A WIN-WIN FOR INVESTORS AND REALTORS

Falling Rates Help Realty Cos Land Better Refinancing Deals

Investors, aware of the slowdown, offer deals at lower rates and for a larger moratorium period

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Bengaluru | Mumbai: A falling interest rate scenario is providing real estate developers and private equity players a window of opportunity to refinance their debt investments with the objective of lowering their cost of funding and getting out from an earlier investment.

"Investors are flexible as they recognise the existing slowdown in the industry and the effect of demonetisation. They expect volumes to pick up by the third quarter of 2017. They are not only creating a buffer in the repayment to support interest funding, but also giving larger moratorium period of repayment of interest and principal to builders," said Rajeev Bairathi, executive director & head of capital markets, Knight Frank India.

He reckons that institutional investors who are lending have become more flexible in maintaining existing relationship with good builders with proven execution track record.

Apart from lower interest rates, these deals are allowing extension in loan tenure to 5 years from 3 years, and in some cases, even 6 years. On the interest payment front, depending on when the project will be able to generate enough cash flows, the funds have come up with structures wherein the interest payout is lower for the first few years, but rises thereafter with a redemption premium towards the end of the tenure.

"While some of us had the first mover advantage of providing structured debt facility to developers, we have made our IRRs (internal rate of returns) in some cases even 23%-25%. These projects got refinanced by banks and NBFCs (non-banking financial companies) because the underlying asset had received approvals or were substantially sold. The incoming investors are essentially making last-mile funding with low risk. However, refinancing may not be available for the projects that have not established a cash flow track," said Rubi Arya, vice-chairman, Milestone Capital Advisors.

Apart from the selection of projects of certain developers, several institutional investors are also reviewing the structures and instruments for such refinancing with caution.

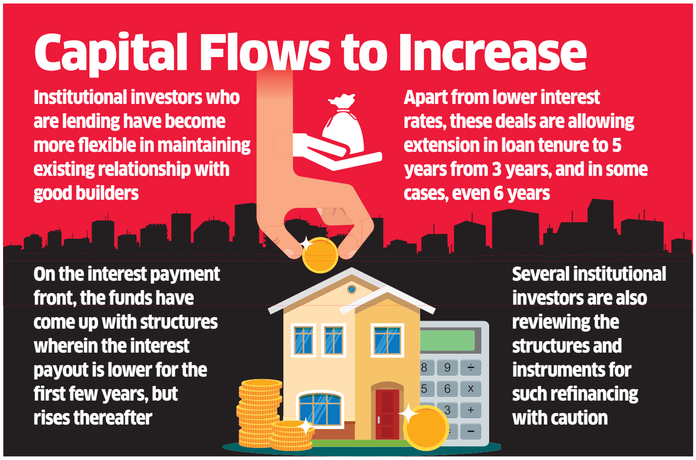
"In this market, the focus has to be on equity type structures as servicing of debt is becoming a challenge for developers. Most financiers are looking at 'payable when able' deal-types which help developers tide over this troubled time. I believe, with RERA (Real Estate Regulatory Act) becoming a reality, only good quality developers and projects will survive and they are the ones to back," said Ambar Maheshwari, CEO - Private Equity, Indiabulls Asset Management Company.

While developers may be relieved with refinancing deals, they also have their own challenges as newer entrants will ensure their margin of safety. "There is more money chasing very few deals. Funds are also undertaking business due diligence at depth today which wasn't there earlier. Historically, funds only do financial and legal due diligence," said Kamalesh Shekhar, director, Three D Management.

Some institutional investors have also started funding interest payments, which involves funding interest payment for the first one or two years and this could be part of the total sanctioned amount against a specific project.

The deals are keeping the pitch busy for both real estate developers and private equity players who are also keen on using the opportunity to invest in projects. The proposals for such deals from builders are on the rise.

The trend is likely to continue as capital flows are likely to increase with newer financing channels entering the market.



Altico Offers ₹300-crore Credit Line to H'bad Realtor

Our Bureau

Mumbai: Clearwater Capital-backed non-banking financial company Altico Capital has provided a credit line of up to ₹300 crore to Hyderabad-based real estate developer Phoenix Group.

Phoenix Group will use the funds to repay some lenders and invest in two of its projects —Halcyon, which is a residential project in Jubilee Hills, and a commercial development at Hafeezpet, Altico Capital said in a press release on Thursday.

"Track record of the group, location of the projects, product offering and stage of construction were key reasons for Altico's investment," said Sanjay Grewal, CEO of Altico Capital. "While Halcyon is a premium development which has received good sales response from customers at a sought-after location in Jubilee Hills, Trivium, which is commercial project of around 1 million sq ft, is located in the growing micro-market of Hafeezpet and is pre-leased to a well-known international BPO firm."