11-13% CAGR

Investment opportunity in Government Securities

Long duration Gsecs provide an excellent High Return & Low Risk Investment Opportunity

Good time to consider investing in Long duration debt mutual funds (Government Securities) for the next 2 year duration.

- Multiple ongoing events locally and globally, point towards interest rates falling significantly.

- Investors can strategically take advantage of this favorable declining interest rate cycle.

Next few pages are some of the favorable events that can lead to interest rate cuts in the near future in India.

Events that can lead to Interest Rate Cuts

Easing Inflation Pressures

- As per RBI's MPC report, CPI inflation is expected to close at 5.1% for FY24.
- FY25 expectation is 4.6%
- This big reduction in inflation will make it easy for RBI to reduce interest rates.

Fiscal deficit is getting under control

- In the recent budget, FM said fiscal deficit will be maintained at 5.1% and targets to reduce it to 4.5%.
- This means the government will be borrowing less.
- Leading to more demand for GOI Bonds, therefore putting downward pressure on interest rates.

Events that can lead to Interest Rate Cuts

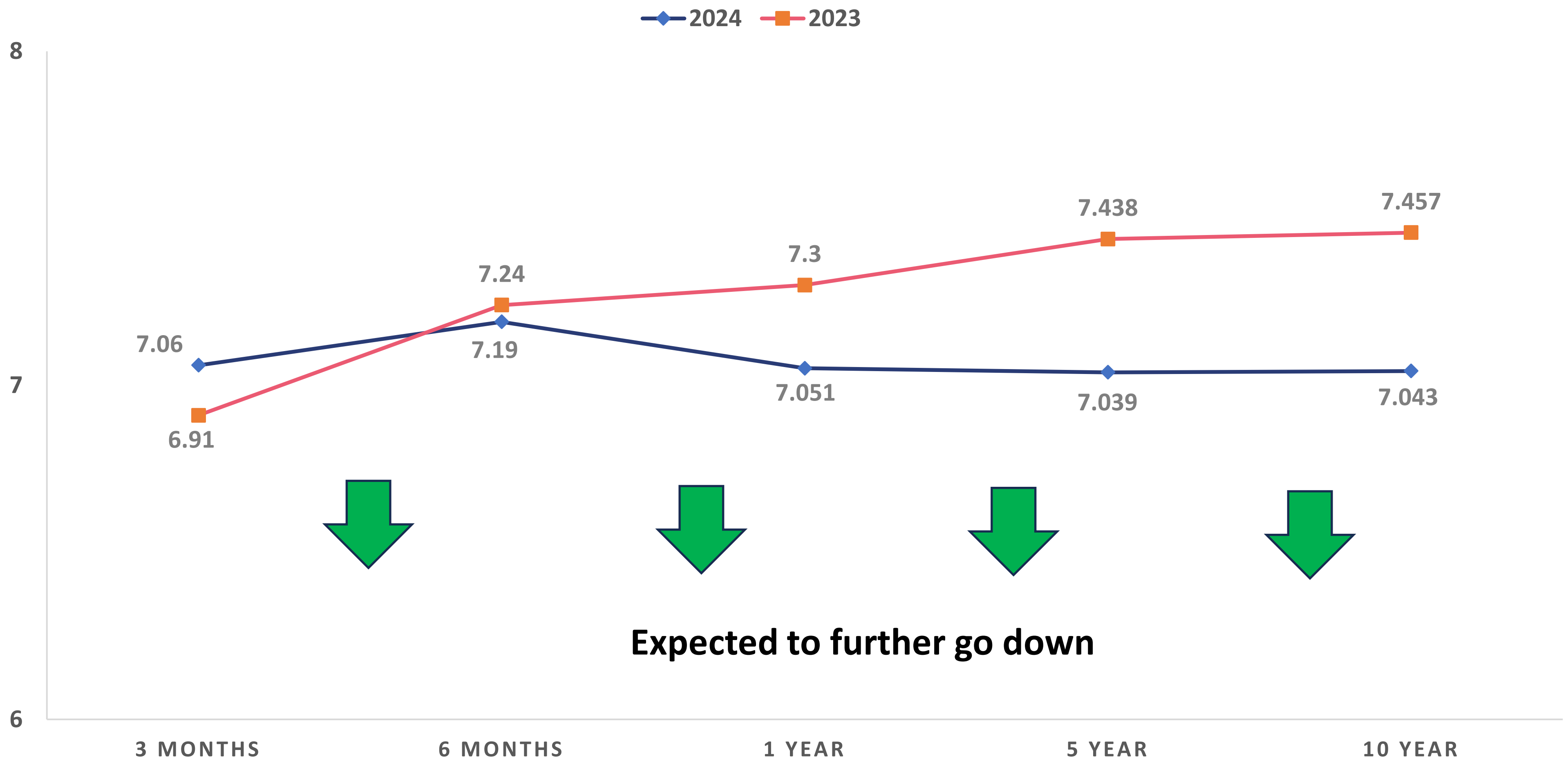
Globalization of Indian Government Bonds

- 6 sovereign Indian Bonds to be included in JPMs Emerging Market Bond Index.
- Expected to bring in $25 billion inflows into Gsecs.
- Indian government bonds also expected to be included in Bloomberg's index.

US interest rate reduction

- USA is expected to start cutting interest rates in the second half of FY25.
- The interest rate differential between US and Indian Gsecs will help bring down the interest rates in India.
- This will also help RBI to pursue its agenda of reducing interest rates.

Current Interest Rate Curve in India



The interest rates in India are currently on a flat curve.

Which means the interest rates are almost the same for every duration.

How much will you benefit in the next 2 years?

mira money
money invested in right assets

In a falling interest rate scenario, it is always favorable to hold long duration bonds.

- Because, even a small change in interest rates will have a big impact on the price of the bond.
- Investors can make equity-like returns from Gsecs.
- In the current circumstances, having a bond portfolio with a modified duration of around 10 years would be a good option.

In the Next 2yrs, if Interest Rate of 10 year Gsecs

Falls from	CAGR
7. 1% to 6.1% (High probability)	11.99%
7.1% to 5.8% (Low probability)	13.18%
7.1% to 5.6% (Very low probability)	14.35%

Rises from	CAGR
7.1% (no change) (Medium Probability)	7.10%
7.1% to 7.35% (Low probability)	5.84%
7.1% to 7.6% (Very low probability)	4.57%

Reward – High Returns; Risk – Low Returns

Gsec based Mutual Funds are the best option

mira money
money invested in right assets

Gsecs are the Most Liquid

- Volume and total value of trades is the highest on a daily basis.
- Helps in good price discovery.

Interest rate change transmission happens quicker in Gsecs

- Given hints of future rate cuts or rise, the effect of it shows up in Gsecs first.
- Then trickles down to corporate bonds

GOI bonds have zero default risk

- Gsecs will never default, because the government can create more money and pay the bond holders.
- That is not with Corporate bonds. If a Company does not have funds to pay the bond holders, the Company can refuse to pay and the investor loses money.

How to choose a Debt Mutual Fund ?

Easiest way for retail investors to participate in this is by investing in **“Long duration Gilt funds”**, whose underlying holdings are Gsecs.

Important parameters to choose an appropriate mutual fund (apart from past performance):

- Underlying holdings – Consists of only Sovereign & Gsecs are the safest types of Bonds
- Yield to maturity (YTM) – Higher the better
- Modified duration – Currently higher the better
- Expense ratio – Lower the better
- AUM of the fund – Higher the AUM means better liquidity of the fund
- History of the fund – Shows how long the fund has been running
- Fund manager experience - Higher the better

Thank you !

hello@mira.money

+91 6364 942 933

http://mira.money

Click the icon to follow