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Comparative Analysis of Corporate and Government Debt Markets in India

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Abstract: ***Introduction**: By the time of Independence, Industrial Sector Development was nominal, and in fact Corporate Debt and Market for Corporate Debt concepts were a distant dream and a nightmare also. All we had in Debt Segment was short term Debt only, which is disbursed by Commercial Banks, that to with Private Ownership. After independence, due to control over the private sector, subsequently nationalization of banks, debt market went to the hands of Govt. securities, and commercial banks became the key players of Indian debt market. Even after the establishment of SEBI Corporates were under the Govt. regulatory regime and were not allowed to issue bonds, exceeding their Debt-Equity Ratio. On the other hand common investors were not interested in Debt Market instruments due to the absence of Secondary Market for Debentures and high stamp duty on Bonds. This situation continued till 1991.Another blow for Debt Market was economic liberalization. With liberalization, imports got increased and fresh domestic investments got reduced. The competition from outside made homogenous corporates to go for mergers and amalgamations which further reduced the demand for funds in the market. **Objectives**: objectives of the study are : 1. To study the trend pattern of the corporate and Govt. debt in India, 2. Sector and size wise break up of number of debt market issuances by both corporate and Govt. 3. Private sector Vs non-private sector issuances. **Methodology**: Literature is reviewed from secondary sources of data like different websites, journals and books. Secondary data is thoroughly reviewed and analyzed with the help of tables and graphs. **Results**: It is found that in this study, though initially Govt. securities market occupied considerable share in the debt market, but gradually due to change in govt. policies, change in outlook of the corporate towards debt equity ratio, and change in the perceptions of investors towards purchase of debt instruments, the market share of coporate securities market in total debt market is getting increased.*

Keywords: Debt Market, Corporate Bonds, Govt. securities, Debt Instruments

1. Introduction

Debt market is a market segment of money and capital markets, where fixed income debt instruments are traded. In money market short term debt instruments like bonds, commercial paper, and bills are traded, whereas in capital market long term instruments like debentures are traded. The players are debt market are Govt. RBI, Commercial banks, Corporate companies, insurance companies, mutual funds, municipalities, corporations, and individuals. Debt market facilitates the flow of funds from surplus area to needy area. Debt market plays a key role development of an economy. Developed countries like US, Canada, Uk, Australia, and Japan have very well developed debt market. Unfortunately in India debt market is not developed in comparing with other countries. From the beginning focus was on the development of equity market. A little development which is seen in the debt market is also the lopsided development. The Govt. securities occupy lion share in the debt market. The reasons being under development of corporate bond market, the problems of the corporate debt market(both supply and demand side) are not being properly addressed, private placements, lack of innovations(in both instruments and infrastructure), policy issues, very less market education on the part of the investors etc. But over the years due to globalization, change in Govt. policies, economic liberalization, and innovations, corporate debt market is gradually developing in India (Recent CRISIL research reveals Volume of India's Bond market may reach to 65-70 lakh Crores by 2025)

2. Review of Literature

1) **R. H. Patil, (2005)** One of important ways to deepen the debt market would be increase the number of investors belonging to the semi-wholesale and retail segment. In any economy, a smoothly functioning debt market is considered crucial for development and stability
2) **Vinod Kothari et al, (2006).** In a developing country like India, debt market plays a very crucial role. Debt Markets are markets for the issuance, trading and settlement in fixed income securities of various types and features. Almost all legal entity like Central and State Governments, Public Bodies, Statutory corporations, Banks and Institutions and Corporate Bodies issue Fixed income securities to secure money. Current debt market has become more efficient, transparent and vibrant with significant retail participation. Government of India (GOI) securities continued to account for the major part of activity In the secondary debt market. The gross issuance of GOI dated securities in 2006 amounted to Rs.14 000 crores as compared to Rs. 129,350 crore in 2005.
3) **Raghu Ram Rajan (2008)**, on the debt side also, markets will become more important Unfortunately, the corporate bond market is still miniscule and will need to develop to meet these needs. Effective infrastructure finance would also depend on the existence of deep and liquid derivative markets where the specific risks associated with infrastructure projects can be managed. The government will also need a vibrant government bond market to provide it low-cost financing, as it relies less on forcing banks through statutory requirements to

hold its debt. A deep government debt market across all maturities will provide the benchmarks that the private sector needs for pricing corporate debt, and various kinds of hedging instruments

4) **Varun Dawar, (2012),** Although a plethora of reforms have been initiated in Indian corporate bond markets since 1992, the size of the corporate bond market in India has remained miniscule compared to both global markets and Asian peers. In India where 95% of issuances are through private placement, reforms are required on market structure, tax related issues and streamlining issuance and settlement process so as to ensure wider investor participation. To ensure vibrancy and liquidity in bond markets,
5) **Amol Agarwal (2012)**, observes GOI has opened up FII limits in debt instruments gradually over the years. Interestingly, the pace of liberalization has remained and in fact increased post global financial crisis. Before the Lehman crisis, limit in Government debt was $5bn and in corporate bond was $3 bn. This has increased significantly to $20 bn and $46.5 bn in corporate bonds as of today. GOI has indicated that these limits are likely to
6) R. Gandhi, (2015), the debt market is undoubtedly a very essential segment of the country's financial markets and vibrancy in these markets is imperative to meet the massive funding requirements of the country.
7) **SEBI Annual Report (2017)**, there is various structural impediments in the corporate bond markets, including dominance of issuances by financial sector entities, prevalence of private placements, very limited market liquidity, and restrictions on institutional investor allocations to non-investment grade bonds. In view of its looming infrastructural finance requirements, a flourishing corporate bond market is necessary for India
8) **RBI Report(2020)**, The market development process for bonds in India is likely to be a gradual process as has been experienced in other countries. For step by step development of the corporate bond market, it is necessary to lay down the broad objectives, which may include, (i) building a liquid government securities benchmark yield curve for appropriate pricing of debt instruments; (ii) promoting the growth of an active secondary market for spot and derivative transactions; and (iii) providing encouragement to issuers and investors to participate in the bond market. All these objectives are mutually reinforcing. The reform process will be facilitated by a comprehensive regulatory framework.
9) **ShaktiKanta Das (2020)** over the years, the bond markets in the country have become broad-based in terms of participation, availability of a variety of instruments and development of repo and derivative markets. The sovereign yield curve now spans up to 40 years and provides a stable pricing backbone for the development of the corporate bond market.
10) **RBI Report (2021)** A well-functioning money market is a crucial link in the chain of monetary policy transmission by facilitating pricing and liquidity in other financial markets. Directions on call, notice and term money, certificates of deposit (CDs) and commercial papers (CPs), and non-convertible debentures (NCDs) with original maturity of less than one year are to be comprehensively reviewed and rationalized in regular intervals.
11) **CRISIL (2021)** CRISIL envisages that innovation can help double the supply of corporate bonds in the domestic market to nearly ₹65 lakh crore-₹70 lakh crore (outstanding) by March 2025. However, demand is expected to be between ₹60 lakh crore-₹65 lakh crore, which means foreign capital will be necessary to bridge the ₹5 lakh crore gap
12) **CRISIL (2021)** According to CRISIL's analysis, infrastructure, investment, and innovation, all necessitated by the pandemic, are scripting what promises to be an unusually busy time for the bond markets.

3. Methodology

Statement of the problem

Underdevelopment of corporate bond market segment in Indian debt market

Research Design

Data collection

The data used in this research paper is totally secondary in nature and collected from different research articles, magazines, newspapers and websites.

Analysis of Data

The gathered statistical data is analyzed by arranging it in to tables and graphs and the inferences are drawn by a thorough review of literature related to it.

Limitations of the study

This study is confined to secondary data alone, and the period of the study is between 2005-H12021 only.

4. Results

Participants in Indian Debt Market

Commercial Banks are the dominant investors historically because of the SLR compulsions. But during the last several years banks are investing substantially more than what is required by the SLR compulsions, as the demand for funds is not growing or that they prefer investing in Govt. Securities in view of the capital adequacy requirements. Given the risk reward matrix banks find it more attractive to invest in Govt. Securities. LIC is another major investor next to the banks. Now Banks' investment in Govt. Securities is around one-third more than what is statutorily required. From the view point of Debt Markets this is a healthy development, as it will help in developing an efficient Govt. Securities Market that can throw up a meaningful benchmark yield rate. An equally, important development has been the growing popularity of the Gilt Funds.

Slowly but surely many investors are discovering the advantages of gilt securities and the risk reward matrix. This should help in the development of a retail market in Govt. Securities for a class of investors who would invest either through the gild funds or directly.

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Trend pattern of Corporate and Govt. Securities market

The Corporate Bond Market

For too long, most of the corporate entities have been depending on loans from banks and institutions and they have not shown any interest to raise at least a small of the required resources from the market through Bonds or Commercial Paper. The cash credit system also made them complacent about cost effective fund management through treasury operations. Under their age-old cash credit system, banks grant Credit/Borrowing limits to the Corporates. They can use bank funds within the granted credit limits at their convenience and return the same back to the banks as they receive from their customers. Since the interest is charged by banks only on the average outstanding drawls, the cash management responsibility of the Corporates got transferred from the borrowers to the banks.

RBI & Government Securities Market

The Govt. Securities Market is a very important segment of the Debt Market. Being a fairly liquid and large market most of the players in the market use sovereign Debt Instruments for their liquidity management as well as collateral for several types of transactions including the repos and collateralized large payment systems. The yield structure as given by the Secondary Market in sovereign debt serves as the bench mark rate for all the other yield rates in the system. It is a universally accepted proposition that the term structure of interest rates can be meaningfully estimated in the absence of a deep, vibrant and efficient market in sovereign rated Debt Instruments.

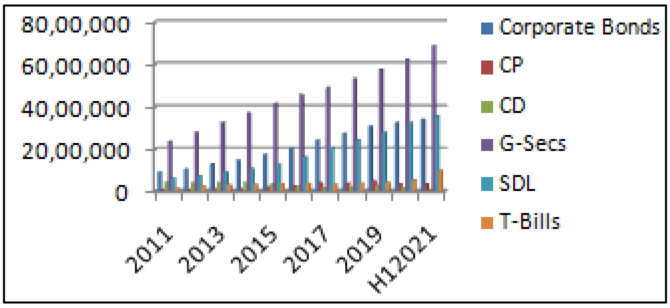
The last one decade witnessed significant transformation in the Govt. Securities Markets. These developments as a result of the joint move by RBI and Government of India to gradually align the yield structure to the market expectations. Till then the Coupon rates on Govt. Securities were administratively determined. Until a few years ago the artificially low rates of Govt. Securities in relation to the market expectations had an impact on the entire yield structure in the entire Financial System. This also hindered growth of an active Secondary Market in Govt. bonds.

Trends of Bond Market in India in the Past one Decade

Outstanding amount for various fixed-income securities (Rs. In Cr).

Financial Year	Corporate Bonds	CP	CD	G-Secs	SDL	T-Bills
2011	8,89,510	80,305	4,24,740	23,65,966	6,05,804	1,41,327
2012	10,51,639	91,188	4,19,530	27,98,985	7,42,412	2,67,020
2013	12,90,147	1,09,255	3,93,120	32,67,430	8,89,069	2,99,764
2014	14,67,397	1,06,614	3,98,103	37,20,804	10,57,036	3,39,134
2015	17,50,320	1,93,268	3,29,096	41,62,571	12,73,078	3,63,704
2016	20,19,296	2,60,244	2,44,672	45,66,630	16,39,388	3,64,692
2017	24,04,911	3,97,965	1,55,741	49,12,816	20,90,052	3,34,802
2018	27,42,259	3,72,577	1,85,732	53,23,091	24,30,333	3,85,283
2019	30,67,228	4,83,084	2,72,260	57,46,360	27,78,978	4,20,882
2020	32,53,922	3,44,527	1,72,996	62,20,351	32,65,990	5,38,411
H12021	34,05,776	3,62,310	75,570	68,55,386	35,64,979	9,82,286

Source: SEBI, RBI, CCIL



Diagrammatic Representation of the above table

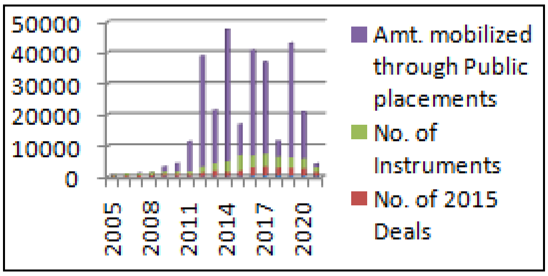
Analysis:

In the fixed income market the most traded instruments are bonds, commercial paper, certificates of deposit, Govt. securities (Zero risk bonds), State development loans, and Treasury bills. Their trends in Indian debt market are as above. Corporate bonds have been increased nearly four times by 2020(2021 half year only), likewise Commercial paper also increased by nearly four times, where Certificate of deposits got reduced to one fourth, Govt. securities raised to almost three times, State development loans increased by more than five times, and treasury bills also increased by five times. Only down trend is seen in CD market, this may be due to low interest rates or entry of new and attractive instruments or investors trend of investment changed from traditional deposits to innovative, fancy, or high yielding (ROI) investments.

Private Placements in the Corporate Sector issues from 2005-H12021

Private Placements							Mobilized Amt. Through private placements	Ratio of Amt. Mblzd. Between PI & PP	Total Amt as % of GDP
Fiscal Year	No. of Issuers	No. of Deals	No. of Instruments	Mobilized Amount Rs. Cr	Growth In Amt. mobilized	Amt. Mobilized as % of GDP			
2005	114	319	386	55,184	14%	1.9%	N.A	N.A	N.A
2006	99	362	432	79,446	44%	2.4%	N.A	N.A	N.A
2007	97	498	568	92,355	16%	2.3%	N.A	N.A	N.A

2008	104	613	681	1,15,266	25%	2.5%	N.A	N.A	N.A
2009	167	799	874	1,74,327	51%	3.3%	1,500	1%	3.3%
2010	192	803	879	1,89,478	9%	3.1%	2,500	1%	3.2%
2011	182	825	956	1,92,127	1%	2.7%	9,451	5%	2.8%
2012	164	1327	1939	2,51,437	31%	3.1%	35,611	14%	3.5%
2013	267	1828	2,443	3,51,848	40%	3.7%	16,982	5%	3.9%
2014	245	1473	3,524	2,70,946	-23%	2.4%	42,383	16%	2.8%
2015	344	1765	5109	4,32,692	59.7%	3.5%	9,713	2.2%	3.5%
2016	589	2682	3791	4,92,047	13.7%	3.6%	33,812	6.9%	3.8%
2017	663	2837	4124	7,05,174	43.3%	4.6%	29,547	4.2%	4.8%
FY18	694	2398	3625	6,55,799	7.0%	3.8%	4,953	0.8%	3.9%
2019	568	2551	3333	6,35,239	3.1%	3.3%	36,679	5.8%	3.5%
2020	587	2250	3222	6,75,236	6.3%	3.3%	14,984	2.2%	3.39%
H12021	398	1182	1640	3,82,746	43.3%	N.A.	1032	0.3%	N.A.



Graph 5.3: Diagrammatic Representation of the above Table

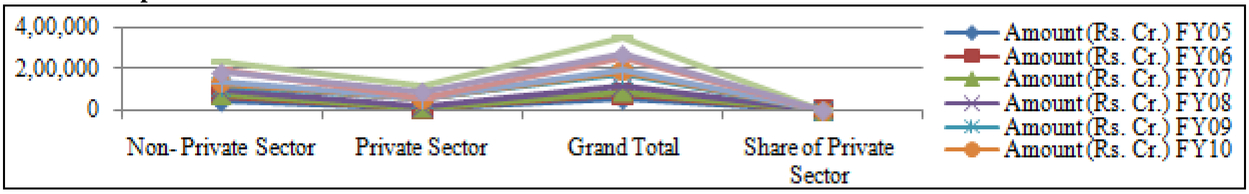
Analysis

A private placement of securities is an offering of securities which is not a public offering. In general, private placement is an issuance of securities to less than 50 persons.The above table comprises of 15 yrs data related to Debt instruments traded in the primary market through private placements. From 2005 to 2020 (being 2021 half year data available) issues wise, issuers wise, no. deals in the market wise, no. of instruments wise, amount mobilized wise, debt market is showing tremendous growth. But amount mobilized as % of GDP towards debt market investments is not hopeful. Amount mobilized through private placements is getting increased year by year. But It is not a healthy development. A dynamic and vibrant debt market can be created with public issues only. The hindrances in the public issue are making the business entities to go for private placements.

Private sector Vs non-private sector issuances of Debt instruments

Amount (Rs. Cr.)										
Issuer Category	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Non-Private Sector	44,993	71,616	77,815	93,577	1,19,693	1,34,300	1,32,088	1,93,303	2,38,111	1,81,343
Private Sector	10,191	7,829	14,541	21,689	54,634	55,178	60,039	58,134	1,13,737	89,603
Grand Total	55,184	79,445	92,356	1,15,266	1,74,327	1,89,478	1,92,127	2,51,437	3,51,848	2,70,946
Share of Private Sector	18%	10%	16%	19%	31%	29%	31%	23%	32%	33%

Diagrammatic representation of the above table



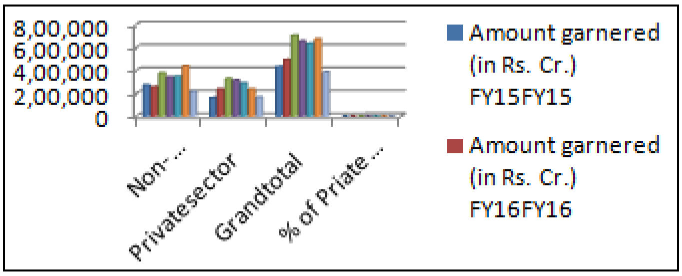
Analysis:

The above table clearly shows that the share of private sector in the issue of debt instruments is getting increased over the years. It increased nearly double from 2005 to 2014. This is really a welcoming change, as the share of corporate debt increases in the debt market the volume of business in the country increases.

Private Vs Non-Private Sector issuances in volume from 2015-H12021

Amount garnered (in Rs. Cr.)							
Issuer Category	FY15	FY16	FY17	FY18	FY19	FY20	H1FY21
Non-private sector	2,72,372	2,55,665	3,76,524	3,42,134	3,47,333	4,37,667	2,15,250
Private sector	1,60,319	2,36,382	3,28,651	3,13,665	2,87,905	2,37,569	1,67,495
Grand total	**4,32,692**	**4,92,047**	**7,05,174**	**6,55,799**	**6,35,239**	**6,75,236**	**3,82,746**
% of Private sector	37%	48%	47%	48%	45%	35%	44%

Diagrammatic representation of the above table

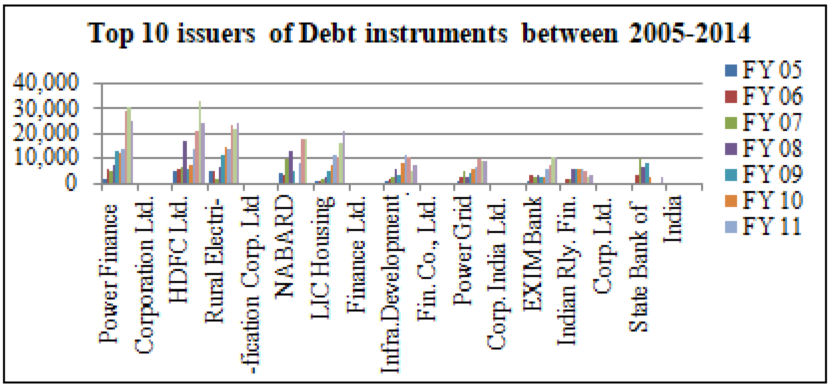


Analysis:
It is clearly shown by the above table private sector issues are very low among the total issues in debt market. It is an established fact that Govt. sector issuances dominate debt market in India. The same is shown by the above table. Private sector issuances are not even half of the number of Govt. sector issuances. But it is seen that the trend has been slowly changing, private sector issuances are getting increased over the years i.e. since 2007.

Top 10 issuers of debt instruments from2005-2014 (Amt. in Cr.)

Issuer	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Power Finance Corporation Ltd.	1,594	5,671	4,652	7,359	12,809	12,289	13,756	28,605	30,277	24,698
HDFC Ltd.	5,050	5,515	6,750	16,566	5,250	6,800	13,865	20,895	33,180	24,269
Rural Electrification Corp. Ltd	5,160	4,894	1,473	6,474	11,376	14,254	13,227	22,862	21,782	24,253
NABARD	4,346	3,150	9,859	12,503	4,879	0	8,020	17,914	17,414	0
LIC Housing Finance Ltd.	850	1,100	1,695	2,650	4,485	7,365	11,373	10,420	15,656	20,850
Infra. Development Fin. Co., Ltd.	1,150	1,850	2,232	5,302	3,136	8,172	11,457	10,458	4,713	7,398
Power Grid Corp. India Ltd.	750	2,000	4,725	2,770	3,698	5,478	6,368	9,698	8,830	9,091
EXIM Bank	905	2,860	2,602	3,445	2,592	2,050	5,557	7,425	10,617	10,462
Indian Rly. Fin. Corp. Ltd.	240	1,300	1,620	5,225	5,971	5,591	5,990	5,116	2,214	3,000
State Bank of India	0	3,283	9,428	6,024	8,000	2,000	0	0	0	2,000

Diagrammatic representation of the above table



Analysis: Among the above top 10 issuers of debt instruments from 2005-14, all 10 organizations are of Govt. only. No private sector organization could be placed in the above list. This shows the clear dominance of Govt. sector in Debt Market.

Top 10 issuers of debt instruments from 2015-2021 (Amt. in Cr.)

Issuer	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	H1FY 21
Housing Development FinanceCorp	29,170	22,276	44,546	42,250	49,103	46,190	30,943
Power Finance Corporation	46,920	23,587	41,115	32,459	22,499	37,488	38,417
Rural Electrification Corp Ltd	34,538	22,303	26,260	39,653	44,178	53,813	21,564
NABARD	9,850	14,730	20,371	35,291	56,069	47,276	14,584
LIC Housing Finance	24,791	26,412	26,874	28,777	35,113	27,010	3,770
National Highways Authority of India	3,343	9,981	33,118	27,532	22,217	53,490	16,094
Indian Railway Finance Corp Ltd	2,625	5,218	14,920	15,166	19,200	26,715	10,755
Reliance Industries Ltd	0	0	0	20,000	19,000	0	24,955
IDFC	15,114	7,042	480	0	0	0	0
Indiabulls Housing Finance Ltd	7,443	9,857	13,566	21,174	8,902	120	2,780

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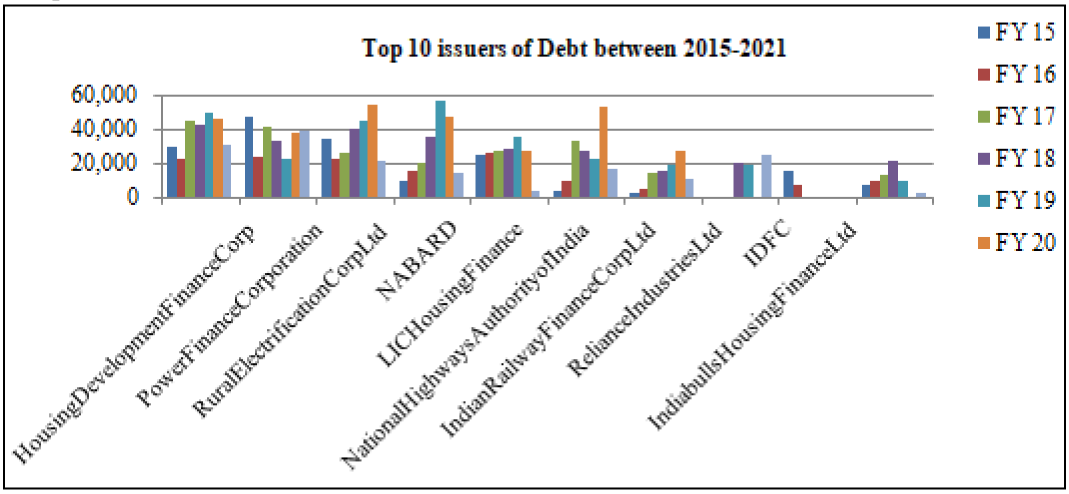
Diagrammatic representation of the above table



Analysis

Till 2014 the trend is almost all top players in the debt market are Govt. Companies only, but from 2015 the trend has been changing where private companies are issuing bonds. By 2017 India Bull Housing finance Ltd. could mobilize 13,566 cr. from debt market issues, whereas Reliance Industries by 2018 could mobilize 20000 Cr. And for the first half of the financial 2021 it could mobilize 24,955 cr. This is really a remarkable change in the Indian Debt Market.

5. Conclusion

As a part of Financial Market Development, the corporate debt segment of the market also got developed. The dominance of Commercial Banks, Govt. bonds in the debt market got reduced gradually. New institutions, instruments, and intermediaries entered into the market. ECBs (External Commercial Borrowings) and FIIs started flooding the market. Private Sector especially, service sector participation in the Debt Market got increased. By the end of 2018 Financial Year, the total volume of private sector issues in debt instruments was 3,13,665 crores. It is 48 percent of the total issues. it was 1,67,495 crores by the first half of the financial year 2021. Though gradually the prominence of Corporate Debt Market is increasing, still it is suffering from different problems like private placements, lack of new instruments, continuation of Govt. sector domination etc. Finally, to make Corporate Bond market a vibrant one, along with policy initiatives, a considerable contribution of stake holders is also needed.

6. Scope for Further Research

There is lot of scope for further research in this topic as the development of the corporate debt market is the crying need of the hour. At present, Govt. of India is propagating for swadeshi goods usage, and make in India.To realize the above slogans further industrialization is needed, for that corporate debt market must be developed.

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