



A White Paper on **Corporate Bond Market 2023**

Innovation, Simplicity and Global Access

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Shri Deepak Sood
Secretary General, ASSOCHAM

Foreword Message

The Corporate Bond Market is the backbone of the financial sector that spurs economic growth for many countries. It supports the corporate sector's credit needs, acting as an alternative source of financing to bank lending, which is essential for economic growth. It ensures that funds flow towards productive investments and market forces exert competitive pressure on lending to the private sector.

Of late, India has turned its attention to the need to deepen the corporate bond market to develop the infrastructure sector and monetize and securitize infrastructure assets. This has provided a more significant role for Foreign Portfolio Investors (FPIs) and has led to an increase in FPI investments in the infrastructure sector.

Policymakers and regulators have taken prudent steps through digital initiatives by assessing the impact of digitalization & electronification on the corporate bond market. Online Bond Platform Providers (OBPPs) have significantly transformed the Indian corporate bond market by democratizing bond trading. These platforms have made corporate bonds more accessible to a broader spectrum of investors, including retail investors, HNIs, small corporates, treasuries and banks. As a result, individuals can now diversify their investment portfolios beyond equities and fixed-income securities to bring more transparency and efficiency to the corporate bond market.

For India to achieve a higher economic growth rate and invest heavily in infrastructure, the reliance on banks will have to be diversified to other segments. Despite India being one of the fastest-growing economies globally and possessing a well-developed equity market, the Indian bond market has a long way to go.

Keeping this imperative in mind, the ASSOCHAM is organizing its 6th National Summit & Awards on Corporate Bond Market under the theme of "Innovation, Simplicity and Global Access".

In this background, ASSOCHAM & BSE Ltd. have jointly prepared this knowledge paper. We hope this report, along with the discussions during the summit, will help the regulators, market participants, government departments and research scholars for the further development of the financial services.



Ms. Nipa Sheth

Chairperson, ASSOCHAM National Council for Corporate Bond Market
and Founder & MD, Trust Group

India's debt market is undergoing a paradigm shift with three key factors converging to reshape its landscape. The infusion of big bang reforms, a rising focus on environmental, social, and governance (ESG) principles, and a surge in infrastructure financing are offering new horizons for investors and propelling sustainable development. Let's look at how these three pillars intertwine and contribute to the growth of India's debt market.

Empowering the Debt Market with Big Bang Reforms:

India has embarked on a journey of comprehensive reforms to liberalize and deepen its debt market. These structural changes have fostered market efficiency, rendering the debt market more alluring to both issuers and investors. The adoption of electronic trading platforms for debt instruments has facilitated seamless trading, enhanced liquidity, and promoted price transparency. Investors now benefit from real-time access to information, empowering them to make well-informed

investment decisions

The Insolvency and Bankruptcy Code (IBC) that was introduced in 2016, further revolutionized the debt market by providing a robust and time-bound framework for insolvency and debt recovery. This instilled confidence in creditors and investors and aided streamlining the process of distressed asset resolution.

India's efforts to develop and deepen the corporate bond market have unlocked alternative financing sources for companies. Notably, allowing foreign investors to participate in corporate bonds has broadened the investor base, fostering liquidity and diversification.

Driving Debt Market Growth with Infrastructure Financing

India's rapid urbanization and emphasis on infrastructure development have fueled a soaring demand for debt financing. The debt market is playing a vital role in channeling funds to crucial infrastructure projects thus, supporting the nation's growth and

modernization through Bonds catering to specific objectives like the Infrastructure Bonds and the Municipal Bonds.

Infrastructure Bonds: Tailored to finance large-scale projects like highways, ports, airports, and urban development initiatives, infrastructure bonds offer attractive returns. They serve as a preferred investment option for institutions and retail investors alike.

Municipal Bonds: Municipalities issue bonds to fund local infrastructure projects, addressing critical needs and fostering urban development. The rise of municipal bonds enhances local participation in infrastructure financing, making it a community-driven endeavor.

Embracing ESG Principles in the Debt Market:

As global momentum towards sustainable investing grows, India's debt market has embraced the importance of ESG considerations. Investors and issuers alike are recognizing the value of environmental and social responsibility, as well as sound governance practices in their debt investments.

Green bonds have emerged as a vital instrument in financing environmentally sustainable projects. These bonds raise capital for initiatives promoting renewable energy, energy efficiency, clean transportation, and other eco-friendly ventures.

Companies issuing debt are increasingly transparent about their ESG performance

through sustainability reporting. This disclosure empowers investors to align their investments with their values, effectively promoting sustainable business practices.

Investors are also incorporating ESG factors into their decision-making processes, seeking opportunities that align with their sustainability goals. This surge in responsible investing elevates companies with strong ESG credentials, potentially attracting more capital.

In conclusion, India's debt market is presently experiencing a transformative period, driven by the combined forces of big bang reforms, ESG integration, and the growing demand for infrastructure financing. These interwoven factors are reshaping the debt market, promoting transparency, responsibility, and sustainability. As India's economic journey progresses, the debt market will continue to be a cornerstone for raising capital, supporting vital projects, and offering diverse investment opportunities.

To fully harness the potential of this triumvirate of growth, investors, issuers, and policymakers must collaborate to ensure a brighter financial future for India, while fostering sustainable development for generations to come. ■



Ms. Padmaja Chundururu

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Data & Technology Solution at the Centre of Indian Corporate Bond Market

The Indian corporate bond market has matured significantly over the past few years, thanks to the consistent efforts of the Industry, government and regulators. This is evident from the growth in the outstanding debt volume and issuances over the last decade. At the end of FY 2022-23, the total outstanding stock of corporate bonds stands at Rs 42 lac crores, an increase of 29% in last 3 years. Primary issuance of listed corporate debt surged by more than 25% in FY 2022-23.

Policymakers are keenly interested in assessing the impact of digitalization and electronification on the corporate bond market. Introduction of 'Electronic Bidding Platform' (EBP) for online bidding of private placement of debt securities and 'Request for Quote' (RFQ) platform for trade execution, are among the key digital initiatives taken by regulator to bring more transparency and efficiency in the corporate bond market. The Debenture Security and

Covenant Monitoring Platform developed by NSDL on Blockchain is another significant step in this journey.

Some ways in which technology has transformed the financial sector, and bond market more specifically:

- **Online bond platforms:** Online bond platform providers (OBPPs), backed by fintech companies or stock brokers have incorporated and are offering digital bond trading websites/apps with engaging features. The bonds, which are offered on these platforms generally include listed corporate bonds, PSU bonds, government guarantee bonds, state development loans (SDL), sovereign gold bonds, and public issue of bonds, among others. The number of retail investors and value of investments made through online bond platforms have increased by over 100 percent in the last three years, data compiled from various bond platforms showed.
- **Mobile apps:** Mobile apps have made it

possible for investors to trade securities on the go.

- **Data analytics:** Data analytics is being used to analyze large datasets of financial data, which can help investors to make better investment decisions.
- **Artificial intelligence:** Artificial intelligence is being used to develop new financial products and services, such as robo-advisors.
- NSDL's IndiaBondInfo and Trade Repository are pioneering initiatives that have made it easier for investors to access comprehensive information on corporate bonds. These platforms provide investors with a single source of information on rupee denominated corporate bonds, including issuer details, bond terms, and market prices. This information is available in an easy-to-understand format, making it easier for investors to make informed investment decisions and to track their portfolios.
- The banking, financial services, and insurance (BFSI) sector is implementing blockchain-based solutions in key areas such as digital bond issuance, Know Your Customer (KYC) processes, identity fraud protection, transaction information sharing, and cross-border payments.

In April 2022, NSDL launched a blockchain-based platform for the Debenture Security & Covenant Monitoring. This platform allows corporate bond issuers and debenture trustees to manage the entire

life cycle of issuance of corporate bonds, including monitoring the security given and the covenants. This platform is highly secure and provides timely information to investors, while also reducing operational costs and achieving standardization in the data exchange process. Efforts are on to bring in secured loans too onto this platform.

We are also witnessing the adoption blockchain technology in bond issuance globally. The European Investment Bank (EIB) issued its first digital bond on a public blockchain in 2021. The Hong Kong SAR Government issued a one-year HK\$800 million (\$102 million) tokenised green bond in February 2023, the first tokenised green bond ever issued by a government globally. Siemens, a leading company in Germany, issued a digital bond worth 60 million (\$64 million) in February 2023, the first large corporate to issue digitally native bonds on a public blockchain.

Previously, bonds were traded primarily in the decentralized over-the-counter (OTC) market, where investors negotiated directly with broker-dealers. Electronic and automated trading has become increasingly important in the fixed income market in recent years. They have become the new standard to replace traditional voice trading in various bonds. Electronic and automated trading are prevalent in the most actively traded debt instruments, like the equity and foreign exchange markets.

While the increasing adoption of technology has played a major role in the growth of the Indian corporate bond market and is making the market more efficient, transparent, and accessible to investors, it also poses challenges like Cybersecurity risks and data privacy. There is a need for collaboration between market participants, regulators, financial institutions, and technology providers to establish and continuously enhance strong security frameworks and regulatory guidelines that protect investors interests. ■



Ms. Aditi Mittal

Co-Chairperson, ASSOCHAM National Council for Corporate Bond Market and Director, AK Group

Data & Technology Solution at the Centre of the Indian Corporate Bond Market

In recent years, India's financial landscape has witnessed a seismic shift, driven by the unprecedented growth of data and advancements in technology. India presently holds the position of the third-largest FinTech market worldwide and it is anticipated to achieve an AUM of \$1 trillion and revenue of \$200 billion by 2030. The driving forces behind the sustained growth of FinTech products and services remain digital adoption, seamless customer experience and reduced friction points.

Developments in the Corporate Bond Market

As India strides towards becoming a \$5 trillion economic powerhouse, the Indian capital market is expected to assume a more significant role, remaining at the forefront in the days to come. A crucial element of this capital market is the Indian corporate bond market, which has traditionally been a relatively young segment of the country's financial landscape.

Nevertheless, in recent times, this market has gained substantial momentum, offering attractive opportunities for both issuers and investors. The volume of outstanding corporate bonds has quadrupled, rising from ₹10.51 lakh crore at the end of FY 2012 to ₹42 lakh crore as of FY 2023. The evolution of the bond market owes much to the influence of technology, ushering in an era of enhanced efficiency, transparency and accessibility.

Thanks to technology, the Indian corporate bond market has seen key advancements, including the innovation of the Delivery versus Payment (DvP) mode, which essentially eradicates settlement risk. Additionally, there have been introductions of an Electronic Bidding Platform (EBP) for primary issuance and Request for Quote (RFQ) platforms. Furthermore, we should also acknowledge the government's encouragement for retail investors, exemplified by initiatives like the Retail Direct Account Scheme introduced by RBI, alongside the emergence of Online Bond Platform Providers (OBPPs) and numerous other recent developments.

Online Bond Platform Providers (OBPPs)

OBPPs have significantly transformed the Indian corporate bond market. By democratizing bond trading, these platforms have made it accessible to a wider spectrum of investors, including retail investors, HNIs, small corporates, treasuries and banks. As a result, individuals now can diversify their investment portfolios beyond equities and partake in fixed-income securities, which were historically the domain of institutional investors. Issuances, both via public offerings and private placements, surged from 3.80 lakh crore in 2012 to nearly ₹7.64 lakh crore in 2023.

The introduction of these platforms has revolutionized bond trading by establishing a centralized marketplace where buyers and sellers can directly interact and exchange information. This in turn, has reduced trading costs and facilitated quicker trade executions. India's bond market has attained a significant size of US\$2.34 trillion. The realization of India's goal to reach a GDP of US\$5 trillion will heavily rely on the credit extended to corporations via the bond markets. The corporate bond market in India harbours immense untapped potential, poised for a substantial surge in growth in the upcoming years. By developing a robust technological infrastructure, OBPPs have effectively closed the divide between investors and issuers.

Through the utilization of cutting-edge innovations like bond calculators and bond directories, they have successfully

encouraged increased involvement from institutional and retail investors alike. Investor protection has also been at core of these developments with digital KYC and direct payments and settlements by National Clearing Exchanges.

It is essential to highlight that all of these advancements were made possible with the approval and support of SEBI. In November 2022, SEBI took OBPPs under its supervision, implementing a regulatory framework aimed at securing the long-term growth and prosperity of India's bond market. The Indian corporate bond market stands on the brink of a FinTech industry evolution and OBPPs are poised for a promising future, playing a crucial role in the nation's development.

Way Forward

Data analytics will continue to lead the growth for the digitization of corporate bond market in future. We will also see integration of artificial intelligence and machine learning for better customer experience. As technology continues to progress, and with the advancements in OBPPs, the bond market is poised for continuous growth and improved efficiency. It is well-prepared to adapt to dynamic market changes and cater to the needs of investors in today's increasingly interconnected global economy. This is of utmost importance for the Indian economy's ambitious goal of reaching the desired \$5 trillion milestone. ■

**Source: All figures mentioned in the article are from SEBI website and CCIL reports*

Bond Markets – Key Trends and Opportunities

BSE Limited

Global capital markets, particularly debt markets have seen a sharp turnaround in 2023 on the back of the recent failures of Silicon Valley Bank (SVB) and Signature Bank in the US and fear of contagion risk spreading across the financial sector. Debt markets in India as well as globally has been under pressure since the last two years as central bankers hike interest rates to combat record high inflation.

But now with inflation coming under control and interest rates assumed to be near their peak, the bond markets are slowly again coming back to growth. The year 2022 has been marked as the year of taming inflation at the cost of growth of the economy. Regulators worldwide have been increasing interest rates in order to capture the rising inflation. In the Indian scenario the repo rate which stood at 4 per cent in the April 2022 meeting now stands at 6.25 percent, an increase of 225 basis points the effect of which can be seen in 10-year benchmark Gsec bonds too. The 10-year benchmark was hovering around 6.65 percent in January 2022 and in December 2022 is hovering around 7.30 percent meaning a price decline of around 4 percent.

Global Trends

Asset valuations are expected to benefit over the longer term, offering several considerations for investors' fixed-income

portfolios. Some of the key trends that has emerged include:

- **Asset-backed securities:** In mortgage-backed securities (MBS) particularly and some securitized credit products, yield spreads (the difference in the rate of return between these assets and Treasuries) have stayed wide compared to high-yield and investment-grade issues. This makes MBS and securitized credit products attractive and draws asset flows, as investors reach for the little extra yield.
- **High-yield credit:** Without a major recession on the horizon and with high-yield indexes yielding around 8-9%, there is ample room for yield spreads (the difference in the rate of return between high-yield bonds and Treasury bonds) to widen and still generate mid-single digit returns, if not higher. Moreover, it would also be highly unusual to have two years of negative high-yield returns in a row, after a -11% return in 2022.
- **Emerging markets (EM) debt:** EM debt is seen as an attractive option for investors comfortable with a riskier asset class, particularly for debt issued in local currencies. While the U.S. dollar has started to weaken, it is still at very strong historical levels. If it continues to weaken in 2023, it is expected that EM debt priced in non-dollar local

currencies would be good for investors. Additionally, EM corporate debt—credit sectors typically do well in a weak-dollar environment.

Overall, certain fixed-income assets is expected to benefit in 2023 from a less aggressive central bank policy, a slowdown in the global economy and improvements in various supply-side constraints, which bodes well for emerging markets including India.

Trends in India

The size of India's corporate bond markets has grown over the years, but it trails most of its Asian peers. Policymakers, including the government and regulators such as the Reserve Bank of India and the Securities and Exchange Board of India, have also taken a lot of steps to increase the participation in the corporate bond market, and to widen issuer and investor base. The bond market size in India currently stands at around US\$ 1.8 trillion, which can be split into US\$ 1.2 trillion for government securities and US\$ 0.6 trillion for corporate bonds. With the government looking to further develop the country's infrastructure, a larger impetus will be on raising this capital from retail investments.

Secondary markets, where trading activity has not grown in sync with the size of the market, can act as a catalyst. According to the latest data available with SEBI, the total settled value of the secondary corporate bond market was at Rs 11.73 trillion as on February 2023. In comparison, the

outstanding stock of corporate bonds was at nearly Rs 41 trillion till end of December 2022.

In India, the corporate bond market is skewed towards top-rated borrowers. In FY22, 80% of issuances in value terms were by AAA rated entities and 15% by AA rated companies. In addition, a bulk of issuances in the primary market are by non-banking finance companies. Relatively cheaper source of funding has been the key factor for issuers to choose the bond market over bank loans. Most of these top-rated issuers also have the ability to borrow at a competitive rate from banks. But this is not the case with lower-rated issuers, who have to pay higher premiums, which in turn makes bond issuances costly compared with bank loans.

Development of the secondary market has many advantages, including improved liquidity. As more investors buy and sell bonds, it broadens the issuer base in the primary market and improves price discovery. Investors willing to take exposure to lower-rated bonds are few and they demand a high premium to cover the risk.

Higher activity in bonds of a particular set of companies or even better rating profile in the secondary market can improve valuations as investors factor in a variety of data such as execution timeline, governance, policy changes, and not just rely solely on the rating profile. This creates a kind of benchmark, which can help investors and issuers have a realistic expectation

of market pricing while participating in primary issues.

Increase in the number of participants in the secondary market can also provide an exit to investors who are not willing to take risk in case the creditworthiness of issuers deteriorates. In this context, SEBI had floated a consultation paper in November 2021 on market-making in corporate bonds. According to the paper, the issue of illiquidity in the secondary market and the challenge of matching a buyer and seller can be dealt to a certain extent through introduction of market makers, akin to primary dealers in the government securities market.

Policymakers should also incentivise long-term domestic investors to participate in the secondary market. In India, many long-term investors such as insurance companies and pension funds tend to buy-and-hold, compounding the challenges of developing liquidity in the secondary market.

Deepening of the corporate bond market has been on the agenda of governments and regulators for years now. This becomes even more important in the context of large capex requirements. Development of the secondary market could potentially make it easier for big-ticket bond issuances in the primary market by even lower-rated entities.

Conclusion:

There has been impressive progress and development of the corporate bond markets - the market is large and growing; the issuer

base is expanding; product diversity and sophistication are developing; secondary volumes are low but growing; and market infrastructure is the best in the world. Efforts are now being made to improving complementary- repo and derivative - markets, diversify the investor base, both domestic and global, and improve access of borrowers at the lower end of the credit spectrum.

Beyond this, market development and improvements will remain a continuous exercise. As much as we need to take these steps, it will serve us well to temper our expectations on the degree of liquidity in secondary corporate bond markets. If international experience is anything to go by, the best we can achieve may be well short of the liquidity we are used to in Government bond markets or equity markets. ■



Ms. Deepa Rath
MD & CEO
Axis Trustee

India is one of the fastest-growing economy in the world despite slackening growth globally. Focus on infrastructure funding is rightly the focus of our nation currently. Infrastructure industry requires long term funding and Corporate bond market is the right platform for propel this cause. Even major banks are tapping the bond market this year to raise infra bonds to help this industry to grow faster. As infra sector requires long term resources, low-cost funding & fixed coupon rate, raising funds through corporate bond market seems to be the best way forward.

Entities like NaBFID, IIFCL, InvITs, IDF etc. are gearing up themselves for larger infrastructure lending. These entities have successfully raised long tenor bonds at a very competitive pricing to support this infrastructure finance. Issuance of Municipal bonds has enabled capital market financing of infrastructure projects, which was earlier done through only bank loans or grants.

India's standing among its peers' penetration of bond markets in India is

much lower than that of several major economies. However, the situation is fast improving. Corporate bond outstanding in India has crossed Rs 42 trillion as of March 2023 from Rs 10 trillion in March 2012. As per PRIME database, the annual issuances rose to Rs. 8,49,932 crores through private placement market during the year 2022-23 compared to Rs.6,34,908 crores during 2021-22. There has been considerable growth in the corporate bond market in India without much FPI participation this year. It may be noted that the FPI participation was much lower in recent years due to increase in interest rates in other major economies.

However, the trading in corporate bonds has been far lower than the Government Securities market as the G-Sec market have a well-developed secondary market compared to corporate bond secondary market. As per reports, the secondary market trading volume in corporate bonds was approx. over 12 trillion till March 2023. Increase in secondary market volume improves price discovery. Progress has

been made to increase the deal flow in corporate bond repo transactions. SEBI has been successful in setting up a repo clearing corporation.

Indian Corporate bond market is largely meeting the needs of highly credit rated corporates. It is skewed into AAA credit rated instruments majorly issued by Public Sector Undertakings and BFSI Sector. Nearly 80% of the corporate bond issuances are top credit rated issuers. Nearly 75% of the issuers are from BFSI Sector. In the current market scenario, AAA credit rated issuers prefers bond market compared to term loans as the interest rate differentiation is between 150 bps – 200 bps on an annualised basis. Without any immediate rate cut action from RBI, AAA senior corporate bonds are currently trading between 7.30 – 7.80 across tenors.

More than 90%-95% of the corporate bond issuances are issued through private placement route and only a small percentage of issuances are through public offer thereby limiting the retail investor participation.

The regulators have taken various steps to develop the corporate bond market. However, it is still relatively underdeveloped compared to bank lending and compared to major economies. AAA credit rated issuers tend to have an advantage while issuing bonds in terms of cost and getting the desired tenor. Lower credit rated issuers mostly rely on bank credit for their financing needs due to limited bond investor appetite. With the introduction of AIFs and retail online

bond portals, these low credit issuers have started issuing NCDs in small quantum. SEBI has taken imminent efforts to regulate these online bond portals and to encourage them to trade only listed bonds with retail investors.

The regulators are also encouraging entities to issue green bonds / ESG bonds by issuing necessary circulars in line with global standards.

Post AT1 bond fiasco, State Bank of India has stepped in and successfully revived the AT1 bond market in India. However, the issuances from lower credit rated banks are yet to improve.

Collaboration with other major economies shall boost the corporate bond market. For example, U.S. Treasury Department's office of technical assistance in collaboration with India's Ministry of Housing and Urban Development have agreed upon to assist few selected Municipalities on pilot basis to raise municipal bonds. With this initiative, both Pune (in 2017) and Vadodara (in 2022) have raised municipal bonds successfully.

SEBI the regulator has taken significant steps over the years to improve the corporate bond market as per global standards. Delivery Vs Payment (DVP), Electronic bidding platform for listed private placement issuances (EBP), Introduction of Request for Quote (RFQ) platform, increased roles & responsibilities / empowerment of Trustees to protect the interest of the investors to name a few. Other regulators including RBI, IRDAI and

PFRDA too are supportive of SEBI's steps and encouraging their regulated entities to invest in corporate bonds. Corporate bond reissuances are increasing over the years due to SEBI's efforts to reduce fragmentation and to improve liquidity in the corporate bond markets.

Indian economy continued to be robust and the credit growth has overtaken deposit growth. Booming credit market can't sustain only with Bank term loans. ECB market too is not conducive due to higher interest rates in most of the major economies. Hence, deepening the corporate bond market is even more important. More efforts required to deepen the secondary market corporate bond trading. Providing adequate liquidity and market making of corporate bonds is the way forward. Market intermediaries like CRAs, Trustees, stock exchanges, depositories are playing an important / positive role to support & further this cause. ■



Shri Mahendra Jajoo
Chief Investment Officer
Mirae Asset Investment Managers (India) Pvt. Ltd.

Corporate bond markets at an inflexion point in India ?

Primarily the three sources generally employed for providing capital stock to economic enterprises are equities and debt by either bonds or by bank lending. Over the years, while equity portion has commanded maximum public attention and banks remain in news for different reasons, the optimal environment for bond markets is just about beginning to take shape in India.

Bank financing still remains a relatively large part of debt capital in most of the economy. Most definitely while there is acute criticality of this financing avenue, the over-reaching of the same poses some challenges. First, credit decisions are concentrated with in relatively fewer decision-makers compared to the situation in a well-developed and broad-based bond market thus typically stereotyping credit evaluation modelling. Second, since banks are much more highly levered than the typical bond investors, the systemic risk

component is far greater than when the relative sizes of the banking system and the corporate bond market are more balanced. Next, an active bond market typically lowers the overall cost of funding by a transparent and competitive price discovery mechanism as also improves efficiency of capital allocation by differentially pricing stronger credits. Finally, banks are more prone to evergreening since bad loans can often be kept from being written down for long periods with the interference or implicit support from those in command - in contrast to the situation in public markets for corporate bond investors, who generally have limitations on time and resources. The bond investors generally have a more direct stake in the outcome and thus far stronger motivation for making the appropriate risk adjustment.

In recent times, the Government, SEBI and RBI have been taking significant efforts to facilitate the development of the corporate bond markets in India. The reforms have ranged from encouraging innovative corporate bond structures, strengthening of

regulatory framework, easing of processes and measures to enhance secondary market liquidity etc. SEBI has taken significant steps to improve market infrastructure such as settlement through delivery versus payment (DvP) mode which removes settlement risk; operationalisation of a trade reporting platform for enhancing transparency; introduction of an electronic bidding platform (EBP) for primary issuance and introduction of request for quote (RFQ) platforms to enhance price discovery. RBI has permitted banks to provide partial credit enhancement (PCE) to help corporates raise capital through market instruments as also encouraged FPI investment by raising investment caps, introduction of Voluntary Retention Route to enable FPI to invest in India etc. In addition, a progressive and forward-looking monetary policy framework with focus on domestic strengths and a calibrated liquidity management framework has boosted the confidence in domestic bond markets by several notches. A pre-emptive and dynamic monetary policy during stressful times of covid is a pertinent recent example.

This has resulted in massive growth of bond markets with outstanding stock of corporate bonds multiplying nearly four-fold from just about 10.51 lakh crore as at end FY 2012 to 42.0 lakh crores as at end FY 2023 as per data available on SEBI website. Fresh issuances have grown from 3.80 lakh crore to close to 6.0 lakh crore during this time. More importantly, the total settled value of secondary market trades has again grown strongly from

4.50 lakh crore in FY 11 to an annualised rate of nearly ₹16 lakh crores so far in first quarter of FY 24.

Even though there has been meaningful progress, there is still a long way before India develops an efficiently functioning and deeply liquid bond markets. First, the market is largely skewed towards high rated instruments, ~80% of the investment is done in AAA rated instruments. Second, the investor base for corporate bonds is dominated by domestic institutions such as insurance companies, banks and mutual funds. Retail participation remains low (this is because of minimum market lot for all practical purpose in corporate bonds is large- min lot size of Rs 5crs). Lastly, as we all know high-quality and timely information on financial markets is basic to the development of the market. While G-sec market is liquid enough and easier to track the developments, inadequate volumes of secondary market trades in corporate bonds makes it difficult to discover the true value of the bond and adds to illiquidity discount. Therefore, there is a need to improve volumes and timeliness and availability of corporate bond data (deal logs and security information).

India has already taken various steps towards building this market bottoms up again. This includes RBI opening G-sec investment to retail investors through RBI Retail Direct (a step that can also help expand retail investments in corporate bonds in due course) and government taking initiative to bring global investors through inclusion in global bond indices.

A few imminent initiatives, on the verge of being launched, including a backstop facility for mutual fund holding of corporate bonds and new entity for promoting repos in corporate bonds have the potential to meaningfully accelerate the growth trajectory further as these address some of the long standing bottlenecks to better liquidity and volumes in secondary market.

As the economy progresses further, a well-developed corporate bond market has a strong positive effect on an economy adding to the momentum and thereby creating a virtuous loop. In the absence of a sufficiently large corporate bond market free from excessive regulation, an overly large burden of corporate lending is taken on by the banking system.

One can say with some confidence today though that with the recent reforms and infrastructure improvements, after a very long and frustrating wait, bond markets in India may at an inflexion point and the next turn may just be the proverbial perpendicular line of the J curve. ■



Shri Anshul Arzare
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India's corporate bond market: Growing from strength to strength

Alan Greenspan, ex-chairman of the US Federal Reserve, once referred to funding sources other than bank finance as a 'spare tyre'. Notwithstanding the wit and wisdom of his analogy, corporate bonds in essence are highly potent risk-reducing vehicles in their own right, seamlessly complementing banks in lending liquidity support to industry on the highway of economic development.

According to estimates, the bond market in India is valued at \$1.8 trillion, comprised of \$1.2 trillion for government securities and a mere \$0.6 trillion for corporate bonds. The latter commands a minuscule share no doubt but its growth has been encouraging all the same. The outstanding stock of corporate bonds has jumped from ₹10.51 lakh crore in 2012 to ₹40.20 lakh crore in 2022. A four-fold increase in outstanding stock over a decade's span is no mean achievement given the constraints facing the market.

Going forward, the proactive regulatory action is bound to bear fruit in good time. The Reserve Bank of India (RBI) measures like allowing banks to extend partial credit enhancement, mandating mega borrowers to raise substantial borrowings through market instruments, boosting FPI investment through raised caps, and Voluntary Retention Route augur well for the bond market. The Securities and Exchange Board of India (SEBI) on the other hand has unleashed equally potent measures like settlement through the fool-proof Delivery versus Payment route, transparent trade reporting platform, stock consolidation through reissuance to boost liquidity, request-for-quote (RFQ) platform for minimising information asymmetry, as also to boost large scale investor participation in the primary market.

At some point, we can expect SEBI to boost the repo market in bonds through the proposed repo clearing mechanism. Further, The SEBI nod to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) to raise funds

through commercial paper issuance will gradually but definitively boost liquidity and bring down cost of capital of this largely overlooked asset class. A case in point is the success of the NCD IPO of the National Highway Infrastructure Trust that was blessed with a healthy retail participation. Another underrated cog in the bond wheel is the Credit Default Swap (CDS) market. RBI's revised regulatory framework for CDS is a key step towards making the derivatives market more transparent, credible, and flush with liquidity. With the support of regulation and more retail participation through public issuances at reduced face values, corporate bonds can provide the industry with a buoyant funding market complementing bank finance.

Perhaps the most 'green' of avenues to boost the bond market is the ESG bond. SEBI has already sought to make ESG ratings more transparent and more attuned to transition finance. Over time, innovative debt instruments can smartly incentivise early target completion through discounted rates as also employ effective de-risking mechanisms to ease 'brown to green' transitions. Last but not the least, India's inclusion in the J P Morgan global bond index, if and when it happens, will bring large scale liquidity into the Indian bond market. ■



Shri Suresh Darak
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Leveraging Data and Technology to Transform the Financial Market: Unlocking the Potential of Bonds Trading

In today's rapidly evolving financial landscape, the effective use of data and technology has proven to be a game-changer, significantly transforming the bond market. By harnessing the power of data analytics and integrating advanced technologies, financial institutions have unlocked numerous opportunities to enhance efficiency, transparency, and accessibility in bond trading. This article explores how data and technology have revolutionized the bond market, enabling informed decision-making and fostering liquidity, bringing both institutional and retail investors together on a common platform.

1. Data-Driven Insights: Empowering Informed Investment Decisions

The availability and analysis of vast amounts of financial data have revolutionized the bond market. Traditionally complex calculations, such

as clean price, accrued interest, and dirty price, have become streamlined through data-driven algorithms. These advancements have made bond trading more transparent and efficient, enabling investors to make informed decisions with greater confidence.

One crucial source of data in the bond market is the Issuer's Memorandum (IM) and rating rationale provided by credit rating agencies. These reports offer valuable insights into an issuer's creditworthiness, risk profile, and financial health. By leveraging this information, investors can better assess the potential risks and returns associated with a bond before making investment decisions. This data-driven approach has instilled greater transparency and accountability, fostering a more stable and reliable financial market.

2. Transformation of Bond Trading:

Yield-Based Approach Data and technology have revolutionized the way bonds are traded, shifting from

conventional methods to yield-based trading. By employing sophisticated algorithms, financial institutions can accurately calculate the yield on bonds, enabling investors to compare and evaluate bonds more effectively. This yield-based approach has simplified the process of identifying the most favorable investment opportunities and has also facilitated trading strategies that align with specific risk appetites.

Moreover, technology-driven trading platforms have enabled real-time access to bond prices and market data, empowering investors to execute trades swiftly and efficiently. The integration of Artificial Intelligence (AI) and Machine Learning (ML) algorithms has further enhanced the speed and accuracy of trading platform, creating a seamless experience for investors, whether institutional or retail.

3. Technology-Enabled Liquidity:

Uniting Institutional and Retail Investors
Traditionally, the corporate bond market has been segmented, with institutional investors dominating the landscape. However, technology has broken down these barriers, enabling the participation of retail investors in the market. Online trading platforms have democratized access to corporate bonds, creating an inclusive environment that fosters liquidity and enhances market depth.

By bringing together both institutional and retail investors on a single platform,

the corporate bond market will witness increased trading activity. This influx of participants will further contribute to improved price discovery and increased liquidity, resulting in a more vibrant and dynamic market ecosystem.

4. Real-Time Trading:

A Catalyst for Market Efficiency
The transition to real-time trading platforms has revolutionized the bond market, facilitating instant trade execution and enhancing overall market efficiency. These platforms offer features such as live market data, real-time price updates, and immediate order execution, allowing investors to seize opportunities swiftly and respond to market fluctuations effectively. Additionally, real-time trading platforms incorporate advanced risk management tools, ensuring that investors are well-informed about potential risks before making investment decisions. This risk mitigation, coupled with transparent data insights, empowers investors to make sound choices and contributes to the overall stability and resilience of the bond market.

To sum it up.

The entire financial market is up for big change. More than INR 60 lacs crores of retail money is lying in saving accounts where they are earning less than 3% and more than INR 20 lacs is lying in current account where they are earning nothing. The effective use of data and technology

has ushered in a transformative era for the financial market, imagine a shift from bank deposits to bond investment and the resulting growth. By leveraging data-driven insights, investors can make informed decisions and gain a deeper understanding of the risks and returns associated with bonds. The shift towards yield-based trading will simplify the investment process, while real-time trading platforms will make trading more accessible and efficient for all participants.

Furthermore, technology has played a pivotal role in uniting institutional and retail investors, fostering liquidity, and enhancing market depth in the corporate bond market. As we move forward, continued advancements in data analytics and technology are likely to redefine the financial landscape further, presenting new opportunities and challenges that financial institutions must adapt to in order to stay competitive and meet the evolving needs of investors. In conclusion, the effective amalgamation of data and technology is the key to unlocking the full potential of the financial market, providing investors with the tools and insights necessary to thrive in an increasingly interconnected and dynamic global economy. ■

ABOUT US

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4,50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations, and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forward-looking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by well-known industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities - Sustainability, Empowerment,

Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

ASSOCHAM is working hand in hand with the government, regulators, and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy'. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

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ABOUT BSE

BSE (formerly Bombay Stock Exchange) established in 1875, is Asia’s first & the world’s fastest Stock Exchange with a speed of 6 microseconds. BSE is India’s leading exchange group and has played a prominent role in developing the Indian capital market. BSE is a corporatized and demutualised entity, with a broad shareholder base. BSE provides an efficient and transparent market for trading in equity, debt instruments, equity derivatives, currency derivatives, interest rate derivatives, mutual funds and stock lending and borrowing.

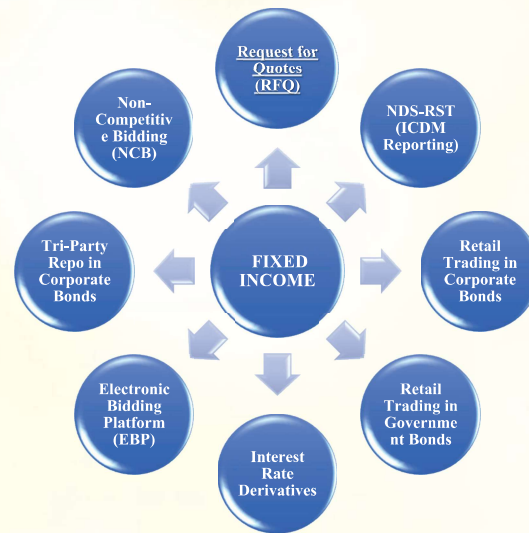
BSE Debt markets

The Indian debt market is dominated by government bonds, with Rs. 95.5 lakh Crs outstanding bonds as of July 2023 and Rs. 42 lakh Cr outstanding corporate bonds, as of March 2023. BSE has been at the forefront of facilitating products for primary market offerings and secondary market trading of fixed income securities.

In the primary debt market, BSE BOND – EBP platform provides for issuances of debt securities and Commercial Papers on a private placement basis, whereas participation in the auction of Government securities, T-bills and State Development Loans by retail investors is provided through a dedicated app (BSE direct), website (BSEdirect.com) and through IBBS, BSE’s book building software. Secondary market trading of corporate bonds, government securities and interest rate derivatives can be accessed at BSE. Negotiation and

trading in debt instruments can be done on BSE’s Request for Quote (RFQ) platform. Reporting and settlement of OTC trades in corporate bonds, settlement of CP/CDs and Corporate Bond Repo can be done through a dedicated platform offered by BSE’s NDS RST platform.

Fixed Income/Debt Market products at BSE



<p>Request for Quotes (RFQ)</p> <ul style="list-style-type: none"> ▪ Web-based platform and enables quoting and negotiation of trades, with better features and flexibility than OTC markets ▪ Offers more transparency and better efficiency
<p>NDS-RST (ICDM Reporting)</p> <ul style="list-style-type: none"> • Web based platform for reporting of Corporate bond and monitoring settlement of Corporate bond and CP/CD trades and available to all registered participants
<p>Retail Trading in Corporate Bonds</p> <ul style="list-style-type: none"> • Offers trading in all listed securities on BSE and available to all BSE trading members
<p>Retail Trading in Government Bonds</p> <ul style="list-style-type: none"> • Offers trading in Government Securities and available to all BSE trading members
<p>Interest Rate Derivatives</p> <ul style="list-style-type: none"> • Bringing the contract to the exchange to create marketability • Currently offering, 91 Days T-bills and 10 Year Government securities
<p>BSE Bond / Electronic Bidding Platform (EBP)</p> <ul style="list-style-type: none"> • Bidding of debt securities issued on private placement private basis and a user-friendly platform • Aims to help the market participants for better price discovery and transparency in the overall process of fund raising.
<p>Tri-Party Repo in Corporate Bonds</p> <ul style="list-style-type: none"> • Basket Repo - Screen Based Anonymous Trading System (Boltplus on Web) • Special Repo - Web based Negotiated Platform (Existing NDS- RST platform)
<p>Non-Competitive Bidding (NCB)</p> <ul style="list-style-type: none"> • Non-competitive bidding in primary auctions in Government securities • NCB-Gsec bidding platform is a part of the iBBS (Internet-based Book Building System)

Key features of BSE – Request for Quotes (RFQ):

3 Step Easy process

- Introduced Shortcut Keys like NDS-OM to initiate quotes.
- Alerts to Navigate smoothly in the deal acceptance process.
- Integrated Trade, Reporting and Settlement platform.





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