Fundamentals come first

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DUE DILIGENCE. Here are things investors in non-convertible debentures must know before investing


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Interest rates have been on the rise over the past 18 months. As a result, many fixed-income instruments have become attractive, even market-linked ones such as non-convertible debentures (NCDs). Many firms, mostly NBFCs (non-banking finance companies), have been coming out with NCD offers over the past year or so. Some of these NCDs may be too risky despite the high returns that they offer.

It becomes important for retail investors to understand the key terms associated with NCDs such as coupons, yields, face value, tenor and the like.

There are other debt instruments such as tax-free bonds and many NCDs that are traded in the BSE and NSE. Investors must also be aware of these to make informed decisions.

Here's more on what retail investors must know before venturing to invest in NCDs. Of course, it goes without saying that analysing the financials and prospects of a firm – to gauge the ability to repay interest and principal amounts – is equally important.

UNDERSTAND TERMS

There are many bond-market terms used while dealing with NCDs. Some clarity on these terms may be useful.

Coupon: These debentures come with a coupon or an interest rate. This is just like interest rate on fixed deposits. Since NCDs are market-linked products, you must look for options that offer higher interest than deposits. However, you must understand that not too much risk must be taken in pursuit of higher interest. So, about 100-150 basis points more than the best private and public sector banks' deposits for similar periods would be a good reference point. Interest rates that are equal to or a bit more than what quality small finance banks offer and top NBFC deposits give are other thresholds. Anything more may be too risky.

Face value: These debentures or tax-free bonds are assigned a face value. Coupons are paid as a percentage of face value of NCDs. The face value is usually ₹1,000 per bond.

Interest frequency: The frequency is based on the tenor and type of payout that you choose at the time of application. Annual and monthly payout options are common. Cumulative NCDs are also available.

Depending on your cash flow requirements, you can choose the frequency that suits you. Cumulative option can be avoided by conservative investors and regular interest payouts can be taken.

Tenor: NCDs come in various timeframes ranging from two years to as high as 10 years. Usually, coupons are set higher for longer tenors. For retail investors sticking to two or three-year tenors are advisable.

Five-year tenors are fine if the coupons are really attractive and the risks are low. Avoid locking into any more than 5-year tenors.

Credit rating: This is an important criterion while choosing NCDs. AAA and AA rated issues can usually be considered. For A-rated securities, it is better if it is issued by a reputed corporate or is backed by a conglomerate. You must avoid any lower rated securities such as BBB and the like even if the coupons on offer are very high, even in double digits.

MAKE SENSE OF YIELDS

One of the key aspects of market-linked instruments in the bonds space is to understand the concept of yields. For investors looking to deploy money in NCDs in the primary issue, usually, the coupon and yield are almost the same, give or take a few basis points.

Yield is what we get as return for cash outflow (principal amount) and inflows (interest and principal repayment) over the tenor of the bond. So, the key is holding a bond till it matures and not selling it in between if you want the yield (yield to maturity) for which you bought the NCD.

When NCDs or bonds start trading on the BSE or the NSE, their prices change periodically. Bond prices and yields move in opposite directions.

In Indian debt markets, in general, the volumes of bonds traded are pretty low. There are times when trades do not happen in some counters for days together. A select few categories such as G-Secs and a few tax-free bonds, and highly rated corporates have reasonable volumes, though.

When the yields are much higher (more than 100 basis points) than the original coupons on offer on an NCD or bond issue, it may indicate some rating downgrade, raising interest rates leading to unfavourable scenarios for the firm.

You must be on the alert to avoid risky bets where yields have risen suddenly due to adverse circumstances and not try your luck chasing higher returns as you may end up losing capital or interest payouts.

Of course, based on just a rising interest rate scenario without any change in the fundamentals of a firm, if its NCDs trade at a higher yield than the coupon, it may present an attractive entry point for better returns.

Another key point of reference to gauge the yields in the secondary or even primary market is to check the yields of what similar rated bonds trade at in the secondary market. Many brokerages and financial entities bring out the category average of yields for various corporate bonds rated AAA, AA, A and so on.

If the bond you like to buy offers the same or a bit more (say 50 basis points) in terms of coupon rates or yields, you can consider such instruments. A much larger spread of, say 100 basis points, may not too risky, while a much smaller spread can render it unattractive.

For retail investors, investing in NCDs must in general not be more than 5-10 per cent of their debt portfolio and they must take the above factors into consideration before taking the plunge.

It's no 'plug in and pay' matter

TAKING COVER. Buying insurance for EV can be tricky. Here's how to go about it smartly

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Electric vehicles or EVs are becoming ubiquitous on Indian roads. From being 1 per cent of all sales in 2019, Electric battery-operated vehicles now account for 6 per cent of sales. That is a rapid growth — from around 2 lakh unit sales in 2019 to 13 lakh units sold in 2023 so far. Before the festive season closes, we can expect the 'noiseless buzz' of electric vehicles increasing on road.

The options for insuring such vehicles and the industry response to the variations are still in their early days. Small but incremental changes to policies are being designed to address the unique aspects of EVs. HDFC Ergo, Bajaj Allianz and Royal Sundaram offer EV-specific policies. Magma HDI insurance also offers battery secure add-ons for private cars.

ICE VS EV

Compared to an ICE vehicle (internal combustion engine), bulk of the EV vehicle cost is captive in battery and electric motor. The external charging set-up is also just as crucial to insure. The operational factors are also different. In addition to drunk driving, EV insurance looks for improper charging stations, voltage fluctuations and other mishaps, which can wreck 90 per cent of the vehicle by value. Roadside assistance takes on a whole new meaning with EVs, which can find themselves easily out of charging-point range.

The cost of insuring an EV typically runs higher compared to an ICE vehicle. There is a 15 per cent discount on EV vehicle insurance, which limits the premium, but EV insurance will be on the higher side compared to ICE. The cost of the vehicle, and hence the IDV, will be higher.

The replacement costs and the maintenance costs and the labour charges will also be higher for the infant vehicle industry. This, assuming that any repair or maintenance can be executed in the first place.

INCLUSIONS, EXCLUSIONS

A comprehensive or own damage insurance, beyond the mandatory third party insurance, should be the common preference. Damage to the policyholder vehicle on account of theft, fire or natural calamities gets covered in own damage and additional services like legal cover for third party damage is covered in comprehensive cover. Personal accident covers are also included in comprehensive packages. Roadside assistance and cashless claim processing may be enhanced in comprehensive cover. These features addressing fire, third party legal claim and natural calamities gain heightened risk application in EVs owing to battery pack, manual charging and electric motor.

Roadside assistance, including for breakdown, energy or accident are included in some policies. EVs range from 300 to 400 km on well-charged long drive. Unless the charging ecosystem scales up significantly, the chances of getting stuck will be high and insurer assistance will be a key tool. EV insurance can service breakdowns around select cities with comprehensive insurance.

Apart from regular add ons, battery covers and motor cover, sold as separate add-ons in most policies address the critical component risks. The battery cover includes the charger and the battery. Mechanical and electrical breakdown are covered, which is the primary risk from a cost standpoint in an EV. If the OEM supplied materials are not used in charging, or used for other purposes, surges and voltage fluctuations are not covered in insurance. Similar to an engine cover, motor cover protects against water ingress damaging any component. Any manufacturer fault, recall or warranty period damages are also not covered.

The current motor insurance product range normally suits ICE engines from a risk perspective. But an EV insurance tailored for the specific differences can suit a EV vehicle owner from battery and performance standpoint.

Small Savings Schemes - Interest rates

Small Savings Scheme		Interest rate (%) July 1 - Sep 30, 2023	Oct 1 - Dec 31, 2023	Compounding frequency
Post Office Savings Deposit		4.0	4.0	Annually
Post Office Time Deposit	1 year	6.9	6.9	Quarterly
	2 year	7.0	7.0	Quarterly
	3 year	7.0	7.0	Quarterly
	5 year	7.5	7.5	Quarterly
Post Office Recurring Deposit (5 year)		6.5	6.7	Quarterly
Senior Citizen Savings Scheme		8.2	8.2	Quarterly and paid
Post Office Monthly Income Scheme		7.4	7.4	Monthly and paid
National Savings Certificate		7.7	7.7	Annually
Public Provident Fund		7.1	7.1	Annually
Kisan Vikas Patra		7.5#	7.5#	Annually
Sukanya Samriddhi Yojana		8.0	8.0	Annually

Note: Small savings rate have been revised in the latest quarterly reset on September 29, 2023
#Will mature in 115 months Source: Department of Economic Affairs, Ministry of Finance, GoI

Bank FD interest rates (%)

Bank	<1 year	1 to 2 years	2 to 3 years	3 to 5 years	w.e.f
FOREIGN BANKS					
Deutsche Bank	7	7.75	8	7.5	Oct 10
Standard Chartered	6.5	7.5	7.5	7.1	Nov 10
INDIAN: PUBLIC SECTOR BANKS					
Bank of Maharashtra	7	6.75	6.25	6	Oct 12
Bank of Baroda	6.25	7.15	7.25	6.5	Oct 30
Bank of India	5.75	7.25	6.75	6.5	Nov 01
Canara Bank	6.25	7.25	6.85	6.8	Oct 27
Indian Bank	7.05	7.25	6.7	6.25	Mar 04
Punjab National Bank	6.25	7.25	7	6.5	Nov 01
Punjab & Sind Bank	6.5	7.4	6.5	6	Oct 01
State Bank of India	5.75	7.1	7	6.5	Feb 15
UCO Bank	6	6.5	6.3	6.2	Oct 01
INDIAN: PRIVATE SECTOR BANKS					
Axis Bank	6	7.1	7.1	7.1	Oct 12
Catholic Syrian	7.25	7.35	5.75	5.75	Oct 18
City Union Bank	6.5	7	6.5	6.25	Apr 05
DCB Bank	7.25	7.75	7.9	7.9	Sep 27
Dhanlaxmi Bank	6.75	7.25	6.5	6.6	Aug 01
Federal Bank	6	7.4	7.05	6.6	Oct 19
HDFC Bank	6	7.1	7.15	7.2	Oct 01
ICICI Bank	6	7.1	7.1	7	Oct 16
IDBI Bank	6.25	7.15	6.5	6.5	Sep 15
IDFC First Bank	5.75	7.75	7.25	7	Nov 02
IndusInd Bank	6.35	7.85	7.25	7.25	Oct 01
J & K Bank	6.6	7.1	7	6.5	Oct 11
Karnataka Bank	6	7.25	6.5	6.5	Nov 01
Kotak Bank	7	7.25	7.1	6.5	Oct 25
Karur Vysya Bank	6.5	7.5	7	6.5	Sep 01
RBL Bank	6.05	7.8	7.5	7.1	Oct 16
South Indian Bank	6.25	7.3	7	6.5	Nov 01
Tamilnad Mercantile Bank	6	7.5	6.6	6.5	Aug 14
Yes Bank	6.35	7.5	7.25	7.25	Oct 04
SMALL FINANCE BANKS					
AU Small Finance Bank	6.75	7.75	8	7.75	Aug 16
Equitas Small Finance Bank	6.25	8.5	8.25	7.5	Aug 21
Fincare Small Finance Bank	7	8.21	8.61	8.25	Oct 28
Jana Small Finance Bank	7.25	8.25	8.5	7.25	Nov 04
Suryoday Small Fin Bank	6	8.5	8.6	8.25	7-Aug
Ujjivan Small Finance Bank	6.5	8.25	7.75	7.2	1-Jun

*Data as on respective banks' website on 10 Nov 2023; For each year range, the maximum offered interest rate is considered; interest rate is for a normal fixed deposit amount below ₹1 crore. Compiled by BankBazaar.com

ALERTS.

Digital Gold Loan unveiled by Punjab National Bank

Punjab National Bank (PNB) has unveiled Digital Gold Loan. This offering is designed to provide hassle-free credit to customers to quickly meet their personal as well as agriculture credit requirements against the pledge of gold jewellery/ornaments. An individual can apply for a PNB Digital Gold Loan for an amount ranging from minimum ₹25,000 to maximum ₹25 lakh, according to a press release. PNB Digital Gold Loan can also be availed by those engaged in agriculture or allied activities.

Ujjivan SFB enhances doorstep banking services

Ujjivan Small Finance Bank (Ujjivan SFB) has announced a significant enhancement to its doorstep banking services, with focus on making banking more accessible and convenient for senior citizens and differently abled customers at no cost. The daily cash pick-up and delivery limit per instance is now enhanced to up to ₹25,000. Customers can receive up to four financial services at their doorstep door-to-door services per month without service charges.

'Battery Secure Add On' launched by Magma HDI

Magma HDI General Insurance has launched 'Battery Secure Add On', an insurance product specifically for batteries of electric vehicles and hybrid electric vehicles. The product specifically covers expenses incurred in repair or replacement of the batteries and any associated charges due to 1) unexpected power surge while charging battery, and 2) consequential damages arising out of water ingression/short circuit causing loss or damage to the battery, electric motor, and HEV system.

Health insurance premium tracker

For a 30-year-old male, non-smoker, sum insured of ₹10 lakh living in a metro city

Insurer	Plan name	Key features	Premium (₹)
Niva Bupa	Health ReAssure 2.0 platinum	Unlimited restoration of cover No room rent limit Carry forward unutilized SI up to 5x	11,109
Care	Care supreme	7x SI in 5 years Unlimited restoration of cover	10,592
Star Health	Star Comprehensive	Comprehensive plan Mid term inclusion of wife and child Unlimited restoration of cover	11,476
Aditya Birla	Activ Health Platinum Enhanced	No room rent limit Up to 100% discount on renewal Day 1 coverage	9,750
Bajaj Allianz General	Individual Health Guard - Gold	No room rent limit No claim bonus	12,212
Manipal Cigna	Prime – Advantage	90 days PED waiting period OPD cover up to 50k Unique switch off benefit	12,513
TATA AIG	Medicare Premier	Global coverage along with OPD	13,663
HDFC Ergo	Optima Secure	2X coverage from Day 1 Sum insured doubles after 2 years Zero deduction on non-medical	16,197
Reliance General	Health Infinity (more time)	1 additional month coverage Additional 3L sum insured Global coverage	9,816

Premium is calculated on the basis of age of insured member, location, plan type and sum insured. Health insurance covers medical expenses that arise due to an illness and benefits will be payable subject to the terms and conditions and exclusions of the policy

Source: www.policybazaar.com

Term insurance premium tracker

For a 30-year-old male/female, non smoker, living in a metro city, Sum assured ₹1 crore with coverage up to 70 yrs

Insurance company	Plan name	Max coverage up to (years)	Max policy term (years)	Annual premium (₹) (inclusive of GST) Male	Female	Claim settlement ratio (%)
Aditya Birla Capital	Digishield Plan	85	55	15,066	12,687	98.1
Aegon Life	iTerm Prime	70	40	14,282	11,756	99.4
Bajaj Allianz	eTouch	99*	69	13,998	12,167	99.0
Bharti AXA	Flexi Term Pro	99	69	12,037	10,385	99.1
Canara HSBC Life	Young Term Plan - Life Secure	99	69	12,552	10,484	99.01
Edelweiss Tokio	Zindagi Protect	100	70	14,596	11,970	99.2
HDFC Life	Click 2 Protect Super	100	70	15,863	14,213	99.39
ICICI Prudential	iProtect Smart	99	69	17,190	15,164	97.8
Kotak Life	Kotak e-Term Plan	85	67	13,216	11,092	98.8
Max Life	Smart Secure Plus	85	55	14,614	12,258	99.51
PNB Met Life	Mera Term Plan Plus	80	50	15,930	12,980	99.1
SBI Life	eShield Next	100	70	17,495	14,654	97.1
TATA AIA Life	Sampoorn Raksha Supreme	100	70	14,868	12,626	99.0

Claim settlement ratio as per data provided by insurer

Source: www.policybazaar.com,

LIC Max Life offers additional 5% discount for 1st year for salaried customers; *Whole life available only on limited pay option; HDFC whole is available only in limited payterm(Life Protect) & Limited+Single payterm(Income Plus); SBI eShield Next plan whole life is available only in limited pay with above age 45yrs NA: Not Available