

Bonding the gap

Stimulating the bond market to meet debt needs of corporates

September 2025



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Message from ASSOCHAM



Manish Singhal

Secretary General, ASSOCHAM

India's debt market has witnessed significant growth in recent years, supported by consistent investor interest, progressive regulatory reforms and the capital needs of a rapidly expanding economy. Despite this progress, the corporate bond segment remains relatively underdeveloped when compared with global benchmarks.

As businesses seek to raise greater volumes of capital in the coming years, the creation of a deep and liquid corporate bond market becomes imperative. A well-functioning bond market not only offers corporates diversified funding options but also mitigates excessive dependence on bank credit, strengthens the financial system's resilience and facilitates the flow of long-term capital into critical sectors such as infrastructure and manufacturing.

Positive developments are already underway. Key developments i.e. regulatory reforms, the expansion of mutual funds and investment vehicles, India's inclusion in global bond indices and growing interest from insurance companies, pension funds and retail investors—are contributing to the broadening of the investor base. Nonetheless, several challenges remain, including limited secondary market liquidity, modest retail participation and certain regulatory constraints on long-term institutional investors. Addressing these barriers will be crucial to closing future funding gaps and fostering a more robust market ecosystem.

In this context, ASSOCHAM, in collaboration with its knowledge partner Crisil, is pleased to present this knowledge report—a comprehensive study of India's evolving debt market. The report highlights emerging trends, identifies key challenges and explores actionable opportunities to further deepen and strengthen the corporate bond market in India.

We hope that the insights and recommendations outlined in this report will contribute to constructive dialogue among regulators, policymakers, market participants and industry stakeholders, and serve as a foundation for a more inclusive, efficient and globally competitive debt market.

We extend our sincere gratitude to Crisil, our knowledge partner, for valuable contribution and convey our best wishes to all readers for an insightful and engaging experience.

Message from Crisil



Jiju Vidyadharan

Senior Director, Crisil Intelligence, Crisil Ltd

The stellar growth of the corporate bond market in recent years augurs well for India, as it can provide alternative financial resources for long-term, sustainable growth.

The inclusion of Indian government bonds in global indices reflects strong trust in the domestic capital market, further strengthening India's position in the global economic landscape.

Between fiscals 2020 and 2025, the corporate bond market clocked an estimated compound annual growth rate of ~10.5%. With such rapid growth, it should play a crucial role in channelling capital to realise the vision of Viksit Bharat@2047.

The market, however, remains shallow, with a strong preference for higher-rated issuances, especially from the financial sector.

Policy makers and regulators have implemented measures such as the introduction of online bond platform providers, the reduction of face value to facilitate depth in trading of bonds and various initiatives to improve retail participation. However, a stronger push is needed to broaden investor participation.

At present, debt mutual funds (MFs) are the primary vehicle for retail participation in the Indian debt market. MFs have emerged as a powerful force, enabling millions of Indians to take control of their financial prosperity. Retail participation in MFs through household savings increased to 10.59% in March 2024 from 8.61% in June 2019 according to the Reserve Bank of India (RBI).

Going forward, structural reforms and investor awareness drives will continue to play a key role in deepening the bond market, providing investors with greater opportunities to participate in India's growth story.

This edition of the ASSOCHAM-Crisil Knowledge Report outlines the reforms required to strengthen both supply and demand in this space.

I am confident that this report will stimulate meaningful discussions and provide thought leadership on ways to deepen the corporate bond market and meet the country's development needs.

I thank ASSOCHAM for providing us with this opportunity and convey my best wishes for the success of the summit.

Corporate bonds barely a fifth of the Indian debt market today

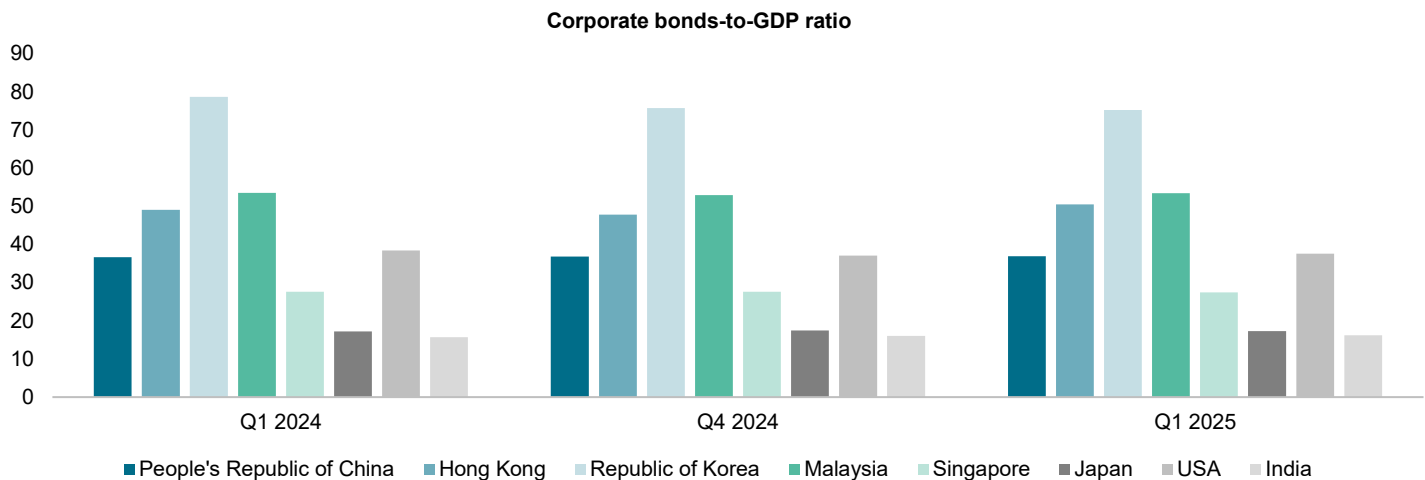
India has emerged as one of the rapidly growing debt markets in the world, with a remarkable size of ~Rs 248 lakh crore as of June 2025. Its robust compound annual growth rate (CAGR) of ~12.6% from ~Rs 137 lakh crore in fiscal 2020 demonstrates its resilience and significance in the Indian economy.

It also reflects India's growing capital needs, supportive policy measures and increasing institutional demand across debt instruments.

Despite this, the Indian market is underpenetrated compared with the developed and emerging economies. A large part of the funding source for Indian corporates has been borrowing from banks, which had limited the penetration of corporate bonds.

As of March 2025, the Indian corporate bonds-to-gross domestic product (GDP) ratio was ~16.2%, lower than many countries such as the US (~37.6%), Republic of Korea (~75.2%) and China (~36.9%).

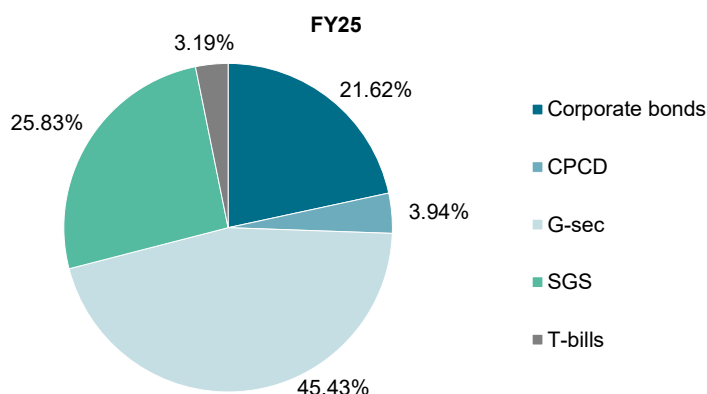
Corporate bonds account for ~21.6% of the total corporate debt in India, which is lower than the 30-50% share seen in other Asian countries.



Note: USA data does not include ABS/MBS/Munis bonds

Source: Asian Bonds Online, SIFMA, Crisil Intelligence, Government of India

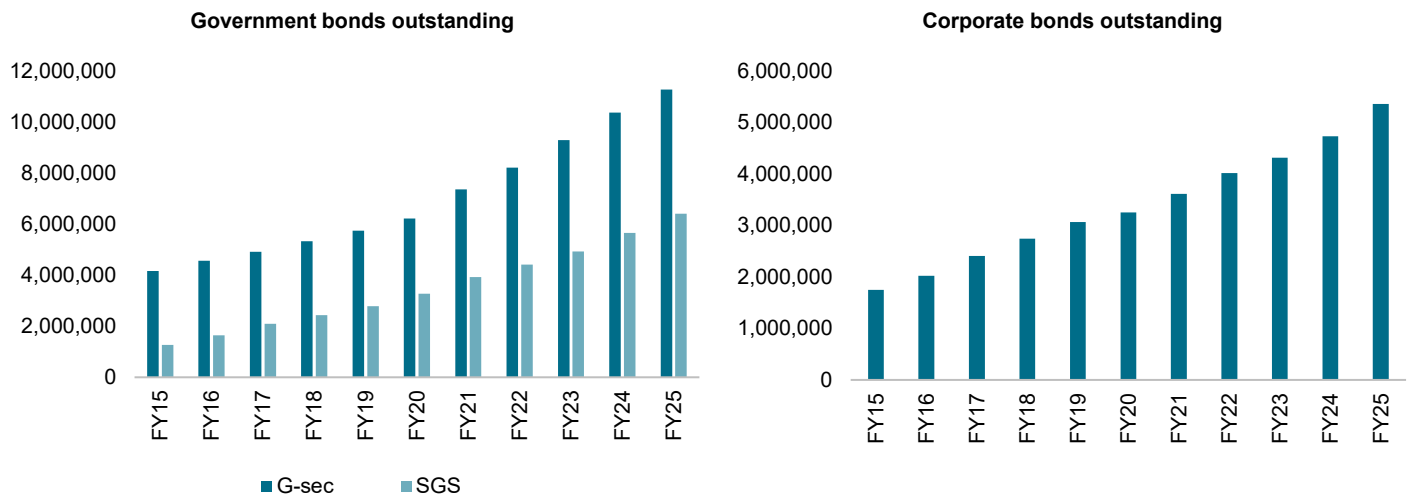
Composition of outstanding debt, including sovereign + corporate debt



Government securities (G-secs) constitute the largest segment of India's debt market, with an outstanding amount of ~Rs 112 lakh crore, or 45.4% of the total market as of end-fiscal 2025. This segment logged an on-year increase of 8.7% in fiscal 2025, maintaining its position as the cornerstone of India's debt market landscape. State government securities (SGSs) make up the second-largest segment at ~Rs 64 lakh crore (25.83% of the total market), up ~13% from fiscal 2024.

Source: Prime Database, RBI

Outstanding volume of debt securities on the rise

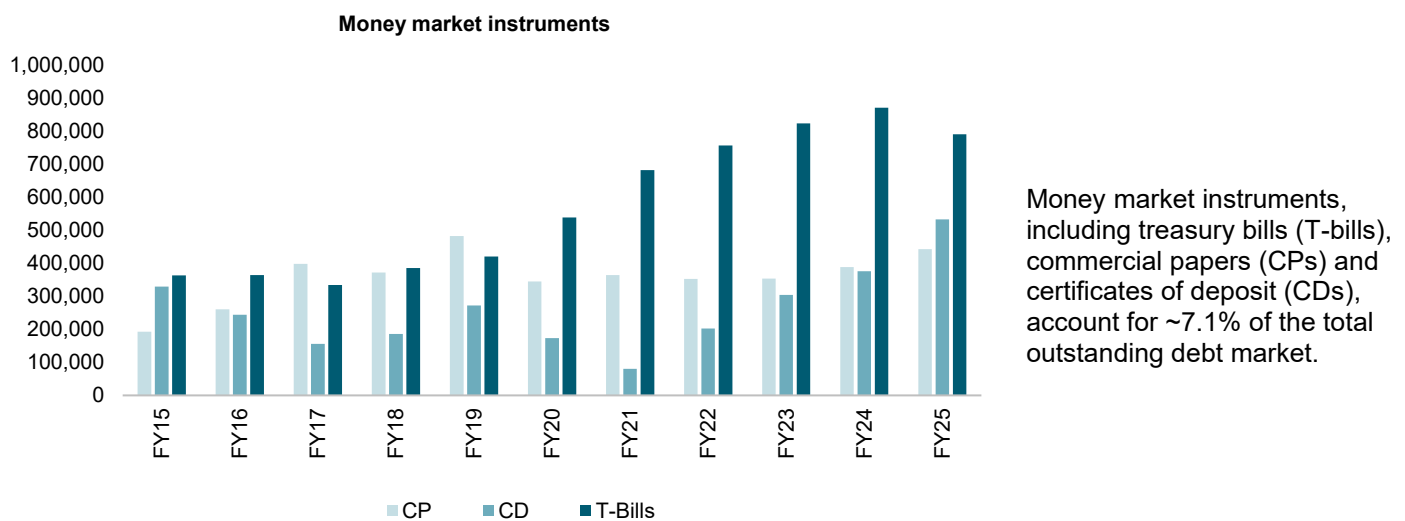


Source: RBI, Securities and Exchange Board of India (SEBI)

India's outstanding government debt, which includes G-secs and SGSs, increased to Rs 184.59 lakh crore last fiscal from Rs 168.85 lakh crore in fiscal 2024. This significant rise is driven by government borrowing and has been met with robust demand from domestic investors such as pension funds, insurance players, banks and foreign portfolio investors (FPIs) due to factors such as anticipated interest rate cuts and inclusion in global bond indices.

The corporate bond segment has emerged as the market's most dynamic component, rising ~13% on-year to ~Rs 53.6 lakh crore in March 2025. In fact, fiscal 2025 was the domestic corporate bond market's strongest year on record, with companies raising ~Rs 11 lakh crore.

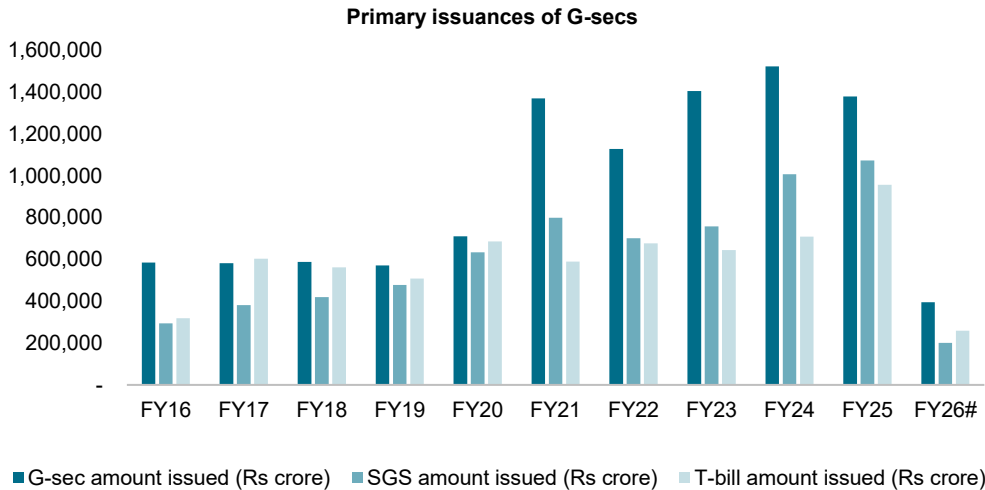
The growth of the corporate bond market has been influenced by several factors, including lower borrowing costs following the RBI's interest rate reductions, banks' prudent lending practices that have encouraged corporations to seek funding from the capital markets, and robust institutional demand from MFs, insurance firms and FPIs.



Source: RBI

Issuances and market trends across segments

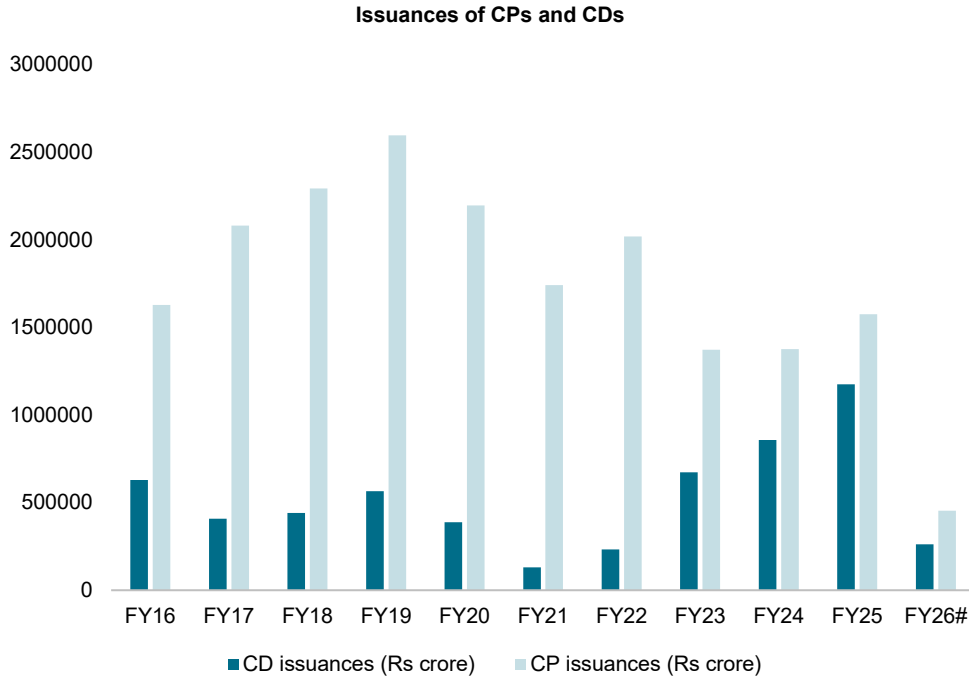
Record-high issuances in non-SLR segment in fiscal 2025



The government's gross borrowing through G-secs is projected to rise to Rs 14.82 lakh crore this fiscal from Rs 13.79 lakh crore last fiscal, an increase of 7.5%. This increase is attributed to higher debt redemptions throughout the year, necessitating additional borrowing to refinance maturing obligations. Of the Rs 8 lakh crore planned for borrowing in the first half of this fiscal, the government had already secured Rs 3.96 lakh crore as of June 2025.

#: Up to Q1FY26

Source: RBI



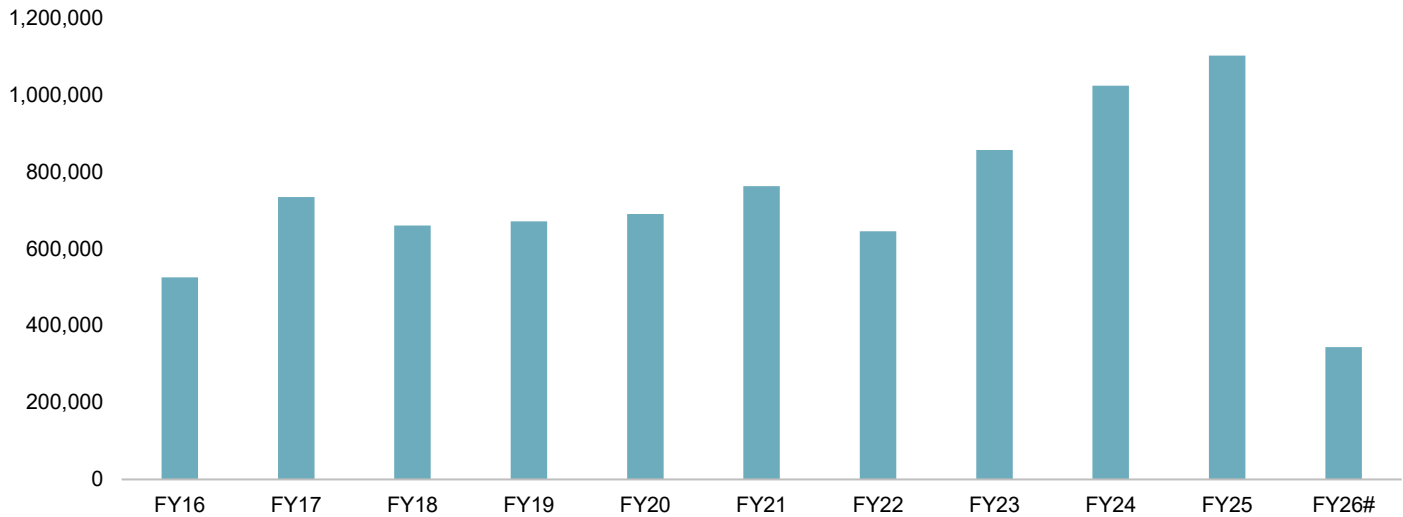
Issuance volumes of CDs were at a two-decade high in fiscal 2025 and have seen an ascending trend since fiscal 2021. During the fourth quarter of fiscal 2025, CD issuances reached an all-time high of Rs 3.70 lakh crore, with issuances rising 37% on-year. The rise in CD issuances following the pandemic can be attributed to higher credit demand, lower interest rates and subdued growth in deposits.

The issuances of CPs have been rising since fiscal 2023, following the RBI's mandate in November 2023 to increase risk weights on bank loans issued to higher-rated NBFCs. Issuance volume rose 14% on-year to ~Rs 15 lakh crore in fiscal 2025.

#: Up to Q1FY26

Source: Crisil Intelligence

Primary issuance of corporate bonds

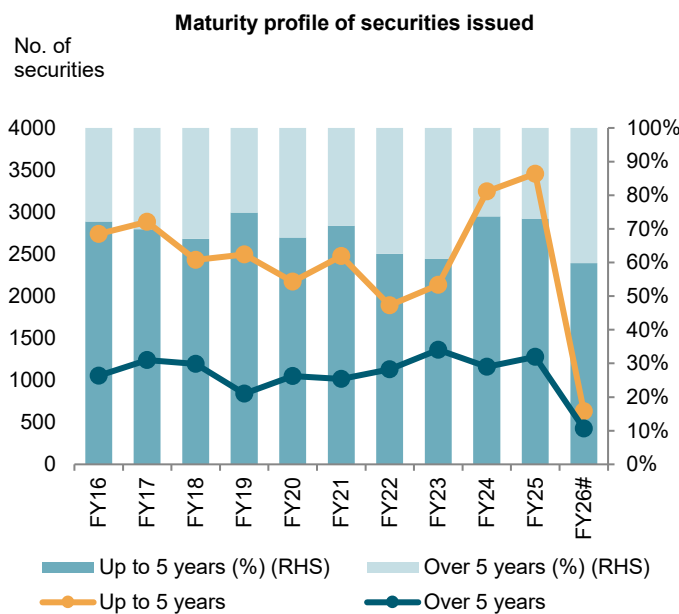


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Source: Crisil Intelligence

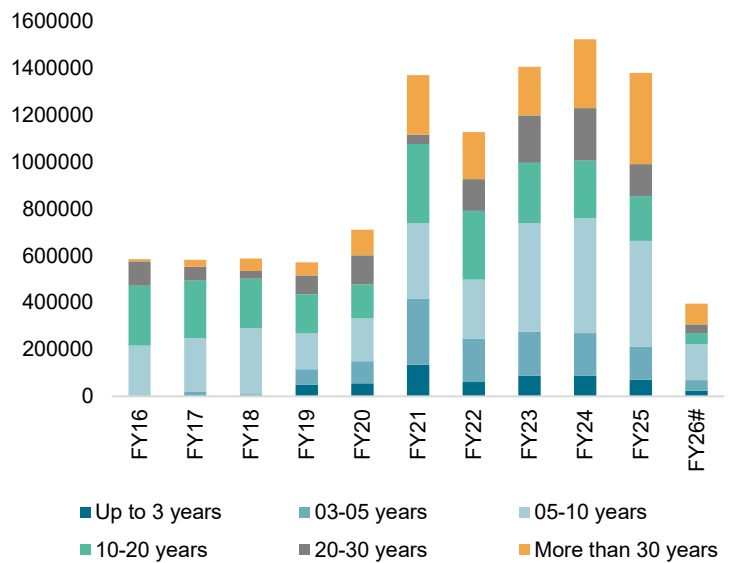
Corporate bond issuances rose to the highest ever in the last decade to ~Rs 11 trillion in March 2025. Overall, issuances of corporate bonds increased on-year in fiscal 2025. The current fiscal shows an upward trajectory with issuances of over ~Rs 3.4 lakh crore by the first quarter itself, supported by ample liquidity and the low-interest rate environment, with the RBI slashing the repo rate by a cumulative 100 basis points (bps) in calendar year 2025. Moreover, the slow transmission of rate cuts in bank lending is pushing issuers to tap the capital markets, shifting from the traditional bank loan routes.

Maturity profile of issuances in bonds



Rs crore

G-sec issuance



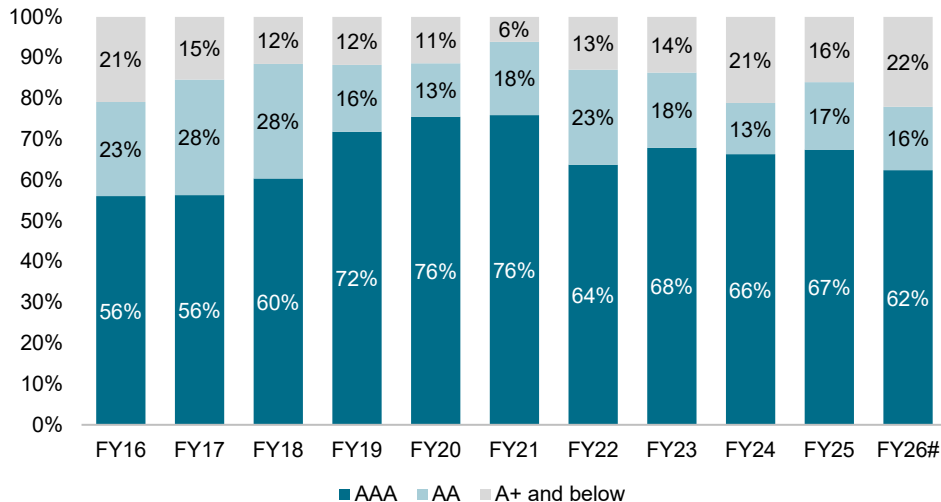
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Source: Crisil Intelligence, RBI

Issuances of corporate bonds in the up-to-5-years segment continued to dominate corporate bond issuances, as demand from institutional players such as MFs within the up-to-3-years segment soared amid a conducive interest rate environment, with its share increasing to ~47% in fiscal 2025 from ~30% in fiscal 2023.

The issuances of G-secs were led by the 5-10-years segment, which remains consistent with the trend seen in the past few years, accounting for ~32% of the total issuances in fiscal 2025. An upward trend was seen in the debt issuance of the more-than-30-years segment as interest rates declined, allowing the government to lock in low interest rates.

Rating and sector-wise split of corporate bond issuances



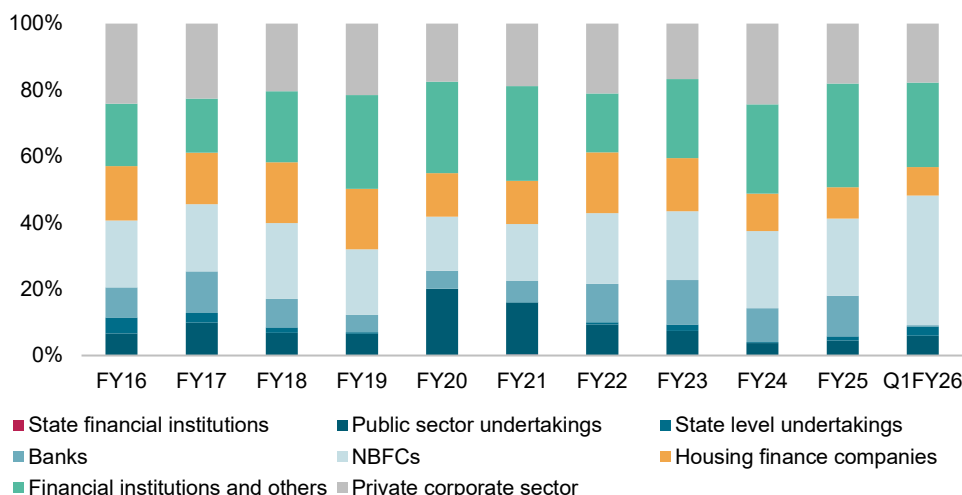
Issuances in the AAA rating category continued to dominate in fiscal 2025, remaining in the 66-67% range compared with the previous fiscal. AAA-rated securities, which have the highest comfort level in terms of credit risk, were the most sought after by investors.

The AA rating category also saw a slight increase to 17% in fiscal 2025 from 13% in fiscal 2024, as investors sought options beyond the highest rating for higher returns. Declining interest rates have led to an increase in the supply of corporate bonds as entities are locking in long-term capital at lower costs.

#: Up to Q1FY26

Source: Crisil Intelligence

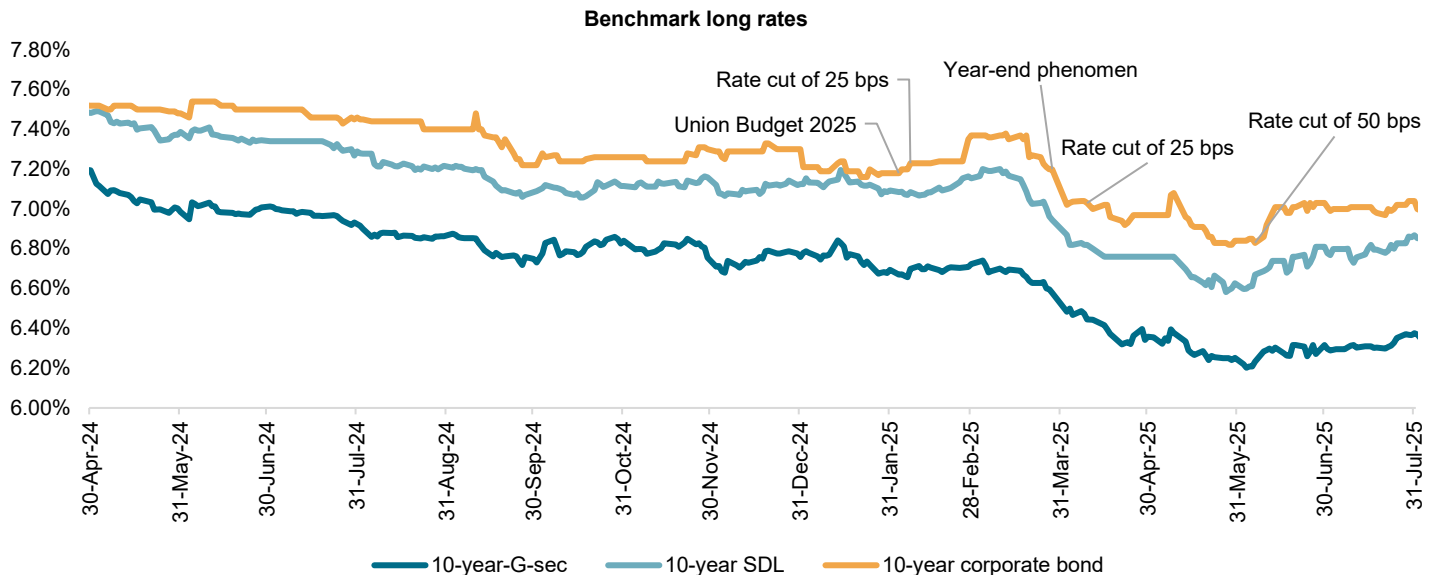
Further, demand for lower credit papers has also increased, driven by demand from high-net-worth individuals, portfolio management services (PMS), alternative investment funds (AIFs), etc. One of the prominent issuances in the first quarter of fiscal 2026, Porteast Investment, a Shapoorji Pallonji Group entity, entered into the largest private credit transaction in India to date, aggregating up to Rs 28,600 crore.



Following the RBI's regulatory change on the risk weightage of bank loans to non-banking financial companies (NBFCs), the latter became more inclined towards raising capital via the bond market. NBFCs and financial institutions together accounted for ~54.5% of the total corporate bond issuances in fiscal 2025. The share of NBFCs and financial institutions in issuances has increased since fiscal 2022, from ~39.0% of total issuances, owing to banks turning cautious on credit disbursement.

Source: Crisil Intelligence

Market trends in the debt segment



Source: Crisil Intelligence

The RBI has cut the repo rate thrice in calendar year 2025, by a cumulative 100 bps from February to June 2025, bringing the rate down from 6.5% to 5.5%. This marked the beginning of an aggressive monetary easing cycle in 2025, representing a notable departure from the extended pause that began in February 2023.

The RBI's Monetary Policy Committee also changed its stance from 'neutral' to 'accommodative', supported by a decrease in inflation as measured by the Consumer Price Index. The most recent inflation figure was recorded at 1.55% in July 2025.

Additionally, the RBI has taken a more calibrated data-driven approach in further interest rate reductions. The reduction in the key policy rate has had varying effects on the interest rates of debt securities, with the shorter end of the curve exhibiting a more pronounced response compared with the longer end. The 91-day T-bill yield decreased ~120 bps to 5.38% (as on July 31) from 6.58% in January 2025.

Furthermore, the 3-month money market rates (CP/CD) have declined by over 150 bps between January and July 2025. The effect of the rate cut on the longer segment has been more conservative compared with the short end of the curve, with the 10-year G-sec yield falling ~29 bps since the beginning of the year till mid-August 2025.

The yield on the 10-year G-sec fell 40 bps to 6.38% by end-July in calendar year 2025. The yield on corporate bonds has also decreased, with the 10-year AAA-rated PSU bonds dropping to 7.04% from 7.21% in January 2025. The impact of the rate cuts on the long end of the curve has been more complex, influenced by factors such as the RBI's indication of a pause in rate cuts, US tariffs and concerns regarding fiscal health.

An offtake in credit papers is seen, led by PMS, family offices and new-age investors such as AIFs as they seek high returns. Growing investor appetite for credit opportunities in AIFs is evident from the growth in assets under management (AUM) for Crisil AIF Benchmark - Debt Funds, up from ~Rs 14,000 crore from March 2021 to ~Rs 64,000 crore in September 2024. AUM for pension funds, which park majority of their money in debt instruments, increased to ~Rs 15 lakh crore in fiscal 2025 from ~Rs 4 lakh crore in fiscal 2020.

Last fiscal, the domestic debt market saw net FPI inflow of Rs 1.36 lakh crore, driven by inclusion of G-secs in global bond indices. The FTSE Russell Index is expected to add Indian G-secs in September 2025, which will further enhance FPI inflows into the market.

However, the spread between 10-year US Treasury and 10-year Indian G-sec will be a key monitorable. In June 2025, foreign institutional investments saw an outflow from Indian bonds as the spread fell below 200 bps, way lower than the 10-year historical average of ~450+ bps.

Bond traders are now looking for fresh triggers, as the headline inflation number continues to be on the lower side with the July figure at an eight-year low of 1.55%. Apart from domestic inflation, US tariffs, geopolitical reforms and goods and services tax (GST) rationalisation and impact on fiscal health are expected to influence future trajectory of policy rate.

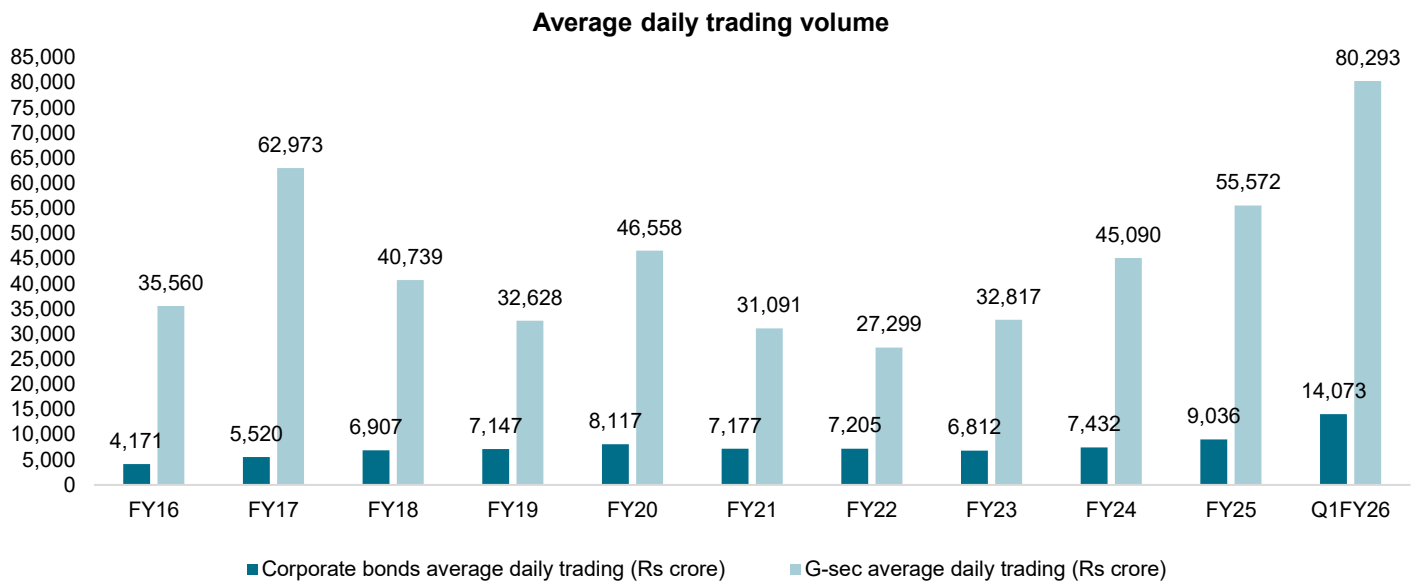
Post the announcement of GST reforms by the union government, the 10-year G-sec yield has climbed from 6.38% in end-July to a high of ~6.65% in August, heightening fiscal concerns. Displaying volatility, the 10-year G-sec yield closed August at 6.59%. The yields on 10-year PSU corporate bonds also continue to stay elevated.

The transmission of the phased cuts in banks' cash reserve ratio starting September 2025 and ample liquidity in the system are expected to keep the short-term rates low. However, the same cannot be said about the long end of the curve.

Liquidity eludes the corporate bond market

Trading volume at a high but the secondary market still muted

The RBI's earlier rate cuts and large liquidity injections since December 2024, lowered yields and steepened the yield curve boosting both supply and demand from investors in the corporate bond market. Secondary market turnover jumped ~22% on-year last fiscal to an average daily trading volume of Rs 9,036 crore (vs Rs 7,432 crore in fiscal 2024). Meanwhile, average daily trading volume in G-secs stood at Rs 55,572 crore last fiscal, 23% higher on-year due to continued demand from banks and insurance players and higher FPI inflows after inclusion of domestic G-secs in global bond indices. As of the first quarter of this fiscal, the average G-sec trading volume was Rs 80,293 crore.



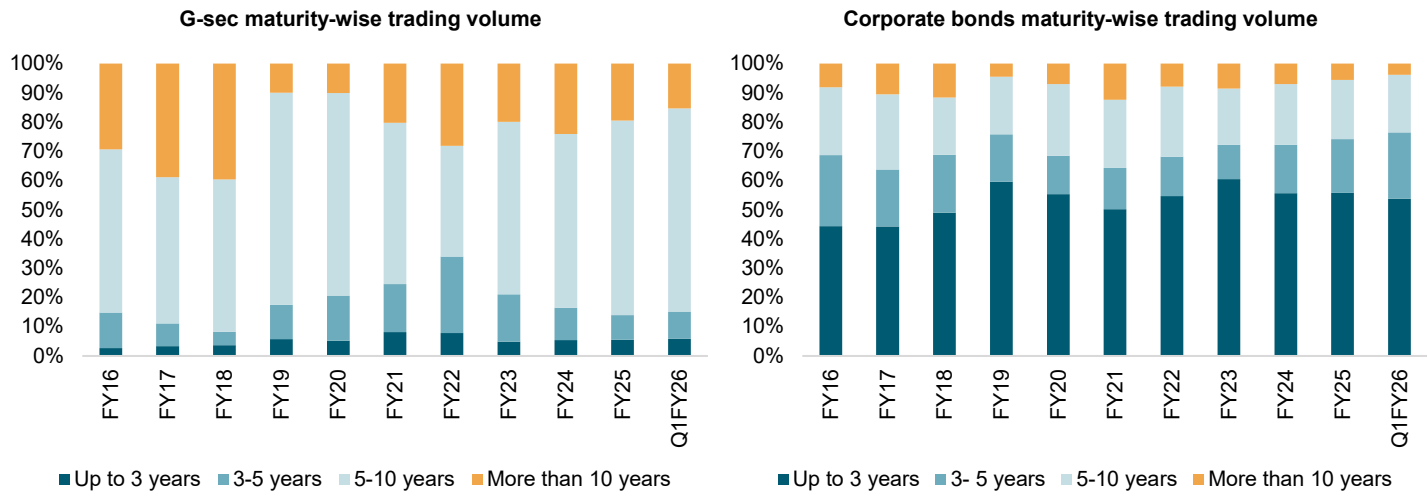
Source: CCIL, NSE, BSE, Crisil Intelligence

Given the prevailing benign rate scenario and continued liquidity support from the RBI, the corporate bond market is seeing consistent momentum this fiscal as issuers are front-loading supplies, as a lag in the transmission of rate cuts is making more paper available for trades. Average daily trading volume in the secondary market grew ~56% on-year to Rs 14,073 crore in the first quarter of this fiscal, indicating growing depth. Record-high primary issuances also contributed to the increase in volume. Institutional players such as MFs, insurers, banks and pension funds continued to be the most active participants based on their exposures.

Shorter-tenure corporate bonds and 10-year G-secs remain a hit

Post the pandemic, trading volume for corporate bonds was the highest in of up to five-year tenure. Within the segment, the volume was the highest in bonds up to three-year maturity last fiscal. With yields more attractive in shorter segments, MFs and treasuries prefer these bonds.

In G-secs, the 5-10-year maturity bucket accounted for over half of the total trading volume last fiscal, supported by higher liquidity in this segment. Within the segment, 10-year papers remained the most actively traded. Stable inflation and the RBI's rate cuts and liquidity measures, such as dollar-rupee swap auctions, open market operations and variable rate repo auctions, have eased yields, making the segment attractive for investors.



Source: CCIL, NSE, BSE, Crisil Intelligence

Lack of depth in the secondary corporate bond market a concern

The domestic bond market has grown significantly in terms of issuances, with record volumes in government and corporate segments over the past years. However, unlike the secondary market for G-secs, that for corporate bonds continues to be shallow. Last fiscal, the average monthly turnover in corporate bonds stood at 3.8% of outstanding value, according to the RBI's Financial Stability Report published in June 2025. A significant portion of trades in the secondary market for corporate bonds happens over the counter (OTC). This lacks transparency of exchange-traded deals, leading to information asymmetry and shoddy price discovery, which reduce investor confidence. Also, only AAA-rated bonds or select top-rated issuers are liquid. The absence of risk appetite beyond top-rated bonds is a key impediment.

Corporate bond trading vs outstanding

Fiscal	Average daily trading (Rs crore)	Outstanding (Rs crore)	Average daily trading/outstanding (%)
FY16	4171	2019295.93	0.21%
FY17	5519.85	2404910.66	0.23%
FY18	6906.75	2742259.07	0.25%
FY19	7146.93	3067228.19	0.23%
FY20	8116.78	3253921.59	0.25%
FY21	7177.37	3612605.69	0.20%
FY22	7205.41	4017025.23	0.18%
FY23	6811.70	4313853.80	0.16%
FY24	7432.41	4728935.67	0.16%
FY25	9035.66	5360000.00	0.17%

Source: Crisil Intelligence, Prime Database

The data in the table above shows that average daily trading volume in corporate bonds rose above ~Rs 9,000 crore last fiscal, up ~11.3% from fiscal 2020. However, the ratio of average daily trading volume to outstanding declined to 0.17% from 0.25% during the period. This shows that secondary market liquidity is muted even though the primary market has seen robust growth.

Key reasons for lack of liquidity in the secondary corporate bond market

1. **Narrow investor base:** Institutional players (insurance companies, provident funds, pension funds) invest predominantly in issuances rated AA and above because of regulatory norms and often prefer to hold their investments until maturity. Further, most of lower-rated bond issuances are privately placed with a limited number of investors, thereby reducing the base for secondary market trading. A narrow investor base also widens the bid-ask spread in the lower-rated segment.
2. **Lack of market makers and infrastructure:** The absence of market makers, especially for the lower-rated segment, hinders price discovery. Further, in India, the absence of a credit default swap market and repo in sub-AA bonds leads to illiquidity in the lower-rated segment. Establishment of well-functioning exchange-traded platforms, such as Clearing Corporation of India Ltd, for corporate bonds will improve transparency and rectify information asymmetry.
3. **Low public bond issuances:** Awareness about the corporate bond market is limited among retail investors, as ~99% of the issuances are privately placed. Also, retail investors may prefer bank deposits over corporate bonds due to illiquidity or perceived credit risk.

Addressing these structural issues is critical to strengthen India's debt capital market and improve global competitiveness. Steps that can be taken to fuel market growth include incentivising dealers and banks to become market makers and developing supportive markets (for example, corporate bond repos or credit derivatives) to allow efficient hedging and liquidity management. Strengthening liquidity is not only necessary for lowering borrowing costs and improving risk pricing but is also crucial for India's integration into global capital markets.

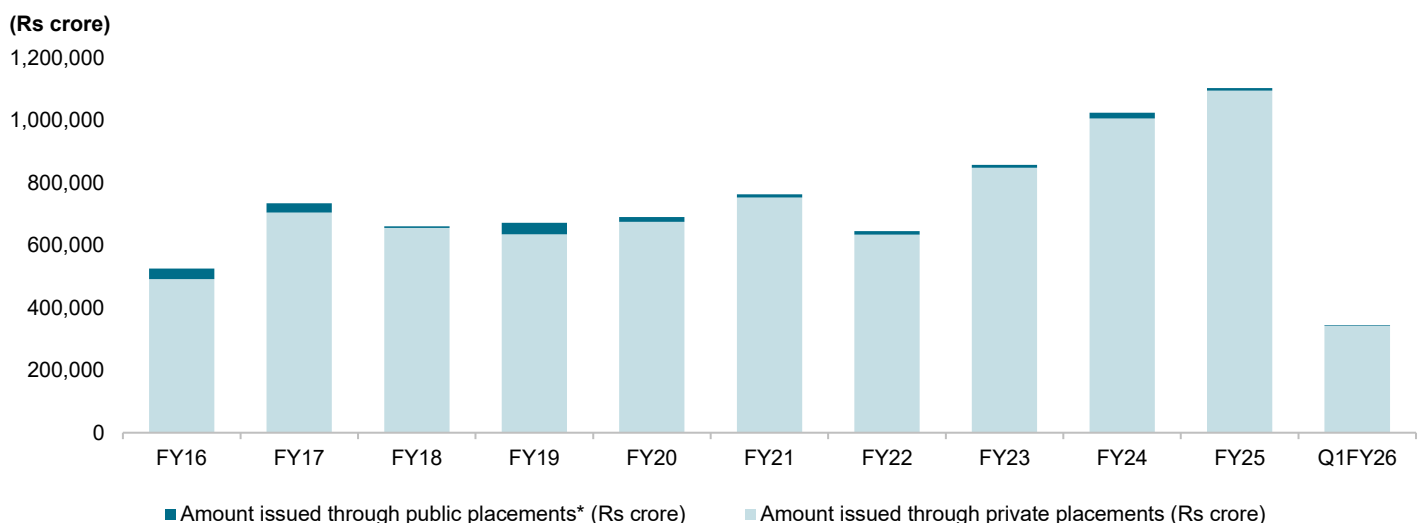
Retail participation

Public vs private placements in the debt market

Over the past decade, the domestic corporate debt market has witnessed steady growth in issuances, led by private placements. While public debt issues remain an important channel, the overwhelming preference among issuers has been for private placements, driven by regulatory changes, speed of execution, flexibility and investor demand. In March 2025, corporate bond issuances hit a high of Rs 11.03 trillion, led by primary issuances via private placements (~99% share). Even in the first quarter of this fiscal, primary issuances via private placements dominated (99.58%).

Public issuances accounted for 0.74% of total issuances last fiscal 2025 and 0.42% in the first quarter of this fiscal. The response to these, though lukewarm, was led by retail investors.

Private placements dominate bond issuances



Source: RBI, SEBI, Prime Database

Retail investor access

To boost retail participation in G-secs, the RBI launched the Retail Direct scheme in November 2021. It has been conceived as a one-stop solution to facilitate retail investment in G-secs—both in primary auctions and the secondary market. According to the RBI data, the scheme is gradually picking up among retail investors, with their holdings jumping from Rs 914.47 crore as on November 14, 2022 to Rs 2,441.23 crore as on August 18, 2025. Volume in the secondary market increased from Rs 175.61 crore to Rs 4,561.9 crore during the same period. However, as a proportion to outstanding, retail participation is minuscule.

To wit, globally private placements hold the majority share in debt markets and institutional players dominate with big-ticket trades, elbowing out retail participation. As explained above, India, too, is not an exception.

For instance, for a retail investor investing in Bajaj Finance bonds, the bond yield will be ~75 bps more than an 18-month fixed deposit. However, owing to big-ticket transactions and limited accessibility, retail participation in corporate bonds remains low.

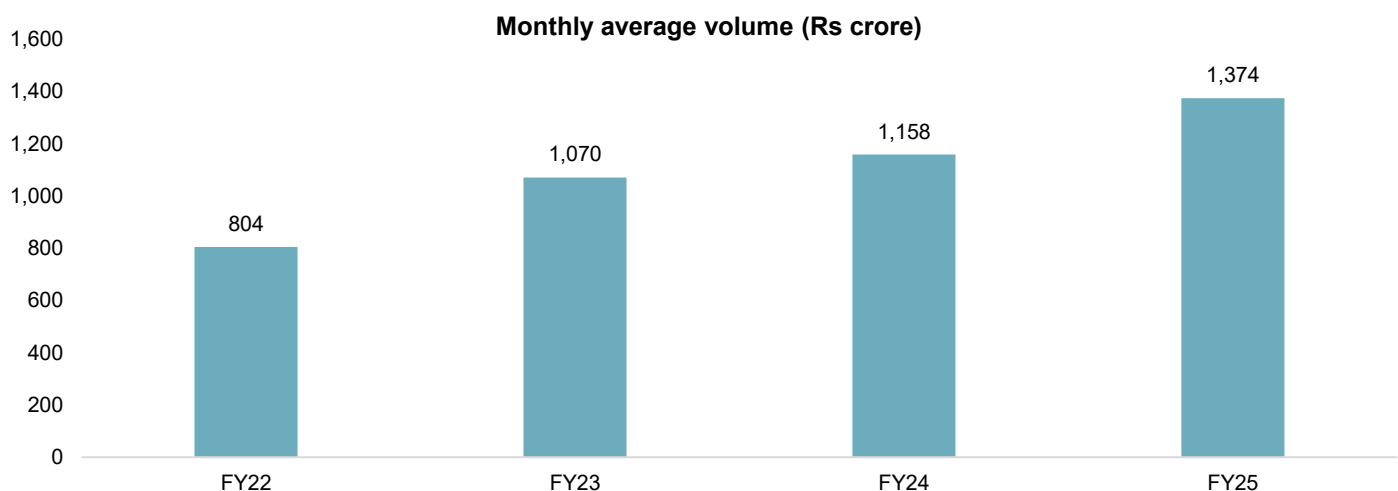
In a bid to address the low retail participation, regulator SEBI has reduced the face value of corporate bonds to Rs 10,000 from Rs 10 lakh.

Also, it introduced a registration and regulatory framework for Online Bond Platform Providers (OBPP) in November 2022. The introduction of the OBPP framework has offered an avenue for investors, particularly non-institutional investors, to access the corporate bond market. These initiatives have made fixed-income investments more accessible to institutional as well as retail investors. The framework has enabled licensed fintech platforms to offer bonds with transparency, ease and at lower cost. Also, they allow retail investors to choose from a variety of debt instruments, based on their investment horizon and risk appetite.

Further, in February 2025, Bond Central, a SEBI-backed platform, was launched, aimed at creating a centralised, transparent database for bond issuances. It was developed by the OBPP Association in collaboration with market infrastructure institutions (MIIs) comprising stock exchanges and depositories. The platform is designed to offer investors easy access to real-time information on corporate bonds, thereby promoting transparency, better price discovery and aiding investment decision making.

At present, more than 30 entities have registered with SEBI and secured the licence. They are expected to increase retail investor participation in corporate bonds. As a result, the total number of clients registered in OBPP segment has now increased to 5.6 lakh in fiscal 2025 from 3.5 lakh in fiscal 2024. Further, the value of trade in corporate bonds through the request for quote (RFQ) platform has gone up 55% to Rs 5.3 lakh crore in fiscal 2025 from Rs 3.4 lakh crore in fiscal 2024, as per SEBI. Moreover, the monthly average retail volume has increased over the past few years since the introduction of OBPPs at a CAGR of ~20%.

Annual growth in monthly retail volume*



*Only trades under Rs 1 crore are considered for the retail category

Source: The National Stock Exchange (NSE), the Bombay Stock Exchange (BSE)

Similar views are shared by OBPP players, wherein different platforms have seen strong growth numbers (~30% on-year, on average), with average ticket size in retail at Rs 1-2 lakh. Retail investors' demand is seen for higher coupon securities (AA rated and below), typically in the 9-11% range, outperforming bank fixed deposit returns. Even though the retail volume has increased, it remains miniscule to the secondary trading volume.

The following steps will help draw retail investors to the market:

- **Investor education:** One key reason for the low retail interest is the complexity of bonds and lack of awareness. Regulators could undertake financial literacy campaigns to bring clarity and build investor confidence in the market. Social media influencers, who provide investment advice, should be brought under scrutiny and any awareness creation must be imparted only through regulated channels. Further, these campaigns must position corporate bonds as an alternative investment instrument for retail investors
- **Taxation concessions:** Another bugbear is taxation. Retail investors have various products, such as small saving schemes, public provident fund and National Saving Certificates, which offer tax benefits. Even long-term capital gains (LTCG) from equities are favourably taxed. In contrast, tax erodes returns from corporate bond investments, discouraging retail investors from partaking in the market. Favourable taxation should encourage retail investment in bonds and help the government mobilise long-term capital for infrastructure and other priorities
- **Lack of liquidity:** Liquidity, or lack of it, is a crucial factor investors consider while making an investment decision. Corporate bonds have low liquidity. Retail investors find it difficult to exit/liquidate their holding and end up paying higher premium. Market makers need to be assigned for ensuring liquidity in the secondary market. Further, direct access to exchange-traded platforms and live bond indices will improve price discovery and accessibility
- **Smaller ticket sizes:** The move to reduce the ticket size of non-convertible debentures to Rs 10,000 is a positive. However, the ticket size must be lowered further. For instance, MF systematic investment plans (SIPs) have a minimum investment size of just Rs 100, because of which investor interest in this mode of investing has grown leaps and bounds in recent years. Similarly, lowering the ticket size of private issuances to Rs 1,000 will make bonds accessible to a wider range of retail investors
- **Introduction of DLSS:** The corporate bond market and investors will benefit from launching a debt-linked savings scheme (DLSS) on the lines of equity-linked savings schemes (ELSS). DLSS will provide an alternative fixed-income option with tax breaks to retail investors and help them participate in bond markets at low costs and at a lower risk compared with equity markets
- **Tax benefits for passive fixed-income funds:** Target maturity passive products, which are easy-to-understand debt fund products, could attract retail participants. Passive debt funds will help deepen the bond market by attracting additional investors and, hence, enhancing liquidity. But the demand for these products has reduced following the changes in taxation in 2023 for debt MFs. As a result of these changes, investors now no longer receive indexation benefits when computing LTCG and are taxed at the applicable slab rates

Mutual funds catalysing inclusion in the bond market

MFs, over the years, have proved to be a catalyst for development of the debt market, which provides governments and corporations a platform to raise capital and enables investors to generate returns.

The funds have absorbed a significant portion of the debt issuances in diverse investment portfolios, enabling companies to raise funds at competitive rates.

More importantly, MFs have played a key role in promoting financial inclusion by allowing retail investors to access the debt market, which was the domain of institutional investors earlier.

In the process, funds have also helped deepen the market and increase liquidity.

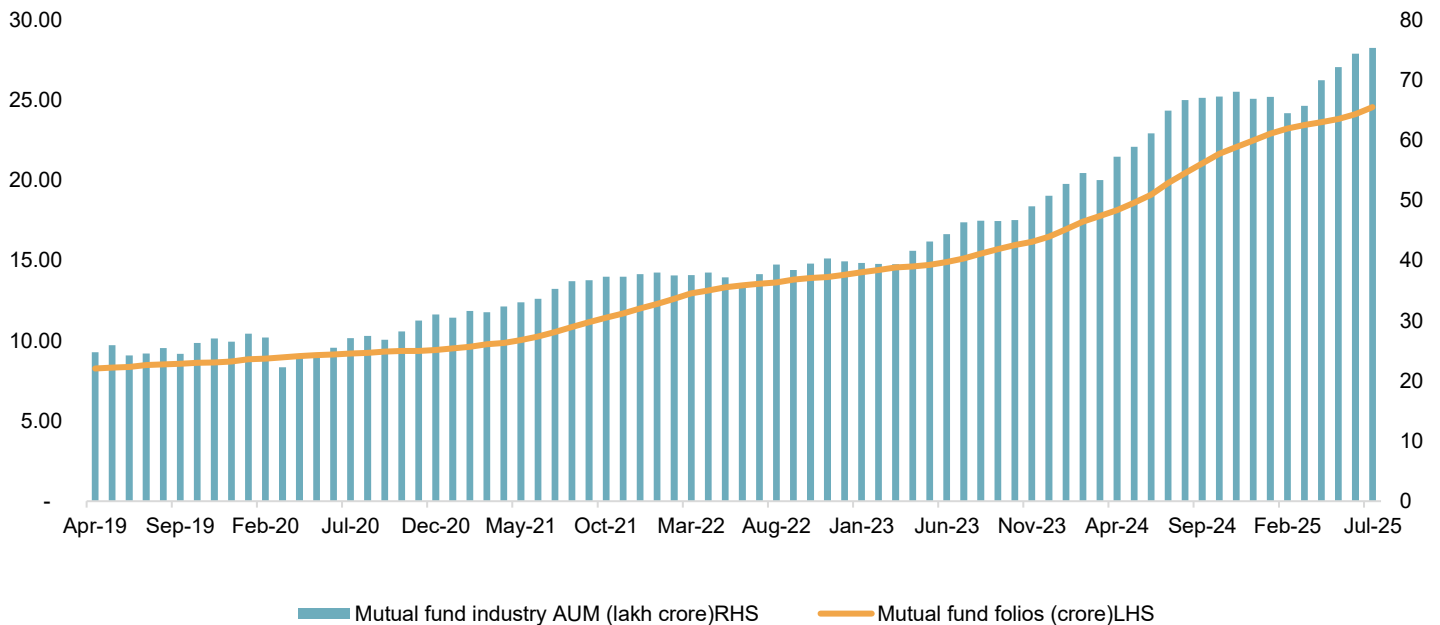
By allowing retail investors to access the debt market, previously the domain of institutional investors, MFs have also played a key role in promoting financial inclusion.

As a result, the debt market has expanded significantly, with MFs accounting for a substantial share of the total debt holdings, including corporate debt.

The growth of MFs in India has been remarkable, with AUM surpassing Rs 75 lakh crore by July 2025, a 204% increase over Rs 24 lakh crore in April 2019. AUM has tripled thrice in a span of six years from fiscal 2019.

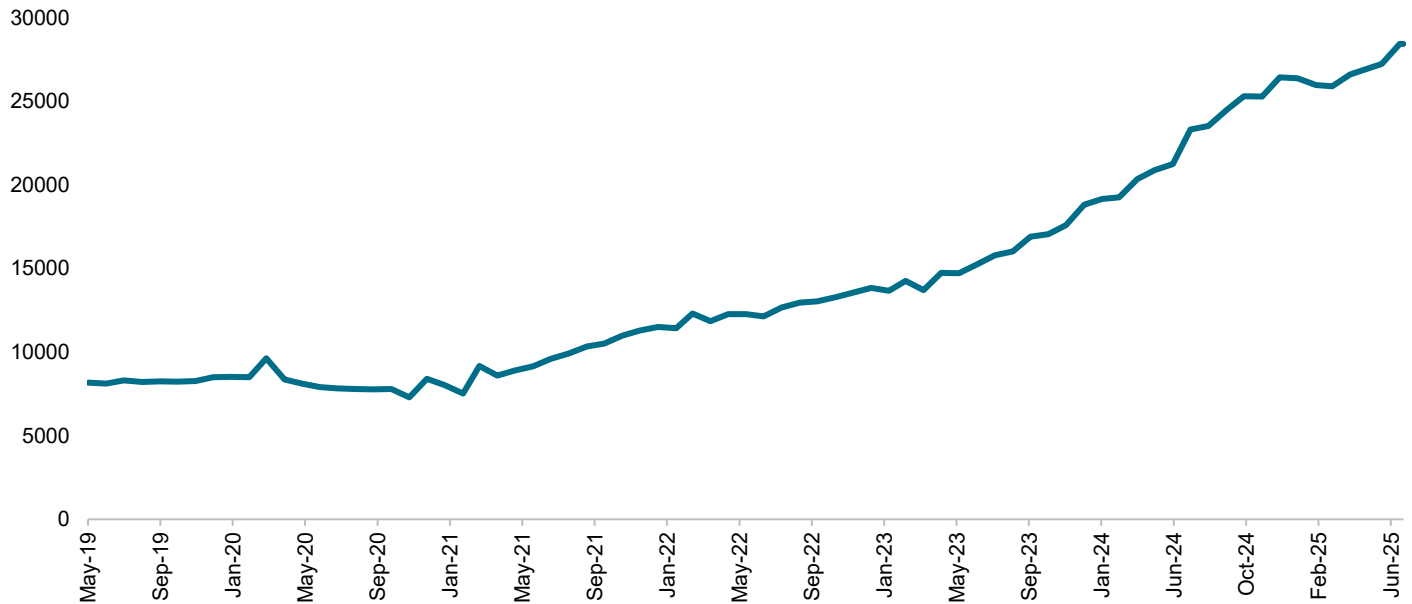
MF folios crossed 24 crore in July 2025 vs 8 crore in April 2019.

Growth in MF penetration



Source: Association of Mutual Funds of India (AMFI)

Monthly SIP contribution



Source: AMFI

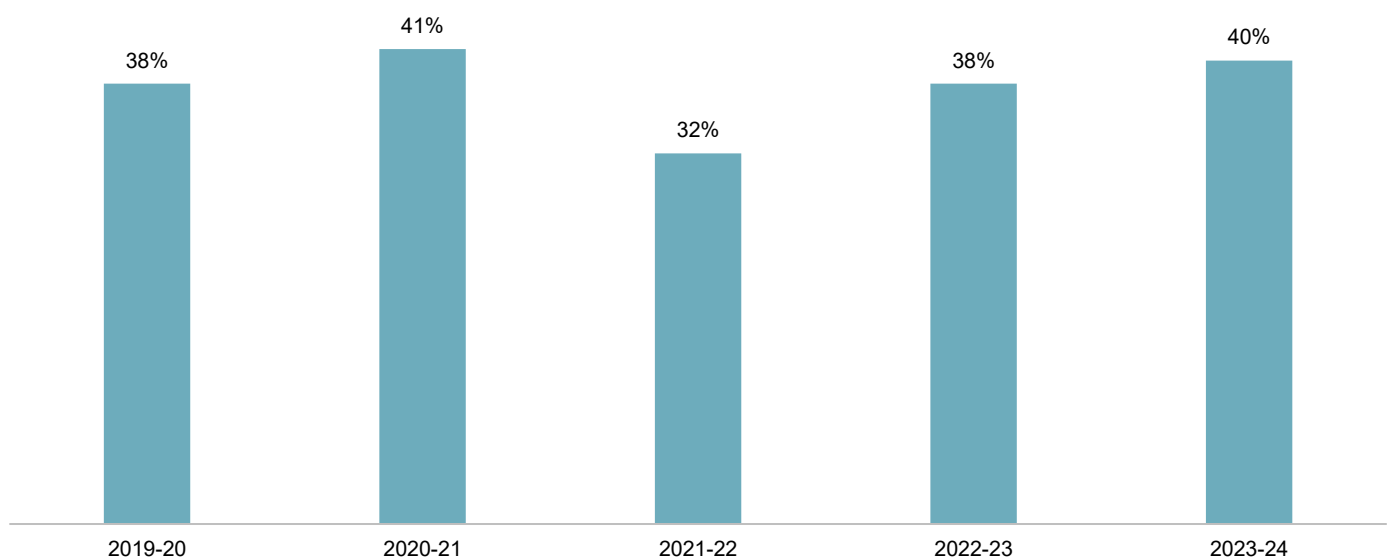
SIPs have surpassed monthly investments of ~Rs 27,000 crore, indicating a steady flow of investment into MFs. Monthly SIP contributions more than tripled to ~Rs 27,000 crore in June 2025 from Rs 8,000 crore in 2019. Notably, SIP assets now constitute 20.6% of the MF industry's assets, highlighting their growing importance.

The quantum of these investments can increase even further.

Household savings can flow into corporate bonds via MFs

Indian households have traditionally favoured fixed-income products. In fact, the latest RBI data shows more than 40% of Indian household savings go into fixed-income products such as bank deposits.

Share of bank deposits in household savings



Source: RBI annual report

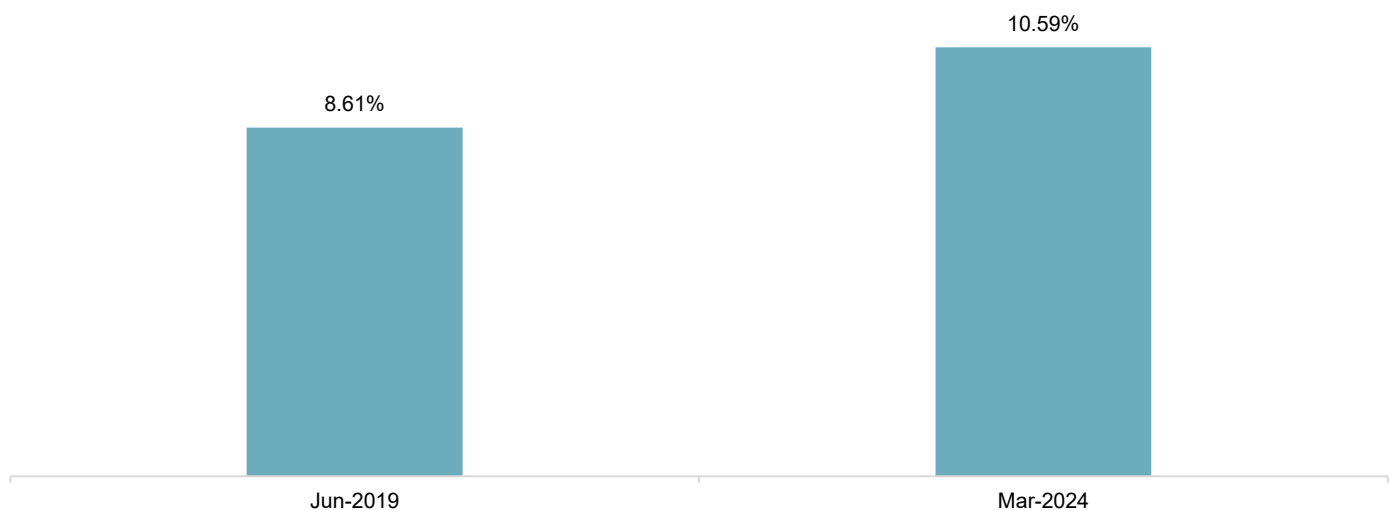
The fixation of Indian households to park their money in savings accounts and fixed deposits is hindering them from generating higher yields the corporate bond market provides.

The AAA PSU and AAA NBFC curve in the three-year segment offers 65-95 bps (as of August-end) higher yield than fixed deposits.

Share of MFs in household savings

The MF industry increased its share in the household savings pie from 8.61% in June 2019 to 10.59% in March 2024, as per RBI data in Stocks of Financial Assets and Liabilities of Households - Select Indicators. This also contributed to the surge in MF investments during the period.

Stocks of financial assets and liabilities of households - select indicators



Source: RBI

MFs have a critical role to play in helping India's debt market mature

MFs can play a crucial role in supporting the development of India's bond market by increasing demand for corporate bonds, enhancing liquidity, mitigating risk and promoting diversification, transparency and price discovery. By investing in debt MFs, retail investors park funds in a diversified portfolio of corporate bonds, thus providing companies capital for expansion and growth. This enhances bond market liquidity, lowers borrowing costs for corporations and promotes market transparency and efficiency.

The growth of MFs, driven by increasing investor awareness and ease of investment, has led to a significant increase in the AUM, with a substantial portion invested in debt securities. By channelling retail investor money into debt MFs, India can foster the growth and development of its corporate bond market, benefiting both investors and corporations.

Debt MFs play a multifaceted role in market development.

- **Mobilisation of public savings:** MFs provide an avenue for retail investors to invest their savings in a diversified portfolio, mobilising public savings to the bond market
- **Market liquidity:** MFs provide liquidity to the bond market by investing in a wide range of debt securities, including G-secs, corporate bonds and commercial papers
- **Risk diversification and reduction:** MFs help diversify the risk of investors by investing in a portfolio of debt securities, thereby reducing the risk associated with individual securities

The MF industry has introduced new and innovative debt fund schemes, such as target MFs, debt fund of funds and debt exchange-traded funds, to give investors more choice and help them manage their debt investments better. These new

schemes aim to meet the changing needs of investors. Additionally, the industry has launched user-friendly initiatives such as the PRC Matrix to make investing easier and more appealing to individual investors.

Therefore, MFs play a vital role in supporting bond markets by providing liquidity, facilitating access for retail investors and mobilising public savings. Their growth has been remarkable, and their functions in market development are multifaceted. As the bond market continues to evolve, the importance of MFs is likely to increase, making them an essential player in the financial ecosystem.

Reassessing the cap on overseas investments by AIFs

Current landscape

AIFs are investment vehicles that collect money from investors to invest in assets beyond traditional stocks and bonds.

By March 2025, the total commitment to AIF had reached ~Rs 13.49 lakh crore, up ~19% on-year.

AIF category	Commitments raised (Rs crore)	Funds raised (Rs crore)	Investments made (Rs crore)
Category I AIF	89,083	49,373	42,931
Category II AIF	10,30,041	3,66,621	3,32,201
Category III AIF	2,29,927	1,47,435	1,63,029
Grand total	13,49,051	5,63,429	5,38,161

As on March 31, 2025

Source: SEBI

AIFs are playing a growing role in deepening India's capital markets and attracting global investors. As India continues to integrate more deeply with global financial systems, the regulatory framework around overseas investment is gaining importance.

To support overseas diversification, in 2015, SEBI permitted AIFs to invest up to 25% of their investable corpus (fund size minus expenses) overseas and introduced a \$500 million cap for such investments. This was subject to the condition that the overseas investments must have an Indian connection. Later, SEBI raised this cap to \$1,500 million to enable AIFs/venture capital funds (VCFs) generate higher returns for investors.

Currently, there is no urgent need to revise these limits. However, future changes should align with global economic conditions and market dynamics, preferably towards the conclusion of broader trade and financial negotiations.

Need to revisit the cap

- Greater global diversification: Liberalising the cap on overseas investments could provide AIFs with better access to the international markets, thereby mitigating domestic market risks and generating stronger returns for investors
- Enabling larger fund structures: As Indian AIFs grow in scale, accommodating larger thresholds will support innovation and flexibility in fund design
- Boosting India's global appeal: A more open regime will strengthen India's image as an investment-friendly jurisdiction with robust yet supportive capital market regulations
- Capital market deepening: A higher threshold will allow AIFs to allocate capital more freely across borders leading to broader financial market development

While an immediate revision of the AIFs' overseas investment cap may not be needed, keeping flexibility in rules and planning ahead is important. Reviewing the 25% and \$1.5 billion threshold at an appropriate time, especially after key trade or financial negotiations, can make India more competitive and attractive for alternative investments.

Bond market needs to step up and bridge the funding gap

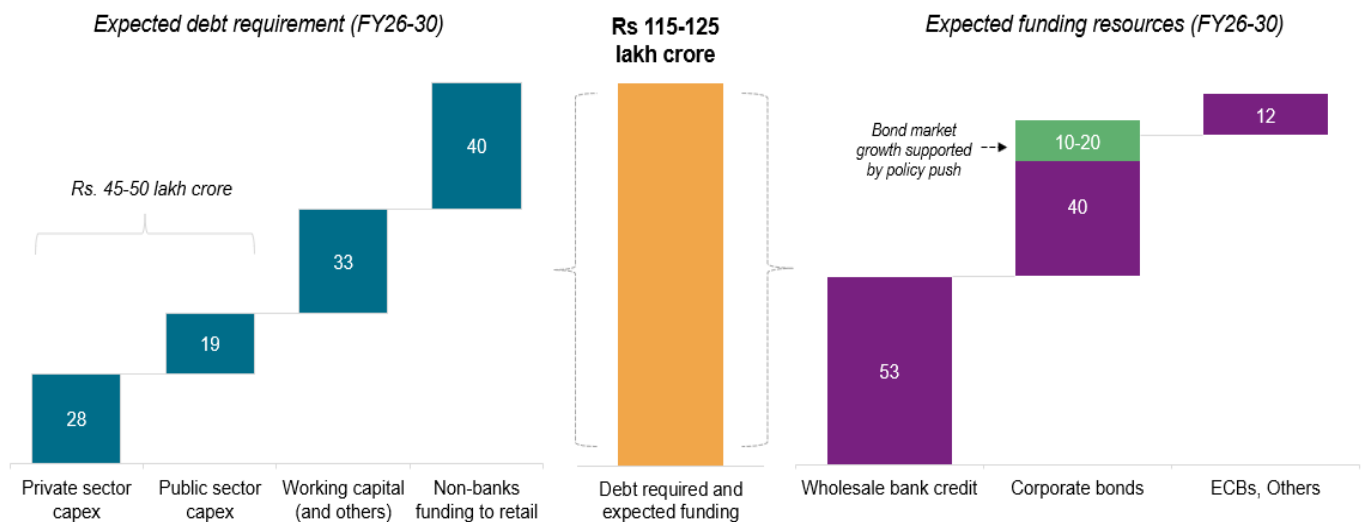
India Inc needs Rs 115-125 lakh crore debt funding over fiscals 2026-2030; corporate bond market¹ needs to outpace its historical growth to bridge a potential gap of Rs 10-20 lakh crore

India Inc requires debt funding of Rs 115-125 lakh crore between fiscals 2026 and 2030 to cover capital expenditure (capex) in infrastructure and industrial sectors, fund working capital and meet retail lending requirement.

The capex in the infrastructure and industrial segments is expected to be Rs 90-100 lakh crore and Rs 33-38 lakh crore, respectively, during fiscals 2026-2030, increasing 1.6 times compared with the previous five fiscals. Crisil Ratings estimates a long-term debt requirement of Rs 45-50 lakh crore to fund the capex, while the remaining capex requirement will be met through budgetary allocation and internal accrual. Strong balance sheets of corporates and improved credit profile of infrastructure assets will help corporate India undertake the capex.

The balance debt requirement of Rs 70-75 lakh crore will come from the working capital requirement of India Inc and retail lending by non-banks and financial institutions.

Chart 1: Bond market growth supported by policy push can bridge funding shortfall



Source: Crisil Ratings estimates

Financing ecosystem likely to fall short of required debt by Rs 10-20 lakh crore

The financing ecosystem, comprising banks, corporate bond market and external commercial borrowing, is expected to grow at 10% per annum until fiscal 2030, leaving a funding gap of Rs 10-20 lakh crore.

The wholesale bank credit segment grew 8% during fiscals 2020-2025. Robust capital buffer, improved asset quality and healthy earnings place the Indian banking system in a sweet spot to support the debt of India Inc. Consequently, the banking system is expected to contribute Rs 50-55 lakh crore to wholesale credit by fiscal 2030 on a base of ~Rs 91 lakh crore, growing ~10% per fiscal.

¹Apart from long-term capital market instruments such as bonds/debentures, this includes money market instruments such as CPs and CDs.

However, deposit growth, which has been slow at ~11% over the past three fiscals, remains a monitorable. Hence, any further growth in whole credit beyond 10% may be a stretch as banks will walk the tightrope between growing their deposit base and protecting profitability, depending on their ability to mobilise cost-effective deposits.

The outstanding size of the corporate bond market grew at a five-year CAGR of ~11% to Rs 63 lakh crore in fiscal 2025 from Rs 38 lakh crore in fiscal 2020 and contributed around a third of the Indian corporate credit landscape in fiscal 2025.

In the base case, Crisil Ratings expects the outstanding size of bond market to be Rs 100-105 lakh crore by fiscal 2030, maintaining a growth trajectory of ~11%, driven by favourable supply and demand.

However, considering the base case growth expectation of 10% of the financing ecosystem, there will still be a gap of Rs 10-20 lakh crore in debt funding required by India Inc over the next five fiscals.

With appropriate regulatory and policy interventions, the corporate bond market can grow faster at 13% per annum to Rs 115-125 lakh crore and bridge the funding gap of Indian corporates.

Supply and demand-side factors support growth trajectory

Factors such as large capex in the infrastructure and industrial segments, low bond market penetration of top corporates and favourable macroeconomic conditions will drive the growth in supply of bonds.

A Crisil Ratings study of India's top 500 corporates shows that the non-financial corporates (public sector undertakings [PSUs] and private sector) source only 20-30% of their domestic borrowings from the bond market. Our analysis shows that if the top non-financial companies increase their share of debt raised through the corporate bond market to between half and two-thirds of their domestic borrowing, as much as Rs 4-7 lakh crore may be raised incrementally. Thus, the potential for non-financial private corporates to tap into the bond market remains immense.

The recent policy rate cut of 50 bps and expected moderation in interest rates as inflation remains under control augur well for issuers to tap the corporate bond market over the medium term.

The bond market is likely to benefit from government's steadfast commitment to fiscal consolidation with fiscal deficit estimated at 4.8% for 2025 and anticipated at 4.4% in fiscal 2026.

Also, the inclusion of Indian G-secs in global bond indices remains an enabler for bond market growth. The continued flow of foreign capital into domestic G-secs will provide more space for corporate bonds. For instance, FPI inflow of Rs 1.25 lakh crore into G-secs was witnessed between June 2024 and March 2025, driven by inclusion of Indian G-secs in the JP Morgan Index in a staggered manner during this period.

On the demand side, rising financialisation of household savings and growth in managed investment products² will continue to drive demand for corporate bonds. The managed investments industry has more than doubled in the past five fiscals, led by superlative growth in AUM of MFs, AIFs and pension funds.

The growth in managed investment products is expected to sustain over the medium term on account of increasing financial literacy, rising investor sophistication in terms of retirement planning, higher awareness and use of insurance, investment objective aimed at beating inflation and growing middle-income population, among other factors.

While financialisation of savings will support managed investments growth, policy nudge for large investor categories such as insurance, pension and MFs to channelise higher investments into corporate bonds is required for the bond market to step up its role in meeting funding requirement.

Corporate bond investments are amenable to patient capital investors

Patient capital investors, consisting of insurance and pension funds, are a key investor segment contributing ~40% of corporate bond investments.

However, corporate bond investments form a modest portion of the overall AUM of patient capital investors, with only a sixth of their AUM allocated to this asset class. In contrast, patient capital investors in developed markets such as the US have higher exposure to corporate bonds, with over a quarter of their AUM invested in corporate bonds.

² Insurance funds, MFs, retirement funds (provident fund [PF] and National Pension System, AIFs and PMS)

Several positive steps and developments over the past decade have made corporate bonds amenable to the risk appetite of patient capital investors.

For instance, in the infrastructure sector, better risk sharing between public and private counterparties, greater presence of central counterparties to address payment issues, use of the Insolvency and Bankruptcy Code and other platforms for resolution of non-performing assets have led to a perceptible shift in the infrastructure sector's credit risk profile. Also, asset pooling platforms such as infrastructure investment trusts (InvITs) improve availability and recycling of capital invested by developers in the infrastructure assets and enhance credit profile through diversification.

The improving risk profile of infrastructure assets is also evident in the shift in the median ratings of infrastructure assets in the Crisil Ratings portfolio, which have improved from BBB+ in fiscal 2018 to A+ in fiscal 2025. Additionally, a Crisil Ratings study on the loss given default (LGD) for infrastructure assets found that LGD was 20-60%³, well below the typical LGD of 60-65% factored by lenders.

Corporates have significantly deleveraged, thereby, strengthening balance sheets and enhancing financial flexibility. This is reflected in the median gearing ratio of Crisil-rated entities, which is estimated at 0.5 time as on March 31, 2025, compared with 1.05 times as on March 31, 2015. Meanwhile, the revenue and profitability of India Inc have seen sustained improvement.

These positive developments warrant a refreshed look at investments in corporate bonds.

Nonetheless, regulatory constraints such as ratings and exposure limits of insurers and pension funds act as key restrictive factors, limiting the increase in corporate bond exposure. Addressing these issues can go a long way in improving the corporate bond exposure of patient capital investors.

³ <https://www.crisilratings.com/en/home/our-analysis/reports/2024/10/the-different-shades-of-lgd.html>

Regulatory boost can lift contribution of corporate bonds

Patient capital investors should be encouraged to invest down the rating curve

Pension and insurance funds invest predominantly in AA and above rated issuances, driven by rating floors prescribed by regulators. While the Pension Fund Regulatory and Development Authority (PFRDA) has allowed the National Pension Scheme to invest in A category papers, investments between securities rated A and AA- are restricted to 10% of its corporate bond portfolio.

Investment regulations of insurers and pension funds need to be revised to allow investment in A and BBB category debt instruments. Regulators should facilitate this by relaxing investment restrictions for issuances rated below AA for insurers and pension funds.

Also, patient capital investors can be encouraged to calibrate their risk-taking in A and BBB infrastructure papers by using expected loss (EL) rating along with probability of default (PD) rating.

Infrastructure assets are suitable for the risk appetite of patient capital investors requiring long-tenure debt investments. Regulators can encourage lenders and issuers to use EL-based ratings, which factor in both PD and LGD for efficient risk pricing of infrastructure assets.

Relaxation of exposure limits on patient capital investors will boost debt capital market flow to the infrastructure sector

For insurance companies, investment exposure to infrastructure companies is linked to project cost and balance sheet parameters of the issuer. Investment exposure to a public limited infrastructure investee company is limited to 20% of the special purpose vehicle (SPV) project cost or 10% of paid-up share capital, free reserve and debentures or bonds of the investee company, whichever is lower.

Exposure limit for insurance companies is a major constraint for infrastructure take-out financing

Particulars	Rs crore (A)	Exposure limit in % (B)	Exposure limit in Rs crore (A*B)	Maximum investment exposure allowed
Project cost	600	20%	120 (i)	Lower of (i) or (ii) = Rs 60 crore
Paid-up share capital, free reserve and debentures	600	10%	60 (ii)	

The size of paid-up capital and free reserve of infrastructure SPVs tends to be a small proportion of the project cost (around 25%) because the SPVs are funded predominantly through debt. Assuming the project is funded in debt-equity ratio of 3:1, the maximum exposure for a single insurer would be restricted to Rs 60 crore (as shown in the table). This constrains infrastructure SPVs to tap investments from insurance companies for take-out financing because the SPVs need to tap as many as eight insurers and other investors for attempting a debt refinancing through the bond market, impacting the attractiveness of bond issuance to insurance companies.

While exposure limits are essential for risk management, limits linked to the project cost and the balance sheet parameters of the issuer and its parent constrain the ability of these players to tap investments from insurance companies for take-out financing. Therefore, the limits need a revisit.

The exposure limits for insurance companies need to be revised and linked to the AUM or the net worth (risk capital) of patient capital investors. This is similar to the regulation in the banking system, wherein single borrower exposure is limited to a specific percentage (15%) of the bank's capital funds.

Aligning tax regulations of debt MFs with other asset classes⁴ can boost the short-to-medium tenure segment of the debt capital market

MFs have been a key investor segment in the debt capital market, contributing a sixth of debt capital market corpus, and are major players in the short-to-medium tenure segment of the bond market.

The government revised the tax treatment of debt MFs in calendar year 2023, including the removal of the indexation benefits applicable for long-term capital gains and revision of tax rates applicable for long-term capital gains. As per the New Income-Tax Bill, 2025, all gains on debt MFs will be taxed at the slab rates with no indexation. The changes to tax treatment have impacted the competitiveness of debt MFs.

Relaxing taxation on debt MFs can channel higher investments into these funds, which have slowed down compared with the industry's AUM growth.

Regulatory push for corporates to tap the bond market can add depth and diversity

SEBI requires listed companies with AA or above credit rating and long-term borrowing exceeding Rs 1,000 crore to meet 25% of their annual incremental borrowing through bond issuance (over a contiguous block of three years) reckoned from fiscal 2025.

The initial threshold of long-term borrowing was Rs 100 crore and the two-year block was reckoned from fiscal 2022. However, both requirements were subsequently relaxed.

The RBI mandates that all entities with an aggregate sanctioned credit limit (ASCL) from the banking system exceeding Rs 10,000 crore must meet 50% of their annual incremental funds via the capital market.

A revision of regulatory large borrower mandates of both SEBI and the RBI by reducing the borrowing thresholds, expanding coverage to all investment grade rated entities and including both listed and unlisted entities will expand the number of entities qualifying as large borrowers. Consequently, more entities will be pushed to tap the corporate bond market, adding depth and coverage.

Impact analyses⁵: Revising large borrower regulations across regulators can bring ~850 entities under the mandate to borrow from the capital market

Parameters	SEBI	Regulatory void	RBI
Size of borrowing (Rs crore)	Long-term borrowing > Rs 1,000 crore	There is a regulatory void as SEBI limits the scope of identifying large borrowers in terms of both rating levels and listing status. On the other hand, the RBI prescribes a high ASCL threshold of more than Rs 10,000 crore to identify large borrowers.	ASCL > Rs 10,000 crore
Definition of borrowing	Long-term borrowing		ASCL
Listing status	Only listed entities		Agnostic to listing status
Rating level	AA and above	If regulations are extended to include entities – <ul style="list-style-type: none"> With borrowing of more than Rs 1,000 crore Listed or unlisted With investment-grade rating 	Agnostic to rating level
Incremental capital from capital markets	25%		50%
Impacted entities	250-300		125-175

Source: Crisil Ratings estimates

⁴ A tax rate of 12.5% applicable for listed and unlisted securities (excluding debt instruments), and equity MFs

⁵ Information as on March 31, 2024, is used. The analyses have been carried out based on the rated portfolios of credit rating agencies using publicly available information. Outstanding rated amount was used as proxy to calculate the number of impacted entities.

To address this regulatory gap, SEBI can increase the scope of the large borrower mandate by expanding the rating coverage to include all investment grade rating levels from AAA to BBB-. The RBI can reduce the ASCL threshold and create progressive gradients to fix incremental capital market borrowing against outstanding ASCL.

For instance, entities with ASCL of Rs 1,000-5,000 crore may be mandated to tap the capital market for incremental funds to the extent of 10%, entities with ASCL of Rs 5,000-10,000 crore may be mandated to tap the capital market for funds to the extent of 25% and entities with ASCL more than Rs 10,000 crore may be mandated to tap the capital market for funds to the extent of 50%.

Conclusion

The corporate credit ecosystem is expected to fall short by Rs 10-20 lakh crore during fiscals 2026-2030. To bridge this gap, the bond market needs to grow ~13% per annum, higher than ~11% growth rate projected in the base case.

Both supply and demand-side factors support the bond market to maintain its growth trajectory. Higher bond market growth can be achieved through appropriate regulatory and policy measures, which make it conducive for investors, especially patient capital investors, and issuers to tap the bond market.

Demand-side measures, such as relaxing the ratings and exposure caps of patient capital investors and aligning the tax regulations of debt MFs with that of other asset classes, will likely help. On the supply side, reducing the borrowing threshold for corporates to tap the debt capital market will boost bond issuances from top corporates.

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The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's apex national chamber since 1920. It advocates actionable policy suggestions to strengthen the Indian economy by leveraging its extensive membership reach of over 450,000 companies, comprising of large corporates and SMEs. With over 70 Sector and State Councils, ASSOCHAM effectively represents diverse segments of Indian industry and focusses on aligning industry priorities with the nation's growth aspirations.

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