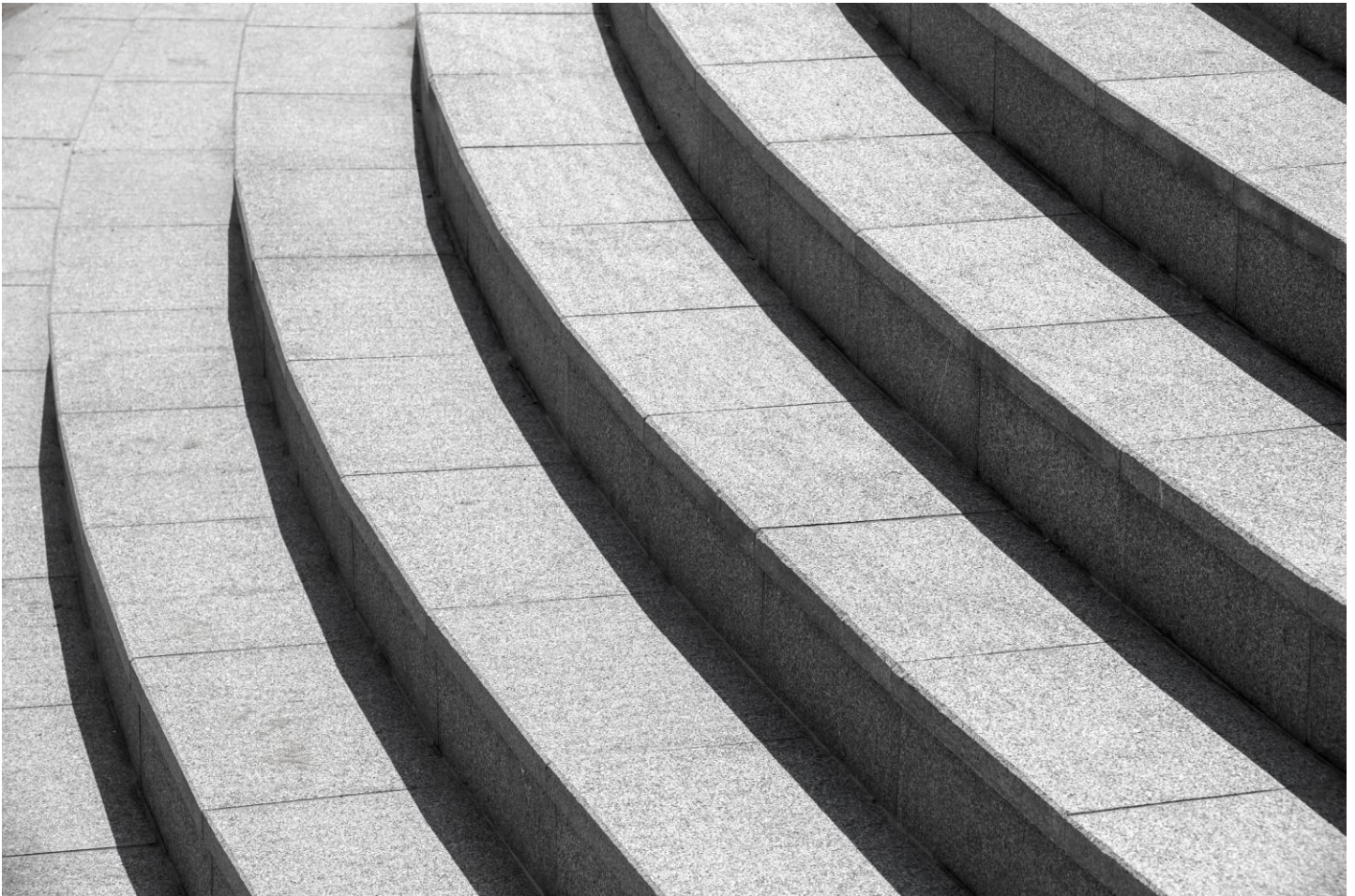


# Mid-rated bonds

## Win-win for stakeholders and Viksit Bharat

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## Executive summary

The Viksit Bharat 2047 vision hinges on accessible low-cost capital for corporates across the economic spectrum. For growth and long-term stability, India must develop a vibrant and deep bond market to supplement banking channels, ensuring a steady supply of low-cost capital to corporates of all sizes through economic cycles.

India's corporate bond market increased over **50%** in the past five fiscals to **Rs 54 lakh crore**<sup>1</sup> as on March 31, 2025. Beneath the surface, however, this growth may not be as promising as it seems.

Data suggests ~**95%**<sup>2</sup> of bond issuances are rated in the highest safety ('AAA') and high safety ('AA') categories. This skew highlights limited participation of mid-rated issuers in the bond market, despite robust growth in the overall market and the Indian economy.

Bond investors generally avoid issuances rated below 'AA'. Many of them typically club mid-rated issuances (which include the 'BBB' and 'A' categories) with those in the 'non-investment grade' categories ('BB' or below).

This can be attributed to investors' perception that credit profiles of mid-rated issuers are more volatile and carry materially higher default risk. However, this is not borne out by data. A Crisil Ratings analysis reveals that 'A' rated companies differentiate themselves in terms of safety and creditworthiness.

These companies provide an attractive proposition to investors in terms of safety, diversity and returns.

An analysis of the Crisil Ratings rated portfolio shows that 'A' rated corporates have demonstrated resilience, with low default rates over the past decade, including during the challenging business cycles of the pre-Covid and Covid years.

Their debt protection metrics (*computed for non-financial corporates, excluding infrastructure and real estate companies*) have been robust, with median interest coverage of **8-9 times** and low gearing of about **0.3 time** over the past seven fiscals, coupled with an increase in scale and size.

In fact, their one-year default rate declined sharply to **0.07%** for fiscals **2015-2025** from about **0.20%** for fiscals **2008-2018**.

Additionally, they offer an opportunity for investors to participate in the growth narrative of the Indian economy.

Companies rated 'A' (*non-financial corporates, excluding infrastructure and real estate companies*) in the Crisil Ratings portfolio clocked median revenue growth of about **9%** over the past seven fiscals, outpacing the ~**4%** growth of those rated 'AA' and 'AAA'.

As these companies form the backbone of the expanding Indian economy, improving their access to the bond market becomes critical to the Viksit Bharat vision.

Mid-rated corporate issuances can also enable portfolio diversification for investors and broaden financial markets for long-term sustainable development.

The borrowing profiles of 'A'-rated companies reveal a significant opportunity.

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<sup>1</sup> Financial Stability Report, Reserve Bank of India, June 2025

<sup>2</sup> Source: Prime Database

As of end-fiscal 2025, their rated long-term bank borrowings across all credit rating agencies stood at about **Rs 23.5 lakh crore**, with over **80%** attributable to non-financial corporates, including infrastructure companies. In contrast, their bond market issuances were modest at about **Rs 1.3 lakh crore** over the past **five fiscals**.

Notably, the Crisil Ratings rated universe as of March 2025 comprised ~1,350 'A' rated companies versus ~950 companies in 'AA' and 'AAA' combined, underscoring the significantly larger opportunity in the 'A' rated cohort.

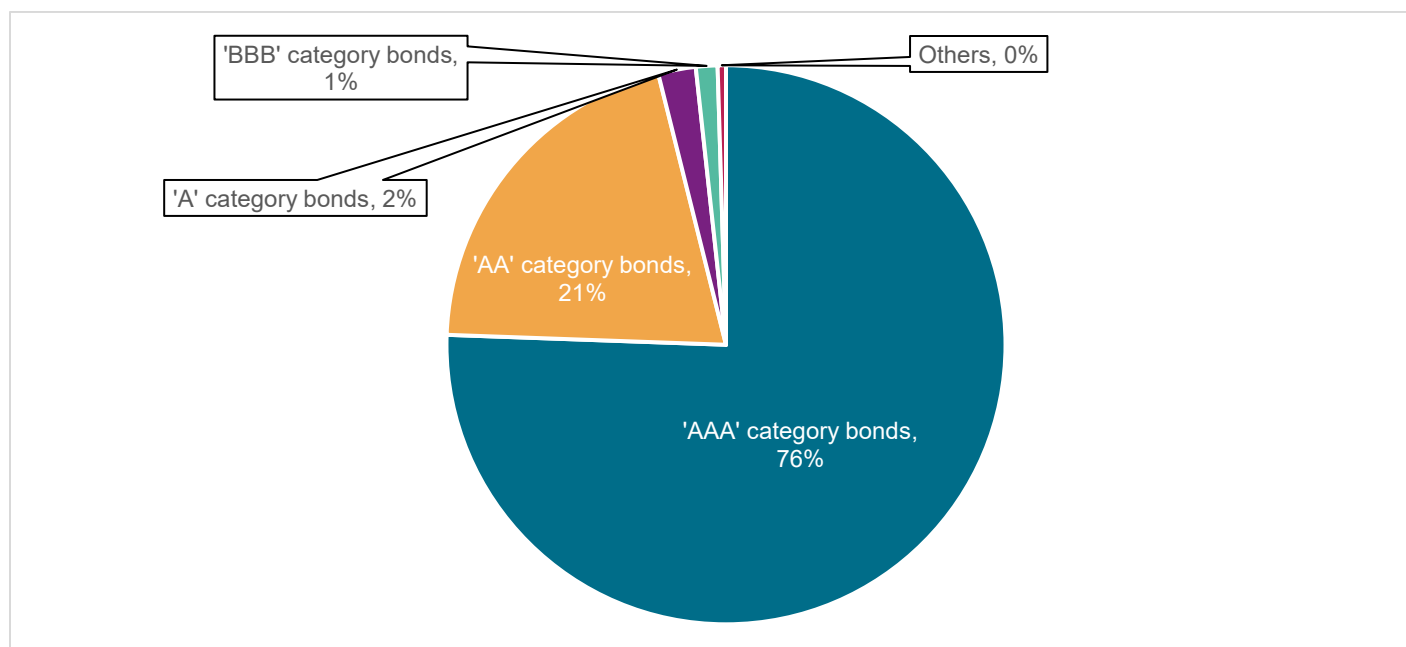
Furthermore, 'A' rated issuances present a compelling case for calibrated investment, especially in the current market scenario where mid-rated bonds offer higher risk-adjusted returns than the 'AA' category.

For the record, 'A' rated bonds have historically provided **80-100 basis points (bps)** higher risk-adjusted returns than 'AA' rated bonds.

## A historical rating skew

Traditionally, issuances in the 'AAA' and 'AA' rating categories have dominated the domestic corporate bond market. These categories formed nearly 97% of total corporate bond issuances last fiscal, while mid-rated bonds (which include the 'BBB' and 'A' categories) made up only about 3% (see *Chart 1*).

**Chart 1: Corporate bond issuances by rating category in fiscal 2025**



Source: Prime Database

## Diversification and opportunity landscape for investors

Due to low penetration of the 'A' rating category in the bond market, corporates<sup>3</sup> in this category depend on loans from banks and non-banking financial companies (NBFCs) to meet most of their funding requirement.

As of end-fiscal 2025, their rated long-term bank borrowings across all credit rating agencies stood at about **Rs 23.50 lakh crore**<sup>4</sup>, even as their bond market issuances were relatively modest at about **Rs 1.30 lakh crore** over the past five fiscals (see *Chart 2*).

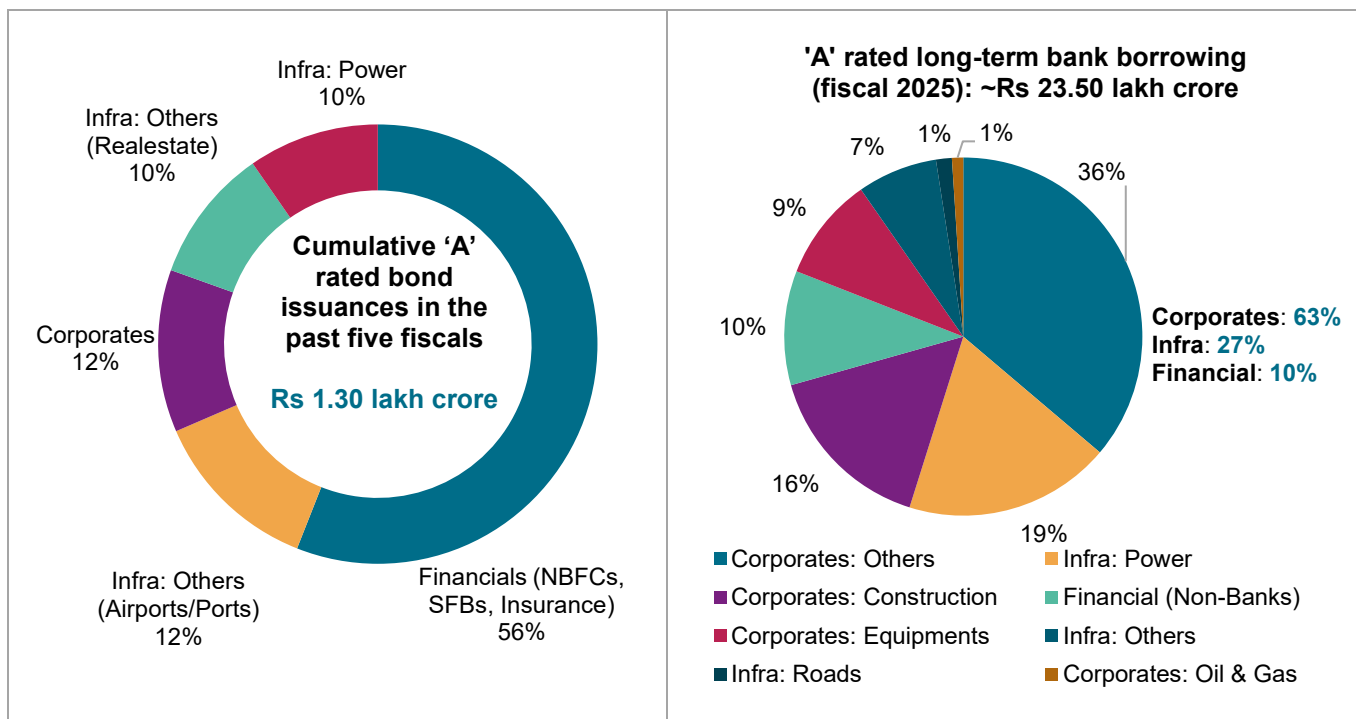
Today, bond issuances remain concentrated in the financial sector. For instance, over the past five fiscals, **56%** of 'A'-rated bond issuances were from financial sector entities, primarily NBFCs (see *Chart 2, left*).

As the universe of 'A'-rated corporates expands, investors can tap this segment for meaningful diversification benefits beyond the financial sector. Long-term bank borrowings in this rating category already demonstrate such breadth (see *Chart 2, right*), with about **63%** attributable to corporates and **27%** to infrastructure borrowers.

<sup>3</sup> Does not include banks and NBFCs

<sup>4</sup> Includes dual ratings

Chart 2: Opportunity for 'A' rated companies: Diversification across sectors<sup>5</sup>



By contrast, 'AAA' and 'AA' rated companies have diversified their funding sources. Their outstanding long-term bank borrowing was ~Rs 109 lakh crore as of end-fiscal 2025, while their bond issuances stood at ~Rs 37 lakh crore (~34% of their bank borrowing) over the past five fiscals.

Source: Prime Database, Crisil Ratings

Given the government's focus on building infrastructure assets, the bond market can emerge as a solid source of long-term funds for infrastructure players, especially for operational assets.

'A' rated companies also offer investors the opportunity to increase their exposure to the infrastructure sector and benefit from a positive shift in loss-given default (LGD) trends in the Indian context over the past decade. LGD is a measure of loss that lenders or investors incur post default on debt instruments.

India is transitioning in terms of LGD, aided by a stronger insolvency and bankruptcy regime. Infrastructure assets, in particular, witnessed a noticeable improvement in recovery outcomes, as reflected in the Crisil Ratings study<sup>6</sup>, which shows a decline in median LGD to 20-60% for different assets, compared with earlier assumptions of 60-80%.

<sup>5</sup> Outstanding long-term debt rated across all credit rating agencies has been taken as reference for long-term bank borrowing. This includes dual ratings. 'Corporates: Construction' include EPC companies involved in projects for roads, bridges, irrigation, water and waste management. 'Corporates: Equipment' include companies involved in manufacturing of electrical equipment, industrial machinery, auto components and ancillary, and power storage equipment

<sup>6</sup> Different shades of LGD, Crisil Ratings

## ‘A’ category issuers have become safer over the years

### Mid-rated corporates have lower default rates, better transition metrics

The ‘A’ rating category has seen marked improvement in credit quality, with the one-year default rate declining sharply to **0.07%** for fiscals 2015-2025 from **0.20%** for fiscals 2008-2018 (see *Chart 3*).

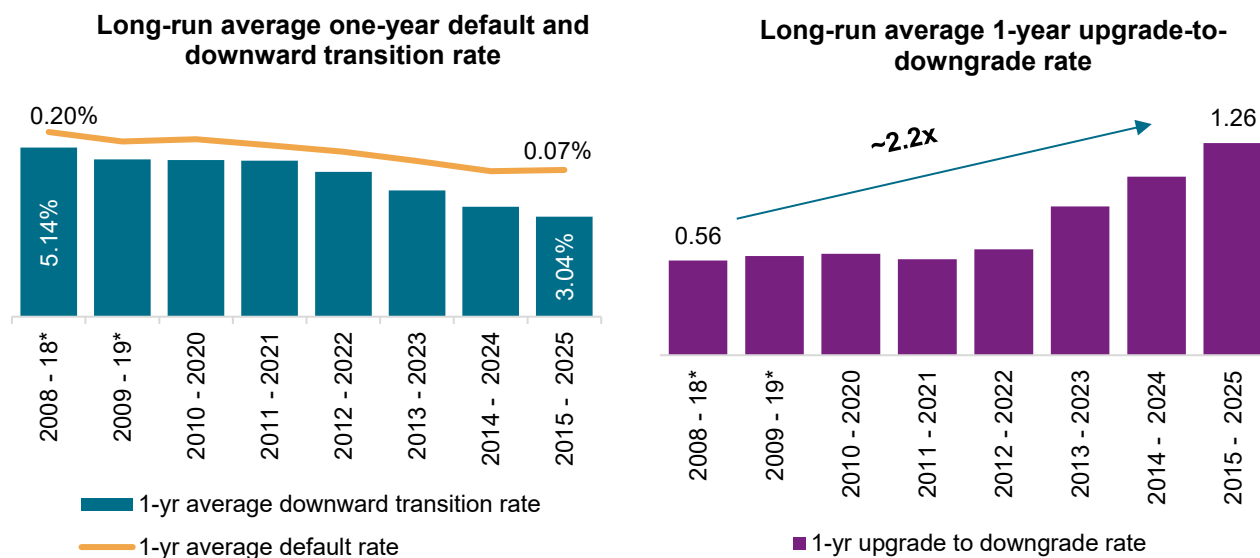
Low default rates in the mid-rated category can be corroborated by the episode of a large asset management company, wherein almost the entire assets under management (AUM) of a few wound-up debt mutual fund schemes (with a likely exposure of 35-40% to ‘A’-rated issuers at the time of winding down) was eventually returned to investors.

This substantiated that the incident was more of a liquidity issue, caused by large redemption pressure precipitated by the unprecedented Covid-19 pandemic, even though it was initially perceived to be a credit issue.

Simultaneously, the risk of downward transitioning<sup>7</sup>—from ‘A’ to any lower rating—has eased, with the one-year downward transition rate falling from **5.14%** to **3.04%** over the same period, translating into a **210 bps** improvement.

The upgrade-to-downgrade ratio also strengthened from **0.56** to **1.26**, signalling that upgrades now outnumber downgrades for the ‘A’ rating category. In a nutshell, this means a group of companies within the ‘A’ rating category tends to gain from overall rating movements over a longer period. To put this in perspective, for a portfolio of ‘A’-rated investments, a higher upgrade-to-downgrade ratio can result in a net gain.

**Chart 3: Improving default rates and stability rates<sup>8</sup> of ‘A’-rated companies over the years**



Source: Crisil Ratings

<sup>7</sup> Downward transition ratings refer to the change of an instrument's rating to a lower category, indicating increased credit risk.

<sup>8</sup> There has been a change in reporting of default statistics by Crisil Ratings from the calendar year to the fiscal, and the default rates from 2019 are on a fiscal basis. The computation of default and transition rates disclosed above is as per Crisil Ratings methodology.

## Robust credit profiles of 'A' category corporates

'A' rated corporates have seen their default rates improve over the years, due to their robust credit profiles. An analysis of the Crisil Ratings rated portfolio indicates as much. These companies<sup>9</sup> have demonstrated healthy revenue growth (see *Chart 4*), while maintaining profitability, favourable capital structure and debt servicing ability (see *Chart 5*).

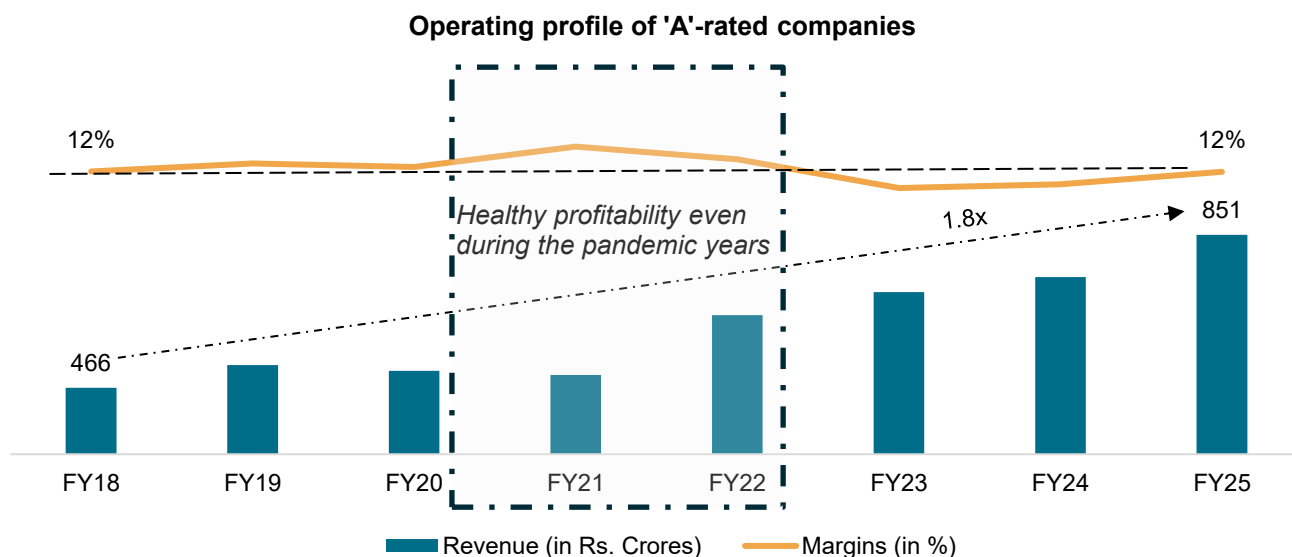
### Strong business profiles, driven by healthy revenue growth

'A' rated companies have demonstrated resilience, with revenue expanding nearly **1.8 times** since fiscal 2018. This growth has been supported by expansion of the Indian economy and digital advancement, which have enabled corporates to scale up operations more efficiently.

Introduction of the Goods and Services Tax (GST) in calendar year 2017 also supported this trend, as it widened the tax net and led to industry consolidation towards the organised sector. Apart from large players, mid-sized players gained market share from smaller, unorganised counterparts, and thus were able to build scale and report higher cash accrual.

Notably, even during the pandemic years (indicated by a box in the charts below), 'A'-rated companies saw healthy profitability, with margin of about **12%**, a level that has been maintained through economic cycles.

**Chart 4: Operating profile<sup>10, 11</sup>**

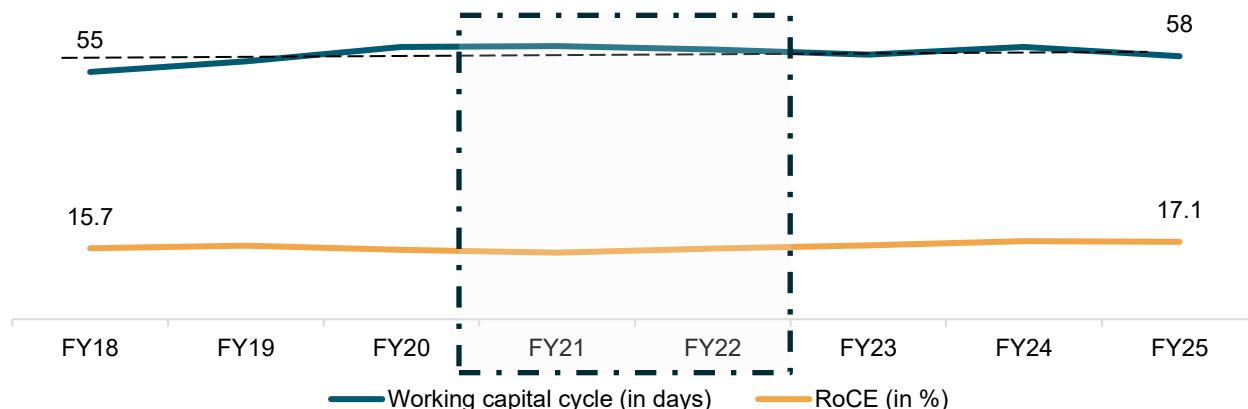


<sup>9</sup> Companies from the financial, infrastructure and real estate sectors have been excluded from this analysis

<sup>10</sup> Refer to Annexure: Glossary for description of operating metrics

<sup>11</sup> Data comprises corporates operating across more than 100 sectors, with cooperative ratings outstanding as of the end of each financial year. Balance-sheet items and ratings are reported as of the end of the financial year, whereas the profit and loss (P&L) items, such as revenue and Ebitda, are reported for the entire financial year. In Charts 3 and 4, data refers to the median of the respective parameters for companies that were rated in the 'A' category at the end of the financial year.

**Strong operating efficiency of 'A'-rated companies**



Source: Crisil Ratings

'A'-rated companies have demonstrated prudent working capital management, with a net working capital cycle of about **60 days** over fiscals 2018 to 2025. This has helped optimise resource allocation and reduce financial stress. As a result, return on capital employed (RoCE) remained healthy at **15.7-17.1%** over fiscals 2018 to 2025, underscoring healthy efficiency and profitability of these companies.

**Sustenance of strong financial profile, while improving scale**

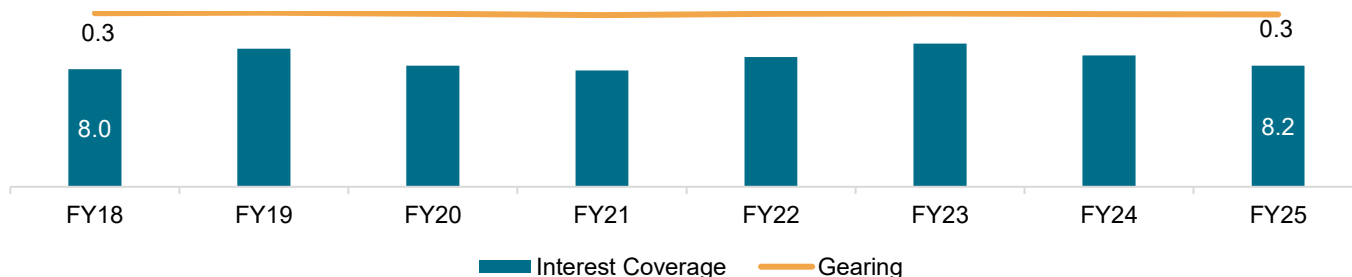
While maintaining growth and operating margin, 'A'-rated corporates displayed strong financial discipline between fiscals 2018 and 2025, reflected in robust interest coverage of over **8** times and low gearing of about **0.3** time (see Chart 5).

The overall Crisil Ratings portfolio<sup>12</sup>, for reference, saw interest coverage of **4.9** times for fiscal 2025 and gearing of **0.5** time as on March 31, 2025.

The prudent leverage, supported by steady earnings and efficient capital management, has ensured strong debt-servicing ability and balance-sheet strength through various business cycles for 'A'-rated companies.

**Chart 5: Financial profiles<sup>13</sup>**

**Sustenance of financial risk profile of 'A'-rated companies**



Source: Crisil Ratings

<sup>12</sup> Crisil Ratings Round-Up: First half, fiscal 2026

<sup>13</sup> Refer to Annexure: Glossary for description of financial metrics

The stability in leverage and financial metrics underscores the rising importance of financial prudence among corporates post pandemic, metamorphosing into a mindset that prioritises liquidity and manageable leverage over excessively debt-funded expansion. Plus, the introduction of the Insolvency and Bankruptcy Code has helped enhance credit discipline among corporates.

Capital expenditure (capex) in the private sector has been measured in recent years, and the strong balance sheets of 'A'-rated players provide enough headroom to accommodate any future capex.

Sustained improvement in business profiles of mid-rated corporates, driven by better scale and profitability, industry-wide consolidation, and reduced volatility in operating parameters, should support the sustenance of strong debt protection metrics, despite some increase in leverage.

As a result, 'A'-rated corporates are likely to maintain credit quality, given the sustained transformation in their business and finance profiles.

## Regulatory steps taken to safeguard investor interest

While 'A'-rated corporates have seen their profiles improve, investors are still concerned about liquidity issues that prevail in the bond market.

To tackle these issues, which were witnessed during the severe redemption pressure faced by some debt mutual fund schemes at the onset of the pandemic, the Securities Exchange Board of India launched the Corporate Debt Market Development Fund (CDMDF) on July 27, 2023.

This alternative investment fund will act as a backstop facility for specified debt mutual funds during periods of stress or market dislocation<sup>14</sup>, thereby mitigating the impact of redemption pressure and improving liquidity of investment-grade bonds.

Additionally, the government has focused on fair and timely resolution of stressed assets with the introduction of the Insolvency and Bankruptcy Code, 2016. Until June 2025<sup>15</sup>, debt of about Rs 12.15 lakh crore, from about 1,135 cases, was resolved under this regime.

## Risk-adjusted return higher for 'A' rated bonds

While strong debt protection metrics and creditworthiness of 'A'-rated corporates will act as key safeguards, investors will be attracted by the higher risk-adjusted returns compared with the higher-rated category.

Notably, returns far outweigh risks, with a higher differential between market yield<sup>16</sup> and required yield for 'A'-rated issuers compared with those rated 'AA' (see *Chart 6*). This comes against the backdrop of reducing default rates (see *Chart 3*) due to healthy growth and lower leverage, amid moderate capex.

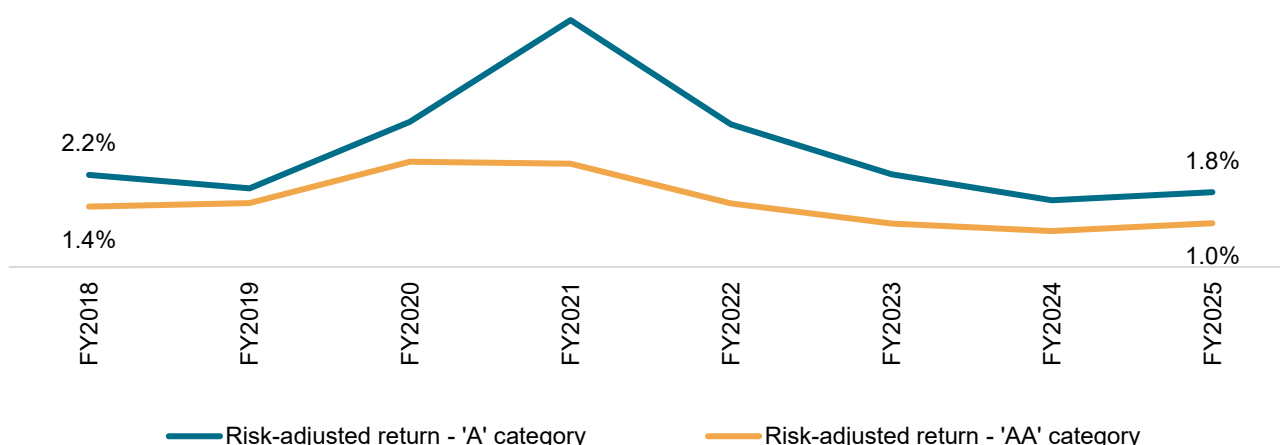
Over the past seven fiscals, bonds issued by 'A'-rated players generated **80-100 bps** higher risk-adjusted returns than the 'AA'-rated category (see *Chart 6*).

<sup>14</sup> The initial corpus of CDMDF is proposed to be Rs 3,000 crore, which will be contributed by specified mutual funds, and it can raise debt guaranteed by the National Credit Guarantee Trust Company (with sovereign rating) up to Rs 30,000 crore from banks. The specified debt mutual fund schemes will be able to sell bonds during market dislocation in proportion to the contribution made to CDMDF at the mutual fund level.

<sup>15</sup> Quarterly newsletter of the Insolvency and Bankruptcy Board of India, dated June 2025

<sup>16</sup> Includes only non-financial corporates

**Chart 6: Risk-adjusted returns for 'A' and 'AA' rated bonds**



Source: Crisil Ratings, Crisil Intelligence

### Terminologies

Risk-adjusted return is the difference between market yield and required yield.

Market yield represents the median of the daily quoted yield on bonds outstanding with a modified duration of 2-3 years, where daily quoted yield is arrived at using security-level valuation<sup>17</sup>.

Required yield refers to the yield required over the risk-free yield to cover expected and unexpected losses, including default risk.

Risk-free yield for computing required yield is assumed to be the 12-month average of the daily quoted yield of government security (G-sec) outstanding with modified duration of 2-3 years.

## Conclusion: Conditions today favour mid-rated issuances

Over the years, 'A' rated corporates have expanded their scale and maintained strong debt protection metrics, reflecting stronger business and financial foundations. This resilience has translated into lower default rates and increasingly attractive risk-adjusted returns for investors.

Adding to this momentum, policy and regulatory reforms—from proactive government measures to faster, more structured insolvency processes—have created a fertile ground for mid-rated bonds to gain prominence.

We believe now is an opportune time to add debt instruments of 'A' rated issuers to the portfolio, as this will enhance diversification through exposure to a larger set of industries compared with 'AA' and 'AAA' rated issuers.

Furthermore, given the smaller debt size of 'A' rated companies, investors can improve granularity in their portfolio, with reduced risk of a single large default. Additionally, they can benefit from higher risk adjusted returns.

The growth of the mid-rated segment of the corporate bond market is a win-win for both investors and corporates and will fuel India's progress towards a Viksit Bharat.

<sup>17</sup> [Security-level valuation for corporate bonds, Crisil](#)

## Annexure

### Glossary

| Parameter                       | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Margin                          | <p>Margin indicates how much of the generated sales is left when all operating expenses are paid off.</p> <p>Margin is computed as: <math>\text{Margin} = \frac{\text{Earnings before interest, tax, depreciation and amortisation (Ebitda)}}{\text{operating income}}</math></p>                                                                                                                                                                                                                                                                                                                                                                                                            |
| RoCE                            | <p>RoCE indicates the returns generated by a company on the total capital employed in the business. The ratio comprehensively indicates how well the company is run by its managers and is unaffected by the extent of its leveraging or by the nature of its industry. A consistently low RoCE reflects the company's poor viability in the long term.</p> <p>RoCE is computed as: <math>\text{RoCE} = \frac{\text{Profit before interest and tax (PBIT)}}{[\text{total debt} + \text{adjusted networkth} + \text{deferred tax liability}]}</math></p> <p>Deferred tax liability represents timing differences in tax on book profits and on profits computed under the Income Tax Act.</p> |
| Working capital cycle (in days) | <p>Net working capital cycle days, also known as the cash conversion cycle (CCC), measure the time taken for a business to convert its investments in inventory and other resources into cash from sales.</p> <p>Net working capital cycle is calculated as: <math>\text{Inventory days} + \text{accounts receivable days} - \text{accounts payable days}</math></p>                                                                                                                                                                                                                                                                                                                         |
| Interest coverage               | <p>The interest coverage ratio represents the extent of cushion a company has for meeting its interest obligation through surplus generated from operations. It is a consequence of a company's profitability, capital structure and cost of borrowings.</p> <p>Interest coverage is computed as: <math>\frac{\text{Profit before depreciation, interest and tax (PBDIT)}}{\text{interest and finance charges}}</math></p> <p>Interest and finance charges refer to the total interest payable by a company during the financial year under assessment.</p>                                                                                                                                  |
| Gearing                         | <p>Gearing, or the debt-to-equity ratio, reflects the extent of borrowed funds in a company's funding mix. The equity component in the capital employed by the company has no fixed repayment obligation; debt, on the other hand, carries specified contractual obligations of interest and principal. Gearing, therefore, denotes the extent of financial risk taken by the company: the larger the quantum of debt, the higher the gearing, and the more difficult it will be for the company to meet its debt obligation.</p> <p>Gearing is computed as: <math>\frac{\text{Adjusted total debt}}{\text{adjusted networkth}}</math></p>                                                   |

For a detailed understanding of the key ratios we use in our rating process, please refer to 'Criteria for manufacturing, trading and corporates services sector (including financial ratios)', available at [www.crisilratings.com](http://www.crisilratings.com)

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