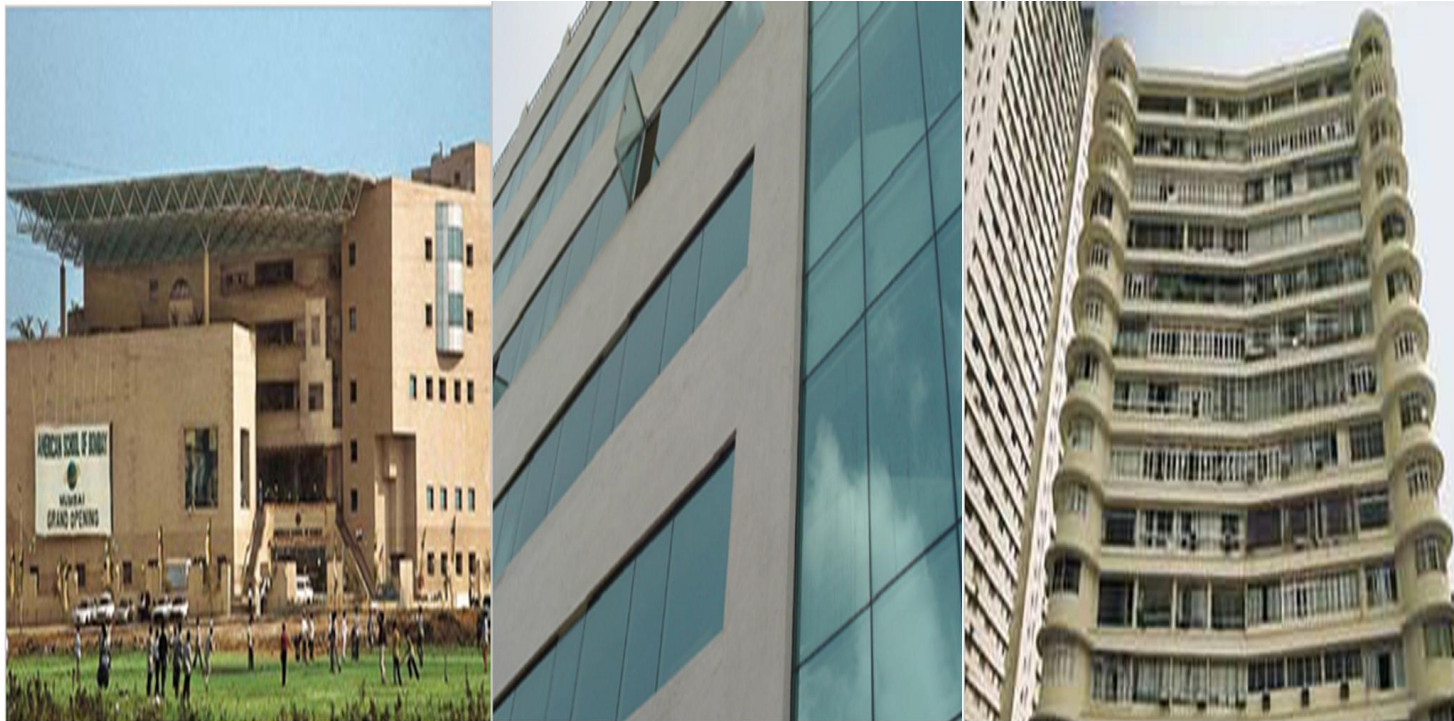


REAL ESTATE – SOURCES OF FINANCE



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, KPO, E-Comm;
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)

- Real Estate contribution to India's (GDP) is estimated to increase to about 13% by 2028 which is currently 5-6%.
- **“Housing for All”** Scheme to develop 110 million houses by 2022. It will require investment of USD 2 Trillion to achieve the target.
- 100% deduction for profits to an undertaking in housing project for flats upto 30 sq. mtrs in four metro cities and 60 sq. mtrs in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.
- Construction of affordable houses up to 60 sq. mtrs under any scheme of the Central or State Govt including PPP Schemes will be exempt from service tax.
- The government will provide an interest subsidy of 6.5% on housing loans availed by the beneficiaries(EWS/LIG) under “Housing for All scheme” for a period of 15 years from the start of a loan.

FINANCING OPTIONS



- **BANK CREDITS:**
 - OD/WCTL/ PROJECT LOAN
 - FACTORING
 - LC/BG(Non fund Based)
 - LRD
 - LAP
- **PRIVATE EQUITY**

Steps for Bank Loan

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BANK CREDIT – OD/WCTL/ PROJECT LOAN

- **Purpose:** To meet working capital requirements
- **Amount of facility:** Based on the Bank's assessment of working capital requirement & Cash Flows.
- **Security:**
 - Charge on Current assets (Project Assets – Inventory, WIP, Receivables)
 - Collateral(s) on case to case (External rating etc)
- **Interest Rates:** 12% -16%
- **Tenure :** 1 -5 years

Factoring

An agreement in which receivables arising out of sales are sold by borrower (client) to the factor (financial institution).

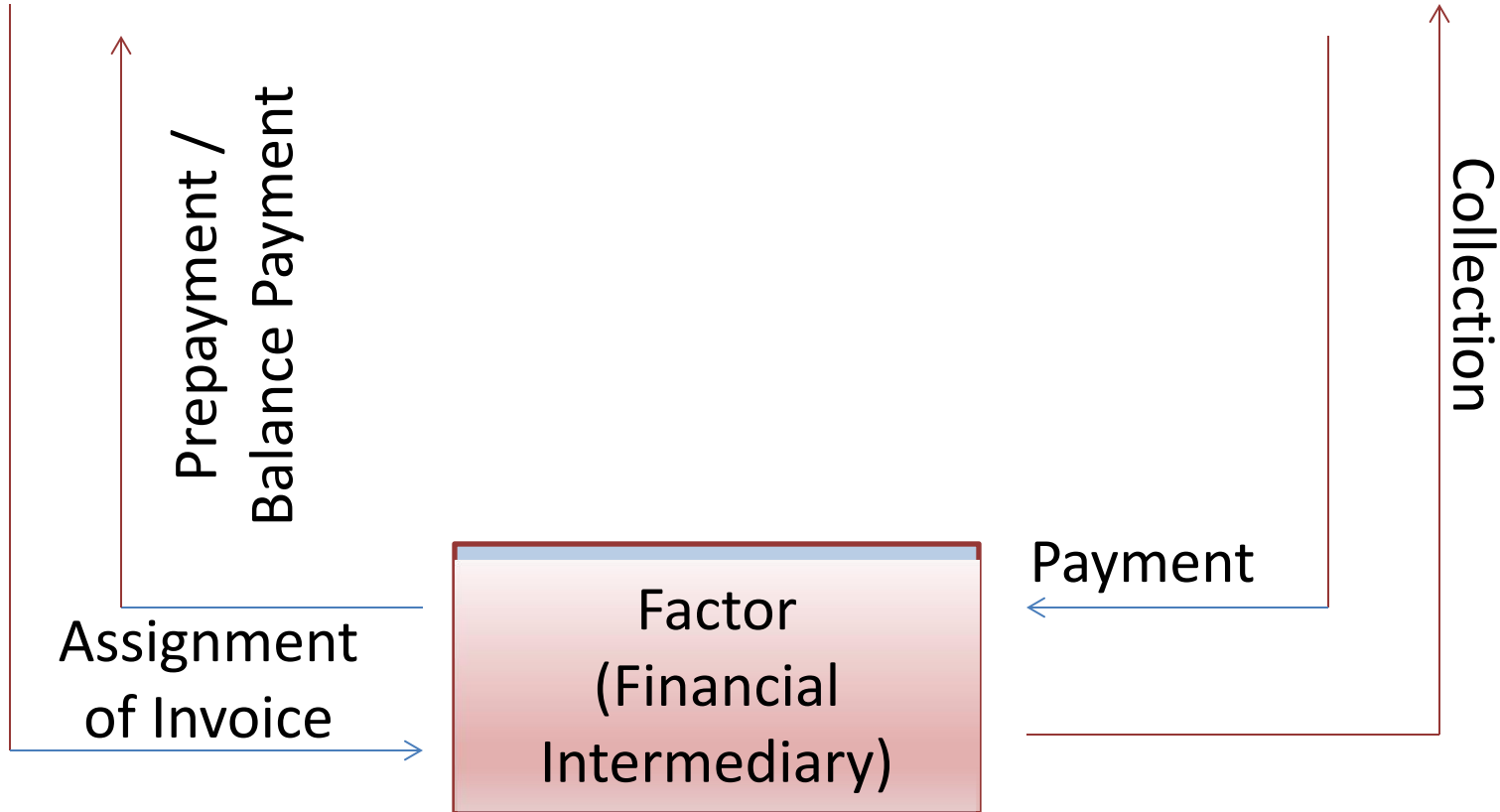
Factor usually makes advances up to 80-90% of value of accounts receivable.

Factor is more concerned with the creditworthiness of the invoiced party than client's financial status.

Sales Contract/ Purchase Order

Seller/
Your Self

Buyer/ Debtor



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 – 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

Issuing Bank

The relationship between the issuing bank and the Seller is governed by the terms of the letter of credit, as issued by that bank.

The relationship between the Buyer and the issuing bank is governed by the terms of the application and agreement for the Letter of Credit (L/C).

Beneficiary
(Seller)

Applicant
(Buyer)

The relationship between the Buyer and the Seller is governed by the sales contract.

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 Home Loan, Term 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

PRIVATE EQUITY

- Private Equity players have been very active in the real estate sector especially in housing from the past few years (2005 onwards).
- Besides Equity, structured debt-like instruments are used in light of volatility this industry faces.
- Major Domestic Players in India:
 - ICICI Ventures
 - IDFC
 - HDFC
 - IL &FS
 - Kotak Private Equity
 - Urban Infra RE Fund (Jay Corp)
 - Indiareit (Piramal Group)

Thank You!



CA. B. L . Maheshwari