

## FII's chase high yield in Indian bond market

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Several overseas bond funds have registered with Sebi, drawn by the higher interest rate and yield in the Indian debt market. As equities in India are one of the worst performers globally, foreign institutional investors (FIIs) are playing the debt game.

Reduction in the lock-in period from three to one year for investments in corporate long-term infrastructure bonds and the higher cap of \$25 billion are what are bringing in new foreign investors, experts say. Recently, the investment limit in government securities was also raised by \$5 billion to \$15 billion.

Sebi data indicate that at the end of November, FII investments in corporate long-term infrastructure papers were far away from the \$25 billion cap. But now FIIs are warming up to the idea of placing money in debt.

They invested \$1.607 billion in debt as compared to just \$274 million in equity so far this month. In the whole of last year, they had invested \$8.65 billion in the debt market, but a net of only \$357 million in equities.

A set of gilt funds, including Baillie Gifford of the UK, the state-owned Krung Thai Bank of Thailand, a large Spanish bank and South Korea's ministry of strategy and finance are recent entrants in India. These funds are likely to invest in government and corporate long-term infrastructure bonds, which offer high returns when debt in developed markets offer nearly zero interest.

Suresh V Swamy, PwC executive director, said: "Debt investments are getting popular with FIIs. There is a lot of interest in Indian bonds because of high interest and yields. Funds from the Asia-Pacific, especially Japan and Malaysia, are registering in India. Funds also from Ireland are heading for India." Baillie Gifford, based in Edinburgh, has an investment company called Baillie Gifford Bond Funds ICVC. It is structured as an umbrella company under which there are a number of sub-funds, each with its own investment objective and policy.

As on September 30, Baillie managed more than £66 billion (\$103 billion) in active equity and bond portfolios for clients in the UK and elsewhere in the world.

Last year it registered several funds with Sebi. These include Baillie Baillie Gifford Active Gilt Plus Funds, Baillie Gifford Active Index Linked Gilt Fund, a sub-fund of Baillie Gifford Bond Fund ICVC, and Baillie Gifford Active Long Gilt Plus Fund, another sub-fund.

Daiwa Indian Bond Mother Fund, a sub-account of Japan Trustee Services Bank, is another bond-specific offshore fund, which registered this month, along with Kokusai Indian Bond Open Mother Fund, another sub-account.

Besides, big institutional investors like sovereign wealth funds, public sector banks from other jurisdictions entered India last year as FIIs.

South Korea's ministry of strategy & finance, which oversees financial policies of the country's government, has registered with Sebi. South Korea's sovereign wealth fund has assets worth \$37.6 billion, according to data with the Sovereign Wealth Fund Institute, a tracking website.

The state-owned Krung Thai Bank Public Company and Spain's Banco Bilbao Vizcaya Argentaria, better known as the BBVA group, operating also in Mexico and South America, have entered India to take advantage of the debt investment window.

"The raising of the debt investment cap on FIIs seems to underpin debt as a preferred asset class for institutional investors, given the turbulent times in the secondary markets for equity," Richie Sancheti and Siddharth Shah of Nishith Desai Associates said in a note in November.

Quite indicative of the institutional appetite for Indian debt, the last round of auction in March 2010 had

seen FIIs highly oversubscribing allocations. The shift to smaller ticket sizes of debt allocation ensures wider participation, reducing costs to participants, they wrote.

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