BOND MARKET AWARENESS OF RETAIL INVESTORS

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Abstract: Bond is a debt instrument used for raising money. In India bonds are typically issued by two authorities viz., government and corporate. Investors have fancy for investments in bonds issued by government as some of the bonds offer tax incentive and they are considered safe bet for investments. For corporate bonds investors mainly consists of banks, mutual funds, financial institutions etc. The authenticity of corporate bonds is often judged by the credit rating it has received. Corporate bonds broadly have two segments viz., the Public placement and Private placement. Very few investors in the present study are found investing in corporate bonds. Non-investors have indicated their preference to invest in bond market provided they are equipped with proper education on the same.

Key Words: Bond, Corporate Bond, Debt Market, Private Placement, Public Placement.

1. Introduction:

A bond market is known as either debt market or credit market. A bond is defined as a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debt-holders, or creditors, of the issuer [3]. Bonds are believed to be less risky investment compared to equity. An investor who is not a risk taker may prefer to park his money in bond market rather than equity market. The primary goal of the bond market is to provide a mechanism for long term funding of public and private expenditures. The most important advantage of investing in bonds is that it helps to diversify and grow money. Bond markets are of two types mainly the corporate bond and government bond. Corporate bonds are issued by corporations to raise capital. Government bonds are issued by government to finance its activities. The Indian bond market is quite larger than corporate bond market and it is popularly known as government securities (G-Secs) [9]. Bond market helps in efficient mobilization and allocation of resources in the economy, helps in financing the development activities, expansion activities, transmitting signals for monetary policy and facilitates liquidity management in tune with the short term and long term objectives. The rate of interest offered on G-Sec is treated as benchmark rate and it is considered as risk free rate of return to evaluate other sources of investments [11].

2. Literature Review:

It was critically stated that government bond market in India are relatively well developed, the development of corporate bond market has lagged behind in comparison with other financial market segments. Liquidity, transparency and greater number of investors will increase the depth of the corporate bond market [2]. Bonds continue to contribute insignificant proportion of a typical Indian Corporate Balance Sheet. Corporate Indian bond market is at a very nascent stage. The tax benefit by investing in corporate bond is available only with respect to investments in infrastructure companies [7]. The need of developing robust corporate bond market to enhance the stability of financial system in India. The study offered various recommendations like retail investments through debt mutual funds (in line with the Equity Linked Saving Schemes), investments horizon in bond should be brought in line with equity investments, offering quotas to mutual fund in debt issue for benefit of retail investors, smaller lot sizes of bonds, promoting dematerialized trading of listed bonds etc [4]. G-Securities and corporate bond with three months, 1 year or 2 year products must be introduced in cash and futures market to offer more liquidity. Order matching system should be adopted to remove broker-driven system and infuse transparency, higher disclosure norms which are cost intensive, often de-motivates corporate to go for public placements, which can be reduced [5]. Private placements are favoured as a mode of issue, due to the ease of raising funds. Authors suggested that corporate bond market will show signs of maturity only when Small and

Medium Enterprises and lower rated corporate entities are able to access the market for their debt requirement [12]. Recommendations like tax incentives, alignment of taxation rules, procedural ease, rationalization of stamp duty, trading platform, guarantor for corporate bond repos and broad base issuers are considered as way ahead in developing the bond market. Encouraging corporate to use bonds as funding source rather than using traditional banking system, will vitalize the corporate bond market [8]. Introduction of new products and making promising products such as covered bonds, municipal bonds, credit default swaps, credit enhancements and securitization receipts may be considered more attractive for public issuance of bonds at reduced cost [13].

An urgent need for a liquid and efficient corporate bond market, as an alternate funding source to banking system and external borrowings for corporate, is well established. [6]. It was proposed to borrow lessons from the success stories of bond markets in Asian neighbours so that innovative solutions could be implemented at successive stages of development [10] and [1]. The work of literary scholars by far and large, depict the evaluation of the policy issues and recommendations to boost the Indian corporate bond market. Available studies are theoretical in nature. Using the secondary statistical data postmortem analysis is done with respect to the type of issuer, size of issue and number of issue. None of the empirical study so far tried to gauge the retail investor's perceptions on bond market has been found at India level or Gujarat level. Present research tries to fill this lacuna.

3. Research Objective:

1. To develop better understanding of Indian bond market.
2. To assess the retail investors awareness of Indian bond market.

4. Research Methodology:

This research is descriptive in nature and necessitates secondary data as well as primary data. Secondary data have been collected from websites of Securities Exchange Board of India and Reserve Bank of India. The primary data has been collected through questionnaires. The sample size comprises of 90 retail investors in and around Gandhinagar. The data so collected has been analyzed using various statistical techniques including the Mann Whitney U Test and SPSS 20 programme has also been used.

5. Results and Discussion:

The data so collected has been analyzed and placed in the tables at the end of the paper. The point wise results and discussion are presented in lines to follow.

5.1 Analysis of Bond Placements

If the bonds are sold to relatively small number of select investors as a means of raising capital, it is called private placements. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Private placement is the opposite of a public issue. In a public issue the securities are made available for sale on the open market. A cross comparison on time series, cross sectional data on number of issue and amount (TABLE 1) of issue in public and private placements category is done for 6 consecutive years from 2009 to 2014. It may be inferred that a Compounded Annual Growth Rate (CAGR) of 10.65% and 37.81% was observed in the case of private bonds and public bonds respectively. Considering the year on year figure, public placements have outperformed the private placements. With respect to value of issue (Rs. Cr) a CAGR of 15.01% and 32.94% respectively was noticed for private and public bonds respectively. It clearly points out that price of bond are high in private placement category, whereas it is low in public placement category.

5.2 Demographic Analysis

Demographic analysis consists of analysis of variables such as gender, age, occupation, annual income and annual savings. The details are discussed in TABLE 2. On applying cross-tabulation and layering it with preference for investment, it was noted from TABLE 3, that total 50 males and 32 females, across varied occupation, preferred to invest in government bonds. 38 males and 27 females under salaried category, invest in bonds to minimize the tax liability. Only 8 respondents of the total 90 respondents failed to invest in government bonds. It may be inferred that maximum active investors were males and maximum non-investors were females.

5.3 Investment Sources

A dichotomous question was asked to respondents to know if they made investment. It was learnt from TABLE 8, that 91% respondents invested the saved money and only 9% respondents did not favour any investment. Further, a multiple choice question was probed to know investment avenues liked by respondents. From TABLE 8, it was noticed that respondents preferred investment in Fixed Deposits-FDs (34%), Physical gold (22%), Shares (18%), Public Provident Fund –PPF (10%), Mutual Funds (7%), Commodity (5%) and Postal Savings Schemes (4%). More than 40% respondent invests in debt instruments, which are riskless. Fancy for holding physical gold is high amongst the investors. Riskier avenues such as shares, mutual funds and commodity are preferred by young investors, who have higher appetite for taking risk.

5.4 Opinion and Investment in Government Bonds

It was noted that 26% respondents invested in government bonds whereas 74% did not invest in the same. Based on the cross-tabulation statistics, it was understood that total 82 respondents out of 90 made investment. Out of 82 respondents only 22 respondents invested in government bonds, rest 60 respondents parked their hard-earned money in other than government bonds. Respondents were asked to rank their opinion for investment in government bond. The rank analysis indicated following result in TABLE 4. It may be inferred that investments in bond are most preferred for its secured nature and least preferred for increase in income. Wealth multiplier effect is not seen at huge and speedy rate in bond investments as the return in bonds is fixed due to less risk bearing element. The return is meager to fight the inflation. So the high risk takers are not satisfied with return on investment in government bonds.

5.5 Investment and Opinion in Non-Government Bonds

37% respondents invested in other than government bonds, whereas 63% respondents do not invest in other than government bonds. Based on the cross-tabulation statistics, it was comprehended that total 82 respondents out of 90 made investment. Out of 82 respondents only 32 respondents invested in other than corporate bonds, rest 50 respondents made investment, but it was not in corporate bonds. Correlating the statistics further with the investors in government bonds, it was brought to the light that total investors in bond market were 32 of which only 22 were investing in government bond market and rest 10 were investing in non-government bond. In the qualitative discussion it was learnt that respondents were quite aware about the government bonds than compared to non-government bonds. Respondents had more faith in government bonds, when compared to non-government bonds. A 5-point likert scale starting from strongly agree (5) to strongly disagree (1), was probed to know the reasons for not investing in corporate bond market, which is discussed in TABLE 5. It may be inferred that mean score above 3 indicates agree response for the listed statements. Large consensus was noted in the response of the respondents as the SD was less than 1. Responses were quite ambiguous with respect to the parameter of bonds offering additional benefits of rights and bonus and void of tax benefits.

5.6 Blended Portfolio and Bond Market Education

Various financial theories time and again have proved that a mixed portfolio comprising of equity and debt offers good return, as the risk is averaged out with a combination of a riskless debt instruments and risky equity instruments. Debt instruments are like hedging instruments, which assist in lowering the portfolio risk. Downfall in the equity return is made good by healthier bond return and vice-versa, depending on the overall scenario of secondary market. A 5 point likert scale starting from know very well (5) to never heard of (1) was asked to the respondent to test their awareness on a blended portfolio offering good return. From TABLE 8, the mean score of 2.91 and SD of 1.09 it was shocking to note that very few respondents knew a little bit on the benefit of blended portfolio. TABLE 8 depicted that 71% respondents wanted to get educated on the bond market aspect, whereas 29% respondents were not affirmative to learn anything in bond market. In the qualitative discussion it was known that respondents bore a crude opinion for bond market as they were ignorant on the basics of bonds.

5.7 Knowledge Source and Investment Channel

Multiple choice questions were asked to know the sources preferred by respondents to gauge the knowledge on bond market. Education through websites (34%), broker (25%), newspaper (16%), TV Talk (10%), seminar (7%), prospectus of company (5%) and live classroom chat (3%) were preferred by the respondents as shown in TABLE 8. Tech-savvy respondents preferred online web-based self-education whereas other respondents preferred offline or audio-video medium of assisted education. Based on the response to multiple choice question on the preference for channels of investment in bond market it was learnt from TABLE 8, that respondents preferred brokers (40%), online medium (23%), mutual funds (22%), post-office (8%) and banks (7%). In the qualitative discussion it was learnt that brokers often provided tips for investments, so traders and investors heavily relied on them.

5.8 Bond's Characteristic Evaluation

A dichotomous question based on most preferred and least preferred option was asked to the respondents on various features of bond they would look into before making investment in bond instruments. The response is depicted in the TABLE 6. It may be interpreted that based on maturity investors preferred short-tenure or short lock-in-period bonds. Respondents wished to subscribe to the bond which offered fixed rate of interest. Under option category put option variant was highly preferred. With respect to redemption majority of the respondents preferred single redemption feature of the bond. If such type of features is incorporated in corporate bond then large number of prospective investors would turn out to be subscribers.

5.9 Amount and Mode of Investment

Prospective investors were asked an open ended question on their willingness to invest minimum amount. From TABLE 8, it was noticed the X, M, Z, SD and lowest minimum and highest minimum amount of investment were Rs.20,456, Rs.10,000, Rs.1,000, Rs.28,905, Rs.1,000 and Rs.1,50,000 respectively. On probing a dichotomous question on mode of investment, it was revealed that 59% respondents preferred Systematic Investment Planning (SIP) and 41% preferred One Time Investment (OTI) as per the data of TABLE 8. Thus, it signifies that with a modal investment amount of Rs.1,000 per month maximum prospective investors were willing to invest Rs.12,000 per annum, through SIP system. SIP is considered best the wisest way of investment to accumulate wealth and average out the downfall in prices of the financial instruments.

5.10 Expected Investment Benefits

A nominal scale based question on expected benefit of investment was probed to the respondents. It was opined that 64% preferred tax benefit on investment, 22% expected higher trading liquidity and 14% expected tax free receipt of interest as highlighted in TABLE 8. Thus, to provide momentum to the bond market tax incentives should be linked to the investment.

5.11 Non-Government Bond Preference

Prospective investors were asked to rank amongst various types of bonds such as corporate bond, local bodies bonds, public sector units bonds and gold bonds. The ranks were based on 1- highest preferred option and 4-lowest preferred option. Rank analysis was performed on the responses and it was noted that prospective investors firstly preferred corporate bond (∑FiWi=196), local bodies bond (∑FiWi=225), PSU bonds (∑FiWi=233) and Gold bonds (∑FiWi=246). Mann-Whitney U Test was applied to the data collected to infer preferences of male and female retail investors. The results are depicted in TABLE 7. It indicates that in all 15 statements, the sign. p-value is more than 0.05, therefore male and female significantly do not differ in their opinion for not investing in other than government bonds and also with respect to the awareness that a mixed portfolio offers good returns. The perception of males and females towards investment in corporate bonds is identical and It either both are equally aware or equally not aware on the premise of financial theory of mixed portfolio offering good returns.

6. Findings and Conclusions:

Lot of policy initiatives and suggestions expressed in literary work needs to be implemented for building robust corporate bond market. Based on the secondary data on bond placements, from 2009-14, it is concluded that the volume of public placement is high and the value of private placement is high. It was noticed that out of 90 respondents, 32 (39%) respondents were investors who invested in bond market. Out of the 32 bond investors, 22 (69%) invested in government bond whereas 10 (31%) invested in corporate bond. 25% respondents invested in bond market. Non-investors in bonds have shown their preference to invest in corporate bonds, which depicts a good scope of growth of corporate bond market. SIP form of investment is the most preferred option for prospective investors. Tax saver corporate bonds, high trading liquidity and tax free interest receipt would be an added advantage for investors, if such kind of financial instruments are designed. Respondents are affirmative in receiving education on bond market preferably through websites, brokers and newspapers. Short-term, fixed coupon rate and single redemption types of bonds are highly preferred by the prospective investors.

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TABLE 1
Comparison between Public and Private Placement of Bonds

Year	Private		Public	
	Numbers	Value (Rs. Cr.)	Numbers	Value (Rs. Cr.)
2009	170	25315	500	1500
2010	151	26064	3400	1261
2011	232	31896	9771	14517
2012	325	57745	9700	12108
2013	259	41812	4850	10303
2014	312	58578	3425	8281

TABLE 2
Demographic Statistics

Parameter	Type of Question	Observed Statistics	Analysis
Gender	Dichotomous	58%= Male and 42%= Female	Male respondent actively participated in the survey. Redundancy to participate was high amongst female respondents, may be due to either their non-investment attitude or the authority of investment decisions shifted by them to their counterparts.
Age	Open-Ended	X= 27, M= 26, Z =25, SD = 6.08, Mini.= 21 and Maxi. = 55 (all in years)	Theoretically bonds are believed to be risk free or low risk investment option. To testify the axiom respondents across junior and senior age group were covered in the research.
Occupation	Nominal Single Choice	81% = Salaried, 12% Business and 7%= Professional	Gandhinagar is a service class city, so maximum respondents were salaried. In terms of investment commitment, it may be inferred that tax-saver bonds are incentive for salaried people than other categories.
Annual Income	Open Ended	X= 3,61,938, M= 3,60,000, Z =4,00,000, SD = 1,77,887 Mini.= 60,000 and Maxi. = 10,00,000 (all in Rs.)	The exemption limit of Rs.2,50,000 from the Income Tax perspective, appears to be crossed by maximum respondents. Thus, as a part of tax-planning respondents might choose to invest in either debt or equity to reduce the tax liability. Higher range of income depends on the cadre of job the incumbent is involved into.
Annual Savings	Open Ended	X= 72,864, M= 50,000, Z =50,000, SD = 48,842 Mini.= 15,000 and Maxi. =2,00,000 (all in Rs.).	Savings are done with the motive to secure the future. Maximum respondents annually save Rs.50,000, for rainy days. Respondents with higher income tend to save more and vice-versa.

TABLE 3
Cross-Tabulation of Investment, Gender and Occupation

Investment	Gender	Occupation			Total
		Service	Business	Professional	
Yes	Male	38	9	3	50
	Female	27	2	3	32
	Total	65	11	6	82
No	Male	2	0	0	2
	Female	6	0	0	6
	Total	8	0	0	8
Grand Total		73	11	6	90

TABLE 4
Rank Analysis

Particular	Fiwi	Rank
It is secured	222	1
Offers fixed return	256	2
Source of regular income	318	3
Its risk free	326	4
Diversification of risk	367	5
Increases income	398	6

TABLE 5
Non-Preference for Corporate Bonds

Particular	Mean	Std. Deviation
Less Liquidity	4.19	0.83
Non-payment of Principal	3.71	0.81
Non-payment of Interest	3.58	0.87
Not a hedging instrument against inflation	3.44	0.85
Fails to offer additional benefits of rights and bonus	3.64	1.04
Does not carry voting power	3.71	0.99
Longer lock-in period	4.17	0.88
No preference for diversified portfolio	3.48	0.80
Riskier than government bonds	3.38	0.93
Its void of tax benefits	3.91	4.38
Fails to generate healthy return	3.47	0.78
Fails in offering quick wealth multiplication	3.6	0.75
Complex rating interpretation	3.34	0.97
Lacks pledging feature	3.48	0.96

TABLE 6
Features of Bonds

Features	Most Preferred (%)	Least Preferred (%)
Maturity		
Short Term	68	32
Long Term	37	63
Medium Term	40	60
Perpetual	22	78
Coupon Rate		
Zero	49	51
Fixed	56	44
Floating	27	73
Option		
Put	69	31
Call	31	69
Redemption		
Single	70	30
Multiple	30	70

TABLE 7
Statistics for Mann-Whitney U Test

Particular	Mann-Whitney U	Z	Asymp. Sig. (2-tailed)
Less Liquidity	930.00	-0.54	0.59
Non-payment of Principal	959.00	-0.26	0.80
Non-payment of Interest	942.00	-0.40	0.69
Not a hedging instrument against inflation	949.50	-0.34	0.73
Fails to offer additional	947.00	-0.35	0.73

benefits of rights and bonus			
Does not carry voting power	926.00	-0.53	0.59
Longer lock-in period	974.00	-0.12	0.90
No preference for diversified portfolio	865.50	-1.10	0.27
Riskier than government bonds	897.50	-0.78	0.44
Its void of tax benefits	974.00	-0.12	0.91
Fails to generate healthy return	944.00	-0.40	0.69
Fails in offering quick wealth multiplication	820.00	-1.49	0.14
Complex rating interpretation	781.00	-1.78	0.07
Lacks pledging feature	868.00	-1.04	0.30
Awareness on mixed portfolio offering good returns	794.50	-1.64	0.10

TABLE 8
Overview of Investments Criterion

Parameters	Observed Statistics
Investment Habit	91% Investor, 9% Non-Investor
Investment Avenues	FD (34%), Physical gold (22%), Shares (18%), Public Provident Fund – PPF (10%), Mutual Funds (7%), Commodity (5%) and Postal Savings Schemes (4%)
Awareness on a Blended Portfolio	X =2.91 and SD = 1.09
Education on Bond Market	71% Preferred and 29% Non Preferred
Channels of Imparting Knowledge	Websites (34%), Broker (25%), Newspaper (16%), TV Talk (10%), Seminar (7%), Prospectus of Company (5%) and Live Classroom Chat (3%)
Investment Channel	Brokers (40%), Online Medium (23%), Mutual Funds (22%), Post-Office (8%) and Banks (7%)
Amount of Investment	X = Rs.20,456; M = Rs.10,000; Z= Rs.1,000; SD =Rs.28,905, Minimum = Rs.1,000 and Maximum= Rs.1,50,000
Mode of Investment	Systematic Investment Planning (59%) and One Time Investment (41%)
Expected Investment Benefit	Tax Benefit (64%), High Trading Liquidity (22%) and Tax Free Receipt of Interest (14%)