

# Private placements gain traction amid cash crunch

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The private placement route has been gaining steady traction over the past few months, following a dip in mid-2018.

The rise comes in the backdrop of tightening liquidity conditions in the aftermath of the Infrastructure Leasing & Financial Services (IL&FS) crisis. Fundraising through the private placement route has hit ₹71,183 crore as of April, higher than the same month last year.

This is based on a three-month rolling average, calculated on data collated by primary market tracker PRIME Database. The figure stood at ₹62,599 crore in April 2018.

Private placement takes place when a company raises debt from a select group of investors. This is different from a public issue, where it is open for all.

Arvind Chari, head (fixed income and alternatives), Quantum Advisors, said that public sector fundraising may have contributed to the uptick.

"The supply of public sector paper has been huge. It may be driven by the government's fiscal constraints, because of which there is a nudge towards borrowing through public sector companies. Given the credit risk aversion, there has also been interest from funds and insurance firms, given there is more comfort with investing money in public sector paper," he said.

This comfort with investing



in government-backed entities has helped them borrow at significantly lower rates than usual, according to another fund manager.

Funding costs elsewhere have been on the rise after the IL&FS defaulted on its obligations in the latter half of 2018. The non-banking financial companies (NBFC) segment has been affected, in particular.

A Bank of America Merrill Lynch report — Liquidity crunch: Darkest before the dawn? — on May 15 said that conditions may improve by September. Reserve Bank of India Governor Shaktikanta Das has been looking to ease the strain by injecting liquidity through what are called open market operations (OMOs), which makes more money available to borrowers.

The Monetary Policy Committee (MPC), which is responsible for deciding interest rates, is also expected to reduce the cost of borrowing. This is in contrast to a 50-basis-point (bp) hike in 2018. A basis point is equal to one-hundredth of a percentage point.

"While Governor Das' OMOs have cooled the markets, defusing the real impact of the end-2018 liquidity crunch is taking time, naturally. So, what's changing? The RBI MPC is set to cut rates by 75-100 bps on a benign inflation outlook in 2019, reversing 2018's 50 bps hike. We see the next cut on June 6, with May inflation tracking a low 3.2 per cent," said the report, authored by India economists Indranil Sen Gupta and Aastha Gudwani.

Chari added that bond issuances are muted in the April-June quarter, but this has seen large issuances in April and May, pushing up corporate bond yields and thus increasing spreads.

A stable government at the Centre should also lead to higher foreign inflows into the Indian government and highly rated corporates, according to him. Central bank action to ensure liquidity may also help.

However, troubled NBFCs will continue to find it challenging despite positive changes to the liquidity situation, he added.