

**FUNDS MAY SEEK HIGHER YIELD, SAY EXPERTS**

# Unlisted Bonds Likely to Retain Appeal Despite Tax Changes

**Shilpy Sinha**

**Mumbai:** The appeal and lower scrutiny of unlisted bonds may continue to attract investors despite the recent tax changes, according to experts. Credit funds, alternative investment funds, HNIs, and foreign portfolio investors may seek higher yield but will remain interested in unlisted bonds, they said.

India's unlisted bonds market has grown over the last five years, with issuances reaching ₹1.04 lakh crore between January and July 24, 2024, compared with ₹1.87 lakh crore for the entire year 2023, ₹1 lakh crore in 2022, and ₹64,000 crore in 2021, according to Prime Database.

The government has announced that profits from unlisted bonds and debentures will be taxed as short-term capital gains, regardless of the holding period. This change, effective from July 23, 2024, classifies these instruments

as short-term capital assets when transferred, redeemed, or on maturity. However, major high-yield investors are unlikely to be impacted in a big way, according to experts.

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Credit funds typically hold these instruments until

maturity to benefit from high yields, which lowers the impact of new tax regulations for those not seeking to realise capital gains through sales. However, some credit fund investors prefer listed instruments for better trading opportunities, higher profit margins, and ease of selling to HNIs, as seen by Goswami Infratech.

"Some entities may still opt for unlisted bonds or debentures to avoid regulatory scrutiny," said Venkatakrishnan Srinivasan, founder and managing partner at Rockfort Fincap LLP. "Major high-yield investors and credit funds might prefer unlisted instruments to absorb the entire issue size directly. In contrast, listed issuances require an electronic bidding process, which can hinder securing full allotment."

Investors are likely to demand higher yields to compensate for increased capital gains tax, potentially pushing overall yields on unlisted instruments higher.