CARE Ratings' Corporate Bond Monitor (CCBM) – December'18

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CARE Ratings' Corporate Bond Monitor captures the movement of corporate bond yields across various maturities in the secondary markets and thereby draws inferences on the cost of funds for corporates given that the yields in the secondary market are a key determinant of the cost of borrowing in the primary markets

The corporate bond yield movement is based on the secondary market trade data from FIMMDA.

Key findings

- There has been an increase in the secondary market yields of corporate bonds in the current financial year, which consequently has led to a rise in the cost the fresh funds raised from the corporate bond markets. The corporate bond yields in the secondary markets across all maturities and rating categories during Apr-Dec'18 averaged 9%, which is the highest in the last 4 years and 70 bps higher than that in FY18.

- The average secondary market yields of corporate bonds (across maturities and rating categories) have risen by 27 bps in the first 9 month of the ongoing fiscal year. There has been a notable and near sustained increase in secondary markets yields of corporate bonds since Nov'17, with average yields in Dec'18 being 71 bps higher than year ago levels.

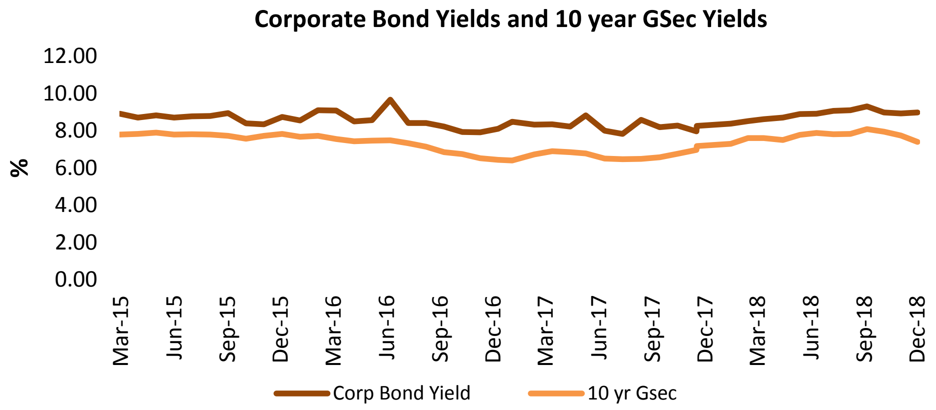
- On imputing the likely cost of fresh funds raised from corporate bond markets this fiscal year, arrived at by adding the corporate bond spread in secondary markets with the GSecs yields the indication is that the cost of borrowing for AAA rated companies rose by 44 bps during Apr-Oct'18 from 8.35% to 8.86%. It has moderated in the subsequent months and was 34 bps lower at 8.52% in Dec'18.

- The rise in corporate bond yields this fiscal year can be ascribed to the interest rate hikes by the RBI (by 50 bps since Apr'18), the rise in GSec yields and the lower demand for corporate bonds from banks and mutual funds with the advent of the NBFC liquidity crisis. The NBFC segment, comprising housing finance companies (HFC), financial services and term lending dominate the corporate bond markets with 70% share.

- Although yields continue to be at elevated levels, the increase in the secondary market corporate bond yields in the last 3 month has been tempered. The secondary market corporate bond yield during

Oct-Dec'18 was stable at 9%, 30 bps lower than the yield in Sep'18. This can partly be attributed to the lower supply of fresh securities. Corporate bond issuances this fiscal (Apr-Nov) at Rs. 2.65 lakh crores has been 37% lower than year ago issuances.

- The movement of corporate bond yields and GSec yields shows a similar trajectory. Both corporate bond yields and the benchmark 10 year GSec yields rose during the first 6 months of the fiscal and declined thereafter. While the average monthly GSec yields rose by 58 bps during the period, the average secondary market corporate yields rose by 61 bps.



- In Dec'18, the yield of corporate bonds across different (residual) maturities viz. 15 yrs, 10 yrs , 5 yrs and 1 year declined from month ago levels. The average yield of corporate bonds (calculated as the weighted average secondary market yield multiplied by volume) with residual maturity of 15 years and 5 years declined by 50 bps and 80 bps respectively, while that of bonds with 1 year residual maturity fell by 10 bps.

- The average yield in Dec'18 of corporate bonds with residual maturity 15 years (at 8.6%) and 10 year (9.0%) has been lower than that of bonds with 5 years maturity (10.7%).

- The corporate bond spread (all maturities and credit ratings) over GSecs widened to a 16 month high in Dec'18. At 180 bps it was 40 bps higher than the spread in Nov'18 and 60 bps more than in Sep'18.

- Despite the recent increase in yields, corporate bond yields (all maturities) continue to be lower than that during FY12-15. Corporate bond yields have declined over the years from an average 9.59% in FY14 to 9.00% in FY19 (Apr -Dec'18), reflective of the overall decline in cost of funding via bond markets for corporates in recent years.

Year	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19*
Avg Corp Bond Yield (%)	9.74	9.40	9.59	9.12	8.75	8.41	8.30	9.00

*Avg yield for Apr'18 and Dec'18

- The comparison of the average of the median 'Marginal Cost of Funds-based Lending Rate' (MCLR) of Scheduled Commercial Banks (SCBs) in FY19 with the movement in 'average secondary market yields of corporate bonds', shows that the bank lending rate has been lower than the corporate bonds yields in the secondary market in the first 9 months the current financial year (Apr-Dec'18) by 41 bps, unlike the 2 preceding years where the bank rate was higher that corporate bond yield. With the secondary market yields determining the rate of interest paid by corporates for fresh funds raised, it thus follows that the borrowings from the corporate bond markets have gotten costlier compared with borrowings from banks.

Year	FY17	FY18	FY19*
Bank MCLR	9.16	8.39	8.59
Corporate Bond Yield (Avg)-Secondary Market	8.41	8.30	9.00

* Bank MCLR and Corporate Bond Yield for Apr-Nov'18

- Total traded volumes of corporate bonds stood at Rs.41,417 crore in Dec'18, notably lower (58%) than the volume of corporate bonds traded in Sep'18.

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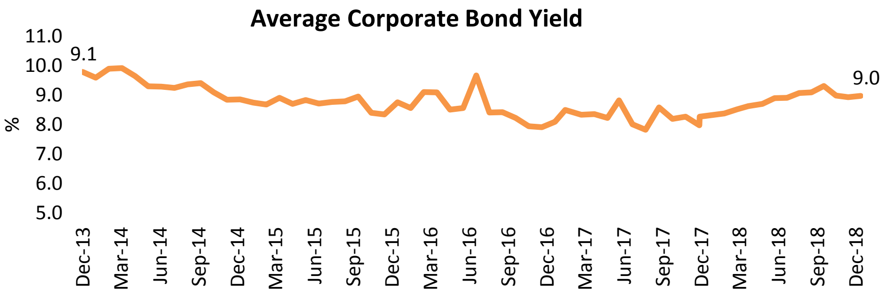

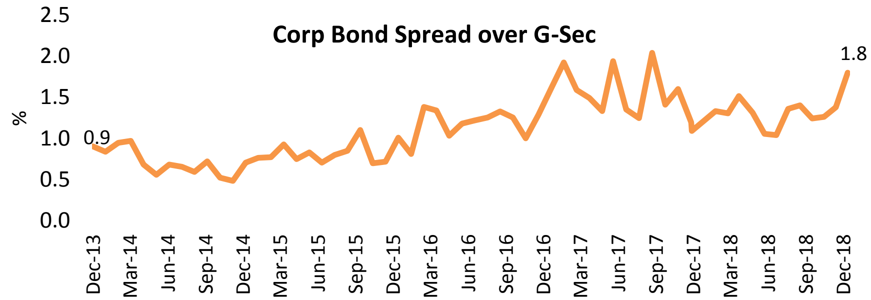

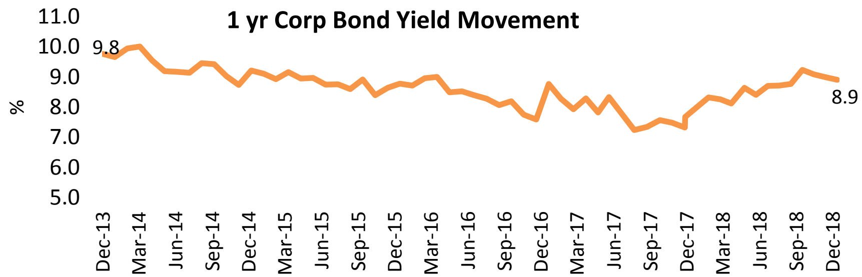

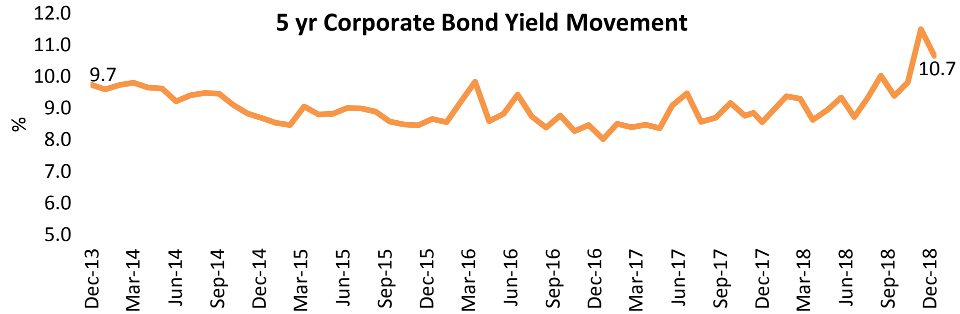

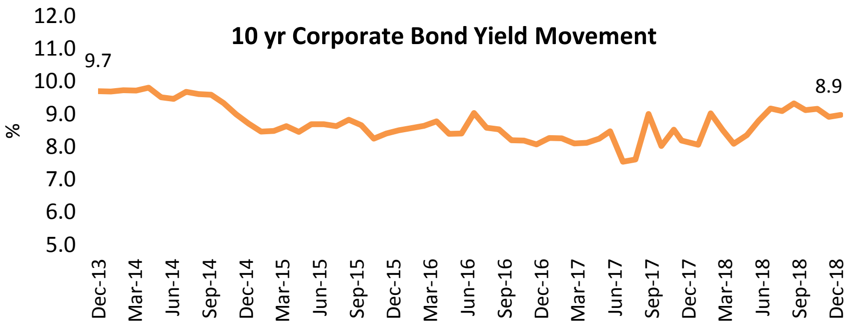

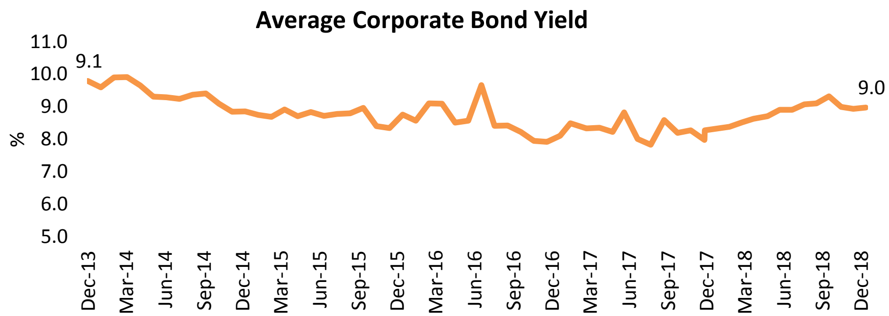

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