What is a Bond?

- In simple terms, a bond is loan from an investor to a borrower such as a company or government. The borrower uses the money to fund its operations, and the investor receives interest on the investment.
- In India, the Government as well as the business owners issue these for raising funds to finance its long-term investments or their current expenditures needs. These are considered to be a safe instrument as there is low risk involved in it as compared to other investment options available in India.
- Bonds are one of the many investment options in India in which investors can invest their hard-earned money. The difference between bonds and stocks is that stockholders have an equity stake in the company, whereas the bondholder has a creditor stake in the company.
- A bond is a debt security issued by a bond issuer with a maturity of more than one year. It offers certain yields to make it an attractive investment. Companies that issued bonds are usually seeking funds to finance business operations. Generally, the tenor of bonds ranges from 1–50 years. In addition, companies that issue bonds are entitled to repayment of the agreed-upon principal plus additional interest. In bonds, interest is usually referred to as the coupon.
- The market value of a bond can change overtime. To start investing, you can jump right into bond investments, or through fixed-income funds. However, before investing, you should first know the things about bonds.

So, what are the differences between stocks and bonds as an investment instrument? Look at the table below:

Differences	Bonds	Stocks
Issuer	Company or government	Public Company
Terms	Set when the bond is issued. Suitable for short to long-term investments and can be adjusted to bond types.	There is no specific time limit, as long as the company still exists. Suitable for long-term investments.
Returns	In the form of coupons and delivered at specified period of time and allows for capital gains or the difference between the purchase and selling prices.	Obtained from the difference between the purchase and selling prices when selling the shares you own.
Price Fluctuation (Volatility)	Lower (affected by interest rates and inflation)	Higher (strongly affected by various factors such as economic, social, etc.)

Advantages of Bonds

- This investment instrument offers a number of advantages to investors. Here are some of the advantages of bonds:
- Bonds offer coupons or higher interest rate than that of deposits. In addition, the coupon is delivered regularly during the bond tenor.
- Bondholders can sell their debts to others. If you sell bonds higher than the purchase price, you earn what is commonly called as capital gain.
- Especially for government bonds, you can use it as collateral when applying for a loan to a bank.
- The security of bonds issued by the government is guaranteed by law. The borrowers must repay the principal plus the coupons.

Risks of Bonds

- Despite the advantages, bonds also contain risks. Here are some disadvantages of bonds:
- Bonds are subject to liquidity risk. It means that you might not be able to sell your bonds quickly at a secondary market due to a thin market with few buyers and sellers for the bond.
- Bonds are subject to maturity risk. This risk is related to the term of the bond. The longer the tenor, the higher the risk. That's why bond issuers offer higher interest coupons for long-term bonds.
- Bonds are subject to default risk. This risk usually occurs in corporate bonds. There is the possibility that the company will go bankrupt and will be unable to pay its obligation.

- Our offerings -

  Following are the bonds :

- **Government Bonds** - namely debt securities issued by the government such as Government securities (Gsec) & State Development Loan (SDL).

- **Corporate Bonds** - namely debt securities issued by State-owned Enterprises (PSU's), State guaranteed bond or certain private companies.

OUR OFFERINGS:

GOVT. SECURITY & STATE DEVELOPMENT LOAN

- 7.54% GOI 23/05/2036
- 7.26% GOI 22/08/2032
- 7.40% GOI 09/09/2035
- 7.81% U.P. SDL 04/10/2032
- 7.81% GJ SDL 12/10/2032
- 7.64% MH SDL 28/09/2032

PSU TAXABLE & TAX FREE BONDS

- 7.42% PFC 2032 (TAXABLE)
- 7.50% REC 2033 (TAXABLE)
- 7.60% THDC 2032 (TAXABLE)
- 8.46% REC 2028 (TAXFREE)
- 7.18% REC 2035 (TAXFREE)

PRIVATE BONDS

- 8% HDFC LTD 2032
- 7.85% TATA CAPITAL HOUSING FINANCE 2032
- 8.20% MAHINDRA & MAHINDRA FIN. SERV. LTD. 2032
- 9.25% IDFC FIRST BANK 2025

STATE GUARANTEED BONDS

- 9.95% UTTAR PRADESH POWER CORP. LTD. 2025/26/27/28/29/30/31/32
- 9.62% ANDHRA PRADESH STATE BEVERAGE CORP. LTD. 2025/26/27/28/29/30/31/32

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Government Securities Bonds

- The Government securities bond is a debt instrument that is issued by the central or the state Government of India.
- In India, Government bonds fall under the category of Government securities (G-Sec) that mainly offer long term investment between 5 to 40 years.
- Bonds that are issued by the state government are also known as State Development Loans.
- The Government of India has made these government securities so that the small investors can invest in small amounts for earning interest with lower risks.
- Interest can be fixed or floating that is disbursed on a semi-annual basis on these types of bonds. However, most of the government bonds are issued at a fixed interest.

Corporate PSU, State Guaranteed bonds, NCD & others:

- Corporate bonds are issued by the companies to borrow money from investors for a fixed period and give them a specific interest rate throughout the tenure.
- Companies usually issue bonds to investors for expanding their business for future growth through raising new capital or for starting a new project.
- For the above purposes, the company asks investors to invest their money in exchange for a specific rate of return for a tenure instead of taking a loan from the banks.
- After the tenure ends, investors receive the face value along with the interest rate.
- This type of bond is preferred by those investors who want to earn a fixed interest rate for the tenure of their investment.

Understanding working of bonds. (YTM, Price etc.)

PRICE GOES UP ↑ YIELD GOES DOWN ↓

PRICE AND YIELD HAVE INVERSE BUT IMPORTANT RELATIONSHIP.

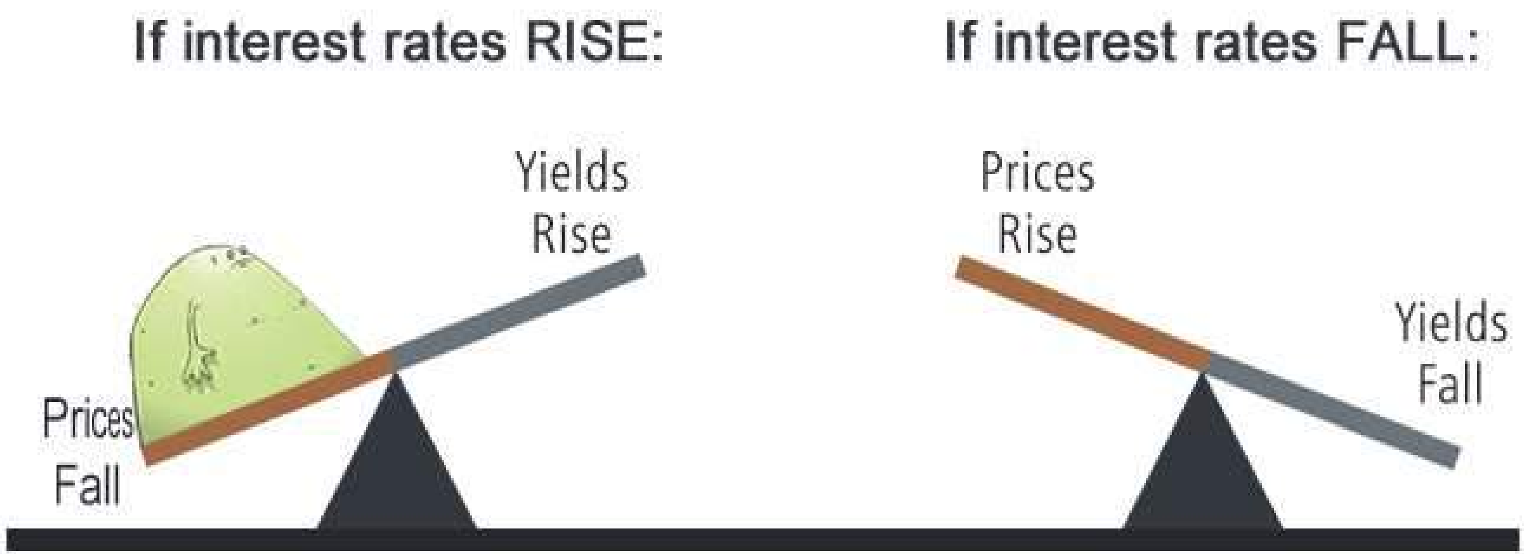
PRICE GOES DOWN ↓ YIELD GOES UP ↑

Bond Prices & Yields – Inverse relation

Bond Prices and yields are inversely related: Bonds prices go up when interest rates go down and vice versa.

Example: If bonds pays a interest rate of 10% p.a. - and the interest rates in the economy goes up – the prices of existing bonds will fall and vice versa.

The price of existing bonds falls so that the interest payments equals the higher yield (as per the rising interest rates in the economy)



SAMPLE DEAL CONFIRMATION

Motilal Oswal
Investment Services
Solid Research. Solid Advice

To,
Mr./Mrs. XYZ
Dear Sir/Madam,
Please find Cash Flow and Quotation for:

Name of Security:	10.18% GOI LOAN 11/09/2026	SECURITY CODE
ISIN:	IN0020010081	THE DATE WHEN THE DEAL IS CLOSED
Deal Date:	20-Oct-22	
Settlement Date:	21-Oct-22	THE DATE UP TO WHICH DEAL IS CALCULATED
Face Value:	100	FACE VALUE PER UNIT
Quantity:	10000	NO. OF UNITS
Total Face Value:	1000000	
Rate:	109.6027	PRICE PER UNIT OF A BOND
YTM Annual :	7.42	YIELD TILL MATURITY
YTM Semi:	7.2872	
Amount:	1096027	FACE VALUE x PRICE / 100
Accrued Interest:	11311.11	INTEREST PAYABLE TO THE PREVIOUS BOND HOLDER
Settlement Amount:	1107338.11	TOTAL FACE VALUE x RATE / 100 + ACCRUED INTEREST
Stamp Duty:	0	
Total Amount Payable:	1107338.11	SETTLEMENT AMOUNT + STAMP DUTY & TCS

Yield to Maturity vs. Coupon Rate: An Overview

When investors consider buying bonds they need to look at two vital pieces of information: the yield to maturity **(YTM)** and the **coupon rate**.

Investment-quality bonds are low-risk investments that generally offer a rate of return slightly higher than a standard savings account. They are fixed-income investments that many investors use for a steady stream of income in retirement. Investors of any age may add some bonds to a portfolio to lower its overall risk profile.

The yield to maturity (YTM) is the percentage rate of return for a bond assuming that the investor holds the asset until its maturity date. It is the sum of all of its remaining coupon payments. A bond's yield to maturity rises or falls depending on its market value and how many payments remain to be made.
The coupon rate is the annual amount of interest that the owner of the bond will receive. To complicate things the coupon rate may also be referred to as the yield from the bond.

Generally, a bond investor is more likely to base a decision on an instrument's **coupon rate**. A bond trader is more likely to consider its **yield** to maturity.

What are the advantages of investing in bonds?

Bonds in the fixed-income security category are gaining importance among retail investors because of their great features. It comes with a host of advantages.
Here we will discuss some of the advantages that may encourage you to include bonds in your portfolio.

Key advantages of investing in bonds-

• Lower initial investment:
You can start investing in bonds with a minimum amount as low as Rs.1000/- (face value). You can increase the amount in multiples of face value. There is no limit to the maximum investment amount in bonds.

• Better Returns:
Bonds are known to offer better returns than bank FDs and other investment instruments. A few bonds offer returns in the range of 7 to 14%. The AAA rated bonds are also offering returns in the range of 6-9% annually.

• **Predictable and Stable Income:**
You get the benefit of income which is predictable. Also, you can earn stable returns if the bond is held till maturity. As a bondholder, you get periodic interest payments payable monthly, quarterly, half-yearly, or yearly based on the terms of bonds.

• **High liquidity:**
Bonds offer high liquidity compared to FDs as it helps you buy or sell them with great ease in the secondary market. It is known to provide the advantage of selling bonds without a substantial change in price.

• **Risk-reward ratio:**
Bonds always have a favourable reward ratio as compared to other asset classes. It enjoys a higher return compared to fixed deposits at almost the same risk while it is much safer than equity with equivalent compound returns.

• **Capital Protection:**
In the volatile stock market, capital protection is a major concern specifically for risk-averse individuals. Bonds are known to provide capital protection, safety, and liquidity under all circumstances. Under the same category, government bonds and AAA-rated bonds are considered to be the safest and the degree of safety goes down with lower ratings.

• **Portfolio diversification:**
Bonds can help you diversify your portfolio and balance the risk-reward involved with different assets. It can also prove to be a great addition to your investment portfolio.

CONCLUSION

The risk-to-reward ratio on bonds is much more favourable compared to other asset classes.

It enjoys the benefit of giving higher returns like equities and being safe like fixed deposits while being liquid at any point in time.

Hence, a part of your portfolio should always include bonds.