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EPFO Goes Long on Top PSU Bonds

FEWER SOVEREIGN ISSUES force it to invest around ₹10,000 cr in bonds offering rates up to 9 bps less than govt papers

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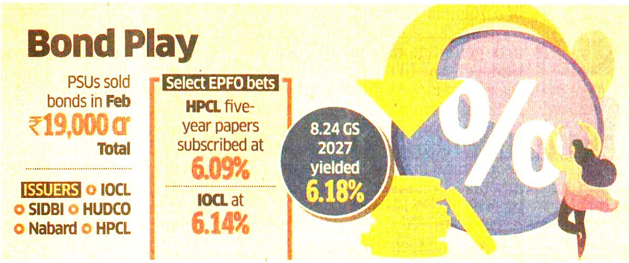
Mumbai: The Employees' Provident Fund Organisation (EPFO) is estimated to have invested at least ₹ 10,000 crore in top-rated public-sector company bonds including that of Indian Oil, Hindustan Petroleum and National Bank for Agriculture and Rural Development (NABARD), some of which have offered rates up to 9 basis points less than similar maturity government bonds, three people with the knowledge of the matter told ET.

A short supply of dated sovereign securities coupled with lower issuances of corporate bonds by government-backed entities may have forced the country's largest institutional debt investor to take these unusual bets with three- and five-year maturities, sources said. Those deals were sealed in about two weeks towards end of February.



State-owned oil refiner HPCL raised five-year money offering 6.09%, which is about 9 basis points lower than similar maturity sovereign bonds maturing in 2027.

Indian Oil Corp raised ₹1,500 crore with five-year maturity offering yields at 6.14% that is again 4 basis points lower than government papers.

EPFO did not reply to ET's mailed query seeking comments.

"Retirement funds deploy money within limits of investment pattern as they are not permitted to sit on cash," said Ajay Manglunia, managing director, JM Financial. "This makes it more of a compulsion to invest in PSU bonds, especially when sovereign securities are in short-supply."

"EPFO will likely realign bond portfolios to generate higher returns amid a changing rate cycle," he said.

EPFO does not invest via the secondary market route as it buys from the primary market only.

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Last month, the Reserve Bank of India (RBI) canceled two auctions, due on February 11 and February 18, respectively, for up to ₹48,000 crore of bonds, citing the government's (favourable) cash balance. This cut supplies of papers otherwise expected in the market ahead of a financial year end.

"All the latest investments appear to be going against the EPFO tradition as it has likely started investing below 10-year now," Venkatakrishnan Srinivasan, founder at Rockfort Fincap, a Mumbai-based boutique advisory firm engaged in debt capital market. "EPFO generally takes long-term bond bets going well beyond 10 years."

"The primary market issuances of AAA-rated PSU bonds have drastically come down this fiscal and created a scarcity of PSU bond primary supply," he said.

Small Industries Development Bank of India (SIDBI) raised ₹2,500 crore offering 5.57%, a tad lower than a series of government bonds maturing in May 2025.

The latest investment pattern permits the EPFO to invest a minimum 20% of its annual incremental deposits in corporate bonds. But such investment is limited to top-rated public sector companies, rated either AAA or AA+.

If the PSU primary bond supply continues to remain low next fiscal, then EPFO may soon have to decide to invest in top rated private sector corporate bonds, dealers said.

In between, the RBI last Friday revised the Treasury Bill auction target. It will now aim to sell ₹1.86 lakh crore worth of shorter duration sovereign papers between March 2 and March 30 this fiscal, which is higher by ₹60,000 crore from its December estimate.

This scotched speculations about one or two additional weekly auctions of dated government securities. EPFO does not subscribe to T Bills.