

Corporate Bond Market in India, Growth, Importance, Challenges

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The **Corporate Bond Market in India** is a part of the financial system where **companies borrow money directly from investors, instead of taking loans from banks.**

- In this market, **companies issue bonds**, which are essentially written promises to repay the borrowed money after a fixed period along with regular interest payments.
- **Investors** such as banks, insurance companies, mutual funds, pension funds, and sometimes retail investors **buy these bonds.**

State of Corporate Bond Market in India

The current state of the Corporate Bond Market in India shows **strong growth in size but remains limited in depth, participation, and liquidity.**

- The Corporate Bond Market in India has witnessed strong expansion over the last decade. The outstanding size has increased from around ₹17.5 trillion in FY2015 to ₹53.6 trillion in FY2025, **growing at a compound annual growth rate (CAGR) of nearly 12%.**

- However, despite this growth, the **market remains relatively underdeveloped at only 15-16% of GDP**, which is significantly **lower than other economies such as Korea (80%), Malaysia (60%) and China (49%)**.
- **Around 98% of corporate bonds in India are issued through private placements**, and the market is mostly dominated by highly rated companies like AAA and AA, which reduces transparency and limits access for mid and lower-rated firms.
- **Retail investors and MSMEs have very low participation in the Corporate Bond Market in India**, with **retail share less than 2%**, making the market heavily dependent on banks, insurance companies, and mutual funds.
- The **secondary market** is weak and illiquid, with a **low turnover ratio of about 0.3**.
- The low liquidity in the secondary market is mainly due to the **“buy-and-hold” approach of institutional investors** like insurance companies, pension funds, and EPFO, which usually keep bonds till maturity instead of actively trading them.
- Despite current limitations, the **Corporate Bond Market in India has strong future potential and can grow to around ₹100-120 trillion by 2030** with continued reforms, better participation, and improved market infrastructure.

Need of Corporate Bond Market in India

The Corporate Bond Market in India is essential for building a strong, diversified, and efficient financial system that can support long-term investment needs, infrastructure growth, and overall economic development.

- **Long-term financing for growth:** Corporate Bond Market in India provides stable and long-term funds to companies for infrastructure projects, manufacturing expansion, energy transition, and large-scale capital expenditure that require long gestation periods and cannot be fully met by short-term bank loans.
- **Helps solve the Twin Balance Sheet Problem:** A deeper Corporate Bond Market in India reduces pressure on banks and highly indebted corporates by shifting long-term infrastructure financing away from the banking sector and reducing asset-liability mismatch risks.
- **Strengthens capital formation:** Corporate Bond Market in India channels household and institutional savings into productive sectors of the economy, ensuring efficient mobilization of idle savings into investment, job creation, and infrastructure development, which strengthens overall capital formation.
- **Diversifies financial system and improves stability:** Corporate Bond Market in India creates an alternative source of financing apart from banks, which reduces concentration risk in the financial system, improves risk distribution across investors, and enhances overall financial stability during economic shocks.
- **Improves monetary policy transmission:** Corporate Bond Market in India strengthens the transmission of **RBI** policy decisions by ensuring that interest rate changes are reflected more quickly and transparently in bond yields, making monetary policy more effective in influencing credit conditions in the economy.
- **Attracts institutional and foreign investment:** Corporate Bond Market in India provides an avenue for domestic and foreign institutional investors such as pension funds, insurance companies, and FPIs to invest in stable fixed-income assets, thereby increasing capital inflows and deepening financial markets.
- **Encourages financial market development:** Corporate Bond Market in India supports the development of related financial instruments such as securitisation, credit derivatives, and bond ETFs, which enhances

market depth, liquidity, and financial innovation in the economy.

- **Reduces non-performing asset pressure:** Corporate Bond Market in India allows corporates to access funds directly from markets, which reduces overdependence on bank loans and thereby helps in lowering the risk of non-performing assets in the banking system over time.
- **Supports India's long-term vision:** Corporate Bond Market in India is essential for achieving long-term development goals like Viksit Bharat 2047 by ensuring that massive capital requirements of a growing economy are met through efficient, transparent, and scalable financing channels.
- **Supports green and sustainable financing:** Corporate Bond Market in India is becoming important for raising funds through **Green Bonds** and Sustainability-Linked Bonds to support renewable energy, climate goals, and **India's net-zero target by 2070**.

Corporate Market in India Challenges

The Corporate Bond Market in India faces several structural, institutional, and awareness-related challenges that slow down its development and prevent it from becoming as deep and active as global markets.

- **Complex and overlapping regulation:** Corporate Bond Market in India is regulated by multiple authorities like SEBI, RBI, and the Ministry of Corporate Affairs, which often leads to overlapping rules, slower approvals, and confusion for companies and investors.
- **Crowding out by government securities:** Large government borrowing through G-Secs absorbs a major share of institutional investment, leaving less capital available for private corporate bond issuers.
- **Very limited investor base:** Corporate Bond Market in India has very low participation from retail investors and MSMEs, and is mainly driven by large institutions like banks, insurance companies, and mutual funds, making it less diversified.
- **Dominance of private placements:** Corporate Bond Market in India is heavily dependent on private placements instead of public issues, which reduces transparency, limits public participation, and weakens overall price discovery in the market.
- **Poor secondary market liquidity:** Corporate Bond Market in India has weak trading activity in the secondary market, so bonds are not easily bought and sold, and most investors prefer to hold them till maturity, reducing market flexibility.
- **Preference for high-rated issuers:** Corporate Bond Market in India is mostly accessible to AAA and AA-rated companies, while lower-rated or mid-sized companies find it difficult to raise funds due to risk perception and strict investment norms.
- **Weak insolvency and recovery system:** Despite the Insolvency and Bankruptcy Code (IBC), 2016, delays in insolvency resolution and uncertain recovery of funds reduce investor confidence and discourage investment in lower-rated corporate bonds.
- **High cost and compliance burden:** Corporate Bond Market in India has high issuance costs, listing fees, and compliance requirements, which discourage smaller and mid-sized companies from entering the bond market.
- **Lack of strong risk management tools:** Corporate Bond Market in India lacks developed instruments like credit default swaps, bond insurance, and active market-making systems, which are important for managing risk and improving liquidity.

- **Low financial awareness among investors:** Corporate Bond Market in India suffers from limited awareness among retail investors about how bonds work, their risks, and returns, which prevents wider participation in the market.
- **Weak price transparency and data systems:** Corporate Bond Market in India has fragmented data and limited real-time price information, which makes it difficult for investors to accurately assess bond value and risk.

Reforms Taken to Strengthen the Corporate Bond Market

To address these structural and institutional challenges, the government, RBI, SEBI, and other regulatory bodies have introduced several reforms aimed at improving liquidity, transparency, investor participation, risk management, and overall efficiency of the Corporate Bond Market in India.

- **Mandatory Large Corporates Borrowing Framework:** Corporate Bond Market in India has been deepened through SEBI's Mandatory Large Corporates (MLC) framework, which requires large companies with borrowings above ₹100 crore to mandatorily raise at least 25% of their incremental borrowings from the bond market, reducing excessive dependence on bank loans and pushing quality issuers into the public debt market.
- **Budget 2026-27 — Market-Making Framework:** Corporate Bond Market in India has received a major liquidity boost through the Market-Making Framework introduced in Union Budget 2026-27, which establishes designated intermediaries to provide continuous two-way buy and sell quotes for corporate bonds, supported by improved access to funding and derivatives on bond indices, directly addressing the weak secondary market problem.
- **Bond-Index Derivatives:** Corporate Bond Market in India has gained new risk management depth through bond-index derivatives introduced in Budget 2026-27, which broaden investor participation and allow better hedging of fixed-income portfolios, contributing to greater secondary market activity and price stability.
- **NITI Aayog's Three-Phase Reform Roadmap:** Corporate Bond Market in India has received a comprehensive long-term reform blueprint through NITI Aayog's December 2025 report titled "Deepening the Corporate Bond Market in India," which targets a market size of ₹100-120 trillion by 2030 through three phases — Phase I focuses on streamlining regulations across SEBI, RBI, and MCA and standardising disclosure norms; Phase II involves revamping the IBC waterfall mechanism and increasing NCLT judicial capacity; and Phase III envisions an integrated ecosystem with a potential independent bond market regulator, aligned with the Viksit Bharat 2047 vision.
- **HR Khan Committee — Key Implemented Recommendations:** Corporate Bond Market in India has structurally improved through specific recommendations of the RBI's HR Khan Committee that were subsequently implemented, including introduction of electronic trading platforms for secondary market bonds, development of the repo market in corporate bonds to improve short-term liquidity, enabling market-making by primary dealers, and allowing broader participation by foreign portfolio investors in the corporate debt segment.
- **Risk management reforms:** Corporate Bond Market in India has been strengthened through instruments like Credit Default Swaps (CDS) and Total Return Swaps (TRS), which help investors manage credit risk and increase participation in bond markets.

- **Corporate Debt Market Development Fund (CDMDF):** Corporate Bond Market in India has gained stability through CDMDF, which acts as a safety fund to purchase investment-grade corporate bonds during periods of financial stress and prevent market panic.
- **AMC Repo Clearing Corporation:** Corporate Bond Market in India has improved liquidity through the AMC Repo Clearing Corporation, which manages settlement of corporate bond repo transactions and supports short-term borrowing using bonds.
- **Partial Credit Enhancement (PCE):** Corporate Bond Market in India has become more accessible for lower-rated companies through RBI-backed Partial Credit Enhancement, which improves bond ratings and helps attract institutional investors.
- **Lower investment limit for retail investors:** Corporate Bond Market in India has encouraged retail participation after SEBI reduced the minimum investment amount in listed debt securities from ₹1 lakh to ₹10,000.
- **Flexible pricing for bond issuers:** Corporate Bond Market in India has become more attractive for investors as SEBI now allows companies to offer different incentives like discounted prices or higher interest rates to specific investor groups.
- **Electronic RFQ trading platform:** Corporate Bond Market in India has become more transparent through SEBI's electronic Request for Quote (RFQ) platform, which improves price discovery and makes secondary market trading more efficient.
- **Faster bond issuance system:** Corporate Bond Market in India has improved through frameworks like the Well-Known Seasoned Issuer (WKSI) system, which allows reputed companies to issue bonds faster with simplified procedures.
- **Promotion of InvITs and REITs:** Corporate Bond Market in India has been strengthened through Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs), which help mobilise long-term capital for infrastructure and real estate sectors.
- **Foreign investment reforms:** Corporate Bond Market in India has attracted more foreign investors through RBI's Voluntary Retention Route (VRR), which provides easier investment rules and encourages stable long-term capital inflows.

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