

## FINANCE

# MOVING UP THE LADDER: ADDRESSING THE FUNDING VACUUM

TEXT: RUSTAM SINGH

NBFC led liquidity crisis has had a ripple effect on the Indian real estate. But as some say, that's where the opportunity lies for the investment.

**N**BFCs - the biggest lenders to real estate are in financial distress and banks are cutting back on disbursements. Given the institutional funding forms the backbone of real estate, Realty+ brought together a panel of financial experts and developers to discuss the funding opportunities when the sector is facing headwinds.

**Gopal Sarda, Group CEO of Kolte Patil Developers,** was of the view that a developer's credentials and the product's location & quality matter a lot to attract funding. He added, "One has to create a mixed portfolio where 33% money should be in debt instrument,



33% part of the internal accruals, and the rest would be in equity.

According to **Amit Goenka, Managing Director & CEO, Nisus Finance,** realty sector is now getting mature. "For developers with a demonstrable record of deliverance, there is no shortage of capital. Productivity,



efficiency and utilization of capital has to get even smarter. The additional boost for developers is the recent reduction in tax on unfinished residential buildings and affordable houses."

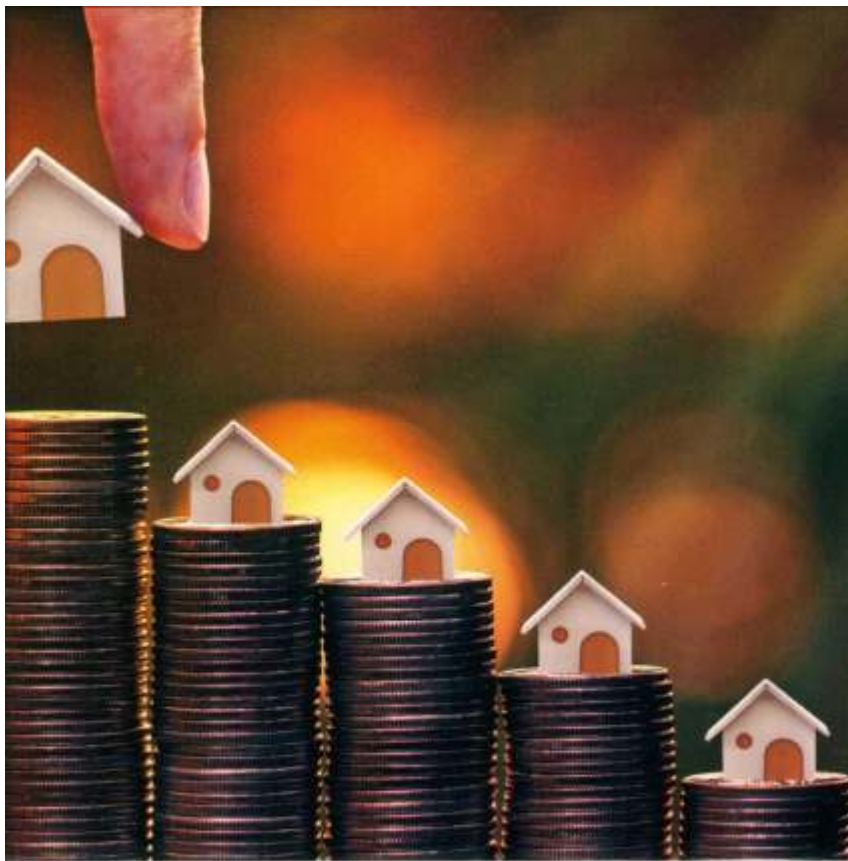
Expressing a positive sentiment **Jayesh Kariya, partner, BSR & Associates** stated that despite the

seemingly difficult situation in the real estate, the market curve will fix itself. "The developers who have delivered consistently have been able to stay stable in these conditions as well. Many are either looking at alternative funding avenues or are diversifying in emerging asset classes," he said.

## ALTERNATIVE FUNDING AVENUES

While, the squeezing off the two major sources of funds for the industry — the PSU banks and the Non-Banking Financial Companies has trickled the cash flow, it has also opened up a window of opportunity for other





## 5 WAYS TO TACKLE LIQUIDITY CRUNCH

1. Stress funds, a global phenomenon are mostly private funds that do a one-time settlement with the debt provider before providing additional funds to complete a project.
2. Foreign investors are investing in Indian real estate through either partnerships or platforms set up by them or as direct investments.
3. Domestic & foreign Private Equity funds are also started investing considerably in office spaces, retail properties, warehousing sector and affordable housing.
4. Easing of ECB (external commercial borrowings) norms have also been favorable for realty investments.
5. The reduction of interest rates on home loans will boost the sales and help meet the funding gap

financial entities. **Deo Shankar Tripathi, MD & CEO, Aadhar Housing Finance Ltd** gave an example, "ECB (external commercial borrowings) is one of the cheaper sources of funding for the developer. Also, portfolio of the HFC is now carved out from the overall lending to the real estate



sector that helps remove the cap on the overall lending for the financial sector." Commenting on the foreign alternative investment managers foraying in Indian realty, **Kaushik Desai, Executive Director, Walton Street India Real Estate Advisors** said, "Foreign investors' will always look at it the exit plan from the

investment. What we need to ask is if we ready with our products to pitch to these foreign players?"

### THE WAY FORWARD

In the present scenario, developers are cautious in their projects choices and their approach towards the financial cycles. **Sharad Mittal, executive director, Motilal Oswal Real Estate Investment Advisors Pvt. Ltd**



elaborated "With the stricter compliances and rising costs, due to RERA and GST, the realty sector focus is inclining towards affordable housing because of the incentives from the government as well as the huge consumer demand in this segment."



Sharing his thoughts on developers demand for creating a stress fund **Chetan Shah, Executive Director, Kotak Realty Fund** said, "It could become the last-mile capital for large unfinished projects. Going forward, we need to take re-look at the

stalled project and if necessary get a new developers to complete the project."

**Ashwin Mehta, Managing Director, Pankti Group** concluded the discussion with a word of advice for developers. "PSU banks have a problem, lending to real estate because they don't understand the sector and those that do, are caught up on the takeover guidelines. The crunch is from all the sides, Developers will have to compromise their margins to complete and deliver projects."

