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Views, Reflection and Erudition

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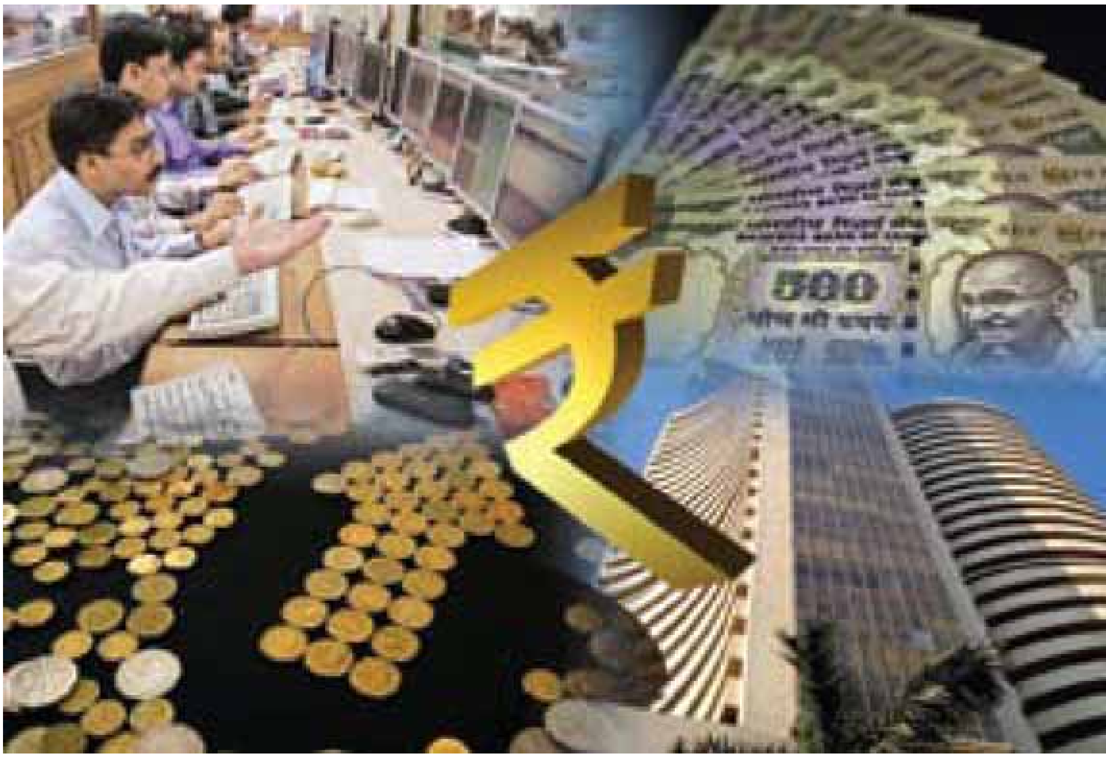

India's Emerging Corporate Bond Market: Potential and Challenges

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Preface

FICCI's 'Financial Foresights' is FICCI's Financial Sector's flagship quarterly research publication which aims to facilitate a comprehensive forum for dialogue amongst India Inc. and the government thereby providing necessary direction to policy makers and business processes. In the fourth year of its publication, Financial Foresights has gone a long way in providing valuable inputs to FICCI's extensive network of industry members and stakeholders on various critical issues concerning the sector.

Today, India has a very large and liquid forex OTC spot and derivatives market and a vibrant government securities market. However an active secondary market in corporate bonds is still missing. The importance of a flourishing corporate bond market cannot be undermined particularly in view of huge investment requirement of India's infrastructure sector that cannot be met by banks alone.

A number of constraints have limited the growth of the corporate bond market including overlapping jurisdiction of various regulators. Further, retail participation remains low due to lack of knowledge and understanding of bonds as an asset class and the number of participants in the market is relatively small. Life insurance companies and pension funds, which have incentives in investing for longer tenor, are governed by strict investment norms. Awareness among investors would take time to develop and it would require a great deal of effort in educating investors about the advantages of investing in debt instruments. It is in this context that through the voice of some of India's leading names in the financial sector, current issue of Financial Foresights takes a closer look at "India's emerging Corporate Bond Market: Potential and Challenges."

We look forward to your views and suggestions to help us improve the content of the digest and make it more relevant and informative.

Dr. A. Didar Singh
Secretary General
FICCI

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India Corporate Bond Markets

'Improving liquidity in the Mid rated corporate bond segments'

Mr. Saugata Bhattacharya
Senior Vice President, Business and Economic Research, Axis Bank

Almost a decade after the report of the R H Patil chaired Committee was released, the importance of a deep and liquid corporate bond market is quite self-explanatory. Although the numbers no longer look sacrosanct, financing India's infrastructure programme for the ongoing 12th Five year plan, for example, is estimated to require over a trillion US Dollars. In particular, urban infrastructure financing will need municipal bonds. Given the increasing constraints on Government funding and limits on bank financing, in part due to prudential and regulatory restrictions, an increasingly large share would need to be raised via corporate bonds. Corporate bonds would open up an additional avenue of funds for Small and Medium Enterprises (SMEs), and due to the need to get rated, would also make SME finances more transparent, with better governance standards.

Why, despite more than a decade of efforts to develop corporate bond markets in India, has there been relatively limited success? To get a sense of the deficiencies of Indian bond markets, it is helpful to get a perspective of developments, to understand which aspects need focus and the key steps needed to catalyze

Corporate bonds would open up an additional avenue of funds for Small and Medium Enterprises (SMEs) development. The bond market in India is dominated by Government securities, although corporate bond issuances have increased over the past few years. Yet, in comparison to many other emerging markets, the corporate bond market remains under-developed.

What does "market" mean? The bond market has two distinctively separate, yet integrated segments – primary and secondary. Each has their own set of stakeholders (players), and each is influenced by trends in the other.

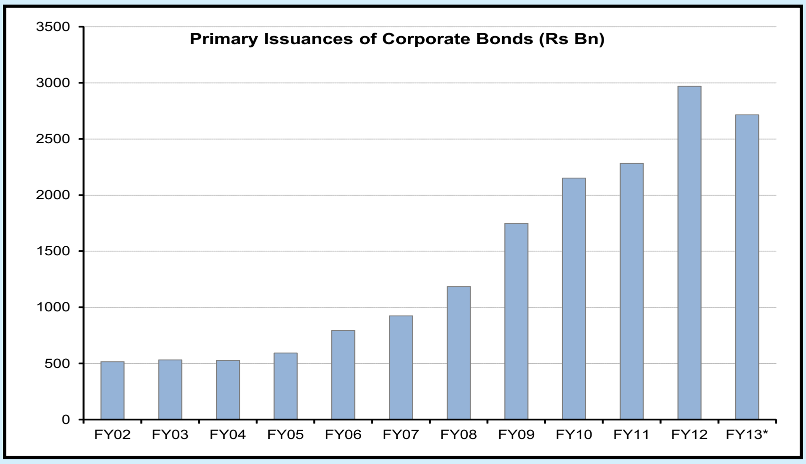
For high rated papers (AA and above), there is a fairly active market, both for primary issuances and trading. The unspoken reality is that speculative grade segments also have a largely informal Over the Counter (OTC), bespoke market, with investors – like HNIs, private equity and foreign NBFCs – willing to subscribe to high yield papers. The problem is the middle segment, which encompasses the bulk of potential development. Mutual Funds had been subscribing to part of this market in quest of yields for their Fixed Maturity Plans, but even these have gradually begun to taper as yields had started falling. . This includes infrastructure project Special Purpose Vehicles (SPVs), which, even if sponsored by a high rated corporate, are marked down a couple of notches. Moreover, small and mid-size borrowers are unable to access the debt markets

Primary Markets

Chart 1 shows that issuance of corporate bonds in the primary market have risen very sharply in the post financial crisis period, a combination of low interest post the financial crisis and thereafter the introduction of base rates for July 2010.

Tax free bond issuances have also attracted interest from retail investors. However, the bulk of issuances are via private placements (i.e., to less than 49 investors who are largely institutional), due to the less stringent disclosure requirements and consequently lower costs of issue. A move towards exchange listed bonds and public issues is the thrust of regulators worldwide, to make risks more transparent and encourage secondary market liquidity.

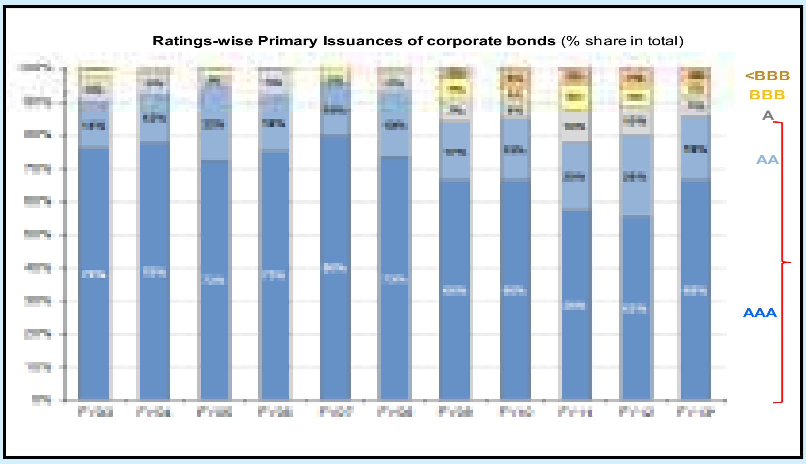
Chart 1: Primary issuance of corporate bonds



Despite this, India's bond markets remain relatively underdeveloped, even in comparison with many other emerging markets. While India's equity market capitalization (relative to GDP) is at par or better than most emerging markets, its corporate bond issuance (relative to GDP) remains significantly below levels of comparable peers. India's bond markets, moreover, remains dominated by Government bonds, both in primary issuances and secondary market trading.

Issuance in the primary markets is dominated by securities rated AA or higher (Chart 2). Initially, issues were mainly by high rated Public Sector Units (NTPC, SAIL, etc,), Financial Institutions (Power Finance Corporation, National Highways Authority of India, Rural Electrification Corporation, etc); Now other corporates – Tatas, L&T, etc - are active. One of the reasons was the introduction of base rate by banks, which prohibited the erstwhile practice of sub-prime lending rates. The ability to issue bonds at rates below banks' base rates was obviously an attraction. + increase in ECB loans + tax free bond issues).

Chart 2: Ratings wise primary issuance of corporate bonds



Secondary Markets

The key drawback of India's bond markets is a lack of liquidity. This however, needs to be qualified: that AA plus segments are sufficiently liquid (Chart 3), lower rated segments are the problem (98 percent of volumes are AA+ or above). A word of caution is also warranted: it is unclear how much of the liquidity is syndication (sell downs) and how are trading transactions. Primary subscribers, dominated by buy and hold investors, are not willing to trade.

High rated segments have been reasonably stable as well (Chart 4) except for the stressed financial crisis episode.

Chart 3: Corporate bond traded volumes

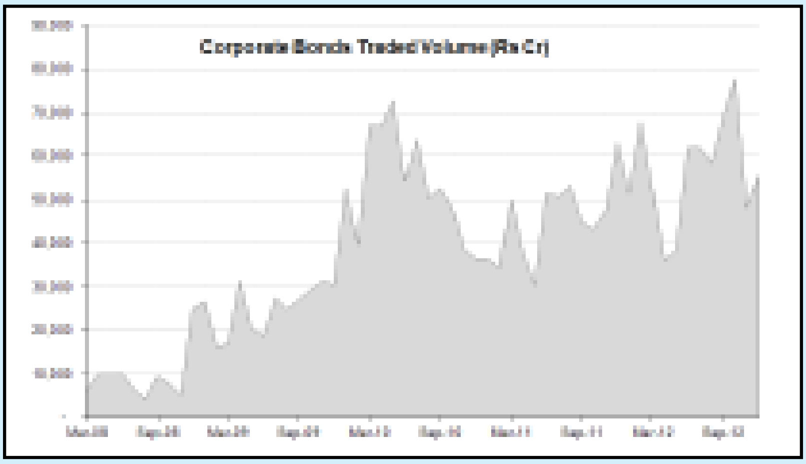


Chart 4: Spreads of Corporate debt over equivalent Govt securities

Policy Measures To Deepen Corporate Bond Markets

How can corporate bond markets be developed? The list of measures needed to deepen the market is by now fairly well known, and other articles in this volume will certainly discuss these in considerable detail. Issues like distortions in stamp duty rates, high withholding taxes, other tax issues, inadequate products for credit enhancement, etc., have been highlighted as inhibitors of market development. This article would like to emphasise a couple of generic shortcomings; the measures cited above inter alia have helped to mitigate these which, in turn, have led to development of financial markets, both in India (for certain segments) and abroad.

The first is that financial markets are characterized by information asymmetry. Investors invariably have more limited information. Amongst these, larger institutional investors have greater access to information, particularly banks, with their wide range of businesses and access to opinions from other credit lines available to the bond issuer. A related issue is the lack of pricing benchmarks, even in Government securities, where bonds are traded at only select maturities. Credit institutions, therefore, have an advantage, having access to credit spreads for bank loan pricing, which offers a benchmark of credit risk. Hence, timeliness and quality of information disclosure is critical for increasing investor confidence. Secondary market transactions are now required to be reported to market exchanges and most banks, insurance companies and Provident Funds are complying. Market making, therefore becomes very important in providing 2-way quotes. Unfortunately, banks are the largest intermediaries, but are more comfortable with loans as compared to bonds, given exposure to Mark to Market risk for the latter. However, some measures to incentivize Primary Dealers for market making are being considered, keeping in mind the credit risks which they would need to take on.

The second major factor inhibiting development of corporate bond markets is the inadequacies of a legal framework for recoveries in the event of a default. Given that default rates are higher in India than in even many other emerging markets, this causes an undue amount of risk aversion for investors. To the best of our understanding, non-banking investors of corporate bonds cannot take recourse to the Securitization and Reconstruction of Financial Assets and Enforcement of Securities (SARFAESI) Act and Corporate Debt Restructuring (CDR) mechanism is only for banks and financial institutions. This is keeping a major potential class of investors – Mutual Funds – away from corporate bonds. More generally for all financial instruments, the lack of a codified bankruptcy procedure has hampered the timeliness and ease of enforcement, adversely affecting recovery value. This lowers the credit appetite for lower rated instruments in the bond market. In this context, the establishment of a Resolution Corporation mooted in the Financial Sector Legislative Reforms Commission (FSLRC) is a very important recommendation.

Many steps have progressively been taken to deepen debt markets and ease issuance norms for corporate debt. There has been increasing liberalization of norms for investment in lower rated paper by insurance and provident funds. RBI, SEBI and IRDA have permitted the introduction of many new products. Repos in corporate bonds have been permitted, which is a key step to improve liquidity by using the bonds as collateral. Credit Default Swaps (CDS) in corporate bonds have been introduced. However, many of these products have not developed because of underlying problems in transactions structures.

The need to develop CDS markets, in particular, needs to be highlighted, since this is a tradable format for credit enhancement, which would mitigate a significant risk for corporate bond issuance. The problem for alternative credit enhancement mechanisms is that the two largest players in India's bond markets – banks and insurance companies, can each individually cover the two major risks for subscribers. Banks can take on credit risk, but with relatively short maturity deposits, cannot take on liquidity risk. Insurance companies, on the other hand, can take on liability risks, but be unable to cover credit risk.

India has developed a world class equities market infrastructure, with trading, clearing and settlement. Mumbai has the potential, with the large Indian economy as a catchment area, to develop as an International Financial Centre. The Percy Mistry Committee Report had identified missing markets – particularly what it called the Bond – Currency – Derivatives (BCD) nexus. The currency and derivatives markets have shown some signs of development and maturity, but bond markets – especially corporate bonds – have remained small and illiquid. A coordinated set of measures need to implemented to correct this very important segment of financial markets in India.

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Disclaimer: *The views are the authors' own and do not necessarily reflect those of the institution to which they are affiliated. Intellectual debt for some viewpoints in this article to Mr. Deep Mukherjee is hereby acknowledged.*

Saugata Bhattacharya
Senior Vice President
Chief Economist at Axis Bank

Mr. Saugata Bhattacharya is Senior Vice President and Chief Economist at Axis Bank.

He was a member of the RBI's Working Group on Operating Procedures of Monetary Policy and the Finance Ministry Sub-Group on Estimating Foreign Savings for the Approach Paper for the 12th Five Year Plan (2011).

He was previously with Unilever in India and with Infrastructure Development Finance Company (IDFC). He was educated at the Delhi School of Economics and Oxford University. He is a columnist for the Financial Express.

India's Emerging Corporate Bond Market: Potential and Challenges

Mr. D. R. Dogra, MD & CEO, CARE Ratings

Despite the remarkable progress made in the Indian financial markets over the years and with the country holding a place of prominence globally in the equity markets space, India's corporate bond markets have been by and large stagnant. They have not managed to build investor interest over the years and account for less than 5% of India's debt market. While some steps have been taken to make them more robust, there has been limited success.

This lack of progress and development in the country's corporate debt markets have all along been attributed to the host of issues and challenges that have besieged these markets. At the same time the highly favourable potential of this essential segment of the financial markets is well acknowledged.

The discussion here is centred on achieving the potential for the corporate bond markets and addressing the various issues and challenges that come in the way of the development and deepening of this segment of the Indian financial market.

Need and Potential

It is accepted today that the country's economic growth and development is dependant on the availability of adequate capital to meet its current and potential capital and funding requirements. This direct

India's Corporate Bond Markets have not managed to build investor interest over the years and account for less than 5% of India's debt market

dependence on capital for growth is all the more severe for a country like India which is primarily a developing country with a large population base. There are relatively large capital requirements to develop the economy. To put it in perspective, India needs $1 trillion alone for its underdeveloped infrastructure for the 5 year period till 2017 i.e. during the 12th five year plan period.

It is here that the various possible sources and avenues for funding the capital requirements come into focus. Traditionally, infrastructure project in the country have relied on government and bank funding. Given the inadequacies and limitations of both these sources, there is an urgent need to develop and promote alternate sources of funding for such projects. The government will be compelled to work within the FRBM norms of reining in the deficit and will not have elbow room to increase project spending. Private investments would thus necessarily have to play a greater role to fill this funding gap. Infact, the growing reliance on private investments can be gauged from the estimates of their contribution to the planned investment in the 12th five year plan period – private contribution is projected to be to the tune of one third (or $333 bn) of the planned investment. Herein lies the scope and potential for the country's corporate bond markets.

Even though, the corporate bond markets play an important role as an alternative source of funding, the bond markets account for less than 5% of the funds of Indian corporates. Businesses in the country are known to rely heavily on internal sources of funds (over 35 % of company funds in recent years as per the RBI data), to meet their finance requirements. Amongst its external sources, bank loans and advances comprise the largest quantum (at around 20%). These sources are however unable to wholly meet the finance demand of businesses, especially when it comes to longer term credit given the asset liability management issues. Given the growing need for large quantum of long term credit, the corporate bonds could serve as an effective and stable source of funds.

Moreover, the increased capital adequacy requirements that banks would have to adhere to in accordance with the implementation of the Basel III norms would necessarily limit the banks ability to provide capital to corporates and this would consequently increase the reliance of corporates on the bond markets. The urgency however can be gauged from the fact that India is presently in a low state of equilibrium and to move ahead, a big push is required which has to come from the infrastructure side with the requisite support from the financial sector, of which the bond market is an integral part.

A factor that can boost and aid in the development of India's corporate bond market is the existence of a well developed government securities (G-secs) market with a large investor base and sizeable amount of government debt. The country processes a reliable source for benchmark yield of risk (default)- free securities, a pre-requisite for a sound and vibrant corporate debt market. The G-sec market also ensures the existence of a developed structure for the debt segment in terms of market infrastructure and skilled personnel. However, the high diversion of funds into this segment has today come in the way of the development of the corporate debt market as banks typically prefer to invest in GSecs as they are risk free and also more convenient when it comes to meeting capital requirements. There evidently have to be changes made in the structure of these markets so as to grow the corporate debt segment.

Issues and Challenges

The country's corporate bond markets are beset by wide ranging problems and issues, all of which have curtailed the growth of this segment as an effective, alternative and stable source of funding for firms. Both the primary and secondary markets for corporate debt are fraught with a set of issues and shortcomings. Addressing these challenges would be necessary for the growth and development of the domestic corporate bond markets.

First, private placements tend to dominate the landscape of the corporate debt market in India. In case of the primary markets, nearly all of the debt raised (over 90%) is privately placed and public issues of bonds is rather miniscule, thereby limiting the quantum of bonds

available for circulation and trading in the secondary markets. The reasons for this includes lack of adequate participation in public issue and the relatively stringent regulatory requirements associated with public issues that entail costs and time on the part of the issuers (borrowers) of debt. Also, these markets are seen to be dominated by financial institutions i.e. NBFC and other financial institutions, which further make it difficult for corporates, especially those who do not enjoy high credit rating to source funds from public bond issues.

Second, the secondary markets for corporate bonds are severely constrained by the lack of liquidity and transparency. The lack of liquidity in these markets has been an inhibiting factor for its development. To add to that, the investor base is limited. It is the institutional investors such as banks, insurers and pension funds that dominate these markets. And all these players are typically long term investors who buy and hold and do not enter the secondary market. Retail investors are almost absent from these markets. Moreover, it is only the higher rated papers, bearing ratings of AAA or AA+, that see some investor interest. The low investor base also increases the cost of issuance.

As a result of the above two, i.e. a majority of debt being privately placed and the consequent lower availability of bonds for trading in the secondary markets, the price discovery process is not satisfactory. The corporate bond markets lacks a benchmark yield curve across maturities, chiefly owing to lower availability of bonds by favoured/trusted issuers, which in turn impacts pricing and liquidity in the secondary markets.

Third, the limited investor base for corporate bonds can also be attributed to the investor preference for government securities. The huge quantum of government borrowings i.e. supply of G-secs, coupled with regulatory requirements of mandatory investments in these by various financial institutions effectively leaves lesser amount of money in the markets and thereby crowds out investments from the corporate debt segment. The G-secs have emerged as an attractive investment avenue for its holders, registering high turnover and exponential growth of around 20% (CAGR) in the last 4 -5 years. In sharp contrast, the turnover in the secondary markets for corporate debt is negligible, at around 5% of the turnover of the government securities market. It would indeed be a challenge to initiate a shift in investor preference from G-secs to corporate bonds.

Further, there are several regulatory restrictions that curtail investments of institutional investors in the corporate bond markets. Banks for one are not permitted to invest in below investment grade securities. Likewise, insurance companies and pension firms are constrained by various norms that stipulate/ govern their investment in corporate bonds, which severely limit their investment options in such bonds.

Fourth, although there exists a fairly well developed market infrastructure for G-secs, we need similar structures to strengthen market structure for corporate bonds. Participants need to have access to live pricing and trading markets along with ease in transacting. This would help enhance transparency and strengthen the markets. The setting up of such platforms on stock exchanges will definitely help to create interest and facilitate participation, though it needs to be supplemented with an education drive across the retail segment.

Fifth, the absence of a standard stamp duty rate across the country as well the maximum amount payable and the charging of TDS on corporate bonds are major impediments for the developments of the nation's corporate bond markets. There is thus need for a comprehensive regulatory framework that is conducive to the deepening of the domestic corporate bond markets.

Sixth, market makers are essential to the development of any market as they assume the risk by providing both 'buy and sell' quotes. They help markets grow and evolve. This has been witnessed in both the equity and GSec segments where market makers have added value by enhancing the depth of the markets. The Indian corporate debt market segment does not have market makers who could add diversity to the markets.

Markets makers should be encouraged in the corporate debt market space and provided with backing and incentives in terms of finances and supply of securities, for the much needed development in these markets.

Seventh, there is a distinct lack of awareness, knowledge and understanding of bonds as an asset class is also a reason for low retail participation. Inadequate information or information asymmetry pertaining to the issuer and instrument have been factors that keep retail investors at bay. Two challenges are in educating the investors about these markets and then bridging the information asymmetry gap. For the first, there has to be an outreach programme launched by the regulator and exchanges and for the second, the credit rating agencies have a role to play. Credit rating agencies could help bridge the information asymmetry through their independent third party assessment.

Various aspects associated with these securities such as minimum lot size, high transaction costs and illiquidity too hamper the involvement of retail investors in these markets.

The way forward

There is basically a five-point prescription here. First, the issue of regulatory overlap should be addressed. SEBI regulates the capital market, while RBI oversees banks. IRDA decides on how insurance funds operate while the PFRDA regulates the pension funds. The motivations for each and every authority are different as they seek to maintain the credibility of their domain. But this has come in the way of the debt market as the participants. There is need for concerted and co-ordinated action on the part of these regulatory authorities for the overall development of financial markets (particularly bond markets) in the country whilst retaining their independence and decision making capacity within their domains.

Second, banks have to play a key role in the development of the debt market. Today, companies prefer to borrow from banks and vice-versa. This has inhibited the growth of the debt market. Banks prefer these conventional channels as it helps them to eschew the issues of marking-to-market (MTM) for its bond portfolio. A way out is to route all long term borrowings into bond issues by making debt instruments more attractive with appropriate convertibility and exercise (call/put) options and supporting credit enhancements.

Third, market development requires introduction of simple products. It is suggested that the bond market, both for Gsecs and corporate bonds, should go for simple, 3 months, 1 year or 2 year products with simple futures products too. There is also need for multiple hedgers, traders and arbitragers to build on the liquidity in the market. On trading system, debt market should have an order matching system much like the one for equities and for gilts. Corporate bond market remains a broker driven market. Order matching system results in greater transparency. To develop the corporate bond market many people have suggested that Indian debt market has this order matching system.

Fourth, administrative issues relating to issuance of debt needs to be addressed next. Presently, the plethora of disclosures does act as a deterrent and we need to revisit this area considering that most of these companies are well known for the investing community. The high cost of disclosures has been one reason for preference from private placements instead of public offers which has come in the way of the development of this market. The procurement of credit rating, which is mandatory, does bridge the information asymmetry that exists between potential investors and the borrower, which can be used to reduce the number of disclosures.

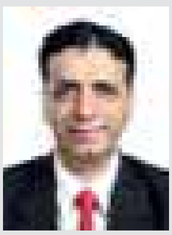
Also, there should be rationalization of stamp duty to be paid for both the corporate bond and securitization markets and such standardization will address the concerns of potential

Corporate bond market remains a broker driven market. Order matching system results in greater transparency. To develop the corporate bond market many people have suggested that Indian debt market has this order matching system

issuers of debt. It should be realized that corporates will be indifferent to raising money through the debt market or banks, provided the costs – both monetary and convenience are low.

Last, the secondary market is not well developed as yet as there has been a tendency for lenders to follow the policy of – buy and hold, which ensures that such paper does not enter the secondary market for sale. A way out to increase activity would be to offer tax incentives as is offered on equity sale in terms of capital gains so that there will be more activity in this market. In terms of borrowers, the involvement of retail segment is essential as has been observed in case of the equity segment. Currently, the retail segment is not present directly in a big way and comes in more through the mutual fund route. This definitely needs to change which will happen once there is more paper in the market and there is more investor education.

The story of the under-development of the corporate debt market is quite old now. While a lot of these recommendations have been made in the past and some implemented, there has not been much progress. However, it is felt that given the large quantity of funds that are needed to push forward the growth rate of the economy to the 8% plus region, we do need to see heightened activity here or else the steady state growth path cannot be achieved as the existing channels of long term funding i.e. banks, FDI, ECBs have their own limitations and we may be close to reaching the sustainable limits within these domains. One may tend to believe that developing the corporate bond market is a necessity and no longer just an option.



D R Dogra
MD & CEO
CARE Ratings

Mr. D R Dogra has over 34 years of rich experience in credit rating, commercial banking and extensive knowledge about functioning of the corporate sector. Being one of CARE's first employees and an integral part of the top management since 1993, he has overseen the strategic growth and development of the company over the years. His passion and dedication is greatly responsible for the successful growth and development of CARE from a small spin off to a leading credit rating agency in the country.

Mr. Dogra holds a post-graduate degree in Management from FMS, University of Delhi. He is a gold medalist in his Post-Graduate Degree in Agriculture from Himachal Pradesh University. He is also a Certified Associate of the Indian Institute of Bankers. Prior to joining CARE, Mr. Dogra held several positions in a leading Bank for over 15 years.

India's Emerging Corporate Bond Market: Potential and Challenges

Shri Shyam Srinivasan, *Managing Director & CEO, Federal Bank &*
Mr Ravi Ranjit, *Chief Manager, Federal Bank*

In the recent past, we have seen coordinated efforts from the various authorities towards developing of corporate bond market in India. A deep and broad corporate bond market still remains the desired objective of the policy makers and market participants, but it continues to remain elusive so far. A well developed debt market improves the efficiency of the capital allocation and is vital for our economy which is striving hard to lift itself into the next stage of growth. Presently, in India, we have a well developed G-Sec market but the corporate bond segment has not grown near to its potential so far.

Current Stage of Corporate Debt market in India:

In India, the corporate bond market is around 12% of GDP, which is lower than that in many of the emerging economies. It is being dominated by banks, mutual funds, pension funds, primary dealers and corporate entities. The retail participation has been significantly lower but it is getting better with coordinated efforts of all concerned. For FY 13, the total issuances in this segment amounted to Rs. 3.88 lakh crores. This presents a growth of 25% over the FY 12 issuances. Private placements, as a mode of issue, are preferred due to ease of raising funds. Over the

A well developed debt market improves the efficiency of the capital allocation and is vital for our economy which is striving hard to lift itself into the next stage of growth

years, nearly 90% of the total issues have happened through the private placement route. The issuer profile is seen concentrated to banking and finance space and a few AAA rated corporate. RBI, SEBI, IRDA and PFRDA are regulatory authorities available in the market. The implementation of various market development measures by the regulator has resulted in the emergence of higher trading volumes and depth in the market. The trading volume has increased from 1.48 lakh crore in 2008-09 to Rs. 7.38 lakh crore in 2012-13, registering a CAGR of 38%.

The trading volume in this segment in the first quarter of FY 14 stood at Rs. 3.19 lakh crore and seems poised to surpass the previous year's figures by a fair margin. The growth in the market segment can be attributed to a host of development measures such as DVP settlement, implementation of reporting platforms and reforms in listing norms. The foreign investment limit in corporate bond market is USD 51 billion which comprises of USD 25 billion for FIIs in corporate bonds, USD 25 billion for FIIs in long term infra bonds and USD 1 billion for QFIs.

Challenges being faced by corporate bond market:

Lack of liquidity and the lack of broad based investor participation continue to be the main challenge faced by the market. Liquidity in corporate bond market is affected on the supply side by the non-diversified nature of issue base as well as a lack of issue offerings on an on-going basis. On the demand side, lack of active investor participation, including retail investors, continues to be a challenge. This is primarily attributable to lack of transparency.

The low level of information dissemination results in sub-optimal assessment of investment risks and serves as a deterrent for prospective investor participation. The issues in the corporate bond market are still concentrated in the banking and financial institutions category followed by finance companies. Add to this the fact that most of the placements happen privately, the supply side in secondary market is still limited and results in poor price discovery across maturities. The Indian debt market is still away from the desired level of sophistication required in the forward looking assessment of cash flows and prospects of repayment. Even institutional participants prefer collateralized lending rather than assessing unsecured debt.

Liquidity in the market is determined by issuances in the primary market on a regular basis as well as active participation by investors resulting in vibrant secondary market that circulates the instrument through the economy.

On the demand side, lack of active investor participation, including retail investors, continues to be a challenge. This is primarily attributable to lack of transparency. The low level of information dissemination results in sub-optimal assessment of investment risks and serves as a deterrent for prospective investor participation

In this regard, the consolidation of corporate bond issues can considerably improve liquidity. Lower liquidity in the market results in a higher liquidity premium in the yield, resulting in higher cost of debt. Greater participation by investors improves liquidity and results in better price discovery which in turn results in lower cost for both sides of the market. Currently, the Indian investor profile is dominated by institutional players from banking and finance. Among these, insurance companies and pension funds typically tend to hold the investments till maturity. Secondary activity by FIIs is also limited. This drastically reduces the investor participation in secondary market to banks and mutual funds. The market making capacity of banks and PDs is limited in corporate debt market because of the credit risk associated with carrying a large stock of corporate bonds for market making in their books. Also the higher government borrowing, limits the exposure of these entities to corporate bonds. It may also be noted that highly rated bonds populate the issuances indicating a lack of appetite for riskier lower rated bonds. Apart from the lack of sophistication of debt markets pertaining to the assessment of risks associated with lower rated entities, the arranger apathy towards underwriting lower rated bonds compounds the problem. These factors limit SMEs from accessing the bond market for raising capital.

Another technicality that hinders the emergence of a sophisticated corporate bond market is the absence of a full fledged risk-free term structure of interest rates. Though government bond for longer maturities are issued, a smooth yield curve is not available as trading is limited to relatively shorter maturities. This is self evident in the flat nature of the curve in longer maturities. While pricing any instrument issued by private or quasi-sovereign entities, a spread is applied over the risk free interest rates for discounting the cash flows associated with the instrument. The spread can be thought of as comprising of a credit risk component, a liquidity risk premium and an adjustment for any option feature. The absence of a market determined benchmark yield curve across maturities leads to pricing difficulties. Moreover, the preference for longer term bonds results in fewer price points in short term maturities. This further makes pricing of a shorter maturity lower rated bonds very difficult.

An added challenge before the emerging market from the investor's perspective is the absence of an effective and reliable bankruptcy redressal structure. In the event of bankruptcy, the amount and speed of recovery remains a concern in the minds of the retail investors. Comprehensive measures and policies need to be adopted which ensure faster resolution of bankruptcy cases. Reforms in bankruptcy laws, insolvency regime

for banks and financial institutions, legal systems that serves as a disincentive for corporate entities to adopt excessively risky projects on debt etc. are steps which can instill confidence in investors' minds.

The lack of development of associated derivative market like Credit Default Swaps (CDS), Interest Rate Futures (IRF), is yet another shortcoming. These derivative instruments serve as tools to hedge against market risks and credit risks in the underlying market. Globally, the experience being that a liquid derivative market adds to the depth of the underlying market and aids efficient price discovery, One can suspect that the issues surrounding the term structure of interest rate and lack of broad based participation in this segment have thwarted the repeated attempts by the regulators to build a derivatives market.

It may also be noted at this juncture that the repo market in corporate bonds has not really developed. This can be attributed to lack of broad based institutional participation and legalities associated with signing of agreements. Successful development of interest rate derivative market will play a key role in further developing the emerging corporate debt market. A vibrant derivatives market where credit risk products get actively traded can distribute risks much more efficiently throughout the economy. A ready market for hedging credit risks can take a long way forward in meeting the objectives of the developing a corporate bond market.

The corporate bond market will show signs of maturity only when SMEs and lower rated corporate entities are able to access the market for their debt requirement. A market in which SMEs and like corporate entities are able to meet savings and investment requirement, broadly spread across the economy could well be an ideal goal post for our emerging market. To equip SMEs and lower rated corporate for this market, suitable credit enhancement mechanism need to be set up. A simple mechanism may be to allow banks to offer credit enhancement by way of guarantees, credit facilities etc. However, this may fail the macro objective of distributing the credit risk efficiently by concentrating the same on banking industry again. Further, it may also fail the desired level of sophistication in analyzing and assessing credit risks. However, the structure may be set up in which credit enhancement can be provided by institutions outside the banking industry.

Developing market infrastructure, as to promote safeguards and a transparent market place can serve as a catalyst to further evolve this market. Creation of a comprehensive and centralized database with all data on the individual issuances will improve information dissemination and better market transparency. Transparency also needs to be enhanced when it comes to credit rating, rating migration etc. especially in the case of SMEs. Disparities in stamp duty across various states also need to be addressed in this regard.

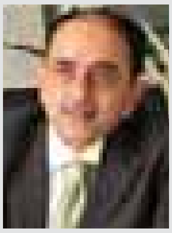
Potential of a well developed corporate bond market:

A well developed corporate bond market can prove to be a critical factor in meeting the infrastructure financing requirement. Historically, the Indian financial system has relied on banking and other financial institutions for infrastructure financing. However, commercial banks have an inherent asset-liability mismatch which makes it difficult for them to meet the demand for long term project funding. Moreover, the globalization and consequent interlinking of financial markets has necessitated a well diversified system in financing the corporate sector. A well developed corporate bond market will help to shift the concentration of credit risk away from the banking sector enhancing financial stability, diversified distribution of risks and enhanced ability to withstand economic shocks. The potential financing needs for our infrastructure development is enormous and can be met by active private sector participation only. As a corollary to a full hedged bond market, a municipal bond market along the lines of those prevalent in USA if developed, can aid the infrastructure development majorly.

Developing the market as a source of financing for SMEs is the next major evolutionary phase through which the market needs to be guided. Enabling our SMEs to access the corporate debt market might result in a boom in activity in the sector and consequent employment generation. SME participation coupled with strong bankruptcy redressal structure can also provide excellent long term instruments for investment by retail investors. Also the disclosure requirement and corporate governance practices, mandated and monitored by market place will result in a transparent and healthier SME sector. Industry associations need to initiate steps to educate and encourage SME participants into the market. FIMMDA and other market bodies need to conduct investor campaigns on a regular basis so as to spread the awareness among the investing public. It may be noted at this point that a similar focus on developing Indian equity market during the 1990s has yielded good results with our exchanges and market figuring in top positions in various parameters. A similar concerted effort in developing the corporate debt market will certainly prove fruitful.

Further developing the corporate market can mitigate the shortcoming in the financial system and help promote financial stability. In the current scenario, when India is facing the current account deficit problem and the external capital inflows are seen as part of the solution. However, relying on external borrowings by the corporate sector, though at lower cost, can later prove to be a transmission line of global financial shocks to the Indian economy. The sharp depreciation of INR in the recent past is likely to weigh down the earnings of corporate having un-hedged external liabilities. The banking sector cannot adequately support long term financing requirement of the economy given the asset and liability mismatch in their balance sheets. The risk of exposure associated with such financing can affect the ability of the banking sector to withstand stress during financial shocks. A well developed corporate bond market can prove to be a source of long term capital and will help shift away the credit risk related shocks from banking sector in times of stress. A full fledged domestic market can reduce the reliance of our corporate sector on external debt, thereby reducing the exchange and liquidity risks associated with external funding sources.

Further down the line, attempts may be made to build and revive the associated interest rate derivatives market, credit risk derivative market and securitization market. All these developments together can lead to a vibrant and holistic debt market where efficient allocation of resources happens and risks are fairly priced. Many of the issues and challenges which we have discussed cannot be addressed on a cause and effect basis but rather can get solved only when the market gets going completely. A smooth and reliable yield curve may self evolve once the market sees all-round participation from the economy and all associated functionalities as discussed above get activated. The policy initiatives from RBI and SEBI are showing signs of fruition and further efforts can lead to a vibrant market which in turn can take us a step closer towards the goal of financial inclusion.



Shyam Srinivasan
Managing Director & CEO
Federal Bank

Shri. Shyam Srinivasan has taken charge as the Managing Director & CEO of the Bank with effect from 23rd September 2010. He joined Federal Bank after having worked with leading multinational banks in India and overseas across Middle East, India and South East Asia, where he has gained significant experience in retail lending, wealth management and SME banking.

Before joining Federal Bank, Shyam Srinivasan was with Standard Chartered Bank, the largest foreign bank in India, where he was responsible for strategy, development and management of the bank's Consumer Banking Business spread across a large network of branches in India, employing over 6,000 people.

Prior to that, he was Country Head of Standard Chartered Bank's Consumer franchise in Malaysia, where he focused on broad-basing the revenue streams and delivered significant increase in profitability while developing a strong team of local professionals.

Shri. Shyam Srinivasan is an alumnus of the Indian Institute of Management, Kolkata and Regional Engineering College, Tiruchirapally. He has completed a Leadership Development Program from the London Business School and has served on the Global Executive Forum (the top 100 executives) of Standard Chartered Bank from 2004 to 2010.

Ravi Ranjit
Chief Manager and Head-Treasury Sales
Federal Bank

Mr. Ravi Ranjit is the Chief Manager and Head-Treasury Sales in Federal Bank. Worked as Chief Dealer (Forex) in Treasury and also experience in International Trade Finance in various branches . Have been following the G sec market closely and also the emerging Indian corporate bond market. Take active and keen interest in understanding the nuances and possibilities in this segment.

A Bachelor of Technology from Kerala University in Electrical and Electronics Engineering, have completed CAIIB of IIBF and PGDBA from SCDL, Pune. Interested in cricket, travelling, listening to melodies and mentoring juniors.

India's Emerging Corporate Bond Market: Potential and Challenges

Mr. Puneet Nanda, *Executive Director,*
ICICI Prudential Life Insurance Company Ltd

A well-developed capital market, comprising both equity and corporate bonds, plays a crucial role in supporting economic development and hence its importance cannot be undermined. A vibrant corporate bond market provides a stable source of finance in addition to equity market funding. Corporate bond market can also help firms, reducing their overall cost of capital by allowing them to customize their asset and liability profiles. Currently, the Indian corporate bond market has a number of shortcomings where private placements dominate in an overwhelming manner and suffers from lack of a transparent market making mechanism. The secondary market is thus prone to low liquidity, information asymmetry and consequent pricing anomalies. In short, the problem stems both from demand side and supply side.

Traditionally, bank loans have been the chief source of capital for Indian corporates. Even in the bond market space, companies tend to choose to place maximum amount through private placement to save on issuance costs. However, the financial crisis of 2008 and the Asian financial crisis of 1997-98 underscored that the banking system cannot be the predominant source of long-term investment capital without making an economy

A vibrant corporate bond market provides a stable source of finance in addition to equity market funding. Corporate bond market can also help firms, reducing their overall cost of capital by allowing them to customize their asset and liability profiles

vulnerable to external shocks. For the year ending March 2013, Infrastructure sector constituted only 16% of the total corporate bond issuances, which is worrying. India would need close to $1.2 trillion for development of infrastructure sector as per the 12th Five Year Plan (2012-17). Further, Small and Medium Enterprises (SMEs) do not tap the corporate bond market and rely on banks and other funding options. Corporate bond market has the potential to provide them an avenue of alternate source of funds.

On the demand side, problems include regulatory restrictions on institutional investors such as banks, insurance companies and pension funds who are governed by strict investment norms. For retail investors, lack of knowledge and understanding of bond market act as constraints thereby restricting their participation in corporate bond market in any meaningful manner. However, participation of retail investors in tax free bond issuances by public sector entities has been an exception, in contrast to their absence from corporate bond market in general.

Comparison to other economies

The following chart gives the estimates of government and corporate bond outstanding as a percentage of GDP for Asian economies:

Table 1: Size of local currency bond market in % GDP

Date	Market	Govt (in % GDP)	Corp (in % GDP)	Total (in % GDP)
Mar-13	South Korea	48.7	77.5	126.2
Mar-13	Malaysia	62.4	43.1	105.5
Mar-13	Singapore	53.1	37	90.1
Mar-13	Hong Kong	37.8	31.4	69.2
Mar-13	Japan	197.2	17.8	215
Mar-13	Thailand	58.6	15.9	74.5
Mar-13	China	33.1	13	46.1
Mar-13	Philippines	32.2	4.9	37.1
Mar-13	India	40.2	2.4	42.6
Mar-13	Indonesia	11.4	2.3	13.7

**Source: http://asianbondsonline.adb.org/regional/data/bondmarket.php (accessed July 2013)*

In India, the proportion of bank loans to GDP is approximately 36%, while that of corporate debt to GDP is still in low single digits. The size of the Indian corporate debt market is very small in comparison to both developed markets as well as some of the other major emerging economies. Indian corporate bond market clearly has a long way to go.

Supply side dynamics

Currently, the corporate bond market is very concentrated in terms of issuers and nature of issuances. Corporates have traditionally preferred private placement route over public issues because of operational ease and speed of raising funds. The following table provides the sector wise share of corporate bonds in major sectors:

Table 2: Sector wise share of corporate bonds

Year	Finance	Manufacturing	Infrastucture	Others
2008-09	65.36%	9.90%	16.75%	7.99%
2009-10	64.69%	14.11%	14.99%	6.21%
2010-11	64.24%	8.17%	21.36%	6.23%
2011-12	74.01%	8.68%	10.79%	6.52%

** Source: NSDL website*

The figures in the table above clearly bring out the fact that corporate bond market in India is very shallow. Further, it is primarily driven by the entities in financial sector like banks, non-banking finance companies and other financial institutions. Also, an interesting thing to note is that the share of infrastructure bonds has been volatile and is lower in 2011-12 compared to 2008-09. Also, the proportionate share of corporate bonds issued by the manufacturing sector has traditionally remained low, indicating a lack of interest in meeting the financing needs through the bond route and also highlighting the nature of the economy that is primarily driven by services.

Demand side dynamics

Major investors in corporate bond market include banks & financial institutions, insurance companies, pension funds, provident funds, mutual funds and foreign institutional investors (FIIs). Of these, most of the players are governed by strict investment norms in corporate bonds.

Recently several steps have been taken to relax some of the investment norms and thereby broadening market participation. For example, for provident funds, the limits for public sector and private sector bonds have been merged together and the combined limit for central and state government debt has been increased to 55%. In addition, provident funds

Table 3: Outstanding FII investment limit in Indian fixed income market

Billion	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Jun-13
G-Secs	5	5	10	10	15	25	30
Corp.	6	15	20	40	45	51	51
Total	11	20	30	50	60	76	81

** Source: SEBI website*

can now investment in all AAA rated corporate bonds. Previously they were allowed to invest in only certain select AAA rated corporate names.

Role of FIIs is important for both equity and debt markets. Although, FIIs have been active participants in Indian equity markets, their participation in fixed income market has remained relatively muted primarily owing to the investment restrictions in fixed income market. Over the last year or so, Government has taken several initiatives to attract foreign funds into the bond market. FII limits have been increased in the recent past as seen in the table below. In addition to this, the sub-limits on FII investments have been removed to simplify investments.

Recent Initiatives

Recently various measures have been taken by the government and other domestic regulatory bodies to spur investment in corporate bonds. In addition to the measures taken for boosting FII sentiment mentioned above, RBI has allowed standalone primary dealers to obtain funding and invest more in corporate bond markets. Primary dealers can now borrow up to 50% of their net owned funds in overnight call money markets for investment in corporate bonds. Previously primary dealers were not allowed to do so in call markets, though they were able to borrow up to the same amount in money markets of other maturities e.g. through issuance of commercial papers .

A significant step in development of the market is allowing corporate bonds as collateral in repo agreements. In January 2013, RBI allowed three more instruments including commercial papers (CPs), certificate of deposits (CDs) and non-convertible debentures (NCDs) of less than one year; to qualify as collateral for undertaking repo auction route in corporate bond market. RBI also reduced the minimum haircut[1] in different rated corporate debt securities. For AAA rated paper, it decreased the haircut from 10% to 7.5%.For AA+ rated paper, RBI made it to 8.5% as against 12% earlier and 10% for AA rating compared to 15% previously. Meanwhile, RBI has permitted the use of credit default swaps (CDS) on unlisted but rated corporate bonds in addition to listed corporate bonds. Moreover, one can now apply CDS on CPs and CDs with original maturity up to one year, as well as NCDs with less than one year residual maturity. The Central Board of Direct Taxes (CBDT) allowed some of the Public Sector Undertakings (PSUs) and financial institutions such as NHAI, IRFC, IIFCL, HUDCO, NHB, PFC, REC, JNPT, Dredging Corporation and Ennore Port to issue tax-free bonds. These bonds witnessed healthy participation from the retail segment.

Way ahead

Even though a series of initiatives have been taken to boost the corporate debt market in India, the market is still at a very nascent stage and requires further development to place India at par with other emerging economies. Some of the initiatives that could be considered are:

- **Tax Incentives:** Incentives such as tax breaks on interest income to retail investors for some years will go a long way in broadening the investor base. Such a move will initially incentivize them to invest in corporate bonds and once they are familiar with the instrument, they would be able to realise the pros and cons of the instrument and thus dedicate a suitable portion of their investment portfolio to corporate bonds over a longer term.
- **Alignment of taxation rules:** The taxation for fixed income returns in the hands of investor is very different depending on the vehicle used to invest the money. Investment in fixed income market through mutual fund is a much more efficient route as compared to direct investment in a comparable fixed income instrument. Individuals and Companies will be encouraged to invest directly in corporate bond markets in case the taxation rules are at par across investment vehicles.
- **Procedural ease:** Measures to further simplify documentation and disclosure requirements for companies which are listed on any of the Indian stock exchanges, can be taken to reduce the cost and length of the issuance process and encourage more public issuances.
- **Rationalization of stamp duty:**

[1] Haircut is an adjustment to the quoted market price of collateral security to take care of any unexpected loss that the lender may face while selling the security in response to a default by the borrower

Stamp-duty charged across various states on corporate bond issuance is not uniform thus causing friction in the market. It would be desirable to have uniform stamp duty charges across various states in order to make it procedurally simpler for issuers of corporate debt.

- **Trading Platform:** Till date the corporate bond market is primarily an over the counter market where deals are done using telephone lines. Recent initiative by recognized exchanges to start fixed income trading and settlement on exchanges is a welcome move. This platform can be popularized amongst various investors to attract them to transact by initially providing some incentive like zero transaction cost.
- **Appointment of Market Makers:** Just like we have market makers in government bond markets, government can appoint market makers for corporate bonds. These market makers can be entrusted to put two way quotes on trading platforms that in turn can be accessed by various investors and used to trade in corporate bonds.
- **Guarantor for Corporate Bond Repos:** Currently the corporate bond repos are as per the agreement between counter-parties and are not guaranteed by a third party. Unlike this, the government security repos are guaranteed by Clearing Corporation of India Ltd (CCIL). Lot of entities are not able to undertake corporate bond repos for this reason as in the absence of the guarantee by a third party the underlying security is treated as the exposure of the lender, which in turn restricts the ability of some entities to undertake such repos. In line with the appointment of market makers, if a guarantor of corporate repos is appointed as well, it will broaden the market for repos and also simultaneously reduce the cost of funding for such market makers of corporate bonds.
- **Broadbase Issuers:** Steps can be taken to encourage SMEs to tap the bond market and rely less on bank credit. These steps can be in the form of low listing fees on exchanges for first time issuers, waiver of listing fee in case the instrument is traded beyond a certain volume etc., prescribing asset liability management rules for entities beyond financial sector.

Conclusion

A well-developed corporate bond market would help in bringing issuers and investors in direct touch and help in reduction of cost for issuers while leading to better returns for investors

One can never over emphasize the importance of financing in the economy. Any idea needs resources to be germinated into a large enterprise. Money is certainly an important resource, if not the most important resource. Financial intermediation through banks and other financial entities has been in existence for a very long time. A well-developed corporate bond market would help in bringing issuers and investors in direct touch and help in reduction of cost for issuers while leading to better returns for investors. Indian corporate bond market can only get better and hopefully some of the ideas presented above can help that endeavour.

Puneet Nanda
Executive Director
ICICI Prudential Life Insurance Company Ltd

Puneet Nanda is currently Executive Director on the board of ICICI Prudential Life Insurance Company Ltd., India's largest insurance company in the private sector with assets under management in excess of ` 70,000 crore.

He has been with the company since inception and consequently has been a part of the life insurance sector ever since it opened up in 2000-01.

His experience spans almost two decades in financial services having worked in ICICI Securities and J.P. Morgan prior to joining ICICI Prudential Life Insurance Company Ltd.

He is also a Director on the Board of ICICI Prudential Pension Funds Management Company Ltd., one of the Pension Fund Managers in the New Pension Scheme (NPS) of the Government of India.

India's Emerging Corporate Bond Market: Potential and Challenges

Mr. Atul Joshi, *Managing Director & CEO,*
India Ratings and Research – A Fitch Group Company

Background: How unique are our Challenges?

The development of a vibrant Corporate Bond Market has been on the agenda of Indian regulators and policy makers since the beginning of the century. However, despite best intentions, the market has failed to pick up meaningfully with bonds continuing to contribute an insignificant proportion of a typical Indian Corporate Balance Sheet. Unlike equity markets whose growth trajectory in various markets are more comparable , the global experience on the development of bond markets across jurisdictions has at best been mixed with no fixed model that can be implemented across jurisdictions. At onset it may be relevant to point out that a lot of challenges that India faces for development of bond market are not unique

Predominance of Bank Financing: European Union (EU) till about some time back was a predominantly bank financed market; the recent developments to conserve capital and reduce balance sheet size by banks has resulted in a sharp increase in disintermediation with bond issuances having exceeded the bank lending

Despite best intentions, the market has failed to pick up meaningfully with bonds continuing to contribute an insignificant proportion of a typical Indian Corporate Balance Sheet

market during the first half of 2013.

Liquid only for best Credits: Except for the most liquid markets like US, most active bond markets are dominated by issuers of high credit quality with high yield issuances being typically restricted to the bank loan market. Another important aspect of the bond markets is that they are invariably not liquid at all times but become active at the time of certain credit events or when certain events develop as per the terms of the bond, neither are retail investors typically active participants in these markets. The reason these are important to note is that while there has been a lot of talk on involving retail investors, going down the credit curve to Small and Medium Enterprises (SMEs) and trying to build liquidity in the market, it is our belief that these goals could only be achieved in the medium to long term

Information Asymmetry favoring Banks: Banks due to their bilateral relationships and multiple products are better able to monitor the cash flows of the underlying entity.

India Specific issues: While some of the aspects are common with global markets, still India lags very significantly even when compared among a lot of emerging nations. To kick-start the market from the present levels, the fundamental issues that are probably acting as inhibitors and require immediate attention are three fold i) Timeliness of Information dissemination, transparency and quality of disclosures ii) providing a legal framework for recoveries which reduces uncertainties for potential investors and iii) reducing moral hazard. Before elaborating on these aspects, it is also important to briefly dwell on why in the context of India, the development of the bond market is important for its growth trajectory.

Urgency to Kick-Start the Bond Market

While the global experience of the need and timing of the development of bond markets has been mixed, the need for India to meaningfully kick start this market was never more paramount than today when economic growth has been slowing and fiscal room available with the Government of India (GOI) to propel the next wave of infrastructure spending is minimal.

Sectoral Exposure to the limit: The banking systems is already to the brim on infrastructure exposure (refer our report on "Mounting Concentration risk could test Indian Banks" dated 23 August 20111 and available on www.indiaratings.co.in) which coupled with the asset liability mismatch will have limited flexibility to take up additional exposures. Even if the somewhat lofty target of requiring US$1 trillion of new infrastructure spending in the 12th five year plan, is reduced to 60% to 75% of the number, still to finance that amount from existing financing avenues will be a tall order.

Reduced Viability of FC loan: The second important driver is the increasing risk being seen in foreign currency borrowings by Indian Corporates, exposing them both the risk of an interest rate increase and the associated volatility in the exchange rate. The increasing risk aversion on account of the unwinding of the Federal Reserve's loose monetary policy will continue to keep the rupee movements uncertain and given that the proportion of foreign borrowings by Indian Corporates had been on the rise, the risk of FCCB, ECB and foreign bonds putting pressure on the debt servicing capability of Indian issuers (especially in the mid to small segment) necessitates the need to have an alternate source of funding which potentially could be provided by the bond markets. In our reports published in Feb 2012 and Nov 2013 ("Indian FCCB redemption in 2012" and "Updates on Indian FCCB redemption FY13" and available on www.indiaratings.co.in), India Ratings (earlier known as Fitch Ratings India) had commented that out of the USD7bn of FCCBs due for redemption in 2012, 37% by value were expected to undergo restructuring or end up defaulting during the year and while the actual no. was close to our estimates, it reflects the long term risks of overseas borrowings. We expect the next wave of challenges to emanate from the External Commercial Borrowing (ECB) market. To derisk the Indian balance sheets (which have predominantly domestic revenues) from increasing foreign currency borrowings is critical unless the liabilities are matched by a natural export hedge and/or are hedged appropriately.

More Alternative required: With the reduced viability of ECBs as a route to financing, the funding is likely to accrue

either from either specialized NBFCs or from the bond markets which in our opinion would have to be dominant source in the years to come. Hence, the lack of meaningful alternatives is what makes the need to kick-start the bond markets critical and a must if the economy has to grow at its potential rate. Its fair to assume that majority of ratings on new infrastructure projects tend to be in the low investment grade/non-investment grade and given the limitations imposed by the investment requirements of insurance and pension funds, partial credit guarantee structures (which reduce the probability of default) would play an increasingly important role in aligning the requirements of the buyers and suppliers.

Last but not the least, the development of the corporate bond market is a precursor to the development of the municipal bond market which will again necessitate significant private financing as it embarks on developing the urban infrastructure of the country.

Key Challenges

As mentioned earlier, at this stage of development of the bond markets, while there are a no. of procedural, regulatory and tax related issues that need to be addressed and which policy makers have been trying to correct over the years, all of it can only bear fruit if the three basic tenets of i) Information dissemination and quality of information ii) Legal framework to enforce security and a consistency in application of the same and iii) reducing the moral hazard from lending/investing, are put in place. Without these, the pace of development of the bond markets will continue to be slow and protracted and by the time it dawns on us, the opportunity may have passed us. Let's dwell on the each of these a bit more in detail:

i) Information Dissemination and Quality

From Private Placement to Public Issuance: It is interesting to note that while market participants believe that the growth in the private bond market has shown an encouraging sign, all of this is largely driven by the private placement market. The private placement market typically requires limited disclosures to investors who aggregate 49 or less, in almost all transactions these are not more than a handful (in certain cases one large investor picks up the entire issue). While this may sound convenient from an issuers perspective (and indeed it is given that public issues require disclosures which are not only onerous but have to be updated on each issuance), this market operates more like a syndicated loan market with investors (typically banks and institutions) wanting to have a control on how the company is run and how its cash flows are managed. This, in turn, means that the incentive to sell down and the incentive for a larger basket of investors to buy into these debt instruments is limited, in turn constraining liquidity. For the development of an active bond market, it has to move towards public issuances.

Understandably, the requirement would be onerous in terms of information sharing and costly in the initial stages would provide liquidity to investors and over a period of time result in substantial savings. These would be a departure for the typical Indian investor (which are banks) but will ultimately lead to a more vibrant and liquid market. The development of the rating market under Basel II has expanded the flow of information on a no. of issuers to investors, however, some of the lacunae in terms of hesitance to share information relating to delays/defaults and ratings not accepted in the past will have to be overcome for this market to pick up.

Inculcate payment discipIne in Borrowers: It will also necessitate discipline of timely debt servicing compared to the negotiated payments made to banks on or after due dates. The regulators will have to address how best they can reduce the burden on issuers without in any way compromising the quality and timeliness of information sharing.

ii) Insolvency Regime:

The insolvency regime governing Indian Corporates has had a general bias towards debtors rather than the creditors. While creditors dissatisfied with the decisions or actions under the judicial processes can appeal to the tribunal/court/BIFR, control of the recovery process is still vested in the court/tribunal/BIFR. The creditors do not have the ability to dictate or control how the processes work out, except through their votes on the restructuring or liquidation plans. Despite the traditionally strong emphasis on taking of security, the timeliness and ease of enforcement has remained uncertain. Reforms of the insolvency regime have also been slow. This has a two fold impact, the first being that with a culture of lending against collateral, the risk standards do not develop to the level of sophistication required for the bond markets, and secondly while secured creditors have a right to "separate satisfaction", the ability to enforce security in a timely manner is ambiguous surrounding the judicial process. This, in turn, lengthens the recovery lag, and consequently reduces the recovery value. This uncertainty dissuades a no. of FIIs to invest in the domestic bond market.

It is because of these reasons that Fitch (parent of India Ratings) while assigning international ratings views it necessary to cap the Recovery Ratings (RRs) of Indian issuers at an "RR4" on a scale of "RR1" to "RR6" indicating a recovery value ranging between 30%-50% for secured and unsecured creditors. However, with the introduction of the SARFESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act) enacted in 2002, there has been some evidence of improved recoveries in the case of a pool of small borrower NPAs, however, the data on the same has still been patchy and based on a small sample of assets. Therefore, until such time that reliable data is available, the ratings continue to be capped by the Recovery Rating of "RR4"

The other aspect that overseas investors grapple with is the extent of secured funding in the overall balance sheet of an Indian Corporate. Except for a few large corporate issuers who have accessed the global markets and have a predominance of unsecured borrowings, a typical balance sheet will have a predominance of secured lending. A sophisticated market which provides access to bond markets invariably does so through the unsecured route where lending is based on the strength of cash flows on a going concern basis and collateral recovery only provides an added cushion. What this entails is a forward looking assessment of the ability of issuers to repay their debt obligations, a process which has gained traction in the past few years with the coming in of MNC banks and Indian Corporates being increasingly exposed to the scrutiny of international credit rating agencies like Fitch. It requires a complete change in mindset on how risk is assessed and it's a process which will take its own time. Surprisingly, while Indian banks lend on collateral for which recovery prospects are highly uncertain, it remains an enigma as to why so much importance is attached to collateral though in most cases restructurings are the most viable option. Given the experience some of the foreign investors have had (where they get excluded from the restructuring mechanism and have limited say)when dealing with defaults/restructurings in some of the largest groups, it is not surprising that the investor appetite to fill up the FII limits for Corporate bonds/infra bonds has not been very encouraging.

With the introduction of the SARFESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act) enacted in 2002, there has been some evidence of improved recoveries in the case of a pool of small borrower NPAs, however, the data on the same has still been patchy and based on a small sample of assets

iii) Reducing the moral hazard

Investors in various mutual funds, investment, pension and insurance policies, have increasingly come to believe that investments cannot be written off given the past experience of funds bailing out loss making ones and the Government of India (GOI) providing support to institutions whenever required. This mindset only results in sub optimal deployment of funds in only the highest rated securities limiting access for lower rated corporates. While change of

investment guidelines may not be easy to implement for insurance and pension funds, a culture which promotes returns linked to the risks needs to be imbibed with investors bearing the profits/losses arising out of their investment decision. This will increase the diversity of funds who can match the appetite of the buyers and the sellers.

To conclude

In summary, while the development of the bond markets in India is inevitable, the operational issues for its development are easier to address, the challenging one are those which are highlighted above. Without these being addressed in a substantial way, it is highly possible that 5 years from now we may still be debating how this market can be revived and how it can contribute meaningfully as a source of efficient capital allocation.

Atul Joshi
Managing Director & CEO, India Ratings and Research – A Fitch Group Company

Atul Joshi is Managing Director and Chief Executive Officer at India Ratings and Research – A Fitch Group Company.

Previously, Atul was Managing Director and Head of the Business & Relationship Management (BRM) Group for India at Fitch. He has more than two decades of experience in the financial services industry. Prior to Fitch, Mr. Joshi was in charge of the Financial Institutions Group at ING Vysya Bank India. He was also the Parent Account Manager for India at ING Bank NV. Mr. Joshi started his career at ICICI Bank, where he worked for close to 13 years in both global and domestic treasury functions as well as in project finance.

Atul is a double graduate in Economics and Commerce from Mumbai University, and an all-India 12th rank holder in Chartered Accountancy.

Need for development of corporate bond market

Mr. Nirmal Jain, *Founder & Chairman, India Infoline Group*

Corporate bondmarket plays a vital role in any economy as it enables efficient capital allocation, diversification of credit risk across the economy and financial stability.A well-functioning corporate bond market can boost investment in the Indian economy especially at this crucial juncture when fiscal deficit is at an all-time high, currency fluctuations have adversely affected many industry sectors and global markets are increasingly facing a credit squeeze. The importance of bond market has been further strengthened after the 2008 global financial crisis, after which multiple initiatives have been taken to develop a robust bond market system in India.

The corporate bond market in India is still in nascent stage despite multiple measures taken by the Government, RBI and SEBI. The corporate bond market has around 20 issuers, but considering the number of financial institutions and corporates in the country the number is very small. The debt market is significantly under developed compared to a peer set of other developing economies. In India, the corporate bond market constitutes only 12 % of GDP as compared to 20%

The corporate bond market in India is still in nascent stage despite multiple measures taken by the Government, RBI and SEBI for Japan and 17% average for emerging East Asia.

Challenges in development of corporate bond market

Key deterrents continue to plague the corporate bond market,which are as follows:

- The corporate bond market is highly illiquid due to lack of adequate market makers. Institutional investors such as insurance companies, provident funds and banks hold corporate bonds till maturity which reduces the supply of bonds in the market and thus their liquidity. Additionally, retail investors are not well conversant with the corporate bond markets, for e.g. similar rated bonds trade at different yields/ prices
- Retail investors still do not invest actively in the G-Sec market.G-Sec provides benchmark risk free yields for pricing corporate bonds. However, active trading is limited to 10year tenor bonds. Other than that, the yield curve is flat making the pricing of corporate bonds difficult
- The Corporate Debt Restructuring scheme introduced by RBI for protection of debt investors in case of bankruptcy has not been very effective in reviving the corporate bond market as foreign lenders are not covered under the scheme. The differential tax rates on investment from multiple destinations also act as dampeners to investments in bonds
- Banks prefer to issue loans than buying bonds of corporates as the banks receive a higher interest rate on loans and are protected under tighter bankruptcy norms in case of loans. Furthermore, bonds are marked to market and could be a stretch on bank's capital in case of falling rates
- Private placement route for debt is much cheaper and faster as compared to listing which requires compliance with a host of disclosure norms and approvals. Investors also prefer investing in private placements as there is limited uncertainty in allocation and the capital is blocked for a lesser timeframe
- Differential tax rate is applied depending on the end buyer of bond. Insurance companies and mutual funds are exempt from taxes, however banks and corporates are taxed.

Key initiatives taken by the Government and the RBI

To induce activity in the corporate bond market, many initiatives have been undertaken. These include:

- Introduction of repo in corporate bonds, in which the seller has a repurchase agreement with the buyer to buy bonds at a later date. The buyers gain from coupon payment and difference in prices
- Liberalization in RBI norms making short term debt securities like commercial paper, certificate of deposit and non-convertible debentures of less than 1 year in original maturity also eligible for trading in repo corporate bonds. This is expected to lead to better price discovery for short term securities due to higher liquidity
- Permission for credit default swaps (CDS)on unlisted rated corporate bonds.This is expected to further increase liquidity in the market and enable lower rated bonds in diversifyingtheir source of funds
- Launch of a separate corporate bond trading platform on NSE for retail investors in May 2013. It is a key step towards providing a transparent platform to retail investors to invest in corporate bond market
- Multiple measures to attract investment from FIIs have been taken in light of the inflows that these FIIs can bring at times like these when the current account deficit is at an all-time high. These include the following:
  - o Increasing the limit of FII investment in government securities and corporate bonds by USD 5 bn each, taking the total limit in government securities to USD 25 bn and corporate bonds to USD 51 bn
  - o Easing of withholding tax rates on investments in debt instruments for FIIs and QFI's. They will have to pay only 5% (compared to 20% earlier) tax on Government securities and corporate bonds.
  - o The benefit of lower withholding tax on interest

income to be applicable irrespective of the time when the debt/ bonds were bought. The government has permitted FII's to apply without the need of PAN card for long term infrastructure bonds

Though the initiatives have been in the right direction, they have not resulted in significant improvement in the corporate bond market. Despite the increase in limit for debt instruments, the FII limit remains unutilized as FIIs remain concerned with currency outlook and yield curve expectations. In the last couple of months with depreciating rupee and strengthening of the US economy, FIIs have been selling bonds. Per SEBI data, it has been estimated that FII's pulled out close to Rs 178 bn from July 1, 2013 to July 18, 2013.

Further initiatives required

A complete infrastructure including technology platforms, settlement procedures along with a robust legal framework is required for a successful corporate bond market.One of the key measures that can help in creating a liquid corporate bond market should be development of platforms for educating the retail investors about the functioning of bond market (both G-sec and corporate bond) and increasing liquidity in G-Sec market. G-Sec yields are used as benchmarks for pricing the corporate bonds, as the liquidity in G-Sec market increases; market making for the corporate bonds will be enhanced. A single unified platform for bond trading should be created for retail investors, as all retail investors will be on the same platform, liquidity will improve.

Currently, banks prefer to issue loans to corporates as against investing in their bonds. Primary reason for this being mark to market requirement for bonds which may lead to unexpected demand for bank's capital when the current market values fall.Steps should be considered so that

accounting for loans and bonds have parity as regards to treatment of mark to market losses or profits. This may be difficult in practice to achieve in totobut can be substantially achieved by either exempting bonds subscribed to after credit appraisal from MTM or requiring provisioning for interest rate changes for loans. This will increase supply and liquidity manifold and make the market come vibrant.

In addition to increasing bank's preference for bonds, initiatives are required to make listing of bonds attractive for the issuer too. Currently issuers prefer private placement to avoid the cumbersome process of listing. Reducing transaction costs and making the listing process less cumbersome could make listing more attractive to issuers.

Potential for growth in corporate bond market

As per the report of the committee on Infrastructure Planning, investment worth INR 51 trillion is required for infrastructure in 12th 5 year plan, close to 50% of which is estimated to be realized through the PPP route. A well-developed bond market will be essential in fulfilling this funding requirement. Banks' ability to lend to infrastructure projects is limited by ALM mismatches due to the long tenure of these investments. Also, with the banks having to become compliant with the Basel III norms, there will be huge capital requirement for banks themselves, estimated at Rs. 5 trillion as per RBI, which may squeeze capital from the market. In such a scenario the corporate bond market will be a key source of long term funding at a low cost.

The bond market holds huge potential for the SMEs as well. Corporate bond market for SMEs is well estab-

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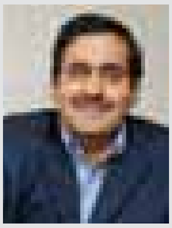
lished in developed countries and some Asian countries like Singapore, Malaysia, Indonesia have had success in this domain as well. With concentrated efforts of market bodies and SMEs own commerce bodies, corporate bond markets for SMEs could be developed in India as well. The ratings requirement and increased disclosure would also help SMEs develop internal processes and controls.

In conclusion, there is an urgent need for a liquid and efficient corporate bond market, as an alternate funding source to banking system and external borrowings for corporates. As growing India will need trillions of dollars of debt, an efficient bond market will improve availability of credit, reduce cost, enable efficient transfer of risk and serve as a reliable indicator of monetary conditions. However, key initiatives and reforms need to be undertaken with a sense of urgency and an unorthodox approach to help the corporate bond market attain its true potential.



Nirmal Jain
Founder & Chairman,
India Infoline Group

Mr. Nirmal Jain, Founder and Chairman of India Infoline Group (IIFL). A PGDM (Post Graduate Diploma in Management) from IIM, Ahmedabad, a rank holder Chartered Accountant and a Cost Accountant, he began his career in1989 with Hindustan Lever Limited, the Indian arm of Unilever.

In 1995, he founded his own equity research company, today known as India Infoline(IIFL). He is credited with the launch of 5paisa.com, an online trading platform that brought revolutionary reduction in brokerage prices to 5bps.

IIFL has received several awards including "Best Wealth Management Company In India" by WealthBriefing Awards 2013. IIFL Wealth Management was also ranked as "BestEquity Portfolio Management" in India by Euromoney Private Banking Survey 2013.

Knowledge paper on Corporate Bond markets-Overview/Issues/ Way forward

Mr. Ramaswamy Govindan, *Vice President,*
Corporate Finance & Risk Management , Larsen & Toubro Limited

A well developed capital market consists of both debt and equity. In India, equity markets are more popular and comparatively more developed than the debt markets.

- Corporate bond market is a very good supplement to the banking system of any country. Important lesson from the financial crisis is that when the financial system collapses, a liquid corporate bond market will support the funding requirements of real economic activity.
- Liquid Corporate bond market reduces the cost of capital for issuers.
- Banks have constraints around debt issuances and ALM issues where a robust corporate bond market can help.Today with excessive dependence on the banking system, corporate end up paying more than what they would normally pay if they borrowed in the corporate bond market.
- For a country like India, healthy bond market in India can channelize the savings into infrastructure creation.

Introduction: India Vs Rest

World GDP USD 50trn, world corporate bond issuances USD 3-4trn, roughly 6-7% of GDP.

For a country like India, healthy bond market in India can channelize the savings into infrastructure creation

- India issues Corporate bonds worth USD 50bn (3%) of GDP compared to 8-12% of GDP in countries like US, Europe, Japan & China.
- Outstanding CorporateBonds as % of GDP in India 9-10% compared to 40-70% of GDP in other developing/developed countries.
- Average daily volumes of Corporate bonds in India USD 200-350 mn as compared to USD 17bn daily in US.
- Total Debt (Govt debt, household debt &Corporate debt) to GDP ratio in India is 120% as compared to over 300% of GDP in countries like US, Europe and Japan, which reflects the overleveraged household and private sector in those countries.

Key initiatives for market development1:

Issuer's perspective:

- Indian primary bond market is primarily dominated by NBFC issuers and very small proportion of issuances happen by manufacturing and service related companies.
- NBFCs engaged in infrastructure financing should be given capital relaxations, incentives to facilitate dollar borrowing from abroad. Specific capital relaxations can be given to assets financed under takeout mechanism by Infra NBFCs.
- Efforts of SEBI and stock exchanges to bring trading to electronic stock exchange platforms have not yielded results. Investor awareness of debt markets in India is very poor, need to have many awareness programmes across cities.
- Since cash credit system of banks works like a loan in perpetuity, many corporates prefer it to bond financing where the amount has to be returned on a specific date.
- Currently bonds are issued in India only on private placement basis (not more than 49 investors) In order to use the private placement route, corporate continue to do a number of private placements which results in market fragmentation.
- Public issue of bonds uncommon in India. Large corporate ignore the fact that lower cost of capital can more than offset the higher issuance cost in public issuances.

Charts-A quick reflection of India Corporate Bond market

Comparison of % breakup of outstanding bonds across countries			
Country	Government	Finance	Corporate
India	76	15	9
Japan	85	9	7
UK	81	18	1
Germany	66	21	13
Brazil	62	37	1
China	54	29	17
US	44	45	11

Source:BIS,RBI,JPM

Break up of Debt financed across bank credit & bonds		
Country	Bank loans	Corporate bonds
China	85	15
India	84	16
UK	72	28
Japan	71	29
Brazil	66	34
Germany	52	48
Korea	45	55
US	8	92

Source:JPM,BIS,CEIC

Gross issuance of Corporate bonds in India(INR bn)	
Year	Amount
2007	1057
2008	1431
2009	2026
2010	2378
2011	3100
2012	3830
2013 (YTD)	2178

Source:SEBI

Total outstanding Corporate bonds in India (Rs bn)	
Year	Amount
2007	3356
2008	6210
2009	7920
2010	7620
2011	9800
2012	12100
2013 (YTD)	13600

Source:SEBI

Important to encourage large corporates with AAA status to issue Corporate bonds on regular basis, which finally results in a deeper bond market.

- Indian market lacks multiple bonds (like mortgage backed bonds, variable cash flow bonds, index linked bonds, municipal bonds etc) and most bonds issued are in the shorter tenor(3-5 years as compared to international bonds which are in 10-15 year bucket).
- Issuers are generally comfortable disclosing their minor financial details to banks to obtain loans rather than disclose them in public domain for Corporate bond issuances.
- Credit team in banking system is decentralized whereas the investment team in a bank is centralized. Various options are available for loan restructuring for a bank which does not become public whereas a Corporate bond default becomes public. Hence banks are hesitant to invest in Corporate bonds. Banks should therefore be incentivized by regulator to invest in Corporate bonds.(MTM relaxation, risk capital relaxations)
- Corporate bond issuer also has problem of parking money in the intervening period till it is used in business, as against bank cash credit lines which he can draw at will.
- Allow banks to credit enhance bonds by way of guarantees. Allowing banks to credit enhance bond issues by corporates would encourage lower rated corporate to access debt capital markets as there is healthy demand for lower rated issues. Alternatively India should create specialized credit enhancement institutions in the absence of banks doing the job. India can also look at international insurers to facilitate credit enhancement.Specific domestic institutions like IIFC, PFC with requisite sector expertise can also assume credit risk.

- Issue of local currency corporate bonds-AA and below. The lack of a good credit spread curve impedes the pricing of lower rated corporate bonds. Issuers of AA and below should be encouraged to issue more local currency corporate bonds to facilitate a well price credit spread curve.
- Corporates find it difficult to issue bonds because they fear investors sometimes are highly demanding and raise far more searching questions about the viability of projects for which funds are being raised.
- Market making is completely absent in corporate bonds because of lack of adequate compensation from issuers. Most of the arrangers are looking to palm off the stock to investors post issue and hold on to only part of the stock of they have a positive view on the market. It is suggested to start market making with a few large corporates coming together.
- PFs are banned from selling in the secondary market unless there are 2 rating downgrades.PF should be allowed and encouraged to sell in the secondary markets.
- Indian mutual funds can play a very proactive role of channelizing the retail savings into bonds, though they have launched FMPs their focus is restricted to institutional guys only. Mutual funds should be encouraged to float long term infrastructure Corporate Bond fund to channelize the retail savings into infrastructure financing.

Regulator's perspective:

- Issue of withholding tax on FII investment in debt needs to go. International pension funds do not sometimes get any set off for the withholding tax that is deducted in India. Take up the matter with SEBI/RBI and sort out the matter.
- Multiplicity of regulators in the Corporate bond market can be reduced from RBI/SEBI/Company law board to being under single regulator.
- No uniformity in stamp duty across states. Concept of stamp duty not proper, stamp duties aim to tax the transaction itself and not the income which is unfair. The stamp duty for a typical issuance is 0.38% of the total issue size. To meet up with SEBI and find out an appropriate resolution to the problem.
- Robust investor protection mechanism needs to be in place. A FICCI sub group be set up to study and suggest action plan.
- Long and expensive issuance pro-

cess needs to be sorted out.(issuances involve cost of fiduciary agents, lawyer fees, registration, rating agencies and bank fees)

- Absence of a proper liquid risk free yield curve is an impediment to proper pricing of Corporate bonds. (data analysis of G Secs shows that only 8 government bonds are traded for more than 200 days in a year).A FICCI sub group to study the proposal and meet RBI with its recommendations.
- Currently only SEBI regulates the Corporate bond market which some oversight by RBI. There should be some concept of Self Regulatory organizations like National Association of Securities dealers as it exists in the US.FICCI sub group to study the proposal and meet SEBI/RBI with its recommendations.

Market development perspective:

- Consolidation of issuances is required to improving liquidity.
- Current FII investment in Corporate bond is USD 51 bnand G Secs is USD 30bn.FIIs are only investing in the 1-2 year bond market to take advantage of the high short term rates. FII money being at the shorter end is not being used currently for any productive use. Once FIIs gain comfort in Indian corporate bonds, they will possibly stay invested in bonds when down cycle in equities happen thereby nullifying the systemic risk posed by sudden outflow of foreign capital.
- The current utilization status for bonds is as follows (As of 19-Jul-13):
    - o FIIs are not interested to come to India with lock in restrictions
    - o Withholding tax issues(To be reduced to 5% in line with relaxation of withholding tax on ECB interest)
    - o All infra companies issuing bonds have to be rated. Annuity projects can get a AAA rating but all other projects will at best get A rating or below. Even domestic insurance and pension companies are not comfortable investing in A rated bonds, therefore FII investments are ruled out.
    - o Possibility of pooling investments into one company to get an enhanced rating is not workable because holding companies are not classified as infra companies. Pooling the SPVs into trust is possible but it will be difficult to attract investors in Trust structure.
- A FICCI sub group to study the proposal on how to increase FII interest in the long tenor Corporate bonds. Since there is heavy demand at the shorter end, RBI should keep increasing FII limits for G Secs/Corporate bonds on a regular basis.
- Currently there is no integrated trading and settlement system for corporate bonds(like NDS Order matching system for G Secs).The establishment of an integrated trading and settlement system would increase market transparency through better price discovery and is integral to the development of the Corporate bond market.
- A central body should track and maintain a comprehensive database on primary issues and rating migrations, which is needed for wider dissemination of market information among various market participants and would help increasing investor confidence in domestic debt markets.

Table 3: Outstanding FII investment limit in Indian fixed income market

S.No	Type of Instrument	Upper Cap (in USD bn) (A)	Upper Cap (INR Cr.) * (A)	Upper Cap (INR Cr.) * (A)	Unutilised Limit available with the entity acquiring limits (INR Cr) (C)	Total Investments including limits acquired by the entity (INR Cr) (D) = (B) + (C)	% of limits exhausted (E) = (D)/(A)	Free Limit (INR cr) (F) = (A)-(D
1	Government Debt	25	124,432	66,226	34,545	100,771	80.99	23,661
	Government Debt (Long Term Investors)	5	29,137	864	Not applicable	864	2.97	28,273
1(a)	Treasury Bills	5.5 #	25,416	16,185	-	16,185	63.68	9,231
2	Corporate Debt **	51	244,323	88,544	Not applicable	88,544	36.24	155,779
2(a)	Commercial Papers	3.5 ##	17,462	12,150	Not applicable	12,150	69.58	5,312
	Grand Total	81	397,892	155,634	34,545	190,179	47.80	207,713

Investors:

- Risk management products like Interest rate futures and Credit default swaps are in place. Currently very minimal activity is happening in Interest rate futures market as banks are allowed to use it for hedging purposes only. No perceivable activity is noticed in the CDS market. With effect from November 2011,RBI has permitted CDS on unlisted but rated bonds of infrastructure companies and unlisted/unrated bonds issued by the SPVs set up by infrastructure companies. Users are not allowed to buy naked CDS. In order to restrict the users from holding naked CDS positions, physical delivery is mandated in case of credit events. Exchange traded CDS market may also be introduced shortly.
- Unlike Government bonds, wherein there are SLR requirements banks do not have any compulsion to invest in Corporate bonds. Further banks cannot invest in unrated instruments beyond a small limit(10% of non SLR instruments) while there is no such restriction in loans. A small mandatory 5% investment in Corporate bonds by banks will help.
- Regulatory asymmetry in treatment of loans and bonds in books. Corporate bonds require a higher risk capital as compared to loans advanced by banks as it involves both market risk and credit risk. RBI could consider reducing this requirement for bonds given that most bonds are subject to mark to market and can be sold in the secondary market.
- Unlike FDs where exit is possible for a retail investor, there is no such mechanism for Corporate bonds. Cos issuing securities should look at doing some kind of buyback to facilitate liquidity for retail investors. For lower rated corporates banks can provide some of guarantee.

- If banks start investing in Corporate bonds it becomes easier for them to sell it off/reshuffle the portfolio whenever desired, unlike a typical term loan where they are stuck till the loan matures.
- Although banks give loans of varying credit quality but invest in Corporate bonds of investment grade only.
- Higher administered rate in small saving schemes is also prohibiting the development of vibrant Corporate bond market.
- Although repo in Corporate bonds is permitted the market has not developed. Currently AA bonds and above are permitted for repo operations, repo available for 1 day to 1 year and bonds are subject to 25% haircut. Illiquidity of the underlying asset leads to drying up of the repo market during periods of crisis.
- Short selling should be permitted in Corporate bonds. Even today the short selling provisions for govt securities are very stringent. For example in case of Govt bonds short selling is allowed in only 0.25% of the total issue, a bank can hold a short position in G Secs for only 90 days and in case of a delivery failure bank is barred from short selling for 6 months.
- Allow FIIs to invest in securitized debt issues. Currently pass through certificates while are classified as security, are not notified as eligible investment for an FII by RBI. Allowing FII to invest in PTCs will help develop structured debt market in India.
- Credit exposure limit: Banks should be allowed to run trading positions in corporate bonds without hitting credit exposure limits which includes corporate banking exposure. This will enable PSU banks to participate in the corporate bond market.
- Introduction of HTM in Corporate bonds for banks and primary dealers irrespective of maturity. This should be done at least for issuances of infrastructure cos.
- Households are a very important constituent, is practically absent because of the lack of an efficient legal system that is critical to investor confidence and the unhappy experience with the debenture trustees.
- Increased market participation: PF trusts are currently not allowed to churn their portfolios. This may be revisited as world wide the returns declared are market linked and not fixed at a particular level.

Percentage break up of total outstanding Indian bonds			
Year	Government	Financial	Corporate
2008	91	7	2
2009	88	9	3
2010	86	11	4
2011	80	13	7
2012	76	15	9
2013	74	16	10

Source:BIS,RBI,JPM

India CP issuances & Outstanding(INR bn)		
Year	Issuances	Outstanding
2007		178
2008		326
2009		442
2010		755
2011		803
2012	3000	912

Source:RBI

India CD issuances & Outstanding(INR bn)		
Year	Issuances	Outstanding
2007		933
2008		1478
2009		1929
2010		3410
2011		4247
2012	8860	4195

Source:RBI

Breakup of Outstanding CD,CP and Corporate bonds	
Category	% outstanding
Corporate bonds	64
CDs	30
CP	6

Source:NSDL,SEBI,RBI

Sectoral breakup of outstanding corporate bonds	
Category	Percentage
PSU	44
Banks	25
Corporate	15
NBFC	16

Source:NSDL

Percentage sector wise breakup of issuances in last few years				
Year	Banks	Corporates	NBFCs	PSU
2007	37	2	11	50
2008	28	18	14	40
2009	27	20	12	42
2010	13	21	22	44
2011	8	18	27	47

Source:NSDL

Breakup of Assets of under management of mutual funds	
Category	Percentage
Debt	47
Liquid	25
Gilt	0
Equity	26
Others	2

Source:AMFI

Breakup of Bank Assets	
Category	Percentage
Credit	60
Cash+Reserves	5
G Secs	30
Mutual Funds	2
Shares	1
Corporate bonds	2

Source:RBI

Debt markets and Infrastructure financing:

Global imbalances: A savings and investment perspective:

Global savings and investment balances have fallen over the years and the current account imbalances have widened to unprecedented levels. Savings in Asia which ideally should have been channelized into investment in Asia has been diverted to US to finance its current account. Some part of Asia savings have been diverted to US Asset markets resulting asset market bubble.

Is there a change in perspective?

Data shows that Japan over the years is slowly transforming from savings driven growth model to a more consumption driven growth model. China on other hand has realized its folly and is now focusing on a more consumption driven model.US is slowly but steadily reducing its current account deficit.

India's growth model:

Delta to India GDP during 2003-08 is contributed mainly by investments. India's investments account for 36% percent of GDP compared to savings rate of 33% of GDP, the remaining 3% being funded by capital flows from abroad. Since India is facing structural inflation issues, it is imperative that investments continue to grow over the next decade. For investments to happen in India two things must happen:

- Either India reduce its consumption so that domestic savings finance domestic investment.
- Or India must consistently get foreign savings year after year.

India's investments since independence:

Since independence India's growth and investments can be categorized as follows:

Infrastructure investments as % of total investments in India:

Period	GDP	Investments
Between 1905-1980	3.5%	Below USD 10bn per year
1980-1990	Sub 5%	10 bn a year
1990-2000	5-6%	30 bn a year
2000-2012	7+	USD 100bn per year between 00-03 USD 250bn per year between 03-06 USD 300-350bn per year between 06-12

India's infrastructure investments as % of total investments every year: Out of USD 350bn of investments every year, India's infrastructure investments every year is around USD100bn or about 28%. For the 12th 5 year plan India aims to increase this share to 50%.In other words, out of USD 350bn of investments every year, USD 170bn will be infrastructure investments.

A study of India's savings:

The cumulative savings/investment in India as on date is around USD 2.9trillion.The cumulative break up of savings and investments is as follows:

Non deposit sources of USD 1.7trillion represents investments by households and corporates into securities, mutual funds, insurance, pension funds and government securities.

Out of 34% savings currently, household savings are currently 24% and private savings are 10%.On a net basis Government sector does not have any savings.

Current pattern of savings of the household sector is as follows:

Cash: 6%
Deposits: 44%
Insurance/Provident/Pension Funds: 22%
Small savings: 12%
Mutual Funds: 3.6%
Government securities: 2.4%
Others: 9%

A careful look at the above savings will tell us that Government takes a lot of these savings for financing a major chunk of its revenue expenditure. Once the government gets its house in order, a lot of bank deposit savings and Insurance/Provident/Pension fund savings will find its way into the infrastructure space. Alternatively through various incentives, retail savings can directly be channelized into the infrastructure space.

Summary of India's infrastructure investments over the years:

Historically India has always lagged in infrastructure capacity creation:

India has a history of achieving around 80% of its targeted plan spend, 11th plan being an exception where Oil and Gas (USD 86bn) and telecom (USD 88bn) helped achieve targets. Both Oil and Gas and telecom were part of the original plan expenditure of USD 500bn.

India's infrastructure competitiveness Vs Rest of the World:

The Global Competitiveness Index of the World Economic Forum which ranks the infrastructure development in 133 countries across the globe has ranked India at the 86th place in 2010-11.India ranks well below the BRICs nations-China at 50, Brazil 62 and Russia at 47.

Type of Savings	Amount(USD bn)
Deposit sources	USD 1200bn
Non Deposit sources	
Household savings	USD 1000bn
Private sector	USD 700bn

Plan	Estimate(USD bn)	Actual(USD bn)	Achievement(%)
9th plan(97-02)	130	107	82
10th plan(02-07)	158	117	74
11th plan(07-12)	500	496	99
12th plan(12-17)	1000	800(Exp)	80

Sector wise break up of infrastructure investments India:

The sector wise actual breakup of expenditure for the 11th and 12th plan is as follows:

Current Funding of India's infrastructure investments:

While difficult to quantify, a rule of thumb suggests that India's infrastructure deficit shaves off 2 percentage points of its GDP every year. The 12th Plan envisages investments of $1 trillion in Indian infrastructure in the next five years. Half of this is expected to be funded by the private sector. The estimated funding for the 12th plan is as follows:

If India has to achieve USD 1trillion target, then at least USD 200bn of foreign capital may be required.

Various constraints into infrastructure financing can be summarized as under:

Constraints to Equity financing into infrastructure:

- High gearing(3:1)
- Operationally complex/risky jobs
- Non availability of exit options for the private investor
- Corporate Governance issues

Constraints to Debt financing:

- Lending institutions prefer lending for short/medium term(5-7 years)
- Loans from multi lateral agencies perceived to be cumbersome procedure.
- Lack of proper bond market
- ECB guidelines limit compensation for lenders who take higher credit risk

Execution and policy issues pose significant challenges to infrastructure investments:

Infrastructure	11th plan	USD bn 12th plan	% growth
Power	118	230	95
Oil & Gas	86	160	86
Roads	71	153	115
Railways	44	105	139
Irrigation	45	74	64
Telecom	88	70	-20
Water supply	26	56	115
Ports	8	23	188
Airports	8	8	0
Warehousing	2	4	100
	496	883	

Funded by	Type of financing	%
Central/State Govt.	335	38
Banks/FIIs/NBFCs/ECB	304	34
Private/PSU cos	244	28
	883	

a. Delay in environmental clearances.
b. Land acquisition
c. Lack of clarity over regulators role in determining tariffs.
d. Bottlenecks in fuel availability
e. Poor financial health of State Electricity boards
f. Prevailing high rates of interest.

g. Rising cost of other raw materials like cement, steel & bitumen.

Major suggestions for improving infrastructure financing in India:

- Government of India to consciously work on reducing fiscal deficit(specific emphasis on increasing capital expenditure)
- Asset liability mismatch of banks can be improved if banks attract long term deposits from retail investors (tax breaks can help).
- Enhanced exposure norms/ security classification for infrastructure lending(for both banks/NBFCs)
- Take out financing(Since April 2006 IIFCL has sanctioned loans to the tune of INR 586bn to 267 projects).Quicker the pace of IIFCL, faster will banks be able to free up their balance sheets and move on.
- Insurance/pension fund investments into infrastructure space needs to be revisited.
- Developing municipal bond market for financing urban infrastructure.
- Infrastructure debt funds as a concept is there but not many have been set up till date.
- Attract retail savings into infrastructure bonds.
- Forex reserves for infrastructure development.
- Further ECB relaxations for infrastructure development.

Ramaswamy Govindan
Vice President
Corporate Finance & Risk Management
Larsen & Toubro Limited

Mr. Ramaswamy Govindan is Vice President – Corporate Finance & Risk Management in Larsen & Toubro Limited. He manages financial planning, balance sheet currency, commodity risks for the group. He oversees investments portfolio and overall banking relationships. Has been a part of many international/domestic benchmark transactions in various spheres for L&T Group (GDR, QIP, FCCB). He also oversees enterprise risk management of the group in his capacity as the Chief Risk Officer.

Prior to joining Larsen & Toubro Limited, Govindan was with ITC Limited, Secunderabad wherein he set up the Treasury functions at the Division.

Govindan has done BSc (Statistics) from Loyola College Madras and done his Post Graduate Diploma in Management from IRMA, Anand.

India's Bond Market – Need for a Policy and Institutional Paradigm

Mr. V Shunmugam, *Chief Economist, MCX Stock Exchange &*
Mr. Arbind Kumar, *Assistant Vice President - Research & Product Development, MCX Stock Exchange*

A well-developed Government bond market plays a critical role in the overall economic development of the country by ensuring stable funding to the Government through effective channelization of the savings in the economy, improving the effectiveness of monetary policy through availability of additional channels and instruments and providing a benchmark in terms of instruments and infrastructure for broader development of the financial/ capital market and robust management of financial risks. Similarly a well developed and robust corporate bond market can act as a source of stability[i]. The reform of the Government Bond as well as Corporate Bond markets have been part of the economic reforms process in line with aspirations of India to attain high growth and support the nation's socio-economic objectives.

The development of deep and liquid corporate bond markets will help reduce corporate reliance on bank financing and lead to greater diversification of the sources of funding across various asset classes. The corporate bond

The reform of the Government Bond as well as Corporate Bond markets have been part of the economic reforms process in line with aspirations of India to attain high growth and support the nation's socio-economic objectives

[i] RBI - Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets – May 2012, pp 68

market also helps to reduce the risk of currency and funding mismatches, particularly for projects with long gestation periods. Well-developed Government and Corporate bond markets improve the resilience of the economy to the possible domestic and external shocks.

While India boasts of a world-class equity market and increasingly important bank assets, its bond market development has not kept up with its growth aspirations. The government bond market remains illiquid. The corporate bond market, remains restrictive to few participants[ii] indicating the need for the country to create vibrant markets for debt instruments in order to channelize its above 30 percent (of the GDP) savings and to effectively cater to the growth aspirations of corporates. Decades of developmental efforts of multilateral agencies across various emerging nations clearly indicate that streamlining the regulatory and supervisory structure of the local currency bond market could substantially increase efficiency, spurring innovation, economies of scale, liquidity and competition.[iii]

Structural Issues and Bottlenecks in Development of Indian Bond Markets

Economic growth in India like other emerging Asian economies requires large amounts of efficiently intermediated capital that can enable Indian economy to sharpen its competitiveness in an increasingly globalizing world. However, an important constraint to financial reforms being undertaken in most economies has been to deal with the vestiges of established policies that largely crowd out the private sector from markets for debt capital and limits the ability of financial markets in effective intermediation of Indian savings. High statutory reserve requirements, extensive directed lending to priority sector, mandatory bank holdings of government securities, regulated interest rates, credit ceilings, and other such controls have had their impact on growth and development of debt markets in India.

Basic constraints in development of debt markets

The investor base in Indian debt markets is primarily dominated by buy-and-hold investors, largely represented by institutions such as banks, pension funds, and insurance companies. In addition, the lack of diversity in the investor base in primary issues is also an impediment to greater liquidity in the secondary markets. The low level of trading activity retards the development of profitable market intermediation resulting in high transaction costs, systematically retarding efforts in broad-basing participation. This vicious cycle of low participation and hence liquidity associated costs can only be addressed through constant policy measures that makes the market for debt capital attractive to various types of investors. Any efforts in development of secondary market liquidity should coincide with development of retail participation in the debt markets. While pension funds have improved their corporate debt holdings due to portfolio diversification requirements in the recent years especially after the implementation of the New Pension Scheme, asset allocations of institutions are largely biased towards sovereign debt. The asset allocation of pension funds has been dictated by rigid regulations on their investments and the resulting concentration of holdings has a negative effect on liquidity in addition to their hold-till-maturity practices.

In case of corporate bonds, most issuances look equivalent to a syndicated loan process due to participation of a select group of institutions in the primary market. The small number of investors makes it relatively easy to renegotiate terms in such private placements. Convenience in renegotiation of the coupon in case of change in the interest rate scenario

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ii Stephen Wells and Lotte Schou-Zibell (Dec 2008)- India's Bond Market - Developments and Challenges Ahead, ADB Working paper series on regional economic integration no. 22, pp 56

iii ADB Working paper series on regional economic integration no. 22, pp 56 makes private placements very flexible for the issuers and the subscribers. Due to limited participation in the private placement process, practically all issuances would end up with the same group of investors (IMF Working Paper, WP/11/132)

The Bank Loan and the Corporate Bond Market Conflict: On a macro level, Rajan and Zingales (2003)[iv] proposed an "interest group" theory which explains that entrenched banks with market power in an underdeveloped market would see a fledgling corporate bond market as competition, resulting in their disintermediation and, in the short term, as it would impair their positional rent that they have enjoyed due to lack of alternatives. The management of this potential conflict is a hazard that should be neutralized at a policy level. It is here that the leadership of the government plays a crucial role. The experience of both Korea and Malaysia are extremely valuable in this regard.

Demand and Supply-side Constraints in Bond Markets

Problems to bond market development could be basically divided into buy/demand-side and supply/sell-side to the development of bond markets. Typical demand and supply side constraints could be listed as below:

Demand Constraints

- Banks tend to prefer loans to bonds, because loans can be carried on the books without being marked to market, thus reducing the possibility of unexpected demands on bank capital.
- Pension funds, who could be large buyers of corporate debt, are constrained by their prudential norms and conservative investment regulations. Mutual Funds, and to a lesser extent insurance companies, are buyers of high yield debt instruments, but have limited access to funds.
- Foreign investors, who do not suffer from the same sources of risk aversion as Indian institutions, are allowed only to a very limited extent. At times they do not fulfill the quota due to lack of liquidity in instruments of potential interest.
- Unavailability of hedging instruments for the buy side to manage rate and credit risks associated with corporate bonds.
- Lack of a liquid benchmark yield curve that could be used to effectively price the instrument and could thus make it unattractive to either the issuers or the investors or both.
- The absence of a reliable system of resolving financial distress of the potential corporate issuers, hence offering few avenues of recourse to investors in case of default or downgrade. Insufficient bankruptcy protection and reorganization incentives also add to the lack of demand for corporate debt.

Supply Constraints

- Until the recent credit crisis, larger corporate issuers had access to much cheaper funds in offshore debt capital markets. Even after hedging their currency risks, the total cost of borrowing offshore was much lower than the cost of borrowing in the domestic market. This is reflected in the strong growth of External Commercial Borrowings (ECB) in recent years.
- A syndicated loan often works out to be cheaper than issuing a bond though with much higher risks in a syndicated loan process. Add to this given the high issuance and compliance costs, issuers do not find significant reasons to tap the market through a regular corporate bond issuance program to meet their debt needs.
- The high interest rates demanded by buyers - because bonds are illiquid and that bond holders are poorly protected in case of a bankruptcy event, mean that bank debt is available at much more attractive terms to the potential issuer firms.
- India's market infrastructure with less information and too few

iv Rajan and Zingales (2003 The great reversals: the politics of financial development in the twentieth century), ournal of Financial Economics 69, p 5-50, suppliers being enabled to actively trade bonds creating almost an illiquid secondary market.

Convertible Bonds – Given the right incentive structure markets can grow

In India, the convertible bond market was a notable success in the pre-SEBI era. The important characteristic of the Indian convertible bond market was the existence of a fixed conversion ratio at maturity. This enabled pre-IPO or pre-conversion investors to obtain a dual premium – a high return from bond and the possibility of a capital gain upon conversion from equity. This was aided by the fact the equity issuance price, which would adjust to market forces upon conversion, results in a win-win for both issuers and investors. The issuers gained because the cost of raising equity at fair market value was mitigated through their issuance of the convertible debt at a much lower coupon value in the pre-conversion period, and also acted as a natural hedge against earnings uncertainty. Though the reforms initiated during early 1990s took the steam out of convertible debt issuers, it showed that given the right incentive structure provided to both issuers and investors, the Indian bond market certainly has the capacity to be widely participated enabling intermediation between savings and the private sector.

Measures for Development of Bond Markets

Firstly, establishing a reliable benchmark yield curve is critical for the development of a liquid bond market both in the sovereign and corporate bonds. Additionally, a robust exchange traded secondary market would enable household savings to exit their debt based investments in a cost-effective way than the banks which levy penalties at the time of premature withdrawals. Regulatory measures taken to standardize corporate bond issuances would be critical for development of liquid exchange traded secondary markets and hence broaden the participation. While the reduction of transactions costs (including taxes and stamp duty) in issuing and trading corporate bonds would prove to be beneficial for both the issuers and investors and help in standardization efforts.

Establishing a National Bond Market Committee would go a long way to provide policy directions, coordinate various regulatory measures, oversee the enforcement of credit standards, rationalizing ratings methodologies and disclosure norms which would enable efficient price formation in markets along with secondary market liquidity. Additionally, revamping investment regulations and liberalizing asset allocation restrictions on domestic institutional investors would remain crucial for bond market development in terms of widening and deepening of institutional participation in bond markets. All type of corporate bonds should be mandated for issuance and trading only through exchange platform to promote access and transparency. Mandating bond issuance through "E issuance" mode will help the issuer in reducing the cost of distribution through exchange network to both the retail and institutional investors as well.

India should initiate the process of creating Bond Pricing Agency, which will have a positive impact on the development of secondary markets (both OTC and exchange traded markets). Pricing Agencies would provide pricing information for government and corporate bonds to all the debt market

investors on a public platform. Additionally, rating agencies could be mandated to take on larger responsibility for orderly development of debt markets rating by putting in a transparent process for pre-rating action into the market, which could then price in as similar to a corporate action. On the other hand, encouraging PSU Banks' to guarantee corporate debt, as in the case of the early years of Korea's bond market (till the Asian crisis), restricted to the larger and better rated business houses with the banks being encouraged to lend to the SMEs and smaller or higher yielding business houses. Also, setting up of an active exchange based CBLO mechanism for Corporate Bonds, would assist in terms of issuance, liquidity, cost effective access to funds and enable positive carry for most of the borrowers, cash surplus corporates, mutual funds & insurance companies.

Another key measure for the development of bond market includes securitization of debt that could contribute to the evolution of corporate bond markets by overcoming the problems of the small size and low credit quality which are typical of most emerging market issuers. An active Credit Derivative market (primarily Credit Default Swaps) and an interest rate derivatives market will nurture the bonds ecosystem and foster each other's growth. Derivative markets not only act as default hedges but also add valuable depth to the intermediate tenors of the yield curve. Overcoming liquidity issues in bond markets, regulatory efforts in standardization of corporate bond issues to be facilitated by a more stable monetary economic situation remain key to development of markets for debt instruments.

Lastly, measures including augmenting retail participation through fiscal incentives, incentivizing the issuers and investors by exempting interest payments/income in order to promote the trading of the bonds in secondary market; strengthening the legal position of bond holders and establishing parity with appropriate amendment of banking regulations shall reduce artificial preference of banks for loans by subjecting loans and bonds to similar mark-to-market requirements; and early adoption of IFRS norms, which is currently being contemplated, would encourage activity in all tenors of the yield curve and would enable efficient asset-liability matching.

Conclusion:

Vibrant bond markets would help ease financing constraints for private businesses and corporates both in terms of cost and access to funds and would ease dependence on the formal banking channels in the light of Basel III and the increasing restrictions on bank exposures. India faces the challenge of generating financial assets in line with its economic growth aspirations that can provide the underlying collateral through effective intermediation of savings, lower cost of funds, and ease of access for the corporates while creating investment opportunities to tap into its significant saving potential. The issue of debt market development could be addressed through an integrated approach of market regulators that provides for greater scale, efficiency, and ease of access. Though multifaceted, especially given the heterogeneity of issuance, India has to work further toward harmonizing market infrastructure by way of standardizing issuances, consolidation of outstanding stocks, establishment of operational parity among corporate bonds vis-à-vis government securities and bank loans, provision of appropriate legal recourse for appropriate investor protection and for creation of vibrant trading and clearing platforms.

Furthermore, incentives at the firm as well as investor/Issuer level must be provided to make bond financing and investing an attractive option. This could be small cost or an investment the government shall make for its better long-term effect on the efficiency of capital raising in the country. More importantly India would have to work for a more stable monetary economic environment that shall help the issuers come to terms with the standardization efforts of the regulators, if any undertaken. In process, policy making and regulations would have to tackle the inertia stemming from a historical dependence on bank finance, higher costs of bond issuance, and lack of familiarity with the processes and risks involved through constant efforts to build awareness and strengthen the information database that will enable transparency and trading. To this end, India should continue to raise its standards in line with international best practices. With a lot of success

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stories around among its Asian neighbors it is necessary that India may look to its neighboring emerging markets with bond markets at various stages of development for innovative solutions to key challenges faced in the development of debt markets in India. The policy and the regulatory regime should provide for support of the local market innovations based on their success elsewhere, and make regulations for markets to avoid repeating other's mistakes.

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V Shunmugam

Chief Economist,
MCX Stock Exchange

Dr. Shunmugam V has a rich global experience in intensive policy matters, developmental economics & research and working in close proximity with policymakers and market regulators. He is a prominent figure in the industry, foreseeing and proposing policy changes for its impending impact on larger business environment. In his role as Chief Economist at MCX-SX and at MCX prior to that, he has structured pragmatic policy recommendations based on the foresight about its linkages with various aspects of the economy and its impact on economic stakeholders, investors, producers, savers, intermediaries and institutions, leading to balanced and sustainable growth of the economy. Before his stint in India, Dr. Shunmugam worked with the US Government where he played a robust role of connecting the Governments of India and the US through trade relations, commodity market dynamics, trade & policy matters and facilitating workshops, conferences, and official missions.

Dr. Shunmugam has authored several reports, analyses, papers and articles on various subjects related to financial markets, regulation, dark markets, market micro-structure in various media and journals of international and national repute. He is a Ph.D. in Agricultural Economics from Indian Agricultural Research Institute, New Delhi (1997) and M.Sc. in Agricultural Economics (Gold Medalist, 1993).

Arbind Kumar

Assistant Vice President - Research &
Product Development,
MCX Stock Exchange

Arbind Kumar FRM, MCX Stock Exchange carries two decades of extensive experience in varied sectors including his current long stint in the financial services sector. His current focus includes: development of financial products across classes such as Equity (e.g. SX40), Fixed Income, Forex, etc. and developing vibrant markets for them; studying and writing about traditional as well alternative investments; Identifying Risks and Implementation of Management Procedures in the field of trading and nvestments. A member of Global Association of Risk Professionals, USA, Mr. Kumar has mentored numerous professionals in Advanced Derivatives Trading strategies, Risk Management and Advanced Portfolio Construction Strategies and Analytics

India's Emerging Corporate Debt Market: Potential And Challenges

Smt. Usha Ananthasubramanian,
Executive Director, Punjab National Bank

Experiences of past financial crisis whether its Asian Financial crisis 1997-98 or the 2008 Global Financial Crisis have accentuated the boundaries of reasonably regulated , capitalized, supervised and effective banking system. However the experiences of financial crisis have shown that at times it fails. The role of banking system is to provide needed liquidity in effective, economically and timely manner. Overdependence of financial markets for financing corporates through banking system needs to be reduced. Banking system alone cannot be source of long term investment capital and also insulating economy from external shocks. It's been believed on such backdrop that diversion of systemic risk (credit and investment) reduces macroeconomic vulnerability

Historically, Indian financial system has been bank dominated and supplemented with Development Financial Institutions (DFIs). Over the period of time these DFIs has been converted into banks and financial space / responsibility enjoyed by DFIs has not been fully filled by banks. Developing country like India needs heavy investment in Infrastructure for exploiting our resource capabilities. Long Term Funding has always been an area of concern; Commercial banks are still not able to undertake long term requirements due to their own resource mix. Diversification becomes

Overdependence of financial markets for financing corporates through banking system needs to be reduced. Banking system alone cannot be source of long term investment capital and also insulating economy from external shocks

the need of hour and a thought process for development of good Corporate Bond Market. The corporate bond market plays a major role in terms of mobilizing, pricing, allocating and financing the development activities of the government.

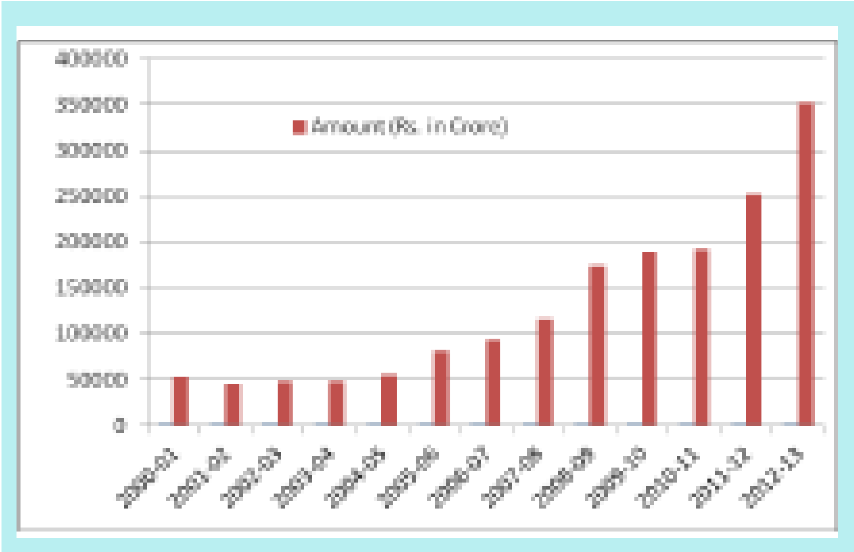
Corporate Debt Market in India

Government through various committee recommendations has implemented measures for developing corporate bond market through regulators (RBI & SEBI). Reserve Bank of India undertakes framing prudential guidelines and undertakes market repo transactions and in all other cases SEBI has regulatory jurisdiction. So far we can say that preconditions for the development of a corporate bond market are concerned we are fairly well placed. Government Securities market is a well-established market which acts as a backbone for development of corporate bond market in terms of pricing of bonds, depository systems, credible rating agencies and better legal framework has aided for growth and development of this market. The major stock exchanges have trading platforms for Debt Securities which creates liquidity to the system. SEBI and RBI have taken steps for making this market more transparent by introducing regulations such as compulsory holding of securities in dematerialized form, limiting investments in unlisted securities, prescribing disclosure norms etc.

Various measures such as rationalizing of listing norms, market convention standardization, reduction in shut period days, reporting platforms and implementation of DVP-III (Delivery versus payment) settlement process had made this segment more vibrant which is evident with increase in number of issues and funds raised over the period of time.

In most developing countries dependence on banking system is substantial, corporate bond funding

Year	No. of Issues	Amount (Rs. in Crore)
2000-01	603	52456
2001-02	557	45427
2002-03	485	48424
2003-04	364	48428
2004-05	321	55409
2005-06	367	81954
2006-07	500	93855
2007-08	612	115423
2008-09	799	174327
2009-10	806	189490
2010-11	831	192225
2011-12	1347	252564
2012-13	1828	351848



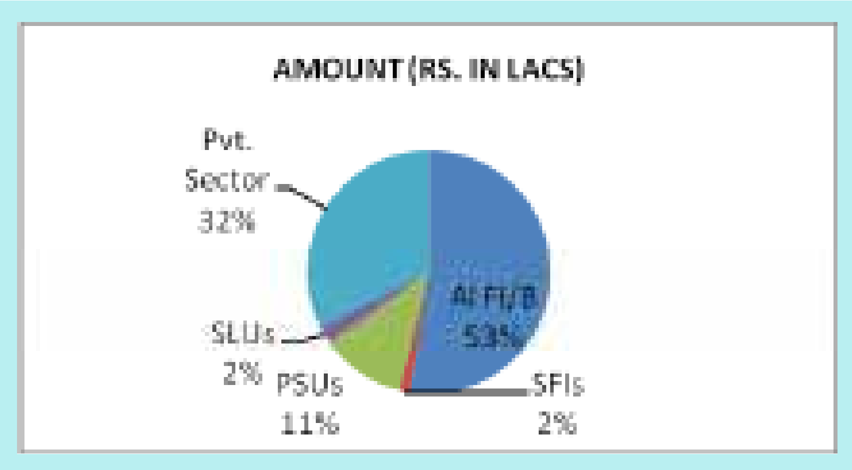
is marginal and small as compared to corporate bond market in developed markets.

The primary market is mainly dominated by private placements as it required less disclosure and operational costs as compared to public issues. Institutional players enjoy larger space which includes banks, primary dealers, mutual funds insurance companies, pension funds, corporates etc. Major dominance is visible from exhibit below.

Segmental distribution needs to undergo a change for better depth in the market. Certain characteristics such as 'buy and hold' strategies, issue size depending upon requirement of issuer / investor, imperfection in tax structure are some of the issues which hurdles growth of secondary market.

Banks and financial institutions are major issuers of debt instruments. (insert table of issuers), however the contribution of banks and financial institutions through investment has been on the lower side as proportionate to total resources mobilized through banking system. The nationalized banks are active investors in PSU bonds and Tier 2 bonds of other banks. Corporate bonds can be considered as quasi loans. In recent past banks due to competitive pressures, risk averseness

Issuer Type	No. of Issues	Amount (Rs. in Crore)	%
AI FI/B	356	184582	53
SFIs	20	5394	2
PSUs	29	39551	11
SLUs	18	8584	2
Pvt. Sector	1405	113737	32
Total	1828	351848	100



had invested in such bonds of highly rated corporates which otherwise would not have possible due to base rate constraints. On the other hand insurance companies, provident and pension funds contributing a major chunk of buy and hold group due to guidelines of investment pattern prescribed by government are oriented towards safety of funds. As a result they end up investing in either in government securities or in bonds of public sector undertakings and very less proportionate is invested in private sector bonds.

The other major groups which provide some respite to shorter to medium end of the yield curves are Mutual funds. Their contribution directly depends upon liquidity conditions and as such are susceptible to liquidity volatility also which at times causes panicky in secondary market disrupting the yield curve. The last segment with minute presence is the retail investor group with less than 2% contribution to the whole segment. This group consists of very few informed investors who expose their savings for better return taking risk return profile into consideration.

Foot Steps Taken So Far…

Our financial system has recognized the space of corporate bond market for better diversified risk based long term funding. Government along with RBI and SEBI has tried to address issues which remained as bottle necks for the growth of this market. Some of these measures include

a. RBI regulated entities are now required to report all OTC trades on FIMMDA reporting platform resulting in developing credible data base.
b. Repo was allowed in corporate bonds creating additional liquidity.
c. Relaxation of provisioning norms for infrastructure loan accounts.
d. Setting up of clearing houses of exchanges to facilitate settlement of trades.
e. Classifying infrastructure corporate bonds in HTM category.
f. Exposure norms relaxation for PDs for greater role.
g. Introduction of Corporate Default Swaps for hedging of credit risks (CDS).
h. Increasing FII limits in corporate bonds from USD 0.5 billion in the year 2006 to USD 45 billion in 2011 and in Government Securities it has been increased from USD 1.75 billion in 2006 to 15 billion in 2011 for wider participation and enhancing investor base and also rationalization of terms and conditions for with regard to lock in period and residual maturity.
i. Guidelines for securitization of assets.

Debt Market Potential

We all agree that efficient corporate bond market can facilitate in 1) reducing volatility in financial markets 2) optimum and efficient allocation of resources 3) contributing infrastructure financing & 4) providing better pricing for SME and Medium Term Enterprises.

Deepak Parekh committee on infrastructure financing has estimated that Rs 51.46 Trillion would be required for infrastructure financing in 12th Five year Plan 2012-17 of which 47% has to come through PPP route. Other areas such as railways, urban and rural infrastructure estimations are included , the figure works out to be quite large The GOI capital expenditure has remained stagnant at around 13% hence the role of private sector assumes much significance. The existing financing structure of banks due to its ALM mismatches will face some difficulty in financing such long term investments. Corporate bond segment can fill in the gap which will create more opportunity for both investors especially retail investors who are in search of long term investments and borrowers who look for long term stable funding.

Developed debt market provided cost effective funding opportunity for corporates and reduces dependence on banking system. By increasing the financial sector net, each participant becomes more disciplined and informed towards each other creating the much needed strength and stability. It also provides an opportunity for pricing / hedging credit risk of corporates and which gets well supported by liquid government securities market providing the base yield curve resulting in better price discovery. A well-developed corporate bond market will reduce our corporates both currency and liquidity risks.

SME and MSME are the back bone of our industrial infrastructure. They provide the most employment opportunity to the masses. We being the consumption driven economy has its own benefits to face global bad whether to some extant as we are not export oriented economy. SME and MSME are always deprived of Infrastructure facilities whether it's financial or tangible causing additional cost burden and pricing disadvantage. If we compare with other developed economies our SME and MSME are at a disadvantageous position in terms of all kinds of facilities. Introduction of these segments to corporate bond market will address a major issue of cost effective resource funding which will help them in creating more contribution to our GDP.

Over all the strength of any economy depends upon the strength of its financial market. Addressing volatile areas and creating sound infrastructure for financial market brings much needed confidence internally and externally. Over dependence of financial markets to banking industry for finances is not good for both the counterpart. It enhances risks of concentration and monopoly. Corporate bond market creates opportunity for diversifying credit risks across the segment which helps banks at times of stress. Presently there has been trend from corporates to go for external funding for implicit cost structuring. Such external exposures come under heavy pressures which creates imbalances for domestic economy also. Bond market needs to become shock absorber for the future eventualities which require it to be strengthened gradually. Such acts will help corporates to meet their funding requirement domestically and reducing external volatility.

All markets are evolved through experiences domestically or internationally. No system can be fool proof and efficient from the start. There is always an evolution time which every market takes. However it depends upon the response time of government and regulators which decides the growth of these markets. Our market has developed over the period of time and necessary steps are taken to evolving issues over the period of time. Necessity and creativity of new products has been the characteristics of financial market which is addressed by introduction of new products. Such instances creates requirement of new measures for introduction of new products into our market and its supportive infrastructure. Some of the measures in my view which need to be addressed for a better bond market are enumerated below:-

a. Identifying market makers in corporate bonds as in government securities market at present.
b. Reducing number of securities present in the market and encouraging reissuances.
c. Repo has been introduced in corporate bonds, but the present structure includes repos to be undertaken between participants on bilateral basis. This needs to be changed with some central counterparty providing such repos similar to LAF.
d. Creating more liquidity in IRS and CDS market along with more liquid points in Government securities yield curve which will result in better pricing / hedging of corporate bonds.
e. Enhancing role and responsibilities of rating agencies. Investor confidence in rating agencies has to be much more as all investments are decided on rating work done by rating agencies. The trust reposed on rating agencies has to be kept intact. Recently there have been incidences where there were rating downgrades in quick mortality fashion. Such instances take the much deprived investor

confidence adding illiquidity to the market.

f. Creating common stamp duty regime across the country which will help in transparency and smoothness in raising funds.

g. Addressing delinquency issues in similar fashion which we have made available for normal credit delinquencies.

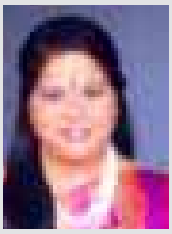
h. Revising investment pattern guidelines for pension / provident funds and insurance companies so that they can take a risk return investment decisions and contribute.

i. Presently guidelines for securitization have been in place but it has been realized that this route has not been taken to offload balance sheet assets. It needs to be developed under new regulatory framework.

j. Increasing FII limits in corporate bonds and gradually taking away with maturity restrictions depending upon investment behavior pattern.

Being one of the world's biggest economies with greatest democracies in the world, we need to augment and equip ourselves for our future generations. Stronger country needs financial muscles and it comes through effective and strong and time tested financial systems. We are evolving markets which can learn from developed markets and prepare ourselves from the crisis facing mechanisms the world markets have adopted to respond. Shifting balance from the existing banking system will be a big task ahead but we have taken some sound steps which are reflected in vibrancy and volumes in corporate bond market. Corroborated actions and engagements of regulators, participants will make it another market to look upon.

Stronger country needs financial muscles and it comes through effective and strong and time tested financial systems. We are evolving markets which can learn from developed markets and prepare ourselves from the crisis facing mechanisms the world markets have adopted to respond



Usha Ananthasubramanian

Executive Director
Punjab National Bank

Smt. Usha Ananthasubramanian has taken over as Executive Director of Punjab National Bank on 19th July 2011. Prior to oining the Bank, she was General Manager in Bank of Baroda.

Born on 1 October 1958, Smt. Usha holds a Master's Degree in Statistics from the University of Madras and a Master's degree in Ancient Indian Culture from University of Mumbai.

She started her banking career in February 1982 as a Specialist Officer in the Planning stream of Bank of Baroda. In a career spanning over 29 years, she has worked in various positions and has acquired rich experience. The key assignments include Zonal Head of Southern Zone of Bank of Baroda, Life Insurance Joint Venture formation and Secretary to the Board of Directors. She has been closely associated with the transformation project of Bank of Baroda including rebranding and innovative HR initiatives

Smt. Usha has attended Leadership Development Programme at MDI, Gurgaon, Leadership & Corporate Excellence Management Programme at Kellogg School of Management, Northwestern University, Chicago. and the Top Management Programme at Indian School of Business, Hyderabad

India's Emerging Corporate Bond Market: Potential and Challenges

Ms. Arundhati Bhattacharya *, MD & CEO,*
SBI Capital Markets Ltd

The main source of capital for supporting Indian corporates' expansion plans has traditionally been the strong domestic bank loan market. A vibrant debt capital market is equally important from a macro-economic perspective, since it providesaccess to a largerand more diversified source of financing. In developing countries, having a liquid corporate bond market assumes significance as it plays a critical role in tapping all possible avenues for scarce resources by matching investors to the borrowers in an efficient manner. The existence of a well-functioning bond market also provides efficient pricing of credit risk as expectations of all bond market participants are incorporated into bond prices.

Although the Government bond markets in India are now relatively well developed, the development of a Corporate Bond market in India has lagged behind in comparison with other financial market segments owing to many structural factors. With the role of development financial institutions (DFIs) in the creation of long term capital being reduced substantially, the Banking system had stepped in to fill the gap, albeit at the cost of ALM stress in its own books. As is the case with most developing countries, where dependence on bank loans is substantial, Corporate bond Markets in India are small and marginal in comparison with corporate bond markets in developed countries. The dominance of the banking system in

Although the Government bond markets in India are now relatively well developed, the development of a Corporate Bond market in India has lagged behind in comparison with other financial market segments

India can be gauged from the fact that in 2010-11 the proportion of bank loans to GDP was approximately 52.08%, while that of corporate debt to GDP was only 2.46%[1] .In the fast changing economic scenario which hitherto had been influenced by quantitative easing and zero-interest rate policies in the developing economies, India now faces significant macro-economic challenges in terms of managing volatile capital flows, upward pressure on exchange rates, inflation and emerging asset bubbles. With major regulatory reforms such as the Basel III capital and liquidity requirements getting endorsed globally there is an urgent need to reduce pressure on the banking system as the main source of credit to ensure that the Banking sector continues to provide sustainable and inclusive growth.

There remain serious questions why Indian Corporate Bond markets have not developed despite focus on policy action and strong regulatory framework. The problem needs to be looked at as a systemic issue with complex, interactive and interdependent parts. A 2007 report of the Committee on Global Financial Stability (CGFS) had succinctly put the policy challenges as:"Three important policy challenges that remain are: to improve market liquidity of the new markets; to encourage greater private sector issuance; and to spread the risks of bond investment more widely." [2]

Liquidity

There are four broad investor classes namely (a) Banks and Financial Institutions (including FIIs); b) Insurance companies, Provident Funds and Pension Funds; c) Mutual Funds which can be termed as institutional players having significant influence in the development of the markets; and d) Individual (Retail) investors[3] Each of the institutional players have their own set of investment patterns in terms of credit appetite, percentage of the corpus, rating of the debt securities, etc. On the otherhand the principal focus of the Individual Investors is safety and liquidity of investment. Since institutions are the principal market players, participation has a significant bearing on the development of the secondary market as well.

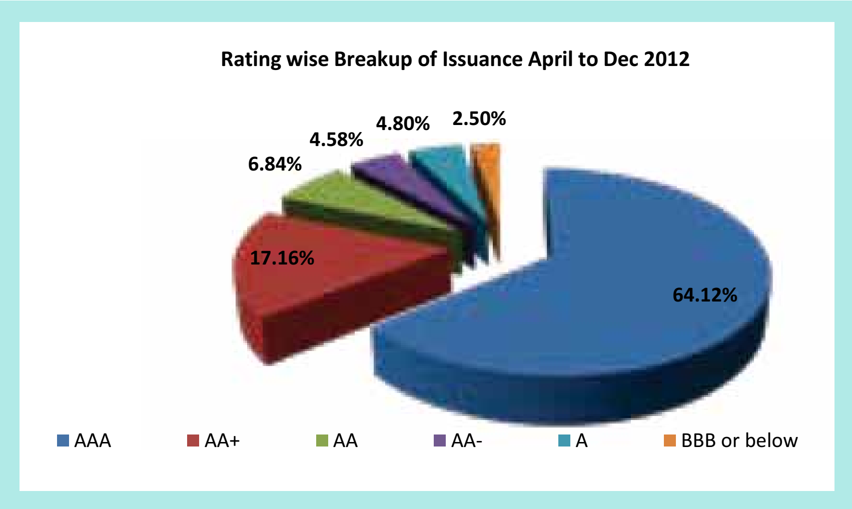
One of the key elements in development of the market for a product is liquidity in the secondary markets. The secondary market liquidity gets constrained by the fact that most Institutional Investors like the Insurance and Provident Funds have a "buy and hold" strategy and are averse to churn their portfolios. Unlike the Government Securities Secondary Market where prices are closely monitored by the Reserve Bank of India, there is no monitoring of the secondary market pricing in Corporate Bonds. This assumes considerable significance in light of the fact that the Corporate Bond Market is illiquid and mainly a telephone market and therefore there could be cases of price manipulations and miss-selling. Absence of monitoring the prices/ yields at which deals get done leads to erosion of confidence amongst the investors. All of these viz. lack of large number of players, lack of transparency and investment strategies of large institutional players contribute to lack of liquidity in this market.

In order to increase Private placements we need to see more investor appetite which can come only if investment policies of institutions change and there is greater transparency and disclosure on the part of issuers so as to give greater comfort to the investors

Private Sector Issuance

It would be observed from the chart below that while lower-quality credits have difficulty in raising finances through bonds, Banks are not averse to giving them loans.

In the bond market, the investor appetite is mainly for highly rated



[3] For the purposes of this Article, the Individual investors have not been bifurcated into HNI and Retail. The two ie HNI and Retail are treated synonymously.

instruments, with liquidity mainly in AAA-rated securities.The Banks which dominate the financial system treat Bonds and loans as two separate products rather than fungible product classes. Performance indicators of most Banks are based on the Loan Book growth rather than a consolidated growth of both loans and Bonds. By dint of the fact that the Banksare required to mandatorily invest in government bonds, the Investment Policy of most of the banks is credit risk averse and allows investments in Corporate Bonds only up to AA, while there is no such restriction in the Credit Policy of the same Banks for giving loans to lower rated corporates.

Bonds have to be rated by one or more registered Credit Rating Agencies (CRA). An adverse development is that it has become a common practice among issuers to "shop" for the right credit rating, and they are at liberty not to accept a rating. These unaccepted rating may go unpublished. This has led to substantial erosion of investor trust on the ratings.

In order therefore to increase Private placements we need to see more investor appetite which can come only if investment policies of institutions change and there is greater transparency and disclosure on the part of issuers so as to give greater comfort to the investors.

Increasing participation

While primary issuances have been significant over the past five years, the issuers prefer private placement to institutional investors as against public issuance mainly becauseof ease of issuance, cost of issuance and disclosures. During the last year, the private placements, which limit transparency in the primary market, accounted for 95.51% of the total corporate debt raised annually[4]. In terms of the issuers, PSUs (at both the central and state government level) account for the bulk of issuance with the Private Sector issuing only 28.41% of total private placements in 2011-12 of which the non financial sector issuance by private sector was only 37.47%. The bulk (74.42%) of fund-raising through private placements was by financial institutions and banks (in both the public and private sectors) in 2011-12[5]. More often than not Private placements of Private Sector are done on a bilateral basis between the issuer and the investor and it is not uncommon that the entire issue gets taken on the "book" by the arranger of the deal and the arranger doubles up as the investor as well.

One of the ways to ensure a wider investor base in the Private Placements is to have a minimum number of investors say 5 in any private placement transaction in addition to restricting the maximum number of investors to 49 in Private Placements. This would ensure better price discovery and transparency but also ensure that there is a broader investor base holding the supply. Arrangers to the issue should not be allowed to invest in the issue but only allowed to underwrite the issue. The underwriting should be provided at a fee.

On account of the bias of the issuers towards Private Placement, the investment potential of the Individual investor has hardly ever been exploited. As per quick estimate India's gross domestic savings for the household sector in financial savings amounted to INR 17,493 billion in FY 2010-11, accounting for 10.0% ofGDP[6] However, the investment in bonds of private corporate business by the household sector is very marginal. The principal factors driving retail investment are tax benefits, returns, liquidity and safety. Banks which are the main vehicles of financial services do not offer any services eg. Loans or buy back etc to the retail segment for Corporate Bonds.

The Government on its part has not been averse to bearing the expenses (by way of revenue hit on account of tax free status) to broad base the participation in the Corporate Bonds. In 2011 the Finance Minister in his Budget provided for issuance of Tax Free Bonds by select PSUs engaged in infrastructure financing. The Government notification mandated five PSU, which were all but one rated AAA, to raise Tax Free Bonds

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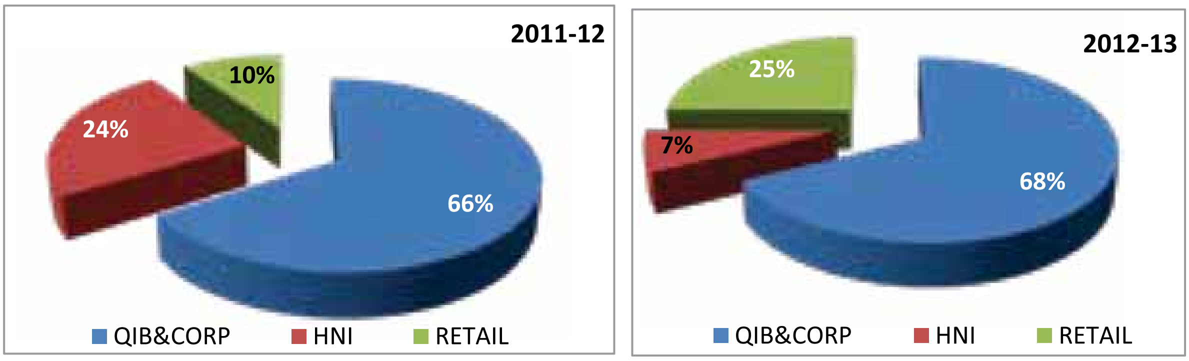
4 Statistics from SEBI

5 RBI Handbook

6 RBI Handbook



The definition of HNI was investment over Rs 500,000 in 2011-12 and Rs 1,000,000 in 2012-13

by way of Public Issues. Based on the overwhelming success of the issues in 2011-12, the Government again allowed select PSUs to raise Tax Free Bonds in 2012-13 to the tune of Rs 53000 crores to select PSUs. The mandated issuer population was enlarged to include Ports.

While the investor classes were broadly three ie QIB, Corporate and Individual (which incidentally is also retail), the Individual Class got further split into HNI and "Retail" the segregation between the two being greater than Rs 500,000 (next year enhanced to Rs 1,000,000) being treated as HNI. The QIB and Corporate sector contributed over sixty five per cent in both the years and the Individual Investor share (HNI+Retail) fell marginally in 2012-13[7]. The geographic distribution remained nearly the same with maximum mobilization from metros (over 80%) and little from tier II or small towns and western zone contributing to over 70%of the mobilization[8].

Given thepremise that Government is interested in deepening the corporate bonds market and is looking to increase the participation of Private sector issuers so that they are able to access longer tenor funding for infrastructure, the next step forwardwould be to allow issuance of tax free bonds by Private Sector issuers. This would enable the private sector to access long term funds from the markets and enhance the Public Private relationship.

The last two issues were characterized by limited geographical spread of the investors. This is primarily because of lack of investor education in the hinterland. The issuers and the distributors would need to work on the investor education if the issues have to sail through without depending of the QIB and Corporate. The Private Sector because of its need to access long term funds would be motivated to take up this task especially if suitable structure is put into place to ensure there is a greater participation of individual investors (HNI and small investors).

Tax Free bonds are seen as instruments with implicit government guarantee. Additionally the tax subsidy gets inbuilt into the pricing as a result the issuers are able to access the funds at a cheaper rate than what their own standalone rating would allow. This subsidized cost needs to be

[7] Investment Pattern of Tax Free Issues – Internal Research by SBI Capital Markets

[8] Study on select issues conducted by Karvy

passed on to the users of infrastructure by those issuers raising these funds either directly or indirectly.

Extension of the scheme to the Private Sector would therefore not only help deepen the Corporate Bond Markets by getting more and more Private Sector issuers, it would also enable a faster paced development of infrastructure which today is constrained by its lack of accessibility to long term funds.

To sum up, we believe that three issues will need to be addressed – viz. liquidity, transparency and greater numbers of investors to increase the depth of the Corporate Bond Market

Arundhati Bhattacharya

MD & CEO

SBI Capital Markets Ltd

Ms. Arundhati Bhattacharya has assumed charge as MD & CEO of SBI Capital Markets Ltd., on August 17, 2012. Prior to this she was Deputy Managing Director and Corporate Development Officer of State Bank of India. She joined the Bank in the year 1977 and since then has held various assignments spanning Credit, Forex, Treasury and Retail Operations. She has also had a stint in the Bank's New York office where she was in charge of monitoring branch performance, overseeing External Audit and Correspondent Relations.

In her extensive service in the Bank she has had the opportunity of working in Metro, Urban and Rural areas, crisscrossing the length and breadth of the country. She has handled large Corporate Credit as well as initiatives like Financial Inclusion and financing of Self Help Groups. She was involved in setting up several new companies / initiatives of the Bank including SBI General Insurance, SBI Macquarie Infrastructure Fund, SBI SG Securities Ltd, etc., as well as the launch of new IT platforms such as Mobile Banking and Financial Planning in the Bank.

Reforms to assist the corporate bond market must be put on a war footing

Mr. Jagannadham Thunuguntla, *Chief Strategist*
SMC Global Securities

Introduction

India has an active government securities market segment whereas the Corporate Debt Market is at a nascent stage in terms of an efficient price discovery mechanism as well as market participation. Thus, India lacks a long-term debt market for pure project finance. The Government Securities (G-Sec) market in India is well-developed and backed by well-functioning depository systems. Thanks to the Reserve bank of India (RBI), the G-Sec market has a standardised settlement and trading system.

India Vs Other Economies

If we compare India with the other economies, the presence of corporate bond market in India is barely perceptible as the primary corporate debt market is dominated by finance companies and relatively a very small amount of funds are raised by manufacturing and other service industries through this market. The chart below confirms insufficient growth of the bond market in India as compared to other foreign countries.

According to data available in Bank for International Settlements (BIS) Quarterly Review Report, December, 2012, India's corporate bonds make up 0.09% of the total Global bond market whereas China's corporate bonds see a market share of 0.18% as of September,

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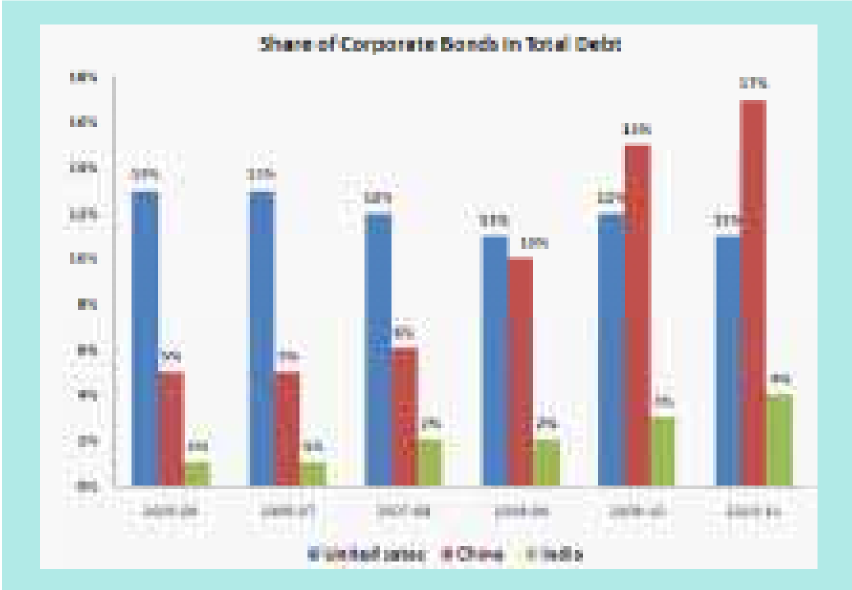
2012. Corporate bonds, as a percentage of India's GDP, are at a dreadful low exactly opposite to the equities market which has seen tremendous growth over the last few decades. The corporate bond Market in India captures a small portion of 4.74% of the total Indian debt market. Comparatively, the corporate bond market of China has extremely grown from 5% of its total debt in the year 2005-06 to 17% in the year 2010-11. According to various studies, China will become one of the largest bond markets in the world by 2020 and its size will reach about US$13.4 trillion in 2020.



The present Corporate bond Market Situation in India

The existing corporate bond market in India is largely driven by banks and other financial institutions rather than infrastructure companies or the manufacturing sector. Currently, an Indian corporate bond with 'AAA' rating maturing in five years offers close to 9.5 per cent. Actually, the corporate bond market in India is conquered by high-rated papers but the presence of those papers is few. According to the rating agency Crisil, as on September 30,2013 not even five per cent of the companies it rated in India carried the premier 'AAA' rating. This leaves limited options for foreign investors looking for papers with investment grades in the country.

Also important issue is the availability of reliable information on bond issuances data and the popularity of the market. So, the market regulator should come up with the corporate bond awareness campaign to gain popularity.

The table below shows distribution of Corporate Debt Securities by rating.

Despite governments' endless ef-

Distribution of Corporate Debt Securities by rating

Year	Highest Safety (AAA)		High Safety (AA)		Adequate Safety (A)		Moderate Safety (BBB)		Non-investment Grade		Total	
	Number	Value (Rs. Cr.)	Number	Value (Rs. Cr.)	Number	Value (Rs. Cr.)	Number	Value (Rs. Cr.)	Number	Value (Rs. Cr.)	Number	Value (Rs. Cr.)
2000-01	113	97,988	99	12,880	63	14,890	9	1,689	11	405	295	1,27,851
2001-02	106	86,987	112	39,312	80	13,086	26	1,525	10	292	334	1,41,200
2002-03	160	1,07,808	95	19,512	64	10,652	22	2,335	10	1,463	351	1,41,770
2003-04	201	1,29,436	99	24,908	69	10,200	26	1,812	4	645	399	1,67,001
2004-05	278	1,59,788	110	48,602	58	8,191	35	4,139	9	688	490	2,18,707
2005-06	261	2,79,968	147	62,316	45	28,957	21	1,200	4	144	478	3,82,585
2006-07	312	2,66,863	144	53,766	53	5,905	33	9,014	2	75	544	3,35,623
2007-08	335	4,54,164	257	1,20,199	167	35,661	63	9,478	27	1,603	849	6,21,105
2008-09	307	5,23,589	349	1,38,471	298	53,240	526	52,372	396	24,720	1,876	7,91,891
2009-10	275	5,03,347	321	1,41,089	249	42,121	691	29,550	1,507	45,942	3,043	7,62.050
2010-11	244	5,11,583	267	1,82,584	249	90,445	579	69,283	1,843	42,704	3,199	9,07,685

Source: SEBI (Handbook of Statistics On Indian Securities Maarket) forts to revive the market, the lack of participation of both, investors and issuers has dampened corporate interest in the corporate bonds, making bank loans the primary source of debt capital. This has forced corporate borrowers to prefer private placements over public issues for bonds. Consequently, near about 90% of corporate bonds comprise of privately placed debt by public financial institutions. A deep and liquid Corporate Bond Market is classic for the sustenance and growth of all the economies.

The present capital market situation in India:

The present market condition in India, when corporates are under pressure, an efficient bond market would have helped corporates to reduce their financing costs and allow them to structure their asset-liability profiles better. Recently, government bonds and corporate bonds in India saw a huge sell off on the back of fear that Fed would taper its bond purchasing program. The news created havoc in almost every segment of the markets across the world and the Indian rupee has fallen prey to it. The Indian rupee has fallen about 10% as against the US dollar in the last two months and this sharp depreciation in rupee has numerous implications for the corporates and Indian economy. Since it affects dollar returns, falling currency affects investments by foreign investors, a dominant force in the Indian markets. At present the Indian economy is going through a rough phase with growth slowing down to decade lows. Interest rates will have to come off in the economy for growth to stabilize and rise.

The point to note is that a reasonably well-developed corporate bond market is very much required in any economy to supplement banking credit and the equity market. Additionally, a well developed corporate bond market is also necessary for long term financing of corporates. Taking a cue from reforms in the equities market that helped deliver good returns since past, India has to now deepen its corporate bond market to channelize savings and help spur growth.

Regulatory and the initiatives:

SEBI has constituted a 16-member committee namely ‘Corporate Bonds & Securitisation Advisory Committee´ which will suggest a roadmap for developing corporate bond market in the country. The members include are representatives from SEBI (Securities and Exchange Board of India), RBI (Reserve Bank of India) and independent experts. The committee is to advise SEBI on implementing the recommendations of the High Level Committee on Corporate Bonds and Securitisation and also to suggest removal of regulatory hurdles and advise on issues. No doubt, development of the domestic corporate debt market in India is guarded by a number of factors such as low issuance leading to illiquidity in the secondary market, narrow investor base, high costs of issuance, lack of transparency in trades and so on. The market also suffers from deficiencies in products, participants and institutional framework.

Now the obligation of developing a jovial corporate bond market lies on the Ministry of Finance, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) etc. They should come up with many more steps to tackle all these hurdles and improve the market participant sentiments. Efforts should be made to enable wider participation in the market and create scope for market making. This would facilitate the growth of the corporate bond market, which would directly cater to the needs of the real economy and the financial sector.

However, in the month of February 2013, the government, and the regulatory authorities such as Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) have taken various steps for

At present the Indian economy is going through a rough phase with growth slowing down to decade lows. Interest rates will have to come off in the economy for growth to stabilize and rise

developing the corporate bond market. To its endeavor, RBI has permitted banks to take limited membership in SEBI-approved stock exchanges for the purpose of undertaking proprietary transactions in the corporate bond markets. Moreover, IRDA has permitted insurance companies to participate in the repo market to enhance liquidity in the corporate bond market. Additionally, it has also permitted insurance companies to become users of Credit Default Swap (CDS). Even mutual funds have been permitted to participate in CDS in corporate debt securities, as users.

The finance minister and the union budget 2013-2014:

In the union budget 2013-2014, the finance minister has allowed FIIs to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements. Moreover, it has also been informed that stock exchanges will be allowed to introduce a dedicated debt segment on the exchange. It is yet to commence in a significant manner. Also to improve FII participation, in the month of March 2013, Finance minister has eased restrictions for them in central and corporate bonds to attract inflows and help fund a widening current account deficit. Effect from April 1, there are two baskets - one of $25 billion for government securities and one $51 billion for all corporate bonds.

How to make Corporate bond market active?

In the recent financial year 2013, the public issue of corporate debt issue has fallen tremendously. According to Economic Survey 2012-13, for the year 2012-13, in the public issue of corporate debt category Rs 4,974 crore was mobilised through the debt issue compared with Rs 35,611 crore in 2011-12. However, the explanation goes that government should come up with the bold steps to make corporate bond market attractive to the issuers rather than the investors. As the corporate bond market looks unattractive for the issuers, there are very few numbers of bond issuances and because there are very few numbers of bonds, there is no bond market. In order to balance the regulatory should come up with the solid reforms. Corporates should be encouraged to use bonds as funding source rather than using traditional banking system. Moreover, introduction of new products and making promising products such as covered bonds, municipal bonds, credit default swaps, credit enhancements, and securitization receipts may be considered more attractive for public issuance of bonds at reduced cost.

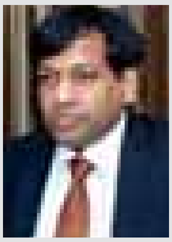
The recent activities from the Indian corporates:

To name few, recently, Mahindra & Mahindra (M&M) has issues 50-year, plain vanilla rupee-denominated bonds. It has become first corporate entity in India to issue 50-year bond. Actually M&M plans to raise Rs500 crore through the bond issue at a coupon of 9.55% payable annually. Moreover, Indian Infrastructure Finance Company Ltd (IIFCL) is looking to raise Rs 2,000 crore through long-term bonds with tenure of 30 years. This is the first time that a public sector firm is issuing debt paper of such long a duration in the domestic market. Even last year, Tata Power Ltd had issued bonds maturing in 60 years. However, the bonds were with a call option at the end of 10th year. In May, Larsen & Toubro raised Rs 100 crore through issuance of inflation-indexed bonds maturing in 10 years at a fixed coupon of 1.65% over wholesale price index-based inflation. Larsen & Toubro (L&T) is the first company to issue such an instrument. Also, in March 2013, Gujarat State Petroleum Corp issued 60-year bonds with a call option at the end of 12th year. No doubt, longer-maturity bond issuances by well-established companies are a step towards deepening the Indian corporate bond market.

In conclusion: To sum it all, the corporate bond market in India is at a very nascent stage that caters to a select few only. For the development of financial system of any economy, the development of debt market is vital especially the corporate debt market. India being the second most populous country in

For the evelopment of financial system of any economy, the development of debt market is vital especially the corporate debt market

the world has a consumer market of 1.2 billion population. Its population is still comparatively young and can therefore still benefit from the demographic transition. Reforms to assist the corporate bond market must be put on a war footing. The government should focus more and more to develop this market so that it can attract more investors and it can optimally mobilized and utilized the public funds for the development of financial system. Secured, short term, fixed rate debentures/ bonds of a creditworthy Corporate offered through private placement route are the ideal instruments for the market.



Jagannadham Thunuguntla
Chief Strategist
SMC Global Securities

Jagannadham Thunuguntla is Chief Strategist of SMC Global Securities and is one of the well respected and widely followed Equity Market experts of India. His research areas include Analysis of Private Equity Investments in Public Enterprises (PIPEs), 'Controlling stake' by Private Equity, Implication of "put" options in PE term sheet, Treasury stock, Buyback provisions of FCCBs and New Banking Licenses by RBI.

Earlier, as Head of Investment Banking of SMC Capitals, he has worked for a number of pitches for IPOs, follow-on offerings and Private Equity proposals. During this tenure, SMC Global has received PE funding and strategic investments of more than US$ 80 Mn from investors such as US-based "Millennium India Acquisition Company" (MIAC), "Bennett Coleman & Company Limited" (BCCL) and South Africa based "Sanlam Group".

Before SMC Group, he was in Morgan Stanley Capital Markets having worked on various pitches for IPOs and follow-on offerings. He is currently Corporate Advisory Board Member of MeraEvents (Hyderabad based e-commerce venture to book online tickets for Conferences, Seminars and Events), and i-Nurture Education Solutions (Bangalore based education venture).

He has completed his Executive Education in Harvard Business School. He holds various academic distinctions including All India 3rd Rank in CA Final and All India 1st Rank in ICWA Final. He is associated with various student development programs in various business schools such as INSEAD (France), IIM Ahmedabad, IIM Lucknow, ISB Hyderabad, IIT Delhi, IIT Mumbai and IIT Roorkee. He is a member of several committees and recipient of various awards.

The Policy Pulse

Banking Sector

The RBI Policy Review (July 30th 2013):

Key highlights:

- To keep the repo rate under the liquidity adjustment facility (LAF) unchanged at 7.25 per cent.
- The reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, will, as a consequence, remain at 6.25 per cent.
- The Marginal Standing Facility (MSF) Rate will be unchanged at 300 basis points above the repo rate at 10.25 per cent.
- The Bank Rate will be 10.25 per cent.
- The cash Reserve Ratio (CRR) of scheduled banks has been retained at 4.0 per cent of their net demand and time liabilities (NDTL).
- The RBI has cut the GDP forecast for FY'14 to 5.5 per cent from 5.7 per cent earlier
- Rupee depreciation a threat to inflation
- Tight liquidity measures to be rolled back once Rupee stabilises
- To use all instruments to keep March-end inflation at 5 per cent
- Policy measures aimed at addressing risks to macroeconomic stability from external sector
- Biggest threat to macroeconomic stability stems from the external sector
- Immediate structural steps needed to contain the current account deficit
- International crude oil prices are firming up
- Growth, inflation to determine future policy actions
- This is RBI Governor D Subbarao's last policy before expiry of his five year term

RBI issues policy document on regulation of financial market infrastructures

The Reserve Bank of India (RBI) has released a policy document on Regulation and Supervision of Financial Market Infrastructures (FMIs) regulated by it. The policy on supervision and regulation of the FMIs regulated by the Reserve Bank describes in detail the criteria for designating an FMI, applicability of PFMIs to the FMIs, oversight of FMIs and other related aspects.

RBI sells Rs 25,905 crore quotas to foreign investors

Mumbai, July 23 RBI beating market estimates sold its entire debt investment quotas at an auction to foreign investors since prices were set very low. The auction for quotas comes soon after RBI to create demand for the rupee raised short term interest rates and moves that drained cash from the markets. Foreign investors bought Rs 25,905 crore worth of orders for these investment quotas. These investment quotas if translated into real investments will bring relief to solve CAD.

However, dealers said demand was strong as the cost to obtain these quotas was negligible; while the purchase of these limits does not mean foreign institutional investors (FIIs) are under obligation to fill them. RBI is expected to increase the reserve funds that banks must hold with the apex bank. In last month auction Rs 39,000 worth orders for debt quota were bought but only Rs 4, 620 crore was translated into investment. $11.5 billion FII outflows have taken place. Yesterday, RBI choked gold imports but gave room for retail trade in jewellery – a breathing space is seen as the apex bank moving for the kill. Sebi otherwise given powers to take unilateral action against speculative trade has begun questioning trading in Forex market.

RBI tightens gold import norms to squeeze CAD (July 23rd)

The Reserve Bank of India (RBI) streamlined its gold import policy to ensure at least 20 per cent of the yellow metal sourced from abroad was made available to the country's gems & jewellery exporters. Also, for domestic use, the nominated banks and importing agencies have been made responsible for making gold available only to the entities engaged in jewellery business and bullion dealers supplying gold to jewellers. While the move is aimed at helping manage the country's precarious current account deficit (CAD) situation and improve gold availability for exporters, domestic prices of the yellow metal might rise. For instance, insisting on meeting certain export levels before allowing fresh import of gold would limit the availability for domestic use, pushing prices up.The revision has been done in consultation with the government and will be applicable to gold imports in any form /purity, including gold coins. Besides banks and other agencies that import gold, the new regime would cover the bullion refineries that imported gold in Dore form (raw form), RBI said in statement.

External borrowing: RBI opens automatic route for asset finance firms (July 10th)

In a relaxation of external commercial borrowing (ECB) policy, the Reserve Bank of India has allowed asset finance companies (AFCs) to tap this window under automatic route. Till date, non banking finance companies under AFC category were allowed to avail ECBs, but only under the approval route. RBI has now said that NBFC-AFCs can avail ECBs under the automatic route so long as the minimum average maturity period is five years. Also, the ECB should be availed to finance the import of infrastructure equipment for leasing to infrastructure projects. ECBs can be availed under the automatic route up to 75 percent of owned funds of NBFCs-AFCs, subject to a maximum of $ 200 million or its equivalent per financial year, the RBI has said.

June 2013

RBI tightens gold lending norms for Regional Rural Banks

The Reserve Bank of India tightened restrictions on gold lending on June 25th for regional rural banks (RRBs) and said the curbs extend also to units of gold exchange traded funds (ETF) and units of gold mutual funds, to tame demand for the yellow metal and rein-in a record high current account gap.

RBI extends ECB refinancing window for telecom, aviation sectors (June 25th)

The Reserve Bank of India (RBI) extended the time limit allowed for external commercial borrowings to refinance rupee loans in the infrastructure companies in sectors like telecom, civil aviation etc to 31 March 2014. As per the extant policy, the payment for spectrum allocation may initially be met out of the rupee resources by the successful bidders, to be refinanced with a long term ECB, under the approval route, subject to the condition that ECB should be raised within 12 months from the date of payment of the final instalment to the government. RBI has now decided that the ECB window for financing 3G spectrum rupee loans that are still outstanding in the telecom operator's books of accounts may be open up to 31 March 2014.

RBI reverses forex relaxation for SEZs: Central bank's action based on the sudden fall of the rupee; industry takes move sportingly

Clamping down on the delays in repatriating foreign exchange earnings, the Reserve Bank of India (RBI) has tightened norms for special economic zones (SEZs), asking them to realise and bring back full value of goods and services to India within a year from the date of export. The sudden slide of the rupee prompted the regulator to notify the norm on June 11. The new directive would build pressure not only on SEZ units, but also on their clients abroad to make faster payments. RBI's notification lifts a decade-old exemption for these units. There has been no prescription of any time limit for realisation of exports made by the units in SEZs since April 2003. Prior to that, SEZs were required to get their earnings back within one year. Under the SEZ Policy which came into being from 2006, no clear indication was made as to when the value should be realised.

May 2013

RBI bars loan against gold ETF and MF (May 28th)

The Reserve Bank of India (RBI) stated that banks and non-banking finance companies (NBFCs) would not be allowed to extend loans against units of gold exchange traded funds (ETFs) and gold mutual funds. The move is aimed at curbing rising demand for the yellow metal. During the annual policy review earlier this month, RBI had told banks to ensure the weight of any specially minted gold coin did not exceed 50g per customer. And, the amount of loan to any customer against gold ornaments, gold jewellery or gold coins, weighing up to 50g, should be within the Board-approved limit. Banks have since asked RBI whether an advance against units of gold ETFs or gold MFs are permitted. As a result, the central bank clarified that the restriction also applied for such products. Banks and MF houses, however, said the impact would be minimal, as banks did not have any significant exposure in this sector.

Reserve Bank of India directed Banks to follow Clean Note Policy (May 15th)

The Reserve Bank of India (RBI) directed banks to do away with stapling of note packets and issue only clean currency notes to the public. It also asked banks to stop writing of any kind on the watermark window of bank notes. Further, the apex bank said that instances of some bank branches continuing to follow old practices such as stapling, writing number of note pieces in loose packets on watermark window of notes disfiguring the watermark impression and rendering it difficult for easy recognition have come to its notice. RBI also said that certain bank branches continue to issue soiled notes to public without sorting them into re-issuables and non-issuables. Basically, RBI's Clean Note Policy's objective is to give the citizens good quality currency notes and coins, while withdrawing the soiled notes out of circulation. On an average, one out of five paper notes in circulation (over 20 per cent) gets disposed every year after getting soiled and the number of such soiled currency bills stood at over 13 billion units during the fiscal ended March 31, 2012, according to RBI data.

Capital Markets Sector

June 2013

Foreign investment in Government dated securities raised by $5 billion to $30 billion

On June 12, 2013, the Government of India raised the limit for foreign investment in Government dated securities by $5 billion to $30 billion. The enhanced limit of $5 billion will be available only for investments in Government dated securities by long-term investors registered with SEBI — Sovereign Wealth Funds (SWFs), Multilateral Agencies, Pension/Insurance/Endowment funds, foreign central banks.

SEBI panel moots simpler norms for foreign investors

The SEBI appointed Committee headed by former Cabinet Secretary K M Chandrasekhar has suggested a slew of reform measures. These include KYC rules to be based on the risk profile of investors,

considering single overseas investments of more than 10% in a company as FDI while those less than 10% to be classified as foreign portfolio investment; existing FIIs, Sub Accounts and Qualified Foreign Investors (QFI) should be merged into a new investor class called 'Foreign Portfolio Investor' (FPI) and prior direct registration of FIIs and Sub Accounts with SEBI to be done away with. Instead, the new class of investors (FPIs) should be allowed to register themselves with Designated Depository Participants (DDPs). SEBI approved the Committee's recommendations in its Board meeting on June 25, 2013.

Standing Council of Experts to recommend ways to improve international competitiveness of financial sector

As a follow up on a pledge made by the Union Finance Minister during this year's Budget, a Standing Council of Experts has been formed to make recommendations for improving the international competitiveness of the Indian financial sector. The Council is headed by the Secretary, Department of Economic Affairs, Ministry of Finance. The Council will examine the comparative pecuniary and non-pecuniary costs of doing business via the Indian capital and financial markets and via other competitive destinations. It will consider how the Indian markets operate, and make suggestions for improving their efficiency, 'completeness' and transparency.

Independent body to manage the corporate debt restructuring (CDR) mechanism

The Finance ministry has asked the Indian Banks' Association to set up an independent body to manage the corporate debt restructuring (CDR) mechanism to restrict the use of loan restructuring mechanism only to deserving cases.

SEBI tweaks Offer-for-Sale norms

To give a final push to companies looking to achieve compliance with the minimum public shareholding norms, SEBI has amended the guidelines to allow firms to launch their OFS even on the last day of the deadline for meeting the norms. According to earlier guidelines, companies had to announce it on the last trading day before the launch of the issue.

SEBI makes amendments to Mutual Fund regulations

SEBI has permitted Asset Management Companies (AMCs) to take membership of debt segment of stock exchanges under 'Proprietary Trading Member' (PTM) category. However, this will be only to undertake trades directly on behalf of schemes managed by them.

Limited purpose membership to mutual fund distributors

SEBI allowed Mutual Fund distributors to take limited purpose membership of a stock exchange with lesser financial and compliance requirements to use stock exchange's infrastructure for distribution and redemption of MF units. The financial and compliance burden will be reduced as requirements viz. SEBI registration, compliance as member of stock exchange, paid up capital and Base Minimum Capital etc, would not be applicable. However stock exchanges may prescribe suitable eligibility criteria including net worth requirements, membership fee etc.

Single Self Regulatory Organization (SRO) for Distributors of Mutual Fund Products

SEBI has approved the proposal to have a single

Self Regulatory Organization (SRO) for regulation of distributors of mutual fund and portfolio management products, after following a fair and transparent procedure. It has set July 31, 2013 as the cut-off date for accepting applications from market intermediaries that are interested in forming a SRO.

Amendment regarding appointment of custodian belonging to the same group

Presently, AMCs cannot appoint a custodian belonging to the same group, if the sponsor of the mutual fund or its associates holds 50% or more of the voting rights of the share capital of such a custodian or where 50% or more of the directors of the custodian represent the interests of the sponsor or its associates. SEBI has now decided to allow AMCs to appoint custodians from the same group provided certain conditions are met such as the sponsor having net worth of at least Rs 20,000 crore; if 50% or more of the directors of the custodian are those who do not represent the interests of the sponsor or its associates; if neither the custodian nor the AMC of a mutual fund is a subsidiary of each other; no person is a director of both the custodian and the AMC of a mutual fund and the custodian and the AMC of a mutual fund sign an undertaking that they will act independently of each other in their dealings with the schemes.

Amendments to SEBI (Alternative Investment Funds) Regulations, 2012

SEBI amended SEBI (Alternative Investment Funds) Regulations, 2012 to provide a framework for registration and regulation of angel pools under a sub-category 'Angel Funds' under Category I- Venture Capital Funds. This put into effect the announcement in Budget for FY 2013-14 on angel investor pools.

Institutional Trading Platform for listing of SMEs and start-ups without IPO

SEBI has decided to allow small and medium enterprises to list their shares without an initial public offer. It also exempts them from having to offer 25% of shareholding to the public through an offer document to get listed.

Amendments to SEBI (Buy Back of Securities) Regulations, 1998 governing buy-back through open market purchase

SEBI has approved changes to buyback of shares or other specified securities from the open market through stock exchange mechanism. The changes, inter alia, include the increase in mandatory minimum buy-back to 50% of the amount earmarked for the buy-back, as against existing 25% (failing which amount in the escrow account would be forfeited subject to a maximum of 2.5% of the total amount earmarked), the maximum buy-back period to be reduced to 6 months from 12 months and the companies to create an escrow account with an amount equivalent to at least 25% of the amount earmarked for buy-back.

May 2013

SEBI Discussion Paper on 'Co-location/Proximity hosting facility offered by the stock exchanges'

SEBI released a discussion paper on 'Co-location / Proximity hosting facility offered by the stock exchanges'. Co-location is a service offered by the stock exchange (or by third-parties appointed by the stock exchange) to its stock brokers and data vendors to locate their trading or data-vending systems within the stock exchange's premises. It is understood that not all stock brokers / investors would opt for co-location and so, it is felt that focus should be to ensure that: (a) the facility is made available on a fair basis and on transparent terms and (b) orders generated from a non-colocated space, on reaching the stock exchange, are provided with a fair chance of execution vis-à-vis orders generated from co-located space. SEBI had invited views on this discussion paper and FICCI submitted its views on the same too.

SEBI clarifies Schemes of Arrangement

A scheme of arrangement usually refers to an agreement between a company and its shareholders involving a court and are used to bring about a structural change in the company. SEBI clarified an earlier circular of Feb 2013 on the Schemes of Arrangement and exempted certain companies from independent valuations for schemes of arrangement. Such exemptions would only be given to companies in which the shareholding pattern of the listed/ resultant company didn't change after the scheme of arrangement. Further, schemes of arrangement involving promoters could only be pushed through if the majority of public shareholders agreed to it.

SEBI revises guidelines for algorithm trading

SEBI has revised some of the guidelines for algorithm trading to put in place additional safety measures such as half yearly auditing of the algorithmic trading system by a certified auditor while doubling the penalty for defaulters.

SEBI allows depositories to issue account statements

SEBI has amended the norms governing depositories and depository participants to enable issuance of single consolidated account statements to the demat account holders for all their dematerialized assets. Inspection of records of issuers of the securities by the depositories has also been asked for.

SEBI extends deadline for meeting ESOP norms to Dec 31, 2013

The deadline for companies to align their Employee Stock Option Schemes (ESOP) and Employee Stock Purchase Schemes (ESOS) with SEBI regulations has been extended from June 30 to December 31, 2013. SEBI has clarified that it's circular on employee benefits dated Jan 17, 2013 would be applicable only in cases where the company has set up the trust/agency or if the company has either direct/ indirect control over the scheme or has extended financial assistance to the scheme. Beyond December 31, employee benefit trusts would be allowed to hold company shares bought from the secondary market only when the shares had been purchased before January 17, 2013. This would be subject to alignment with extant ESOP/ESOS guidelines.

Review of Stock Lending and Borrowing Mechanism (SLB) framework

The framework of Stock Lending & Borrowing Mechanism (SLB) was specified in 2007 and operationalised with effect from April 21, 2008. The SLB framework has subsequently been revised a few times based on the need and representations from market participants in 2008, 2010 and 2012. In order to further extend the benefits of SLB and to facilitate efficient use of margin collateral, a review of the SLB framework was undertaken in consultation with Secondary Market Advisory Committee (SMAC) and the extant SLB framework has been modified.

April 2013

Committee set up to review SEBI (Prohibition of Insider Trading) Regulations, 1992

SEBI constituted a High Level Committee to review the SEBI (Prohibition of Insider Trading) Regulations, 1992 ("PIT Regulations") and to suggest suitable recommendations for amendments as it considers necessary. Since there have been several amendments to the Regulations and various prominent judgments, a need had arisen to review and realign the PIT Regulations with these developments and to ensure that they reflect the best practices adopted globally. As part of a consultative process, the High Level Committee had sought inputs from the public on any aspect of the PIT Regulations. FICCI submitted its inputs to SEBI in May 2013.

SEBI Discussion Paper on 'Risk Management-Safer Market for Investors'

SEBI released a Discussion Paper on Risk Management-Safer Market for Investors' in April 2013. The paper emphasized that the extant system of risk management could be fine tuned for more efficient use of capital and enhancing safety of investors. It highlighted various steps that can be

considered such as (A) Incentivising Internet Based Trading models posing minimal risk; (B) Mitigation of risk to client collateral and (C) T+1 settlement as a measure to reduce overall risk in the system.

Committee reviewing FDI Sectoral Caps

The Finance Minister had laid down a broad principle in the Union Budget 2013-14, saying that investment below 10 percent will be treated as foreign institutional investor (FII) and investment greater than 10 percent will be treated as FDI. As a follow up, the Finance Ministry constituted a committee to develop a transition mechanism to the new definition, develop safeguards and review Foreign Direct Investment (FDI) caps in various industry sectors. It was headed by Economic Affairs Secretary Dr. Arvind

Mayaram and the other members include DIPP Secretary, Chief Economic Advisor in DEA, RBI Deputy Governor Mr H R Khan and SEBI Member Mr S Raman. The Committee gave its recommendations to DIPP in June 2013.

SEBI allows 47 alternative funds to operate in India

In May 2012, SEBI had notified the guidelines for a new class of market intermediaries- Alternative Investment Funds (AIFs) that are basically funds established in India for the purpose of pooling in capital from Indian and foreign investors for investing as per a pre-decided policy. SEBI had allowed only 12 AIF to set up shop in the country till October 2012, and the number increased to 47 in April 2013.

SEBI directs companies to redress investor complaints within a month

SEBI has mandated stock exchanges and listed companies to redress investor complaints within a month of receiving them and their failure to meet this directive could attract penal action.

SEBI notifies guidelines for separate debt segment on stock exchanges

SEBI notified guidelines for having a separate debt segment on stock exchanges wherein banks will also be allowed to trade on exchanges. This is a follow up of the announcement made at the Union Budget 2012-13, that stock exchanges will be allowed to introduce a dedicated debt segment on the exchange. Banks and primary dealers will be the proprietary trading members. In order to create a complete market, insurance companies, provident funds and pension funds will be permitted to trade directly in the debt segment (both corporate bonds and government securities) with the approval of the sectoral regulator.

SEBI introduces common pool of arbitrators

SEBI has introduced 'Common Pool' and 'Automatic Process' for selection of arbitrators through stock exchanges, effective from April 1, 2013. In order to bring more transparency and fairness, the automatic process entails a randomised, computer-generated selection of arbitrator from the list of arbitrators in the common pool.

Foreign investment in government securities and corporate bonds rationalised

Till now, FIIs were permitted to invest USD 25 billion in G-Secs (Comprising of two sub-limits of USD 10 billion and USD 15 billion), USD 26 billion in General Corporate bonds (comprising of USD 25 billion limit for FIIs and USD 1 billion limit for QFIs) and USD 25 billion in Long-term infra bonds (comprising USD 10 billion limit for IDFs, USD 12 billion limit for FII investment in long-term infra bonds and USD 3 billion limit for QFI investment in Mutual Fund Debt schemes which invest in Infrastructure sector).

As per the new policy, the existing debt limits will be merged into following two broad categories:

(a) Government securities of USD 25 billion (by merging Government Securities old and Government Securities long term) and (b) Corporate bonds of USD 51 billion dollars (by merging USD one billion for QFIs, USD 25 billion dollars for FIIs in corporate bonds and USD 25 billion for FIIs in long term infra bonds). The entire limit in both the Government securities and Corporate bonds categories will be made available to all eligible classes of foreign investors, including FIIs, QFIs, and long term investors such as Sovereign Wealth Funds (SWFs), Pension Funds, Foreign Central Banks etc. Sub-limits of USD 5.5 billion and USD 3.5 billion have been provided for investment in short term papers in government securities and corporate bonds respectively.

SEBI Circular on Infrastructure Debt Fund

As per the SEBI (Mutual Funds) Regulations, 1996, private placement to less than 50 investors has been permitted as an alternative to New Fund Offer to the public in case of Infrastructure Debt Funds (IDF). The universe of strategic investors has also been expanded to include, inter alia, FIIs registered with SEBI which are long term investors subject to their existing investment limits.

Insurance Sector

July 2013

IRDA allows insurers to lend securities to the maximum extent of 10%

Giving more freedom to insurers in securities market operations, regulator IRDA has allowed them to lend up to 10 per cent of their equity holding in a particular entity to earn extra yield on the portfolios.About Rs 50,000 crores of stocks may now be eligible to be lent to short sellers after the Insurance Regulatory and Development Authority permitted insurers to sell up 10% of their holdings in a particular stock.

"Insurance companies will benefit from this move as it allows them to earn risk-free return. The yields are in the range of 3-4% per annum.

Aadhar KYC norms can be followed for e-insurance policies

The Know Your Customer (KYC) norms being followed by the Unique Identification Authority of India (UIDAI) can be adopted by insurers while issuing insurance policies in electronic mode, according to the Insurance Regulatory and Development Authority (IRDA).

PFRDA allows pension funds to invest in IDFs with caution

Pension regulator PFRDA has allowed pension fund managers to invest in both mutual fund units and infrastructure debt fund (IDF) bonds, but with a note of caution over the risk involved in such an exposure. Pension fund managers (PFMs) can invest in IDFs units or bonds having a rating of 'AA' or more from two credit rating agencies.

The move comes after the finance ministry last year asked financial regulators such as Irda and PFRDA to help fund infrastructure sector to revive economic growth after banks expressed inability in increasing their exposure to long-gestation projects.

IRDA may allow banks to be insurance brokers

Banks may get to play the role of insurance brokers soon, which will make them more accountable for the policies that they sell to their customers. The Insurance Regulatory and Development Authority (IRDA) is actively considering changes to its broking norms that will permit banks to register themselves as insurance broking entities.

New product norms will not affect life insurers' growth this fiscal

IRDA removes hospitals' 'minimum bed' condition for mediclaim

The requirement of a hospital to have minimum 15 beds for it to be covered under mediclaim has been scrapped by IRDA. It was noted that the benefit to include smaller nursing homes far exceeds the risks of any mediclaim fraud. Insurance Regulatory and Development Authority's (IRDA) guidelines on standardization in health insurance defined hospital with at least 10 in-patient beds, in those towns having a population of less than 10 lakh and with 15 in-patient beds at other places. It was becoming a big issue for small nursing homes as mediclaim policyholders would not been covered there.

IRDA has redefined three health insurance terms

In order to simplify health insurance and smoothen the processes involved, the Insurance Regulatory and Development Authority (Irda) standardized the definition of some of the most popular terms used in health insurance in February. It also rolled out standard forms for claims and a list of exclusions. Recently Irda amended these guidelines to alter the standard definition of some of the terms such as Room rent; Deductible; Portability

New insurance portability rule changes little

Portability was earlier defined as the right to transfer a health insurance policy from one insurer to another and from one plan to another of the same insurer. This has been revised to exclude the latter.

"Portability means transfer by an individual health insurance policyholder (including family cover) of the credit gained for pre-existing conditions and time-bound exclusions if he/she chooses to switch from one insurer to another," says the Irda circular dated July 3.

Talks on for waiving service tax on life insurance premium: IRDA

There are demands from the country's insurance industry that the central government should not levy service tax on

the total amount of life insurance premium as apart from mortality charges, a portion of the premium goes towards investing in savings funds. IRDA said it is holding talks with the union finance ministry for waiving the service tax on the savings part of life insurance premium.

Insurance Information Bureau

The IIB has been transformed into a society as an independent body.

June 2013

SEBI urges IRDA to instruct insurers to help improve corporate governance standards

Capital markets regulator, SEBI, is urging its counterpart in the insurance sector to encourage insurers to become more vocal on issues of corporate governance.

Draft norms for insurers to hedge interest rate risks

The Insurance Regulatory and Development Authority (IRDA) has proposed to allow insurers to hedge their interest rate risks with long-term financial derivative instruments, including forward rate agreements and interest rate swaps.

The insurers, as per the draft guidelines on 'fixed income derivates' issued by the insurance regulator, will also be allowed to hedge their long-term interest rate risks through exchange traded interest rate futures.

IRDA introduces new category for minimum death benefit

The Insurance Regulatory and Development Authority (Irda) has introduced a new category for the payment of minimum death benefit, under non-linked product regulations. In a circular issued today, the regulator said for non-single premium products with terms of five to 10 years, there would be a minimum death benefit, different from other plans.

Indian insurers can set up offices abroad

The Insurance Regulatory and Development Authority (IRDA) has allowed insurance companies in India to conduct business overseas. The companies can do business in the life insurance, non-life insurance and in re-insurance space. "The regulator has allowed us to open a company as well as branches abroad. But this will also be dictated by the local regulations.

IRDA relaxes eligibility requirements for agents

Taking into account the difficulties faced by insurers in recruiting agents, the Insurance Regulatory and Development Authority (IRDA) has decided to reduce the pass percentage bench mark to 35% in Agents Pre-recruitment Examination. Till now, the pass percentage was 50%.

Mediclaim To Cover AYUSH Treatment

The health insurance guidelines of Insurance Regulatory and Development Authority (IRDA) state that insurers may provide coverage to non-allopathic treatments, such as ayurveda, yoga, unani, siddha and homoeopathy (AYUSH). But, the treatment should be done by the government and/or accredited by Quality Council of India/National Accreditation Board of Health or any other suitable institution.

Insurers should maintain records of all transactions: IRDA

Insurance companies would have to be maintain a record of all transactions, said the Insurance Regulatory and Development Authority (Irda).In a circular to the chairman and CEO of all insurance companies, Irda said that every reporting entity shall maintain a record of all transactions, including information relating to these transactions.

These norms are in conformance to the Prevention of Money Laundering (Amendment) Act, (PMLA) 2012.

IRDA to examine NOFHc structure for insurance companies

Insurance Regulatory and Development Authority (Irda) will examine the issues arising out of a Non-Operating Financial Holding Company (NOFHC), which would be a subsidiary of the promoter company, to hold stake in an insurance company.

As per present rules, a subsidiary company cannot hold stake in an insurance company. As per new bank license guidelines by the Reserve Bank of India (RBI), a company who is a promoter of an insurance firm will have to float an NOFHC for engaging in insurance activities.

May 2013

IRDA to share info with global peers on insurance sector

Strengthening its international co-operation, insurance sector regulator Irda has joined hands with some of its global peers for sharing and exchange of sectoral information. It has become a signatory to the global supervisory cooperation and information exchange agreement under the aegis of International Association of Insurance Supervisors (IAIS).

IRDA wants insurers to offer maturity benefit on micro insurance policies

Insurance Regulatory & Development Authority told insurers to ensure maturity benefit to micro insurance policy holders to make it attractive.

IRDA releases guidance on preparation of investment returns.

The Insurance Regulatory and Development Authority (IRDA) has released a guidance note on preparation of investment returns, wherein detailed procedure for it has been given.

Car Insurance: TP Motor Premium Hiked by 20%

IRDA has hiked third party (TP) motor premium by 20%, from 1 April 2013. It seems to be a U-turn after the proposed 40% TP premium hike for private cars and 100%-300% increase for goods carrying vehicles (GCVs). IRDA had come up with the proposed hike after studying claims for different types of vehicles from the data provided by Insurance Information Bureau (IIB). However, the hike of 20% for private vehicles and public GCV is simply arbitrary.

IRDA asks insurers to review health insurances with TPAs

Insurance Regulatory and Development Authority (IRDA) today asked all insurance companies to review the existing agreements with Third Party Administrators for providing health service.

This is in order to ensure compliance with the new regulations on health insurance.

April 2013

IRDA asks life insurers to renew dormant licenses

The Insurance Regulatory and Development Authority (IRDA) has announced a one-time chance to all the agents to renew the archived licenses before December 31, 2013. Life insurers can now float campaigns for renewing the archived licences.

UIDAI 'Registrar' insurers to disclose details in P&L account: IRDA

Insurers acting as registrars to Unique Identification Authority of India (UIDAI) would have to disclose the income/expense arising out of 'Aadhaar' enrolment process, while preparing financial statements.

IRDA removes limit on insurers reverse repo transactions in G-Secs

The Insurance Regulatory and Development Authority (IRDA) has removed the 10 per cent exposure limit on reverse repo transactions by insurers. Insurance companies will now be free to invest in reverse repo transactions in government securities as per their discretion.

The Insurance Regulatory and Development Authority (Irda) has done away with the exposure limit on reverse repo transactions by insurers. In a circular to the chief executives of all insurance companies, Irda said reverse repo transactions in government securities were treated on a par with collateralised borrowing and lending obligation (CBLO) transactions and the 10 per cent investment limit wasn't applicable to this category.

IRDA asks life insurers to submit 'Product Planner' every year

In an attempt to reduce time taken for product approvals, the Insurance Regulatory and Development Authority (Irda) has asked life insurers to submit a 'Product Planner' before the beginning of every financial year. This planner would give an indication of the number of products that the insurer proposes to file each quarter

FICCI's Data Centre

Indian Economy-An Update

Key Economic Indicators

GDP	4.8% Q4 2012-13
IIP	- (1.6%) (May 2013)
WPI Inflation(%)	4.70% (May 2013)
Exchange Rate	59.08(INR/Dollar) July 26th 2013

Source: MOSPI, RBI

Economic Scenario

The GDP growth rate in Q4 2012-13 improved marginally to 4.8% up from 4.7% in the Q3 2012-13, it is much lower than the growth registered in Q1 and Q2 of 2012-13 due to dismal performance in agriculture, manufacturing and mining. Also the performance of the service sector which has been the engine of India's growth has been dismal.

Looking at the broad segments, the agriculture and allied activities segment registered a growth of 1.9% in FY13, which was almost half of the growth 3.6% clocked in FY 12. However, expected normal rains this fiscal is likely to prove positive, and would give some support to the sagging economic growth in near term. The agricultural growth is again likely to pick up to 3.5% in FY14, according to PMEAC estimates.

The industry sector performance was also not very encouraging last fiscal; with the overall growth in the segment being about 2.1%. The manufacturing growth was a meager 1.0% in FY13. In fact as can be seen from Table 1, all major sub categories of the industry segment witnessed moderation. Further, the services sector also couldn't escape witnessing a discernible moderation. The sector recorded a growth of 7.1% in FY13, which though was lower than 8.2% growth registered last year but was slightly better than the 6.6% growth as put out in the advance estimates.

The recently released projections given out by PMEAC

Table 1: Growth in GDP at factor cost by economic activity (2004-05)

	2011-12 1st RE	2012-13 PE	2013-14 Proj
Agriculture & Allied activities	3.6	1.9	3.5
Industry	3.5	2.1	4.9
Mining & Quarrying	-0.6	-0.6	2.3
Manufacturing	2.7	1.0	4.0
Electricity, Gas & water supply	6.5	4.2	6.4
Construction	5.6	4.3	7.0
Services	8.2	7.1	7.7
Trade, hotel, transport & communication	7.0	6.4	7.6
Finance, insurance, real estate & business services	11.7	8.6	9.0
Social & personal services	6.0	6.6	6.0
GDP at factor cost	6.2	5.0	6.4

RE: Revised Estimates PE: Provisional Estimates Proj: Projection

Source – MoSPI

put the growth in 2013-14 at 6.4%. In addition, the Economic Survey 2012-13 released earlier this year had given out a range of 6.1-6.7% growth for this fiscal. The recent announcements to revise FDI limits in major sectors like pension, insurance, defense sectors are indeed encouraging. Setting a regulator for coal has also been approved. If judiciously implemented these announcements can give some boost to the overall economy.

Index of Industrial Production (IIP)

The General Index for the month of May 2013 stands at 167.6, which is 1.6% lower as compared to the level in the month of May 2012. The cumulative growth for the period April-May 2013-14 over the corresponding period of the previous year stands at 0.1%. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of May 2013 stand at 122.6, 175.4 and 172.4 respectively, with the corresponding growth rates of (-) 5.7%, (-) 2.0% and 6.2% as compared to May 2012 (Statement I). The cumulative growth in the three sectors during April-May 2013-14 over the corresponding period of 2012-13 has been (-) 4.5%, 0.1% and 5.3% respectively.

In terms of industries, eleven (11) out of the twenty two (22) industry groups (as per 2-digit NIC-2004) in the manufacturing sector have shown negative growth during the month of May 2013 as compared to the

corresponding month of the previous year (Statement II). The industry group 'Office, accounting & computing machinery' has shown the highest negative growth of 30.0%, followed by 26.1% in 'Radio, TV and communication equipment & apparatus' and 21.0% in 'Tobacco products'. On the other hand, the industry group 'Furniture; manufacturing n.e.c.' has shown a positive growth of 18.7% followed by 14.3% in 'Wearing apparel; dressing and dyeing of fur' and 10.5% in 'Coke, refined petroleum products & nuclear fuel'.

As per Use-based classification, the growth rates in May 2013 over May 2012 are (-) 0.4% in Basic goods, (-) 2.7% in Capital goods and 1.5% in Intermediate goods (Statement III). The Consumer durables and Consumer non-durables have recorded growth of (-) 10.4% and 1.7% respectively, with the overall growth in Consumer goods being (-) 4.0%.

Source – CSO, MOSPI, Government of India

Inflation

The latest available data for Wholesale Price Index puts the inflation rate at 4.90% for the month of June 2013, marginally higher than the corresponding rate of 4.70% for May 2013. By this fiscal end, inflation was expected to be range bound between 6.2-6.6%, as was also pointed out in the Economic Survey 2012-13. Further, though the global

prices have remained subdued due to mild recovery, but the recent plunge in rupee might put some pressure on prices through imported inflation. Also with the current unrest in Egypt, its being anticipated that the oil prices can possibly go up. This means for India the oil import bill will face strain from two fronts – one) the unrest in Egypt and two) the fall in the value of rupee. With the country moving towards deregulation of oil prices this in all likelihood will feed in to both higher Fuel and Power inflation and Manufacturing inflation.

Fiscal Position

The fiscal situation of the country continues to be in doldrums as the data for the period till May 2013-14 reflect a decline in the revenue collections and an increase in both planned and non-planned expenditure as compared to the same period of the previous year.

April-May 2013 vis-à-vis April-May 2012

- The Fiscal deficit stood at Rs 180691 crore during the first two months of the current fiscal (April-May 2013) as compared to Rs. 141587 crore in the corresponding period last year registering a growth rate of 27.6%.
- The revenue receipts of the economy declined by 24.8% during the period from April–May 2013 as compared to the same period of the previous year.
- The total expenditure stood at Rs. 217355 crores in April-May 2013 as compared to Rs. 190895 crores in April-May 2012 owing to a rise in both planned and non-planned expenditure. Planned expenditure rose by 2% and non-planned expenditure rose by 52.6%.

Source: CSO, MOSPI, Govt. of India

Foreign Trade

Higher imports and a decline in the exports widened the trade deficit to a seven month high of USD 20.1 billion in May 2013, up from 17.8 billion in the previous month. This however narrowed in the month of June 2013 as exports narrowed at USD 23.78 billion and Imports narrowed substantially at 36.034 billion narrowing the trade deficit significantly to USD 12.24 million.

In May 2013 , the exports recorded stood at USD 24.5 billion owing to the uncertainty in major export destinations of India like the US and the European Union and the imports recorded stood at USD 44.67 billion. The high imports in May were the result of an increase in the imports of gold, silver and crude oil.

The country's current account deficit which reached at a historic high level of 6.7% in Q3 2012-13 contracted to 3.6% of GDP in 2012-13 as the trade deficit narrowed in Q4 to USD 45.7 billion from 60.4 billion in Q3 2012-13. However, on account of high oil and gold imports the current account deficit for 2012-13 stood at an elevated level of 4.8%, up from 4.2% in 2011-12.

For 2013-14 the Government had set an export target of USD 360 billion in 2013-14.

Source: Economic Outlook, CMIE

Forex Reserves

The total foreign exchange reserves shows a downward trend as it declined from USD 284.64 billion in June 2013 to USD 279.20 billion in July 2013. The fall in the forex reserves was mainly due to a decline in the foreign currency assets from 261.1 million in the second week of June to 258.4 million in the following week. Gold constitutes around 7-9% of the total reserves. With the fall in the prices of gold, the value of the gold reserves have fallen to USD 22.8 billion in May 2013 as compared to USD 25.7 billion in the previous month. The gold reserves stayed the same in the first three weeks of June at 22.8 million.

Source: Economic outlook, CMIE

Exchange Rate (Rupee vis-à-vis foreign currencies)

The latest available data on July 26th marks the Indian rupee at 59.08 against the US dollar. The instability in the global markets has resulted in weakening of the currency in most of the nations in June. The Indian rupee hit an all time low as it crossed 60 mark to reach 60.62 against the US dollar on June 26, 2013. The exchange rate for June stands at 58.4 against US dollar as compared to 55.01 in May, a depreciation of 6.2% from the previous month. Rupee has depreciated against USD, Pound Sterling, Euro and Japanese Yen in June 2013 as compared to the previous month. In June 2011, rupee stood at 44.8 against dollar and depreciated to 56.03 in June 2012 and further to 58.4 in June 2013.

Source: Economic Outlook, CMIE

Investment Banking Updates

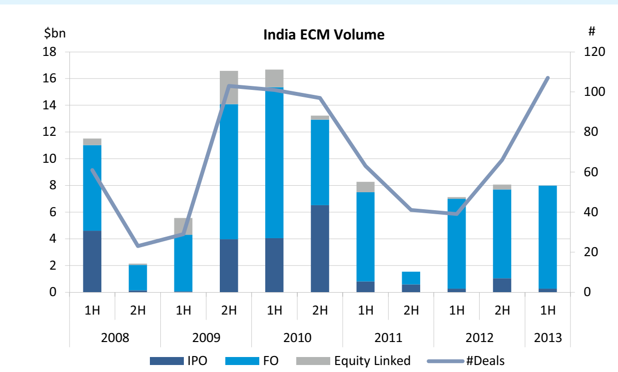
Equity Capital Markets

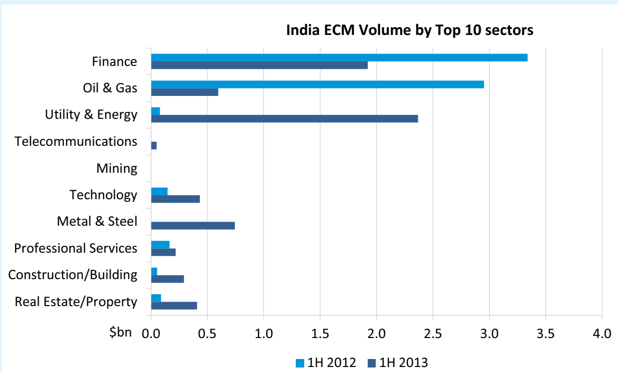
In association with

- **Indian ECM** volume stood at $8.0bn via 107 deals for 1H 2013, a 12% increase on the $7.1bn raised in 1H 2012
- **IPO** volume totaled $259m (via 17 deals) in 1H 2013, down 75% from the$1.0bn raised for the second half of 2012
  - **Follow-on** volume increased by 15% to $7.7bn in 1H 2013 compared to $6.7bn raised in 1H 2012. Number of deals for 2013 rose to 90,compared to 29 deals for the same period in 2012
- **NTPC's** $2.2bn follow-on via bookrunners **Citi, Goldman Sachs, Deutsche Bank, Kotak Mahindra, Morgan Stanley and State Bank of India** is the largest ECM transaction for India for the first half of 2013

Top 10 ECM Deals in 1H 2013

Date	Issuer	Sector	Deal Type	Deal Value ($m)	Bookrunners
7-Feb	NTPC Ltd	Utility & Energy	FO	2,160	MS, GS, CITI, DB, KOTAK, SBI
29-Jan	Axis Bank	Finance	FO	1,027	AXIS, CITI, JPM
1-Feb	Oil India Ltd	Oil & Gas	FO	591	CITI, HSBC, KOTAK
15-May	DLF Ltd	Real Estate/Property	FO	341	SCB,DB,BAML, JPM, HSBC, KOTAK,UBS, CACIB
20-Feb	Shriram Transport Finance Co Ltd	Finance	FO	305	GS
22-Mar	Steel Authority of India Ltd - SAIL	Metal & Steel	FO	279	AXIS, DB, HSBC, JPM, KOTAK, SBI
11-Feb	WNS Holdings Ltd	Professional Services	FO	185	BAML, WELLS FARGO
22-May	Oracle Financial Services Software	Technology	FO	183	DB, MS
5-Jun	Adani Ports & Special Economic Zone Ltd	Transportation	FO	177	BAML,MS, SCB, IDFC, SBI, AXIS, CITI, DB, MCQ, GS
20-Feb	Jaiprakash Power Ventures Ltd	Utility & Energy	FO	175	CS





India ECM - 1H 2013				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Citi	1,085	9	13.6
2	Kotak Mahindra Bank Ltd	695	9	8.7
3	AXIS Bank	683	14	8.6
4	Goldman Sachs	683	3	8.6
5	State Bank of India	597	12	7.5
6	JPMorgan	588	8	7.4
7	Morgan Stanley	584	5	7.3
8	Deutsche Bank	583	6	7.3
9	HSBC	286	3	3.6
10	JM Financial Ltd	256	6	3.2

India FO and Conv. - 1H 2013				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Citi	1,002	8	13.0
2	Kotak Mahindra Bank Ltd	695	9	9.0
3	AXIS Bank	683	14	8.8
4	Goldman Sachs	683	3	8.8
5	JPMorgan	588	8	7.6
6	Deutsche Bank	583	6	7.6
7	State Bank of India	581	11	7.5
8	Morgan Stanley	502	4	6.5
9	HSBC	286	3	3.7
10	Credit Suisse	249	3	3.2

India Block Trade ECM - 1H 2013				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Goldman Sachs	665	2	14.0
2	Citi	642	6	13.5
3	Kotak Mahindra Bank Ltd	616	5	13.0
4	State Bank of India	515	6	10.8
5	Deutsche Bank	498	3	10.5
6	Morgan Stanley	484	3	10.2
7	HSBC	243	2	5.1
8	AXIS Bank	202	6	4.3
9	UBS	169	3	3.6
10	JPMorgan	138	3	2.9

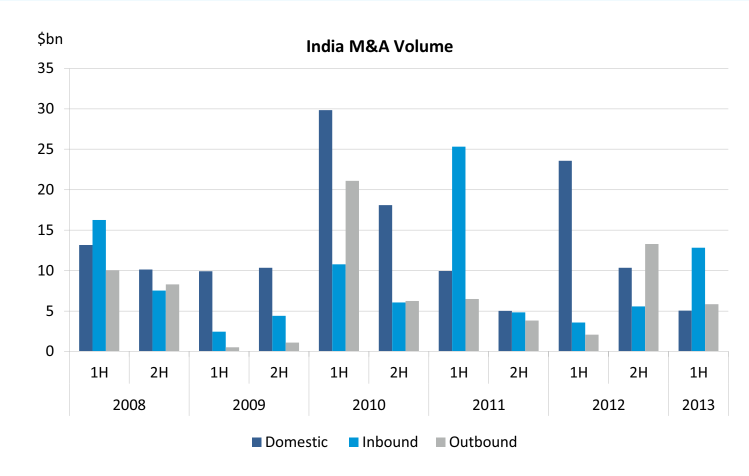
India Industry - 1H 2013				
Pos.	Industry	Deal Value ($m)	No.	% Share
1	Utility & Energy	2,367	3	29.7
2	Finance	1,923	16	24.1
3	Metal & Steel	744	9	9.3
4	Oil & Gas	598	2	7.5
5	Technology	434	6	5.4
6	Real Estate/Property	410	3	5.1
7	Transportation	339	5	4.3
8	Construction/Building	292	10	3.7
9	Professional Services	220	5	2.8
10	Chemicals	170	10	2.1

India Deal Sub-Type - 1H 2013				
Pos.	Deal Sub-Type	Deal Value ($m)	No.	% Share
1	FO - Accelerated Bookbuild	4,750	63	59.5
2	FO - Fully Marketed	2,565	20	32.1
3	FO - Rights Offer	402	6	5.0
4	IPO - Open Price	215	2	2.7
5	IPO - Fixed Price	44	15	0.6
6	FO - Cash Placing	6	1	0.1

India Withdrawn / Postponed Deals - 1H 2013							
Withdrawn/ Postponed Date	Issuer	Deal Type	Deal Nationality	Total Value $m	Industry	Bookrunner	Withdrawn/Postponed Comment
22-Apr-13	Sahara Prime City Ltd	IPO	India	1,022	Real Estate/Property	JM Financial, Kotak, Axis	Issuer failed to submit clarifications sought by the regulator.
18-Feb-13	Sai Silks (Kalamandir) Ltd	IPO	India	20	Textile	Ashika Cr. Cap., Vivro Fin. Serv.	Withdrawn on not being able to raise the required subscription.
25-Apr-13	Ramky Enviro Engineers Ltd	IPO	India	200	Utility & Energy	Edelweiss	Due to market conditions.
23-Jan-13	Jaypee Infratech Ltd	FO	India	28	Construction/Building	JPM	Due to unusual fall in the share price.
07-Mar-13	Multi Commodity Exchange of India	FO	India	45	Finance	CITI	Due to poor investor interest.
03-May-13	Scotts Garments Ltd	IPO	India	23	Textile	Keynote Corporate Services	Due to investor disinterest.
17-May-13	Tata Teleservices (Maharashtra) Ltd	FO	India	8	Telecommunications	Tata Securities Ltd	Cancelled by the seller.

Mergers & Acquisitions

- **India slipped** from the fourth targeted nation to the fifth in Asia Pacific region for 1H 2013 with $17.9bn, down considerably compared to $26.7bn announced in 1H 2012
- India **Outbound M&A** volume more than doubled to $5.8bn in 1H 2013 from $2.0bn for the first half of 2012. However, deal activity for the similar period dropped from 71 deals to 65 deals in 1H 2013
- India **Inbound M&A** volume rose substantially to $12.8bn in 1H 2013 from the $3.6bn for the same period in 2012
- Conversely, India **Domestic M&A** volume dropped considerably by 79% to $5.0bn in 1H 2013, compared to $23.6bn for 1H 2012. Deal activity was also on a low of 324 deals compared to 530 deals for 1H 2012

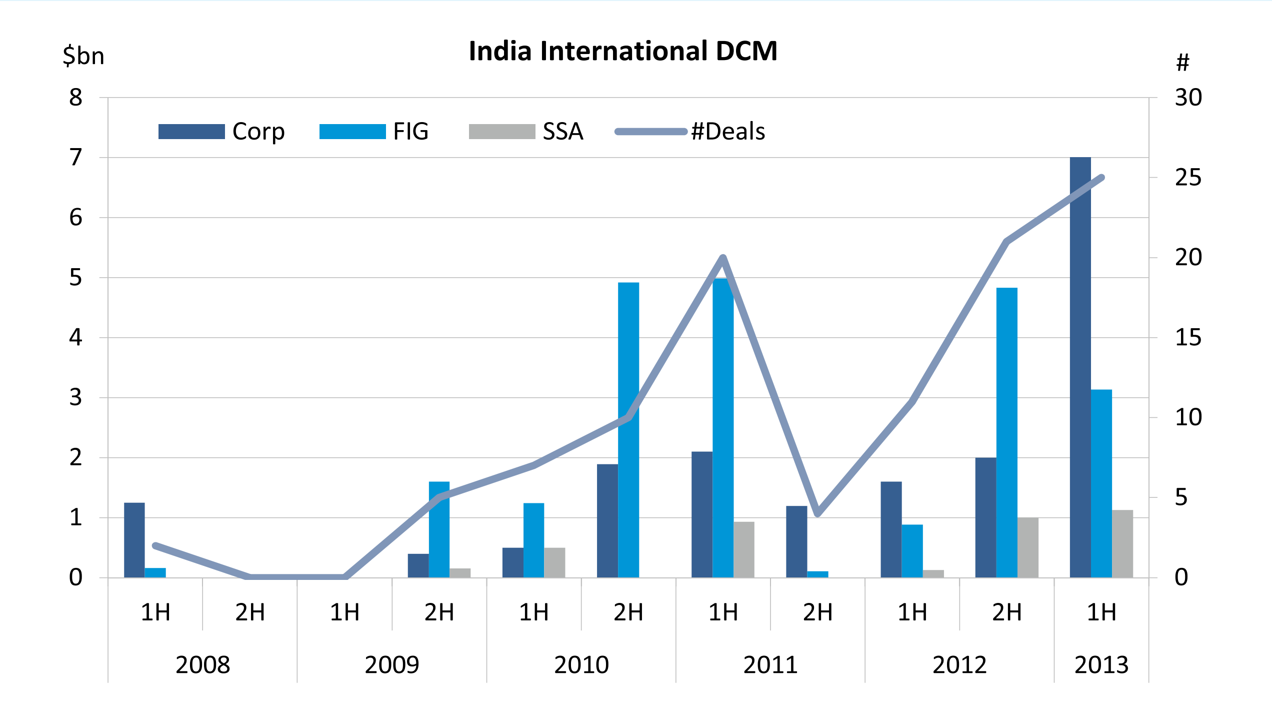


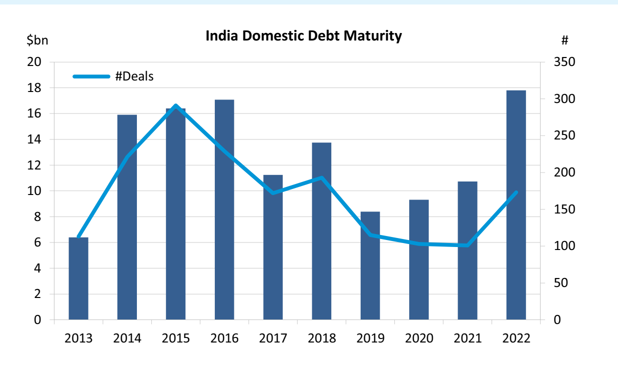
India Announced M&A Advisory Ranking 1H 2013				
Pos.	**Advisor**	**Value $m**	**# Deals**	**% Share**
1	HSBC	5,781	2	32.4
2	UBS	5,707	2	32.0
3	Citi	5,401	1	30.2
4	Morgan Stanley	2,185	2	12.2
5	Jefferies LLC	1,850	1	10.4
6	Goldman Sachs	1,381	2	7.7
7	Credit Suisse	1,005	2	5.6
8	Kotak Mahindra Bank Ltd	839	11	4.7
9	JPMorgan	686	2	3.8
10	Barclays	625	1	3.5

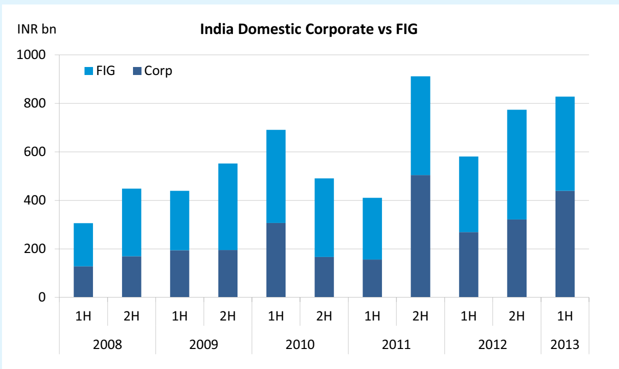
Asia M&A Ranking by Target Nationality 1H 2013				
Pos.	**Advisor**	**Value $m**	**# Deals**	**% Share**
1	China	101,555	1,566	54.2
2	South Korea	20,445	407	10.9
3	India	17,862	440	9.5
4	Thailand	8,291	80	4.4
5	Philippines	7,822	48	4.2
6	Indonesia	6,754	132	3.6
7	Hong Kong	6,520	170	3.5
8	Malaysia	6,361	328	3.4
9	Singapore	5,395	196	2.9
10	Taiwan	2,357	78	1.3

Debt Capital Markets

- **India DCM** issuance for the first half of 2013 reached $33.1bn raised via 291 deals, up 56% on the $21.2bn raised in 1H 2012 also marking the highest half yearly volume on record
- **Corporate IG** and Agency bonds accounted for 57% and 23% of the total DCM volume with $18.8bn and $7.5bn, respectively for 1H 2013
  - **Vedanta Resources plc** led the offshore issuer table for 1H 2013 with a 15% share, while Power Finance Corp topped the domestic issuer ranking with a 18% share
- India **Domestic DCM** volume reached INR1.19tr in 1H 2013, up 23% from the INR969.8bn raised in 1H 2012. Activity increased to 266 deals in 2013 from the 221 recorded for 1H 2012
- **International** issuance for 1H 2013 recorded an all time half yearly high volume of $11.3bn, more than four times the 1H 2012 volume of $2.6bn. Activity increased to 25 deals compared to 11 deals for 1H 2012

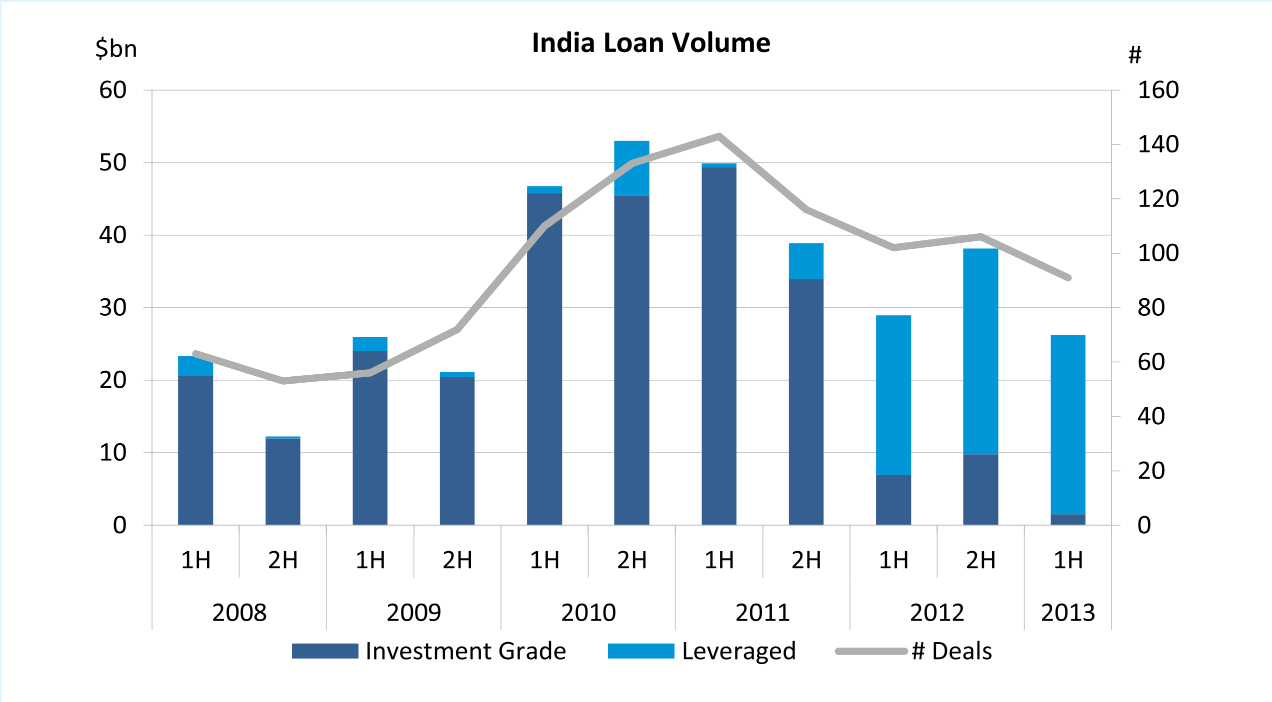


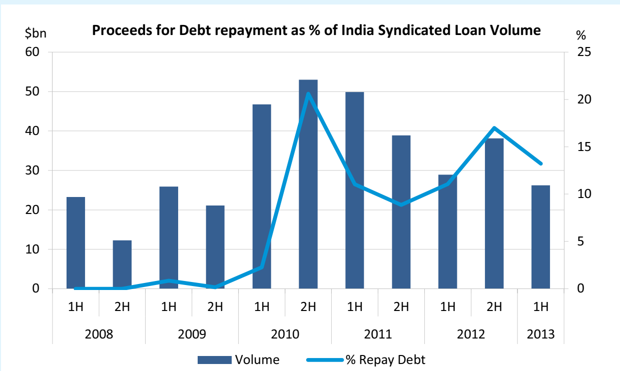


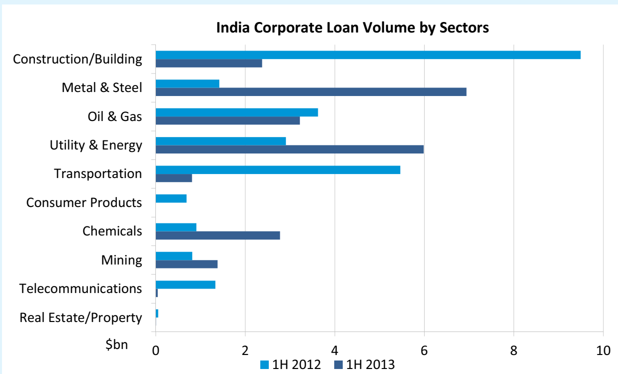


Loan Markets

- **India loan** volume reached $26.2bn in 1H 2013, down 9% on the $28.9bn for 1H 2012. Number of deals for the current half reduced to 91 compared to 102 deals for 1H 2012
  - **Leveraged** loan volume increased 12% to $24.7bn via 82 deals, compared to $22.0bn (76 deals) for the first half of 2012
  - In contrast, **Investment grade** loan volume dropped to a half yearly low of $1.5bn since 1H 2004 ($1.0bn)
- Among the corporate borrowers, **Metal & Steel** sector topped the industry ranking in 1H 2013 ($6.9bn) with a 28% share
- **Tata Steel's** $4.1bn leveraged deal in May 2013, is the largest loan transaction for the first half of 2013







Project Finance

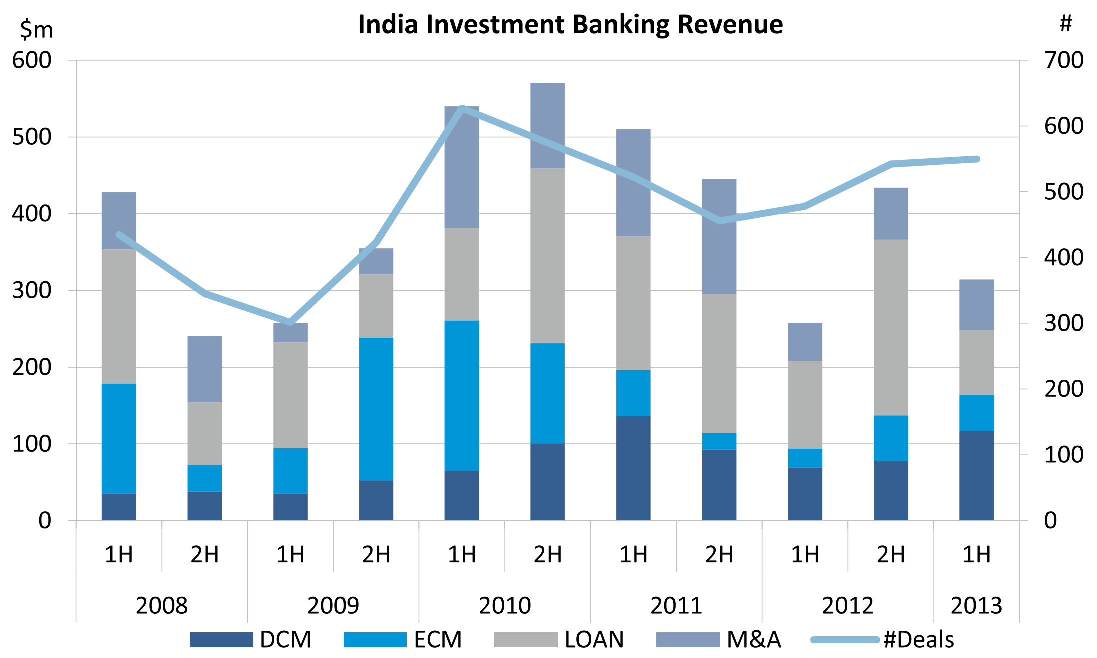
India Project Finance Loans Ranking - 1H 2013				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	State Bank of India	7,723	27	45.0
2	ICICI Bank Ltd	1,957	4	11.4
3	Axis Bank Ltd	1,598	7	9.3
4	IDBI Bank Ltd	939	6	5.5
5	HDFC Bank Ltd	867	2	5.1
6	Punjab National Bank	843	1	4.9
7	IDFC Ltd	756	6	4.4
8	Standard Chartered plc	391	4	2.3
9	Bank of India	365	4	2.1
10	Central Bank of India	240	4	1.4

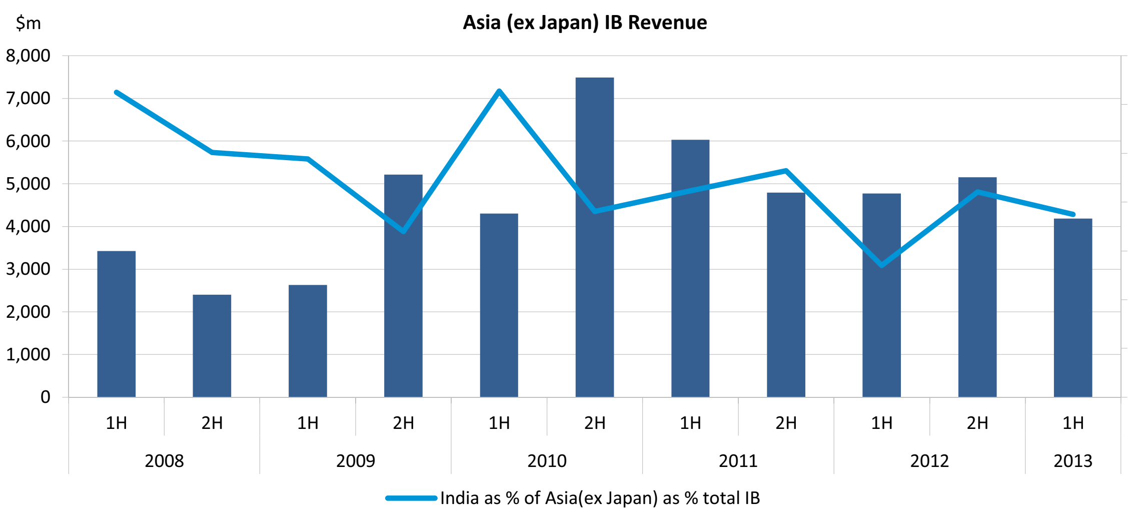
India PFI/PPP Project Finance Loans Ranking - 1H 2013				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	IDFC Ltd	567	3	20.1
2	IDBI Bank Ltd	513	3	18.2
3	Axis Bank Ltd	466	4	16.5
4	Standard Chartered plc	206	2	7.3
5	Bank of India	178	2	6.3
6	China Development Bank Corp	160	1	5.7
6	Industrial & Commercial Bank of China -	160	1	5.7
8	ICICI Bank Ltd	153	1	5.4
9	Central Bank of India	145	2	5.1
10	State Bank of India	87	3	3.1

Top 10 Indian Project Finance Deals in 1H 2013				
Financial Close Date	Borrower	Project Name	Sector	Value $m
22-May	Tata Steel Odisha Ltd	Orissa Kalinaganagar Steel Plant Project	Steel mill	6047
29-Jan	ONGC Petro-additions Ltd	Opal SEZ Petrochemical Complex Dahej Project	Petrochemical/Chemical Plant	3973
20-Mar	HPCL-Mittal Energy Ltd	Guru Gobind Singh HPCL Mittal Refinery Project	Oil Refinery/LNG and LPG Plants	1682
17-Mar	Mangalore Refinery & Petrochemicals Ltd (MRPL)	Mangalore Petrochemical Complex Project Expansion 2	Petrochemical/Chemical Plant	1540
25-Mar	Hinduja National Power Corp Ltd	Hinduja National Power Plant Additional Financing 3	Power	1356
28-Feb	Indiabulls Realtech Ltd	Nashik Indiabulls Thermal Power Project	Renewable fuel	1210
22-Apr	Adani Power Maharashtra Ltd	Adani Power Maharashtra Plant Development PPP Refinancing	Power	925
16-Jan	Jindal Steel & Power Ltd	Jindal Angul Steel Plant and Plate Mill Project Refinancing	Steel mill	904
15-Mar	Mumbai International Airport Pvt Ltd	Navi Mumbai International Airport PPP Project	Airport	489
26-Mar	Delhi International Airport (P) Ltd	Delhi Airport Modernization & Expansion PPP Refinancing	Airport	470

IB Revenue

- **India IB** Revenue reached $320m in 1H 2013, up 24% on 1H 2012 ($257m) and down by 26% compared to 2H 2012 ($434m)
- **Syndicated Loan** revenue accounted for 27% of total India IB revenue in 1H 2013 with $86m. Despite the record share in 2H 2012 ($229m) , loan revenue is down 62% in 1H 2013 compared to 2H 2012
- **DCM revenue** reached $117m in 1H 2013, a record high since 1H 2011 ($136m) and also up by 169% on 1H 2012 ($69m)
    - **ECM fees** accounted for the lowest share of India IB revenue with $47m and a 15% share in 1H 2013
- **M&A fees** reached $70m via 89 deals in 1H 2013, up 40% on 1H 2012 ($50m via 105 deals





Markets Watch

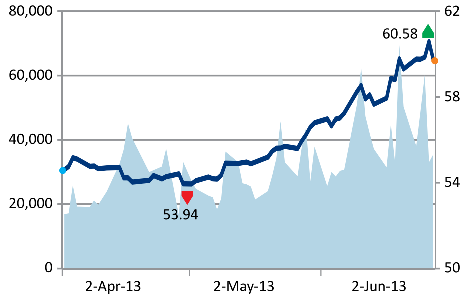
Powered by MCX-SX India's New Stock Exchange

USD-INR

APR-JUN 13

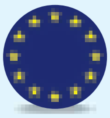
Turnover* (₹/cr)
19,74,879.35

Volume* (in lots)
34,93,71,283



Open: 54.63 | High: 60.58 | Low: 53.94 | Close: 59.75 Price Volume

Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till June 28, 2013)*

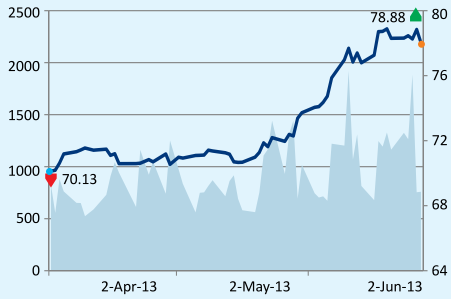


EUR-INR

APR-JUN 13

Turnover* (₹/cr)
56,539

Volume* (in lots)
76,77,424



Open: 70.18 | High: 78.88 | Low: 70.13 | Close: 78.04 Price Volume

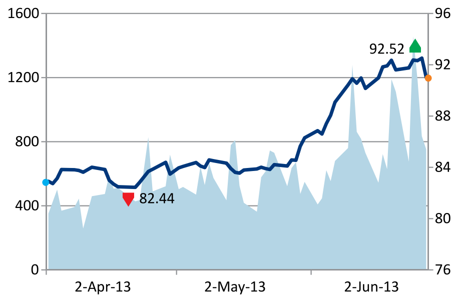
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till June 28, 2013)*

GBP-INR

APR-JUN 13

Turnover* (₹/cr)
37,724

Volume* (in lots)
43,37,716



Open: 83.00 | High: 92.52 | Low: 82.44 | Close: 91.02 Price Volume

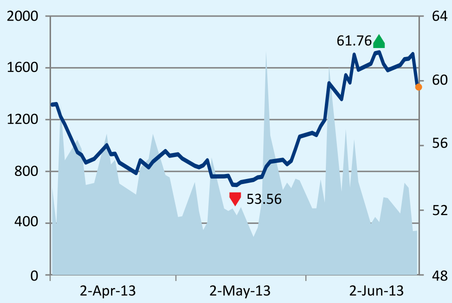
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till June 28, 2013)*

JPY-INR

APR-JUN 13

Turnover* (₹/cr)
42,515

Volume* (in lots)
74,32,629



Open: 58.00 | High: 61.76 | Low: 53.56 | Close: 59.75 Price Volume

Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till June 28, 2013)*

Market Commentary

During the second quarter of 2013, the Indian Rupee witnessed a free fall against the US Dollar to test a lifetime low of 61.21 (8th July 2013.) First month of the second quarter (April) was quite as the Rupee traded in a range of 54 .94 and 53.63 without much volatility. However, in May, a string of bad news in the domestic front along with some good news for the US economy led to a sharp fall in Rupee against the US Dollar, forcing it to depreciate around 12.80% during the period from April 1 to July 8.

In the last couple of months, Rupee's weakening resulted from fears that foreign investors may pull out their money from emerging markets and invest in the US, which is showing signs of a strong recovery. The US economic data is showing a faster recovery and US rates have already shot up significantly over the past few weeks. There is weakness in Europe and China and in such environment emerging countries like India will experience outflows.

India is already battling with its domestic problem such as rising fiscal deficit and untamable inflation. As India runs a large current account deficit, it needs a constant inflow of Dollar, which is not there. High oil prices inflated the import bill and resulted in further widening of the current account deficit, which accelerated the Rupee fall.

- Rekha Mishra, Sr. Research Analyst
Bonanza Commodity Brokers Pvt. Ltd.

Outlook

In the technical charts, USDINR is still in clear uptrend and there seems no respite for Rupee in the short term. On the downside, immediate support is at 57.30, below this rupee may appreciate which looks a rare possibility at this time. On the upside, immediate resistance is at 61.21, above this USDINR may test the 62.00–63.00 levels.

- Rekha Mishra, Sr. Research Analyst
Bonanza Commodity Brokers Pvt. Ltd.

Index Characteristics (as on June 28th, 2013)	
Index Universe	Large Cap Companies
No. of Companies	40
Base Value	10,000
Base Date	31/03/2010
Industry Classification	ICB®
Minimum Free Float	10%
Review	Semi – Annually
Industry Capping	20%
Weight of Largest Constituent	10.42%
Top 10 Holding	64.12%

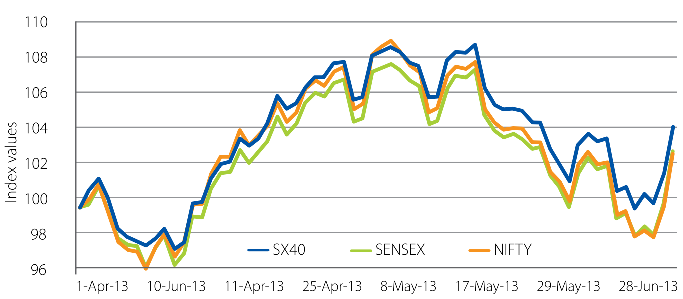
Computed	SX40	NIFTY	SENSEX
FY 2010-11	11.70%	11.14%	10.94%
FY 2011-12	-8.84%	-9.23%	-10.50%
FY 2012-13	8.31%	7.31%	8.23%
FY 2010-13*	10.29%	8.26%	7.46%
Return Since launch	5.60%	2.17%	3.46%

*Till 22nd July, 2013

Industry Name	SX 40 Weights (%)	Nifty Weights (%)	Sensex Weights (%)
Industrials	15.69	14.60	11.53
Consumer Goods	19.2	15.97	18.55
Telecommunications	2.04	1.85	2.34
Oil & Gas	14.1	12.82	14.49
Health Care	6.12	5.82	5.46
Basic Materials	3.44	3.85	4.41
Technology	12.78	11.62	14.04
Financials	22.41	30.07	26.53
Utilities	3.48	3.40	2.65
Consumer Services	0.75	-	-

As on June 28th, 2013

SX40 Vs NIFTY & SENSEX April - June13 (Rebased)



SX40
INDEX OF INDIA

SX40 is the flagship Index of MCX-SX. It is a free float based index of 40 large cap – liquid stocks representing diversified sectors of the economy.

SX40 is designed to measure the economic performance with better representation of various industries and sectors based on ICB®, the leading global Industry Classification system of FTSE. The Index is devised to offer cost-effective support for investment and structured products such as index futures and options, index portfolio, exchange traded funds, Index funds, etc.

Derivative contracts on SX40 index were launched on May 15th, 2013. Ever since the launch, the flagship index of MCX-SX has performed well above the rest of the domestic benchmark indices. Historically also, SX40 has witnessed a higher return in comparison. Being evenly distributed as per ICB®- FTSE classification, SX40 has a better representation of the sectors, hence insulated from being influenced by performance of any one particular sector. It is this distinguishing feature that gives SX40 an edge over other benchmark indices of the nation.

SX 40 has given a return of 4% plus during the April-June quarter at a turbulent time when the central bank has been actively managing the currency movements and monetary policy. At a time when the economic variables are is in a state of flux as are the markets, SX40 with its diversified representation has proven itself to be differentiator as a benchmark for portfolio investors.

Synopsis of past events

Interactive Session on Goods and Services Tax (GST) with Shri Sushil Kumar Modi, Hon'ble Deputy Chief Minister, Govt. of Bihar and Chairman, Empowered Committee of State Finance Ministers

22nd April 2013, Mumbai

L to R: Mr S Madhavan, Mr V K Garg, Mr Harsh C Mariwala, Shri Sushil K Modi, Ms Naina Lal Kidwai, Mr Sachin Menon, Mr Satish Chandra

On 22nd April, 2013, FICCI's Financial Sector team along with Taxation Division organized an interactive session on GST in Mumbai with Shri Sushil Kumar Modi, the then Hon'ble Deputy Chief Minister of Bihar and the Chairman of the Empowered Committee of State Finance Ministers (EC). The objective was to inform and sensitize all stakeholders on the latest developments on GST and also provide them with an opportunity to interact with Shri Sushil Kumar Modi on various aspects of GST. Apart, from reviewing the current status of the measures taken towards adoption of GST, Shri Modi provided an overview of the work being done by the three sub-committees appointed by the Empowered Committee to deliberate upon Revenue Neutral Rates of GST, exemptions, administrative control, Place of Supply Rules etc. Besides Shri Modi, Shri Satish Chandra, Member Secretary, EC and Shri V K Garg, Joint Secretary (Tax Research Unit), Department of Revenue, Ministry of Finance also addressed the participants. On this occasion, Shri Modi also released a document titled 'Towards the GST - An Approach Paper' prepared by FICCI. The paper sets out FICCI's views on certain key aspects of GST such as rates of tax, exemption limits, administration of GST etc. The paper is also placed on the website of FICCI.

The event was well attended by over 125 participants representing various sectors of the industry. This event has garnered tremendous interest from public and gained immense popularity on media front.

Asia Finance & Risk Mitigation Forum, 2013

30th April 2013, Mumbai

L to R: Mr. Michael Barrow, Director, Infrastructure Finance Division 1, Private Sector Operations Department, Asian Development Bank (Manila); Mr. Lav Chaturvedi, Chief Risk Officer, Reliance Capital ; Mr. Pankaj Gupta, Manager, Financial Solutions Group Sustainable Development Vice Presidency, The World Bank (United States of America) ; Mr. Chris Vermont, Head of Capital Markets, GuarantCo (London) ; Mr. Khawar Iqbal, Director - Project & Export Finance, HSBC Securities & Capital Markets India Pvt. Ltd. (India) ; Mr. Mohamud Hussein Khalif, Acting Director, Structured Finance & Investment Insurance Department, Islamic Corporation for the Insurance of the Investment and Export Credit (KSA) ;Mr. N. Shankar, Chairman & Managing Director, Export Credit Guarantee Corporation of India Ltd. (India)

FICCI, along with the Asian Development Bank (ADB) co-organized a one-day conference on 'Asia Finance & Risk Mitigation Forum, 2013' on 30th April 2013 in Mumbai. The theme of the Conference was 'Facilitating South-South Trade and Investment'. The Conference covered issues that were of importance for the global economy and trade in particular. These included mitigating contractual risks related to investment and trade; using risk mitigation products to finance cross border investments; financing medium to long term trade and creating bank-bank links to facilitate South-South trade between Asia and other regions of the world and mitigating contractual risks.

Dr. Arvind Mayaram, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India delivered the Keynote Address at this event. He noted that in the near future growth impulses will come from the emerging economies. He said that the government expects India will grow at 6 per cent this year, 7 - 7.5 per cent next year and 8 per cent in the subsequent year. He pointed out that there are constraints affecting South-South trade and investment which included limitations in physical and institutional infrastructure such as port capacities, lower technological capabilities and reluctance to attract investment from Multi National Corporations (MNCs). He urged ADB to help in greater integration of the financial institutions in developing countries. It could also develop instruments through which capital can flow into infrastructure and other core industrial sectors in the developing countries.

The Conference saw large scale participation from India and abroad including project developers, financial institutions, project advisory companies, law firms, government officials, policy makers, export credit agencies, export-import banks, insurance companies, international development agencies and international finance institutions among others. The conference concluded with a networking reception which witnessed senior level representation from various consulates and embassies. ADB & FICCI will shortly be releasing a joint conference report highlighting the key outcomes; moreover FICCI and ADB will jointly work throughout the course of this year to monitor the success of the conference in raising the level of awareness of credit enhancement products to encourage more trade and Investment.

Financial Sector Conclave

'Emerging Paradigms in South India'

25th - 26th July, 2013, Chennai

L to R: Shri Abizer Diwanji, Partner & National Leader, Financial Services, E&Y LLP; Shri Rafeeque Ahmed, Chairman, FICCI Tamil Nadu State Council; Shri P Murari, Adviser to FICCI President & Former Secretary to President of India; Dr. Arbind Prasad, Director General, FICCI; Shri O Panneerselvam, Hon'ble Finance Minister of Tamilnadu; Shri K Shanmugam, Principal Secretary, Govt. of Tamil Nadu; Shri R Subramanian, President, Hindustan Chamber of Commerce.

The 1st Financial Sector Conclave – Chennai, 2013 under the theme 'Emerging Paradigms in South India' was held on 25th & 26th July, 2013 at The Trident, GST Road, Meemambakkam, Chennai. The event was co-organized along with Southern Indian Chamber of Commerce & Industry and Hindustan Chamber of Commerce. At the conference a knowledge paper was released on 'Risk and Governance in Financial Services' by Ernst & Young LLP. This programme was a first of its kind to have been organized in South India which also marked FICCI's first step towards greater visibility in the Southern states vis-à-vis the financial sector. Major topics that were deliberated upon were banking reforms, general insurance, role of gold in the economy, NBFCs, corporate governance, chit-funds and nidhi companies, infrastructure financing, film financing, real estate financing and reforms in financial sector where members from the Parliamentary Standing Committee on Finance talked about the current financial situation and impending reforms in the sector. The Financial Sector Conclave saw a host of major speakers from the financial sector. Some of the prominent speakers were, Shri O Panneerselvam, Hon'ble Finance Minister of State, Govt. of Tamilnadu; Shri K Shanmugam, Principal Secretary to Government (Finance), Govt. of Tamilnadu; Shri S S Ramasubbu, Member of Parliament (Rajya Sabha) & Member of Standing Committee on Finance; Shri Yogesh Agarwal, Chairman, PFRDA; Shri B N Anantha Swamy, Director, Department of Economic and Policy Research, Reserve Bank of India; Smt. Y Priya Bharat, Joint Director (Health), IRDA; Shri R K Dubey, CMD, Canara Bank; Shri B A Prabhakar, CMD, Andhra Bank; Shri S Santhanakrishnan, Chairman, The Catholic Syrian Bank Ltd.; Shri R Thyagarajan, Founder Chairman, Shriram Group; S S Gopalarathnam, MD, Chola MS General Insurance Co.; Shri T T Srinivasaraghavan, MD, Sundaram Finance; Padmashree; Smt. Sailaja Kiron, Managing Director, Margadarsi Chit Funds; Shri G R Ananthapadmanabhan, GRT Jewellers; Shri Ravi Kottarakara, Vice President, Film Federation of India; Shri J Ravikumar, Chief Financial Officer, L&T Metro Rail (Hyderabad) Ltd.; Shri Srinivas Acharya, MD, Sundaram Home Finance Ltd.; Shri G R K Reddy, CMD, MARG among many others. This conference has garnered tremendous interest from public and has gained immense popularity on media front. The financial sector division plans to hold this as an annual event in all 4 southern states on a rotation basis in collaboration with the FICCI State Offices and local state chamber of commerce.

Forthcoming Events

Annual Insurance Conference

24th October 2013, Mumbai

Shri T. S. Vijayan, Chairman, IRDA will address the participants during the Inaugural Session at the Conference. This year for the first time, the Conference will be structured very differently. Life and Non-Life sessions will be held parallel at the same venue to provide greater focus on the issues for discussion.Boston Consulting Group (BCG) and McKinsey & Company are the Knowledge Partners for this conference covering dedicated issues under Life and Non Life Insurance Industry respectively.

The conference is being organized under the aegis of FICCI's Insurance & Pensions Committee Chaired by Mr Amitabh Chaudhry, MD and CEO, HDFC Life and Co-chaired by Mr Bhargav Dasgupta, MD and CEO, ICICI Lombard

The Conference will be attended by senior representatives from the Insurance Industry, Banking and Financial Services, Regulators, Policy makers, Insurance Brokers & Agents and Academia.

CAPAM 2013 : FICCI's Annual Capital Markets Conference

15th November, 2013, Mumbai

FICCI would be organizing the tenth edition of its Capital Markets Conference viz. CAPAM 2013 on Friday, November 15, 2013 at Hotel IT Grand Central, Parel, Mumbai. The prestigious Conference provides an excellent platform to discuss and debate key issues pertaining to the sector and is addressed by leading national and international experts and s enior policy makers.

Mr. U. K. Sinha, Chairman, SEBI, has kindly agreed to deliver the Inaugural Address at the Conference. Other speakers would include senior policymakers, regulators and leading national and international experts.

The participants at the conference would include, inter alia, senior representatives of industry, FIIs, brokers, investment banks, stock exchanges, asset management firms,

Partner Exchange

MCX-SX

India's New Stock Exchange

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

Industry's Voice for Policy Change

Financial Sector Division
Federation House, 1 Tansen Marg, New Delhi - 110 001
Ph: 011-23487424, 524; Fax: 011-23320714; Email: finance@ficci.com
www.ficci.com