Bond street to see less volatility, more issues

Banks, NBFCs to stay top issuers; higher bank rates prompt shift to bonds

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MUMBAI

Rising bond yields and regulatory changes may set the direction for the bond market. MINT

After a volatile 2022, activity in India's corporate bond market is expected to pick up this year, led by banks and non-bank lenders. Rising bond yields, regulatory changes and global conditions are expected to set the direction for the bond market, even as more borrowers shift from the banking system to the bond market due to rising interest rates.

Indian companies sold bonds worth ₹5.67 trillion in April-December, compared to ₹6.34 trillion in the same period of 2021, and ₹7.48 trillion during all of FY20, according to data from Prime Database.

While issuances are yet to rise to 2020 levels, market participants believe that it will be less volatile than last year.

"We expect a moderate 10% increase in issuance volumes in CY23 compared to CY22. There will be less rates volatility, as a large part of the rate hiking cycle is behind us," said Neeraj Gambhir, treasury head, Axis Bank. "We expect relatively higher activity from new issuers across infrastructure, Reits and InVITs. In infrastructure, there is likely to be more issuance activity to refinance mature road sector assets which will benefit from higher ratings. The second half of CY23 is also likely to see some activity driven by the fact there will be expectations around rate cuts globally particularly if inflation comes off as is being widely anticipated," Gambhir said.

Money market participants also expect demand for listed bonds to rise this year after the Securities and Exchange Board of India (Sebi) reduced the face value of privately placed debt securities to ₹1 lakh from ₹10 lakh earlier. Despite this, public bond sales are expected to remain popular among retail investors as they offer higher rates and smaller lot size.

"Subject to continuous increase in bank lending rates with tight liquidity, weakening rupee and continuing dry spells in offshore bond issuance and continuing narrow spread between Fed and MPC rates, it is difficult to maintain the bond market rates within a range, and hence, bond yields has to go up further. With new Sebi regulations kicking in from today, we can expect smaller players to start issuing listed bonds. We can definitely expect bond market issuances to increase this year," said Venkatakrishnan Srinivasan, founder and managing partner, Rockfort Fincorp.

Some NBFCs like Muthoot Fincorp, Edelweiss Financial and IIFL Finance have already lined up public bond issues, albeit of smaller size. Edelweiss plans to raise ₹400 crore while IIFL Finance plans to raise ₹1,000 crore through public bond sales this month. Still, the market is expecting some impact on bond market activity after HDFC Ltd—one of India's biggest bond issuers—completes its merger with HDFC Bank this year. This may prompt many investors to turn to other borrowers.

That said, bond issues by companies may remain muted as they remain cautious amid signs of a global economic slowdown.

"The net supply of corporate bond issuance has been flat April to October as compared to the previous fiscal. Based on this data, it seems corporate borrowers are issuing bonds to roll over their existing liability rather than to grow their balances sheet," said Dhawal Dalal, CIO, fixed income, Edelweiss Asset Management.

OUTLOOK STABLE

INDIAN companies sold bonds worth ₹5.67 tn in Apr-Dec, while it was ₹6.34 tn in year-ago period

INFRA is expected to see more issuance activity to refinance mature road sector assets

MONEY market participants also expect demand for listed bonds to rise this year