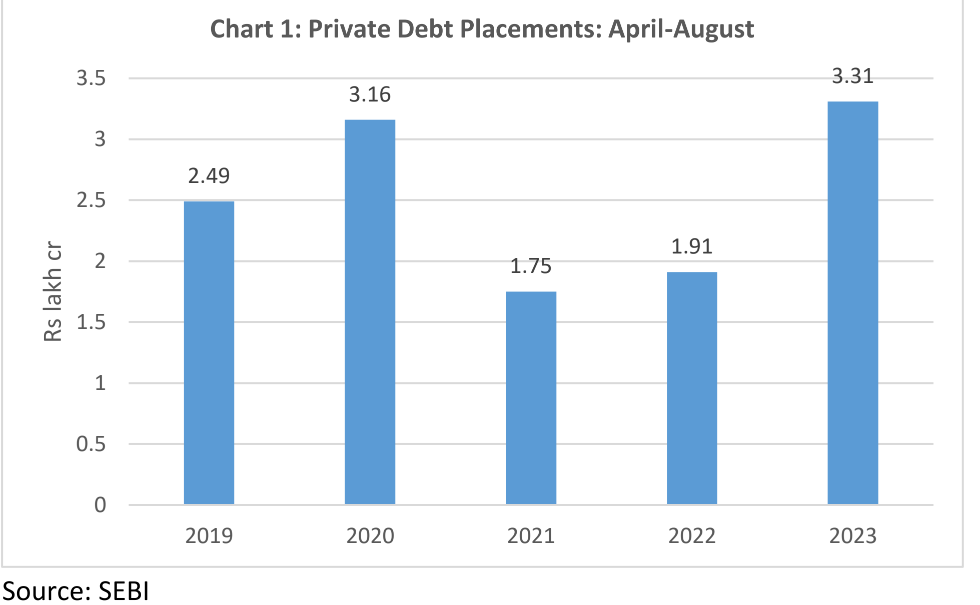
28 September 2023

Are corporate bond issuances a sign of private investment picking up?

There has been a sharp rise in the debt placements of corporates in the first 5 months of the year. It is tempting to conclude that this is a sign of companies investing in capital and that the investment cycle has begun. But closer examination of data shows that we may have to wait for some more time before it can be concluded that there is broad-based investment taking place.

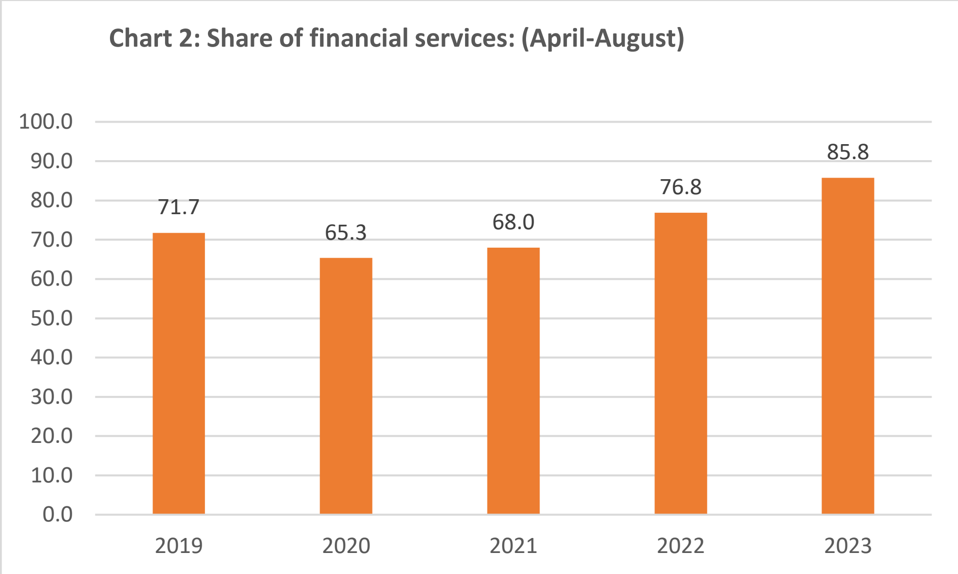
Debt private placements, which accounts for almost 95-98% of total issuances historically had reached a high of Rs 3.31 lakh crore during the first 5 months of the year. This compares with Rs 1.91 lakh crore in FY22.



Source: SEBI

The level of debt placements has now gone back to the pre-pandemic times at Rs 3.31 lakh crore. Data on sectoral distribution of bond issuances is provided by CMIE which has been examined to figure out which industries have contributed to this uptick in issuances. The aggregate data as per this database is almost the same as that of SEBI.

The Chart below shows that the dominance of the financial sector continues which includes NBFCs and banks, with the former driving the issuances. The finance sector now accounts for 86% of total issuances which also means that the other sectors including manufacturing have a low share in total. NBFCs as, can be seen have always had a high share in the bond issuances as it is one of their major sources of funds which are used for lending purposes. This share has been above 65% in all the years, but has reached a peak in 2023.



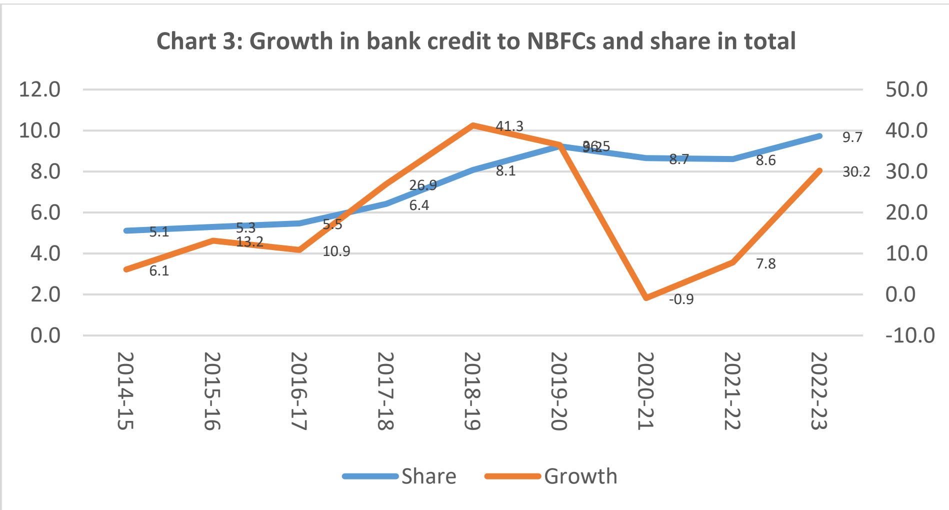
Source: CMIE

With dominance by the financial services other sectors had minor contributions in this exercise. The other industries involved were:

- Construction and real estate with 4.3%
- Other services like aviation with 3.9%
- Electricity with 3.2%
- Diversified with 1.9%.

Core manufacturing had share of just 1% of which chemicals had share of 0.4%. Hence it does appear that investment during this period has been low judged by the main source of long term financing.

The chart below provides trends in growth in bank credit to the NBFC sector as well as the share in total credit. In the last 8 years or so there has been a rising trend with share moving from 5.1% in 2014-15 to almost 10% in 2022-23. Hence the NBFC segment has become a major borrower in the financial system in both the debt market as well as credit system.



Source: RBI

In this context, it would be interesting to see the lending pattern of NBFCs across various sectors.

Table 1: Profile of NBFC credit as of September 2022 (%)

Sector	Share
1. Agriculture and Allied Activities	**1.6**
2. Industry	**38.0**
Micro and Small	1.7
Medium	0.5
Large	30.6
Others	5.1
3. Services	**13.0**
Transport Operators	3.1
Retail Trade	1.5
Commercial Real Estate	2.7
4. Retail Loans	**29.9**
Housing Loans	0.8
Consumer Durables	0.9
Vehicle/Auto Loans	12.1
Advances to Individuals Against Gold	4.0
Micro Finance Loan/SHG Loan	2.6
5. Other Non-food Credit	**17.4**

Source: RBI

Table 1 shows that NBFCs lend the most to industry which has share of 38%. Large industry dominates with share of 30.6%. In case of banks the share in FY23 was 18% and has been coming down since FY15 when it was as high as 35%. This is both due to demand for funds being lower as well as banks focusing more on the retail portfolio. Retail loans had share of almost 30% for NBFCs which is exactly the same for banks.

Putting the two pieces together it can be surmised that as NBFCs have borrowed almost Rs 2.9 lakh crore from the market, they would be lending around Rs 0.9 lakh crore to large industry which can be used for both investment as well as short term purposes.

RBI (Report on trend and Progress in Banking) had indicated that around 86% of the lending to industry is for infrastructure and hence once again it can be linked with companies working in related sectors like metals, machinery, cement etc. which have benefited from the push provided by the government.

Hence, signs of investment picking up based on information from the debt market are not yet visible on a large scale though extrapolating from the lending pattern of NBFCs it can be said with a fair degree of confidence that the infrastructure sector is borrowing a fair amount.

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