

Tax Free Bonds - Public Issue

Five entities have been authorized for issuance of Tax Free Bond issue, during FY 2011-12 and the issuers raised more than 28,000 Cr. The CBDT has authorized 10 issuers to raise 53,500 for FY 2012-13. These issuers have been raising funds through private placement and are soon coming out with public issue.

Tax free status

The Central government, in exercise of its powers conferred under Section 10 (15) (iv) (h) of the Income tax Act, 1961, has authorized the above entities to issue tax-free, secured, redeemable, non-convertible bonds of an aggregate amount of Rs. 53,500 Crore during the FY 2012-13. *

The interest income on these bonds is tax exempt

Performance of public issues of FY 2011-12

- During FY 2011-12 five public sector entities came out with public issue of tax free bonds and the bonds are listed on exchanges.
- All the five issues of tax free bonds are trading at a premium on the exchanges
- A portfolio of with equal allocation in all 5 bonds would have yielded 4.5% in price gain
- The following table shows the **absolute total post tax gains** (Tax free coupon, accrued interest and Capital Gains) for the different bonds

Features

- ✓ Tenure: Choice of 10 years and 15 years
- ✓ Proposed to be listed on NSE and BSE**
- ✓ No lock-in period**
- ✓ Secured issue
- ✓ Either in Demat or Physical form
- ✓ PAN is Mandatory

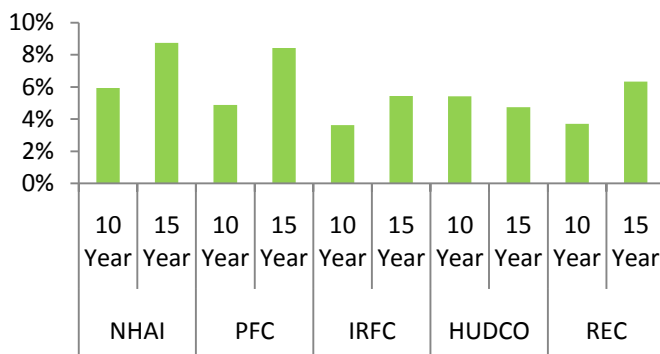
Who Can Invest**

- ✓ Retail Individual Investors (RIIs)
- ✓ Qualified Institutional Buyers (QIBs)
- ✓ Corporates
- ✓ High Net worth Individuals (HNIs)

Issuers for FY 2013

- ✓ Indian Railway Finance Corporation (IRFC)
- ✓ India Infrastructure Finance Company Limited (IIFCL)
- ✓ Housing and Urban Development Corporation HUDCO
- ✓ National Housing Bank (NHB)
- ✓ Power Finance Corporation (PFC)
- ✓ Rural Electrification Corporation (REC)
- ✓ Jawaharlal Nehru Port Trust
- ✓ Dredging Corporation of India
- ✓ Ennore Port Limited
- ✓ National Highway Authority of India (NHAI)

Clean price premium[#]



Coupon on the bonds***

- ✓ The CBDT notification provides for method of determining cap on the coupons on the issue.
- ✓ Current average 10 year G-Sec Yield*: 8.19 % semi annual or 8.36 % annual
- ✓ Therefore, the coupon at an upper caps arrive to

	Retail Individual investors		
	10 Years	15 Years	20 Yrs
AAA and AA+ Rated	7.71%	7.88%	7.91%
AA Rated and below	7.86%	8.03%	8.06%
	QIBs, Corporates and HNIs		
	10 Years	15 Years	20 Yrs
AAA and AA+ Rated	7.21%	7.38%	7.41%
AA Rated and below	7.36%	7.53%	7.56%

Advantages

- ✓ The bonds are issued by good rated central PSU's and are considered very safe.
- ✓ Interest earned is Tax exempt
- ✓ No cap on amount of investment eligible for tax benefits
- ✓ Can be sold in secondary market without any lock-in period
- ✓ Listed securities

*as per CBDT Circular dated 6th November 2012 for tax free bonds.

** for exact details refer individual tranche prospectus of respective issuers

*** Average G Sec yields taken for two weeks ending 16th November 2012, if the final prospectus is filed in last week of November, the average rate for two weeks ending 23rd November 2012 will be taken.

The performance is measured up to 7th November, 2012. All prices taken from exchange platforms. Tax is assumed at 30.90%. No of days of investments assumes 30 days of investment to allotment.

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