RATES ARE LOWER THAN BANKS

Corp bond market lures borrowers

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WITH ACTIVITY IN the corporate bond markets picking up on the back of lower borrowing costs, the loan growth in the current year could be slower than the expected 12-13%.

Primary issuances in the bond market in the current quarter are already at around ₹2 trillion, compared with ₹1.3 trillion in the March quarter, as companies are able to mop up funds at very attractive rates.

As Lakshmanan V, head of treasury at Federal Bank, observed, for some top-rated PSUs, the spread over the G-Sec is at historical lows of 30-40 basis points for three-year money, compared with 50-60 bps earlier.

Aditya Gore, head — international coverage and research, Nuvama Fixed Income Advisory, points out that banks' lending rates are higher than those in bond markets. "The MCLR of banks is generally above 8.5%, but a AAA-rated firm is able to borrow at 7.5% via bonds," Gore said.

FIXED RATE IS ANOTHER POSITIVE

- AAA firms opting for bonds as costs are lower than loans
- Banks lowering rates for top clients so as not to lose them
- Investor appetite for bonds rising as new buyers emerge
- Secondary mkt volumes going up with more transparency

Even where the interest rates are comparable, companies prefer borrowing long-term in the bond market as the interest rate is fixed. Ajay Manglunia, MD and head, investment grade group, JM Financial Services, said a loan from a bank would come at a variable rate. "A company like Power Finance Corporation is locking into a rate of 7.48% for 15-year money though banks may offer a similar rate. PFC is aware that rates could soften, but if it feels the rate is affordable, it is locking into it."

Banks, at times, lower rates to counter the competition and retain good customers. Anshul Chandak, head of treasury, RBL Bank, said loan rates have not risen as much as they possibly should have, especially for top-grade customers, since banks want to retain them.

Nuvama's Gore said banks are also participating in the bond markets, which can essentially be seen as lending to borrowers.

Chandak believes activity will increase later in the year when the peak of the rate cycle nears. The share of paper rated A+ and below has sharply gone up in the last three months. Issuances of non-AAA paper increased to ₹39,200 crore in May from ₹22,500 crore in April, data from Nuvama Fixed Income Advisory show.

Lakshmanan said in a strong macroeconomic environment, investors are willing to take a little more risk. "They are hoping for rating upgrades for some of the issuers."

While primary issuances have been on the rise, daily trading volumes in the secondary market are estimated to have gone up to ₹6,000-8,000 crore from ₹5,000-6,000 crore. Suvajit Ray, head of products, IIFL Securities, attributes this to the increased transparency in the markets following some change made by the exchanges. According to Ray, apart from the regular investors such as mutual funds, insurers, corporate treasuries and so on, family offices, too, have been investing in bonds over the last six months.

The bulk of the borrowing in the corporate bond market, even today, is from NBFCs.