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MARKET LINKED DEBENTURES: **Issuances at its all-time high**

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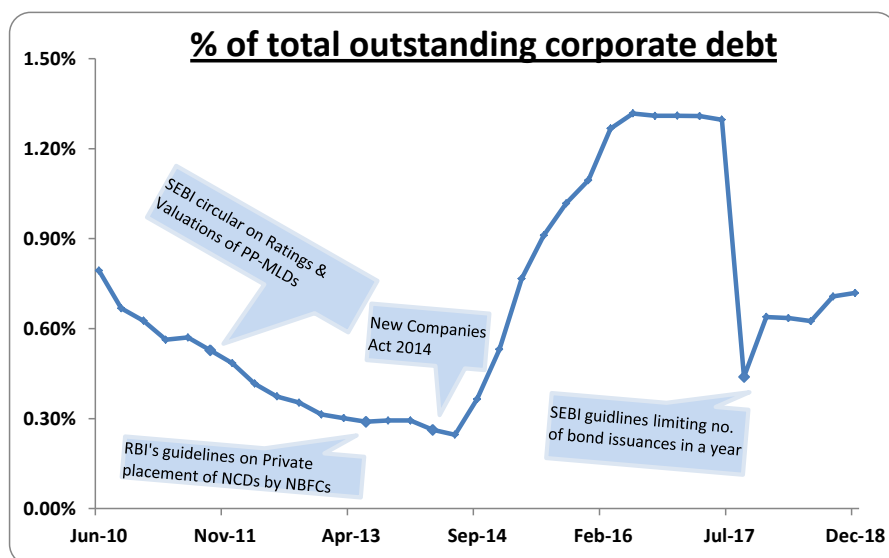
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The financial year 2018-19 (till date) witnessed recovery in growth of issuances of structured notes market (*MLDs and Structured Credit deals*) after the accentuated drop witnessed in last fiscal. Post declining to Rs.11,356 crore as on September 30, 2017 (from a peak of Rs.32,165 crore as on June 30, 2017); the net outstanding structured notes grew to Rs.21,191 crore as on December 31, 2018.



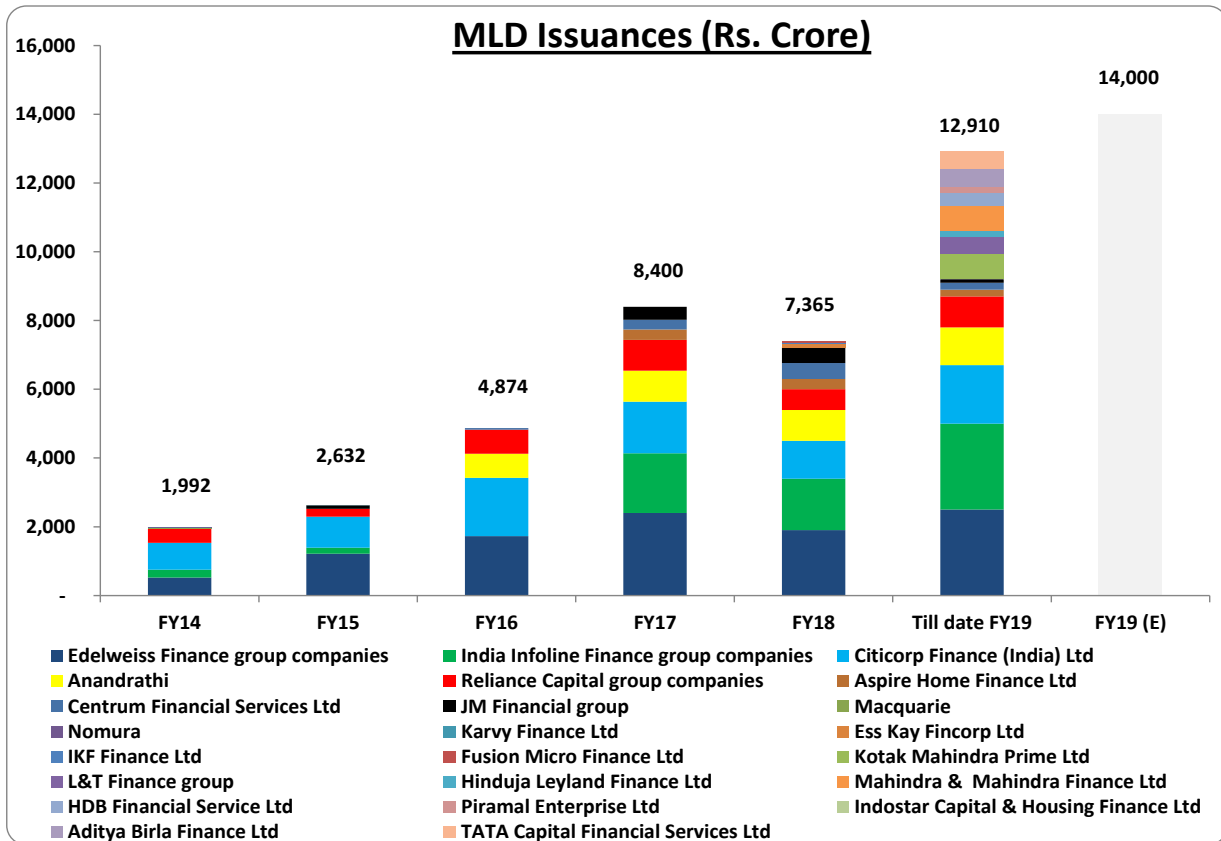
Source: SEBI

Raising fund via MLDs gaining prominence among NBFCs/HFCs

Amid IL&FS crisis and liquidity squeeze, to reduce higher dependence on short term funding (CP) from institutions such as mutual funds, 9 new companies across industries (NBFCs /HFCs /Corporates) have incrementally resorted to raising long term funds from capital market in the form of Market Linked Debenture (MLD, also known as Equity Linked Debentures (ELDs)). The borrowing via MLDs enables these issuers to 1) issue additional 5 ISINs apart from limit of 12 for NCDs in a year as per SEBI mandate, 2) comply to RBI/SEBI's guidelines on large exposures (25% of borrowing via Capital market), 3) diversify of borrowing profile (access of retail investors (UHNIs)) and 4) Bullet payment in MLDs as against NCDs annual/monthly coupon payments. This has led to robust growth in MLD issuances as it increased to Rs.12,910 crore in FY19 (till date) from Rs.7,365 crore in FY18. Despite this, the MLDs forms less than 1% of AUM of private wealth industry (*Top 25 companies AUM as per Asian Private Banker/Wealth Manager report*) in CY18 paving the way for huge growth opportunity in future.

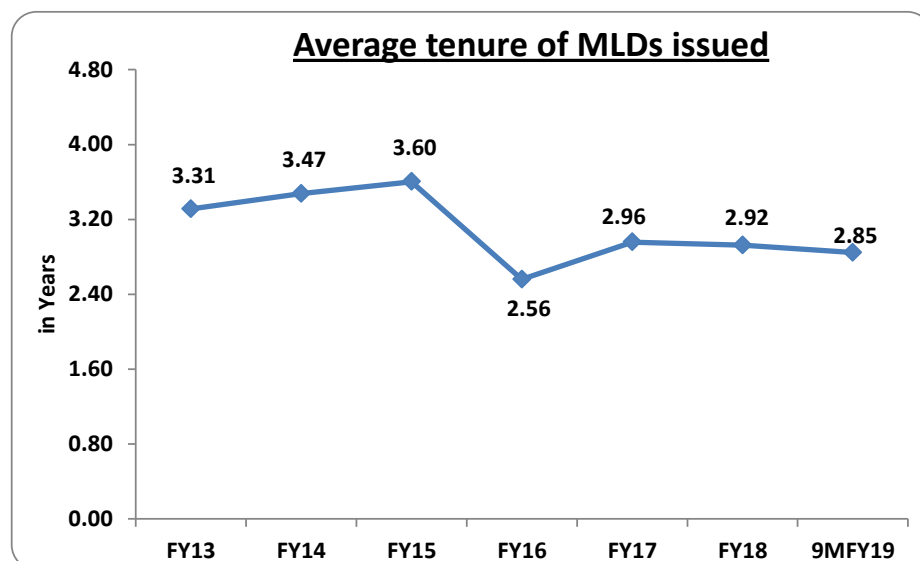
Overview of MLD Market

MLDs are of two types i.e. principal protected (PP) and non-principal protected (NPP). Investor's inclination towards downside protection continued supporting PP-MLDs share which accounted for ~95% of the total issuances in 9MFY19. The average monthly borrowing via PP-MLDs increased to ~Rs.1,000 crore in FY19 (till date) from ~Rs.600 crore in FY18.



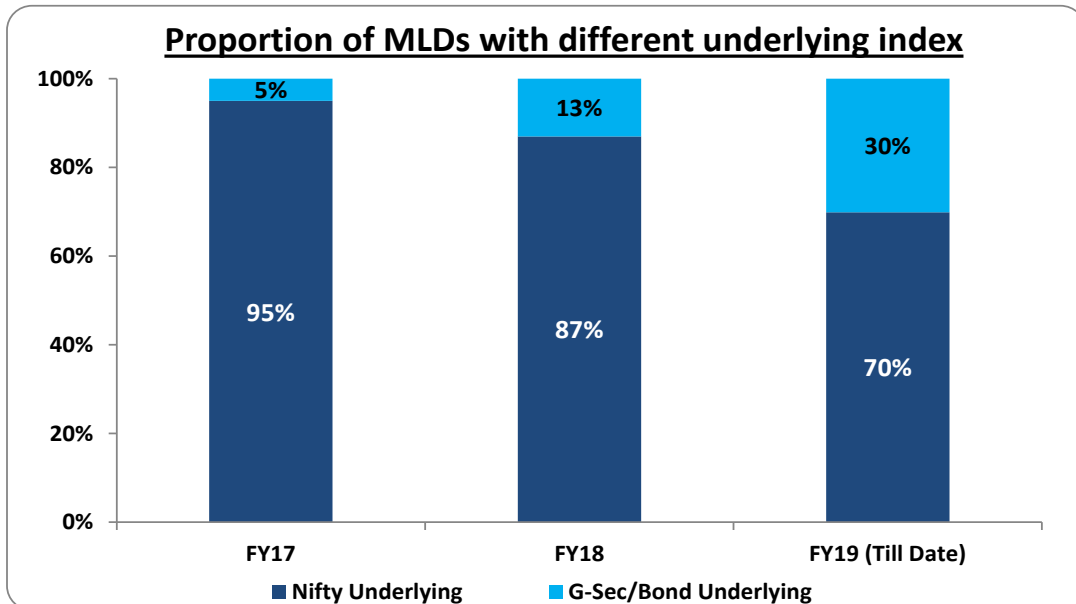
Source: CARE Ratings

The tenure of these MLDs ranges between 13 to 60 months depending upon issuers funding requirement. The average maturity of MLDs issued has been 2.85 years in 9MFY19 as against average maturity of 2.92 years in FY18.



Source: CARE Ratings

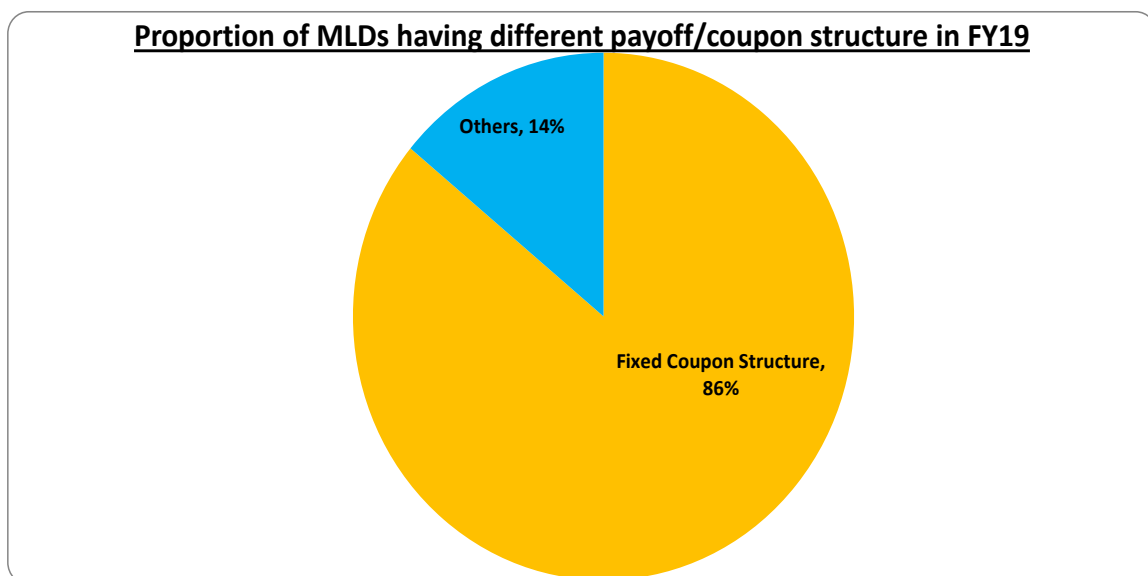
Apart from Edelweiss group, India Infoline Finance group & Reliance Capital group companies; new issuers such as Aditya Birla Finance, TATA Capital Financial Services, Mahindra & Mahindra Finance, L&T Finance group, Hinduja Leyland Finance, Trust Capital Services issued MLD structures with G-Sec as underlying reference index. Despite this, NIFTY 50 was the preferred underlying reference index for majority (63%) of the issuances in FY19 (till date). Centrum Financial Services, Kotak Mahindra Prime, Piramal Enterprise, HDB Financial Services were the new entrant within Nifty 50 as underlying reference index.



Source: CARE Ratings

The number of issuances with underlying G-sec increased significantly during the year as it accounted for 37% of total value in FY19 (till date) as compared to 5% of total value 2 years ago. CARE Ratings is of the view that the proportion of MLD having G-sec as underlying reference index will continue to grow at a healthy rate in FY20.

Also, structures having fixed coupon payoff are being highly preferred among investor as they are convenient to deal with. The share of MLD with fixed coupon payoff was 86% in FY19 (till date) as against 20-30% 3-4 years ago.



Source: CARE Ratings

