

Indian Debt Capital Market - Can it Finance India's Growth?

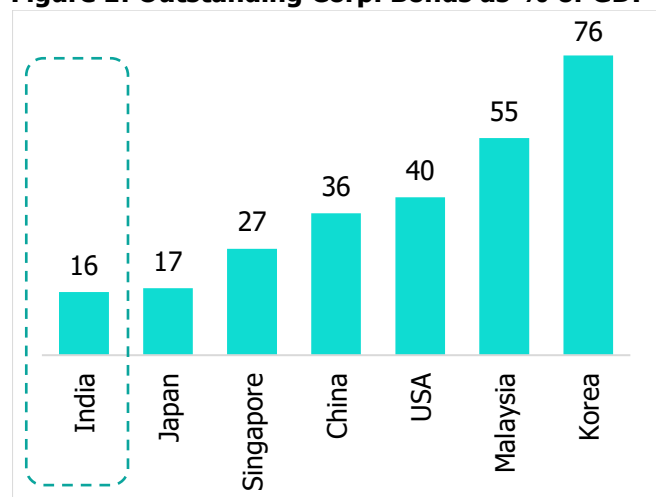
June 15, 2026 | BFSI Research

Synopsis

- India's corporate bond market remains underdeveloped and overshadowed by bank lending and government securities, with a relatively low share in GDP and the overall debt market.
- The market has grown steadily over time, supported by regulatory measures, but issuances remain sensitive to policy changes and interest rate movements. A major limitation is the concentration of issuances in highly rated instruments and sectors such as BFSI, with limited participation from lower-rated issuers.
- Investor participation is dominated by domestic institutions, with relatively low foreign involvement and an underdeveloped secondary market with limited liquidity.
- Despite these challenges, opportunities exist to deepen the market through regulatory reforms, broader issuer and investor bases, improved liquidity, and greater participation in mid- and lower-rated bonds offering attractive risk-reward profiles.

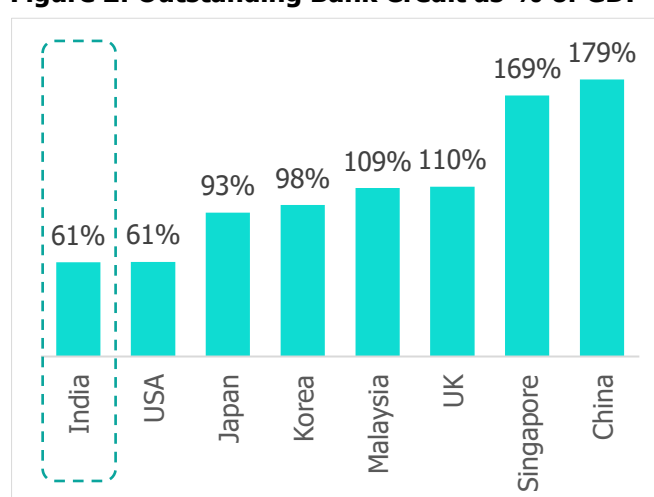
Corporate Bond Market in India Remains Underpenetrated Compared to Other Countries

Figure 1: Outstanding Corp. Bonds as % of GDP



Source: Economic Survey 2025-26, SEBI, Asian Bonds Online

Figure 2: Outstanding Bank Credit as % of GDP

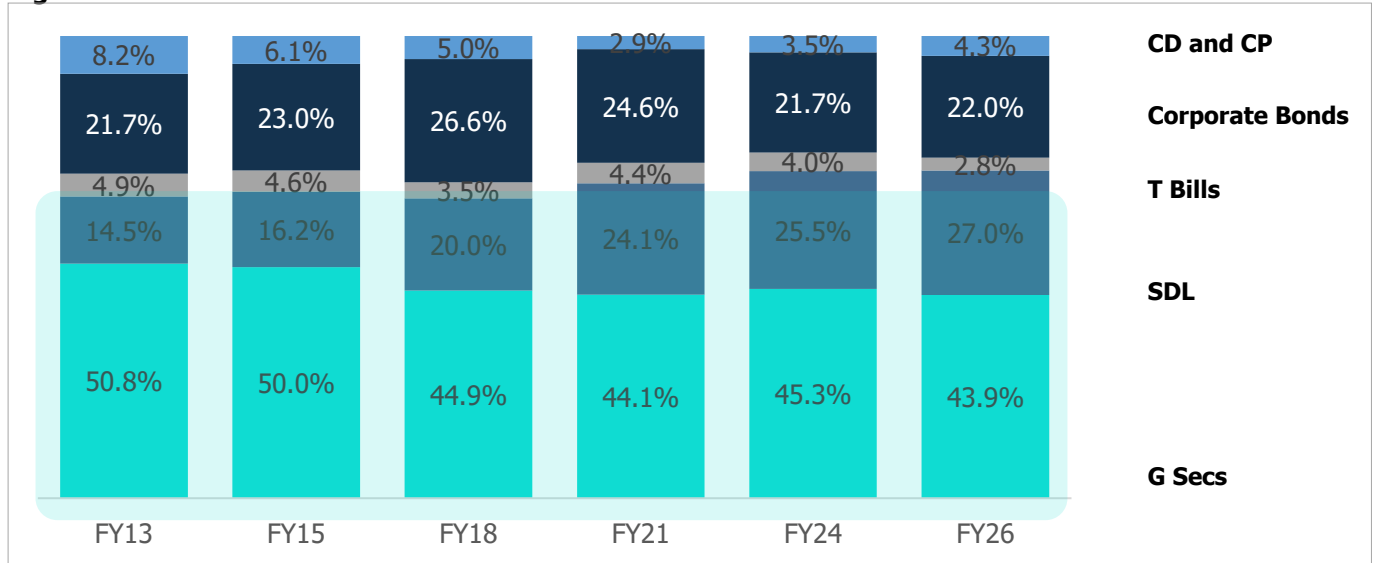


Source: Filings from respective Central Banks Statistics

India's debt ecosystem reflects a structurally shallow and bank-dominated financial system. Bank credit to GDP stands at around 61%, significantly below peer Asian economies such as China (179%), Japan (93%), and Korea (98%), indicating relatively low credit intermediation. Within this broader context, the corporate bond market remains underdeveloped in both scale and participation. Corporate bonds account for roughly 21% of the total debt market, underscoring the large presence of government securities and the continued reliance on bank financing. In terms of economic size, the corporate bond market represents only about 16% of GDP, substantially lower than China (36%) and the United States (40%). This disparity highlights the smaller role of market-based financing in India compared to more advanced economies. Participation metrics further reinforce this structural gap. The ratio of debt-issuing companies to equity-listed firms in India is approximately 13%, significantly below the 25% observed in the United States, pointing to a narrower issuer base and lower market access. Collectively, these indicators suggest that India's financial system remains less financialised, characterised by constrained capital market depth and a strong preference for bank-led intermediation. The relatively low penetration of the corporate bond market is therefore both an outcome of and a contributor to this structural imbalance.

Corporate Bonds represent approximately a fifth of India's Debt Market

Figure 3: Indian Debt Market

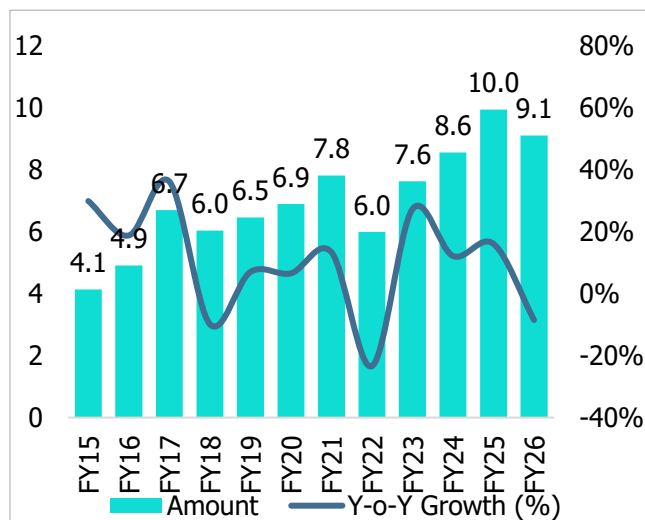


Source: CCIL, SEBI, CMIE, RBI

India's debt market is dominated by government securities, with corporate debt accounting for a relatively small share. Corporate bonds account for roughly 20–25% of the total debt market, while the remaining 75–80% consists mainly of central and state government borrowings. The limited share of corporate debt also reflects structural challenges, including lower credit penetration, reliance on bank financing, and investor preference for safer government instruments.

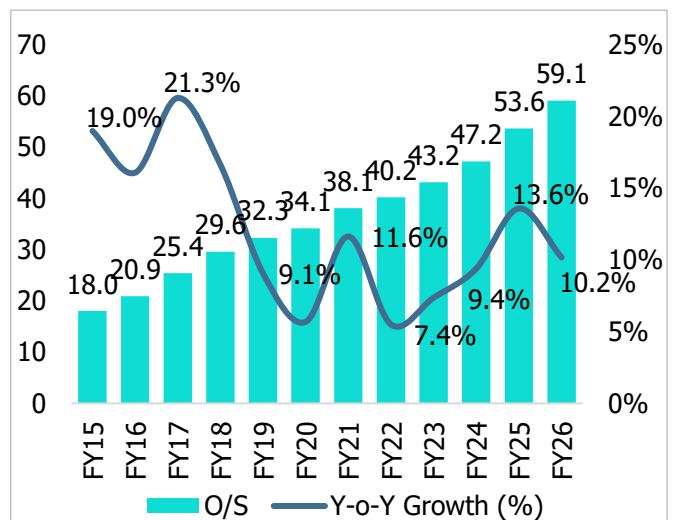
Corporate Bond Market Has Witnessed Steady Growth; Strong Issuance and Outstanding Volume

Figure 4: Movement in Corporate Bonds Issuance (Rs lakh crore)



Source: SEBI

Figure 5: Movement in Corporate Bonds Outstanding (Rs lakh crore)



Source: SEBI

India's corporate bond market has experienced steady expansion over time, though annual issuances have been influenced by regulatory changes and interest rate cycles. Bond issuances increased in FY25 following the RBI's FY24 decision to raise risk weights on bank lending to NBFCs, encouraging a shift toward market-based borrowing.

However, issuances moderated in FY26 after the rollback of these measures in April 2025, combined with a hardening interest rate environment. Despite such fluctuations, issuances have grown at a stable CAGR of around 7.4% over the past 12 years.

The growth in outstanding corporate bonds has been even more pronounced, reflecting sustained market deepening. In absolute terms, the market has grown significantly from around Rs 18 lakh crore in FY15 to nearly Rs 59 lakh crore in FY26, underscoring consistent long-term expansion. Outstanding volumes have expanded at a CAGR of approximately 11%, exceeding nominal GDP growth of about 10% over the same period. Overall, while issuance activity remains sensitive to policy shifts and yield movements, the sustained rise in outstanding volumes points to a gradual strengthening and deepening of India's corporate bond market.

Private Placements Continue to Dominate Bond Issuances

Figure 6: Corporate Bond Issuances: Private Placement vs Public Issuances (Rs lakh crore)

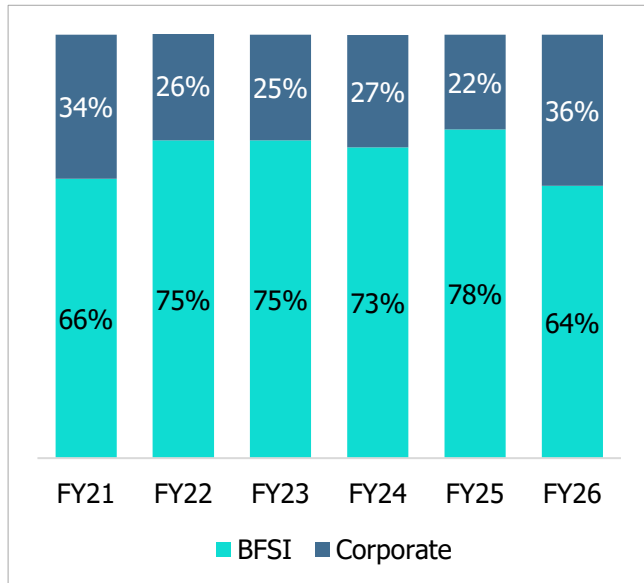


Source: SEBI, CareEdge

Private placements continue to dominate corporate bond issuances in India. On average, private placements have accounted for nearly 99% of total corporate bond issuances over the past five years. The preference for private placements can largely be attributed to their flexibility and ease of structuring, as compared with the relatively standardised 'one-size-fits-all' framework associated with public issuances.

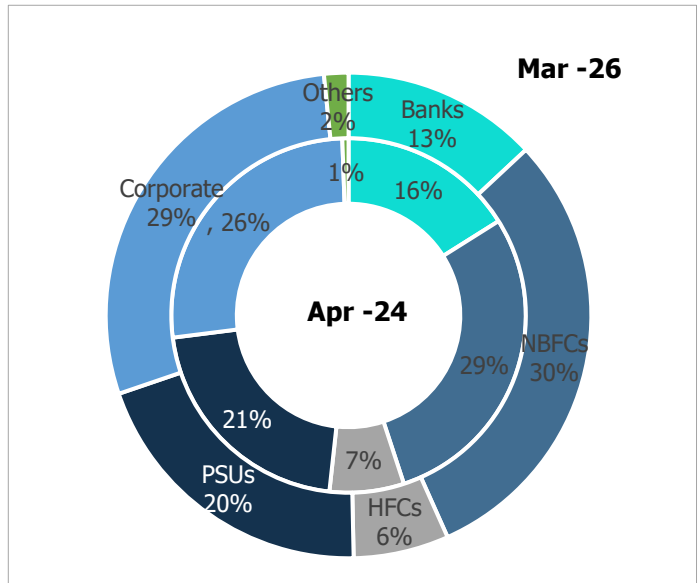
BFSI Dominates Corporate Bond Issuances

Figure 7: Issuance by Industry



Source: Prime Database & SEBI

Figure 8: Issuer Category for Outstanding Bonds



Source: SEBI

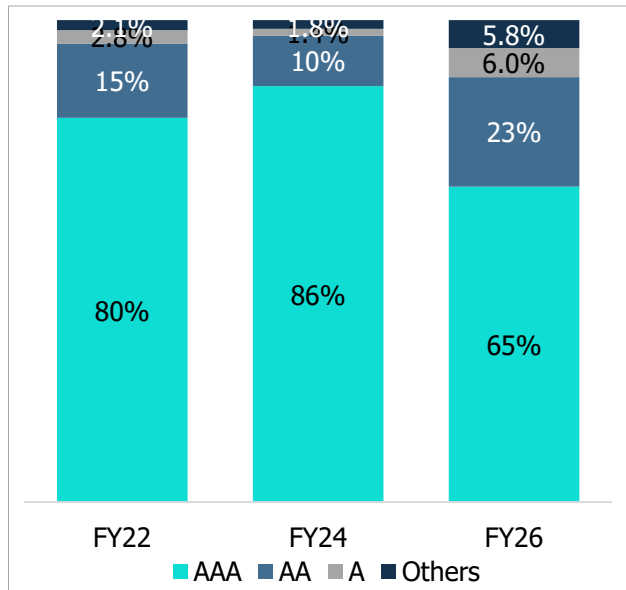
One key characteristic of the Indian corporate bond market has been the concentration of issuances by industry, with the BFSI sector dominating issuances for many years. The reduction in BFSI's share in FY26 was due to higher reliance on bank borrowings by this sector amid hardening yields and refinancing by a large corporate. At the same time, the share of corporate issuances increased on the back of increased M&A activities.

Hence, in terms of issuers, the outstanding corporate bond market is also largely dominated by NBFCs, which account for 30.2% of total outstanding issuances, followed by private corporates (27.6%), PSUs (20.5%), and banks (13.0%), with government entities accounting for a significant share.

Issuance Continues to be Concentrated Around Higher Rating bands; More Dispersed Globally

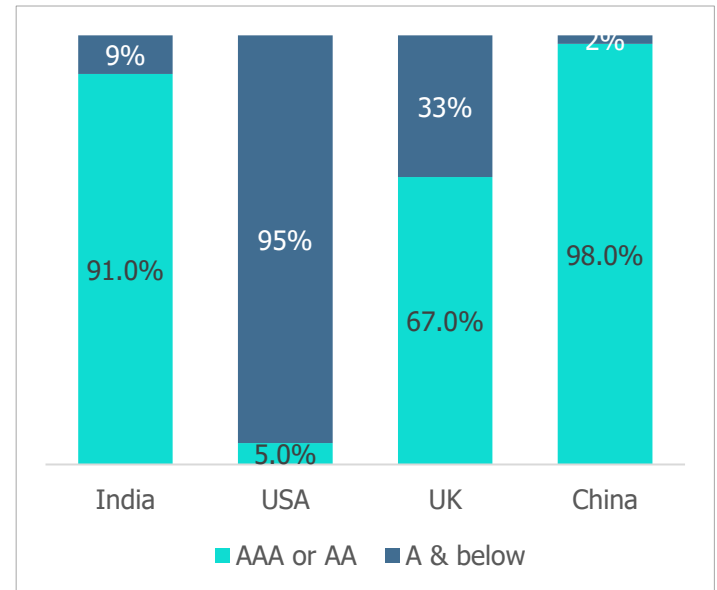
Investments in the corporate bond market remain heavily skewed towards highly rated instruments, i.e., AAA and AA categories, which together command more than 85% of the market. Since insurance companies and pension funds are permitted to invest only in instruments rated AA or above, a significant share of issuances remains concentrated within these higher-rated categories. This further accentuates the challenge of a narrower market for lower-rated debt securities. So clearly, India lacks depth in lower-rated but investable segments. Further, when we compare this rating distribution with that in other countries, we see a lower share of AAA and AA in the US and the UK, where the ratings are benchmarked to the international rating scale, unlike in India and China. However, AAA- and AA-rated entities in the USA do not borrow extensively because of their superior credit profiles. Also, the high-yield market in the USA is more vibrant than in other economies.

Figure 9: Rating Distribution of Corporate Bond Issuances



Source: Prime Database, Economic Survey 2025-26

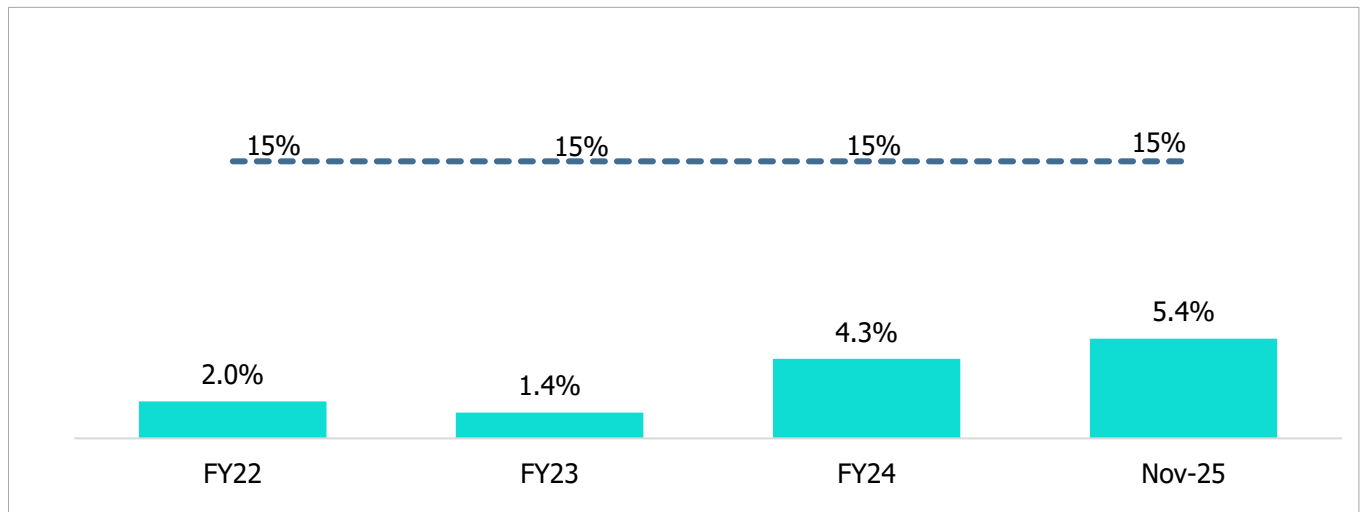
Figure 10: Rating-wise distribution of Corporate Bond Issuances



Source: Prime Database, Economic Survey 2025-26, Refinitiv

Investor Profile Largely Domestic; Needs More Overseas Participation

Figure 11: FPI % in Outstanding Corporate Bonds



Source: RBI Financial Stability Reports

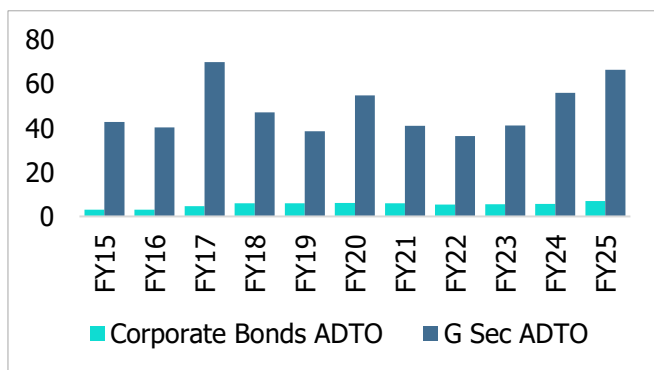
Investors in India's corporate bond market are largely dominated by domestic institutions, with corporates accounting for around 32% of total holdings, followed by insurance companies (19.5%), mutual funds (12.9%), and banks (9.2%). Foreign participation, however, remains relatively limited, with foreign portfolio investors (FPIs) accounting for only 5.4% of total holdings, against a permissible limit of 15%. However, FPI's exposure to the Indian bond market has increased from 2% in FY22. The increase in share in FY25 was partly aided by the inclusion of Indian government securities in global bond indices, fiscal consolidation, and cooling US Treasury yields. To encourage greater FPI participation, the Reserve Bank of India (RBI) in May 2025 removed the 30% concentration limit and the restrictions on short-term investments (with a residual maturity of less than one year) in corporate bonds for FPIs, thereby providing greater flexibility in portfolio management. This move is expected to broaden the investor base and improve liquidity in the corporate bond market. To encourage more overseas participation, we

need to simplify regulatory requirements and align them with global best practices. Streamlining registration, compliance, and reporting, and gradually relaxing investment caps, can lower entry barriers for FPIs. Tax incentives like interest exemptions or lower WHT could make corporate bonds more attractive to FPIs.

The secondary market remains underdeveloped with limited liquidity

Another bottleneck for the corporate bond market is a relatively underdeveloped secondary market with limited liquidity. Gsecs dominate this market, with an average daily turnover of about 10 times that of corporate bonds. In fact, when we compare corporate bond ADTO as a percentage of outstanding bond stock, India's ratio of 0.2% appears much lower than those of China, the US, and the UK, pointing to limited liquidity.

Figure 12: Average Daily Turnover (ADTO) In Rs. Thousand Crores



Source: CCIL, SEBI, Asian Bonds Online and Respective countries' Central Bank Statistics

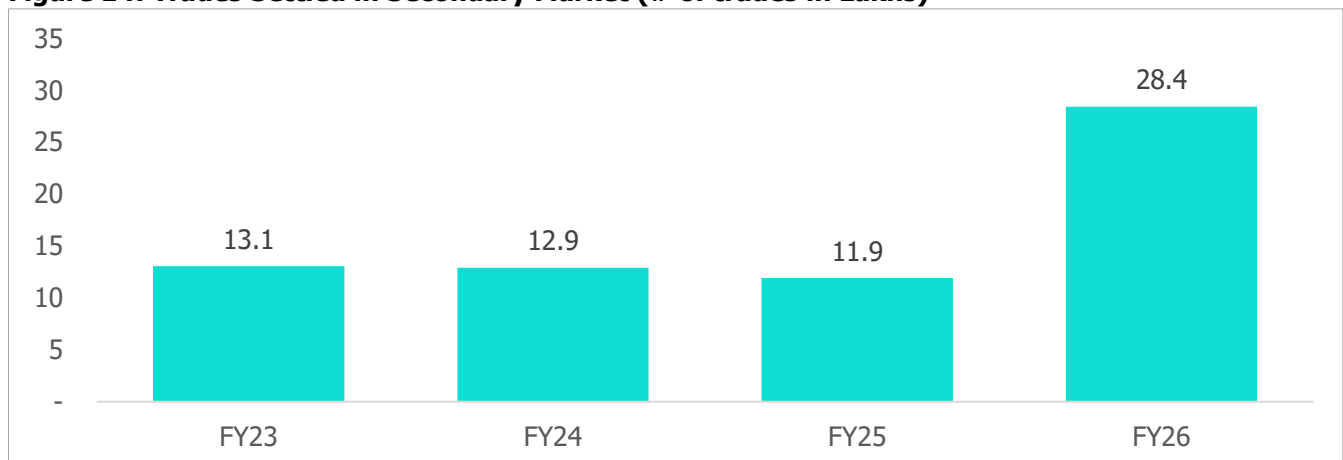
Figure 13: Corporate bond trading vs outstanding

Country	Corporate Bond ADTO / Outstanding Corporate Bonds
India	0.2%
China	0.5%
USA	4.7%
UK	2.4%

Source: CCIL, SEBI, Asian Bonds Online and Respective countries' Central Bank Statistics

The number of trades in the secondary market also declined until FY25 before increasing sharply in FY26. However, the average ticket size in FY26 has decreased significantly compared to previous years, suggesting increased retail participation that year. The regulators have taken many steps to increase retail participation in the last few years, such as reducing the minimum face value of debt securities to 10,000 from 10 lakh earlier and developing online bond platform providers to facilitate quick access to bonds.

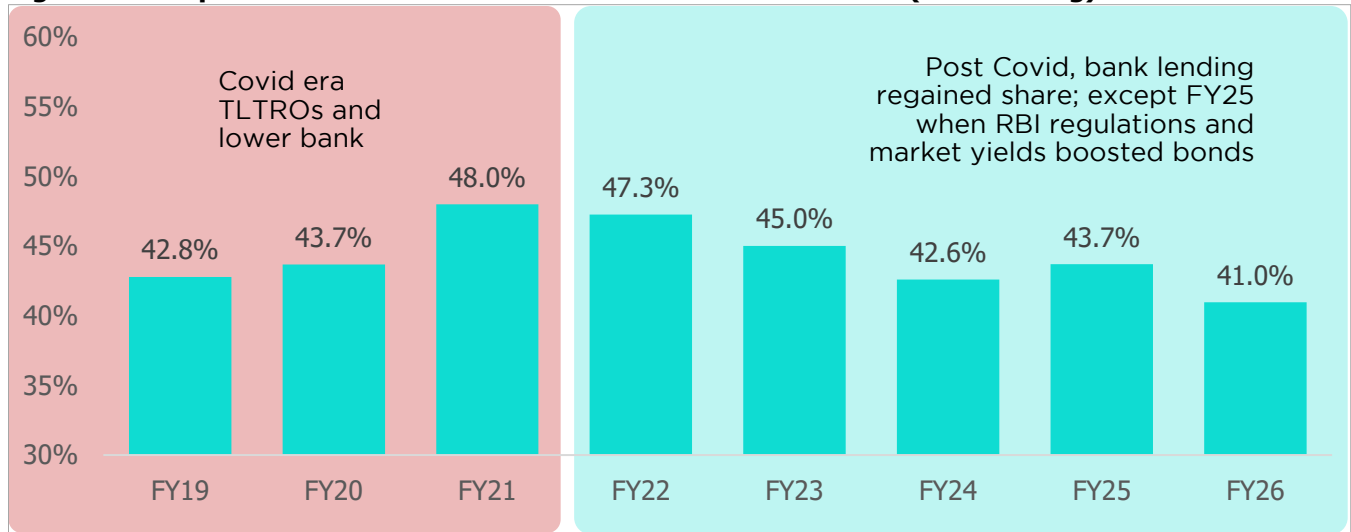
Figure 14: Trades Settled in Secondary Market (# of trades in Lakhs)



Source: CCIL, SEBI

Bank Lending Continues to be Significantly Larger than Corporate Bonds

Figure 15: Corporate Bonds as a % of Bank Credit Ex- Retail Loans (Outstanding)

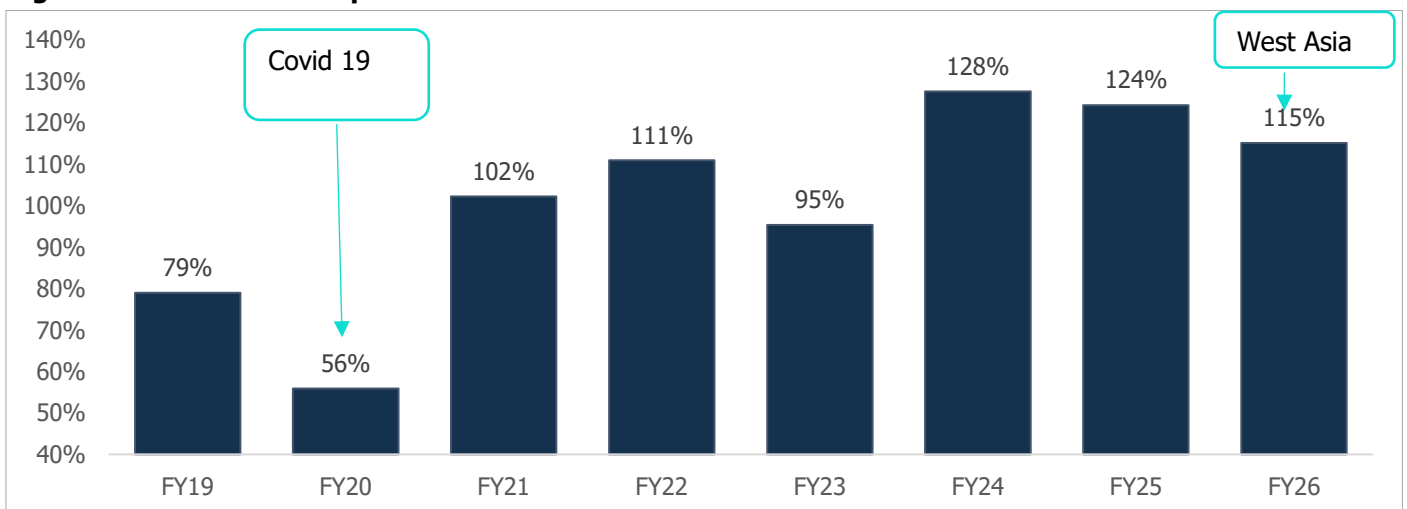


Source: SEBI, RBI Sectoral Deployment Report

A key challenge facing the bond market is the continued dominance of bank lending over corporate bond financing, as reflected in the relatively low share of corporate bonds in total bank credit (excluding retail loans). During the pandemic, the RBI injected substantial liquidity into the banking system at the repo rate, with a specific mandate requiring banks to invest in investment-grade corporate bonds, commercial paper (CP), and non-convertible debentures (NCDs). This policy intervention led to a noticeable increase in the share of corporate bonds within overall bank credit during FY21 and FY22. However, in subsequent years, this trend reversed as reliance on traditional bank borrowings grew, resulting in a decline in the share of corporate bonds through FY24. A renewed regulatory push by the RBI in FY24, particularly measures aimed at curbing NBFC lending, encouraged higher corporate bond issuances in FY25. This momentum, however, proved temporary, as bond issuances declined again in FY26 following the rollback of increased risk weights and a concurrent rise in yields, which made bond financing less attractive.

Significant Emphasis on Equity

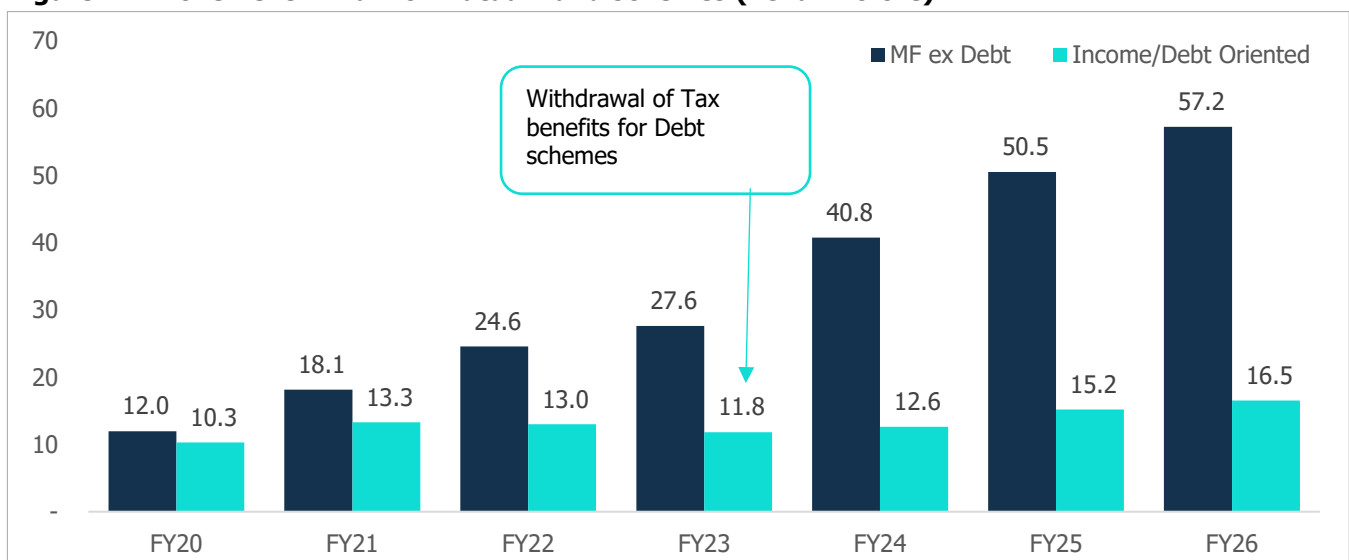
Figure 16: NSE Market Capitalisation as a % of GDP



Source: RBI; CareEdge; Calculated by dividing NSE Market Cap by GDP at Current Prices

The proportion of household financial savings invested in equities and mutual funds has risen markedly, increasing from 2% in FY12 to over 15.2% in FY25. This trend has been accompanied by a consistent rise in systematic investment plan (SIP) contributions, with average monthly inflows growing nearly sevenfold from under Rs 4,000 crore in FY17 to more than Rs 28,000 crore in FY26. This shift reflects a broader transition from physical assets to digitally enabled equity investments, supported by strong corporate earnings. As a result, India's equity market capitalisation has expanded to around 115% of GDP. In comparison, the debt market remains significantly smaller at around 16% of GDP, underscoring the increasing dominance and importance of equity investments. This is also supported by the rise in the AuM of all mutual funds excluding debt funds from Rs 12.0 lakh crores in FY20 to Rs 57.2 lakh crores in FY26 at a CAGR of 29.8%, while open-ended debt/income mutual funds increased from Rs 10.3 lakh crores in FY20 to Rs 16.5 lakh crores in FY26 at a CAGR of 8.2%. As can be observed, debt mutual funds were somewhat smaller than other funds in the earlier part of the period, and only with the withdrawal of indexation benefits did their share start to decline as investors showed a preference for equity funds.

Figure 17: Movement in AuM of Mutual Fund schemes (Rs lakh crore)



Source: CMIE

Proactive Regulatory Initiatives

While India's bond markets have experienced consistent growth in recent years, the corporate bond segment remains relatively underdeveloped compared to the dominant government securities market and bank lending channels. Despite meaningful progress, sustained efforts are still necessary to further deepen and strengthen the overall bond market ecosystem.

In recent years, India has undertaken a range of regulatory and policy reforms aimed at improving investor protection, enhancing transparency, and strengthening governance standards within the bond market. Key institutions such as SEBI, the RBI, and the Government have played a pivotal role in driving these initiatives to encourage greater bond issuance and promote market development. Some of the significant reforms and policy measures are outlined below:

- Request for Quote Mechanism (RFQ)- Electronification of Secondary Corporate Bond Trading
- PCE and Repos to boost liquidity
- Mandatory Market Borrowing Framework for large borrowers
- Removal of the Held-To-Maturity (HTM) cap on bank investments in corporate and state bonds

- Reduction of the minimum face value of debt securities from Rs 10 lakh to Rs 10,000
- Introduction of Online Bond Platform Providers (OBPPs) to encourage retail participation
- Corporate Debt Market Development Fund (CDMDF) & the Guarantee Scheme for Corporate Debt (GSCD), 2023
- Relaxation of Foreign Portfolio Investment (FPI) Norms
- AIFs Allowed to Participate in Credit Default Swaps (CDS)
- Stock Exchanges Allowed to Offer Futures Contracts on Corporate Bond Indices

Higher Stability and Lower Default Rates, Along with Yields, Make the Case for A-rated Bonds

Stability Ratios across Ratings				Comparison of Yields for NBFCs (%) - 3 Year			
Rating	Mar-24	Mar-25	Mar-26	Particulars	Mar-24	Mar-25	Mar-26
AAA	98.26%	98.03%	99.67%	G-Sec	7.07	6.42	6.41
AA	94.31%	94.70%	97.42%	AAA Rated NBFC	7.84	7.66	7.65
A	91.93%	91.36%	91.93%	AA Rated NBFC	8.66	8.44	8.85
				A Rated NBFC	10.99	10.49	11.03

Default Rates across Ratings					Comparison of Yields for Corporates (%) - 3 Year			
Rating	Mar-24	Mar-25	Mar-26	RBI Threshold	Particulars	Mar-24	Mar-25	Mar-26
AAA	0.00%	0.00%	0.00%	0.05%	G-Sec	7.07	6.42	6.41
AA	0.00%	0.00%	0.00%	0.10%	AAA Rated Corporate	7.72	7.21	7.50
A	0.00%	0.00%	0.00%	0.20%	AA Rated Corporate	8.30	8.05	8.33
					A Rated Corporate	10.15	9.96	10.28

Note: Short Run 1 Year Average Default Rates; Source: CareEdge Ratings, Refinitiv & RBI

After exploring issues and challenges, let us explore opportunities. With corporate deleveraging and adequate capitalisation among BFSI entities in recent years, the rating performance of triple A-, double A-, and single A-rated issuers has improved. We at CARE, along with other rating agencies, have also tightened credit assessment criteria. CARE Ratings has had zero defaults in the Single A and above rating categories.

Despite the low default risk in the single A rating category, as reflected by high stability ratios and low default rates relative to the RBI threshold, the premiums commanded by single A-rated papers over G-sec rates remain high and attractive to investors. Yield on single A papers is higher by 280 to 330 basis points as compared to similar tenure triple A papers, while maximum credit risk is below 20 bps, which presents a healthy risk-reward opportunity for investors. Lack of liquidity and investor awareness is driving the bond yields rather than credit risk, indicating the need for structural reforms in this space.

Measures to Deepen the Corporate Bond Market

While India's bond markets have witnessed steady growth in recent years, the corporate bond market remains overshadowed by the government securities market and bank lending. There have been several regulatory and policy reforms in India's bond market over the last few years. These reforms have been targeted at better investor protection, greater transparency and improved governance. SEBI, RBI, and the Government have undertaken measures to boost bond issuance and deepen bond markets. Despite the progress so far, continued efforts are required to deepen the overall bond markets, some of which are outlined below.

1. Tax Incentives

- Remove Adverse taxation on Debt Holdings: Adverse taxation on debt investments has restricted investor participation. Hence, the tax structure for debt products needs to be rationalised to align with other asset classes.
- Rationalise and limit TDS to the top 1 to 2% of the market: We are still following a taxation framework built for the paper-trading era. In today's digital ecosystem, money flows can be efficiently tracked through integrated systems, thereby reducing the need for cumbersome TDS mechanisms that create operational challenges for small and medium investors. Here, the key measures which should be looked at are to reduce the TDS burden for small and medium investors, examples of which include the government providing pre-filled IT returns.

2. Increase Secondary Market liquidity

- Market making for corporate bonds needs a push by reducing the cost of holding bonds in market makers' inventory so that they can quickly buy or sell to investors. This will help reduce illiquidity premiums and provide liquidity comfort to investors.
- To reduce bond price risk for market makers, tools like bond derivatives and swaps can help them hedge risk, making them more willing to trade bonds frequently.

3. Broadening Investor Base

- Investor base can be broadened by increasing awareness about fixed income products to improve retail participation and financial literacy through Investor Education Funds and other methods, such as bond-focused awareness campaigns across India.
- Relaxing investment mandates for retirement funds and insurance companies by enabling them to invest a small portion of their portfolio into single A category papers can help create a stronger domestic institutional investor base and improve market liquidity while providing higher yields for those funds.
- Further, increasing foreign investor participation through simplified regulations and a taxation framework can enhance capital inflows, deepen the market, and improve overall liquidity. Exemptions similar to the one recently provided for Gsecs could also be extended to corporate bonds.

4. Broadening Issuer Base

- Issuer base can be broadened by strengthening the market borrowing framework for large borrowers by encouraging greater reliance on bond issuances over individually negotiated bank loans.
- Further, incentivising banks to issue mid-tenure bonds with relaxation on lines of infra bonds can help develop a more balanced liability profile for the banks.
- Additionally, improving access to infrastructure entities through mechanisms such as partial credit enhancement, streamlined SPV funding, etc., can enable these entities to tap debt capital more efficiently.
- Conduct bond-issuer outreach programs and engage with potential issuers with a focus on SMEs and companies that are ready for the listed debt market but have not yet issued debt.
- Relax some of the LODR obligations for pure debt-listed entities

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