Debt Market Review: Accelerated fund raising in September

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Summary

The developments in the debt market in September point towards the domestic economic recovery gaining momentum. Higher quantum of funds was raised by the central government as well as corporates in September. Corporate bond issuances during the month rose to the highest level in 30 months, while bank credit offtake move into growth territory for the first in the current fiscal.

The cost of borrowing softened on a monthly basis in September for the government, while for corporates it presented a mixed picture. The short-term fund costs moderated while it firmed up for long-term instruments.

The secondary market for debt securities in September was volatile. The 10-year GSec yields witnessed significant fluctuations during the month and firmed towards the end of the September, tracing the rise in US Treasury yields and increase in energy prices. The secondary market yields of corporate bonds and commercial papers also rose during the months with lower demand from mutual funds.

The risk perception of corporate bonds eased further in September'21 as seen from the narrowing of spreads between the GSecs and corporate bonds across rating categories.

Table 1: Snapshot of the Indian Debt Market

Borrowings : Government							
	Unit	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**
GSecs	Rs. Crs	1,02,019	1,08,566	1,07,910	1,56,500	1,11,493	1,15,860
T-Bills	Rs. Crs	1,44,000	1,44,000	1,80,000	68,000	68,000	85,000
SDLs	Rs. Crs	9,150	50,550	84,850	49,300	60,650	54,472
Borrowings : Corporates							
	Unit	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**
Bonds	Rs. Crs	25,941	29,392	35,300	35,895	41,734	98,888
Commercial Papers	Rs. Crs	89,576	1,28,155	1,71,368	2,66,249	2,21,759	1,33,570
Incremental Bank Credit*	Rs. Crs	-91,136	-1,17,972	-1,09,695	-70,939	-52,046	7,283
ECB Registrations	$ Bn	2.37	0.74	1.48	3.43	2.85	

*over March

Average Yields in Primary Markets (%): Government						
	Apr-21	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**
GSecs	5.65	6.09	6.18	6.11	6.33	6.17
T-bills	3.45	3.51	3.61	3.54	3.45	3.43
SDLs	6.49	6.84	6.92	6.96	6.86	6.86
Average Yield in Primary Market (%): Corporates						
	Apr-21	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**
Bonds	6.33	6.19	7.53	6.85	6.47	6.67
CPs	4.14	3.75	3.94	4.42	4.21	3.67
Bank - MCLR*	7.30	7.25	7.20	7.25	7.25	7.20
Average Yields in Secondary Markets (%)						
	Apr-21	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**
10 yr GSecs	5.89	5.99	6.02	6.14	6.23	6.18
Corporate Bonds	6.32	5.91	6.25	7.13	6.37	6.43
Commercial Paper	3.42	3.46	3.50	3.47	3.35	3.39

* 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: Higher market borrowings at lower cost

The Central Government's market borrowings in September'21 was higher than a month ago with an increase in long term as well as short term borrowings. The aggregate borrowings for the month at Rs. 2.01 lakh crore was 12% more than in August'21. Of this Rs.1.16 lakh crore was raised through GSecs and Rs. 0.85 lakh via T-bills. On a monthly basis, the borrowings via GSecs were 4% higher and that of T-bills rose by 25% (or Rs. 0.17 lakh crore).

For the first six months of FY22, the short-term as well as longer duration borrowings of the central government have been lower than H1 FY21. The long-term borrowings at Rs.7.02 lakh crore have been 8% lower on a year-on-year basis, while the T-bill issuances at Rs. 6.89 lakh crore were lower by 28%. The relatively improved financial position of the government (higher tax revenues) has necessitated lower borrowings.

The cost of short-term and long-term borrowings moderated in September. The weighted average yields of T-bills eased to a 9-month low of 3.43% and that of GSecs at 6.17% was 16 bps lower than in August.

The borrowing cost for the central government through dated securities in the current financial year is notably higher than a year ago. The weighted average yields of GSecs in H1 FY22 at 6.16% is 32 bps higher than in H1 FY21. On the other hand, the yields of T-bills have been largely stable at 3.51%.

1.2 State government: Reduced borrowing amid stable yields

Twenty-two states and two UTs together raised Rs. 0.54 Lakh crore via the issue of State Development Loans (SDLs) in September'21, 10% lesser than in August'21.

As with the central government, the market borrowings by states in the current financial year has been lower compared with last year. In the first 6 months of FY22, states/UTs (26 states and 2 UTs) cumulatively raised Rs.3.09 Lakh crore through the issue of SDLs, 13% lower than the amount raised in H1 FY21. Here too, the lower borrowings can in large part be attributed to the higher revenue collections.

The cost of borrowing for the state governments in September was largely stable, with the weighted average yield of state development loans (across states and tenures) at 6.86%, unchanged from a month ago. The cost of funds raised from the market by States however has risen from a year ago. The weighted average yield of SDLs in H1 FY22 at 6.88% is 46 bps higher than in H1 FY21.

2. Uptick in Bank credit

Bank credit offtake picked up in September'21. As on 24 September'21, the outstanding aggregate bank credit amounted to Rs. 109.6 lakh crore, a Rs. 0.07 lakh crore increase or 0.1% growth over end-March'21. This is an improvement from the contraction of 1% in the comparable period of FY21 and the negative growth in the first twelve weeks of FY22.

There has been a gradual improvement in credit demand with the easing of pandemic restriction and the resumption of business and commercial activity. The revival in credit demand is being driven by the retail and agriculture segments, both having witnessed growth during April-August'21 over end-March'21.

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

	Apr-28 Aug FY21	Apr- 27 Aug FY22
Agriculture	0.8	2.6
Industry	-4.3	-2.6
Services	-1.6	-0.8
Personal Loans	-0.3	1.7

Source: RBI

Even though the incremental (over end-March) credit offtake by industry and services segment continues to be in contractionary territory, it is less severe than a year ago (highlighted in Table 2.1). The subdued credit offtake by industry and services, which is weighing down overall credit growth, is in large part reflective of the uncertainties faced by businesses and their reluctance to take on additional liabilities. The wariness of banks to lend to certain segments on concerns over asset quality has also been an inhibiting factor to credit growth.

In terms of industry-wise, deployment of incremental bank credit during April-August'21, 10 key industries/segments registered a growth in credit offtake, while 15 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: End Aug'21 over end March'21
Mining and Quarrying	8.4
Paper and Paper Products	1.7
Wood and Wood Products	2.4
Rubber, Plastics, and their Products	7.6
Vehicles, Vehicle Parts and Transport Equipment	2.7
Construction	3.6
Roads	1.3
Airports	2.1
Ports	20.1
Railways (other than Indian Railways)	14.7

Source: RBI

Table 2.3 Industries that witnessed contraction in bank credit offtake

	% Growth: : End Aug'21 over end March'21
Food Processing	-4.5
Beverage and Tobacco	-8.8
Textiles	-0.3
Leather and Leather Products	-0.4
Petroleum, Coal Products and Nuclear Fuels	-5.8
Fertiliser	-22.6
Drugs and Pharmaceuticals	-4.6
Petro Chemicals	-11.5
Glass and glassware	-6.3
Cement and Cement Products	-12.3
Basic metals and metal products	-10.7
Engineering	-0.5
Gems and Jewellery	-2.1
Power	-0.1
Telecommunication	-1.5

Source: RBI

The marginal cost of lending rate (MCLR) of scheduled commercial banks in September'21 moderated further and was sustained at 5-year lows. The median 1-year MCLR of scheduled commercial banks in September at 7.20% was 5bps lower than a month ago. 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 100 bps over a span of 18 months.

At the bank group level, the median lending rates in September'21 for public sector banks at 7.30% has been unchanged for four months. Similarly for the private banks, the median MCLR in September was stable at 8.23%. In the case of foreign banks, the MCLR was decline by 11 bps monthly to 5.75% in September.

The median 1-year MCLR of public sector banks in September was 93 bps lower than that of private sector banks and 155 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 79 bps and that of foreign banks by 168 bps.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 8.05% in August'21 was 6 bps higher than a month ago. The WALR of public sector banks declined by 18 bps, while that of private banks and foreign banks rose by 19 bps and 16 bps respectively. The WALR of public sector banks at 7.51% in August was 132 bps lower than that of private sector banks.

3. Higher Corporate Bond Issuances

There has been a sharp increase in the fund raising by corporate from the corporate bond markets in September'21. Corporate bond issuances during the month at Rs. 0.99 lakh crore (as per prov data from Prime Database) was the highest in 30 months i.e., since March'19. On an annual basis, it was 38% higher and monthly it increased by 137%.

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

Despite the recent increase, borrowings by corporates from the bond markets has been lower in the first half of the current financial year. In H1 FY22, Rs. 2.67 lakh crore has been raised via corporate bonds which is 30% lower than the same period of FY21. The higher borrowings in FY21 were primarily on account of the RBI's special liquidity measures viz. LTRO and TLRO1 which prompted fund raising from the debt capital markets given the conditions associated with these liquidity measures.

- The bond issuances in September'21 was dominated by entities belonging to the finance sector. Nearly 80% of the issuances were by financial institutions viz., housing finance, banking, and financial services. Power generation, roads and highways were the other major sectors that raised funds from the bond markets during the month (Table 3.2).
- 35% of the issuances in September'21 had a tenure of 1 to 3 years, and 39% were for 6 to 10 years. 8% of the borrowings had the maturity profile of over 10 years (Table 3.3).
- 60% of the total issuances in September'21 carried a credit rating of AAA and 36% of the issuances belonged to the AA category (AA+, AA- and AA). A category and below rated issuances accounted for 3% of the issuances.
- The overall cost of borrowings for the corporates via corporate bonds in September '21 rose from a month ago. The weighted average yield of corporate bonds (across tenure and rating category) at 6.67% was 20 bps higher than Aug'21.
- In terms of credit rating category, the weighted average yields for the AAA rated bonds at 6.14% was 69 bps lower than that of AA rated bonds.

Table 3.1: Corporate Bond Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% change
September	0.72	0.99	38
April-September (H1)	3.84	2.67	-30

Source: Provisional Data from Prime Database

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

Industry	Sept-21 (% share)
Housing Finance	43
Banking/Term Lending	19
Financial Services/Investments	17
Power Generation & Supply	10
Roads & Highways	6
Housing/Civil Construction/Real Estate	1
Telecommunication	1
Insurance	1
Diversified	1
Others	3

Source: Provisional Data from Prime Database

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

Tenure	Sept-21 (% share)
1-3 years	35
4-5 years	14
6-10 years	39
> 10 years	8

Source: Provisional Data from Prime Database

Table 3.4: Ratings of Bond Issuances –September'21

Rating	September'21- % share	Wt Avg Yield -%
AAA	60	6.14
AA	24	6.83
Aggregate		6.67

Source: Provisional Data from Prime Database and CARE Ratings

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

4. Drop in commercial paper issuances

Short term borrowings of corporates via commercial paper issuances in September'21 totalled Rs. 1.34 lakh crore (as per RBI data). Issuances during the month were lower on an annual (by 31%) as well as sequential basis (by 40%). 99% of the issuance in September'21 carried a credit rating of A1+ (very high degree of safety or lowest risk).

Cumulatively, commercial paper issuances in the current financial year have been higher. In H1 FY22 the issuance totalled Rs.10.1 lakh crore which is a 28% increase over H1 FY21 (Rs. 7.9 lakh crore).

Table 4.1 Commercial Paper Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% Change
September	1.94	1.34	-31
April-September	7.87	10.11	28

Source: RBI

The commercial paper issuances in September'21 was concentrated in the 90–91 days tenure. It accounted for 34% of the total issuances during the month. (Table 4.2). 33% of the issuances carried a tenure between 21 to 89 days. 14% of the issuances were ultra-short term in nature, having a tenure of 7 days. These issuances can be attributed to being funds raised by NBFCs towards investments in IPO (initial public offerings.

Table 4.2: Duration wise commercial paper issuances- September'21

No of days	% Share
7	14
8-20	4
21-89	33
90-91	34
92-365	14

Source: Provisional Data from Prime Database and CARE Ratings

In September'21, the highest share of commercial paper issuances was by financial services, banking, and housing finance segment (37% of total issuances), followed the oil exploration segment (26% share) (Table 4.3)

Table 4.3: Sectoral Commercial Paper Issuances – September'21

Industry	% Share
Financial services & Housing Finance	31
Oil exploration/drilling/refining	26
Telecommunication	8
Steel/Sponge Iron/Pig Iron	6
Diversified	5
Power Generation & Supply	4
Banking/Term Lending	4
Housing/Civil Construction/Real Estate	2
Housing Finance	2
Engineering	2
Others	7

Source: Provisional Data from Prime Database

The **cost of borrowing** via commercial papers in September'21 moderated to the lowest level in 2021. Based on the provisional data on issuances from Prime database, the weighted average yield of these instruments in September'21 at 3.67% was 54 bps lower than that in August'21 and 6 bps lower than April'21.

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

- The cost of borrowings moderated for NBFCs and increased for HFCs and AIFs in September from month ago.
- For NBFCs, yields fell by 83 bps (month-on-month) and rose by 37 bps and 6 bps in the case of HFC and AIFs.

Table 4.4: Issuer-wise commercial paper yields

	NBFC	HFC	AIF	Weighted average
Apr-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
Sep-21	3.97	4.27	3.72	3.67

Source: Provisional Data from Prime Database and CARE Ratings

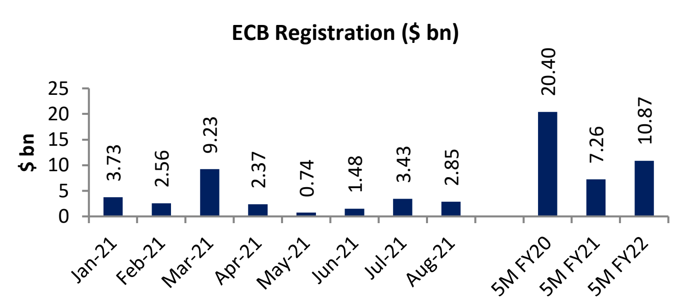
5. Corporates seeking foreign funds

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 the first five months of FY22 is 50% higher than that in the same period of FY21 but nearly half that of FY20 ($20 bn during Apr-Aug'19)

The ECB registrations in August'21 at $ 2.85 bn was 17% lower than August'21. It was nevertheless significantly higher (77%) than the registration a year ago (Aug'20)

In terms of sectoral borrowings in August'21, financial services were the largest borrowers, accounting for 38% of the total ECB registrations. It was followed by telecommunication (18% share), and manufacture of petroleum products (16%). Among the other sectors, manufacture of electrical equipment, and manufacture of computers had a share of 8% and 6% respectively.

The intended borrowings in August were mainly towards on-lending (38% share) and refinancing earlier ECBs and rupee loans (21%). 17% of the borrowings are for modernisation, 10% for import of capital goods, and 8% for meeting working capital requirements.



Source: RBI

In terms of tenure of borrowings, 65% of the ECB registrations were for a tenure of 5 years and 21% were for a period of 10 years.

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

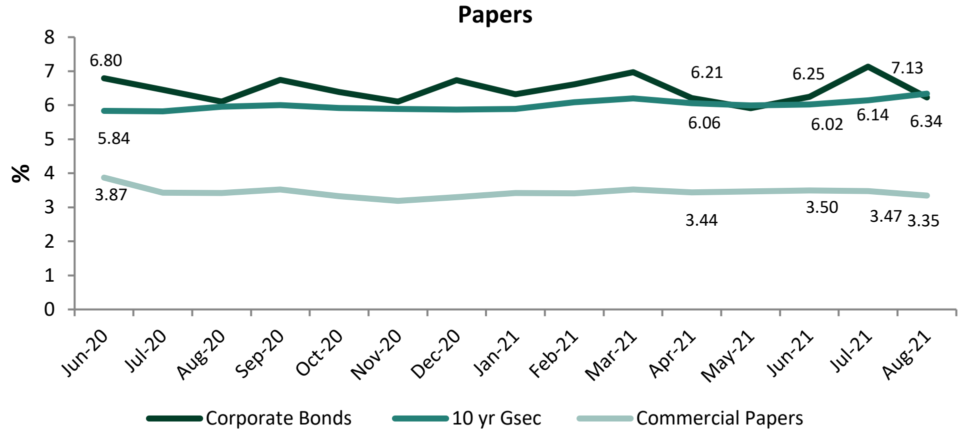
Sectors	% share
Financial services (excld insurance and pension)	38
Telecommunication	18
Manufacture of petroleum products	16
Manufacture of electrical equipment	8
Manufacture of computer, electronics, and optical parts	6
Manufacture of rubber and plastic products	4
Manufacture of furniture	2
Others	9

Source: RBI

B. Secondary Markets

Mixed trend in 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 corporate bonds and commercial papers rose on a monthly basis in September'21, while the 10-year GSec yields moderated from August levels, despite the significant fluctuation in yields during the month.

The average 10-year GSec yields declined by 5 bps to 6.18% in September from a month ago, while the yields of corporate bonds rose by 20 bps to 6.43% and that of commercial papers rose by 4 bps to 3.39%.

The benchmark GSec moved in the range 6.12% to 6.22% in September, with yields firming towards the end of the month after easing temporarily. The rise in US bond yields following the Federal Reserve monetary policy meeting and the rise in global crude oil prices exerted upward pressure on domestic yields, which offset to an extent the announcement that the central government would stick to the budgeted borrowings for the fiscal year as well as the bond buying by the RBI.

The rise in yields of corporate bonds and commercial papers in September can be linked to the lower demand from mutual funds as well as the movement of GSecs. There was a net outflow across debt funds during the month. The ultra- short durations funds witnessed outflows of Rs. 10,909 crore, money market funds had an outflow of Rs.8433 crore and Rs. 1433 crore from the corporate bond fund.

Yields spreads narrow

The risk perception of corporate bonds eased in September'21. The spreads over GSecs across rating categories narrowed for the bonds of NBFCs, corporates and PSU's alike from that in August'21 (as highlighted in Table 6 below). The decline in spreads, across rating categories was the highest in the case of the bonds of PSUs (by 9 bps for AAA ratings) and lowest for Corporates (2 bps). In case of the NBFCs, the spread narrowed by 6 bps.

Table 6: Bond Spread over GSec (10 year)

10 year	NBFCs					Corporates					PSUs				
	30-Apr-21	30-Jun-21	30-Jul-21	31-Aug-21	30-Sep-21	30-Apr-21	30-Jun-21	30-Jul-21	31-Aug-21	30-Sep-21	30-Apr-21	30-Jun-21	30-Jul-21	31-Aug-21	30-Sep-21
AAA	0.55	0.49	0.69	0.62	0.56	0.50	0.43	0.62	0.58	0.56	0.43	0.41	0.58	0.52	0.43
AA+	1.00	0.91	1.1	1.04	1.02	0.98	0.90	1.08	1.06	1.07	0.90	0.88	1.04	0.98	0.96
AA	1.40	1.24	1.45	1.38	1.37	1.26	1.18	1.39	1.38	1.35	1.16	1.20	1.34	1.29	1.28
AA-	1.77	1.62	1.81	1.73	1.73	1.53	1.58	1.79	1.78	1.76	1.57	1.60	1.73	1.69	1.72
A+	3.77	3.62	3.81	3.73	3.73	3.03	3.08	3.29	3.28	3.26	2.57	2.60	2.73	2.69	2.72
A	4.02	3.87	4.06	3.98	3.98	3.28	3.33	3.54	3.53	3.51	2.82	2.85	2.98	2.94	2.97
A-	4.27	4.12	4.31	4.23	4.23	3.78	3.83	4.04	4.03	4.01	3.07	3.10	3.23	3.19	3.22
BBB+	4.77	4.62	4.81	4.73	4.73	4.28	4.33	4.54	4.53	4.51	3.57	3.60	3.73	3.69	3.72
BBB	5.02	4.87	5.06	4.98	4.98	4.53	4.58	4.79	4.78	4.76	3.82	3.85	3.98	3.94	3.97
BBB-	5.52	5.37	5.56	5.48	5.48	5.03	5.08	5.29	5.28	5.26	4.32	4.35	4.48	4.44	4.47

Source: FIMMDA

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