Private credit in India

H2 2025 update

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Executive summary

The global economy remained resilient through H2 2025, supported by fiscal measures and strong investment activity, even as elevated uncertainty, high public debt and rising financial-market vulnerabilities continued to pose downside risks. Against this backdrop, India's economy and financial systems remained robust, underpinned by strong domestic demand, benign inflation, prudent macroeconomic policies and resilient balance sheets across banks, NBFCs and other financial institutions.

In H2 2025, based on the deals tracked by us, a total of US$3.4 billion was invested in private credit transactions (compared with US$9.0 billion in H1 2025 and US$3.3 billion in H2 2024). On an aggregate basis, CY 2025 saw US$12.4 billion across 166 transactions, representing 35% growth by value over CY 2024 (approximately US$9.2 billion), underscoring the continued expansion of India's private credit market. The above figures do not include deals less than US$10 million, deals concluded solely by foreign banks and offshore credit raises, which would significantly enhance the size of the market.

Real estate continues to be the dominant sector, accounting for 42% of total deal value, followed by healthcare and other industrial products at 15% each. From a deal size perspective, transactions exceeding US$120 million accounted for 27% of the total deal value across five transactions, while deals in US$20 million to US$40 million range ranked second, contributing approximately 21% of the total value across 24 transactions. H2 2025 activity reflected a strong emphasis on refinancing, acquisition financing and capex funding. Similar to H2 2024, domestic private credit managers outpaced global funds, accounting for approximately 64% of total deal value and 69% of deal volume, highlighting the growing depth and competitiveness of the domestic private credit ecosystem.

As per the survey conducted in H2 2025, 84% of the private credit leaders continue to believe that there will be increased competition in the private credit space in India. Further, funds remain bullish on real estate, retail and renewable energy sectors.

Credit growth strengthened during H2 2025 amid easing financial conditions and improved liquidity. Lending by Scheduled Commercial Banks (SCBs) expanded by ~12% YoY by November 2025, led by services, personal loans and a sharp acceleration in MSME credit, while large corporate lending showed modest growth, reflecting continued risk selectivity and delayed monetary transmission. The RBI's cumulative 125 bps policy rate cuts in 2025, reduction in CRR to 3.0%, and durable liquidity infusions eased systemic constraints, even as deposit growth continued to lag credit expansion. As highlighted in the RBI's December 2025 Financial Stability Report, SCBs remained well capitalised with strong liquidity buffers and gross NPAs at multi-decade lows, reinforcing system-wide resilience.

NBFC credit growth outpaced banks, with aggregate lending by upper- and middle-layer NBFCs rising over 21% YoY as of September 2025, driven largely by upper-layer entities and public-sector NBFCs anchoring wholesale and infrastructure credit. The Financial Stability Report also noted improving asset quality and strong capital buffers across NBFCs, while flagging emerging risks from unsecured retail lending, fintech-led credit expansion, and global macro uncertainties.

Within this environment, private credit activity remained disciplined yet constructive. Uneven bank credit transmission, rising refinancing needs and sustained capex requirements continued to support demand for structured non-bank financing solutions. With system-wide non-performing asset at multi-decade lows and capital buffers remaining strong, private credit further consolidated its position as a structurally complementary financing channel within India's evolving credit landscape.

This H2 2025 report provides a comprehensive view of India's evolving private credit landscape, covering developments across the credit segments, outlines the recent regulatory changes, illustrative private credit deals and new fund raises/launches. It also incorporates insights from the latest EY Pulse survey, expanded to include additional questions reflecting emerging themes in the market. In addition, the report highlights growing activity in continuation vehicles and leveraged buyouts, underscoring the increasing sophistication and depth of the private capital ecosystem.

01 Macroeconomic outlook[1]

The second half of 2025 unfolded against a backdrop of a moderating global growth environment, easing inflationary pressures and a gradual shift toward late-cycle monetary easing across major economies. While global uncertainties ranging from elevated sovereign debt to geopolitical and trade-related disruptions continued to weigh on sentiment, India's macroeconomic position strengthened meaningfully through policy support and resilient domestic demand. High-frequency indicators during the period pointed to sustained momentum across services and investment activity, even as external demand and capital flow remained uneven.

Global growth moderates: India's relative resilience strengthened

As of the second half of 2025, the global macroeconomic environment has softened further. The World Bank's June 2025 Global Economic Prospects update downgraded world growth expectations for H2 2025 to around 2.3%, well below the pre-pandemic average, reflecting a prolonged adjustment to tighter financial conditions, elevated public debt and persistent geopolitical and trade-related disruptions.

Against this decelerating global backdrop, India's relative growth resilience has become more pronounced in H2 2025. The IMF's October 2025 World Economic Outlook projected India's real GDP growth at 6.6% in FY25 and 6.2% in FY26, materially outperforming global growth of approximately 3% respectively. In January 2026 World Economic Outlook update, projections were subsequently upgraded, with India expected to grow around 7.3% in FY26 (backed by an outperformance in Q3 FY26) and easing toward ~6.4% over FY27-28.

Importantly, this divergence has widened during H2 2025, as growth revisions across other regions have been mixed with modest upgrades in the US and select Asian economies offset by downgrades in Europe, parts of Latin America and several low-income economies facing tighter financing conditions, climate disruptions and trade shocks. China's uneven recovery, marked by continued weakness in property investment and subdued external demand, remains a drag on regional trade momentum.

Disinflation firms up globally; India benefits from a benign inflation phase

The global inflation cycle in H2 2025 had moved decisively into a disinflationary phase, with headline inflation across advanced economies continuing to ease through the second half of the year as US CPI stabilized around 2.7% YoY by November 2025 and Euro area inflation converged to the European Central Bank's 2% target. While tariff actions and supply-chain reconfiguration exerted upward pressure in select goods segments, weaker demand conditions and softer commodity prices offset these effects, limiting

[1] *IMF World Economic Outlook, June 2025; IMF World Economic Outlook, October 2025; IMF World Economic Outlook, January 2026; Press Note Details: Press Information Bureau; OECD Economic Outlook, December 2025; United Nations World Economic Situation and Prospects, 2025; US Bureau of Labor statistics*

World Bank Commodity Markets Outlook, October 2025; Ministry of Statistics and Programme Implementation (MoSPI), FY25-26, Bulletins; S&P Global / HSBC, India PMI Reports (October-November 2025 Reserve Bank of India, Monetary Policy Statements and RBI Bulletin (2025); Controller General of Accounts: Monthly Accounts Dashboard; Union Government Provisional Financial Accounts (FY25); Ministry of Finance, Union Budget FY26, NSDL Bulletin: FPI Investments; Ministry of Commerce and Industry: FDI Statistics; European Central Bank, Monetary Policy Decision, December 2025; Bank of England, Monetary Policy Summary and Minutes, December 2025; FOMC Monetary Policy Statement. How Is the RBI intervening in the forex market to shore up the rupee?, ETBFSI, India rupee gains for second straight day on RBI support | Reuters; US IPO market trends | EY - US

broader inflationary pass-through. In emerging markets, disinflation outcomes have been more uneven, although the overall directional trend remains lower. Against this backdrop, India stands out, with CPI inflation moderating sharply at 0.25% in October 2025 before rising modestly to 0.71% in November, reflecting food price normalization and higher fuel inflation, while core services inflation remaining stable.

As a result, India entered H2 2025 with inflation significantly below the RBI's 4% objective, creating substantial and durable monetary policy space. This represents a clear shift from the inflation-management phase of the previous two years and has important implications for real interest rates, credit pricing and balance-sheet expansion.

Global debt dynamics: Structural vulnerabilities deepen

Despite easing inflation, global debt dynamics have emerged as a central macro vulnerability in H2 2025. The IMF's October 2025 Fiscal Monitor and UNCTAD's World of Debt 2025 estimate that global public debt surpassed US$100 trillion in 2024 and is on course to approach 100% of global GDP by the end of the decade, reversing much of the post-COVID fiscal consolidation.

Debt burdens are particularly acute across several advanced economies and a growing set of emerging markets, where interest expenditures now absorb a larger share of public resources than essential social spending such as health or education. Elevated debt stocks, alongside structurally wider fiscal deficits, have increased sovereign sensitivity to inflation surprises, political risk and growth downgrades.

Commodity price dynamics: Oil price stability provides relief

Global oil prices remained relatively subdued through H2 2025, reflecting weak global demand conditions and improving supply dynamics. Brent crude traded in a narrow band for most of the year—largely between the low- US$60s and low-US$70s per barrel—before easing further to around US$59–60 by mid-December, marking one of the calmest oil-price environments in recent cycles. This price stability persisted despite ongoing geopolitical disruptions, supported by strong non-OPEC supply growth (notably from the US, Brazil, Guyana and Canada), disciplined OPEC+ output management, inventory build-ups, subdued demand growth in China and Europe and increased floating storage.

The moderation in oil prices provided meaningful macro relief for oil-importing economies such as India, easing the import bill, supporting disinflation and contributing to a narrower current-account deficit. In contrast, prices of commodities viz. gold, silver and copper remained elevated, driven by heightened geopolitical risks, sustained central-bank purchases and continued safe-haven demand amid global uncertainty. Overall, commodity price dynamics during H2 2025 were net positive for India's macro balance, reinforcing policy flexibility, disinflationary trends and external stability.

Monetary policy: Late-cycle easing with guardrails; India's monetary pivot becomes more visible in H2 2025

The monetary policy in advanced economies by H2 2025 had shifted from aggressive tightening to a late-cycle, cautious easing phase with the US Fed delivering cumulative rate cuts of around 75 bps by December 2025, lowering the federal funds target range to 3.50%–3.75%. The pivot reflected clearer evidence of disinflation and cooling labor-market momentum prompted policymakers to signal a data-dependent approach to further easing. In Europe, the ECB held its key policy rates unchanged, with the deposit rate at 2.00%, reflecting confidence in near-target inflation and a stabilizing economy. Meanwhile, the Bank of England reduced Bank Rate to 3.75% in December 2025 on signs of slowing inflation and weakening activity, albeit with a narrowly split committee. By late 2025, markets increasingly view the global easing cycle as past its peak, with central banks emphasizing data dependence, fiscal sustainability and credibility amid still-elevated core inflation and political risks.

Domestically, the RBI's policy pivot became more explicit through H2 2025 as the Monetary Policy Committee, in its December 2025 review, reduced the policy repo rate by 25 bps to 5.25%, bringing cumulative easing in 2025 to 125 bps, while maintaining a neutral stance. As part of additional measures, the RBI also announced substantial liquidity support, including durable liquidity injections via open-market operations and forex swaps to ease money-market conditions. The central bank upgraded its FY 2025-26 real GDP growth forecast to about 7.3% and sharply lowered its CPI inflation projection to around 2.0%, reflecting continued disinflationary pressures. These outcomes, together with subdued inflation prints such as in October and November, reinforce expectations of further data-dependent easing into early 2026.

Strong FY25 IPO activity despite monthly fluctuations

Capital markets activity provided additional support to macro sentiment during FY25, albeit with pronounced month-to-month volatility. IPO activity remained strong in aggregate, with SME IPOs dominating issuance volumes, while mainboard offerings accounted for the bulk of capital raised.

For the calendar year 2025, global IPO markets saw approximately 1,293 listings raising ~US$171.8 billion, signaling improved issuance conditions, with Asian markets led activity and the US, Hong Kong and China accounting for ~66% of global proceeds. India's IPO market recorded a record INR1.77 lakh crore (~US$19.6 billion) in fundraising, driven by over 100 mainboard and 250-plus SME listings, reflecting broad-based investor participation and issuer confidence.

Beyond IPOs, market sentiment remained supportive, aided by healthy rights issues and sustained Qualified Institutional Placement (QIP) activity, which together contributed to overall capital-raising momentum despite volatility.

India's growth momentum holds through H2 2025

India's growth momentum remained robust through H2 2025. Real GDP is estimated to have expanded by 8.2% YoY in Q2 FY26 (July–September 2025)[2], up from 7.8% in Q1[3], implying estimated growth of around 8.0% for H1 FY26 (April–September). This growth only captures partial impact of the GST rate cut implemented on September 22, 2025.

The expansion was led by resilient private consumption, continued strength in services and sustained momentum in construction and manufacturing. Industrial activity improved sequentially, with the Index of Industrial Production (IIP) rising ~4.0% YoY in September 2025, manufacturing output expanding ~4.8%, and capital-goods output continuing to grow[4]. High-frequency indicators reinforce this trend, with the HSBC India Manufacturing PMI remained well in expansion territory, indicating continued momentum. Infrastructure output also recorded gains, rising ~1.8% YoY in November 2025[5], reflecting sustained investment demand in core sectors. Overall, activity indicators point to continued growth momentum beyond the early fiscal half, even as some moderation has begun to emerge at the margin.

External-sector dynamics improved modestly during H2 2025. India recorded US$81.0 billion in FDI inflows in FY 2024-25, marking a ~14% YoY increase, with strong contributions from services and manufacturing sectors. Industry-level estimates suggest gross FDI inflows remained robust through April–October, exceeding US$58 billion[6], reflecting sustained investor interest although monthly net flows remained variable. Portfolio flows stabilized toward the latter part of H2 2025, with renewed foreign equity participation — including net FPI inflows of ~INR37.8 billion (~US$430 million) in late December — signaling improved sentiment. The rupee traded broadly around ~INR90.4–INR89.7 per US$ in mid-December 2025, weakening modestly but in an orderly fashion amid

[2] Press release by Ministry of Statistics & Programme Implementation
[3] Press release by Ministry of Statistics & Programme Implementation
[4] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2183312&reg=3&lang=2
[5] India's November infrastructure output grows 1.8% y/y
[6] April-October gross FDI flows

central-bank support. India's foreign-exchange reserves rose to approximately US$685-700 billion by early December, underpinning external stability. Domestic demand and robust services exports helped cushion external pressures, while fiscal consolidation remained broadly on track with the FY25 fiscal deficit at around 4.8% of GDP.

These external-sector outcomes were supported by timely and calibrated policy actions by the Reserve Bank of India, which helped preserve orderly liquidity and currency conditions amid tightening domestic liquidity and elevated global volatility.

In this context, the RBI has deployed a calibrated mix of liquidity and foreign exchange tools to ensure orderly financial market functioning. On the liquidity front, the RBI announced a sizeable infusion of nearly INR3.0 trillion (~US$34 billion) through open market operations (OMOs) and long-tenor US$/INR buy-sell swaps, including purchases of INR2.0 trillion[7] (~US$23 billion) of government securities in phased OMO tranches between end-December 2025 and January 2026, alongside a three-year US$10 billion swap to inject durable rupee liquidity. These measures were aimed at easing systemic liquidity pressures and anchoring market conditions, without explicitly targeting a surplus liquidity level.

Separately, the RBI has remained active in the foreign exchange market to smooth excessive volatility in the rupee amid persistent foreign portfolio outflows and global risk aversion. The central bank has intervened through spot dollar sales—often routed via state-run banks—as well as through forward market operations, including maintaining short dollar positions. These interventions are consistent with India's managed-float framework and are intended to curb one-way speculative moves rather than defend any specific exchange rate level. Together, the RBI's liquidity operations and calibrated FX interventions have helped stabilize financial conditions and contain disorderly currency movements during a period of elevated global uncertainty.

Overall, H2 2025 has underscored a familiar but sharpened contrast: a global economy grappling with slower trend growth, high but stabilizing public debt and lingering trade frictions, versus an Indian economy that continues to deliver strong, domestically driven growth with rapidly easing inflation and improving macro buffers. While heightened tariffs, external demand weakness and climate-related shocks remain key downside risks, India enters CY26 with healthier fiscal parameters, a more accommodative monetary stance and sustained momentum in investment and consumption, leaving it comparatively well-positioned amid an otherwise fragile global landscape.

FDI strength and portfolio stabilization

External and capital-flow dynamics have turned more supportive at the structural level, even as portfolio flows remain volatile. FDI inflows reached US$81.0 billion in FY24–25, up 14% YoY, with services, manufacturing and digital infrastructure leading the mix. Industry-level estimates suggest gross FDI inflows through April–October remained robust, exceeding US$58 billion, albeit with month-to-month variability.

In contrast, foreign portfolio investors (FPI) flows remained volatile in late-2025. FPIs withdrew INR17,955 crore (~US$2 billion) from Indian equities during 1–12 December, taking cumulative equity outflows in CY2025 to ~INR1.6 trillion (~US$18.4 billion). This followed net outflows of INR3,765 crore (~US$428 million) in November, after a brief reversal in October, when FPIs injected INR14,610 crore (~US$1.66 billion), snapping a three-month sell-off. Earlier, equity outflows stood at INR23,885 crore (~US$2.71 billion) in September and INR34,990 crore (~US$3.98 billion) in August, underscoring continued foreign investor caution despite intermittent inflows.

Implication for private credit

H2 2025 favored disciplined and selective deployment in private credit. Tariff-induced uncertainty, elevated global term premia and rising refinancing and capex requirements continued to expand demand for customized private credit solutions. Sectoral dispersion widened during the period, creating higher-conviction opportunities in infrastructure, manufacturing and sponsor-backed growth financings, while underscoring the need for caution in more leveraged or cyclical segments. Overall, private credit continued its transition from a tactical alternative to a core financing channel.

[7] https://rbidocs.rbi.org.in/rdocs/Bulletin

02 Analysis of credit deployment and growth

2.1 Credit deployment by SCBs[8]

India's monetary landscape eased gradually during 2025 amid persistent global uncertainty. Credit deployment by Scheduled Commercial Banks strengthened over the course of the year, with credit growth reviving and the credit impulse recovering, reflecting a more supportive environment for economic activity. Liquidity conditions improved materially, supported by surplus systemic liquidity and robust monetary policy transmission, particularly in short-term markets. As a result, money market spread moderated from the elevated levels seen earlier in the year, contributing to easier financing conditions and stabilization in bank lending dynamics by the second half of 2025.

The RBI continued to support credit flow through a calibrated mix of liquidity and rate measures. Following cumulative CRR cuts that lowered reserve requirements to 3.0% by November 2025, systemic liquidity has remained in surplus, strengthening monetary transmission. The Monetary Policy Committee, after initiating a rate-cut cycle earlier in 2025, further reduced the repo rate by 25 bps in December 2025 to 5.25%, while retaining a neutral policy stance. This reflects a data-dependent approach aimed at keeping financing conditions supportive while preserving flexibility, amid evolving growth and inflation dynamics.

To revive infrastructure financing, the RBI has introduced a notable policy initiative via the Non-Fund Based Credit Facilities Directions, 2025 along with a calibrated easing of prudential norms for infrastructure lending. Effective 1 October 2025[9], provisioning requirements for loans to under-construction infrastructure projects have been revised to 1% (from earlier proposed rate of 5% recommended in RBI's draft guidelines), reflecting regulatory recognition of the sector's long gestation periods and capital-intensive nature, particularly amid a 0.8% contraction in infrastructure credit over the past year. Complementing this, the RBI has expanded the scope of credit enhancement[10] by permitting all regulated entities to provide partial credit enhancement (PCE) to bonds issued by corporates, SPVs, eligible NBFCs and municipal bodies, while raising the permissible enhancement limit to 50% from 20% earlier. Together, these measures are expected to improve bond market access, support rating uplift, ease bank balance-sheet constraints and strengthen credit flows to infrastructure and allied sectors.

SCBs entered H1 FY26 with strong balance sheets, as asset quality continued to improve and capital and liquidity buffers remained comfortable across bank groups. The GNPA ratio declined further to a multi-decadal low of 2.2% as of September 2025, while NNPA remained stable at 0.5%, reflecting sustained stress resolution and limited fresh slippages. Slippage ratios remained contained at 0.7%, although write-offs increased for private sector and foreign banks, suggesting that part of the improvement, particularly in private banks, continues to be supported by balance sheet clean-up rather than recoveries alone. Agriculture remained the weakest sector in terms of asset quality, while industrial credit showed broad-based improvement across sub-sectors, barring food processing.

[8] RBI FSR Report December 2025
[9] https://www.epcworld.in/rbis-strategic-calibration-a-dual-thrust-to-liquidity-management-and-infrastructure-credit-revivalv/
[10] RBI issues guidelines on credit enhancement facilities supporting infrastructure financing - Indian Infrastructure

Sectoral deployment of credit analysis (Scheduled Commercial Banks)[11]

Particulars (US$ billion)	Nov-24 (a)	Nov-25[12] (b)	Change (b-a)	Growth rate (%)
Agriculture and Allied Activities (a)	**253**	**275**	**22**	**9%**
Industry:				
MSME	126	153	27	22%
Large	312	326	14	5%
Sub-total (b)	**438**	**479**	**42**	**10%**
Services:				
NBFC	279	315	35	13%
Trade[1]	123	140	17	14%
Real Estate	58	65	7	13%
Others[2]	186	209	22	12%
Sub-total (c)	**646**	**728**	**82**	**13%**
Personal loans (d)	**654**	**737**	**83**	**13%**
Total (a+b+c+d)	1,990	2,219	229	12%

Note:
1. Trade includes wholesale trade (food procurement credit outside food credit consortium) and retail trade credit.
2. Others include transport operators, computer software, hotels, restaurants, professional services, aviation, shipping, mutual fund (MFs), banking and finance other than NBFCs and MFs and other services which are not indicated in the aforementioned categories
3. Conversion rate (for US$) considered for above table is INR88

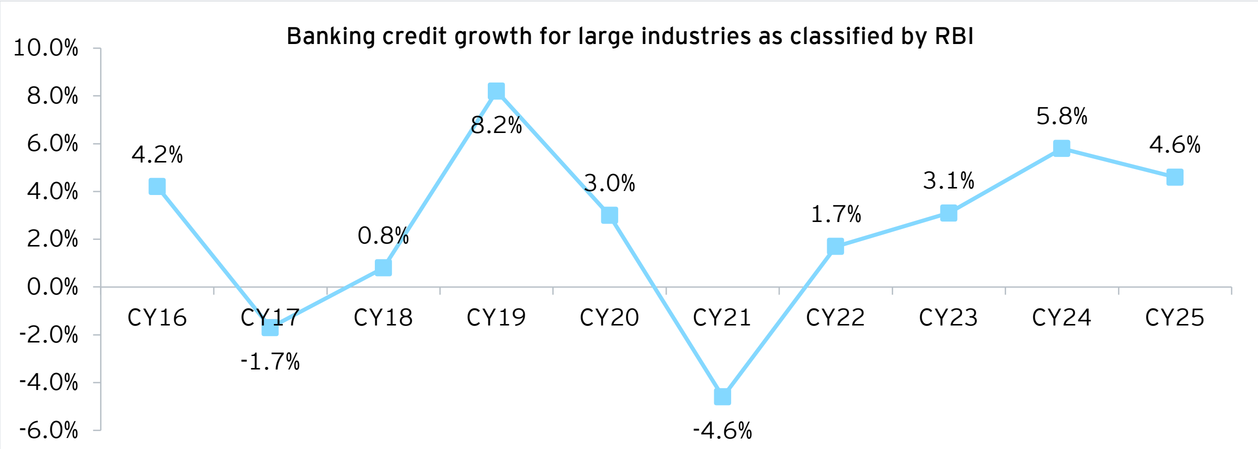
Aggregate credit outstanding increased from US$1,990 billion in Nov-24 to US$2,219 billion in November 2025, representing YoY growth of 12%. Credit growth was broad-based across sectors, led by services and personal loans. Services credit expanded by 13% YoY to US$728 billion, driven by healthy growth in NBFC exposure (+13% YoY to US$315 billion), trade (+14% YoY to US$140 billion), and real estate (+13% YoY to US$65 billion). Personal loans also grew robustly by 13% YoY to US$737 billion, continuing to be a key driver of system-wide credit expansion. Within industry, total credit rose by 10% YoY to US$479 billion, supported by a strong 22% YoY increase in MSME lending to US$153 billion, while

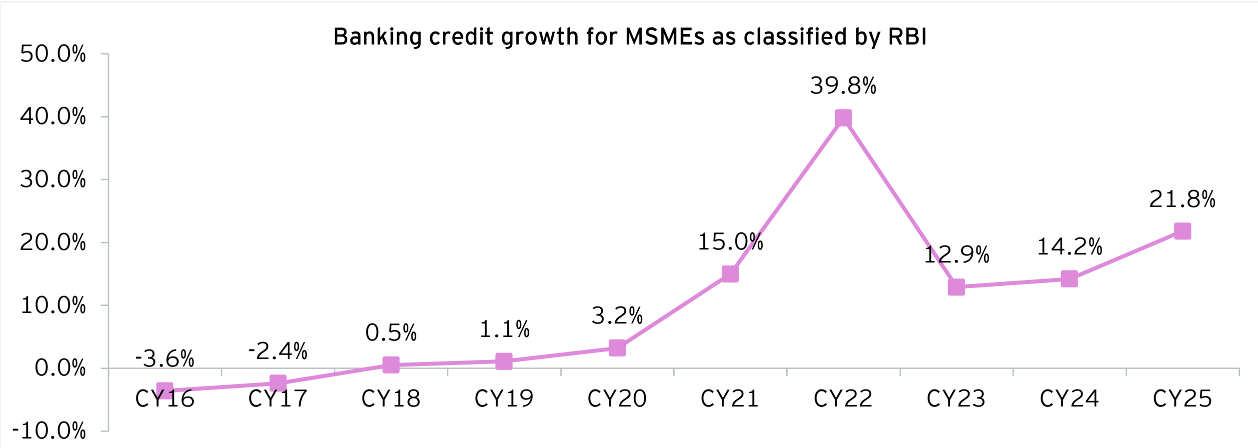
[11] RBI - Data on sectoral deployment of bank credit
[12] Exchange Rate for November 2025 US$/INR88

large corporate credit moderately grew by 5% to US$326 billion, indicating a continued shift toward smaller enterprises. Agriculture and allied activities recorded a 9% YoY increase to US$275 billion. Overall, the credit mix highlights sustained momentum in retail and services-led segments, with MSMEs emerging as a key growth engine within industrial credit.

On the liability side, the aggregate deposit growth moderated to 9.8% YoY, led by private sector banks. The continued decline in CASA ratios, alongside rising dependence on time deposits points to persistent liability-side pressure. On the asset side, the credit mix continued to tilt toward services, MSMEs and personal loans, while the share of agriculture and large industry contracted. Housing loans remained the dominant component of personal credit, although growth momentum strengthened in vehicle and other personal loan categories toward September 2025, even as overall personal loan growth showed signs of moderation.

The chart below depicts the trend in the banking credit growth rate for large industries and MSMEs over the last 10 years.





Source: RBI Sectoral Deployment of Credit Reports

Bank credit to MSMEs emerged as a key area of strength within the bank's loan portfolio. MSME credit growth accelerated to over 20% YoY by September 2025, raising its share to around one-fifth of total non-food bank credit. Lending remained skewed toward super-prime borrowers, which continued to account for a large share of MSME advances. Asset quality in the segment improved materially, with the GNPA ratio declining to 3.3%, supported by better borrower cash flows, tighter underwriting and credit guarantee coverage. While micro enterprises continued to exhibit relatively higher default rates, the overall improvement across MSME categories underscores the segment's growing role as a relatively lower-risk growth engine for banks.

Large borrowers continued to drive improvements in system-wide asset quality. While their share in total SCB credit remained stable at ~44%, their share in gross NPAs declined sharply to 33.8% by September 2025, with the GNPA ratio for large borrowers falling to 1.6%. The contraction in SMA-1 and SMA-2 accounts indicates easing near-term stress, although the relatively high share of unrated exposure among large borrowers suggests residual pockets of opacity within the credit system.

In contrast, credit to the microfinance sector continued to contract, reflecting sustained stress and consolidation in the segment. Bank credit to microfinance declined further during H1 FY26, alongside a sharp reduction in the number of active borrowers. Although asset quality indicators have shown early signs of improvement, borrower indebtedness edged up marginally, pointing to lingering vulnerability. As a result, banks have remained cautious on incremental exposure to microfinance, preferring secured retail and MSME lending over unsecured microcredit.

Despite strong balance sheet, earnings momentum weakened meaningfully in H1 FY26. Net interest income growth slowed sharply to 2.3% YoY by September 2025, driven by margin compression as asset yields adjusted faster than funding costs amid heightened deposit competition. As a result, profit growth moderated to 3.8% YoY, a sharp slowdown from the double-digit growth seen over the previous two years. While higher non-interest income provided partial support, net interest margins declined by ~20 bps over the last two half-years, leading to moderation in RoA and RoE, albeit from elevated levels.

Capital and liquidity positions remained strong, providing buffers against near-term stress. CRAR levels stood at 16.0% for PSBs and 18.1% for PVBs, supported by healthy Common Equity Tier-1 (CET-1) ratios and improved Tier-1 leverage. Liquidity metrics also strengthened, with both Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remaining comfortably above regulatory thresholds across bank groups, underscoring resilience to funding shocks despite slowing deposit growth.

2.2 Credit deployed by NBFCs[13]

The NBFC sector continued to be a key driver of credit growth, with aggregate lending by upper and middle layers accelerating to 21.3% YoY as of September 2025, driven largely by upper-layer NBFCs. This acceleration was partly structural, reflecting the conversion of two housing finance companies into NBFC-ULs in March and June 2025. Excluding these entities, credit growth for the common set of NBFC-ULs showed some moderation, while credit growth for middle-layer NBFCs remained lower, improving modestly from 11.9% in March 2025 to 12.6% in September 2025.

At the activity level, credit growth for NBFC-ICCs and NBFC-IFCs—together accounting for nearly 98% of aggregate NBFC credit remained strong at above 20%, while NBFC-MFIs continued to contract during H1 FY26, reflecting persistent stress in microfinance portfolios. Sectorally, both the credit growth and asset quality improved across industry, services and retail segments, while agriculture exposure remained limited. Within retail lending, microfinance and SHG loans continued to decline.

Funding and liquidity conditions remained differentiated across NBFC segments. Despite higher issuances of commercial papers, NBFC-ULs improved their short-term liabilities to total assets ratio, although they remained more vulnerable than NBFC-MLs. More than 85% of NBFC-UL borrowings were secured, compared with around 45% for NBFC-MLs, translating into a higher cost of funds for NBFC-MLs. Borrowing growth for NBFC-ULs continued to outpace credit growth, while GNPA ratios and provisioning coverage remained broadly stable at March 2025 levels.

Asset quality strengthened across the NBFC sector, with the share of large borrowers in GNPAs declining materially, even as their share in total credit remained steady. For NBFC-ULs, retail loans accounted for 61.8% of the loan book and 66.9% of GNPA exposure, with asset quality in retail remaining stable, while services and industry segments saw marginal deterioration. Profitability indicators — NIM, RoA and RoE — and capital ratios moderated but remained at healthy levels, with NBFC-MLs maintaining higher capital buffers than NBFC-ULs.

Overall, the NBFC sector remains resilient and well-capitalized, led by upper-layer entities with strong growth momentum. However, the divergence between UL and ML NBFCs, continued contraction in microfinance and funding structure risks underscore the importance of supportive liquidity conditions and calibrated regulation to sustain durable and broad-based credit growth.

2.2.1 Wholesale book of NBFCs[14]

We have conducted an analysis of the wholesale lending portfolio of 14 select large NBFCs (including private sector lending of REC and Power Finance Corporation or PFC) from March 2018 to September 2025. Overall, the wholesale book of these select NBFCs increased by US$10.5 billion i.e., 16.5% (YoY Sept-25). This growth was primarily driven by a US$5.97 billion increase, i.e., 32% increase in

[13] RBI FSR Report December 2025
[14] EY analysis

private sector lending by REC and PFC, underscoring the rising role of public sector NBFCs in wholesale markets. Additionally, out of remaining 12 large NBFCs, seven NBFCs contributed to a growth of 18% YoY and five showcased a de-growth of 19% YoY.

Overall, a more cautious approach by lenders, improvement in lending standards and the restoration of risk weights on bank lending to NBFCs are stability-enhancing and credit positive.

2.3 Debt mutual funds

Debt mutual fund AUM increased from US$169.7 billion in March 2021 to US$221.2 billion by November 2025, despite a moderation phase between March 2022 and March 2024. The data reflects a clear evolution in investor behavior across liquidity, duration and credit segments, rather than uniform growth across categories.

(all figures in US$ billion)

Fund category	March 2021	March 2022	March 2023	March 2024	March 2025	November 2025
Liquid Fund	44.9	47.5	56.0	44.4	51.8	62.7
Money Market Fund	11.6	14.1	14.4	18.2	27.5	40.8
Corporate Bond Fund	19.0	16.2	14.2	18	20.8	24.5
Overnight Fund	10.9	15.3	14.1	7.5	7.4	9.0
Low Duration Fund	16.4	14.0	11.5	11.0	13.4	17.9
Short Duration Fund	18.2	14.6	11.4	12.1	13.4	16.2
Ultra Short Duration Fund	11.7	10.8	11.2	10.2	11.7	17.0
Banking & PSU Fund	14.9	11.8	9.1	9.9	9.3	9.2
Floater Fund	7.8	9.9	7.1	6.3	5.9	5.9
Medium Duration Fund	3.8	4.1	3.2	3.2	2.9	3.0
Credit Risk Fund	3.5	3.4	3.1	2.8	2.4	2.3
Dynamic Bond Fund	3.2	3.1	2.8	3.9	4.2	4.2
Gilt Fund	2.0	1.9	2.0	3.3	4.9	4.5
Medium to Long Duration Fund	1.3	1.3	1.1	1.3	1.4	1.4
Long Duration Fund	0.3	0.3	0.4	1.6	2.4	2.2
Gilt Fund (10-year constant duration)	0.2	0.2	0.2	0.6	0.6	0.6
Total	169.7	168.5	161.9	154.3	180.0	221.2

Source: SEBI website, Conversion rate – US$/INR: 88

Money market funds emerged as the strongest growth driver, with AUM rising from US$11.6 billion in March 2021 to US$40.8 billion by November 2025, reflecting a sustained shift toward highly liquid, short-tenor instruments. Liquid fund AUM also recovered over the period, as investors increased allocations to low-risk vehicles offering stable carry and high liquidity in a post-peak interest rate environment.

Within duration-oriented categories, growth has been broad-based but differentiated. Ultra-short, short-duration and low-duration funds expanded steadily post-March 2024, indicating a preference for carry with limited interest-rate sensitivity. At the same time, gilt funds increased from US$2.0 billion to US$4.5 billion, while long-duration funds rose from US$0.3 billion to US$2.2 billion, suggesting selective extension of duration as rate expectations stabilized. The simultaneous increase at both ends of the curve points to a barbell-style allocation strategy, rather than a one-directional duration shift.

In contrast, credit risk fund AUM declined consistently, falling from US$3.5 billion in March 2021 to US$2.3 billion by November 2025, underscoring a sustained structural retreat from lower-rated credit exposure. Medium-duration and floater funds remained subdued throughout the period, reflecting limited investor appetite for mid-curve exposure amid persistent rate uncertainty.

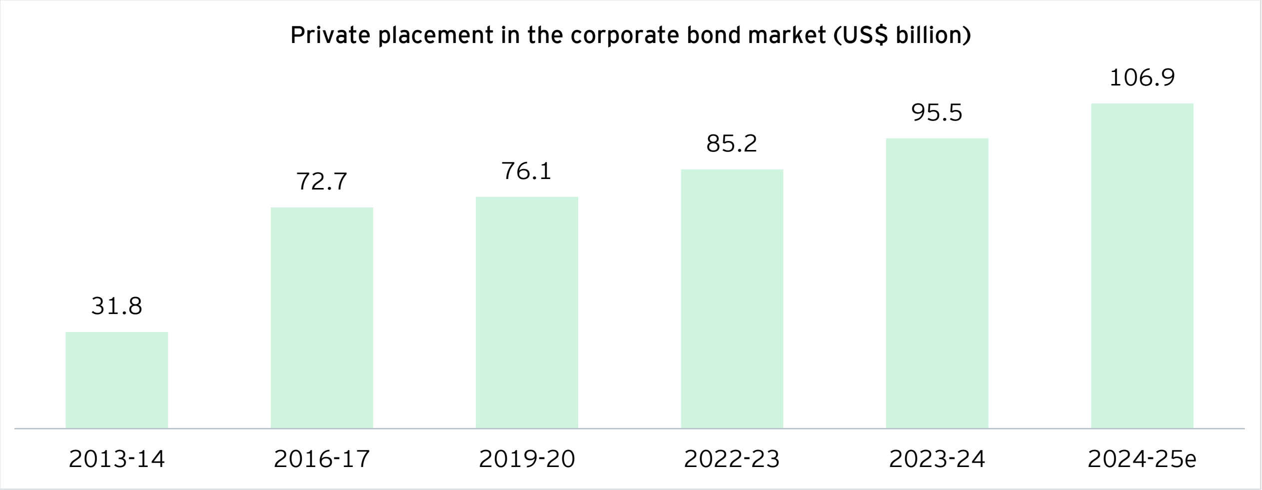
2.4 Corporate bond market[15]

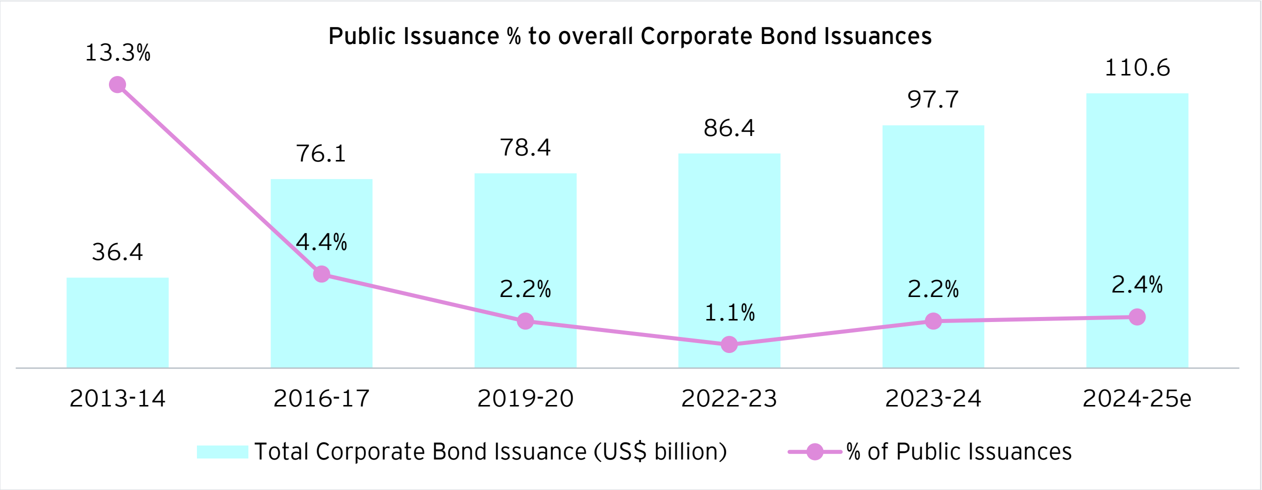
The corporate bond market remains a critical alternative to bank financing in India. Net outstanding corporate bonds increased from INR17.5 lakh crore (~US$199 billion) in FY2015 to around INR53.6 lakh crore (~US$609 billion) in FY2025, implying a ~12% CAGR over the past decade, supported by record fresh issuances of INR9.9 trillion (~US$113 billion) in FY25

Over the last 10 years, corporate bonds have consistently accounted for ~21%-25% of total bond market outstanding, highlighting their stable and growing role within India's debt market structure. As of March 2025, outstanding corporate bonds stood at ~US$642 billion, equivalent to ~15%-16% of GDP, underscoring the gradual deepening of market-based debt financing. Issuance remains highly concentrated in AAA and AA rated instruments, which together account for ~90% of total volumes, indicative of strong institutional risk preference.

Recent trends indicate a tilt toward shorter-tenor bonds, led primarily by NBFCs and public-sector entities amid evolving rate expectations and liquidity conditions. Regulatory and technology-led reforms such as Request for Quote (RFQ) based electronic trading, improved clearing and settlement mechanisms and wider digital access have enhanced transparency and efficiency.

Taken together, these indicators point to a deepening market structure, though concentration risk and limited secondary liquidity remain key constraints.





Source: SEBI, EY analysis

[15] Deepening_the_Corporate_Bond_Market_in_India.pdf

03 Regulatory and other developments

3.1 Insolvency and Bankruptcy Code

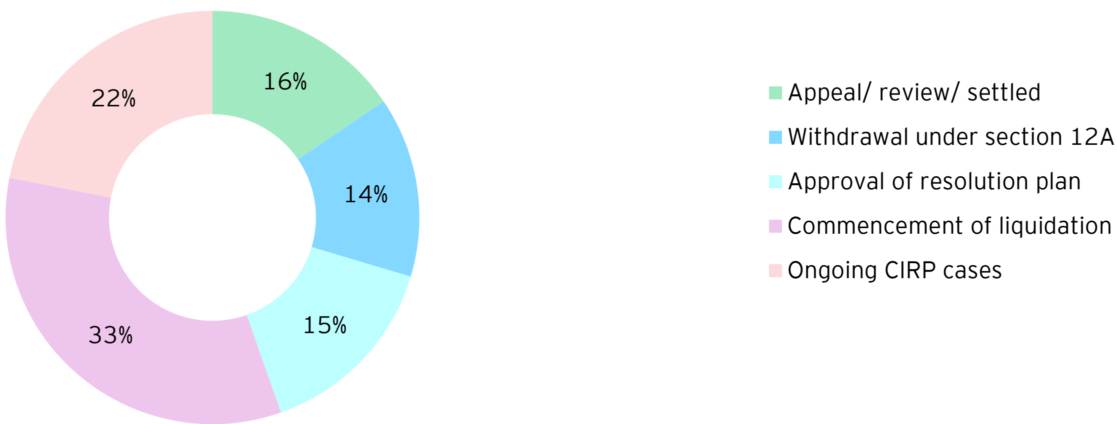
As per the IBBI's latest quarterly newsletter (as of 30 September 2025), a total of 8,659 cases were admitted under the Corporate Insolvency Resolution Process (CIRP). Of these, 6,761 cases have been closed, while the remaining are ongoing.

Among the closed cases, 3,865 corporate debtors (borrowers) were rescued – comprising 1,300 cases through the approval of resolution plans, 1,223 cases withdrawn under Section 12A of the IBC and 1,342 cases resolved through appeal, review, or settlement. Meanwhile, 2,896 cases ended in liquidation.

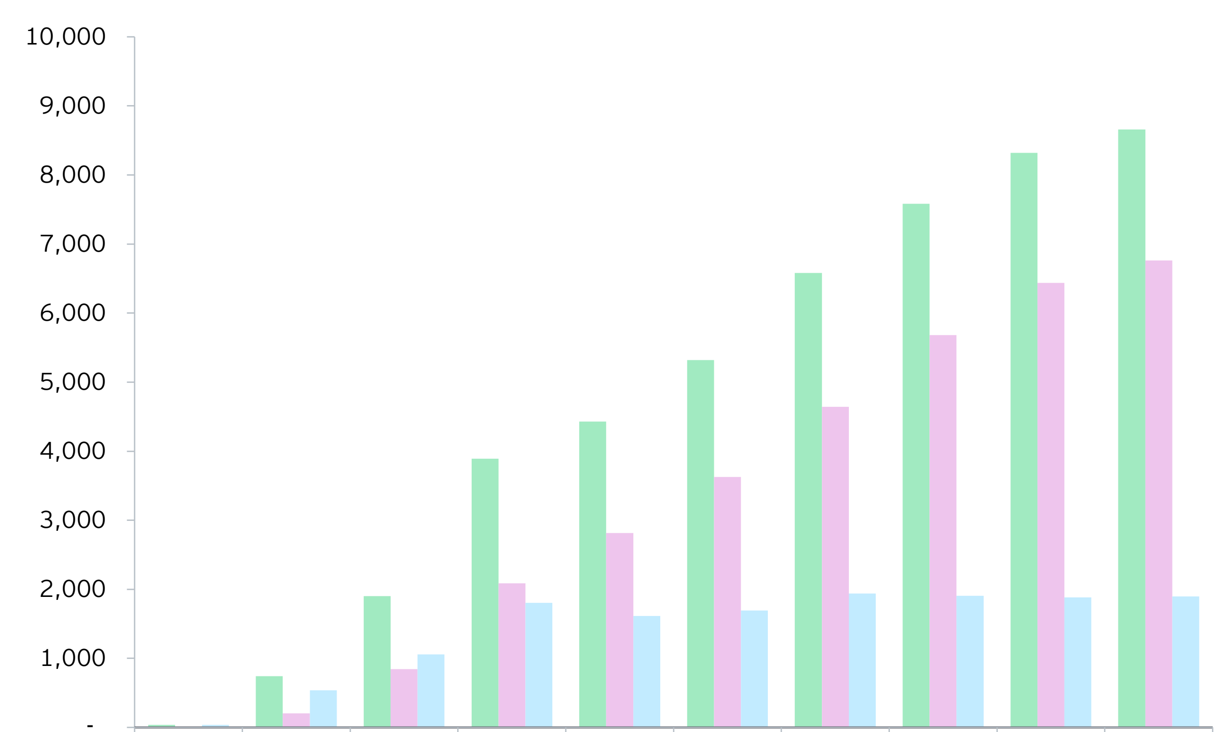
Notably, of the 1,300 cases resolved through approved resolution plans, 180 cases involved claims exceeding US$111 million each. Further, In H1 FY26, 105 resolution plans were approved by the NCLT.

The steady volume of large-ticket resolutions and the increasing number of approved resolution plans reflect a maturing insolvency ecosystem in India.

8,659 cases admitted under CIRP as on September 30, 2025



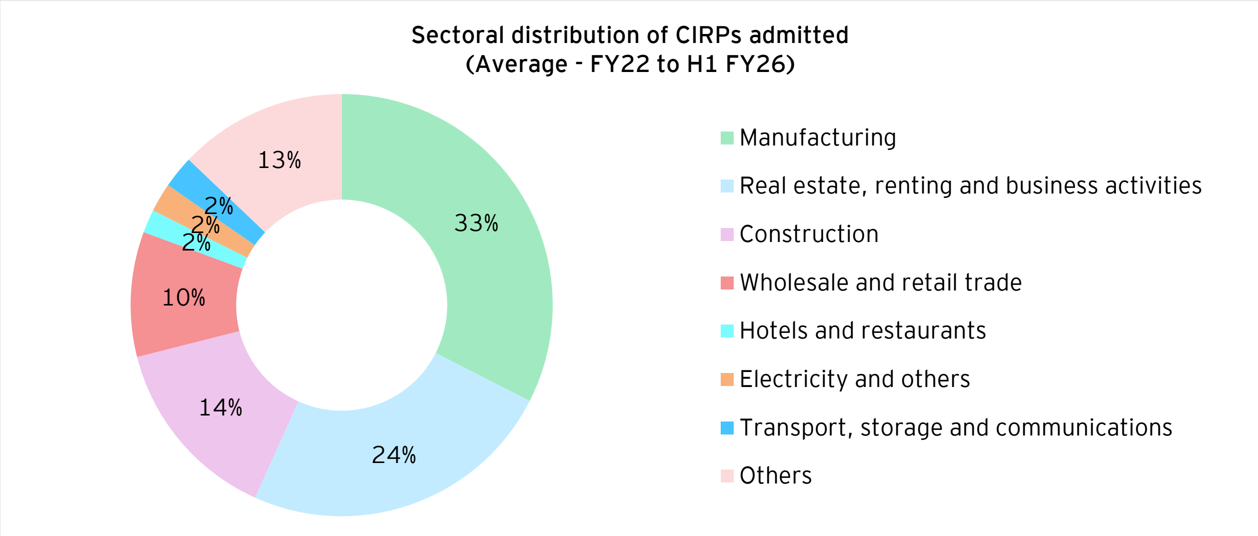
Source: Quarterly newsletter of the IBBI - September 2025



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	H1FY26
Admitted	37	744	1,901	3,892	4,428	5,320	6,582	7,585	8,318	8,659
Closed	1	206	845	2,086	2,813	3,627	4,644	5,680	6,437	6,761
Ongoing	36	538	1,056	1,806	1,615	1,693	1,938	1,905	1,881	1,898

Source: Quarterly newsletter of the IBBI - September 2025

Between April and September 2025, 57% of the 351 cases admitted under IBC originated from the Manufacturing and Real Estate sectors. Notably, these sectors also accounted for 58% of the resolution plans approved during the same period, underscoring their significant share in the insolvency landscape.



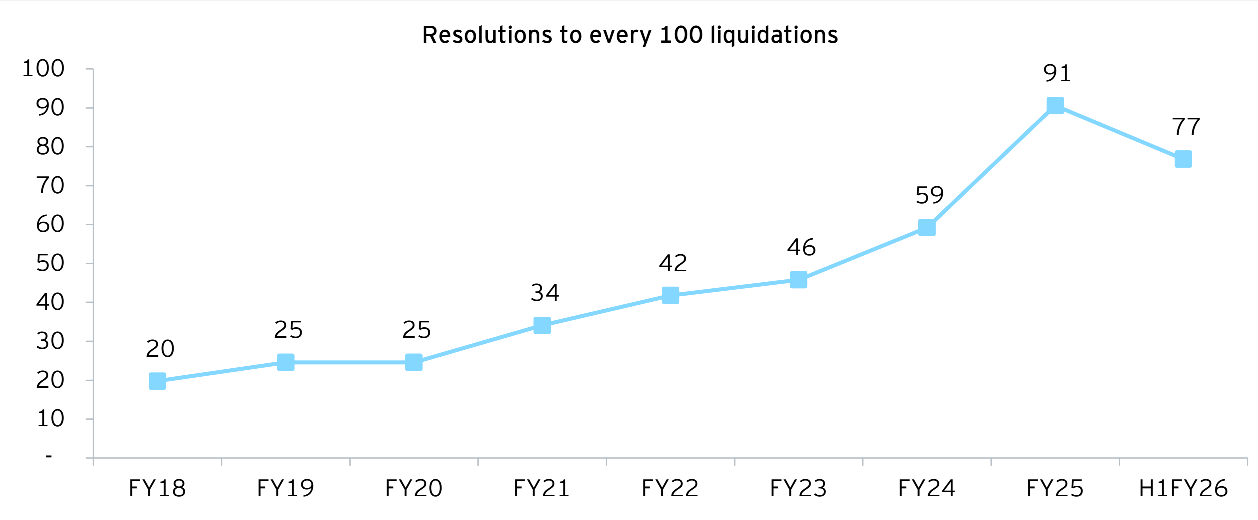
Source: Quarterly newsletter of the IBBI - September 2025

The average time taken for the closure of CIRPs, resulting in a resolution plan (i.e., from admission till NCLT approval) is about 603 days, net of days excluded due to litigations and other factors impeding the process, significantly exceeding the prescribed timeline of 180 days and the extended outer limit of 330 days, including time for litigations. This delay is due to ongoing litigations after initiation of CIRP, delays in approval of resolution plans due to lack of sufficient benches, vacancies in the existing NCLT benches and non-cooperation by corporate debtor/promoters. The government has recognized this issue and has proactively undertaken measures to streamline the process. These actions include increased monitoring and stricter compliance, as well as the establishment of more benches to reduce the load and backlog on the existing benches.

Banks, financial institutions and other creditors of stressed companies have realized ~US$44.33 billion since inception of IBC through NCLT-supervised insolvency resolution processes against total claims of ~US$136.77 billion till 30 September 2025, a recovery of ~32.41%. The recovery rate for the quarters ended 30 September 2025 and 30 June 2025 was ~25% and ~30%, respectively, a major decline from the ~70% in quarter ended March 2025, driven primarily by the landmark resolution of KSK Mahanadi Power Company Limited in that quarter. **On an aggregate, since implementation of IBC, creditors have realized 170% of the liquidation value and 94% of the fair value of these non-performing assets.**

Analysis of the 1,300 cases resolved under CIRP as of 30 September 2025 reveals that despite taking an average of 603 days for resolution (after considering the time excluded by the NCLT), the process remained cost-efficient, with average costs amounting to just 1.11% of the liquidation value and 0.63% of the resolution value.

It is also noteworthy that the number of insolvency cases resulting in resolution vis-à-vis liquidation is on the rise overall. This is clearly visible in the numbers, since for every 100 cases resolved through liquidation, the number of cases resolved through resolution has increased from 20 in FY18 to 91 in FY25, with the number dipping slightly to 77 in H1 FY26. This trend highlights the IBC's evolving effectiveness as a tool for business revival rather than mere asset recovery. It also signals a shift in market behavior, where resolution is increasingly favored over liquidation, aligning with the Code's core objective of preserving enterprise value and ensuring continuity of viable businesses.



Source: Quarterly newsletter of the IBBI - September 2025

Beyond the outcomes achieved in cases formally processed under the IBC, the Code's broader influence lies in its ability to reshape creditor-debtor interactions. By introducing a credible risk of change in control, the IBC has materially enhanced creditor leverage and encouraged early engagement by stressed borrowers. As a result, debtors increasingly seek consensual resolutions and settlements at a pre-admission stage, recognizing that entry into the insolvency framework carries significant control, reputational and operational consequences.

Recent noteworthy case laws

1. Commercial wisdom of Committee of Creditors upheld

On 26 September 2025, a larger review bench of the Hon'ble Supreme Court of India revisited and set aside its earlier judgment dated 2 May 2025, thereby restoring the INR19,700 crore (~US$2.2 billion) resolution plan submitted by JSW Steel Limited for Bhushan Power & Steel Limited. Through this ruling, the Supreme Court reaffirmed the primacy of the commercial wisdom of the Committee of Creditors, reiterated the principles laid down in the landmark Essar Steel judgment, and effectively mitigated concerns of erosion in investor confidence in the insolvency resolution framework.

2. Attachment of properties under money-laundering laws not hit by moratorium

On 3 July 2025, the National Company Law Appellate Tribunal, while adjudicating an appeal against the attachment of assets of Dunar Foods Limited by the Directorate of Enforcement ("ED") four days after its admission into CIRP by the NCLT, held that if a property is alleged to be "proceeds of crime" and is already under adjudication by the PMLA courts, it cannot form part of the freely available resolution estate, and the issuance of Provisional Attachment Orders by the ED does not violate the moratorium under Section 14 of the Code during the course of the CIRP. Additionally, the NCLAT held that the NCLT and the NCLAT have no jurisdiction to adjudicate Provisional Attachment Orders issued by the ED.

The judgment underlines the need for investors to do their due diligence on the resolution estate and the need for Insolvency Professionals to highlight the exact properties of the Corporate Debtor that may be under attachment.

3. Restitution of assets attached by the ED under PMLA

The IBBI, in view of rising cases wherein the ED has attached properties belonging to companies under CIRP, observed that restitution of such attached assets can significantly enhance the value of the Corporate Debtor thereby leading to higher realization. Thus, in consultation with the ED, it has issued a circular dated 4 November 2025, advising that in cases where assets of the corporate debtor are attached by the ED under the provisions under PMLA, the Insolvency Professional may file an application before the Special Court under sections 8(7) or 8(8) of the PMLA for restitution of such assets.

This initiative aims for managed coordination between the insolvency regime and the ED, providing a more predictable process for legitimate creditors. It seeks to reduce legal uncertainty and encourage the use of the IBC even with PMLA attachments.

4. **Tax refunds received during CIRP or liquidation belong to the company**

In a judgment in the case of Topsgrup Services & Solutions Limited, the NCLAT held that tax refunds received by the Corporate Debtor belong solely to it; no creditor forming part of the Committee of Creditors can use the refund to set off against its claim. In this case, the public sector bank with which the Corporate Debtor banked, placed a lien on the refund received in the account, and used it to set off against its claim, on the grounds that the deed of hypothecation covered receivables, including refunds received from the government. The NCLT had ordered the bank to restore the proceeds to the Corporate Debtor, against which the bank preferred an appeal, where the NCLAT upheld the NCLT's verdict.

This judgment underlines the integrity of the resolution/liquidation estate, helping investors make informed decisions.

5. **SARFAESI sale prevails over personal insolvency moratorium, protecting secured creditor recoveries**

In Maria Kuresh Rajkotwala v. Rozina Firoz Hajiani & Ors. (NCLAT, November 2025), the Tribunal held that a SARFAESI auction completed before the filing of a personal insolvency application under Section 94 of the IBC cannot be reversed or invalidated by the interim moratorium under Section 96. The rights of the personal guarantor in the secured asset stand extinguished once the auction is conducted and the sale is confirmed, and such assets do not re-enter the insolvency estate merely because the guarantor files for insolvency on the same day. For investors, the ruling strengthens the enforceability and finality of SARFAESI-based security sales and reinforces that timely initiation of secured enforcement can effectively ring-fence recoveries from subsequent IBC filings by promoters or guarantors.

6. **Advancing India's insolvency law for improved resolution efficiency**

The government has proposed an amendment Bill titled *The Insolvency and Bankruptcy Code (Amendment) Bill, 2025,* which is currently under Parliamentary review. While not yet enacted, the Bill signals the regulatory direction of India's evolving insolvency framework.

A key proposal is a Creditor-Initiated Insolvency Resolution Process (CIIRP), introduced through Chapter IV-A (Sections 58A–58K), establishing a creditor-led, time-bound alternative entry into insolvency resolution, primarily targeted at smaller or notified classes of corporate debtors. CIIRP allows eligible financial creditors, subject to prescribed thresholds and approvals, to initiate the process through a public announcement by the resolution professional rather than immediate adjudication, enabling faster and largely out-of-court commencement. Notably, the corporate debtor's management and promoters remain in control of operations during CIIRP, while creditors exercise oversight through the resolution professional, who is empowered to monitor governance and veto prejudicial actions. With built-in safeguards such as moratorium protection, limited judicial intervention, strict timelines and mandatory conversion to CIRP if resolution fails, CIIRP seeks to balance continuity of business with creditor discipline, thereby enhancing efficiency, predictability and flexibility within India's insolvency framework.

Another crucial element in the proposed Bill is progress towards a cross-border insolvency framework aligned with global best practices. This is particularly relevant for funds that invest through offshore structures or deal with promoters and asset pools spread across multiple jurisdictions. A clearer mechanism for recognition and coordination of foreign insolvency proceedings would materially improve enforcement certainty and asset recovery outcomes in cross-border cases, thereby enhancing India's attractiveness for international capital participating in stressed and special-situation opportunities.

3.2 Development in Alternate Investment Funds (AIFs) framework - Key regulatory relaxation

1. **Consultation paper with respect to maintaining pro-rata rights**

   Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") were amended and notified on 18 November 2024, with respect to maintaining pro-rata and pari-passu rights of investors in a scheme of an AIF. Subsequently, the SEBI Circular dated 13 December 2024 on 'Pro-rata and pari-passu rights of investors of AIFs' prescribed, inter-alia, specific exemptions with respect to maintaining pro-rata rights of investors of AIFs.

   In this regard, SEBI had received representations from AIF industry, seeking certain flexibility and clarity with respect to the requirement for maintaining pro-rata rights of investors of AIFs.

   Responding to industry representations and the Standard Setting Forum for AIFs (SFA), SEBI released a draft circular to clarify operational aspects and prescribe specific modalities—with the intent of preserving the regulatory objectives while enabling practical implementation. Key points are as under:

   - Drawdowns may be based on total commitment or undrawn commitment (i.e., the committed amount minus funds already drawn), with the chosen method disclosed upfront in the PPM.
   - If an investor is excused from an investment, their unused commitment cannot be reused for future investments.
   - For open-ended Category III AIFs, pro-rata drawdowns are generally not applicable; however, if investing primarily in unlisted securities, the same rules will apply.
   - Existing schemes using approved methodologies (i.e., total commitment or undrawn commitment) can continue; others must align for future drawdown.
   - Pro-rata requirement does not apply to returns shared with managers, sponsors, or employees under carried interest arrangements.

   The draft aims to operationalize the 2024 amendment, providing clarity on drawdown methodology and distribution mechanics. SEBI seeks to balance investor protection with practical challenges, reducing ambiguity for fund managers. Once finalized, the circular will offer definitive guidance on structuring drawdowns, participation rights and compliance standards, strengthening governance.

2. **SEBI co-investment framework**

   With an objective to enhance ease of doing business for AIFs, AIF Regulations have been amended and notified on 9 September 2025 to permit Category I and Category II AIFs to offer co investment facility to accredited investors by launching a separate co-investment scheme ("CIV scheme") within AIF Regulations. This is in addition to the co investment currently being facilitated to investors of AIFs through Co-investment Portfolio Managers under SEBI (Portfolio Managers) Regulations, 2020 ("PMS route").

   In this regard, SEBI issued a comprehensive co-investment framework enabling Category I and II AIFs to launch Co-Investment Schemes (CIV schemes). Key points of the co-investment framework are as follows:

   - CIV schemes may be offered only to accredited investors and operate alongside the existing PMS co-investment route;
   - Managers must choose either the PMS route or CIV scheme route for each investor.
   - Shelf Placement Memorandum required for each CIV scheme.
   - Each CIV scheme must maintain separate bank and demat accounts with ring-fenced assets.
   - Co-investment limits capped at three times investor's contribution via the main AIF scheme, except for certain exempt institutional investors.
   - Investors excused/excluded/defaulting in the main scheme cannot co-invest in the same company.
   - CIV schemes cannot create indirect exposures, trigger additional regulatory disclosures, or invest in companies barred from receiving such investor types.
   - No borrowing or leverage permitted for CIV schemes.

- Distribution rights are pro-rata except for carried interest.
- Expenses to be proportionately shared between AIF and CIV scheme.
- Implementation standards may be issued by the Standard Setting Forum for AIFs.
- Compliance Test Report must cover adherence to this circular.

This framework simplifies co-investment execution and reduces reliance on PMS. It enhances governance, transparency and ease of doing business for AIFs. It encourages greater accredited investor participation and aligns Indian AIFs with global co-investment practices.

3.3 Liberalizing the External Commercial Borrowings regime: RBI's proposal to re-energize foreign lender participation

In the backdrop of geo-political scenario and trade related uncertainties, the RBI proposed a transformative shift in India's financing market. In its Statement on Development and Regulatory Policies issued on 1 October,2025, the RBI proposed a revamp of the decades old rigid ECB policy and relaxation of rules for acquisition financing by banks. Besides re-shaping the competitive dynamics between banks and private credit funds, these changes are expected to encourage financial innovation, enhance financial resilience and sustain growth.[16]

Major changes have been proposed to revamp the regulations governing ECBs by foreign lenders to domestic borrowers under the draft Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 (Draft Amendments) published by the RBI on 3 October 2025 for public comments.

If implemented, the Draft Amendments are expected to mark a significant evolution in India's external borrowing landscape, facilitating greater participation by foreign lenders under a more liberalized, investor-oriented and market-driven ECB framework.

The Draft Amendments represent far more than a technical recalibration of India's external commercial borrowing framework—they signal a structural reorientation of the country's approach to cross-border credit. By proposing market-aligned pricing, materially reduced maturity thresholds, broadened end-use flexibility and an expanded universe of eligible lenders and borrowers, the RBI has articulated a forward-looking vision that seeks to harmonize India's debt architecture with global capital markets.

The proposed framework could mark a turning point for real estate finance in India, as historically the real estate sector has been closed for foreign borrowings with real estate activities being in the negative list. These measures reflect the confidence of the RBI that the real estate sector has matured with reforms like Real Estate Regulatory Authority (RERA) and the emergence of REITs having made the market more transparent and accountable.

The exemption of regulated financial entities from borrowing limits will allow Indian NBFCs and other regulated financial entities to access larger pools of foreign capital, aligning their borrowing capacity with their financial strength and business needs.

In another significant move, the RBI relaxed its historically conservative policy by permitting banks to fund acquisition finance. Banks have so far been restricted from providing finance for management of leveraged buyouts, given the inherent risks in such financing. The RBI has now abandoned its historical position by permitting acquisition financing to strategic synergy driven acquisitions with certain guard rails to manage risk like the requirement for the acquirer to be a listed company, limiting bank funding to 70% of the deal value, limits on debt-to-equity ratio, requirement to obtain two independent valuation reports.

This change reflects a critical step in Indian corporates' M&A ambitions and signals RBI's belief in Indian companies' stability and governance to undertake large acquisitions responsibly, reinforcing a positive outlook on economic prospects.

If implemented with clarity and consistency, these reforms have the potential to meaningfully deepen India's access to foreign capital, enhance the

[16] As per the RBI Statement on Development and Regulatory Policies issued on October 1, 2025, based on feedback from key market participants, the RBI is proposing to rationalize extant guidelines and broaden the scope for capital market lending by banks and other regulated entities, and in this vein, to inter alia: (i) provide an enabling framework for banks to finance acquisitions by Indian corporates; and (ii) enhance the limit for lending by banks against shares, units of REITs, units of InvITs while removing the regulatory ceiling altogether on lending against listed debt securities.

competitiveness of domestic borrowers and position the ECB route as a more dependable instrument for financing the country's growth ambitions. Much will depend on the operational guidance ultimately issued, particularly around AD Bank oversight, the contours of permissible acquisition financing and transitional considerations for lenders and borrowers.

We take a look at the key changes contemplated under the Draft Amendments.

1. Pricing of ECBs to be market driven

The present ECB regulations impose a cap on the 'all-in-cost' (i.e., rate of interest, other fees, expenses, charges, guarantee fees, ECA charges) of ECB loans – being the Benchmark rate plus 450/500 bps spread. This has been one of the key restrictive covenants for foreign investors to use the ECB route.

This cap is proposed to be done away with; with RBI permitting pricing to be driven solely by prevailing market conditions, subject *to the satisfaction of the relevant AD Bank* (authorized dealer category I banks). It is believed that this proposed change is intended to align with maturing credit conditions and to allow greater flexibility for borrowers and lenders.

A key concern, however, *is the scope of review by the AD Bank*. The aspects that the AD Bank is expected to review consider to be satisfied that the lending is in line with market conditions is presently uncertain.

It is expected that market practice in this regard will evolve shortly once the final amendments come into force. If not implemented in keeping with the regulatory intention of introducing market flexibility, this could create challenges. It remains to be seen if RBI would issue a broad framework with respect to the market rates or have an oversight directly or indirectly.

Another point which would be useful to have confirmation on from the regulator is that acceleration of an ECB pursuant to a genuine event of default before expiry of the specified Minimum Average Maturity Period (MAMP) should be permissible and should not interfere with or impact the otherwise market driven interest/returns or require the returns to be aligned with costing applicable to trade credits (which is otherwise the general approach under the Draft Amendments, i.e., treat less-than-3-year credit arrangements as trade credits).

Separately, there is now an improved case for permissibility of make-whole arrangements for ECBs, in view of the provision in the Draft Amendments which states that '*prepayment charge / penal interest, if any, for default or breach of covenants shall be in line with prevailing market conditions, subject to satisfaction of the designated AD Category I bank*'.

2. MAMP of ECBs proposed to be reduced significantly

Another roadblock to extensive use of the ECB route is the MAMPs prescribed for ECBs. The MAMP presently ranges from one year to 10 years, depending on the end-use and lender to the ECBs. These MAMP thresholds are now proposed to be significantly shortened and unified as follows:

S. no.	End-use of ECB	Present MAMP	Proposed MAMP
(A)	ECB by manufacturing companies up to US$50 million	1 year (for US$50 million or its equivalent per financial year)	1 year–3 years (not clear whether this is for per financial year or otherwise)
(B)	ECB raised from foreign equity holder for working capital purposes, general corporate purposes or for repayment of Rupee loans	5 years	3 years
(C)	ECB for (i) working capital purposes or general corporate purposes (ii) on-lending by NBFCs for working capital purposes or general corporate purposes	10 years	3 years
(D)	ECB for (i) repayment of Rupee loans availed domestically for capital expenditure (ii) on-lending by NBFCs for the same purpose	7 years	3 years
(E)	ECB for (i) repayment of Rupee loans availed domestically for purposes other than capital expenditure (ii) on-lending by NBFCs for the same purpose	10 years	3 years
(F)	All other cases	3 years	3 years

This pivotal change is also expected to bolster use of the ECBs for credit investments in India.

3. End-uses of ECB loans proposed to be liberalized:

The present regime has strict prohibitions against use of ECB funds for the following 'negative end-uses', some of which are now proposed to be significantly liberalized as below:

(a) *Transacting in securities:* Importantly, to align with changes being considered by the RBI to permit Indian banks to advance acquisition financing[i], **it appears that even ECB loans are now intended to be permitted for acquisition financing.** The existing restrictions on use of ECB proceeds for investment in capital markets and equity instruments are proposed to be revised to **carve out utilization of ECB proceeds towards**:

(i) Overseas investments;

(ii) **Merger, amalgamation, arrangement, or acquisition** in accordance with the Companies Act, 2013 (as amended from time to time), Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (as amended from time to time) and Insolvency and Bankruptcy Code, 2016;

(iii) **Investment in primary market instruments** issued by non-financial entities for permissible on-lending as covered in paragraph (c) below, i.e., primary market debt securities for permitted on-lending.

It would be critical to understand the scope of acquisition financing intended to be permitted above.

(b) ***Real estate, agriculture and plantation activities:*** Activities generally permitted for foreign direct investment are proposed to be exempt from the end-use restrictions.

(c) ***On-lending activities:*** Carve outs are contemplated for use of ECB proceeds for on-lending by:

(i) any person resident in India whose lending business is regulated by the Reserve Bank; and

(ii) corporates to its *group entity,*

provided the on-lent funds are not used for any prohibited end-use and the entity to whom funds are on-lent is otherwise eligible to avail the ECB from the offshore lender.

Notably, group entities are now proposed to be defined to be limited to holding companies, subsidiary companies and associate companies (i.e., companies in which the ECB borrower has 20% or more investment).

4. Widened lender and borrower base:

At present, the ECB route is largely available only for entities eligible to raise FDI and other specified entities such as port trusts and EXIM Bank of India. This is now proposed to be widened to cover any person resident in India (other an individual) incorporated, established or registered under a central or state statute and having power to borrow under applicable laws.

The permitted lender base is also proposed to be widened, which will enable wider access to foreign credit:

Present regime	Draft Amendments
(i) Any resident of Financial Action Task Force (FATF) or International Organization of Securities Commission (IOSCO) compliant country; (ii) Multilateral and Regional Financial Institutions where India is a member country; (iii) Individuals (only if foreign equity holder or subscribing to overseas listed bonds / debentures); and (iv) Overseas / foreign branch of Indian banks (only for issuing foreign currency denominated ECBs (other than foreign currency convertible bonds and foreign currency exchangeable bonds) and underwriting overseas Rupee denominated bonds issued by non-bank Indian entities).	(i) Any person resident outside India; or (ii) Any overseas branch / International Financial Services Centre branch of an entity whose lending business is regulated by RBI.

5. Increased borrowing limits

The monetary cap on availing ECBs is proposed to be revised from US$750 million per borrower / US$30 million per borrower (which is a startup), in each case per annum to the higher of:

a. Outstanding ECBs up to US$1 billion; or

b. Total outstanding borrowings (external and domestic) up to 3x net worth as per last audited balance sheet.

And, importantly, borrowing limits are proposed to be removed altogether for **borrowers regulated by financial sector regulators** (such as SEBI and RBI).

It is to be clarified if **the revised cap (of US$1 billion per borrower) is intended on an absolute basis** (as opposed to the present cap of US$750 million which is applied on a per year basis[ii][17]).

6. Increased flexibility in changing currency of ECB loan

It has now been proposed to permit change in the currency of Rupee denominated ECB loans to any foreign currency, without the requirement of prior RBI approval.

[17] Relevant extract is as follows: *"Under the aforesaid framework, all eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under the automatic route."*

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Successfully raised funds for fleet expansion of the Cordelia Cruises supporting a unique and evolving business model

Rorito International

Successfully raised funds for a leading brand engaged in manufacturing of writing instruments and stationery products by Kotak NBFC

Integrated cold chain company

Successfully concluded the refinancing of working capital at reduced pricing and margins

Special situations

Hindusthan National Glass & Industrial Limited

Successfully closed the resolution process of HNGIL, one of India's largest container glass manufacturers which has been acquired by Independent Sugar Corporation Limited

Saphire Media Limited

Supported as part of MD's office covering Interim Management of Radio business and support in incubation of digital media and OTT platform for the group

Ushdev Engitech Limited

Supported resolution professional in operating profitably the company as a going concern and facilitating smooth handover to the successful resolution applicant

Reputed French engineering company

Supported as Interim CFO for India investee company, supported in reorganising the finance function, establish controls and governance to ensure complete visibility in its business performance

Supertech ORB Projects Pvt Ltd

Successfully completed the resolution process of one of the Supertech Group companies by Brickboss Infra providing 100% recovery to secured financial creditors and delivering residential units to homebuyers

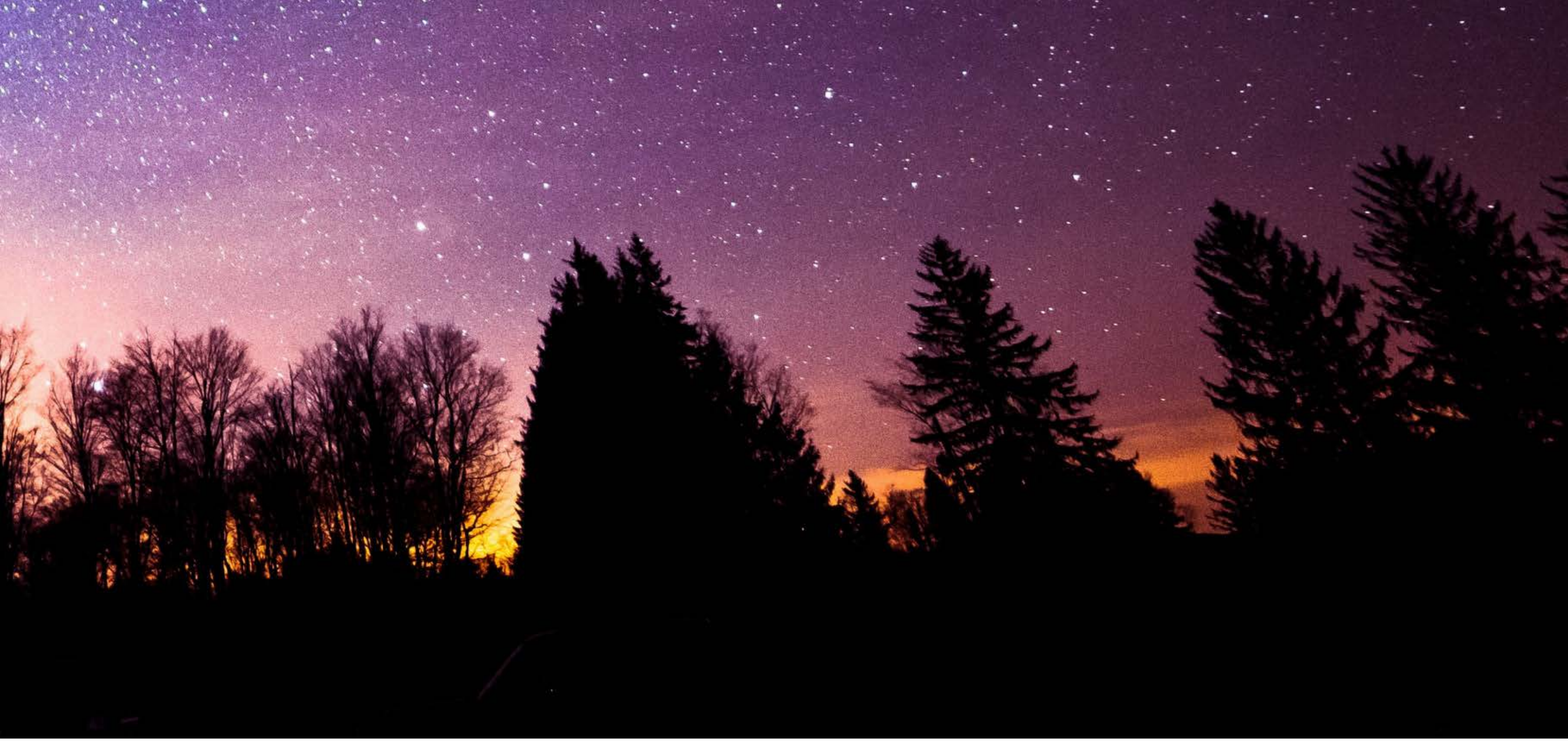
04 Deal activity

4.1 Fund raising

Relying on publicly available data and insights shared by funds, we have outlined the status of select fund-raising activities as follows:

- 360 One secured US$295 million (including co-investment commitments) for 360 ONE Income Opportunities Fund Series 5 in H2 2025.
- Aditya Birla Sun Life AMC has announced the first closure of its new private credit strategy, the Money Manager Fund, raising over US$57 million, including co-investments. The fund has been launched as a Category II Alternative Investment Fund to tap into growing demand for non-traditional credit solutions[18]
- Anicut Capital has successfully closed its third private credit vehicle, Grand Anicut Fund IV (GAF-IV), at approximately US$145 million. With an average deal size of US$9 million, the fund will focus on investments across consumer, SaaS and manufacturing sectors.[19]
- Ascertis Credit's - India Fund IV has achieved the first close of its fourth private credit fund at US$520 million, progressing toward a target of US$1 billion.[20]
- ASK Alternates' announced the final close of their first performing credit strategy fund, ASK Private Credit Fund at US$65 million of which US$21 million were secured in H2 2025. The fund will pursue investments across a broad range of sectors, excluding real estate.
- DMI Alternatives raised US$120 million for its maiden Private Credit fund which will focus on healthcare, technology, business services, manufacturing and financial services sectors.[21]
- EAAA India Alternatives Limited launched Special Situation India Fund which raised US$50 million in H2 2025, closing at ~US$510 million. The fund will invest in special situation opportunities, including financing to manage cash flow mismatches, one-time settlements, business turnarounds and distressed asset buyouts. The fund typically deploys ticket sizes of ~US$6-US$23 million and targets an IRR of 20%-25%.
- ICICI Prudential Corporate Credit Opportunities Fund AIF III, raised US$80 million in H2 2025. The fund shall adopt a sector-agnostic strategy, focusing on performing credit opportunities.

[18] *Aditya Birla Sun Life AMC raises INR500 crore for new private credit AIF*
[19] *Anicut Capital Raises INR1,275 Cr for Grand Anicut Fund IV*
[20] Ascertis hits first close of new private credit fund at $520 m
[21] DMI Alternatives adds private credit strategy with $120 m fund



- InCred's Special Opportunities and Credit Opportunities Funds:
  - InCred Special Opportunities Fund - I raised US$36 million in H2 2025 in addition to US$105 million obtained in H1 2025. The fund aims at a deployment ticket size of up to US$17 million and targets an IRR of 21% to 23%
  - InCred Credit Opportunities Fund – III announced its first close in September 2025 and has secured total commitments of US$68 million in H2 2025.
- Investec's INR denominated Performing Credit Fund raised a further ~US$46 million in H2 2025 post raising US$153 million in H1 2025. The fund will deploy the monies in ticket sizes ranging from US$18 million to US$36 million, targeting IRRs of 14% to 16%.
- Mt K Capital (alternative investment arm of Rustomjee Group)[22] announced the launch of a Real Estate focused fund. The fund has raised US$100 million in commitments and has a target corpus of US$450 million.
- Modulus Alternatives' performing credit fund - India Credit Opportunities Fund II, further raised US$12 million in addition to US$69 million raised in H1 2025, targeting an IRR of 14% to 18%.
- RevX Capital's Funds:
  - RevX Special Credit Opportunities Fund - I announced its first close of US$60 million in December 2025. The fund has a target IRR of >20%.
  - RevX Capital Fund II raised an additional US$12 million in H2 2025 post raising US$61 million in H1 2025. The fund targets IRR of >17%.
- Sundaram Alternates' funds:
  - Sundaram Alternative Opportunities Series – High Yield Secured Real Estate Capital Income Generator Fund – Series 5 raised US$121 million in H2 2025, with planned deployment ticket sizes ranging from US$6 million to US$12 million. The fund is focused on brownfield projects, aiming to deliver an IRR of >18%.
  - Sundaram Alternates – Capital Opportunities Fund – Series I, procured US$52 million in H2 2025. The fund has a sector agnostic approach, targeting investments in well established businesses at an IRR of >18%.

New fund launch

JM Financial Asset Management Company has expanded its AIF platform with the launch of US$114 million (INR1,000 crore) early-stage real estate funds, with an expected first close of around US$57 million. The AIF platform will offer specialized pools of capital across credit, real estate and pre-IPO opportunities.[23]

[22] Mt K Kapital launches $450-million private credit fund, GPs commit $100 million

[23] https://www.business-standard.com/companies/news/jm-financial-amc-expands-aif-platform-with-1-000-crore-real-estate-fund-125122100303_1.html

4.2 Deals during H2 2025

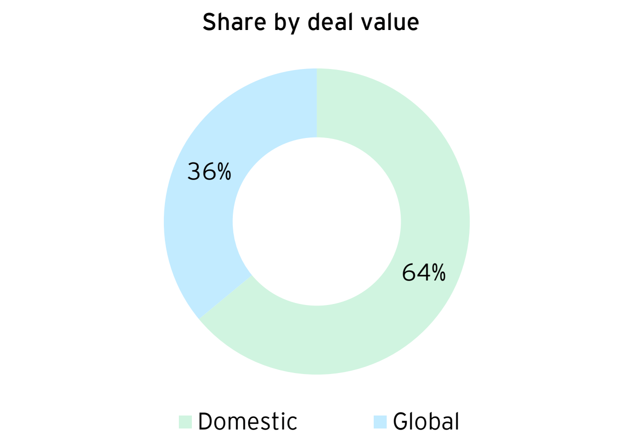
Important information: In this section, we have reported and analyzed private credit deals that were concluded in the second half of CY 2025. The data presented below is based on publicly available information and is limited to the deals tracked by us. This information does not include venture debt, debt raised by financial services players, term loans or working capital demand loans disbursed by NBFCs and offshore credit raises. Notably, we have taken a cut-off of single private placement over US$10 million for the purpose of our analysis. The reported transactions include financing by banks (domestic, foreign and GIFT-City), NBFCs, mutual funds and family offices in case they are part of the debt syndicate along with private credit investors.

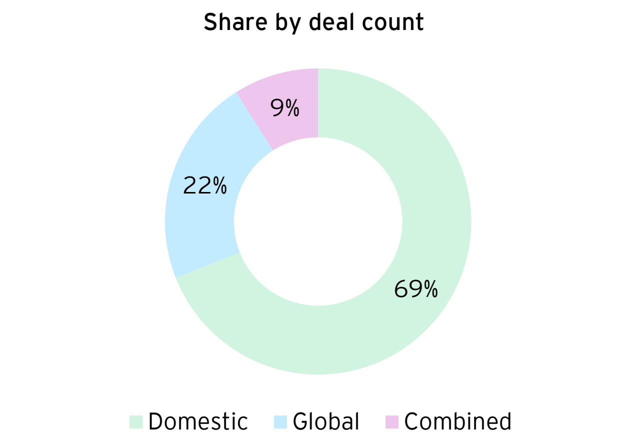
The deal values are based on regulatory filings and hence, in cases where deals have been announced but filings are pending, there may be a lag in reporting the data. Lastly, given the opaque nature of the structured finance market and the lack of any formal and precise definition and wide-ranging investment strategies, some professional judgment is exercised in doing the analysis and reporting the data.

H2 2025 recorded 87 private credit deals above US$10 million, totaling ~US$3.4 billion compared to US$ 9.0 billion in H1 2025 and US$3.3 billion in H2 2024. Top deals captured in this period include US$193 million raised by a Pharmeasy group entity and US$183 million raised by a Shapoorji Pallonji Group entity for refinancing existing debt. Further, GMR Group secured US$182 million for refinancing and further investments in group companies. The total deployment in H2 2025 pushed the full-year figure to ~US$12.4 billion (buoyed by US$3.1 billion fundraise by Shapoorji Group in H1 2025), 35% higher than the deployment tracked in CY 2024.

4.2.1 Global funds versus domestic funds

In the charts below, we have split the investments made by global funds and domestic funds in H2 2025 Global funds comprise institutions headquartered outside India with a multi-country presence. Meanwhile, domestic funds are those headquartered in India.



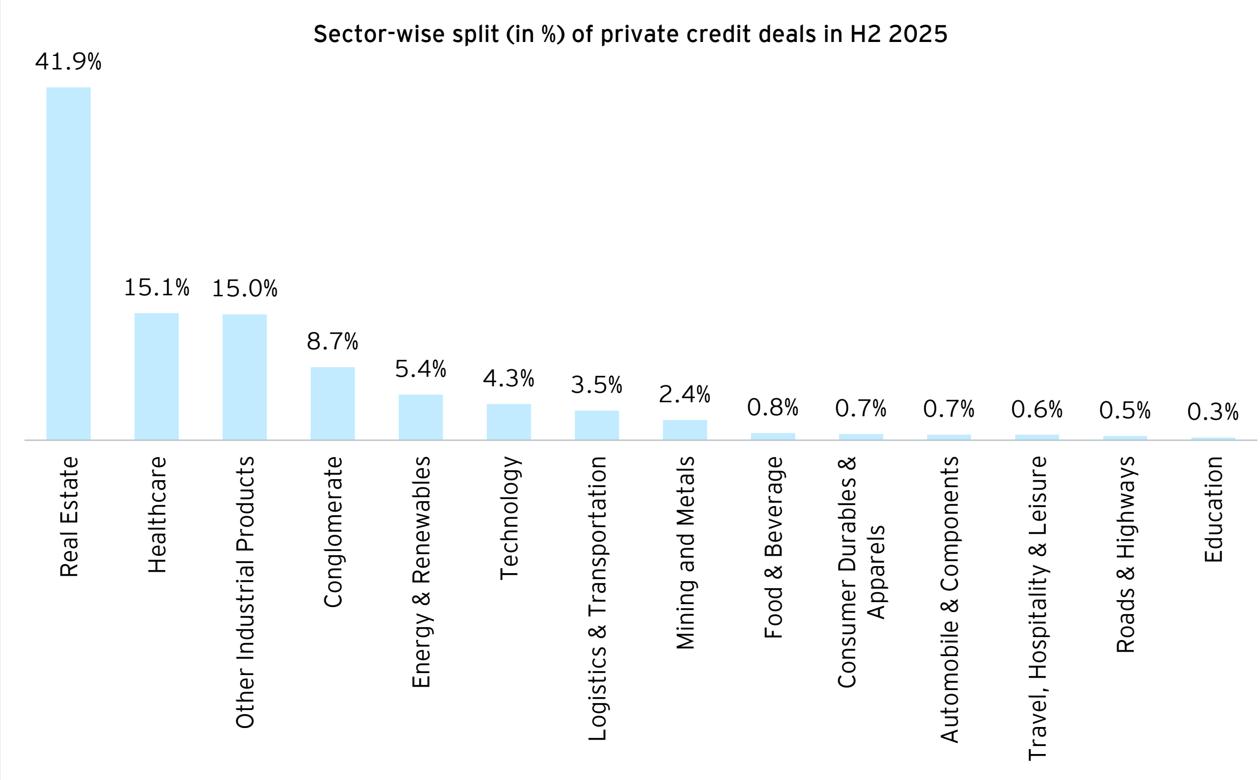


Over last three years, global funds have made a higher contribution to deal value in the private credit market, despite participating in fewer deals compared to their domestic counterparts. This trend continued in H1 2025, wherein 68% of the total investments in the private credit space were made by global funds. However, their share declined to around 36% in H2 2025, with domestic funds gaining ground.

In line with H1 2025, domestic funds continue to dominate deal volumes in H2 2025, supported by their strong local presence, while global funds remain primarily focused on transactions involving larger ticket sizes.

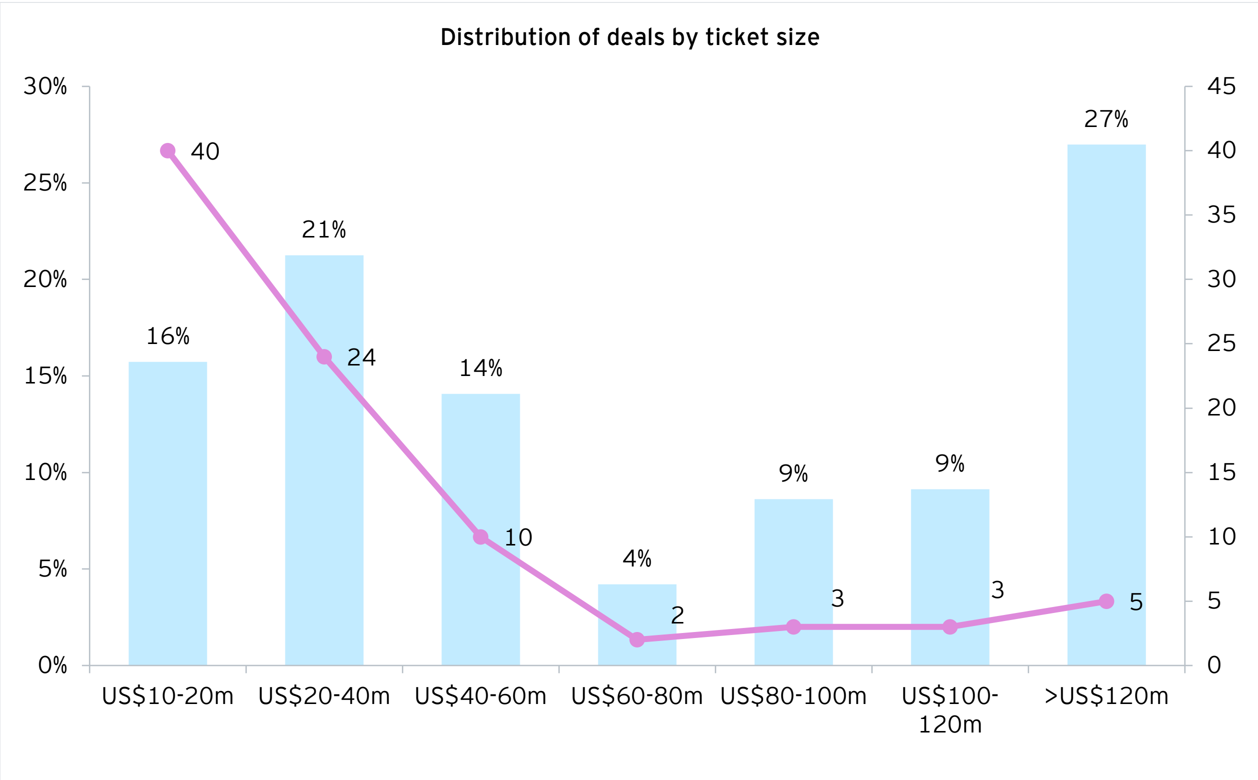
4.2.2 Sectoral dynamics of private credit deal flow

The chart below illustrates the sectoral distribution of private credit investments in H2 2025, with real estate continuing to attract the highest interest from credit funds. Key borrowers across sectors include Auro Realty (US$170 million), Shapoorji Group (US$102 million across group entities) and Embassy Group (US$99 million), in Real Estate sector, Pharmeasy Group (US$193 million) in Healthcare sector, Madhwani Group (US$182 million) in Other Industrial Products, among other sectors.



4.2.3 Distribution of deal size

The chart below presents the distribution of deals by ticket-size. In H2 2025, transactions exceeding US$100 million constituted 9% of the total count compared to 18% in H1 2025. There was a notable change in the trends of deal size in terms of value for deals ranging from US$10-40 million, making 37% of total deal value as compared to 10% witnessed during H1 2025.



4.2.4 Summary of select deals in H2 2025

In H2 2025, we tracked approximately 87 deals totaling US$3.4 billion. The table below illustrates a sample of these transactions, offering a glimpse of the deal activity during the reporting period.

Month and year	Borrower	Investor	Deal value (US$ million)	Deal rationale	IRR
Real Estate					
Sep-Dec-25	Auro Realty Private Limited	360 One and Affiliates	170	Acquisition Funding	Sub-18%
Sep-Oct-25	Suvita Real Estates Private Limited, Callidora Farms Private Limited and Coventry Properties Private Limited (Shapoorji Group)	EAAA India Alternatives Limited, Varde, Zinnia Investments, Nixa Fincap	102	Refinancing & Funding Projects	≥18%
Sep-25	Embassy Group - Summit Developments Private Limited & Equinox India Infraestate Limited	KAAML funds	99	Refinancing & Project Funding	≥18%
Jul-25	Kavinam Property Development Private Limited (Shapoorji Group)	Ares SSG	98	Working Capital & Refinancing	Not Available
Sep-25	SPR Construction Private Limited	Oaktree Capital	63	Refinancing	≥18%
Jul-Dec-25	Purva Blue Home Ventures Private Limited	HDFC Capital	51	Land Acquisition for Projects	Not Available
Oct-Dec-25	Kolte-Patil Developers Limited	Marubeni	28	Funding Project Construction expenses & General Corporate Purposes	Sub-18%
Nov-25	APG Habitat Private Limited	Sundaram Alternates	14	Working Capital & Project Construction Expenses	≥18%
Jul-Dec-25	APG Projects Private Limited	Motilal Oswal	13	General Corporate Purposes & Working Capital	Not Available
Healthcare					
Sep-25	API Holdings Limited (Pharmeasy Group)	360 One & Affiliates	193	Refinancing	Sub-18%
Jul-Dec-25	Karuna Ventures Private Limited	360 One & KAAML funds	103	Refinancing & General Corporate Purposes	≥18%
Jul-Dec-25	Tenshi Pharmaceuticals Private Limited	Avendus, RV Capital, DSP Finance & Others	48	Capex & Refinancing	Sub-18%
Jul-25	Refex Life Sciences Private Limited	SC Lowy	38	Acquisition Funding	≥18%
Other industrial products					
Sep-25	KRPV Fire Fite Private Limited (Madhwani Group)	Cerberus, DSP Finance, IFC	182	Acquisition Funding	≥18%
Oct-Dec-25	Shirdi Sai Electricals Limited	Neo Asset Management	94	Refinancing	≥18%
Oct-25	Zenrock Chemicals Private Limited	EAAA India Alternatives Limited	44	Acquisition Funding	≥18%

Month and year	Borrower	Investor	Deal value (US$ million)	Deal rationale	IRR
Aug-Dec-25	Shivam Autotech Limited	Alpha Alternatives	37	Capex, Refinancing & General Corporate Purposes	≥18%
Nov-25	Proto9 Materials Private Limited	Investec	19	General Corporate Purposes	Sub-18%
Energy and renewables					
Jul-Sep-25	GMR Energy Limited	ASK Financial Holdings, Trust Group, ICICI Prudential, Nippon India, DSP, Temasek	182	Refinancing & Onward funding to GMR group entities	Sub-18%
Oct-25	Clean Max Enviro Energy Solutions Limited	Nomura	45	Funding Group Companies' requirements	Not Available
Conglomerate					
Dec-25	Capespan Investments Private Limited (Shapoorji Group)	DB International Asia Limited, Deutsche Bank, Canyon Partners & Farallon Capital	183	Refinancing	≥18%
Mining and metals					
Sep-25	OSR Cement and Omsairam Steels (Om Sairam Group)	Vivriti, PAG & EAAA India Alternatives Limited	45	Acquisition Funding	≥18%
Dec-25	Vizag Profiles Private Limited	Neo Asset Management	21	Refinancing	≥18%
Logistics and transportation					
Oct-Dec-25	Skyross Enterprises Private Limited & Ross Foodchain Solutions Private Limited (Skyross Group)	Ascertis & Others	24	Onward funding to group companies & Refinancing	Not Available
Food and beverages					
Jul-25	Hyflexstar Private Limited	Ascertis	28	Funding Group Company	Sub-18%
Automobiles					
Sep-25	Pinnacle Industries Limited & Pinnacle Mobility Solutions Private Limited (Pinnacle Group)	ICICI Prudential	23	Capex & Refinancing	Sub-18%
Consumer durables and apparel					
Dec-25	Himatsingka Seide Limited	Modulus Alternatives	11	Refinancing & Working Capital	Sub-18%

It is noteworthy that ~ 89 deals worth ~US$392 million, each with a deal value of less than US$10 million, were concluded in H2 2025. Please note that this data may not be comprehensive and is based only on the deals reported to us or data is available in public domain.

In line with recent trends, the H2 2025 witnessed sustained participation by NBFCs, foreign banks, mutual funds and pension/ provident funds in the credit markets, particularly within the sub-18% structured credit segment. While these transactions remain within their conventional risk appetite, they increasingly mirror the types of opportunities typically pursued by performing credit funds, highlighting a gradual intensification of competitive dynamics within this segment.

The credit appetite of such institutions was visible in several marquee transactions during H2 2025.

Bharti Telecom Limited raised US$1,194 million from a range of mutual funds (US$669 million), insurance companies (US$188 million), foreign banks (US$152 million) and others (including pension funds, NBFCs, banks and body corporates - US$185 million). Meanwhile, PowerGrid Corporation raised US$989 million from various pension funds, provident funds, mutual funds, NBFCs and others.

Similarly, GMR Airports Limited were issued ~US$670 million from a combination of foreign banks and mutual funds, while JSW Paints raised US$375 million from various foreign banks. Further, Vodafone Idea raised US$375 million primarily from NBFCs, while Numaligarh Refinery secured US$ 284 million from a mix of NBFCs and provident funds.

Additionally, the following select offshore transactions concluded in H2 2025 and were not included in the previously mentioned US$3.4 billion deal value:

- Greenko Group's AM Green Power B.V. raised US$660 million including US$50 million from Investec at sub-18% IRR, for consolidation of promoter stake in a group entity
- InMobi Pte and group companies raised US$350 million from Varde, Investec, Elham Credit and Seatown Holdings via US$ denominated notes
- GMR Group secured US$185 million from Varde in US$ denominated loan facility

4.3 Exits: Select investment exits during H2 2025

Based on publicly available information and data shared by funds, here are some of the notable exits:

360 ONE Credit Funds and its affiliates exited their investments aggregating US$296 million in Serenesummit Realty (US$176 million) and five other portfolio companies.

ASK Alternates exited their aggregate investments of US$11 million in GMR Airports and Aurore Life Sciences in August 2025.

Certus Capital exited investment in Arun Excello Compact Homes, realising an IRR >18%.

EAAA India Alternatives Limited exited their investments in Jayaswal Neco Industries (US$114 million), two Sadbhav Group Companies (US$48 million) and Thriveni Earthmovers (US$40 million), achieving an IRR of >18%. They also exited Hindusthan National Glass & Industries Limited (US$35 million) at an IRR of <18%.

Investec exited investments worth US$82 million across investments in Matrix Pharma, Pedanta Technologies and FP Orion, realising an IRR of 12.5%-14.5%.

InCred exited from five portfolio companies through its InCred Credit Opportunities Fund – I and II, investments across multiple sectors achieving an IRR between 14% to 19%.

Kotak Alternative Assets exited their investments in Biocon Limited (US$122 million), Casa Grande Vivace (US$ 28 million), Cropnosys India (US$22 million), Tenshi Pharmaceuticals (US$17 million) and four real estate companies (US$52 million).

Modulus Investments' India Credit Opportunities Fund II exited its US$9 million investment in Fourth Partner Energy, realizing an IRR of ~15%.

Neo asset management fund exited three investments worth US$41 million across commercial vehicle loan securitization, infrastructure and steel sectors, achieving realized IRRs of >18%.

RevX Capital Fund I and II exited from 7 companies across multiple sectors achieving an IRR of more than 18%.

Sundaram Alternate Opportunities Series - High Yield Secured Debt Fund II and Real Estate exited 11 portfolio companies in real estate sector, achieving an IRR of >=18% on total investments of US$66 million.

05 In the spotlight

5.1 Continuation Vehicles[24]

Private equity investors today face a tough exit environment. Though market conditions are improving, with a rebound in IPO activities, many private equity funds still face significant exit challenges. Not every company is ready to go public and IPO windows can be volatile. For funds that were built on the classic "buy, improve, and exit in 5-7 years" model, this has created major pressure. One of the most important solutions to emerge from this shift is the Continuation Vehicle (CV) often also called a General Partners (GP)-led secondary. Although CVs were once used only in special situations, they have now become a mainstream tool for private equity managers across the world.

A CV is essentially a new fund created by the same GP to buy one or more portfolio companies from an older fund that is nearing the end of its life. Think of it as giving a high potential asset more time to grow, rather than selling it prematurely. CVs have rapidly moved from being niche, opportunistic tools to a mainstream, structural element of the private equity landscape. They offer unparalleled flexibility for GPs and Limited Partners (LPs) alike but require robust governance to navigate inherent conflicts of interest.

Understanding a Continuation Vehicle requires a breakdown of its key components, which fundamentally changes the traditional PE exit process.

a. The transaction flow
   i. The Selling Fund or the Legacy Fund is the original fund, typically nearing the end of its contractual life (often 10 years or more), that needs to monetize assets to return capital to its investors
   ii. The Buying Fund or the Continuation Vehicle, a newly established Special Purpose Vehicle managed by the exact same GPs. This fund purchases the chosen asset(s) from the old fund and takes over the next phase of growth.
   iii. The assets are high-conviction assets that have strong continued growth potential but require more or fresh capital to realize maximum value

b. The investor options: In this transaction, LPs in the Legacy Fund are given a choice that defines the deal's structure. First is cashing out, i.e., LPs can opt to sell their stake in the asset to the CV for immediate cash distribution, based on the agreed-upon valuation. Second is rolling over where LPs can choose to re-invest their stake into the new CV, thereby maintaining exposure to the asset's future upside under a new set of terms and a reset fund clock

c. The capital stack: The purchase price of the asset is typically funded by a combination of sources such as new capital or rolled capital. New capital is investment raised from new secondary funds (lead buyers) and other new LPs and rolled capital is re-invested capital from existing LPs who opted to roll over their position. This blend ensures liquidity for exiting investors while giving the asset new funding to expand.

[24] https://www.macfarlanes.com/insights/102l4e5/private-credit-continuation-funds-a-developing-frontier-for-secondary-transactio/; news articles

Drivers of CV market growth: The surge in CV activity is driven by a convergence of macroeconomic pressures and portfolio management necessities.

a. **Macroeconomic environment:** With market volatility and reduced M&A activity, GPs are forced to look internally for liquidity, as traditional exit windows remain tightly closed. CVs allow GPs to create their own liquidity event and avoid the mismatch between buyer and seller expectation.

b. **Growth capital:** The inflow of new capital from secondary buyers into the CV can be used as fresh capital for follow-on investments, add-on acquisitions, or other strategic growth initiatives for the retained asset.

c. **Liquidity demands:** LPs face pressure to meet their own return targets and capital allocation needs. CVs help LPs to receive crucial Distributions to Paid-in Capital (DPI) from aging funds, enabling them to re-commit to new primary funds.

According to Lazard, continuation funds dominated the GP-led market at ~79% of total volume in 2024. Single-Asset Continuation Funds represented the largest transaction type at ~48% of total volume, with Multi-Asset Continuation Funds following behind at ~31% of total volume. Technology, Healthcare, Business Services and Industrials were the top four sectors of Single-Asset Continuation Funds closed in 2024 and represented ~67% of the Single-Asset Continuation Funds completed in 2024 by volume.[25]

A notable recent example is of Trustar Capital (formerly CITIC Capital), which reportedly secured a US$1 billion continuation fund to increase and restructure its ownership in the McDonald's China business. This single-asset deal allowed Trustar to retain control and capitalize on the long-term expansion plan (targeting 10,000 stores) while facilitating an exit for co-investors i.e., Carlyle[26]

Another example is of CarpeDiem Capital, which in May 2025 executed a continuation style investment by doubling down on its portfolio company, Biryani Blues from Hyderabad, through a new fund. The transaction valued Biryani Blues at around US$30 million, a 20% premium over its 2021 valuation, providing fresh capital for expansion and strengthening operational capabilities without seeking external funding. [27]

Benefits and opportunities: The CV structure provides unique advantages for the three main stakeholder groups.

1. **For General Partners:** They retain control of their best-performing assets instead of selling them too early. Reset the carried interest for the GP team, re-aligning motivations to the new, longer-term value creation plan.

2. **For existing Limited Partners:** Provides a necessary liquidity option without a forced sale of a good asset, allowing LPs to manage their overall portfolio allocation and capital commitments. If they roll over, they stay invested with a GP they trust, often under improved terms.

[25] https://www.lazard.com/research-insights/lazard-2024-secondary-market-report/

[26] https://www.reuters.com/business/chinas-trustar-raises-1-bln-vehicle-that-holds-mcdonalds-china-stake-sources-say-2024-11-21/

[27] https://www.vccircle.com/carpediemcapital-doubles-down-on-biryani-blues-via-new-fund

3. **For new investors (i.e., secondary funds):** They gain access to mature, de-risked assets with clear histories and shorter timelines compared to traditional private equity investments.

Key risks and governance challenges: Despite the benefits, the nature of the transaction creates inherent conflicts that demand rigorous governance.

1. **Conflict of interest i.e., GP as the buyer and the seller:** The fundamental conflict arises because the GP is responsible for securing the highest possible price for the selling fund's LPs while simultaneously negotiating the lowest possible price for the CV's investors (which includes the GP itself). This conflict is mitigated through the critical role of independent financial advisors who provide valuation support and mandatory fairness opinions
2. **Valuation and pricing:** It is paramount to ensure the price reflects true fair market value and is not unfairly discounted to benefit the rolling/new CV investors at the expense of the exiting LPs. This often requires running a competitive market process to set the benchmark price.
3. **Alignment of interests:** Absolute transparency in fees, expenses and governance terms is required for both rolling and new LPs to ensure equitable treatment.
4. **Skin in the game:** LPs closely scrutinize the GP's commitment, ensuring the GP rolls over a significant portion of their accrued carried interest into the CV. This validates the GP's conviction in the asset's future success.

Continuation vehicles have moved from being a niche solution to a permanent part of the private equity playbook. Their use is expanding globally and is gaining traction in India as more homegrown GPs look for flexible ways to manage aging portfolios while holding on to their strongest performers.

While CVs are traditionally associated with private equity, a quiet but interesting trend is now emerging in private credit as well. Private credit portfolios typically have predictable maturities, so historically there was less need to create continuation structures. However, it will be interesting how the asset class evolves as situations are emerging where:

- lenders want to retain exposure to high-quality borrowers beyond the original loan term,
- or credit funds want to manage concentrated exposures without forcing exits in volatile markets.

We are beginning to see early global examples such as a recent case in the US, where large direct lenders like Antares have experimented with continuation-style vehicles to manage liquidity, extend strong loans and offer LPs optionality similar to PE investors.

Private credit continuation funds are quickly becoming a prominent liquidity tool for mature private credit portfolios. As many direct-lending funds reach or exceed their original terms, GPs are rolling their loan books into new vehicles, giving LPs the option to cash out or roll over.

However, structuring these transactions is more complex than in private equity as:

1. There are fewer specialized secondary buyers and hence tougher negotiation dynamics
2. Secondary investors are very sensitive to ongoing fees, expenses and the economics of the continuation fund, as private credit returns are often more modest compared to PE
3. Private credit CVs often come with defined end-dates
4. For performing loans, valuation tends to be relatively straightforward. But for stressed or distressed loans, pricing is much more difficult and demands specialized secondary buyers.

The rise of these tools could help unlock liquidity, enhance alignment between GPs and LPs, and ultimately catalyze more primary deployment in private credit by offering a credible pathway to realize value without full exits.

As the Indian private credit market matures with longer-duration strategies, rising refinancing needs, and more complex capital stacks continuation-style tools may become part of its toolkit as well, just as they have in private equity.

5.2 Collateral Loan Obligations: How they work and why they matter[28]

A Collateralized Loan Obligation (CLO) is an investment vehicle that owns a large pool of below-investment grade and floating-rate corporate loans. At its core, CLO is about pooling loans and redistributing the credit risk across different types of investors.

The process of setting up a CLO — gathering hundreds of loans, packaging them and issuing securities backed by them — is known as securitization.

What makes a CLO different from a typical bank loan fund is how the risk is shared.

- In a loan fund, every investor takes the same hit if a borrower defaults.
- In a CLO, investors can choose their risk level through different "tranches" of securities. An investor chooses to be, ranging from highly rated (e.g., AAA-rated exposures) securities to lower rated yet higher yielding ones (e.g., BBB-rated and below).

The CLO manager (usually a specialist credit asset manager) sets up a Special Purpose Vehicle that buys a diversified basket of leveraged loans, typically made to BB/B rated companies.

Once the pool is assembled, the CLO issues a stack of securities known as tranches, each with a different risk-return profile, as explained below:

1. Senior Tranches (AAA/AA): These are the highest-rated tranches. They receive payment priority and are heavily protected by the layers below them, meaning they must be paid in full before any junior tranche receives anything. They offer lower yields but minimal credit risk.
2. Mezzanine Tranches (A/BBB/BB): These are the mid risk layers. These tranches offer a higher yield for accepting a moderate level of risk, sitting between the senior debt and the riskiest equity piece.
3. Equity Tranche (Unrated): This is the residual claimant. It receives all cash flow remaining after all debt tranches have been paid. While it absorbs the first losses if any underlying loans default, it also offers the highest potential return, making it highly attractive to specialized funds and institutional investors willing to take on significant risk.

This safety mechanism of Junior Tranches protecting Senior ones is called subordination, and it is the reason AAA CLO tranches are considered among the safest assets in global fixed income.

CLOs exist because they solve important problems for the financial system:

- Majorly to free up capital for sellers of the loan pool, which are usually banks, NBFCs, HFCs and MFIs
- Companies get access to cheaper and deeper credit markets
- Investors get tailored exposure (very safe AAA or a high yield equity option)
- CLO managers actively trade the portfolio, improving performance and managing risks

The credit rating of the underlying pool is frequently around the 'BBB' category. The primary goal for the originator is to free up regulatory capital and recycle liquidity to originate new loans, facilitating fresh credit growth in the market.

Globally, CLOs now represent a US$1.4 trillion market, making them a core pillar of corporate lending. [29]

In India, the CLO-style structure is still developing, but securitization is widely used, especially by NBFCs. Indian CLO-like transactions often involve loans to NBFCs, HFCs, MFIs and corporate borrowers with credit quality typically around BBB.

The Indian securitization market operates under strict guidelines from the RBI under the RBI (Securitisation of Standard Assets) Directions, 2021, which:

- mandates a Minimum Risk Retention (MRR) and Minimum Holding Period (MHP) requirement for the originator. ("Skin in the game" principle where the seller must retain a portion of the risk aligns the originator's interest with the investors' and prevents the risky lending practices seen in the US prior to the Global Financial Crisis),
- enables simpler structures and
- high transparency

[28] News articles, RBI guidelines
[29] https://www.guggenheiminvestments.com/perspectives/portfolio-strategy/understanding-collateralized-loan-obligations-clo

As private credit funds are upsizing, they are increasingly moving from lending exclusively to middle-market companies to financing larger corporate deals historically the domain of Broadly Syndicated Loans (BSLs) and the CLO market. This convergence means larger deals are now sometimes financed through a collaborative approach involving both public and private debt.

Private credit funds have started bundling their direct loans into CLO vehicles. These are known as Private Credit CLOs or Mid-Market CLOs (MM CLOs). These instruments differ from traditional CLOs in three ways:

- They contain private, bilateral direct loans, not broadly syndicated loans
- They target middle-market companies, not large corporates
- They often have tighter documentation and higher security packages

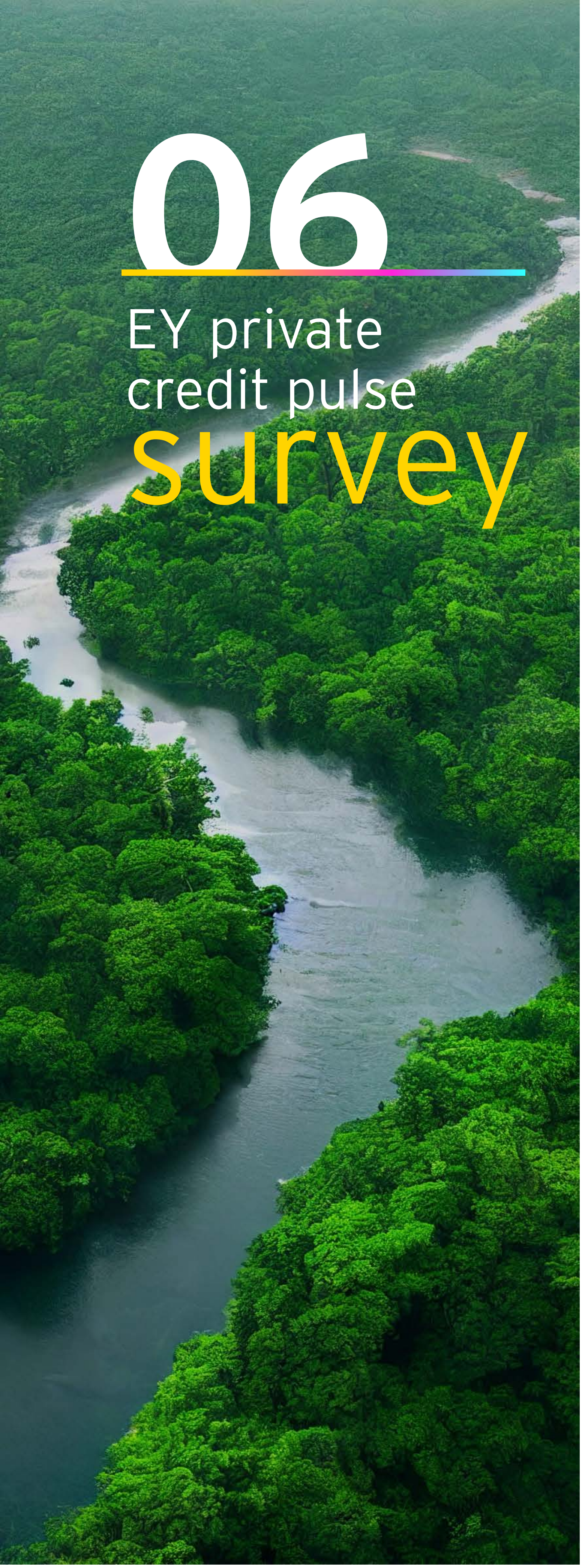
While this trend is rapidly growing globally, it remains quite limited in India, though we may see it more as the private credit market evolves. In markets like the U.S. and Europe, several large private credit managers are already securitizing their direct, bilateral loans into CLO-style vehicles. Few examples, Golub Capital, HPS Investment Partners and Blue Owl Capital Corp issued their first private credit CLOs in 2023.[30]

The Indian private credit market is still maturing in scale and most lending is done via NBFCs and banks rather than large direct lending platforms that make CLO-style bundling viable.

In summary, CLOs are a sophisticated and robust financial instrument, essential for lubricating the gears of corporate lending. Their strength lies in their structural subordination and the diversification of the underlying corporate loans and risk-return customization for investors.

Whether in traditional leveraged-loan markets or the fast-growing private credit space, CLOs are a major, well-established part of global credit markets. They are a foundational, trillion-dollar engine powering modern credit markets worldwide.

[30] Source: https://www.ainvest.com/news/golub-private-credit-clo-offers-insurers-rare-duration-play-2510-21/?utm; https://ionanalytics.com/wpcontent/uploads/dlm_uploads/2024/06/SP_2024_CLOs_v4_DS.pdf?utm_



06 EY private credit pulse survey

6.1 About the survey

We conduct a periodic survey of the private credit market in India to gauge market dynamics and detect shifts in the industry's overall direction. In the survey, conducted in December 2025, we gathered insights from senior leaders representing 30 prominent Indian and global high-yield and performing credit funds. Approximately 45% of the respondents targeted deals within an IRR bucket of 12% to 18% (performing credit) compared to the other 55% who preferred the 18% to 24% IRR bucket (high yield).

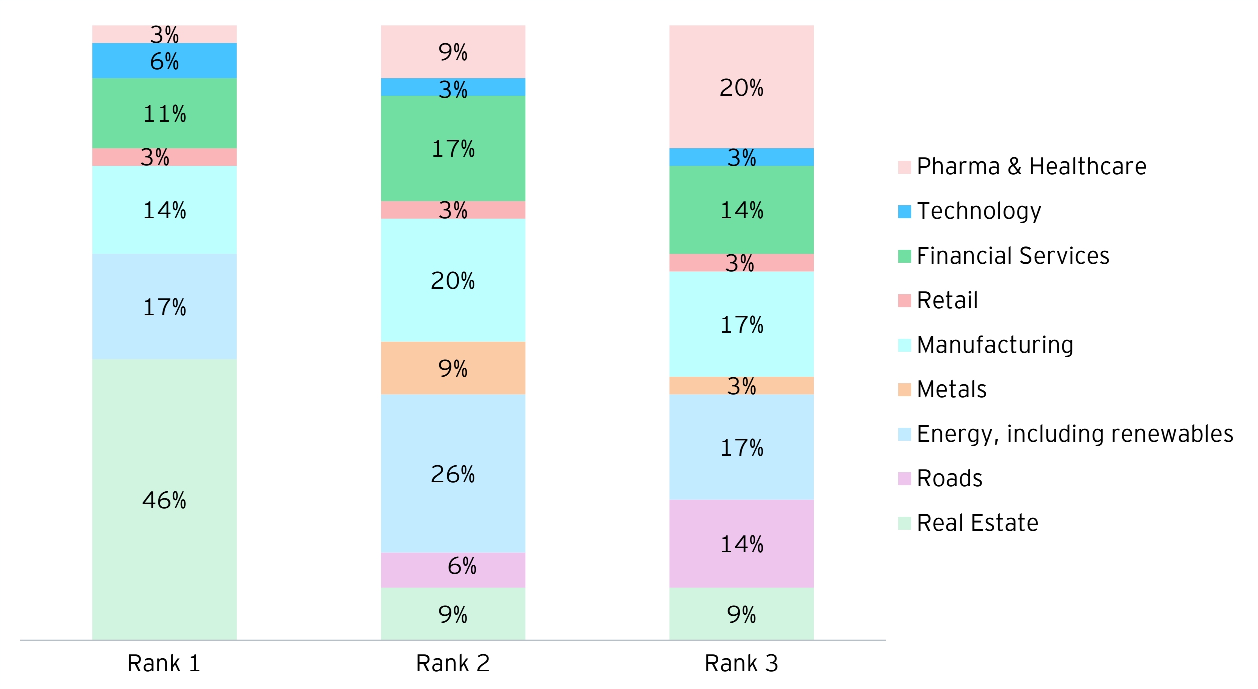
The survey indicated a market wherein competition among funds for deal making is rapidly intensifying, with greater availability of funds and increased share of investments from mutual funds, NBFCs and foreign banks in deals that performing credit funds would also target.

Fund managers continue to rank Real Estate as the most active in terms of deal flow (46%), despite also considering it the riskiest, indicating a growing risk appetite for high-yield opportunities despite concerns around structural complexities and execution-related risks. Energy and Renewables and Manufacturing also featured prominently across deal flow rankings, indicating continued demand in sectors with more stable cash flows and regulatory visibility. Further, 84% of respondents expect deal competition to increase over the next 12 months.

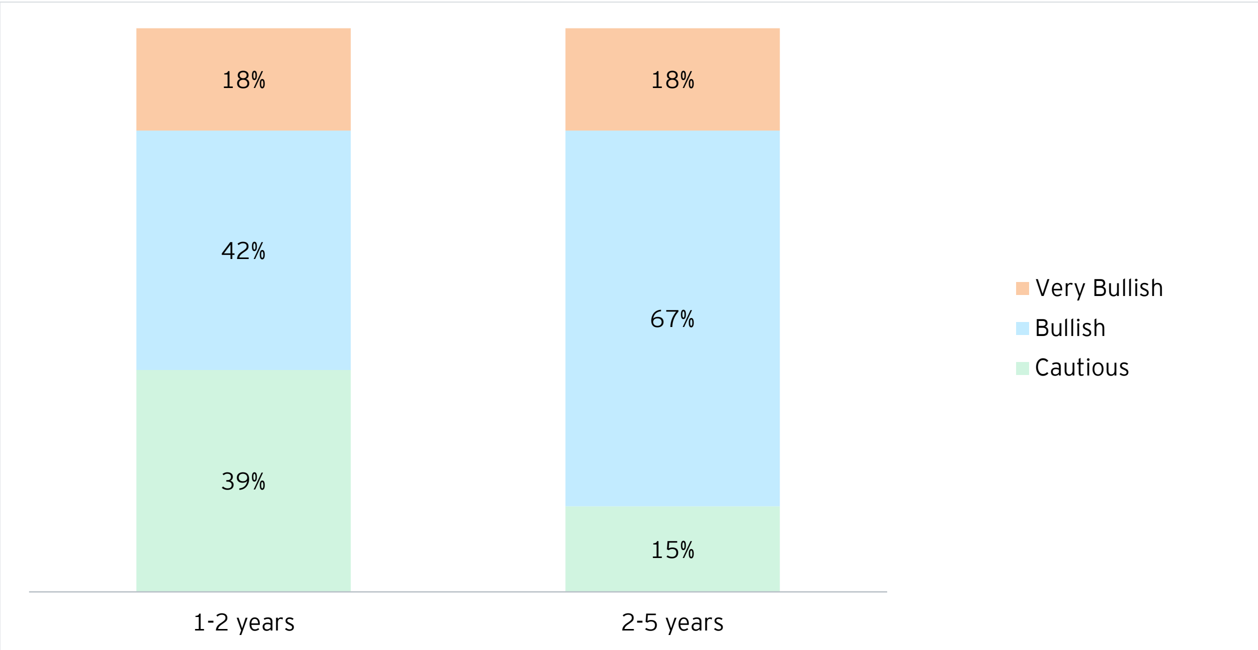
Despite increased competition, fund managers remain broadly optimistic about the private credit market, indicating broad consensus on the durability and promise of the asset class. This positive sentiment appears to be grounded in robust risk frameworks, as respondents view current portfolio default risk to be low (32%) or moderate (52%), while only 10% of the respondents view the risk as high. Additionally, approximately 28% of fund managers expect private credit investments to exceed US$15 billion over the coming year, while 55% anticipate investments to be in the range of US$10–15 billion. This outlook underscores strong bullish sentiment and highlights growing demand for structured, asset-backed and event-driven transactions.

6.2 Results of the survey

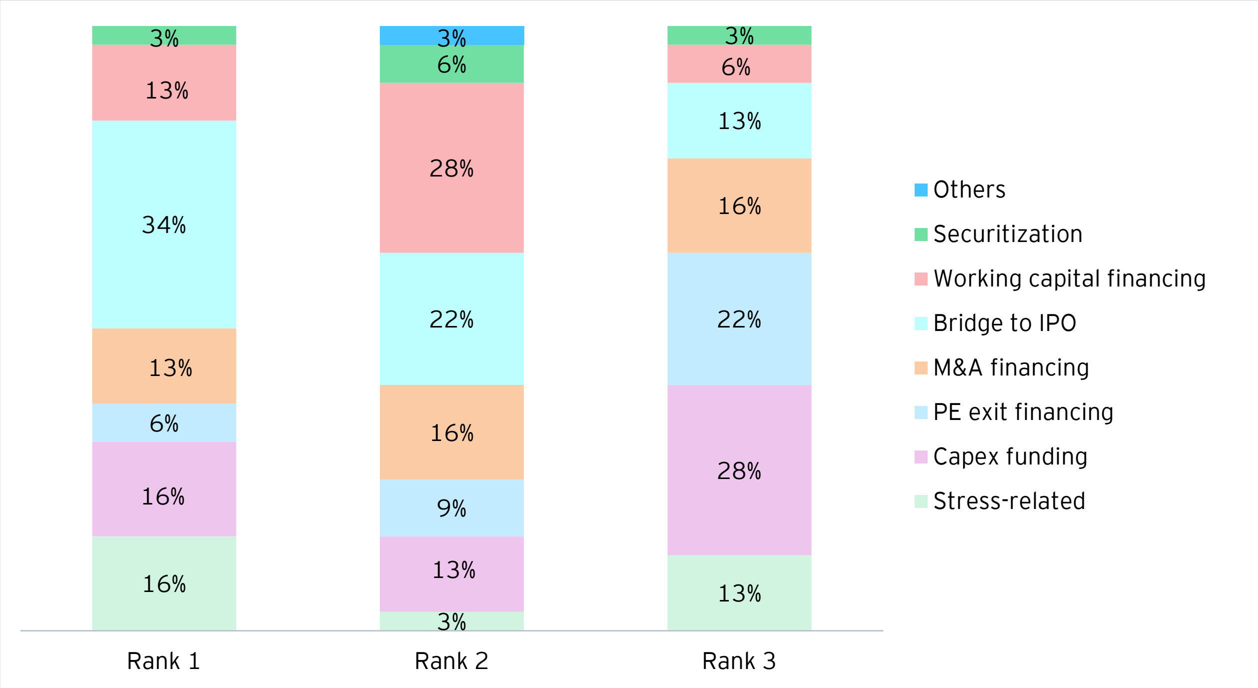
01 | Assuming you are a sector agnostic fund, rank the sectors in order of deal flow (Rank 1 indicating maximum deal flow and Rank 9 indicating the least deal flow).



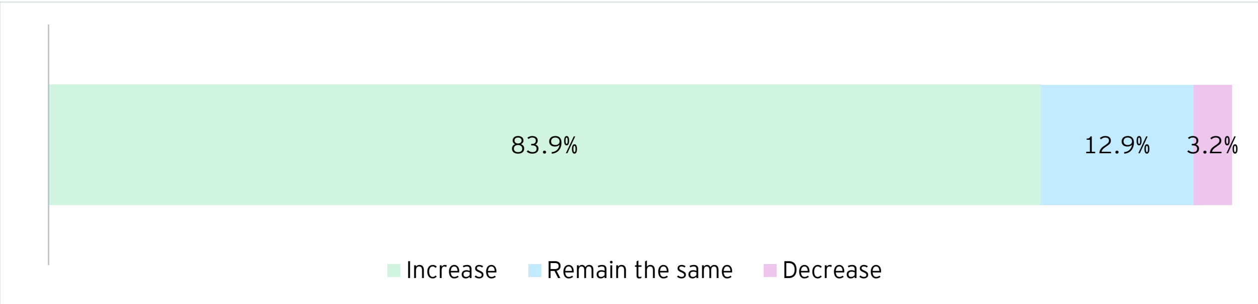
02 | What is the overall sentiment for private credit over the next one to two years and two to five years?



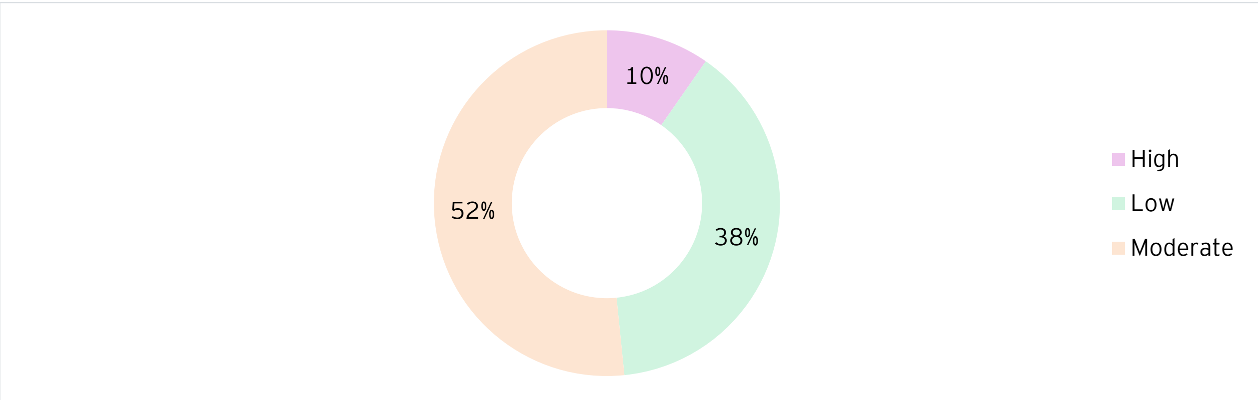
03 | In the current deal flow, kindly rank the drivers of demand for private credit (Rank 1 indicating the most significant driver and Rank 8 indicating the least significant driver).



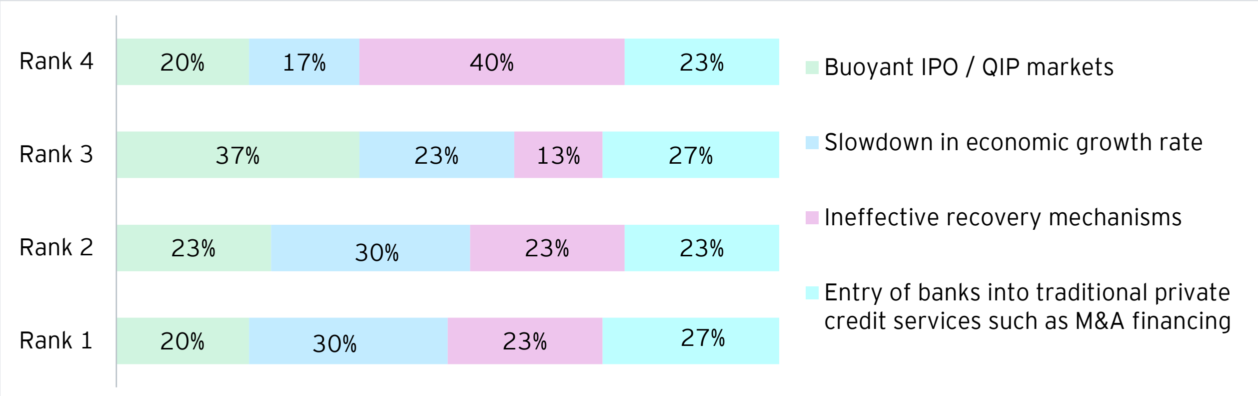
04 | Over the next 12 months, will the competition for private credit deals increase, decrease or remain the same?



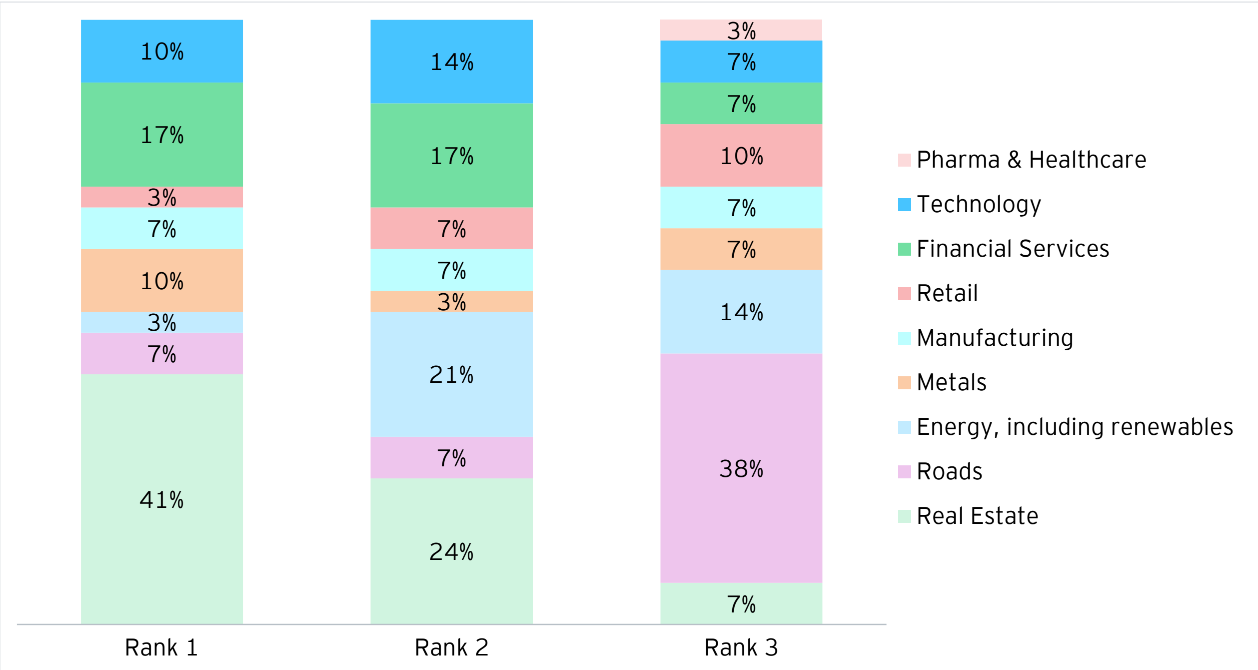
05 | What is your estimate of default risks residing within the current private credit portfolio in India?



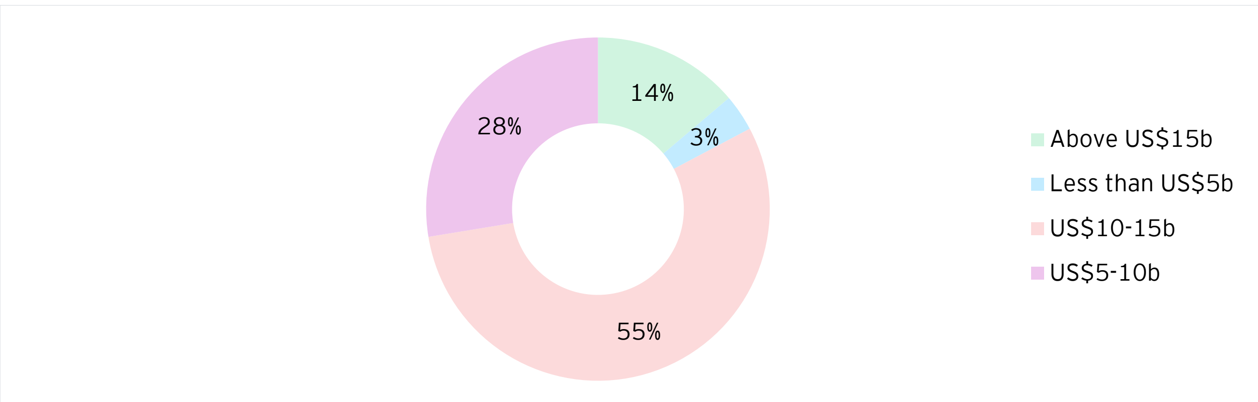
06 | Rank the below options that in your opinion is the biggest risk to growth of Private Credit in India (Rank 1 indicating highest risk and Rank 4 indicating the least risk).



07 | Which of the sectors within the India Private Credit portfolio are at the highest risk of default? (Rank 1 indicating highest risk and Rank 9 indicating the least risk.)



08 | What do you think will be the estimated total investment by private credit in the next 12 months?



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Glossary of acronyms

AIF - Alternative Investment Fund

AMC - Asset Management Company

AUM - Assets Under Management

BSL - Broadly Syndicated Loans

CAGR - Compound Annual Growth Rate (CAGR)

CIIRP - Creditor-Initiated Insolvency Resolution Process

CIRP - Corporate Insolvency Resolution Process

CIV - Co-Investment Vehicles

CLO - Collateralized Loan Obligation

CPI - Consumer Price Index

CRAR - Capital to Risk-weighted Assets Ratio

CRR - Cash Reserve Ratio

CV - Continuation Vehicle

CY - Calendar Year

ECB - External Commercial Borrowings

ED - Enforcement Directorate

FDI - Foreign Direct Investment

FPI - Foreign Portfolio Investors

FSR - Financial Stability Report

FY - Financial Year

GNPA - Gross Non-Performing Asset

GP - General Partner

HFC - Housing Finance Company

IBBI - Insolvency and Bankruptcy Board of India

IBC - Insolvency and Bankruptcy Code, 2016

IMF - International Monetary Fund

INR - Indian Rupee

InvIT - Infrastructure Investment Trust

IRR - Internal Rate of Return

LLP - Limited Liability Partnership

LP - Limited Partner

M&A - Mergers and Acquisitions

MAMP - Minimum Average Maturity Period

MFI - Microfinance Institution

MSME - Micro, Small & Medium Enterprises

NBFC - Non-banking financial company

NBFC-ML - NBFC Middle Layer

NBFC-UL - NBFC Upper Layer

NCD - Non-convertible debentures

NCLAT - National Company Law Appellate Tribunal

NCLT - National Company Law Tribunal

NNPA - Net Non-Performing Asset

NPA - Non-Performing Asset

OECD - Organization for Economic Co-operation and Development

OMO - Open Market Operations

OPEC - Organization of the Petroleum Exporting Countries

PC - Private Credit

PE - Private Equity

PFC - Power Finance Corporation

PMI - Purchasing Managers' Index

PMLA - Prevention of Money Laundering Act

PMS - Portfolio Management Services

PSB - Public Sector Banks

PVB - Private Sector Banks

REC - Rural Electrification Corporation Limited

REIT - Real Estate Investment Trust

RoA - Return on Assets

RoE - Return on Equity

SARFAESI - Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest

SCB - Scheduled Commercial Bank

SMA - Special Mention Account

SME - Small & Medium Enterprises

UNCTAD - United Nations Conference on Trade and Development

US$ - US Dollar

WPI - Wholesale Price Index

Y-o-y - Year over Year

All INR amounts converted to US$ at INR88 per US$

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