

SOURCES OF FINANCE

(REAL ESTATE SECTOR)



REAL ESTATE IN INDIA

The asset classes in RE sector can be divided into:

- Residential
- Commercial 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;
 - ❖ Hospitality – Domestic business travel and domestic tourism;
 - ❖ Warehouses – Organized retailing and logistic services.
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- Indian RE market size is expected to touch US\$ 180 bn by 2020 and USD 853 bn by 2028.
 - The private equity investments in real estate increased 26 per cent to a nine-year high of nearly Rs 40,000 crore (US\$ 6.01 billion) in 2016.
 - Real Estate contribution to India's (GDP) is estimated to increase to about 13% by 2028. The housing sector alone contributes 5-6 % to the country's Gross Domestic Product (GDP).

- Foreign Direct Investment (FDI) equity inflows to the tune of US\$ 24.28 billion in the period April 2000-December 2016 (8.4 % of total FDI inflows)
- Fourth largest sector in terms of FDI inflows.
- India's commercial capital, Mumbai, attracted more than USD 2 billion (Rs 13,400 crore) of private investments in 2016
- Urban housing shortage in India has plunged from 24.7 million in 2007 to 18.78 million in 2012 – 2017 five year plan.
- Government's plan to build 100 smart cities would reduce the migration of people to metro & other developed cities.

POLICY SUPPORT

The government has taken key policies initiatives in 2016 :

- ◉ Real Estate (Regulation and Development) Act, 2016
- ◉ Benami Transactions (Prohibition) Amendment Act, 2016
- ◉ 100% deduction in profits for affordable housing project
- ◉ Interest subsidy for first time home buyers
- ◉ Change in arbitration norms for construction companies
- ◉ Service tax exemption on construction of affordable housing
- ◉ Dividend Distribution Tax (DDT) exemption for SPVs to Real Estate Investment Trust
- ◉ Goods and Services Tax

FINANCING OPTIONS



○ BANK CREDIT S:

STEPS FOR BANK LOAN

Break up of Cost of Project

Particulars	Amount incurred	Amount to be incurred	Total
Land/ Corpus Deposit	X	X	XX
Construction Cost	X	X	XX
BMC Premium	X	X	XX
TDR	X	X	XX
Legal & Prof Fees	X	X	XX
IDCs	X	X	XX
Contingencies	X	X	XX
TOTAL	XX	XX	XXX

Break up of Means of Finance

Particulars	Amount brought	Amount to be brought	Total
Promoters Contribution			
i. Equity	X	X	XX
ii. Quasi Equity	X	X	XX
Internal Accruals	X	X	XX
Loan from Bank	X	X	XX
TOTAL	XX	XX	XXX

PREPARATION OF DPR

- Promoters Profile / History
- Past , Ongoing & Future Projects
- Borrowing Profile
- Project Specific :
 - i) Area Calculation Chart
 - ii) Cost Sheet
 - iii) Sales Price Estimation
 - iv) Status of all Permissions & Approvals
 - v) Implementation Schedule / PERT Chart
 - vi) Amenities

OD/WCDL/ 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:** 10% -14%
- ◉ **Tenure :** 1-5 years

Factoring

FACTORING/20:80 SCHEME

Buyer

Buyer takes loan for Balance 80% to be paid to Builder on Construction stage wise

Bank/Lender

Repayment of EMI starts after getting possession

Builder pays Interest on Loan amount till Possession

Disbursal of Loan in Stage wise

Pay only 20% down-payment

Builder

₹
₹
₹
₹

➤ **Letter of Credit (LC)** is a written undertaking by

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)

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

BANK CREDIT - LRD

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 :** @ 9 – 11%

➤ **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

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 - 75% of PMV
- **Tenure:** Flexible for 1 – 10 years
- **Interest Rates:** @10%-13%
- **Security:** Charge on Property

- Private Equity players have been very active in the real estate sector especially in housing sector since 2005 onwards.
- Besides Equity, structured debt-like instruments are also used.
- Major Domestic Players in India:
 - ◉ ICICI Ventures
 - ◉ IDFC
 - ◉ HDFC
 - ◉ IL &FS
 - ◉ Kotak Private Equity
 - ◉ Urban Infra RE Fund (Jay Corp)
 - ◉ Indiareit (Piramal Group)

External Commercial Borrowing (ECB)

- Refers to foreign currency loan in the form of bank loans, securitized instruments availed by residents from non resident lenders with minimum average maturity of 3 years.
- Department of Economic Affairs, Ministry of Finance along with RBI monitors & regulates ECB guidelines & policies.
- FCCB, Preference Shares & FCEB are also governed by ECB Guidelines.

Forms of ECB

- Bank loans;
- Securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares/debentures);
- Buyers' credit;
- Suppliers' credit;
- Foreign Currency Convertible Bonds (FCCBs);
- Financial Lease; and

All the forms of borrowing can be availed of both under the automatic and approval routes

ECB for low cost affordable housing projects

- Allowed as a permissible end-use, **under the approval route.** ECB can be availed by developers, Housing Finance Companies (HFCs) and National Housing Bank (NHB) for low cost affordable housing projects.

(I) Definition of eligible project

A low cost affordable housing project for the purpose of ECB would be a project in which at least 60 per cent of the permissible FSI would be for units having maximum carpet area up to 60 square meters.

Slum rehabilitation projects will also be eligible under the low cost affordable housing scheme.

(II) ELIGIBLE BORROWERS

b. Housing Finance Companies (HFCs):-

HFCs, satisfying the following conditions, can avail of ECB for financing prospective owners of low cost affordable housing units: -

- i) The HFC should be registered & operating in accordance with the National Housing Bank (NHB) guidelines;
- ii) Minimum paid-up capital \geq INR 50 crore, as per the latest audited balance sheet;
- iii) Min. Net Owned Funds (NOF) of \geq INR 300 crore for the past 3 FY;
- iv) Borrowing through ECB should be within HFC's overall borrowing limit of 16 times of their NOF;
- v) Net Non-Performing Assets (NNPA) shall be \leq 2.5 % of the net advances;
- vi) Max loan amount to individual buyer will be INR 25 lakh subject to, the cost of housing unit shall not exceed INR 30 lakh; and
- vii) The ECB shall be swapped into Rupees for the entire maturity on fully hedged basis.

Small House Big Benefit - PMAY

- 1) **Pradhan Mantri Awas Yojana (earlier “Housing for All”)** to develop 60 million houses by 2022.
- 2) Loan up to Rs 6 lakh at fixed interest rate of 6.5% for a period of 20 years is given to lower income groups (LIG) and Economic Weaker Sections (EWS)
- 3) In case loan amount exceed Rs 6 lakh then Interest concession of 4% and 3% on loans up to Rs 9 lakh and Rs 12 lakh, respectively.
- 4) The carpet area of houses being constructed under PMAY should be up to 30 square metres of EWS and 60 square metres LIG category
- 5) Interest subvention of 3 % for the neo middle and middle class in rural areas for loans of up to Rs.2 lakh taken in 2017, for new housing or extension of housing in rural areas.
- 6) Assistance of Rs 1.5 lakh will be given to EWS categories to either construct new houses or enhance existing houses , who are not able to take advantage of other components of the mission.

Thank You!



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EURO CORPORATE SERVICES PRIVATE LIMITED