



DEBT MARKET

Bond laddering

Spreading bonds across maturity dates, so that no single day's interest rate decides the outcome

Rules as on 12 October 2026; government yields as on 1 September 2026

For training and education only. Not investment advice.

A bond ladder is a set of bonds that mature in turn, not all at once.

Every year, or every few months, one bond repays. The holder can spend it or buy a new bond. No single date's interest rate applies to the whole sum.

Four terms to know first



Rung

One maturity date in the ladder. A five-rung ladder has money coming back on five different dates.



Spacing

The gap between two maturity dates. It can be three months, one year or longer.



Reinvestment

Reinvestment risk: the chance that money from a maturing bond can only be reinvested at a lower rate.



Rolling

Using the money from a matured bond to buy a new one at the far end, which keeps the ladder going.

The opposite risk is price risk: a bond's price falls when yields rise. See the deck on bond prices.

Building a five-rung ladder

THE SET-UP

₹5,00,000 to invest in bonds bought at face value.

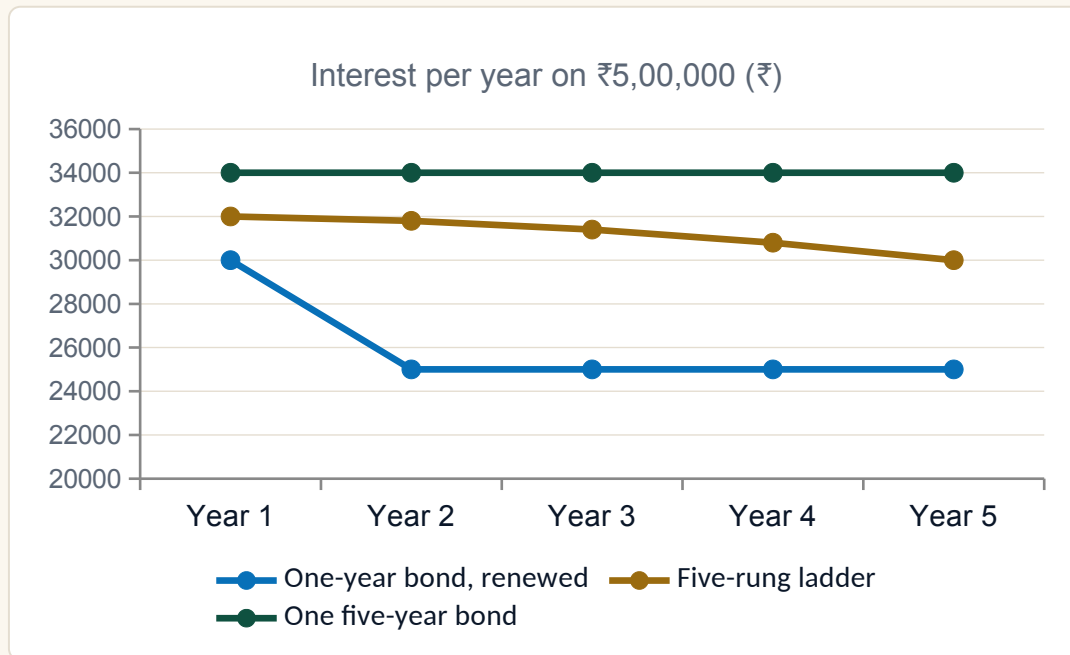
Assumed yearly interest: 6.0%, 6.2%, 6.4%, 6.6% and 6.8% on bonds of one, two, three, four and five years.

- 1 Put ₹1,00,000 in each maturity. Interest in year 1: ₹6,000 + ₹6,200 + ₹6,400 + ₹6,600 + ₹6,800 = ₹32,000.
- 2 That is 6.4% on ₹5,00,000. All of it in the five-year bond would pay ₹34,000; all of it in the one-year bond, ₹30,000.
- 3 After one year the first bond repays ₹1,00,000. Each of the other four is one year closer to maturity.
- 4 To keep five rungs, that ₹1,00,000 buys a new five-year bond at whatever five-year bonds pay on that day.

Each year one-fifth of the money comes back, and one-fifth is reinvested at that year's rate.

Illustration with assumed figures. Tax and costs are ignored. These are not market rates or a forecast.

If rates fall by one point after year 1



Read the chart

- Renewed one-year bond: income drops from ₹30,000 to ₹25,000 at once.
- Ladder: ₹32,000, then ₹31,800, ₹31,400, ₹30,800 and ₹30,000.
- Single five-year bond: ₹34,000 a year, but no money back until year 5.
- If rates rose by one point instead, the ladder would reach ₹38,000 by year 5.

Illustration: the ladder from the last slide. All assumed rates fall by one percentage point after year 1 and stay there. Assumed figures, not market data.

Four choices in any ladder

1

How long

The date of the last rung. A longer ladder holds longer bonds, whose prices move more when yields change.

2

How far apart

The spacing between rungs. Closer rungs return money more often and mean more reinvesting.

3

What sits on each rung

Government paper, company bonds, deposits or funds with a maturity date. Each carries its own credit risk and tax treatment.

4

What happens at maturity

Spend the money, or roll it into a new last rung. Rolling keeps the ladder the same length.

What the rungs can be made of

Building block	What it is	Points to know
Treasury bills	Central government paper of 91, 182 and 364 days. Sold at a discount and repaid at face value; no interest is paid.	Auctions are usually held every Wednesday. Minimum ₹10,000.
Dated government securities	Central government bonds, generally of 5 to 40 years, paying interest every half-year.	Minimum ₹10,000. The price moves with yields until maturity.
State Development Loans	Dated securities issued by State Governments through auctions.	Minimum bid ₹10,000.
Target maturity funds	Debt index funds or ETFs with a stated maturity date. No holding may mature after that date.	Mutual fund schemes: NAV moves daily and returns are not assured.

Sources: RBI FAQs, Government Securities Market in India; SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 4.4.

RBI Retail Direct: the direct route

2021



Open to individuals

Launched on 12 November 2021. An individual opens a Retail Direct Gilt account with RBI online and bids in auctions of government securities.

₹10,000



Minimum bid

For Treasury bills, dated government securities and State Development Loans. For a Government of India dated security the upper limit is ₹2 crore per security per auction.

No fee



Account

RBI's FAQ says no fee is charged for opening and maintaining the account. Payment-gateway charges, if any, are borne by the investor.

Sources: RBI press release 'RBI Retail Direct Scheme', 12 Nov 2021; RBI FAQs, Government Securities Market in India; RBI Statement on Developmental and Regulatory Policies, 6 Aug 2025.

Where things stand

Government yields by maturity around 1 September 2026, and the policy rate. Check the date.

91-DAY T-BILL

5.26%

Cut-off yield in the auction result RBI published on 27 August 2026.

364-DAY T-BILL

5.80%

Cut-off yield in the same auction result. The 182-day bill: 5.62%.

10-YEAR G-SEC

6.96%

Yield on the 6.94% GS 2036 on 1 September 2026.

POLICY REPO RATE

5.50%

From 7 October 2026. It was 5.25% on 1 September 2026.

Sources: RBI press release, T-bill auction result, 27 Aug 2026; RBI Current Rates, 1 Sep 2026 (10-year yield, repo rate); RBI MPC Resolution, 7 Oct 2026.

If you learnt this from older material

The idea of a ladder has not changed. The ways to build one, and the tax on debt funds, have.

What older material assumes

- Individuals reach government bonds through funds or intermediaries.
- A ladder is built only from separate bonds or deposits.
- Debt fund units held over three years are taxed at 20% with indexation.

What holds now

- Individuals can bid directly on RBI Retail Direct, since 12 November 2021.
- Target maturity index funds and ETFs have a stated maturity date.
- Units bought from 1 April 2023: gains taxed at slab rate, whatever the holding period.

Sources: RBI press release, 12 Nov 2021; SEBI Master Circular, 20 Mar 2026, para 4.4; income-tax rules on specified mutual funds (see capital gains deck).

Four things people get wrong



'A ladder locks in today's rates.'

Only on the bonds already bought. Each maturing rung is reinvested at the rate of that day, which may be higher or lower.



'Held to maturity means no risk.'

Price swings matter less if the bond is never sold. The issuer can still fail to pay, and inflation can outrun the interest.



'A ladder earns more than one bond.'

Not by design. It earns a blend of shorter and longer rates. Its purpose is to spread dates, not to raise the return.



'A target maturity fund is a fixed deposit.'

Its NAV moves every day with yields. The yield shown at entry is an indication, not an assured return.

Check yourself

Q1

₹6,00,000 is split equally across bonds of one, two and three years paying 6%, 6.5% and 7% a year (assumed). What is the first year's interest, in rupees and as a rate?

Q2

Rates fall. One person renews a one-year bond each year; another holds a five-rung ladder. Whose interest income falls faster, and why?

Q3

A client says a target maturity fund guarantees the yield shown on the day of investing. What is the accurate statement?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Treasury bill tenors, discount basis, weekly auctions, dated security tenors, State Development Loans, ₹10,000 minimum, ₹2 crore limit: RBI FAQs 'Government Securities Market in India'.
- RBI Retail Direct: RBI Press Release 2021-2022/1183, 12 Nov 2021. Auto-bidding for Treasury bills: RBI Press Release 2025-2026/843, 6 Aug 2025.
- Target maturity index funds and ETFs: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 4.4 (norms for debt ETFs and index funds).
- Treasury bill cut-off yields: RBI Press Release 2026-2027/972, 27 Aug 2026. 10-year yield (6.9570%) and repo rate of 5.25% on 1 Sep 2026: RBI Current Rates (page archived 2 Sep 2026).
- Repo rate 5.50% from 7 Oct 2026: RBI MPC Resolution, 7 Oct 2026. Tax on debt fund units: income-tax provisions on specified mutual funds, as summarised in a fund-house tax reckoner (secondary).
- The ladder, its interest rates and the chart are illustrations with assumed figures. They are not quotes for any actual bond, deposit or scheme.

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