

## BONDS

# Private credit grows in India

18 Sep 13:08

[IFR Asia 1156 - 19 Sep 2020 - 25 Sep 2020](#)

4 min read

Emerging Markets, Asia

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*Investors are seeing opportunities return in India's private credit sector after a quiet June quarter as attractive spreads and central bank measures inject confidence in the market.*

"The dealmaking in the private credit space has improved significantly since July after a lull between April to June," said Hemant Daga, president and head of Edelweiss Asset Management. "Systemic risks have come down, though credit spreads yet remain elevated, making it an attractive opportunity."

Daga estimates US\$40bn–\$50bn of investment opportunities in the next four to five years in India's private credit market, including performing, distressed and real estate credit.

Earlier this month, Ontario Teachers' Pension Plan partnered with Edelweiss Asset Management to invest in private credit. The pension fund will allocate US\$350m through Edelweiss Alternative Asset Advisors (EAAA), in performing and distressed credit. EAAA is the largest private debt manager in India with assets under management of US\$3.8bn.

The Reserve Bank of India and the government have deployed measures to ensure that credit is available for shadow lenders and businesses hurt by the pandemic, including interest rate cuts, long-term repo operations and a partial credit guarantee scheme. However, the sharp contraction of the economy is weighing heavily on the banking system.

"India will have a large addressable pool of distressed funds," said Daga.

Stressed assets in the banking system are estimated to surge by an additional US\$25bn–\$35bn next year from close to US\$100bn–\$110bn currently, he said.

While the RBI has announced steps to ease debt burdens across industries, private credit investors will still find buying opportunities as non-banking financial companies and mutual funds have had to reassess liabilities amid liquidity concerns.

"The large established corporates have access to capital, but the small and medium-size enterprises face a challenge in terms of accessing capital, especially for companies which were accessing credit through the NBFCs," said Neeraj Seth, head of Asian credit at BlackRock, the US-based investment manager.

In addition, with the total central and state government deficit estimated to reach an all-time high of 11.8% of gross domestic product in fiscal year 2021, according to Fitch Solutions, private sector borrowers might be squeezed out from traditional funding routes.

"The debt markets in India are not very developed," Seth said, "and we are going to see crowding out of the private sector by the funding needs of the higher fiscal deficit from the central and state governments."

India is the largest component of BlackRock's Asia private credit portfolio.

"One of the areas of focus for us is to go up the capital structure and credit quality because of the uncertainty," said Seth. "We might be making similar returns like last year, but we are going up the quality curve and trying to optimise risk-adjusted returns in the current paradigm."

Edelweiss Asset Management's Daga sees a chance to invest in long-term private credit of over five to seven years with annual returns estimated in the range of 16%–23%.

The asset manager said that real estate is attractive as developers lack sufficient capital to meet the demand for housing. In July, Indiabulls Housing Finance raised US\$251m from the sale of developer loans to Oaktree Capital to maintain its liquidity buffer.

The regulatory landscape for investors in India's private credit sector has been fairly simplified in the past few years. Recently, the market regulator has also allowed trading in defaulted debt, which has helped establish an active high-yield market.

However, there is scope to do more.

"India is probably the only investment-grade country that is not a part of global debt indices," said Seth. "Rather than include a subset of the bond market into global indices, India could look for full inclusion and integration of the debt market into global debt indices."

Link: <https://www.ifre.com/story/2538909/private-credit-grows-in-india-l4n2ge3eq>