Floating-rate savings bonds on RBI portal may not be instant hit

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Retail investors could be hesitant to invest in floating rate savings bonds, as these specific bonds tend to be profitable only in a rising rate environment, according to market participants. The Reserve Bank of India has allowed subscriptions for floating-rate savings bonds, 2020, via retail direct — an online portal that enables individual investors to purchase government securities.

Floating-rate bonds, which are interest-bearing and non-tradable, are issued by the government and reach maturity seven years from the date of issuance. The RBI offers an interest rate of 8.05 per cent, which is 35 basis points above the National Savings Certificate rate. Interest on these bonds is paid semi-annually on January 1 and July 1 each year, with no provision for cumulative interest payments.

"Floating-rate bonds make sense in a rising rate environment. In the present scenario, opting for these bonds won't be a wise decision," said Ajay Manglunia, managing director at JM Financial. "Nevertheless, worries persist regarding potential increases in interest rates. So, individuals are willing to take on the risk associated with it and are inclined towards investing in short-term options like T-bills (treasury bills). Equity investors, family offices, and other financial entities have been channeling their investments into T-bills, mainly using them as collateral for their equity trading activities."

The domestic rate-setting panel is expected to maintain the repo rate unchanged for at least the next year. Currently, retail investors have the option to invest in various financial instruments, such as central government securities, treasury bills, state government securities, and sovereign gold bonds through the retail direct portal.

Retail investors continue to invest more heavily in treasury bills compared to instruments like state and central government securities and sovereign gold bonds. Venkatakrishnan Srinivasan, bond market veteran and founder and managing partner of Rockfort Fincap LLP, said: "Up to one year, it makes sense to invest in T-bills, as they are providing good returns compared to banks."

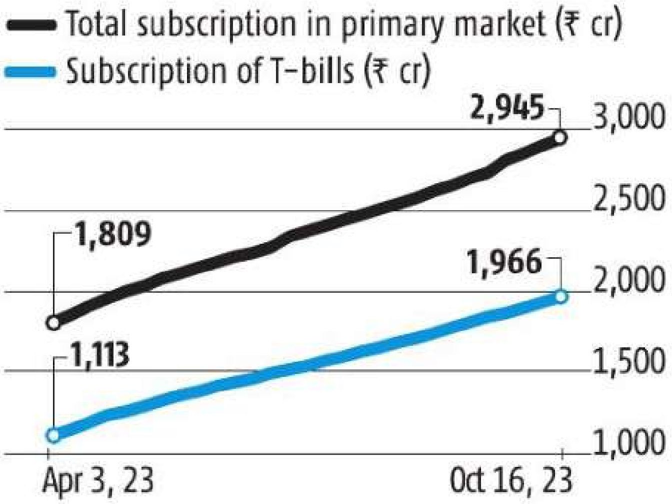
As of October 16, T-bills accounted for 67 per cent of total subscriptions while central government-dated securities made up only 18 per cent. State government securities and sovereign gold bonds accounted for 10 per cent and 5 per cent of subscriptions, respectively.

Total subscriptions in the primary market rose to ₹2,945 crore as on October 16, from ₹1,809 crore on April 3. In terms of T-bills, retail investors invested ₹1,966 crore as on October 16, up from ₹1,113 crore on April 3rd. Subscription in T-bills saw growth of 78 per cent compared to growth of 63 per cebt in overall subscription during the April-October period.

Market participants believe that the appetite for floating rate bonds may also be less among retail investors because of their illiquid nature.

IN NUMBERS

Retail investors subscription



Source: RBI Retail Direct