

Rising yields, inflation to keep FY27 corporate bond issuances subdued

ANJALI KUMARI

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Corporate bond issuances in 2026-27 (FY27) are expected to remain measured and selective, as elevated and volatile yields are likely to cap any meaningful recovery amid persistent inflation risks and evolving liquidity conditions, market participants said.

Issuances declined to ₹10.49 trillion in FY26 from ₹11.04 trillion in the previous financial year, according to Prime Database data, as companies increasingly shifted to bank funding and short-term instruments in a rising interest rate environment, market participants said.

“Issuances will likely remain slow as yields on the benchmark 10-year government bond are seen touching 7.25 per cent. Issuers will wait for yields to stabil-

ise before rushing to raise funds,” said a dealer at a state-owned bank.

Going forward, issuers, particularly public-sector undertakings (PSUs), are expected to prioritise yield stability over opportunistic timing, as predictability becomes critical for pricing and execution. There is also a growing preference to benchmark issuances against peer pricing rather than chase prevailing market yields, participants added.

Top-rated (AAA) borrowers are likely to rely more on large institutional investors such as Employees Provident Fund Organisation and insurance companies, where demand visibility is stronger. Upfront engagement with investors is also becoming more common, effectively moving towards a marketed deal approach. This trend was evident in PSB issuances during February-March, where

Tracking the momentum

Years	Corporate bond issuances (₹ trn)
FY21	7.54
FY22	6.45
FY23	8.58
FY24	10.24
FY25	11.04
FY26	10.49

Source: Primedatabase

prior investor discussions helped achieve finer pricing despite volatile conditions.

“It may also become increasingly inevitable for issuers to engage with investors upfront before launching issuances, moving towards a more marketed approach,” said Venkatakrisnan Srinivasan, founder and managing

partner of Rockfort Fincap LLP.

Inflation risks, driven by elevated crude oil prices, remain a key overhang. With oil sustaining above \$100 per barrel, any pass-through of higher fuel prices by oil-marketing companies could push inflation higher and prompt policy action from the Reserve Bank of India (RBI).

So far, the government has cushioned consumers by cutting excise duties on fuel, but at a fiscal cost. A prolonged burden could widen the fiscal deficit. While additional market borrowing may not be the first response, it cannot be ruled out if pressures persist. In the meantime, the government may rely on small savings schemes, where rates are expected to remain stable, and accelerate disinvestment to manage finances.

Geopolitical developments, particularly the Iran-Israel-US conflict, remain a

key variable. Any easing of tensions that restores flows through the Strait of Hormuz could trigger a short-term bond rally. However, such gains may be short-lived given the broader risk of sustained high oil prices.

In response, the RBI is likely to maintain only adequate durable liquidity while absorbing excess funds to anchor inflation expectations. This could push up short-term rates, with yields at the shorter end of the curve, along with commercial paper and certificates of deposit, firming up.

“FY27 is expected to be defined by inflation-led uncertainty, fiscal tradeoffs, and liquidity calibration, with a clear bifurcation in credit access, favouring AAA and strong PSU issuers, while lower-rated entities may continue to face constraints,” a market participant said.