Former Deutsche markets executives launch primary debt platform in Singapore

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Covalent Capital's OMAS platform seeks to digitize primary bond issues; the MAS is a backer.

A Singapore fintech filled with alumni from Deutsche's once-dominant global markets business seeks to revolutionize primary debt capital markets (DCM).

Covalent Capital held at the end of November a launch event for OMAS, a bond issuance product that seeks to be a one-stop shop for the lifecycle of any new bond deal.

The platform, which has the backing of the Monetary Authority of Singapore (MAS) through its financial sector development fund sandbox initiative, centralizes and disseminates information on a new issue from mandate to roadshows, pricing and allocation.

Sanjay Garodia, Covalent Capital

"Unlike secondary, where you have clearly defined parameters, when you start with a primary process, very few things are defined," says Sanjay Garodia, founder and CEO of Covalent Capital.

"Every time you change price guidance from 100 to 85, it's literally like a new deal, and the whole cycle, with all of its multiple stakeholders from DCM to syndicate to sales to the investor side, has to start again," he says.

"The challenge I find in primary is that because there is no centralized real-time information dissemination, you need an army of people just to convey each change. That is the biggest pain point I see."

The event was attended by Boon Chye Loh, the CEO of Singapore Exchange, who is still remembered for building up and running Deutsche's global markets operation, which has at times accounted for half of Deutsche's profits from the region out of a single trading floor in Singapore.

Many of his former colleagues are involved in Covalent: Garodia was head of trading, Asian credit, flow, financing and credit solutions, and served more than 14 years at Deutsche; co-founder Mayur Ghelani was a managing director, and head of relationship management for Asia-Pacific; another co-founder, Tsu Jung Ho, was director of Asia credit sales; and non-executive director Ronny Tan, very much an institution in Singapore financial services, was vice-chairman.

Impressive

The demo Euromoney saw was impressive, comprehensive and smooth, but we have a question: don't banks, in some measure, benefit from the inconvenience and opacity of DCM today?

It allows them to keep firm control over which investors place orders with them as underwriters and allows for the nuances of shaping a final book according to intangible factors, such as loyalty to a particular investing institution, because of things that have happened in previous deals.

Garodia argues that the platform simply takes away the parts of a banker's job they don't want to be doing, freeing them to do more of the value-add work.

"I don't think anyone enjoys trying to allocate a book down to the last order," he says. "Ask anyone in syndicate. They want to market the deal, hear the feedback, give that feedback to the issuer, price the deal and feel happy about it. But going line by line through each order? I don't think they enjoy that.

> Today, work processes and information dissemination in the primary bond markets are largely manual and inefficient
>
> \- MAS spokesperson

"It's the same with sales. Their job is to tell people the salient features of a bond, to sell that bond. It's not to tell people that price guidance was 100 and now it's 90: obviously the client needs to know that information, but doesn't see it as a value-added service."

Regarding the building of the book and allocation, Covalent says it has tools and algorithms allowing banks and issuers to calculate price elasticity of demand, and to tailor allocation in order to, for example, put a certain amount to private bank investors and a certain amount to fund managers.

As with all fintech ideas, the crucial thing now will be adoption and critical mass.

Covalent says it has completed beta testing with "a dozen banks and over 50 institutional investors"; speaking at the end of November, Garodia said he hoped to have the first live deal within a month or so.

Multiple hats

The presence of the MAS will likely be crucial to the platform's success.

"The MAS obviously had multiple hats," says Garodia.

One is as regulator – though as a software company, the new product does not require regulation in the same manner as a bank, since no advice is given and there is no research on the platform.

Another is as the conductor of market development in Singapore, and the third is as an investor.

"They have been very helpful in terms of guidance, grant and in working together with them on the direction of the Singapore bond market."

For its part, the MAS shares the same concerns as Covalent.

"Today, work processes and information dissemination in the primary bond markets are largely manual and inefficient," says an MAS spokesperson. "There is scope for technological innovation to happen in the primary bond markets," and the MAS says it is prepared to support those who seek to provide that innovation.

Covalent fits the bill with its idea.

"We are pleased that Covalent has chosen to do that from Singapore, where the local debt market continues to support issuers' funding needs in multiple currencies," the spokesperson says.

Singapore's debt issuance is in any case on the rise: volumes rose 39% in 2017 year on year to S$259 billion, a five-year high, driven mainly by non-Singapore dollar-denominated issues – which accounted for 89.4% of issuance in 2017.

Most of it – 80% – is repeat issuance, though the MAS launched the Asian bond grant scheme in January 2017 to encourage first-time Asian corporate issuers in Singapore.