CARE Ratings
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# CARE Ratings' Corporate Bond Monitor (CCBM)

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CARE's Corporate Bond Monitor captures the movement of corporate bond yields in the secondary markets and thereby draws inferences on the prevailing risk scenario for these securities and the cost of funds for corporates over time.

- The movement of Corporate Bond Yields shows that yields have declined over the years - from an average 9.44% in 2014 to 8.54% in 2016 and 8.30% in 2017, indicative of the steady decline in cost of funding via bond markets for corporates in recent years, in line with movements in policy rates which has declined over the years. Repo rate have been cut by 50 bps since April'16 (6% in Dec'17), while average corporate bond yields have fallen by 61 bps since then and bank base rate has seen a 35 bps decline (to 9.15% in Dec'17).

- The comparison of *'banks average returns on advances '* (which is the average interest rate paid by borrowers) with the movement in *'average yields of corporate bonds',* shows that the average corporate bond yields are lower than the interest rates paid by borrowers from banks. This implies that the debt markets are more responsive to the interest rate changes. To put it in perspective, the *banks return on advances* was 10.42% in FY12 which declined to 8.86% in FY17, while *average corporate bond yields* was 9.74% in FY12 and 8.40% in FY17.

| | FY17 | FY16 | FY15 | FY14 | FY13 | FY12 |
|---|---|---|---|---|---|---|
| Banks Return on advances | 8.86 | 9.35 | 9.78 | 9.98 | 10.33 | 10.42 |
| Corporate Bond Yield (Avg) | 8.40 | 8.75 | 9.12 | 9.59 | 9.40 | 9.74 |

- The movement of the index of Corporate Bonds spread over GSecs, shows that the spread of corporate bonds over G-Secs narrowed further in December'17. The weighted average spread in December'17 (across maturities) at 1.09% was 11 bps lower than that in November'17 and 51 bps lower than that in October'17. The lower spread indicates that higher rated corporates viz. the AAA and AA rated bonds (which account for 70% and 21% respectively of total traded volumes) can borrow at finer spreads over GSecs. It is also reflective of the improvement in risk perception of the higher rated corporate bonds.

- The average spread of corporate bond yields over G-Secs in December'17 differed across tenures. It was lower for the longer duration tenures. For the tenure of 15 years and 10 years it was 0.58% and 0.57% respectively, 1.40% for 5 years and 1.20% for 1 year.

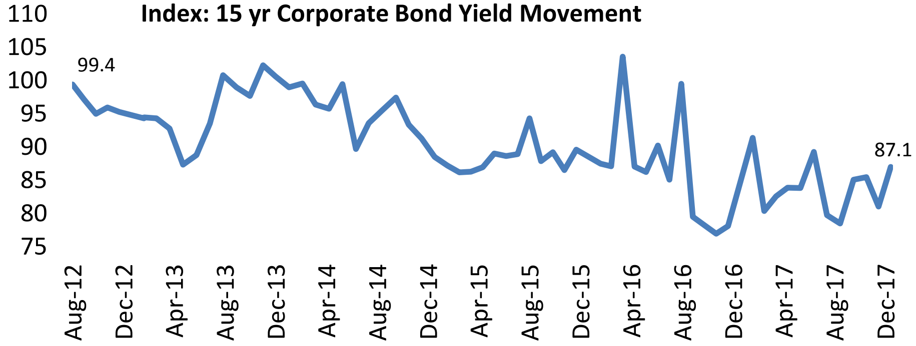
- The movement of yield spread of corporate bonds over G-Sec has seen considerable fluctuations in the ongoing fiscal. An increase in yield spread during a month was seen to be invariably followed by a decline in the subsequent month. It rose from 1.3% in April’17 to 1.9% in May’17 and declined in the next 2 months to 1.35% and 1.25% respectively. It thereafter rose to 2.04% in August’17 and fell to 1.41% in September’17 to rise again to 1.60% in October’17 and fell thereafter to 1.20% in November’17 and 1.09% in December’17.

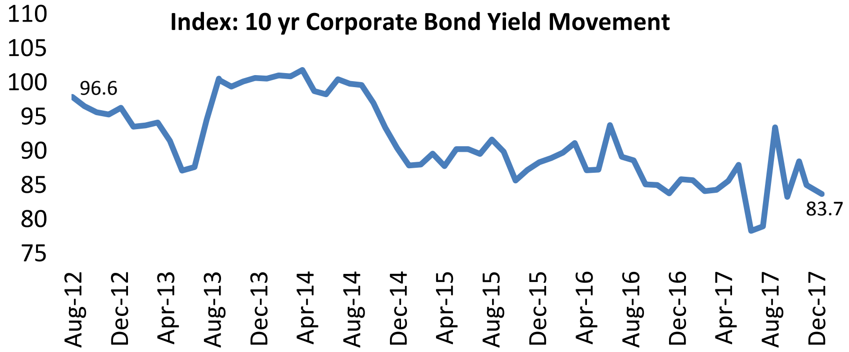
- The average spread of corporate bonds over G-Sec in 2017 (Apr-Dec) at 1.50%, is the highest since 2011. The average yield spread has seen a sustained increase since the last 4 years (Apr-Dec) rising by 90 bps during FY14 to FY18.

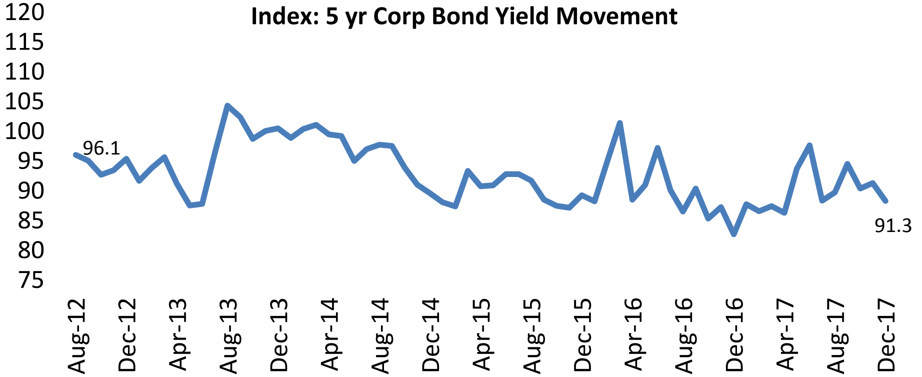
- In terms of traded volume, the 15 years corporate bonds accounted for 4%of the aggregate trades during Apr- Dec’17. The 10 years, 5 years and 1 year bonds accounted for 9%, 11% and 13% of the trades respectively.

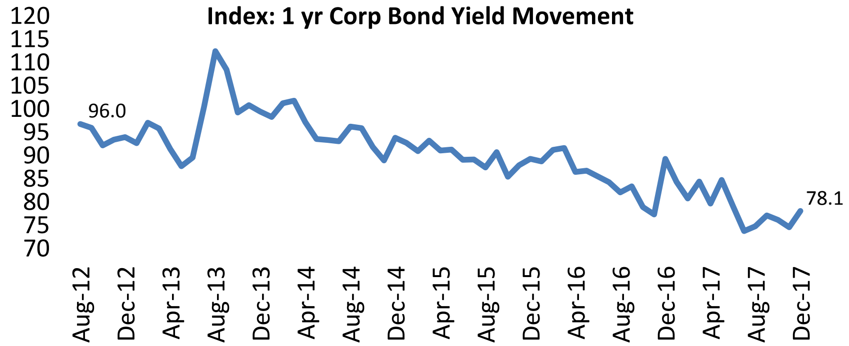
- Total traded volumes of corporate bonds stood at Rs.10.04 lakh crore in the 9 months period Apr-Dec’17, 47% higher compared with the Rs.6.83 lakh crore traded in the corresponding period last year.

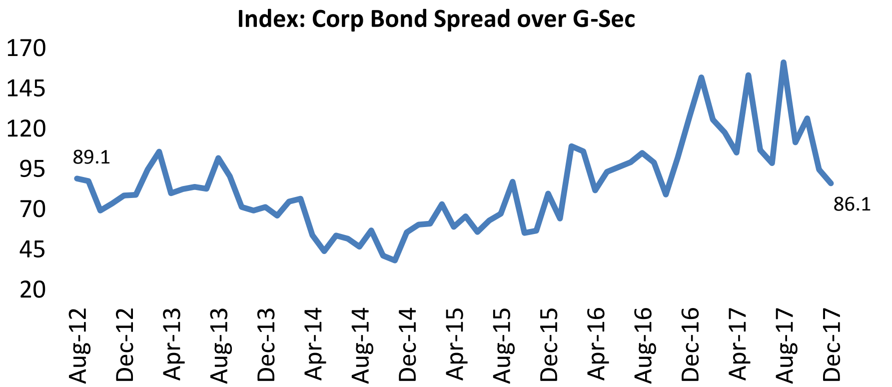
# CARE Ratings Corporate Bond Monitor (CCBM)

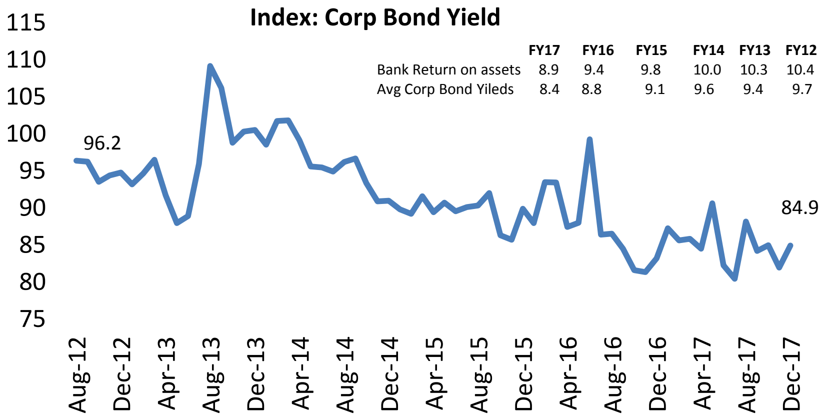



| | FY17 | FY16 | FY15 | FY14 | FY13 | FY12 |
|---|---|---|---|---|---|---|
| Bank Return on assets | 8.9 | 9.4 | 9.8 | 10.0 | 10.3 | 10.4 |
| Avg Corp Bond Yileds | 8.4 | 8.8 | 9.1 | 9.6 | 9.4 | 9.7 |

**CARE Ratings Methodology:**

**A. CARE Corporate Bond Index**

The construction of the indices is based on the Laspeyres Method, where the current value is compared with the base year value (2011-12). The base year selected for these Indices has been set at 2011- 2012 which coincides with the base year used for the calculation of other economic variables such as GDP, IIP and WPI.

CARE Corporate Bond Index defined as

$$\textit{Index} = \frac{(\textit{Average yield in the Current Month}\ ) * 100}{(\textit{Average yield for}\ \ 2011-12\ )}$$

where,

- ***Average yield in current month*** is calculated as summation of 'Daily Traded Volume * Yield' across all trades during the month ÷ 'Cumulative Traded Volume in the month'.
- ***Average yield for*** 2011-12 is the average of monthly yield from Apr'11 to Mar'12.

**B. CARE Corporate Bond Spread Index (Spread over G-sec)**

$$\textit{Index} = \frac{(\textit{Current Spread Value}\ ) * 100}{(\textit{Average Spread Value of}\ 2011-12\ )}$$

where,

- ***Current spread value*** is calculated as 'Cumulative Traded Volume* Spread over G-sec ' across all trades during the month ÷ 'Cumulative Traded Volume'
- ***Average spread Value*** of 2011-12 is the average of monthly value from Apr'11 to Mar'12.

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