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BANKS LOOK TO RAISE AS MUCH AS ₹4,500 CRORE

Kotak, Axis Plan Infra Bond Sale

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AXIS BANK MAY RAISE ₹3,000 CRORE & KOTAK ₹1,500 CRORE

Kotak and Axis Banks Plan to Raise ₹4,500 cr

Rates to be set through an exchange bidding process, may be around 7.40-7.60%

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Mumbai: Squeezed by rising deposit costs and demand for loans, banks are back in the market to sell infrastructure bonds, with Kotak Mahindra and Axis Bank lining up issues of as much as ₹4,500 crore in the next few weeks, said people familiar with the matter.

With the incremental credit-deposit ratio running close to 80%, banks believe it makes sense to raise long-term funds rather than chasing deposits that are getting repriced every month, with the Reserve Bank of India increasing its policy rate to tame inflation.

Axis Bank may raise up to ₹3,000 crore for now as it is gauging market appetite for the paper. Kotak Mahindra Bank is seeking to raise up to ₹1,500 crore.

Both proposed bonds are rated triple-A. The rates, which will finally be determined through an exchange bidding process, may come in the range of 7.40-7.60%, dealers said.

Both banks have reached out to investors including insurers, pension funds and

bond houses, the people said.

Axis Bank and Kotak Bank did not comment on the matter.

Banks benefit from issuing infrastructure bonds because they don't have to set aside a portion of the funds as cash reserve ratio or compulsorily invest in government bonds, which they must in case of deposits. Also, "infrastructure bonds, because of their minimum tenure of seven years, act as a long-term source of funds for banks", said Anil Gupta, co-group head for financial sector ratings at ICRA.

"It is beneficial for reducing asset-liability mismatches as well as better LCR (liquidity coverage ratio) and NSFR (net stable funding ratio) outcomes," he said.

In absence of the regulatory obligations, banks will have more legroom to expand credit without blocking funds, which may not earn yields as lucrative as loans given to institutions and individuals.

In the April-June quarter this fiscal year, Indian banks' credit-deposit ratio was 73.5%, up from 70.5% a year earlier.

ICICI Bank has already sold supposedly infrastructure bonds this month, on September 13, raising ₹2,100 crore for seven years at 7.42%.

"Infra bonds are likely to find interest from long-term investors including insurers and pension funds," said Ajay Manglunia, managing director - debt capital market, JM Financial.

