

India's Debt Market: Democratization and the AI Dividend



Nipa Sheth
Founder & Director
TRUST Group

Structural shifts in 'capital markets often whisper before they roar. In 2025, India's fixed-income landscape is no longer merely evolving—it is being meticulously recalibrated, as democratized demand converges with intelligence-driven market architecture.'

We are no longer witnessing token milestones; we are observing a measured transformation. Corporate bond issuance climbed to

a record ₹9.9 trillion in FY25, with a striking ₹4.07 trillion raised in the first four months alone—an acceleration that reflects more than liquidity seeking; it signals a preference for capital formation via market instruments rather than traditional bank credit. Bank loans, once the backbone of non-bank funding, contributed just 22 percent of resource mobilization in April–June 2025—nearly half of what it was the previous year. Short-tenor bonds have overtaken longer-dated issuance, underlining a more discerning, cost-sensitive investor mindset.

This is not about retail “entering” the market; it’s about retail—and other domestic anchors—becoming structurally embedded. The introduction of SIPs into Treasury bills on the RBI’s Retail Direct platform has catalyzed this shift. T-bill investments on this platform stood at ₹4,748 crore on August 4, up 37 percent from ₹3,458 crore a year earlier. A near half-million users have registered, and auto-bidding features are streamlining participation via NACH mandates. This disciplined, recurring demand promises to anchor short-end liquidity in ways that ad-hoc participation never could. The SIP-in-T-bill mechanism reads like equity SIPs did two decades ago—but for debt, and with far deeper structural impact.

Institutional appetite is also showing signs of strategic realignment. Pension and insurance allocations—long predictable—are now being calibrated with greater conviction toward corporate and infrastructure bonds. Meanwhile, issuers are gradually moving beyond vanilla PSU paper. Infrastructure bonds have set new benchmarks in 2025, and ESG-linked issuances—still modest in volume—are steadily maturing into key balance-sheet cornerstones as climate-aligned financing becomes integral, not incidental.

If democratization is depth, AI is precision. But can intelligence become market infrastructure? Can it

meaningfully compress spreads in a deeply fragmented secondary curve? These are the questions industry veterans are asking—and AI is delivering answers.

India’s AI sector is projected to reach \$8 billion by 2025, growing at a robust 40 percent CAGR. Public investments into IndiaAI infrastructure are enabling compute-intensive applications across sectors, creating a foundation for AI deployment in debt markets.

In practice, AI is transforming how bonds are evaluated and priced. Models now integrate macroeconomic signals, peer behavior, forward-looking sector stress indicators, and even supply chain data—reshaping the credit evaluation process into a constantly recalibrating ecosystem. Pricing engines no longer rely solely on spreads; they react to real-time demand shifts and volatility, with algorithms capable of dynamically calibrating the curve.

Perhaps most quietly revolutionary is AI’s impact on secondary liquidity. India’s fixed income market has long suffered from shallow trading and wide bid-ask spreads. Now, predictive liquidity models and matching engines signal a turning point—not by creating perfect liquidity overnight, but by reducing slippage and improving price continuity in the parts of the curve that matter most.

Global capital remains a double-edged sword. Inclusion of Indian bond markets into the FTSE government bond indices from September 2025 has already catalyzed inflows—over ₹1.5 trillion since H1 2023—while lengthening duration profiles and helping reduce refinancing risk. Yet volatility persists; the 10-year G-sec yield spiked to 6.42 percent in August amidst fiscal uncertainty, reminding us that foreign flows exacerbate as much as they enable. Domestic demand foundations are the only real antidote.

For debt intermediaries, disintermediation is not obsolescence—it is a mandate for elevation. The role now includes embedding behaviorally engineered products (like SIP-linked T-bills), structuring ESG and infra-linked instruments, deploying AI into price and risk frameworks, and conceptualizing liquidity mechanisms that go beyond dealer-driven models. In this ecosystem, the arranger becomes an architect of investor behavior and market infrastructure, not just a seller of paper. That is a role deserving of veteran currency, and one that will define leadership in Debt Market 2.0.

The merit of India’s 2025 debt market will be judged by more than issuance milestones. It will be seen in the permanence of democratized demand, the efficacy of AI in shaping microstructure, and the resilience of liquidity under stress. Democratization delivers breadth; AI delivers sophistication. Together, they mark a shift from debt as capital raiser to debt as dynamic marketplace—a subtle revolution that veterans will recognize not for its flash but for its structural resonance.