Private credit in India

H2 2022 Update

EY

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Executive summary

1. Executive summary

We present our third issue of EY India Private Credit Report – H2 2022. Private credit is continuing to grow at a fast pace due to a composite set of factors. As compared to 2021, the focus of private credit funds has clearly shifted from stressed asset deals to special situations, bridge to IPO and securitization deals. Stressed asset deal flow is largely coming from unresolved real estate stress, COVID-19 hit hospitality sector stress and recycling of pharma and metal sector assets. NBFC's pivot to the retail segment is certainly providing an impetus to newly formed AIF platform private credit funds. We can also see some green shoots in domestically raised capital being deployed in performing credit strategies. On an overall basis, a fair bit of activity is happening in the private credit market, and it will be interesting to see how this evolves over 2023.

This edition of our report captures our market outlook, an analysis of credit growth, key regulatory developments, deal activity in 2022 and results from our EY India Private Credit Pulse Survey, where we saw participation from large domestic and global private credit funds active in the Indian market. Key takeaways from our report are presented below:

Credit is growing but at different rates within SCBs and NBFCs books

- Credit growth has picked up in Q2/Q3 of FY23 with SCBs recording double digit credit growth
- SCBs are seeing credit growth across all exposure sizes except large borrowers (>US$611m) on an aggregate basis.
- Loans and advances of NBFCs have increased by US$29b between March 2021 (US$330b) and September 2022 (US$359b)
- This increase in gross loans and advances of NBFCs is primarily driven by:
  - Increase in size of retail books by US$11b
  - Extension of loans by Govt.-backed NBFCs to PSUs - US$8b
  - Increase in exposure to transport operators and professional services - US$6b
- NBFCs continue to reduce their capital allocation to wholesale loans, with some of them looking to exit their wholesale book in entirety.

Private credit has experienced a surge of growth in 2022, demonstrating a clear upward trend in the market's appetite for alternative financing options

- In 2022, based on publicly available data, private credit firms announced a total fundraise of at least US$3b across sector-specific strategies (real estate, data centers), sector-agnostic strategies, and special situation strategies. In addition to this, several global funds have committed investments more than US$3-4b[1] from their Global / Asia-Pacific funds over the next couple of years.
- For 2022, we have analyzed private credit deals totaling to US$5.3b across 77 transactions. Global funds (headquartered outside India / multi-country presence) led with investments over US$3b, closely followed by domestic funds ~ US$1.7b and deals of ~US$0.5b where global and domestic funds invested jointly. AIF and FPIs were the most popular investment vehicles used during 2022. From a sector perspective, real estate saw a fair bit of deal activity (US$ 1.6b).

EY Private Credit Pulse Survey

- 40% of the fund managers surveyed ranked real estate, closely followed by manufacturing as the sectors with most deal activity over the next 12 to 24 months. In the last survey of July 2022, 45% fund managers ranked manufacturing with the highest deal activity followed by real estate.
- 30% of the fund managers believe that over the next 12 to 24 months bridge to IPO will be the biggest driver of private credit deals, followed by special situations. In the last survey of July 2022, stress-related deals were favored by 36% of fund managers followed by bridge to IPO.
- Interestingly, 71% of fund managers believe there is a "moderate" risk in existing private credit portfolios. More than 80% fund managers continue to be bullish about private credit investment opportunities in India both in the short and long term.

[1] Global funds India investment plans data: Livemint article on Varde Partners dated November 6, 2022; Goldman Sachs interview to Business Standard dated November 14, 2022

02

Macroeconomic **outlook**

2. Macroeconomic outlook

Considerable uncertainty shrouds the outlook for the global economy because of the war in Ukraine, tensions led by ongoing geopolitical realignment, efforts by major central banks to tame inflation, energy crisis and shifting supply chains across industries. A recession in developed economies in 2023 is the most talked about and forecasted scenario. Notwithstanding the challenges from global spillovers, India has been acknowledged as the global growth leader among major economies in the world. The IMF has forecasted India's FY23 growth at 6.8%[2] which is highest among major advanced economies and emerging markets.

Retail inflation eased to a 11-month low of 5.7%[3] in December after remaining above the RBI's 6% upper tolerance limit for previous eleven months in 2022. At the same time, the wholesale inflation eased to a 22-month low of 4.95%[4] in December. In order to keep inflation expectations anchored and strengthen the medium-term growth prospects, RBI raised the repo rate to 6.25%[5], on 7 December 2022, marking the fourth Repo Rate hike in 2022, while keeping the reverse repo rate stable at 3.35%. In RBI's assessment, India's CPI inflation outlook may be impacted negatively by continued geopolitical uncertainties and its implication on global crude prices, elevated imported inflation accentuated by continuing appreciation of the US$ and excessive/unseasonal rains leading to crop damage and thereby adding pressure on food prices.

Domestic bond markets are experiencing global spillovers from hardening bond yields abroad and volatile international crude prices, besides the rise in policy rates and bearish sentiment driven by a large government borrowing program. While the Indian rupee (INR) has been subjected to bouts of downward pressure, it has emerged among the better performing currencies relative to peers.

From a fiscal policy perspective, government tax collections (both direct and indirect) continue to exceed budget targets by a wide margin compensating for lower divestment target achievements, financing government capital expenditure, and providing confidence that budgeted fiscal deficit target of 6.4%[6] for FY23 will be met.

Central government continues to lead with capex investments in road, airport, digital, affordable housing, access to potable water, power, and railway infrastructure development. Indigenization of the defense industry in India is becoming a big success story with significant import substitution and export potential and creation of significant ancillary opportunities. Private sector application of defense technologies over the coming years will lead to further economic, employment and credit opportunities. Emphasis on data localization and availability of technical and people capabilities is leading to enormous opportunities in the development of data centers. India is leading the charge on climate change with a disproportionate share of investments in renewables, especially solar power. Agritech is emerging as an area of significant interest, with several early-stage concepts attracting venture capital investments. Incremental gains are being made across industries as a result of the PLI scheme and realignment of global supply chains.

Above economic progress is happening with the backdrop of a challenging global political and economic environment and tightening monetary conditions and may lead to slow down and delayed decision making. In addition, nine state elections expected in 2023 and general elections in 2024 might add to the intensity and uncertainty of the Indian political landscape.

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[2] IMF slashes India growth forecast for FY23 to 6.8%; Livemint article October 12, 2022

[3] Retail inflation eases to 5.7% in December, remains within RBI's tolerance band for 2nd straight month; Economic Times January 12, 2023

[4] Wholesale price inflation declines to 4.95% in December 2022; The Hindu January 16, 2023

[5] RBI may take a long pause in raising repo rate by Q2 of 2023; Livemint December 29, 2022

[6] https://pib.gov.in/PressReleasePage.aspx?PRID=1794133

03

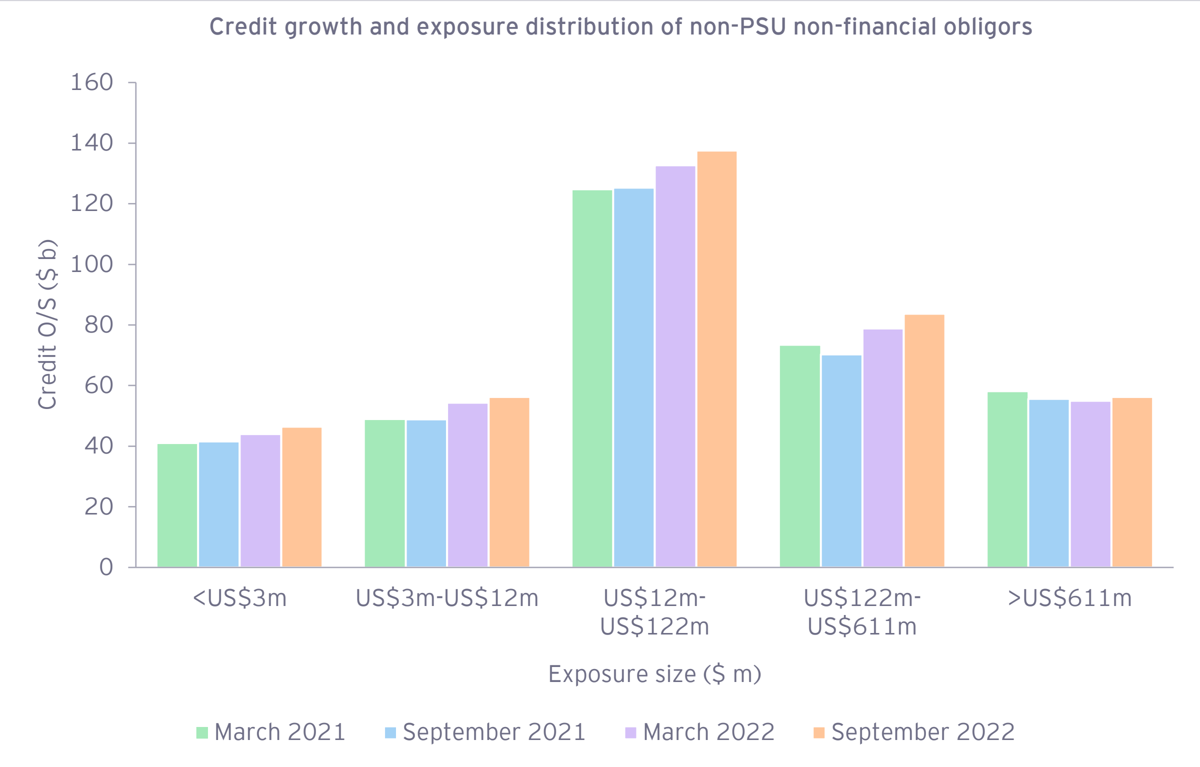
Analysis of credit **deployment and growth**

3. Analysis of credit deployment and growth

3.1 Credit deployment by scheduled commercial banks[7]

Overall bank credit growth is picking up steadily and already clocking double digits. Credit growth averaged 14.7% in Q2 FY23, improving from 12.1% in Q1 FY23. In September, the bank credit to service sector grew at a strong pace of 20% against August and credit to the industrial sector increased by 12.6% which was its fastest pace since March 2014. Within the industrial sector, growth in credit to chemical industry was the highest, followed by infrastructure, iron and steel industry and cement industry.

A comparison of the credit extended by scheduled commercial banks to non-PSU and non-financial borrowers by exposure size has been presented in the chart below:



The chart above indicates that although, credit growth on an aggregate basis, in large sized loans (>US$611m bucket) remained tepid, credit growth is happening for all other credit buckets for the half-year period ended September 30, 2022. For the large size loans (>$611m bucket), there is a possibility that new credit extended for large capex is getting offset by deleveraging from other large borrowers, especially in commodity sector.

The NPA ratio of banks has reduced to a seven-year low of 5% in September 2022 (March 2022 – 5.9% and June 2022 – 5.7%). A combination of recoveries, write-offs and reduction in slippages have helped improve the NPL situation at banks. As per RBI's financial stability report, this declining trend of NPAs is likely to continue which explains why many private credit funds are pivoting away from stress-oriented deals.

[7] SCB's credit deployment report and RBI's Financial Stability Report Issue No. 25

3.2 Credit deployment by NBFCs[8]

The gross credit deployment by NBFCs in September 2022 stood at US$359b (March 2021 - US$330 and March 2022 - US$356b). The increase in gross credit balances between March 2021 and September 2022 is largely driven by funding by government-owned NBFCs (REC, PFC and IRFC) to PSUs - US$8b and increase in loans and advances of private-owned NBFCs (investment and credit companies and deposit-taking NBFCs) by US$17b. As is evident from the given data, there is no significant change in gross credit of NBFCs between March 2022 and September 2022. Refer the table below for breakup of gross credit by type of NBFCs.

NBFC loans and advances by type of NBFCs (US$b)

Particulars	March 2021	March 2022	September 2022
Investment and Credit Companies	123	133	132
Factors	0	0	0
Infrastructure Debt Fund	4	4	4
Infrastructure Finance Company	143	152	154
Micro Finance Institution	8	10	9
Others	-	0	-
Sub-total NBFC-ND-SI (a)	~279	~299	~300
Deposit taking NBFC	52	56	59
Sub-total NBFC-D (b)	52	56	59
Grand total (a+b)	**~330**	**~356**	**~359**

A sector-wise analysis of gross credit (see table below) increase between March 2021 and September 2022 indicates that retail books of NBFCs have increased by US$11b, credit to transport operators and professional services has also increased by US$6b (sub-component of service sector). It is pertinent to note that between March 2021 to September 2022, credit to real estate (sub-component of services) has been stagnant (March 2021 – US$9.8b, March 2022 - US$10.8b, September 2022 – US$9.7b).

NBFC loans and advances by sector (US$b)

Particulars	March 2021	March 2022	September 2022
Agriculture and Allied Activities	5	6	6
Industry	130	136	136
Services	40	49	47
Retail Loans	97	101	108
Other Non-food Credit	59	63	63
Total	**~330**	**~356**	**~359**

3.2.1 Wholesale books of NBFCs

RBI in its report on ‘Trends and Progress of Banking in India’ while commenting on NBFC performance noted that wholesale loan books of NBFCs have been stagnant. NBFCs seem to increasingly pivot toward tech enabled retail lending and building a more granular loan book. We reviewed the top 10 NBFC-ICCs with a total wholesale book of US$16b. Here, we find evidence in support of RBI’s assessment that wholesale loan book growth is muted as far as it comes to NBFCs. Some key points from our analysis are:

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

- L&T Finance reported in Q2 2023 that it is exploring divestment / reducing capital allocation to its wholesale book with exposure to real estate and infrastructure. It has already reduced its exposure from US$5.3b to US$4.6b[9].
- Piramal Enterprise is also looking to optimize its share of wholesale to total AUM from the current 60%+ to 30% to 40% by end of FY2027. As a result, its focus is on growing its retail loan book[10].

Overall, while the gross credit extended by NBFC is still expected to grow next year, the primary driver of this will be a focus on retail lending through digital innovation. Part of this decline in participation of NBFCs in wholesale loans is being met by AIF's / FPI's vehicles of private credit players. Based on our discussions with various large NBFCs, we believe that, while their focus is on increasing the percentage of retail loans in their portfolio, they are looking to extend credit to corporate borrowers.

[9] L&T Q2 2023 Investor Presentation
[10] Piramal Enterprises Q2 2023 Investor Presentation

04

Regulatory and other **developments**

4. Regulatory and other developments

4.1 Performance under the Insolvency and Bankruptcy Code, 2016

In terms of regulatory developments, H2 2022 continues to be a mixed bag. As we had pointed out in our initial reports, strengthening of creditor rights coupled with enforceability is the single biggest driver of growth in credit markets. These ultimately manifest in credit markets in terms of recovery rates and timelines. We have presented a quick overview of various developments - positive as well as negative with respect to regulatory changes and performance under IBC process.

Under IBC, timelines continue to be sluggish right from admission till resolution. As per data reported in IBBI's quarterly newsletter, since implementation of IBC, as of 30 September 2022, 5893 cases were admitted under CIRP out of which 3946 cases have been closed and balance are ongoing. The cases closed constitute a mix of liquidation (1807), approval of resolution plan (552), closure by withdrawal u/s 12A (740) and cases settled by appeal/review/settled (846). The average time taken for closure of CIRP's yielding resolution plan (i.e., from admission till NCLT approval) is about 561 days (more than thrice the original planned timeline of 180 days, or twice the extended timeline of 270 days for a CIRP). This does not include the time taken to admit cases, which would further extend the recovery timelines for creditors. As per the September quarter report of the Insolvency and Bankruptcy Board of India, banks, financial institutions, and other financial creditors of stressed companies have realized US$29.7b since inception of IBC through NCLT-supervised insolvency resolution processes against total claims of US$96.7b till 30 September 2022, a recovery of 31%. The financial creditors have realized 177% of the liquidation value and 84% of the fair value. The haircut for financial creditors relative to the fair value of assets was less than 16%, while relative to their admitted claims is around 69%.

There were several progressive CIRP Regulations notified in 2022. Reforms such as flexibility to sell the varied assets to more than one resolution applicant shall help in efforts to maximize the value of assets as the corporate debtor may have varied assets/divisions/ businesses, all of which may not be of interest to any one resolution applicant.

Prescription of a minimum fee based on the quantum of claims admitted and addition of the performance-linked incentive fees element for timely resolution and/or for value maximization to the RP were much needed reforms.

However, there have been a slew of judgments which have upset the creditor priority principle enshrined in Section 53 of the Code. In a recent judgment by the Supreme Court, in the case of State Tax Officer v. Rainbow Papers Ltd., a dilemma has been created by unsettling the prevailing legal position and understanding. The court observed that financial creditors like banks cannot secure their own dues at the cost of statutory dues and any resolution plan that waives off such secured statutory dues would be bound to be rejected by the NCLT. A perusal of the objectives and provisions of Section 53 of IBC signifies the intention of the legislature to place government dues below the financial creditors. We understand that a review petition is expected to be filed. However, judgements such as these create uncertainties for investors, raising the cost of credit. Furthermore, the Supreme Court's decision in Vidarbha Industries Power Limited vs. Axis Bank Limited shifted the focus from the 'existence' and 'non-payment' of debt, being the stated intention behind the Code, to the 'inability to pay debts, overall financial health and viability of the corporate debtor'. To elaborate further, default as a solitary condition is not sufficient for the admission of an insolvency application; NCLT has to consider the grounds made out by the corporate debtor against admission on its own merits. This judgement brings subjectivity and NCLT discretion to admission to the bankruptcy process, different from original intent of the law where default was the sole criterion. We understand that in the matter of Vidarbha Industries vs. Axis Bank Ltd, the Supreme Court has issued a notice in an appeal after taking cognizance of the inconsistent position taken by the Vidarbha Industries ruling and the dilution it causes to the IBC.

Despite its flaws, IBC is helping creditors maximize value. In the case of Hindustan National Gas (resolution plan under NCLT review as of January 2023) for example, lenders actively considered a US$168.7m[11] staggered payments offer from the existing promoters of HNG under Section 12A of IBC. However, as an outcome of the value maximization process under IBC lenders finally voted for a US$269.8m[12] offer from AGI Greenpac (formerly HSIL) for India's largest glass bottle-making company. Auctions/competitive bidding under IBC process has helped maximize value in other cases such as Mittal Corp (resolution plan for evaluation due to litigation as of January 2023) and Consolidated Construction Corporation, to name a few.

4.2 Resolutions outside IBC

There have also been some marquee resolutions outside IBC. In the case of Hindustan Construction Company, a restructuring plan has been implemented to resolve a debt of over US$1.5b[13] with over 24 lenders. Additionally, Shapoorji Pallonji has also repaid US$1.4b[14] to its lenders to exit the debt recast under the one-time resolution laid down by RBI. Jain Irrigation Systems restructured its debt of over US$600m under a resolution plan under RBI circular dated 7June 2019.

Yes Bank assigned its identified stressed asset portfolio of US$5.9b as on 31 March 2022 basis the Swiss Challenge process under 15:85 structure to J.C. Flowers Asset Reconstruction Private Limited for US$1.4b[15]. This has been the single largest transaction of NPA sale in the Indian Banking System.

4.3 Activity by NARCL and updates to ARC regulatory framework

Large syndicate sizes result in delayed decision making and extend resolution timelines. The formation of NARCL (the government backed bad bank) in July 2021, which is charged with taking over NPAs from the banking sector, will facilitate faster and seamless process for restructuring and resolution of non-performing assets (NPAs) stuck in the banking system. After a slow start, NARCL is now actively engaging with banks to acquire NPAs, including acting as a resolution applicant in the IBC process.

NARCL had offered US$436.4m[16] to take over US$1b of debt of Jaypee Infratech. NARCL has also been given a blanket guarantee worth US$1.87b by the central government and now banks will be able to rely on the security receipts issued by NARCL. As per publicly available information, NARCL has also participated in the IBC process of the SREI Group of Companies, Mittal Corp, Consolidated Construction Consortium, and Sintex Industries. There is a strong government intent to make NARCL a success in cleaning the remaining legacy NPAs in the Indian banking system. We will have to observe a couple of end-to-end resolutions by NARCL before we can comment on its impact on recovery percentage and timelines for resolution.

In November 2021, RBI released its recommendations for changes to the business of ARCs in India. As per the preface to the committee report, the stated intent of the recommendations was to examine the issues and recommend suitable measures for enabling the ARCs to meet the growing requirements of the financial sector. Following the report of the Committee, RBI amended the regulatory framework for Asset Reconstruction Companies. The key changes include:

- Increase in net worth of ARCs to INR 300 crs (from existing INR 100 crs) in a graded manner.
- ARCs are now required to invest in Security Receipts (SR) - minimum of 15% of the transferors' investment in SRs or 2.5% of total SRs issued, whichever is higher, of each class of SRs issued under each scheme on an ongoing basis. This is expected to encourage cash deals by ARCs.

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[11] HNG promoter offers Rs 1,380 Cr. in cash, 10% equity to lenders: Economic Time June 24, 2022
[12] Moneycontrol November 9, 2022
[13] Hindu Business Line and Press release by HCC
[14] Shapoorji Pallonji repays ₹12,450cr to lenders, exits debt recast: Economic Time April 1, 2022
[15] Yes Bank Press Release
[16] NARCL to make its first acquisition in Jaypee Infratech: Economic Time October 20, 2022

- Requirement to charge Management fee / incentives charged toward asset reconstruction or securitization shall come only from recovery affected from underlying financial assets
- ARCs can act as a Resolution Applicant under IBC. However, only ARCs with minimum Net Owned Funds (NOF) of INR 1,000 crs can act as such, excluding the majority of ARCs from the process (based on publicly available data, as of the writing of this report only NARCL, Edelweiss, ACRE and Phoenix meet this new criterion).

It is understood that of the 29 ARCs in India, several have either applied for surrendering their license or are actively reconsidering their strategy, to stay relevant.

4.4 Alternate investment funds

SEBI has been gradually increasing its oversight over AIFs through several measures. Some of the recent changes include:

- First close of a Scheme shall be declared within 12 months from the date on which communication is sent to SEBI for taking the PPM of the Scheme on record; This guideline curbs the flexibility that fund managers enjoyed in declaring the first close at an opportune moment of their choice.
- AIF Regulations now require the investment manager / sponsor of an AIF to seek prior approval from SEBI in case of change in the investment manager / sponsor of the AIF for a fee, in place of the earlier requirement of only notifying SEBI of such change.
- Tenure of close ended Schemes of AIFs shall be calculated from the date of declaration of the first close as against the earlier requirement of defining the tenure of a Scheme from the final close, which gave flexibility to the manager to make drawdowns and investment decisions.
- As per a Circular issued by SEBI, Schemes of AIF which have adopted a priority distribution model shall not accept any fresh commitment or make any new investment in an investee company until SEBI has taken a view in this regard. This would restrict the implementation of senior/junior class structures to address commercial requirements and different risk appetites of investors in AIFs in the private credit space.

4.5 GIFT city

The GIFT city is a favorable tax regime for funds which has been setup in Gujarat and is India's first offshore financial center — similar to those available to global funds set up in Singapore / Mauritius. The government is actively trying to promote this to all global funds looking to invest in India. The IFSCA has also, in its journey to ensure ease of doing business in GIFT City, issued a set of FAQs on Fund Management Regulations for clarity of all stakeholders. Also, the IFSCA had set up an Expert Committee to draft a legal framework for allowing the VCC structure in IFSC. The Committee submitted its report recently and has proposed a legal framework for registering VCCs as body corporates and the procedure for authorizing and supervising their operations by the IFSCA.

05

New fund setup and **deal activity**

5. New fund setup and deal activity

5.1 Fund raising

In H2 2022, five new AIF have registered with credit/special situation orientation.

Key players – fund raising, and closures announced during H2 2022:

- Goldman Sachs in September this year closed its US$9.7b[17] fund called West Street Capital Partners VIII to invest globally, including India. Out of the said fund, a significant portion, close to US$4b[18], is likely to be invested in India, over the next five years.
- Edelweiss Alternatives has raised US$700m under Special Situation Fund (ISAF III) till now and targets US$1b raise. ISAF III is the third fund in the Edelweiss Special Situations Fund series[19].
- Kotak Investment Advisors has secured an anchor commitment from Abu Dhabi Investment Authority of US$500m[20] for its 13th real estate fund (US$1b platform) targeting opportunistic real estate investments in India.
- Kotak Infrastructure Investment announced closing of Kotak Infrastructure Investment Fund, a category II AIF, which targets a US$0.73b[21] corpus and will invest in operating infrastructure projects by providing senior secured credit.
- Kotak Alternate Assets has also announced plans to raise up to US$1b[22] for data centers to bet big on data backed digital technology.
- Barings Private Equity Asia has announced the final close of its third India-focused private credit fund in which it has raised US$475m[23] and is targeting mid-market credit opportunities.

5.2 Analysis of deal activity during 2022

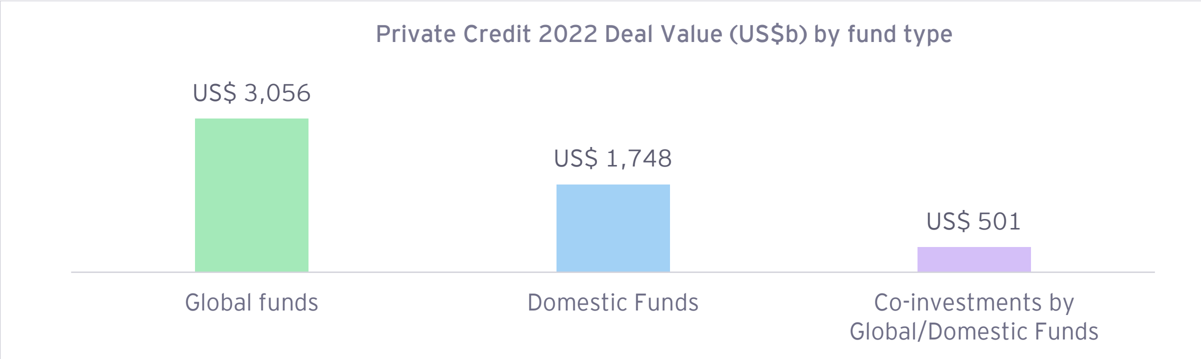
During January 2022 to November 2022, ~US$65b[24] (trailing 12 months - US$75b) of corporate bonds have been privately placed and listed on stock exchanges. In addition, total issue of unlisted debt securities during H1FY23 was ~US$2.5b. As per RBI's financial stability report, banks, Housing Finance Companies, NBFCs and PSUs comprise the largest chunk of the total listed debentures (~84% of total issued between April 2022 to November 2022).

We have screened the private placement data for potential private credit transaction and have analyzed a total of 77 transactions totaling to ~US$5.3b and presented the analysis below. It may be noted that the analysis presented below does not include venture debt deals, investments into financial services players, term loans / WCLs disbursed by NBFCs and offshore bond placements by Indian corporates (such as Apollo's investment into Mumbai International Airport Limited in May 2022). We have also taken a cut-off of single private placement over INR200crs (US$24.45m) for the purpose of our analysis.

[17] Business Standard - Deal activity has spiked in India despite global issues: Goldman Sachs MDs – November 13, 2022
[18] Business Standard - Deal activity has spiked in India despite global issues: Goldman Sachs MDs – November 13, 2022
[19] Business Standard – Article dated 4 October 2022
[20] Kotak Media Release dated November 14, 2022
[21] Kotak Media Release dated December 13, 2022
[22] Livemint November 28, 2022
[23] https://www.financeasia.com/article/bpea-credit-closes-475-m-fund-its-largest-to-date/482109
[24] https://www.sebi.gov.in/statistics/corporate-bonds/privateplacementdata.html

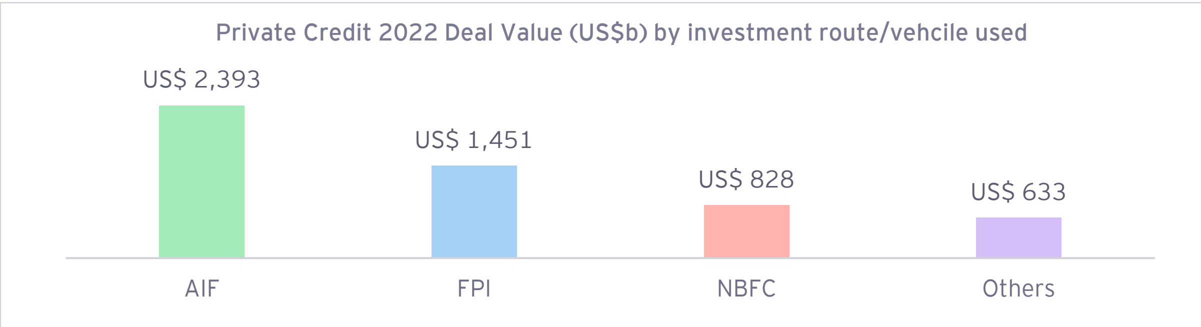
5.2.1 Global funds versus domestic funds

In 2022, private credit transaction worth more than US$5.3b were executed. The share of global funds (headquartered outside India and with multi-country presence) in value terms was 58%, domestic funds invested 33% followed by global and domestic joint investments deals covering 9%.



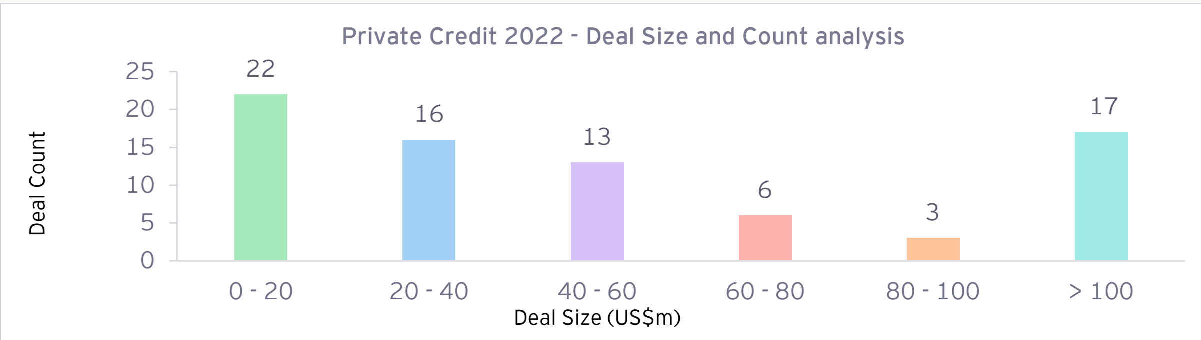
5.2.2 Preferred investment routes

In terms of choice of investment vehicles, global funds primarily use a combination of AIF/FPI route whereas domestic funds prefer using the AIF route. The larger Indian funds have also taken advantage of their presence across NBFCs/AIFs/FPIs to flexibly structure the deals. On an aggregate basis, ~27% of the total private credit deals in our sample were made through the FPI route whereas ~45% were from the AIF route and ~16% through the respective NBFCs. Others comprise certain investments through FDI, trusts etc.



5.2.3 Deal size and debt instruments used

In the chart below we have presented the average ticket size of the private credit transactions by deal count. As is evident from the chart, around 29% of the deals are <US$20m.



More than 80% of the total transactions (US$5.3b) involved issue of secured debt. At least 11 deals involved structuring the returns through the use of CCDs/OCDs.

5.2.4 Summary of some marquee deals in 2022

Month and Year	Investee	Investor	Deal Rationale	Issue Size (US$m)	Performing / High Yield	Tenure (years)
Real estate management and development						
April, May and August 2022	Adani Properties Private Limited	JP Morgan, Credit Suisse and Barclays	Debt raised to finance expansion, acquisitions in realty space	309	Performing	1-3 years
November 2022	Shapoorji Pallonji	HDFC Capital Advisors	Investment of over US$189.5m in six projects of SP group through use of structured debt instruments. Funds will be used for financial closure of projects, refinancing high-cost debt, and working capital	191	Performing	n/a
February, March and August 2022	Salsette Developers Private Limited (Promoted by Lake Shore India Retail Venture Fund)	Morgan Stanley	Debt raised by ADIA backed Lake Shore to partly finance acquisition of Viviana Mall (Thane) for US$232m from GIC	55	Performing	4 years
January 2022	Samhi JV Business Hotels Private Limited	Cerebrus	Raised debt to restructure its existing debt	50	High Yield	4 Years
Energy & renewables						
February 2022	Greenko AP01 IREP Private Limited	JP Morgan and a consortium of foreign banks	Debt raised to repay existing debt and fund the construction of Pinna Puram Integrated Renewable Energy project in Andhra Pradesh	697	Performing	15 Years
February 2022	GMR Rajam Solar Power Private Limited	Synergy capital	Investment of US$61m for funding ongoing projects including hydropower plant located in Himachal Pradesh.	61	Performing	2.5 Years
Infrastructure						

Month and Year	Investee	Investor	Deal Rationale	Issue Size (US$m)	Performing / High Yield	Tenure (years)
September 2022	GMR Airports Limited	JP Morgan and Morgan Stanley	Repayment of maturing bonds	131	Performing	2 years
June 2022	Delhi International Airport Limited	Barclays, National Investment and Infrastructure Fund and Aditya Birla Finance	Debt raised to partly finance the expansion program (Phase 3) of the airport	122	Performing	5 Years
Indian Conglomerates						
March 2022	Evangelos Ventures Private Limited	SSG Ares and Farallon Capital	Debt raised to retire high-cost borrowings of a sister concern	290	High Yield	3 Years
January, February, May and September 2022	GMR Enterprises Private Limited	Edelweiss, Synergy capital and JM Financial	Debt raised for refinancing of existing term loans	200	Performing	1-3 Years
Consumer and Technology						
June 2022	API Holdings Limited	Goldman Sachs	Debt raised to refinance the debt, earlier taken to fund the acquisition of diagnostics chain 'Thyrocare'	270	High Yield	4 Years
December 2022	WeWork	BPEA Credit	Funding will be used to strengthen the company's position locally as it is endeavouring to reshape the future of work	49	Performing	4 years
Metals and mining						
May 2022	Worldone Private Limited	Aditya Birla, Tata, Piramal, Varde, Broadpeak Inv, Kotak, ICICI, Trust Group, India Infoline Limited and Centrum	Debt raised to fund the acquisition of Jindal Power Limited. Of the total debt raise, 10% was funded by promoters and remaining 90% was borrowed externally from Indian and Global funds	275	Performing	1-3 years
Lifesciences						

Month and Year	Investee	Investor	Deal Rationale	Issue Size (US$m)	Performing / High Yield	Tenure (years)
March 2022	Themisto Trustee Co Private Limited	Standard Chartered	Refinancing of existing debt	26	Performing	1 Year
March 2022	Amanta Healthcare Limited	Piramal	Debt raised to finance expansion	19	Performing	7 Years
Manufacturing						
September 2022	Inbrew Beverages Private Limited	Oaktree Capital Management (India FPI XI Holdings Singapore Pte Limited)	Debt raised to finance acquisition of 43 brands of United Spirits Limited and business expansion. Total debt of US$99m was raised, US$15m through CCDs issued to the foreign parent and remaining US$84m through NCDs issued to Oaktree Capital Management	84	High Yield	2.7 Years
May 2022	Deepak Fasteners Limited	Capri Xponentia	The investment raised will be used to provide to exit to select lenders and assist in turnaround of the business	46	High Yield	10 Years
November 2022	Sanghi Industries Limited	Kotak Special Situations Fund	Debt raised to correct the company's capital structure and liquidity profile and enhance its operations	67	High Yield	n/a
March 2022	Gold Plus Glass Industry Limited	Kotak Special Situations Fund and Premji Invest	Debt raised for capex financing	49	High Yield	7 Years

Source: Regulatory filings and EY Analysis

06

EY Private Credit **Pulse Survey**

6. EY Private Credit Pulse Survey

6.1 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 November 2022 and December 2022. Senior leaders of large Indian and global, high yield and performing credit funds participated in the survey.

6.2 Summary of survey

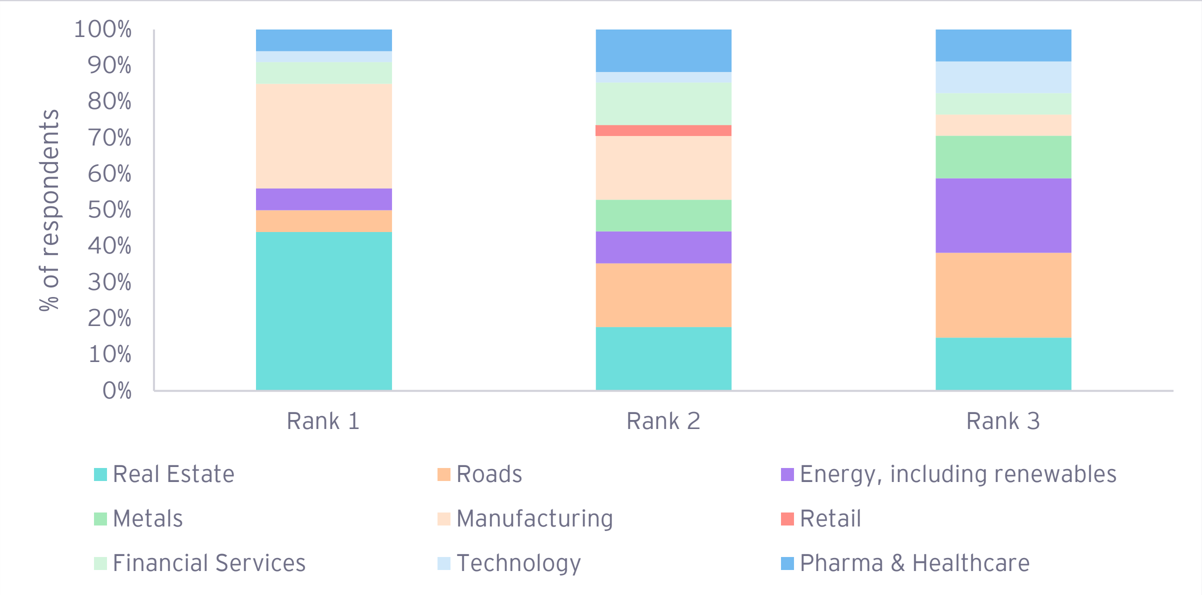
74% of the survey respondents had a target yield ranging from 18% to 24% (high yield) and 21% were 12% to 18% (performing credit) and balance 5% chose not to identify themselves. Over the next 12 to 24 months, most fund managers believe that real estate and manufacturing shall see the maximum deal flow. Additionally, fund managers are bearish with regards to activity in pharma, healthcare, and technology sectors. Interestingly, fund managers believe that bridge funding to IPO transactions, special situation funding and capex financing shall drive demand for private credit for the next 12 to 24 months. As compared to our last survey (August 2022) we can see that number of fund managers who anticipated stress as driver for deals have significantly decreased. Also, real estate has replaced manufacturing as the hottest sector for deal making.

The market estimates the default risks residing within the current private credit portfolio in India to be moderate. The opinion of fund managers is divided with respect to availability of funds in the private credit market; where few believe that fund raising is difficult, others have opined that there are adequate funds available. Rising competition for deals may put pressure on yields and potentially lead to mispricing of risk.

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

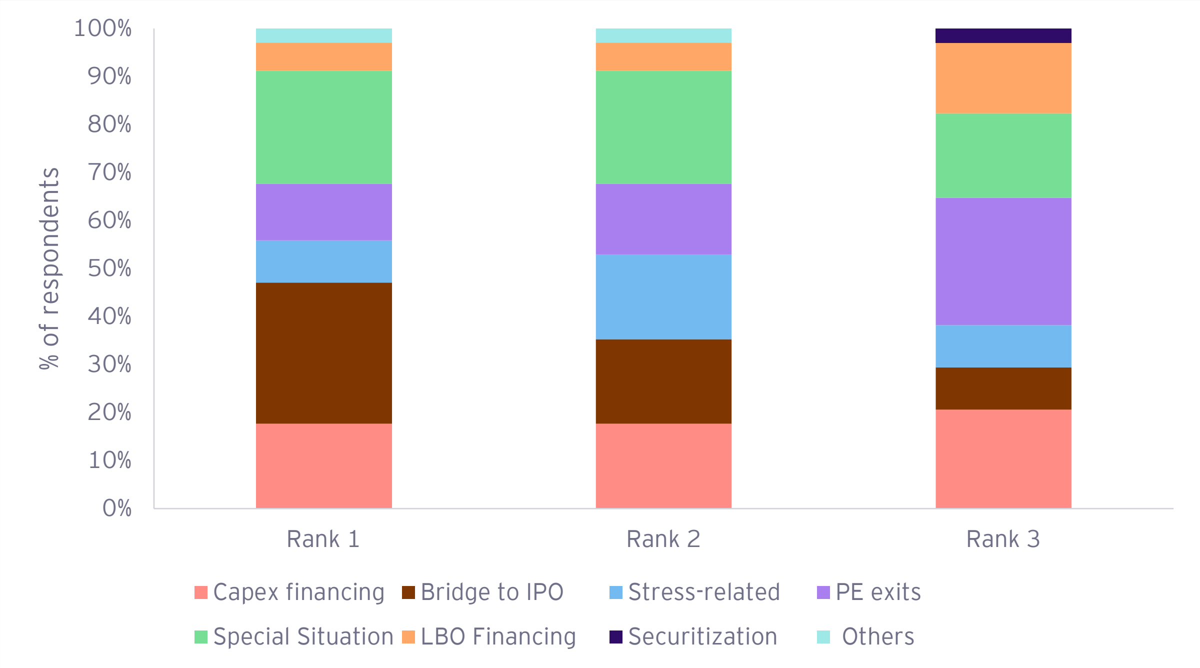
6.3 Detailed results

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



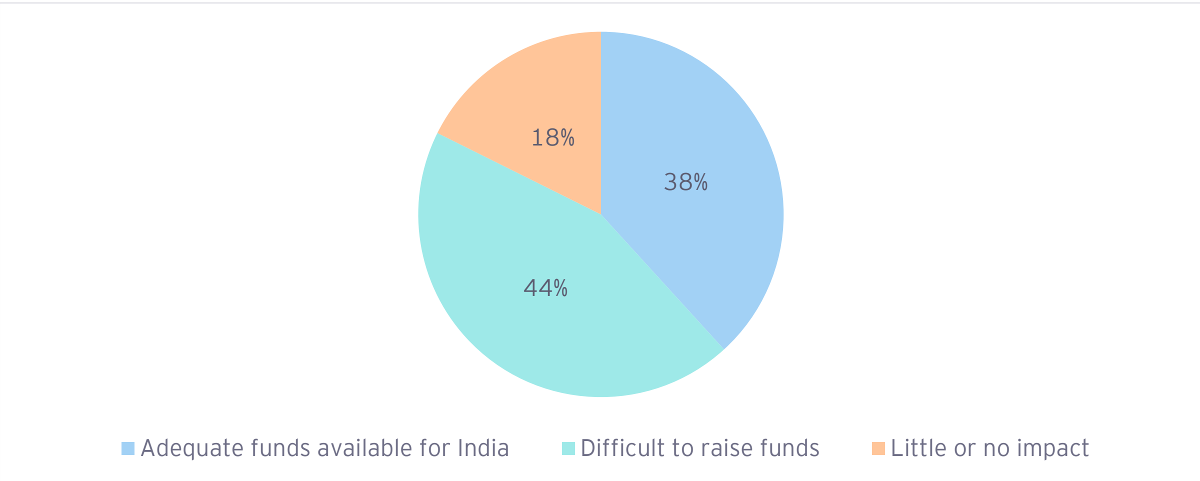
In the current survey, most fund managers, 80% of which manage high-yield funds, ranked real estate and manufacturing as sectors with the highest expected deal flow, as against the last survey in July 2022, where poll was skewed more towards manufacturing than real estate. 'Pharma and Healthcare' and 'Technology' were sectors ranked lowest in terms of expected deal flow by fund managers.

Q2. Over the next 12 to 24 months, kindly rank the drivers of demand for private credit? (Rank 1 indicates most significant driver)



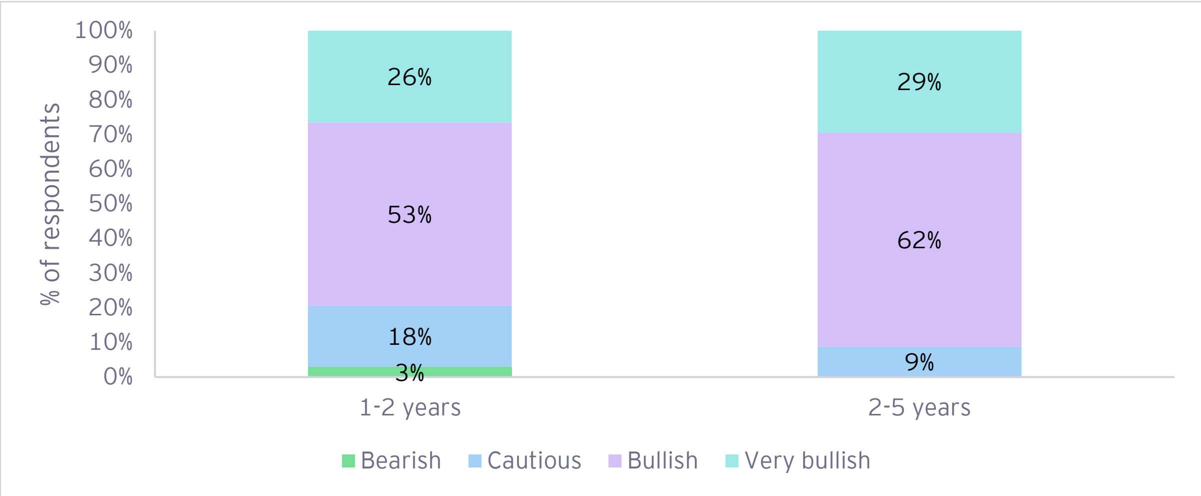
Most fund managers believed that, in the next 12 to 24 months, Bridge to IPO and special situations shall drive demand for private credit, with some support from capex financing. In the last survey in July 2022, the stress related financing was the most popular driver of demand, which is now replaced by Bridge to IPO.

Q3. What would be the impact of ongoing monetary tightening on the availability of funds over next 12 months, for private credit investing in India?



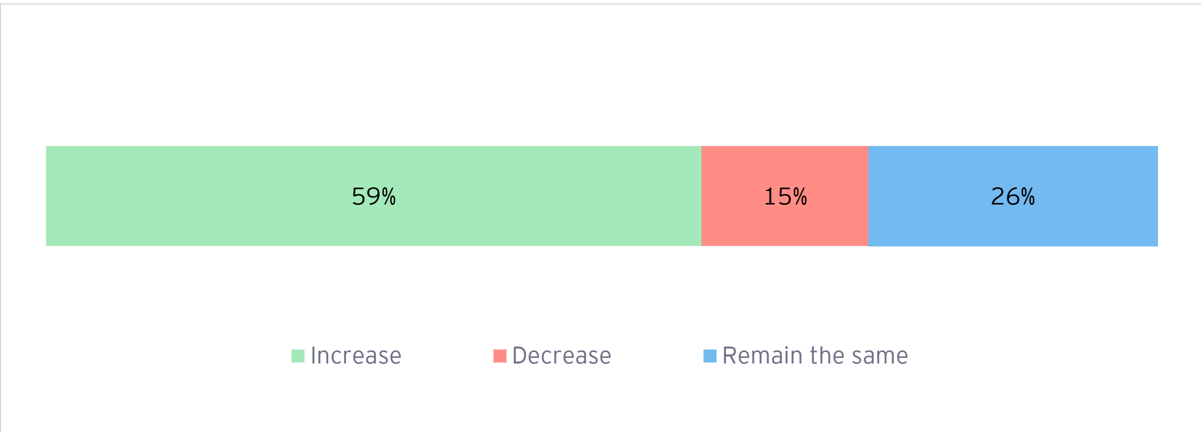
Private credit fund managers are split in terms of fund availability over next the 12 months to invest in India. Within the current survey, 71% of performing credit fund managers believed that it will be difficult to raise funds. In the last survey in July 2022, of the total fund managers, majority believed that there would be difficulty in raising funds.

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



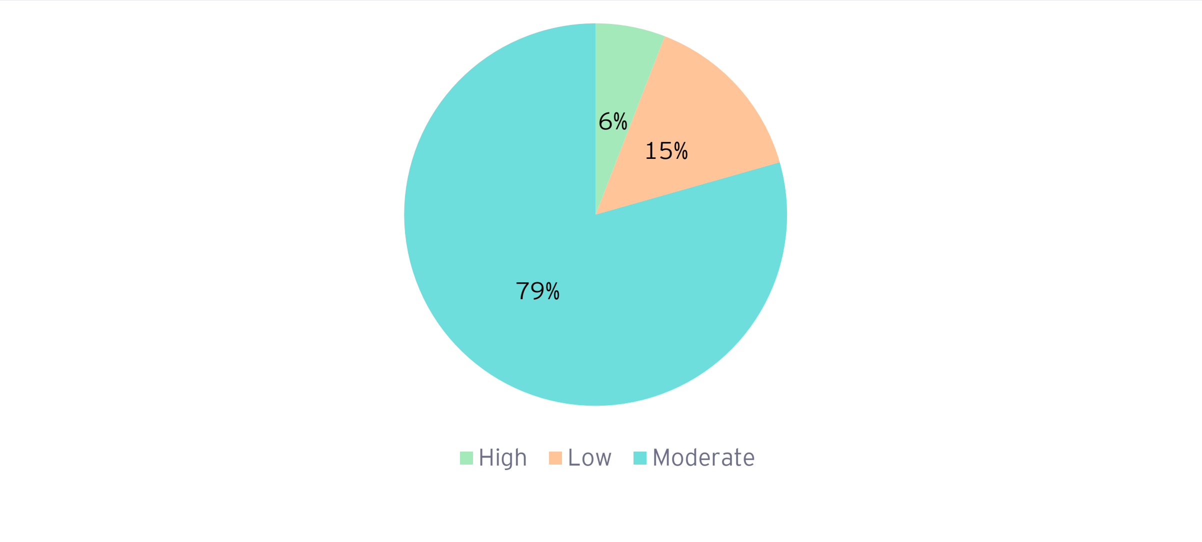
76% of high yield funds managers are positive (bullish and very bullish) on private credit investment for the next one to two years; the corresponding number is 88% over two to five years. At the same time, all the performing credit funds managers are bullish on both the horizons. Due to the shift of focus of NBFCs from wholesale debt to retail, deployment by funds has gained momentum, and therefore, fund managers seem to be more bullish as compared to the last survey in July 2022 when 32% of respondents were cautious in one to two years horizon and 12% were cautious in two to five years horizon.

Q5. Has the level of competitiveness in private credit deals, over last 12 months, increase/decreased or remained the same?



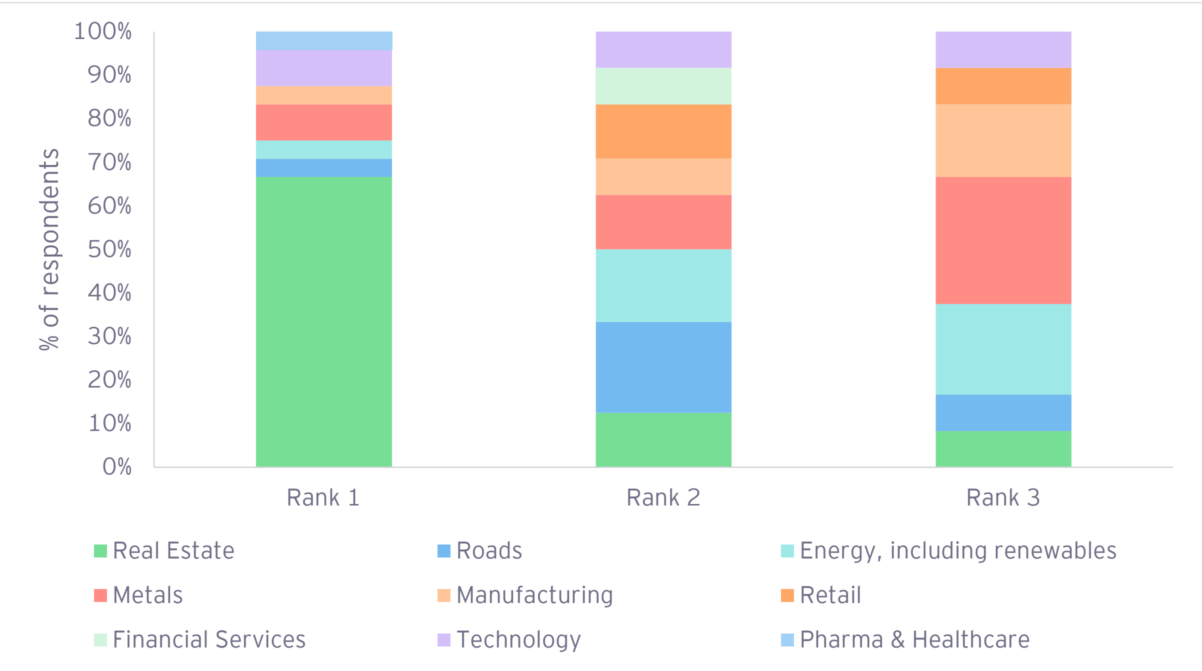
59% of investors believe that competition in private credit deal has increased over the last 12 months. The perception of competitiveness in the private credit industry seems to have remained the same in the current survey as compared to the last survey in July 2022.

Q6. 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. It is noteworthy that none of the performing credit funds believe it is high.

Q7. Which of the sectors within the India Private Credit portfolio are at the highest risk of default? (Rank 1 indicates the highest risk of default)



70% of fund managers believe real estate to be the riskiest sector within the current private credit portfolio.

07

Leadership contacts **by solution**

7. Leadership contacts by solution

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8. Glossary

Term	Full Form
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
FY	Financial Year
GIFT	Gujarat International Finance Tec-City
IBC	Insolvency and Bankruptcy Code, 2016
IFSC	International Financial Services Centre
IPO	Initial Public Offering
IRFC	Indian Railway Finance Corporation
m	Million
NARCL	National Asset Reconstruction Company Limited
NBFC	Non-banking financial company
NBFC - ICC	Non-banking financial company - Investment and Credit Companies
NCD	Non-convertible debentures
NCLT	National Company Law Tribunal
NPA	Non-performing assets
NPL	Non-performing loans
OCD	Optionally Convertible Debentures
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	The Securities and Exchange Board of India
VCC	Variable Capital Company

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