Debt Market Review - June,2021

July 16, 2021 I Economics

Summary

Funds raising from the debt markets by the government and corporates alike has been lower in the first quarter of FY22 when compared with Q1 FY21. There has however been a sequential increase in the funds raised by both the corporate and government segments which can be linked to the developments pertaining to the lockdown restrictions across the various regions in the country.

There has been an increase in the cost of borrowings for the government in June'21 which has also pushed up fund costs for corporates.

The secondary market yields of longer duration government and corporate debt securities rose in June'21 from month ago. Concerns over price pressures in the economy and the large supply of government securities pushed up yields. At the same time, the RBI's secondary market purchase of government securities, surplus liquidity in the banking system and demand from mutual funds helped limit the rise in yields of these securities.

Table 1: Snapshot of the Indian Debt Market

Borrowings : Government							
	Unit	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
GSec	Rs. Crs	1,17390	1,16,224	90,233	1,02,019	1,08,566	1,07,910
T-Bills	Rs. Crs	76,000	76,000	95,000	1,44,000	1,44,000	1,80,000
SDLs	Rs. Crs	55,800	79,570	1,07,594	9,150	50,550	84,850
Borrowings : Corporates							
	Unit	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Bonds	Rs. Crs	60,942	40,397	96,696	25,941	30,413	38,685
Commercial Papers	Rs. Crs	1,38,943	1,57,716	2,23,538	89,576	1,28,155	1,71,368
Incremental Bank Credit*	Rs. Crs	2,69,703	4,03,954	5,84,231	-89,087	-1,15,923	-1,07,643
ECB Registrations	$ Bn	3.71	2.56	9.23	2.37	0.74	

*over March

Average Yields in Primary Markets (%): Government						
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
GSecs	5.65	5.86	5.98	6.1	6.09	6.18
T-bills	3.45	3.56	3.58	3.49	3.51	3.61
SDLs	6.49	6.96	6.79	6.71	6.84	6.92
Average Yield in Primary Market (%):Corporates						
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Bonds	6.33	6.49	7.18	6.21	6.19	7.53
CPs	4.14	3.82	4.04	3.73	3.75	3.94
Bank - MCLR*	7.30	7.30	7.30	7.30	7.28	7.20
Average Yields in Secondary Markets (%)						
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
10 yr GSecs	5.89	6.09	6.20	6.06	5.99	6.02
Corporate Bonds	6.32	6.61	6.97	6.21	5.91	6.25
Commercial Paper	3.42	3.41	3.52	3.44	3.46	3.50

* 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 1.07 lakh crores in June'21 through the auction of securities, 7% lower than the notified amount of the auction (Rs.1.16 lakh crores). Rs.28,335 crores of the auctioned securities were devolved onto primary dealers during the month, taking the total devolvement during April-June to Rs.46,698 crores. Total central government market borrowing in Q1 FY22 at Rs 3.18 lakh crores was 8% lower than the borrowing of Rs. 3.46 lakh crores in Q1 FY21. The borrowing in Q1 FY22 accounted for 26% of the proposed borrowings for the current financial year and 44% of the scheduled borrowing for H1 FY22.

In June'21, the short-term borrowings by the central government by way of treasury bills (T-bills) aggregated Rs. 1.8 lakh crores, 25% more than May'21 (Rs. 1.4 lakh crores). In Q1 FY22, the government raised short term borrowings via T-bills to the tune of Rs.4.68 lakh crores. This is 6% lower than the short-term borrowings in Q1 FY21.

A.2 State government borrowings

Seventeen states and one UTs raised a total of Rs. 84,850 crores through the issue of State Development Loans (SDL) during June'21. The SDL issuances during the month was 41% or Rs24,779 crores more than that in June'20. In Q1 FY22 the market borrowings by the states have been 14% less than that in the corresponding period of year ago. 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 June, the market borrowings of Tamil Nadu were the highest (Rs. 12,000 crores), followed by Maharashtra (Rs.10,500 crores). Telangana, West Bengal and Rajasthan borrowed Rs.8.500 crores each.

B. Bank credit off take

As on 18 June'21, the outstanding aggregate bank credit amounted to Rs. 108.4 lakh crores, Rs. 1.07 lakh crores less than end-March'21. Incremental bank credit growth as on 18 June'21 was (-)1.0% v/s the (-)1.2% growth in the comparable period of June'20.

Break-up of the sectoral bank credit off-take during May'21, showed that the incremental bank credit growth (over March) witnessed a broad-based decline across segments. The decline in incremental credit flows to the services sector in May'21 was the sharpest at (-)2.3%. Similarly, the credit growth to the industrial and agriculture sector was (-)1.2% while credit disbursement to the retail segment was lower by 0.9%.

The lower credit offtake by industry and the service sector can be attributed to the lower borrowing by businesses consequent to the restrictions under the second wave of the pandemic. The economic and business uncertainties on account of the pandemic as well as the risk aversion by banks to lend to certain segments too has contributed to the lower offtake of bank credit.

In terms of industry-wise deployment of incremental bank credit during May'21, 11 key industries registered a growth in credit offtake, while 18 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: May'21
Airports	29.2
Ports	15.1
Railways	11.8
Electronics	3.7
Construction	2.8
Rubber, Plastic and their Products	1.9
Textiles	1.7
Wood and Wood Products	1.7
Leather and Leather Products	1.6
Paper and paper products	1.3
Telecommunications	0.7

Source: RBI

Table 2.2 Industries that saw contraction in bank credit offtake

	% growth: May'21
Iron and Steel	-8.2
Gems and Jewellery	-7.5
Petro Chemicals	-6.9
Sugar	-4.7
Edible Oils	-3.6
Mining and Quarrying (incld Coal)	-3.2
Cement and Cement Products	-3.1
Petroleum, Coal Products and Nuclear Fuels	-2.6
Fertiliser	-2.5
Metal and Metal Products	-2
Roads	-1.9
Drugs and Pharmaceuticals	-1.6
Power	-1.2
Beverage and Tobacco	-1.1
Glass and Glassware	-1.1
Tea	-0.8
Vehicles and Transport Equipment	-0.6
Other Infrastructure	-0.4

Source: RBI

C. Corporate Bond Issuances

- Borrowings by corporates from the bond markets have been muted in the current financial year compared with year ago. There has however been a monthly improvement in May-June'21. As per the provisional data from Prime Database, corporate bond issuances in June'21 was Rs 38,685 crs, 27% higher than the issuances in May'21 but 29% less than that in June'20. Nearly the entire issuances in June'21 were via private placement.
- In Q1 FY22, Rs. 0.95 lakh crores have been raised by corporates via bond issuances which is 55% less than the borrowings of Rs.2.12 lakh crores in Q1 FY21. The higher borrowings in Q1 FY21 was on account of the RBI's special liquidity measures viz. LTRO and TLRO[1] that prompted fund raising from the debt capital markets.
- In terms of sectoral bond issuance, financial institutions i.e., financial service, banking and housing finance accounted for 75% of the total issuances in June'21. Civil construction, automobiles components, telecommunication and power generation accounted for a 4% each share in issuances.

Table 3.1: Corporate Bond Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% change
June	0.54	0.39	-28
Apr-Jun (Q1)	2.13	0.95	-55

Source: Provisional Data from Prime Database

Table 3.2: Sector-wise Corporate Bond Issuances – June 2021

Industry	June-21 (% share)
Financial Services/Investments	41
Banking/Term Lending	25
Housing Finance	11
Housing/Civil Construction/Real Estate	4
Automobile Components/Ancillaries	4
Telecommunication	4
Power Generation	4
Others	7.8

Source: Provisional Data from Prime Database

Table 3.3: Tenure-wise Bond Issuances – June 2021

Tenure	June-21 (% share)
1-3 years	16%
3-5 years	21%
5-10 years	36%
> 10 years	26%

Source: Provisional Data from Prime Database

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

- 38% of the issuance in June'21 carried a tenure of 1 to 5 years and 36% of funds raised were of 5 to 10 years maturity.
- 62% of the total issuances in June'21 carried a credit rating of AAA. Nearly 30% of the issuances belonged to the AA category (AA+, AA- and AA). A category and below rated issuances accounted for 10% of the issuances.

Table 3.4: Ratings of Bond Issuances – June 2021

Rating	June'21
AAA	62
AA+	14
AA	10
AA-	5
A and below	10

Source: Provisional Data from Prime Database

D. Commercial Paper Issuances

Commercial paper issuances (as per RBI) in June'21 amounted to Rs. 1.72 lakh crores, 33% higher than that in May'21 (Rs.1.28 lakh crores) and 37% more than in June'20 (Rs.1.25 lakh crores). This indicates that businesses have seen an increase in their working capital requirements with the easing of lockdowns across various regions in June.

Commercial paper issuances in Q1 FY22 amounted to Rs. 3.89 lakh crores which is 5% lower than that in Q1 FY21 (Rs. 3.72 lakh crores).

As per the provisional data from Prime database, the majority of commercial paper issuances (35%) were for durations of over 91 days, followed by the 28-91 days that accounted for 33% of the issuances. 28% of the issuances were for less than 14 days. These short-term borrowing were likely towards initial public offering (IPO) investments. All the issuances carried a rating of A1+ (very high degree of safety or lowest risk)

Table 4.1: Sectoral Commercial Paper Issuances* – June 2021

Industry	% share
Financial Services/Investments	39
Oil Exploration/Drilling/Refining	18
Banking/Term Lending	8
Power Generation & Supply	6
Travel/Transportation/Courier	4
Housing Finance	3
Others	23

Note: * provisional data as on 15th July, 2021 from Prime Database

Table 4.2: Duration wise commercial paper issuances – June 2021

No of days	% share
<14	28
14-28	4
28-91	33
>=91	35

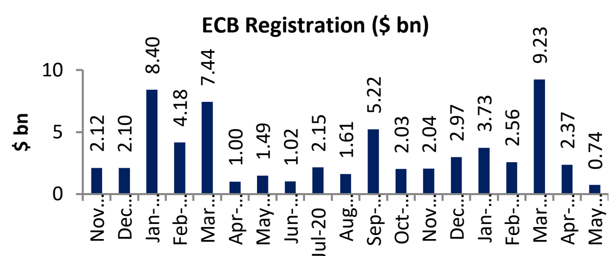
Source: Prime Database

In June 2021, the highest share of issuances were by financial services (nearly 40% of total issuances), followed by oil exploration and drilling (18% of total issuances) and banking and term lending (8% share).

E. External Commercial Borrowings (ECB)

The ECB registrations in May'21 totalled $ 0.7 bn, nearly 70% lower than that in the preceding month. Registration during the month were also half of that a year ago ($1.5 bn in May'20)

The ECB registrations during the first two month of FY22 at $3.1 bn has been $0.6 bn or 25% higher than that in the corresponding months of FY21. ECB registrations in FY21 at $35 bn was the lowest in three years.



Source: RBI

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 made corporates reluctant to borrow and add to their liabilities. 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 May21, the water transport segment has been the largest borrower, accounting for 27% of the total ECB registrations. It was followed by electricity and air conditioning at 20%. Among the other sectors, air transport had a share of 15% and manufacture of petroleum products accounted for 14% of the registrations.

The intended borrowings in May were mainly for import of capital goods (44% of total) followed by new projects (22%). 20% of the borrowings were towards working capital requirements and 10% was for modernization.

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

Sectors	% share
Water transport	27
Electricity, gas, steam and air conditioning supply	20
Air transport	15
Manufacture of refined petroleum products	14
Manufacture of basic metals	7
Computer programming and related activities	3
Manufacture of food products	3
Manufacture of motor vehicles	2
Manufacture of wearing apparel	2
Office administrative and support activities	2
Others	7

Source: RBI

Table 5.2: Purpose of ECB: May'21

Purpose	% share
Import of Capital Goods	44
New Project	22
Working Capital	20
Rupee Expenditure Loc.CG	10
Modernisation	5

Source: RBI

Cost of borrowings

A. Central and State Government

A.1 GSec and T-bills: In June'21, the weighted average yield of fresh borrowings by the central government was 6.18%, 9 bps higher than the previous month. The cost of borrowings (wt average) for the central government has witnessed a sharp increase since the start of the current financial year, having risen by 21 bps since March'21.

The cost of short-term borrowings of the central government rose in June'21 to 3.61%, a 10 bps increase from May'21. There was a broad-based increase across tenures on a month-on-month basis. The weighted average yields for the 91 days T-bills rose by 7 bps to 3.44%, 181 days by 11 bps to 3.68% and 364 days by 10 bps to 3.83%.

A.2 State Development Loans: The cost of borrowing for the state governments rose in June'21 from that in the preceding month. The weighted average cost yields of state development loans (across states and tenures) issued during June at 6.92% was 8 bps higher than that in May. The low demand for government securities amid the anticipated higher supply of these securities (centre and state) in coming periods and the buildup in inflation pressured yields.

Of the thirteen states and one UT that undertook market borrowings in June, the cost of borrowings i.e., the weighted average yield was the highest for Meghalaya (7.2%) and the lowest for Bihar (at 6.5%).

B. Bank Lending Rates (MCLR and WALR)

The marginal cost of lending rate (MCLR) of scheduled commercial banks in June'21 moderated further to the lowest levels in 5- years. The median 1-year MCLR of scheduled commercial banks in May at 7.20% was 8 bps lower than that in May'21. 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 80 bps in the subsequent fifteen months.

At the bank group level, public sector banks saw their median lending rates in June'21 at 7.30%, a 3 bps decline after being steady at 7.33% during October'20- May'21. The median lending rates of private banks at 8.30% declined by 15 bps from that in May'21. Similarly, in the case of foreign banks, the lending rates fell by 13 bps to 5.83% in June from that in the previous month.

The median 1-year MCLR of public sector banks in June was 100 bps lower than that of private sector banks and 147 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 72 bps and that of foreign banks by 160 bps.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 7.81% in May'21 was 29 bps lower than a month ago. The WALR of private sector banks and foreign banks declined by 52 bps and 13 bps respectively while that of public sector banks rose by 6 bps on a month-on-month basis. The WALR of public sector banks at 7.83% in May was 44 bps lower than that of private sector banks.

C. Corporate Bonds

The overall borrowing cost for the corporates from the bond markets rose to a 12-month high of 7.53% (weighted average) in June'21 which was a 134 bps increase over May'21. The cost of borrowing during the month was however 13 bps lower than that in June'20.

The issuer-wise comparison of the cost of borrowing (yields) from the bond market indicates that the HFCs (housing finance companies) and NBFCs witnessed a rise in the cost of funds in June from month ago, while the yields for the AIFs (All India Financial Institutions), banks and manufacturing companies moderated as highlighted in Table 6. When compared with year ago (June'20), barring the NBFC's (a 13 bps increase), the bond yields have moderated (by 68 bps to 94 bps) for the other category of issuers.

- Although the yields for HFCs in June'21 at 6.44% saw a 50 bps increase from May'21, it was 132 bps lower than that in April'21.
- In case of the others category, the funds have been raised by entities in the segments of real estate, power generation and supply, road & highways, transport and manufacturing. The weighted average yields in this category has decline on a month-on-month basis by 32 bps to 7.11% in June'21.
- The cost of borrowing (weighted average) of the NBFC sector rose sharply to 8.52% in June'21 , a 235 bps increase from May'21.
  - AAA rated companies at the aggregate level have raised funds from the corporate bond market at a weighted average cost of borrowings of 6.55% in June'21, 54 bps higher than the previous month. In case of the AA+ rated companies, the yield of issuances increased by 142 bps from month ago to 6.95%.

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	7.77	6.42	6.68
May-21	6.63	5.95	6.17	7.44
Jun-21	6.32	6.44	8.52	7.11

*Others include banks, real estate, power generation, transport and manufacturing companies.
Source: Prime Database; CARE Ratings' Calculation

D. Commercial Paper

The cost of borrowing via commercial papers rose to a three- month high in June'21 (based on data on issuances from Prime database). The weighted average yield of these instruments during the month was 3.94%, an increase of 5 bps from the previous month. Despite the sequential increase, on an annual basis the yields were lower by nearly 12 bps (4.5% in June'20).

The issuer- wise comparison of primary market yields of commercial papers indicates an increase in monthly yields for NBFCs, HFCs and AIFs.

- The cost of borrowings for NBFCs rose to 4.29% in June'21, a 21 bps increase from May'21. It was however 114 bps lower than that in June'20.
- The cost of borrowings for HFCs rose by 46 in June'21 (m-o-m) to 3.92% but was 0.96% lower than the corresponding month of the previous year.
- AIFs raised funds in June'21 at 3.55%, a 15 bps increase from the previous month.

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

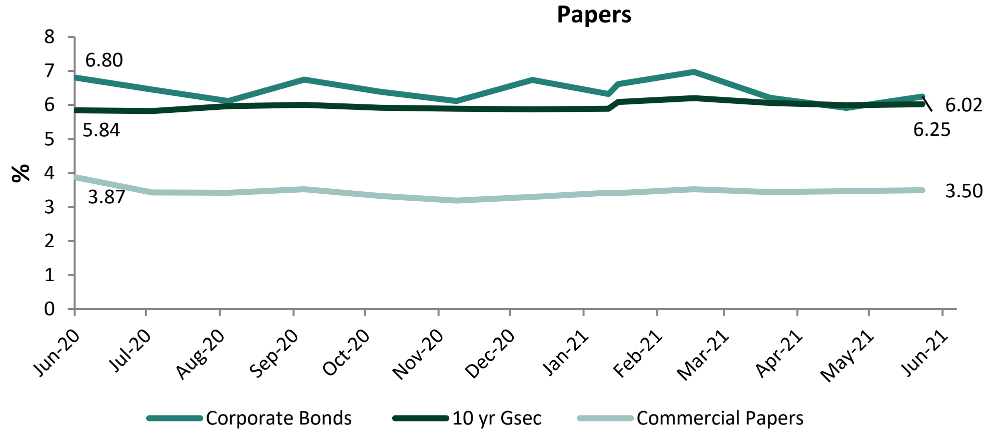
	NBFC	HFC	AIF	Others	Weighted average
Mar-20	9.84	5.29	5.73	5.75	6.13
Apr-20	6.50	6.11	4.94	6.16	5.53
May-20	5.65	5.11	4.52	5.40	5.21
Jun-20	5.43	4.88	3.71	4.87	4.47
Jul-20	4.82	3.83	3.36	4.20	4.03
Aug-20	3.98	4.63	3.35	3.85	3.74
Sep-20	4.82	3.89	3.39	4.53	4.27
Oct-20	4.19	3.72	3.42	3.96	3.86
Nov-20	3.73	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	4.36	3.49	3.40	3.80	3.73
May-21	4.08	3.45	3.40	3.93	3.75
Jun-21	4.29	3.92	3.55	3.92	3.94

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

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 longer duration government and corporate debt securities rose in June'21 from month ago.

The average 10-year benchmark GSec yields in June rose to 6.02%, a 3 bps increase from month ago. Bond yield rose with the firming up of inflation and the central government announcing pandemic relief measures, implying an increase to the already high scheduled market borrowing. The RBI's bond purchase programme, surplus liquidity in the banking system and the status quo in monetary policy helped to limit the rise in yields to an extent.

Corporate bond yields (weighted average yields) at 6.25% in June was 34 bps higher than in May. In the case of commercial paper, the average yields inched up by 3 bps (month-on-month) to 3.50%.

The rise in yields of corporate debt securities can be attributed to the firming of GSec yields. At the same time the surplus liquidity in the banking system and demand from mutual funds supported demand for these securities and limited the rise in yields. Net into the corporate bond funds and liquid funds stood at Rs. 530 crores and Rs.2,078 crores respectively as against the net outflows in May'21 (Rs.1,468 crores in corporate bond funds and Rs.45,447 crores in liquid funds).

B. Yields Spread

The risk perception of the higher rated corporate bonds narrowed marginally while that of the lower rated ones witnessed a slight increase as of end June as was highlighted the spread between corporate bonds and the bench-mark government securities of comparable maturity (10 years).

The comparison of yield spreads on 30 June'21 with that of 31 May'21 showed that the yield spreads for corporate bonds narrowed for bonds rated AAA to AA by 1 to 2 bps. The spreads rose by 1 bp for bonds rated AA- to BBB-.

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
31-May-21	6.02	0.45	0.91	1.17	1.57	3.07	3.32	3.82	4.32	4.57	5.07
30-June-21	6.05	0.43	0.90	1.18	1.58	3.08	3.33	3.83	4.33	4.58	5.08

Source: FIMMDA

Contact:

Madan Sabnavis	Chief Economist	madan.sabnavis@careratings.com	+91-22-6837 4433
Author:			
Kavita Chacko	Senior Economist	kavita.chacko@careratings.com	+91-22-6837 4426

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect: