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Economic Concentration in India: The Role of Financial Conditions

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Abstract

This paper examines recent trends in corporate concentration in India's non-financial sector, with a focus on developments since 2015. Using firm-level data from the CMIE Prowess database we document changes in asset and income distribution across firms. We find that while the overall decline in the public sector's share of assets and income contributed to a reduction in measured concentration in earlier years, this was accompanied by a steady increase in the share held by large private business groups. By 2023–24, the top five business groups—Reliance, Tata, Adani, Aditya Birla, and Bharti—accounted for approximately 24(%) of total assets and 16(%) of total income in the non-financial corporate sector.

The analysis shows that the increase in income share for these groups was primarily associated with an increase in their share of total assets. These firms also accounted for a growing share of total corporate debt, rising from around 10(%) in the early 2000s to over 30(%) by 2023. This occurred during a period when many other firms reduced their leverage, particularly after the implementation of the Reserve Bank of India's Asset Quality Review. The paper provides descriptive evidence on changes in firm-level borrowing patterns and financial indicators, and discusses their possible relevance for understanding the evolving structure of India's corporate sector.

Keywords: *Industrial Organization, Concentration, Finance, Credit constraints.*

JEL Classification: *G32, L25, O16, P16.*

1 Introduction

Over the past two decades, India's corporate landscape has undergone a profound transformation, marked by the sustained rise and consolidation of a handful of large conglomerates. The five most prominent business groups—Reliance Industries, Tata Group, Adani Group, Bharti Airtel, and the Aditya Birla Group—have significantly expanded their footprint across key sectors such as telecommunications, energy, infrastructure, and finance. Their dominance reflects a broader pattern of economic concentration, in which a small set of private actors controls a growing share of economic assets and income streams (Acharya, 2023; Commander, Estrin, Thomas, & Lingineni, 2024).

This trend is neither sudden nor unique to India. In many advanced economies, especially the United States, scholars and policymakers have expressed concern over rising corporate concentration and its implications for competition, innovation, and inequality (Philippon, 2019). However, India's experience is distinctive in important ways. On standard measures, the Indian economy has witnessed a reduction in concentration over time, particularly in the 1990s and early 2000s. AsAcharya (2023) documents, this apparent deconcentration was largely the result of a significant shrinkage in the public sector's footprint, rather than a dispersion of market power across private firms. The privatization of state-owned enterprises and the withdrawal of the government from key industrial and infrastructural domains led to a drop in the public sector's share of assets and income. At the same time, the asset share of private corporations—especially large conglomerates—gradually increased, though this did not immediately offset the decline in the state sector.

This nuance is critical: while the aggregate figures may suggest a decline in concentration, they obscure a structural shift in the composition of economic power—from public to private hands. And within the private sector, power has become increasingly centralized. Since around 2015, this centralization has accelerated, prompting growing concerns that India may be entering a new phase of concentrated capitalism—one marked by the entrenchment of corporate oligarchies, or what some commentators have described as a process of 'chaebolization' (Ghosh, 2023). The term, borrowed from the South Korean experience, denotes the emergence of large, diversified conglomerates with deep ties to the state and significant control over national infrastructure.

India's case, however, differs in crucial respects. While Korea's postwar industrial strategy was rooted in a tightly coordinated system of state-directed credit allocation, India's post-liberalization economy has relied on ostensibly market-based mechanisms. Indian conglomerates have not grown through directed lending or strategic industrial policy, but rather through access to domestic and international capital markets. Yet this access has been shaped by India's specific institutional context—a liberalized financial system that remains fragmented, and risk-averse. This makes India an instructive case for understand-

ing how economic concentration can emerge not through direct state support, but through the workings of financial regulation.

Indeed, concentration in Indian business has deep historical roots. R.K Hazari's seminal study (Hazari, 1966) noted that as early as 1958, the Tata and Birla groups together controlled around 20(%) of non-state capital, though their high levels of diversification precluded sectoral monopolies. By the time of liberalization in 1991, such conglomerates continued to dominate the private sector, with the top business houses controlling an estimated 30(%) of capital (Piramal, 2003). Liberalization shifted the locus of concentration: the state's retreat reduced aggregate concentration, but simultaneously enabled private groups to scale up. By 2021, the top five private conglomerates controlled approximately 18(%) of total private-sector assets (Acharya, 2023)—a striking indicator of their enduring and expanding economic power.

This paper focuses on the post-2000 period, with particular emphasis on the decade following 2015, during which the pace of concentration among large business groups appears to have markedly accelerated. We identify two broad explanations for this phenomenon.

The first centers on political connections. In this view, the persistence and expansion of dominant groups reflect their privileged access to the state: favorable treatment in regulatory decisions, access to strategic land and licenses, and preferential credit from public financial institutions. These ties, formal or informal, may insulate large firms from market pressures and provide them with competitive advantages that reinforce their dominance. Even in a nominally liberalized economy, political patronage can reproduce structures of oligopoly (Commander & Estrin, 2022).

The second explanation, and the one we emphasize in this paper, relates to financial access. We argue that a key factor behind the dominance of certain business groups is their relatively unrestricted access to capital. Especially during times of financial uncertainty or macroeconomic stress, large diversified firms are perceived by lenders and investors as lower-risk borrowers. Their scale, balance sheet strength, and reputational capital afford them greater credibility in the eyes of financial institutions. This perception, in turn, enables them to raise capital at lower cost and in greater volume—fueling further expansion. In contrast, smaller firms or new entrants often face tighter constraints, exacerbated by heightened risk aversion among lenders, especially after episodes of financial fragility.

Our central hypothesis is that the acceleration of corporate concentration in India after 2015 was driven in large part by the financial market conditions that prevailed during that period. In the wake of the Reserve Bank of India's Asset Quality Review (AQR), commercial banks curtailed credit to much of the corporate sector. However, India's largest firms continued to borrow and invest at high rates, often through bond markets or via internal

capital allocation. This divergence, we suggest, created a form of "selective financialization," wherein only the most prominent groups could access external finance on favorable terms, reinforcing their dominance even as the broader corporate sector stagnated.

We provide suggestive evidence to support this view. First, while aggregate measures of concentration show a decline during earlier decades—largely due to the retreat of the public sector—recent data show a reversal, with private concentration on the rise. Second, the top five business groups have dramatically increased their share of both income and assets since the mid-2010s. This has been accompanied by a surge in investment financed through rising debt-equity ratios, while the rest of the corporate sector has remained largely stagnant or even deleveraged. Indeed, much of the broader corporate sector became net savers during this period, a pattern consistent with risk aversion and constrained credit supply.

Third, the rising income share of the largest groups can be almost entirely explained by their rising asset share. In other words, their profitability relative to other firms has not increased dramatically; rather, their dominance reflects the simple fact that they own—and have been able to finance the acquisition of—a larger share of productive assets. This reinforces the view that financial conditions, not productivity shocks or innovation, lie at the heart of India's recent concentration dynamics.

The rest of this paper is organized as follows. Section 1 presents our dataset and provides descriptive statistics on the evolution of ownership and firm size. Section 2 introduces an accounting framework that allows us to decompose changes in concentration into asset and income effects. Section 3 explores debt dynamics in greater detail, highlighting the differential access to capital markets across firm types. Section 4 examines the macroeconomic context, including the shift in lending behavior post-AQR. Section 5 outlines the feedback loops that have reinforced corporate dominance. We conclude with reflections on the implications of these trends for India's political economy and development strategy.

2 Dataset and Trends in Ownership Structure

Our analysis is based on firm-level data from the CMIE Prowess database, which offers one of the most comprehensive sources of financial information on Indian companies. We focus on the non-financial corporate sector over the period 2000–01 to 2023–24. The dataset includes annualized financial information as reported at the end of each fiscal year, with March 31 serving as the reference point. Thus, figures reported in March 2024 correspond to the financial year 2023–24.

The full sample consists of 43,580 companies, covering a substantial share of corporate sector activity in India. While these firms collectively account for a significant proportion of stock market capitalization they represent a broad cross-section of the formal corpo-

rate economy. Our empirical work draws on an unbalanced panel consisting of the full universe of firms, which varies year to year. Table 1 below summarizes key financial indicators for the year 2023–24.

Table 1: Summary Statistics (FY 2023–24)

Indicators	Values
Number of Firms	43580
Mean Income (Rs. million)	28713
Mean Total Assets (Rs. million)	36783
Mean Fixed Assets (Rs. million)	19154
Mean Financial Assets (Rs. million)	7350
Mean Sales (Rs. million)	27575
Mean Financial Income (Rs. million)	625
Mean Debt (Rs. million)	9537
Mean Interest Payments (Rs. million)	790

Source: Prowess Database, CMIE.

To understand evolving ownership dynamics, we categorize firms into five broad types: (i) private group companies; (ii) private non-group companies; (iii) government-owned companies; (iv) joint-sector enterprises (jointly owned by private and public entities); and (v) cooperatives. Categories (i) and (ii) together represent the private corporate sector, including both domestic and foreign-owned firms. Category (iii) encompasses firms owned by the Central and State Governments, while categories (iv) and (v) represent hybrid and community forms of ownership, respectively.

Table 2 shows the changing composition of income and asset ownership across these categories between 2000–01 and 2023–24. In 2000–01, private firms accounted for roughly 56.7% of income and 55.4% of assets in the non-financial sector. By 2023–24, these shares had risen to over 76% in both cases, with private group companies accounting for 45.8% of total income and 55.5% of total assets. This expansion came almost entirely at the expense of government ownership, whose share in income fell from 42.5% to 23.5%, and in assets from 43.4% to 23.1%. The cooperative and joint sector shares remained marginal throughout.

These aggregate trends, while striking, obscure important developments within the private sector itself—specifically, the rising concentration of income and assets among the largest business groups. We define the top five private conglomerates (T5)—Reliance, Tata, Aditya Birla, Adani, and Bharti Telecom—as those with the highest asset values in 2023–24, following the classification used by Acharya (2023). Admittedly, the cutoff is somewhat arbitrary, but there is empirical justification: as Figure 1 illustrates, the incremental increase in both income and asset share is highest for the top 5 and declines steadily for each sub-

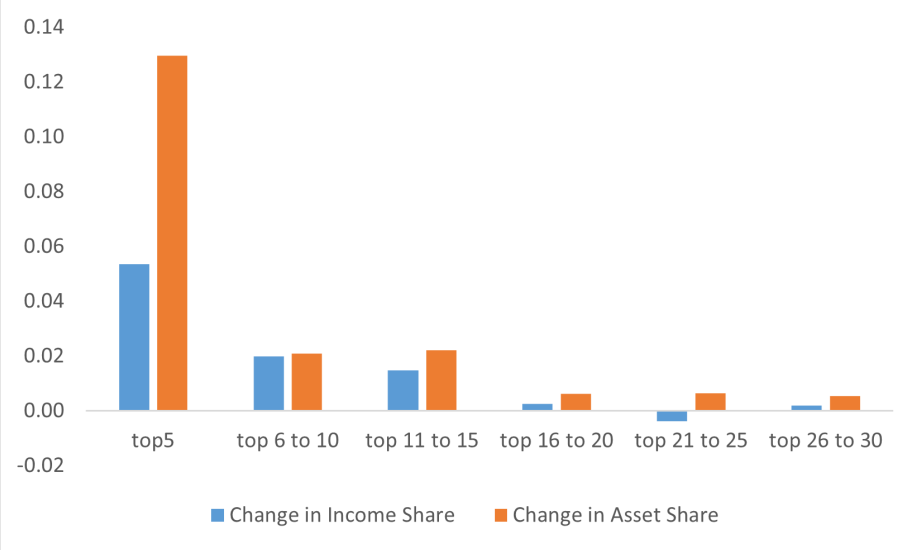
Table 2: Ownership Shares in Total Income and Assets (%)

Ownership Type	Income (2000-01)	Income (2023-24)	Assets (2000-01)	Assets (2023-24)
Private Group Companies	40.2	45.8	40.1	55.5
Private Non-Group Companies	16.5	30.3	15.3	21.1
Government Companies	42.5	23.5	43.4	23.1
Joint Sector Companies	0.1	0.2	0.6	0.3
Cooperative Companies	0.7	0.3	0.5	0.0

Source: Prowess Database, CMIE.

sequent cohort of five firms.

Figure 1: Change in Income Share and Asset Share of each group of 5 T1 toT5 - T25-T30



Source: Prowess Database, CMIE.

The T5 companies, taken together, account for 23.6% of total non-financial corporate assets and 16.0% of total income in 2023–24 (Table 3). This means that roughly 40% of the assets held by all private group companies, and about 30% of their income, are concentrated within this small cohort—a clear indication of within-group inequality.

Figure 2 tracks the evolution of T5 asset and income shares over time. The pattern is clear and nonlinear. We can divide the 2000–2024 period into three broad subperiods: (i) an initial rise from 2000 to 2010, when the income share of T5 firms steadily increased; (ii) a stagnation or mild decline from 2010 to 2015; and (iii) a sharp acceleration after 2016. By the end of the period, both income and asset shares had reached historic highs, driven almost entirely by developments in the third subperiod. This suggests that the recent surge in concentration is not merely a continuation of older trends, but a structural shift coincid-

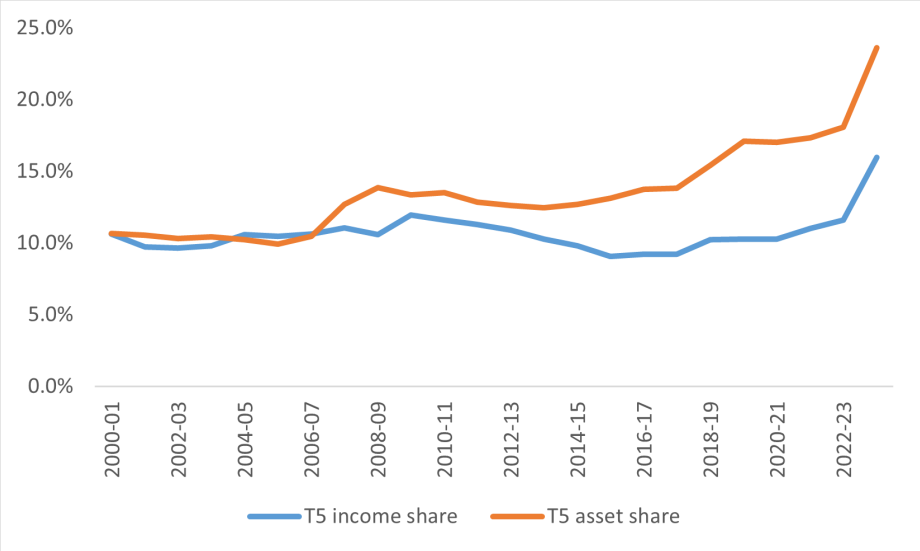
Table 3: T5 Company Shares in Total Assets and Income (2023–24)

Group	Asset Share (%)	Income Share (%)
Reliance Industries	11.3	6.7
Tata Group	4.7	5.1
Aditya Birla Group	2.9	1.7
Adani Group	2.5	1.5
Bharti Telecom	2.2	0.9
Total (T5)	**23.6**	**16.0**

Source: Prowess Database, CMIE.

ing with a new financial regime.

Figure 2: Income and Asset Share of Top 5 business group companies



Source: Prowess Database, CMIE.

Taken together, this evidence lays the empirical foundation for the analysis that follows. It shows not only that India's corporate landscape has become more concentrated, but that this concentration is increasingly shaped by a small and growing set of business groups whose dominance has deepened in recent years. The next sections investigate the causes of this transformation, with a particular focus on financial conditions and firm-level borrowing behavior.

3 Accounting for the Rise in Income Shares

In this section, we analyze the drivers behind the increasing share of income accruing to the top five business groups (T5) in India. Our objective is to distinguish whether this rise results from an improvement in the return on assets (i.e., efficiency or profitability) or from

a simple increase in the asset base itself.

We begin with a straightforward identity. Define n as the ratio between the income/asset ratio of the T5 companies ($\frac{Y_{T5}}{A_{T5}}$) to the income/asset ratio of all firms ($\frac{Y}{A}$). We refer to each of these terms as the 'income rates' of the two groups. This ratio 'n' reflects how much T5 companies are earning per unit of their assets as compared to all firms of the sample, what we term the relative income rate. By definition, the share of T5 companies in total income (h) at any period (t) can be expressed as a product of the share of assets of T5 companies in total assets (we denote this by 'a'), times the relative income rate n. This is summarized in equation (1).

$$h_t = a_t n_t \tag{1}$$

Where
$a_t = \frac{A_{T5}}{A}$
$n_t = \frac{\frac{Y_{T5}}{A_{T5}}}{\frac{Y}{A}}$

This decomposition is analytically useful because it reveals that a change in the income share can result from changes in asset share a, in relative income rate n or both.

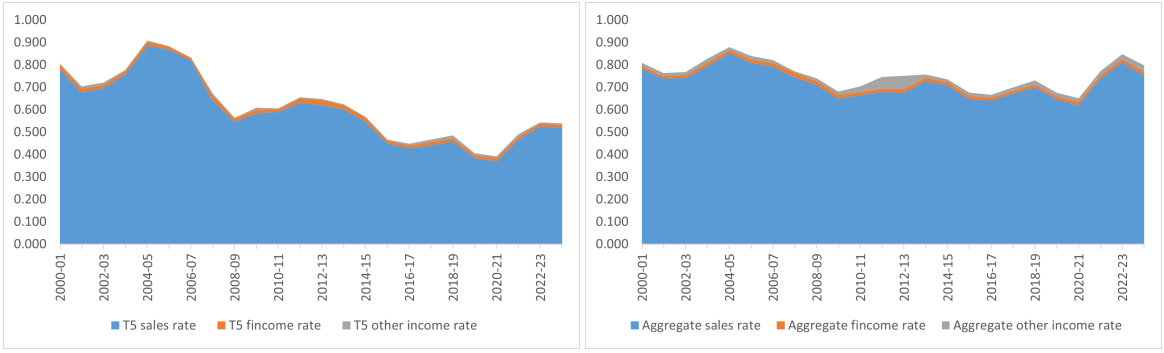
Our empirical findings indicate that while both the asset share and income share of T5 firms have increased substantially in recent years, n has either remained stagnant or declined. In other words, the T5 firms are not earning more per unit of asset than the rest of the corporate sector; rather, their rising income share is being driven primarily by an expansion in their asset base.

Figures 3a and 3b provide further insight. They break down total income into three components: operating revenue (sales), financial income, and other income. These components are normalized by assets to calculate income rates. For T5 companies, we observe a long-term decline in the income rate. This decline is not uniform but varies across time. Between 2003 and 2007—a period characterized by rapid investment and what Nagaraj (2008) refers to as the "Dream Run"—income per unit of asset fell due to high capital expenditure. This pattern was visible across the entire corporate sector. However, from around 2013 to 2022, the decline in income rates persisted for T5 companies, while remaining largely flat for the broader group of firms.

A complementary way to understand these dynamics is by examining growth in gross fixed assets (GFA) [1] . Figure 4 compares the GFA growth rate of T5 companies with the rest of the corporate sector. Two distinct phases of asset accumulation among the T5 firms are visible. Between 2004 and 2010, both T5 and non-T5 companies experienced high GFA

[1]The income asset-ratio is the product of the income-capital ratio and the capital asset ratio. In this period, the income capital ratio and the growth rate of the fixed assets moved together.

Figure 3: Income Rate of T5 and all Companies



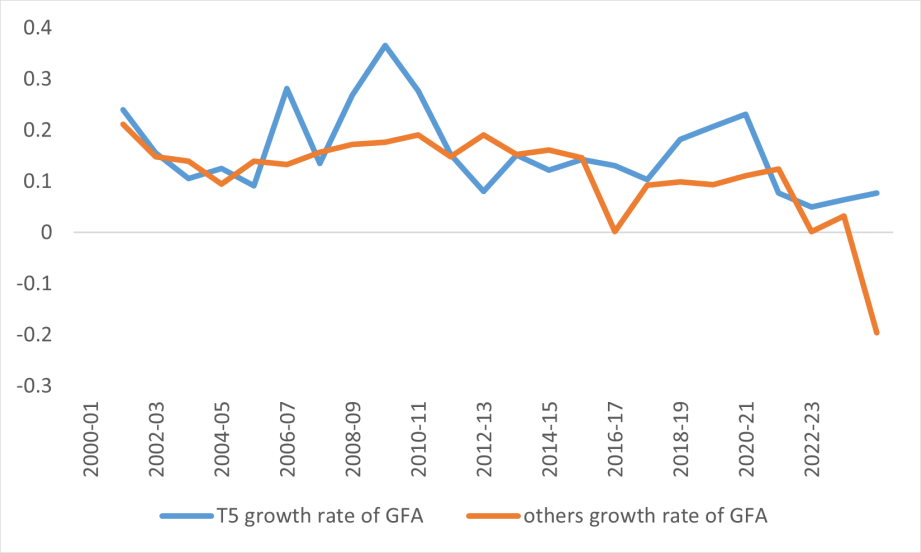
(a) Components of Income Rate in T5 Companies

(b) Components of Income Rate in All Companies

Source: Prowess Database, CMIE

growth, though T5 firms led slightly. However, after 2016, the divergence becomes more stark. While GFA growth slowed for all firms, it fell sharply for non-T5 companies and remained relatively resilient among the T5.

Figure 4: Growth Rate of GFA in T5 and Other Companies



Source: Prowess Database, CMIE.

These patterns make clear that the rise in income share among T5 companies is almost entirely due to their increasing asset share, not an improvement in profitability or efficiency. Therefore, any account of India's recent corporate concentration must grapple with the question: why did these few groups continue to expand their asset base while others slowed or stopped investing ?

Several explanations are possible. One is that large firms enjoy economies of scale and scope. Their diversified portfolios may enable cross-subsidization across sectors, allowing them to undertake large, capital-intensive projects that are out of reach for smaller competitors. Another possibility is policy tailwinds. For instance, the entry of Reliance into telecom or the rise of Adani in infrastructure were facilitated by regulatory changes or public-private partnerships that disproportionately favored firms with existing scale.

While these explanations hold some merit, we argue that financial conditions played a decisive role. Specifically, we posit that post-2015 credit market dynamics created an environment in which large firms were better positioned to access capital, particularly debt, than the rest of the corporate sector.

This period coincided with heightened concern over corporate leverage and financial fragility. A widely cited report by Credit Suisse in 2012 warned of a "House of Debt," referring to the overleveraging of Indian firms. In response, the Reserve Bank of India launched the Asset Quality Review (AQR) in 2015, a regulatory initiative aimed at uncovering the true extent of non-performing assets (NPAs) in the banking system.

The AQR mandated stricter classification of stressed loans and forced banks to increase provisioning for bad assets. The sectors most affected were infrastructure, steel, and power, which had seen aggressive debt-fueled expansion in the previous decade. Prominent corporate defaults (e.g., Bhushan Steel, Essar Steel) further exposed vulnerabilities.

The immediate consequence of the AQR was a sharp contraction in credit growth. Between 2015 and 2017, credit growth to industry fell from double-digit levels earlier in the decade(RBI annual report 2017). Public sector banks, which held the bulk of NPAs, became extremely risk-averse, tightening lending standards across the board. Small and mid-sized firms, already under stress, were disproportionately affected.

Meanwhile, the banking system reoriented its portfolio towards safer, retail-oriented assets such as home loans, gold loans, and unsecured personal credit (RBI, Trend and Progress of Banking, 2018). Corporate lending, especially to firms outside the top tier, was deemphasized.

Corporations likely responded in several ways. First, they may have engaged in balance sheet repair, reducing leverage and curtailing new investment. Second, some may have turned to alternative financing, including equity issuance, and intra-group lending. Third, firms with stressed assets participated in the Insolvency and Bankruptcy Code (IBC) process which led to some resolutions and write offs.
Amid these developments, India's largest conglomerates appear to have retained privileged access to capital. Several factors may explain this. First, their diversified operations

and established reputations may have lowered perceived default risk, enabling them to secure financing more easily and cheaply. Second, they may have benefited from superior credit ratings and significant presence in corporate bond markets. Another possibility is that their relationships with both public and private lenders may have insulated them from the full force of post-AQR risk aversion.

Although granular firm-level credit data is limited, the circumstantial evidence strongly suggests that T5 firms were able to expand investment even as the rest of the corporate sector deleveraged. This divergence, in turn, explains the asset-led rise in income concentration.

In the next section, we turn to more direct indicators of financial asymmetry, examining patterns in borrowing, interest costs, and credit composition between the T5 firms and the broader corporate universe.

4 Debt, Internal Funds, and Concentration

In this section, we examine how firms managed the liability side of their balance sheets over this period. We examine the pattern of liabilities and how they evolved over the 15 years. The total liabilities of the firms are the sum of their debt (D) and own funds (N). Because all own funds (N) are not directly observable, we calculate it simply as a residual by deducting measured debt from the total liabilities. N can be interpreted therefore as the non-debt item of the firm liabilities. Since these sum to total liabilities, the total liabilities of the T5 companies and the aggregate can be respectively expressed as equations (3a) and (3b). The liability share of the T5 companies can be decomposed as the product of their share of debt in total debt (b_t) and what we term as the relative own fund rate (k_t). The latter indicates how large the own fund-debt ratio of the T5 companies is with respect to the own fund-debt ratio of all firms. Thus, the share of T5 companies in total liabilities can increase either if their debt share rises or if their own fund-debt ratio rises faster compared to that of all firms (or both).

$$a_t = l_t \tag{2}$$

$$L_{T5,t} = D_{T5,t} + N_{T5,t} \tag{3}$$

$$L_t = D_t + N_t \tag{4}$$

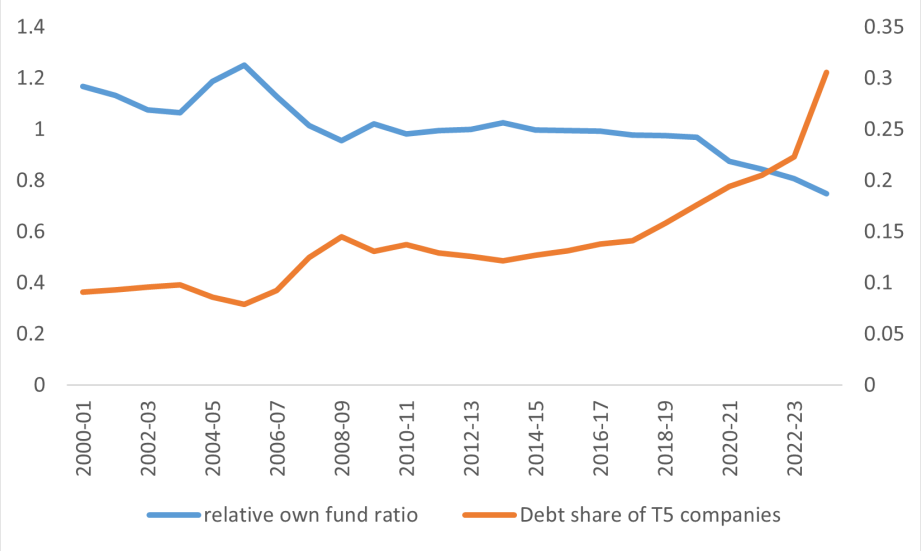
$$l_t = b_t k_t \tag{5}$$

Where
$l_t = \frac{L_{T5,t}}{L_t}$
$b_t = \frac{D_{T5,t}}{D_t}$

$$k_t = \frac{1+\frac{N_{T5,t}}{D_{T5,t}}}{1+\frac{N_t}{D_t}}$$

The trend in the components of the liability share is shown in figure 5. As evident from the figure, the relative own fund ratio registered an overall decline and the debt share increased sharply over the entire period. The sharp rise in the asset share and the liability share of the T5 companies since 2015-16 onwards can be attributed to the rise in their debt share, whereas the relative own fund rate registered a decline.

Figure 5: Decomposition of Liability share



Source: Prowess Database, CMIE.

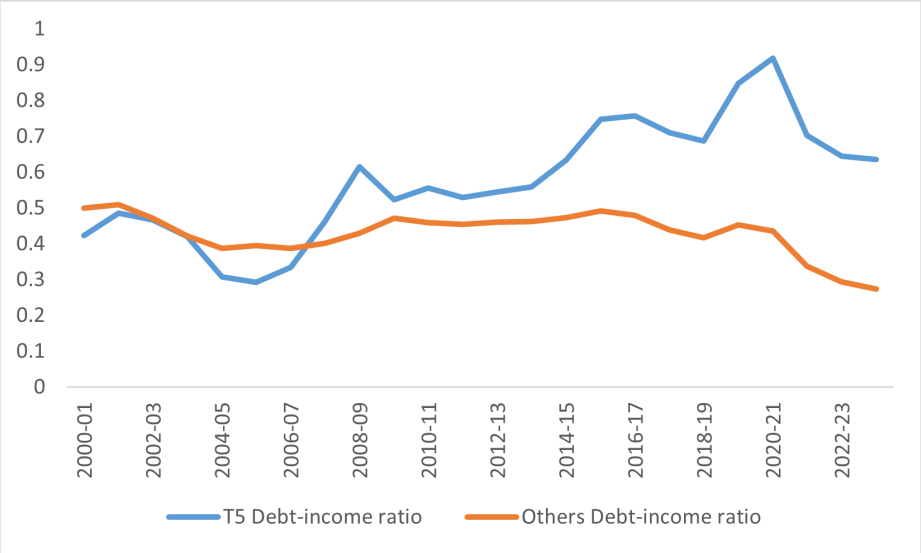
What explains such a rise in the debt share of the T5 companies? This evidence is consistent with the idea that the period following 2015 marked a turning point in India's financial environment, especially for corporate borrowers. For many firms, this period saw tighter credit conditions, higher borrowing costs, and growing constraints on investment. However, the transformation in the financial landscape did not affect all firms equally. Our analysis shows that India's top five business groups (T5) were relatively insulated from these pressures and, in fact, were able to expand their borrowing during this period. This asymmetry in financial access played a critical role in deepening corporate concentration.

4.1 Debt-to-Income Ratios and the Post-2015 Divergence

Figure 6 presents the trajectory of debt-to-income ratios for the T5 and other firms between 2000 and 2023. A sharp divergence emerges around 2015. While most firms began to deleverage significantly, reducing their debt-to-income ratios as a response to tighter credit markets and increased scrutiny, the T5 continued to maintain elevated leverage. By 2020, the debt-to-income ratio for the T5 peaked at nearly 90%, whereas for other firms it

had declined markedly.

Figure 6: Debt-to-Income Ratios of T5 vs. Other Companies



Source: Prowess Database, CMIE.

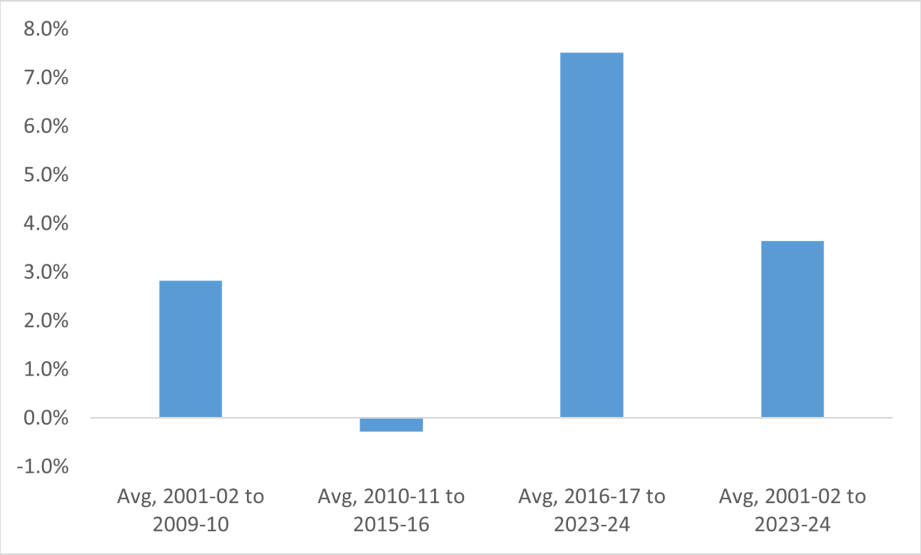
This trend suggests that the tightening of credit markets did not restrict the T5's access to borrowing in the same way it did for other companies. Instead, T5 firms retained the capacity to expand their liabilities, even as most of the corporate sector retreated into financial conservatism.

Figure 5 illustrates the rise in the debt share of T5 firms within the non-financial corporate sector. In the early 2000s, the T5 accounted for just 10% of total corporate debt. By 2023, their share had surged to over 30%. This increase significantly outpaced the growth of their asset share over the same period, implying that these firms were not only accumulating more assets but doing so through disproportionately high levels of debt financing.

This is particularly striking in the post-2015 period, during which most firms were tightening their balance sheets. Figure 7 also includes a breakdown of the average annual growth rate of the T5's debt share across three distinct phases: 2000–2010, 2011–2015, and 2016–2022. The most dramatic increase occurred in the final phase, suggesting that corporate concentration accelerated precisely when the broader financial environment became more restrictive.

To better understand the financial behavior of these groups, we construct a normalized borrowing ratio, which accounts for both new borrowing and the cost of servicing existing debt. For T5 firms, we define net borrowing as the change in debt less interest payments and the normalized borrowing ratio as the share of net borrowing in income : $(\frac{\Delta T_5 - IP_{T5}}{Y_{T5,t}})$.

Figure 7: Growth rate of Liability Share and Asset Share of T5 Companies



Source: Prowess Database, CMIE.

We denote this ratio as p_{T5}. An analogous measure p_O is constructed for the rest of the corporate sector.

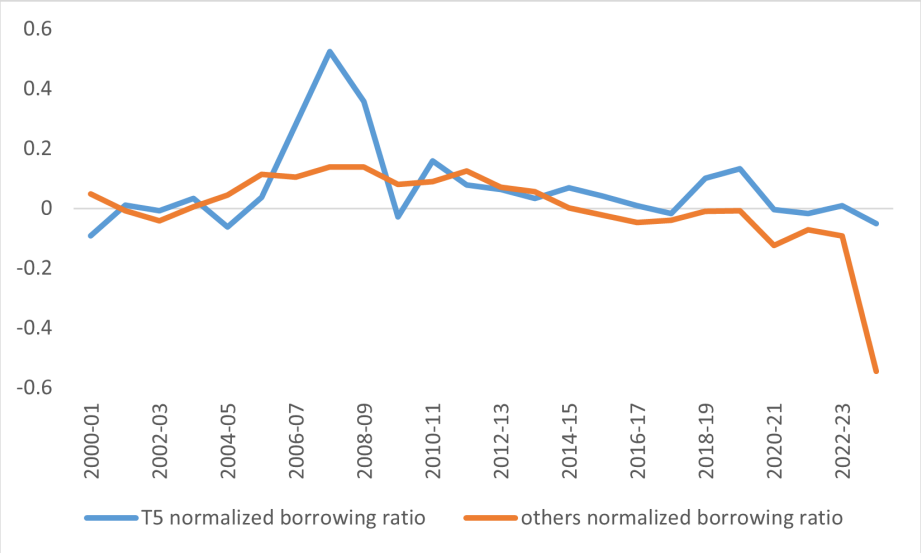
Figure 8 displays the evolution of p_{T5} and p_o . Around 2013, a significant divergence began to emerge. Non-T5 firms transitioned from being net borrowers to net savers, with negative values for pO ,suggesting that, after paying interest, their outstanding debt actually fell. In stark contrast, T5 firms consistently exhibited positive net borrowing until the last years, even though the intensity was lower than during the high-growth "dream run" years before the global financial crisis.

These trends confirm that while the broader corporate sector was under financial stress, leading to reduced leverage and investment, the T5 continued to expand their operations by taking on new debt. This differential access to capital under conditions of general financial austerity offers a compelling explanation for the growing dominance of these firms.

The firm-level dynamics whereby loans in aggregate have reduced, are mirrored at the macroeconomic level. Figure 9 presents the ratio of total loans to Gross Value Added (GVA) in the non-financial corporate sector from 2011–12 onwards. Loan data is sourced from the RBI's Flow of Funds accounts, while GVA figures are drawn from the National Accounts Statistics compiled by the Central Statistical Office (CSO). The ratio reflects the aggregate indebtedness of the non-financial corporate sector relative to its productive output.

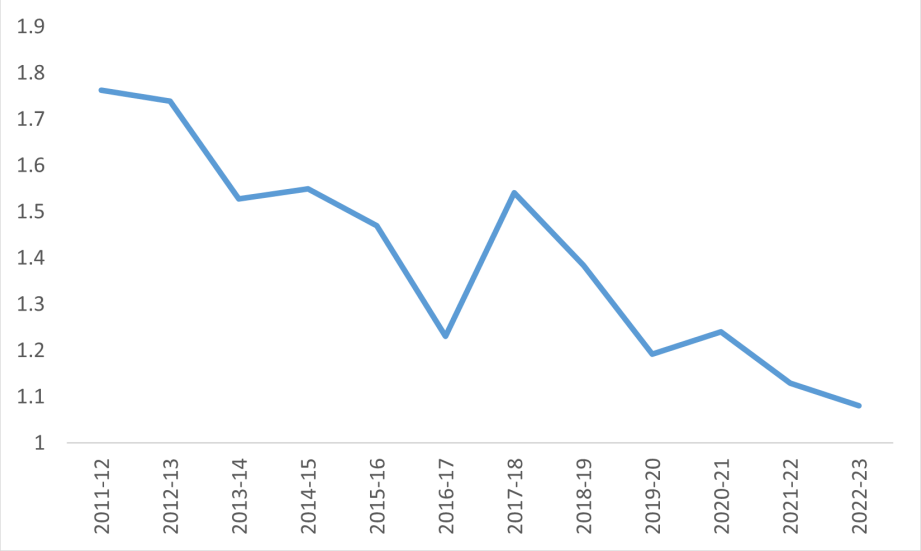
The figure shows a clear and sustained decline in the loan-to-GVA ratio over the last

Figure 8: Normalized Borrowing Ratios (p_{T5} vs p_o)



Source: Prowess Database, CMIE.

Figure 9: Ratio of Loans to GVA in the Non-Financial Corporate Sector



Source: Flow of Funds, RBI.

decade. This fall is consistent with the deleveraging observed among non-T5 firms in the Prowess database. It reflects not only an absolute slowdown in corporate borrowing, but also a shrinking of credit intensity—i.e., less debt deployed per unit of value added. Taken together, these trends point to a macroeconomic credit squeeze that aligns with the firm-level evidence of tightening balance sheet constraints.

What our microeconomic data suggests is that this decline in borrowing was not universal. As shown earlier, T5 firms continued to expand their borrowing and investment. Thus, the aggregate decline in the loan-to-GVA ratio masks an important compositional shift: while most of the corporate sector deleveraged, a few dominant firms captured a growing share of the shrinking credit pie [2].

4.2 The Role of Interest Rates in Shaping Borrowing Behavior

One reason for the differential borrowing behavior may lie in how lenders priced credit risk. Economic theory suggests that as a firm's leverage increases, so should its borrowing costs, due to heightened default risk. If this mechanism operates effectively, firms with rising debt-to-income ratios should face higher interest rates, discouraging further borrowing.

Figures 10a and 10b examine this relationship by plotting effective interest rates against debt-to-income ratios for T5 and non-T5 firms, respectively. For non-T5 firms, the relationship is clearly positive: as leverage increases, so do interest rates [put in the r and sd]. This pattern is consistent with a risk-based approach to lending, where financial stress translates into more expensive credit.

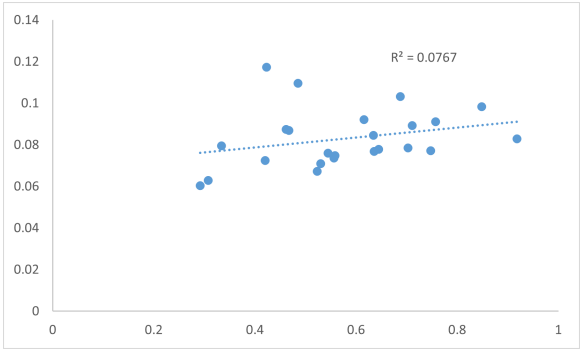
However, the picture is different for T5 firms. Figure 10a shows only a weak or flat relationship between interest rates and leverage. This suggests that despite their high debt levels, T5 firms did not face significant increases in borrowing costs. Lenders may have considered them more stable, more diversified, or too systemically important to fail.

This relative immunity to risk-based repricing effectively created a financial environment in which T5 firms could continue borrowing at stable interest rates, regardless of their leverage. In contrast, smaller firms faced a direct constraint: as their leverage increased, so did the cost of borrowing, eventually curbing their capacity to invest.

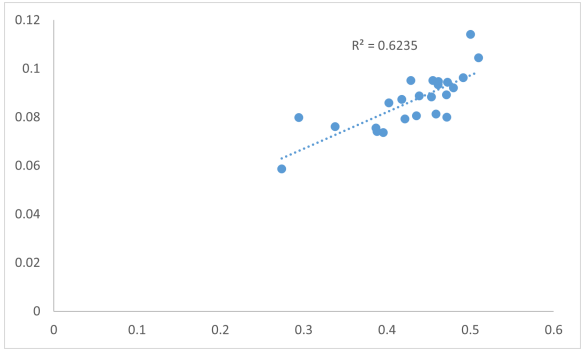
Differences in both the nature and severity of financial constraints across firms create the possibility that aggregate demand shocks will have unequal effects on income and asset

[2]Other suggestive evidence on the relative ease of borrowing for the top 5 companies is available in news articles on the usage of other sources of credit. For example Naraynan (2019) notes that in that year-which was till then a record year in terms of ECB volume the top five companies that borrowed were:Arcelor Mittal India Private Limited, Reliance Jio Infocomm Limited, Indian Oil Corporation Limited, Reliance Industries Limited and Tata Sons Limited (Narayanan, 2019).

Figure 10: Debt-Income Ratio and Interest Rates



(a) Debt-Income Ratio and Interest Rate of T5 Companies



(b) Debt-Income Ratio and Interest Rate of Non-T5 Companies

Source: Prowess Database, CMIE

growth rates. While a decline in aggregate demand tends to negatively affect all firms, its financial impact is likely to be more severe for firms outside the top five business groups (T5), for the following reasons.

In the case of T5 firms, interest rates are largely delinked from their debt-to-income ratios. As a result, a fall in aggregate demand—and hence in income growth—raises their debt-to-income ratios, but does not directly increase their borrowing costs, assuming no change in the interest rate or new borrowing ratio.

In contrast, for other firms whose interest rates do increase with their debt-to-income ratios, a decline in aggregate demand leads to a simultaneous rise in both the debt-to-income ratio and the interest rate. Thus, for these firms, the burden of debt servicing becomes heavier on two fronts: the debt-stability condition becomes more stringent, and the interest payment-to-income ratio increases more sharply than it does for T5 firms.

This additional financial pressure means that, in periods of weak aggregate demand, non-T5 firms are more likely to reduce their new borrowing ratios than T5 firms. Therefore, in an economy like India's—which has experienced a pronounced slowdown in growth since the latter half of the 2010s—these asymmetric financial constraints have likely imposed a disproportionately larger burden on firms outside the top business groups.

4.3 Balance Sheet Constraints and Adjustment Mechanisms

These findings suggest that balance sheet constraints operated very differently for the two groups. For the majority of firms, leverage and interest costs were tightly linked. As interest rates rose with increased borrowing, firms were forced to adjust—either by reducing new investment, selling assets, or cutting costs. Their normalized borrowing ratios thus became a function of rising borrowing costs and tighter lender scrutiny.

For the T5, the constraints worked in the opposite direction. Because interest rates remained relatively stable even as leverage increased, these firms were not forced to undertake drastic balance sheet adjustments. Their normalized borrowing ratios were driven less by external financial discipline and more by strategic investment decisions. In essence, they were able to use credit markets as a tool for expansion, while others were forced into financial retrenchment.

This asymmetry in balance sheet pressures led to two distinct modes of adjustment. Non-T5 firms had to adjust their borrowing behavior in response to rising interest costs, often at the expense of investment and growth. T5 firms, on the other hand, may have been able to adjust their capital structures on more favorable terms, with credit access largely unconstrained by balance sheet risk.

The data presented here underscore the role of financial asymmetries in shaping the dynamics of corporate concentration in India. While the tightening of credit markets after 2015 limited the investment capacity of most firms, a handful of large conglomerates were able to continue expanding. They did because their access to debt financing remained intact—and often improved—under conditions of general financial stress.

The persistence of positive net borrowing, stable interest rates despite rising leverage, and a disproportionate share of new debt flows all point to the systemic advantage that these firms enjoyed. These advantages may simply have emerged from how market-based financial institutions responded to perceived creditworthiness, scale, and systemic importance.

In sum, financial liberalization in India has transformed the structure of credit rationing. This may have contributed to significant changes in market structure and via that channel-market competition, and long-term economic dynamism.

5 Conclusion

Over the past decade, India's corporate sector has undergone a profound structural transformation. At its core lies a sharp and persistent increase in economic concentration, potentially driven by asymmetric access to finance. The country's top five business groups—Reliance, Tata, Adani, Aditya Birla, and Bharti—have emerged as dominant players not merely through competitive advantage, but through their ability to borrow, invest, and expand in ways that most other firms cannot.

The post-2015 financial environment, shaped by the Reserve Bank of India's Asset Quality Review (AQR), brought long-overdue scrutiny to the corporate credit system. It exposed

widespread fragility in the banking sector, forcing deleveraging across much of the non-financial corporate landscape. But as our analysis shows, this tightening disproportionately affected small and mid-sized firms. These firms saw rising borrowing costs, diminishing credit access, and a transition from net borrowing to net saving. In contrast, the T5 were able to maintain high debt-to-income ratios, secure stable and even declining interest rates, and increase their share of total corporate debt from 10% to over 30%.

At the macroeconomic level, the declining ratio of loans to GVA in the non-financial sector mirrors this story. While the aggregate credit intensity of the corporate sector fell, this masks a compositional shift: credit was being concentrated in the hands of fewer, larger players. In effect, as the financial system became more risk-averse, it also became more selective—channeling credit toward firms deemed too big to fail or too important to ignore.

One may speculate as to the dangers of this kind of divergence. There is obviously the potential for a self-reinforcing feedback loop: firms with greater access to credit undertake more investment, gain larger market shares, and further improve their perceived creditworthiness. This reduces their cost of capital, enabling even more expansion. As these advantages accumulate, they push the rest of the corporate sector further behind, deepening concentration and institutionalizing inequality in access to finance.

The consequences of this kind of dynamic are significant and complex. On one hand, large firms can bring scale economies, push through infrastructure bottlenecks, and deliver investment in sectors where others might hesitate. Their dominance may enable long-horizon projects that contribute to national development goals. On the other hand, such concentration raises concerns about market competitiveness, wage dynamics, and systemic risk.

Moreover, this concentration is not just economic but institutional. Firms that dominate both capital markets and productive sectors become systemically important—not by regulatory designation but by sheer weight. Any distress could trigger cascading failures across lenders, suppliers, and consumers.

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