Mecklai Financial
WHERE RISK MEETS ITS MATCH

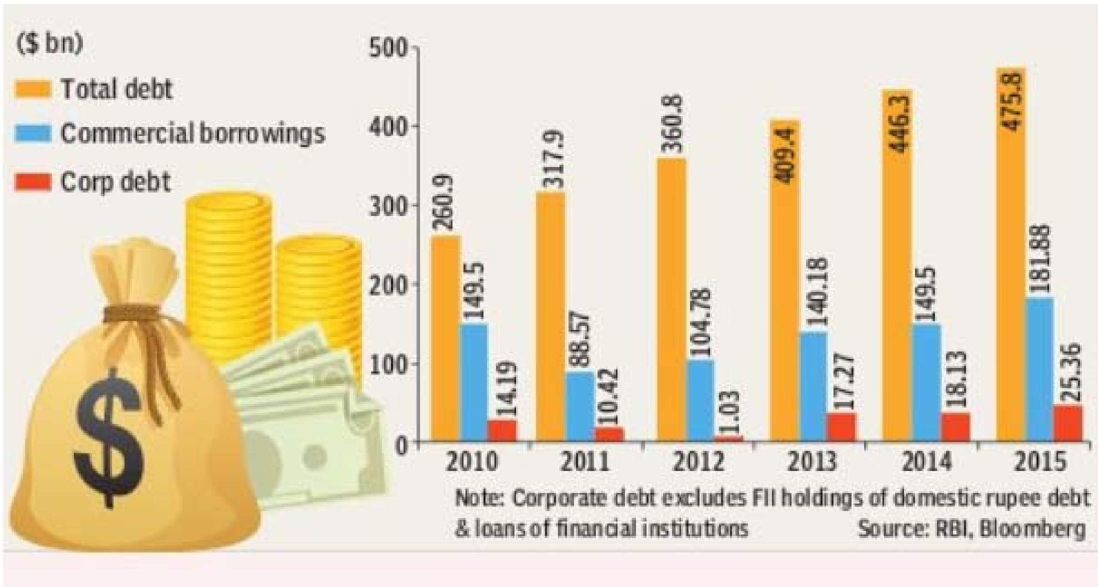
India Inc's debt a burden for Reserve Bank of India : Jamal Mecklai to The Financial Express

Overseas borrowings of companies excluding those of financial institutions and foreign investors' holdings of onshore rupee bonds rose 40% in FY15 to $25.36 billion and by 79% over the last five years.

Overseas borrowings of companies excluding those of financial institutions and foreign investors' holdings of onshore rupee bonds rose 40% in FY15 to $25.36 billion and by 79% over the last five years. (Reuters)

Overseas borrowings of companies excluding those of financial institutions and foreign investors' holdings of onshore rupee bonds rose 40% in FY15 to $25.36 billion and by 79% over the last five years, reports Aparna Iyer in Mumbai. The RBI has estimated that about 85% of corporate forex loans were unhedged until last year, and bankers say the ratio hasn't come down since then, indicating that only 15% of the $25.36 billion is hedged.

The RBI has cautioned companies with governor Raghuram Rajan on record that the bank will not bail them out should things go wrong. "People should not take stability of rupee for granted and that should not lull them into complacency," Rajan had said earlier this year.



HSBC believes that an increase of 13% the RBI's forex reserves from the current level of $355 billion would offer a cushion to unhedged exposures. HSBC further said that the country's external vulnerability has now shifted from the trade imbalance to indebtedness. India's current account deficit in FY15 was under 1% of GDP and that on an aggregate level, external debt is still a manageable 23.4% of GDP. However, highly leveraged private companies do not enjoy this comfort zone.

Currency market watchers say that RBI's interventions in the market to reduce volatility keeps companies from feeling the need to hedge, especially since the cost of buying dollars forward is 7%. Jamal Mecklai, CEO of Mecklai Financial Services, believes that there is a clear conflict in the RBI's push for hedging and its hold on the rupee. "The RBI has enough fire power to hold the rupee in a range. On the one hand the RBI wants companies to cover but on the other hand their actions, of leaving the rupee in a range, make it foolish to cover," said Mecklai.

Most companies understandably refrain from hedging on the confidence that the RBI would keep the rupee from weakening and thus protect their interests. A looser grip on the rupee by the RBI could perhaps shake companies from their complacency but it is a tricky option, added Mecklai.

Indeed, India Inc's indebtedness to the world at a whopping $181.88 billion as of March 2015 has jumped by 21% over 2013-14 and is worrying at a time when turmoil from Greece is keeping markets across the globe jittery. This rise in indebtedness has made those companies that have unhedged exposures more vulnerable — should the rupee weaken even slightly, it could cause considerable stress. The commercial borrowing stock of $181.88 billion includes loans taken by Indian financial institutions as well, a majority of which are eventually funnelled into Indian companies, many of them overseas. It also includes foreign investors' holdings of onshore rupee bonds. Noting that the rupee has been in a tight range so far and would remain so in the coming months, Mecklai said "The reality is that the Greece situation could blow up any time but we don't know what is going to happen. But the RBI here is holding the rupee very tightly".

As the Greece crisis hurtles towards a stressed climax, Indian companies would do well to monitor their unhedged loans but the RBI would have to keep at its intervention to prevent an unsavoury aftermath.

http://www.financialexpress.com/article/economy/india-incs-debt-a-burden-for-rbi-2/93207/