In FY13, firms borrow more from non-banking sources

For the first time since the 2008-09 crisis, domestic corporate borrowing outpaced incremental bank credit in FY13. Companies borrowed Rs 7.31 lakh crore from the domestic market by way of bonds and commercial paper (CP), while they raised Rs 6.51 lakh crore via incremental bank borrowing.

The main factor responsible for this was bank lending rates, which had not fallen in line with the 100 basis points (bps) repo rate cut by the Reserve Bank of India (RBI) in FY13, thus making it an expensive affair for companies to borrow from banks.

However, the growth in domestic corporate borrowing took a hit in FY13, compared with FY12. The growth in FY13 was a modest 26 per cent, compared to a whopping 52 per cent in the previous financial year. This was because economic growth slowed, due to which companies decided to keep their expansion plans on hold.

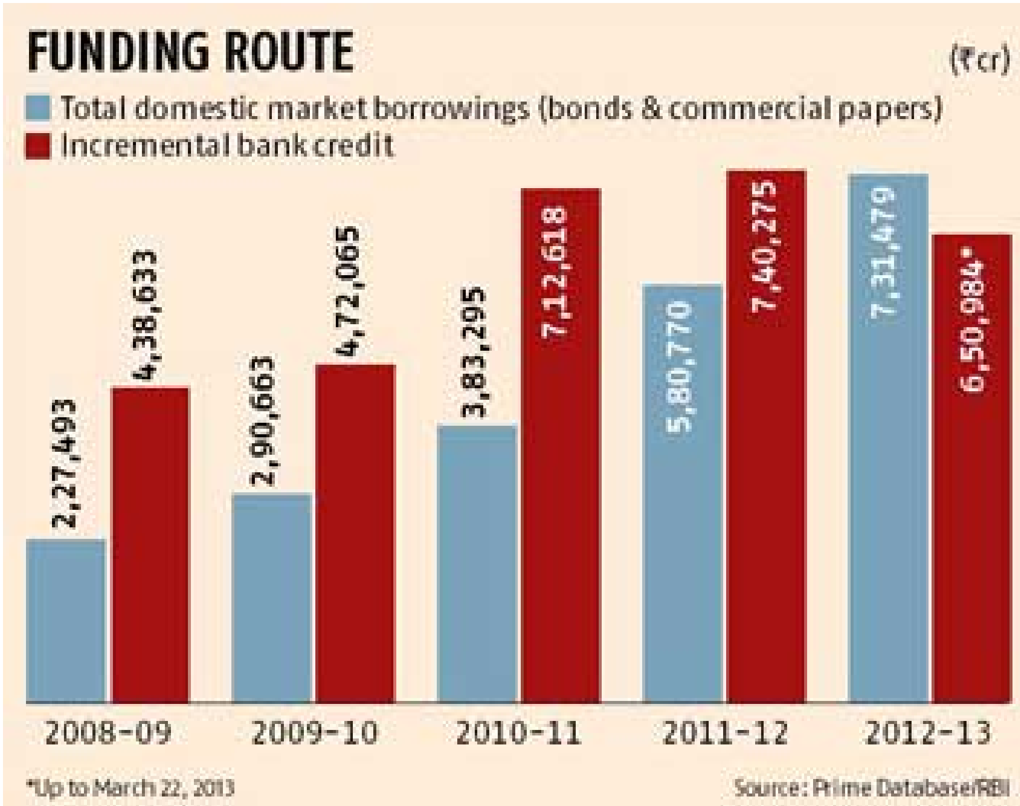
The latest Reserve Bank of India (RBI) data shows the incremental bank credit in FY13 recorded a fall of 12 per cent, compared with Rs 7.40 lakh crore in FY12. Bank credit in FY13 was affected by slowdown in the economy and high-lending rates.

"The difference between base rates of banks and corporate bond yields are very significant. The same is the case with commercial paper rates. This difference is going to continue and there is good appetite for these bonds and commercial paper from traders, banks, mutual funds and insurance companies to invest in these instruments," said Shashikant Rathi, senior vice-president and head of debt market at Axis Bank.

The street expects the coupon rates of corporate bonds and CP to drop further. They also expect RBI to cut the repo rate again, which would make companies continue to go for market borrowings. According to economists, a further cut of 25 bps in the repo rate is expected till September 30. The repo rate currently stands at 7.50 per cent.

However, banks have become cautious with exposure to CP after some companies defaulted on payments. According to Ajay Manglunia, senior vice-president at Edelweiss Securities, top-rated CP will definitely be bought by banks. These top-rated CP are mostly issued by public sector undertakings.

Manglunia added that mutual fund houses have been slowing increasing their exposure in such CPs.



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