

# Grading framework for projects and promoters of UP-RERA



# **Proposed Grading Framework – Promoters**

# Grading framework: Promoters

## Promoter grading

### Financial quality

- Turnover (Rs crore)
- PAT margin (%)
- Gearing (times)
- Financial targets achievement (Yes/No)
- Net worth (Rs.crore)

### Organisation strength

- Organisational status
- Experience of promoters in the real estate business
- International Organization for Standardization (ISO) certification
- Leadership in Energy and Environmental Design (LEED) or equivalent green building certification in number of projects
- Quality checks for material

### Track record

#### Construction

- Geographical diversity
- Segmental diversity
- Total area of completed projects in the last 5 years (lakh sq ft.)
- Ratio of area under ongoing projects to completed projects in last 5 years
- Average area of ongoing projects (lakh sq ft.)
- Average delay in months in physical possession w.r.t. to end date as per UP-RERA
- Average delay in obtaining occupancy certificate
- Average delay in ongoing projects

#### Legal

- Occupancy/completion certificate received for projects as a % of total projects (completed)
- Willful default, history of litigations against the company/promoters/land, NCLT, Land issues
- Formation of society/association in completed projects in last 5 years (Average number of months after completion of project)

### UP-RERA, compliance adherence

- Compliance with Quarterly progress reports (QPR) uploads
- Timely upload of Annual report
- Escrow account norm adherence
- Timely upload of completion certificate/occupancy certificate
- Commitment as per end date specified in UP-RERA
- End date extension sought
- Handing over to association/society

### Customer feedback

# Proposed grading framework for promoters (1/2)

| Group                            | Subgroup-1                        | Parameters  |
|----------------------------------|-----------------------------------|---|
| Compliance adherence with UPRERA | Promoters compliance with UP-RERA | Compliance with QPR uploads   |
|                                  |                                   | Escrow account norm adherence   |
|                                  |                                   | Timely upload of completion certificate   |
|                                  |                                   | Commitment as per end date specified in UP-RERA   |
|                                  |                                   | Timely upload of Annual report  |
|                                  |                                   | End date extension  |
|                                  |                                   | Handing over to association   |
| Track record                     | Legal track record                | Occupancy/completion certificate received for projects as a % of total projects (completed)                                   |
|                                  |                                   | Willful default, history of litigations against the company/promoters/land, NCLT, land issues                                 |
|                                  |                                   | Formation of society/association in completed projects in last 5 years (Average number of months after completion of project) |
|                                  | Construction track record         | Geographical diversity (presence in number of cities)   |
|                                  |                                   | Segmental diversity, in completed and ongoing projects  |
|                                  |                                   | Total area developed in the last 5 years (lakh sq. ft)  |
|                                  |                                   | Ratio of area under ongoing projects to completed projects in last 5 years  |
|                                  | Timeliness parameters             | Average area of ongoing projects (lakh sq. ft.)   |
|                                  |                                   | Average delay in months in physical possession w.r.t. to date given as per RERA end date                                      |
|                                  |                                   | Average delay in obtaining occupancy certificate for completed projects   |
|                                  | Overall delay in ongoing projects |   |

# Proposed grading framework for promoters (2/2)

| Group                   | Subgroup-1                                  | Parameters   |
|-------------------------|---|--|
| Organisational strength | Certifications and quality                  | ISO certification (whether yes or no)                        |
|                         |   | LEED or equivalent certification in number of projects       |
|                         |   | Quality checks/Onsite test laboratory photos with geotagging |
|                         | Experience                                  | Organisational status  |
|                         |   | Experience of promoters in the real estate business          |
| Financial quality       | Financial figures for latest financial year | Turnover (Rs crore)  |
|                         |   | PAT margin (%)   |
|                         |   | Gearing (times)  |
|                         |   | Financial targets achievement                                |
|                         |   | Net worth (Rs crore)   |
| Customer feedback       | Customer feedback                           | Based on average customer complaints                         |
| Total                   |   |  |

# Evaluation methodology(1/4)

| Group                                   | Subgroup-1                        | Parameters  |
|---|-----------------------------------|---|
| <b>Compliance adherence with UPRERA</b> | Promoters compliance with UP-RERA | Compliance with QPR uploads                                   |
|   |                                   | Escrow account norm adherence                                 |
|   |                                   | Timely upload of completion certificate/occupancy certificate |
|   |                                   | Commitment as per end date specified in UP-RERA               |
|   |                                   | Timely upload of Annual report                                |
|   |                                   | End date extension  |
|   |                                   | Handing over to association                                   |

# Evaluation methodology (3/4)

| Group                          | Subgroup-1               | Parameters   |
|--------------------------------|--------------------------|--|
| <b>Organisational Strength</b> | Certifications           | ISO Certification (whether yes or no)                  |
|                                |                          | LEED or equivalent certification in number of projects |
|                                |                          | Quality/onsite test laboratory photos with geotagging  |
|                                | Organisational structure | Organisational status                                  |
|                                |                          | Experience of promoters in real estate business        |

# Evaluation methodology (4/4)

| Group                    | Subgroup-1                                  | Parameters                            |
|--------------------------|---|---------------------------------------|
| <b>Financial quality</b> | Financial figures for latest financial year | Turnover (Rs. Cr)                     |
|                          |   | PAT margin (%)                        |
|                          |   | Gearing (Times)                       |
|                          |   | Net worth (Rs. Cr)                    |
|                          |   | Financial targets achievement         |
| <b>Customer Feedback</b> | Customer Feedback                           | Scoring based on number of complaints |



# Grading scale

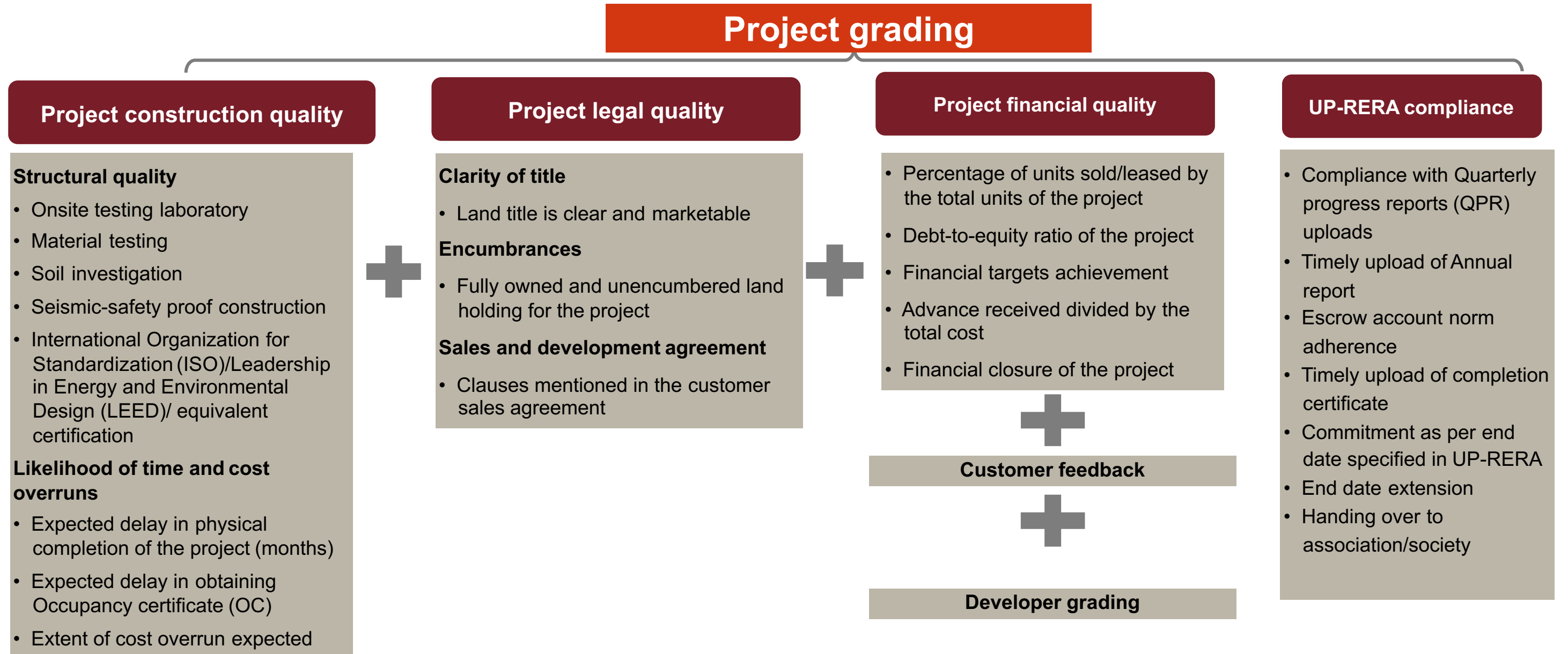
Promoter grading assesses the developer's 'capability to execute' the project as per the specified quality standards and within the stipulated schedule. The key parameters which are assessed are: track record of the developer, and organisational and financial strength. It is a 5-point scale from Grade I to V, I being lowest and V being highest.

This grading is to be reviewed annually.

| Grade | Signifiers  |
|-------|---|
| V     | Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule is <b>excellent</b>     |
| IV    | Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule is <b>strong</b>        |
| III   | Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule is <b>average</b>       |
| II    | Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule is <b>below average</b> |
| I     | Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule is <b>low</b>           |

# **Proposed grading framework – Projects**

# Grading framework: Project



# Proposed grading framework

| Parameters                |                                      |   |
|---------------------------|--------------------------------------|---|
| Construction quality      | Structural design                    | Onsite testing  |
|                           |                                      | Material testing  |
|                           |                                      | Soil investigation done   |
|                           |                                      | Seismic-safety proof construction                                     |
|                           |                                      | ISO/Leed equivalent certification/s                                   |
|                           | Likelihood of time and cost overruns | Expected delay in physical completion of the project (months)         |
|                           |                                      | Expected delay in obtaining OC  |
| Compliance with UP-RERA   | Compliance adherence                 | Extent of cost overrun expected                                       |
|                           |                                      | Upload of Annual report   |
|                           |                                      | Escrow account norm adherence   |
|                           |                                      | Upload of completion certificate                                      |
|                           |                                      | Commitment as per end date specified in UP-RERA                       |
|                           |                                      | Compliance with QPR uploads   |
| Project legal quality     | Clarity of title                     | End date extension  |
|                           | Encumbrances                         | Land title clear and marketable (weak link)                           |
|                           | Sale and development agreement       | Fully owned and unencumbered land holding for the project (weak link) |
| Project financial quality | Financial flexibility                | Clauses mentioned in the customer sales agreement                     |
|                           |                                      | Percentage of units sold/leased by total units of the project         |
|                           |                                      | Debt-to-equity ratio for the project                                  |
|                           |                                      | Financial targets achievement   |
|                           |                                      | Financial closure for the project                                     |
| Customer feedback         | Customer feedback                    | Advance received divided by the total cost                            |
| Project sponsor quality   | Same as developer grading            | Customer feedback based on complaints received for the project        |
| Total                     |                                      | Developer grading   |

# Evaluation methodology (1/4)

| Parameters           |                                      |  |
|----------------------|--------------------------------------|--|
| Construction quality | Structural design                    | Onsite testing   |
|                      |                                      | Material testing   |
|                      |                                      | Soft soil investigation done                                     |
|                      |                                      | Seismic safety proof construction                                |
|                      |                                      | ISO/Leed equivalent certification/s                              |
|                      | Likelihood of Time and Cost Overruns | Expected delay in physical completion of the project (in months) |
|                      |                                      | Expected delay in obtaining OC/statutory approvals               |
|                      |                                      | Extent of cost overrun expected                                  |

# Evaluation methodology (2/4)

| Group                                   | Subgroup-1                        | Parameters  |
|---|-----------------------------------|---|
| <b>Compliance adherence with UPRERA</b> | Promoters compliance with UP-RERA | Compliance with QPR uploads                                   |
|   |                                   | Escrow account norm adherence                                 |
|   |                                   | Timely upload of completion certificate/occupancy certificate |
|   |                                   | Commitment as per end date specified in UP-RERA               |
|   |                                   | Timely upload of Annual report                                |
|   |                                   | End date extension  |
|   |                                   | Handing over to association                                   |

# Evaluation methodology (3/4)

| Parameters            |                              |   |
|-----------------------|------------------------------|---|
| Project legal quality | Clarity of Title             | Land title clear and marketable                           |
|                       | Encumbrances                 | Fully owned and unencumbered land holding for the project |
|                       | Sale & Development Agreement | Clauses mentioned in the customer sales agreement         |

# Evaluation methodology (4/4)

| Parameters                |                           |  |
|---------------------------|---------------------------|--|
| Project financial quality | Financial Flexibility     | % of units sold/leased by total units of the project |
|                           |                           | Proportion of debt to equity for project             |
|                           |                           | Financial targets achievement                        |
|                           |                           | Financial closure for project                        |
|                           |                           | Advance received divided by total cost               |
| Customer feedback         | Customer Feedback         | Customer Feedback                                    |
| Project sponsor quality   | Same as Developer grading | Developer Grading                                    |



# Grading scale

The proposed grading scale assesses the “likelihood of a project being delivered as per the agreed quality and within the stipulated time schedule”. It extends from ‘5 star’ to ‘1 star’ – covering the excellent likelihood to the low likelihood of the project being delivered on time. The definitions for each grade are as follows:

| Grade         | Signifiers  |
|---------------|---|
| <b>5 star</b> | <b>Excellent</b> likelihood of project being delivered as per agreed specifications and within the stipulated time schedule     |
| <b>4 star</b> | <b>Strong</b> likelihood of project being delivered as per agreed specifications and within the stipulated time schedule        |
| <b>3 star</b> | <b>Average</b> likelihood of project being delivered as per agreed specifications and within the stipulated time schedule       |
| <b>2 star</b> | <b>Below average</b> likelihood of project being delivered as per agreed specifications and within the stipulated time schedule |
| <b>1 star</b> | <b>Low likelihood</b> of project being delivered as per agreed specifications and within the stipulated time schedule           |

# Deflators - Promoters

## Deflators



Pending dues and defaulters of development authorities

Present in defaulters/de-registered project list of UP- RERA

Higher number of court cases, recovery certificates issued

Deflators will be used to pull the grading score as a hygiene check

# Deflators & Weak link - Projects

## Deflators



Number of court cases, RC issued

## Weak link

Defaulter project as per UP-RERA

Clear land title

Land encumbrances

Deflators and weak link will be used for project grading to pull the grading score as a hygiene check

# Project grading framework – Significance (1/3)

| Sub parameters                              |  | Significance                  | Data Sources  |
|---|--|-------------------------------|---------------|
| <b>Structural design</b>                    | Material testing & Onsite testing                                | Quality Assessment            | Not Available |
|   | Soft soil investigation done                                     | Quality Assessment            | Not Available |
|   | Seismic safety proof construction ISO/LEED certification/s       | Structural Quality Assessment | Not Available |
|   |  | Process Certifications        | Not Available |
| <b>Likelihood of time and cost overruns</b> | Expected delay in physical completion of the project (in months) | Likelihood Time Overruns      | Not Available |
|   | Expected delay in obtaining OC/statutory approvals               | Likelihood Time Overruns      | Not Available |
|   | Extent of cost overrun expected                                  | Cost Control Measures         | Yes           |
| <b>Clarity of title</b>                     | Financial closure for project                                    | Funding Tie-up                | Not Available |
|   | Land title clear and marketable                                  | Land Title Checks             | Not Available |

# Project grading framework – Significance (2/3)

| Sub parameters                          |  | Significance                                      | Date Sources  |
|---|--|---|---------------|
| <b>Encumbrances</b>                     | Fully owned and unencumbered land holding for the project  | Land Encumbrances                                 | Yes           |
| <b>Sale &amp; development agreement</b> | Clauses mentioned in the customer sales agreement          | Transparency                                      | Not Available |
| <b>Financial flexibility</b>            | % of units sold/leased by total units in the project       | Higher the salability, may lead to higher grading | Yes           |
|   | Proportion of debt to equity for project                   | Gearing Levels                                    | Yes           |
|   | Financial targets achievement                              | Quarterly Submission                              | Yes           |
|   | Advance received divided by total cost & financial closure | Customer Advances Coverage                        | Yes           |
| <b>Customer feedback</b>                | Customer feedback  | Number of Complaints                              | Yes           |
| <b>Same as developer grading</b>        | Developer grading  | From Developer Grading Score                      | Yes           |

# Project grading framework – Significance (3/3)

| Sub parameters                                | Significance         | Data source |
|---|----------------------|-------------|
| UP-RERA compliance<br>Upload of Annual report | Compliance Adherence | Yes         |
| Escrow account                                | Compliance Adherence | Yes         |
| Upload of CC                                  | Compliance Adherence | Yes         |
| Compliance with QPR                           | Compliance Adherence | Yes         |
| End date extension                            | Compliance Adherence | Yes         |
| Handing over to association                   | Compliance Adherence | Yes         |

# Promoters grading framework – Significance (1/4)

| Sub parameters          |  | Significance        | Data source   |
|-------------------------|--|---------------------|---------------|
| Legal track record      | OC/CC received for projects as a % of total projects completed                           | Legal Compliance    | Not available |
|                         | Transfer of rights and legal checks  | Legal Compliance    | Not available |
| Quantitative parameters | Geographical diversity (presence in number of cities)                                    | Diversification     | Yes           |
|                         | Segmental diversity, in completed and ongoing projects                                   | Segmental Diversity | Yes           |
|                         | Total area developed in the last 5 years (lakh sq ft)                                    | Track Record        | Not available |
|                         | Average area of ongoing projects (lakh sq ft)  | Track Record        | Not available |
|                         | Ratio of area under ongoing projects to completed projects in past five years            | Scalability         | Not available |
| Timeliness parameters   | Average delay in months in physical possession with respect to date given in the UP-RERA | Time overruns       | Not available |
|                         | Average delay in obtaining OC for completed projects and overall delays                  | Time overruns       | Not available |
|                         | Ongoing project delays   | Time overruns       | Not available |

# Promoters grading framework – Significance (2/4)

| Sub parameters                                       | Significance         | Data source |
|--|----------------------|-------------|
| UP-RERA compliance<br>Timely upload of Annual report | Compliance adherence | Yes         |
| Escrow account                                       | Compliance adherence | Yes         |
| Timely upload of CC                                  | Compliance adherence | Yes         |
| Compliance with QPR uploads                          | Compliance adherence | Yes         |
| End date extension                                   | Compliance adherence | Yes         |
| Handing over to association                          | Compliance adherence | Yes         |



# Promoters grading framework – Significance (3/4)

| Sub parameters                                      |   | Significance               | Data source   |
|---|---|----------------------------|---------------|
| <b>Process certifications</b>                       | ISO certification (yes or no), material testing | Certifications for process | Not available |
|   | LEED certification in number of projects        | Certifications for process | Not available |
| <b>Organisational structure</b>                     | Organisational status                           | Organisation setup         | Yes           |
|   | Experience of promoters in the business         | Sector expertise           | Yes           |
| <b>Financial figures for the latest fiscal year</b> | Turnover (Rs crore)                             | Financial Flexibility      | Yes           |
|   | PAT margin (%)                                  | Financial Flexibility      | Yes           |
|   | Gearing (Times)                                 | Financial Flexibility      | Yes           |
|   | Financial targets achievement                   | Financial Flexibility      | Yes           |
|   | Net worth (Rs crore)                            | Financial Flexibility      | Yes           |

# Promoters grading framework – Significance (4/4)

| Sub parameters  | Significance         | Data source |
|---|----------------------|-------------|
| <b>Customer feedback</b><br>Scoring based on number of complaints | Number of complaints | Yes         |

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# Proposed grading review process



## Initial grading

### Existing factsheet information

- Track Record
- Experience
- Projects Completed

- Percentage Sold
- Amount of customer advances received
- Project status
- Financial targets achievement
- Quarterly construction targets achievement



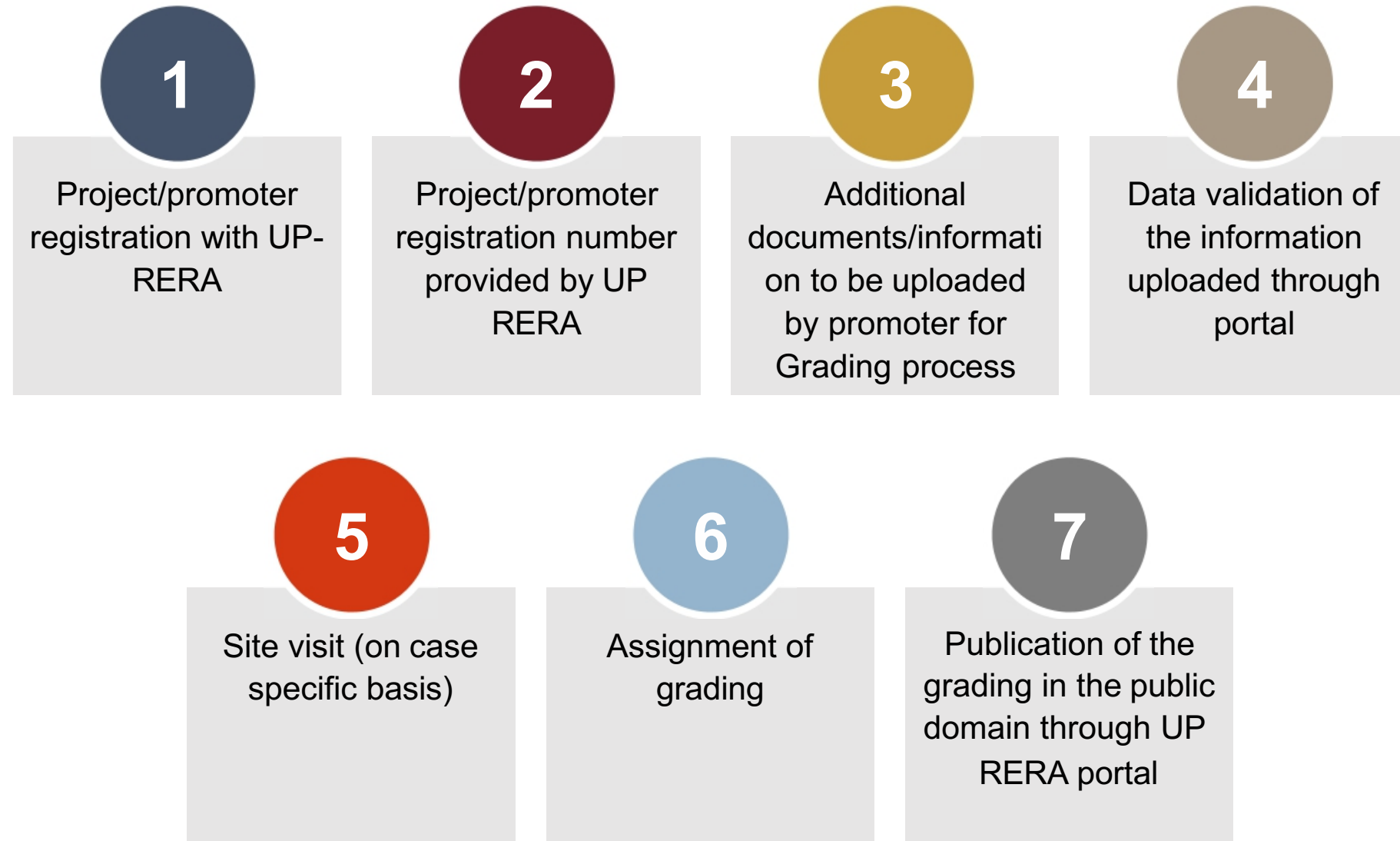
## Renewal

### Incremental data

- Percentage Sold
- Amount of customer advances received
- Project status
- Financial targets achievement
- Quarterly construction targets achievement

**Improvement in project / promoter parameters will be captured during the renewal process and the grading may accordingly be reaffirmed, upgraded, or downgraded.**

# Grading process



# Other recommendations



## Renewal

### Timeline for surveillance initiation process

- Promoters should strive to complete the renewal process within 14 months from initial/earlier grading assignment
- However, the review processes will be initiated immediately after 12 months from initial grading /last review
- If the promoter does not cooperate till the end of the 13th month from the earlier /initial grading assignment, UP-RERA should send a letter/notice, seeking cooperation with a specific timeline for submission of the information, which has to be followed by a letter/notice seeking the information before the end of the 14th month with 15 months window to submit information.
- If there is still no communication, a withdrawal or suspension process should follow.

# Other recommendations



## **Withdrawal/ suspension**

- UP-RERA may come across instances where monitoring quality of a project/promoter becomes challenging because of non-cooperation
- After the above-mentioned attempts, if the company does not cooperate, it is then classified as 'non-cooperating'. Lack of cooperation may restrict the ability to assess quality of the graded project. In such an eventuality, UP-RERA should follow the below-stated process:
- Where an entity is not cooperating, and adequate information is not available to enable a view, then the grading may be withdrawn/suspended

### **Withdrawn:**

- Project can be withdrawn if it has been completed and has received occupancy certificate with a grading action if needed

### **Suspension:**

- Project has to be suspended with appropriate grading action if project is not completed

# Other recommendations



## Non-cooperation

Promoter/project will be classified as non-cooperating in case of following triggers:

- Incomplete information from the promoter to commence the grading process
- Data discrepancy and mismatch in information submitted by the promoter
- Non-cooperation in submitting/uploading information for grading after follow-up by UP-RERA

### **New projects:**

- Projects that are securing a grading for the first time, a two month window can be given for uploading the information and documents.

### **Renewal:**

- Projects or promoters that are up for renewal will be given a two-month window after 12 months, i.e., 12 + 2 months, before classifying these as non-cooperating

# Other recommendations



## Site visit

Strongly suggest site visits for the grading process considering the dynamics and complexity involved in real estate sector and need to validate the data on on-site for the projects.

UP-RERA may appoint external consultants/internal team for site visits.

Incase of practical limitations, suggest site visits mandatory in following triggers

| <b>Activity</b>   | <b>Visit</b> |
|---|--------------|
| Timelines extended  | Yes          |
| Defaulter project as per UP-RERA and authorities              | Yes          |
| High complaints, court cases and recovery certificates issued | Yes          |
| Delayed projects  | Yes          |

Opinion that a platform should be built where a visit report can be uploaded on the grading portal from the site by the visiting team with geo-tagged photos of construction progress. This, though, needs to be discussed with the IT partner to test its functionality and implementation.



# Other recommendations



## Data analysis and validation

- Based on its extensive experience in grading real estate projects and developers, recommends the digitised approach to grading should be supplemented with manual validation and analysis along with a site visit
- Given that real estate grading has subjective elements in the process (such as financial viability, promoter's financial capacity, project costing, and structural and construction quality), human intervention can help highlight any anomalies in the data or analysis and strengthen the grading outcome
- A criteria should be defined for conducting site visits given the nature of the sector and the inherent risks

## Grading

- There is significant reputational and legal risk involved in the real estate grading process. To reduce this risk, recommends the final grading could be given by an independent agency rather than by UP-RERA under its own brand. It would be based on a UP-RERA approved framework

# Other recommendations



## Appeal

- In case there is any material update of information or documents that was not considered during initial grading exercise, promoters can apply for appeal or revision in grading within 7 working days of receipt of grading.

# Conclusion

- Believes the grading assigned through its methodology meets the standards of rigour, and conveys value to all stakeholders, since buyers, lenders, and investors in Indian markets prefer to remain invested or associated with graded projects and promoters
- Expects this concept to be a powerful grading tool in the hands of UP-RERA, while adequately addressing the concerns of all stakeholders in the real estate ecosystem