

## **Masala Bonds**

### **What Are Masala Bonds and Their Benefits?**

Masala Bonds were introduced in India in 2014 by International Finance Corporation (IFC). The IFC issued the first masala bonds in India to fund infrastructure projects. Indian entities or companies issue masala bonds outside India to raise money. The issue of these bonds is in Indian currency rather than local currency. Thus, if the rupee rate falls, the investor will bear the loss.

Masala Bonds are rupee-denominated bonds issued outside India by Indian entities. They are debt instruments which help to raise money in local currency from foreign investors. Both the government and private entities can issue these bonds. Investors outside India who would like to invest in assets in India can subscribe to these bonds. Any resident of that country can subscribe to these bonds which are members of the Financial Action Task Force. The investors who subscribe should be whose securities market regulator is a member of the International Organisation of Securities Commission. Multilateral and Regional Financial Institutions which India is a member country can also subscribe to these bonds.

According to RBI, the maturity period is three years for the bonds raised to the rupee equivalent of 50 million dollars in a financial year. The maturity period is five years for the bonds raised above the rupee equivalent of 50 million dollars in a financial year. The conversion of these bonds happens at market rate on the date of settlement of transactions undertaken for issue and servicing of interest of the bonds.

### **Where Can the Proceeds from These Bonds Be Used**

- The proceeds raised from these bonds can be used:
- In refinancing of rupee loan and non-convertible debentures.
- For the development of integrated townships and affordable housing projects.
- Working capital to corporate.
- RBI mandates the proceeds raised from these bonds cannot be used:

- In real estate activities, not including the development of integrated townships and affordable housing projects.
- Activities prohibited according to Foreign Direct Investment guidelines.
- Investing in capital markets and usage of the proceeds for equity investment domestically.
- Purchase of land.
- On-lending to other entities for any of the above purposes.

### **Benefits Of Masala Bonds**

Masala bonds have various benefits. Both the investors and borrowers get benefits from subscribing and issuing of these bonds.

#### **The benefits for the investors are:**

- It offers higher interest rates and thus benefits the investor.
- It helps in building up foreign investors' confidence in the Indian economy.
- It helps strengthen the foreign investments in the country as it facilitates foreign investors' confidence in Indian currency.
- The capital gains arising from rupee denomination are exempted from tax.
- If the rupee appreciates at the time of maturity, it benefits the investor.

#### **The benefits for the borrowers are:**

- It benefits the borrower as there is no currency risk. It saves the borrower from currency fluctuations.
- Borrowers need not worry about rupee depreciation as the issuance of these bonds is in Indian currency rather than foreign currency.
- The borrower can mobilise a huge amount of funds.
- It helps the Indian entity issuing these bonds to diversify their portfolio.
- It aids borrowers to cut down their cost as they are issued outside India below 7% interest rate.
- As these bonds issuing are in the offshore market, it helps borrowers to tap a large number of investors.