

### REC : ZERO COUPON BONDS

- Highlights & Comparative REC Zero Coupon Bonds
- Comparison between Zero Coupon Bonds & Deep Discount Bonds
- Detailed Term Sheet REC Zero Coupon Bonds

- REC Zero Coupon bonds; Highlights & Comparative :

	REC ZCB	NABARD ZCB	REC Taxable	IRFC Tax Free
Status	Primary	Primary	Secondary	Secondary
Credit Rating	AAA	AAA	AAA	AAA
Listing on Stock Exchange	To be Listed	To be Listed	Listed	Listed
Security	Unsecured	Unsecured	Secured	Unsecured
Issue Price (INR)	12967.00	9250.00	At Par	At Par
Face Value (INR)	30000.00	20000.00	At Par	At Par
Tenure	10 years	10 years	10 years	10 years
Discount Rate	8.75%	8.00%	8.98%	6.72% Semi
Pre Tax Simple Interest Yield	13.14%	11.62%	8.98%	9.96%
Post Tax Simple Interest Yield	11.78%/ 11.68%	10.42%/ 10.33%	6.00% / 6.20%	6.65%
Applicable Income Tax Rate	10.30% (LTCG Individuals) / 11.0725% (LTCG Corporates) * without Indexation	10.30% (LTCG Individuals) / 11.0725% (LTCG Corporates) * without Indexation	33.22% (IT Rate Corporate) / 30.90% (IT Rate Individuals)	Nil / Nil
Adjustment of ; Long Term Capital Loss/profit & Short Term Capital Loss against long term capital Gains/ Loss	Applicable	Applicable	N.A.	N.A.

- **Comparison between Zero Coupon Bonds (ZCB) & Deep Discount Bonds (DDB)**

Generally ZCB & DDB are understood to be synonyms or same instruments. However, Income Tax Act' 1956 recognizes both as different instrument and taxability is also different.

They are similar in nature as both instrument issued at discounted price but the difference between the two are ;

	<b>Zero Coupon Bonds</b>	<b>Deep Discount Bonds</b>
<b>Capital Gains Vs. Interest Income</b>	<p>In case of ZCB profit received by an investor on maturity/redemption of Zero Coupon Bond would be treated as a Long Term Capital Gain, if held for <u>more than 1 year</u></p> <p>and</p> <p>if sold in less than <u>one year</u>, then <u>Short Term Capital Gain</u> is applicable.</p>	<p>In case of DDB if bond is redeemed by the original subscriber, the difference between the redemption price and the value as on the last valuation date immediately preceding the maturity date will be taxed as interest income in the case of investors, or business income in the case of traders.</p> <p>Where the DDBs is transferred at any time before the maturity date, the difference between the sale price/ Market value of Bond as on last valuation date and the cost of the bond will be taxable as <u>Short Term Capital Gain</u> in the hands of an investor or as business income in the hands of a trader.</p>
<b>Income Tax Payable and Tax Deducted At Source (TDS)</b>	<p>In case of ZCBs, <b>no</b> Tax at Source would be deducted in terms of Section 194 A (3) of Income Tax Act.</p>	<p>In case of DDBs, The difference between the bid price of a deep discount bond and its redemption price, which is actually paid at the time of maturity, will continue to be subject to tax deduction at source under section 193 of the Income-tax Act. 1961.</p>

- Preliminary/ Proposed Term Sheet REC Zero Coupon Bonds

<b>Issuer</b>	<b>Rural Electrification Corporation Ltd.</b>	
<b>Issue Size</b>	INR 204 Crore with a green shoe option to retain oversubscription	
<b>Instrument</b>	Unsecured Non Convertible Redeemable Zero coupon Bond in the nature of Debentures notified under section 2 (48) of the Income Tax Act, 1961	
<b>Mode of Placement</b>	On Private Placement Basis to all Eligible Investors	
<b>Issuance &amp; Trading</b>	In Demat Mode	
<b>Credit Rating</b>	AAA/Stable' by CRISIL, 'LAAA' by ICRA, 'AAA(ind)' by FITCH and 'CARE AAA'by CARE	
<b>Issue Price</b>	INR 12967 per Bond	
<b>Discount</b>	INR 17033 per Bond	
<b>Face Value</b>	INR 30000 per Bond	
<b>Minimum Subscription</b>	INR 170 Bond	
<b>Tenure</b>	10 years from the deemed date of allotment	
<b>Put &amp; Call Option</b>	None	
<b>Redemption / Maturity</b>	At Par, at the end of 10 years from the deemed date of allotment	
<b>Implicit Yield to Maturity</b>	<b>8.75% (per annum)</b>	
<b>Listing</b>	Proposed on the Wholesale Debt Market (WDM) Segment of the National Stock Exchange of India Ltd. (NSE)	
<b>Taxability</b>	No tax at source would be deducted by REC in terms of Section 194 A(3) of the Income Tax Act.1961 on the income which is paid or payable. The said income will be treated as capital gains as per the current income tax law and capital tax gains, if any, will be payable by the investor directly to the income tax authorities. However, tax will be deducted at a source in the case of NRIs under section 195 of the income tax Act, 1961.	
<b>Issue Schedule</b>	<b>Opening Date</b>	<b>13-01-2011</b>
	<b>Closing Date</b>	<b>24-01-2011</b>
	<b>Deemed Date of Allotment</b>	<b>03-02-2011</b>



# SPA Merchant Bankers Ltd.

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**SPA MERCHANT BANKERS LTD. – THE FINANCIAL ADVISORS, ARRANGER TO THE REC Zero Coupon Bonds**

**“Investor should carefully read the instructions and details of the private placement issue as stated in the issue document as well as application form and take independent decision before making investment/s. SPA Merchant Bankers Ltd. or its associate companies or its Directors or Employees shall not be liable in any manner what-so-ever”.**