Local pvt credit on the rise as bad loans fade

Kotak, JM Financial, Edelweiss, Centrum explore alternative funding option

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Traditional banking system saw a sharp drop in bad loans or NPA ratio to 3.9% of total loans in the industry in March 2023. ISTOCK

India's lending market is emerging out of its bad loan abyss with alternative asset managers and non-banking financiers floating private credit funds betting on the mid-market segment which offers opportunities for attractive returns.

This alternative funding option is witnessing a surge in the number of home-grown entities such as the Kotak group, JM Financial, Edelweiss and Centrum expanding their private capital beyond their existing equity funds.

Debt financiers and wealth managers such as Vivriti, InCred and Xander Group-backed Sanctum Wealth, are also vying to support small and medium sized enterprises (SMEs) with strong fundamentals which are currently untapped by the banks and non-banking financial companies (NBFCs).

"As the Indian economy is picking pace, the focus of private credit funds has shifted towards supplying growth capital in the form of capex financing or working capital support. Within this space, we see an area which is growing fast, is the new-age Indian corporates seeking growth capital," said Ankur Jain, managing director, InCred Alternative Investments.

Alternative capital is the non-traditional pool of private capital that focuses across a broad category of investments including private equity, distressed assets, infrastructure, real estate, venture capital, growth capital, private debt and structured credit.

Private credit funds have traditionally focused on providing transactional capital like M&A (mergers and acquisitions) financing, debt refinancing or equity stake consolidation to companies.

Meanwhile, the traditional banking system saw a sharp drop in bad loans or non-performing asset (NPA) ratio to 3.9% of total loans in the industry in March 2023. This is a 10-year low, down from a high of 11.5% in March 2018, as per the Reserve Bank of India (RBI) data from the Financial Stability Report released in June. This has prompted traditional lenders to return focus to large, deleveraged companies, which has been their core area of lending, opening up growth space for the private credit industry.

It has also benefitted from the rise of domestic capital in form of high net-worth individuals (HNIs) ultra HNIs, Family Offices and domestic institutions.

As per an EY report released early this year, in 2022, based on publicly available data, private credit firms announced a total fundraise of at least $3 billion across sector-specific strategies (real estate, data centres), sector-agnostic strategies, and special situation strategies.

In addition to this, several global funds have committed investments of more than $3-4 billion from their global/Asia-Pacific funds over the next couple of years.

In November last year, Sandeep Chandak, managing director at Värde Partners, had told VCCircle that private credit in India is likely to be a third or half of its focus area. In April, JM Financial Group entered this space with its maiden performing credit fund raising over ₹600 crore, aiming to lend between ₹50 crore and ₹100 crore per transaction.

CHANGING TIDES

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