

L&T ESG bond debut signals backing for quality issuances

The push for sustainable finance may grow among large firms with net-zero commitments

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MUMBAI

On 23 June, infrastructure giant Larsen & Toubro (L&T) listed India's first environmental, social and governance (ESG) bond on the National Stock Exchange under Sebi's new framework. While Indian companies have previously raised ESG debt overseas, L&T's rupee-denominated issuance is a domestic first under Sebi's guidelines.

Experts believe the ₹750 million sustainability-linked bond (SLB), anchored by HSBC and offering a 6.35% coupon (competitive by market standards), suggests that investors are willing to back credible ESG-labelled issuances.

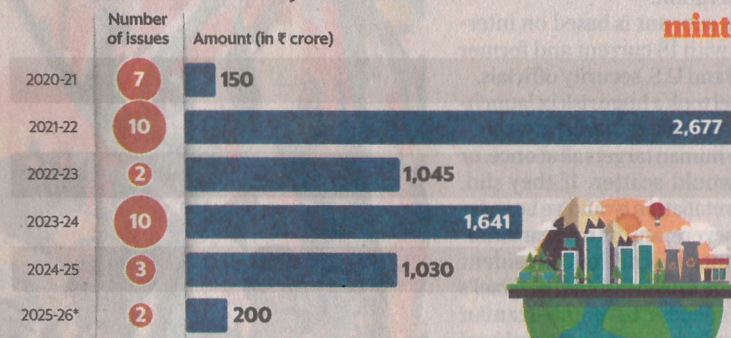
But whether this debut sparks a broader trend or remains an isolated milestone hinges on a critical factor: investors' willingness to pay the "greenium"—the difference between the yield or returns investors receive from a green bond versus a similar conventional bond.

"The primary factor will be investor interest and their willingness to offer a green or ESG premium to the bond issue compared to other fixed-income instruments," said Bose Varghese, senior director, ESG at Cyril Amarchand Mangaldas. "Demand for rupee-denominated ESG bonds has been lukewarm because of the issuers' expectation of a

Green milestone

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Details of ESG bonds issued each year



*Till 25 June; excludes the ESG bond issuances by L&T.

Source: primedatabase.com

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'green premium' and investors' lack of interest to offer that. But L&T has done it. We can expect more to follow."

Globally, ESG-labelled instruments from Indian firms have seen strong demand. In 2015, Exim Bank issued a

According to data cited by Nikhil Aggarwal, chief executive of investment platform Grip Invest, green bonds outperformed conventional bonds by nearly 2% in 2024. "The positive response from institutional investors highlights strong demand, which will be critical for future issuances," said Aggarwal.

R. Shankar Raman, president, whole-time director and chief financial officer at L&T, told *Mint* the company aims to encourage responsible finance as a strategic pillar. "We received interest from reputed investors and arrangers who were aligned with the ESG theme. The issuance also enabled us to secure beneficial pricing, reflecting the

positive market sentiment toward credible sustainability-linked offerings."

Data from Prime Database showed that India's green bond market saw 27 issues worth ₹8,743 crore from FY21 to FY25. The highest was in FY22, when ₹2,677 crore was raised across 10 issues. Only two issues, worth ₹700 crore, have been recorded so far in FY26.

Sebi's 5 June circular introduced a framework covering green, social, sustainability, and sustainability-linked bonds. It mandated KPI-linked disclosures and third-party verification. "While the framework is robust, its effectiveness will depend on the independence and reputation of the third party hired," said Varghese.

"L&T has long-standing sustainability targets, including carbon and water neutrality," said Heena Khushalani, partner, climate change and sustainability services, EY India. "For a company with strong internal momentum on ESG and measurable long-term targets, this instrument is flexible and a logical step."

Khushalani also pointed out that SLBs often include coupon rate adjustments based on the achievement of sustainability targets. "If attractive coupon rates—like the 6.35% in L&T's case—become a trend, it'll incentivise more issuers," she said.

Among green bonds with a three-year tenure, Avaada Solaris and Clean Sustainable Energy offer a 6.75% coupon rate, shows data from Prime Database.

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BOND BREAKTHROUGH

ESG-labelled instruments from Indian companies have seen strong demand globally

INDIA'S green bond market saw 27 issues totalling ₹8,743 cr between FY21 and FY25

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\$500-million green bond, followed by Axis Bank in 2016. But in India, listed green bond issuance, including municipal bonds, stood at just ₹6,953 crore as of March 2025, according to Sebi data collated by Icra ESG Ratings Ltd.