

Record IPOs in FY22 push up CP issuances by NBFCs

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THE RUSH OF public offerings by companies this financial year has resulted in a sharp rise in fundraising by non-banking financial companies (NBFCs) via ultra-short-term commercial papers (CPs) to finance high net worth individuals (HNIs) investing in the issues. This was even after the rates on these instruments rose 50-70 basis points compared to the previous financial year.

Non-bank lenders have raised ₹5.12 lakh crore so far in FY22, compared to ₹2.93 lakh crore in FY21, according to the data compiled by the Prime Database. NBFCs have raised ₹4.53 lakh crore through seven-day papers and ₹59,710 crore through eight-day papers so far in FY22. IPO-CPs are usually papers issued with a tenure of seven to 10 days and have high yields compared to three-month CPs.

“There was a rush among companies to come up with IPOs before March 2022.

Commercial papers issuance by NBFC (₹ crore)

2020-21	8,47,981
2021-22 (Till Jan)	10,34,732

IPO-CP issuances 7-day and 8-day papers (₹ crore)

2020-21	2,93,054
2021-22 (Till Jan)	5,12,651

Source: primedatabase.com

The borrowing cost of IPOs is a factor in the demand for that particular IPO. There were two-three IPOs simultaneously announced, which further pushed up CP rates,” said Rahul Singh, senior fund manager - fixed income, LIC Mutual Fund Asset Management.

The higher rate on these instruments has not stopped NBFCs from raising funds, due to increased demand from

HNIs for back-to-back IPOs lined up in the past few months.

The rates on these instruments went up after the Reserve Bank of India started normalising surplus liquidity in the banking system, which pushed up yields of CPs sharply. So far in FY22, yields on IPO-CPs have been in the range of 3.75-6.50%, compared to 3.20-6.00%.

Indian companies have raised ₹1.08 lakh crore so far in the current financial year through the IPO route, which is multi-fold the amount in the previous year. Investment by the HNIs also increased to ₹12,230 crore in FY22. Usually, NBFCs lend money to HNIs for a shorter period for IPOs and interest rates on these funds are typically higher.

Market participants said issuances of IPO-CPs are expected to moderate in the next financial year because IPO issuances are expected to come down due to volatility in the markets. “Global liquidity would reduce which would further impact the equity market and IPO issuances,” Singh said.