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## AAA-Rated PSU corporate bonds price at G-Sec level on strong demand

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***By Manish M Suvarna***

The AAA-Rated corporate bonds issued by state-owned entities in the past few days have been priced at a level of government securities having a similar maturity due to strong demand from investors. Additionally, the lack of bond supply from the state-owned entities in the past three months has created strong demand for these papers from large investors.

According to the data compiled by Rockfort Fincap, 9 state-owned entities have tapped the bond market since November 2021, out of which only [NTPC](#) and [IOC](#) were manufacturing entities. Usually, investors have a strong investment appetite for papers issued by PSU manufacturing companies.

Recently, the corporate bonds issued by India Oil Corporation (IOC), having a 5-year tenor, was priced at 6.14%, which was lower than the yield on government bonds with 5-year February 2027 maturity trading in a secondary market.

Similarly, Housing and Urban Development Corporation (HUDCO) also priced its papers with 3-year maturity at 5.59%, which is almost at the three-year government bonds level.

“A lot of market participants were keeping cash since November 2021 on expectations of reverse repo hike as well as faster hike by US Fed. So, there was a huge demand to buy assets as it was more of carry game till March and even beyond unless [RBI](#) does not provide support to the market in view of increased supply,” said Rahul Singh, Senior Fund Manager – Fixed Income, LIC Mutual Fund Asset Management.

Market participants said most demand for these bonds came from provident and pension funds among others, who are keen to complete their quota of investment as per regulatory investment guidelines on or before March 31, 2022. Provident, gratuity and pension funds, insurance companies mostly prefer investing in bonds having rating AA and above.

The monetary policy of February was a game-changer from the market perspective as they were widely expecting the central bank to take action on reverse repo rate considering the rising US Treasury yields and rate hike trajectory given by US Fed.

Dealers with brokerage firms say that most of the top-rated large state-owned banks have almost completed their Tier-II subordinate borrowings for the current fiscal.

However, some PSU lenders are still issuing AT1 bonds considering the lower prices in the market.