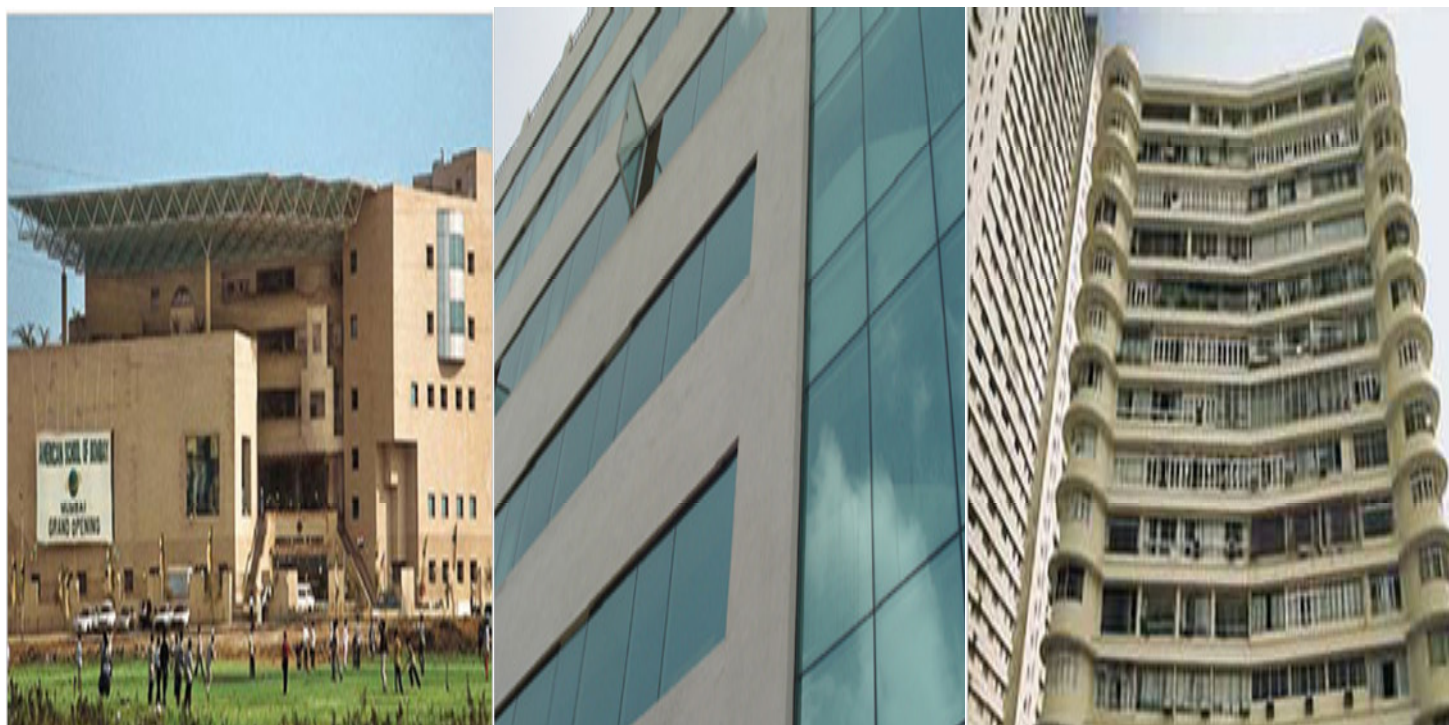


REAL ESTATE – SOURCES OF FINANCE



INTRODUCTION : REAL ESTATE IN INDIA

The asset classes in RE sector can be divided into :

- Residential
- Commercial/IT offices
- Retail
- Hospitality segments
- Industrial Parks/SEZs
- Warehousing

SECTOR DYNAMICS

Driving Force


Residential	– Changing demographics, urbanization, ease of finance
Office Space	– IT, Telecom and BPO;
Retail	– New retail formats and entry of global brands;
Hotels	– Domestic business travel and domestic tourism; and
Warehouses	– Organized retailing and requirement of logistic services.

- Indian RE market size is expected to reach US\$ 180 bn by 2020
 - Residential 70%
 - Commercial segment 25%
 - Organized retail, industrial warehouse and hospitality combined at 5%
- Indian RE market is expected to grow at a CAGR of 20 % , driven by 18-19% growth in residential, 55-60% in retail and 20- 22 % in commercial sector.
- To promote institutional funding in the sector, FDI norms were relaxed (Red Tape to Red Carpet)
- More allocation by GOI for Rural Housing Fund . It has allocated more than Rs 4000 Crs for NHB to increase the flow of cheaper credit for affordable housing for urban poor.
- Real Estate contribution to India's(GDP) is estimated to increase to about 13% by 2028

According to RBI, between May 30, 2014 & May 29, 2015, lending to commercial real estate business grew at 7.5 % whereas in the corresponding period a year ago it grew at 17.8 %.

SKY-HIGH WOES

Amount disbursed to the commercial real estate sector

As on		(₹ cr)
May 31, '13	1,30,900	
Mar 21, '14	1,53,200	
May 30, '14	1,54,300	
Mar 20, '15	1,66,500	
May 29, '15	1,65,900	

Source: RBI

FINANCING OPTIONS



- BANK CREDITS:
 - CC/OD/ PROJECT LOAN
 - FACTORING
 - LC/BG(Non fund Based)
 - LRD
 - LAP
- EXTERNAL COMMERCIAL BORROWING (ECB)
- PRIVATE EQUITY- DOMESTIC FUNDS
- FOREIGN DIRECT INVESTMENTS-
CCD/CCP/EQUITY
- FCCB/ADR/GDR/QIP(For Listed Co.'s)
- IPO in International markets such as AIM

BANK CREDIT - GENERAL

Lending by Banks continues to be the biggest sources of financing for Real Estate companies in India.

They also finance the RE sector by providing housing loans to individuals.

Banks provide indirect finance to RE sector by giving loans to housing finance institutions.

Some of the prominent Nationalized Banks lending to Real Estate are :

Housing Loan – Top Public Sector Banks						
	(Amount in Rs crore)					
	Disbursement		Outstanding		NPA (in %)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
State Bank of India	28,517	29,238	1,40,358	1,59,236	0.9	0.6
IDBI Bank	6,294	7,135	23,434	26,766	0.9	0.9
Bank of Baroda	5,662	4,923	19,588	22,545	1.5	1.3
Punjab National Bank	5,094	6,681	17,022	21,544	1.4	1.6
Canara Bank	5,737	6,685	12,823	16,480	2.1	2.1
Bank of India	4,433	5,529	13,081	16,664	1.8	0.9

Source :RBI

BANK CREDIT – CC/OD/ PROJECT LOAN

- **Purpose:** To meet working capital requirements
- **Amount of facility:** Based on the Bank's assessment of working capital requirement (WIP & book debts)
- **Security:**
 - Charge on Current assets
 - Collateral(s) on case to case (External rating etc)
- **Interest Rates:** 12% -16%
- **Tenure :** 1 -5 years

BANK CREDIT – LC/BG

- Letter of credit(LC) is a written undertaking by a bank(issuing bank) given to the seller (beneficiary) at the request and in accordance with the instructions of buyer (applicant) to effect payment of a stated amount within a prescribed time limit and against stipulated documents provided all the terms and conditions of the credit are complied with.
- Bank guarantee is a type of guarantee in which a bank promises to repay the liabilities of a debtor in the event of default.
The contract of guarantee has three parties Principal Debtor, Principal Creditor, Guarantor i.e. Bank

BANK CREDIT – FACTORING

Factoring is a service that covers the financing & collection of account receivables of series of trade transactions between a seller & a buyer in the domestic market as well as international market.

Advantages:

- It is among the **quickest & easy** way to get advance cash
- **Cost effective** with elimination of demand & collection activities
- Getting cash with factoring helps in **eliminating the risks** of bad debts
- It helps the company in developing more projects
- It gives an opportunity to offer **credit to customers**
- It helps in building **credit history** and no long-term obligation

BANK CREDIT - LEASE RENTAL DISCOUNTING

Lease Rental Discounting (LRD) is a type of Term Loan offered against rental receipts derived from lease contracts with corporate tenants.

➤ **Quantum:**

- Based on the discounted value of the rentals
- 60% to 80% of underlying property value.

➤ **Tenure:** 5-15 yrs(Linked with lease period, lock in , quality of tenant etc.)

➤ **ROI :** @10.50 – 13%

➤ **Repayment Mode:** Generally Rentals are payable by the tenant directly to an escrow account with lending bank.

➤ **Security:** The underlying leased property will be taken as prime security.

BANK CREDIT -LOAN AGAINST PROPERTY

Loan against property is similar to other loans like term loan, Equipment Loan etc.

➤ **Quantum of Loan:**

- Depends on type of property
- Income of the borrower
- LTVs are at 60 - 70% of PMV

➤ **Tenure:** Flexible for 1 – 15 years

➤ **Interest Rates:** @11%-14%

➤ **Security:** Charge on Property

EXTERNAL COMMERCIAL BORROWINGS (ECB)

- ECB allow corporate to access the foreign currency loans through commercial bank in the form of loans, suppliers' credit, fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares availed of from non-resident lenders.
- Since January 2009, ECB route has been opened for the development of Hotel projects, integrated townships, Low cost affordable housing & Industrial Parks.
- For Industrial Parks ECB is allowed under automatic route while for SEZ & Integrated township development ECBs is allowed under approval route.
- Real Estate companies like Jai Prakash Associates, Unitech, HDIL and AMR Construction, etc. have used ECB to raise funds.

ECB - GUIDELINES

Maximum Loan Amount:

- Corporate engaged in hotel, hospital & software sectors: Up to USD 200 Million
- Real sector (Industrial & Infra): up to USD 750 Million

ECB - GUIDELINES

Tenure:

- Up to USD 20 Million: Min Avg maturity of 3 years
- Above USD 20 Million: Min Avg maturity of 5 years

Cost:

Average Maturity period	All-in-cost Ceilings over 6 month LIBOR
Three years and up to five years	350 basis points
More than five years	500 basis points

Prepayment:

Prepayment of ECB up to USD 500 million may be allowed by AD Banks without prior approval of RBI subject to compliance with minimum average maturity period as applicable to the loan.

ECB - GUIDELINES

- **End use** : Not allowed for Acquisition of land & Investment in Equity markets
- **Security** : Left to the choice of lender
- **Other Conditions** : Any kind of BG/Loc/SBLC not allowed
- **Recognized Lenders**: Only from International banks , FI (IFC, ADB,CDC, Exim Banks) , Foreign Collaborators & Equity holders

Other Issues/Challenges

- Small Developers have less Chance of getting loans
- High Provisions by banks for RE Sector
- RE can be cyclic & slow down can impact repayments
- Lack of Industry Status for RE Sector
- Risk weight on loans to be reduced

Thank You!

