COVID-19 pandemic infects, spikes bond yields: Brickwork Ratings

Brickwork Ratings, Mumbai, 19 March 2020: Debt market yields have spiked by 30–64 basis points in March as investor confidence is hit by the current outbreak of the coronavirus pandemic (declared a pandemic by the WHO). The rapid spread of the virus has propelled governments and central banks globally to provide multiple stimulus packages, leading to rising costs and higher-than-earlier-envisaged fiscal deficit. Government borrowings and inflation will also increase, along with bond yields, going forward. The distress is compounded due to investors fearing defaults as a result of the ongoing slowdown, coupled with corporates suffering business and profitability loss on account of the pandemic breakout, which will drastically impact the financial health of many sectors.

Furthermore, this outbreak is likely to directly impact the entertainment, tourism, hotel, restaurant and airline industries and indirectly impact all sectors affected by supply chain breakups. The profitability and revenue of these industries is expected to tumble to almost zero in the near term until the pandemic persists, and the long-term impact will be substantially negative as typically, March is the beginning of their busy season amid clocking a higher revenue period.

The rupee depreciation will raise import costs, as well as hedging costs, for Indian corporates. However, the silver lining is in the form of massive decline in trade deficit, followed by a reduction in oil prices.

To pacify raged bond yields, the Reserve Bank of India has time and again stepped in with various liquidity boosting measures, including Long-Term Repo Operations (LTRO) to the tune of INR 1 trillion, USD/INR swaps to the tune of $2 billion and now, Open Market Operations (OMO) worth INR 100 billion.

Reflecting a major concern in the immediate and short-term course, the shorter end of the curve, including the 1- and 3-year "AAA"-rated corporate bond papers, recorded a 64-basis-point spike thus far in March. Meanwhile, the 5- and 10-year "AAA" corporate bond papers have risen by 7–30 basis points, according to data obtained from the FIMMDA.

The total foreign portfolio investors’ outflows (equity + debt) for March (amounting to INR 592 billion) have also contributed to the spike in bond yields. This trend is expected to continue until the outbreak of the virus subsides.

![Corporate Bond AAA rated bond yields](source: FIMMDA, BWR Research)

![Net investment by FPIs](source: CMIE, BWR Research)
Contacts:

Bal Krishna Piparaiya  
Senior Director- Ratings  
+91-022-67456614  
piparaiya.bk@brickworkratings.com

Ria Matwani  
Research Editor  
+91 22 67456675  
ria.m@brickworkratings.com

Investors & Media Contact  
+91 22 67456668  
liena.t@brickworkratings.com

ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India’s home-grown credit rating agency built with superior analytical prowess from industry’s most experienced credit analysts, bankers and regulators.

Established in 2007, Brickwork Ratings aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. Brickwork Ratings provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. Brickwork Ratings has employed over 400 credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 28,000 ratings across asset classes.

Brickwork Ratings is committed to providing the investment community with the products and services needed to make informed investment decisions. Brickwork Ratings is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognized External Credit Assessment Agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. More on Canara bank available at www.canarabank.co.in

BWR’s Rating Criteria is available at https://www.brickworkratings.com/ratingscriteria.aspx
BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 200+ locations.
DISCLAIMER

Copyright © 2019 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, Karnataka 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings’ factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings’ ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, “BWR Reps”) guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.