

# **Real Estate Financing**

## **Perspective of Housing Finance Companies**

**26<sup>th</sup> December 2015**

- One of the fastest growing markets in the world.
- Successfully attracting domestic and foreign investment.
- The growth of the industry is attributed mainly to a large population base, rising income level and rapid urbanisation.
- The sector comprises of four sub-sectors: housing, retail, hospitality and commercial.
- Scenario changing in line with sector's growth in respect of better transparency levels, consumer's expectations of higher quality.
- Despite strong fundamentals, the segment is highly influenced by economic cycles.

# Financing Sources for Indian Real Estate

- Bank/FI/HFC/NBFC Lending.
- Private Lending.
- Private Equity Funds.
- Mezzanine/Structured Equity instruments by Foreign Investment.
- REITs.

- Construction Finance (Residential / Commercial).
- Corporate Term Loan
- Lease Rental Discounting

# Construction Finance: Key Considerations

---

- Business Background & Market Position.
- Financial Parameters.
- Security Parameters.
- Technical Parameters.
- Project Cash Flows.

# Business Background & Market Position

- Execution Track Record.
- Management Capability & Quality.
- Market Position.
- Development Model (JDA/ Land Banking).
- Level of Diversification.
- Analysis of Projects Delivered & Under Execution.
- Credit History.

# Financial Parameters

---

- Ownership Pattern.
- Revenue & profitability.
- Capital Structure & Debt to Equity Ratio.
- Current Ratio.
- Exposure to group companies.
- Compliances
- Auditor's Qualifications.

# Security Parameters:

- Clear, marketable and mortgage-able title of the project land/security.
- Satisfactory technical due diligence of the project.
- Asset coverage - **1.5** to **2** times
- Hypothecation of the receivables.(Receivables cover net of project expenses of 2 times)
- Corporate Guarantee/Personal guarantee / Debt Service Reserve Account as per requirement.
- Assignment of Project Insurance policy.



# Technical Parameters:

---

- Approvals to be checked
  - ✓ Title, License, Building Plans , No of units and details.
- Other statutory approvals
- Construction Schedule
  - ✓ Proposed schedule vs. current status, Time over run, if any
- Project Cost
  - ✓ Details of Project Cost, Cost incurred etc.
- Sales
  - ✓ Selling Price, Sales Velocity & Target Segment.

- Break-Even Analysis
- Sensitivity Analysis.
- Net Cash Flow.
- Repayment Schedule and moratorium period etc.
- Acceptable Gearing Levels
- Adequate Debt Service Coverage Ratio

# Key Parameters : Construction Finance

<b>Loan to Project Cost</b>	<b>Maximum 50% depending on the merits of the case.</b>
<b>Promoter's Contribution</b>	Minimum 20% of cost of the project.
<b>Dependency on booking money</b>	Maximum 50%.
<b>Project Debt Equity</b>	2 times
<b>Project DSCR</b>	1.5 times
<b>Loan to Value Ratio</b>	50% to 75% of security value depending on the merits of the case.
<b>Financials (Company/ Group)</b>	Consistently profit making D/E: maximum 2 times. Current Ratio: 1 time.
<b>Audited Financials</b>	Balance Sheet: Net worth, Debt, Advances from customers (current liability), WIP (current asset). Profit & Loss: Turn over and PAT (trending and margins) Contingent Liabilities and auditor's qualifications.

# Lease Rental Discounting:

<b>Lease Rental Type</b>	<b>Rent from Commercial Office Space, Retail Mall or Shops, Educational Institute, Hotel, Service Apartments and Multiplex etc.</b>
<b>Purpose of loan</b>	<p>The loan funds may be used for meeting business/personal needs of the applicant, such as:</p> <ul style="list-style-type: none"><li>• Acquisition of new property.</li><li>• Part financing of project implementation expenses of on-going projects or upcoming projects.</li><li>• Repayment/consolidation/substitution of high cost debts.</li><li>• Funding Business Expansion.</li></ul>
<b>Income Considered</b>	Net rent as per registered lease deed post deduction of TDS and maintenance expenses.

Thank you