

# Infra bonds see less appetite from banks, insurers

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Long-term infrastructure bonds issued by banks, that had evoked interest among investors, now seem to be losing sheen. Insurance companies and bankers say it no longer remains an attractive option. "Banks are more comfortable with government securities, as infra bonds carry a higher degree of risk. Banks are anyway saddled with a high degree of infra exposure overall, so we tend to be more tilted towards G-Secs," said the treasury head of a public sector

lender.

Banks' interest had picked up after the Reserve Bank announced last year that such bonds (tenor of more than seven years) would be exempt from the cash and statutory reserve requirements, if the proceeds were used to fund new long-term infrastructure projects or affordable housing.

Also, the loans funded via this process would be exempt from the computation of adjusted net bank credit for the purpose of calculating priority sector lending requirements. As a result, several banks got into infra bonds last year, when

introduced. However, that flurry has significantly decreased in the past few months.

A K Sridhar, chief investment officer, IndiaFirst Life Insurance, explained that there is less of enthusiasm about these bonds because of the risks associated with the sector. "Incremental returns are not high and spreads between AAA-rated papers and infrastructure bonds not very attractive, while it is a risky segment."

Badrish Kulhalli, fund manager, fixed income, HDFC Life, said: "There has been no dearth of infrastructure bonds

in the market. However, right now, there is a greater demand for government securities than corporate bonds."

Another reason for low demand is a lower rate of yield. A banker explains that these have come down by 1-1.5 percentage points compared to last year. Insurance companies agree that lower yields are a big deterrent. "The rates offered in recent issuances have not been very competitive. Hence, insurers have not been aggressively participating in these," said the fixed income head of a mid-size private life insurance company.