

Distressed Debt in India

Prologue

- After India's new government established the Insolvency and Bankruptcy Code (IBC) in 2016, it quickly became the most popular avenue for creditors to seek relief from companies in default on their debt.
- Over \$150 billion in non-performing assets (NPAs) exist in the nation, and the regulatory environment is favourable to creditors.

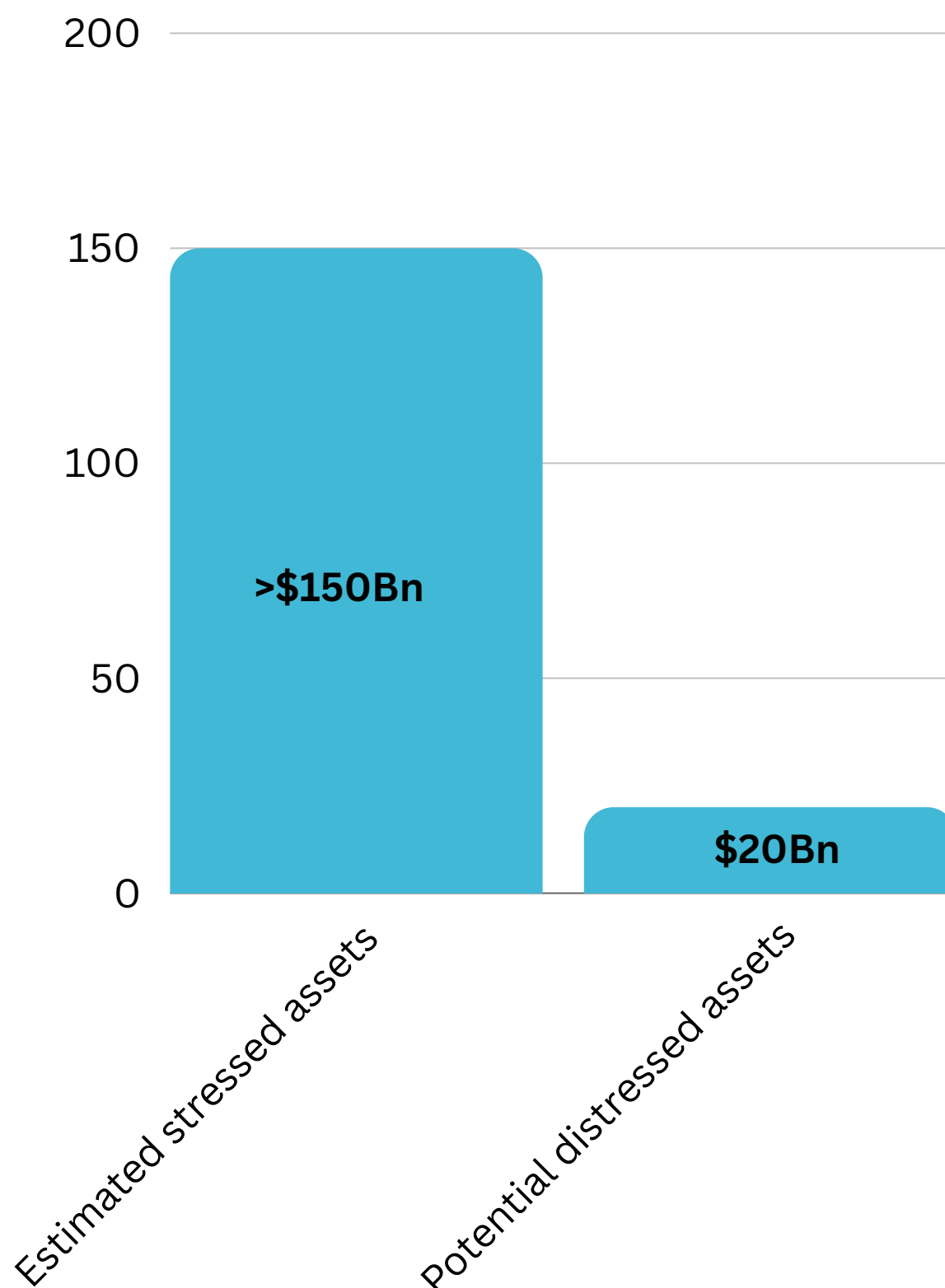


What is Distressed Debt

Securities (such bonds or loans) issued by businesses or government agencies that are having financial difficulties are considered distressed debt. While not as significant as in some developed economies, the distressed debt market holds potential for investors and contributes to resolving bad loans in the banking sector.

Due to their excessive debts, some organizations can be insolvent or in danger of becoming so. Distressed debt is sold for a very small fraction of its par value. It offers a rate of return 1000 basis points higher than the risk-free rate of return. However, it comes with high risk due to the potential for default.

Market Potential of distressed debt

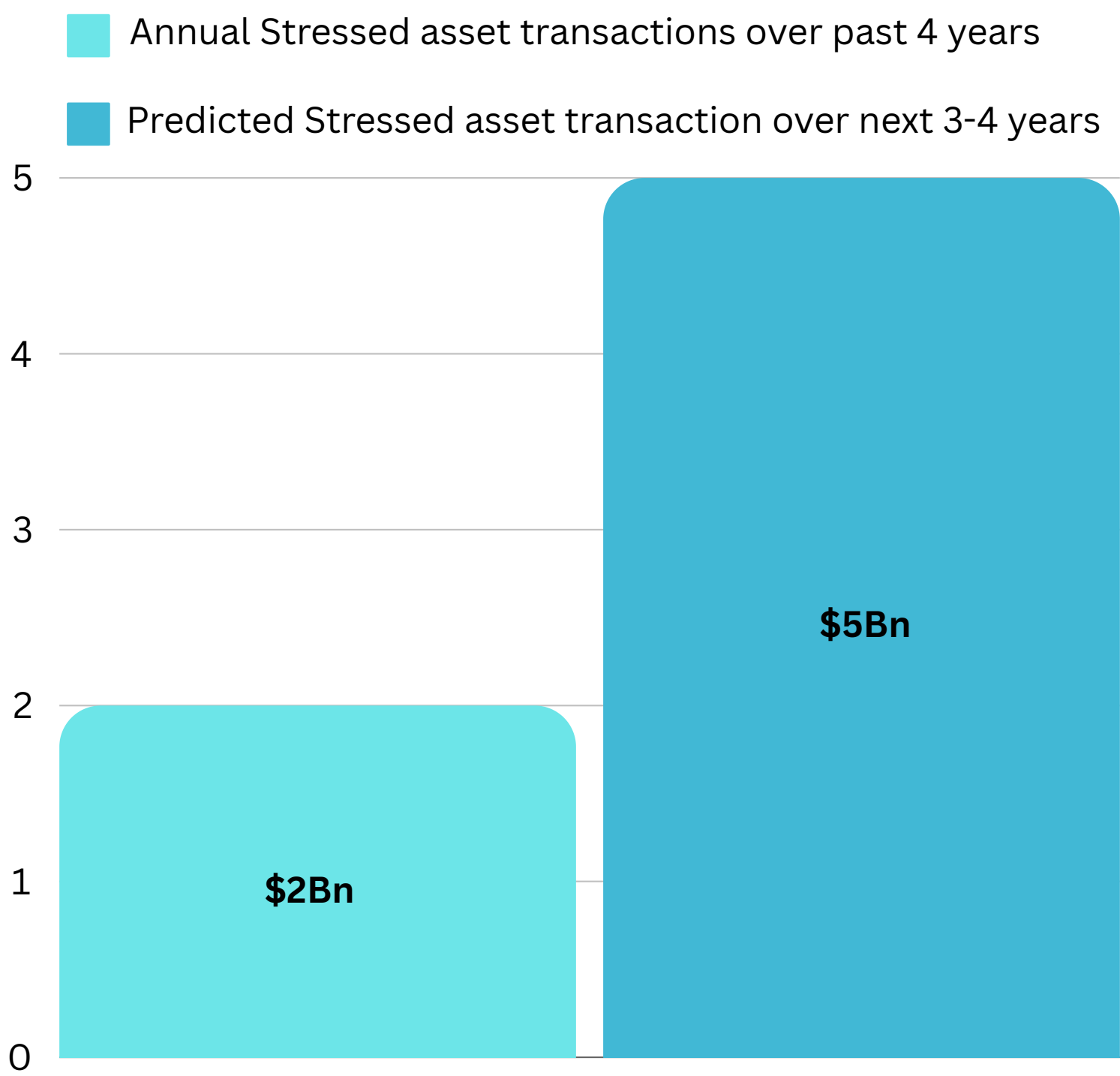


An addressable market opportunity

Non-performing assets (NPAs) in India's banking sector are currently estimated to be more than 10% of total assets, or over US\$135 billion. In India, nonbank assets have nonperforming assets (NPAs) estimated at approximately 7%, or US\$25 billion. Consequently, investors have access to a sizable market given that stressed assets in the Indian banking system are projected to be worth more than \$160 billion altogether.

Market Growth

India's distressed debt market is relatively young compared to developed economies, but it's experiencing steady growth. Experts predict it to reach \$5 billion in annual deployment within the next few years



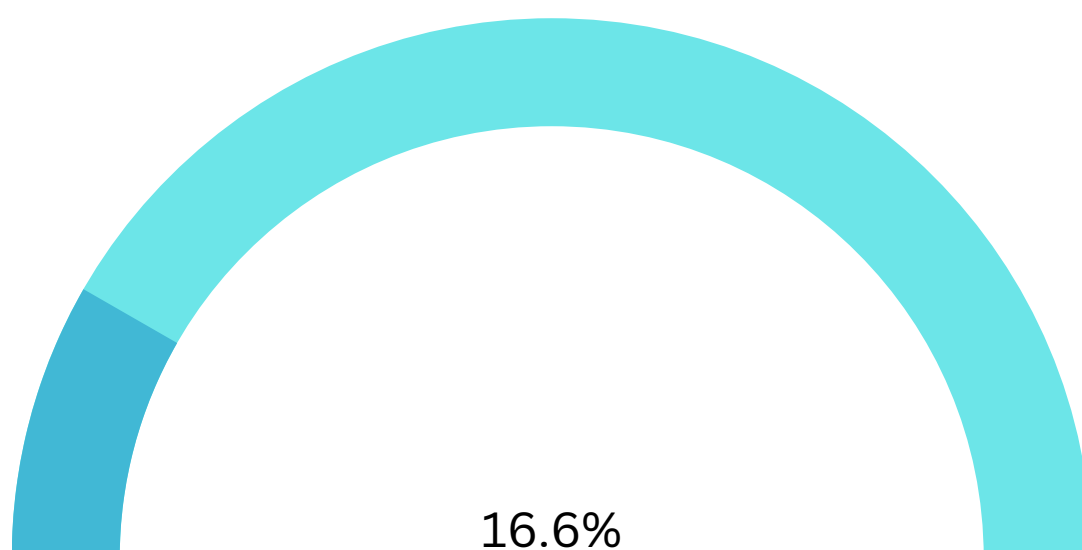
Banking sector NPA's

India's banking sector has been dealing with a significant burden of Non performing assets. The total percentage of Gross NPA's of scheduled commercial banks when compared to it's total advances is shown in the below diagram.



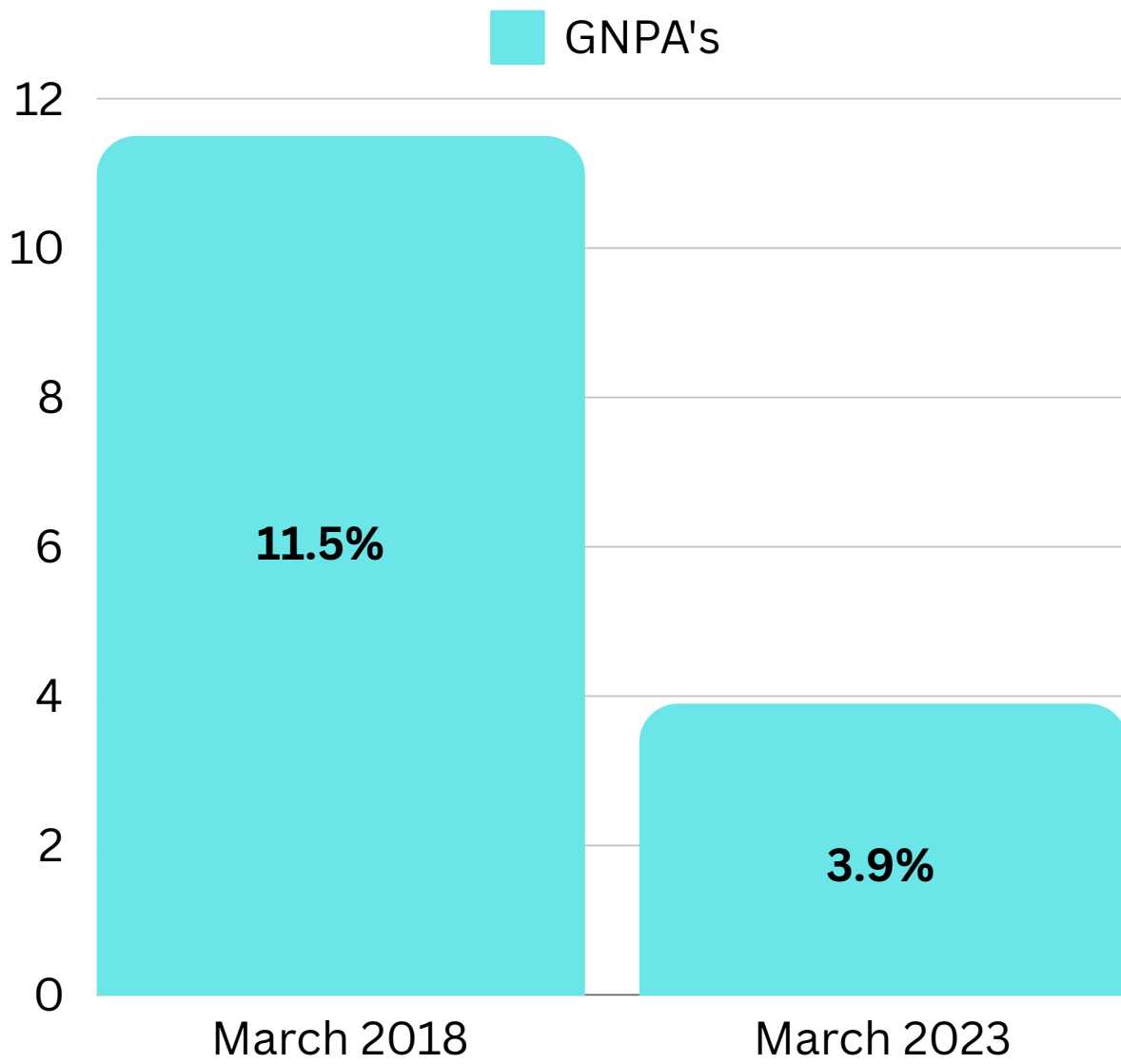
Stressed assets in india compared to larger economies

India's stressed asset burden grows along with it's economy. The diagram below shows what percentage of stressed assets in India account for of the total loans. This is the highest percentage among the major economies.



Historical Trends

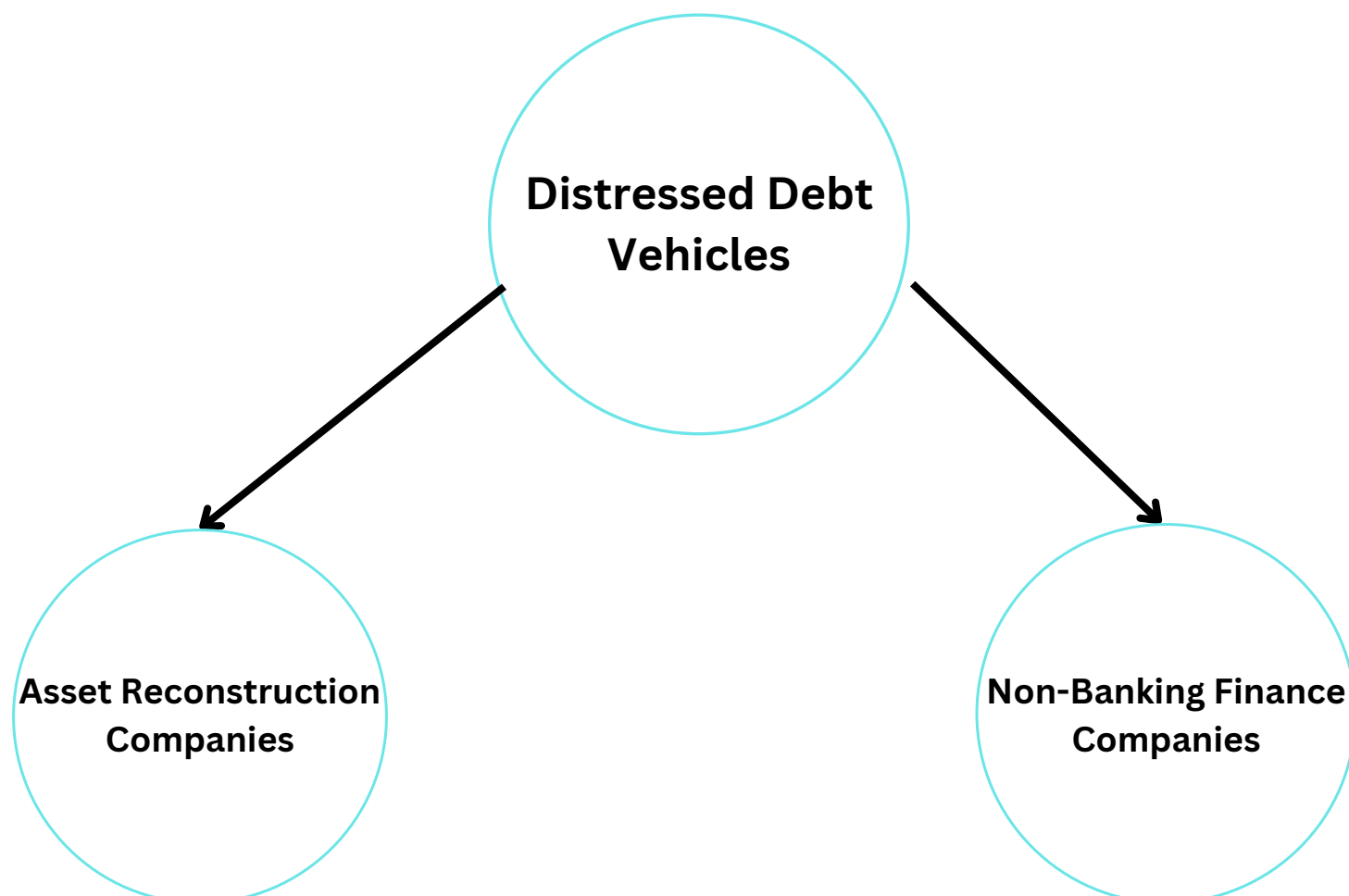
RBI's Financial Stability Reports show a decrease in Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs)



Investment Opportunity

There is a \$25–30 billion addressable opportunity in the distressed debt market in India. Various routes are available for investors to participate through, such as non-banking finance businesses and asset reconstruction companies. With these instruments, investors can participate in financial engineering and purchase portfolios of distressed debt.

ARC, NBFC, and Distressed Debt in India



ARCs are specialized institutions licensed by the Reserve Bank of India (RBI) to acquire bad loans (NPAs) from banks and financial institutions at a discounted price. ARCs primarily deal with larger-value distressed debt, often from corporate borrowers.

NBFCs are a diverse group of financial institutions that provide various credit and financial services outside the traditional banking system. NBFCs might face issues with bad loans within their own portfolios. Additionally, some larger NBFCs might participate in the distressed debt market by purchasing smaller-value distressed assets from banks or ARCs.

Conclusion

The developing distressed debt market in India presents numerous investment options. India has gained favor with distressed debt investors worldwide following modifications to its insolvency legislation.

In summary, India faces challenges related to rising government debt, stressed assets, and external debt. Investors need to carefully assess risks and opportunities in the distressed debt market.



Blucrest Capital Advisors Pvt. Ltd.

Technopolis Knowledge Park, Quest, 5th Floor, MIDC, Andheri East, Mumbai - 93

 +91 7030637101  info@blucrestadv.com

 [blucrest-capital-advisors-pvt-ltd](#)  We Operate PAN India Level

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