Bond Investors in HDFC Twins Seek Leeway on Sectoral Caps

Insurers who hold larger share of HDFC bonds look to realign portfolios; regulator may allow IDFC-like dispensation

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Mumbai: Long-term institutional bond investors, including insurance companies, will now seek a regulatory dispensation as the proposed merger between HDFC and HDFC Bank will hit the sectoral limits of those investments, hitherto falling under the separate categories of housing-infrastructure and banking.

Insurance companies, which have a larger share of HDFC bonds, have held internal meetings for a possible realignment of portfolios, said three people familiar with the matter. They are said to have approached the Insurance Regulatory and Development Authority of India (IRDAI), the regulator for insurers, requesting a meeting.

Total outstanding bonds/non-convertible debentures of HDFC and HDFC Bank stand at nearly ₹2.12 lakh crore, show data from Prime Database, an analytics firm. The largest mortgage lender has sold bonds worth ₹1.74 lakh crore, with the bank raising ₹37,452 crore.

An insurer invests in HDFC bonds under the combined category of "housing and infrastructure" that mandates a minimum of 15% of the assets under management. However, an insurance company has a cap of 25% when it comes to investing in the banking and financial services sector.

Hence, the exposure of insurers to HDFC may be counted under BFSI after the mortgage lender is merged with the bank.

Over to Regulator

Insurers can invest in HDFC bonds under 'housing' and 'infra' that mandate a minimum of 15% AUM

They have a cap of 25% for banking sector

After merger, the exposure will be counted in BFSI

This will breach current norms

This is billed as a passive breach of investment norms, which should prompt the regulator to permit a dispensation the way it did in the case of the IDFC and IDFC Bank merger about four years ago. It had obtained a three-year timeline.

"A realignment of bond portfolios is expected," said Gopal Kumar, Partner, Radgo & Company, an actuary firm based out of Mumbai. "It is natural that insurance companies are seeking regulatory intervention as sector caps may be hit once both HDFC and HDFC Bank are merged to become a banking entity."

Both entities are triple-A rated.

Furthermore, there are some restrictions for an insurer buying a parent company's bonds. However, rules allow some space on listed bonds in the secondary market, dealers said.

HDFC Life Insurance is promoted by HDFC. It is said to have subscribed to bonds of both the entities, in compliance with regulatory norms. "HDFC Ltd bonds were subscribed by insures and those were not treated as banking exposures," said Ajay Manglunia, managing director and head of debt capital market at JM Financial. "With the proposed merger, a regulatory clarification is required for those long investors. CIOs from insurance companies are likely to raise this matter."

HDFC Bank issued mostly tier-II or infrastructure bonds, which added to their capital base.

HDFC is one of the top issuers of the local corporate bond market.