

Debt Schemes as an Asset Class

Every Fixed-Income Instrument Available in India — Returns, Taxation, Liquidity & Loan Eligibility

Prepared by **SubbuS**, Retired Banker • Rates and rules updated as on **June 2026** (Q1 FY 2026-27) • *Expanded edition with worked examples*

*This guide is written in plain, everyday language so that a first-time saver and a seasoned investor can both use it. It walks through the entire universe of debt (fixed-income) instruments in India, grouped logically from the safest government-backed schemes to market-traded corporate paper and mutual funds. For each instrument you will find what it is, the latest interest rate, how it is taxed, how easily you can get your money back (liquidity), and whether you can raise a loan against it. **In this expanded edition, every applicable scheme now carries a worked rupee example and a short real-life scenario** so you can see exactly how the money behaves and who the scheme suits.*

1. What "Debt" Means as an Asset Class

When you invest in debt, you are essentially **lending** your money — to the Government, a bank, a company, or a pooled fund — in return for a promise of regular interest and the return of your principal on a fixed date. This is the opposite of equity, where you **own** a slice of a business and your returns rise and fall with its fortunes. A debt investor is a creditor with a contractual claim; an equity investor is an owner with a residual claim. That single distinction explains almost everything about how the two behave.

Debt is the bedrock of a sensible portfolio because it offers three things equity cannot reliably give: **predictability of income, preservation of capital, and liquidity for near-term needs**. The trade-off is that long-term returns are usually lower than equity, and inflation can quietly erode the real (after-inflation) value of fixed returns. A retiree living off interest, a parent saving for a child's education three years away, and a young earner building an emergency fund all need debt — just in different forms.

Every debt instrument can be judged on five practical questions, and this guide answers all five for each scheme:

- **Return** — what rate of interest or yield does it pay, and is the rate fixed or floating?
- **Safety** — who is the borrower, and how likely are you to be repaid in full and on time?
- **Taxation** — how is the income or gain taxed in your hands?
- **Liquidity** — how quickly, and at what cost, can you convert it back to cash?
- **Loan against it** — can you pledge it to borrow without selling it?

The June 2026 backdrop. The RBI's repo rate stands at **5.25%** with a "neutral" policy stance, and the benchmark 10-year Government Security (G-Sec) yields roughly **6.8%–6.85%**. Small-savings rates for the April–June 2026 quarter were left unchanged by the Finance Ministry, with the next review due at the end of June 2026. In short, we are in a phase of relatively stable, moderate interest rates — neither the high-rate window of 2023–24 nor a steep-cut cycle.

2. How This Guide Is Organised

- A.** Government Small-Savings & Post Office Schemes — PPF, SCSS, SSY, NSC, KVP, POMIS, Post Office Time & Recurring Deposits, Savings Account
- B.** Bank Deposits — Savings, Fixed (FD), Recurring (RD), Tax-Saving FD, Flexi/Sweep, Company & Small-Finance-Bank Deposits
- C.** RBI & Government Bonds — RBI Floating Rate Savings Bonds, G-Secs / T-Bills / SDLs via RBI Retail Direct, 54EC Capital-Gains Bonds, Tax-Free Bonds, Sovereign Gold Bonds (note)
- D.** Corporate Debt — Corporate Bonds & Debentures, Secured vs Unsecured NCDs, Convertible vs Non-Convertible, Perpetual (AT1) Bonds
- E.** Money-Market Instruments — Treasury Bills, Certificates of Deposit, Commercial Paper
- F.** Debt Mutual Funds — all 16 SEBI categories, plus Target-Maturity Funds and FMPs
- G.** Retirement & Provident Debt — EPF, VPF, GPF, NPS (debt portion)
- H.** Master Comparison Tables & How to Choose

A note on the examples: every rupee figure below is illustrative and computed at the June 2026 rate shown for that scheme, assuming the rate stays constant and interest is reinvested per the scheme's rules. Real outcomes vary as rates reset. Calculations are rounded to the nearest convenient figure.

A. Government Small-Savings & Post Office Schemes

These are sovereign-backed schemes administered through post offices and authorised banks. They carry the highest safety (a Government of India guarantee), offer attractive rates relative to bank deposits, and several enjoy special tax breaks. Their rates are reset every quarter by the Ministry of Finance. The figures below are for the **April–June 2026 quarter**.

A.1 Public Provident Fund (PPF)

The PPF is the cornerstone long-term, tax-free savings scheme for individuals. You open it at a post office or bank, contribute between ₹500 and ₹1.5 lakh in a financial year, and the account runs for 15 years (extendable in blocks of 5 years). Interest is compounded annually and credited each 31 March. A subtle but important rule: interest each month is calculated on the *lowest* balance between the 5th and the last day of the month, so depositing before the 5th of the month (and ideally the whole year's amount in early April) maximises your interest.

Its great strength is the **EEE** (Exempt-Exempt-Exempt) status: your contribution qualifies for deduction, the interest is tax-free, and the maturity amount is tax-free. This makes the headline 7.10% far more powerful than it looks — for someone in the 30% bracket, a tax-free 7.10% is equivalent to a fully-taxable deposit paying about 10.1%. The downside is the long 15-year lock-in, which is precisely why it works so well as a forced, undisturbable retirement or education corpus.

Interest rate	7.10% p.a., compounded annually
Taxation	EEE — deduction under Section 80C (old regime); interest and maturity fully tax-free
Liquidity	Low. 15-year tenure; partial withdrawal allowed from year 7; one premature closure permitted after 5 years on specified grounds
Loan against it	Yes — loan available between years 3 and 6 (up to 25% of the balance two years prior). After year 6, partial withdrawals replace the loan facility

WORKED EXAMPLE

Invest the full ₹1.5 lakh at the start of every financial year for 15 years at 7.10%. Your total outlay is ₹22.5 lakh, but the account matures at roughly **₹40.7 lakh** — about ₹18.2 lakh of pure, tax-free interest. Because the maturity is tax-free, you keep every rupee; an FD producing the same corpus would have shed lakhs to tax along the way.

WHO IT'S FOR

Priya, 32, a salaried IT professional, opens a PPF and parks ₹1.5 lakh each April. She isn't chasing the highest rate — she wants a disciplined, tax-free bucket she cannot easily touch, maturing around the time her toddler reaches college. PPF is doing exactly the job it was designed for.

A.2 Senior Citizens' Savings Scheme (SCSS)

Designed for those aged 60 and above (55–60 in certain early-retirement cases), SCSS is one of the highest-paying sovereign schemes and pays interest **quarterly** — ideal for retirees needing a regular income stream. The maximum investment is ₹30 lakh, the tenure is 5 years (extendable by 3), and a couple can effectively double the household ceiling by opening one account each. Interest is paid out, not reinvested, so it is a true income product rather than a growth product.

Interest rate	8.20% p.a., paid quarterly
Taxation	Investment qualifies for 80C deduction (old regime); interest is fully taxable at slab and subject to TDS if interest exceeds ₹50,000 in a year (₹1 lakh threshold for senior citizens under recent rules)
Liquidity	Moderate. Premature withdrawal allowed with a penalty (1.5% of deposit before 2 years, 1% thereafter)
Loan against it	No direct loan/pledge facility; premature closure is the route to early funds

WORKED EXAMPLE

Deposit the maximum ₹30 lakh at 8.20%. You receive **₹61,500 every quarter** — that is ₹2,46,000 a year, or about ₹20,500 a month of dependable income, without touching the principal. A retired couple investing ₹30 lakh each draws a combined ₹4.92 lakh a year.

WHO IT'S FOR

Ramesh, 63, has just retired with a ₹50 lakh corpus and no pension. He places ₹30 lakh in SCSS for the highest safe quarterly income and keeps the rest liquid. The quarterly cheque covers his routine household expenses; the sovereign guarantee lets him sleep easily.

A.3 Sukanya Samriddhi Yojana (SSY)

A girl-child savings scheme that can be opened by a parent/guardian for a daughter below age 10. It carries the highest small-savings rate and full EEE tax treatment, making it the natural vehicle for a daughter's education and marriage corpus. Deposits (₹250 to ₹1.5 lakh a year) are made for 15 years; the account matures when the girl turns 21. The combination of the top rate *and* tax-free status is rare — no other guaranteed product beats it for a long-dated girl-child goal.

Interest rate	8.20% p.a., compounded annually
Taxation	EEE — 80C deduction; interest and maturity tax-free
Liquidity	Very low. Partial withdrawal (up to 50%) allowed after the girl turns 18 for higher education; premature closure only in specified situations
Loan against it	No loan facility

WORKED EXAMPLE

Open the account at your daughter's birth and deposit ₹1.5 lakh a year for 15 years at 8.20%. By the 15th year the balance is about ₹44.8 lakh; left to compound (no further deposits) until she turns 21, it grows to roughly **₹71.8 lakh** — **entirely tax-free**, on a total outlay of ₹22.5 lakh.

WHO IT'S FOR

Anand opens an SSY account for his newborn daughter, Meera. He treats the yearly deposit like a non-negotiable bill. Eighteen years later the corpus funds her engineering degree, and the balance covers later milestones — all without a rupee of tax.

A.4 National Savings Certificate (NSC)

A 5-year fixed-return certificate bought at the post office. Interest accrues annually and is paid out in full at maturity (it is reinvested, not paid yearly). Because the yearly accrued interest is deemed reinvested, it too qualifies for 80C in the years it accrues (except the final year) — a neat feature that lets a single NSC give you an 80C deduction for several years running.

Interest rate	7.70% p.a., compounded annually, paid at maturity
Taxation	Investment under 80C; annual accrued interest taxable but also eligible for 80C (deemed reinvested) for first 4 years; final-year interest fully taxable
Liquidity	Low. 5-year lock-in; premature encashment only on death, court order, or forfeiture
Loan against it	Yes — NSCs are accepted as collateral by banks for loans, and can be pledged/transferred

WORKED EXAMPLE

Invest ₹1,00,000 in an NSC at 7.70%. After 5 years it matures at about **₹1,44,900** (₹44,900 of interest). Along the way, the interest deemed reinvested in years 1–4 also counts towards your 80C limit, effectively giving you fresh deductions without fresh money.

WHO IT'S FOR

Sunita, 45, has already used part of her ₹1.5 lakh 80C limit and wants a safe, fixed 5-year home for a bonus. NSC locks in a guaranteed rate, needs no market view, and doubles as collateral if she ever needs a quick loan.

A.5 Kisan Vikas Patra (KVP)

A certificate that **doubles your money** over a fixed period. At the current rate it doubles in 115 months (about 9 years 7 months). There is no upper investment limit and no tax break, but it is a simple, sovereign-guaranteed "grow and forget" product — useful for parking a windfall you don't want to think about or be tempted to spend.

Interest rate	7.50% p.a., compounded annually (money doubles in 115 months)
Taxation	No 80C benefit; interest fully taxable at slab on accrual/receipt
Liquidity	Low–moderate. Premature encashment permitted after 2 years 6 months
Loan against it	Yes — can be pledged as security for a loan with banks

WORKED EXAMPLE

Put ₹5,00,000 into KVP today. In 115 months (about 9 years 7 months) it becomes exactly **₹10,00,000** — guaranteed by the Government of India, regardless of what markets do in between.

WHO IT'S FOR

Mr. Iyer receives ₹5 lakh from selling an old motorbike and a small plot. He has no immediate need for it and doesn't want the temptation of a withdrawable account. KVP suits him: lock it, forget it, and collect double a decade later.

A.6 Post Office Monthly Income Scheme (POMIS)

POMIS pays a fixed monthly interest, making it popular with those wanting a steady cash inflow without locking into the senior-citizen age bar. The investment ceiling is ₹9 lakh for a single account and ₹15 lakh for a joint account; the

tenure is 5 years. Unlike SCSS it has no age restriction, so it suits a younger person who needs monthly cash — for example to supplement a parent's expenses.

Interest rate	7.40% p.a., paid monthly
Taxation	No 80C benefit; monthly interest fully taxable at slab
Liquidity	Moderate. Premature withdrawal allowed after 1 year with a penalty (2% before 3 years, 1% before 5 years)
Loan against it	No direct pledge facility

WORKED EXAMPLE

Invest the single-account maximum of ₹9 lakh at 7.40%. You receive **₹5,550 every month** (₹66,600 a year). A couple opening a joint account for ₹15 lakh draws ₹9,250 a month.

WHO IT'S FOR

Lakshmi, 54, is not yet a "senior citizen" for SCSS but wants a monthly top-up to her part-time income. POMIS gives her a steady ₹5,550 a month from ₹9 lakh, with the principal safe and returned in full after five years.

A.7 Post Office Time Deposit (POTD)

The post office's equivalent of a bank fixed deposit, available for 1, 2, 3 and 5-year tenures. Only the 5-year deposit qualifies for an 80C deduction. Rates are sovereign-backed and often slightly higher than large-bank FDs, which makes the 5-year POTD an attractive, fully government-guaranteed alternative to a tax-saving bank FD.

Interest rate	1-yr ≈ 6.90% • 2-yr ≈ 7.00% • 3-yr ≈ 7.10% • 5-yr 7.50% (compounded quarterly, paid annually)
Taxation	5-year POTD qualifies for 80C; interest fully taxable at slab on all tenures
Liquidity	Moderate. Premature withdrawal allowed after 6 months with rate adjustment
Loan against it	Yes — can be pledged as security

WORKED EXAMPLE

Place ₹1,00,000 in a 5-year POTD at 7.50% (compounded quarterly). It grows to about **₹1,45,000** at maturity, and the deposit also earns you an 80C deduction in the year of investment.

WHO IT'S FOR

Deepak prefers the post office's sovereign backing to a bank's ₹5 lakh insurance cap. He uses a 5-year POTD instead of a tax-saving bank FD: a slightly higher rate, the same 80C benefit, and a full government guarantee on the whole amount.

A.8 Post Office Recurring Deposit (RD)

A disciplined monthly-savings product (officially the National Savings Recurring Deposit) with a 5-year term, suited to salary earners building a habit of regular saving. You commit a fixed sum each month; missing instalments attracts a small default fee, which gently enforces the discipline that makes the product work.

Interest rate	6.70% p.a., compounded quarterly
Taxation	No 80C benefit; interest taxable at slab
Liquidity	Moderate. One partial withdrawal (up to 50%) allowed after one year
Loan against it	Yes — loan up to 50% of the balance after 12 instalments

WORKED EXAMPLE

Save ₹5,000 every month for 5 years at 6.70%. You contribute ₹3,00,000 in total, and the account matures at roughly ₹3,57,000 — about ₹57,000 of interest earned simply by saving steadily.

WHO IT'S FOR

Arjun, 26, just started his first job and can't yet commit a lump sum. A ₹5,000 post-office RD turns a small monthly habit into a ₹3.57 lakh corpus and builds the savings muscle he'll rely on for bigger goals later.

A.9 Post Office Savings Account

A basic savings account at the post office, paying a modest fixed rate. Useful mainly as a settlement account linked to other post-office schemes — for instance, to receive your SCSS or POMIS interest automatically.

Interest rate	4.00% p.a.
Taxation	Interest up to ₹10,000 (₹50,000 for seniors under 80TTB) deductible; balance taxable at slab
Liquidity	High — withdraw on demand
Loan against it	No

WORKED EXAMPLE

Keep ₹50,000 as a working balance. It earns ₹2,000 a year at 4% — and the first ₹10,000 of such interest (₹50,000 for seniors) is deductible, so for most small savers it is effectively tax-free.

WHO IT'S FOR

Mrs. Rao routes her SCSS and POMIS interest into a linked post-office savings account, using it as a simple hub from which she withdraws for monthly expenses.

Note on the Mahila Samman Savings Certificate: this special two-year scheme for women (7.5% p.a.) was a limited-window product open only until 31 March 2025 and is no longer available for fresh investment. Existing certificates run to their maturity.

B. Bank Deposits

Bank deposits are the most familiar debt instrument for Indian households. Deposits with scheduled commercial banks are insured by the DICGC up to **₹5 lakh per depositor per bank** (covering principal plus interest), which makes them very safe up to that limit. A practical implication: a saver with more than ₹5 lakh is wise to spread deposits across banks so every rupee stays inside the insured umbrella. Rates below reflect State Bank of India (the market benchmark) as of June 2026; other banks, especially small-finance banks, may offer more.

B.1 Savings Bank Account

Fully liquid, pays a low rate (typically 2.7%–3.0% at large banks; some small/payments banks pay more). Interest up to ₹10,000 a year is deductible under Section 80TTA (₹50,000 for senior citizens under 80TTB). It is for transacting and parking, not for earning — money beyond a month's needs is usually better off in a sweep-in FD or liquid fund.

WORKED EXAMPLE

A ₹2,00,000 balance at 2.75% earns about ₹5,500 a year — and because it falls under the ₹10,000 80TTA limit, it is effectively tax-free. The same ₹2 lakh in a 6.5% sweep FD would earn ₹13,000, showing the real cost of leaving too much idle.

WHO IT'S FOR

Everyone needs one as a transaction hub; the lesson is to keep only near-term money here and sweep the rest.

B.2 Fixed Deposit (FD)

The classic lump-sum deposit for a chosen term (7 days to 10 years) at a fixed rate. Senior citizens earn roughly 0.50% more, and some banks add a further premium on long tenures (e.g., SBI's "WeCare"). The most attractive returns are often found not in the standard tenures but in banks' **special-tenure schemes** — odd-day buckets such as 444 days that carry a deliberately higher "best rate." Indian Overseas Bank's 444-day special deposit, for instance, currently offers about 6.75% for the general public and 7.25% for senior citizens, while SBI's 444-day "Amrit Vrishti" scheme is pitched in a similar band at roughly 6.45% / 6.95%. It pays to compare these special tenures across banks before parking a lump sum, as the headline rate can differ by 0.25%–0.50% for essentially the same lock-in. The FD's real superpower, though, is flexibility: you can break it, ladder it, or — best of all — borrow against it rather than break it.

Interest rate (Jun 2026)	SBI general public 3.05%–6.45%; senior citizens 3.55%–6.95%. 1–2 yr ≈ 6.25%; 3–5 yr ≈ 6.30%. 444-day specials: Indian Overseas Bank ≈ 6.75% / 7.25% (gen. / sr.); SBI "Amrit Vrishti" ≈ 6.45% / 6.95%
Taxation	Interest fully taxable at slab; TDS at 10% if interest exceeds ₹50,000 a year (₹1 lakh for senior citizens); submit Form 15G/15H if not liable
Liquidity	High. Premature withdrawal allowed anytime with a small penalty (usually 0.5%–1%)
Loan against it	Yes — overdraft/loan up to 90% of the FD value, at ~1–2% above the FD rate. The most flexible "loan-against" product in the debt world

WORKED EXAMPLE

A ₹10,00,000 FD for 5 years at 6.30% (compounded quarterly) grows to about **₹13,67,000**. If you suddenly need ₹3 lakh mid-term, you can take an overdraft against the FD at roughly 7.5%–8% instead of breaking it — so the deposit keeps earning 6.30% while you borrow only what you need.

WHO IT'S FOR

Vikram keeps a ₹10 lakh FD as his "anchor" savings. When a medical bill arrives, he draws an overdraft against it rather than liquidating — paying interest only on the amount and for the days he actually uses it.

B.3 Recurring Deposit (RD)

Monthly deposits of a fixed amount for a fixed term, earning roughly the same rate as an FD of equivalent tenure. Good for goal-based saving. Interest is taxable at slab, TDS applies, and a loan/overdraft against the RD balance is generally available.

WORKED EXAMPLE

₹10,000 a month into a 3-year bank RD at about 6.5% accumulates to roughly ₹3.97 lakh on ₹3.6 lakh saved — a tidy way to fund a fixed, dated goal such as a down-payment or a planned holiday.

WHO IT'S FOR

Neha is saving for a ₹4 lakh car down-payment in three years. An RD matches her monthly cash flow and lands almost exactly on target by the date she needs it.

B.4 Tax-Saving Fixed Deposit

A 5-year FD that qualifies for an 80C deduction (up to ₹1.5 lakh). The catch: a strict 5-year lock-in with **no premature withdrawal and no loan/pledge** permitted. SBI offers 6.05% (general) and 7.05% (senior citizens) on these.

WORKED EXAMPLE

A senior citizen investing ₹1.5 lakh at 7.05% sees it grow to about ₹2.12 lakh in 5 years, and claims the full ₹1.5 lakh as an 80C deduction in the year of investment — a tax saving of up to ₹45,000 for someone in the 30% bracket.

WHO IT'S FOR

A salaried saver who banks entirely online and wants the 80C benefit without visiting a post office. The trade-off is rigidity: unlike a normal FD, this one cannot be broken or borrowed against.

B.5 Flexi / Sweep-in Deposits

A hybrid where balances above a threshold in your savings account automatically "sweep" into short FDs and back when you need money — combining FD-like returns with savings-account liquidity. Taxed like an FD. It is the neat answer to the "idle savings balance" problem.

WORKED EXAMPLE

Set a ₹50,000 threshold on a savings account holding ₹3,00,000. The surplus ₹2,50,000 sweeps into short FDs earning ~6.5% instead of ~2.75% — earning roughly ₹9,400 more a year — yet the money flows back instantly the moment a large cheque clears.

WHO IT'S FOR

A small-business owner whose account balance swings widely week to week gets FD-like returns on the float without ever having to manage it manually.

B.6 Corporate / Company Fixed Deposits

Deposits offered by NBFCs and manufacturing companies (e.g., HDFC-type, Bajaj Finance, Shriram). They pay 0.5%–2% more than bank FDs but are **not DICGC-insured** — safety depends entirely on the company's credit rating (look for AAA/AA). Interest is taxable at slab with TDS. Liquidity is lower and loan-against options are limited. Treat ratings as the single most important safety signal.

WORKED EXAMPLE

₹5,00,000 in a AAA-rated company FD at 8.0% for 3 years (cumulative) grows to about ₹6.30 lakh — roughly ₹25,000 more than a 6.3% bank FD would yield over the same period. That extra ₹25,000 is the premium you are paid for accepting credit risk and no DICGC cover.

WHO IT'S FOR

An experienced investor who checks ratings carefully spreads ₹15 lakh across three AAA issuers for extra yield — and refuses to chase the even higher rates of unrated names, because "an extra 1% is never worth a default."

C. RBI & Government Bonds

C.1 RBI Floating Rate Savings Bonds, 2020 (Taxable)

A sovereign-guaranteed bond sold through banks, with a **floating** coupon reset every six months at 0.35% above the prevailing NSC rate. It pays interest half-yearly (1 January and 1 July) and has a 7-year lock-in. It is among the safest high-yield options available to a retail saver today, though the income is fully taxable and cannot be reinvested within the bond (it is paid out, not cumulative).

Interest rate	8.05% p.a. for Jan–Jun 2026 (NSC 7.70% + 0.35%); reset on 1 July 2026; paid half-yearly, not cumulative
Taxation	Interest fully taxable at slab; TDS applicable. No 80C benefit
Liquidity	Very low. 7-year lock-in; premature exit only for senior citizens (with reduced lock-in by age band). Not tradable, not transferable
Loan against it	No — cannot be pledged as collateral

WORKED EXAMPLE

Invest ₹10,00,000 at 8.05%. You receive about **₹40,250 every six months** (₹80,500 a year). If the NSC rate rises at the next reset, your coupon rises too — a useful hedge if interest rates climb.

WHO IT'S FOR

Mr. Menon, 58, wants the highest fully-guaranteed yield available and doesn't need this money for seven years. He accepts the lock-in and the taxable income in exchange for a sovereign 8%+ that floats up if rates rise.

C.2 Government Securities, Treasury Bills & State Development Loans (via RBI Retail Direct)

Through the RBI's free **Retail Direct** platform, individuals can now buy central-government dated securities (G-Secs), Treasury Bills (T-Bills) and State Development Loans (SDLs) directly, with no credit risk on the central-government paper. The 10-year G-Sec currently yields about 6.8%. These suit investors who want to lock a sovereign yield for long tenures (up to 40 years) or build a precise maturity ladder for a future liability.

Yield (Jun 2026)	10-yr G-Sec ≈ 6.8%–6.85%; T-Bills (91/182/364-day) priced near the repo rate of 5.25%
Taxation	Coupon interest taxable at slab. Capital gains on sale before maturity: LTCG (held > 12 months, listed) at 12.5% without indexation; STCG at slab
Liquidity	Moderate. Tradable in the secondary market, but retail trading volumes can be thin; easiest is to hold to maturity
Loan against it	Yes — G-Secs are accepted as high-quality collateral (including for repo/margin); practical pledging for retail is improving but still limited

WORKED EXAMPLE

Buy ₹5,00,000 of a 10-year G-Sec yielding 6.80%. You collect about ₹34,000 of coupon each year for a decade and get your ₹5 lakh back at maturity — a sovereign rate locked in for ten years, immune to small-savings rate cuts. Separately, a ₹1 lakh 91-day T-Bill bought at a discount and redeemed at ₹1 lakh gives a near-repo-rate return with zero credit risk.

WHO IT'S FOR

Geeta, 50, wants to guarantee a known sum in 2036 to coincide with her retirement. She buys a long G-Sec so the maturity date and her need line up exactly, locking today's sovereign yield regardless of future rate cuts.

C.3 Capital-Gains (54EC) Bonds

Issued by REC, NHAI, PFC and IRFC, these let you **save tax on long-term capital gains** (e.g., from selling property) by reinvesting up to ₹50 lakh within six months, under Section 54EC. The trade-off is a modest coupon and a 5-year lock-in — but the tax saved usually dwarfs the modest interest.

Interest rate	Around 5.25% p.a., paid annually (issuer-set; check at time of purchase)
Taxation	Principal reinvestment exempts the capital gain under Section 54EC; the annual interest is fully taxable at slab
Liquidity	Very low. 5-year lock-in; non-transferable during lock-in
Loan against it	No — cannot be pledged

WORKED EXAMPLE

You sell a flat and book a ₹50 lakh long-term capital gain that would otherwise be taxed at 12.5% (₹6.25 lakh in tax). Reinvest the ₹50 lakh in 54EC bonds within six months and that ₹6.25 lakh tax bill disappears. The bonds pay about ₹2,62,500 a year for 5 years, then return your ₹50 lakh.

WHO IT'S FOR

The Sharmas sell an inherited house and face a large capital-gains bill. Rather than pay the tax, they park the gain in 54EC bonds — turning a one-time tax outflow into five years of (taxable) interest plus full return of capital.

C.4 Tax-Free Bonds

Bonds issued by public-sector undertakings (NHAI, REC, IRFC, PFC, HUDCO, etc.) in earlier years whose **interest is completely tax-free**. No fresh issues are currently on offer, but they trade actively on the exchanges and are prized by investors in the highest tax bracket because a 5.5% tax-free coupon can beat an 8% taxable one after tax.

Interest rate	Typically 5.5%–6.5% coupon (tax-free); effective yield depends on the secondary-market price you pay
Taxation	Interest fully tax-free. Capital gains on sale are taxable (LTCG 12.5% if held > 12 months, listed; STCG at slab)
Liquidity	Moderate. Listed and tradable, but volumes vary; bid-ask spreads can be wide
Loan against it	Yes — can generally be pledged as they are demat-held listed securities

WORKED EXAMPLE

A ₹10,00,000 holding of a 5.75% tax-free PSU bond pays ₹57,500 a year, entirely tax-free. For a 30%-bracket investor, matching that after-tax income from a taxable FD would require a pre-tax rate of about 8.2% — which is why these bonds are coveted by high earners.

WHO IT'S FOR

Dr. Kapoor, a high-earning surgeon in the 30% bracket, buys tax-free bonds on the exchange for genuinely tax-free income that quietly out-earns any FD he could otherwise buy.

Note on Sovereign Gold Bonds (SGBs): SGBs are a government-issued, gold-linked instrument (sovereign-safe, paying 2.5% interest plus gold-price appreciation, with tax-free redemption gains if held to maturity). Because their value tracks gold rather than interest rates, they are best classified as a gold/commodity instrument rather than pure debt. No new tranches have been issued recently; existing bonds trade on the exchanges.

D. Corporate Debt — Bonds & Debentures

When a company borrows from the public, it issues bonds or debentures. These pay higher interest than government or bank instruments to compensate for higher credit risk. The key to investing here is the **credit rating** (AAA is safest, descending to BBB for investment grade and below for speculative) and understanding exactly what backs the bond. Listed corporate bonds and NCDs now trade on the exchanges and can be bought in demat form, including through online bond platforms.

D.1 Corporate Bonds (general)

AAA-rated corporate bonds currently yield roughly 7.0%–8.5% depending on tenure and issuer — a spread of about 0.5%–1.5% over G-Secs. Lower-rated bonds pay more but carry real default risk.

WORKED EXAMPLE

A ₹2,00,000 investment in an AAA corporate bond at 8.0% pays ₹16,000 a year, versus about ₹13,600 from a 6.8% G-Sec of similar tenure — an extra ₹2,400 a year for stepping one notch down in safety from sovereign to top-rated corporate.

WHO IT'S FOR

An investor comfortable reading a rating who wants a little more than the G-Sec yield, while staying firmly in the highest credit tier.

D.2 Non-Convertible Debentures (NCDs)

An NCD is a debenture that stays debt to the end — it is redeemed for cash at maturity and never converts into shares. NCDs are the most common way for retail investors to lend to companies, often via public issues. They come in two crucial varieties:

Secured NCDs

Backed by a charge on the company's specific assets (property, receivables, etc.). If the company defaults, secured NCD holders have first claim on those assets, ahead of unsecured lenders. Lower risk, hence usually a slightly lower coupon. **Prefer these** for safety-first investing.

Unsecured NCDs

Not backed by any specific asset; repayment depends purely on the company's general creditworthiness. They rank below secured creditors if things go wrong, so they pay a higher coupon to compensate. Suitable only when the issuer's rating is strong and you understand the added risk.

Convertible vs Non-Convertible Debentures

A **Convertible Debenture** can be converted into equity shares of the issuing company at a pre-agreed price and date — fully convertible (the whole value becomes shares) or partly convertible (part repaid in cash, part converted). This blends debt income with potential equity upside, but the "debt" portion ends when conversion happens. A **Non-Convertible Debenture (NCD)** never converts and remains pure debt — which is why income-focused investors generally favour NCDs for predictable returns.

Interest rate	Secured NCDs typically 8%–9.5%; unsecured/lower-rated higher. Coupon fixed for the tenure
Taxation	Interest taxable at slab. On listed bonds/NCDs: LTCG (held > 12 months) at 12.5% without indexation; STCG at slab. Unlisted bonds: LTCG (> 24 months) at 12.5%; otherwise slab. Market-Linked Debentures (MLDs) are taxed at slab as short-term regardless of holding period
Liquidity	Moderate but variable. Listed NCDs trade on the exchanges, yet many issues are thinly traded — selling mid-term may require accepting a discount. Cleanest is to hold to maturity
Loan against it	Yes for most listed, demat-held bonds/NCDs — banks and NBFCs lend against approved bonds (loan-to-value varies by rating). Tax-free and AAA bonds are the most readily accepted

WORKED EXAMPLE

A ₹3,00,000 investment in a AA-rated secured NCD at 9.0% pays ₹27,000 a year — clearly more than a bank FD. But note the structure: as a *secured* holder you would rank ahead of unsecured lenders on the pledged assets if the company stumbled, which is why its coupon is a touch lower than the unsecured version of the same issuer.

WHO IT'S FOR

Rahul wants higher fixed income than an FD and is comfortable holding to maturity. He deliberately picks the *secured* NCD of a well-rated issuer, accepting a slightly lower coupon in return for first claim on assets.

D.3 Perpetual Bonds (AT1 / "Additional Tier-1" Bonds)

Issued mainly by banks, these have **no fixed maturity** (the issuer may call them after about 5 years) and pay an attractive coupon. However, they sit at the bottom of the repayment ladder and can be written down or have coupons skipped if the bank hits trouble — as some Indian investors learned painfully when a large bank's AT1 bonds were written off entirely. High coupon, but genuinely higher risk; suitable only for informed investors and usually sold in large lot sizes.

WORKED EXAMPLE

An AT1 bond might tempt you with a 9.5% coupon on a ₹10 lakh lot — ₹95,000 a year. But in a stress event the entire principal can be written down to zero *before* equity holders lose everything. The lesson from recent history: the extra 1.5% over a senior bond is small compensation for a total-loss scenario.

WHO IT'S FOR

Only a sophisticated, well-diversified investor who fully understands subordination — most retail savers should treat the headline coupon as a warning sign, not an invitation.

E. Money-Market Instruments (Short-Term Debt)

These are very short-tenure instruments (up to one year) used by governments, banks and large companies to manage cash. Most have large minimum sizes and are aimed at institutions, so retail investors usually access them **indirectly through liquid and money-market mutual funds**.

E.1 Treasury Bills (T-Bills)

Short-term sovereign paper of 91, 182 or 364 days, issued at a discount and redeemed at face value (the difference is your return). Zero credit risk. Retail investors can buy them via RBI Retail Direct. Yields currently hover near the repo rate of 5.25%. The "interest" is treated as a capital gain/business income depending on holding; for most investors the discount is taxed at slab. Highly liquid and the safest short-term parking option.

WORKED EXAMPLE

Buy a 91-day T-Bill of ₹1,00,000 face value for about ₹98,700. At maturity you receive the full ₹1,00,000 — a ₹1,300 gain in three months, equivalent to roughly 5.25% annualised, with zero credit risk.

WHO IT'S FOR

A business holding ₹20 lakh it needs in three months uses T-Bills (or a liquid fund that holds them) to earn a safe return on cash it cannot afford to put at risk.

E.2 Certificate of Deposit (CD)

A short-term, negotiable deposit instrument issued by **banks** (typically 7 days to 1 year), in large denominations (often ₹1 lakh and multiples, with wholesale lots far larger). Being bank-issued, CDs are relatively safe. Returns track the money-market rate (near the 5.25% repo). Interest/discount is taxable at slab. They are tradable but the market is institutional; retail exposure is usually via money-market funds. Generally not used as retail loan collateral.

WORKED EXAMPLE

A money-market fund you hold might own a basket of bank CDs maturing in 3–6 months at around 6.5%. You never buy the CD directly; you simply hold the fund and earn close to that rate with daily liquidity.

WHO IT'S FOR

A retail saver who wants money-market returns accesses CDs through a money-market or ultra-short debt fund rather than buying wholesale lots directly.

E.3 Commercial Paper (CP)

A short-term **unsecured** promissory note issued by highly-rated companies to meet working-capital needs, with a minimum size of ₹5 lakh and tenure of 7 days to 1 year. Because it is unsecured, safety rests entirely on the issuer's short-term credit rating (A1+ being the best). Yields are a little above CDs. Taxed at slab; predominantly an institutional instrument that retail investors hold through liquid/ultra-short debt funds.

WORKED EXAMPLE

An ultra-short debt fund might hold A1+ commercial paper of a blue-chip company maturing in 90 days at about 6.8%. The slightly higher yield over a CD is the reward for the paper being unsecured — which is exactly why the fund manager sticks to top-rated A1+ names.

WHO IT'S FOR

Again, the retail route is a fund. The takeaway: even in short-term paper, the rating (A1+) is what keeps the "safe" in "safe parking."

F. Debt Mutual Funds

Debt mutual funds pool money from many investors to buy a basket of the bonds, T-bills, CDs and CPs described above. They give a small investor instant diversification, professional management, and far better liquidity than holding individual bonds. SEBI defines **16 categories** of debt funds, distinguished mainly by the maturity/duration of what they hold — and duration is what drives both their return and their sensitivity to interest-rate moves (longer duration = higher gains when rates fall, but bigger losses when rates rise).

Category	What it holds / typical use	Indicative yield*
Overnight Fund	1-day securities; safest parking for idle cash	~5.5%–6%
Liquid Fund	Up to 91-day paper; emergency fund / very short parking	~6%–6.75%
Ultra-Short Duration	3–6 month duration; better than savings for 3–6 month money	~6.5%–7.25%
Low Duration	6–12 month duration	~6.75%–7.5%
Money Market Fund	Money-market instruments up to 1 year	~6.5%–7.25%
Short Duration	1–3 year duration; 2–3 year goals	~7%–7.75%
Medium Duration	3–4 year duration	~7%–8%
Medium-to-Long Duration	4–7 year duration	~7%–8%
Long Duration	Over 7 year duration; most rate-sensitive	~7%–7.75%
Dynamic Bond	Manager shifts duration as rate view changes	~7%–8%
Corporate Bond	Min 80% in highest-rated (AA+/AAA) corporate bonds	~7.25%–8%
Credit Risk Fund	Min 65% in lower-rated bonds; higher yield, higher risk	~8%–9.5%
Banking & PSU Fund	Min 80% in bank/PSU/PFI debt; safety + decent yield	~7%–7.75%
Gilt Fund	Min 80% in G-Secs; no credit risk, full rate risk	~6.75%–7.5%
Gilt Fund (10-yr constant duration)	G-Secs with ~10-yr duration maintained	~6.75%–7.25%
Floater Fund	Min 65% in floating-rate instruments; cushions rising rates	~7%–7.75%

**Indicative gross yields-to-maturity in the June 2026 rate environment; actual returns vary with rate movements and are not guaranteed. A fund's "YTM" is a useful guide to likely return if held for its duration.*

Target-Maturity Funds (TMFs) & Fixed-Maturity Plans (FMPs)

Two special structures worth knowing: **Target-Maturity Funds** hold bonds (usually G-Secs, SDLs or PSU bonds) that all mature around a set date, giving you a fairly predictable yield if held to that date — combining bond-like visibility with mutual-fund liquidity. **Fixed-Maturity Plans** are closed-end funds with a fixed tenure, similar in spirit but less liquid (listed but thinly traded). Both are popular for goal-matching.

Taxation (big change)

For units bought on or after 1 April 2023 in a "specified mutual fund" ($\leq 35\%$ in equity), all gains are taxed at your slab rate regardless of holding period — indexation is gone, so debt funds are now taxed much like a bank FD. For units bought before 1 April 2023, gains on holdings over 2 years are LTCG at 12.5%. A key advantage remains: tax is deferred until you actually redeem, unlike an FD where interest is taxed every year

Liquidity

High for open-ended funds — redeem on any business day, money in 1–2 days (instant up to limits for liquid funds). Watch for small exit loads on very short holdings. FMPs are the exception (locked till maturity)

Loan against it

Yes — banks/NBFCs offer loans/overdrafts against mutual-fund units by marking a lien, typically up to 50%–80% of value for debt funds

WORKED EXAMPLE

Park a ₹5,00,000 emergency fund in a liquid fund yielding about 6.5%. It earns roughly ₹32,500 a year — far more than a savings account's ₹13,750 — yet you can redeem on any business day with money back in a day (instant up to ₹50,000). Crucially, you pay tax only when you redeem, not every year, so the corpus compounds undisturbed in the meantime.

WHO IT'S FOR

Sneha keeps six months of expenses (₹5 lakh) in a liquid fund as her emergency buffer, and uses a 3-year Target-Maturity Gilt Fund for a known 2029 goal — getting a fairly predictable sovereign yield with full liquidity if plans change.

G. Retirement & Provident Debt Instruments

These are long-horizon, largely debt-oriented retirement vehicles that deserve a place in any complete map of fixed income.

G.1 Employees' Provident Fund (EPF) & Voluntary Provident Fund (VPF)

For salaried employees, the EPF is a mandatory retirement fund earning a government-declared rate (around 8.25% in recent years — among the best risk-free returns available). The **VPF** lets you voluntarily contribute more than the mandatory 12% to the same account at the same rate. Contributions get 80C benefit and the corpus is largely EEE, though interest on employee contributions above ₹2.5 lakh a year is now taxable. Liquidity is low (meant for retirement, with permitted partial withdrawals); loans/advances are allowed for specified needs.

WORKED EXAMPLE

An employee directing an extra ₹10,000 a month into VPF at 8.25% (on top of the mandatory EPF) builds about ₹18.5 lakh over 10 years on ₹12 lakh contributed — a near-risk-free 8.25%, the highest guaranteed long-term rate most salaried Indians can access, and largely tax-free.

WHO IT'S FOR

Karthik, 35, with a stable job and no appetite for market risk on his core retirement money, steps up his VPF rather than buying more FDs — same safety, materially higher rate, and a tax break.

G.2 General Provident Fund (GPF) & PPF

The GPF is the government-employee equivalent of the VPF. PPF (covered in Section A.1) serves the same long-term, tax-free debt role for everyone else. Between them, almost every Indian — government, salaried, or self-employed — has access to a sovereign-backed, tax-advantaged long-term debt account.

G.3 National Pension System (NPS) — debt portion

NPS is a market-linked retirement scheme where you choose how much goes into equity versus debt. Its **Corporate Bond (Scheme C)** and **Government Securities (Scheme G)** options are pure debt sleeves that have delivered roughly 7%–9% over time. NPS offers an extra ₹50,000 deduction under Section 80CCD(1B) over and above 80C. Liquidity is low (locked till age 60 with limited partial withdrawals); no loan facility, but it is a powerful tax-efficient way to hold long-duration debt for retirement.

WORKED EXAMPLE

Contribute an extra ₹50,000 a year to NPS purely to claim the 80CCD(1B) deduction: in the 30% bracket that saves ₹15,600 in tax *every year*, while the money compounds at 7%–9% in the Scheme G/C debt sleeves until age 60.

WHO IT'S FOR

Meena, 40, has already maxed her ₹1.5 lakh 80C limit. She adds ₹50,000 to NPS for the extra deduction and tilts her allocation towards the G-Sec sleeve, holding long-duration sovereign debt cheaply and tax-efficiently for retirement.

H. Master Comparison Tables

H.1 Returns & Safety at a Glance (June 2026)

Instrument	Current rate / yield	Safety	Best suited for
PPF	7.10% (tax-free)	Sovereign — highest	Long-term tax-free corpus
SCSS	8.20% (quarterly)	Sovereign	Retirees needing income
SSY	8.20% (tax-free)	Sovereign	Girl-child long-term goal
NSC	7.70%	Sovereign	5-yr 80C saving
KVP	7.50% (doubles in 115 mo.)	Sovereign	Grow-and-forget lump sum
POMIS	7.40% (monthly)	Sovereign	Monthly income, any age
Post Office Time Deposit (5-yr)	7.50%	Sovereign	FD alternative + 80C
Post Office RD	6.70%	Sovereign	Monthly disciplined saving
RBI Floating Rate Savings Bond	8.05% (floating)	Sovereign	Safe high yield, 7-yr money
54EC Capital-Gains Bond	~5.25%	PSU / quasi-sovereign	Saving tax on property gains
Tax-Free Bonds (secondary)	~5.5%–6.5% tax-free	PSU — high	High tax bracket, tax-free income
10-yr G-Sec (Retail Direct)	~6.8%	Sovereign	Locking long sovereign yield
Bank FD (5-yr, SBI)	~6.30% (gen.) / ~6.80% (sr.)	Insured to ₹5 lakh	Familiar, flexible, loan-friendly
Tax-Saving Bank FD	6.05% / 7.05% (sr.)	Insured to ₹5 lakh	80C with bank convenience
Company FD (AAA)	~7%–8.5%	Rating-dependent, uninsured	Extra yield, accept some risk
Secured NCDs	~8%–9.5%	Asset-backed, rating-dependent	Higher fixed income
AAA Corporate Bonds	~7%–8.5%	High (AAA)	Yield above G-Secs
Liquid / Money-Market Funds	~6%–6.75%	High	Emergency fund / parking
Short/Corporate Bond Funds	~7%–8%	High	2–4 year goals
EPF / VPF	~8.25%	Sovereign-backed	Salaried retirement

H.2 Taxation, Liquidity & Loan-Eligibility Summary

Instrument	Tax on income	80C?	Liquidity	Loan against?
PPF	Tax-free	Yes	Low (15 yr)	Yes (yr 3–6)

Instrument	Tax on income	80C?	Liquidity	Loan against?
SCSS	Slab	Yes	Moderate	No
SSY	Tax-free	Yes	Very low	No
NSC	Slab	Yes	Low	Yes
KVP	Slab	No	Low–mod.	Yes
POMIS	Slab	No	Moderate	No
PO Time Deposit	Slab	Yes (5-yr)	Moderate	Yes
PO Recurring Deposit	Slab	No	Moderate	Yes
RBI Floating Rate Bond	Slab	No	Very low (7 yr)	No
54EC Bonds	Slab (interest)	54EC exemption	Very low (5 yr)	No
Tax-Free Bonds	Tax-free	No	Moderate	Yes
G-Secs / T-Bills	Slab / LTCG 12.5%	No	Moderate	Yes
Bank FD	Slab	Tax-saver only	High	Yes (up to 90%)
Tax-Saving FD	Slab	Yes	Locked 5 yr	No
Company FD	Slab	No	Low–mod.	Limited
Secured/Unsecured NCDs	Slab + LTCG 12.5%	No	Moderate	Yes (listed)
Corporate Bonds	Slab + LTCG 12.5%	No	Moderate	Yes (listed)
CDs / CPs / T-Bills	Slab	No	High (via funds)	Limited
Debt Mutual Funds (post-Apr-23)	Slab (on redemption)	No	High	Yes (lien)
EPF / VPF	Mostly tax-free*	Yes	Low	Advance allowed
NPS (debt)	Tax-advantaged	80C + 80CCD(1B)	Low	No

*EPF interest on employee contributions above ₹2.5 lakh per year is taxable. "Slab" means taxed at your income-tax slab rate. LTCG figures apply to listed instruments held beyond the qualifying period.

I. How to Choose — A Retired Banker's Rules of Thumb

Over decades at the counter I watched savers do well by following a few simple principles rather than chasing the highest headline rate:

- **Match the instrument to the goal's date.** Money needed within a year belongs in a liquid fund, savings sweep, or short FD — never in a 7-year bond. Money for a goal a decade away can afford PPF, SSY or long bonds.
- **Use the tax-free and tax-advantaged buckets first.** For most people, PPF, SSY, EPF/VPF and (for retirees) SCSS give the best after-tax return for their risk. A 7.1% tax-free PPF beats an 8% FD for anyone in the 20%+ bracket.
- **Keep an emergency fund liquid.** Three to six months of expenses in a liquid fund or sweep-in FD is the foundation; build it before reaching for higher yields.
- **Let credit rating, not coupon, decide on corporate paper.** An extra 1% is never worth a default. Stick to AAA/AA and secured NCDs unless you truly understand the risk.

- **Borrow against, don't break.** If you need cash temporarily, a loan/overdraft against an FD, NSC, bonds or mutual-fund units is often cheaper than prematurely breaking a good investment and losing its rate.
- **Ladder your maturities.** Spreading money across instruments maturing in different years gives you regular liquidity and protects you from reinvesting everything at a low-rate moment.
- **Remember the new debt-fund tax reality.** Since April 2023, debt funds are taxed at slab like FDs — but they still offer superior liquidity and tax-deferral until redemption, which can be valuable for planning.

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