

FROM THE HOUSE OF GERA



“Our real estate journey started 46 years ago.

Over the decades, the industry, customer needs, product, specifications, amenities, laws etc. have all changed. The one constant has been our commitment to earning the trust of our partners, customers, employees, contractors, vendors, consultants and all stakeholders.

As we reflected on our delivery of the past, the continuous improvement was captured in one word, OUTDO.

To us, OUTDO is an ongoing quest to do better each time. OUTDO is a spirit of competition against yourself. You vs. You. When the competitor is in the mirror and you work to do better against that person.

We hope you see value in the information contained in this document.

We look forward to your feedback on this, our latest endeavour to OUTDO in keeping you abreast of what's happening at Gera. ”

Rohit Gera
Managing Director



UNDERSTANDING HOW RERA HAS IMPACTED THE REALITY OF REALTY

The Real Estate Regulatory (& Development) Act (RERA) is by far the most far reaching and profound change driver for the real estate sector since the Urban Land Ceiling Act came into force in 1976. RERA will force changes in the industry across all parameters:

- Construction quality (5-year defect liability period is mandatory)
- Construction delivery (penalties for delays in delivery)
- Discipline in marketing promises

The greatest impact however will be on the financing and capital structure for the business in the future. The single most expensive item of the stock in trade for a developer is land. Lack of access to capital and an increasing hunger for a greater return by landlords led to the introduction of the Joint Development model. A model so brilliant, that in good markets and boom times, a person with ₹1 crore could block a land parcel worth ₹20 crores by paying the landlord a deposit. He can then do pre-launch sales to secure additional funds from prospective customers, use the funds to pay the balance deposit to the land owner, secure approvals and then embark upon a 100 crore topline project. The industry shifted to collecting up to 85% in some cases on completion of the structure (RCC) of the project giving cash to the developer to take on the next few projects.

All this is about to change with the advent of RERA.

- Developers cannot sell before all approvals are in place. With the tremendous increase in approval costs, huge sums of money are required before any customer advances can be collected.
- The fact that large projects will be broken up into phases, each being considered as a separate project means all approvals including the TDR for that phase needs to be procured upfront against increasing capital requirements.
- 70% of sale proceeds are to be placed in a designated account and can only be drawn in proportion to the progress

of the project. This again slows down cash flows and negatively affects project IRR further.

- The risk of delays and costs of compensation to be considered, will lead to performing contractors being able to command a premium on their rates again pushing up costs for the developers. The risk of title-related liability further adds to the risk and the cost for the developer.
- Increasingly under-capitalised developers will find it hard to punch above their weight.
- The shakeout in the industry will be good for the consumer in the long run but for transferring all the risk he bears today, he will end up paying a substantial premium.

“
RERA: A CUSTOMER-CENTRIC MOVE
”

- The Urban Land Ceiling Act (got to be known as ULCER) never achieved its objective.

The Government seems to be resolute in implementing RERA. The biggest challenges in this will be how current ongoing projects will be treated. Real estate continues to be a huge source of income and a big contributor to the GDP of the states. Unless a pragmatic approach is taken to get from its current state to its future state, capital constraints and consumer activism can create chaos and turmoil for the industry.

One thing though is for sure, these challenging times provide tremendous opportunity to the well capitalized, fiscally prudent developer.

EVERY GOAL
ACHIEVED
IS A GOAL
REDEFINED.

GRIND.
SHINE.
REDO.
OUTDO



LAYERING VALUE ADDITION TO BUILDING ROBUSTNESS

Indian Real Estate: Investment Landscape

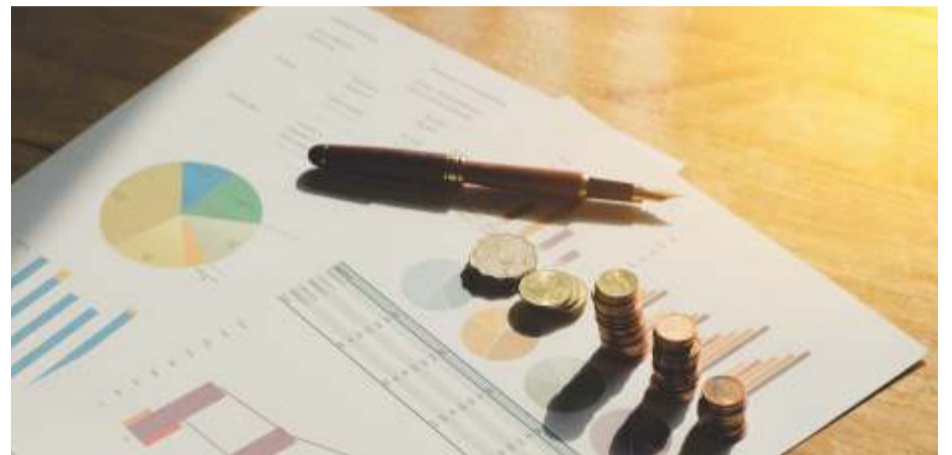
The latest microeconomic data reinforces India's position as not only the world's largest & fastest-growing economy but also a leading investment destination.

Over the last few years, investments in the realty sector have predominantly been in the form of structured debt.

This is unsurprising given most developers were over leveraged. A structured debt model allowed investors an exit route at a predetermined return, with investment itself backed by a minimum 2X asset cover from the developer. Although the returns are relatively lower than pure equity model 15 -18% compared to 25% on a risk adjusted basis, they were good enough to make structured

debt for the last 4-5 years.

However this investment tide now appears to be turning towards the equity model, mainly because of the recent government measures to liberalise investment in the sector, like **introduction of Real Estate Regulation Act which will bring greater transparency, accountability and maturity to the sector, improving its attractiveness to both foreign investors and Indian consumers.** Further, the government has relaxed certain FDI norms including waiving the existing minimum project requirements in terms of size and capital, making country's real estate stock more accessible to foreign investors.



Another important change is the recent notification of Real Estate Investment Trust (REIT) regulations and subsequent relief granted to REITs from Taxation perspective.

Primarily this includes waiver of Dividend Distribution Tax (DDT)

on dividends paid by the investee company to REIT and exemption given to developers from long term capital gain tax on sale of REIT units held for at least 36 months. These measures coupled with an upturn in consumer demand bode well for equity investment in the sector.



PRESCRIPTION

Managing Debt - Maintain minimum debt, net debt to equity ratio to 0.5.

Handling Risk - Prioritise regulatory and compliance risk.

Simplifying Business Performance - Simplify process for efficiency, promote a culture of cost excellence.

Governance and Compliance - Harmonise accounting treatment to achieve consistency, maintain oversight through disclosure.

Technology - Leveraging analytics to gain real-time business intelligence for effective decision making.

TRIAD OF CAPITAL INTERPLAY

Right Source Of Capital



For a stable company with strong visibility of margins with cash flows, the business can sustain certain levels of debt; convertible instrument are also good options as they reduce the cost of funding through lower coupons while avoiding diluting one's stake. Ultimately a good balance of debt and equity will optimise shareholders' returns.

Lastly other factors such as existing market conditions, capital structure and liquidity conditions should be kept in mind while deciding on the source of funding.

Timing of Capital

Capital needs to be raised when available. It is a resource that can become both scarce and expensive at the flip of a coin.

Therefore one should always grab an opportunity to raise capital after carefully considering the business requirement and cost of capital. In addition to the timing of capital it is critical to identify the right source of funds, having a set of pre-chosen criteria with a bearing on the balance sheet is also crucial.

One such important parameter is EBITDA. The best-is-yet-to-come belief, often deludes executives into opting for debt instead of equity. It is only through the right balance that an optimum capital structure can be achieved; otherwise leverage can become counter productive.

Capital restructuring had a considerable impact on the debt to equity/EBITDA ratios, in addition to rating upgrade and better valuations. An optimum capital structure generates adequate liquidity and higher profitability. This boosts the vigour of business teams to achieve higher growth and improves the quality of decisions made.

Capital Restructuring

Generating long term money by using long term, lower cost instruments and by widening relations with a wide spectrum of financial institutions. These initiatives made possible to a rating upgradation in terms of quantum of debt. The corporate actions also boosted the overall morale of the organisation, leading to rapid growth in the last 2 years.

Execution risk is the most critical as even the best plan can fall apart if not executed well. In a high growth scenario, it is crucial to balance the P & L agenda with the balance sheet agenda.

Growth should not be achieved through a disproportionate expansion of the balance sheet, critically the business should have sufficient liquidity to fund its operation.

GERA RANKS AMONGST THE TOP 5 REAL ESTATE

COMPANIES IN THE COUNTRY WITH A CREDIT RATING LISTING OF A+

There are numerous evaluation metrics in the market. But, none more important than a company's 'CREDIT RATING' to review the risks of investment in the company.

An assessment of the credit rating becomes critical to ascertain the quantum of risk involved while investing money in a particular company.

Some of the evaluation criteria used to arrive at the credit rating are listed alongside:

- The quantum of free cash flow that is available consistently over a period of time
- Whether the cash in hand is sufficient to cover both, the principal as well as the interest
- Receivables over construction coverage
- How the business is likely to perform given the market condition
- Internal & External risk of the company
- Track record of whether having defaulted in past or not
- Quantum of Short Term Debt and Long Term Debt



The rating grades range from AAA+ which is the highest to a D, which is the lowest. In Real Estate, some of the major credit rating companies are A) CARE – (Credit Analysis & Research Limited); B) CRISIL - (Credit Rating Information Services of India Limited); C) ICRA – (Investment Information and Credit Rating Agency).

The rating grades straddle across

both, public listed as well as private listed companies. In Real Estate, the highest rating obtained is an AA+ by Oberoi Realty Ltd. followed by Tata Housing and Hiranandani Builders with a AA.

To provide a relevant contextual frame of reference, **Gera Developments Pvt. Ltd. is the 'HIGHEST non-listed real estate brand' with an A+ rating.** Some of

the other 'public listed real estate brands' in the A+ listing include, Sunteck Realty Limited, Prestige Estates Projects Limited, Kolte-Patil Developers Limited, Mahindra Lifespace Developers Limited and Indiabulls Real Estate Limited.

Some of the other Real Estate brands at a notch lower with an 'A' rating include DLF Limited, Salarpuria Properties Pvt. Ltd., Brigade

Enterprises Limited, Peninsula Land Limited and Lodha Developers Limited Other real estate brands that straddle the 'A-' rating include Mangalore SEZ Limited, Bengal Ambuja Housing Development Limited, Ashiana Housing Development Limited, Starlight Systems Private Limited, Devbhumi Realtors Private Limited and Mangalam Build Developers Limited.

Our Long-standing Series of Firsts moves the Credit Rating pendulum in our favour.

- The foremost is the long and **impressive track record** of the promoters in the Real Estate space.
- The reputation and heft of the **Advisory Board comprising some of the most eminent names** in the industry such as Deepak Parekh, Ganesh Natarajan and Farhad Forbes.
- The comfortable capital structure with flexibility due to low financial leverage and limited repayment obligations.
- All project executions largely depend on internal accruals vis-à-vis being dependent on customer advances which is mostly dependent on the market sentiment.
- **Strong sales momentum vis-à-vis the construction schedule** coupled with high collection efficiency providing considerable revenue visibility.
- An **exceptionally strong brand presence** in a specific segment with the availability of a sizeable land bank for future developments.
- One of the best track records in the industry in **servicing its debt before time.**

In the Rating World, there is nothing more critical than its rating being consistent vis-à-vis a YOY growth in terms of the debt that it can service. Some very clear contributing criterion that have put Gera Developments in an extremely sound situation are its **low leverage of debt coupled with planning mostly on long term debt, maintaining a consistently healthy Debt Equity ratio, generation of adequate cash flows to service debt on time and a consistent track record in reducing the borrowing cost.**

Testimonials



We take pride to have an association with Gera Developments Pvt. Ltd., for the last 4 years as the Civil Contractors of their two Prestigious Projects, which is still continuing. As a Client the Management as well as the Chairman of the group, Mr. Gera, always extended all the support to us in the smooth functioning of the Projects. It is to be

mentioned that as a leader of the realty sector of Pune Gera Developments India Pvt. Ltd. are very particular in maintaining the quality of construction. Our experience tells that the Group is always committed to their customers, and that is the secret of their business success. We are looking forward for a long business association with the Group, and we wish all the success to the company in their future endeavours!

- M. B. Nambiar

Chairman - (Millennium Engineers & Contractors Pvt. Ltd.)



Gera Developments is among Pune's most prestigious real estate brands and we are proud to be associated with them as the General Contractor for their Hinjawadi project. With Integrity, Quality & Innovation at their core, brand Gera is synonymous

with providing not just best-in-class products to their customer but also providing an unmatched & enjoyable work environment for vendors like us. The professionalism & transparency shown while dealing with their entire team is second to none in the industry. We look forward to being associated with this prestigious group for years to come.

- Saurabh Jangle

Director, SJ Contracts Pvt Ltd

I bought what I would term as my dream house in 2010 and even though I was out of the country most of the years after purchasing it, the times I spent there were nothing short of heaven. Waking up to the chirping of the birds in tranquil surroundings and enjoying the expanse that comes with the entire package was bliss. Apart from the picket fence and the roof type facade as you approach your unit, it is the space and openness within the house which also really depicts the villa affect.

Unfortunately circumstances forced me to dispose of it and I can say it with all sincerity " it was with a heavy heart".

For those who yearn for open spaces and have the opportunity to do so - the SkyVillas are absolutely great to start, spacious homes away from pokey places

- Cedric D'Souza

Gera's Sky Villas



YOUR ISLAND OF PEACE

Gera's Isle Royale is currently one of the most coveted luxury residential destinations in the West of Pune. Located amongst verdant surroundings in the lap of the Sahyadris and being positioned at the highest point in Bavdhan gives you a home where the air is at its cleanest.

Being the first luxury residential project in Bavdhan, near Chandni Chowk is yet an additional plus. And while there is excellent connectivity to other key locations like Aundh and Kothrud, having excellent access to the Mumbai-Pune Highway is an additional advantage.



Another yet fascinating feature of these villas is the surreal landscaping that literally envelops the villa.

Gera's Isle Royale has an assortment of 3.5 and 4.5 BHK apartments and 3.5 & 5.5 BHK villas. While the apartments are available in sizes ranging from 1,969 sq. ft. to 2,330 sq. ft. for the 3 BHKs, the 4 BHKs come in a size ranging from 3,069 sq. ft. to 3,696 sq. ft. The villas come in a size of range in between 3,400 and 5,500 sq. ft.

The knowledge that there will not be any form of construction activity in the future given that this is a combination of NDA land as well as the Bio-Diversity Park comes as a blessing. Needless to add that the thinking gone in to the design of the apartment ensures that the space utilisation is optimum and that the usability is very high.

The most striking feature of the villas is that these are designed and planned along the natural slope of the terrain inside the project and some of these are arranged exquisitely alongside the swimming pool with a convenient

The singular most distinguishing feature of the apartment is the dramatic view from the large windows within the rooms of the apartment that open out into 'enthraling views' of the eternal forest land which envelops the project on three sides.

and an immediate access to it. Those villas that do not have access to the pool are endowed with a Jacuzzi pool at the terrace roof-top.

Conclusively being nestled amidst three hills on its south, east and west and the scenic Pashan Lake in the North, Gera's Isle Royale truly appropriates its position of being an 'Your island of peace'.



UNRAVELLING THE EAST AND WEST AS TWO ENDS OF THE PUNE MARKET

Kharadi (East Pune)

Over the past 8 quarters (Nov'14 to Nov'16 or 2 years), construction activity in Kharadi has gone up from 7047 residential units being built Nov'14 to 9039 units in Nov'16 which translates to a compounded growth rate of 13.26% p.a. in construction pace. In the same period, prices have appreciated from ₹5660 psf in Nov'14 to ₹6129 psf in Nov'16 which translates to a compounded growth rate of 4.06% p.a. When the growth rate of construction (13.26% p.a.) is significantly more than growth rate in prices (4.06% p.a.), it points to optimism amongst developers about the future potential of the micro-market. The high construction pace keeps the prices rational and the benign growth rate (in prices) also indicates that Kharadi is an end-user market with more and more people preferring to live here rather than just speculating, which tends to rapidly increase prices with little or no underlying construction activity.

Bavdhan (West Pune)

This pattern (seen in Kharadi) is even more pronounced in Bavdhan where residential units being built have gone up sharply from 8349 units in Oct'14 to 12903 units in Oct'16 – a very high growth rate in construction activity of 24.32% p.a. In the same period, prices have gone up marginally from ₹5747 psf in Aug'14 to ₹5954 psf – a growth rate of only 1.79% p.a. Clearly, in the same vein as Kharadi, this market is growing rapidly.

Baner (West Pune)

In Baner, construction activity has gone down from 4162 units being built in Nov'14 to 3676 units in Nov'16 which translates to a reduction in construction pace of -6.02% p.a. In the same period unsold stock has also gone up from 981 units in Nov'14 to 1169 units in Nov'16 (an increase of 9.16% p.a.). Prices have appreciated from ₹7898 psf in Nov'14 to ₹7513 psf in Aug'16 which translates to a negative growth rate of -2.47% in line with the increase in unsold stock. This points to a developed & mature micro-market where over time construction activity goes down (no additional units can be built because of paucity of land and prices are high compared to the Pune average (in Jun'16 average prices across all projects in Pune were ₹4984 psf).



It's been a long journey of eleven years together getting to know a builder who set several trends by being the first in the market for many reasons. First builder to offer a 5-Year Warranty as a standard. First to introduce a path-breaking concept of ChildCentric™ Homes. First to collaborate with many Legends (Anil

Kumble, Shankar Mahadevan, Shiamak Davar, Vishwanathan Anand and so on) in various fields such as Cricket, Music, Dance, Chess, Tennis and Dramatics, ensuring that these Legends start their Academies in the project which will train children and adults to learn and excel. It's nice to note that Gera conducts various workshops which bring together families and children of different Gera Properties so people can make new friends.

It's interesting to note a builder taking great interest in organising various activities for kids and adults, be it art, cooking, dance, zumba, etc and most importantly getting people together to have a nice day out. Most importantly, I love Gera for its construction quality. It's interesting how they make a note of their shortcomings with every project they build. They are always looking for ways to evolve life by introducing and adopting new concepts and thinking out-of-the-box. I personally think Gera is way ahead of its competition.

- Arnold D'Souza
Gera's GreensVille - Kharadi

THE NEW PARADIGM OF REAL ESTATE: CHANGES NOW ARE MORE THAN LAST 60 YEARS COMBINED

There are many times when one can look at the past and predict the future but every so often this is just not possible.

There was a time not so long ago, when delays on account of approvals or litigation was rewarded by increase in prices thereby compensating handsomely for any delays. There was a time when the voice of the customer was completely non-existent, a time when customers felt too helpless to go to court against the developer. There was a time when social media did not exist.

There was a time when there was virtually no regulation or legislation to govern the real estate sector. There was a time when the judiciary was not actively acting against developers. There was a time when the segment most associated with black money and underhand deals was real estate.



Today's government is in the mode of increasing supply through increased FSI and reducing the time for project approvals.

The government has come up with a law to protect the home buyers. For the first time the judiciary is punishing errant developers. Consumers have become ever more aware of their rights and are willing to fight and even turn militant to get their rightful dues from developers. In yet another move the government has sought to purge the system of all the large

currency notes (legitimate and not).

These changes are unprecedented in an industry where a large part of the construction is done by labour carrying materials on their heads.

These changes are going to require developers to change in virtually all aspects of their business.



With today's customer willing to fight for his right or at the very least willing to speak up on social media for his rights, developers need to ensure that only the promises

that can be kept are the ones to be made. This newly awakened customer is only strengthened by the provisions of the Real Estate Regulation (and Development) Act RERA.

RERA requires developers to open approvals before commencing sales. Any changes that the developer wishes to make requires the approval of more than 60% of the people who have purchased apartments in the project. All this is going to require a change in the mindset where mistakes cannot be easily undone. Developers, generally used to following a herd mentality are going to need to get used to looking at data and research before launching of projects as the industry will



start to heavily punish mistakes.

There was a time when capital was not a constraint for the business. ₹1 Cr. could secure a property worth ₹20 Cr. by way of a part deposit payment for a joint development. The second crore would be paid from customer pre-sales as would the approval costs. This would lead to the launch of a 100 Cr. project.

75% of the money would routinely be collected with construction of 30% of the building.

RERA now only permits sales to begin after all approvals and also to draw out 30% of the sales proceeds on receipt and the balance can only be drawn in proportion to the percentage of the work completed on site.



This will require recapitalisation of many developers. Fiscal discipline and planning will be essential.

Developers are required to provide a 5-year defect liability period. This too requires a quantum leap in construction quality else the costs of repair will further erode profit margins for developers.

The overall impact of all these changes will only be known in time but one thing is sure that the real estate industry will never be the same again.

These present times will probably go down in history as the time when the real estate industry completely and totally changed in many ways.

Many generations of developers have built their real estate business on the basis of scarcity of land and approvals.

The recent move by the government to rid the industry of black money will require a number of developers to change their entire business models.

Testimonials

Hi I bought a home in GERA PARK VIEW project in Kharadi Pune. This review is solely based on my buying experience in this project.

I have dealt with 4 builders so far in my life. And I closely follow market news about new launches and facilities / amenities offered by other builders. The difference is very simple "GERA delivers what it commits and they commit what they deliver". My experience with other builders is that they commit a lot but when it comes to delivering that, it is far away from their commitments. In fact commitment word itself has no meaning with many of other builders. GERA has created TRUST in the minds of customers. The quality of project is very good.

They have used good quality fittings and fixtures. The finish of product is very good and delivery was before committed time. The complete building with all amenities were ready before giving possession. The staff is very co-operative with customers. The issues get resolved faster with GERA team.

- Jay Kumar Motwani
Gera's ParkView



Houses are provided by builders but those who care, deliver happy homes!

We have this lovely experience with Gera. Besides materialistic things, the thought process of the creative team of Gera has helped us inculcate good values and creativity in our kids. Exclusive workshops have widened the horizons of learning and we look forward to many more.

My daughter declared her dream in the last workshop "DALE CARNEGIE" which was a very pleasant surprise to me. When asked what she dreams of? Her answer was, "I want to be happy forever!"

- Archana Agarwal

Gera's GreensVille II, Kharadi



I am very much satisfied with Gera Developments, all interactions were very smooth without any dispute. What they promised is what they delivered.

Gera also conducts many customer-engagement programs, they are really building long-term relationships with customers rather than just selling homes and then forgetting about it.

- Anoop Gupta

Gera's Emerald City, Kharadi

Looking forward to hearing from you at feedback.newsletter@gera.in

Head Office: 200, Gera Plaza, Boat Club Road, Pune - 411001 | Goa Office: G-18, Gera's Imperium, Patto Plaza, Panjim-403001 | www.gera.in

Dubai Representative Office: Office No. 1804, Dubai Burjuman, Burjuman Tower, 18th Floor, Sheikh Khalifa Bin Zayed Road, PO Box 121828, Dubai, UAE

