

Season of bonding

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SREI

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The bond market becomes busy; issuers are luring investors with good returns

The domestic bond market is showing signs of life, as large corporates are lining up issues. At this point, there are some five issuers raising money (*see table*). This market has become important because, "From the point of view of issuers, given the present liquidity pressure in the market as well as the requirement to lock in funds for infra projects, there is demand to raise such bonds," says D.R. Dogra, MD & CEO, Credit Analysis & Research Ltd (CARE), who feels that, as the money is being raised for a long term, it has become easier for companies to manage their cash flows.

Those raising funds include infrastructure and infrastructure financing companies, who have been working hard to get the funds in one form or other. As the equity markets have virtually dried up, they are left with no choice but to go to the bond market.

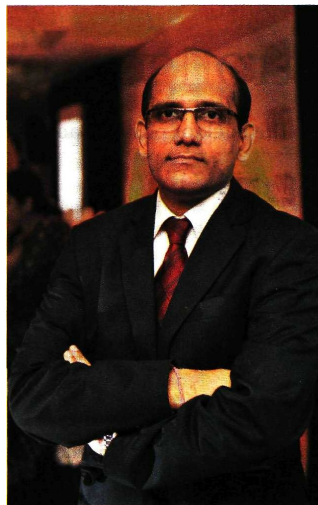
Looking at the returns these instruments are offering, it seems to be attractive for investors for two reasons. The first is that the returns are attractive as interest rates could well have peaked and may decline. Also, there are few avenues for the investor who wants an assured return for a long period of time. Therefore, supply of such paper is being met by real demand. Second, the tax incentives help in tax planning for at least

three of the issues - IDFC, I&T and SREI, which are currently open. In the case of NHAI and PFC, the interest earned is not taxed, which actually increases the nominal return, as this income is wholly tax free. "As a rule, the debt market becomes active when equities are down, and the fact that we have such good alternatives makes it even more enticing. Hence this rush for these bonds from both ends," adds Dogra.

High interest

"SREI Tax Saving Infra Bond is secured in nature, and offers one of the highest interest rates to investors," says Sanjeev Sancheti, group CFO, SREI Infrastructure Finance Ltd, which will offer a buy-back option to the investor at the end of five years from the date of allotment. If you factor in the buy-back at the end of the five-year lock-in period, those in the highest tax slab investing for 15 years can effectively generate a return of over 19 per cent. "We give 5 per cent interest on application money to the investors from the date investor's money is realised to one day prior to the deemed date of allotment".

But, what an investor should do when he is flooded with so many similar issues will depend on what he is looking for. Returns are similar for tax-saving bonds, while government



Sancheti: buy-back option

entity bonds offer tax-free returns. Either way, the nominal implicit return turns out to be attractive. As these bonds have good ratings, the choice is really in terms of other considerations such as returns, tenure, buy-back options and the listing window, which will open up for some of them. As long as the rating is good, the investor will have to differentiate, based on these considerations.

The tax-saving bonds have been well-timed and will get a good response, while the tax-free schemes, which are virtually government of India bonds, will be appealing more for those who would like to lock their funds for a long period of time, being assured that there will be no repayment issue.

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