Corporate Debt Market

The corporate bond market has shown uneven trends over the last 5 years in terms of both primary issuances and secondary market trading. Table 1 indicates that while there has been an upward movement in total primary issuances, most of them were through private placements. The share of public issues was highest in FY12 at 12%, but has come down subsequently to 4.5% and 6.6% respectively in the next two time periods. Quite clearly there has been less confidence in having public issues, which too have mainly been those from public sector tax free bonds issuances. In FY13 for instance, there were 20 public issues of which 11 were tax free bonds, which accounted for 86% of the amount raised.

Relative to the corporate bond market, government borrowings in FY13 have been as high as Rs 7.35 lkh crore, of which Rs 5.58 lkh crore has been raised by the central government while Rs 1.77 lkh crore was borrowed by state governments in the same year. In case of the corporate bond market, primary issuances were Rs 3.78 lkh crore of which Rs 3.61 lkh crore were through private placements.

In **Table 1: Resources raised in the corporate bond market (Rs crore)**

	Public issues	Private placements	Total issuances
FY09	1,500	173,281	174,781
FY10	2,500	212,634	215,134
FY11	9,451	218,785	228,236
FY12	35,610	261,282	296,892
FY13	16,982	361,462	378,444
FY14 (April-Oct)	11,812	166,385	178,197

Source: SEBI

Data on distribution of private placements is available separately from RBI and the figures do not exactly match those provided by SEBI. However the data is useful in giving an idea of which sectors have been raising funds from this market. Private placements of debt have tended to be concentrated in the financial sector with the share being 61.9% in FY09, 63.1% in FY10, 71.7% in FY11, 74.4% in FY12 and 68.1% in FY13 (Table 2). This shows the preponderance of the market presently in this segment where money is being raised for on-lending. Direct borrowing by corporates in the non-financial segment is relatively low.

Table 2: Distribution of Private Placements of debt (% share in total)

	Private		Public	
	Financial	**Non-Financial**	**Financial**	**Non-Financial**
FY09	29.7	17.2	32.2	21.0
FY10	41.5	26.5	21.6	10.4
FY11	30.2	20.8	41.5	7.5
FY12	17.8	11.0	56.6	14.6
FY13	25.9	16.5	42.2	15.4

Source: RBI

What can be drivers of this market?

Table 3 provides information on certain factors that could prima facie be drivers of this market. Typically high growth in GDP, industry and bank credit could be factors affecting growth of this market. Bank credit is important as the issues through private placements are mainly funds raised by banks, FIs and NBFCs. This in turn gets used to finance credit demand. An additional variable that has been introduced is the borrowings through LAF window which indicates whether or not liquidity was tight.

Table 3: Factors affecting Growth in Corporate Bond Market

Growth in (%)	*Bond issuances*	*GDP*	*Industry*	*Bank credit*	*Repo borrowings (Rs lkh crore)*
FY09	50.1 (14.0)	6.7	2.5	17.5	33.27
FY10	23.1 (62.5)	8.6	5.3	16.9	0
FY11	6.0 (-46.7)	9.3	8.2	21.5	0
FY12	30.0 (-17.2)	6.2	2.9	17.0	19.73
FY13	27.4 (86.1)	5.0	1.1	14.1	20.63

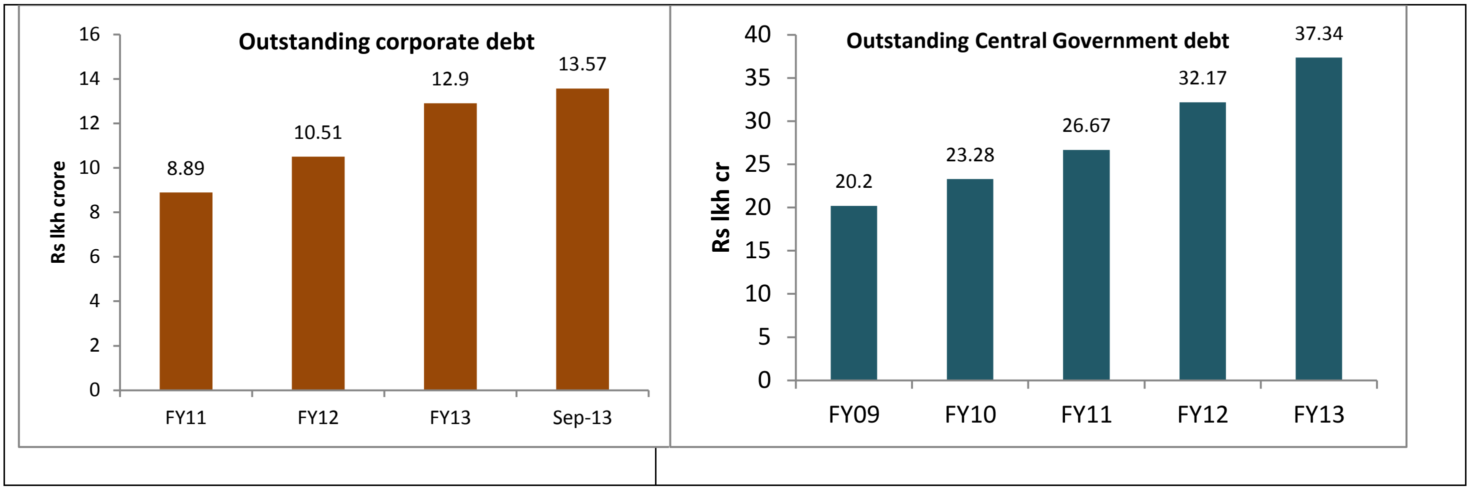
Source: SEBI, RBI

Figures in brackets indicate growth in private placement of non-financial companies

- Liquidity conditions do have a bearing on the amount of debt raised, and the component of private placements tends to increase. Repo borrowings through the LAF window is an indicator of liquidity in the market and in years when banks had to use this window were also the times when they took recourse to this mode of finance.
- Higher GDP and IIP growth as in FY10 and FY11 were not always associated with higher debt market issuances. On the other hand, lower growth in FY12 and FY13 did witness high growth in debt issuances. Interest rates had actually increased in FY12 and decline marginally in FY13.
- Similar tendencies were witnessed even in case of growth in credit where a strong relation with growth in debt issuances cannot be established.
- In terms of gross fixed capital formation, which is the closest indicator of demand for long term finance, there has been a continuous decline in this rate (as % of GDP) from 32.3% in FY09 to 29.6% in FY13. Quite clearly, once again the issuances cannot be linked with growth in capital formation.
- However, if the growth in private placements of non-financial companies is juxtaposed with this picture, then a different explanation can be obtained.
    - Interest rates had declined in FY09 and FY10 which led to an increase in the private placement of these companies. In the next 2 years, RBI had increased interest rates which had caused a drop in these placements. In FY13, there was a decrease in policy rates which probably caused private placements to increase. Therefore, it is possible to conclude that interest rates are a factor that drives debt issuances, though private placements are preferred for the relative ease.
    - Such raising of funds can be linked also with borrowings for meeting capital investment either due to internal considerations or policy changes.

Outstanding debt

Chart 1: Outstanding Debt: Corporate and Central Government



Source: SEBI and RBI

The Chart above tracks the outstanding corporate and central government debt for the last few years. The interesting takeaway is that while the multiple of central government debt outstanding to that of corporate debt was around 3 in FY10 and FY11, it came down to 2.5 times in FY13. This could be due to the control being imposed by the government on the growth of its debt given the compulsions imposed by the FRBM. Also the redemptions of government debt keep varying across the years which would be putting some constraints on the growth in debt.

Secondary market activity

Table 4: Growth in volumes in secondary market

Rx crore	*Total volumes*
FY09	148,166
FY10	401,198
FY11	605,274
FY12	593,783
FY13	738,632
FY14 (April-Oct)	641,357

Source: SEBI

Volumes traded in the secondary market have shown an increasing tendency which is a positive sign for the market. Though the average daily volumes traded are still relatively low at around Rs 2,885 crore in FY13 (assuming 256 trading days), it has shown improvement over volumes in FY09 which was less than Rs 600 crore a day. The GSec market for dated central government securities had comparable average daily volumes of around Rs 23,000 cr in FY13, from a little less than Rs 8,000 crore a day in FY09. There is clearly more liquidity in this market which can be taken to be a benchmark that the corporate bond market should look to achieve with the requisite support from the policy makers as well as interest from both investors and issuers.

A ratio that can be used as indicative of potential volume of trading in the secondary market is total volumes traded in a year to outstanding debt. In case of the GSec market it was 1.58 times in FY13 while for the corporate debt market it was 0.57 times. The focus must be on improving liquidity in this market as this is a prerequisite for more interest in the primary segment given that the tenure for such bonds is typically long and unless investors work on a longer time horizon, an exit option would not be easy from this market unless there is adequate liquidity.

Concluding remarks

- There has been some growth in the corporate debt market in terms of both primary issuances and secondary market activity.
- However, primary issuances are still dominated by the private placement segment and further; the financial sector is more active here.
- It is still not clear as to which economic indicator drives the primary issuances. While GDP and IIP growth are not very significant, the state of liquidity in the market as well as interest rates could explain part of the interest in this market.
- The GSec market still dominates the overall debt market and the volumes traded are still a little less than 10 times that in the corporate debt market.

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