

Catalysing Alternative Assets

Policy, other facilitations key to unleashing their full potential



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India's fast-growing alternative investment industry needs concerted efforts to actualise its potential and move to the next growth orbit.

The past decade has seen its key segments set a blistering pace of growth, riding on the many benefits on offer, such as diversification, higher returns and exposure to innovative sectors.

From private equity to venture capital, hedge funds, real estate and infrastructure, the buzz around alternative assets keeps growing stronger as investors seek avenues beyond traditional asset classes, such as equities and bonds.

Alternative investment funds (AIFs) have seen commitments zoom to ~Rs 13.49 trillion as of March 2025 from Rs 131 billion in March 2014. Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) have mobilised ~Rs 1.61 trillion since fiscal 2020.

The benefits are for all to see

India's rising economic growth has been creating not just many billionaires, but thousands of wealthy people who need new and diverse investment avenues.

Such surging wherewithal augurs well for nation building.

For example, infrastructure funds and InvITs are instrumental in financing the construction of highways, bridges, airports and renewable energy projects. Such

investments not only create jobs but also enhance productivity and connectivity, laying the foundation for long-term economic prosperity.

Another exciting aspect of alternative investments is their role in fostering the start-up ecosystem where visionary entrepreneurs transform ideas into innovations that redefine industries and consumer experiences.

Technology hubs such as the Silicon Valley in the US, Shenzhen in China and our own Bengaluru are cases in point. These ecosystems thrive on venture capital, which funds high-risk, high-reward ventures in technology, biotechnology, fintech and other cutting-edge fields.

The reams of success stories from the realms of technology underscore this transformative power of venture capital.

Moreover, the flexibility and long-term focus of alternative investments allow for substantial expenditures on research & development, and innovation initiatives at start-ups.

Today, India has the third-largest start-up ecosystem in the world after the US and China, with over 159,157² of them recognised by the Department for Promotion of Industry and Internal Trade as of January 15, 2025. Latest data from the Securities and Exchange Board of India (SEBI) show Rs 196.10 billion has been invested in start-ups through AIFs as of March 31, 2025.

Patient capital coming through alternative avenues can nurture breakthrough innovations, lead to significant advancements in healthcare, energy efficiency and digital transformation, which might not be feasible for publicly traded companies that face perennial short-term pressures.

Some alternative investments align with social and environmental goals. Funds focussing on impact investing aim at these goals, apart from financial returns.

Investments in sustainable agriculture and clean energy promote sustainability and financial inclusion, addressing global challenges such as climate change and poverty.

As of December 31, 2024, AIFs had invested Rs 127.43 billion in the renewable energy sector.

But there are challenges, too

According to the Chartered Alternative Investment Analyst Association, the assets under management of the global alternatives industry was ~\$22 trillion (~Rs 1,826 trillion) as of December 2023.

The Indian AIF commitments, in contrast, were just ~Rs 10.85 trillion then — not even 0.5% of the global pie.

The headroom for growth, therefore, is enormous.

A closer look reveals a raft of factors has constrained growth of the industry in India.

First, while institutional investors are the key drivers of growth in alternative assets globally, the participation of domestic institutional investors in Indian AIFs remains limited due to risk aversion and preference for traditional assets.

Second, these markets are relatively nascent in India, so lack depth and maturity.

Third, limited disclosures in this segment makes it challenging for investors to make informed decisions.

Some steps that can help surmount the challenges

In the milieu, the regulator's move to introduce performance benchmarking of AIFs is positive. Investors today have a credible metric to carry out performance comparison of AIFs.

On its part, the industry needs to demonstrate timely and favourable exits, and ensure high distribution to paid-in

capital to boost investor confidence.

Additionally, continued focus on disclosures can help domestic institutional investors evaluate these products in an informed manner and enable investments.

Further, it is important to have adequate risk controls and ensure those are implemented consistently over the life of the fund.

To ensure transparency and enhance investor understanding, InvITs should adopt standardised disclosure practices and promote investor awareness.

This includes educating investors on the structure of InvITs, underlying cash flow models and risk-return dynamics. Disclosures should cover asset-level operational and financial performance, including revenue, utilisation metrics, EBITDA, net distributable cash flow, debt levels and valuation updates.

Clear presentation of the waterfall of cash flows, yield expectations, and sponsor-related information such as fees and related-party transactions are essential. These disclosures should follow a consistent format, be updated quarterly and align with SEBI regulations to have comparability and earn investor trust.

The Government of India has also launched flagship scheme such as Funds for Startups with a target corpus of Rs 100 billion for contribution to various AIFs registered with SEBI that, in turn, invest in start-ups through equity and equity-linked instruments.

Insurance and retirement funds are significant institutional pools of patient capital. Their participation, however, has been muted, while global pension funds have been at the forefront, driving progress of the industry.

Traditionally Indian insurance and retirement funds have focussed on fixed income as a primary investment option. Declining interest rates pose a major risk to sustain returns over long term. Their participation in AIFs can be a win-win.

Way forward

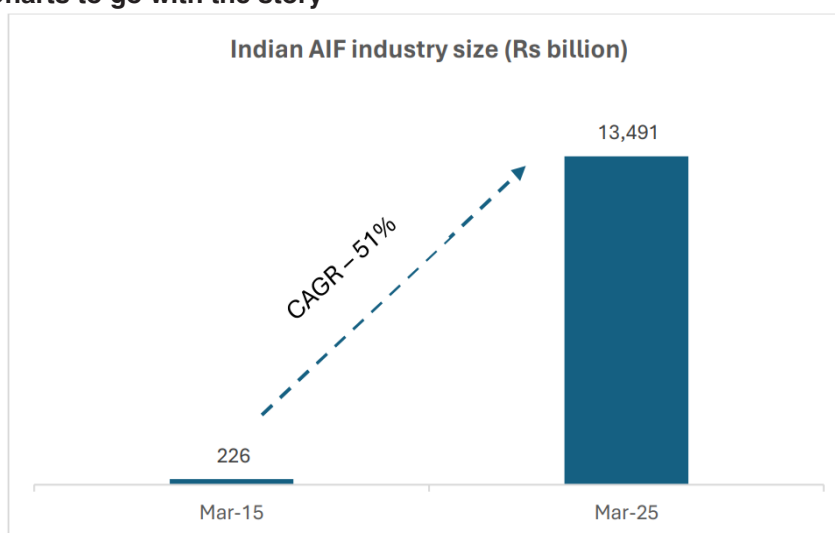
The buzz around investing in alternative assets is more than just a market trend. It represents a fundamental and irreversible shift in the investment paradigm.

In the context, the issues facing this industry require concerted efforts from regulators, market participants and financial institutions.

Enhancing awareness, improving market liquidity and fostering supportive policies for the underlying investment universe are crucial to unlocking the potential of alternative investments in India.

As barriers are gradually overcome, the alternative asset market in India can expand, offering diversified investment opportunities and contribute to economic development.

Charts to go with the story



Source: SEBI

Investments made by AIFs (Rs billion; as of March 31, 2025)

Investments medium enterprises	Investments micro enterprises	Investments in small enterprises	Investments in start-ups
6.06	6.62	2.27	196.10

Source: SEBI

¹ SEBI | Fund raising by REITs and InvITs

² <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2093125#:~:text=With%20more%20than%201.59%20lakh,to%20the%20nation's%20entrepreneurial%20momentum.>