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India pushes for large muni deals - IFR News

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Mumbai

Urban corporations in two Indian cities are planning to take advantage of a new government incentive to launch unusually large bond issues, but this may not be enough to revive the country's municipal bond market, according to market participants.

Ahmedabad Municipal Corporation, in the western state of Gujarat, and **Brihanmumbai Municipal Corporation** and **Navi Mumbai Municipal Corporation**, two of India's richest civic bodies in the western state of Maharashtra, are exploring offerings of Rs10bn (US\$107m) or more. Municipalities that issue bonds of at least Rs10bn are eligible for a Rs1bn federal incentive under a budget measure announced on February 1 to support the municipal bond market, according to sources aware of the plans.

IFR reported earlier that [BMC](#) is exploring a blue bond sale as part of a broader plan to raise up to Rs100bn and [Navi Mumbai](#) is readying a long-tenor infrastructure bond.

There are also discussions of potential large deals from the southern cities of Bangalore and Hyderabad, although sources say administrative fragmentation there could limit their scale.

The pipeline has gathered momentum after India's cabinet approved the launch of a Rs1trn Urban Challenge Fund on February 14, under which the central and state governments will each contribute 25% of project financing for an urban local body, provided the remaining 50% is raised from market sources such as municipal bonds, bank loans or public private partnerships.

"We expect the overall issuance and deal sizes to gain traction," said Suprio Banerjee, a senior vice president at rating agency Icra. "Government incentive obviously plays one of the key parameters for the issuances, which ultimately keeps the cost of funding at a lower level."

Banerjee expects large muni supply in the current 2027 financial year that began on April 1.

Municipal corporations will raise debt of Rs300bn between the 2026 and 2034 financial years, with annual bond issuance of Rs25bn to Rs30bn, according to estimates by CareEdge, another rating agency.

Financial discipline

Bankers said that the federal incentive is not only meant to encourage issuance but also to strengthen financial discipline at urban local bodies as urbanisation gathers pace.

"To get the incentive, issuers have to put their financials in place and move towards proper accounting practices. Only then can they sustainably tap capital markets," said Umesh Khandelwal, chief business officer at investment bank Tipsons Group.

So far, Indian cities have raised only up to around Rs2.5bn from each muni deal after the government in 2022 introduced an incentive of Rs130m per Rs1bn of face value for debut municipal issuers, up to a cap of Rs260m.

The financial year ended in March saw record bond supply of Rs17.56bn by 13 municipal corporations, according to data compiled by Icra. Several cities sold [maiden](#) issues in response to the government's push and prior incentive.

However, small deal sizes are not meaningful for larger urban bodies and incentivising more sizeable issues will "bring bigger cities into the market, improve volumes and make the market more vibrant," Tipsons' Khandelwal said.

Some previous issuers have also set a poor precedent, according to bankers. Pune, in the state of Maharashtra, revived the market in 2017 with a Rs2bn 10-year bond backed by an interest subsidy, but placed the proceeds in fixed deposits instead of using the money for a planned water supply project, according to local media reports.

"This is one of the worst things an urban local body can do after raising money from the market," a market analyst said.

Such examples have reinforced investor caution, although the "objective of these incentives is to change that behaviour over time", said Khandelwal.

Since 2017, urban local bodies have raised a total of just Rs59bn from municipal bonds despite various sweeteners, according to PrimeDatabase data. One reason the market has struggled to gain depth is that bankruptcy laws do not clearly apply to government entities, leaving enforcement uncertain.

"The market relies heavily on credit ratings and trustees — there isn't enough accountability yet. There is still greater confidence in corporate bonds compared to municipal bonds," said Subalakshmi K, founder of Munify Datatech, a data provider specialised in municipal corporations.

As a result, the municipal market represents just 0.06% of the corporate bond market, compared to 7% in the US, according to CareEdge. Municipal bonds account for less than 20% of the Rs135bn outstanding debt of 32 urban local bodies.

Unlike mature markets in the US and Europe, which rely more on tax, regulatory, and structural incentives and have a retail investor base, the Indian market is dependent on grants, is largely institutional, and has limited secondary activity, Icra's Banerjee said.

"India will need to deepen the bond market and municipalities should move towards more market-driven funding avenues compared to conventional grant or bank loan-based funding," he said. "Also, adoption of technology to expedite account closure as well as improved disclosures remain vital" for urban local bodies to attract long-term institutional money.

(Reporting by Krishna Merchant; Editing by Vincent Baby)

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