Corporate bond issuances up 45% till Oct

Market expects total rise of 15-20% for the entire financial year

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During the current financial year until October, corporate bond issuances surged by 45 per cent compared to the same period in the previous financial year. The market expects this upward trajectory to persist, projecting a total increase of at least 15-20 per cent in corporate bond issuances for the entire current financial year compared to the previous year.

According to data from PRIME Database, companies and banks raised ₹5.3 trillion in the current financial year as of October 2023, compared to ₹3.7 trillion in the previous financial year up to October.

"Since liquidity is tighter and corporate bond rates are lower, we are seeing a significant influx of participants into the corporate bond market. For example, Reliance has recently borrowed ₹20,000 crore from the market, marking its return after a hiatus of two to five years. This year, we can easily anticipate a minimum 15-20 per cent rise in bond issuances," said Ajay Manglunia, managing director at JM Financial.

Yields on 'AAA'-rated corporate bonds decreased by 7 basis points across tenures in the first week of November.

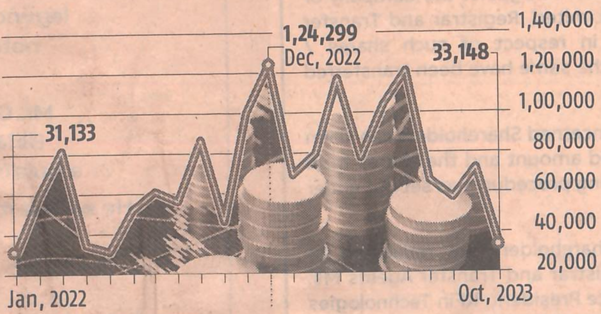
Meanwhile, fundraising through corporate bonds fell by 40 per cent in October due to the rising cost of borrowing through these instruments. Investors refrained from making substantial investments in the corporate bond market due to uncertainty and shifted their focus to the more liquid government bond market.

June witnessed the highest amount of issuances worth ₹1.2 trillion.

One of the primary reasons for the increase in issuances in the current financial year was the substantial borrowing by HDFC until June, before its merger. This move stimulated the bond market, creating momentum that continued into the subsequent months. Despite a slight market downturn in July due to rising US Treasury yields, the market rebounded when liquidity dried out.

...BUT DOWN IN OCTOBER

Monthly corporate bond issuances (in ₹ cr)



Source: Primedatabase.com

The market anticipates around ₹50,000-60,000 crore worth of issuances in the month of November. Several major players, including State Bank of India, Reliance, Titan Company, and Larsen & Toubro, are planning substantial issuances, further underlining the market's strength.

The gap left by HDFC's exit may be filled by other issuers like Reliance, market participants said.

"HDFC was borrowing heavily before the merger, which is one of the primary reasons for the uptick in bond issuance. However, if Reliance can secure the entire ₹20,000 crore, it may compensate somewhat," said Venkatakrishnan Srinivasan, a bond market veteran and founder and managing partner of Rockfort Fincap LLP.

"I expect more than ₹40,000-50,000 crore of corporate bonds to be issued in November. November can be specifically designated as the month of corporates," he added.

Despite the anticipation of open market operation (OMO) sales, the market remained attractive for issuers due to competitive rates compared to the marginal cost of funds based lending rate offered by banks.

Some experts in the market believe that with the slight increase in participation in the Reserve Bank of India's (RBI's) 14-day variable rate reverse repo (VRRR) auction, the central bank may not announce an OMO auction.

"With the introduction of the 14-day VRRR and the festival season, it is unlikely that the RBI will announce an OMO auction," Vinay Pai, head of fixed income at Equirus Capital, remarked.

In the last 14-day VRRR auction on Friday, banks parked ₹20,482 crore against the notified amount of ₹50,000 crore at a weighted average rate of 6.49 per cent.