



SHEKHAR DAGA
Head – Private Capital
ICICI PRUDENTIAL AMC

STRUCTURE OVER SENTIMENT: INDIA'S PRIVATE CREDIT EDGE IN A VOLATILE GLOBAL MARKET

The emergence of private credit over the past decade represents one of the most consequential developments in global finance. From a niche segment of alternative investing, it has expanded into a market valued at approximately USD 1.7 trillion in the United States alone, growing roughly fivefold over the last decade. This expansion was propelled post the Global Financial Crisis (GFC), a prolonged low-yield environment and sustained institutional demand for enhanced income. More recently, the asset class in the US attracted significant retail participation through structures designed to offer periodic liquidity windows within an inherently illiquid investment framework. That framework is now undergoing a period of meaningful stress-testing in the US markets.

For investors in India's emerging private credit market, the lessons from global markets are not cautionary signals, but they act as a clarification. The turbulence observed in the United States reflects the consequences of how private credit was structured, distributed and leveraged within a specific market context. India, by

contrast, presents a structurally distinct investment proposition.

The stress currently evident in US private credit is, at its core, a structural challenge rather than a credit quality deterioration. Unlisted perpetual vehicles with quarterly redemption windows created an inherent asset liability mismatch and created a false sense of liquidity. As investor sentiment shifted, redemption requests across several large funds reportedly increased threefold in the second half of 2025, compelling managers to choose between gating mechanisms and distressed asset disposals.

Compounding this was the concern of weakening coverage ratios, elevated leverages and meaningful portfolio concentration in relatively small technology companies directly exposed to AI-driven disruption, with limited capacity to absorb earnings compression. In effect, the structural framework failed before the underlying asset quality did. India's private credit architecture, however, was designed along materially different principles.

A Fundamentally Different Market Architecture

In this global context, India's private credit market should be assessed as a distinctly structured ecosystem shaped by fundamentally different foundations. Currently valued at approximately USD 25 billion, India's private credit market is at an early stage of development, characterised by steady growth and a regulatory framework focused on safeguarding investor interests.

The most consequential distinguishing feature is regulatory in nature. Indian private credit funds operate as Category II Alternative Investment Funds under SEBI's AIF Regulations. By statute, these are closed-ended vehicles with fixed investment tenors. There are no mid-cycle redemption windows and fund-level leverage is not permitted. The liquidity mismatch that has generated structural stress in US fund vehicles cannot replicate itself within India's AIF ecosystem. The regulatory architecture anticipated and excluded this vulnerability before it became a subject of global concern.

India has a long chequered history of addressing stressed loans. Prior to Insolvency and Bankruptcy Code 2016 (IBC), India grappled with host of complicated legislations with complex interplays. IBC was formulated with a view to increasing the certainty in the process, including what constitutes insolvency, the process to be followed to resolve insolvency and bankruptcy. This has resulted in a behavioural change that has redefined the debtor-creditor relationship. Promoters are now making all-out efforts to prevent stress or resolve it much before it translates into default or settle the default before facing action under the code. Since 2016, as many as 30,000 cases (~78% of the total cases) have been withdrawn pre-IBC admission.

This is not an incidental advantage, it is foundational. When the rules governing a market prevent a structural failure from

occurring, investors are not solely reliant on the quality of manager judgment to protect against systemic risk. The regulatory framework itself performs that function.

Conservative by Design, Growth-Oriented by Nature

Indian private credit deals are typically structured at leverage multiples of three to four times EBITDA, which is materially lower than the six to eight times leverage commonly observed in US leveraged buyout-driven credit transactions. This disparity represents a substantially wider margin of safety for lenders and creates a portfolio that is inherently more resilient in the face of earnings volatility.

Equally significant is the purpose to which capital is deployed. A substantial proportion of private credit in India finances business growth, in the form of capacity expansion, working capital and acquisition financing for promoter-led enterprises. This represents capital enabling enterprise creation rather than capital enabling financial engineering. That distinction is important. Growth-oriented borrowers naturally reduce leverage as their businesses scale and this organic deleveraging dynamic constitutes a structural tailwind embedded in India's private credit market, something which the US credit, burdened by sponsor-driven leverage optimisation, does not enjoy to the same degree.

Covenant structures in Indian transactions also tend to be more protective, lender rights more robustly preserved and security packages more carefully constructed. In combination with lower leverage, these features create a lending environment that is inherently more aligned with capital preservation alongside return generation.

The nature of credit risk in India further distinguishes the market. Indian private credit risk is primarily counterparty risk, encompassing the quality of the promoter, the integrity of the management team, the sustainability of the underlying business model and the enforceability of security. This requires rigorous risk management which makes prudent underwriting a critical pillar of the private credit market. Inadequate assessment of borrower risk can result in higher delinquencies and capital losses. Such lapses can dampen investor confidence and adversely impact the long-term stability of the private credit market in India.

At ICICI Prudential Alternates, our private credit strategy is built on a disciplined, institutionally driven underwriting framework. Promoter quality, governance standards and business durability form the starting point of our evaluation. We aim to focus on transactions with transparent cash flows, hard collateral cover and well-structured covenants, supported by active monitoring throughout the investment life. Over time, this approach has enabled us to build a diversified private credit portfolio across sectors such as infrastructure-linked businesses, manufacturing, real estate, logistics and select services while maintaining steadiness in outcomes rather than chasing headline yields.



The Right Market at the Right Moment

India's private credit market also fulfils a structurally valuable role within the broader financial ecosystem. Commercial banks and non-banking financial companies, while well-capitalised, operate within regulatory constraints that leave substantive funding gaps particularly for mid-market businesses, structured transactions and bespoke financing requirements that formal credit markets cannot readily accommodate. Private credit addresses these gaps with both discipline and flexibility, thus becoming an increasingly essential component of India's credit infrastructure.

Two Markets, Two Distinct Narratives

The US private credit market is navigating a structural stress event that erupted from its distribution structures. India's private credit market, on the other hand, is navigating through a fundamentally different setup, one that is underpinned by sound regulation, conservative deal structures and deep unmet demand for growth capital resulting in a compelling long-term growth story.

For disciplined investors, the current global turmoil is best understood as a reminder that structure, regulatory architecture and underwriting rigour are the true determinants of outcome in credit investing.

