Investors embrace risky bonds for better returns

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India's riskiest category of investment-grade corporate bonds is drawing record interest from wealthy investors and alternative funds, as falling benchmark yields push savvier buyers further down the credit spectrum in search of higher returns.

Yield on India's benchmark 10-year government bond has declined 36 basis points over the past three months to 6.27% as of Tuesday—far below the double-digit yields available in lower-rated corporate bonds.

Yield on India's 10-year govt bond has declined. ISTOCKPHOTO

Issuances of corporate bonds rated BBB+, BBB and BBB-, the lowest tier of rating still considered investment-grade before slipping into junk status, have surged sharply in recent quarters.

According to Prime Database, 450 such bonds were issued in the fiscal year ended March 2025, up from 244 in FY24, 120 in FY23 and 75 in FY22.

Through 19 June in the current fiscal year (FY26), 76 additional issuances have already come to market.

The funds raised have followed a different trajectory. Issuers in this segment raised ₹17,653 crore in FY25, after ₹22,219 crore in FY24, ₹4,944 crore in FY23 and ₹8,634 crore in FY22. In FY26 so far, ₹5,845 crore has been raised.

The gap between issuance volumes and amounts raised partly reflects the impact of large outlier deals. In FY24, Goswami Infratech Pvt. Ltd, part of India's Shapoorji Pal-

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India's riskier corporate bonds are booming as investors chase yields

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lonji Group, raised ₹14,300 crore through a single private placement at a steep 18.75% coupon, accounting for nearly two-thirds of that year's total BBB-category fundraising.

"The overall issuance of BBB corporate bonds increased both in number and volume from FY24 to FY25 if we take out a large private financing transaction," said Vishal Goenka, co-founder of IndiaBonds, referring to the Goswami deal.

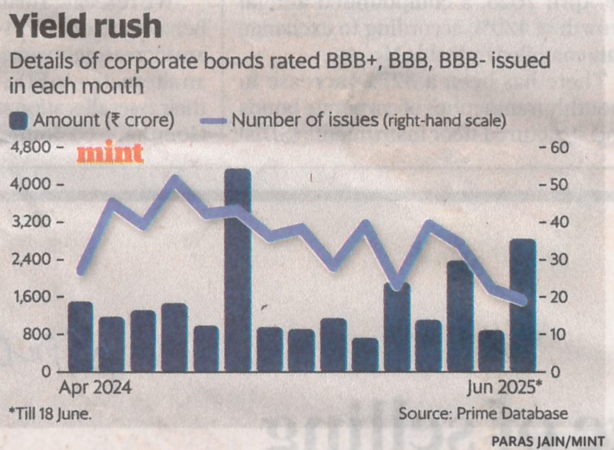
Investors are drawn to these securities for the significantly higher yields they offer relative to AAA-rated debt. A spread of 600-700 basis points is not uncommon, translating into yields as high as 14-15%.

"Rates on BBB issuances are driven by the underlying company's fundamentals, the end use of funds or the purpose of financing, and the ability to raise money from banks on mutually acceptable terms," said Bhushan Kedar, director of fixed income research at Crisil Intelligence.

"Institutional participation in AIFs is increasing as savvy debt investors chase high yields," Kedar added, noting that alternative investment funds face fewer capital lending restrictions than banks.

A key driver behind this expansion is the rise of online bond platforms, which have opened up access to this segment for wealthy individuals and smaller institutions.

"There is evidence of increased activity and issuance in the BBB segment over the past 3 months, aligned with the broader corporate bond market growth and diversification seen



in 2025," said Arjun Parthasarathy, founder and chief executive officer of INRBonds, one such platform. "There is demand for good high-yielding issuers with strong fundamentals and potential for rating upgrades."

Recent deals reflect this momentum. In June 2025, Varthana Finance Pvt. Ltd (BBB rated) raised ₹25 crore at a 12.3% coupon. In March, True Credits Pvt. Ltd (BBB rated) raised ₹10 crore at 18%, and LEAP India Pvt. Ltd (BB+ rated) raised ₹200 crore at 9.5%. Indifi Capital Pvt. Ltd (BBB rated) raised ₹60 crore at 13.5% in February 2025, according to *Bloomberg* data.

Platforms like INRBonds, IndiaBonds, and Bondbazaar have simplified access to primary issuances and secondary trading. Precise data on investor composition is scarce, but market participants say high-net-worth individuals, family offices, and AIFs have been increasingly active in recent BBB-rated issuances, alongside select institutional investors.

Even so, market participants caution that such returns carry meaningful credit risk. "These yields are more quasi-equity in nature and should be compared with equity returns, especially given the associated credit risk," Suresh Darak, founder of Bondbazaar said.

Darak noted that investors are mitigating some of that risk by focusing on shorter maturities. "Issuers' financial visibility is more predictable over shorter timeframes, making short-tenor instruments (1–1.5 years) from lower-rated issuers relatively less risky from a credit perspective," he said.

Even as liquidity has improved and policy rates softened, spreads for lower-rated issuers remain wide. "The spread is also a function of perceived credit risk. Hence, even with lower policy rates, a meaningful narrowing of the spread depends on liquidity availability and banks' willingness to lend to lower-rated entities," Darak added.

While comprehensive data on the share of BBB-rated bonds in India's overall corporate bond market is limited, market participants say activity in this riskier segment has grown meaningfully in recent years.