OVERVIEW

Debt in the limelight

Debt instruments are the flavour of the market

From the last quarter of the previous year (2018) onwards, there has been a distinct rise in the number of debt instruments floated into the primary market by the non-banking finance companies (NBFCs). "The public bonds market saw hectic activity, with 26 issues raising ₹36,715 crore, seven times higher than what was achieved last year (2018) – eight issues, raising ₹5,167 crore," informs Pranav Haldea, MD, Prime Database, which monitors the primary capital market. "The largest issues were Dewan Housing Finance (₹10,945 crore), Shriram Transport Finance (₹3,649 crore) and Tata Capital Financial Services (₹3,373 crore)". Then, in the first quarter of the current year ended March 2019, the market has already seen nine issuers garnering funds in excess of ₹7,000 crore.

"Come April and the pipeline is stronger," adds Haldea, pointing to the beeline of issuers wooing investors to the bond market. According to the estimates by Prime Database, as of now, there are close to 15 issuers raising in excess of ₹40,000 crore (*see table*: Forthcoming issues). In fact, non-convertible debenture (NCD) issues of at least five finance companies are set to hit the market soon.

To understand this momentum of resource-raising through this route, one has to step back. It all started after the IL&FS crisis. Many NBFCs, which were previously heavily reliant on wholesale money market to mobilise funds, had to diversify their sources of funding. While resorting to bank financing is one option – as is evident in the 47.5 per cent year-on-year (y-o-y) growth in bank credit growth to NBFCs in the 15 February 2019 fortnight release – many better rated NBFCs have sought to directly tap the retail market for funds.

"Major fund raising is being done by NBFCs, as their easy money tap has stopped, courtesy the IL&FS episode," observes Jimeet Modi, CEO & founder, Samco Securities. "Long-term lending was done by short-term borrowings, which caused the ALM (asset liability mismatch) to lead to liquidity crises, as short terms loans could not be rolled over due to the trust deficit caused by the IL&FS fiasco. Therefore, NBFCs are now vying for long-term funds through bond and NCD issues".

"Bond market allows a more transparent and efficient mechanism for price discovery," explains Malay Shah, head, fixed income, Indiabulls Asset Management Co. "In long run, this helps companies to raise capital according to their standard and calibre. Overall, for companies, it works out to be cheaper than bank borrowing. Also, it facilitates multiple channels of funding rather than being dependent on a single channel. This goes a long way in strengthening the company's balance sheet".

Haldea: strong pipeline of issues

"The NCD issue is but a small step in the company's overall strategic intent to build a retail liability franchise and will further add to the diversity of the borrowing mix in the already diversified liability profile," argues Dinanath Dubhashi, MD & CEO, L&T Finance Holdings. Tranche 1 of the company's public issue had received an overwhelming response and was oversubscribed on day one itself. "The feedback we received was that, there were many investors who missed out on investing in our first tranche, therefore, we saw merit in coming up with a second tranche to cater to this demand," Dubhashi adds. He feels, "there is good market appetite for issuers with pedigree, AAA rated companies with strong corporate governance standards and robust risk management mechanisms."

What does it mean for investors, in

Forthcoming Public Debt Issues

Company	Estimated issue amount (₹ crore)	Issue intention last announced	Industry
Shriram Transport Finance Co	-	29.03.2019	Financial Services.Investments
Aditya Birla Finance	5,000	13.03.2019	Financial Services.Investments
Reliance Home Finance	2,500	16.02.2019	Housing Finance
Reliance Capital	1,750	13.02.2019	Financial Services.Investments
Indiabulls Housing Finance	330	12.02.2019	Housing Finance
JM Financial Products	2,000	01.02.2019	Financial Services.Investments
Indiabulls Commercial Credit	3,500	18.01.2019	Financial Services.Investments
Axiom Consulting	-	11.12.2018	Engineering
National Highways Authority of India	10,000	27.11.2018	Roads & Highways
State Bank of India	5,000	22.10.2018	Banking.Term Lending
ICICI Bank Ltd.	-	19.09.2018	Banking.Term Lending
Tata Capital Housing Finance	5,000	27.08.2018	Housing Finance
JSW Steel	2,000	18.07.2018	Steel.Sponge Iron.Pig Iron
PNB Housing Finance	10,000	26.06.2018	Housing Finance
Vodafone Idea Ltd.	-	21.04.2018	Telecommunications

Source: PRIME Database

terms of attractiveness? "For them, this bond issues provide a wonderful opportunity to explore and invest in various type of fixed income instruments," enthuses Shah of Indiabulls. "Within the 'fixed income' asset class, the investors can safely diversify by investing in companies based on their risk-reward equation, based on their investment horizon. This facilitates a more efficient goal based wealth planning for Investors. Also, NCDs are more tax efficient than bank fixed deposits (FDs) and provide more liquidity in terms of secondary market liquidity. The ability to provide choice and liquidity to investors helps investors diversify their portfolios".

"While NCDs offer better return and yield than FDs, interest payment frequency like monthly becomes attractive for those looking for a regular income," concurs Sriram B.K.R., investment analyst, Geojit. "There is no tax deducted at source (TDS) on NCDs held in demat form (today, in all the NCDs, the mode of allotment is compulsorily demat). Besides, there is scope of capital gains, since NCDs are listed on the stock exchanges. In a declining interest rate scenario, they offer scope of capital gains".

Be watchful

When asked what factors in his opinion are to be looked at while planning to invest in a NCDs, Sriram stresses the importance of reading the prospectus, though it consumes time, "as that is the most reliable and primary source of vital information about a company. And another deail to look for is the credit rating and the interest rates on offering and the tenure. Other key factors an investor should check are the company's management, their financials and key ratios, level of existing debt and it's nature, track record of past interest servicing and repayments (if available), nature of industry/sector they operate".

The general investment advisors' take on NCDs is that investors should consider investing in highly rated NCDs by companies with good management track record and efficient end use of funds. Since they offer a fixed interest rate, NCDs can provide stable cash flows for the chosen tenure. They are especially attractive in a declining or

Baheti: expect excellent returns

volatile interest rate scenario, as one would be in a position to lock in the offered rates. "Investors can diversify their debt/fixed income portfolio by allocating, say, 10-20 per cent of the kitty. It's a good choice, as they tend to optimise the overall fixed income portfolio's returns. That said, investors should not go over-board on allocation into NCDs," cautions Sriram. "Sometimes, the interest rates might be too tempting to load up. Be watchful about the credit rating and the track record".

"The India market is substantially underpenetrated for public issue of bonds, and the upward potential for mobilisation through this instrument is significant (from ₹33,000 crore in last year to multiple lakh crore in a matter of 1 or 2 years. However, the secondary market should also develop and

Investors will do well to diversify among multiple issuers, and strictly restrict their investment universe to high credit rating issuances only

provide excellent returns to investors. This should happen in next 2-3 years," says Kailash Baheti, group CFO, Magma Fincorp.

Meanwhile, RBI has already cut its repo rate twice during the last two consecutive monetary policy meetings, with a distinct possibility of further rate cuts in the coming months. "As the monetary policy transmission plays out, banks will have to lower their rates as well. In such an environment, these issuances present a good opportunity for investors to lock in interest rates for the long term at reasonably high returns. However, investors will do well to diversify among multiple issuers, and strictly restrict their investment universe to high credit rating (AAA, AA+) issuances only," says Pavan Kumar Vijay, founder, Corporate Professionals, Delhi. "And, as issuers are bunching together, the rates offered are slightly higher than what could be reasonably expected. Rate of about 10 per cent for AA bonds are good enough from current bond issuance from top NBFCs," adds Modi of Samco.

All in all, the bond market in India has a low penetration level – and, it has a long way to go. "With increasing awareness, transparency, choices and volumes, this is just the beginning of a growth era for fixed income assets segment from the investors' perspective. As it is, the world over, fixed income markets are equal to, if not bigger in size than, the equity markets and provide wide choice to investors. All this will lead to more and more retail savings to start flowing to the bond market. We also see increased participation of retail investors through debt mutual funds. Overall, fixed income asset class will move beyond plain vanilla fixed deposits and will expand, which will benefit investors," discloses Shah.

The general feeling is that this flavour of the bond market is a part reflection of the mismatch in the credit and deposit growth rates in the economy currently. Therefore, this phenomenon may persist till the time the liquidity conditions improve. However, monetary policy easing by the RBI will eventually entail a decline in interest rates on these instruments.

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