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DIRECT INVESTING IN G-SECS TO BE EASIER NOW. SHOULD YOU OPT IN?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

The Reserve Bank of India (RBI), last week announced that it will soon be launching a platform, called “Retail Direct", which will allow retail investors access to government securities (G-secs) both in the primary as well as the secondary markets. G-secs are debt securities issued by RBI on behalf of the central government and can have a tenure ranging from a few days to 40 years. The final RBI guidelines about the platform are not out yet.

This is not the first time that RBI has taken steps to encourage retail investor participation in G-secs but the response has been tepid.

Let’s understand what are G-secs, whether you should invest in them directly or not and the alternatives available.

What do G-secs offer?

Safety: These are guaranteed by the central government so they are very safe. There is no credit risk involved at all.

However, there is interest rate risk—the risk of change in price due to interest rate movement—if you trade in G-secs. The price of G-secs is inversely correlated to interest rates, so it goes up when rates are down and vice-versa. This risk can be mitigated if you hold G-secs till maturity.

Taxability: The interest amount paid on G-secs is fully taxable. Selling them after one year will trigger long-term capital gains at the rate of 10%. Marginal tax slab rates will apply if you sell before holding them for a year.

Transaction: The government had earlier allowed retail participation in G-sec auctioning. Investors could buy G-secs and treasury bills (T-bills) via National Stock Exchange’s “NSE goBID" and “BSE Direct" platforms. On BSE and NSE, investors don’t need to open any special accounts to participate in auctions. They can do so through their existing broking accounts.

Retail investors can also technically invest in G-secs through RBI trading platform. However, awareness is low and liquidity is poor because the market trades in wholesale lots of, say, 5 crore and not in retail lots. “Even on the BSE and NSE primary application platforms (such as NSE GoBid), there is lack liquidity because you can only purchase in retail lots, not sell. Net-net, very few options for retail investors. Therefore, G-secs investing has really not become popular with retail investors," said Joydeep Sen, a corporate trainer (debt markets).

“If RBI is able to address the issue of liquidity and ease of investing through the new platform, we can have a vibrant market for all stakeholders," said Vikram Dalal, managing director of Synergee Capital Services.

Should you invest?

G-secs are a good alternative for a retired person or an individual who is looking to park money in a safe instrument for the long term to receive periodic interest. “G-secs are a good for someone who is looking for diversification and safety," said Suresh Sadagopan, founder of

Ladder7 Financial Advisories, a Sebi-registered investment adviser. However, due to lack of liquidity in the retail segment, it is advisable to invest in G-secs only if you are planning to hold it till maturity.

Also, as the risk is nil, the returns are also lower than that of other instruments. The 10-year G-secs, which are considered a benchmark, are currently giving a yield of 6.1%.

The alternatives

If you are willing to take slight risk. you can look at some other alternatives.

Small savings schemes: Government schemes such as Senior Citizen Savings Scheme (SCSS), National Savings Certificate and Public Provident Fund (PPF) are currently offering interest rate in the range of 6.8% to 7.4% for the quarter ending March 2021.

The interest rate is subject to revision every quarter based of the G-sec yield of similar maturities. However, the interest rates are always higher than that of G-secs of similar maturities as the government pays a mark-up.

Investment in these gets a tax deduction.

AAA-rated CPSE bonds: There are bonds from central public sector enterprises (CPSE) which offer a higher yield compared to G-secs. “Spreads on CPSE bonds are around 80-90 basis points (one bps is one hundredth of a percentage point) above G-secs papers. The recent PFC issue is currently giving a yield of 7% for the 10-year paper. Indian Railway Finance Corp. is trading at a similar level," said Dalal.

G-sec bond funds: If liquidity is what concerns investors, they can look at mutual funds investing in G-secs. These funds have delivered a return of 7.91% over the past one year, as per data on ValueResearchonline.com.

G-sec funds have done well in the recent past due to aggressive rate cuts by RBI. However, the returns depend on how well the fund manages the interest rate risk. Also, there are fund management charges to bear.

“Gilt funds are also tax efficient compared to direct investing in G-secs as the interest earned on G-secs is fully taxable as per the slab, while in case of gilt funds, gains post three years are taxed at the rate of 20% after indexation. Indexation helps in bringing down the tax liability," said Anil Rego, CEO and founder, Right Horizons, and a Sebi-registered investment adviser.

RBI floating rate bonds: These bonds are offering a rate of 7.15% and have a lock-in of seven years. There is no upper cap on investment and the interest is paid semi-annually. But the interest rate is not fixed unlike G-secs. Also, just like G-secs the interest is fully taxable. “As they are floating rate, they will benefit from the rate going up but liquidity is also an issue here," said Rego.

G-secs are a good option to diversify your debt portfolio only if you are looking to lock your money in for the long term. However, timing is key. “Right now, the interest rates are low, and there is no point locking your entire money for the long term," said Rego. So keep the alternatives in mind if you are looking to invest for the long term.

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