

**ADDRESS BY SHRI ASHWANI BHATIA, WHOLE-TIME MEMBER, SECURITIES AND
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Indian Financial Markets - Navigating through shifting tides

It is an honour to address this esteemed gathering as we discuss India's financial markets and their evolving landscape. Today, India has emerged as one of the fastest-growing economies, with its financial markets serving as a key driver of capital formation and economic resilience. However, as we are navigating through global uncertainties, technological disruptions, and regulatory advancements, our markets continue to adapt, innovate, and strengthen, thereby playing a pivotal role in the nation's aspirations to become a developed economy. As we move forward, fostering transparency, liquidity, and inclusivity will be paramount in ensuring that India's financial ecosystem remains a beacon of stability and growth amid shifting global tides.

The Indian Financial Market: An Overview

India's financial market has witnessed significant growth over the last decade, evolving into a dynamic ecosystem encompassing equity, debt, commodities, and derivatives markets, backed by robust economic expansion, policy reforms, and technological advancements. In January 2024, India overtook Hong Kong to rank as fourth-biggest equity market globally for the first time¹.

And with a robust growth momentum, market capitalisation in India continued to grow and Sensex and Nifty reached new heights, reflecting strong investor confidence. In the calendar year 2024, there were a total of 1,145 IPOs globally and India² had, for the first time, risen to the number one position globally in IPO volume, listing almost twice as many IPOs as the US and two-and-a-half times the number that Europe had³.

The government's continued focus on financial inclusion through initiatives like the Jan Dhan Yojana and Unified Payments Interface (UPI) has resulted in unprecedented access to financial services, with digital payments accounting for nearly 80% of the retail transactions. Technological advancements such as algorithmic trading, digital banking, and fin tech innovations have made financial services more accessible and efficient.

As we navigate these dynamic shifts, it is imperative to analyse some of the key segments shaping the expansion of our financial ecosystem — Corporate Bonds, Municipal Bonds, and the Infrastructure and Real Estate Trusts. In this context, my address today will offer insights and perspectives on these crucial areas.

¹ As per Bloomberg report - <https://www.livemint.com/market/stock-market-news/india-overtakes-hong-kong-as-world-s-fourthlargest-stock-market-11705975318603.html>

² <https://economictimes.indiatimes.com/markets/ipos/fpos/indias-nse-leads-china-with-most-number-of-ipos-in-asia-beats-us-incapital-raised/articleshow/116913689.cms?from=mdr>

³ As per International Bar Association news article: <https://www.ibanet.org/Indias-IPOboom#:~:text=Even%20before%20the%20end%20of,the%20number%20that%20Europe%20had>

To begin, I will focus on the corporate bond market, which, despite the rapid growth of India's financial sector, remains a largely untapped avenue with immense potential.

Corporate Bond Market: A Pillar of Debt Financing

The Indian bond market is at an inflection point, with growing retail participation and increasing awareness about fixed-income investments. As India advances towards meeting its ambitious economic goals, corporate bonds are set to play a major role in financing infrastructure and industrial expansion.

Trends in the Indian Corporate Bond Market:

The Indian bonds market has displayed remarkable resilience in the recent past, largely due to the stable macroeconomic environment and steady demand from institutional investors that continues to act as a stabilising force in the face of external challenges. India's bond market (i.e. the Government securities as well as corporate bonds), has been gaining momentum, reaching \$2.69 trillion (Rs. 231.62 lakh crore) by December 2024, with corporate bonds alone accounting for over \$602 billion (Rs. 51 lakh crore)⁴.

The momentum in corporate bonds has been outpacing other segments, reflecting a shift toward debt financing as businesses scale up operations. In rupee terms, the overall bond market expanded by 6.5%, while the corporate bonds market saw a stronger growth of 9%⁵ with Indian companies raising a record ₹10.67 trillion (\$124.81 billion)⁶ through corporate bond issuances, in 2024. This surge was driven by declining bond yields and growing investor appetite for longterm instruments. Further, retail participation in bonds has surged, reflected by significant increase in the number of transactions.

Despite the progress, in contrast to the equity market, the debt market in India remains undercapitalised. India's bond markets still lag behind global peers, standing at 0.65x the equity market capitalization, compared to 1.2-2.0x in developed economies⁷ like US, Japan. As per the Economic Survey Report 2024-25, in India, the corporate bond market accounts for only 18 per cent of GDP, as opposed to 80 per cent in Korea and 36 per cent in China.

⁴ As per economic times news article: <https://economictimes.indiatimes.com/markets/bonds/2-69-trillion-and-counting-how-indiasbond-market-is-powering-a-8t-future/articleshow/119401928.cms?from=mdr>

⁵ As per CNBC TV news article: <https://www.cnbctv18.com/market/india-bond-market-retail-investors-equities-vishal-goenkaindiabonds-sebi-liquidity-tds-distribution-network-corporate-bonds-19575813.htm>

⁶ As per Times Now news article: <https://www.timesnownews.com/business-economy/companies/indian-corporate-bondfundraising-hits-record-rs-10-67-trillion-in-2024-article-116795743>

⁷ As per CNBC TV news article: <https://www.cnbctv18.com/market/india-bond-market-retail-investors-equities-vishal-goenkaindiabonds-sebi-liquidity-tds-distribution-network-corporate-bonds-19575813.htm>

Recent initiatives by SEBI to strengthen the Corporate Bonds market:

Investor friendly measures:

- **Lowering the minimum investment threshold of privately placed bonds from ₹ lakh to ₹0,000:** Lower ticket size, opens the corporate bonds market to a broader range of investors, previously dominated by institutional and high-net-worth individuals.
- **Introduction of OBPP Framework:** SEBI-registered Online Bond Platform Providers (OBPPs) have played a transformative role by democratizing bond market access while leveraging secure payment infrastructure to ensure near-zero transaction costs.
- **Launch of Bond Central:** It is a centralised portal, accessible free of cost to the public, and which aims to enhance transparency and informed decision-making by providing detailed risk assessments, corporate bond documents, and comparisons with Government Securities.
- **Framework for liquidity window facility:** This option allows investors to sell their bonds back to the issuer before the maturity date, enhancing the liquidity and flexibility of corporate bonds thereby making more dynamic and investor-friendly corporate bond market.

Market development measures:

- **Framework for Large Corporates:** In order to boost development of the corporate bonds market, concept of large corporates was introduced who are encouraged to utilise the bonds market for their funds requirements at least for a specified percentage.

Securities and covenant monitoring: To strengthen investor protection and enhance transparency in the corporate bonds market, Distributed Ledger Technology, was adopted to enable real-time tracking of security creation and covenant compliance.

Issuer benefit measures:

- **Launch of Limited Purpose Clearing Corporation (LPCC):** Taking into cognizance the need of the market participants to have a structured mechanism to handle their short term liquidity needs, AMC Repo Clearing Limited (ARCL) was given recognition. This initiative strengthens market infrastructure by reducing counterparty risk and enhancing settlement efficiency for repo transactions in corporate bonds.
- **Establishment of the Corporate Debt Market Development Fund (CDMDF):** CDMDF is a backstop facility for investment-grade corporate debt securities, ensuring market stability during stressed conditions.

- **Review of disclosures in the offer document:** By leveraging technology, multiple disclosure requirements for the issuers, relating to financials, branches, vendors, advertisements, etc. have been shifted from bulky physical documents to digital access through QR codes.

Recent budget announcements pertaining to the Bonds Market:

I would like to take a moment to commend the Government of India for the crucial measures announced in the Budget 2025-2026 which would go a long way to strengthen the bonds market.

- **Infrastructure Financing:** The government has emphasized that National Bank for Financing Infrastructure and Development (NaBFID) will set up a partial credit enhancement facility for corporate bonds in the infrastructure sector. This strategic move aims to democratise the corporate bonds market by enabling below AA-rated infrastructure companies to tap into bond financing, reducing dependence on bank funding.
- **Urban Challenge Fund:** The Government will set up an Urban Challenge Fund of ₹1 lakh crore to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'. This fund will finance up to 25 per cent of the cost of bankable projects with a stipulation that at least 50 per cent of the cost is funded from bonds, bank loans, and PPPs.

Foreign Investment and Market Globalization:

Foreign Portfolio Investors have shown renewed confidence in Indian bonds in recent times. Through the Fully Accessible Route, or FAR, there has been a significant inflow of funds into the Indian debt market since the beginning of last year. A notable surge was observed particularly in March, which has played a key role in supporting the stability of the rupee. This reform, coupled with India's inclusion in global bond indices, has significantly enhanced the country's presence on the international investment stage.

- JP Morgan added 29 Indian government securities under FAR to its Emerging Market Bond Index (EMBI) in June 2024.
- FTSE Russell and Bloomberg's Global Aggregate Bond Index are also evaluating the inclusion of Indian Government Bonds (IGBs), potentially driving significant future inflows.

Efforts are underway to identify structural measures and regulatory interventions focussing on several key areas such as:

- **High Concentration in AAA-Rated Bonds:** Currently, 97% of issuances are concentrated in top-rated securities, restricting access for smaller players. Therefore, incentives and alternative funding avenues are being considered for mid-tier corporates to increase depth in the bond market.

- **Market Depth and Liquidity:** Secondary market liquidity remains limited, particularly for lower-rated bonds. In order to boost liquidity in the corporate bonds markets, concerns relating to entry costs, information asymmetry and market-making mechanisms are being evaluated. Steps are being taken to encourage public issuances of bonds to get access to wider audience.

While India's equity markets have witnessed remarkable growth, the corporate bonds market still holds immense untapped potential. Strengthening this sector will not only fuel India's economic expansion but also ensure financial stability and inclusive growth.

With this perspective, I will now turn to the municipal bond market.

Municipal Bond Market: Unlocking Urban Infrastructure Finance:

India is on the path of urbanisation at an unprecedented pace. It is estimated that by 2047, nearly 50% of India's population will live in urban areas, playing a crucial role in shaping **Viksit Bharat**, “a developed and self-reliant India with sustainable and inclusive growth”.

Municipal bonds play a pivotal role as they provide an independent source of funds for cities, reducing the financial burden on the Central and State governments. With the introduction of the regulatory framework for issue of listed Municipal Bonds by SEBI in 2015, 13 corporations have raised funds through the capital market to finance their key infrastructure projects. Notably, over Rs. 2,834 crores have been raised by various municipal bodies till date, marking a growing acceptance of market-based financing for urban development. As on date, five ULBs viz. Varanasi, Prayagraj, Gandhinagar, Chennai and Pimpri Chinchwad are in the process of fund raising through issue of Municipal Bonds.

Further, Green bonds have gained remarkable momentum among municipal corporations in recent years, as urban local bodies increasingly recognize the value of sustainable finance.

In 2021, Ghaziabad Municipal Corporation issued India's first green municipal bonds (₹150 crores for a solar project). Taking the momentum forward, in 2024, Vadodara Municipal Corporation issued Asia's first certified green municipal bond.

Additionally, the Kerala Budget for FY2025-2026 introduced a strategic move to empower ULBs by facilitating the issuance of municipal bonds for critical infrastructure projects.

Under Atal Mission for Rejuvenation and Urban Transformation i.e. AMRUT 2.0, Ministry of Housing and Urban Affairs (MoHUA), provides an incentive of Rs. 13 crores per Rs. 100 crores (subject to maximum of Rs. 26 crores) of bond issued by a ULB. For a subsequent issuance, being a green bond, MoHUA provides an incentive of Rs. 10 crores per Rs. 100 crores (subject to maximum of Rs. 20 crores) of bond issued by a ULB.

Recently (April 7, 2025), this reform-based incentive was extended by MoHUA for pooled municipal bonds. If a State-level entity aggregates the funding needs of multiple ULBs (subject to maximum Rs. 500 crores worth municipal bonds), an incentive of Rs. 13 crores per Rs. 100

crores raised is offered. Furthermore, if the bond proceeds are directed towards Renewable Energy (RE) or Energy Efficiency (EE) projects, an additional Rs. 5 crores per Rs. 100 crores are available, taking the total incentive to Rs. 18 crores per Rs. 100 crores, subject to certain cost specifications. Even entities which have already availed the earlier incentives are eligible for issue of bonds through pooling. Such a step is expected to act as a catalyst in getting the smaller Municipal Corporations to access the capital markets and strengthens India's green infrastructure agenda through sustainable urban financing.

This incentive-driven policy not only helps ULBs tap capital markets effectively but also aligns infrastructure financing with sustainable development goals, promoting green urban transformation. It is a timely and strategic step toward building a robust, self-sustaining municipal debt market in India.

Globally, municipal bonds have been a cornerstone of local government financing for decades, particularly in markets such as the United States. As of December 2024, the outstanding municipal bonds in the United States stood at approximately USD 4,171 billion. In contrast, India's municipal bonds market remains at a nascent stage. It is merely a fraction of the overall bond market. But this figure underscores the significant potential for growth in India's municipal bond ecosystem.

I would like to share some of the significant initiatives taken by SEBI to boost the municipal bonds market in India:

- The definition of 'issuer' was widened to include entities/ bodies such as urban development authorities, city planning agencies, pooled finance development funds, etc. that perform functions, such as planning and execution of urban development projects/ schemes, which are akin to those being performed by a municipality.
- Multiple outreach programs have been conducted across the various parts of the country, to spread awareness about Municipal Bonds by bringing together the various stakeholders on a common platform.
- A repository of information pertaining to Municipal Bonds was launched on SEBI's website to facilitate new issuers in getting all relevant information in one place.
- SEBI permitted municipal corporations to issue and list green debt securities in order to facilitate access to capital for environmentally beneficial infrastructure—such as clean transportation, renewable energy, and climate-resilient urban planning. This aligns municipal financing with India's broader ESG and climate commitments.
- SEBI in collaboration with NISM launched an eLearning course on Municipal Bonds, specifically designed to equip officials of Municipal Corporations and Urban Local Bodies, with the knowledge and the practical skills to leverage Municipal Bonds as a powerful tool for financing development projects.

- NSE launched India's first ever municipal bond index (IBMX) on February 24, 2023 which will track the performance of bonds issued by Indian Municipal Corporations.

Further, a dedicated website for municipal bonds was launched which shall serve as a centralized hub for market participants, offering comprehensive data on Indian municipal bonds market including issuances, credit ratings, trading volumes, intrinsic yields, and prices. SEBI is actively engaging with stakeholders and remains committed to rationalising regulatory requirements through a consultative and collaborative approach to foster a more enabling environment for municipal bond issuances.

With this in mind, I will now share my insights on the REITs and InvITs market in India.

REITs and InvITs: Driving Infrastructure and Real Estate Investment

REITs and InvITs were introduced in India to provide a structured and transparent platform for investment in real estate and infrastructure assets. With over a decade of success, the Indian REITs & InvITs landscape is steadily evolving and poised for further growth.

Indian REITs include high-quality assets and a diverse tenant portfolio, featuring leading domestic and global companies. This solid foundation provides competitive yields, tax benefits, liquidity, and lower capital requirements compared to standalone real estate assets. However, REITs in India only account for ~10% of the country's total listed real estate value, covering nearly 126 million square feet —far lower than the over 90% seen in developed markets such as the USA and UK. This gap presents substantial growth opportunities and highlights the need for further promotion of REITs and InvITs, alongside the development of regulatory frameworks to support their expansion.

Even the InvIT market has the potential to grow multi-fold times, driven by private sector investments in core infrastructure and the National Highways Authority of India's (NHAI) national monetization pipeline.

A crucial next step in fostering growth of REITs is their inclusion in major benchmark indices, such as the Sensex and Nifty, across both equity and debt segments, in addition to existing sectoral or thematic indices. This inclusion underscores the market's confidence in REITs' ability to deliver sustained income and capital appreciation.

Key initiatives taken by SEBI to boost REITs and InvITs in India:

To give the requisite boost to this segment, SEBI has undertaken multiple measures aimed at enhancing liquidity, transparency, and investor confidence:

Market development measures:

1. **Introduction of SM REITs:** A new class of REITs has been created, SM REITs, to make smaller real estate assets, valued between ₹50-500 crores, more accessible to retail and institutional investors.

Investor related measures:

2. **Reduction of the minimum application value** of REITs and InvITs to the range of ₹10,000-15,000, and revision of trading lot to one unit for these investment instruments. The move will lead to better liquidity and efficient price discovery.
3. **Enhanced Governance Mechanisms:** Unit holders having more than a 10% stake, can nominate a director on the board of the Investment Manager, strengthening investor protection.
4. **Skin in the Game:** Sponsors are required to maintain a specified percentage of their unit holdings in the Trust perpetually, ensuring alignment of interests with the unitholders.

Issuer related benefits:

5. **Exit flexibility for Sponsors:** A Sponsor of a REIT/ InvIT can exit its holdings while allowing a Manager/ Investment Manager of the REIT/ InvIT to assume the sponsor's role, providing flexibility to the Sponsor.
6. **Unit-Based Employee Benefit Scheme (UBEB):** A UBEB Scheme allows REITs and InvITs to grant employees "unit options," similar to stock options, through an employee benefit trust, enabling them to purchase units at a predetermined price. The objective is to align employee interests with the long-term performance of the Trust.

Conclusion:

India's financial system stands at a pivotal juncture, aligning with the nation's economic aspirations and global financial trends. The rapid expansion of equity markets, corporate bonds and municipal bonds, and alternative investment instruments such as REITs and InvITs reflects a deepening and maturing financial ecosystem. Practical advancements, such as the widespread adoption of UPI and digital banking, have enhanced financial inclusion, while initiatives like GIFT City are positioning India as a global financial hub.

A well-developed bonds market can significantly contribute to India's economic pillars: consumption, investment, and government spending. Corporate bonds, in particular, can drive private sector investment, securitization can enhance credit access, and municipal bonds can support vital public infrastructure development. Such measures shall not only help reduce the reliance on the banking system but also provide a broader, more diversified funding landscape, which are crucial elements for achieving the "Viksit Bharat" vision. With regulatory initiatives fostering transparency, deepening market participation, and improving governance standards, we are well-positioned to navigate through shifting tides and unlock new growth opportunities.

I extend my gratitude to FIMMDA for organizing this insightful forum and look forward to collective efforts that will shape the future of India's financial markets.