Asia-Pacific: Credit driven by growth



A focus on expansion capital for founder- and family-owned businesses is a distinct feature of private credit in the region, reports Siddharth Poddar

Private debt has evolved into an established asset class in Asia-Pacific, with a compelling growth story unfolding. Expanding from a niche post-crisis segment focused on non-performing loans and distressed assets, the region has reached an inflection point.

Private credit assets under management are growing rapidly and expected to reach $92 billion by 2027 from $59 billion in 2024, a compound annual growth rate of 16 percent. Despite this expansion, the region remains fundamentally underallocated in global institutional portfolios, creating an unprecedented runway for long-term expansion.

A structural macro imbalance

One of the catalysts driving Asian private debt is an imbalance between economic weight and financial market depth. The Asia-Pacific region accounts for approximately 47 percent of global GDP and the lion's share of economic growth over the past two decades. However, private credit penetration in the region still sits at a very modest 0.2 percent of GDP, according to the International Monetary Fund, compared with 2.7 percent in Europe and 3.8 percent in the US, implying substantial expansion potential.

This runway for growth is reinforced by the overwhelming dominance of commercial banks in the region. Traditional banks account for 79 percent of corporate credit funding in Asia-Pacific, compared with 54 percent in Europe and 33 percent in the US.

Kanchan Jain, head of Ascertis Credit, emphasises: "Private credit [in APAC] is not filling a void caused by bank retreat; it is filling an intelligence and flexibility gap.

"Crucially, the end use of private credit in Asia is unmistakably productive growth – not leverage for private equity sponsors."

Amit Sadana, partner at KPMG in Singapore, notes that institutional allocators are seeing a shift in Asia private credit funds due to strong economic growth, favourable demographics, and significant infrastructure need.

India has emerged as the fastest-growing beneficiary of this regional capital shift, commanding about one-third of the market, practitioners say. The growth is supported by macro fundamentals and deeper financial infrastructure and insolvency reforms.

Navin Sambtani, managing director of private credit at EAAA Alternatives, highlights how legal reforms have fundamentally altered borrower behaviour in the country. "The evolution of the Insolvency and Bankruptcy Code has created a creditor-friendly environment," he says.

"The consequence for sponsors under IBC is absolute, which drives borrowers to seek timely private capital solutions to address ongoing or imminent cashflow idiosyncrasies in businesses. On the other hand, the primacy of creditors' decision-making in IBC provides a controlled glide path to resolution outcomes."

He adds that while traditional credit is geared for standardised borrowing needs and caters to linear cashflow situations, external ratings-driven pricing and permissible end uses, private credit offers tailored solutions such as growth capital, acquisition financing, stakeholder buyouts and holdco-level financing aligning debt repayments

to expected cashflows, which may be non-linear.

In Southeast Asia, market fragmentation across ASEAN member states has necessitated a distinct hub model anchored in Singapore. Jain explains that structuring regional debt requires a nuanced, cross-border approach rather than treating the region as a single homogeneous block.

"You cannot paint Southeast Asia with one brush," Jain says. "No single Southeast Asian economy has the capacity to absorb a $500 million fund. That is why our strategy in Southeast Asia focuses on US-dollar transactions with cross-border mid-market companies headquartered in Singapore, anchoring ourselves in robust creditor governance."

While emerging Asian markets are scaling rapidly, Australia continues to be the mature, stable bedrock of regional private debt, supported by a highly institutionalised legal framework and massive domestic superannuation pools.

Unlike emerging markets, where private lenders often operate independently of commercial banks, Australia sees an established co-financing dynamic. "Banks and funds are definitely working together to varying degrees in different markets," says Ryan Eagle, Australia-based head of KPMG's Asia-Pacific private credit practice. "They provide complementary financing across the capital stack."

Commercial bank disintermediation under Australian Prudential Regulation Authority capital guidelines has further accelerated demand for non-bank direct lending, unitranche facilities and real estate credit.

A distinct asset class

Western private credit relies heavily on financial engineering, sponsor-backed leveraged buyouts and standardised unitranche documentation. In contrast, Asian private credit is a fundamentally distinct asset class defined by three unique characteristics: a mostly sponsorless base, direct enterprise cashflow underwriting and a focus on productive expansion capital.

Ming Eng, a managing partner at Granite Asia, which has recently raised upwards of $500 million for its maiden pan-Asian private credit fund, Libra Hybrid, highlights that the corporate landscape in Asia dictates a completely different lender-borrower relationship.

"In Asia, the corporate landscape is largely dominated by founders and family-owned enterprises," Eng explains. "For these businesses, founders often prefer not to have external parties on their boards, nor do they want equity dilution. Sourcing and closing these sponsorless transactions cannot be executed from a spreadsheet in an offshore financial centre – it requires long-term local relationships and deep regional networks."

Without a private equity sponsor to provide equity cure buffers, Asian direct lenders underwrite fundamental enterprise value directly. Jain points out that this creates a more aligned relationship between debt providers and business owners. "When we underwrite in Asia, we underwrite for our own investment from the ground up," she observes. "If you lend to the flagship company of an established group with 30 to 40 years of corporate history, the promoter alignment is fundamentally stronger than with a financial sponsor who has owned an asset for three years."

Furthermore, Asian borrowers utilise private credit primarily as transitional capital to fund organic expansion, cross-border supply chain relocations, mergers and acquisitions, and holdco equity injections into operating subsidiaries. "What is different in Asia, outside of real estate, is that credit is driven by growth," Eng notes.

"Expansion capital comes in two forms: organic, such as opening new



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Granite Asia

Meeting bespoke financing needs

In developing markets across Asia, private credit addresses bespoke capital requirements that standardised commercial banking templates cannot address

Lenders operate across two primary strategy pillars: performing growth credit offering 14-18 percent gross yields and accounting for 60 percent of annual volume, and special situations or solution capital yielding upwards of 20 percent unlevered IRR and making up the remaining 40 percent of deployment.

EAAA Alternatives' Navin Sambtani explains how performing credit with a growth orientation also serves as an anti-dilutive alternative for borrowers. "If a sponsor is committed to execute a value unlocking strategy in the business, private credit solutions offer an antidilutive bridge for growth and enable sponsors to consider equity events more strategically," he says.

Special situations credit has also undergone a major structural shift, he adds. "Special situations credit was synonymous with distressed debt in previous cycles. The canvas of special situations credit has now widened to operate more as strategic solution capital with some embedded equity upsides."

KPMG's Amit Sadana illustrates how private lenders step in to fund specific growth phases where commercial banks reach the limits of their risk appetite. "We [have seen] instances recently where banks were willing to do the initial funding of a project, but subsequent expansion was financed by private credit players," Sadana explains. "Even in infrastructure projects, banks are coming in as senior lenders while private credit is coming in as a mezzanine lender to support the rapid growth in the industry."

This is being seen in sectors such as digital infrastructure, telecoms and renewable energy transformation.

geographies, and inorganic, through acquisitions. A company with an established customer base expanding into a new market could go to a commercial bank, but the nature of a new build involves a construction and ramp-up period. Traditional banks have rigid frameworks around amortisation and balance-sheet ratios. That is where flexible, transitional capital becomes invaluable."

Transitional capital creates an asymmetric risk-return profile. Lenders secure firm downside protection through the cashflows of existing, mature operations, while capturing structured upside from the expansion.

As Asian credit becomes more popular, manager execution relies heavily on pricing discipline, legal structuring and deep local presence on the ground. Unlike Western syndicated markets where direct lenders face margin compression, the Asian mid-market exhibits strong pricing discipline.

"We do not see direct price competition in the mid-market," Eng says. "If an enterprise is growing top-line earnings at 30 percent, whether the coupon is 11 or 12 percent does not alter their business case. What matters to them is speed, structuring discretion, and strategic capabilities. It is impossible to compete against established trust on price alone. That is why LPs value the space – it remains one of the few avenues left in global credit to generate authentic alpha."

Sourcing bilateral, non-sponsored transactions relies heavily on local networks, with a majority of deals in the region originating through direct borrower relationships rather than formal banking auctions.

Eagle concludes that this local presence is what defines successful credit platforms in the region. "Asian funds have people on the ground and they know the jurisdictions intimately," Eagle states. "Having that local presence gives credit firms a distinct advantage."

Essential pillar

Driven by structural bank constraints, rapid nominal economic expansion, and a large SME financing shortfall, Asian private credit has transitioned from an opportunistic alternative into an essential pillar of regional capital formation. For global institutional investors seeking genuine yield, defensive covenants, and geographical diversification, Asia-Pacific private debt represents one of the most compelling structural opportunities.

LPs are becoming sophisticated, managers say. They recognise that financial modelling alone is not an edge. LPs are asking questions about proprietary deal origination. They are also asking whether managers can actively manage and add operational value to the portfolio, and about contractual exit routes.

"While we remain fundamentally optimistic about Asia's secular growth, macro volatility means manager selectivity is everything. In this environment, you must be exceptionally disciplined about which risks you underwrite," Eng says.

Looking ahead, the future of Asian private credit will not simply mirror the established templates of Western markets, but will follow a very different path. Having shed its early post-crisis reputation as a fringe or predatory option, the asset class has entered a mature phase. ■