

What are masala bonds and how do Indian cos benefit?

Mortgage lender Housing Development Finance Corp (HDFC) has raised Rs 3000 crore by issuing masala bonds; the first company to do so since the RBI green-flagged it in September last year.

What exactly are masala bonds?

These are rupee-denominated borrowings by Indian entities in overseas markets. Usually, while borrowing in overseas markets, the currency is a globally accepted one like dollar, euro or yen.

What is the advantage of borrowing abroad in rupees?

Companies issuing masala bonds do not have to worry about rupee depreciation, which is usually a big worry while raising money in overseas markets. If the rupee weakens by the time the bonds come up for redemption, the borrower (company) will need to shell out more rupees to repay the dollars.

Is that a big enough advantage?

Of course. Quite a few Indian companies that had raised money abroad in 2007 by issuing Foreign Currency Convertible Bonds found themselves in a soup when the rupee depreciated sharply following the global financial crisis.

What is in it for the buyer of the bond?

The buyer will earn a higher yield (coupon rate) to compensate for the risk of currency depreciation.

What is the tenor and coupon rate on the HDFC Masala bonds?

The bond bears a fixed semi-annual coupon of 7.875 percent per annum and has a tenor of 3 years and 1 month. The bonds have been issued at a price of 99.24% of the par value and will be redeemed at par. The all-in annualised yield to the investors is 8.33 percent per annum.

Will the bonds be traded?

Yes, but on the London Stock Exchange, not in India.

Will there be more such bond issuances by other companies?

According to Utpal Oza, MD and Head of Investment Banking, Nomura India —the banker to the HDFC issue — post Brexit, both Asian and European investors are hunting for yield and masala bonds seem to be offering them an attractive yield pickup. He says many public and private corporates are in the fray to issue masala bonds in the coming months, due to the hitherto untapped, deep alternate investor base that they give access to at marginally higher cost of financing.

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