Indian HY market comes to life

By Krishna Merchant, Prakash Chakravarti

MUMBAI, Jun 30 (IFR) - Indian property company Goswami Infratech sold a record-setting Rs143bn (US$1.74bn) high-yield bond, underscoring the appeal of the country’s debt market to private credit investors.

The largest high-yield offering in India's domestic market came on the heels of another Rs11.14bn private credit-driven bond from thermal power company RattanIndiaPower, and precedes a planned Rs21bn debut offering from turbine manufacturer Suzlon Energy.

The April 2026 notes sold by Goswami Infratech, part of the diversified Shapoorji Pallonji Group (SP Group), pay no coupon during the life of the bond but accrue interest at 18.75% compounded annually to fund a redemption premium payable on maturity.

The paper is rated BBB– by Care, while RattanIndia carries a BB (Acuite) rating and Suzlon’s deal is provisionally rated A (Crisil).

In India, many investors including mutual funds and insurers are not comfortable buying debt rated below AA, meaning anything rated less is considered high yield.

Suzlon comes with a chequered history of having undergone debt restructuring twice in the past, while SP Group emerged from a similar process last year.

However, private credit investors see an opportunity as many of these problems have receded amid a strong Indian economy.

Many businesses that were stressed in the past have turned around and improved their operating and financial metrics, according to Rakshat Kapoor, chief investment officer at Modulus Alternatives Investment Managers, a private credit firm.

"Private capital is chasing these businesses, which currently still are lower credit rated but since the historical debt troubles of the stressed companies are behind them, they make for a good investment hypothesis," he said.

According to Prime Database, which does not segregate private credit deals, 2023 is expected to record strong deal flow as Rs264bn has already been raised year-to-date from privately placed bond deals with ratings of A and below. A February report from Ernst & Young stated that private credit transactions in India had raised more than US$5.3bn in 2022.

"Large pockets of liquidity are coming into the high-yield segment as there is a tighter corporate governance now and the performance of corporate India has been strong," said Amrish Baliga, managing director at Deutsche Bank India, who was involved in the financing for Goswami Infratech.

Private credit funds are stepping in to provide liquidity following recent tax changes.

"There is more capital being attracted to credit alternative investment funds now because of withdrawal of tax benefits to market-linked debentures and debt mutual funds," in the budget that was introduced on February 1, said Rohit Gulati, CEO of UTI Capital, an alternative investment unit of UTI Mutual Fund. "Interest is significant in the mid-market segment [yields ranging from 13%–18%]

due to lack of depth [in] the corporate bond market in that segment and ability of the AIFs to participate in such illiquid markets."

Private credit deals generally raise Rs10bn to Rs20bn for higher-rated credits. But with a more general lack of US dollar bond supply in Asia in the past two years, the private credit market has taken off aggressively in India, said Baliga.

Juicy returns

The two-year, 10-month and four-day zero-coupon bonds of Goswami Infratech, which come with a 30-month put option for investors, carry an effective yield of 18.75%. RattanIndia's notes were issued in a series ranging from 10% to 16.67% with maturities ranging from December 31 2024 to December 31 2026, with interest payable monthly, according to NSDL data. The bonds were placed with Kotak Strategic Situations India Fund II and Kotak Private Credit Fund.

Suzlon's five-year offering, with a call option at the end of 18 months and a put option at the end of three years, carries a coupon of 13%, payable quarterly.

Private credit investors Ares Capital Management, Cerberus Capital Management, Davidson Kempner, Edelweiss Special Opportunities Fund, Farallon Capital and Varde Partners are said to have been among 19 qualified institutional buyers and one non-qualified institutional investor buying Goswami Infratech's bonds.

Arrangers Standard Chartered and Deutsche Bank also subscribed to the notes, as did Nomura, which was the only other bank participating in the financing.

"Foreign investors flocked into the bonds given the yield was attractive at over 18% for a shorter duration and the underlying security is the unlisted equity shares of Tata Sons," said Deepak Sood, partner and head of fixed income at Alpha Alternatives, a multi-class asset management firm.

The BBB– rating for Goswami Infratech's notes reflects the provision of credit support by Cyrus Investments, an investment company of the Mistry family-controlled SP Group. Cyrus Investments holds a 9.185% stake in Tata Sons Private which, in turn, has investments in various Tata group entities.

However, Tata Sons had restrictive clauses when the company was incorporated with respect to the transfer of its equity shares. Following an order from India's Supreme Court in 2021, Tata Sons is now required to offer a buyback of shares at fair value to any shareholder looking for an exit, but that still keeps the security for the Goswami Infratech bonds at one remove from the issuer.

Still, the value of Tata Sons' holdings in other Tata entities is worth a lot more than the Rs143bn Goswami Infratech bond. In a June 20 note, rating agency Care calculated the loan-to-value ratio for the bonds at an initial 13.44% and a top-up trigger at 19.77% based on an expected deal size of Rs145bn.

Should the top-up level be breached, the borrower will have to deposit cash or redeem a proportionate number of notes or both.

The juicy return is because Tata Sons is an unlisted company and the SP Group is a minority shareholder with a total stake of around 18.47%. As such SP Group cannot dictate the dividend policy at Tata Sons. Such dividends from underlying companies typically form the main basis for servicing debt structured for holding company borrowers.

However, covenants stipulating monetisation events have helped in keeping the pricing in check even though it is in the high teens.

The covenants relate to SP Group’s port assets and Afcons Infrastructure, in which Goswami Infratech has a stake.

Afcons is planning a Rs50bn–Rs80bn domestic IPO later this year. Last October, SP Group and another investor sold a 40% stake in Sterling & Wilson Solar. That followed SP Group’s sale of its entire 8.7% stake in Eureka Forbes in July.

Goswami Infratech’s deal is also priced well inside the debt being refinanced. According to the Care report, some Rs17.82bn of non-convertible debentures falling due on June 30 carried coupons of 22%.

Proceeds from the new bond will be used for refinancing debt at Goswami Infratech and SP Group.

“It was a complex trade and can potentially lead to many more issuers tapping these kinds of structures and these kinds of investors," said Deutsche’s Baliga.

(Reporting by Krishna Merchant and Prakash Chakravarti; Editing by Morgan Davis)

((@KrishnaMerchant krishna.merchant@refinitiv.com; +91 9833847353))

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