

**ASSOCHAM**

**FINANCIAL**

**PULSE**

**STUDY**

**Interest cost analysis of 150 companies during  
fourth quarter of financial year 2006-2007**

**May 2007**

**Swati Gupta**

### **High cost of money starts hitting India Inc, as AFP**

The cost of money which started shooting up since the last twelve months following RBI consciously tightening liquidity has begun hitting India Inc which has seen a huge rise in its interest burden to the extent of 116 per cent in the last quarter of fiscal 2007.

The worst hit companies out of a sample of 150 companies of ASSOCHAM Financial Pulse Study were from real estates, engineering, IT and financial services, which have witnessed more than double increase in their interest rates.

The Reserve Bank, in its pursuit to combat inflationary pressures in the economy and control the growing strains on domestic capacity utilization, has hiked the cash reserve ratio and repo rate by 100 basis points and 125 basis points in stages during the year 2006-07. Consequently, the benchmark Prime Lending Rate of public sector banks and private sector banks has also increased by 1.5 per cent and 2.5 per cent within the same period.

One year weighted discount rate on short-term debt instruments like commercial paper and certificate of deposits has also shot up by 2.73 per cent and 8.18 per cent, the AFP study said.

Hardening of interest rates has started hitting the bottom lines of the industry. The corporates are still not sure whether the interest rates have peaked or there is still scope of further liquidity squeeze by the RBI. "The corporate results are an indicate towards the demand being impacted in the coming quarter and investment plans being hit leading to capacity constraints if the cost of money keeps its upward trend", Mr. Venugopal Dhoot, President, ASSOCHAM has said.

The real estates companies have suffered the major setback from the central bank's money tightening policies as their top-lines as well as bottom-lines have shown a much slower growth than their respective interest costs. Shrinivasan Shipping and Property Development Ltd has paid 38 times more interest in Q4 of financial year 2007 than the corresponding period of the last year whereas its net profit has increased by mere 11.5 per cent. The interest expenses of Era Constructions have escalated by 545 per cent as compared to 242 per cent and 140 per cent rise in total income and net profit.

"Clearly, the RBI's tight money stance has hit right at the profitability of the companies, adversely affecting the growth of real estate industry", Mr. Dhoot said. The interest burden of the engineering sector has increased more than six times in the reported period. The interest cost of Best Crompton and Engineering Ltd and Alfa Laval India has increased by 640 and 231 per cent while their top lines have grown by mere 11 per cent and 37 per cent.

<b>Top 5 interest-hit sectors</b>	
<b>Sectors</b>	<b>Per cent increase in interest cost</b>
Real estates	1449
Engineering	281
IT	234
Financial services	140
Metals	115

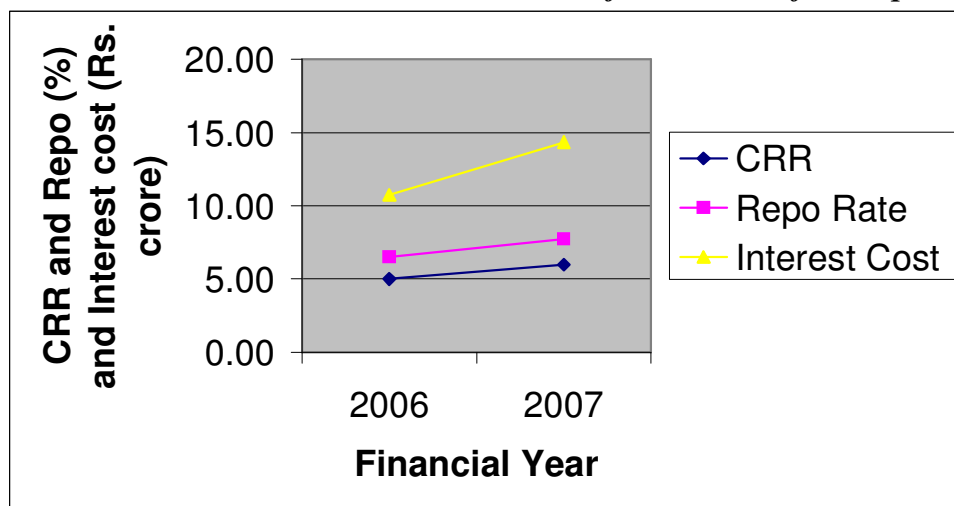
According to AFP,

IT is another sector, which has seen huge jump, their borrowing costs increasing by 234 per cent followed by high interest rate regime in the economy. The IT companies have low debt base to the maximum of 2 crore and as low as zero debt in Infosys and their per cent contribution to sector's average interest costs are substantial. Satyam computer services and Triton Corporation are among the highest interest bearing IT companies with more than seven times high debt servicing costs in year 2007.

Companies providing financial services have shed around 140 per cent more interest in fourth quarter of financial year 2007 as compared to the same period of FY2006. Cholamandalam DBS finance Ltd has paid 188 per cent higher interest as compared to the rise of 143 per cent in its total income. The interest cost of India Bulls is up by 114 per cent with 176 per cent increase in its total income and 95 per cent rise in net profits of the broking company.

The other sectors, which have seen a considerable rise in their debt burden, are healthcare (74 per cent), electronics (70 per cent), auto (57 per cent), chemicals (47 per cent), textiles (38 per cent) and capital goods (35 per cent).

***Interest rates increase vis-à-vis interest costs of India Inc in fourth quarter***



On the other hand, the sectors like telecom, entertainment and infrastructure have reduced their borrowing cost.

The telecommunication majors in India have resorted to paying back their debts resulting into lower interest costs. MTNL has reduced its interest burden by whopping 99 per cent with 47 per cent increase in its net profits. Private Players like Bharti and Idea cellular have paid a mere 13 per cent and 10 per cent higher interest.

The borrowing cost of the infrastructure sector has increased marginally by 18 per cent as the majority of companies have reduced their interest burden by paying back the debt amount. Most of the steel and oil & gas companies including Monnet Ispat & Energy Ltd (-42 per cent), Maharashtra Seamless Ltd (-53 per cent), Praj Industries (25 per cent) have paid less interest in the fiscal 2006-07. But then, there were firms in the in the core infrastructure group, which bore the brunt of skyrocketing interest rates. There are Southern Iron and Steel Co (298 per cent), ECE Industries (152 per cent), Salora International (71 per cent), Vesuvius India Ltd (50 per cent

<b>Top 5 interest-hit companies</b>			
<b>Company</b>	<b>% Increase in</b>		
	<b>Interest cost</b>	<b>Net profit</b>	<b>Total income</b>
Shrinivasa Shipping	3850	11.6	-14
Tata ELXSI Ltd	1718	3	25
Teledata Informatics Ltd	1292	189	71
DISA India Ltd	1033	-14.75	14
Core Projects & Technologies	1012	32	-75

Top five Indian companies which have shown sharpest increase in their interest costs during the fourth quarter are Shrinivasa Shipping (3850 per cent), Tata ELXSI Ltd (1718 per cent), Teledata Informatics Ltd (1292 per cent), DISA India Ltd (1033 per cent) and Core Projects & Technologies (1012 per cent).