

Bond market activity

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Contact:

Madan Sabnavis

Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Shivam Kaushik

Associate Economist
Shivam.Kaushik@careratings.com
91-22-67543408

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com
91-22-67543515

In India, the traditionally preferred source of raising capital has been banks. Recently, appetite for bank credit has been dampened due to the quantum of NPAs in the banking system. Concerns about asset quality are leading banks to be more cautious in their lending. To bridge this gap, corporate entities, especially those with higher ratings, have turned partly to the bond market for financing their capital needs.

The foregoing analysis looks at the growth of this segment in the first five months of the year and juxtaposes the same with the government bonds issued during the same period – both centre and states.

Total Bond Issuances in the Corporate Debt Market

Table 1 indicates that the total issuances in the corporate bond market in April – Aug 2017 were 6.8% higher than the corresponding period in the previous year. However, growth rate has slowed down in the last two years during this period. Private placements grew by 12.7% while public issuances decreased by (-) 77.8%. Public issues, it may be noted, are a relatively small part of the market and constitute 1.3% of the total during this period.

Table 1 : Corporate Bond Issues (April - August) (Rs lkh cr)

RS (Cr.)	Total	Growth Rate (%)
FY16	2.17	138.0
FY17	2.59	19.4
FY18	2.77	6.9

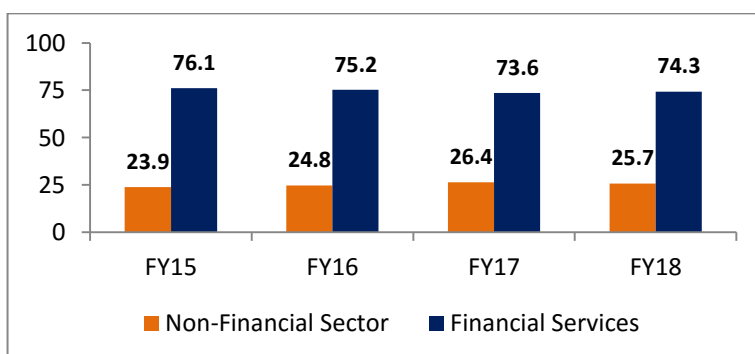
Source: SEBI

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Debt Raised: Sector Wise

Since FY15, the majority of debt raised in the bond market was by the Financial Services sector, and has remained relatively stable moving between 73.4% and 76.1%.

Graph 1: Share of Financial and Non - Financial Sector in Bond Issuances



Source: CMIE

Table 2: Industry Wise Classification of Bond Issuances (April – August)

Share in total (%)	FY15	FY16	FY17	FY18
Non-Financial Sector	23.9	24.8	26.4	25.7
Manufacturing	3.1	4.4	4.4	5.5
Mining	0.0	1.2	0.3	0.0
Electricity	2.9	6.7	6.5	2.9
Other Services	10.4	6.3	12.3	14.2
Construction	7.5	6.2	3.0	3.1
Financial Services	76.1	75.2	73.6	74.3

Source: CMIE

Table 2 reveals that the financial services segment has continued to dominate the market. Further, the ‘other services’ category was the second highest contributor to debt issuances. The borrowing from manufacturing and infrastructure has been relatively low. This corroborates with the economy level data which shows low capacity utilization in manufacturing and declining private investment in infrastructure.

The GSec Market:

The central government’s debt issuance remained largely stable for the period April to August at Rs 3.04 lakh cr in FY15, Rs 2.95 lakh cr in FY16 and Rs 2.85 lakh cr in FY17. In FY18 it was Rs 2.94 lakh cr. The states issued debt has been growing for the corresponding periods, increasing from Rs 0.73 lakh cr, Rs 0.91 lakh cr, Rs 1.05 lakh cr and Rs 1.37 lakh cr.

Table 3: Issue of GOI and State Bonds (April – August) (Rs lakh cr)

	GOI	States
FY15	3.04	0.73
FY16	2.95	0.91
FY17	2.85	1.05
FY18	2.94	1.37

Source: RBI

Table 3 shows the issuance of debt by the central and state governments through the entire financial year for FY15 to FY17. Here, the central government’s debt issues have remained in the range of 5.8 – 5.9 lakh cr while state government debt issue has increased Rs 2.41 lakh cr in FY15 Rs 3.82 lakh cr in FY17.

Table 4: Total Issuance for the Financial Year (FY15 - FY17)

	GOI	States
FY15	5.92	2.41
FY16	5.85	2.95
FY17	5.82	3.82

Source: RBI

Comparison of Corporate Bond Market and GSec Market:

Table 5: GSec Market and Corporate Debt Issues (April – August) (Rs lkh cr)

	Corporate Debt	GOI	States
FY15	0.91	3.04	0.73
FY16	2.17	2.95	0.91
FY17	2.59	2.85	1.05
FY18	2.77	2.94	1.37

Source: RBI, SEBI

For the period April–August since FY15, central government debt issues have remained greater than corporate debt issue. A sharp increase in FY16 closed the gap between the issuance of corporate bonds and central government securities from Rs 2.13 lkh cr in FY15 to Rs 78,090 cr in FY16. This gap has closed further and stood at Rs 17,189 cr in FY18. State issued securities have been increasing but remain much smaller than the corporate debt market. In FY18, the states issued debt was just under 50% of the corporate debt issuances.

Table 6: Comparison of GSec Market and Corporate Debt Issues (Rs lkh cr)

	Corporate Debt	GOI	States
FY15	4.14	5.92	2.41
FY16	4.92	5.85	2.95
FY17	6.70	5.82	3.82

Source: RBI, SEBI

In FY17, the Corporate Debt Market issuances were greater than that of the central government. The corporate debt market raised RS 88,262 Cr more than the central government in FY17. States led issues have continued to remain lesser than those issued by corporates and in FY17, corporates issued 2.88 lkh cr more than state governments.

Conclusions:

- Corporate debt issuances were higher than central government issues in FY17. With government exercising over control of its borrowing given the FRBM norms, there will be a tendency for corporate bond issuances to move ahead of the government securities market.
- Within the corporate debt market, the financial sector has accounted for three-quarters of all issuances since FY15.
- We find that the Services sector as a whole has contributed to over 85% of issues within the corporate debt market since FY15.

CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
 Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
 Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
 E-mail: care@careratings.com | Website: www.careratings.com

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