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# Overseas debt gets costlier for corporates

By [Joel Rebello](#), ET Bureau | Updated: Oct 31, 2016, 01.10 AM IST[Post a Comment](#)

Mumbai: The overseas borrowing window for [Indian companies](#) is narrowing as rising [US treasuries](#) and [Libor](#) make debt from abroad expensive and domestic interest rates are on their way down, bankers said. US rates have risen in line with expectations of a Federal Reserve rate hike sooner rather than later, while local borrowing costs have come down due to rate cuts by the [Reserve Bank of India \(RBI\)](#).

"Cost of borrowing for Indian companies borrowing from abroad is definitely going up, though there are enough funds out there for companies with decent ratings," said [Ananth Narayan](#), head, financial markets, Asean and South Asia, [Standard Chartered Bank](#). "It is now much cheaper for companies to borrow locally."

Ten-year US treasury yields have risen to 1.85%, the highest since May and a jump from 1.35% in July as strong economic growth numbers make an interest rate increase inevitable.

The benchmark London interbank offer rate (Libor) has also risen, with the six-month rate at 1.26%, the highest since June 2009.

"About a year ago, even post hedging, the rates were competitive. For example SBI raised some tier I capital at 8.75% from the domestic market a few days ago. It has also raised some tier I dollar funds at 5.5% which post hedging comes to around 11%," said [Jayesh Mehta](#), treasurer at Bank of America-Merrill Lynch. "A year ago, both these bonds would have been approximately between 9% to 9.50%, that gap has now widened."

Indian companies have borrowed about \$7.6 billion from overseas until September, on track to beat the \$8.2 billion borrowed in 2015, mainly due to record low borrowing costs in the last two years, Bloomberg data show.

However, borrowing from abroad also involves hedging costs. On the other hand, local policy rate cuts seem to be getting transmitted with the highest rated companies paying 7.44% for fiveyear money, the lowest since April 2009 and down from the 11% peak in mid-2013, according to Bloomberg data.

"Because domestic rates have come down, the gap between overseas and domestic rates are wider," Narayan said. "But decent companies will continue to see appetite for their paper abroad because the Indian macro story is still intact."

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