

(BN) Rajan Rewarded as Dollar Yields Slide to July Low: India Credit

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By Anurag Joshi

Feb. 7 (Bloomberg) -- Dollar borrowing costs for Indian companies fell to a six-month low, bucking an emerging-market rout, as investors rewarded policy makers for efforts to revive economic growth while curbing inflation.

Average yields on Indian dollar-denominated bonds slid to 4.5 percent on Jan. 30, the least since July, Bank of America Merrill Lynch indexes show. That compares with 5.9 percent and 5.6 percent for China and Brazil, where borrowing costs have been rising. Bank of Baroda and Bharti Airtel Ltd. raised \$1.1 billion in dollar- and euro-denominated notes last month. ONGC Videsh Ltd. leads an offshore loan pipeline of at least \$5 billion this quarter, Bloomberg-compiled data show.

"The fundamental picture has stabilized for India whereas it's deteriorated for other emerging Asian nations," said Pierre Faddoul, a Singapore-based credit analyst at Deutsche Asset & Wealth Management, which has total invested assets of \$1.27 trillion. "A more stable macro picture for India is also helping to decrease uncertainty."

Growth in the region's third-largest economy may be as fast as 6 percent next year from "a little below" 5 percent this fiscal year ending March 31, the Reserve Bank of India said last month, as Governor Raghuram Rajan raised borrowing costs to fight the fastest consumer-price gains in Asia. Overseas syndicated loans jumped 40 percent in 2013, while international bond sales touched a record, as the U.S. central bank opted for a gradual approach to reducing stimulus.

Shrinking Spreads

State-owned Indian Railway Finance Corp. and ONGC Videsh are planning dollar-denominated notes after Bank of Baroda sold \$750 million of 4.875 percent bonds due 2019 last month at a spread of 325 basis points more than similar-maturity Treasuries. Canara Bank was one of the last Indian companies to sell five-year dollar securities prior to that, according to data compiled by Bloomberg, issuing \$500 million of 5.25 percent debentures in October at a 385 basis-point spread.

"Better-rated Indian companies will be able to raise dollars at reasonable costs," said Hemant Dharnidharka, the Bangalore-based head of credit research at SJS Markets Ltd. "Liquidity in global markets will decline due to the Federal Reserve's tapering, but this won't affect investment-grade companies in India."

'More Comfort'

Moody's Investors Service rates Bank of Baroda, Bharti Airtel and Indian Railway Finance at Baa3, its lowest investment-grade, and the same level it ranks Indian government debt. ONGC Videsh's rating of Baa2 is one level higher.

"Investors were coming into emerging-market bonds in January when Bank of Baroda and Bharti priced and we saw huge oversubscription for both issues," said Rakesh Garg, the Mumbai-based head of global finance at the Indian unit of Barclays Plc, last year's fifth-biggest underwriter of international bonds. "The stability that's returned to Indian markets and the improvement in its current-account deficit is giving more comfort to global investors."

India's current-account deficit will narrow to below \$50 billion in the financial year ending March 31 from a record \$88 billion the previous 12 months, Finance Minister Palaniappan Chidambaram said in a Jan. 30 statement. His ministry expects the fiscal deficit to narrow to below 4.8 percent of gross domestic product in that time, a six-year low.

Rajan last week unexpectedly raised the repurchase rate by 25 basis points to 8 percent and signaled he is ready to implement inflation targeting in the most sweeping changes in the 78-year history of the RBI.

Stimulus Cuts

State-owned Bank of India is also planning to sell dollar bonds, hiring seven banks in December to arrange a Tier 1, Basel III-compliant sale, according to a person familiar with the matter. Bharti Airtel sold a further 250 million euros (\$338 million) of 4 percent notes due 2018 on Jan. 13, Bloomberg-compiled data show. The debentures were yielding 3.94 percent yesterday.

Policy makers in the U.S. made the first two cuts to asset purchases in December and January, slowing to \$65 billion a month from \$85 billion. If stimulus is wound back further as

2014 progresses, borrowing costs for companies in emerging markets, including India, will likely rise, according to A.S.

Thiyaga Rajan, a senior managing director at Aquarius Investment Advisors Pte, which has assets under management of about \$350 million.

"The biggest beneficiary of tapering is the U.S. dollar," Singapore-based Rajan said. Corporates sensing a rise in interest rates may look for opportunities to borrow ahead of time if possible, he said.

Rupee Costs

India's overseas fundraising push comes as the cost of borrowing locally climbs. Top-rated five-year corporate bond yields in India average 9.71 percent versus 9.63 percent at the end of 2013. Rupee-denominated corporate and financial bond sales were equivalent to \$572 million last month, the least since the \$416 million in April 2007, the data show.

Indian dollar debt has returned 1.47 percent year-to-date, compared with 0.73 percent for corporates in Asia as a whole, JPMorgan & Chase Co.

indexes show. Local-currency government bonds in India have gained 1.4 percent, according to HSBC Holdings Plc indexes.

As India's economic prospects have improved, the cost to insure its debt against non-payment is dropping. Credit-default swaps protecting the bonds of State Bank of India, a proxy for the sovereign, were 295 basis points on Feb. 5, down from 372 on Aug. 20, the highest since June 2012, CMA data show.

Not as Gloomy

The yield on the benchmark 10-year government bond has fallen 10 basis points, or 0.1 percentage point, this year to 8.72 percent. The rupee rose 0.3 percent to 62.3875 per dollar yesterday.

Stock analysts are raising profit estimates for companies in the S&P BSE Sensex at the fastest pace since 2007 amid growing confidence India's economy will rebound from a decade-long expansion. Anti-graft laws to make it easier to remove corrupt judges and check money laundering will be a priority of the ruling Congress party ahead of national elections due by May.

"Investors aren't as gloomy about India as they were before," said Prabal Banerjee, the Mumbai-based president of international finance at Essar Group, whose units were among the top five borrowers of offshore bank debt last year. "Political stability should come after this year's general elections, and Indian companies have done extremely well in terms of earnings in the last quarter."

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--Editors: Katrina Nicholas, Sandy Hendry

To contact the reporter on this story:

Anurag Joshi in Mumbai at +91-22-6120-3664 or ajoshi53@bloomberg.net

To contact the editors responsible for this story:

Sandy Hendry at +852-2977-6608 or

shendry@bloomberg.net;

Katrina Nicholas at +852-2977-6623 or

knicholas2@bloomberg.net