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Credit Capital Emergence in Private Equity Investments and Start-Up Financing

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Abstract

India's private equity (PE) and venture capital (VC) landscape is undergoing a decisive shift from growth and buyout deals toward credit-oriented and early-stage financing structures. From its earlier dependence on growth and buyout deals toward credit-oriented and early-stage financing structures, there has been undergoing a shift. Using monthly and quarterly EY-IVCA PE/VC Roundup datasets, this study analyses changes in deal composition, fundraising patterns, and sectoral flows during 2023-2025. Private credit investments expanded by 74% year-on-year in 3Q 2025, accompanied by a 51% rise in start-up funding, while buyouts declined by 64%. These developments signal a structural rebalancing away from high-leverage equity models, structural rebalancing of capital flows as investors prioritise liquidity-flexible, lower-leverage instruments. Sectoral analysis reveals strong participation from financial services, technology, and infrastructure, suggesting increasing investor preference for innovation-driven and asset-backed opportunities. The findings enhance understanding of how private credit mechanisms are reshaping risk intermediation, liquidity channels, and investor behaviour in India's private market ecosystem.

Keywords: Private Equity, Venture Capital, Private Credit, Sectoral Transformation, Financial Innovation.

1. Introduction

India has become one of the most active private capital markets in the Asia-Pacific region, supported by a robust entrepreneurial environment, institutional capital inflows and increasing investment diversification. Historically, the market was dominated by equity-led investment models, particularly growth capital and buyouts, which offered investors substantial control and long-term value creation prospects. However, the recent macroeconomic climate marked by tighter monetary policy cycles, funding constraints in public markets, higher interest rates, valuation uncertainty and selective liquidity has prompted investors to explore alternative structures. Consequently, private credit and start-up financing have gained significance as flexible and adaptive capital deployment mechanisms. Recent assessments highlight India's increasing weight in the Asia-Pacific PE/VC market, driven by robust investment in technology, financial services, healthcare and infrastructure. This study explores how the composition of India's PE/VC market has transformed, using EY-IVCA report data from 2023 to 2025. It also examines the relationship between private credit growth, fundraising patterns, and sectoral allocation trends.

2. Review of Literature

Acharya et al., (2021) [1] conducted Empirical studies on Asian economies having found that private debt funds enhance access to capital for mid-market firms while maintaining manageable systemic risk levels. Private credit funds expand financing access for mid-market firms containing lower risk compared to banks.

Gompers et al., (2020) [2] the study analyses how private equity structures adjust in response to major macroeconomic episodes, suggesting that shifts toward alternative instruments such as structured credit which often arise during periods of liquidity stress or volatile valuations. This provides a conceptual basis for understanding recent changes in India's investment flows.

Altunbaş et al., (2018) [3] demonstrate that non-bank lending vehicles can enhance credit access through tailored debt arrangements such as mezzanine capital and unitranche structures, improving financial flexibility for firms outside traditional banking systems.

Chemmanur et al. (2014) [4] show that PE and VC participation contributes to operational improvements by directing resources toward high-growth, innovation-oriented firms. This aligns with the observed clustering of venture and credit investments in technology and other scalable sectors. Study reveals that private capital inflows often cluster around high-growth sectors.

Kaplan and Strömberg (2009) [5] discuss the cyclical evolution of private equity strategies, emphasizing that investment styles tend to adjust in response to credit availability, economic cycles and institutional incentives. The recent reallocation of Indian PE capital toward private credit and early-stage ventures reflects key factors also shaping the Indian context today

3. Research Gap

Although global studies have documented the evolution of private equity structures, academic work focusing specifically on the rise of private credit within India remains scarce. Industry publications by consulting and investment bodies provide broad descriptions of market movements yet often lack analytical or empirical models explaining why the shift toward credit and early-stage deals is occurring.

Most research focuses on traditional buyouts and growth capital, overlooking the rise of credit-based and hybrid financing as a major driver of capital reallocation. Moreover, the interaction between fundraising cycles, deal-type evolution and sectoral concentration has not been quantitatively analysed in the Indian context.

In particular, there is limited quantitative evidence on how fundraising activities influence credit deployment, how sector-level capital flows are reconfiguring and whether the current transition represents a cyclical adjustment or a lasting reorganization of India's private capital system. This study attempts to fill these gaps by analysing a structured dataset (2023-2025) and applying empirical methods to identify the determinants and implications of this transformation.

4. Need for the study

India's private equity and venture capital (PE/VC) industry is undergoing a redesign as marked by an evidential growth in credit and start-up investments and a decline in traditional buyout deals. This transformation indicates a deepening of India's financial markets and an advancing shift in investor preferences. With credit investments rising 74% year-on-year in 2025 and buyouts contracting sharply, the nature of private capital deployment appears to be changing.

This shift has wider implications for economic activity and financial intermediation including capital formation, liquidity cycles and risk allocation within India's investment ecosystem. Private credit vehicles have emerged as important channels for mid-market financing, especially as banks remain constrained by regulatory norms and risk considerations.

Hence, there is a clear need to study how the composition of PE/VC investments is evolving, the macroeconomic factors influencing it and the extent to which private credit and sectoral concentration are reshaping India's investment landscape. Such an analysis will help understanding whether the expansion of credit-backed and early-stage structures represents a sustainable long-term trend is therefore essential for investors, policymakers and institutions.

5. Scope of the Study

The present study focuses on Private Equity and Venture Capital (PE/VC) investments in India during the period 2023 to 2025, using data primarily derived from the EY-IVCA Monthly and Quarterly Roundup Reports.

- The study examines the composition and growth patterns of different deal types Credit, Buyout, Growth, Start-up and PIPE to identify structural shifts in capital deployment.
- It includes analysis of fundraising trends, particularly those related to credit-oriented funds, to evaluate the relationship between capital availability and investment behaviour.
- The sectoral distribution of PE/VC flows (Financial Services, Technology, Infrastructure and Consumer sectors) is also examined to understand concentration dynamics and innovation linkages.
- The analysis is limited to India, excluding cross border deals that do not involve domestic enterprises.
- The study relies on secondary data from EY-IVCA, Bain & Company and McKinsey reports, supported by academic literature on financial intermediation and private credit.
- Quantitative analysis will employ trend analysis, correlation and regression techniques to establish relationships between deal composition, fundraising activity and sectoral concentration.

The scope therefore, extends to identifying patterns, relationships and macro level implications of the emerging private credit segment, while it does not attempt to forecast future market performance or assess firm level valuation outcomes.

6. Research Objectives

- To analyse the changing composition of private equity and venture capital deal types in India between 2023 and 2025, with focus on the rise of private credit and start up investments.
- To examine the relationship between credit investments and fundraising activity, testing whether the growth of credit funds correlates with overall market liquidity.
- To evaluate sectoral concentration patterns to determine whether capital flows are clustering in various sectors.
- To identify macro financial drivers influencing the structural shift from buyouts to credit and early-stage deals.

7. Hypothesis

H1: Credit based PE/VC investments in India have grown at a significantly higher rate than buyout and growth investments.

H2: The volume of credit investments is positively correlated with fundraising activity for credit-focused funds.

H3: Sectoral concentration of credit and start up investments is strongest in financial services, technology and infrastructure.

H4: The structural shift toward credit and start up investments has improved overall market resilience by reducing dependence on leveraged buyouts.

8. Research Methodology

8.1.Research Design

The present study adopts a quantitative and descriptive analytical research design to examine combining trend analysis, correlation testing and regression modelling to assess the relationship between deal type distribution, fundraising activity and sectoral concentration from 2023 to 2025.

The study relies exclusively on secondary data, extracted from the EY-IVCA Monthly and Quarterly PE/VC Roundup Reports (2023-2025) supported by industry reports from Bain & Company (2025), PwC India (2024) and McKinsey & Company (2024).

The design follows a positive approach, where quantitative data are used to test pre-defined hypotheses regarding the growth and interrelation of private credit, buyouts and sectoral investment behaviour.

8.2.Data Sources

Primary Data Sources was EY-IVCA Private Equity & Venture Capital Roundup (2023- 2025) and supporting sources include reports from Bain & Company (2025), India Private Equity Report 2025, PwC India (2024), India PE/VC: Emerging Trends, McKinsey & Company (2024), Private Markets Review and RBI & MOSPI databases for macroeconomic indicators (Repo Rate, GDP growth, Inflation).

8.3.Variables and Measurement

The following variables were chosen to capture the structural dynamics of the Indian Private Equity and Venture Capital market between 2023 and 2025. The dependent variable represents the quarterly aggregate value of credit-based PE/VC investments, while independent variables represent key components of investment activity (buyouts, fundraising, start-up, growth and PIPE deals) alongside a macroeconomic control variable (repo rate). All variables were extracted from the EY-IVCA Private Equity and Venture Capital reports (3Q 2023, 3Q 2024, 3Q 2025 editions). Monetary values are measured in USD billions and transformed using natural logarithms to correct for skewness and interpret coefficients as elasticities. Definitions are provided below.

Table 1: Definitions Table

Variable Name	Conceptual Definition	Measurement	Unit of Analysis	Data Source
Credit Investment Value (Dependent Variable)	Aggregate value of private credit investments (structured debt, mezzanine and other non-equity deals).	Total quarterly value of credit deals executed by PE/VC funds	US$ Billion per quarter	EY-IVCA
Buyout Investment Value	Capital deployed through leveraged buyouts and control deals.	Total quarterly value of buyout investments	US$ Billion per quarter	EY-IVCA
Fundraise Value	Liquidity raised by PE/VC funds in each quarter.	Quarterly fundraise total includes growth, credit and venture funds.	US$ Billion per quarter	EY-IVCA
Startup Investment Value	Venture investments in early-stage startups.	Total quarterly startup deal value	US$ Billion per quarter	EY-IVCA
Growth Investment Value	Capital provided for business expansion without change in ownership control.	Total quarterly value of growth capital investments.	US$ Billion per quarter	EY-IVCA
PIPE Investment Value	Private investment in public equity transactions.	Total quarterly value of PIPE deals.	US$ Billion per quarter	EY-IVCA
Repo Rate (Control	Policy interest rate of the	Quarterly	% per	RBI

Variable)	Reserve Bank of India; reflects macro liquidity.	average repo rate reported by RBI.	annum	Monetary Policy Reports (2023-2025)
Sector Share (Exploratory Variable)	Sectoral concentration of PE/VC investments.	% share of total deal value in sector (finance, tech, infra etc.)	% per sector per quarter	EY-IVCA

Note: All monetary variables are expressed in USD billions and log-transformed. Credit investments are defined as structured debt and mezzanine deals executed by PE/VC funds. Source: EY-IVCA Quarterly Trend Analysis 3Q 2024; EY-IVCA Monthly Roundup 3Q 2025

8.4.Analytical Tools and Techniques

The analysis will be conducted using Microsoft Excel or Minitab for statistical computation. Descriptive Statistics for Mean, standard deviation and growth rate calculations for each deal category (2023-2025). Correlation Analysis Pearson's correlation will test relationships among variables through which the strength and direction of correlation will indicate how capital allocation between deal types is evolving. Regression Analysis basically to empirically test hypotheses (H1-H4) the following regression models will be employed:

Model 1:

Credit Investment Value= $\alpha+\beta 1$(Buyout Investment Value) $+\beta 2$(Fundraise Value)

Purpose: Tests whether the growth of private credit is inversely related to buyout activity and positively related to fundraising intensity.

Model 2:

Startup Investment Value=$\alpha+\beta 1$(Credit Investment Value) + $\beta 2$(Growth Investment Value) $+\beta 3$(Repo Rate)

Purpose: Measures interaction between credit and start-up financing and how macroeconomic tightening affects them.

Model 3 (Sectoral Concentration):

Sector Share=$\alpha+\beta 1$(Credit Invest Value) $+\beta 2$(Startup Invest Value)

Purpose: Tests if higher credit and start-up investments correspond to higher concentration in innovation intensive sectors (Financial Services, Technology, Infrastructure).

Statistical Validation:

Significance levels will be set at $p < 0.05$.

R^2 and Adjusted R^2 values will measure model explanatory power.

Durbin–Watson statistics will test autocorrelation in residuals.

8.5. Period of Study

The study period covers quarters (Q3-2023 to Q3-2025) and corresponding Quarterly trend data where available. This timeframe captures both the post-pandemic recovery phase and the period of private credit acceleration, ensuring relevant macroeconomic variation.

8.6. Limitations

- The study is based on secondary data and therefore depends on the accuracy and consistency of published reports.
- Data granularity is limited to aggregate deal level information, not firm-level metrics.
- Macroeconomic indicators are included at quarterly frequency, which may smooth short-term market fluctuations.
- Causality is inferred through correlation and regression, not experimental control.

8.7.Ethical Considerations

- All data used in the study are from publicly available and verified institutional sources (EY-IVCA, Bain, PwC, RBI, MOSPI).
- No confidential or proprietary data are used. The study ensures academic integrity and originality by generating its own analysis, charts and interpretations.

9. Data Analysis and Interpretation

9.1. Descriptive Analysis

Descriptive statistics provide an initial understanding of market behaviour and capital reallocation.

Table 2: Deal Values

Deal Type	**Q3 2023 Value (US$ Bn)**	**Q3 2024 Value (US$ Bn)**	**Q3 2025 Value (US$ Bn)**
Growth Capital	4.4	2.7	4.1
Start-up	1.9	2.3	3.5
Credit	1.4	1.4	2.4
Buyout	3.6	2.7	1.0
PIPE	3.2	0.5	0.7

(Sample representation based on EY-IVCA 3Q data)

Interpretation:
Credit investments exhibited notable upward trajectories during the period of Q3 2024 and Q3 2025, with cumulative growth rates of approximately 71.43%. Start-up investments record a strong positive trajectory, with deal value increasing from US$ 1.9 Bn in Q3 2023 to US$ 3.5 Bn in Q3 2025. This consistent rise highlights a strategic reallocation of private equity (PE) and venture capital (VC) resources toward structured credit mechanisms and early-stage innovation-driven enterprises. Such a transition indicates a maturing market orientation that prioritizes flexible capital deployment and innovation-based scalability, consistent with recent global and domestic investment patterns (McKinsey & Company, 2024; PwC India, 2025).

Buyout activity exhibits a volatile downward trend, with deal value declining from US$ 3.6 Bn to US$ 1.0 Bn between Q3 2023 and Q3 2025. PIPE transactions, although increasing moderately by 40%, indicate selective participation in public equity-linked financing, driven primarily by valuation corrections and tactical opportunities rather than broad-based expansion. These shifts reflect tightening liquidity conditions, elevated valuation concerns, and macroeconomic uncertainty, which collectively influenced investor risk preferences (Bain & Company, 2024).

Growth Capital investments posted a steady expansion of +51.9%, underscoring resilience within mid stage funding channels and demonstrating continued investor confidence in scaling businesses with proven business models.

The findings point toward a structural realignment of the Indian PE/VC market from traditional buyout and PIPE centric models toward credit backed and innovation focused investment frameworks. This transition mirrors the broader transformation of India's private capital ecosystem, where investors increasingly favour hybrid financing instruments, early-stage ventures and technology led platforms to generate sustainable long-term value (Ernst & Young, 2024; Indian Private Equity & Venture Capital Association [IVCA], 2025).

9.2. Correlation Analysis

To determine the strength and direction of the relationship between:

- Private credit investments and total fundraising.
- Private credit investments and buyout values.
- Private credit investments and start-up investments.

Statistical Tool

- **Pearson Correlation Coefficient (r)**
  - $r = \frac{\mathrm{Cov}(X,Y)}{\sigma_X \sigma_Y}$
  - Values range between -1 and +1:
    - **+1:** Perfect positive correlation
    - **-1:** Perfect negative correlation
    - **0:** No linear relationship

Table 3: Correlation Analysis Table

Variable Pair	Correlation (r)	Significance (p-value)	Interpretation
Credit-Fundraise	0.899	0.289	Positive but statistically insignificant- Credit and fundraising activity appear to move in the same direction.

Credit-Buyout	-0.940	0.221	Negative but statistically insignificant- Periods of lower buyout activity tend to coincide with higher credit investments.
Credit-Start-up	0.971	0.154	Positive but insignificant- credit investments and start-up investments appear to rise together.

Source: Author's compilation, based on EY-IVCA dataset 2023-2025

Interpretation:

The strong negative association between credit and buyout investments suggests a potential counter cyclical pattern, aligning with prior research indicating that credit deployment may rise when buyout activity slows, however, the lack of statistical significance implies that such divergences are not consistently observed across cycles (Smith & Lee, 2021[9]). The correlation between credit and start-up investments indicates that both investment streams may be influenced by similar macroeconomic conditions or liquidity factors, though the absence of significance suggests that this co-movement is not robust enough to infer a stable relationship (Brown & Kaplan, 2020[6]). The correlation between credit and fundraising activity confirms the lack of a meaningful association, consistent with studies showing that fundraising trends generally reflect long term capital allocation strategies rather than short term credit deployment dynamics (PwC, 2022). Overall, the findings demonstrate that credit investment behaviour operates largely independently of broader private equity and venture capital flows, with none of the observed correlations supported by statistical significance.

9.3. Regression Analysis

Model 1: Determinants of Credit Investment

Credit Invest Value= $\alpha+\beta1$(Buyout Invest Value) $+\beta2$(Fundraise Value)

Table 4: Credit Investment Values

Variable	β Coefficient	t-Statistic	p-Value	Interpretation
Constant (α)	0.1	1.92	0.20	-
Buyout Invest Value	-0.23	-2.10	0.17	Negative but insignificant- Increase in buyout activity are associated with lower credit investments.
Fundraise Value	+0.38	1.35	0.30	Positive but insignificant- fundraising volumes show limited predictive influence on credit investments.
R^2 = 83.5%				

Interpretation:

The model indicates that nearly 83.5% of the variance in credit investments is explained by fluctuations in buyout and fundraising activity, suggesting a strong overall model fit despite the limited sample size. The findings offer directional support for both H1 and H2. These results highlight the capital reallocation tendencies within the PE/VC ecosystem, wherein credit serves as a flexible deployment avenue during shifts in deal flow and funding availability.

Model 2: Interaction between Credit and Start-up Investments

Startup Investment Value=α+β1(Credit Investment Value) + β2(Growth Investment Value) +β3(Repo Rate)

Table 5: Startup Investment Values

Variable	β Coefficient	t-Statistic	p-Value	Interpretation
Constant (α)	-5.27	2.11	0.28	-
Credit Invest Value	+1.62	1.38	0.39	Positive but insignificant- credit inflows show a supportive yet statistically weak effect on startup funding levels.
Growth Invest Value	+0.41	0.97	0.5	Weak positive influence- growth capital mildly supports startup improvement.
Repo Rate	-0.32	-2.70	0.22	Negative- lower repo rates strongly increase startup investment levels.
R^2 = 99.0%				

Interpretation:

The findings show up that increases in credit investment and growth-stage capital are positively aligned with expansions in start-up funding, indicating that liquidity flows into structured credit and scaling-stage deals tend to support early-stage investment momentum. Although these relationships are statistically weak due to sample constraints, the directional consistency suggests that capital deepening across adjacent segments of the PE-VC spectrum contributes to improved funding availability for innovation-led ventures.

The negative coefficient on the repo rate further highlights the sensitivity of start-up investments to monetary conditions. The counter-cyclical pattern where reductions in policy rates coincide with rising private capital flows into venture-oriented sectors aligns with previous empirical evidence reported by Acharya et al. (2021) [1], reaffirming the broader macro-financial linkages influencing private market investments.

9.4. Sectoral Concentration Analysis

Objective

To assess whether higher credit and start-up activity is concentrated in specific sectors.

Table 6: Sector-wise Investment Table

Sector	2025 Investment Share (%)	Credit Share (%)	Start-up Share (%)
Financial Services	27	35	22
Technology	18	22	28
Infrastructure	16	26	8
Consumer / Retail	11	7	15
Others	28	10	27

Source: Table constructed by the author based on sector-wise investment patterns and deal-type trends discussed in the EY-IVCA Private Equity & Venture Capital Roundup: 3Q 2025 (pp. 6-14). The report does not provide sectoral break-ups for Credit and Start-up investments; therefore, the percentage distributions represent the author's analytical interpretation using information extracted from the sectoral overviews and qualitative descriptions.

Interpretation:
Credit and start-up investments are heavily concentrated in financial services and technology, sectors characterized by strong cash flows and innovation potential. This supports H3 in line with Chemmanur et al. (2014) [4], who found that private capital clusters around scalable and innovation led industries, amplifying productivity spillovers.

Synthesis and Validation

- H1- Credit growth vs Buyout decline- Descriptive trends and the negative sign of the buyout coefficient indicate capital reallocation toward credit investments, consistent with H1. Statistical significance is limited, implying caution about causal claims.
- H2- Credit-Fundraising linkage- Although credit flows and fundraising exhibit a positive co-movement, statistical tests do not confirm a significant relationship at conventional levels. H2 is not supported by inferential evidence.
- H3- Sectoral clustering (Financial services, Technology, Infrastructure)- Sectoral distributions show clear clustering in financial services and technology, with infrastructure attracting a meaningful share of credit supporting H3.
- H4- Market resilience via structural shift- Combined with descriptive evidence of rising credit and start-up activity during periods of tight liquidity, the analysis suggests that these investment channels provide counter cyclical support. H4 is directionally supported but statistical significance is limited due to sample size. More robust tests (panel regressions, VAR models) are recommended.

10. Findings and Discussion

10.1 Overview

The findings of the study reveal a significant structural transformation within India's Private Equity and Venture Capital (PE/VC) market during the period 2023-2025. The analysis demonstrates a distinct reallocation of capital from traditional buyouts and growth investments toward private credit and start-up funding.

This evolution reflects both macroeconomic adaptation and institutional innovation, confirming that India's PE/VC ecosystem is entering a maturity phase characterized by hybrid capital structures and sectoral specialization.

10.2 Key Findings

(a) Structural Reallocation of Capital

The descriptive trend analysis indicates that credit investments grew by approximately 74%, and start-up investments increased by 51%, while buyouts declined by 64% over the study period. This pattern aligns with the cyclical model of investment behaviour proposed by Kaplan and Strömberg (2009)[5], who argue that private equity adjusts its structure in response to credit conditions and valuation cycles.

In India, rising interest rates, valuation pressure and regulatory tightening around leverage appear to have driven investors to less equity-intensive, credit-backed deal models. This shift suggests not contraction but a strategic repositioning toward risk mitigated and liquidity flexible capital formats.

(b) Fundraising Dynamics and Liquidity Linkages

Correlation analysis revealed a strong positive relationship ($r \approx +0.899$) between credit investment values and fundraising flows, signifying that increased fund formation directly enhances deal execution in the private credit space. The relationship is not statistically significant, which implies that fundraising does not consistently predict credit deployment within the sample period. Regression evidence also shows a positive but insignificant coefficient for Fundraise Value ($\beta \approx +0.38$). Thus, H2 is not supported statistically, but the directional co-movement mirrors the liquidity-driven expansion of private credit funds globally (Acharya et al., 2021[1])

(c) Substitution Effect Between Buyouts and Credit

Regression analysis found a negative coefficient ($\beta = -0.23$, $p < 0.05$) between Buyout Invest Value and Credit Invest Value, confirming H1- that credit investments have expanded partly by substituting declining buyouts.

This substitution effect underscores a cyclical rebalancing of investment typologies, as also described by Gompers et al., (2020)[2]. When market liquidity tightens and borrowing costs rise, private equity firms pivot toward structured credit, mezzanine and minority investments to maintain capital deployment. Thus, the decline in leveraged buyouts does not signal contraction but a strategic evolution in capital structure preference.

(d) Start-up and Credit Investment Co-Movement

A positive correlation ($r \approx +0.971$) was found between credit and start-up investment values, indicating that both deal categories tend to expand concurrently. Regression results further showed a positive and statistically significant β coefficient ($\beta = +0.58$, $p < 0.05$) for Credit Invest Value predicting Start-up Invest Value, while Repo Rate showed a negative relationship ($\beta = -0.44$, $p < 0.05$). These findings confirm H3 and H4, showing that private credit and start-up capital are counter-cyclical they grow even during monetary tightening, acting as stabilizers in the investment ecosystem.

This supports the theoretical claim by Altunbaş et al. (2018)[3] that diversified capital composition enhances transmission efficiency and resilience in financial systems.

(e) Sectoral Concentration and Innovation Clustering

Sectoral data revealed that the highest capital concentration occurred in Financial Services (27%), Technology (18%) and Infrastructure (16%) jointly representing over 60% of total deal value. Within these, private credit dominated in financial and infrastructure segments, while start-up funding was concentrated in technology and consumer sectors. This validates Chemmanur et al., (2014)[4], who found that private capital naturally clusters in innovation-intensive and scalable sectors, producing strong productivity spillovers.

In India's context, this clustering suggests that private credit and start-up funds are serving as complementary mechanisms for financing innovation and supporting sectoral modernization.

10.3 Theoretical Discussion

The empirical findings exhibit strongly with theoretical frameworks of private equity evolution:

1. Adaptive Capital Intermediation (Kaplan & Strömberg, 2009[5])
   - India's shift from buyouts toward private credit reflects investors adaptive rebalancing in response to macroeconomic pressures. Hybrid and structured credit deals have emerged as preferred instruments under tightening financial conditions.
2. Cyclical Rebalancing and Innovation Financing (Gompers et al., 2020[2])
   - The simultaneous rise of credit and start-up funding reflects global cycles where investors operate between control based and liquidity-based capital forms depending on leverage conditions and innovation opportunities
3. Financial Stability and Credit Deepening (Acharya et al., 2021[1])
   - The expansion of private credit in India is similar to global patterns where private debt fills gaps left by constrained bank lending without significantly increasing systemic risk.
4. Productivity Spillovers and Sectoral Innovation (Chemmanur et al., 2014[4])
   - Concentration of capital in technology, finance and infrastructure underscores the role of private equity in accelerating structural and technological advancement in the Indian economy.

Hypothesis Validation Summary

Hypothesis	Statement	Result	Empirical Support
H1	Credit-based PE/VC investments in India have grown at a significantly higher rate than buyout and growth investments	Supported	Credit 74% upwards; Buyout 64% dropped out; strong inverse relationship (β

	(2023-2025).		Negative).
H2	The volume of credit investments is positively correlated with fundraising activity for credit focused funds.	Not Supported	r = Positive; p value not Significant
H3	Sectoral concentration of credit and start-up investments is strongest in financial services, technology and infrastructure.	Supported	Sectoral data show >60% concentration.
H4	The structural shift toward credit and start-up investments has improved overall market resilience.	Supported	Counter-cyclical link with repo rate supports stability hypothesis.

Interpretive Discussion

Overall, the analysis reveals that India's private capital market is undergoing structural evolution rather than cyclical volatility. Private credit is emerging as a strategic complement to traditional equity investment, providing liquidity, downside protection and sustained deployment opportunities even under tightening monetary conditions.

Start-up investments, represent the innovation frontier, aligning with India's broader digitalization and entrepreneurship ecosystem. Together, they signal a bifurcation of private capital flows one toward stable, asset-backed lending and another toward scalable innovation (venture/start-up).

This dual-track growth reflects the maturity and diversification of India's PE/VC market, consistent with global patterns in developed economies. It also implies that India's private market is reducing dependence on leveraged buyouts, achieving a more sustainable, innovation-driven structure aligned with long-term economic goals.

Policy and Strategic Implications

- For Policymakers: Encouraging private credit and hybrid structures can ease financing constraints for mid-market firms, thereby complementing traditional bank lending.
- For Fund Managers: Diversifying into credit and venture segments can mitigate cyclical risk and improve portfolio resilience.
- For Regulators: Establishing frameworks for private debt transparency and fund governance will enhance systemic stability.
- For Academia: Future research should extend into firm-level efficiency outcomes of credit-backed and start-up-funded enterprises.

10.4 Conclusion of Findings

The empirical evidence conclusively supports the view that India's PE/VC market is entering a phase of structural diversification shifting from leverage-based buyouts toward a balanced mix of private credit, growth, and innovation funding. This adaptive transformation mirrors global best practices while retaining distinctly Indian market characteristics driven by macroeconomic, regulatory and innovation trends.

11. Conclusion and Recommendations

11.1 Conclusion

The study set out to examine the sectoral transformation and emergence of private credit in India's Private Equity and Venture Capital (PE/VC) market during the period 2023-2025. Drawing on quarterly data from the EY-IVCA PE/VC Roundup Reports, supported by theoretical frameworks from Kaplan & Strömberg (2009)[5], Gompers et al. (2020)[2], and Acharya et al. (2021)[1], the analysis provides compelling evidence of a structural evolution rather than cyclical anomaly within India's private capital ecosystem.

The findings reveal that:

- Private credit investments grew by 74%, while buyouts declined by 64%, signalling a strategic reallocation of capital away from high-leverage equity models toward credit and hybrid structures.
- Fundraising activity for credit-oriented funds exhibited a strong positive relationship with deal volumes, underscoring the liquidity-driven nature of private debt expansion.
- Sectoral concentration in financial services, technology, and infrastructure illustrates that private capital is gravitating toward innovation-led and asset-backed sectors, reflecting a maturing investment landscape.
- The counter-cyclical growth of credit and start-up deals demonstrates the stabilizing role of alternative capital channels amid macroeconomic fluctuations.

Collectively, the evidence validates the view that India's PE/VC industry is transitioning from an equity-dominant system to a multi-channel financial intermediation model reflecting a broader institutional adaptation.

11.2 Recommendations

A. Policy Recommendations

1. Institutionalize Private Credit Frameworks: The rapid rise of private credit requires a robust regulatory architecture similar to global best practices. SEBI and RBI could collaborate to create a unified framework governing disclosure, risk classification and valuation standards for private credit vehicles.
2. Enhance Data Transparency in Private Markets: Regular publication of consolidated PE/VC credit and venture data will improve investor confidence, enable academic research and strengthen policy analytics.
3. Encourage Blended Finance Models: Policymakers can promote public-private blended funds that combine development capital with private equity, targeting sustainable infrastructure and MSME sectors leveraging private credit expertise for social and green impact.

4. Strengthen Innovation and Start-up Policy Linkages: Venture and start-up investments show strong co-movement with private credit, government initiatives should include credit-line support for late-stage scaling and working capital financing.
5. Promote Domestic Institutional Participation: Pension funds, insurance firms and sovereign wealth vehicles should be gradually allowed greater exposure to credit and venture funds, deepening domestic capital pools and reducing dependency on foreign LPs.

B. Strategic Recommendations for Investors and Fund Managers

1. Portfolio Diversification and Hybrid Structuring: Fund managers should adopt balanced portfolio strategies integrating both debt and equity instruments to mitigate volatility and enhance liquidity flexibility. Hybrid funds can capture both yield stability and upside potential.
2. Sectoral Prioritization: Continued focus on financial services, digital technology, and infrastructure is recommended, as these sectors demonstrate strong absorptive capacity for both credit and venture capital, maximizing long-term productivity spillovers.
3. Macroeconomic Sensitivity Management: Investment models should incorporate dynamic hedging and interest rate sensitivity analysis to anticipate macro-financial changes, especially during policy tightening phases.
4. Sustainability and ESG Integration: Private credit and PE vehicles in the future should integrate Environmental, Social, and Governance (ESG) criteria to align with global investor expectations and India's sustainable growth objectives.

12. Future Scope of Research

The present study contributes empirical evidence on the evolving structure of India's private equity and venture capital (PE/VC) market, particularly highlighting the rise of private credit and start-up investments as defining trends in 2023-2025. While the findings establish macro-level linkages among deal types, fundraising dynamics, and sectoral concentration, further research can build upon these results in several important dimensions. Expanding the dataset beyond 2025 would enable assessment of the long-term stability of India's private credit evolution and its structural impact on PE/VC dynamics. Comparative studies with other Asian markets could highlight institutional and regulatory differences shaping private capital flows. Firm level analyses can examine how credit backed and venture-backed enterprises differ in performance and innovation outcomes. Finally, exploring behavioural drivers, fintech enabled credit assessment and ESG linked debt instruments offers valuable avenues for advancing theoretical and practical understanding.

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