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Supplier Credit versus Reported Borrowings in Indian Restaurant Companies

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Abstract

Restaurant companies collect cash at the point of sale and pay their suppliers later, so their funding is expected to rest more on supplier credit than on lenders. This paper tests that expectation with standalone balance sheet data of 14 Indian restaurant companies for the financial years 2015 to 2026, which gives 118 firm-year observations. Supplier credit share is defined as trade payables divided by the sum of trade payables and long-term borrowings. The hypothesis that the median share of the companies exceeds 0.50 is tested with a one-sided Wilcoxon signed-rank test, supported by a t-test and a sign test. Ten of the 14 companies are above the threshold and the median share is 0.93. The hypothesis is supported, with a p value of 0.006 for the Wilcoxon test and 0.002 for the t-test, but only weakly by the sign test, which gives 0.090. Trade payables also exceed trade receivables in 12 of 14 companies. When total non-current liabilities replace borrowings, supplier credit no longer dominates, which suggests that lease and other long-term obligations are the larger claim. The findings carry practical meaning for lenders, investors, suppliers and regulators.

Keywords: Trade Credit, Borrowings, Restaurants, Leverage, Suppliers, India

1 Introduction

A restaurant company collects money at the counter, on the delivery application or through the card terminal, but it pays for food, packaging, logistics and many services after a credit period. The balance sheet that results is unusual. Trade payables are large, trade receivables are small, and long-term borrowings are often modest or absent. At the same time, most outlets operate from leased premises, and since 1 April 2019 the Indian Accounting Standard (Ind AS) 116 on leases has required the related obligations to be shown on the balance sheet. A reader who looks only at the borrowings line, as loan covenants, stock screens and many classroom exercises do, therefore sees only a small part of how these firms are funded.

Why suppliers lend to their customers has been explained in the trade credit literature through financing, information, enforcement and insurance motives [1], [2], [3]. Evidence from India is available for manufacturing firms [4], and the effect of the lease standard on leverage has been studied across industries [5], [6]. The two strands are rarely brought together for a single sector. The restaurant sector, in which both features are strong, is not examined separately in the sources reviewed for this paper.

The study is therefore built around one simple question: is the funding of Indian restaurant companies carried more by suppliers or by lenders? Standalone balance sheet data of 14 companies for the financial years (FY) 2015 to 2026 are used. A supplier credit share is computed for every firm-year, the median of each company is taken, and the hypothesis that the median exceeds 0.50 is tested with simple one-sided

tests. A second hypothesis compares trade payables with trade receivables, and a boundary check replaces borrowings with total non-current liabilities.

The paper is arranged as follows. Section 2 reviews the literature and states the research gap. Section 3 sets out the objectives and hypotheses. Section 4 describes the data and the method. Section 5 presents and discusses the results, Section 6 lists the limitations, and Section 7 concludes with the meaning of the findings for stakeholders and society.

2 Review of Literature and Research Gap

2.1 Trade Credit as a Source of Finance

Petersen and Rajan [1] examined competing explanations of trade credit, among them the financing advantage of suppliers, price discrimination, an implicit equity stake in the customer and lower transaction costs, using a national survey of small firms in the United States. Firms were found to use more trade credit when institutional credit is unavailable, and suppliers were able to lend because they obtain information cheaply and can resell goods more easily. Biais and Gollier [3] show in a theoretical model that suppliers carry private information about their customers into the lending arrangement, so that trade credit can ease credit rationing. Cuñat [2], using a panel of firms in the United Kingdom, argues that suppliers can enforce repayment by withholding future supply and also act as providers of liquidity to customers in difficulty. For India, Vaidya [4] studied receivables and payables of manufacturing firms and reports that firms with larger bank loans receive more credit from suppliers, while more profitable firms both extend and receive less.

2.2 Lease Obligations and Reported Leverage

Under Ind AS 116, which applies to annual periods beginning on or after 1 April 2019, a lessee recognises a lease liability for most leases, so obligations that earlier remained in the notes now appear on the balance sheet. A study by PwC India [6] made before adoption estimated that reported debt of 78 listed non-financial companies would rise by about 7 per cent on average, with retail and consumer companies showing an average rise of about 8 per cent and a maximum of 130 per cent. Dhokare [5], using 156 companies of the NIFTY 500 index across ten industries, reports significant increases in debt to equity and liabilities to assets ratios after adoption, strongest in lease-dependent industries such as retail and hospitality. Neither study isolates restaurant companies, and neither places lease-type obligations beside supplier credit.

2.3 Research Gap

Three points emerge from the review. First, trade credit studies treat supplier finance as a topic of its own and draw on small-firm, United Kingdom and Indian manufacturing samples [1], [2], [4]. Second, lease studies examine changes in ratios but do not set supplier credit against borrowings [5], [6]. Third, no sector-specific evidence was located, in the sources reviewed for this paper, on the weight of supplier credit against reported borrowings in Indian restaurant companies, although the sector sells for cash, buys on credit and works mainly from leased premises. The gap is therefore empirical and sectoral. It is not known whether suppliers or lenders carry more of the funding of these firms, or whether the answer changes once obligations other than borrowings are counted. Lenders, investors and policy makers who rely on borrowing-based measures have no reference point for this sector.

3 Research Objectives and Hypotheses

The objectives follow directly from the gap. Each is matched with a hypothesis and a test, as summarised

in Table 1.

1. To measure the weight of supplier credit relative to reported long-term borrowings in the funding of Indian restaurant companies.
2. To examine whether suppliers, rather than customers, are the net providers of trade credit in these companies.
3. To check whether the weight of supplier credit survives when all non-current liabilities, and not borrowings alone, are counted.

Hypothesis 1. The median supplier credit share of Indian restaurant companies exceeds 0.50. The null hypothesis is that the median is 0.50 or lower. A share of 0.50 means that supplier credit and long-term borrowing are equal in size, and above it suppliers are the larger source.

Hypothesis 2. The median trade payables of Indian restaurant companies exceed their median trade receivables. The null hypothesis is that they do not.

Objective 3 is exploratory, and no hypothesis is attached to it.

Table 1: Linkage of Research Gap, Objectives, Hypotheses and Tests

Research Gap	Objective	Hypothesis	Test and Decision Rule
Supplier credit and borrowings are studied separately, and no restaurant-sector comparison was located	1. Weight of supplier credit against long-term borrowings	Hypothesis 1. Median supplier credit share is above 0.50	One-sided Wilcoxon signed-rank test on company medians against 0.50, with t-test and sign test as support. Reject the null at 0.05
The net direction of trade credit, supplier or customer, is not documented for the sector	2. Suppliers as net providers of trade credit	Hypothesis 2. Median trade payables are above median trade receivables	One-sided Wilcoxon signed-rank test on paired company medians, with sign test as support. Reject the null at 0.05
Borrowing-based measures may hide lease and other long-term obligations	3. Survival of the result when all non-current liabilities are counted	None (exploratory check)	Share recomputed with total non-current liabilities and compared with 0.50

4 Data and Methodology

4.1 Data

Data were taken from a Capitaline Screener extract of standalone financial statements, which contains seven balance sheet items: share capital, reserves and surplus, long-term borrowings, total non-current liabilities, trade payables, current investments and trade receivables. The extract has 121 rows, three of which hold no financial values (two company rows for 2017 and one blank row) and were removed. The remaining 118 firm-year observations relate to 14 companies for the years 2015 to 2026 as labelled in the extract. The panel is unbalanced, with three to 12 observations per company. Company names are used as they appear in the extract.

The currency unit is not stated in the header of the extract. Every measure used here is a ratio, or a comparison of two items from the same balance sheet, so the unit does not affect the results. The year label is taken to mean the financial year ending in March. This reading is supported by the sharp rise in non-current liabilities of several companies between the labels 2019 and 2020, which is the year of first application of Ind AS 116 for companies with a March year end.

4.2 Variables

The supplier credit share (SCS) of company i in year t is defined in Equation (1), where TP is trade payables and LTB is long-term borrowings.

$$SCS_{it} = TP_{it} \div (TP_{it} + LTB_{it}) \quad (1)$$

Two firm-years of McDonald's India, in which both items are zero, were left out because the share is undefined. This leaves 116 firm-years. For the third objective, total non-current liabilities (TNCL) replace borrowings, as in Equation (2).

$$SCS\text{-}NCL_{it} = TP_{it} \div (TP_{it} + TNCL_{it}) \quad (2)$$

Total non-current liabilities include borrowings and also lease liabilities, long-term provisions and other long-term items, which are not shown separately in the extract. Net worth is taken as share capital plus reserves and surplus.

4.3 Tests

Firm-years of the same company are not independent. To avoid counting a company several times, the median of its firm-year values is taken, and each company is treated as one observation, which gives 14 observations. Hypothesis 1 is tested with a one-sided Wilcoxon signed-rank test of the differences between the company medians and 0.50. A one-sample t-test and an exact one-sided sign test are reported as support, the sign test being the simplest and the least sensitive to the size of the differences. Hypothesis 2 is tested with a one-sided Wilcoxon signed-rank test on the paired company medians of trade payables and trade receivables, supported by the sign test. The level of significance is 0.05. Because ties are present among the differences, the p values of the Wilcoxon tests are exact, obtained by enumerating all possible assignments of signs to the ranks.

Two robustness checks are applied. The first excludes Westlife Food, whose standalone balance sheet shows trade payables never above 1.76 in the units of the extract against a net worth above 4,700. The second excludes companies with fewer than five observations. All calculations were done in Python with the SciPy library.

4.4 Research Process

The research process, from the gap to the stakeholder implications, is shown in Figure 1. Each step names the section or table in which its output is reported.

Figure 1: Research Process Followed in the Study

Research gap: Supplier credit and borrowings are studied separately, and no evidence for restaurant companies was located	Section 2.3
↓	
Objectives: Objectives 1 to 3	Section 3
↓	
Hypotheses: Hypothesis 1 on supplier credit share and Hypothesis 2 on payables against receivables; Objective 3 is exploratory	Section 3, Table 1
↓	
Data: Capitaline Screener extract: 121 rows, three empty rows removed, 118 firm-years of 14 companies	Section 4.1, Table 2
↓	
Variables: Supplier credit share (borrowings) and supplier credit share (all non-current liabilities); two firm-years with undefined share excluded	Section 4.2, Table 3
↓	
Aggregation: Median of firm-year values for each company, giving 14 observations	Section 4.3
↓	
Tests: Wilcoxon signed-rank (exact), t-test and sign test; robustness by excluding Westlife Food and companies with fewer than five observations	Section 5.2 and 5.3, Table 4
↓	
Decision: Is the p value below 0.05? If yes, the null hypothesis is rejected; if no, it is retained	Section 5.2 and 5.3
↓	
Boundary check and audit: Share recomputed with all non-current liabilities; all figures re-performed in an audit workbook	Section 5.4, Appendix
↓	
Implications: Conclusions for lenders, investors, suppliers, regulators and society	Section 7

Source: Author's design.

5 Results and Discussion

5.1 Sample Profile

Table 2 lists the companies with the number of observations and the median values of the main items, and Table 3 gives pooled descriptive statistics.

Table 2: Sample Companies and Median Values

Company	Years Covered	Observations	Median Trade Payables	Median Long-Term Borrowings	Median Trade Receivables	Median Supplier Credit Share
Absolute Barbequ	2019 to 2025	7	151.46	0.00	4.66	1.00
Coffee Day Enter	2015 to 2026	12	7.99	1,632.49	20.38	0.50
Devyani Intl.	2015 to 2026	12	1,256.10	2,307.17	317.31	0.37
Grill Splendour	2021 to 2026	6	13.64	21.60	4.36	0.39
Jubilant Food.	2015 to 2026	12	4,784.22	0.00	230.20	1.00
Mcdonald's India	2019 to 2024	6	1,881.01	0.00	704.45	1.00
Restaurant Brand	2016 to 2026	10	1,229.52	0.00	76.16	1.00
Sapphire Foods	2018 to 2026	9	1,658.36	185.79	154.04	0.91
Tea Post	2022 to 2026	5	43.67	2.07	20.86	0.94
Travel Food	2015 to 2026	9	90.17	0.00	179.53	1.00
United Foodbrands	2016 to 2026	10	923.37	414.03	53.64	0.66
Westlife Food	2015 to 2026	12	0.62	0.00	0.48	1.00
Wom Momo Foods	2020 to 2024	5	242.35	596.74	64.51	0.49
Wow Momo Sales	2021 to 2024	3	31.21	69.11	24.77	0.41
All companies	**2015 to 2026**	**118**	**506.16**	**1.44**	**58.46**	**0.97**

Source: Author's computation from the Capitaline Screener extract. Amounts are in the units of the extract.

Table 3: Descriptive Statistics of Firm-Year Observations

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Net worth	7,243.69	4,518.61	8,048.43	-1,344.24	31,736.69
Long-term borrowings	691.70	1.44	1,654.79	0.00	12,115.82
Total non-current liabilities	4,329.03	692.68	6,597.35	0.00	29,068.71
Trade payables	1,129.28	506.16	1,551.55	0.00	6,244.39
Current investments	505.11	0.00	1,187.39	0.00	6,612.08
Trade receivables	205.62	58.46	410.89	0.00	2,781.16

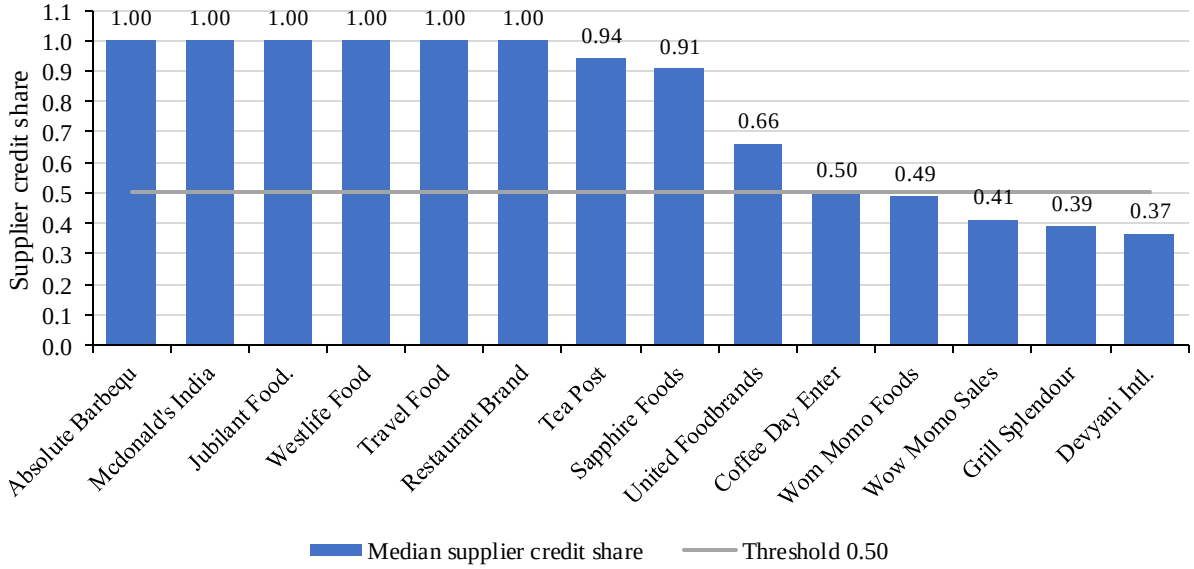
Source: Author's computation from the Capitaline Screener extract. Number of observations is 118.

The balance sheets are lopsided in a way that bears on the question. Median trade payables are 506.16, whereas median long-term borrowings are 1.44, and 58 of the 118 firm-years (49 per cent) report no long-term borrowing at all. Median trade receivables are 58.46, about one-ninth of median trade payables. Net worth is negative in several firm-years of McDonald's India and Wow Momo Sales, which reflects accumulated losses.

5.2 Test of Hypothesis 1

Figure 2 shows the median supplier credit share of each company. Ten of the 14 companies lie above the 0.50 line. Six of them (Absolute Barbequ, Jubilant Food., McDonald's India, Restaurant Brand, Travel Food and Westlife Food) have a median share of 1.00 because they carry no long-term borrowing in most years. Coffee Day Enter is only just above the line, at 0.50. The four companies below the line are Devyani Intl., Grill Splendour, Wom Momo Foods and Wow Momo Sales.

Figure 2: Median Supplier Credit Share by Company



Source: Author's computation from the Capitaline Screener extract. The chart is editable and its data sit in the embedded worksheet.

The test results are given in Table 4. The median of the company medians is 0.93. The Wilcoxon test gives a p value of 0.006 and the t-test 0.002, so the null hypothesis is rejected at the 0.05 level. The sign test, which only counts how many companies are above 0.50 (10 of 14, or 71 per cent), gives 0.090 and does not reach 0.05. The tests differ because the four companies below the line are close to it, at 0.37 to 0.49, while the companies above it are far above, and the Wilcoxon and t statistics use the size of the differences.

Table 4: Results of the Hypothesis Tests

Hypothesis and Sample	Companies	Companies Supporting	Wilcoxon p Value	t-Test p Value	Sign Test p Value
Hypothesis 1, all companies	14	10	0.006	0.002	0.090
Hypothesis 1, excluding Westlife Food	13	9	0.013	0.004	0.133
Hypothesis 1, companies with at least five observations	13	10	0.004	0.001	0.046
Hypothesis 2, trade payables above trade receivables	14	12	0.003	Not applied	0.006

Source: Author's computation. All p values are one-sided. The t-test is not applied to Hypothesis 2 because the amounts are strongly skewed.

A bootstrap interval for the median share, obtained from 10,000 resamples of the 14 companies, runs from 0.49 to 1.00. The evidence for Hypothesis 1 is therefore directional and of moderate strength, and not decisive. The conclusion is unchanged when Westlife Food is excluded (p value 0.013 for the Wilcoxon test) or when companies with fewer than five observations are excluded (0.004). At the pooled level, 88 of the 116 firm-years have a share above 0.50. This count is given only as a description, since firm-years of the same company are not independent.

5.3 Test of Hypothesis 2

Median trade payables are greater than median trade receivables in 12 of the 14 companies. The two exceptions are Coffee Day Enter and Travel Food. The Wilcoxon test gives a p value of 0.003 and the sign test 0.006, so Hypothesis 2 is supported. In the pooled data, trade payables exceed trade receivables in 100 of the 118 firm-years. Restaurant companies thus receive more credit from suppliers than they give to customers, which is consistent with a business in which customers pay at the point of sale.

5.4 Boundary Check with Total Non-Current Liabilities

Table 5 and Figure 3 repeat the comparison with total non-current liabilities in place of borrowings. The median company share falls from 0.93 to 0.25, and only four of the 14 companies remain above 0.50 (Absolute Barbequ, McDonald's India, Travel Food and Westlife Food). A test in the opposite direction, that the median is below 0.50, gives a p value of 0.195 and does not reach significance with 14 companies. The result is therefore read as a clear shift in the distribution, and not as a proven reversal.

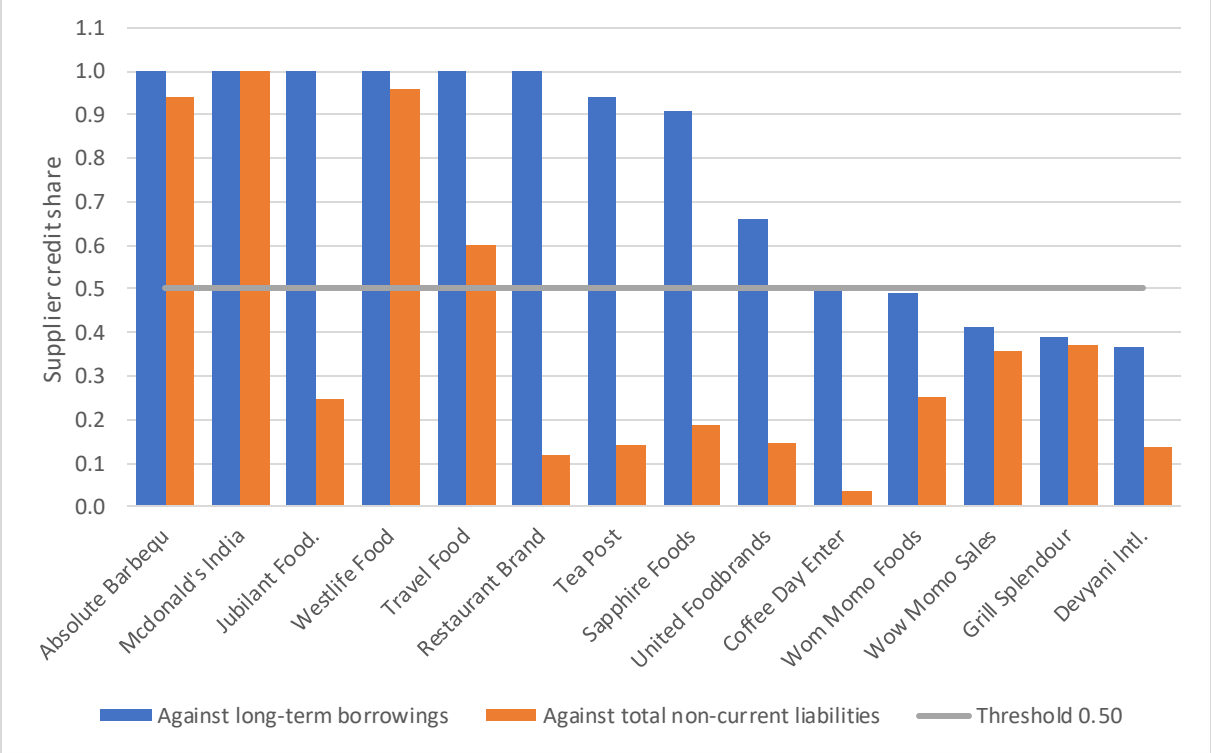
Table 5: Supplier Credit Share under Two Measures

Measure	Median Company Share	Companies above 0.50	Median Firm-Year Share, FY2015 to FY2019	Median Firm-Year Share, FY2020 to FY2026
Trade payables against long-term borrowings	0.93	10 of 14	1.00	0.95
Trade payables against total non-current liabilities	0.25	4 of 14	0.67	0.21

Source: Author's computation. Firm-year counts are 32 for FY2015 to FY2019 and 84 for FY2020 to FY2026.

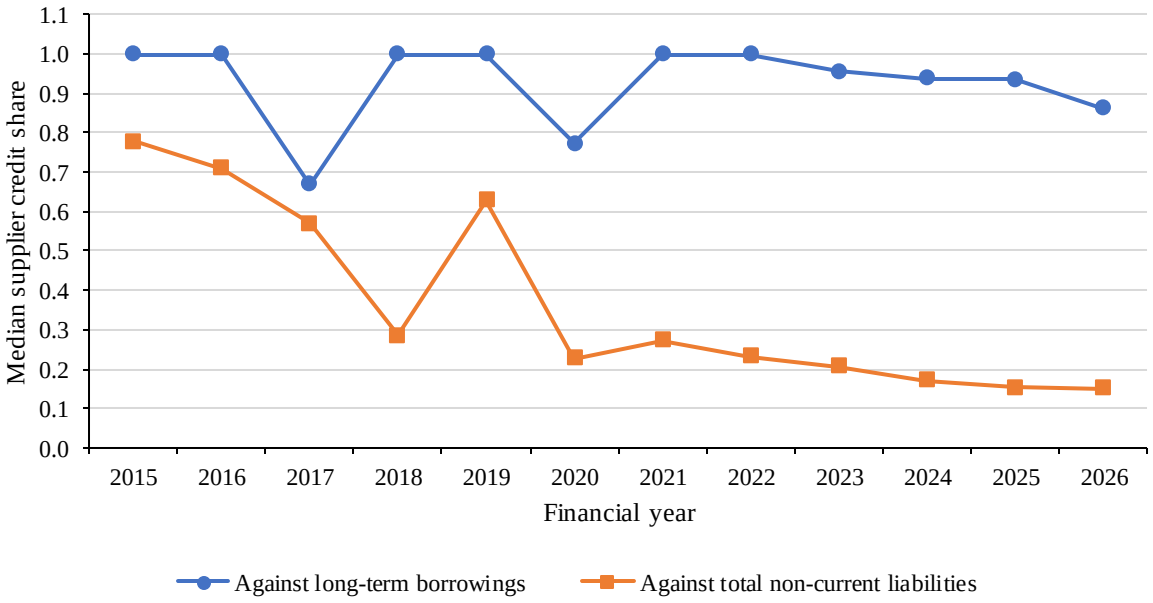
A descriptive comparison of the two periods, drawn year by year in Figure 4, points the same way. On the borrowings measure the median firm-year share moves only from 1.00 to 0.95, but on the total non-current liabilities measure it moves from 0.67 to 0.21. The companies in the two periods are not the same, so this contrast cannot be credited to Ind AS 116 alone. It is, however, the pattern expected if lease liabilities entered the balance sheet from FY2020.

Figure 3: Supplier Credit Share by Company under Two Measures



Source: Author's computation. The chart is editable and its data sit in the embedded worksheet.

Figure 4: Median Supplier Credit Share by Year under Two Measures



Source: Author's computation. Firm-years per year range from 4 in 2017 to 13 in 2021 to 2024. The chart is editable and its data sit in the embedded worksheet.

5.5 Discussion

The results fit the financing view of trade credit [1], [3]. A firm that does not need, or cannot obtain, long-term loans can still be financed through the terms its suppliers allow. The enforcement argument of Cuñat [2] is also plausible for restaurants, where a supplier of perishable or branded inputs can stop deliveries at short notice. The pattern seems different from that reported for Indian manufacturing firms [4], in which larger bank loans went with higher payables, since the companies with the highest supplier credit shares here are mostly those with little or no borrowing. No test of that relation was run in this study. Finally, the boundary check shows that a comparison of suppliers with lenders is incomplete without lease and other non-current obligations. This supports the concern in the lease-capitalisation studies [5], [6] that reported borrowings understate the claims on a firm.

6 Limitations

Several limits apply. The sample has 14 companies, and the sign test, which ignores the size of differences, is only suggestive. The panel is unbalanced and the companies differ widely in scale. Standalone statements leave out subsidiaries, so supplier credit and borrowings at group level are not captured, and the statement of Westlife Food appears to reflect a holding structure. Revenue and purchases are not in the extract, so payable days could not be computed and supplier credit could not be scaled by activity. Trade payables include all creditors, not only micro and small enterprises, and the extract does not separate lease liabilities. The effect of Ind AS 116 is described but not isolated, and the threshold of 0.50 is a convention. The findings therefore describe the funding mix in this sample and do not establish a cause.

7 Conclusion

For the restaurant companies examined, suppliers are a larger source of outside funding than lenders, and reported borrowings are the smaller and less informative part of the picture. Lenders and rating analysts are therefore advised to read trade payables and all non-current obligations next to borrowings, because

covenants and screens built on debt alone miss most of the claims on these firms. Investors may treat a label of low or nil borrowing with caution, as nearly half of the firm-years report no long-term borrowing while payables remain large.

Suppliers are the stakeholder most exposed. Under Section 43B(h) of the Income-tax Act, 1961 [7], amounts due to micro and small enterprises are deductible only when paid within the statutory limit, so restaurant companies that depend on supplier credit now face a direct tax cost of delay. For society, the working capital of restaurant chains is in effect carried by their suppliers, and the cost of late payment falls on smaller enterprises where payables are owed to them. Separate disclosure of lease liabilities, and of payable ageing by supplier size, is suggested to regulators as a low-cost safeguard.

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