

Rise of Alternatives in India



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Historically, Indian investor allocations have been dominated by traditional savings and investment products such as term deposits, public equities, government securities, top rated corporate bonds, tax free bonds and mutual funds. While these continue to represent the largest pools of capital, the composition of the investment landscape has evolved meaningfully over the last decade. Investors today are increasingly allocating capital towards alternative asset classes including private equity, venture capital, private credit, infrastructure, real estate, REITs and InvITs.

This shift is visible across India's asset management industry. As of FY25, bank term deposits remained the largest pool of savings at c. 43% of GDP. In comparison, mutual fund AUM stood at c. 20% of GDP and SEBI-registered alternatives at c. 4% of GDP.

Alternative investments have been one of the fastest-growing segments within the asset management industry and have become an increasingly important part of India's broader investment ecosystem.

The global investment landscape has undergone a similar evolution. Alternative asset classes, once viewed as niche allocations within institutional portfolios, have become an established part of the investment ecosystem and have emerged as mainstream asset classes in their own right. As global allocations to alternatives have increased, similar trends have begun to emerge in India, supported by a growing investor base, an expanding alternatives ecosystem and an evolving regulatory framework.

Rise of Global Alternatives

Global private alternatives assets under management (AUM) have expanded significantly over the last decade, increasing c. 4x since 2014. The growth reflects the increasing role of alternative investments within institutional and private wealth portfolios.

Private equity continues to represent the largest segment of the global alternatives market. As of CY24, Private equity accounted for c. 69% of global private alternatives AUM, followed by Private credit at 12%, Real Estate at 10% and Infrastructure at 9%. Based on current forecasts as per various estimates, private equity is expected to grow at 9%-11% annually till CY30, while private credit is expected to grow at a faster rate of 12%-14%. Within real assets, infrastructure is projected to grow at 11%-13% annually and real estate at 7%-9%.

Institutional capital allocation to alternatives has also increased steadily over recent years. As per Preqin, average institutional allocation to alternatives has reached c. 23%. The trend reflects the growing acceptance of alternatives as a core portfolio allocation rather than a tactical allocation on account of diversification benefits, lower correlation with traditional asset classes and public markets, potential for higher risk-adjusted returns and, in certain asset classes, ability to provide inflation protection.

Despite the strong growth witnessed globally, alternatives penetration varies significantly across markets. Private alternatives AUM as a percentage of GDP varies significantly across regions – with North American at 28%, Europe at 17%, APAC at 10% and India at 5%. The gap highlights the significant headroom for growth in emerging markets, particularly India, as institutional capital pools deepen and investor participation broadens.

Growth of India's Alternatives Ecosystem

India's alternatives industry has expanded rapidly over the last decade. Cumulative commitments raised by SEBI-registered Alternative Investment Funds (AIFs) have increased from a mere c. INR 15bn in FY13 to over INR 17tn in FY26. Further, these are expected to grow to c. INR 50tn by FY30, compounding annually by c. 32%.

As of FY26, REITs and InvITs have scaled to an AuM of c. INR 10tn, with REITs representing c. INR 3tn and InvITs representing c. INR 7tn. Further the combined AuM is expected to double to INR 20tn by FY30.

Term deposits have declined as a share of GDP from c. 46% in FY14 to c. 43% in FY25, highlighting the gradual shift of household savings towards capital market investments. Over the same period, mutual fund AUM increased 2.7x from c. 7% in FY14 to c. 20% in FY25, and SEBI-registered alternatives grew nearly 36x, from just 0.1% in FY14 to c. 4% in FY25. The scale of growth in alternatives is particularly notable given that the asset class has developed largely over the last decade.

The growth has also been supported by a rapidly expanding investor base. India has one of the fastest-growing HNI populations globally, with the number of HNIs expected to grow at c. 16% CAGR through 2027, compared to around c. 8% in the United States. The growth in private wealth has increased demand for differentiated investment strategies and contributed to higher allocations towards alternative assets.

The growth of the industry has been supported by an evolving regulatory framework. Over the last decade, SEBI has institutionalised the AIF framework and improved regulatory clarity across fund structures, governance standards and investor participation.

GIFT City has also emerged as an important platform for India's alternatives industry. As of March 2025, GIFT City has 162 registered Fund Management Entities (FME), with cumulative commitments of US\$15.7bn.

The growth of AIFs, increasing HNI participation, the dominance of Category II AIFs and the development of GIFT City have collectively strengthened India's alternatives ecosystem and laid the foundation for the next phase of growth.

Alternatives in India Today

The growth of India's alternatives ecosystem has been accompanied by a broadening of investment strategies and an increase in participation across investor segments. What began largely as a private equity and venture capital market has evolved into a significantly larger and more diversified alternatives landscape including private credit and real assets.

Private Equity currently represents c. 60% of the total Indian alternatives AuM, followed by Real Assets at 21% and Private Credit at 19%.

Category II AIFs continue to account for the majority of commitments within the industry and have been the primary driver of growth over the last decade, currently representing c. 75% of total commitments as of FY26. These funds span private equity, private credit, infrastructure, special situations and other private market strategies. The concentration of capital within Category II AIFs reflects investor preference for long-term investment strategies that can benefit from India's economic growth and increasing capital requirements.

Private equity remains one of the largest segments of the alternatives market and continues to play an important role in funding business expansion, ownership transitions and strategic growth initiatives. The market has also witnessed an increase in control transactions, larger buyouts and more sophisticated deal structures over recent years.

Alongside private equity, real asset strategies have gained traction as investors seek long-duration assets backed by predictable cash flows. The continuing requirement for capital across transportation, logistics, energy, digital infrastructure and other real asset sectors has supported the growth of these strategies within the alternatives ecosystem.

The alternatives market has also witnessed the emergence of new strategies and deeper specialisation. Secondary funds, structured capital solutions and private credit strategies have become increasingly relevant as the market has matured and transaction requirements have become more complex.

Private credit, in particular, has emerged as one of the fastest-growing segments within the India alternatives ecosystem. Increasing private equity activity, larger deal sizes and evolving financing requirements have created demand for flexible capital solutions that sit between traditional bank lending and public debt markets.

The increased participation of domestic and global investors has also contributed to the growth of private credit. Dedicated private credit funds have raised larger pools of capital, transaction sizes have increased and a broader range of financing structures are now available to borrowers. As the ecosystem continues to mature, private credit is increasingly being viewed as a distinct asset class rather than a subset of broader private market strategies.

As the market continues to scale, investors are allocating capital across a broader range of alternative asset classes rather than relying on a single strategy. This diversification of capital has contributed to the depth and resilience of the ecosystem and has supported the development of a more sophisticated private markets landscape in India.

Outlook

The growth of alternatives in India has been accompanied by increasing sophistication across transactions, fund structures and capital solutions. Larger fund sizes, greater availability of capital and a broader investor base have helped expand the market across private and venture equity, private credit, infrastructure and real assets.

India's alternatives industry is at a relatively early stage of evolution compared to developed markets. While alternatives account for a meaningful share of institutional portfolios globally, penetration levels in India remain significantly lower. At the same time, the underlying building blocks for growth are increasingly in place: a growing investor base, increasing institutional participation, a well-established regulatory framework, expanding fund commitments and the emergence of offshore jurisdictions such as GIFT City to incentivise global GPs and LPs.

The next phase of growth is likely to be characterised by larger fund sizes, greater participation from domestic and international institutional investors, increasing strategy specialisation and advent of new formats such as secondaries funds, perpetual funds, continuation funds etc. Insurance companies, pension funds, family offices and other long-term pools of capital are expected to play a larger role in the coming years. In recent years, domestic wealth has come to be the mainstay of capital raise. However, if Indian alternatives asset classes have to scale up significantly, institutional capital both international and domestic will need to be tapped into at a much bigger level. With respect to domestic institutional capital, the allocations to alternatives remain a fraction of the regulatory limits across life and general insurers providing a significant headroom to unlock capital commitments to alternatives asset classes in the coming decade. With regard to international institutional capital, despite the fund raising environment currently being quite challenging and even more so for single country funds, it is expected that international institutional capital will increasingly find Indian opportunity hard to ignore given the relative risk adjusted returns. Further, it is expected that some of the asset classes like private credit will benefit as over time US yields come off the recent elevated levels and as we also see some strategic rebalancing by global allocators to allocate away from US markets to gain diversification away from some of the froth surfacing there of late in assets classes like private credit. As capital availability increases, managers will need to differentiate through sourcing capabilities, sector expertise, underwriting discipline and execution capabilities. Further, managers will also need to win the trust and confidence of the capital allocators by adopting best in class governance and transparency in practices pertaining to valuation, reporting etc.

Global experience suggests that alternatives grow alongside the development of capital markets and institutional capital pools. India's alternatives ecosystem has already demonstrated significant progress over the last decade. The growth in AIF commitments, increasing participation from domestic investors and continued development of the regulatory framework suggest that alternatives are likely to become an increasingly important part of India's financial landscape over the coming years.