Lower Yields Help Boost Appeal of Corporate Bonds

Sum raised via corp bonds rises 6% in H1 as more institutions diversify their borrowings on rising demand from investors

Rozebud Gonsalves

Mumbai: Amount raised via corporate bonds in the first half of this fiscal rose 6% to ₹4.98 lakh crore, from ₹4.7 lakh crore during the same time last year, data from Prime Database showed. More institutions are tapping the bond market primarily because of lower yields, a need to diversify their borrowings and high domestic investor demand, analysts said. Borrowings from non-banking financial companies increased 3% to ₹1.64 lakh crore in the same time period, as even the lower rated NBFCs started tapping the bond market after the Reserve Bank of India increased risk weights for NBFC borrowing in November last year. In November 2023, the RBI raised the risk weight on NBFCs by 25% to prevent build-up of any potential risk in these segments.

"The increase (in corporate bonds) can largely be attributed to two factors—one, infrastructure bond issuances by public sector banks, and two, the rise in credit demand with2 NBFCs being more reliant on the bond market due to restrictions placed by RBI on banks last year. Lower yields have helped," said Pranav Haldea, MD, Prime Database.

Lower-rated entities have been tapping the bond market, as it provides lower cost of funds, versus the MCLR rates. The marginal cost of funds-based lending rate (MCLR) is a benchmark interest rate that banks in India use to determine the interest rates for loans. The Prime Database numbers show bond issuances by private and public sector banks, NBFCs and subsidiaries.

"Banks lend to higher AAA rated entities not at MCLR but at market linked rates, so they don't see much difference. But RBI's increase in risk weights on banks lending to NBFCs has increased the borrowings of all NBFCs, from AAA to BBB. Hence, people have moved from the overall banking sector to other borrowing opportunities," said Venkatakrishnan Srinivasan, founder and managing partner of Rockfort Fincap.L

Lower rated entities, who are also less penetrated, have been tapping the bond market via online platforms due to healthy demand from younger investors. The number of new investors in the second quarter of this fiscal increased by 59%, as compared to the first quarter, said a report from Grip Invest, an alternate fixed income online investment platform. More than 63% of millennials on the Grip Invest platform have chosen corporate bonds as their portfolio.

Even as the number of issuances decreased by about 7% to 566 in the first half of this fiscal, the total borrowings increased as entities borrowed larger quantums in a single issuance.