

NBFCs, HFCs offload risky realty loans to special situation funds

Experts say though the moratorium on loan repayment is available to developers till August, many are expected to struggle in repaying lenders subsequently

Raghavendra Kamath | Mumbai July 10, 2020 Last Updated at 17:01 IST



Saddled with risky real estate loans, non-banking financial companies (NBFCs) and housing finance companies (HFCs) are selling their portfolios to special situation funds.

The liquidity crunch faced by NBFCs since the IL&FS (Infrastructure Leasing & Financial Services) default in 2018 notwithstanding, the pandemic and subsequent lockdown have made developer loans riskier.

Though the moratorium on loan repayments has been extended to developers till August, experts believe they could struggle to repay lenders.

In the last couple of weeks, over Rs 6,000 crore of such loans have been sold or refinanced by the likes of ECL Finance — Edelweiss' NBFC arm — and Indiabulls Housing Finance. Close to Rs 8,000 crore of such loans could be sold or refinanced in

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Global funds like Oaktree Capital, SSG Capital, and Farallon Capital have bagged most of these loans.

Close to \$50 billion (Rs 3.5 trillion) in developer loans are still on the books of NBFCs and HFCs, part of which needs to find new takers, said Ashish Khandelia, founder of Certus Capital and former head of KKR's India realty arm, who was involved in the Oaktree-DHFL deal.

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“A lot of discussions happened last year, following the first trade of Rs 1,375 crore by DHFL. However, the bid-ask remained high between sellers and buyers. Now, given the Covid and other issues, the pace is accelerating,” said Khandelia.

Recently, Indiabulls refinanced part of its real estate deals with Oaktree through non-convertible debentures. In this, the latter holds a senior position in collection of cash flows, while the former holds a junior position. The underlying security is mortgaged to both.

SELLING DOWN

- About ₹8,000 crore of such loans could be sold or refinanced this year
- Funds such as Oaktree Capital, SSG Capital, Farallon have lapped up most of these loans
- About \$50 billion (₹3.5 trillion) of developer loans are still on NBFC/HFC books
- Edelweiss plans to sell ₹3,000 crore of loans this financial year
- IIFL Finance is also talks with various investors to raise funds

Sources: Reports, companies

Oaktree Capital acquired loans worth Rs 1,375 crore from DHFL in January 2019. Oaktree declined to comment.

“It will help generate liquidity and rebalance our book, which is granular. In one year, we want retail loans to be 90 per cent of our loan book,” said Gagan Banga, vice-chairman and MD of Indiabulls Housing Finance. Indiabulls had a loan book of Rs 69,676 crore as of March, and has Rs 25,000 crore of developer loans.

ECL Finance also sold realty loans worth Rs 4,000 crore to Farallon Capital and SSG Capital, according to reports.

An Edelweiss spokesperson said the group recently finalised a sell-down transaction of Rs 4,000 crore with two global investors, in continuation of the strategy to move the wholesale book into fund format.

“We intend to sell down another Rs 3,000 crore of our wholesale portfolio in FY21, and bring it down to zero in the next two years,” the spokesperson said.

The spokesperson added: “We are in a unique position as we have a strong alternatives assets business (the largest in India), and have been able to move the wholesale credit book into a fund format quickly. On the retail front, we remain focused on a tech-enabled co-origination strategy, which is capital light, with banks.”

Edelweiss had a wholesale loan book of Rs 8,393 crore as of the March 2020 quarter.

IIFL Finance is said to be in talks with SSG Capital and Apollo Global Management to sell its real estate book of Rs 4,560 crore.

However, Balaji Raghavan, managing partner and senior fund manager at IIFL, said that no such deal had taken place. He, however, said that IIFL Finance was in talks with various investors to raise funds and get last-mile financing to complete projects. “We want to be asset-light and come up with multiple platforms to invest,” he added.

Industry experts say selling loans is a prudent move in the present context.

“Most NBFCs are still facing acute liquidity crunch and hence trying to conserve whatever capital is available, by being selective in investments. Capital availability for NBFCs from domestic avenues remains scarce and therefore, selling loan portfolios to PEs/special situation funds, with better liquidity makes a lot of sense,” said Vishal Srivastava, president (corporate finance) of Anarock Capital Advisors.

Srivastava added that this was, in turn, good for the industry as fresh fund infusion could reignite stuck projects and provide the much-needed liquidity to NBFCs.

Vimal Bhandari, vice-chairman and CEO of Arka Fincap, added: “It is a good development from the perspective of stressed assets. Existing lenders would have done deep distressed sales. Buyers (funds) will be able to do a focused job on recovering assets and put in a proper mechanism for recovery.”