

CARE Ratings' Corporate Bond Monitor (CCBM)

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CARE's Corporate Bond Monitor captures the movement of corporate bond yields in secondary markets, providing indications of the prevalent cost of funds for corporates.

- The movement of the index of *Corporate Bonds spread over GSecs*, shows that the spread of corporate bonds over GSecs has narrowed September'17 from month ago levels. The spread has come down from 2.04% to 1.41% i.e. 63 bps lower. The narrowing of the spread reflects the moderation in cost of funds for corporates during the month.

- The spread of Corporate bonds over GSec in September'17 has differed across tenures. It was 1.1% for tenures over 15 yrs, 1.4% for 10 to 15 yrs, 1.5% for 5 to 10 yrs and 1.4% for tenures up to 5 yrs.

- The movement of yield spread of corporate bonds over GSecs has been fluctuating in the current fiscal. It rose from 1.3% in April'17 to 1.9% in May'17 and decline in the next 2 months by 60 bps and 70 bps respectively. It thereafter rose by 79 bps in August'17 and declined by 63 bps in September'17.

- The average spread of corporate bonds over GSecs in FY18 (Apr-Sep) is 1.6%, the highest is the last 6 years. It was 1.3% in FY17, 0.9% in FY16, 0.7% in FY15, 1% in FY14, 1.2% in FY13 and 1.3% in FY12.

- The Index of Corporate Bond Yield shows that yields have declined over the years - from an average 9.44% in 2014 to 8.54% in 2016 and 8.3% in the first 9 months of 2017, indicative of the steady decline in cost of funding via bond markets for corporates in recent years.

- The volatility, which measures the change/fluctuations in the index (yields) in either the upward or downward direction (in this case during a month), is higher in case of the 15 years corporate bonds, compared with that of the lower duration bonds. As volatility is reflective of the risk perception in the market, it can be deduced that the 15 years corporate bond have a higher risk associated with them. The 10 years corporate bonds have lower volatility than the 5 years and 1 year bonds. The monthly annualized volatility of the 'index of spread of corporate bond yield over GSec yield' has been the highest amongst all the indices.

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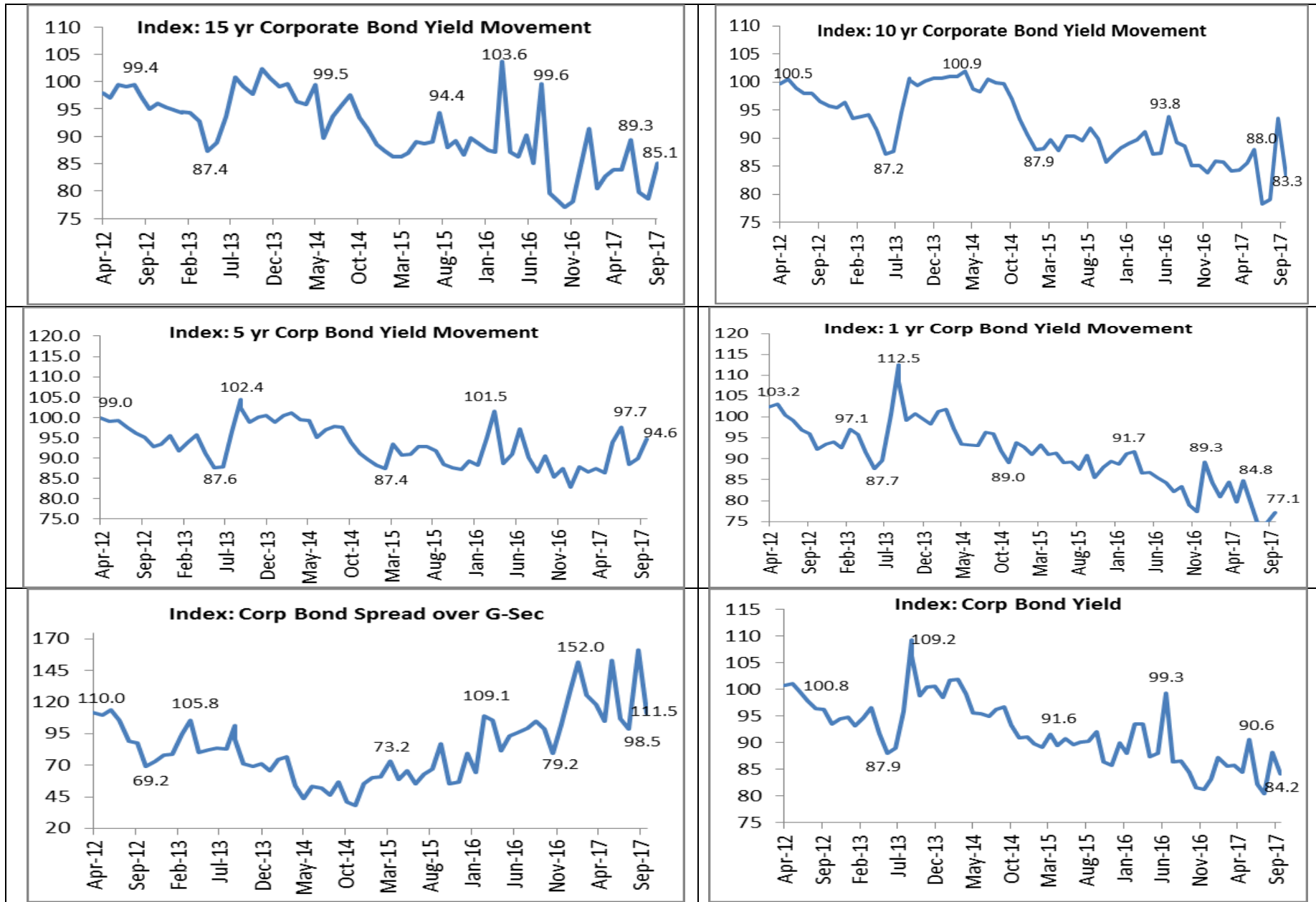
Index	15 yr Corp Bonds	10 yr Corp Bonds	5 yr Corporate Bonds	1 yr Corporate Bonds.	Corporate Bond Spread over Gsec	Corp Bond
Annualized Monthly Volatility (Apr'12 to Sept'17)	0.22	0.13	0.15	0.15	0.72	0.15

- In terms of traded volume, the 15 years corporate bonds on an average have been accounting for 3% of the aggregate trades. The 10 years, 5 years and 1 year bonds account have been accounting for a little over 10% of the aggregate trades.

	Traded Value (Rs.Cr) - 15 yrs corp bonds	Traded Value (Rs.Cr)- 10 yr corp bonds	Traded Value (Rs.Cr)- 5 yr corp bonds	Traded Value (Rs.Cr)- 1 yr corp bond	Aggregate Trades in Corporate Bonds (Rs.Cr)
2012-13	12,665	102,498	95,560	81,244	708,775
2013-14	39,662	101,920	122,659	172,181	943,224
2014-15	10,755	125,695	101,171	141,086	987,677
2015-16	6,581	72,845	103,601	102,932	858,782
2015-17	586	2,278	5,549	13,877	83,864
2016-17	29,653	159,325	184,682	122,657	1,242,193
2017-18 (Upto Sep'17)	22,003	68,057	78,488	79,938	6,73,277

	% share of trades in 15 yr corporate bond	% share of trades in 10 yr corporate bond	% share of trades in 5 yr corporate bond	% share of trades in 1 yr corporate bond
2012-13	2	14	13	11
2013-14	4	11	13	18
2014-15	1	13	10	14
2015-16	1	8	12	12
2015-17	1	3	7	17
2016-17	2	13	15	10
2017-18 (Upto Sep'17)	3	10	12	12

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CARE Ratings Methodology:

A. CARE Corporate Bond Index

The construction of the indices is based on the Laspeyres Method, where the current value is compared with the base year value (2011-12). The base year selected for these Indices has been set at 2011- 2012 which coincides with the base year used for the calculation of other economic variables such as GDP, IIP and WPI.

CARE Corporate Bond Index defined as

$$\text{Index} = \frac{(\text{Average yield in the Current Month}) * 100}{(\text{Average yield for 2011-12})}$$

where,

- **Average yield in current month** is calculated as summation of ‘Daily Traded Volume * Yield’ across all trades during the month ÷ ‘Cumulative Traded Volume in the month’.
- **Average yield for 2011-12** is the average of monthly yield from Apr’11 to Mar’12.

B. CARE Corporate Bond Spread Index (Spread over G-sec)

$$\text{Index} = \frac{(\text{Current Spread Value}) * 100}{(\text{Average Value of 2011-12})}$$

where,

- **Current spread value** is calculated as ‘Cumulative Traded Volume* Spread over G-sec ’ across all trades during the month ÷ ‘Cumulative Traded Volume’
- **Average spread Value** of 2011-12 is the average of monthly value from Apr’11 to Mar’12.

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