Debt Market Review – December'21

January 17, 2022 | Economics

Summary

Cost of funds for the government and corporates alike rose in December'21 as borrowings increased.

Fund raising by businesses from the debt capital markets picked up pace, although they continued to be concentrated in certain segments. Credit offtake from banks too improved, led by the retail and agriculture segment. Industrial and service sector are yet to see a growth in bank credit offtake over end- March.

The secondary market yield of GSecs and commercial papers rose in December to multi-month highs. Concerns over the tightening of monetary policies by the global central banks amid the unabated rise in price levels led to a sell-off in bonds, lifting yields.

Despite the rise in yields, the risk perception of corporate bonds improved in December'21. This was evidenced by the narrowing of the spread over GSec even as the yield of latter rose.

Table 1: Snapshot of the Indian Debt Market

Borrowings: Government										
	Unit	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
GSec	Rs. Crs	1,02,019	1,08,566	1,07,910	1,56,500	1,11,493	1,15,860	1,20,000	72,000	95,732
T-Bills	Rs. Crs	1,44,000	1,44,000	1,80,000	68,000	68,000	85,000	80,000	80,000	1,00,000
SDLs	Rs. Crs	9,150	50,550	84,850	49,300	60,650	54,472	59,449	63,219	54,385
Borrowings: Corporates										
	Unit	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**
Bonds	Rs. Crs	26,005	29,402	35,318	36,723	41,934	1,02,802	27,658	56,146	61,036
Commercial Papers	Rs. Crs	89,576	1,28,155	1,71,368	2,66,249	2,21,759	1,33,570	1,11,843	2,87,738	2,48,885
Incremental Bank Credit*	Rs. Crs	-91,136	-1,17,972	- 1,09,695	-70,939	-52,046	7,238	96,784	2,12,738	7,33,904
ECB Registrations	$ Bn	2.37	0.74	1.48	3.43	2.85	3.92	1.32	2.39	

*over March

Average Yields in Primary Markets (%): Government									
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
GSecs	5.65	6.09	6.18	6.11	6.33	6.17	6.29	6.35	6.47
T-bills	3.45	3.51	3.61	3.54	3.45	3.43	3.67	3.79	3.84
SDLs	6.49	6.84	6.92	6.96	6.86	6.86	6.91	6.4	6.97
Average Yield in Primary Market (%):Corporates									
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Bonds	6.33	6.19	7.53	6.85	6.47	6.66	6.74	6.21	7.01
CPs	3.73	3.75	3.94	4.42	4.21	3.67	3.87	4.07	4.57
Bank - MCLR*	7.30	7.25	7.20	7.25	7.25	7.20	7.25	7.20	7.25
Average Yields in Secondary Markets (%)									
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
10 yr GSecs	5.89	5.99	6.02	6.14	6.23	6.18	6.33	6.35	6.41
Corporate Bonds	6.32	5.91	6.25	7.13	6.37	6.43	6.02	6.70	6.44
Commercial Paper	3.42	3.46	3.50	3.47	3.35	3.39	3.62	3.66	3.75

* 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: Rise in cost of borrowings

The quantum as well as cost of market borrowings was higher for the central government in December'21. The cost of borrowing for the central government firmed up to nearly 2-year highs in December'21.

The total borrowing in the month totalled Rs. 1.95 lakh crore, 29% more than the previous month. The short-term borrowings totalled Rs. 1 lakh crore (Rs.0.80 lakh crore in November) and Rs. 0.96 lakh crore was raised through the issuance of dated securities (Rs. 0.72 lakh crore in November).

The short-term as well as long-term borrowing cost rose in December. The weighted average yield of T-bills inched up to a 20-month high of 3.84% (5 bps increase over November) and that of GSecs at 6.47% was the highest since January'20 and was 12 bps higher than November. Yields have risen on concerns over the faster than anticipated tightening of monetary policies by central banks amid persistent inflationary pressures and a surge in Covid-19 infections that led to reimposition of restrictions across regions, further straining supply chains.

The overall market borrowings of the central government have been lower in the current fiscal by 12% (at Rs.19.4 lakh crore). In the first nine months of FY22 the long-term borrowings at Rs.9.90 lakh crore has been 6% lower than the previous year, while the T-bill issuances at Rs. 9.49 lakh crore were lower by 18%.

The relatively improved financial position of the government aided by higher tax revenues and curtailed expenditure has necessitated lower market borrowings in the current fiscal year.

The borrowing cost for the central government through dated securities in the current financial year is notably higher than a year ago, despite lower borrowings. The weighted average yield of GSecs in the first nine months of FY22 at 6.22% is 42 bps higher than in the corresponding period of FY21. The year -to-date yield of T-bills too has increased by 12 bps to 3.59%.

1.2 State government: Lower borrowings amid increase is cost of funds

Eighteen states and two UTs together raised Rs. 0.54 Lakh crore via the issue of State Development Loans (SDLs) in December'21, 14% lower than the preceding month. Karnataka and West Bengal accounted for 35% of the funds raised. The weighted average yield of SDL's that were issued during the month at 6.97% was 57 bps higher than in November.

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 nine months of FY22, states/UTs (26 states and 2 UTs) cumulatively raised Rs.4.86 lakh crore from the market, 13% lower than a year ago. Here too, the lower borrowings can in large part be attributed to the higher revenue relative to the expenditure undertaken.
The cost market borrowing for states however has been higher this year. The weighted average yield of SDLs in the first nine months of FY22 at 6.84% is 39 bps higher than in the corresponding period of FY21.

2. Bank credit offtake quickens

Bank credit offtake further picked-up pace in December. As of end December, the outstanding bank credit was Rs. 116.8 lakh crore, a Rs. 7.33 lakh crore increase or 6.7% growth over end-March'21. This is a significant improvement from the 3.2% growth (or Rs. 3.33 lakh crore increase over end-March'20) in the comparable period of FY21 and the negative growth in the first six months of FY22.

There has been an improvement in credit demand in recent months associated with the higher levels of economic activity and mobility. The revival in credit demand however has not been broad-based across segments. It is being driven by the retail and agriculture sector, both of which have witnessed growth in incremental credit offtake during the first eight months of FY22 over end-March'21. 73% of the incremental credit offtake has been by the retail segment.

In case of the industrial and service sector, the incremental credit offtake continues to be in contractionary territory (as highlighted in Table 2.1), reflective of the deleveraging by borrowers as well as their low appetite for fresh investments. The selectiveness banks to lend only to certain segments is probably also a factor for the low credit growth.

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

Sector-wise Bank Credit - % Growth Over March		
	Apr-Nov FY21	Apr-Nov FY22
Agriculture	4.7	5.7
Industry	-4.2	-1.0
Services	-1.6	-0.8
Retail	3.3	4.9

Source: RBI

The industrial sector however has seen relative progress in credit offtake. The severity of the contraction in incremental credit offtake is less than a year ago (-1.0% v/s -4.2%). Within the industrial sector, the small and medium enterprises, which together account for one-fifth of the outstanding bank credit to industry have registered growth in incremental credit offtake (by 7% and 35% respectively) as opposed to the negative growth of large enterprises (-4.4%).

In case of the service sector too, there has been an uptick in credit demand in the eight months to November'21 compared with a year ago. The contraction in incremental credit offtake has moderated from (-)1.6% to (-)0.8%. Within the service sector, incremental credit demand has witnessed growth in the case of the hospitality sector (4.7%), retail trade (1.5%), housing finance companies (2.6%), public finance institutions (15.7%), shipping (3.9%) and aviation (4.4%)

In terms of industry-wise deployment of incremental bank credit during April-November'21, infrastructure sectors (ports, railways, road, power, airports), rubber & plastic products, gems & jewellery, construction, mining, petroleum products, transport equipment, paper, wood, pharmaceuticals and engineering are the sectors that have witnessed a growth in bank credit. The major sectors that have seen a contraction in incremental credit offtake include fertiliser, metal products, cement, food processing, petrochemicals, telecommunication, glass and glassware and leather products (Table 2.2 and 2.3).

Table 2.2 Industries that witnessed growth in bank credit offtake

Industries that registered growth in credit offtake	% Growth: End Nov'21 over end Mar'21
Rubber, Plastic and their Products	13.7
Gems and Jewellery	11.4
Mining and Quarrying (incl. Coal)	10.9
Paper and Paper Products	3.9
Infrastructure	2.1
Railways	22.5
Roads	4.1
Airports	3.3
Ports	2.5
Power	1.6
Transport equipment	2.0
Petroleum, Coal Products and	1.6
Construction	1.4
Wood and Wood Products	1.3
Engineering	1.2
Drugs and Pharmaceuticals	0.8

Source: RBI

Table 2.3 Industries that witnessed contraction in bank credit offtake

Industries that registered contraction in credit offtake	% Growth: End Nov'21 over end Mar'21
Fertiliser	-9.0
Basic Metal and Metal Product	--15.5
Cement and Cement Products	-17.4
Petro Chemicals	-5.4
Glass and Glassware	-9.6
Food Processing	-6.6
Beverage and Tobacco	-1.3
Telecommunication	-1.7
Leather and Leather Products	-1.3

Source: RBI

In terms of cost of funds, the marginal cost of lending rate (MCLR) of scheduled commercial banks although ruling at 5-year lows rose in December. The median 1-year MCLR of scheduled commercial banks for the month was 7.25%, 5 bps higher than in November.

At the bank group level, the median lending rates in December'21 for public sector banks at 7.25% was unchanged from the preceding month and that of private banks at 8.20% was 5 bps higher than the previous month.

The median 1-year MCLR of public sector banks in November was 95 bps lower than that of private sector banks. Public sector banks MCLR (median 1 year) has declined by 95 bps since March'20, while that of private sector banks has fallen by 90 bps. The RBI cuts transmission of 115 bps since March'20 has been marginally higher in the case of public sector banks than private sector banks.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 8.91% in November'21 was 2 bps lower from a month ago. The WALR of public sector banks at 8.40% in November was 143 bps lower than that of private sector banks.

3. Corporate Bond Issuances subdued despite sequential improvement

Higher quantum of funds was raised through the issue of corporate bonds in December when compared with the preceding month. Issuances however were lower when compared with a year ago.

As per provisional data from Prime Database, issuances during the month amounted to Rs. 0.61 lakh crore, a 9% increase from the previous month. It was however 3% lower than a year ago (Rs. 0.63 lakh crore in December'20). Nearly the entire issuances (97%) were through private placement.

Borrowings by corporates from the bond markets has been lower in the current financial year. In the first nine months of FY22, Rs. 4.17 lakh crore has been raised via corporate bonds which is 25% lower than the same period of FY21 (Table 3.1). The higher borrowings in FY21 were primarily on account of the RBI's special liquidity measures viz. LTRO and TLTRO which prompted fund raising from the debt capital markets given the stipulations attached to these measures- the banks that had borrowed funds through this facility had to invest in fresh acquisition of specified securities i.e., investment grade corporate bonds and commercial papers.

- As in the previous months, the bond issuances in December'21 were dominated by entities belonging to the finance sector. 71% of the issuances were by financial institutions viz., banking, financial services, and housing finance. Travel and Transportation, power generation, roads and highways, housing and real estate, oil exploration and ship building were the other sectors that raised funds from the bond markets during the month (Table 3.2). The finance sector has accounted for around 75% of the issuances during the first three quarters of FY22.
- 28% of the issuances in December'21 carried a tenure of 3 years and 35% has a maturity profile of 10 years. 11% of issuance were of tenures of 1-2 years (Table 3.3). The majority of issuance in the first nine months of FY22 carried a tenure of 10 years (29%) followed by 3 years (21%).
- 86% of the total issuances in December'21 carried a credit rating of AA+ and above (Tabe 3.4). For the fiscal year thus far, 80% of issuance were rated AA+ and above.

- The overall cost of borrowings via corporate bonds firmed to a six month high in December'21. The weighted average yield of corporate bonds (across tenure and rating category) at 7.01% was 80 bps higher than in November.

Table 3.1: Corporate Bond Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% change
December	0.63	0.61	-3
April-December	5.56	4.17	-25

Source: Provisional Data from Prime Database

Table 3.2: Sector-wise Corporate Bond Issuances

Industry	Dec'21 (% share)	Apr-Dec'21 (% share)
Banking/Term Lending	42	33
Financial Services/Investments	16	20
Travel and Transportation	15	3
Housing Finance	12	22
Power Generation and Supply	3	5
Roads and Highways	3	4
Housing and Real Estate	2	2
Oil exploration	2	2
Shipbuilding	2	1
Others	2	6

Source: Provisional Data from Prime Database

Table 3.3: Tenure-wise Bond Issuances

Tenure	Dec'21 (% share)	Apr-Dec'21 (% share)
1-2 years	11	11
3 years	28	21
5-6 years	5	12
10 years	35	29
> 10 years	5	11

Source: Provisional Data from Prime Database

Table 3.4: Ratings of Bond Issuances

Rating	Dec'21 (% share)	Apr-Dec'21 (% share
AAA	73	69
AA+	13	12
AA	8	13
AA-	3	3

Source: Provisional Data from Prime Database and CARE Ratings

4. Higher ultra-short term commercial paper issuances

Short term borrowings of corporates via commercial paper issuances in December'21 amounted to Rs. 2.49 lakh crore. Issuances during the month were notably higher on an annual basis (by 31%) but lower monthly (by 14%). 96% of the issuance in December'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 the first nine months of FY22 the issuance totalled Rs.16.59 lakh crore which is a 36% increase over 9M of FY21 (Rs. 12.21 lakh crore).

The commercial paper issuances in December'21 was concentrated in the ultra short-term tenure i.e., 7 to 10 days. It accounted for 53% of the total issuances (Table 4.2). These issuances were floated by NBFCs and were towards funding of IPOs. NBFC's were the largest issuers of commercial papers during the month and accounted for 48% of the issuances. In FY22, sizeable issuance have been for short tenure of 7-10 days directed towards IPO funding.

The finance sector that included financial services, banking, and housing finance had the highest share (at 67%) of commercial paper issuances in December. This has been the case for the fiscal year thus far – the finance sector accounts for nearly 60% of the issuances (Table 4.3)

The cost of borrowing via commercial papers in December firmed to the highest levels since May'20. Based on the provisional data on issuances from Prime database, the weighted average yield of these instruments at 4.57% was 50 bps higher than that in November'21and 84 bps higher than April'21.

Table 4.1 Commercial Paper Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% Change
December	1.90	2.49	31
April-December	12.21	16.59	36

Source: RBI

Table 4.2: Duration wise commercial paper issuances

No of days	Dec'21 (% Share)	Apr-Dec'21 (% share)
7 days	47	29
8 -10 days	6	7
11-89 days	25	31
90-91 days	11	14
92-365 days	11	12

Source: Provisional Data from Prime Database and CARE Ratings

Table 4.3: Sectoral Commercial Paper Issuances

Industry	Dec'21 (% Share)	Apr- Dec'21 (% Share)
Financial Services	60	49
Oil exploration refining	6	12
Civil construction/ real estate	5	3
Telecommunication	5	5
Banking/ Term Lending	4	5
Housing Finance	3	4
Trading	3	3
Power Generation & Supply	2	3
Others	12	16

Source: Provisional Data from Prime Database

Table 4.4: Commercial paper yields

	Weighted average
Apr-21	3.73
May-21	3.75
Jun-21	3.94
Aug-21	4.21
Sep-21	3.67
Oct-21	3.87
Nov-21	4.07
Dec-21	4.57

Source: Provisional Data from Prime Database and CARE Ratings

5. Higher borrowings from foreign markets

Corporates have been seeking higher quantum of funds from the overseas markets. The external commercial borrowing (ECB) registrations in November'21 at $2.4 bn was higher on a sequential (by 80%) as well as annual basis (17%).

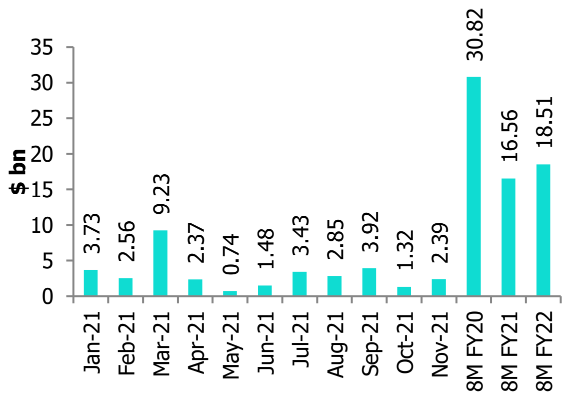
In terms of sectoral borrowings in November'21, electricity, gas, steam and air conditioning supply and the financial services were the largest borrowers, together accounting for 81% of the registrations.

The intended borrowings in November were mainly towards on-lending (68% share).At the same time borrowings were also for meeting business requirements and investments such as procurement of capital goods, new projects and working capital requirements, which cumulatively accounted for 30% of the ECB registrations.

In terms of tenure of borrowings in November, 88% of the ECB registration were for a tenure of 3 to 5 years and 4% for tenure greater than 10 years.

During June-September, many corporates were seen to be tapping the overseas market for funds. The low interest rates in the global markets had prompted many corporates to raise funds from these markets to meet their business needs (for working capital, modernization, new projects, imports of capital goods, on-lending, etc) as well as for refinancing their existing domestic and foreign debt. The subsequent hardening of bond yields with the tightening of monetary policy/expectation as well as the depreciation in the Rupee has led to corporates limiting their overseas fund raising.

Chart 1: ECB Registration ($ bn)



Source: RBI

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

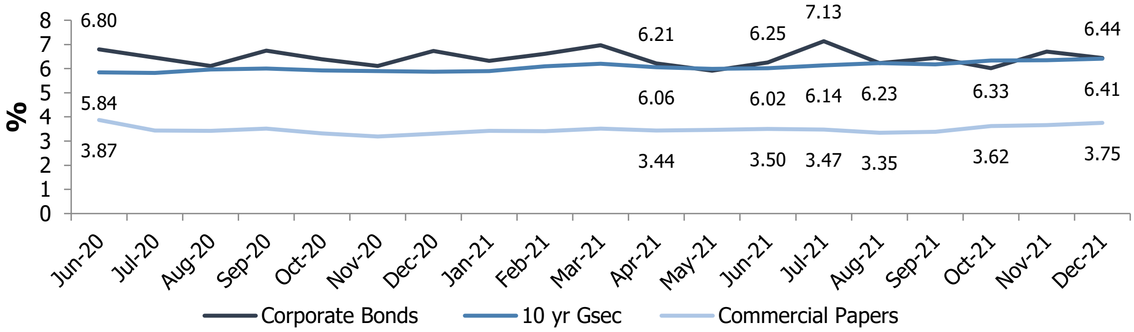
Sectors	% share
Electricity, gas, steam and air conditioning supply	46
Financial services	35
Manufacture of basic metals	7
Manufacture of motor vehicles	2
Manufacture of pharmaceuticals, medicinal chemical and botanical products	2
Manufacture of electrical equipment's	1

Source: RBI

The ECB registrations in the first eight months of FY22 at $18.5 bn is 12% higher than that in the same period of FY21 ($16.6 bn) but 40% lower than that of FY20 ($30.8 bn during Apr-Nov'19). This decline can in part be attributed to the decline in domestic borrowing rates (the MCLR of scheduled commercial banks has declined by 120 bps from the average 8.45% of FY20 and similarly the weighted average corporate bond yields have fallen by 153 bps) as well with businesses deferring their investment and expansion plans in the backdrop of demand and economic uncertainty.

B. Secondary Markets: Upwards movement 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 yield of GSecs and commercial papers rose in December from a month ago. The yield on the benchmark 10-year GSec rose to the highest level in 22 months, while that of commercial papers climbed to 18-month highs.

The average 10-year GSec yields surged to 6.41% in December, a 6 bps increase from a month ago, while the average yield of commercial papers at 3.75% was up by 9 bps. The weighted average yield of corporate bonds for the month at 6.44%, moderated by 26 bps from a month ago.

Concerns over the tightening of monetary policies by the global central banks amid the unabated rise in price levels led to a sell off in bonds raising yields.

Yield spread narrows

The risk perception of corporate bonds improved in December'21. Credit spreads fell during the month even as GSec yields rose. The spreads over GSecs across rating categories narrowed for the bonds of NBFCs and corporates alike from that in November'21 (as highlighted in Table 6 below). As of end December'21, corporate bonds spreads narrowed by 14 bps for AAA rated bonds, 16 bps for AA+ and 13 bps for AA rated bonds from that in November'21.

Table 6: Bond Spread over GSec (10 year)

10 year	NBFCs						Corporates						PSUs					
	30-Apr-21	31-Aug-21	30-Sep-21	29-Oct-21	30-Nov-21	30-Dec-21	30-Apr-21	31-Aug-21	30-Sep-21	29-Oct-21	30-Nov-21	30-Dec-21	30-Apr-21	31-Aug-21	30-Sep-21	29-Oct-21	30-Nov-21	30-Dec-21
AAA	0.55	0.62	0.56	0.52	0.57	0.56	0.5	0.58	0.56	0.45	0.55	0.41	0.43	0.52	0.43	0.4	0.41	0.38
AA+	1	1.04	1.02	0.98	1.05	0.96	0.98	1.06	1.07	0.92	1.03	0.87	0.9	0.98	0.96	0.92	0.9	0.95
AA	1.4	1.38	1.37	1.33	1.39	1.31	1.26	1.38	1.35	1.24	1.29	1.16	1.16	1.29	1.28	1.21	1.2	1.25
AA-	1.77	1.73	1.73	1.69	1.77	1.66	1.53	1.78	1.76	1.66	1.76	1.56	1.57	1.69	1.72	1.63	1.66	1.70
A+	3.77	3.73	3.73	3.69	3.77	3.66	3.03	3.28	3.26	3.16	3.26	3.06	2.57	2.69	2.72	2.63	2.66	2.70
A	4.02	3.98	3.98	3.94	4.02	3.91	3.28	3.53	3.51	3.41	3.51	3.31	2.82	2.94	2.97	2.88	2.91	2.95
A-	4.27	4.23	4.23	4.19	4.27	4.16	3.78	4.03	4.01	3.91	4.01	3.81	3.07	3.19	3.22	3.13	3.16	3.20
BBB+	4.77	4.73	4.73	4.69	4.77	4.66	4.28	4.53	4.51	4.41	4.51	4.31	3.57	3.69	3.72	3.63	3.66	3.70
BBB	5.02	4.98	4.98	4.94	5.02	4.91	4.53	4.78	4.76	4.66	4.76	4.56	3.82	3.94	3.97	3.88	3.91	3.95
BBB-	5.52	5.48	5.48	5.44	5.52	5.41	5.03	5.28	5.26	5.16	5.26	5.06	4.32	4.44	4.47	4.38	4.41	4.45

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