Brickwork Rating sees many positives in the Bharat Bond ETF

Brickwork Ratings, 04 December 2019, Mumbai: The announcement of first corporate ETF namely Bharat Bond Exchange traded Fund by Government of India (GoI) is a ‘three in one’ step. Firstly, it will help the healthy PSUs including banks in raising cheaper funds, secondly, it will give an opportunity to investors to invest in safer instruments with tax advantage and thirdly, it will help the hitherto lagging bond market to develop and deepen.

The ETF may also help the Financial Institutions, Banks and PSU-NBFCs to raise long term funds earmarked for specific long-term purpose such as Infrastructure with ease at reasonable cost as many HNIs will also be the target group.

Meanwhile, the ETF will not have guarantee of GoI, but it will invest in "AAA" bonds to start with (which may later extend to AA+), thus ensuring a high degree of safety. The expense ratio being very low, market making and liquidity provisions which are always a concern in the ETF, will be a challenge to the AMC as Edelweiss AMC is expected to incentivise the market makers.

Most bonds will be fixed income securities giving yield with a markup over the government securities of similar maturity plus some illiquidity premium; however, to attract the investors and hedge the interest rate risk, the issuers may also come up with floating rate bonds. The objective of starting with fixed maturity plans (FMP) of 3 and 10 year is that being a debt fund, the investors will benefit as interest income will be treated as long-term capital gains (currently at 20.9%) rather than on marginal tax rate. The investors will have the benefit of periodic Net Asset Value (NAV) during the day.

All in all, it is a very positive step in run-up to achieving $5 trillion economy.

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