The Name’s Bond, Corporate Bond

With an aim to bring to you a varied set of investment opportunities across yield and tenure spectrums, we at Jiraaf are excited to present our very first opportunity -

Before you dive into the details of the opportunity (available on the Opportunity Details page, once you log-in), it is important to understand Corporate Bond as an asset class.

Here is a summarised write-up that should help you with the same

Understanding Corporate Bonds

Generate regular income while protecting the investment value

The Basics

A Corporate Bond is issued by a company to help it raise capital from the market. An investor who buys the corporate bond is lending capital to the Company and in return earns Interest Payments based on a predetermined schedule.

Companies at times prefer raising funds through debt financing methods such as bonds because this is cheaper than raising money through equity investments and does not involve dilution of ownership of the company.

For an Investor, investing in a corporate bond *helps generate regular cashflows* at a predefined frequency (agreed through a repayment schedule).

The Company that is raising capital via Corporate Bond is referred to as the **Issuer of the Bond** or the **Borrower.** The Investor who is lending capital is referred to as the **Subscriber of the Bond.**

The Government also raises money by issuing bonds, which is referred to as Government Bonds

It is important to note that Corporate Bonds may vary significantly based on the underlying terms which illustrate the characteristics of the bond. These terms and conditions also define the underlying risk and return associated with Issue. Therefore, it is important to understand the specific terms before investing.

Some Key Terms

Face Value – The amount that the investor will receive at the maturity of the bond is referred to as the Face Value of the bond. You can think of it as the principal of the loan amount that you have lent to the Borrower.

Coupon – This is the annual interest rate paid on the bond. This would determine the frequency and the amount of interest payments an investor would receive

Yield to Maturity (YTM) - This defines the return on a Bond, if it held to maturity. For example, if you invest 100 rupees in a bond and received 115 rupees at maturity at that end of 1 year, then the YTM is 15%

Current yield – this is the Interest income provided by a bond divided by the bond price (investment amount). It may be compared to dividend yield in case of equity.

Characteristics of a Bond

When assessing a particular bond issue, it is important to understand what its characteristics are. Here are a few factors to keep in mind.

Coupon	Monthly, Quarterly, Annual, Zero Coupon (investment amount only paid on maturity)
Repayment	Single repayment at maturity (Bullet repayment) Varying repayment amount (Structured repayment)
Rated/Unrated	Rating agencies evaluate **credit worthiness** (ability to repay interest or principal) of the issuer based on various financial, non-financial parameters and management. Based on the evaluation, certain ratings are assigned which may range from **D (Default, highest risk) to AAA (low risk).** Government bonds carries lowest credit risk and is considered almost risk free.
Listed/Unlisted	Listed bond can be traded in the secondary market like equities and therefore are more liquid as compared to Unlisted bonds
Secured/Unsecured	Issue backed by tangible asset are secured bonds and therefore less risky as compared to unsecured bonds
Convertible/Non-convertible/ **Optionally convertible**	Convertible bonds: Gets mandatorily converted into equity at maturity at a predefined ratio/formula Non-convertible bonds: Cannot be converted into equity at any point of time Optionally convertible bonds: May be converted into equity at the option of debenture holders/Issuer, as the case may be

Understanding Risks Associated with Bonds

As with any debt instrument, there are certain risks associated with investing in corporate bonds. Depending on the Bond and its characteristics, these risks could vary from low to very high. Hence it is important to understand and assess risks involved before investing in this asset class.

Key risk factors	**Definition**	**Mitigating Risks**

Credit/Default risk	This depends on the Credit worthiness of the borrower and the ability to pay regular interest and repay investment amount on maturity.	Typically, a rating agency would review the Issuer of the Bond for its credit worthiness and provide a rating which forms a good indicator of the amount of credit risk. The rating may range from Below BBB which has the highest risk to AAA rated (triple A rated) which has the lowest risk.
Maturity/Duration risk	This is the risk associated with the amount of time/duration for which an investors money will be invested	Assets with a lower maturity period (3 to 24 months) have a lower risk compared to assets with maturity periods > 24 months
Liquidity risk	Ease with which investor may sell the investment and recover the invested amount	This is a subjective risk depending on how important liquidity of funds is to an investor. Listed Bonds can, by definition, be traded in the secondary market whereas as it is extremely difficult to find purchasers for unlisted bonds in the secondary market and therefore means that the investor amount is locked in till the maturity period
Structure risk	The Structure of a bond helps identify what recourse an investor has in case of a default. A bond that is secured by an asset for example is lower risk	A secured bond represents a lower risk compared to an unsecured bond

However, if the risks are understood and assessed, a Corporate Bond can form a powerful asset class that provides great returns.

Why should you invest in high quality Corporate Bonds

Provides a Fixed Income Stream	This asset class allows investors to earn regular income in form of interest payments.
Helps in Capital Preservation	Strong corporate credit profile ensures investment value is preserved i.e. Issuer will repay the principal value of loan as per agreed schedule
Secured	• Issue backed by tangible assets • Guarantees from the promoters of the Issuer to repay the loan
High return/Low risk	High return relative to risk associated with the underlying security (real estate project, auto, capital goods, gold, etc)

Portfolio Diversification	Adding this asset to your portfolio allows you to diversify across asset classes (debt, equity, etc) thereby reducing your overall investment portfolio risk
Financial Planning	Due to their nature of being fixed tenure, Corporate Bonds provide certain predictability of returns. This can help investors plan for milestones and financial goals while keeping their money invested in a high yield instrument

At Jiraaf, we assess Corporate Bonds on a variety of factors before listing them as an opportunity on our platform. We strive to maintain the highest standards of transparency to ensure that you as an investor have all relevant information available to help you make the right investment choices.

Our opportunity details page details out the various factors of the bond that can help you choose your investment wisely. We strongly recommend that you study the asset class, the opportunity and the risk before investing.

Our team is always available to help provide additional information or answer your queries to make your investing experience smooth.

Happy Investing!