

Various types of bonds

Investing in bonds can yield high returns, but the sheer variety available in the market can be confusing. Knowing the types of bonds will help you decide which one to pick.

Investment in bonds can be a wise decision, given the fact that you can earn high returns upon maturity. However, bonds can assume many additional features that may complicate the way prices and yields (the overall return on the investment) are calculated. Knowledge of the various types of bonds is necessary before finalizing your investment decision.

While classifying the different types of bonds, various factors like issuer, priority, redemption features and coupon rates are taken into consideration. Let us take a look at the various types of bonds:

Government bonds

These kinds of bonds are issued and backed by the Government of India. In other words, the Indian government offers investors bonds at a fixed rate. The government also employs an investment banker, whose main responsibility is to serve as a middleman. However, it is difficult for retail individuals to invest directly in these bonds as the minimum investment amount is very high.

Corporate bonds

These bonds are offered by corporate houses and are open to everyone. However, these bonds are not as safe as government bonds as the issuing companies are subject to market volatility, industry ups and downs, etc.

Zero coupon bonds

Usually, most types of bonds are offered at a fixed interest rate. However, zero coupon bonds do not come with any specific coupon rate or interest rate. They are offered at a discount on the face value, and on maturity, investors get the face value back. The difference between the two is the profit.

Junk bonds

These bonds are issued by companies that are financially not very stable. These bonds are considered below the investment grade. Since it is a risky trade for an investor to put money in such bonds, the issuing company usually offers a high rate of return.

Tax-saving bonds

By investing in this type of bond, you receive exemption from paying taxes on the interest income as long as you hold the bond or until its period of maturity.

While there are many other types of bonds available in the market, the ones mentioned above are some of the most common ones in India.