Private placements growth touches record low in FY22

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Financial year 2021-22 (FY22) may end with the sharpest year-on-year drop in private placements seen on record. The total amount raised of ₹5.5 trillion as of March 25, according to tracker Prime Database, would mark a 27 per cent decline over FY21's ₹7.5 trillion.

This would be the sharpest year-on-year decline since comparable records are available dating back to FY01.

Companies are going slow on expansion after the Covid-19 pandemic and there has been a general trend of reducing debt. Private placements are a popular form of raising debt where securities are issued to a limited number of entities.

Companies had raised significant funds when liquidity was high on account of regulatory measures in the initial phase of Covid-19 in FY21, said Pranav Haldea, managing director at Prime Database. He added that companies see limited avenues for deployment, reducing the need for additional borrowing at a time when debt has become costlier.

The previous sharpest decline was seen in FY14 (see chart 1), when private placements fell 18.4 per cent in a year marked by the 'taper tantrum', when the threat of tighter global liquidity conditions affected India's economic outlook.

"This is more to do with market conditions," said Dwijendra Srivastava, chief investment officer — debt at Sundaram Asset Management Company. There has been limited movement on capital expenditure (capex), he pointed out, with the pick-up in credit being driven more by retail rather than corporate borrowers.

Most companies are not able to fully use their existing production capacity. This gives them little incentive to borrow and invest in new factories for creating additional capacity. Only around 68.3 per cent of the manufacturing sector's capacity was put to use, according to the Reserve Bank of India's Order Books, Inventories and Capacity Utilisation Survey (OBICUS) for the September quarter.

The current decline comes after a year when private placements saw their share in total fundraising go up. Gross private placements by non-financial entities in total flow of resources to commercial sector was at a multi-year high of 16.9 per cent in FY21, shows RBI data. This may have been driven by lower overall resource mobilisation by the commercial sector, which had declined around 28 per cent in FY21 compared with FY19.

Growth in total non-food credit, a measure of how much banks are lending, has been tepid for two years in a row.

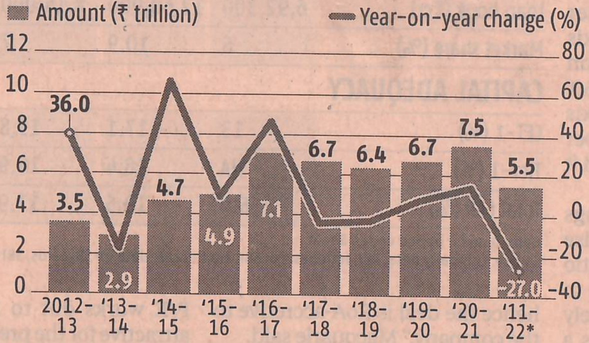
Tighter disclosures around risk in debt mutual funds may have also made some asset managers more cautious in investing in private placements, according to a person familiar with the matter. MFs are large buyers of debt issued through private placements. MFs are required to inform their investors of any changes.

FY23 could be a year of relative normalisation, according to Sundaram's Srivastava, which could have an impact on private placements too. "It will pick up this year...but not dramatically," he said.

VOLATILE FLOWS

Private placement share in total resource mobilisation had been rising

SHARP DROP OVER PREVIOUS YEAR



Note: *2021-22 data is as of 25th March, 2022. Shows debt private placements covering corporate bonds and non-convertible debentures. Source : primedatabase.com