

Aug 13, 2020

Issue # 02, FY21

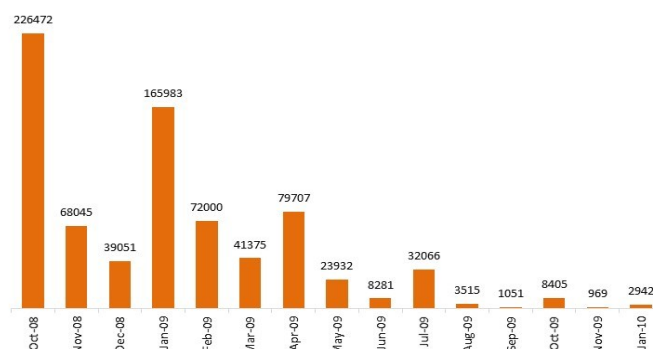
- CP issuances in first four months of FY21 decreased by around 36% to Rs 4.64 lakh crore from Rs 7.27 lakh crore in the same period previous year.
- Majority of CP raised during last month (July 2021) are for sectors such as Oil & Gas, NBFC, Banks, Mobile Service operator etc. While NBFC issues are around 26% of the total CP issuances during the month, Oil and Gas sector too has issues near 31% of the total issuances
- Weighted average yield has declined from 5.39% in April 2020 to 3.99% in July'2020. For NBFC sector also, weighted average yield has declined from 5.44% in May 2020 to 4.71% in July'2020 because of various liquidity windows/credit enhancement schemes announced
- At least 8 of the 20 Corporates that raised CP in excess of Rs 100 crore, at a high weighted average yield, has currently a SBI connection.
- It is pertinent to mention that mutual fund holding in CPs of NBFC though consistently declining since last two years shows a growth of over Rs 10000 crore in July'2020 over Mar'2020.
- As per the available data, we estimate around Rs 2.5 lakh crore of CP is going to mature in next 90 days of which around Rs 45000 crore of NBFC's CP are being in the possession of Mutual Funds alone.

COMMERCIAL PAPER FUNDING FACILITY IN USA (CPFF): A REVIEW

- In mid-March, the Federal Reserve announced a slew of credit and liquidity facilities aimed at supporting credit provision to U.S. households and businesses. Among the initiatives was the Commercial Paper Funding Facility (CPFF) aiming to support market functioning and provide a liquidity backstop for the commercial paper market. The domestic commercial paper market provides a venue for short-term financing for companies which employ more than 6 million Americans.
- The CPFF is a temporary liquidity facility authorized under Section 13(3) of the Federal Reserve Act. It is funded with loans from the Federal Reserve Bank of New York (FRBNY) and includes a \$10 billion equity investment from the U.S. Treasury's Exchange Stabilization Fund. The facility was announced on March 17 and began its operations on April 14. The CPFF uses a structure that is similar to the CPFF facility introduced in the wake of the collapse of Lehman Brothers in fall of 2008. The previous facility successfully ameliorated strains in the commercial paper market during the financial crisis.
- The CPFF both supports CP liquidity in the short run, by providing highly rated issuers with an alternative outlet for their current CP issuance, and in the longer run, as both issuers and investors can be more confident about participating in the market knowing that issuers will be able to roll over outstanding commercial paper. By setting the rate at which it will purchase commercial paper at a premium to "normal" market pricing, the CPFF stands as a lender of last resort for the A1/P1 CP market, with take-up expected to dissipate as market conditions normalize.

- As of July 31, 2020, the outstanding amount of the FRBNY's loans to the special purpose vehicle (SPV) was \$335 mn. The total outstanding amount of the CP held by the SPV was \$336 mn. The total value of the collateral pledged to secure the FRBNY's loan to the SPV was \$10,396 mn.
- The current incarnation of the facility by Fed is designed to work in concert with the Money Market Mutual Fund Liquidity Facility (MMLF). By allowing issuers to buy back outstanding commercial paper and re-issue using the CPFF, the CPFF reduces the strain placed on money market funds invested in commercial paper. At the same time, by providing liquidity support to money market funds, the MMLF mitigates fire-sale dynamics, supporting commercial paper liquidity.
- The facility thus achieves its twin goals of supporting overall commercial paper market liquidity while allowing market participants to differentially price issuers with different risk profiles.

Graph 1: LOANS TO THE CPFF LLC DURING 2008 FINANCIAL CRISIS (\$ MN)

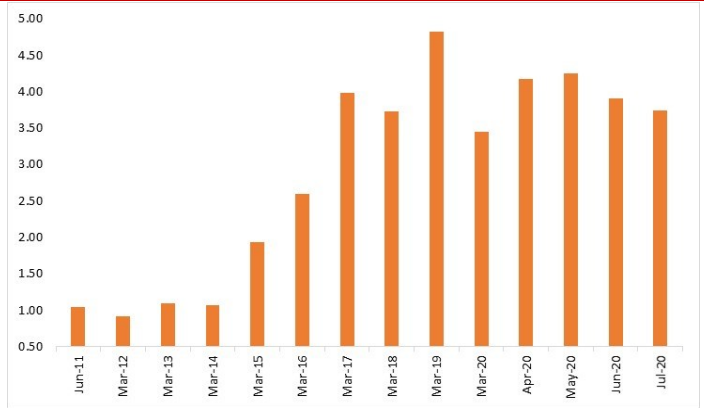


Source: SBI Research, US FED

TREND & GROWTH OF CP MARKET IN INDIA

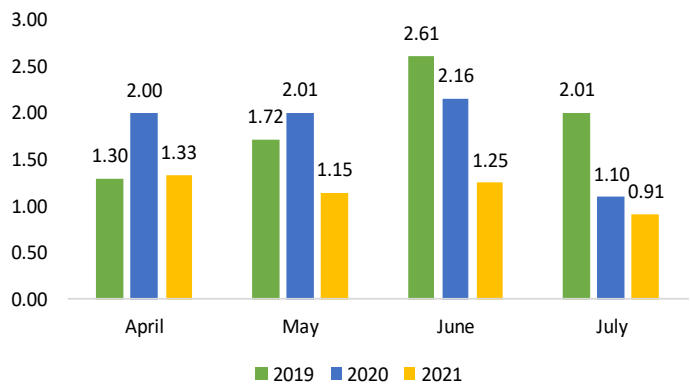
- After RBI's initiatives to rationalize and standardize CP issuances in line with other money market instruments, the CP market registered strong annual growth starting from 2007-08 on account of huge injection of liquidity (surplus liquidity in the market).
- CP outstanding during last 10 years is given in Graph 2. Current CP outstanding is at Rs 3.75 lakh crore. CP issuances in last four months decreased by around 36% to Rs 4.64 lakh crore from Rs 7.27 lakh crore in the same period previous year.
- Month wise issuances in last four months for last three years is shown in the accompanying table. The numbers show a declining trend, but much better than market expectations.
- Weighted average yield has declined from 5.39% in April 2020 to 3.99% in July'2020 because of various liquidity windows/schemes announced by Govt. of India and RBI. For NBFC sector also, weighted average yield has declined from 5.44% in May 2020 to 4.71% in July'2020 because of various liquidity windows/credit enhancement schemes announced.
- Month wise CP issuance along with WAY show the majority of CP raised during July 2021 are for sectors such as Oil & Gas, NBFC, Banks, Mobile Service operator etc. While NBFC issues are around 26% of the total CP issuances during the month, Oil and Gas sector too has issues near 31% of the total issuances (see graph 6).
- With the reduction in RBI's policy rate, and liquidity support by RBI, all the money market rates declined sharply. Borrowing costs in financial markets have dropped to their lowest in a decade on the back of abundant liquidity. Interest rates on instruments like the 3-month Treasury bill, commercial paper (CP) and certificates of deposit have fully priced in the reduction in the policy rate. Going forward, RBI has space to cut another 50 bps in policy repo rate to revive the economy. Any further cut will not help the economy, on the basis of interest rate reversal theory.

Graph 2: CP Outstanding (Rs Lakh Crore)



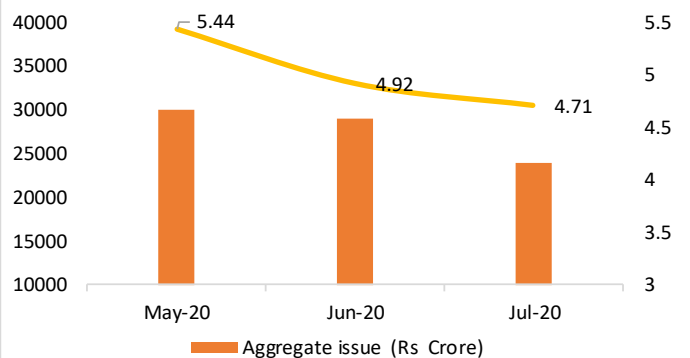
Source: SBI Research; CCIL

Graph 3: CP Issuances in last four months for last three years



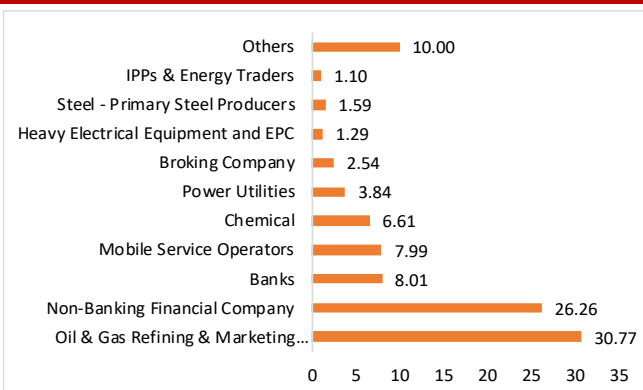
Source: SBI Research; RBI and CCIL; Rs in lakh crore

Graph 4: Monthwise CP issuances and and WAY for NBFC



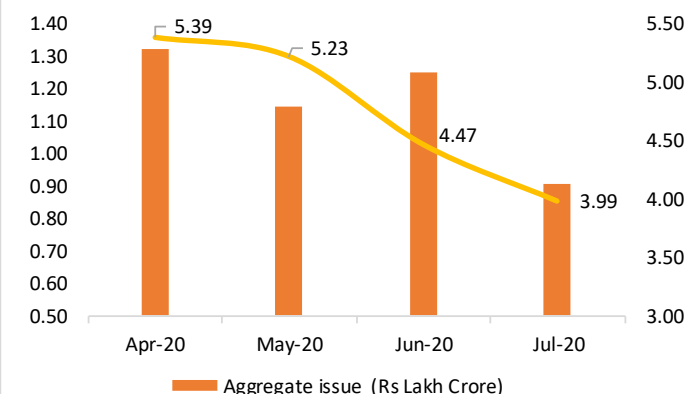
Source: SBI Research; CCIL

Graph 6: Industry-wise CP Raised in July 2021



Source: SBI Research; CCIL

Graph 5: Month Wise CP issued Amount with WAY



Source: SBI Research; CCIL

CP raised by Corporates during July 20 (Top 20) with WAY and WAM

Name of the Entity	Aggregate issue (Rs. Crs)	Effective WAY	WAM (in days)
Indian Oil Corporation Limited	16600	3.20	23
Reliance Industries Limited	7875	3.52	141
Reliance Jio Infocomm Limited	6725	3.40	91
National Bank for Agriculture and Rural Development	4000	3.49	163
JM Financial Products Limited	3193	5.89	35
NTPC Limited	3000	3.27	90
Export Import Bank of India	2800	3.42	159
Aditya Birla Finance Limited	2730	3.91	95
National Fertilizers Limited	2600	3.88	76
Indian Railway Finance Corporation Limited	2550	3.32	80
IIFL Wealth Finance Limited #	2325	5.96	8
Bharat Petroleum Corporation Ltd.	2000	3.20	62
Muthoot Finance Limited	1850	4.10	91
Tata Capital Financial Services Limited	1570	4.46	275
Steel Authority of India Limited	1150	3.65	91
Can Fin Homes Limited	1000	3.79	163
NLC India Limited	1000	3.39	78
Bharat Heavy Electricals Limited	950	3.44	91
Hindalco Industries Limited	900	3.40	90
Adani Ports and Special Economic Zone Limited	800	4.25	180

Source: CCIL; SBI Research; WAY - Weighted Average Yield and WAM - Weighted Average Maturity; # Non- SBI & Others have SBI Connections

CP raised by Corporates (Top 20) during July 20 at high WAY (Amount > Rs.100 crore)

Name of the Entity	Aggregate issue (Rs. Crore)	Effective WAY	WAM (in days)
Patanjali Ayurved Limited #	150	9.5	75
Edelweiss Rural And Corporate Services Limited #	177	9.5	80
Piramal Enterprises Limited	440	8.97	111
Jm Financial Services Limited #	100	8.62	179
Jm Financial Credit Solutions Limited	100	8.5	365
Trust Investment Advisors Private Limited #	102	7.77	70
Phoenix Arc Private Limited #	100	7.6	365
The Bombay Burmah Trading Corporation Limited #	100	7.5	31
Bahadur Chand Investments Private Limited #	325	7.5	357
Bharti Realty Limited #	125	7.5	19
Pilani Investments And Industries Corporation Limited #	175	7.09	97
Vedanta Limited	400	6.75	32
Tata Projects Limited	150	6.4	166
Aditya Birla Fashion And Retail Limited	575	6.35	77
Edelweiss Finance And Investments Ltd #	407.6	6.28	12
Essel Mining And Industries Limited	250	6.25	127
Deutsche Investments India Pvt Ltd #	100	6.25	96
Kec International Limited	175	6.2	68
Motilal Oswal Financial Services Limited #	200	6.2	89
Jindal Saw Limited	190	6.02	90

Source: CCIL; SBI Research; WAY - Weighted Average Yield and WAM - Weighted Average Maturity; # Non-SBI & Others have SBI Connections

NBFC STOCK TAKING

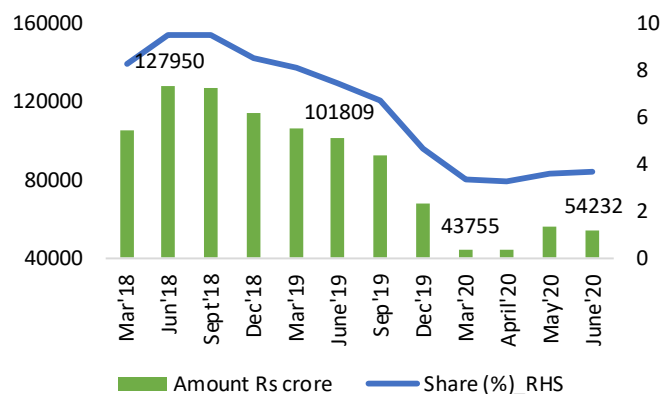
- CPs raised by NBFC has increased in May and June post various initiatives taken by GOI and RBI to support liquidity in the sector including TLTRO 2.0, special liquidity scheme, extension of PCGS scheme to cover borrowings such as primary issuance of Bonds/CPs of such entities.
- CP worth Rs 23916 crore issued by NBFC sectors during July'2021 including Rs 10 crore to MFI.
- It is pertinent to mention that mutual fund holding in CPs of NBFC though consistently declining since last two years shows a growth of over Rs 10000 crore in July'2020 over March 2020.
- It is also important to note that small NBFC – Microfinance company are also now participating in CP market even with lower rating of A3+ in short term (long term BBB). For example SATYA MICROCAPITAL LIMITED rated A3 (BBB-) participated in June'20 and VAYA FINSERV PRIVATE LIMITED rated A3+ (BBB) participated in July'20 (both non SBI).
- Other NBFC participated includes SAMUNNATI FINANCIAL INTERMEDIATION AND SERVICES PRIVATE LIMITED (A2+, BBB+), CAPFLOAT FINANCIAL SERVICES PRIVATE LIMITED (A3+, BBB), OXYZO FINANCIAL SERVICES PRIVATE LIMITED (A2, BBB), all Non SBI.
- As per the available data, we estimate around Rs 2.5 lakh crore of CP is going to mature in next 90 days of which around Rs 45000 crore of NBFC's CP are being in the possession of Mutual Funds alone.

CP raised by NBFC Sector in FY2021 (Rs in crore)

Month	Financial Institutions	Housing Finance Co.	NBFC	MFI	Total
April #	7275	4400	4275	-	15950
May	1000	6950	22033	-	29983
June	6000	5000	17963	5	28968
July	2650	1775	19481	10	23916
Total	16925	18125	63751.6	15	98817

Source: SBI Research; CCIL; # April data may not be exhaustive

Graph 7: Mutual Fund holdings in NBFC CPs



Source: SEBI; SBI Research

Disclaimer:

This Report is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Mutual Fund Buzz.

Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in, gcea.erd@sbi.co.in
Phone: 022-22742440
Twitter: @kantisoumya