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Dr. S Poornima
HoD& Associate Professor, Department of Business Administration, PSGR Krishnammal College for Women.

M Ganeshwari
Research Scholar, PhD, Department of Business Administration, PSGR Krishnammal College for Women.

Correspondence
Dr. S Poornima
HoD& Associate Professor, Department of Business Administration, PSGR Krishnammal College for Women.

Indian Corporate Bond Market – The Current Scenario

S Poornima, M Ganeshwari

Abstract
India has been distinctly lagging behind other emerging economies in developing its long-term debt market (LTDM), be it corporate or municipal bonds. The equity market has been more active, developed and at the centre of media and investor attention. A corporate bond is a bond issued by a corporation in order to raise financing for a variety of reasons such as to ongoing operations, M&A, or to expand business. It includes all bonds except those issued by governments in their own currencies. This paper reviews present status of corporate bond market in India and discusses issues and policies that can help further deepen and improve liquidity in corporate bond market.

Keywords: Corporate Bond Market, India

Introduction
Corporate Bonds are Bonds which is issued by private or public sector companies in order to borrow funds from the market. There is no distinction on Corporate Bonds and Debentures taken by Indian Companies Act, 1956. The term Debentures means that, it consists of bonds, debenture stock, and any other securities of a company, whether constituting a charge on all the assets of the company or not". Corporate Bonds can either be issued by way of Public issue where the retail investor and also institutions can participate in the issue or by way of Private Placement where only specified number of investors can participate in the issue. Corporate Bonds unlike equity shares can give regular income in the form of interest but do not guarantee an ownership in the company. Corporate Bonds can be listed or issued for a period of 1 year to 20 years.
Corporate Bonds are classified on the basis of Maturity which includes Short Term, Long Term or Medium Term; Coupon Fixed Rate, Floating Rate or Zero Coupon; Option which includes Call Option or Put Option and Redemption which includes Single redemption or Amortizing Bonds. By far the largest market for corporate bonds is in US Dollar denominated corporate bonds. The range of US Dollar market range from $5 to $6trillion range.

Growth of Indian Corporate Bonds Market
Both in terms of issues and amount, Indian Corporate Debt market have seen some growth in recent years. The outstanding issues which were at 12,155 as on March 2011 increased to 18,664 by end Dec 2014. There is increase in amount outstanding from 8,895 billion to 16,485 billion during the same period. Among fixed rate bonds, floating rate bonds, structured notes and other types both in number and value the fixed rate bonds were predominant. Financial sector entities are the important characteristic of the issuances. Yet another peculiar feature of our Corporate Bond market is that private placements are the norm. The public issuances which were 94.51 billion in 2010-11 which is increased to 423.83 billion in 2013-14, even though it fell back to 90.49 billion in the Feb 2015. The private placements in the year 2010-11 were 2187.85 billion, 2011-12 were 2612.82 billion, 2012-13 were 3614.62 billion, 2013-14 were 2760.54 billion and in the year 2014 it is 2692.45 billion. The secondary market trading was 6053 billion in 2010-11, 5938 billion in 2011-12, 7386 billion in 2012-13, 9708 billion in 2013-14 and 10043 billion in the current year till l Feb 2015.

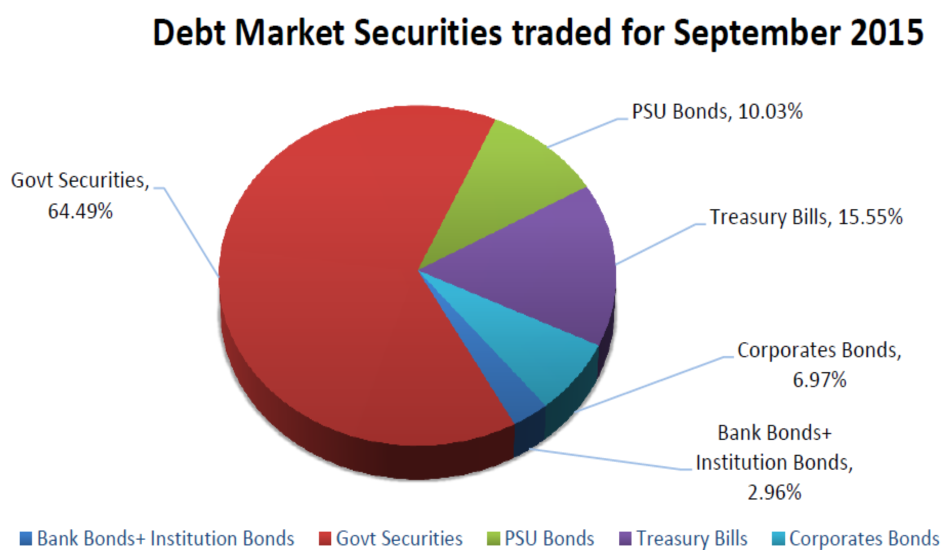
There is increase of Government securities share in the total market activity i.e., 64.49% compared 58.51% in the previous month. The share of the T-Bills in September 2015increased to 15.55% from 13.74% in Aug 2015. The Institutional Bonds is 2.50%, Public Sector Bonds is 10.03%, Corporate Bonds is 6.97% and Bank Bond is 0.46% of the total share in market activity.

Table 1: Security wise Traded Value (Value in Million)

Securities	Sep 2015	Aug 2015	Jul 2015	2015-16*	2014-15
Central Govt Securities	335547.71	221755.87	221494.59	1532699.93	3877464.91
State Govt Securities	16753.61	27180.90	16849.33	110620.03	229474.17
Treasury Bills	84937.88	58462.23	56045.78	601919.91	1666797.38
PSU Bonds	54806.50	54211.00	43963.75	346248.35	1022612.90
Institutional Bonds	13667.00	29722.00	17643.00	125977.50	321487.80
Bank Bonds	2501.00	700.00	2771.00	10265.00	17899.00
Corporates	38079.00	33417.00	40251.20	228753.90	587804.60
Others	-	-	-	100.00	150.00
Total	546292.70	425449.00	399018.65	2956584.62	7723690.76

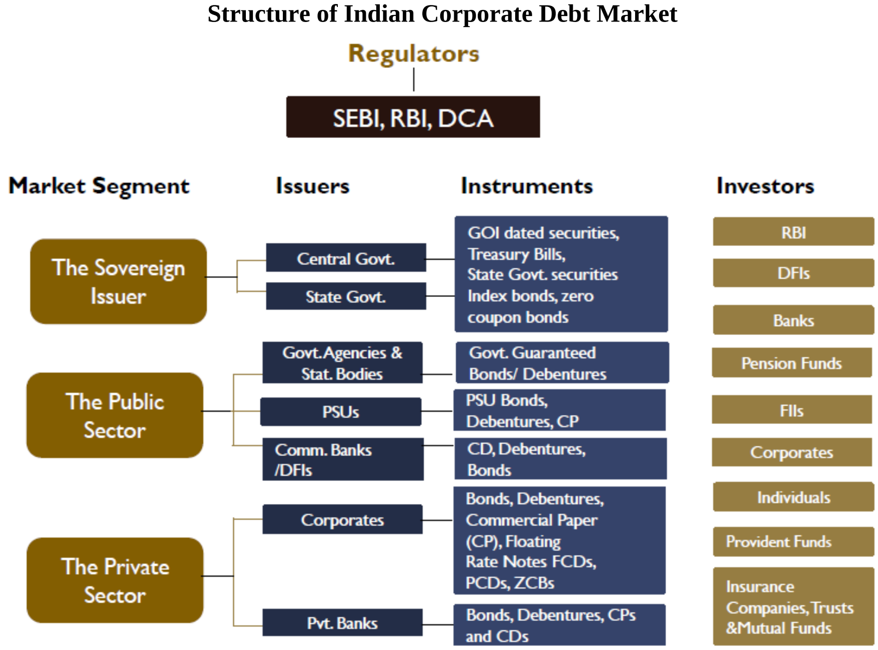
***Source:** https://www.rbi.org.in/

The breakup of various types of securities, in the traded value for the month of September 2015 is given in figure below:



***Source:** *Annual Report – 2015 (RBI)*

Structure of Indian Corporate Debt Market



***Source:** https://www.rbi.org.in/

Issuers: It is a legal entity that develops register and sells securities for financing its operations. Issuers may be either domestic or foreign governments, corporations or investment trusts. Generally, Issuers are responsible for any obligation of the issue or for reporting financial conditions, material developments and any other operational activities under their jurisdictions. The category wise issues and issues added on the Debt segment during the month of September 2015 are given below:

Table 2: Category wise issue

Category	Issues as on Aug 31,2015	Added/Suspension revoked during the month	Matured during the month	Deleted/suspended during the month	Issues as on September 30, 2015
Banks	541	1	4	0	538
Corporate bond	2761	58	20	8	2791
FIs	434	0	16	4	414
Govt. Sec	1957	33	19	0	1971
PSU	1134	16	5	0	1145
Others	34	0	0	0	34
Total	6861	108	64	12	6896

***Source:** *Annual Report (2015) –NSE*

Public Sector Undertaking Bonds (PSU Bonds): This category includes Medium or long term debt instruments that are issued by Public Sector Undertakings (PSUs). The term usually denotes bonds issued by the central PSUs. Almost many PSU Bonds are sold by target investors on private placement basis at market determined interest rates. Often investment bankers are roped in as arrangers to this issue. They are issued in the Demat form. To attract huge investors and increase liquidity, issuers get their corporate bonds rated by rating agencies like CRISIL, ICRA, CAR Eetc. The bonds may carry both call or put option.

Table 3: Debt Utilization Status as on January 13, 2015

S.No	Type of Instrument	Upper Cap (in USD bn)	Upper Cap (INR Cr.) (A)	Investment as reported by Custodians (INR Cr.) (B)	Unutilized Limit available with the entity acquiring limits (INR Cr) (C)	Total Investments including limits acquired by the entity (INR Cr) (D) = (B) + (C)	% of limits exhausted (E) = (D)/(A)	Free Limit (INR cr) (F) = (A)-(D)
1	Government Debt (auction)	25	124,432	123,434	997	124,431	100.00	1
	Government Debt (on tap)	5	29,137	29,129	Not Applicable	29,129	99.97	8
1(a)	Treasury Bills	5.5	25416	1,558	-	1,558	6.13	23,858
2	Corporate Debt	51	244,323	150,657	Not applicable	150,657	61.66	93,666
2(a)	Commercial Papers	2	9,978	9,828	125	9,953	99.75	25
2(b)	Credit Enhanced Bonds	5	23,953	-	-	0	0.00	23,953
	Grand Total	81	397,892	303,220	1,122	304,217	76.46	93,675

***Source:** *Annual Report (2015) – RBI*

Financial Institutions and Banks: They are the major source of both bonds and hybrid instruments. In the year 2007-08, more than 80% of the non-gsec issues were from this type and mostly on private placement. This type is well-regulated and the issues hold good ratings. This is a popular form of investments in Mutual funds and other large investors. As a part of diversification, one of the active investor is in bond market is SBI DFHI Ltd.

Current Issues of Indian Corporate Bond Market

Corporate Bond Market need to facilitate its improvement and also growth in the following segment.

a. **Low investor base** - Banks, insurance companies, PFs, pension funds and primary dealers has a confined investor base of Corporate Debt market. Due to absence of knowledge and understanding of bonds there is low retail participation.
b. **Limited instruments and products** - There is lack of these in the Indian context which in turn inhibits development of these markets. CDS and IRFs have been some of the instruments that have come in of late and it is expected that these will grow. Of late, there has been some element of buoyancy in the IRF market which is a good sign. Securitization of the corporate debt instruments would provide a big fillip to the market as it would improve risk transference and diversification and provide liquidity to the issuers.
c. **Market Infrastructure –** It is a main factor that affect corporate bond market trading and thereby transparency and vibrancy in the market. Infrastructure facilities such as screen based automated order matching, central clearing and settlement, negotiated dealing system, etc. on the lines available to the government securities market would certainly facilitate and encourage secondary market trading, enhance market transparency and liquidity as well as develop scientific risk pricing. We need to improve the credit rating mechanism for

corporate bonds and encourage market for lower grade ratings which inhibits the market.

d. **Ease of issuances** - Bond issuance is viewed as being costly and cumbersome compared with bank lending. For it to be attractive to the issuers to approach the corporate debt market, the ease and cost of issuance has to improve. The listing and disclosure requirements and procedures have to be simple and less complicated. The size, scale and tenure of issues must improve and need to be made more attractive by encouraging public offers instead of the current preference for private placements. It is expected that consolidation of bond issues through reissuance/s would improve liquidity and encourage secondary market transactions. However, care would need to be taken to prevent excessive batching of redemptions and consequent liquidity stress.

e. **Market making** - The growth and development of any market is dependent on market makers who can provide both buy and sell quotes. Although prevalent in the government securities markets, they are lacking in the corporate bond segment. Market makers not only assume risk, they add diversity to the markets. Therefore, we need to develop a class of underwriters and market makers in corporate debt bonds on the lines of Primary Dealers in the government securities market.

Policy Initiatives

a) Trade reporting platform: Till recently, reporting of trades in corporate bonds was done at three different places (FIMMDA's FTRAC, reporting platform of NSE and BSE). Though multiple reporting platforms were available, majority of trades were reported on FIMMDA platform and cleared through one of the clearing houses of the stock exchanges. The reporting of secondary market trades in corporate bonds and securitized debt by RBI regulated entities has been shifted to stock exchanges with effect from April 1, 2014.

b) Pooling account: To facilitate DvP-I based settlement of trades in corporate bonds, the Clearing houses of the stock exchanges have been permitted to have a pooling fund account with RBI

c) Repo in corporate bond: In 2010, repos in corporate bonds were permitted to be regulated and other RBI permitted entities. Guidelines were further relaxed in terms of reduction of minimum haircut requirements and expanding the list of eligible collateral by permitting short term instruments like CP, CD and NCDs of original maturity less than 1 year. Scheduled Urban Cooperative Banks (UCBs) have also been permitted to participate in the repo market subject to adherence to conditions prescribed.

d) Credit Default Swaps (CDS) on corporate bonds: CDS on corporate bonds has been permitted to facilitate hedging of credit risk associated with holding corporate bonds. Based on market feedback, short term instruments like CP, CD & NCDs and unlisted but rated corporate bonds have also been permitted as eligible reference obligations.

e) Encouraging participation of banks and PDs in corporate bonds

i. In July 2014, banks have been permitted to issue long-term bonds with a minimum maturity of seven years to raise resources for lending to (a) long term projects in infrastructure sub-sectors, and (b) affordable housing. These bonds have been exempted from computation of net demand and time liabilities (NDTL) as well as Adjusted Net Bank Credit (ANBC) and are therefore not been subjected to CRR / SLR or priority sector lending requirements.

ii. The Reserve Bank has issued the instructions asking banks to consider raising Tier II capital through public issuance to retail investors.

iii. In order to encourage active participation of standalone PDs in corporate debt, investment norms have been relaxed by allowing them to invest funds borrowed from call money market subject to certain limits, enhancing investment limit in Tier II bonds of other PDs / banks / FIs from 5% to 10% of NOF and increasing the Inter Corporate Deposit (ICD) borrowing limit from 75% to 150% of NOF.

f) Foreign Portfolio Investors (FPIs):

i. Rationalization of investment limits: FPI investment limits have been rationalized, whereby existing limits and subdivisions have been merged into government securities and corporate bonds. The sub-limits for FPIs in Government securities are $10 billion, dated securities are $15 billion and other categories are $25 billion. In case of corporate bonds, the ceiling of $1 billion for qualified foreign investors (QFIs), $25 billion for FPIs and $25 billion for FPIs in long-term infra bonds, have been merged - retaining the overall cap for corporate bonds at $51 billion.

ii. Rationalization of allocation of debt limits: Method for allocation of debt limits in corporate bond market through auction has been changed. As per revised scheme, without purchasing debt limits till the overall investment, FIIs can now invest in Corporate Debt which reaches 90% after which an auction mechanism is initiated for allocation of the pending limits. Consequent to the changes, the restrictions on re-investment by FPIs, shall no longer apply in respect of limits held / investments made by FIIs in the Corporate Debt category, till the limits are available on tap.

iii. The Budget for 2015-16 has proposed to extend the period of applicability of reduced rate of tax upto 5% in respect of income from foreign investors for corporate bonds and government securities, from 31.5.2015 to 30.06.2017.

g) Credit enhancement by IIFCL:IIFCL has been registered as a NBFC-ND-IFC with RBI since September 2013.The authorized and paid up capital of the company as on 31st December 2014 stood at Rs.5,000 crore and Rs.3,900 crore, respectively.

Conclusion

Corporate Bonds act as a good source to raise long term funds with lower borrowing cost as compared to many Bank Loans. In India, Corporate Bonds market is at a growing stage and measures are being taken by the regulatory bodies to boost the growth of Corporate Bonds market in India. Necessary Amendment in the rules and regulations are being taken by various legal bodies. To increase the retail investors in Corporate Bonds, necessary awareness has to be taken by the market respectively.

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