

Grading framework for real estate promoters

February 2020



Executive summary

The Real Estate (Regulation and Development) Act, 2016, seeks to protect the interest of home buyers and boost investments in the sector. The Act mandates the establishment of a real estate regulatory authority (RERA) in every state for the regulation and promotion of the sector.

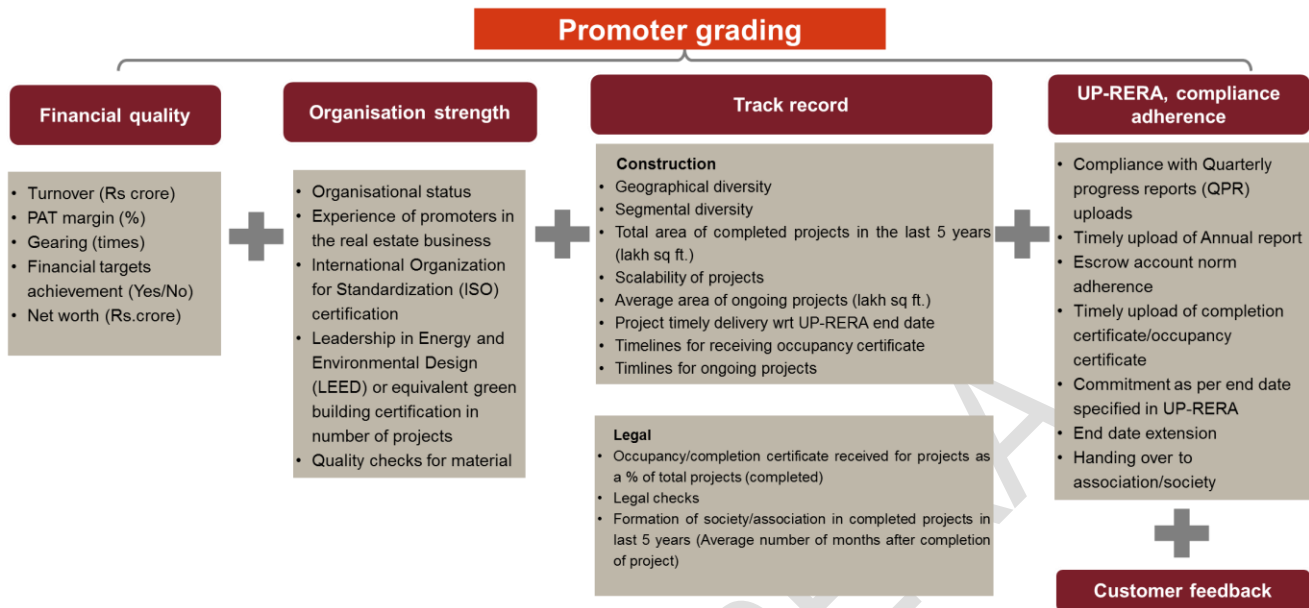
The RERA will ensure efficient and transparent sale of plots, apartments, buildings and other projects. It is mandated to safeguard the interest of buyers and to establish an adjudicating mechanism for speedy dispute redressal. Also, an appellate tribunal would be set up to hear appeals from the decisions, directions, or orders of itself and the adjudicating officer and for related matters.

As per Section 32(f) of the Act, the RERA will make recommendations to the state government regarding measures to achieve its mandate as elucidated in the Act and the rules laid down by the state.

Under the provisions of the Act, the following grading criteria have been developed for promoters in Uttar Pradesh.

For UP RERA

Grading framework



Grading parameters

Track record

The promoter's track record will be analysed with reference to construction and legal track record.

Legal track record in terms of getting occupancy certificate on time for completed projects, formation of society, past defaults or land issues. Construction track record in terms of types of projects undertaken, geographical and segmental diversity and projects timely delivery.

This parameter is critical as it an indicator of the promoter's track record.

Financial profile

The developer's financial risks are assessed to ascertain its ability to complete projects on time. This entails evaluating the company's past financial performance by analysing some critical financial indicators and the ability to achieve financial targets.

Organisational structure

This parameter examines the extent to which a developer adopts a structured approach to business management and controls by adopting ISO, quality control and green building certifications.

This also evaluates the promoter's experience in the real estate business and legal identity of the organisation.

Compliance adherence

This parameter evaluates the promoter's compliance with the requirements of Uttar Pradesh RERA (UP-RERA). Compliance is a critical parameter as it measures the promoter's willingness to share information with the authorities, thereby increasing transparency.

Customer feedback

This parameter is crucial in measuring developer's ability to cope with customer complaints.

Grading scale, validity and definition

Promoter grading essentially involves assessing the developer's track record in executing projects and analysing the associated organisational, legal and financial risks.

Key parameters of promoter grading are financial quality, organisational structure and certifications, track record, and compliance adherence.

The developer's capability is then benchmarked against other developers in Uttar Pradesh.

The signifiers attached to each definition/grade are as follows:

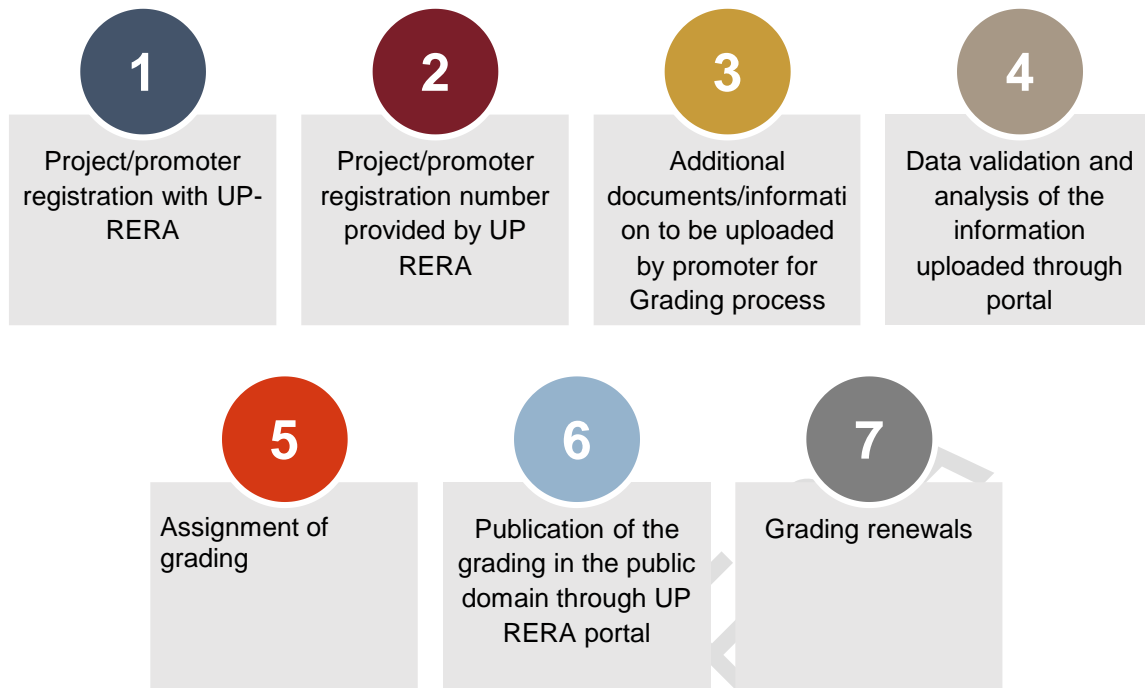
Grade	Definition
I	Low Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule, is low
II	Below-average Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule, is below-average
III	Average Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule, is average
IV	Strong Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule, is strong
V	Excellent Promoter's ability to execute real estate projects as per the specified quality and within the stipulated time schedule, is excellent

Tolerance level

Project delays are quite common in India. In this context, a graded approach offers more value and information to buyers and helps them differentiate between projects. CRISIL's grading based on expected project delays is outlined in the table below.

Delay in physical possession w.r.t UP-RERA end date	Grading capped at
0 month	V
4 months	IV
8 months	III
12 months	II
>12 months	I

Grading process



The promoter/project will be classified as non-cooperating in case of:

- 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

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For UP RERA