Arka Credit Fund Completes First Full Year Of Operations (FY 23-24)

The private credit business had an interesting FY23-24 completing our first full year post COVID. It's time we reflect on our experience of this first full year of operations.

Arka Credit Fund, a performing credit fund was conceptualised during COVID-19 as we believed that there was a gap in long term working capital across sectors and we were positioned to provide solutions in the real performing credit space given our acute understanding of the clients. Further, our track record of dealing with them strengthened this belief.

Typically, based on the transaction IRR, industry classification for the AIF credit investments is into high yield (18%-24%) and performing credit (12%-18%). Staying true to the ethos of investing in performing credit; we saw a lot of traction in the space and were able to complete multiple transactions between 14.5%-17.5% with regular interest servicing and amortizing redemptions in the last 12 months. Below are just a few of the learnings and takeaways:

1. The line between performing credit and venture debt is blurry for mid-size, new-age companies with 7- 8 years of vintage. We came across our fair share of start-ups and tech companies that are poised for high growth- however, striking the balance between yields, regular debt servicing & security package has been critical both from the perspective of risk management as well as for investor expectations of regular distributions.

2. Strong deal origination and market connect can be the biggest strength for a fund manager: In our experience as fund managers, transactions which were originated in-house provided us with an inexplicable understanding of the client requirements and capabilities. This not only helped us structure and underwrite the investment better but has also developed into a stronger working relationship where our partners now look to us for further solutions beyond the investment.

3. When monitoring an investment, data inconsistencies and changes in sudden business strategy may be indicative of times to come and in our experience, these can cause serious discomfort. In such an instance, interacting with the management team, looking for insights into the business and qualitative analysis of the situation is the best way to reevaluate the investment.

4. In one of the instances, we decided to move ahead with an investment despite some short-term headwinds on account of industry and regulatory challenges because we believed in the intent of the management team and the business, while in another we preferred not to invest in an advanced stage transaction because we couldn't look for a long term relationship beyond the investment. In times of AI advancements where machines can churn out numbers and investment decisions in minutes, we also rely on understanding the qualitative aspects of the business beyond our investment horizon simply because we believe that we can extract better synergies through our relationship building.

5. Two major themes observed this year are long-term working capital requirements and bridge to IPO solutions. AIFs have been better suited to fulfil the long-term working capital requirements of the companies simply due to their flexibility in solution tailoring compared to the traditional financing sources. In terms of bridge to IPO financing- a strong capital market movement, especially in the mid-sized companies that partner with AIFs, has provided bridge to IPO opportunities in the private credit space

In summary, the first year of operations was about learning and validating our assumptions. We gained these learnings; completing one full year of work, wherein we built a team, infrastructure and laid a building block for the next phase of our journey.

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