

Municipalities await clarity to raise debt

Nischhal Agrawal &
Subhana Shaikh

MUMBAI

Three months after the Centre announced a ₹100 crore incentive for municipal bond issuances of more than ₹1,000 crore in the 2026-27 budget, urban local bodies planning to tap the debt market are waiting for formal guidelines from the Centre on how the proceeds can be deployed, five market participants told *Mint*.

“So, in one of the earlier initiatives, Amrut, the government announced how municipal corporations can use the proceeds of funds, but for the one announced in the FY27 budget, they have not announced anything. End-use of funds is open right now,” said a senior debt merchant banker involved in such transactions.

Four municipalities are in talks to issue bonds, including Ahmedabad Municipal Corporation, which plans to raise up to ₹1,000 crore and may hit the market within three months. Thane Municipal Corporation, Panvel Municipal Corporation and Navi Mumbai Municipal Corporation are also in talks to debut in the bond market.

Brihanmumbai Municipal Corporation, the country's biggest municipality, plans to appoint merchant bankers for a mega ₹10,000 crore issue, its first ever.

SBI Capital Markets, AK Capital Services and Tipsons Group are said to have been involved in helping municipal corporations raise funds. An email sent to them and the



Urban local bodies planning to tap the debt market are waiting for formal guidelines on how the proceeds can be deployed. **BLOOMBERG**

municipal bodies seeking comment on the matter did not yield any response.

The municipalities of Patna, Nasik, Bengaluru, Vadodara and Aurangabad are also said to be hitting the debt market this year, according to media reports. Urban local bodies issue bonds to raise capital to help build public infrastructure.

“Projects that most corporations have are mostly for road construction, building an auditorium, water storage or water treatment purposes but yes, there are no regulations by the government,” the senior banker said.

The ministry of housing and urban affairs used to offer an incentive of ₹13 crore per ₹100 crore bond raised and up to ₹26 crore under the Atal Mission for Rejuvenation and Urban Transformation (Amrut) scheme.

Under Amrut, launched in June 2015, the incentives were embedded within a defined framework where the proceeds were tied to specific urban infrastructure sectors such as water supply, sewerage and urban transport, often with clear monitoring, and in some

cases, alignment to green or thematic bonds. The scheme was subsumed by Amrut 2.0, which was introduced in October 2021 for five years.

This led to a series of ₹100 crore-200 crore bond issuances by the Ahmedabad, Pimpri-Chinchwad and Vadodara municipal corporations in FY24. In FY26, 13 municipalities raised ₹1,756 crore through bonds compared with only one civic body raising ₹100 crore in FY25, Iera data showed.

Following this, the bigger incentive was introduced to

encourage large-scale projects funded by bonds.

“In contrast, the ₹100 crore incentive announced in the FY27 budget for large bond issuances does not yet have a notified framework detailing eligible use of proceeds or operational conditions,” said Venkatakrishnan Srinivasan, managing partner at Rockfort Fincap, a debt advisory firm.

An email sent to the department of finance on the matter did not yield any response.

The lack of clarity on deployment of funds raised by municipal corporations under the latest incentive scheme becomes a challenge for investors because it raises uncertainty on the productivity of the funds and the repayment ability.

“Generally, as part of offer documents, they (municipal bonds) tend to convey the purpose but most of the time, funds are utilized for some other purpose and also as investors, we are not able to track the end-usage of the funds,” said Sandeep Pandey, fixed income chief investment officer at SBI Pension Funds. “As an investor, we would always prefer that the funds are utilized for some revenue-generating assets or capex purposes. That would offer additional cash flow support to the fund-raise programme.”

From a legal perspective, there is no correlation between the issuance and the incentive scheme as municipalities can issue bonds as a form of debt funding, said Anish Mashruwala, a partner at JSA Advocates and Solicitors.

subhana.shaikh@live-mint.com

Four urban local bodies are in talks to issue bonds, including Ahmedabad Municipal Corporation