

Pvt infra firms may get to issue tax-free bonds

Private-sector infrastructure companies are likely to be allowed to issue some of the long-term tax-free infra bonds announced in Budget 2013-14.

Finance Minister P Chidambaram had sanctioned the issuance of bonds worth Rs 50,000 crore next financial year. "Unlike previous years, the minister has not specified quotas for specific public-sector companies. The allocation will be need-based and the track record of the issuer will also be considered," an official familiar with the development said. "The Central Board of Direct Taxes (CBDT) will take the final call," he added.

CBDT usually issues a notification around June with details of bond issuances. The move is likely to benefit firms like L&T, IDFC, Srei Infra.

Tax-free bonds, which offer a win-win proposition for both the investor (attractive returns) and the issuer (long-term financing), have emerged as an attractive money-raising route over the past couple of years. At a time when the initial public offering (IPO) market has virtually dried up and the infrastructure-related plays have especially got drubbing, these bonds have managed to raise more than Rs 55,000 crore in the past two financial years.

Private firms say a subtle change in the language of the clause that provides for the instrument in the Budget hints they may be allowed to issue these bonds this year. L&T Infrastructure Finance MD & CEO Suneet Kumar Maheshwari said: "There has been a change in the wording this time. It says, for the purpose of infrastructure funds, a company can raise money through tax-free bonds with the government's approval. If one reads between the lines, even private companies should be allowed under this."

In his Budget speech, Chidambaram said he proposed to allow "some institutions" to issue tax-free bonds in 2013-14, strictly based on need and capacity.

This is different from earlier Budget speeches, when the minister clearly spelt out who would get to raise how much. For example, in Budget 2012-13, Pranab Mukherjee, then finance minister, said: "For the year 2011-12, tax-free bonds worth Rs 30,000 crore were announced for financing infrastructure projects. I propose to double it to Rs 60,000 crore in 2012-13. This includes Rs 10,000 crore for NHAI, Rs 10,000 crore for IRFC, Rs 10,000 crore for IIFCL, Rs 5,000 crore for Hudco, Rs 5,000 crore for National Housing Bank, Rs 5,000 crore for Sidbi, Rs 5,000 crore for ports and Rs 10,000 crore for the power sector."

However, some companies like NHAI could not utilise the window in the first year (2011-12) and did not raise any money this year. This had led to a rethink on the strategy of upfront allotment, said officials.

Allowing the tax-free bond route would also make up for the closure of 80CCF tax-saving bonds that the private infrastructure firms were allowed to issue. These companies were asking the government to raise the investment limits under the bonds from Rs 20,000 to Rs 50,000. Instead, the government scrapped the instrument in last year's Budget. IDFC Deputy MD Vikram Limaye said there had been a buzz that the government would allow private firms to issue tax-free bonds and he was waiting to hear from the government.

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