Global Private Capital Association

PRIVATE CREDIT IN ASIA

Opportunities and Themes for **2023**

OVERVIEW

Both long-term structural trends and recent shifts in market dynamics are driving the growth of private credit activity in Asia, which reached record levels in 2022. This report explores recent trends in activity in the region and outlines key themes for 2023 and beyond, as reported to GPCA by investors active across key Asian markets.

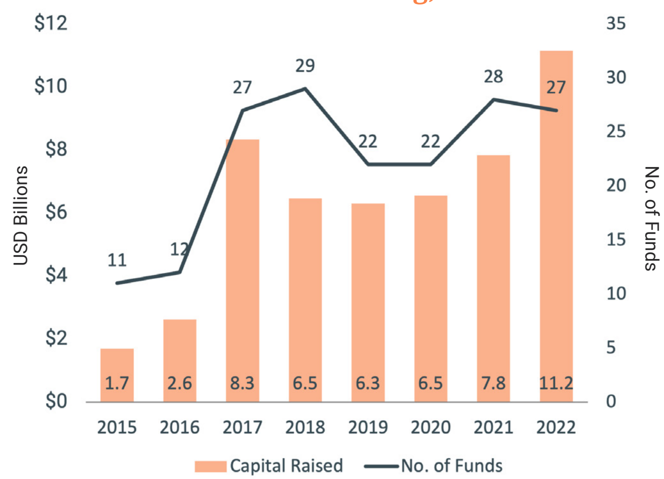
THE STATE OF THE MARKET

Private credit fundraising has grown in Asia in a time of increased global economic uncertainty, reaching a record high in 2022 with USD11.2b raised across 27 funds – a 42% increase over 2021.

Global and pan-regional fund managers accounted for the largest pools raised in 2022, including Bain Capital's Special Situations Asia II (USD2b), Apollo's Asia Pacific Credit Strategy (USD1.25b) and KKR's Asia Credit Opportunities Fund (USD1.1b). However, India-dedicated funds accounted for 20% of the regional fundraising total in 2022, led by Kotak Infrastructure Investment Fund (USD668m) and BPEA's third India credit fund (USD475m).

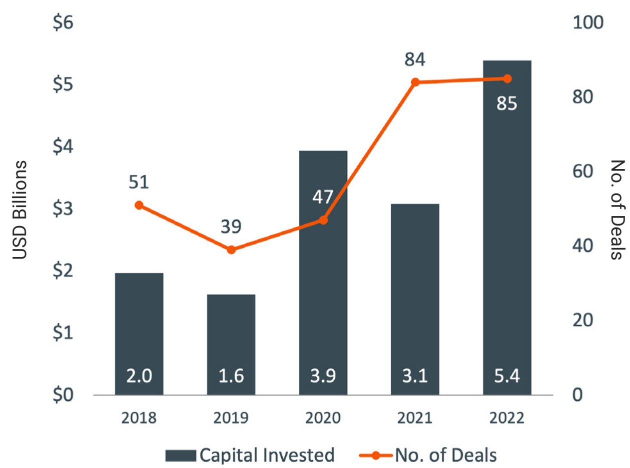
Rising yields, credit supply-demand imbalances and favorable deal terms are creating positive dynamics for investment, with deal value scaling new heights in 2022. Despite still limited disclosure and reporting on activity in the region, GPCA Research recorded total investment of USD5.4b in 2022, a 75% increase over 2021.

Asia Private Credit Fundraising, 2015-2022



Note: Includes fundraising for venture debt strategies. Asia totals in this report exclude Japan, Australia and New Zealand.

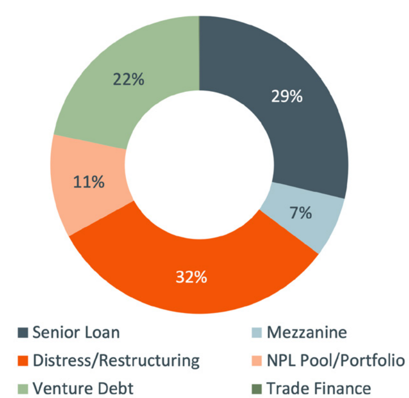
Asia Private Credit Investment, 2018-2022



Note: Includes venture debt deals.

Asia Private Credit Investment by Deal Type, 2018-2022

(% of Capital Invested)



Source: GPCA. Data as of 31 December 2022.

The increase in private credit transaction volume across Asia in 2022 was mainly driven by India and Southeast Asia. Distressed/NPL opportunities accounted for many of the largest disclosed transactions, such as Exor, G2S2 and JC Flowers' USD1.4b acquisition of non-performing loans from India's YES Bank and Cerberus' USD300m investment in the Philippines' Subic Bay Shipyard.

Private funds are increasingly active in financing infrastructure across the region, exemplified by Apollo Global Management's USD750m investment in Mumbai International Airport.

Deal count has also boosted in recent years by the continued growth of venture debt across the region. Indonesian tech platforms Traveloka and Kredivo raised USD300m and USD145m, respectively, in 2022 from investors including Allianz, BlackRock and Victory Park Capital.

Notable Private Credit Investment in Asia, 2022

INVESTOR(S)	COMPANY	DEAL TYPE	COUNTRY	SECTOR	TRANSACTION VALUE (USDM)	INVESTMENT DATE
Exor, G2S2 Capital, JC Flowers	YES Bank NPL	NPL Pool/Portfolio	India	Diversified Financial Services & Holding Companies	1,353.9	Dec-22
Apollo Global Management	Mumbai International Airport	Senior Loan	India	Transportation Infrastructure	750.0	May-22
PAG	iQiyi	Senior Loan	China	Media & Entertainment	500.0	Dec-22
Cerberus Capital Management	Subic Bay Shipyard	Distress/ Restructuring	Philippines	Marine Transportation	300.0	Apr-22
Allianz Global Investors, BlackRock, Indonesia Investment Authority, Orion Capital Asia	Traveloka	Venture Debt	Indonesia	Travel, Leisure & Mobility	300.0	Sep-22
Cypress Capital, Goldman Sachs, Integrated Alternative Credit Fund	FundPark	Venture Debt	China	Non-Bank Lending & Specialty Finance	250.0	Apr-22
Global Emerging Markets Group	Smartron India	Senior Loan	India	Consumer Electronics	200.0	Jan-22
Fasanara Capital	Stashfin	Venture Debt	India	Consumer Finance	200.0	Jun-22
Victory Park Capital	Kredivo	Venture Debt	Indonesia	Consumer Finance	145.0	Mar-22
Bank SinoPac, BlackRock, BNP Paribas, Credit Agricole Corporate and Investment Bank, E.Sun Commercial Bank Ltd, Standard Chartered Bank	New Green Power	Senior Loan	Taiwan	Renewable Power	126.4	Nov-22
Värde Partners	Reliance Power	Distress/ Restructuring	India	Conventional Power	113.4	Oct-22
Boyu Capital, GGV Capital, Mirae Asset Global Investments, Temasek Holdings, True Global Ventures	Animoca Brands	Venture Debt	China	Media & Entertainment	110.0	Sep-22
Blue Torch Capital	Near	Senior Loan	Singapore	Media & Entertainment	100.0	Nov-22

Source: GPCA. Data as of 31 December 2022.

KEY THEMES FOR 2023 AND BEYOND

Immature capital markets dominated by banks continue to provide opportunities for private credit managers.

Asia remains the world's fastest-growing credit market. Despite growth in the private credit space, bank capital still amounts to 80 cents of every dollar of credit capital in Asia, a considerably larger proportion than in the US and Europe. Borrowers' demand for flexible funding solutions cannot be met, thus presenting an opportunity for private credit to provide alternative financing to bridge this unmatched gap.

KKR's investment in 800 Super Holdings (800S), a public cleaning, waste collection and treatment business in Singapore, exemplifies this dynamic. KKR's Asia private equity team originally was approached as a potential minority equity partner to privatize the family-owned company in late 2018, but a credit solution was ultimately deemed more suitable to fund the transaction. In June 2019, KKR Asia Credit Opportunities Fund provided SGD80m to finance the take-private of 800S, including a combination of mezzanine debt (SGD60m) and convertible preferred equity (SGD20m). In July 2021, 800S voluntarily repaid the SGD60m mezzanine debt facility on the back of strong company performance, and in October 2022, Keppel Infrastructure entities purchased an 80% stake in 800S at an enterprise value of SGD500m. The sale resulted in KKR's full exit from the position.

Cross-border financing also serves as an opportunity for private credit managers:

"Despite strong intraregional links via trade and foreign direct investment, Asia-Pacific bank lending activity exhibits a strong home market bias, and credit does not flow as easily across borders, creating an opportunity for flexible capital providers with a local presence in multiple markets across the region. Further, opportunities arise from generational changes in local corporate management and ownership, unmet demand for cross-border acquisition financing and refinancing, as well as conglomerates streamlining their businesses."

– Brian Dillard, Partner, Credit, KKR

New regulation in India may drive further private credit growth.

Over the last five years, India attracted the largest private credit investment volume (USD9.5b) of all Asian markets, and recent regulatory changes may support the overall market's further maturation.

In January 2023, local regulator SEBI permitted alternative investment funds to participate in credit default swap (CDS) transactions, a specific kind of counter-party agreement which allows the transfer of third-party credit risk from one party to another, providing business entities with the option to hedge risk associated with the bond market.

"Today, India offers a structural opportunity for private credit investors as traditional lenders have become risk averse post a spate of bad loans while NBFCs continue to recover from previous crises. The performing credit market in India (which is largely investment grade) is expected to reach USD89b by 2026. Additionally, stressed assets investments (due to unresolved NPAs, fresh credit defaults and special situations) are expected to reach USD25b by 2026. India continues to take measures to deepen the corporate bond market, such as allowing alternative investment funds to participate in credit default swaps. The government has steadily improved the ease of doing business in this segment."

– S. Sriniwasan, Managing Director, Kotak Investment Advisors

Cooling valuations and the slower pace of new equity funding for tech startups in the region will provide an additional opening for venture debt funds in Asia.

As the fundraising environment for startups has become more challenging amid a global tech downturn, venture debt has emerged as an alternative for startups looking to extend runways and avoid down rounds. Venture-backed startups in Asia completed at least 122 debt deals from 2021 through 2022, raising nearly USD2.9b. In comparison, GPCA Research tracked 61 venture debt deals totaling USD508m in the two years prior (2019-2020).

Institutional investors will increasingly value private credit managers with integrated ESG strategies.

In a world where the environment, economies and communities are increasingly vulnerable to climate change, institutional investors have acknowledged the need to urgently accelerate decarbonization. In doing so, they are backing managers who demonstrate the ability to invest sustainably in socially and environmentally impactful sectors. For ADM Capital, ESG integration is viewed as part of the firm's fiduciary duty.

> "For each transaction, we work with third-party ESG servicers to build an action plan, which identifies key E&S risk factors and guides sustainability mitigation or enhancement based on IFC Performance Standards. The plan is broken down into identifiable and measurable time-bound and budgeted actions and included in our loan documents. Our investee companies thus agree as part of the transaction to deliver incremental ESG value, such as setting up better-defined E&S management systems and hiring senior resources to coordinate ESG action. Semi-annual ESG data collection from our borrowers quantifies incremental improvements."
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> *– Sabita Prakash, Managing Director, ADM Capital*

Due diligence for private credit transactions will grow more stringent.

For private credit managers focused on backing businesses likely to perform in an environment characterized by rising interest rates aimed at curtailing generationally high inflation, careful credit selection and tight underwriting can be key differentiators. A bottom-up, PE-style underwriting has been the approach for Navis Capital Partners:

> "Navis Asia Credit adopts a process that is similar to our PE due diligence. We seek to quickly assess industry dynamics and business value creation levers, as well as verify and validate the background and behavior of promoters and entrepreneurs to ensure that each target is working with the right partners.
>
> Borrower due diligence will involve the portfolio operations and ESG teams and require the appointment of third-party advisers to prepare independent reports on borrower integrity, the industry and competitive position of the business, historical financials and forecasts, as well as any legal risks associated with the business. To further enhance downside protection, we look at key elements including promoter and borrower selection, margin of safety, structure, restructuring and workouts."
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> *– Justin Ferrier, Managing Partner, Private Credit, Navis Capital Partners*

GPCA Members can access the underlying data in this report, including a full list of disclosed private credit investments in 2022 and private credit fund managers active in Asia, at **globalprivatecapital.org**.

For more information or to request custom cuts of data, contact GPCA Research at **research@gpcapital.org**.

About GPCA: The Global Private Capital Association, which was founded as the Emerging Markets Private Equity Association (EMPEA) in 2004, is a non-profit, independent membership organization representing private capital investors who manage more than USD2t in assets across Asia, Latin America, Africa, Central & Eastern Europe and the Middle East. From GPCA's Singapore headquarters, the Asia research team covers China, Southeast Asia, India and neighboring South Asian markets.

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