

Municipal Bonds



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The Union Budget presented by the Finance Minister set the ambitious target of India becoming a **\$5 trillion economy**. In this context, cities are expected to play a crucial role to make the transformation. Consequently, budgetary provision for **financing urban infrastructure** in general assumes special significance.

The urban local bodies (ULBs) in India began their capital market access in 1997, when Bengaluru Municipal Corporation issued the first municipal bond mobilizing INR 125 Cr to finance its city roads and drains.

The Indian municipal bond market, however, had remained quite shallow for around two decades, with only a nominal sum of around **INR 1,447 crore (till 2013)** having been raised by the various ULBs, municipal utilities (water supply boards) and state pooled finance entities from the capital market.

However, an improvement has been witnessed in the Indian municipal bond markets in recent years. From 2017 till date, 10 ULBs raised **INR 2,184 crores** through 13 municipal bond issuances.

Indore, Vadodara, Pune are some of the municipal corporations which have recently issued Municipal Bonds with quantum ranging from 100-250 Crs. The tenor is normally 5-10 years with spreads of 82-110 basis over respective G-Sec Par curve.

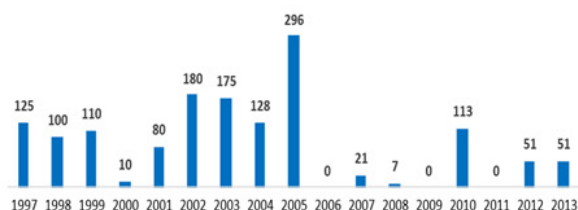
Under **“Scheme for Special Assistance to States for Capital Investment 2023-24”** issued by Department of Expenditure’s (DoE’s), an amount of upto **Rs. 5000 Cr.** will be provided which is aimed at **improving credit worthiness** of Municipal Corporations/ULBs and making them ready for municipal bonds by incentivizing

property tax governance reforms and **ring fencing of user charges** on urban infrastructure. Under this part of the scheme, financial assistance in the form of **50-year interest free loan** will be available to States upon achieving certain milestones.

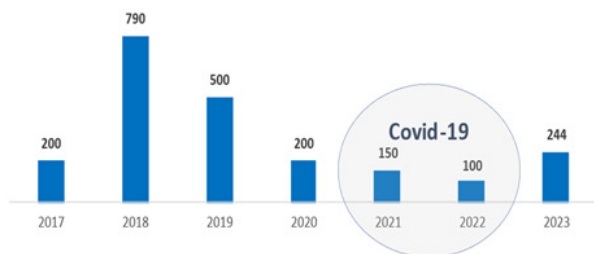
MUNICIPAL BOND MARKET IN INDIA & US

The Indian municipal bond market has seen a total issuance of INR 1,447 crores till 2013 & post 2017 till date, the total issuance has been INR 2,184 crores by 10 ULBs crores through 13 municipal bond issuances.

Municipal Bond Issues (1997-2013) (1447 Cr)

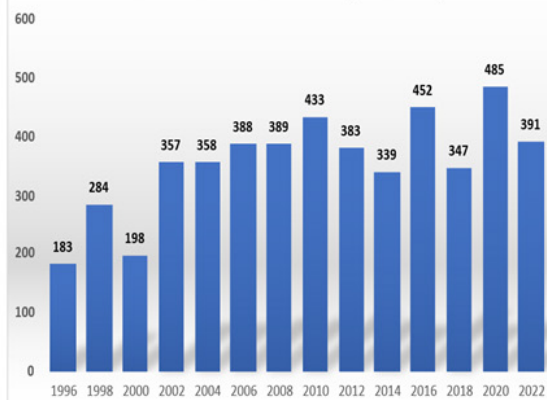


Municipal Bond Issues (2017 till date) (2184 Cr)



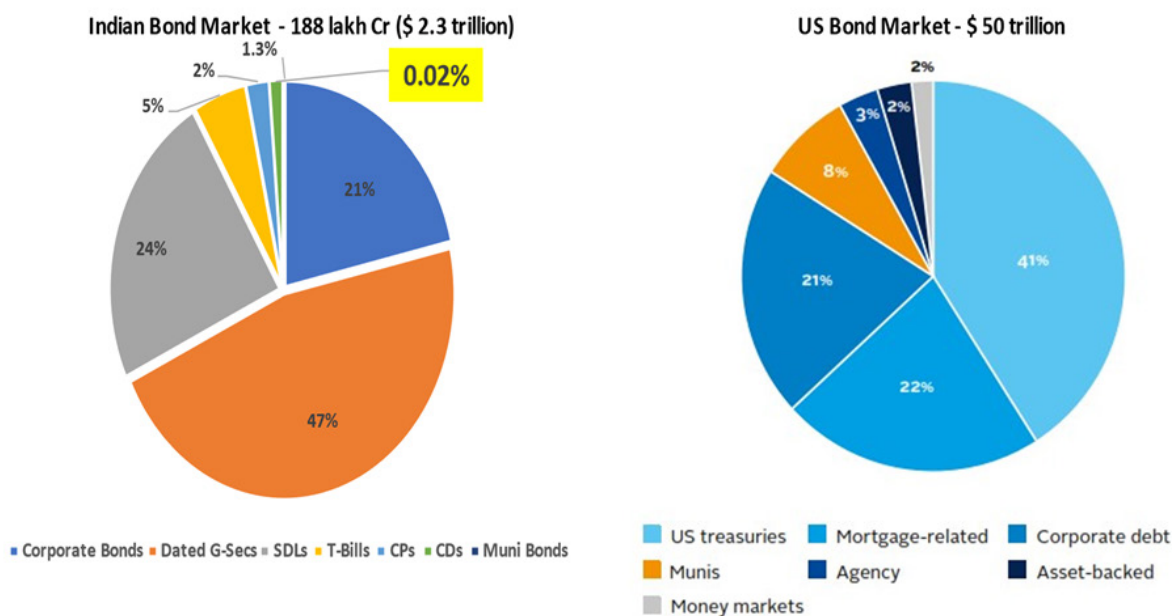
Frequent Periodic Issuances by US Munis is their primary source of funding and hence low dependence on State Govt. for funds

Year Wise Bond Issuances (USD Billio)



Source: Sifma Database on Muni Bonds

Municipal Bond Market in India & US



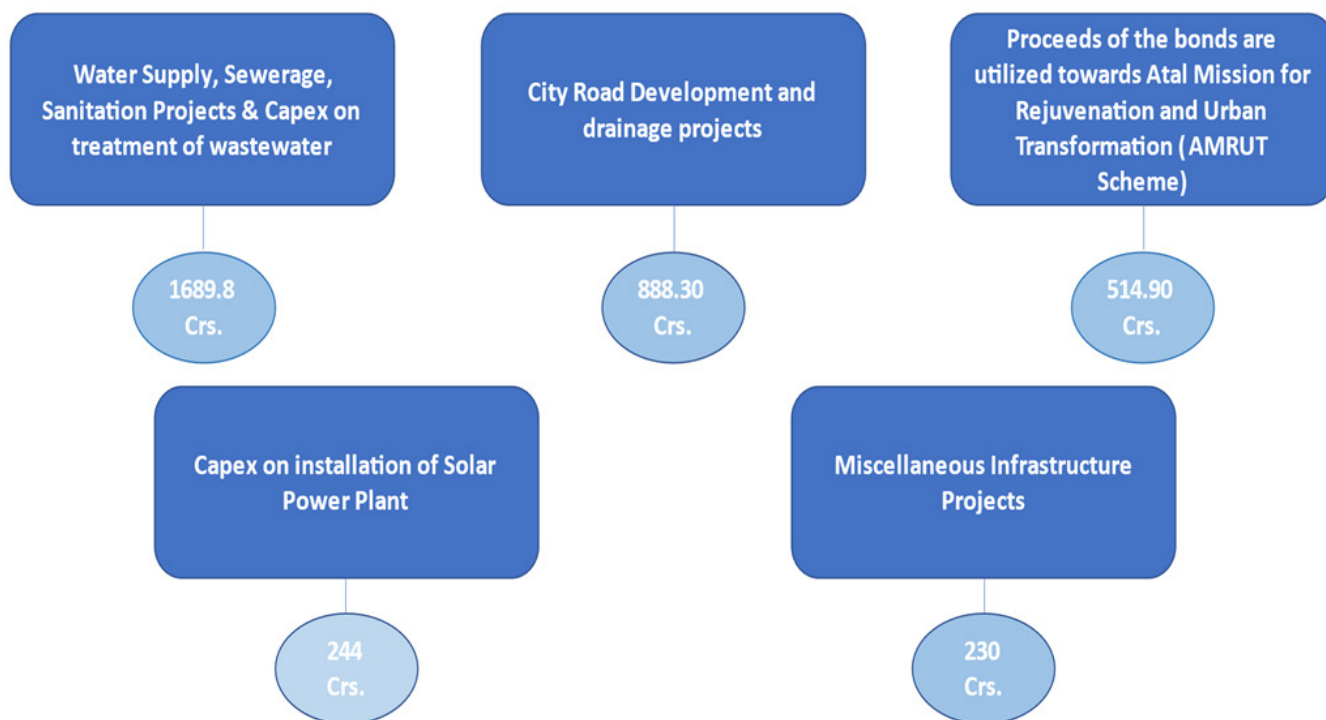
Source: SEBI, RBI, NSDL, SIFMA

INVESTOR APPETITE : PREVIOUS MUNICIPAL BOND ISSUANCES

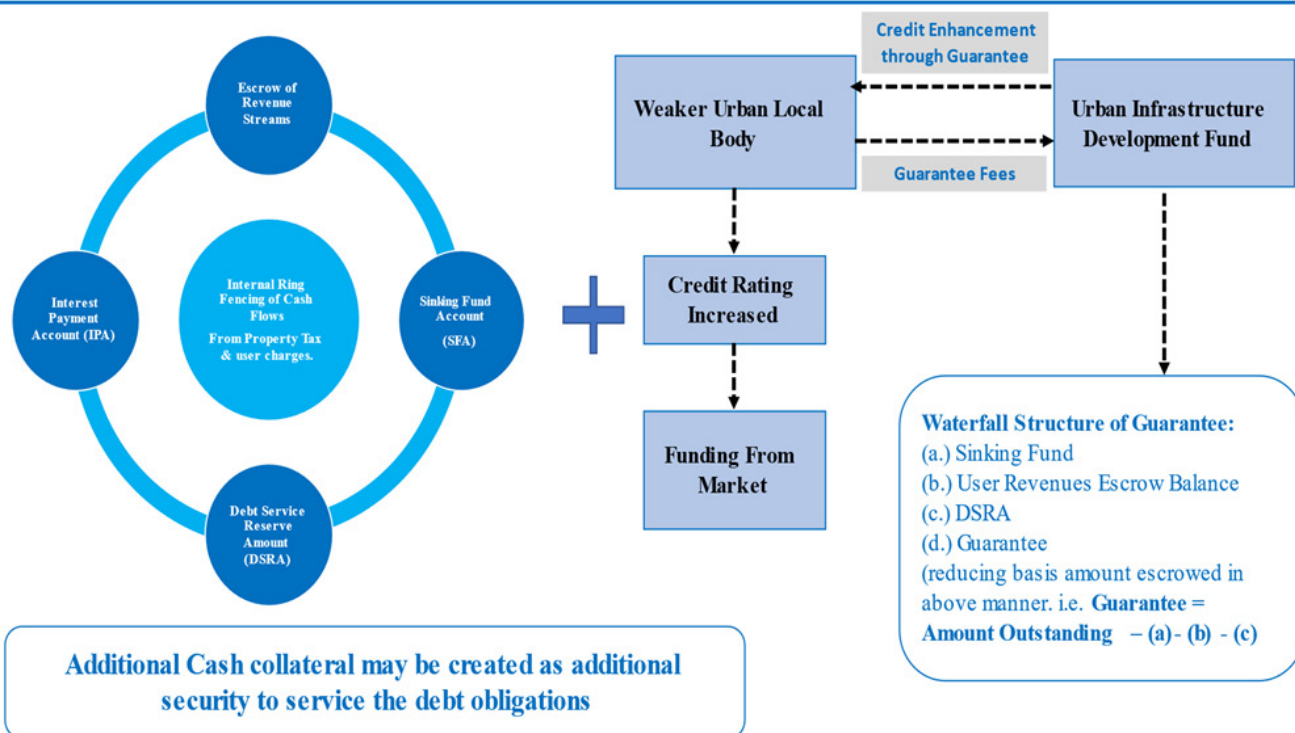
| Details | Indore | Vadodara | Ghaziabad | Lucknow | Greater Hyderabad | Surat | Ahmedabad | Greater Vishakhapatnam | Bhopal | Greater Hyderabad | Indore | Greater Hyderabad | Pune | Total |
|--------------------------------|-----------------|-------------------|------------|------------|-------------------|----------------|----------------|------------------------|--------------|-------------------|--------------|-------------------|--------------|-------|
| Issue Date | 14-Feb-23 | 24-Mar-22 | 31-Mar-21 | 13-Nov-20 | 20-Aug-19 | 27-Feb-19 | 11-Jan-19 | 21-Dec-18 | 25-Sep-18 | 13-Aug-18 | 28-Jun-18 | 16-Feb-18 | 20-Jun-17 | - |
| Amount (Rs. Crs) | 244 | 100 | 150 | 200 | 100 | 200 | 200 | 80 | 175 | 195 | 139.90 | 200 | 200 | 2,184 |
| Tenure (years) | 6 (Effective) | 5 | 10 | 10 | 10 | 5 | 5 | 10 | 10 | 10 | 10 | 10 | 10 | - |
| Rating | IND AA+/CARE AA | IND AA+/CRISIL AA | IND/BWR AA | IND/BWR AA | IND/CARE AA | CRISIL/IND AA+ | CRISIL/IND AA+ | CARE/IND AA | ACUTE/BWR AA | CARE/IND AA | ACUTE/BWR AA | CARE/IND AA | CARE/IND AA+ | - |
| Coupon (%) (semi-annual) | 8.25 | 7.15 | 8.10 | 8.5 | 10.23 | 8.68 | 8.7 | 10 | 9.55 | 9.38 | 9.25 | 8.9 | 7.59 | - |
| Spreads (over G-Sec par curve) | 90 | 82 | 87 | 268 | 349 | 150 | 135 | 274 | 147 | 157 | 119 | 134 | 110 | |
| Year | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005-2013 | Total | | | | |
| Amount (in Rs. Crs.) | 125.0 | 100.0 | 110.0 | 10.0 | 80.0 | 180.0 | 174.5 | 128.0 | 539 | 1447 | | | | |

Approximately Rs. 2,184 crores have been raised by ULBs across 13 issuances in the past 5 financial years

Utilization of Municipal Bond Proceeds on Infrastructure projects in India (from 1997 till date)



INNOVATIVE CREDIT ENHANCEMENT MEASURES



SUGGESTIONS TO DEVELOP MUNICIPAL BOND MARKET IN INDIA

- Presently, 163 cities have Investment Grade Rating (IGR) of BBB- and above, which can be **enhanced** to A+ by structuring as per investment guidelines.
 - Demand for Municipal bonds may be increased through **modification in investment guidelines** of Mutual funds, PF Trust, Insurance companies etc. for compulsory investing some share in municipal bonds.
 - To develop a vibrant municipal bond market like US, **retail participation** should be encouraged by giving tax incentives/benefits on investment in Municipal Bonds. The concept of **citizen bonds** would help in widening the investor base.
 - ULBs need **powers** over municipal borrowings. Currently, any form of borrowing generally requires state government approval. Authority for approving Municipal borrowings should be given at Municipal Commissioner level.
 - Grants and assigned revenues from the Central and State Governments need to be **predictable in quantum and timing**.
 - ULB's share in **MoHUA approved project** under AMRUT 2.0 can be raised through Municipal bonds.
 - Issuers shall plan a **pipeline of projects** and regularly issue bonds so that investors have some incentive for creating credit limits.
 - Due diligence exercise for issuing Municipal bonds is made mandatory by SEBI as per the new guidelines. This process takes lots of time & very hectic work for ULBs as well. It is beneficial to have a **limited due diligence with limited review** which saves time and also helps in increasing participation by the ULBs.
 - Other innovative mode of raising funds such as **InvIT**, etc. may be used by ULBs.
 - Self-regulatory body would also help the municipal bonds in standardizing the offer.
 - The regulators like SEBI, IRDAI and RBI are also helping in **deepening the Municipal Bond market**:
 - i. Introduction of Municipal bond index by NSE.
 - ii. SEBI ILDM regulations, 2015 having focused approach to Municipal issuers.
 - iii. Rating agencies are also getting the global best practices.
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