Excel's New Offering Opens Path To Indian Corporate Bond Market

By BINOY THOMAS

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Excel Funds Management Inc. recently launched the Excel India Growth & Income Fund with a focus on Indian corporate bond market. Closing of the offering is expected to occur on or about May 26, 2015. The Fund's investment objectives are to provide holders of Units with: (i) the opportunity for capital appreciation; and (ii) monthly cash distributions. The initial distribution target for the Fund is expected to be 4% annually on the subscription price of $12.00 per Unit). Excel Investment Counsel Inc. will act as the portfolio manager of the Fund. Aditya Birla Sun Life Asset Management Company Pte Ltd., an affiliate of Birla Sun Life Asset Management Company Limited (collectively, the "Birla Sun Life Group"), will act as sub-adviser in connection with the selection, purchase and sale of portfolio securities and other assets of the portfolio. The Birla Sun Life Group is one of India's leading independent asset managers and, as at February 28, 2015, had over US$19 billion of assets under management.

The syndicate of agents for the offering is being co-led by BMO Capital Markets, CIBC and RBC Capital Markets and includes Scotiabank, National Bank Financial Inc., Raymond James Ltd., TD Securities Inc., Canaccord Genuity Corp., GMP Securities L.P., Desjardins Securities Inc., Dundee Securities Ltd., Industrial Alliance Securities Inc., Mackie Research Capital Corp., Manulife Securities Inc., PI Financial Corp. and Sherbrooke Street Capital (SSC) Inc.

In early May, Ashish Khela, Fixed Income Manager, Birla Sun Life, India, stopped by Toronto, during his road show, promoting the new fixed income fund from Excel. Khela, at 31, is among the bright young breed of India"s professionals, with oodles of international experience, but coming home to roost as that's where the money is! We spoke with him briefly about the market conditions in India and the potential for investors in India's corporate bond market.

The Interview

Indian equity market has seen a lot of volatility recently. Should that trouble the investors?

Personally, I come from the fixed income side of our company, I manage bonds. But I am confident about the equity markets. I think you're going to see a strong bull run and I think it's going to be structural in nature because of the policies by the Central Bank as well as the Central Government that are being put into place right now. At least for three to four years, you will see the equity values rising. It will be driven by a lot of policy changes and a better business environment in the country. The fact that India is one of the better performing markets in the world, to some extent, has contributed to the recent volatility. A lot of foreign money is deployed in the equity markets, which is money that can come and go easily. But in terms of price discovery and the analytical data coming in each quarter, we are one of the best placed countries today. We have a very large community of analysts, and some of our stocks are analyzed better that Apple stocks!

Bond markets generally are susceptible to several factors like governance, political climate, etc. Are all the factors favourable currently?

Yes, bond market is sensitive and very strategic. It sees through the short term factors and think globally and in the very long term. Today, with our strong focus on inflation control, bond markets offer a very good value proposition. There are many factors that are favourable. As you see inflation coming down in India; the general slow down in global growth; fall in commodity prices; RBI's steps to control inflation; these will all be a strong driver for capital gains in the debt portfolios of our investors.

Your fund has a large exposure to companies that are active in infrastructure with a deep involvement by the Indian government. Is that a risk or advantage?

Honestly, if you look at the extremely long term, obviously, the management of a particular country is heavily influenced by government policies. What we have here is different. We are not really invested in the growth story of the country or a specific corporation. What we have invested in is the credit portfolio. If you have a fixed income instrument backed by the Central government, that enhances the credit profile of that corporation to a great extent.

In short, my question is, is our money safe in Indian corporate bonds?

Extremely safe. All the duration risks of the longer maturity bonds are rated AAA and most of them are quasi-sovereign in nature. That actually is a big comfort for a lot of bond investors.

Will India's projected annual GDP growth rate of 8% plus be a problem in managing inflation in the future?

What you have to do is to look at the output gap. Is the country growing too fast compared to where it should be. Right now, we see a lot of underutilization of capacity and many bottlenecks and room for improvement. When our all companies start delivering at their full potential, only then, will we see a jump in inflation. I am confident with the weakness in global growth and the local policy initiatives, our inflation will stay lower.