

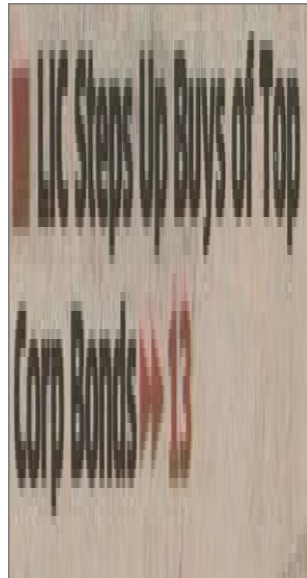
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**GIVING HIGH RETURNS** on guaranteed products is the likely aim amid a shift in focus to growing non-par book: Analysts

# There's a New Mr Bond on Debt Street

## LIC Steps Up Buys of Top-rated NBFC and Corporate Papers

**Bhakar Dutta and Shilpy Sinha**

**Mumbai:** Life Insurance Corp (LIC) is stepping up activity in a space where banks are wary of a hawk-eyed regulator and higher capital needs, with the country's biggest institutional investor in tradable securities recently buying debt issued by highly rated non-banking financial companies and corporates, including Reliance Industries.

LIC subscribed to a lion's share of Reliance's ₹20,000-crore bond sale last month, while also taking up a major portion of a bond sale earlier this week by Tata Capital Financial Services (TCFSL), a subsidiary of Tata Capital, sources aware of the developments told ET. LIC had bought ₹13,000 crore of RIL's bonds, the sources said.

The insurance sector giant is also said to have deployed funds in a Sep-

tember bond sale by another highly-rated NBFC — L&T Finance, the sources said.

An email sent to LIC did not receive a response by the time of publication. RIL, Tata Capital Financial Services and L&T Finance also did not respond to emails sent by ET seeking comments on the matter.

On November 9, RIL sold 10-year AAA-rated non-convertible debentures worth ₹20,000 crore, marking the largest-ever bond sale by an Indian firm that is not in the financial sector. The coupon rate, or the interest paid out to investors, for RIL's bonds was set at 7.79%.

One of the reasons why LIC is increasing its investments in corporate bonds is to offer guaranteed return products to policyholders. LIC has introduced Jeevan Utsav — a guaranteed non-par product offering 10% sum assured regular income.

"We have shifted our focus to non-

### Raising Non-Par

₹47.43 Lakh Crore: LIC's AUM as of Sep 2023, up 10.47% YoY

Equity investment: ₹11-12 lakh crore of the total ₹47.5 lakh crore portfolio

Non-par share increase: 7.12% to 10.7% — a 50% rise from Mar '21 to Sep '23

LIC constitutes 22% of overall the bond market and 4% of the equity market

Insurer aims to raise non-par share to 15%

par products," LIC chairman Siddhartha Mohanty had told ET in a recent interview. "We have our strategy as to how we can earn beyond G-sec in NCDs depending on the quality of the paper."

Currently, LIC holds a 22% share of the overall bond and 4% of the total market capitalisation in Indian equity. Of the total investment of ₹47.5 lakh crore, ₹11 lakh crore to ₹12 lakh crore is invested in equity. LIC has seen a 50% increase in the

share of non-par, growing from 7.12% in March 2021 to 10.7% in September 2023. LIC wants to increase the share of non-par in the annualised premium equivalent to 15%.

### HUNT FOR YIELDS

"LIC has been growing some of its non-par book which requires a good yield portfolio," said Suresh Ganapathy, head of financial services research at Macquarie Capital. "So one of the reasons why LIC

could be investing in corporate bonds is to offer high returns on guaranteed products."

TCFSL, on December 6, carried out a sale of secured, redeemable, 10-year non-convertible debentures worth ₹2,500 crore, with the coupon rate being set at 8.11%, sources said.

"There is a pattern to LIC's investments; they typically want 1.25 times asset coverage from a company before investing. The pricing of the deal shows the presence of a single large investor; moreover, the market would have difficulty in absorbing deals of such sizes," a source said on condition of anonymity.

"LIC also requires highly rated corporate bonds and from an investment perspective a deal at 8.11% is a good one. If one looks at PSU names to invest in, one will have to go down the ladder and accept a rate of around 7.70% or so," the source said.

The bond sale by L&T Finance was carried out on September 12, with the NBFC issuing ₹1,600 crore worth of 10-year AAA-rated non-convertible debentures.

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## New Mr Bond

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The coupon on the bonds was set at 7.9%, sources said.

The activity by the insurer comes at a time when it has become more expensive for corporates to raise funds through bonds due to tight liquidity conditions in the banking system and recent regulatory changes by the Reserve Bank of In-

dia that have increased capital requirements for certain kinds of lending. "The spread between corporate bonds and government securities has recently widened, and many investors are opting to sell GSec to invest in corporate bonds for better yields," said Ajay Manglunia head of the investment grade group at JM Financial. "Many factors such as concerns regarding the increasing yields in the United States taking a backseat, inflation under control and a

long pause is seeing many long-term investors investing now after sitting on the sidelines for some time." He added that banks have started hiking their lending rates, leading to borrowing from the bond market becoming more competitive compared to relying on bank credit lines.

The spread, which stood at 15-20 basis points just a month ago between G-sec and corporate bonds, has now widened to 40-45 basis points, giving good returns to in-

vestors. The yield on the 10-year benchmark government bond is currently at 7.24%, while a highly rated firm like Reliance recently raised 10-year funds at 7.99%.

From September-end to now, yields on 3-year, 5-year and 10-year corporate bonds have increased by around 10-16 basis points, reflecting the higher rate of interest that companies must pay, bank treasury executives said.

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