India

Country briefing July 2018

Cumulative issuance: USD6.6bn, 11th in global country rankings

2017 issuance: USD3.9bn, 2.5x higher than 2016, 59% of total issuance, 10th in 2017 rankings

Green bond market growth expected from Energy, Transport and Building sectors; and ABS

Public and private corporates driving issuance

The public sector has played a pioneering role in the Indian green bond market since state-owned EXIM Bank and IDBI came to market in 2015. In 2016, state utility NTPC followed suit as did PNB Housing Finance. In 2017, state-owned financial institutions dedicated to the energy sector tapped the market along with Indian Railways Financial Corporation (IRFC), the financing arm of Indian Railways.

Private sector issuance started in 2015 with Yes Bank and CLP Wind Farms India. Private sector banks have applied the proceeds raised largely to energy assets. Utility scale renewable energy developers have re-financed operational assets through the capital markets.

Private sector non-financial corporates dominate issuance and have contributed 38% of total volume to date. Government-backed entities, which include financial and non-financial corporates, come next (36%), followed by private sector financial corporates (13%) and development banks (13%). Financial institutions from the public and private sector, taken together, make up 50% of volumes to date.

In 2017, government-backed entities contributed 51% of issuance. Over half of that came from renewable energy financing institutions IREDA and Power Finance Corporation, and, in total, 78% came from financial institutions.

Renewable energy dominates use of proceeds

EXIM Bank used the proceeds from its 2015 bond to finance transport assets. Since then, most deals have funded renewable energy: 77% overall, 84% in 2017. This is not surprising given the government's thrust into renewable energy, which has resulted in policy support and the sector's "mainstreaming" by Indian banks.

Transport allocations made a come-back in 2017 with bonds from IRFC, while debut issuance by Jain Irrigation, a major manufacturer of micro irrigation systems, accounts for water allocations.

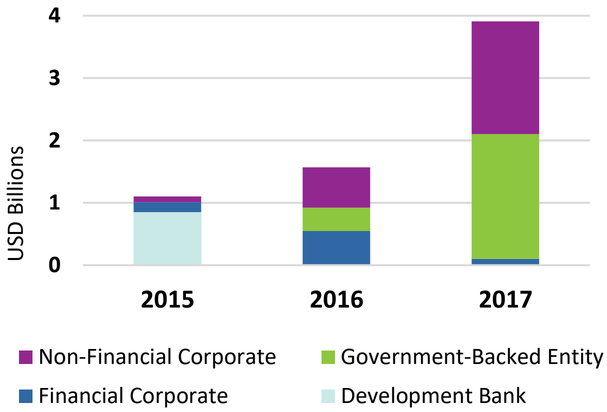
Low carbon buildings have been financed by PNB Housing Finance (2016), Yes Bank (2015) and Axis Bank (2016). On par with transport, water management systems and land use, they remain a sector with significant growth potential.

Top issuers account for 63% of deal volume

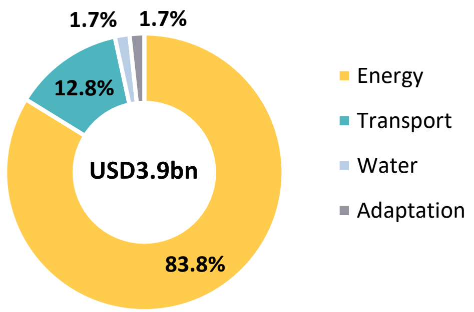
The largest issuer is the leading renewable energy promoter Greenko with issuance worth USD1.5bn. IREDA, the renewables financing agency ranks 2nd, while the 3rd spot is shared by four issuers, each contributing USD500m to the market. Yes Bank (3 issues), Hero Future Energies (3) and Greenko (2) are repeat issuers. The most frequent issuer is IREDA with 6 bonds under 3 deals.

Bonds from Yes Bank, L&T Infrastructure Finance and PNB Housing Finance have been subscribed by multilateral development banks (MDBs), underscoring their importance in this nascent market.

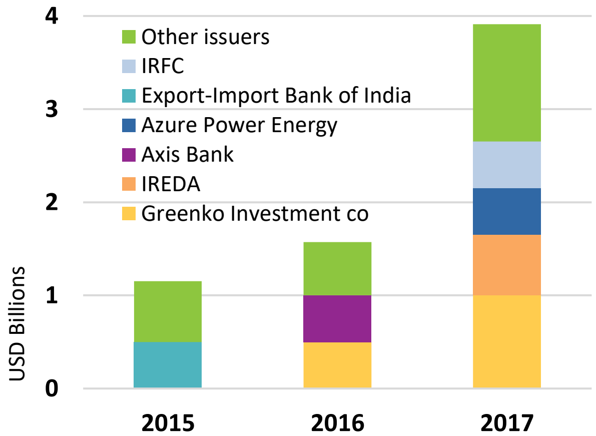
Public and private corporates driving issuance



Renewables dominate 2017 use of proceeds



Top issuers account for 63% of issuance to date



48% of Indian issuance is Certified Climate Bonds

The use of external reviews is a notable feature of the Indian green bond market: 81% of deals by volume benefit from Certification under the Climate Bonds Standard (48% of total issuance), a second party opinion (28%) or assurance (5%).

The main verifier for Certified Climate Bonds is KPMG at 73% of Certified bond volume, with the remaining verifications provided by Emergent Ventures Limited. The main provider of second party opinions is Sustainalytics (94%), with CICERO accounting for the rest.

While China dominates emerging market issuance volumes, Certified Climate Bonds from Indian issuers represent 35% of the total number of Certified bonds from emerging markets (see chart).

Climate-aligned issuance

ReNew Power Group, IRFC and IREDA are frequent bond issuers, but have labelled only a few deals ‘green’. Issuance from pure-play companies from the renewable energy and rail transport sectors is climate-aligned. Pure-play companies that have not yet entered the green bond market include NHPC (hydro power), Narmada Wind Energy, Suzlon Energy, Websol Energy System Ltd.

State entities NHPC and Energy Efficiency Services may be able to issue green bonds without credit support. Private firms such as ReNew Power, Essel Urja and Porbandar Solar Power have issued climate-aligned bonds, which benefit from a guarantee from state-owned India Infrastructure Finance Company Limited. The deals show that credit support can make bond investments attractive to risk-averse institutional investors, thereby mobilising India’s gargantuan domestic savings for infrastructure projects, facilitating market access for the private sector and lengthening bond tenors.

Sector growth and future potential

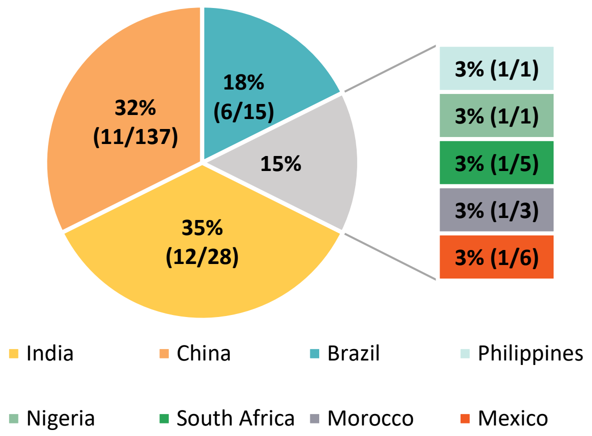
Mass Rapid Transit systems are appearing in many cities, and are often funded by MDBs. Coupled with robust value capture models, this sector could potentially funded in the capital markets directly.

Interest in **Green Buildings** certification seems to be on the rise. The drop-out rate after initial registration of interest is still quite high, but with some gestation, a surge in volume can be expected. Also, issuance could come from energy performance upgrades.

Utilities and independent power producers are an emerging sector. It is expected that government-backed bodies are likely to lend support to issuance by entities such as Power Grid Corporation of India and National Bank for Agriculture and Rural Development.

Some Indian states have made the **greening of agriculture** a priority and issuance linked to this can be expected in due course. Other prospective sectors are battery-powered vehicles, climate friendly products such as solar lanterns and residential solar systems.

India accounts for 35% of Certified Climate Bonds in Emerging Markets



Methodology: The percentage represents the country's number of Certified Climate Bonds compared to the total number of Certified bonds in Emerging Market countries. The numbers in parenthesis represent the number of Certified Climate Bonds compared to country’s total number of issued green bonds.

2017 issuers include fist issuer from the Water sector

Issuer Name	Issued USD m	Use of proceeds
Greenko Investment co	1,000	Energy
IREDA – 6 deals	651	Energy
Azure Power Energy	500	Energy
Indian Railway Finance Corp	500	Transport
Rural Electrification Corp	450	Energy
Power Finance Corp	400	Energy
Jain International Trading	200	Energy, Water, Adaptation
Essel Urja (Infrastructure)	107	Energy
L&T Infrastructure Finance Company Ltd.	103	Energy
Total	**3,911**	

Conclusions

Renewable energy, which benefits from a clear policy thrust, is expected to see a stream of further issuance. However, there is also potential from the transport and building sectors. Green securitisation is another avenue for market growth. Hopefully, the State Bank of India Certified Climate Bond, which just started marketing, is a harbinger of increased issuance going forward.

Policy background: The SEBI Green Bond Guidelines are the main policy action to date in the financial sector. Various states have come up with their own plans to decarbonise and help achieve the national commitment to the 2015 Paris accord.

Policy update: There have been press reports about the Reserve Bank of India, the banking sector regulator, coming out with supportive regulations. There are widespread expectations and plenty of speculation that some green segments will be awarded priority sector status for financing, allowing financial institutions to increase their sector exposures.