

Masala Bonds

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Why in news?

ED suspects that rules under Foreign Exchange Management Act (FEMA) were violated when Kerala Infrastructure Investment Fund Board (KIIFB) raised funds through Masala Bonds.

- **Definition** - Masala Bonds are bonds **issued outside India** but denominated in Indian Rupees (INR).
- **Name** - Coined by the **International Finance Corporation (IFC)** in 2014 to give the bonds a uniquely Indian identity, similar to “Samurai Bonds” (Japan) or “Dim Sum Bonds” (China).
- **Origin** - In India, **1st introduced in 2014** by IFC, which issued the Masala Bond worth Rs.1,000 crore for Indian infrastructure.
- **Purpose** - To help Indian entities raise funds internationally without facing exchange rate volatility.
- **Types** -
 - **Short-term bonds** - Maturity < 3 years, lower risk, lower returns.
 - **Long-term bonds** - Maturity > 3 years, used for large projects, higher yields.
 - **Fixed-rate bonds** - Stable interest, predictable returns.
 - **Floating-rate bonds** - Interest varies with market benchmarks.

Key Characteristics

- **Denomination in INR** - It is issued in Indian rupees, unlike conventional foreign bonds.
- **Issuer** - Indian entities such as Corporations, Financial institutions, or Government-backed entities.
- **Listing** - These bonds are listed on foreign exchanges, usually in financial centres like London or Singapore.
 - For example, 1st Masala bond was listed on the London Stock Exchange (LSE).

- **Regulator** - Governed by RBI and SEBI despite being issued in abroad.
- **Maturity period** -
 - 3 years if raised up to USD 50 million equivalent in INR per year.
 - 5 years if raised above USD 50 million equivalent.

Comparison between Conventional Foreign Bond and Masala Bond

Component	Conventional Foreign Bond	Masala Bond
Denomination	Foreign currency	Indian rupees
Currency risk borne by	Issuer	Investor
Exchange rate fluctuation	Impacts Indian issuer	Impacts foreign investor
Example	USD bond by Indian firm	INR bond sold to global investor

- **Uses of Funds** -
 - **Approved use** - Refinancing rupee loans/debentures, affordable housing & township projects, working capital.
 - **Restricted use** - Real estate (except affordable housing), domestic equity investments, land purchase, prohibited FDI activities.
- **Limitations** - Currency risk for investors, restricted usage of funds, limited investor appetite in volatile markets.
- **Significance** - It reduce the currency risk for issuers, helps attract foreign capital for infrastructure and strengthen rupee & globalize Indian markets.

References

1. [Indian Express | Masala Bonds & a Kerala political slugfest](#)
2. [Clear Tax | Masala Bond](#)
3. [Bajaj Finserv | Masala Bond](#)