Fundraising via Private Issue of Corp Bonds Scales New Peak

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Fundraising Via Pvt Issue of Corp Bonds Stays Flat

Alekh Angre

Mumbai: For some, FY25 was the best of times: For some others, it was among the worst. Private placement of corporate bonds, for the record, scaled a new peak in FY25. By contrast, in the public market dominated by NBFCs, fundraising plunged 60% year-on-year. Companies raised ₹10.7 lakh crore (until March 27) through private placement of corporate bonds, compared with ₹10.2 lakh crore a year ago, data compiled by primedatabase.com showed. But public issuances retreated over 60% to ₹8,200 crore.

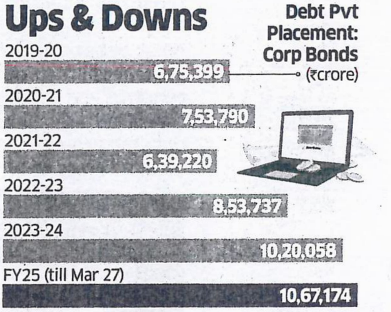
India's private placement bond market is dominated by financial institutions, such as banks, NBFCs and public sector entities.

The absence of HDFC, an erstwhile large marquee issuer that merged with its banking arm, and liquidity challenges help explain the muted fund-raising activity in the corporate bonds market. Just before its July 2023 merger, HDFC had raised more than ₹46,000 crore in Q1 of FY24. NBFCs, especially those involved in the retail business, went slow on lending because of regulatory scrutiny. There were also entity-specific restrictions.

Also, some large lenders opted for overseas borrowing. "Large NBFCs, which have been growing faster than the sector, were focused on diversifying their funding sources in FY25. Bank lending was still expensive compared to bond market and external commercial borrowings, where AAA-rated companies have a cost advantage of 20-25 basis points. But as you go down the rating curve, the borrowing cost significantly rises," said Jinay Gala, director, India Ratings.

Gala expects NBFCs to close FY25 with a loan growth of around 20%, compared with 23-25% reported a year ago. For FY26, the loan growth is pegged at 18.5%. NBFCs may step up lending as the regulator rolled back some disincentives associated with retail lending, though a large base could crimp growth.

However, banks, scrambling to mobilise deposits amid tight liquidity, sold infrastructure bonds with state-owned lenders accounting for over 90% of such bond issuances.



Source: Primedatabase.com

Infrastructure bond issuances by PSU banks jumped to approximately ₹81,000 crore in FY25 from ₹30,000 crore in the previous year, said Venkatakrishnan Srinivasan, managing partner, Rockfort Fincap, a fixed income institutional advisory firm.

"Perpetual bonds issued by non-bank financial institutions gained favour as investors found them less exposed to regulatory risks and offered better pricing dynamics," he said. In the public market, stringent regulatory oversight on intermediaries and merchant bankers, lower investor appetite, emergence of online bond portal also impacted funding raising activity of NBFCs.

Vishak Goenka, co-founder, IndiaBonds.com said that online bond portals are gaining traction. Retail investors don't necessarily wait for NCD public issues. If they want to take fixed income exposure directly, they have the option to buy online through bond portals, he said. "In the March quarter, volume on our platform was 70-80% higher QoQ. In the past, people would go to debt mutual funds but with the indexation benefit going away, you can curate your own portfolio and earn a higher return. They get to earn 200-300 basis points more than traditional FDs," Goenka said.