

5. Debt Market

5.1 Introduction¹

The debt market in India consists of mainly two categories—the corporate bond market and the government securities (G-sec) market comprising central government and state government securities. Financial institutions (FI), public sector units (PSU) and the non-financial private sector raise debt capital in the corporate bond market (also known as the non-G-sec market) by issuing bonds/debentures. In order to finance its fiscal deficit, the government floats fixed income instruments and borrows money by issuing G-secs, which are sovereign securities issued by the Reserve Bank of India (RBI) on behalf of the Government of India.

The G-sec market forms the major part of debt market in terms of outstanding issues, market capitalisation and trading value. It sets a benchmark for the rest of the market. The market for debt derivatives have not yet developed appreciably, although a market for over-the-counter (OTC) derivatives in interest rate products exist.

It has been well recognized that a well-developed corporate bond market complements a sound banking system in providing an alternative source of finance to the real sector for its long-term investment needs. An active corporate bond market also helps in the diversification of risks in the financial system. In order to enable public and private sector firms to borrow for longer maturity periods in local currency to meet their investment needs and avoid balance sheet mismatches and foreign currency exposures, there is a need to accelerate the development of local currency bond market. An active corporate bond market could also provide institutional investors such as insurance companies and provident and pension funds with quality long term financial assets, helping them in matching their assets and liabilities (Report of the Working Group on Development of Corporate Bond Market in India, August 2016).²

5.2 Resource Mobilisation

In 2017–18, the government and the corporate sector collectively mobilised Rs19.1tn (US\$288bn) from the primary debt market, year-on-year increase of 2% (Table 5.1). Also, there was an increase in the share of government borrowings out of the total borrowings. About 61% of the resources were raised by the government (the central and the state governments), while the balance was mobilised by the corporate sector through public and private placement issues. The corporate sector witnessed a decrease of 2% in primary market borrowings. The turnover in the secondary debt market in 2017–18 aggregated Rs222tn (US\$3.3tn) which is around 17% lower than the previous year.

¹ This chapter discusses the market design and outcomes in the government securities market, in both the primary and secondary segments. The data available for the secondary market for corporate debt securities is limited. Wherever possible, the developments in the secondary market for corporate debt are also covered in this chapter. The developments in the primary corporate debt market are discussed in Chapter 2.

² https://www.sebi.gov.in/sebi_data/attachdocs/1471519221779.pdf

Table 5.1: Debt Market: Selected Indicators

Issuer / Securities	Amount raised from Primary Market* (Rsbn)			Turnover in Secondary Market (Rsbn)			Amount raised from Primary Market (US\$bn)			Turnover in Secondary Market (US\$bn)		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Government	10,336	11,065	11,668	151,681	251,988	204,037	156	167	176	2,287	3,799	3,076
Corporate/Non Government	5,428	7,634	7,446	10,224	14,707	17,977	82	115	112	154	222	271
Total	15,764	18,699	19,114	161,905	266,695	222,014	238	282	288	2,441	4,021	3,347

Source: BSE, Primedatabase, RBI and NSE.

Note: *Amount Raised from primary market for corporate sector includes public issues and private placement issues.

5.2.1 Government

The net borrowings of the central and the state governments rose by 9%, from Rs7.4tn in 2016–17 to Rs8.1tn in 2017–18. While there was a 1% decline in the net borrowings of the state government, 17% increase in the net borrowing of the central governments was sufficient to offset the decline.

Table 5.2: Net Market Borrowing of Central and State Governments

Type of Government	2014-15 (Rsbn)	2014-15 (US\$bn)	2015-16 (Rsbn)	2015-16 (US\$bn)	2016-17 (Rsbn)	2016-17 (US\$bn)	2017-18 (Rsbn)	2017-18 (US\$bn)
Central	4,654	70	4,455	67	3,967	60	4,656	72
State	2,075	31	2,594	39	3,427	52	3,403	53
Total	6,729	101	7,049	106	7,393	111	8,059	125

Source: RBI.

5.2.2 Corporates

Private placement mechanism dominates the resource mobilisation through corporate bonds. The trend of resource mobilisation through private placement is shown in Table 5.3. Resource mobilisation through the private placement and public issues decreased by 6% and 82% in 2017–18 as compared to the previous year (Table 5.3a).

Table 5.3a: Private Placement of Corporate Bonds

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)
2012-13	1,295	2,061.9	1,094	724.7	100	828.0	2,489	3,614.6
2013-14	837	1,407.1	997	788.1	90	565.4	1,924	2,760.5
2014-15	1,094	1,697.3	1,386	1,179.5	131	1,164.6	2,611	4,041.4
2015-16	1,198	2,066.8	1,619	1,522.8	158	991.2	2,975	4,580.7
2016-17	1,023	2,197.2	2,177	2,542.1	177	1,667.8	3,377	6,407.2
2017-18	721	1,708.3	1,809	2,346.1	173	1,937.0	2,706	5,991.5
Apr-18	42	185.2	214	314.4	16	161.9	272	661.4
May-18	15	19.2	104	71.1	3	15.0	122	105.4
Jun-18	33	110.3	92	78.4	9	48.6	134	237.3
Jul-18	48	115.6	161	190.8	12	13.2	221	13.2

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)
Aug-18	48	113.8	159	177.2	13	78.1	220	369.2
Sep-18	45	108.2	152	195.4	7	14.3	204	318.0
Oct-18	31	111.5	116	55.9	8	151.6	155	318.9
Nov-18	34	168.1	104	183.7	20	200.3	158	552.1
Dec-18	52	283.3	109	256.6	24	309.3	185	849.3
Apr-Dec 18	348	1,215.3	1211	1,523.5	112	992.4	1,671	3,424.8

Source: SEBI.

Table 5.3b: Public Issues of Corporate Bonds

Year/ Month	Total	
	No. of Issues	Final Issue Size (Rsbn)
2012-13	20	169.8
2013-14	35	423.8
2014-15	25	97.1
2015-16	20	338.1
2016-17	15	293.3
2017-18	8	51.7
Apr-Dec 18	15	285.7

Source: SEBI.

5.3 Secondary Market

Most of the activity in secondary market is dominated by a very liquid government securities market. The corporate bond market has witnessed growth over the years but is still small as compared to trading in government securities.

5.3.1 Settlement of Trades in Government Securities

There is a gradual increase in total settlement of repo trades as can be seen in Table 5.4a. In 2017-18, total settlement of repo trades has increased by 8% due to increase in both Treasury bills and SGD. But Central govt dated securities witnessed a decline in the same period. In case of outright trades, total settlement has declined by 32% in 2017-18 (Table 5.4b). Although trends of settlement are similar across all instruments, total settlement declined mostly due to 35% decline of central govt. dated securities.

Table 5.4a : Instrumentwise Settlement of Repo Trades

Settlement Period	Cen. Govt. Dated		Treasury Bills		State Govt Development		Total (Rsbn)
	Value (Rsbn)	% Share	Value (Rsbn)	% Share	Value (Rsbn)	% Share	
2012-13	29,183	54.0	24,131	44.7	713	1.3	54,028
2013-14	33,641	46.5	38,325	53.0	316	0.4	72,281
2014-15	44,719	56.8	32,590	41.4	1,443	1.8	78,752
2015-16	62,307	72.3	22,482	26.1	1,428	1.7	86,217
2016-17	94,998	80.3	18,028	15.2	5,324	4.5	118,350
2017-18	91,318	71.5	26,849	21.0	9,636	7.5	127,803
Apr-18	7,487	79.2	1,040	11.0	928	9.8	9,455
May-18	8,866	77.6	1,208	10.6	1,359	11.9	11,433
Jun-18	8,617	72.0	1,785	14.9	1,562	13.1	11,965
Jul-18	7,975	68.6	1,862	16.0	1,788	15.4	11,625
Aug-18	6,847	60.1	2,950	25.9	1,598	14.0	11,395
Sep-18	7,735	66.5	2,677	23.0	1,214	10.4	11,626
Oct-18	10,387	66.2	3,882	24.7	1,433	9.1	15,701
Nov-18	7,058	62.8	2,622	23.3	1,559	13.9	11,239
Dec-18	6,725	62.1	2,102	19.4	2,011	18.6	10,838
Apr-Dec 18	71,697	68.1	20,129	19.1	13,451	12.8	105,277

Source: CCIL.

Table 5.4b: Instrumentwise Settlement of Outright Trades

Settlement Period	Cen. Govt. Dated		Treasury Bills		State Govt Development		Total (Rsbn)
	Value (Rsbn)	% Share	Value (Rsbn)	% Share	Value (Rsbn)	% Share	
2012-13	59,209	89.82	5,529	8.39	1,182	1.79	65,920
2013-14	79,687	88.97	8,332	9.3	1,548	1.73	89,567
2014-15	91,496	90.09	8,235	8.11	1,831	1.8	101,562
2015-16	85,577	87.96	8,544	8.78	3,165	3.25	97,285
2016-17	151,985	90.07	10,735	6.36	6,022	3.57	168,741
2017-18	98,301	86.23	10,061	8.83	5,637	4.94	113,999
Apr-18	7,814	88.5	561	6.36	454	5.14	8,829
May-18	5,229	86.5	466	7.71	350	5.79	6,046
Jun-18	5,559	83.33	813	12.18	300	4.49	6,671
Jul-18	5,618	84.41	720	10.81	318	4.77	6,655
Aug-18	6,075	83.4	881	12.1	328	4.5	7,285
Sep-18	6,660	88.1	594	7.86	306	4.05	7,560
Oct-18	6,574	85.36	800	10.38	328	4.26	7,702
Nov-18	6,179	83.75	750	10.16	449	6.09	7,378
Dec-18	9,449	83.05	1,304	11.46	625	5.49	11,378
Apr-Dec 18	59,157	85.11	6,888	9.91	3,457	4.97	69,503

Source: CCIL.

The market share of top five members in settlement of government securities is given in Table 5.5 across different categories.

Table 5.5: Market Share of Top Five Categories in Settlement of Government Securities (%)

Categories	Cooperative Bank	Foreign Bank	Public Sector Bank	Private Bank	Mutual Fund	Primary Dealer
2012-13	55.5	77.32	48.92	83.43	65.36	82.08
2013-14	55.31	81.15	45.68	86.53	65.08	85.35
2014-15	58.68	82.14	47.58	80.35	66.19	87.29
2015-16	60.56	86.1	50.22	83.16	63.9	89.18
2016-17	56.83	87.23	45.98	79.16	62.48	93.18
2017-18	58.9	80.4	59.4	80.72	56.8	91.62
Apr-18	66.83	75.41	55.53	84.45	55.08	91.97
May-18	66.83	76.28	55.25	81.86	59.5	86.81
Jun-18	63.85	79.73	59.88	87.87	55.36	90.41
Jul-18	56.87	75.03	56.12	88.47	58.56	93.08
Aug-18	58.47	76.36	62.46	87.3	60.37	92.92
Sep-18	74.69	70.99	62.57	85.44	61.34	92.49
Oct-18	60.32	71.08	55	85.04	59.41	91.68
Nov-18	51.39	70.8	63.6	86.37	63.79	93.55
Dec-18	56.83	71.94	65.58	84.98	59.93	94.88
Apr-Dec 18	62.48	74.08	60.48	85.72	59.05	92.25

Source: CCIL.

5.3.2 Trading in Corporate Bonds

The data on corporate bond trading (Table 5.6) at NSE and BSE includes trades at the exchanges as well as in the OTC market. The value of the trades on the NSE increased by 12% to Rs13.2tn (US\$205bn) in 2017–2018 from Rs11.8tn (US\$177bn) in the previous fiscal year. The BSE turnover in corporate bonds increased by 63% to Rs4.8tn (US\$74bn) in 2017–18. Even though NSE’s share in total corporate bond trades decreased from 80 per cent in 2016-17 to 74 per cent in 2017-18, it still remains the largest reporting platform in the corporate bond market.

Table 5.6: Secondary Market Corporate Bond Trades at the Exchanges and OTC

Year	BSE			NSE		
	No. of trades	Amount (Rsbn)	Amount (US\$bn)	No. of trades	Amount (Rsbn)	Amount (US\$bn)
2010-11	4,465	395.8	8.9	8,006	1,559.5	34.9
2011-12	6,424	498.4	9.7	11,973	1,934.4	37.8
2012-13	8,639	516.2	9.5	21,141	2,421.1	44.5
2013-14	10,187	1,030.3	17.2	20,809	2,757.0	46.0
2014-15	17,710	2,045.1	33.5	58,073	8,867.9	145.1
2015-16	16,900	2,076.5	31.3	53,223	8,147.6	122.8
2016-17	24,372	2,921.5	44.0	64,123	11,785.1	177.7
2017-18	29,198	4,760.0	73.9	62,215	13,217.4	205.1

Source: SEBI.

Note: The data on corporate bonds at NSE and BSE includes the trades on the respective trading systems as well as the reporting of trades carried out at OTC.

5.3.3 Settlement of Trades in Corporate Bonds

In 2017–18, 73,331 trades in corporate bonds amounting to Rs13.7tn (US\$213bn) were settled by the NSCCL and the ICCL (Table 5.7). NSCCL accounted for 85% of total trading volume settled for the year 2017-18.

Table 5.7: Settlement Statistics of Corporate Bonds

Month	NSCCL			ICCL			Total		
	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US\$bn)	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US\$bn)	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US\$bn)
2015-16	44,629	6,557	98.9	9,227	579	8.7	53,856	7,136	107.6
2016-17	54,814	9,685	98.9	16,630	1,160	17.5	71,444	10,845	116.3
2017-18	55,930	11,613	180.2	17,401	2,106	32.7	73,331	13,719	212.9

Source: SEBI.

Note: *At MCX-SX, trading in corporate bonds started in July 2013.

Appendix

Table 5a.1: Historical Summary of Corporate Bond Trading (Rsbn)

Period	Total		Average	
	Trades	Value	Trades	Value
2008-09	-	1,458.3	-	6.2
2009-10	-	4,021.6	-	16.9
2010-11	438.0	5,986.0	1.8	24.2
2011-12	514.4	5,919.8	2.2	24.9
2012-13	661.8	7,363.5	2.8	30.6
2013-14	695.2	9,721.6	2.9	40.2
2014-15	723.6	10,135.0	3.1	42.8
2015-16	637.0	9,053.3	2.6	37.6
2016-17	724.2	11,249.9	3.0	46.7
2017-18	506.3	13,500.3	2.1	56.0
Apr-18	40.8	1,165.4	2.2	61.3
May-18	26.9	750.4	1.2	34.1
Jun-18	28.5	827.9	1.4	39.4
Jul-18	27.8	783.0	1.3	35.6
Aug-18	27.0	773.9	1.4	38.7
Sep-18	28.6	762.5	1.6	42.4
Oct-18	25.9	730.6	1.2	34.8
Nov-18	25.0	862.4	1.4	47.9
Dec-18	36.5	1,039.9	1.8	52.0
Apr-Dec 18	267.0	7,696.1	1.5	42.5

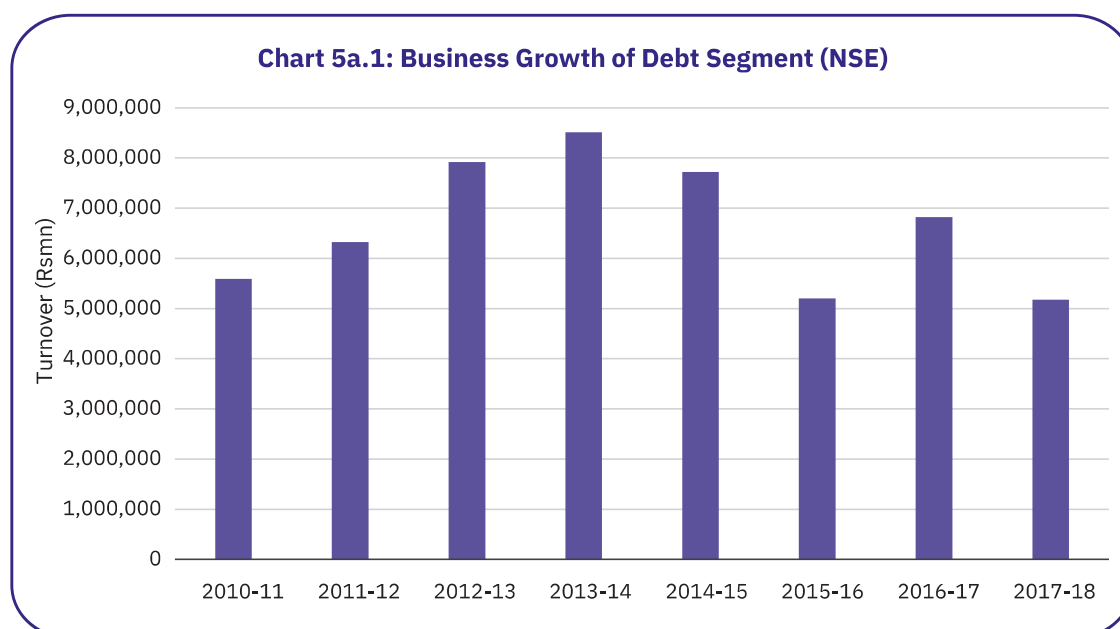
Source: CCIL.

Note: Since April 1, 2014 all Corporate Bond deals are being reported only on the exchanges.

Table 5a.2: Category-wise Corporate Bond Trading (Rsbn)

Year	Categories					
	Finance	Infrastructure	Manufacturing	Oil	Others	Total
2008-09	1,026.4	175.4	74.7	49.5	132.2	1,458.3
2009-10	2,326.7	505.5	257.4	181.9	750.2	4,021.6
2010-11	3,948.9	756.6	265.4	169.2	846.0	5,986.0
2011-12	3,447.4	999.5	87.8	139.5	1,245.6	5,919.8
2012-13	3,348.7	1,314.2	380.7	76.1	2,243.7	7,363.5
2013-14	5,802.7	1,882.1	425.9	179.5	1,431.4	9,721.6
2014-15	5,365.5	2,480.0	410.3	156.1	1,723.2	10,135.0
2015-16	5,486.2	2,599.1	416.9	41.8	509.3	9,053.3
2016-17	7,194.1	2,560.0	391.2	75.2	1,029.5	11,249.9
2017-18	9,167.5	2,738.8	766.0	31.4	796.6	13,500.3
Apr-18	757.8	244.5	43.9	4.4	114.8	1,165.4
May-18	480.6	125.3	35.7	0.8	108.1	750.4
Jun-18	560.3	147.2	47.5	1.2	71.8	827.9
Jul-18	500.1	134.2	42.9	2.2	103.6	783.0
Aug-18	571.1	145.4	19.5	1.7	36.2	773.9
Sep-18	515.0	158.5	15.4	0.1	73.5	762.5
Oct-18	510.9	142.2	52.5	-	25.0	730.6
Nov-18	589.4	148.8	97.4	2.2	24.6	862.4
Dec-18	691.2	198.5	64.8	5.0	80.5	1,039.9
Apr-Dec 18	5,176.5	1,444.6	419.6	17.3	638.0	7,696.1

Source: CCIL.



Source: NSE.