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FIRST LIGHT

08 September 2022

RESEARCH

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Domestic macros appear to be insulated

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Corporate bonds market in India

SUMMARY

India Economics: Monthly Chartbook

Last month, major market mover has been the Jackson Hole Symposium. Fed Chair hinted at faster pace of rate hike to control inflation. As a result, global yields edged up. Even DXY inched up. Domestic yields, on the other hand, inched down on account of decline in oil prices and reports of India's inclusion into the global bond index. It also got comnfort from central bank official comments that inflation has passed its peak. On the growth front, domestic indicators remained broadly buoyant. PMI print, credit demand (especially personal loans), GST and toll collections showed pick up. Going forward, however, we expect some moderation might be on the card, as global growth slowdown might impinge on domestic macros sooner or later.

Click here for the full report.

India Economics: Bonds

With the growing importance of investment for higher GDP growth, there is an urgent need for alternative sources of financing; and corporate bonds market can play an important role here. A well- developed and smooth functioning corporate bonds market serves as an important driver of economic growth as it provides an additional source of long term finance for industry. In fact, ideally there should be matching of long term projects with long term finance and the bond market offers an avenue for the same. In India, RBI and SEBI have taken various steps to develop and strengthen the corporate bonds market. However, while the size of the corporate debt market has expanded, it still remains relatively underdeveloped relative to the bank credit segment.

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Daily macro indicators

Indicator	05-Sep	06-Sep	Chg (%)
US 10Y yield (%)	3.19	3.35	16bps
India 10Y yield (%)	7.22	7.18	(4bps)
USD/INR	79.85	79.84	0.0
Brent Crude (US$/bbl)	95.7	92.8	(3.0)
Dow	31,318	31,145	(0.6)
Hang Seng	19,226	19,203	(0.1)
Sensex	59,246	59,197	(0.1)
India FII (US$ mn)	**02-Sep**	**05-Sep**	**Chg ($ mn)**
FII-D	(74.6)	15.4	89.9
FII-E	(161.0)	33.0	194.0

Source: Bank of Baroda Economics Research

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Domestic macros appear to be insulated

Last month, major market mover has been the Jackson Hole Symposium. Fed Chair hinted at faster pace of rate hike to control inflation. As a result, global yields edged up. Even DXY inched up. Domestic yields, on the other hand, inched down on account of decline in oil prices and reports of India's inclusion into the global bond index. It also got comnfort from central bank official comments that inflation has passed its peak. On the growth front, domestic indicators remained broadly buoyant. PMI print, credit demand (especially personal loans), GST and toll collections showed pick up. Going forward, however, we expect some moderation might be on the card, as global growth slowdown might impinge on domestic macros sooner or later.

Growth impulses remain strong: India's manufacturing and services PMI for Aug'22 signal a continued momentum in activity supported by strong demand and easing price pressures. Other indicators such as credit growth, toll collections, GST collections and electronic imports show an improvement. Further, South-West monsoon has progressed well (5% above LPA as of 5 Sep 2022), and storage levels in reservoirs is adequate. However, with several parts of Eastern and Northen India recieving deficient rains, kharif sowing has been impacted and is 13.7% lower compared with last year. This has been led by lower sowing of rice (-22.9%) and pulses (-5.9%)

Health of centre's finances: Supported by a drop in overall spending in Jul'22 and buoyant revenue growth, centre recorded a surplus of Rs 11,040 crore (a first since Mar'20). With this, fiscal deficit (% of GDP, 12MMA) came down to 6.3% as of Jul'22 versus 6.6% as of Q1FY23. On the expenditure side, overall growth slowed to 12.2% in FYTD23 (till Jul'22) versus 15.4% in Q1. This was led by sharp slowdown in revenue spending (4.8% in Apr-Jul versus 8.8% in Q1). Capex on the other hand remains strong (62.5% in Apr-Jul versus 57% in Q1). Centre's gross tax revenues rose by 24.9% in FYTD23 versus 22% growth in Q1, led by pick up in direct (42.7% versus 25.4%) tax collections. Indirect tax collections (10.9% versus 11.1%) were broadly stable. Centre's net revenues also rose sharply by 12.9%, compared with 5% in Q1FY23. We believe centre will meet its fiscal deficit target for this year.

India's 10Y yield inched down: Post Jackson Hole Symposium, global yields rose sharply, with US 10Y yield rising as much as 54bps in Aug'22. This was driven by hawkish comments from Fed Chair signalling aggressive pace of rate hike. India's 10Y yield however, was an anomaly and fell by 13bps in Aug'22. This was supported by declining crude prices (averaged to US$ 98/bbl in Aug'22 from US$ 105/bbl in Jul'22). Apart from this, comments from central bank officials that inflation has peaked and is likely to get anchored in the coming months, also comforted yields. In Aug'22, we expect CPI to be ~6.7%.

INR to remain under pressure: INR came under renewed pressure after US Fed Chair's speech at the Jackson Hole Symposium. In fact, INR briefly breached the 80/$ mark but saw a correction, supported by RBI's active intervention. However, with rising external headwinds in the form of a stronger dollar and weakening export momentum, outlook for INR remains dim. Apart from this, higher rates in the US may spur a fresh bout of FPI withdrawals from India which again also weigh on INR. On the positive side, oil prices may see some correction as higher rates tip the global economy into a slowdown if not recession. Overall, we may expect the rupee to trade in the Rs 79.75-80.0/$ range in the near-term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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BONDS

07 September 2022

Corporate bonds market in India

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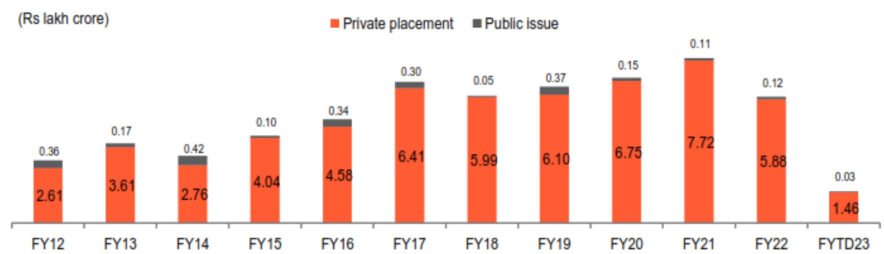
With the growing importance of investment for higher GDP growth, there is an urgent need for alternative sources of financing; and corporate bonds market can play an important role here. A well- developed and smooth functioning corporate bonds market serves as an important driver of economic growth as it provides an additional source of long term finance for industry. In fact, ideally there should be matching of long term projects with long term finance and the bond market offers an avenue for the same. In India, RBI and SEBI have taken various steps to develop and strengthen the corporate bonds market. However, while the size of the corporate debt market has expanded, it still remains relatively underdeveloped relative to the bank credit segment.

In this study, we discuss the development of the corporate bonds market in India in the last decade. We also compare the cost difference between corporate bonds and bank lending and find that only AAA rated companies tend to have an advantage when issuing bonds in terms of cost. Others may still have to rely on lower cost bank credit for their financing funding needs.

Overview:

Corporate bonds issuances have seen a steady uptick in the last ten years. From just about Rs. 3 lakh crores in FY12, they jumped close to about four-fold at Rs. 7.8 lakh crore in FY21, before moderating to Rs. 6 lakh crore in FY22. Higher borrowings through corporate debt in FY21 was driven largely by RBI’s measures such as TLTROs. In FY22, corporate bond yields rose in line with G-sec yields amidst a higher than expected borrowing programme by the government, elevated oil prices and rising global yields. This could partly have come in the way of issuances as unlike bank loans where interest cost varies with the monetary regime, cost of capital gets locked in at the issuance rate for bonds. As a result, issuances of corporate bonds was also lower in FY22. In FY23 so far (Jul’22), corporate bonds issuances have increased by 14.1% on a YoY basis.

Figure 1: Corporate bonds issuances



Source: SEBI, Bank of Baroda Research | Note: Data upto Jul’22

Disclaimer

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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