

# Lenders ramp up CP-CD use to navigate liquidity crunch

FY25 commercial paper, certificate of deposit issuances hit 3- and 5-year highs, respectively

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**B**oth banks and non-banking financial companies relied heavily on raising short-term funds from capital markets to meet the shortfall in their capital amid persistently tight system liquidity through most of FY25.

Fundraising via commercial papers (CPs) was the highest in FY25 in the last three years, whereas funding through certificates of deposit (CDs) was the highest in the last five years, according to data by primedatabase.com.

CDs are issued by banks, while corporates issue CPs. Both are short-term money market instruments used to raise funds ranging from a tenor of one week to up to one year. As per the data, CDs worth ₹13.2 trillion were issued by banks in FY25 compared with ₹9.6 trillion in FY24. Similarly, CPs worth ₹10.6 trillion were raised in FY25, up from ₹9.3 trillion in the previous year. Of this, CPs issued by non-bank financial companies, including NBFCs, HFCs and investment companies, amounted to ₹7.5 trillion in the last financial year as against ₹6.3 trillion in FY24.

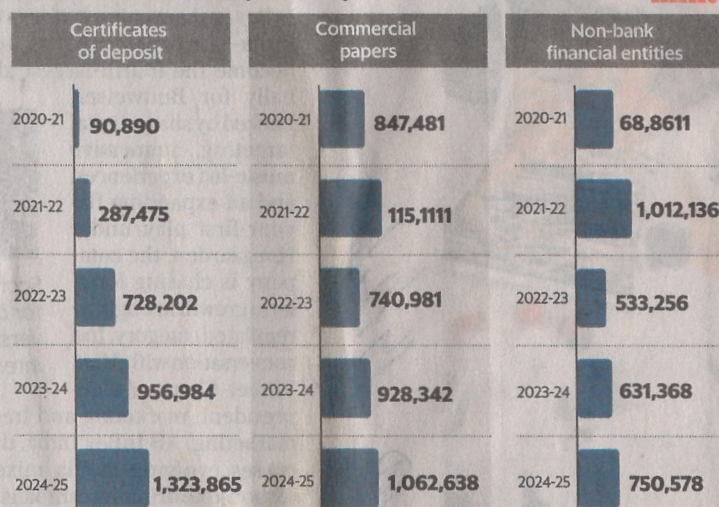
"Retail deposits for banks were coming at a very high cost now, so the ALM (asset-liability management) teams were relying more on short-term money through CDs. Tightness in liquidity was driving higher number of CDs, and also because of ease of access and convenience compared with Casa deposits," said Venkatkrishnan Srinivasan, bond market expert and founder, Rockfort Fincap. Casa deposits refer to Current Account and Savings Account.

Data by the Reserve Bank of India also reflected the uptick in issuances of these short-term papers, with outstanding CPs touching a record high of ₹4.8 trillion in the fortnight ended 15

## Short-term debt surge

Banks and corporates tap record short-term debt markets to bridge funding shortfalls in FY25.

Short-term debt issues (In ₹ crore)



Source: primedatabase.com

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February 2025 before falling to ₹4.4 trillion as of March 2025.

During the financial year, the highest CPs, amounting to ₹1.1 trillion, were issued in the fortnights ended 15 February and 15 June 2024. According to data from the Reserve Bank of India,

night ended 21 March 2025.

Fundraising by corporates, including lenders, is typically accelerated during March owing to financial year-end fund requirements. However, in March 2025, the funding gap was more acute due to persistently tight systemic

Last month, India Ratings had, in a note, said CPs maturing in March, April, and May 2025 amounted to ₹1.65 trillion, ₹36,000 crore and ₹85,000 crore, respectively, as on 6 March 2025. Of the aggregate amount of ₹2.85 trillion CPs, non-banks accounted for 48% of the issuances at ₹1.37 trillion and public finance entities for 17% at ₹50,000 crore. These CPs have been issued by 216 corporates, wherein the top 10 issuers—who are regularly active in the market—accounted for 43% of the aggregate amount at ₹1.2 trillion.

CP maturities are seen easing as the liquidity situation improves, led by several measures taken by the RBI to infuse durable liquidity into the system. As of April 2025, system liquidity is back in surplus.

Last week, Kotak Institutional Equities in a note said that it estimates durable liquidity to improve to over ₹3 trillion by the end of June 2025 from around ₹2 trillion currently, led by tepid leakage in currency-in-circulation, RBI dividend payout to the government of over ₹2 trillion, and off-setting of short-forward book maturities with additional open market purchases or FX swaps. "While durable liquidity is likely to be comfortable over the next few months, banking system liquidity may fluctuate depending on the scale and pace of government spending," the brokerage said, factoring in another 25 basis point rate cut in June. The central bank has so far cut the repo rate by 50 bps in this calendar year through two consecutive 25 bps rate cuts in February and April.

Short-term borrowings were elevated despite FY25, which saw record fundraising via long-term debt and equity. This reflects the funding shortages seen, especially in the second half of the financial year.

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## BORROWING BOOM

**IN 2024-25**, banks issued ₹13.2 trillion to bridge funding gaps amid tight liquidity conditions

**IN FY25**, ₹10.6 tn in CPs were raised, with ₹7.5 tn by investment firms, NBFCs, HFCs, from ₹6.3 tn in FY24

**OUTSTANDING** CPs peaked at ₹4.8 tn in mid-February 2025; CDs ended FY25 at a record ₹5.3 tn

**DEBT** fundraising hit a record ₹11.1 trillion in FY25, while equity fundraising rose 92% to ₹3.7 trillion

these were the highest fortnightly issuances of CPs since December 2021.

The data also showed that outstanding CDs ended FY25 at a record high of ₹5.3 trillion. The highest issuances worth ₹1.2 trillion were seen in the fort-

liquidity since the end of November 2024, pushing banks and non-banks to rely more heavily on short-term market borrowings. Liquidity in the banking system is estimated to be in a deficit of ₹1.5-3 trillion during Q4 FY25.