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Nation of Gamblers.
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via F&O trading

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Index Outlook.
Supports are there
to cap downside
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trend intact

CHART-GAZING P7

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India Inc 'turning to privately placed debt issuance, ECBs'

Janaki Krishnan
Mumbai

29/9

Equity fund raising may be grabbing the headlines, but corporates have raised more funds through private debt placements and external commercial borrowings, both of which have surged over the last three years.

Funds raised through privately placed debt rose to ₹9.8 lakh crore in 2023 from ₹6.52 lakh crore in 2021; it stands at ₹7.7 lakh crore so far in 2024, per data provided by Prime Database.

Similarly, over ₹3.4 lakh crore was raised through external commercial borrowings in 2023, the figure stands at ₹2.3 lakh crore so far in 2024.



While public equity issuances and qualified institutional placements are popular with corporates, debt issuances have gained pace, especially with good ratings, that allow them to borrow at moderate rates. The higher cost of bank credit has also turned many companies to privately placed debt,

which is snapped up by mutual funds and insurance companies. The higher risk weightage for banks when lending to NBFCs and on unsecured loans has resulted in non-banks turning to privately placed debt. The BFSI segment accounts for the largest issuances.

ECBs VS BONDS

The bond market has also become cheaper on many counts, especially for rated issuers with good cash flows. "This is evident in the narrowing interest rate differential between the US 10-year Treasury yield and the Indian 10-year government bond yield, which has dropped from the historical 3.5-4 per cent range to below 2-2.5 per cent," said Suresh Darak, founder and director, Bondbazaar.

In the case of overseas borrowings, more companies are opting for external commercial borrowings compared to plain bonds that used to be popular earlier. A major reason for this is that "there is no withholding tax on interest payments for ECBs raised via Gift City," said Darak. "This makes it attractive for companies to raise funds in this manner. In contrast, borrowing through bonds attracts a withholding tax on interest payments," he added.

The overseas opportunity via ECBs can be either as a loan or a bond. "Typically, banks provide loans. Many development institutions (DFIs) also provide long-term loans. These loans are mostly cheaper compared to bonds," said Parag Sharma, MD and CFO, Shriram Finance. This is another reason for the popularity of ECBs compared to plain bonds.

"The ECB loans provided by DFIs tend to be cheaper. The overseas borrowing, particularly bonds, have an additional element of hedge cost and withholding tax, to be built in which makes it costlier," he added. Bond issuances overseas dropped to ₹31,218 crore in 2023, from ₹1.1 lakh crore in 2021, though there has been a slight uptick to ₹45,000 crore in 2024 so far, due largely to issuances by a large corporate house.

Since 2018 plain bond issuances have aggregated ₹4.5 lakh crore, while ECBs have totalled ₹17.6 lakh crore. In the same period, funds raised through debt private placement have amounted to ₹52.3 lakh crore.