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# Three things you should know about municipal bonds offering over 8% interest

Renu Yadav

The Ghaziabad Municipal Corporation’s green bonds were listed on the Bombay Stock Exchange’s bond platform on Thursday. The municipal corporation has raised Rs150 crore through the private placement. The bond is offering an attractive rate of 8.1% rate of interest. However, it is lower than the 8.5% interest offered by municipal bonds of Lucknow. Of late, municipal corporations, including Indore, Ahmedabad, and Pune have been using this route to raise money. Given the fact that they are offering an attractive interest rate of more than 8%, they have got good interest from investors.

Let us understand a few aspects about these bonds if you are planning to invest in them.

**Return:** The interest rates offered by these bonds currently are on the higher side and above 8%. These are long-term bonds with a tenor of generally 10 years. But if you buy them from the secondary market, the current yield is in the range of 7.25 to 8%. Currently, while bank fixed deposits are offering an interest rate of around 6%, an interest rate of 8% is certainly very attractive.

**Risk:** It is always important to take risks in line with the return. These bonds have to be rated. The Ghaziabad Municipal Corporation government bonds are rated AA by India Ratings and AA(CE) by Brickworks. However, these are issued by the municipal corporations, and there is no explicit guarantee, but it is implicit in nature. “It has implicit back up from the state government to honour their commitment for both principal and interest," said Vikram Dalal, managing director, Synergee Capital Services Pvt. Ltd.

Also, there is a liquidity risk which investors should keep in mind. “Due to small size and low trade volumes, it will be difficult for the investors to exit the bonds in case they need the money," said Dalal. “It may take 10-15 days for an investor to exit these bonds," said Dalal.

**Taxation:** The interest earned on these bonds is fully taxable. In case you exit these bonds before maturity on exchange, the capital gains after one year will be termed as long-term and will be taxed at the rate of 10% without indexation.

**Should you invest?**
Experts feel that investors can use these bonds to diversify their debt portfolio as they are relatively safe. “All being major cities, their financials are robust due to property tax and municipal tax collection," said Dalal. However, one should invest only if a person can hold them till maturity. “The size of the issue is very small, thus intent should be to remain invested till maturity as liquidity can be an issue," said Dalal.

However, Vishal Dhawan is a certified financial planner and founder of Plan Ahead Wealth Advisors, a Sebi-registered investment advisory firm, said he would prefer state development bonds and invest in them through mutual funds.