The Economic Times
ETMARKETS
www.etmarkets.com

How Supertech triggered Round II of NBFC selloff? Is there more to it?

By Amit Mudgill ETMarkets.com | Updated: Oct 20, 2018, 08.23 AM IST

Indiabulls' clarification was followed by one from Supertech, which said its account with Indiabulls Housing is regular and standard and the company is servicing housing loans regularly.

NEW DELHI: It all re-started with the downgrading of a Rs 1,866 crore loan facility of realty developer Supertech by rating firm **Brickwork**, amid reports that the builder defaulted on loans to Corporation Bank and Syndicate Bank . The realtor says it has not defaulted on any of its loans.

The news triggered panic on the NBFC counter. Investors were caught in a similar situation last month when defaults mounted at infrastructure financier IL&FS.

Shares of NBFCs, mainly those of home financiers such as Indiabulls Housing, DHFL and Repco Home, took a heavy beating on Wednesday.

Supertech has a total debt of Rs 2,000 crore. Indiabulls Housing alone has Rs 600 crore exposure to two of Supertech projects.

Data showed NBFC funding to real estate developers increased 35 per cent compounded annually between FY16 and FY18. Brokerage JM Financial said a recurring operating deficit and material increase in leverage meant a major portion of the funding by developers has been utilised to meet construction costs as well interest outgo on existing debt.

Some analysts fear either more developers may default or there could be a spike in retail non-performing assets due to delay in project deliveries.

Here is how ratings of some of the well-known real estate developers stood at last count. (Source: JM Financial)

Co_Name	Rating Date	Rating	Rating By	Credit facility (INR mn)
Ansal Housing	21/09/2018	D(ind)	DCR India	6,111
Ansal Properties	04/04/2018	D	CARE	17,369
Arihant Super.	24/03/2017	BBB-	CARE	2,558
Ashiana Housing	30/05/2018	A+	BRICKWORK	887
Brigade Enterpr.	30/04/2018	A	CRISIL	25,763
CHD Developers	16/08/2017	BBB	CARE	1,751
CHD Developers	16/08/2017	BBB	CARE	1,751
D S Kulkarni Dev	30/06/2017	D	CARE	5,468
DLF	18/01/2018	A+	CRISIL	2,92,022
Emaar MGF	04/05/2017	BB	CARE	46,118
Godrej Properties	10/09/2018	AA	ICRA	2,500
Lancor Holdings	08/01/2018	BBB-	CRISIL	1,506
Leading Mumbai Developer	16/07/2018	A	BRICKWORK	1,38,347
Mahindra Life.	30/12/2017	AA-	CRISIL	6,516
Manjeera Constr.	31/08/2018	C	ICRA	4,120
Oberoi Realty	06/11/2017	AA+	CARE	8,686
Prestige Estates	06/07/2018	A1+	ICRA	57,394
PSP Projects	05/01/2018	A	CARE	750
PSP Projects	05/01/2018	A1	CARE	750
Puranik Builders	12/05/2017	BBB+	CARE	8,224
PVP Ventures	12/03/2018	BB	BRICKWORK	3,024
Sobha	05/04/2018	A	CARE	22,220
Sunteck Realty	15/06/2018	AA-	CARE	9,437
Supertech	10/10/2018	D	BRICKWORK	18,664.4
Swan Energy	19/04/2017	BB	CARE	8,209
Vatika Ltd	17/10/2017	BB	CARE	3,701.4
Vipul Ltd	29/11/2017	BB	CARE	4,575

Supertech & IB Housing clarify
In case of Supertech, Brickwork said it had to rely upon audited financial results up to FY17, and projections up to FY19. The rating, Brickwork said, was constrained by cash flow mismatches due to slowdown in real estate industry, leading to liquidity problems being faced by the company.

Indiabulls Housing Finance on Friday morning said its portfolio comprises only leading developers in the metro cities. There is no project where the company is a sole lender, the company said.

Besides, the NBFC insisted, a majority of its portfolio is backed by lease rental-discounting assets with leading multinational companies and Indian companies as tenants.

Indiabulls' clarification was followed by one from Supertech, which said its account with Indiabulls Housing is regular and standard and the company is servicing housing loans regularly.

RK Arora of Supertech told ET Now that all of the company's projects are on track and that the company was looking to sell 10,000 apartments this year. Arora said his company has not defaulted on any interest payment. There has only been a 15-day delay, he said.

"You have to understand that if a builder delays making payments, it is not necessarily going belly up. The reason could also be a short-term liquidity crisis. The project may be still very good. I do not think one should get unduly worried just because one builder in the country delays making payment," said Keki Mistry, VC & CEO at HDFC told ET Now.

RBI booster fails to lift stocks
To deal with liquidity crunch at NBFCs, RBI on Thursday allowed banks to use government securities equal to their incremental outstanding credit to NBFCs, over and above their outstanding credit, to meet liquidity coverage ratio requirements. Analysts hailed the measures as right step.

"The first positive measure was the increase in LCR from 11 per cent to 13 per cent, which reduced bank CD issuances in the system. Now, this additional 0.5 per cent allowance given to NBFCs and HFCs on an incremental basis would mean the release of close to Rs 55,000-60,000 crore of additional liquidity from the banking system to NBFCs. This is definitely a positive move," said Lakshmi Iyer of Kotak Mutual Fund.

HFCs are largely consumer-oriented
Ajay Srivastava, Dimensions Consulting, noted that housing finance companies are largely consumer-oriented. "Almost 80-85 per cent advances are consumer housing loans. HDFC has the maximum, 20-25 per cent loans, to builders and companies. As for projects that are in limbo, I am worried that people have been paying the EMIs so much so far that at some stage they will refrain from paying EMIs," Srivastava told ET Now.

He said he would approach the HFC space with a bit of caution over next quarter as retail NPAs may come into the picture from unfinished projects.

"There is enough liquidity for HFCs. It is just the little niggle worry about what is going to happen to the portfolio of loans advanced to unfinished projects. I think it is safe and sound. There is no liquidity issue. There is no portfolio issue with the housing finance companies," Srivastava said.

Experts wary of NBFC stocks
Chakri Lokapriya, CIO & MD at TCG AMC believes investors should stay away from NBFC stocks at this stage, as the whole problem started only sometime last month and September quarter earnings might still look good.

"You are going to have higher cost of funding, which will translate into lower net interest margins and lower loan growth, which will translate into lower multiples for these stocks," he said.

NBFC stocks have traded at very high multiples in the past. Even now, after the correction in the multiples is still fairly not cheap enough, Lokapriya said.

At 2.30 pm, the stock of Repco Home was down 9.5 per cent at Rs 309.05 on the BSE. This was the fourth consecutive day of fall for the stock, which has fallen 18 per cent during the period.

Similarly, shares of Dewan Housing Finance fell today for the fourth day running. The stock has come off 28 per cent during the said period.

Indiabulls Housing has cracked 29 per cent in three sessions to Friday. Big players such as LIC Housing and HDFC have come down 4-5 per cent in the last 2-3 sessions.