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Separate rules needed for each category of AIFs to fuel growth: Amit Agarwal

By Shilpy Sinha, ET Bureau • Last Updated: Mar 18, 2024, 05:55:00 AM IST

Synopsis
We have been in the performing credit space since 2012 and have the longest track record of successful exits. Our offshore fund is almost ₹7,500 crore and we have deployed more than 70% in the last two years.

The impact of IBC is not only in implementation of the Act but it also influences the credit culture.

India's **market** regulator needs to look at categories and define separate regulations for listed and unlisted firms, said **Amit Agarwal**, head of private credit at Edelweiss Alternatives in an interview with Shilpy Sinha. This is because each category will become large over time, requiring varied rules with separate performance benchmarks. India's largest private **credit fund** with over ₹₹55,000 crore AUM and ₹15,000 crore dry powder is raising the first domestic performing credit fund. Edited excerpts:

You have launched a performing credit fund in the domestic market. Is the space getting crowded?
We have been in the performing credit space since 2012 and have the longest track record of successful exits. Our offshore fund is almost ₹7,500 crore and we have deployed more than 70% in the last two years.

We have been able to find bespoke credit deals at 18-19% return as larger-sized deals provide better **pricing**. Our domestic fund also has seen a huge positive response and we have already raised nearly ₹500 crore within three months and also invested in our first deal which is clocking 19% returns. We expect to raise ₹2,000 crore in the next six months.

Is there strong competition on pricing in this market due to multiple lenders pursuing the same deals?
Deployment is not a challenge for us, as we have our proprietary sourcing channel which is very strong across our ₹38,000 crore private credit AUM. Pricing on performing credit has not fallen 15-16% even in highly competitive deals and I think that still provides a significant premium over risk-free rate. The market is large, and even if domestic managers raise ₹8,000-₹10,000 crore over next 1-2 years, the demand far outstrips the supply.

Competition has increased, but we think it's healthy and we do not see any serious issue in the way risk is being underwritten. We pride ourselves on risk management and I think that will be the key thing to watch over the next 2-3 years across domestic fund managers.

While Sebi wants AIFs to exercise caution as they handle investor money, RBI wants banks to restrict exposure to AIFs. Will this dampen investor interest in this asset class?
Alternatives industry is reaching a critical size now. We think regulations are important for the growth of the industry as they provide the guardrails to ensure no activities are undertaken which are contrary to investor interest. As more and more investors participate, there is a need to have more standardisation. One of the things, I think, is to look at categories in AIF which invest in listed securities as a separate class to those AIFs which are private markets like venture capital, private equity, private credit, real assets. We think that each of these categories will become large in themselves over a period of time and each category will have its own nuances. The regulations for each of these categories will, therefore, need to be slightly differentiated and performance benchmarking may also be needed separately. We believe that trust, transparency and track record are the key pillars for growth in asset management business and all regulations which are aiding in the same will allow the market to grow.

What are the innovations seen in deal structuring and payment formats?
Private credit industry provides flexible capital solutions. The payment formats can range from monthly to event-based to complete bullets. The coupon structuring mostly is based on available cash flows and can range from zero coupon to full coupon; it can have low debt returns with market-linked upside or high debt returns but completely backend. We think simple structures are the best as a creditor and too much innovation can lead to litigation at a later stage if the deal does not do well for the lender. There are some structures now where private credit funds are doing mezzanine funding,

while the senior tranches are being taken by some banks based on cash flow of the assets.

Which sectors will attract the most investments in FY25?
Performing credit funds mostly invest across manufacturing, steel, hotels, infrastructure for the purpose of taking out private equity funds, growth capital for capex and refinancing exposures. These sectors will continue to see deals happening in FY25. However, real estate funds have been active as well. Real estate deals have been 20-25% of the deals in credit places in FY24 and we think that the trend will continue with banks not really keen to lend in that space. Real estate is also coming out of a 10-year low and only the last two years have been better. We are going to raise a real estate fund in FY25 and we think that this asset class will outperform in the next 10 years.

What has been the impact of Insolvency and Bankruptcy Code (IBC)?
The impact of IBC is not only in implementation of the Act but it also influences the credit culture. For example, in the case of Viceroy Hotels, opting for court proceedings led to nearly 50% higher recovery of ₹325 crore, exceeding the final out-of-court offer of ₹225 crore. IBC is a beneficial tool if exercised properly. It requires decisive actions from lenders. The faith in the bankruptcy code has contributed to the influx of money into private credit, with the sector's size expanding from $500 million to $7-8 billion in 10 years.

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