

FIN O L O O K

by **unituscapital**

Debt Newsletter for June 2023 | RECENT DEALS CLOSED

IKF
Equity
₹ 250 Cr

Avanti Finance
Equity
₹ 197 Cr

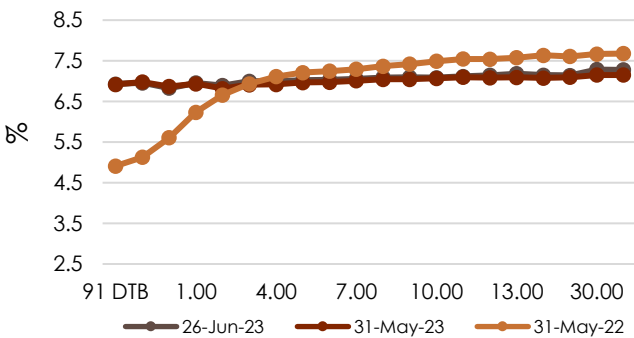
Nepra
Debt
₹ 33 Cr

DCDC
Debt
₹ 21 Cr

Srichakra
Debt
₹ 15 Cr

Market Overview*

Yield Curve



NBFC Bond Spread Over G-Sec Benchmark Indices

Tenor	3 Year Spread	5 Year Spread	10 Year Spread
AAA	76	64	57
AA	142	125	133
A	383	363	375
A-	408	388	400
BBB+	458	438	450
BBB	483	463	475
BBB-	533	513	525

Q4FY23 GDP growth printed significantly higher at 6.1% on a y-o-y basis as compared to economist's expectations of ~5% for the quarter. The stronger than expected headline growth comes from a strong performance of agriculture, manufacturing, construction, and services. The widening of current account deficit post the outbreak of the Russia-Ukraine war had RBI and other economic stakeholders worried due to the spike in crude oil prices. This has natural adverse implications for the India's BOP as well as the fiscal balance. Since the full effects of the global monetary tightening are yet to be seen it is difficult to forecast the export trajectory.

Withholding Tax Impact**

Fall of the Rupee – 2013

In January 2013, the rupee was trading at around 55 against the dollar. However, by September, it had slumped to 65 (↓15%). This was due to an ill-fated combination of a surge in dollar demand from Imports and capital outflows by FIIs pulling out the debt market.

The Countermeasure

As a countermeasure, the Government of India had introduced concessional tax rate of 5% on interest income, as against 20%. This resulted in record overseas borrowings prompting the Government to extend the period of the Concessional rate to three years. The same cycle repeated thrice, bringing us to 2023.

Global Sentiments

As per RBI data, Indian corporates collectively raised \$25.98 billion through external commercial borrowings (ECBs) in the previous fiscal, ↓32% lower than in FY22. Rising Global interest rates combined with volatility of the rupee have made overseas borrowing unattractive for India Inc. Adding to this, The government is not inclined to extend the tenure of concessional withholding tax rate for foreign portfolio investors (FPIs) participating in debt markets, which ends on June 30, 2023.

Expected Impact

The investors will most likely try to pass on the increased taxation to the borrowers by increasing the net yield of investments. This combined with a hardening bond yields globally (Fed's treasury hiked by 450 bps against RBIs repo rate hiked by 250 bps) and reduced expansion plan for corporates may discourage India Inc from overseas borrowings.

Latest Corporate Debt Issuance***

Issuer	Secured	Size (₹ Cr)	Coupon	Tenor (years)	Rating
Fincare Small FinanceBank Limited	No	49	10.75%	5.5	A
Satin Creditcare Network Limited	Yes	53.82	10.9%	4	A-
Vaastu Finserv India Private Limited	Yes	50	9.55%	3	AA-

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Withholding Tax Impact**

The rates have been illustrated below:

	Rates
As per Concessional rate before June 30,2023	5 %
As per rate for issuances after July 1,2023	20 %
If DTAA is applicable	10 % - 15 %
In case of International Financial Services Centre (IFSC)	9%

Way forward:

As per the Finance Bill, 2023," 20% income tax is applicable on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency (not being income by way of interest referred to in section 194LB or section 194LC)".

Going forward, the FPIs will have to rely on the Double Taxation Avoidance Agreements and any other tax treaties between their Country and India to avail the lower rate. The alternative would be to go through International Financial Services Centre (IFSC) where the benefit of Section 194LC has been extended but at a higher withholding rate of 9% to long-term bonds or rupee-denominated bonds issued after July 1, 2023, which are listed on recognized stock exchanges in IFSC.

Meet the Team



Eric Savage
Co-Founder & CEO

25+ years of investment banking experience with strong relationships with domestic and foreign investors; serves on the boards of multiple companies, and other institutions.



Amit Kumar Rathi
Managing Director

20+ years of post-qualification experience which includes 15+ years in the broad PE / VC investing and M&A as either an Investment Banker, Diligence Advisor, and Investor.



Simmi Sareen
Director

23+ years in financial services with extensive experience in supporting access to capital for sustainable startups & social enterprises. Recognized as a thought leader for impact investing and climate finance in India.

Meet the Team



Rima Agarwalla
Vice President

11+ years experience with Bank of Baroda in corporate credit, transaction Banking, in India and Middle East. Specialized in structuring deals.



Balaji Sridharan
Associate

3 years of experience across financial consulting, agricultural finance and ESG domains. Previously worked with Samunnati & PWC. He has done his MBA in Agri business management.



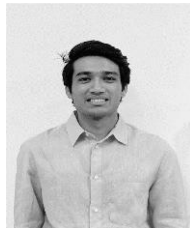
Harish Peddina
Associate

5+ years of experience in debt syndication. He previously worked at Indusind Bank covering sectors such as real estate, agri & manufacturing.



Ishita Jain
Analyst

Ishita covers financial inclusion and agriculture at Unitus Capital. She has 2+ years of experience with a boutique IB in Mumbai. She is a CA.



Naman Jain
Analyst

Naman covers climate and healthcare at Unitus Capital. He has 3+ years of experience in equity research and fintech. He is currently pursuing CFA.



Vidhi Sarawagi
Intern

Vidhi has previously interned with IIFL securities covering technical analysis and trading in stock market. She is currently pursuing CFA.