

## **A STUDY “ON COMMERCIAL PAPER PROGRESSIVE ISSUE BY ICICI BANK”.**

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### **ABSTRACT**

Commercial paper (CP) is a short-term debt instrument widely utilized in the money market. It represents a promissory note issued by corporations, financial institutions, or governments to meet their immediate funding requirements. Commercial paper typically matures within 270 days, making it a short-term financial instrument. This aligns with the key feature of money market instruments. Corporations with high credit ratings, financial institutions, and occasionally, governments issue commercial paper. The creditworthiness of the issuer is crucial in determining the interest rate. Corporations often utilize commercial paper to fund short-term operational needs such as inventory purchases, payroll, and other working capital requirements.

Commercial paper stands as a vital component of the money market, offering issuers a flexible financing tool and providing investors with a short-term, relatively secure investment option. Its dynamics reflect the interplay of credit risk, market demand, and the financial needs of corporations, contributing to the overall efficiency and functioning of the money market.

Study of Commercial Paper issued by ICICI for the duration of 2019-2023 and the fluctuations observed under different parameters and the rating towards the same.

## INTRODUCTION

Commercial paper (CP) is a crucial financial instrument that plays a significant role in the money market. It represents a short-term debt security issued by corporations, financial institutions, and, occasionally, governments to meet their immediate funding needs. Commercial paper is characterized by its short maturity and is considered one of the key instruments in the broader realm of money market securities.

### KEY FEATURES OF COMMERCIAL PAPERS:

1. **Short-Term Maturity:** Commercial paper is designed to have a relatively short maturity, typically ranging from a few days to 270 days. This short-term nature distinguishes it from longer-term debt instruments.
2. **Issuers:** The primary issuers of commercial paper are corporations seeking short-term financing for various purposes, such as meeting working capital requirements, funding inventory purchases, or managing cash flow. Financial institutions and governments may also issue commercial paper to address their immediate funding needs.
3. **Denominations:** Commercial paper is typically issued in large denominations, often ranging from \$100,000 to several million dollars. This characteristic makes it more accessible to institutional investors rather than individual retail investors.

### Purpose and Use:

**WORKING CAPITAL MANAGEMENT:** Corporations use commercial paper to address short-term funding needs associated with day-to-day business operations. It provides them with a flexible and cost-effective means of managing working capital.

**CUSTOMIZATION** The terms of commercial paper issuance, including the amount and maturity, can be customized to suit the specific financial requirements of the issuer. This flexibility is attractive to companies with varying short-term funding needs.

### Risk and Returns:

**CREDIT RISK:** While commercial paper is generally considered a low-risk investment, it is not without risk. Investors must assess the creditworthiness of the issuer, as the return is linked to the issuer's ability to meet its financial obligations.

## **YIELD**

Investors earn returns on commercial paper through the difference between the discounted purchase price and the face value at maturity. The yield is influenced by factors such as prevailing interest rates and the creditworthiness of the issuer.

### **MARKET DYNAMICS:**

1. **SECONDARY MARKET:** While commercial paper is often held until maturity, a secondary market exists where investors can buy and sell these instruments before the maturity date. This secondary market provides liquidity to investors and allows for price discovery.
2. **DISCOUNT BASIS:** Commercial paper is typically issued at a discount to its face value. Investors purchase it at a lower price and receive the full face value upon maturity, effectively earning interest on the difference.

**REGULATORY OVERSIGHT:** The issuance and trading of commercial paper are subject to regulatory oversight to ensure market transparency and investor protection.

Issuers may need to adhere to certain standards and disclosure requirements.

In summary, commercial paper serves as a vital tool for short-term financing in the corporate and financial sectors. Its features of short-term maturity, flexibility, and customization make it an integral part of the broader money market, contributing to the efficient management of liquidity in the financial system.

## **HISTORY OF COMMERCIAL PAPERS:**

The history of commercial papers dates back several centuries, evolving from early forms of promissory notes and bills of exchange. The development and growth of commercial papers can be traced through various historical stages:

### **MEDIEVAL EUROPE**

The roots of commercial papers can be found in medieval Europe, where merchants and traders engaged in cross-border commerce faced the challenge of carrying large amounts of precious metals to settle transactions.



Merchants began using bills of exchange, a type of promissory note, as a more convenient and secure means of transferring funds. These bills allowed for the deferred payment of a sum of money at a future date.

#### 16th -18th CENTURY

The use of bills of exchange expanded during the Renaissance, particularly in Italian city-states. This financial instrument facilitated trade and reduced the risks associated with transporting large amounts of currency.

As international trade grew, bills of exchange became integral to commerce, serving as a precursor to modern commercial papers.

#### Top of Form

#### 19th CENTURY

The 19th century witnessed the evolution of commercial papers in the United States. During this period, businesses faced the need for short-term financing to address seasonal fluctuations in cash flow.

Railroads and industrial companies began issuing short-term promissory notes directly to investors as a way to raise capital. These early forms of commercial papers were often unsecured and relied heavily on the reputation of the issuer.

#### EARLY 20TH CENTURY:

The use of commercial papers became more widespread in the early 20th century, with a growing number of corporations and financial institutions utilizing them for short-term funding needs.

The market for commercial papers expanded, and standardized practices for issuance and trading began to emerge.

**POST-WORLD WAR II ERA** The post-World War II era saw significant growth in the commercial paper market. As the global economy recovered, corporations increasingly turned to commercial papers as a flexible and efficient means of financing.



## 1970s AND BEYOND ERA

The 1970s marked a period of regulatory changes and innovations in the commercial paper market. The creation of money market funds, which invested in short-term instruments like commercial papers, further fuelled the growth of this market.

Commercial papers became a popular instrument for both issuers and investors, offering corporations a cost-effective way to raise funds and providing investors with a short-term, relatively low-risk investment option.

### **GLOBALIZATION AND DIGITAL AGE:**

In the late 20th and early 21st centuries, globalization and advancements in technology further transformed the commercial paper market. Issuers gained access to a broader investor base, and electronic trading platforms facilitated faster and more efficient transactions.

Throughout its history, commercial papers have evolved to meet the changing needs of businesses and investors, playing a crucial role in providing short-term financing solutions in the dynamic landscape of global finance. The market for commercial papers continues to be an essential component of the broader money market.

### **OBJECTIVES OF THE STUDY:**

- To know the applications of Commercial Papers.
- To know the benefits of Commercial Papers.
- To Know the procedures and guidelines given by RBI to issue Commercial Papers.
- To observe the issue of commercial paper issue by ICICI for the duration 2019-2023
- To know about the rating given by CRISIL towards ICICI commercial paper issue.

### **NEED OF THE STUDY:**

The study describes commercial paper as a short-term financing, flexibility of funding and cost-effective funding. It also describes about commercial paper being low-risk and enhanced liquidity. The study reads the fluctuations of issue of CP by ICICI.

**SCOPE OF THE STUDY:**

ICICI issue of commercial papers from 2019 -2023 and rating given by CRISIL for the same.

The observance of issue of commercial paper year-wise

**RESEARCH METHODOLOGY:**

The research design for COMMERCIAL PAPERS - DESCRIPTIVE RESEARCH. Descriptive research merely examines 'What is'. Descriptive research usually makes use of descriptive statistic to help the user understand the structure of the data and significant pattern that may found in the data.

In this article the research consists on; what is Commercial paper, working of commercial papers and working procedures of commercial papers. Therefore, it is a descriptive research design.

**LITERATURE REVIEW:****Risk and Return Analysis of Commercial Paper**

M. S. Rao and K. R. Pillai

Birla Institute of Technology, Bahrain

Asia-Pacific Business Review, Oct-Dec. 2011, Vol. VII (4), pp. 40 – 49, ISSN: 0973-2470

[www.researchgate.net](http://www.researchgate.net)

The study describes about commercial papers risk and returns and the CP discount rates in India were exceptionally high. The author here analyses the CP fluctuations between two varied periods. On the other side CP is not risk free as there are certain risks attached and some companies may not pay the investors on maturity with the issued interest rate. If the



interest rates of CP keep getting higher the issuer may not only pay the maturity amount but also may not make the fresh issues

### **Commercial paper markets: a survey**

BIS Economic Papers | No 37 | 01 April 1993 by [Julian S Alworth](#) and [Claudio Borio](#)  
[www.bis.org](http://www.bis.org)

The study considers CP as a fixed-maturity unsecured short-term negotiable debt issued generally in bearer form and primarily by non-banks. The author states that his study has three objectives like role of commercial paper as a source of funding, to provide better understanding of the common features of various markets and to examine the pattern of development.

### **Commercial Paper**

Moorad Choudhry, in [The Bond & Money Markets](#), 2001

[www.sciencedirect.com](http://www.sciencedirect.com)

The study says that the issuers are often divided into financial and non-financial institutions. The study says like most of the issuers have high credit rating but the borrowers are low-rated. The author states that in U.S. the CP dealer is effectively dominated by investment banks, as retail banks were forbidden to underwrite commercial papers until recently.

### **RBI GUIDELINES IN ISSUING COMMERCIAL PAPERS:**

(Source: [www.rbi.org.in](http://www.rbi.org.in) )

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP, as a privately placed instrument, was introduced in India in 1990 with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers, satellite dealers\* and all-India financial institutions were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations. Guidelines for issue of CP are presently governed by various directives issued by the Reserve Bank of



**SAFINA TARANNUM** / International Journal of Management Research & Review India, as amended from time to time. The guidelines for issue of CP incorporating all the amendments issued till date is given below for ready reference.

### **Role and Responsibilities**

15.1 The role and responsibilities of issuer, issuing and paying agent (IPA) and credit rating agency (CRA) are set out below.

#### **(a) Issuer**

With the simplification in the procedures for issuance of CP, issuers would now have greater flexibility. Issuers would, however, have to ensure that the guidelines and procedures laid down for CP issuance are strictly adhered to.

#### **(b) Issuing and Paying Agent (IPA)**

- i. IPA would ensure that issuer has the minimum credit rating as stipulated by RBI and amount mobilised through issuance of CP is within the quantum indicated by CRA for the specified rating or as approved by its Board of Directors, whichever is lower.
- ii. IPA has to verify all the documents submitted by the issuer, viz., copy of board resolution, signatures of authorised executants (when CP in physical form) and issue a certificate that documents are in order. It should also certify that it has a valid agreement with the issuer (Schedule III).
- iii. Certified copies of original documents verified by the IPA should be held in the custody of IPA.
- iv. All scheduled banks, acting as an IPA, will continue to report CP issuance details as hitherto within three days from the date of completion of the issue, incorporating details as per Schedule II to the Chief General Manager, Financial Markets Department, Reserve Bank of India, Central Office, Fort, Mumbai-400001.
- v. IPAs, which are NDS members, should report the details of CP issue on NDS platform within two days from the date of completion of the issue.
- vi. Additionally, all scheduled banks acting as IPAs should submit the data pertaining to CP issuances on the Online Returns Filing System (ORFS) module within two days



**SAFINA TARANNUM** / International Journal of Management Research & Review from the date of issuance of CP. This reporting is in addition to the reporting on NDS platform till the ORFS module stabilizes after which reporting on NDS can be discontinued. IPAs would be advised in this regard separately

### (c) Credit Rating Agency (CRA)

- i. Code of Conduct prescribed by the SEBI for CRAs for undertaking rating of capital market instruments shall be applicable to them (CRAs) for rating CPs.
- ii. Further, the credit rating agency would henceforth have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall at the time of rating, clearly indicate the date when the rating is due for review.
- iii. While the CRAs can decide the validity period of credit rating, they would have to closely monitor the rating assigned to issuers vis-à-vis their track record at regular intervals and would be required to make their revision in the ratings public through their publications and website.

### ICICI PROFILE: (BOND DESK)

#### Bond Desk

ICICI Bank is a leading participant in the Indian fixed income markets. Our Debt Syndication Desk offers end-to-end services related to origination and placement of bonds & commercial papers across various issuer and investor segments. Given our time-tested expertise in the domestic debt market, we have strong relationships with bank treasuries, mutual funds, insurance companies, retirement funds, foreign portfolio investors, corporate treasuries and trusts.

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#### Key Features

- Product diversity: ICICI Bank manages one of the oldest and largest treasury books in the country. We are an active player in Government securities, corporate bonds, commercial papers and certificate of deposits, both in primary and secondary markets.
- Debt syndication: ICICI Bank has been consistently ranked among the leading Arrangers for debt private placements. We have been associated with debt placements of public sector undertakings, central/state government entities, banks, financial institutions, NBFCs and private corporates.

- Client coverage: Our dedicated Treasury sales and corporate relationship teams provide Pan-India coverage of debt issuers and investors across multiple segments. We leverage our global presence at key investor locations to provide access to Indian issuers for raising funds through international debt capital markets.

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### Fixed Income Solution

- Provide end-to-end solutions to both regular and first-time issuers for raising short-term and long-term funds through debt capital markets.
- Facilitate placement of debt securities across various investor segments.
- Make two-way markets in fixed income securities across various product segments.



**COMMERCIAL PAPER ISSUES FROM THE YEAR 2019-2023**

(source: [www.nSDL.co.in](http://www.nSDL.co.in))

**2019:**

259	ICICI SECURITIES LIMITED	763G	Joint Stock Company	INE763G14GR6	ICICI SECURITIES LIMITED 59D CP 28JUN19	13/05/2019	28/06/2019	46	50.00	ICICI BANK LTD.
260	ICICI SECURITIES LIMITED	763G	Joint Stock Company	INE763G14GS4	ICICI SECURITIES LIMITED 53D CP 19JUL19	27/05/2019	19/07/2019	53	100.00	ICICI BANK LTD.
261	ICICI SECURITIES LIMITED	763G	Joint Stock Company	INE763G14GT2	ICICI SECURITIES LIMITED 60D CP 30JUL19	31/05/2019	30/07/2019	60	100.00	ICICI BANK LTD.

**2020:**

98	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14HW4	ICICI SECURITIES LIMITED 61D CP 09JUN20	04/09/2020	06/09/2020	61	250.00	ICICI Bank Ltd.
99	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14HX2	ICICI SECURITIES LIMITED 59D CP 19JUN20	04/21/2020	06/19/2020	59	150.00	ICICI Bank Ltd.

**2021:**

116	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JP4	ICICI SECURITIES LIMITED 88D CP 30APR21	01/02/2021	30/04/2021	88	200.00	ICICI Bank Ltd.
117	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JQ2	ICICI SECURITIES LIMITED 176D CP 11AUG21	16/02/2021	11/08/2021	176	75.00	ICICI Bank Ltd.
118	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JR0	ICICI SECURITIES LIMITED 90D CP 17MAY21	16/02/2021	17/05/2021	90	100.00	ICICI Bank Ltd.
119	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JS8	ICICI SECURITIES LIMITED 149D CP 15JUL21	16/02/2021	15/07/2021	149	125.00	ICICI Bank Ltd.
120	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JP4	ICICI SECURITIES LIMITED 88D CP 30APR21	24/02/2021	30/04/2021	65	300.00	ICICI Bank Ltd.
121	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JT6	ICICI SECURITIES LIMITED 180D CP 23AUG21	24/02/2021	23/08/2021	180	150.00	ICICI Bank Ltd.
122	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14JU4	ICICI SECURITIES LIMITED 90D CP 25MAY21	24/02/2021	25/05/2021	90	150.00	ICICI Bank Ltd.

**2022:**

147	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14LU0	ICICI SECURITIES LIMITED 90D CP 10MAY22	09/02/2022	10/05/2022	90	494392.50	4.60%	500.00	ICICI Bank Ltd.
148	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14LV8	ICICI SECURITIES LIMITED 364D CP 08FEB23	09/02/2022	08/02/2023	364	475124.50	5.25%	200.00	ICICI Bank Ltd.
149	ICICI SECURITIES	763G	Joint Stock Companies	INE763G14LW6	ICICI SECURITIES	15/02/2022	17/05/2022	91	494576.94	4.40%	625.00	ICICI Bank



LIMITED				LIMITED								Ltd.
				91D CP								
				17MAY22								

**2023:**

Serial No.	Name of Issuer	Issuer Code	Issuer Category	ISIN	Security Description	Issuance Date	Maturity Date	Residual Tenor (Days) from Issuance Date	Issue Price (in Rs.)	Yield	Amount in Rs. Cr. (FV)	Na of IP
155	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14OW0	ICICI SECURITIES LIMITED 180D CP 28AUG23	01/03/2023	28/08/2023	180	480749.00	8.12%	100.00	IC Ba Lt
156	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14OX8	ICICI SECURITIES LIMITED 149D CP 28JUL23	01/03/2023	28/07/2023	149	483996.50	8.10%	100.00	IC Ba Lt
157	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14OZ3	ICICI SECURITIES LIMITED 91D CP 05JUN23	06/03/2023	05/06/2023	91	490270.50	7.96%	25.00	IC Ba Lt
158	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14OY6	ICICI SECURITIES LIMITED 91D CP 07JUN23	08/03/2023	07/06/2023	91	490270.50	7.96%	25.00	IC Ba Lt
159	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PA3	ICICI SECURITIES LIMITED 365D CP 07MAR24	08/03/2023	07/03/2024	365	461680.50	8.30%	25.00	IC Ba Lt
160	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14OW0	ICICI SECURITIES LIMITED 180D CP 28AUG23	10/03/2023	28/08/2023	171	481676.00	8.12%	5.00	IC Ba Lt
161	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PB1	ICICI SECURITIES LIMITED 91D CP 09JUN23	10/03/2023	09/06/2023	91	490202.10	8.02%	500.00	IC Ba Lt
162	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PC9	ICICI SECURITIES LIMITED 122D CP 10JUL23	10/03/2023	10/07/2023	122	486820.00	8.10%	100.00	IC Ba Lt
163	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PE5	ICICI SECURITIES LIMITED	10/03/2023	09/10/2023	213	477166.50	8.20%	73.00	IC Ba Lt

164	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PD7	ICICI SECURITIES LIMITED 213D CP 09OCT23	13/03/2023	12/06/2023	91	490198.50	8.02%	350.00	IC Ba Lt
165	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PF2	ICICI SECURITIES LIMITED 91D CP 16JUN23	17/03/2023	16/06/2023	91	490282.50	7.95%	800.00	IC Ba Lt
166	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PI6	ICICI SECURITIES LIMITED 364D CP 15MAR24	17/03/2023	15/03/2024	364	462629.50	8.10%	150.00	IC Ba Lt
167	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PG0	ICICI SECURITIES LIMITED 91D CP 19JUN23	20/03/2023	19/06/2023	91	490295.52	7.94%	1175.00	IC Ba Lt
168	ICICI SECURITIES LIMITED	763G	Joint Stock Companies	INE763G14PH8	ICICI SECURITIES LIMITED 365D CP 19MAR24	20/03/2023	19/03/2024	365	462706.00	8.06%	50.00	IC Ba Lt

### CRISIL RATING FOR COMMERCIAL PAPERS BY ICICIC:

(source: [www.crisil.com](http://www.crisil.com))

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	15000.0	CRISIL A1+	23-01-23	CRISIL A1+	01-11-22	CRISIL A1+	08-11-21	CRISIL A1+	11-08-20	CRISIL A1+	CRISIL A1+
			--	--	--	--	20-08-21	CRISIL A1+	--	--		
			--	--	--	--	07-06-21	CRISIL A1+	--	--		
Non Convertible Debentures	LT	50.0	CRISIL AAA/Stable	23-01-23	CRISIL AAA/Stable	01-11-22	CRISIL AAA/Stable	08-11-21	CRISIL AAA/Stable	11-08-20	CRISIL AAA/Stable	CRISIL AAA/Stable
			--	--	--	--	20-08-21	CRISIL AAA/Stable	--	--		
			--	--	--	--	07-06-21	CRISIL AAA/Stable	--	--		



			--		--		--	08-03-21	CRISIL AAA/Sta ble		--	--
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## FINDINGS:

- The ICICI commercial paper issues are aptly fluctuated.
- It has shown a proper and consistent growth among the sample duration taken (2019-2023)
- The issues of CP have consistently shown a progress and maintained the customer interest.
- The rating by CRISIL has added more value to the CP issue by ICICI.
- The issue price has also been consistently increasing by the years/months.
- CRISIL also have rated ICICI issues with A1+.

## CONCLUSION:

The study here describes in detail about Commercial Paper issue, its prominence, and the history. The study considers the issue of commercial papers by ICICI and its fluctuation based on certain parameters. The study also mentions about the ICICI growth in short-term investments and also about the rating given by CRISIL to add value to the issue of CP by ICICI. Investment into CP is one of the profitable and attractive mode of investment.



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