

Asian Corporate Bond Market – A comparison with India

This Report covers the prevailing scenario of the Asian Corporate Bond Market (CBM) covering bonds issued in domestic currency. The study takes a closer look at the size, issuances and market depth of the CBM. In addition, secondary market turnover ratio along with credit spreads for select countries have been included.

The objective of the report is to evaluate India's position in the corporate Bond market viz-a-viz other Asian countries. The countries covered are China, Hong Kong, Japan, South Korea, Malaysia, Philippines, Indonesia, Singapore, Thailand and Vietnam. Data from "Asian Bonds Online", SEBI, FIMMDA and RBI has been used here. As far as possible we have tried to match the concepts and definitions used by "Asian Bonds Online" to calculate the numbers for India.

We also tried to analyse the data provided by "Bank for International Settlements" (BIS) on corporate bonds outstanding. It is to be noted that the data from "Asian Bonds Online" and "BIS" could not be reconciled and therefore should be viewed accordingly. The analysis in this report has been carried out using data from "Asian Bonds Online" and not from "BIS".

Country-wise composition of corporate bonds as per "Asian Bonds Online" is detailed below:

- **China:** Includes bonds issued by state-owned and private corporate entities, and also include medium-term notes, commercial paper, and bonds issued by financial institutions.
- **Hong Kong:** Includes bonds issued mainly by private corporate entities.
- **Indonesia:** Comprises of bonds issued by both public and private companies, including financial institutions.
- **Japan:** Comprises bonds issued by both public and private companies, including financial institutions. *However, the bonds issued by state-owned entities are categorised as government bonds.*
- **South Korea:** Bonds are classified into special public bonds, financial debentures, and private corporate bonds. Also includes equity-linked securities and derivatives-linked securities. *Some state owned agencies form part of the government bond market.*

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- **Malaysia:** Comprise of private debt securities issued by corporations.
- **Philippines:** Includes bonds issued mainly by publicly-listed companies, including financial institutions. *The bonds issued by state-owned entities are categorised as government bonds.*
- **Singapore:** Corporate bonds comprise private debt securities issued by corporations
- **Thailand:** Bonds issued mainly by private corporate entities. *The bonds issued by state-owned entities are categorised as government bonds.*
- **Vietnam:** Bonds issued by both public and private companies, including financial and non-financial institutions. *The bonds issued by state-owned entities are categorised as government bonds.*

Size of the Corporate Bond Market:

Asian markets have managed to come a long way in building their local currency bond market with their development becoming a priority for these countries in the aftermath of region's financial crisis two decades ago.

The Asian corporate bond market (excluding India) has reached a size of \$ 4.9 trillion as of end Mar'18 (\$ 5.3 trillion if India is included), a 13% growth over Mar'17. The increase can be ascribed to the growth in the bond markets of all the countries included in the study except Hong Kong that witnessed a decline of around 6%.

The table below sets out the outstanding corporate bonds for all the select countries:

Table 2: Outstanding Local Currency Corporate Bonds

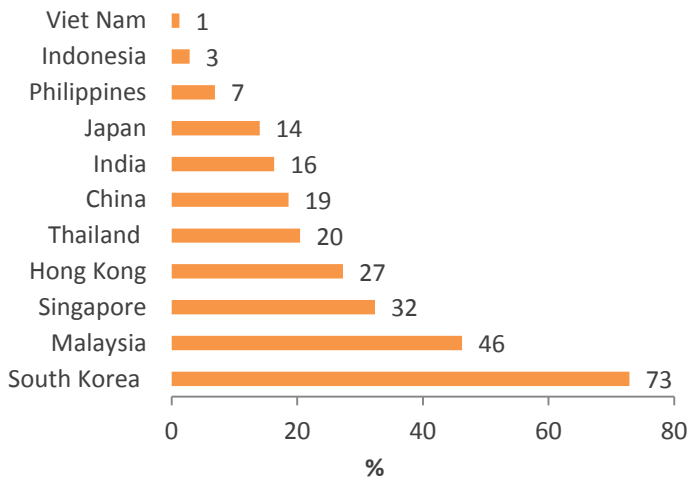
USD billion	Mar'17	Mar'18
China	2,146	2,511
South Korea	1,093	1,195
Japan	703	723
India	371	422
Malaysia	125	164
Singapore	102	112
Thailand	85	103
Hong Kong	101	94
Indonesia	24	29
Philippines	19	21
Viet Nam	2	3

China dominates the market (excluding India), accounting for around 51% of the total outstanding bonds followed by South Korea (24%). Japan has the third largest share in Asian bond market with 15% of the total outstanding bonds as end of Mar'18. Malaysia stands fourth in the group with a 3% share. The share of Singapore, Thailand and Hong Kong in the total Asian bond market has been in the range of 2%.

Indonesia, Philippines and Vietnam have much smaller bond markets compared with the other countries with total outstanding bonds amounting to Rs \$29bn, \$21bn, \$3bn respectively.

In India, the corporate bond market is around \$ 422 bn as of end Mar'18, lower than the size of China, South Korea and Japan.

Corporate Bond Market's Depth (As of Mar'18)



Market depth as indicated by the ratio of outstanding bonds as a percentage of GDP shows that South Korea has the largest corporate debt market at 73% of GDP followed by Malaysia (46%), Singapore (32%), Hong Kong (27%) and Thailand (21%). The Chinese corporate bond market is relatively smaller at 19% of GDP.

In India, corporate bond market is 16% of the GDP, higher than that of Japan at 14% of GDP, Philippines (6.9%), Indonesia (2.9%) and Vietnam (1.3%).

The immediate goal should be to take this ratio up to the level of China and Thailand at around 20% and the effort of the government is to achieve the same.

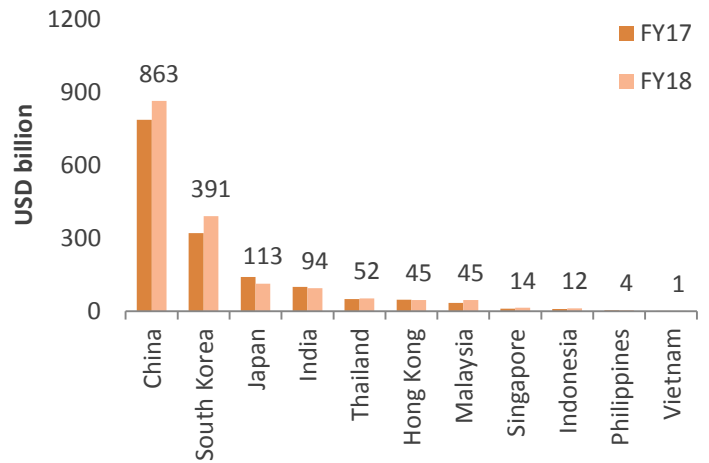
Bonds Turnover Ratio ¹

Bonds turnover ratio is the ratio of the volume of bonds traded in the secondary market to the total outstanding bonds. As a corollary, the higher the turnover ratio, the more active the secondary market is.

Indonesia has the most active secondary market trading for corporate bonds at 0.87, followed by Hong Kong (0.68), South Korea (0.44) and Thailand (0.40). Japan has the lowest corporate bond turnover ratio compared with its peers at 0.16.

In case of India, the turnover ratio for corporate bonds at 0.70 is higher than all the countries except for Indonesia, reflective of buoyancy in the secondary market.

Issuances Scenario



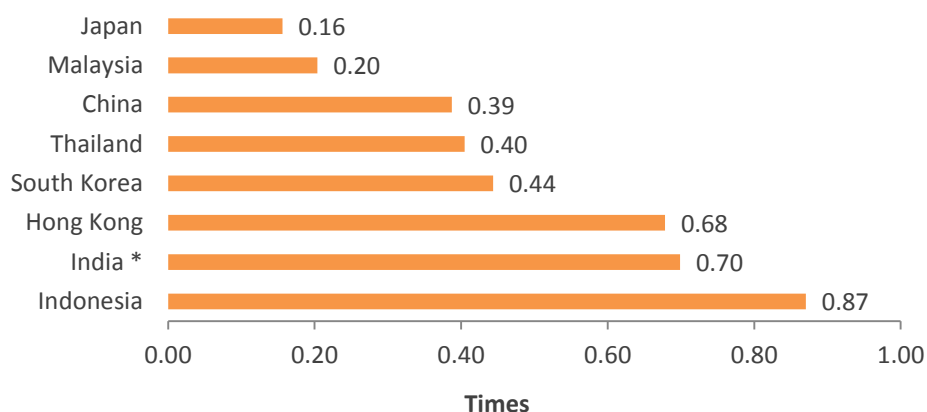
China and South Korea, the largest market players in the Asian Corporate Bond market witnessed increased debt issuances by 10% and 22% respectively during FY18 compared with the corresponding period last year. Debt issuances in Malaysia, Singapore and Indonesia grew in the range of 25-35%.

Japan has witnessed the most significant contraction of around (-) 19% in debt issuances from \$140 bn to \$113 bn followed by Hong Kong (-4%)

India, too, registered a contraction of 6% from \$100 bn to \$94 bn during the period.

¹ **Bonds Turnover ratio** = Value of bonds traded during the year/ average amount of bonds outstanding
(Value of bonds traded for Asian economies = summation of trading volume from Jan'17 – Dec'17)

Bonds turnover ratio (2017)



*Data for India pertains to FY18 and data for other countries pertains to calendar year 2017.

Corporate bond Spreads²

Table 3: Corporate Bond Spreads (AAA – 5 year; bps)

China	Spread	South Korea	Spread	Malaysia	Spread	India	Spread
30-Sep-16	59.5	Mar-17	29	Mar-17	50.5	31-Mar-17	96
30-Sep-17	111	Mar-18	28	Mar-18	83.9	28-Mar-18	30

The spread of yields of the 5 year AAA rated bonds over government securities widened in case of China and Malaysia while it has narrowed by 1 bps in case of South Korea from 29 bps to 28 bps during Mar'17 – Mar'18. In case of China, the spread has widened (by 51.5 bps) from 59.5 bps to 111 bps during 30th Sep'16 to 30th Sep'17.

For Malaysia, the spread of yields of the 5 year AAA rated bonds over government securities have widened (by 33.4 bps) from 50.5 bps to 83.9 bps during Mar'17 to Mar'18.

In case of India, the spread of yields of the 5 year AAA rated bonds over GSecs has narrowed by (-)66 bps from 96 bps as on 31st Mar'16 to 30 bps as on 28th Mar'18.

Table 4: Corporate Bond Spreads (AAA-10 year; bps)

Malaysia	Spread	India	Spread
Mar-17	52.8	31-Mar-17	93
Mar-18	78.2	28-Mar-18	46

In case of Malaysia, the spread of yields of 10 year AAA rated paper over GSecs has widened from 52.8 bps to 78.2 bps during Mar'17- Mar'18 while for India it has narrowed by (-47) bps for the 10 year AAA paper over GSecs from 93 bps to 46 bps.

² Corporate bond spread = Local currency corporate bond yield – Local currency benchmark government bond yield

Concluding Remarks:

India has a fairly developed corporate bond market when compared with some of its Asian peers.

- *The economy stands fourth in the group with an 8% share (\$422 bn) in the total outstanding bonds as of end Mar'18.*
- *The bond market depth for India at 16% of GDP is higher than that of Japan at 14%, Philippines (6.9%), Indonesia (2.9%) and Vietnam (1.3%). It is however considerably low compared with South Korea (73%), Malaysia (46%), and Singapore (32%).*
- *India stands fourth in terms of corporate bond issuances amounting to Rs \$ 94 billion in FY18.*
- *India has a buoyant secondary market second to Indonesia with bonds turnover ratio at 0.70.*
- *The spread of the 5 year AAA rated bonds over GSecs at 30 bps is much lower than the prevailing spreads in China and Malaysia.*