

Analysis of Households Debt Burden on Indian Banks

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Abstract

In this study, we tend to investigate the status of debt capital among chosen listed Indian corporations. The study has divided the debt capital into three major stage present status and determinants of debt capital, alternative of debt capital and determinants of debt maturity. This study has looked into the expansion of a firm and its dependence on long-run debt. The monetary information are collected from Capital line info for an amount of 10 years from 2008-2018. we've got examined the objectives, applying the various applied math tools like quantile regression, panel information mounted and random effects and GMM 1991 and 1998. Moreover, straightforward percentages and averages even have been used.

The results of analysis show that total debt capital has fully grown up considerably throughout the study period. But the expansion in debt capital as compared to equity capital is a smaller amount. It confirms that Indian firms are following order theory.i.e, once there's a necessity for capital, initial they're going to like internal capital, so if necessary can move to debt capital. In other words, we will say that Indian firms try to stay debt as minimum as attainable.

Keywords: Debt management, debt maturity, debt structure, Economic Growth

Objectives of the Study:

1. To review the trend of debt structure in Indian companies during the study period.
2. To examine the choice among the different kinds of debt used by the Indian companies.
3. To investigate the potential determinants of the debt maturity structure of sample companies.
4. To analyze the relationship between the growth of a company and its dependence on long -term debt.

Literature Review

There are a number of studies found relevant for the present study. The survey of literature pertaining to the study is categorized under three sections and presented below.

Debt structure and debt choice

Bevan and Danbolt (2002) studied the difficulties of measuring gearing, and the sensitivity of Rajan and Zingales' results to variations in gearing measures. Based on an analysis of the capital structure of 822 UK companies, Rajan and Zingales' where results were found to be highly definitional-dependent. The determinants of gearing appeared to vary significantly, depending upon which component of debt was

analyzed. In particular, significant differences have been found in the determinants of long- and short-term forms of debt. Given that trade credit and equivalent, on average, accounts for more than 62% of total debt, the results are particularly sensitive to whether such debt is included in the gearing measure. Therefore, it was observed that analysis of capital structure is incomplete without a detailed examination of all forms of corporate debt. They have found that larger companies will have higher levels of both long-term and short-term debt than do smaller firms; profitability to be negatively correlated with the level of gearing, although profitable firms tend to have more short-term bank borrowing than less profitable firms, and tangibility to positively influence the level of short-term bank borrowing, as well as all long-term debt elements. However, the level of growth opportunities appears to have little influence on the level of gearing, other than short-term bank borrowing, where a significant negative relationship is observed. Collaet.at.al (2010) says that the debt structure of small and

unrated firms having either capital leases or bank debt. But in case of large firms having high credit quality the authors observed that they use multiple types of debt in the debt structure. Moreover, they have suggested that debt structure is an important part of capital structure decisions. Arena and dewally (2012) says that firms geographical location influence the corporate debt. The authors find that rural firms face higher debt yield spreads and attract smaller and less prestigious bank syndicate than urban firms. However the capital structure decision of the firm is also influenced by the environment at which it operates (Deesomsak, Paudyal and Pescetto, 2009). Titman and Wessel (1988) introduced a factor analytic technique for estimating the impact of unobservable attributes on the choice of corporate debt ratio. And they have found that debt level is negatively related to the uniqueness of a firm line of business. Leland (1994) examines the corporate debt valuation and capital structure in a unified analytical framework and derives closed form result to the value of long term debt, yield spread and optimum capital structure, when the value of the firm's assets follows a diffusion process with constant volatility. Lee and Gentry (1995) develop a rationale that links a firm's financial health s measured by its cash flow components while going for external financing. They have found that companies that are financially sound offered straight debt while equities are offered by financially weaker companies for raising external capital. Graham (1996) studied the impact of marginal tax rate on issue of corporate debt. The author provides the information that the firms paying high tax issue more debt than their low tax rate counterparts. Elyasiani, Jia and Mao (2010) documents that the stability of institutional ownership in determining the cost of debt. The study found that there is a robust negative relationship between the cost of debt and institutional stability. Institutional ownership stability plays an important role in determining the cost of debt. At least they have mentioned that institutional ownership stability affects the cost of debt to a greater extent for firms that are subject to more severe information asymmetry and grater agency cost of debt. Jong, Verbeek and Verwijmeren (2011) have tested the static trade-off theory against the pecking order theory. They have focused on the important difference in prediction: the static trade-off theory argues that a firm increases leverage until it reaches its

target debt ratio, while the pecking order yields debt issuance until the debt capacity is reached. The study finds that from the selected sample of US firms the pecking order theory is a better descriptor of firms' issue decisions than the static trade-off theory. In contrast, when they have focus on repurchase decisions they have find that static trade-off theory is a stronger predictor of firms' capital structure.

Methodology and the Sources of Data

The study is analytical as well as an empirical one. Dealing with the issues naturally entails a thorough study of capital structure, financial structure, financial planning, etc. in the context of corporate sector in general and Indian corporate sector in particular. The secondary sources of data such as research papers, articles, case studies & text books, publications of RBI, SEBI, Capital Line database, Publications of stock exchanges and other published & unpublished documents relating to the study are considered for the study.

Data collection

The study is based on secondary data. The data have been collected from Capital Line data base. The data is drawn from companies' annual income statement; balance sheet; cash flow statements and fund flow statements. At present in India there are 1952 companies listed on the National Stock Exchange as on 31st March 2019 and 5439 companies listed on Bombay Stock Exchange as on 31st March 2019. Since Bombay Stock Exchange 500 index represents nearly 93% of the total market capitalization on Bombay Stock Exchange as well as it covers all 20 major industries of the economy. The study considers Standard & Poor Bombay Stock Exchange 500 index as the population. A significant percent of the total population is considered as a sample for the study. The analysis is made on the basis of sector wise as per BSE sector classification as well as the sample taken as a whole. Reserve Bank of India bulletin is used for collecting the macroeconomic variables like Gross domestic product, wholesale price index and prime lending rate, etc.

Following are the banks which are being taken for the study.

Debt burden on top ten Companies

Sr.No.	Company	Last Price	Change	% Chg	Debt	% of
						Liability
1	SBI	305.5	-0.15	-0.05	3,068,485.36	88.82
2	HDFC Bank	2,252.50	6.85	0.31	911,875.61	85.71
3	ICICI Bank	397.45	1.1	0.28	743,833.83	84.61
4	PNB	87.4	0.2	0.23	703,076.94	91.81
5	Bank of Baroda	123.8	0.75	0.61	653,886.79	90.82
6	Axis Bank	747	-6.1	-0.81	601,638.86	87.03
7	Bank of India	91.6	0.15	0.16	564,443.16	92.6
8	Canara Bank	270.3	-0.3	-0.11	563,580.37	91.36
9	Union Bank	87.8	-0.1	-0.11	454,182.41	93.18

10	IDBI Bank	42.45	-0.05	-0.12	311,117.14	88.81
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Discussion-

In 2012, the State Bank of India (SBI) declared Kingfisher airlines a non-performing asset (NPA). SBI had the highest exposure of Rs 1458 crore among the consortium of banks which had loaned money to the airline Kingfisher's total debt amounted to Rs 6000 crore then. The task of recovering loans given to the company and prosecuting those who were involved in wrongdoing is still a work in progress.

RBI's December 2017 Financial Stability Report (FSR) says that "there will be a complete erosion of the profits of the banking sector under the scenario of a default by the topmost 3 borrowers of each bank". The report also shows that more than four-fifths of NPAs of banks are on account of large borrowers. A large borrower is defined as a borrower that has aggregate fund-based and non-fund based exposure of Rs 5 crore and more for the Scheduled Commercial Banks (SCBs).



HOUSEHOLDS DEBT ON INDIAN BANKS

Monetary	Last	Previous	Min	Max	Unit	Frequency	Range
Money Supply M1	535,604.228	485,701.360	4,739.71	535,604.228	USD mn	Monthly	Jan 1957 - Mar 2019
	Mar-19	Feb-19	Jan-57	Mar-19			Updated on 2019-04-18
Money Supply M2	555,011.908	503,351.088	49,601.620	555,011.908	USD mn	Monthly	Mar 1994 - Mar 2019
	Mar-19	Feb-19	Mar-94	Mar-19			Updated on 2019-04-18
Reserve Requirement Ratio	4	4	3	15	%	Monthly	Sep 1962 - Mar 2019
	Mar-19	Feb-19	May-73	Oct-95			Updated on 2019-03-30
Non Performing Loans Ratio	11.2	9.3	2.3	14.7	%	Yearly	1998 - 2018
	2018	2017	2011	1999			Updated on 2019-03-29
Household Debt: % of GDP	10.9	10.2	2.2	10.9	%	Yearly	1998 - 2018
	2018	2017	1999	2018			Updated on 2019-03-29
Non-Performing Loans	160,749.273	117,897.760	11,194.923	160,749.273	USD mn	Yearly	1997 - 2017
	2017	2016	2006	2017			Updated on 2019-03-29
Foreign Exchange Reserves	374,635.0	373,372.0	1,124.00	399,442.00	USD mn	Monthly	Apr 1989 - Feb 2019
	Feb-19	Jan-19	Jun-91	Mar-18			Updated on 2019-04-05
Foreign Exchange Reserves: % of GDP	13.601	13.829	13.34	16.073	%	Quarterly	Mar 2012 - Dec 2018
	Dec-18	Sep-18	Sep-13	Jun-15			Updated on 2019-03-06
Foreign Exchange Reserves: Months of Import	10.3	9.1	0.5	16.2	NA	Monthly	Apr 1990 - Feb 2019
	Feb-19	Jan-19	Dec-90	Apr-04			Updated on 2019-04-15
Gold Reserves	23,253.000	22,686.000	175.469	28,667.000	USD mn	Monthly	Dec 1956 - Feb 2019
	Feb-19	Jan-19	Mar-89	Sep-11			Updated on 2019-04-05

Total Deposits	1,677,015.669	1,688,089.727	153,672.197	1,783,230.125	USD mn	Quarterly	Dec 1998 - Dec 2018
	Dec-18	Sep-18	Dec-98	Mar-18			Updated on 2019-03-29
Domestic Credit	2,155,636.1	2,154,817.1	227,817.20	2,155,636.1	USD mn	Monthly	Mar 1999 - Feb 2019
	Feb-19	Jan-19	Mar-99	Feb-19			Updated on 2019-04-09
Domestic Credit Growth	13.1	12.9	5.6	27.1	%	Monthly	Mar 2000 - Feb 2019
	Feb-19	Jan-19	Nov-17	Jul-09			Updated on 2019-04-09
Debt Service Ratio: Private Non-Financial Sector	7.300	7.200	4.5	9	%	Quarterly	Mar 1999 - Sep 2018
	Sep-18	Jun-18	Sep-99	Mar-14			Updated on 2019-03-05
Credit to Households	278.649	282.434	111.074	292.613	USD bn	Quarterly	Jun 2007 - Sep 2018
	Sep-18	Jun-18	Mar-09	Mar-18			Updated on 2019-03-05
Credit to Private Non-Financial Sector	1,401.472	1,421.829	3.46	1,490.22	USD bn	Quarterly	Mar 1957 - Sep 2018
	Sep-18	Jun-18	Mar-57	Mar-18			Updated on 2019-03-05
Foreign Exchange Reserve: USD: Foreign Exchange	376,243.030	375,987.000	1,124.00	399,442.000	USD mn	Monthly	Apr 1989 - Sep 2018
	Sep-18	Aug-18	Jun-91	Mar-18			Updated on 2018-10-31
MS: Domestic Credit	146,725,64-0.000	146,239,21-0.000	9,685,900.000	146,725,64-0.000	INR mn	Monthly	Mar 1999 - Sep 2018
	Sep-18	Aug-18	Mar-99	Sep-18			Updated on 2018-11-06
MS: Aggregate Deposits of Residents	119,492,83-0.000	120,347,67-0.000	7,571,120.000	120,815,74-0.000	INR mn	Monthly	Mar 1999 - May 2018
	May-18	Apr-18	Mar-99	Mar-18			Updated on 2018-07-09
Scheduled Commercial Banks: Total Loans: Non Performing Loans	7,902,680.000	6,116,094.551	505,000.000	7,902,680.000	INR mn	Yearly	1998 - 2017
	2017	2016	2007	2017			Updated on 2017-12-22

Scheduled Commercial Banks: Non Performing Loans Ratio	9.320	7.480	2.25	14.7	%	Yearly	1998 - 2017
	2017	2016	2011	1999			Updated on 2017-12-25
Cash Reserve Ratio: Monthly	4	4	3	15	%	Monthly	Sep 1962 - Oct 2018
	Oct-18	Sep-18	May-73	Oct-95			Updated on 2018-10-31
Bank Rate: Monthly	6.500	6.25	3	12	% pa	Monthly	Jul 1935 - Jun 2018
	Jun-18	May-18	Oct-51	Mar-97			



Household debt has jumped significantly in 2017-18, helped by the banking sector's rising focus on retail lending. ET Wealth looks at the sectors where consumer debt has grown or declined over the years.

Surging household debt

India's household debt surged 1.8 times from Rs 3.7 lakh crore to Rs 6.74 lakh crore between 2016-17 and 2017-18. It grew at an annualised rate of over 13% in the past 5 years.

Household debt

2013-14: Rs 3.59 lakh crore .

Between 2012-13 and 2016-17, Indian households reduced their borrowing from banks on an annual basis, while loans from non-banking financial institutions increased regularly. However, in the year ended March 2018, the loans extended to Indian households from banking institutions surged by 72% to ₹4.3 trillion, as per data from the Reserve Bank of India (RBI), reversing a four year decline. This was largely due to a number of factors. Firstly, with the availability of credit data and scoring, banks have increased their focus on consumer lending, especially credit cards. Secondly, consumers themselves have become less averse to taking on debt to finance purchases of electronic appliances, cars and houses. Finally, as growth has lagged in the wake of demonetisation and the implementation of the GST regime, Indian corporates have been wary of taking on more debt. Conversely, India's bad loan crisis has made banks wary of lending to corporates. Hence, they have relied on retail lending to supplement credit growth. As a result, Indian households are the most leveraged they've been in a while. Total outstanding debts of households rose by 80% to ₹6.7 trillion in 2017-18. This amounts to 4% of their disposable income - a seven year high, according to the RBI's latest annual report. While the buildup in loans has been quicker than expected, it might be premature to sound the alarm right now. India stills stands out amongst its peers in terms of thriftiness. The country's ratio of household debt to GDP stood at a little under 16% last year, compared to nearly 40% for most emerging markets, which have all experienced a surge in private debt since the financial crisis of 2008. For example, China's household debt-to-GDP ratio is estimated to have reached the 50% mark this year. Also, credit expansion is an important component of economic growth. As corporate lending has been sluggish in the last few years, Indian households have chipped in. However, given the recent rate hikes by the RBI, loans will become more expensive, which will depress credit demand from households. This could, however, be countered on a cumulative basis by the increasing penetration of credit cards.

Findings

India's debt is mounting even as it remains the world's fastest growing economy. The country's total debt-to-GDP ratio stood at an all-time high in 2017-18 as debts rose to \$3.9 trillion (Rs 251 lakh crore) from \$1.6 trillion (Rs 80.3 lakh crore) a decade ago. According to a report from Motilal Oswal Financial Services, the 2.4 times rise in the country's total debt in dollars (3.1 times in rupee terms) was similar to the nominal

GDP growth. India's debt-to-GDP ratio stood at an all time high of 149.8 per cent in 2017-18, which was not largely different from 147.2 per cent in 2008-09. However, it was higher than 143.4 per cent in 2011-12. Among the various constituents, while the debt of the non-government non-financial sector (NGNF) rose, that of the government (both Centre and the states) remained range-bound over the past three years. The report, which arrived at the estimates of the NGNF debt from the creditors' loan book to the end-user, said there were six major sources of institutional lenders in the country available for the corporate and household sectors.

These include scheduled commercial banks (SCBs), non-banking finance companies (NBFCs), housing finance companies (HFCs), corporate bonds, commercial paper and external commercial borrowings. The report disclosed that the country's NGNF debt was 81.4 per cent of GDP (or \$2.1 trillion) in 2017-18, marking the highest level and much higher than 72.7 per cent in 2008-09.

In terms of creditors, while bank credit growth averaged around 9 per cent over the past five years, it was more in the case of NBFCs at around 22 per cent for HFCs, 18 per cent for corporate bonds and 15.7 per cent for NBFCs.

Though banks remained the dominant creditor in the economy, their share in end-user credit dropped from 73 per cent in 2004-05 to 66.5 per cent in 2011-12 and further to below 60 per cent in the previous financial year. At the same time, the share of HFCs, corporate bonds and NBFCs increased.

In terms of sectors which availed themselves credit, households saw a sharp rise. The brokerage estimated the total household debt at Rs 55.4 trillion (\$853 billion) in 2017-18, which was equal to 33.1 per cent of GDP – the highest-ever level. Though more than three-fifth of household debt is still provided by banks, their share has come down.

On the other hand, the non-financial corporate (NFC) sector deleveraged over the past four years and their debt fell from its peak of 51 per cent of GDP in 2013-14 to 48.3 per cent in 2017-18.

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Conclusion

If you thought that household leverage is at high levels in India and is also fast increasing, then think again. Contrary to popular belief, household leverage is not only at low levels in India but has also been stagnant over the last few years. A research report by the Economic Research Department of the State Bank of India (SBI) states that it is true that India's gross domestic savings rate climbed to a historic high level of 36.8% in FY08, and thereafter declined gradually to 30.0% in FY17. However, to concur that household leverage is going up because of a decline in household savings misses the sectoral savings divergence. "In fact, India's household debt is low and stagnant over the last few years, hovering in the range of 9-10% of GDP," it says. It is, however, true that household debt, which was the originator of the global financial crisis in 2007, has been increasing significantly in developed countries. But it has been declining over the years in almost all developing countries, except China. In the US and Japan, household debt to GDP ratio is close to 80%, but interesting in most of the Asian economies, the debt to GDP ratio is less even than 20%, which further suggests that these countries are doing better when it comes to burdening their families with huge loans.

The Indian companies are managing their debt requirements depending on commercial banks. Commercial banks are the major contributor of debt capital in various ways as long-term secured loan as well as short-term unsecured loans. Debenture & bonds are the second major contributor. It confirms that the Indian debt market is still untapped. The nature of Indian banks may be a reason for companies to choose banks as their major choice. Banks in India are governed and controlled by central government. So in case companies incurred loss or they are not repaying the loan amount there a chance to write-off the loan amount

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