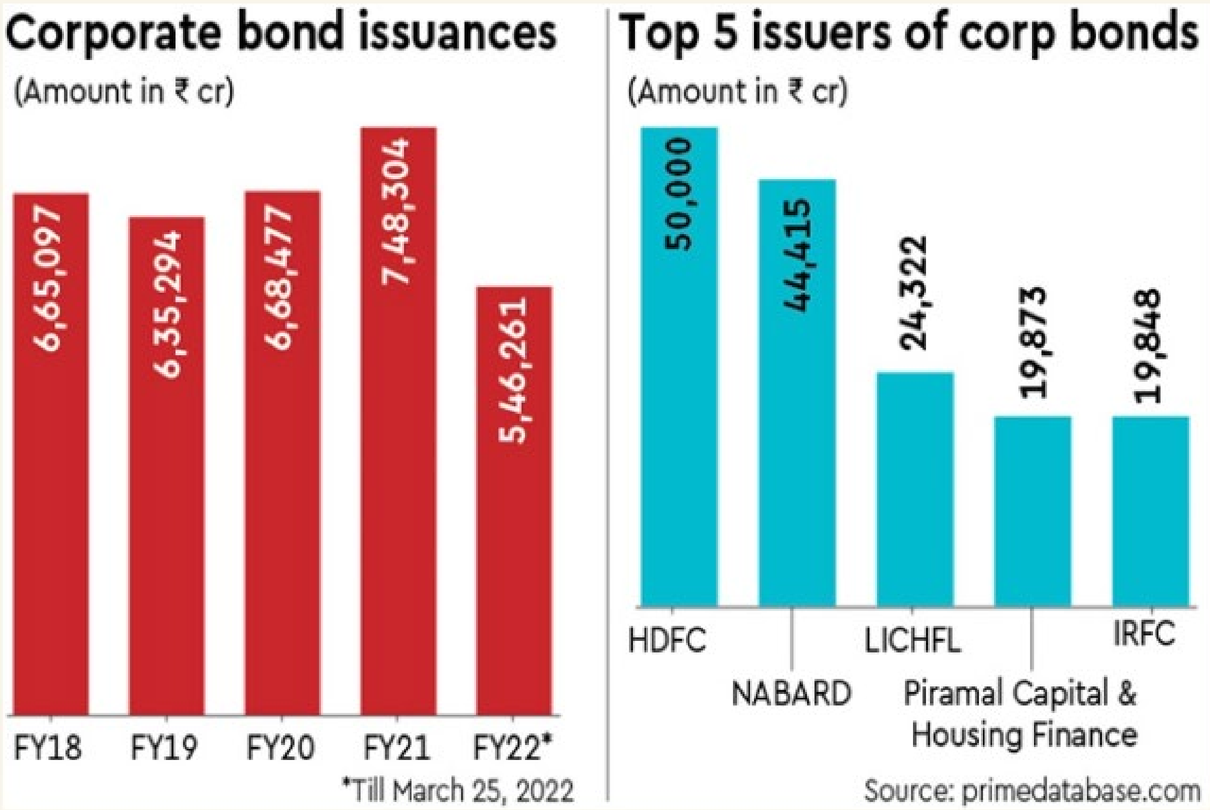
Corporate bond issuances down by 25% in FY22

Market participants expect cheaper bank credit to reverse to a large extent from the second quarter of the next financial year as rates start rising and liquidity is normalised. "We see at least 15% to 20% growth in issuances this year in FY23," Manglunia added.

Companies and banks raised around Rs 5.46 lakh crore in the current financial year, as against Rs 7.48 lakh crore raised in a previous financial year, according to the data compiled by the Prime database showed.

Issuances of corporate bonds fell over 25% year-on-year in the current financial year due to a sharp rise in yields and heightened competition from banks. Yields on corporate bonds rose to 45 basis points during the year following the rise in yields on government securities.

"A majority of state-owned issuers preferred bank credit over bonds as banks were aggressively lending at a cheaper rate than bonds," said Ajay Manglunia, MD and head of institutional fixed income at JM Financial. Companies and banks raised around Rs 5.46 lakh crore in the current financial year, as against Rs 7.48 lakh crore raised in a previous financial year, according to the data compiled by the Prime database showed.



Among the issuers, Housing Development Finance Corp (HDFC), National Bank for Agriculture and Rural Development (NABARD), LIC Housing Finance, Piramal Capital & Housing Finance and Indian Railway Finance Corporation (IRFC), remained top issuers, raising 29% of the total amount raised in FY22.

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However, some issuers are likely to face problems in fundraising due to heavy fundraising by the government in the next fiscal. “A bigger problem for corporate bonds might be crowding out impact because of a huge supply of sovereign papers and state development loans,” said Sanjay Pawar, fund manager for fixed income, LIC Mutual Fund Asset Management.

Rates on these instruments are expected to rise nearly 40-50 basis points in the next financial year due to expected rate hikes by the central bank, and higher borrowing by the government. Usually, corporate bonds trade at a spread over government securities, but in the last two years, the spread has shrunk.

Currently, the yield on corporate bonds maturing in three-year is trading in the range of 5.85-88%, on five-year papers at 6.30-35%, and on 10-year papers at 7.10%. However, going ahead as liquidity tightens and supply increases, the spread of corporate bonds over G-Sec is expected to increase, Pawar added.

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