TREND: Fundraising through corporate bonds falls 32% on month in Feb

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MUMBAI – Fundraising through private sales of corporate bonds in February fell 32% from the previous month because most issuers postponed their offerings in anticipation of further fall in yields.

Yields declined last month after the Reserve Bank of India unexpectedly lowered interest rates at its monetary policy review on Feb 7, and signalled the possibility of further cuts. A benign inflation reading for January cemented expectations for further easing of monetary policy.

As issuers waited for their cost of borrowing to decline, they preferred not to lock in present rates for the long term. Consequently, most bond offerings were concentrated in relatively shorter maturity segments.

Corporates and financial institutions raised 471.84 bln rupees through 165 bonds in February, compared with 689.83 rupees through 177 bonds the preceding month, according to data sourced from the National Securities Depository and compiled by Cogencis.

Of the total quantum borrowed through corporate bonds last month, over 57% was raised through papers maturing till 2024. In February, 85 companies tapped the corporate bond market, against 96 in January. However, February month saw a diverse set of issuances, including municipal bonds, government-serviced papers, and Basel III-compliant bonds.

Midway through the month, the market turned volatile because of geopolitical tensions between India and Pakistan. This kept issuers on the sidelines and even led to cancellation of offerings by marquee names such as Indian Renewable Energy Development Agency Ltd, and Bharat Petroleum Corp Ltd.

In February, public sector undertakings such as NHPC Ltd, Food Corp of India and Power Grid Corp tapped the bond market for the first time, and all the three issued 10-year maturity bonds for the first time in the current financial year, according to Cogencis data.

The much awaited bond issue of Food Corp of India created much buzz as it drew a weak response, despite the sovereign guarantee. A freshly-introduced clause in the guarantee agreement for the bond raised doubts about the Centre's backing for the debt issue in the long term. The company raised 27.37 bln rupees, against the total issue size of 80 bln rupees, and set a coupon rate of 8.95% on its bonds maturing in 10 years.

Tier-II bonds worth 9.3 bln rupees were issued by lenders, including Bank of Baroda and Karnataka Bank, and companies such as Indian Renewable Energy Development Agency.

Last month, multiple state-owned entities, including National Bank for Agriculture and Rural Development, REC, Housing and Urban Development Co, and Power Grid Corp issued government-serviced bonds maturing in 10 years.

The month also saw Surat Municipal Corp raising 2 bln rupees through five-year bonds.

YIELD MOVEMENT

The yield on three-year bonds issued by NABARD, considered the market benchmark, fell to 8.05% towards the end of February from 8.20% at the beginning of the month. The yield on the paper briefly even slipped below 8% for the first time since Apr 25, 2018.

The fall in yields was limited to shorter maturity papers, while yields on long-term bonds remained elevated because of hefty market borrowing for 2019-20 (Apr-Mar) announced by the government.

Yields on longer maturity bonds rose by 10-12 basis points on fear that the government's higher market borrowing for the current financial year may affect appetite in the near term.

The government will borrow 7.10 trln rupees on a gross basis in 2019-20, the highest ever in any given year. The borrowing is sharply higher than the revised gross borrowing of 5.71 trln rupees for the current year. The government also announced an extra 360 bln rupees worth of borrowing for 2018-19.

While the RBI's rate cut provided some relief, the market was again rattled by geopolitical tensions between India and Pakistan following a terrorist attack on security personnel in Pulwama, Jammu and Kashmir.

During the month, issuances were also hit as investors turned risk-averse after the rating downgrade of bonds of Dewan Housing Finance.

On Feb 4, CARE and **Brickwork Ratings** downgraded the ratings on Dewan Housing's non-convertible debentures due to moderating financials of the lender following a sharp drop in the stock and a significant rise in its bond yields.

Most non-banking finance companies and housing finance companies, including Dewan Housing, were hit by a liquidity crisis following defaults on debt repayments by Infrastructure Leasing & Financial Services and its group companies in late August. This led to fears of a sector-wide contagion.

With Dewan Housing's ratings downgrade, the scare of a liquidity crisis for non-banking finance companies resurfaced, but did not affect yields significantly. End

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