

# Business Standard

## As NBFCs turn off tap, realty funds see deal proposal spurt but remain wary

Given the demand for funds and tight liquidity, PE funds are charging 150 to 200 basis points more in the new deals

Raghavendra Kamath | Mumbai October 24, 2018 Last Updated at 21:26 IST



Illustration by Binay Sinha

After non-banking finance companies (NBFCs) tightened liquidity flow to property developers over the past month, private equity (PE) funds are seeing a spurt in proposals from developers for funding.

"Developers need capital to sustain the current cycle. From that perspective, they are coming," said Vikas Chimakurthy, chief executive officer (CEO) at Kotak Realty Fund.

Defaults at Infrastructure Leasing & Financial Services (IL&FS) has made it difficult for NBFCs to raise money, forcing them to avoid new lending and stop the disbursement of already sanctioned loans.

Sharad Mittal, CEO at Motilal Oswal Real Estate Fund, said after NBFCs had gone slow on lending to developers, deal flow had gone up significantly for funds like theirs.

### NEW ORDER

- PE funds see spurt in deals

- Charging 150 to 200 bps more in new deals
- Structures such as 'payable when able' becoming popular
- Funds treading cautiously
- Funds becoming flexible in repayment

According to Reserve Bank data, NBFCs have exposure of 7.5 per cent to real estate. This amounted to Rs 1.65 trillion as on end-March.

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However, property funds are treading cautiously, given the scenario in the segment.

"Where NBFCs have given significant leverage and the loan to value (ratio) is not justified, we cannot give money. In most instances, it is the case," said Chimakurthy. He said the existing providers would have to write down their loans or take over the collateral from developers.

Amit Goenka, CEO at fund manager Nisus Finance Services, says: "The challenge is how developers generate cash flow. Banks and housing finance companies have gone slow. Customers are delaying payments as they know developers cannot cancel their projects."

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Given the demand for funds and tight liquidity, PE funds are charging 150 to 200 basis points more in the new deals, market sources said.

"Funds are saying borrowers can pay at the end of the year, instead of quarterly or half-yearly. But, they come at higher rates, 20-22 per cent," said the head of a PE fund, who did not want to be named.

Says Chimakurthy: "Cost of capital has increased across the market. That is given."

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In the current scenario, structures like "payable when able" are becoming popular, wherein developers pay back their liabilities when cash flow comes. Kotak Realty Fund recently did a deal wherein the principal was guaranteed and returns would be taken when the cash began getting generated.

"Basically, we are riding the curve with the developers," Chimakurthy said.