SHIFT IN STRATEGY Fall in short-term yields following RBI's liquidity push helps; higher-rated papers seen more lucrative for borrowing

Cos Turn to Bond St for Funds as Banks Slow to Pass on Rate Cuts

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Mumbai: Corporates are increasingly turning to the bond market, with a higher preference for short-term bonds, as banks have been slow in passing on previous rate cuts. Corporates have issued ₹61,200 crore in up to five-year bonds in May 2025, nearly three times the funds raised in May 2024 for the same tenure, prime database showed.

The Reserve Bank of India's nearly $100-billion of liquidity infusion since December 2024 has led to a sharper fall in short-term bond yields compared to their long-term peers, triggering a change in the way companies borrow.

"The has infused ample liquidity and has made sure the system is in continuous surplus of almost ₹2 lakh crore, which has caused more corporate bond issuances. Additionally, the market has factored in further rate cuts too," said Venkatakrishnan Srinivasan, who is the founder of Rockfort Fincap, a debt advisory firm.

For AAA-rated companies, a five-year bond had a return of around 6.65% in May 2025, versus 7.50% in May 2024. For a 10-year paper, the reduction in borrowing costs is not as much, with interests of 6.85% in May 2025, versus 7.45% in May 2024.

Additionally, loans to corporates linked to the marginal cost of fund-based lending rate (MCLR) have seen just about a five basis point (bps) reduction against 25 bps cut in repo rate, latest RBI data showed.

"After comparing yields of different rated papers with corresponding MCLR of banks in the current cycle, yields of higher-rated papers are more lucrative for borrowing via the bond market as compared to MCLR rates of banks," Madan Sabnavis, chief economist of Bank Of Baroda (BoB) said in a report. "However, bank credit can be a preferred choice for lower-rated companies," he said. MCLR rates for tenures of one year at public sector banks stood at 9.08% in May, versus a rate of 6.80% for a AAA-rated company, according to the BoB report.

Greener Pastures

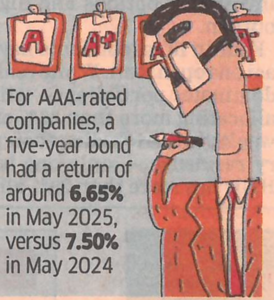
	FUNDS RAISED	
TENURE	MAY-25	MAY-24
1-2 year	2,774	2,655
2-3 year	17,792	11,908
3-5 year	61,200	23,149
5-7 year	20,589	21,046
7-10 year	2,051	15,856
10-15 year	10,517	13,280
Above 15 years	1,670	430

Figures ₹cr   **Source:** Prime Database

Spread Between Corp Bond, GSec and 1-year MCLR Rate (May 2025)

PERIOD	AAA-RATED	GSEC	MCLR RATE**
1 year	6.80%	*5.83%	9.08%
3 year	6.85%	5.93%	9.08%
5 year	6.87%	6.01%	9.08%
10 year	6.99%	6.30%	9.08%

*364 day T-bill rate; ** for 1 year   **Source:** Bank of Baroda



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