

# Are corporate green bonds losing sheen? Issuances halve since 2022 due to lower investor appetite

Indian corporates and banks have raised only Rs 795 crore through green bonds in the domestic market in FY23 and so far in FY24, less than half that of the previous year.

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Green bonds are new in India and hence, pricing based on the international issue of bonds becomes difficult.

Issuance of green corporate bonds have nearly halved in the last year and a half due to higher yields and lower appetite from investors, according to industry experts and dealers.

According to data from Prime database, issuers (including companies and banks) raised Rs 795 crore during the financial year 2022-23 and so far in 2023-2024, from green bonds in the domestic market as compared to Rs 2,677 crore in the previous year.

Green bonds are debt instruments issued by corporates, banks and governments to raise funds from the market to fund renewable or green projects. Of the total amount raised in FY2023-24, Rs 495 crore was raised in FY2023, and the remaining Rs 300 crore so far in FY2024.

## Why the fall?

Experts attribute the fall to lack of incentives to investors. "No material incentives or greenium to the investors of Green bonds has led to moderation of the investor appetite for Green bonds in our Indian market," said Nagesh Chauhan, Head, Debt Capital Markets, Tipsons Group.

A similar view was expressed by Ajay Manglunia, Managing Director, JM Financial. "This space is fairly new for both issuers and investors in India. Moreover, we are yet to receive attraction from foreign ESG funds who dedicatedly invest in such issuances," Manglunia says. In the international market, there are a lot of investors who dedicatedly invest in these securities because of their focus on sustainability and impact funding, dealers say.

## What does data show?

GREEN BOND ISSUANCES		
PERIOD	DOMESTIC CORPORATE BONDS	OVERSEAS BONDS
2018-19	1,045	7,369
2019-20	-	6,821
2020-21	150	2,387
2021-22	2,677	26,192
2022-23	495	-
2023-24	300	-

(Rs.crore)  
Source: primedatabase.com

## Green Bond Issuances

The moderation comes after heavy issuances by these entities in FY2022, when issuers issued green bonds worth Rs 2,677 crore. Similarly, in the overseas market, Indian firms raised Rs 26,192 crore via green bonds.

Since then, however, Indian corporates and banks have not raised any funds from the overseas market. Chauhan of Tipsons group attributes the trend to the spree of rate hikes in the global economies and the depreciation of the rupee against the US dollar, which made borrowing from the international market costlier for Indian firms.

Chauhan adds that there is uncertainty in the global market as yield on US Treasury is still high and the US Federal Reserve is expected to increase rates one more time due to sticky inflation.

## Why the low appetite?

In India, there is no obligation to invest in these bonds and there are also no dedicated companies to invest in them. As a result, the appetite for the Indian investor has been low for the bonds, say experts.

Also, green bonds are new in India and hence, pricing based on the international issue of bonds becomes difficult, dealers say. They point out the recent issue of sovereign green bonds by the government, which got a tepid response and yields on those bonds were set just six basis points lower than the benchmark bond.

On **January 25**, the RBI set a 7.29 percent cut-off yield on the country's maiden 10-year sovereign green bonds (SGrB) or NEW GOI SGrB 2033 and 7.10 percent cut-off yield on the NEW GOI SGrB 2028. At that time, the yield on the 10-year benchmark was 7.26 percent, 2032 bonds were at 7.3502 percent and, 7.38 percent 2027 bonds were at 7.1572 percent.

The recent KIIFB Green Bond issue, where market participants did not give any greenium (premium for green bonds), the issue remained under subscribed, says Chauhan and the issue remains under subscribed.

## Outlook

Money market dealers said the activity in the overseas market on issuance of green bonds will pick up once the yields start correcting after central banks across countries cut interest rates.

"Also, these entities will look to issue these bonds once they come up for maturity," a dealer with a state-owned bank says. Manglunia says the government green bonds maintain hold due to lower participation from investors. The maiden issue of bonds received investments from insurance companies and other financial institutions.