

Investment Ideas – Overview and evolution of India's Corporate Bond Market

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Overview of Indian Local currency bond markets

- ▶ **Growth and evolution:** Rapid bond market development
- ▶ **Global presence:** Leader among emerging economies, supported by strong economic growth, sustained inflation and raising foreign investor interest
- ▶ **Market structure:**
 - ▶ Government Securities, Corporate bonds, green bonds, municipal bonds and Masala bonds
 - ▶ Regulatory bodies : SEBI, RBI, IRDAI, MCA, IFSCA (Intl. Fin. Services Centre Authority – GIFT city) and so on.
 - ▶ Global integration – India's inclusion by various emerging bond market index

Overview of Indian Local currency bond markets

- ▶ Indian bond market is divided into two major segments
 - ▶ Government bond market
 - ▶ Includes Government bonds, Treasury bills, Special Government of India Securities and State development loans
 - ▶ Corporate bond market
 - ▶ These bonds are issued by various corporate entities across credit ratings to raise capital various projects and operations
 - ▶ Government of India guaranteed and Government of India serviced bonds – issued by Public Sector Undertakings
 - ▶ State Government guaranteed bonds
 - ▶ Bonds issued with third party guarantees / partial guarantees
 - ▶ Bonds issued by commercial banks – Infra bonds, AT1 (perpetual bonds) and Tier 2 bonds
 - ▶ Bonds issued by BFSI Sector and so on.....

India – Key emerging economy

- ▶ Bond market is playing a crucial role in financing government spending and corporate borrowings
- ▶ India's economic growth and managing inflation
- ▶ Inclusion of Indian bonds into various global indices – **After JP Morgan & Bloomberg, FTSE Russell to include Indian bonds in EMGB index from Sept 2025**
- ▶ Significant FPI Inflow
- ▶ Less volatile Asian currency in spite of external factors
- ▶ Indian Government bonds is resilient against highly volatile US yield movements – very marginal volatility

Indian bonds as a diversification tool

- ▶ Low correlation with developed markets
- ▶ Offer higher yields compared to developed markets
- ▶ Portfolio stability
- ▶ Inclusion in global indices
- ▶ Opportunities to invest across maturities, across credit ratings (AAA to BBB), High yield investments, Structured investments

Impact of currency fluctuations on Indian bond returns

- ▶ Key drivers for currency fluctuations : trade balances, Interest rate differentials, Oil Prices and global economic conditions
- ▶ Hedging considerations : options to mitigate currency risk through hedging though it reduces the net yield
- ▶ Rupee Volatility : The Indian rupee has become less volatile in recent years due to :
 - ▶ Economic growth
 - ▶ Political stability
 - ▶ Inflation control
 - ▶ Increasing foreign exchange reserves
 - ▶ Ability to attract foreign investments; and finally
 - ▶ Central bank intervention, if necessary

Key factors influencing Indian bond yields

- ▶ Interest rate policy
- ▶ Continuous inflow of foreign portfolio investors
- ▶ Government borrowing needs
- ▶ Global rates, economic growth and inflation

Technology trends in Indian bond markets

- ▶ Key platforms
 - ▶ Electronic bidding platform for primary bond issuances
 - ▶ Request for quote platform (RFQ) – streamline secondary market trades with real time quotes
 - ▶ RBI Retail direct platform – Enable retail investors to access government securities (introduced by the central bank itself)
 - ▶ Online bond portals – SEBI registered bond portals which simplifies bond investments for retail and institutional investors – offers all types of bond instruments across tenors, credit ratings and so on.
 - ▶ GIFT city – Extending Indian bond market to global investors
 - ▶ Block chain potential
 - ▶ Proposal to remove hurdles being faced by European Banks in trading Indian Government Bonds

Development of bond markets

- ▶ Creation of EBP
- ▶ Creation of OBPPs
- ▶ Creation of SM-ReiTs
- ▶ Liquidity window proposal for retail investors
- ▶ Corporate bond repo market
- ▶ Allowing banks to issue provide partial credit enhancement facility
- ▶ Allowing higher percentage for FPIs to invest in corporate bonds
- ▶ Introduction of RFQ platform
- ▶ Debt fund raising for InvITs/REITs

Current Scenario

- ▶ Indian corporate bond market expanded with increasing issuances
- ▶ Diverse Issuers : PSUs, BFSI, Real Estates, Infrastructure, Green Energy including Renewable energy, Telecom, IDFs, InvITs, ReITs, Municipalities, and so on.
- ▶ Growing demand for credit enhanced instruments, high yield, unlisted, alternate instruments.
- ▶ Rise in bank infrastructure bonds – expected to cross 1 trillion this year.
- ▶ Rise in NBFC tier 2 and perpetual bonds compared to earlier years
- ▶ High yield instruments – investment by HNIs and retail investors on the rise.