

2023 a watershed for corporate bonds as things start to come into place for deeper market

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Synopsis

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Manglunia has over 25 years of experience in organisation and placement of debt instruments, resourc...[Show more »](#)

In my over 25 years of experience in the Indian debt market, the topic of deepening the country's corporate bond market is undoubtedly among the most discussed ones. Right from the famous RH Patil Committee Report of 2005, several committees have suggested steps to develop the bond market with an aim to support the large infrastructure financing of our growing nation.

The implementation of these recommendations, aimed at widening the investor base, improving liquidity, and encouraging companies to issue **bonds**, has, however, been rather slow.

India is poised to become the third-largest economy by 2030, corporate bond issuances are also expected to more than double and cross ₹100 trillion milestone from the current outstanding of ~₹43 trillion, according to CRISIL Ratings.

Encouragingly, signs of progress in market development have started to emerge. This fiscal holds promise marked by coordinated efforts from regulatory bodies and the government. With a focus on driving growth through infrastructure development, the government had allocated ₹10 trillion in this fiscal's budget. The expectation is that this commitment will not only meet the demand for long-term capital but also ensure its availability at an affordable cost. In this context, the development of the corporate bond market assumes greater significance.

To catalyze market growth, SEBI mandated large companies meet at least 25% of their incremental borrowings through issuance of debt securities. This directive aims to diversify the issuer base, which currently is dominated by issuers rated AA and above, primarily from the financial sectors. Additionally, due to previous setbacks in infrastructure funding, banks have become cautious, making it prudent to share the financing burden for hard asset creation with capital markets. Despite regulatory nudges, companies have been hesitant, prompting SEBI to ease certain norms.

Another issue has been the illiquidity in the corporate bond market, which discourages not just companies but also investors. Banks, MFs, insurance companies & pension funds are active buyers of **corporate bonds**. Still, the market is fairly illiquid because most long-term players buy bonds and hold till maturity and also do not participate in the tri-party repo. Banks have various liquid windows available, and hence, they are not dependent on tri-party repos in corporate bonds. MFs, on the other hand, are the only lender here.

In July, SEBI built on the earlier scheme of the RBI, and introduced a limited-purpose clearing corporation, AMC Repo Clearing Limited. The aim is to encourage insurance companies and banks to come and trade under this facility for better price discovery. It helps to attract a new set of investors because one would be sure of finding buyers when wanting to exit.

Another development is the setting up of a corporate bond market development fund. The AIF is formed to allow fund houses to offload their papers in times of stress. Previous episodes of market dislocation, the IL&FS default crisis of 2018 and the winding-up of debt schemes in 2020, have shown that fund houses don't get exit in case of adverse credit events.

Despite recent tax changes related to debt schemes, they still remain an attractive avenue compared to options like Bank FDs. With the prospect of stable or declining interest rates, investing in long bonds becomes an opportune choice. A fall in interest rates is favorable for bonds as it leads to a decline in yields, enhancing returns on debt schemes.

Equity markets are seeing increased participation from retail investors. In comparison, investment in bonds by individual investors is small but encouragingly stepping up. The participation has also been attributed to new age, recently started & regulated online bond platforms, which have made it easier to buy bonds at competitive levels & settled in a secure way.

On December 9, SEBI floated a consultation paper proposing reduction in face value of privately listed bonds to ₹10,000 from ₹100,000. Remember, it was already brought down from ₹10 lakh. SEBI's move shows its comfort with encouraging retail investors in India's bond market. If accepted, it will lead to greater participation from individual investor class & is a step towards widening the investor base.

As we go closer to the Union Budget, there will be heightened expectations of more such enabling announcements. Irrespective of the outcome, one can say with confidence that India's corporate bond market is finally finding its depth, and the current fiscal will go down as a watershed one.

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