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CORPORATE BOND MARKET IN INDIA: ISSUES, CHALLENGES AND THE WAY FORWARD

1Dibyansh Rai, 2Dharmendra Singh

1Research Scholar, 2Research Scholar

1Deen Dayal Upadhyaya Gorakhpur University, Gorakhpur-273009,

2Deen Dayal Upadhyaya Gorakhpur University, Gorakhpur-273009

ABSTRACT

The procurement, allocation and optimum utilisation of funds is the most critical and principle task of any organisation engaged in the business of value creation. Procurement of funds is the primary driver of the organisation's economic activities but it is the most difficult at the same time as it involves cost. The cost and benefit analysis of the various sources of funds is a must before sticking to any of it, as the cost is going to hamper the entire chain of value creation. Bank's finances is where an economic institution looks when it needs heavy funds for financing its activities, but the raising NPAs, scams and default on repayment of the borrowing institutions has submerged the trust of the lending institution which is reflected in its cost structure, the backbone of the country is already suffering so it needs an extra support to facilitate various funding requirements of the big businesses, here where bond market comes into picture. This paper studies bonds as a cost effective alternative source of funds for businesses and addresses the various issues and challenges faced by the bond market in India and what would be the future. The paper is descriptive in nature and exposes areas which need proper research and development in order to strengthen the bond market, the data considered for the study is of secondary nature.

Keywords: NPAs, Value Creation, Bonds

INTRODUCTION

Bonds are debt instruments of varied maturity offering interest rate on the basis of market conditions. It shows the lender-borrower relationship as it is an acknowledgement of debt. Bond in India is issued by various legal bodies such as central government, state government, municipal and local authorities, corporates, PSUs and some other authorities. India is planning to become a 5 trillion \$ economy by 2024 and for such mammoth growth it requires funds to finance its various developmental activities such as health, education, infrastructure, energy, transportation to name a few. As per RBI report the gross NPAs in public sector banks is valued at around 4 lakh crore accounting 90 % of the total NPAs in India. Repayment default and regular scams of the borrowing institutions has paralysed the trust of banking system. Although, strict actions and steps has been taken by the banking institutions to tackle the situation but there is little hope that the situation will get normal in the near future. Banks have to see their priority sectors also and have to divert funds for varied activities so getting funds from it involves higher cost because that cost also involves the opportunity cost of not lending the funds to some other areas and that case is not with the bonds as they are meant and issued for a specific purpose. The money market instruments and government securities are performing well in the market as the market is deep and liquid and also there is balance of supply and demand, but the same does not go with the corporate bonds segment as there is lack of public trust in it due to the news of their repayment default and regular scams. Corporates are going for private placement for raising funds as there is lack of demand in public and the supply side is cost rich. The recent performance of the bonds market specially the green bonds and masala bonds has alleviated the trust of the public for such innovative bond instruments. A well-developed bond market is a must for the economic development of any country and that can be seen in the developed country like America where the bond market is bigger in size then the equity market. India needs to build the trust of the public in the corporate segment by innovation and proper addressing of the scams.

REVIEW OF LITERATURE

Wells, S., and Zibell (2008) in their paper reviewed the development and outlook of the Indian bond market. It looks at the market participants— including life insurance, pension funds, mutual funds and foreign investors—and discusses the importance to development of learning from the innovations and experiences of others. They concluded that the government bond market remains liquid, and the corporate market is illiquid, restrictive to participants, and arbitrage-driven. Securitization, which once had the jump on other Asian markets, has failed to take off. The paper recommended that to meet the needs of its firms and investors, the bond market must therefore evolve. This will mean creating new market sectors such as exchange-traded interest rate and foreign exchange derivatives contracts. It will mean relaxing exchange

Anvekar and S (2010) in their paper development and analysis of Indian debt market has found that principal issuer of bonds are government, number of large companies and legal framework for bond transactions are limited. Domestic market is not developed but secondary market are vitalized by increasing issuance of G-Secs and reliable corporate bonds pricing.

Luengnaruemitchai and Ong (2005) came up with the conclusion that, corporate bond markets have become an increasingly important source of financing for the private sector in recent years, especially for some emerging market countries. Previously, corporate borrowing had centred on the banking sector in many countries. However, the advent of several banking crises in some of these countries has led to the realization that the sources of corporate borrowing need to be diversified. That said, the corporate debt markets in many emerging market countries remain underdeveloped.

Tripathi, Srivastava, and Yadav (2014) focused on evaluating debt market contribution in Indian financial market and inferred that there is limited investment in debt securities as compared to investment in equities further they have derived that the projection trend of debt investment is not impressive in India till now and there is an urgent need to relook the matter by the government of India and regulatory authorities towards providing better infrastructure to investors for investment in retail debt market. The paper also recommended that there is an urgent need to increase the limit of investment u/s 80C of the income tax act 1961, floating interest rate should be introduced in Indian debt market and investment norms should be liberalized.

Chaudhari, Raje, and Singh (2014) reviewed research and policy papers on the corporate debt markets in India and revealed that there is a persistent absence of an efficient, liquid and vibrant corporate debt market in India. They find that this lack of depth and efficiency in the corporate debt market is mainly explained by inadequate infrastructure, illiquidity, regulatory gaps, limited investor and issuer base, and absence of benchmark yield curve across maturities. The paper also made certain recommendations in the area of taxation, legal and regulatory, public policy, market micro structures, corporate laws, and banking regulations.

Gwalani and Bharati (2015) states that awareness level directly affects the investments in the corporate Bonds by the retail investors .One of the major reasons of the non-participation has been lack of sufficient awareness on the part of retail Investors so the focus should be keep on increasing the awareness about corporate bond markets. This paper also inferred that brokers play a major role in creating awareness and increasing the investment in the Corporate Bond Market in India. Further the investor also gets attracted towards corporate bonds if tax savings are associated with the same.

OBJECTIVES

- 1- To address the issues and challenges faced by the Indian Bond Market.
- 2- To study and explore future prospects of Indian Bond Market.

RESEARCH METHODOLOGY

The study is of descriptive nature.

Secondary data has been collected for the study.

Comparative analysis, Trend analysis and Percentage method has been used as and when required to achieve the objectives.

ANALYSIS AND FINDINGS

Corporate bond market in India is suffering from a series of **issues and challenges**, the study came up with the following results-

- Corporate bond issuance is dominated by private placement with 95% of the total corporate bond issue.
- The level of awareness of the public about the bonds in general and corporate bonds in particular is very less and also a very small population of who are aware invests.
- Public trust towards the private sector is very less.
- Majority of the public consider risk and return before investing and as corporate bonds are highly risky the investment is less.
- Majority of the people like to invest in instruments of 1 to 3 year maturity and corporate bond market lacks instruments in that frame.
- People takes media platforms as an important tool for getting awareness of various financial products but corporate bonds are not promoted at that extent.
- As institutional investors play a majority role in the corporate bond market there is a very little space for the retail investors.
- There is lack of liquidity in the corporate bond market.
- There is structural incentive to go for borrowing from banks so there is supply side problem also as corporates prefer bond issue less for their funding requirements.
- Corporate bonds get impacted with interest rate changes in the market so there is lessor incentive and more risk.
- Scams and default in repayment of loans by corporates has breached the trust of public.

FUTURE PROSPECTS

The 1991 reforms has given priority to the private sector for the development of the economy, several industries had been opened for private sector for investment and operation since then private sector has played a major role in pushing the economy, but all these industries requires funds for smooth operation and bank being the only major player for funding is presently not in a position to provide cost effective funds. The priority is now shifted to the bonds market which can provide easy specialised funds for smooth functioning and also the recent bonds has showed their strength especially the green bonds and masala bonds which were subscribed multiple times.

Unlike, the Indian equity market which is deep and liquid, volumes of trade are high and enough opportunity for both buyers and sellers the bond market is dominated by the government.

In most of the international market including US, trading volumes in the debt market are much higher than those of stocks. Since, there is an absence of well-developed corporate bond market in India the burden for financing various development activities falls on the banks. As the banks are suffering from piling NPAs corporate bond market has now the major role to play and also the government is taking stringent actions for the proper regulation and deepening of corporate market.

Furthermore, India is looking to become a 5 trillion \$ economy by 2024, it has committed to reduce the emissions intensity of its GDP by 20 to 25% by 2020.

In accordance with the COP21 Paris accords, the Government of India has set a target of adding 175 GW of renewable power in the country by 2022, it Aims to deploy over 1000 GW of solar energy and mobilize more than \$1000 billion into solar power by 2030, all these targets require sufficient funds for the corporates as they are going to be the major players in the privatising scenario of the country, government is working towards deepening the corporate bond market and various steps has been taken by the government in this regard.

SUGGESTION AND CONCLUSION

The G-Secs market in India is well developed and liquid as there is Demand-Supply balance and public trust, in the same line corporate bond market should be developed, private placement should be reduced to maximise public investments. Scams and default in repayment by the corporates should be properly dealt with in order to improve public confidence and to gain investment. The debt market in India should be developed in line with developed countries where the size of debt market is bigger than the equity.

India is going for privatisation in order to maximize the quality and fund requirement for the projects and the government is focusing on the welfare activities and some specific industries, the future is of the private institutions so a well organised and regulated market should be developed to fulfil their funding requirement.

Corporate bond market is still dominated by private placement, they are going for external borrowing as the cost structure at home is high and also there is lack of demand for their securities. Promotion of corporate bond securities should be made on various media platforms as most of the public gets the awareness through it only.

Low maturity securities should be developed and issued as majority of the public is inclined towards it.

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