

Corporate bond mkt cooled 22% in August

Issuers await cheaper borrowing after likely Fed cut

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Corporate bond issuances fell by around 22 per cent in August, despite easing yields as issuers delayed raising funds awaiting the US Federal Reserve to start cutting interest rates from this month.

Corporates and financial institutions expect yields to fall further and borrowing costs to become cheaper, said market participants. The US Fed is widely expected to cut interest rates by 25 bps in the 17-18 September meeting, marking the start of a downward interest rate cycle.

Indian companies and banks raised ₹81,238 crore in August against ₹1.04 trillion in July, according to data by Prime Database.

The overseas bond issuances by corporate also took a hit during the month with only one issuance worth ₹100 crore by Muthoot Microfin during the month.

"The US Federal Reserve has been vocal about cutting the rates in terms of policy and the issuers who predominantly issue longer bonds in the market are waiting for some easing in the yields so as they don't pay higher yields for the longer tenure," said Ajay Manglunia, managing director and head (Investment Grade Group), JM Financial. "So knowing the fact that interest rates are bound to go down, people are slightly slow and they are not rushing to issue bonds though, if we look at the levels, the yield has improved and it is expected to go down further from here," he added.

Data by Prime Database showed that during August, State Bank of India led the mobilisation chart with ₹7,500



MONEY MOVES

Corporate bond issuances (₹ cr)



Top corporate bond issuers in Aug (₹ cr)

SBI*	7,500
REC	6,820
BoB**	5,000
Nabard***	5,000
Nabfid#	3,911

*State Bank of India;

** Bank of Baroda;

*** National Bank for Agriculture and Rural Development;

National Bank for Financing Infrastructure and Development

Source: Prime Database

crore mop-up, followed by REC Ltd. at ₹6,820 crore, Bank of Baroda, and National Bank for Agriculture and Rural Development (Nabard) at ₹5,000 crore each. National Bank For Financing Infrastructure & Development issued bonds worth ₹3,911 crore over the month. These top five issuers raised around

34 per cent of the total amount raised during the month.

The yield on AAA rated 10-year corporate bonds fell by 3 basis points during August, whereas that on 5-year bonds softened by 2 basis points. The benchmark 10-year government bond yield softened by 6.6 basis points during the same period.

Market participants said that shorter tenure bond issuances might pick up in the current month as the yield on the shorter tenure bonds might soften more following rate cuts, thereby, steepening the yield curve.

They expect that coming months might see a significant increase in bank infrastructure bond issuances.

"In the second half we are expecting a lot of issuances to come in especially from banks, and of course, large corporations also will come and tap the market. Infrastructure bonds will be tapping the market this year followed by tier-II and tier-I bonds," said Venkatakrisnan Srinivasan, founder and managing partner of Rockfort Fincap LLP. "The supply will be there, but definitely the lower credit entities will struggle more," he added.

In the first quarter of the current financial year, the corporate bond issuances fell by around 56 per cent, against the same period in the previous financial year due to the absence of big issuers. One of the largest issuers, Power Finance Corp issued fewer bonds over the quarter.

The company had raised ₹45,130 crore in the previous financial year.

Nabard was the largest issuer in the previous financial year with ₹65,393 crore raised over the year.