

# G-Sec STRIPS in India: Unlocking the Power of Zero Coupon Bonds

Discover how Separate Trading of Registered Interest and Principal Securities is transforming India's government securities landscape and creating new opportunities for sophisticated investors.

# What Are G-Sec STRIPS?

**STRIPS** stands for **Separate Trading of Registered Interest and Principal Securities** – a financial innovation that transforms traditional government bonds into individually tradable zero coupon instruments.

First introduced by the Reserve Bank of India as a pilot programme in 1994, STRIPS became fully operational in 2010, marking a significant milestone in India's debt market evolution.

The mechanism is elegant: bonds are separated into individual coupon payments and principal components, with each piece traded independently as a zero coupon security.

## Market Deepening

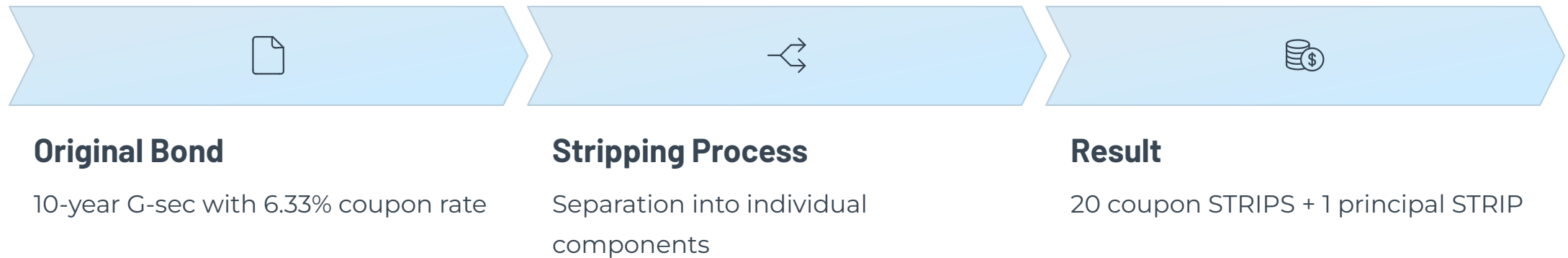
Enhances liquidity and trading opportunities in government securities

## Risk Elimination

Removes reinvestment risk completely from bond investments

# How STRIPS Work: Breaking Down a Bond

Traditional government bonds combine periodic coupon payments with principal repayment at maturity. STRIPS revolutionise this by separating each cash flow into independent zero coupon securities.



## Entire STRIP

$C_1 C_2 C_3 C_4 \dots C_n P$

Complete security with all cash flows bundled together

## Individual STRIPS

$C_1 | C_2 | C_3 | C_4 | \dots | C_n | P$

Each cash flow traded independently without altering total borrowing cost or timing

- ❏ **Universal Appeal:** G-Sec STRIPS are ideal for all investors – from low risk appetite investors like retail customers, pension and insurance companies, to high risk appetite investors including hedge funds seeking arbitrage opportunities.

# Why STRIPS Matter: Benefits for Investors

## Zero Reinvestment Risk

Unlike traditional bonds, STRIPS eliminate the uncertainty of reinvesting coupon payments. Investors receive a single payment at maturity, calculated with complete precision from the outset.

## Precise Cash Flow Matching

Perfect for pension funds and insurance companies that need to match future liabilities with certainty. Each STRIP can be tailored to meet specific payment obligations on exact dates.

## Enhanced Retail Returns

STRIPS offer attractive yields of 100–150 basis points above traditional fixed deposits, providing retail investors with a safer, government-backed alternative that delivers superior returns.

## Market Transparency

STRIPS enable creation of a sovereign zero coupon yield curve, providing unprecedented transparency in pricing and improving overall market efficiency for all participants.



# Market Mechanics & Trading

01

## Platform Access

RBI's e-Kuber system handles all STRIP transactions

03

## Price Discovery

Yields agreed to 4 decimal places

02

## Request Processing

Custodians facilitate stripping and reconstitution

04

## Settlement

Enhanced secondary market liquidity

## Pricing Convention for G-STRIPS

### Money Market Convention

For maturities less than 6 months

### Semi-Annual Convention

For maturities greater than 6 months

- Price is calculated by discounting the single cash flow at the agreed yield, expressed as Discounted Value per ₹100 Face Value.

Let's understand the pricing better with the help of an example

The face value of a G-Strip Bond is Rs 1000. The bond bears a coupon rate of 9% with coupon payments being made at the end of each year. The maturity of the bond is 4 years. If the bond is redeemable at a premium of 11%. What would be the present market price of the bond?

Years	Cash Flow	PV Factor @ 11%	PV of Cash Flow
1 to 4	90	3.102	279.22
4	1110	0.658	730.38
			Total Present Value : <b>1009.6</b>

# STRIPS vs Fixed Deposits: A Comparative Edge

1

## G-Sec STRIPS Yield

Government-backed returns in 2025

2

## Fixed Deposit Rates

Bank FD rates for comparison

3

## Minimum Investment

Accessible entry point for retail

4

## Basis Points Edge

Additional yield over FDs

### Superior Safety

Government STRIPS offer higher safety than even AAA-rated corporate bonds, backed by the full faith and credit of the Government of India.

### Better Returns

Consistently outperform traditional bank fixed deposits whilst maintaining sovereign credit quality and eliminating counterparty risk.



# Who Invests in STRIPS?



## Institutional Investors

Insurance companies and pension funds leverage STRIPS for precise liability matching, ensuring they can meet future obligations with certainty whilst maintaining regulatory capital requirements.



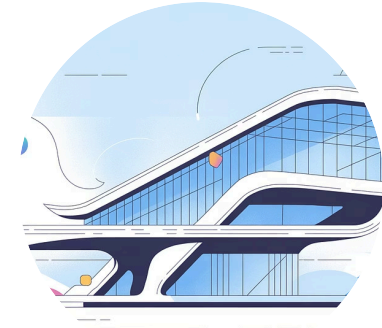
## Retail Investors

Individual investors seeking safe, predictable returns without the complexity of reinvestment decisions. STRIPS provide government-backed security with superior yields compared to traditional savings instruments.



## Hedge Funds & Traders

Sophisticated investors attracted by price volatility and arbitrage opportunities between STRIPS and reconstituted bonds, capitalising on market inefficiencies for enhanced returns.



## Banking Institutions

Banks deploy STRIPS strategically to manage asset-liability mismatches, utilising the diverse maturity spectrum to optimise balance sheet structure and regulatory compliance.

# Challenges & Considerations

1

## Liquidity Considerations

STRIPS trading volumes remain lower than plain vanilla government bonds. Liquidity varies significantly by maturity, with longer-dated STRIPS typically experiencing thinner trading activity.

2

## Account Requirements

Direct participation requires a Subsidiary General Ledger account with the Reserve Bank of India, creating an entry barrier for some investors who must operate through intermediaries.

3

## Awareness Gap

Market awareness among retail investors continues to grow gradually. Educational initiatives are essential to unlock the full potential of STRIPS for individual portfolios.

4

## Tax Treatment

Taxation follows zero coupon bond norms, with accrued income taxed annually even though cash is received only at maturity. Investors must factor this into their overall return calculations.



# The Future of G-Sec STRIPS in India

The trajectory for G-Sec STRIPS in India points towards substantial growth and enhanced market sophistication, driven by regulatory support and evolving investor needs.

## Expanded Eligibility

RBI's ongoing efforts to broaden the range of eligible securities for stripping will increase market depth and trading opportunities.

## Market Deepening

STRIPS are poised to significantly deepen India's sovereign bond market whilst improving yield curve accuracy and transparency.

1

2

3

4

## Retail Democratisation

Platforms like RBI Retail Direct are making STRIPS increasingly accessible to individual investors, breaking down traditional barriers to entry.

## Risk Management

Growing adoption as a sophisticated tool for asset-liability management and comprehensive risk mitigation strategies.

## Regulatory Momentum

The Reserve Bank of India continues to refine the regulatory framework, enhancing operational efficiency and expanding participation beyond traditional institutional investors.

## Technology Integration

Digital platforms and improved trading infrastructure are set to revolutionise accessibility, bringing STRIPS to a broader investor base across India.

# Conclusion: STRIPS – A Strategic Investment Avenue



## Safety & Yield Combined

STRIPS offer a unique blend of sovereign safety, attractive yields, and precise cash flow certainty unmatched by traditional fixed income instruments.



## Perfect Liability Matching

Ideal for long-term investors seeking to match future liabilities without reinvestment uncertainty, providing complete predictability in portfolio planning.



## Enhanced Accessibility

Growing market infrastructure and robust regulatory support are steadily enhancing accessibility for institutional and retail investors alike.

## Your Next Steps

Consider G-Sec STRIPS as a powerful addition to your fixed income portfolio for 2025 and beyond. Whether you're an institutional investor seeking liability matching or a retail investor pursuing superior risk-adjusted returns, STRIPS represent a compelling opportunity in India's evolving debt markets.

Consult with your financial adviser to explore how STRIPS can enhance your investment strategy and provide the certainty you need for long-term financial planning.

# 100%

**Sovereign Guarantee**

# 0%

**Reinvestment Risk**