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**Real estate fund crunch forces cash scrounge**

Firms resort to structured debt from PEs, land sales to address repayment crisis; project exits, too, for some.

Property developers are tiding over a debt repayment problem through structured private equity (PE) deals and expensive loans from non-banking finance companies (NBFCs).

According to PE funds and consultants, many property companies from in and around Delhi and from Mumbai have raised structured debt from PE firms at 16-21 per cent to repay what they'd borrowed from banks. Apart from the high rates, in structured debt all cash flows from the project are assigned for loan repayment and the fund gets preferred returns over the developer. The deals leave very little revenues for the developers till the fund's dues are settled.

The desperation to take such loans was there because developers needed to repay Rs 20,000 crore to banks in interest and principal by March 31 and home sales in cities such as Mumbai are almost at a standstill, severely affecting their cash flows.

"Developers have taken structured debt from domestic funds to retire debt from banks and financial institutions. I think it was predominant in March," says K G Krishnamurthy, managing director and chief executive, HDFC Property Fund.

Adds Amit Goenka, national director, capital transactions, Knight Frank, a global property consultant: "To meet their obligations, they are replacing cheaper loans with expensive debt from PEs. It is more of a financial jugglery when the cash flow generation is becoming difficult."

According to stock brokerage Enam Securities, developers are offering deals to raise money mainly to repay debt at 20 per cent to repay previous PE funds. Only 15 per cent of the money is being raised for new projects.

Ved Prakash Arya, managing director and chief executive officer, Milestone Capital Advisors, says the demand from property developers for funds in the first four months of 2011 is twice that for the whole of 2010. "Private equity is found to be a major source wherever the debt burden is high. We are getting many inquiries from developers who want to use the money to repay their debt," Arya said.

**Opportunity for Funds**

PE firms such as Kotak, HDFC and Sun Apollo are lending actively to developers, say consultants. Some funds like Indiareit are launching debt funds to use the opportunity for such funding.

“Currently, the accessibility of bank funds to developers is low and we see this as an opportunity to lend to property developers,” says Ramesh Jogani, managing director of Indiareit Fund Advisors, which used to do pure equity funding previously. Indiareit’s debt fund will have a corpus of around Rs 500 crore and expects returns of 15-16 per cent with some upside from the investments, Jogani said.

Analysts say PE firms will see good opportunities ahead, as developers such as DLF, Unitech, Prestige, Sobha, Orbit and others need tp repay Rs 5,000 crore in 2011-12.

“With fresh lending remaining tight, PE players have started to get busy, as all developers have begun to offer good quality assets to raise project level PE fundings,” say analysts from Enam Securities in a recent report. Even NBFCs have increased their rates, as their cost of funds had gone up. They are now lending at 17-22 per cent as against 15-19 per cent earlier.