Debt Market Review - April,2021

May 14, 2021 I Economics

Summary

Borrowings from the debt markets was mixed in April'21. While issuances by the central government rose, that by the state governments and corporates was lower, both on a year-on-year as well as month-on-month basis. The lower borrowings by businesses can be linked with the widespread second wave of Covid-19 in the country which has led to some form of restrictions/ lockdowns across the states that has impacted activity across various segments. The lower borrowings were accompanied by a decline in cost of funds.

The secondary market yields of government as well as corporate debt securities (short and long term) eased in April'21. The GSec yields declined following the RBI's commitment to purchase sizeable quantities of government securities from the secondary markets. This helped lower yields for corporate debt securities too.

Table 1: Snapshot of the Indian Debt Market

Borrowings : Government					
	Unit	Jan-21	Feb-21	Mar-21	Apr-21
GSec	Rs. Crs	1,17,390	1,16,224	90,233	1,02,019
T-Bills	Rs. Crs	76,000	76,000	95,000	1,44,000
SDLs	Rs. Crs	55,800	79,570	1,07,594	9,150
	Unit	Jan-21	Feb-21	Mar-21	Apr-21
Bonds	Rs. Crs	60,942	40,397	96,696	27,888
Commercial Papers	Rs. Crs	1,38,943	1,57,716	2,23,538	89,576
Incremental Bank Credit*	Rs. Crs	2,69,703	4,03,954	5,84,231	-89,087
ECB Registrations	$ Mn	3,712	2,562	9,232	

*over March

Average Yields in Primary Markets (%): Government				
	Jan-21	Feb-21	Mar-21	Apr-21
GSecs	5.65	5.86	5.98	6.10
T-bills	3.45	3.56	3.58	3.49
SDLs	6.49	6.96	6.79	6.71
	Jan-21	Feb-21	Mar-21	Apr-21
Bonds	6.33	6.49	7.18	6.24
CPs	4.14	3.82	4.04	3.51
Bank - MCLR*	7.30	7.30	7.30	7.30
	Jan-21	Feb-21	Mar-21	Apr-21
10 yr GSecs	5.89	6.09	6.20	6.06
Corporate Bonds	6.32	6.61	6.97	6.21
Commercial Paper	3.42	3.41	3.52	3.44

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

Borrowings by central Government

A.1 Central government borrowings

The Central Government raised Rs 1.02 lakh crs in April 2021, ~23% more than the corresponding month last year and 13% growth sequentially. In April,2021, maturity wise analysis shows, the Central government has borrowed 27% of the total via 14-year GSecs, followed by 16.5% via 10-year and 16% via the 40-year instrument. During the month, the total amount of bids which were devolved to the primary dealers is Rs 10,926 crs which was only in the first auction of the month and it pertained to an instrument with a maturity period of 5 years. In addition, green shoe option was exercised aggregating Rs 16,834 crs in April 2021.

In FY22, the central government has budgeted total market borrowings of Rs 12.05 lakh crs of which the total borrowings in the first month of the fiscal accounted for 8.8% of the yearly borrowing. Based on the release calendar for the first half of FY21, the government is going to borrow Rs 7.24 lakh crs which is 60% of scheduled borrowing amount for the fiscal FY22.

In April 2021, the short term borrowings by the central government by way of treasury bills (T-bills) aggregated to Rs. 1,44,000 crore, 3% higher than that in April 2020 (Rs. 1,40,000 crore) and 34% growth sequentially.

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A.2 State government borrowings

Seven states and one UTs raised a total of Rs. 9,150 crores through the issue of State Development Loans (SDL) during April'21. The SDL issuances during the month was 85% or Rs. 50,105 crores less than that in April'20. 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 during April, the market borrowings of Rajasthan was the highest (Rs. 4,000 crores), followed by Andhra Pradesh (Rs.2,000 crores) and Telangana (Rs.1,500 crores).

B. Bank credit off take

As on end April'21, the outstanding aggregate bank credit amounted to Rs. 108.6 lakh crores, Rs. 0.89 lakh crores less than end-March'21. Incremental bank credit growth as on 23 April'21 was (-)0.8% v/s the (-)0.9% growth in the comparable period of April'20.

Break-up of the sectoral bank credit off-take during FY21, showed that the incremental bank credit growth to industry and the services segments grew marginally by 0.4% and 1.4% respectively. Credit offtake by agriculture & allied activities and the retail segment registered a year-on-year growth of 12.3% and 10.2% respectively.

The lower credit offtake by industry and the service sector can be attributed to the lower borrowing by businesses given the economic and business uncertainties due to the pandemic as well as the risk aversion by banks to lend to certain segments.

In terms of industry-wise deployment of incremental bank credit during FY21, 14 key industries registered a year-on-year growth in credit offtake, while 13 industries saw a contraction in bank credit growth as has been highlighted in Table 2.1 and 2.2 below.

Table 2.1 Industries that saw growth in bank credit offtake

	% growth: FY21
Mining and Quarrying (incl. Coal)	4.9
Food Processing	7.5
Textiles	4.6
Leather and Leather Products	1.8
Wood and Wood Products	8.7
Paper and Paper Products	14.8
Rubber, Plastic and their Products	6.1
Glass and Glassware	3.9
Vehicles, Vehicle Parts and Transport Equipment	1.2
Gems and Jewellery	5.4
Power	1.2
Roads	34.4
Airports	50.9
Railways (other than Indian Railways)	3.2

Source: RBI

Table 2.2 Industries that saw contraction in bank credit offtake

	% growth: FY21
Sugar	-6.7
Beverage and Tobacco	-5.2
Petroleum, Coal Products and Nuclear Fuels	-4.6
Chemicals and Chemical Products	-7.9
Fertiliser	-34.3
Drugs and Pharmaceuticals	-4.3
Cement and Cement Products	-11.1
Basic Metal and Metal Product	-6.2
Iron and Steel	-11.3
Engineering	-6.3
Construction	-8.4
Telecommunications	-21.3
Ports	-36.2

Source: RBI

C. Corporate Bond Issuances

- Based on the provisional data from Prime Database, total bond issuances in April 2021 amounted to Rs 27,888 crs, 71% lower than the previous month and 65% lower than the corresponding month of the previous year.
- In terms of sectoral debt issuances, banks and term lending institutions raised little more than 1/3rd of the total issuances during the month followed by power generation (20%) and financial services/investments (19%). 51% of the issuances during the fiscal have been raised by public sector undertakings (PFC, REC, HUDCO, NABARD, NHB, NTPC, NHAI, EXIM, IRFC among others).
- In April 2021, 88% of the total issuances carried a credit rating of AAA followed by 10% issuances in the AA categories (AA+, AA- and AA).

Table 3.1: Select Sectoral Corporate Bond (debt) Issuances – April 2021

Industry	Apr-21
Banking/Term Lending	35
Power Generation & Supply	20
Financial Services/Investments	19
Shipbuilding (Incl Repairing/ Breaking)	16
Others	10

Source: Provisional Data from Prime Database

Table 3.2: Tenure of Debt Issuances – April 2021 (%)

Tenure	Apr-21
< 3 years	20.6
3-5 years	38.4
5-10 years	24.4
> 10 years	16.6

Source: Provisional Data from Prime Database

- Out of the total debt issuances raised during the month of April 2021, the highest share of issuances of 38% carried a tenure of 3-5 years followed by the 5-10 year bracket that had a share of 24%.

D. Commercial Paper Issuances

Commercial paper issuances (as per RBI) in April 2021 was notably lower at Rs 89,576 crs, 33% lower than the corresponding month of the previous year and 60% lower than the previous month.

The second wave of COVID-19 pandemic and the consequent localised lockdowns in April 2021 has led to lower short term fund requirements by the corporates.

In April 2021, the highest share of issuances was in the 28-91 days bracket (2/3rd of total issuances), followed by issuances in the maturity bracket of more than 91 days (21%).

Table 4.1: Sectoral Commercial Paper Issuances* – April 2021

Industry	% share
Banking/Term Lending	31.0
Oil Exploration/Drilling/Refining	20.4
Travel/Transportation/Courier(Passenger/Cargo)	10.3
Telecommunications	8.0
Financial Services/Investments	6.5
Others	23.9

Note: * provisional data as on 12th May, 2021.
Source: Prime Database

Table 4.2: Duration wise commercial paper issuances – April 2021

No of days	% share
<14	2.9
14-28	8.7
28-91	67.5
>=91	21.0

Source: Prime Database

Sectoral issuances

- In April 2021, the highest share of issuances was in case of Banking/Term lending (31%) followed by oil exploration (20.4%) and travel/transportation (10%). The share of all financial services in total issuances in April 2021 is around 40%.
- Public sector undertakings (like Indian Oil Corporation, NABARD, NTPC etc) accounted for almost 52% of the total issuances in April 2021.

E. External Commercial Borrowings (ECB)

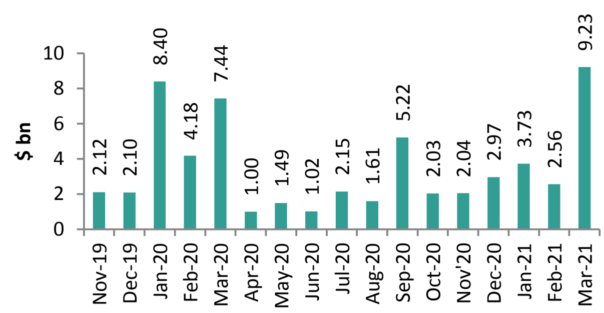
The ECB registrations in March'21 at $9.23 bn was the highest monthly registration since Mar'19. Registrations during the month were $6.67 bn more than that in February'21.

The ECB registrations in 2020-21 have been the lowest in three years. The ECB registrations during the year at $35.1 bn was 34% lower than that in 2019-20 ($52.9 bn).

The limited external borrowings in 2020-21 despite the lower interest rates in the overseas markets can in large part be attributed to the economic and business uncertainties on account of the pandemic that have make corporate reluctant to borrow. The depreciation in the Rupee may have also been a factor limiting the appeal of foreign borrowings as the weakness in the Rupee would make servicing of this debt costlier.

In terms of sectoral borrowings in March'21, financial services have been the largest borrowers, accounting for 42% the total ECB registration during the month. Electricity, gas, steam, and air conditioning supply was the other major borrowing sector, accounting for 19% of the registrations. Among the other sectors, petroleum products manufacture accounted for 18% of the registrations and telecommunication had a share of 8%.

Chart 1: ECB Registration ($ bn)



Source: RBI

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

Sectors	% share
Financial Services	42
Electricity, gas, steam, and air conditioning supply	19
Extraction of crude petroleum and natural gas	18
Telecommunication	8
Manufacture of non-metallic mineral products	4
Information service activities	2
Construction	1
Others	6

Source: RBI

The intended borrowings in February were mainly for infrastructure development (39%) and overseas acquisitions (18%). 16% of the borrowings were towards new and 13% was towards working capital requirements.

Table 5.2: Purpose of ECB: Mar'21

Purpose	% share
Infrastructure Development	39
Overseas Acquisitions	18
New project	16
Working Capital	13
On-lending/Sub-lending	7
Rupee Expenditure of Local CG	5
Others	2.5

Source: RBI

Cost of borrowings

A. Central and State Government

A.1 GSec: In April 2021, the weighted average yield of fresh borrowings by the central government rose to 1-year high of 6.1%, 12 bps more than the previous month. This is the 4^{th} consecutive month of increase in cost of borrowings of GSecs with a cumulative increase of almost 50 bps.

A.2 T-bills: In April'21, the cost of borrowing for short-term borrowings of the central government was at 3.49%, 9 bps lower than the previous month and 44 bps lower than the corresponding month of the previous year. After 4 consecutive months of increase in the weighted average yield of the short term borrowings, the cost of borrowings has declined sharply.

The cost of borrowings across various maturities has been mixed with increase in weighted average yields in the 91-day and 182 day category and decline in the 364 day category. The weighted average yields for both 91-days and 182 days rose by 6 bps (m-o-m) to 3.34% and 3.54% respectively. In case of 364 days T-bills, the cost of borrowings have declined to 3.74%, 6 bps lower sequentially.

A.3 State Development Loans: The cost of borrowing for the state governments moderated in April'21 from that in the preceding month. The weighted average cost yields of state development loans (across states and tenures) issued during April at 6.71% was 8 bps lower than that in March. It nevertheless continued to be at elevated levels and was 22 bps higher than that in January'21. The low demand for government securities amidst the anticipated higher supply of these securities (centre and state) in coming periods pressured yields.

Of the seven states and one UT that undertook market borrowings in April, the cost of borrowings i.e., the weighted average yield was the highest for Telangana (6.89%) and the lowest for Rajasthan (at 6.57%).

B. Bank Lending Rates (MCLR and WALR)

The marginal cost of lending rate (MCLR) of scheduled commercial banks in April'21 was sustained at near 5- year lows. The median 1-year MCLR of scheduled commercial banks in April'21 at 7.30% has been unchanged since December'20.

The RBI's rate cut transmission to the lending rates of banks has been limited. Although, the RBI has cut key interest (repo) rate by 115 bps since end-March 2020, the median 1-year MCLR of scheduled commercial banks (SCBs) has declined by only 70 bps in the subsequent thirteen months

At the bank group level, public sector banks saw their median lending rates in April'21 at 7.33%, unchanged since October'20. Similarly, the median lending rates of private banks at 8.40% was unchanged since January'21. However, in the case of foreign banks, the lending rates declined by 19 bps to 5.84% in April from that in the previous month.

The median 1-year MCLR of public sector banks in April was 108 bps lower than that of private sector banks and 149 bps higher than that of foreign banks. Public sector banks MCLR (median 1 year) has declined by 66 bps since April'20, while that of private sector banks has fallen by 62 bps and that of foreign banks by 159 bps.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 8.03% in March'21 was 16 bps lower than a month ago. The WALR of private sector banks rose by 16 bps while that of public sector banks and foreign banks declined by 6 bps and 16 bps respectively on a month-on-month basis. The WALR of public sector banks at 7.44% in April was 163 bps lower than that of private sector banks.

C. Corporate Bonds

The borrowing cost for the corporates in the bond market moderated in April 2021 with the weighted average yield declining to 6.24% compared with 7.18% in March 2021 and 7.25% in April 2020. Notable sequential decline in NBFCs (90 bps), AIFIs (77 bps) and others category (205 bps) have led to the fall in overall weighted average yields. On a year-on-year basis, there has been a broad-based decline across these 4 segments with the highest seen in the NBFC segment (1.35%).

- Barring the HFC segment, the cost of issuances for the remainder three categories, i.e. All India Financial Institutions (AIFs)[1], Non-Banking Financial companies (NBFCs) and others have seen a decline in cost of borrowings in April 2021 compared with March 2021.
- The cost of borrowing of the NBFC sector has fallen to 6.42% in April 2021 compared with 7.32% in March 2021 and 7.77% in April 2020. In case of HFC, yields have increased to 7.68% in April 2020, higher than 7% in March 2021 and 6.97% in April 2020.
- In case of others, low cost of borrowings is seen in case of IT – software (3.3%) and power generation (5.4%) as against high cost of borrowing in case of hospitals (14%).

Table 6: Issuer-wise corporate bond yields in the primary markets

All	AIFs	HFCs	NBFCs	Others*
Apr-20	6.81	6.97	7.77	7.76
May-20	6.86	7.29	8.09	7.59
Jun-20	7.25	7.12	8.38	8.05
Jul-20	6.30	7.49	8.30	7.88
Aug-20	6.57	6.30	8.07	6.82
Sep-20	6.86	6.61	8.19	6.84
Oct-20	6.39	6.93	6.92	6.79
Nov-20	6.69	5.92	7.66	7.33
Dec-20	6.49	4.98	7.04	7.99
Jan-21	5.73	6.69	7.49	7.21
Feb-21	6.19	5.76	7.12	8.43
Mar-21	6.68	7.00	7.32	8.77
Apr-21	5.91	7.68	6.42	6.72

*Others include banks and manufacturing companies.
Source: Prime Database; CARE Ratings' Calculation

- AAA rated companies at the aggregate level have raised funds from the corporate bond market at a weighted average cost of borrowings of 6.23% in April 2021 with AA+ at 6.25% and AA- at 7.55%. Companies in the BBB- rating category have raised funds at a weighted average cost of 11% and BBB- at 14%.

D. Commercial Paper

The cost of borrowing via commercial paper fell to a 5-month low of 3.51% in April 2021 compared with 4.04% in March 2021 and 5.53% in April 2020. The decline in cost of borrowings in the CP market has been broad-based for both year on year and sequential comparison. The sharpest m-o-m decline was seen in case of NBFCs (58 bps) followed by HFCs (41 bps). Almost all CP issuances during the month had a credit rating of A1+ category (very high degree of safety of lowest credit risk).

[1] AIFs include public sector undertakings such as NABARD, SIDBI, Indian Railway Finance Corporation Ltd.

- The cost of borrowings for NBFCs has fallen to 4.74% in April 2021 compared with 6.5% in April 2020 and 4.74% in March 2021. 52% of the issuances in April 2021 for the NBFC sector was below the weighted average yield of 4.15% for the sector.
- The cost of borrowings for HFCs registered a decline of 41 bps in April 2021 (m-o-m) to 3.53% and is 2.57% lower than the corresponding month of the previous year.
- AIFs raised funds in March 2021 at 3.39%, 10 bps lower than the previous month and 1.6% lower than April 2020.

Table 7: Issuer-wise commercial paper yields in the primary markets

	NBFC	HFC	AIF	Others	Weighted average
Mar-20	9.84	5.29	5.73	5.75	6.13
Apr-20	6.50	6.11	4.94	6.16	5.53
May-20	5.65	5.11	4.52	5.40	5.21
Jun-20	5.43	4.88	3.71	4.87	4.47
Jul-20	4.82	3.83	3.36	4.20	4.03
Aug-20	3.98	4.63	3.35	3.85	3.74
Sep-20	4.82	3.89	3.39	4.53	4.27
Oct-20	4.19	3.72	3.42	3.96	3.86
Nov-20	3.73	3.69	3.20	3.44	3.45
Dec-20	3.82	3.73	3.19	3.66	3.62
Jan-21	4.70	3.47	3.42	3.83	4.14
Feb-21	4.08	4.02	3.53	3.92	3.82
Mar-21	4.74	3.94	3.49	3.57	4.04
April-21	4.15	3.53	3.39	3.55	3.51

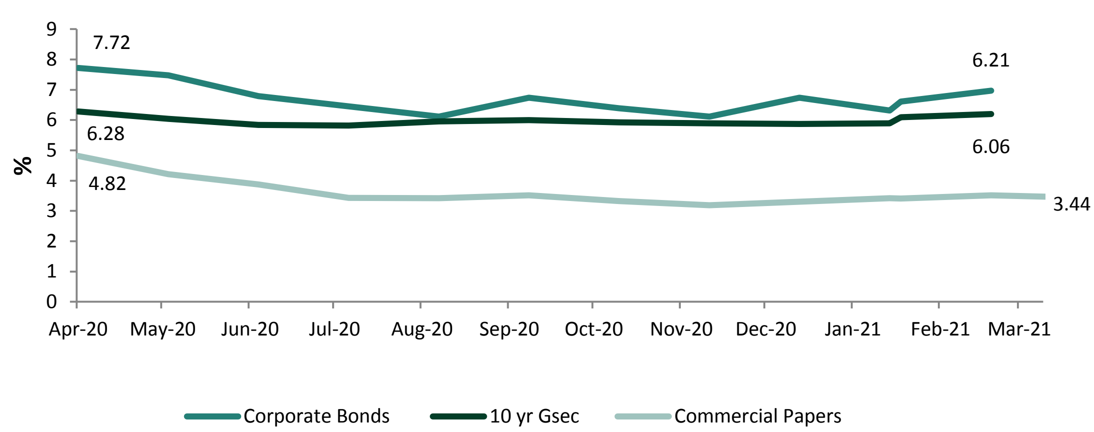
Source: Prime database, CARE Ratings calculation
*Others include telecom, power, real estate, textiles, cement, fertilizers, etc.

- In case of others, telecommunications segment raised funds via the CP market at a weighted average yield of 3.49% while the cost of borrowing for travel was 3.59%.
- The weighted average yields of all the four segments have registered notable decline in yields in April 2021 compared with April 2020.

Secondary Markets

A. Secondary market yields

Chart 2: Secondary Market Yields : GSecs, Corporate Bonds and Commercial Papers



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

The secondary market yields of government as well as corporate debt securities (short and long term) eased in April'21 from that in March'21.

The average 10-year benchmark GSec yields in April moderated to a three month low of 6.06%, 14 bps lower than month ago. The decline in the yield despite the underlying inflationary pressures and huge supply of government securities can primarily be credited to the RBI's announcement in early April to purchase sizeable quantities of government securities (Rs. 1 trillion in Q1 FY22) from the secondary market under the maiden G-sec acquisition or G-SAP 1.0 programme in conjunction with the regular open market operation, aimed at limiting the rise in bond yields. Concerns over the domestic economic outlook with the surge in the pandemic in the country also led to safe haven buying of government securities, cooling yields. Unfavourable global market conditions i.e., the rise in global bond yields, increase in commodity prices along with the weakening of the Indian Rupee, however weighed on investor sentiments and limited the fall in yields.

Corporate bond yields (weighted average yields) at 6.21% in April declined by 76 bps from that in March and was at a five - month low. In the case of commercial paper, the average yields fell by 8 bps (month-on-month).

The moderation in the yields of corporate debt securities (corporate bonds and commercial papers) can in part be attributed to the fall in GSec yields. In addition, mutual fund inflows (liquid funds and money market funds saw net inflows of Rs. 41,507 crs and Rs.20,282 crs respectively in April) along with the sustained liquidity surplus in the banking system has been supporting demand for these securities.

B. Yields Spread

The risk perception of corporate bonds increased, albeit marginally as of end April'21 as was highlighted by the widening of the spread between corporate bonds and the bench-mark government securities of comparable maturity (10 years).

The comparison of yield spreads on the last day of April'21 with that of March'21 showed that the yield spreads for corporate bonds increased across rating categories. The spreads (m-o-m) widened by 7 bps for bonds rated AA+ and AA. It rose by 1 bp for those rated AA- to BBB- and by 4 bps for bonds rated AAA.

Table 8: Corporate Bond Spreads over GSec: 10-year maturity

Month end (%)	GSec yields	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
30-Apr-20	6.28	1.20	1.54	1.86	2.00	3.00	3.50	4.00	4.25	4.50	4.75
29-May-20	6.01	1.21	1.66	2.03	2.41	3.41	3.91	4.41	4.66	4.91	5.16
30-Jun-20	5.89	0.86	1.38	1.81	2.20	3.20	3.70	4.20	4.45	4.70	4.95
31-Jul-20	5.83	0.75	1.26	1.64	2.04	3.54	3.79	4.54	4.79	5.04	5.54
31-Aug-20	6.12	0.73	1.18	1.57	1.98	3.48	3.73	4.48	4.73	4.98	5.48
30-Sep-20	6.02	0.75	1.24	1.52	1.97	3.47	3.72	4.47	4.72	4.97	5.47
29-Oct-20	5.88	0.61	1.10	1.37	1.83	3.33	3.58	4.33	4.58	4.83	5.33
27-Nov-20	5.91	0.67	1.17	1.51	1.94	3.44	3.69	4.44	4.69	4.94	5.44
31-Dec-20	5.87	0.61	1.12	1.42	1.80	3.30	3.55	4.30	4.55	4.80	5.30
29-Jan-21	5.91	0.45	1.03	1.29	1.64	2.64	2.89	3.14	3.64	3.89	4.39
26-Feb-21	6.23	0.76	1.21	1.46	1.79	3.29	3.54	4.04	4.54	4.79	5.29
31-Mar-21	6.18	0.46	0.91	1.19	1.52	3.02	3.27	3.77	4.27	4.52	5.02
30-Apr-21	6.03	0.50	0.98	1.26	1.53	3.03	3.28	3.78	4.28	4.53	5.03

Source: FIMMDA

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