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CREDAI - MCHI

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April 20, 2019

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To,
Shri M K Jain
Deputy Governor
Reserve Bank of India
Mumbai

Sub: Financial Turmoil in the Real Estate and Housing Sector and our relief needed to Revive.

Respected Sir,

This is in reference to the recent events in the financial markets, which started with ILFS defaulting on its Commercial Paper borrowing's in September 2018, leading to Mutual Funds and Banks becoming cautious towards funding of NBFC's. Over the last 18-24 months, due to the stress in the banking sector, banks had curtailed their exposure to the real estate, whereby the only source of capital available to our industry was from NBFC's, HFC's or Private Equity firms.

Real Estate Industry Pushed into Recession

Sir it's important to note that on account of various reasons, the entire real estate sector has been pushed into an economic and liquidity recession, which has resulted in a huge reduction in job creation as well as job loss in the construction industry. The industry today is operating at only 40% of its actual capacity.

Various developers have already been forced to reduce their workforce by 33%~50% and the number of projects being registered under RERA have reduced, a fact that can be corroborated by the MahaRERA website which shall show a quarter-on-quarter reduction in new project registrations or in effect new project launches. The Real Estate industry today is moving at a snail pace.

Importance of Real Estate & Housing Sector

Sir, we would also like to bring to your attention that the real estate and housing sector is the second largest provider of employment in the country and a 8%~10% contributor towards India's GDP. However, this sector has been hit by a series of rapid changes without allowing any time for the industry to settle to the change, resulting in a slowdown in the last two years, starting with:

[A] Regulation changes in the Development Plan and Development Control Regulation in Mumbai & MMR, starting from 6th January, 2012, and which continues even today;
[B] Demonetization;
[C] RERA;
[D]ULC
[E] MOEF
[F] DEFENCE

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[G] Civil Aviation
[H] Increase in the Ready Reckoner rates
[I] Followed by GST; and
[J] Now the ILFS lead NBFC liquidity crisis,

which had a large impact on the speed of start, progress of completion, sales and general well-being of the industry.

Over 1% to 3% Increase in home loans Rates Making Buying & Building Homes Unaffordable
In light of the liquidity crisis facing the NBFC's, capital availability to the sector has further decreased leading to a major crisis in the industry, especially since a lot of banks and NBFC's have even stopped disbursing home loans or even canceled sanctions of customers as well. Apart from this the cost of borrowing has gone up for everyone including home loans by over 2% from the NBFC's and in some cases even as high as 4%. Such an overnight increase of more than 2% on loans has further made it unaffordable to both build and buy homes in the country. This is creating a vicious cycle, where the developer is not in a position to get home loan disbursals or disbursals for supporting the construction and other activities of the projects currently underway, with the cost of borrowing having gone up more than 2%. On the other hand the Repo rate was reduced by 25 basis points in Feb 2019 and 25 basis points in March 2019, the effect of which hasn't been passed on to the industry till date.

MMR Real Estate Industry Unique in its Composition & Challenges
The Real Estate working in MMR is distinctly different from the Rest of India, both geographically and spatially. The Minimum FSI allowed/achievable in Mumbai is around 2.5 that can go upto about 9.00 in case of SRA, in MHADA, old dilapidated rehab buildings or in cluster development like Dharavi, BDD Chawl, Bhendi Bazar. However, the basic FSI allowed is 1.00 FSI has been monetised.

Of the total project turnover, almost 40%~60%, depending upon where and what the ready reckoner of the underlying land is, is the cost of TDR, premium FSI, Fungible FSI, etc. that is given to the developer; and until and unless a certain category of work is not completed, further FSI is not released for construction. As such, the entire business model in Mumbai, while being unique, has completely changed.

Mumbai Real Estate Driven by Urban Renewal
90% of the development in Mumbai is urban renewal. The implication is that out of an FSI of 3.0, almost 1.0 to 1.5 FSI goes into rehabilitating the existing tenements with the rest available to the developer for fresh development. Now in order to do that, out of every Rs.100/- turnover, nearly Rs.65/- to Rs.70/- is the cost of rehabilitating itself, which unlocks the FSI for the project proponent to be eligible to develop the rest of the FSI. This development is achieved by paying a plethora of charges to MCGM, charges like premium FSI, Fungible FSI, TDR, development charges, betterment charges, land under construction, etc. (Please refer ***ANNEXURE IV***). Thus, the debt:equity ratio should be 75:25 while assessing the total need of debt on the project cost, rather than

50:50 or 40:60 which are followed by most banks. Maximum 25% of Equity should consist of Promoters equity and Customer advance.

As per the general practice, and as prescribed in an RBI Circular, all these fees/ premiums / charges / deposits and TDR are considered as a land component. In fact, all the above costs are direct project costs, payable upfront to the Government in order to make the project viable. Should the above charges remain unpaid, while the project would not get building approval, the project would no more remain viable for not achieving its full development potential

Also, with the advent of RERA, promoter's contribution in projects is tough to fund, as there is no scope for money from one project to be withdrawn and used to fund as equity in another project, thus promotoer contribution in a project should be a combination of customer advances together with promoter equity while calculating the debt:equity ratio for projects.

Policy Strategy Paralysis
The last 4 years of governance has established one point beyond doubts - Ease of Doing Business in real estate approvals was a very critical factor. India as a country has improved by 129 ranks in "Dealing with Construction Permits" in the World Bank ranking from being ranked 181 in 2017 to a rank of 52 in 2018. However, despite such feat, there is still a huge delay in getting approvals from MoEF, Civil Aviation, Defence, ULC, Railway NOC, BMC NOCs etc. which throw the project timelines completely out of gear, and are beyond the control of the project proponent. In fact, they are not accountable under RERA, though provisioned for in the Act.

DCPR 2034 : Mumbai's DCPR that was long pending since 2011, has finally been notified on 13th December 2018, but not before multiple changes in the draft DCPR effected in 2012, 2014, 2016, 2018 before being finally frozen and notified. Each time there was a revision, the building plan was thrown back to the drawing board and the project feasibilities had to be reworked. There are further changes being made to the provisions of the DCPR even now. The Unified DCR for the state of Maharashtra (other than MCGM) is yet to be finalized and notified.

Every project gets approved in phases; so, a 50-story building would get permission for the first 10 stories to begin with. By the time the plans for the 11th to 20th story is put up for approval, the earlier rules had undergone change, requiring the balance building plan to be re-worked in accordance to the new rules, setting the project schedule back by 6 months. Such multiple revisions of the DCPR has resulted in delay of 6-9 months in project completion, as every minor change in the building plan requires fresh permission from Civil Aviation, MoEF, concessions, CFO, Traffic NOC, etc.

Levy of Open Space Deficiency in a project has gone up from 10% to 100% as from 2015 onwards MCGM has changed the policy, making developers bleed financially by over Rs.100 Crores to MCGM. Besides, while the DCPR 2034 should have unlocked development potential of Mumbai, it has put plots of area above 4000 sq. mtrs. at a very big disadvantage by reducing their development potential owing to provisions of inclusive housing and sharing of area with MCGM for amenity space. The CFO open space requirement has been increased from 6 mtrs. to 9 mtrs. and overnight the provisions of TDR loading for Road Set-back in an effected project was changed by a circular, thereby not just throwing the project planning back to the drawing board but also impacting the very feasibility of the project. And the all the above have been done without taking suggestion and objections from the industry, most importantly, without taking the industry into confidence.

<u>GST</u> : When GST as a financial reform was implemented, the real estate sector suffered the most owing to lack of planning in implementation. From 18% regime, it was first brought down to an effective rate of 12% allowing one-third abatement for land cost. Then a slab of 8% for affordable housing was introduced, and post almost a two-month deliberation in the 33^{rd} GST Council and 34^{th} GST Council meetings, the final rates of 1% (affordable segment) and 5% (rest) without ITC have been implemented. Besides constant changes and reeling with the plethora of transitional issues, the developer could not affect any price change in the unit cost under RERA, if so warranted by the change in GST rates and the implications of the provisions in the project costing.

<u>RERA</u> : The implementation of RERA put back the project schedules by a minimum 6 months to ensure all the planning and administrative requirements called for by RERA. All sale agreements had to be redrafted and legally vetted owing to the legal duality and applicability of MoFA and MahaRERA in Maharashtra.

<u>Demonetization</u> : Demonetization affected immediate liquidity in the sector, making payment of even daily wages to labour difficult. Various changes in the IT Act hampered the residential investment market in a big way, driving the NRIs away to other alternative investment opportunities leading to slower sales, and cash flow problems leading to further project delays.

<u>Ready Reckoner</u> : The constant increase in Ready Reckoner in the state of Maharashtra has only had a negative impact at every stage of project execution. Between 2012 to 2018, the Ready Reckoner has been increased by 30%. As approvals for a project are given phase wise, by the time the developer goes for seeking approval for the next phase, the Ready Reckoner would have increased escalating the project cost.

<u>ULC</u> : The ULC Act has been repealed by the Central Government in 2006. The entire act stood repealed except for in two states i.e. in Maharashtra & AP that continued to implement ULC. The implementation of ULC in Maharashtra was challenged in Bombay HC and it was ruled in favour of Maharashtra Govt. stating that the entire act continues to apply where development was permitted under various provisions of ULC Act. This is contrary to the spirit of ULC Repeal Act which is a stated policy of all the present and past governments.

<u>The project delays as mentioned above, owing to various policy flip-flops are delays not attributable to inefficient planning or for lack of construction material, but solely owing to systemic failure, huge disparities and non-congruity in various Government policies and the lackadaisical implementation of many a reform, leading to "Policy Strategy Paralysis".</u>

Advent & Business Model of NBFCs

The fundamental point to be appreciated here is that each of the project was still viable with all these changes. However, the Banks were not willing to finance them. It was this servicing gap that paved the way for NBFC's entry into the Real Estate Financing market over the past 8 years. Now, post the IL&FS crisis, suddenly even NBFCs have gone on the backfoot. Overnight the developers have been left high & dry for want of capital, thereby impacting on-going project completion and delays in delivering sold homes. This liquidity or non-funding delay is going to push projects off the curve by a good year in terms of finding the right funder to help support completion and bridging this gap.

It is equally pertinent here to understand the operations of the NBFCs and how they were funding real estate projects. Say, if the historic value of a parcel of land was only Rs.5 Crs. and the current market value is say, Rs.300 Crs., then with a security cover of 1.5x, they would lend Rs.200 Crs. This amount of Rs.200 Crs. would be only towards the construction finance of that project. What the NBFC used to factor in, in this business model of theirs, was the total value of the fully constructed building, which say was Rs.500 Crs. The construction finance thus extended to the project was for land approval (not acquisition), TDR, premium & fungible FSI, payment of various fees / premiums / charges / deposits etc. for seeking building plan approvals. Today for individual home loans market value of flat is considered for financing home loans. Hence, same should be applied while Project financing. Banks only considers only historical value of land

The shifting of this loan from an NBFC to a bank is not possible, because financing of TDR, premium & fungible FSI etc. are not allowed by banks.

Sir, NBFC were being financed by banks as they were buying their commercial paper and bonds issues by them.

Myth of TDR Trading

There is a misconception that TDR can be unlocked and trading can be freely done even after loading of TDR in a project. Once the TDR is loaded, it is extremely rare and almost impossible and quite a long and tedious procedure for a developer to unlock the TDR used in a project and then sell the same because today, loading of TDR is a huge transaction cost to the developer whereby there is no arbitrage left to any developer to buy the TDR using the bank's capital and then unload and resell. This is the fear that banks have which needs to be adequately addressed.

Affordable Housing Loans Not Keeping Pace

The various schemes of the government, the policy push and with the huge reduction of GST, affordable housing is one sector which has received a phenomenal boost and holds a lot of promise in the current market scenario. While earlier self-employed people (SEP) were able to get home loans easily, today the self-employed are finding it difficult. There has to be a big push for home loans for Affordable housing.

However, given the current crisis that the sector is going through, to begin with, it is very important that Home Loans are made available at 8% and below in order to spur the demand once all over again.

Under the Affordable Housing Category, the home loans have to be given some kind of a policy push so that Banks & NBFCs start prioritising lending, especially to the SEPs. Post the NBFC crisis and after a few NBFC / HFC have decided to almost withdraw, no other player seems to be active in this segment.

Also what could help in bringing the rates down is if we can reduce the risk weightage on loans to the affordable housing projects from the exiting rate of 35% to 15% and increase the LTV to 90%-95%. Its also important to note that Housing Loans across categories are the most secure and least risk loans for Banks and NBFCs. In India an individual makes all efforts to retain his house by ensuring his EMIs are paid as a house also has a certain social status. In view of this we request the Risk Weightage of standard housing loans to be kept at a minimum so that Banks bring down the interest rates marginally and benefit the borrowers.

Real Estate Sector Crisis Deepens, Consumer Sentiments Hit the Nadir
Sir, it is important to mention that just at the time, post 6~8 quarters, when the real estate sector was just about showing initial signs of recovery, that it was hit by the NBFC crisis. This crisis has further pushed the sector into the doldrums from where, if some major corrective actions are not taken without any further delay, timely completion of under-construction projects and roll out of new ones would come to a standstill. Should the cascading effect of credit flow into the real estate sector be not resumed immediately, it is only a matter of time that while on one side many developers across the country will have to shut shop, the lakhs of daily wage earners that depend on this sector for livelihood, will not have an alternative. As customers confidence gets further dented, and their increased apprehension on the delivery credibility of even established names forcing them to keep away, for once, developers despite having physical assets backing them would be out of business for lack of liquidity / cash flows. The gravity of this crisis is much gloomier than it appears and this is really our "***MAYDAY***" calling! Alternatively if banks and NBFC's don't support the sector, the affordability of funding will go away as private equity funds are as high as 25%-28% IRR depending on the profile of the developer they are investing with.

CREDAI-MCHI's Prayer
Sir, we write to you today as we, as an industry, need your undivided support to bring us out of this vicious cycle or the current crisis may culminate in the shutting down of the industry. The industry today is in dire need of a comprehensive package to bail it out of this crisis, and we look forward unto you to kindly provide us with a path forward. The industry needs your hand holding until 31st March, 2021, on the following:

FOR CONSUMER

1) Home Loans are made available at 7% and below in order to spur the housing demand once all over again with a policy push for lending under Affordable Housing segment and therein, to the SEPs;
   a. Special emphasis on lending for those properties where the cost of flat is less than Rs.20 lakhs, in the Mofussil and the far-out areas of MMR.

2) RBI to adopt the same definition for Affordable Housing as has been spelled out and make it a standard definition for the purpose of Section 80IBA of the Income Tax Act, 1961.
   a. Metro Centres : Upto carpet area of 60 sq.mtrs. per house in Affordable Project;
   b. Other Centres : Upto carpet area of 90 sq.mtrs. per house in Affordable Project; Unit Cost
   c. Carpet area definition to be adopted as per RERA

3) Stamp Duty paid on flat purchase value to be added as part of LTV: Stamp duty was earlier part of the LTV calculations, however 2 years back the same was removed from LTV. This is to be added back, as stamp duty across the country ranges from 1%-8% which in today's economy is a lot as a cash outflow to the customer, adding this back will help in customers manage their finances better.

FOR DEVELOPERS : ON-GOING PROJECTS

4) Scheme for restructuring of Principal and additional funding or last mile funding to Developers that will aid to complete and deliver stuck projects or projects whose underwriting numbers have changed on account of change in laws and will help in delivering on-going projects swiftly.

5) To allow all banks to take over and restructure even those developer loans that may have had a "land value margin component" in the loan amount in the existing loan structure; (it may be clarified here that no part of the existing loan would have gone into acquisition of land for the said project);

6) Until the liquidity situation eases, allowing a one-time restructuring of all developer loans including those that may have got classified as NPAs by extending the repayment schedule by two years, as a onetime concession, without classification of the account as an NPA or additional capital blockage resulting in higher cost of funding, similar to the benefits accorded to Infrastructure & Non-Infrastructure Sector (other than Commercial Real Estate); (Ref. ***ANNEXURE I & II***)

7) To relook at the NPA recognition norm for NBFCs/HFCs and to make the same liberal by pushing recognition from 90 Days Past Due (DPD) to 360 DPD; (Ref. ***ANNEXURE III***)

FOR DEVELOPERS : NEW PROJECTS / LOANS

8) Keep the debt:equity need as per banks at 75:25 or lower for all new loans by Banks, HFC's & NBFCs because:
   a. With the advent of RERA, promoter's contribution in projects is tough to fund, as there is no scope for money from one project to be withdrawn and used to fund as equity in another project, thus promoter contribution in a project should be a combination of customer advances together with promoter equity while calculating the debt:equity ratio for projects. Also, the debt:equity ratio should be 75:25 while assessing the total need of debt on the project cost.
   b. Also The Housing for All by 2022 has provided a demand of 6 cr homes to be constructed at least. In order to reach this number, the minimum capital need shall be USD 2 trillion as per KPMG's report. 1.7-2.0 lakh hectares of land mass is needed to achieve this. If housing financing framework is the same as the current commercial real estate lending framework this large target shall take a minimum of 50 years, as there won't be sufficient capital generated by developers to churn on account of RERA as well as the current lending norms which restrict land funding or any other component of FSI funding.

9) The construction finance to be extended by Banks and HFC's for various payment seeking building plan approvals such as;

FSI Procurement Cost
Cost of TDR purchased @ 50% of RR
Cost of Premium FSI purchased @ 50% of RR
Cost of Fungible FSI purchased @ 50% of RR

BMC Approval Cost
Staircase Premium (@ 25% of RR Rate on 25% of total BUA)
Open Space Deficiency (100% deficiency)
Development Charge (@ 1% of RR Rate on Plot Area)
Surcharge on Development (@ 4% of RR on Built up area)
Additional CESS on FSI (4% on FSI + TDR)
LUC payment for 3 years
Other BMC fees and charges
Architect & Consultant Fees
Interest to BMC for deferred payment of premiums

Including the shifting of existing loans from an NBFC to a bank which is not possible, because financing of TDR, premium & fungible FSI etc. are not allowed by banks.

10) Redefine Affordable Housing as per the Budget of 2017 and include it in the provisions and master circular of Infrastructure Sector Lending, with a

mandatory lending sub-limit under Infrastructure Sector. Define the framework of Affordable housing lending on similar lines as Road Project Funding or Power Project Funding thereby giving interest moratorium as well as long-term loans for the affordable housing sector and changing the debt:equity ratio to 75:25.

11) RBI to urge Banks to provide support to the Real Estate Sector and to have trust on the sector and its stake holders.
    a. Post implementation of RERA, all project related disclosures are in the public domain on the RERA website, coupled with the legal and constitutional safeguards to the flat purchaser, it is almost impossible for the developer to indulge in malpractice.
    b. These project details are mandatory by RERA to be updated quarterly by the project proponent which further ring fences and creates an additional layer of audit for the banks as well. Progress of work in an ongoing project is independently shown and is to be certified by a series of professionals who are also held responsible under RERA.
    c. As per RBI's **Financial Stability Report December 2018,** NPAs in the construction sector still remain low.

LIQUIDITY

12) Immediate liquidity in the industry, either to the NBFCs or direction to Banks to support real estate funding and HFCs to support housing funding by increasing their exposure norms, whereby the Banks can re-start funding developers and HFCs boost home loans;

INTEREST RATES

13) Urging Banks/ NBFC's to reduce the overnight increase in cost of borrowing effected by them. This overnight increase by NBFCs was akin to an indirect tactics thereby forcing developers to close their ongoing loans, on an effort to cover up for their own lack of funds;

Sir, we need your support at this break-point, as the industry finds itself caught in a tough cycle for none of its fault; and just because a company and a NBFC, which was an infrastructure company, has had financial issues, the ripple effect should not be allowed to bring an entire industry of NBFC's and Real Estate and Housing sector to a standstill. ***This may well be our only chance!***

We earnestly hope you would consider our request and thanking you in anticipation of a favorable response. Please call for a joint meeting of all the leading HFCs, Banks, NBFCs and CREDAI-MCHI to find an immediate solution. In the meanwhile, please issue necessary guidelines to all the financial institutions.

Thanking you,

Yours sincerely,
For CREDAI-MCHI

Nayan A. Shah	**Bandish Ajmera**	**Sanjiv S. Chaudhary MRICS**
President	Hon. Secretary	COO, CREDAI-MCHI

ANNEXURE I

ONE TIME RESTRUCTURING TO REAL ESATE SECTOR

[A] Considering the importance of MSMEs in the Indian economy, RBI had considered necessary, at a time when the economy was hit by the ILFS driven liquidity crisis, to take certain measures for creating an enabling environment for the sector.

Vide its Press Release 2018-2019/1521, RBI had decided to permit a one-time restructuring of existing loans to MSMEs that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade. To be eligible for the scheme, the aggregate exposure, including non-fund based facilities of banks and NBFCs, to a borrower should not exceed ₹250 million as on January 1, 2019. As per the circular, the restructuring has to be implemented by March 31, 2020.

Given the importance of the Real Estate Sector that contributes approx. 7.8% to India's GDP, is the second highest employment generator after agriculture, **4th** largest sector in attracting FDI and with linkages with more than **250** other Sectors, it is CREDAI-MCHI's earnest request to extend the benefit of the above circular for one-time restructuring of existing loans to MSMEs to include the Real Estate sector as well.

[B] Way back in 2008-09, when the Indian economy was badly hit by the global financial meltdown which was an outcome of the failure of Lehmann Brothers in the US, Vide Press Note RBI/2008-09/311 dated 08-Dec-2008, DBOD. No. BP. BC. No. 93/21.04.132 / 2008-09, as part of RBI's Growth Stimulus, as the real estate sector was facing difficulties, RBI had decided to extend exceptions/special treatment to the commercial real estate exposures which were restructured up to June 30, 2009. In the face of the then economic downturn, to counter temporary cash flow problems in ongoing real estate projects, as a one-time measure, a onetime blanket restructuring was allowed by RBI.

WHILE LEHMANN BROTHERS WAS AN EXTERNAL MELTDOWN, IL&FS IS INTERNAL TO INDIA. IF RBI PROVIDED A GROWTH STIMULUS TO THE INDUSTRY THEN BY ALLOWING ONETIME UNCONDITIONAL RESTRUCTURING, IT IS STRONGLY FELT THAT RBI SHOULD FACILITATE A SIMILAR STIMULUS TO THE REAL ESTATE SECTOR, FOR A CRISIS BORNE OUT OF OUR INTERNAL ECONOMY.

ANNEXURE II

PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING PERTAINING TO ADVANCES - PROJECTS UNDER IMPLEMENTATION

In order to facilitate revival of the projects stalled primarily due to inadequacies of the promoters, arising out of exigencies beyond their control, vide RBI Circular RBI/2013-14/664, DBOD.No.BP.BC.125/21.04.048/2013-14 dated June 26, 2014, containing, *inter alia*, instructions relating to asset classification for project loans before commencement of commercial operations, certain relaxations had been proposed for, as reproduced below :

2. In terms of extant instructions contained in the above-mentioned circulars, revisions of the date of commencement of commercial operations (DCCO) and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

> *(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects respectively; and*
>
> *(b) All other terms and conditions of the loan remain unchanged.*

3. Further, banks may restructure such loans, subject to the extant prudential norms on restructuring of advances, by way of revision of DCCO beyond the time limits quoted at paragraph 2(a) above and retain the 'standard' asset classification, if the fresh DCCO is fixed within the following limits, and the account continues to be serviced as per the restructured terms:

(a) Infrastructure Projects involving court cases

> *Up to another two years (beyond the two year period quoted at paragraph 2(a) above, i.e., total extension of four years), in case the reason for extension of DCCO is arbitration proceedings or a court case.*

(b) Infrastructure Projects delayed for other reasons beyond the control of promoters

> *Up to another one year (beyond the two year period quoted at paragraph 2(a) above, i.e., total extension of three years), in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).*

(c) Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)

> *Up to another one year (beyond the one year period quoted at paragraph 2(a) above, i.e., total extension of two years).*

Attention is drawn on point 3 (c) above whereby the benefits of DCCO have been extended to all non-infrastructure sectors other tan Commercial Real Estate.

THE ECONOMIC CONDITIONS IN THE CURRENT SCENARIO ARE SUCH THAT IN ORDER TO KEEP THE REAL ESTATE SECTOR, RBI MAY REVISIT THIS CIRCULAR, IN A TIME BOUND MANNER, OR ANY OTHER MANNER THAT IT DEEMS RELEVANT AND/OR PERTINENT, EXTEND THE BENEFITS OF THE ABOVE CIRCULAR TO COMMERCIAL REAL ESTATE AS WELL.

ANNEXURE III

NPA RECOGNITION FROM 90 DPD TO 360 DPD FOR REAL ESATE SECTOR

[A] As per the Master Circular No. DBOD.No.BP.BC.9/21.04.048/2014-15 dated July 1, 2014 consolidating instructions / guidelines issued to banks till June 30, 2014 on matters relating to prudential norms on income recognition, asset classification and provisioning pertaining to advances, Para 4.2.4, reproduced below :

4.2.4 Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such deficiencies banks may follow the following guidelines:

i) Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

ii) Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

RBI had revised the definition of an NPA as "an asset, including a leased asset, becomes non performing when it ceases to generate income for the bank, where interest and/ or instalment of principal remain overdue for a period of more than 90 days past due (DPD).

[B] In the Union Budget 2019 speech delivered by Shri Piyush Goyal Ji, he had proposed the below amendment :

"Also, for giving impetus to the real estate sector, I have proposed to extend the period of exemption from levy of tax on notional rent, on unsold inventories, from one year to two years, from the end of the year in which the project is completed."

The above proposal was necessitated by the liquidity crisis brought upon by IL&FS on the Real Estate Sector, which was echoed by the then Finance Minister, Government of India and firmly acknowledged by providing a two year tax exemption on unsold inventory.

[C] Given the current market scenario and the huge liquidity crisis that the real estate industry was going through, with piling inventory owing to massive slowdown in sales of ongoing projects, even MCGM had decided after due consideration to grant the facility of instalments in payment of fees / premiums / charges / deposits spread over three to four years, depending upon project size. These charges were otherwise payable upfront at the time of submission of proposal for building plan approval. (Ref. ***ANNEXURE V***)

AS PER THE THEN ECONOMIC SCENARIO AND MARKET CONDITIONS, IN ORDER TO BRING IN GREATER CREDIT DISCIPLINE INTO THE ECONOMY, IT MAY HAVE BEEN A NECESSITY OF RBI TO REDEFINE THE NPA NORMS AND TIGHTEN IT DOWN FROM 180 DPD TO 90 DPD.

THE CURRENT LIQUIDITY CRISIS IS A STRONG ENOUGH REASON FOR RBI TO RELOOK AT THE NPA RECOGNITION NORM FOR NBFCS/HFCS AND TO MAKE THE SAME LIBERAL BY PUSHING RECOGNITION FROM 90 DPD TO 360 DPD.

Project Cost of Redevelopment of Co-operative Housing Societies 1000 sq,mt plots across Mumbai Suburbs

LOCATION		Khar	Andheri West	Jogeshwari	Malad	Borivali	Chembur	Ghatkopar	Mullund
PARTICULARS									
Plot Area (Sq.mt)		1000	1000	1000	1000	1000	1000	1000	1000
Total FSI Available (Sq.mt)		2970	2970	2970	2970	2970	2970	2970	2970
Less FSI to Society assuming full Fungible is given		1350	1350	1350	1350	1350	1350	1350	1350
Net Sale FSI Available to Developer (Sq.mt)		1620	1620	1620	1620	1620	1620	1620	1620
Net Sale FSI Available to Developer (Sq.ft)		17438	17438	17438	17438	17438	17438	17438	17438
RR Rate of Land		234960	150150	117810	74580	88440	110330	113960	102300
RR Rate of Flat Rate		324940	218020	195910	128260	147070	180290	181280	163900
PART I - Premium Payments to BMC									
BMC Approval Cost (In Rs.Cr)		31.49	19.41	15.92	11.26	12.76	15.11	15.51	14.25
(i) As a Per Sqft of Sale FSI (In Rs. / Sqft)		18060	11129	9130	6458	7315	8668	8892	8171
(ii) As a % of RR Land Rate		134%	129%	135%	151%	144%	137%	136%	139%
(iii) As a % of RR Residential Rate		97%	89%	81%	88%	87%	84%	86%	87%
Part II - FSI purchase Cost									
A) FSI Procurement Cost (In Rs. Cr)		22.84	14.59	11.45	7.25	8.60	10.72	11.08	9.94
(i) As a Per Sqft of Sale FSI (In Rs. / Sqft)		13097	8370	6567	4157	4930	6150	6352	5702
(ii) As a % of RR Land Rate		97%	97%	97%	97%	97%	97%	97%	97%
(iii) As a % of RR Residential Rate		70%	67%	58%	57%	58%	59%	61%	61%
Part III - Payments to State Government									
A) Stamp duty on plot (In Rs.Cr)		1.44	1.05	0.87	0.56	0.56	0.82	0.85	0.78
B) Stamp duty on PAA (In Rs.Cr)		0.19	0.41	0.41	0.41	0.41	0.41	0.41	0.41
C) Stamp duty on Sale Flats as per RR Sale Rate (In Rs.Cr)		2.63	1.77	1.59	1.04	1.19	1.46	1.47	1.33
D) GST (In Rs.Cr) assuimg 50% sale pre OC		3.16	2.12	1.90	1.25	1.43	1.75	1.76	1.59
Total Payment to State Government (A+B+C+D)		7.42	5.34	4.77	3.25	3.59	4.44	4.49	4.11
(i) As a Per Sqft of Sale FSI (In Rs. / Sqft)		4253	3064	2735	1866	2058	2547	2574	2356
(ii) As a % of RR Land Rate		32%	36%	40%	44%	41%	40%	39%	40%
(iii) As a % of RR Residential Rate		23%	25%	24%	25%	24%	25%	25%	25%
PART IV - Entire Approval Cost (Part I + Part II)		54.33	34.00	27.37	18.51	21.35	25.84	26.58	24.19
(i) As a Per Sqft of Sale FSI (In Rs. / Sqft)		31157	19499	15697	10615	12244	14818	15244	13874
(ii) As a % of RR Land Rate		231%	226%	232%	248%	241%	234%	233%	236%
(iii) As a % of RR Residential Rate		167%	156%	140%	144%	145%	143%	147%	148%
As a % of Project Cost		60%	50%	51%	42%	45%	43%	47%	48%

Assumptions:

Across all locations to achieve a proper comparision, a standard plot size of 1000 sq,mts with One FSI consumed and no setback is assumed

The Cost of TDR is equivalent to the 0.5 Premium available from the MCGM @ 60% of RR Rate due to the proposed change in policy

RR Rates for 2018 are assumed at 10% esclation to 2018 rates

The development assumed is purely Residential

Project Completion period of 3 years is assumed

The market Rent payable to the Society members and a corpus amount equal to offset their increased maintenance and property taxes is assumed

Project working for society redevelopment of a 1000 square meter land parcel in Andheir West - SV Road 39/196

	DCR 2034 (2018)			
2018 RR Rate for Land	138500		FSI	2.2
2019 RR Rate for Land (10% escalation assumed)	**150150**			
2019 RR Rate for Flat (10% escaltion on 2018 rates)	**218020**			
AREA DETAILS:				
PARTICULARS	**AREA**	**UNIT**		
Net Plot	1000	Sq mtrs		
Less set back	0	Sq mtrs		
Base FSI	1000	Sq mtrs		
Add TDR / Premium FSI (0.7 FSI)	700	Sq mtrs		
Premium FSI 0.5	500			
Add FSI for Road setback	0			
Total permissible FSI	2200	Sq mtrs		
Add free fungible	350			
Add:Fungible FSI purchased by payment of Premium	420	Sq mtrs		
Total FSI	2970	Sq mtrs		
Total FSI **(A)**	31969	Sq Feet		
Existing BUA occupied by Society (Base FSI Consumed)	10764	Sq Feet		
Additional 35% FSI area for Society	3767	Sq Feet	35%	
New built up area for Society **(B)**	14531	Sq Feet	45%	
Balance built up area for Developer **(A - B)**	17438	Sq Feet	55%	
Net carpet area to Developer (assuming 15% ratio)	**15163**	**Sq Feet**	**1.15**	
PROJECT COST:				
PARTICULARS	AMT (CR)	**% of Project Cost**		
I. Land Cost				
Corpus (Existing Society area X Rs 2500 PSF)	2.69			
Rent (Existing Society area X Rs 90 PSF X 31 months)	3.00			
Stamp Duty	1.05			
GST on members area	0.67			
Total Land Cost [I]	**7.41**	**11%**		
II. FSI Procurement Cost				
0.7 TDR purchased @ 60% of RR	**6.3**	**9%**		
0.5 Premium FSI purchased @ 60% of RR	**4.5**	**7%**		
35% Fungible FSI purchased @ 60% of RR	**3.8**	**6%**		
Total FSI Procuement Cost	**14.6**	**21%**		
III. Construction Cost				
Poddium Construction Area (sq ft)	9591			
Superstructure Construction Area (sq ft)	39961			
Poddium Construction Cost (@ RS 2600 PSF)	2.49			
Superstructure Construction Cost (@ RS 4000 PSF)	15.98			
Total Construction Cost [III]	**18.48**	**27%**	12186	
IV. Marketing Cost				
Total Marketing Cost (@ 5% on Total Revenue) [IV]	**2.65**	**4%**		
V. BMC Approval Cost				
Staircase Premium (@ 25% of RR Rate on 25% of total BUA)	2.79	4%		
Open Space Deficiency (100% deficiency)	5.09	7%		
Development Charge (@ 1% of RR Rate on Plot Area)	0.60	1%		
Surcharge on Development (@ 4% of RR on Built up area)	1.78	3%		
Additional CESS on FSI (4% on FSI + TDR)	0.72	1%		
LUC payment for 3 years	2.18	3%		
Other BMC fees and charges	1.09	2%		
Architect & Consultant Fees	2.00	3%		
Interest to BMC for deferred payment of premiums	3.15	5%		
Total BMC Approval Cost [V]	**19.41**	**28%**		
Overheads @ 3% of Project Cost	**2.00**	**3%**		
Finance Cost [VII]	**3.60**	**5%**		
Total Project Cost [I+II+III+IV+V+VI+VII]	**68**	**100%**		
Cost PSF (Total Cost / Net carpet to Developer)	**44943**			
Market sale Price (Rs / Sq.ft)	**35000 - 40000**			

FSI	Area	Multiple	RR Rate	Def Assume	Def Rate	OSD pr
Base fsl	**1000**	**1.3**	**150150**	**100%**	**10%**	0.49
0.5 Premium	500	1.3	150150	100%	10%	0.24
0.7 Premium FSI / TDR	700	**1.3**	150150	100%	100%	3.42
Road Setback FSI	0	**1.3**	150150	100%	100%	0.00
Fungible FSI	770	**1.3**	150150	100%	25%	0.94
Total	**2970**					**5.1**

Project working for society redevelopment of a 1000 square meter land parcel in Mullund LBS Marg 123/569

	DCR 2034 (2018)			
2018 RR Rate for Land	93000		FSI	2.2
2019 RR Rate for Land (10% escalation assumed)	**102300**			
2019 RR Rate for Flat (10% escaltion on 2018 rates)	**163900**			
AREA DETAILS:				
PARTICULARS	**AREA**	**UNIT**		
Net Plot	1000	Sq mtrs		
Less set back	0	Sq mtrs		
Base FSI	1000	Sq mtrs		
Add TDR / Premium FSI (0.7 FSI)	700	Sq mtrs		
Premium FSI 0.5	500			
Add FSI for Road setback	0			
Total permissible FSI	2200	Sq mtrs		
Add free fungible	350			
Add:Fungible FSI purchased by payment of Premium	420	Sq mtrs		
Total FSI	2970	Sq mtrs		
Total FSI **(A)**	31969	Sq Feet		
Existing BUA occupied by Society (Base FSI Consumed)	10764	Sq Feet		
Additional 35% FSI area for Society	3767	Sq Feet	35%	
New built up area for Society **(B)**	14531	Sq Feet	45%	
Balance built up area for Developer **(A - B)**	17438	Sq Feet	55%	
Net carpet area to Developer (assuming 15% ratio)	**15163**	**Sq Feet**	**1.15**	
PROJECT COST:				
PARTICULARS	**AMOUNT (CRS)**	**% of Project Cost**		
I. Land Cost				
Corpus (Existing Society area X Rs 2500 PSF)	2.69			
Rent (Existing Society area X Rs 70 PSF X 31 months)	2.34			
Stamp Duty	0.78			
GST on members area	0.67			
Total Land Cost [I]	**6.48**	**13%**		
II. FSI Procurement Cost				
0.7 TDR purchased @ 60% of RR	**4.3**	**8%**		
0.5 Premium FSI purchased @ 60% of RR	**3.1**	**6%**		
35% Fungible FSI purchased @ 60% of RR	**2.6**	**5%**		
Total FSI Procuement Cost	**9.9**	**20%**		
III. Construction Cost				
Poddium Construction Area (sq ft)	9591			
Superstructure Construction Area (sq ft)	39961			
Poddium Construction Cost (@ RS 2400 PSF)	2.30			
Superstructure Construction Cost (@ RS 3000 PSF)	11.99			
Total Construction Cost [III]	**14.29**	**28%**	**9424**	
IV. Marketing Cost				
Total Marketing Cost (@ 5% on Total Revenue) [IV]	**1.59**	**3%**		
V. BMC Approval Cost				
Staircase Premium (@ 25% of RR Rate on 25% of total BUA)	1.90	4%		
Open Space Deficiency (100% deficiency)	3.47	7%		
Development Charge (@ 1% of RR Rate on Plot Area)	0.41	1%		
Surcharge on Development (@ 4% of RR on Built up area)	1.22	2%		
Additional CESS on FSI (4% on FSI + TDR)	0.49	1%		
LUC payment for 3 years	1.49	3%		
Other BMC fees and charges	1.09	2%		
Architect & Consultant Fees	2.00	4%		
Interest to BMC for deferred payment of premiums	2.19	4%		
Total BMC Approval Cost [V]	**14.25**	**28%**		
Overheads @ 3% of Project Cost	**1.57**	**3%**		
Finance Cost [VII]	**2.79**	**5%**		
Total Project Cost [I+II+III+IV+V+VI+VII]	**51**	**100%**	**100%**	
Cost PSF (Total Cost / Net carpet to Developer)	**33570**			
Market sale Price (Rs / Sq.ft)	**21000 - 23000**			

FSI	Area	Multiple	RR Rate	Def Assum	Def Rate	OSD premi
Base fsi	1000	1.3	102300	100%	10%	0.33
0.5 Premium	500	1.3	102300	100%	10%	0.17
0.7 Premium FSI / TDR	700	1.3	102300	100%	100%	2.33
Road Setback FSI	0	1.3	102300	100%	100%	0.00
Fungible FSI	770	1.3	102300	100%	25%	0.64
Total	**2970**					**3.5**