Companies back to corp bond market as yields ease

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Indian companies and non-banking financial companies (NBFCs) are returning to the corporate bond market. This follows a sharp fall in borrowing costs and recent Reserve Bank of India (RBI) measures encouraging state-run entities to raise funds overseas that created room for private issuers to tap domestic debt markets, at least five market participants told *Mint*.

The yield on AAA-rated corporate bonds maturing in five years, which had climbed to about % in late May amid rising geopolitical tensions, has fallen to about 7.4-7.43%, according to the latest data by the RBI. Those on one- and three-year AAA-rated corporate bonds have declined by 34 and 24 basis points (bps) to 7.54% and 7.52%, respectively. A hundred bps equals 1%.

Bajaj Finance raised ₹2,000 crore through a five-year bond at a coupon of 7.92% on 23 June, 8 bps lower than its ₹1,822 crore five-year bond at 8%. Cholamandalam Investment and Finance Co. issued a three-year paper at 8.15% on 17

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June after borrowing through the same maturity paper at 8.35% on 20 May.

National Bank for Agriculture and Rural Development (Nabard) raised ₹4,250 crore through a three-year bond at a yield of 7.49% on 20 April but cancelled its ₹7,000 crore July 2029 bond on 15 May because bids had touched 8%. Nabard tapped the market with the same issue on 10 June and raised ₹6,780 crore at 7.34%.

Borrowing costs declined as global crude prices fell after the US-Iran peace deal and the RBI eased foreign currency funding for public sector companies in June. The central bank's decision to relax external commercial borrowing (ECB) norms and bear hedging costs for select public sector undertakings (PSUs) is expected to shift a portion of PSU fundraising offshore, reducing crowding in the domestic bond market and improving demand for private issuances.

"The bond market had virtually shut. Yields had hardened sharply and there was absolutely no appetite. On very low volumes, yields were moving 10 basis points at a time, so no issuer could really access the market," a senior treasury official at a private bank said. "After the RBI's FCNR (foreign currency non-resident) and ECB-related measures, it became clear there would be demand for assets, especially from foreign banks. As soon as the issuers returned, demand was extremely good."

Companies raised ₹2.26 trillion through private placement of corporate bonds in April-June, compared with ₹3.58 trillion a year earlier, data from Prime Database showed. This reflects how elevated yields had kept issuers away for most of the quarter.

Many borrowers turned to bank loans when bond yields surged. The relative attractiveness of bank financing prompted greater reliance on bank credit among NBFCs, infrastructure developers and large companies. Bank credit to NBFCs jumped almost 28% in April to ₹20.56 trillion, the central bank's data showed.

"Borrowers will start coming back to the bond market more and reliance on bank loans should come down because corporate bond yields have fallen significantly from their peak of around 8%," the treasury official said.

Market participants estimate that about ₹1.5 trillion of planned bond borrowings shifted to bank loans in April-May. Rates in the bond market rise quicker than bank lending rates, prompting a shift towards borrowing from banks by large companies.

"The money that had already shifted to bank loans is locked in. But fresh borrowing should increasingly come back to the bond market," said Killol Pandya, head of fixed income at JM Financial Asset Management, adding that falling yields were gradually restoring confidence among issuers.

"We are moving towards normalcy, although we are still far from normal. The geopolitical situation remains fragile, but as far as Indian markets are concerned, conditions are much better than they were a few months ago," Pandya said.

The benchmark 10-year government bond yield has declined to 6.77% from a high of 7.13%, supported by lower crude oil prices, stronger foreign portfolio investment, RBI liquidity support and measures to attract overseas capital, said Venkatkrishnan Srinivasan, founder and managing partner of Rockfort Fincap.

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Coming back

After sharp spike in May, corporate bond yields ease in line with g-sec.

Date	Company	Tenure	Rate (%)	10-year g-sec yield (%)
21 Apr	Nabard	Jul 2029	7.49	6.89
10 Jun		Jul 2029	7.34	6.94
11 May	Bajaj Housing Finance	May 2031	7.90	7.03
26 May		May 2031	8.25	6.99
11 May	Bajaj Finance	May 2031	8.00	7.03
11 Jun		3-year	7.93	6.92
13 May	NaBFID	May 2036	7.74	7.05
12 Jun		10-year	7.66	6.89
20 May	Cholamandalam Investment and Finance Co.	Jun 2029	8.35	7.07
11 Jun		Jun 2029	8.15	6.88

Source: Merchant bankers, Bloomberg

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