PSU debt raising through bonds gained, NBFCs faced challenge: Study

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The loss of fund-raising capability through corporate debt bonds by non-banking financial companies (NBFCs) resulted in the gain for public sector financial institutions. This increased their share in debt issues by 8 percentage points in 2018-19, said an Assocham-Crisil study.

Defaults by Infrastructure Leasing & Financial Services (IL&FS) at the beginning of September 2018 created panic and led to a dip in investor confidence towards lending to non-banking finance companies (NBFCs).

The debt market in India has seen notable growth over the years. However, the development has been skewed towards government securities, or G-secs, compared with corporate bonds. G-secs command a penetration ratio of nearly 30 per cent of the GDP.

Corporate bonds, in comparison, have a penetration ratio of 16 per cent, and are rather illiquid even in the secondary market, with a trading ratio of 0.22 per cent compared with 0.55 per cent for G-secs.

Issuances from the NBFC/HFC segment, in particular, have plunged in the aftermath of defaults by a few large players and the ensuing downgrades that eroded investor confidence and appetite, it said.

The study noted that investors tend to move towards the safety of the top-rated corporate bonds in the backdrop of certain events, affecting particularly the NBFC sector, it added.

The share lost by NBFCs/HFCs in overall issuances (of corporate bonds) was captured by PSU financial institutions, who grew their share by 8 percentage points, said the joint ASSOCHAM-CRISIL on 'Deepening the debt market' which has dwelt issues and imperatives of the Indian debt market.

It further said that the share of AAA-rated issuances increased 12 percentage points as investors moved towards safer investments amid the intensifying credit crisis.

For most of the borrowers, domestic bond issuance remains costly and cumbersome compared with bank lending.

Lack of retail participation despite a huge supply of government paper in the country is also one of the major impediments to the penetration of the bond market.

Corporates prefer raising funds through private placements but private placements lack transparency and access is not available to a large pool of investors, the study added.

"We believe increasing investor demand and developing facilitating infrastructure and regulatory environment will facilitate the growth of Indian corporate debt markets," it said. Demand and profile of investors play an important role in shaping the market infrastructure.

In India, institutions are the key investors in the debt markets as there is limited appetite on the retail side given the complexity and ticket size of the product.

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