CIRRUS THE ECONOMIC TIMES CIRRUS

Wed, 06 Apr-22; Economic Times - Bangalore; Size : 153 sq.cm.; Circulation:50746; Page : 5

BOND MARKET LIKELY TO SEE UP TO 10% REDUCTION IN BORROWING

NBFC Borrowing Costs Likely to Fall with HDFC Out of Bond Mkt

Saikat.Das1@timesgroup.com

Mumbai: India's bond market could become a less crowded place, thanks to Housing Development Finance Corp Ltd's (HDFC Ltd) proposed merger with HDFC Bank, likely reducing the cost of funds for borrowers.

Nearly a tenth of borrowing in the bond market could reduce, as HDFC accounted for that much bonds sold in the country. The merged entity will have access to cheaper deposits to fund the mortgage business. Also, being a banking services provider, the combined company will have less regulatory room than a housing financier to raise funds from long-term institutional bond investors, including insurance companies.

This could be a blessing for other non-banking finance players such as Bajaj Finance, LIC Housing Finance and L&T Finance. Their fund cost could fall, as there would be limited alternatives for fund managers to invest in top-rated financial services bonds.

TO BE OR NOT TO BE: NBFCs FACE THEIR MOMENT OF TRUTH ▸▸ SMART INVESTING

Even the smaller companies in the HDFC Group, such as HDB Financial and HDFC Credila, may benefit too while raising resources.

In the just-ended fiscal year, HDFC Ltd accounted for 9%, or ₹50,157 crore, of the total bond sales, compared with just 0.9% by HDFC Bank (₹5,016 crore), show data compiled by JM Financial.

HDFC Ltd and HDFC Bank are both rated triple-A. Insurance and pension funds find HDFC Ltd bonds a preferred destination to deploy their money.

But, now sectoral caps will come into play. Investments by insurers in HDFC Ltd bonds come under the category of "housing and infrastructure", where they need to deploy a minimum of 15% of the assets under management.

However, an insurance company has a limit of 25% when it comes to investing in the banking and financial services sector, the category the combined entity will come under.

Continued on ▸▸ Smart Investing

HDFC's Absence Could Lower Costs for NBFCs

▸▸ From ETMarkets Page 1

The home financier is also a gold standard investment for mutual funds as they sometimes seek to generate trading gains on those debt securities. HDFC Ltd's bonds are highly liquid in the secondary market. MFs have a single group investment limit of 20%.

With HDFC Ltd going out of the bond market, it will release investment limits for other group non-bank companies including HDB Financial and HDFC Credila, a dedicated education loan company.

"HDFC Ltd is counted in the league of top sovereign-backed entities including NHAI, PFC, REC, PowerGrid and so on," said Ajay Manglunia, managing director and head of fixed income at JM Financial. "Even state-backed investors including EPFO (Employees' Provident Fund Organisation) or LIC of India too subscribe to these bonds. In its absence, other top-rated non-banks will have a higher bargaining power as fund managers cannot sit idle on inflows."

For example, banks have an investment limit of 25% on a single group. An insurance company cannot invest more than 15% on a single group entity.

"We are internally analysing the impact of HDFC Ltd's absence from local bonds as we will strategies our investments accordingly," said the head of corporate bonds at a large bank.

A 10-year HDFC Ltd paper yields 7.15%, compared with 7.18% for LIC Finance bonds, 7.25% for Bajaj Finance and 7.50% for L&T Finance. For ICICI Infra bond of similar tenor, it is 7.05%. Those yields are now expected to drop in the primary bond sale, dealers said.