Regulators give a big push to deepen corp bond mkt

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IN NUMBERS

Year	Volume (cr)	Issuances (cr)
FY16	4,171	5,03,283.48
FY17	5,520	7,12,406.37
FY18	6,907	6,74,465.39
FY19	7,147	6,35,604.42
FY20	8,117	6,76,222.53
FY21	7,177	7,54,321.94
FY22	7,205	6,44,492.31
FY23	6,812	8,57,515.26
FY24	7,432	10,23,041.12
FY25	9,036	10,99,483.84
Q1FY26	14,073	3,44,822.47

Source: Report by Crisil Intelligence & ASSOCHAM; Primedatabase.com

IN THE PAST couple of years, the corporate bond market has received a big push from regulators. The Securities and Exchange Board of India (Sebi) has been opening up the market for foreign players and retail investors. It has been in consultation with the Reserve Bank of India (RBI) for products like bond derivatives, Sebi Chairman Tuhin Kanta Pandey said last week.

With the aim of making bonds as accessible as equities, Sebi is also trying to deepen the market by making it more retail investor friendly. Recently, it has proposed to allow debt issuers to offer incentives, such as higher coupon rates or discounts on issue price, to certain categories of investors in public issuances of non-convertible debentures. Senior citizens, women, armed forces personnel and retail subscribers will receive these sops, as per a Sebi's consultation paper.

"This would encourage retail participation in debt securities while providing a fillip to the number of public issuances in the debt market," Sebi said. Earlier, it cut the minimum investment size to ₹10,000 from ₹1 lakh. The emergence of online bond platforms has further improved retail participation.

"The new move focuses on offering differential pricing based on investor segments. More than the development of the bond market, it helps issuers cater to such investor groups through differentiated pricing," said A Balasubramanian, MD & CEO, Aditya Birla Sun Life.

In the past decade, the corporate bond market showed a significant growth. India's debt market stood at ₹248 lakh crore as of June, in which corporate bonds accounted for 21.62%, a joint report by Crisil Intelligence and ASSOCHAM showed. On a yearly basis, the market saw a 13% growth in FY25. The daily average trading volume in the secondary market grew three times to ₹14,073 crore in Q1FY26 compared to ₹4,171 crore in FY16, according to the report.

The corporate debt market saw its strongest year in FY25, with companies raising around ₹11 lakh crore, compared to ₹4.75 lakh crore in FY15, according to Primedatabase.

"Limited awareness and other challenges earlier held back the bond market, but improved policy and market infrastructure have boosted confidence and issuances. Moreover, regulators have been nudging corporates to move towards market borrowing that has a positive impact on bond issuances," said Bhushan Kedar, director – fixed income research, Crisil Intelligence.

The RBI has also become more proactive which is evident from the announcement of various regulatory measures in its October policy. The central bank proposed to remove the ceiling on loans against corporate debt. This will create a new wave of interest among HNIs, family offices, corporate treasuries and institutions, said experts.

Speaking at a recent event, Pandey pointed out that the outstanding bank credit to industry and services stands at ₹91 lakh crore while outstanding corporate bonds are at ₹54 lakh crore, highlighting a primary challenge and a great opportunity.

Still a long way to go

All these developments suggest that regulators are going hand in hand to promote participation in the corporate bond market. However, experts believe that a lot more needs to be done to achieve an active bond market in terms of liquidity and broader investor participation.

"The bond market's growth remains limited because tax structures fail to sufficiently incentivise broader investor trading activity," said Balasubramanian.

Nilesh Shah, MD, Kotak Mahindra AMC, highlighted the need for proper hedging mechanisms. "Investors lack effective tools to hedge interest rate risks. When rates fall, they gain from capital appreciation, but rising rates cause losses."

He added that existing instruments like interest rate futures, options and forward rate agreements lack depth while limiting trading and risk-taking. Developing stronger hedging mechanisms is essential to encourage broader participation and allow investors to take more risks."

Secondary market liquidity is still a concern, said experts. "Liquidity in the corporate bond market remains concentrated in AAA and AA+ rated papers, accounting for about 85% of trading. Deeper repo markets and market-making mechanisms would help improve liquidity and secondary market depth in lower-rated bonds," said Kedar. Having said that, it is important to realise the credit risk associated with these bonds and understand the rationale behind the rating before investing, he said.

Shah believes that while India's corporate bond market is more advanced than most emerging peers, it still lags Western markets. "The goal is to bridge this gap and reach global standards, which is a long way to go."