Retail interest in low-rated bonds soars

CHRISTINA TITUS
Mumbai, July 29

RETAIL INVESTORS AND high networth individuals (HNIs) chasing the high-risk-high return strategy in the equity market, especially in the futures and options market, have found a new playbook – investing in low-rated corporate bonds that offer significantly high returns.

Sample this: Retail participation in high-yielding bonds (AA and below) has jumped to 5.8% in the first quarter of FY26 – a 50% rise from FY24 (3.8%), according to data from INR Bonds. In FY25, this number stood at 4.8%. At the same time, retail investment in high-rated papers has fallen to 0.2% in the first quarter of FY26, compared to 0.6 in FY25 and FY24. INR Bonds defines retail investors as ones who invest up to ₹1 crore in bonds.

The rise in the number of investors is also encouraging platforms to advertise aggressively, promising high 'assured' returns of 500 basis points or even more over fixed deposits rates. "Some online bond platforms are pushing high-yielding bond papers to retail investors. These papers offer high returns of 13-15%, but are very risky.

Continued on Page 11

RETURNS RIDDLE

- Retail participation in high-yielding bonds has jumped **50%**
- 'Assured' returns of 500 basis points or even more over FDs are being offered

- Platforms are advertising aggressively, promising high returns

Retail interest in low-rated bonds soars

IN FACT, SOME have even resorted to giving aggressive advertisements which forced stock exchanges to issue an advisory recently," said an industry participant, who did not wish to be named.

The stock exchanges, in a joint advisory, cautioned investors about trading in bonds. They highlighted the risks and costs associated with fixed income instruments. The advisory cautioned the investors that they should consider various elements such as bond's credit rating, the issuer's track record in timely repayments, the liquidity of the instrument, settlement timelines, and the tax implications of the investments. Besides, it also asked investors to verify if the platform is a Sebi-registered Online Bond Platform Provider (OBPP).

There have been defaults in recent times as well. For example, on July 18, CareEdge Ratings downgraded TruCap Finance after the company defaulted on interest and principal amount on its non-convertible debentures (NCDs), totalling ₹72.28 crore. The rating agency downgraded the long term bank facilities worth ₹750 crore and NCDs worth ₹150 crore to 'D' from 'BB+'. The payment was due on July 16. The NCDs of the non-bank lender offered coupon rates of 13-13.5%.

A fixed income head of a fund house highlighting the recent default said that this is a warning for retail investors. According to him, these riskier instruments are only suitable for HNIs or family offices rather than retail investors, who have very less risk appetite.

C S S Nikhil Bhargav, vice president - fixed income at INRBonds, an online bond platform said, "In the high-yield segment, investors chasing higher returns must be cautious about the issuer's underwriting quality, liquidity, profitability and exposure to sectoral headwinds. Defaults in the NBFC space are largely driven by liquidity issues and promoter-related concerns, particularly where there is a lack of intent to repay obligations."

The corporate bond market received a fillip when the Securities and Exchange Board of India made it more accessible to retail investors by reducing the entry barrier from minimum bond size for corporate bonds to ₹10,000 from the earlier ₹1 lakh.

There has been no shortage of lower-rated bonds as well. The total traded bonds on OBPPs amounted to ₹3,800 crore in FY25. Of which, 75% were below AA rated bonds, according to industry sources. The top companies trading in these platforms have ratings of A- and BBB. Clearly, this shows that there is a high traction in low-rated papers.

In FY26, bonds worth ₹8,544 crore with rating of BBB+ and below have been issued till date. In FY25, the number stood at ₹21,420 crore, according to Prime Database.

The supply has also been on the rise for a couple of reasons. After the Reserve Bank of India increased the risk weight (withdrawn recently) on bank loans to NBFCs in November 2023, many resorted to raising money from the bond market at higher rates. Similarly, many medium and small-scale enterprises have also tapped this market to raise funds.