

## NHAI Bond Issue

The National Highways Authority of India (NHAI), is an autonomous body, constituted by an act of Parliament, the National Highways Authority of India Act, 1988. The company is responsible for the development, maintenance and management of National Highways. It has been mandated to implement National Highways Development Project (NHDP) which is India's largest ever highways project.

As on 31<sup>st</sup> Aug'11, NHAI has awarded 141 BOT Toll based contracts valued at Rs 1,04,984 crores, 49 BOT Annuity based contracts valued at Rs 29,081 crores through PPP mode. As on 31<sup>st</sup> Mar'11, NHAI's shareholders funds stood at Rs 55,607.04 crores against Rs 44,860.07 crores in the previous year.

### Issue Details

NHAI has launched its first ever tax-free bonds of Rs 5,000 crore, with an option to retain over-subscription of upto Rs 10,000 crore, as authorised by the Central Government in exercise of the powers conferred by item (h) of sub-clause (iv) of clause (15) of Section 10 of the Income Tax Act, 1961 (43 of 1961).

These are **tax-free, secured, redeemable and non-convertible bonds**. Tax-free bonds means that the interest from these bonds is tax exempt – the investor/bondholder will not have to pay any tax on the interest which accrues on these bonds irrespective of the amount of the interest or the status of the investors. It is important to note here that only the interest earned on the bonds will be tax-free, not the actual investments.

The bonds having a face value of Rs 1,000, will have two maturity periods. The 10-year bond will give an attractive tax free interest rate of 8.2% p.a., while the 15-year bond of NHAI would offer 8.3% p.a. interest. So an investment of Rs 1 lac in the 10-year NHAI bond will earn a return of Rs 8,200 annually, which you will receive on 1<sup>st</sup> of October of every year for 10 years.

This is a secured issue from a company that comes under the domain of Government of India, and has received rating of AAA/Stable by CRISIL, AAA by CARE and AAA stable outlook by FITCH. Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

### Issue Opens

28<sup>th</sup> Dec'11

### Issue Closes

11<sup>th</sup> Jan'12

### Recommendation

**SUBSCRIBE** - - ★ ★ ★ ★ ★

### Rating

'AAA' by CARE

'AAA/Stable' by CRISIL

'AAA (ind) with Stable Outlook' by Fitch

### Frequency of Interest Payment

Annual

**Face Value:** Rs 1,000

**Minimum Investment:** Rs 50,000

### Issuance and Trading

Physical or Demat.

For trading Demat form is compulsory

**Listing of Bonds:** NSE and BSE

### Investment Tenure and yield

- 10 years: 8.2% p.a.
- 15 years: 8.3% p.a.

### Lead Managers

- A. K. Capital Services Ltd,
- SBI Capital Markets Ltd,
- ICICI Securities Ltd and
- Kotak Mahindra Capital Company Ltd

(later two for marketing only)

## Objects of the Issue

NHAI intends to deploy the issue proceeds towards part financing of the various projects being implemented by NHAI under the NHDP and other National Highways projects as approved by the Government of India.

## Tax benefits

1. The income by way of interest on these Bonds shall not form part of total income as per provisions under section 10 (15) (iv) (h) of I.T. Act, 1961;
2. There shall be no deduction of tax at source from the interest, which accrues to the bondholders in these bonds irrespective of the amount of the interest or the status of the investors;
3. As per provisions under section 2 (29A) of the I.T. Act, read with section 2 (42A) of the I.T. Act, a listed Bond is treated as a long term capital asset if the same is held for more than 12 months immediately preceding the date of its transfer. Under section 112 of the I.T. Act, capital gains arising on the transfer of listed Bonds shall be taxed @10% without indexation;
4. Wealth Tax is not levied on investment in Bond under section 2(ea) of the Wealth-tax Act, 1957.

## Issue Structure

Options	Series I	Series II
Tenor	10 years	15 years
Frequency of Interest Payment	Annual	Annual
Minimum Application	Rs 50,000 (50 bonds)	Rs 50,000 (50 bonds)
Interest Rate (% p.a.) (post tax)	8.2%	8.3%
Interest Paid on	Every year on 1 <sup>st</sup> October, and on respective maturity	
Redemption Amount	Repayment of the Face Value + any interest that may have accrued	

## Investor Categories

Particulars	Category I Institutional and Non-institutional portion	Category II >Rs 5 lacs	Category III ≤ Rs 5 lacs
Who can apply	Insurance Companies, Banks (Authorised to invest in bonds), Mutual Funds, FIIs, Companies, Charitable and Religious Trusts and Societies authorised to invest in the Bonds (refer to prospectus for full list)	Resident Indian Individual, HUF through Karta and NRI on repatriation as well as non-repatriation basis	
Basis of allocation (if oversubscribes)	First cum first serve basis	First cum first serve basis	On proportionate basis
Reservation	Upto 40% of the issue size	Upto 30% of the issue size	Upto 30% of the issue size

## View

NHAI tax-free bond issue is a good investment opportunity for investors expecting to earn returns better than bank fixed deposits and complete safety of their capital, given its tax-free stature and NHAI's creditworthiness.

The issue is highly recommended, especially, for investors who fall in the 20 and 30% tax-bracket, as it would technically increase their yield much higher due to their tax-free nature. The interest rate of 8.2%-8.3% p.a., offered by this issue is higher than the rates offered by the commercial banks on their fixed deposits if we take into consideration the tax benefit on this. It will earn an investor a spread of 200-300 basis points at a zero incremental risk vis-a-vis other investment options in similar category.

Considering the tax benefit in this bond, currently no other debt product in the market is offering such high interest rate with this high safety net. Moreover, **at this juncture the interest rates is soon expected to see a downward slope and this issue allows you to lock-on to these high rates for 10 or 15 years, which is quite a good return for a safe debt instrument.**

Even NRIs can invest in these bonds, which makes it an attractive offer for them as well.

Besides the creditworthiness offered by NHAI, this bond issue offers high liquidity as the Bond would be listed on NSE as well as BSE, which is an added advantage.

However, it is not advisable to put all money in bonds/debt products. A diversification of portfolio is a must to reduce risk and enhance returns.

Keeping in mind, NHAI's credit worthiness and better and assured returns than Bank FDs or other comparable product offering in the market, **we recommend investors to subscribe to the NHAI Bond Issue.**

***We recommend investment in NHAI Tax Free Bond, considering it's very attractive yield and company's creditworthiness.***

### Why Invest?

- ✓ Higher Safety: Government of India company
- ✓ Attractive Yield and Tax-free return
- ✓ Better than FD Returns

### Suitable for investors:

- With a Long term investment horizon 10-15 years
- Looking for better than FD yield
- Having a Low-medium risk appetite
- Individuals who are nearing retirement as this issue will offer them regular source of income (interest rates paid annually).
- NRI investors

### To invest or for queries:

SMS	'Arihant' to 56677
CONTACT	(0)9977250700 or Your Nearest Arihant Investment Center
CLICK	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>
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