

Easing yields may trigger corporate bond mkt rebound

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The wave of corporate bond sales in the first quarter ebbed in the second as borrowing costs rose, but bankers expect the lull to reverse soon as falling yields revive the bond market's lure.

Corporate bond sales in the September quarter plunged to ₹2 trillion from ₹3.44 trillion in the June quarter and ₹3.2 trillion a year earlier, primedatabase.com figures showed. The decline came alongside a rise in yield on the 10-year bonds of National Bank for Agriculture and Rural Development (Nabard), considered a benchmark in the corporate debt market. The jump in the Nabard bond yield by 18-20 basis points to 7.24% was in line with the 10-year government bond, where the yield rose 20 bps to 6.50%.

The change reflects the monetary policy transition, market supply pressures and shifting investor preferences amid heightened economic uncertainties. "Yields had hardened, and then there was a whole lot of uncertainty in the geopolitical environment. It had become so volatile that it wasn't possible for some of the players to take on further debt," said Killol Pandya, head of fixed income - debt at JM Financial Asset Management Ltd. The September quarter rise in yield was a reversal from the 25 bps fall since early February, when the Reserve Bank of India began its interest rate easing cycle.

A weaker macroeconomic environment also depressed bond sales, Pandya said, worsened by a seasonal tightening



Corporate bond sales in the Sep quarter fell to ₹2 trillion. AFP

of liquidity typical of the quarter-end and half year-end.

"The Reserve Bank of India's change in stance to neutral from accommodative created uncertainty about future rate trajectory and dampened issuer confidence, with many preferring to wait for clearer signals before locking into long-term borrowing costs," said Venkatakrishnan Srinivasan, founder and managing partner, Rockfort Fincap LLP.

Borrowing by Union and state governments also crowded out corporate bonds. "State development securities offered wider spreads with zero credit risk, diverting institutional demand

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away from corporate papers, especially in the long-tenor segment," Srinivasan said.

The last time corporate bond sales were at their lowest was in September quarter FY24 at ₹1.75 trillion. Clarity on the domestic economic environment and reduction in goods and services tax rates will drive growth for some firms, a senior debt merchant banker said, adding some of the indecisive issuers will start returning to the market.

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