

Corporate Bond Market

Market Outcomes

4.42 Figure 4.11 shows the time-series of the credit spread for the 1 year AAA bond. The corporate bond market is highly non-transparent; hence these trends should be treated as being indicative only. The credit spread for the AAA bond has risen steadily from June onwards, except for a slight fall in recent months. The credit spread for AA and A bonds has risen sharply in recent months, suggesting a sharp increase in the credit risk of second-tier firms.

Market Design

4.43 The most important recent development on the corporate bond market is the migration away from physical certificates into dematerialised holdings at the depository. This process began in 2000, but got major support from RBI's regulations:

- From October 31, 2001 onwards, banks, FIs, PDs and SDs were required to make fresh investments in bonds and debenture only in dematerialised form.
- By June, 2002, these entities will be required to dematerialise all outstanding holdings of corporate debt securities.

This led to a sharp rise in the stock and settlement of dematerialised corporate debt securities at National Securities Depository Limited (NSDL). Table 4.11 shows data for this time-series which focuses on the sum of corporate bonds and commercial paper.

TABLE 4.11
Corporate Debt Securities at NSDL

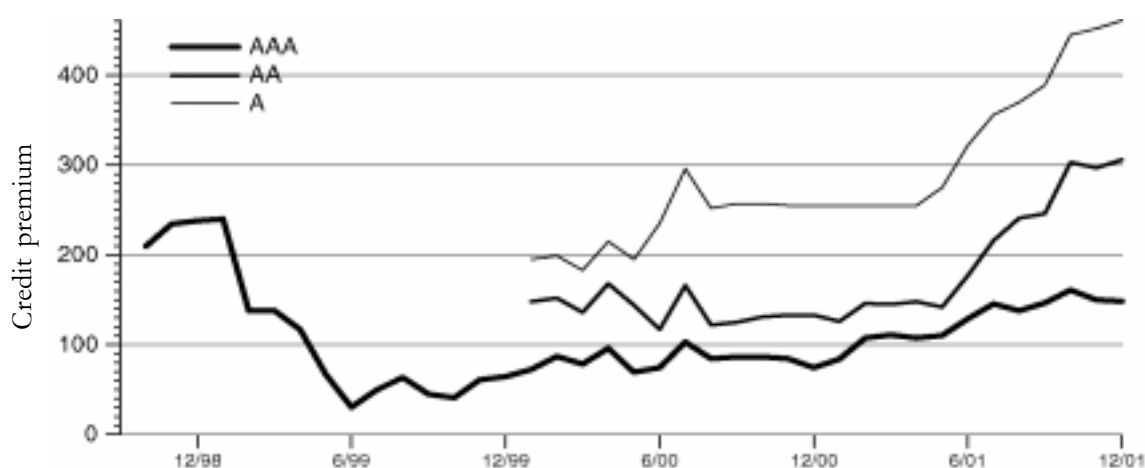
(Rs. crore)

Month	Dematerialised Stock	Settlement
October 2000	2,759	208
November 2000	4,585	288
December 2000	5,680	122
January 2001	6,313	355
February 2001	7,392	502
March 2001	7,960	609
April 2001	9,099	785
May 2001	10,331	813
June 2001	15,362	2,813
July 2001	18,938	2,770
August 2001	29,026	3,111
September 2001	37,689	3,930
October 2001	42,398	3,247
November 2001	54,099	8,508
December 2001	59,735	9,499

Source: NSDL

Fig. 4.11

Credit Spreads for the 1-year AAA, AA and A Corporate Bonds



Sources : Tower Capital & Securities, CRISIL and ICICI.

4.44 There is a sharp rise in the stock of dematerialised corporate bonds, from Rs.7,960 crore in March 2001 to Rs.59,735 crore in December 2001. Similarly, the volume of transactions settled in dematerialised form rose from Rs. 813 crore in May 2001 to Rs. 9,499 crore in December 2001. These values are expected to continue to grow till June 2002, by which time RBI-regulated entities have to completely eliminate physical bond certificates.

4.45 Table 4.12 shows a break-down of securities held and settlement taking place at NSDL as of December 2001. On the equity market, NSDL holds Rs. 3,16,040 crore of securities. This is 5.3 times larger than the stock of corporate debt held by NSDL. NSDL settled Rs. 12,051 crore of equity transactions in December 2001. This was only 1.27 times larger than the settlement done on corporate debt securities. Contrary to the common notion that

TABLE 4.12 Holdings and Settlement at NSDL (December, 2001) (Rs. crore)	
Holdings on December 31, 2001	3,78,664
Of which	
Equity	3,16,040
Corporate Bonds	48,284
Commercial Paper	11,452
Securitisation	2,888
Settlement in December, 2001	21,707
Of which	
Equity	12,051
Corporate Bonds	6,858
Commercial Paper	2,642
Securitisation	156
Source: NSDL	

corporate debt in India is extremely difficult to trade, a significant volume of such transactions are taking place.