FAQs on the Corporate Bond market

1. What is Debt Market?

The Debt Market is part of the securities market where debt securities, also known as 'fixed income securities', of various types and features are issued and traded. Issuers in this market include Central and State Governments, Municipal Corporations, Financial Institutions, Banks, Public Sector units, public limited companies, private companies, Real Estate Investment Trusts, Infrastructure Investment Trusts etc.

2. What is the importance of the debt market in India?

The key role of the debt markets in an economy stems from the following reasons:

a. Efficient mobilization and allocation of resources in the economy;
b. Financing the development activities of the Government;
c. Transmitting signals for implementation of the monetary policy;
d. Facilitating liquidity management in tune with overall short term and long term objectives;
e. Providing a credible alternative to banks as sources of funding.

Since Government securities (G-Secs) are issued to meet the short term and long-term financial needs of the Government, they are not only used as instruments for raising debt, but have emerged as key instruments for internal debt management, monetary management and short term liquidity management. The returns earned on the government securities are normally taken as the benchmark rates of returns. The risk free rate obtained from the G-sec rates is used as benchmark to price securities issued in the corporate bond market.

3. What are the instruments that are normally traded in debt market?

Based on the type of issuer, the instruments traded in the debt market can be classified into the following segments (illustrative list):

Market Segment	Issuer	Instruments
Government Securities	Central, State Governments	Zero coupon bonds, Coupon bearing bonds, Treasury Bills, STRIPS, State Development Loans
Public Sector Bonds	Government Agencies/ Statutory Bodies	Govt. Guaranteed Bonds and Debentures, Municipal Debt Securities
	Public Sector Units	Bonds, Commercial Paper
Private Sector Bonds	Corporate	Bonds, Commercial Paper,
	Banks	Certificate of Deposits, Bonds, Structured instruments and Perpetual Bonds
	Financial Institutions	Certificate of Deposits, Bonds, Structured Instruments, Commercial Paper

4. What is the difference between a convertible and non-convertible security?

A convertible security is a type of security (for example, bond) issued by a company and which can be converted into shares of equity stock after a specified period at a pre-determined rate or price.

Non-convertible security (NCD) is a security which cannot be converted into equity. NCDs have fixed maturity date and the coupon/ interest can be paid along monthly, quarterly, half-yearly or annually, with or without the principal amount, depending on the frequency and tenure specified at the time of issuance.

5. What are fixed income securities?

Fixed-income securities are debt instruments issued by Central and State Governments, Municipal Corporations, Government bodies and commercial entities like Financial Institutions, Banks, Public Sector Units, Public Limited Companies. They provide investors a return either in the form of fixed/ floating periodic payments or entire returns at the time of maturity along with principal payment.

A debenture/ bond is a type of fixed income security through which a Company acknowledges its obligation to repay the sum over a specified period of time, at a specified rate of interest. It is one of the methods of raising the loan capital of the Company.

The owner of a bond is called a bond holder and the owner of a debenture is called a debenture holder. Generally, bonds hold a longer tenure as compared to debentures which are generally short to medium term; however, there is no specificity surrounding this. In both cases, the money raised by the Company becomes a part of the company's capital structure, although it does not become share capital.

6. What is the difference between equity and debt?

When an investor invests money through equity, he becomes an owner in the company issuing such equity shares. With ownership he also gets voting rights in the company and a share in future profits, if a dividend is appropriated out of profits.

In case of debt, the investor becomes a lender to the company. As a lender, he has higher claim to the assets of the issuer as compared to a shareholder in the event of the company filing for bankruptcy. However, a debt investor does not get voting rights or a share in future profits. He is only repaid in the form of a predetermined interest rate or redemption amount.

7. What are the different features of a Bond?

a. **Issuer:** Bond issuers borrow money from investors against bonds. Commonly known bond issuers are Central and State Governments, Municipal Corporations, Financial Institutions, Banks, Public Sector Units, Public and private limited companies.

b. **Face Value:** The face value or par value of the bond is the amount so declared by the issuer at the time of issuance, in the offer document. Usually face value is equal to the price of the bond at the time of issuance. In case of private placements of bonds, the face value is Rs.1 lac per bond. In case of public issue, the issuer is free to choose the face value; the industry practice is to fix it at Rs. 1,000/- per bond.

c. **Price of bond:** The price at which a bond is issued (issue price) or trades at (trading price).

d. **Coupon rate:** The issuer of the bond compensates the bondholders by paying them interest; the rate of interest is called the ‘coupon’ rate. The rate of interest or coupon payment varies depending upon the economic circumstances, the creditworthiness of the issuer, type of bond, maturity, etc.

e. **Maturity:** Bondholders get repaid at a specific date when the bonds get matured. The bonds are categorized as short-term (say 3-5 years) or long-term bonds (say 10 years and more) based on maturity period.

f. **Credit rating:** Each listed bond holds a rating provided by credit rating agency(ies). A higher rating suggests a lower amount of risk and lower yields and a lower rating may be indicative that the risk involved in the bond is higher along with higher returns.

g. **Yield:** Yield means the return an investor gets from the bond for a specific time. If the bond is held till maturity, the return is termed as yield to maturity. The yield can be calculated considering the face value, interest payment frequency, maturity, and the market price of the bond.

h. **Callable Bonds:** Callable bonds that give the issuer the right to call back the bonds at a pre-agreed price and date.

i. **Puttable Bonds:** Puttable bonds give the bondholder the right to return the bond and ask for repayment of principal at a pre-agreed date before maturity.

8. What are the different types of bonds?

Some of the commonly issued types of bonds are given below:

a. **Fixed-rate bonds:** Fixed-rate bonds pay consistent interest amounts until maturity. The bondholders earn predictable and guaranteed returns regardless of the prevailing market conditions.

b. **Floating-rate bonds:** Floating-rate bonds do not pay fixed returns each period. Instead, the interest rates vary, depending on the set benchmark, during the tenure.

c. **Zero-coupon bonds:** These bonds do not pay periodic coupons during their tenure. Though, these bonds are issued at a discount and repayable at the par value.

d. **Perpetual bonds:** Perpetual bonds are those debt securities which do not have a maturity. In this type of bond, the issuer does not repay the principal amount to the bondholders. Though, they keep paying steady coupon payments to the bondholders till perpetuity.

Further, Government of India also issues other forms of Bonds to entities like Oil Marketing Companies, Fertilizer Companies, the Food Corporation of India, etc. (popularly called oil bonds, fertiliser bonds and food bonds, respectively) as compensation to these companies in lieu of cash subsidies.

9. What are STRIPS in debt market?

STRIPS is the acronym for Separate Trading of Registered Interest and Principal Securities. Stripping is the process of separating a standard coupon-bearing bond into its individual coupon and principal components. For example, a 5-year coupon bearing (Government) bond (with half yearly coupon payment) can be stripped into 10 coupons and one principal instrument, all of which thenceforth would become zero coupon bonds.

10. What are Market-linked debentures?

Market-linked debentures are securities whose returns are not fixed. They are determined by the movement in the underlying market index. They invest in various instruments, including but not limited to equity, government bonds, bonds, gold index etc. The pay-out happens at maturity in these instruments, the returns are accrued, and principal and accrued returns are paid out upon maturity.

11. What are Covered bonds?

Covered Bonds are a hybrid between asset-backed securities/ mortgage-backed securities and normal secured corporate bonds. They are primarily used by mortgage lenders and act as a tool for refinancing. Investors holding covered bonds have a right on a pool of issuer assets that provides additional protection to investors.

12. What are Green Debt Securities?

'Green Debt Security' means a debt security which is a mode of sustainable finance and is issued for raising funds that are to be utilised for project(s) and/ or asset(s) falling under any of the categories and subject to the conditions as may be specified by SEBI under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

A company, body corporate, statutory corporation, multilateral institution, trust registered with the Board as a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trust(InvIT), Municipal Corporations, authorised to issue non-convertible securities under the relevant laws can issue Green Debt Securities.

13. What is the relation between yield and price of a bond?

In a bond, the price and yield are inversely related to each other. i.e. if the price of the bond increases, its yield falls and if the price of a bond decreases, its yield increases.

14. What is the difference between coupon and yield?

Coupon is the interest received by the bond holder till maturity. Yield is the return received by the bond holder from his date of investment at the then prevailing market price of the bond. On the date of allotment when the price of the bond is at par the coupon and yield of a bond is the same. The yield may be different once the bond price changes based on demand and supply.

15. What is meant by premium and discount in Bond pricing?

If the coupon rate on a bond is higher than the prevalent market interest rates, demand for such bond goes up. Hence, these bonds are sold at a higher price than the face value, thus commanding a premium in the market. Similarly, when the coupon rate offered by a bond is lower than the current market rate, demand for such bond declines, thus trading at a lower price/discount than the face value.

16. What is meant by credit spread in bonds?

Credit spread is the additional yield an investor receives while investing in a corporate bond over and above the Government securities having similar maturity. Credit spread is otherwise known as the quality spread and varies across the credit ratings spectrum and tenures.

Example: 10-year G-Sec is at 7.50% yield while 10 year HDFC is at 8.40% yield. Hence, spread is 8.40% - 7.50% = 0.90% i.e. spread of 90 bps.

17. Who all can issue bonds?

All entities which satisfy the eligibility conditions specified under the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021 and/ or SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 can issue bonds to raise funds.

18. What are various risks associated with investing in bonds?

The major risks that can affect your bond's return are:

a. **Inflation risk:** This arises when the rate of inflation increases. This will erode the value of your investment as the purchasing power of the bonds' coupons/ yield and principal falls.

b. **Interest rate risk:** Bond prices are inversely affected by interest rate movements. A rise in interest rates could see a fall in bond prices. If interest rates fall, buyers pay a higher price to receive a coupon that is higher than the prevailing market rates.

c. **Call risk:** Some bonds have a callable feature which gives the issuer an option to buy back (redeem) the bond before its maturity date at a predefined date. If a bond is called when prevailing interest rates are lower than at the time you bought it, you will be exposed to reinvestment risks.

d. **Credit risk:** Bonds are forms of debt, so bond prices will be affected by the perceived credit quality or probability of default of the bond issuer. When an issuer defaults, you may lose all or a substantial part of your investment.

e. **Liquidity risk:** Bonds are usually less liquid than equity. This may happen if the investors of a particular bond issue are largely buying to hold, so there are fewer buyers and sellers. This may make it harder to buy or sell the bonds. Even in cases where the bonds are listed or traded on an exchange, there is no certainty that a liquid secondary market will develop.

f. **Market risk:** A bond's price/ value will fluctuate with changing market conditions, including the forces of supply and demand and interest rate changes.

g. **Reinvestment risk:** In an environment of declining interest rates, investors may have to reinvest the income received and any return of principal at lower prevailing rates.

19. Why invest in bonds?

Bonds may be attractive for investors who want a regular source of income or who wish to diversify their portfolio of investment assets. A diversified portfolio helps to reduce the risks caused by concentration in similar assets. By including assets whose values do not always move in the same direction or by the same degree as other assets in the portfolio, one may give up some gains but also reduce losses in the portfolio. For example, certain market conditions which do not support the price of shares, may be positive for bonds in certain scenarios. However, investors should remain cognizant of the risks associated with such securities and understand the terms of issue before investing.

20. What is secondary market in bonds?

The secondary bond market is the marketplace where investors can buy and sell listed bonds. A key difference compared to the primary market is that proceeds from the sale of bonds go to the counterparty, which could be an investor or a dealer, whereas in the primary market, money from investors goes directly to the issuer.

21. Terms associated with yield:

a. **Yield to Maturity:** The rate of return that an investor would earn if an investor buys the bond at its current market price & held it until maturity, Represents the discount rate which equates the discounted value of a bond's future cash flows to its current market price. This is the most scientific tool used while valuing the bond securities.

b. **Yield to Call:** The rate of return an investor would earn if an investor buys a callable bond at its current market price & hold it until the call date.

c. **Yield to Put:** The rate of return an investor would earn if an investor buys a puttable bond at its current market price & hold it until the put date.

d. **Current Yield:** It is calculated as annual Coupon divided by the market Price of the Bond.

22. What is meant by accrued interest?

If a coupon bearing security is traded between two coupon dates, the buyer has to compensate the seller by paying him that part of the interest which is due to him for the period for which he has held the security after the immediately preceding coupon date; this is known as *'accrued interest'*

23. What is meant by clean price and dirty price in bonds?

a. **Dirty Price:** If the bond is traded between two coupon dates, the buyer of the bond will have to compensate the seller for that part of the period between coupons for which the seller owned the bond. The price arrived at after adjusting this factor (accrued interest) is called the Dirty Price.

b. **Clean Price:** The price arrived at without adjusting the accrued interest component is called Clean Price.

24. Who are the Regulators in the debt market?

Debt market transactions *viz*. issuances and investments fall within the jurisdiction of the following regulators:

RBI: Known as 'money market' regulator', it regulates and facilitates the government bonds and other securities on behalf of governments.

SEBI: Known as 'securities market regulator', it regulates corporate bonds and municipal bonds, issued by issuers that are listed or are proposed to be listed.

However, disclosures in cases of issue of money market instruments like Commercial Paper, will need to comply with SEBI requirements, if issuer proposes to list the same.

25. Who are the participants involved in issue and listing of bonds and what are their major roles and responsibilities?

a. **Issuer:**

- shall treat all applicants to an issue of non-convertible securities in a fair and equitable manner;
- shall not employ any device, scheme, or artifice to defraud in connection with issue or subscription or distribution of non-convertible securities which are listed or proposed to be listed on the recognized stock exchange;
- shall provide all required information/ documents to the lead managers for conducting the due diligence, in the form and manner as may be specified by the Board;
- shall apply for Securities and Exchange Board of India Complaints Redress System (SCORES) authentication;
- shall ensure that the secured debt securities are secured by hundred percent security cover or higher security cover.

b. **Merchant Bankers:**

In accordance with the SEBI (Merchant Bankers) Regulations, 1992, a merchant banker is defined under section 2 clause (cb) as any person who is engaged in the business of issue management either by making arrangement regarding buying, selling or subscribing to securities or acting as consultant, manager or rendering corporate advisory services in relation to such issue management. Merchant bankers advise entrepreneurs right from the stage of a conception of the project till the commencement of production and they are in charge of the issue process. Merchant Bankers act as intermediaries between the companies and the investors. They take responsibility for the preparation of the prospectus and marketing the issue.

c. Stock Exchange:

A stock exchange is a marketplace where securities, such as shares and bonds are traded. It provides a platform for raising money, and monitors compliance by listed entities with listing requirements.

d. **Depositories:**

Depositories are institutions that hold investors' securities (like shares, debentures, and mutual funds) in an electronic form in a demat account. They hold and maintain a record of securities in demat accounts for investors.

e. **Debenture Trustee:**

A Debenture Trustee acts as a link between the issuer and the debenture holders. In case of secured bonds, the debenture trustee holds the property, mortgaged in its favour, for protecting the interest of the debenture holders. The Debenture Trustee is responsible for due diligence while executing the trust deed, protecting the interest of holders of securities, supervise the implementation of the conditions regarding creation of security for the debt securities, creation of Recovery Expense Fund and Debenture Redemption Reserve, monitoring the security cover in relation to the secured debt securities and covenants as per terms of issue.

f. **Registrar to the Issue:**

A Registrar to an issue is an entity carrying on activities in relation to an issue including:

- collecting application forms from investors,
- keeping a record of applications and money received from investors or paid to the seller of securities,
- assisting in determining the basis of allotment of securities,
- finalizing the list of persons entitled to allotment of securities, and
- processing and dispatching allotment letters, refund orders or certificates and other related documents.

g. **Credit rating agency:** It is the responsibility of the issuer to obtain credit rating from at least one credit rating agency, which shall be disclosed in the offer document. They assess the credit risk of specific debt securities and the borrowing entities. A rating is an independent evaluation of the creditworthiness of the issuer.

h. **Underwriters:** A public issue of debt securities and non-convertible redeemable preference shares may be underwritten by eligible intermediaries, either in full or part and in such case, adequate disclosures regarding the underwriting arrangements shall be disclosed in the offer document.

26. What is the Minimum subscription in a public issue of debt securities?

The minimum subscription for a public issue shall not be less than 75% percent of the base issue size or as may be specified by SEBI. The requirement of minimum subscription shall not apply to issuers issuing tax-free bonds as specified by the Central Board of Direct Taxes.

27. What are the different Modes of issuance of bonds?

Bonds can be issued through a public issue or private placement.
Private placement means an offer or invitation to subscribe or issue of securities, by a company, to a select group of persons (cannot exceed 200, in terms of Companies Act, 2013 and rules issued thereunder), in addition to the Qualified Institutional Buyers.

Public issue means an offer or invitation by an issuer to the public at large to subscribe to its securities.

28. Is it mandatory to list debt securities?

An issuer desirous of making an offer of debt securities and non-convertible redeemable preference shares to the public is mandated to compulsorily list the securities.

29. What is the minimum subscription amount/ bid lot/ trade lot/ face value for a bond issuance?

The minimum subscription amount/ face value/ trade lot/ bid lot for a debt security or non-convertible redeemable preference shares issued on a private placement basis is Rs. 1 lakh.

For public issues of debt securities and NCRPS, minimum subscription amount can be specified by the issuer.

For non-equity regulatory capital like AT-1 bonds, the minimum subscription amount/ face value/ trade lot/ bid lot is Rs. 1 crore.

30. What are the segments in the secondary debt market?

Following are the segments for the secondary debt market on the exchange:

Trade Execution**:**

a. **Capital Market Segment:** Like equity stocks, investors can buy/sell corporate bonds in the capital market segment using the same trading protocol.

b. **Debt Market Segment:**

- RFQ Platform**:** The RFQ platform is a trade execution platform for specified debt securities including corporate bonds, CP, CD, G-sec, SDL and T-bills. The eligible participants on the platform have an option to trade directly or through SEBI registered stock brokers of the debt segment.

- Anonymous order matching platform: This platform for corporate bond trading is hosted by the stock exchanges, is similar to the capital market segment and is available to both institutional and retail investors.

Trade Reporting:

c. **Debt Market Segment:**

- Client Reporting Platform**:** Exchanges provide reporting platform to buyer and seller for corporate bond transactions executed in the OTC Market.

- Broker Reporting Platform**:** Exchange provide reporting platform to brokers for corporate bond transactions facilitated by them.

31. What is EBP platform?

EBP (Electronic Debt Bidding Platform) is a web-based portal for online bidding of private placement of debt securities which are proposed to be listed on exchanges. This service shall be provided by recognised Stock Exchanges. As of now, NSE, BSE and NSDL are approved to provide this service.

32. What is RFQ platform?

RFQ platform is a trade execution platform for specified debt securities including Corporate bonds, CP, CD, G-sec, SDL and T-bills. The eligible participants on the platform have an option to trade directly or through SEBI registered stock brokers of the debt segment. It is a system or interface for inviting and/or giving quotes on an electronic platform. A participant who seeks quote(s)is termed as an Initiator and a participant who acts/ responds to the quote requests of the Initiator is termed as a Responder. The quote can be placed to an identified counterparty (i.e. 'One to One'(OTO) mode) or to all the participants (i.e. 'One to Many'(OTM) mode). The quotes will be bilaterally negotiated between the counterparties, based on specified parameters. The acceptance of a quote by a participant and confirmation of the total amount to be paid between the buyer and seller will be considered as mutual agreement between the parties for the given deal.

33. What is the mechanism for redress of any grievances against any issuers or intermediaries?

Investors should first approach the concerned issuer/ intermediary with their complaint. If the complaint remains unresolved, the investors may approach SEBI for facilitating redress of their complaints. SEBI has a web based centralized grievance redress system called SEBI Complaint Redress System (SCORES) available at www.scores.gov.in where investors can lodge their complaints against issuers of securities or any other intermediaries involved in the allotment of the said securities.

34. What are the advantages of listing?

When a security gets listed on any of the exchanges platform it enables a company to raise capital while strengthening its structure and reputation. It enables liquidity and marketability of the security to investors and ensures effective monitoring of compliance of the issuer and trading of the securities in the interest of investor.

35. What is a credit rating? Is credit rating mandatory for issuance and listing of bonds?

SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 makes it mandatory for the issuer to obtain at least one credit rating from the registered credit rating agencies and the same shall be disclosed in the offer document**.** Provided that where the credit ratings are obtained from more than one credit rating agency for the issue, all the ratings, including the unaccepted ratings, shall be disclosed in the offer document.

36. Is having a demat account compulsory for investing in bonds through stock exchanges?

Yes, having demat account is compulsory for investing in bonds through stock exchanges.