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# RETAIL INVESTORS PARTICIPATION IN INDIAN CORPORATE BOND MARKET: A CRITICAL STUDY

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Nirakar Nath Pandey [1]

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A B S T R A C T

*A developed and vibrant corporate bond market provides an important means of financial resources to corporate, in addition to bank financing. It brings transparency and prudence into financial system and helps in minimizing risks in financial system through diversification. The main objective of this study is to find out the various issues and hurdles faced by retail investors and come out with appropriate suggestions in this regard. A modest attempt has also been made to understand the present status of the Indian corporate bond market in reference to retail investors participation. The study reveals that, in spite of sincere efforts of policymakers, the participation of retail investors in Indian corporate bond market are negligible. It has also been observed that the important issues of retail investors are related to safety of principal, returns, liquidity and tax benefits. It is expected that the suggestions made in this paper, if implemented, will definitely helpful in attracting retail investors to Indian corporate bond market.*



## 1. INTRODUCTION

The Indian debt market can be broadly classified into two segments viz. Government Securities Market and Corporate bond Market. India has a developed and vibrant Government Securities Market with a large investor base and sizable amount of debt. However, instead of the commendable efforts from Government of India and concerned regulators, the corporate bond market is remained at a nascent stage. In India the corporate bond market is around 4% of GDP (Table 2) which is very low compare to other large economy of the world. Indian companies prefer bank financing in comparison with bond financing. It will be important to note here that there are inherent structural incentives for borrowers to prefer bank financing in the cash credit system, for instance, no disincentive for unutilized working capital limits. Corporates find it easier to convince few officials of banks about the viability of projects for which funds are being raised than public at large. On the other side, Banks also prefer loans to bonds, because bonds require necessary provisions based on marked to market, thus increasing the possibility of unexpected demands on bank capital. On the conflict of bank loan and corporate bond market, Rajan and Jingales (2003) proposed an “interest group” theory. They narrate that Banks with market power in an underdeveloped economy would see a fledgling corporate bond market as competition, resulting in their disintermediation and, in the short term, as it would impair their positional rent that they have enjoyed due to lack of alternatives. The management of this potential

[1] Corresponding author: Nirakar Nath Pandey
Email: nnp_9@yahoo.com

conflict is a hazard that should be neutralized through policy. The fact remains that over dependence on banks for finance is not good for any economy.

A developed corporate bond market helps in minimizing risks in financial system through diversification. It is also presumed that a developed and vibrant corporate bond market brings transparency and prudence into financial system. The Report of High-Level Committee on Financial Sector Reforms (2009) under the Chairmanship of Shri Raghuram Rajan, "A Hundred Small Steps" has narrated the importance of bond market finance over bank finance as follows:

"One virtue of bond market finance over bank finance, for example, is that it allows investors to bear the credit risk of the firm they are investing in directly, without going indirectly through a bank. For high quality firms, this could entail substantial cost savings. Equity and bond markets also serve as a buffer, passing losses from risky ventures directly to households that would otherwise be passed on to more fragile institutions".

Indian bond market is dominated by banks, mutual fund, pension fund, financial institution and other corporate entities. Direct participation of retail investors is very negligible. Most of the bonds are issued through private placement route (around 98% in financial year 2021-2022, (Table 3) leaving very little for retail investors. This leaves for retail investors only mutual fund route to invest in corporate bond market. Surprisingly, the amendment to the Finance Bill,2023, which was passed in Lok Sabha on March 24, 2023, closes the gates on one of the most cherished benefits of debt fund investors, indexation benefits. This benefit was so far available to unit holders of debt funds on their long-term capital gains (LTGC) tax, if they stay invested for at least three years. But now that indexation benefits have withdrawn from 1st April 2023, obviously the impact of this decision will be very negative for Indian corporate bond market. A market cannot be broad based until small investors participate in it with easy and directly. As most of the bonds are issued through private placement route, retail investors hardly get required information regarding issuer and instrument to invest. Until and unless, frequent issuance of bonds through a well-developed primary market takes place the retail investor will not participate in the bond market. Lack of knowledge amongst the retail investors about the benefits of investing in debts instruments is a very important factor. The higher rate of default in Indian bond market has made the investors very risk averse. To attract retail investors all the important think-tank of bond market viz. the securities market regulator, the banking regulator, the credit rating agencies, clearing houses and stock exchanges will have to take synchronized appropriate decisions. During literature review, it is observed that very few studies have focused on issues and hurdles faced by retail investors in Indian corporate bond market. It is expected that the outcome of this study will help the decision makers in that direction. A well-diversified Indian economy with balanced distribution across bank lending and corporate bonds is the need of hour.

The objectives of this study are:

- To find out the present status of the retail investors participation in Indian corporate bond market.
- To review regulatory and market related developments to attract retail investors in the recent past.
- To find out issues and hurdles faced by retail investors and suggest suitable measures.

## 2. REVIEW OF LITERATURE

In the last few years, several studies have been conducted on the development of corporate bond market in India. These studies have mentioned about less participation of retail investors in bond market in India but very few of them have gone into depth analyzing the reasons thereof. In other words, these studies are broader in content and not retail investors focused. However, some of the relevant papers are outlined below:

Acharya (2011) found that Indian corporate bond market is not liquid. He concluded that inefficient legal environment, complicated procedures and dominance of private placements are some of the important factors which hindering the growth of bond market.
Banerji et al. (2012) concluded that changes to improve efficiency of the bond market will not emerge spontaneously from the market, given the current market structure but would require external impetus in the form of regulatory / policy intervention.
Raghavan and Sarwono (2012) opined that the growth of the government bond market has been a major positive influence in the growth of the Indian corporate bond markets whereas the dominance of bank lending has a negative impact.

Fazeelath (2013) suggested that Government must relax restrictive investment mandates that tend to limit participation of financial institutions in primary and secondary debt markets. He argued that when financial institutions do not have a large pool of qualifying assets to choose from, it may result in excess demand for government debt, in turn resulting in mispriced government debt market.

Chakrabarti (2013) found that a major part of funding by corporate India is done through banking, retained earnings and equity issue rather than bond offerings contrary to other developed and Asian countries.

Srinivasan and Ranjit (2014) concluded that lack of investors participation including retail investors, continues to be a challenge. This is primarily

attributable to lack of transparency. The low level of information dissemination results in sub-optimal assessment of investment risks and serves as a deterrent for prospective investors participation.
Poornima and Ganeshwari (2015) pointed out that the awareness level regarding corporate bonds is very less amongst the retail investors and they emphasized on spreading the necessary awareness.
Subha and Rina (2017) concluded that most of the companies (90%) mainly depend on borrowings from banks and financial institutions rather than debentures/bonds and foreign borrowings.

Ganguly (2019) observed that Indian corporate debt market is yet to achieve the depth of a vibrant bond market resulting in narrow investor base. He emphasized about the important role of credit rating agencies (CRAs) in this regard.

## 3. RESEARCH METHODOLOGY

The research methodology adopted is a combination of various techniques like, collection of primary data through questionnaire, collection of secondary data from various sources like research journals and related websites. The data thus collected has been analyzed.

To fulfil the first two objectives viz. (to find out the present status of the retail investors participation and to review regulatory and market related developments to attract retail investors) of this study historical and real data have been collected from secondary sources. Websites of the following organizations have been extensively used:

- Securities and Exchange board of India
- National Stock Exchange
- Reserve bank of India
- National Securities and Depositories Ltd.
- Clearing Corporation of India
- Securities and Exchange Commission of United States of America
- National Statistics and Programme Implementation, GOI
- World Bank, Asian Development Bank
- Asia bonds online and IMF.
- Google Scholar, Research Gate, Sage Publications etc.

To fulfil the last objective i.e. (issues and hurdles faced by retail investors), 342 regular retail investors of nine prominent brokerage house of Delhi NCR, who invest in corporate bonds have been surveyed with the help of a well-structured questionnaire.

The validity of the questionnaire has been ensured by discussing thoroughly with the brokers and experts of the bond market. In order to evaluate the reliabilities of the questionnaire Cronbach's alpha (α) has been calculated with the help of SPSS which for this scale was 0.756, indicating a good validity. To describe the data arithmetic- mean and percentage analysis have been used. To analyses the primary data, statistical tools such as Descriptive Analysis, The Shapiro – Wilks W Test and Mann – Whitney U Test have been used. The Shapiro – Wilks W Test is most appropriate to test the normality of data when sample size is up to 2000. The confidence interval level for Mean has been taken at 95%. Mann – Whitney U Test is a very powerful non-parametric test as this can be used both for qualitative and quantitative data. This test is an alternative to a t test for testing the equality of means of two independent samples. The application of t test involves the assumption that the samples are drawn from the normal population. If the normality assumption is violated as in our case, Mann – Whitney U Test can be used as an alternative to a t test.

The survey was conducted to find out the issues and hurdles faced by retail investors based on following parameters which have been identified after discussing thoroughly with the brokers and experts of the bond market.

- Default risk is very high in Indian corporate bond market.
- Corporate bonds are illiquid
- Brokers are not interested in providing the necessary information about corporate bonds
- Absence of tax incentives for corporate bonds except for infrastructure bonds
- Lesser return from corporate bonds compares to equity shares
- Performance of mutual debt funds are not satisfactory
- Preference for bank deposits / postal deposits in comparison with corporate bonds due to easy operational mechanism
- Preference for bank deposits / postal deposits in comparison with corporate bonds due to high safety level.

The following hypotheses have been formulated and tested with Mann – Whitney U Test in the study:

**$H_1$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'default risk is very high in Indian corporate bond market.'
**$H_2$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'bonds are illiquid.'
**$H_3$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'brokers are not interested in providing the necessary information about corporate bonds.'
**$H_4$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'absence of tax incentives for corporate bonds except for infrastructure bonds.'

**$H_5$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'lesser return from corporate bonds compares to equity shares.'

**$H_6$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'performance of mutual debt funds are not satisfactory.'

**$H_7$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'preference for bank deposits / postal deposits in comparison with corporate bonds due to easy operational mechanism.'

**$H_8$:** There is no significant difference in the views of respondents based on their experience profile in relation to the statement 'preference for bank deposits / postal deposits in comparison with corporate bonds due to high safety level.'

## 2.1 Present status of retail investors participation in the Indian corporate bond market

Structurally, India has a well-developed corporate bond market supported by matured Government Securities market, reliable credit rating agencies and a robust depository system. The structure of Indian corporate bond market is depicted in Table 1.

**Table 1.** The structure of Indian corporate bond market

| | |
|---|---|
| REGULATORS | SEBI, RBI, Ministry of Corporate Affairs, Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA) |
| ISSUERS | Public Sector Units (PSUs), Commercial Banks, DFIs, Private Banks and Private corporate sectors |
| INSTRUMENTS | PSU Bonds, Debentures, Zero Coupon Bonds, Credit Default Swap etc. |
| INVESTORS | Pension Funds, Mutual Funds, Insurance Companies, Corporates, FIIs, Trusts and Individuals |

But, the small size of corporate bond market in India is clearly reflected (table 2) when we do a comparative analysis of volume with other markets in percentage terms of GDP.

**Table 2.** Corporate Bonds as percentage of GDP March, 2022

| Country | Corporate Bonds as % of GDP |
|---|---|
| Republic of China | 36 |
| Republic of Korea | 87 |
| Singapore | 28 |
| USA | 34 |
| Japan | 18 |
| Hong Kong | 42 |
| Malaysia | 54 |
| India | 04 |

Source: Asian Bonds Online, SEBI and Author's calculation

It has been observed that issuers of bonds in India prefer private placement route rather than public issues which obstruct transparency and market efficiency. Table 3 below shows the money raised in India through corporate bonds in last ten financial years. It can be observed from the table that in the last financial year 2021-22 only 2% of money raised through public issue whereas 98% has been raised through Private Placement route.

**Table 3.** Money raised in India through corporate bonds

| Year | Private Placement of corporate bonds (₹ in Crores) | Public issue of corporate bonds (₹ in Crores) | Total (₹ in Crores) | % Share in the total money raised | |
|---|---|---|---|---|---|
| | | | | Private Placement | Public issue |
| 2012-13 | 3,61,462 | 16,982 | 3,78,444 | 96 | 04 |
| 2013-14 | 2,76,054 | 42,383 | 3,18,437 | 87 | 13 |
| 2014-15 | 4,04,136 | 9,713 | 4,13,849 | 98 | 02 |
| 2015-16 | 4,58,073 | 33,812 | 4,91,885 | 93 | 07 |
| 2016-17 | 6,40,716 | 29,547 | 6,70,263 | 96 | 04 |
| 2017-18 | 5,99,147 | 4,953 | 6,04,100 | 99 | 01 |
| 2018-19 | 6,10,318 | 36,679 | 6,46,997 | 94 | 06 |
| 2019-20 | 6,74,703 | 14,984 | 6,89,687 | 98 | 02 |
| 2020-21 | 7,71,840 | 10,587 | 7,82,427 | 99 | 01 |
| 2021-22 | 5,88,037 | 11,589 | 5,99,626 | 98 | 02 |

Source: SEBI: Statistics, 2022

Retail investors are always risk averse and recent defaults in redemption of bonds by some of the big name of business world has pushed them far off from corporate bond market. Some of the big names, who have defaulted recently on payment, are as follows:

1. IL&FS Financial Services Ltd.
2. Reliance capital limited
3. Reliance commercial finance limited
4. Reliance home finance limited
5. Dewan Housing Finance Ltd (DHFL)
6. Simplex infrastructures limited
7. Sintex industries limited
8. Srei equipment finance limited

Going carefully with the abovementioned default list, it is evident that most defaulters are from financial sector and more specifically NBFCs. Obviously, RBI has a very important role to play in the proper supervision of systemically important NBFCs.

The major portion of financial savings of Indian Household sector is going towards Bank deposits, Provident Funds and Insurance Funds. The percentage of shares and debentures are very less, only 0.5% (Table 4).

**Table 4**. Financial Saving of the Household Sector (% of GNDI)

| ITEM | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| A. Gross Financial Saving | 10.4 | 11.9 | 11.8 | 11.7 | 15.5 |
| Of which | | | | | |
| 1. Currency | -2.1 | 2.8 | 1.4 | 1.4 | 1.9 |
| 2. Deposits | 6.3 | 3.0 | 4.2 | 4.2 | 6.3 |
| 3. Shares and Debentures | 1.1 | 1.0 | 0.4 | 0.4 | 0.5 |
| 4. Claims on Government | 0.7 | 0.9 | 1.1 | 1.3 | 1.6 |
| 5. Insurance Funds | 2.3 | 2.0 | 2.0 | 1.8 | 2.6 |
| 6. Provident and Pension Funds | 2.1 | 2.1 | 2.1 | 2.2 | 2.5 |
| B. Financial Liabilities | 3.0 | 4.3 | 4.0 | 3.9 | 4.0 |
| C. Net Financial Saving (A-B) | 7.3 | 7.5 | 7.8 | 7.9 | 11.5 |

GNDI: Gross National Disposable Income. Source: RBI Annual Report 2021-22

Note: Figures may not add up to the total due to rounding off.

In a nutshell, the important highlights of retail investors participation the Indian corporate bond market are as follows:

1) Though, structurally India has a well-developed corporate bond market but in terms of GDP, its size is small compare to other countries.
2) The issuers of bonds in India prefer private placement route rather than public issues.
3) Recent defaults in redemption of bonds by some of the big names of Indian business are a big deterrent for retail investors.
4) The major portion of financial savings of Indian Household sector are in Bank deposits, Provident Funds and Insurance Funds rather than shares and debentures.

## 2.2 Regulatory and other market related developments to attract retail investors in the recent past

Various expert committees have been formed in India for the development of the corporate bond markets, namely:

1) R. H. Patil Committee (December 2005)
2) Percy Mistry Committee (High Powered Expert Committee on Making Mumbai an International Financial Centre in 2007)
3) Raghuram Rajan Committee (A Hundred Small Steps [Report of the Committee on Financial Sector Reforms] in 2009)

In 2015, Financial Stability and Development Council (FSDC) was formed to look into the issues related to corporate bonds in its entirety and come out with actionable recommendations made by all earlier committees and suggest a time bound plan for implementation of the same. Accordingly, FSDC appointed a working group on development of corporate bond in India under the chairmanship of Harun R. Khan. The working group submitted its report on 12$^{th}$ August 2016.

Some of the important measures, taken by GOI, RBI, SEBI and stock exchanges, based on the recommendation of abovementioned expert committee to attract retail investors to the corporate bond market are as follows:

- Setting up of reporting platform for post-trade transparency.
- Measures taken by SEBI to encourage investor interest/participation in the corporate bond market in terms of liberalizing the listing requirements, simplification of procedures and processes and simplified disclosure norms.
- Issue of long-term bonds by banks allowed with a minimum maturity of seven years to raise resources for lending to (a) long term projects in infrastructure subsectors, and (b) affordable housing. These bonds have been exempted from computation of net demand and

time liabilities (NDTL) and are therefore not been subjected to CRR/SLR requirements.

- SEBI has allowed setting up of dedicated debt segment on the exchanges.
- Investment norms for banks and PDs relaxed by RBI to facilitate investment in corporate bonds.
- Introduction of Credit Default Swaps to facilitate hedging of credit risk by the holders of corporate bonds.
- Reissuance of bonds permitted by SEBI.
- In January 2013, SEBI has announced the creation of market makers though they are yet to take shape.
- NSE launched a separate trading platform for retail investors in May 2013.
- For already listed entities, disclosure to be substantially abridged. Only some incremental disclosures to be made required.
- NSE's Electronic Debt Bidding platform (NSE-EBP) was launched on 1 July 2016 for issuance of debt securities on private placement basis and was aimed to bring

efficiency and transparency in the price discovery mechanism and to reduce the time and cost of these issuances.

- Tax exemption on infrastructure bonds have been introduced.
- RBI direction to banks to issue subordinated debt to retail investors.
- Awareness programmes are being conducted for investors.

## 4. ISSUES AND HURDLES FACED BY RETAIL INVESTORS

### 4.1 Profile of respondents

Based on descriptive analysis, the profile of respondents are as follows:

Out of 342 respondents, 205 respondents (approx. 60%) have an experience of investing in corporate bond market for 5 years and less and 137 respondents (approx. 40%) have an experience of investing in corporate bond market for more than 5 years.

### 4.2 Tests of Normality of Data

Before testing of hypothesis, the normality of data has been checked with the help of Shapiro Wilk Test. The confidence interval level for Mean has been taken at 95%.

**Table 5.** Tests of Normality

| | **Kolmogorov-Smirnov[a]** | | | **Shapiro-Wilk** | | |
|---|---|---|---|---|---|---|
| | **Statistic** | **df** | **Sig.** | **Statistic** | **df** | **Sig.** |
| Default risk is very high in Indian corporate bond market. | .251 | 342 | .000 | .831 | 342 | .000 |
| Corporate bonds are illiquid. | .217 | 342 | .000 | .879 | 342 | .000 |
| Brokers are not interested in providing the necessary information about corporate bonds. | .223 | 342 | .000 | .874 | 342 | .000 |
| Absence of tax incentives for corporate bonds except for infrastructure bonds. | .252 | 342 | .000 | .834 | 342 | .000 |
| Lesser return from corporate bonds compares to equity shares. | .210 | 342 | .000 | .881 | 342 | .000 |
| Performance of mutual debt funds are not satisfactory. | .196 | 342 | .000 | .895 | 342 | .000 |
| Preference for bank deposits / postal deposits in comparison with corporate bonds. Due to easy operational mechanism | .190 | 342 | .000 | .897 | 342 | .000 |
| Preference for bank deposits / postal deposits in comparison with corporate bonds due to high safety level. | .278 | 342 | .000 | .811 | 342 | .000 |
| a. Lilliefors Significance Correction | | | | | | |

It can be seen from the above **Table 5** that for all the issues and hurdles faced by retail investors, the data are not normally distributed. The reason being the **Sig.** value of the Shapiro Wilk Test is 0.000 (less than 0.05). In other words, it can be said that data significantly deviate from the normal distribution. Hence the tests to be conducted for hypothesis should be non-parametric. Accordingly, Mann – Whitney U Test has been used to test the hypotheses.

Hypothesis Testing in reference to Experiences: Mann-Whitney Test shown in table 6.

**Table 6.** Ranks

| | EXPERIENCES | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Default risk is very high in Indian corporate bond market. | Up to 5 years | 205 | 178.00 | 36489.50 |
| | More than 5 years | 137 | 161.78 | 22163.50 |
| | **Total** | **342** | | |
| Corporate bonds are illiquid. | Up to 5 years | 205 | 175.56 | 35990.00 |
| | More than 5 years | 137 | 165.42 | 22663.00 |
| | **Total** | **342** | | |
| Brokers are not interested in providing the necessary information about corporate bonds. | Up to 5 years | 205 | 177.66 | 36420.50 |
| | More than 5 years | 137 | 162.28 | 22232.50 |
| | **Total** | **342** | | |
| Absence of tax incentives for corporate bonds except for infrastructure bonds. | Up to 5 years | 205 | 166.32 | 34096.50 |
| | More than 5 years | 137 | 179.24 | 24556.50 |
| | **Total** | **342** | | |
| Lesser return from corporate bonds compares to equity shares. | Up to 5 years | 205 | 168.82 | 34607.50 |
| | More than 5 years | 137 | 175.51 | 24045.50 |
| | **Total** | **342** | | |
| Performance of mutual debt funds are not satisfactory. | Up to 5 years | 205 | 173.16 | 35498.00 |
| | More than 5 years | 137 | 169.01 | 23155.00 |
| | **Total** | **342** | | |
| Preference for bank deposits / postal deposits in comparison with corporate bonds due to easy operational mechanism. | Up to 5 years | 205 | 162.92 | 33399.50 |
| | More than 5 years | 137 | 184.33 | 25253.50 |
| | **Total** | **342** | | |
| Preference for bank deposits / postal deposits in comparison with corporate bonds due to high safety level. | Up to 5 years | 205 | 173.96 | 35662.00 |
| | More than 5 years | 137 | 167.82 | 22991.00 |
| | **Total** | **342** | | |

The figure 1 clearly depicts that there is no significant difference in the views of respondents related to issues and hurdles based on their experiences profile except for Serial No.7 i.e., Preference for bank deposits / postal deposits in comparison with corporate bonds due to easy operational mechanism **(Mean Rank: Investors with experiences up to 5 years – 162.92 & Investors with experiences of more than 5 years – 184.33)**. After analysis of mean rank it can be said that, Investors with experiences of more than 5 years are more in support of easy operational mechanism of bank deposits / postal deposits in comparison with corporate bonds.

Following are the issues and hurdles faced by retail investors based on their responses (cumulative percentage of agree and strongly agree) (table 7):

**Hypothesis Test Summary**

| | Null Hypothesis | Test | Sig. | Decision |
|---|---|---|---|---|
| 1 | The distribution of Default risk is very high in Indian corporate bond market is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .118 | Retain the null hypothesis. |
| 2 | The distribution of Corporate bonds are illiquid is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .339 | Retain the null hypothesis. |
| 3 | The distribution of Brokers are not interested in providing the necessary information aboutcorporate bonds is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .146 | Retain the null hypothesis. |
| 4 | The distribution of Absence of tax incentives for corporate bonds except for infrastructure bonds is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .215 | Retain the null hypothesis. |
| 5 | The distribution of Lesser return from corporate bonds compares to equity shares is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .529 | Retain the null hypothesis. |
| 6 | The distribution of Performance of mutual debt funds are not satisfactory is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .697 | Retain the null hypothesis. |
| 7 | The distribution of Preference for bank deposits / postal deposits in comparison withcorporatebonds due to easy operational mechanism is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .044 | Reject the null hypothesis. |
| 8 | The distribution of Preference for bank deposits / postal deposits in comparison withcorporate bonds due to high safety level is the same across categories of EXPERIENCES. | Independent-Samples Mann-Whitney U Test | .552 | Retain the null hypothesis. |

Asymptotic significances are displayed. The significance level is .05.

**Figure 1.** Hypothesis Test Summary Based on Experiences

**Table 7.** Issues and hurdles faced by retail investors based on their responses

| | Cumulative percentage of agree and strongly agree | Outcome of hypothesis Testing |
|---|---|---|
| Preference for bank deposits / postal deposits in comparison with corporate bonds due to high safety level | 73.4 | No significant difference in the views of respondents based on their experience profile. |
| Default risk is very high in Indian corporate bond market | 71.6 | No significant difference in the views of respondents based on their experience profile. |
| Absence of tax incentives for corporate bonds except for infrastructure bonds | **69.3** | No significant difference in the views of respondents based on their experience profile. |
| Brokers are not interested in providing the necessary information about corporate bonds | **58.2** | No significant difference in the views of respondents based on their experience profile. |
| Corporate bonds are illiquid | **56.1** | No significant difference in the views of respondents based on their experience profile. |
| Lesser return from corporate bonds compares to equity shares | **53.3** | No significant difference in the views of respondents based on their experience profile. |
| Performance of mutual debt funds are not satisfactory | **49.7** | No significant difference in the views of respondents based on their experience profile. |
| Preference for bank deposits / postal deposits in comparison with corporate bonds due to easy operational mechanism | **47.9** | There is significant difference in the views of respondents based on their experience profile. |

To sum up, it can be said that retail investors are mainly concerned with safety of their invested amount, adequacy of returns and tax benefits. If these issues can be addressed by policy makers and regulators there will be no dearth of retail participants in the corporate bond market.

### 4.3 Suggestions

A. Introduction of Market Makers in the corporate bond market: Market makers provide liquidity to facilitate efficiency in the functioning of the financial markets. Two-way bid and offer quotes with reasonably narrow spreads will definitely attract the retail investors. Considering its importance, SEBI has issued a Consultation Paper for market making in Corporate Bonds on 26th November,2021 for public comments. The paper has very aptly narrated the importance of market making:
"Market making is a significant cog in the wheel which will not only enhance liquidity, but also provide a fillip to facilitate market efficiency and functioning. A vibrant secondary market in corporate bonds can come about if market making mechanism is introduced; which, in turn will give issuers an opportunity to gain from improved liquidity premium, better price discovery and consequent lowering of the cost of debt."
It is expected that market making services will be introduced soon.

B. Introduction of Bond Insurance Scheme: As Deposit Insurance and Credit Guarantee Corporation (DICGC) has brought public confidence in the banking system through provision of deposit insurance up to ₹ 5 Lakhs, the same insurance scheme should also be introduced for corporate bonds. This facility can be provided either as an extended service of DICGC or by incorporating a new organization. It is needless to mention here that this one action from GOI will infuse very high confidence amongst retail investors about corporate bonds.

C. Cap on borrowings of corporate from banks for capital purpose: Way back in March 2015, Reserve Bank of India had issued a Discussion Paper on 'Large Exposures Framework and Enhancing Credit Supply through Market Mechanism'. The paper was about restricting the proportion of borrowings by large corporates from banks and making such corporates use the market mechanism (such as, corporate bonds, commercial papers and other instruments) to meet a part of their short term as well as long term financing needs. Though, outcome of the discussion paper is not known, undoubtedly the idea behind the paper is very relevant and if implemented systematically it will help tremendously in developing Indian corporate bonds markets.

D. Establishment of low-cost dispute settlement mechanisms: Now-a-days, complex financial products have increased the incidence of dispute. Given the high cost of litigation in India it will be really helpful for retail investors if Government of

India can create a low-cost dispute settlement mechanism. A growing bond market needs a legal environment, where investors should feel protected about their capital and returns.

E. Supportive Income Tax Regime: The Tax regime should be supportive and encourage the investors to participate in corporate bond market. The scenario is just opposite in India. Retail investors do not wish for a preferential treatment but can expect a level playing field for investment in bonds in comparison with bank fixed deposit and equity capital. Based on discussions with respondents, following modifications in Income Tax provisions are recommended:
   - U/S 80C of Income Tax Act,1961, investment made in Fixed deposit with Schedule banks / Post office for 5 years are allowed as deduction from taxable income up to a limit of ₹ 1,50,000/-but the same rule is not applied for bonds having a maturity period of 5 years or more. It is suggested that the eligible list of investible items u/s 80C should also include investment made in corporate bonds having a maturity period of 5 years or more.
   - Short-term capital gains arising from transfer of equity shares, units of an equity-oriented Fund or a unit of a business trust which is chargeable to securities transaction tax are be taxed at 15% whereas corporate bonds is taxed at the normal rates i.e., 5% to 30%. Uniform rate of 15% should also be applicable to short - term capital gains arising from transfer of corporate bonds.
   - Long-term capital gains arising from transfer of listed equity share, or a unit of an equity-oriented fund or a unit of a business trust as referred to in Section 112A are chargeable to tax at the rate of 10% in excess of Rs. 1 Lakh. The same rule should also be applicable to long-term capital gains arising from transfer of corporate bonds.

## 5. CONCLUSION AND LIMITATION

The importance of a developed and vibrant corporate bond market cannot be overemphasized. It provides an important source of finance to corporate, in addition to bank financing. Though, it is a known fact that India has one of the highest savings rates in the world, still retail participation in corporate bond market is negligible. Indian Household prefer Bank deposits / Postal deposits in comparison of bond investment. Corporate India prefers private placement route for issuing bonds rather than public issues. Lack of liquidity and high default risks are other negative features of Indian corporate bonds. Government of India and other concerned regulators have formed various expert committees time to time to develop corporate bond market. These committees have made various valuable recommendations and suggestions, many of which have already implemented and some of them are under process of implementation. A careful study shows that most of the measures taken for the development of corporate bond market are focused on demand side of fund, big players of supply side of fund and operational related. These measures are important but what about major players of supply side of fund i.e., retail investors. Retail investor do not wish for a preferential treatment but can expect a level playing field for bond investment in comparison with bank fixed deposit, other time deposits and equity capital. The principal factors driving retail investments are safety, returns, liquidity and tax benefits. If policy makers and regulators can address these concerns by bringing necessary changes in the rules and regulations as suggested in this paper, it is very much expected that, a large number of retail investors will be attracted to corporate bond market.

The study cannot be claimed to be a fool proof one. Some findings of this study and conclusions drawn are based on the analysis of data collected through questionnaire on a small sample size and that also from a particular area i.e., Delhi NCR. There are possibilities of an element of subjectivity in the opinion expressed by the respondents. However, utmost care has been taken to minimize such influences.

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**Nirakar Nath Pandey**
School of Business and Management
Christ University,
Delhi NCR Campus
India
nnp_9@yahoo.com
ORCID 0000-0003-0287-0969