# BOND INVESTMENT ANALYSIS

Bonds are debt securities. When debt securities are issued by Govt and public sector org. they are called bonds. When such securities are issued by Corporate in pvt sector. they are called debentures.
A corporate bond represents a promise of the borrower to make interest and principal payments to the lender (bond holder) according to a specified timetable.

A bond is a long term contract in which the bondholders lend money to a company. In return, the company promises to pay the bond owners a series of interest, known as the coupon payments until the bond matures. The amount of money payable as interest is called the coupon. The coupon can be paid annually or semi annually. At maturity the bondholder receives a specified principal sum called the par, face or nominal value of the bond.

## Characteristics of Bond

1. Residual maturity or redemption date.

Bonds are classified into short term with a maturity period up to 5 yrs, medium term from 5 to 15 yrs and long-term over 15 yrs.

2. Coupon : Bonds pay a fixed rate of interest, called coupon.

3. Coupon rate : The coupon divided by the par value of the bond gives the coupon rate on the bond

$$\frac{\text{Total annual coupon payment}}{\text{par value of bond}} \times 100$$

4. Par or redemption value

The par or redemption value of bond is commonly the price at which bonds are first issued.

5. Bond prices fluatuates inversely with mkt interest rates.

If mkt interest rates rise, people prefer to hold the new, higher yielding issues than existing bonds. Existing bond will be sold and their price will fall. Eventually, existing bonds with various coupon will be willingly held but only when their price has fallen to the point where the coupon expressed as a percentage of the current price approximates the new market rates.

## Types of Bonds

1. Zero coupon Bonds

These are issued at a discount and repaid at a face value. It is issued at a discount. No periodic interest is paid. The difference b/w the issue price and redemption price represents the return to the holder. The buyer of these bonds receives only one payment, at the maturity of the bond.

2. Deep discount Bond

They are designed to meet the long term fund requirements of the issuer and investors who are not looking for immediate return and can be sold with a long maturity of 25-30 yrs at a deep

3. Convertible Bond

A bond giving the investor the option to convert the bond into equity at a fixed conversion price is called convertible bond.

4. Callable and putable bonds

The callable bond is bond in which the issuer has the right to call the bond away from the investor for the a price predetermined at the time that the bond is issued. This amount will typically be greater than the principal amt of the bond.

A puttable bond allows the investor to sell the bond back to the issuer, prior to maturity, at a price that is specified at the time that the bond is issued.

5. Floating rate notes (FRNs)

A floating rate note is a debt security with a variable interest payment. The interest paid out would vary with the prevailing market interest rate.

6. Index linked bonds

These are corporate bonds where the coupon can be adjusted to high and variable rates.

of inflation. While other bonds have a maturity value fixed in nominal terms and therefore suffer a decline in real value as a result of inflation, both the value and coupon of an index linked bond are uprated each year according to changes in a specified price index.

7. Junk Bonds

Corporate bonds whose issuers are regarded by bond credit rating agencies as being of high risk.

8. Strips

Stripping refers to the breaking up of a bond into its component coupon payments and its maturity value. Thus a 10 yr bond, paying semi-annual coupons, would make 21 strips. Each strip is then sold as a zero coupon bond.

9. Public sector undertaking Bonds (PSU Bonds)

These are medium or long term debt instruments issued by PSU. Most of the ~~PSU~~ PSUs bonds are sold on private placement basis.

10. Bonds of Public Financial Institutions (PFIs)

Public Financial Institutions are also allowed to issue bonds. They issue bonds in 2 ways;

1. Through public issues targeted at retail investors and trusts.

2. Through private placements to large institutional investors.

- International Bonds

1. Domestic Bonds

It is a part of International bonds mkt. Domestic bonds are brought out on a local basis and domestic borrowers are responsible for issuing the local bonds. Domestic bonds are normally designated in the local currency.

2: Foreign Bonds

It is a bond where foreign ~~state~~ company issues bond denominated in the currency denomination in the foreign country. Eg: an US company issues bond and raises capital in Japan denominated in Japanese yen. foreign bonds are regulated by the domestic market authorities.

3. Euro bonds : It is a bond issued in multiple countries but denominated in a single currency. usually the issuers home currency.

# Benefits of investing in Bonds

## 1. Income predictability

High quality bonds can provide predictable income with minimum risk to money invested. This guarantees specific, steady level of income to investor from his portfolio.

## 2. Safety

Bonds provide not only regular income but also safety to the investment.

## 3. Diversification

means keeping a mix of different securities in investor's portfolio. Even if one class of security declines in value, there is still an opportunity for an increase in one or more of the other security classes.

## 4. Choice

A wide range of bond issuers with a variety of coupon rates and maturity dates are available for investors to choose from.

## Advantages of Bonds

1. Bonds are suitable to those investors who are risk averse and expect a fixed income regularly.
2. Bonds are useful to reduce risk of portfolio through diversification.
3. Bonds reduce total risk of a portfolio
4. Investors can make profits out of the bonds price movement if they learn it.