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## Rajan's Last Hurrah Set to Cut Rupee Bond Cost for Riskier Firms

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India's corporate bond market could well become a little less exclusive thanks to a parting gift from outgoing central bank boss Raghuram Rajan, who has just handed over control to his deputy Urjit Patel.



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Rajan last month introduced measures to encourage “riskier firms” to access bond markets, including considering the use of corporate debt as collateral in its daily liquidity operations and boosting the amount of credit enhancement banks can provide for issuers. That could help transform a market where almost 80 percent of the 2.8 trillion rupee (\$42 billion) in domestic bonds issued this year are rated AA+ or higher by local assessors, data compiled by

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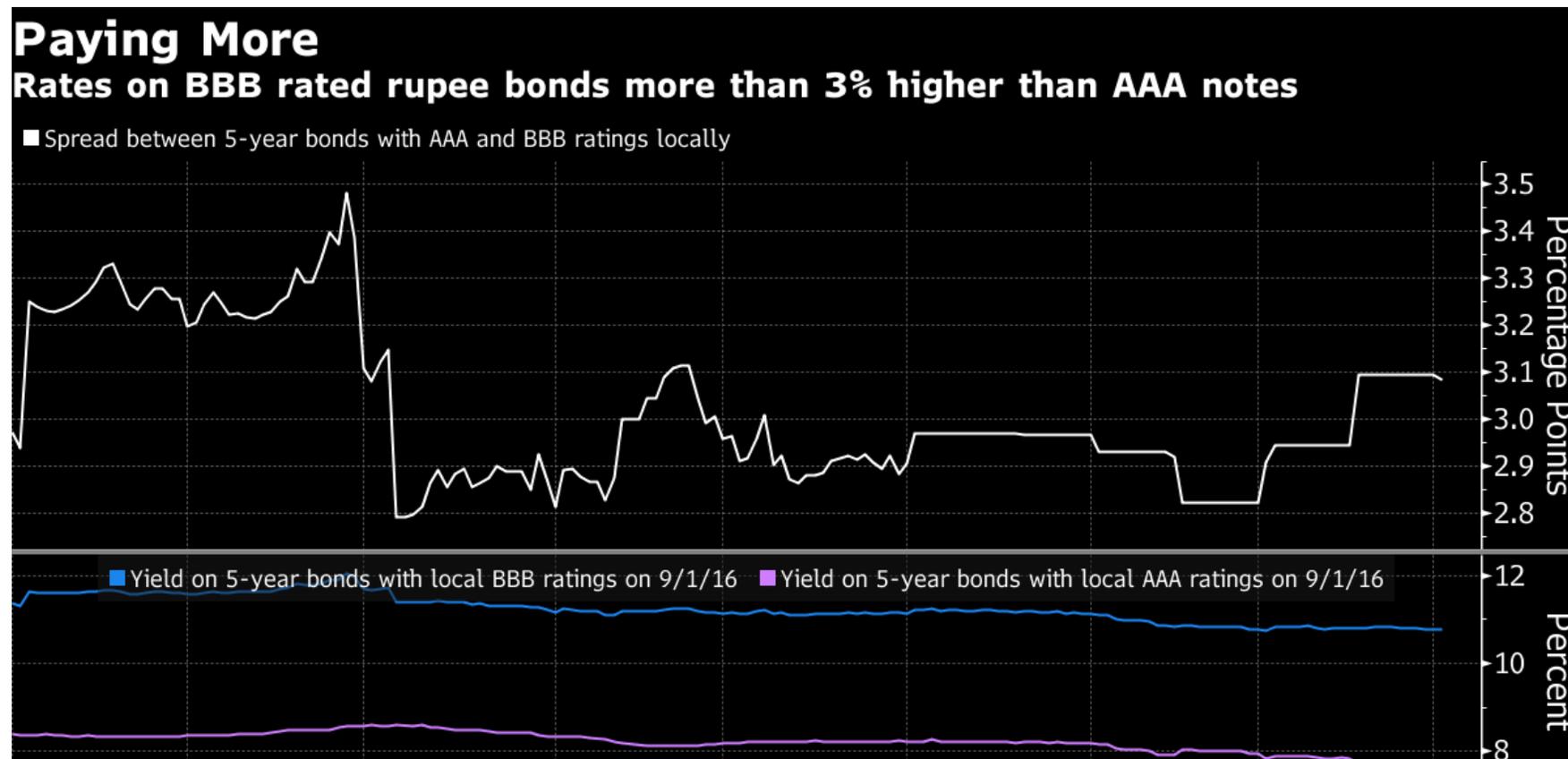


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the new rules for partial credit enhancement, helping provide easier and cheaper access to the bond market for project finance,” said Rajesh Mokashi, managing director at CARE Ratings. “The measures will increase liquidity and volumes in the market.”

Rajan's move could act as a spur to growth in the world's second-most populous nation, if it reduces the cost of building roads, ports and electricity projects. Patel faces [challenges \(http://www.bloomberg.com/news/articles/2016-08-22/rajan-s-successor-faces-these-key-challenges-as-india-rbi-chief\)](http://www.bloomberg.com/news/articles/2016-08-22/rajan-s-successor-faces-these-key-challenges-as-india-rbi-chief) at the RBI in guiding the fastest growing major economy,

such as cleaning up bad assets on lenders' balance sheets, reining in an inflation rate that's above target and ensuring the nation's currency remains stable.



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The average yield on five-year bonds that carry top credit ratings from local assessors has fallen 71 basis points in the year to Sept. 1 to 7.69 percent, while the equivalent rate on BBB securities has dropped 60 basis points to 10.77 percent over the same period, according to data compiled by Bloomberg.

“The reduction in interest rates will be at least 100 basis points for the lower-rated borrowers, and at least 250 to 300 for higher-rated companies, if the measures are implemented appropriately,” said Prabal Banerjee, chief financial

officer at conglomerate Bajaj Group.

The [package \(http://www.bloomberg.com/news/articles/2016-08-25/india-spurs-72-billion-local-company-bond-market-with-new-rules\)](http://www.bloomberg.com/news/articles/2016-08-25/india-spurs-72-billion-local-company-bond-market-with-new-rules) of changes being enacted by the RBI also includes permitting overseas investors to trade corporate bonds directly, removing a seven-day limit on repurchase agreements between firms and lenders, as well as allowing brokers to trade in the repo market.

India's central bank follows in the footsteps of counterparts such as the European Central Bank and the Bank of Japan, which already include corporate paper in their operations. However unlike his peers Mario Draghi and Haruhiko Kuroda, Patel will be more concerned with tackling an inflationary overshoot rather than deflationary pressures.

“The measures would ease funding costs in the banking system in case of system liquidity being negative, though they do little to change the current market fundamentals,” said Jayesh Mehta, country treasurer at the Indian unit of Bank of America Corp. “It will be a call that the next governor will need to take whether he wants corporate bonds as an additional tool for managing short term and overnight liquidity.”

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