<u>Policy Pathways to Strengthen Market Stability and Depth of India's Corporate Bond Market</u>

-*<u>Speech by WTM Ananth Narayan at ASSOCHAM National Council for Corporate Bonds, Mumbai, September 19, 2025</u>*

Good morning, ladies and gentlemen. It is a privilege to be here today at ASSOCHAM to speak on a subject that is both timely and crucial for our economic future — the policy pathways to strengthen market stability and depth of India's corporate bond market.

1. Why This Matters

We are living through extraordinary times for Indian capital markets. Risk-seeking flows from Indian investors are rising rapidly — and flowing largely into equities. In FY25 alone, there was **₹7.5 lakh crore of net demand for equities**, with **₹8.8 lakh crore coming from domestic investors alone**. This was set against **₹4.6 lakh crore of equity supply**.

Mutual funds are the mirror of this trend. As of May 2025, they managed **₹25 lakh crore in debt**, but only about **₹7 lakh crore of that was in corporate bonds**. By contrast, their equity holdings stood at nearly **₹46 lakh crore**. Corporate bonds are just **9-10% of MF AUM in India**, compared to around **20% in the US**. It may not be entirely fair to compare ourselves with the US, but it does show there is room for corporate debt to grow, particularly given the increased demand for risk from our investors.

Equally important is the quality mix. In India, **90–95% of outstanding corporate bonds are rated A or above**. In the US, only 50–60% are of that category, with another 20% in BBB and 20% below investment grade. At the same time, significant amount of our equity flows are into **mid-, small-, and micro-caps** — again reflecting a strong appetite for risk. We need a healthier risk mix within corporate bonds too.

For investors, the case is clear: they need **diversification and alternatives**. Corporate bonds, InVITs, REITs, municipal bonds, even commodities — these are vital to give investors a full asset allocation toolkit. SEBI is very focused on offering investors more choices for appropriate asset allocation, attuned to the individual risk appetite.

For issuers too, corporate bonds represent disintermediated debt raising — crucial for areas such as infrastructure finance. InVITs, REITs, and municipal bonds can unlock capital for developers, sponsors, and cities – crucial for sustained capital formation in our country.

The broader point is this: **developing alternate asset classes is not optional anymore; it is an imperative for sustained capital formation in India.**

2. Where We Stand Today

The progress so far is not trivial. Outstanding corporate bonds have risen from **₹17.5 trillion at the end of FY15** to **₹53.6 trillion as of March 2025** — a CAGR of over **12%**.

- In FY25 alone, we saw issuance of nearly **₹10 trillion**.
- In FY26, we are already at **₹3.5 trillion** by July.

But the market remains dominated by institutional investors — banks, insurers, provident funds, mutual funds. Retail and foreign investors remain on the fringes.

3. SEBI's Focus and Reforms

SEBI has tried to deepen debt and hybrid capital markets through a series of measures aimed at transparency, access, and liquidity:

- The SEBI Board has just approved a proposal for Mutual Funds to treat **REITs** as part of the equity asset class. This should give a fillip to this important set of instruments.
- **Bond Central**: launched in February 2025 as a one-stop database consolidating all corporate bond information, from risk metrics to comparisons with G-Secs. It is designed to make investor decisions easier and more informed.
- **Online Bond Platform Providers (OBPPs)**: We created a dedicated framework for them. Today, many licensed OBPPs are not just offering bonds but innovating with curated portfolios. This important initiative will evolve further, to ensure greater investor awareness, protection, and ensuring ease of issuances and distribution.
- **Lowering entry barriers**: From July 2024, the minimum investment threshold in privately placed bonds was cut from ₹1 lakh to ₹10,000, opening the market to retail investors.
- **Liquidity Window Facility**: Introduced in October 2024, this allows investors to sell bonds back to issuers pre-maturity, adding liquidity and flexibility.
- **ARCL**: A limited purpose clearing corporation for repos in corporate bonds. Since its FY24 launch, it clocked trading volumes of **₹55,000 crore in August 2025** alone.
- **Corporate Debt Market Development Fund (CDMDF)**: Launched in August 2023 as a backstop liquidity facility for investment-grade bonds during stress.

4. Government of India Measures

The Government too has stepped in. Here are some recent highlights in this regard.

- In the **Budget 2025-26**, **NaBFID** was tasked with launching a **partial credit enhancement facility** for infra-sector corporate bonds, enabling even below-AA companies to tap bond markets.
- The **Urban Challenge Fund**, with an outlay of **₹1 lakh crore**, will finance up to 25% of urban projects, but with a stipulation that at least 50% of costs be met through bonds, loans, or PPPs.

5. The Municipal Bond Opportunity

Municipal bonds are especially vital. By 2047, half of Indians will live in cities. Yet from 2017 till date, we have had just **16 issuances raising ₹3,134 crore** — a mere **0.02% of GDP**.

SEBI has been pushing:

- Outreach and training programs along with NISM, including a dedicated e-learning course for municipal officials.
- Permission for **green municipal bonds** since 2022.
- Launch of the **IBMX municipal bond index** in February 2023, to track and benchmark issuances.

The potential here is immense, but so is the need for capacity building and investor confidence.

6. Ideas for the Future

Let me close with a few personal thoughts.

- **We perhaps need to popularize trading in corporate bonds.** Today, secondary bond volumes are about **₹1.4 lakh crore a month**. Equity markets trade around that much in a single day. If we can make bond trading more comparable to equity trading — in settlement, platforms, even trading culture — we might well see this investment class take off.
- **Corporate bond index derivatives trading** is another frontier in this regard. Good discussions are ongoing between SEBI and RBI, and we are hopeful that we will see progress soon.
- Am sure this gathering will have many ideas for furthering the cause of corporate bonds, InVITs and REITs, and credit markets in general. Many of these proposals may not pertain directly to SEBI. But I would encourage ASSOCHAM to share your collective thoughts with us. Given the constructive dialog that is ongoing between

different regulators and policy makers, SEBI would be happy to lend support to constructive ideas that address our common objectives of ensuring sustained capital formation.

Conclusion

Friends, the message is simple: Indian capital markets have made solid progress, but we still have miles to go. If we want markets that are stable, deep, and resilient, we must build a corporate bond market that truly complements our equity market. We must also nurture and spread awareness about alternative asset classes —InVITs, REITs, municipal bonds, commodities — and build a balanced financing ecosystem worthy of India's growth ambitions. We in SEBI look forward to helping co-create this future collectively with you and all other stakeholders and ensure sustained capital formation.

Thank you.