Nashik's bond sale takes municipal mobilisation past ₹1,000 crore this fiscal; Sebi efforts also prompt more Tier I and II bodies to take this route

Interest Subsidies Lift Muni Bond Issuances to New Record

Joel Rebello

Mumbai: Interest subsidies by the government and encouragement by the capital markets regulator have led to an annual record for funds raised through municipal bonds in India. On Monday, the Nashik Municipal Corporation (NMC) became the latest civic body to tap the local bond market, raising ₹200 crore in five-year bonds that would fetch investors 7.80%.

The NMC issue ensured that funds raised by municipal corporations topped ₹1,000 crore this fiscal, with the government reviewing the ₹26 crore limit for interest subvention under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) to make such municipal bond issuances more attractive.

Securities and Exchange Board of India (Sebi) data showed that so far this fiscal, municipal bodies from different parts of the country, namely Agra, Varanasi, Pimpri Chinchwad, Surat and Chennai, have together raised ₹1,000 crore in what is turning out to be a record in debt fundraising by civic bodies.

This beats the ₹990 crore raised from such bodies in fiscal ended March 2019.

Suprio Banerjee, co-group head, ICRA, said Tier I and Tier II municipalities are increasingly looking at issuing bonds helped by the government subvention as well as due to increased awareness due to the efforts of SEBI.

"Though still a vast majority of funds for these municipalities comes from state governments, municipalities accessing the bond market is a welcome step. Social impact projects like sewage lines or water supply projects also qualify for green funding opening new avenues for these entities, as well as providing investment avenues for ESG focused funds. We expect traction towards municipal bonds to continue," he said.

Under the AMRUT scheme the central government extends a 2% interest subsidy on such bond issues up to ₹26 crore to incentivise this market and facilitate such issues. For their first bond issuance, ULBs can receive incentives of up to ₹13 crore for every ₹100 crore raised, with a maximum cap of ₹26 crore. The government is considering a proposal to hike interest subvention from the present ₹26 crore per urban local body, PTI reported in September.

Venkatakrishnan Srinivasan, founder of Rockfort Fincap LLP said the central government scheme meaningfully reduces the effective cost of borrowing once the subvention benefit is factored in. "For well-rated urban local bodies, this brings the all-in cost of funds to levels that are highly competitive for long-term developmental projects," he said.