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Masala Bonds can be new funding source for Indian cos: IFC

By PTI | Updated: Apr 10, 2016, 11.11 AM IST

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NEW DELHI: Bullish on India's growth prospects, International Finance Corporation (IFC) has said offshore rupee bonds can provide a new source of funding for Indian companies and they stand to benefit in the longer term from comparative pricing landscape.



Stating that no Indian company has so far come out with offshore rupee bonds, IFC Vice President and Treasurer Jingdong Hua said various factors, including unfamiliarity with the market and cost, could be behind their reluctance to tap this route.

Part of the World Bank Group, IFC has been issuing offshore rupee bonds better known as 'Masala Bonds'. In March, it issued such securities worth USD 30 million having 15-year tenure -- the longest-dated offshore rupee bond.

In a recent interview to PTI, Hua said offshore rupee bonds can "really open up a new source of financing for companies".

So far, Hua said Indian companies have not come out with their Masala Bonds issue as they are "very conscious about funding costs" and go for domestic market to raise funds.

"There is a small gap between interest rates of offshore and onshore bonds. The difference is not big, it is anywhere between 40-80 basis points. This is where I think Indian companies are very conscious about funding costs and they want to go for cheaper ones, which is the domestic market.

"My advice is (to Indian companies) is that 40-80 basis point difference is well within the margin of supply and demand rather than a prohibitive constraint between onshore and offshore (bonds)," Hua said.

According to him, over 40 basis points is a very small price to pay to open up a new avenue of financing. "In the longer term I think the companies issuing offshore bonds will benefit from comparative pricing landscape," he added.

To a query on the possible reasons for Indian companies seeming to be reluctant to raise funds through offshore rupee bonds, Hua said one reason could be unfamiliarity with the market. Besides, the concern about cost is a pre-dominant one and then there is withholding tax, he noted.

Expressing hope that Indian corporates would come out with Masala Bonds, Hua also said it is a unique opportunity.

Noting that India is the "bright spot" among major emerging economies, Hua said the country would be the "next emerging market continental economy that together with China probably can form the emerging market anchor of a future SDR (Special Drawing Rights)".

Last month, IFC issued the 15-year tenure bonds under its USD 3 billion Masala Bond programme. It has issued bonds worth about Rs 110 billion (Rs 11,000 crore) and the proceeds have been invested in 11 various private sector development projects in India.

Prior to that, IFC had issued Masala Bonds having maturities of three, five, seven and 10 years.

Chinese yuan is already in SDR and if India starts to put on the ambition of internationalisation of Indian rupee then it is a trajectory that would naturally happen but to get there are many many different building blocks, he said.

When asked whether India has started its SDR journey, he said, "certainly, this start of the masala (bond) programme is a green shot and we are creating an viable Indian rupee asset".

Created by the International Monetary Fund, SDR is an international reserve asset to supplement its member countries' official reserves.

At present, the value of SDR is based on a basket of four currencies -- [US dollar](#), euro, Japanese yen and pound sterling.

Chinese renminbi would be part of the currency basket from October 1, 2016, as per IMF website.

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