

## Press Release

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### **ETFs can give a fillip to the corporate bond market**

*Easy access, liquidity can increase retail participation, market depth*

CRISIL has assigned its '**CRISIL AAAmfs**' rating to BHARAT Bond ETFs - April 2023 and April 2030, the first instruments of their kind to be launched in India.

Equity ETFs are already popular with assets under management of over Rs 1.4 lakh crore as per data from the Association of Mutual Funds of India.

Globally, there are more than 1,300 bond ETFs managing more than \$1 trillion. These span a wide range of investments, including government bonds, municipal bonds, investment grade and high-yield corporate bonds, according to Blackrock, Inc.

The introduction of bond ETFs in India is a step in the right direction because it can channel some of the over Rs 40 lakh crore retail term deposits held by households in banks to the corporate bond market.

Bond ETFs enable retail investors to access corporate bonds with the ease of investing in a stock. Bond ETFs are traded on the stock exchange based on live buy-sell quotes.

ETFs with a fixed maturity that invest in high-quality corporate bonds can provide certainty of returns just the way a bank fixed deposit (FD) or a fixed maturity plan (FMP) does.

But bond ETFs can provide better returns than FDs. The risks are also better diversified as a bond ETF invests in a basket of corporate bonds of different issuers compared with the FD of a single bank. ETFs also score over FMPs on liquidity.

Investors can easily enter and exit a bond ETF because they are traded on the bourses, which ensures better liquidity than an FMP, which is a closed-end instrument.

**Says Gurpreet Chhatwal, President, CRISIL Ratings, "Bond ETFs have the potential to emerge as an alternate investment avenue for retail investors, considering their ease of use, low cost and liquidity. They can also help showcase the attractiveness of fixed-income investing, and can be used as a stepping stone to more actively managed debt funds."**

The success of Bharat Bond ETFs can improve demand for corporate bonds in India. That, in turn, would deepen the corporate bond market with more issuers accessing it to raise funds.

Over the medium-to-long term, thematic bond ETFs can also be explored, which can invest in even 'AA' or 'A' rated corporate bonds.

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