The Great Bond Market Opportunity inIndia

Udai Kumar
Managing Director & CEO
Metropolitan Stock Exchange of India Ltd.

Indian Debt Market

For a sustainable growth of an economy a deep and liquid bond market is essential. A healthy bond markets reflects the financial stability of the economy by facilitating industrial and infrastructure growth along with optimizing the cost and diversifying the resources.

The Indian Bond market has grown substantially over the past few years with sustained efforts from SEBI, RBI, and the Government. As of December 2016, the Indian debt market is estimated to be about Rs. 1 Lakh Crore. The size of Indian corporate securities is valued to be about 28 Lakh Crore (28%) and G-sec is about 72 Lakh Crore (72%).

India vs other countries

India's funding needs are for rapid expansion, capital expenditures, mergers and acquisitions etc. from Pharma to Infrastructure sectors, all require huge debt market presence. A highly liquid corporate debt market plays a very important role by supporting the banking system, to meet the crucial requirements of the corporate sector for long term asset creation and capital investment.

In absolute terms the US bond market is about 20times the Indian bond market and China is approximately 5 times. If compared in terms of amount outstanding to GDP, 63% approximately is the G-sec market as of 31st December 2016. When compared with some of the countries in Asia like Japan which is about 250%.

The Global Penetration picture

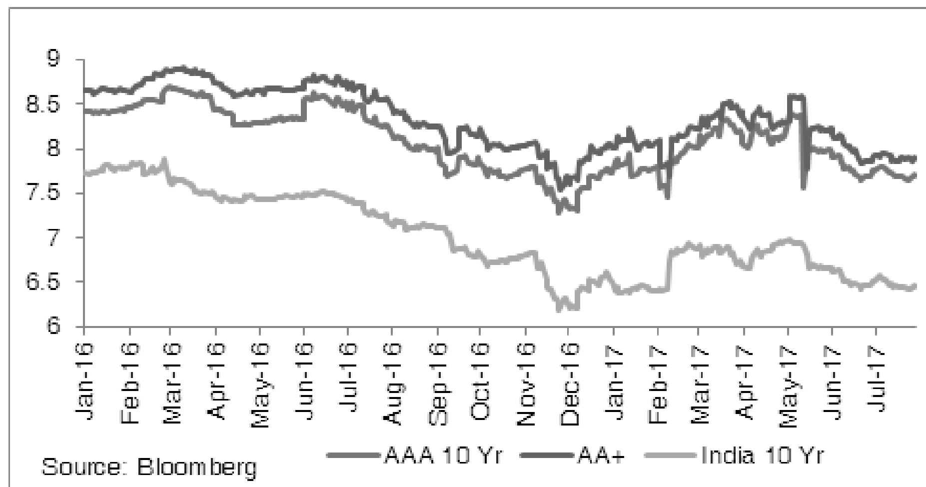
	Penetration (outstanding debt/GDP as on Dec 31, 2015)		Ratio (Bonds/G-sec)
	G-SEC	CORP BONDS	
US	81%	123%	1.5
CHINA	39%	20%	0.5
JAPAN	199%	16%	0.1
SOUTH KOREA	53%	77%	1.5
HONG KONG	39%	29%	0.8
SINGAPORE	46%	32%	0.7
MALAYSIA	53%	44%	0.8
INDIA	40%	17%	0.4

Source: CRISIL Yearbook 2015

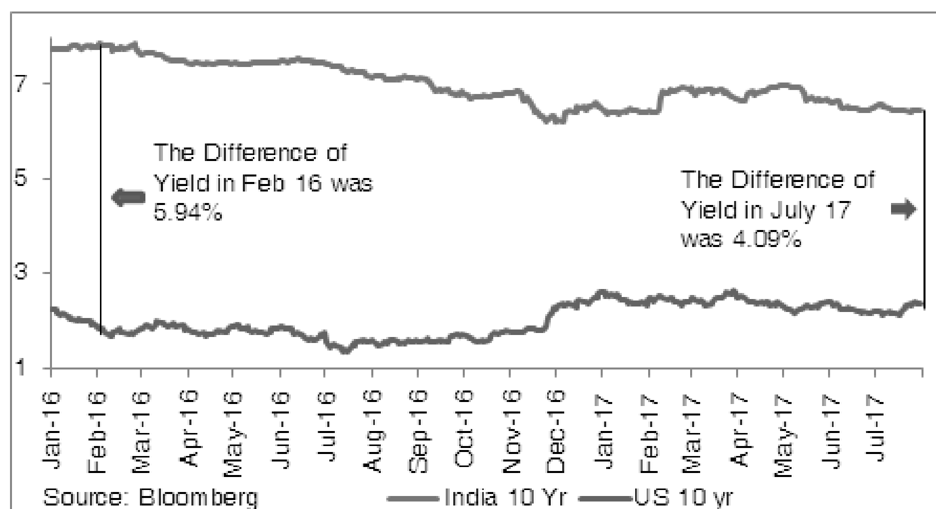
The Indian corporate debt market is by far underpenetrated when compared with most emerging and developed economies. About 23% is the corporate debt to GDP ratio as on 31st December 2016. As on 31st December 2015, the corporate debt to GDP ratio in USA is about (123%). In Asian sub-continent India's corporate debt to GDP is significantly lower than that of South Korea (77%), Malaysia (44%) and Singapore (32%).

The Ratio of Bonds to G-sec is highest in the USA and South Korea (1.5) while it's the lowest in Japan (0.1) and India (0.4). India's ratio is still low as compared some of the other Asian countries.

India G-sec Vs Corp Bond Yield



India 10 Yr G-sec Vs US 10 Yr Treasury



Sovereign Skew - As of 31st December 2015 the total amount outstanding in soverign debt is about 63 lakh Cr or about 72% of which about 51% or 45 lakh Cr is Government securties and 28% or about 24 lakh crore is total Corporate bonds.

Various comparisons with regards to Indian debt market and how it can enable India to grow further
Government securities Vs Corporate securities:

In most of the developed economies the value of corporate debt is much more in value to government debt. This is unusual since most of the Indian debt market is government issued debt. This indicates that the Indian economy is heavily dependent on government debt but this also shows that government security market is fairly developed.

Corporate debt market Vs Bank credit:

As on March 2017 the total credit given by banks to corporate is about 64 lakh crore. This indicates that the corporate in India borrow more from banks then from debt markets. The over dependency on banks has had the deepening effect of the corporate bond market in India where the banks are already overstretched and burdened with non-performing assets. This can be also viewed as that the Indian corporate bond market is untouched and has extensive investing opportunities.

A dire need is there of efficient credit market to pass through shifts in monetary policy of the RBI. This is particularly important for the infrastructure projects. If they can have access to cheaper capital at interest rates that reflect the monetary policy through tradable bonds, then the need of choosing bank loans to finance projects will be significantly less. And when infrastructure projects can be financed more efficiently using tradable bonds, more infrastructure projects would be executed. It is very critical to understand whether the regulators will shift away from a bank funded driven economy and if yes then when.

Debt Market Vs Equity Market

The total value of all the outstanding debt capital market securities is about 87% which is significantly lower than the market capitalization of all listed stock in India as of March 2017. This shows that the equity market in India is much bigger than the debt market. In most of the developed economies the bond market is much bigger than the equity market.

The value of all outstanding debt capital market securities was at approximately 86% of the market capitalization of all listed stock in India as of 31st March 2017. This implies that the Indian equity market is much larger than the debt market. In the developed economies, as we have seen, the bond market is much larger than the equity market.

Conclusion: The Immediacy of the Opportunity

Coming to the bond market's composition, the Indian government securities market is 2.7 times that of the corporate bond market. In most of the developed economies the value of corporate securities far exceeds the value of government securities.

The total bank credit to corporate is about 63 lakh crore as on 31st March 2017. This indicates that the corporate in India borrow 2.7 times more from banks then from debt markets. Our banks are already overstretched and burdened with non-performing assets. This is the opportunity that the Indian corporate bond market can easily seize, grow rapidly and offer extensive investing opportunities.

We must emphasize the clear need for an efficient credit market to pass through shifts in monetary policy of the RBI, which is particularly important for infrastructure projects, a national priority. Once infrastructure projects have access to cheaper capital at interest rates that reflect monetary policy through tradable bonds, then the need of accessing bank loans to finance projects will be significantly less and more infrastructure projects will be executed. It is important to understand whether the regulators will shift away from a bank loan driven economy.

Clearly, the time has come for us as a nation to seize the opportunity that this market presents. MSE is operationally, product wise and system wise prepared and ready to participate in this vital nation growing task to the fullest.