







TABLE OF CONTENT

Foreword	2
An Introduction To	
India's Corporate Credit Market	3-5
Corporate Bond Market:	
Poised For Growth	6-11
Private Credit: The Rise Of Alternative	
Lending In India	12-19
Green Finance:	
Untapped potential	20-27
Capital@The Speed Of Growth	28-29







This page is intentionally left blank



Foreword

The Tale Of Two Growth Stories



India is at a great juxtaposition of two mutually beneficial factors. It's rapid pace of development, buoyed by infrastructure addition, manufacturing capabilities as well as net zero ambitions – make it an ideal market for investment. On the other hand, Indian investors are coming of age. Thanks to the sharp rise in individual and institutional dry powder, the financial markets are able to withstand external shocks and also drive new-age investment ideas. As these two growing lines converge, India will make for a self-sufficient market with ideas and investors driving its growth story.

Corporates and individuals alike have been focussed on the growth, with the latter sharply focussed on wealth creation. For decades, Indians have been parking their savings in safe instruments like fixed deposits, which were considered safe if not sound. Lately however, investments have picked up, with increasing financialisation of savings, awareness on diversification and asset allocation, and most importantly, Indians' keenness to participate in India's growth story. One way to look at it is the rapid rise in family offices which have swelled to over 300; while five years back, there were less than 100 of such. The rise of the 'young' affluent Indians is also helping create a solid framework for domestic investors as well as supporting domestic institutional investors.

Thanks to these transformational shifts, we believe that India's debt markets will see an influx of investments aided by regulatory initiatives in developing the markets, confidence stemming from Insolvency and Bankruptcy Code's (IBC's) ability to approve cases of bankruptcy, as well as policymakers' push to develop alternate debt markets.

While the country might currently lag behind others in terms of a burgeoning corporate bond market, it might soon evolve for growth in the story, as many of the above factors play out.

This report is an attempt to share deeper insights into the Credit Risk landscape, how it is shaping up the Indian Bond Markets and how it pans out for two evolving segments – Private Credit and Green Finance. We will also crystal-gaze into the trends that will drive growth for these segments and impact you, as decision makers in these vital segments.

Sankar Chakraborti

MD & CEO, Acuité Ratings & Research Limited

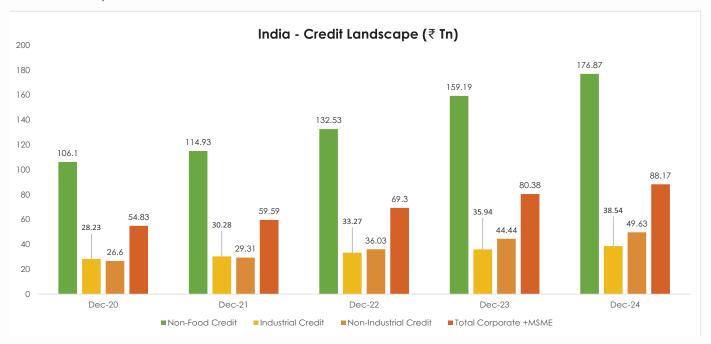




An Introduction To India's Corporate Credit Market

The credit needs of a developing nation such as India are always growing. Indian market's credit requirement is largely funded by banks with a smaller part funded by the non-banking sector and the corporate bond markets. While credit growth slowed in the thick of the Covid-19 pandemic, it has picked up very quickly since the economy started expanding in 2022, hitting a peak growth of 20% in 2023.

By end of 2024, the non-food bank credit in India stood at a ₹177 trillion (or \$2.1 trillion). Between 2019-2024, the non-food credit in Indian banks have grown at a healthy CAGR of 12.2%, reflecting the growing credit demand in the economy.



Source: RBI Data

Corporate and MSME loans constitute to around half of the total bank credit, at around ₹88.17 trillion. Smaller companies have been increasing their uptake as compared to their larger peers. As per the Economic Survey data, by the end of November 2024, credit to MSMEs registered a YoY growth of 13%, whereas it stood at 6.1% to large enterprises. MSME credit is also driven by schemes like Extended Credit Line Guarantee Scheme (ECLGS) where they could receive collateral-free bank loans.

Drivers of Credit

The credit demand is aided by

- Consumption trends expanding housing and consumer loans market that include auto loans, personal loans and credit card receivables and
- The investment needs of the Indian economy



Banks Face A Deposit-Credit Mismatch

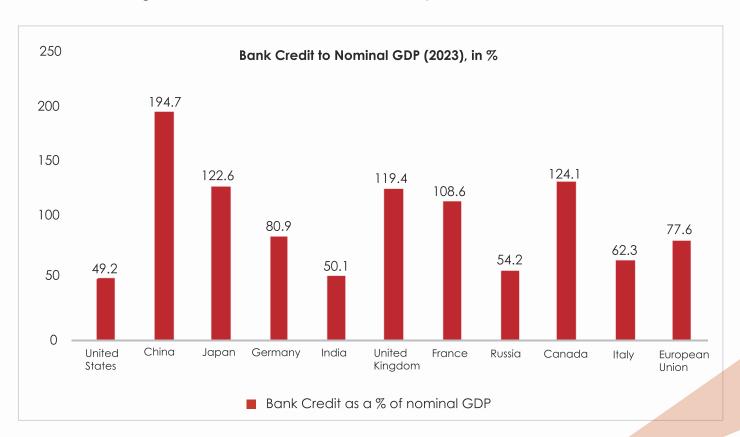
Indian banks are in a uniquely favourable position. Indian banks' non-performing assets (NPAs) have been declining consistently since 2018, and have hit a 12-year low in September 2024, aiding improvements in profitability. All major bank groups have seen improvements in asset quality parameters, as per the latest Economic Survey.

Loan growth too has been in healthy double digits for most banks, aided by a burgeoning real estate market as well as demand for personal loans. Yet, in FY25, there might be a break in the consistent growth seen in the post-pandemic era. As of December 2024, the growth in overall credit moderated to 7.7%.

One of the factors behind the declining credit growth is the moderation in banks' deposit growth. Banks are almost entirely funded by depositors – mostly retail in nature. Individual savings in India, gets predominantly channelised to the banking system. In the last two years, a new trend is emerging - a part of these savings are increasingly getting deployed in the equity markets or mutual funds.

A Case For Alternate Funding Sources

Deposit uptake is not the only hurdle that banks face in growing its advances. In many ways, India's bank credit offering lacks behind, as compared to other countries. Bank credit in India as a proportion of nominal GDP is still moderate at 50.1% as compared to most of the developed and some developing nations. Except in the US, where the bond market is a dominant source of funding, other major developed and developing economies have high share of Bank Credit to Nominal GDP, as per World Bank, 2023 data.



Source: World Bank Data





Banks and NBFCs are regulated entities and the central bank mandates that a significant part of banks' liabilities i.e. deposits need to be deployed to maintain cash reserve ratio (CRR) and, statutory liquidity ratio (SLR). This percentage accounts to as much as 22% with a few banks having excess SLR.

Moreover, RBI restricts banks and other regulated entities from a few types of risky financing. It has also set a mandate of priority sectors to lend to - all of which take away their liberty to lend extensively to the corporate sector. Added to that, most of the NPAs and large-scale defaults in the banking sector were caused by by corporate loans in the past stress periods. It has turned banks edgy about expanding corporate bond book rapidly.

The credit demand in India is much deeper than banks. In the last few years, alternate sources of lending have been growing at a steady pace. In this report, we take a deeper look at:



Private Credit, which is catering to a market that is not serviced by the traditional banking channel. Increased regulation has offered comfort to private credit platforms or alternate investment funds (AIFs) which have been attracting investors. They are in turn lending in unique formats generating attractive returns.



Green Finance is expected to expand at a rapid pace in the next few years as India embarks on its net zero missions. While banks do lend to this sector, its enormous funding needs over longer period of time, will make it tap into all formats of financing including green deposits, green bonds and more.





Corporate Bond Market: Poised For Growth



Growing significance of Corporate Bonds

India, the world's fifth largest economy, is charting its path to become a \$7 trillion economy by 2030. The Indian economy has one of the brightest growth prospects among developing economies; driven by increased investments in manufacturing sector and growing influence of the Global South.

Along with a quick paced infrastructure growth within the country, expanding manufacturing facilities make it imperative for extensive fund raising in the country. While the equity primary market in India has been buzzing, it's impossible to achieve multi-trillion-dollar economic growth on equity issuances alone. A strong, liquid and well-functioning bond market is extremely necessary for India to achieve its lofty economic goals.

While India has a robust banking system, it is not adequate to fulfil the growing needs of a vast economy. Apart from shadow banks (NBFCs), an expanding and broad-based corporate bond market can aid companies to tap easier, faster and varied modes of fund raising including from private credit avenues.

Foreign Funds Boost Indian Bond Markets

The year 2024 has been a significant year for Indian bond issuers as well as investors. USA's largest commercial bank JP Morgan Chase has added Indian Government Bonds (IGBs) to its benchmark Global Bond Index – Emerging Market Global Diversified (GBI-EM GD) index.

With FTSE Russel and Bloomberg Barclays indices following suit and India sovereign bonds getting listed in all three major bond indices, there could be a **potential FPI debt inflow of \$35-45 billion** staggered over a one-to-two year period, as per Acuité Research estimates

While a lot of these benefits might directly flow only into government bonds, it might free up domestic funds to invest more into corporate bonds. It could also gradually attract the attention of global fund managers into the Indian corporate bond market expanding the investor base in such bonds over the longer term.

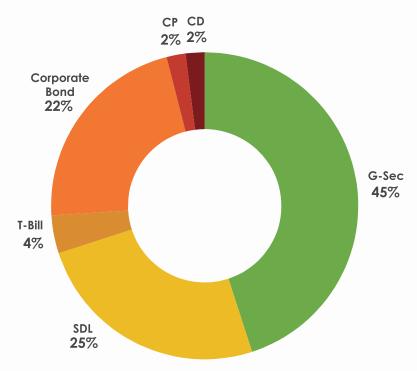
Corporate Bonds In India

As of March 31, 2024, India's corporate bond market was at ₹47.3 trillion which is a sliver of the total bond makret in India. The market is majorly dominated by GSecs. It is estimated that corporate bonds are equivalent to 16% of the Gross Domestic Product (GDP) of the country. This is extremely low compared to even Asian peers of India be it China and even the smaller economies of Malaysia and South Korea - who have a larger and more liquid bond markets.





Constitution Of Outstanding Bond Market as of March 2024



Source: Assocham & NSE reports on Corporate Bonds

Despite its size, the corporate bond market has been growing. As per the latest Economic Survey 2024-25, the value of corporate bond issuances stood at ₹7.3 trillion from April to December 2024, with an average monthly issuance of ₹0.8 trillion crore. This is higher than the average of ₹0.66 trillion in the corresponding period of the previous year.

Private placements remained the preferred channel for corporates, accounting for 99.1% of total resources mobilized through the bond market. Increasing investor demand and elevated costs of borrowing from banks have made these markets more attractive for corporates for funding requirements, the survey said.

Corporate bond market has higher potential for growth in a country like India. Not only can it become a key source of funds for companies or other issuers, Indian domestic investors have the opportunity to tap into a fixed

Regulatory Changes To Aid Corporate Bond Market

In the last few years, the regulators (both SEBI and RBI) have been moving to ease investments into corporate bonds and bring liquidity into the markets. Some of the key reforms undertaken to increase participation includes:



IBC steps up resolutions

The resolution of insolvencies under the IBC has been improving over the years. This is an assurance for investors, especially into corporate bonds. In FY24, as many as 269 resolution plans were approved by NCLT as compared to 189 plans in FY23. That is a significant rise of 42% during the year.

To put it in context, as of FY17, only one case was closed under CIRP. As of June 2024, 5,840 such cases were closed, even as 1,973 are ongoing and 7,813 were admitted. This continuous shift towards resolution mechanisms offers comfort to lenders about the revival of distressed businesses.

• Reduced face value

Earlier face value of bonds was very high restricting participation in the bonds. However, in 2024, the markets regulator SEBI reduced the face value of bonds to ₹10,000 from ₹1 lakh earlier. While it has little impact on institutional investments into the sector, more retail participation would mean more liquidity into the system, pushing for growth in the secondary markets.

• HTM cap removal

The Reserve Bank of India (RBI) removed the ceiling on investing in corporate and state bonds under Held To Maturity (HTM) for banks. Earlier, banks had a ceiling on such investments at 23% of their total deposits. Removal of the ceiling aids more institutional inflows into the corporate bond market.

Easing Digital Investments

To make it easy for new-age investors and mostly millennials who are keen on diversifying portfolios, in November 2022, SEBI issued a regulatory framework for online bond platform provider or OBPPs. As per the framework, such online entities have to register as a stock broker under the debt segment. The online platforms must also only offer debt securities either listed or proposed to be listed through a public offering. They also have to follow a code for advertising which provide future investors with clear, transparent messages.

• RFQ-trade execution platform

Request for Quote or RFQ is a trade execution platform, which was launched in 2020, under the guidance from regulator. It is a direct participation model where all participants trade in their own accounts – an integrated platform where all different debt documents are dealt in the same place.

It uses an RFQ protocol where an initiator requests participants for a quote in corporate bonds, securitized debt instruments and more from time to time. It provides users a range of options to seek a quote and to respond to a quote, with an audit trail. Both institutions and retail investors can trade on the platform.

In addition, regulators have been working into bringing transparency into the system by mandating a consolidated document for all information called General Information Document (GID) and Key Information Document (KID), they provide crucial information and important disclosures which help investors make informed decisions.



Acuité Ratings and Research forecasts a healthy growth in the Indian bond market, with the outstanding size expected to more than double from around ₹47.3 trillion as on March FY24 to ₹96-100 trillion by the end of fiscal 2030, buoyed by several factors namely:

- Replacement of bank credit with bonds for the large corporate sector in line with the regulatory guidelines.
- Increasing quantum of debt for infrastructure projects, particularly completed projects raised through the bond markets with either a strong counterparty, or a structured payment mechanism.
- Expansion of the domestic investor base with increased share of fixed income products in the portfolio of HNIs and family offices.
- Higher participation of retail investors in the fixed income and bond markets facilitated by online bond platforms.
- Gradual increase in interest of foreign investors beyond sovereign debt to local currency corporate bonds.
- Stronger mechanisms to monitor bond servicing (listed bonds) through rating agencies and trustees, providing comfort to investors

The infrastructure sector has long-term fund requirements which the bond market can cater to in a sustainable manner. The National Infrastructure Pipeline envisages huge spending in the domestic infrastructure sector. Indian banking system, as vast as it is, will not be able to sustain the needs of the gigantic growth in infrastructure. Apart from system liquidity, many banks might hit group exposure limits and other such norms while lending for such projects. Banks also face other constraints like asset-liability mismatches, deposit growth worries, etc. This makes it imperative that bonds will emerge as an alternative source of funding.

Acuité Research estimates that over the next 2-3 years, around ₹4-5 trillion per year can be mobilized via infrastructure sector bonds through innovation and structured payment mechanisms including partial guarantees from an apex institution.





Persistent Challenges To The Bond Market

The growth in the corporate bond market, in spite of opportunities, comes with its own set of challenges.

• Higher private placements

Indian corporates who prefer to raise money via corporate bonds, mostly go in for private placements as opposed to public issues. The former is cost-effective, as terms like price and yield can be agreed on mutually between issuers and investors. However, public issuances can ensure more transparency and price discovery can be better due to a large section of investors.

Yet, private placements rule the corporate bond markets. Public issues of bonds witnessed a decline in 2024, with 48 issues raising \gtrless 11,625 crore in comparison to 44 issues raising \gtrless 18,176 crore in 2023. On the other hand, funds raised through private debt placement hit an all-time high in 2024 at \gtrless 10.73 lakh crore, up 9% YoY. As many as 1,017 corporates chose this route.

• Low trading volumes in the secondary markets

An offshoot of preference of private placements is that the trading volumes of bonds in the secondary market have remained stagnant or grew slightly. As investors prefer to buy and hold, there is little liquidity in the trading market. Hence, new classes of investors who want fluid investments, are staying away from the markets.

• A-listers only

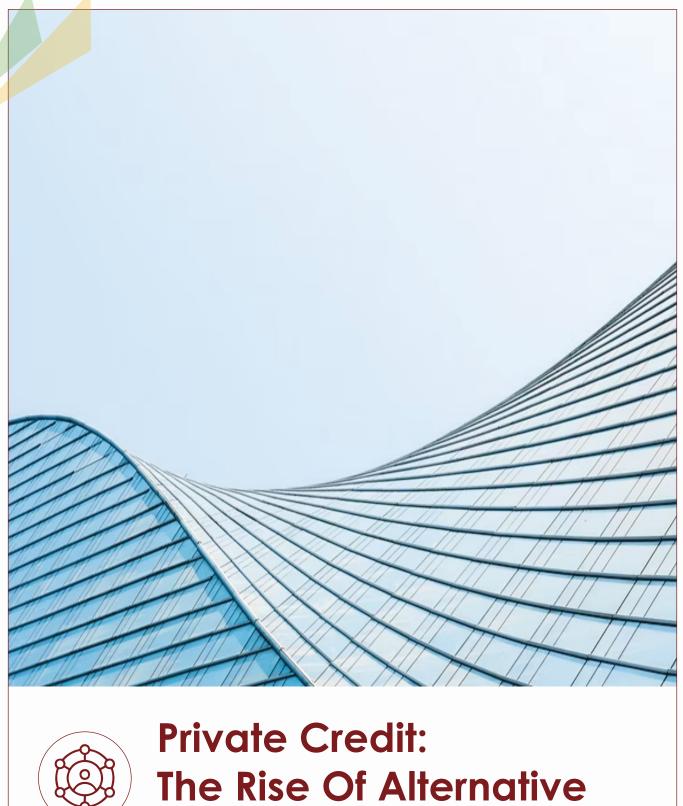
The risk appetite of investors is increasing, thanks to the onset of 'financialization of savings' era. Yet, the bond market is heavily dominated by most highly rated bonds like AAA, AA+ and AA. Not only does it mean that only top end of the market can raise funds, it has also made bonds highly 'safe' instruments.

Globally, there is a market of bonds with a variety of ratings be it, BB or BB+ or even junk bonds. They cater to different classes of risks. The Indian market is not conducive for lower rated bonds. Small issuances do not find it easy to raise funds due to the high coupon rate demanded from them. While the equity markets have opened doors with SME IPOs, no such benefits are provided to smaller companies who want to take the debt route.

Government-led Initiatives Offer Solutions

These challenges can be overcome by regulatory and government initiatives, through encouraging public issuances, improving recovery methods to provide comfort to investors, improving FPI participation by revising norms and taking up measures that ease the pains faced by lower-rated bonds to access markets.







Lending In India



Credit: In A New Avatar

India's growing economy's credit needs are fast expanding. Traditional finance from banks and NBFCs serves a large part of this growing appetite. Yet, Indian market is diverse with a large number of emerging industries and companies. Their financing needs are unique and do not fit into the realm of traditional financing – which has led to rise of private credit market in India.

Private credit is a deal executed between the creditors and the borrower(s), wherein either of them add their own covenants. These bespoke deals suit the needs of borrowers who are unable to tap banks or other such lending institutions, as these lending institutions are bound by numerous regulations. They fulfil a key credit gap that exists in the market for borrowers and also provide investors with securities that offer better returns than regular bonds along with tangible security.

The deployment of private credit can be wide ranging - from working capital to capex to acquisition finance, buyouts and more like onlending to group companies. Private credit is also useful for smaller and newer companies – to whom banks are wary of lending. They are also typically faster than borrowing money through the traditional banking channels. While there are companies taking plain vanilla debt as well, innovative financing is the most riveting feature of private credit.

While acquisition financing remains one of the most popular reasons for corporates to raise funds via private credit, refinancing or bridge financing also becoming very popular.

AIF Regulations Boost Investor Confidence

Private credit has attracted a variety of investors that include NBFCs, along with HNls, UHNls and family offices. It has become a favourable deployment avenue for alternate investment funds (AlFs), adding depth into the private credit market. As many as 1,200 AlFs are registered with SEBI in India. In 2024, 13 new AlFs with credit/special situation orientation were registered too. Also, 34 more such funds were in the process of registration, with a few of them being private credit funds.

In the last three years, the market regulator SEBI has been undertaking a close review of the function of AIFs, their investors, profit distribution, etc. It amended the rules thrice – bringing more clarity into these privately pooled investment vehicles. The increased confidence has boosted investors as it brings in more transparency into this high-risk, high-reward investment in areas like private credit.

In the last few years, SEBI amended rules around:

- Fair treatment of investors: The regulations ensure that no investor is unfairly treated in terms of their rights or share of returns. Regulator also emphasized that all investors must be treated equally, even as differential rights are offered. The returns or proceeds must be proportionally distributed.
- Change in sponsor/managers: To stall new AIFs entering the market without a fresh registration with SEBI, by new sponsors taking over an inactive AIF, the regulator now insists that a prior approval has to be taken for the same.



It indicates that long and patient capital is a key necessity in the market – a gap in the existing channel which can be fulfilled by private credit.

Private credit leads the way for innovate financing structures and terms which are nearly impossible in traditional banking. Apart from guaranteed returns, a few borrowers also promise equity-linked debentures as a way to reimburse them. Such credit is also necessary in special situations where a business is under stress and need longer term financing to tide over such stress. Alternative investment funds (AIFs) catering to private credit can also invest in Security Receipts issued by trusts managed by Asset Reconstruction Companies (ARCs).

All in all - the lending solutions can be tailored to suit the wide-ranging needs of corporates in an unpredictable world. Moreover, there have been instances wherein promoters with negative credit history and outstanding legal issues but solid businesses being declined loans by most banks. Such companies will also have the opportunity to raise funds via private credit.

- Ring fencing assets of schemes: In mutual funds, assets of a scheme are segregated and ring-fenced from other schemes. AIFs never had such regulations earlier. To bring more clarity to investors, AIFs are now required to maintain separate banks and securities accounts for each scheme.
- Increased due diligence: In 2024, SEBI released a consultation paper proposing enhanced due diligence of AIFs, their managers and key management personnel. The proposal also mandates comprehensive due diligence of investors.
- Allowing dissolution period: A consultation paper was also released by SEBI which proposed that on expiry of tenure, an AIF can opt for a dissolution period to deal with unliquidated investments with the consent of a large chunk of its investors.

Indian private credit growth

Private credit in the Indian market has also been showing an impressive growth in the last three years. The transaction volumes stood at ₹575.45 billion (\$6.77 billion) in 2024 across 230 deals as compared to ₹635.78 billion (\$7.66 billion) across 77 deals in 2023 (\$5.3 billion or ₹439.9 billion in 2022). While there has been a dip in the market in 2024 in terms of size (impacted by the massive \$1.25 Vedanta fund raising in 2023) – the rise in the number of deals shows its growing popularity with investors as well as issuers of such products.

Year	Deal value	Deal volume
2024	₹575.45 billion (\$6.77 billion)	230
2023	₹635.78 billion (\$7.66 billion)	77
2022	₹439.9 billion (\$5.3 bn)	NA

Source: REDD Intelligence

The breadth and width of the private credit market has been picking up in India – as the range of deal sizes have been going up as well. There is a market for both small sized as well as mega deals. In fact, most of the deals in 2024-114 out of 230 -were in the ₹850



million (\$10 million) or under bucket.

The deals in ₹ 1750 – ₹ 2500 million (\$21-30 million) size were the next most popular – at 34 such deals being executed. Deals in between ₹ 850-175 million (\$11-20 million) were also equally popular at 30 deals. The average ticket size stood at ₹ 2400 million (\$29 million).

Real Estate Leads The Way

The real estate sector which has been seeing a bull run since the pandemic, is the most active sector when it comes to raising funds via private credit. The capital-intensive sector - accounted for 28% of the total deal volume in 2024. The sector which is adding new supply at breakneck speed was mainly seeking funds for project finance, land acquisition as well as refinancing for existing debt.

Private Credit Market Zooms

Globally, private credit has been gaining ground since the 2008 financial crisis. As alternate sources picked up after many banks went under, global assets under management (AUM) in the private credit market underwent a three-fold increase – to stand at \$1.5 trillion as of mid-2024.

A few forecasts expects the AUM to grow to \$2.3 trillion by end 2027.

Top 10 Sectors By Deal Volume

Real estate	Infrastructure 28	Utilities 28	Financial Services 23	Adnufacturing
Pharmaceuticals 15	Commodities 9	Consumer discretionary & retail	Food, beverage & tobacco	IT 13

Managing Risks: Companies Raise Stakes

The underlying theory behind private credit is providing innovative financing shunned by traditional banks. The key question behind it remains – what is the risk behind loans that are viewed as precarious by traditional channels.



While every investment comes with certain risks, private credit needs to be looked with a different kind of lens. Due to the nature of lending, most of these deals are covenant-heavy. It means that it offers certain downside protection to the lenders. The company which is raising funds has to maintain certain levels of cashflows, liquidity, revenue growth, profits or more such. A few of the deals are linked to a possible trigger event about equity issuances in case a debt payment is missed or more such.

Share pledging and promoter guarantees are a very popular part of the documentation of covenants. In 2024, private credit deals included a wide range of provisions – indicating that companies are raising their stakes. For example, a real estate company offered NCDs secured by a demand promissory note from issuers and promoters. Another real estate player also offered a first exclusive charge over its bank accounts and developer share of a project. A consumer discretionary and retail company's deal had a security package that includes intellectual property rights and immovable assets.

Flexible Asset Class

Private credit is a flexible asset class which lends to various types of companies including – large corporates, small- and medium-sized companies, and even private equity funds. It also includes various points in capital structure including senior, junior, mezzanine, hybrid and more such. They offer different risk to reward profiles to investors.

While private credit eases the pain points for companies, it is also equally welcomed by investors. Domestic as well as global institutions like pension funds, endowments, family offices and insurance companies seek long-term instruments with attractive returns. They are more driven towards fixed income as compared to equity for the same reasons.

Moreover, capital that is locked in close-ended debt does not have the same flight risk as equities which is heavily linked to macroeconomic drivers. While family offices in India have been diversifying risks with such products, domestic pension funds as well as insurance companies can take a balanced approach towards this new and emerging asset class.

Private Credit Yields

Due to the higher risks that they carry, private credit offers significantly higher returns as compared to G-Secs or other publicly issued corporate bonds. Investors are attracted to private credit as yields on such transactions typically happen at mid to higher teens. The market has also been showing keen interest in the sub-15% IRR debt where the credit quality is relatively strong.

In a survey by EY, most respondents indicated a target high-yield of 18-24%, while others look at 12-18% which is in the performing credit category. Experts believe that the market will move towards performing credit as the market matures.



Returns for private credit is structured either as traditional amortizing, as well as coupon-based payment or linked to underlying events embedded in a zero-coupon structure, with back-ended returns.

There are three main ways in which private credit lenders generate returns. Since it's a debt instrument, the biggest contributor is the yield from the underlying investment portfolio. This is further enhanced by the purchase of assets below their Net Asset Value (NAV). The next way is the pull to par effect. It's the potential of the underlying assets to mature at a value that's higher than the purchase price. Then there is the principal accretion which is the alternative warrants, stakes or other securities offered as a part of the agreements.

A look at the exits

Thanks to the structured deals that go with private credit, such instruments are not necessarily held till maturity like in the case of traditional bonds. In some cases, returns are comparable to private equity's IRR.

Private Credit Investor Pool Widens

As smaller deals gain ground, the mix of investors has also changed. While global funds with multi-country presence are keen on investing in large sized deals, domestic investors dominated when it comes to smaller-sized deals.

As of 2024, global institutions are known to have had a 58% share in the total deal value, while domestic funds had a share of 42%. In terms of deal volume however, domestic funds had a 51% share with global funds having 28% share, while co-investing constituted 21% of the total deal volume.

Domestic funds also leverage their local market expertise as well as deep personal relationships while extending credit. As per a few experts, the widening of domestic investor pool is an effect of increased interest of HNIs and family offices in this space. Private credit also became a way for investors to go for diversification in 2024 due to sky-high valuations in the equity as well as froth in the startup space.

NBFCs also participated in a substantial number of private credit deals in 2024. However, the Reserve Bank of India sought for a deeper examination of the private credit market – for inter-linkages between such firms, banks and NBFCs. It has flagged off possible systemic concerns and also possible circumvention of regulations to take part in such deals. Even if NBFCs stay away from such deals, this market has now gained enough depth in terms of interest and investors.



Outlook: Clarity, Competition & Growth Ahead

With a wider pool of investors, the private credit market is expected to gain pace in the coming years. A few experts predict that the market is expected to march towards becoming mainstream. Estimates peg that the deal volume in the market might inch up to ₹850 billion (\$10 billion) per annum in the next few years, with double-digit growth.

Most of private credit is in the form of floating-rate investments which changes as per the prevailing interest rates. It offers a good mode of hedge against the rapid interest rate fluctuations seen in the market. With global uncertainty, unstable political environment across the globe which can impact economy and global inflation—interest rates might fluctuate for a long time. In this scenario, private credit can be seen as a good asset to add to portfolio in addition or as an attractive to fixed-rate bonds.

Fund Raising For Private Credit

- Edelweiss India Special Assets Fund III raised ₹107.9 billion (\$1.3 billion).
- Goldman Sachs Group raised ₹85 billion (\$1 billion) to invest in the Asia-Pacific region, particularly India.
- Kotak in its Strategic Situations Fund II has raised a total of ₹121.2 billion (\$1,458 million).
- Investec's second private credit fund's saw its first close with total commitments of ₹65 billion (\$783 million).
- Neo Special Credit Opportunities Fund raised ₹25.7 billion (\$310 million)
- BPEA Credit Select Short Term Income Fund hits first close with a target corpus
 ₹7.5 billion (\$90 million).

There are a few domestic triggers ahead too. The IPO bull run seen in the markets have made bridge financing to a public issue is a way popular way for private credit deals -made attracted by an exit via share sale.

In the coming months, a wide range of sectors are expected to raise private credit like renewable energy, data centers, logistics, ecommerce, healthcare, and pharmaceuticals. Family offices are expected to remain a key participant in this market.

However, the market is now partly askew as there are more keen investors than companies interested in raising such credit. This has created an unhealthy competition in the market where too much money chases a few deals-shrinking potential returns. For the balance to sustain, its popularity has to rise with borrowers as well.

While SEBI has been tightening regulations, more clarity will come into AIFs, as and when a few proposals under consultation get cleared. As more mist dissipates, it will encourage more players and deepen the market, which is now at infancy in India, as compared to its global peers.







This page is intentionally left blank











The future is Green and Challenging

India and its 1.4 billion citizens are much more at risk to climate change and its effects. Not only have heat waves and unseasonal rains become common, the weather changes have started to impact labour productivity in India. It is also affecting agricultural output, which can impact food security of the world's most populous nation. Many Indian cities have harmful AQI in most winter months, making it necessary for quick and resolute action against climate change.

Many studies have projected the cost of inaction anywhere between 3-10% of GDP by 2070. While projections are wide ranged, the impact is sure to affect a large section of its population.

To counter these measures, the government has come up with plans across sectors for mitigation and adaptation - disaster risk management, flood and cyclone mitigation, as well as drought management. It also would have to add and build infrastructure in clean energy, green transportation, energy efficiency as well as take up adaptation interventions in the agricultural sector.

The Cost Of Climate Change Mitigation

In a country like India, which falls short of basic infrastructure, a multi-disciplinary approach to going green - is a jagged path. Not only do the needs of an energy deficit and electricity-hungry nation have to be fulfilled, a massive amount of green energy has to be added. The government is looking to set up around 500 GW of non-fossil energy by 2030, and draw 50% of its energy needs from clean sources.

The cumulative needs can be described as gigantic at best, needing as much as ₹7.2 trillion (\$85 billion) per annum, as per the report 'Landscape of Green Finance In India' by Centre For Sustainable Finance and Climate Policy Initiative.

Table 1: Tracked Green Investments in India

Year	Green Investments
2016	₹1.1 tn (\$17 bn)
2017	₹1.4 tn (\$21 bn)
2018	₹3.2 tn (\$45 bn)
2019	₹3.1 tn (\$43 bn)
2020	₹3.3 tn (\$43 bn)
2021	₹4.4 tn (\$57 bn)

In no year between 2016 to 2021 was the raised green finance anywhere close to the annual needs; in order to achieve government targets. While the green shift looks expensive, many experts insist that the cost of inaction might be higher.

Source: Landscape of Green Finance In India

Green Vs Mainstream Finance

While mitigation finance needs are enormous, the instruments available for the government and its institutions as well as private companies to fund it are few and far between. Apart from the standard debt and equity, many instruments that are available include government budgetary expenditure as well as grants, project-level debt and equity.



Mitigation project costs are enormous and their needs are long-term. So much so, that it creates an unhealthy asset-liability mismatch for the financial institutions. Banks and NBFCs raise funds via short-term deposits, but the needs of green projects are long-term. Lack of long-term liquidity of mainstream financial institutions makes it difficult for them to lend to many such projects.

Moreover, the projects costs are so high that, banks and NBFCs hit sectoral exposure limits very easily. While lenders have their own troubles, borrowers of green finance also require more fixed debt options as their returns are regulated in many cases. For example, the tariff of a solar power project is set, whereas interest rates in the market are volatile.

Hence, there is the need for curated financing that can provide institutions with long-term, low-cost debt such as green bonds. Add to that, green bonds will be able to bring in more foreign reserves while offsetting dependence on imports for its energy needs.

Regulatory Aid To Green Finance

As India pushes for Net Zero transition, green project funding has picked up pace. Banks, mostly international ones, have been financing sustainable projects. The government has allowed 100% FDI for renewable energy through the automatic route. As per the latest available data, India's FDI in clean energy sector touched ₹88.4 billion (\$1.04 billion) in Q1 of FY25, after surging 51% annually in FY24.

The government is also easing domestic loans for clean energy projects. In FY23, the RBI announced a framework for banks and NBFCs to accept 'green deposits'. These interest-bearing deposits denominated in INR, can be used by the regulated entities to lend across nine sectors. Apart from renewable energy and green transport, it also covers climate change adaptation, sustainable water and waste management, pollution prevention and control, sustainable management of living natural resources etc.

SEBI Toughens Disclosures

In addition to RBI, stock market regulator SEBI has paved the way for formalization of green bonds first in 2017. It issued the 'Disclosure Requirements for Issuance and Listing of Green Debt Securities'. In 2023, it further strengthened it by aligning it with Green Bond Principles, which are voluntary guidelines that promote transparency via disclosures and reporting. It also brought in the concepts of blue and yellow bonds – providing the sector with much needed clarity.

As per the guidelines, issuers have to disclose the environmental objectives of their issuance, procedures to track the deployment of proceeds, and the assets or the project through which the proceeds of green debt securities are to be utilized. The issuers are also expected to disclose the process for identification of assets or the projects that will be financed.



Green Bonds: Trends & Takeaways

Indian government as well as private renewable energy companies have been raising funds regularly via green bonds since 2015. The quantum of issuances in green bonds has been waxing and waning --- with two significant years being 2017 and 2021. Since then, there have been many policy interventions from the regulators, finance ministry and more that aided the growth of the sector. As much as \$42.9 billion was raised via labelled and unlabelled green bonds between 2014 to 2023.

Rupee depreciation & high interest rates

After hitting a high in 2021 with fundraising to the tune of \$9.5 billion, green bond volumes fell significantly in 2022 due to higher interest rate regime and depreciating Rupee. The emergence of sovereign green bonds brought in the much-needed regulatory reform and also catalyzed new market products. Government of India raised approximately ₹200 billion (around \$2.44 billion) through sovereign green bonds in the fiscal year 2023-24.

India's Annual Green Bond Issuance For The Power Sector (Foreign Currency)

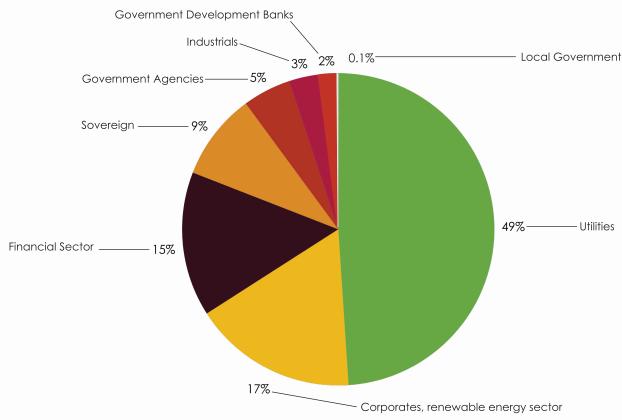
Year	Green Bond Issuance
2014	\$3.7 bn
2015	\$2.4 bn
2016	\$3.7 bn
2017	\$7.7 bn
2018	\$0.9 bn
2019	\$5.9 bn
2020	\$4.2 bn
2021	\$9.5 bn
2022	\$3.7 bn
2023	\$1.2 bn

Source: Bloomberg NEF

Apart from independent power producers, central government, state-owned companies like NTPC, NHPC, IREDA and more are some of the key issuers of green bonds. However, in the last few years, many municipalities across the country have been raising funds via green bonds too. In the thick of the pandemic, Ghaziabad in Uttar Pradesh became the first municipality to issue to green bonds to fund a tertiary water treatment plant, in 2021. Later, Indore and Vadodara raised with the latter becoming the first certified green municipal bond in India.



Types Of Green Bond Issuers In India



Source: World Bank

Rupee Denominated Green Bonds

Green bonds issued by independent power producers are mostly dollar denominated bonds. In the past, ADB and IREDA and others raised funds via rupee denominated green bonds. With a large-scale issue of sovereign green bonds in 2024, it was expected that the green masala bond market would take off. However, there was weak demand in the market for such bonds, and the central bank had to scale back some of these issuances. As a domino effect, green rupee bonds have also not taken off in a big way.

The key reason being lack of investors for such bonds in India. The Rupee has been volatile for a few years now with dollar becoming stronger, it could vacillate for long time. Most of the investors of such bonds are green funds which are based abroad. The government has to work on developing a local market for such bonds which will not have to take on currency risk. Long, patient capital that aids India's sustainable goals must have support from investors within the country. To enthuse the market, the government might consider tax benefits to those who participate in the country's green growth story.



Challenges Facing Green Finance

Green deposits are a relatively new addition to the market, but green bonds have been around for over 9 years, and yet to make significant dent with both issuers and investors. China, on the other hand, issued bonds to the tune of \$131 billion in 2023, as per Climate Bonds Initiative. India however was able to raise only a sliver of that. Added to that, there is very little domestic participation in such bonds. The reasons for the slow growth of green finance are many.

Green deposits have been even slower. As of FY24, India's largest bank SBI has raised only a mere ₹ 22.39 crore under the scheme, as per its sustainability report.

Costs Of Green Finance

Due to tightened disclosure norms, the costs of raising green finance are high. Apart from SEBI, FM has also recently spoken of climate taxonomy. It sets sector-specific criteria and also establishes a Monitoring & Verification Protocol with a reporting framework for investors as well as companies. While it is a progressive move which can funnel in more funds and puts us at par with international peers, it's monitoring and verification protocols, makes it a costly affair for issuers.

SEBI too mandates that green bond raisers have to continuously disclose requirements regarding the use of the proceeds and appoint an independent third-party to review and certify the said information.

While increased scrutiny brings more transparency, reporting and third-party verification increases the cost for issuers. To avoid these excessive costs, issuers prefer to raise funds via regular bonds as opposed to green bonds. Fewer issuances have a ripple effect on liquidity due to lower trading in the secondary market. Due to the presence of more long-term investors in the market who buy and hold these bonds, there are few available to buy in the market, increasing their illiquidity.

Lack of 'greenium'

Green bond issuers have to pay higher coupon rates. The average coupon rates are anywhere between 7-9%. They pay a premium due to lower sovereign credit rating of India, as well volatility in the Indian Rupee. On the other hand, Indian green bonds are not getting the greenium other foreign issuers of bonds receive. In 2024, RBI has refused to accept any bids received for sovereign green bond issuances in May, due to tepid demand; and investors were unwilling to pay the greenium. This, added to the fact that the costs of receiving green bonds are high, it's a double whammy for issuers.

Fears of Greenwashing

Lenders as well as bond issuers are concerned about greenwashing of the market. Green companies raise finances to activities around refinancing, as well as general corporate purposes which takes up include a large number of uses for the funds raised. There have been cases where companies emphasize on the favourable economic impact of projects while downplaying its negative impact. A lot of the end use of green funds indicate ambiguity, that raises concerns of greenwashing.





Path Ahead: Towards a Sustainable World

While the Indian government has been bringing in more transparency and solving some of the above-mentioned problems, it can also enthuse the market with a few moves. Market enthusiasts believe that green bond investors can be provided with incentives like tax credits as well as subsidies for interest payments of green bondholders.

Countries like China, US and the UK have been providing such benefits to encourage more investors to invest in improving the environment of their nation. A few governments even offer loan guarantees for bond issuances. If government supports green projects with partial loan guarantees and performance guarantees, it can attract more finance from other companies. This will help mitigate risks for the investors and help the issuers of green bonds develop a stronger credit history.

The market also needs long-term, low-cost debt from a variety of instruments from insurance companies, pension funds to help refinance green projects.

As more investors sharpen their long-term strategies, green bonds that offer tax benefits can become attractive offerings. In spite of its infancy in India, sustainable funds would rise along with the need for such credit investment tools. Yet, the market needs support from the government to be able to evolve to its full potential making an impact on the environment as well as investing community.







This page is intentionally left blank





Capital@The Speed Of Growth



The Indian markets are in the middle of a transformative shift. For a long time, foreign investors have played a significant role in India's equity and debt markets. That's not unequivocally true anymore. Recently, domestic institutional investors (DIIs) have come to a striking distance to foreign institutional investors (FIIs) in the equity in terms of holdings at 16.9% and 17.2%. It showcases the depth and strength of Indian investment potential. While the early streams of domestic investments have gone into equity and real estate, over the next few years, domestic capital will also girth to the country's markets.

The number of family offices have also grown to 300 as of now, as compared to just 45 in 2018. These investment vehicles are modelled to withstand vagaries of investment cycles. The number of UHNI and HNI population is also swelling rapidly --- bringing various sets of investors with varied needs and investment strategies.

All these, point to the rise of the corporate bond market. Until now only very highly rated bonds are able to get investors. As more risk capital enters these markets, bonds rated A category and below may find more acceptance. Moreover, one must remember that getting rated itself is a mark of transparency and facilitates informed decision-making.

A nation developing at India's speed needs various types of capital – for mergers and acquisitions, startups with good ideas to tide over tough times, real estate and infrastructure companies building scale, and promoters who've failed once to try once more. Private credit can fulfil these needs of the times. Risk capital from domestic sources can become a significant game changer for India's emerging new businesses.

Green finance is the investment for a better tomorrow. It's imperative for governments, citizens and investors to aid the great big green shift. A large chunk of investment is going into power sector – renewable energy for wind, solar and small hydro etc. But there are many more areas that need investments – like sanitation projects, water treatment and other such projects which do not get the eyeballs that they should.

The government, RBI, SEBI and others are doing their bit to encourage more lending to mitigation finance. However, the need to add new-age infrastructure in a country like India, without disturbing its growing needs for energy and more – is a gigantic task. To encourage more investors to park their funds in green bonds, the government must open up the markets with tax benefits and other such initiatives. While investors are keen on sectors, green bonds are much more expensive and without greenium, they will not be able to take off. Policymakers must provide the much-needed push, so that India can invest in a Greener India.





NOTES





NOTES





Registered & Corporate Office

Mumbai

708, Lodha Supremus Lodha iThink Techno Campus, Kanjurmarg (East), Mumbai 400 042 E: info@acuite.in

Branch Offices

New Delhi

Unit No.711, 7th Floor DLF Tower A, Jasola New Delhi - 110 025

Bangalore

305, 3rd Floor, Brigade Tower Brigade Road No. 135 Bangalore - 560 025

Kolkata

903, 9th floor, Aurora Waterfront GN 34/1, GN Block, Sector Vbidhannagar Kolkata, West Bengal 700091

Ahmedabad

1122, Sakar IX Ashram Road Ahmedabad - 380009

Hyderabad

3rd Floor, SL Jubilee Plot No.1202 & 1215A, Rd Number 36Jubilee Hills, Hyderabad Telangana 500033

Chennai

Suite No: \$1,Vatika Business Centre, Prestige Polygon3rd Floor, 471,Anna Salai, Rathna Nagar, Teynampet Chennai - 600035 Tamil Nadu