Civic bodies avoid public bond issues

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India's municipal corporations continue to prefer private debt placements over public issuances to fund development projects due to ease and speed of execution, lower compliance burden, and greater control over investor selection.

Urban civic bodies raised ₹1,625 crore through private placements from 2020 to 2025 (till 13 June), while mobilising ₹244 crore via public issuances during the period, according to data from Prime database. Indore Municipal Corporation was the only one to issue public debt in 2023. Municipal bonds are used to finance urban development projects.

"Public issues demand broader disclosures and investor mobilization," said Vishal Goenka, co-founder of IndiaBonds. Private placements, said Goenka, offer municipalities greater control over pricing and timing, making them the preferred route in India's evolving debt ecosystem.

Among recent examples, the Pimpri Chinchwad Municipal Corporation and Greater Chennai Corporation went the private placement route.

Municipal corporations in India have the potential to raise around ₹28,000 crore in additional debt, according to a February report by CareEdge Ratings. Experts said that public issues of bonds, whether corporate or municipal, typically see lower volumes compared to private placements due to the longer timelines, regulatory compliance, and higher costs involved.

Recently, the Pimpri Chinchwad and Chennai municipal corporations went the private placement route. ISTOCKPHOTO

However, they said that public issues serve a much broader purpose by providing issuers with greater visibility, and enabling access to a wider investor base, including small retail investors with ticket sizes as low as ₹10,000.

Queries emailed to Pimpri-Chinchwad Municipal Corporation and Indore Municipal Corporation remain unanswered.

Public bond issues come with stringent regulatory requirements and involve higher issuance costs

According to Goenka, wider retail participation is possible with stronger issuer transparency, smaller ticket sizes, and investor education. Municipal bonds fund local infrastructure—an emotional, relatable story for retail investors, he said.

"If issuers disclose timely financials and structure payments securely, investor trust improves," said Goenka. "Indore's green bond saw notable retail demand due to good communication and a clear project purpose."

In June, Pimpri Chinchwad's ₹200 crore green bond–rated AA+ Stable–was privately placed and oversubscribed over five times at a 7.85% coupon, before being listed on BSE.

Public bond issues come with stringent regulatory requirements. They also involve higher issuance costs, including advertising and marketing, which are not required in private deals. In addition, public issues target retail investors rather than institutional buyers. In contrast, private placements often attract long-term institutional investors who are comfortable with modest yields.

"Public issuance of bonds involves complex documentation, Sebi approvals, and higher costs, which can be disproportionate for smaller issue sizes of ₹25–250 crore," said Venkatakrishnan Srinivasan, founder and managing partner of financial advisory firm Rockfort Fincap LLP. "Many municipalities are first-time issuers and lack the internal capacity to manage retail engagement or meet the regulatory rigour of public offerings."

Private placements with institutional investors offer a more predictable, efficient route for timely project funding, he said.

While retail participation in public issues could help democratize municipal bond ownership, Srinivasan said the current environment marked by regulatory complexity, staffing constraints within municipal bodies, and risk aversion makes private placement a safer, faster, and practical route.

Greater Chennai Corporation (GCC) listed its ₹200-crore municipal bonds for an integrated storm water drainage project, The Hindu Businessline reported on 26 May.

"The integrated stormwater systems fall under capital projects, which are typically funded through private placements," M Birathiviraj, deputy commissioner of revenue and finance of GCC, told *Mint* over the phone.

Birathiviraj said from an investor's point of view, the focus is more on the repayment capacity of the issuing institution. "If the institution is financially sound and the project is viable, it becomes suitable for private debt placement."

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