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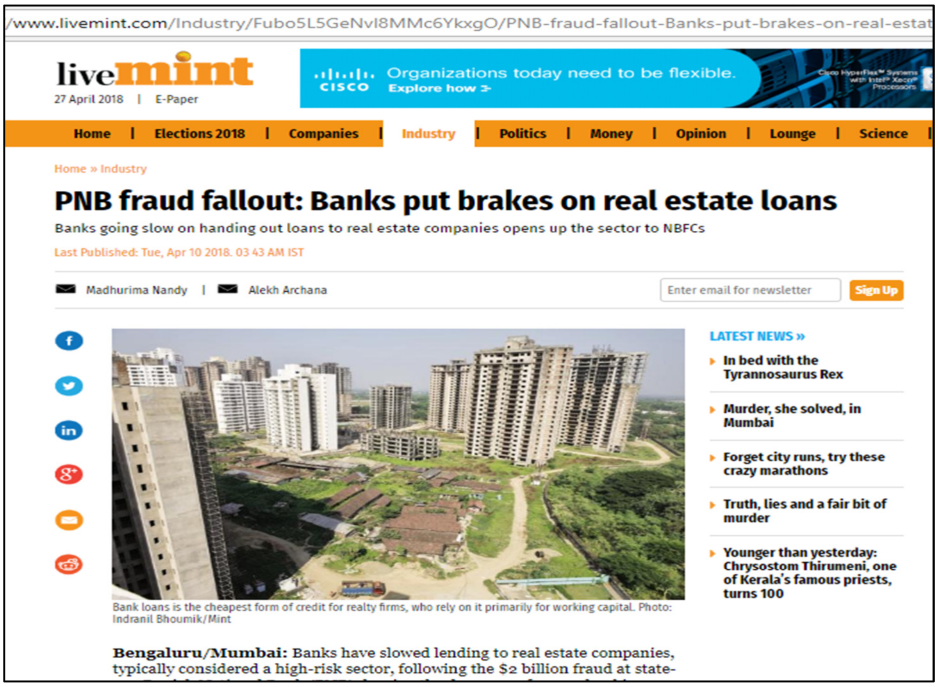

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Banks going slow on handing out loans to real estate companies opens up the sector to NBFCs

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Bank loans is the cheapest form of credit for realty firms, who rely on it primarily for working capital. Photo: Indranil Bhoumik/Mint

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Bengaluru/Mumbai: Banks have slowed lending to real estate companies, typically considered a high-risk sector, following the $2 billion fraud at state-run Punjab National Bank (PNB), leaving the door open for non-banking financial companies (NBFCs) to grab opportunities in the sector.

Bankers are now exercising extra caution in loan disbursements by seeking additional documents and collateral as well as reviewing existing limit both on fund and non-fund based lines of credit.

“There is an overhaul of credit assessment processes and it is only natural that real estate developers, especially in the commercial segment, are witnessing delays in loan disbursement given its high-risk nature. In commercial projects, banks are keen on lease rental discounting and some kind of asset structuring to minimize risk,” said a senior official of a Mumbai-based bank, requesting anonymity.

In the PNB case, jeweller Nirav Modi’s firms allegedly in collusion with bank employees fraudulently used letters of undertaking to raise overseas funds and as a fallout of the fraud, the Reserve Bank of India banned issuance of letter of comfort and LoUs, basically types of bank guarantees.

The sentiment took a further beating after the Central Bureau of Investigation (CBI) started filing a series of cases where promoters of certain companies defaulted on loan repayment to banks.

Bank lending is the cheapest form of credit for realty firms, who rely on it primarily for working capital. Banks have been wary to lending to real estate for a while now, but they have stopped fresh disbursements and are taking long to decide even on prior sanctioned credit lines, said developers, requesting anonymity.

“Risk appetite of banks has reduced significantly. Some are staying away from fresh proposals and their own internal rating methodology about vetting proposals have also tightened,” said K.P. Pradeep, CFO, Brigade Group, who spoke on the overall sector.

“Following the recent incidents of fraud, banks, especially state-owned lenders, are cautious in a number of sectors in corporate lending, are carrying out additional due diligence processes and putting in place rigorous credit assessment mechanisms. Lending has become extremely selective to sectors such as gems and jewellery, real estate, thermal power, telecom etc,” said Krishnan Sitaraman, senior director at Crisil Ratings.

As on 16 February, loans outstanding to real estate companies stood at Rs1.8 trillion, up 1.1% from a year earlier, according to RBI data.

“NBFCs have become a significant source of funding for developers and are expected to see more growth on the back of banks slowing down” said Amit Goenka, MD and CEO of investment firm Nisus Finance Services Co. Pvt. Ltd.

Even, construction finance, which was mostly given by banks, is now being offered by NBFCs. “We are constantly approached by developers based on our ability to assess a situation and create a customized funding solution,” said Khushru Jijina, managing director of Piramal Finance and Piramal Housing Finance.

To be sure, focus of most lenders is currently on disbursing loans where limits where already sanctioned and new disbursements is limited to only select companies, either top rated or those with excellent track record of repayment.

While companies across sectors are complaining that there is delay in availing loans, bankers are saying that this is a temporary phenomena.

“SBI’s policy for assessing residential property projects has always been robust, which also helps to ensure that business is not impact by various events. For us, focus is more on projects which has end-user as buyers. This ensures that houses are affordable and helps us minimise asset quality risks,” said SBI’s chief general manager Vaijinath M.G., who heads the bank’s real estate and housing business unit.

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