YOUR MONEY

CORPORATE FIXED DEPOSITS

Avoid tenure bets, use laddering to navigate rate uncertainty

SANJAY KUMAR SINGH & KARTHIK JEROME

Bajaj Finance recently raised its corporate fixed deposit (FD) rates by up to 45 basis points. Shriram Finance, on the other hand, reduced its deposit rates by 15 to 35 basis points (one basis point is one-hundredth of a percentage point).

"Divergent deposit-rate movements are being driven by each institution's business outlook, credit demand, funding needs, and margin calculations," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

Why corporate FDs merit attention

Investors go for corporate FDs because they offer higher interest rates than bank FDs. "Corporate FDs are currently offering a significant yield advantage over bank FDs," says Santosh Agarwal, CEO, Paisabazaar.

Weigh the risks

Investors in corporate FDs are subject to credit risk: The company could default on interest and principal payments if its financial health declines.

Agarwal points out that corporate FDs do not enjoy the ₹5 lakh statutory insurance cover that the Deposit Insurance and Credit Guarantee Corporation (DICGC) provides to bank deposits. "The absence of statutory insurance means the investor's entire capital is at risk," says Abhishek Kumar, Sebi-registered investment advisor and founder, SahajMoney.com.

If a non-banking financial company (NBFC) fails, the investor becomes an unsecured creditor. "The legal and recovery process after an NBFC failure can be long, uncertain, and emotionally draining," says Vijay Kuppa, CEO, InCred Money.

Understand credit rating

Ratings indicate the issuer's repayment capacity. "Investors should ideally invest in AAA-rated companies because higher ratings imply higher income certainty and capital protection," says Agarwal. A higher interest rate on a lower-rated FD is compensation for taking on more credit risk.

"For crucial goals, use AAA or AA+ rated FDs. AA-rated FDs may be considered if the investor has surplus money and no short-term goal attached to it," says Arvind Rao, founder, Arvind Rao and Associates, a personal finance advisory firm.

Avoid going below AA rating. "The extra 100-200 basis points you earn by moving from AA to BBB is not worth the risk of losing a meaningful portion of your principal," says Kuppa.

To mitigate credit risk, diversify across issuers within the investment-grade band of AA and above. "Not more than 35-40 per cent of the allocation should be with one issuer," says Rao. He adds that investors should allocate around 70-75 per cent of their funds to AAA-rated FDs and the balance to AA-rated FDs to earn slightly higher returns.

Track rating downgrades. A multi-level downgrade is a serious warning sign. "A downgrade from AAA to AA- indicates material deterioration in the issuer's financial situation or fundamentals," says Rao. Investors should bear the penalty and exit rather than risk their principal.

Avoid long lock-ins

Interest-rate movements are likely to be driven by the inflation outlook and the rupee's depreciation. Higher crude oil prices, a weak monsoon, and fertiliser price increases could add to inflationary pressures. "Interest rates could move upwards if inflationary pressures increase or come down if economic growth slows considerably," says Dhawan.

Avoid locking into a longer tenure amid the current uncertainty. "Longer tenures are only appropriate when it is unlikely that rates will rise further," says Dhawan. A longer tenure also subjects investors to the risk of the issuer's financial position weakening during the deposit tenure.

In the current environment, investors would be better served by laddering their investments across one-, two-, and three-year maturities so that they are not locked in at a low rate if yields move up.

Finally, examine whether the company is in a position to service its debt comfortably. "Check the interest coverage ratio and debt-to-equity levels," says Kumar.

Best rates from investment-grade corporate FDs

Company	Applicable tenure	Highest slab rate (%)
Can Fin Homes	3 years	7.50
Shriram Finance*	3 to 5 years	7.25
Sundaram Home Finance	4 years; 5 years	7.15
ICICI Home Finance	45 months	7.10
Mahindra Finance	2 to 5 years	7.00
PNB Housing Finance	3 to 5 years	6.90
LIC Housing Finance	5 years	6.90
Bajaj Finance	18 to 30 months	6.85

All these issuers have AAA rating, except PNB Housing Finance whose rating is AA+. *At monthly rests. Additional interest of 0.15% per annum on all renewals. Additional interest of 0.05% per annum for women depositors; Data as on May 6, 2026.

Source: Paisabazaar