Corporate Bonds and Innovative Finance

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Corporate Bond Market: Indian Experiences:

- Salient features:
- The outstanding stock of corporate bonds n India has increased four-fold from $10.62 billion in 2012 to $48.24 billion in 2022 . Compared to US $17.6 trillion, Korea's $2 tn and China's $26.7tn., the market is meagre in size
- Corporate debt to GDP ratio in India 22 per cent, compared to 85% per cent in the US and 101% globally.
- Multiple hurdles: Lack of Intermediaries, absence of secondary markets, small investor base, illiquidity, lack of transparencies. (Banerji et. al, 2014)
- A major reform called Indian Insolvency and Bankruptcy Code (IBC) was enacted to accelerate the bankruptcy process and time. Recovery rates improved from 4.1 per cent to 45.2% but haircuts remain significantly high,(almost 90%) causing a failure of price discovery during asset sales in bankruptcy.
- On the other hand, equity markets with strong governance, together an active regulatory body have led to increased liquidity and stock market capitalization.
- Both exchanges have platforms exclusive to SMEs which are main source of growth and employment,
- A worthy feature to be mentioned is the SME platform with a feature to upgrade to main board has led development of firm growth and size in recent years. (Vardhana and Deshmukh, 2017)

SME Platform with an option to Upgrade

- We (Ahmed, Aney and Banerji 2020) consider firms listed directly on the BSE (Bombay Stock Exchange) main board as well as firms first listed on the SME board and later migrated to the BSE main board. Our sample period spans March 2012 to November 2018, in which 54 firms migrate to the BSE main board from the SME board.
- First, there are no systematic differences in the stock returns of firms listed directly on the BSE main board and firms that are first listed on the SME board. The average returns for firms' pre-migration are 0.3%, whereas those for post-migration are -0.5%.
- Second, firms that are first listed on the SME board outperform the firms listed directly on the BSE main board in terms of experiencing a lower stock return volatility.
- Next, among the firms that migrate to the main board via the SME board, we compare the stock returns and volatility before and after migration.
- We find that the stock returns and return volatility do not change significantly after migration. Taken together, these findings suggest that a firm's performance does not improve after it migrates to the main board. This implies that the firms have already absorbed the benefits of public listing when they first listed on the SME board,
- This suggests that capital constraints do not change much post-migration and therefore the SME board is at par with the BSE main board. All these results remain robust even after controlling for firm fixed effects and year effects.
- Implications: Newer ways to supplement Corporate bond market via creation of dedicated stock market for SMEs.
- Especially in the post covid era where infection induced shock lends a case of more equity like financing with combination of some form of debt. Preferred shares, shares with limited voting rights, swap of debt to equity are many useful functions such markets could perform.