

Demand for Bank of India's Basel-III bonds picks up

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Bank of India's Basel-III compliant bonds have been trading at a premium, owing to demand in the secondary market. This follows the Reserve Bank of India saying call options on additional tier-I debt will now be allowed at five years, against 10 years earlier.

Bank of India's Basel-III bonds had a call option at the end of the 10th year. Under the call option, bond issuers can reset the coupon rate after a specific period.

Experts say companies, high net worth individuals, traders and pension funds have been buying these bonds from the secondary market. National Stock Exchange data show the bonds are currently trading at a premium of about 12. The demand is despite the fact that there isn't much liquidity in these bonds.

In August, Bank of India had raised ₹2,500 crore through



perpetual bonds, which complied with Basel-III norms. The bonds had a coupon rate of 11 percent. "The coupon rate of 11 per cent on these is very attractive; others who tap the market might not offer such a high coupon. Besides, Bank of India is a systematically important bank, owing to which investors are willing to buy its bonds. Due to these factors, there is demand for these bonds as, therefore, these are trading at a premium," said Ajay Manglunia, senior vice - presi-

dent (fixed income), Edelweiss Securities.

Experts said though the bank had paid a higher coupon to attract investors, with the new norms of call option at the end of the fifth year, the rate would be lower by about 100 basis points.

However, a few believe despite a coupon of 11 per cent and the bonds trading at a premium, not many insurers are buying these, preferring government securities instead. "I do not see the appetite for these

bonds increasing, at least in the near term. Yes, some interest will be there. But that is not enough to drive the prices beyond a certain level in the secondary market," said a bond trader. While a handful of life insurance companies are said to have invested in the bank's Basel-III compliant bonds, investment officials say only top life insurers, including Life Insurance Corporation of India, have the investable asset size and spread to take a risk on this instrument.

Further, insurance executives are also considering the all aspects of the bonds, before deciding to invest in these. A K Sridhar, chief investment officer, IndiaFirst Life Insurance Company, said the company wasn't considering the yields alone, but also the fact that this instrument was quasi-equity. "We will prefer to invest in pure debt, as in the case of Basel-III bonds, an entity not making profits need not pay interest," he said.