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NBFCs lure depositors with higher returns

Give 0.5% higher returns than domestic term deposits of banks

Neelasri Barman | Mumbai
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With falling interest rates, locking your savings in deposit-taking non-banking financial companies (NBFCs) might be a good option. NBFCs give at least 50 basis points (bps) higher rate of return than domestic term deposits of banks. The deposit schemes offered by the

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top NBFCs are 'AAA' rated, which signifies the highest safety for investors.

India's top commercial banks offer 7.25-7.75 per cent interest rates for fixed deposits of one year, while the rates of NBFCs are higher than eight per cent. In fact, in certain cases, senior citizens get additional interest rate of 0.25 per cent for these deposits. However, that is the case even with banks where senior citizens are offered higher interest rates.

"This year, we have already cut rates by 55-60 bps. Despite the cut in retail deposit rates, the demand for these deposit have not come down because we offer higher rates than banks and these deposits are 'AAA'-

rated. Besides that, our brand is very strong," said Rajeev Jain, managing director, Bajaj Finance.

Similarly, DHFL, too, has not seen a fall in its retail deposits. According to Harshil Mehta, CEO of DHFL, the company is expanding horizons in Tier-2 and Tier-3 towns extensively, which is helping them reach out to new customers.

Since the start of this financial year, banks have reduced their deposit rates by 50-75 bps in various maturity buckets. In the current financial year, the Reserve Bank of India (RBI) has cut the repo rate or the rate at which banks borrow from the central bank by 75 bps. The last cut was done last month by 50 bps.

OFFERING BETTER RETURNS

Fixed Deposit		
	Tenor	Rate
Bajaj Finance	12-17 months	Around 8.75% (annual)
HDFC	12-23 months	*8.10% (half-yearly)
SBI	1 year to 455 days	*7.25% per annum
ICICI Bank	1 year to 389 days	*7.75% per annum

* For deposits up to ₹ 2 crore; * For deposits below ₹ 1 crore
Source: Lenders

However, financial planners do not recommend fixed deposits to everybody. "If investors are retired people who fall in the nil or lower-income tax bracket, then these fixed deposits make sense. It is also good for people who have some small source of income and do not come under the tax

bracket. For investors in higher tax bracket, tax-free bonds and debt mutual fund makes sense," said Suresh Sadagopan, founder of Ladder7 Financial Advisories, a specialist financial planning / advisory firm.

So far in the current financial year, three tax-free bond issues have hit the market and each of them got oversubscribed on Day One. On Tuesday, the tax-free bonds issue of Rural Electrification Corporation made its debut and was oversubscribed in all four investor categories.

Deposit rates move in tandem with the overall interest rates in the economy and rates are expected to fall further in the months to come.

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