

## Rera Rating coming up in six months, confirms UP Rera

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So far, Rera's role was that of a regulator of India's real estate industry. What was introduced on May 1, 2017 as the Real Estate (Regulation and Development) Act, 2016 (RERA), is adding more functions under its ambit, with the latest being grading of developers and even putting clearances under the scanner. All this with a view to protect the interest of consumers.

According to Rajive Kumar, Chairman UP Rera, "Like Crisil comes up with rating of bonds, rating of companies; we at Rera UP will look at various things. A fair share of grading the real estate developers and their projects will go into how well developers are positioned vis-a-vis Rera compliances and we will factor in customer feedback. We have started this trend and other states will follow suit."

While firming up the methodology, UP Rera is already consulting all stakeholders including Credai, Naredco, Association of buyers, homebuyer groups etc. Says Kumar, "The TOR (terms of reference) will have inputs from everyone. However, once the methodology is frozen, then there is no influence." When asked about timeline, he assures within six months, and by the next anniversary of Rera, this will come up.

Haryana Rera is equally keen to rate the developer and projects. Confirms Samir Kumar, Director RERA Haryana, "We will be grading the real estate developers by assigning them a Star rating, from 1 to 5 based on their track record. It will act like what an ISI / ISO is for product and services. We will involve the consumers and the RWAs (resident welfare associations)."

Naredco feels this step is in alignment to other rating certification that already exists in the sector and is being utilized by the industry stakeholders.

But to get a Rera endorsed rating for a developer or projects will

**DEVELOPER  
ASSOCIATION CREDAI  
HAS ALSO WELCOMED  
THE MOVE OF RERA  
RATING DEVELOPERS**



• RERA compliance will define reality in the future

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definitely enhance the consumer confidence index. According to Dr Niranjana Hiranandani, National President Naredco, "This is part of the new paradigm where Rera compliance defines real estate, and we do not see it as reinventing the wheel. However, it should not add to the time taken and/or project cost in a major way." Heads that so far Rera has played a vital role to enhance transparency, setting up a compliance mechanism and bringing in the much-required accountability of the developer fraternity. Those real estate developers who play by the 'rule book' will not have any problems with the more rating process," says Hiranandani.

Will the authorities come under the purview? Says Rajive Kumar, UP Rera chief, "The present Act primarily has buyers and promoters. However, there is a substantial component which relates to several clearances. As of now, the development authority is not under purview unless they are promoters themselves. So there is nothing in the Act directly that binds them into time-bound delivery. We are working on a system which will ensure that in the first stage, the clearances process becomes electronic. If developer applies on 30th Nov 2018, then it's on record electronically that he has applied on that date. In the second stage, they can ensure that anything not meeting the timelines is held to task."

The Rera rating process is set to empower the buyers, the banks

and builders.

According to Shubham Jain, Group Head & Vice President, Corporate Ratings ICRA Limited, "The grading/rating of project and developers is beneficial for all the stakeholders. A scientific assessment process to have the developers/projects measured against the same yard stick can help the buyers in taking an informed decision while making the investment decision. A scientifically graded project is more amenable to accurate and reliable estimation of the lending risks involved. The project owners can use the grading/rating as a tool to convey their project development and execution capability. A higher grade typically reflects the ability of the developer to complete the project within the scheduled timelines and cost."

Talking specifically about Rera rating, ICRA spokesperson says that a standardized approach towards benchmarking of projects and developers will be a good thing for the industry.

It will improve transparency in the market and act as an enabler for the stakeholders to take informed decisions.

Typically, while carrying out the rating/grading of a real estate project and developer, rating consultant like ICRA assesses the risks under two broad categories: business risk and financial risk.

Some of the indicative risk assessment criteria include sector specific risks, market position, project composition, project management and quality, legal

compliance, past project track record, dispute and litigation track record and customer feedback.

This apart financial risk determinants include profitability, leverage, cash flows vs obligations, financial flexibility, accounting quality and contingent liability.

While assessing the real estate project, they tend to evaluate the location, appropriateness of executing agencies, level of control and adherence to project schedule, price competitiveness, regulatory risks, contractual arrangement, cash flow vs obligations, transfer of ownership and penalty clauses amongst others. Besides project specific risks, the track record of the developer and its financial position have an important bearing on the grading of the project.

Is it easier to rate a project than a developer? Says Jain, "Rating/grading a developer would entail a wider coverage of the variables/determinants as compared to a project and hence would be relatively complex exercise."

Developer association Credai has also welcomed this move of Rera rating developers and projects.

According to Jaxay Shah, President, CREDAI National, "RERA has transformed the real estate sector by enhancing transparency and homebuyers' faith in the industry. Developer ratings by RERA is another welcome step in strengthening this trust gained by the developers' community. As with all regulations under the Act, it will be a smooth transition for the ethical developers and an aspiration for developers collectively. Homebuyers stay at the heart of the initiative and will be able to enter transactions with a certainty of fair outcomes."

Bankers and financiers feel it's a step in the right direction. According to Rajesh Sharma, Managing Director, Capri Global Capital Limited, "RERA registration has disciplined the unorganized sector in a big way. Maharashtra is the best example of its implementation. And rating based on RERA registration is a step in the right direction. Lenders are now better assured of the completion time lines of the project besides sales and collection discipline in projects."