



Lease Rental Discounting(LRD) & Vanilla CF+LRD



Knowledge Bytes S1-E5

Recap

✓ Ep 1 : Introduction to Investment Banking

✓ Ep 2 : Debt Products in RE- Plain Vanilla CF

✓ Ep 3 : Receivables Funding & LAP

✓ Ep 4 : Structured Financing in RE

Ep 5 : LRD & Vanilla CF + LRD

✓ Lease Rental Discounting

- Introduction
- Products in LRD
- Process Flow
- Loan Structure
- Current Scenario

✓ Vanilla CF+LRD

- Introduction
- Loan Structure

✓ LRD vs Vanilla CF + LRD

Lease Rentals Discounting (LRD)

LRD is a term loan offered against rental receipts derived from lease contracts with corporate/reputed tenants. The loan is provided to the lessor based on the discounted value of the future rentals and the underlying property value.

LRD is a preferred funding type by FIs as there is:

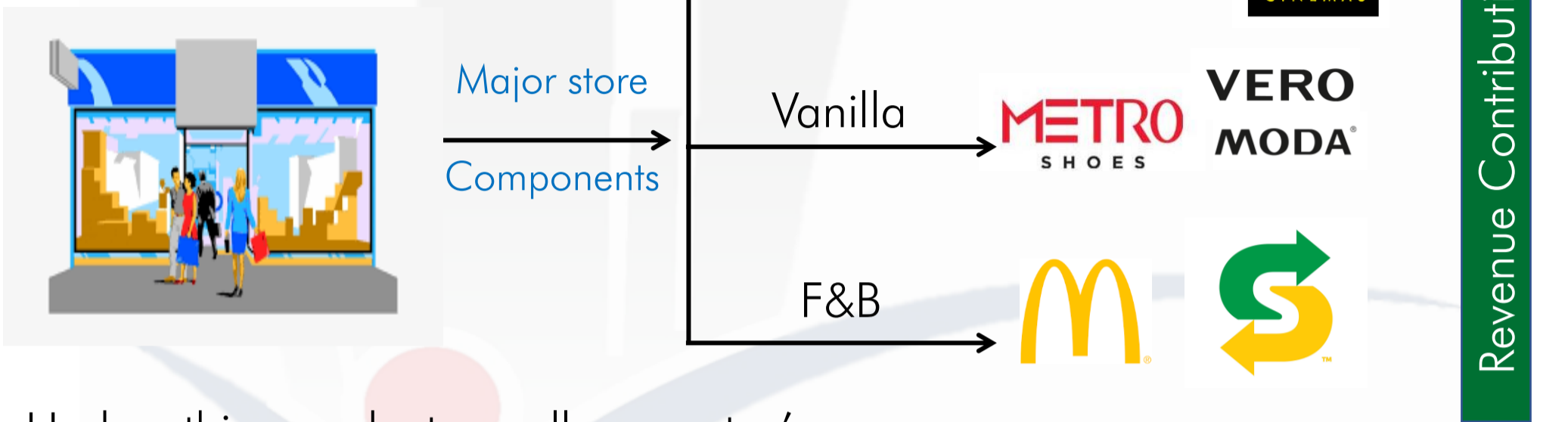
- ✓ No Sales Risk
- ✓ No Execution Risk

Pre-requisites: Registered lease agreements & longer lease tenor

- 1 Extensive Financial Due Diligence as future cashflows form the primary collateral
- 2 The rentals of lease agreements being discounted must have lock-in periods (wherein the tenants cannot vacate the property)
- 3 Tenants made to sign security deposit & lock-in agreements
- 4 Tenor of the loan is usually matched to the unexpired lease period

Type of Products of LRD

Mall



Under this product, mall operator's profile & planning plays a very crucial role.



Commercial

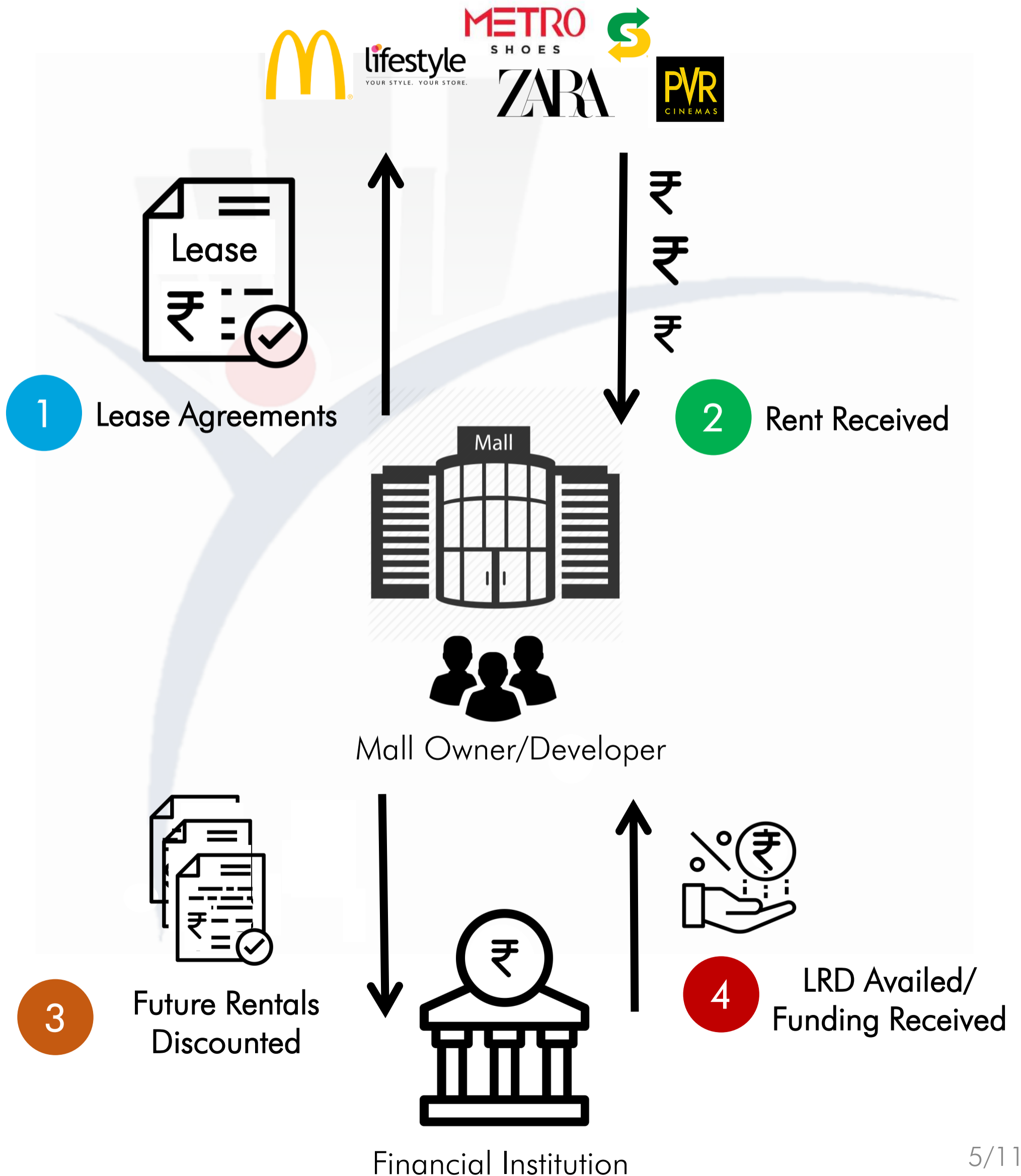
Owners/developers of commercial complexes operating on lease models can avail the LRD facility by offering security of future rentals to the lender.



Warehouses

Other products such as warehouses, and schools have comparatively low quantum in the overall product portfolio of LRD.

LRD: Process Flow



Loan Structure

Loan Eligibility –

- ✓ 70-80% PV of Net Rentals* over a period of loan tenor
- ✓ LTV ranges from 55-65% based on borrower/lessor & lessee profile assessment

Interest Rate – 8% to 11%

Loan Tenor – 120 to 180 months

Processing Fees – 0.50% to 1%

Due diligence – Legal, Valuation, Technical

Purpose of the Loan – Take over of existing facility / GCP

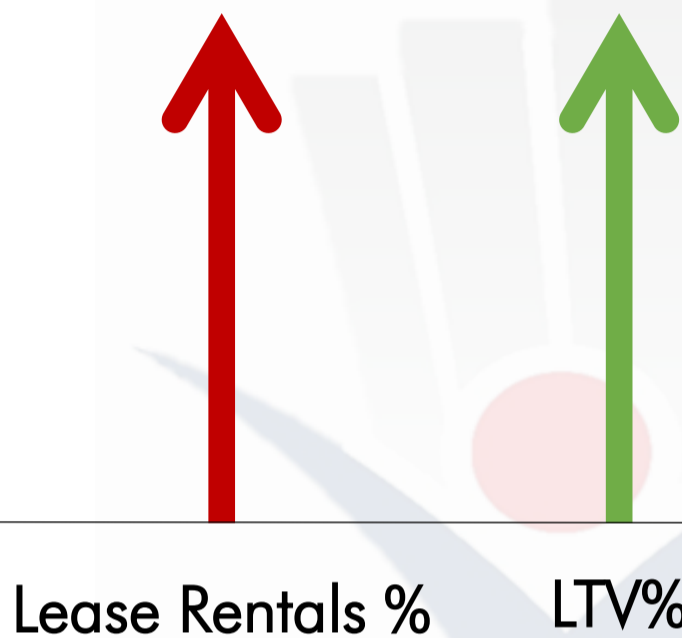
Risk – Non-payment of rentals, Vacancy Risk

Repayment – Monthly EMI obligation

*Net Rentals = Rent as per agreement – TDS at prescribed rate – Property tax – Maintenance charges – Any other expenses

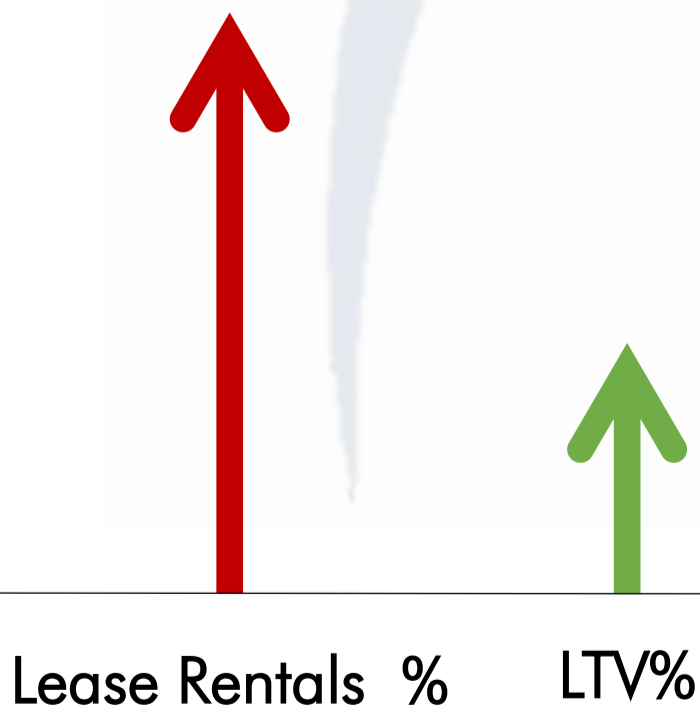
Current Scenario

Loan Eligibility in general scenario



Loan Eligibility is lower of –
 Monthly EMI (90 - 100% of net rent)
 or
 LTV (60 – 65% of Property Value)

Post Covid-19 Pandemic



Loan Eligibility is lower of –
 Monthly EMI (70-80% of net rent of
 last 6 months)
 or
 LTV (55-60% of Property Value)

Vanilla CF + LRD

- ✓ Investment under this product is made purely for commercial properties on lease model. This product has disguised features of structured debt.
- ✓ Investment is initially made for financing the cost of the project. 70-80% of total cost of the project (including finance cost) is financed by the lender.
- ✓ Repayment of loan under this product is normally structured as a bullet* payment of loan installments as agreed by the lender & borrower
OR
once construction is completed, the Construction Finance loan is converted into LRD.
- ✓ Since investment is made at an early stage, few factors like due diligence and risk analysis play a crucial role.

*Bullet Payment is a lump sum payment made for the entirety of an outstanding loan amount.

Vanilla CF + LRD (Contd.)

Loan Structure

Loan Eligibility –

70-80% of construction cost of the project

Interest Rate – 15% to 18% (depends on tenor & borrower profile)

Loan Tenor – 5 to 7 Years

Processing Fees – 1% to 1.50%

Due Diligence – Legal, Valuation, Technical

Purpose of the Loan – Towards construction of the project

Risk – Execution Risk

Repayment – Monthly EMI obligation

Forward Lease Contract – In few cases (pre-requisite)

LRD

Loan Eligibility

Calculated on basis of Net Rentals

Product Type

Retail/Corporate Finance product
(depends on the value of transaction & the internal classification of the FI)

Due Diligence

Limited due diligence on the borrower's property and his financials

Repayment

Monthly EMI obligation

CF+LRD

Loan Eligibility

70-80% of construction cost of the property

Product Type

Construction Finance (hybrid product)

Due Diligence

Extensive due diligence carried out for the whole project as it involves high execution risk

Repayment

Bullet payment of loan installment / conversion into LRD Facility

“
Education is not the learning
of facts but the training of
mind to think.

- Albert Einstein
”

Stay Tuned for
More Knowledge

