Banks, NBFCs may capitalise on fall in dollar bond spread

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Financial services companies, especially banks and non-banking financial companies (NBFCs), are expected to capitalise on the recent compression in dollar bond spreads following India's sovereign rating upgrade by tapping the overseas debt capital market over the next two to three quarters.

Market insiders said enquiries from Indian corporates have risen sharply, as tighter spreads have made offshore borrowing more attractive across borrower segments.

International rating agency Standard & Poor's recently upgraded India's sovereign rating to 'BBB' from 'BBB-', its first upgrade in 18 years.

"With the sovereign rating upgrade, the financial services sector is going to get an immediate benefit since their ratings are capped at the sovereign level. We will see a slew of issuances over the next two-three quarters. We are engaged with several of those companies on how you want to partake in those capital raising," said a banker at a foreign bank that helps companies raise overseas debt funds. The banker added that as the US rate curve starts bending downwards, more Indian issuers may prefer offshore borrowing over relying solely on domestic liquidity.

Making the most

- Enquiries from India Inc have increased as borrowing has become attractive
- Bankers see slew of issuances over the next two-three quarters
- Following the rating upgrade, dollar bond spreads are compressed in investment-grade and high-yield space
- Experts say sovereign upgrade will support international bond market borrowing of Indian corporations

Following the rating upgrade, State Bank of India (SBI) earlier this month raised $500 million through five-year dollar bonds from international investors at 75 basis points (bps) above the five-year US treasury yield, translating into a coupon rate of 4.5 per cent. This was tighter than the T+82 bps spread at which the state-owned lender raised $500 million in November.

"On the back of the sovereign rating upgrade, spreads have compressed meaningfully. In the investment-grade space, they are down 10-15 bps, marking multi-decade lows not seen in the past 25-30 years. Similarly, in the high-yield space too, spreads have compressed 25-30 bps," said Vinod Venkatesh, managing director and head of debt capital markets, HSBC India.

This has created favourable conditions for spread borrowers such as banks, and we expect more issuances from this segment, Venkatesh said.

"For fixed-rate borrowers, the tightening has helped narrow the gap between onshore and offshore financing, leading to increased enquiries and evaluations of the offshore bond market compared with just a few months ago," he added.

Venkatesh highlighted that Asia (ex-Japan) bond market has seen a 25 per cent increase year-on-year in issuance volumes so far in 2025. However, India has seen a decline of 25-30 per cent as onshore pricing has been more attractive.

According to Prime Database, Indian corporates raised just ₹2,757 crore from the overseas debt market in FY26 (till August), compared with ₹57,882 crore in FY25 and about ₹45,000 crore in FY24.

"The current spread compression should help reverse some of this decline for India. Overall, the sovereign upgrade will clearly support international bond market borrowing of Indian corporates. While activity from India has been muted so far in 2025, we expect to see an uptick," Venkatesh said.

"Right now, companies that are unable to get good quantum in the domestic market are raising dollar bonds, because hedging costs are high," said Ajay Manglunia, executive director at Capri Global Capital.

"In the near term, if the rate cut happens in the US along with a rally in US treasury, the spread will become better with softening of US treasury yields. Consequently, we might see some uptick in dollar bond issuances," he added.