BASILSTONE
CONSULTING PRIVATE LIMITED

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Basilstone Consulting is pleased to present to you the **January 2024** issue of atharv, covering regulatory insights as well as discussion papers. This issue covers the following areas:

1. Regulatory Updates and their Expected Impact:

1.1. Securities & Exchange Board of India

1.1.1. Framework for Short Selling.
1.1.2. Consultation Papers on Additional Purposes regarding framework for issuance of subordinate units- REITs and InvITs.
1.1.3. Consultation Papers on interim recommendations of the expert's committee for facilitating ease of doing business and harmonization of the provisions of ICDR and LODR Regulations.
1.1.4. Ease of doing business- Changes in reporting.
1.1.5. Ease of Doing Investments by Investors- Facility of voluntary freezing/ blocking of Trading Accounts by Clients.
1.1.6. Informal Guidance- Share India Securities Limited.
1.1.7. Framework for Offer for Sale (OFS) of Shares to Employees through Stock Exchange Mechanism.
1.1.8. Streamlining of Regulatory Reporting by Designated Depository Participants (DDPs) and Custodians.
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1.1.10. Foreign Investment in Alternative Investment Fund (AIF).
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1.1.13. Consultation paper on proposal to enhance trust in the Alternative Investment Funds ('AIF') ecosystem to facilitate Ease of Doing Business measures.
1.1.14. Informal Guidance- LV Angel Fund.

1.2. **Reserve Bank of India**

1.2.1. Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year) Directions, 2024

1.2.2. Credit/Investment Concentration Norms – Credit Risk Transfer

1.3. **International Financial Services Centre Authority**

1.3.1. Inclusion Of Finance Companies In Credit Institutions: Ifsca Circular

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1.3.3. Government allows direct listing of securities by public Indian companies on International Exchanges of GIFT IFSC:

2. Discussion Papers

Fueling Growth: The Evolving World of Corporate Debt and its Policy Landscape

1. Regulatory updates & it's expected impact

1.1. Securities & Exchange Board of India

1.1.1 Framework for Short Selling.

a. The framework was included in the Master Circular for Stock Exchange and Clearing Corporation in Paragraph 10 of Chapter 1. The details of the framework have been provided in Annexure- 3. A few Additional points have been added to the Master circular, through this circular.

b. It includes the requirement that institutional investors shall disclose upfront at the time of placement of order whether the transaction is a short sale and in the case of retail investors they can disclose by the end of trading hours on the transaction day.

c. The brokers have to collect the details on scrip-wise short sell positions, collate and upload it to the stock exchanges before the commencement of trading on the following trading day. The stock exchanges shall then consolidate such information and disseminate it on their websites for the public on a weekly basis. Additional guidelines shall be issued by the stock exchange on this matter.

1.1.2 Consultation Papers on Additional Purposes regarding framework for issuance of subordinate units- REITs and InvITs

a. SEBI had previously issued a consultation paper on 9th December 2023 on the same topic, in this they have asked for public comments on additional topics.

b. The main idea of the creation of subordinate units is to bridge the gap between the valuation of an asset perceived by the Sponsor and the REITs/ InvITs. Hence, a proposal to specify an upper ceiling up to which subordinate units can be issued. The upper limit specified is a maximum of ten percent of the acquisition price of the asset.

c. It was also considered to bring uniformity like rights conferred by subordinate units by bringing clarity on the nature of inferior rights that the subordinate units can carry and to avoid multiple classes of subordinate units.

d. The terms and conditions are mutually agreed upon by two parties at the time of asset acquisition, it will be imprudent to allow changes in such terms and conditions in the future and also result in disturbing certainty of a sale transaction by changes being made that have retrospective effect. It is proposed to provide that any other change in terms and conditions of the subordinate units post-issuance of subordinate units shall not be permitted.

1.1.3 Consultation Papers on interim recommendations of the expert's committee for facilitating ease of doing business and harmonization of the provisions of ICDR and LODR Regulations.

a. Taking the reference from the union budget, it was said to simplify and reduce the cost of compliance for the financial sector regulator shall carry out a comprehensive review of ease of doing business.

b. Interim recommendations were given on LODR regulations on the Applicability of the regulation based on capitalization, Limit of membership and chairmanship of committees for a director, Filling up of vacancies of key managerial personnel, Timeline for prior intimation of board meetings, Gap between meetings of the Risk Management Committee.

c. Recommendations provided in ICDR regulations to facilitate ease of doing business such as the Inclusion of equity shares received on conversion or exchange of fully paid-up Compulsory Convertible Securities and depository receipts for Minimum Promoters' Contribution, Non-individual shareholders to be permitted to contribute towards, Minimum Promoters' Contribution without being identified as a promoter, Thresholds for increase or decrease in issue size triggering re-filing of draft offer documents, Flexibility to extend the bid/offer closing date on account of force majeure events minimum by one day instead of the present requirement to extend by a minimum of three days.

1.1.4 Ease of doing business- Changes in reporting.

a. SEBI has taken various measures to safeguard investors' collateral lying with the stock brokers the safeguards have been taken against the misutilisation of clients' funds and safeguards against the use of one client's collateral for another.

b. Recommendations have been received from various representatives, to give effect to such representation SEBI has made changes in the Master Circular for Stock Broker where one of the clauses 15.5.2 was deleted and clause 15.5.3 clause G has been modified relating to available funds.

1.1.5 Ease of Doing Investments by Investors- Facility of voluntary freezing/ blocking of Trading Accounts by Clients.

a. Online Transition in Stock Broking: The Indian stock broking industry has shifted from traditional call and trade to an online mode, where investors use login credentials provided by Trading Members.

b. Issues of Suspicious Activities: Investors sometimes notice suspicious activities in their trading accounts. However, the majority of Trading Members lack the ability to freeze/ block accounts in response to such concerns.

c. Proposal for Voluntary Blocking: Following the model of voluntary blocking/freezing of demat accounts, a similar facility is proposed for trading accounts to address investor concerns about suspicious activities.

d. Framework Development by ISF: The Brokers' Industry Standards Forum (ISF), in consultation with stock exchanges and SEBI, will develop a framework by April 01, 2024. It will include guidelines for voluntary freezing/blocking, acknowledgment issuance, processing time, actions by Trading Members, re-enabling processes, and client intimation.

e. Implementation by Stock Exchanges: Stock Exchanges will ensure Trading Members implement the guidelines from July 01, 2024. Reporting requirements for compliance will be submitted to SEBI by August 31, 2024.

f. Stock Exchanges' Responsibilities: Stock Exchanges are advised to take necessary steps and systems for implementation, make relevant regulatory amendments, and communicate the circular provisions to Trading Members, disseminating information on their websites.

Impact:
Shifting from traditional call and trade to online platforms has exposed investors to potential risks, and the absence of a mechanism to promptly address suspicious activities in trading accounts has been a concern. This initiative is expected to instil greater confidence among investors and strengthen the regulatory environment by providing a systematic approach for Trading Members to handle requests for blocking accounts.

1.1.6 Informal Guidance- Share Trade India Limited

Questions:

1. Does the act of conversion of warrants into equity shares form part of the corporate action?
2. If DP converts his warrants into equity shares before passing 6 months, will it be considered as contra trade?
3. If in post 6 months the DP sells the allotted right shares and uses the proceeds to convert the warrants, will this be contra-trade?

Response:

1. Conversion of warrants into equity is not a corporate action as not caused due to any action taken by the company. It is a voluntary action taken at the discretion of the warrant holder; it shall be deemed as an acquisition of securities.
2. Allotment of securities and exercising of warrants shall not be considered as contra-trade, as both transactions are in nature of acquisition.
3. The act of conversion will be akin to acquisition, a sale before six months will lead to contra-trade.

4. Conversion of warrants into equity shares before passing 6 months from the previous sale shall not attract contra-trade restrictions, however, subsequent sale post conversion shall lead to contra-trade

1.1.7. Framework for Offer for Sale (OFS) of Shares to Employees through Stock Exchange Mechanism.

Summary of the Procedure for Offering Shares to Employees in OFS through Stock Exchanges:

a. Timeline: OFS to employees and retail category on T+1 day. Bidding is allowed during trading hours on T+1 day.

b. Employee Category: Employees select the "Employee" category for bids, with the option to bid in other categories. Reserved shares for employees specified in the OFS notice.

c. Bidding Details: Bidding at a cut-off price of T+1 day. The floor price for the retail category was disclosed to the "Employee" category participants. Maximum bid amount: INR 5,00,000. Eligible allotment per employee: Up to INR 2,00,000. Proportional allotment for bids exceeding INR 2,00,000 in case of under-subscription.

d. Payment and Margin: Employees pay an upfront margin of 100% in cash or cash equivalents.

e. Confidentiality and Allotment: Bids for the "Employee" category are not displayed on the stock exchange website. Bid book segregated from Retail Category book. Allotment based on PAN details provided by the company on T-1 day.

f. Transfer of Shares: Promoters transfer total OFS shares, including those reserved for the "Employee" category, to the clearing corporation on T-1 day.

g. Implementation: Circular effective 30 days from issuance. Stock exchanges and clearing corporations to implement necessary systems and amendments. Dissemination of circulars to market participants and publication on their websites.

Impact:
The new OFS procedure enhances employee participation with a dedicated "Employee" category, streamlined bidding, and capped amounts. It ensures fairness, efficiency, and confidentiality, fostering a more inclusive and accessible environment for employees in share acquisition.

1.1.8 Streamlining of Regulatory Reporting by Designated Depository Participants (DDPs) and Custodians.

To provide ease of compliance and a uniform standard of compliance, after representations from DDPs and Custodians, it was decided that the reports that were to be published shall be done on the intermediaries' portal. A list of annual, quarterly, and half-yearly reports to be published is given in the circular.

1.1.9 Extension of timeline for verification of market rumours by listed entities

SEBI has extended the implementation timeline for the proviso to Regulation 30(11) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Originally applicable from February 1, 2024, for the top 100 listed entities and August 1, 2024, for the top 250 listed entities, the new effective dates are June 1, 2024, and December 1, 2024, respectively. This extension is attributed to the ongoing finalization of industry standards and the need for certain amendments to LODR Regulations for a smooth implementation process.

1.1.10 Foreign Investment in Alternative Investment Fund (AIF)

a. AIF when onboarding a client shall ensure that the investor or its beneficial owner is not the person named in the sanctions list by UNSC and is not a resident in a country identified in the public statement of FATF as a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

b. In case the AIF has already onboarded any investor covered under the categories mentioned above then the manager of the AIF shall not drawdown any further capital contribution from such investor for investing until the investor meets the said condition.

1.1.11 Guidelines for AIFs with respect to holding their investments in dematerialized form and appointment of a custodian.

a. Any investment made by an AIF on or after October 01, 2024 shall be held in dematerialized form only, irrespective of whether the investment is made directly in the investee company or is acquired from another entity.

b. The investments made by an AIF before October 01, 2024 are exempted from the requirement of being held in dematerialized form, except in the following cases:
   - The investee company of the AIF has been mandated under applicable law to facilitate the dematerialization of its securities
   - The AIF, on its own, or along with other SEBI registered intermediaries/entities which are mandated to hold their investments in dematerialized form, exercises control over the investee company

1.1.12 Consultation Paper on providing flexibility to Alternative Investment Funds (AIFs), Venture Capital Funds (VCFs) and their investors to deal with unliquidated investments of their schemes beyond expiry of tenure.

a. SEBI has provided a proposed framework for allowing schemes of AIF to enter into a dissolution period to deal with unliquidated investments while also achieving the objective of recognition and disclosure of true asset quality and fund performance.

b. Additionally, one-time flexibility is provided to schemes of AIF whose liquidation period has expired to deal with unliquidated investments.

1.1.13 Consultation paper on proposal to enhance trust in the Alternative Investment Funds ('AIF') ecosystem to facilitate Ease of Doing Business measures

Following has been proposed by SEBI: -

a. Forming Standard forum for AIFs
b. Introduction of general obligation for AIF, Manager and KMPs to ensure that their operations and investments do not facilitate circumvention of regulations administered by any financial sector regulator.
c. Participation of an investor in a particular investment of an AIF may facilitate the circumvention of a specified regulation/provision, the manager of the AIF has the flexibility to either not make the said investment or exclude the investor from the particular investment.

1.1.14 Informal Guidance of LV Angel Fund

Whenever an Angel fund makes a new or fresh investment in a separate entity, it shall not be less than INR 25 Lakhs. However pursuant to an initial investment made in a venture capital undertaking/start-up, if the Fund is receiving any shares in another venture capital undertaking/start-up due to reasons such as restructuring and no new transaction

of fresh investment is being made, then the requirement of minimum INR 25 Lakhs investment may not be applicable.

1.2. Reserve Bank of India

1.2.1. Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity up-to one year) Directions, 2024

The Reserve Bank of India (RBI) has ushered in a significant transformation of the Indian financial landscape with its revised guidelines for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) with maturities under one-year, effective April 1, 2024. This comprehensive framework aims to bolster transparency, stability, and responsible conduct within the market, guiding the actions of all participants for a more robust and trustworthy ecosystem.

Eligibility and Investment Scope:
The guidelines welcome a diverse range of entities, including companies, NBFCs, InvITs, REITs, AIFIs, and other corporates exceeding ₹100 crore in net worth and authorized to issue debt instruments. Cooperative societies and limited liability partnerships meeting the financial threshold can also join the fold. However, stringent adherence to 'Standard' classification for bank loans is a prerequisite for participation.

Investment opportunities are available to both resident and non-resident entities within the framework of FEMA regulations. Notably, to maintain an impartial environment, investments in CPs and NCDs issued by related parties are restricted.

Enhanced Framework and Market Practices: The RBI has established a meticulous framework encompassing primary issuance, pricing dynamics, credit enhancement mechanisms, end-use obligations, and stringent credit rating requirements (minimum 'A3').

Issuance mandates dematerialization with SEBI- registered depositories, ensuring transparency and efficient record-keeping. Secondary market trading adheres to defined settlement cycles on recognized exchanges or OTC platforms, overseen by FIMMDA's standardized procedures. Additionally, stringent reporting requirements for primary issuances, secondary market transactions, and default scenarios foster a culture of accountability.

Reporting:
The depositories shall report to the Reserve Bank, the details of the CPs and NCDs held with them in the dematerialised form, in the prescribed format furnished in Annex II of the Directions, at fortnightly intervals (on the 15th day and on the last day of the month) or as and when called upon to do so by the RBI.

The Debenture Trustee shall report the details of the outstanding amount of NCDs and the particulars of default in repayment of NCD, at quarterly intervals (within 15 days

from the end of the quarter), in the format prescribed in Annex III to the Reserve Bank through e-mail (reportfmd@rbi.org.in).

Regulatory Oversight and Roles:
The RBI plays a pivotal role in this revamped landscape. IPAs monitor issuer compliance, Debenture Trustees provide robust oversight over NCDs, and CRAs assign ratings following SEBI guidelines. Non-compliance with the guidelines will invite regulatory action, including penalties and potential market participation restrictions.

1.2.2. Credit/Investment Concentration Norms – Credit Risk Transfer

The Reserve Bank of India (RBI) has implemented adjustments to the credit and investment concentration norms for Non-Banking Financial Companies (NBFCs) to ensure consistency and uniformity in computation of concentration risk. The new guidelines differentiate between upper layer and base/middle layer NBFCs, with the former following the large exposures framework and the latter adhering to the revised regulatory framework.

For Middle Layer NBFCs, aggregate exposure to a counterparty, encompassing both on- and off-balance sheet exposures, will be calculated using the method prescribed for capital computation. On-balance sheet exposures are considered at the outstanding amount, while off-balance sheet exposures are converted into credit risk equivalent using the designated credit conversion factor.

In a notable change, credit default swaps, already permissible as credit risk transfer instruments, can now be used by middle layer NBFCs to offset exposures to underlying counterparties. These credit risk transfer instruments and guarantees must be direct, explicit, irrevocable, and unconditional.

Base-layer NBFCs are now required to establish an internal board-approved policy for credit and investment concentration limits for both single borrowers and groups of borrowers. Any exposures exceeding prudential limits during the year must be disclosed in the Notes to Accounts in the annual financial statements, according to the RBI.

These revised instructions became effective immediately i.e., 16th January 2024 Onwards, apply to large exposures frameworks and credit/investment concentration norms, with all other terms and conditions remaining in line with existing instructions.

1.3. International Financial Services Centre Authority

1.3.1. Inclusion Of Finance Companies In Credit Institutions: IFSCA Circular

The International Financial Services Centres Authority (IFSCA) has recently released Circular F. No. 172/IFSCA/Finance Company Regulations/2023-24/02 on January 05, 2024. This circular marks a significant development by incorporating 'Finance Company' and 'Finance Unit' within the ambit of the 'Credit Institution' category under the Credit Information Companies (Regulation) Act, 2005.

The IFSCA responded to industry stakeholders' appeals for the inclusion of 'Finance Company' and 'Finance Unit' in the 'credit institution' category under the Credit Information Companies (Regulation) Act, 2005. In accordance with the IFSCA Act, the authority, empowered by section 13, and guided by the CIC Act, particularly section 33A and sub-clause (vii) of clause (f) of section 2, has specified that 'Finance Company' and 'Finance Unit' engaged in specific permissible activities within the International Financial Services Centre (IFSC) qualify as 'credit institutions.'

These permissible activities include:

1. Lending activities encompassing loans, commitments, guarantees, credit enhancement, securitization, financial lease, sale and purchase of portfolios, as detailed in the FC Regulations.

2. Factoring and forfaiting of receivables, as outlined in the FC Regulations.

3. Any or all of the above activities when undertaken by a Finance Company/Finance Unit as a Global/Regional Corporate Treasury Centre.

4. Any or all of the aforementioned activities conducted without a customer interface, as specified in the FC Regulations.

1.3.2. Notification of Book-keeping, accounting, taxation and financial crime compliance services under as financial service under the IFSCA Act, 2019

The Ministry of Finance, through a notification dated January 18, has officially designated bookkeeping, accounting, taxation, and financial crime compliance services as financial services under the International Financial Services Centres Authority Act of 2019. These services qualify as financial services when provided by units within an International Financial Service Centre (IFSC) regulated by the IFSCA to non-residents, provided that the businesses served are not formed through the splitting up, reconstruction, or reorganization of an existing Indian business. Additionally, these units should not offer financial services by transferring or receiving existing contracts from their group entities in India.

The notification specifically defines financial crime compliance services to include activities related to Anti-Money Laundering norms, Countering the Financing of Terrorism

measures, and adherence to Financial Action Task Force recommendations, among other relevant measures.

1.3.3. Government allows direct listing of securities by public Indian companies on International Exchanges of GIFT IFSC

In pursuance of the announcement on July 28, 2023 by Union Minister for Finance and Corporate Affairs to enable direct listing of Indian Companies at GIFT- IFSC exchanges in the first phase, the Department of Economic Affairs (DEA), Ministry of Finance, has amended Foreign Exchange Management (Non-debt Instruments) Rules, 2019, and notified the 'Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme'. Simultaneously, the Ministry of Corporate Affairs (MCA) has issued Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024

The authorities, through the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules 2024 and amendments to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, have laid the groundwork for public Indian companies to issue and list their shares on international exchanges. Currently, the framework extends to unlisted public Indian companies, with SEBI in the process of formulating operational guidelines for listed public Indian companies.

The designated international stock exchanges at Gujarat International Finance Tec-City - International Financial Services Centre (GIFT-IFSC), overseen by the International Financial Services Center Authority (IFSCA), namely the India International Exchange and NSE International Exchange, are identified as permitted stock exchanges under the Rules and the Scheme.

Previously, the Companies (Amendment) Act, 2020, introduced provisions in the Companies Act, 2013, enabling the direct listing of specific classes of securities of public companies incorporated in India on approved stock exchanges in permissible foreign jurisdictions. These provisions came into effect on October 30, 2023.

Listing Procedures for Unlisted Public Companies:
Unlisted public companies seeking to issue equity shares for listing on stock exchanges in permissible jurisdictions must comply with a comprehensive set of procedures. This includes the facilitation of an offer for sale by existing shareholders. The adherence to the Scheme is mandatory, and companies aspiring to list on recognized stock exchanges in India are obligated to meet additional conditions stipulated by the Securities and Exchange Board of India (SEBI).

Prospectus Filing Requirement:

Unlisted public companies are required to file a prospectus using e-Form LEAP-1 within seven days of its finalization and submission to the permitted exchange. This filing ensures that potential investors receive a detailed and accurate overview of the company, aiding them in making informed investment decisions.

Financial Standards Compliance Post-Listing:
Following successful listing, companies must comply with the Indian Accounting Standards outlined in the Companies (Indian Accounting Standards) Rules, 2015. This alignment with global financial reporting norms promotes consistency and transparency in the presentation of financial statements, bolstering investor confidence.

Eligibility Criteria Considerations:
Certain companies are ineligible for listing under these rules. This includes entities registered under section 8 or declared as Nidhi, companies limited by guarantee with share capital, and those with outstanding public deposits. Additionally, companies with a negative net worth or a history of defaulting on payments to creditors are excluded. However, if a company rectifies any defaults and two years elapse since the rectification, it becomes eligible for listing. These eligibility criteria serve to uphold the integrity of the listing process and safeguard the interests of investors.

Public Indian companies will now have the flexibility to access both domestic and international markets. They can raise capital in INR from the domestic market and in foreign currency from global investors at IFSC. This initiative is particularly advantageous for companies with global ambitions seeking opportunities to expand their footprint in other markets.
The policy is expected to invigorate the capital market ecosystem at GIFT-IFSC by introducing new investment opportunities, diversifying financial products, and enhancing liquidity.

Impact:
This facilitates the listing of Indian companies in GIFT-IFSC is poised to redefine the Indian capital market landscape. It provides a distinctive avenue, especially for startups and firms in burgeoning sectors like technology, to tap into global capital markets beyond domestic exchanges.
The anticipated outcome includes improved valuation aligned with global standards, increased foreign investments, unlocked growth prospects, and a broadened investor base.

I Discussion Papers

Fueling Growth: The Evolving World of Corporate Debt and its Policy Landscape

Debt financing is a strategic financial approach involving the issuance of diverse financial instruments such as bonds, debentures, bills, or notes. In contrast to equity, debt presents a compelling advantage with its lower financing costs and the potential to reduce the company's tax burden through allowable interest deductions. Notably, debt is primarily associated with interest payment obligations and does not dilute the company's ownership structure, allowing for the retention of profits within the organization.

The presence of a robust and liquid market for private sector debt offers significant benefits for both economic growth and financial stability. It enables firms to diversify their funding sources away from traditional bank loans, securing necessary financing for long-term investments and working capital. Simultaneously, it presents investors with greater opportunities to optimize their portfolios. India's onshore corporate debt market experienced substantial growth in the decade preceding the pandemic. However, limitations persist in providing access to companies with lower credit ratings and those operating outside the financial sector.

Additionally, major institutional investors are currently allocating funds well below their permitted statutory limits. This article explores the evolution of India's corporate debt market, comparing it to those in other emerging economies. It examines factors potentially hindering its growth trajectory.

Robust corporate bond markets deliver a multitude of recognized benefits. They foster long-term financing for both corporate and financial sectors, enable superior risk management, and crucially support lending to innovative industries. Perhaps most importantly, they act as an invaluable "spare tire" during economic stress, diversifying the investor base when traditional bank financing becomes constrained. During periods of financial strain, banks often experience asset quality issues and liquidity challenges, limiting their ability to provide credit.

A well-developed corporate bond market allows capital to flow from alternative sources:

1. Investors with flexible mandates: Sovereign wealth funds, for example, have the flexibility to meet firms' stable, long-term financing needs.

2. Investors with long-term liabilities: Insurance companies and pension funds, with their own long-term obligations, can withstand short-term liquidity pressures and continue providing funding.

By embracing a diverse mix of credit providers, firms benefit from a more balanced distribution of short-, medium-, and long-term liabilities. This reduces concentration risk, minimizes negative "cliff effects," and enhances financial health. Overall, healthy corporate bond markets broaden access to capital, fostering inclusive growth that extends beyond firms with readily available collateral.

The Indian corporate bond market plays a crucial role within the country's financial system, representing over 20% of its fixed-income universe and ranking second only to government

securities. Over the past decade, it has witnessed impressive growth, with outstanding debt volumes surging from 9 trillion rupees in 2011 to nearly 40 trillion rupees in 2023, signifying a noteworthy 14.5% cumulative annual growth rate. This outpaces the real GDP growth of 5.5% during the same period, highlighting the increasing significance of corporate bonds in the Indian financial landscape.
However, a closer look reveals a recent slowdown in this growth trajectory. Between 2019 and 2021, outstanding volumes grew by only 8.5% annually, compared to a robust 17% yearly growth in the preceding eight years. This moderation can be attributed to several factors:

1. Non-banking financial company (NBFC) stress: The 2018 default by Infrastructure Leasing & Financial Services (IL&FS) led to strain in the NBFC sector, impacting short-term corporate debt issuance in commercial paper and certificates of deposit (CD) markets.

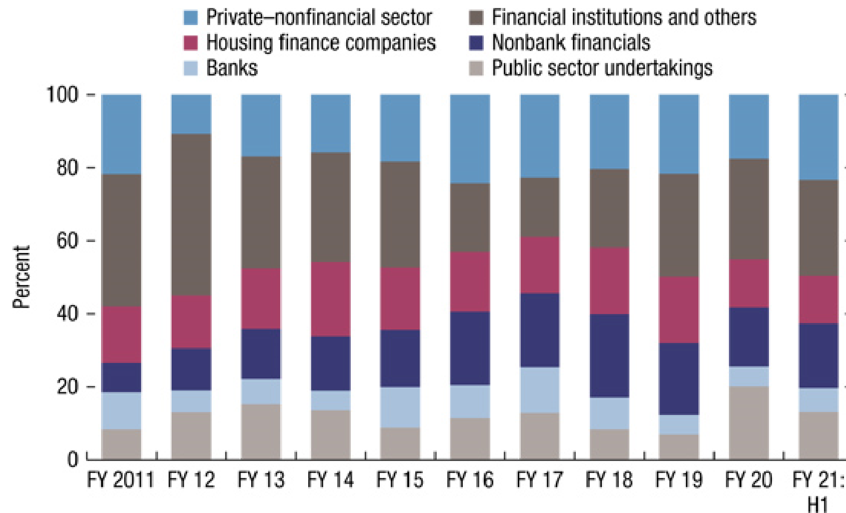
2. Shifting market dynamics: During the pandemic (FY 2020/21), CD issuance witnessed further decline, while corporate bond and commercial paper issuance saw some growth. This can be partially explained by the global surge in government debt issuance due to pandemic-related uncertainties.

3. Evolving financing options: The increasing ability of companies to issue medium-term notes is another factor contributing to the decline in CD issuance, traditionally used by banks to manage temporary liquidity needs.

Despite the recent slowdown, the corporate bond market has gained a significant 2.5% share in the total Indian fixed-income universe over the past decade. However, CD issuance has exhibited a steep decline, reducing the overall market share of corporate debt from 31% in FY 2011 to 25% currently.

The composition of the Indian corporate fixed-income landscape has also shifted. Today, corporate bonds account for a dominant 86%, followed by commercial paper at roughly 9%.

The Indian corporate bond market reveals a clear dominance of the financial services sector, accounting for nearly 60% of total issuance. The remaining issuance is largely attributed to the industry sector and public sector undertakings. A deeper look into the industry sector highlights a heavy concentration: financial and related services industries, particularly banking and housing finance, represent 90% of both issuance volume and number of issues. Manufacturing and non-energy infrastructure sectors, in contrast, make up only a small fraction of the overall bond market.
Importantly, long-term trends reveal a steady increase in the proportion of issuance from nonbanking financial companies (NBFCs). This underscores the growing role that these institutions play within the Indian financial system.



Role of Debentures:

For companies seeking to fuel growth and expansion, raising capital efficiently is critical. Debentures and Non-Convertible Debentures (NCDs) emerge as attractive options, offering flexibility and catering to diverse investor needs. However, understanding the regulations outlined in the Companies Act, 2013, is paramount when issuing these instruments.

Debentures are essentially debt instruments issued by companies to raise long-term capital. They represent a loan from the investor to the company, with the company obligated to repay the principal amount along with interest at a predetermined rate. Think of it as borrowing money from investors, similar to a loan from a bank, but with more flexibility in terms of interest rates and repayment structures.

Types of Debentures:
The world of debentures isn't one-size-fits-all. Companies can choose from various types based on their specific needs and investor preferences. Here are some key categories:

1. Secured vs. Unsecured: Secured debentures offer investors additional security by being backed by specific assets of the company. This means that if the company fails to repay, the investor can potentially claim those assets to recover their investment. Unsecured debentures, on the other hand, rely solely on the company's creditworthiness for repayment.

2. Convertible vs. Non-Convertible: Convertible debentures grant investors the option to convert their debt into equity shares of the company at a later date, allowing them to potentially benefit from the company's future growth. Non-convertible debentures (NCDs), as the name suggests, do not offer this conversion option and remain purely debt instruments.

The Companies Act, 2013, along with the Companies (Share Capital and Debentures) Rules, 2014, lay down specific regulations to ensure fair and transparent practices. In most cases, companies need to obtain a credit rating from a SEBI-registered credit rating agency. This rating helps investors assess the risk associated with the investment.

Companies must clearly define the terms and conditions of the debenture issue, including the interest rate, tenure, and redemption process, in a prospectus and file it with the Registrar of Companies. This document ensures transparency for investors.

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About Basilstone

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Strong Processes | **In-Depth** Knowledge | **Invaluable** Experience | **Deep-Rooted** Values

We clearly resonate ourselves with the ever-growing Basil, inspiring us to imbibe the quality of being natural and pure while we adapt to changing conditions and innovation. The rock-solid Stone is representative of our endurance, stability, permanence and our determination, paving the path of value creation for our clients and our firm allegiance to our principles.

Basilstone is the quintessential blend of traditional values and modern thoughts which are echoed in the experience, enthusiasm and energy of its people and translated in the services rendered to its clients.

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