

# Fixed Income Navigator

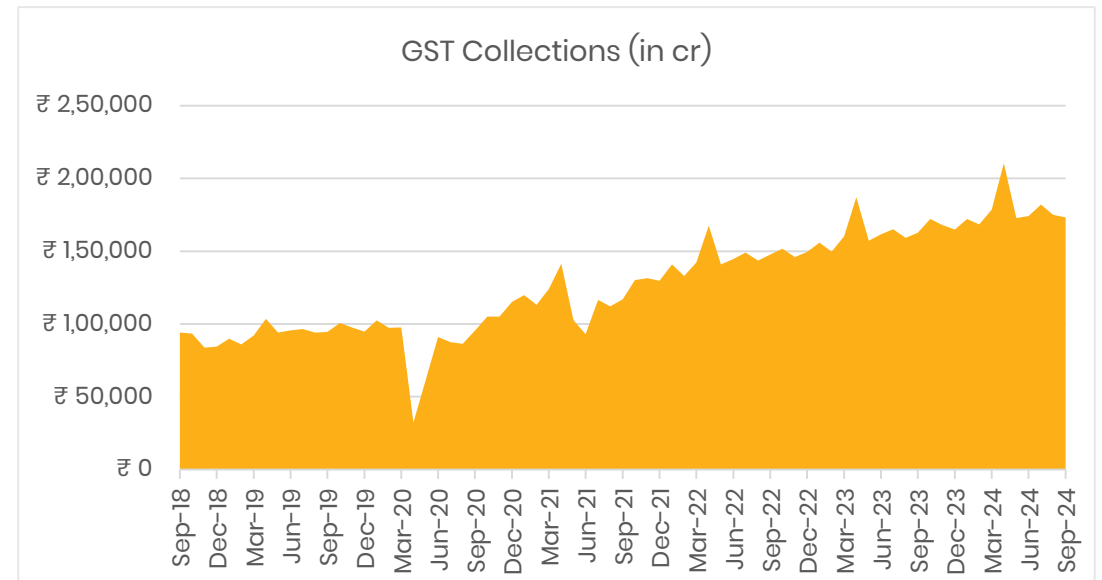
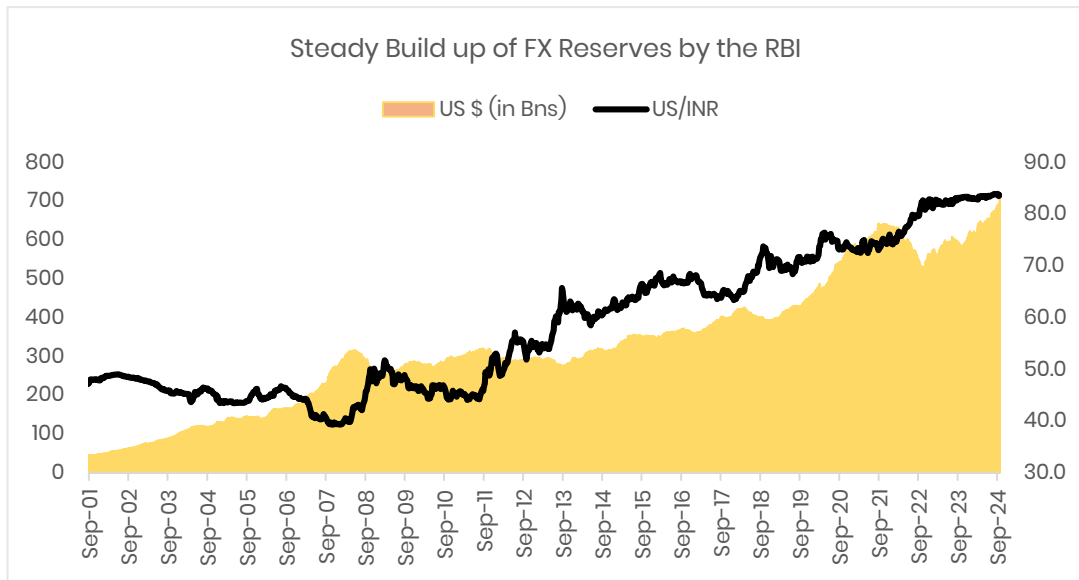
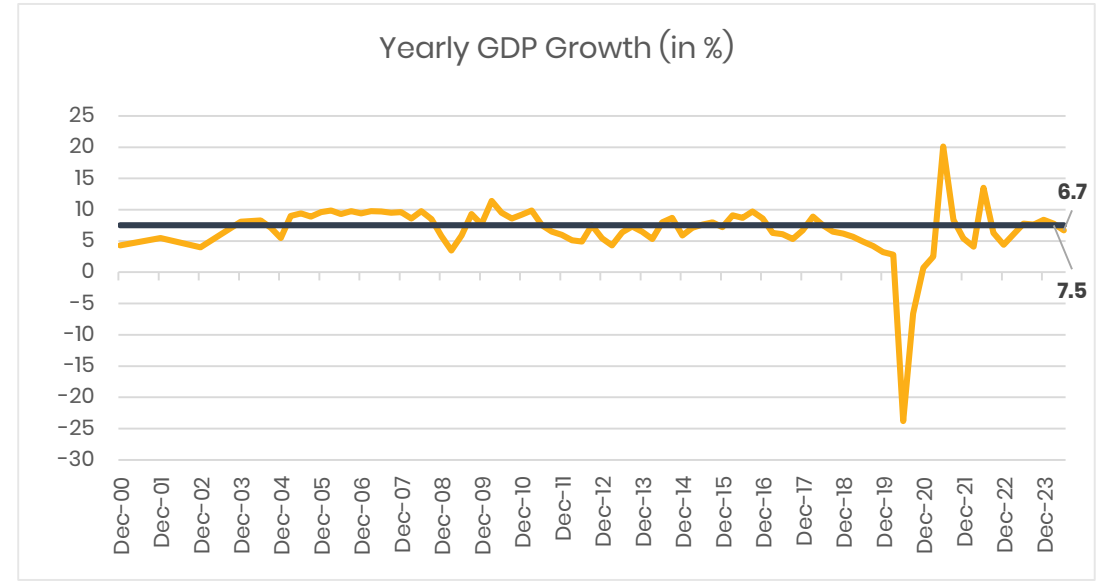
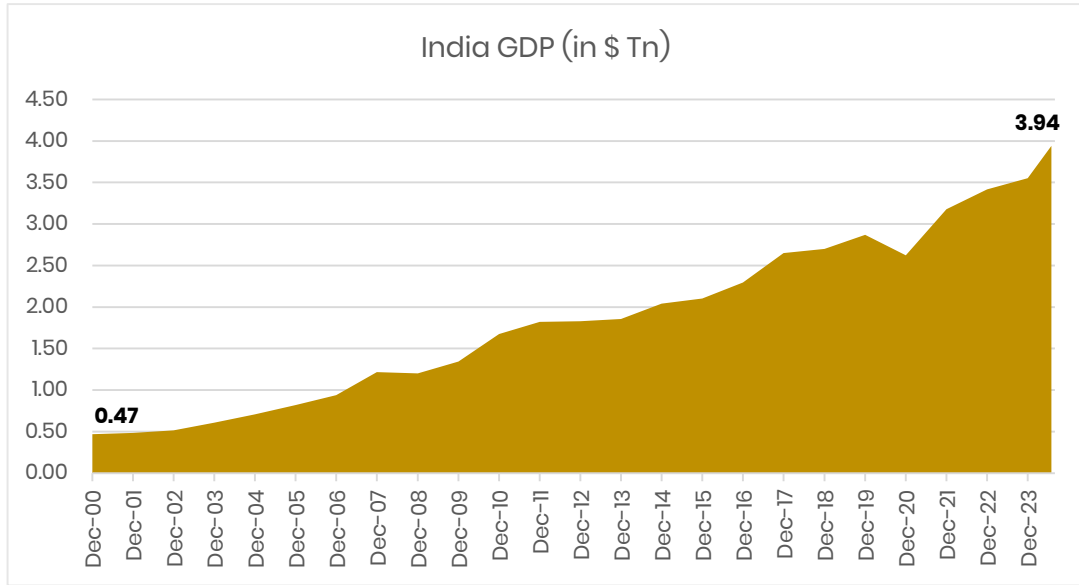
A Monthly Dose of Insights

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**October 2024**

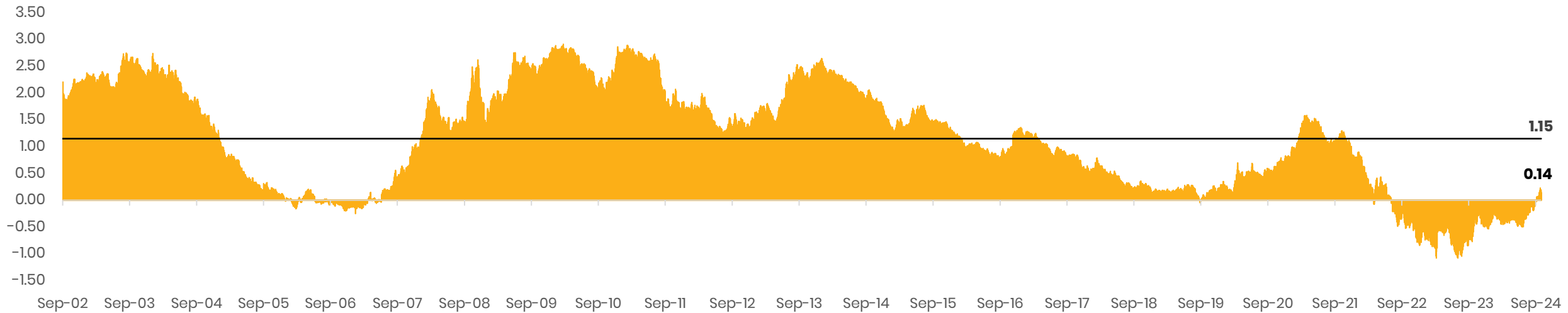
# MACRO ECONOMIC INDICATORS

# India is 5<sup>th</sup> Largest Economy with a GDP of \$3.9 Tn

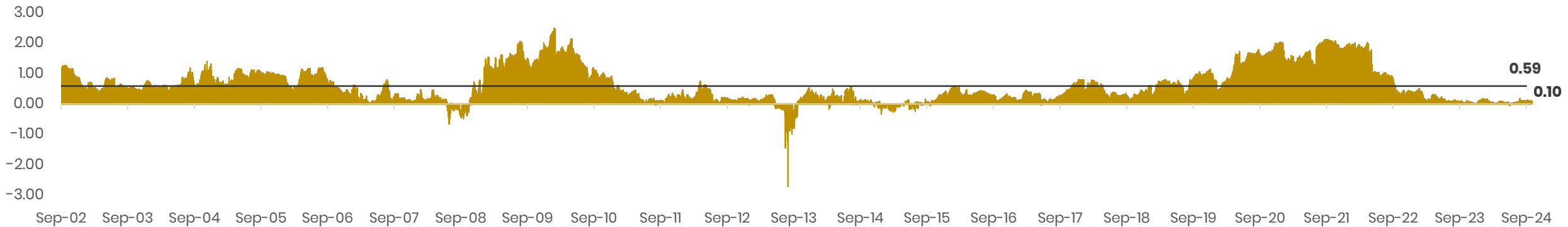


# Inverted US yields Curve fades after 2 years

% Difference between 10 yr and 2 yr US Bond yields

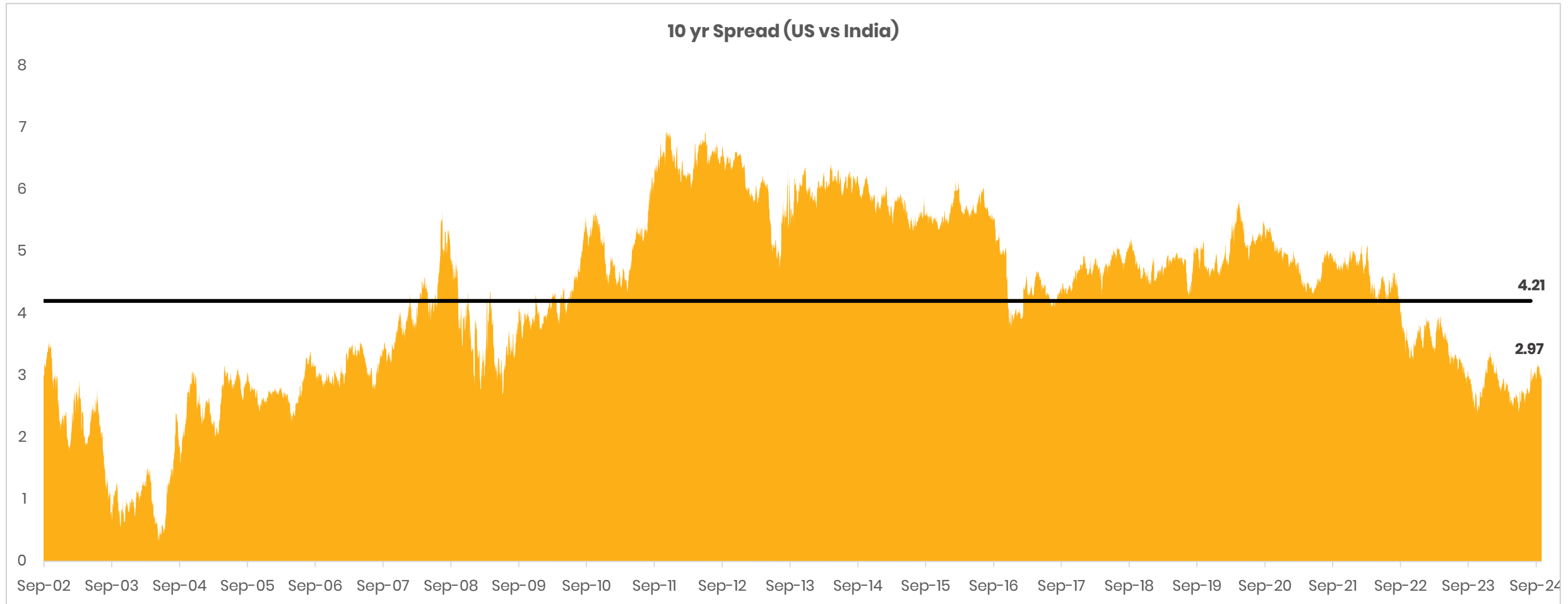


% Difference between 10 yr and 2 yr India Bond yields



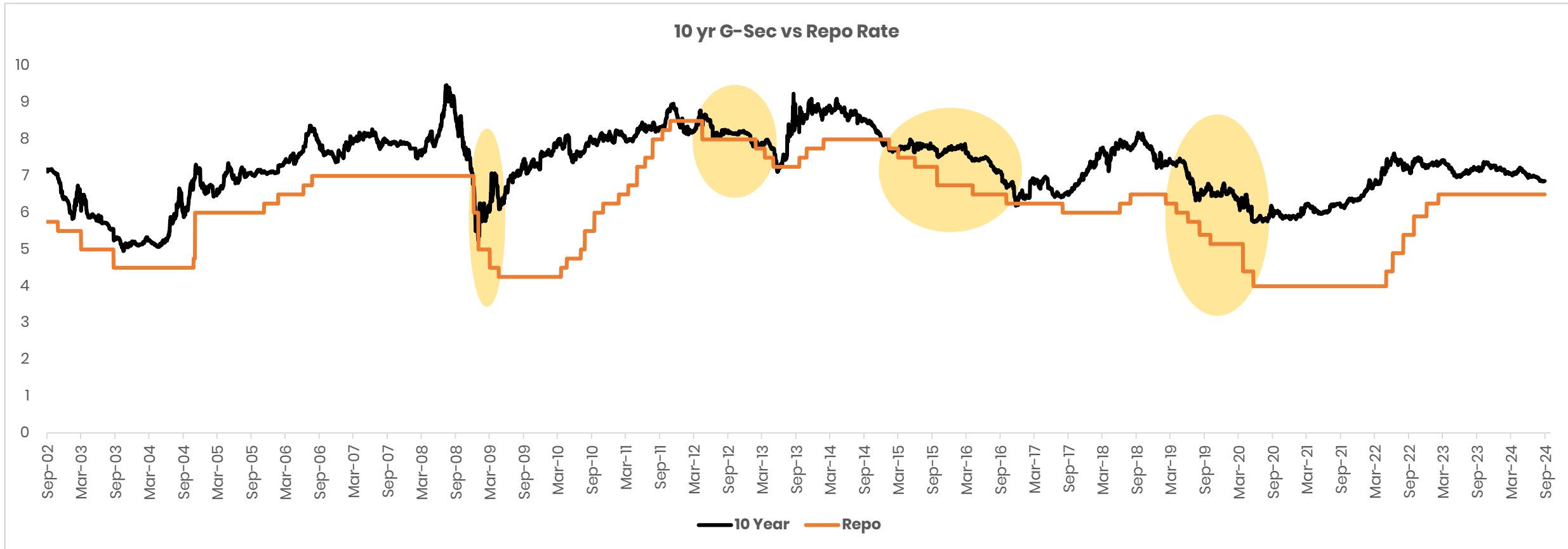
- The US economy is showing signs of stabilization, as the yield on 10-year government bonds has started to rise above the yields of 2-year government bonds.
- India's 10 yr to 2 yr is at 10 bps (LTA: 59 bps) whereas, for US it is as 14 bps (LTA: 115 bps)

# 10 yr US-India Spread is below its Long Term Average



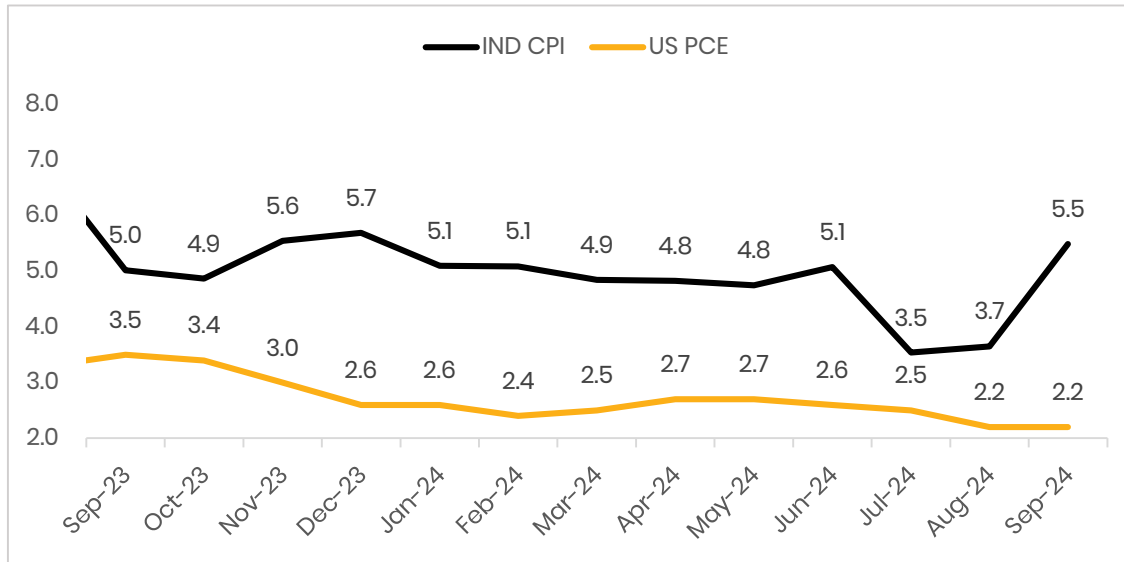
- The interest rate differential between India and US sovereign bonds has been below its long term average of 4.21% since 2 years as investors are in no mood to shun the world's fastest growing economy.
- A stable Government, strong macro indicators and the inclusion of India in JP Bond Index has helped India to keep the yield in check in the recent years.

# Policy rates have peaked

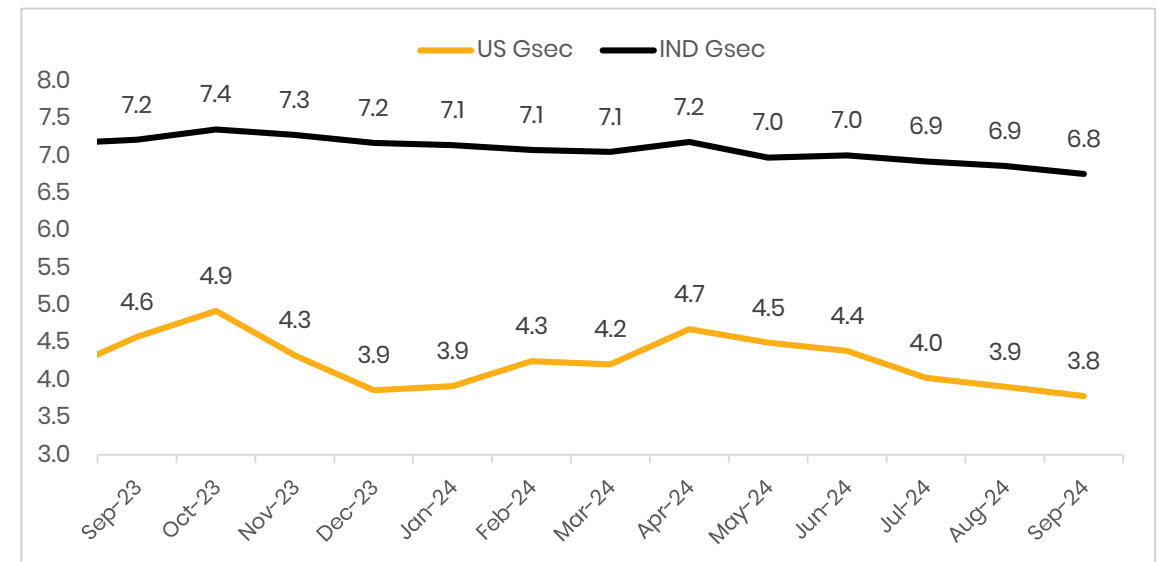


- **2008–2009:** Yields started moving lower in July 2008 ahead of the first rate cut in October 2008.
- **2011–2013:** Yields started moving lower from November 2011 ahead of the first rate cut in April 2012.
- **2014–2017:** Yields started moving lower from April 2014 ahead of the first rate cut in January 2015.
- **2018–2020:** Yields started moving lower from September 2018 ahead of the first rate cut in February 2019.

# Direction of risk-free rate look clear... and it is downwards



**CPI:** India's annual CPI inflation spiked to 5.49%, hitting a nine month high in September 2024. It has remained within the medium term CPI inflation target of 4% +/- 2% since Sept 2023. In contrast, US PCE has remained steady around 3%, progressing towards Fed's inflation target of 2%.



**Yield:** India's 10-year G-sec yields have remained stable within a range of 7.4% to 6.8% in the last 12 months. In contrast, US Treasury yields have been more volatile, driven by market uncertainty surrounding the upcoming US elections, expected in the second half of this year, which often leads to fluctuations in investor sentiment and yields.

**Path Forward:** At its September meeting, the Federal Reserve (Fed) cuts interest rates by 0.50% to the 4.75% to 5.00% range. The rate had been in the 5.25% to 5.50% range since July'23. Fed Chairman Jerome Powell called the rate reduction a “**recalibration**” of central bank policy. Fed will “carefully asses incoming data & evolve the outlook”, **it also sees 2 more 25 basis point rate cut in 2024, along with a 100 bps rate cuts in 2025.**

# Fiscal Prudence to keep Supply of Gsec in check

There had been widespread uncertainty whether the Government will stay committed to the fiscal consolidation path post a surprise coalition. Union Budget FY25 alleviated this apprehension. Two key expectations by the Central Government highlight this.

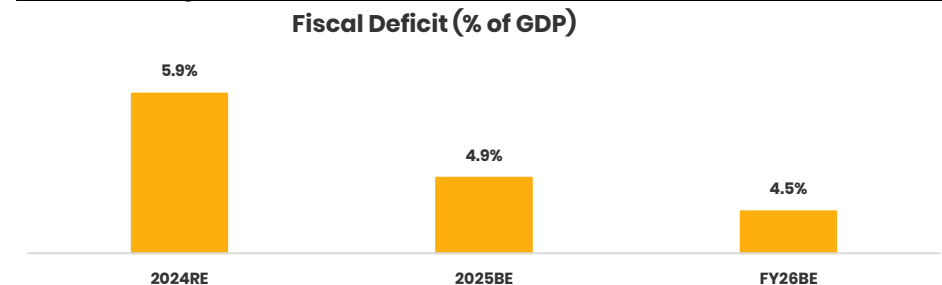
- FY25 YoY Revenue growth expected (19%) to exceed YoY Expenditure growth (7%), leading to a projection of FY25 fiscal deficit at 4.9% of GDP (v/s interim budget estimates of 5.1%), and expectation of a progressive reduction to 4.5% by FY26.
- Gross and net borrowings through dated securities (G-Sec) expected at ~Rs 14.01 lakh crore and Rs 11.63 lakh crore for FY25 and a reduction of 9% and 2% respectively v/s FY24.

## Focus on Ratings Upgrade and Attracting Foreign Flows...

After the election results but before the FY25 Union Budget, S&P Global had upgraded India's outlook from 'neutral' to 'positive' while keeping the ratings unchanged.

The Union Budget FY25 demonstrated the government's focus on achieving a rating upgrade to attract foreign investment and reduce borrowing costs. This was pursued by continuing efforts to reduce debt levels and strengthen economic resilience.

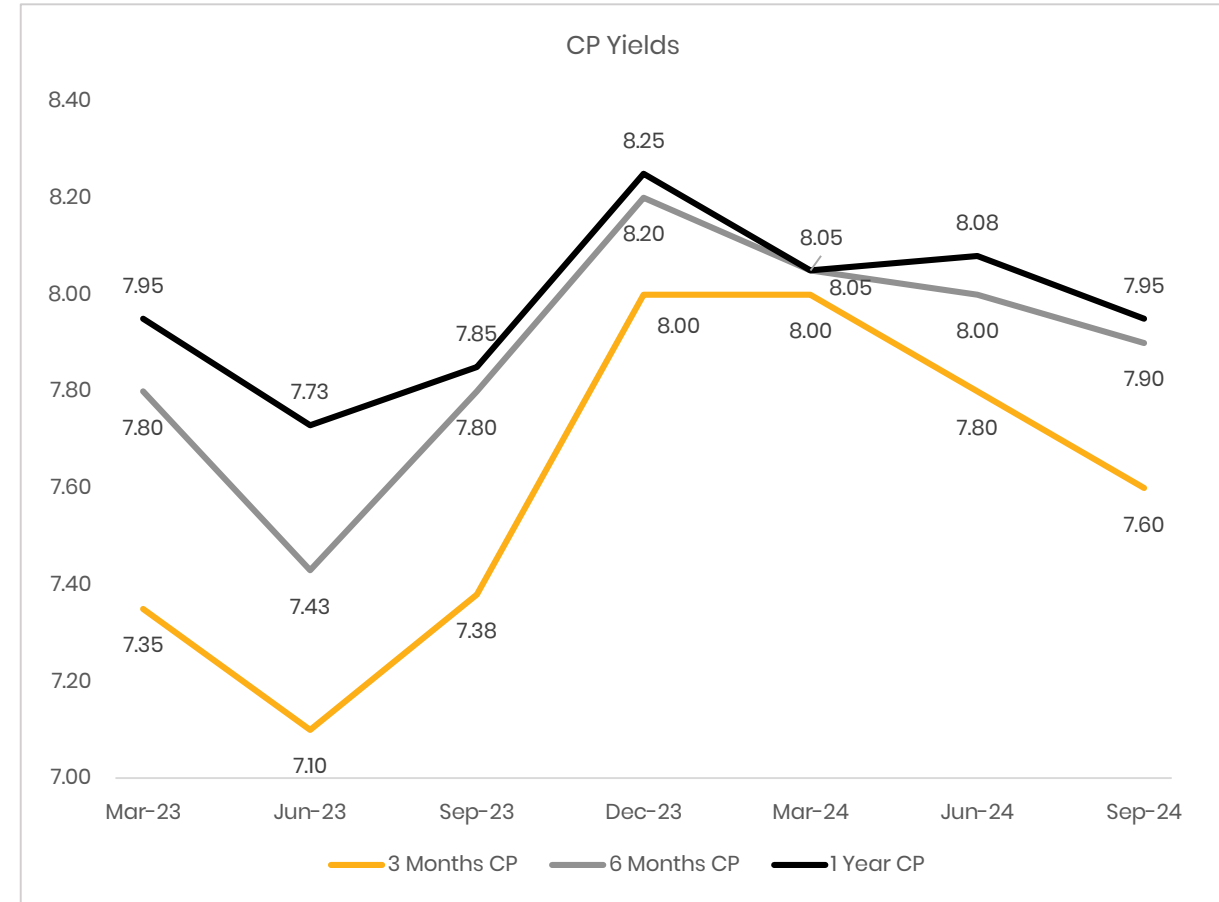
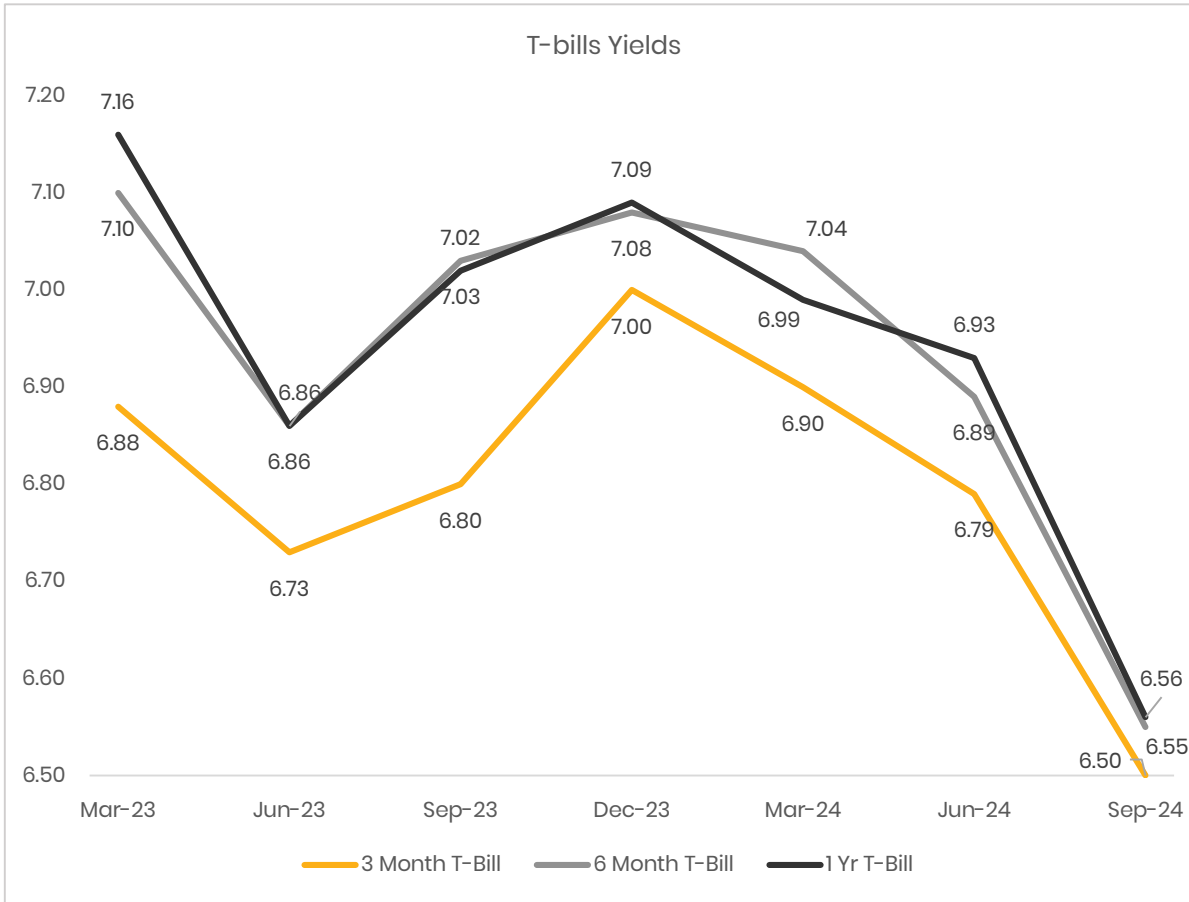
Revenue			
Receipts (Rs bn)	2024 RE	2025 BE	Change (%)
<b>1. Revenue receipts (2d + 3)</b>	26,997	31,292	<b>16%</b>
<b>2. Gross tax revenues (a + b)</b>	34,372	34,302	0%
a. Direct taxes	20,354	22,200	<b>9%</b>
b. Indirect taxes	14,794	12,117	<b>-18%</b>
c. Transfers to states, UTs, etc	8,303	8,303	0%
<b>d. Net tax revenues (2 - 2c)</b>	26,069	25,999	0%
<b>3. Non-tax revenues</b>	3,758	5,457	<b>45%</b>
<b>4. Non-debt capital receipts (a + b)</b>	560	580	<b>4%</b>
a. Recovery of loans	260	200	<b>-23%</b>
b. Other receipts (inc. divestments)	300	380	<b>27%</b>
<b>5. Total receipts (1 + 4)</b>	<b>27,557</b>	<b>32,872</b>	<b>19%</b>
Expenditure			
Expenditure (Rs bn)	2024 RE	2025 BE	Change (%)
<b>6. Revenue expenditure</b>	35,402	37,094	<b>5%</b>
<b>7. Capital expenditure</b>	9,503	11,111	<b>17%</b>
a. Defence	2,480	2,520	<b>2%</b>
b. Railways	2,600	3,772	<b>45%</b>
c. Roads and highways	2,645	2,720	<b>3%</b>
d. Loans for capex to states	665	650	<b>-2%</b>
e. Housing and urban affairs	225	240	<b>7%</b>
<b>8. Total expenditure (6 + 7)</b>	<b>44,905</b>	<b>48,205</b>	<b>7%</b>
Central Government Borrowings through Dated Gsec			
Borrowings (Rs bn)	2024 RE	2025 BE	Change (%)
<b>Gross Borrowing</b>	15.4	14.0	<b>-9%</b>
(-) Repayments	3.6	2.4	<b>-33%</b>
<b>Net Borrowing</b>	<b>11.8</b>	<b>11.6</b>	<b>-2%</b>





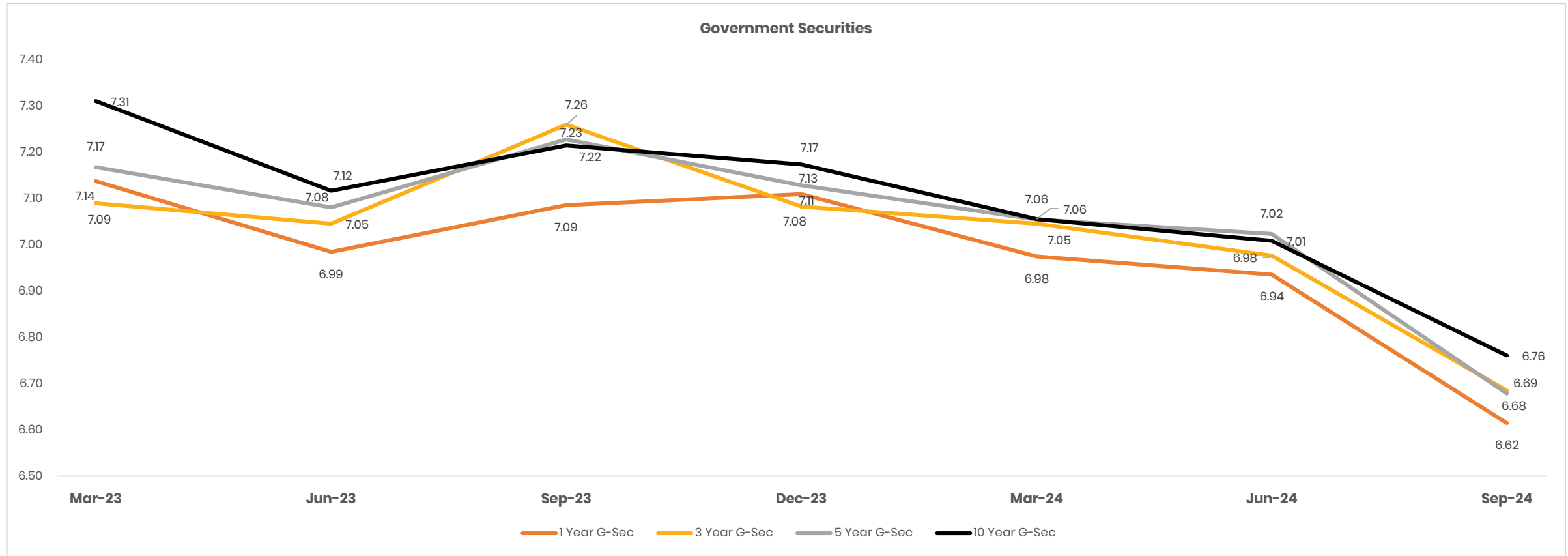
# UPDATE ON YIELDS

# T-bills dropped to their lowest level in the last 6 quarters



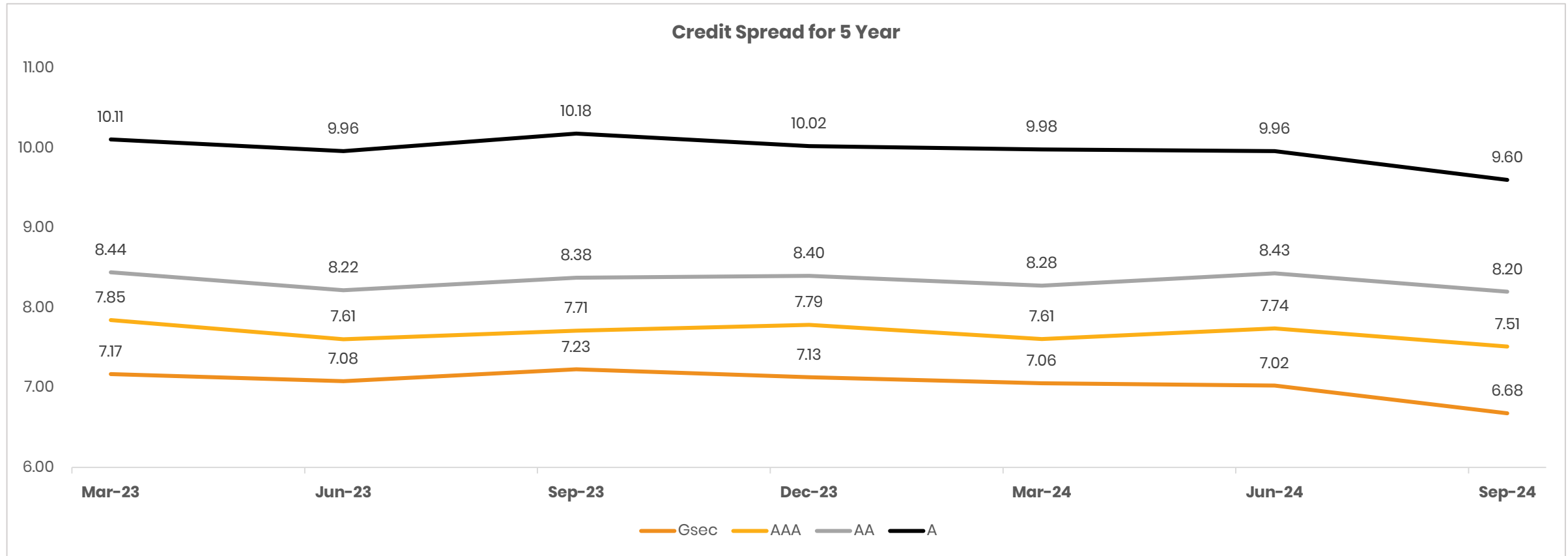
➤ Government backed short term papers saw a major drop in their yields in the last 3 quarters compared to the short term commercial papers.

# India's inclusion in JP Morgan Bond Index – Gsec yield continue to drop



- In Sept '24, government securities yields across all tenors continued their downward movement.
- In the last quarter, the 5-year G-sec saw an decline of 35 bps, followed by a 32 bps drop in the 1-year G-sec, continuing the down trend since December across all maturities.

# Gap between the yields of Gsec & AA is at 18 month high



- Credit Spread between **the Government sec & AAA rated sec** stands at **0.83%**, whereas with **AA rated sec** it is **1.48%**, which is a **18 month high**.
- It is **expected that the spreads will remain elevated** and widen a bit more in the near term once RBI starts cutting down the Repo Rates as Gsec are highly sensitive to Repo cuts.

# House Views & Recommendations

# Fixed Income Portfolio Strategy

Views remain for **duration bias** in the fixed income portfolio so as to capitalize on the likely softening of yields in the next 1 to 2 years.

## 30% of the portfolio can be invested in :

- Actively managed duration funds (for evolving call on duration).
- passive duration allocation (invest in long term maturity G-sec papers to benefit from accrual income and potential MTM gains)

## 30% – 35% of the portfolio should be allocated to :

- Accruals (for enhanced returns) from Ultra Short term funds, Passive SDL funds, High Quality Corporate Bond Funds.

## 30% – 35% the overall fixed income portfolio (to improve overall portfolio yield) can be allocated to :

- Select high yield NCDs
- Private Credit strategies
- REITs/InvITs

## For liquidity management, investments can be made in :

- Floating Rate (min 9–12 months)
- Arbitrage/Ultra Short Term (3 to 6 months)

# Recommended Mutual Funds : Debt

Scheme name	Fund Manager	Inception Date	Annualised Return					Avg Maturity	Mod Duration	Exp Ratio	Gross YTM %	Sov & AAA	Below AAA	Call & Cash	Unrated	
			3 Months	6 Months	1 Year	3 Year	5 Year									SI
<b>Active Duration Funds</b>																
ICICI Pru All Seasons Bond Fund	Manish Banthia	Jan-10	9.8	9.1	8.8	6.5	7.5	8.8	5.3	3.1	0.3	7.8	61.7	31.6	6.5	0.3
<b>Passive Duration Funds</b>																
HDFC Long Duration Debt Fund	Shobhit Mehrotra	Jan-23	12.4	13.2	13.8	-	-	10.0	30.1	12.3	0.0	7.0	98.7	-	1.3	0.2
Mirae Asset CRISIL IBX Gilt Index - April 2033 Index Fund	Amit Modani	Oct-22	12.0	10.7	10.5	-	-	9.2	8.1	6.0	0.0	7.0	97.6	-	2.4	-
Nippon India Nivesh Lakshya Fund	Pranay Sinha	Jul-18	12.4	12.6	13.0	7.2	7.2	8.9	22.0	10.6	1.0	7.0	96.6	-	3.2	0.2
<b>Arbitrage Fund</b>																
Edelweiss Arbitrage Fund	Bhavesh Jain	Jun-14	6.6	6.9	7.5	6.2	5.4	6.1	0.5	0.5	0.1	7.3	13.3	85.4	1.3	-
Invesco India Arbitrage Fund	Deepak Gupta	Apr-07	6.9	7.1	7.6	6.5	5.4	6.6	-	-	0.5	-	3.9	20.4	75.7	-
Kotak Equity Arbitrage Fund	Hiten Shah	Sep-05	6.8	7.1	7.7	6.3	5.5	6.9	-	-	0.3	6.6	0.0	99.9	-	-
<b>Ultra Short Term Fund</b>																
HDFC Ultra Short Term Fund	Anil Bamboli	Sep-18	7.2	7.2	7.4	6.0	5.7	6.2	0.5	0.4	0.0	7.6	96.5	4.7	-1.5	0.2
ICICI Pru Ultra Short Term Fund	Manish Banthia	May-11	7.1	7.1	7.4	6.0	5.9	7.4	0.5	0.4	0.0	7.6	85.6	12.6	1.6	0.2
<b>Floating Rate Fund</b>																
HDFC Floating Rate Debt Fund	Shobhit Mehrotra	Oct-07	8.9162	8.6	8.4	6.5	6.8	7.8	4.4	1.4	0.0	7.9	81.4	15.3	3.1	0.3
ICICI Pru Floating Interest Fund	Rohan Maru	Nov-05	8.5187	8.2	8.1	6.1	6.7	7.6	6.1	1.1	0.0	8.0	74.3	22.8	2.5	0.3

# Exclusive Offers



# Secondary Market Bond Yields

***EXCLUSIVE OFFER FOR THE DAY***						
ISIN	SECURITY DESCRIPTION	MATURITY	IP DATES	RATINGS	QUANTUM	YIELD
INE0Z4807015	0% CYQURE INDIA PRIVATE LIMITED 2028 (Senior, Secured)	17-03-2028	ON MATURITY	CARE BBB-/ Stable	MULTIPLE OF 10 LAKHS	13.50%
INEONES07097	11.40% KEERTANA FINSERV PRIVATE LIMITED (Senior, Secured)	12/01/2025:12.50%, 12/04/2025:12.50%, 12/07/2025:12.50%, 12/10/2025:12.50%, 12/01/2026:12.50%, 12/04/2026:12.50%.	MONTHLY	BBB+ ICRA	MULTIPLE OF RS.3 LAKHS (LIMITED QUANTUM)	13.55%
INE549K08509	10.45% MUTHOOT FINCORP LIMITED 24/12/2032	24-12-2032	MONTHLY	AA-/STABLE	MULTIPLE OF RS.5 LAKHS	11.06%
INE348L07209	9.57% MAS FINANCIAL SERVICES LTD. 2027 (Senior, Secured)	21-06-2027	MONTHLY	AA- CARE	MULTIPLE OF RS.3 LAKHS	9.90%
INE338I07172	9.25% MOTILAL OSWAL FINANCIAL SERVICES LTD. 2032 (Senior, Secured)	03-09-2032	ANNUALLY	AA CRISIL	MULTIPLE OF RS.10 LAKHS	9.15%
INE774D08MM1	8.05% MAHINDRA AND MAHINDRA FINANCIAL SERVICES LTD. 24/07/2032	CALL : 23-07-2027	ANNUALLY	IND AAA	MULTIPLE OF RS.10 LAKHS (UPTO 1.5CR ONLY)	8.50%
INE306N08078	9.25% TATA CAPITAL FINANCIAL SERVICES LIMITED 2025 (Unsecured)	22-07-2025	ANNUALLY	ICRA AAA	MULTIPLE OF RS. 10 LAKHS	8.20%
INE306N08359	8.65% TATA CAPITAL FINANCIAL SERVICES LTD 13/11/2029 (Unsecured)	13-11-2029	ANNUALLY	AAA CRISIL	MULTIPLE OF RS.10 LAKHS (UPTO 2.9CR ONLY)	8.05%
INE306N07NL3	8.30% TATA CAPITAL FINANCIAL SERVICES LIMITED 2026 (Senior, Secured)	13-03-2026	ANNUALLY	ICRA AAA	MULTIPLE OF RS. 10 LAKHS	8.07%
INE053F07884	7.35% IRFC 2031 (TAXFREE)	22-03-2031	ANNUALLY	AAA CRISIL	MULTIPLE OF RS.10 LAKHS	5.30%
INE020B07HP8	8.46% REC LTD. 2028 (TAXFREE)	24-09-2028	ANNUALLY	AAA CRISIL	MULTIPLE OF RS.5 LAKHS (UPTO 10 LAKHS ONLY)	5.25%

\*Above mentioned rates are tentative as on 14<sup>th</sup> October'24 and subject to change as per market conditions. Kindly check the availability of stock before closing the deal | Please refer to T&Cs | IP: Interest Payment

# Thank You!

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# Awards & Accolades

