

RBI's new resolution plan guidelines to help residential developers: ICRA

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The operating cash flows of real estate developers are expected to reduce by around 30-50 per cent in the current fiscal, resulting in higher reliance on refinancing and incremental debt to meet project costs and debt obligations, as per ICRA estimates.

Many companies have availed opted for moratorium to bring down debt repayments, which, coupled with automatic reduction in collection-linked prepayments, has provided some support in terms of debt coverage levels. Developers with a high proportion of slow-moving or stalled projects and looming debt repayments are likely to continue facing cash gap issues.

A one-time restructuring of debt can

provide considerable support for such stressed projects. The RBI has recently released sector-specific leverage and debt-coverage guidelines for determining eligibility for restructuring of stressed loans, including those in the residential real estate sector, which has been identified as one of the more deeply impacted sectors.

Covid double whammy

Mahi Agarwal, Assistant Vice-President and Associate Head at ICRA, said, "Developers were already suffering from reduced credit availability post NBFC liquidity crisis, and with Covid-19, the overall liquidity has reduced further, amidst lenders' concerns on deteriorating asset quality and increasing loan-to-value ratios.

With new guidelines providing for financial headroom, stressed developers are now likely to receive much-needed liquidity support for completion of slow-moving/stalled projects."

The guidelines

As per the resolution plan guidelines, residential developers will need to maintain various parameters at a project-level in order to be eligible for loan-restructuring.

Lender assumptions on future cash flows, structuring of debt obligations, and accounting policies being followed would be the key look-out areas.

Overall, the provision of this one-time restructuring is expected to be beneficial for stressed developers, with the funding expected to aid project completion, ICRA stated.