ICRA

PRESS RELEASE

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Infrastructure bond issuances by public sector banks to drive banks' bond issuances to an all-time high in FY2025: ICRA

- *Banks' bonds issuances are expected to remain strong at Rs. 1.2-1.3 trillion in FY2025, surpassing the earlier peak of Rs. 1.1 trillion in FY2023*
- *Public sector banks (PSBs) are expected to command a lion's share at 82-85% of banks' bonds issuances with infrastructure bonds dominating the same*

In its recent report, ICRA highlighted that with deposit growth lagging credit growth, banks have increased fund-raising via bonds, even as the share of borrowings in total liabilities remains below the pre-Covid levels. ICRA expects the banks' bond issuances to reach an all-time high of Rs. 1.2-1.3 trillion in FY2025, surpassing the earlier high of Rs. 1.1 trillion in FY2023 (Rs. 1.0 trillion in FY2024). Tight liquidity conditions and credit growth continuously surpassing deposit growth has necessitated fund raising by banks from alternate sources. For FY2025 (YTD), banks' total bond issuances were Rs. 767 billion, registering a YoY growth of 225% and reached 75% of the total issuances done in FY2024.

With private banks focusing on reducing their credit-to-deposit ratio, the fund-raising through bonds is largely being dominated by public banks this year. Additionally, continued focus of the Government of India (GoI) towards infrastructural spending, the availability of sizeable infrastructure loan book, which is eligible to be funded through these infrastructure bonds and strong demand from insurance companies and provident funds for long term issuances, support these bond issuances. While these are required to have a minimum tenor of 7 years as per regulations, however, given the investor preference, they have been issued for relatively longer tenors of even 10 and 15 years.

Sachin Sachdeva, Vice President & Sector Head – Financial Sector Ratings, ICRA said*: "During FY2015 to FY2022 public sector banks (PSBs) had a negligible share in infrastructure bond issuances. However, with improved capital position, tight funding position and sizeable infrastructure loan book, the PSBs became dominant in the issuance of infrastructure bonds and accounted for 77% of banks' infrastructure bond issuances in FY2023-FY2025 (YTD). The trend is expected to continue through FY2025 with the PSBs likely to account for 82-85% of the bank bond issuances in FY2025 and infrastructure bonds are expected to account for more than 2/3rd share."*

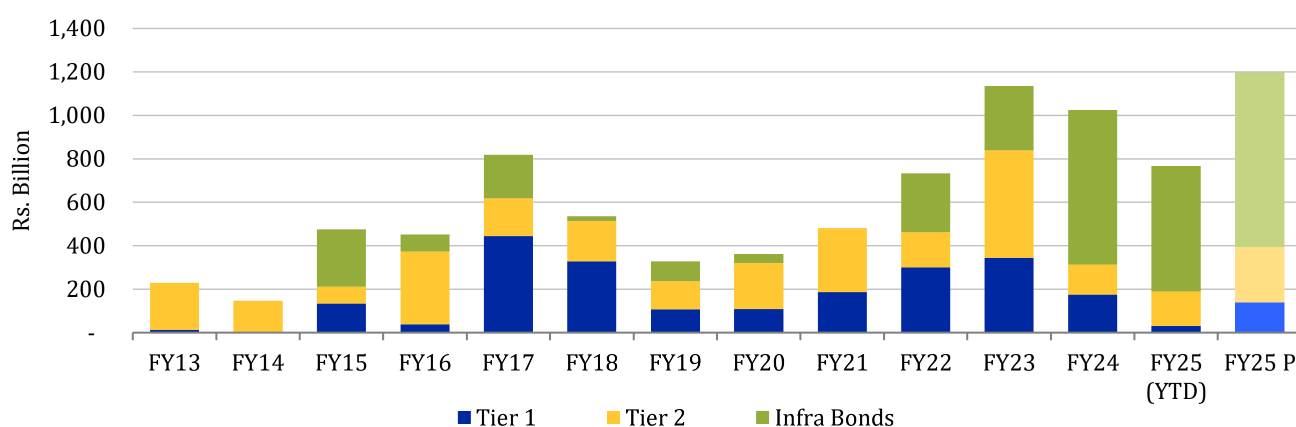
In the past, banks' bond issuances were dominated by Tier 1 and Tier 2 instruments to help boost capitalisation metrics, especially when they were facing low profitability amid asset quality challenges. However, FY2023 onwards, issuances of infrastructure bonds have gained traction, as profitability improved, thereby limiting the need to raise capital through this route. With availability of a more stable and granular depositors' base, the PSBs have more wherewithal to provide long-term funding and usually have a larger share in the infrastructure sector than private banks (PVBs). Banking sector advances to the infrastructure sector are estimated at Rs. 13-14 trillion as on June 30, 2024 of which the PSBs have a lion's share of around 75%.

"*ICRA analysed a sample of 13 large banks (PSBs and PVBs), with infrastructure bonds outstanding at ~Rs. 2.2 trillion as on August 31, 2024, against which they have an infrastructure loan book of ~Rs. 11 trillion as on June 30, 2024. Of these 13, 11 have their infrastructure bonds outstanding as proportion of their infrastructure book at less than 40%, leaving a sizeable headroom for them to raise funds through these instruments. In addition, affordable housing assets are also eligible for funding through infrastructure bonds and hence the overall eligible book is likely to be higher,"* **Sachdeva** added.

Banks are expected to continue to fund the infrastructure sector growth and infrastructure bonds remain a key tool for raising long-term resources to fund this portfolio. Additionally, the funds raised via these bonds are not subjected to statutory liquidity ratio (SLR) and cash reserve ratio (CRR) requirement and hence they remain available to fund the portfolio, though the flip side is that these funds come at slightly higher cost than those raised via deposits.

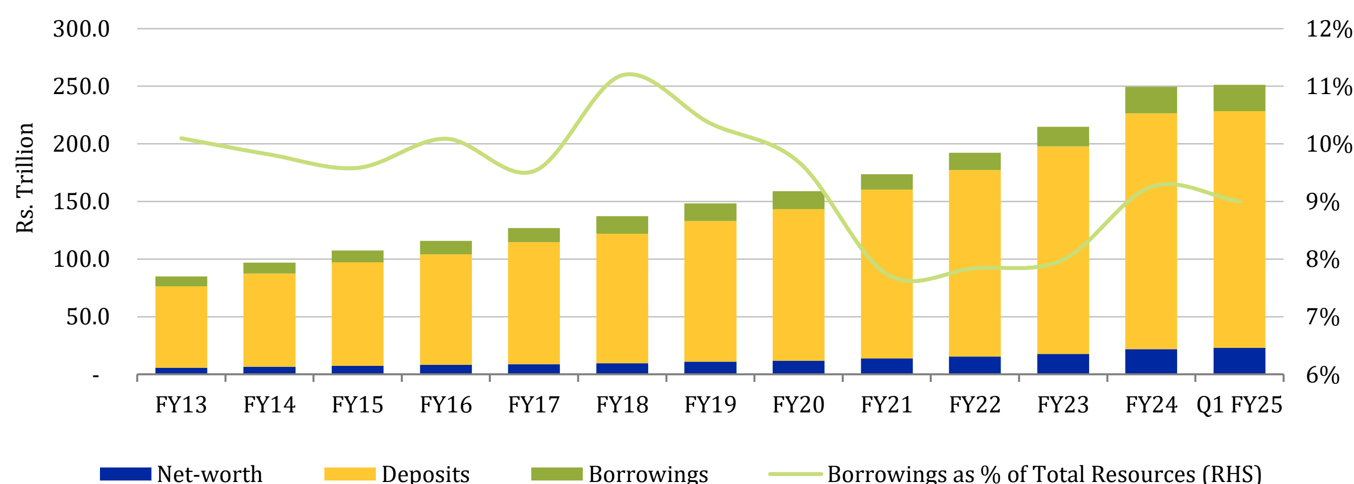
"Given the high credit-to-deposit (CD) ratio for PVBs, ICRA expects the PVBs to curtail funding through bonds as this will optically worsen the CD ratio, however, the PSBs will continue to pursue growth through infrastructure bonds, given the ample headroom available," **Sachdeva** added.

Exhibit 1: Expected trend in bond issuances by banks



Source: AIMIN, ICRA Research; P is projected; FY25 (YTD) – till Sep 20, 2024

Exhibit 2: Trend in bank's resource profile



Source: Banks (13 PSBs including IDBI and 19 large private banks (PVBs)), ICRA Research

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