Settlement Rules may Raise Costs for Firms Borrowing from EPFO

The Employees' Provident Fund Organisation (EPFO), a $165-billion behemoth that is also India's biggest bond buyer, could raise borrowing costs for local companies if its participation is limited by restrictive rules on transaction settlement, multiple market sources told ET.

"Further absence of EPFO in the corporate bond primary bond sales will surely hurt borrowings, and the borrowing corporate may have to fork out extra cost to woo investors, especially for large mop-ups," said a domestic bond arranger, who did not wish to be named.

The EPFO, which pools together retirement funds for the majority of India's organised-sector employees, says that given its size, it can't make payments to the exchanges for bonds subscribed by 10:30 am the day after the bidding. It has approached the Securities and Exchange Board of India (SEBI), seeking a relaxation, said a source.

An email sent to SEBI remained unasnwered until the publication of this report while VP Joy, chief PF commissioner, declined to comment.

Debt market fund raising is falling in India, where the central bank raised benchmark rates for the first time in more than four years. In April and May, corporate bond sales (via private placement) fell 63 percent to Rs. 32,704 crore, show data from Edelweiss Finance.

Sebi has made the electronic bidding platform (EBP) mandatory for all private bond sales with a minimum size of Rs. 200 crore. The move was aimed at attaining transparent price discovery through the bidding process. BSE and NSE are the two popular platforms for such an operation.

Accordingly, an investor buying bonds on the platforms must transfer the subscription money to the respective stock exchanges by 10.30 a.m. the day after the bidding.

As the largest domestic debt investor, it normally does not keep money idle, dealers said. Rather, it seeks to gain from short-term investments in the CBLO (Collateralised Borrowing and Lending Obligation) market, where fund houses and banks lend and borrow on an intra-day basis.

"It is impossible to arrange the money by 10.30am next day. It should extend to by noon at least," said another market source with knowledge of the matter.

The money should be remitted to stock exchanges, which will pass it on to the borrowing company. Earlier in April, investors complained of losing interest for one full day. Later, SEBI set the cutoff at 10.30 a.m., a deadline not acceptable to the EPFO.

A sustained non-participation of the largest institutional debt investor is likely to raise rates especially after the central bank's first rate increase in more than four years, dealers said.

The spread between the central government and corporate bonds has widened to 75 basis points for 10-year maturity, compared with 55 basis points two weeks ago. –

(Economic Times)