Debt Outlook

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Sunaina Da Cunha
Co – Head, Fixed Income
Aditya Birla Sun Life AMC Limited

Corporate India remains in fine fettle when measured against various credit metrices. Looking at the past 10 years timeframe, we see that the debt servicing metrics of leverage and interest cover have recovered significantly post the significant dip seen during Covid and we believe they are likely to remain comfortable going ahead despite the expected pick up in capital expenditure and M&A activity. The debt fueled growth mindset has now changed and companies are looking to prudently use internal accruals and conservative capital structures when planning acquisitions or brownfield / greenfield expansions. The various profitability metrices are also at their highest point seen during the last 10 years in part enjoying the tailwind of the dip in input costs and this is likely to sustain over the next 6 months before normalizing in the second half of the year. The ~2:1 upgrades to downgrades ratio seen in Sept '23 on the back of very high credit ratios seen in the last 2 years is testimony to the strong credit profiles of various entities that form Corporate India.

This Credit Underwriters' dream period dovetails well into the goldilocks situation we are experiencing in India on the Macro side of strong growth coupled with a downtrend in inflation. Most of the high frequency indicators of PMIs, credit growth, tax collections, e-way bills, passenger car sales, and capacity utilization other than the external sector continue to flash bright green pointing to a healthy continuing underlying momentum. CPI inflation has continued its broad decline despite intermittent shocks from volatile vegetable prices and the decline seen in the sticky core inflation is particularly heartening. Liquidity is expected to remain broadly balanced blunting the use of that tool for the RBI. Thus, this dream run wrt creditworthiness that Corporate India is experiencing is expected to continue for some time more.

Credit demand has picked up and is expected to CAGR at 17% in the next decade. Continued tightness in the dollar markets would lead many corporates who used to borrow abroad using UDS financing are now finding domestic borrowing is relatively cheaper. With the balanced liquidity now in the banking system, and steep rise in the credit-deposit ratio of the banks - corporates will need to look outside the banking system to meet their needs. Many large wholesale financing Non Banks have slowed down their disbursements. So we expect a lot of this high quality supply to start feeding into the Corporate Bond Markets

The abundant liquidity previously sloshing about the banking system had driven spreads to decadal lows. Corporate bond spreads are finally showing signs of expanding. With liquidity expected to remain balanced going forward, a return to better risk adjusted pricing is expected just when the Supply of good quality papers is expected to hit the Bond Markets.

All this augurs well for a relook at Higher Yielding papers. Smart money and large family offices have already picked up the pace of investments as evidenced in the volume pick up in various online platforms retailing Higher Yielding bonds. A well-diversified professionally managed basket which offers liquidity would always be a better proposition.

We continue to prefer cash flow generating companies and sectors with good promoters, performance track record, and a conservative capital structure and accordingly, will selectively invest in those sectors and companies.

Our Recommendations

Approach	Fund	Investment horizon
Very Short Duration	Aditya Birla Sun Life Liquid Fund	7 days -1 month
Very Short to Short Duration	Aditya Birla Sun Life Savings Fund	1 month -6 months
Short Duration	Aditya Birla Sun Life Low Duration Fund	6-12 months
Accrual Strategy with High Quality Credit	Aditya Birla Sun Life Corporate Bond Fund	1-3 years
Active Management	Aditya Birla Sun Life Dynamic Bond Fund	Above 3 years
Accrual Strategy with High Yielding Credit	Aditya Birla Sun Life Medium Term Plan	Above 3 years

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.