

Rupee Interest Rate Swap (Rupee IRS)

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

This derivative product is an instrument to convert the 1M/3M/6M/1Y MIBOR OIS or T-Bill floating rate benchmark to fixed rate or vice versa (Please refer OIS Product Disclosure Statement for understanding on OIS). Here, user pays the fixed rate/ floating 1M/3M/6M/1Y MIBOR OIS or T-Bill rate and receives the fixed 1M/3M/6M/1Y MIBOR OIS or T-Bill rate. Taken together with the underlying loan/asset, this effectively converts user's floating/fixed rate liability/asset into a fixed/floating rate liability/asset. Such exchange of cashflows are known as a Rupee Interest Rate Swap (Rupee IRS).

In other words, the underlying can be a liability or an asset. The user can convert the floating cashflows into fixed rate cashflows or vice versa.

Underlying	Possible trades	Pay/Receive
Liability	Floating to Fixed Swap	User Pays Fixed Rate & Receives Floating Rate
	Fixed to Floating Swap	User Receives Fixed Rate & Pays Floating Rate
Asset	Floating to Fixed Swap	User Receives Fixed Rate & Pays Floating Rate
	Fixed to Floating Swap	User Pays Fixed Rate & Receives Floating Rate

Illustration:

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

The underlying exposure for this transaction is an INR liability where user has floating interest rate payments linked to 1M/3M/6M/1Y MIBOR OIS. User is thus exposed to the risk of increasing 1M/3M/6M/1Y MIBOR OIS resulting in higher INR cost. Here, user has hedged this risk by converting the floating 1M/3M/6M/1Y MIBOR OIS to a fixed rate for the residual tenor and notional of the underlying exposure.

Building Blocks:

The building blocks of this option are as below:

- OIS Curve

Costs and fees, including break-up and details

[This is an Internal document.](#)

The swap cost consists of market cost which is determined through Bid/Offer spread of building blocks, tenure of the swap, notional and amortization schedule, administrative costs, Capital charge and transaction handling charges.

An illustration of how the product works

User's underlying exposure: 6M MIBOR OIS

Rupee IRS Deal: User receives 6M MIBOR OIS and pays fixed 5.00%

User pays after Rupee IRS: 5.00 %

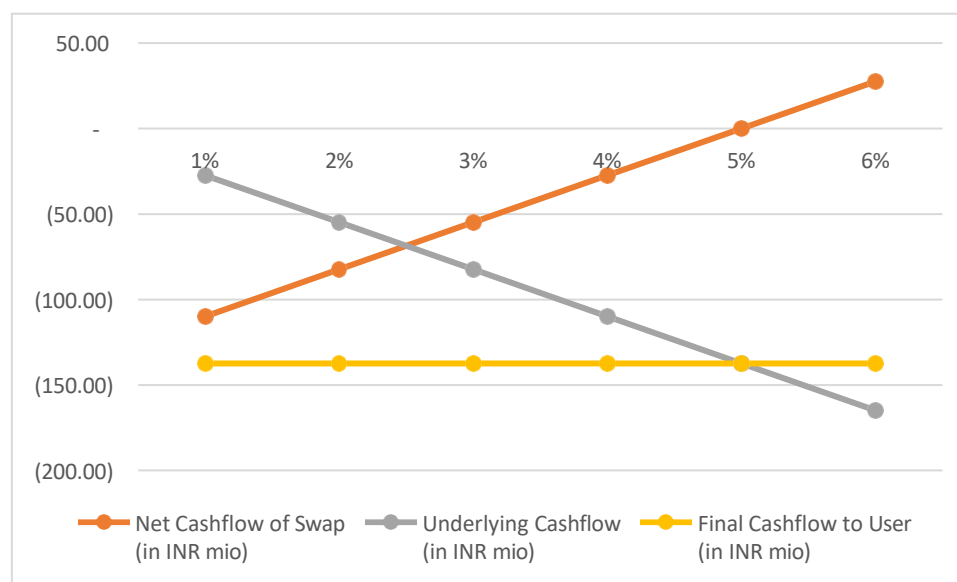
Coupon settlement frequency: Semi-Annually

Amortization: As per schedule given below

Fixing Date	Start Date	End Date	Applicable INR Notional	INR Amortization on End date	INR Fixed Coupon after Rupee IRS
5-Sep-21	6-Sep-21	7-Mar-22	1,000,000,000.00	100,000,000.00	24,931,506.85
6-Mar-22	7-Mar-22	6-Sep-22	900,000,000.00	100,000,000.00	22,561,643.84
5-Sep-22	6-Sep-22	6-Mar-23	800,000,000.00	100,000,000.00	19,835,616.44
5-Mar-23	6-Mar-23	6-Sep-23	700,000,000.00	100,000,000.00	17,643,835.62
5-Sep-23	6-Sep-23	6-Mar-24	600,000,000.00	100,000,000.00	14,958,904.11
5-Mar-24	6-Mar-24	6-Sep-24	500,000,000.00	100,000,000.00	12,602,739.73
5-Sep-24	6-Sep-24	6-Mar-25	400,000,000.00	100,000,000.00	10,055,555.56
5-Mar-25	6-Mar-25	6-Sep-25	300,000,000.00	100,000,000.00	7,666,666.67
5-Sep-25	6-Sep-25	6-Mar-26	200,000,000.00	100,000,000.00	5,027,777.78
5-Mar-26	6-Mar-26	6-Sep-26	100,000,000.00	100,000,000.00	2,555,555.56

By entering into this product, the user pays a fixed rate of 5% p.a. and mitigates the interest rate risk arising out of floating rate benchmark. On each swap settlement date, the user receives/pays net differences between fixed rate and floating rate for the applicable tenor.

Pay-off profile:



Impact Analysis (in INR mn)

Average Floating Leg rate	Net Cashflow of Swap (in INR mio)	Underlying Cashflow (in INR mio)	Final Cashflow to User (in INR mio)
1%	(109.99)	(27.50)	(137.49)
2%	(82.50)	(55.00)	(137.49)
3%	(55.00)	(82.50)	(137.49)
4%	(27.50)	(109.99)	(137.49)
5%	-	(137.49)	(137.49)
6%	27.50	(164.99)	(137.49)

Note: In the above table, negative sign indicates cash outflow. Here, we can see that irrespective of floating rate throughout the tenor of the swap, total payable by user is constant

Benefits

This product allows users to switch between floating rate and fixed rate liability/asset and actively manage interest rate risk.

Risks

- (1) Interest rate not moving as anticipated by the user
- (2) Basis risk
- (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