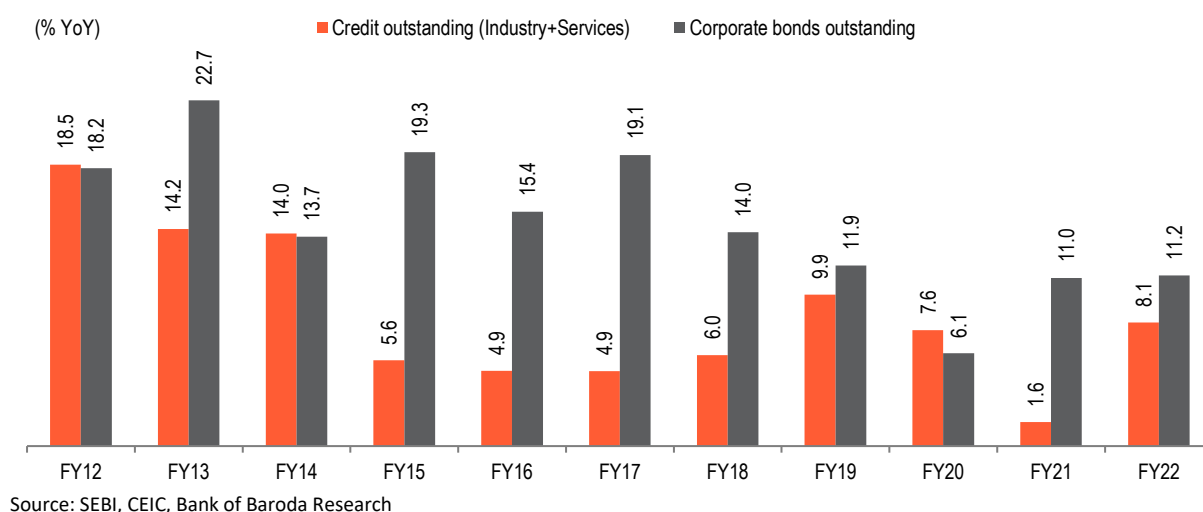
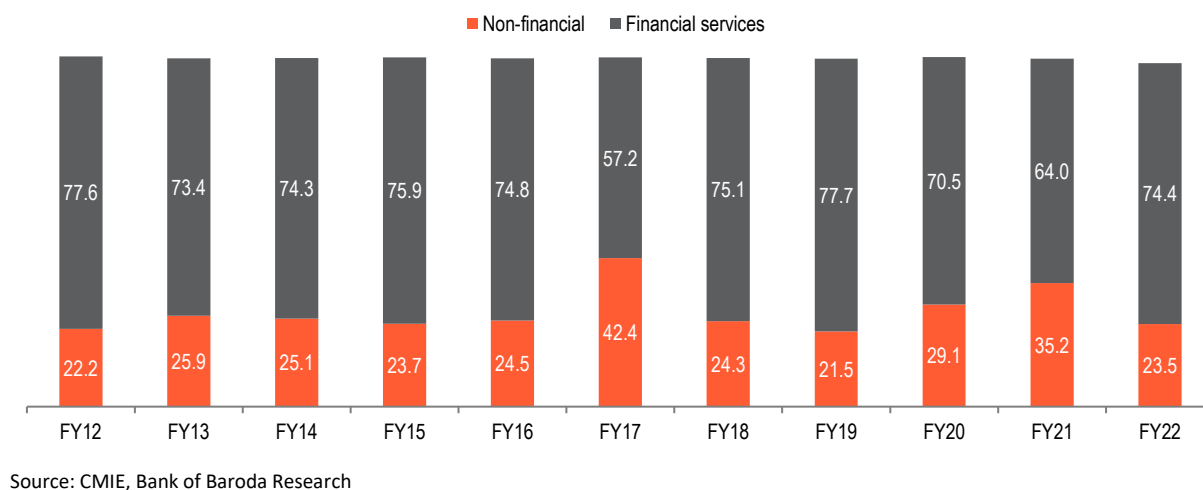


Figure 3: Growth in credit outstanding by SCBs and corporate bonds outstanding



However, this data must be viewed with caution. A close look at the funds raised through corporate bonds issuances shows that it is dominated by the financial services. In fact, financial services account for more than 70% of the funds raised through corporate bonds. Within this, banks, mutual funds and asset financing firms are the major players. For this segment funds are their raw material for business and hence the bond market becomes the preferred source of finance. Most of these larger companies also tend to have a rating of AA and above which makes it cheaper for them to access this market.

Figure 4: Sector-wise funds raised through corporate bonds market



On the other hand, in the non-financial segment, funds raised by manufacturing sector (Figure 5) by tapping the corporate bonds market has remained low and averaged about 5.6% between FY12 to FY22. On the other hand, share of services sector has averaged about 10% between FY12 to FY22. In the same period, share of electricity has averaged close to 7%.

the corresponding yield on the corporate bond, the borrower would prefer the lower cost bank borrowing and vice-versa. It must be noted that corporate bond yields closely track the movement in government bond yields. As a result, corporate bond yields across ratings and tenors rose sharply up to Jun'22 in line with higher G-sec rates, amidst inflationary concerns. However with easing commodity prices in Jul'22 and Aug'22, G-sec yields have softened. Consequently, corporate bond yields have also moderated.

Based on this, we can make the following observations:

- Companies with credit rating of "A and lower" generally have higher rates than bank rates. This hold true for both PSBs and PVBs. Hence, these corporates would benefit from bank borrowings as borrowing through bonds would be expensive.
- It holds true for "A+" rated companies to a large extent. However, in some cases like FY17, FY20 and FY21, bond yields have been lower than the corresponding MCLR for PVBs.
- For debt rated "AA-", barring FY17, PSB rates are generally lower than the bond yields, hence intuitively, PSBs remain a favorable option for finance. For PVBs however, lending rates have been typically higher till FY22. In FY23 there has been a change with MCLR for PVBs being lower, hence these companies can now look at financing through PVBs also as a viable option.
- In case of companies with credit-rating of "AA and AA+", PSBs can be preferred as they offer lower rates than corresponding bond yields. However, when compared with PVBs, bonds offer a cheaper finance option.
- For companies with the highest credit-rating i.e. "AAA", while historically bond issuances was the preferred source of lending due to lower rates, there has been a change in the last few months, mainly with respect to PSBs. While PVBs rate continue to be higher than bond rates, PSBs actually offer lower rates than bonds. However, admittedly the difference is very small to make a tangible effect on the funding decision.

Table 1: Comparison of corporate bond yields with bank lending rates

	1Y MCLR (PSBs)	1Y MCLR (PVBs)	10 Y G-sec	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB-
FY17	9.25	9.58	6.95	7.86	8.29	8.44	8.80	9.40	9.95	10.20	10.59	10.89
FY18	8.45	9.00	6.93	7.79	8.15	8.31	8.68	9.31	9.87	10.29	11.08	11.42
FY19	8.62	9.23	7.67	8.64	9.04	9.20	9.27	9.95	10.58	11.14	11.93	12.24
FY20	8.43	9.27	6.69	7.86	8.39	8.49	8.58	9.03	9.81	10.58	11.27	11.65
FY21	7.47	8.69	5.97	6.88	7.41	7.63	7.76	8.21	8.98	9.76	10.45	10.82
FY22	7.28	8.26	6.33	6.95	7.44	7.73	8.14	8.59	9.36	10.14	10.82	11.20
Apr-22	7.25	8.33	7.08	7.29	7.70	8.05	8.85	9.30	10.07	10.85	11.54	11.91
May-22	7.35	8.35	7.34	7.65	8.03	8.39	9.12	9.57	10.35	11.12	11.81	12.18
Jun-22	7.43	8.35	7.49	7.85	8.24	8.58	9.30	9.75	10.52	11.30	11.99	12.36
Jul-22	7.55	8.50	7.39	7.74	8.12	8.45	9.15	9.60	10.38	11.15	11.84	12.22
Aug-22	7.65	8.53	7.25	7.66	8.09	8.39	9.03	9.48	10.25	11.03	11.71	12.09

Source: Bloomberg, RBI, Bank of Baroda Research