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Indian private credit is winning Middle East capital

Middle Eastern sovereign wealth funds and family offices are looking East to capture double-digit, risk-adjusted yields in India's mid-market private credit space.

BY PAROMITA DEY

For decades, the financial relationship between the GCC and India rested predominantly on the energy axis – a strategic symmetry where fuel-rich nations funded energy-deficient growth. Today, that nexus is undergoing a structural pivot.

As Western private credit markets grapple with global spread compression and unchecked fund-level leverage, Middle Eastern sovereign wealth funds and family offices are looking East to anchor non-correlated yields.

India's private credit market is expanding rapidly, driven by a decade-high capital expenditure cycle and surging manufacturing demand. Overall bank credit growth has hovered near 19%, but traditional lenders remain constrained by strict regulatory scrutiny and tight credit-to-deposit ratios, creating a vast runway for private capital.

'In India, the last real capex cycle happened almost a decade ago, but a massive manufacturing push is underway now,' said Rakshat Kapoor (pictured below), head of private credit at Motilal Oswal Alternates.

He added: 'As companies expand capacity, they are tapping banks, public equity markets, and private markets. But every borrower needs a bespoke solution at some point, driving heightened activity toward private credit.'

At the same time, mid-market Indian corporates are deliberately bypassing traditional private equity to avoid long-term equity dilution. 'Think of a corporate borrower who feels raising private equity money is a long marriage, seven to nine years, whereas private credit offers an anti-dilutive solution,' Kapoor said.

'With public markets choppy over the last 18 to 24 months, companies planning IPO exits are turning to private credit as a bridge. On the supply side, bank deposit growth hasn't kept pace, driving bank credit-to-deposit ratios up and forcing lenders toward the higher end of the corporate spectrum.

'This demand-supply gap will cause India's private credit market to double from $25-30bn over the next four to five years,' Kapoor said.

The sweet spot

While initial offshore GCC capital naturally gravitated toward marquee managers and mega-tickets, market veterans argue that the true value lies further down the spectrum. Although deployment volume has roughly doubled over a two-year period, average ticket sizes have halved as the market granulates rapidly.

‘Most offshore capital gravitates to the largest managers and tickets, but in our view, that’s the least interesting part of the market right now,’ said Ankur Jain (pictured below), managing director of private credit strategies at InCred Alternative Investments.

‘In the last full calendar year, there were only about a dozen deals above INR500 crore ($60m). The volume sits in the INR75-300 crore range, and that’s where you still get covenant packages, real security, and pricing power simply because fewer people are bidding.’

Jain pointed to two standout pockets for Gulf allocators: performing credit in the 14-18% rupee band, which covers growth capital, acquisition financing, and holding company structures for bankable businesses on tight timelines, and special situations.

‘Performing credit has grown two-and-a-half times in two years and accounts for the majority of deal flow. Meanwhile, special situations capital has stayed flat while deal counts quadrupled spreading the same capital across four times as many situations at half the median ticket, preserving the complexity premium,’ Jain added.

This broad spectrum allows GCC investors to tailor allocations based on specific risk-reward objectives. ‘The opportunity spans lower-risk credit to mid-market performing credit and extends to higher-yielding venture debt and special situations,’ Shekhar Daga (pictured below), head of private credit at ICICI Prudential AMC, said.

‘A credit opportunity with a 14% gross yield carries a very different risk profile from an 18% or 20% return scenario. Within performing credit, structured, senior, and asset-backed financing address funding requirements not served by conventional banks. These are fundamentally linked to India’s domestic growth and the formalisation of India Inc., offering a compelling risk-reward balance.’

Decoupled yields

Unlike Western private credit, where compressed spreads stem from an oversupply of capital chasing sponsor-backed buyouts, India’s yield premium is fundamentally anchored in nominal double-digit economic expansion.

‘GCC investors share a symbiotic relationship with India on the energy axis, and investing in the world’s fastest-growing economy generates non-correlated returns,’ Praveen Jagwani (pictured below), CEO of UTI International, said.

‘In the West, the post-GFC period was marked by low rates and unchecked leverage, whereas high rates in India forced companies to improve financial efficiency. Mid-market performing corporates in India offer gross IRRs between 13% and 18%.

'Unlike Western private credit, which relies on speculative payment-in-kind structures and aggressive fund-level leverage, Indian private credit features negligible leverage and is structurally disciplined around amortising repayment schedules,' Jagwani added.

He emphasised that when combined with USD/INR hedging costs that have compressed to around 3% as inflation differentials narrow, net dollar returns remain exceptionally robust.

'Take a mid-teens rupee coupon, hedge it back to dollars, and you're comfortably ahead of what developed market direct lending pays today on credit that sits behind harder security and tighter covenants than you'd get in a competitive Western deal,' InCred's Jain said.

Furthermore, Indian corporate leverage sits at its lowest point in over a decade, with structures routinely including personal guarantees and sponsor recourse that are unheard of in Western markets.

'Indian private credit deals do not have tech sector concentration, which can reach 40% in Western markets and feature tangible collaterals, covenants, and personal guarantees from founders,' Motilal's Kapoor said. 'With the discipline shown by Indian credit managers, we haven't seen blow-ups or major systemic risks across $30bn of deployment over the last decade.'

Streamlined regulatory gateways

Regulatory milestones have significantly smoothed the entry path for foreign capital. Recent Reserve Bank of India updates allow offshore credit funds to lend directly, price risk independently of regulatory caps, and execute acquisition financing.

Simultaneously, Gujarat International Finance Tec-City has matured into a seamless, dollar-denominated gateway that allows Middle Eastern allocators to originate and structure transactions within a familiar regulatory framework.

On the enforcement front, the Insolvency and Bankruptcy Code has fundamentally reshaped promoter behaviour. Jain said: 'Structured lenders in India don't sit and wait for the courts. Recovery comes from how the deal is built – cashflow control, escrow mechanics, and sponsor accountability.'

Prudential's Daga also noted that the structural format of Indian debt vehicles provides inherent protection against market panic. 'Private credit funds fall under Category II alternative