

Special Situation Funds Capitalize on High-Yield Distressed Assets



Special Situation Funds (SSFs) are experiencing a surge in demand in the Indian market, attracting significant investment by targeting high-yielding distressed assets and turnaround opportunities. These specialized funds, operating under the Alternative Investment Fund (AIF) framework regulated by the Securities and Exchange Board of India (SEBI), are emerging as key players in resolving financial distress within various sectors of the economy.

Recent months have seen several prominent launches in this space, including new SSFs from financial powerhouses like Motilal Oswal, InCred, and Resurgent India. These funds are designed to acquire stressed loans, security receipts, or securities of financially struggling companies to restructure and revitalize them for potential significant returns. The appeal of these funds lies in their ability to capitalize on situations where assets are undervalued due to temporary financial or operational difficulties.

Jyoti Prakash Gadia, managing director at Resurgent India, which is currently raising a ₹500 crore (approximately 60 million USD) SSF, articulated the strategic approach: "We aim to systematically acquire, revive, and scale assets that hold potential but face temporary financial or operational distress. Our approach is strategic and patient." This highlights the hands-on and long-term perspective often adopted by SSFs in their investment strategies.

SSFs are particularly attractive to sophisticated and institutional investors due to their potential for high returns, which often come with a higher risk-reward matrix inherent to the AIF ecosystem. These funds operate with a minimum corpus requirement of ₹100 crore

(approximately 12 million USD) and are granted exemptions from standard diversification limits, allowing them to concentrate investments in promising distressed opportunities. However, a key regulation mandates that SSFs can only invest in Indian firms, aligning with the broader national objective of resolving domestic stressed assets.

Notable past examples of successful distressed asset acquisitions by global funds in India include Oaktree Capital's bids for DHFL and Essar Steel during their insolvency proceedings and Cerberus Capital's bid for a substantial portfolio of stressed loans from Yes Bank. These instances underscore the lucrative nature of the distressed asset market in India and the potential for significant value creation through strategic interventions.

The rising prominence of SSFs reflects a maturing financial landscape in India, where structured mechanisms are being increasingly utilized to address non-performing assets and facilitate corporate turnarounds. With the Reserve Bank of India (RBI) guidelines allowing banks to directly sell stressed loans to SSFs and the potential for foreign investor participation, the growth of these funds is expected to continue, playing a vital role in cleaning up balance sheets and driving economic recovery.