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Wed, Oct 08 2014. 09 27 AM IST

Narendra Modi cutting red tape set to spur dollar bond issuances

Standard Chartered, the top underwriter for India’s overseas debt, predicts as much as a 30% surge in issuance

Standard Chartered predicts issuance could reach $18.7 billion compared with $14.4 billion in 2013. Photo: Bloomberg

Mumbai: The top underwriter for India’s overseas debt predicts as much as a 30% surge in issuance as Prime Minister **Narendra Modi** cuts red tape, encouraging offerings by power and infrastructure companies.

State-owned **NTPC Ltd**, India’s biggest electricity producer, and **Power Finance Corp.** plan to raise funds abroad, after local companies sold a record $15.7 billion of bonds in 2014 amid the lowest costs in at least nine years. **Standard Chartered Plc**, the biggest arranger in 2014, predicts issuance could reach $18.7 billion compared with $14.4 billion in 2013.

Modi has expedited environmental clearances for almost 300 projects since he took office in May and vowed to make it easier to do business in India. He plans to allow more overseas investment in roads and ports, and last month won more than $53 billion of funding pledges from China and Japan to boost infrastructure in Asia’s third-biggest economy, which ranks 85 among 148 nations, according to the World Economic Forum.

“Strong infrastructure companies from India are going to get good responses from fixed-income investors as the underlying sentiment is very supportive for India,” Kaushik Rudra, the Singapore-based global head of credit research at Standard Chartered, said in a phone interview on Tuesday. “There are no short-term risks from the domestic factors, which is a good sign.”

Dollar yield

The average yield on dollar-denominated bonds of Indian companies fell to a record low of 4.37% on 29 August, and has slumped 126 basis points this year to 4.44% as of 6 October, JPMorgan Chase and Co. indexes show. A similar measure for Asian notes declined 51 basis points.

Standard and Poor’s last month raised its outlook on India’s sovereign rating to stable from negative, citing the Modi-led government’s “willingness and capacity to implement reforms necessary to restore some of India’s lost growth potential.”

NTPC has sent requests for proposals to banks to sell dollar-denominated bonds, while Power Finance appointed Barclays Plc, Standard Chartered and SBI Capital Markets Ltd as lead managers, people familiar said this week.

Rural Electrification Corp., India’s second-biggest issuer of rupee-denominated bonds this year, has sought the central bank’s approval to raise as much as $1 billion through overseas bonds and loans, according to finance director Ajeet Kumar Agarwal. The state-owned company plans to use the proceeds to increase power-production capacity, he said.

Improved ‘perception’

“We see an improvement in perception for Indian credit among overseas investors and lenders,” New Delhi-based Agarwal said in a 22 September interview. “We should be able to convert that into an advantage when we borrow.”

Rural Electrification last sold dollar bonds in 2011, when it raised $500 million through five-year notes at 4.25% coupon, data compiled by *Bloomberg* show. NTPC, which issued $500 million of notes due October 2022 in 2012 at 4.75%, hasn’t specified the amount it currently plans to borrow.

GMR Infrastructure Ltd, the operator of Delhi and Hyderabad airports, has hired banks for its first dollar bond sale, according to a person familiar with the matter. **Tata Communications Ltd** and **Tata International Singapore Pte Ltd** are among other Indian companies looking to raise money overseas.

Bharti Airtel Ltd, India's largest mobile-phone carrier, and Oil and Natural Gas Corp. Ltd (ONGC), the nation's biggest state company by market value, are the leading borrowers this year, accounting for almost 32% of the total issuance.

Infrastructure segment

"Demand for funds from the infrastructure segment is the strongest," D.R. Dogra, managing director in Mumbai at CARE Ratings, said in a 1 October telephone interview. "The sector had been sluggish for quite some time."

Modi raised foreign investment ownership caps in defense and railways, and pledged to revive India's manufacturing to reduce its reliance on imports. His government plans to increase the use of renewable sources to provide power to all households in the country by 2019, even as demand in Asia's second-biggest energy consuming nation surges.

Record low yields may deter investors from aggressively buying Indian debt, which may slow issuance, according to Fisch Asset Management Ltd.

'Too much optimism'

"There may be a bit too much of optimism a bit too soon, which is why the drop in yields," Philipp Good, who oversees $2.5 billion of global bonds at Fisch Asset in Zurich, said in a 1 October telephone interview. "We believe investors may exercise some restraint for sometime now."

India's economy expanded 5.7% from a year earlier in the April-June quarter, the most in about two years, official data show. The Reserve Bank of India (RBI) said in a 30 September report that annual growth may quicken to 5.5% in the year ending March 2015 and to 6.3% the year after.

Global investors have bought about $20 billion of local bonds this year betting the government will meet its target of cutting its budget deficit to a seven-year low by March.

The yield on the benchmark 10-year sovereign notes denominated in rupees has slid 38 basis points, or 0.38 percentage points, this year to 8.45% on Tuesday, according to data compiled by *Bloomberg*. The rupee's 0.6% advance in 2014 is the best performance in Asia. The currency rose 0.3% to 61.4050 per dollar on Tuesday.

"Fundamental factors have evolved for the better, making a case for investors to increase Indian credits," Walter Rossini, who oversees over $200 million of Indian assets at Aletti Gestielle SGR SpA in Milan, said by telephone on Tuesday. "There are committed efforts on core sectors like infrastructure and power which bring positive sentiment for the short and medium term. We believe the yield compression is not over yet, and that will encourage the Indian borrower." **Bloomberg**