

**BOND SALES IN APRIL-MAY LESS THAN HALF YOY TALLY**

# Corporates Wary of Rate Swings Go Slow on Bond Sales

Tilt to cheaper bank loans as they await policy clarity; bond issues may pick up in second half

## Turning Cold in Summer

Mode	April-May 2022	April-May 2021
Private Placement	30,123	68,336
Public Placement	1,590	2,184
<b>Total</b>	<b>31,712</b>	<b>70,550</b>

Figures in ₹ crore

Source: Prime Database

### Key reasons for sluggish sales

Interest rate uncertainties ahead of RBI policy

Corporates holding back capex plans

Threat of geopolitical risk



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**Mumbai:** The sale of corporate bonds in the first two months of this fiscal year is less than half of the number in the corresponding period last year, as companies are holding back their borrowing plans amid volatile interest rate movements.

Borrowers are waiting for a possible toning down of commentary by the central bank governor in the monetary policy next week, after promising not to “shock” the market with sharp rate changes.

Companies raised just ₹31,712 crore during April and May this year versus ₹70,550 crore in the same period last year, show data from analytics firm Prime Database. Those were bonds mostly raised via private placements, with a small section sold publicly.

“Corporate borrowings are off to a slow start this year,” said Shailendra Jhingan, managing director at ICICI Securities Primary Dealership. “The main reason in the near term is the increase in volatility after the off-cycle rate hike by the RBI in May and the sharp upward movement in rates which has hurt the market sentiment,” Jhingan said. “Capex requirements continue to be tepid.”

Another reason is that bank loans are becoming cheaper with rising yields. The benchmark yielded 7.42% Wednesday, while regular home loans at State Bank of India are available at 7.05-7.45% after the latest rate hike. Usually, home loans are more expensive or on par with the benchmark paper.

“The yield curve continues to be steep and therefore bank lo-

ans continue to be the preferred route for corporate fundraising,” Jhingan said.

Moreover, the deleveraging cycle, which started a couple of years back is continuing with companies cutting their high debt levels.

“Companies appear to be preserving cash amid an ongoing global crisis,” said Ajay Manglunia, managing director—debt capital market, JM Financial. “None is keen to go for new capex at this point of time unless geopolitical uncertainties are settled.”

“Once the RBI’s upcoming policy sets a clear rate trajectory, investors too will likely revive investment appetite for bonds,” he said.

The spread or differential between triple-A rated corporate papers and similar benchmark series has narrowed to 35 basis points now compared with 48 bps in April before the off-cycle rate hike. The short supply of corporate bonds has cut the pace of rising yields.

The central bank raised the repo rate on May 4 by 40 bps to 4.40%. However, bond sales are likely to rise in the second half of the year. There could be a good bout of flows as India continues to be the fastest-growing economy despite all odds, dealers said.

The country’s largest mortgage lender, triple-A rated HDFC, raised ₹7,742 crore in one shot on May 24, reportedly placing the bonds with LIC of India.

Besides, large corporates including Grasim are planning bond sales, which are likely to come after the RBI’s June bi-monthly policy. Traditional sellers like PFC and REC were conspicuous by their absence in the past two months.