



## Financial Markets & Banking Update —Vol. 1: FY2011-12

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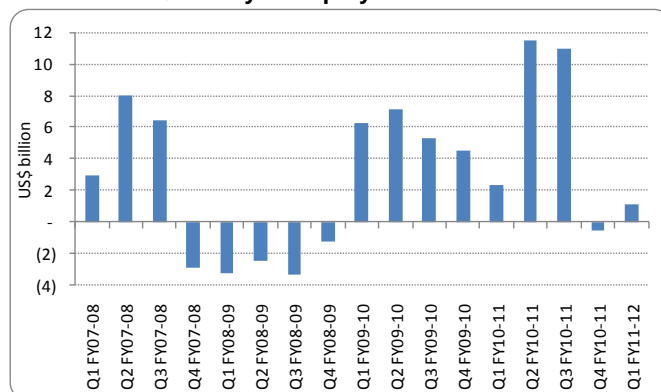
### Highlights during quarter ended June 2011

- Moderate inflows from Foreign Institutional Investors (FIIs) compared with outflows in sequential previous quarter; Foreign Direct Investment (FDI) inflows continue to decline
- Inflows from External Commercial Borrowings (ECBs) remain strong. Foreign Currency Convertible Bonds (FCCBs) volume remains low
- RBI hikes Repo rate twice in Q1FY12; inflationary pressures persist with WPI inflation averaging 9.4% in Q1FY12
- Signs of moderation emerge in consumption and investment growth; economic growth expected to moderate to 7.8-8.0% in FY12 from 8.5% in FY11
- Liquidity deficit rises in May and June 2011 after improving in April 2011
- Hardening interest rates push deposits growth upward; strong growth expected in FY12
- Credit growth slows in Q1FY12 owing to high interest rates and moderation in credit pickup by industrial sector; likely to moderate further in current fiscal
- Corporate Bond issuances remain moderate on hardening of systemic interest rates; could improve going ahead with long term interest rates showing early signs of easing

### Equity flows from FIIs marginally positive in Q1FY12

The net quarterly equity inflows from the Foreign Institutional Investors (FIIs) were marginally positive in Q1FY12. The FII inflows into domestic equity markets, which had witnessed strong growth in Q2 and Q3FY11, fell sharply in Q4FY11 and Q1FY12. The benchmark indices – SENSEX and NIFTY – dropped from their highest levels in the past three years and the returns on the domestic indices were moderate compared to the global peers during this period. According to data released by the Securities and Exchange Board of India (SEBI), the net equity FII inflows in the quarter ended June 2011 were US\$1.15 billion as against an outflow of US\$0.52 billion in Q4FY11 and US\$2.33 billion in Q1FY11. The magnitude of inflows during the past two sequential quarters has been the lowest since Q4FY08-09.

**Chart 1: Net Quarterly FII Equity Inflows**

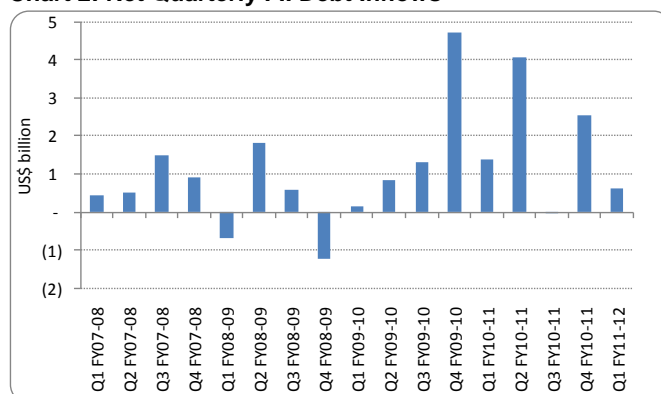


Source: SEBI

### Debt FII flows remain low in Q1FY12; could increase

FII inflows into the debt market moderated to US\$0.60 billion in Q1FY12 from US\$2.53 billion in Q4FY11 and US\$1.37 in Q1FY11 even as bond yields remained at elevated levels. The outlook for FII inflows into Indian debt market remains strong as FIIs flows into the Indian debt market has been positive in May-11 and Jun-11. With global interest rates remaining benign and the yields on domestic Treasury bills, Government securities and Corporate bonds expected to remain attractive in the near-to-medium term, FII flows may improve in the near term.

**Chart 2: Net Quarterly FII Debt Inflows**



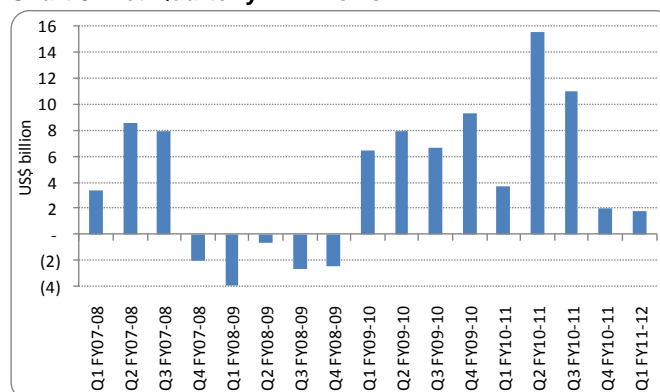
Source: SEBI

The increase in the limit on FII investment in Indian Corporate bonds to US\$40 billion (in addition to the limit of US\$ 10 billion in Government Securities) was accompanied by the stipulation that such investments be made in securities issued by companies in the infrastructure sector with residual maturity of over five years. Market evidence suggests that a significant portion of this increased limit on investment in Indian Corporate bonds is yet to be utilised, as a majority of FIIs tend to invest in short-to-medium term papers. However, efforts being made by Gol and the regulators to improve the Corporate bond market by gradually removing the bottlenecks would aid in improved debt flows over a period of time.

## Cumulative FII inflows remains moderate Q1FY11

With debt and equity inflows remaining moderate in Q1FY12, the total FII investments in Indian markets of US\$1.75 billion were lower than the inflows of US\$2.01 billion in Q4FY11 and US\$3.70 billion in Q1FY11. ICRA believes that the impact of gradual unwinding of the massive monetary stimulus by the developed economies, monetary tightening by emerging economies and ongoing sovereign debt crisis in peripheral Eurozone would crucially impact the Indian debt and equity markets. The market sentiment for Indian Equities may improve significantly if the modest recovery of the global economy continues and the global commodity prices moderate from the currently elevated levels, with stability in the Mid-East and North Africa and the end of Quantitative Easing (QE2) by US Federal Reserve.

Chart 3: Net Quarterly FII Inflows



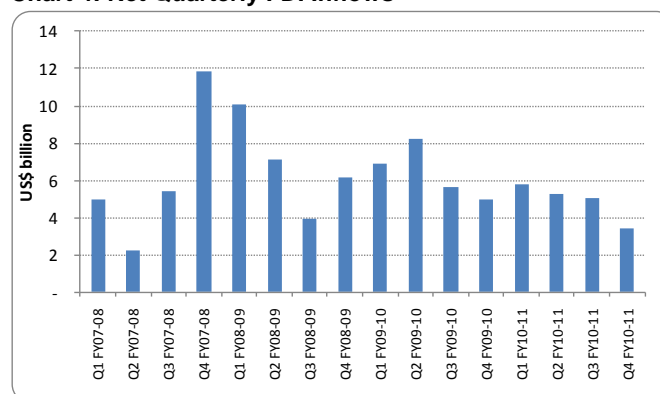
Source: SEBI

While any faltering of the global economic recovery in H2FY12 could lead to increased risk aversion and capital outflows from emerging economies, the simultaneous correction in commodity prices is likely to dampen inflationary pressures, boost Corporate earnings and increase investors appetite for Indian equities. In the event of a steeper than expected economic slowdown; or, a rise in systemic risks related to catastrophic events (like sovereign defaults), further calibrated actions by Central Banks are likely to boost liquidity and support asset prices globally. Accordingly, the Indian markets are expected to continue to present attractive investment opportunities for the FIIs in FY12.

## FDI flows continue to decline

The inflows via the Foreign Direct Investment (FDI) route declined to US\$3.39 billion in Q4FY11 as against US\$5.03 billion in the previous quarter. The cumulative inflows for FY11 at US\$19.46 billion were 24% lower than the US\$25.72 billion in FY10 and the lowest in the past four years. While Mauritius (36%), Singapore (9%) and USA (6%) remained the largest source of FDI inflows, the inflows from all three countries registered a decline of 33% in FY11. Six out of the top 10 sectors that received FDI, including real estate, construction, telecommunication and services, registered a decline in FDI investment in FY11, while metals, petroleum, automobiles and chemicals received higher FDI in FY11. While the FDI inflows increased to US\$3.12 billion during April 2011 (US\$2.21 billion in April 2010), the sustenance of this trend is yet to be seen.

Chart 4: Net Quarterly FDI Inflows

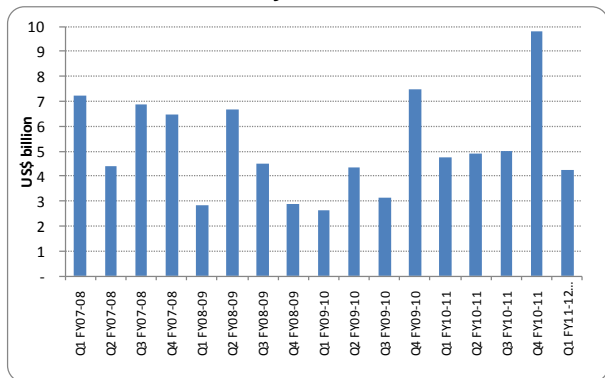


Source: Ministry of Commerce and Industry

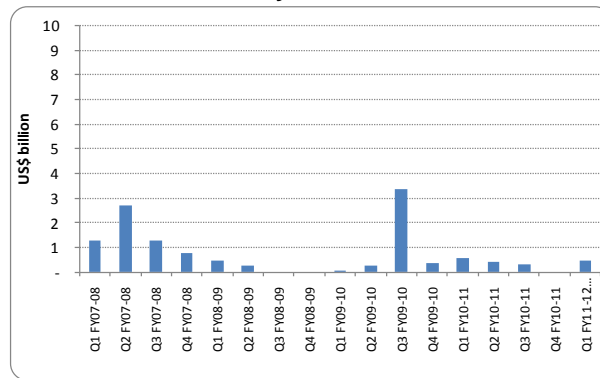
## ECB inflows remain strong in first two months of FY12; FCCB flows remain modest

Based on the data released by the RBI, the gross inflows by way of external commercial borrowings (ECBs) in the months from April 2011 and May 2011 totalled US\$4.24 billion, 30% higher than the inflows in the corresponding period in FY11. During March 2011, we witnessed record ECB inflows to the tune of US\$5.6 billion largely on account of borrowings by telecom and financial institutions. At the same time, the gross inflows through the FCCB route also registered a sharp increase of 81% during this period to US\$0.48 billion, albeit on a small base of US\$0.27 billion in April and May 2010.

**Chart 5: Gross Quarterly ECB Inflows**



**Chart 6: Gross Quarterly FCCB Inflows**



\* Data for Q1FY12 is upto May-11

Source: RBI

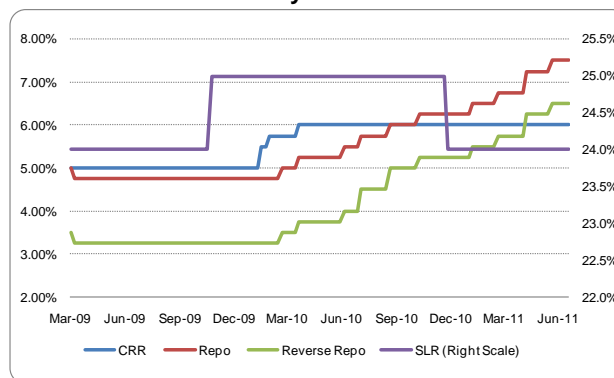
Several large issuances of ECBs were made in Q1FY12, including those from public sector undertakings. The major issuers during the period March 2011 to May 2011 included Reliance Communications (US\$ 1.6 billion), Tata Teleservices and Tata Teleservices (Maharashtra) (US\$750 million), Nestle India (US\$ 450 million), IDFC (US\$ 285 million), Bhushan Steel (US\$259 million), Hospira Healthcare India (US\$250 million), ERA Infra Engineering (US\$220 million) and Shipping Corporation of India (US\$215 million). Purchase of capital goods, refinance of rupee loans for 3G/BWA Auctions, onward lending by financial institutions and overseas acquisitions were main purposes behind the issuance of ECB/FCCBs.

While the RBI has persisted with monetary tightening since March 2010 to dampen inflation, several Advanced Economies continue to maintain a soft monetary stance. Interest rate differentials are expected to persist in the coming months and Indian Corporate entities are likely to continue to take advantage of the same and fulfil a part of their funding requirements through ECBs/FCCBs. The RBI recently permitted refinancing through the ECB route to redeem maturing FCCBs, which is also likely to be a major driver for ECB issuances in the coming months. While ECB flows are likely to increase, FCCB flows are likely to be volatile and dependent on equity capital markets over the next few quarters.

**RBI intensifies focus on inflation management; further policy rate hikes likely**

Maintaining its focus on containing headline inflation, which averaged 9.6% in FY11 and 9.4% in Q1FY12, the RBI hiked the benchmark Repo rate by 75 bps in two stages (to 7.50%) in Q1FY12; with this, the RBI has cumulatively increased the Repo rate by 325 bps since the unwinding of liquidity measures began in FY10. The transmission of the same to Bank credit and deposit rates effectively began in Q3FY11 and the interest rate scenario has hardened since then with Banks increasing their base rates by nearly 100-175 bps<sup>1</sup> in calendar year 2011, while deposit rates have increased by 100-175 bps over the same period.

**Chart 7: Movement in Key Rates**



Source: RBI

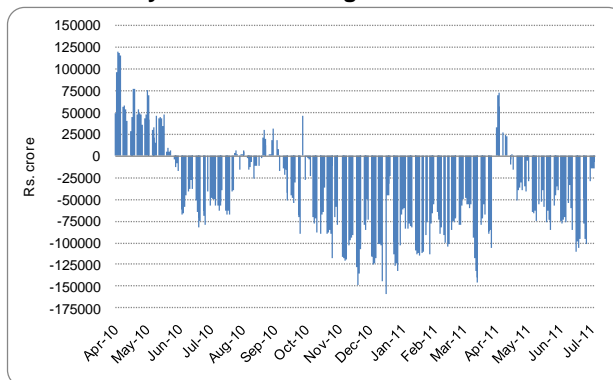
Although overall IIP growth and consumption demand have displayed signs of weakening since April 2011 and the impact of policy rate hikes throughout FY11 and in Q1FY12 continues to percolate into

<sup>1</sup> Relating to 5 major Banks as tracked by RBI

the system, with inflation likely to remain in excess of 9% in Q2FY12, ICRA expects the RBI to increase the repo rate by a further 50 bps in the coming months to dampen inflationary expectations.

Overall, systemic liquidity remained in deficit throughout Q1FY12, except for a brief period in April 2011. Nonetheless, the extent of the liquidity deficit has eased considerably from the position in H2FY11 (when the average daily infusion of liquidity under the LAF was nearly Rs. 1 lakh-crore) and remained within the RBI's comfort zone of +/- 1% of NDTL for the majority of Q1FY12. The RBI replaced the additional liquidity support (in existence till May 6, 2011) with the Marginal Standing Facility (MSF) at 8.25% (1% higher than Repo Rate); however, utilisation of this facility has been insignificant since its introduction, indicating that the systemic liquidity deficit has eased to an extent. In ICRA's opinion, systemic liquidity is likely to remain in deficit in Q2FY12 in line with RBI's stated policy towards the same and the considerable magnitude of borrowings to be made by the Central and State Governments during the quarter. Nevertheless, with the pace of credit growth moderating in Q1FY12 to 19.7% (y-o-y) as on July 1, 2011, ICRA expects that the systemic liquidity deficit would largely remain within the RBI's comfort zone of +/-1% of NDTL.

**Chart 8: Daily LAF outstanding**



Note: Negative amounts indicate injection of liquidity by RBI

Source: RBI

Banks continued to maintain excess SLR investments (including Reverse Repo) of more than Rs. 2 lakh-crore during Q4FY11, which increased to nearly Rs. 2.5 lakh-crore in Q1FY12; the SLR levels remained around 28.5% of NDTL. Bank funds parked in debt-oriented liquid mutual funds remained considerably volatile in the past quarter, but declined to Rs. 53,984 crore as on July 1, 2011 from Rs. 1.11 lakh-crore on April 8, 2011.

### **WPI inflation consistently above 9% in calendar year 2011; remains a key concern for monetary policy**

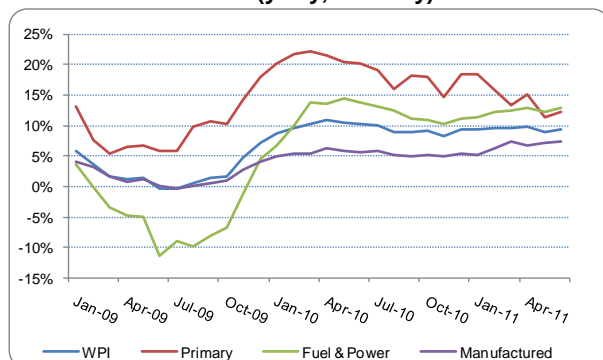
Headline wholesale price index (WPI) inflation increased to 9.4% in June 2011 from 9.1% in May 2011, led by higher inflation related to the minerals index and the fuel index. Revised data indicates that WPI inflation remained between 9.5-9.7% between January 2011 and April 2011. During this period, the initial inflation estimates underwent substantial revisions (more than 1% in three of these four months) and a similar trend is expected to persist in May and June 2011.

Prices of minerals rose by 27% in June 2011 in year-on-year (y-o-y) terms reflecting higher prices of commodities such as crude petroleum, copper and other minerals. Fuel inflation rose marginally to 12.8% in June 2011 from 12.3% in May 2011, following the revision in administered prices of kerosene, diesel and LPG in the last week of June; data for July 2011 would fully capture the first round effect of this price rise. However, ICRA notes that the impact of the revision in prices of kerosene, diesel and LPG already undertaken by the Government of India in June 2011 would not result in a sharp increase in fuel inflation in July 2011 on account of the base effect (with increase in prices of petrol, diesel, kerosene and LPG in the last week of June, 2010). Nevertheless, the second round impact of the price revision would percolate into higher prices of various products over the coming months.

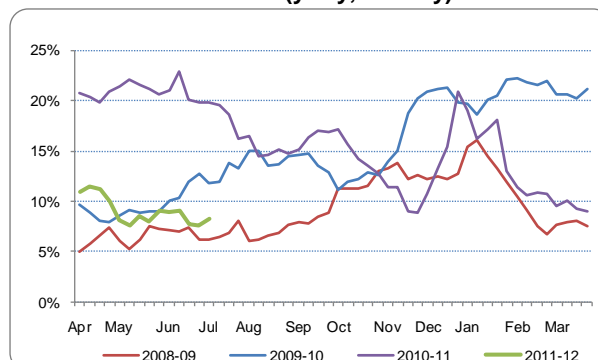
Primary food inflation declined to 8.4% in June 2011 from 11% in February 2011. However, manufactured food inflation has risen sharply to 8.5% in June 2011 from 0.0% in February 2011. The second stage forecast of the Indian Meteorological Department (IMD) in June 2011, projected monsoon rainfall at 95% of the long period average (LPA) in 2011. Favourable rainfall in the north western region in conjunction with the considerable available stocks suggests that the inflation related to cereals is likely to remain moderate, even as lower-than-average rainfall so far in the central and southern regions may exert pressure on the prices of pulses and oilseeds. Prices of non-vegetarian

protein items are likely to remain rigid as a sizeable augmentation of supply is unlikely in the short term. Moreover, food prices may record a rise in the coming weeks on account of higher transport costs following the revision in diesel prices.

**Chart 9: WPI Inflation (y-o-y, Monthly)**



**Chart 10: Food Inflation (y-o-y, Weekly)**



**Source: Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India**

Inflation related to non-food manufactured products remained steady at 7-7.3% in April-June 2011, a decline as compared to the 8.5% inflation recorded in March 2011. Notably, the level of five sub-groups displayed a decline in month-on-month (m-o-m) terms in June 2011, suggesting that the pace of generalisation of inflationary pressures has been arrested to an extent. While the decline in the price level of textiles and rubber & plastic products in m-o-m terms in June 2011 reflects the easing in prices of cotton and rubber, the fall in prices of transport equipment & parts (led by motor vehicles) suggests that the pricing power of producers may have weakened to an extent in the face of moderating consumption demand. Nonetheless, inflation related to non-food manufactured products remains elevated and continuing volatility in commodity prices may cause core inflation to rise in the coming months. Overall, WPI inflation is expected to remain above 9% in H1FY12 and may surpass 10% in some months; accordingly, the RBI is unlikely to pause in the rate tightening cycle at present.

### **Pace of GDP growth eases over the course of FY11; private consumption and investment growth display signs of moderation**

Gross domestic product (GDP) at factor cost (constant prices) expanded by 7.8% in year-on-year (y-o-y) terms in Q4FY11, led by an 8.7% expansion of the services sector and boosted by a considerable 7.5% growth of the agricultural sector. Growth was dampened in Q4FY11 by a slowdown in the pace of industrial expansion to 6.1%, with manufacturing recording a growth of 5.5%.

The pace of GDP growth recorded a deceleration over the course of FY11 (9.3% in Q1FY11, 8.9% in Q2FY11, 8.3% in Q3FY11 and 7.8% in Q4FY11). Notwithstanding this moderation, average growth improved to 8.5% in FY11 from 8% in FY10, led by the turnaround in agricultural growth (to 6.6% in FY11 from 0.4% in FY10). The pace of industrial growth was largely steady at 7.9% in FY11 relative to 8% in FY10, albeit with considerable deceleration over the course of FY11 related to an adverse base effect. The pace of services sector growth declined somewhat to 9.4% in FY11 from 10.1% in FY10.

Growth of GDP at market prices (at constant 2004-05 prices), reflecting demand-side factors, moderated significantly to 7.7% in Q4FY11, from 9.1%-9.4% in the previous three quarters, with a sharp slowdown in gross fixed capital formation (GFCF) growth (led by an adverse base effect) and a moderation in private final consumption expenditure (PFCE) growth in Q4FY11 relative to the previous quarter. While Government final consumption expenditure (GFCE) growth remained low, exports recorded a sharp growth boosting overall economic activity in Q4FY11. In contrast to the pick-up in the growth of GDP at factor cost observed in FY11 relative to FY10, expenditures of GDP at market prices expanded at a slower pace of 8.8% in FY11 as compared to 9.1% in FY10, with a slowdown in the growth of indirect taxes less subsidies.

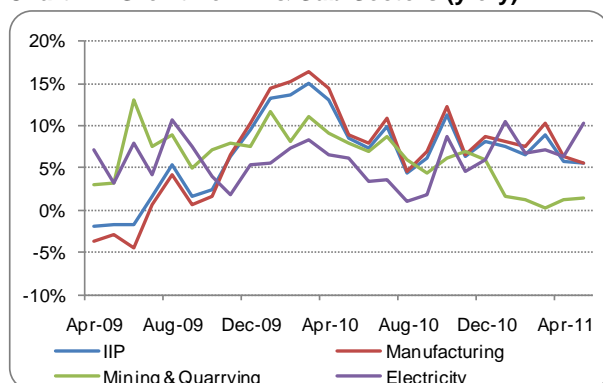
**Table 1: Growth of GDP & Components (in %, constant 2004-05 prices, y-o-y)**

	2009-10	2010-11				
	FY	FY	Q1	Q2	Q3	Q4
Agriculture & Allied	0.4%	6.6%	2.4%	5.4%	9.9%	7.5%
Industry	8.0%	7.9%	10.2%	8.4%	7.1%	6.1%
Services	10.1%	9.4%	10.7%	9.9%	8.4%	8.7%
<b>GDP at factor cost</b>	<b>8.0%</b>	<b>8.5%</b>	<b>9.3%</b>	<b>8.9%</b>	<b>8.3%</b>	<b>7.8%</b>
PFCE	7.3%	8.6%	8.9%	8.9%	8.6%	8.0%
GFCE	16.4%	4.8%	6.7%	6.4%	1.8%	5.0%
GFCF	7.3%	8.6%	17.4%	11.9%	7.8%	0.4%
Exports	-5.5%	17.9%	11.5%	10.2%	24.2%	24.7%
less Imports	-1.8%	9.2%	15.2%	11.3%	0.5%	10.6%
<b>GDP at market prices</b>	<b>9.1%</b>	<b>8.8%</b>	<b>9.4%</b>	<b>9.1%</b>	<b>9.2%</b>	<b>7.7%</b>

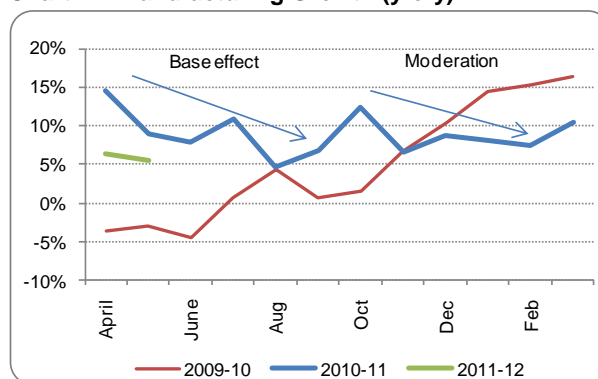
Source: Central Statistics Office (CSO), ICRA Estimates

The new series of the Index of Industrial Production (IIP) on the 2004-05 base released by the CSO, intended to closer approximate the structure of the India economy, indicates that previous data (1993-94 base) broadly overstated growth between November 2008 and August 2010, i.e. subsequent to the onset of the global economic crisis, and broadly understated growth subsequent to September 2010. Accordingly, the slowdown in manufacturing growth between H1FY11 and H2FY11 is not as pronounced as what was indicated by the previously available data.

Data based on the new IIP series indicates that the pace of industrial growth declined to a sluggish 5.7% in April-May 2011 from 7.7% in Q4FY11. The growth rate of intermediate goods, consumer durables and consumer non-durables slowed in April-May 2011 relative to Q4FY11, suggesting a moderation in consumer demand, reflecting the impact of pass through of elevated commodity prices into prices of manufactured goods and rising interest rates. Moreover, the pace of growth of capital goods has moderated considerably since March 2011 (15.4%, 7.3% and 5.9% in March 2011, April 2011 and May 2011, respectively), which is a cause for concern. Additionally, the downward revision in the growth of capital goods for April 2011 (to 7.3% from an initial 14.5%) highlights that issues related to data collection and reporting persist even in the new series of the IIP; accordingly, the growth of capital goods is likely to continue to display volatility.

**Chart 11: Growth of IIP & Sub-Sectors (y-o-y)**

Source: CSO

**Chart 12: Manufacturing Growth (y-o-y)**

The volume of merchandise exports rose by 38% on a year-on-year (y-o-y) basis to reach US\$ 245 billion in FY11, considerably higher than the target of US\$ 200 billion set by Government of India for the last fiscal year, while provisional data indicates that merchandise exports rose by around 46% to reach US\$ 79 billion in Q1FY12. High growth of exports in recent months has been aided by engineering goods and petroleum products, with the latter resulting in an increase in trade with OPEC countries. Additionally, exports received a boost from increased trade with East Asian countries, diversification of markets to African and Latin American countries, and a revival in the economic growth of the traditional trading partners. While the merchandise trade balance worsened considerably from US\$9 billion in April 2011 to US\$15 billion in May 2011, led by a sharp rise in

imports of gold and silver, it is estimated to have improved to US\$7.7 billion in June 2011 (as per first provisional data announced by the Ministry of Commerce & Industry). Nevertheless, sustained high crude oil prices would exert stress on the trade balance in the coming months, even as higher interest costs may dampen the competitiveness of exports.

The continued transmission of monetary tightening to higher interest rates is likely to dampen the pace of growth of investment and private consumption demand in FY12, although buoyant exports may support manufacturing growth to an extent in the coming months. The growth outlook for mining & quarrying would be influenced by various policy decisions taken by the Government, and the growth of this sector is likely to remain low in H1FY12. Given the high base effect, the agricultural sector would display moderate growth in FY12 providing a limited boost to overall economic growth. The services sector is expected to continue to support economic growth in the ongoing fiscal year. Overall, ICRA expects economic growth to moderate to 7.8-8% in FY12 from the 8.5% growth recorded in FY11.

### Deposit growth likely to remain strong in FY12

After moderate growth in April and May 2011, the pace of deposits growth picked up in June 2011 and aggregate deposits of the Indian Banking system stood at Rs. 54.89 lakh-crore as on July 1, 2011, registering an YTD growth of 5.5% since March 2011. In absolute terms, deposits have increased by Rs. 2.83 lakh-crore since March 2011 (as compared to Rs. 1.46 lakh-crore during the same period in FY11), largely fuelled by the growth in term deposits following several rounds of interest rate hikes by Banks since Q3FY11. Empirical data suggests that the

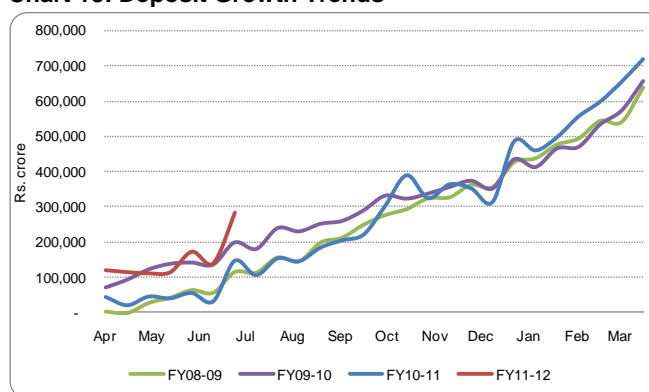
decline in the share of low-cost deposits is further accentuated by the decline in Corporates' surplus balances with Banks for working capital requirements and spurt in issuances of certificate of deposits (CD), while the savings account balances continued to grow. Banks also resorted to aggressive mobilisation of bulk deposits at relatively higher interest rates to fund credit growth in Q4FY11.

Most Banks, including the larger ones, have increased their peak deposit rates by nearly 125 to 300 bps since December 2010 and continue to hold rates at relatively higher levels. Given that other asset classes are likely to generate moderate returns, ICRA expects the overall deposits growth to remain strong in FY12, stimulated by term deposits.

### Credit growth slows down in Q1FY12; likely to moderate further

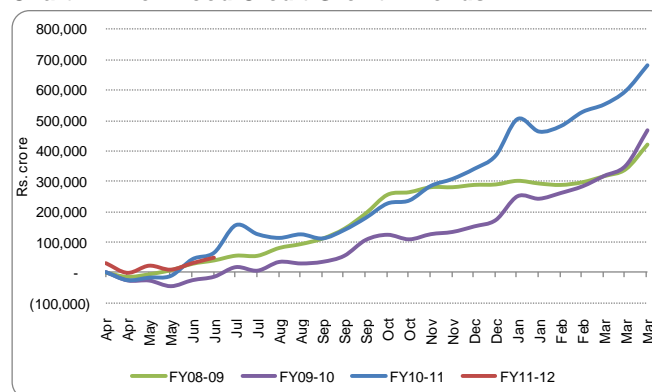
After strong credit growth in FY11, the incremental credit off-take has started showing signs of moderation with the YTD credit off-take upto July 1, 2011 of only 3.42%. The incremental credit growth registered by Banks was Rs. 1.32 lakh-crore in Q1FY12, lower than Rs. 1.56 lakh-crore registered in Q1FY11; however, the latter was boosted by funding requirements for the telecom sector related to the auction of 3G/BWA spectrum held in June 2010. Empirical data suggests that credit growth in Q1FY12 was led by funding of Corporates' working capital requirements rather than fresh investments. While credit growth tends to be sluggish in the first quarter of each

Chart 13: Deposit Growth Trends



Source: RBI; ICRA Research

Chart 14: Non Food Credit Growth Trends



Source: RBI; ICRA Research

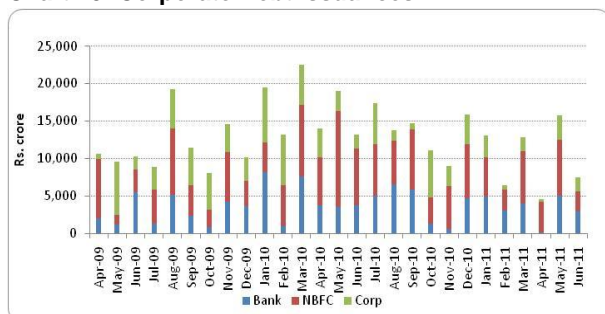
financial year and picks up in the second half, the prevailing high interest rates and an expected moderation in economic growth are expected to dampen the pace of credit growth in FY12 as compared to FY11.

The sectoral credit data released by the RBI<sup>2</sup> indicates that while credit to industry and services was buoyant, agricultural credit (12.8% y-o-y) and retail lending (17.7%) lagged overall credit growth in Q1FY12. Within industry and services, a large chunk of the incremental credit in the current fiscal (YTD) has been absorbed by the infrastructure sector (particularly power and roads), petroleum sector and metals sector. The medium and large Corporate sectors which grew by 39% and 28% respectively continue to attract a greater share of Bank funding as compared to small Corporates which registered a modest growth of 13% in the same period.

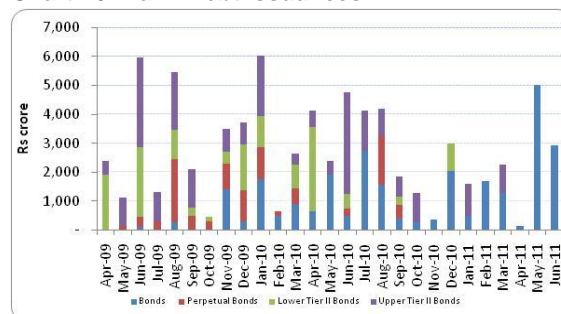
### Corporate debt issuances remain low in Q1FY12

According to ICRA estimates, the bond issuances during the quarter ended June 2011 stood at around Rs. 0.28 lakh crore as compared to around Rs. 0.32 lakh crore in the quarter ended March 2011 and Rs. 1.13 lakh crore in the quarter ended June 2010. Debt issuances by Banks and NBFCs

**Chart 15: Corporate Debt Issuances**



**Chart 16: Bank Debt Issuances**



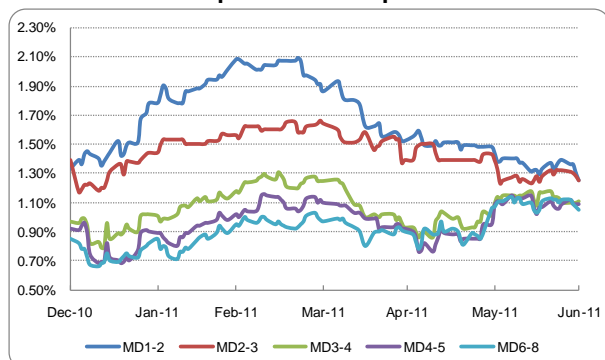
Source: NSE, BSE, ICRA

accounted for around 80% of the total issuance during Q1FY12. While the bond issuance has been low in Q1FY12 as compared to the previous periods, ICRA expects the magnitude of issuance to pick up as there are some early signs of easing of yields whereas Banks are unlikely to effect a downward revision of their base rates in the near term. NBFCs have been quite active in raising funds through bonds during the said period. Bond issuances by Banks have been higher due to issuance by HDFC Bank, NABARD and EXIM Bank.

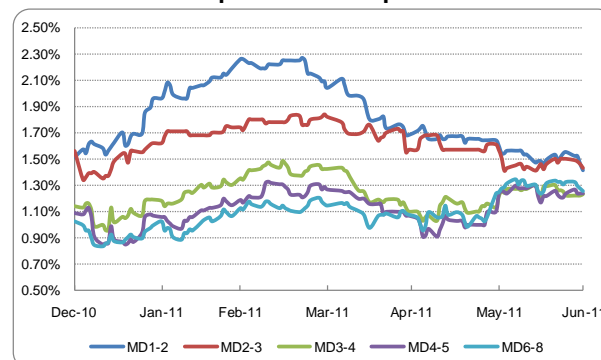
### Short term Corporate bond spreads narrow during the quarter under review

Short term Corporate bond spreads narrowed in Q1FY12 after widening in H2FY11, on the back of less aggressive bulk deposit mobilisations by Banks and a mild moderation in the pace of growth of credit off-take. Following a moderation in April 2011, long term spreads widened in May 2011 after the monetary policy review, during which the Central Bank raised the repo rate by 50 bps.

**Chart 17: AAA Corporate Bond Spreads**



**Chart 18: AA+ Corporate Bond Spreads**

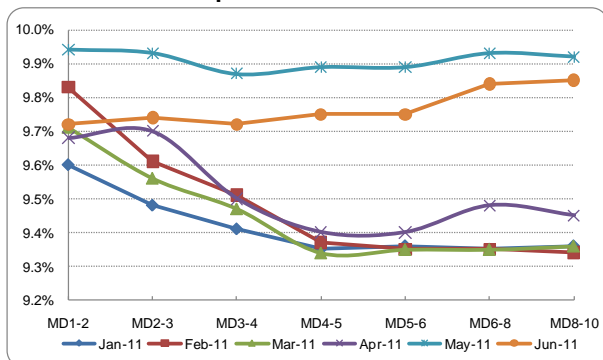


Source: IMAcS

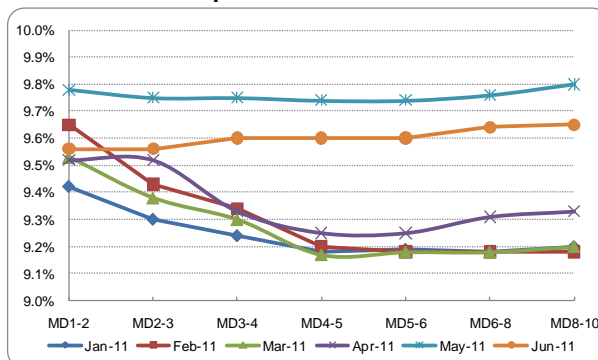
<sup>2</sup> As on May 20, 2011

The spread for AAA rated Corporate bonds with a modified duration (MD) of 3-4 years over G-Secs of the similar duration profile declined from 125 bps by end-March 2011 to 111 bps as at end-June 2011, while the decline in spread for MD of 1-2 years was sharper from 186 bps to 125 bps. Similarly, for AA+ rated bonds, the MD 3-4 years spreads declined from 142 bps to 123 bps and the MD 1-2 years spreads declined from 204 bps to 141 bps.

**Chart 19: AAA Corporate Bond Yield Curve**



**Chart 20: AA+ Corporate Bond Yield Curve**



Source: IMaCS

The yield curve, which remained inverted upto April 2011, flattened in May 2011 following narrowing of short term interest spreads. Further, in June 2011, the market witnessed a moderation in interest rates across tenures, which resulted in a downward shift in the yield curve. Interest rates in the commercial paper market softened in June 2011 after peaking in May 2011. Market evidence suggests that Corporates have started raising short term funds through commercial paper; the total commercial paper outstanding increased to Rs. 123,400 crore as on June 15, 2011 from Rs. 80,305 crore as on March 31, 2011. Fresh monthly commercial paper issuances also increased to Rs. 45,000 crore (approx) in Q1FY12 compared to Rs. 32,000 (approx) in Q4FY11.

Given the possibility of further rates hikes by the RBI to manage inflationary pressures, we believe that the Corporate bond spreads (at the shorter end) would remain volatile for some more time before stabilising. However, with long term yields showing signs of easing, Corporate debt issuances may record an increase in the next quarter.

## Annexure

Table A1: Capital and Financial Market Indicators

Period	Net Growth in Non Food Bank Credit (Rs lakh-crore)	Fresh CP Issuance including rollover (Rs crore)	Fresh Bonds issuances (Rs crore)	Net FII - Debt (US\$ bn)	Equity Issues (IPO+ FPO+ Rights) Issue (Rs crore)	Equity QIP (Rs crore)	Net FII Equity (US\$ bn)	Net FDI (US\$ bn)	Gross ECB (US\$ bn)	Gross FCCB (US\$ bn)
Q1FY10	(0.02)	40,223	30,447	0.16	324	12,232	6.27	6.91	2.64	0.07
Q2FY10	1.09	55,510	39,579	0.83	14,191	11,768	7.10	8.24	4.33	0.28
Q3FY10	1.44	59,101	32,781	1.30	6,932	10,675	5.33	5.61	3.14	3.37
Q4FY10	2.17	45,654	55,195	4.71	32,550	5,093	4.55	4.97	7.48	0.36
Q1FY11	1.56	68,008	46,267	1.37	6,936	6,492	2.33	5.81	4.74	0.57
Q2FY11	0.24	92,486	45,873	4.05	8,833	8,744	11.50	5.23	4.92	0.40
Q3FY11	3.25	129,206	35,900	(0.02)	29,468	5,943	10.99	5.03	5.02	0.32
Q4FY11	1.77	97,718	32,261	2.53	9,922	2,419	(0.52)	3.39	9.78	-
Q1FY12	1.32	113,275*	27,734 <sup>#</sup>	0.60	6,998	594	1.15	3.12 <sup>^</sup>	4.24 <sup>@</sup>	0.48 <sup>@</sup>

Note: Source NSE, BSE, RBI, Prime Database, ICRA

\* Data available only upto June 15, 2011. Hence data not strictly comparable with previous quarters

<sup>#</sup> Based on data disclosed by NSE, BSE as on date. There would be few bond issuances of June 2011 that are not yet listed in BSE/NSE and hence data not strictly comparable with previous quarters.

<sup>^</sup> Data available only for April 2011. Hence data not strictly comparable with previous quarters

<sup>@</sup> Data available only till May 2011. Hence data not strictly comparable with previous quarters

Table A2: Macro Economic Indicators

	GDP Growth	IIP Growth (quarter ending)	WPI Inflation (quarter ending)	INR-USD rate (quarter ending)
Q1, 2008-09	7.3%	8.5%	10.9%	42.95
Q2, 2008-09	7.2%	10.9%	10.8%	46.94
Q3, 2008-09	6.1%	-1.6%	6.7%	48.45
Q4, 2008-09	5.8%	-5.2%	1.6%	50.95
Q1, 2009-10	6.3%	-1.8%	-0.4%	47.87
Q2, 2009-10	8.7%	1.6%	1.4%	48.04
Q3, 2009-10	6.5%	9.5%	7.1%	46.68
Q4, 2009-10	8.6%	14.9%	10.4%	45.14
Q1, 2010-11	9.3%	7.4%	10.3%	46.6
Q2, 2010-11	8.9%	6.1%	9.0%	44.92
Q3, 2010-11	8.3%	8.2%	9.4%	44.81
Q4, 2010-11	7.8%	8.9%	9.7%	44.65
Q1, 2011-12			9.4%	44.72



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