Debt Market Review - August,2021

September 13, 2021 I Economics

Summary

- The market borrowings of the central government were lower in August than a month ago, while that of the state governments was higher.
- Borrowings by corporates have been higher during the month, indicative of a pick-up in activity levels. Corporate bond issuances in August were the highest since the start of FY22 and bank credit offtake also improved with the contraction in incremental offtake easing.
- While the cost of longer-term borrowing softened on a monthly basis for the state government, it rose for the central government.
- In case of corporates, the cost of short term as well as long term borrowings from the debt capital markets was lower in August'21 v/s July'21.
- The secondary market presented a mixed picture in August. While the yields of the benchmark central government security rose, corporate debt securities (short and long term) moderated from a month ago. Concerns that the persistent rise in global and domestic prices would prompt normalization of monetary policy by central banks pushed up yields of government securities. The higher demand from mutual funds pulled down yields of corporate bonds and commercial paper.
- The risk perception of corporate bonds eased in August'21 as seen from the narrowing of spreads between the GSecs and corporate bonds across rating categories.
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Table 1: Snapshot of the Indian Debt Market

Borrowings: Government						
	Unit	Apr-21	May-21	Jun-21	Jul-21	Aug-21
GSec	Rs. Crs	1,02,019	1,08,566	1,07,910	1,56,500	1,11,493
T-Bills	Rs. Crs	1,44,000	1,44,000	1,80,000	68,000	68,000
SDLs	Rs. Crs	9,150	50,550	84,850	49,300	60,650
Borrowings: Corporates						
	Unit	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Bonds	Rs. Crs	25,941	29,387	35,250	29,687	41,532
Commercial Papers	Rs. Crs	89,576	1,28,155	1,71,368	2,66,249	2,21,759
Incremental Bank Credit*	Rs. Crs	-91,136	-1,17,972	-1,09,695	-70,939	-52,046
ECB Registrations	$ Bn	2.37	0.74	1.48	3.43	

*over March

Average Yields in Primary Markets (%): Government					
	Jan-21	May-21	Jun-21	Jul-21	Aug-21
GSec	5.65	6.09	6.18	6.11	6.33
T-bills	3.45	3.51	3.61	3.54	3.45
SDLs	6.49	6.84	6.92	6.96	6.86
Average Yield in Primary Market (%):Corporates					
	Jan-21	May-21	Jun-21	Jul-21	Aug-21
Bonds	6.33	6.19	7.53	6.85	6.47
CPs	4.14	3.75	3.94	4.42	4.21
Bank - MCLR*	7.30	7.25	7.20	7.25	7.25
Average Yields in Secondary Markets (%)					
	Jan-21	May-21	Jun-21	Jul-21	Aug-21
10 yr GSecs	5.89	5.99	6.02	6.14	6.23
Corporate Bonds	6.32	5.91	6.25	7.13	6.37
Commercial Paper	3.42	3.46	3.50	3.47	3.35

* Median MCLR (1 year) for Scheduled Commercial Banks #Weighted Average Margin over 6-month LIBOR or reference rate for Floating Rate Loans

A. Primary Market

1. Government

1.1 Central government: Lower market borrowings

The Central Government raised Rs. 1.11 lakh crore in August'21 through the auction of dated securities (G-Secs), 29% lower than a month ago. The short-term borrowings by way of treasury bills (T-bills) in August'21 aggregated Rs.0.68 lakh crore, same as that in July'21. The total borrowings (long and short-term) at Rs. 1.79 lakh crore was Rs.0.45 lakh crore or 20% lower than the previous month.

In the first five months of FY22, the short-term as well as longer duration borrowings of the central government have been lower than year ago. The long-term borrowings at Rs.5.86 lakh crore have been 9% lower on a year-on-year basis, while the T-bill issuances at Rs.6.04 lakh crore were lower by 26%.

The cost of short-term borrowings eased while that of long-term funds rose for the central government in August'21 from a month ago. At 6.33%, the weighted average yield of long-term borrowings was 22 bps higher that July, while the weighted average yields of T-bills declined by 9 bps to 3.45%.

The yields (wt avg) of GSecs have risen by 23 bps during April- August'21 and that of T-bills was 4 bps higher from the levels seen in April'21.

1.2 State government: increase in borrowings amidst the softening of yields

Seventeen states and one UT together raised Rs.60,650 crore via the issue of State Development Loans (SDLs) in August'21, a 23% increase from the borrowings in July'21. During April-August of FY22, the borrowings by state governments at Rs.2.54 lakh crore have been 10% less than that in the same period of FY21 (Rs. 2.83 lakh crore). The lower borrowing this year can be attributed to lower expenditure being undertaken by the states relative to their revenues.

Among the states that borrowed in August, the market borrowings of Maharashtra were the highest (Rs. 8,000 crore), followed by Uttar Pradesh (Rs.7,500 crore) and West Bengal (Rs.6,500 crore). Kerala and Tamil Nadu borrowed Rs.6,000 crore each.

The cost of borrowing for the state governments eased in August'21 from that in the preceding month. The weighted average cost yields of state development loans (across states and tenures) issued during August at 6.86% was 10 bps lower than that in July. The yields (weighted average) on SDL issuances have risen by 15 bps during April-August'21. This increase can be put down to the lower demand for SDLs amid the huge supply of government securities and the build-up of inflationary pressures. Among the state's, the cost of borrowings was the highest for Andhra Pradesh (7.11%) followed by Telangana (7.10%). It was the lowest for Madhya Pradesh at 5.99%.

2. Bank credit growth repressed despite lower rates

Bank credit offtake though better than a year ago, remained subdued in August'21. As on 27 August'21, the outstanding aggregate bank credit amounted to Rs. 109 lakh crores, Rs. 0.52 lakh crores less than end-March'21. Incremental bank credit growth (over March) as on end August'21 was (-)0.5% v/s the (-)1.5% growth in the comparable period of August'20. The sustained contraction in (incremental) bank credit growth is reflective of the lack of demand for bank funds by businesses and households alike who are averse to add to their liabilities amid economic and business uncertainties. The wariness of banks to lend to certain segments on concerns over asset quality has also been an inhibiting factor to credit growth.

Table 2.1: Sector-wise Bank Credit - % Growth over March

	Apr-30 Jul FY21	Apr-30 Jul FY22
Agriculture	0.9	1.1
Industry	-3.0	-2.4
Services	-1.6	-0.2
Personal Loans	-1.1	0.1

Source: RBI

In terms of sectoral credit outflows, there has been growth in bank lending to the retail and agriculture sector in the first four months of FY22 (Apr-Jul), while that to industry and services continues to contract, weighing down overall growth in bank credit.

In terms of industry-wise deployment of incremental bank credit during July'21, 15 key industries/segments registered a growth in credit offtake, while 11 industries saw a contraction in bank credit growth as has been highlighted in Table 2.2 and 2.3 below.

Table 2.2 Industries that witnessed growth in bank credit offtake

	% Growth: As of 30 Jul'21 over end March'21
Mining and Quarrying	1.8
Paper and Paper Products	1.9
Wood and Wood Products	2.1
Construction	3.5
Petroleum, Coal Products and Nuclear Fuels	3.6
Vehicles, Vehicle Parts and Transport Equipment	4.8
Rubber, Plastics, and their Products	6.1
Power	0.1
Roads	0.2
Airports	1.2
Telecommunication	1.8
Ports	20.2
Railways (other than Indian Railways)	14.6
Textiles	0.4
Leather and Leather Products	0.7

Source: RBI

Table 2.3 Industries that witnessed contraction in bank credit offtake

	% Growth: As of 30 Jul'21 over end March'21
Food Processing	-1.1
Beverage and Tobacco	-5.8
Fertiliser	-18.3
Drugs and Pharmaceuticals	-2.7
Petro Chemicals	-8.4
Glass and glassware	-3.4
Cement and Cement Products	-12.9
Basic metals and metal products	-10.9
All Engineering	-1.8
Gems and Jewellery	-2.5

Source: RBI

The marginal cost of lending rate (MCLR) of scheduled commercial banks in August'21 continued to be around 5-year lows. The median 1-year MCLR of scheduled commercial banks in August at 7.25% was stable at the month ago levels.

There has been a gradual transmission of the policy rate cuts to bank lending rates over time. While the RBI has cut rates by 115 bps during Mar- May'20, the median MCLR (marginal cost of funds- based lending rate) of banks has been reduced by 97 bps over a span of 15-18 months.

At the bank group level, the median lending rates in August for public sector banks at 7.30% has been unchanged for three months. In case of private banks, the median MCLR in August at 8.23% was 2 bps lower than a month ago, while for foreign banks it rose by 1 bps to 5.86%.

The median 1-year MCLR of public sector banks in July was 93 bps lower than that of private sector banks and 144 bps higher than that of foreign banks. Public sector banks MCLR (median 1 year) has declined by 68 bps since April'20, while that of private sector banks has fallen by 79bps and that of foreign banks by 157 bps.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 7.99% in July'21 was 19 bps higher than a month ago. The WALR of public sector banks increased by 3 bps, while that of private banks and foreign banks rose by 36 bps and 21 bps respectively. The WALR of public sector banks at 7.69% in July was 95 bps lower than that of private sector banks.

3. Higher Corporate Bond Issuances alongside moderation in yields

The long-term fund raising by corporates from the bond market in August'21 was the highest since April'21. Corporate bond issuances during the month (as per provisional data from Prime Database) aggregated Rs. 41,532 crore, a 40% increase from the preceding month. Despite the increase, the bond issuances were lower than the same month of a year ago (by 11%).

99% of the corporate bond issuances in August'21 was through private placements.

Borrowings by corporates from the bond markets have been muted in the current financial year compared with year ago. During April-August of FY22, Rs. 1.62 lakh crore has been raised via corporate bonds which is 48% less than the borrowings of Rs.3.12 lakh crore in the same months of FY21. The higher borrowings in FY21 were primarily on account of the RBI's special liquidity measures viz. LTRO and TLRO[1] which prompted fund raising from the debt capital markets owing to the conditions associated with these liquidity measures.

- In terms of sectoral bond issuances, financial institutions i.e., financial service, banking, and housing finance accounted for 48% of the total issuances in August'21. Food processing, and the infrastructure sector (roads, oil exploration, telecommunication, power, and construction) were the other major borrowers accounting for 50% of the total issuance during the month (Table 3.2).
- 28% of the issuances were for tenures of 3 to 5 years, and 37% were for 5 to 10 years. 26% of the borrowings had the maturity profile of over 10 years.
- 75% of the total issuances in August'21 carried a credit rating of AAA and 19% of the issuances belonged to the AA category (AA+, AA- and AA). A category and below rated issuances accounted for 6% of the issuances.
- The overall **cost of borrowings** for the corporates via corporate bonds in August'21 eased from a month ago and was at three months low. The weighted average yield of corporate bonds (across tenure and rating category) at 6.47% was 38 bps lower than July'21. The weighted average yields have fallen by 106 bps in the last two months.
- In terms of credit rating category, the yields for the AAA rated bonds at 6.70% was 66 bps lower than that of AA rated bonds.

Table 3.1: Corporate Bond Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% change
August	0.47	0.42	-11
April-August	3.12	1.62	-48

Source: Provisional Data from Prime Database

Table 3.2: Sector-wise Corporate Bond Issuances – August'21

Industry	Aug-21 (% share)
Financial services & Housing Finance	24
Banking/Term Lending	22
Food & Food Processing	19
Roads & Highways	15
Oil exploration/drilling/refining	6
Telecommunication	5
Power Generation & Supply	3
Housing/Civil Construction/Real Estate	3
Housing Finance	2
Others	1

Source: Provisional Data from Prime Database

Table 3.3: Tenure-wise Bond Issuances – August'21

Tenure	August-21 (% share)
1-3 years	8
3-5 years	28
5-10 years	37
> 10 years	26

Source: Provisional Data from Prime Database

Table 3.4: Ratings of Bond Issuances – August'21

Rating	August'21- % share	Wt Avg Yield -%
AAA	75	6.7
AA	14	7.4
Aggregate		**6.5**

Source: Provisional Data from Prime Database

[1] LTRO- Long Term Repo Operations and TLTRO- Targeted Long Term Repo Operations

4. Commercial Paper Issuances: Yields at elevated levels

Short term borrowings of corporates via commercial paper issuances in August'21 totalled Rs. 2.22 lakh crore (as per RBI data). Although notably higher on a year-on-year basis (71% increase over Aug'20), it was lower than the preceding month (by 17%). 97% of the issuance in August'21 carried a credit rating of A1+ (very high degree of safety or lowest risk)

Commercial paper issuances during April-August of FY22 amounted to Rs. 8.8 lakh crores which is 49% higher than that in the same period of FY21 (Rs. 5.9 lakh crores).

The commercial paper issuances in August'21 was a mix of ultra-short-term issuances as well as the those with longer tenures as highlighted in Table 4.2. 32% of the issuances were ultra-short term in nature (tenure of 7 to 10 days) which can be attributed to the funds raised by NBFCs towards investments in IPO (initial public offerings). Businesses were also raising funds to meet their working capital requirements – 36% of the issuances were for tenures of 90 to 365 days.

In August'21, the highest share of commercial paper issuances was by financial services, banking and housing finance segment (63% of total issuances). Entities in the oil exploration and diversified segment accounted for 10% and 5% of the issuances respectively during the month (Table 4.3)

The **cost of borrowing** via commercial papers in August moderated from the 13- month high touched in July. Based on the provisional data on issuances from Prime database, the weighted average yield of these instruments in August'21 at 4.21% was 21bps lower than that in July'21. It was however 48 bps higher than that in April'21.

The issuer- wise comparison of the monthly primary market yields of commercial papers across segments shows

- The cost of borrowings increased for NBFCs and moderated for HFCs, AIFs and for the private and public sector entities in August from that in July.
- For NBFCs, yields rose to 4.80% which is the highest level in 11 months. On a monthly basis, yields rose by 13 bps.
- The cost of borrowings for HFCs (housing finance companies) softened by 13 bps in August (m-o-m) to 3.90%.
- AIFs (All India Financial Institutions) raised funds in August'21 at 3.66%, 5bps lower than the previous month.

Table 4.1 Commercial Paper Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% Change
August	1.30	2.22	71
April-August	5.93	8.77	48

Source: RBI

Table 4.2: Duration wise commercial paper issuances*- August'21

No of days	% Share
7	25
8-20	20
21-89	19
90-91	25
92-365	11

Source: Prime Database Note*: provisional data as on 11 Sept'21

Table 4.3: Sectoral Commercial Paper Issuances* – August'21

Industry	% Share
Financial Services/Investments	49
Oil exploration/ drilling	10
Banking/Term lending	8
Housing Finance	5
Diversified	5
Steel/Sponge Iron/Pig Iron	4
Power Generation & Supply	3
Trading (incld exports)	3
Telecommunication	2
Civil construction	2
Aluminium & Aluminium Products	2
Engineering	1
Cement & Construction	1
Others	4

Source: Prime Database Note*: provisional data as on 11 Sept'21

Table 4.4: Issuer-wise commercial paper yields

	NBFC	HFC	AIF	Weighted average
Aug-20	3.98	4.63	3.35	3.74
Sep-20	4.82	3.89	3.39	4.27
Oct-20	4.19	3.72	3.42	3.86
Nov-20	3.73	3.69	3.20	3.45
Dec-20	3.82	3.73	3.19	3.62
Jan-21	4.70	3.47	3.42	4.14
Feb-21	4.08	4.02	3.53	3.82
Mar-21	4.74	3.94	3.49	4.04
April-21	4.36	3.49	3.40	3.73
May-21	4.08	3.45	3.40	3.75
Jun-21	4.29	3.92	3.55	3.94
Jul-21	4.67	4.03	3.72	4.42
Aug-21	4.80	3.90	3.66	4.21

Source: Prime Database Note*: provisional data as on 11 Sept'21

5. Corporates seeking foreign funds

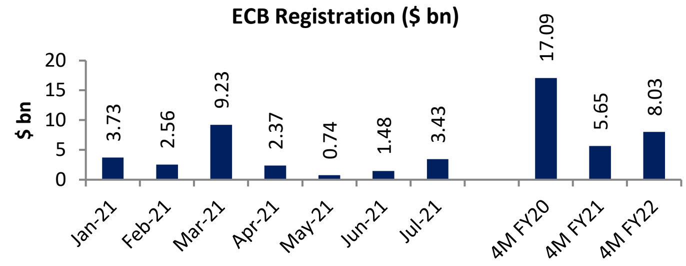
Corporates have been increasingly tapping the overseas markets for funds in recent months to take advantage of the low interest rates in the global markets to refinance earlier debt as well as for meeting their business needs.

The ECB registrations in July'21 at $ 3.4 bn was the highest so far in FY22 and more than double the registrations of $1.5 bn in the preceding month. It was also 60% more than the registration of year ago (July'20). The ECB registrations in the first four months of FY22 is 42% higher than that in the same period of FY21 but less than half that of FY20 ($17 bn during Apr-Jul'19)

In terms of sectoral borrowings in July'21, warehousing and support activities were the largest borrowers, accounting for 34% of the total ECB registrations. It was followed by financial services (20% share) and manufacture of chemicals (18%). Among the other sectors, manufacture of petroleum products and electricity and air conditioning had a share of 15% and 13% respectively.

The intended borrowings in July were mainly towards refinancing earlier ECBs and rupee loans (37%). 36% of the intended borrowings are towards meeting working capital requirements, while 20% are for on-lending/sub-lending.

In terms of tenure of borrowings, 50% of the ECB registrations were for a tenure of 3 to 5 years and 33% were for a longer duration of 20-21 years.



Source: RBI

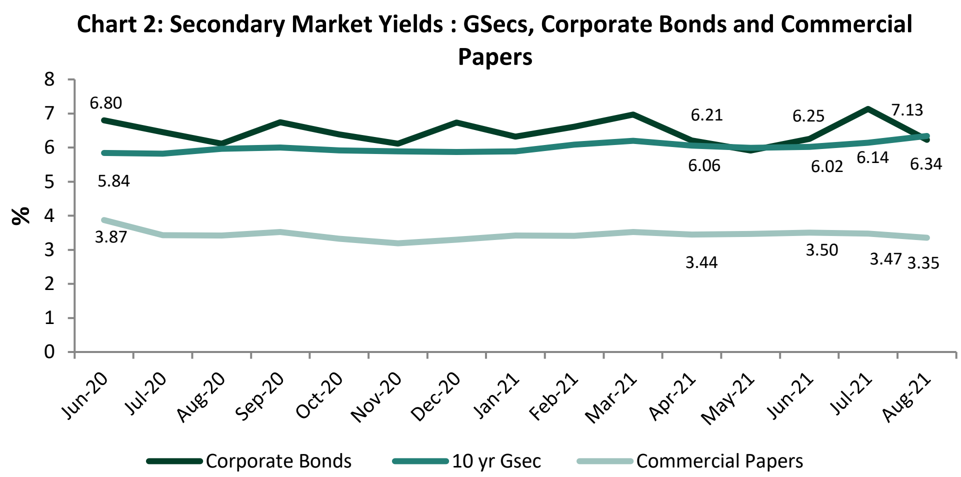
Table 5.1: Sectoral Share in ECB registrations: July'21

Sectors	% share
Warehousing and support activities	22
Financial services (excld insurance and pension)	20
Manufacture of chemicals & chemical products	18
Manufacture of petroleum products	15
Electricity, gas, steam & air conditioning supply	13
Manufacture of pharmaceuticals	3
Manufacture of motor vehicles	3
Manufacture of electrical equipment	2
Others	5

Source: RBI

B. Secondary Markets

Mixed trend in secondary market yields



Source: FBIL, RBI, FIMMDA and CARE Ratings calculations. Corporate Bond yields are the weighted average yields across rating categories

The secondary market yields of the central government securities rose while that of corporates (short and long term) moderated monthly in August'21.

The increase in the yield of the central government (10 year) benchmark security in August (by 20 bps to 6.34%) was driven by the persistent concerns over inflation with the global commodity prices ruling at high levels. Also, even as the RBI maintained status quo on interest rates at its monetary policy in early August, worries that it would start the normalization of its monetary policy (as the monetary policy committee members expressed concerns over price levels), pressured yields. At the same time, the surplus liquidity in the banking system (around Rs. 7 lakh crore), the RBI purchases of government securities and the fall in US Treasury yields (that made the higher yielding Indian Government securities attractive to foreign investors) curtailed the rise in yields to an extent during the month.

Corporate bond yields (weighted average yields) at 6.23% in August was 90 bps lower than July. In the case of commercial paper, the average yields declined by 12 bps (month-on-month) to 3.35%.

The downward movement in the yields of corporate bonds and commercial papers in August can be linked to the higher demand from mutual funds aided by the continued net inflows into ultra-short duration funds (Rs.1,889 crore), money market (Rs.2,048 crore) and corporate bond (Rs. 3,065 crore) funds. The surplus liquidity in the banking system added to the demand for these securities.

Yields spreads narrow

The risk perception of corporate bonds eased in August'21. The spreads over GSecs across rating categories narrowed for the bonds of NBFCs, corporates and PSU's alike from that in July'21 (as highlighted in Table 6 below). The decline in spreads, across rating categories was the highest in the case of the bonds of NBFCs (by 6 to 8 bps) and lowest for Corporates (1 to 4 bps). In case of the PSU bonds, the spread narrowed by 4 to 6 bps.

Table 6: Bond Spread over GSec (10 year)

10 year	NBFCs					Corporates					PSUs				
	30-Apr-21	31-May-21	30-Jun-21	30-Jul-21	31-Aug-21	30-Apr-21	31-May-21	30-Jun-21	30-Jul-21	31-Aug-21	30-Apr-21	31-May-21	30-Jun-21	30-Jul-21	31-Aug-21
AAA	0.55	0.48	0.49	0.69	0.62	0.50	0.45	0.43	0.62	0.58	0.43	0.37	0.41	0.58	0.52
AA+	1.00	0.91	0.91	1.10	1.04	0.98	0.91	0.90	1.08	1.06	0.90	0.84	0.88	1.04	0.98
AA	1.40	1.24	1.24	1.45	1.38	1.26	1.17	1.18	1.39	1.38	1.16	1.12	1.20	1.34	1.29
AA-	1.77	1.62	1.62	1.81	1.73	1.53	1.57	1.58	1.79	1.78	1.57	1.52	1.60	1.73	1.69
A+	3.77	3.62	3.62	3.81	3.73	3.03	3.07	3.08	3.29	3.28	2.57	2.52	2.60	2.73	2.69
A	4.02	3.87	3.87	4.06	3.98	3.28	3.32	3.33	3.54	3.53	2.82	2.77	2.85	2.98	2.94
A-	4.27	4.12	4.12	4.31	4.23	3.78	3.82	3.83	4.04	4.03	3.07	3.02	3.10	3.23	3.19
BBB+	4.77	4.62	4.62	4.81	4.73	4.28	4.32	4.33	4.54	4.53	3.57	3.52	3.60	3.73	3.69
BBB	5.02	4.87	4.87	5.06	4.98	4.53	4.57	4.58	4.79	4.78	3.82	3.77	3.85	3.98	3.94
BBB-	5.52	5.37	5.37	5.56	5.48	5.03	5.07	5.08	5.29	5.28	4.32	4.27	4.35	4.48	4.44

Source: FIMMDA

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