The Moscow Times
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CB Restricts Needy Borrowers

By The Moscow Times

March 13, 2011

Cherkizovo Group is among the companies affected by the new CB rules. **Sergei Nikolayev**

Restrictions on bonds accepted as collateral by the Central Bank threaten to drive up debt costs for the nation's lowest-rated companies.

The so-called Lombard list of eligible securities will exclude bonds ranked below B, five levels short of investment grade, starting on April 1. The bar will then be raised a level higher to B+ from July 1. For companies below the threshold, yields may jump by as much as 50 basis points, or 0.5 percentage point, when they sell new bonds as investor demand wanes, according to UralSib Financial.

"It would be more difficult for those that fall from the list to place new issues," Dmitry Dudkin, head of fixed-income research at UralSib, said in an e-mail late last week.

Russia is relying on the tougher collateral rules unveiled Jan. 31 as well as a strengthening currency and higher bank reserve requirements to curb rising prices. The Central Bank lifted its key refinancing rate by a quarter point last month, the first increase since.

Borrowers rated below the Central Bank's new ceiling include Cherkizovo Group, the country's biggest meat producer; Orient Express Bank, a lender based in the Far East; and LSR Group, a St. Petersburg-based property developer.

The Central Bank's Lombard list includes 11 companies that would fall short of the new requirements by April 1 and another 11 that wouldn't make it from July 1, accounting for debt totaling about 57.2 billion rubles ($2 billion), Alfa Bank estimated. The amount includes 17.4 billion rubles of notes maturing this year, Alfa said in the report last month.

"The changes will mainly affect issuers who planned to place bonds this year and whose ratings do not meet the new requirements," Yekaterina Leonova, senior analyst at Alfa Bank, wrote in the report. "Over 80 billion rubles of such issues has already been registered."

Pavel Pikulev, a fixed-income analyst at Gazprombank in Moscow, said 50 basis points of extra yield for not being included in the Lombard list is a "fair premium" right now.

Cherkizovo has 2 billion rubles of its 5 billion rubles of debt maturing this year. Irina Ostryakova, head of communications, declined to comment.

Most of Orient Express Bank's 3 billion rubles of debt will mature in 2013 with 188 million rubles due next year. The new Lombard list rules won't affect the bank's plans, Alexei Astakhov, treasury department director, said by e-mail.

LSR Group also doesn't expect the exclusion of its future issues from the Lombard list to boost its "cost of borrowing," Kliment Falaleyev, director of investor relations at the company, said by phone Feb. 28.

LSR has "a reasonably good credit structure," Falaleyev said. It has about $1 billion in debt with most of it maturing after 2013, he said.

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