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CORPORATE SECTOR

Alternate Credit Avenue

NOVEMBER 2025

ALTERNATE AVENUES FOR CORPORATES

CORPORATES - ALTERNATE CREDIT AVENUES

When investors discussed performing credit a few years ago, the focus was on filling out the financing gap for mid-market corporates that were too strong for distressed funds yet too small or unrated for institutional debt investors.

That conversation has since broadened.

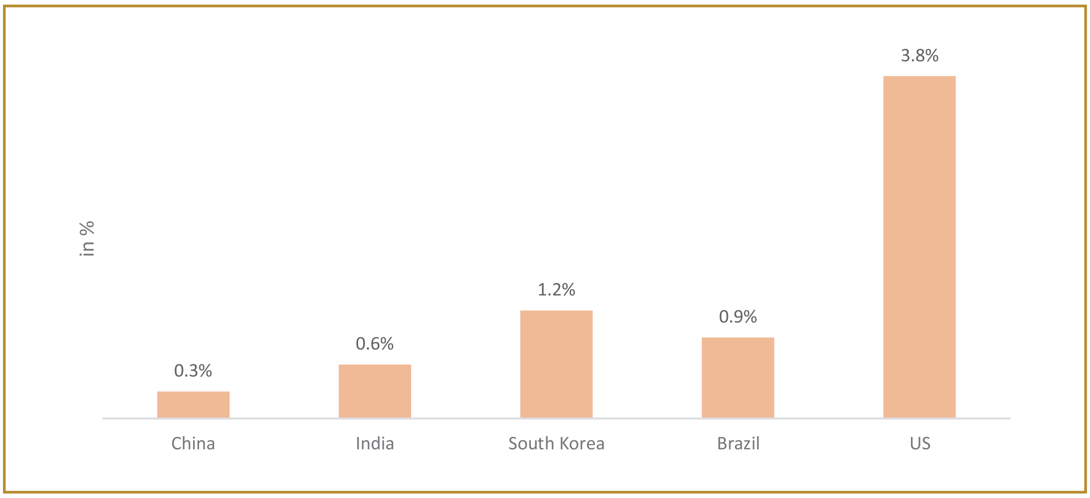
The term alternate credit now captures a wider mix of structures from private debt and mezzanine loans to convertible instruments and hold-co financing deployed by funds seeking higher yields in segments that remain outside the reach of traditional lenders. This expansion reflects both regulatory boundaries and opportunity: while banks still dominate corporate lending, exposure norms and capital-cost considerations limit their ability to fund complex or event-driven transactions. But monetary conditions have eased, and policy reforms such as the October 2025 RBI draft guidelines permitting banks to finance M&A deals continue to reshape the credit landscape.

This expansion is as much a response to structural constraints as to opportunity. Indian banks, which still account for nearly 58% of corporate credit[1], remain selective because of single-borrower exposure limits, capital charges, and the focus on retail and priority sectors. But monetary conditions have eased and policy reforms such as the October 2025 RBI draft guidelines permitting banks to finance M&A deals, alongside proposed amendments to the RBI's Large Exposures Framework that tighten recognition of foreign banks' intra-group exposures, continue to reshape the credit landscape.

The RBI introduced the Scale-Based Regulation (SBR) framework for NBFCs in October 2022, tightening capital, liquidity, and exposure norms for upper-layer entities. RBI's June 2025 Financial Stability Report notes that NBFC credit growth has moderated amid these changes and higher market funding costs. EY notes that market liquidity is concentrated among high-rated issuers, resulting in limited access and trading depth for smaller or lower rated companies[2]. These structural boundaries, rather than liquidity shortages, explain the space that alternate credit funds are now occupying.

A small but growing ecosystem of alternate credit managers has stepped into this vacuum. Their promise lies in structuring flexibility and speed of execution rather than in size. According to an EY Private Credit Report (H12025), India saw USD 9.0 bn of private credit deployment in H1 2025[3]. S&P Global (Sept 2025) estimates the asset base at USD 25–30 bn, equal to just 0.6% of GDP and about 1.2% of total corporate lending[4]. These figures underscore both growth and limitation - impressive expansion from a low base, but still marginal relative to the broader credit system.

Exhibit 1: Classification of the Indian Bond Market



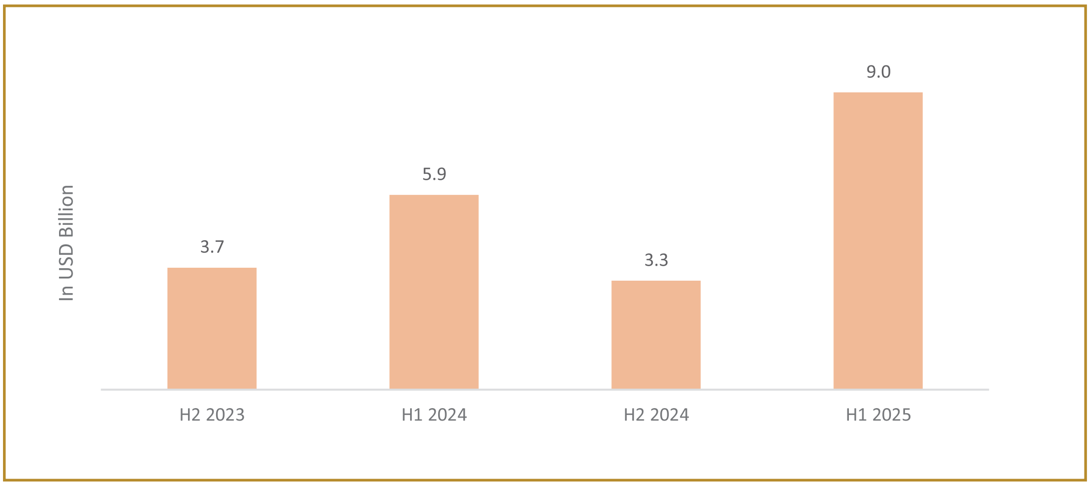
Source: PwC report: Tapping private credit opportunities in India (March 2025)

Importantly, this market has never been tested in a sustained downturn. The boom has unfolded during a period of robust GDP growth, moderating inflation, and ample liquidity, when funding spreads compressed, and risk tolerance rose. The sector's resilience will depend on how it performs once liquidity tightens or defaults rise - conditions that historically expose leverage and underwriting weaknesses.

Much of the recent momentum has been concentrated in a handful of large -structured transactions. The ~USD 3.1 bn[5] Shapoorji Pallonji bond issue in May 2025, for instance, accounted for nearly one-third of total H1 2025 deployments and came at a steep 19.75% yield[6] for some investors. Such concentration highlights how deal volumes can be skewed by episodic large financings rather than broad-based access for mid-market borrowers.

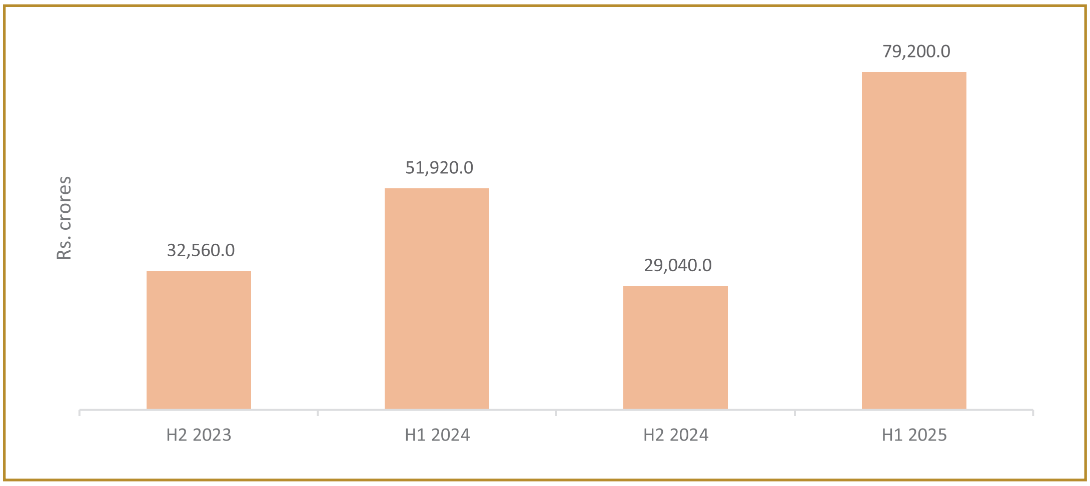
Despite these caveats, alternate credit is gradually embedding itself as a complementary, not competing, layer within India's debt ecosystem. Its appeal rests on the ability to finance segments that banks and mutual funds avoid - promoter funding, land-linked real-estate projects, leveraged acquisitions, and pre-IPO bridge loans. Yet, the sector's sustainability will depend on institutional discipline, regulatory clarity, and diversification of capital sources.

Exhibit 2: Private Credit Deal Flow



Source: EY Private Credit Reports

Exhibit 3: Private Credit Deal Flow



Source: EY Private Credit Reports (Converted to Rs. Crores, exchange rate of Rs. 88/ USD)

The coming years will reveal whether alternate credit can evolve from a liquidity-cycle phenomenon into a stable, institutional asset class. The next sections examine its structure, drivers, risks, and the policy scaffolding that will determine that outcome.

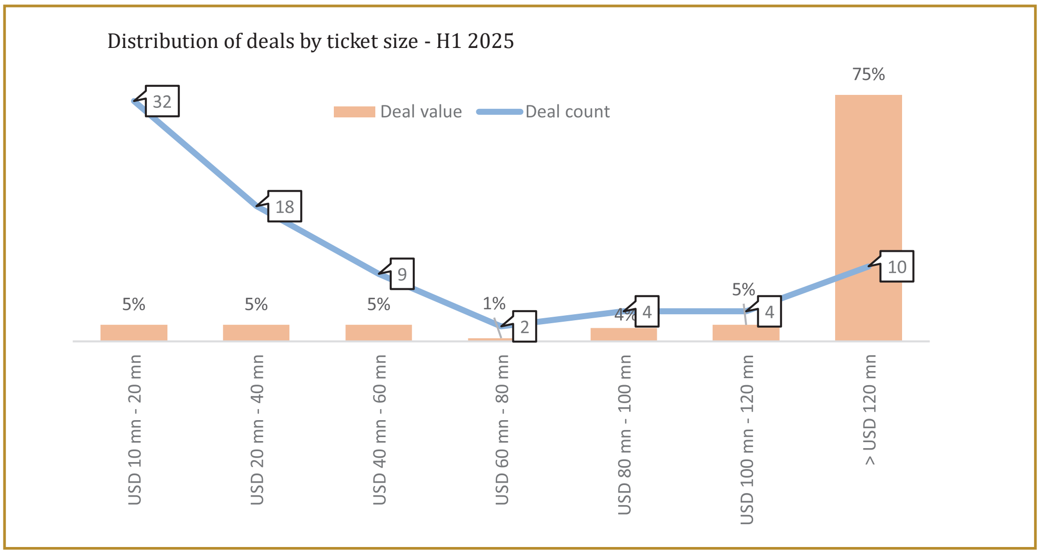
MARKET LANDSCAPE

While private credit has captured attention for its rapid expansion, its scale and structure remain narrow and uneven. The industry's growth from roughly USD 4–5 bn in H1 2023 to USD 9 bn in H1 2025 is significant, but the underlying deal mix shows a market still concentrated in a few large transactions and cyclical sectors.

SCALE AND CONCENTRATION

S&P Global (Sept 2025) estimates India's private-credit assets under management at USD 25–30 bn, accounting for just 1.2% of total corporate lending and 0.6% of GDP, which is lower when compared to that in developed markets, underscoring India's early-stage position. Deal flow, while rising, is also highly skewed: EY H1 2025 report finds that deals above USD 100.0 mn made up only 18% of deal count but greater than 80% of total deployed capital5. This concentration suggests that fund managers continue to favour a few large, sponsor-backed transactions over broad mid-market coverage.

Exhibit 4: Distribution of Deals by Ticket Size - H1 2025



Source: EY Report

This pattern implies that the apparent jump in market size partly reflects episodic large-ticket financings rather than a broad, diversified credit expansion.

DEAL COMPOSITION AND USE CASES

Data compiled by PwC show that, across FY 2024–25[6],

• 35% of private-credit deployment financed M&A or acquisition-linked transactions,

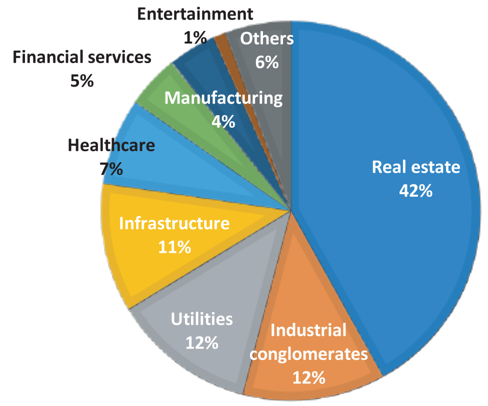
• 39% supported refinancing and working-capital needs, and

• 25% went to growth-capital funding

These figures indicate that private credit's role is still heavily event-driven, with funds stepping in where conventional lenders face regulatory or risk-based constraints - especially for promoter buyouts, bridge financing, and land acquisition.

According to REDD Intelligence (2025)[7], private credit deployment in H1 2025 was led by large real-estate financings, which accounted for roughly 40% of total deal volume, followed by industrial conglomerates, utilities and infrastructure sectors. Within the infrastructure space, transactions were mainly sponsorbacked refinancing or acquisition financing rather than greenfield project loans. Other active segments included financial services, manufacturing, and healthcare, but each represented a relatively smaller share of total deal flow. The concentration in asset-backed sectors highlights the collateral-oriented nature of India's current private credit market and the limited penetration of cash flow–based lending models seen in mature economies.

EXHIBIT 5: SECTOR-WISE DEAL VOLUMES (H1 2025)



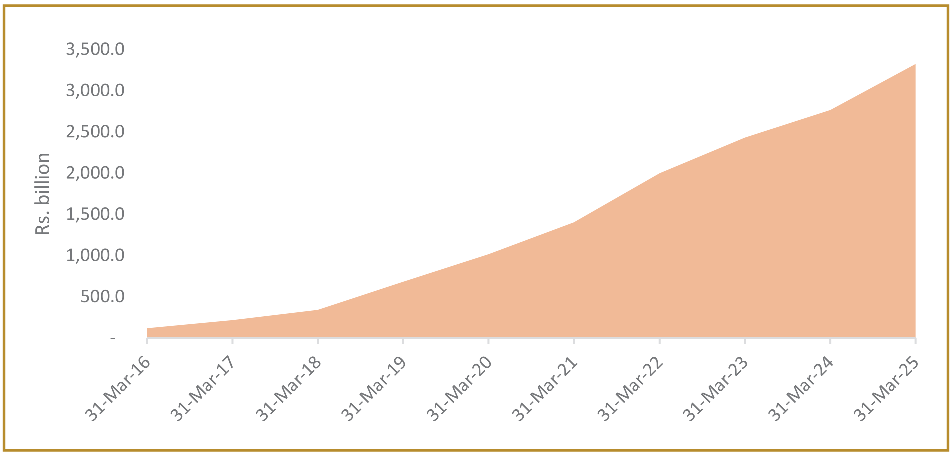
Source: EY Report

PRICING, LIQUIDITY & LATE-CYCLE SIGNALS

As liquidity remains abundant and yields compress, the composition of India's investor base is also evolving.

Investor inflows into private credit remained strong through 2025, sustained by tax and regulatory clarity and an expanding domestic base of Alternative Investment Fund (AIF) investors. The Finance Bill 2025 clarified that securities held by Category I and II AIFs qualify as capital assets, ensuring capital-gains treatment and eliminating ambiguity over business income classification. Together with the withdrawal of indexation benefits for debt mutual funds under the Finance Act 2023, these measures improved the posttax relative returns of private-credit vehicles and redirected allocations from traditional fixed-income products toward Category II AIFs and co-lending structures.

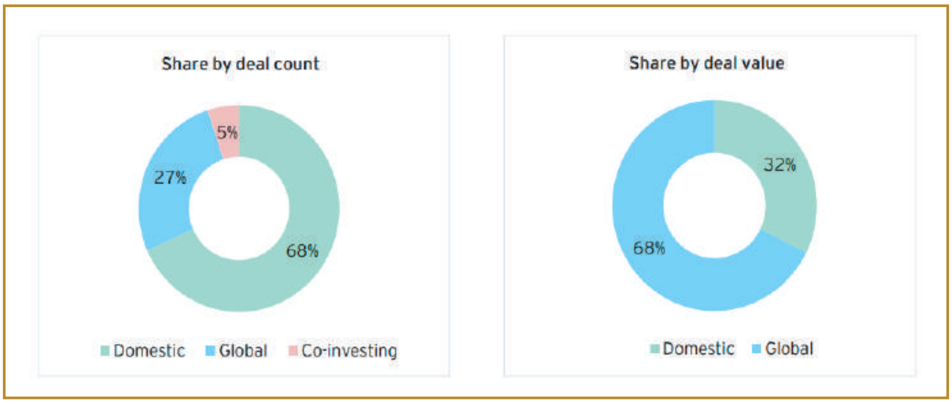
Cumulative commitments to Category II AIFs have continued to expand, cementing their position as the dominant conduit for domestic private-credit flows.



Source: SEBI

Domestic and global investors have continued to participate actively, with large global managers dominating commitments by value, even as mid-market fund managers attract steady inflows from local investors.

EXHIBIT 7: H1 2025 SHARE INVESTOR WISE



Source: EY report

According to S&P Global Ratings (Sept 2025), yield spreads in India's private credit market have narrowed, as greater competition from traditional lenders and new entrants exerted pressure on pricing. Capital commitments are increasingly concentrated among larger managers, while secondary-market trading of private credit exposures remains limited. Refinancing and acquisition-linked deals have dominated deployment in 2025, reflecting continued event-driven demand rather than a broad-based expansion in new credit supply. The current phase could be characterized as a maturing stage in India's private credit cycle: abundant liquidity, narrowing spreads, and looser covenants indicate late-cycle dynamics, even as the market remains a small part of total corporate lending. The report cautions that sustained discipline in =underwriting, risk monitoring, and exit planning will be essential to maintain stability as the segment grows.

STRUCTURAL AND POLICY DRIVERS

Regulatory Constraints On Traditional Lenders

Global macroeconomic waters are at their choppiest in decades, with uncertainties exceeding the levels experienced The RBI has historically restricted bank lending for activities such as land acquisition and domestic leveraged buyouts, limiting exposure to unlisted equity and promoter funding. These prudential limits created a space that alternate credit platforms - notably AIFs and private-credit funds - were able to fill. However, this regulatory landscape is now shifting.

In October 2025, the RBI issued draft directions proposing to permit banks to finance domestic M&A transactions, subject to conditions on leverage, exposure caps, and due-diligence standards. The framework seeks to balance credit availability for corporate consolidation with safeguards against speculative financing. More than one-third of private-credit deals in FY 2024–25 involved M&A or acquisition-linked financing, while real-estate transactions accounted for a comparable share—underscoring how private credit funds have bridged gaps left by banks' earlier lending constraints.

In addition, NBFCs, the second line of India's credit intermediation - have faced tighter leverage and liquidity-coverage norms following RBI's Scale-Based Regulation framework (phased in 2022–24). EY (Private Credit H1 2025 Report) highlights that these rules, coupled with the elevated cost of market borrowings, have pushed several NBFCs to partner with AIFs through co-lending and credit-participation models rather than expand balance-sheet lending.

Legal Reforms and The IBC Effect

The strengthening of India's insolvency and recovery framework has improved lender confidence in structured and special-situation credit. Since the implementation of the Insolvency and Bankruptcy Code (IBC) 2016, the average resolution time has fallen to about two years, while average recovery rates have stabilised around 33 %, compared with 15–20 % prior to 2016. S&P Global Ratings (Sept 2025) attributes these gains to more predictable enforcement, an expanding secondary market for distressed assets, and the operational maturity of the Insolvency and Bankruptcy Board of India (IBBI) framework.

Complementing these developments, the RBI's Prudential Framework for Resolution of Stressed Assets (June 2019) which represented a major overhaul of earlier resolution norms and SEBI's amendments to the AIF Regulations have strengthened governance and transparency for credit-oriented funds. These measures require enhanced valuation disclosure, conflict-of-interest safeguards, and portfolio-level stress testing. According to EY (Private Credit in India: H1 2025 Update), such regulatory tightening has encouraged a shift toward cash flow-based underwriting and the use of performance-linked covenants even in mezzanine or quasi-equity instruments—marking gradual institutionalization of India's private credit market.

Policy Changes Have Also Altered the Comparative Appeal of Private Credit

The Finance Bill 2025 proposes to clarify that securities held by Category I and II AIFs are designated as "capital assets," meaning gains will be taxed under the capital-gains head rather than business income, with the amendment slated to take effect from 1 April 2026 (Assessment Year 2026-27). It also frames the longterm capital-gains (LTCG) rate at 12.5% for FIIs and Category III AIFs from the same date, enhancing parity in the investment tax regime. On the regulatory side, SEBI issued a circular on 9 September 2025, creatinga Co-Investment Vehicle (CIV) scheme within the AIF framework. Under this scheme, Category I/II AIF managers may offer accredited investors co-investment opportunities through separate CIV structures that are ring-fenced, with a maximum co-investment cap of 3× the AIF commitment and no leverage permitted at the CIV level. Meanwhile, the International Financial Services Centres Authority (IFSCA), on 21 May 2025, released a single-asset co-investment framework at the GIFT City (GIFT-IFSC), allowing the establishment of single-asset CIVs that may include leverage (subject to disclosure) and admit any eligible investor meeting the minimum contribution threshold—thereby promoting cross-border co-investment flows into India's alternative credit ecosystem.

Exhibit 8: Deal Activity in the India Private Credit Market

Month / Year	Borrower / Group	Investors	Amount (US$ mn)	Deal Rationale	Indicative IRR
Conglomerate					
May-25	Shapoorji Pallonji Group – Porteast Investment Pvt Ltd	Deutsche Bank, Farallon, Cerberus, Davidson Kempner, Morgan Stanley, Edelweiss, Synergy Capital, Ares SSG, Temasek, Walkers Group, Discovery, ASK, Pico Capital	3,141	Refinancing	≥ 18 %
Infrastructure					
Jun-25	Adani Group – Mumbai International Airport Ltd	Apollo Global, BlackRock, MetLife, FWG Insurance, Standard Chartered Bank	750	Refinancing	Sub-18 %
Mar-25	GMR Infra Enterprises Pvt Ltd	Abu Dhabi Investment Authority	733	Refinancing	Not Available
Mar-25	Century Joint Development Pvt Ltd	Ares SSG	87	Refinancing	≥ 18 %
Other Industrial Products					
Jun-25	Bilt Graphic Paper Products Ltd	Allianz Group, DSP, Kotak Alternate Asset Management, Trust Group	360	Refinancing of existing debt	≥ 18 %
Feb-25	TVS Group – TS Rajam Rubbers, TVS Mobility & Dhinarama Mobility	Omers Capital, ICICI Prudential, Kotak PC Fund, DSP, Oaktree, Nomura, JP Morgan, Axis AMC, Arka Fincap, RV Capital, Nippon	194	Refinancing and general corporate purposes	Sub-18 %
Mar-Apr-25	Gayatrishakti Paper & Boards Ltd	Neo Asset Management, Aditya Birla Finance	40	Refinancing	≥ 18 %
Jun-25	Thirumalai Chemicals Ltd	Modulus Alternatives	12	Capex financing	Sub-18 %
Real Estate					
Jan-Mar-25	Embassy Group – Serenesummit Realty Pvt Ltd	360 One, Famy Group and affiliates	112	Project expenses, working capital purposes	Sub-18 %
Apr-25	TARC Ltd & group entities	Bain Capital	97	Refinancing	Not Available
May-25	Edifice Group entities	Värde Partners	87	Land acquisition	≥ 18 %
Jun-25	Century Real Estate – Suruchi Properties Pvt Ltd	Nomura, Standard Chartered (GIFT City)	52	Refinancing and working capital	≥ 18 %
Jun-25	Phoenix Group – Phoenix T echnobuild Pvt Ltd	SC Lowy	41	Project expenses	≥ 18 %
Mar-25	Transcon Developers Pvt Ltd	Cerberus	40	General corporate purposes	≥ 18 %
Jun-25	Cybercity Group – Cybercity Hitech & Madhapur	Oaktree	35	General corporate purposes	≥ 18 %
Jun-25	Cybercity Group – Cybercity Hitech & Madhapur	Oaktree	35	General corporate purposes	≥ 18 %
May-25	RMZ Group – Millenia Realtors Pvt Ltd	ICICI Prudential	29	General corporate purposes	Sub-18 %

Jan-Mar-25	Equinox Group – Sylvanus Properties Ltd	Aditya Birla Group, Alpha Alternatives, Trust Group	29	General corporate purposes	Sub-18 %
Apr-25	Voora Property Developers Pvt Ltd	Sundaram Alternates	13	Working capital	≥ 18 %
Healthcare					
Jun-25	Manipal Education & Medical Group	KKR, Clifford Capital	600	Growth financing	Sub-18 %
Jan-25	Neuberg Diagnostics Pvt Ltd	Kotak Alternate Asset Management Funds	104	Acquisition financing	≥ 18 %
Feb-May-25	Lovr Institute of Medical Sciences	Ascertis	46	Capex financing	Not Available
Apr-25	Saimirra Innopharm Pvt Ltd	Piramal Alternatives	19	Acquisition and refinancing	≥ 18 %
Energy & Renewables					
Apr-25	GVK Group – Alaknanda Hydro Power Co.	Kotak Alternate Asset Management Funds	236	Refinancing	≥ 18 %
Apr-25	Adhunik Power & Natural Resources Ltd	Davidson Kempner	145	Refinancing	Not Available
Jan-25	Greenko RJ02 IREP Pvt Ltd	JP Morgan	116	General corporate purposes	Sub-18 %
Feb-25	Greenko UP01 IREP Pvt Ltd	360 One Private Credit & affiliates	47	Land acquisition & capex financing	Sub-18 %
Technology					
Jun-25	Aerogrid Advanced Hosting Solutions Pvt Ltd	Blackstone, Citi, Standard Chartered & others	348	Acquisition & refinancing	Not Available
Mining & Metals					
Mar-25	Mahaprabhu Projects Pvt Ltd	Davidson Kempner, Walkers Group	203	General corporate purposes	Not Available
Entertainment					
Jan-25	GMR Sports Venture Pvt Ltd	Elham Credit, Barclays	116	Refinancing	Sub-18 %
Financial Consulting & Advisory					
Jan-Feb-25	M G M Consulting Services Pvt Ltd	Edelweiss Funds	70	Refinancing / General Corporate	Not Available
Food & Beverages					
Mar-Apr-25	Wow Momo Foods Pvt Ltd	Incred, Nuvama Wealth, Stride Ventures	23	Refinancing and capex financing	Sub-18 %
Feb-25	S.P.Y. Agro Industries Ltd	Investec, UTI Asset Management	21	Acquisition and refinancing	Sub-18 %

Source: EY – Private Credit in India: H1 2025 Update

CORPORATES : ALTERNATE AVENUES FOR CORPORATES

[1] https://www.spglobal.com/en/research-insights/special-reports/india-forward/shifting-horizons/indias-private-credit-market-is-coming-of-age

[2] https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/strategy-transactions/documents/2025/08/ey-private-credit-report-h1-2025.pdf?utm_source=chatgpt.com

[3] https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/strategy-transactions/documents/2025/08/ey-private-credit-report-h1-202 5.pdf

[4] https://www.spglobal.com/en/research-insights/special-reports/india-forward/shifting-horizons/indias-private-credit-market-is-coming-of-age?utm_source=chatgpt.com

[5] https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/strategy-transactions/documents/2025/08/ey-private-credit-report-h1-2025.pdf?utm_source=chatgpt.com

[6] https://www.pwc.in/assets/pdfs/tapping-private-credit-opportunities-indias-distressed-assets-market.pdf

[7] https://www.reddintelligence.com/insights/intelligence/india-private-credit-several-mega-private-creditdeals-define-1h25

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