

An Analytical Study of the Awareness Level of Corporate Bond Market in India Among Retail Investors

Hema P. Gwalani¹ and Dr. D. B. Bharati²

¹Assistant Professor, Ashoka Business School, Nashik

²Director, Rajgad Institute of Management Research and Development, Pune

ABSTRACT

Increasing the Liquidity in Corporate Bond Market has been a major agenda for the Government and for the Capital market authorities for long now. Various efforts in the forms of reforms, change in guidelines and making availability of the required infrastructure has been made in the direction but still the efforts does not seem to give the expected results when it comes to the participation retails investors in Corporate Bond Market India. . One of the major reasons of the non-participation has been lack of sufficient awareness on the part of retail Investors. This paper tries to measure the awareness level about the Corporate Bonds and also the reasons for the non-participation of the retail investors in the Primary and Secondary Markets of Corporate Bond Market, with the help of data collected and its statistical analysis.

Keywords: Awareness level, Capital market, Corporate Bond Market, Primary Corporate Bond Market, Retail Investors, Secondary Corporate Bond Market

Introduction

Meaning of securities

Though the term security has not been defined formally but in general it can be described as financial instruments and can be broadly categorized into debt securities ,equity securities, and, Derivative contracts. Debt Securities have been defined under chapter 1 of Securities And Exchange Board Of India (Issue And Listing Of Debt Securities) Regulations, 2008 as : “debt securities” means a non-convertible debt securities which create or acknowledge indebtedness, and include debenture, bonds and such other securities of a body corporate or any statutory body constituted by virtue of a legislation, whether constituting a charge on the assets of the body corporate or not, but excludes bonds issued by Government or such other bodies as may be specified by the Board , security receipts and securitized debt instruments.

Corporate Bonds

In broader terms corporate bonds can be said to be fixed income securities which are issued by corporate means entities other than Government. These are the debt securities which are issued by private and public corporations.

Market is a place where the buyer and seller meet together to meet each other's demand. When it comes to securities market, It is the place where the buyers and seller come together to meet the objective of creating securities from sellers point of view and buying and trading securities from buyers point of view.

Corporate Bond Market is the market where the corporate bonds are created and traded. When it comes to the Corporate Bond market in India it is in existence in real sense since December 2003, with the amendment in disclosure norms to make listing of companies made mandatory and with an initiative to provide a similar trading system for the bond market as like equity market. The objective being to provide a platform for corporate and investors to exchange and fulfill their needs i. e. mobilizing the funds at affordable rate in case of corporate and for investors a good investment with good long term returns at less risk. So far the corporate bonds market has failed to achieve the desired objective; it considerably lags in point of time. The secondary debt market in India is practically non-existent.

Various studies have been made in past and recently as well to study the reasons and various reforms have also been suggested through these studies. Serious effort has been made by government to match with the expectations; still the results are not so visible, which creates a need of study.

Indian Corporate Bond Market – an overview

There has been a development in the field of Corporate Bond Markets of India though various reforms and policy changes but it has been very slow and the Corporate Bond Market Still remains underdeveloped.

The Number of Public Issues and amount collected can be said to be the representative of the underdeveloped market.

Table 1: Public issues and trading volumes of Non-convertible Debenture

Year	Number of Issues	Amount (Rs. In cr.)	Number of securities traded	Number of trades	Traded Value (Rs. In cr.)
2008-09	1	1500	2543	4967	50029
2009-10	3	2500	5559	12231	156616
2010-11	10	9451	4504	8006	155951
2011-12	20	35611	5401	9798	176609
2012-13	20	17000	12557	21017	241838
2013-14	35	42400	12456	20812	275717

Source:http://www.sebi.gov.in/cms/sebi_data/statistics/corporate_bonds/publicissuedata.html

http://www.nseindia.com/products/content/debt/corp_bonds/cbm_trades_archives.htm

Need for the Development of Corporate Bond Market

To achieve the expected GDP growth of Indian Economy, Development of Corporate Bond Market has been the high priority agenda of the Government this being the highly untapped market. Many such reforms are taking place since 2007 in full force but are not generating the expected results. The time has come for better reforms which will attract small investors not only to achieve the above mentioned reason but also to support the banking system in the country which facing the big problem of – Asset Liability Mismanagement.

It can be seen that the private placement route has been the most preferred route by the issuers for the benefits of low cost but with the limited scope it has the issuers need to fine the alternative source. Looking at the Indian saving statistics the one area which the researcher feels to be the opportunity is the household sector, the small investors.

Review of Literature

“India needs to develop a corporate debt market to meet the projected investment of USD 1 trillion required to sustain the country's economic growth rate in the 12th Five-Year Plan (2012-2017)”These are the comments of Prime Minister Manmohan Singh in his speech on Wed Feb 16 2011 realizing the need for a vibrant corporate debt market in India.The Corporate Debt Market in India has not reached the levels which the time demands. The various benefits which a developed corporate bond brings have been the reason for the attention on the issue. It’s not the first time that the need for corporate bond markets has been arise and expressed. The literature shows that the issue of development of corporate bond market has been the point of attraction not only in India but in the world since way back.

Tadashi Endo, Financial Markets Advisory Department, International Finance Corporation, The World Bank Group in his paper 'The Development of Corporate debt markets'(2000) at world level or the Indian researchers Dr. R H Patil in his working paper 'Broad basing and Deepening the Bond Market in India' (2001-02), Suchismita Bose and Dipankor Coondo (2003) and Pranab Sen, Nikhil Bahel and Shikhar Ranjan in the working paper series of Planning Commission, Government of India 'Developing the Indian Debt Capital Markets: Small Investor Perspective' (2003) studied the various benefits of a developed corporate bond market and also the reasons for an underdeveloped Corporate Bond Market and also suggested the various measure for the development.

The above study shows the importance of the development of Corporate Bond markets in India and also the importance of the role of small investor in the process and justifies the selection of the topic by the researcher. The period after 2005 saw a considerable amount of policy changes in the system towards development. Some of the important developments being, permission was given by SEBI in December 2006 to BSE BSE to set up a reporting platform. Further all market intermediaries were given an access to the platform for reporting. Connectivity was provided to Non-members of the Exchange Virtual Private Network (VPN). In January 2007 BSE and in July 2007 NSE operationalized its reporting and trading platform and it first time it became possible to capture information related to trading in corporate bond market.

February 2009 was the year of remarkable achievement as the first ever public issue by TATA's of non-convertible debt securities was offered to public. In May 2009, simplified listing agreement for debt securities was put in place by SEBI, Further in August 2011, amendments were done by SEBI in the Regulations for Mutual Funds, which permitted Mutual Funds to set up Infrastructure Debt Funds under the Mutual Funds Framework.'

All these necessary policy reforms were taken considering the need of development of corporate debt market in India. The same was also expressed by various researchers in the same period.

'Why a corporate bond Market: growth and direct finance' by Marvin Good friend overviewed the role of direct corporate borrowings verses bank loans in the process of economic development. During the same period Dr. Y V Reddy Governor, Reserve Bank of India gave remarks at Washington in October 2007. As per him the development of a corporate bond market in India has been way behind in comparison with other financial market segments and liquidity has been an issue in the underdeveloped secondary market.

A similar observation was presented in 'The Indian Corporate Debt Market: Prescription for revival' in 2007 by Tamal Datta Chaudhari by showing a comparative picture of a subdued Indian corporate bond market with Government Bonds in India and also with Size of Domestic Corporate debt market as percentage GDP showing outstanding Corporate Bonds to be only 3.3% of GDP as compared to 128.8 per cent of United States. (Based on BIS 2006) Further the reasons for the failure of corporate Debt Market in India were also discussed in 'The Indian Corporate Debt Market – Need of the hour' various steps taken to tackle such problems have resulted only in a slight improvement. The Corporate debt market in India has reached only 6.5 per cent of GDP as compared to 3.3 per cent in 2006. But it is negligible as compared to government debt sector which is nearly 40 per cent of GDP. In India banks contribution in financing of the large firms was 14.4% in 2000-01, which increased up to 17.8% in 2010-11. But the bond market in comparison remained stagnated, with just 3.5% in 2000-01 and even after a decade later just 3.9%.

Though it is clear from the above literature and the available data that the Indian Corporate Bond market has not been so efficient, it can further be tested by measuring the liquidity of the market as well. Liquidity has been considered as one of the parameter of efficiency by many researchers like Abdourahmane Sarr and Tonny lybek, (2002) Measuring liquidity in Financial Markets, Working Paper Series, International monetary Fund and also by Dr. Venkat R. Eleswarapu, and Dr. Chandrasekhar Krishnamurti in liquidity, stock returns and ownership structure: An empirical study of the Bombay stock exchange.

Objectives, Hypothesis and Research Methodology

Objectives

The research conducted is to achieve the following objectives:

1. To study the awareness about the Corporate Bonds in small Investors
2. To study the relation between age, awareness and investment in Corporate Bonds
3. To study the factors playing important role in increasing the awareness

Hypothesis

1. The awareness level about Corporate Bonds in small Investors is very less.
2. There is a strong relation between the age of the investor and the awareness about corporate bonds
3. There is a strong relation between awareness and investment in to Corporate Bonds
4. Brokers play a significant role in increasing the awareness about Corporate Bonds
5. There is a strong relation between awareness of and Investment in Corporate Bonds.

6. Investors give equal rating to the criteria of comparison between the available Investment options
7. Investors give equal ratings to the factors that affect the growth of Corporate Bond Market in India.

Research Methodology

The current is an analytical study for which the primary data of the sample size of 500 was collected through scientifically developed personally administered questionnaire. The sample has been chosen on the random basis from in and around Nasik.

The parameters for the research study have been decided based on the extensive literature review. Second, in-depth interviews were held with investors to establish the evaluation criteria and the factors which result in investor decision making. Third, a questionnaire was constructed and piloted. Questionnaire was prepared keeping in mind the various outcomes possible. Care was taken that the wrong interpretations and biased view do not affect the research. Ordinal scale, Rank scale, the five-point likert scale, such various nominal scales was also for the analysis of different variables and their relationship. Statistical methods like Percentage method, Chi square test, Regression test have been applied for the analysis of data with the aid of excel.

Sample: The population comprised investors as defined in the introduction part of this article. A random sampling procedure was used on a sample of 500 respondents. The population of this study was investors in and around Nasik City.

Table 2: Characteristics of the sample

	Category	Frequency
Age	Below 25	70
	25 to 50	240
	50 to 60	115
	Above 60	75
	Total	500
Annual Income	Up to Rs. 5 Lakhs	176
	Rs.5,00,001 to Rs.10,00,000	182
	Rs.10,00,001 to Rs.15,00,000	80
	Rs.15,00,001 and above	62
	Total	500
Gender	Male	380
	Female	120
	Total	500
Educational level	Less than 10th	115
	Graduate	290
	Post Graduate & Above	95
	Total	500
Occupation	Service	320
	Self Employed	95
	House wife	0
	Unemployed	40
	Other	45
	Total	500

Source: Primary Data

Data Analysis and Findings

From the collected and analyzed data the major findings that came across are:

1. Majority of investors (64%) are unaware about Corporate Bonds as an investment Instrument.
2. Most of the investors choose the traditional instruments like Fixed Deposit as a first choice for Investment
3. Out of the respondents, who were aware about Corporate Bonds around 50 % have invested in Corporate Bonds.
4. Out of the respondents who are investors in Corporate Bonds not even 10% of those trade in Corporate Bonds.
5. Out of the Investors aware about Corporate Bonds most of them (around 48%) became aware through Brokers.

6. There is somewhat relation between the Age and investment in to corporate bonds of a retail investor.
7. The major factors affecting the investment decision of the investor are Returns, Awareness about the instrument, Liquidity and Security
8. As per the data creation of awareness becomes a major factor followed by tax savings, liquidity security and returns.

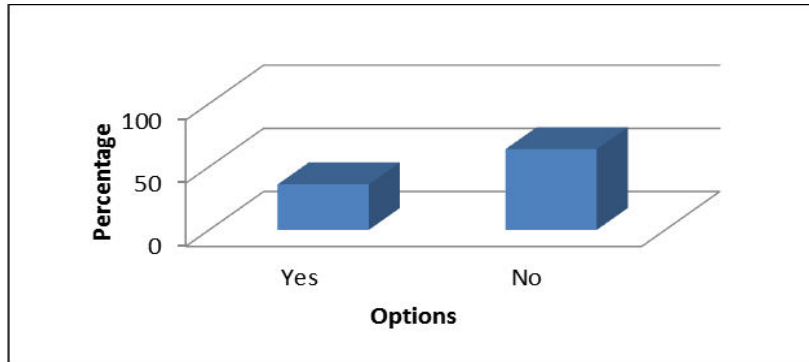
Hypothesis testing

The awareness level about Corporate Bonds in small Investors is very less

Table 3: Awareness

Option	Percentage	Frequency
Yes	36	180
No	64	320
Total	100	500

Source: Primary Data



Graph 1: Awareness of Corporate Bonds

From the above data using percentile method it can be inferred that the awareness level about corporate bonds among retail investors is very less as the number of unaware investors is much larger than the aware investors

There is a strong relation between the age of the investor and the awareness about corporate bonds

Table 4: Awareness towards Corporate Bonds and Age

Age	Aware	Percentage	Unaware	Percentage	Frequency	Percentage
Below 25	18	25.71	52	74.29	70	100%
25 to 50	72	30.00	168	70.00	240	100%
50 to 60	42	36.52	73	63.48	115	100%
Above 60	48	64.00	27	36.00	75	100%
Total	180	36.00	320	64.00	500	100%

Source: Primary Data

Cross tabulation: Are you aware about Corporate Bonds? * Age

Chi Square Test

The Chi square Test result of 4.11E-07 (being less than the significant value of 0.05) signifies a strong relation between the awareness and age of the Investor.

Further the Correlation value of 0.54863 between age and awareness supports the hypothesis that there is a relationship between Age and awareness of the investor.

Table 5: Strong Relation between Awareness and Investment in to Corporate Bonds

Option	Awareness		Investment	
	Frequency	Percentage	Frequency	Percentage
Yes	180	36	91	18.2
No	320	64	409	81.8
Total	500	100	500	100

Source: Primary Data

Correlation value of .9279 signifies strong relation between Awareness and Investment

Another test, Conversion ratio of awareness to investment also support the hypothesis statement.

Brokers play a significant role in increasing the awareness about and converting investment in Corporate Bonds

How did you became aware about Corporate Bonds * Do you invest in Corporate Bonds

Table 6: Role of Brokers to Increase Awareness and Investment about Corporate Bonds

Option	Awareness Frequency	Percentage	Investors	Conversion Ratio
Own Research and Knowledge	30	6%	9	30%
Broker	85	17%	58	68%
Television	10	2%	4	40%
Newspapers	15	3%	6	40%
Awareness Program	15	3%	6	40%
Others please specify	25	5%	8	32%
Total	180	36%	91	51%

Source: Primary Data

From the above table it can be inferred that Brokers are one of the important source of creating awareness about corporate bonds amongst retail Investors. Further they play an important role in converting the awareness to investment which can be seen from the high

conversion ratio of 68%.The similar result can be obtained through the correlation value of 0.9820 and R square regression value of 0.9660 which signifies broker to be the important factor.

Table 7: Strong Relation between Age and Investment in Corporate Bonds

Age	Investment in Corporate Bonds	Percentage	No Investment in Corporate Bonds	Percentage	Total Investors	Percentage
Below 25	6	9%	64	91%	70	100%
25 to 50	37	15%	203	85%	240	100%
50 to 60	22	19%	93	81%	115	100%
Above 60	26	35%	43	57%	75	100%
Total	91	18%	409	82%	500	100%

Source: Primary Data

The correlation value of 0.6401 shows somewhat relation between the Age and investment in to corporate bonds of a retail investor.

Investors give equal rating to the criteria of comparison between the available Investment options

Table 8: The Criteria of Comparison between the Available Investment Options

Sr. No	Comparison Criteria	Average of Rank
1	Returns	7.46
2	Security	6.93
3	Liquidity	7.04
4	More awareness or knowledge of the instrument	7.32
5	Time period	5.61
6	Bureaucracy	4.82
7	More information availability and transparency	5.43
8	Family tradition	4.04
9	Status Symbol	3.53
10	Others	2.82

Source: Primary Data

The average rank derived from the ranks given by the investors to the comparison criteria suggests that the major factors affecting the investment decision of the investor are Returns,

Awareness about the instrument, Liquidity and Security and the investor does not rank the comparison criteria equally.

Table 9: Investors Rating to the Factors that are Required for Development of Corporate Bond Market in India.

Option	Frequency	Percentage
Better Returns	175	35%
Better security	190	38%
More liquidity	210	42%
Awareness programs	255	51%
More number of Public Issues	30	6%
Moderate but safe Returns	40	8%
Less Bureaucracy	30	6%
More Transparency and easy availability of Information	105	21%
Tax savings	215	43%
Other	15	3%
Total	500	100%

Source: Primary Data

From the above table it can be inferred that investors does not rank the factors affecting the development of Corporate Bond Market in India equally. As per the data creation of awareness becomes a major factor followed by tax savings, liquidity security and returns.

Conclusion

The awareness level regarding corporate bonds is very less amongst the retail investors. And the awareness level directly affects the investment in to the corporate Bonds by the retail investors. Many initiatives have been taken by the government for increasing the liquidity in corporate bond markets. The paper concludes that focus should be kept on increasing the awareness about corporate bond markets and brokers a play a major role in creating awareness and increasing the investment in the Corporate Bond Market in India. Further the investor also gets attracted towards corporate bonds if tax savings are associated with the same. Reforms in such direction will help the government increase the participation by the retail investor in Corporate Bond Market in India.

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