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How spread dynamics of entities evolved in FYTD27

The spreads on bonds for PSU FIs& Banks (PFBs), NBFCs and Corporates indicate how the risk premium has evolved over time. These spreads are benchmarked to the risk-free GSec. Besides the movement in these yields, business environment at both the macro and micro levels hold the cue for the direction of spreads. Under the current scenario, the outlook of India's 10Y yield remains uncertain and depends on the evolving global conditions relating to war, liquidity conditions, inflation, government borrowing among other factors. RBI's current rate cycle is likely to be cautious even if there is no rate hike. Hence, we believe that there remains upside risks to India's 10Y yield. In that case, coupled with uncertain macro conditions the risk premium for different entities is also likely to be higher and have a bearing on these bond spreads.

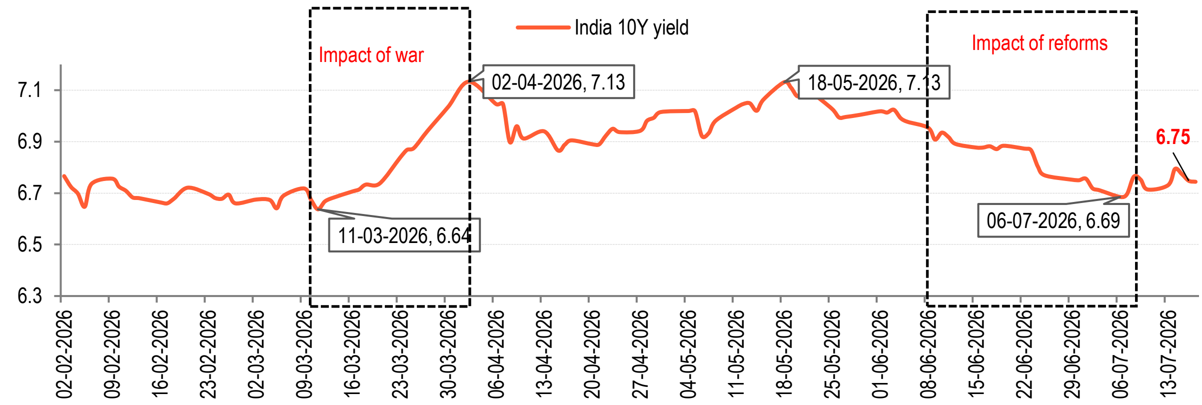
10-year bond movements

To begin with the movement in the 10Y yield can be looked at. Since the spreads are benchmarked to the 10Y Gsec yield, their movement remains crucial in determining the quantum and direction of spreads. However, this is just one part of explaining the spreads. The other part depends on underlying macro fundamentals, monetary conditions and company specific information.

India's 10Y yield has exhibited significant volatility in FYTD27. Post war between US and Iran, there was significant increase in yield broadly led by inflationary concerns on account of elevated oil prices. Thus, yield was sticky throughout May'26. However, in Jun'26, government reforms targeted at tax rationalisation for FPIs and RBI measures aimed at attracting foreign capital, resulted in downward correction of yields.

The outlook of India's 10Y yield remains uncertain contingent on the war situation. Since tensions again flared up and first order effect was on international crude price, hence we cannot rule out any upside risk on India's 10Y yield, in which case, spreads across are likely to firm up. Perspectives on future action on then repo by the MPC also have a bearing on these rates.

Fig 1: Movement of India's 10Y yield



Source: Bloomberg, Bank of Baroda Research, Note: Spreads in bps

Movement in bond spreads

The bond spreads (calculated as the difference in respective yields from the corresponding GSec of similar maturity), of different entities convey the picture of evolution of risk sentiments across investors. Here we have used the FIMMDA data for 10 year bonds of government and corporate sector for understanding the evolution of spread for three different sets of entities.

1. PFBs
2. NBFCs and
3. Corporates.

The data is taken from the fortnightly Spread Matrix for Valuation of Corporate Bonds. Here we have used the point-to-point comparison of spread data to better capture the market movements.

Two aspects are looked at on these spreads. The first is the absolute level of bond spreads across entities as of June 30. The second is the changes that have taken place across different entities against the rating in the first quarter of the year.

Table 1 shows the bond spreads across these three groups across different ratings starting from AAA to A for 10-years paper. As of 30 Jun 2026 it is observed that the spreads on bonds of PFBs across different category of rating are the lowest when compared to NBFCs and for majority of corporates. The spread increases from 57 bps for AAA paper to 255 bps for A rate paper. The difference is around 200 bps between highest and lowest rated paper.

In case of corporates, the spread rises from 54 bps to 326 bps across these two categories of rating which is a difference of 270 bps. In case of NBFCs, it is the highest at 90 bps for AAA paper and climbs to 390 bps for A rated paper- a difference of 300 bps.

Hence it can be seen that PFBs have the lowest spreads in general (it is marginally lower for corporates). Also the gap between the highest and lowest rated categories is the lowest. The fact that these are considered the safest institutions which are either owned by the government or are 'like government institutions' provides this comfort.

Corporates tend to have slightly higher spreads compared with PFBs, but the difference is narrow and varies from 10 bps for AA+ rated paper to 70 bps for A rated papers. Within this groups of corporates, the status of individual companies as well as industry and general business conditions have a bearing on the level of these spreads. Performance of individual companies matter a lot here which leads to lower spreads for them.

NBFCs have the highest spreads over GSecs at 90 bps for AAA rated paper and increases to 390 bps for A rated category. The risk perception is higher given the nature of the industry. Also they are the largest borrowers in the market with 60-70% of the issuances coming rom them. Bond spreads for NBFCs are 33 bps higher than that of PFBs at AAA level which increases to 135 bps at A rated paper.

In June, the 1 year median MCLR for all banks was 8.5%. Given that the 10 year yield was around 6.80% (month-end), AAA rated companies across the spectrum would be able to borrow at a lower rate than from banks. The same would hold for AA+ rated companies. It would be at the AA category that the bond spread would make the effective rate higher than that of banks for NBFCs. PFBs could still have gotten better terms till the AA- rating category while corporates would have just exceeded the MCLR level here. For the A+ and A rating categories, banks would have been the cheaper option.

Table 1: Spreads for the 10 Year paper of different entities across different category of rating

Category of Rating	30-Mar-26			30-Jun-26		
	PFBs	NBFCs	Corporates	PFBs	NBFCs	Corporates
AAA	41	59	41	57	90	54
AA+	79	136	86	88	137	98
AA	115	172	130	120	175	138
AA-	145	223	173	155	215	176
A+	220	373	298	230	365	301
A	245	398	323	255	390	326

Source: FIMMDA, Bank of Baroda Research, Note: Spreads in bps

How spreads have evolved in the current fiscal

For the first quarter of this year, spreads have increased across the board for all the three sets of entities. The changed environment had put some pressure on bond yields to begin with. However, post credit policy bond yields did come down for sovereign paper by 10-15 bps. The spreads however for non-sovereign bonds continued to show some increase over March.

- For AAA category the spreads rose by around 15 bps for PFBs and corporates, while for NBFCs they were up by around 30 bps.
- In case of other categories, interestingly, there was not much change for NBFCs as the spreads came down in the A categories and increased only by 1-3 bps for AA+ and AA categories. It fell sharply by 8 bps for AA-.
- In case of PFBs and corporates, the spreads increased across other rating groups by 3-10 bps with the PFBs being at the higher end.

Conclusion:

1) The spreads of different entities have broadly increased across the board between Mar'26 to Jun'26.
2) The spreads of PFBs across different category of rating are the lowest compared to NBFCs and corporates.
3) For NBFCs the spreads are the highest.
4) For corporates still it is rangebound and the maximum concentration of variation of spread is for lower rated papers of corporates.
5) In the current scenario, when outlook of India's 10Y yield remains uncertain and expected to be skewed to the upside, spreads could harden depending on the evolving macro-economic scenario.
6) Impact will be mostly felt for lower rated papers of NBFCs and certain corporates.

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