‘Onus of developing a vibrant corporate bond market lies with different stakeholders’

They need to reach a consensus to bring about uniformity, standardisation in the market

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The Budget this year is expected to take a fresh look at the bond market. Unlike the Indian equity market which has seen significant developments in terms of trading, liquidity and infrastructure, the corporate bond market is underdeveloped.

The Chief Investment Officer - Fixed Income at ICICI Prudential Mutual Fund, Rahul Goswami, who manages

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Rs 30,000 crore in debt and money market assets, spoke to *Business Line* on the possible announcements and their impact.

Excerpts from the interview:

This Budget is expected to announce measures to revive the bond market. What can be expected?

The corporate bond market in India still has a long way to go, and a single Budget alone may not overcome the challenges.

The government securities (G-Sec) market in India is well-developed and backed by well-functioning depository systems. Thanks to the RBI, the G-Sec market has a standardised settlement and trading system.

Now the onus of developing a vibrant corporate bond market lies on the different stakeholders, such as the Ministry of Finance, the Securities and Exchange Board of India, the RBI, the Insurance Regulatory and Development Authority, etc.

While there have been various co-ordinated efforts in the past, there is an urgent need to reach a consensus and work in tandem to bring about uniformity and standardisation in the corporate bond market.

The other key issue that needs to be addressed is liquidity. At present, only the Government is allowed to reissue securities. However, corporates should also be allowed to raise funds through multiple issuances of the same bonds.

What will improve FII participation?

Currently, the withholding tax on investments in debt instruments for FIIs is in place, and thus there is a request for

lowering it. However, aside from this, there is also the need to bring about uniformity in this tax for investors from different investment destinations.

We have seen that the ceiling on FII investments in debt has been raised quite a bit. But it is not fully utilised...

Raising the ceiling is only a start and cannot work in isolation. For FIIs, it is not enough if the bond yield is high. They also look at the view on the currency and the cost of hedging against exchange risk, which is high.

There are not many takers for long-term bond issues.

> FIIs look not just at yields, but also at the currency and the cost of hedging against exchange risk.
>
> RAHUL GOSWAMI, CIO, FIXED INCOME, ICICI PRUDENTIAL MUTUAL FUND

FII investors continue to prefer investing in the shorter end of the curve. Any thoughts?

As a new investor you ideally start by investing with the shorter end of the curve. It is only when the confidence builds up that you venture to invest in the longer tenure bonds.

Here, the predictability of the RBI plays a critical role in determining the confidence on the overnight rates. Since, in the past, the RBI has always surprised the markets, the predictability of the central bank's actions remain low and, hence, investors are reluctant to invest in longer tenure bonds.

Now that the rates look likely to decline, are debt fund investors going in for long-term debt funds or gilt funds?

While the current yield scenario has been conducive for investors, it has been more for investors who have timed it right, that is, invested at the right point of time.

As is the case with most investments, debt investors tend to decide based on the historical performance of the instrument.

In that context, yes, we believe that the long-term income funds and long-duration funds will continue to see inflows, at least till the investors continue to expect the yields to fall.

So would you recommend investing in short term or longer duration funds?

The investors will need to decide based on their risk appetite. Also, it will be important to understand the product rather than simply focus on the historical performance.

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