



## HDFC issues world's largest Masala bond

By [Dexter Tan](#)

Bankers are touting Masala bonds as the next hot avenue for Indian institutions to seek capital overseas. Housing Development Finance Corp Ltd. (HDFC) issued the largest Masala bond in the London Stock Exchange (LSE) and Indian power companies [are expecting](#) to follow suit. Rural Electrification Corp. and Power Finance Corp. are among firms considering similar Masala bond sales after HDFC raised INR 33bn from its 6.875% 2020 note, which listed at a yield to maturity (YTM) of 7.3% on Mar 30.

Masalas, or Rupee denominated offshore bonds, are regulated under the Reserve Bank of India's (RBI) External Commercial Borrowing framework. These bonds are settled in USD with a minimum maturity period of 3 years, and the bondholders pay a 5% withholding tax on coupon payments. In addition, the capital proceeds are not allowed to fund certain corporate activities, including real estate development and equity market investments.

On July 21, 2016, HDFC listed the first global corporate Masala bond in the LSE and has since raised a total of INR 78bn through three Rupee-denominated issues. The financial institution's 7.875% 2019 bond was 4.3 times oversubscribed with institutional investors taking 82% of the issue. The first corporate Masala bond launch also attracted other companies to list on the LSE. In August last year, NTPC Ltd, India's largest power utility company also issued the 2021 7.375% bond in the LSE, attracting INR 29bn of demand for its INR 20bn deal.

Unlike notes of the same maturity, Masala bonds tend to fetch lower yields at issue. Masala bondholders have unsecured claims on assets, but the notes' negative covenants, negative pledges and merger restriction terms appear to compensate bondholders for the structural difference. For instance, HDFC's 7.78% 2020 bond issued at par on Mar 24, provided a higher yield than the 6.875% 2020 Masala note. The 7.78% 2020 bond is secured and does not have negative covenants. HDFC's 8.38% 2019 note was also issued at a yield 22bps higher than the 7.875% 2019 Masala bond listed on July 21, 2016.

Table 1 displays details for various bonds by HDFC and NTPC as well as their corresponding RMI-CRI Actuarial Par Spreads (AS)<sup>1</sup>, assuming a recovering rate of 40%. The RMI-CRI 5-year AS for NTPC was 67.8bps on Aug 10, while the 3-year RMI-CRI AS for HDFC was 84.41bps, 104.2bps and 88.8bps on Mar 30, 2017, July 21, 2016 and Sep 9, 2016, respectively.

Issuer Name	Coupon (%)	Rank	Maturity	Issue Date	Amount Raised (INR bn)	Yield at Issuance (%)	Masala Bond? (Y/N)	Negative Covenants? (Y/N)	RMI-CRI 5-year AS on Issue Date (bps)	RMI-CRI 3-year AS on Issue Date (bps)
HDFC	6.875	Sr. Unsecured	4/30/2020	3/30/2017	33	7.3	Y	Y		84.41
HDFC	7.875	Sr. Unsecured	8/21/2019	7/21/2016	30	8.16	Y	Y		104.2
HDFC	7	Sr. Unsecured	1/9/2020	9/9/2016	20	7.5	Y	Y		88.80
HDFC	8.38	Secured	7/15/2019	7/15/2016	10	8.38	N	N		
HDFC	7.78	Secured	3/24/2020	3/24/2017	14.98	7.78	N	N		
NTPC	7.375	Sr. Unsecured	8/10/2021	8/10/2016	20	7.48	Y	Y	67.80	

Table 1: Bond information for Masala and equivalent bonds. Non-Masala bonds are in highlighted white. RMI-CRI Actuarial Par Spreads are computed based on a recovery rate of 40%, which is the ISDA standard recovery rate for senior unsecured bonds. *Source: Bloomberg, RMI-CRI*

<sup>1</sup> The RMI-CRI AS is an alternative measure of credit risk using the RMI-CRI Probabilities of Default (PD). A RMI-CRI 3-year Actuarial Par Spread measures the credit risk of a 3-year bond with quarterly payouts, discounted at the USD Libor and swap rates. We still refer to the RMI-CRI Actuarial Spreads as a benchmark for the firms' credit profiles despite the slight differences. Unlike credit default swaps, the RMI-CRI AS is not influenced by risk premium and market liquidity.

Assuming a linear relationship between the bond's yield at issue and its RMI-CRI Actuarial Par Spreads, we may provide some guidance to price the 3-year Masala bond debuts of Rural Electrification Corp. (REC) and Power Finance Corp. (PFC). Using their RMI-CRI 3-year AS values on Apr 7 as inputs, the 3-year bond yields for REC and PFC should be 7.16% and 7.58% respectively to match their credit risk profiles. These estimates are quite close to the Apr 7 REC 7.42% 2020 and PFC 7.42% 2020 bond values of 7.51% and 7.54%, respectively.

While the Masala bond market has demonstrated its ability to attract issuers, especially Indian firms that are unable to obtain easy onshore funding, the market is still in its formative stages. It may be too early to say if the market can gain momentum from a few corporate listings. Institutional demand for the bonds has been encouraging but investors need to pay attention to currency risks in the USDINR.

## Credit News

### Debt restructuring still a big hurdle for offshore marine firms

**Apr 10.** Offshore marine firms in Singapore are struggling to refinance their debt after Swiber's crash and Ezra's bankruptcy filing compelled lenders to be more cautious in their credit assessment. Several firms reported difficulty of repaying loans and refinancing debt amidst the prolonged industry slump, as banks were unwilling to negotiate any debt restructuring deal. However, the Singapore government's efforts to stabilize the industry, such as providing a bridging loan scheme worth up to SGD 5mn to finance operations and bridge short-term cash flow gaps through Spring Singapore are a welcome shot in the arm, industry players said. Another government entity, IE Singapore has also expanded its internationalization finance scheme to SGD 70mn, up from SGD 30mn. The government will take on 70% of the risk for both schemes. ([Straits Times](#))

### Hong Kong concerned about risks from developer mortgages

**Apr 10.** Hong Kong Monetary Authority (HKMA) expressed concerns that the accumulation of high loan-to-value (LTV) mortgages may change the risk profiles of these property developers to which banks may have exposures. The increasing LTV could be attributed to the fact that some developers have enticed buyers with loan offers, which are often made through financial firms. While bank loans are subject to limits imposed by HKMA, builder-arranged financial mortgages are not covered by the same restrictions, leaving HKMA to consider taking additional steps to manage banks' exposures to financial firms. ([Bloomberg](#))

### Indonesia bad loan problem to worsen, bank bailout chief says

**Apr 10.** According to LPS, Indonesia's deposit insurance agency, the non-performing loan that Indonesia banks face is likely to worsen, keeping economic growth below 6% over the next two years. The agency said that the rise in NPLs is due to volatile commodity prices and uncertainties in the domestic economy. The gross NPL in the banking sector hovered above 3% since mid-2016, matching levels seen in 2011. Banks' loan growth in 2016 is also at its slowest pace since 1999 at 7.9% growth rate. Fitch Ratings issued a report earlier stating that the asset quality and profitability of Indonesia's banks are to remain under pressure over the next few quarters. ([Bloomberg](#))

### China's local debt nightmare is getting a rerun after rating cut

**Apr 6.** Concerns over debt-saddled entities were reignited after S&P Global Ratings reduced its rating on Lianyungang City owned construction services provider Jiangsu NewHeadline Development Group. The credit agency dropped its rating on the state-owned firm by one notch to BB, attributed to the local government's high debt burden, which tax-supported portion will exceed 270% of operating revenues. China's local government financing vehicles (LGFVs) are starting to fall out of favor, as investors increasingly opt for company bonds amid rumors that Chinese authorities are reducing support for LGFVs, used to source funding for provincial projects. ([Bloomberg](#))

**Odebrecht bonds are both the best and worst in Brazil**

**Apr 6.** Odebrecht SA is rewarding some bondholders while others get burned. Notes issued by the holding company and backed by the construction arm plunged last week, making its bonds the worst performers in Brazil this year as a result of mounting worries that the scandal-tainted builder would struggle to meet its obligations. By contrast, the defaulted securities issued by Odebrecht's energy unit are soaring, as bondholders negotiate on easing payment terms to avoid bankruptcy. While both of them are trading at deeply distressed levels, investors are wagering that the notes from the energy unit backed by drilling rigs are a safer bet given that the construction unit seems to be burning through cash. ([Bloomberg](#))

**Fitch downgrades South Africa's credit rating to "junk" status** ([CNBC](#))

**Centrelink debt scandal: report reveals multiple failures in welfare system** ([The Guardian](#))

**Greece on course to avoid debt default as Athens agrees pension cuts** ([The Telegraph](#))

**Regulatory Updates****China tightens collateral rules involving corporate bonds amid rising defaults**

**Apr 8.** In an attempt to lower financial risks, the state-owned China Securities Depository and Clearing Corp barred the use of lower-rated corporate bonds as collateral in short-term borrowing. Newly-issued corporate bonds that are rated below AAA or bonds sold by issuers graded lower than AA, are not allowed to be used as collaterals in repurchase agreement in the exchange bond market. The newly implemented rules aim to strengthen risk control and promote stability in the exchange bond market. With the surge in corporate bond default in recent years, the rules would make borrowing more difficult in the exchange bond market which is in line with the government's intention to keep asset price bubbles at bay. ([Reuters](#))

**Bank of England warns of fast rate of consumer credit expansion**

**Apr 4.** The Bank of England's Financial Policy Committee warned on March 28 on the risk to banks of offering unsecured loans on easy terms. Since 2005 the rate of expansion in consumer credit became the fastest resulted from long interest-free periods on credit cards and an increase in loan limits. Interest-free offers pose risks for the way banks account for them by weaker underwriting standards. The Prudential Regulation Authority launched a review of lending standards for credits, personal loans and dealership car finance. Financial Conduct Authority on April 3 also called lenders to help customers struggling with credit card debt where the most severe cases, interest repayments and other charges should be waived. Meanwhile, Financial Policy Committee force lenders to make provisions on their balance sheets for expected losses rather than actual losses already suffered. ([FT](#))

**ECB calls for tougher regulation of foreign bank branches** ([Business Times](#))

**China probes chief of top insurance regulator for graft** ([Straits Times](#))