India Inc turns to equity, bonds as bank loans remain elusive

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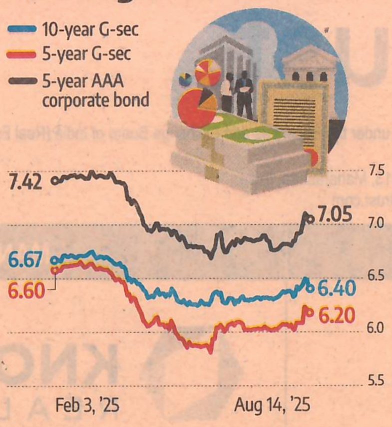
Indian corporates are increasingly shifting away from bank funding towards alternative sources such as equity and bond markets, as their deleveraged balance sheets have improved their ability to raise equity at better valuations. Moreover, the 100 basis points (bps) rate cut by the Reserve Bank of India (RBI) has enabled them to access long-term funds from the debt capital market at cheaper rates.

Fund-raising by corporates has been abuzz this year through block deals and qualified institutional placements (QIPs). In FY25, India Inc has raised over ₹42,000 crore through QIPs. Additionally, they have raised over ₹1.07 trillion through block deals during this period. At the same time, India Inc raised over ₹4 trillion through bonds in the April-July period of FY26 — the highest ever for the first four months of a financial year — underscoring the corporate bond market's rising preference over traditional bank loans, driven by favourable interest rate conditions. In the same period last year (Q1FY25), Indian companies raised ₹2.11 trillion from the domestic debt capital market through bonds.

"Corporates have got multiple sources of funding. And the primary source of funding is their internal accruals. And secondly, the equity market. So, they have real access to lots of funds. And then, of course, there is a bond market. And then there are banks. So, I think the corporates, especially the better-rated ones, have got multiple choices. And they will always optimise their sources of funding," said Sandeep Batra, executive director, ICICI Bank, in the post-Q1FY26 earnings call.

Funding shift Yield in %



Source: Bloomberg

QIPs in demand

Equity, convertibles & debt Month-wise (for FY26)

FY26	No. of Issue	Issue amt (₹ cr)
April	3	1,277
May	1	110
June	8	14,095
July	6	26,620
Total		42,102

Source: primedatabase.com

Additionally, although the RBI has cut rates by 100 bps, the transmission to the marginal cost of funds-based lending rate (MCLR) has been limited, with most of the impact seen in external benchmark-based loans.

As per RBI data, since February — the start of the easing cycle — MCLR has gone down by just 10 bps (till June). At the same time, the five-year and 10-year G-sec yields (6.79 GS benchmark) declined by 63 bps and 28 bps, respectively, since the February policy. Over the same period, five-year AAA corporate bond yields declined by 56 bps. During this period, the Indian bond market was one of the best performers globally.

"Corporate loan demand continues to remain selective with many large borrowers opting for the bond market and other alternate sources of funding," said Venkatraman V, ED & CFO, Federal Bank, in a call with analysts post the bank's Q1FY26 earnings.

RBI data suggests credit to industry recorded 5.5 per cent year-on-year growth, compared with 7.7 per cent in the fortnight ended June 27, 2025. During the same period, non-food bank credit grew by 10.2 per cent in the fortnight ended June 27, compared to 13.8 per cent year-on-year growth during the same period last year.

Additionally, another reason for the sluggish growth in corporate loans is the intense pricing competition among banks, bankers pointed out.

"As regards corporates, I think they have been enjoying, in the last couple of months, reasonably benign interest rates, and obviously the system, since being flush with liquidity, the rates being to these AA and above corporates are pretty attractive. So, obviously, to some of the good corporates, which we are comfortable with, we shall be participating in some of them for their working capital demand as well," said Sashidhar Jagdishan, MD & CEO, HDFC Bank, in a call with analysts post the bank's Q1FY26 earnings.

Shanti Ekambaram, deputy managing director, Kotak Mahindra Bank, highlighted pricing continues to be a challenge in large corporates and longer-term loans, and that large corporates have raised money from the capital markets. "Our strategy in the larger corporates is more flow-led businesses, including trade, transaction banking and deeper penetration into their business," she said.