



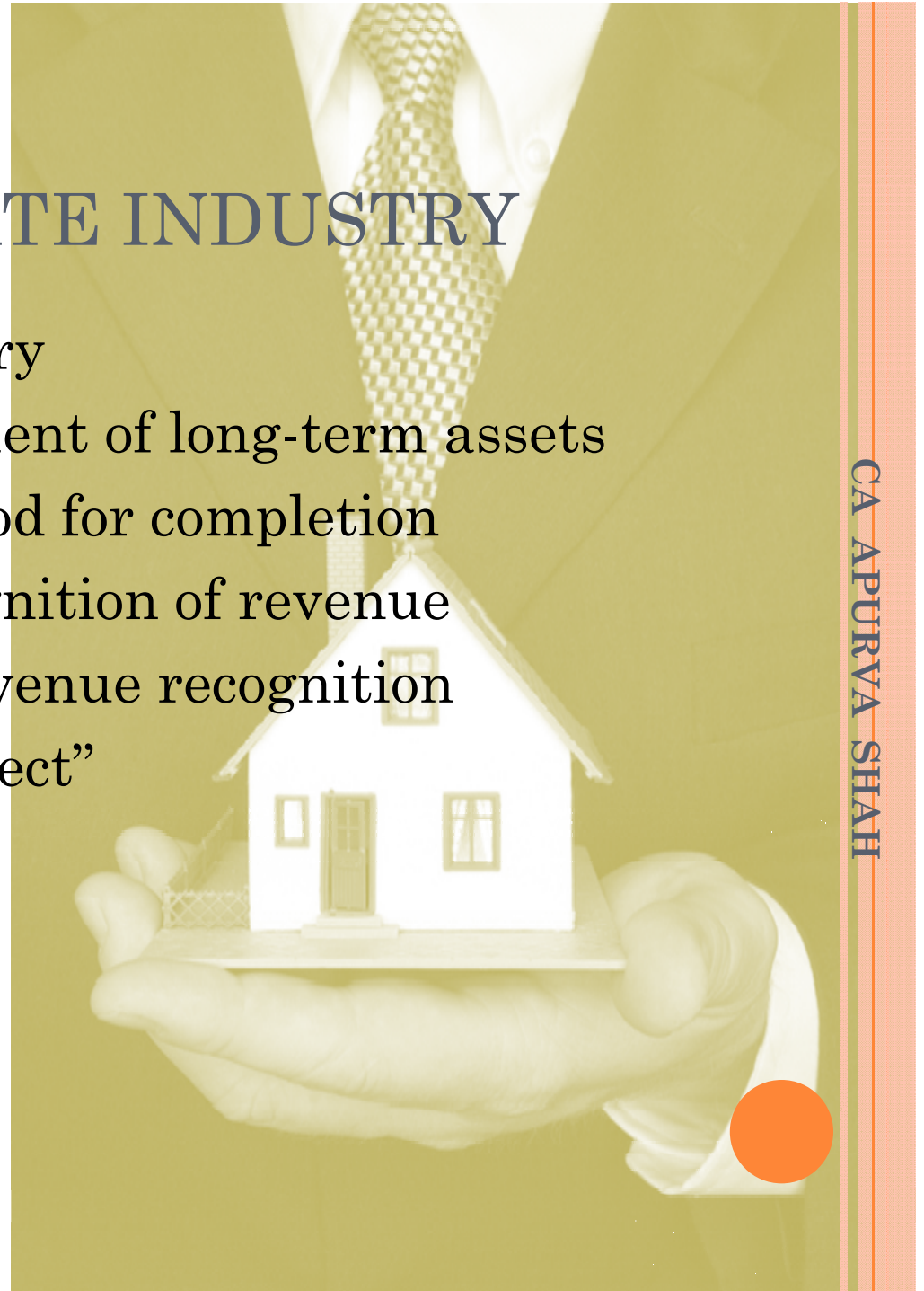
FINANCE FOR REAL ESTATE PROJECT

BY CA APURVA SHAH

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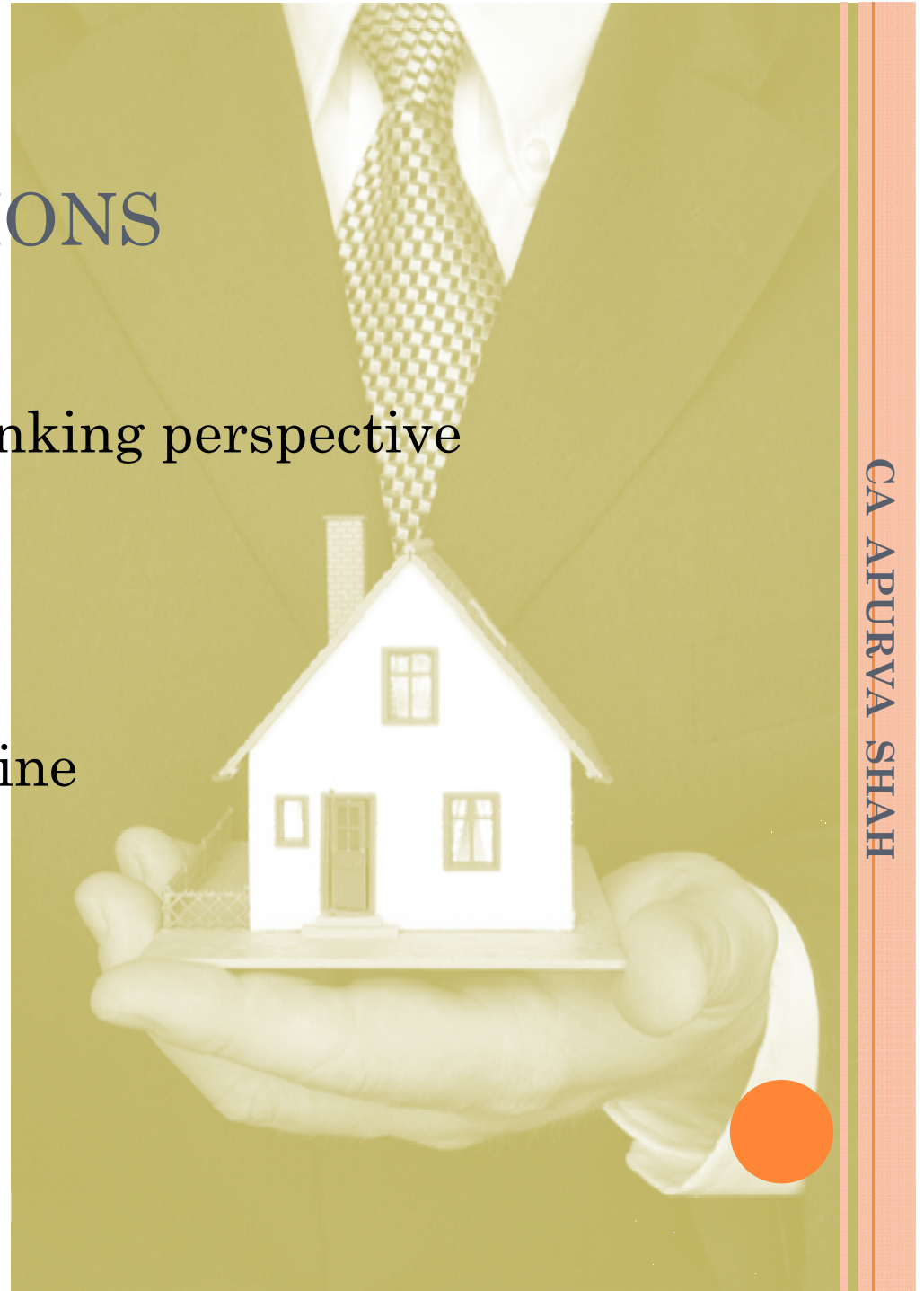
ABOUT REAL ESTATE INDUSTRY

- Capital intensive industry
- Manufacture / Development of long-term assets
- Medium-Long term period for completion
- Unique method for recognition of revenue
- Absence of consistent revenue recognition
- “New entity for new project”



KEY CONSIDERATIONS

- Lack of transparency
- Negative profile from banking perspective
- Lack of Corporatization
- Legal Hassles
- Demand-Supply gap
- Lack of Financial discipline



CURRENT INDUSTRY SCENARIO

Mumbai residential prices

Mumbai	INR/sq ft 2QCY09	Price Change	
		3mths	1Yr
Colaba, Cuffe Parade	45,000-55,000	-1%	-6%
Altamount Road, Napeansea Road, Peddar Road	42,000-62,000	-3%	-11%
Lower Parel, Parel	12,000-24,000	-5%	-28%
Bandra, Santacruz, Juhu	13,000-19,000	0%	-6%
Andheri, Malad, Goregaon	7,500-10,500	6%	-1%



RECENT TRENDS



Price increases in select projects

Company	Project	City	Location	Launch Mth/Yr	Rs/sq ft		% Change
					Launch Price	Current Price	
HDIL	Metropolis	Mumbai	Andheri	Mar-09	7,650	10,000	31%
HDIL	Premier Resi	Mumbai	Kurla	Mar-09	5,250	6,000	14%
HDIL	Galaxy Apt	Mumbai	Kurla	Apr-09	4,250	4,450	5%
Lodha Dev	Casa Bella	Mumbai	Dombivali	Mar-09	2,000	2,240	12%
IBREL	Centrum Park	Gurgaon	Sector 103	Mar-09	1,950	2,400	23%
IBREL	Indiabulls Greens	Chennai	OMR	Nov-08	2,700	3,000	11%
Company	Project	City	Location	Launch Mth/Yr	Phase I Price	Phase II Price	% Change
DLF	Capital Greens	Delhi	Shivaji Marg	Phase I Apr-09, Phase II Sep-09	4,500-5,500	6,250-7,500	36-39%
Puravankara	ProvidentCosmo	Chennai	Near Sisureri IT Park	Phase I Jan-09, Phase II Apr-09	1,720	1,820	6%
Unitech	Unihomes	Noida	Sector 117	Phase I Jun-09, Phase II Aug-09	2,895	2,960	2%

Source: Company, www.allcheckdeals.com, Antique



REDUCING HOME LOAN RATES

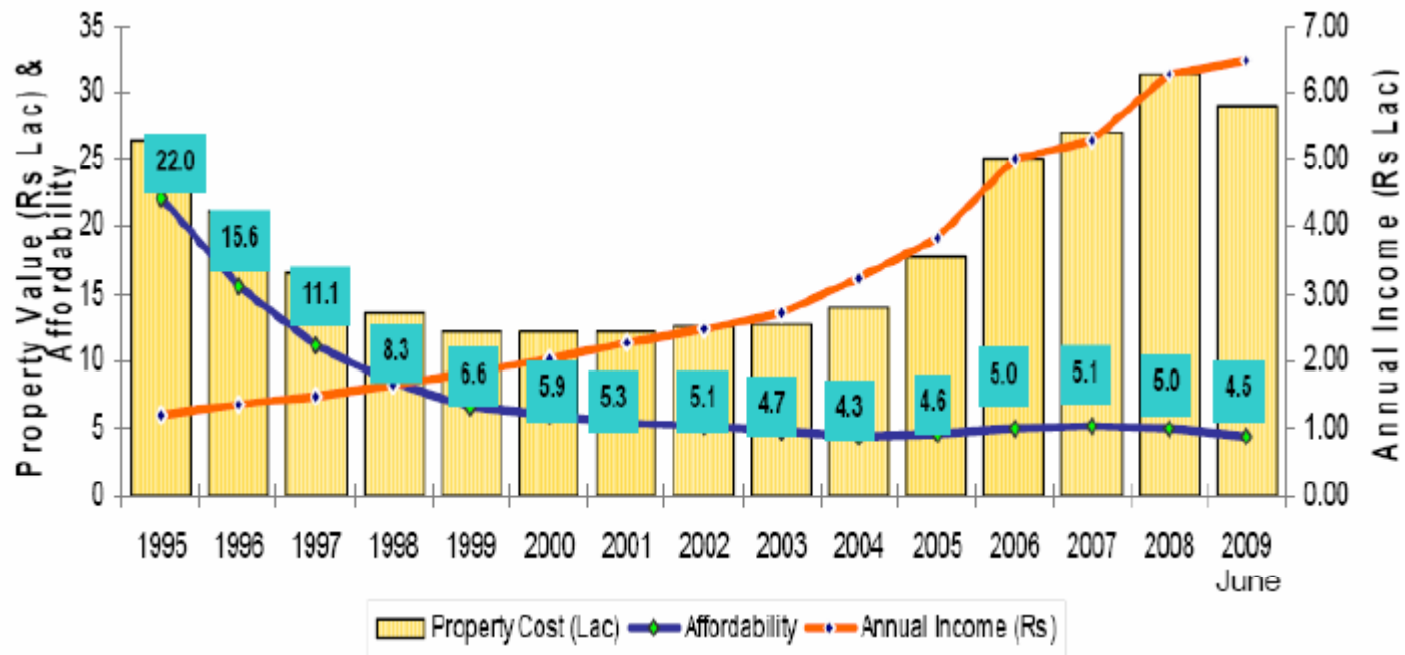
Banks and Housing Finance Companies have been reducing home loan rates

Month-Yr	Bank/HFC	Comments
Jul-09	State Bank of India	Cuts home loan rates for the first three years. 8% in the first year, 8.5% in the second year, 9.5% in the third year, and 1.25% below PLR from fourth year onwards.
Aug-09	HDFC	Cuts rates by 50bps from 9.5% to 9% for home loans between INR3-5m.
Aug-09	ICICI Bank	Cuts home loan rates to 8.75% for loans up to INR2m, 9.25% for loans between INR2-5m and 9.75% for loans above INR5m.
Aug-09	LIC Housing Finance	Cuts home loan rates for new borrowers. For loans up to INR7.5m rate fixed at 8.75% vs. 9.25%, for loans between INR3-7.5m.
Sep-09	Union Bank of India	Cuts home loan rates to 8.5% for the first three years and linked to PLR from fourth year onwards for loans up to INR5m.
Sep-09	IDBI Bank	Cuts home loan rates from 9% to 8.75% for loans up to INR3m.

Source: Economic Times, Business Standard, Financial Express, Indian Realty News, IBN Live

IMPROVED AFFORDABILITY INDEX

Affordability improves



1 Lac = 1,00,000

Property price estimates in suburban Mumbai

Affordability equals property prices by annual income

Source: HDFC

MEASURES FOR REAL ESTATE SECTOR

Government measures for real estate sector

Mth/Yr	Measures
Dec-08	RBI allows initial restructuring of commercial real estate loans without classifying them as NPAs (till 30 Jun 2009). Also, loans by banks to Housing Finance Companies for on-lending to individuals for purchase of homes not exceeding Rs2m will be classified as priority sector advances.
Jan-09	RBI removes ban on raising ECB (External Commercial Borrowings) for development of integrated townships till Dec 2009.
Jan-09	Andhra Pradesh government exempts stamp duty on new apartments up to 1,200 sq ft from 1 Jan 2009 to 31 Dec 2010.
Feb-09	Karnataka government reduces stamp duty on immovable property to 6% from 7.5%.
Feb-09	Orissa government reduces stamp duty on apartments and multi-storey buildings to 5% from 7% earlier.
Jun-09	RBI allows ECBs for infrastructure facilities with SEZs.
Sep-09	RBI classifies loans to SEZs as infrastructure lending.
Sep-09	Government announces 1% interest subvention on home loans up to Rs1m for homes costing up to Rs2m. The first twelve instalments of all loans sanctioned and disbursed during the twelve months from the date of publication of the scheme will be eligible for interest subvention.

Source: RBI, Economic Times, Business Standard, Business Line, Financial Express

LIMITATIONS FOR FUNDING REAL ESTATE

- Real Estate funding have always been under scanner of RBI
 - High risk weight for Real Estate Loans
 - Limitation of about 15% of the deposits for Urban Co-operative Banks (*Master Circular No. UBD.PCB.MC.No.1/13.05.000/2009-10 dated July 1, 2009*)
 - In 2007, RBI restricted NBFC's from investing in real estate in excess of 10% of their net worth
 - Increase in risk weight for exposure to commercial real estate resulting in higher cost of funds and reduced exposure for the sector
 - Disbursement of loans only after obtaining all the approvals for commencement of construction

PARADIGM SHIFT

- Prior to 2002, Real Estate projects were funded only through Debt and Advance Sales but since 2002 Government of India has approved FDI in Real Estate i.e. Equity investment in RE project under automatic route.
- The major change to the said FDI policy took place in 2005 with press note 2 which liberalized the investment in real estate projects by Foreign investors and since then the sector got substantial funds from Investors



FDI REGULATION

- Minimum Capitalization of \$5 Million for JV with Indian partners & \$10 Million for wholly owned subsidiary
- Minimum area to be developed will be 10 Hectares of Land development or 50,000 sq. meters of Construction area in the project
- Minimum lock-in of 3 years to apply from completion of Minimum capitalization before repatriation of original investment
- 50% of the integrated project must be completed within a period of 5 years from possession of land

SOURCES OF FUNDS

○ EQUITY

- Key source is Venture Capital / Private Equity Funds (Domestic & Foreign)
- Ideally available from land acquisition stage
- Used to share risks involved in the Project
- Costly compared to Debt / Advance sales
- Repayment in mode of profit sharing
- Repayments are made based on availability of funds

○ DEBT

- Available only for completion of construction
- Used to finance working capital requirement
- Cost is less compared to Equity or Sales bookings
- Regular interest and installments of principle to be paid as per agreed schedule
- Lender does not participate in any risk and gets cover

○ ADVANCE SALES

- Available from Land acquisition stage
- Cost is high compared to Debt but low compared to equity
- Marketing risk & partly execution risk is assumed by the Investor
- Ideal source of funds

EQUITY FUNDING

- Listed Companies
 - QIP / Preferential allotment
 - Project Specific syndication
 - Foreign Equity Partner (FDI)
 - Domestic Equity Partner
- Unlisted Closely held company
 - Entity level equity partner
 - IPO
 - Project Specific syndication
 - Foreign Equity Partner (FDI)
 - Domestic Equity Partner



FUND RAISING FOR LISTED COMPANIES VIA QIP

Fund raising transactions completed

Company	US\$m	Mth-Yr	Promoter Holding		Comments
			Pre	Post	
QIPs					
Unitech QIP - 1	325	Apr-09	65%	51%	32% equity dilution factoring in both QIPs
Unitech QIP - 2	575	Jul-09	51%	44%	
Indiabulls Real Estate	550	May-09	26%	17%	36% equity dilution
HDIL	350	Jul-09	61%	48%	20% equity dilution
Sobha Developers	110	Jul-09	87%	65%	26% equity dilution
Orbit Corp	30	Aug-09	60%	50%	18% equity dilution
Ackruti City	60	Sep-09	90%	82%	8% equity dilution
Parsvnath Developers	34	Oct-09	80%	75%	7% equity dilution
Promoter Stake Sale					
DLF	770	May-09	89%	79%	Promoters sold 9.9% stake in DLF
Total	2,803				
Issue of Warrants to Promoters					
Unitech	230	Jun-09	44%	49%	9% equity dilution. 25% paid upfront and balance on conversion.
HDIL	130	Jul-09	48%	52%	7% equity dilution. 25% paid upfront and balance on conversion.
Anant Raj Industries	35	Jul-09	61%	57%	6% equity dilution. 25% paid upfront and balance on conversion.
Orbit Corp	15	Sep-09	50%	54%	8% equity dilution. 25% paid upfront and balance on conversion.
Ansal Properties	23	Sep-09	57%	63%	12% equity dilution. 25% paid upfront and balance on conversion.
Total	432				

Source: Company, Bloomberg, Antique

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QIP transactions in the pipeline

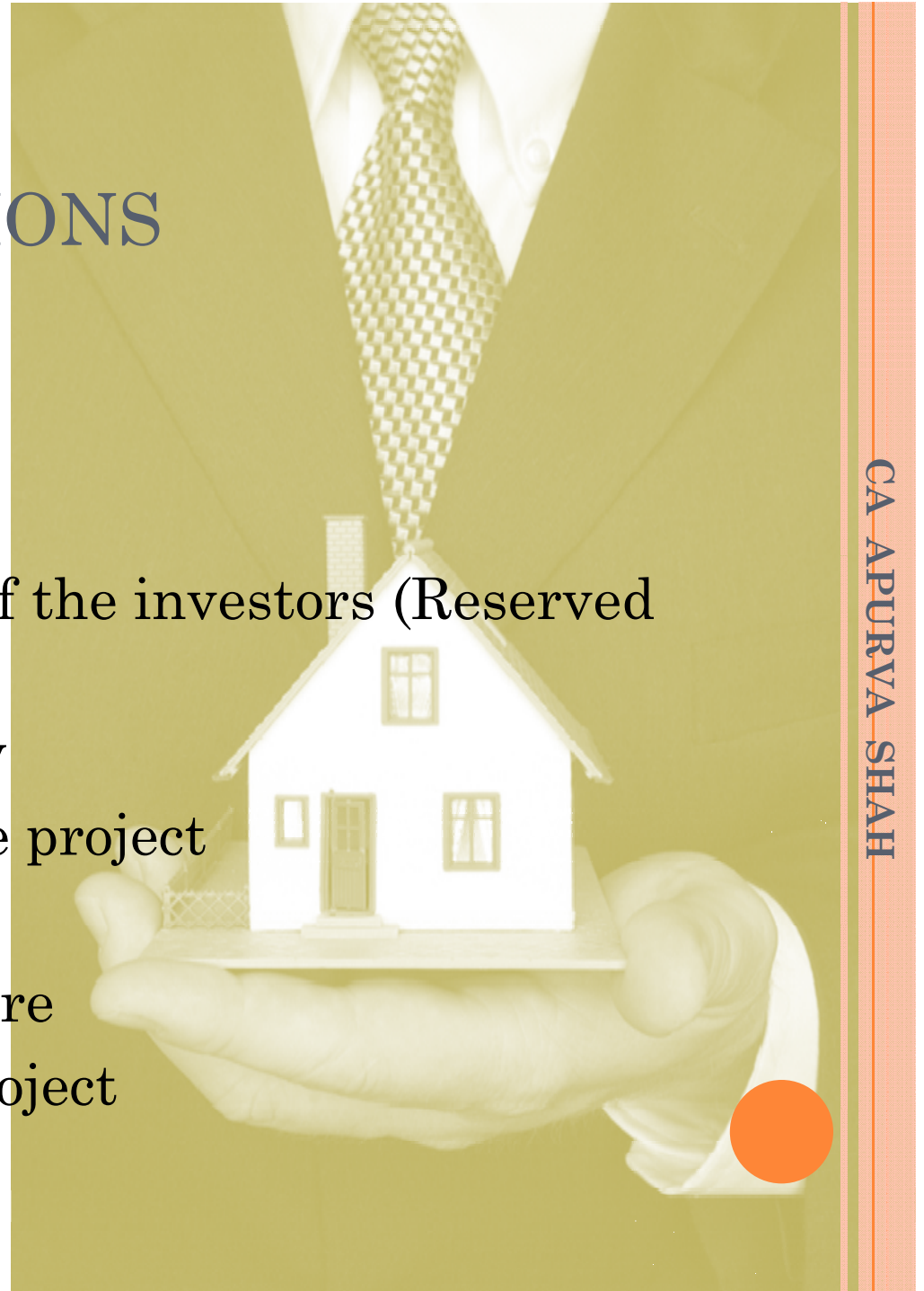
Company	US\$m	Promoter Holding		Comments
		Pre	Post	
Puravankara Projects	150	90%	70%	22% potential equity dilution. Shareholder approval received on 22 June
Anant Raj Industries	400	61%	42%	32% potential equity dilution. Shareholder approval received on 25 June
Ansal Properties	300	58%	23%	60% potential equity dilution. Shareholder approval received on 17 July
Omaxe	360	85%	46%	46% potential equity dilution. Shareholder approval received on 6 July
Peninsula Land	150	54%	40%	25% potential equity dilution. Shareholder approval received on 10 August
Sunteck Realty	100	68%	59%	13% potential equity dilution. Shareholder approval received on 11 Sep
Total	1,460			

Note: Potential dilution and pre and post promoter holding calculated based on 29 September 2009 prices

Source: Company, Antique

KEY CONSIDERATIONS

- Developer Background
- Location of the Project
- Entry Valuation
- Stake offered & Rights of the investors (Reserved Rights)
- Exit period and visibility
- Financial Closure for the project
- Return on Investment
- Legal status and structure
- Business Plan for the Project



FDI TRANSACTIONS



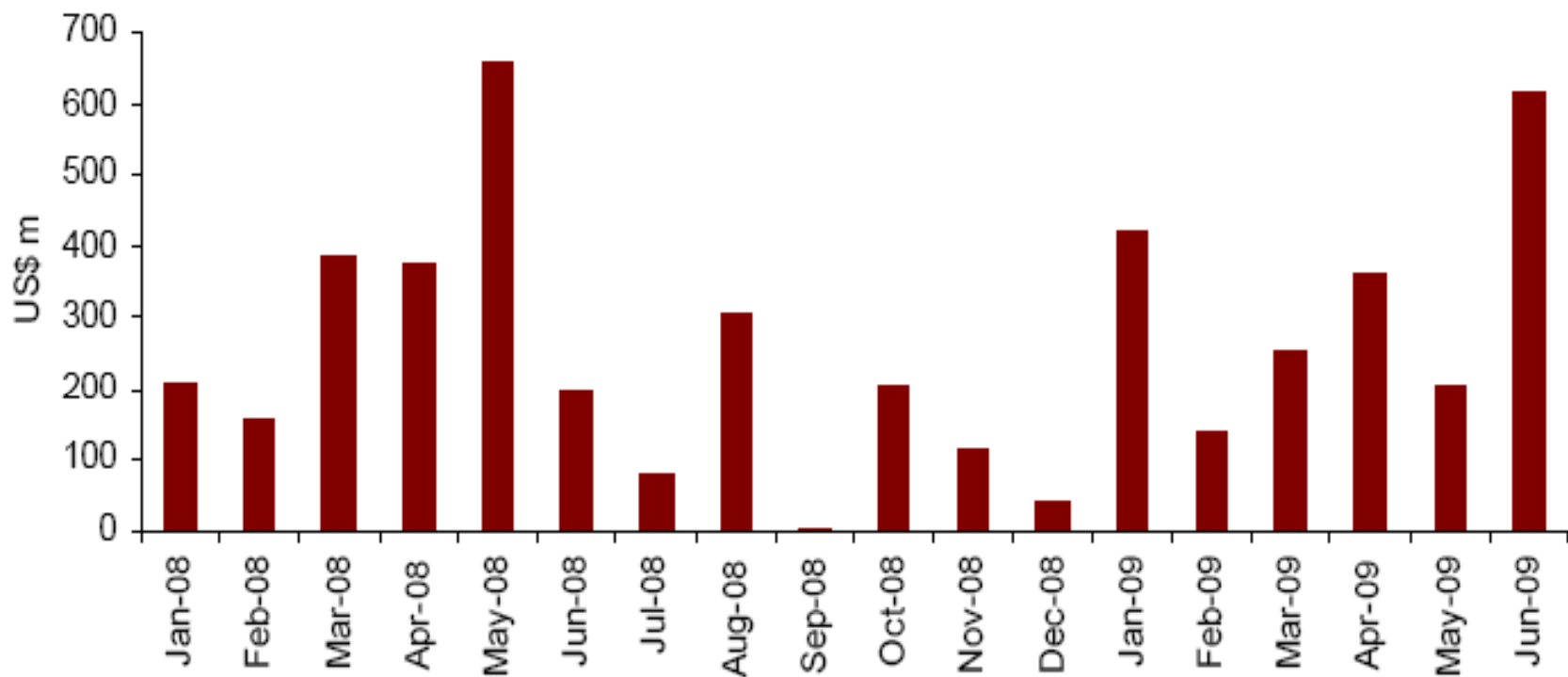
Private equity deals in real estate in 2009

Investor	Company	Month/ Year	Invst (US\$m)	Description
Sun-Apollo Ventures	Keystone Realtors	Jan-09	60	15% stake in company.
IL&FS Realty Fund	Akruti City	Feb-09	40	15% stake in SPV (Infrastructure Ventures India) for developing houses for Mumbai police in suburban Ghatkopar.
Standard Chartered Private Equity	Man Infraconstruction	Apr-09	NA	Acquisition of undisclosed stake in the company.
Purna Partners	Sobha Developers	May-09	45	Sobha to divest stake in certain land parcels to be developed through SPVs.
Red Fort Capital	Parsvnath Developers	Jun-09	18	18% stake in SPV developing residential project in Delhi.
Fund formed by former Old Lane Fund partners	Lodha Developers	Aug-09	25	26% stake in Dombivali project.
Red Fort Capital	3C	9-Aug	30	50% stake in residential project 'Lotus Boulevard' in Greater Noida.
Oman Investment Fund	Mohtisham Estates	Sep-09	125	50% in stake in 300 acre township on Mangalore-Bangalore highway.
IFPRO	Ansal properties	Sep-09	18	10% stake in company.
Red Fort Capital	Parsvnath Developers	Sep-09	5	Acquisition of 4% additional stake in SPV developing residential project in Delhi

Source: Company, VCcircle, Economic Times, Business Standard, Business Line, Financial Express, Mint, Antique

TREND OF FDI TRANSACTIONS

FDI in housing and real estate



Source: Department of Industrial Policy and Promotion, Antique

SOME OF THE EQUITY INVESTOR FUNDS

- HDFC Realty Fund (Domestic & FDI)
- ICICI – Tishman Realty Fund
- Trinity Capital
- HIRCO
- Sun Apollo
- Indiareit Real Estate Fund (Domestic & FDI)
- Kotak Realty Fund (Domestic & FDI)
- IL&FS Realty Fund (Domestic & FDI)
- Red Fort Capital
- Old Mutual (Retail Focused Fund)
- Yatra Capital

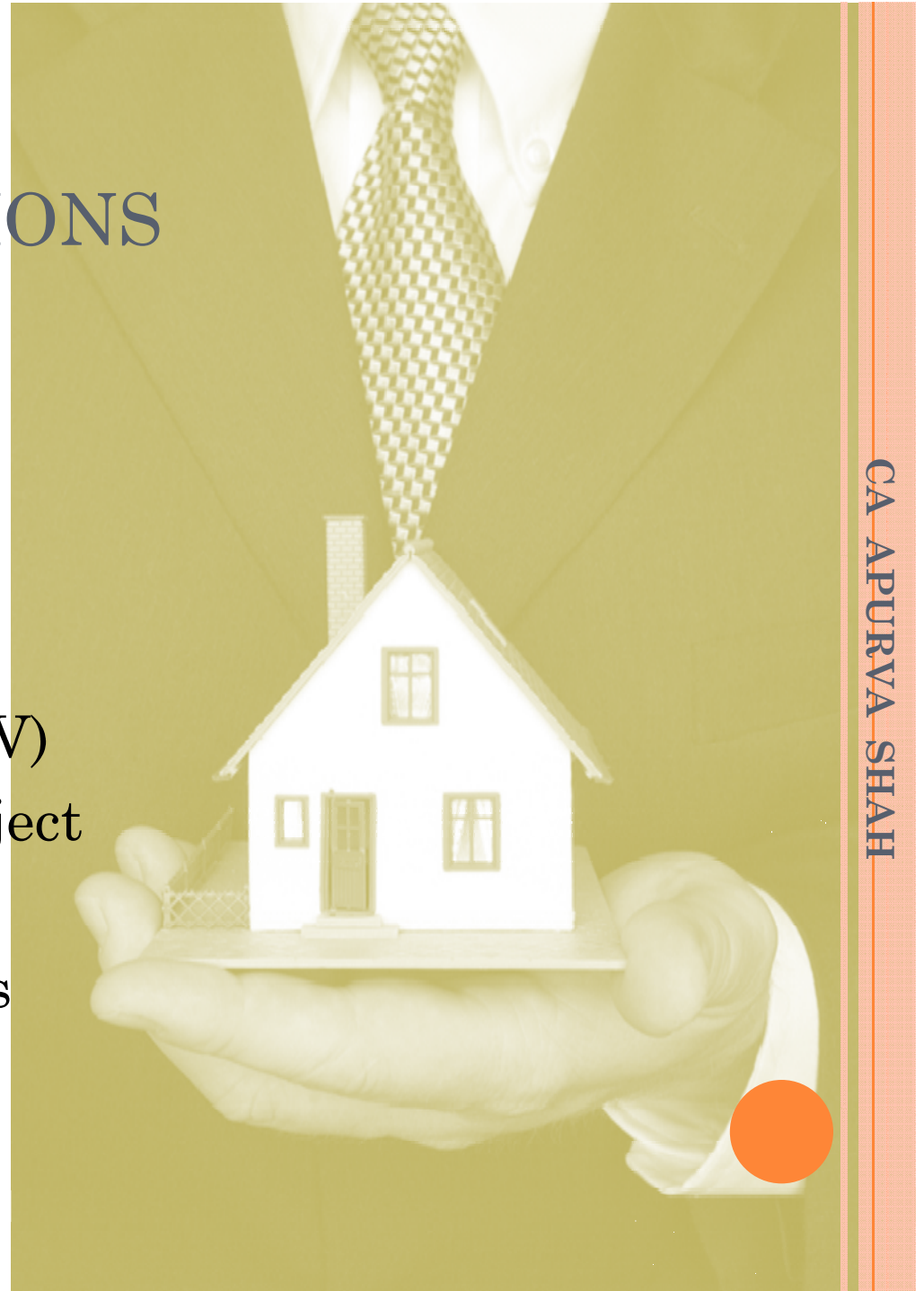




● DEBT FUNDING

KEY CONSIDERATIONS

- Developer Profile
- Location of the Project
- Industry Outlook
- Past track record
- Debt / Equity Ratio
- Loan to Value Ratio (LTV)
- Marketability of the Project
- DSCR of the Project
- Utilization of Loan funds



BANKING EXPOSURE TO REAL ESTATE

- 14 Banks which have released their Annual reports disclosed the growth of 29.1% in commercial real estate exposure as against growth of 25% in overall credit growth. (source : www.indiarealtynews.com)
- Top 10 Banks having highest exposure to commercial real estate sector are
 - Punjab National Bank,
 - State Bank of India,
 - ICICI Bank,
 - Indian Overseas Bank
 - Oriental Bank of Commerce
 - Axis Bank,
 - Bank of India,
 - Indian Bank,
 - Central Bank of India
 - Union Bank of India

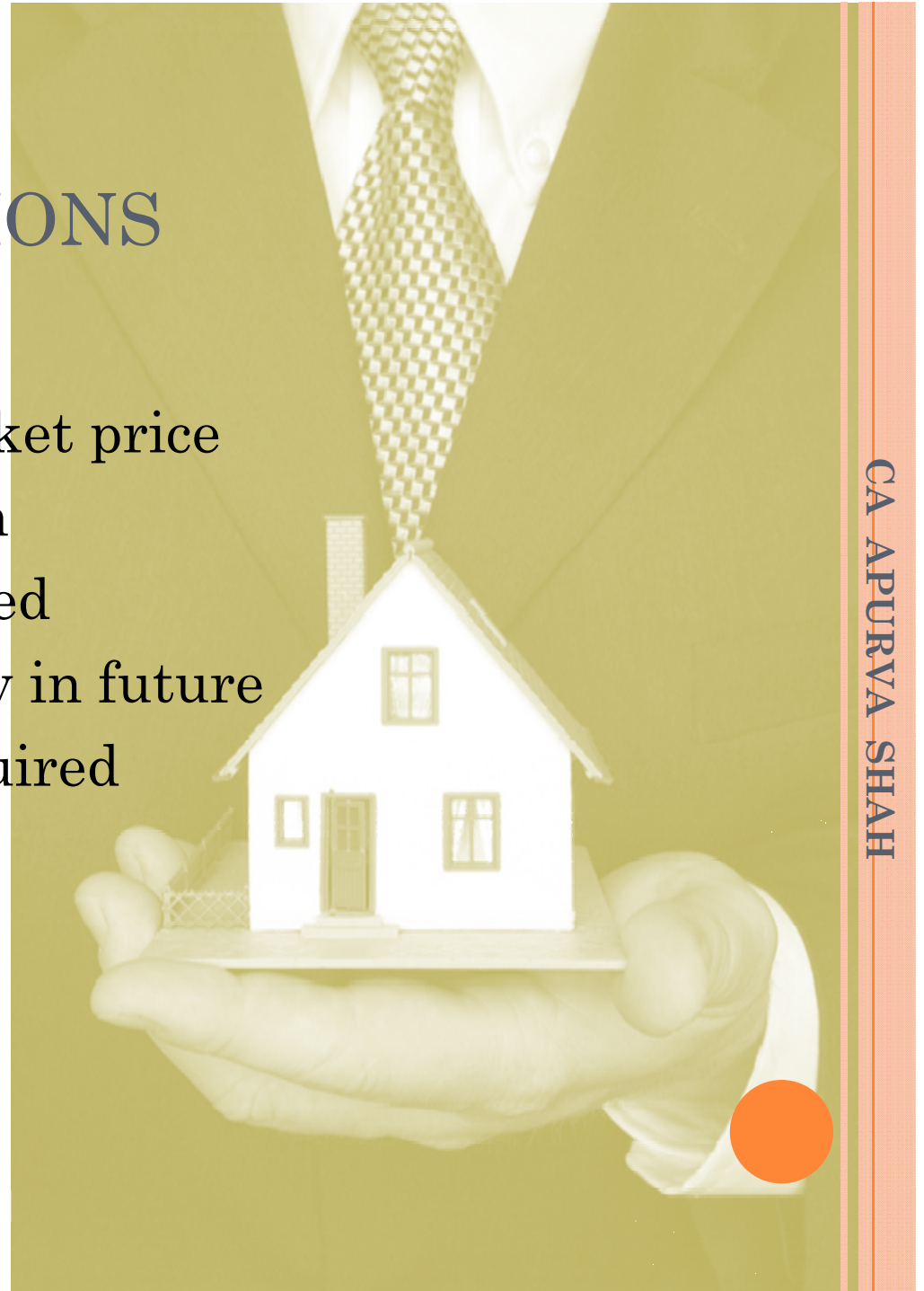


ADVANCES FROM CUSTOMERS

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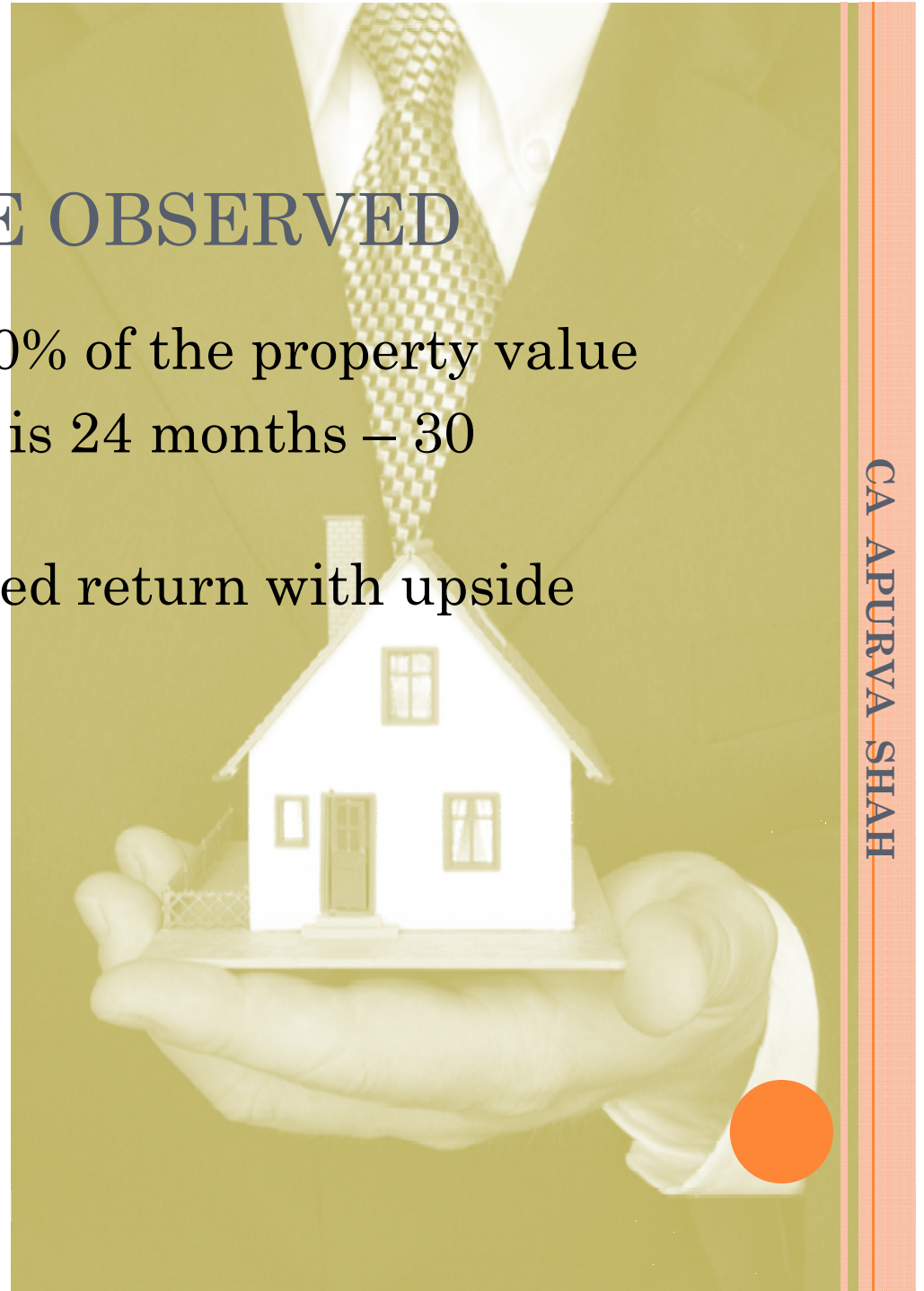
KEY CONSIDERATIONS

- Stage of Construction
- Discount offered on Market price
- Likely price appreciation
- Construction risk involved
- Salability of the property in future
- Upfront Investment required



MARKET PRACTICE OBSERVED

- Upfront Investment of 70% of the property value
- Ideal Investment tenure is 24 months – 30 months
- Investor is assured of fixed return with upside sharing





● **THANK YOU**

CA APURVA SHAH