

Financial Performance Analysis of Sovereign Gold Bonds

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Abstract

The government has taken initiative to introduce Sovereign Gold Bond in the year 2015. According to RBI, SGB are the securities denominated in grams of gold. It is substitute to physical gold. It is safe investment as compared to the Gold ETF and physical gold. It provides interest income, capital appreciation and tax benefits with purity of gold. It is the best option for investors to maintain liquidity in future. The paper will analyse the financial performance of sovereign gold bonds schemes.

Keywords: Sovereign Gold Bond Scheme, Physical gold, financial performance.

Introduction:

Sovereign Gold Bonds (SGBs) are government securities denominated in grams of gold. SGBs are issued by RBI on behalf of Government of India. They are issued by the Reserve Bank of India (RBI) on behalf of the Government of India. Rather than storing physical gold at home or at locker in the bank, it is an innovative financial instrument which provides distinct financial benefits towards the investors. The government has introduced the first SGBs in November 2015 to reduce demand for physical gold and control.

The government issues several series of SGBs at different period and prices. The prices are based on the average closing price of gold of 999 purity published by the India Bullion and Jewellers Association Ltd (IBJA) for the last three working days of the week preceding the subscription period. It has an eight-year maturity period, allowing investors the flexibility to exit after the fifth year on interest payment dates. Any investor can trade SGBs on NSE and BSE to get market liquidity. The interest rate is 2.5% p.a. which is payable semi-annually. It is safe and offer tax benefits, capital gains on redemption or transfer of SGBs being exempt from income tax. The interest on SGBs may be taxable according to investors tax slabs. If the investor buys SGBs online, they can get Rs.50 discount per gram.

Review of Literature:

Adhana (2015) observed that there is an impact of sovereign gold bond scheme on current account deficit. The paper also focused on certain steps for the successful implementation of gold schemes, better policy implementation, stabilizing gold market, infrastructure and human resource development etc. for the growth of SGB scheme.

Singh, et al.(2015) in their paper explained the governance and regulation of gold market in India. The policy measure needs to be taken so as to make gold policy independent of CAD.

Rathore (2017) analysed the attitude of investor towards physical gold and Sovereign Gold Bond Schemes. According to him the Investors awareness for SGB schemes is still very moderate. Therefore, investment in SGB is not at par with that of physical gold investment.

The similar results were highlighted by Arora (2016) in his paper. Amendment in various provisions of SGB like reducing minimum investment size are some of the initiatives which can make this scheme more attractive among the investors.

Objectives:

1. To study the conceptual framework of Sovereign Gold Bond scheme.

2. To know financial performance of SGB bond of Different series as compared to Physical gold, Equity and debt.

Research Methodology:

This research paper is based upon the secondary data analysis. The researcher has used various books, journals, articles, RBI website to analyse the data to know the financial performance of SGB.

Analysis and Interpretation:

The following tables can analyse the financial performance of Sovereign Gold bonds issued in India.

Table No.1. Value of Sovereign gold bonds Value of sovereign gold bonds issued in India from financial year 2016 to 2022 (in billion Indian rupees)

Financial Year	Value
2016	12.96
2017	34.78
2018	18.95
2019	7.38
2020	23.16
2021	160.49
2022	129.91

Source: Published by Statista Research Department, Nov 20, 2023

From the above table no. 1 it is observed that in financial year 2022, Indian government issued 130 billion Indian rupees. This was a significant increase from around 12.96 billion rupees worth of issuance in the financial year 2016. Sovereign gold bonds, originally introduced as an alternative to physical gold, are slowly gaining purchase in India.

Table No.2. Performance of Sovereign Gold Bonds in India

Financial Year	Series	Issue Price (Rs)	Current Price (Rs)	Return of SGBs (%)	Return of Physical Gold (%)	Return of Other Investment Options (%)
2015-16	I	2684	5926	120.8	120.7	Equity: 15.1; Debt: 8.7; FD: 7.3
2015-16	II	2600	5926	127.9	127.9	Equity: 15.1; Debt: 8.7; FD: 7.3
2016-17	I	3119	5926	89.9	89.9	Equity: 18.6; Debt: 10.5; FD: 7.1
2016-17	II	2901	5926	104.3	104.2	Equity: 18.6; Debt: 10.5; FD: 7.1
2016-17	III	2980	5926	98.8	98.8	Equity: 18.6; Debt:

						10.5; FD: 7.1
2016-17	IV	2893	5926	104.7	104.6	Equity: 18.6; Debt: 10.5; FD: 7.1
2017-18	I	2795	5926	111.9	111.8	Equity: 10.2; Debt: 6.7; FD: 6.7
2017-18	II	2908	5926	103.6	103.6	Equity: 10.2; Debt: 6.7; FD: 6.7
2017-18	III	2943	5926	101.3	101.3	Equity: 10.2; Debt: 6.7; FD: 6.7
2017-18	IV	2931	5926	101.9	101.9	Equity: 10.2; Debt: 6.7; FD: 6.7
2017-18	V	2901	5926	104.3	104.2	Equity: 10.2; Debt: 6.7; FD: 6.7
2017-18	VI	2862	5926	107.1	107	Equity: 10.2; Debt: 6.7; FD: 6.7
2018-19	I	3194	5926	85.5	85.5	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	II	3183	5926	86.1	86.1	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	III	3150	5926	88.1	88.1	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	IV	3267	5926	81.3	81.3	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	V	3269	5926	81.2	81.2	Equity: 14.9; Debt:
						8.6; FD: 6.8
2018-19	VI	3269	5926	81.2	81.2	Equity: 14.9; Debt: 8.6; FD: 6.8

2018-19	VII	3214	5926	84.3	84.3	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	VIII	3196	5926	85.4	85.4	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	IX	3220	5926	84	84	Equity: 14.9; Debt: 8.6; FD: 6.8
2018-19	X	3267	5926	81.3	81.3	Equity: 14.9; Debt: 8.6; FD: 6.8
2019-20	I	3428	5926	72.9	72.9	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	II	3488	5926	69.9	69.9	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	III	3566	5926	66.2	66.2	Equity: 4.
2019-20	IV	3625	5926	63.4	63.4	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	V	3757	5926	57.7	57.7	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	VI	3820	5926	55.1	55.1	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	VII	4099	5926	44.6	44.6	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	VIII	4267	5926	38.9	38.9	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	IX	4350	5926	36.2	36.2	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	X	4420	5926	34	34	Equity: 4.0; Debt: 11.5; FD: 6.5

2019-20	XI	4570	5926	29.6	29.6	Equity: 4.0; Debt: 11.5; FD: 6.5
2019-20	XII	4620	5926	28.3	28.3	Equity: 4.0; Debt: 11.5; FD: 6.5
2020-21	I	4670	5926	26.9	26.9	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	II	4820	5926	22.9	22.9	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	III	4892	5926	21.1	21.1	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	IV	5049	5926	17.4	17.4	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	V	5117	5926	15.8	15.8	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	VI	5300	5926	11.8	11.8	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	VII	5400	5926	9.7	9.7	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	VIII	5550	5926	6.8	6.8	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	IX	5689	5926	4.2	4.2	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	X	5817	5926	1.9	1.9	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	XI	5893	5926	0.6	0.6	Equity: 66.1; Debt: 13.5; FD: 5.4
2020-21	XII	5943	5926	-0.3	-0.3	Equity: 66.1; Debt:

						13.5; FD: 5.4
2021-22	I	5988	5926	-1	-1	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	II	6093	5926	-2.7	-2.7	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	III	6149	5926	-3.6	-3.6	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	IV	6213	5926	-4.6	-4.6	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	V	6300	5926	-5.9	-5.9	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	VI	6393	5926	-7.3	-7.3	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	VII	6453	5926	-8.2	-8.2	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	VIII	6549	5926	-9.5	-9.5	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	IX	6627	5926	-10.6	-10.6	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	X	6700	5926	-11.6	-11.6	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	XI	6777	5926	-12.6	-12.6	Equity: 23.4; Debt: 12.1; FD: 5.1
2021-22	XII	6850	5926	-13.5	-13.5	Equity: 23.4; Debt: 12.1; FD: 5.1
2022-23	I	6927	5926	-14.5	-14.5	Equity: 15.7; Debt: 9.8; FD: 5.0

2022-23	II	7000	5926	-15.3	-15.3	Equity: 15.7; Debt: 9.8; FD: 5.0
2022-23	III	7077	5926	-16.3	-16.3	Equity: 15.7; Debt: 9.8; FD: 5.0

Source: www.Rbi.org.in

The above table indicates the historical as well as financial performance of SGBs series regarding issue prices, returns as compared to the physical gold, equity and debt from the financial year 2015-16 to 2023-24. The returns on SGBs are calculated on the basis of buying one gram of SGBs at the issue price and held for earlier period of maturity or till the date of calculation. The returns are also included interest income accrued till the date of calculation. The returns on SGB Series, Physical gold, equity and debt are introduced from the period 2015-16 to 2023-24 which shows capital appreciation, tax benefits, liquidity and profitability position as compared to the investment risk.

Conclusion:

Sovereign Gold Bonds (SGBs) are an innovative and safe investment which provides various benefits of liquidity, capital appreciation, interest, tax exemption etc as compared to other investments in securities. Attractive investment option for those who want to invest in gold without the hassles of physical gold. They offer several benefits such as safety, convenience, interest income, capital appreciation, and tax exemption.

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