

Asia Pacific Credit Update

Revising up India USD bond supply est. on converging onshore-offshore costs

Industry Overview

India USD bond supply in focus

Given the recent pick-up in India USD bond supply (USD 3bn issued YTD across financials & corporates) after a subdued 2023, one of the key investor questions that we have faced is expectation for USD bond supply from India. In this note, we look at YTD supply from India, new issue performance, key drivers of issuance including onshore market conditions & revise up our USD bond supply estimates for 2024.

YTD net supply limited; maturities coming up

Against the gross USD bond supply of USD 3bn YTD (Exhibit 1), there is about USD 2.6bn of bond redemptions YTD (excl. USD 779mn of Vedanta USD bonds repayment). Thus, net supply is limited and negative after considering coupon payments and further negative after accounting for Vedanta principal payment (as part of liability management). Moreover, we estimate about USD 2.1bn of bonds (USD 1.4bn IG-rated and USD 0.7bn HY-rated) maturing during remaining Mar'24 and USD 8.6bn (USD 6.7bn IG-rated and USD 1.9bn HY-rated) for the remaining nine months of 2024 (Exhibit 2).

On/offshore cost converging; onshore liquidity tightening

Coming into 2024, we had expected strong onshore liquidity and relatively cheaper funding cost to keep USD bond supply limited from India. However, with yield compressing in offshore market while onshore yields tracking higher YTD, onshore-offshore costs have converged (Exhibit 3 & 4). Improved offshore market dynamics, along with tighter onshore liquidity conditions during late 2023 (Exhibit 5 & 6) has made offshore market attractive for Indian issuers, leading to YTD pick up in issuance.

Revising up 2024 supply estimate for HY Corps. & IG Fins.

For corporates (ex-IG financials), we had previously estimated c. USD 7-8bn supply (equally split between IG & HY) primarily for refinancing. However, with improved offshore risk sentiment and converging onshore/offshore funding cost, we see upside risks to this forecast, more so for HY corporates. Thus, we revise up our corporate USD bond supply estimate to USD 10-11bn primarily driven by higher HY supply estimate (USD 6-7bn vs. USD 3-4bn previously). Renewables & Infrastructure sectors with high capex intensity remain the most likely candidates for supply, in our view. Steel sector companies also have high capex plans in the near term and may look to tap the USD bond market opportunistically. We think HY NBFCs are another set of potential issuers given combination of i) strong domestic credit growth and ii) tighter onshore liquidity. That said, recent news reports around increased sector scrutiny by the RBI may somewhat limit offshore issuance from NBFCs. **For IG financials**, onshore funding cost (for both seniors & AT1) remains cheaper though difference has been narrowing (please see: [India IG financial 3QFY24 results review](#)). We think there could be higher incentive for IG Fins. to issue USD bonds beyond their refinancing needs and thus revise up our 2024 supply forecast to USD 8bn from USD 5bn. It is worth noting that all 2024 maturities are senior bonds.

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Vikash Agarwalla, CFA
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3106
vikash.agarwalla@bofa.com

Lefu Li, CFA
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 2142
lefu.li@bofa.com

Joyce Liang
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3817
joyce.liang@bofa.com

Jing Peng
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3105
jing.peng2@bofa.com

Abbreviations:

IG – Investment Grade

HY – High Yield

NBFC – Non-banking Financial Company

RBI – The Reserve Bank of India

Corps. – Corporates

Fins. – Financials

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Timestamp: 07 March 2024 11:22PM EST

Exhibit 1: YTD India USD bond supply

New issue performance mixed for IG issuance; HY issuances are trading around reoffer to marginally higher in cash price/tighter in yield

Pricing date	Bond	Amt. O/S (\$ mn)	Issue rating	At the time of issuance			Current (Ask)			Perf. since issuance		
				Price	T-spd	YTM (%)	Price	T-spd	YTM (%)	Price	Spd	YTM (%)
10-Jan-24	SBIIN 5.29	600	NA/BBB-/BBB-	99.5	117	5.1	99.7	100	5.1	0.2	(17)	(0.0)
6-Feb-24	HDFCB 5.18 29	450	Baa3/BBB-/NA	100.0	108	5.2	99.9	112	5.2	(0.1)	4	0.0
6-Feb-24	HDFCB 5.196 27	300	Baa3/BBB-/NA	100.0	95	5.2	99.7	105	5.3	(0.3)	10	0.1
16-Jan-24	SHFLIN 6.625 27	750	NA/BB/BB	100.0	na	6.6	100.8	207	6.3	0.8	na	(0.3)
29-Feb-24	IRBIN 7.11 32	540	Ba2/NA/NA	99.9	na	7.1	101.3	281	6.9	1.3	na	(0.2)
4-Mar-24	ADGREG 6.7 42	409	Ba1/NA/BBB-	100.0	na	6.7	100.2	260	6.7	0.2	na	(0.0)
2024 total gross supply		3,049										

Source: Bloomberg, Pricing as of 7th Mar

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Exhibit 2: India USD bond maturities for remaining 2024

USD 10.7bn maturities for remaining 2024

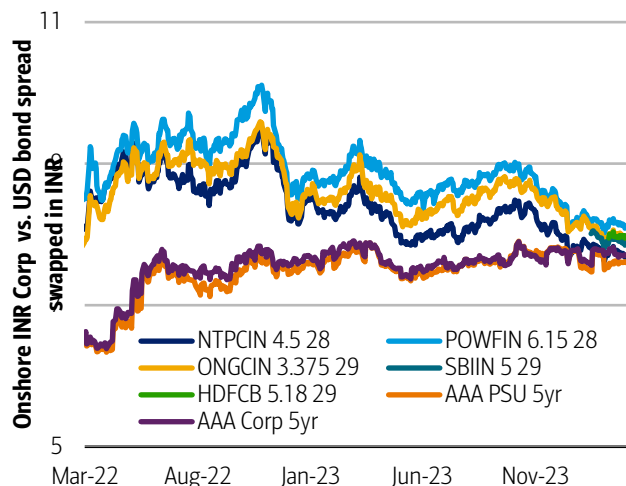
Bond	Amt. O/S (\$mn)	Ratings (M/S/F)	Maturity date	Industry sector	IG/HY
EXIMBK 3.875 24	500	Baa3/NA/BBB-	12-Mar-24	Agency	IG
CBKIN 3.875 24	400	Baa3/NA/BBB-	28-Mar-24	Financials - Banking	IG
INRCIN 3.73 24	500	Baa3/BBB-/BBB-	29-Mar-24	Agency	IG
NTPCIN 3.75 24	450	Baa3/NA/BBB-	3-Apr-24	Electric-Generation	IG
BOBIN 3.875 24	300	Baa3/NA/BBB-	4-Apr-24	Financials - Banking	IG
OINLIN 5.375 24	500	Baa3/NA/BBB-	17-Apr-24	Integrated Energy	IG
SBIIN 4.875 24	500	Baa3/BBB-/BBB-	17-Apr-24	Financials - Banking	IG
BHARTI 5.35 24	550	Baa3/BBB-/BBB-	20-May-24	Telecom - Wireless	IG
POWFIN 3.75 24	400	Baa3/NA/BBB-	18-Jun-24	Financials - Diversified	IG
ONGCIN 4.625 24	750	Baa3/BBB-/BBB-	15-Jul-24	Energy - Exploration & Production	IG
ADSEZ 3.375 24	325	Baa3/BBB-/BBB-	24-Jul-24	Transport Infrastructure/Services	IG
RECLIN 3.375 24	650	Baa3/NA/BBB-	25-Jul-24	Financials - Diversified	IG
TATAIN 5.95 24	1,000	NA/BBB-/BBB-u	31-Jul-24	Steel Producers/Products	IG
POWFIN 3.25 24	300	Baa3/NA/BBB-	16-Sep-24	Financials - Diversified	IG
NTPCIN 4.375 24	500	NA/BBB-/BBB-	26-Nov-24	Electric-Generation	IG
RECLIN 3.5 24	500	Baa3/NA/BBB-	12-Dec-24	Financials - Diversified	IG
SHFLIN 4.4 24	725	NA/BB/BB	13-Mar-24	Financials - Diversified	HY
JSTLIN 5.95 24	500	Ba1/NA/BB	18-Apr-24	Steel Producers/Products	HY
TTMTIN 5.5 24	300	NA/BB+/NA	3-Jun-24	Automakers	HY
ADANIG 4.375 24	750	Ba3/NA/NA	8-Sep-24	Electric-Generation	HY
AZUPOE 5.65 24	310	WR/NA/B	24-Dec-24	Electric-Generation	HY
Total remaining 2024 maturity	10,710				
Total remaining 2024 maturity - IG rated	8,125				
Total remaining 2024 maturity - HY rated	2,585				

Source: Bloomberg, ICE Data Indices LLC

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Exhibit 3: Onshore/offshore gap has narrowed significantly...

Onshore vs. offshoring borrowing cost – 5 years tenor

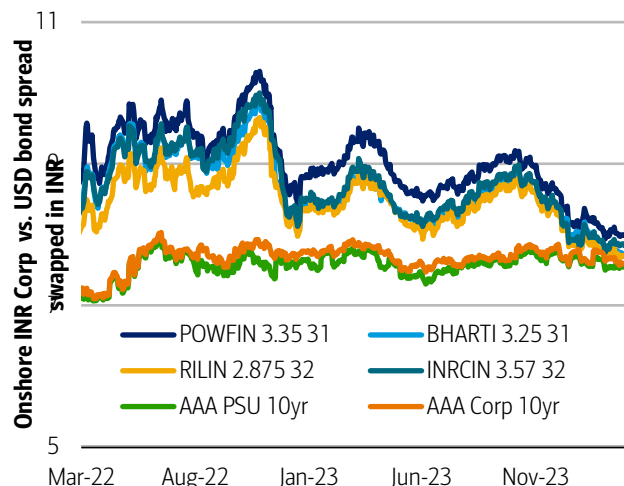


Source: Bloomberg

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Exhibit 4: ... in both 5yr & 10yr tenor on a hedged basis

Onshore vs. offshoring borrowing cost – 10 years tenor

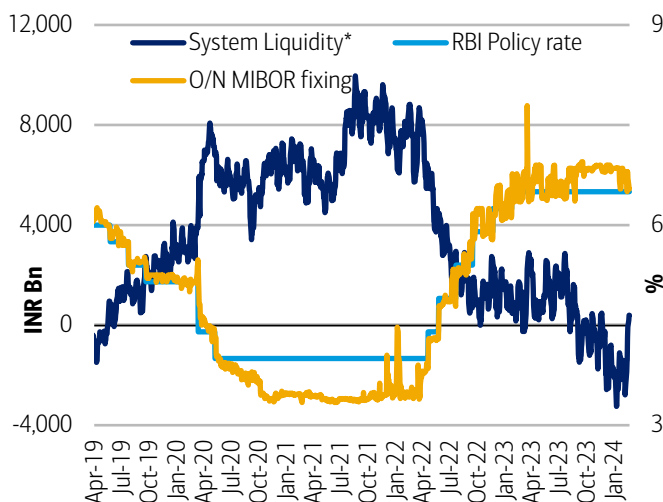


Source: Bloomberg

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Exhibit 5: Tighter onshore liquidity

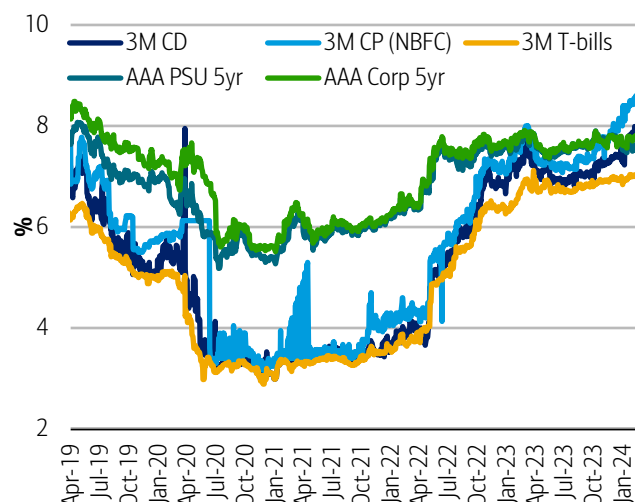
Banking system liquidity turned negative in late 2023, first time since Apr'19...



Source: Bloomberg

*System liquidity = Bloomberg India banking liquidity Index tracking the daily outstanding banking system net borrowing from the Reserve Bank of India (RBI) adjusted for banks' excess cash reserves held with the RBI

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Exhibit 6: Tighter onshore liquidity... along with O/N MIBOR fixings higher than policy rate as well as spike in short term CP/CD[^] rates

Source: Bloomberg

[^]CP – Commercial paper; CD – Certificate of deposit

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