

Coupon Only Swap (COS)- FCY INR

This Product Disclosure Statement is in reference to RBI Circular dated 16.09.2021, Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021.

This document contains standard information about the product which may enable the user to determine if the product will meet its hedging needs and to facilitate comparison with other products.

Features

In Coupon Only Swap the user converts the coupon of a FCY Liability (interest risk and exchange rate risk of the coupon amount) to an INR liability. On every coupon settlement date, the user undertakes to pay INR coupon and receive FCY coupon which can be in turn used to repay the FCY liability obligation. The principal amount is left unhedged. The outstanding INR notional is calculated at a spot reference rate decided at the initiation of the swap.

Illustration:

For a payable underlying in USD where user converts floating rate liability into INR fixed rate liability

The underlying exposure for this transaction is long term USD liability. User has undertaken this transaction to convert the floating coupon of this USD liability to fixed INR liability. By entering into this transaction, user would look to protect itself with the risk of increase in USD floating rate and INR depreciation against USD on the interest portion of the USD liability.

Building Blocks:

The building blocks of this option are as below:

- a. FCYINR Spot rate
- b. Overnight FCY rate curve
- c. Overnight SOFR rate curve
- d. Modified MIFOR curve
- e. USDINR Fx swap
- f. FCYUSD cross currency basis curve
- g. Tenor of the swap

Costs and fees, including break-up and details

The derivative cost consists of market cost which is determined through a financial model taking above building blocks as input parameters and the price is dependent on Bid/Offer spread of the FCYINR spot rate, overnight FCY rate curve, overnight SOFR rate curve, Modified MIFOR curve, USDINR Fx swap, FCYUSD cross currency basis curve rate along with administrative costs; Capital charge and transaction handling charges.

An illustration of how the product works

User receives under the swap agreement: SOFR + 250 bps on USD notional

User pays under the swap agreement: 5.00 % p.a. on INR notional

Payment frequency: Quarterly

Tenure of swap: 2.5 yrs

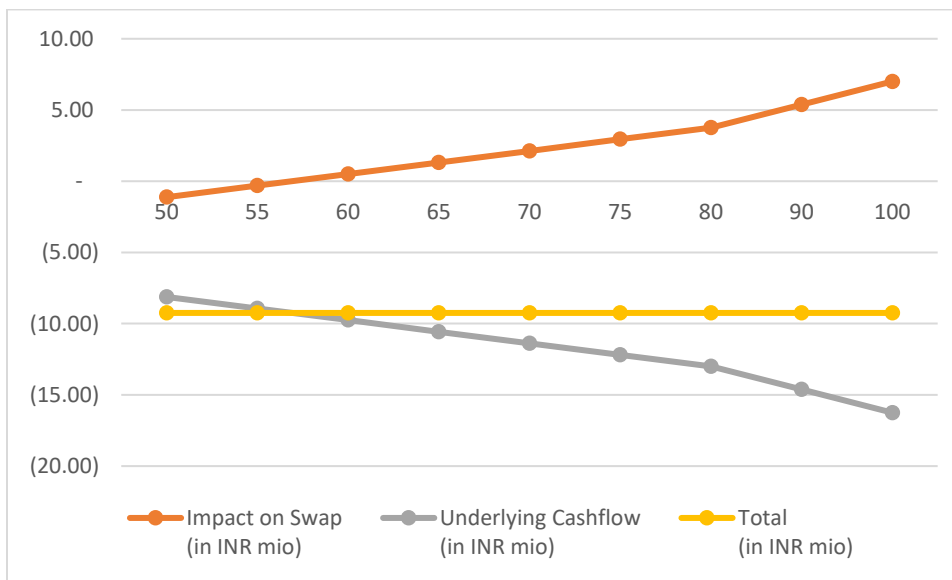
Amortization: As per schedule given below

Start Date	End Date	Applicable USD Notional	USD Amortization on End date	Applicable INR Notional	INR Amortization on End date	INR coupon
28-Dec-21	28-Mar-22	10,000,000.00	1,000,000.00	750,000,000.00	75,000,000.00	9,246,575.34
28-Mar-22	28-Jun-22	9,000,000.00	1,000,000.00	675,000,000.00	75,000,000.00	8,506,849.32
28-Jun-22	28-Sep-22	8,000,000.00	1,000,000.00	600,000,000.00	75,000,000.00	7,561,643.84
28-Sep-22	28-Dec-22	7,000,000.00	1,000,000.00	525,000,000.00	75,000,000.00	6,544,520.55
28-Dec-22	28-Mar-23	6,000,000.00	1,000,000.00	450,000,000.00	75,000,000.00	5,547,945.21
28-Mar-23	28-Jun-23	5,000,000.00	1,000,000.00	375,000,000.00	75,000,000.00	4,726,027.40
28-Jun-23	28-Sep-23	4,000,000.00	1,000,000.00	300,000,000.00	75,000,000.00	3,780,821.92
28-Sep-23	28-Dec-23	3,000,000.00	1,000,000.00	225,000,000.00	75,000,000.00	2,804,794.52
28-Dec-23	28-Mar-24	2,000,000.00	1,000,000.00	150,000,000.00	75,000,000.00	1,869,863.01
28-Mar-24	28-Jun-24	1,000,000.00	1,000,000.00	75,000,000.00	75,000,000.00	945,205.48

By entering into this product, the user pays a fixed rate of 5% p.a. and mitigates currency risk and the interest rate risk arising out of floating rate benchmark only on coupon amount. On each swap settlement date, both users exchange the cash flows as per the swap agreement.

Pay-off profile:

Pay-off profile keeping on first coupon date keeping SOFR fixed at 4%



Impact Analysis

Impact analysis keeping on first coupon date keeping SOFR fixed at 4%

[USD/INR] Level	Impact on Swap (in INR mio)	Underlying Cashflow (in INR mio)	Total (in INR mio)
50	(1.12)	(8.13)	(9.25)
55	(0.31)	(8.94)	(9.25)
60	0.50	(9.75)	(9.25)
65	1.32	(10.56)	(9.25)
70	2.13	(11.38)	(9.25)
75	2.94	(12.19)	(9.25)
80	3.75	(13.00)	(9.25)
90	5.38	(14.63)	(9.25)
100	7.00	(16.25)	(9.25)

Note: In the above tables, negative sign indicates cash outflow. Here, we can see that irrespective of SOFR rate or USD/INR exchange rate for first coupon settlement of the swap, payable by user is constant

Benefits

Under this transaction user has converted the USD floating rate liability into a fixed rate liability along with the exchange risk on the coupon amount and crystallizes its outflow with respect to coupon. User is protected against increase in floating interest rate and INR depreciation against USD

Risks

- (1) Interest rate not moving as anticipated by the user
- (2) Liquidity risk
- (3) Bid-offer spreads in case of unwind
- (4) The currency in which the debt is denominated depreciates

The terms and conditions applicable for booking/termination will be guided by deal term sheet/sanction letter/ISDA document