Debt Instruments – A Brief

Note: We in Finitor Financial Services Private Limited have tried to put a brief insight on the debt instruments as per the prevailing structure based on our understanding and knowledge. We in Finitor do not claim to be an expert on the subject. Please read the Disclaimer & Risk Factors at the end.

FINITOR FINANCIAL SERVICES PRIVATE LIMITED

A debt instrument is a fixed income security where issuer borrows money and therefore owes the lender, holder of the debt, a promise to pay interest (coupon) on discount basis or at certain interval or on maturity (either fixed or floating) and repay the principal on maturity. Debt acts as a legal obligation on the issuer as regards to certain cash flow representing coupon (interest) and principal means issuer (borrower) of the money has to repay the borrowed sum along with interest to the lender on a timely basis. A debt instrument can be in paper or electronic (demat) form.

A debt market is where investors trade (buy and sell) debt securities. Debt market in India is one of the largest in Asia. Like all other countries, Indian debt market is also considered a useful substitute to banking channels for finance. The debt market in India can be classified on two counts,

1. Tenor based classification

    i. Short term debt instruments: Short term debt instruments are those debt securities having maturity of up to one year,
    ii. Long Term Debt Securities – All other debt securities having maturity more than one year.

2. Issuer based classification

    i. Government Securities (G-Secs): Debt securities issued by Government are also called sovereign securities comprise of short term government securities e.g. call money, T-Bills, CMBs and G-Secs having maturity more than one year e.g. government bonds (dated securities) and SDLs (State Government Loans).

    ii. Corporate Debt Securities – Debt securities issued by the private companies including NBFCs, financial institutions, banks and PSUs. They comprise of short term papers like Commercial Paper and long-term debt papers like corporate debentures/bonds and PSU bonds.

The G-secs are the most dominant category of debt markets comprise a major part of the market in terms of outstanding issues, market capitalization and trading value. The corporate debt market and debt derivatives have not yet developed as in more advanced economies including Asian counterparts like China, Malaysia and South Korea. Another important aspect of Indian debt market is that it is predominantly institutional market, direct retail participation is almost negligible. A market for OTC derivatives in interest rate products exists. The exchange-traded interest rate derivatives market is currently small, would take time to develop and command good volume & liquidity.

Money Market (Short Term Debt Market)

It is that segment financial markets where borrowing and lending happens for short term, 1 day to 1 year. It deals in funds and short term financial instruments.

A money market is market for short term money and financial assets. It is that segment of financial market that deals in short term liquidity from 1 day to 1 year. It helps economy to manage short term money supply through efficient mobility of funds at low cost. Money market transactions are generally used for funding the transactions in other markets including Government securities market and meeting short term liquidity mismatches. Banks need to maintain stipulated CRR and therefore raise funds from Call Money Market. Short term Borrowing and lending happens through efficient mechanism and various short term to very short term financial instruments in both non-collateralised & collateralised environment. It's a wholesale market where institutions play key roles and large funds are traded through few trades.

Participants: Banks, PDs (Primary Dealers), DFHI, STCI participate as both Borrowers and Lenders. Certain financial institutions like LIC, Unit Trust, NABARD and Mutual Funds are allowed to participate as Lenders only.

Bench mark: MIBOR rate, it is the average of call rates.

Money Market Instruments

Call Money/Notice Money/Term Money Market: Money lent for one day is called Call Money, it is an overnight market. Banks need to maintain stipulated CRR and therefore raise funds from Call Money Market. These are non-collateralised loans. Money lent for 2- 14 days is called Notice Money and more than 14 days Term Money.

Repo Market/Ready Forward Contracts: Repo Market/Ready Forward Contracts Repo (Repurchase Option) where the Borrower (Seller of the Securities) Sells the securities (for cash inflow) with an agreement to buy back the securities (cash outflow) on a mutually agreed future date and agreed price that includes the interest for the borrowed fund. This is a Sell-Buy transaction. Thus, seller of the securities is called Repo Borrower and buyer of the securities is called Repo Lender. The difference between the period is called Repo Period, usually one day. The Repo market transactions happen between RBI-Banks, between Banks, Banks-PDs and between PDs. Repo is a collateralised borrowing and lending mechanism and the collaterals are government securities. Repo market is typically 1-14 days.

Reverse Repo is purchase of securities with the agreement to Sell the securities at pre-specified date.

As part of the measures to develop the **Corporate Debt Market**, RBI has permitted select entities (scheduled commercial banks excluding RRBs and LABs, PDs, all-India FIs, NBFCs, mutual funds, housing finance companies, insurance companies) to undertake repo in corporate debt securities. This is similar to repo in Government securities except that corporate debt securities are used as collateral for borrowing funds. Only listed corporate debt securities that are rated 'AA' or above by the rating agencies are eligible to be used for repo. Commercial paper, certificate of deposit, non-convertible debentures of original maturity less than one year are not eligible for the purpose. These transactions take place in the OTC market and are required to be reported on FIMMDA (Fixed Income Money Market Dealers Association) platform within 15 minutes of the trade for dissemination of information. They are also to be reported on the clearing house of any of the exchanges for the purpose of clearing and settlement.

CBLO (Collateralised Borrowing and Lending Obligation): CBLO is another money market instrument operated by the Clearing Corporation of India Ltd. (CCIL), for the benefit of the entities who have either no access to the inter-bank call money market or have restricted access in terms of ceiling on call borrowing and lending transactions. CBLO is a discounted instrument available in electronic book entry form for the maturity period ranging from one day to ninety days (up to one year as per RBI guidelines). In order to enable the market participants to borrow and lend funds, CCIL provides the Dealing System, an anonymous order matching system that facilitates borrowing and lending in collateralised environment through Indian Financial Network (INFINET), a closed user group to the Members of the Negotiated Dealing System (NDS) who maintain Current account with RBI and through Internet for other entities who do not maintain Current account with RBI.

CCIL members can borrow or lend funds against the collateral of eligible securities. Eligible securities are Central Government securities including Treasury Bills, and such other securities as specified by CCIL from time to time. CBLO members are either RBI-NDS or Core Business Solution members and Associate (non NDS) members such as banks-foreign, scheduled including cooperative, PDs, financial institutions, insurance companies, mutual funds, NBFCs, pension/provident fund and corporates.

Treasury Bills: Treasury bills or T-bills are short term debt instruments issued by the Government of India for the minimum value of INR 25000 and multiple thereof. Treasury bills are zero coupon securities and pay no interest. They are issued at a discount and redeemed at the face value at maturity. The return to the investors is the difference between the issue price (e.g. INR 99) maturity value or the face value (e.g. INR 100). T-Bills are auctioned and an annual auction-calendar is issued notified by the RBI. Treasury bills are also issued under the Market Stabilization Scheme (MSS). Please refer below the types of T-Bills and auction period,

Types of T-Bills	Auction Period	Payment Schedule
91 Days T-Bills	Auctioned every week on Wednesday	Following Friday
182 Days T-Bills	Auctioned every alternate week on Wednesday prior to non-Reporting Fridays	Following Friday
364 Days T-Bills	Auctioned every alternate week on Wednesday preceding Reporting Fridays	Following Friday

Cash Management Bills (CMBs): Government of India through Reserve Bank of India issues another short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government. Cash Management Bills are of recent origin unlike T-Bills but similar to T-bills. CMBs are issued for maturities less than 91 days. Like T-bills, they are also issued at a discount and redeemed at face value at maturity. The tenure, notified amount and date of issue of the CMBs depends upon the temporary cash requirement of the Government. These instruments are tradable and qualify for ready forward facility. Investment in CMBs is also reckoned as an eligible investment in Government securities by banks for SLR purpose.

Certificate of Deposit (CD): CD is a money market instrument, issued by Commercial Banks (for a tenor of 7 days to a year) and FIs (1 year to 3 years), they are negotiable promissory notes and unsecured. CDs could be issued to individuals, corporates, FIs, trusts, funds, PDs, banks and NRIs. CDs may be issued on discount to face value and also on floating rate basis. CDs can be issued for a minimum amount of INR 1 lakh and in multiple of INR 1 lakh there is no lock-in period for transferability of CDs. CDs are issued in demat form and also as Usance Promissory Note against funds deposited in a bank or other eligible financial institution for a specified time period.

Commercial Paper (CP): Commercial Paper is an unsecured short-term money market instrument issued in form of a promissory note. CPs can be issued by those companies including NBFCs, PDs and All India Financial Institutions (AIFIs) that fulfil the tangible networth requirement and other eligibility specified by RBI. All eligible participants also need to obtain the credit rating for issuance of Commercial Paper from any one or more credit rating agencies as specified by RBI.

CPs can be issued in denomination of INR 5 lakh. Maturity period is 7 days - 1 year. Can be issued at a discount to face value and redeemed at face value.

NCDs (up to one year maturity): Non-Convertible Debenture (NCD), a debt instrument issued by a corporate (including NBFCs and Primary Dealers) with original or initial maturity up to one year and issued by way of private placement are eligible Money Market instruments provided they are issued by corporates fulfilling the RBI eligibility criteria. These NCDs cannot be issued for a tenor of less than 90 days from the date of issue and put/call exercise option if attached to an NCD up to one year maturity shall not fall within 90 days from the date of issue.

NCDs may be issued in denominations with a minimum of Rs.5 lakh (face value) and in multiples of Rs.1 lakh.

Trade Bills/Commercial Bills: They are short term financial instruments with 30, 60 and 90 days term. The Bill of Exchange is drawn by Seller on the Buyer within a certain period. Buyers may ask his Bank to accept it. Bank charges a commission to accept the Bill. If Seller needs the fund, the Seller may sale the Bill in the market or approach the Bank for discounting (make payment) the Bill. Banker may do so for a fee and deducts interest for remaining period. Such Commercial Bills are discounted by Commercial Banks several times during the life of the Bill. Not very popular in India. CBs are unsecured in nature.

Long Term Debt Securities

As discussed earlier, all debt instruments having maturity of more than one year falls under the purview of long-term debt securities. Long term debt instruments are highly sensitive to change in interest rates & inflation and factors capable of influencing both such as economic growth, balance of payment, revenue deficit, monetary policy, liquidity and credit demand, capacity utilisation, wage inflation, unemployment, commodity prices, exchange rate, housing prices, consumer confidence etc. Returns of a debt instrument comprise of interest income and capital appreciation/depreciation due to change in interest rates and other market dynamics. That means a debt instrument when traded in the market may fetch capital gain/loss if not held until expiration/maturity. Debt securities are inversely related to interest rates. Long term debt securities can be further classified as private sector debt instruments and sovereign securities (G-Secs).

Participants: Primary Dealers, Commercial Banks including Cooperative Banks, Financial Institutions, Corporates, Non-Banking Finance Companies, Mutual Funds, Insurance Companies, Provident Funds, Pension Funds and High Networth individuals including NRIs to name a few.

Private Sector Long Term Debt Instruments

Debentures: A debenture is a debt instrument which is not backed by any specific security and usually unsecured in nature; instead the credit worthiness of the company issuing the same is the underlying security. Corporate debentures are exposed to credit default risk. Corporate treasury uses this as a tool to raise medium to long-term funds. The funds raised become part of the capital structure but not equity share capital of the company. Debenture holders are creditors of the company unlike equity share-holders who are the owners of the company and therefore in case of liquidation of the company debenture holders have the preferential rights over the assets of the company. There are various types of debentures like redeemable, non-redeemable, perpetual, convertible, non-convertible, fully, partly, secured, mortgage, unsecured, naked, first mortgaged, second mortgaged, the bearer, fixed, floating rate, coupon rate, zero coupon, secured premium notes, callable, puttable, etc. Major issuers of debentures in India are large corporate bodies, banks, public sector units and All India Financial Institutions (FIs).

Non-convertible debenture (maturity beyond one year): is one of the most popular debenture issued by corporates in India. NCDs are offered through an open issue and subsequently listed on stock exchanges to provide liquidity, however they are thinly traded instruments. NCDs offer both the interest pay-out and growth or cumulative options. NCDs are rated by credit rating agencies like other non-G-Sec debt instruments. Better rated ones are preferred over others but they also offer lower coupon rates.

NCDs usually provide better returns than traditional bank deposits (FDs) and Government bonds.

Corporate Bonds: Corporate bonds are debt securities issued by private and public corporations and usually secured as they are backed by certain assets/securities. However, in India corporate debentures and bonds are used interchangeably. Companies issue corporate bonds to raise money for a variety of purposes, such as capital spending and business expansion. Buyer of a corporate bond lends money to the issuer, the company in exchange of promise to pay a specified rate of interest (usually semi-annually or annually) and return the principal on maturity date. Corporate bond issuer company gives an IOU (I owe you, non-negotiable debt instrument addressed to a creditor, dated, and signed by the borrower). Corporate bonds are rated by the approved credit rating agencies. Corporate bonds in India are mostly issued through private placement and not through public issues. The tenure of corporate bonds usually varies from 3 years to 10 years in India and there is more demand for shorter duration papers than the very long very long duration papers.

Following are the different types of long term papers issued by Indian corporate entities,

Entities	**Long Term Debt Securities**
Body Corporate	Fixed Rate Debentures
	Floating Rate Debentures
	Deep Discount Debentures
	Infrastructure Bond
	Perpetual Bond
Public Sector Undertaking	Taxable Bond
	Tax Free Bond
	Zero Coupon Bond
	Cumulative Bond
	Infrastructure Bond
	Floating Rate Bond
	Green Bond
Banks	Floating Rate Bond
	Zero Coupon Bond
	Perpetual Bond
Institutions	Floating Rate Bond
	Zero Coupon Bond
	Deep Discount Bond
	Tax Free Bond
	Perpetual Bond
Local Bodies	Municipal Taxable Bond
	Municipal Tax-Free Bond
	Statutory Corporations Taxable Bond
	Statutory Corporations Bond
	Zero Coupon Bond
	Deep Discount Bond
Supra National Institutions	Taxable Bond
	Tax Free Bond
	Zero Coupon Bond
	Deep Discount Bond
	Floating Rate Bond
Special Purpose Vehicle (SPV)	Securitised Debt

We think Perpetual Bond, Securitised Debt and Green Bond need special mention.

Perpetual Bond: Perpetual bond has got momentum and relatively new in India. Tata Steel became the first corporate body to raise funds through perpetual bond with 10 years call option. Perpetual bonds are usually issued by banks. In a first State Bank raised USD 500 million from overseas investors through perpetual bond with 5 years call option.

Off late host of Indian banks have offered Perpetual Bonds. The acceptability of these bonds is increasing gradually because of the increased interest of financial institutions and HNIs. Perpetual Bonds' high face value INR 10,00,000 is befitting HNIs and acts as an entry barrier for retail investors. They also carry higher spreads over conventional bonds, these may be more suitable for institutional investors who may be able to correlate the risk-return trade-off on these bonds better.

A perpetual bond is a quasi-equity as this bond is perpetual in nature with no maturity and pays a steady stream of interest payment forever. However, these bonds come with the call option means the issuer has the right to exercise. In falling interest rate scenario, the popularity of perpetual bonds has increased predominantly because of higher yields and with the perception that the banks would not default. However, there are certain inherent risks associated with perpetual bonds, specifically when the fundamentals of the banks and respective NPAs have deteriorated.

Securitised Debt: The first formal securitisation of assets in India took place in 1991, when Citibank securitised a pool from its auto loan portfolio, rated by CRISIL, and placed the paper with GIC Mutual Fund. Subsequently, L&T securitised its' lease rentals in 1999, Indian Railway Finance Corporation securitised sovereign lease rentals and many more.

Securitised Debt involves securitisation i.e. conversion of assets that have predictable future cash flows such as mortgaged loans, cash flow (toll collection) of a road bridge project, into standardized and tradable securities. In other words, debt securitization is a process where companies raise money by pledging the cash-flows from their current and/or future assets. In this event unlike a traditional loan, to secure the debt, the very present and future receivables from the project are marked as collateral for which the loan is being taken. Securitised paper has to be rated. In India, the securitised paper is also called pass-through certificates or PTCs as they represented beneficial interest in the receivables. Securitised Debt can be issued by Special Purpose Vehicle usually a trust, Special Purpose Entity/Corporation. Main investors in securitised debts or PTCs are mutual funds, banks and NBFCs.

Like a company, an SPV must have promoter(s) or sponsor(s). Usually, a sponsoring corporation hives off assets or activities from the rest of the company into an SPV. This isolation of assets is important for providing comfort to investors. The assets or activities are distanced from the parent company; hence the performance of the new entity will not be affected by the ups and downs of the originating entity.

Special Purpose Vehicle, the term predominantly has been used by Government entities which are formed for a single, well-defined, focussed and narrow purpose. Major objective on a government backed SPV is to raise funds for infrastructure development by collateralising future receivables.

The funds requirement for this sector is huge. There are different organisations, like the Infrastructure Development Finance Company (IDFC), Power Finance Corporation (PFC), Indian Rail Finance Corporation (IRFC) etc., which are engaged in raising funds for development of the respective infrastructure sectors they are involved in. The funds raised through SPVs will add to the availability of long-term funds for infrastructure sector projects.

Green Bond: Indian firms like Indian Renewable Energy Development Agency Ltd and Greenko have raised funds through green bond without the tag of green bonds. Yes Bank is the first Indian Bank to raise funds worth INR 1000 crore through the Green Infrastructure Bond and proceed will be used in renewable energy projects. SBI recently raised USD 500 million through Green Bond issue from overseas market.

Green bond is issued to raise funds for projects such as renewable and sustainable energy (solar, wind, bio-energy), emission reductions, pollution free and clean transportation, sustainable waste management, climate change adaptation and similar green and environment related projects. A green bond is like any other bond, it states the specific purpose and project for which the fund is raised.

Green projects are capital intensive and require huge investments; cost of financing in India had been huge from traditional banking route, whereas green bonds typically carry lower coupon rates and lower risk because the repayment is linked to the issuer and not project. Green Bonds sets to resolve the issue of funding however, raising funds through Green Bond would not be easy in India.

Green bonds are also issued by the World Bank, multinational corporations, government agencies and municipalities.

Dated Securities & State Development Loans

A long term (original maturity of more than one year) Government security is a tradable instrument issued by the Central Government or the State Governments. Long term G-sec issued by Central government is usually called Government bonds or dated securities. The State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). Government securities carry practically no risk of default and, hence, are called risk-free gilt-edged instruments. Government of India also issues savings instruments such as Savings Bonds, National Saving Certificates (NSCs) or special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, etc.). They are, usually not fully tradable and are, therefore, not eligible to be SLR securities.

Dated Securities: Dated Government securities are long term securities and carry a fixed or floating coupon/interest rate which is paid on the face value, payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 30 years.

Both Dated securities and SDLs are issued by Reserve Bank through auctions. The Reserve Bank announces the auctions a week in advance through press releases.
The Public Debt Office (PDO) of the Reserve Bank of India acts as the registry / depository of Government securities and deals with the issue, interest payment and repayment of principal at maturity. Most of the dated securities are fixed coupon securities.

The nomenclature of a typical dated fixed coupon Government security contains the following features - coupon, name of the issuer, maturity and face value. For example, 7.5% GS 2017 would mean:

Coupon:	7.5% paid on face value
Name of Issuer:	Government of India
Maturity:	2017
Minimum Amount of issue/sale:	INR 10,000

In case there are two securities with the same coupon and are maturing in the same year, then one of the securities will have the month attached as suffix in the nomenclature. For example, 6.50% GS 2019 FEB and 6.50% GS 2019 SEP would mean that Government security having coupon 6.50 % would mature in February 2019 and September 2019 respectively.

If the coupon payment date falls on a Sunday or a holiday, the coupon payment is made on the next working day. However, if the maturity date falls on a Sunday or a holiday, the redemption proceeds are paid on the previous working day itself.

Types of Bonds

Fixed Rate Bonds: These are bonds on which the coupon rate is fixed for the entire life of the bond. Most Government bonds are issued as fixed rate bonds.

For example – 8.24%GS2018 was issued on April 22, 2008 for a tenor of 10 years maturing on April 22, 2018. Coupon on this security will be paid half-yearly at 4.12% (half yearly payment being the half of the annual coupon of 8.24%) of the face value on October 22 and April 22 of each year.

Floating Rate Bonds: Floating Rate Bonds are securities which do not have a fixed coupon rate. The coupon is re-set at pre-announced intervals (say, every six months or one year) by adding a spread over a base rate. In the case of most floating rate bonds issued by the Government of India so far, the base rate is the weighted average cut-off yield of the last three 364- day Treasury Bill auctions preceding the coupon re-set date and the spread is decided through the auction. Floating Rate Bonds were first issued in September 1995 in India.

For example, a Floating Rate Bond was issued on July 2, 2002 for a tenor of 15 years, thus maturing on July 2, 2017. The base rate on the bond for the coupon payments was fixed at 6.50% being the weighted average rate of implicit yield on 364-day Treasury Bills during the preceding six auctions. In the bond auction, a cut-off spread (mark-up over the benchmark rate) of 34 basis points (0.34%) was decided. Hence the coupon for the first six months was fixed at 6.84%.

Zero Coupon Bonds: Zero coupon bonds are bonds with no coupon payments. Like Treasury Bills, they are issued at a discount to the face value. The Government of India has not issued zero coupon bonds since nineties.

Capital Indexed Bonds: These are bonds, the principal of which is linked to an accepted index of inflation with a view to protecting the holder from inflation. A capital indexed bond, with the principal hedged against inflation, was issued in December 1997.

CIBs could also be of the nature where both inflation Indexed Bonds wherein payment of both, the coupon and the principal on the bonds are linked to an Inflation Index. In this bond principal is indexed and the coupon will be calculated on the indexed principal. Inflation component on principal is not paid with interest but the same is adjusted in the principal by multiplying principal with index ratio (IR). At the time of redemption, adjusted principal or the face value, whichever is higher, would be paid means the capital is protected even if the inflation is negative.

Interest would provide protection against inflation since fixed coupon rate on the principal adjusted against inflation is paid.

Bonds with Call/ Put Options: Bonds can also be issued with features of optionality wherein the issuer has the right to exercise option to buy-back (call option) or the investor has the right to exercise option (put option) to sell the bond to the issuer during the currency of the bond. 6.72%GS2012 was issued on July 18, 2002 with 10 year's maturing on July 18, 2012. The bond was issued with both option (call & put) could be exercised after completion of five years tenure from the date of issuance on any coupon date falling thereafter. The Government had the right to buy-back the bond (call option) at par value (equal to the face value) while the investor had the right to sell the bond (put option) to the Government at par value at the time of any of the half-yearly coupon dates starting from July 18, 2007.

Special Securities: The Government of India also issues, from time to time, special securities to entities like Oil Marketing Companies, Fertilizer Companies, the Food Corporation of India, etc. as compensation to these companies in lieu of cash subsidies. These securities are usually long dated securities carrying coupon with a spread of about 20-25 basis points over the yield of the dated securities of comparable maturity. These securities are, however, not eligible SLR securities but are eligible as collateral for market repo transactions. The beneficiary oil marketing companies may divest these securities in the secondary market to banks, insurance companies / Primary Dealers, etc., for raising cash.

State Development Loans: State Governments also raise loans from the market. SDLs are dated securities issued through an auction similar to the auctions conducted for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date. Like dated securities issued by the Central Government, SDLs issued by the State Governments qualify for

SLR. They are also eligible as collaterals for borrowing through market repo as well as borrowing by eligible entities from the RBI under the Liquidity Adjustment Facility (LAF).

Other Debt instruments (not part of money market instruments)

Fixed Deposits: Fixed deposits are also called term deposits or time deposits, they could be short term (one year or less) or long term (more than one year) depending on the tenor of the investment. These are non-tradeable instruments; however, they can be used as collateral for asset backed loans and therefore can be marked as lien. Once executed, a lien becomes the legal right of a creditor to sell the collateral of a debtor who fails to meet the obligations of a loan or other contract. The asset that is marked as lien cannot be sold by the owner without the consent of the lien holder.

Tax saving fixed deposits are offered by private/public sector banks and post office. Only individual and HUFs are allowed to invest in tax saving fixed deposits up to INR 1.5 lakh under section 80C of the Income Tax Act. These deposits have a lock-in period of 5 years. Premature withdrawals and loan against these FD's are not allowed.

National Saving Certificate/KisanVikasPatra/SukanyaSamridhi Accounts: The National Savings Certificate (NSC) is an investment scheme floated by the Government of India. It is a savings bond that allows subscribers to save income tax. There is no maximum limit on the purchase of NSCs, but investments of up to INR 1.5 lakh in the scheme can earn a tax break under Section 80C of the Income Tax Act. The certificates earn a fixed interest per annum but deemed to be reinvested means the interest is added back to the investment and compounded annually. These certificates can also be used as collaterals while taking loans from banks. Trusts and HUF cannot invest in NSC.

Kisan Vikas Patra is a saving certificate scheme of Government of India. Sukanya Samridhi is a small deposit scheme of the Government of India meant exclusively for a girl child and is launched as a part of Beti Bachao Beti Padhao campaign. Both are offered through India Post. The Sukanya Samridhi scheme is meant to meet the education and marriage expenses of a girl child with maturity at the age of 21 years. The account can be opened in the name of a girl child up to age of 10 years and partial withdrawal is allowed after the attainment of 18 years of age.

Provident Funds: Both EPF (Employee Provident Fund) and PPF (Public Provident Fund) are examples of debt instruments and are sovereign backed.

EPF, is a retirement benefit applicable only for salaried employees. It is a fund where both employee and employer contribute. The amount accumulated in an EPF account can be withdrawn by the employee at the event of retirement or resignation. EPF amount can also be transferred from one company to another in case of job change.

PPF on the other hand is a statutory scheme by the central government, started with the objective of providing old age income security to self-employed individuals and workers from unorganised sectors. In case of PPF, the deposited amount can be withdrawn on maturity, which occurs after 15 years. It can be extended in blocks of 5 years for an unlimited number of times.

As per the recent development the interest gap has widened considerably between EPF and PPF and is close to 100 basis points.

Personal short-term debt: Credit card bill, consumer durable loan and personal loan with the obligation to repay within a year are short term personal debt.

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Risk Factors

Trading and investment in debt and fixed income securities are subject to but not limited to interest rates & inflation risks and factors capable of influencing both such as economic growth, balance of payment, revenue deficit, monetary & financial policy, taxation, liquidity (global and local) and credit demand, capacity utilisation, wage inflation, unemployment, commodity prices, exchange rate, housing prices, consumer confidence, political, geo-political, socio-political, market, spread and volume related risks, credit default risks etc.

Market may witness large movement in prices of debt and fixed income securities and therefore possibility of considerable loss and in certain scenario such as default, complete loss of principal cannot not be ruled out.

Summary: All investments/trading activities carry risks and they can be classified under two categories systematic and unsystematic risk. Investors/traders should

have complete understanding of both the risks before they undertake investment and trading activities.