# India Private Credit & Real Assets Outlook – 2022

Wish you a Happy New Year 2022 and hope that you are staying safe as Covid-19 resurfaces globally, albeit with a slightly less harmful variant. We all hope that this is the last and final wave, post which it will be like a common cold / flu virus co-existing with us.

The past 24 months, since Covid first made its appearance, have been nothing but tumultuous. There have been national lockdowns, economic turmoil, and human suffering. At the same time, we have also witnessed the amazing ability of people to adapt to difficult situations and continue to move forward. There have been changes to the way we live and work. The manner in which the governments, our portfolio companies and employees have managed this transition in a post-Covid world makes me confident as we enter 2022.

As I write this note to you, active cases in India are marginally over 200,000. The government has executed relentlessly on vaccinations and India has administered over 1.4bn doses so far. Over 90% of the eligible population has received 1 dose and 65% has received both doses of the vaccine. The economy is showing signs of strong growth with consensus estimates predicting a 9.5% GDP growth for the current financial year. The recovery is visible in our conversations with companies across industries, who are witnessing a revival in demand. Most high frequency indicators like GST collections, toll collections, power consumption, PMI are all indicating a bounce-back in the economy.

India’s economic growth in the previous decade was largely consumption led. We believe that the next decade would be more about capital expenditure. The government is playing its part through increased capital spending.

The residential real estate market that was in pain is now showing signs of a sustained recovery. Decadal low mortgage rates and highest affordability index have meant that consumers are actively in the market to buy the available inventory, in both completed projects as well as projects that have seen significant progress in construction. Residential sales during the July-September quarter exceeded the pre-pandemic 2019 numbers, signifying a gradual return to normalcy. We believe that this housing revival has the potential to add over 1% to India’s GDP growth.

We expect corporate capex - the third pillar of this triad, to witness an uptick over the medium term when capacity utilisation for corporate India reaches 75 – 80%; the number is currently at ~70%.

As far as Indian credit markets are concerned, Alternative funds are now increasingly becoming mainstream. High NPAs have constrained banks from lending and credit growth has been muted. Also, banks are increasingly shifting their focus away from wholesale lending - especially to mid-market companies. Post the IL&FS default in 2018, non-banks (NBFCs) in India have seen liquidity tighten, similar to that observed in US and Europe post the GFC. This has caused most NBFCs to move away from corporate or real estate lending. The open-ended nature of mutual funds makes them structurally unsuitable to invest in structured credit transactions. This has led to increased deal flow for Alternative funds like ours.

The yield assets market in India is growing significantly. The government's National Infrastructure Pipeline of ~$1.5tn and National Monetization Pipeline of ~$80bn makes it one of the most attractive markets in the world. Further, the ease of regulations around Alternative funds, InvITs and REITs in India is paving the way for greater flow of institutional capital which is looking for long-term predictable yields.

The current deal pipelines across all our key strategies make us well-poised for strong deployment in 2022.

- On the performing corporate credit side, we are witnessing increased deal flow from large borrower groups and operating companies. The risk profile of our investments has improved through a focus on reputed counterparties, a diversified and more liquid collateral package, as well as large sized security companies.
- In residential real estate, we continue to see increasing demand for completed projects or projects with visibility of completion. We are focusing on providing completion finance to projects where the product is tested in the micro-market or where construction is 40 – 50% complete. We are also providing construction funding to projects with organised mid-market players, where execution risk is low.
- In our special situations strategy, deal flow is quite strong as both banks and NBFCs look to offload NPAs from their balance sheets. We have successfully closed a few structures in 2021 with NBFCs where the super-senior tranche has been invested by the fund. We continue to evaluate such deals. There is continuing demand for primary financing from corporates for a one-time settlement with its lenders before the company is taken to IBC. We also believe that buyout of mid-sized stressed companies can be an opportunity for making over-sized returns in this strategy.
- For our infrastructure yield strategy, there is a growing need for developers and the government to monetise their existing operating assets to recycle capital and for growth. We see the deal flow growing, with the government announcing its $80bn National Monetisation Pipeline.

We have recently launched our third vintage special situations fund – ISAF III – for which we are seeing a very good response. In 2022, we also plan to launch our second infrastructure yield fund - IYP II.

As we continue to grow our business, we are taking a number of steps to strengthen the platform. We have a 50+ member asset management and operating teams across our strategies. This is helping us improve operational and financial efficiency in our infrastructure assets, working on turnarounds in our special situations investments, and also working with real estate developers on project execution and sales. We continue to enhance our technology platform for tracking portfolios, risk management, investor reporting and servicing.

We also recognise the growing importance of ESG as far as our investments and business operations are concerned. Our ESG policy is being enhanced to integrate these aspects better into our investment process. We plan to be a UN PRI Signatory in the first half of this new year.

As we start 2022, I feel cautiously optimistic that EAAA as a platform is significantly better prepared to face any challenges and embrace new opportunities along our path. I would like to wish you and your families a very happy and healthy 2022 and we look forward to meeting you soon!!!

**Venkat Ramaswamy**

**Chairman, Edelweiss Asset Management**