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# CONSTRUCTION WEEK

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## YOUNG & RESTLESS

New-age entrepreneurs face their challenges head on



ROUND TABLE

# Young minds speak out

The next generation of Indian entrepreneurs features some of the brightest minds in the industry. We have brought together six of them in the wake of last month's Union Budget to deliberate on the key issues facing the real estate industry

By Syed Ameen Kader



To the backdrop of a challenging year gone by when real estate sector has had a tough time operating in a difficult fund-raising environment amid the negative effects of ever-escalating interest rates, the new financial year looks daunting. The much-awaited Budget failed to excite the real estate industry, with many players calling it “disappointing” through its lack of incentives designed to revive growth. And of course, the long-dragging problems concerning land acquisition, slow government clearances and the liquidity crunch — each still unaddressed — will continue to hurt the sector.

However, the real estate industry has evolved a great deal over the last decade and will continue to do so through the emergence of young second- and third-generation entrepreneurs who see things very differently from their forebears. Traditionally a family-run business, real estate is today witnessing a sea-change. The young entrepreneurs are bringing in more professionalism into the system; they are critical and vocal about issues that are hurting the sector. To address these issues, we bring together some of the brightest young minds from across the country that represent a broad spectrum of companies. Here, they debate such important issues as the proposed Real Estate Regulatory Bill, the biggest hurdles for growth and how they expect the industry to perform in the new financial year.

**1. ASHISH PURAVANKARA**

*Joint managing director, Puravankara Group*

A 28-year-old on the board of the Puravankara Group, Ashish holds an MBA from Willamette University in Salem, Oregon. He has been responsible for the identification of opportunities for the company in Bangalore, where the company has recently launched several projects. Ashish has also been instrumental in implementing best construction practices through the acquisition of new material and focusing on technology to achieve quality construction.

**2. KRUTI JAIN**

*Director, Kumar Urban Development*

Currently pursuing her BBA and Bachelor of Laws from Symbiosis College, Pune, Kruti has been involved in the real estate business since the age of 15. She is the youngest member of the managing committee of CREDAI, and is convener of the Real Estate Academy of Developers and City Greening Committee in Pune. She has been the director of KUL since 2007.

**3. MUKESH BHAGTANI**

*CEO, Jaycee Homes*

At the age of 31, Mukesh shoulders the responsibility of managing the finance and marketing aspects of the group. He holds an MBA and has over 10 years’ work experience. Taking the baton from their father, Mukesh and his brother Diipesh continue to carry on the work begun by their grandfather 45 years ago.

**Q. Do you think the real estate industry needs another regulator?**

**KJ:** We don’t need another regulator in place because we already have a consumer court. There is absolutely no logic in adding another layer of regulation when all other dispute forums are more than available. The consumer is very well protected. I would welcome the idea of a regulator that covered the entire industry and all its stakeholders. Indian bureaucracy needs to learn that

election pressures shouldn’t result in new levels of rule. It has spoiled the business environment. I just hope that the regulator does not cause a fiasco.

**PB:** Yes, the industry needs a regulator to control not only fly-by-night operators but also to regulate the unorganised side of the trade, like property brokers and land dealers. However, in its current form, the draft Real Es-





tate Regulatory Bill is quite draconian in many of its provisions. Also there seems to be a great deal of duplication of the provisions of other acts like the Consumer Protection Act and State Apartment Act. For example, the bill talks of the compulsory registration of all projects with a regulator. This is nothing but an avoidable duplication of the existing norms in all the states where a licence is required before you start inviting bookings from the market. In short, a regulator is needed but in a simplified form.

**RG:** The government of Maharashtra has proposed a new housing act. I think the way they have approached the concept of a regulator is very positive for the industry and the customer. I think it's an extremely viable, workable model. In comparison, the proposed national bill has many draconian policies and fails to answer and resolve a number of issues faced by the industry. If you have a regulator, it needs to be able to improve the plight of the industry, but the way the central bill is drafted, I think it

has potential to lead to more chaos than sanity. The state of Maharashtra, on the other hand, has a far more balanced bill. And interestingly, they both come from a Congress government.

**MB:** It is definitely going to help the real estate industry in terms of transparency and protecting customers, and we don't see anything bad with it. But approvals are something else that must be taken care of. We have several departments and they are not in sync with each other. You talk about building proposals or infrastructure, or even small approvals such as storm water drains, and these people are not on the same page. If these departments can find a way to work with the regulator, things will definitely be better.

As of now, the draft like one-sided. But I think gradually it can be worked on and it could come out as a good proposal. Otherwise, it would dampen the industry and that wouldn't be a good sign.

**SP:** We already have to deal with so many authorities, so having a central regulator will create one more road-block. We already have many laws in place, and this is causing real estate to suffer from a multiplicity of legislation and a multiplicity of government involvement that is dragging the industry from pillar to post. If you bring in a regulator you should then delete everything else so that it is all done by that single regulator. The current laws are providing more than enough — you have regular courts and consumer courts, both of which are dealing with consumer cases, so how can you say that there is nobody to protect the consumer?

**AP:** I think that being a state subject, land is already governed by respective state rules and regulations with regard to a number of aspects of development. However, having a regulator is welcome if all the stakeholders, including customers, government and local authorities, are involved to make it all-inclusive and effective.

**Q. What is the biggest hurdle in the growth of real estate sector?**

**RG:** Having access to capital for land acquisition is the biggest hurdle. The RBI has throttled land acquisition funding from banks, which are in turn not allowed to fund developers for buying land. So if you want to open up supply,

**4. PANKAJ BAJAJ**

*MD, Eldeco Infrastructure & Property*

An IIM-Ahmedabad alumnus, Pankaj joined the Eldeco group in 1996 to spearhead their growth initiatives, and founded his ambitious realty project, Eldeco Infrastructure and Properties, in 2000 with an aim of nationalising his company's presence. From being the president of CREDAI NCR to fulfilling the role as managing director of his company or his credible associations with industry bodies like ASSOCHAM, CII, NAREDCO, Pankaj has wheeled off his actions with a generic rationale at every career growth stage.

**5. ROHIT GERA**

*MD, Gera Developments*

Rohit has a BSc degree with a double major in project management and economics from the University of Massachusetts at Amherst. He is currently a vice-president of CREDAI, Pune. He is also a member of the executive committee of Mahratta Chamber Of Commerce, Industries and Agriculture.

**6. SHAILESH PURANIK**

*MD, Puranik Builders*

Shailesh has been instrumental in promoting a cleaner, pollution-free city with his green construction practices. He is also testing and implementing a range of business models, such as PE-funded ventures through special purpose vehicles, affordable housing projects, and the redevelopment of slums. He completed his Bachelor's in Architecture from Sir JJ College of Architecture. He is also the vice-president of Maharashtra Chamber of Housing Industry —Thane.



developers need capital for land acquisition. The problem that comes out of this is an overheating of the real estate sector. Ways to prevent this need to be looked at but the money to buy land for developers through the normal banking channels also needs to come in place.

**KJ:** For a start, the government has stopped publishing development plans (DP) for cities. In Pune, there hasn't been a DP since the 'Eighties or 'Nineties. It's a joke. And then I don't understand why the government, which lacks the resources and the wherewithal, wants to take simple tasks and then add more bureaucracy to them. Moreover, it's commonly known that the goalposts change overnight, and projects that are already under construction can find that they have to make allowances for new regulations even when they are half-way to completion. They want to give more protection to the consumer but what about protecting the developer? These issues are huge. Say a developer has been doing everything by the book, he could still see himself on the wrong

side of the law. Why should developers find they are the ones who are being looked down on — they are often the victims of the system. Sooner or later consumers will understand.

**MB:** For a start, there is infrastructure. Today everyone wants low-cost housing but how do we build it when we cannot promise customers that they can travel from their homes into the city. Nobody is going to travel for four hours in order to work for another eight. We are really suffering from poor infrastructure.

The second biggest hurdle is an inconsistency in government rules, which keep on changing every time a new officer comes in. Such things dampen the industry. Approvals have to be granted faster.

**PB:** Almost all developers are starved of funds today because the RBI frowns on bank lending to this sector. Also, interest rates are quite high, and developers have no choice but to raise mezzanine funding at 20 per cent-plus rates. This is clearly unsustainable. Also, the supply of developable land is critical. The issue has become so sensi-

tive that one can foresee a sharp decline in the supply of fresh land on the outskirts of cities. The dual issues of land and financing will herald higher prices and a growth in unauthorised activities in this sector.

**SP:** You have multiple government departments monitoring you, you have multiple government departments you have to go to for approvals, you have agencies who don't interact with each other and there is little consistency. Say I'm in the process of building a project and I get a call from some authority saying I can't build that project... How is that possible? There is so much red tape involved.

**AP:** Inflation and interest rates have slowed down the sector to a large extent in the last few quarters. I am expecting growth momentum to pick-up in the 2012-13 fiscal year. I think that interest rates and inflation, which have peaked, will only go down over the coming quarters.

**Q. How do you rate this year's Budget?**

**SP:** It was the worst budget that we have ever seen. It did absolutely nothing for real estate. It brought in more hurdles, it brought in more taxes — service tax went up, which ultimately affects the consumers. Although they talk about reducing prices, the Budget ultimately increased prices by two or three per cent immediately. It was a spineless budget. Real estate accounts for 10 per cent of India's GDP and this was completely ignored.

**KJ:** I would give it minus one out of 10. A Budget is done first to give a perception of growth, and second to act as a stimulus for growth. The problem with our Budgets over the years is that they might have great ideas but these just don't get implemented. In this Budget, as well as in past ones, I only see ideas and no route to implementation. And when it comes to real estate, by putting TDS and it is not clear if the consumer or the developer has to file the returns you only add more taxation, and when you add more taxation everything becomes more expensive because the developer isn't going to cover that cost. We are already taxed between 26 and 30 per cent, and if you add 10 per cent from TDS, we reach 40 per cent in total. The consumer is going to suffer and

## ROUND TABLE

we are already facing inflation. There was a time when the government used real estate as a way to boost the economy.

**PB:** The sector was not addressed at all. No tax breaks were announced; on the other hand, the increase in service tax and excise is going to increase the cost of construction. We are awaiting the fine print on the provision of TDS on transactions above Rs50 lakh.

**RG:** From the real estate point of view, I would rate this Budget as zero. You know excise and service tax are going up, which means our input costs will go up and therefore the customer's purchase prices will go up. So in that sense, it makes it more difficult for people to buy a home. There were so many opportunities to use real estate as one of the engines to revive the economy. They have done nothing really in terms of the boost as far as real estate is concerned.

There hasn't been much song and dance about TDS. Now every single customer who buys an apartment has to deduct 1 per cent tax at source and hand that money over to the government; only then can he register the purchase. Though it becomes very cumbersome for the flat buyers, this measure will help the government to potentially keep track of each and every property transaction.

**MB:** We don't see anything to help the industry in any way. The service tax has gone up by 20 per cent and we will pass

on this cost to the customer. These things are actually very disturbing because they are not serving the purpose of affordable housing. We don't know yet how people will react to TDS on lease and capital gain but we suspect that people will be uncomfortable with that too since TDS has to be deducted when you sell the flat. At least today they can hold onto the money and also start looking at other properties. It's neither a great nor a very bad budget. I would rate it as five out of 10.

**AP:** Long-pending expectations like granting industry status, increasing interest deductions for individuals from the existing Rs1.5 lakh and extending tax holidays under Section 80IB of the Income Tax Act, 1961, have not been addressed, which is a little disappointing.

Measures taken up on affordable housing like investment-linked deductions for developers, a reduction of 1 per cent in interest rates for consumers for loans within Rs15 lakh, and the reduction of withholding tax for ECBs will benefit only a small portion of the sector as many players are still not in the affordable housing segment.

### **Q. How the sector is expected to perform in 2012-13?**

**SP:** With the country's shortage of housing, it won't be long until people start buying again, and the trend has already started to reverse. Real estate is showing signs of bouncing back and we

are expecting more buoyancy in the market to make it a much better year than we have seen in 2011-12. It is a long-term game and so many different things are going to happen within this field over a longer period — say 10 to 20 years. I see a very bright future for real estate.

**KJ:** It's a good market, but is it a great market? Are we in a market that will help the consumer or the developer contribute to the bottom line of the nation? No. Absolutely not. Interest rates are very high, but I'm sure they will come down in the next quarter. The market is good and will continue to be. Will there be a boom with consumers seeing big rises in their investments and great appreciations overnight? No. It's not a go-go bonanza, but it's a good market, and will continue to be so.

**PB:** While there is undisputed demand for quality real estate across sectors and geographies within the country, a lot will depend on factors beyond the control of developers and buyers. Interest rates are a key issue. Another one is the state of the overall economy and rate of GDP growth. These in turn depend on complex issues like global economics, inflation and crude prices. Hopefully, things will start looking up in the second-half of this year.

**RG:** On a national level, 2012-13 will continue to be a year where we will not see any break-out for the real estate sector, and we will continue to see plodding growth. The only silver lining is that if the RBI reduces interest rates, this might give home buyers the ability to go out and buy larger homes. It may also help in terms of the sentiment but that's really the only hope from the sector's perspective. Otherwise, it will continue to be a year of slow growth alongside challenges. I don't think it's going to be a rocking year.

**MB:** Over the past two years, prices have become stagnant. This is a good thing because when prices start escalating, we fear it's turning into a bubble and will crash. But when it is stagnant, people have digested the prices, and neither land nor the property prices are going up. So we are looking at 2012-13 as a good year; we have put up more properties this year than last, over the last three months. We are very positive about it.

**AP:** The demand for housing in this country is still very strong and the current macro-economic factors will definitely help in the sector coming back to growth trajectory in 2012-13.



# Infra head-to-head

We ask two of infrastructure's bright lights to share their views on some of their industry's burning topics

## ON INFRA GROWTH

**RS:** The Indian economy continues to be very strong, although some policy reforms at government level are needed to remove bottlenecks. JNNURM has helped 65 big cities to develop infrastructure facilities, but the momentum needs to be accelerated and more cities must be added. All major infrastructure projects are lagging behind schedule due to poor planning and implementation. Flexible concession agreements, swift land and environmental clearances will help facilitate the improved infrastructure critical to the economic development of the country.

**AA:** The government should be committed to keeping banks adequately capitalised as this would allay fears of capital shortage for growth. The government's move to increase fund

allocation from 10 to 20 per cent for schemes such as NHDP, AIBP and PMGSY will accelerate order flows for infrastructure companies. Reforms and initiatives by the government in the form of announcements will help but executing or rolling these out will be the key.

## ON LAND ACQUISITION

**RS:** We need a decentralised and less autocratic approach with clear legislation to lay down the government's basic obligations towards the rehabilitation of displaced persons. A method to fix monetary compensation is very important, and there should be compulsory assessments of the resulting social and ecological problems. The use of Panchayati Raj as a platform for opinions and grievances is needed.

**AA:** This is very sensitive and politically

driven. It would be best if government bodies and institutions could raise capital through options, like in the case of that NHAI, which can now raise an additional Rs100 billion through bonds. This will surely help fund land acquisition.

## ON FUNDING


**RS:** The West's worsening financial environment has forced Indian infrastructure companies to look for investment options. To continue India's industrial growth path, government funding must increase, and progressive measures to boost demand are vital. To sustain growth, it is imperative to have favourable investment scenarios to encourage asset creation and risk taking.

**AA:** Infra projects need huge funding, and a project with good IRR will not face problems because ECB is available despite the global crisis. Western countries prefer India so I don't think there will be dearth of funding because India needs good infra projects and targeted GDP growth.

## ON THE BUDGET

**RS:** A 14-per cent rise in budgetary allocation for highways will encourage the transportation and logistics sector in India. Additionally, an increase in spending for the allocation for rural drinking water, sanitation and PMGSY will improve rural infrastructure and connectivity.

A proposal to add sectors for viability gap funding will provide support to PPP. And allowing for tax-free bonds worth Rs600 billion will further support financing. Overall, the government's strategy of public investment and PPP indicates an increased thrust in the sector.

**AA:** Budget has some good things, with the infra bond limit doubled, reduction in tax on interest both being good moves. With tax breaks for power, roads and low-cost housing, there will be more access to foreign funds. The award of highway projects will rise, and the ministry's allocation will also increase. 



**RISHABH SETHI**

*Executive director, SPML Infra*  
Rishabh spearheads business development and project management in the company's water and environment verticals. He is credited with establishing a robust IT set-up for the organisation, including implementing a SAP enterprise resource planning system. He is also leading the company towards a strong environment business. Rishabh is a graduate in industrial engineering and economics from Northwestern University, USA.

**ABHIJIT K AVARSEKAR**

*VC, MD and CEO, Unity Infraprojects*  
Abhijit joined the business in 1995 at the age of 21 immediately after completing his civil engineering qualification from the Father Agnel College, Navi Mumbai. He played a key role in the expansion of the EPC business into newer geographies and gradually gave the business a pan-India presence. Abhijit spearheaded the company's initiative to diversify into infrastructure construction from its traditional core competence of building.