Webinar: India Private Credit Conference

Key Takeaways and Stakeholder Surveys

IVCA
IVC ASSOCIATION
THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION
PROMOTING PRIVATE CAPITAL ECOSYSTEM

DUFF & PHELPS
A KROLL BUSINESS

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Private and Confidential

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BACKDROP

Last year, Duff & Phelps, A Kroll Business, and the Indian Private Equity and Venture Capital Association (IVCA) co-hosted a webinar last year, ***Increasing Appetite for Private Credit in India.***

India's private credit market has been growing significantly in the past few years. Slowing credit from traditional players has provided opportunities for new players to address the market.

The webinar shared various perspective on performing credit, structured credit, stressed credit investing, real estate financing and venture debt. Discussions also covered investor interest, deal flow, sectoral trends, changing regulations, risk-return profiles and key challenges.

The webinar comprised the following sessions:

01
Keynote address

02
Panel: Performing debt

03
Panel: Stressed and real estate lending

04
Panel: Venture debt

05
Workshop private credit valuation

METHODOLOGY

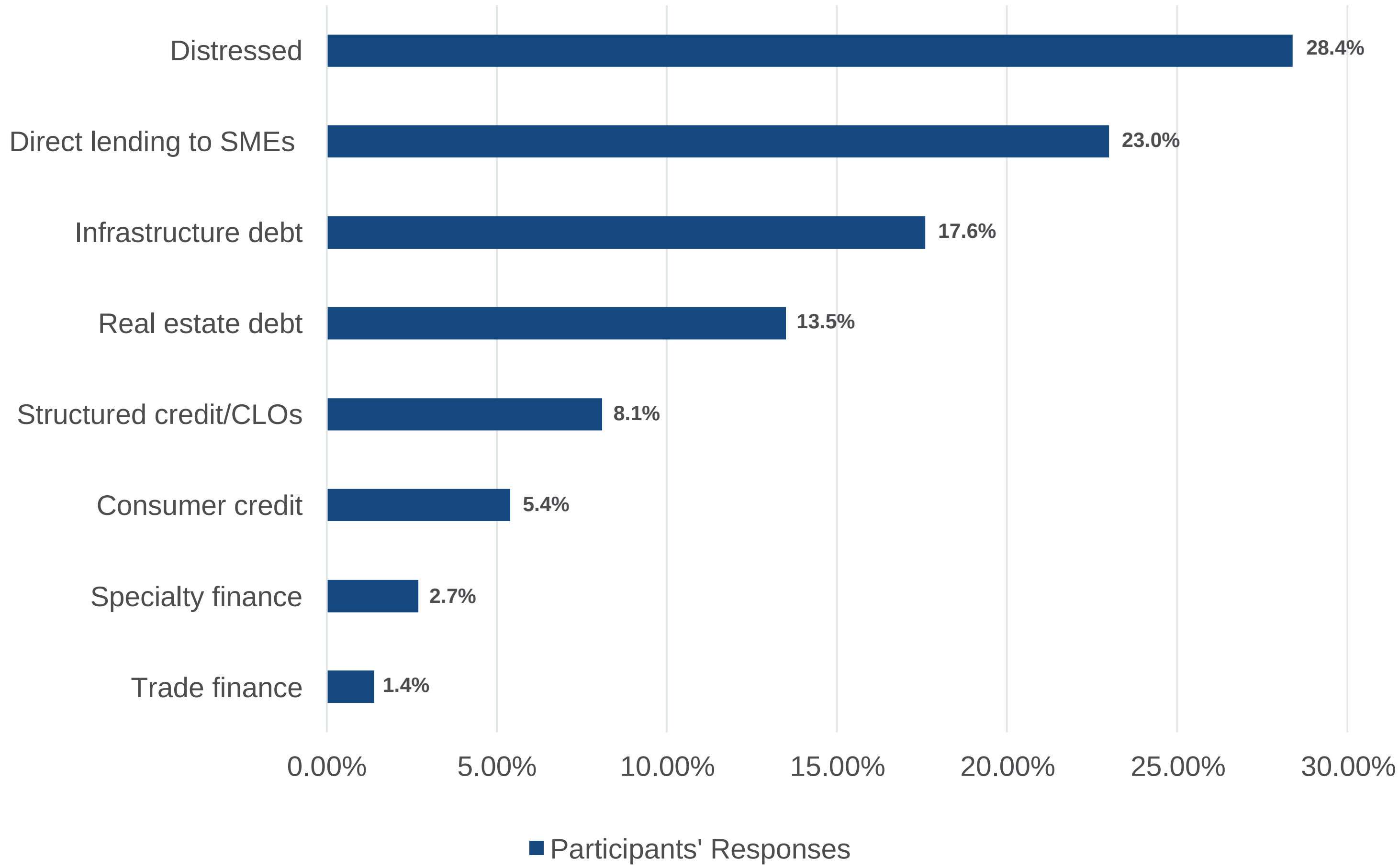
In our recent webinar on India private credit, our advisors from the APAC region shared their views on the increasing appetite for private credit in India.

There were nearly 200 participants that comprised CEOs, CFOs, directors, senior directors, managers and senior managers from various industries. These industries included real estate, financial advisory, securities, fund management, capital investment, asset management and legal financial consulting.

KEY TAKEAWAYS AND SURVEYS

Structured Credit

Where do you see the greatest deal flow for private credit in India over the next three years?



SPEAKER TAKEAWAYS

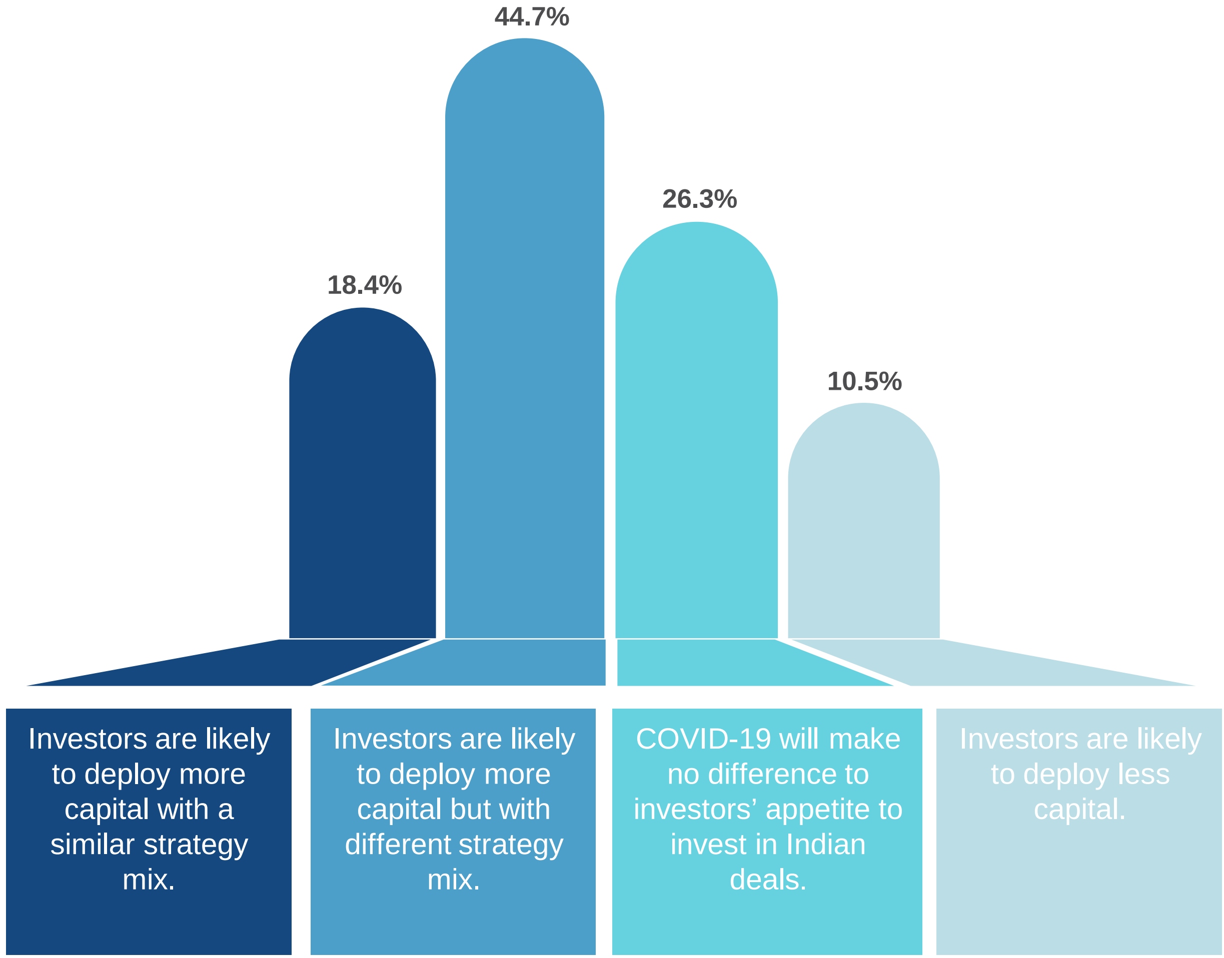
Structured Credit

- A large mid-market in India contributes around 35 to 40% of the organized output. A return to high GDP growth for India is expected to drive strong demand for private credit by mid-market (and SME) companies.
- A host of regulatory and macro-level issues in India have resulted in tepid to declining bank lending across multiple sectors. Independent franchises, fintech and private credit funds have taken up a big part of that share in enabling mid-market firms to grow.
- There is a massive capital shortage in funding the mid-market growth. Corporate debt over GDP ratios in India are lower than 60%. Other emerging markets and developed markets are all in the region of 80 to 100% or higher.
- Credit bureaus in India play an important part in the market infrastructure in allowing a well informed and diligent credit strategy to perform.
- It is more efficient to borrow than it is to raise equity for certain businesses that have just turned around and don't have huge amounts of profit to attract bank credit.
- Private credit could be useful as a bridge between family owned and public businesses in preparing them for the rigors of a public market.
- Private credit is also seen as bridge financing between domestic and international capital, so we are maybe a precursor to some of these institutions going international for their funding requirements.

KEY TAKEAWAYS AND SURVEYS

Structured Credit

How do you think COVID-19 is likely to affect foreign investors' attitudes towards India-focused private credit strategies?



SPEAKER TAKEAWAYS

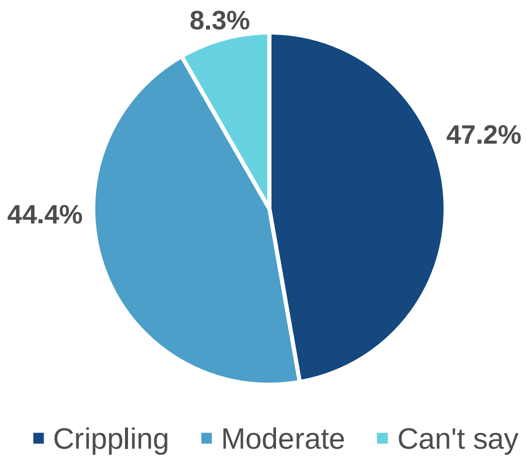
Structured Credit

- You can't really anticipate and factor in events like COVID-19 but there are certain credit aspects that are unfailing and always dependable, such as low leverage, diversity of businesses, access to annuity-like income streams and multiple exit strategies, to name a few.
- At the onset of COVID-19, potential borrowers just wanted to ensure that they had liquidity to stay afloat. From there, it went on to become completion financing or bridge financing until they could get longer-term funding, but it was all towards survival.
- Given the current economic recovery, we are seeing potential opportunities in the acquisition space for bolt-on acquisition financing. Companies are also taking advantage of the environment to buy back equity from minority holders.
- As we enter 2021, we are looking at a number of healthier companies who can take advantage of the forthcoming opportunities.
- In these kinds of environments, discipline is important on both sides, in terms of right-sizing the deal, disbursing in tranches and taking diverse collateral.
- Ultimately, risk and return can add up by structuring deals such that the promoters have skin in the game and all parties to the deal are singing from the same page.

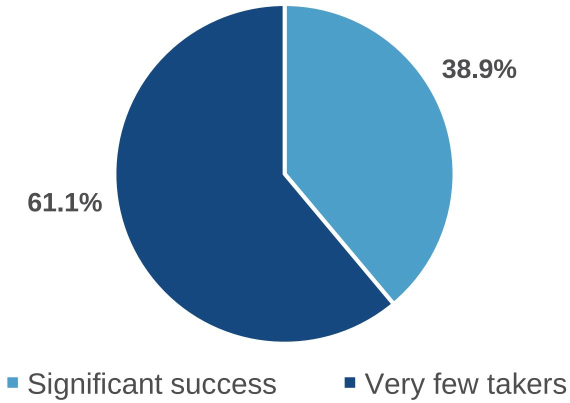
KEY TAKEAWAYS AND SURVEYS

Stressed Credit

What would be your assessment of the overall impact and stress on the loan assets of the lenders on account of the pandemic and the ensuing lockdowns?



Suspension of the IBC and the RBI’s policy of offering a one-time restructuring option to the banks (where proceedings under IBC have not been initiated before March 2020) is likely to see:



SPEAKER TAKEAWAYS

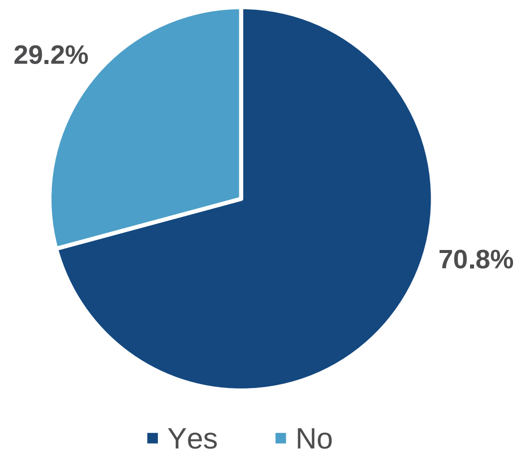
Stressed Credit

- Stressed and distressed investing has brought India onto the forefront of the global investor as a huge opportunity. The pandemic brought about the Insolvency and Bankruptcy Code's (IBC) suspension just when momentum was building upon its continued implementation and evolution.
- There have been a confluence of factors at work because of the pandemic, starting with massive dislocation, to economic resilience and finally measures that were brought in to alleviate the pain. There will, however, be serious fault lines in some businesses and these will present opportunities for private stressed and distressed credit, either standalone or within secondary pools in NBFC portfolios.
- The distressed opportunity has substantially increased from a long-term perspective, though in the short term the supply was very muted. Gross non-performing asset (NPA) numbers, around 8.5% prior to Covid-19 are estimated to increase by about 40% to 50%, in line with the RBI’s estimate of 12.5% in its recent *Financial Stability Report.*
- Recovery mechanisms need to evolve to shrink the buyer-seller bid-ask as evident in the data from resolutions and liquidations, the latter forming the bulk of the realizations.
- The investor class is maturing with deep investor participation. Alternative investment funds (AIF) are playing a larger more active role, not only partnering with asset reconstruction companies (ARC) which serve as originators and co-managers in the distressed space, but also in special situations where NBFCs would have operated.

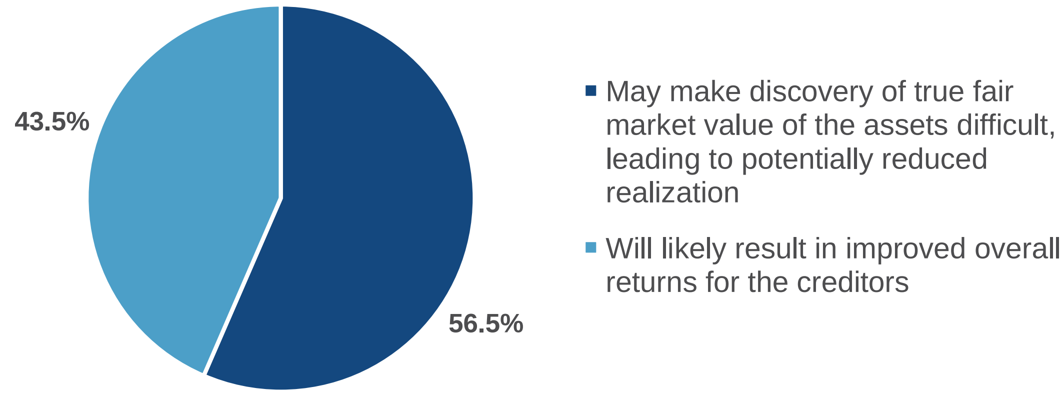
KEY TAKEAWAYS AND SURVEYS

Stressed Credit

Do you think changes to section 29A of the IBC precluding the existing promoters from participating in a resolution process is warranted to improve the success of effective resolution process under IBC?



In respect of "pre-packs" being permitted under the IBC process, which of the following do you agree with the most?



SPEAKER TAKEAWAYS

Stressed Credit

- Whether viewed as a moralistic position or one pre-empting malfeasance, India passed Section 29A as part of the IBC process. Most developed markets do not necessarily impose such restrictions on the existing stakeholder or promoters from participating into a resolution or restructuring process arising out of bankruptcy.
- Section 12A and the new RBI one-time restructuring circular however, among other things, allow the retention of control and dilute Section 29A.
- The potency of IBC should not be compromised, as that is a big factor on how effective IBC will continue to be. One aspect of IBC is obviously IBC as a solution, but an equally important part is IBC as a deterrent, as the consequences and the deterrence of IBC is really how pre-NCLT deal making gets enabled.
- The pre-pack solution, currently not permitted but being considered to quicken resolution processes, would be the next leap forward in the IBC. There shall likely be no dilution of provisions of section 29A defining the eligibility of a resolution applicant.
- There is definitely a need to augment the human resource side of the asset class as it requires a specific skill set, experience and mindset to make it successful. A pure play financial investor will need to draw on pools of experienced management to capitalize on a business or a stressed opportunity through its various challenges.

SPEAKER TAKEAWAYS

Venture Debt

- While it has been around since the mid-2000s, venture debt has seen a lot of traction during the last year and is an attractive form of capital in the venture ecosystem in India.
- There is a large pool of experts in the venture debt industry that have lent or worked with the venture ecosystem and helped fine-tune lending processes.
- Within the asset class, venture debt is seeing innovation in the forms of customized structuring that fits the objectives of different startups. Repayment terms have also seen new approaches, as a percentage of revenues.
- Traditional venture debt is more towards focusing on increasing the runway and diluting and reducing the dilution at a time, but increasingly no two firms are looked at as the same and lenders are taking a longer-term view and not just the runway perspective. Therefore, it's critical to understand the company's business model intricately and understand its cash flows and the underlying economics to provide a holistic solution for how the business should be functioning. You can't structure a B2C borrower's needs the same way as that for a B2B borrower; the uses of the funds borrowed can be customized within their business models as well.
- Growing a business on the backing of venture debt towards sustainable cash flow has become a key differentiator on which businesses are best situated to grow into more traditional forms of credit, even bank credit, based on their credit history.
- Innovative businesses that make it through the filters of a venture debt lender force the lender to be flexible in its lending terms, ticket sizes, etc.
- The choice of platform, an AIF or NBFC, is ultimately is less relevant that the underwriting framework developed by the lender. The focus is, as with other lenders, is achieving a certain fixed return given the capital protection that one can structure.
- Depending on how you define venture debt, and numbers may vary, it should account for up to 5-6% of all investing in the venture ecosystem. Comparing this to the 15%-20% seen in mature markets, we have a long way to go for this asset class.

SPEAKERS

Keynote Speaker
Venkat Ramaswamy, Vice- Chairman, Edelweiss Asset Management

Panel 1: Performing Debt
Speakers:
Kanchan Jain, Managing Director, Head of India Credit, Baring Private Equity Asia
Sabita Prakash, Managing Director, Asia Pacific Private Credit, ADM Capital
Moderator:
Rishi Aswani, Managing Director, Alternate Asset Advisory, Duff & Phelps

Panel 2: Stressed and Real Estate Lending
Speakers:
Navin Sambtani, Executive Vice President, Stressed Asset Fund, Edelweiss Alternative Asset Advisors
Rahul Chhaparwal, Executive Director, Kotak Special Situations Fund, Kotak Investment Advisors Limited
Chandan Churiwal, Senior Vice President and Head of Investments, Assets Care & Reconstruction Enterprise Ltd (ACRE)
Moderator:
Siddharth Shah, Partner, Khaitan & Co.

Panel 3: Venture Debt
Speakers:
Ajay Hattangdi, Managing Director and Co-founder, Alteria Capital
Ankur Bansal, Director & Co-founder, BlackSoil Capital
Abhiroop Medhekar, Partner & Co-founder, Velocity
Moderator:
Dinesh Tiwari, Managing Director, Broad Peak Capital Advisors

Credit Valuation Workshop
The panels were followed by a brief private credit valuation workshop led by Duff & Phelps, A Kroll Business.

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For nearly 100 years, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions. For more information, visit www.duffandphelps.com.

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