

Principal Only Swap (POS) - INR to FCY

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 risk management objective and to facilitate comparison with other products.

Features

A Principal Only Swap (POS) is a type of currency swap under which two parties exchange only principal cash flows in two different currencies at maturity at a spot reference rate decided at the initiation of the swap. INR to FCY POS is a risk transformation structure to convert the principal portion of an INR Liability to FCY Liability. Here, the user benefits from the interest rate differential between the two currencies on the principal amount. User receives the interest rate differential at pre-defined intervals over the tenor of the swap and not at the maturity of the transaction unlike forward premium. In this swap transaction, the user receives the benefit but does not pay any cash flows in the interim and the final exchange of cash flow happens as per the principal amortization schedule.

Illustration:

For a liability in domestic currency INR, user enters into INR to USD POS to receive a fixed percentage on the outstanding notional in INR and pays nil on the USD outstanding notional

The underlying exposure for this product is INR liability. The user chooses to transform the liability in INR into USD liability by entering into INR to USD POS. Under this product, user receives the interest rate differential between USD and INR for shifting from a high interest rate liability (INR) to a low interest rate liability (USD).

Building Blocks:

The building blocks of this swap are as below:

- a. FCYINR Spot rate
- b. Overnight (FCY Rate) Curve
- c. Overnight SOFR 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: 5.00% p.a. on INR notional

User pays under the swap agreement: 0.00 % p.a. on USD notional

Coupon settlement frequency: Quarterly

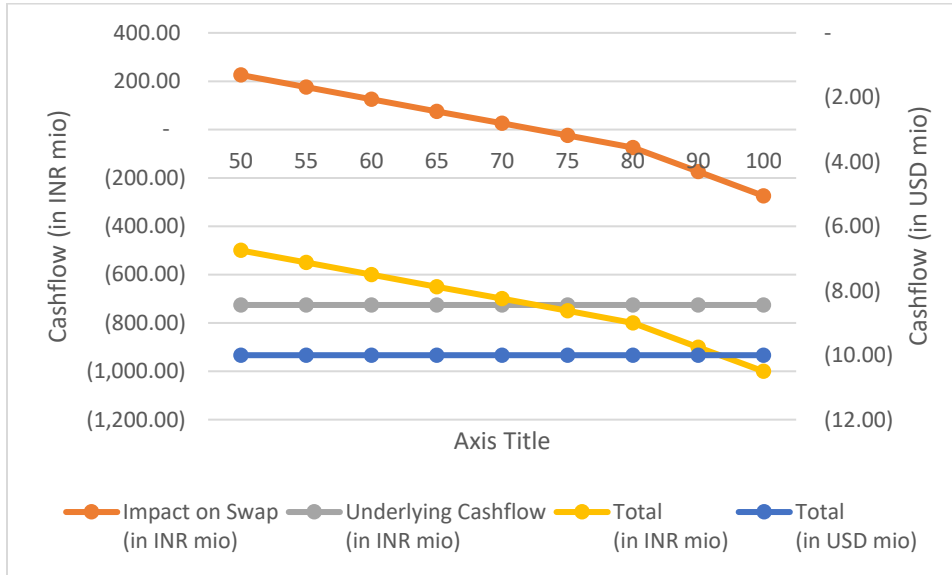
Tenure of swap: 2.5 yrs

Amortization: As per schedule given below

Start Date	End Date	Applicable USD Notional	USD Amortization on End date	USD coupon	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

This derivative transaction allows user to convert an INR Liability to a USD liability. Under this transaction, user undertakes to pay nil USD coupon and receive INR coupon on the respective exchange dates. In addition to this coupon exchange, users on both sides exchange principal cash flows on respective amortization/maturity dates.

Pay-off profile:



Impact Analysis

[USD/INR] Level	Impact on Swap (in INR mio)	Underlying Cashflow (in INR mio)	Total (in INR mio)	Total (in USD mio)
50	225.64	(725.64)	(500.00)	(10.00)
55	175.64	(725.64)	(550.00)	(10.00)
60	125.64	(725.64)	(600.00)	(10.00)
65	75.64	(725.64)	(650.00)	(10.00)
70	25.64	(725.64)	(700.00)	(10.00)
75	(24.36)	(725.64)	(750.00)	(10.00)
80	(74.36)	(725.64)	(800.00)	(10.00)
90	(174.36)	(725.64)	(900.00)	(10.00)
100	(274.36)	(725.64)	(1,000.00)	(10.00)

Benefits

This is the risk transformation structure that allows the user to convert INR liability to foreign currency liability which can reduce the cost of liability, considering FCY interest rates are in general less than INR interest rates.

Risks

- (1) The user may lose from principal exchange risk arising from FCY appreciation/INR depreciation
- (2) The user is still exposed to interest obligation risks
- (3) Liquidity risk

(4) Bid-offer spreads in case of unwind

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