

New 10-year bond set to bring down borrowing costs for India Inc

Auction of new bond likely in April

NEELASRI BARMAN &
M SARASWATHY

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The new 10-year benchmark bond, which is considered the key parameter to price corporate bonds on the Street, is expected to be auctioned in the first quarter of the new financial year at a coupon rate much below the existing one. Experts believe it could be auctioned as early as April when the government borrowing calendar begins.

The existing 10-year benchmark bond 8.40 per cent 2024 had an outstanding of ₹76,000 crore on February 24 and once the new paper is auctioned, the existing security will become illiquid.

“The new 10-year benchmark may hit the Street sometime in April-May. The coupon rate of the new 10-year bond may be 7.55-7.58 per cent in the current scenario,” said Bekxy Kuriakose, head, fixed income, Principal PnB Asset Management Company.

According to Kuriakose, this might lead to a spread contraction between 10-year gilts and corporate bonds of similar maturity, due to which cost of

borrowing might turn cheaper.

Interest rates have been falling and the Street awaits at least one more rate cut in the current calendar year after the two rate cuts by the Reserve Bank of India (RBI) in January and March of 25 basis points each bringing the repo rate down to 7.50 per cent. The repo rate is the rate at which banks borrow from the central bank and RBI has been cutting it due to comfort on the inflation and fiscal consolidation fronts. The gross market borrowing of the government is pegged at ₹5.56 lakh crore for the next financial year, compared with ₹5.92 lakh crore this year.

A K Sridhar, chief investment officer of IndiaFirst Life Insurance, said the cost of borrowing could come down by 25 bps in the first quarter of the next financial year and said there could be a further 25 bps reduction in interest rates.