

## Global Investors Maintain Prudent Stance on Private Credit Amid Market Realities



Despite the rapid expansion of the private credit market globally, major institutional investors, including pension funds and global private equity (PE) firms, are largely maintaining a cautious approach, particularly in emerging markets like India. This measured stance, observed on Sunday, July 27, 2025, stems from a combination of factors, including the relatively small average deal sizes, intricate debt resolution processes, and the impact of foreign exchange and hedging costs on dollar-denominated returns.

The private credit sector has seen significant growth as traditional bank lending has retrenched, offering an alternative source of capital for businesses. However, for large global funds with substantial capital to deploy, the Indian private credit market often presents average deal sizes in the range of \$200-300 million (approximately INR 200-300 crore). This scale, while significant for local players, may not "move the needle" for global institutions accustomed to larger transactions. As one senior executive in the segment noted, "12% of deals are available in Europe and the US... why would they need to come to India?"

Furthermore, the complexities surrounding debt resolution under frameworks such as India's Insolvency and Bankruptcy Code (IBC) have added a layer of hesitancy for international investors. While the IBC aims to streamline insolvency proceedings, resolution timelines can still be protracted, affecting the predictability and attractiveness of private debt investments for foreign capital. This leads many global pension funds to prefer indirect exposure through partnerships with local firms rather than direct involvement in debt enforcement.

Another critical consideration for global investors is the erosion of dollar-denominated returns due to foreign exchange fluctuations and the associated costs of hedging. While returns in local currency might appear attractive, converting them back to a foreign currency, especially the U.S. dollar, and accounting for hedging expenses can significantly diminish the net yield, making other developed markets more appealing.

Experts suggest that the Indian private credit market is currently at a stage where private equity was about 15 years ago, implying a need for further maturation and improved legal frameworks to attract a broader swathe of large global capital. Until then, many large funds are expected to "sit on the fence." The absence of allowed private equity leverage in India, a common feature in global private credit deals that provides comfort through established governance structures, also contributes to the cautious sentiment. As the market continues to deepen and regulatory clarity improves, a more robust inflow of global institutional capital into India's private credit space may materialize.