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Falling Bank Rates Make Corporate FDs Attractive

Spread between bank & corporate FDs widens to 100 bps; investors with higher risk appetite can earn up to 10.50% on 3-year deposits

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Mumbai: With banks slashing deposit rates, savers could take comfort from the higher rates offered by companies such as HDFC, Shriram Transport, Mahindra Finance and Dewan Housing. The average spread, or gap, between bank and corporate deposits has widened about 90-100 basis points compared with the usual 50-70 bps. A depositor with slightly higher risk appetite can now earn interest rates of up to 10.50% with three-year maturity.

“Investors with a higher risk appetite can invest in fixed deposits issued by companies,”

said Sandeep Nayak, executive director & CEO, Centrum Broking. “The spread between a bank FD and a corporate fixed deposit has widened due to falling bank rates making it attractive for a discerning retail investor,” he said.

Shriram Unnati Deposit offered by Shriram Transport Finance rated AA+ can earn you 10.50%, 9.75% and 9.25% interest rates with maturities of one, two and three years, respectively. Triple-A rated Dewan Housing, or DHFL, sells fixed deposit scheme christened Aashray Deposit Single at 9.75% with 14-month maturity.

India’s largest lender State Bank of India is offering 8.50%

with maturities ranging from one to five years. A few days ago, it cut deposit rates by 25 bps.

Mahindra & Mahindra Finance — triple-A rated non-banking finance company — too offers 9.75% and 9.50% in their deposit schemes with 24 and 36 month maturities.

“A traditional saver in bank fixed deposits can optimise his returns by investing in company fixed deposits,” said Suresh Sadagopan, founder of Ladder 7 Financial Advisories.

“He can earmark a part of the debt asset allocation for it. But you have to have a slightly higher risk appetite.” India’s largest housing finance company, triple-A rated HDFC,

Better Returns

Company Name	Rating	Interest rates (%)	Maturities (in months)
DHFL - Aashray Deposit Single	AAA	9.75	14
Shriram Unnati Deposit	AA+	9.25-9.75-10.50	12-24-36
Bajaj Finance	AAA	9.75	15
HDFC LTD - Regular Deposits	AAA	9.40	12-24-36
Mahindra & Mahindra Financial	AAA	9-9.50-9.75	12-24-36

Notes: Senior citizen rates are not included in the table.
Source: Centrum Broking

sells deposit schemes at 9.40% with one-three year maturities, while HDFC Bank offers 8.75% for similar maturities but below ₹1 crore.

Bank fixed deposits are normally meant for the highly conservative investor. Even after lenders reduced deposit rates, no major rate cuts happened in the corporate schemes and it is unlikely to happen anytime soon either.

“We will revise (reduce deposit) rates only when the Reserve Bank cuts the policy rate,” said Umesh Revankar, managing director and CEO, Shriram Transport Finance Company. His company has never defaulted on repayment.

