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RETAILISATION OF INDIA'S BOND MARKET

A New Frontier in Capital Access

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RETAILISATION OF INDIA'S BOND MARKET:

**A New Frontier in
Capital Access**



India's fixed-income market has long been one of the pillars of the country's financial system, yet for years it remained largely inaccessible to individual investors. Most trading happened in the wholesale segment, dominated by banks, mutual funds and insurance companies. Retail investors, despite contributing the largest share of household savings, were limited to traditional options such as bank deposits, small savings schemes, and insurance products and lately equities.

Why Retail Participation in India's Bond Market Has Been Low

- **Limited Awareness and Perceived Complexity:** For most retail investors, bonds remain an unfamiliar and technical product. Concepts like yield, duration, and credit rating are often perceived as complex and inaccessible. In contrast, equity investing has been popularized through decades of awareness campaigns and simpler digital interfaces, leaving fixed-income products outside the mainstream investment narrative.
- **Cumbersome Access and Fragmented Platforms:** The process of buying bonds continues to be less seamless than trading equities. While equities can be purchased instantly through well-integrated broker apps, bond transactions often require navigating multiple intermediaries or specialized platforms. This lack of a single, user-friendly interface discourages new investors from entering the market.
- **Modest Returns and Unfavourable Taxation:** Fixed-income instruments rarely offer returns meaningfully higher than bank deposits, reducing their relative appeal. The tax treatment further dampens interest, unlike the more favourable capital-gains regime applicable to equities. For instance, interest income and gains on most debt instruments are taxed at the investor's slab rate, whereas listed equity now attracts a concessional long-term capital-gains tax of 12.5 percent above the Rs. 0.125 mn threshold, widening the post-tax return advantage toward equities.
- **Liquidity Constraints and Exit Challenges:** One of the most significant deterrents for retail investors is the difficulty in exiting a bond investment before maturity. Secondary market trading is relatively thin, with limited price transparency and wide bid-ask spreads. As a result, investors worry that they may not be able to sell their holdings at fair value when required.
- **Institutional Dominance and Regulatory Bias:** The bond market has traditionally been designed around the needs of institutional investors such as banks, insurance companies, and mutual funds. These entities operate under conservative investment guidelines, which concentrate demand in high-rated securities and limit product diversity. Retail investors, therefore, find few accessible options that suit their risk-return preferences.
- **Behavioural and Cultural Factors:** The Indian investment psyche has long been shaped by a preference for either safety through deposits or excitement through equities. Bonds fall somewhere in between - neither offering the thrill of stock market gains nor the familiarity of a savings account. This perception gap has prevented fixed-income investing from developing a strong retail trend.
- **Emerging but Limited Digital Ecosystem:** Recent years have seen the rise of digital platforms that aim to simplify bond investment for individuals. While these initiatives mark progress, their reach and visibility remain limited compared to mainstream equity platforms. Without widespread adoption and trust, these channels have yet to meaningfully change investor behaviour.
- **Need for Structural Reforms and Investor Education:** Expanding retail participation in the bond market will require a combination of regulatory and behavioural change. Simplified taxation, transparent trading mechanisms, and targeted investor education can help build confidence in fixed-income products. Over time, these measures can make bonds a viable complement to equities in household investment portfolios.
- **Sporadic issues Debt Funds have dented investor confidence:** A handful of events have dented the credibility of India's debt mutual funds. In 2019, several funds suffered steep losses due to their exposure to the Essel Group, whose borrowings were backed largely by pledged shares of Zee Entertainment and Dish TV. When the share prices collapsed, the collateral lost value, and fund houses entered controversial "standstill" agreements that delayed recovery and trapped investor money. Soon after, the sudden winding up of six Franklin Templeton debt schemes in April 2020 locked up Rs. 300.0 bn investor assets for months, further shaking faith in the system. Separately, the write-off of Yes Bank's Additional Tier-1 bonds in 2020 left many retail investors with total losses despite the bank's survival. These episodes revealed deep weaknesses in credit appraisal, liquidity management, and transparency in India's fixed-income market. SEBI has since tightened valuation norms, exposure limits, and disclosure rules, but the damage to public

perception remains. A related structural gap also emerged in the early phase of Masala bond issuances: since these rupee-denominated bonds were issued overseas under RBI's ECB framework and foreign-law documentation, SEBI's prospectus, disclosure, and onshore investor-protection norms did not apply, leaving oversight and enforcement entirely to the host jurisdiction. SEBI has since tightened valuation norms, exposure limits, and disclosure rules, but the damage to public perception remains.

This imbalance is now beginning to change. The retailisation of the bond market represents a structural shift that is bringing India's savers closer to its capital markets. It is a story shaped by regulatory intent, technological innovation, and a changing investor mindset. Reforms such as the Reserve Bank of India's (RBI's) Retail Direct platform have made government securities directly available to individuals without intermediaries. Securities and Exchange Board of India's (SEBI's) push for greater transparency, standardized disclosures, and electronic trading has further improved accessibility and trust in corporate debt instruments.

The rise of digital platforms that make bond investing simple and intuitive has been equally important. By reducing ticket sizes, offering user-friendly interfaces, and enabling near-instant settlement, these platforms have lowered barriers that once kept retail investors away. Investors can now compare yields, understand risks, and participate in new issuances in ways that were previously reserved for institutions. From an economic standpoint, this shift carries far-reaching benefits. India's household savings rate remains among the highest globally, and channeling even a small portion of this into bonds can significantly deepen domestic capital formation. For issuers, tapping into retail demand diversifies funding sources and potentially lowers borrowing costs. For investors, bonds offer predictable returns, portfolio stability, and a hedge against market volatility.

Exhibit 1: Gross Domestic Savings as a % of GDP

Country	Year	Gross Domestic Savings (% of GDP)
Singapore	2024	57.90%
China	2023	43.20%
Indonesia	2024	36.90%
Republic of Korea	2023	32.20%
India	2024	28.40%
Malaysia	2024	27.20%
Thailand	2024	25.10%
Japan	2023	24.70%

Source: https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS?locations=IN&most_recent_year_desc=true

The retailisation trend reflects a maturing financial ecosystem- one that is becoming broader, more inclusive, and better aligned with India's growth ambitions. As reforms continue and awareness grows, the bond market is set to evolve from a specialist asset class into a mainstream investment avenue, linking millions of savers directly to the country's growth story.

MARKET SIZE AND COMPOSITION

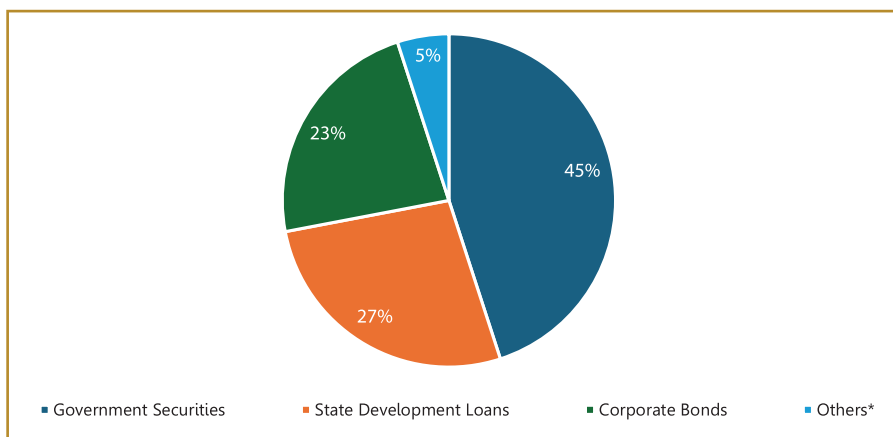
India's bond market has grown into one of Asia's largest and most dynamic fixed-income ecosystems. As of FY25, the combined outstanding value of debt securities is estimated at over Rs. 230.0 tn¹, or roughly 70% of GDP (FY25). The market has expanded steadily over the past decade, supported by consistent sovereign borrowing, deepening corporate issuance, and improving liquidity across tenors.

According to data from the Clearing Corporation of India (CCIL) and SEBI, government securities (G-Secs and Treasury Bills) accounted for around Rs. 125.7 tn in October 2025², while corporate bonds outstanding stood at Rs. 53.9 tn as at June 2025³. Together, these segments form the core of India's bond universe, complemented by State Development Loans (SDLs), municipal bonds, and infrastructure-linked issuances.

SEGMENTAL COMPOSITION

Government securities continue to dominate, representing close to two-thirds of the total market. Corporate bonds, however, have shown faster growth, driven by refinancing cycles, infrastructure funding, and the increasing participation of non-bank financial institutions.

Exhibit 2: Segmental Composition of Bonds



Note: Others include UDAY Bonds, Special Securities, Treasury Bills and Floating Rate Bonds

Source: <https://www.nism.ac.in/the-2-78-trillion-bond-market-fuelling-indias-growth/#:~:text=Once%20considered%20the%20exclusive%20domain,as%20of%20March%2031%2C%202025>

Structural Evolution of the Bond Market

- From bank-led to market-based financing: Historically, corporations in India predominantly relied on banks or large institutional credit lines for their medium- to long-term funding needs. By contrast, corporate bond issuance was limited, opaque and largely accessible only to major institutional players. As the SEBI and the RBI have repeatedly noted, building out a deep corporate bond market is vital to diversify away from bank-dominated credit and improve financial system resilience.
- The scale of change is meaningful: outstanding corporate bonds in India increased from approximately Rs. 17.5 trillion in FY15 to about Rs. 53.6 trillion by March 2025. Even so, the segment remains modest in relation to GDP - estimates suggest the corporate bond market is still only around 18% of GDP, compared with much higher ratios in developed markets. By contrast, major Asian emerging economies such as Korea (~75% of GDP) and China (~37% of GDP)⁴ show far deeper corporate bond markets, illustrating how India lags its peers in market-based financing. For corporates, the implication is that the bond market is steadily becoming a viable financing alternative (alongside banks and other credit lines) - opening newer routes for raising funds. For retail investors, the implication is that the funding story of corporate India is becoming more visible and accessible.
- Market-structure reforms enhancing access and transparency: Several reforms have underpinned this transformation. These reforms matter because they directly affect whether retail or smaller investors can meaningfully engage with corporate bonds rather than remain sidelined.
 - Digital platforms and distribution: Among the more visible infrastructure improvements is the creation of “Bond Central” (launched in February 2025) — an open access platform by SEBI that provides standardised data on corporate bonds (pricing, yield comparisons with government securities, risk disclosures), thereby improving transparency and comparability for investors.
 - Regulatory emphasis on participation: SEBI’s recent statements emphasize the need to widen participation and deepen the market. For instance, regulatory discussions around bond-derivatives, electronic book-building platforms (EBP) for private placements, and better secondary-market transparency reflect this push.

These changes combine to reduce structural entry-barriers (cost, minimum size), improve information symmetry (data, comparability) and enhance secondary-market dynamics (liquidity, exit options) - all essential preconditions if retail investors are to meaningfully participate in the corporate bond universe.

Bond Market Development Over the Years

SEBI has steadily worked to make India's bond market more transparent and accessible. The focus in recent years has been on widening retail participation, improving disclosures, and deepening secondary-market liquidity.

- **2021 – Retail Direct Scheme:** The launch of the Retail Direct Scheme marked the first serious attempt to bring individual investors into the government securities market. For the first time, investors could buy G-Secs directly through an online RBI platform without using intermediaries. The move was meant to simplify access and create a habit of direct participation in sovereign debt.
- **2021 – Improved Transparency:** In 2021, SEBI tightened disclosure rules for corporate bond issuers. Details such as coupon rates, pricing, and credit ratings had to be made publicly available in a standard format. This made the market easier to navigate and reduced information gaps that had long discouraged smaller investors.
- **2022 – Exchange-Based Bond Trading:** The regulator then focused on shifting bond trading onto recognized stock exchanges. This change allowed investors to buy and sell bonds through familiar exchange platforms, making the process more transparent and reducing the dependence on brokers or private placements.
- **2023 – Clearer Pricing and Disclosures:** Further reforms followed in 2023. Issuers were required to disclose detailed information on yields, maturity profiles, and issue prices. These steps helped standardize valuation and improve price discovery, giving investors a clearer sense of return and risk before subscribing.
- **2024 – Lower Entry Barriers and Liquidity Support:** The most significant change came in 2024. SEBI cut the minimum investment size in privately placed corporate bonds from Rs. 100,000 to Rs. 10,000, opening the market to a much larger base of investors. Rules for Online Bond Platform Providers (OBPPs) were strengthened to ensure better disclosure and investor protection. A liquidity window was also proposed to allow early exits from bond holdings, addressing one of the main deterrents for retail investors.
- **2025 – Digital Surety Bonds (proposed):** NeSL has begun discussions with general insurers to enable the digital issuance of surety bonds legally enforceable tripartite contracts used to mitigate risks in infrastructure projects. At present, surety bonds are largely issued in physical form, and NeSL's proposed digital framework aims to make issuance paperless and more efficient. While the initiative is underway, industry adoption is still at an early stage and volumes remain low.

At the same time, higher taxes on unlisted bonds, market-linked debentures, and debt mutual funds pushed investors toward listed instruments.

The RBI Retail Direct Scheme

A key enabler of India's evolving fixed-income architecture has been the RBI Retail Direct Scheme, introduced in November 2021. By allowing individuals to invest directly in government securities including Treasury Bills, dated Government of India bonds, Sovereign Gold Bonds, and Floating Rate Savings Bonds - the initiative marked a structural step towards broadening the investor base for sovereign debt. It complements India's larger agenda of market deepening by reducing intermediation and enabling transparent, low-cost access for retail participants.

Although the base remains small, the platform's growth trajectory underscores a gradual yet discernible retailisation of the bond market. The data below illustrates the steady expansion in registrations, account openings, and transaction volumes since inception:

Exhibit 3: Retail Participation Metrics (Cumulative)

Date	Total Registrations	Total Accounts Opened	Primary Market Subscriptions (Rs. bn)	Secondary Market Traded Volume (Rs. bn)	Total Holdings (Rs. bn)
25-Oct-2022	72,729	58,870	7.97	1.56	7.85
27-Mar-2023	93,767	78,149	17.84	2.93	14.21
1-Apr-2024	1,33,758	1,19,669	42.23	6.43	20.23
31-Mar-2025	3,51,986	2,28,497	63.23	18.82	22.82
13-Oct-2025	5,40,644	3,17,344	73.88	54.81	26.05

Source: https://rbiretaildirect.org.in/#/about_statistics

Over less than three years, registrations have multiplied more than sevenfold, and secondary-market turnover has expanded over thirty times, indicating improving investor awareness and trading comfort. This pattern, though emerging from a small base, is significant: it points to a slow rebalancing of the investor mix, where retail investors are beginning to assume a more visible role in the sovereign debt market.

Risks and What Lies Ahead: Deepening Liquidity and Trust

While the trajectory is promising, the next stage of retailisation will hinge on addressing a few persistent structural and behavioural gaps. The focus must now shift from access, to depth and durability.

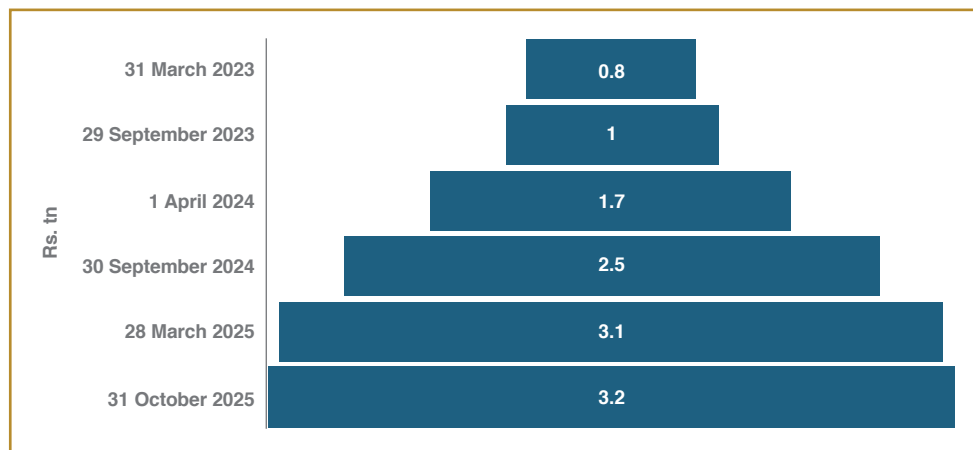
- **Liquidity and Market Depth:** Despite a growing base of issuers and investors, liquidity remains concentrated in a handful of high-rated securities. The vast majority of bonds, especially those rated below AA see limited secondary-market trading. This illiquidity heightens exit risk for retail investors who may need to liquidate before maturity. SEBI's introduction of a liquidity window for corporate bonds is an encouraging step, but meaningful secondary-market depth will require active market-making and broader participation from mutual funds and brokers.
- **Pricing Transparency and Credit Awareness:** Retail investors often conflate "bonds" with "safety." Yet credit risk, duration risk, and interest-rate sensitivity remain underappreciated. Improved price dissemination through platforms like Bond Central and consolidated yield curves on exchanges can enhance investor understanding. Likewise, credit-rating disclosures must evolve from static letter grades to dynamic, comparable metrics—perhaps even interactive dashboards that show spread movements and rating migrations in real time.
- **Taxation and Structural Incentives:** The tax treatment of fixed-income instruments continues to favour equities. Interest income on most listed bonds is taxed at the marginal rate, and indexation benefits are limited. Rationalising this asymmetry could make retail bond investing more competitive.
- **Technology and Financial Literacy:** The next phase of inclusion will be driven by technology. Integration of bond offerings into mainstream wealth-tech and UPI-linked payment apps can normalise bond investing as part of the retail experience. Concepts such as "Bond SIPs" or auto-laddered reinvestment plans could appeal to first-time investors by emulating the familiarity of mutual fund systematic plans. Alongside this, investor-education campaigns will be essential to build awareness of bond characteristics, credit risk, and portfolio diversification benefits.
- **Strengthening Regulatory Oversight:** As participation widens, surveillance and investor-protection mechanisms must scale accordingly. A clear framework for grievance redressal, default management, and suitability assessments can reinforce trust. Over time, the combination of regulatory vigilance and technological transparency will help retail investors perceive the bond market as a reliable long-term avenue rather than an experimental asset class.

Emerging Dynamics: Broadening the Market's Composition and Reach

India's bond market is undergoing not only quantitative expansion but also a qualitative transformation. The composition of issuers, investors, and instruments is diversifying, reflecting a more complex and integrated financial ecosystem.

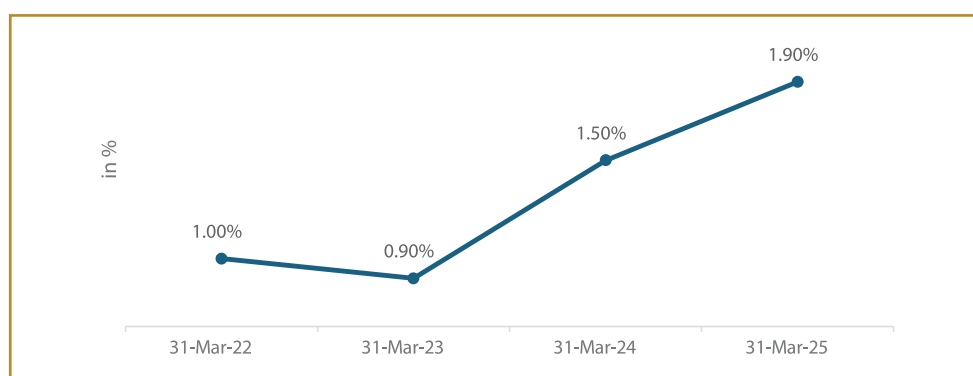
- **State-Level Borrowing and Fiscal Deepening:** State Development Loans (SDLs) have emerged as a vital funding mechanism for India's sub-national infrastructure. With growing decentralisation of fiscal spending, states are increasingly tapping the bond market to finance roads, power, and social infrastructure. SDLs now account for nearly one-fourth of total sovereign issuance, giving investors—particularly those accessing the market through the Retail Direct platform—a broader set of government-backed instruments with differentiated yields. The inclusion of SDLs in retail portfolios also helps democratise participation in state-level development.
- **SDL Alignment:** Insurance companies have urged the Reserve Bank of India to publish a more predictable auction calendar for State Development Loans (SDLs) and to align SDL maturities with the central government's G-Sec calendar, noting that overlapping tenors are creating pressures in the government securities market.
- **Sectoral and Instrumental Diversification:** Corporate bond issuance is no longer confined to banks, NBFCs, and PSUs. Manufacturing, logistics, renewable energy, and healthcare companies are now active participants, driven by infrastructure expansion and sustainability mandates. This has helped balance what was historically a narrow issuer base. Meanwhile, new-age fintech and infrastructure-linked NBFCs are issuing shorter-tenor, investment-grade paper tailored for retail investors— an innovation that signals product-market fit evolving toward inclusivity.
- **Thematic and ESG-Linked Debt:** A parallel trend is the rise of thematic instruments such as green bonds, sustainability-linked bonds (SLBs), and social or municipal bonds. These products align with the global shift toward responsible investing and attract a new class of investors motivated by both return and impact. India has already seen issuances exceeding USD 50.0 bn⁵ in the green and sustainability segment, with SEBI's 2023 framework for green debt securities providing regulatory clarity. Municipal bonds—revived through urban infrastructure programs—are also gaining momentum, offering investors a direct link between savings and city-level outcomes.
- **Global Integration and Passive Inflows:** A significant milestone for India's bond market is the inclusion of Indian government securities in the FTSE Russell (Emerging Markets Government Bond Index) from September 2025 and Bloomberg included India in its Emerging Market (EM) Local Currency Government Index in January 2025. Public sources indicate that Bloomberg recently sought investor feedback on including Indian government bonds in flagship global aggregate index⁶. The interplay of domestic retail capital and foreign passive funds will give the market a more balanced demand structure, reducing concentration risks and improving yield transparency. In essence, these developments signal the emergence of a more pluralistic bond market - one that connects state and corporate issuers with both local and global investors, forming a continuum of funding that spans sovereign, sub-sovereign, and private capital.
- **Recent Rating actions and Market Implications:** Recent sovereign rating actions have significantly strengthened bond-market sentiment. In August 2025, S&P Global Ratings upgraded India's long-term sovereign credit rating from BBB– to BBB with a Stable outlook. This was followed in September 2025 by Japan's Rating and Investment Information, Inc. (R&I), which upgraded India's rating from BBB to BBB+ with a Stable outlook. These upgrades reduce perceived sovereign-risk premiums, support benchmark pricing, and create a more favourable environment for both government and corporate bond issuances.

Exhibit 4: Indicative FPI Ownership of FAR Securities



Source: CCIL

Exhibit 5: FPI Ownership Trend in Government Securities



Source: RBI⁷ (Outstanding on 31 March of each year)

Note: Includes Central Govt. Securities, State Govt. Securities and T-Bills

Conclusion

The retailisation of India's bond market is not just an evolution of products or platforms—it is a test of how deeply financial inclusion can extend into capital formation. It represents a subtle but powerful change in the country's financial character: from a system that was long intermediated and institution-led to one where individuals participate directly in nation-building.

What makes this transition remarkable is its timing. India is entering a decade defined by rapid urbanisation, infrastructure expansion, and an expanding middle class seeking stability over speculation. Bonds, long viewed as the quiet corner of the markets are becoming the bridge between national ambition and household prudence. Each new investor entering through RBI's Retail Direct or private bond platforms adds resilience to the market's depth and credibility.

But retailisation is not an end in itself. Its success will depend on whether the system can turn access into habit and participation into trust. That will require deeper liquidity, consistent communication, and the cultural normalisation of bonds as a mainstream savings choice.

The real story is not about yields or instruments - it is about confidence. A confident investor base creates a confident market, and a confident market creates a more self-reliant economy. The retailisation of bonds, therefore, is not just a financial development; it is a statement of national intent - a sign that India's growth story is being financed not only by institutions, but by its citizens themselves directly.

Retailisation Of India's Bond Market: A New Frontier in Capital Access

- ¹ <https://www.nism.ac.in/the-2-78-trillion-bond-market-fuelling-indias-growth/#:~:text=Once%20considered%20the%20exclusive%20domain,as%20of%20March%2031%2C%202025.>
- ² <https://www.ccilindia.com/outstanding-debt>
- ³ <https://www.indiabondinfo.nsdl.com/>
- ⁴ Asian Bonds Online
- ⁵ <https://www.climatebonds.net/news-events/press-room/press-releases/indias-sustainable-debt-market-tops-usd-55-9-billion-new-mufg-cbi-report-maps-rapid-growth-pathways-2030>
- ⁶ <https://economictimes.indiatimes.com/markets/bonds/bloomberg-seeks-investor-feedback-on-including-india-in-global-bond-index-document-shows/articleshow/123990838.cms?from=mdr>
- ⁷ <https://data.rbi.org.in/BOE/OpenDocument/2409031244/OpenDocument/opendoc/openDocument.jsp?logonSucc...>



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