

The corporate bond market: The big picture

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What is a market report card composed of?

- 1 Checklist of elements of market design:
which causes
- 2 Measures of liquidity on the secondary market:
which causes
- 3 Share of corporate bonds in debt of private non-financial firms:
which causes
- 4 Share of debt in total assets of private non-financial firms.

Part I

Checklist of elements of market design

- 1 Screen-based primary issuance (like the equity market IPO, only better); reduce fixed costs for issuer
- 2 Easy access to facts about bond characteristics including default information
- 3 Sensible regulation: Give banks incentives to hold bonds, rather than loans; “prudent man” principle with others; lower role for credit ratings; fuller access to foreigners.
- 4 High pre-trade transparency
- 5 Full post-trade transparency
- 6 Netting by novation at clearing house
- 7 Demat settlement
- 8 CDS trading in both single-name and indexes.
- 9 Rights of bond holder upon default

Part II

Measures of secondary market liquidity

Top 10 bonds traded on NSE CM on 18 June

Issuer	Volume (Rs. crore)
HUDCO	3.99
HUDCO	2.29
NHAI	1.59
IRFC	0.96
IISL	0.51
SBIN	0.42
IRFC	0.30
NHAI	0.30
SHRIRAMCIT	0.23
MUTHOOTFIN	0.11

Problems: Tiny numbers, and not a single non-financial private firm!

Top 10 bonds settled on the OTC market, 18 June

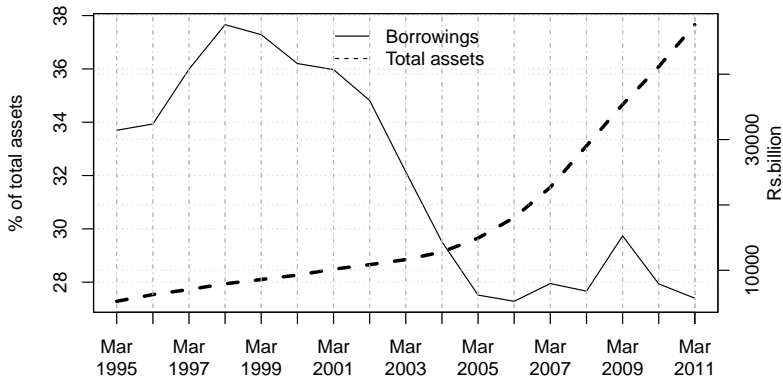
	Rs.Crore		Rs.Crore
NABARD NCD Jul14	300.0	HDFC NCD Jul12	70.0
NABARD Aug16	237.9	NABARD Jul17	75.0
SIDBI Feb15	200.0	NABARD Jul15	67.7
EXIM-Bank Jul14	190.0	PFC May15	65.7
NATIONAL-AVIATION- CO. NCD Sep31	186.0	LIC HF Jun12	61.0
NATIONAL-AVIATION- CO.NCD Sep26	150.0	PFC Dec14	53.5
IDFC NCD 14Aug12	140.0	TELCO NCD 26May17	50.0
HINDALCO 25Apr22	110.0	TISCO NCD Perpetual	40.0
LIC-HF NCD 07Jul13	100.0	HDFC NCD 20Jul12	40.0
BAJAJ-AUTO-Finance 22May12	100.0	TELCO NCD 31Mar14	35.0

Total value traded in the day was Rs.2900 crores.

Part III

Share of corporate bonds in debt of non-financial firms

Borrowings by Indian firms



Sources of borrowing

	(Rs.Billion)							
	Bank	Foreign	Other	ICD	FD	CP	LTB	Total
1995	618.7	209.8	1114.8	37.0	20.1	0.6	261.8	2262.9
2000	1314.4	438.4	2013.0	95.3	38.6	9.6	457.6	4366.9
2005	2614.7	693.0	2379.8	290.8	39.1	5.6	722.9	6746.0
2008	6609.9	1966.9	2895.0	724.2	30.7	30.1	1058.3	13315.3
2009	9006.1	2464.5	3242.1	1157.4	48.9	54.4	1487.1	17460.4
2010	9723.6	2444.6	2863.7	1125.9	108.3	152.2	1904.1	18322.4
2011	8604.4	2694.9	1806.9	827.5	118.7	115.9	1808.5	15976.8

Young firms: sources of borrowing

	(Rs.Billion)							No.	
	Bank	Foreign	Other	ICD	FD	CP	LTB		Total
2005	0.01	0.00	0.01	0.00	0.00	0.00	0.00	0.02	1
2006	1.40	0.00	11.22	0.03	0.00	0.00	0.00	12.65	6
2007	18.45	0.06	14.37	1.44	0.00	0.00	0.00	34.32	56
2008	164.64	19.15	186.96	17.39	0.04	0.00	25.29	413.48	170
2009	357.05	14.41	264.53	108.48	0.97	0.00	29.26	774.71	310
2010	605.73	49.54	261.16	111.08	0.27	0.00	52.60	1080.39	420
2011	349.25	44.50	101.74	50.95	2.58	1.60	93.82	644.44	333

- Continuing drop in the use of debt financing. Became worse post the 2008 crisis.
- Banks are the largest source of debt financing today, followed by foreign borrowings.
- Significant shift towards shorter-term commercial papers, and a fall in secured long term borrowings.
- Borrowings through domestic securities remains stagnant.

Part IV

Policy problems

Elements of market design achieved

- Netting by novation at clearing house
- Demat settlement

New work required

- 1 Screen-based primary issuance (like the equity market IPO, only better); reduce fixed costs for issuer
- 2 Easy access to facts about bond characteristics including default information
- 3 Sensible regulation: Give banks a bias to do bonds and not loans; “prudent man” principle with others; low role for credit ratings; full access to foreigners.
- 4 High pre-trade transparency: Push the order book market
- 5 Full post-trade transparency: Are we sure that every OTC trade is reported in less than 15s?
- 6 CDS trading in both single-name and indexes.
- 7 Rights of bond holder upon default: Bankruptcy code issues

Thank you

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