

# India Inc faces costlier borrowing as corporate-govt yield gap widens

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Mumbai, 12 September

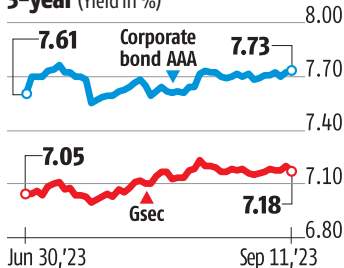
Indian companies are staring at an increase in their cost of borrowing this festival season, with the spread between yields on corporate and government bonds beginning to widen.

In what could be early signs that borrowing was getting costlier for companies, the yield spread between AAA-rated corporate and government bonds has widened by 2 basis points and 4 basis points, respectively, for 3-year tenure and 10-year tenure in September so far. The spread for the 5-year tenure has remained unchanged.

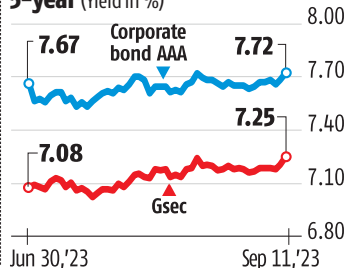
By comparison, in August, the spread between the AAA-rated cor-

## CHANGING TRENDS

3-year (Yield in %)



5-year (Yield in %)



Source Bloomberg

porate bonds and the corresponding government securities had narrowed amid tighter liquidity concerns. The yield spread between AAA-rated 5-year corporate bonds and 5-year government

bonds had narrowed by 7 basis points, whereas the spread for 3-year and 10-year bonds had narrowed by 2 basis points and 5 basis points, respectively.

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education (5.46 per cent) and personal care (8.12 per cent) slowed down in August.

Aditi Nayar, chief economist at ICRA, said notwithstanding the reversal of the relatively transient spike in tomato prices, the outlook for food inflation remains on edge, on account of other vegetables like onions, as well as kharif crops with a lag in sowing such as pulses. In the IIP, nine of the 23 manufacturing industries, such as apparel, wood, paper, chemicals and electronics, witnessed contraction in July.

While infrastructure goods (11.4 per cent) registered double-digit growth, capital goods grew at a modest 4.6 per cent. Consumer non-durables (7.4 per cent) saw robust growth, indicating revival in rural demand. However, the consumer durables (-2.7 per cent) sector contracted for the second consecutive month, indicating that higher interest rates may be adversely impacting urban demand.

## India Inc...

Corporate bonds typically command higher prices than government securities. This premium, referred to as the spread, reflects the disparity in the yields between corporate bonds and government securities with matching maturities. The spread serves as compensation for the increased default risk usually associated with corporate bonds.

“The spread may increase due to tight liquidity. Also, after the Shapoorji Pallonji deal, there may be demand for higher yield as that paper is trading in the market at 16 per cent. Credit growth is there, and besides banks, non-banking financial companies (NBFCs) are trying to tap the market through various sources,” said

Venkatakrishnan Srinivasan, bond market veteran and founder of Rockfort Fincap.

## Indices ...

While the Nifty Midcap 100 index dropped 1,274 points, or 3.1 per cent, to settle at 40,170, logging their worst day since December 23. On Monday, the two indices had hit new highs, having rebounded over 40 per cent each from this year's lows.

The sharp selloff shaved off

### BS SUDOKU

			3	
2		8		
		9		
4			1	
	5			

SOLUTION TO #4075

1	3	2	7	8	6	5	9
5	9	7	3	1	4	8	2
6	8	4	2	9	5	7	1
2	1	8	5	3	9	6	4
9	4	6	8	2	7	1	3
3	7	5	6	4	1	9	8
8	5	9	4	6	2	3	7
4	6	1	9	7	3	2	5
7	2	3	1	5	8	4	6