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INTERNATIONAL FINANCING REVIEW ASIA ROUNDTABLE

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FOREWORD

IFR's latest India seminar took place in Mumbai during a timely break in the summer monsoon rains. Over two sessions, delegates debated the outlook for Indian fixed income and the potential for Green finance, tapping into two of the hottest topics in the country's capital markets.

The stormy season proved to be an appropriate backdrop for a discussion on Indian bonds. Rising yields have given investors pause for thought, and recent regulatory reforms have forced some arrangers to rethink their business models.

As well as a near-150bp jump in the 10-year rupee benchmark yield over the past 12 months, Indian issuers are also facing a tougher time in the global markets, where volatile US Treasuries and a pullback from emerging markets have added to the challenges this year. And closer to home, an effort to improve transparency and pricing discipline through electronic bidding platforms is disrupting the arranger/investor dynamic.

But it's also clear that the outlook for Indian fixed income has never been brighter. As the country's overstretched banks struggle to keep pace with credit growth, the bond market is taking on a more important role in financing the economy.

Regulatory changes are providing both the 'push' and 'pull' factors. The central bank now requires the country's biggest borrowers to obtain a portion of any additional funding from the capital markets, in a bid to limit systemic risks to the banking sector. And the inflow of money following the demonetisation of late 2016 has opened up the mutual fund industry as an attractive source of alternative finance.

Green finance is heading towards a similar inflection point. Since Prime Minister Narendra Modi pledged to increase renewable energy capacity to 175 gigawatts by 2022, international contractors have piled in and equity investments have raced up. Local investors are now catching on, with more mutual funds and asset managers signing up to the UN's Principles of Responsible Investment in recent months.

As more green projects come online, bond issuance will surely follow. To speed things along, however, some market participants believe a regulatory push is needed – perhaps through designating Green finance as a priority sector for Indian banks.

Cost issues remain a challenge for Indian issuers, who see little advantage in obtaining a third-party green certification without a direct link to lower interest margins. Frequent issuers, such as Export-Import Bank of India, however, appreciate the longer-term benefit from accessing a more diverse investor base – especially if green funds hold to maturity.

India's long-term forecast is undeniably positive – both for Green finance and debt capital markets more broadly. As with the monsoon rains, some short-term disruption may be necessary for India's bond markets to grow to their full potential.

COVER
A schoolboy enjoys himself as huge waves hit Mumbai's seafront during high tide.
REUTERS/Danish Siddiqui

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Kotak Asset Management

Lakshmi Iyer is Chief Investment Officer (Debt) & Head of Products at Kotak Mahindra Asset Management, the manager of the Rs1.3trn (US$18bn) Kotak Mahindra Mutual Fund.
She joined Kotak in 1999 as a fund manager responsible for credit research as well as deal execution, and has also been a portfolio specialist, managing product-related initiatives and product pricing and with the funds management and sales team. Before joining Kotak, Lakshmi was a research analyst tracking corporate bond at Credence Analytics.

RASHMI MOHANTY
Vedanta

Rashmi Mohanty is head of group treasury at Vedanta, the Indian mining and resources group, based in Mumbai. She is responsible for all aspects of financing and balance sheet management, including the group's onshore and offshore bond issuance.
Mohanty joined Vedanta in 2015 after holding senior treasury posts at Religare Enterprises and GE Capital Services, and has earlier worked at Deutsche Bank. She holds a post-graduate diploma in management from the Indian Institute of Management Bangalore and an Engineering Degree from Delhi University.

NIPA SHETH
Trust Group

Nipa Sheth is the founding director of Trust Group, a financial advisory firm with a focus on fixed income. She established Trust in 2001 and developed the firm into a leading distribution house for debt products. More recently she has added investment banking services across origination, intermediation, advisory and fund management. She is based in Mumbai.

KARTHIK SRINIVASAN
ICRA

Karthik Srinivasan is Senior vice president of ICRA, the Indian credit rating agency, and a member of the company's rating committee. He joined ICRA more than 17 years ago and is responsible for financial sector ratings. Srinivasan is a CFA charter holder with a degree in electronics engineering and a Masters in Management Studies (Finance) from Mumbai University.

SRINIVASULU YANAMANDRA
Barclays

Srinivasulu Yanamandra is director, debt capital markets, at Barclays India. He runs the leveraged finance and high-yield debt capital markets business for the UK bank in India. Yanamandra has been with Barclays for 12 years, having started out in the FX and rates business, and has been part of the financing business for the last seven years.

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SANDEEP BHATTACHARYA
Climate Bonds Initiative
Sandeep Bhattacharya is India project manager at the Climate Bonds Initiative, a non-governmental organisation devoted to promoting and standardising climate-aligned bond issuance.
He is responsible for the CBI's activities in India, including stakeholder engagement and communications.
Bhattacharya joined CBI in 2017 and has previously worked in fixed income, securitisation and credit ratings at Deutsche Bank, Cagamas and Malaysian Rating Corp.

ASHOK EMANI
IDFC Alternatives
Ashok Emani is head of ESG at IDFC Alternatives, a multi-asset class investment manager with over US$3.4bn under management and the first Indian investment manager to sign up to the UN Principles for Responsible Investment.
Emani is a Chevening scholar and an IRCA approved Environment Management Systems lead auditor with over 21 years of consulting, research and assessment experience. He joined IDFC in 2002 and is responsible for assessing environment and social risks of the firm's infrastructure investments in India.

DAVID RASQUINHA
Export-Import Bank of India
David Rasquinha is managing director and chief executive officer of the Export-Import Bank of India, the government's official export credit agency. He joined India Exim in 1985 and was appointed to the board in 2014 as deputy managing director, before moving up in 2017.
Rasquinha has extensive experience in the international capital markets, having earlier been responsible for India Exim's treasury and risk management, among other positions. He was the bank's resident representative in Washington, DC from 1999 to 2004 and has served on several working groups set up by the Reserve Bank of India.

AVINASH THAKUR
Barclays
Avinash Thakur is head of debt origination for Asia Pacific, covering bonds, loans, high grade, high yield and leveraged finance. He joined Barclays in 2012 and was promoted to head of origination in 2014. Before joining Barclays, he worked with Citigroup, Deutsche Bank and Merrill Lynch and has spent a total of 20 years in the Asian debt market.

STEVE GARTON
Editor, IFR Asia (Moderator)

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FIRST PANEL – Outlook for fixed income

IFR ASIA: WELCOME EVERYONE. OUR FIRST PANEL IS AN OPPORTUNITY TO ASSESS THE OUTLOOK FOR THE INDIAN DEBT MARKETS. KARTHIK, PERHAPS WE COULD START WITH YOU ON THE STATE OF INDIAN FIXED INCOME TODAY. WHAT IS THE IMPACT FROM THE TROUBLES IN THE BANKING SECTOR?

KARTHIK SRINIVASAN, ICRA: We need to first appreciate and acknowledge that India still remains a bank-driven economy. So, if the banking sector is not doing well, it'll be really difficult for the other industries to do well.

We need not reiterate the challenges the banks are facing, but from a bond market point of view, we need to acknowledge that banks have a sizeable portfolio of their investments in CPs and bonds.

This year we've had some issues at the banks and rising interest rates, so in that context it's not surprising that bond issuance volumes have been lower. There have been other structural changes and people have had operational issues. I think we'll discuss those as the session goes on.

Having spoken about the negatives, there are a couple of positives which have happened over the last couple of years. One of the biggest is the new bankruptcy law, the Insolvency and Bankruptcy Code. While it's still early days, the hope is that once things stabilise, maybe in another year or so, the confidence level of investors will increase and that will help the market over the medium term.

On the banking side, the regulator has been trying to clean up the sector. Under the IBC, the regulator has already forced banks to resolve two rounds of defaults through the NCLT [National Company Law Tribunal]. The timelines may be slightly delayed, but you would still expect a lot of bad debt to be resolved in this financial year. As these resolutions happen, there is definitely a possibility that the system would get to a position to look at credit or investments once again.

The other big development is the February circular from the RBI. We still need to run through a couple of quarters of pain, but the positive from that circular is – indirectly – about disciplining the borrowers.

IFR ASIA: THE FEBRUARY CIRCULAR, IS THAT THE ONE REQUIRING DISCLOSURE OF ANY LATE DEBT PAYMENT?

KARTHIK SRINIVASAN, ICRA: That's right. We've always had the mindset of treating borrowings from the debt capital market in one way and borrowings from banks in another. So the February circular – though not everyone will like it – from a structural point of view, is positive. It's trying to build in the discipline, not only that lenders need to report it, so that at a broader country level one is more aware of the systemic risk, but also that borrowers can't take one set of lenders for granted.

So in the near term pains will continue, but I think structurally things are moving in the right direction.

IFR ASIA: SRINIVAS, PERHAPS I CAN COME TO YOU. IF THE BANKS ARE CONSTRAINED, DOES THAT MEAN THAT MORE BORROWERS ARE LOOKING INTO THE BOND MARKETS? WHAT KINDS OF OPTIONS ARE OPEN TO THEM?

SRINIVASULU YANAMANDRA, BARCLAYS: Good morning everyone. It's an interesting question, what options are there if banks are not lending? Clearly, the answer is the bond markets, but we aren't really seeing bond issuance in any meaningful volume.

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I was telling someone this morning that there are 10-plus banks all at number one in the high-yield-bond league table, because there's been only one issuance in the first half year! That tells a story in itself. Bonds haven't been easy to do.

So what is the ultimate solution? Right now bank liquidity is still available, especially in the dollar markets, for the stronger borrowers. Bank markets always lag bond markets. The bank markets were more expensive than bond markets for the whole of last year, but this year bonds have been more expensive, due to both global and domestic factors. So borrowers that can get liquidity in the loan market are going down that route.

The syndicated loan markets have seen massive volumes this year. We've seen quite a few banks and a large conglomerate hit the market, and other large corporates lining up. The recent change to ECB [external commercial borrowing] regulations has also opened this route of borrowing to housing finance companies, for example.

On the bond side we're seeing more interest in rupee bonds, because the dollar bond markets haven't been attractive.

Those with offshore parents still have some options available. But for infrastructure players looking to repay rupee loans, dollar borrowing is literally not an option. Then there's a pricing cap of Libor plus 450bp, which in today's market is hard for Double B rated entities… There's a tenor restriction as well.

So what are the options? In this market if you have to borrow dollars and you have the flexibility of an offshore vehicle, then you're looking at shorter tenors, probably three or five years may work. A floating-rate issuance may also work better in this market than a fixed-rate issuance.

On the domestic side, again, duration is still strictly off the table. We are limited to three or five years and I think low-rated issuers will still struggle. Banks still have to bear the brunt of support for the corporate sector, and we've seen some positive movement on that front in the last month or so. That should give the market a good background going forward.

IFR ASIA: RASHMI, HAVE YOU SEEN THE AVAILABILITY OF FUNDING SHIFT IN RECENT MONTHS?

RASHMI MOHANTY, VEDANTA: Yes, the availability of funding, actually it keeps changing. It's something that keeps a treasury person on their toes.

As we look at the funding options available I think it's important to understand diversification is the key. I've been a treasury person across three large groups and a lot of cycles. I've seen that there is no right or wrong borrowing mix that you can have. At some point in time you will have predominantly bond borrowing in your portfolio. At the other points you will have to just completely rely on bank borrowings.

So it's important to, number one, be ready – from a regulatory perspective, from a process perspective – to be able to tap into whatever is available, whether it's a bank loan, whether it's a bond, whether it's commercial paper. Two, have an understanding of the product and be always connected to the right people, to the investors, to the lenders and the bank market and never at any point in time shut any doors.

We've just seen the last one and a half years, two years probably, I would say, where the banks have been going through a lot of stress and therefore liquidity from the bank market has been selective. Not so much for Triple A, Double A rated

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"For the bond markets, the mutual fund industry has actually been a ray of sunshine in a period that, as most of the panellists have observed, has been very gloomy."

corporates but, yes, for lower-rated corporates it's been a challenge.

Over a longer period, if you see bank loans have always been available, I think the first thing is keep your portfolio diversified and that's exactly what we've been doing. We had a great first quarter, for example, where corporates were able to issue and get access to abundant liquidity from the bond markets, and then suddenly, the last three months, markets, even the rupee markets, have been completely dead, hardly any issuance at all.

The second thing is have a portfolio where you have the flexibility to come out of a product as much the ease to issue it. That means having fixed rate, floating rate, a good mix of products that can allow you prepayments. That'll help you switch into attractive products when there is availability of those kinds of products in the market. I think that's very important.

There are times of abundant liquidity where you can deal directly with investors. There'll be periods where you will need aggregators, you will need intermediaries to get you that liquidity. That also is a part of the strategy that any corporate treasurer will have to keep in mind.

My own belief is that when you're out in the market you're not competing against a double A or triple A rated corporate. You're actually competing against the government of India, in the form of government securities or bonds issued by PSU companies [state-owned enterprises]. They decide the price in the market and that dictates the entire curve, and the appetite for your paper in the market gets determined by what they are issuing at the time.

So our competition is not really other corporates, it's the government of India. So you've got to really keep all of these things in mind as you start planning your funding for the year, for the quarter and your cash flow.

IFR ASIA: YOU MENTIONED THE LOCAL MARKETS HAVE NOT BEEN VERY ACTIVE. NIPA, IS THIS YOUR EXPERIENCE AS WELL? WHAT'S THE CORE REASON? IS IT THE RISING YIELDS OR IS IT SOMETHING ELSE?

NIPA SHETH, TRUST: I think it's a variety of reasons. Over the past two years, we have seen the Indian capital market react to the effects of demonetisation and a bout of uncertainty, combined with a rush of liquidity and system adjustments. Furthermore, the rupee was strengthening, and capital market instruments were priced aggressively. This was followed by the cash management bill issued by the RBI and RBI's change to a neutral policy stance, triggering a significant rise in yields on debt securities.

This phase of adjustments around pricing posed a significant challenge for the debt capital market. The post-demonetisation phase saw an excess of cash in circulation as compared to the pre-demonetisation period. Pumping in liquidity would have possibly bridged this gap, and stabilised the markets.

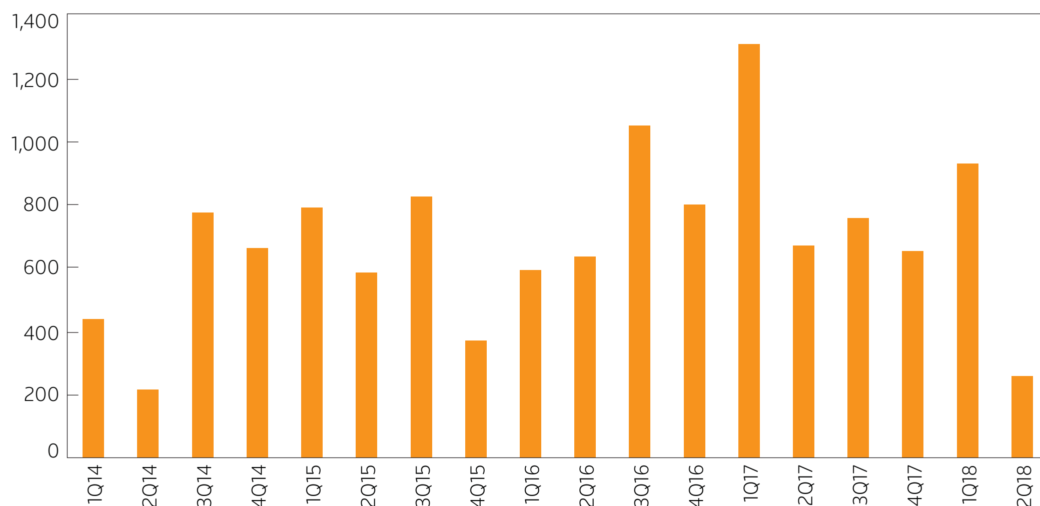
As the bonds were bought at a very aggressive price, without investors realising that the effect would be short-lived, the huge mark-to-market losses meant the risk appetite of most traders went rock-bottom, owing to ambiguity over the next phase of the interest rate cycle.

Additionally, the banks' capitalisation went through a tough time and therefore their participation in the bond markets went to significant lows.

The past quarter emerged as a complete contrast to what the markets had anticipated. This is the phase where money-market instruments became most important. Volatility in returns drew corporates and SMEs to direct investments. Masala bonds and dollar bonds had started picking up, so the bond market was looking at another avenue. Exactly at this time we had the emerging markets currency issue.

GOING SLOW

RUPEE BOND SALES SLUMPED IN 2Q18 (RS BN)



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Therefore, I think both pricing, as well as liquidity, are the market driving forces.

IFR ASIA: THANK YOU. LAKSHMI, WE JUST HEARD THAT MONEY MANAGERS ARE REPLACING BANKS. WHAT'S TOP OF THE MIND THEN FOR AN INVESTOR, MONEY MANAGER SUCH AS YOURSELF? IS IT ANY OF THESE ISSUES OR PERHAPS SOMETHING ELSE?

LAKSHMI IYER, KOTAK AM: Hi, morning everyone. Firstly, who says that on a rainy day there can't be sunshine? For the bond markets, the mutual fund industry has actually been a ray of sunshine in a period that, as most of the panellists have observed, has been very gloomy.

We have seen a significant pick-up in the activity levels of mutual funds in the corporate-bond markets. Total issuance in FY2018 was about Rs6trn (US$88bn). Of course the number was much higher last year, but it's still the second highest on record in the past 11 years.

Number two is total CP issuance for the entire FY2018 actually totals the entire size of the mutual fund industry – about Rs23.5trn or about US$350bn. So that's clearly telling you that the liquid money-market funds, the mutual funds, are actually participating in this industry.

If I give you a breakdown of this $350bn, the predominant assets under management are actually in fixed-income funds or debt funds – about $250bn–$260bn. Again the sunny part of the story is that the mutual fund industry is growing at a CAGR of 25%–30%.

Very recently, maybe in the last three, three and a half years, the fulcrum of the growth is centred around equity funds, but if you take an accumulative period of, say, the last seven to eight, nine years, the fixed-income funds have clearly led the way.

I think that leads on to another point, about a subset of fixed-income mutual funds popularly known in the Western world as junk bond or high-yield funds. While we don't really have junk bond funds in India, there certainly has been an increase in the growth of high-yield-bond funds. As we speak, this category totals close to about $25bn, which is almost 10% of total fixed-income assets under management.

I think that's clearly suggesting that while most of the public-sector banks have gone into hibernation, mutual funds have risen to the occasion. I don't think it's fair to say that they have replaced the banking sector, because banking credit outstanding is close to about US$1.3trn or about Rs86.5trn. It's very difficult to bridge that gap overnight, but I think it's heartening to know that the gap is coming down in a substantive manner.

The asset management industry is benefiting incrementally from the post-demonetisation financialization of savings. That could lead to more monies moving not only into equity as an asset class, but to a general reckoning that there is life beyond fixed deposits. I think that will be the way going forward. So don't worry too much about the rainy days, sunshine is here.

IFR ASIA: THAT'S A NICE UPBEAT ASSESSMENT. IF THE MONEY UNDER MANAGEMENT IS GROWING SO FAST THEN THAT SHOULD BE PUSHING YIELDS LOWER, SHOULDN'T IT? THERE SHOULD BE MORE MONEY COMING IN TO FIXED INCOME. DOES ANYONE HAVE A VIEW ON WHY THAT'S NOT QUITE HAPPENING YET?

LAKSHMI IYER, KOTAK AM: Rashmi pointed this out very well, that corporates are competing with the big daddy, which is the

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"We have seen diversification and now we actually have a curve. It used to be harder to pinpoint pricing on a new Indian issue, but over the last three years we've had significant issuance in the high-yield space as well."

government of India. If you see the entire period in the last maybe three months, six months, 12 months or even 15 months, you've seen the government securities yield go up consistently, despite the fact that in August 2017 we actually saw a rate cut. The yields have actually moved up exactly on a year-on-year basis almost 150 basis points.

In that same period if you see the corporate-bond yields, though they have moved up marginally, you've actually seen the spreads compress. So that is where the mutual funds step in, where we have seen a reasonable compression of spreads because mutual funds have acted as catalysts.

The sceptics might always say that it's a mispricing of credit, but I would say that corporate India is trying to find its suitor. Earlier it was just wedded to one spouse, which was the bank. Right now in Indian parlance, there is something known as Swayamvar, where the bride can choose her groom.

I think the Indian corporates are out in the market to look for their suitor. That has led to reasonable compression. Yes, one needs to be aware that if the underlying market is not very stable, it is very difficult to assume that the corporate-bond market, which derives its yield from the government markets, can really stabilise.

IFR ASIA: YOU MENTIONED HIGH YIELD EARLIER. SRINIVAS, WHEN WE TALK ABOUT HIGH YIELD IN INDIA, WHERE DOES THAT FIT IN WITH THE GLOBAL HIGH-YIELD MARKET?

SRINIVASULU YANAMANDRA, BARCLAYS: So global high yield actually has worked out well for India over the last three to five years. In my view, five years back, probably the only high yield out of India was Vedanta, which used to be the most prolific borrower, a very strong credit with a very strong fan following amongst investors.

We have seen diversification and now we actually have a curve. It used to be harder to pinpoint pricing on a new Indian issue, but over the last three years we've had significant issuance in the high-yield space as well.

The last two years have been a borrower's market. Indian borrowers have been able to raise funds at extremely tight spreads, whether it's a bank borrower or a corporate borrower. Indian banks, at one time were trading almost at par with Chinese banks, which were rated three or four notches higher.

That also speaks of the technical positioning. If you're an Asia fund manager with 60%, 70% issuance from China you need diversification, so you would seriously evaluate deals from India, which helps with lowering prices as well.

From that point, I think since January there's been a reversal. Investors now are exercising more optionality. They're being more selective, as someone mentioned earlier, and yields have backed off.

Therefore while high yield is an option, I think in the current spread environment issuers are not yet even psychologically prepared to pay a yield of 6.5%, 7%. People haven't adjusted still to swap rates being at 3%. If you tell someone L plus 350, probably they'll say that's a good rate. If you swap it and say 6.5% they'll say that's too expensive. It's still a psychological thing. People are not yet accepting the reality that rates are much higher right now. That's playing out. So therefore people are still sticking to the bank markets.

So the high-yield markets are there. Investors are willing to look at credit, they have liquidity, but they're asking for higher pricing in line with the risk that they're assuming.

IFR ASIA: KARTHIK, YOU WERE TALKING BEFORE ABOUT THE IMPORTANCE OF THE BANKRUPTCY REGIME. IS THIS SOMETHING YOU SEE AS SOME SHORT-TERM PAIN FOR A LONG-TERM BENEFIT?

KARTHIK SRINIVASAN, ICRA: I think it is clearly a case of short-term pain for a long-term gain. We always had challenges in terms of enforcing security and getting recoveries, should the need arise, the borrower goes belly up, or bankrupt, or there are challenges. Now systems have been put in place.

It's also important to note that for India it's still early days. The processes are still being tested out. Theoretically, you should see some resolution of the accounts under the bankruptcy court by the end of this financial year – one way or the other.

IFR ASIA: DOES IT INCREASE THE RISK OF MORE SUDDEN SHOCKS FOR BONDHOLDERS, IF BANKS PUSH MORE BORROWERS THROUGH AN INSOLVENCY PROCESS?

KARTHIK SRINIVASAN, ICRA: I think investors are happy with the fact that the insolvency code is there now. It used to be one of the big sore points for global investors. Yes, some haircuts have been 80% but also there have been cases of full recovery. So it's worked in that sense. I think investors will be happy with the current situation.

Our own estimate is for a recovery rate for lenders of 50%-60%, in line with the RBI mandating the banks to make 50% provisions. That should to some extent at least protect the banks from any further balance-sheet shocks.

The downside risk is in case the resolution does not happen, or the haircuts that finally end up being taken are much bigger, then you don't have a choice today but to rely on the government for funds. I mean at the current valuation it's really going to be difficult for a lot of entities to raise external capital.

I think by the end of the year, if I'm not mistaken, close to 50% of the NPAs in the banking system will be out. That is a very significant statement to each and every global investor. It'll give great confidence in the system.

IFR ASIA: THE OTHER REGULATORY CHANGE THAT A LOT OF PEOPLE HAVE MENTIONED IS THE MOVE TO ELECTRONIC BIDDING PLATFORMS. I'M INTERESTED IN THE PANEL'S VIEW ON WHAT AN IMPACT THIS HAS HAD ON ISSUANCE.

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RASHMI MOHANTY, VEDANTA: I think these kinds of things are a welcome move. Definitely, the more you use technology for such processes, it's good to have.

I would say as a person who's used and experienced the platforms, and it is something which is very recent, at this point in time it's still evolving. Deals still happen offline and they go into the electronic platforms as a planned kind of bidding thing. It isn't electronic bidding that can change the way the market operates; there are fundamental things that need to be corrected in the market for electronic bidding to really become successful.

I think all the panellists here have talked about how we need to get some more investment avenues for corporate debt. I think Lakshmi made some good points about how the mutual-fund market has supported the corporate-bond market. They're also limited by the tenors that they can do.

The reason for that ¬¬– and probably it's deep rooted in the India psyche or the Indian mindset – is that for us long-term investments are made more with a view that in the long run things will sort themselves out. So the only long-term investment avenues that we use are things like real estate, gold, equity. No one really puts their mind to doing long-term investments on the fixed-income side other than insurance and pensions. They're not supposed to be fixed-income investments, they're meant for certain other reasons, but that's the only investment that you will see in India that is really a long-term fixed-income investment. And therefore the market is limited by the source of funding for investing in long-term corporate debt paper.

But whatever available money from that sector needs to come into the corporate-bond market, and we can talk a lot about what IRDA [Insurance Regulatory and Development Authority] should do and what the pension fund authorities should do about it.

Back to the electronic thing, there are fundamentals that need to be corrected in the market itself for these kinds of platforms to be really effective for both the borrower and the issuer, as well as the investor.

LAKSHMI IYER, KOTAK AM: Additionally, the EBP has brought about a lot of transparency, so the issuers or lenders to the ultimate credit are able to understand or know in advance the issuance available etc. The unfortunate bit is also the timing, because it's come at a time when there's so much gloom around. So there is genuinely no interest in price discovery.

So ideally, an EBP kind of platform should in a good market pull the prices down, as in pull the yields down, or vice versa.

As Rashmi pointed out, since quite a few of them, or most of them, are private placement, pre-negotiated, it becomes very difficult. I think probably we need to wait, it is just too early. Of course the intended objective of bringing about transparency has been achieved, but the price discovery at the heart of EBP, I think that seems to be missing.

Another critical thing is whether you're doing plain vanilla issuance, so if Vedanta issues a bond or XYZ issues a bond it's a plain vanilla bond. The prospectuses are uploaded obviously a day or two in advance. If it's a complex structure, if it's a complex credit that has got tight covenants etc., it just becomes humanly impossible as a fund house or any other stakeholder to really analyse every aspect of it and make a bid.

That credit evaluation takes a little bit of time if you want to

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"From a structure perspective things have been really interesting and creative. There are lots of new ideas that have been introduced in the market."

ensure no NPAs are in the mutual-fund system also.

I think therefore the EBP has some more ground to cover. It's just a small beginning.

IFR ASIA: SO IT'S NOT SOMETHING WE SHOULD ABANDON. IT'S NOT SOMETHING THAT'S CAUSED TOO MANY PROBLEMS.

NIPA SHETH, TRUST: Of course. The new bidding norms are aimed at achieving better and more transparent price discovery in the bidding process. However, due to the stringent guidelines this platform seems limited to big investors and issuers. It would essentially turn out to be just a price-matching platform.

Owing to this, aside from the most active mutual funds or banks, if an issuer wants to tap any other investor, a public issue would probably be the best choice. The EBP guidelines need to be eased to allow the market makers or arrangers to play a part in the system. The infrastructure requirements are a challenge for some investors. For the rest of the market, I think very clearly the direction is to move part of the issuance towards public issuance.

IFR ASIA: AS IT STANDS AT THE MOMENT, IT SEEMS THE ARRANGERS ARE BEING TAKEN OUT OF THIS PROCESS. THE CLASSIC SYNDICATION, BOOKBUILDING, PRICE DISCOVERY PROCESS HAS GONE. IS THAT RIGHT?

NIPA SHETH, TRUST: Absolutely. It's been a tough market. There's been hardly any issuance from PSU borrowers in the first quarter. It's a system of change, but I believe most of them will now start looking at public issuance.

AUDIENCE: GOOD MORNING. I REPRESENT THE SWISS STOCK EXCHANGE IN INDIA. MY QUESTION IS REGARDING THE DROP IN INTERNATIONAL BOND ISSUANCE. A QUESTION TO RASHMI: FROM A BORROWER'S PERSPECTIVE, HOW IMPORTANT IS INVESTOR DIVERSIFICATION, ESPECIALLY ACROSS INVESTOR CLASSES OR NEW GEOGRAPHIES IN SUCH A SCENARIO?

RASHMI MOHANTY, VEDANTA: That was my first point about how you plan your funding strategy. Diversification is very important and diversification is not something that you think of in a tough market. Of course, you don't have a choice and you start looking for alternative sources of funding for yourself in a tough market. You will then in that case dip into whatever is available.

It's something that has to be an ongoing process. It's not something that you just pick up one day and you drop it the next day because your favourite bankers are back, queuing outside your office. It's something that has to be a strategy through and through and therefore looking at alternative markets, doing investor diversification, definitely is something that I'm sure, not just us, but every corporate treasurer and every large corporate keeps planning and thinking about.

AUDIENCE: GOOD MORNING LADIES AND GENTLEMEN. I REPRESENT A COMPANY THAT BUILDS SOFT AND SOCIAL INFRASTRUCTURE, LIKE HOSPITALS, SCHOOLS, HIGHWAY REST AREAS, WORKING WOMEN'S HOSTELS. ESSENTIALLY, IT'S A UNIQUE PROPOSITION. IT'S NOT QUITE INFRASTRUCTURE, NOR IS IT REAL ESTATE BECAUSE THERE IS ANNUITY AND GROWTH. WHERE DO YOU THINK WE CAN RAISE THE KIND OF DEBT CAPITAL THAT WE REQUIRE?

SRINIVASULU YANAMANDRA, BARCLAYS: I think you will have appetite from mutual funds for a situation like the one you mention, and Lakshmi can add more here. You'll have to take time building out your credit story and convincing them. You should get yourself a rating that will help you have credibility and it'll help put out the story. In our interactions the mutual funds are very keen to look at new credits. They also want diversification from an issuer standpoint. I think that would be my suggestion.

LAKSHMI IYER, KOTAK AM: There is this curiosity around new asset classes within the fixed-income piece. Renewables, for example, are a classic case in point. We've already seen three renewable alternative energy source borrowers come and refinance their debt from bank lines to predominantly mutual funds and, selectively, insurance companies.

Annuity-based projects have been a favourite of the mutual-fund industry for two reasons. One is most of the projects have had the government of India or a quasi-government entity as the counterparty, so there has been significant interest. The other critical thing is the growth of a category called hybrid funds. These hybrid funds are essentially a combination of debt plus equity, which could be in the form of monthly income plans. So this category also has seen significant growth, which is why you have seen a few InvITs [infrastructure investment trusts], just a couple of them. REITs are yet to be introduced in India, and the first two InvITs have not been good experiences for the end investor. The third InvIT that was issued again found reasonable demand.

It's not that everybody is meeting with overnight success but there is clearly a case to tap the capital markets with these kinds of innovative structures. For mutual funds, the longest term would be three, four or five years. If you want 10, 15 or 20 years obviously banks and insurance companies or PFs would be a better option, but clearly mutual funds at least in the last three to four years have been waking up to innovations. We have seen so many new structures obviously in collaboration with the issuers seeing the light of day.

RASHMI MOHANTY, VEDANTA: I'll just make a comment here that's relevant to the question that you asked. For the banks and whatever turmoil that they're in, you have to still credit them with the fact that over the last many decades they have been a quasi-credit rating agency for the investors. I say that from

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experience, if you've been able to get and source a banking line from a PSU bank, in a way it's a stamp on your credit, which is where the mutual fund and the other bond investors would look at your credit as well.

I think that hasn't changed. Or it has changed only marginally, where rating agencies have started playing a good role out there, where they are sitting down and having very engaged discussions with issuers, trying to understand the credit and the credit notes and the credit appraisals. The way they're now looking at it and the way they write the credit rationales is a lot different from what they were doing about six, seven years, 10 years back. When it's very detailed, people like Lakshmi can read through that, can engage with the issuer and have a better understanding.

So I would say for a company like yourselves you can't just depend on the bond market and say, "Let me reach out and do a three, five-year bond for the time being." That's maybe not the right thing.

You will have to reach out and see all the possible avenues. You will have to probably take some banks with you to fund your projects. You will have to probably reach out to a rating agency to be able to assess and give a very independent opinion, a neutral opinion about your credit so that people like Lakshmi and Srini are comfortable with your credit and can then guide you with the kind of structures that can be done.

The best part is, as Lakshmi mentioned, that from a structure perspective things have been really interesting and creative. There are lots of new ideas that have been introduced in the market. So it's not just a plain vanilla bond with a pure credit-risk assessment being done, cash-flow based InvIT, REIT etc., there are so many other structures that are now in the market.

IFR ASIA: HOW DOES IT WORK IF YOU ARE A FIRST-TIME ISSUER LOOKING TO SELL BONDS? YOU CAN'T JUST GO STRAIGHT TO THE BOND PLATFORM AND PUT SOMETHING ON THE SCREEN, PRESUMABLY, CAN YOU?

NIPA SHETH, TRUST: I agree with Rashmi's point that the bank market or even an NBFC [non-banking financial institution] works as the first stepping stone for most borrowers. Unless if it's a cash operational project or has a cash flow of more than five to 10 years, it seems a bit difficult to enter the bond market - because the terms of the trade are very stringent. Therefore, one would essentially turn to an alternate market to lower the cost of funds, provided the cash flows are in place. This is where I strongly believe that the rating agencies and market specialists would have a crucial role to play - in guiding on the selection of the correct rating and funding mix to access the market. That should be the right approach.

AUDIENCE: I WORK IN THE AREA OF STRESSED POWER PROJECTS, AND THE QUESTION IS FOR KARTHIK. WHAT HAPPENS IN THE BANKRUPTCY CASE UNDER NCLT WHEN LENDERS ARE EXPECTING AT LEAST 20 CENTS ON THE DOLLAR AND THE BIDS COME IN AT 8 OR 9? IF THEY DON'T ACCEPT, THEN PROBABLY THE ASSET MIGHT GO INTO LIQUIDATION AND THAT WOULD BE THE WORST OUTCOME.

The second question is for Lakshmi. What kind of check on the underlying asset quality is being done before mutual funds refinance long-term projects?

KARTHIK SRINIVASAN, ICRA: As I said, it's still early days for the India market as far as IBC and NCLT goes. We're still going through a lot of teething issues. Let's say banks actually lose out on one or two

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"Mutual funds and insurers are growing quickly but you're talking about Rs30trn-Rs35trn of non-bank debt as compared to about Rs80trn-Rs85trn of bank credit. That gap is definitely narrowing but it is going to take a long time."

assets where they would have got bids at 20 or 30, but finally it goes to liquidation and they get 3 or 4 cents. Maybe the next time better sense prevails and they settle for 20, you never know.

Should that be the order of the day, then one is in a really deeper mess because a lot of assets are in public-sector lenders, the entire stress is there. Then you would really need a significant amount of sovereign support to bail out.

We do believe the government wants the economy to pick up pace. So for that you don't have a choice but to have an Indian banking sector in much better shape. Mutual funds and insurers are growing quickly but you're talking about Rs30trn-Rs35trn of non-bank debt as compared to about Rs80trn-Rs85trn of bank credit. That gap is definitely narrowing but it is going to take a long time. It has to be about getting the banks back into shape so at least they can resume lending.

LAKSHMI IYER, KOTAK AM: On the underlying security check, two things are worth mentioning here. In comparison with the banking industry, the non-performing assets in the mutual-fund industry can be counted on your fingertips. In the last three years it's been not more than three names, one was a big amount, the others were a few million dollars. I think the genre or the vintage of the mutual-fund lending book, in terms of credit profile, the fulcrum will be around the double A, double A minus kinds of rating metrics.

I'm not saying that rating is the only factor that mutual funds look at, but it's definitely a goalpost. It's like a hygiene check. It is a necessary condition.

The second thing is that mutual funds, in general, rarely lend on a non-collateralised or an unsecured basis, unless it is to the largest mortgage lender in the country or maybe the largest auto manufacturer in the country. The bulk of the asset lending is collateralised, and that collateralisation can range from fixed assets to shares, which are more liquid than the receivables that underpin NBFC lending.

I think by and large it is reasonably safe to say that because of the tight nature of collateral, including the real-estate sector, where there is a physical asset or there's a cash flow attached to it, the tight structuring of the asset-management industry should hold it in good stead, even though it refinances at a marginally lower rate than the banking sector.

AUDIENCE: I WOULD LIKE TO UNDERSTAND WHAT HAPPENS TO INFRASTRUCTURE COMPANIES THAT HAVE A GROWING ORDER BOOK BUT ARE COMPLETELY STRESSED. HOW DO THESE COMPANIES RAISE ANY KIND OF FINANCE TO FULFIL THEIR ORDER BOOK?

RASHMI MOHANTY, VEDANTA: You would need to segregate your new orders and your new contracts and demonstrate that you have the ability to execute those orders at a certain healthy IRR – irrespective of whatever you've done in the past. If you can segregate the cash flows from your new projects, provided you have the provisions in the earlier agreements to allow it, then you can use some of these interesting structures we've been talking about to create something that investors would like. I think that's one way to look at it.

SRINIVASULU YANAMANDRA, BARCLAYS: You have a new category of investors. Credit funds are picking up in India. So those are really the first port of call for something like this. Where there is stress but there is an underlying value, these funds are set up to analyse that. As Rashmi said, come out with ring-fencing for the new projects if your other lenders allow that. If there's that optionality, then credit funds and some of the NBFCs also specialise in this. It's not a product for regular mutual funds or some of the banks.

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SECOND PANEL – Green finance

IFR ASIA: WE'LL MOVE ON NOW TO A SPECIAL SESSION ON GREEN FINANCE. SANDEEP, WHAT RECENT DEVELOPMENTS HAVE YOU SEEN IN GREEN FINANCE, AND WHAT'S GOING ON HERE IN INDIA?

SANDEEP BHATTACHARYA, CBI: In India the capital markets have been blessed by some recent INR bonds that refinanced green projects, mostly from renewable energy developers. When this trend started in 2015, the underwriters used to say that partially guaranteed instruments were very difficult to sell down. I am happy to say that they were singing a different tune on the one that got placed in January!

We have had a fair amount of issuances from large public sector borrowers, and the pioneer was EXIM Bank, of course. Then we had IREDA, NTPC and IRFC [Indian Railway Finance Corporation] who then followed suit and did offshore issuances. Some of them were Masala, some of them were US dollars.

EXIM Bank started off with mass transportation, but the asset mix is heavily weighted towards renewable energy with a little bit of Green buildings and a little bit of mass transportation with the IRFC deal.

If you go beyond the capital markets, there is increasing acceptance of financing of equipment, like solar recharging systems. There are plenty of relatively small finance companies doing risk business there, and I must say that the size of the equipment is getting larger and larger. What started off with mobile phone chargers is going up to maybe a whole housing system and these non-banking financial corporations are keeping pace. Of course their balance sheet sizes are still small. They still need to scale up a bit.

There is intense demand for rooftop solar systems but practically no financing. So what the smaller operators are doing is setting up equipment and selling it to the big developers, and in the process strengthening their competition. There is a huge dearth of financing there – it comes from crowdsourcing, maybe some wealth management firms. In fact Barclays wealth management has done a good job of financing the equity of some of these SPVs which do rooftop solar.

There are a plethora of business models and I must say it is difficult for financial institutions to keep pace with the different models. There's a tremendous demand but a huge financial crunch.

This is the Indian scenario. It's very different from what you're seeing in Europe. Investors are all over the clean stuff. The next step there is looking at Green bonds from the 'dirty' industries, which means the refineries, the metal extraction companies that are transitioning to a business model which aligns with the Paris Agreement.

There's a fair amount of capital available, and a lot of Indian companies have tapped it, but in India we are still dealing with a lot of basic needs for water, for agriculture. They are at a very start-up stage and a bit far away from the capital markets.

IFR ASIA: DAVID, I THINK THIS IS A GOOD ONE TO BRING YOU IN ON. CAN YOU TELL US A LITTLE BIT ABOUT EXIM'S EXPERIENCE IN THE GREEN MARKET AND WHAT YOU TAKE AWAY FROM THAT?

DAVID RASQUINHA, INDIA EXIM: We have a couple of takeaways, and the first one is probably going to be music to Sandeep's ears and that is I would say get a good certification.

I'm not entirely happy with the advice we received when we did India's first cross-border Green bond. We did not get a certification done. Call it a bit of, not exactly arrogance, maybe a bit of overconfidence; we thought our word was good enough. We didn't know the market. Frankly, it was the first Green bond out of India, we were getting our feet wet in the market and we went ahead with full disclosure.

We disclosed the mass transportation projects that we wanted to fund, as Sandeep mentioned. These are cross-border in Bangladesh

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and Sri Lanka. We explained why they could be perceived as green, because of the shift from high-intensity road transport to lower-intensity mass transport. We gave all the details but it was essentially our word.

We also offered an audit certification regarding the use of funds. Now when we commenced the marketing, we didn't really do a roadshow. We just did a series of telephone calls which, again, suggests to you that we probably should have done a bit more homework and taken a lot more care. We found that the green investors had a lot more in-depth questions than we were prepared for. It's not that we didn't have the information but we weren't expecting quite those questions.

Most of the European green investors were going into much greater depth. How does the carbon footprint change? What is the exact change in percentage points down to the second decimal? Frankly, we didn't have the answer to hand. We had it in the files but we didn't have it with us.

Had we done a proper certification it would have probably taken an additional week to 10 days, but I think we would have got a far better reception. So learning number one: get an independent certification. It's not a reflection on your individual credibility, but it does make the investor a lot more confident because that investor also needs to be answerable to his own authorities or his own funding principals.

The second is more of a derived learning. When we went in for this issue, we were looking at investor diversification. We achieved that: we did get in a number of investors who do not normally invest in our bonds, and we're otherwise a pretty regular issuer. This came from both pure green funds and the green arms of not-so-green funds. So we did achieve investor diversification, that was not a problem. Our issue was about 3.2 times oversubscribed and perhaps about 0.8 of that was the green funds.

That was important, but you should not expect to get a significant price advantage. We knew that, but it reinforced our learning. When you talk to a green investor, focus on the investor rather than the green. Yes, he or she is predisposed to look at your green offering, but at the end of the day they're looking at the return on investment and don't expect a big change on that.

IFR ASIA: SOME VERY INTERESTING THOUGHTS IN THERE. ASHOK, JUST TO TAKE A STEP BACK FOR A SECOND: WHY SHOULD AN INVESTOR CARE ABOUT ENVIRONMENTAL CONSIDERATIONS? WHAT IS THE BENEFIT TO THEM OF AN ESG STRATEGY?

ASHOK EMANI, IDFC: Thank you Steve. Actually there's a strong correlation between the ESG factors and the financial performance of a company. It has been proven and there has been a lot of progress over the years. More and more companies are adopting ESG factors and analysing materiality to their business. Good ESG practices improve access to capital from wider investor base.

As David has said, that independent certification is something which incorporates all these softer issues around ESG, and it's the same for asset managers. Investors are forcing companies to adopt ESG factors in their analysis and come out very clearly on how they are addressing certain issues.

Unless you take care of your ESG factors, you risk spending your resources – your time and money – on E&S issues which may go haywire after the investment happens. You can see in businesses the world over, up-and-coming businesses are integrating ESG – which is paramount. They are asking for ESG issues to be included in their due diligence. Addressing the ESG issues prior to investment has been going on for a long time already.

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"There's a fair amount of capital available, and a lot of Indian companies have tapped it, but in India we are still dealing with a lot of basic needs for water, for agriculture. They are at a very start-up stage and a bit far away from the capital markets."

IFR ASIA: AVINASH, YOU CAN REPRESENT THE ARRANGER COMMUNITY HERE. WHAT SORT OF OUTLOOK HAVE WE GOT FOR GREEN ISSUANCE? WHAT DOES IT BRING TO A BORROWER THAT A REGULAR FINANCING WOULDN'T?

AVINASH THAKUR, BARCLAYS: I think from an Asian perspective this market is likely to grow. Globally, we've seen a huge amount of growth. The green bond market now is in excess of US$250bn and Asia is still a very small part of that.

Now there's a lot of emphasis from the regulators in the two big markets in Asia – China and India. Regulators have come out with Green bond principles and guidelines, and they are very encouraging of issuers trying to do more green bonds. In fact in China, the regulators have made a lot of concessions for issuers who are looking to do Green bonds.

From our perspective, as David said, it's not something which has reached a stage where issuers are prioritising this over conventional financing. The reason for that is it does come with some additional work: you need external certification; it does come with end-use restrictions.

The pitch really is that it still has to make economic sense, just as much as it's a statement that you're committed to sustainable financing. Unless you see the cost benefit of issuing in the green format, issuers are not going to get attracted in a big way. They will do it for signalling purposes, but that's once in a while. Once we start seeing the economic benefit, that's when the market really moves in this direction.

In Asia we've not seen that happen so far but globally we've seen evidence of that. The total amount of funds looking at these opportunities is now in excess of half a trillion dollars. That liquidity is only available to issuers who follow this format. That liquidity is much more sticky, so in volatile times you will see the green bonds are more stable, because these investors are very committed to this financing. They're not there to trade the bonds. They'll hold those bonds for the life of the bond.

There are benefits in terms of where the bonds trade over time, and over time you will see a new issue benefit as well. The amount of investor attention that you can attract if you issue in the green format would be much larger than in the conventional format, which will obviously result in reduced pricing. It's not happened yet, but I think we're getting there slowly.

Once we reach that stage I don't think we'll have to go and pitch Green bonds. I think every issuer will want to do Green bonds.

IFR ASIA: DAVID, I SAW YOU NODDING AT THE IDEA THAT GREEN FUNDS CAN BE MORE STICKY. HAVE YOU NOTICED ANY DIFFERENCE BETWEEN THE WAY YOUR DEALS HAVE PERFORMED?

DAVID RASQUINHA, INDIA EXIM: Yes, Avinash is absolutely right. A typical green investor is not a trader. He's a buy-and-hold type, which means there's that much less of your paper actually floating in the market. Bear in mind that even in a green bond, it doesn't mean that 100% of your investors are green. The dedicated green investors will hold between 15% and 20% of the total issue – it'll vary from issue to issue. That means that 15%–20% are effectively off the market, because they're not being actively traded, and your price is looking a lot better. When you go in for your next issue, the secondary market price of that bond will help you because of these technical conditions.

We did see this in fact when the famous taper tantrum happened and during other market movements. The green bonds have been a lot more stable compared to the non-green.

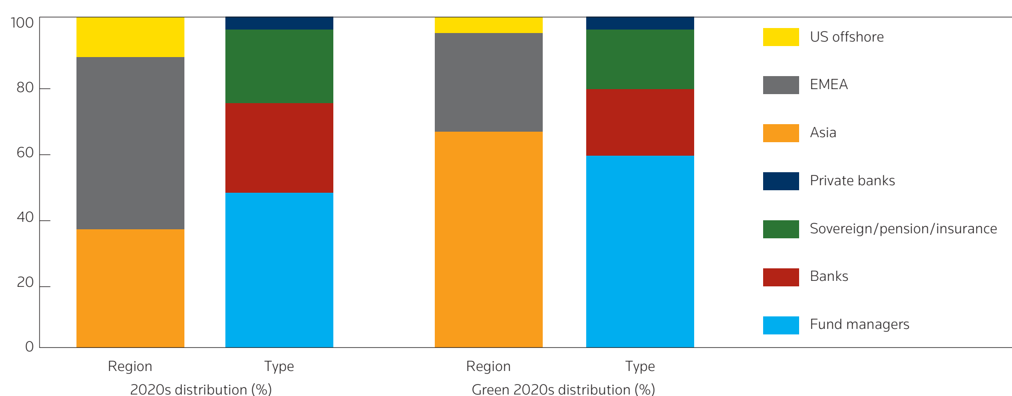
IFR ASIA: VERY INTERESTING. ASHOK, WOULD AN INVESTOR EVER PAY A PREMIUM FOR THE GREEN CERTIFICATION? SHOULD THAT IN YOUR VIEW COME WITH A DIFFERENT PRICE?

ASHOK EMANI, IDFC: Yes, actually there is a premium which comes with the ESG value-add, which accrues

GREEN VS NON-GREEN

INDIA EXIM'S FIRST US$ GREEN BOND OFFERED LITTLE OBVIOUS BENEFIT OVER A SIMILAR ISSUE TWO MONTHS EARLIER

	Issue date	Size	Maturity	Coupon (%)	Yield (%)	Total orders	Investors	Spread over UST (bp)
Not Green	04 Feb 15	US$500m	12 Aug 20	2.75	2.868	US$2bn	150	155
Green	24 Mar 15	US$500m	01 Apr 20	2.75	2.865	US$1.6bn	140	147.5



Source: IFR Asia

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to the entire investment. It's not just the awareness which is being generated around the ESG.

So what we have observed from our portfolio, from day one when we take up the issues on ESG, we identify the potential areas where the ESG in the investment can add value and areas which could go bad. While working with the investment, we get the time to address the issues by allocating sufficient resources to bringing it back to normal operation. That feeds into the expected price at the time of exit.

The awareness is, of course, building up. The UNPRI is one platform, but there are many others bringing more and more investors into their fold. At the moment there is about US$83trn of assets under management across these platforms, like the CDP [Carbon Disclosure Project]. The investor base has also increased over the last two decades. It started off with five investors signing up to UNEP FI in 1991 and now it is over 600. Similarly, UNPRI, which is a commitment to the principles on responsible investing, has moved up from 65 to 1,800-plus investor signatories.

Obviously, there is an awareness which affects their premium at their exits. That's automatically making investors internalise sustainability in their systems and address the ESG issues. If you are aware and work on these issues upfront, you will obviously get the premium.

IFR ASIA: SANDEEP, WHAT KIND OF INCENTIVES DO WE NEED TO THINK ABOUT TO GET THINGS MOVING EVEN FASTER?

SANDEEP BHATTACHARYA, CBI: Let's just devote a minute to see what's the downside if things don't go well. This all flows from the Paris Agreement and if we don't follow that, this hotel where we are sitting will surely be under water, and so will the rest of Mumbai.

India will see more extreme temperatures. Northern India will see temperatures above 56, 57 degrees Celsius quite often. That means agriculture will suffer a lot, which in turn means there will be a severe food crisis. The whole of the Gulf Cooperation Council will nearly become unliveable, which means a lot of people – a lot of Indians – who live there will need to relocate and here we have shrinking land, shrinking water, shrinking food supply.

That's the urgency. That's the risk. And here I would like to quote Anand Mahindra, chairman of the Mahindra Group who said: "Climate change is therefore the biggest business opportunity."

Having said that, I'll try to answer your question about what kind of incentives can help. I know it's very difficult, but my wish list would be that some of the money in the system is directed to us. This may be by RBI guidelines designating climate investments as priority sectors, which has been a very good way of incentivising the flow of funds. We don't know when the RBI may change its guidelines – it's been in the press for around a year that it's coming, but it's not yet come. That would be a very welcome moment.

IFR ASIA: SO THERE'S ALREADY SOME DISCUSSION ABOUT ASSIGNING PARTICULAR LENDING REQUIREMENTS TO GREEN PROJECTS?

SANDEEP BHATTACHARYA, CBI: There's been a lot of press that RBI is coming up with regulations on green finance. We know for sure it coming, is but there is some speculation about what that requirement will be.

There is also some talk about making insurance companies dedicate a certain corpus towards these causes. The issues, I think, are around how you define it. If the definition is not watertight, it can be heavily exploited. This is the first thing on the wish list, to

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"I think from an Asian perspective this market is likely to grow. Globally, we've seen a huge amount of growth. The green bond market now is in excess of US$250bn and Asia is still a very small part of that."

have a certain amount of capital dedicated to green finance.

Having said that, we know that in India these policies don't move extremely fast. And there are historical reasons for having regulations for insurance companies and provident funds, which possibly should not be moved extremely fast because the sector needs to be trained.

Therefore, we've been looking to maybe create a substitute. You might be aware that there is a CSR [corporate social responsibility] fund, where companies beyond a certain level of profitability have to put a certain amount of money into CSR. That fund is about Rs280bn, roughly US$4bn.

About 6% goes into environmental causes. Now if we could somehow pool some of that 6% into a fund which invests in paper from environmental causes, then there will be some incentive to do a green bond in the local Indian market.

So this is a mechanism being worked out by one of the big four consulting firms, and any AMCs here who are interested can obviously take it ahead. It'll be more about branding initially, but then that's how the market can possibly take off in the absence of regulatory support.

The other kind of support requires policy changes, which are slowing but are coming in various states for the distributed energy sector, and there's a lot of other financial innovation necessary from the people in the room to ensure that funds are available for things like rooftop solar. The multinational development banks can also be there to invest in the right structures.

It requires some innovation and maybe some deals will take some gestation. These are some of the things which I think will help.

IFR ASIA: LOTS OF INTERESTING IDEAS THERE. ON THE IDEA OF POOLING MONEY TOGETHER INTO A GREEN FUND, I THINK WE'VE SEEN SOME OF THIS IN THE GLOBAL MARKETS, RIGHT, AVINASH?

AVINASH THAKUR, BARCLAYS: Absolutely. As I said earlier, over time you will see this become common practice, but to start with, the market will need some infrastructure support.

One important thing is that there's a big misconception about how can you contribute. Everyone wants to contribute. I don't think there's anyone in this room who would dispute that this is the future and this is the way to go. How do you contribute? When I talk to my clients, the issuer community, the question is often: "Can we issue a green bond if we do not have a green business?"

The reality is everyone can contribute. Even companies with exposure to coal have issued green bonds globally. It's about bringing down the emissions and raising your standards.

Another issue is you may not have a big enough funding requirement to warrant a large bond transaction, and that's why the pooling becomes very important. If we could have infrastructure debt funds that are dedicated to green financing, that would also make it easier for the smaller players. Sandeep talked about rooftop solar. I don't think banks or large funds will be interested in financing the small players, but if you can pool assets and create dedicated funds for these smaller players, that'll help them. Green finance needs to reach where it's most needed.

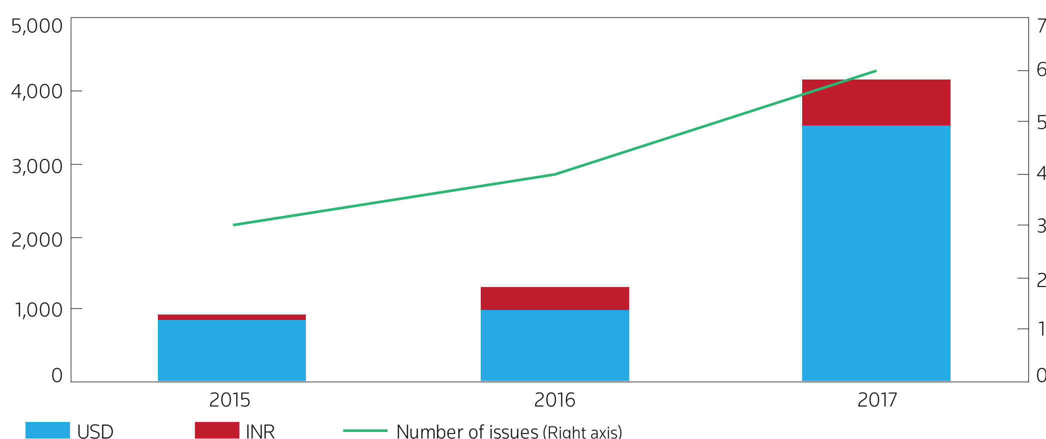
Just to give you an international perspective, this market five years back was as small as it is in these developing countries right now. We started the Barclays MSCI Green Bond index in 2013, and that gave the market a big impetus. We also set up a fund which was dedicated just to green investments and we got third-party money into that. That again was a very good way to get things started.

So I think these are some of the factors which are needed while the market is making this transition, until we reach critical mass. As I said, once it makes economic sense then you don't have to worry about trying to encourage issuers or trying to sell this paper.

IFR ASIA: ON THE INVESTOR SIDE, HOW MUCH TIME DO YOU HAVE TO SPEND TRACKING THAT

GOING GREEN

INDIAN ISSUANCE ACCELERATED IN 2017 (US$M)



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INVESTMENT, MAKING SURE THAT WHAT YOU'VE BOUGHT IS ACTUALLY GREEN? WHAT CAN YOU DO IF IT'S NOT?

ASHOK EMANI, IDFC: Basically, we follow the standards in terms of social and environmental sustainability. So in the beginning, when we look at a particular investment, we set out our action plan in terms of what needs to be tracked for the entire project, particularly on the environment and social indicators that we have developed, and we track those throughout the investment period.

This level of engagement happens with any investee company from day one. It gives clear signals to the company that they have to really look at the indicators and parameters set out for them, and they are also tuned to deliver on that. It is an integral part of the entire deal.

The emphasis here is on working with the company from day one. That way you are able to review the performance, take corrective measures, and do you value-add and prepare a business case out of that. Every year you have to set goals and objectives for that particular ESG aspect and that's how we track until we exit.

IFR ASIA: I SEE. DAVID, BASED ON YOUR EXPERIENCE, HOW MUCH TIME AND EFFORT DOES THAT REPORTING AND ONGOING REQUIREMENT TAKE UP?

DAVID RASQUINHA, INDIA EXIM: Frankly, since we did not go in for the original certification, it doesn't really take up much time. I essentially get my outside auditors to confirm that the funds have been used for the projects we committed to at the time of the issue.

Had we gone in for the certification, given that we have all the data with us I would not see that as a constraint. For EXIM, we have large projects, so it's not that I am giving a range of about 20 different projects, it's probably 4 or 5. So it's easier for me to demonstrate that.

To my mind, the time to receive the certification or even the cost – Sandeep, you didn't hear that – is not really too significant in terms of the diversification that we can achieve. The cost/benefit is very clear.

AUDIENCE: I WORK FOR MOODY'S. MY QUESTION IS AROUND CERTIFICATION. HOW MUCH IMPORTANCE DO INVESTORS PLACE ON CERTIFICATION FOR THE ANNUAL MONITORING PROCESS, BASICALLY THE USE OF PROCEEDS? AND DOES IT HELP TO TIGHTEN THE PRICE OF A NEW ISSUE IN THE OFFSHORE MARKET? SECOND QUESTION: IS THERE ANY SCOPE FOR OTHER PLAYERS TO PROVIDE GREEN BOND OR ASSESSMENT SERVICES?

ASHOK EMANI, IDFC: When I said we work with the companies, we look at getting the right environmental and social management systems in place. They mirror the certifications given by ISO14000, EMS certification and so on. It may be advisable for the investments to go for certification at a later stage, but we don't stress that you get certification from day one. We look at the requirements embedded in the ISO and other systems, and on similar lines we help the investee company prepare itself to that stage where it can secure the certification.

DAVID RASQUINHA, INDIA EXIM: Just to come back to the point on pricing, to give you the actual case study of our bond, as I said, we were 3.2x on book. Now without the green investors we would have been perhaps 2.4x something like that. To that extent our ability to tighten the price would have been less.

Now how do I quantify that in pricing? It's a hypothetical situation. In theory, yes, given that your universe of investors expands and

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"A typical green investor is not a trader. He's a buy-and-hold type, which means there's that much less of your paper actually floating in the market."

there's going to be that much more demand, so logically you should see a benefit in pricing. But if that's your primary aim in issuing a Green bond, I don't think you're going to be very satisfied.

AUDIENCE: I HAVE A QUESTION TO AVINASH. LET'S SAY, AN ISSUER SELLS A GREEN BOND AND COMMITS TO CERTAIN EFFICIENCY GAINS OVER THE LIFE OF THE BOND. WHAT HAPPENS IF THE ISSUER COMMITS TO 100 BUT ONLY REACHES 90? WHAT HAPPENS TO THE PRICING?

AVINASH THAKUR, BARCLAYS: Typically, most issuers will not overcommit. So if you think that you're going to hit 100 you'll probably set the requirement at much lower than that. That's still acceptable to investors. You don't need to go to 100 to sell bonds. It's not very different from the way we put covenants on a financing. You give them some headroom.

The idea is to encourage this kind of financing. It's not to make life difficult for the issuer. The investors also want to encourage it, so whether you brought down emissions by 100 or 50, it does not matter so much to them. The fact that you've committed to bringing it down is more important for them. Even if a situation arises where you're not able to deliver on the target, I see the investors still being very supportive, because at least you've moved in the right direction. The important thing is that everyone can contribute, and should contribute to addressing this climate challenge.

IFR ASIA: SANDEEP, I READ RECENTLY THAT YOU ARE LOOKING AT SECURITISATION IN INDIA. WHAT'S THE POTENTIAL THERE?

SANDEEP BHATTACHARYA, CBI: Yes, and we are soon going to come out with a full version of that report. As Avinash mentioned, for any institutional investor to come in you need scale. You need a pooling mechanism. In that case, securitisation can be very effective. Right now, we are trying to support two such proposed transactions where rooftop solar systems or other small assets are being pooled together for institutional investors or multilateral development banks.

I know that securitisation is not a very stable product in India. It has gone through a lot of regulatory topsy-turvy and there for a while a tax on the SPV that nearly killed the whole market. But it's seeing a revival, and last year we saw the structuring of India's first proposed Green securitisation, even if that was possibly a bit too ambitious to get placed immediately.

We talked earlier about how all renewable energy is financed by the banks, and the banks rely on short-term deposits. So inevitably the loans will be for 20 years with a five-year reset, which means borrowers effectively get only five-year money. If we can make securitisation work, a bank can actually provide part of the financing with a 20-year or 25-year fixed rate and then sell it down to a provident fund. That would then create a market for long-dated loans, which would then pump in a lot more money into anything with a long-term concession. It could be a water concession, waste management concession, or a pool of assets.

Securitisation can work as an instrument both to bring long-term money into long-term assets and to help small developers to refinance even if they don't have a treasury. They can concentrate more on how to be more efficient in generation. We are doing whatever we can to promote that idea.

IFR ASIA: LADIES AND GENTLEMEN, THANK YOU FOR YOUR TIME.

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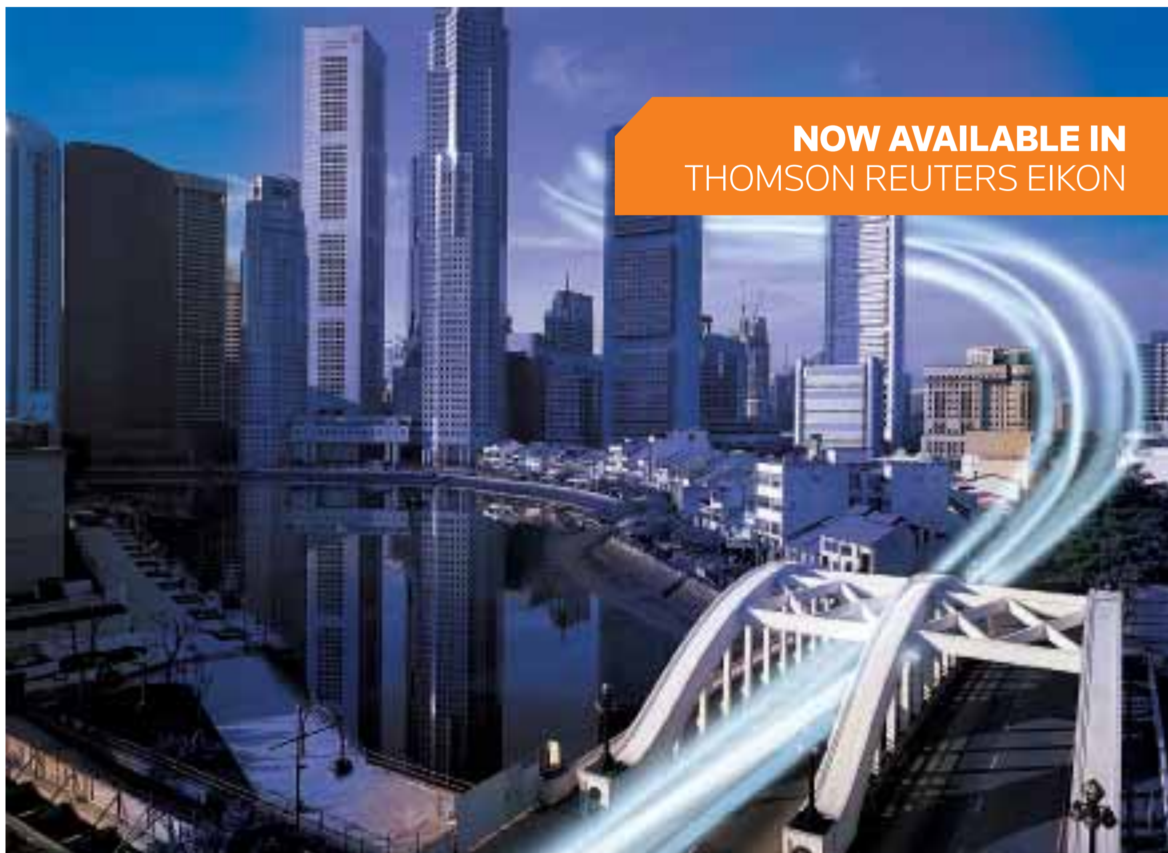

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