Corporate debt to break another record

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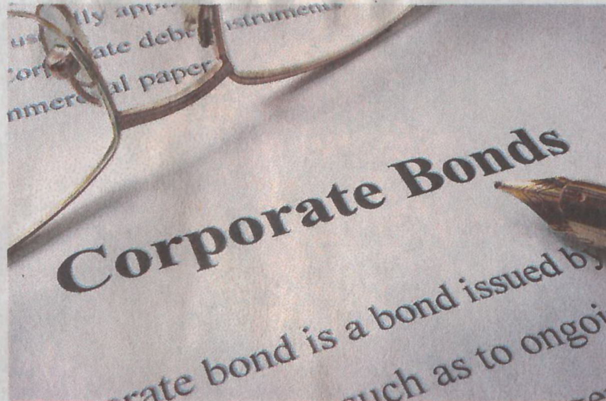

The bond market has quickly reacted, making it a more cost-effective and flexible option for large, rated borrowings. ISTOCKPHOTO

Corporate bond issuances are expected to scale another record in the current fiscal as Indian companies continue to raise funds at cheaper costs from the debt market, when banks are taking long to fully pass on lower policy rates to businesses.

Local companies are expected to raise over ₹11 trillion from the bond markets in FY25-26, according to sector experts. That compares with ₹9.95 trillion raised through public and private debt issues combined in FY25, according to the market regulator's data, implying an estimated annual rise of about 10.5% this fiscal.

"With the faster transmission of recent rate cuts in the debt capital market compared to bank lending rates, corporates have preferred to raise funds via bonds rather than borrow from banks," said Sachin Sachdeva, vice-president and sector head, financial sector ratings at Icra Ltd. This is also reflected in the muted incremental credit expansion by banks in Q1 of FY26, he said.

The Monetary Policy Committee of the Reserve Bank of India cut the repo rate by 25 basis points (bps) each in February and April. A 50 bps cut in June followed, leading to a 100 bps drop in the benchmark rate in five months.

RBI also injected liquidity by reducing the cash reserve ratio—the portion of deposits that lenders have to park with the regulator—by 1 percentage point.

The bond market has quickly reacted, making it a more cost-effective and flexible option for large, rated borrowings, according to experts. The benchmark 10-year government bond yield fell by 37.6 basis points from 6.700% on 31 January to 6.324% on 30 June. By comparison, RBI data shows, banks' one-year marginal cost of funds-based lending rate—an internal benchmark that tracks deposit rates—fell by 10 basis points to 8.90% during the period.

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"This interest rate arbitrage is making bond issuances significantly more attractive," said Nikhil Aggarwal, founder and group chief executive officer of Grip Invest, a platform for high-yield, fixed-income investments. "A softer rate cycle, refinancing requirements and capex plans are converging to drive issuance volumes. If the current momentum continues, ₹12.5 trillion is within reach."

Icra's Sachdeva expects overall bond issuances in FY26 to be in the range of ₹10.7-11.3 trillion.

The trend so far this fiscal year mirrors the optimistic outlook. Data by the Securities and Exchange Board of India (Sebi) shows 341 issues worth ₹1.86 trillion in April and May.

According to Prime Database, 165 offers amounting to around ₹0.93 trillion were recorded in June (Sebi data for June has not been released).

This means Indian companies raised ₹2.79 trillion through 506 private bond placements in April-June FY26. According to Sebi data, companies raised ₹1.56 trillion through bonds in the corresponding period of FY25.

According to Prime Database, some of the AAA-rated 3-year bonds issued in June 2025 include: Bajaj Housing Finance Ltd with a coupon rate of 7.02% per annum; L&T Finance Ltd with a coupon rate of 7.23% per annum; and the National Bank for Agriculture & Rural Development (Nabard) with a coupon rate of 7.48% per annum.

By comparison, banks' MCLR stood at 8.9% in June. Their loans to industries—micro, small, medium and large—grew 4.8% year-on-year in May, showed the latest RBI data. But bank credit to large industries grew 1% during the period.

To be sure, private placements continue to dominate corporate bond offers, with public issues contributing a fraction. Sebi data shows 45 public bond offers raised ₹0.19 trillion in FY24 and 43 such issuances raised around ₹0.08 trillion in FY25.

India's corporate bond market remains underdeveloped, accounting for just 18% of gross domestic product, far below the 70-100% seen in developed economies, said Aggarwal of Grip Invest. According to the Economic Survey FY25, the corporate bond market is 80% of GDP in Korea and 36% in China.

Published in January, the report pointed out that the market for corporate bonds comprises high-end bonds, with 97% of corporate bond issuances concentrated in the top 3 rating categories (AAA, AA+ and AA).

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