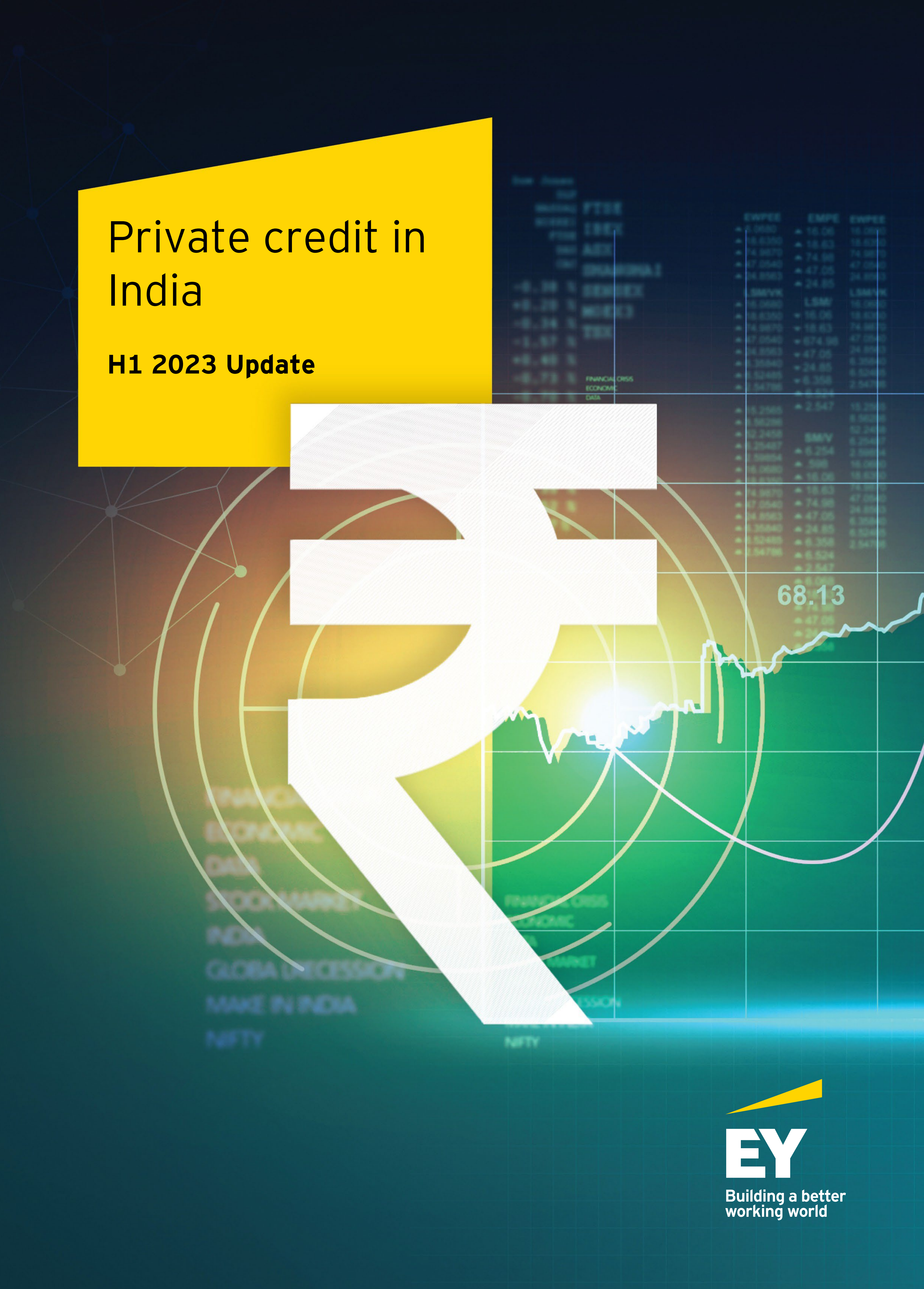
Private credit in India

H1 2023 Update



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Executive summary

> In the midst of every crisis, lies great opportunity.
>
> Albert Einstein

The global financial markets continue to be tested by high inflation and higher interest rates, as is evidenced by recent failures at some of the U.S. banks and loss of market confidence in Credit Suisse. All countries, including India, have seen unstable FII inflows due to poor market sentiment. However, the Indian economy has outperformed other major economies during FY23. India has crossed the UK to become the fifth largest economy and is now on the cusp of a transformative journey. While there are varied predictions about the timing of India becoming the third largest economy – whether by 2028, 2030 or 2032, India's rise is unstoppable and undisputed.

The growth in the current fiscal is expected to be supported by resilient private consumption and investment and a robust services sector, despite global headwinds. Capacity utilization in manufacturing has increased to over 74%[1] and after a long hiatus, private sector capex is expected to pick up, as noted in RBI's latest financial stability report. Indian companies are likely to embark on a multi-year capex cycle, the capex-led growth strategy will usher a virtuous investment cycle. One can already observe an increasing trend in announced projects and capex spending by the private players. This is likely to drive domestic credit requirement.

As against December 2022, the gross bank credit by SCBs in May 2023 continues to witness double-digit (annualized) growth trajectory, led by credit growth to MSMEs at 20%. The retail loan growth remained robust at 14%. The growth in outstanding credit to services stood at 13%. The deleveraging by corporates has strengthened their balance sheets, as is evident in the declining core debt of the private non-financial sector. The credit growth of NBFCs was marginal as the growth in retail lending, backed by digital outreach, was offset by a slight increase in wholesale loan book.

The fundraising and deployment have picked up in this space. In the last six months, more than ~US$2b has been raised by global and domestic funds, with sector-specific (real estate, pharma, manufacturing, etc.) and sector agnostic approach to performing credit, stressed credit and special situation opportunities.

We have analyzed 18 transactions wherein ~US$4b has been deployed during H1 2023. Separately, the NARCL has completed deals amounting to ~US$440m, besides a robust deal pipeline for the next few months.

As India witnesses rising number of Indian family offices, UHNWIs and HNWIs looking to deploy funds for risk-adjusted returns, it provides immense opportunities for private credit players to raise domestic capital.

[1] From Economic Survey FY23

Based on new fund raise activity (including AIF registrations) on one hand and decline in transactions on the other, it is possible that we may be entering a brief period, where more money may be chasing fewer transactions. Such periods often lead to mis-pricing of risk and higher credit cost.

IBC, as a resolution mechanism, continues to move along with its own set of challenges. However, its effects can be seen beyond the Courts as, since the inception of the Code, defaults of ~US$100b+[2] have been resolved even before admission of the cases.

Key insights from our EY India Private Credit Pulse survey are:

- 82% of fund managers ranked real estate and manufacturing as sectors with the highest expected deal flow. Financial services emerged as the second most preferred sector by 45% of fund managers.
- Private credit fund managers are split in terms of fund availability over the next 12 months to invest in India. Where 35% believe it will be difficult to raise funds, 39% voted for the availability of adequate funds in India.
- 39% fund managers believed that, in the current deal flow, stress-related funding and capex financing drive demand for private credit.
- 70% fund managers believe that competition in private credit deal has increased over the last 12 months.

In the pages to follow, we share with you the market outlook, an analysis of credit growth, key regulatory developments, deal activity in H1 2023 and results from our EY India Private Credit Pulse survey.

[2] IBBI Newsletter March 2023

1 | Macroeconomic outlook

1. Macroeconomic outlook[3]

Since February 2023, the global financial system continues to be tested by high inflation and interest rates. Recent failures at Silicon Valley and Signature Bank in the U.S. and loss of market confidence in Credit Suisse are reminders that the world is still adapting to a tighter monetary policy and financial condition. Market sentiment is fragile, inflation has moderated but is still at an elevated level and geopolitical issues pose a risk to global growth prospects. IMF has forecasted that global growth will slow down to 2.8% in 2023 versus its earlier forecast of 3.4%. Western central banks continue to maintain hawkish stance and it is now expected that U.S. Fed, after 11 consecutive increments from March 2022 to July 2023, will likely opt for one more rate hike in near future, taking the federal funds rate from ~5.50% to 5.75%.

The macroeconomic uncertainty has impacted net capital flows into the emerging markets, including India. The net FDI inflow was US$28b in FY23 relative to US$38.6b in the previous year. Foreign portfolio investments have also remained volatile and recorded a net outflow of US$4.8b in FY23. Similar trend has also been noted in external commercial borrowings where there has been net outflow in FY23.

The Indian equity markets, however, have remained among the strongest performing markets globally despite the global liquidity flows, largely due to strong earnings performance across sectors. FIIs have made net purchases of US$11.6b since March 2023 and domestic institutional investors also continue to support the market as net buyers.

The surge in rates has also led to moderation in overseas bond issuances, which have decreased from US$13b in FY22 to US$1.2b in FY23 (up to February 2023). Corporates are increasingly tapping domestic bond markets as all in cost of borrowings overseas have risen to about ~11% due to an increase in Fed Funds Rate.

Domestic economic activity remains resilient despite weak global macros. RBI has kept the repo rate unchanged at 6.5% in its Monetary Policy Committee meeting on 8 June 2023, which is in line with RBI's stand to withdraw the accommodative stance. RBI has estimated a real GDP growth in FY24 of 6.5% subject to impact on agricultural output as a result of unpredictable monsoon. The domestic financial system remains immune to the global turmoil, as asset quality has significantly improved and bank balance sheets are healthy. Headline consumer price index inflation has also been moderating from a peak of 7.8% in April 2022 to 4.3% in May 2023 on the back of a combination of monetary policy tightening and supply-side measures.

Domestic demand has revived and the capacity utilization in the manufacturing sector in Q4 FY23 was 74.3% which is highest in last two years. Additionally, high frequency indicators such as the Purchasing Managers Index (PMI) for manufacturing and services indicate sustained expansion with manufacturing PMI at a 31–month high and services PMI at a 13-year high. Corporates are betting on the higher demand as capex spend rises. CRISIL estimates India Inc's Capex will grow 12% to 14% to US$73.09b in FY24 as corporates add capacity. Manufacturing, which has been one of the weaker pillars of the Indian economy, is picking up as new mega investments are announced, including some by marquee global brands. Defense, real estate, renewables, infrastructure, and data centers continue to grow and attract new investments.

[3] RBI's Financial Stability Report June 2023, RBI's monetary policy report dated April 6, 2023, Economic Survey FY23, The Hindu Business Line article dated April 7, 2023

The Indian Rupee has also been range bound in H1 2023 (between INR81 per US$ to INR83 per US$). The exchange rate volatility experienced in 2022 has significantly reduced and the INR is among the better performing currencies in the world.

Overall, the economic outlook for the domestic market remains positive on the back of a healthy financial system, strong domestic demand, moderating inflationary pressure and regulatory support from the government. Demand for credit remains strong as corporates are entering into this cycle with deleveraged balance sheets and healthy profit margins.

2 Analysis of credit deployment and growth

2. Analysis of credit deployment and growth

2.1 Credit deployment by scheduled commercial banks[4]

Overall bank credit growth is clocking northwards of 11% on a year-on-year basis in H1 2023. A thorough analysis of the sectoral deployment report of banks (dated 19 May 2023) indicates that a large part of the credit growth in SCBs is being driven by personal loans, agriculture, MSME and Trade segment. Interestingly, aggregate credit to the large industry segment has remained muted in H1 2023. This could be a net impact of deleveraging and new credit growth.

Particulars	December 2022	May 2023	Change	Annualized growth rate
Agriculture and allied activities (a)	199	210	11	14%
Industry:				
MSME	100	107	8	20%
Large	303	303	0	0%
Sub-total (b)	**403**	**410**	**8**	**5%**
Services:				
NBFC	161	164	2	4%
Trade(Note 1)	94	102	9	24%
Real Estate	38	39	1	10%
Others(Note 2)	135	145	9	18%
Sub-total (c)	**428**	**450**	**21**	**13%**
Personal loans (d)	**481**	**506**	**25**	**14%**
Total	1,511	1,576	65	11%

*All values in US$ billion

Notes:

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.

[4] SCB's credit deployment report and RBI's Financial Stability Report June 2023

The RBI, in its Financial Stability report, has also noted that the leverage of listed private non-financial companies declined in H1 2023 and has strengthened the corporate balance sheets. This is due to improved corporate performance, an increase in retained earnings and recovery in GDP levels. Cash as a percentage of total assets has also increased from 4.5% in H1 2022-23 to 5.2% in H2 2022-23[5].

However, given that the capacity utilization in the manufacturing sector has reached 74% the capex pipeline is expected to increase given the strong demand and this in turn will lead to higher credit growth in the industry segment over next two to three years.

The gross NPA ratio[5] at banks has reduced to a decadal low of 3.9% in March 2023 (March 2022 – 5.9% and June 2022 – 5.7%). Parallelly, the provision coverage ratio has increased from 40% in June 2016 to 74% in March 2023. This continued decline over last several quarters indicate how bank balance sheets and capital buffers have strengthened due to the massive cleanup drive undertaken by banks over last 5–6 years.

2.2 Wholesale books of NBFCs[6]

In our last report covering (H2 2022), the wholesale loan books of NBFCs have been stagnant as the NBFCs pivot to tech enabled retail lending and focus on building a more granular loan book. Additionally, some large NBFCs were focused on reducing/optimizing their wholesale book exposure. This trend has played out in the March 2023 quarter based on the results published by the NBFC.

An analysis of 15 large NBFC wholesale books aggregating to US$50.3b as at 31 March 2023, we noted that six NBFCs reduced their wholesale book vis-à-vis December 2022 and there was a marginal increase in the wholesale book of the other NBFC's included in the analysis. At an aggregate level, the total wholesale book across the set totaled to US$51.3b in December 2022, which reduced to US$50.3b in March 2023.

The overall trend of reduction in the wholesale book of NBFCs continues. More information will be available when RBI releases its report on Trends and Progress of Banking in India FY23.

[5] RBI Financial Stability Report June 2023

[6] Report on Trends and Progress of Banking in India by RBI 2022

2.3 Debt Mutual Funds

Debt oriented schemes have witnessed net withdrawals in FY23 as the preferential tax treatment for debt funds was aligned with other fixed income investment options. Interestingly, credit risk funds (which invest a minimum of 65% of the investment portfolio in debt papers) saw a large drop in their AUMs after the fund closure announcement at Franklin Templeton is seeing a gradual but slow drop in net assets since March 2019.

Net Assets of Open-Ended Debt Mutual Funds

Type of fund	March 2019	March 2020	March 2021	March 2022	March 2023	May 2023
Liquid Fund	62.5	40.9	44.9	47.5	56.0	54.1
Money Market Fund	7.2	7.0	11.6	14.1	14.4	16.2
Corporate Bond Fund	7.4	10.0	19.0	16.2	14.2	16.4
Overnight Fund	1.4	9.8	10.9	15.3	14.1	10.0
Low Duration Fund	11.1	9.9	16.4	14.0	11.5	11.6
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	12.0
Banking and PSU Fund	4.2	8.9	14.9	11.8	9.1	10.0
Floater Fund	3.7	4.0	7.8	9.9	7.1	6.8
Medium Duration Fund	4.6	3.5	3.8	4.1	3.2	3.4
Credit Risk Fund	**9.9**	**6.8**	**3.5**	**3.4**	**3.1**	**3.0**
Dynamic Bond Fund	2.4	2.2	3.2	3.1	2.8	3.7
Gilt Fund	0.9	1.1	2.0	1.9	2.0	2.7
Medium to Long Duration Fund	1.2	1.2	1.3	1.3	1.1	1.2
Long Duration Fund	0.1	0.2	0.3	0.3	0.4	1.1
Gilt Fund with 10-year constant duration	0.1	0.1	0.2	0.2	0.2	0.5
Total	137.1	125.8	169.7	168.5	161.8	164.8

* Values in US$ billion

Source: SEBI website

3 | Regulatory and other developments

3. Regulatory and other developments

3.1 Performance under the Insolvency and Bankruptcy Code, 2016[7]

Simplification of regulatory frameworks through reforms such as the Insolvency and Bankruptcy Code, 2016 (IBC) and the Real Estate (Regulation and Development) Act, 2016 have enhanced the ease of doing business.

As per data reported in IBBI's quarterly newsletter and since the implementation of IBC, as of 31 March 2023, 6,571 cases were admitted under CIRP. Out of the admitted cases, 4,515 cases have been closed and balance is ongoing. The Corporate Debtors were rescued in 2,485 cases through approval of resolution plan (678 cases), withdrawal u/s 12A of IBC (848 cases) and by appeal/review/settled (959 cases). The Corporate Debtor in 2,030 cases ended in orders for liquidation. It is noteworthy that out of 678 cases resolved under IBC, 117 cases had admitted claim amounts greater than US$120m each.

The average time taken for closure of CIRP's yielding resolution plan (i.e., from admission till NCLT approval) is about 512 days (far exceeding the original planned timeline of 180 days). This does not include the time taken to admit cases, which would further extend the recovery timelines for creditors. As per the latest quarterly report of March 2023 released by the Insolvency and Bankruptcy Board of India, the banks, financial institutions, and other creditors of stressed companies have realized ~US$30b since inception of IBC through NCLT-supervised insolvency resolution processes against total claims of ~US$110b till 31 March 2023, a recovery of ~32%. On an aggregate basis, since implementation of IBC, the creditors have realized 165% of the liquidation value and 84% of the fair value. The haircut for creditors relative to the fair value of assets was less than 17%, while relative to their admitted claims is around 68%.

The cases resolved, and those referred for liquidation had assets valued at ~US$21b and ~US$7b, respectively, at the time of admission, indicating that ~73% of the distressed assets (in value terms) were resolved. The IBC has facilitated the exit of distressed firms, allocating scarce economic resources towards more productive use.

While the above outcomes are pursuant to the admission of cases under of the Code, it would be imperative to consider the impact of IBC in a more holistic manner. The credible threat of IBC 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 25,107 applications (with a default of ~US$107b) for initiation of CIRP filed before the NCLT have been resolved even before admission of the case by the Courts.

To strengthen the functioning of the IBC, IBBI is considering changes to the Code in relation to the admission of CIRP applications, streamlining the insolvency resolution process, recasting the liquidation process, etc. A fast-track insolvency resolution mechanism is under consideration, thereby allowing approval of resolution plans through an informal out of court process and involve judiciary only for a final approval and sanctity. The expansion of the applicability of the Pre-Packaged Insolvency Resolution framework, which is currently for MSMEs, is also being considered. Further, the Regulator, to ensure value maximization, is endeavoring to permit approval of single or multiple resolution plans for

[7] IBBI Newsletter March 2023 and News articles

different assets (individually or collectively) in respect of the same Corporate Debtor.

In our earlier report, we discussed the case of *State Tax Officer v. Rainbow Papers Ltd.*, which unsettled the prevailing legal position regarding the rights of financial creditors and statutory dues. Further, in the case of *Vidarbha Industries Power Limited v. Axis Bank Limited*, the Supreme Court ruled that AA has discretion to admit or reject a case despite existence of the default. This created confusion and practical difficulties among the various stakeholders. In January 2023, the Ministry of Corporate Affairs has invited public comments on proposed amendments to IBC, which would alleviate any doubts in this regard and effectively nullify the effect of these judgments.

Recently, domestic carrier GoFirst filed voluntary insolvency plea before the NCLT. The admission of GoFirst into IBC has divided opinion among the experts. As per media reports, the company has maintained that the financial difficulties being faced by the company are a result of default by Pratt & Whitney engine issues, which have grounded significant portion of its fleet, forcing it into insolvency. With respect to rights of the Lessor, there is a view that India has not adhered to Cape Town Convention, and the IBC and the moratorium offered are being used to prevent lessors from taking possession of the aircraft.

3.2 Resolutions outside Insolvency and Bankruptcy Code, 2016

There have also been some marquee resolutions outside IBC. In case of SpiceJet Limited, the airline restructured ~US$100m of its outstanding debt into equity and compulsory convertible debentures. Kamat Group of Hotels settled its debt of ~US$132m owed to ARCs through fresh raise of debt and issuance of NCDs and share warrants[8].

Authum Investments and Infrastructure has completed acquisition of Reliance Home Finance Limited which owed ~US$1.4b to the creditors[9]. This is the biggest resolution of debt resolution of NBFC outside IBC. In another development, Religare Finvest Limited completed the one-time settlement of its US$700m debt with all its 16 secured lenders[10].

The RBI, vide its circular dated 8 June 2023, has issued a comprehensive regulatory framework governing compromise settlements and technical write-offs covering all the regulated entities. This is likely to provide further impetus to the resolution of the stressed assets existing in the system.

3.3 Activity by NARCL[11]

In 2021, India's Bad Bank - NARCL was established with the objective of acquiring non-performing loans from the banking system, and for managing and recovering them through an effective and efficient resolution.

The sovereign guarantee is a key element that separates NARCL from other ARCs and bad loan aggregators. However, this distinguishing feature delayed transaction closures in the recent past. The guarantee issued earlier was valid till March 2022 and its revalidation process resulted in

[8] India Times article dated 27 February 2023

[9] The Hindu Businessline article dated 31 March 2023

[10] Insolvency tracker article dated 9 March 2023

[11] CA Alley article dated 12 January 2023, Bar and Bench article dated 1 February 2023, M&A Critique article February 2023, Livemint article dated 10 April 2023

many deals being held up. In January 2023, the Government approved US$1.9b blanket guarantee which will likely expedite the acquisition of distressed assets in CY2023.

The transactions completed by NARCL are below:

Asset/company	Size of debt	Deal value
Jaypee Infratech	US$1.1b	~US$433m
Helios Photovoltaic	US$74m	US$4.2m
SSA International	US$64m	US$3.8m

Some assets where NARCL has shown interest include Rolta India, Dharani Sugars, Rainbow Papers, SEW LSY Highways, Haridwar Highways Project, Kamachi Steel and SPML Infra.

3.4 Alternate investment framework and GIFT City

Based on data published by SEBI, in H1 2023, at least 15 new AIFs have registered with credit/special situation orientation. As on 30 June 2023, 51 AIFs are in the process of registration with SEBI, with 11 of them likely to be private credit funds.

As testimony to the efforts of the IFSCA and Government of India, the volume of business activities in GIFT IFSC has seen notable growth across various sub-sectors of financial services. GIFT City is ranked third by the Global Financial Centres Index[12] as one of the 15 centers that is likely to become more significant in the next two to three years. 63 AIFs[13] have already registered and more than US$10.7b is committed to AIFs in the GIFT City. Further, the employment in GIFT City has doubled in last two years.

SEBI has also issued a number of Consultation Papers proposing restrictions on various aspects for working of AIFs as well as strengthening governance of AIFs. While the amendments and proposals are well intended in spirit, they do raise the question of what the right balance between is ensuring that AIF managers appropriately discharge their fiduciary duties and, at the same time, ensuring that they have enough flexibility to operate. Some key amendments pertain to dematerialization of units of AIFs, eligibility criteria for key investment team, appointment of compliance officer, valuation of investments, winding up and liquidation scheme.

Separately, SEBI has introduced a new type of AIF under Category I as Corporate Debt Market Development Fund. The Fund has been set-up to provide liquidity to mutual funds at the time of market dislocation by purchasing corporate debt securities from the specified debt-oriented schemes. In May 2023 SEBI issued consultation papers on borrowings by Category-I and Category-II AIFs, QIB status for AIFs, pari-passu rights of investors of AIFs, etc.

[12] Global Financial Centres Index 32 Report

[13] IFSCA website

4 | Fund raise and deal activity

4. Fund raise and deal activity

4.1 Fund raising[14]

Based on publicly available information, the following fund raise activity was announced during H1 2023:

- Kotak Strategic Situations Fund II, domiciled in GIFT City, raised US$1.25b.
- Centrum Alternatives is raising its second private credit fund that would more than double its AUM under the asset class to around US$500m.
- ICICI Prudential Asset Management Company's AIF is planning to raise ~US$486m to deploy in sectors such as power, logistics, textiles and pharmaceuticals.
- Bain Capital-backed 360 ONE Asset Management Ltd has closed its fourth private credit fund to raise more than ~US$259m.
- Alpha Alternatives raised US$255m in with backing from domestic family offices and UHNIs.
- Vivriti Asset Management has floated a US$250m securitization fund domiciled in the International Financial Services Centre in GIFT City in Gujarat.
- Nippon Life is planning to launch a private credit fund via AIF vehicle in India with US$244m.
- Sundaram Alternates Assets is planning to raise up to US$182m through its fourth real estate private credit fund and shall focus on investments in growth and special situation opportunities.
- ASK Group is planning to raise US$122m for its inaugural private credit fund.
- JM Financial Group has raised US$73m for investing in performing credit opportunities.
- RV Capital Management, a Singapore-based hedge fund, has floated a private credit fund through AIF vehicle and is planning to raise US$50m with a green-shoe option of an equal amount.

4.2 Domestic capital to provide additional fuel for private credit growth in India

Foreign capital has played an important role in meeting the need of borrowers for private credit in India and resolving the NPAs over the last five to six years. We expect the trend to continue on the back of India's growth story, though higher interest rates may play spoil sport in the near term.

Based on our discussions, review of media reports and analysis, there is strong interest among family offices, UHNWI and HNWIs to invest in private credit funds. This seems to be a rising trend and may become a large source of capital to fuel Indian private credit growth story. Several reasons are driving this new pool of capital towards private credit:

1. Formation of family offices is itself a rising trend. As the family wealth gets managed more professionally, the search for balanced and risk-adjusted returns is driving slices of capital towards private credit.
2. Wealth creation is happening at a brisk pace led by solid economic growth, resilient equity markets, fast evolving start up ecosystem, ESOPs becoming part of compensation

[14] News articles from accredited publications

structure, etc. It is expected that Indian HNI population may double by 2027, and over the same period UHNWI population may rise by 58.4%[15].

3. Formalization of the economy has been a rising trend that has led to private wealth finding its way into investments that are legally compliant
4. Digitalization of the economy has made identifying potential investors and outreach easier. Wealth managers and distributors have played their role in educating investors about opportunities to earn higher yield through private credit.
5. The recent budget amendment eliminated the long-term tax benefits of debt mutual funds. This move will further add to the move away from debt mutual funds as a source of fixed income.

If the momentum continues, the domestic capital will likely play a much larger role in fueling the growth of private credit in India.

4.3 Analysis of select deal activity during H1 2023

Period	Investee	Investor	Deal rationale	Deal size (US$m)	Performing / High Yield	Tenure (years)
Real estate management & development						
June 2023	Shapoorji Pallonji Group	Cerberus Capital Management, Standard Chartered Bank, Deutsche Bank, Varde Partners, Davidson Kempner, Edelweiss Special Opportunities Fund, One Investment Management and Ontario Municipal Employees' Retirement System (OMERS), Synergy Capital	Refinancing of high-cost debt	1,740	High Yield	3
February 2023	M3M India	PAG Credit	Infrastructure and real estate finance	182	High Yield	4-5
January 2023	Advance India Projects Limited	Apollo Global Management	Infrastructure and real estate finance	39	High Yield	4
January 2023	Puravankara Limited	Standard Chartered Bank (Mauritius) Limited Debt	Growth finance	28	Performing	4
March 2023	Anand Raj Limited	Apollo Global Management	Infrastructure and real estate finance	24	High Yield	5
January 2023	Everest Nisarg Greenland Developers Private Limited	Kotak Real Estate Fund - X	Infrastructure/ real-estate finance	16	High Yield	5-6

[15] The Wealth Report 2023 by Knight Frank

Period	Investee	Investor	Deal rationale	Deal size (US$m)	Performing / High Yield	Tenure (years)
Metals and mining						
May 2023	Vedanta	JP Morgan and Oaktree Capital Management	Refinancing of existing debt	850	High Yield	5
Infrastructure						
June 2023	Infra.Market	Varde Partners	Bridge to IPO	150	High Yield	2-3
Consumer and technology						
February 2023	Bharat Hotels	Kotak Realty Fund	Exit to existing lenders	134	High Yield	5
January 2023	Kamat Hotels	Ncube Ventures LLP, SBI Funds Management, Purple Clover Tree LLP and SBI FM Special Situation Fund I	OTS with existing lenders	36	High Yield	4
Energy & renewables						
June 2023	Rattan India Power	Kotak Strategic Situations India Fund II	Exit to existing overseas lenders	124	High Yield	2-3
Manufacturing						
February 2023 and May 2023	Biocon Limited	Kotak Special Situations Fund, ESOF III Investment Fund (Edelweiss Alternate Asset Advisors Limited)	Acquisition finance	61	High Yield	4
June 2023	Viney Corporation	Kotak Special Situations Fund	Exit to private equity	55	High Yield	3-5
February 2023	Azad Engineering	Piramal	Growth finance	29	Performing	6
June 2023	Ballarpur Industries Limited	Finquest Financial Solutions Private Limited, Huponos Fund Limited	Acquisition under IBC	24	High Yield	5
March 2023	Zetwerk	Edelweiss Credit Plus Fund II	Growth finance	10	Performing	2

Source: Regulatory filings and EY Analysis

Note: Above is an illustrative list of transactions that closed in H1 2023 and some information about them available in public domain. The list above is not meant to be an exhaustive list of transactions by Private Credit players in India.

5 | EY Private Credit Pulse survey

5. EY Private Credit Pulse survey

5.1 About the survey

We have initiated a periodic survey of the private credit market in India. The survey aims to capture the pulse of the market and identify any pivots in the overall direction of the industry. This survey was conducted in June 2023. Senior leaders of large Indian and global, high yield and performing credit funds participated in the survey.

5.2 Summary of survey

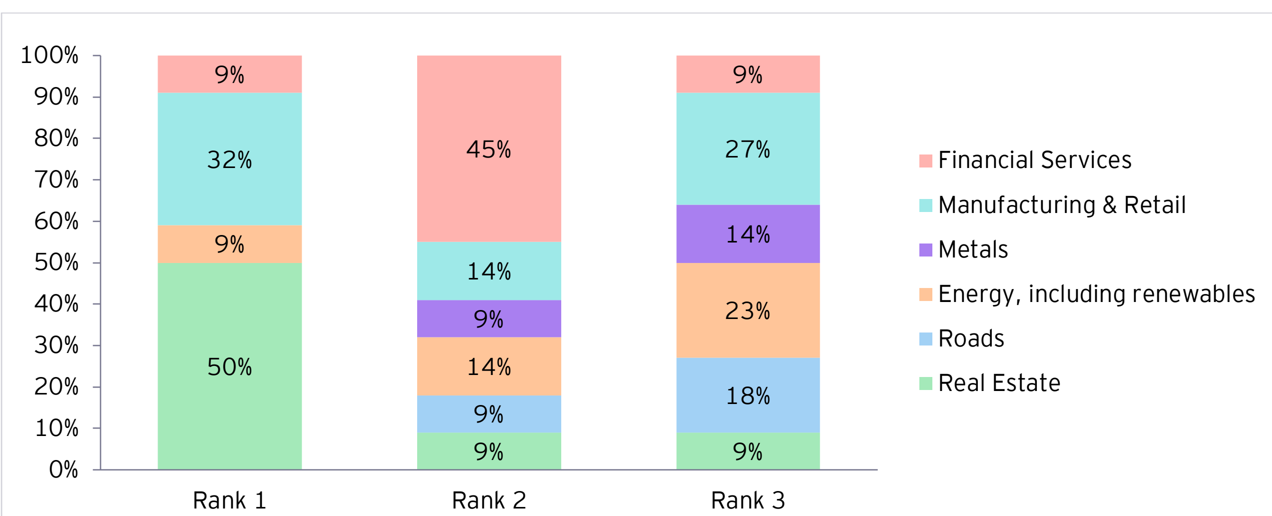
78% of the survey respondents had a target yield ranging from 18% to 24% (high yield) and 22% were 12% to 18% (performing credit). Looking ahead over the next 12 to 24 months, the majority of fund managers believe that real estate and manufacturing sectors will experience the highest deal flow. Conversely, fund managers hold a bearish outlook on activity in the metals and road sectors. Fund managers maintain their belief that demand for private credit will be driven by stress-related funding, special situation funding, and capex financing in the current period as well as the next 12 to 24 months. Interestingly, compared to our last survey in December 2022, a significantly higher number of fund managers anticipate stress as a driver for deals.

Fund managers remain divided in their opinions regarding the availability of funds in the private credit market, with some finding fund raising difficult while others believe that there are ample funds available. This divide in opinion persists from the previous survey in December 2022.

Lastly, our Private Credit Senti-meter indicates that private credit investors are slightly more bullish in the longer time horizon of two to five years as compared to near term (next one to two years).

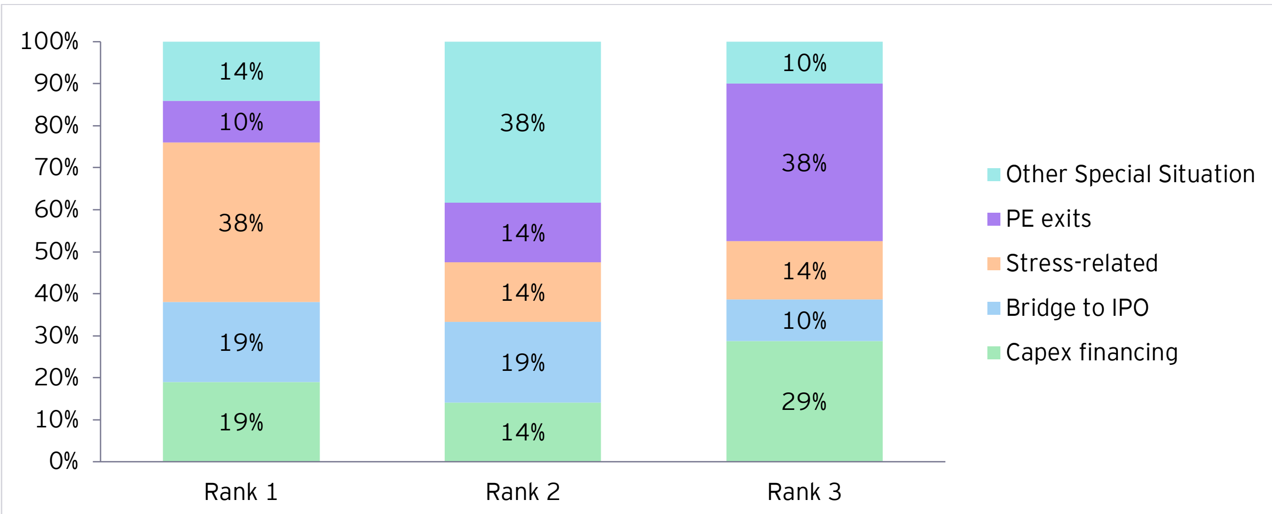
5.3 Detailed results

Q1. Over the next 12–24 months, kindly rank the sectors in order of deal flow. (Rank 1 indicates maximum deal flow)



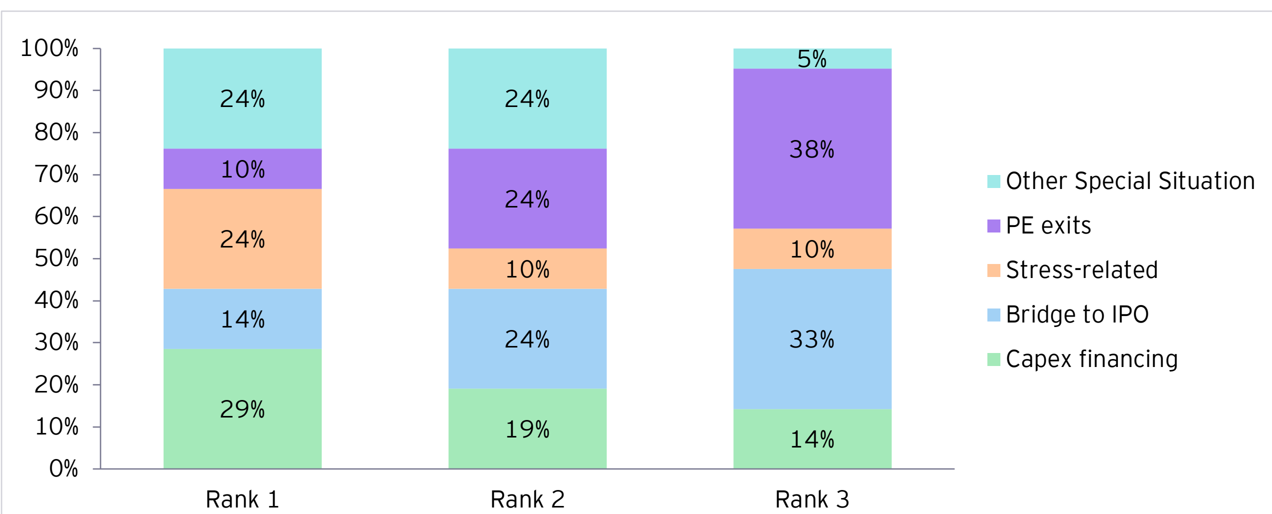
In the current survey, 82% of fund managers, all of which manage high-yield funds, ranked real estate and manufacturing as sectors with the highest expected deal flow. Financial services emerged as second most preferred sector by 45% of fund managers.

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



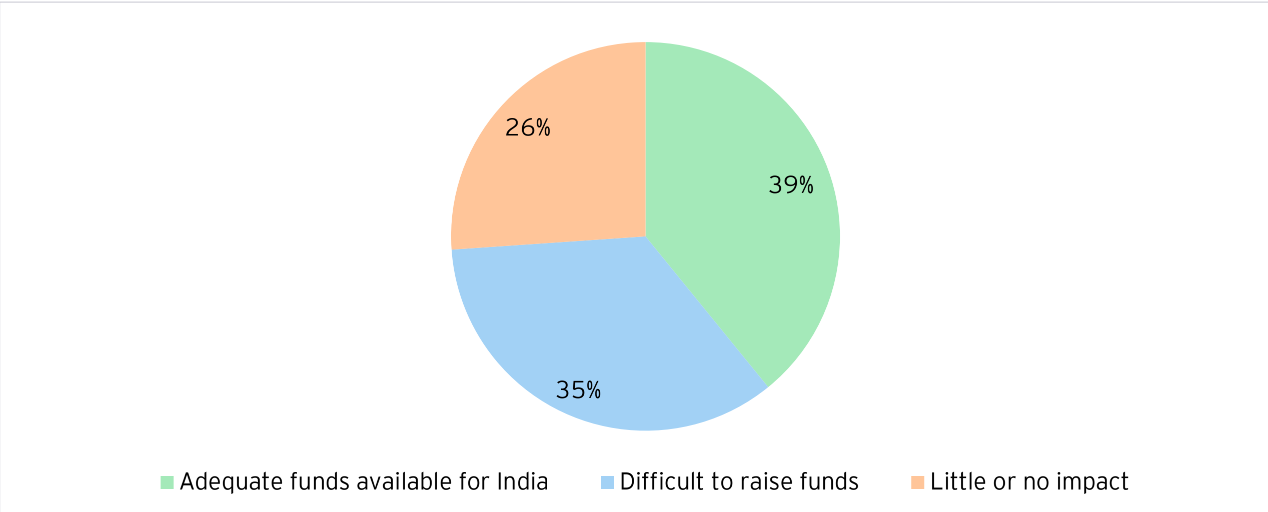
In the current flow of deals, with no specific driver standing out, there are various factors that influenced the decision-making process in the private credit industry. 39% fund managers believed that, in the current deal flow, stress-related shall drive demand for private credit followed by Capex financing. As a second preference, 39% voted for special situations.

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



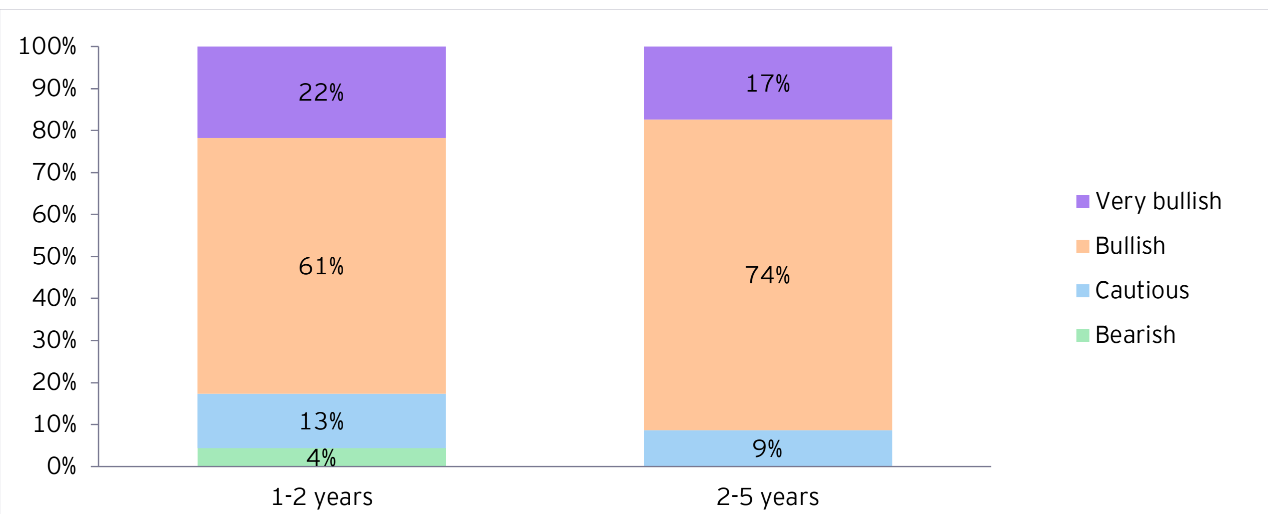
Similar to the current deal flow, fund managers believe that there are mix set of factors driving the growth of private credit in India. These factors include capital expenditure, stress-related situations, and other special situations.

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?



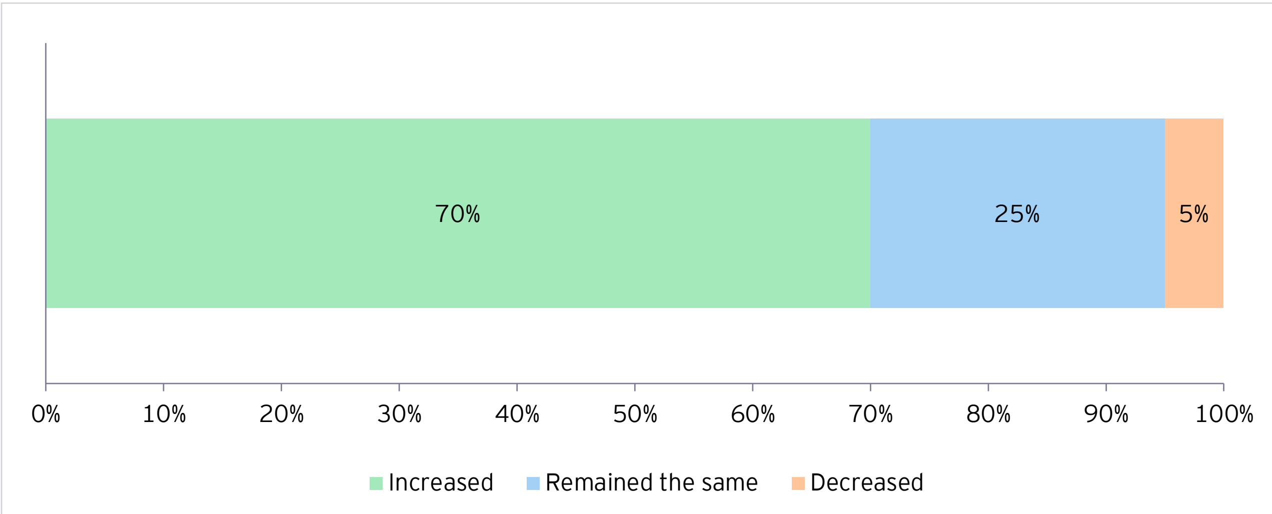
Private credit fund managers are split in terms of fund availability over the next 12 months to invest in India. Where 35% believe it will be difficult to raise funds, 39% voted for availability of adequate funds for India.

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



Where 83% of funds managers are positive (bullish and very bullish) on private credit investment for the next one to two years; the corresponding number is 91% over two to five years. Among high yield fund managers, 78% expect the bullish trend to continue in the next one to two years, and this confidence rises to 89% 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 compared to the previous survey conducted in December 2022.

Q6. Has the level of competitiveness in private credit deals, over last 12 months, increased/decreased or remained the same?



70% 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 has become intensive in the current survey as compared to the last survey in December 2022.

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Glossary

Term	Full Form
AA	Appellate Authority
AIF	Alternative Investment Fund
ARC	Asset Reconstruction Company
AUM	Assets Under Management
b	Billion
CCD	Compulsorily Convertible Debentures
CIRP	Corporate Insolvency Resolution Process
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FY	Financial Year
GIFT	Gujarat International Finance Tec-City
HNWI	High-Net-Worth Individual
IBBI	Insolvency and Bankruptcy Board of India
IBC	Insolvency and Bankruptcy Code, 2016
IFSC	International Financial Services Centre
IMF	International Monetary Fund
IPO	Initial Public Offering
IRFC	Indian Railway Finance Corporation
m	Million
MSME	Micro, Small and Medium Enterprises
NARCL	National Asset Reconstruction Company Limited

Term	Full Form
NBFC	Non-Banking Financial Company
NBFC - ICC	Non-Banking Financial Company - Investment and Credit Company
NCD	Non-Convertible Debentures
NCLT	National Company Law Tribunal
NPA	Non-Performing Assets
NPL	Non-Performing Loans
OCD	Optionally Convertible Debentures
OTS	One Time Settlement
PFC	Power Finance Corporation Limited
PLI	Production Linked Incentive
PSU	Public Sector Undertakings
RBI	Reserve Bank of India
REC	Rural Electrification Corporation Limited
RP	Resolution Professional
SBI	State Bank of India
SCB	Scheduled Commercial Banks
SEBI	Securities and Exchange Board of India
UHNWI	Ultra-High-Net-Worth Individuals
VCC	Variable Capital Company

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