Private credit in India

H2 2024 update

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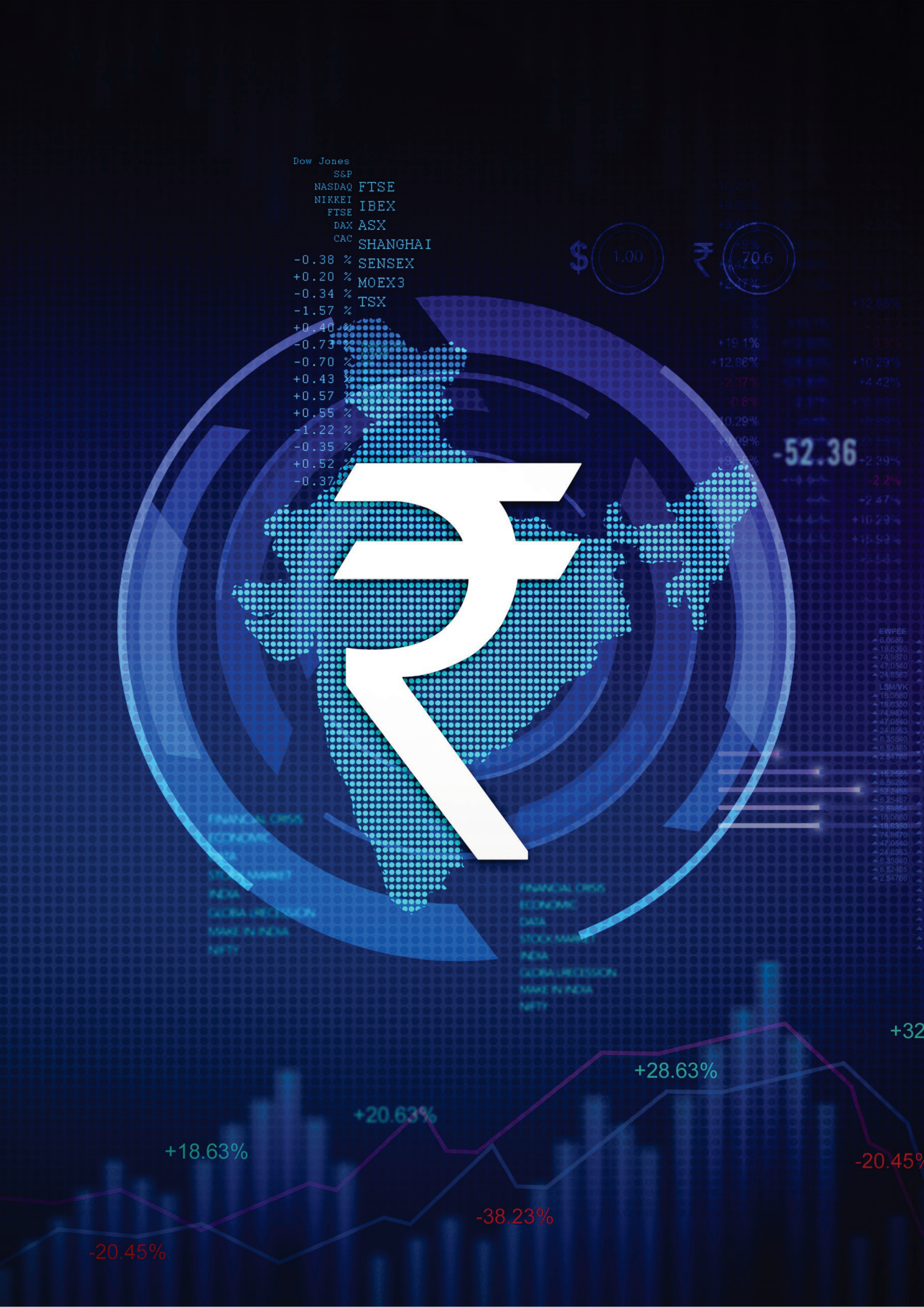
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Executive Summary

In H2 2024, based on the deals tracked by us, a total of US$3.3 billion (vis-à-vis US$5.9 billion in H1 2024 and US$3.7 billion during H2 2023) was invested in private credit deals. On an aggregate basis, CY 2024 saw US$9.2 billion worth of deals over 163 transactions, demonstrating a strong growth of 7%, by value, over CY 2023. However, this number fell short of the expected US$10 billion mark, because a few large transactions were delayed to Q1 2025. The deal count grew by 45% year on year from CY 2022 to reach a new record at 163 deals in CY 2024. This continues to demonstrate higher awareness and acceptance of private credit as a source of solution capital. 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.

A deviation that happened in H2 2024, was that the domestic private credit players trumped global funds by completing ~63% of the total deal value and accounting for ~61% of the deal count. Real estate continues to remain as the dominant sector, attracting 43% of total investments, followed by consumer durables and financial services. From a deal size perspective, transactions exceeding US$100 million accounted for 50% of the total, while those in the US$40 to US$60 million range ranked second, contributing approximately 15% to both value and volume. H2 2024 transactions highlight a strong focus on refinancing and acquisition financing, showing investor preference for stabilizing and consolidating existing assets.

Competition is increasing, through new AIF registrations and large fund raises. Additionally, the reactivation of select NBFCs, mutual funds, and the decision by large global banks to tap into the growing need for capital by Indian corporates are contributing factors. Further, a buoyant equity market with exaggerated valuations is also allowing companies to meet their capital requirements from cheaper equity. This is putting pressure on yields, leading to light covenant transactions and errors of judgement by inexperienced fund managers. This could potentially lay ground for higher credit costs in the future.

Factors such as a buoyant equity market, promoter selling, ESOPs, the formalization of family offices, the need for investment diversification, and the lack of fixed income options are leading to higher domestic investor participation and increased fund availability for private credit fund managers.

On the macro-economic front, each day feels like a new day and full of surprises! With a truce (hopefully, long lasting) in the Middle East, hopes have risen for a negotiated solution in Ukraine. Higher oil production and export by the US may lead to lowering of energy costs, relieving pressure on central bankers to hold rates. However, instead of war drumbeats, we now hear drumbeats of trade barriers going up, withdrawal from global health and climate alliances and more isolationist announcements keeping global bond markets on edge. Higher volatility across different markets leads to uncertainties, a slowdown in investments generally, and weaker global economic growth.

Closer home in India, slowing economic growth has become a reality, caused by a combination of global and domestic factors. Overall credit growth has slowed down (SCB Credit growth at ~11% in CY 2024 as per latest RBI FSR) and private capex has still not picked up to contribute meaningfully to economic growth. A slowdown in government-led capex, a soft demand environment, tight liquidity in the markets, and a complex geo-political environment have all contributed to slow economic growth in Q2 FY25 and probably, in Q3 FY25 as well. On the flip side, market participants are hopeful that this slowdown is temporary and can be reversed through fiscal and monetary initiatives. India continues to be a bright spot in the current global setup, with the highest GDP growth rates for any large economy and experiencing a significant increase in FDI in H1 FY25.

As always, our report includes details on regulatory changes, sample deals, fund raise information, our EY Pulse survey (with some new questions) and much more information tracking this exciting and evolving space.

01. Macroeconomic outlook

The January 2025 edition of the World Bank's Global Economic Prospects (GEP) has projected India's growth rate of 6.7% for FY26 and FY27, surpassing the global growth rate of 2.7% in FY26. Complementing the World Bank report, the IMF forecasts India's growth to remain robust at 6.5% for CY 2025, aligning with earlier projections from October 2024 with global growth at 3.3%[1]. While global growth forecasts remain broadly unchanged since the April 2024 update, notable revisions beneath the surface reveal contrasting trends in various regions across the globe. For example, the US has seen upgrades in its growth outlook, while large European economies have faced downgrades. In emerging markets and developing economies, geopolitical tensions, commodity disruptions—particularly oil, and extreme weather events have led to downward revisions for regions like the Middle East, Central Asia, and sub-Saharan Africa. However, these setbacks have been offset by optimistic forecasts for emerging Asia, driven by surging demand for semiconductors and electronics, bolstered by significant investments in artificial intelligence. The global battle against inflation has largely been won, though challenges persist in certain regions. After peaking at ~9.4% year over year in the third quarter of CY 2022, headline inflation rates are now projected to reach ~3.5% by the end of CY 2025[2]. Advanced economies are projected to return to their inflation targets sooner than emerging markets, signaling a slower disinflationary process in developing countries. Despite widespread tightening of monetary policies worldwide, the global economy has proven remarkably resilient, avoiding a global recession.[3]

In the realm of global public debt, levels are set to exceed US$100 trillion—roughly 93% of global GDP by CY 2024, continuing their upward trajectory through the decade. While debt is expected to stabilize or decline in two-third of countries, it will remain well above pre-pandemic levels in many. More than half of global debt is concentrated in countries where fiscal consolidation remains a distant prospect. This has led to rising debt-at-risk, especially for emerging markets, where it is expected to increase to 88% of GDP by CY 2026. These elevated debt levels and ongoing fiscal uncertainties are likely to add volatility to sovereign yields and debt risks, impacting borrowing costs globally. In a follow-up to September's big half percentage point reduction, the Federal Open Market Committee lowered its benchmark overnight borrowing rate in November 2024, by 25 basis points, to a target range of 4.50%-4.75%.[4]

Trump's re-election presents both opportunities and risks for India. While there could be short-term challenges, particularly from a stronger US dollar, rising interest rates, and potential capital outflows, India stands to benefit from global supply chain shifts, with key sectors like IT, pharma, and manufacturing positioned to gain. Trump's protectionist trade policies might continue to push businesses to diversify production outside China, giving India an edge. However, on the downside, India

[1] Press Information Bureau: Government of India, article posted on 18 January 2025 by Ministry of Information & Broadcasting – 'India: World's Fastest Growing Economy'

[2] IMF World Economic Outlook, October 2024

[3] IMF World Economic Outlook, October 2024

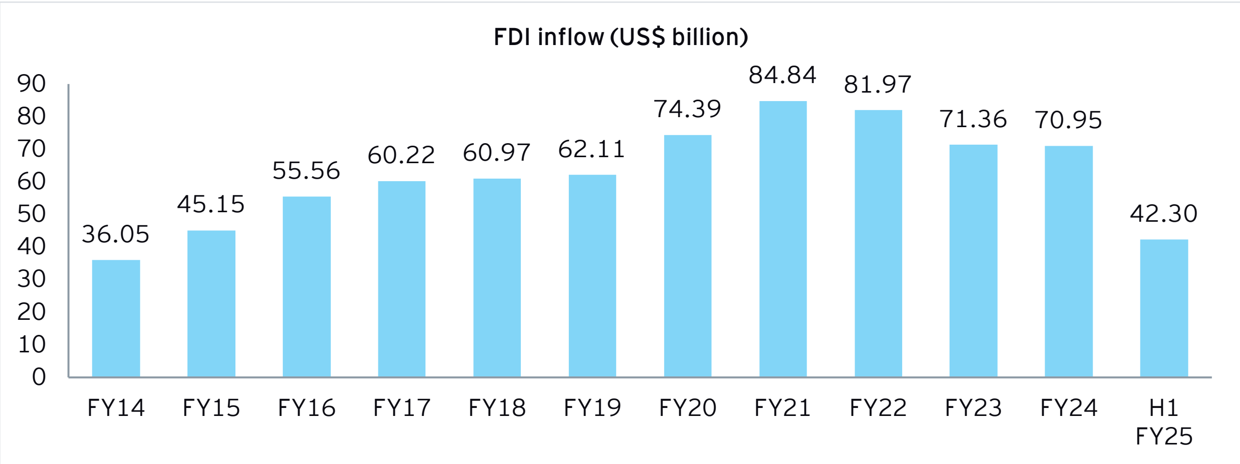
[4] Fiscal Monitor October 2024: Putting a Lid on Public Debt

may face an increase in Fed interest rates, inflationary pressures from increased tariffs on imports, and a weaker Rupee as a result of dollar strengthening from Trump's pro-growth policies. All these could affect consumer sentiment and business profitability in the short term. India is likely to face a higher fiscal deficit this year, a scenario that could drive higher interest rates as the government ramps up borrowing to fund its spending. A larger fiscal deficit generally signals more government debt issuance, which can push bond yields higher, leading to increased borrowing costs. Alongside this, the US dollar has strengthened by 4% from September 2024 to November 2024, which means higher yields and a stronger dollar will exert pressure on emerging markets, including India[5].

The Reserve Bank of India (RBI) has maintained its policy repo rate at 6.5%, marking the 11th consecutive pause. Despite reduction in the cash reserve ratio (CRR) by 50 basis points to 4% for boosting liquidity in the system, the RBI lowered its GDP growth projection for 2024-25 to 6.6%, down from the earlier estimate of 7.2% as a result of slow growth in H1 FY 2025 (i.e., 6%) arising from geopolitical uncertainties, rising imports and subdued manufacturing output. Concurrently, the inflation projection for the same period was revised up to 4.8%. The inflation projection for this financial year, meanwhile, was increased by 30 bps to 4.8%. India's wholesale prices increased by 1.89% y-o-y in November 2024. This marks the 13th consecutive month of increase in wholesale inflation, boosted by further rises in food and manufacturing prices. While inflationary pressures are expected to ease, geopolitical risks and weather-related disruptions could present ongoing challenges[6].

Despite improvements in the projected reduction in the fiscal deficit to GDP ratio from 5.1% in the previous interim budget to ~4.9% in FY25, many headwinds can affect India's fiscal outlook as the government faces potential delays in the timely deployment of allocated funds for capex execution. The GoI's capex target of INR11.1 lakh crore (~17% growth in Union Budget 2025, i.e., although below the ~30% average growth rate of FY22 to FY24) is not likely to be fully deployed. The upcoming Union Budget of FY26 expects capex targets to remain largely unchanged at ~INR11.2 lakh crore[7].

Affected by the outbreak of COVID, India's FDI journey dipped from a peak of US$84.84 billion in FY21 to US$71.36 billion in FY23. The same stabilized since FY24, wherein the inflow remained consistent at US$70.95 billion. However, in FY25, a jump has been witnessed with US$42.3 billion already clocked upto September 2024 (i.e., ~60% of the FY24 inflow). The rise can be attributed to a dynamic business environment, increased international competitiveness, and a proactive policy framework[8]. Sectorally, the maximum FDI inflow between April 2000 to September 2024 is observed in services sector (16%), computer software and hardware (15%) followed by trading (7%) and telecommunications (6%). Geographically, the majority of FDI inflow during the above period came from Mauritius (25%) and Singapore (24%). Of the total inflow, majority was deployed in Maharashtra (31%), Karnataka 21%) and Gujarat (16%).[9]



Source: IBEF Report on Foreign Direct Investments dated Jan 2025

[5] What Trump's re-election means for India, debt market and your investments | Personal Finance - Business Standard
[6] Monetary policy review: RBI keeps rates unchanged, cuts CRR by 50 bps to 4% | Finance News - Business Standard article dated 3 February 2025
[7] Press Information Bureau: Ministry of Finance article dated 23 July 2024
[8] Press Release by Ministry of Commerce & Industry on India's FDI journey dated 12 December 2024
[9] Foreign Direct Investment (FDI) in India, FDI Inflows | IBEF Report updated in January 2025

However, India saw a sharp decline in Foreign Portfolio Investment (FPI) inflows, with net investments plummeting by 99% compared to the previous year, as reported by the National Securities Depository Limited (NSDL). Net FPI inflows fell from US$20.36 billion in CY 2023 to a mere US$0.24 billion in CY 2024. A key factor behind this drop was the robust performance of the US economy, which attracted significant investment due to strong stock market results and extended periods of high interest rates. As a result, capital flowed into US bonds, money markets, and equities, diverting investment away from emerging markets such as India. Furthermore, FII ownerships in Indian shares hit a 12-year low, dipping below 16% for the first time since CY 2012 — a decline attributed to rising US bond yields and valuation concerns in Indian markets. Meanwhile, the share of DIIs has increased steadily over the same period with ~11% in June 2012 to about ~16% in October 2024[10]. The rising profit booking by FIIs in India was cushioned by increased participation of domestic investors.

Also contributing to the decline, Indian markets faced reduced appeal due to high valuations, a rising market cap-to-GDP ratio, slowing GDP growth, weaker industrial output, and lower corporate earnings growth. Domestically, the general elections in CY 2024 led to a slowdown in government spending and public infrastructure projects, dampening economic activity.

The HSBC India Manufacturing PMI dropped to 56.4 in December 2024 from 58.3 in June 2024, marking the softest expansion in operating conditions since the start of the year. Similarly, seasonally adjusted capacity utilization in India's industrial sector declined from 75.8% in Q1 FY25 to 74.7% in Q2 FY25. The US$/INR exchange rate has moved upward from INR83.4/$[11] in July 2024 to INR85.6/$ in December 2024[12]. This change reflects strong performance of the American dollar against all currencies globally. While most currencies have weakened against the US dollar, the impact of the Indian Rupee has been less severe compared to the depreciation experienced by other emerging market currencies[13], thereby signaling a positive outlook. Additionally, November statistics revealed a slowdown in the growth rate to 5.4% compared to 8.2% in FY24, due to a sharper-than-expected deceleration in industrial activity. The revised outlook for FY25 and FY26 is 6.5%[14].

While challenges persist, structural reforms, continued innovation, and a strong domestic consumption base are expected to drive sustained growth for India's long term positive outlook. The Indian economy is positioned for resilience, with a favorable demographic profile and strategic initiatives aimed at driving infrastructure development and improving ease of doing business.

[10] Moneycontrol article dated 8 November 2024 on 'FII ownership of Indian shares hits 12-year low, dips below 16%'
[11] RBI reference rate
[12] Business Standard article dated 3 February 2025 on impact of Trump's re-election for India
[13] Article dated 3 February 2025 in 'The Pioneer' on RBI MPC member Nagesh Kumar's statement on requirement of Budget FY 26 to focus on capex
[14] Economic Times article dated 17 January 2025 on IMFs estimate of slower than expected growth rates

02. Analysis of credit deployment and growth

2.1 Credit deployment by scheduled commercial banks

In FY25, the Indian banking sector is experiencing a mixed landscape with public sector banks (PSBs) showing strong growth due to improving profitability metrics and steady asset quality. However, this growth is tempered by moderate credit expansion, hindered by tighter regulatory measures aimed at preventing overheating in certain lending segments. Contractions in the Net Interest Margin (NIM) are expected to continue in CY 2025 amid rising deposit cost and moderating credit growth.

ICRA revised its credit growth expectations for FY25 downward from its earlier estimate of 11.6%-12.5% to 10.5%-11%, due to a deceleration in key segments such as retail and unsecured lending. The sector composition of the loan book for PSBs indicates a strong emphasis on supporting MSMEs (supported by a lending target set by the Finance Minister for PSBs towards the MSME sector) and infrastructure development (backed by government's PLI scheme incentive).

Increased regulatory intervention to combat the risks inherent in unsecured lending has led to tighter lending standards and a consequent moderation of the credit growth in the banking system. In line with the anticipated movement in bank credit, deposit growth is also expected to be moderate, and banks will manage deposit rates to bridge the credit-deposit gap. Additionally, higher returns on term deposits are driving a shift as the reduction in current and savings account (CASA) deposits suggests that they were primarily used for transactional purposes, resulting in increased movement in the banking system. [15]

Aided by government reforms, a mix of write-offs, upgradations, recoveries, and falling slippages, the gross non-performing assets (GNPAs) of public sector banks decreased from a peak of ~14.98% in March 2018 to a multi-year low of ~2.6% in December 2024, [16] with expectations to further decline to about 2.3% by March 2025[17]. An area of concern, however, is the sharp rise in write-offs, especially among private sector banks, which could be partly masking the worsening asset quality in the unsecured loan segment. Fresh accretion of NPAs in retail loan portfolios was also dominated by slippages in the unsecured loan book, with ~52 % of them coming from unsecured loans as of the end of September 2024.[16]

The overall bank credit growth in CY 2024 was ~11% which is significantly lower than the annualized growth rate of ~22.8% in the previous year between December 2022 to November 2023. A brief comparison is shown below.

Sectoral deployment of credit analysis (scheduled commercial banks)[18]

[15] Mint article dated 19 August 2024 stating growth in bank deposit and credit as per SBI analysis
[16] RBI FSR Report dated Dec 2024
[17] Business Standard article dated 3 February 2025 on fresh NPAs in the Indian banking sector
[18] RBI - Data on sectoral deployment of bank credit

Particulars (US$ billion)	December 2023 (a)	December 2024 (b)	Change (US$b) (b-a)	Annualized growth rate (%)
Agriculture and Allied Activities (a)	**237**	**267**	**30**	**12%**
Industry:				
MSME	118	133	15	13%
Large	310	326	16	5%
Sub-total (b)	**428**	**459**	**31**	**7%**
Services:				
NBFC	181	193	12	7%
Trade[1]	116	132	16	14%
Real Estate	55	62	7	14%
Others[2]	177	203	26	15%
Sub-total (c)	**529**	**591**	**62**	**12%**
Personal loans (d)	**616**	**690**	**74**	**12%**
Total (a+b+c+d)	**1,810**	**2,007**	**197**	**11%**

Note:

1. Trade includes wholesale trade (food procurement credit outside food credit consortium) and retail trade credit.

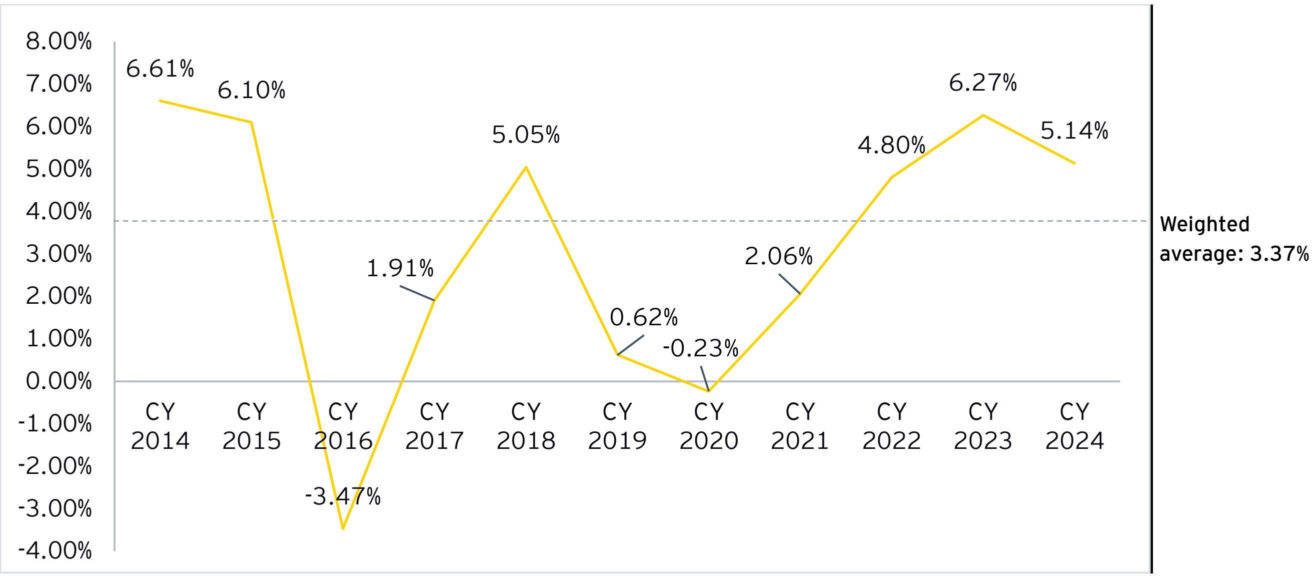
2. Others include transport operators, computer software, hotels, restaurants, professional services, aviation, shipping, mutual fund (MFs), banking and finance other than NBFCs and MFs and other services which are not indicated in the aforementioned categories

Credit in agriculture and allied activities grew at 12% in CY 2024. Credit growth in the industry sector was modest at 7%, while credit to MSMEs increased by 13% over the same period. Among major industries, growth in credit to 'Petroleum, coal products and nuclear fuels', 'gems and jewelry', 'electronics' and 'drugs and pharmaceuticals' accelerated. The personal loans segment grew at 12% due to growth in housing and vehicle loans.

The credit growth rate for the Large Industries sector slowed down, dropping from an average of ~6.27% in CY 2023 to about 5.14% in CY 2024. The rapid improvement in banks' financial metrics observed from FY21 to FY24 is likely to have peaked, with expectations of reaching an inflexion point in FY25, followed by further moderation in FY26[19]. The slowdown in the banking credit growth rate for the Industries sector has led many manufacturing and process-based companies to turn to private credit to meet their financing needs.

The chart below depicts the trend in the banking credit growth rate for large industries over the last decade.

[19] Banks' profitability to reach inflexion point in FY25, moderate further in FY26 - The Hindu Business Line article dated 7 January 2025



Source: RBI Sectoral Deployment of Credit Reports

**Large industries as classified by RBI*

According to research by India Rating dated 7 January 2025, total bank credit is estimated to grow at a moderate rate of approximately 13%-13.5% for FY25 and FY26, which is lower than the actual y-o-y growth of 16% in FY24. Lower pace of deposit growth and hike in Risk Weighted Assets (RWA) on unsecured loans are expected to be the drivers of a low credit growth.

2.2 Credit deployed by NBFCs

As per ICRA Ratings, growth in AUM for NBFCs is expected to slow down in FY25. It has already moderated to 13% y-o-y in September 2024 from ~20% as of March 2024[20] mainly due to tighter regulatory conditions and restrictive funding conditions in the domestic market. In May 2024, the RBI released a draft proposal signaling its intent to tighten lending criteria for project financing by banks and NBFCs, discouraging their involvement in complex structured products. This shift presents an opportunity for the private credit market, enabling borrowers to access private credit funding for intricate project financing requirements.[21] From a funding perspective, the RBI's December 2024 FSR indicates that the share of bank borrowings in NBFCs' liabilities declined from 26% in September 2023 to 17% in September 2024; to diversify their funding sources, NBFCs have increasingly turned to foreign currency borrowings. The impact of this shift was clearly visible in the growth rate of the retail loan book of large NBFCs, whereas mid-level NBFCs exhibited robust retail loan growth rates. Given that the growth rate of the retail book exceeds the aggregate book growth rate, a downward trend in the corporate lending book of NBFCs can be inferred. Thus, corporates are increasingly turning to private markets to fulfill their funding requirements, presenting a positive opportunity for the private credit market in India.

2.2.1 Wholesale book of NBFCs

We have analyzed the wholesale books of 17 select large NBFCs (excluding HDFC but including private sector lending of REC and PFC) from March 2018 to September 2024. Overall, the wholesale book increased by US$1.31 billion (between March 2024 and September 2024), largely led by increase in private sector lending of government backed NBFCs (US$2.23 billion) which was partially offset by a decline in the wholesale book of other private NBFCs included in our analysis (US$0.92 billion). However, select large NBFCs such as Bajaj Finance Limited, Aditya Birla Finance Limited, and Shriram Transport Limited, amongst others, are focusing on strengthening their corporate loan books by catering to higher ticket size opportunities. Alternatively, many NBFCs have set up their own AIF platforms to cater to the high-ticket size funding requirements of their non-investment grade clients. Thus, NBFCs are also emerging as competitors to private credit funds by catering to opportunities that were previously serviced by the said funds.

[20] RBI Financial Stability Report dated Dec 2024
[21] Project Financing: RBI's Proposal to Tighten Lending Criteria for Project Financing by Banks and NBFCs | Mumbai News - Times of India article dated 7 May 2024

2.3. Debt mutual funds

We have reviewed the assets under management for the mutual fund industry, as detailed below. Although the AUM for credit risk funds has dropped from US$2.8 billion to US$2.5 billion in the nine months between April 2024 to December 2024, our analysis of NCD deals in H2 2024 indicates continued involvement from debt mutual funds. This involvement is demonstrated by their participation in financing deals such as the ~US$0.60 billion (INR 5,000 crores) Mankind Pharma Deal, among others. Government action from Budget 2023 to tax gains from debt mutual funds at individual tax rates without indexation benefits has prompted HNIs to implement aggressive strategies to earn higher returns, thereby increasing focus towards private credit investments as a superior return replacement for debt mutual funds.

The increased participation of debt mutual funds in corporate lending activities has intensified competition for the private credit market, as they become an alternative source of non-traditional capital available to meet the funding requirements of corporate borrowers.

Debt mutual fund AUM

Funds (US$ billion)	March 2020	March 2021	March 2022	March 2023	March 2024	December 2024
Liquid fund	40.9	44.9	47.5	56.0	44.4	55.3
Money market fund	7.0	11.6	14.1	14.4	18.2	27.4
Corporate bond fund	10.0	19.0	16.2	14.2	18.0	20.4
Overnight fund	9.8	10.9	15.3	14.1	7.5	8.8
Low duration fund	9.9	16.4	14.0	11.5	11.0	13.6
Short duration fund	11.4	18.2	14.6	11.4	12.1	13.5
Ultra short duration fund	8.8	11.7	10.8	11.2	10.2	13.1
Banking and PSU Fund	8.9	14.9	11.8	9.1	9.9	9.3
Floater fund	4.0	7.8	9.9	7.1	6.3	6.1
Medium duration fund	3.5	3.8	4.1	3.2	3.2	3.0
Credit risk fund	6.8	3.5	3.4	3.1	2.8	2.5
Dynamic bond fund	2.2	3.2	3.1	2.8	3.9	4.2
Gilt fund	1.1	2.0	1.9	2.0	3.3	5.0
Medium to long duration fund	1.2	1.3	1.3	1.1	1.3	1.4
Long duration fund	0.2	0.3	0.3	0.4	1.6	2.4
Gilt Fund with 10-year constant duration	0.1	0.2	0.2	0.2	0.6	0.6
Total	**125.8**	**169.7**	**168.5**	**161.9**	**154.3**	**186.6**

Source: SEBI: Status of Mutual Fund Industry in India

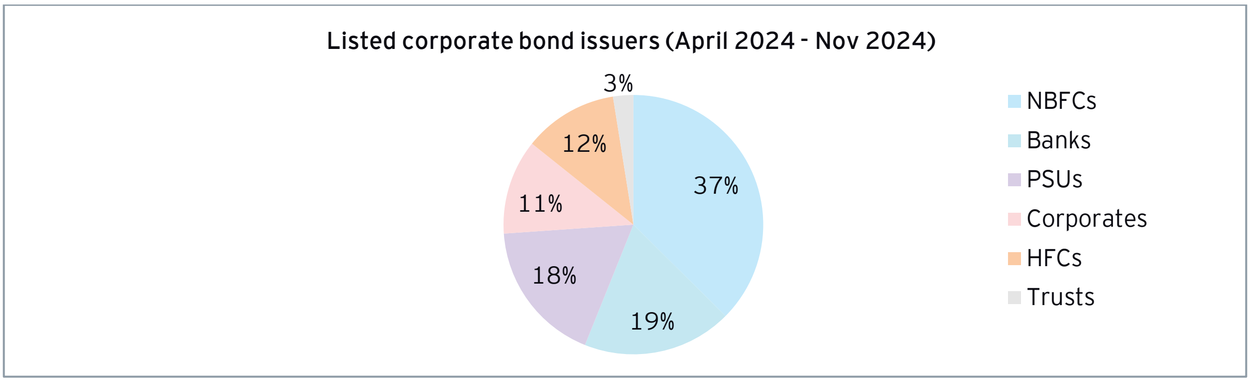
SEBI has notified the establishment of Specialized Investment Funds (SIFs) via a Gazette dated 16 December 2024. SIFs are mutual funds designed for more informed market investors who are willing to take higher risks for potentially higher returns. With a minimum investment limit of only INR10 lakhs per investor, they offer a wider range of investment strategies from equity to debt as pre-defined in the fund prospectus.

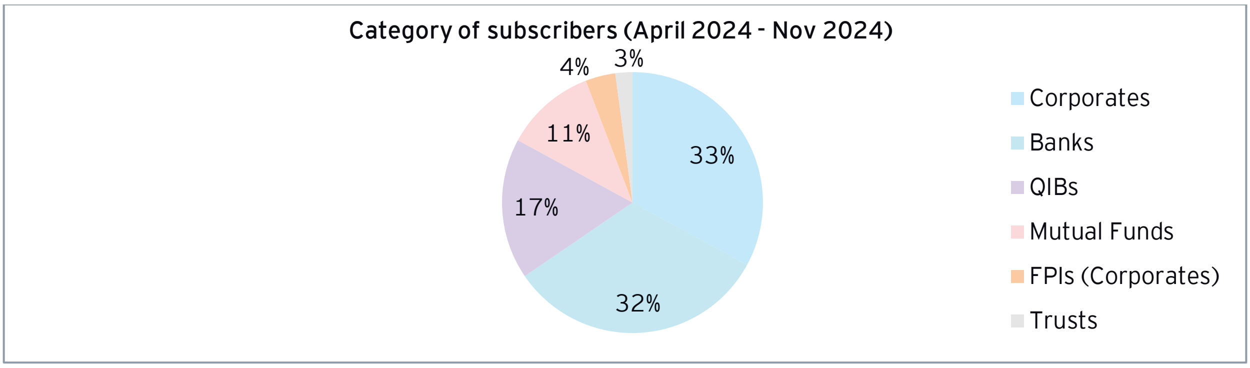
SEBI has defined eligibility guidelines for different types of instruments within SIFs. For debt instruments, exposure to a single issuer is capped at 20% of the total assets, with an option to increase this limit to 25% with the approval of trustees. In contrast, for equities, SIFs may invest up to 15% of a company's paid-up capital with voting rights, thus allowing for greater concentration. Additionally, in REITs and InvITs, SIFs can allocate up to 20% of their assets, without having more than 10% exposure in any single issuer.

The introduction of SIFs is a step towards retailization of non-investment grade corporate lending. It provides an alternative source of non-traditional funding for borrowers, thereby possibly affecting the growth path for private credit in India.

2.4 Corporate bond market

The corporate bond market is an essential alternative to bank financing. The total outstanding corporate bond market is expected to grow from ~US$561 billion in March 2024 to ~US$610 to US$620 billion in March 2025, marking a y-o-y growth of ~8.9% to 9.5%[22]. It is projected to further increase to approximately US$1,300 billion by FY30[23].





Source: RBI Report on micro financial risks dated 30 December 2024

In line with previous years, banks, NBFCs and public sector undertakings continue to dominate Indian bond market issuances, with total corporate bond issuances expected to reach approximately US$124 billion to US$127 billion in FY25, up from US$121 billion in FY24[22]. Major issuers in FY25 to date include Bharti Airtel, SBI, SIDBI, HDFC, PFC and NABARD. Over the past decade, corporate bond private placement in India has experienced robust and steady year-on-year growth, rising from ~US$38.45 billion in CY 2014 to an impressive ~US$99.76 billion in CY 2024[24]. The surge in private placements indicates an expanding corporate sector seeking alternative funding avenues beyond traditional banking channels, benefiting from regulatory ease, lower costs and faster execution times.

Regulators continue to enhance the microstructure of the bond market. The rise of Online Bond Platform Providers (OBPPs) has democratized access to the bond market, allowing retail investors to purchase bonds with ease and transparency, akin to stock trading. Additionally, many smaller companies are now able to raise funds from debt capital markets via public issues directed at retail investors. Notable changes such as the reduction in the face value of corporate bonds from INR1,00,000 to INR10,000 and the standardization of the record date for interest payment or redemption date to 15 days, as mentioned in our last Private Credit Report, continue to make the bond market more accessible to retail investors.

[22] ICRA report dated 29 October 2024 on corporate bond issuances & moderate incremental credit growth
[23] CRISIL forecast.
[24] NSE ASSOCHAM report on the Corporate bond market dated August 2024

03.

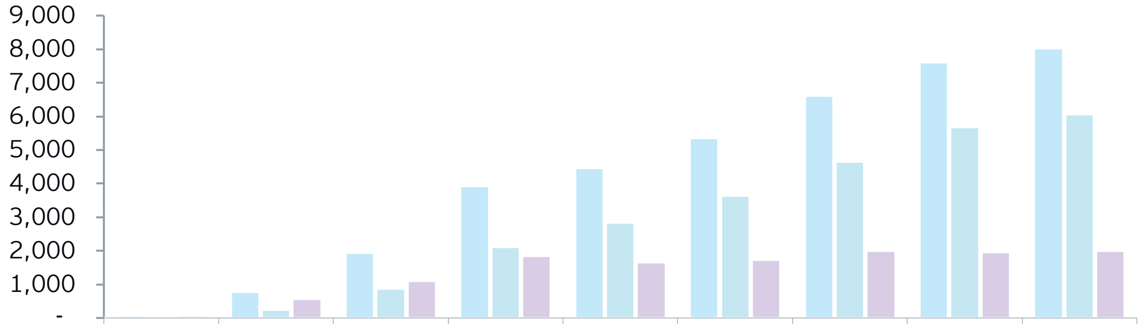
Regulatory and other developments

3.1 Insolvency and Bankruptcy Code

As per data reported in IBBI's latest quarterly newsletter, as of 30 September 2024, 8,002 cases were admitted under CIRP, of which 6,039 cases were closed, with the remaining cases still ongoing. The corporate debtors were rescued in 3,409 cases through approval of resolution plan (1,068 cases), withdrawal u/s 12A of IBC (1,120 cases) and by appeal, review or settled (1,221 cases). The corporate debtor in 2,630 cases ended in orders for liquidation. It is noteworthy that out of 1,068 cases resolved under IBC, 164 cases involved claims exceeding US$120 million each. H1 FY25 saw 70 resolution plans approved by the NCLT vis-à-vis the approval of 269 resolution plans during FY24.

CIRP cases as of September 2024	Count
Admitted	8,002
Withdrawn	1,120
Closed on appeal, review or settlement	1,221
Resolution plans approved	1,068
Liquidation orders passed	2,630
Ongoing CIRP cases	1,963

Cumulative cases under CIRP



	FY 17	FY18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	H1 FY 25
Admitted	37	744	1,901	3,892	4,428	5,318	6,580	7,583	8,002
Closed	1	206	840	2,077	2,804	3,612	4,622	5,655	6,039
Ongoing	36	538	1,061	1,815	1,624	1,706	1,958	1,928	1,963

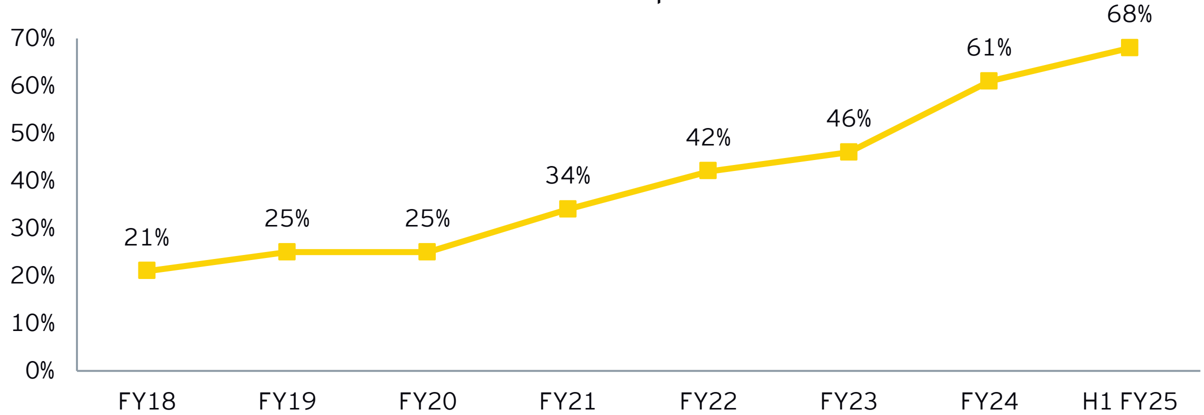
The average time taken for the closure of CIRPs, resulting in a resolution plan (i.e., from admission till NCLT approval) is about 691 days, which far exceeds the original planned timeline of 180 days. This delay is due to ongoing litigations after initiation of CIRP, delays in admission and approvals of resolution plans due to lack of sufficient benches, vacancies in the NCLT, and non-cooperation by corporate debtor. The government has recognized this issue and has initiated to streamline the process. These actions include increased monitoring and 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$42 billion since inception of IBC through NCLT-supervised insolvency resolution processes against total claims of ~US$136 billion till 30 September 2024, a recovery of ~31%. The recovery rate for quarter ended September 2024 reduced to ~18% of the creditor claims, from 31% and 25% in the quarters ended June 2024 and March 2024. On an aggregate basis, since implementation of IBC, the creditors have realized 161% of the liquidation value and 86% of the fair value. The haircut for creditors relative to the fair value of assets was 14%, while relative to their admitted claims is around 69%.

The underlying data of 1,068 cases resolved as of 30 September 2024 indicates a direct link between the time taken for the resolution process and the recovery rate. These cases took an average time of 582 days for conclusion of the process, while incurring an average cost of 1.37% of liquidation value and 0.83% of resolution value.

It is noteworthy that the percentage of CIRPs resulting in resolution, relative to liquidation orders, has increased from 21% in FY18 to 61% in FY24 and further to 68% in September 2024. This indicates a consistent shift toward choosing resolution mechanisms under the IBC and underscores its instrumental role in reviving distressed businesses.

Ratio of resolution-to-liquidation orders



While the outcomes mentioned above are directly linked to the cases undergoing processes under IBC, it is imperative to consider the impact of the IBC beyond recoveries in a more holistic manner, i.e., its significance in enhancing the negotiating power of creditors and propelling out-of-court timely settlements. The credible threat of the IBC, that the corporate debtor may change hands, has significantly changed the creditor-debtor relationship. The debtors are keen to resolve the stress even before the admission of the case before the NCLT to avoid a change of hands of the company and other consequences of the resolution process.

Recently, the Supreme Court ordered liquidation proceedings in case of Jet Airways using its special powers. Initially admitted into CIRP in 2019, the Jalan-Kalrock Consortium emerge as the Successful Resolution Applicant after multiple attempts. However, due to protracted litigation at every step and fundamental questions about the SRA's eligibility and ability to implement its plan, the plan could never be implemented.

In the case of Shree Bhoomika International Ltd. (corporate debtor herein), the Noida SEZ Authority filed an application to admit the CD into CIRP. In conclusion of an appeal filed by the SEZ Authority over partial settlement of dues (proportionate to their class of creditors), the Supreme Court held that the IBC prevails over the SEZ Act, 2005, and that the authority has no special right to a full settlement of its dues i.e., the seniority of repayment of dues will be determined as per the waterfall mechanism defined under the IBC. This judgment helps provide clarity on the hierarchy and seniority of creditors for companies having assets located in SEZs.

The Bombay High Court passed a landmark judgement against the requirement of a moratorium under the IBC. In this case, the petitioner society had entered into a Redevelopment Agreement with AA Estates Pvt. Ltd. (corporate debtor), who failed to start work for ~15 years from the date of original agreement. The society then moved to terminate the agreement and appointed another developer (TriStar) for the same. The IRP/RP contested the society's move to terminate the agreement on account of breach of moratorium. However, the Bombay High Court found that the CD was in continuing default of its commitment, held the society's move to terminate the agreement and appoint another developer to be valid (notwithstanding the moratorium), and instructed the MHADA to allow the redevelopment to proceed as per law.

In the case of Altair Industrial Technologies Pvt Ltd., where SIDBI and Bank of India were the only two members of the CoC, with Bank of India holding 91%, SIDBI challenged the approval of the resolution plan submitted by the suspended directors for this MSME company. The NCLT held that the plan submitted by the suspended directors in consortium with Sethi Funds Management Pvt. Ltd. was valid and compliant with the code, and allowed the extinguishment, through the Plan, of the personal guarantees given by the suspended directors, on account of them making good the loss borne by the company through PUFE transactions (as per NCLT orders).

In connection with the pre-packaged insolvency resolution process for MSMEs, only 13 applications were admitted as of September 2024. Out of these, one has been withdrawn, seven cases are undergoing the process, and the resolution plans have been approved in five cases. The industry has been urging the government for such a framework (or a similar creditor-led mechanism) for larger firms.

In a clarificatory judgement, NCLAT New Delhi decided that in case of no pending CIRP or liquidation proceeding against the corporate debtor before the NCLT, an application to initiate personal insolvency against a Personal Guarantor can be filed before the NCLT. In absence of clarity regarding the authority with which proceedings could be initiated (i.e., DRT or NCLT), this judgement laid down authority with the NCLT.[25]

Additionally, with an aim to avoid defaults and delays in payouts, SEBI via circular dated 18 November 2024, tightened the rules for rating downgrade even if there was a one-day default on payments of interest and/or principal form the scheduled repayment date. The CRAs are required to downgrade the rating to D (Default) even in case of a temporary delay or delay due to technical reasons. The CRA can upgrade the rating again within 90 days from the cure of default and regularization of payment. Thus, even though the impact of a momentary downgrade would not last long, such action could affect the stock price volatility of the company in question. The circular lays down certain scenarios where delay could be due to technical reasons and measures that the company should ensure to reduce chances of such technical delay.[26]

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[25] IBC Laws
[26] SEBI | Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 (“Master Circular”)

This circular will be a big leap towards investor protection from any kind of delays or defaults and thereby increase public confidence into the security markets, thereby attracting inflows into the security investments and consequently higher deployment of credit.

3.2 Development in Alternate Investment Funds (AIFs) framework

3.2.1 Investor due diligence and investor rights

a. Pro-rata and pari passu rights of investors

Vide SEBI circular dated 23 November 2022, schemes of AIFs that had adopted priority distribution model (i.e., schemes that issued senior and junior / subordinate classes of units) were directed to neither accept any fresh commitment nor make investment in a new investee company, until a view is taken by SEBI in this regard.

With the aim to introduce uniformity among the rights of all investors, SEBI notified in the Gazette dated 18 November 2024 the requirement of maintaining pro-rata (i.e., based on commitments in the scheme) distribution of all investment proceeds of an AIF scheme, unless in the case of any differential rights offered to a particular investor. SEBI laid down exceptions from such pro-rata distributions for investors who defaulted on their contributions, investors who have been specifically excluded from participating in an investment or in case of a profit-sharing agreement entered into by an investor with the fund's manager or sponsor. Further, Large Value Funds for accredited investors have been exempted from such regulation.

In order to provide flexibility in fund raising from investors with varied risk appetite, manager/ sponsor of AIF, Multilateral or Bilateral Development Financial Institutions, State Industrial Development Corporations and entities owned/controlled by State/Central/ Foreign Government (including Central Banks and Sovereign Wealth Funds) may accept returns lesser or share losses more than their pro-rata rights i.e., may subscribe to classes of units which are junior/subordinate to other class(es).

b. Specific due diligence of investors and investments of AIFs

The SEBI introduced stricter due diligence requirements for investors and investments in an AIF to prevent circumvention of benefits granted to QIBs, via circular dated 8 October 2024. It notified that for investors availing QIB status in any AIF scheme or in cases where AIFs (being eligible QBs under SARFAESI to invest in SRs of an ARC) facilitating ineligible investors, necessary due diligence must be conducted on any investor or investors belonging to the same group, who contribute 50% or more of the corpus of the scheme, prior to such investor/(s) availing benefits of the QB status.

Further, to address concerns regarding evergreening of stressed loans or assets of RBI regulated entities or lenders through AIFs and to prevent circumvention of Income recognition, asset classification, provision and restructuring norms for stressed loans or assets, necessary due diligence shall be carried out for every AIF scheme whose manager or sponsor is regulated by RBI or the scheme has RBI regulated investors. Provided that such RBI regulated investor should individually, or as a group contribute 25% or more of the scheme's corpus, are associate of the AIFs manager or sponsor or have majority voting power or veto in investment decisions.

Due diligence should also be conducted for investors from countries sharing a land border with India investing in Indian companies through AIFs, wherein 50% or more of the corpus of the scheme is contributed by investors who are citizens of such countries. Upon such due diligence, the scheme shall report details of investments of 10% or more equity or equity linked securities issued by an investee company, to its custodian within 30 days of the investment, who shall report to SEBI within 10 working days from the end of month.

3.2.2 Stricter environment for AIFs

a. Guidelines for borrowings by Category I and Category II AIFs and maximum permissible limit for extension of tenure by Large Value Funds (LVFs)

Restrictions have been placed on AIFs for borrowing funds to make investments. To avoid the risk of large and regular borrowings by AIFs to make investment decisions, SEBI via circular dated 19 August 2024 notified Category I and Category II AIFs not to borrow funds, except for temporary funding requirements or for day-to-day operational requirements (for a maximum of 30 days), and that too for not more than four times a year up to 10% of the investible funds.

An exception has been granted for borrowings to meet temporary shortfalls in making investments due to delay in receipt of capital from investors, whereby borrowing shall be allowed up to lower of 20% of proposed investment in the investee or 10% of the total investible funds in the scheme or commitment pending to be drawn down from investors (other than investors who failed to provide such drawdown amount). However, SEBI notified a cooling period of a minimum of 30 days between two such borrowings (from repayment date of the first borrowing).

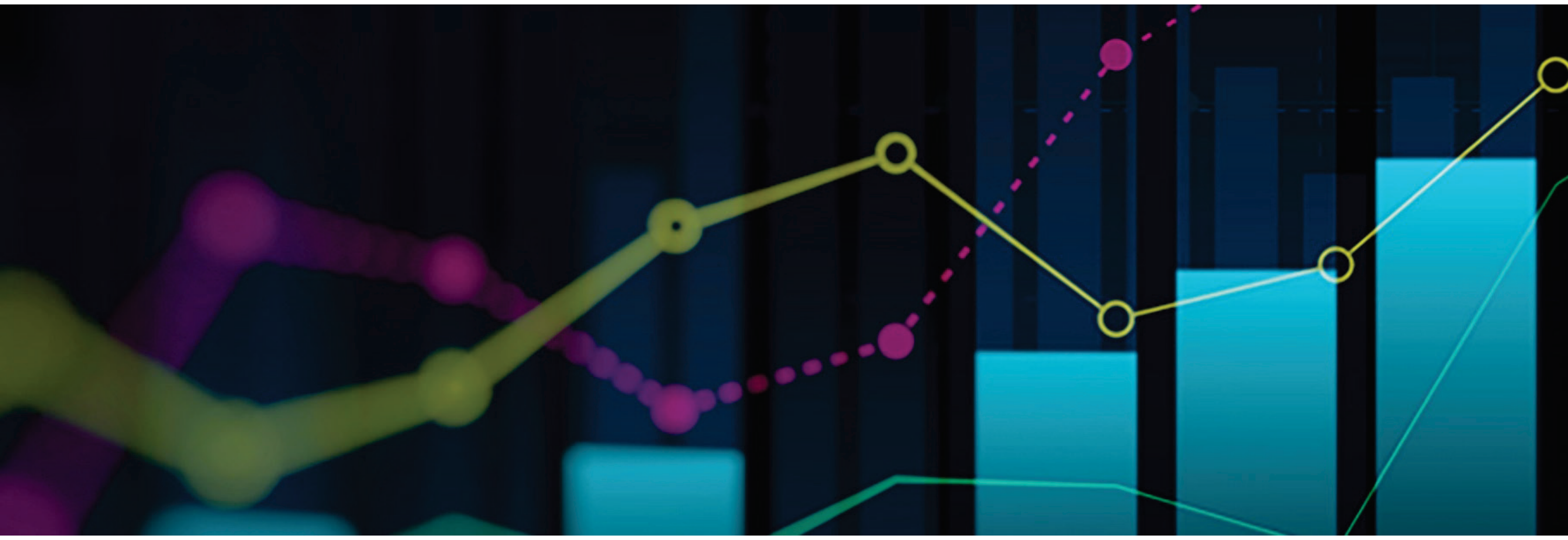
In case of a delay in the closure of a fund due to inability to raise timely capital and a consequent delay in deployment of the funds, there is a resultant blockage of investor's capital. To avoid this issue, SEBI via this circular has restricted the life of Large Value Funds up to five years subject to approval of two-thirds of unit holders (by value).

b. Modification in the framework of valuation of the investment portfolio of AIFs

SEBI has modified the valuation norms of unlisted securities, non-traded or thinly traded listed securities to allow the AIF industry to suo-moto (via an AIF Industry Association representing at least 33% of SEBI registered AIFs) endorse appropriate valuation guidelines rather than valuing them through SEBI (Mutual Fund) Regulations, 1996 *(as specified in the SEBI Master Circular for AIFs dated 7 May 2024)*. This allows to set a transparent valuation methodology that is approved by industry participants.

Additionally, the circular provides an extension by one month to the manager of AIFs to report valuations of investee companies to the performance benchmark agencies form the current timelines of six months from the end of the FY (i.e., up to October 31 every year)

Recently, a whole-time member of SEBI hinted at relaxing curbs for AIFs in India on the back of impressive industry growth labeling it as a 'goose that lays golden eggs'. Highlighting the growth trajectory and maturity of the industry, he laid emphasis on not burdening the industry with excessive checks and balances that could hinder its functioning. He reiterated that the push for eased regulations largely came from industry managers rather than investors, who are generally more cautious and prefer maintaining current standards of regulation[27].



[27] Article in NDTV Profit dated Dec 17, 2024 on SEB whole-time member's hint to relaxing AIF curbs

3.3 Tax and Regulatory Amendments

3.3.1 Budget amendments of July 2024

Post the General Elections in India, the Union Budget FY 25 was presented in the Parliament in July 2024, where the Indian Finance Minister presented a strategic blueprint aimed at catalyzing the nation's journey towards 'Viksit Bharat' or Developed India. The focus on creating large-scale employment opportunities, accelerating the growth of the rural economy, and fostering a consumption-driven economy through these means is noteworthy.

Some of the key income tax changes that have been brought by the Union Budget are as follows:

a. Rationalization of the capital gains tax regime

With the objective of simplifying the capital gains tax regime, the holding period of shares and securities has been rationalized. The holding period for all listed securities including units of business trust and equity oriented mutual funds will now be 12 months to be classified as long-term capital assets. All other assets will qualify as long-term capital assets if held for 24 months or more.

Further, the capital gains tax rates have been rationalized as follows:

- Long-term capital gains on shares and securities – 12.5% (subject to certain conditions);
- Short-term capital gains on listed equity shares, units of equity oriented mutual fund and unit of a business trust – 20% (subject to certain conditions);
- Short-term capital gains on other assets – applicable rates.

Note: as increased by applicable surcharge and health and education-cess. Indexation benefits on most of the assets now not available.

b. Taxation of unlisted debentures and bonds

In an important amendment impacting credit funds, the Finance (No. 2) Act, 2024 has amended the provisions of the Income-tax Act, 1961 (Act) to deem the transfer, redemption or maturity of unlisted debentures or bonds on or after 23 July 2024 as short-term capital assets irrespective of the period of holding and the resultant capital gain as short-term capital gains.

For global credit funds, it would be relevant to evaluate the tax treaty interplay of taxability of redemption premium, as a result of the introduction of the aforesaid amendment.

c. Timeline for reassessments

The timeline for initiation of reassessment proceedings by the Indian Revenue has been reduced from ten years to five years from the end of the relevant tax year where income escaping assessment amounts to INR 5 million or more. In other cases, it will continue to be three years from the end of the relevant tax year. This is a welcome change as it will provide greater tax certainty in M&A transactions for both the seller as well as buyers, who have an obligation to withhold tax.

3.3.2 Review of International Financial Services Centers Authority (Fund Management) Regulations, 2022

The 42nd meeting of the IFSCA Board was held on 19 December 2024. Given that the fund management industry in IFSC has grown at a healthy pace, the Authority approved the proposal on review of the IFSCA (Fund Management) Regulations, 2022. The changes have been undertaken to further boost ease of doing business, clarify the intent of certain regulatory provisions and introduce safeguards as are deemed necessary for the protection of investors' interest.

Some of the key changes proposed are as follows:

- Minimum corpus for all schemes, retail or non-retail, reduced from US$5 million to US$3 million;
- Prior approval of 75% investors in the scheme by value to be obtained for certain transactions with associates, other schemes of the FME or its associates, or a major investor (i.e., an investor who has committed to invest at least 50% of the corpus of the scheme);
- The requirements to appoint KMPs with the prior approval of IFSCA is dispensed with and the FMEs shall henceforth be required to only intimate the same to IFSCA;
- FMEs managing an AUM of at least US$1 billion, wherein the AUM of fund of funds scheme shall not be considered, as at the close of a financial year will be required to appoint an additional KMP. Further, with respect to the educational qualification and professional experience of the KMPs, the same is being streamlined.
- In order to ensure continued competence, employees of FMEs will be required to undergo certifications from such institutions as may be specified by IFSCA.

3.3.3 Consultation Paper on SPV Framework under IFSCA (Fund Management) Regulations, 2022

For promoting ease of doing business and to facilitate the growth of alternative investment industry in the IFSC, IFSCA has issued a Consultation Paper on Special Purpose Vehicle (SPV) Framework under IFSCA (Fund Management) Regulations, 2022. The creation of a SPV under the controlling scheme will be operationalized, to enable other investors to co-invest in the underlying securities along with the scheme or allow a scheme to take leverage at SPV level.

3.3.4 Other key proposals / amendments

The Reserve Bank of India has issued Master Directions – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025 dated 7 January 2025 consolidating the earlier circulars issued in relation to debt investments into India. This Master Directions will serve as a useful guide for global investors for understanding RBI's regulatory framework for their debt investments into India.

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- Debt Refinancing/ Settlement
- Debt Restructuring
- Portfolio Sales
- Acquisition Financing
- Sale of Distressed Assets

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- Interim Management
- Finance Function Effectiveness
- Fix-Sell-Close
- Working Capital Management
- Independent Business Reviews
- Technology led Business Monitoring
- Operational Turnaround
- Crisis Stabilisation
- Resolution Professional and Liquidation
- Bid advisory on IBC transactions

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Debt raise

The Sandur Manganese & Iron Ores Limited

Raised ~US$113 million from NBFCs and Mutual Funds for acquiring stake in a speciality steel manufacturing company, catering to the automotive industry

Listed EPC company

Raised ~US$73 million, completion of under-construction HAM project and balance for refinancing an operational of BOT project

GACL-NALCO Alkalies & Chemicals Private Limited

Raised ~US$60 million through CCDs with a mandatory put option on promoters, for refinancing short term debt to align with future cashflows.

IBC

Vadraj Cement Limited

Successfully completed the resolution process within 12 months with no management / employee support at hand, given that the company was shut for more than 6 years

Metalyst Forgings Limited

Assisted the Resolution Professional to run the company as a going concern, carried turnaround operations and assist handover to a successful Resolution Applicant

AMW Autocomponent Limited

Appointment as advisor to the Resolution Professional and ran an extensive investor outreach program resulting in submission of a resolution plan for acquisition of the company

Other Services

Netafim Agricultural Financing Agency Pvt Ltd

Sale of standard corporate loan portfolio and non-performing loan portfolio under the RBI's Transfer of Loan guidelines

Sarda Energy & Minerals Limited

Assisting in the acquisition of SKS Power Generation (Chhattisgarh) Limited under CIRP by helping the management to assess valuation along with transaction evaluation & structuring

Srei Infrastructure Finance Ltd
Srei Equipment Finance Ltd

Appointed as advisor to Administrator to run the IBC process and advise on resolution/ sale of individual borrower exposures with an aggregate book size of ~US$3.57 billion

Operational Restructuring

UM Autocomp Private Limited

Interim business monitoring role to preserve business value, thereby enabling debt refinancing and exit to the existing private credit stakeholder

Lets Transport

Developed investor-ready data room for due diligence, reduction in DSO terms through market benchmarking of contracts, and outlined growth pathway with minimum working capital availability

Chennai based, furniture manufacturing company

Preparation & execution of overall plan for voluntary liquidation with primary focus on optimizing inventory, realisation of debts and vendor settlements, thus providing a clean exit to the JV partners

04. New fund setup and deal activity

4.1 Fund raising

Based on the data published by SEBI, in H2 2024, ~28 new AIFs were registered, showing continued interest in the private credit space.

H2 2024 saw a steady stream of fund-raising updates and announcements. Relying on publicly available data and insights shared by funds, we have outlined the status of select fund-raising activities as follows:

- Kotak Alternate Asset Managers raised US$470 million for its real estate private credit fund and ~US$208 million for its performing credit fund.
- Alpha Alternatives raised US$450 million through its Alpha Alternatives Build India Infrastructure Fund[28].
- Investec's INR and US dollar denominated India focused funds:
  - INR Denominated Performing Credit Fund raised US$125 million in CY 2024, with deployment ticket sizes ranging from US$18 to US$36 million. The fund targets IRRs of 14% to 16%.
  - USD Denominated PE Acquisition Fund raised US$60 million in CY 2024, with deployment ticket sizes of US$10 to US$15 million. The fund targets return based on SOFR + 6-7%.
- ICICI Prudential Corporate Credit Opportunities Fund AIF II has raised US$179 million till December 2024 of which ~70% was raised in the last 12 months.
- Incred's performing credit funds:
  - Incred Credit Opportunities Fund - I raised US$79 million at its final close. The deployment ticket size is up to US$5 million and the fund targets an IRR of 17%.
  - Incred Credit Opportunities Fund - II raised US$65 million by December 31, 2024, with ~US$20 million raised in H2 2024. The fund aims at a deployment ticket size of up to US$12 million and targets an IRR of 16% to 17%.
- Neo Asset Management's performing credit fund, raised US$60 million in H2 2024. The fund aims at a ticket size ranging from US$8 to US$12 million and targets an IRR of 15%.
- Modulus Alternatives' performing credit fund - India Credit Opportunities Fund II, raised US$57 million, with a deployment ticket size ranging from US$15 to US$24 million, and targeting an IRR of 14% to 18%.
- BPEA Credit, hit the first close of its BPEA Credit Select Short Term Income Fund - I, by raising ~US$45 million, with a target fund size of US$90 million, and a green shoe option of US$90 million.[29]
- Anicut Capital announced the receipt of US$11 million in dollar-denominated investments via GIFT City Structure in its third Private Credit Fund[30]
- In the fundraising pipeline, Avendus Group plans to raise up to US$466 million with the launch of its third structured credit fund. Meanwhile, Aditya Birla Sun Life AMC is targeting a US$298 million raise for its ABSL Structured Opportunities Fund and an additional US$300 million through its India Yield Advantage Fund, catering to offshore investors via its Singapore-based entities[31].

[28] Article in NDTV Profit dated Dec 17, 2024 on SEB whole-time member's hint to relaxing AIF curbs
[29] BPEA Credit hits first close of its INR 1,500 Cr Select Short Term Income Fund
[30] Anicut raises US$11 million via GIFT City structure for Private Credit Fund 3
[31] Aditya Birla Sun Life AMC plans AIF expansion with private credit schemes | Company news - Business Standard

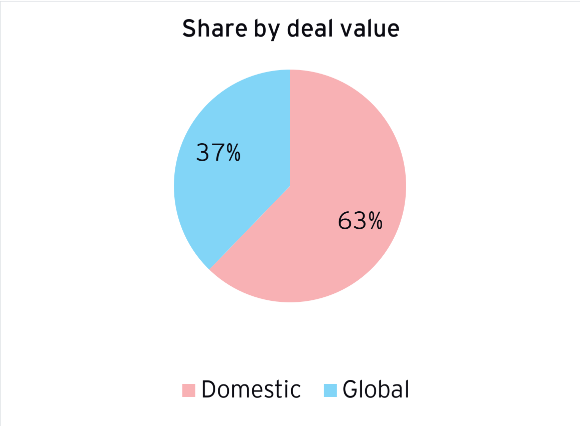
4.2 Deals during H2 2024

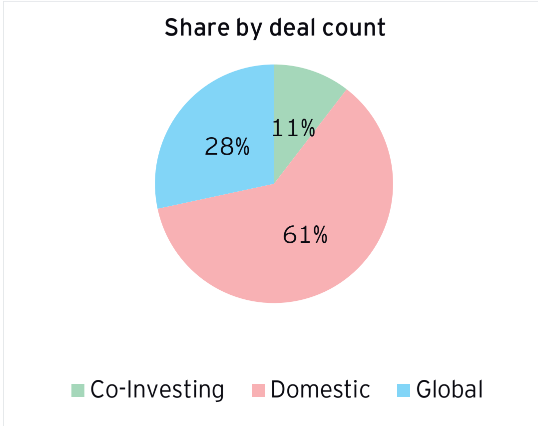
Important information: In this section, we have reported and analyzed private credit deals that were concluded in the second half of CY 2024. The data presented below is based on publicly available information and is limited to the deals tracked by us. This information does not include venture debt, debt raised by financial services players, term loans or working capital demand loans disbursed by NBFCs and offshore bond placements. 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 the 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 judgement is exercised in doing the analysis and reporting the data.

H2 2024 saw 67 deals each with a deal value higher than US$10 million, aggregating to ~US$3.3 billion. In comparison, H1 2024 saw deals of US$5.9 billion and CY 2023 saw a total of US$8.6 billion deals. Key deals concluded in H2 2024 include US$353 million raised by the Hinduja Group from private credit players to finance the acquisition of a bankrupt financial services firm, US$298 million secured by Kalyan Jewellers, and US$143 million obtained by Elan Avenue to refinance their existing debt and US$131 million raised by Embassy Group to acquire a stake in a co-working space provider. The total deployment in H2 2024 has pushed the full-year figure to ~US$9.2 billion, 7% higher than the deployment tracked in CY 2023.

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 2024. Global funds comprise institutions headquartered outside India with a multi-country presence. Domestic funds, on the other hand, are headquartered in India.



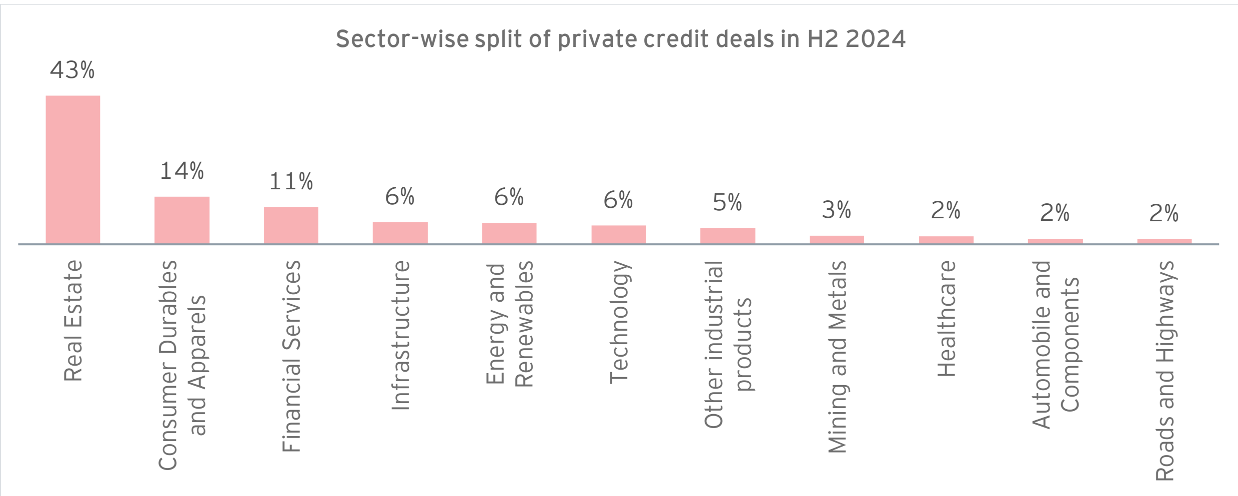


Note: Deals involving investments from both domestic and global investors have been separated and are not reflected as 'co-investing deals' by value.

In recent years, global private credit funds have typically held a larger share of total investments, driven by their capacity and preference for larger deals. This trend was evident in H1 2024, when global funds accounted for approximately 63% of the total investment value in the private credit space. However, their share declined to around 37% in H2 2024, with domestic funds gaining ground. In line with first half of the calendar year, domestic funds continue to lead in deal count, leveraging their local presence, strong relationships and extensive market coverage, while global funds remain focused on larger ticket sizes. The growing share of domestic funds by value can be attributed to the rising awareness of private credit as an asset class and the increasing number of domestic funds in the market.

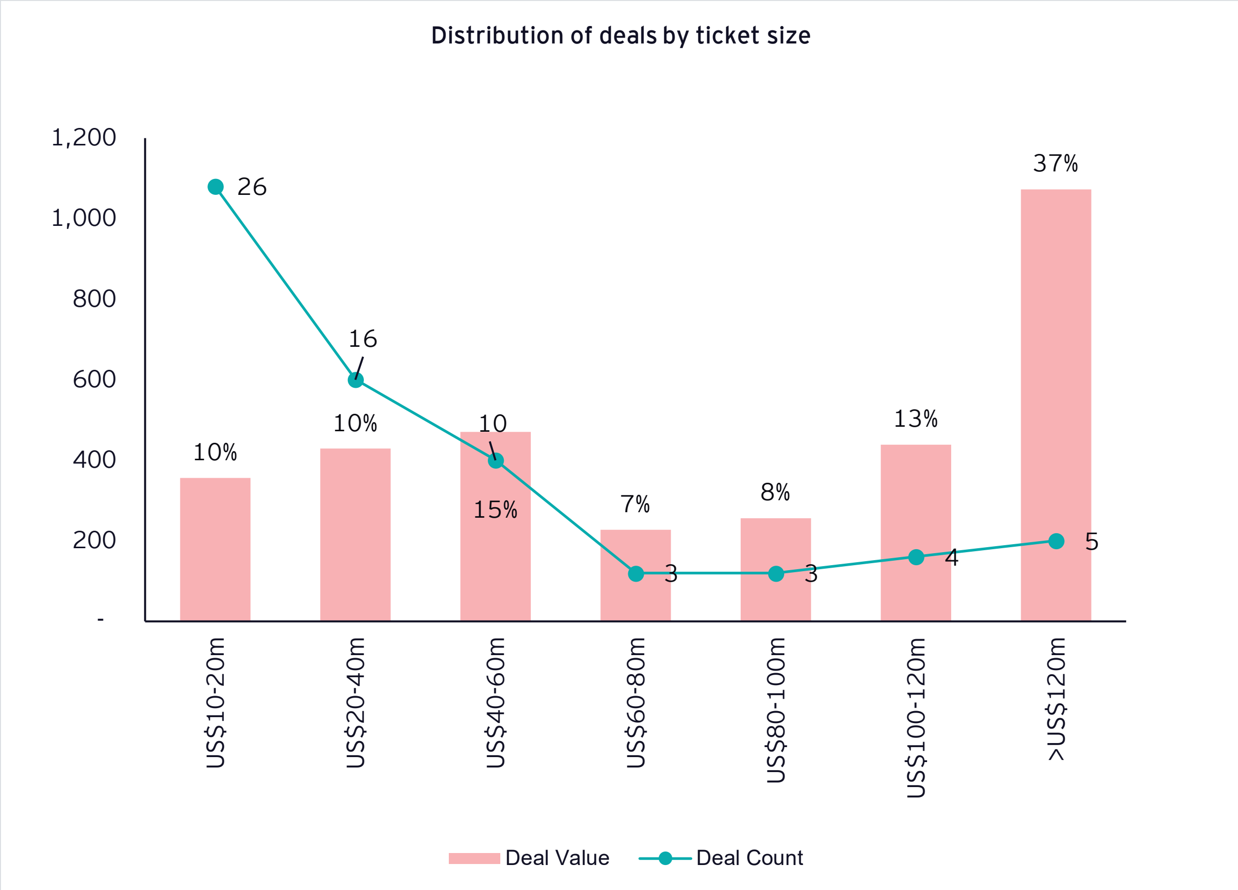
4.2.2 Sectoral dynamics of private credit deal flow

The chart below illustrates the sectoral distribution of private credit investments in H2 2024, with real estate continuing to attract the highest interest from credit funds. Key borrowers in the sector include Elan Avenue (US$143 million), Embassy Group (US$131 million), Total Environment (US$119 million), and Century Group (US$101 million). The consumer durables and apparel sector saw Kalyan Jewellers raise US$298 million, while the energy and renewables sector included Greenko Group's total debt raise of US$101 million, aimed at refinancing existing debt and funding growth initiatives



4.2.3 Distribution of deal size

The chart below presents the distribution of deals by ticket-size. In H2 2024, transactions exceeding US$100 million constituted 13% of the total count, consistent with H1 2024. The US$40 to US$60 million range emerged as the second-largest category, representing ~15% of both the total value and volume.



4.2.4 Summary of select deals in H22024

In H2 CY2024, we tracked approximately 67 deals totaling US$3.3 billion. The table below illustrates a sample of these transactions, offering a glimpse into the deal activity during the reporting period.

Month and Year	Borrower	Investor	Deal Value (US$ million)	Deal Rationale	IRR
Real estate					
Oct-24	Elan Avenue Limited	Kotak RE fund	143	Growth financing	Sub-18%
Sept-Dec 2024	Embassy Group - Serenesummit Realty Private Limited	360 ONE Private Credit fund and its affiliates	131	Acquisition financing	Sub-18%
Dec-24	Total Environment - Sai Yelahanka Development Private Limited	HDFC Capital RE Fund	119	Growth financing	Sub-18%
Nov-24	Century Joint Developments Private Limited	Ares Management	101	Refinancing	≥18%
Consumer durables					
Sep-24	Kalyan Jewellers India Private Limited	Oaktree Capital along with other lenders	298	Promoter financing to acquire an additional 2.36% stake in the company from Warburg Pincus.	≥18%
Nov-24	Anthea Aromatics Private Limited	IndiaRF Credit fund	87	Acquisition financing	≥18%
Financial services					
Sep-24	Hinduja Group - Cyqure India Private Limited	360 ONE Private Credit Fund and its affiliates, Aditya Birla Capital, Tata Capital, Motilal Oswal and Welspun NBFC	353	Acquisition financing for acquiring stake in reliance group's insurance and NBFC companies	Sub-18%
Infrastructure					
Sep-24	Shrem Ajanta Infrastructure Private Limited	Trust Advisors and Allianz Group	74	Downstream lending for growth of airport and hotel business of the subsidiary company	Sub-18%
Aug-Nov 2024	GMR Infra Projects Private Limited	ICICI Prudential Credit Fund, Trust Advisors, Famy Capital, UTI Credit fund, Nippon India Credit Fund	45	Lending to group company	Sub-18%
Jul-24	Sri Siddharth Infratech & Services (I) Private Limited	Investec Credit Fund	36	Working capital and general corporate purposes financing	Sub-18%
Energy and renewables					
Dec-24	Greenko Group - Axis Wind Farms (MPR Dam) Private Limited	Allianz Group, Trust Group and DSP	80	Refinancing	Sub-18%

Month and Year	Borrower	Investor	Deal Value (US$ million)	Deal Rationale	IRR
Oct-24	Fourth Partner Orion Private Limited	Investec Credit Fund	42	Capex financing	Sub-18%
Aug-24	Greenko UP01 IREP Private Limited	360 ONE Private Credit and its affiliates	21	Growth financing	Sub-18%
Technology					
Sep-24	InMobi Technologies Private Limited	Mars Growth Capital	100	Growth financing	Not Available
Healthcare					
Oct-Dec 2024	Aurore Life Sciences Private Limited	Modulus Alternatives Credit fund	30	Growth financing	Sub-18%
Dec-24	3Gen Consulting Private Limited	Piramal Credit Fund	22	Acquisition Financing and refinancing	≥18%
Jul-24	Shycocan Corporation - Scalene Livprotec Private Limited	Blackrock	13	Refinancing and working capital financing	Not Available
Mining and Metals					
Jul-24	Sudeep Group - Riva Resources Private Limited	Avendus credit fund and Tata Capital	48	Financing the buy-out of the 50% stake from its JV partner, JRS Pharma.	Sub-18%
Aug-24	Sanmar Matrix Metals Limited	ICICI Prudential Credit Fund	24	Refinancing and capex financing	Sub-18%
Roads and highways					
Aug-24	Sadbhav Infra Group - Ahmedabad Ring Road Infrastructure Limited	Edelweiss Credit Fund	40	Refinancing	≥18%
Automobile and components					
Jul-24	DMW CNC Solutions India Private Limited	Ascertis/ BPEA	14	Refinancing and Growth capital	Sub-18%
Dec-24	UM Autocomp Private Limited	Incred Credit Fund	11	Refinancing	≥18%
Other industrial products					
Sep-24	Essar Shipping - Abhinand Ventures Private Limited	Alpha Alternatives and co-investors	119	Repayment of group company debt	≥18%
Nov-24	Casablanca Industries Private Limited	Ascertis/ BPEA	11	Refinancing of existing bank debt	Sub-18%
Travel, hospitality and leisure					
Sep-24	Santladevi Resorts Private Limited	Neo Asset Management	10	Growth financing	≥18%

It is noteworthy that ~ 60 deals worth ~US$260 million, each with a deal value of less than US$10 million, were concluded in H2 2024. Some trades include funds raised by Moove Vehicles (US$9.6 million), Fourth Partner Energy (US$9 million) and Pharande Spaces (US$9 million). 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 addition to above, foreign banks provided capital at IRR below 15% across sectors such as mining, healthcare, and real estate, among others. For the acquisition of a stake in Agilus Diagnostics, Fortis raised US$185 million debt from a consortium of foreign banks, including DBS Bank, HSBC (GIFT City), Citicorp Investment Bank (Singapore) and Mizuho Bank (Singapore). Vedanta Limited raised US$119 million from Citi Bank (Singapore). Runwal Group's Aethon Developers raised UD$53 million from Standard Chartered Bank (Mauritius). Divyasree Soft Tech Realtors raised US$15 million from Standard Chartered Bank (GIFT City). Shapoorji Pallonji Group raised US$34 million from Deutsche Bank (Singapore). Piramal International Consultants raised US$24 million from Standard Chartered Bank (Mauritius) and Safe enviro raised US$24 million from BNP Paribas.

Furthermore, below are examples of notable private credit deals, totaling US$1.2 billion, where transactions were finalized in the first half of January 2024:

- GMR Infra raised US$750 million through Optionally Convertible Debentures (OCD) with ADIA as the investor.
- Sandur Manganese & Iron Ores Limited. secured acquisition financing of US$210 million from ICICI Prudential and 360 One.
- Zee Entertainment Enterprises raised US$239 million with investments from Resonance Opportunities Fund, St. John's Wood Fund, and Ebisu Global Opportunities Fund.

Additionally, the following select offshore transactions, totaling US$1 billion, concluded in H2 2024 and were not included in the previously mentioned US$3.3 billion deal value:

- Reliance Power issued US$500 million in foreign currency convertible bonds (FCCBs) to affiliates of Värde Investment Partners, aimed at repaying existing debt and expanding its renewable energy business. Similarly, Reliance Infrastructure raised US$350 million through FCCBs from the same investor group.
- Investec provided a total of US$150 million capital through a foreign currency term loan, with interest rates ranging from SOFR + 4% to SOFR + 6%. The borrowers included Aspire Systems International, Black Cherry Investments B.V., CSP Alpha Holdings Pte. Ltd., Canyon Trail Investments B.V., and Impetus Technologies LLC.

4.3 Exits: Select investment exits during H22024

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 in Akira Properties (~US$23.81 million), Spandana Sphoorty Financial (~US$7.14 million), SAMHI Hotels (~US$17.26 million), and Lone Furrow Investments Pvt Ltd (~US$41.67 million).
- Edelweiss Alternate Asset Advisors (Edelweiss Alternates) exited its ~US$89.29 million investment in Adarsh Developers, realizing an IRR of 20% to 25%. The exit was financed through cash flows and lower-cost bank debt at 12% and 13%.[32]
- Investec fully exited its ~US$41.67 million investment in Zenataris Renewable Energy Limited and partially exited Axicades Technologies Ltd, where it had invested ~US$25 million, achieving a realized IRR of 13%–16% on both.
- InCred Credit Opportunities Fund-I exited five of its investments while achieving an IRR of 17% to 23% on a total invested amount of US$21 million. The portfolio included Smartpaddle Technology Private Limited, True Credits Private Limited, Cocoblu Retail Private Limited, Edunetwork Pvt. Ltd., Gensol Electric Vehicles Private Limited, and Soothe.
- Neo Special Credit Opportunities Fund exited its investment in an airport company, achieving an IRR of over 19% on an ~US$9.17 million investment.
- Piramal Structured Credit Opportunities Fund (Piramal Alternatives) exited its ~US$8.93 million investment in ESDS Software in October 2024, achieving an IRR of 16.1%. The exit was facilitated through refinancing by banks.
- ICICI prudential Corporate Credit Fund AIF exited five of its investments - Shilpa Medicare Limited, Apeejay Infra-Logistics Private Limited, SAMHI Hotels Limited, Zuari International Limited, Precot Limited.
- Kotak Alternate Asset exited its holdings in TVS Supply Chain along with four other portfolio companies.

[32] News article

05.

In the spotlight

5.1 Global bank tie ups with private credit players

The relationship between banks and private credit lenders has evolved with the growth of private credit market, prompting increased collaboration. Private credit firms offer flexible, customized and relationship-driven deals, catering specifically to the diverse needs of clients. Banks, leveraging their extensive networks and resources, often act as intermediaries in private credit transactions by connecting borrowers with lenders. Partnering allows banks to diversify their revenue streams beyond traditional banking, enhance client relationships through tailored financing solutions, and gain a competitive advantage by establishing a foothold in this rapidly expanding sector.

The evolving regulatory environment may require banks to allocate additional reserves for higher-risk loans. By collaborating with private credit investors, banks can equitably distribute both the risks and returns of lending, thereby mitigating their financial exposure and sustain lending activities without excessively increasing reserve requirements.

As these collaborations continue to strengthen, carefully evaluating the appropriate structure while addressing regulatory and governance considerations becomes crucial. Stakeholders must assess the structure that aligns most effectively with their objectives, weighing the regulatory and tax benefits of various vehicles or frameworks. Additionally, key factors include determining the optimal capital structure and leverage for the platform, selecting the type of financing to provide, addressing distribution challenges, and considering seeding strategies along with stakes tied to anchor investors.[33]

As banks deepen their engagement in the private credit sector, the direct lending market is poised for significant transformation. This trend promises a future where businesses gain crucial funding to fuel growth and innovation.[34]

Here are some notable examples of partnerships in the US and Europe:

[33] Cred article dated 16 April 2024 on ‘Private Credit and Traditional Banks Forge a New Path’

[34] Alphaweek article dated 26 March 2924 on 'new partnerships between banks and private credit lenders deliver opportunities for businesses across the country'

Sr No	Period	Partnering entities	Fund size	Remarks
1	April 2024	Barclays and AGL backed by ADIA forming AGL Private Credit	US$2 billion	Focus on directly originated senior secured loans to large corporate borrowers
2	Jan 2024	Citibank and LuminArx Capital forming Cinergy	US$2 billion	Offer asset-backed and corporate capital solutions to Citi's global client base
3	Sept 2023	Wells Fargo and Centerbridge Partners forming Overland Advisors[28]	US$5 billion	Fous on North American direct lending
4	Sept 2023	Société Générale and Brookfield Asset Management	€10 billion	Originate and distribute high-quality private credit investments through a private investment grade debt fund
5	Sept 2024	Apollo's ATLAS SP and BNP Paribas	US$5 billion	Investment-grade, asset-backed credit originated by Apollo and ATLAS
6	July 2024	Webster Bank and Marathon Asset Management	NA	Cater to sponsor-backed mid-market companies
7	Sept 2024	Citi and Apollo	US$25 billion	Developed with geographical focus over North America

In India, BlackRock and Jio Financial Services established Jio BlackRock Investment Advisers Pvt Ltd. in September 2024 to explore private credit opportunities in India.

Given the low growth in corporate credit among SCBs in India, should more Indian banks consider strategic partnerships with reputed private credit players?

5.2 Private sector capex

After reaching a peak in mid-2012, the private sector capex cycle in India remained subdued for nearly a decade up to CY 2021, primarily in manufacturing, utilities and construction. According to a June 2024 report by ICICI Securities, listed corporate capex reached ~US$108 billion in FY24 and is expected to reach ~US$125 billion in FY25 (CAGR of ~8.4% over a decade). This space is dominated by non-PSUs (i.e., private corporates), accounting for ~70% to 80% of the total capex by listed corporates. The report highlights that the current capex cycle is being driven by the traditional sectors i.e., automotive (12%), metals (11%), industrials (11%) and telecom (8%)[35].

An Axis Capital report notes that the country's investment-to-GDP ratio in nominal terms peaked in 2012 at 34%, but bottomed to 30.7% in CY 2016, and has since rebounded to 33% in CY 2022. It is further estimated to reach 34% in CY 2024.[36] The report forecasts robust capex growth in power generation, with an investment potential of ~US$230 billion up to FY 30, including ~US$120 billion in renewables (except hydro). Emerging sectors such as green hydrogen, solar modules, robotics, data centers and energy storage solutions are expected to contribute significantly and help restore the investment-to-GDP ratio to ~34% by CY 2030.

However, in contrast to the RBI's optimistic outlook on the revival of the private sector capex cycle in the H2 2025, the 27th round of RBI's Systemic Risk Survey, conducted in November 2024[37], revealed that majority participants do not expect a revival, citing domestic risks like inflation and growth, as well as global risks such as geopolitical conflicts and commodity price fluctuations.

Despite different perspectives from the RBI and market participants on private sector capex in India, it is imperative for the Union Budget FY 26 to increase focus on capex and infrastructure spending. To maintain infrastructure momentum, there will also need to be a push for private sector participation. Moreover, with deleveraged corporate balance sheets, conditions seem favorable for an upturn in the private capex cycle.

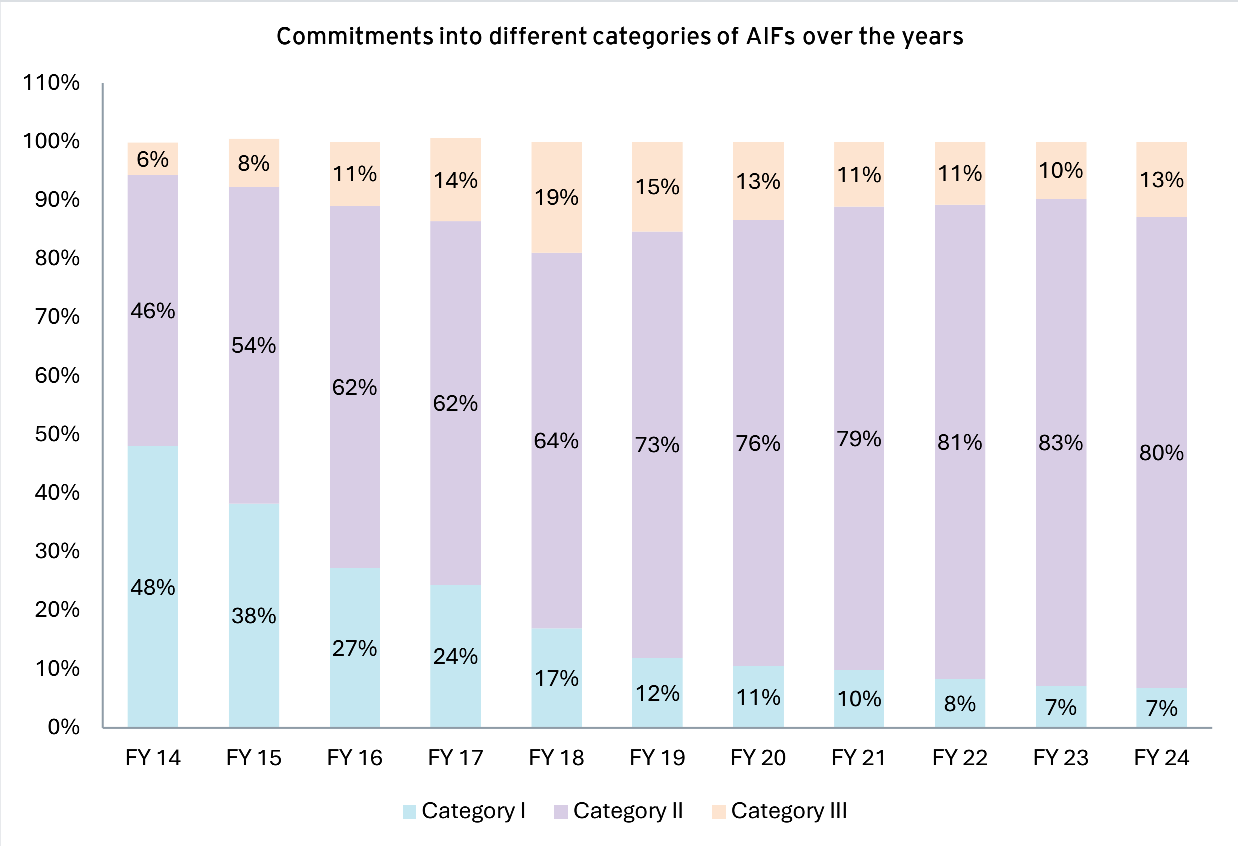
[35] ICICI Securities report dated 15 June 2024

[36] Axis Capital research note on India's capex engine dated 17 September 2024

[37] Swarajya article dated 3 January 2025 on RBI's Systemic Risk Survey dated Nov'2

5.3 AIFs have become the vehicle of choice for private credit growth in India

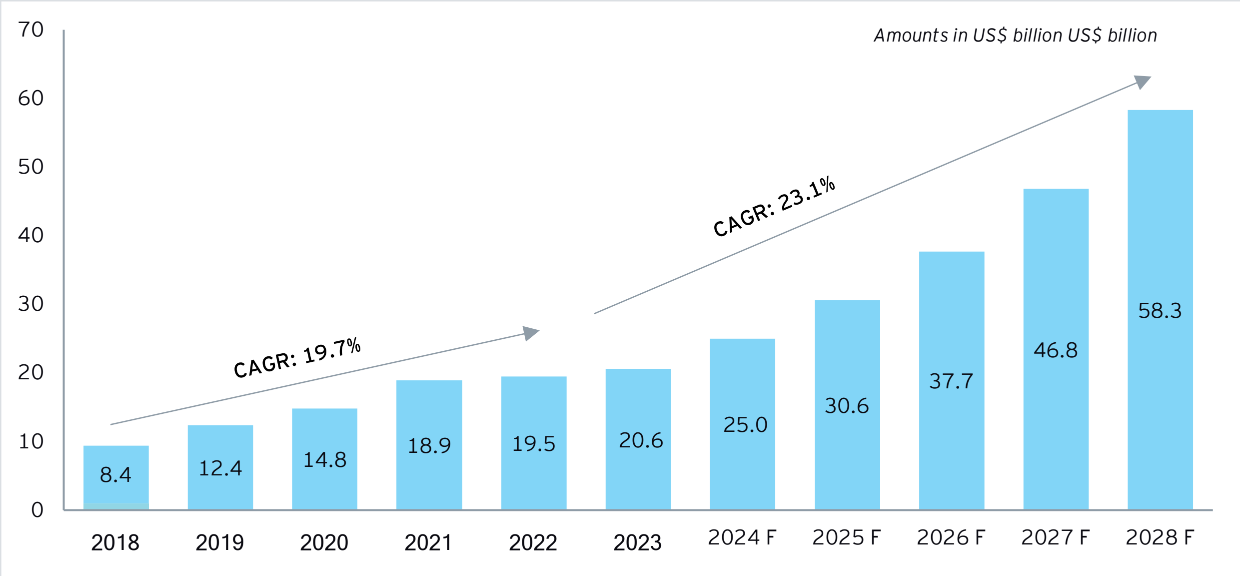
As India continues on its economic growth trajectory, investors are increasingly seeking investment opportunities outside the traditional ecosystem to build a diversified portfolios and safeguard their wealth against future financial downturns. Although India's alternative investment industry is relatively nascent compared to the global markets, it is experiencing growth. Within these alternatives, AIFs have seen a sharp increase, with a CAGR of ~32% from FY19 to FY24. This growth has been largely led by Category II AIFs, which account for ~80% of the total commitments into AIFs as of FY24.



Source: CARE Industry Research report on Alternatives dated December 2024

Going forward, private credit would be one of the fastest-growing segments in the Indian alternative's investment space, owing to the growing need for credit and the widening credit gap. The AUM of private credit in India and its percentage share in the total AUM of the AIF industry have grown multi-fold, from ~US$3.7 billion in CY 2014 (~6%) to US$19.5 billion in CY 2022 (~14%). It is projected to further increase to approximately US$58.3 billion by CY 2028 (estimated at 25%).

[38] CARE Industry Research Report on Alternatives dated December 2024



Source: CARE Industry Research report on Alternatives dated December 2024

The private credit market in India has experienced a positive trajectory, likely driven by factors such as increasing awareness of alternative investments, evolution of regulatory environment, people looking beyond traditional asset classes for investment option, improving financial literacy and a growing high-net-worth population in the country. There is a significant potential to scale overseas limited partner (LP) allocation to India, as well as tap into domestic LPs, contributing to the growth of the market in India.

06.
EY private credit pulse survey

6.1 About the survey

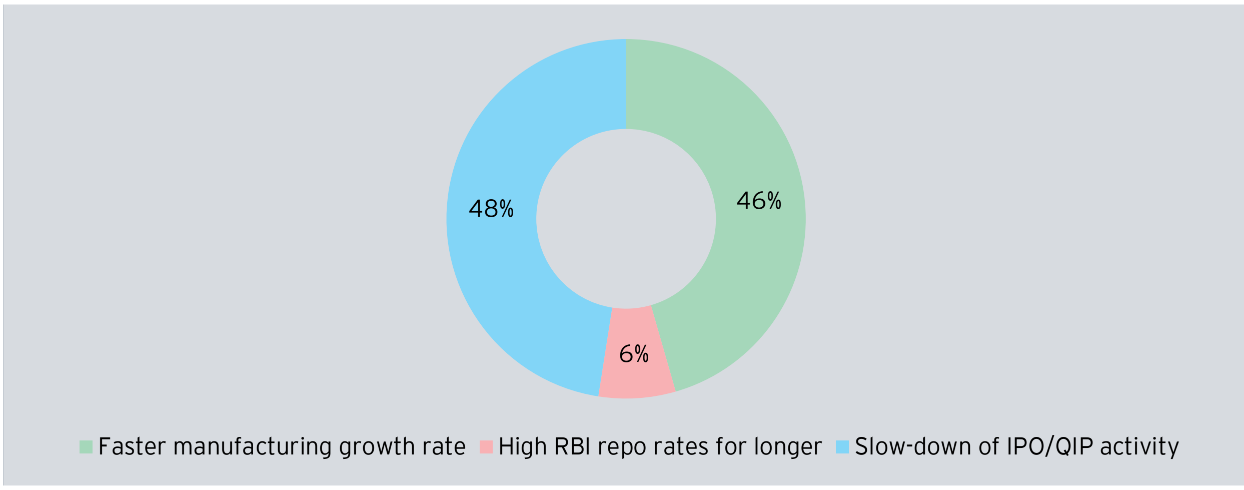
We conducted a periodic survey of the private credit market in India to gauge market dynamics and detect shifts in the industry's overall direction. In the survey, conducted in January 2025, senior leaders from 28 prominent Indian and global high-yield and performing credit funds participated. Approximately 59% of the respondents targeted deals within an IRR bucket of 12% to 18% (performing credit) compared to the other ~41% who preferred the 18% to 24% IRR bucket (high yield).

Private credit leaders continue to be bullish about the size and scale of private credit opportunities in India over the medium to long term. Short-term challenges to growth of the industry includes buoyant equity markets and slow economic growth. Inter se challenges are mounting as well, with more funds jostling for deals, especially in performing credit space. With private banks increasing their investments in special situation transactions, select NBFCs increasing their allocation to wholesale lending, and debt mutual funds actively participating in syndicated deals, competition for structured deals has certainly intensified.

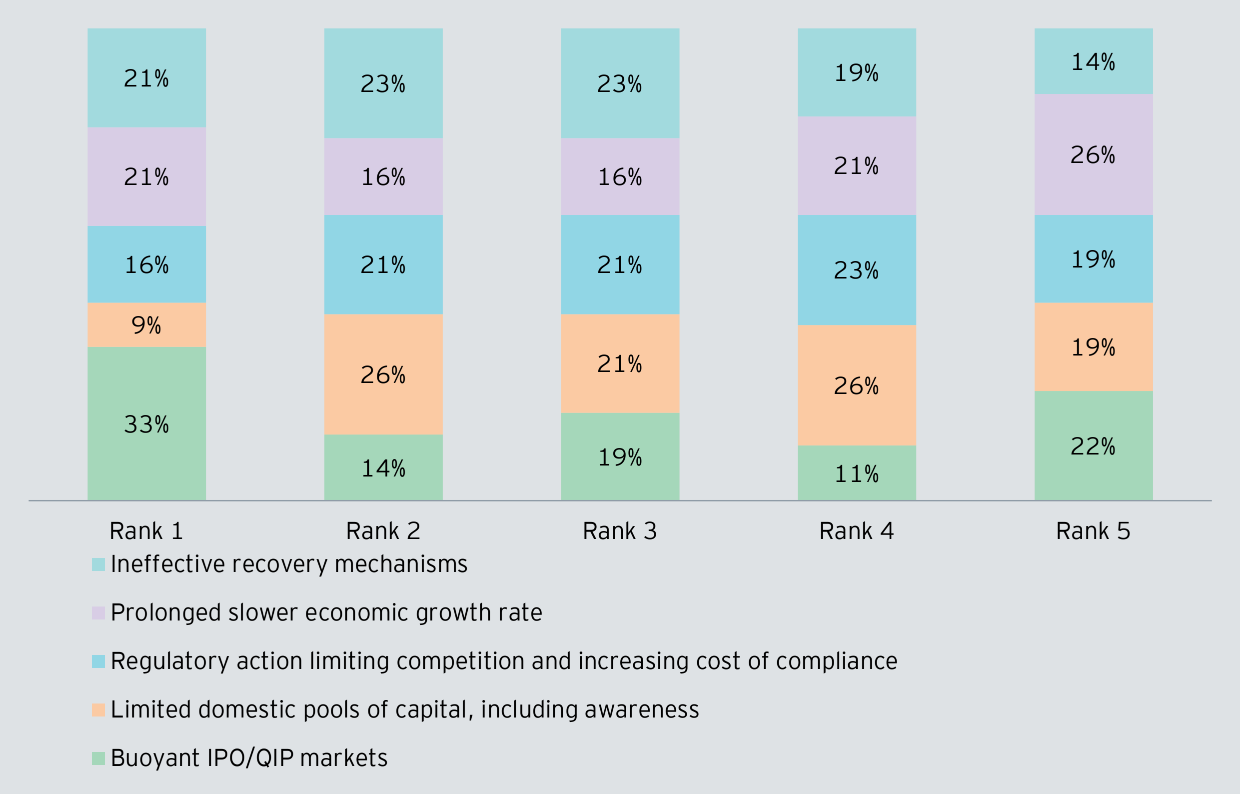
Our discussions with private credit players informs us that borrowers are spoilt for choice, deal making is becoming difficult, and lending standards are being compromised.

6.2 Results of the survey

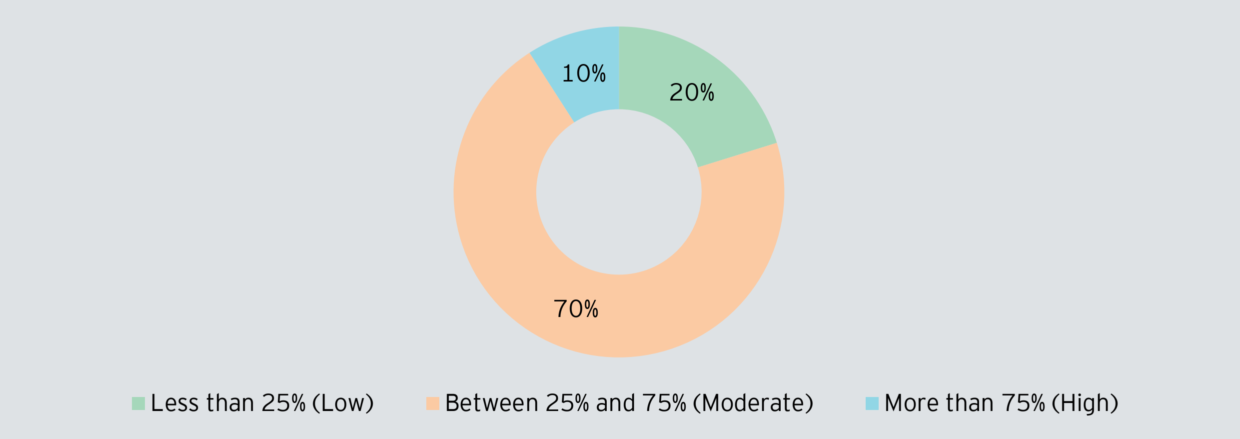
Q1 | **Select the option, which in your opinion will lead to higher demand for private credit:**



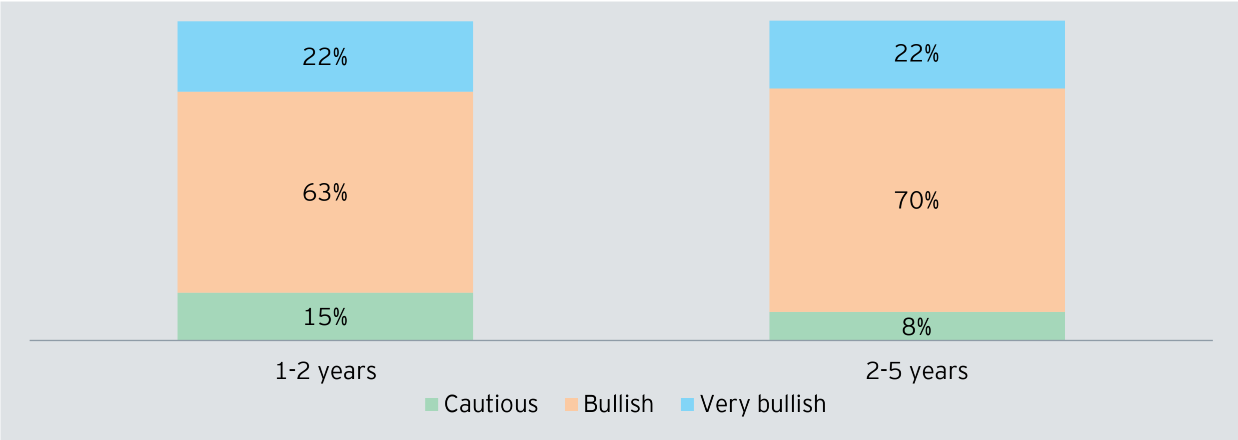
Q2 Rank the below options that in your opinion is the biggest risk to the growth of private credit in India (drag and drop your choice with Rank 1 indicating highest risk and Rank 5 indicating the least risk)



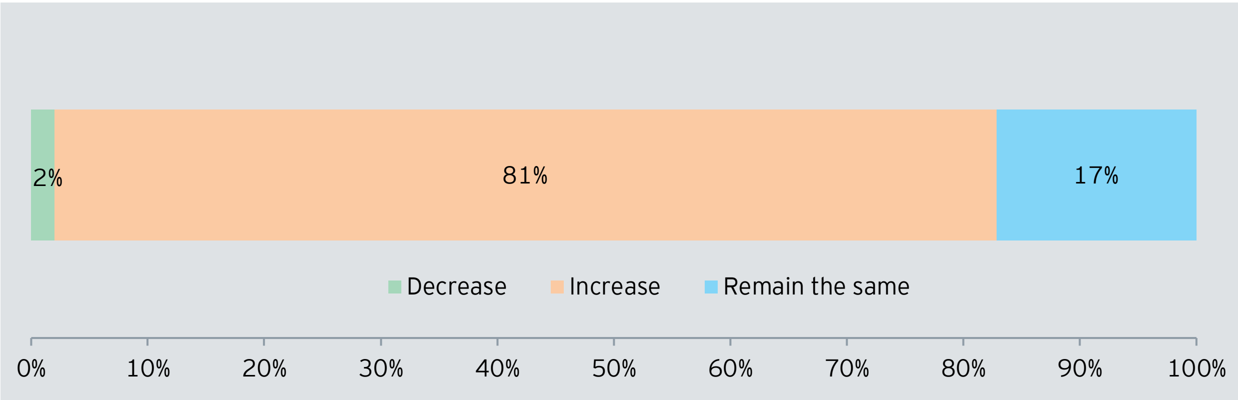
Q3 What percentage of HNIs and family offices are aware of private credit as an investment option?



Q4 What is the overall sentiment for private credit over next one to two years and two to five years?

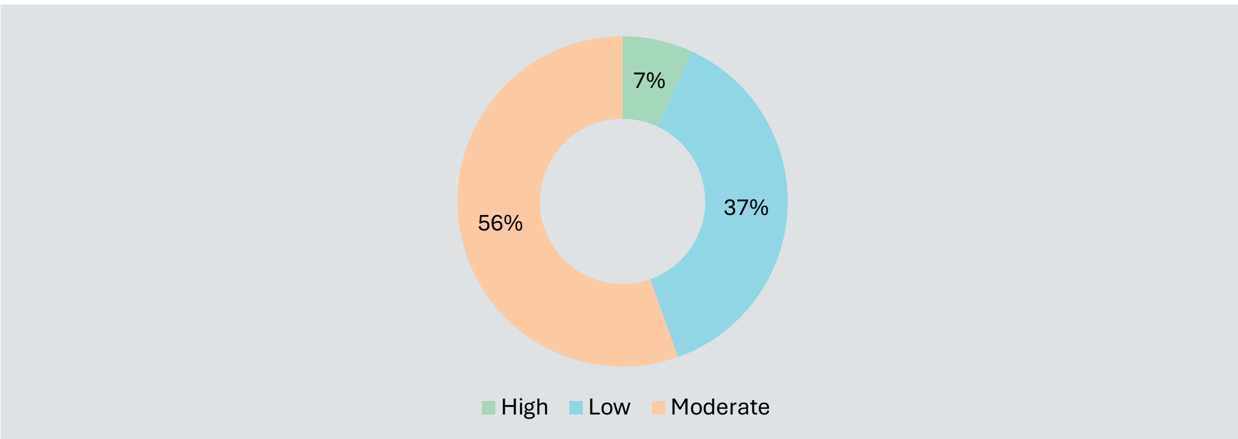


Q5 Over the next 12 months, will the competition for private credit deals increase, decrease or remain the same?



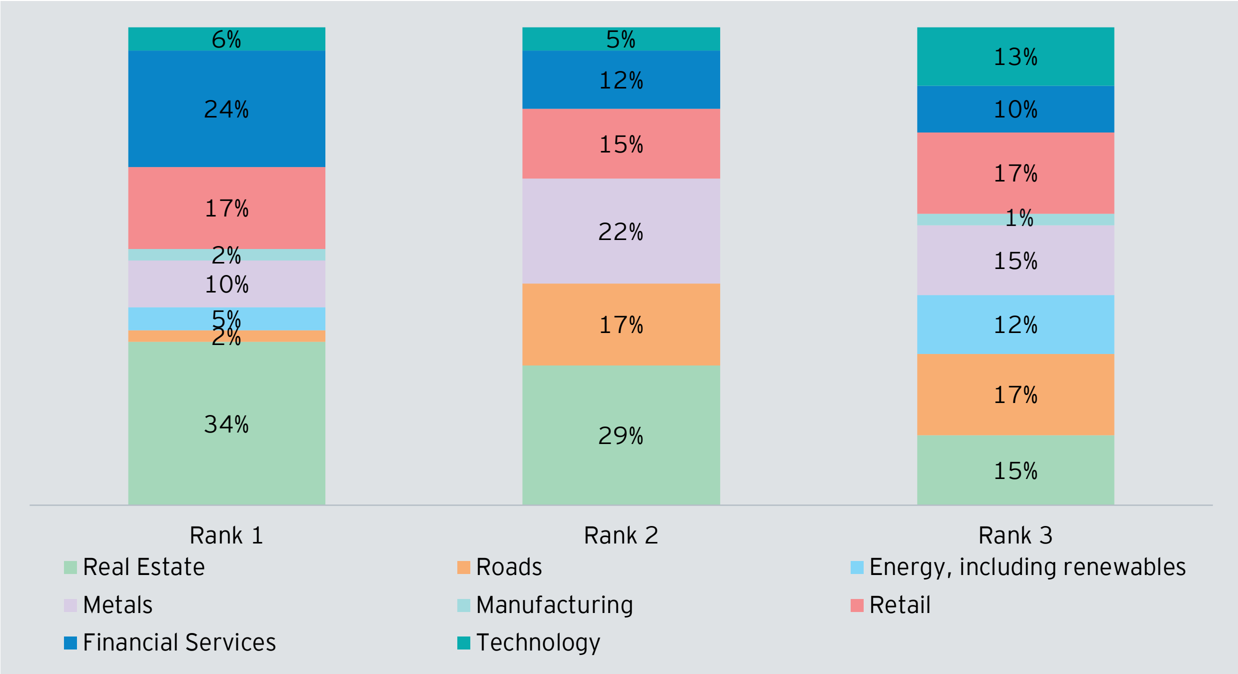
~81% of the respondents believe that competition in private credit deal would increase over the next 12 months, while a meagre ~2% anticipate a decrease (rest expecting no change). This idea has solidified more as compared to the last survey in July 2024, wherein ~73% respondents anticipated the increase in competition and a large ~27% foresighted a decrease.

Q6 What is your estimate of default risks residing within the current private credit portfolio in India?



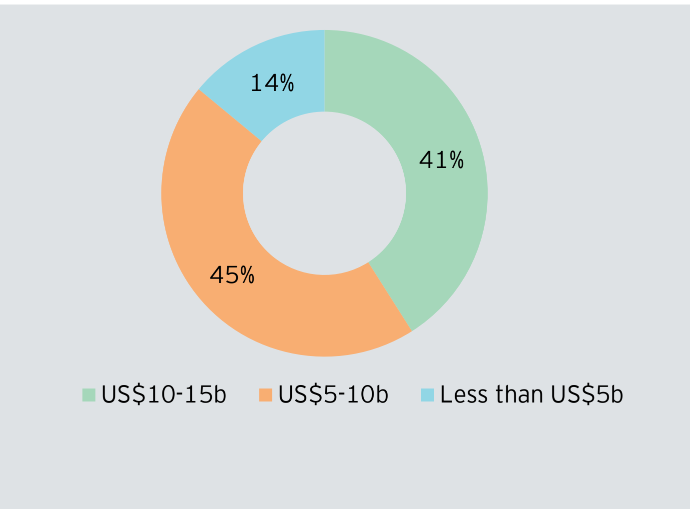
Similar to the last survey rolled out in July 2024, most fund managers estimate that the default risk residing within the current private credit portfolio in India is moderate.

Q7 Which of the sectors within the India Private Credit portfolio are at the highest risk of default? (drag and drop your choice with Rank 1 indicating highest risk and Rank 9 indicating the least risk)



Consistent with the findings of the survey conducted in July 2024, fund managers identify real estate as the riskiest sector within the present private credit portfolio. Additionally, financial services and retail sectors have also been identified as sectors with the potential for default.

Q8 What do you think will be the estimated total investment by private credit in the next 12 months?



In sync with the previous surveys, the prevailing viewpoint is that overall investments in India by private credit players will lie within the range of US$5 billion to US$10 billion in the next 12 months. However, ~41% of the respondents expect market size to go beyond the $10 billion mark.

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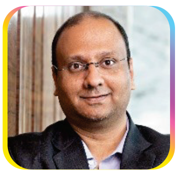

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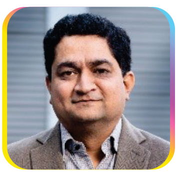

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Glossary

AIF	Alternative Investment Fund
AUM	Assets Under Management
b	Billion
CAGR	Compounded Annual Growth Rate
Capex	Capital Expenditure
CASA	Current Account Savings Account
CIRP	Corporate Insolvency Resolution Process
CRA	Credit Rating Agencies
CRR	Cash Reserve Ratio
CY	Current Year
ESOP	Employee Stock Option Plan
FCCB	Foreign Currency Convertible Bond
FDI	Foreign Direct Investment
FII	Foreign Institutional Investors
FMCG	Fast-Moving Consumer Goods
FME	Fund Management Entity
FPI	Foreign Portfolio Investors
FSR	Financial Stability Report
FY	Financial Year
GDP	Gross Domestic product
GNPA	Gross Non-Performing Asset
GoI	Government of India
HFC	Housing Finance Company
HNI	High Net Worth Individuals
IBBI	Insolvency and Bankruptcy Board of India
IBC	Insolvency and Bankruptcy Code, 2016
IFSCA	International Financial Services Centres Authority
IMF	International Monetary Fund
INR	Indian Rupee
InvIT	Infrastructure Investment Trust
IPO	Initial Public Offering
IRP/RP	Interim Resolution Professional / Resolution Professional
IRR	Internal Rate of Return
KMP	Key Management Personnel
LVF	Large Value Funds
m	Million
M&A	Mergers and Acquisitions
MSME	Micro, Small & Medium Enterprises
NA	Not available
NABARD	National Bank for Agriculture and Rural Development
NARCL	National Asset Reconstruction Company Limited

NBFC	Non-banking financial company
NCD	Non-convertible debentures
NCLAT	National Company Law Appellate Tribunal
NCLT	National Company Law Tribunal
NIM	Net Interest Margin
OBPP	Online Bond Platform Provider
PE	Private Equity
PFC	Power Finance Corporation
PLI	Production Linked Index
PSB	Public Sector Banks
PSU	Public Sector Undertaking
QIB	Qualified Institutional Buyers
RBI	Reserve Bank of India
REC	Rural Electrification Corporation Limited
REIT	Real Estate Investment Trust
RWA	Risk Weighted Assets
SBI	State Bank of India
SCB	Scheduled Commercial Bank
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SIDBI	Small Industrial Development Bnak of India
SIF	Systematic Investment Fund
SOFR	Secured Overnight Financing Rate
SPV	Special Purpose Vehicle
US	The United States of America
US$	US Dollar
Y-o-y	Year over Year

All INR amount converted to US$ at INR 84 per US$.

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