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# NATIONAL WORKSHOP ON MUNICIPAL FINANCE AND URBAN PLANNING



**Fund Raising through Bonds by  
Urban Local Bodies in India**

**An Experience**

*Presented by:*

*Pankaj Agrawal, Associate Director*



**A.K. CAPITAL SERVICES LTD.**

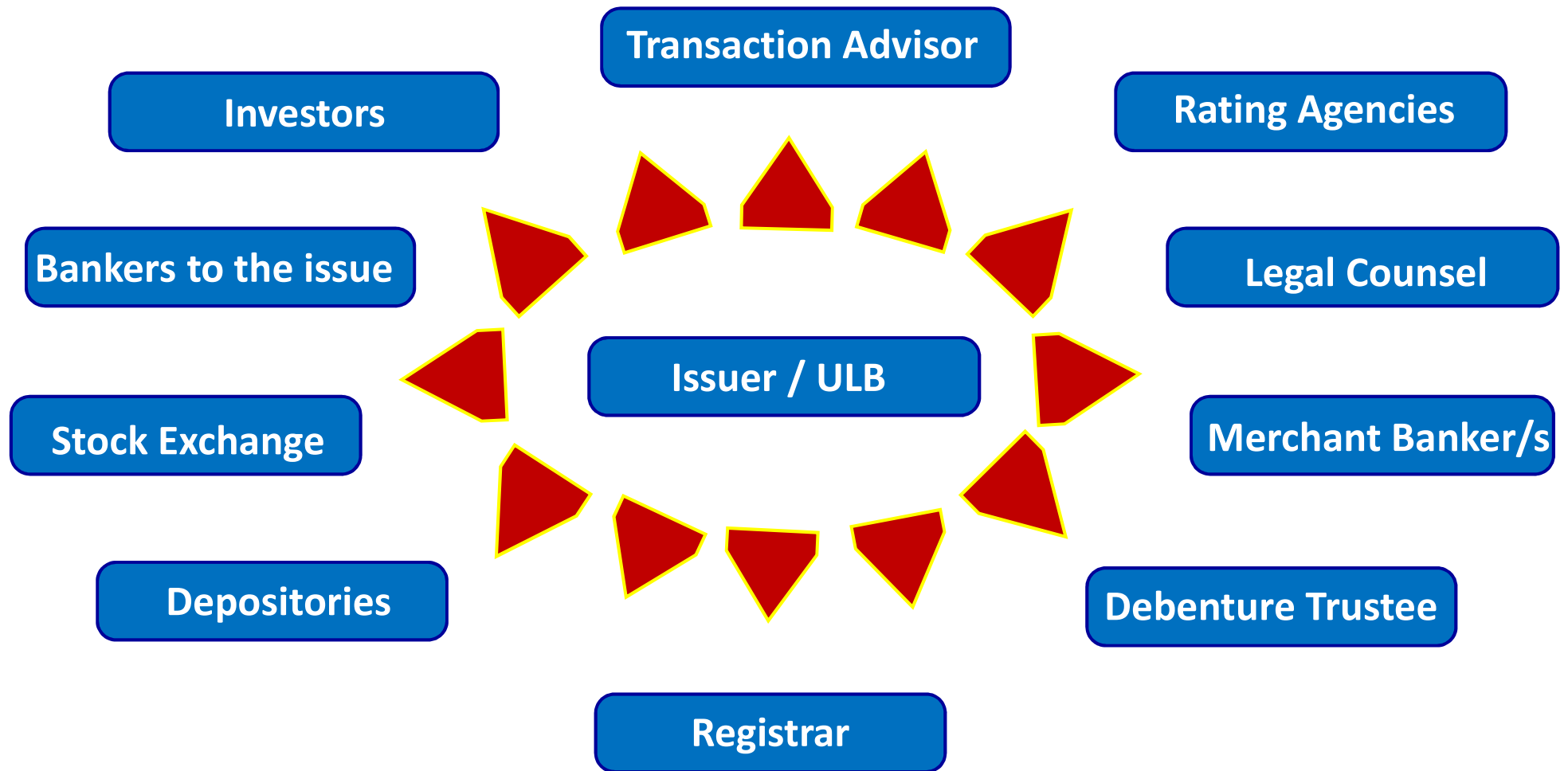
**BUILDING BONDS**

# PAST BOND ISSUES – AN OVERVIEW

- **Till 2016 Bonds placed Rs. 1695 crs**
  - Ahmadabad, Nashik, Nagpur, Ludhiana, Hyderabad, Visakhapatnam, Madurai, Chennai & TNUDF
- **Since 2017 Bonds placed Rs. 2909 crs**
  - Pune, GHMC, Indore, Amaravati & Bhopal

Sl.	Issuer	Issue Opening Date	Issue Amount (Rs. in crore)	Tenure (in years)	Put/ Call Option (in years)	Credit Rating
1.	<b>Pune MC</b>	20/06/2017	200.00	10 years	None	AA+
2.	<b>GHMC</b>	16/02/2018	200.00	10 years	None	AA
3.	<b>Indore MC</b>	28/06/2018	139.90	10 years	7 years	AA(SO)
4.	<b>GHMC</b>	14/08/2018	195.00	10 years	None	AA
5.	<b>APCRDA</b>	16/08/2018	2000.00	10 years ( 5 STRPPs)	None	A+(SO) & AA-(SO)
6.	<b>Bhopal MC</b>	25/09/2018	175.00	10 years	7 years	AA (SO)

# ULB BOND ISSUE – MAJOR PARTIES INVOLVED



# CREDIT RATING – ASSESSING THE CREDIT QUALITY

## Credit Rating Scale for Bonds

- ✓ AAA : Highest Safety
- ✓ AA: High Safety
- ✓ A: Adequate Safety
- ✓ BBB: Moderate Safety
- ✓ BB: Inadequate Safety
- ✓ B: High Risk
- ✓ C: Substantial Risk
- ✓ D: Default

**Investment Grade**

**Sub Investment Grade**

*“+” or “-” sign is given in bonds for AA and below rated bonds to reflect comparative standing within the category. Example: AA+, AA, AA-*

## VARIOUS INVESTOR CLASS

**Provident/ Superannuation/ Gratuity/ Pension Funds**

**Banks, FIs and Insurance Companies etc.**

**Mutual Funds**

**Merchant Banker / Trader etc**

*No specific mention in Investment Guidelines for this investor class*

# CREDIT RATING ENHANCEMENT OPTIONS

## Major Credit Enhancement Measures



- Escrow of Revenue Streams
- Debt Service Reserve Account (“DSRA”)
- Letter of Comfort/Govt. Guarantee
- Creation of Cash Collaterals
- Repayment Assurance

# BOND ISSUE BY ULBs – MAJOR CHALLENGES OVERCOME

**Major challenges faced by urban local bodies in accessing capital markets are as under:**

- a) **Poor Financial health and unstreamed revenues:** In debt capital markets, majority of investors consider financial position of any issuer as one of the key factor for investment. In case of ULBs, quite a few have strong financial position. However this challenge have been overcome by creating proper bond servicing structure, where in escrow of strong revenues streams have been done.
- b) **Lack of regulatory framework:** Pre July 2015, there were no specific regulations regarding issuance of Municipal Bonds in terms of various disclosures, eligibility criteria etc. this challenge is addressed by SEBI through specific guidelines for issuance of Municipal Bonds in July 2015
- c) **Lack of Demand:** Due to lack of initiatives, these bonds were not able to create demand or particular appetite in the debt capital Markets. Major investor for such bonds are QIB's. However during last 2 years, due to Government initiatives, Various ULBs have raised Rs 2900 Crs approx. in bond issues as compare to total of Rs 1600 Crs raised by various ULBs till 2016
- d) **Others:** Preparation of A/Cs as per regulations, Market Making, Disclosures and continues compliance etc.

**THANK YOU**