Capital	
11. Shriram Finance	
12. Sundaram Finance	
13. Power Finance	
14. REC	
15. PTC India financial services Ltd.	
16. Piramal Finance	
17. Aditya Birla Capital	

The methodology used for estimating the total debt in the country



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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263;

www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000.

Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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