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Arun Jaitley

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MARKET STATS		26,150 ▼ -77.38	8,074 ▼ -5.85	28,970.00 ▼ -161.00	68.13 ▲ 0.30				

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Tax-free bonds and select debt mutual funds see big demand; banks lose Rs 40,000 cr net in a fortnight

By Saikat Das & Gayatri Nayak, ET Bureau | Updated: Dec 21, 2015, 03:05 AM IST [Post a Comment](#)

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MUMBAI: Falling rates appear to be prompting a shift from traditional bank term deposits to alternative investment avenues including taxfree bonds and select mutual fund debt schemes.

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Depositors have pulled out a net Rs 40,000 crore from banks since the fortnight ended October 2, which began immediately after the Reserve Bank of India lowered its policy rates by 50 basis points. A basis point is 0.01%.

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"We have seen people investing in tax-free bonds by breaking fixed deposits," said Vikram Dalal, managing director of Synergee Capital. "Some bank relationship managers, too, are not promoting tax-free bonds as these would prompt depositors not to renew their existing deposit schemes, but bet on tax-free higher returns," he said.

In the past two months, state-run firms NTPC BSE 4.58 %, Power Finance Corporation, Rural Electrification Corporation, Indian Railways Finance Corporation and National Highway Authorities of India have together sold bonds worth more than Rs 16,000 crore through issuances which were oversubscribed multiple times.

Those securities offer tax-free interest rates as high as 7.14-7.62% across 10-15-20 year maturities. These papers are considered as safe as bank fixed deposits, which are now yielding 6-6.70% across maturities after tax.

According to RBI data term deposits mobilised by the commercial banks dipped Rs 41,410 crore between October 2 and November 27 compared to Rs 39,630 crore additions to term deposits in the same period a year ago.

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In 2015, the RBI has slashed the benchmark rate by 125 basis points, but banks have so far passed only 60 basis points to customers, leaving space for sharp rate cuts.

"We are recommending accrual or corporate debt fund schemes to those investors who can earn 8-9% post-tax returns by shifting from traditional bank deposits yielding around 6-7%," said Raghvendra Nath, managing director of Ladderup Wealth Management, a financial advisory firm.

"Some wealthy investors will be interested in such schemes with falling bank deposit rates," he said.

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