

Special situation funds, NBFCs eye investment opportunities in stressed real estate

Synopsis

“The current environment will lead to more financial challenges for realty developers. Hence there will be a need for patient capital and the market will see more last mile funding transactions along with partial liquidity solutions to existing lenders,” said Vikas Chimakurthy, CEO, Kotak Realty Fund.



The liquidity crisis that started with the default of IL&FS last year has changed the scenario completely and has led to a drastic reduction in NBFCs lending to the sector.

MUMBAI: The combination of sluggish sales, absence of customer advances and liquidity squeeze are creating stress for real estate developers and investment opportunities for special situations and distress funds.

Apart from the government-sponsored and SBICAP Ventures-managed last-mile fund for stuck projects, several large institutional investors are also getting active through their own distress or special opportunities funds.

According to industry experts, along with SBICAP Venture's Rs 25,000 crore fund; there are several large domestic and foreign funds with funds of more than Rs 35,000 crore looking at such investment opportunities.

“The current environment will lead to more financial challenges for realty developers. Hence there will be a need for patient capital and the market will see more last mile funding transactions along with partial liquidity solutions to existing lenders,” said Vikas Chimakurthy, CEO, Kotak Realty Fund. “We are receiving investment proposals and continue to evaluate them.”

One of India’s largest domestic real estate funds, Kotak Realty Fund has raised \$1.8 billion so far and has a significant amount of dry powder ready to be deployed in such assets.

To tap the potential and finance such projects, India’s largest mortgage lender Housing Development Finance Corp (HDFC) is also looking to invest in real estate funds to finance such projects.

“These funds constitute a major relief for cash-starved residential realty developers and other related industry stakeholders, including aggrieved homebuyers. However, their due diligence is also as high as the rescue potential they offer,” said Vishal Srivastava, President - Corporate Finance, ANAROCK Capital.

According to him, a large part of Rs 35,000 crore funds is coming from US-based and Asian funds. ANAROCK Capital has already helped raise over Rs 5,000 crore from special situation funds.

This capital is being raised for projects primarily in Noida, Greater Noida and Guragon in NCR, Mumbai, Thane, Bangalore, Hyderabad and Pune. The projects in question have anything between 100-800 units each, with unit ticket sizes ranging from Rs 28 lakh to Rs 15 crore.

“More of these financing deals will start taking place once the moratorium on term loans and interest payments gets over. The real financial stress will be known then, pushing several developers and lenders to seek support,” said top official of a leading non-banking finance company.

The liquidity crisis that started with the default of IL&FS last year has changed the scenario completely and has led to a drastic reduction in non-banking finance companies lending to the sector. Not just NBFCs, the funding challenges have hit the real estate sector’s recovery, prompting more developers to seek support for completion of their stuck projects.

In an instance of such transactions, Indiabulls Housing Finance NSE 0.00 % raised over Rs 2,000 crore from global stressed assets investor Oaktree Capital by monetizing a part of its realty loans. ECL Finance, the non-banking finance arm of the Edelweiss Group, also recently sold around Rs 4,000 crore of loans, extended mostly to realtors, to global asset buyers. Ends

*(Catch all the **Business News**, **Breaking News** Events and **Latest News** Updates on **The Economic Times**.)*
