

## Hudco, IRFC bond issues offer tax-free returns

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### WHAT'S ON OFFER

	Hudco	IRFC
Issue date	27 Jan-6 Feb	27 Jan-10 Feb
Face value	₹1,000 per bond	₹1,000 per bond
Minimum investment	₹10,000 or 10 bonds	₹10,000 or 10 bonds
Interest payment option	Annual	Annual
Credit rating	AA+ CARE and Fitch AA+ (ind)	AAA Crisil, AAA CARE, AAA Icr
Listing	Proposed on NSE and BSE	Proposed on NSE and BSE
Interest coupon for retail (application less than ₹5 lakh)	10 years 8.22% pa	8.15% pa
	15 years 8.35% pa	8.30% pa
Interest coupon for others	8.1% pa	8.0% pa
	8.2% pa	8.1% pa

\* This is the same for both issues; HuF: Hindu undivided Family; pa: per annum

#### Issue reserved\*

##### Category I

Corporates and qualified institutional buyers

45%

##### Category II

Individuals and HuFs investing more than ₹5 lakh across all series

25%

##### Category III

Individuals and HuFs investing less than ₹5 lakh across all series

30%

Source: Mint research

YOGESH KUMAR/MINT

in physical and dematerialized form and are proposed to be listed on both the National Stock Exchange and BSE Ltd. Once these bonds are listed, investors can sell bonds they were allotted in the secondary market via the stock exchange. If you buy a bond from the secondary market, keep in mind that the differential (higher) rate offered to retail investors is only applicable to the first allottee. If the original investor sells these bonds, then as a buyer you will receive the interest coupon valid for other investors (or in this case, the rate offered to investors who apply for at least Rs.5 lakh).

#### What you getRs.

Basically investors get a tax-free return of 8.30% or 8.35% per annum. This translates to an actual amount of Rs.8,300 or Rs.8,350 per Rs.1 lakh invested. If you are willing to lock in your money for 10-15 years, you can opt for either of these bonds and given their government-owned status the risk is very low.

Other than retail investors, even high networth investors (HNIs) find these interesting options. Says Rajesh Saluja, CEO, ASK Wealth Advisors Pvt. Ltd, "There is big interest from HNIs for these tax-free bonds. Investors are of two types, those who genuinely want to hold the bond till maturity and get the yield and others who are more interested in getting a yield advantage by selling in the secondary market a few months after listing." He added that banks help HNIs with leverage to invest in these bonds simply with the purpose of selling in the secondary market at a higher price.

There is another side to these bonds. Says Rajiv Bajaj, managing director, Bajaj Capital Ltd, "We are seeing a lot of interest from both retail investors and HNIs. Trading interest can pick up later when those who have missed the bus want to buy these bonds."

These bonds don't compete with the issues of tax-saving bonds as that benefit is under section 80CCF of the Income-tax Act so there is no overlap in choosing one over the other.

### NO DEDUCTION

# Hudco, IRFC bond issues offer tax-free returns

These bonds are good for both long-term investors and those keen on early exit

BY LISA PALLAVI BARBORA  
lisa.bl@livemint.com

There is widespread expectation that the interest rate cycle in the economy has peaked and rates will come down in the next three-four months. Until that happens, it makes sense to take advantage by investing in bonds available at attractive coupon rates. Other than the bouquet of tax-saving infrastructure bonds which are open, there is another variety now on offer: tax-free bonds from government-owned entities.

At present, two such issues are open: one from Housing and Urban Development Corp. Ltd (Hudco) and the

from Indian Railway Finance Corp. Ltd (IRFC). Here, unlike the tax-saving infrastructure bonds, the investor does not receive any deduction on the principal invested; rather the interest earned from both these issues is tax-free.

The bond issues have opened at a good time. Firstly, as mentioned earlier, there is a possibility that policy rates will go down soon, hence this could be a good opportunity. Secondly, these bonds will be listed and if interest rates in the economy are headed lower, these bonds will come at a premium (listed price will move higher) as they offer better rates. It is a good issue for long-term investors and those who may want to exit early via the secondary market.

#### Main features

The allotment is on a first-come-first-serve basis; hence you have to be quick in deciding to invest. However, both issues are large in size; the IRFC issue size is up to Rs5,000 crore and the Hudco issue size is up to Rs.4,685 crore. The bonds come with a 10- or 15-year maturity. The interest coupon depends on the maturity and category of investor (see graph).

#### Credit rating and risk

The Hudco issue has been rated AA by CARE and Fitch (ind), whereas the IRFC issue has been rated AAA by Crisil, CARE and Icr. Technically, the rating for IRFC is higher; but considering that both organizations are government-owned, the default risk is minimal.

#### Listing and trading

The bonds are available both