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Innovation in bonds will unlock money for growth: CRISIL

Infra sector needs Rs.30 lakh crore, banks Rs.5 lakh crore in the next five years

India's financial sector has diverse goals to accomplish, such as generating humongous capital to fund long-term growth, creating sophisticated and safe tools for a rapidly globalising corporate sector, providing more investment avenues to middle-class savers, and ensuring financial inclusion for a vast number of the unbanked.

Clearly, banks alone won't be able to deliver on all these objectives. CRISIL believes India needs out-of-the-box solutions to generate the money so needed for economic growth. According to our estimates, just to build out infrastructure, India will need Rs.30 lakh crore over the next five years, while banks will need another Rs.5 lakh crore for their capital requirements till 2019.

This is why a vibrant corporate bond market has become an imperative. Says **Raman Uberoi, Business Head - CRISIL Ratings, Large Corporates & Corporate Affairs**, ***"Innovation is a critical ingredient in developing bond market. Continuous innovations in the corporate bond market will eventually open the floodgates of capital for key sectors of the economy. It will enable infrastructure projects to take off, deepen the financial sector, and improve access to credit for SMEs."***

Crucially, innovations bring together issuers and investors who have different risk thresholds, facilitate long-tenure funding that banks are unable to offer, make issuances cost-effective, and provide adequate risk-mitigation tools. As an asset class, corporate bonds have delivered higher returns over the past decade compared with government bonds and state development loans. Additionally, there wasn't a single default for papers rated AAA, and the average 3-year default rate for papers rated AA by CRISIL during this period was just 0.11%.

Says **Pawan Agrawal, Chief Analytical Officer, CRISIL**, ***"In the current fiscal, we have seen many innovations such as the issuance of the first commercial-mortgage backed securities (CMBS), one of the largest future-flow securitisation transactions, introduction of resets in credit enhancement for securitisation transactions, and renewed focus on partial-guarantee mechanisms. This is also the first full year of operations for infrastructure debt funds (IDFs) through the non-banking finance company route."***

CRISIL believes a few things need to be simultaneously ensured to keep up the pace of innovations. These are scaling up of existing innovations like IDFs and CMBS, maintaining focus on systemic stability, setting up of new vehicles such as bond guarantee funds, and building investor comfort with new instruments.

"Stakeholders need to make constant efforts to expand both the capital pool and investor base, and make the corporate bond market compelling for long-term global investors," Uberoi said.

This will require ironing out a clutch of other issues, too, including ensuring healthy price discovery that is now precluded because of the overwhelming footprint of government securities, enabling more lower-rated issuances, removal of trading curbs on EPFO and banks, and offering better exit opportunities to investors.

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