Debt Market Review - July,2021

August 11, 2021 I Economics

Summary

The overall market borrowings of the central government as well as the state government was lower in July'21. Even as the central government resorted to higher long term borrowings, it cut back on its short term borrowings. On the other hand, corporates were rather subdued in their long-term fund raising from the debt capital markets but borrowed heavily ultra-short term funds which was directed towards investments in IPOs. Bank credit offtake continued to be lacklustre in July.

While the cost of borrowing eased on a monthly basis for the central government, it rose for the state governments. In case of the corporates, even as corporate bond yields moderated during the month, commercial paper's witnessed a rise in the cost of borrowing.

The secondary market yields of longer duration government and corporate debt securities rose in July'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 and surplus liquidity in the banking system 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	Jul-21
GSec	Rs. Crs	1,17390	1,16,224	90,233	1,02,019	1,08,566	1,07,910	1,56,500
T-Bills	Rs. Crs	76,000	76,000	95,000	1,44,000	1,44,000	1,80,000	68,000
SDLs	Rs. Crs	55,800	79,570	1,07,594	9,150	50,550	84,850	49,300
Borrowings : Corporates								
	Unit	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Bonds	Rs. Crs	59,697	40,397	96,794	25,941	29,387	35,250	29,687
Commercial Papers	Rs. Crs	1,38,943	1,57,716	2,23,538	89,576	1,28,155	1,71,368	2,66,249
Incremental Bank Credit*	Rs. Crs	3,32,756	4,02,902	5,79,648	-91,136	-1,17,972	-1,09,695	-70,939
ECB Registrations	$ Bn	3.71	2.56	9.23	2.37	0.74	1.48	

*over March

Average Yields in Primary Markets (%): Government							
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
GSecs	5.65	5.86	5.98	6.1	6.09	6.18	6.11
T-bills	3.45	3.56	3.58	3.49	3.51	3.61	3.54
SDLs	6.49	6.96	6.79	6.71	6.84	6.92	6.96
Average Yield in Primary Market (%):Corporates							
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Bonds	6.33	6.49	7.18	6.21	6.19	7.53	6.85
CPs	4.14	3.82	4.04	3.73	3.75	3.94	4.42
Bank - MCLR*	7.30	7.30	7.30	7.30	7.28	7.20	7.23
Average Yields in Secondary Markets (%)							
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
10 yr GSecs	5.89	6.09	6.2	6.06	5.99	6.02	6.14
Corporate Bonds	6.32	6.61	6.97	6.21	5.91	6.25	7.13
Commercial Paper	3.42	3.41	3.52	3.44	3.46	3.50	3.47

* 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 borrowings accompanied with moderation in cost of funds

The Central Government raised Rs. 1.56 lakh crore in July'21 through the auction of dated securities (GSecs), a sharp 45% increase over the issuance in June'21 (Rs.1.08 lakh crore). Rs.0.29 lakh crore or 19% of the auctioned securities were devolved on primary dealer, taking the total devolvement on primary dealers during the first 5 months of FY22 to Rs.0.76 lakh crore. The short-term borrowings by way of treasury bills (T-bills) in July'21 aggregated Rs.0.68 lakh crore, 62% less than the borrowings of June (Rs.1.8 lakh crore). The total borrowings (long and short term) at Rs. 2.24 lakh crore was Rs.0.63 lakh crore 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.4.75 lakh crore have been 8% lower on a year-on-year basis, while the T-bill issuances at Rs.5.36 lakh crore were lower by 21%.

The weighted average yield or cost of long term as well as short term borrowings for the central government eased on a monthly basis in July'21. At 6.11%, the weighted average yield of long term borrowings was 7 bps lower that June. Similarly, the weighted average yields of T-bills declined by 6 bps to 3.54%.

Despite the decrease in July, the cost of borrowings for the central government has been ruling at relatively high level. The yields (wt avg) of GSecs have risen by 14 bps during March'21- July'21 and that of T-bills have seen an increase of 5 bps from levels seen in April'21.

1.2 State government: Lower borrowings amidst rising yields

Eighteen states together raised Rs.49,300 crore via the issue of State Development Loans (SDLs) in July'21, 42% lower than the borrowings in June'21. During April-July of FY22, the borrowings by state governments at Rs.1.94 lakh crore have been 10% less than that in the same period of FY21 (Rs. 2.15 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 July, the market borrowings of Tamil Nadu was the highest (Rs. 8,000 crore), followed by Uttar Pradesh (Rs.7,500 crore). Maharashtra and West Bengal and Rajasthan borrowed over Rs.5,000 crore each.

The cost of borrowing for the state governments rose in July'21 from that in the preceding month. The weighted average cost yields of state development loans (across states and tenures) issued during July at 6.96% was 4 bps higher than that in June. The yields (weighted average) on SDL issuances have risen by 25 bps during April-July'21. This increase can be put down to the lower demand for SDLs amid the huge supply of government securities and the buildup of inflationary pressures. Among the state's, the cost of borrowings was the highest for Telangana (7.22%) followed by Andhra Pradesh (7.15%). It was the lowest for Assam at 6.33%.

2. Bank credit growth repressed despite lower rates

Bank credit offtake though better than a year ago, remained subdued in July. As on 16 July'21, the outstanding aggregate bank credit amounted to Rs. 108.7 lakh crores, Rs. 0.71 lakh crores less than end-March'21. Incremental bank credit growth over March'21 as on 16 July'21 was (-)0.6% v/s the (-)1.5% growth in the comparable period of July'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-18 Jun FY21	Apr-18 Jun FY22
Agriculture	-0.4	-1.2
Industry	-1.0	-1.7
Services	-2.6	-1.1
Personal Loans	-2.5	-1.0

Source: RBI

Growth in credit has been better for the retail and services segment compared with year ago while that to industry and agriculture continues to be lacklustre.

In terms of industry-wise deployment of incremental bank credit during June'21, 14 key industries/segments registered a growth in credit offtake, while 12 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 saw growth in bank credit offtake

Industries that registered growth in credit offtake	% Growth: As of 18 Jun'21 over end March'21
Mining and Quarrying	1.0
Textiles	0.8
Leather and Leather Products	1.3
Wood and Wood Products	1.9
Paper and Paper Products	2.3
Petroleum, Coal Products and Nuclear Fuels	1.3
Rubber, Plastics and their Products	2.0
Glass and Glassware	1.2
Vehicles, Vehicle Parts and Transport Equipment	0.8
Construction	2.2
Telecommunications	2.8
Airports	29.2
Ports	4.6
Railways (other than Indian Railways)	12.0

Source: RBI

Table 2.3 Industries that saw contraction in bank credit offtake

Industries that registered contraction in credit offtake	% growth : Apr'21-18 June'21
Food Processing	-0.6
Beverage and Tobacco	-3.3
Fertiliser	-1.4
Drugs and Pharmaceuticals	-2.9
Petro Chemicals	-12.2
Cement and Cement Products	-3.7
Iron and Steel	-11.4
Other Metal and Metal Product	-3.2
All Engineering	-1.1
Gems and Jewellery	-4.1
Power	-0.4
Roads	-1.6

Source: RBI

The marginal cost of lending rate (MCLR) of scheduled commercial banks in July'21 although slightly higher than that in the preceding month continued to be around 5 year lows. The median 1-year MCLR of scheduled commercial banks in July at 7.23% was 3 bps higher than that in June'21. 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 17 months.

At the bank group level, the median lending rates in July for public sector banks was unchanged from month ago at 7.30%. In case of private banks, it was 5 bps lower at 8.25%, while for foreign banks it rose by 2 bps to 5.85%.

The median 1-year MCLR of public sector banks in July was 95 bps lower than that of private sector banks and 145 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 77 bps and that of foreign banks by 158 bps.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks at 7.80% in June'21 was 1 bp lower than a month ago. The WALR of private sector banks declined by 17 bps, while that of private banks and foreign banks was stable on a month-on-month basis. The WALR of public sector banks at 7.66% in June was 62 bps lower than that of private sector banks.

3. Corporate Bond Issuances Subdued, easing yields

The long term fund raising by corporates from the bond market was tempered in July'21. Corporate bond issuances during the month (as per provisional data from Prime Database) amounted to Rs. 29,687 crore which was 16% lower than the bonds issues in the previous month and 44% lower than that a year ago (July'20). 95% of the corporate bond issuances in July were through private placements.

Borrowings by corporates from the bond markets have been muted in the current financial year compared with year ago. During April-July of FY22, Rs. 1.20 lakh crore has been raised via corporate bonds which is 55% less than the borrowings of Rs.2.66 lakh crores in the same months of FY21. The higher borrowings in FY21 was primarily on account of the RBI's special liquidity measures viz. LTRO and TLRO1 which prompted fund raising from the debt capital markets owing to the conditions associated with these liquidity measures.

- In terms of sectoral bond issuance, financial institutions i.e., banking, financial service and housing finance accounted for 87% of the total issuances in July'21. Hospitals, civil construction, automobiles, and petrochemicals together had a 14% share in issuances.
- 40% of the issuance in July'21 carried a tenure of 1 to 5 years and 26% of funds raised were of 5 to 10 years maturity. 34% of the issuances carried a tenure of 15 years.
- 74% of the total issuances in July'21 carried a credit rating of AAA and 17% of the issuances belonged to the AA category (AA+, AA- and AA). A category and below rated issuances accounted for 9% of the issuances.
- The overall **cost of borrowings** for the corporates via corporate bonds in July'21 eased from month ago. The weighted average yield of corporate bonds (across tenure and rating category) at 6.85% was 68 bps lower than June'21. The fall in yields in July partly reversed the 134 bps increase in yields seen in June'21.
- In terms of credit rating category, the yields for the AAA rated bonds at 6.40% was 90 bps lower than that of AA+ rated bonds, 110 bps less than the AA rated bonds and 140 bps lower than the AA- rated bonds.
- The yields of AIFs (All India Financial Institutions) and HFCs (Housing Finance Companies) rose in July'21 by 13 bps and 3 bps respectively on a monthly basis while that of NBFC witnessed a notable decline (129 bps).

Table 3.1: Corporate Bond Issuances

	FY21 (Rs. Lakh Crs)	FY22 (Rs. Lakh Crs)	% change
July	0.53	0.30	-44
Apr-Jul	2.66	1.20	-55

Source: Provisional Data from Prime Database

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

Industry	July-21 (% share)
Banking/Term Lending	66
Financial services & Housing Finance	21
Hospitals/Diagnostic Services	5
Civil Construction	2
Automobiles	2
Petrochemicals	2
Others	3

Source: Provisional Data from Prime Database

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

Tenure	July-21 (% share)
1-3 years	9
3-5 years	31
5-10 years	26
> 10 years	34

Source: Provisional Data from Prime Database

Table 3.4: Ratings of Bond Issuances – July'21

Rating	July'21- % share	Wt Avg Yield -%
AAA	74	6.40
AA+	7	7.30
AA	6	7.50
AA-	4	7.80
Aggregate		**6.85**

Source: Provisional Data from Prime Database

Table 3.5: Issuer-wise corporate bond

	AIFs	HFCs	NBFCs
Sep-20	6.86	6.61	8.19
Oct-20	6.39	6.93	6.92
Nov-20	6.69	5.92	7.66
Dec-20	6.49	4.98	7.04
Jan-21	5.73	6.69	7.49
Feb-21	6.19	5.76	7.12
Mar-21	6.68	7.00	7.32
Apr-21	5.91	7.77	6.42
May-21	6.63	5.95	6.17
Jun-21	6.32	6.44	8.52
Jul-21	6.45	6.47	7.25

Source: Prime Database; CARE Ratings' Calculation

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

4. Commercial Paper Issuances – Higher ultra-short term issuances and increased cost of borrowing

Short term borrowings of corporates via commercial paper issuances in July'21 was the highest in nearly three years (Aug'18). Commercial paper issuances (as per RBI) during the month amounted to Rs. 2.66 lakh crore, 55% higher than that in June'21 (Rs.1.71 lakh crore) and 191% more than in July'20 (Rs.0.91 lakh crore). All the issuances during July'21 carried a credit rating of A1+ (very high degree of safety or lowest risk)

The higher issuances during the month can in large part be attributed to the ultra- short term funds raised by NBFCs towards investments in IPO (initial public offerings). Funds were also raised to meet the working capital requirements of business with the easing of lockdowns across regions.

Commercial paper issuances during April-July of FY22 amounted to Rs. 6.55 lakh crores which is 41% higher than that in the same period of FY21 (Rs. 4.63 lakh crores).

As per the provisional data from Prime database, majority of the commercial paper issuances (58%) carried a tenure of 7 days. This was followed by issuances that had a maturity of 90-91 days (13% share). 9% of the issuances carried a maturity of 92-365 days, 5% of issuances has a maturity of 8 to 15 days and 14% of the issuances carried a tenure of 16-89 days.

In July'21, the highest share of issuances were by financial services (70% of total issuances). Entities in the diversified segment had a share of 6%, while telecommunication, oil exploration and housing finance had a 4% share each.

Table 4.1: Duration wise commercial paper issuances*- July'21

No of days	% share
7	58
8-15	5
16-45	6
46-75	3
76-89	5
90-91	13
92-365	9

Source: Prime Database Note*: provisional data as on 9 Aug'21

Table 4.2: Sectoral Commercial Paper Issuances* – July'21

Industry	% share
Financial Services/Investments	70
Diversified	6
Telecommunication	4
Oil exploration/ drilling	4
Housing Finance	4
Civil construction	3
Banking/Term lending	3
Others	7

Source: Prime Database Note*: provisional data as on 9 Aug'21

The **cost of borrowing** via commercial papers rose to a thirteen- month high in July'21 (based on data on issuances from Prime database). The weighted average yield of these instruments during the month was 4.42%, an increase of 48 bps from the previous month.

The issuer- wise comparison of primary market yields of commercial papers indicates an increase in monthly yields across segments.

- The cost of borrowings for NBFCs rose to 4.67% in July'21, a 38 bps increase from month ago. It was however 15 bps lower than that in July'20.
- The cost of borrowings for HFCs rose by 11 bps in July'21 (m-o-m) to 4.03%.
- AIFs raised funds in July'21 at 3.72%, a 17 bps increase from the previous month.

Table 4.3: Issuer-wise commercial paper yields

	NBFC	HFC	AIF	Weighted average
Jun-20	5.43	4.88	3.71	4.47
Jul-20	4.82	3.83	3.36	4.03
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

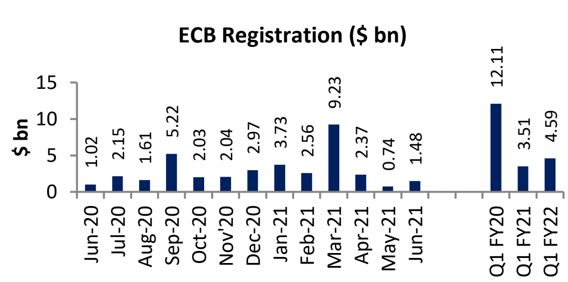
Source: Prime Database Note*: provisional data as on 9 Aug'21

5. Increase in External Commercial Borrowings (ECB)

The ECB registrations in June'21 totalled $ 1.5 bn, double that in the preceding month and 46% higher than that a year ago ($1 bn in June'20)

The ECB registrations during Q1 FY22 at $4.6 bn has been $1.1 bn more or 31% higher than that in Q1 FY21. It however was 62% lower than that in Q1 FY20.

In terms of sectoral borrowings in June'21, the petroleum sector (extraction) has been the largest borrower, accounting for 34% of the total ECB registrations. It was followed by electricity and air conditioning at 20%. Among the other sectors, manufacture of basic metals had a share of 9% and financial services accounted for 8% of the registrations.



Source: RBI

The intended borrowings in June were mainly for procurement of capital goods and working capital requirements (17% share each). 24% of the borrowings were towards new projects and modernization.

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

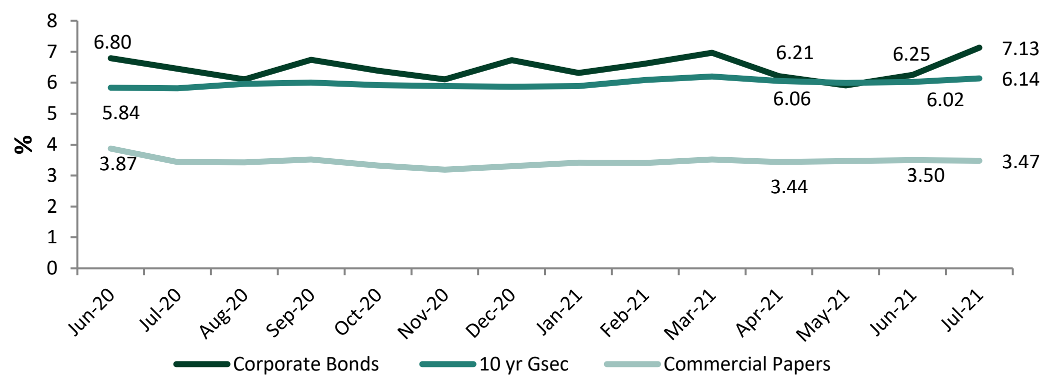
Sectors	% share
Extraction of crude petroleum & natural gas	34
Electricity, gas, steam & air conditioning supply	20
Manufacture of basic metals	9
Financial services (excld insurance and pension)	8
Advertising and market research	4
Manufacture of computer & electronics	3
Manufacture of computer & electronics	3
Manufacture of motor vehicles	3
Manufacture of pharmaceuticals	3
Others	14

Source: RBI

B. Secondary Markets

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

Average yields of the benchmark 10 year GSec in July rose by 12 bps from month ago. The increase in bond yields during July was primarily driven by the rise in global commodity prices viz., crude oil prices amid elevated domestic inflation reading and the persistent concerns over the large supply of government securities. The change in methodology of auctions of government securities from the multiple price based method to the uniform price based method also exerted upward pressure on yields. At the same time, the RBI's bond purchases under the government securities acquisition or GSAP programme (Rs.20,000 crs on 9 July) coupled with the sustained surplus liquidity in the banking system supported demand for government securities, limiting the rise in their yields.

Corporate bond yields (weighted average yields) at 7.13% in July was 88 bps higher than in June. In the case of commercial paper, the average yields declined marginally by 2 bps (month-on-month) to 3.47%.

The rise in yields of corporate debt securities can be attributed to the firming of GSec yields. Corporate bonds were also weighed down by the lower demand from mutual funds which witnessed net outflows to the tune of Rs. 3,068 crore from corporate bond funds. At the same time, strong (net) inflows into short duration funds (around Rs.15,000 crore) helped lower the yields on commercial papers during the month.

Yields spreads widened

The risk perception of corporate bonds rose in July'21. The spreads over GSecs across rating categories widened for the bonds of NBFCs, corporates and PSU's alike from that in June'21 (as highlighted in Table 6 below). For the higher rated bonds (AA+ and above), the month-on-month increase in spread was the lowest in the case of PSU bonds (16 bps) and highest for NBFCs (19 bps). In case of the lower rated bonds (A category and below), the rise in spread for corporates at an average 21 bps was higher than that of NBFCs at 19 bps and PSUs at 13 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	30-Apr-21	31-May-21	30-Jun-21	30-Jul-21	30-Apr-21	31-May-21	30-Jun-21	30-Jul-21
AAA	0.55	0.48	0.49	0.69	0.50	0.45	0.43	0.62	0.43	0.37	0.41	0.58
AA+	1.00	0.91	0.91	1.10	0.98	0.91	0.90	1.08	0.90	0.84	0.88	1.04
AA	1.40	1.24	1.24	1.45	1.26	1.17	1.18	1.39	1.16	1.12	1.20	1.34
AA-	1.77	1.62	1.62	1.81	1.53	1.57	1.58	1.79	1.57	1.52	1.60	1.73
A+	3.77	3.62	3.62	3.81	3.03	3.07	3.08	3.29	2.57	2.52	2.60	2.73
A	4.02	3.87	3.87	4.06	3.28	3.32	3.33	3.54	2.82	2.77	2.85	2.98
A-	4.27	4.12	4.12	4.31	3.78	3.82	3.83	4.04	3.07	3.02	3.10	3.23
BBB+	4.77	4.62	4.62	4.81	4.28	4.32	4.33	4.54	3.57	3.52	3.60	3.73
BBB	5.02	4.87	4.87	5.06	4.53	4.57	4.58	4.79	3.82	3.77	3.85	3.98
BBB-	5.52	5.37	5.37	5.56	5.03	5.07	5.08	5.29	4.32	4.27	4.35	4.48

Source: FIMMDA

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