Perpetual Bonds

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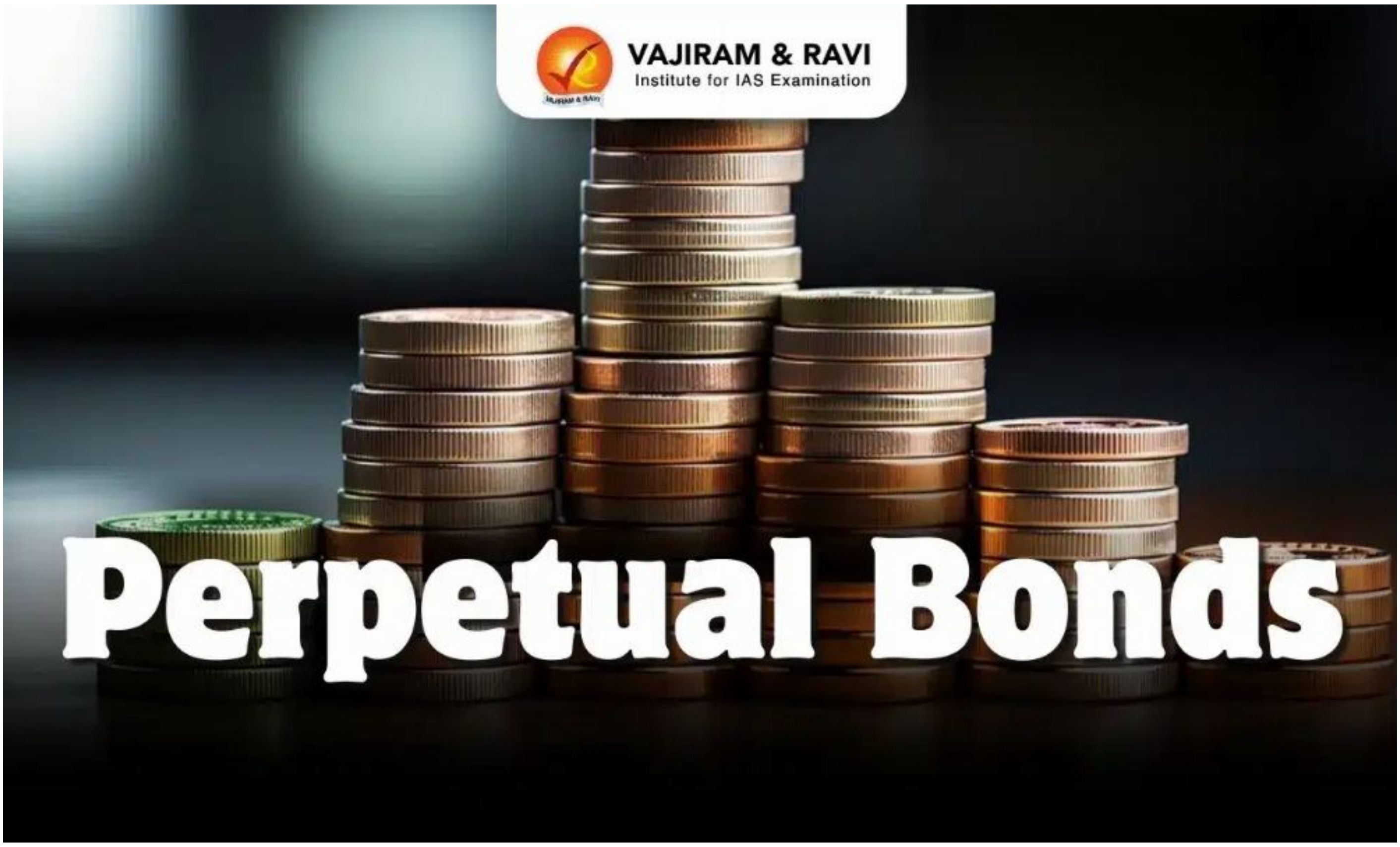

Perpetual Bonds Latest News

Indian Renewable Energy Development Agency Ltd (IREDA) recently said it has raised ₹453 crore at 7.70% per annum through its second issue of Perpetual Bonds, a step that strengthens its capital base for financing green energy projects.

About Perpetual Bonds

- It is a **fixed-income security** that has **no maturity date** and **theoretically pays interest forever.**
- The perpetual bond means the **issuer** is **under no obligation to redeem the principal amount at any point.**
- Also **known as "perps" or "consol bonds,"** these instruments represent a **permanent source of capital for the issuer.**
- It represents **one of the purest forms of debt** that **closely resembles equity** in certain aspects.
- With these bonds, **investors do not receive the principal** amount back **unless the issuer opts to call the bond.**

    - This action **involves returning the principal and discontinuing interest payments** to bondholders.
    - This call feature **provides issuer**s with the **flexibility to refinance if market conditions become favourable.**
    - **Most modern perpetual bonds include call provisions** that allow issuers to redeem them after a specified period, typically **5 to 10 years from issuance.**
- **To compensate for the indefinite tenure and higher risk,** perpetual bonds **generally offer higher interest rates.**
- **If the issuer goes bankrupt, perpetual bondholders** get **paid after other creditors** but **before shareholders,** placing them in a **middle priority tier.**
- Perpetual bonds are **highly sensitive to changes in interest rates**, which can cause significant fluctuations in their market price.
- **In India, banks** are the **primary entities that issue perpetual bonds** to meet their capital requirements.
- Even though perpetual bonds do not provide principal repayment to investors, they can be an attractive investment option for individuals aiming to generate a stable income for a long period of time.
- **From an accounting perspective, perpetual bonds** often **receive equity-like treatment on balance sheets,** making them **attractive for organisations** looking **to strengthen their capital structure without diluting existing shareholders' ownership.**

Source: TH
