Removal of tax benefits in mkt linked debentures and debt MFs add to charm

High-yield Issues Gain Popularity Among Cos Looking to Raise Funds

Shilpy.Sinha
@timesgroup.com

Mumbai: In a shift driven by the removal of taxation benefits in market linked debentures (MLDs) and debt mutual funds (MFs), high-yield issuances have emerged as an attractive financing option for companies. This trend has prompted them to explore alternative funding sources such as private credit funds, Alternative Investment Funds (AIFs), family offices, and High Net Worth Individuals (HNIs).

Ascend Telecom Infrastructure, a company with an A+ rating by Care Ratings, recently made headlines by successfully raising ₹1,336 crore through non-convertible debentures at an interest rate of 11.35%. Earlier Edelweiss ARC, which is rated Crisil AA- raised Rs 650 crore through NCDs at 14.5%. Next week, Earnest Constructions is looking to garner ₹320 crore and has offered investors 12%.

Previously, companies with ratings ranging from BBB to A+ faced limited appetite among Qualified Institutional Buyers (QIBs). However, they have found a lifeline in the form of private credit funds, AIFs, family offices, and HNIs.

"There was very low appetite for lower rated papers three years ago and issuers were going through banks and mutual funds as they had credit schemes and flows in the segment, but now as flows in institutional market in credit have dried up, they are directly approaching HNIs/family offices and finding some investors in small quantum," said Ajay Manglunia, MD, JM Financial.

From April 1, tax from listed MLDs have effectively tripled from the current rate of 10%. Also, the indexation benefit on gains available on debt mutual funds was removed from April 1.