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Finance: Infra bonds see limited appetite from banks, insurers

Long term Infrastructure bonds issued by the banks that had evoked interest amongst investors seem to be losing their sheen. Insurance companies and bankers explain that it no longer remains a very attractive investment option.

The fact that government securities are a more secure option than infra bonds is a key reason that is keeping the players at bay, explain bankers.

"Banks are more comfortable with government securities as the infra bonds carry a higher degree of risk. The banks are any way saddled with a high degree of infra exposure overall so we tend to be more tilted towards government securities," said the treasury head of a public sector bank.

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

Also, the loans funded via this process would be exempted from the computation of adjusted net bank credit for the purpose of calculating priority sector lending requirements and as a result we had seen several banks come out with the infra bonds last year when it was introduced. However, that flurry of activity has significantly decreased in the past few months.

A K Sridhar, Chief Investment Officer, IndiaFirst Life Insurance explained that there is less enthusiasm about the infrastructure bonds because of the risks associated with the sector including order books not being very positive and the sector being a little risky.

"The incremental returns are not high, and spreads between AAA papers and infrastructure bonds is not very attractive, while it is a risky segment," he added.

As players are giving the infra bonds a miss they are investing in government securities instead. 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 that has kept the demand low is lower rate of yields. A banker explains that the yields have come down by 1-1.5 per cent compared to last year because of which it does not remain as attractive.
The insurance companies players also believe 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 them, he added," said the fixed income head of a mid-size private life insurance company.