# Market Linked Debentures: Supply side expansion favours growth prospects



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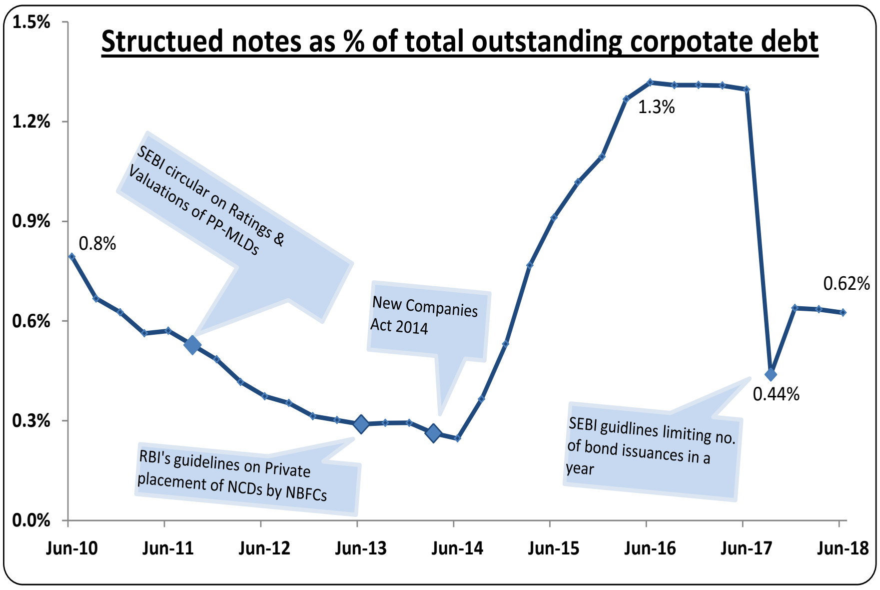
The financial year 2017-18 and 1st quarter of financial year 2018-2019 witnessed the accentuated drop in the structured notes market (i.e. MLDs and Structured Credit deals). As per SEBI data, the net outstanding structured notes declined from its peak of Rs.32,165 crore as on June 30, 2017 to Rs.17,734 crore as on June 30, 2018. The drop in the volume was primarily due to SEBI restricting issuers with a maximum of 17 ISINs maturing each financial year (12 for plain vanilla and additional 5 for structured products).



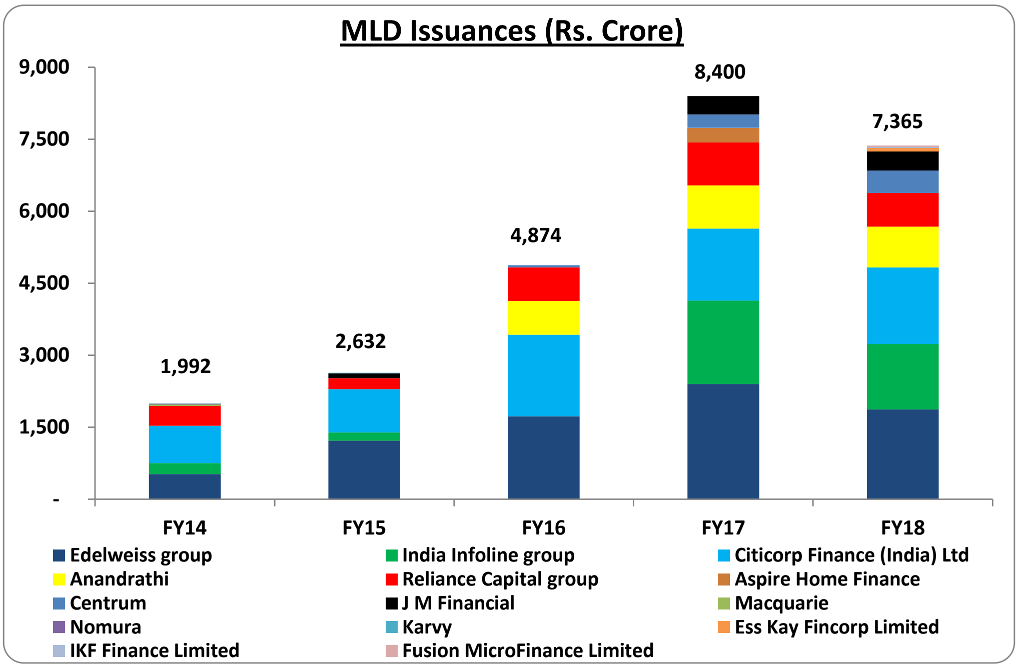

*Source: SEBI*

In line to the development in overall structured notes market, the MLD market in India witnessed a de-growth in FY18 as the issuances dropped from Rs.8,400 crore in FY17 to Rs.7,365 crore in FY18. The outstanding MLD portfolio stood at around Rs.9,600 crore in FY18 as compared to Rs.10,500 crore in FY17.

The average monthly borrowing via structured notes has been in the range of Rs.600 crore during FY18. Edelweiss group, Citi group and India Infoline group cumulatively accounted for 60% of new issuances in FY18. During FY18, new issuers such as Ess Kay Fincorp Ltd. *(rated CARE A-; Stable)*, IKF Finance Ltd. *(rated CARE A-; Stable)* and Fusion Microfinance Pvt. Ltd. *(rated CARE BBB+; Stable)* entered the MLD market with relatively smaller size of issuances.

CARE Ratings observes that the PP-MLDs, having fixed coupon payoffs, continued to gain prominence as compared to other structures over the last 2 years.

CARE Ratings' is of the view that the outlook of MLD market appears optimistic on account of continued robust demand from investors and **supply side expansions** (i.e. entry of new issuers). The supply side expansions in MLDs is happening because of 1) MLD's cost efficiency than plain vanilla NCDs, 2) compliance to proposed RBI/SEBI regulations *(i.e. requirements of borrowing via Capital market)*, 3) access to retail investors (HNIs/family offices), and 4) flexibility to issue additional 5 ISINs for structured products (on top of 12 ISINs for plain NCDs). **Despite regulatory constraints, CARE Ratings expects the issuances to be around Rs.9,000 crore in FY19 on account of expected entry of new issuers in MLD segment, with a growth of over 22% on yoy basis.**

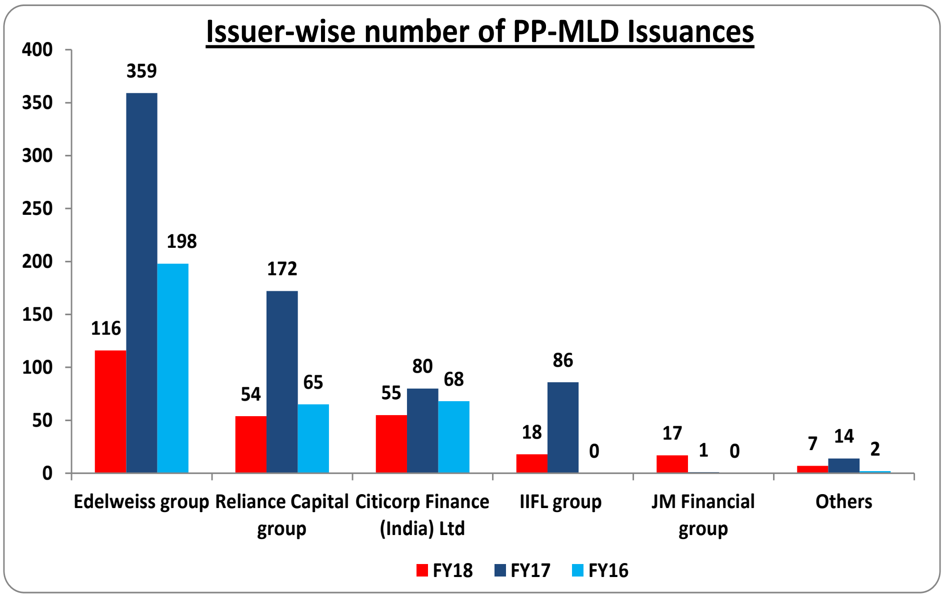


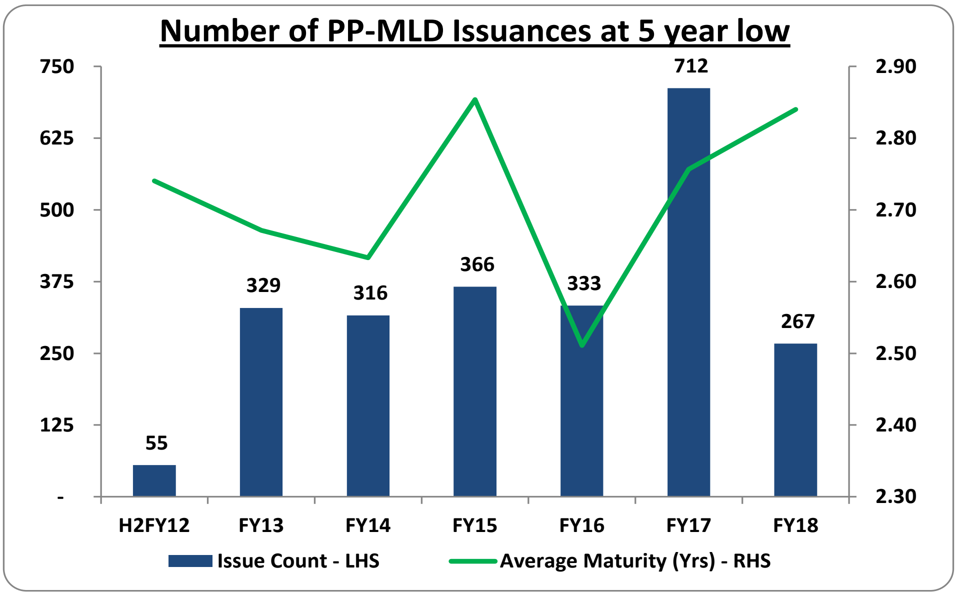

**Yearly PP-MLD issuances (i.e. number of term sheets) at its 5 year low**

MLDs are of two types i.e. principal protected (PP-MLD) and non-principal protected (NPP-MLD). Investor's inclination towards downside protection continued as the share of PP-MLDs accounted for 80% of the total issuances in FY18 (as compare to 83% in FY17).

PP-MLD segment witnessed more than 60% y-o-y drop in issuances (no. of issue) in FY18. The number of issuances in FY18 was only 267 as compared to 712 in FY17. Edelweiss group continued to be the lead Issuer as the their number of MLD issuances stood at 116 in FY18 as compared to 55 issuances by Citicorp and 54 issuances by Reliance Capital group. The average maturity of these structures has been

2.84 years in FY18 as against average maturity of 2.77 years in FY17. Issuers such as Edelweiss group, India Infoline Finance group & Reliance Capital group issued few MLD structures with underlying asset as G-Sec whereas NIFTY 50 was the preferred underlying reference index for majority of the issuances in FY18.




**Relatively volatile equity markets, capital protection along with competitive returns and cost benefits to issuers in rising interest rate scenario indicates positive outlook for the MLD Market. Also, the proposed RBI/SEBI frameworks on large corporate exposure, which requires large corporates to raise funds from corporate bonds market, may lead to new issuers entering the MLD market.**