Bonds go deeper and wider with digital tech

App or web-based facilities are coming up to simplify and facilitate transactions

JOYDEEP SEN

Technology is improving almost all aspects of our life, be it searching for information, transacting with money, investing, medical treatment, travelling and so on. One interesting development in this context is about a market that has hitherto not developed or rather, has not been deep enough for retail investors.

For investing in corporate bonds in India, the preferred and predominant route is mutual funds. Having said that, direct investment in bonds should be a feasible option. While there is a secondary market for corporate bonds in India, the market is wholesale or institutional. Trading lots are of a big quantum, beyond the reach of common investors.

Bonds are listed on the exchange i.e. NSE/BSE, open to retail investors, but trading there is not as liquid as to easily buy or sell the instrument of a retail investor's choice.

Moreover, what one sees on the exchange screen is the price of the bond. While price is relevant, bonds trade on the basis of yield-to-maturity (YTM), which is the effective annualised return, provided you hold the bond till maturity. For information on YTM, professional guidance is required.

Recently, the Reserve Bank of India (RBI) opened a website-based platform called Retail Direct Account Scheme, where retail investors can open an account directly with the central bank of the country. On this platform, people can trade in government securities (G-Secs) in retail lots, which otherwise is a wholesale market.

However, the Retail Direct Account does not house corporate bonds. In the context of corporate bonds, individual investors, particularly high networth individuals (HNIs), can trade through certain houses that are brokers or NBFCs, offering this as a product.

These are customised transactions, unlike trading in equity stocks on a trading screen. In this hitherto not-so-liquid market of corporate bonds for individual investors, how can technology help?

There are certain app-based or web-based facilities coming up to simplify and facilitate transactions. One needs to open an account with the service provider, but the execution can be done without human intervention, at a preferred time.

These platforms provide efficiency similar to app-based trading in equity stocks, the difference being the number of bonds on offer would be less than the number of equity stocks due to the nature of the market.

'Cursory' glance

To get a hang of it, visiting websites of service providers may be a good idea. Goldenpi.com displays 'bonds in spotlight'; Indiabonds.com showcases multiple categories of bonds. Indmoney.com has a bonds section on their website, where they list various bonds from their inventory.

Bondskart.com has an app to boot. It displays the inventory of bonds as on date, slotted in various categories, from which you can pick and choose as per credit rating, issuer profile (PSU, private sector, etc.) maturity tenure, frequency of coupon (interest) payment for planning your cash flows, etc.

It shows the minimum investment quantum so that you can pick one as per your lot size.

It also shows the YTM of the bond, which is not available on the Exchange screen. When you want to sell a bond, you can put in your details and request a quote. The knowledge section houses relevant updates for you to understand the context better.

There would be more such sites or apps coming up as technology expands the horizon.

What do you need to invest in bonds directly, that is, sans the mutual fund route? Diversification is a basic tenet of risk management; do not put all your eggs in one basket. You have to buy multiple bonds, so that your risk on one bond is limited to the extent of your exposure. Since your portfolio construct is in your control, you can buy bonds as per your suitability of credit quality, issuer profile and the like. AAA is the highest credit rating for corporate bonds, followed by AA+, AA and so on.

You can pick up bonds of multiple maturities and various interest payment dates, so that you generate automatic cash flows without having to sell a bond in the secondary market.

Direct route advantage

What are the advantages of taking the direct bond route? Cost saving is one advantage. In a mutual fund, the charges are levied every year, whereas in a bond, the expenses you incur while purchasing it occur only once, however long as you hold it. Sometimes, there are certain bonds that offer a relatively higher YTM due to lack of liquidity in the secondary market without a commensurate increase in credit risk.

You can avail of those pockets of opportunity. Though liquidity can be an issue if you want to sell in the secondary market, as long as you have a view to hold till maturity, you can take a call.

To conclude, we have seen technology deepen the reach of the equity market. A similar journey has begun for the bond market.

(The writer is a corporate trainer and author)