

Debt Capital Markets Reform Agenda for *Viksit Bharat*



Arnab Choudhury
Executive Vice President &
Group Head
SBI Capital Markets Ltd.

Viksit Bharat requires shifting from “credit rationing through banks” to “risk priced capital through markets.”

Debt capital markets are not just a financing tool, they are economic plumbing for a developed nation.

A developed India requires **large, patient, low cost domestic capital** to fund:

- Infrastructure (₹100+ trillion requirement by 2047),
- Urbanisation, energy transition, manufacturing, and logistics,
- Asset monetisation (NMP), public sector reform, and private CAPEX.

India's bond market (~60–65% of GDP) remains **bank dominated, concentrated in G-Secs**, and shallow in risk pricing well below developed economy benchmarks (150 to 200% of GDP).

Infrastructure financing: Issues and Possible Solutions

Problem: Corporate bond market heavily skewed to PSU/AAA issuers; limited flow to mid risk corporates, infrastructure SPVs, urban entities.

Reforms

- Standardised **project bond frameworks** for infrastructure/SPVs aligned with cash flow based ratings
- Expanded issuance by:
 - o InvITs/REITs (including construction period debt)
 - o Urban Local Bodies (ULBs) & state utilities
 - o Development finance vehicles (DFCs, sectoral lenders)

Outcome: Direct market access for infrastructure & sub sovereign credits.

Move from Loan Substitute Bonds to True Risk Capital

- Encourage **longer tenor amortising structures** (15–30 yrs)
- Promote **non bankable projects via partial risk sharing**
- Reduce reliance on short tenor bullet bonds

Deepen Sustainable & Transition Finance

- Scale beyond “green labels” to:
 - o Transition bonds (coal to clean, steel, cement)
 - o Blended finance bonds (MDB + domestic capital)

Reform Investment Norms of PFs, Insurance & NPS

Structural Constraint: Long term savings exist but are under allocated to credit risk.

Key Reforms

- Risk based capital vs rating based caps
- Portfolio level exposure limits (instead of issuer wise)
- Encourage **buy and maintain credit strategies**

Impact: Stable demand for 15–30 year corporate & infra bonds.

Allow more flexibility of tenor for Banks Infrastructure Bond issuances

Structural Constraint: Long term bond issuances by Banks are for minimum of 7years tenor.

Key Reforms

- Allow Banks to issue Infrastructure Bonds for lower tenor as well.
- Explore possibilities of issuing Bonds with specific themes like sustainability, ESG linked.

Impact: Will allow Banks to manage their ALM profile better. It will also allow Banks to manage the pricing based on the shape of the curve.

Urban Infrastructure Development: Urban Infrastructure is Economic Infrastructure

Why Cities Are Central to Viksit Bharat

By 2047:

- **Urban population:** ~600 million
- Cities will generate **~75% of GDP**
- India will add the equivalent of **another Chicago every year**

Yet India's urban challenge is not just scale; it is **governance, finance, and delivery capacity**.

Structural Challenges

Fragmented Urban Governance

- Weak Mayoral System
- Multiple parastatals (water boards, transport authorities, development authorities) with overlapping mandates
- Many of the Municipalities still follow single entry accounting system.

Chronic Underfinancing

- ULB revenues <1% of GDP (vs 4–6% in developed economies)
- Heavy dependence on state and central grants
- Poor balance sheets restrict borrowing.

Bank Dominated Financing

- Short tenor bank loans ill suited for 20–30-year urban assets
- Minimal use of capital markets

Weak Project Preparation & Execution

- Poor DPR quality
- Cost overruns and delays
- Limited use of PPP outside transport

Reform Pillars for Viksit Bharat Urbanisation

- ✓ **Empower Cities as Economic Units.** 5-10Year city level Capital Investment Plan (like state Budgets). Professional City Management (urban Cadre).
- ✓ **Functional Coordination of Urban Agencies.** Unified Urban Infrastructure Authorities at City/Metro level. Shared data platform for land, utilities and transports. Ring fencing the utility finances.
- ✓ **Strengthen Municipal Balance Sheets.** Universal GIS linked property tax. User charge rationalisation (water, sewerage, SWM). Monetisation of Municipal Land and Commercial Assets.
- ✓ **Scale Municipal Bonds Market.** Move from Pilot issuances to system level reforms. Pooled Municipal bond structure for smaller ULBs. State level intercept mechanism for investor comfort (short fall mechanism). Credit enhancement via DFIs/MDBs. Standardised Disclosures and Accounting Norms.
- ✓ **Long Term Institutional Capital for Cities.** Enable PFs, NPS and Insurance funds to invest in Urban Bonds, Pooled Infrastructure SPVs and City InvIT like platforms.

Few Implementable ideas to give a boost to the Indian Debt Capital Markets

- Make it mandatory for the institutions holding long term Capital Instruments in their HTM book to test the liquidity of those instruments at periodic intervals. This will automatically bring in liquidity and help repricing the risks.
- Allow Banks to issue Infrastructure Bonds for shorter tenors as well.
- Allow Regulated entities to invest in instruments that has been Credit Enhanced by another regulatory entity. Current regulation is restrictive and will not be serving it's intended goal.
- Build in a mechanism by which the State Government can give a "short-fall undertaking" for the urban infrastructure issuances. State Government can help escrow the proceeds from land parcels in and around the ULBs for the same.
- To make these Municipal Bonds attractive for retail clients and make the people in those Municipalities a part of the whole process, give incentives like waiver of Parking charges or discounts in other Municipality tax, should they be holding these bonds. Direct tax exemptions make these Muni Bonds very popular in Western Countries. In India, in absence of Direct tax exemptions, other benefits can be explored.