

NewsRoll



A NEW, LUCRATIVE DEBT OPTION

IDFC launches long-term infra bond with return of 9 per cent per annum

THE tumbling stockmarkets have been the biggest source of despondency for Indian investors. However, the debt market is giving them some reason to cheer. After

the Union government decided to increase the returns on small savings schemes earlier this month, IDFC, a leading infrastructure financing player, has come out with Long Term Infrastructure Bond with an interest rate of 9 per cent per annum (p.a.).

In 2010, the government introduced Section 80CCF under the Income Tax Act, 1961, to provide income tax deduction for subscription to long-term

infrastructure bonds. These bonds offer an additional window for tax deduction on investments up to ₹20,000 over and above the ₹1 lakh deduction available under Section 80C.

Earlier this fiscal, PFC and IFCI had launched long-term infrastructure bonds at interest rates of 8.30-8.50 per cent p.a. and 8.50-8.75 per cent p.a., respectively. An interest rate of 9 per cent per annum is, therefore, unprecedented. However, before you invest in IDFC's offering, it would be prudent to look at the actual returns you would get (see *New Bond on the Block*). On an investment of ₹20,000, your tax-adjusted internal rate of return (IRR) will be in the 9.5-15.5 per cent range. Although the IRR on annualised returns seems higher than the IRR on cumulative returns, note that the former is calculated assuming you will reinvest the proceeds at the same rate of return. However, as it is impossible to predict which way interest rates would move, the cumulative option has an edge over the annualised one.

The issue will be open for subscription from 21 November 2011 to 16 December 2011. ICRA has assigned (ICRA) AAA rating and Fitch has assigned Fitch AAA (Ind) rating to these bonds, the highest credit ratings awarded by these rating agencies.

In the light of the fact that this bond is offering handsome returns at a high level of safety, and gives tax benefits too, investors could consider including it in their fixed income portfolio. □

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NEW BOND ON THE BLOCK

IDFC has launched Long Term Infrastructure Bonds—Tranche 1. Investment in this bond can get you tax benefits up to ₹20,000 under Section 80CCF

| SERIES | 1 | 2 |
|----------------------|--------------------------------------|---------------|
| Lock-in period | 5 years | |
| Face value per bond | ₹5,000 | |
| Interest payment | 9% yearly | 9% cumulative |
| Buyback facility | After 5 years from date of allotment | |
| Buyback amount/bond | ₹5,000 | ₹7,695 |
| Maturity date | 10 years from date of allotment | |
| Maturity amount/bond | ₹5,000 | ₹11,840 |

Interest earned is taxable. The post-tax annualised returns after tax benefit are as under:

| TAX SLAB | Return on Maturity (10 years) | | Return on Buyback (5 years) | |
|----------|-------------------------------|----------|-----------------------------|----------|
| | Series 1 | Series 2 | Series 1 | Series 2 |
| 30.90% | 11.60 | 10.90 | 15.56 | 14.71 |
| 20.60% | 10.58 | 10.14 | 13.00 | 12.46 |
| 10.30% | 9.73 | 9.52 | 10.85 | 10.59 |

Note: All returns in percent