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Global Pension Funds and Private Equity Firms Wary of India's Growing Private Credit Market

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Despite the surge in India's private credit market, global pension funds and private equity (PE) firms remain cautious about increasing their exposure. Concerns over small deal sizes, currency risk, and challenges in debt resolution are keeping several major institutional investors from making aggressive moves in the space.

India's private credit ecosystem has grown rapidly in recent years, offering alternative financing options as traditional bank lending has declined. However, global investors such as pension funds and sovereign wealth entities like Temasek are reluctant to commit large-scale capital. They cite the lack of maturity in the domestic market and unattractive risk-reward ratios as primary deterrents.

Industry insiders indicate that most private credit deals in India average between \$200 million to \$300 million, which falls short of the thresholds preferred by global institutions. Additionally, India's debt recovery framework under the Insolvency and Bankruptcy Code (IBC) is seen as complex and unpredictable. Currency volatility and high hedging costs also erode returns for dollar-based investors.

As a result, global limited partners are choosing to keep their exposure limited or are waiting for the market to evolve further. Their conservative approach contrasts with the rising demand for private credit from Indian borrowers who are seeking flexible funding solutions outside traditional banking channels.

Experts note that while floating-rate yields in Indian private credit deals often exceed 11 percent, several structural hurdles persist. These include limited deal size, inconsistent borrower profiles, and underdeveloped regulatory oversight. Without standardized practices or clearer exit mechanisms, global funds find it challenging to scale their operations in the segment.

Globally, private credit has become a significant asset class, with estimates placing the total size between \$1.8 trillion and \$2 trillion. Insurance firms, endowments, and wealthy individuals are increasingly allocating capital toward this space. However, for India to capture a more significant share of these flows, the market will need to deliver improved legal certainty, larger deal opportunities, and streamlined processes.