

Press Release

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Investor demand for corporate bonds can fall short by Rs 3-4 lakh crore

CRISIL underlines 5 steps to fast-track corporate bond market development

Additional regulatory facilitations and relentless implementation of those announced so far are imperative to bridge a yawning gap of Rs 3-4 lakh crore that is likely to emerge between demand and supply of corporate bonds over the next five fiscals, CRISIL said at its Annual Bond Market Seminar in Mumbai today.

According to the *CRISIL Yearbook on the Indian Debt Market 2018* released at the event, overall supply of corporate bonds is estimated to more than double from Rs 27.4 lakh crore at the end of fiscal 2018 to Rs 55-60 lakh crore by the end of fiscal 2023, led by issuances from the financial sector, followed by infrastructure and other companies.

As against this, overall demand is expected to be over Rs 53 lakh crore, led by retirement funds, insurance companies, mutual funds, foreign portfolio investors and others, and banks – in that order.

All that growth will raise the corporate bond market's footprint to as much as 20% of GDP over the next five fiscals from 16% now. That would still be way short of the levels seen in developed countries and some Asian peers.

Says Ashu Suyash, Managing Director & CEO, CRISIL, "To structurally bridge the demand-supply gap, we need a big step-up in investor awareness, better coordination across the ecosystem, continuation of regulatory reforms, and introduction of new instruments and hedging mechanisms. While stabilisation of the process and quicker resolutions under the Insolvency and Bankruptcy Code would increase investor confidence, any measure to improve market liquidity will provide a significant leg up."

Additionally, deepening the market for A rating category bonds will allow a large number of companies to tap the corporate bond market at lower interest rates compared with bank loans. The Union Budget for this fiscal acknowledged as much, with the Finance Minister Shri Arun Jaitley urging regulators to facilitate a deepening of the corporate bond market by reducing its skew towards AA and above rating categories.

CRISIL's analysis shows there are ~2,400 companies rated in that category with aggregate long-term bank facilities of ~Rs 10 lakh crore.

For long-term investors, bonds from such entities offer opportunities to diversify their portfolios and improve returns without substantially increasing the overall portfolio risk.

"CRISIL's A category ratings have displayed strong credit quality, as reflected in their low default rates and high stability rates over really long timeframes," said Gurpreet Chhatwal, President, CRISIL Ratings. "Improving awareness of their superior risk-return trade-off compared with the AA category, and their portfolio diversification benefits are crucial to narrowing the demand-supply gap."

That would require wider participation from various investor segments, encouraging well-capitalised entities to undertake market-making, and encouraging innovation.

CRISIL believes five steps are necessary in the near-term if India's corporate bond market has to grow the way it should. These include:

1. Fast-tracking legislative changes to kickstart the market for credit default swaps
2. Enabling banks and primary dealers to raise funds from the RBI's liquidity adjustment facility, or LAF, window through repo of corporate bonds, subject to appropriate haircuts. There can be an automated framework-driven activation of such a window, depending on the liquidity situation in the market.
3. Expediting the tripartite repo market to improve liquidity in corporate bonds
4. Fast-tracking the setting up of Bond Guarantee Fund of India and push partial credit enhancement product of banks to enable innovative, credit-enhanced bonds that help the infrastructure sector access long-term funds from insurance and pension funds.

5. Fine-tuning many of the regulatory changes announced in the past few years is also necessary to balance the needs of both issuers and investors. And better cohesion and synergy among regulators will also go a long way in bridging the demand-supply gap.

For further information,

Analytical contacts

Gurpreet Chhatwal

President
CRISIL Ratings
D: +91 22 3342 8589
gurpreet.chhatwal@crisil.com

Nagarajan Narasimhan

Senior Director
CRISIL Research
D: +91 22 3342 3540
nagarajan.narasimhan@crisil.com

Media contacts

Saman Khan

Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Naireen Ahmed

Media Relations
CRISIL Limited
D: +91 22 3342 1818
M: +91 90 040 84769
B: +91 22 3342 3000
naireen.ahmed@crisil.com

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