PSU bond sales lose ground as investors seek higher yields; private NBFCs raise Rs 2.58 trillion

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AI Powered Summary

PSU bond issuances decline due to investor yield demands.

Private firms and NBFCs continue to tap debt market.

Private sector raised 80% of September's Rs 1.09 trillion.

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PSU bond issuances are likely to decline as state-run companies scale down or withdraw sales in response to investors demanding higher yields even as private firms and NBFCs continue to tap the domestic debt market, data shows.

Private-sector issuers raised Rs 87,305 crore through private placements in September, accounting for nearly 80 percent of the Rs 1.09 trillion raised during the month, according to PRIME Database.

PSU issuance stood at just Rs 250 crore.

Private NBFCs and financial-services companies raised Rs 40,577 crore, while manufacturing and services players secured Rs 46,728 crore.

Market experts attribute the fundraising rush to an anticipated rate hike in the coming days, noting that private companies are keen to lock in borrowing costs at favourable levels.

In contrast, state-owned issuers faced a pricing mismatch as investors demanded higher yields ahead of the expected policy move.

Given their access to alternative funding sources such as bank loans, several PSU issuers chose to withdraw or scale down bond sales rather than accept higher borrowing costs.

Poles apart

The divergence is also visible in the April 1-September 28 data.

Private-sector issuers raised Rs 4.07 trillion, which is 76 percent of the Rs 5.39 trillion raised through private placements.

NBFCs and financial-services companies secured Rs 2.58 trillion and manufacturing and services companies Rs 1.49 trillion.

The broader public-sector category, including financial institutions, banks and state-level entities, accounted for Rs 1.19 trillion.

Pure PSU issuance was only Rs 4,921 crore, highlighting the difference between public-sector borrowing and that by companies classified as PSUs.

The withdrawal

Small Industries Development Bank of India (SIDBI) called off a Rs 6,000 crore bond issue after investors sought yields in the 7.6-8.1 percent range.

Sagarmala Finance Corporation withdrew a Rs 600-crore blue bond, while Power Grid Corporation accepted only Rs 2,000 crore against a planned Rs 5,000-crore fundraise at a 7.74 percent coupon.

“I think we could see more instances of PSUs scaling down or withdrawing bond issues if investors continue to demand yields materially above what issuers are willing to pay,” said Venkatakrishnan Srinivasan, founder and managing partner of Rockfort Fincap LLP.

“The issue is not a lack of investor demand. It is primarily a pricing issue, with issuers unwilling to accept yields that they consider unattractive relative to their alternative funding options.”

Indicative secondary-market levels suggest a pricing gap of around 5-20 basis points in some AAA-rated PSU transactions, particularly at the shorter end, Srinivasan said.

The pressure has been more pronounced in shorter-tenor bonds as expectations of an October rate hike influence pricing, while longer-tenor PSU bonds continue to find institutional demand.

Private NBFCs and financial-services firms have been the biggest source of private-placement debt this year. Their issuance rose from Rs 22,943 crore in April to Rs 64,180 crore in July before moderating to Rs 40,577 crore in September.

The top 10 private-placement issues by amount since April 1 also show the scale of fundraises. Jaiprakash Associates raised Rs 24,942 crore, Eqyizen Investment Rs 21,350 crore and Reliance Industries Rs 12,000 crore, the Prime Database data shows.

The list also includes fundraises by NABARD, SIDBI and the Hyderabad Metropolitan Development Authority.

“Investors are factoring the expected rate hike into their pricing and asking why they should lock in now rather than wait for a better rate,” said Soumyajit Niyogi, director-core analytical group, India Ratings and Research.

PSUs have several funding options and need not accept higher yields, while private corporates and NBFCs rely more on the domestic bond market, he said. “So, we could see PSUs scale down issues even as private issuers continue tapping the market,” he said.

Market participants expects the divergence to continue in the near term but said this should not be viewed as a structural shift in favour of private-sector issuers.

“Once PSU issuers find the pricing acceptable, they can return to the bond market quite quickly,” a corporate bond dealer at a state-owned bank said.