

Masala Bonds - A New Dish in the Indian Bond Market Platter

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ABSTRACT

Masala Bonds can be termed as bonds that are denominated in the Indian rupee and are listed on the offshore stock exchanges. Issuance of masala bonds is the step initiated by the Reserve Bank of India towards the internationalisation of the Indian currency. The first Indian rupee denominated bonds were issued by International Financial Corporation in the year 2014 listed on the London Stock Exchange. The maximum permissible amount that the issuer company can raise through masala bonds under automatic route is INR 50 billion or its equivalent during a financial year. The amount raised through these bonds should not be used for the real estate projects and in the areas reserved for the Foreign Direct Investment. The minimum maturity period for such bonds is up to 3 years. With the issuance of masala bonds, the issuer companies can now diversify their portfolio and also leads to cut down the cost.

Key words: *masala bonds, stock exchange, currency risk, exchange rate risk.*

1. INTRODUCTION

Masala Bonds can be termed as bonds that are denominated in the Indian rupee and are listed on the offshore stock exchanges. This is a new financial instrument in the Indian market that will help the Indian companies to raise capital overseas in the Indian currency. Masala bonds are intended for the foreign investors who want to participate in the Indian assets. The settlement of the masala bond is in the US currency but as they are pegged to the Indian rupee therefore there is a currency risk involved in these bonds to the insurer. Due to the presence of the currency risk, the risk premium is higher for these bonds. On the account of the issuing company these bonds act as a hedge towards currency risk (Banerjee, 2016). The name “masala bond” has derived its name from the Indian spices that have earned popularity across globe since ancient time.

Issuance of masala bonds is the step initiated by the Reserve Bank of India towards the internationalisation of the Indian currency. If the Indian currency becomes highly acceptable then it helps in making the currency more attractive. Masala bonds are the first Indian bonds to be listed on the London Stock Exchange. Housing Development Finance Corporation is the first

company to go for the issuance of the masala bonds.

2. ORIGIN OF MASALA BONDS

The first Indian rupee denominated bonds were issued by International Financial Corporation in the year 2014 listed on the London Stock Exchange. The capital was raised up to Rs. 1,000 crore for the funding of the infrastructure project in India. The yield on these bonds was 6.3 percent that was significantly above the yield on the similar international bonds. Subsequently Reserve Bank of India came up with a framework of Indian Rupee denominated bonds in September, 2015 that are known as “masala bonds”. This is a step towards internationalisation of the Indian Rupee.

3. FEATURES OF MASALA BONDS

Any company registered under Indian Companies Act can issue the masala bonds. However Indian banks, partnerships and limited liability partnerships are not permissible for issuing these bonds (Reserve Bank of India). The maximum permissible amount that the issuer company can raise through masala bonds under automatic route is INR 50 billion or its equivalent during a financial year. The amount raised through these

bonds should not be used for the real estate projects and in the areas reserved for the Foreign Direct Investment. The minimum maturity period for such bonds is up to 3 years. In case the

4. ISSUANCE OF MASALA BONDS

Table 1: Issuance of Masala Bonds

Issuer	Issuer date
IFC 6.45% 30/10/2018	10-Aug-15
EBRD 5.1% 02/02/17	24-Jun-15
IFC 6.45% 30/10/2018	30-Apr-15
EBRD 5.1% 02/02/17	02-Feb-15
IFC 6.3% 25/11/24	18-Nov-14
EBRD 5.625% 15/03/17	28-Oct-14
EBRD 5.75% 19/03/18	19-Sep-14
IDB 6% 05/09/17	05-Sep-14
EBRD 6% 03/03/16	03-Sep-14
IDB 6.1% 02/09/16	02-Sep-14
IDB 8.25% 15/05/17	15-May-07

(Source : Exchequer Secretary to HM Treasury and the Prime Minister's Indian Diaspora Champion, Priti Patel, 13 March 2015 London Stock Exchange)

5. BENEFITS OF ISSUING MASALA BONDS TO THE ISSUER COMPANY

1. With the issuance of masala bonds, the issuer companies can now diversify their portfolio.
2. Issuance of masala bonds leads to cut down the cost. Eg. If the issuer company issues the bonds in India then the interest rate that the issuer company needs to pay is about 7.5-9.00 percent. Whereas in case if the issuer company issues masala bond then the rate of interest on such bonds is below 7 percent.
3. Masala bonds helps in tapping the larger market and therefore helps in boosting up the Indian Economy.

subscription to the bonds/ redemption of the bonds is in tranches, minimum average maturity period should be 3 years(*Reserve Bank of India*).

6. BENEFITS OF ISSUING MASALA BONDS TO THE INVESTORS

1. The investors will benefit by investing in the masala bonds if the rupee appreciates at the time of maturity.
2. These bonds can be invested in by the retail as well as the institutional investors. The Finance Ministry has cut the withholding tax (a tax deducted at source on residents outside the country) on interest income of such bonds to 5 per cent from 20 per cent, making it attractive for investors. Also, capital gains from rupee appreciation are exempted from tax.

7. BIBLIOGRAPHY

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**A man of courage is also full of faith.
~ Marcus Tullius Cicero**