Private Credit in India

H1 2024 Update

EY

Building a better working world

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Executive summary

In CY2024, the global political arena is abuzz with over 50 elections impacting numerous countries, including major economies such as the European Union, India, Britain, South Korea, Russia, Taiwan, South Africa and Pakistan. These elections have led to significant market fluctuations and influenced investment decisions globally. The upcoming United States presidential elections are being closely watched due to their significant potential impact on global economic and geopolitical dynamics. Geopolitical tensions, such as the Russia-Ukraine conflict, have prompted economic sanctions against Russia and a shift in investments towards more stable markets. As of early August CY2024, war drums are beating in the Middle East and turbulence continues in the Taiwan Strait, impacting commodity prices and trade routes, leading to higher inflation and longer supply chains.

The economic outlook, as per the IMF April 2024 report, predicts a global growth of 3.1% in CY2024 and 3.2% in 2025[1]. However, in August CY2024, global markets have been spooked due to worries of a recession in the US. Meanwhile, China's economic difficulties have led to the "China Plus One" strategy, with India and Vietnam emerging as favorable investment destinations. India's economy is particularly robust, with a growth projection of 7% and 6.5%[1] in CY2024 and 2025, respectively. RBI has projected a growth forecast of 7.2% for FY25[2]. The Indian Rupee has remained stable, and the government has increased capital expenditure significantly, while keeping the fiscal deficit under check and aligned to the fiscal glide path. India's manufacturing sector is abuzz with higher utilization and the banking system is robust, making the country an attractive destination for global investors, thanks to its economic growth, strategic initiatives and conducive business environment.

The Indian banking sector showcased a strong performance in FY24, with the RBI reporting a robust credit increase of 16.1% y-o-y[3]. The sector's health is reflected in stable asset quality, high capital buffers and sustained loan growth, particularly in retail, despite a rise in lending rates. However, the rise in unsecured loans to 36% of new retail lending warrants a note of caution. The banking sector's NPA landscape has continued to improve, with the GNPAs dipping below 2.8%[2] and net slippages maintaining at a modest ~0.6%[2]. Looking ahead, Moody's predicts a bank credit growth of 12% to 14%[4] for FY25, slightly lower than FY24's performance, while SBI anticipates maintaining a robust 14% to 16% growth.

Private credit deal has continued to show robust growth in CY2024. In H1 CY2024, based on the deals tracked by us, a total of US$6 billion (vis-à-vis US$8.6 billion during the CY2023) was invested in private credit deals. Our data does not include deals less than US$10 million and offshore credit raise. However, based on select deals tracked from public sources, these would amount to at least an additional US$174 million and US$1.9 billion, respectively[5]. The deal data clearly indicates that, from a run rate point of view, H12024 is substantially ahead of the deal flows in CY2023. The trends in the data are in line with our previous observations on the increasing activity in the private credit market in India.

However, the RBI, in the financial stability report, has noted risks stemming from private credit, which has emerged as a major source of funding for mid-market companies, particularly noting the interconnectedness with banks and NBFCs, riskier borrower profiles, complex structures, multiple layers of leverage and gaps in data combined with lesser regulatory oversight.

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[1] *World Economic Outlook Update, July CY2024: The Global Economy in a Sticky Spot*
[2] *Livemint article dated 8 August CY2024*
[3] *RBI's Financial Stability Report Issue No. 29*
[4] *News Article Dated 12 June CY2024*
[5] *EY Analysis*

Private credit deals in H1 CY2024

Mentioned below are key highlights of the deal flow in H1 CY2024:

- H1 CY2024 witnessed deals aggregating to US$6 billion as against US$8.6 billion in CY2023 and US$5.9 billion in CY 2022.
- Global funds, by virtue of their ability and preference to do large deals contributed to ~53% of the aggregate investments of H1 CY2024, versus 63% over the last two years. The decline in the share of global funds has resulted in the corresponding increase in the share of domestic funds.
- The surge in deal value in H1 CY2024 is largely attributed to few high-value performing and high yield credit deals, wherein Reliance Logistics and Warehousing (US$697 million), Vedanta Semiconductors (US$301 million), Matrix Pharma (US$293 million), and GMR Airports (US$271 million) raised funds.
- Real estate continues to receive the most amount of attention by credit funds. Major borrowers within real estate include Prestige Group (US$283 million), Puravankara group (US$139 million), Kalpataru group (US$103 million), and Shapoorji group (US$95 million).

Please refer to our deal section for a detailed analysis of the private credit deal flow in H1 CY2024.

EY private credit pulse survey

- ~60% of respondents considered real estate and manufacturing as sectors attracting the most amount of deal flow. This trend was similar to the last survey we conducted in January CY2024.
- At the time, funding capital expenditure requirement was seen as the foremost driver of private credit deals, followed by stress-related and M&A financing. Further, 50% of fund managers anticipated that investment in capex would drive private credit demand over the next 12 **to** 24 months. Stress-related deals accounted for the highest percentage (38%) in the January CY2023 survey, followed by bridge to IPO and capex financing. This highlighted the ongoing evolution of the private credit market.
- 58% of the fund managers reported that the private credit investment activity in the next 12 months was likely to range from US$5 billion to US$10 billion.

1

Macroeconomic outlook

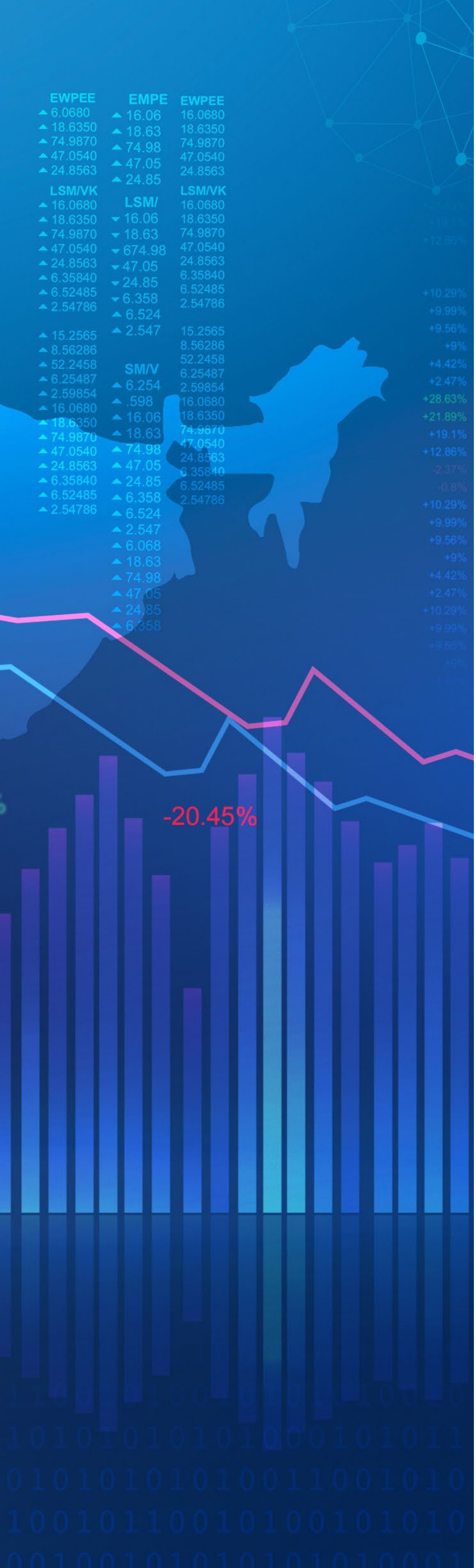
As we enter the second half of CY2024, the world experiences an unprecedented wave of political activity, with over 50 elections affecting half the planet's population. The first half of the year saw elections in the European Union, India, Britain, South Korea, Russia, Taiwan, South Africa and Pakistan, each bringing their own share of surprises and volatility. All eyes are now on the United States presidential elections, where the stakes are higher than ever. These political shifts are poised to create significant economic turbulence, influencing investment strategies across all asset classes.

Further, the Russia-Ukraine conflict continues, with higher risks of a wider escalation. Consequently, NATO nations have been boosting defense budgets, directing capital into defense sectors, and Europe has been investing in alternative energy to reduce Russian energy dependence. Ongoing conflicts involving Iran, the US, and Israel have created economic instability, impacting broader commodity basket and oil prices, trade routes and accelerated inflation.

According to the IMF's World Economic Outlook report of April 2024, global growth is projected to be 3.1% in CY2024 and 3.2% in 2025[6]. This pace is considered slow by historical standards, influenced by high borrowing costs, the withdrawal of fiscal support, the long-term effects of COVID-19, and geopolitical tensions. The report also anticipates a decline in global headline inflation from an annual average of 6.8% in CY2023 to 5.9% in CY2024 and 4.5% in 2025[5]. Advanced economies are expected to reach their inflation targets sooner than emerging markets and developing economies.

The US Federal Reserve raised the federal funds rate by 25 basis points in March and May 2024, bringing it between 5.25% and 5.50%, highest since 2001. While these rate hikes have successfully reduced annual inflation from a peak of 9.1% in June 2022 to 3.2% now, albeit above the target inflation rate of 2%, they have also increased borrowing costs for businesses and households. The Federal Reserve now faces a delicate balancing act, i.e., keeping rates high enough to curb spending and tame inflation without tipping the economy into recession.

[6] *World Economic Outlook Update, July CY2024: The Global Economy in a Sticky Spot*



In China, the property market crisis, among other economic challenges, has adversely impacted household wealth and local government revenue. In this context, "China Plus One" strategy has gained traction and countries such as India and Vietnam have become popular options, offering competitive labor costs and growing markets.

Shifting focus to India, the IMF has projected the nation's growth rates at 7% in CY2024 and 6.5% in 2025, reflecting resilience in domestic demand[5]. Q4 FY24 witnessed a real gross domestic product (GDP) growth of 7.8%, with the annual growth for CY2023-24 reported at 8.2%.[7] India witnessed FDI inflows of US$45.8 billion in FY24, slightly down from US$47.6 billion in FY23[8]. The Indian Rupee remained one of the least volatile major currencies in H1 FY24 and appreciated modestly against the US dollar. The Government of India's total expenditure grew by 6.1% in FY24, with a notable 28.8% y-o-y increase in capital expenditure and a modest 1.2% rise in revenue expenditure [7]. According to the RBI's Monetary Policy Statement FY25, capacity utilization in the manufacturing sector was at 76.8% in Q4 FY24, highest in 11 years[9]. Basis Axis bank's research published in the Economic Survey FY24, private investment across a consistent set of over 3,200 listed and unlisted non-financial firms has grown by 19.8% in FY24.

On the banking front, the asset quality of SCBs recorded sustained improvement and their GNPA ratio moderated to a 12-year low of 2.8% in March 2024.

India continues to remain a favored destination for the global investors, driven by its robust economic growth, strategic initiatives, and a large, young workforce. Further, India's commitment to innovation, infrastructure development, and ease of doing business would make the conditions more conducive to the international business community.

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[7] *RBI Bulletin June CY2024*
[8] *Provisional estimates released by the National Statistical Office*
[9] *Reserve Bank of India Bulletin - August 2024*

2 Analysis of **credit deployment** and **growth**

2.1 Credit deployment by scheduled commercial banks

According to the RBI, the banking sector stood strong in FY24, with robust capital ratios, high coverage of non-performing assets, steady asset quality, consistent loan growth of 15% to 16% year-on-year and net interest margins remaining at the upper end of the long-term range. The banking system credit in FY24 was up by 16% y-o-y, post being adjusted for the HDFC merger, despite steep hike in lending rates. A change in the composition of retail loans might indicate an incipient risk, as unsecured loans now contribute to ~36% of incremental retail loan growth, despite an increase in risk-weighted assets. A challenge emerging from a strong banking sector is the fight for CASA deposits as increasingly savers are choosing capital markets as an avenue park surplus funds. This could lead to higher cost of deposits and lower NIMs for the banking sector.

A mix of write-offs, upgradations and recoveries contributed to further reduction in GNPAs to below 3% (a six-year low) and net slippage at ~0.5% compared to the long-term average of 1%. Hence, the credit costs stay benign.

Growth in loans is close to decadal peak and sustaining for almost two years, with retail as the primary driver of growth despite marginal moderation. The overall bank credit growth between November 2023 and June 2024 was approximately 11%. A brief comparison is shown below.

Sectoral deployment of credit analysis (scheduled commercial banks)[10]

Particulars (US$b)	November 23 (a)	June 24 (b)	Change (US$b) (b-a)	Annualized growth rate (%)
Agriculture and Allied Activities (a)	236	260	24	17%
Industry:				
MSME	119	126	7	10%
Large	321	323	2	1%
Sub-total (b)	**440**	**449**	**9**	**2%**
Services:				
NBFC	183	187	5	4%
Trade[1]	111	128	16	24%
Real Estate	52	58	6	18%
Others[2]	175	194	19	17%
Sub-total (c)	**521**	**567**	**46**	**14%**
Personal loans (d)	**618**	**661**	**43**	**11%**
Total (a+b+c+d)	1,816	1,937	122	10.9%

Note:

1. Trade includes wholesale trade (food procurement credit outside the 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 growth in agriculture and allied activities grew at robust at 17% (annualized) between November 2023 and June 2024. While the credit growth in industry grew by a modest 2% (annualized), credit to MSMEs grew by 10% (annualized) over the same period. Among major industries, growth in credit to ‘Food processing’, and ‘glass and glassware’ and ‘beverage and tobacco’ accelerated. The growth in the personal loans segment moderated to 11% (annualized) due to slow growth in housing and vehicle loans.

The global rating agency Moody’s expects bank credit to grow by 12% to 14% Y-o-y in FY25[11], which is lower than the actual Y-o-y growth in FY24 of 16%. Lower pace of deposit growth and hike in Risk Weighted Assets (RWA) on unsecured loans as well as bank loans to NBFCs are expected to be the drivers of a low credit growth. Despite these, SBI expects to clock a credit growth of 14% to 16% in FY25.

[10] *RBI Sectoral Deployment of Credit Report*

[11] *News Article dated June 12, CY2024*

2.2 Credit deployed by NBFCs

As per ICRA ratings, growth in NBFC AUM growth will moderate to 17-19% in FY25 mainly due to the non-mortgage retail loan segment, as compared to 23% to 24% in FY24[12]. The personal and consumption loan segment, which grew at steep rates in the previous two financial years, is expected to experience relatively muted growth in FY25 mainly due to regulatory actions.

2.2.1 Wholesale book of NBFCs

In our previous editions, we reported that the wholesale book of large-listed NBFCs has largely remained stagnant / declining since the IL&FS crisis. We have analyzed the wholesale books of 15 large listed NBFCs (excluding HDFC but including private sector lending of REC and PFC) since March 2018.

Overall, the wholesale book increased by US$0.8 billion Y-o-y (between Mar23 and Mar24), led by increase in private sector lending of government backed NBFCs (USD$ 4.4b) which was partially offset by declining wholesale book of other private NBFCs included in our analysis (US$ 3.6b).

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$3.1 billion to US$2.8 billion year-over-year, our analysis of NCD deals in H1 CY2024 indicates continued involvement from debt mutual funds. This is demonstrated by their participation in financing NIRMA, Seil Energy, RenServ Global, among others.

Debt mutual fund AUM

Funds (US$ billion)	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
Liquid Fund	62.5	40.9	44.9	47.5	56.0	44.4
Money Market Fund	7.2	7.0	11.6	14.1	14.4	18.2
Corporate Bond Fund	7.4	10.0	19.0	16.2	14.2	18.0
Overnight Fund	1.4	9.8	10.9	15.3	14.1	7.5
Low Duration Fund	11.1	9.9	16.4	14.0	11.5	11.0
Short Duration Fund	9.9	11.4	18.2	14.6	11.4	12.1
Ultra Short Duration Fund	10.5	8.8	11.7	10.8	11.2	10.2
Banking and PSU Fund	4.2	8.9	14.9	11.8	9.1	9.9
Floater Fund	3.7	4.0	7.8	9.9	7.1	6.3
Medium Duration Fund	4.6	3.5	3.8	4.1	3.2	3.2
Credit Risk Fund	9.9	6.8	3.5	3.4	3.1	2.8
Dynamic Bond Fund	2.4	2.2	3.2	3.1	2.8	3.9
Gilt Fund	0.9	1.1	2.0	1.9	2.0	3.3
Medium to Long Duration Fund	1.2	1.2	1.3	1.3	1.1	1.3
Long Duration Fund	0.1	0.2	0.3	0.3	0.4	1.6
Gilt Fund with 10-year constant duration	0.1	0.1	0.2	0.2	0.2	0.6
Total	137.1	125.8	169.7	168.5	161.9	154.3

Source: SEBI Website

[12] *ICRA report on NBFCs - Headwinds around growth and profitability to intensify in FY2025, April 2024*

2.4 Corporate bond market

In the past, we have discussed the importance of the corporate bond market as an alternative to bank finance. As of March 2024, the total outstanding corporate bond totaled to US$561 billion. The overall market size has increased by ~9.4% over March 2023.

In fiscal year CY2024, banks, NBFCs, and Public Sector Undertakings (PSUs) continue to dominate Indian bond market issuances, as in previous years. However, non-PSU and non-financial corporates have increased their bond issuances compared to CY2023. Major issuers in FY24 included NABARD, REC, HDFC, PFC, and SIDBI. There was a record mobilization of US$1.2 trillion through private placements, involving 976 institutions and corporates. This rise occurred despite recent tax changes impacting debt mutual funds. Banks and financial institutions raised US$0.5 trillion, an 8% increase from the previous year. Excluding these banks and institutions, the private sector mobilized US$0.5 trillion, marking a 44% jump compared to FY23. The largest share of funds was raised in the 10-year maturity bucket, followed by the three- to five-year bucket. Most bonds had coupons in the range of 7% to 8%.[13]

The regulators continue to improve the market microstructure of the bond market. In May CY2024, SEBI reduced the face value of corporate bonds from INR100,000 to INR10,000. Further, SEBI standardized the record date for interest payment/redemption date to 15 days compared to the earlier system, where record dates could differ for each issuer. These changes are expected to make investments in bonds more accessible to retail investors.

[13] *Prime database and Business standard article dated August 12, CY2024*

3

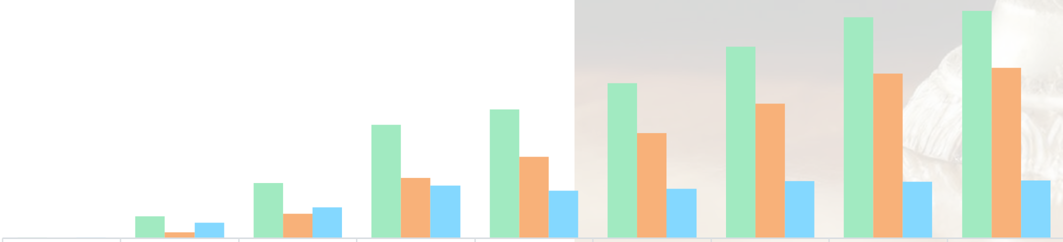
Regulatory and other developments

3.1 Performance under the Insolvency and Bankruptcy Code

As per data reported in IBBI's latest quarterly newsletter, as of 30 June CY2024, 7,813 cases were admitted under CIRP, of which 5,840 cases were closed, with the remaining cases still ongoing. The Corporate Debtors were rescued in 3,293 cases through approval of resolution plan (1,005 cases), withdrawal u/s 12A of IBC (1,096 cases) and by appeal/review/settled (1,192 cases). The Corporate Debtor in 2,547 cases ended in orders for liquidation. It is noteworthy that out of 1,005 cases resolved under IBC, 153 cases involved claims exceeding US$120 million each. FY24 saw a record 269 resolution plans approved by the NCLT vis-à-vis approval of 189 resolution plans during FY23, marking a significant increase of 42% during the year.

CIRP cases as on June 2024	Count
Admitted	7,813
Withdrawn	1,096
Closed on appeal/ review/ settlement	1,192
Resolution plans approved	1,005
Liquidation orders passed	2,547
Ongoing CIRP cases	1,973

Cases under CIRP



	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Jun-24
Admitted	37	744	1,901	3,892	4,428	5,318	6,580	7,583	7,813
Closed	1	206	840	2,077	2,804	3,612	4,622	5,655	5,840
Ongoing	36	538	1,061	1,815	1,624	1,706	1,958	1,928	1,973

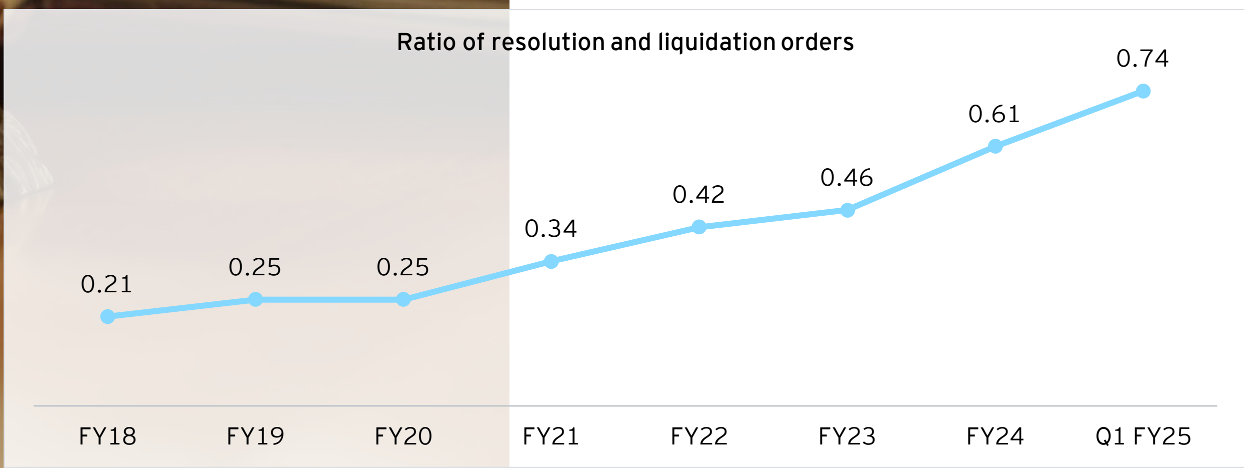
Admitted Closed Ongoing

Source: IBBI Quarterly newsletter

The average time taken for closure of CIRP's yielding resolution plan (i.e., from admission till NCLT approval) is about 571 days (far exceeding the original planned timeline of 180 days). This does not include the time taken to admit cases, which further extend the recovery timelines for creditors. Banks, financial institutions, and other creditors of stressed companies have realized ~US$41 billion since inception of IBC through NCLT-supervised insolvency resolution processes against total claims of ~US$128 billion till 30 June CY2024, a recovery of ~32%. The recovery rate for quarter ended June CY2024 increased to ~31% of the creditor claims, from 25% in the quarter ended March 2024. On an aggregate basis, since implementation of IBC, the creditors have realized 161% of the liquidation value and 85% of the fair value. The haircut for creditors relative to the fair value of assets was 15%, while relative to their admitted claims is around 68%.

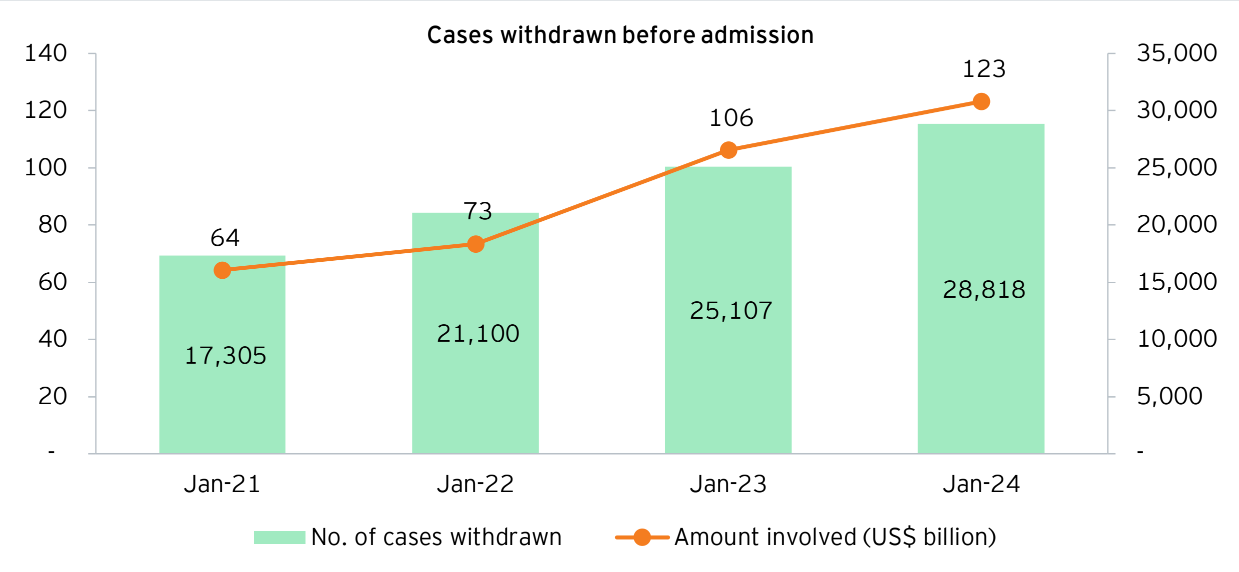
The underlying data of 947 cases resolved as of 31 March 2024 indicates a direct link between the time taken for the resolution process and the recovery rate. The resolution process in 140 cases was finalized within 330 days, resulting in an average recovery rate of 49%. In 354 cases, the resolution process extended beyond 330 days but was completed within 600 days, with an average recovery of 36%. The remaining 453 cases experienced a resolution timeline exceeding 600 days, leading to an average recovery of 26%.

It is noteworthy that the percentage of CIRPs resulting in resolution, relative to liquidation orders, has increased from 21% in FY18 to 45% in FY23 and 61% in FY24. This indicates a consistent shift toward choosing resolution mechanisms under the IBC and underscores its instrumental role in reviving distressed businesses. This indicates a consistent shift toward choosing resolution mechanisms under the IBC and underscores its instrumental role in reviving distressed businesses.



Source: IBBI Quarterly newsletter

While the above outcomes are directly linked to the cases undergoing processes under the Code, it is imperative to consider the impact of IBC, beyond the recoveries, in a more holistic manner, i.e., its significance in enhancing the negotiating power of the creditors and propelling out-of-court timely settlements. The credible threat of IBC, that 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. This is evident from the fact that 28,818 applications (with a default of ~US$123 billion) for initiation of CIRP filed before the NCLT have been resolved even before admission of the case by the Courts.



Source: IBBI Quarterly newsletter

The IBBI issued new guidelines for the Committee of Creditors (CoC) on 6 August CY2024 to enhance the insolvency resolution process. These guidelines emphasize integrity, objectivity, and impartiality in decision-making, requiring CoC members to disclose conflicts of interest and maintain confidentiality. The guidelines also stress cooperation among CoC members and the insolvency professional, along with effective cost management to ensure expenses are reasonable. These measures aim to maximize the value of the corporate debtor's assets and ensure a more efficient and transparent resolution process.

Recently, the Supreme Court of India allowed insolvency proceedings against Byju's Think & Learn Private Limited (TLPL) to resume, overturning a previous decision by the National Company Law Appellate Tribunal that had approved a settlement between Byju's and its operational creditor – the Board of Control for Cricket in India (BCCI). The NCLAT had permitted the settlement and reversal of the insolvency proceeding despite objections by the lenders, whose debts were substantially higher and whose independent insolvency application had been stayed. While the Supreme Court stay is interim in nature and the matter will be heard on its merits, it is interesting to note that the BCCI recovered nothing from the resolution or liquidation of TLPL due to its low priority in the statutory distribution hierarchy. Therefore, the BCCI's economic incentive was unlikely to support a corporate restructuring of TLPL and was more focused on simply recovering its dues.

Traditionally, creditors have sought recovery of their dues through civil courts. However, due to the lengthy adjudication process for money suits, creditors have increasingly turned to the NCLTs via the insolvency process. This approach is being used as a recovery mechanism, which deviates from the primary resolution objective of the IBC. This is effectively leading to strain on the judicial infrastructure and elongated timelines in achieving the desired outcomes of the insolvency courts.

In another recent development, 300-bed SevenHills Hospital in Visakhapatnam was sold for ~US$20 million to MGM Healthcare through, first of its kind, part asset sale route envisaged under IBC. Sevenhills Hospital has two hospitals, one in Visakhapatnam and another in Mumbai.

In connection with the pre-packaged insolvency resolution process for MSMEs, only 13 applications were admitted as of June CY2024. 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.

While the group insolvency mechanism is evolving under the guidance of courts, the lawmakers in India are considering introducing frameworks for group insolvency and cross-border insolvency. Further, efforts are also being undertaken to encourage out-of-court settlements, developing a vibrant secondary loan market and resolution through mediation. The Expert Committee, formed by the IBBI, examined the potential application of mediation within the processes governed by the IBC and submitted its recommendations on the likely framework for mediation as a complementary mechanism for resolution of disputes under IBC.

In the Union Budget CY2024, presented on 23 July CY2024, Finance Minister Nirmala Sitharaman announced measures to strengthen the Tribunals to improve the recovery of stressed assets. Further, she proposed to set up an integrated platform not only to improve the outcomes of the IBC but also to achieve consistency, transparency, timely processing and better oversight for all the stakeholders.

3.2 Development in Alternate Investment Frameworks (AIFs)

As mentioned in our previous report, the Reserve Bank of India (RBI) issued a notification on 19 December 2023 to tackle concerns about the extension of stressed loans. This notification restricts regulated entities (RE) from investing in units of AIFs that have direct or indirect investments in a debtor company of the RE.

Pursuant to industry representations and to address practical concerns, RBI issued a circular[14] dated 27 March 2024 clarifying certain aspects with respect to the said notification. These clarifications, including carving out of equity investments which will allow numerous regulated entities to stay invested in private equity funds. Similarly, limiting the provisioning requirement to pro rata exposure to the underlying debtor is a welcome move and will reduce the exposure burden on regulated entities. However, there remains concerns around investments in hybrid securities, as the majority of the private equity/ venture capital investments are in the form of hybrid instruments.

In April 2024, SEBI permitted Category I and Category II AIFs to create encumbrance on their equity investments in infrastructure companies, only for the purpose of borrowing by such investee company and subject to certain conditions. This is a positive development and paves the way for increased private capital infusion into crucial infrastructure developments. This comes in the wake of recent cases of AIFs where SEBI had interpreted the expression "directly or indirectly" in the context of leverage by AIF in the Regulations and had held that Category I and II AIFs are not permitted to pledge the securities of their portfolio company for securing leverage. The amendment now recognizes that project financing, which often relies on equity pledges, is crucial for capital-intensive infrastructure projects.

In response to numerous industry representations regarding the practical issues faced by AIFs in liquidating their investment portfolio within the tenure specified in the preplacement memorandum, SEBI had provided for a liquidation scheme framework wherein an AIF was able to transfer its unliquidated investment to a separate scheme. However, the liquidation scheme framework faced certain practical difficulties.

The AIF regulations have now been amended with effect from 25 April 2024 inter alia to provide additional flexibility to AIFs and their investors to deal with unliquidated investments of their schemes. The amendment provides for the concept of a "dissolution period" and its procedure. As a result of these amendments, during the 'liquidation period', an AIF can distribute investments of a scheme which are unsold due to lack of liquidity, in-specie to the investors, or enter into dissolution period, after obtaining approval of at least 75% of the investors by value of their investment in the AIF scheme.

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[14] RBI/CY2023-24/140 DOR.STR.REC.85/21.04.048/CY2023-24

3.3 NARCL-related activity

NARCL was set up as a strategic initiative to clean up the legacy stressed assets with an exposure of US$60 million and above in the Indian banking system.

The NARCL acquired 18 accounts with outstanding loans of US$11 billion as of March 2024. While offers on assets worth US$15 billion are at different stages of acquisition, due diligence, and evaluations for assets of around US$4.8b are underway.[15]

The debt acquisition transactions completed by NARCL[16]

Company/ asset (US$ million)	Size of debt	Deal / offer value
Simplex Infrastructures	1,157	77
Wind World India	453	81
Metenere Limited	366	31
Hitodi Infra	265	56
Pink City Expressway	217	33
Rohtak Hissar Tollway	121	NA
Rohtak Panipat Tollway	105	NA
Haridwar Highway	90	NA
Sew Lsy Highway	75	NA

In recent months, NARCL has been actively acquiring distressed road projects as part of its broader strategy to manage non-performing assets. By taking over these projects, NARCL aims to restructure and revitalize them, ensuring their completion and operational efficiency.

NARCL had submitted a binding bid for US$1.2 billion to acquire the debt (aggregating to US$3.5 billion) of Jaiprakash Associates. However, the lenders to the company rejected the offer and opted for resolution of the company through the IBC route.

Further, NARCL holding 80% of the debt of Sion Panvel Tollway after acquiring lenders' debt of US$205 million for US$27 million in December 2023, is in process of selling the debt. This is the first move by NARCL to recover bad debt since it started operations in January 2022.

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[15] *Economic Survey CY2023-24*

[16] *Publicly available information*

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- 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

Banks and Financial Institutions	Private credit/ equity funds	Indian corporates and MNCs	Asset reconstruction companies
Pan India presence, backed by decades of industry expertise	Diverse team comprising bankers, sector specialists, and experts with global investor reach	Largest platform in the country with 200+ strong team members and 12 partners	Delivering innovative and creative solutions to achieve exceptional results

Pioneers in the Debt and Special Situations space

We have worked on some of the most **marquee cases** in recent times

Debt

Client: Solar modules and key components manufacturing company
Debt raised: ~US$45m of Term loans & US$60m of working capital facilities
Deal details: Manufacturing capacity enhancement and working capital

Client: Special fund of a public sector Bank
Deal size: ~US$78m
Deal details: Sale of legacy NPA loans to an ARC to enable timely closure of a dedicated trust

Client: Branded hotel and asset management group
Debt raised: ~US$46m
Deal details: Refinance the existing debt and infuse growth capital

Client: Agri-Infra manufacturing company
Debt raised: ~US$43m
Deal details: Resolution plan made under RBI circular dated 7 June 2019, to refinance the existing debt and infuse growth capital

Client: Listed hotel chain company with 4-star and 5-star properties
Debt raised: ~US$37m
Deal details: Settle debt of ARCs using a private credit player debt

Client: Real estate project
Debt raised: ~US$30m
Deal details: Refinance existing debt and raise working capital loan

Client: Steel products manufacturer
Debt raised: ~US$22m
Deal details: Refinance existing debt

Client: Real estate development company
Debt raised: ~US$19m
Deal details: One-time settlement with an ARC, thereby reducing the leverage and unlocking surplus cashflows

Special situations

Client: Grade A warehousing development platform with fund size more than US$325m
Role: Interim CFO
Impact: Rebuilt finance function, strengthened governance and resolved core accounting issues

Client: US$400m+ global soap and oleochemical business
Role: Interim Global CFO
Impact: Addressed leadership gap, enhanced reporting, resolved intercompany balances, and helped wind down unprofitable regions

Client: State-owned oil company's low carbon and international growth vertical located in the UAE
Role: Interim Senior Manager
Impact: Support and assist in evaluation of investment opportunities

Client: One of India's largest aluminum die casting player in auto component space
Role: Crisis Management Leadership
Impact: Ensured going concern thereby enabling sale to strategic investor

Client: Container glass manufacturer with Revenue is excess of US$300m
Role: Operational turnaround
Impact: EBITDA changed from -23% to +15% in 1 year

Client: A shut tropical fruit pulp processor company
Role: Operational Turnaround
Impact: Moved its top-line from Nil to US$ US$18m in 2 years with 10% EBIDTA. Set-up blueprint for SAP implementation

4 New fund setup and **deal activity**

4.1 Fund raising

Based on the data published by SEBI, in H1 CY2024, nearly 13 new AIFs registered with credit/special situation orientation. As on 30 June CY2024, 34 AIFs were in the process of registration with SEBI, with a few being private credit funds.

H1 CY2024 witnessed continuous fund-raising updates and announcements. Based on select public data and information shared by funds, the status of the fund raisings was as follows:

- Edelweiss India Special Assets Fund III raised ~US$1.3 billion (final close) with a target IRR ranging from 20% to 24%. Separately, the Edelweiss Credit Structured Income Portfolio fund raised ~US$50 m (first close) with a target IRR ranging from 14% to 16%. Edelweiss Alternative Asset Management raised over ~US$960 million for its second Infrastructure fund, i.e., Edelweiss Alternative Infrastructure Yield Plus II.[17]
- Goldman Sachs Group Inc. raised ~US$1 billion from Mubadala Investment Co. to invest in the Asia-Pacific region, particularly in India. The Abu Dhabi sovereign wealth fund and Goldman Sachs' asset management arm have partnered for this purpose.[18]
- Kotak in its Strategic Situations Fund II has raised a total of ~US$1,458 million, targeting a 20% unlevered IRR with a deployment ticket size of US$60 to US$180 million. Kotak Private Credit Fund, which focuses on Performing Credit, raised a total of US$172 million with a target unlevered IRR of 16% and a deployment ticket size of US$18 to US$24 million. The Kotak RE Fund CY2023 successfully raised approximately US$617 million, delivering an unlevered internal rate of return (IRR) of 18% and accepting investment ticket sizes ranging from US$18 million to US$36 million. Similarly, the Kotak RE Fund CY2024 raised approximately US$118 million, maintaining the same IRR and ticket size. Both funds have a primary focus on real estate investments.
- Investec, the investment manager for Emerging India Credit Opportunities Fund II, announced its second private credit fund's first close. The fund secured total commitments ~US$783m[19].
- Neo Special Credit Opportunities Fund raised ~US$310m, aiming to deploy between US$6 million and US$36 million per investment with a target IRR of over 20%, for special situations' funding requirements.
- BPEA Credit Select Short Term Income Fund hits first close with a target corpus ~US$90m with a green shoe option of the same size ~US$90 million. The fund shall make investments in performing credit to high growth companies

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[17] *Economic Times article*
[18] *Media article dated 26 Feb CY2024*
[19] *Press release dated 29 April 2024 published on Investec's website*

focusing on capital preservation and regular cash flow.[20]

- InCred Credit Opportunities Fund-I raised ~US$84 million with a deployment size of ~US$3 million to US$6 million. The fundraising from second performing credit fund is currently in progress.
- Axis Structured Credit AIF-II raised ~US$27 million in H1 CY2024 (~US$64 million till date) for direct investments with a target IRR of 14%

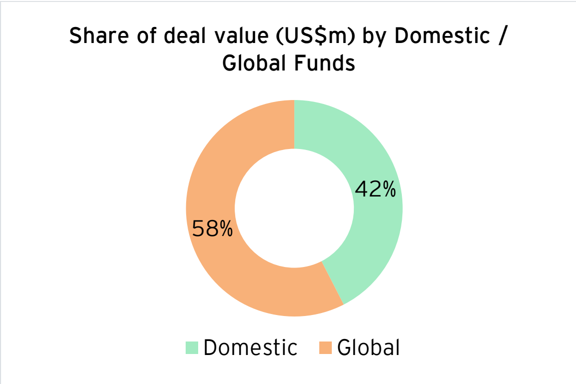
4.2 Investments during H12024

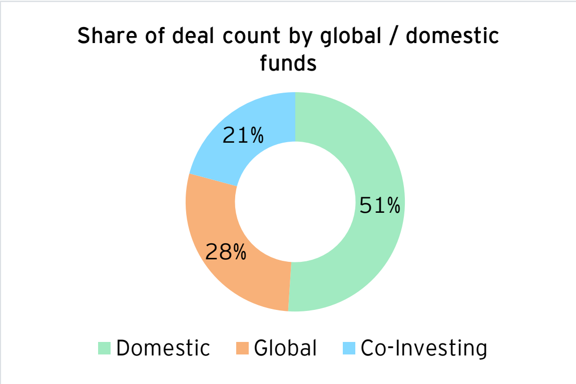
In this section, we analyze the private credit investments in the first half of CY2024. The data presented below is based on publicly available data and is limited to the deals tracked by us. The data does not include venture debt, debt raised by financial services players, term loans/working capital demand loans disbursed by NBFCs and offshore bond placements. In the following analysis, we have taken a cut-off of single private placement over US$10 million for the purpose of our analysis. The data includes any financing by banks, 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 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.

H12024 saw 96 deals (deal value being higher than US$10 million) aggregating to US$6 billion. As compared to this, CY2023 saw a total of US$8.6 billion[21]. Some of the large deals concluded in H12024 include US$0.7 billion debt raised by Reliance Logistics and Warehousing from institutional investors and sovereign funds, US$300 million secured by Vedanta Semiconductors Private Limited secured to address existing debt obligations and US$293 million obtained by Matrix Pharma for M&A financing from a consortium of five private credit funds. Overall deployment in H1 CY2024 has been strong and is currently trending to exceed the deployment level in CY2023.

4.2.1 Global funds versus domestic funds

In the chart below, we have split the investments made in H12024 by global funds and domestic funds. Global funds comprise institutions headquartered outside India and with a multi-country presence. Domestic funds, on the other hand, are headquartered in India.





Source: EY Analysis

[20] Money control article on June 19, CY2024

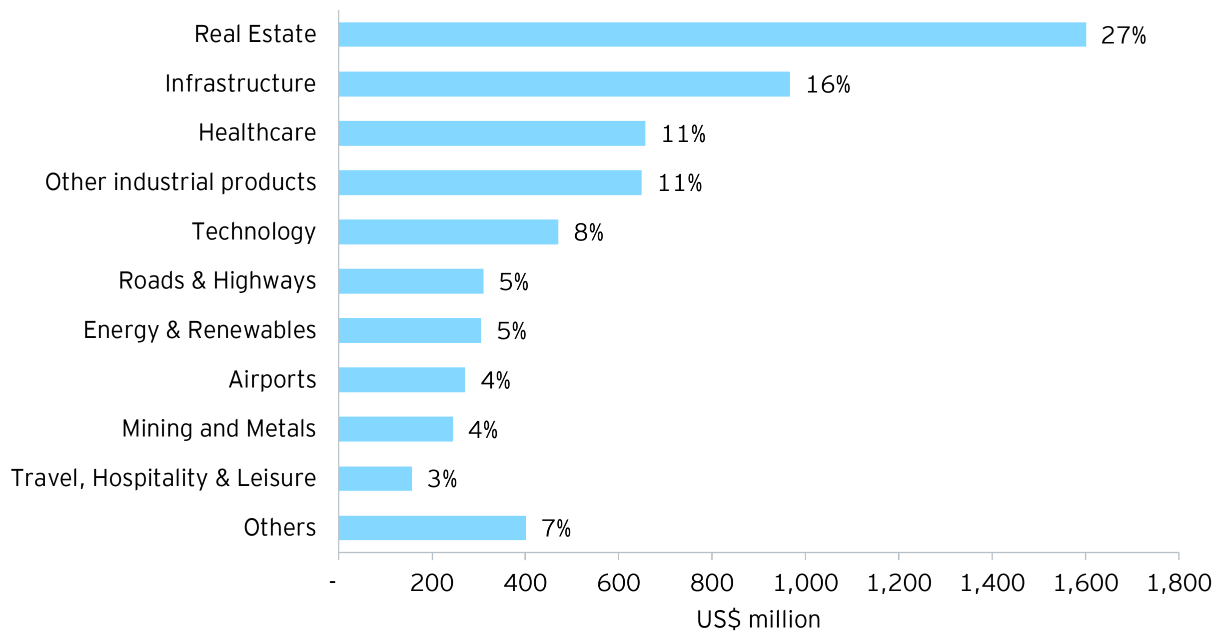
[21] Deal values for CY2023 have been revised to include additional deals based on updated regulatory filings and converted at a constant exchange rate of INR 83 / US$

Over the last few years, we have observed that global funds, by virtue of their ability and preference to do large deals, typically contributed to ~63% of the aggregate investments made in the private credit space. However, in the current year, the share of global funds has declined to ~58% and there is a corresponding increase in the share of domestic players. In terms of deal count, the domestic funds continue to dominate due to their local presence, relationships, and market coverage and lower focus by global funds on smaller value deal sizes. The increase in the share of the domestic funds by value is primarily on account of the increasing awareness of private credit as an asset class and higher domestic fund raise from high-net-worth Indian investors. Review of deal data indicates that there are several cases where family offices are participating in this strategy through funds and, in some cases, we have seen them take direct exposure in the debt issuances of the borrower.

4.2.2 Sectoral dynamics of private credit deal flow

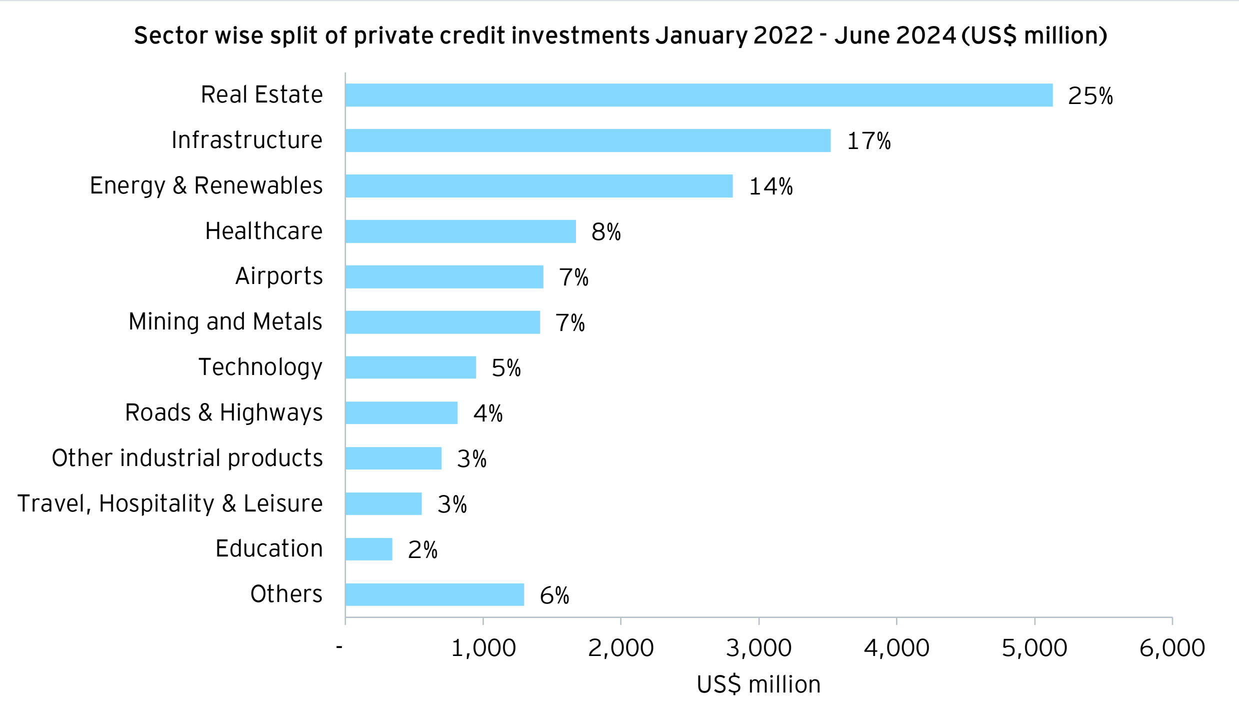
In the chart below, we have presented the sectoral split of the private credit investments in H12024. Real estate continues to receive the most amount of attention by credit funds. Major borrowers within real estate include Prestige Group (US$283 million), Puravankara Group (US$139 million), Kalpataru (US$103 million) and Shapoorji (US$95 million). Infrastructure primarily comprises US$697 million raised by Reliance Logistics and Warehousing. Healthcare includes Nimmagadda Prasad's debt raise of US$293 million for acquisition of the Active Pharmaceutical Ingredient (API) business of Viatris Inc.

Sector wise split of private credit investments in H12024 (US$ million)



Source: EY Analysis

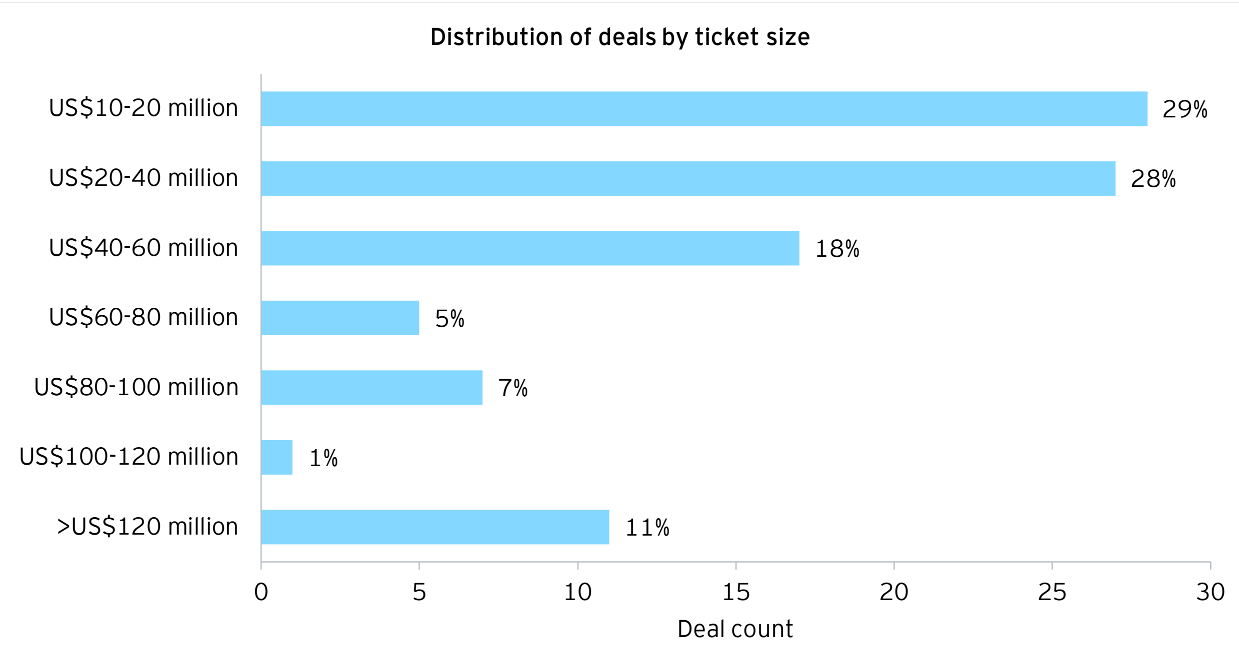
An aggregate view of sectoral investments in private credit over the last two and a half years, from 2022 to date, reveals that a total of US$20.6 billion has been invested in private credit deals. Real estate accounts for approximately 24% of these total investments.



Source: EY Analysis

4.2.3 Distribution of deal size

In the chart below, we have presented the distribution of deal count by size of deal. Deals over >US$100 million represented nearly 13% of the total deal count but from a deal value perspective contributed to over 51% of the overall deal value in H12024.



Source: EY Analysis

4.2.4 Summary of select deals in H1 CY2024

In H1 CY2024, we tracked approximately 96 deals totaling US$6 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	Investors	Amount US$ million	Deal rationale	Performing / high yield
Airport					
Feb-24	GMR Airports Limited	HSBC, JP Morgan, Varde, TATA Capital, Aditya Birla Finance and Navi Finserv	271	The company operates airports in Delhi, Hyderabad and North Goa and has raised US$271 million at ~13% (5% cash coupon and redemption premium of 8.275%) for a tenure of ~ three years. This is the last tranche of the overall ~611 million fund raise by the company.	Performing
Capital Goods					
Feb-24	Thriveni Earthmovers	Edelweiss	42	Funds raised to refinance the debt from existing lenders, and working capital	High yield
Cement					
Mar-24	Penna Cement	Edelweiss	30	Funds raised for long-term working capital financing	High yield
Consumer durables & apparels					
Apr-24	Bluestone Jewellery and Lifestyle	Incred, Innoven, Neo Asset Managment	24	Funds raised for working capital and general corporate purposes	Performing
Feb-24	Globalbees Brands Private Limited	Avendus	17	Funds raised for working capital and general corporate purposes	Performing
Education					
Mar24 / Apr24	Veranda Learning	BPEA Credit	51	Funds raised for financing acquisitions, refinancing existing loans, and bolstering working capital requirements	Performing
Energy & Renewables					
Mar-24	GREENKO UP01 IREP	360 One Credit fund and its affiliates	57	Funds raised for growth capital	Performing
Apr-24	Rosa Power Supply (Reliance Group)	Varde	48	Funds raised for lending to Promoter Group Company at arm's length basis	High yield
Mar-24	Fpel Saur Vidyut Private Limited	Modulus Alternatives, Incred, Vivriti	15	Funds raised for capital expenditures and payments for an engineering, procurement, and construction agreement	Performing
Food & beverage					
Apr-24	Kals Distilleries	Edelweiss	40	Funds raised for repayment of exiting loans, investing in project-related capital expenditures, and supporting general corporate operations	High yield

Month and year	Borrower	Investors	Amount US$ million	Deal rationale	Performing / high yield
Healthcare					
May-24	Matrix Pharma	Kotak, Edelweiss, Investec, Morgan Stanley and some Family Offices	293	Funds raised to acquire the API business of Viatries Inc. through this SPV	High Yield
Apr-24	Manipal Healthcare	360 One Credit fund and its affiliates	96	Funds raised for growth capital and general corporate purposes	Performing
Apr-24	Biorad Medisys	Kotak	48	Funds raised to set up a new manufacturing plant, repay existing debt and fund working capital	High Yield
Jan-24	Agilemed Investments (Medplus)	Modulus Alternatives	42	Funds raised to refinance the debt from existing private equity investor Warburg Pincus	Unknown
Mar-24	Biodeal Pharmaceuticals Limited	Piramal	13	Funds raised for capex, repayment of existing debt and working capital	Unknown
Infrastructure					
Mar-24	Reliance Logistics and Warehouse Holdings Limited	KKR, ADIA Mubadla and Fortress	697	The company had purchased warehousing assets (11-12m sq. ft.) from RRL and RRVL for a consideration of US$1.6 billion. The purchase was funded by way of term loan of US$0.9 billion from SBI bank, subordinated NCD and equity infusion of US$0.7 billion. The proceeds will be utilized to refinance to debt taken by group companies	Performing
Feb-24	Patel Infrastructure Limited	360 One Credit fund	29	Funds raised for growth capital	Performing
Mining and Metals					
May-24	Vedanta Semiconductors	Apollo, Varde, Davidson Kempener, Broadpeak, Alpha Alts, Trust	301	Funds raised for lending to Vedanta Limited (group company) in the form ICD	Unknown
Mar'24	Sesa Resources Limited	Oaktree Capital	193	Funds raised for repayment to existing lenders	Unknown
Other manufacturing					
Mar-24	MCT Cards & Technology	SC Lowy and Blackrock	54	Funds raised for general corporate purpose	Unknown
Mar-24	Magnum Ventures Limited	Neo Special Credit Opportunities Fund	18	Funds raised for general corporate purpose	High yield
Feb-24	Gold Plus Glass	ICICI Prudential Corporate Credit Opportunities Fund AIF II	12	Funds raised for general corporate purpose	Performing

Month and year	Borrower	Investors	Amount US$ million	Deal rationale	Performing / high yield
Feb24	Laminate+ Craft Paper Manufacturer	Neo Special Credit Opportunities Fund	11	Funds raised for general corporate purpose	High yield
Real Estate					
Mar-24	Prestige Projects	Kotak, ADIA	242	Funds raised to develop greenfield residential projects across four cities - Bengaluru, Mumbai, Goa, and Delhi NCR	High yield
Feb-24	Kalpataru Properties	PAG	103	Funds raised for financing construction residential towers in Mumbai and refinancing of existing debt	Performing
May-24	Provident Housing Limited (Puravankara Group)	HDFC	139	Funds raised for growth capital	High yield
Mar-24	Suruchi Properties	Edelweiss	54	Funds raised for refinancing of existing debt	High yield
Jan-24	Shreshta Infra Projects	Edelweiss	42	Funds raised for completion of two projects and repay debt of exiting private credit investor[22]	High yield
Mar-24	Prateek Realtors	Edelweiss	39	Funds raised for refinancing of existing debt	High yield
Mar-24	Pharande Township	SC Lowy	33	Funds raised for refinancing of existing debt	High yield
Mar-24	Purva Good Earth Properties Private Limited	ICICI Prudential Corporate Credit Opportunities Fund	14	Unknown	Unknown
Roads & Highways					
Feb-24	GMR Highways Limited	SC Lowy, Zeal global	84	Funds raised for refinancing of existing debt raised from Yes Bank	Unknown
Technology and Media					
May-24	Manipal Media Network Limited	SC Lowy and Blackrock	80	Funds raised for general corporate purpose	Unknown
Jun-24	Garagepreneurs Internet	Neo Special Credit Opportunities Fund	28	Funds raised for general corporate purpose	High yield
Jan-24	Resulticks Edge Solution Technologies	Kotak	24	Funds raised for general corporate purpose	High yield
Mar-24	Unilazer Ventures	360 One Credit Fund	12	Growth capital	Performing

[22] *News article in economic times dated 18 January 2024 "Edelweiss fund to provide INR350 cr debt to Adarsh Developers entity"*

Month and year	Borrower	Investors	Amount US$ million	Deal rationale	Performing / high yield
Travel, Hospitality and Leisure					
Mar-24	GMR Sports Venture	JM Financial, Elham Credit Partners	120	Funds raised for refinancing of existing debt	High yield
Jan-24	Vatika Hotels	Edelweiss	37	Funds raised to repay the Piramal group debt and operating hotel asset	Unknown

Note: This is only a subset of the overall deal flow in H12024.

The analysis presented above is based on select deals worth over US$10 million. In addition to this, it would be noteworthy that at least over 40 deals worth at least US$174 million, with each deal value of sub-US$10 million, have been concluded in H1 CY2024. Some of the investors in this deal set include Incred Alternatives, Vivriti, ResponsAbility, UTI, etc. Please note that this data may not be comprehensive and is only based on the deals reported to us.

Furthermore, there were few private credit transactions concluded offshore:

- Vedanta Holdings Mauritius II raised US$1,250 million from Standard Chartered Bank, Cerberus Capital, Davidson Kempner, Varde Partners, Aspex, BlackRock, Broad Peak, Factorial, Arkkan Capital, Edelweiss Alternate Asset Advisors to refinance an existing debt.
- SAEL raised US$160 million via bonds, which were subscribed by a consortium of leading institutions, namely India Infradebt Ltd., Aseem Infrastructure Finance Ltd., TATA Cleantech Capital Ltd. and Kotak Infrastructure Debt Fund Ltd.
- ICICI Bank, Axis Bank, and India Infrastructure Finance Ltd (IIFL) collectively subscribed to bonds worth US$96 million bonds issued by GMR group-promoted Delhi International Airport to finance the capital expenditure for its phase 3A expansion.
- Adani Green Energy raised US$409 million through several marquee investors like Jupiter, Schroders, Pimco, Metlife, Alliance Bernstein. This transaction represents the first bond deal for Adani Group since September 2021 and follows the December 2023 equity raise of over US$1.4 billion.

4.3 Exits: select investment exits during H12024

Based on data provided by funds and publicly available information:

- Edelweiss made exits from the following investments:
  - EISAF II exited its investment of US$80 million from Kesoram Industries Limited (NCD) at a realized IRR of 27%. This exit was facilitated through the refinancing of the exposure by Tata Capital and Herofincorp. Additionally, EISAF II also exited its investment of US$63 million from Indswift Laboratories at a realized IRR of 22% achieved through a slump sale of the asset.
  - EISAF II and ISAF III exited their joint investment of US$19 million from Gati Hydro at a realized IRR of 24%.
  - ICIF I exited its investment of US$18 million from Ecstasy Realty Pvt Ltd. at a realized IRR of 17%. It also exited its investment of US$11 million from Pareena Infrastructures Pvt Ltd. at a realized IRR of 19%, and US$13 million from Sowparnika Projects and Infrastructure Pvt Ltd. at a realized IRR of 19%. Furthermore, ICIF I exited its investment of US$21 million from Neelkanth Realtors Private Limited at a realized IRR of 15%, and US$15 million from Samridhi Infra Square Pvt Ltd. at a realized IRR of 18%.
  - EROF exited its investment of US$6 million from Karmvir Intelligent Infra Private Limited at a realized IRR of 15%.
  - ECPF exited its investment of US$4 million from Spandana Spoorthy at a realized IRR of 13%.
- Piramal Structured Credit Opportunities Fund (PSCOF) exited its investment of US$19 million from Amanta Healthcare in April 2024, facilitated by a refinance from NBFCs. Furthermore, PSCOF exited its investment of US$15 million from Chaitanya India in June CY2024 through a secondary sale to an institutional investor.
- India Resurgence Fund fully exited from its US$40 million investment in convertible securities issued by Primacy Industries Limited. They also exited from their US$122 million investment, by way of Senior secured debt and minority equity, in Archean Chemicals Limited in June CY2024.
- Axis Structured Credit AIF-I exited its investment of US$3 million from Day1 Advisors Pvt. Ltd. at a realized IRR of 14%, which included a part pre-payment.
- Goldman Sachs, Cerberus and Edelweiss exited from Kesoram, where Kesoram raised US$223 million from Tata capital and Hero Fincorp.
- 360 ONE Commercial Yield Fund exited its growth capital investment of US$11 million in Subh Ashish Exim Ltd and its acquisition finance asset of US$13 million in Kmaini Motorsports Pvt. Ltd.
- Neo Special Credit Opportunities Fund exited two of its hotel assets – one in Gujarat, where the amount invested was ~US$5.5 million, through which an IRR of 22% was earned, and another in Mumbai, where the investment of US$8.4 million yielded a 30%+ IRR.
- InCred Credit Opportunities Fund-I exited its investment of US$3.6 million from Entero Healthcare Pvt Ltd.

5

Deep dive into select use cases of **private credit**[23]

As the private credit ecosystem in India evolves, we are seeing its applications across a range of situations. These situations span multiple sectors and end uses and the capital has been structured from plain vanilla debt to outright equity-based buyouts. Returns have been structured as traditional amortizing and coupon-based payment to returns linked to underlying events embedded in a zero-coupon structure, with back-ended returns. In the section below, we have walked through some examples of different structures being used on deals in the market.

M&A/special situations funding

Borrowers have raised private credit to finance their acquisitions. In 2022, an alcoholic beverage manufacturer entered into a definitive agreement for acquisition of brands (including some franchise agreements) for a total cash consideration of nearly US$100 million. The acquirer financed the acquisition by raising US$84 million in the form of non-convertible debentures issued in India to a Global Fund, and the balance US$15 million was raised through compulsorily convertible debentures issued by the borrower to its holding company in Singapore. The local debt carried a cash coupon of 12.5% per annum (INR), moratorium of 18 months and tenure of ~three years, with ~75% of the principal repayment back ended. The terms on the convertibles were not publicly known but based on review of some similar deals, we estimate that the target IRR would be north of 18%.

Further in CY2023, two large domestic funds lent approximately US$228 million to a pharmaceutical major to partially finance an acquisition in the US. Out of the total debt raised, US$130 million was in the form of a non-convertible debt with a tenure of approximately five years, featuring a combination of fixed and variable coupons. The lending is secured by a pledge of shares. An additional US$98 million has been raised in a combination of non-convertible and optional convertible debt. Repayments of interest/principal have been structured to suit the needs of the borrower. Based on a review of some credit rating reports, we understand that the exits on these investments could happen from a potential IPO. At the time of the deal, regulatory filings indicate that the estimated equity valuation of the subsidiary undertaking the acquisition was estimated US$5 billion (including the cash flows of the acquired entity). These funds typically target IRRs >18% on these deals.

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[23] Regulatory filings, news articles, press release by the investors / investees, fund / company websites

In a similar transaction, a leading domestic private credit fund, alongside other investors, provided partial financing of ~US$281 million, for the acquisition of a US-based healthcare company's Indian API business by a major Indian pharmaceutical company.

More recently, in CY2024, a large FMCG company raised US$428 million from a consortium of mutual funds, insurance companies and NBFCs to finance the acquisition of a pharmaceuticals business. The debt was listed on the exchanges, carrying a coupon of 8.3% to 8.5% (in INR) and a tenure of slightly over two years.

These are just some examples of private credit funds backing acquisitions. We understand that some of these credit funding also happens at the offshore level. However, from a data tracking and reporting perspective, the visibility of these transactions is low.

PE takeouts/bridge to IPO

Private credit funds have also executed deals providing with promoters/founder's capital to give exit to PEs or serve as a bridge funding till an IPO happens. In CY2023, a domestic private credit fund invested US$52 million to help a promoter buyback the stake of the private equity fund, which had invested ~US$40 million in 2020. The fund invested through non-convertible debentures, which carried an annual coupon payment of 5%, a tenure of 3.5 years and a redemption premium payable at the time of final redemption. The promoters pledged their share in the operating entity as a security against the investment. In another case, a large retail pharmacy raised US$43 million from a private credit fund at the promoter level to give exit to global private equity fund.

Review of deal data also indicates that promoters are using private credit funds as bridge funding to an IPO. In 2022, a domestic fund invested ~US$31 million in an engineering company, which was to be utilized for refinancing an existing debt and invest in working capital and planned capital expenditure. The funds were infused in the form of secured convertible debentures with a step-up style coupon and a minimum assured IRR and exit through an IPO. The deal also included an upside sharing with the borrower in case the investor IRR was above a certain threshold.

Buyouts

In the last couple of years, we have also seen private credit funds participating in buyouts and taking equity positions in the borrower entities. In CY2023, a large domestic pharmaceuticals players entered into a business transfer agreement to undertake a slump sale of its active pharmaceuticals manufacturing plants, its contract research and manufacturing services business, a R&D facility, and an intermediates manufacturing plant to a large fund. The total purchase consideration was ~US$200 million and the sellers would acquire ~8.42% of the shareholding in the new SPV formed for this transaction.

6 EY private credit **pulse survey**

6.1 About the survey

We have initiated a periodic survey of the private credit market in India to gauge market dynamics and detect shifts in the industry's overall direction. The survey, conducted in July CY2024, involved senior leaders from prominent Indian and global high yield and performing credit funds.

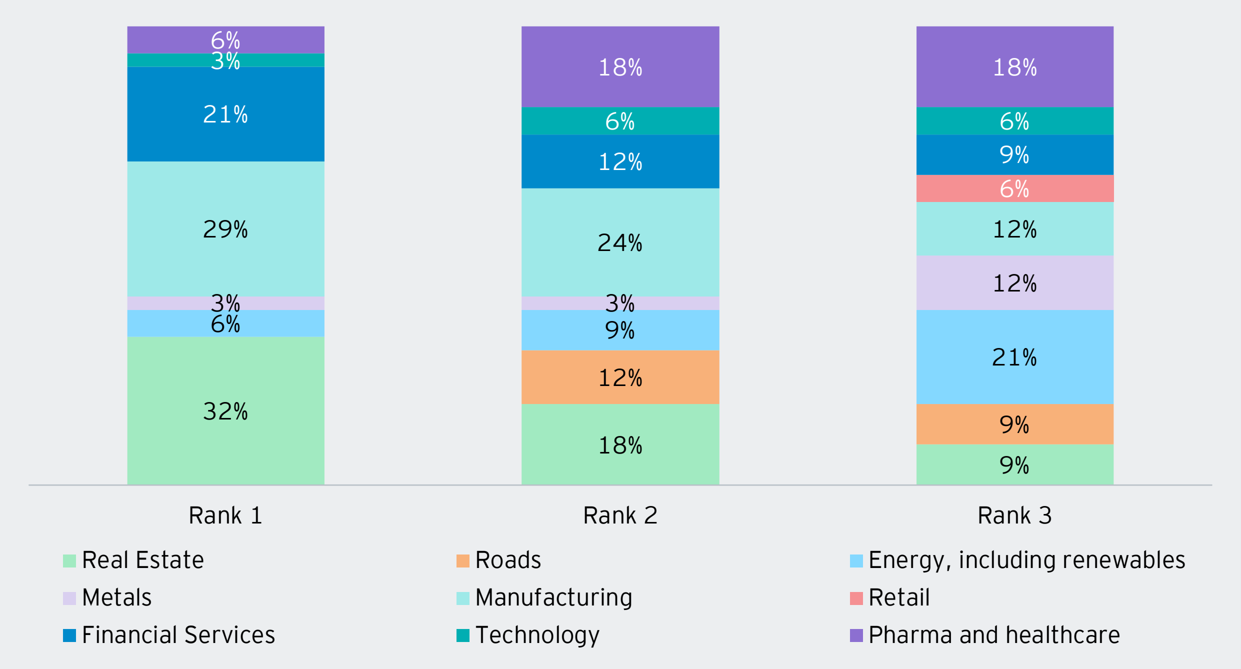
Of the 36 respondents, senior leaders from 28 funds participated in the survey. Findings revealed that half of the respondents had a target yield of 18% to 24% (high yield) and the other half targeted 12% to 18% (performing credit).

The survey highlights a strong preference for real estate and manufacturing, with ~60% of respondents favoring these sectors, particularly from the high yield segment. This preference is driven by the significant role of capital expenditure in private credit deals, which remains the top driver, followed by stress-related and M&A financing. Securitization, conversely, has had a minimal impact. Looking forward, fund managers project that capital expenditure will continue to be a primary driver of private credit demand over the next 12 to 24 months, with M&A and PE exit financing also playing crucial roles. This optimism is underscored because 58% of fund managers believe sufficient funds are available, and 91% are bullish on private credit investments for the near term. The increase in competition is evident, with 73% of investors noting a rise in deal competitiveness compared to December 2023. Despite this, fund managers perceive real estate as the riskiest sector within the current private credit portfolios.

Overall, investment in India by private credit players is expected to fall within the range of US$5 billion to US$10 billion over the next year, with domestic family offices contributing 25% to 75% of the deal flow. This reflects a robust but competitive environment, where fund managers maintain a cautious yet optimistic outlook on the market.

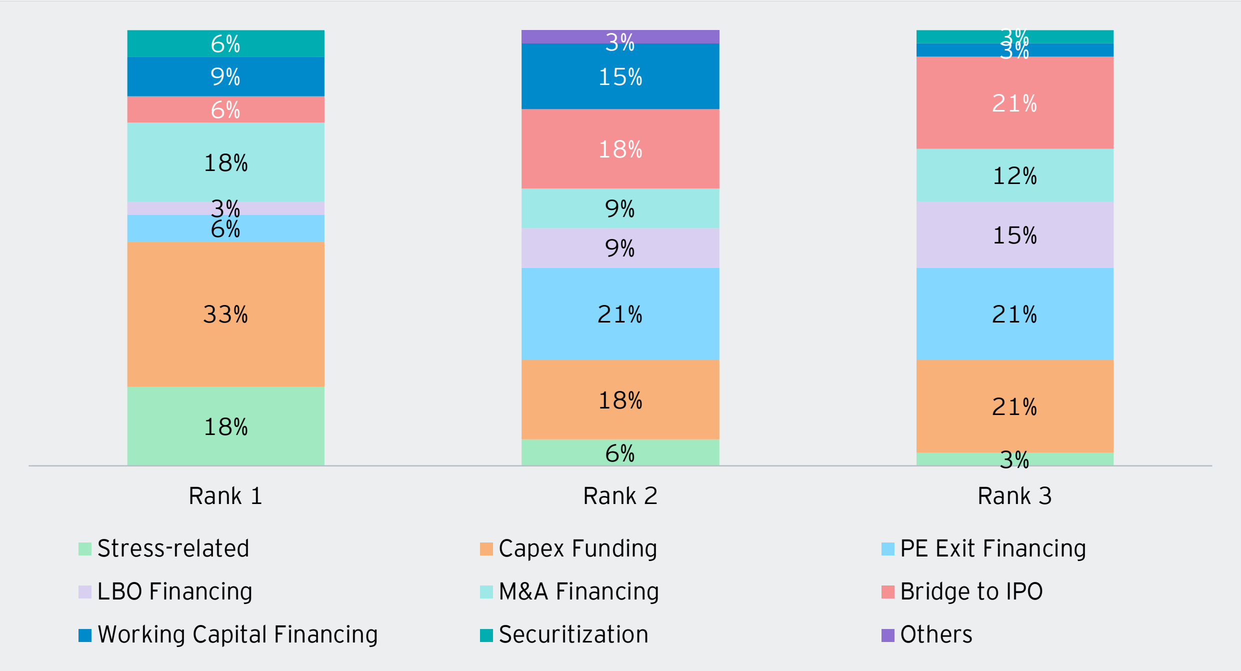
6.2 Results of the survey

Q1 **Assuming you are a sector-agnostic fund, rank the sectors in order of deal flow (Rank 1 indicates the maximum deal flow)**



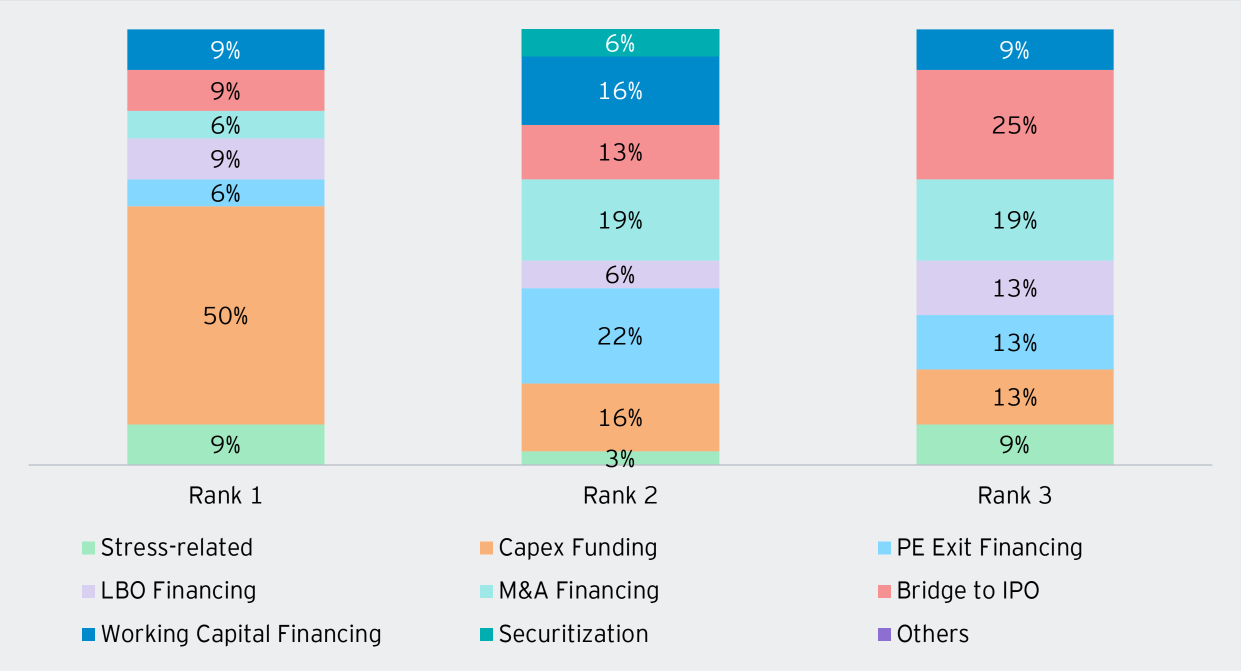
In the current survey, ~60% of respondents are split between real estate and manufacturing as their top preferred sector, of which ~70% are from the high yield segment. Financial services and pharma and healthcare follow in preference. The general sentiment among respondents suggests that the technology sector is expected to have the least deal flow traction.

Q2 **In the current deal flow, rank the drivers of demand for private credit (Rank 1 indicates the most significant driver)**



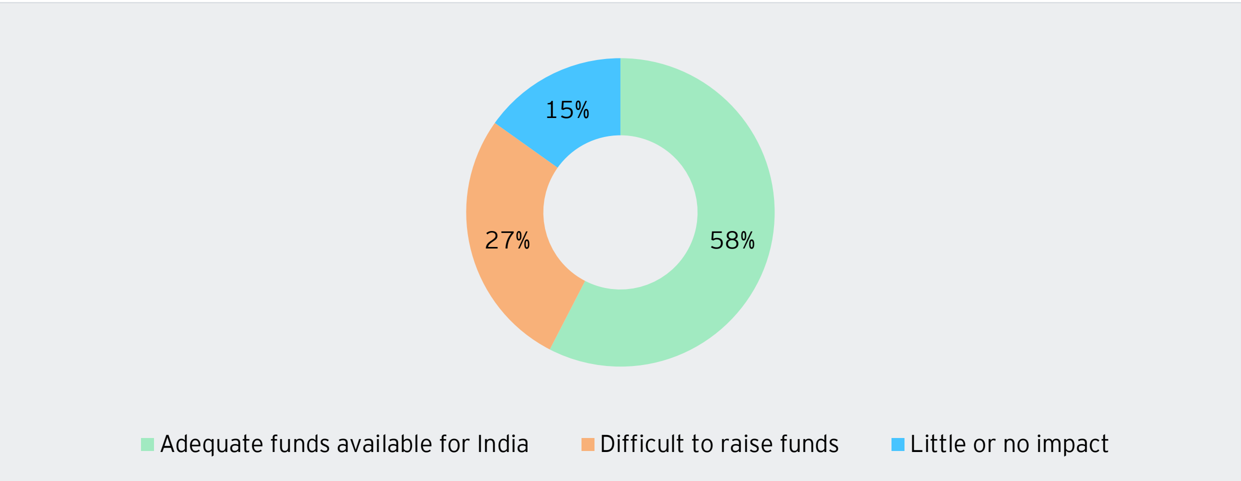
Upon analyzing the survey data, capital expenditure is seen as the foremost driver of private credit deals. Also, stress-related and M&A financing exert notable influence, followed by PE exit financing. Conversely, securitization occupies the least impactful position in this assessment.

Q3 | Over the next 12 to 24 months, kindly rank the drivers of demand for private credit (Rank 1 indicates the most significant driver)



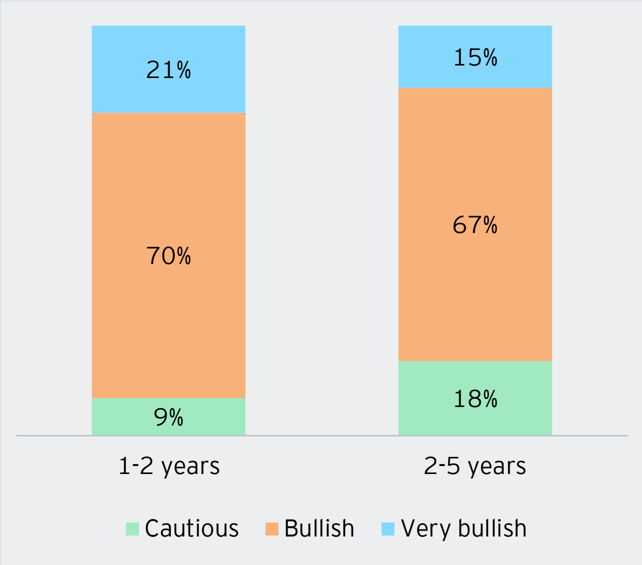
In alignment with the ongoing deal flow drivers, 50% of fund managers anticipate capex to sustain its prominence in driving private credit demand over the next 12 to 24 months. M&A and PE exit financing, coupled with working capital financing, are identified as the subsequent favored drivers.

Q4 | What would be the impact of ongoing monetary tightening on the availability of funds over the next 12 months, for private credit investing in India?



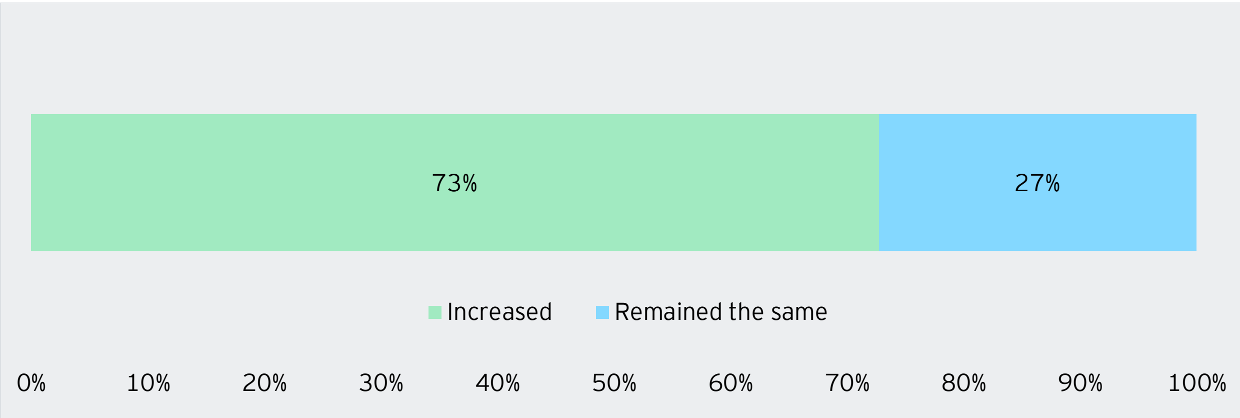
The survey reflects optimism among fund managers, with 58% anticipating sufficient funds available.

Q5 What is the overall sentiment for private credit over next one to two years and two to five years?



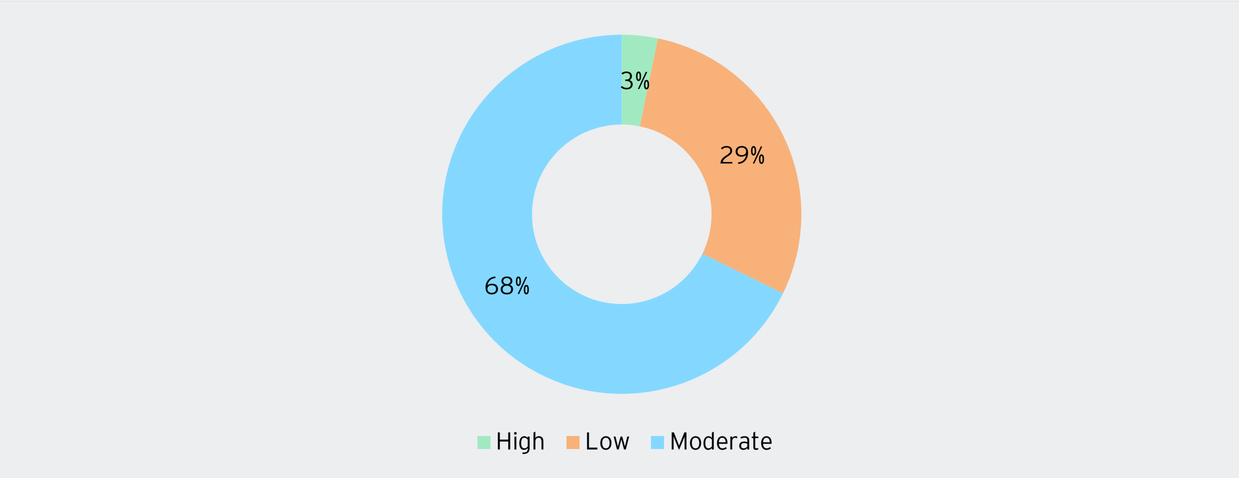
Where 91% of funds managers are positive (bullish and very bullish) on private credit investment for the next one to two years, the corresponding number is 82% over two to five years. Among high yield fund managers, 82% expect the bullish trend to continue in the next one to two years, and this confidence remains the same for the two to five years horizon. All performing credit funds show a positive sentiment in both time frames. It is worth noting that the overall sentiment remains consistent with past surveys.

Q6 Over the next 12 months, will the competition for private credit deals increase, decrease or remain the same?



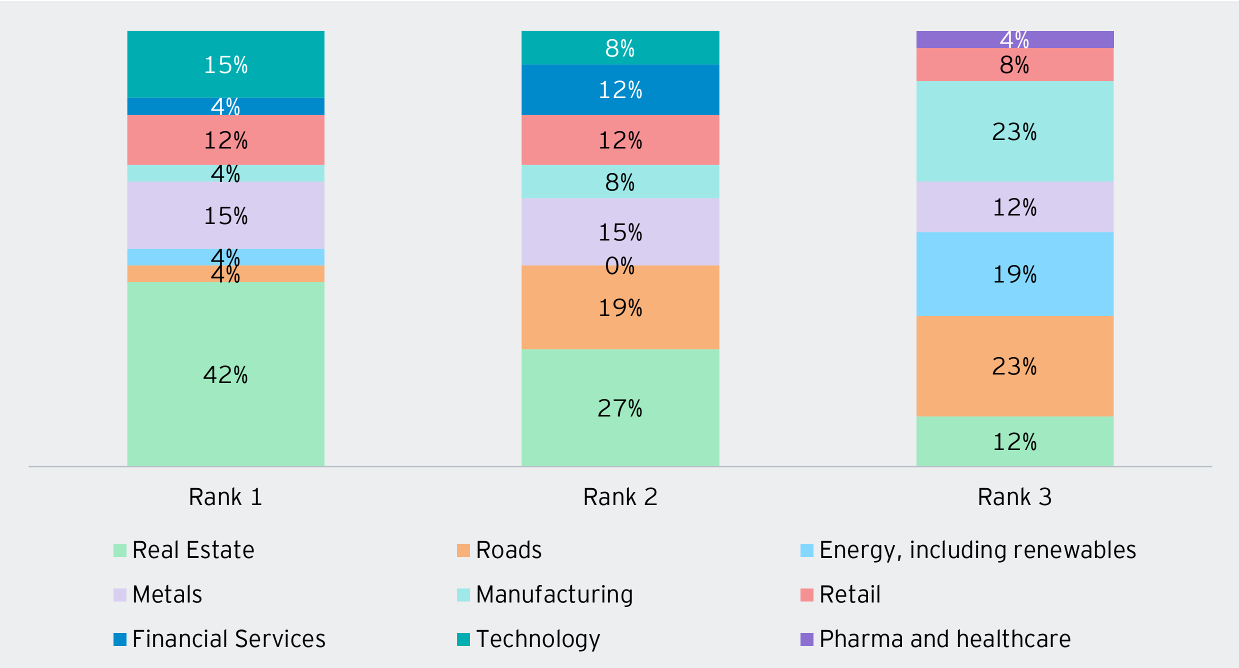
73% of investors believe that competition in private credit deal has increased over the last 12 months. The perception of competitiveness in the private credit industry seems to have become intensive in the current survey as compared to the last survey in December 2023.

Q7 What is your estimate of default risks residing within the current private credit portfolio in India?



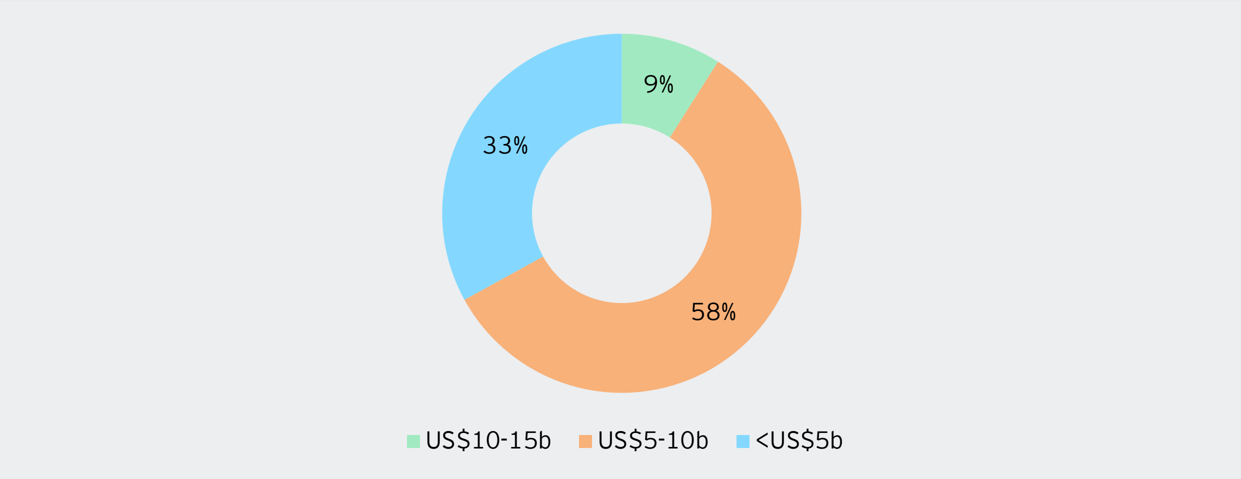
Most fund managers estimate that the default risk residing within the current private credit portfolio in India is moderate.

Q8 Which sectors within India's private credit portfolio are at the highest risk of default? (Rank 1 indicates the highest risk of default)



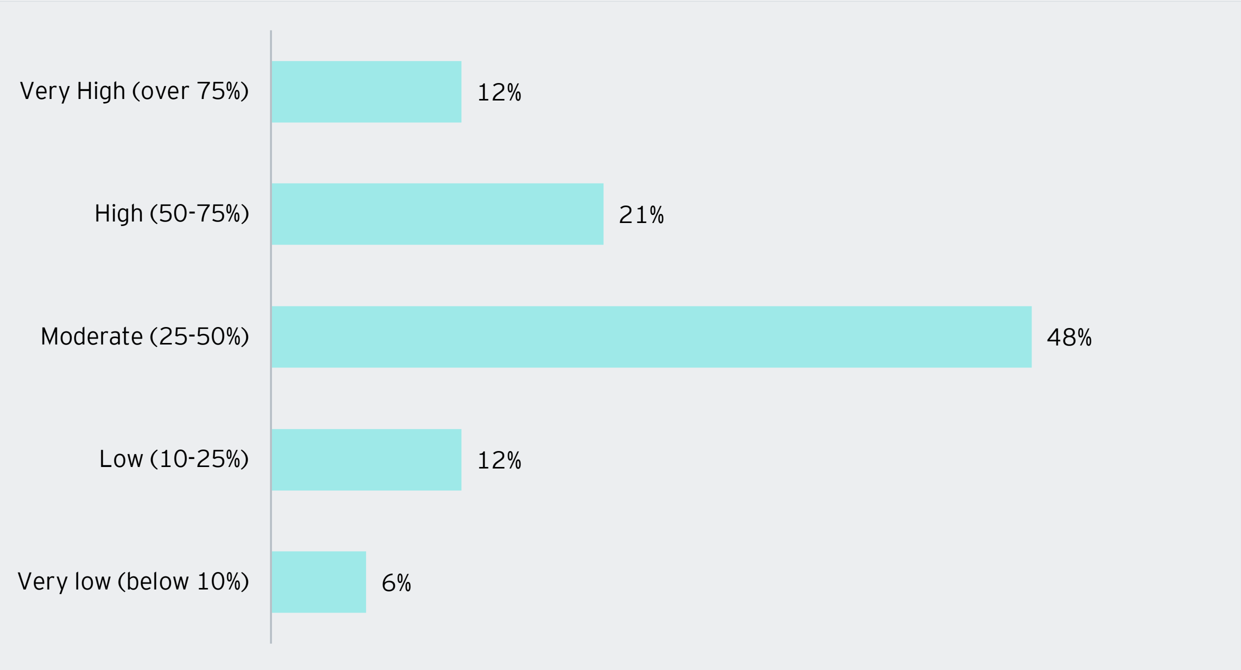
Consistent with previous survey findings, fund managers identify real estate as the riskiest sector within the present private credit portfolio.

Q9 What do you think will be the estimated total investment by private credit in the next 12 months?



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.

Q10 What proportion of the private credit fund flow in India is contributed by investments from domestic family offices?



69% of fund managers perceive a range of 25% to 75% contribution from domestic family offices to the overall private credit deal flow.

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Glossary

AIF	Alternative Investment Fund
AUM	Assets Under Management
b	Billion
Capex	Capital Expenditure
CASA	Current Account Savings Account
CIRP	Corporate Insolvency Resolution Process
CY	Current Year
FDI	Foreign Direct Investment
FMCG	Fast-Moving Consumer Goods
FY	Financial Year
GDP	Gross Domestic product
GoI	Government of India
IBBI	Insolvency and Bankruptcy Board of India
IBC	Insolvency and Bankruptcy Code, 2016
ICD	Inter-Corporate Deposit
IMF	International Monetary Fund
IPO	Initial Public Offering
IRR	Internal Rate of Return
m	Million
M&A	Mergers and Acquisitions
MSME	Micro, Small & Medium Enterprises
NA	Not available
NARCL	National Asset Reconstruction Company Limited
NATO	North Atlantic Treaty Organization
NBFC	Non-banking financial company
NCD	Non-convertible debentures
NCLT	National Company Law Tribunal
NIM	Net Interest Margin
NPA	Non-Performing Asset
PE	Private Equity
PSU	Public Sector Undertaking
R&D	Research and Development
RBI	Reserve Bank of India
RE	Regulated entities
SBI	State Bank of India
SCB	Scheduled Commercial Bank
SEBI	Securities and Exchange Board of India
SEBI	Securities and Exchange Board of India
SPV	Special Purpose Vehicle
US	The United States of America
Y-o-y	Year over Year

All INR amount converted to US$ at INR 83 per US$.

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