

INDIA SUSTAINABLE DEBT STATE OF THE MARKET 2021



Climate Bonds INITIATIVE

 **UK Government**

Prepared by Climate Bonds Initiative

Sponsored by UK Government



FICHTNER
INDIA

 **GreenTree**
Define . Design . Deliver



Nishith Desai Associates
LEGAL AND TAX COUNSELING WORLDWIDE



Collaborative Partners

1. Introduction

About this report

This is Climate Bonds Initiative's (Climate Bonds) first India State of the Market Report, building on an inaugural country briefing published in 2018.

The scope of this report includes green, social, and sustainability (GSS) debt and sustainability-linked bonds (SLBs) originating from India and priced on or before 31 December 2021.

About the Climate Bonds Initiative

Climate Bonds is an international organisation working to mobilise global capital for climate action. It promotes investment in projects and assets needed for a rapid transition to a low-carbon, climate resilient, and fair economy. The mission focus is to help drive down the cost of

capital for large-scale climate and infrastructure projects and to support governments seeking increased capital investment to meet climate and greenhouse gas (GHG) emission reduction goals.

Climate Bonds conducts market analysis and policy research; undertakes market development activities; advises governments and regulators; and administers a global green bond Standard and Certification scheme.

Climate Bonds screens green finance instruments against its global Taxonomy to determine alignment, and shares information about the composition of this market with partners. The aim is to help build investment products that enable shifting capital allocations towards low-carbon assets and projects.

Contents

1. Introduction	2
2. GSS Market Analysis	3
3. Green	6
4. Social and Sustainability	7
5. Sustainability-linked bonds	7
6. Market commentary: avenues for growth	8
7. Policy Overview	11
8. Outlook	11
Endnotes	12

List of abbreviations

DFIs: Development finance institutions
DM: Developed market
EM: Emerging market
ESG: Environmental, social and governance
EV: Electric vehicle
FI: Financial Institution
GHG: Greenhouse gas
GSS: Green, social and sustainability (bonds)
KPI: Key performance indicator
S&S: Social and sustainability
SBT: Science-based targets
SBTi: Science Based Targets initiative
SDG: Sustainable development goal
SLB: Sustainability-linked bond
SPO: Second-party opinion
SPT: Sustainability performance target
SRI: Socially responsible investment
UoP: Use of proceeds
YOY: Year-on-year

Total size of the Indian GSS market as of 31/12/2021

	Green	Sustainability*	Social*	Total
Total size of market	USD18.3bn	USD600m	USD500m	USD19.5bn
Number of issuers	72	1	2	75
Number of currencies	3	1	2	3

2021 was a landmark year for thematic debt in India.

While the Indian green bond market reached record levels, instruments to fund positive social impact and SLBs also made their mark. Most GSS bonds and loans targeted offshore investors, but the domestic market also saw relatively large deals.



Grid-connected utility-scale energy is by far the largest type of project financed but deals with a more diverse use of proceeds (UoP) are expected to increase in both number and scale. There are signs that green bonds are in the pipeline for solar rooftop assets, waste management operations, agriculture, real estate, and electric vehicle (EV) investments. The overall thematic investing space is increasingly active and preparing to support the large issuers of the future. It is anticipated that an Indian sovereign green bond will be issued in the domestic market in 2022. This landmark transaction will draw on best practices and will significantly boost the domestic market.

Supportive public policy has begun to emerge with the Indian Ministry of Finance (MoF) setting up a Sustainable Finance Task Force to a) develop a taxonomy of sustainable activities, b) recommend reporting and disclosure policies, c) determine appropriate financial policy and regulations, and d) devise relevant measures for market development. The work of the task force and resulting policy support is likely to lend additional momentum to the market in the medium- to long-term.

Based on these developments, the Indian GSS debt market is poised for accelerated growth to support sustainable investment and create an economy fit for the future.

2. GSS Market Analysis

Indian GSS debt issuance increased more than six-fold (+585%) to reach USD7.5bn in 2021 following a pandemic-induced decline in issuance in 2020. Cumulative volume has almost doubled in the last two years to represent USD19.5bn in value.

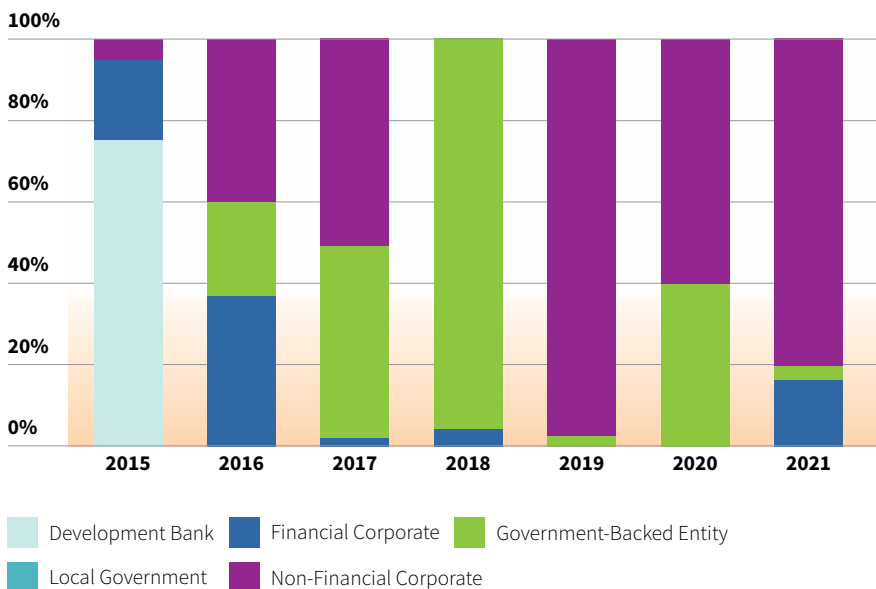
Green labelled instruments dominate, with issuance reaching USD6.4bn in 2021, a growth rate of 484% year-on-year (YOY). Due to its large share in the market, the green theme defines the analysis of the overall GSS market, such as the diversity in issuer types, high percentage of deals with external reviews, etc.

The return to growth and record 2021 numbers are welcome additions to the Indian market, which has enormous potential for expansion.

The first social bond originating from India was priced in 2018 and with a second bond in 2021, the category now stands at USD548m across two deals from two issuers. The record year also saw the introduction of a sustainability bond (USD600m) as well as SLBs (USD1.2bn) in the Indian market.

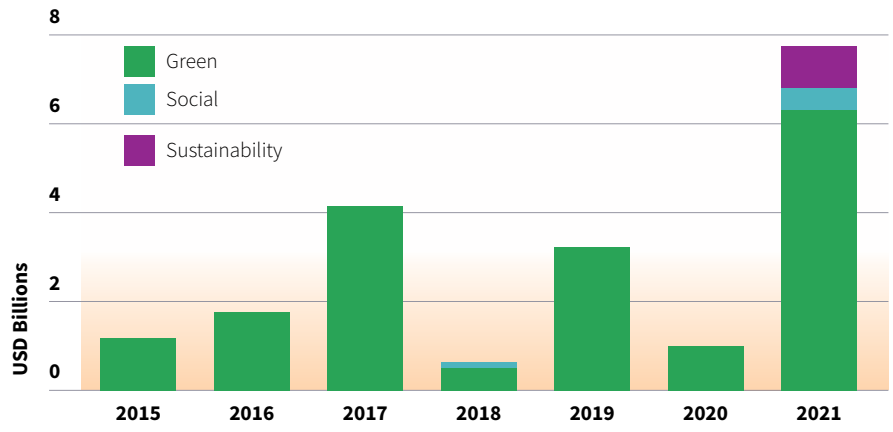
NB: SLBs are performance-linked instruments and technically outside the GSS segment of the sustainable debt market, which only includes UoP instruments. SLBs are thus excluded from the charts but discussed in more detail at the end of the section.

Market composition by issuer type



Source: Climate Bonds Initiative

2021 numbers at all-time highs for all labels



Source: Climate Bonds Initiative

Fastest growing GSS market in APAC

With USD19.5bn in cumulative issuance, India is the 19th largest GSS market globally and sixth in the APAC region, behind China, Japan, South Korea, Australia, and Singapore. India also saw a growth of 585% in issuance amount from 2020 to 2021, making it the fastest growing APAC country.

This growth is starting to diversify in terms of labels and projects. India is one of only eight countries in the region to boast issuance under all three GSS themes.

Corporates lead the path toward sustainability

Three-quarters (75%) of the cumulative labelled bond volume in India originates from the private sector (USD14.6bn). Non-financial corporates comprise the largest issuer type by volume (USD12.6bn) and number of deals (40 of 77). That is followed by government-backed entities (USD4bn) and financial corporates (USD2bn).

Corporates saw a substantial boost in 2021: financial corporates issued USD1.1bn while non-financial corporates added USD6bn – both record amounts for a calendar year since the market's inception in 2015.

The composition of the market has evolved and continues to do so. Corporates have retained a relatively consistent presence since 2016, when their share began to grow significantly. Development banks are yet to re-enter the market following USD500m in green issuance from the **Export-Import Bank of India** in 2015. The USD20m green deal from **Nagar Nigam Ghaziabad** in 2021 marked the debut of local governments in the Indian GSS market.

The introduction of new labels

The green theme remains by far the most popular among Indian issuers. Of the 29 issuers reviewed, 26 have issued at least one green debt instrument since 2015. However, financial institutions are increasingly exploring social and sustainability (S&S) bonds, raising USD1.1bn through such instruments by the end of 2021.

Three non-financial issuers, **Adani Electricity**, **UltraTech Cement** and **JSW Steel**, ventured into the SLB market – their deals are discussed on p. 7. It remains to be seen if the popularity of this innovative debt instrument will continue to grow among issuers from hard-to-abate industries.

An increasing variety of labels (within themes) are also being used. For instance, the **National Skill Development Corporation** launched a USD14.4m 'skill impact bond' in October 2021 in collaboration with sponsors, including the Foreign Common Development Organization (FCDO).¹

While overall issuance has so far been compared to global volumes, there are signs of a robust pipeline of projects across various sectors that may catalyse future GSS bond market growth.

External reviews are common, interest in Certification growing

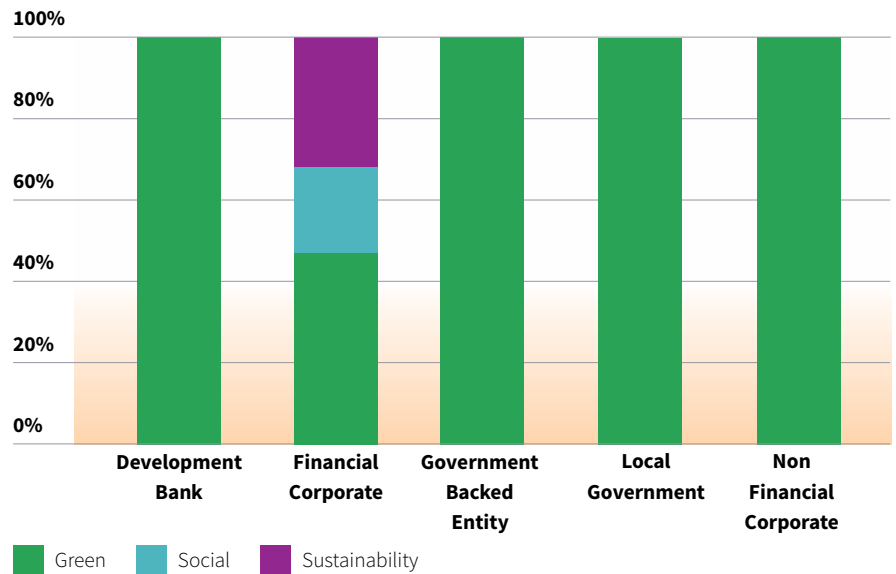
Over 85% of the volume originating from India has some form of external review in place. Climate Bonds Certification is the preferred option by volume, closely followed by second-party opinions (SPO). Climate Bonds Certifications and SPOs have 44% and 35% market share in the country, respectively. Among the three SPO providers covering USD6.8bn of issuance, Sustainalytics tops the rankings, having reviewed USD5.4bn worth of labelled bonds by the end of 2021.

2021 saw a 126% increase in green bond volumes with Climate Bonds Certification, resulting in Certifications surpassing SPOs in the total amount reviewed. At almost USD2bn, 2021 has been the second most successful year for Certifications in the Indian market. KPMG is the largest Approved Verifier for Climate Bonds Certification in India, having verified USD5.4bn since 2016 (USD2bn in 2021 alone). The largest Certified deal in 2021 was from **Renew Power** (USD585m), with proceeds going towards wind and solar projects.

About 15% of the cumulative volume (USD2.9bn) does not carry an external review. This figure has remained below 20% over the past six years, with scope to reduce further.

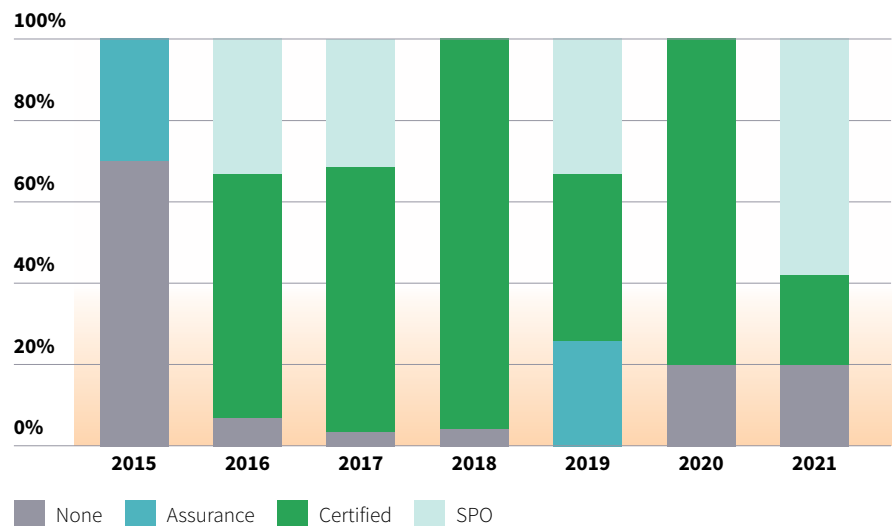
The 2021 S&S bonds i.e., the social bond from **Shriram Transport Finance** and the sustainability bond from **Axis Bank Ltd/Gift City** both have SPOs from Sustainalytics.

Financial corporates have explored multiple themes



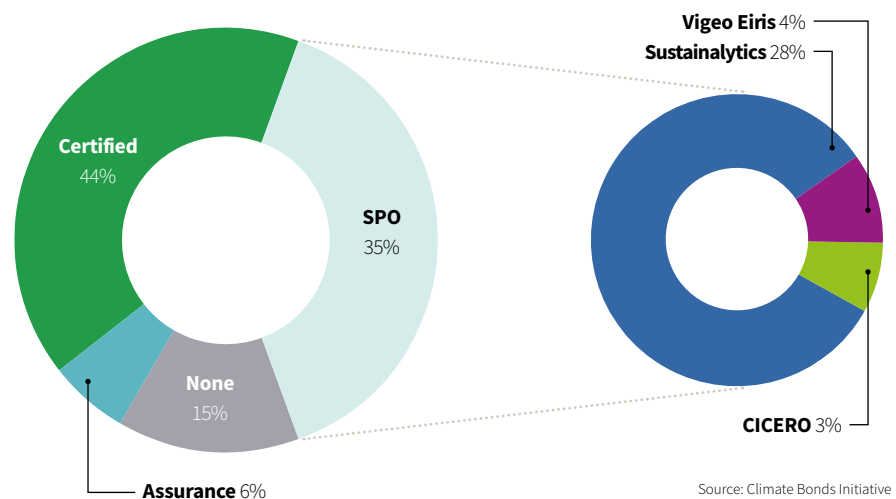
Source: Climate Bonds Initiative

Most deals now obtain external reviews



Source: Climate Bonds Initiative

External review by amount issued (2015-2021)



Source: Climate Bonds Initiative

Preference for issuing in USD continues

USD is the preferred currency for raising GSS debt in the Indian market. 87% of the cumulative amount issued, and 37 of the 75 deals, are USD-denominated. In 2021, the market saw 10 deals totalling USD6.8bn issued in this currency.

Local currency ranks second with 37 deals worth INR143bn (USD2.1bn). Issuance in INR has dropped since 2017's high of USD754m equivalent. However, the current six-part Climate Bonds Certified deal from **Vector Green Energy**, totalling INR12.37bn, suggests that issuers will continue to consider local currency for raising future GSS debt.

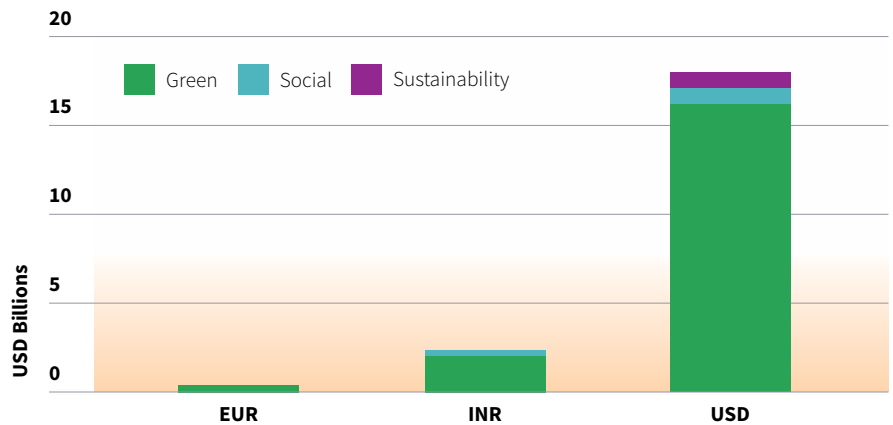
The only other currency used so far is the EUR. One EUR-denominated deal was completed in 2021: a Climate Bonds Certified seven-year, EUR300m green bond from **Power Finance Corporation Ltd.** with proceeds earmarked for solar and wind energy projects.

Both the social and sustainability bonds from 2021 were issued in USD. As this market develops further, currency diversification is expected across themes.

Average deal size increasing

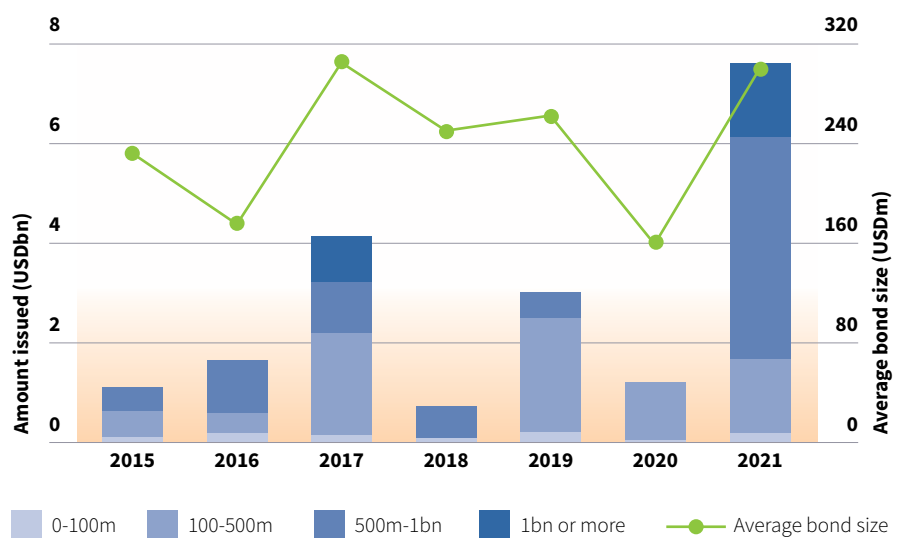
Increasing deal sizes serve the interests of issuers and investors in financing sustainable activities, for example by improving liquidity in the market. 2021 was a record-breaking with eight deals totalling USD6bn. This increase in larger deals pushed the 2021 average size to USD300m (+91% over the 2020 average of USD156m). The largest 2021 deals came from **Adani Green** (USD1.35bn and USD750m) and **Greenko Investment** (USD940m), all green bonds.

Indian GSS issuers favour USD



Source: Climate Bonds Initiative

2021 volume mostly comprised benchmark deals



3. Green

The green theme has the lion's share of the Indian GSS market at 89%.



Green issuance has grown steadily to USD18.3bn cumulatively, with 2021 being the most successful year yet for green bonds in the country. The average size of green labelled bonds has been relatively uniform since 2015, with around half of the total green amount (USD9.5bn out of USD18.3bn) comprised of benchmark-size deals. Looking at the above numbers, it is clear that green deals are still the most popular in the Indian market for raising sustainable debt.

Green issuance a standout among EM players

India's growth in green issuance is especially evident when compared to other emerging markets (EM). India stands third in EM cumulative green issuance and is the second largest source of Climate Bonds Certified deals. Following Turkey, South Korea and Argentina, India is also the fourth fastest growing EM, with 484% year-over-year growth in 2021.

Green proceeds predominantly allocated to renewable energy projects

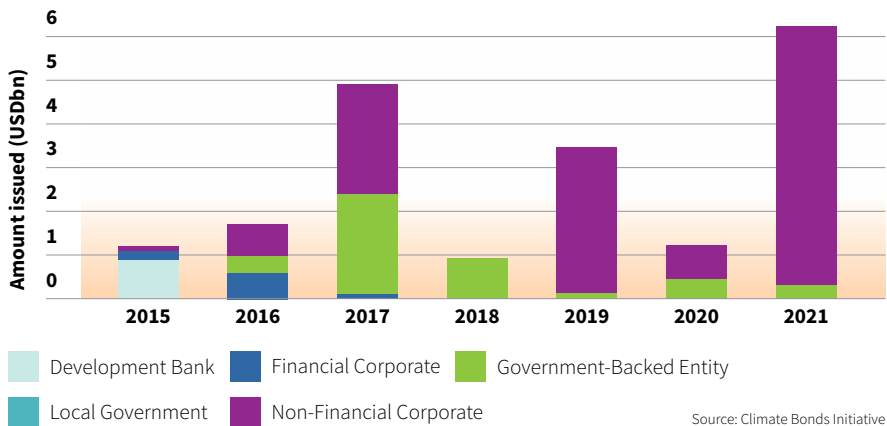
Cumulatively, renewable energy dominates the UoP of the USD18.3bn issued via labelled green instruments: more than USD16.4bn (89%) has been earmarked for renewable energy and related activities. The largest was the USD1.35bn transaction from **Adani Green Energy** with proceeds earmarked for a hybrid portfolio of solar and wind power projects.

2021 was the most diverse year in terms of the number of categories financed by green bond proceeds. In addition to the USD6.3bn targeting renewable energy, capital flowed towards low-carbon buildings (USD85m) and water management (USD20m). Several 2021 Climate Bonds Certified deals also financed renewable energy projects, particularly solar and wind. These were issued by **Azure Power Energy** (USD414m), **Power Finance Corporation** (EUR300m/USD352m), **Renew Power** (USD1bn) and **Vector Green Energy** (INR12.37bn/USD166m).

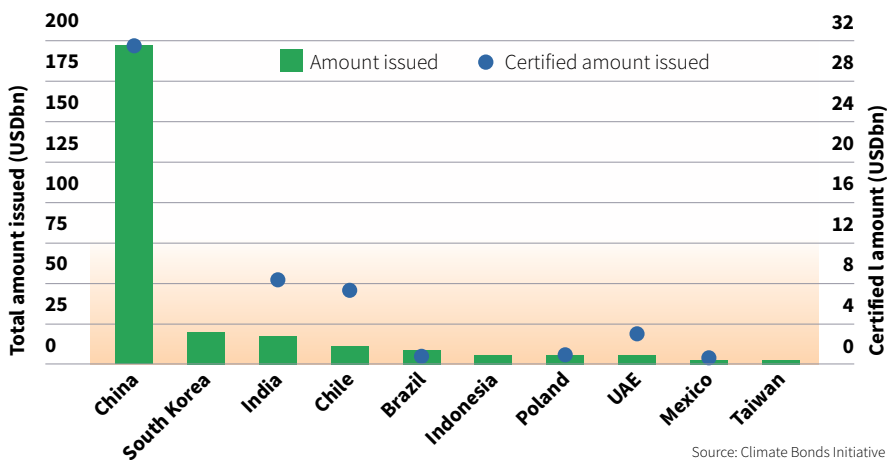
There is immense scope for more green issuance to finance clean transportation, specifically to help decarbonise the fourth-largest railway system globally and electrify passenger and public transport vehicles used by over one billion people. The USD500m Certified green bond from the **Indian Railway Finance Corp** marks meaningful action towards financing greener transport solutions and is expected to catalyse more such deals in 2022. Waste management is another crucial sector for India awaiting the support of green debt issuance.

Green Scorecard		
Green	2021	Overall/Cumulative
Amount issued	USD7.0bn	USD18.9bn
Number of deals	24	73
Largest issuer	Adani Green Energy (USD2.1bn)	Renew Power (USD2.9bn)
Average deal size	USD290.8mn	USD259.2mn

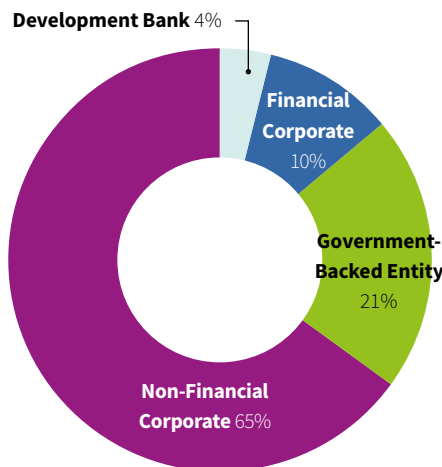
Non-financial corporates contribute most green bond volume



India: third largest EM issuer and second in Certifications



GSS issuance by issuer type



Energy dominates UoP profile, followed by Transport

