



# ABOUT MUNICIPAL BONDS

Mahender Singh Tawar, IAS

Municipal Commissioner, Ghaziabad

# What is Municipal Bond?

- Municipal bonds are also referred to as ‘muni bonds’.
- The urban local government and agencies issue these bonds. Municipal bonds are issued when a government body wants to raise funds for infrastructural.
- SEBI circulated detailed guidelines in 2015 for the urban local bodies to raise funds by issuing municipal bonds.
- FOLLOWING TYPES OF BONDS MAY BE RAISED
  - GENERAL OBLIGATION BONDS mean debt securities where principal and interest are serviced through tax proceeds of the municipality.
  - REVENUE BONDS mean debt securities which are serviced by revenues from one or more projects.

# Municipal Bonds in India

- Municipal bonds exist in India since the year 1997.
- Bangalore Municipal Corporation is the first urban local body to issue municipal bonds in India.
- Ahmedabad and Nashik followed Bangalore in the succeeding years.
- Between 1997 and 2010, these cities experimented with bond issues but barely managed to raise Rs. 1,400 crore.
- The poor investor response was due to the fact that these bonds were not tradable and lacked regulatory clarity.
- Securities and Exchange Board of India (SEBI)'s detailed guidelines for the issue and listing of municipal bonds in March 2015, clarified their regulatory status and rendered them safer for investors.
- Till now, in India, 10 cities including Bangalore, Ahmedabad, Nashik, Pune, Indore, vishakhapatnam, baroda, Hyd, bhopal etc has issued bonds.
- In Uttar Pradesh, Lucknow and Ghaziabad has issued their first municipal bonds.
- Moreover, Ghaziabad issued India's First Green Municipal Bond.

# Municipal Bonds: State Policy

- Government of Uttar Pradesh (GoUP), in its Cabinet meeting in July 2019, approved the policy to promote Municipal bonds in the State of UP wherein the amount of Infrastructure Development Fund (IDF) maintained at State Govt. Level for Urban Local Bodies may be utilized for credit enhancement/structuring of bonds. The State Govt. had issued a G.O. in this regard on 30<sup>th</sup> July 2019.
- This was the innovative step taken by GoUP to promote Municipal Bonds in the State of UP and is the first and the only State in India to form such policy.
- The benefit of this policy can be availed by first 5 ULBs of UP State which comes out with its bond issue. GNN became the second ULB in UP to avail benefit under this policy for its bond issue.

# Government Incentives



13 Cr/100 Cr by Central Government on First Issue

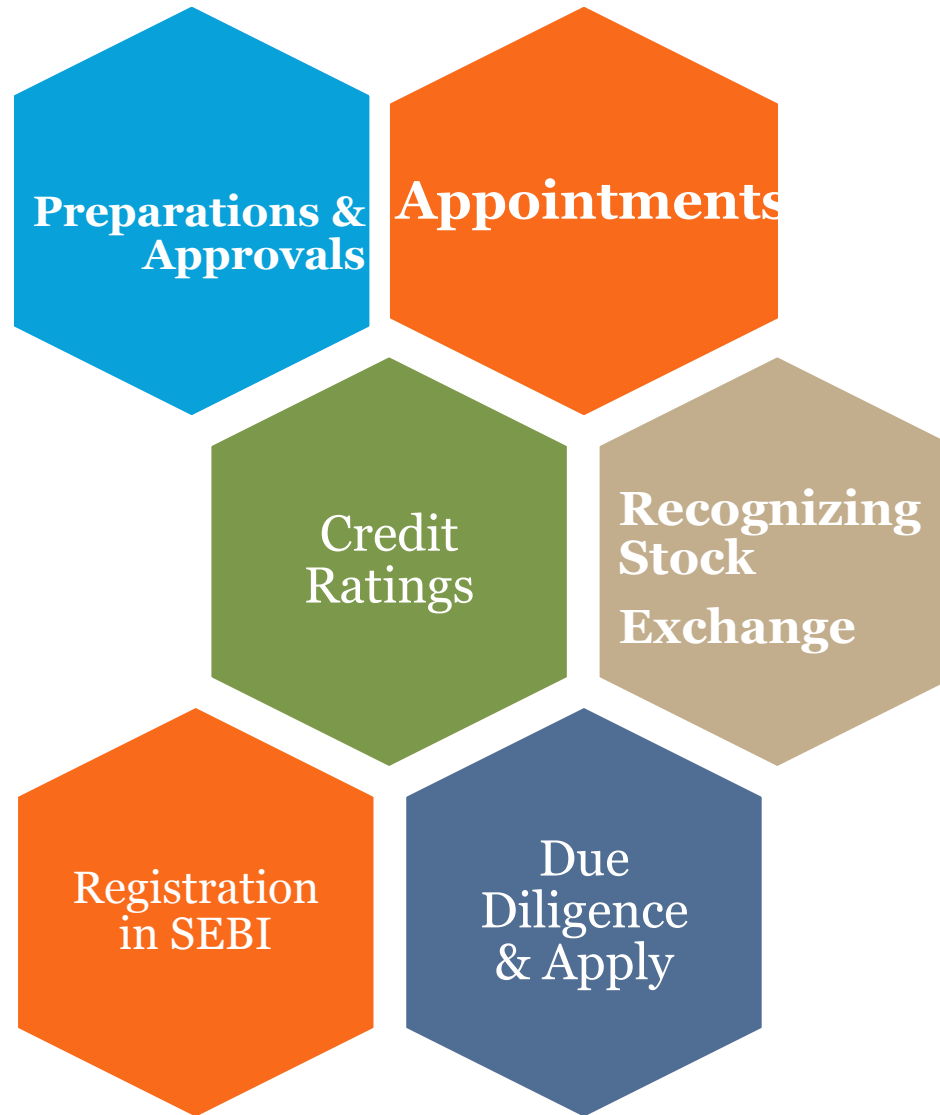
If second issue is Green Municipal Bond, then Incentive on second issue is also available

IDF Backing by State Government

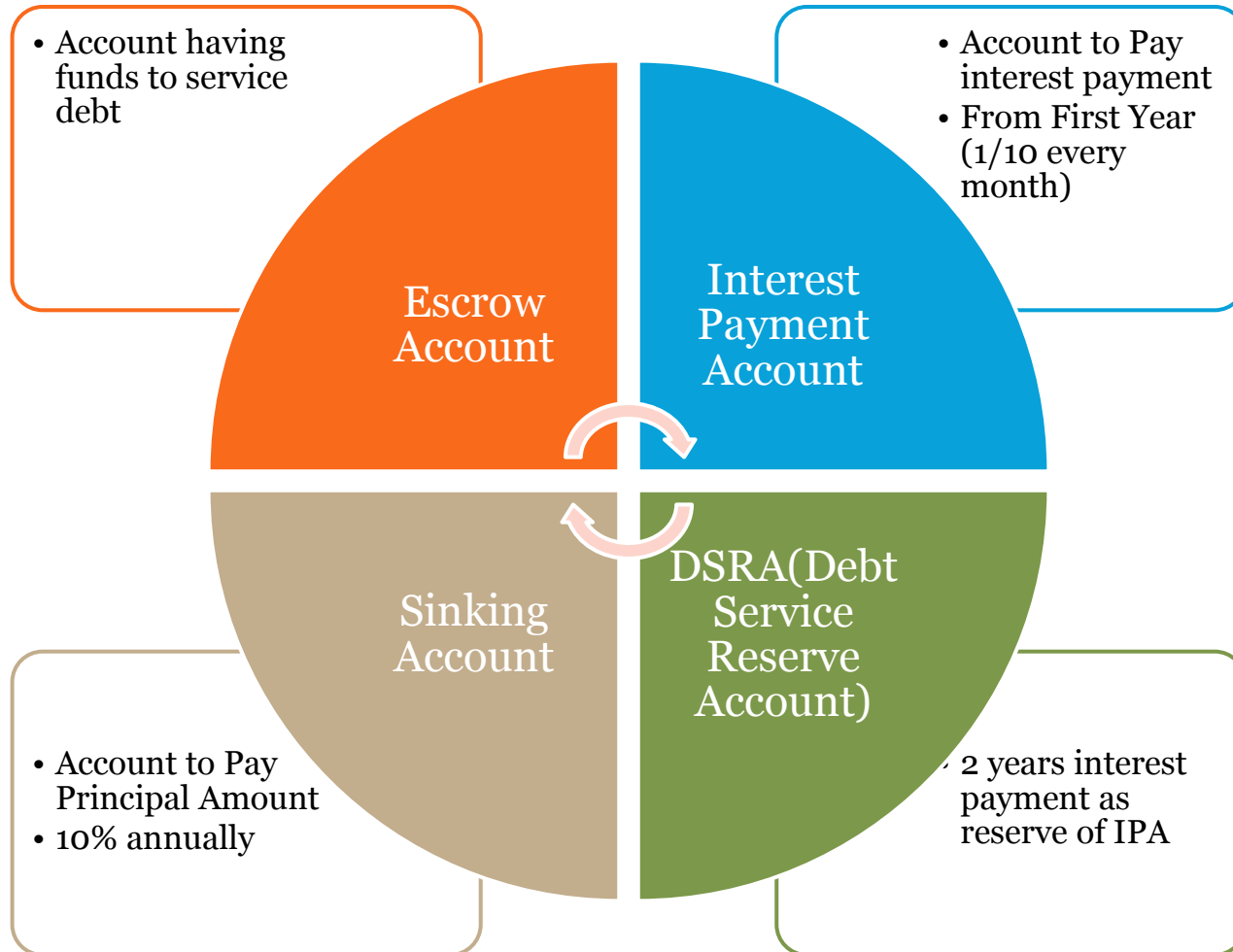
# Municipal Bonds: Benefits

- ❑ This opens up a new source for revenue for Municipal Corporation ie Market.
- ❑ This demonstrates the confidence of the market in Municipal Bonds segment.
- ❑ This will not only enforce the Financial Discipline in Corporation but also increase its visibility in market and further opens up the gateway for bigger issue size in future.
- ❑ Global Connectivity
- ❑ Better Amenities to citizens
- ❑ This is also a resounding validation of Good Governance.

# Process of Listing



# Municipal Bonds: understanding Structure





# Brief about GNN-India's First Green Municipal Bond

- Ghaziabad Nagar Nigam successfully raised Rs 150 Cr.
- The issue had a Base price of 100 Cr along-with Green Shoe Option of 50 Cr.
- The coupon rate is 8.10% which can be termed as a highly competitive rate in the history of Municipal Bonds in India in AA Category.
- The issue was over-subscribed by more than four times with 40 bids totaling to Rs 401 Cr on BSE's EBP platform.
- Government of India has incentivized by contributing 13 Cr per 100 Cr issue ie 19.5 Cr for GNN. Government of UP has also incentivized the issue giving IDF backing.
- Bid Date: 31<sup>st</sup> March, Listing Date: 8<sup>th</sup> April
- **Our Project: 40 mld TSTP (320Cr) under HAM model**

## TENTATIVE TIMELINES

**Please note that all these timelines start from the Zero Date, wherein, the Zero Date means the date before which the Corporation has obtained the approval of their General Body and GoUP for the Project, its DPR and the Security Covenants like pledging of any fixed assets and/or revenue streams, appointment of the relevant Intermediaries, etc.**

Tentative Activities	Tentative Timeframe
<b>Credit Rating by Two Rating Agencies</b>	<b>Approx. 30 Days</b>
<b>Due Diligence by the Merchant Banker</b>	<b>Approx. 30 Days</b>
<b>Agreements Preparation by the Legal Counsel</b>	<b>Approx. 20 Days</b>
<b>Preparation of the Preliminary Placement Memorandum</b>	<b>Approx. 20 Days</b>
<b>The above work can be carried out simultaneously</b>	
<b>Application to Stock Exchange for In – Principle Approval and EPB, Application to NSDL &amp; CDSL for De-Mat</b>	<b>Approx. 15 Days</b>
<b>Approval and vetting of the proposed agreements by GoUP and subsequently, signing of the agreements.</b>	<b>Depends upon the Government</b>
<b>Application to SEBI for submission of the Preliminary Placement Memorandum for their observation and comments</b>	<b>Approx. 25 Days</b>
<b>Setting up of the Issue of the EBP and Investor Meeting and Presentation</b>	<b>Approx. 7 Days</b>
<b>Issue Opening, Closing and Allotment</b>	<b>Approx. 2 Days</b>
<b>Application to Stock Exchange for Final Listing</b>	<b>Approx. 4 Days</b>
<b>Listing Ceremony (upon Receipt of the Final Listing Approval)</b>	<b>Same Day or Next Day</b>

**The total process from the Zero Date is approx. 45-60 days for completion of the process, depending upon the timely approvals and constant and active support from the ULB.**

**THANK**

**YOU!**

