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Why the time is ideal for greater retail play in corporate bonds

Synopsis
The Indian equity market is becoming a retail-driven market with growing interest from retail investors due to the financialisation of Indian savings. The debt market is also seeing increased retail and HNI interest in fixed-income instruments. Managed investments via mutual funds, insurance, and portfolio management services have grown significantly in the last five years.

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The Indian **equity market** is an institution-driven market with a retail face. This is thanks, in part, to the business television channels that cover the markets in detail with experts demystifying the world of equity investing.

Want to take exposure to a sector which grows much faster than GDP

While 'mutual funds sahi hai' for several years now, direct stock investing in equities too is proving to be 'sahi hai'. Technology-enabled discount brokerages and constant outreach with IPOs have permeated the equity culture.

In contrast to the equity market, the Indian **debt market** is an institution-driven market with a very institutional face.

Fortunately, that seems to be changing.

With time, the equity market is also becoming a retail-driven market due to the significant financialisation of Indian savings away from land and other traditional assets including **gold**.

The debt market is now seeing greater retail and **HNI** interest in fixed-income instruments due to the slew of measures taken by regulators, especially in the last two years. Increasing digitisation, rising middle-income population, home investment offices of high-net-worth individuals, and increased acceptance of portfolio management services are bringing investors into the debt market directly or indirectly.

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According to a CRISIL report, managed investments via mutual funds, insurance, and portfolio management services have grown by 16% in the last five years compared to a 10% rise in bank deposits.

The agency expects managed investments to double to ₹315 trillion rupees by 2027. A good portion of these investments could flow into **corporate bonds**.

The recent episode of high inflation is nudging investors, including

matter of time before the debt market, too, will have a retail face.

Ideal Time

The next few years mark the ideal time for investors, particularly the retail ones, to step up pick-up bond instruments, including corporate bonds primarily because interest rates in India have peaked and are lucrative.

A recent statement by the RBI Governor Shaktikanta Das indicates as much that interest rates the world over have peaked in the current interest rate cycle.

The RBI had last raised its repo rate in Feb'23 and has held policy interest rates steady in the current financial year. The market expects the RBI to start cutting interest rates in the middle of 2024.

The prospects of cuts in policy interest rates in India and the rest of the world could see investor and issuer interest in bonds rising sharply.

Moreover, due to a lagged effect of heavy doses of rate hikes over the past two years, GDP growth is expected to taper off. The US is expecting a soft landing of its economy, and the Indian economy, too, is expected to consolidate.

On December 9, SEBI floated a consultation paper proposing a reduction in the face value of privately listed bonds to ₹10,000 from ₹100,000.

Remember, the face was already brought down from ₹10 lakh.

SEBI's move shows its comfort with encouraging retail investors in India's bond market. If the proposal is accepted, it will lead to greater participation.

Upbeat Prospects

According to the CRISIL report cited above, the Indian corporate bond market is expected to double to ₹100-120 trillion by 2030 from around ₹43 trillion as of March 2023.

Bonds will emerge as the most vibrant financial instrument in India, helping the country become a developed nation as envisioned by the present government.

Infrastructure development, rising retail participation, digitalisation, sustainable finance, and global integration will all contribute to the speedy development of the bond market.

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A combination of surge in infrastructure spending and rising capital expenditure, apart from higher demand for retail credit and consumer expenditure, will result in corporate bond issuances scaling new highs each year for the remainder of this decade.

The issuance this year could top ₹9 trillion, beating ₹8.2 trillion raised in the last financial year.

India is poised to become the world's third-largest economy by 2027 at $5 trillion, and the corporate bond market has gained traction thanks to coordinated efforts from the government and regulators.

For this financial year, the government has set aside ₹10 trillion for infrastructure spending. The hope is that this will also encourage the private sector to participate.

Estimates are that capacity expansion over next five years could top ₹110 trillion, double the previous five years' capex. A bulk of the rise in the capex could be funded by the corporate bond market.

As the Indian economy grows, the appetite for retail loans is also expected to surge.

NBFCs, a key part of the retail lending cycle complementing the banks, are among the main issuers of corporate bonds. For several years, which has seen many committees examine the challenges, the corporate bond market frustrated most market watchers and regulators alike.

The jigsaw puzzle appears to be getting solved.

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