Issuers rush to bond market ahead of rate hike cycle

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Indian companies are rapidly increasing corporate bond issuances to lock in borrowing costs ahead of expected RBI interest rate hikes, with September seeing the highest monthly mobilization since May 2025. Elevated yields and global economic uncertainty are reshaping the domestic bond market.



The top 10 issuers together borrowed Rs 55,100 crore, accounting for 41% of total bond issuances in September. (Image/X)

Indian companies are making a dash for the bond market, seeking to lock in borrowing costs before a potential interest-rate hike makes money even more expensive.

Corporate bond issuances surged to Rs 1.34 lakh crore in September, the highest monthly mobilisation since May 2025, according to Prime Database. This took total issuances in the first six months of FY27 to Rs 5.63 lakh crore, nearly matching the Rs 5.65 lakh crore raised during the corresponding period last year.

The rush comes despite elevated bond yields. Market participants said issuers that had stayed on the sidelines in recent months — deterred by high yields and the availability of relatively cheaper bank funding — are returning to the market as the risk of further increases in borrowing costs grows.

With inflation risks rising and crude oil prices remaining elevated, a large section of the bond market expects the Reserve Bank of India (RBI) to raise interest rates in its October monetary policy review, in line with the tightening underway across major global central banks.

“Entities are increasingly tapping the domestic debt market to lock in funding costs ahead of an anticipated rate hike. While some issuances have attracted strong demand, elevated yields have deterred borrowers, resulting in some issuances being cancelled or undersubscribed,” said Soumyajit Niyogi, director, India Ratings.

Reliance Industries led the September rush, returning to the corporate bond market for the first time since November 2023. The company raised Rs 25,000 crore — Rs 13,000 crore through 10-year bonds and Rs 12,000 crore through five-year bonds. Vedanta raised Rs 2,000 crore during the month.

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But the surge in fundraising masks a growing divide in the market. While highly rated borrowers continue to find takers, elevated yields are making fundraising increasingly difficult for smaller and lower-rated companies.

Some borrowers have even abandoned planned issuances. The Small Industries Development Bank of India (SIDBI), for instance, withdrew a Rs 6,000-crore three-year bond issue after investors sought higher yields.

Rising global borrowing costs are also pushing issuers towards the domestic market. Niyogi said the sharp rise in US Treasury yields, coupled with geopolitical uncertainty, has made overseas fundraising significantly more expensive.

“Overseas borrowing has become increasingly expensive. With US 10-year yields around 5.25%, hedging can push the effective cost of foreign-currency borrowing to 8.5–9% or more, making domestic funding more attractive, where AAA corporate bonds are available at roughly 7.7–8%,” he said.

The preference for quality remains pronounced. AAA-rated borrowers accounted for about a third of September issuances, while AAA and AA-rated entities together constituted more than 90% of the market. For smaller or lower-rated borrowers, the bond market remains considerably more expensive, making bank loans a more attractive alternative.

At the other end of the market, insurers, pension funds and other long-term investors have provided a ready pool of demand for high-quality bonds, particularly at longer tenors.

“There has been natural demand from insurers, pension funds and other institutional investors for

high-quality, longer-tenor bonds, particularly after limited supply. Recent issuances have enabled these investors to deploy their funds," said Ajay Manglunia, executive director, Capri Global.

That demand, however, has not been enough to prevent yields from climbing. Geopolitical uncertainty and rising global rates have kept the domestic debt market under pressure, Manglunia said, with cut-off yields for some AAA-rated public-sector issuers already crossing 8%.

The yield on AAA-rated PSU bonds has risen around 30 basis points between April and September to 7.95%, according to Bloomberg data.