COLLIERS FLASH

RESEARCH | INDIA | 26 MAY 2020

INDIA'S FINANCIAL STIMULUS TO COMBAT COVID-19

Insights and Recommendations

The government's stimulus package for the Indian economy provides support to real estate developers to tide over the present difficult times.

- The stimulus package provides increased opportunities for developers in warehousing and cold storage facilities for agricultural produce and related sectors.
- We recommend developers explore viability gap funding* for social infrastructure projects which would benefit their projects and land banks.
- Extending the date for commencement of commercial operations for loans given to commercial real estate by an additional year, as proposed by the government, should provide a lifeline to developers facing financial stress.

USD267 billion (INR20 trillion) stimulus package

Package split:
74% - liquidity and credit schemes
26% - monetary and fiscal

USD10 billion (INR750 billion)

INR750 billion funding to non-banking financial companies (NBFCs) is expected to ease liquidity stress on real estate developers, as NBFCs in India have an exposure of about 24% to the real estate sector, primarily for residential projects.

Extension to CLSS

The credit linked subsidy scheme (CLSS) for the housing sector has received an extension up to March 2021, providing an incentive of INR700 billion (USD9.3 billion) to homebuyers.

In the span of few months the COVID-19 health crisis has become an economic crisis. In response, the Indian government announced on 12th May 2020 a financial stimulus of about INR20 trillion (USD267 billion). The aim of the intervention is to inject liquidity into the financial system, revive the economy, limit the impact on the labour market and boost confidence at a time when *Oxford Economics* is projecting[1] a 3.0% decline in India's 2020 GDP growth. This would be the first yearly contraction since 1979.

As a proportion of GDP, the government's stimulus package is large compared to many other economies. However, as our analysis shows, liquidity and credit schemes account for about 74% of the package, while monetary and fiscal support accounts for the remainder, showing modest immediate income support to India's poor.

Hence faster implementation of the package should help reduce the impact of the economic uncertainty brought about by COVID-19. The stimulus package strives to boost agriculture and allied sectors, plus micro, small and medium enterprises, and offers structural reforms for the coal mining, defence production, and power distribution sectors. However, there is little on offer for certain affected sectors such as hospitality and aviation. Our overall analysis is on page 2 and our analysis of implications for segments of the real estate market is on page 3.

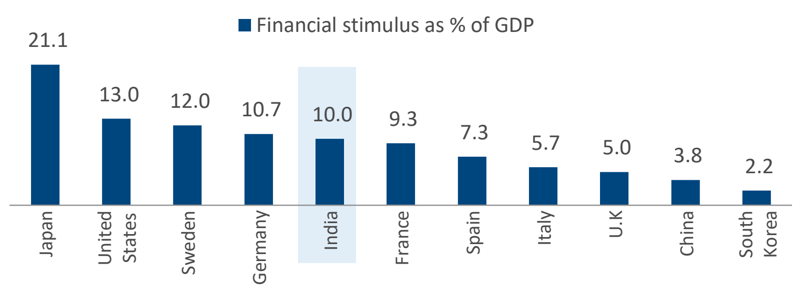
[1] *Oxford Economics - Country Economic Forecast India,* dated 20 May 2020, USD1= INR75,
* Viability gap funding refers to a grant provided by the government to infrastructure projects that are justified economically, but may lack financial viability.

FINANCIAL STIMULUS: A MIXED BAG

We believe that the impact of the stimulus will be long-lasting, led by the structural reforms introduced for certain sectors such as mining and defence production. We expect the government's INR300 billion (USD4.0 billion) special investment scheme for non-banking financial companies (NBFCs) to help ease liquidity.

However, the overall package is pegged on indirect benefits such as credit guarantee schemes, or new fund creations on the supply side and has limited scope to stimulate demand immediately.

Comparison of various stimulus packages (as % of their GDP)



Source: Forbes, https://www.forbes.com/sites/niallmccarthy/2020/05/11/how-global-coronavirus-stimulus-packages-compare-infographic/#31318c0bca52, dated 11th May 2020,
*excluding India, numbers are as of 10th May 2020

Support for real estate

- On 13 May 2020, under the Real Estate (Regulation and Development) Act, 2016 (RERA), the government of India provided an extension to real estate completion timelines by six months for projects with a deadline on or after 25 March 2020.
- The government has provided liquidity support of INR750 billion (USD10 billion) to mutual fund investments (MFIs), non-banking financial companies (NBFCs) and housing finance companies. This includes a liquidity infusion of INR300 billion (USD4.0 billion) and a partial credit guarantee scheme of INR450 billion (USD6.0 billion).
- No fresh insolvencies will be initiated for one year under the Insolvency and Bankruptcy Code (IBC).

Colliers insights

The extension of completion timelines under the RERA should provide relief to residential developers, which have been grappling with stalled construction due to a nationwide lockdown and migration home of urban labourers. Further, under the RERA, developers are still liable to pay a 10% interest penalty to the homebuyer for any delayed project.

Under the liquidity scheme of INR300 billion (USD4.0 billion), the government plans to buy the debt of NBFCs and housing finance companies. This should enable NBFCs to lend to several sectors, including ongoing real estate projects. This is relevant to the real estate sector as NBFCs in India have an exposure of about 24%[3] to the real estate sector, primarily for residential projects.

The fact that the authorities will initiate no fresh insolvencies for a year ought to give some respite to smaller developers as they wade through tough times, against the backdrop of slow housing sales. On the other hand, we expect the ruling to make it more challenging for homebuyers to avail themselves of any remedy to safeguard their investments. We also expect loan underwriting of projects to be delayed, along with a wait-and-see approach from investors.

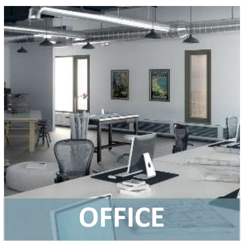
USD1= INR75
[2] Confederation of Indian Industries https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNuXK6QP3tp4gPGuPr/xpT2f
[3] https://www.bloombergquint.com/business/india-ratings-cuts-outlook-for-nbfc-sector-to-negative

Implications of financial stimulus package for the real estate sector

- The Reserve Bank of India has made a notable reduction in repo rate to 4.0%, reverse repo to 3.75% and cash reserve ratio (CRR) to 3.0% to give incentives to banks to infuse credit into the economy
- The credit-linked subsidy scheme (CLSS) for the housing sector has received an extension up to March 2021, providing an incentive of INR700 billion (USD9.3 billion) to homebuyers.

Colliers' insights

The government's CLSS scheme, launched in 2017, offers subsidised interest on home loans for affordable and middle-income housing*. The extension of subsidised interest rates should offer comfort to those homebuyers who are on the fence about home purchasing. In addition, the RBI has cut the repo rate** to 4.0% to mitigate economic risks, with certain banks such as State Bank of India offering lower home loan rates to consumers. However, we believe that the demand for affordable homes will hinge upon the revival of employment and the economy in 2020. The government's CLSS scheme (launched in the 2017 budget), has already benefited[3] 0.33 million families up to March 2020, and is likely to benefit 0.25 million more families[4] by March 2021.



- The Reserve Bank of India (RBI) has allowed NBFCs to extend the date for commencement of commercial operations (DCCO) for loans given to commercial real estate by an additional year, providing relief to commercial real estate developers' cash flows.

Colliers' insights

Extending the DCCO, to which the repayment schedule of an entity is linked, should provide a lifeline for developers in terms of financial stress and help them manage cash flows better. The resultant shift in repayment schedule cannot be treated as restructuring for commercial real estate projects. This ought to help developers use this relief to plan and alter construction timelines of their ongoing projects.

- The government has provided INR1.0 trillion (USD13.3 billion) to agriculture infrastructure, INR200 billion (USD2.7 billion) to fishermen and INR100 billion (USD1.3 billion) to micro food enterprises. This support is aimed at strengthening the farm gate infrastructure (see below) in order to reduce wastage and improve realised prices.

Colliers insights

Farm gate infrastructure includes cold chains, storage centres, logistics and aggregation points. While the government plans to manage the storage centres, we believe that developing and creating modern warehouses and cold storage facilities for agriculture, and agri-based small businesses should emerge as an opportunity for private developers and third-party logistics players.

- The government has allocated INR81 billion (USD1.1 billion) towards social infrastructure, providing viability gap funding*** up to 30% of the total project cost.

Colliers insights

We expect this move to play a key role in creating new clusters for real estate development. We recommend developers to explore this scheme to plan social infrastructure projects in the micromarkets where their projects/land banks are situated.

Note: *CLSS interest subvention according to income levels: Up to INR0.6 mn – 6.5%, INR0.6 mn to INR1.2 mn – 4.0% and INR1.2 mn to INR1.8 mn – 3.0%
** Repo rate is the rate at which the central bank lends money to commercial banks as on 22nd May 2020.
[4] https://economictimes.indiatimes.com/wealth/real-estate/credit-linked-housing-subsidy-scheme-for-middle-income-group-extended-to-march-31-20201/articleshow/75738215.cms?from=mdr, 1USD=75INR
[5] Viability gap funding refers to a grant provided by the government to infrastructure projects that are justified economically, but may lack financial viability

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn