

Corporate Bond Market: FY18

This Report aims to cover the scenario in the corporate bond market covering both private placements and public issues for the period 1st April'17- 31st March'18.

The analysis focuses on instruments issued and amount raised by the corporates. The study also sets out the industry-wise and issuer-wise issuances during the period and cost of issuance faced by the top 10 issuers. Data from 'Prime Database' has been used here.

The corporate bond issuances aggregated to Rs 6.1 lkh cr during Apr'17-Mar'18. Of the total amount raised, 99% of the total corporate bond issuances were through private placements. Therefore, there is continuation of preference for private placements. In terms of number of issuances, a total of 2,225 instruments were issued, of which 2,217 were by way of private placements and remaining 8 by way of public issuances.

The table below sets out the list of industries that have raised funds from the bond market during 1st Apr'17- 31st Mar'18:

Table 1: Top 10 Industry-wise issuances

Industry	Issue Amount (Rs crs)	% share in total issuances
Banking/Term Lending	176,914	29.0
Financial Services/Investments	146,135	23.9
Housing Finance	117,031	19.2
Power Generation & Supply	41,952	6.9
Roads & Highways	31,225	5.1
Diversified	25,800	4.2
Housing/Civil Construction/Real Estate	22,861	3.7
Telecommunications	9,860	1.6
Textiles	4,086	0.7
Travel/Transportation/Courier(Passenger/Cargo)	4,045	0.7

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In terms of industries that have raised funds from the bond markets, Banking/Term lending accounted for the largest share of issuances at around 29%, followed by financial services (23%) and Housing finance (19%). Together issuances accounted for 72% of the total for the financial sector. This is followed by power and roads in the infra space with share of 12%. If housing/real estate and telecom are also included, the share would go up to 18%. Hence, two broad sectors accounted for 90% of such issuances.

Table 2: Top 10 issuer-wise issuances

Issuer (lkh crore)	Issue amount (Rs crs)	% share in total issuances
Housing Development Finance Corp.Ltd.	42,250	6.9
Rural Electrification Corp.Ltd.	34,043	5.6
National Bank For Agriculture & Rural Development	32,445	5.3
Power Finance Corp.Ltd.	28,372	4.7
LIC Housing Finance Ltd.	25,937	4.3
National Highways Authority Of India	24,894	4.1
Indiabulls Housing Finance Ltd.	21,069	3.5
Reliance Industries Ltd.	20,000	3.3
Indian Railway Finance Corp.Ltd.	15,050	2.5
Shriram Transport Finance Co.Ltd.	13,512	2.2

Of the total Rs 6.1 lkh cr raised by the companies through corporate bonds, Housing Development Finance Corp Ltd accounted for the highest share in issuances (7%), followed by Rural Electrification Corp.Ltd (6%), National Bank for Agriculture & Rural Development and Power Finance Corp.Ltd. (5%). **Hence a little over 40% of the issuances in terms of value were accounted for by the top ten companies.**

Table 3: Weighted average coupon rate faced by top 10 issuers

Company	Issue Amt (Rs crs)	Weighted average coupon rate (%)
Housing Development Finance Corp.Ltd.	42,250	7.2
Rural Electrification Corp.Ltd.	34,043	7.1
National Bank For Agriculture & Rural Development	32,445	7.5
Power Finance Corp.Ltd.	28,372	7.5
LIC Housing Finance Ltd.	21,264	7.5
National Highways Authority Of India	24,894	7.0
Indiabulls Housing Finance Ltd.	19,001	8.1
Reliance Industries Ltd.	20,000	7.0
Indian Railway Finance Corp.Ltd.	15,050	7.5
Shriram Transport Finance Co.Ltd.	13,012	8.2

Note: In case of step up bonds, simple average has been taken to arrive at one single coupon rate. The amount in table 2 might vary from the amount in Table 3 as amount for zero coupon debentures has not been included in few cases.

The weighted average cost for the top ten borrowers varied from 7-8.2% during the year. The rates however would vary depending on the tenure of the debt raised as well as the rating of the instrument. As interest rates tended to increase during the year with the GSec rates going up, those issuances during the latter part of the year would have been reckoned at a higher cost.

Interestingly the base rate of banks came down from 9.425% to 9.05% during this period, while the overnight MCLR was down by 10 bps from 7.98% to 7.88%.

Distribution of issuances based on credit rating

Table 4: Distribution of issuances based on credit rating

Credit rating	Issue Amt (Rs cr)	% share in total issuances
AAA	377,116	64.7
AA+	98,703	16.9
AA	45,590	7.8
AA-	29,783	5.1
A+	9,366	1.6
A	7,587	1.3
A-	2,531	0.4
BBB+	3,304	0.6
BBB	1,746	0.3
BBB-	3,564	0.6
BB	1,672	0.3
B	708	0.1
BB+	486	0.1
B-	155	0.0
BB-	139	0.0
B+	129	0.0
C	4	0.0
Total	582,582*	

*While the total issuances stood at Rs 608,500 cr, the ratings in Prime Database are only available for an aggregate amount of Rs 5,82,582 crore.

- Of the total Rs 5,82,582 cr rated by the credit rating agencies, around 64.7% of the issuances have been assigned AAA, followed by AA category with 29.8%, Therefore, around 94.5% are rated AA and above.
- Around 3.3% was A rated paper while 1.5% was in the BBB bracket.
- The interesting thing here is that a little over Rs 3000 cr or 0.7% of the total issued was sub-investment grade.

How has bank credit grown during this period?

Sector-wise information on bank credit is available for February 2018. On a y-o-y basis, i.e. Feb 2018 over Feb 2017, within manufacturing, banks cut back on their exposures to infrastructure whose share was -65% in incremental credit. The share of metals was also negative. It was positive for food products, engineering, textiles, leather, wood, auto, construction etc.

Concluding remarks

1. The corporate bond market is still dominated by private placements.
2. The financial sector and infra industries account for around 90% of total issuances.
3. Top 10 companies account for around 40% of total issuances.
4. Almost 95% have ratings of AA and above.

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