

Slowdown in structured products biz may deepen



SARFARAZ

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MUMBAI

THE slowdown in the structured products business of wealth management arms of banks may precipitate, following the recent downgrade in debt ratings of Citigroup's and Deutsche's Indian arms. Among structured products, Nifty-linked non-convertible debentures (NCD) could be affected the most, as these banks have been among the leading issuers of such equity-linked debentures in the past many months.

Mutual fund officials said though the ratings downgrade is far from alarming, the move would certainly deter new investors from subscribing to Nifty-linked NCDs.

"Almost six months ago, investors were hardly looking at creditworthiness of any entity, but today, it is a critical factor in investments," said Rajan Mehta, ED of Benchmark Asset Management.

On Wednesday, Crisil downgraded the long-term debt rating of Citicorp Finance India, Citifinancial Consumer Finance India and Deutsche Investments India, among others, from AAA to AA+. This move follows a downgrade in the ratings of parent companies and based on the standalone credit quality of Indian operations.

These downgrades have come at a time when there is already a slowing demand for structured products among wealthy individuals. "Earlier in the year, we were indeed having active conversations on structured products with our clients," said **Maneesh Kumar**, head of wealth management solu-

tions at ASK Wealth Advisors, a Mumbai-based financial planning & wealth advisory firm. "But with the continued unravelling of economic and financial troubles in the west, we are more conservative now."

ELDs, including Nifty-linked NCDs, have been mostly popular with high net worth individuals (HNIs) and mutual funds selectively in the past many months, given the appetite for structured products that aim at protecting capital. ELDs are floating rate debt instruments whose interest is based on the return of the equity index — Nifty in this case. In a simple structure, three-fourths of the money raised are invested in 'unsecured

debentures' issued by a non-banking finance company (NBFC) — mostly Indian affiliates of foreign banks while the balance is invested in Nifty futures and options. As a default by the issuer could result in the investors even losing his capital, the creditworthiness of the issuer is key to the demand of such

products.

Fund managers, however, maintain that the Indian affiliates of most foreign banks are "well-capitalised". The CIO at a leading private mutual fund said: "Unlike their global parents, the local arms are still strong. These downgrades will have a psychological effect than a real impact on investors."

Not everybody agrees that investor interest in such products would be affected badly. "The impact will be negligible. The current pricing of NCDs already reflects the global credit weakness," said Birla SunLife Mutual Fund CIO A Balasubramanian.

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GAIN THEORY

Among structured products, Nifty-linked non-convertible debentures could be the most-affected, as these banks have been among the leading issuers of such equity-linked debentures in the past many months