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LIC, IDFC to launch tax-free infra bonds this month

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MUMBAI: Life Insurance Corporation (LIC) and Infrastructure Development Finance Company (IDFC) are set to launch their tax-free infrastructure bonds this month, offering another option for investors looking for safe returns while opening up an avenue for companies, especially utilities, to raise long-term funds from these institutions.

Investors will get a tax relief on investments up to Rs 20,000 in these infra bonds over and above the deduction of Rs 1 lakh from taxable income which is permitted if they put their money in equity-linked savings schemes of mutual funds, bank deposits with a tenure of five years or more, pension funds besides expenses on tuition fees.

Infrastructure Development Finance Company Ltd.

BSE 185.40 ▲ 00.43% 00.80	NSE 185.95 ▲ 00.98% 01.80
Vol: 142920 shares traded	Vol: 666993 shares traded
Prices Financials Company info Reports	

Both LIC and IDFC are likely to tap the market to raise over Rs 7,000 crore. Both the financial institutions are in the process of finalising their issue size and the details of the public bond offering, said officials involved with the process.

Retail investors should invest in these issuances. Though Rs 20,000 is not a big amount, it will still add to the Rs 1 lakh that can be saved by an individual every

year. The issuance will look even better if the proposed direct tax code kicks off and tax exemption limit moves up to Rs 2 lakh, said **Maneesh Kumar, managing director, Burgeon Wealth Advisors**. These bonds will have a lock-in period of five years after which investors will be able to trade on them on the stock exchange. The yield on these bonds are capped to interest rates on government bonds (g-sec) of a similar maturity.

Investors will be surely interested in investing in these bonds. These papers would be bearing a tax-free coupon payout between 7.85 and 8.10%, which makes it attractive to hold till maturity. Being a retail product with a maximum investment cap of Rs 20,000 (for tax exemptions) per taxpayer, these bonds will attract more applications of smaller values. This will enable several investors to participate in the issuances, said Vikas Jain, head-investment banking, AK Capital Services.

Wealth managers said that this can be a good tool to build funds for long-term goals such as retirement. Recently, the government allowed LIC, IDFC and infrastructure non-banking finance companies to issue tax-free long-term infrastructure bonds in a bid to channelise household savings for developing the country's infrastructure.

According to the government's estimates, these bonds have the potential to raise close to \$6.5 billion in FY 2010-11. Last month, Industrial Finance Corporation of India (IFCI) had launched its first series of tax-free infrastructure bonds for investors. Larsen & Toubro Infrastructure Finance is also likely to issue these bonds.