As Asia Debt Funds Triple Cash, Ex UBS Banker Expects Boom (1)

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(Bloomberg) -- Asia-focused private debt funds have tripled the amount they've raised this year, as banks have pulled back and two of the region's biggest economies are reining in large piles of loans.

The funds have raised $5.9 billion this year, compared with $2 billion for all of last year, according to data provider Preqin. That comes after Chinese authorities stepped up their campaign to rein in leverage in the financial system, and India moved to sort out $207 billion of bad loans.

The growing caution among lenders toward riskier borrowers in the region means that non-bank lenders may finally have their day in the sun, according to a former UBS Group AG banker who has started an investment and advisory firm focused on credit and distressed debt in the Asia-Pacific.

"I think the tipping point is right now where there is actually enough volume and business for a number of managers to come up" in Asia, said Rahul Kotwal, founder and managing partner of Zerobridge Partners, and a former distressed and special situations banker at the Swiss bank.

There are other recent examples of bankers starting credit investment funds in the region.

A group of former Credit Suisse Group AG staff started an Asia-Pacific credit investment fund called Tanarra Credit Partners, which has raised more than A$285 million ($217 million) for its Asia-Pacific Fund I, which will invest in senior and mezzanine debt. Alternative investment firm Varde Partners has partnered with Indies Capital Partners to invest in private debt in Indonesia.

Shifting Trend

Such developments underscore a shift in Asia, where lending has remained a bank-dominated market unlike in the U.S. and Europe.

Global banks have sold off huge portfolios of their loan books in markets that they consider non-core, according to Benjamin Quinlan, chief executive officer at consulting firm Quinlan & Associates. Syndicated loan volumes in the Asia-Pacific region excluding Japan have dropped 11.8 percent from a year ago to $393.7 billion so far this year, according to Bloomberg-compiled data.

China's efforts to deleverage its economy have made it more difficult for smaller businesses to access bank credit this year, according to ***Kellee S. Tsai***, ***head of the division of social science at Hong Kong University of Science & Technology***.

She said that trend intensified after China central bank governor Zhou Xiaochuan warned the nation could face the threat of a "Minsky Moment," referring to a plunge in asset values following unsustainable gains or the exhaustion of credit growth.

The pullback from banks extending loans to smaller companies is fueling interest among non-bank lenders. "There's definitely more interest," said Kotwal. "I haven't in my career seen as many people looking at this kind of stuff as right now."

The firm is looking to provide capital to companies in the region, according to Kotwal, who started Zerobridge in September with his partner Lawrence Chu. Kotwal declined to comment on how much money the firm has raised or how much it manages.

To contact the reporter on this story:
Denise Wee in Hong Kong at dwee10@bloomberg.net
To contact the editors responsible for this story:
Andrew Monahan at amonahan@bloomberg.net
Sree Vidya Bhaktavatsalam