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Infrastructure, banking need Rs.10.4 trillion bond funding: CRISIL

Regulatory support critical to meet this challenge in the next 5 years

India's infrastructure and banking sectors will require Rs.10.4 trillion from the bond market over the next 5 years, CRISIL said at its second annual bond market seminar held today. To facilitate this, greater regulatory focus is required in three areas – deepening of the bond market, developing innovative credit-enhancement mechanisms for infrastructure projects, and building investor appetite for banks' non-equity capital.

CRISIL also released its first 'Yearbook on the Indian Debt Market – 2013', a comprehensive, one-of-its-kind publication, at the seminar. According to the yearbook, the Indian bond market has witnessed sizeable growth in issuances and increasing participation by issuers and investors. Encouragingly, there have been several innovations in the bond market during 2013, including the first 50-year rupee bond and the first inflation-indexed debentures by Indian companies, five Basel III compliant issues by banks, and the launch of two infrastructure debt funds.

It is imperative to build on this foundation of growth and innovation to meet the sizeable funding requirements of the country's infrastructure and banking sectors. Says **Ms. Roopa Kudva, Managing Director and CEO, CRISIL: "*The Rs.10.4 trillion bond funding required for these two sectors translates to an average issuance of Rs.2.1 trillion annually in each of the next five years. This is nearly 60% higher than the average annual issuances made by these sectors in the last three years. This calls for steps to deepen the bond market by encouraging greater foreign participation, and by liberalising investment norms for long-term investors.*"**

The Indian infrastructure sector alone will need Rs.7 trillion from the bond market over the next five years. Currently, bond market finances the infrastructure sector indirectly through specialised institutions. Says **Mr. Pawan Agrawal, Senior Director, CRISIL Ratings: "*In 2012-13, just five financial institutions issued nearly 60% of the (Rs.1.3 trillion) bonds raised to fund infrastructure. Therefore, encouraging direct access of infrastructure projects to bond market is a key priority.*"** This can be achieved by a strong regulatory and policy focus on developing innovative credit-enhanced structures, allowing banks to provide credit enhancement and facilitating the scale-up of infrastructure debt funds (IDFs). CRISIL has recently rated the two IDFs set up as non-banking financial companies.

Indian banks also seek Rs.3.4 trillion non-equity capital under the Basel III regulations till March 2018. A good beginning is already visible, as five banks have raised Rs.60 billion by issuing Tier II bonds, all rated by CRISIL. Adds **Mr. Agrawal, "*The key challenge lies in raising Tier I non-equity instruments, due to their riskier features of coupon discretion and principal loss absorption at specified capital thresholds*."** For building investor appetite for such instruments, guidelines for long-term investors will need to include eligibility for Tier I instruments.

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Media Contacts	Analytical Contact
Tanuja Abhinandan Communications and Brand Management CRISIL Limited Phone : +91 22 3342 1818 Mobile : +91 98 192 48980 Email : tanuja.abhinandan@crisil.com **Jyoti Parmar** Communications and Brand Management CRISIL Limited Phone : +91 22 3342 1835 Email : jyoti.parmar@crisil.com	**Pawan Agrawal** **Senior Director** **CRISIL Ratings** Phone : +91 22 3342 3301 Email : pawan.agrawal@crisil.com

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