KKR

KKR's long-term India real estate solution

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When KKR set up its first India-based non-banking financial company (NBFC) in 2009 to provide structured credit solutions to entrepreneurs, it was funded off the firm's own balance sheet. A few years on, it was reported that third-party investors were being brought in to help scale the business.

A similar approach has been employed for the latest, real estate-focused NBFC, which officially launched last week. KKR structured and participated in three transactions worth around $190 million over the course of 2014. With the thesis proven, Singapore's GIC Private then came on board as the strategic partner in the NBFC.

The sovereign wealth fund's willingness to get involved reflects not only an appetite for Indian real estate, but also a desire to put capital to work for extended periods.

"The credit platform provides long-term capital to support the real estate sector in partnership with GIC, which has a long-term horizon" says Ashish Khandelia, a director in KKR's capital markets division. "This is not a short-term vehicle spanning 1-2 years: we will finance the business with a permanent pool of capital. It is a flexible and open-ended business with which we can adapt to opportunities years down the line."

KKR's long-term view is underpinned by several driving factors. First, India's real estate sector remains under-built, particularly on the residential side. Second, there is greater credit market participation in the sector, with financing from NBFCs seeing annual growth of 18% over the last 5-6 years. Third, many real estate developers want to upgrade from informal, mom-and-pop style financing to institutional capital.

The NBFC is intended to fill a gap in the market by virtue of its flexibility. Regulations restrict banks' real estate lending exposure to areas such as construction financing and providing funding for completed assets, while the capital markets are generally not an option for developers.

Deals are expected to fall into three broad categories: fixing the capital structure for a particular project or the company itself; providing interim working capital to get projects to completion in situations where cost overruns or delays have created liquidity shortages; and facilitating exits for existing lenders or investors.

The transactions completed in 2014 touched on these areas. In one case, additional capital was required to pay for permit costs and also to redeem several PE investors. The replacement structure was matched to the lifecycle of the project so the developer does not need to go through a fundraising process again.

"A significant amount of money came in as private equity between 2005 and 2009, and a lot of it has remained in the system," says Khandelia. "Investors might have come in to support the purchase of land. The value has gone up since then and the project may have progressed, so now the development partner can take leverage against the project to facilitate exit of the equity investor."